Asian ECONOMICS

HSBC Global Research

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Asian Economics
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Will Asia bounce?

After years of soaring growth across Asia, the region's economies finally tripped into an unprecedented slump as exports faltered and domestic demand buckled

But the worst of the crisis may already have passed, with an aggressive policy stimulus beginning to lift Asia out of its recession over the coming quarters

Rising unemployment and growing deflationary pressures may yet slow the region's ascent, but after hitting bottom, Asia is better placed than most to spring back

By Robert Prior-Wandesforde and Frederic Neumann

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Disclosures and Disclaimer This report must be read with the disclosures and analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Summary

To say that the Asian economies are weak would be something of an understatement. On some measures, the downturn is already as bad as the 1998 crisis, while 1Q09 GDP is unlikely to provide much respite. All is not lost, however: the various stimulus measures, commodity price collapse, historical experience, longer lead indicators, and China's pick-up all offer grounds for hope. The prospect of rapidly rising unemployment and the return of deflation are the largest domestic risks to a strong second-half recovery, but they should not be overplayed at this stage

Do not despair

With memories of 1997 looming larger and larger, it is very easy to be despondent. Indeed many seem to suggest that if there was any light at the end of the tunnel it has now been switched off! We disagree. While the region is not quite out of the woods yet, and downside risks remain, there are several reasons for optimism.

First, the region is relatively well placed to benefit from the huge and synchronised easing of fiscal and monetary conditions, as well as the biggest ever commodity price decline. Second, every time Asian growth has suffered a serious setback in the past it has come back with a vengeance and not because the region has been bailed out by improving demand from the developed world. Contrary to conventional wisdom, Asia's post-crisis recovery was led by consumer demand which then triggered an improvement in the regional trade cycle. Third, longer lead indicators, which have proved useful in predicting turning points, have been improving for months now, accompanied by a modest rise in some of the shorter lead indicators as well. Fourth, there is increasingly clear evidence that, once again, China's domestic demand is breaking away from exports: recent months have seen improvements in bank lending, business confidence, motor vehicle sales, electricity usage, infrastructure investment and commodity imports.

In this report we have developed a model of Asian GDP growth as a means of judging the impact of the various drivers to activity. This suggests that lower commodity prices and the fiscal and monetary easing measures will boost growth by at least 2ppt from 3Q09 to 3Q10. The results are, of course, based on historical experience and can therefore be criticised on the ground that "this time is different". It is, however, hard to dispute the size of the fiscal action that has been taken in Asia, and financial confidence may be gradually returning.

Timing the turn

In practice, pinpointing the turning point in Asian growth is not exactly easy. The only thing we can say with confidence at this stage is that it did not begin in the first quarter of 2009. The monthly industrial and export data have generally been very poor and our coincident indicator of activity is consistent with a further drop in growth. Indeed, we expect many to be surprised by just how weak things were in the first quarter, probably leading to a further round of downward revisions to the consensus view; our 2009 year average numbers are generally below the market median.

Thereafter things become a little hazier, although we would be very surprised if the green shoots were not in abundance by the middle of this year. We expect the recovery to be sharper than most, which in turn explains why our 2010 growth numbers are generally above consensus.

Risks remain

There are, as always, several risks that surround our central view. Apart from the obvious dangers of a further external shock, we have considered two domestic risks in some detail. The first relates to the labour market. Sadly, economic growth has already fallen to levels consistent with a meaningful reduction in jobs in Asia, which in turn could provide a significant dampener on consumer spending. The extent to which it will, however, depends on how real wages develop and the ability and willingness of households to reduce their savings. It is worth noting that the rise in unemployment in the late-1990s did not prevent a consumer recovery in 1998-99 and we expect the jobless figures to be lower this time.

The second risk concerns the emergence of deflation in the region. By this we do not mean temporary price falls relating mainly to the collapse in commodity prices (which is already apparent in some countries and is actually good news for growth), but a persistent drop in the price level resulting from excess capacity and/or prolonged weakness in domestic demand. The risks are bigger in some sectors and countries than others. An overhang of capacity is most evident in electronics, for example, while this is unlikely to be the case in infrastructure related sectors where fiscal pump-priming has come to the rescue. Not surprisingly, Japan and Taiwan are the countries we are most concerned about in Asia, while the risk looks to be small and manageable for most other countries in the region. Of course, if we are right about the prospects for Asian domestic demand, then the chances of "bad" deflation will be much reduced.

