



ASIAN DEVELOPMENT

Outlook 2010

Macroeconomic Management
Beyond the Crisis

Asian Development Bank

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Foreword

As developing Asia rebounds from the global economic crisis ahead of the rest of the world, the *Asian Development Outlook 2010 (ADO 2010)* predicts growth exceeding 7% in the region this year and next. Although that is still lower than the precrisis outcome of 9.6% in 2007, such a healthy rebound, from a low of 5.2% in 2009, would be welcome.

The global economy has also turned the corner, with the United States, eurozone, and Japan beginning a mild recovery in late 2009. From a collective contraction of 3.5% last year, the three are forecast to expand by 1.7% and 2.0% in the next two years, respectively.

Extraordinary fiscal and monetary stimulus packages implemented in countries around the world to mitigate the negative effects of the global financial crisis fueled the quick turnaround. Large and fast-tracked public spending, targeted transfers, low interest rates, and unconventional liquidity measures combined to lift growth, albeit with varying effectiveness.

But there are substantial downside risks to the recovery that could still see regional and global growth falter in the near term. Mistimed withdrawal of macroeconomic stimulus measures could derail the fragile recovery. A reversal of last year's commodity price deflation and a sharp rise in international commodity prices could also thwart the global and regional revival. The persistence of global imbalances, meanwhile, risks sparking future turmoil, while deteriorating debt positions could imperil fiscal credibility in some countries.

ADO 2010 highlights two additional risks that are particularly relevant to developing Asia. The region's early recovery is attracting large capital flows, the perils of which were made clear in the 1997–98 Asian financial crisis; volatile capital flows could again have serious implications for exchange rates and money supply. Moreover, the quick return to high growth could accelerate the increase in consumer and asset prices.

As it exits the worst effects of this crisis, therefore, developing Asia must remain faithful to its tradition of sound and responsible fiscal and monetary policies. Just as they did before the crisis, these policies will promote macroeconomic stability and sustained growth. Such macroeconomic prudence will provide the needed resources and credibility for tackling any large and adverse shocks in the future.

There is also plenty of scope for improving and strengthening the region's fiscal, monetary, and exchange rate policy frameworks. As Part 2 of *ADO 2010* lays out, such adjustments will enable the region to better adapt to the postcrisis world.

In monetary policy, price stability must remain the overriding objective. But the global crisis highlights the need to prevent asset price bubbles. This suggests that financial regulation should be more closely coordinated with monetary policy.

More flexible exchange rates are desirable to reduce the region's current account surpluses. This also requires coordinated effort to

overcome the fear of losing competitiveness, especially during the transition to greater flexibility.

Finally, while safeguarding fiscal sustainability, supported by strong medium-term fiscal policy frameworks, a wide range of institutional and policy measures can contribute to economic rebalancing by removing structural impediments to domestic demand.

As developing Asia's recovery gains momentum, policy makers must embed these macroeconomic policy prescriptions in their longer-term planning. Doing so will enhance the sustainability not only of the region's economic recovery, but, increasingly, of the world's as well.

A handwritten signature in dark ink, appearing to read 'H. Kuroda', with a stylized, flowing script.

HARUHIKO KURODA
President

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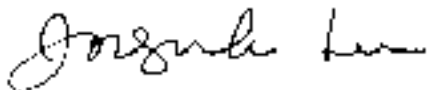
The economists who contributed the sections are bylined in each chapter. The subregional coordinators were Safdar Parvez, Tomomi Tamaki, and Kiyoshi Taniguchi for Central and West Asia; Jan Hansen for East Asia; Tadateru Hayashi for South Asia; Puran Rajapakse for Southeast Asia; and Craig Sugden for the Pacific.

A team of economists from the Economics and Research Department, led by Joseph E. Zveglic, Jr., Assistant Chief Economist, Macroeconomics and Finance Research Division, assisted by Editha Laviña, coordinated the overall production of the publication. Technical and research support was provided by Shiela Camingue, Gemma Esther Estrada, Nedelyn Magtibay-Ramos, Maria Cynthia Petalcorin, Pilipinas Quising, Aleli Rosario, Lea Sumulong, Ronald Tamangan, and Raquel Tabanao. Richard Niebuhr and Anthony Patrick as the economic editors made substantive contributions to the country chapters and other parts of the book.

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Jonathan Aspin did the style and manuscript editing. Fred Dahl handled the initial copy editing for Part 2. Elizabeth E. Leuterio was responsible for typesetting and data linking, as well as graphics generation in which she was assisted by Maria Susan Torres. Art direction of the cover design was by Anthony Victoria, with watercolor artwork from Alvin Dennis Cristobal. Zenaida Acacio, Lagrimas Cuevas, and Elenita Pura provided administrative and secretarial support. The publication would not have been possible without the cooperation of the Publishing, Information and Web Unit of the Department of External Relations and the Logistics Management Unit of the Office of Administrative Services.

Ann Quon, Omana Nair, and Andrew Perrin of the Department of External Relations planned and coordinated the dissemination of the *ADO 2010*.



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Definitions

The economies discussed in *Asian Development Outlook 2010* (ADO 2010) are classified by major analytic or geographic groupings. For purposes of ADO 2010, the following apply:

- **Association of Southeast Asian Nations (ASEAN)** comprises Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **Developing Asia** refers to the 44 developing member countries of the Asian Development Bank and to Brunei Darussalam, an unclassified regional member.
- **Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **East Asia** comprises People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia; and Taipei, China.
- **South Asia** comprises Islamic Republic of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- **Southeast Asia** comprises Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **The Pacific** comprises Cook Islands, Fiji Islands, Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Democratic Republic of Timor-Leste, Tonga, Tuvalu, and Vanuatu.
- Unless otherwise specified, the symbol "\$" and the word "dollar" refer to US dollars.

ADO 2010 is generally based on data available up to **16 March 2010**.

Acronyms and abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CPI	consumer price index
EU	European Union
FDI	foreign direct investment

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