

Implications for Asia from the Global Financial Crisis and Policy Perspectives

Remarks by
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Harvard Asia Business Conference
February 14-15, 2009

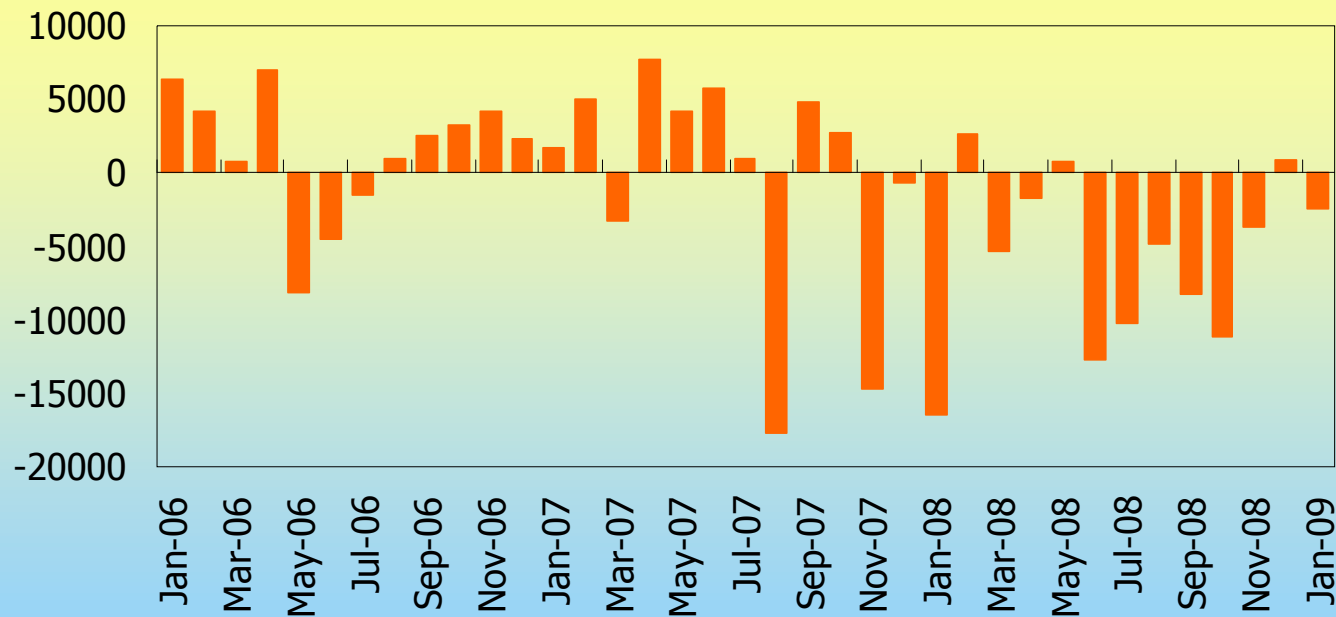


*Although not at its epicenter, Asia
has been hit hard by the global
financial crisis*

Global investors dramatically reduced their exposure to the region...

Emerging Asia: Net Equity Inflows¹

In millions of U.S. dollars



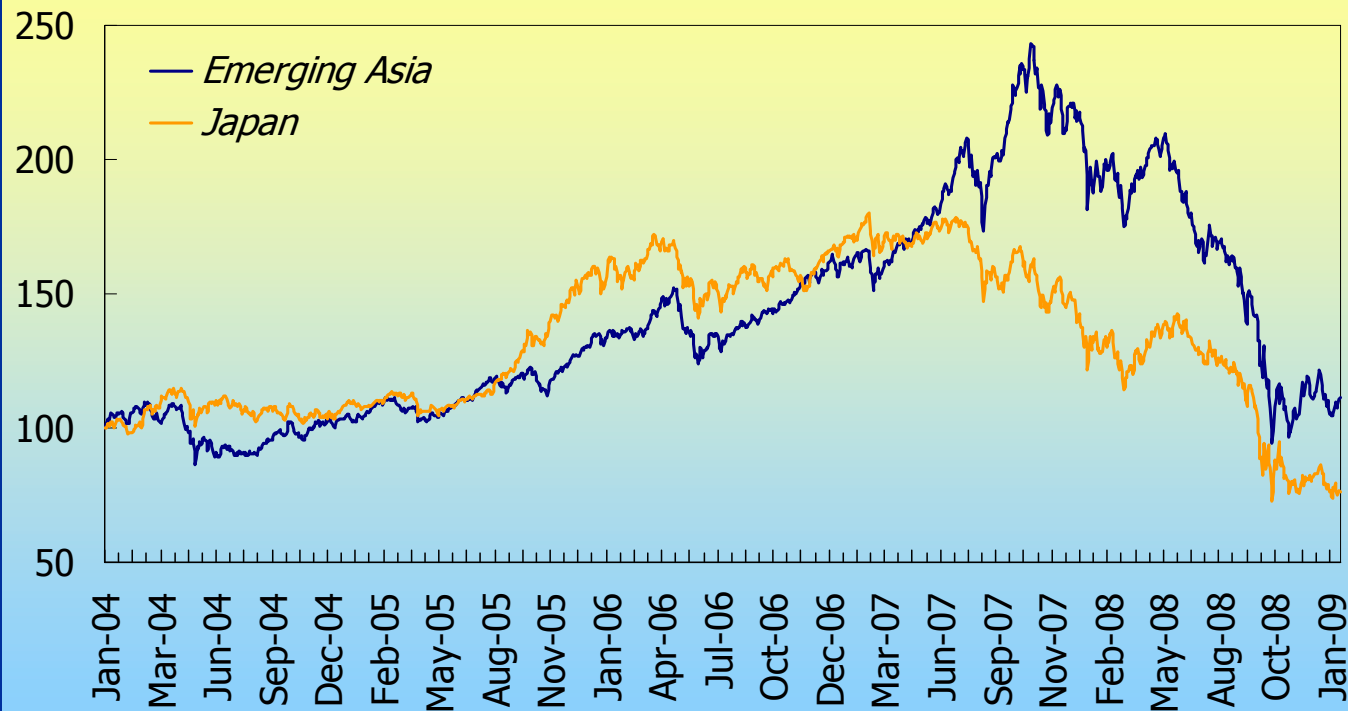
Source: Bloomberg LP.

¹ Includes Korea, Taiwan POC, India, Indonesia, Philippines, Thailand and Vietnam. Data on Vietnam available from November 2006.

...resulting in sharp declines in the Asian equity markets...

