BBVA Research

Asia

Economic Outlook

Third Quarter 2010

Economic Analysis

- Asia continues to lead the global recovery, with growth through the first half of 2010 surprising to the upside on strong export performance and strengthening domestic demand. We expect growth to moderate during the remainder of the year. We are, nevertheless, raising our full-year growth projections due to the strong first-half outturns.

- Headline inflation has moderated due to easing food and commodity prices, but continues to bear watch in view of rapidly closing output gaps. Central banks have resumed policy tightening to contain these risks.

- Capital inflows recently subsided with the rise in global risk aversion in Q2, but appear poised to resume given the region's strong growth prospects. This should support further currency strength in the region.

- Risks are broadly balanced, with downside risks from a weaker external environment and overheating risks still present if strong domestic demand in some economies does not cool down sufficiently.

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Summary

Asia continues to lead the global recovery, with growth momentum in the first half of the year surprising to the upside. A further rebound in exports and strengthening domestic demand have propelled growth momentum. We are raising our full year GDP growth projections for the region (excluding China) in 2010 and 2011 to 5.1% and 4.1% respectively (from 4.2% and 3.8% previously).

The pace of growth is expected to slow to a more sustainable level in the second half of the year. As the impact of global and regional inventory restocking wears off and as policy stimulus is withdrawn, export growth should taper down. Indeed, exports and industrial production, while still strong, are already showing signs of moderating.

I**nflation has leveled off across much of the region due to moderating food and commodity prices**. However, some countries, such as India, Vietnam and, increasingly Indonesia, have been facing relatively strong inflationary pressures. More generally across the region, given the strength of growth momentum and rapidly closing output gaps, inflation bears watching. Accordingly, central banks have resumed monetary tightening after a brief pause due to risks to the global environment.

Policy makers continue to face the challenge of withdrawing fiscal and monetary stimulus in a timely way, while being alert to risks to the global outlook. Increasingly, national authorities have exhibited greater confidence in resuming policy tightening. If, however, risks to the global outlook materialize, there would be room in most countries for further policy stimulus. A key factor in assessing growth prospects in the coming quarters is the pace at which private sector activity can substitute for the withdrawal of fiscal stimulus.

Further gradual monetary tightening is expected during the course of the year, and currencies are expected to remain on a gradual strengthening trend. The region's strong growth prospects and rising interest rates are likely to generate capital inflows, which could exacerbate overheating risks and complicate monetary management. Capital inflows and current account surpluses are likely to generate appreciation pressures, and further RMB appreciation could accelerate these trends.

Risks are broadly balanced at present. Downside risks stem from uncertainties regarding the strength of recoveries in the US and Europe, with the latter still subject to the possibility of renewed financial strains from sovereign debt worries. Room for further policy stimulus in most Asian economies and the region's strong underlying fundamentals should help contain such downside risks. At the same time, however, overheating risks remain, especially if policy settings are kept too lax and domestic demand pressures or asset price bubbles are allowed to build.

The region's growth prospects are also heavily dependent on demand in China, which itself poses risks from a sharper than expected slowdown on the one hand, and overheating risks on the other. Within the region, near-term prospects for Thailand continue to improve, although underlying political tensions remain. And Vietnam continues to struggle to maintain macro stability in view of overheating pressures.

1. Reassessing the risks for the global economy

The following section provides an overview of the main risks facing the global economy, which is helpful for assessing the outlook for Asia as discussed in the subsequent sections, all the more so given heightened global uncertainties and the important role of trade and financial links between the rest of the world and Asia.

The effect from the fiscal adjustment on growth in Europe will be lower than commonly assumed. The positive impact on credibility will almost compensate the negative effect from reduced public demand. Conversely, medium-term risks from unsustainable fiscal positions in other developed regions are probably underestimated.

One of the most important channels through which the fiscal crisis has affected the European economy has been the loss of confidence, and a prerequisite to restore confidence is fiscal prudence, given the high public deficits experienced in many of these countries. Consolidation plans in Europe are being implemented according to schedules presented to the EC at the beginning of 2010. Fiscal consolidation in Europe needs to focus on the structural side, but a positive factor is that the planned adjustment is fast and tilted towards reducing expenditure, which will boost confidence and almost compensate the negative effect on growth from reduced public demand. Thus, as long as the determination on fiscal consolidation is maintained, the impact on European economic activity will be limited and transitory. On the other hand, other advanced economies, where fiscal impulses have been substantial and debt levels have increased at a pace similar to that in Europe, are relatively slow in coming to grips with reducing deficits and –at least– stabilizing debt levels. This is a medium-term risk that is being underestimated, as experience shows that the effect of lax fiscal policy on interest rates is highly non-linear, and there is a risk –with uncertain timing– of a sudden increase in long-term rates and a displacement of private demand; exactly the opposite effect intended by the fiscal stimulus packages.

The main risk to the global outlook is still coming from financial markets. Stress tests have had positive –though asymmetric– impacts throughout Europe. Although risks have been reduced, the potential fallout from renewed tensions is still sizable.

