ASIAN DEVELOPMENT OUTLOOK 2015
FINANCING ASIA’S FUTURE GROWTH

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Key messages

• Steady growth in developing Asia continues: 6.3% in 2015 and 2016
• Growth underpinned by domestic reform, advanced economy recovery, and commodity price reductions
• India expected to grow at 7.8%, faster than PRC’s 7.2%
• Inflation pressures easing partly due to lower commodity prices
• Low oil prices an opportunity for fiscal reforms
• Financial development must support growth, inclusion, and stability
Economic outlook:
Developing Asia extends steady growth...

GDP growth (%)

- 2010: 9.3%
- 2011: 7.3%
- 2012: 6.2%
- 2013: 6.5%
- 2014: 6.3%
- 2015f: 6.3%
- 2016f: 6.3%

10-year average: 7.6%
5-year average: 7.1%

f: forecast
...contributing the most to global growth

Percentage contributions to global GDP growth

Global cumulative GDP growth, 2009–2014 = 21.4%, annual growth=4.0%

PRC: 31.2, India: 11.8, ASEAN: 7.9, US: 9.6, Japan: 1.8, Euro area: 1.6

Global GDP growth, 2015 = 3.6%

PRC: 31.9, India: 15.2, ASEAN: 8.0, US: 14.4, Japan: 1.4, Euro area: 3.7

⇒ Asia accounts for about 60% of global growth; still fastest-growing region
Key growth drivers for Asia – The 3Rs

- Reforms at home
- Recovery in advanced economies
- Reduction in commodity prices
- Moderation in PRC growth
High overall growth, but divergence across countries

- East Asia
- South Asia
- Southeast Asia
- Central Asia
- The Pacific

2014, 2015f, 2016f, 5-year ave., 10-year ave.

f: forecast
PRC: Shrinking labor force, rising wages, and appreciating currency reduce growth

Working age population (million)

Real wage, $ (in 2000 prices)

REER (2010=100)

REER=real effective exchange rate
India: Reforms begin to bear fruit

Federal budget indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>10.6</td>
<td>-4.8</td>
<td>6.6</td>
</tr>
<tr>
<td>2011</td>
<td>14.5</td>
<td>-5.7</td>
<td>9.8</td>
</tr>
<tr>
<td>2012</td>
<td>9.0</td>
<td>-4.9</td>
<td>13.9</td>
</tr>
<tr>
<td>2013</td>
<td>9.3</td>
<td>-4.6</td>
<td>13.7</td>
</tr>
<tr>
<td>2014</td>
<td>9.2</td>
<td>-4.1</td>
<td>13.3</td>
</tr>
<tr>
<td>2015</td>
<td>8.7</td>
<td>-3.9</td>
<td>12.6</td>
</tr>
</tbody>
</table>

% of GDP

R = revenue, E = expenditure, D = deficit financing.
Notes: Years are fiscal years. Q1 refers to data for April-June.

Purchasing managers’ indexes

Index

Manufacturing
Services

Jan 2012: 60
Jan 2013: 40
Jan 2014: 50
Jan 2015: 40

Indicates expansion
Indicates contraction

Indonesia: Reforms to spur growth

Fiscal indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Subsidies</th>
<th>Fiscal Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3.0%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>2011</td>
<td>3.5%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>2012</td>
<td>3.0%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>2013</td>
<td>3.5%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>2014</td>
<td>3.0%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>2015</td>
<td>1.5%</td>
<td>-0.8%</td>
</tr>
</tbody>
</table>


Consumer and business confidence indexes

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Business Tendency</th>
<th>Consumer Confidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2013</td>
<td>97</td>
<td>110</td>
</tr>
<tr>
<td>Q3</td>
<td>98</td>
<td>120</td>
</tr>
<tr>
<td>Q1 2014</td>
<td>95</td>
<td>115</td>
</tr>
<tr>
<td>Q3</td>
<td>100</td>
<td>120</td>
</tr>
<tr>
<td>Feb 2015</td>
<td>95</td>
<td>105</td>
</tr>
</tbody>
</table>

Notes:

- From a quarterly Statistics Indonesia survey of business executives.
- From a monthly Bank Indonesia survey of households.

Note: A score above 100 means that respondents are optimistic and vice versa.

ASEAN poised for a rebound

GDP growth, Southeast Asia (%)

f: forecast
INO=Indonesia; THA=Thailand; PHI=Philippines; MAL=Malaysia; SIN=Singapore; VIE=Viet Nam; BRU=Brunei Darussalam; CAM=Cambodia; LAO=Lao PDR; MYA=Myanmar
Tumbling commodity prices...

Commodity price indexes
2010=100

Sources: World Bank Pinksheets; Bloomberg
...ease inflation pressures...

Inflation (%)

5-year average: 4.3
10-year average: 4.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>4.4</td>
</tr>
<tr>
<td>2011</td>
<td>6.0</td>
</tr>
<tr>
<td>2012</td>
<td>4.1</td>
</tr>
<tr>
<td>2013</td>
<td>3.8</td>
</tr>
<tr>
<td>2014</td>
<td>3.1</td>
</tr>
<tr>
<td>2015f</td>
<td>2.6</td>
</tr>
<tr>
<td>2016f</td>
<td>3.0</td>
</tr>
</tbody>
</table>

f: forecast
...and slightly increase current account surplus

Current account (% of GDP)

- PRC
- Developing Asia
- Japan
- European Union
- US

f: forecast
Import shares

2010, $12.7 trillion

- ROW, $6.1
- PRC, $1.4
- Euro area, $3.9
- US, $2.0
- ASEAN, $1.0
- Japan, $0.7

2014, $19.1 trillion

- ROW, $7.7
- PRC, $2.0
- Euro area, $4.4
- US, $2.4
- ASEAN, $1.3
- India, $0.5
- Japan, $0.8

2010, $12.7 trillion
2014, $19.1 trillion
Contributions to global import growth

Percentage contributions to global import growth (from $12.7 tn in 2009 to $19.1 tn in 2014)

2009–2014 cumulative growth = 50.0%
Risk factors

• Deeper Greek debt crisis and deepening recession in the Russian Federation

• Slower than expected growth in PRC or India

• Capital outflow due to impending increase in US interest rates
Special topic 1:
Lower world oil prices an opportunity for reforms

Diesel pump prices ($/liter)

Hollow bars: Jun 2014
Filled bars: Jan 2015

Reduce subsidy?

