

# Why Has Asia Been Hit So Hard By The Global Economic And Financial Crisis?

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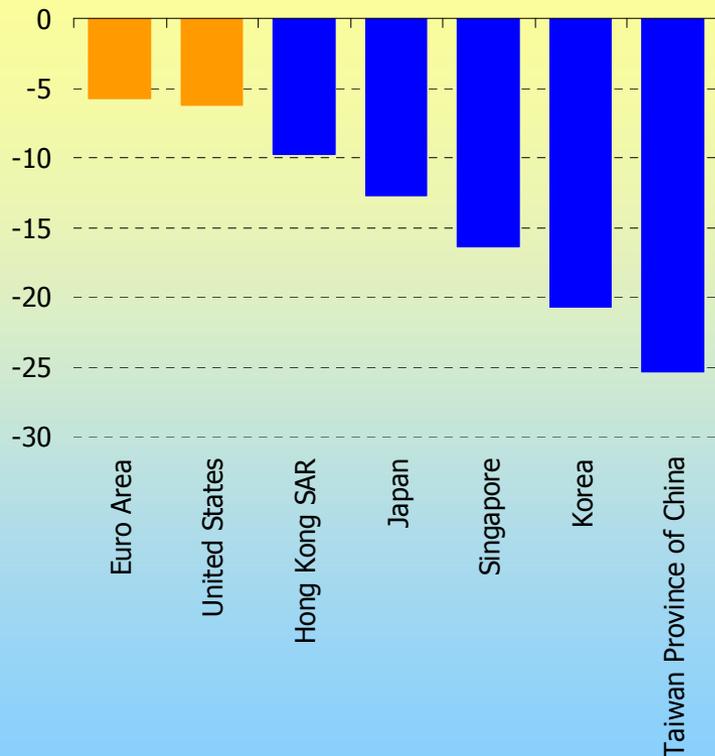
# Five key questions

- How hard has Asia been hit by the crisis?
- How acute are the financial market pressures?
- What has been the impact on financial institutions and corporates?
- How has policy responded?
- What lies ahead for the region, and what is the role of the IMF?

# Asia has been hit hard by the crisis

## 2008Q4 GDP Growth

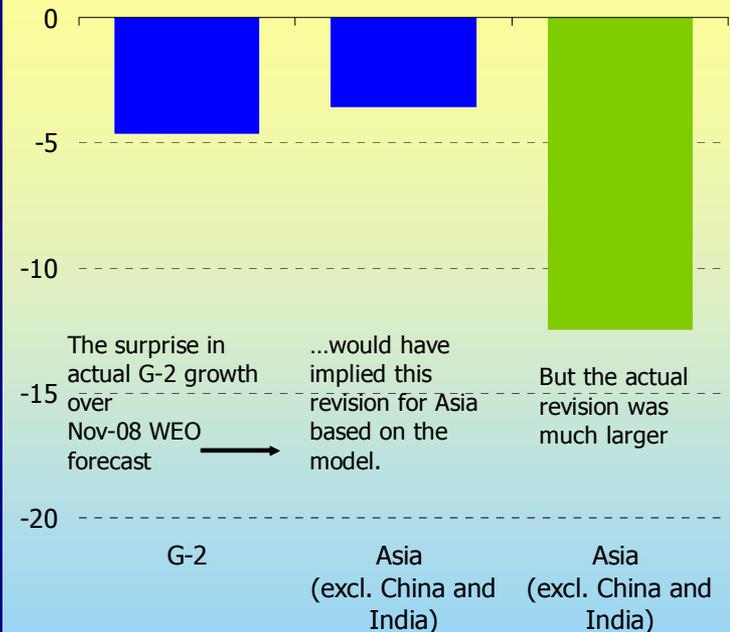
Quarter-on-quarter percent change, SAAR



Sources: Haver Analytics; and IMF staff calculations.

## 2008Q4 GDP Growth<sup>1</sup>

Quarter-on-quarter percent change, SAAR

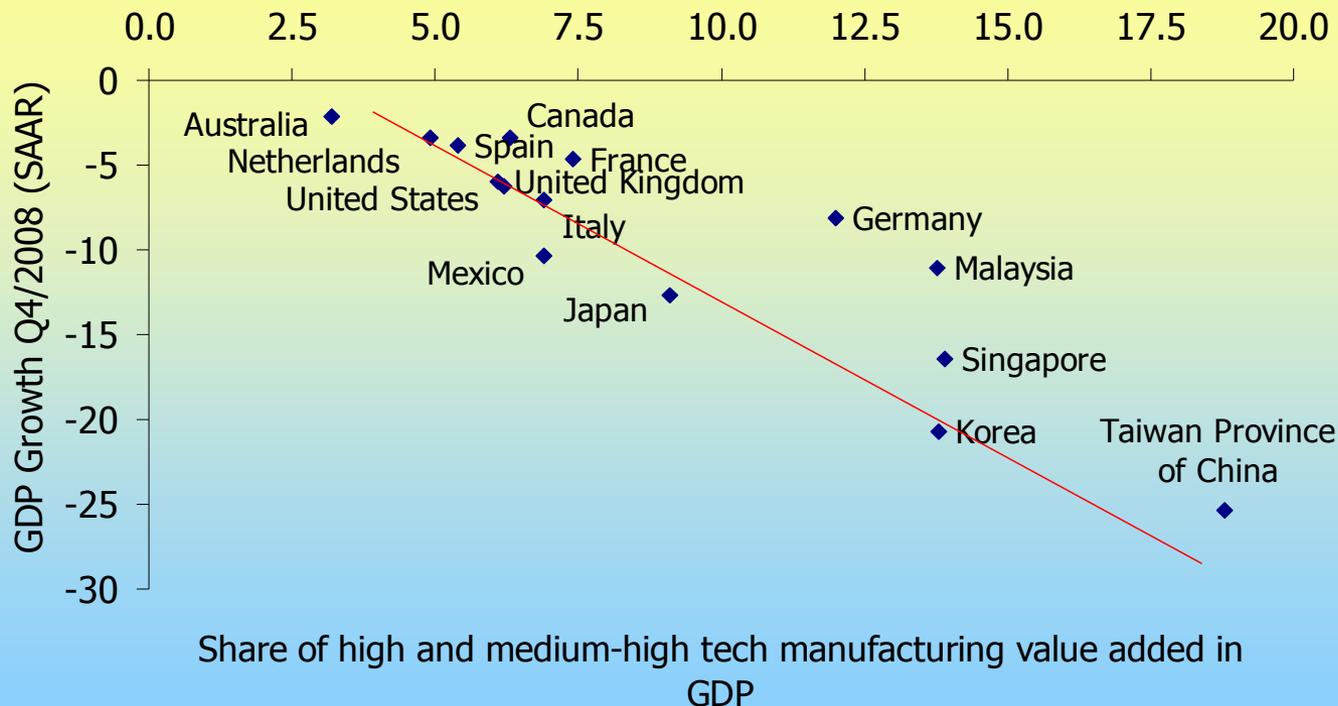


Sources: Haver Analytics; and IMF, *World Economic Outlook* database and staff estimates.

<sup>1</sup> PPP GDP Weighted. Does not include New Zealand and Vietnam.