Stock Market Performance

MSCI local currency index, rebased at January 1, 2004 = 100

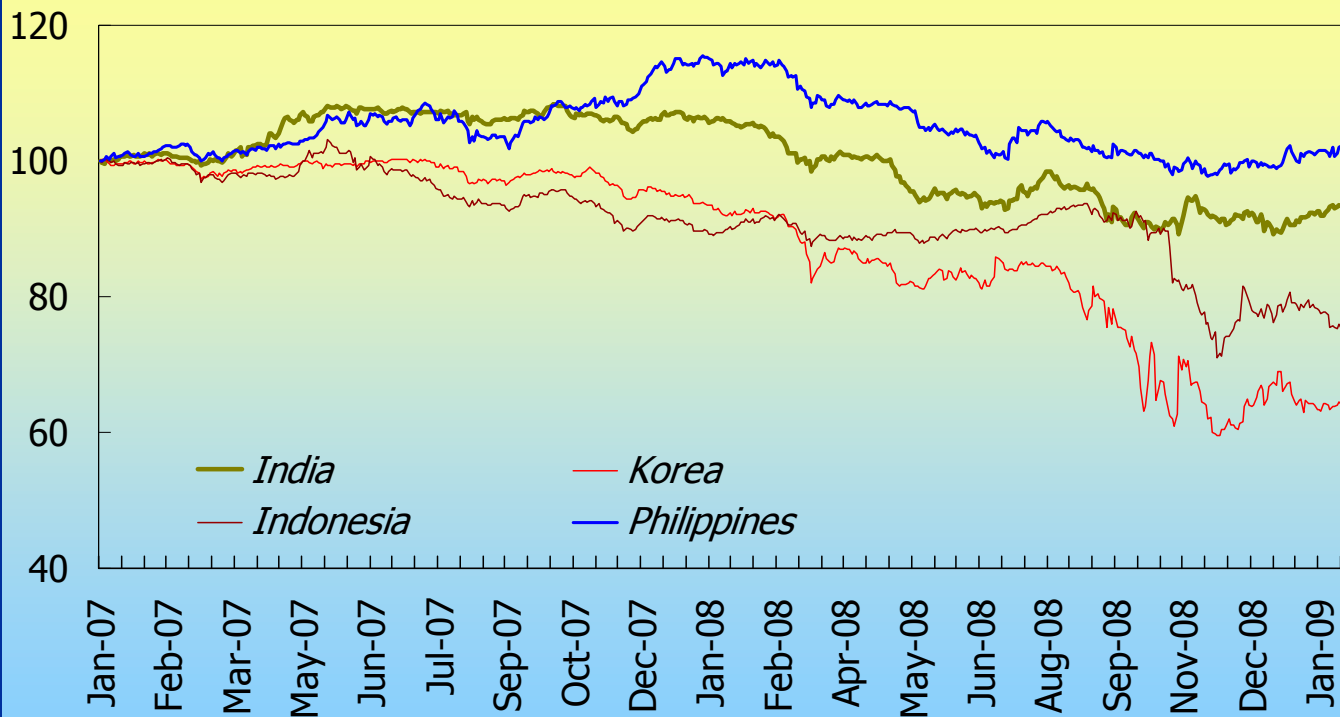


Source: Bloomberg LP.

and downward pressure on regional exchange rates

Selected Asia: Nominal Effective Exchange Rates

January 1, 2007=100

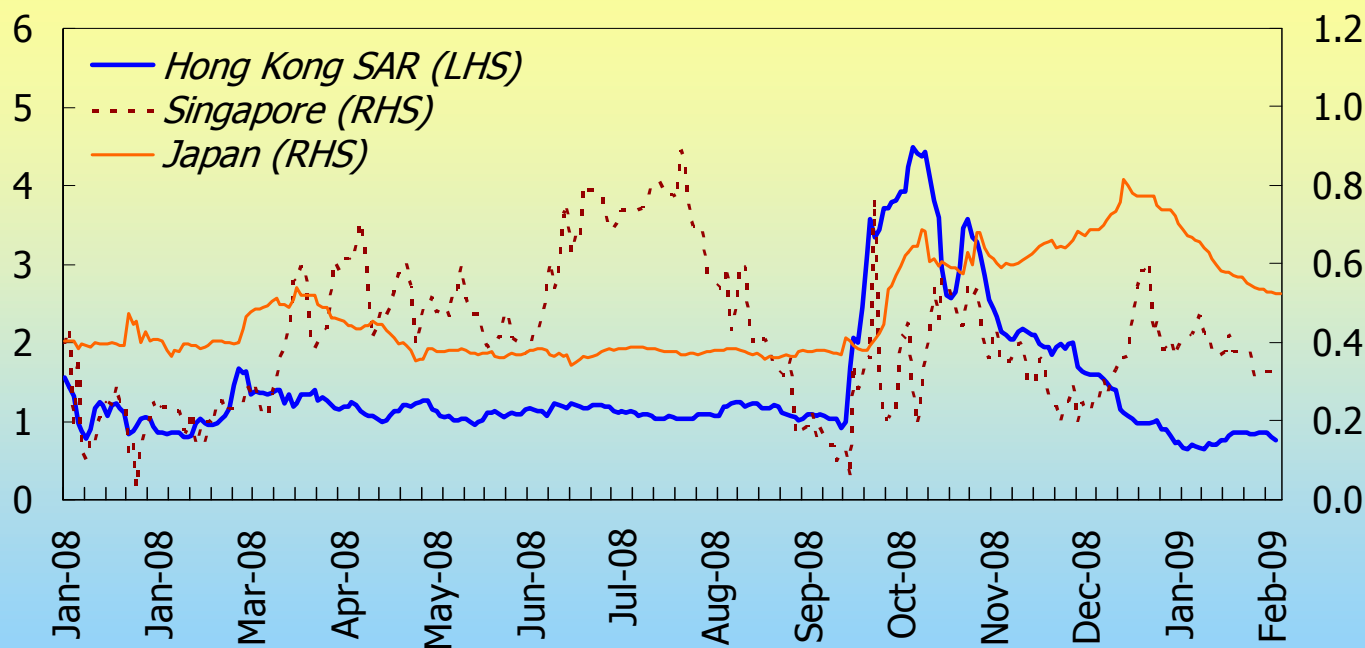


Source: IMF, *Information Notice System*.

Credit conditions have become tighter and financial markets remain very volatile

Selected Asia: "TED" Spreads¹

In percentage points



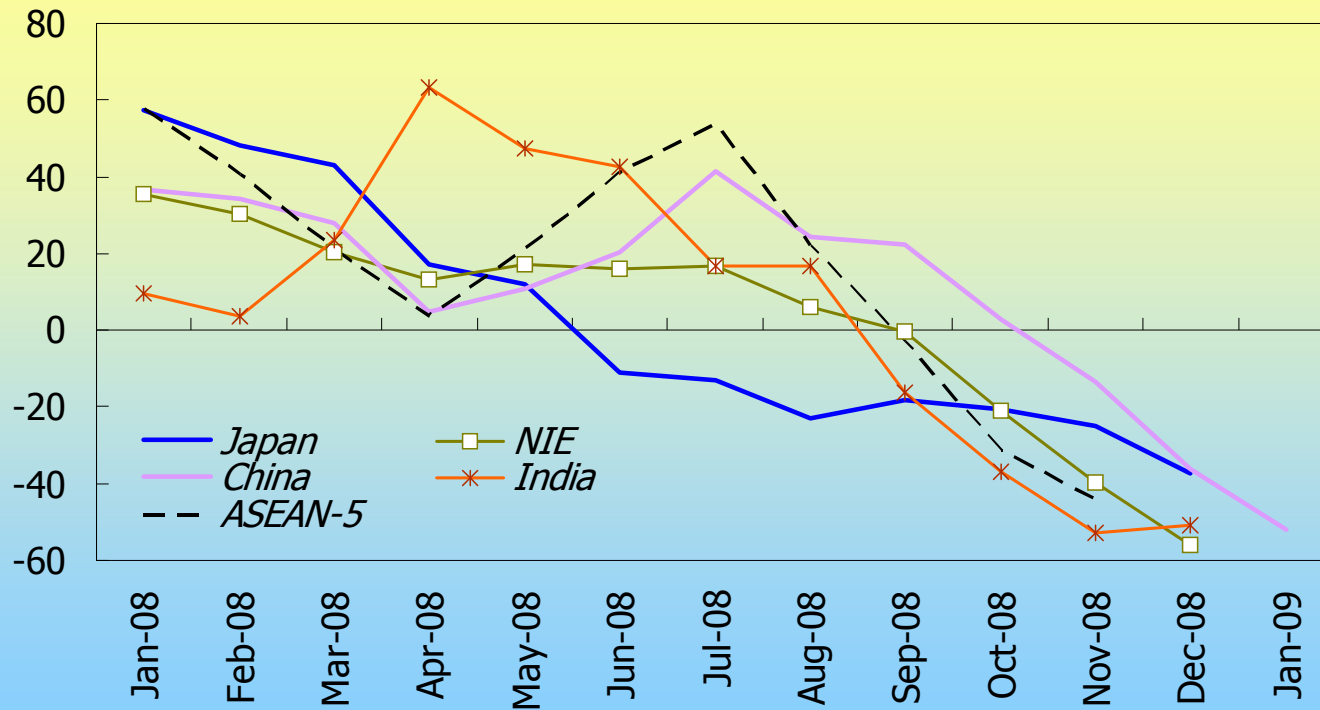
Sources: CEIC Data Company Ltd; and IMF staff calculations

¹ For Hong Kong SAR, 3-month HIBOR and exchange fund bills; for Japan, 3-month LIBOR and OIS rates; for Singapore, 3-month SIBOR and treasury bill rates are used.

As demand collapsed in the West exports have fallen off the cliff...