Financial risks, which stemmed from sovereign debt concerns, formed a feedback loop that ended up increasing market risk and drying up liquidity, especially in Europe. Nonetheless the sharp increase in financial tensions in Europe in the second quarter is starting to abate (see Chart 1). The release of European stress tests results has had positive effects on lowering tensions, although there has been a clear differentiation across countries. In particular, it may act as a powerful driver for removing uncertainty surrounding the Spanish financial system, as the implementation of the exercise looks rigorous and the outcome seems credible and is very informative. Undoubtedly the risk to Europe and the global economy coming from financial markets is still the main source of concern.

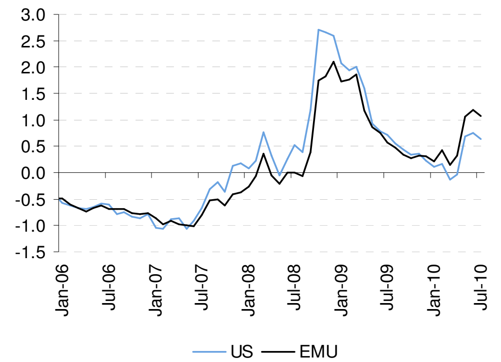
Increasing divergence in monetary policy strategies. Heightened uncertainty will prompt the Fed and ECB to postpone the exit from accommodative policies. On the contrary, tightening has resumed across much of Asia and Latin America.

Financial strains in Europe and uncertainty about the pace of recovery in the US will prompt central banks in both regions to postpone their first rate rises and keep very low policy rates for an extended period. Inflationary pressures in both areas will remain subdued, allowing them to keep lax monetary policies. Nonetheless, a faster recovery in the US will mean that the monetary exit will be earlier there than in Europe, and both factors will weigh down on the euro. Although both central banks will postpone monetary tightening, communication and the assessment of risks continue to differentiate both institutions, limiting the ECB's relative capacity to react, in particular to deflationary risks. On the other hand, in emerging economies monetary tightening is resuming, after a pause as the European debt crisis unfolded. This will help reduce inflationary pressures in Asia – where they were starting to build – and prevent potential pressures from developing later in the year in South America. An important exception is Banco de México, likely to hold rates until the second quarter of 2011. Even when inflation edges up in the last months of this year, it will remain within Banxico's forecasted range and long-term inflation expectations are still well anchored.

The global economy is on track for a mild and differentiated slowdown. In China and elsewhere in Asia, a moderating growth trend should reduce the risks of overheating. However, in the US private demand will remain weak without policy support, whereas in Europe confidence will be negatively affected by the fallout from the financial crisis.

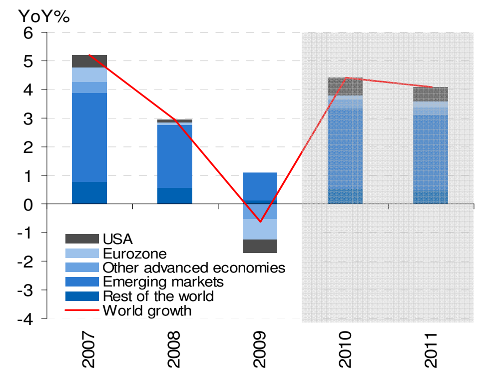
Spillovers from the European financial crisis to other geographical zones have been relatively limited. Nonetheless, the global economy will slow down going forward (see Chart 2). The severity of financial tensions in Europe will affect confidence and reduce growth in the second half of 2010 and the beginning of 2011. Moreover, external demand will not be as strong as it was in the first half of the year, although it will provide some support for economic activity. In the US, the recovery is likely to lose momentum on account of softening labor and housing markets. This shows the limits of private demand taking over as an autonomous driver of growth. In China, slowing GDP growth in the second quarter and moderating activity indicators are evidence that the authorities' tightening measures are being effective to steer the economy toward a soft landing in the second half of the year. Latin America will also slow down in 2011, but keep robust growth rates going forward. Therefore divergences will continue to widen both between advanced and emerging economies and within each of those groups.

Chart 1
Financial Stress Index for US and EMU*



* Composite indicator of financial tensions in 3 credit markets (sovereign, corporate and financial), liquidity strains and volatility in interest rate, foreign exchange and equity markets.
Source: BBVA Research

Chart 2
Contributions to Global GDP growth



Source: BBVA Research based on national accounts and IMF

Although there were some steps in the right direction, going forward the necessary global rebalancing of demand and the narrowing of global imbalances are still pending.

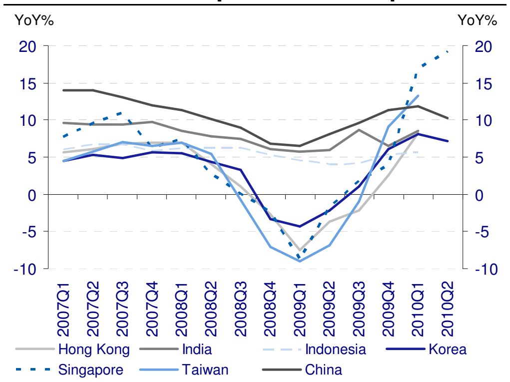
The medium-term rebalancing of the Chinese economy towards more internal demand (particularly consumption) has begun, and the recent renewal of currency flexibility should help. Further reforms are needed to help boost consumption. Other advanced surplus countries also need to implement reforms to increase domestic demand, most notably in the service sector. On the other hand, the US and other countries with substantial external financing need to switch from a consumption-led growth model to investment, especially in tradable sectors. The recent financial crisis has shown the limits to foreign financing of growth. Economies with high external financing needs are highly vulnerable to an upsurge of international financial tensions, and the resulting sudden movements in exchange rates risk undermining global financial stability.

