

*Developing Asia:
Stellar growth
continues*

**Economics and Research
Department**

**Asian Development Bank
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Highlights

- Growth soars, inflation up
- 2008 looks like another good year
- But uncertainty is elevated
- So far, Asia rides out global credit convulsions
- Developing Asia not immune to global slowdown

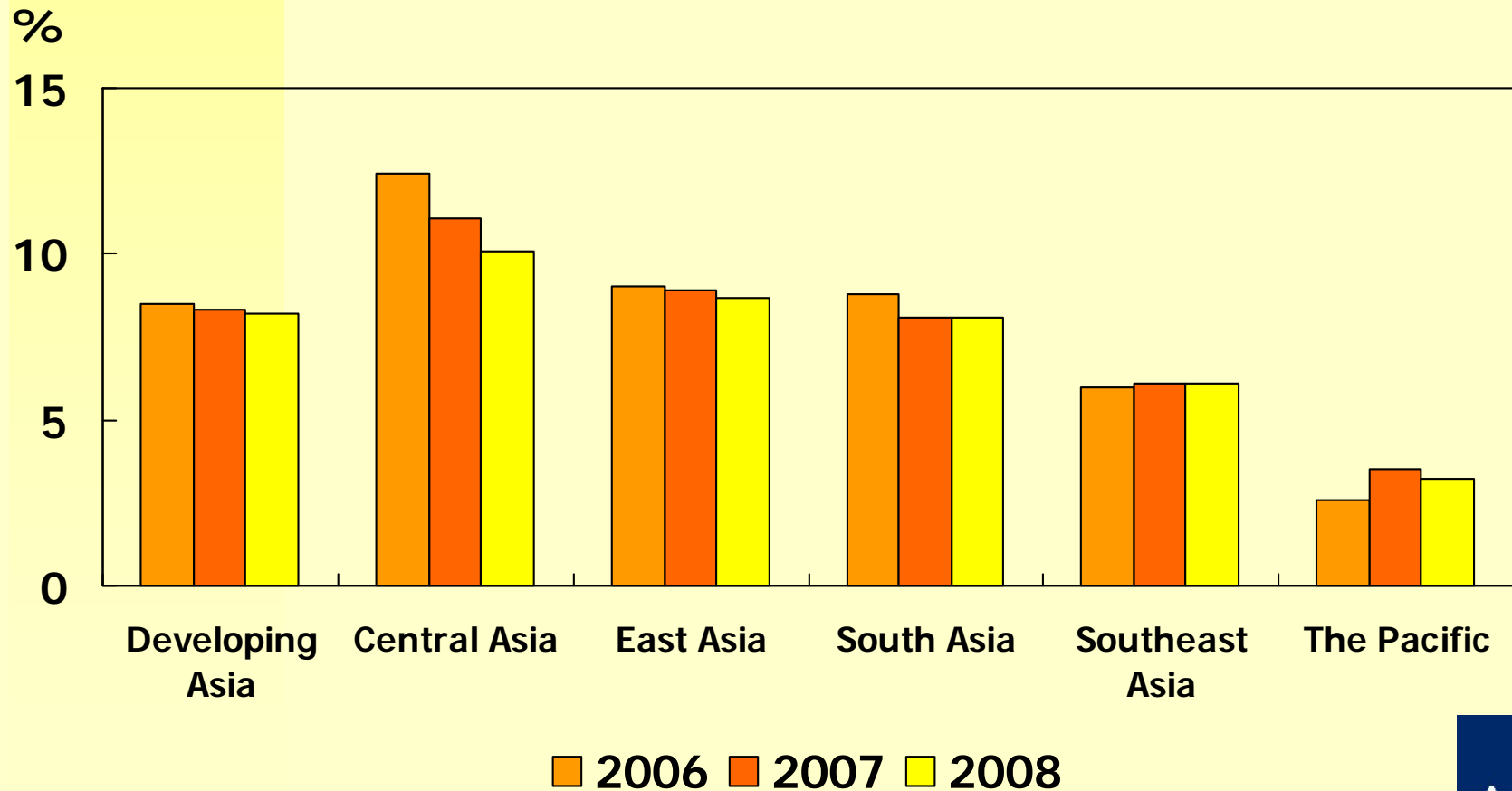
Asia's boom continues, growth spreads

- PRC grew at 11.5% in H1, faster than at any time since 1994
- India, on the heels of its fastest growth in 18 years in FY2006, grew at 9.3% in Q1 of FY2007
- Philippines grew at 7.3% in H1, its fastest in almost 20 years
- Central Asia grew at double-digit pace