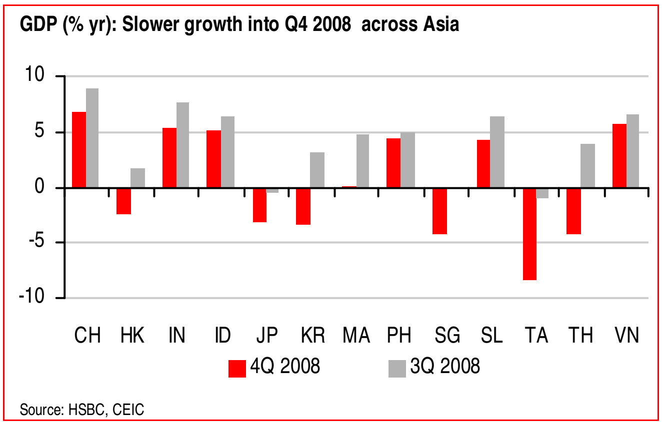
HSBC main forecasts

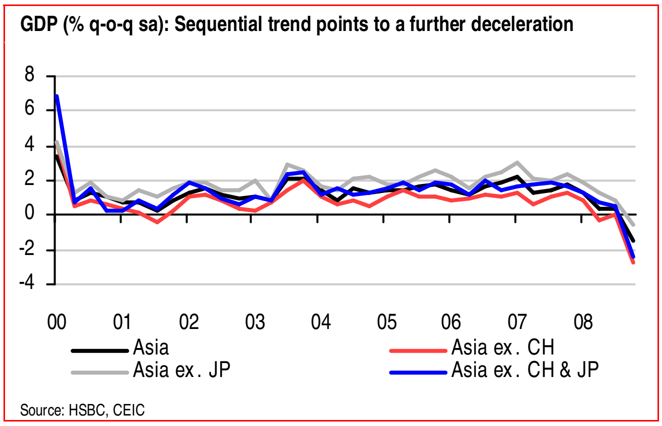
	2009 (old)	2009 (new)	2010 (old)	2010 (new)	2009 consensus	2010 consensus
China	7.8	7.8	8.9	8.5	7.0	8.3
Hong Kong	-2.0	-4.5	4.3	2.4	-3.4	2.4
India	6.2	6.2	8.0	8.0	5.2	7.8
Indonesia	3.8	2.5	5.0	4.5	3.4	4.7
Japan	-1.4	-6.5	1.1	1.6	-5.8	0.7
Korea	-3.2	-3.7	4.0	3.4	-3.0	3.5
Malaysia	0.5	-3.5	5.6	5.5	-0.7	3.6
Pakistan	2.4	2.0	2.9	2.9	2.5	3.6
Philippines	2.0	1.0	3.2	3.0	1.9	3.6
Singapore	-5.0	-7.0	5.5	4.5	-4.7	3.2
Sri Lanka	4.2	3.2	5.8	5.0	3.2	5.3
Taiwan	-5.2	-6.2	2.5	2.2	-4.9	2.9
Thailand	0.1	-3.5	3.6	3.0	-1.6	3.2
Vietnam	5.4	4.5	6.6	6.5	4.3	5.5