2. Asia's surprising growth rebound

Although activity indicators have begun to moderate, Asia's growth momentum through the first half of 2010 has been very strong, reaching an estimated 6.0% y/y for Asia-Pacific (ex-China) in H1. As such, Asia continues to lead the global recovery. Growth figures in recent quarters have consistently surprised to the upside, in some cases by very large margins. Momentum has been strongest in the smaller export-oriented economies, which were most severely affected by the global downturn of 2008-09, but even in the region's larger economies (China, India, and Indonesia), growth has continued powering ahead (Chart 3).

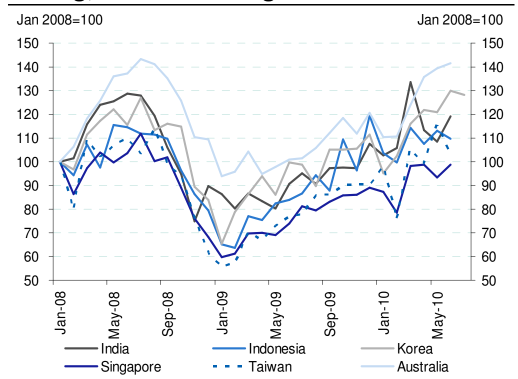
The main source of growth has been from strong export performance (Chart 4), fed in part by the global inventory cycle. In addition, domestic demand has become a more significant contributor over time especially from mid- to late-2009, even as policy stimulus has been gradually withdrawn. Although policymakers remain weary of risks to the global outlook, they now appear more confident in the region's ability to sustain growth, all the more so given the limited fallout of recent developments from the sovereign debt crisis in Europe. Therefore, after a brief pause in the second quarter during which policymakers entered a "wait-and-see" mode as the European debt crisis unfolded, monetary tightening has resumed, albeit at a gradual pace. Asia's powerful economic rebound and limited contagion from the European debt crisis point to the region's strong fundamentals, shared by emerging markets in other regions as well, including sound banking systems and fiscal positions. These factors should help sustain growth prospects in the coming years.

Chart 3
Quarterly growth outturns have surprised to the upside



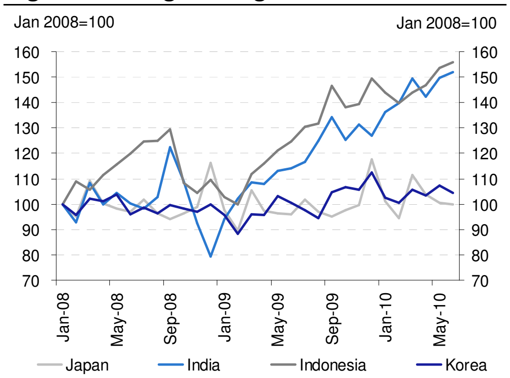
Source: CEIC and BBVA Research

Chart 4
Exports performance remains strong, with recent signs of moderation



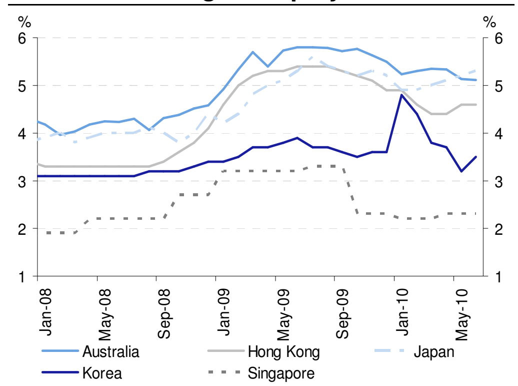
Source: CEIC and BBVA Research

Chart 5
Rising retail sales are a sign of strengthening domestic demand



Source: CEIC and BBVA Research

Chart 6
Strong growth has resulted in falling unemployment rates



Source: CEIC and BBVA Research

Growth has become more self-sustaining as domestic demand picks up

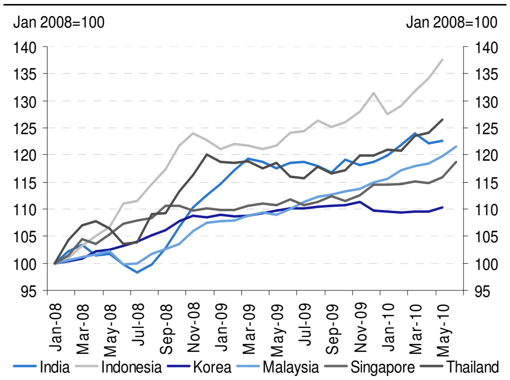
In its early stages, the region's recovery was mainly driven by exports—especially to China—and government stimulus measures. Over time, since mid- and late-2009 domestic demand has become an increasingly important contributor to the strong growth performance. In particular, private consumption in many countries has been picking up, such as Korea and Taiwan, thanks to improved labor market conditions and stronger consumer sentiment (Charts 5 and 6). Steadily improving business sentiment and inventory restocking, together with a pickup in credit growth, are also leading to an increase in investment spending and production (Chart 7). Credit expansion in Indonesia, for example, has been accelerating this year, with growth rising to 18.6% y/y from 10.7% y/y at the end of the preceding quarter.