Selected Asia: Export Performance

3-month percent change of 3mma, SAAR, U.S. dollar basis

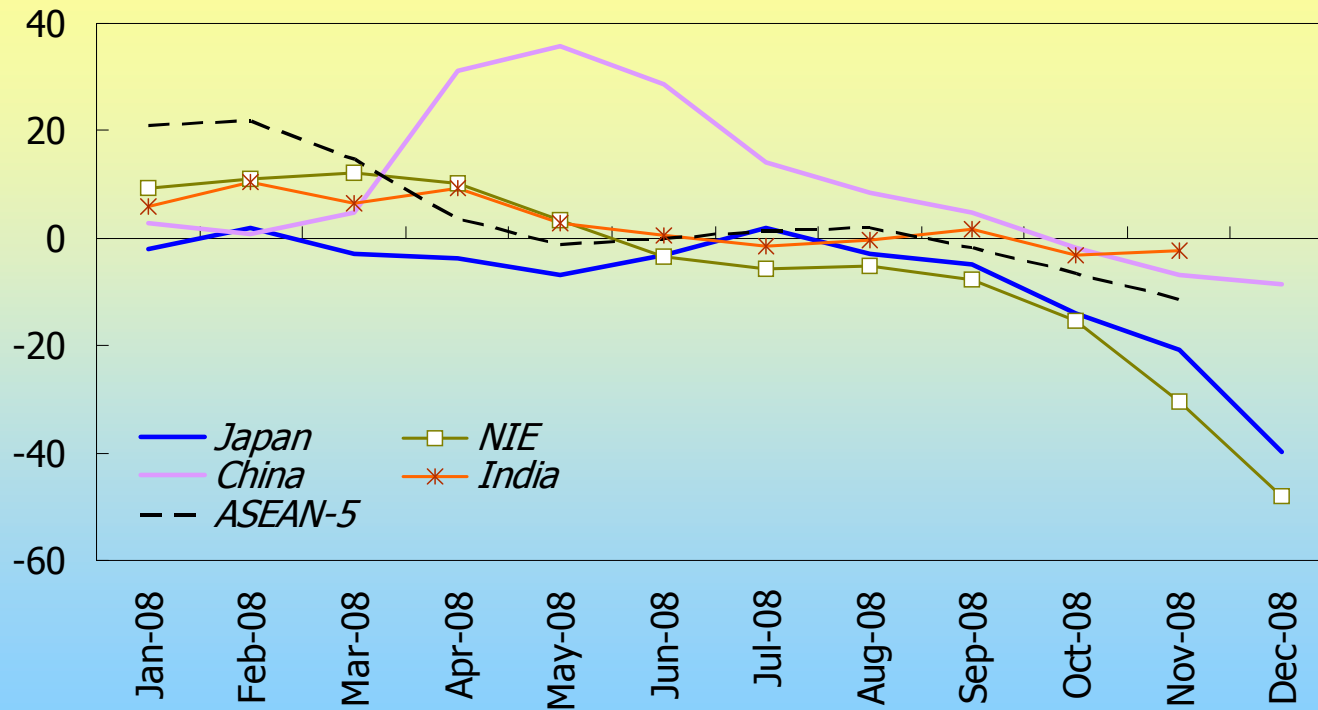


Sources: CEIC Data Company Ltd; and IMF staff calculations.

...followed by industrial production

Selected Asia: Industrial Production

3-month percent change of 3mma, SAAR

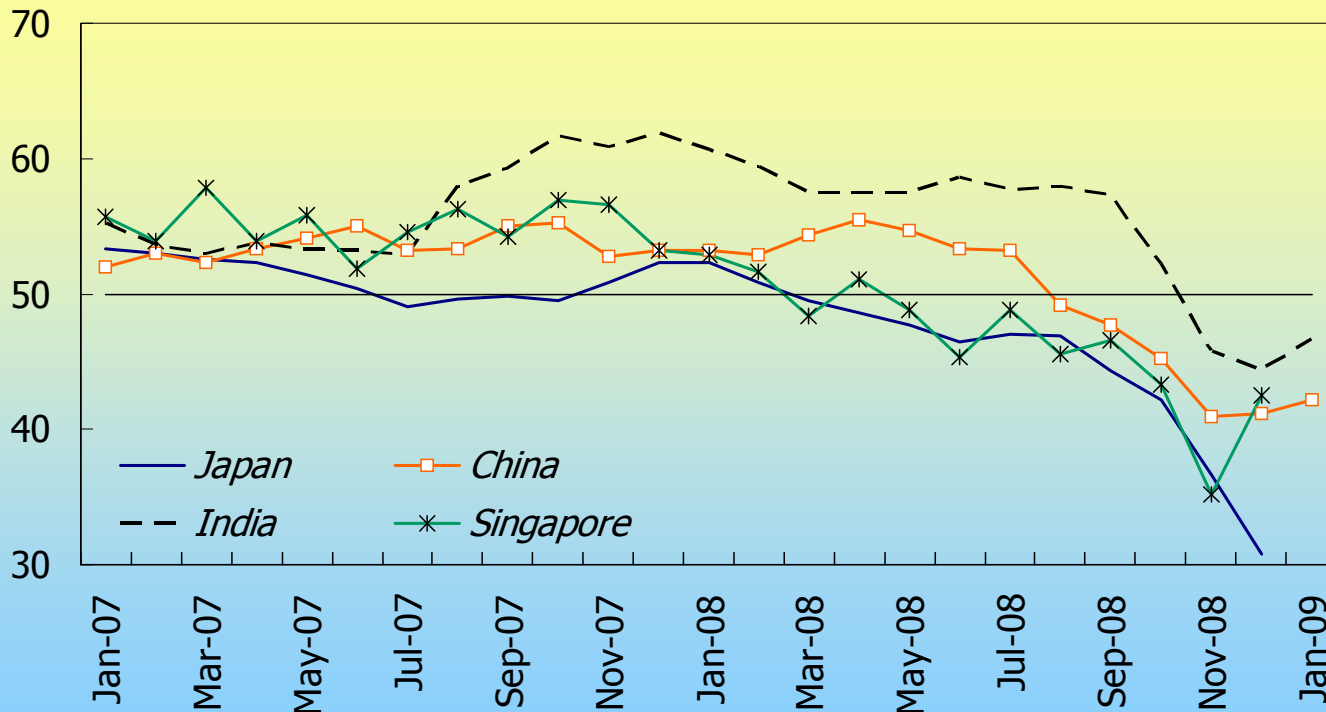


Sources: CEIC Data Company Ltd; and IMF staff calculations.

Further gloom lies ahead: the Purchasing Manager Index is in contraction territory...