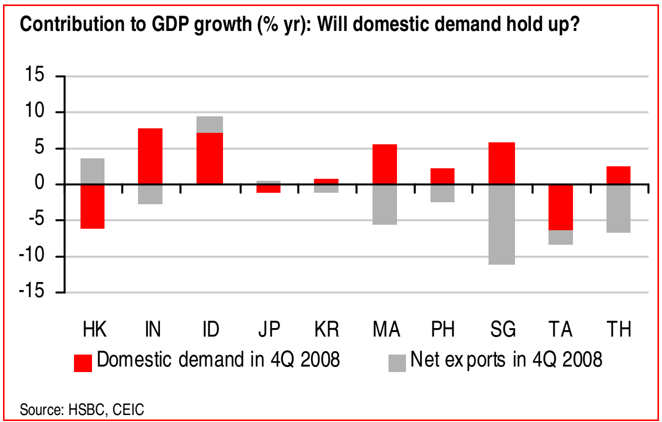
Source: HSBC, Consensus Economics

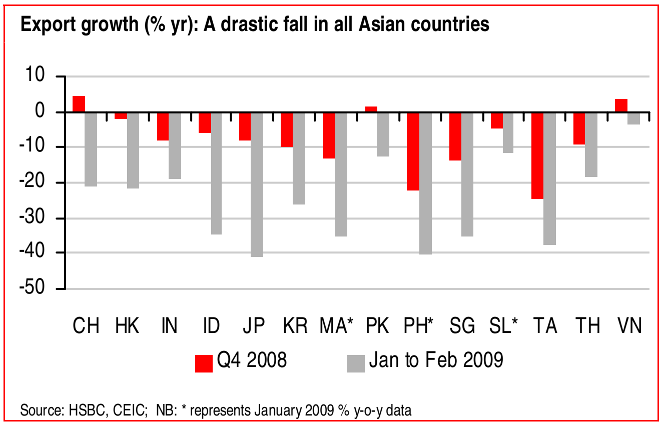
Contents

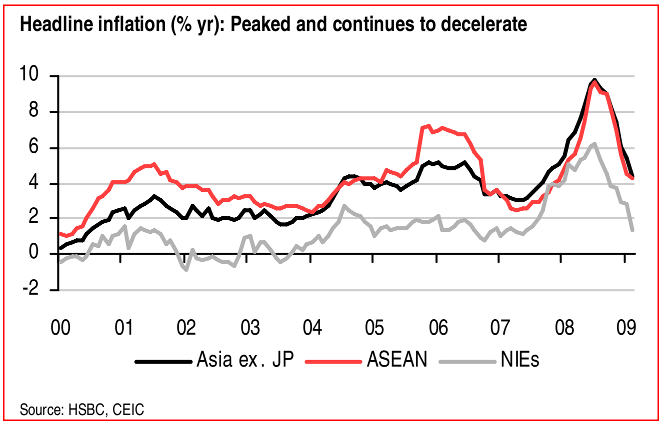
What happened

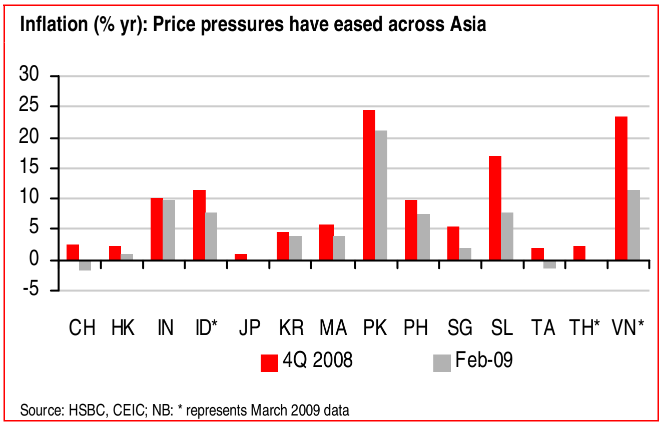






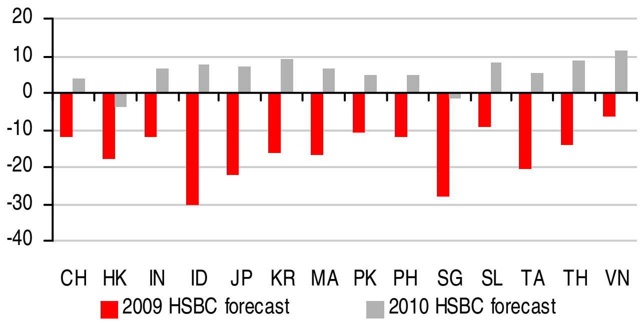






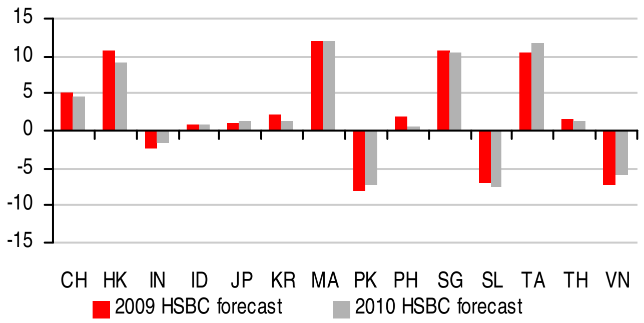
Where it's going

Nominal exports (% yr): Negative growth across Asia in 2009



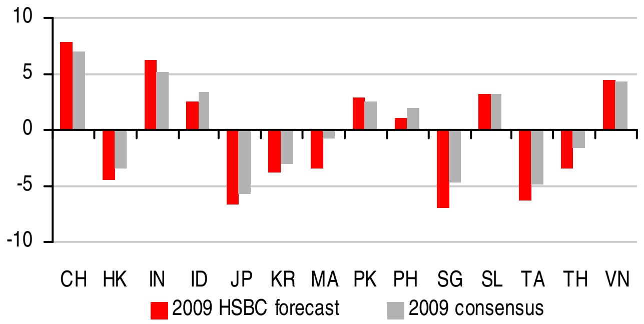
Source: HSBC, CEIC

Current account balance % GDP: Generally remains healthy across Asia