# This reflects Asia's specialization in advanced manufacturing

## Q4 GDP Growth vs. Share of Advanced Manufacturing in GDP

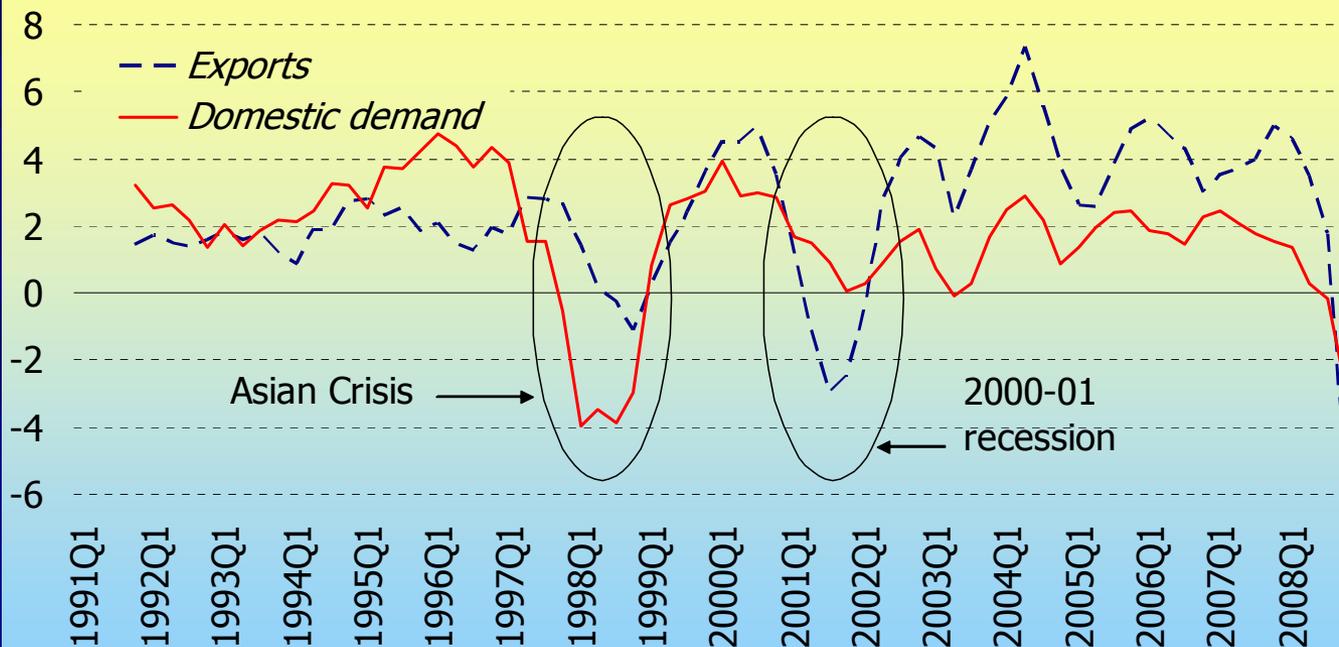


Sources: Haver Analytics; OECD; and IMF staff estimates.

# A double hit for Asia: it's both exports and domestic demand

## Japan and NIEs: Contribution to GDP growth

Year-on-year, in percent

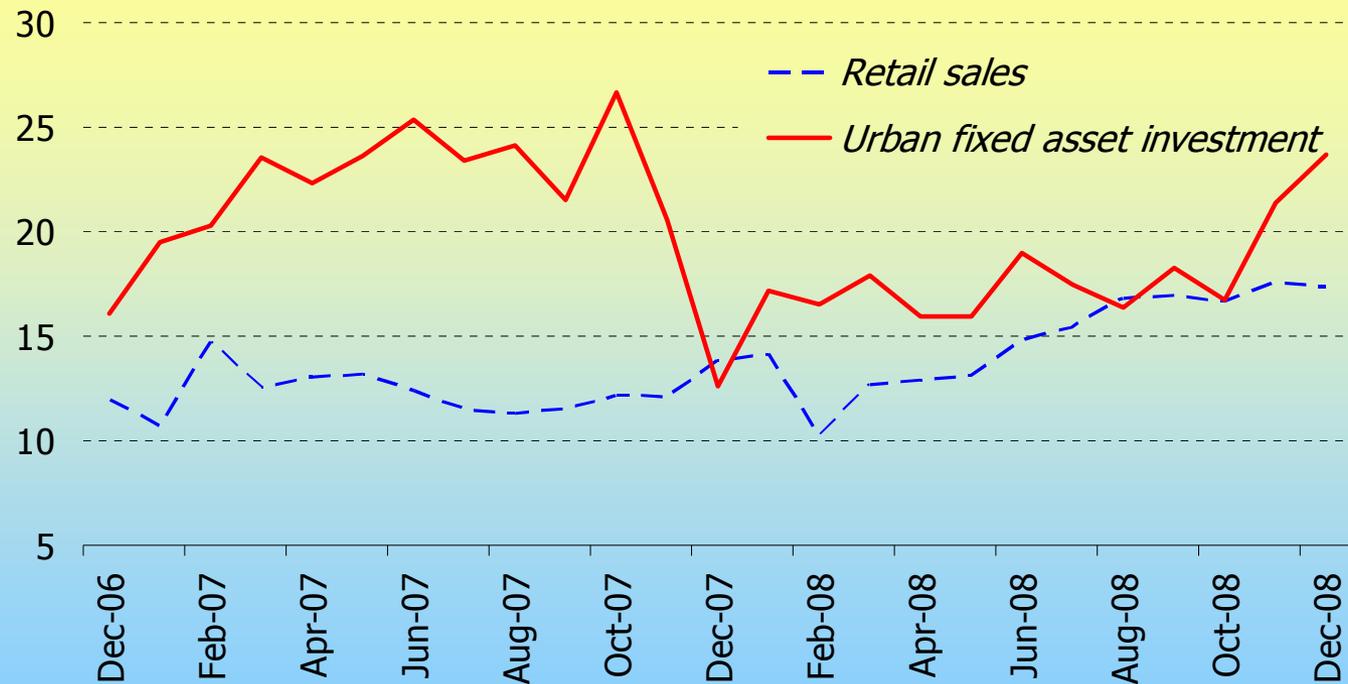


Sources: Haver Analytics; and IMF, *World Economic Outlook* database and staff calculations.

# China's story is different

## China: Expenditure-side Indicators

*Year-on-year change in real terms, in percent*

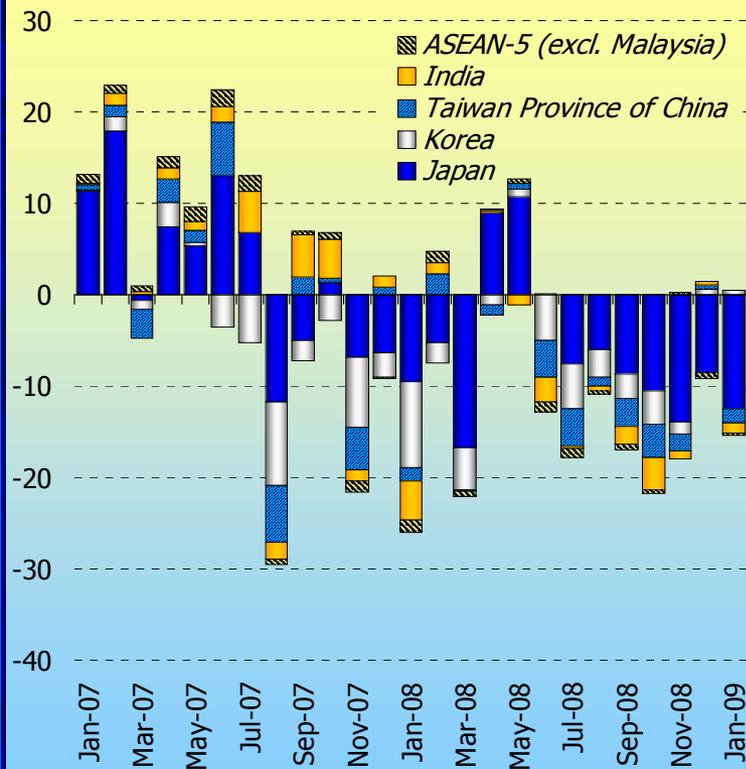


Sources: CEIC Data Company Ltd; and IMF staff calculations.