Increase tax?

AZE=Azerbaijan; BAN=Bangladesh; HKG=Hong Kong, China; IND=India; INO=Indonesia; JPN=Japan; KAZ=Kazakhstan; KGZ=Kyrgyz Republic; MAL=Malaysia; PHI=Philippines; PRC=China, People’s Rep. of; SIN=Singapore; SRI=Sri Lanka; TAJ=Tajikistan; THA=Thailand; USA=United States; VIE=Viet Nam
Decline in oil prices supported growth

• Falling oil prices present opportunity for subsidy and tax reform:
  – Oil importers – reduce subsidies; raise taxes
  – Oil exporters – subsidy and tax reform; economic diversification

• Lower inflation provided scope for lower interest rates to stimulate economic activity
Special topic 2: Financing Asia’s future growth

• Asia lags behind advanced economies; more room for financial development

• Financial development does not automatically lead to inclusive growth

• Financial stability important for growth and equity
Asia’s financial systems still lag advanced economies...

Financial structure around the world (% of GDP), 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Bonds</th>
<th>Stock market</th>
<th>Banking system</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>143</td>
<td>84</td>
<td>110</td>
</tr>
<tr>
<td>Latin America</td>
<td>39</td>
<td>46</td>
<td>42</td>
</tr>
<tr>
<td>Dev. Asia</td>
<td>46</td>
<td>71</td>
<td>60</td>
</tr>
</tbody>
</table>

Pension and mutual fund assets (% of GDP), 2013

- Australia
- United States
- United Kingdom
- Brazil
- Mexico
- Korea, Rep. of
- India
- PRC
- Pakistan

Sources:
- OECD (2015), Pension funds' assets (indicator). doi: 10.1787/d66f4f9f-en (accessed on 13 February 2015);

Source: ADB estimates based on data from Beck et al. (2000, 2009) and Cihak et al. (2012).
...resulting in high cost of capital

Hollow bars: lending rate, 2011
Filled bars: deposit rate, 2011

ARM=Armenia; AZE=Azerbaijan; BAN=Bangladesh; BHU=Bhutan; BRU=Brunei Darussalam; FIJ=Fiji; HKG=Hong Kong, China; INO=Indonesia; KGZ=Kyrgyz Rep.; KOR=Korea, Rep. of; MAL=Malaysia; MLD=Maldives; MON=Mongolia; MYA=Myanmar; OECD=Organisation for Economic Co-operation and Development; PHI=Philippines; PNG=Papua New Guinea; PRC=China, People’s Rep. of; SAM=Samoa; SIN=Singapore; SOL=Solomon Islands; SRI=Sri Lanka; TAJ=Tajikistan; THA=Thailand; TON=Tonga; VIE=Viet Nam

Financial deepening associated with higher investment and faster growth...

- Developing Asia
- Latin America

Bank loans to GDP (%), Dec. 2013/Mar. 2014

Investment to GDP (%), 2000-2013

Developing Asia
Latin America

Argentina (ARG)
Brazil (BRA)
Chile (CHL)
Colombia (COL)
Mexico (MEX)
Peru (PER)
Venezuela (VEN)
China (PRC)
India (IND)
Indonesia (INA)
Korea, Republic of (KOR)
Malaysia (MAL)
Philipines (PHI)
Singapore (SRI)
Thailand (THA)
Vietnam (VIE)
...but may not be inclusive

Log Gini in market income

\[ y = 0.008x^2 - 0.045x + 0.063 \]

(0.002)*** (0.013)*** (0.021)***

Log private credit to GDP
Scope to make finance more inclusive

**Formal account penetration rate**
(% of adults with account at a formal financial institution)

<table>
<thead>
<tr>
<th>Region</th>
<th>HIC</th>
<th>EE</th>
<th>LAC</th>
<th>Dev. Asia</th>
<th>MENA</th>
<th>SSA</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>93</td>
<td>53</td>
<td>28</td>
<td>27</td>
<td>24</td>
<td>17</td>
</tr>
</tbody>
</table>

**% of enterprises with credit line/loan**

<table>
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<tr>
<th>Region</th>
<th>LAC</th>
<th>EE</th>
<th>Dev. Asia</th>
<th>SSA</th>
<th>MENA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>54</td>
<td>41</td>
<td>33</td>
<td>19</td>
<td>14</td>
</tr>
</tbody>
</table>

EE=Emerging Europe; HIC=high-income countries; LAC=Latin America & Caribbean; MENA=Middle East & North Africa; SSA=Sub-Saharan Africa
Financial instability disrupts growth and hurts the poor...

AFC=Asian financial crisis; GFC=global financial crisis
...so ensuring stability must be part of financial development agenda

- Bank regulation is first line of defense
- Macroprudential policies crucial
- FDI and diverse foreign funding can mitigate external financial shocks
Key overall messages

• Steady growth in developing Asia continues: 6.3% in 2015 and 2016

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