Early signs of a moderating trend are evident

The bounce-back of growth witnessed in recent quarters is clearly not sustainable. For example, Singapore's Q1 and Q2 growth reached 38.6% and 26.0% q/q saar, respectively, and 11.3% q/q saar in Taiwan. Singapore's GDP was boosted by strong manufacturing growth and a record arrival of tourists following the opening of its two new casino resorts earlier in the year; growth in Taiwan was fueled by strong investment, with a boost to sentiment from the recent signing of a much-anticipated Economic Cooperation Framework Agreement (ECFA) with China.

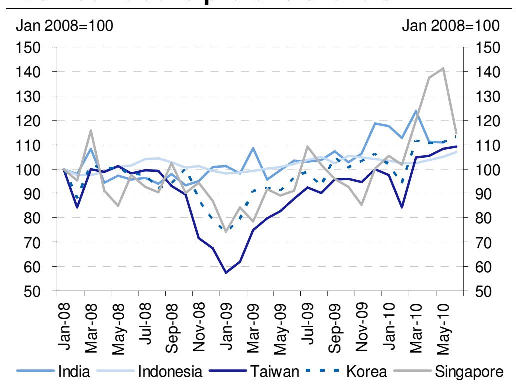
Some indicators are already showing signs of moderating. Export growth through June and July has remained robust, exceeding expectations in many cases. Nevertheless, the pace of export growth has slowed (Chart 4, above). Industrial production in a number of countries is also showing signs of easing (Chart 8), and purchasing manager indexes (PMI) across Asia have recently declined toward the expansion-contraction threshold, indicating a slowdown in exports going forward (Chart 9).

