Impact of the Global Financial Crisis and Its Implications for the East Asian Economy

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Korea International Financial Association
First International Conference
October 16, 2009
The downturn in Asia was larger than expected on the basis of historic correlations.

The surprise in actual G-2 growth over Nov-08 WEO forecast would have implied this revision for Asia based on the model. But the actual revision was much larger.

Sources: Haver Analytics; and IMF, WEO database; and staff estimates.

1 Based on a version of the IMF Global Integrated Monetary and Fiscal model (see N'Diaye, Zhang and Zhang, 2008).
Bank flows to Asia turned negative as major banks reduced their leverage

International Claims of Reporting Banks vis-à-vis Asia
(Change adjusted for exchange rate changes; in billions of U.S. dollars)

External bond issuance came to a virtual halt in the last quarter of 2008

Emerging Asia: External Bond Issuance
(In billions of U.S. dollars)

Source: IMF, BEL database.

Figure 3
Equity markets and local currencies, with the exception of the yen, recorded large losses.
The external shock fed through to domestic demand

**Selected Emerging Asia: Contributions to 2008Q4 GDP Growth**

*In percentage points; quarter-on-quarter seasonally adjusted*

- **Private consumption**
- **Gross fixed investment**
- **Net exports**

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

Figure 5
IP has regained much lost ground and in some cases returned to pre-crisis levels.
The IP rebound reflects an equally sharp rebound in export volumes.

**Selected Asia: Volume of Exports during 2008-09**

*(Percent change, seasonally adjusted)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Peak-to-trough</th>
<th>Trough to latest available data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>-50</td>
<td>20</td>
</tr>
<tr>
<td>NIEs</td>
<td>-40</td>
<td>30</td>
</tr>
<tr>
<td>China</td>
<td>-30</td>
<td>10</td>
</tr>
</tbody>
</table>

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

Figure 7
Domestic demand has also been playing a part in Asia’s rebound

Asia: Contribution to Recovery in Real GDP Growth
(In percent, seasonally adjusted, non-annualized)

Source: IMF staff calculations.

1 Excludes China, India, Indonesia and Vietnam due to absence of a cycle and/or non-availability of data.

Figure 8
Global financial conditions have eased, as evidenced by narrowing credit spreads,…
...renewed equity inflows,...
…and recovering equity markets

Emerging Economies: Stock Markets
(MSCI Index, 1 Jan 2008=100)

Emerging Latin America
Emerging Asia
Emerging Europe

Figure 11
The current rebound is to a large extent driven by a restocking of global inventories.

United States: Manufacturing Orders and Inventory
(Index, SA, 50+ = Econ Expand)

Source: Haver Analytics.

Figure 12
Asia’s fiscal response has been larger than in the average G20 economy

Discretionary Fiscal Measures, 2009\(^1\)
(In percent of GDP, PPP GDP weighted)

- **Industrial Asia**
- **NIEs**
- **ASEAN-5**
- **China and India**
- **G-20**

Source: IMF staff estimates.

\(^1\) Defined as fiscal impulse (i.e. change in structural fiscal balances related to measures taken in response to the crisis).
Strong exports reflect partly a gain in market share, as opposed to an increase in demand.

Figure 14

Korea's Share in Global Export Markets

- Market share of Korea Exports (percent, LHS)
- REER (Jan. 1999=100, inversed, RHS)

Sources: IMF, Direction of Trade, and Information Notice System.
Asia’s dependence on demand from outside the region has not changed markedly

Selected Asia: Contribution of Intra-Asian and Non-Asian External Demand to Value Added
(In percent of GDP)

Average over 1995-2000

Average over 2001-2008

Sources: AIO 2000, and IMF staff estimates.

Figure 15
World output is projected to contract by 1.1 percent in 2009 and grow by 3.1 in 2010.

Figure 16
Over the past years, global and Asian growth has been powered by U.S. consumers.

Figure 17: Current Account Balances (Percent of world GDP)

Source: IMF, World Economic Outlook database.
High asset prices had fueled an consumption boom that was unprecedented after WWII

U.S. Consumption: Cyclical or Structural Correction?

(1929=100) (Percent of GDP)


Figure 18
Thank you