# Asia has suffered from global deleveraging

## Selected Asia: Net Equity Inflows

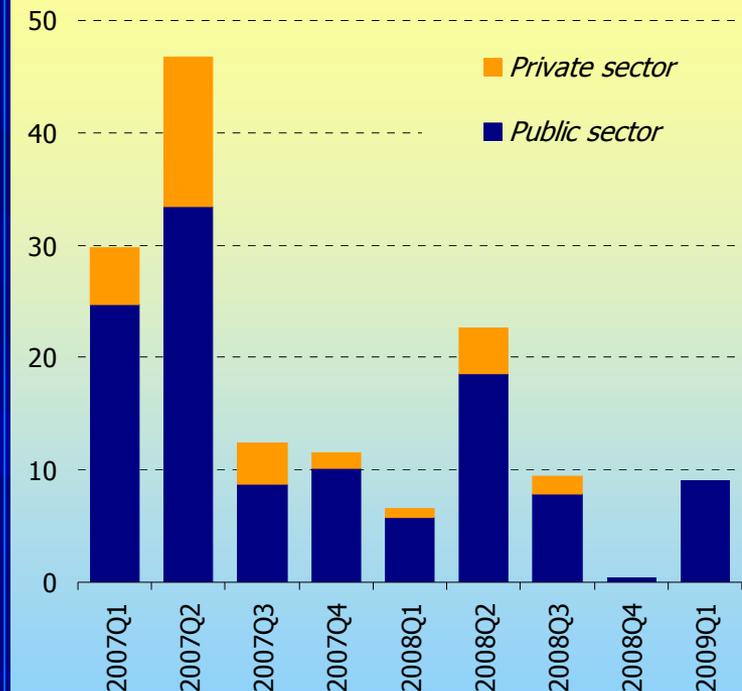
In billions of U.S. dollars



Source: Bloomberg LP.

## Asia: Bond Financing

In billions of U.S. dollars



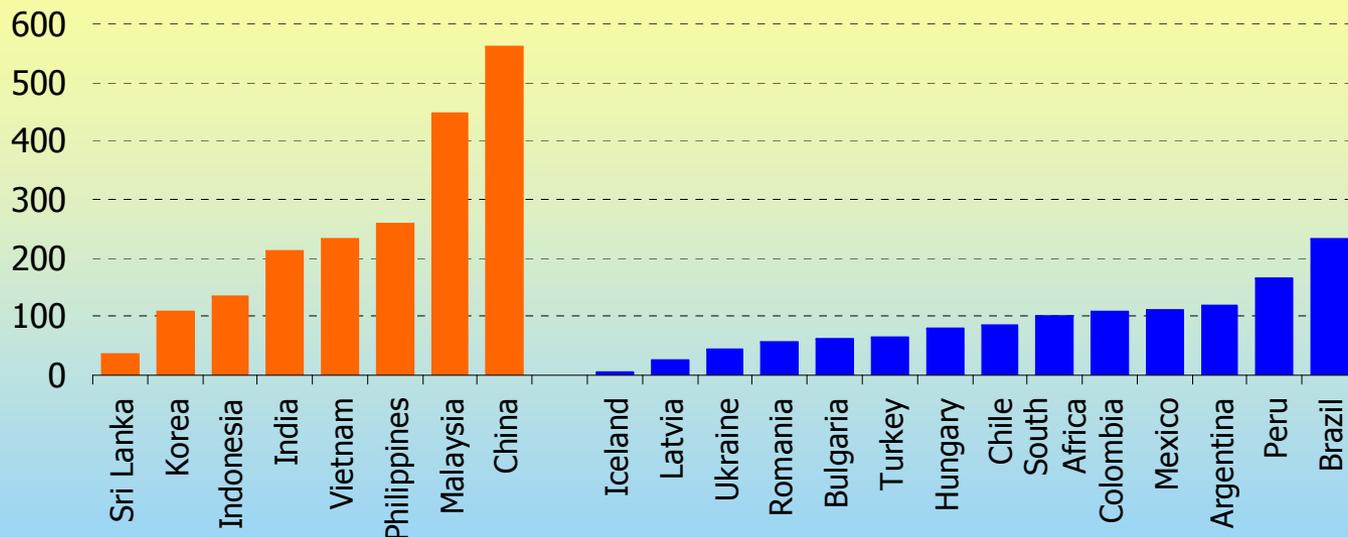
Source: Data provided by the Bond, Equity and Loan database of the IMF sourced from Dealogic.

How acute are the financial market pressures?

# Reserve cover ratios have been larger in Asia than in other EM

## Foreign Reserves over External Financing Requirements<sup>1</sup>

*In percent*



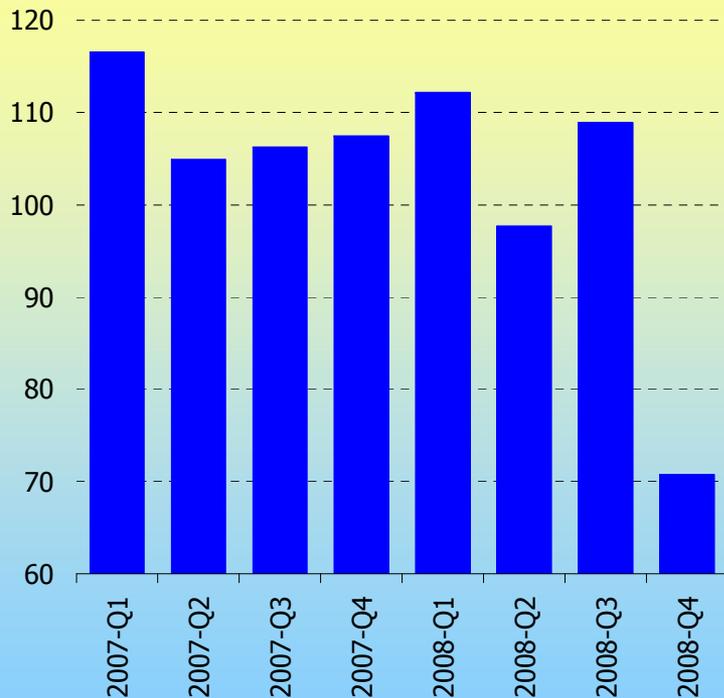
Source: IMF staff estimates.

<sup>1</sup> Gross international reserves (December 2008) in percent of external debt maturing in 2009 (projected) plus projected current account deficit for 2009 (zero, if current account is in surplus).