Chart 7
The level of bank credit is picking up in most economies



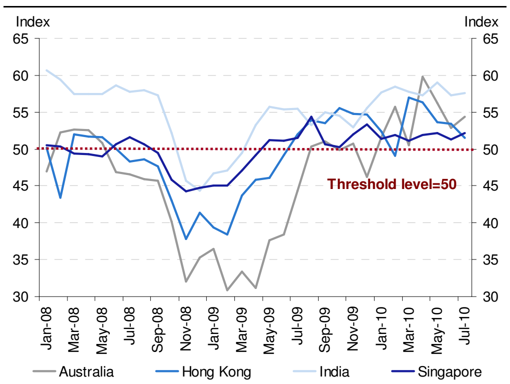
Source: CEIC and BBVA Research

Chart 8
Industrial production has risen above pre-crisis levels



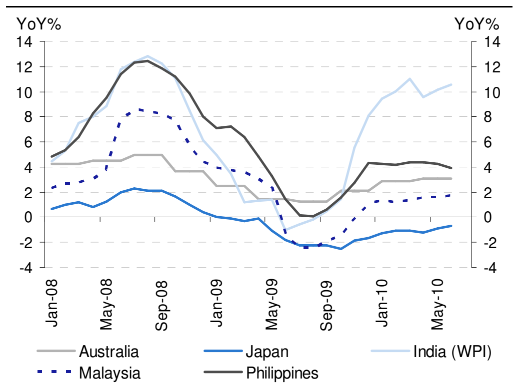
Source: CEIC and BBVA Research

Chart 9
PMIs have started to weaken



Source: CEIC and BBVA Research

Chart 10
Inflation has levelled off for now

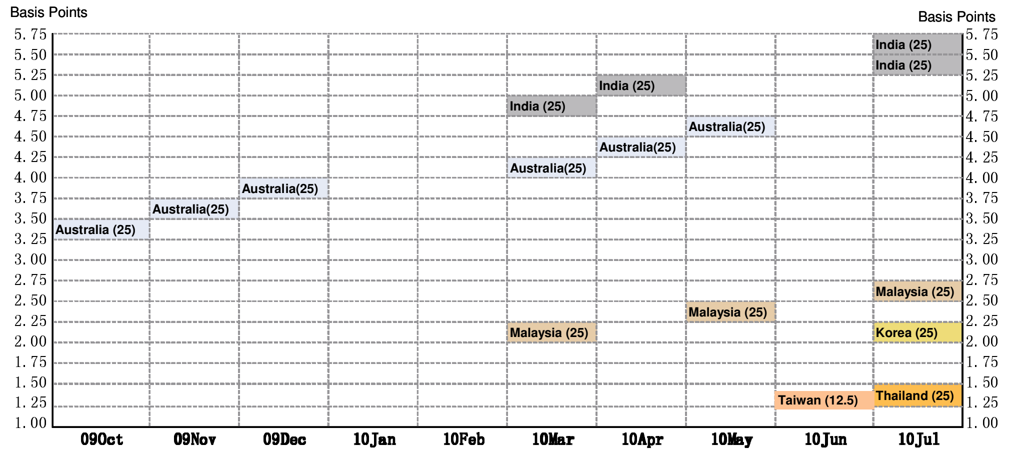


Source: CEIC and BBVA Research

Inflation remains a concern but has recently moderated

Price pressures for the most part have moderated recently with an easing of food and commodity prices. Nevertheless, in some countries—India and Vietnam in particular—strong domestic demand has generated overheating pressures, evidenced by relatively high inflation in India (10.55% y/y for the WPI in June, fed in part by the removal of fuel subsidies). Elsewhere in the region food prices are still continuing to put upward pressure on inflation, especially in Indonesia and to a lesser extent in Malaysia. In other cases, fuel prices are easing across the region (Korea, Thailand and the Philippines are the most remarkable cases in this regard). Japan remains mired in deflation, although in May and June price declines slowed (Chart 10).

Chart 11
Many central banks have begun the rate hiking cycle*



*Importantly, tightening through hikes in reserve requirement ratio has also taken place: China (150bp) and India (100bp); Vietnam (not shown above) also raised its benchmark interest rate by 100bp in December 2009.
Source: CEIC and BBVA Research

With growth so strong, exit policies are continuing despite uncertainties to the global outlook

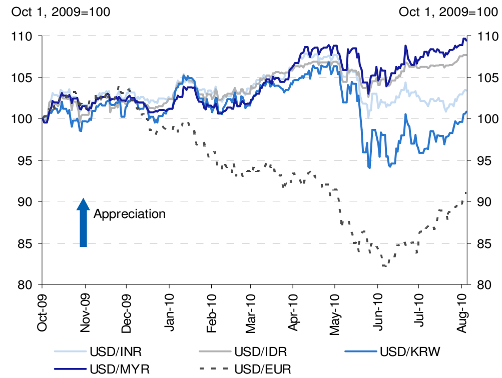
Narrowing output gaps and strong growth prospects have prompted national authorities to press ahead with their exit strategies from policy stimulus, notwithstanding risks to the global outlook. On the fiscal front, policy stimulus is gradually being withdrawn, and in some cases is nearly complete, such as in Singapore.

Monetary policies generally remain accommodative in view of risks to the global outlook and recent moderation in price pressures. However, given the strong H1 outturns and growing confidence in the sustainability of growth momentum, most central banks in the region have either started or resumed their tightening cycles—ahead of the US Fed—as they seek to normalize interest rates from exceptionally low levels. Korea is an example in this regard. After maintaining interest rates at a record low of 2.00% for 18 months, the Bank of Korea (BOK) hiked rates by 25bp in early July. The BOK cited the continued improvement in domestic indicators, and the need to forestall future inflationary pressures. Taiwan also raised interest rates for the first time in the current cycle (12.5bp) in late June, citing strengthening domestic demand. In addition to Taiwan and Korea, Malaysia and Thailand have raised rates, while Australia (which has paused since April), and more recently India in view of its relatively high inflation (two rate hikes in July), have been the most aggressive (Chart 11). In recognition of its very strong growth rebound, Singapore, which uses the exchange rate as its operational instrument, tightened aggressively last April through a re-centering of its exchange band at a more appreciated level, and a simultaneous move to a gradual appreciation path (from a "zero appreciation path).

The recent rise in global risk aversion has temporarily stalled currency appreciation, but pressures persist

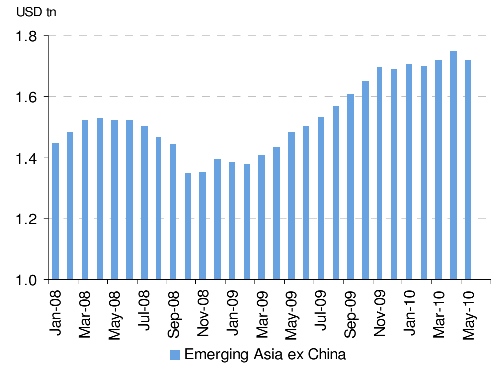
Appreciation pressures have eased to some extent with the rise in global uncertainties. That said, underlying balance of payments positions remain strong across the region, and prospects for further capital inflows remain given the region's robust growth outlook. China's recent willingness to allow currency appreciation should accelerate this trend (Charts 12 and 13). Recent bouts of currency pressures from strong capital inflows have prompted some countries to introduce measures to reduce volatility. Korea, for example, imposed tighter currency controls last June, including a limitation on foreign and domestic banks' currency derivatives; while around the same time Indonesia implemented technical changes in its interest rate policy corridor and introduced a minimum holding period of 1 month for BI bills ("SBIs") to reduce the volatility of capital flows.