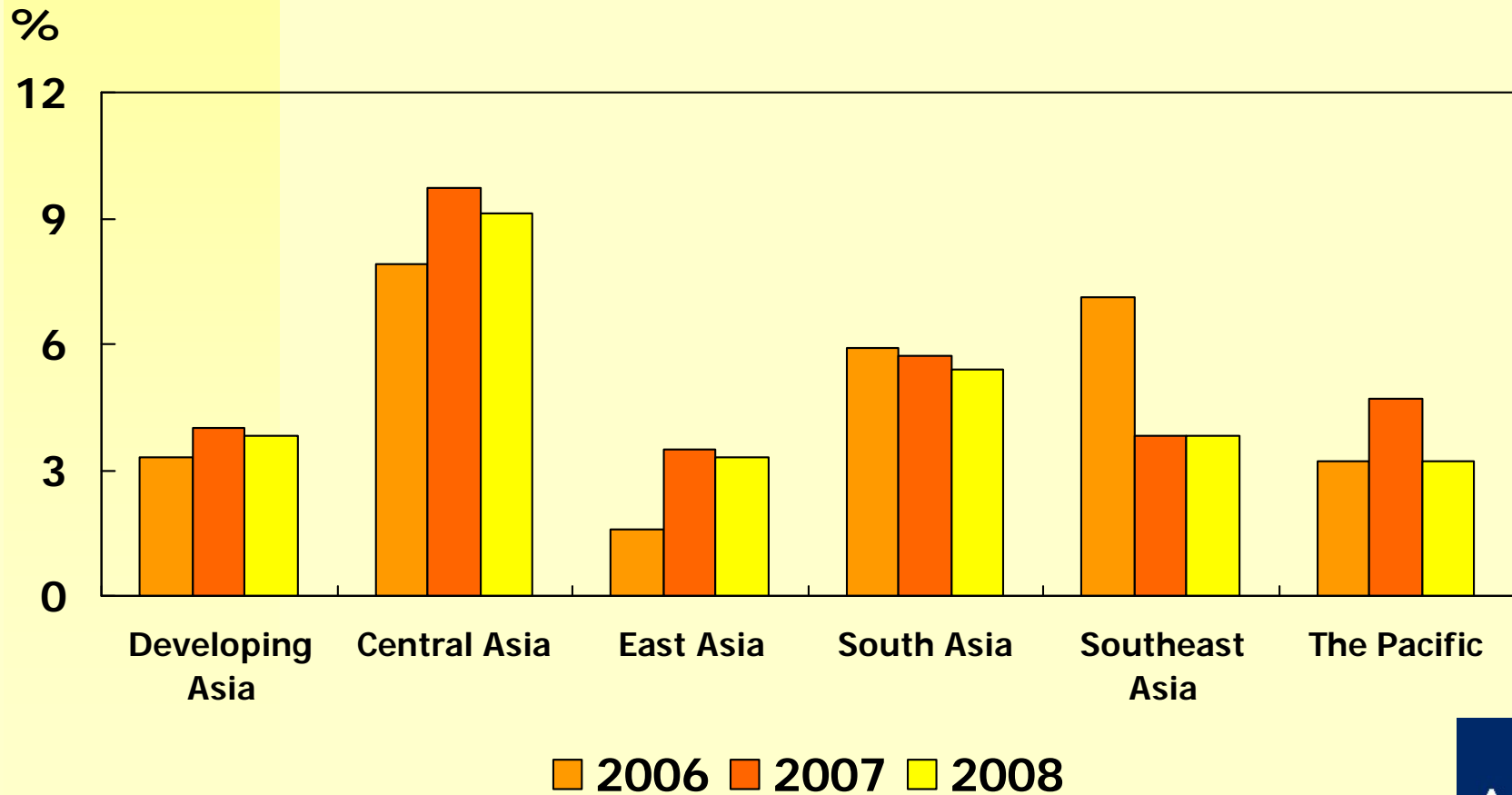
Cloudy international outlook

- US growth slows to 1.9% in 2007 and picks up to 2.6% in 2008
- Eurozone picks up while Japan slips
- High oil prices set to persist
- US Federal Funds rate set to fall