Selected Asia: Manufacturing PMI

Seasonally adjusted

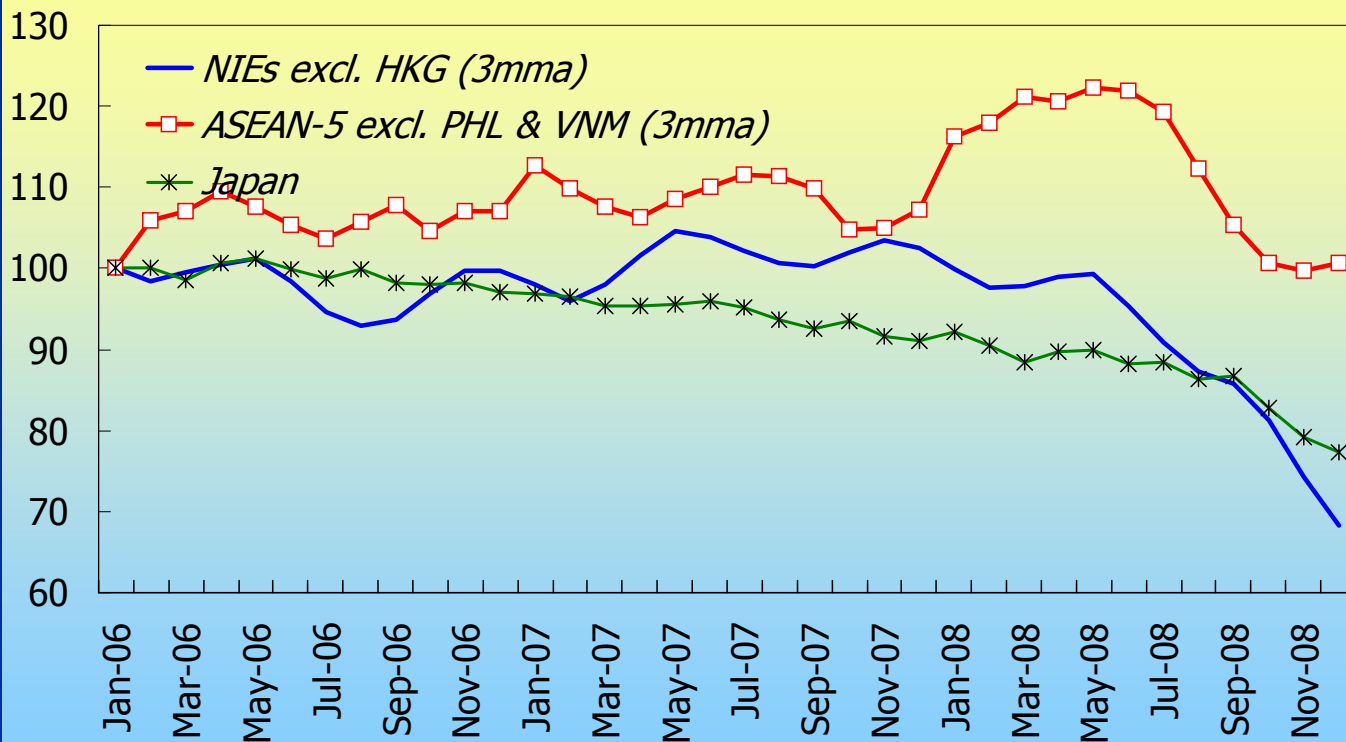


Source: Haver Analytics

...business confidence has weakened

Selected Asia: Business Confidence

January 2006=100

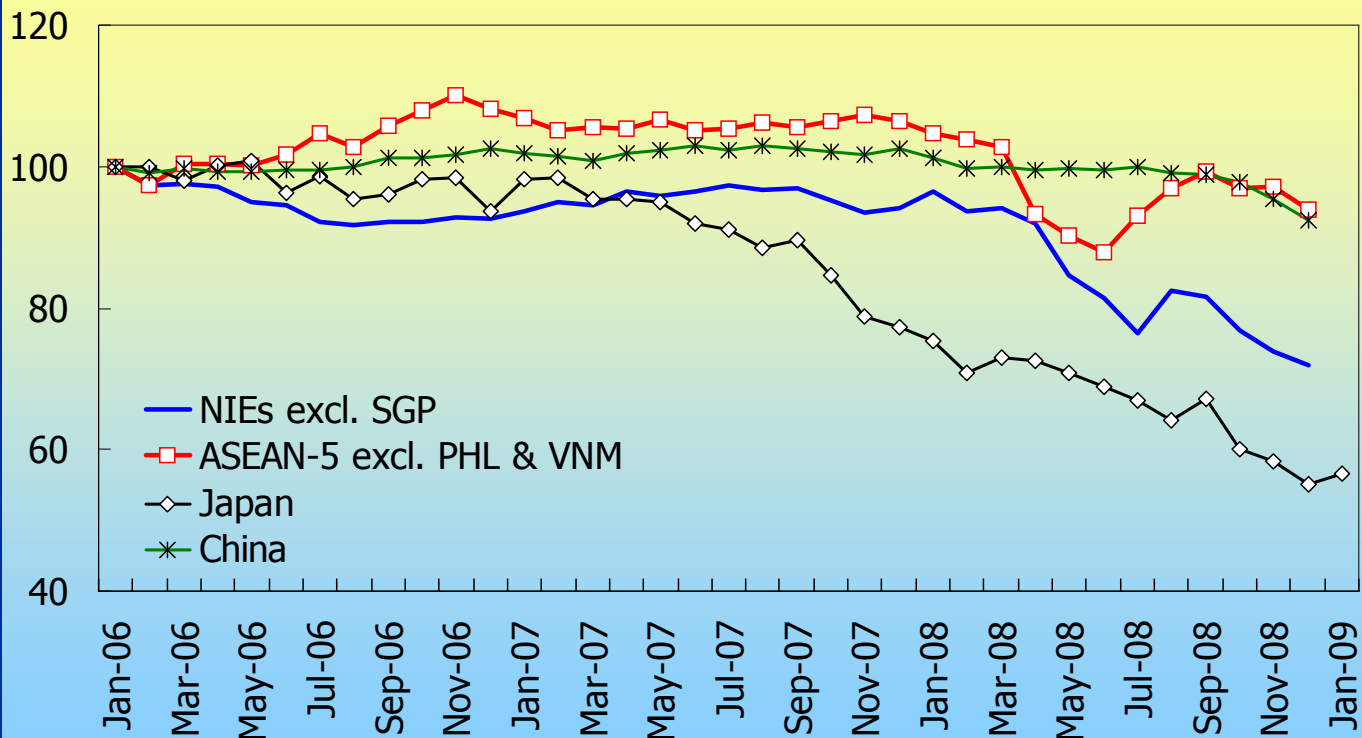


Sources: CEIC Data Company Ltd; and IMF staff calculations.

...and so has consumer confidence

Selected Asia: Consumer Confidence

January 2006=100



Sources: CEIC Data Company Ltd; and IMF staff calculations.

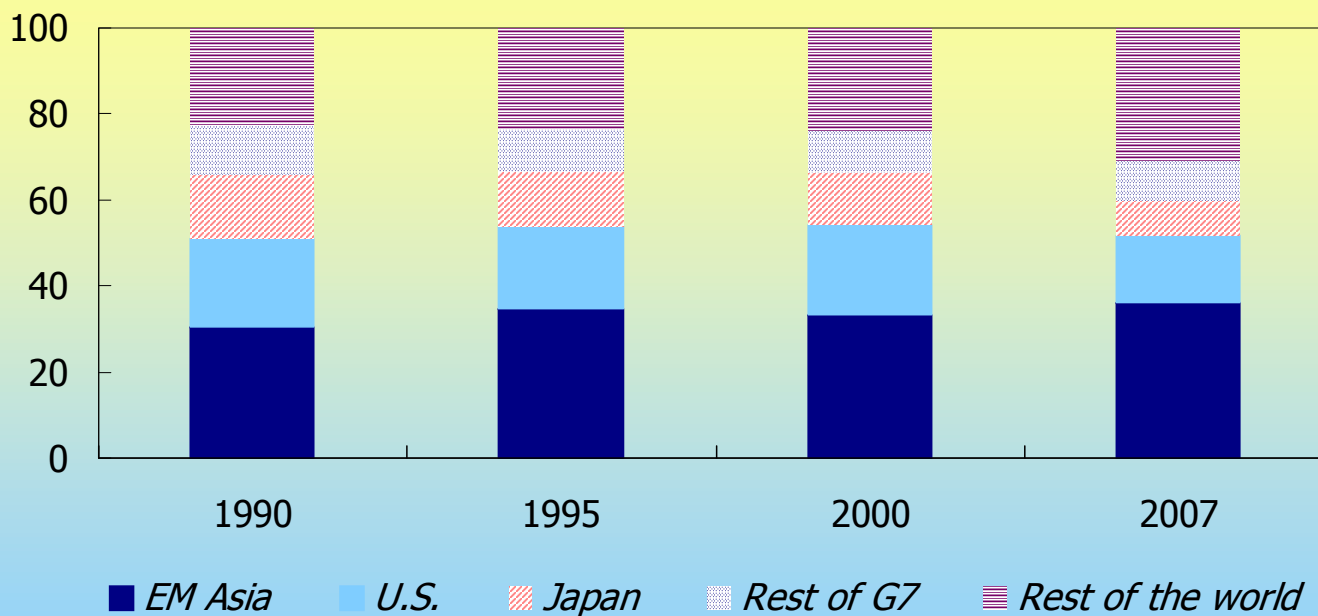
The recent events have dismantled three myths about Asia

- Myth 1: Asia has become decoupled from the business cycle of advanced economies.
- Myth 2: The relatively sound position of its financial institutions means Asia is insulated from the global financial turmoil.
- Myth 3: Large stocks of foreign exchange reserves offer an effective insurance against capital account crisis.

Dismantling Myth 1: It's true that intra-regional trade has increased sharply...