Chart 12
Currencies weakened on global risk aversion



Source: Bloomberg and BBVA Research

Chart 13
The rise in foreign reserves has moderated



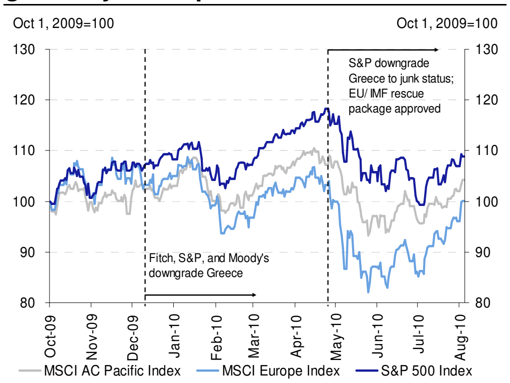
Note: Emerging Asia ex China include Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.
Source: CEIC and BBVA Research

Asia's strong fundamentals helped shield the region from the fallout of the European sovereign debt crisis

The strong first-half performance described above occurred even as developments in Europe's debt crisis unfolded resulting in heightened global risk aversion, European sovereign ratings downgrades, and renewed concerns about the sustainability of the global recovery. Asia's strong underlying fundamentals, in particular robust banking systems and sound fiscal positions (with a few exceptions) resulted in only limited contagion. Indeed, even as Europe saw ratings downgrades, some countries in the region, such as Indonesia, Korea, and India (local currency debt) had their sovereign ratings upgraded by major rating agencies during the period.

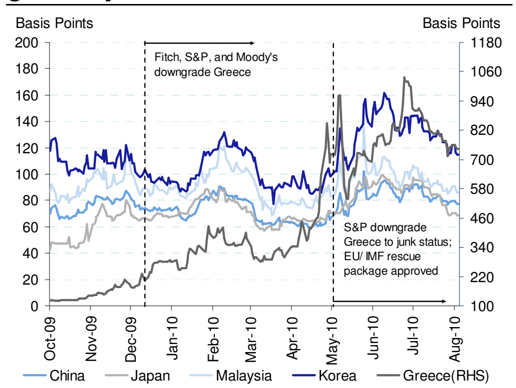
As noted above, the fallout of heightened risk aversion had an impact on Asian currencies, which retreated during the most intense period of the crisis. The fallout was most significant on the Korean Won, one of the region's "high beta" currencies, especially given Korea's vulnerability to stoppages in international capital flows. Nevertheless, the impact on currencies was relatively contained, especially in comparison to the depreciation of the Euro (Chart 12), and reserve levels remained high (Chart 13). Similarly, the fallout on Asian stock markets was evident, but still rather limited in comparison to developments in Europe (Chart 14). And finally, 5-year sovereign CDS spreads in Asia rose during the crisis, particularly for Korea, but have since fallen back (Chart 15). Recent developments in Asian financial markets suggest an ongoing improvement as global and regional sentiment improve.

Chart 14
Despite the fallout, Asia stock markets generally held up well



Source: Bloomberg and BBVA Research

Chart 15
Asian CDS spreads widened, but generally to a lesser extent



Note: CDS Spread on 5-year sovereign bond
Source: Bloomberg and BBVA Research

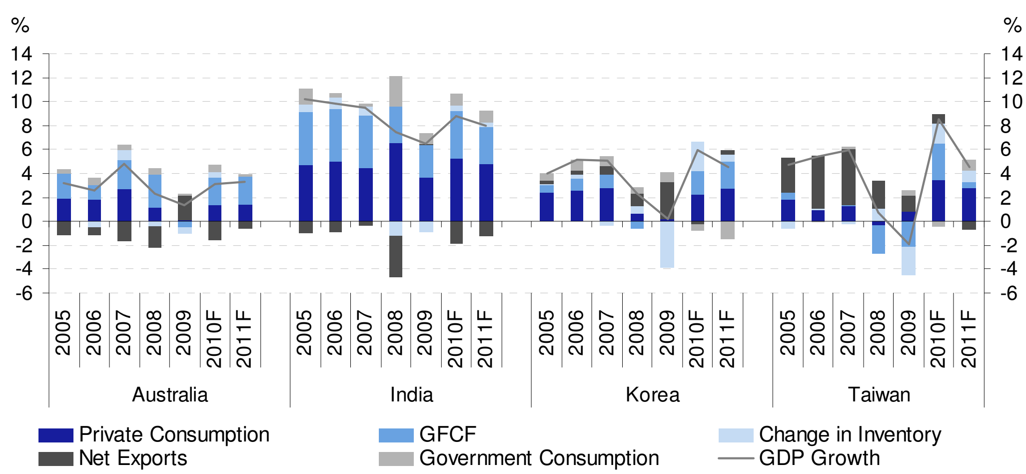
3. Our projections are being revised upward to reflect stronger first half outturns, with a slowdown still expected in the second half

Economic rebounds across Asia have exceeded expectations thanks to faster export recoveries and strengthening domestic demand. Going forward, prospects for the region remain bright, with demand from China and other emerging market economies expected to keep export demand reasonably strong, despite risks to the outlooks in the US and Europe. Domestic demand is also expected to stay strong given the pickup in investment and robustness of private consumption trends.