# An illustration of the rollover problem

## Korea: Bank Short Term External Liabilities: Implied Rollover Rates

*In percent*



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

## Banking Sector CDS Spreads

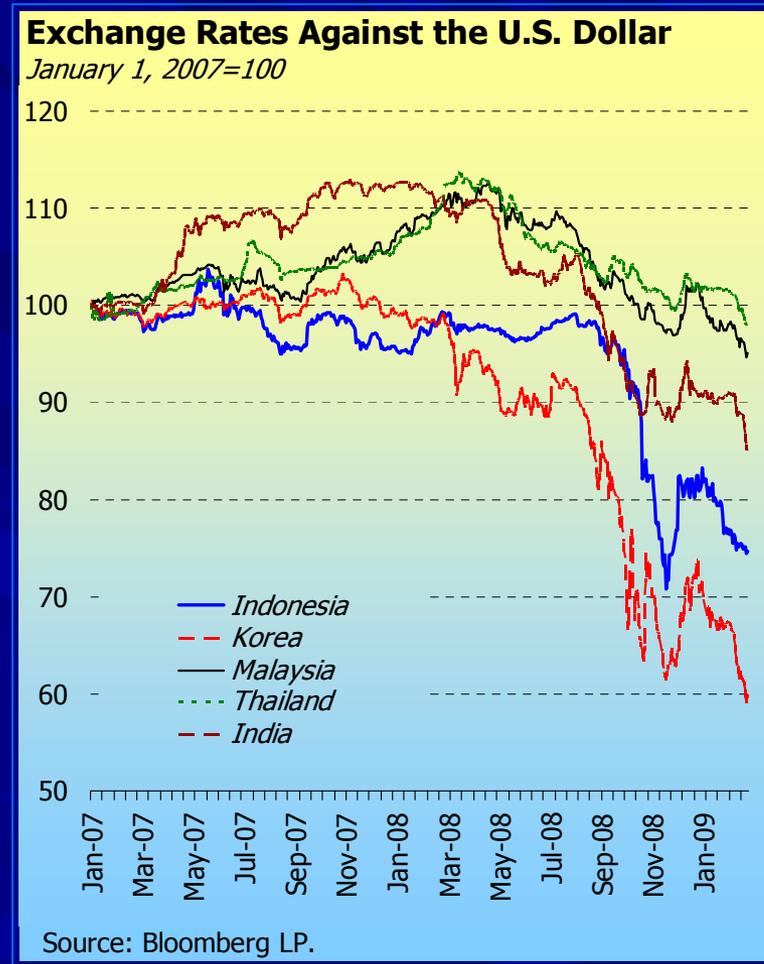
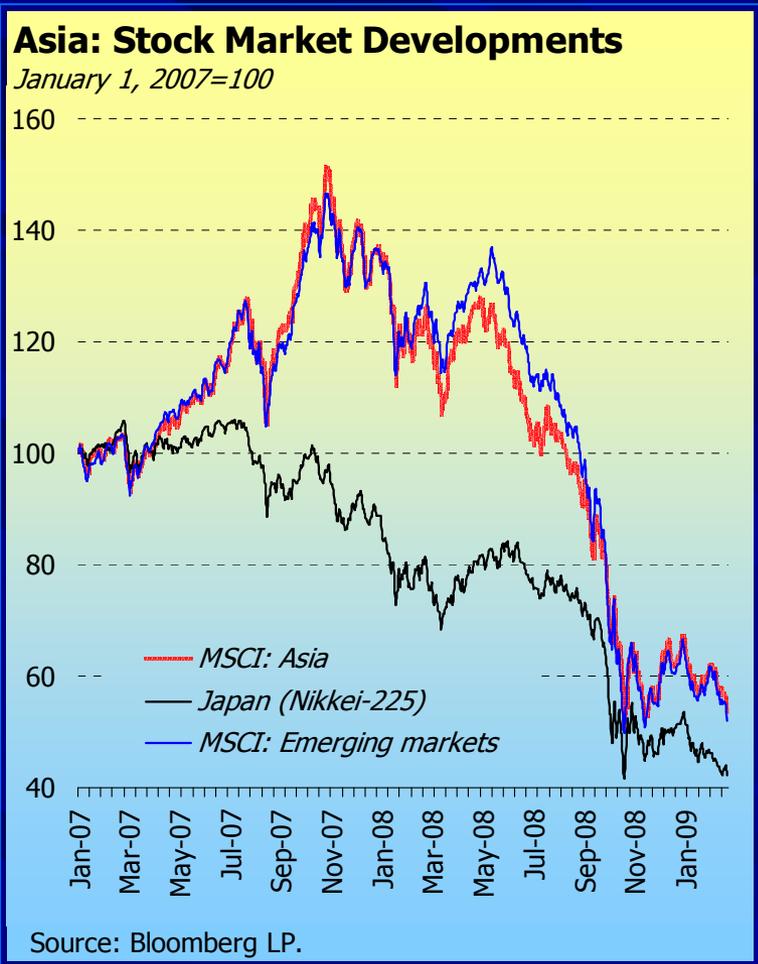
*5-year, in basis points*



Sources: Datastream; and Bloomberg LP.