Developing Asia will post robust growth

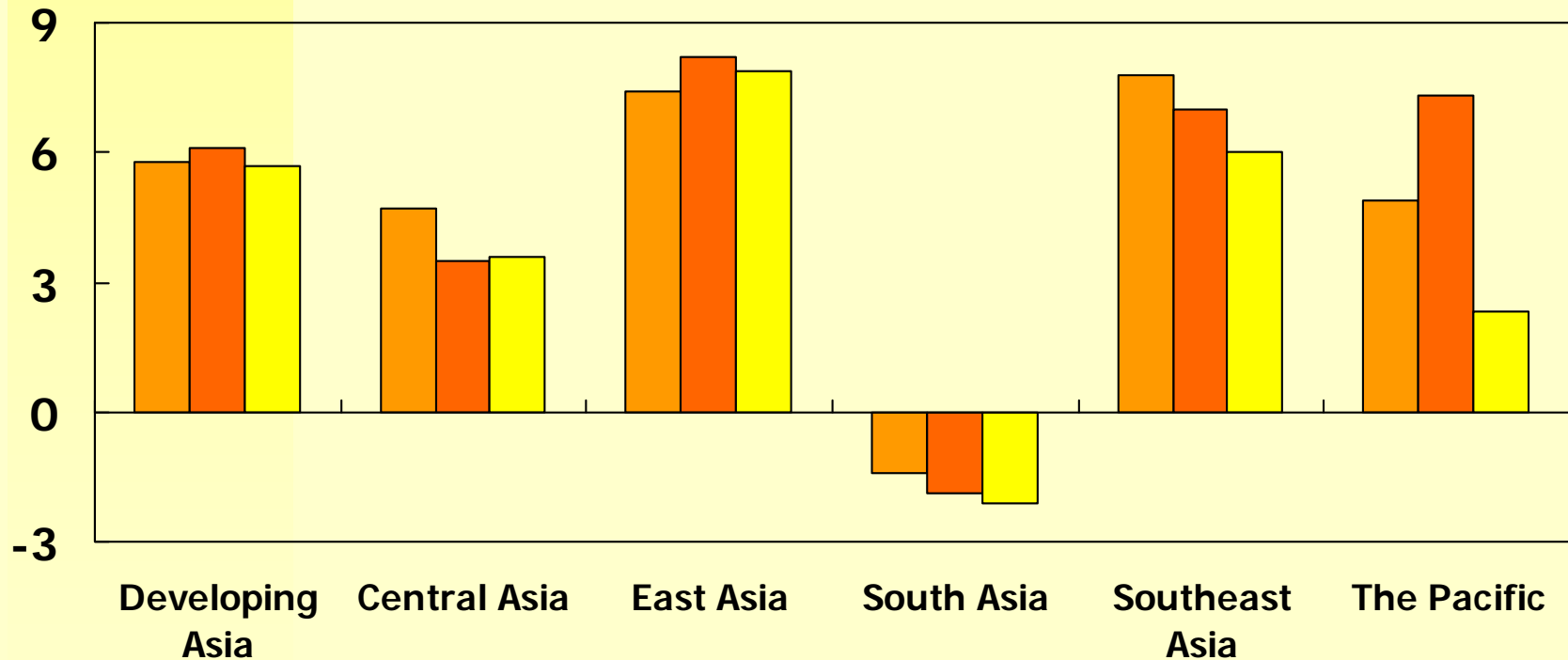


Inflation outlook varies



Current account outlook is mixed