Based on the carryover from the strong first-half growth outturns, we have revised up our full-year 2010 growth forecast for Asian economies (ex-China), to 5.1% in aggregate from 4.2% previously. In some cases the upward revisions are considerable (Table 1). In particular, the more export-oriented economies are exhibiting steep V-shaped recoveries, warranting a revision to Singapore's 2010 growth from 8.3% to 15.0%, Taiwan's from 7.4% to 8.5%, and Korea's from 5.0% to 5.9%. Stronger domestic demand in the more domestically-oriented economies also warrant upward revisions to their 2010 growth outlooks, with India revised up from 8.0% to 8.8% and Indonesia slightly up from 5.5% to 5.7%. For Japan, although domestic demand remains sluggish, stronger-than-expected export performance to date warrants an increase in our 2010 GDP forecast to 2.3% from 1.6%. Our 2011 forecasts are being slightly revised, with the regional aggregate growth projections rising to 4.1% from 3.8% previously.

Importantly, our 2010 forecasts build in an expected slowdown in H2 as growth rates return to more sustainable levels. The short-term boost from global and domestic inventory restocking is likely to wear off soon, and sluggish growth recoveries in the West will act as a drag on export performance. As the source of domestic growth continues shifting from the public to the private sector within the region, a healthier pattern of development should emerge over the medium-term, with self-sustaining domestic demand making a greater contribution to growth (Chart 16).

Chart 16
GDP projection by components for selected countries: a more self-sustaining growth pattern is expected



Source: CEIC and BBVA Research

Inflation is moderating

With growth moderating in H2, we expect price pressures to remain generally subdued under our baseline. After rising through much of the year so far, inflation rates have eased across the region due to softening food and commodity price trends. Accordingly, our inflation projections have been adjusted slightly downward, with the projected annual inflation aggregate for the region declining from 2.9% previously to 2.8% (Table 2). At one extreme are India and Vietnam, where average inflation for the year is expected to remain in double-digits, while at the other end of the extreme is Japan, where inflation is expected to remain in negative territory throughout 2010.

Despite a recent retreat, the region's currencies are expected to strengthen again

We have revised our end-of-year forecast for Asian currencies to slightly weaker levels against the USD (Table 3), as the recent rise in global risk aversion has led to a sell-off of the region's currencies, especially for the AUD and KRW. However, we still expect regional currencies to return to a strengthening trend given the region's strong growth prospects, expected capital inflows and currency account surpluses, all of which should be enhanced by China's move toward currency appreciation.

Risks to the global outlook have delayed, but not pre-empted, policy tightening

Monetary policy tightening has resumed as policy makers assess the impact of recent strong growth trends on the outlook for inflation, and as they grow more confident about the sustainability of the strong growth outlook (Table 4). In India, after the latest rate hike toward the end of July, we expect three more rate hikes of 25bp each for the remainder of the year. In Australia, we expect only one more hike of 25bp this year, as inflation has moderated and as the Reserve Bank assesses the impact of its recent aggressive rate increases since last October. We expect the Bank of Korea to implement one more 25bp increase in Q4 to curb inflationary pressures. In Japan, given ongoing deflation and sluggish domestic demand, we do not foresee rate hikes until 2012.

On the fiscal policy front, although policies are expected to remain reasonably supportive during the remainder of this year, given the strong medium term outlook, most fiscal authorities are aiming to narrow their budget deficits this year and beyond.

4. Risks are broadly balanced

The main downward risks to the region stem from the external environment. Uncertainties in Europe and the risk of slower growth in the U.S. create prospects of spillovers to the region from weaker export demand. Intensification of risk aversion could also put downward pressure on the region's financial markets and raise borrowing costs for the corporate sector. If such risks materialize, however, there should be sufficient room in most countries for renewed policy stimulus to cushion the growth impact in the near term. The region's strong underlying fundamentals—high fx reserve levels, strong banking systems, and sound fiscal positions—should also help shelter it from the impact of renewed financial stress abroad, although some economies would be vulnerable to stoppages in international capital markets, such as Korea and Indonesia, which rely heavily on foreign financing (wholesale bank funding in the former, and bond financing in the latter, although both also rely heavily on foreign equity inflows).

Risks from overheating in China have diminished given recent indications of moderating growth and the rise in risks to the global environment. Indeed, if growth were to decelerate at a faster-than-expected pace, the H2 slowdown we envisage for the region could become more pronounced. That said, overheating risks do still exist, and the very strong rebounds in some of the region's economies in Q2 set the stage for rising price pressures. Policy makers therefore face the challenge of withdrawing policy stimulus to avert such risks, while being mindful of maintaining sufficient support in the event that risks to the external outlook materialize.

On the domestic side, inflationary risks and asset price bubbles, not presenting at the current juncture, still bear watch. In particular, the region faces prospects of renewed surges in capital flows, which could complicate monetary management and exacerbate overheating risks.

Finally, country-specific risks exist. For example, Thailand continues to face risks from underlying political tensions. And Vietnam is still struggling to maintain macroeconomic stability. High or rising inflation in India, Vietnam, and more recently Indonesia, also bears watch.