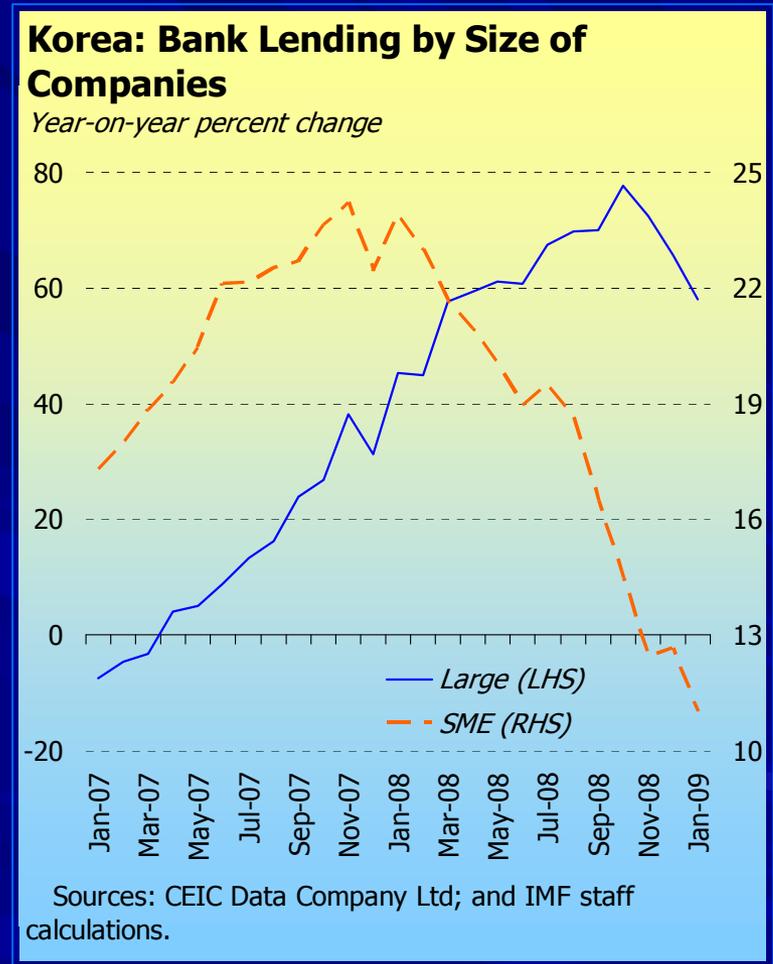
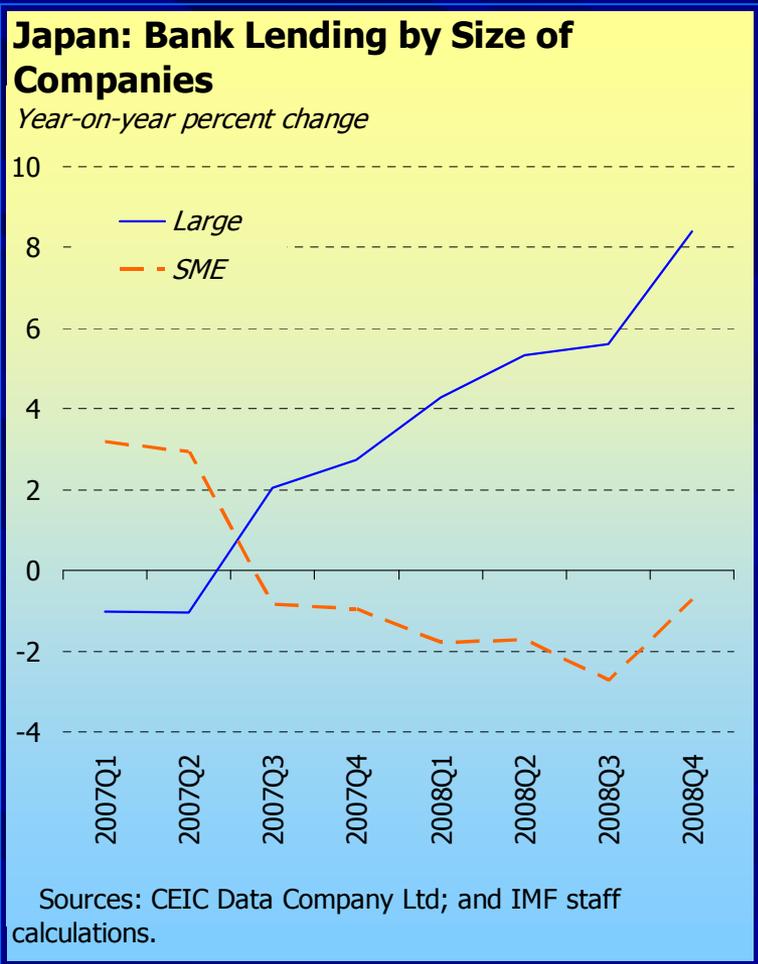
How acute are the financial market pressures?

# Equity and currency markets are under intense pressures



How acute are the financial market pressures?

# The crisis is taking a toll on firms: SMEs were first affected

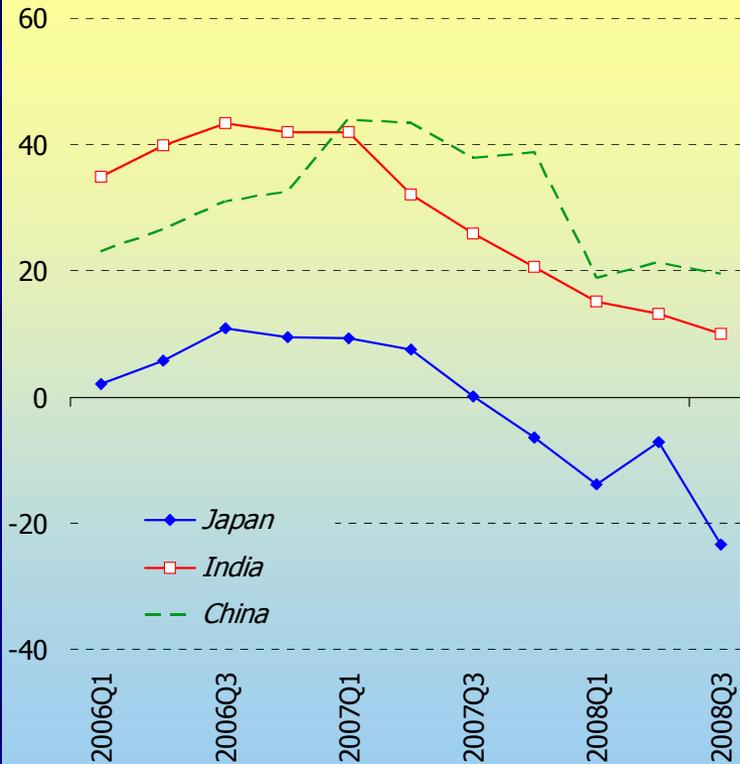


What has been the impact on financial institutions and corporates?

# Corporate strength has quickly eroded

## Corporate Profits

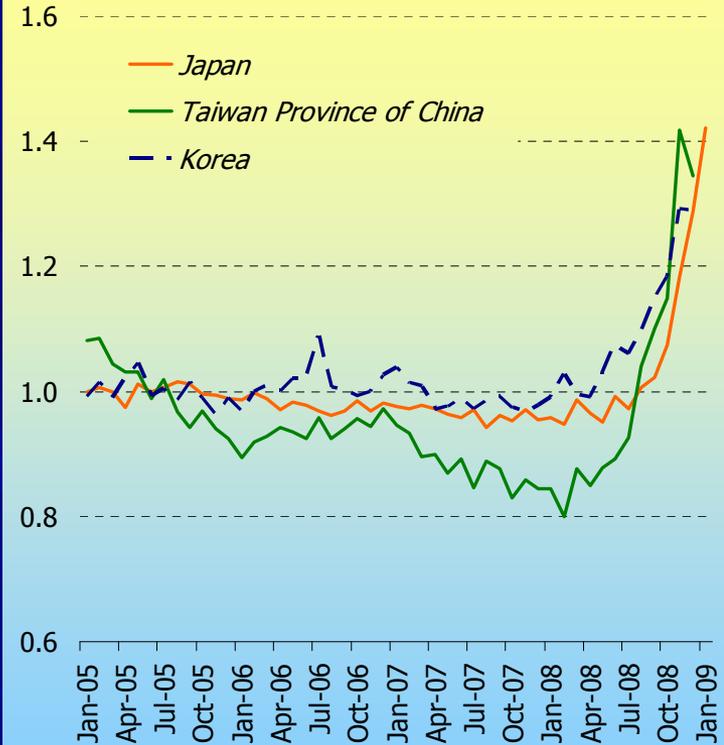
Year-on-year change, in percent



Source: CEIC Data Company Ltd.