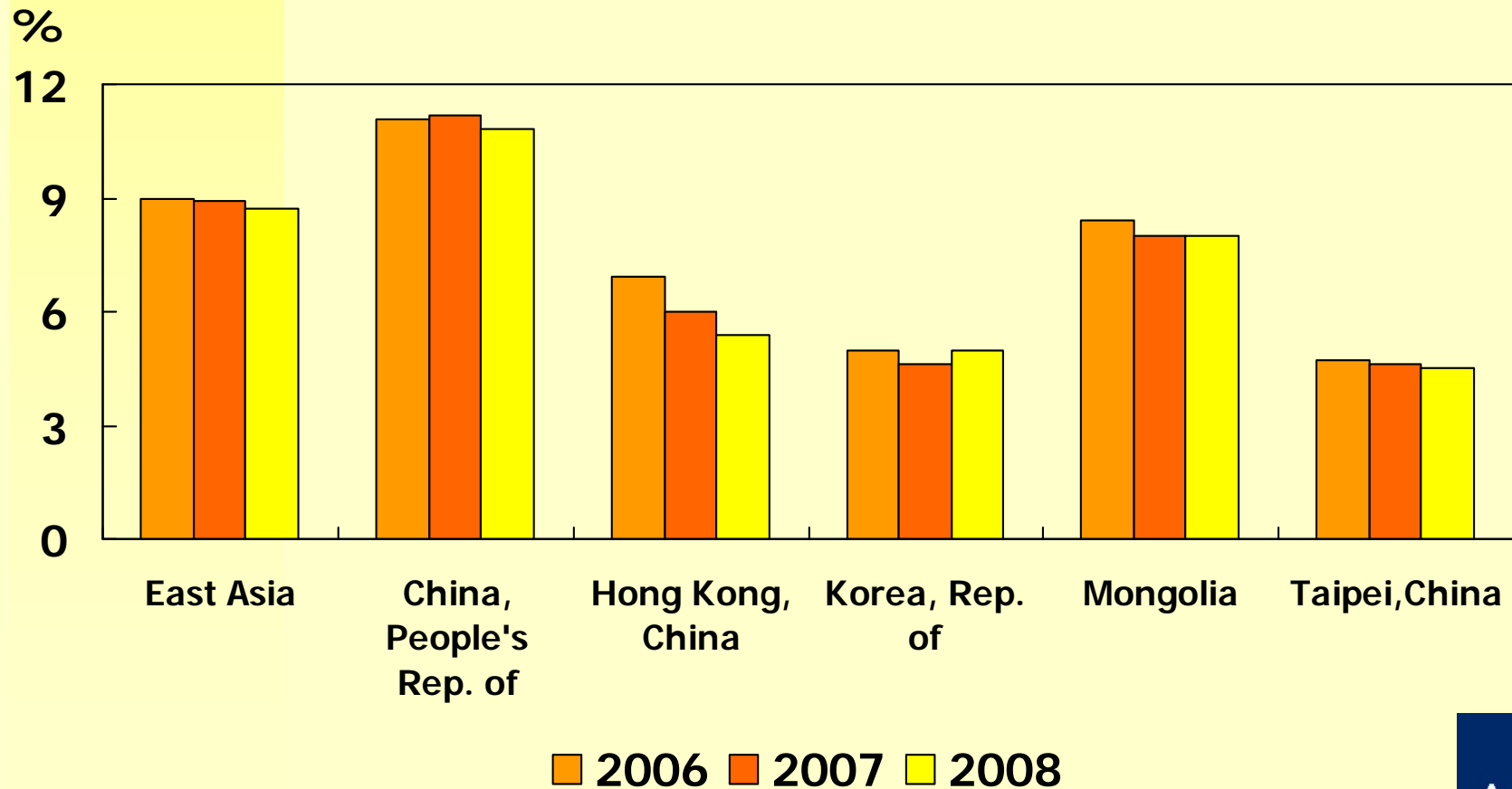
% of GDP



2006 2007 2008



East Asia driver of Asian growth

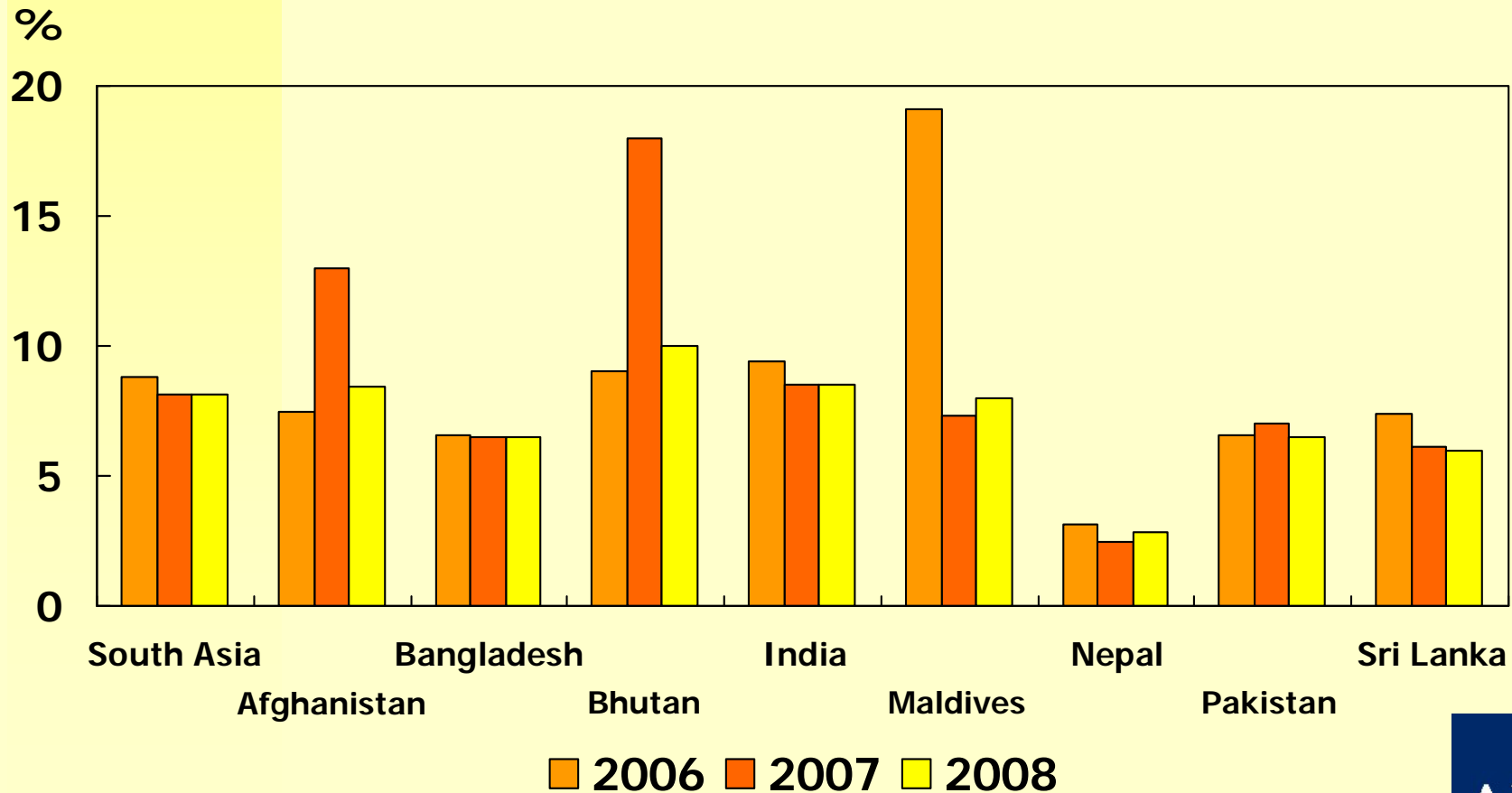


Policy challenges for the PRC

- Restrain investment growth
- Rebalance the economy
- Lift private consumption
- Tackle inflation