Emerging Asia: Destination of Exports¹

In percent of total exports



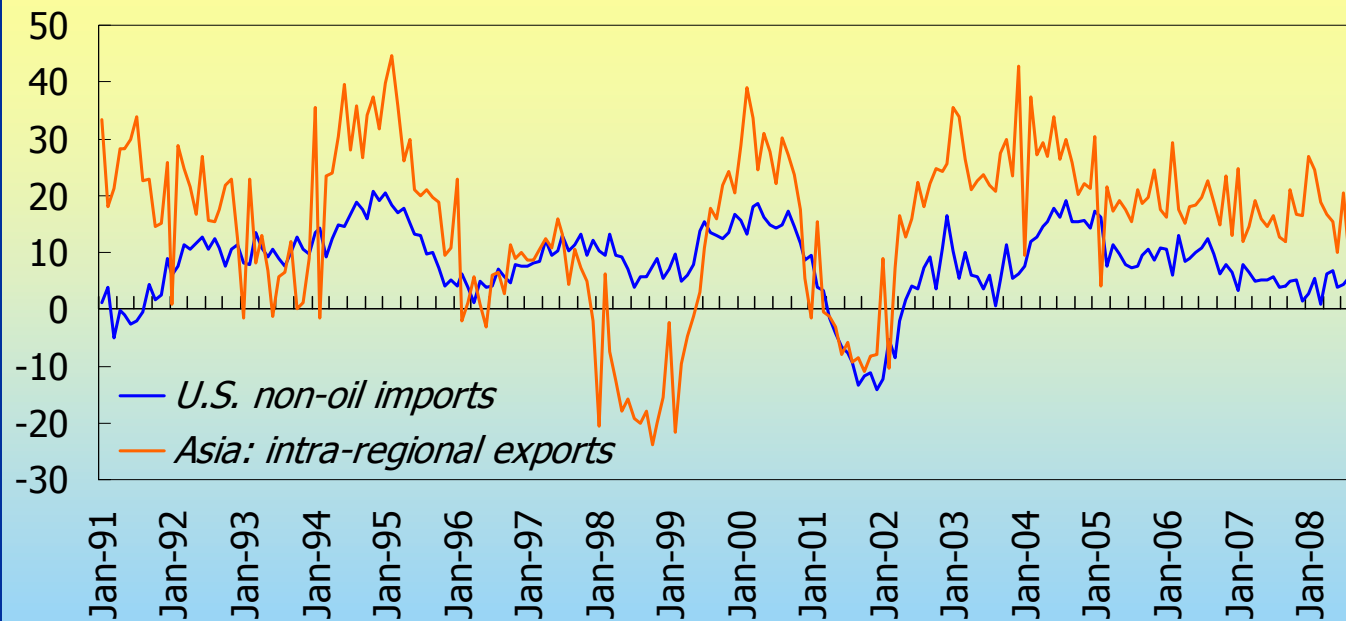
Sources: IMF, *Direction of Trade Statistics*; and staff calculations.

¹ Includes China, Hong Kong SAR, Singapore, Indonesia, Malaysia, the Philippines and Thailand.

...but intra-regional export growth remains strongly correlated with US imports

U.S. Non-oil Imports and Asia Intra-regional Exports¹

Year-on-year percent change



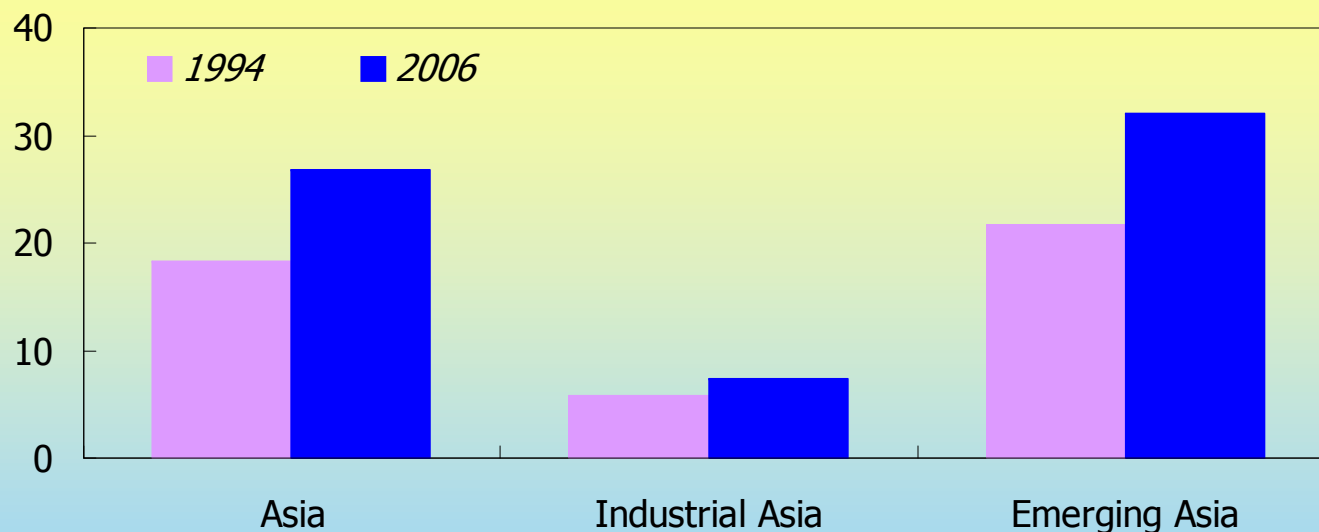
Sources: Haver Analytics; and IMF, *Direction of Trade Statistics* staff calculations.

¹ Includes China, Hong Kong SAR, Korea, Singapore, Indonesia, Malaysia, the Philippines, and Thailand.

...and controlling for intra industry-trade, Asia's trade exposure to the United States and Europe has increased

Asia: Export Exposure to Industrial Countries¹

Exposures to the United States and the EU-15 in percent of GDP



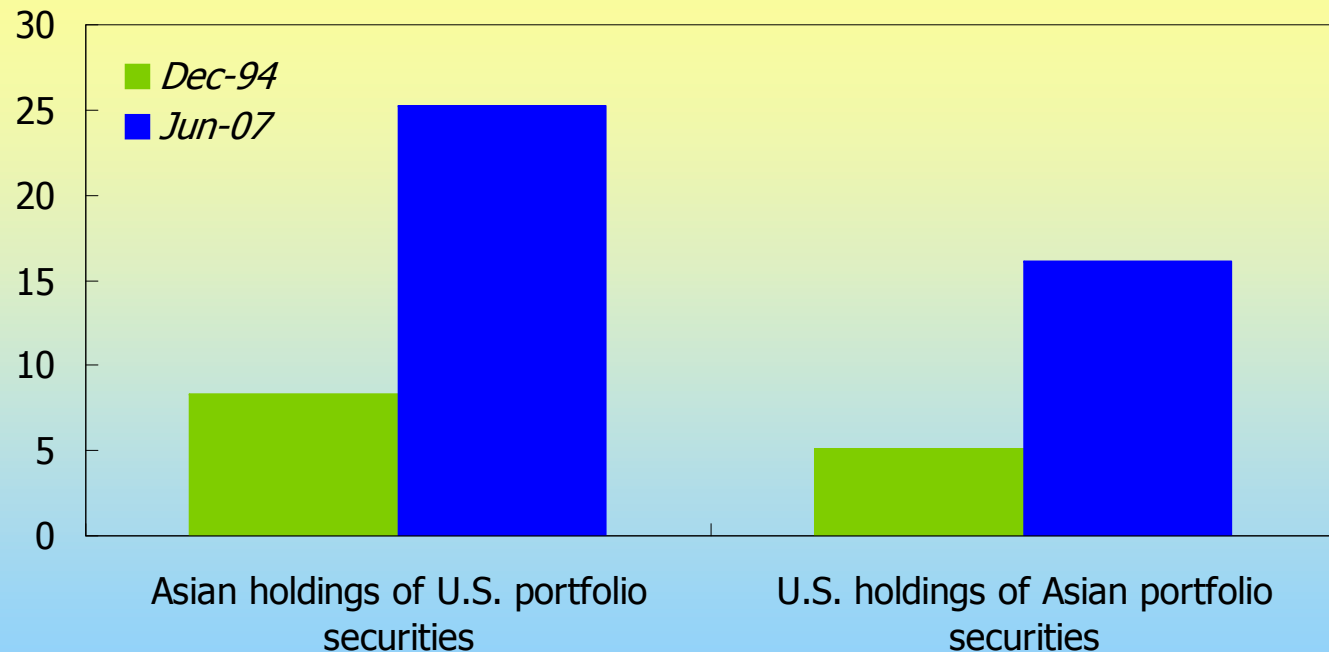
Sources: IMF, *Asia-Pacific Regional Economic Outlook*, Spring 2008 and *World Economic Outlook* database.