## Inventory to Shipment Ratios

2005=100, seasonally adjusted



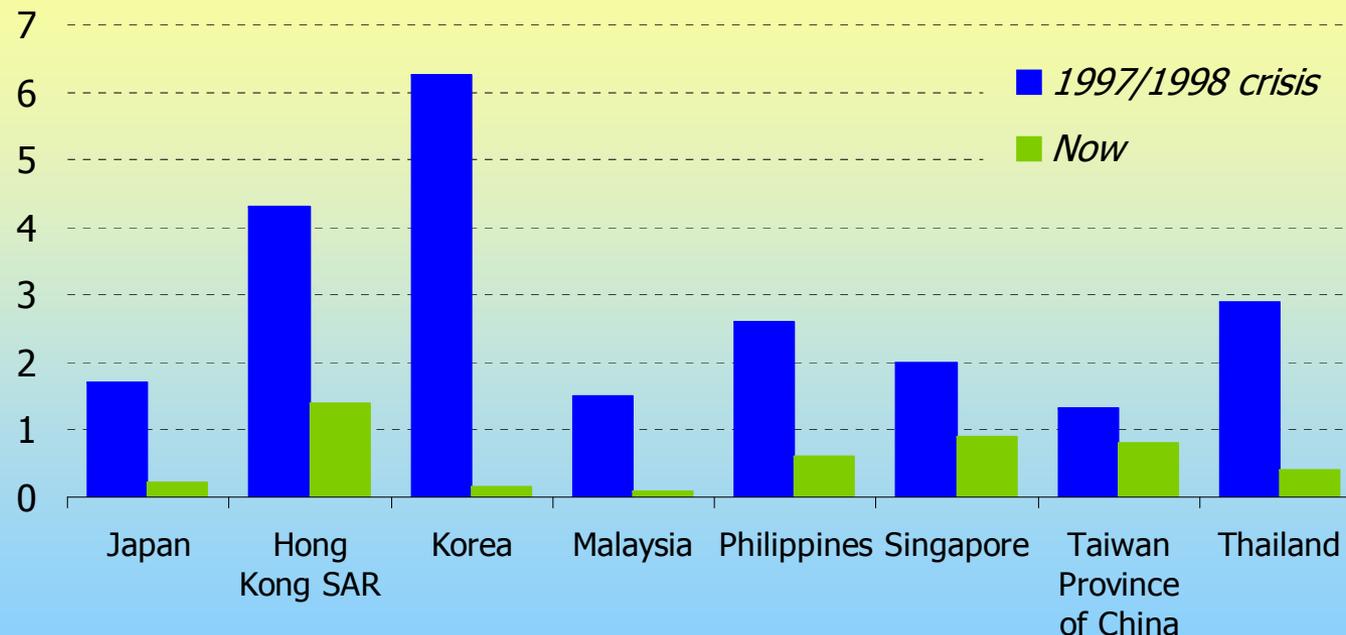
Sources: Haver Analytics; and IMF staff calculations.

What has been the impact on financial institutions and corporates?

# Firms are only now beginning to adjust employment levels

## Change in Unemployment Rate: 1997-98 crisis and now

*In percent*



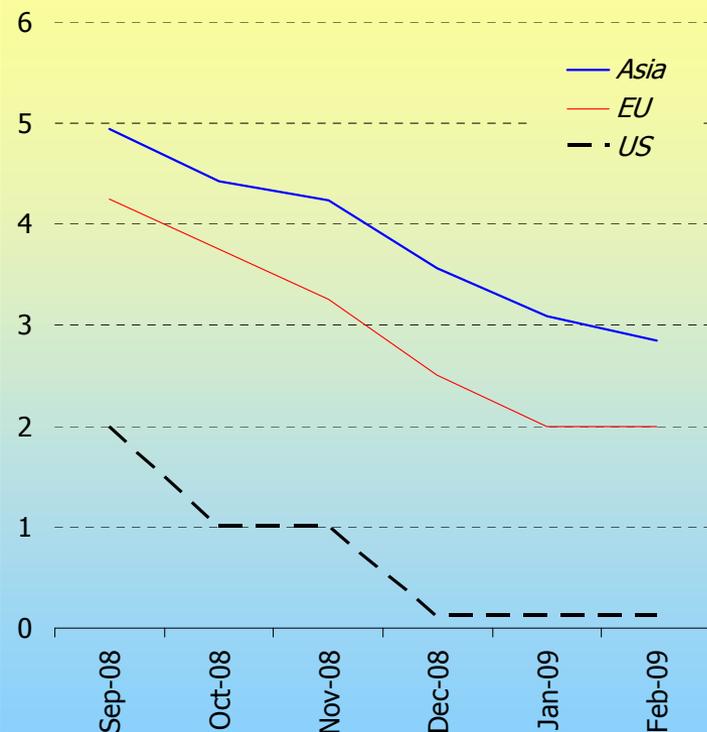
Source: Haver Analytics.

What has been the impact on financial institutions and corporates?

# Despite aggressive monetary easing real rates are relatively stubborn

## Policy Interest Rates

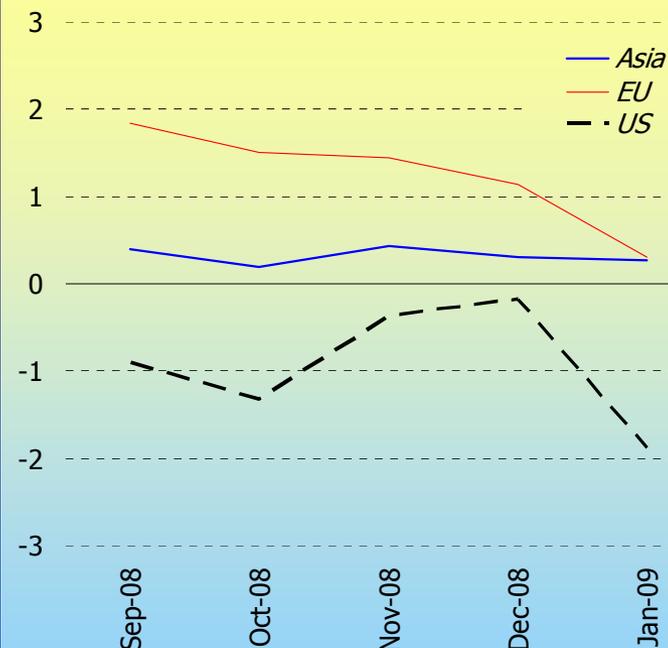
In percent



Sources: Haver Analytics; and IMF staff calculations.

## Real Interest Rates<sup>1</sup>

In percent



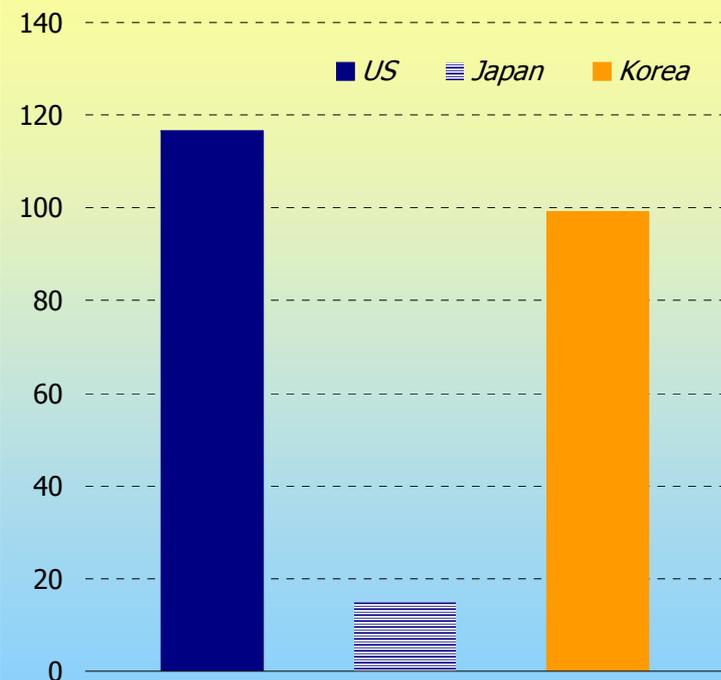
Sources: Consensus Economics Inc; and IMF staff calculations.