5. Tables

Table 1

Macroeconomic Forecasts: Gross Domestic Product

(YoY growth rate)	2007	2008	2009	2010 (F)	2011 (F)
U.S.	2.1	0.4	-2.4	3.0	2.5
EMU	2.8	0.4	-4.1	0.7	1.3
Asia-Pacific	7.6	4.2	2.0	6.4	5.5
Australia	4.8	2.3	1.3	3.1	3.3
Japan	2.4	-1.2	-5.3	2.3	1.6
China	14.2	9.6	9.1	9.8	9.2
Hong Kong	6.4	2.1	-2.8	5.7	4.8
India	9.5	7.3	6.5	8.8	8.0
Indonesia	6.3	6.0	4.5	5.7	6.1
Korea	5.1	2.3	0.2	5.9	4.5
Malaysia	6.2	4.6	-1.7	7.1	5.0
Philippines	7.1	3.8	1.1	4.8	4.7
Singapore	8.5	1.8	-1.3	15.0	4.9
Taiwan	6.0	0.7	-1.9	8.5	4.5
Thailand	4.9	2.5	-2.3	6.2	4.3
Vietnam	8.5	6.2	5.3	6.5	6.9
Asia ex China	5.2	2.2	-0.7	5.1	4.1
World	5.3	3.0	-0.6	4.4	4.1

Source: CEIC and BBVA Research

Table 2

Macroeconomic Forecasts: Inflation (Avg.)

(YoY growth rate)	2007	2008	2009	2010 (F)	2011 (F)
U.S.	2.9	3.8	-0.4	1.6	1.8
EMU	2.1	3.3	0.3	1.3	1.2
Asia-Pacific	2.8	4.9	0.3	2.9	2.8
Australia	2.3	4.4	1.8	2.8	2.9
Japan	0.1	1.4	-1.3	-0.9	-0.4
China	4.8	5.9	-0.7	2.9	3.3
Hong Kong	2.0	4.3	0.5	3.0	3.5
India	4.8	9.1	2.0	9.8	6.8
Indonesia	6.0	9.8	4.8	5.0	5.7
Korea	2.5	4.7	2.8	2.9	3.0
Malaysia	2.0	5.4	0.6	2.2	2.5
Philippines	2.8	9.3	3.3	4.5	4.4
Singapore	2.1	6.5	0.6	2.8	2.5
Taiwan	1.8	3.5	-0.9	1.5	1.7
Thailand	2.2	5.5	-0.8	3.3	3.3
Vietnam	8.3	23.1	7.0	9.5	8.5
Asia ex China	2.1	4.6	0.6	2.8	2.6
World	4.1	6.1	2.2	3.5	3.3

Source: CEIC and BBVA Research

Table 3

Macroeconomic Forecasts: Exchange Rates (End of period)

		2007	2008	2009	2010 (F)	2011 (F)
U.S.	EUR/USD	0.70	0.70	0.70	0.80	0.80
EMU	USD/EUR	1.40	1.50	1.40	1.30	1.20
Australia	USD/AUD	0.87	0.67	0.90	0.91	0.90
Japan	JPY/USD	112.5	96.1	90.8	95.0	107.0
China	CNY/USD	7.30	6.83	6.83	6.54	6.30
Hong Kong	HKD/USD	7.80	7.75	7.75	7.80	7.80
India	INR/USD	39.4	48.6	46.8	44.5	43.0
Indonesia	IDR/USD	9334	10838	9470	9000	9000
Korea	KRW/USD	931	1364	1166	1100	1050
Malaysia	MYR/USD	3.33	3.56	3.40	3.20	3.15
Philippines	PHP/USD	41.7	48.3	46.8	44.0	45.0
Singapore	SGD/USD	1.45	1.49	1.39	1.36	1.33
Taiwan	NTD/USD	32.4	33.0	32.3	31.0	30.0
Thailand	THB/USD	30.2	34.8	33.3	32.0	31.5
Vietnam	VND/USD	16114	16977	17941	19400	19800

Source: CEIC and BBVA Research

Table 4

Macroeconomic Forecasts: Policy Rates (End of period)

(%)	2007	2008	2009	2010 (F)	2011 (F)
U.S.	4.3	0.6	0.3	0.1	0.8
EMU	4.0	2.5	1.0	1.0	1.0
Australia	6.8	4.3	3.8	4.8	5.5
Japan	0.5	0.1	0.1	0.1	0.1
China	7.5	5.3	5.3	5.6	6.1
Hong Kong	3.3	0.9	0.1	0.5	1.5
India	7.8	6.5	4.8	6.5	7.5
Indonesia	8.0	9.3	6.5	7.0	7.5
Korea	5.0	3.0	2.0	2.5	3.5
Malaysia	3.5	3.3	2.0	2.8	3.3
Philippines	5.5	5.9	4.0	4.5	5.0
Singapore	2.4	1.0	0.7	0.7	1.7
Taiwan	3.4	2.0	1.3	1.6	2.6
Thailand	3.3	3.4	1.3	1.8	2.3
Vietnam	8.3	8.5	8.0	8.5	7.5

Source: CEIC and BBVA Research

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