	2006	2007	2008
GDP growth	11.1	11.2	10.8
Inflation	1.5	4.2	3.8
CAB	9.4	10.9	10.5

South Asia sustains high growth

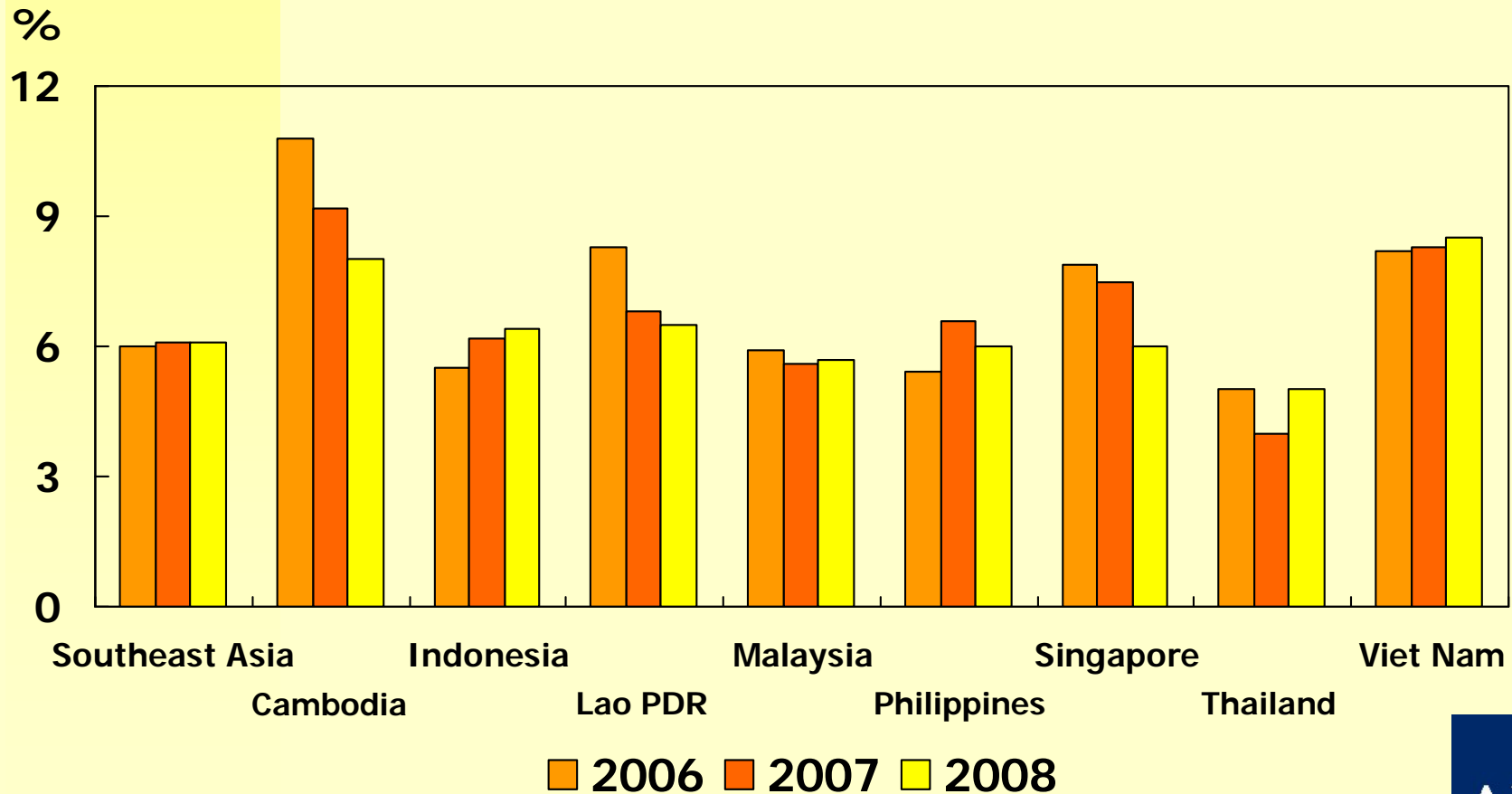


Policy challenges facing India

- Inflation risk persists
- Credit and interest rate environment should support exports and investment demand
- Market-based reforms should ensure growth that is inclusive
- Relax infrastructure bottlenecks
- Raise agricultural productivity