<sup>1</sup> Policy interest rates less one-year ahead inflation expectations from consensus forecasts.

# Traditional monetary transmission mechanisms have weakened

## Domestic Assets on Central Bank Balance Sheets

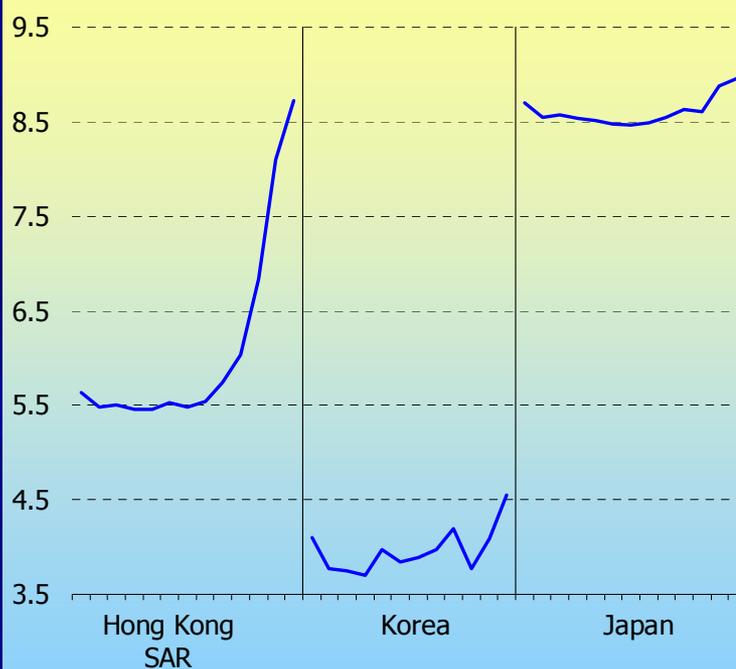
Change since June 2008, in percent



Sources: Haver Analytics; and IMF staff calculations.

## Asia: Ratio of Base Money to Broad Money

In percent

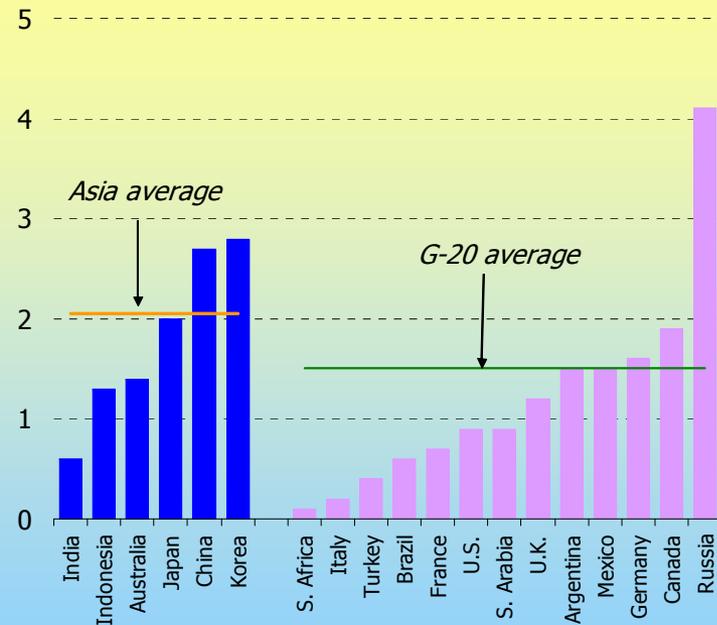


Sources: CEIC Data Company Ltd; and IMF staff calculations.

# Fiscal stimulus slightly above G20 average

## G-20: Discretionary Fiscal Measures, 2009<sup>1</sup>

In percent of GDP

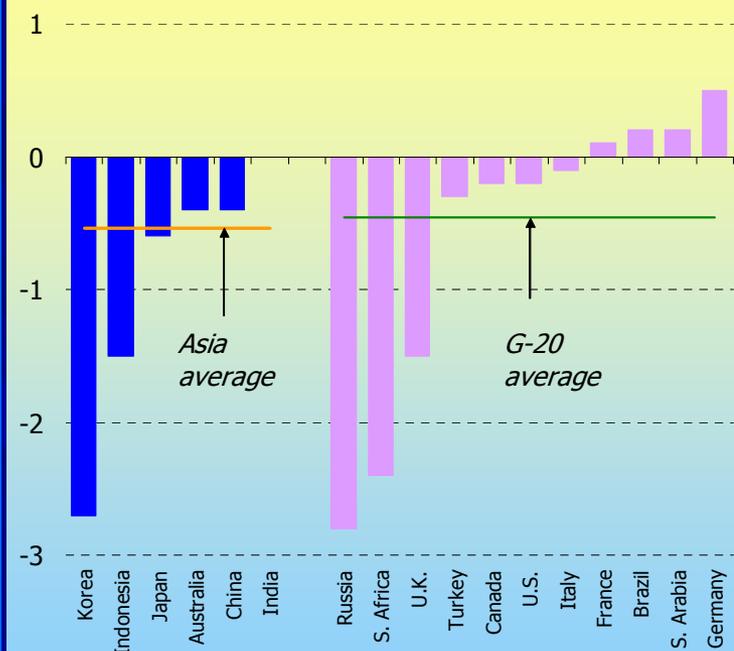


Source: IMF, staff estimates.

<sup>1</sup> Defined as fiscal impulses in each year (yearly changes in structural fiscal balances related to measures taken in response to the current crisis).