¹ Includes indirect exposures through exports of intermediate and capital goods via third countries.

Dismantling Myth 2: as Asia's financial integration has increased dramatically, so has its exposure to a change in investors sentiment

Holdings of Portfolio Securities

In percent of Asian countries' GDP

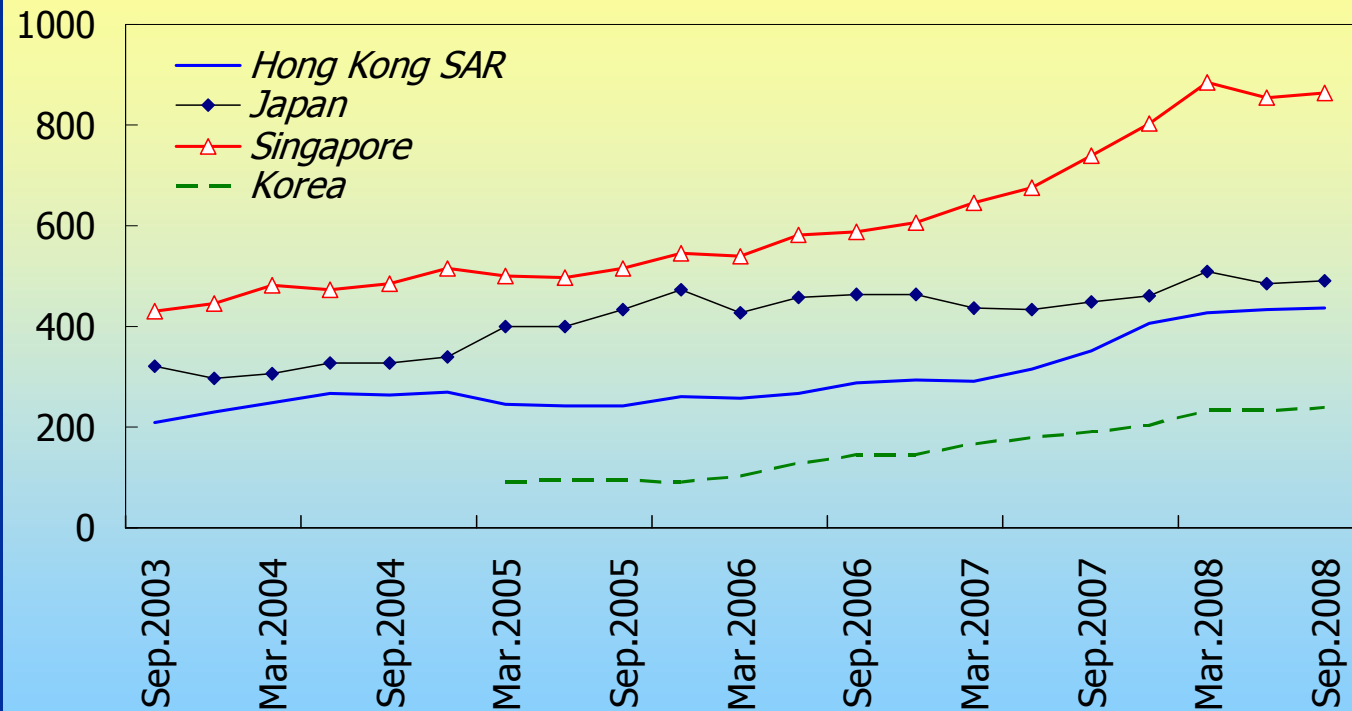


Sources: U.S. Department of the Treasury, Treasury International Capital System; and IMF, *World Economic Outlook* database.

The increased reliance on international wholesale funding made Asian banks more exposed to the process of global deleveraging...