	2006	2007	2008
GDP growth	9.4	8.5	8.5
Inflation	5.4	5.0	5.0
CAB	-1.1	-1.6	-1.9

Southeast Asia is growing robustly



Policy challenges for the Philippines

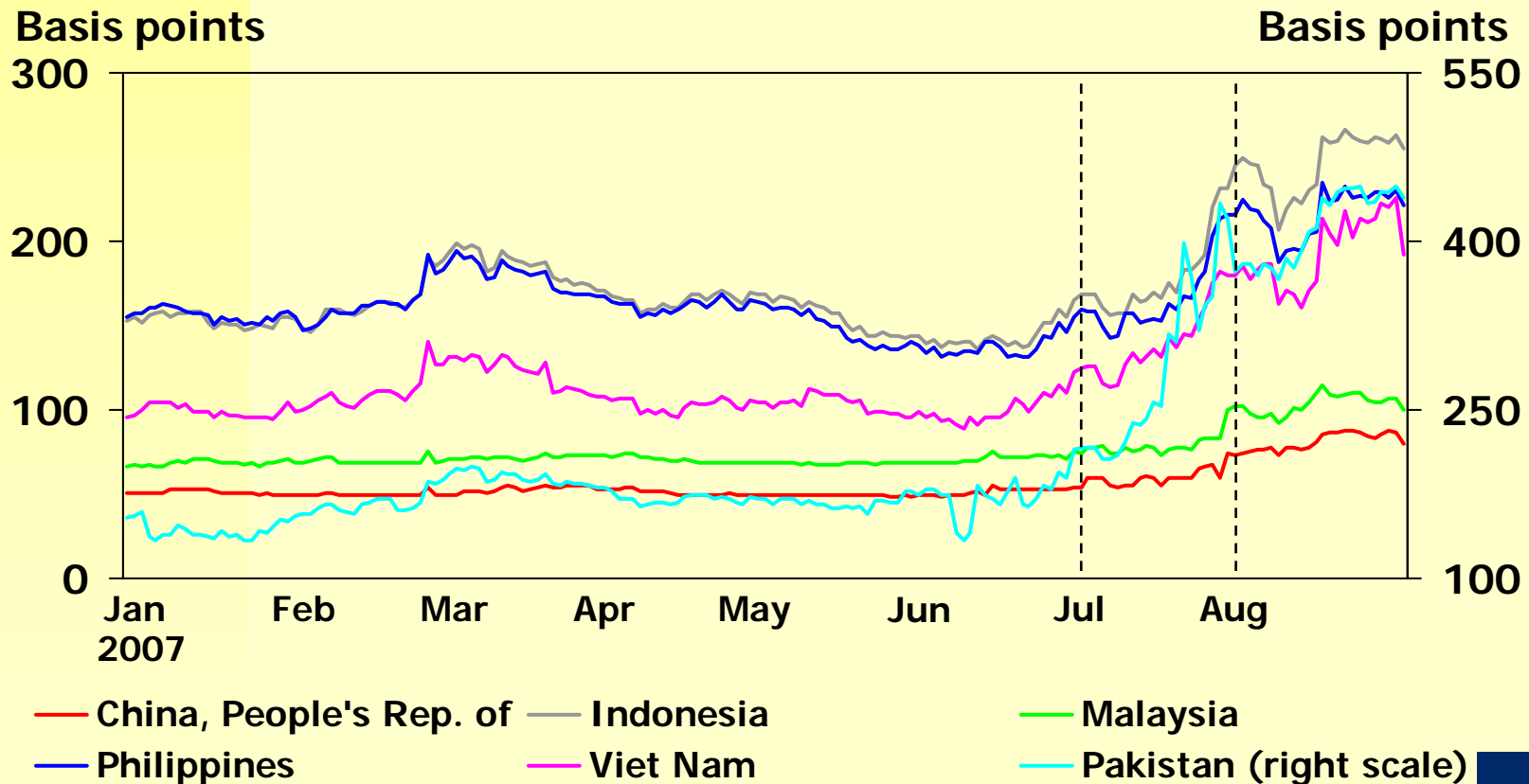
- Raise investment rates from 14.3% in 2006
- Consolidate fiscal gains
- Increase public infrastructure and social spending
- Improve business and investment climate
- Strengthen institutions and markets