## G-20: Discretionary Fiscal Measures, 2010<sup>1</sup>

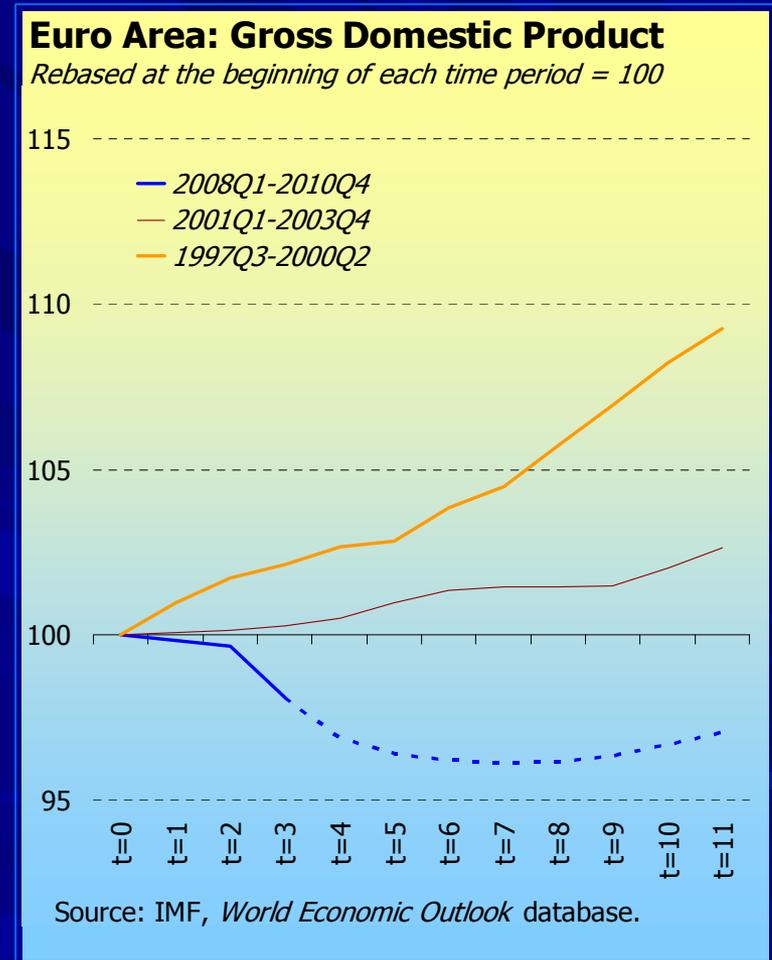
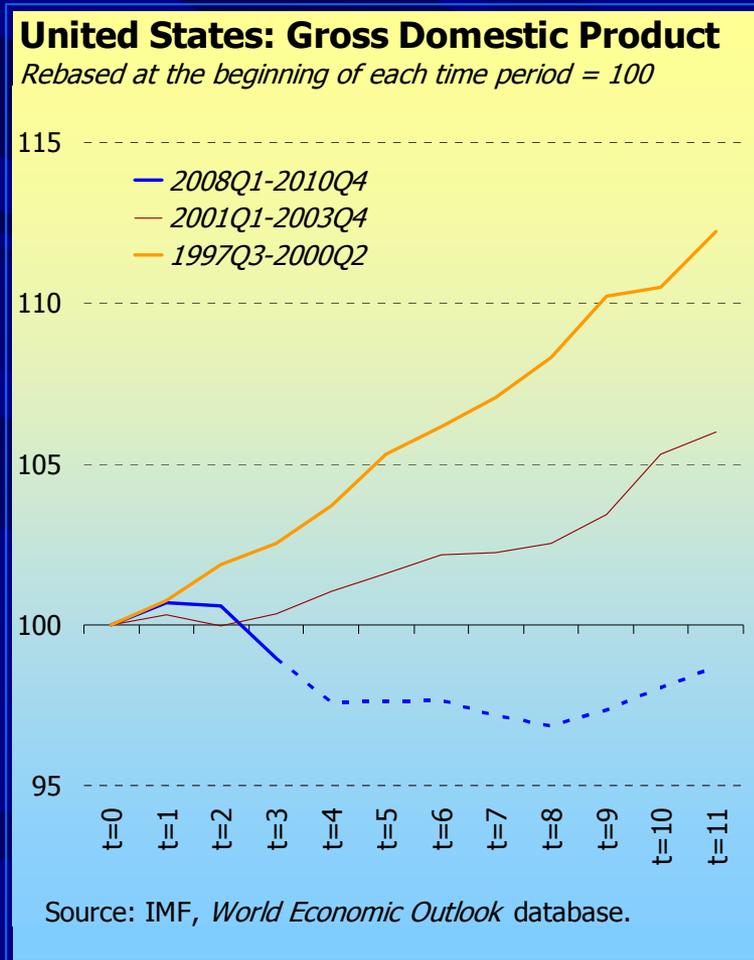
In percent of GDP



Source: IMF, staff estimates.

<sup>1</sup> A negative entry implies withdrawal of fiscal stimulus.

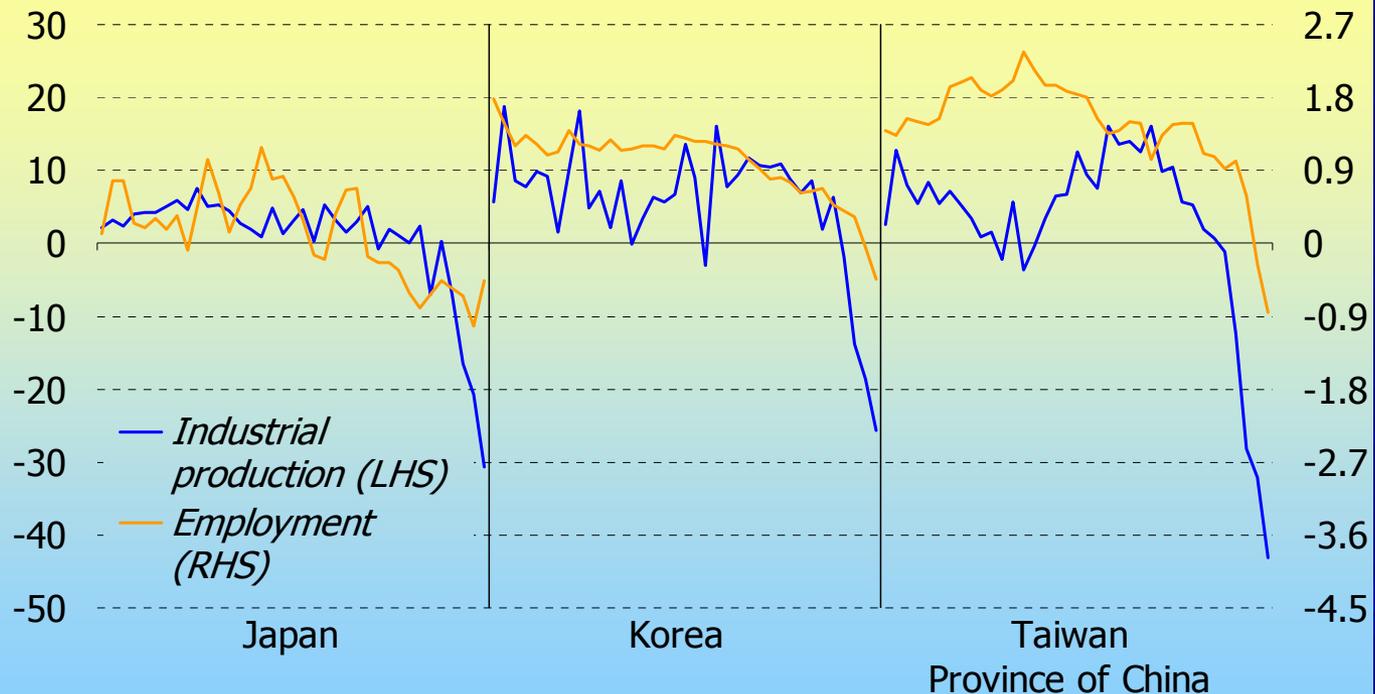
# Risk: A much slower recovery of the G2



# Risk: Much larger unemployment

## Selected Asia: Industrial Production and Employment

Year-on-year percent change; January 2006 to January 2009



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

# “Green Shoots” or “False Dawn?”

- China—Strong first quarter data
- Korea—Positive first quarter growth
- Japan—Industrial production up in March
- Effect of production adjustment
- Fiscal stimulus kicking in
- Depreciation of exchange rates since last fall

# Role of the IMF

- Candid surveillance and monitoring of fiscal and financial policies
- Reform of lending facilities, and strengthened “war chest,” including new allocations of SDRs
- Development of early warning system
- Reform of governance structure