Cross-Border Foreign Currency Liabilities of Banks

In billions of U.S. Dollars

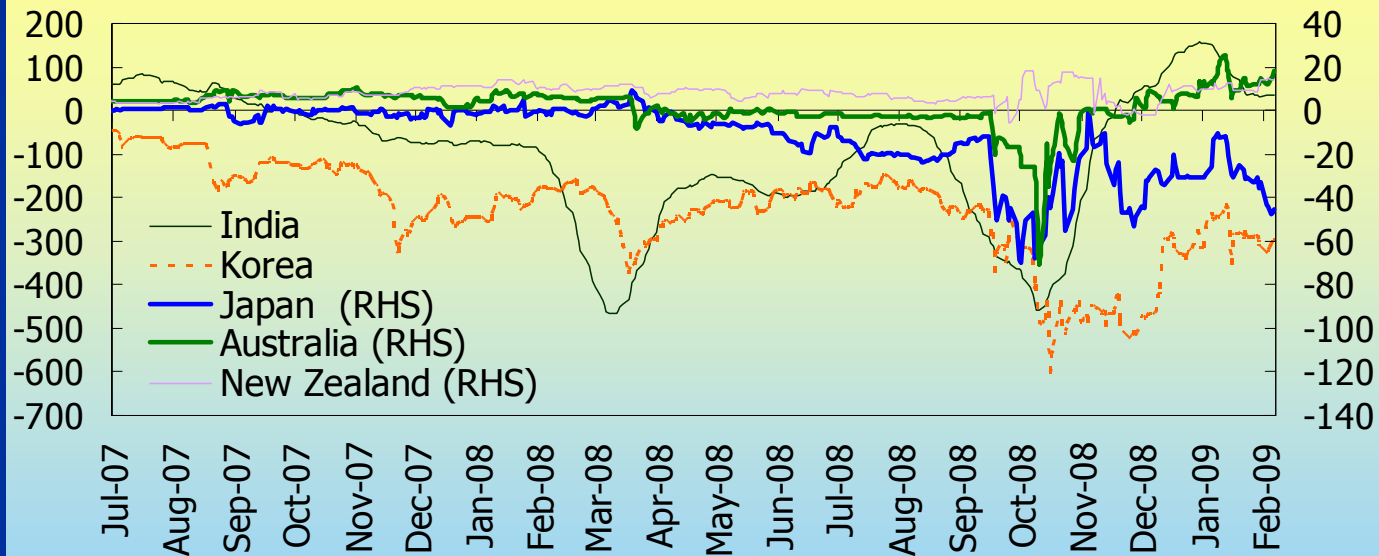


Source: BIS

...and the resulting shortage of dollar funding

Selected Asia: Cross-Currency Basis Spreads¹

In basis points



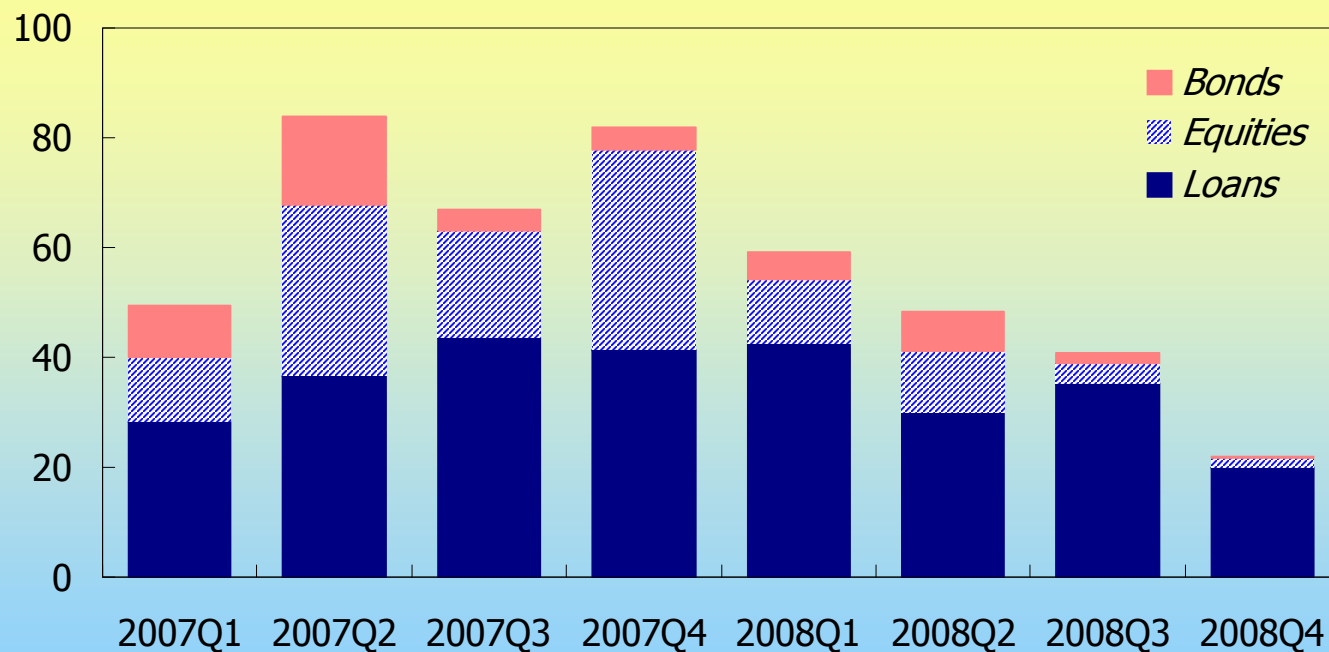
Sources: Bloomberg LP; and IMF staff calculations.

¹Japan, New Zealand, Australia, Korea are priced from 1-year basis swaps, and India is priced from 3-month currency forwards. Indian basis spreads are computed from 20-day moving average.

The increased reliance on foreign funding made Asian corporates more exposed to the reduction in external financing

Asia: External Financing - Bonds, Equities and Loans

In billions of U.S. dollars

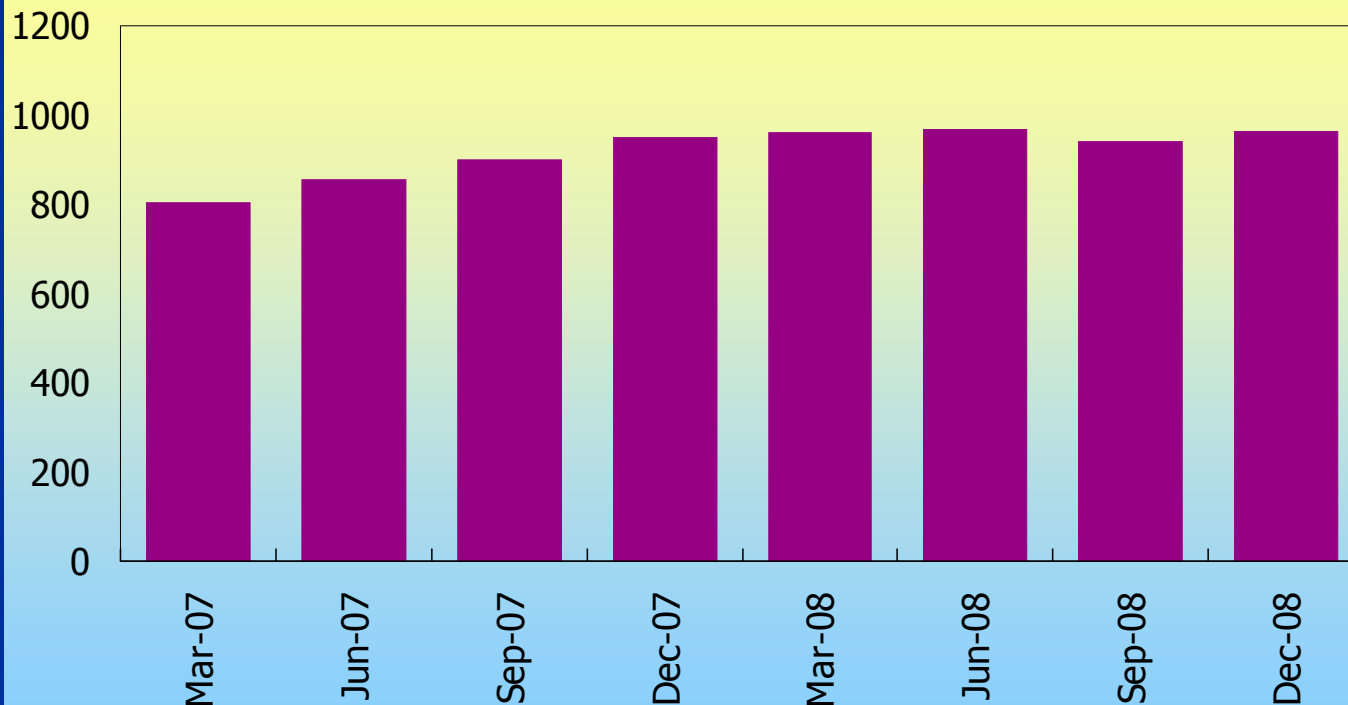


Source: Data provided by the Bond, Equity and Loan database of the IMF sourced from Dealogic.

Access to domestic corporate bond markets has also tightened..

Emerging Asia: Local Corporate Bond Market Issuance

In billions of U.S. dollars

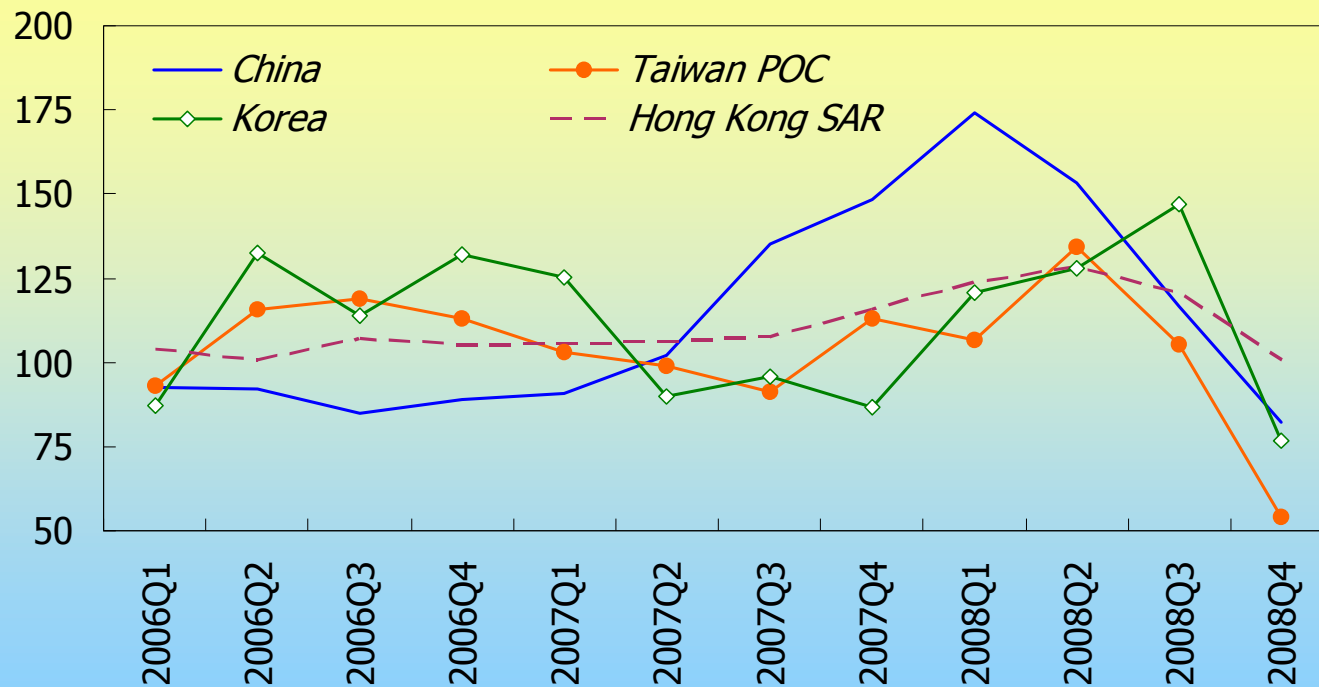


Source: ADB.