	2006	2007	2008
GDP growth	5.4	6.6	6.0
Inflation	6.2	2.9	3.5
CAB	4.3	5.4	5.2

Credit market convulsions

- Distress in global credit markets has led to some turbulence in Asian equity markets
- Financial innovation in credit markets has dispersed risks but has created uncertainty about magnitude and location of risks
- Investors have retreated to safer assets creating a liquidity squeeze in credit markets

Sovereign credit spreads have widened for Asia



No replay of Asia's financial crisis

- Reserves provide a strong buffer against external shocks
- Health of domestic financial institutions are stronger: quality of bank assets and capital strength
- Corporate sector has reduced its exposure to debt
- Asset valuations are generally in line with fundamentals

If US slows, Asia will weather storm

- US recessions sparked by domestic factors have had limited spillover effects in past
- Subprime mortgage market turmoil internal within US looks like savings and loan crisis
- But risk of contagion as global capital markets more integrated now
- Trade channel influences still important

A recent US recession

- Dot-com meltdown led to a US recession in 2001
- US growth cut by 2.9 percentage points
- Growth in developing Asia fell by 1.1 percentage points
- Illustrative scenarios which are not forecasts provide useful insights

Scenario 1: Contraction in US demand

- 1 percentage point fall in US output growth lasts for 2 years
- Output growth falls by 0.45 percentage points in Asia in Year 1
- Output growth falls by 0.75 percentage points in Year 2

Scenario 2: Contraction in US demand plus depreciation of US dollar

- 1 percentage point fall in US output growth lasts for 2 years
- 10% depreciation of US dollar against all Asian currencies except HK\$
- Growth in Asia slows by 2 percentage points in Year 1 and Year 2

Developing Asia would feel the tremors of a US recession

- A recession of 4 quarters, an unlikely event, might shave up to 2 percentage points off Asian growth
- Central prediction would be a drop of 1 percentage point
- Depending on timing, may trim growth to a range of 6% to 7%
- Some scope for policy adjustments

Priorities for growth and resilience

- Sound macroeconomic management
- Greater flexibility in exchange rates
- Adjust to higher oil prices to alleviate fiscal stresses
- Supply side factors including quality of infrastructure and business and investment climate
- Limit environmental degradation and initiate environmental improvement

Emerging risks to developing Asia

- US slowdown
- Trade protectionism
- Avian flu
- Geopolitical and security risks
- Political uncertainties and elections
- Slowdown of the reform process

Key Messages

- Asia's robust growth spreads beyond PRC and India in the first half of 2007
- 2008 set to be another good year
- But gathering clouds of global credit market turmoil and US recession pose a clear and present danger
- Pursuit of a reformist macro and microeconomic agenda will damp impact of external shocks
- Resilience in the face of turbulence will characterize developing Asia