...as the availability of trade credit in the region

Selected Asia: Trade Credit

Year-on-year percent change on U.S. dollar basis

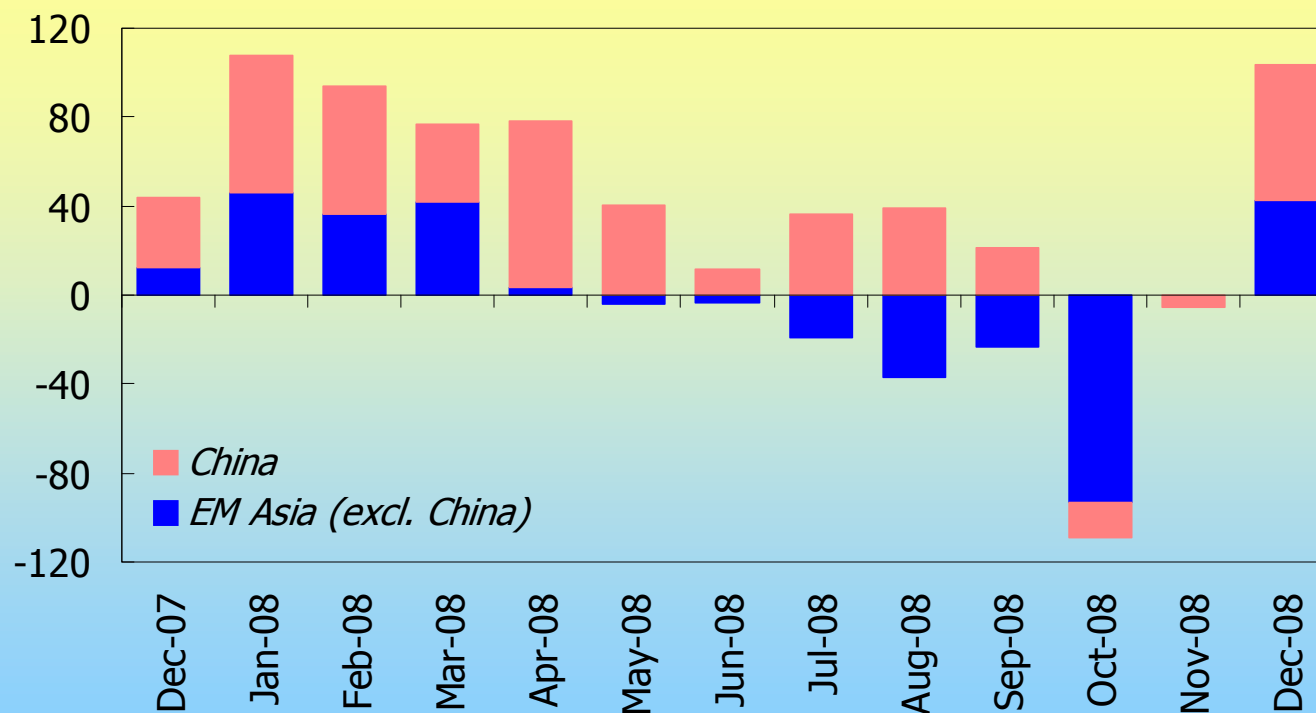


Source: CEIC Data Company Ltd.

Dismantling Myth 3: Asian economies have used their foreign reserves, but this has not insulated them from the crisis

Asia: Foreign Exchange Reserves

Monthly change, in billions of U.S. dollars



Source: CEIC Data Company Ltd.

Economic Outlook: The View From the Fund

Table 1. World Economic Outlook Projections; GDP growth

(Percent change, unless otherwise noted)

	Year over Year					
	2007	2008	Projections		Difference from 2008 WEO Projections	
			2009	2010	2009	2010
World output¹	5.2	3.4	0.5	3.0	-1.7	-0.8
Advanced economies	2.7	1.0	-2.0	1.1	-1.7	-0.5
United States	2.0	1.1	-1.6	1.6	-0.9	0.1
Euro area	2.6	1.0	-2.0	0.2	-1.5	-0.7
Germany	2.5	1.3	-2.5	0.1	-1.7	-0.4
France	2.2	0.8	-1.9	0.7	-1.4	-0.8
Italy	1.5	-0.6	-2.1	-0.1	-1.5	-0.1
Spain	3.7	1.2	-1.7	-0.1	-1.0	-0.9
Japan	2.4	-0.3	-2.6	0.6	-2.4	-0.5
United Kingdom	3.0	0.7	-2.8	0.2	-1.5	-0.9
Canada	2.7	0.6	-1.2	1.6	-1.5	-1.4
Other advanced economies	4.6	1.9	-2.4	2.2	-3.9	-1.0
Emerging and developing economies ²	8.3	6.3	3.3	5.0	-1.8	-1.2
Africa	6.2	5.2	3.4	4.9	-1.4	-0.5
Central and eastern Europe	5.4	3.2	-0.4	2.5	-2.6	-1.3
Commonwealth of Independent States	8.6	6.0	-0.4	2.2	-3.6	-2.3
Developing Asia	10.6	7.8	5.5	6.9	-1.6	-1.1
Middle East	6.4	6.1	3.9	4.7	-1.5	-0.6
Western Hemisphere	5.7	4.6	1.1	3.0	-1.4	-1.0
<i>Memorandum</i>						
European Union	3.1	1.3	-1.8	0.5	-1.6	-0.8
World growth based on market exchange rates	3.8	2.2	-0.6	2.1	-1.7	-0.7

Economic Outlook: The View From the Fund (cont'd)

Table 2. Asia: Real GDP Growth
(Year-on-year percent change)

	2007	2008	2009	2010	2008	2009	2010	2008	2009	2010
	Latest projection ¹				Difference from November WEO			Latest Consensus ²		
Industrial Asia	2.6	0.1	-2.2	0.8	-0.7	-2.4	-0.6	0.4	-1.3	1.3
Japan	2.4	-0.3	-2.6	0.6	-0.8	-2.4	-0.5	0.0	-1.7	1.1
Australia	4.0	2.3	-0.2	1.8	-0.1	-2.0	-1.2	2.3	0.9	2.4
New Zealand	3.1	0.4	-1.1	1.0	-0.3	-2.5	-1.3	0.4	-0.2	2.4
Emerging Asia	10.0	7.0	4.2	6.4	-0.7	-2.3	-1.2	7.1	5.2	7.0
NIEs	5.6	2.1	-3.9	3.1	-1.7	-5.9	-1.2	2.8	-0.4	3.4
Hong Kong SAR	6.4	2.8	-2.0	2.5	-1.0	-4.0	-0.1	2.8	-1.3	2.7
Korea	5.0	2.6	-4.0	4.2	-1.5	-6.0	-0.5	3.7	0.6	3.7
Singapore	7.7	1.0	-4.9	1.9	-1.7	-6.9	-3.3	1.5	-2.4	3.5
Taiwan POC	5.7	1.5	-4.0	1.8	-2.4	-6.3	-2.0	1.6	-1.1	3.1
China	13.0	9.0	6.7	8.0	-0.7	-1.8	-1.5	9.2	7.4	8.4
India	9.3	7.3	5.1	6.5	-0.5	-1.2	-0.3	6.7	5.6	7.8
ASEAN-5	6.3	5.4	2.7	4.1	0.0	-1.6	-1.3	5.2	2.8	4.6
Indonesia	6.3	6.1	3.5	4.0	0.2	-1.0	-1.7	6.1	4.0	5.0
Malaysia	6.3	5.7	1.4	3.5	0.0	-2.4	-1.7	5.1	1.4	4.3
Philippines	7.2	4.6	2.2	4.0	0.3	-1.3	-0.5	4.2	2.4	4.2
Thailand	4.9	4.0	1.5	4.0	-0.5	-2.5	-1.2	4.1	1.1	3.7
Vietnam	8.5	6.2	4.8	5.8	-0.1	-0.7	-0.4	6.2	5.1	6.2
Emerging Asia excl. China	7.3	5.2	1.7	4.8	-0.7	-2.7	-0.8	5.1	3.0	5.6
Emerging Asia excl. China and India	6.0	3.7	-0.7	3.6	-0.9	-3.8	-1.2	4.0	1.2	4.0
Asia	8.1	5.3	2.7	5.2	-0.7	-2.3	-1.0	5.4	3.6	5.7



Thank you.