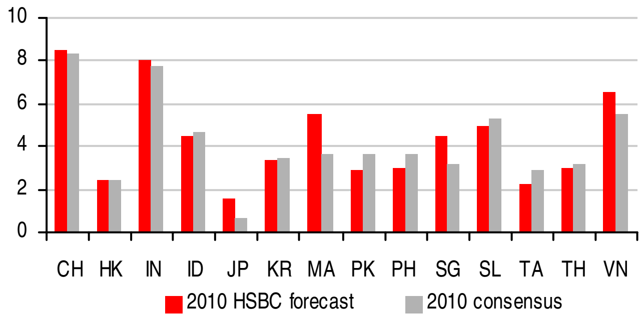
Source: HSBC, CEIC

2009 GDP forecast (% yr): HSBC's view is more bearish than consensus in most cases



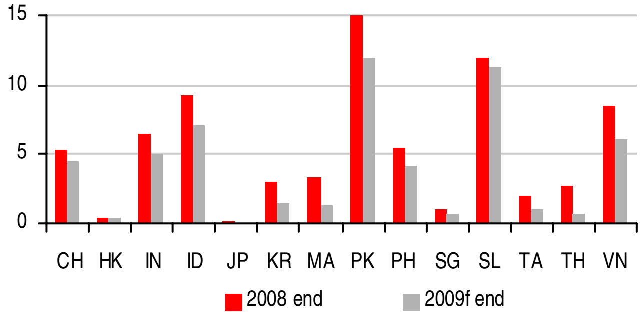
Source: HSBC, CEIC

2010 GDP forecast (% yr): Recovery in 2010



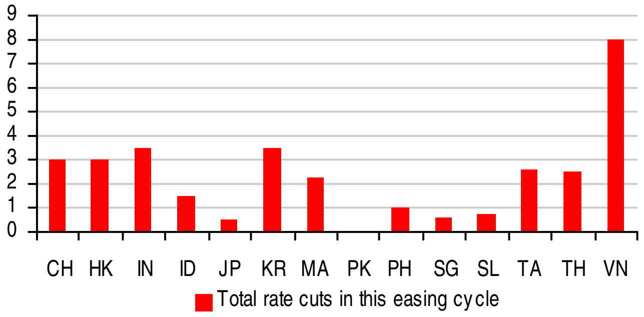
Source: HSBC, CEIC

Policy rate forecast (%): Easing trend to continue in 2009



Source: HSBC, CEIC

Policy rate differential (%): Total expected policy easing over this cycle



Source: HSBC, CEIC

Key forecasts

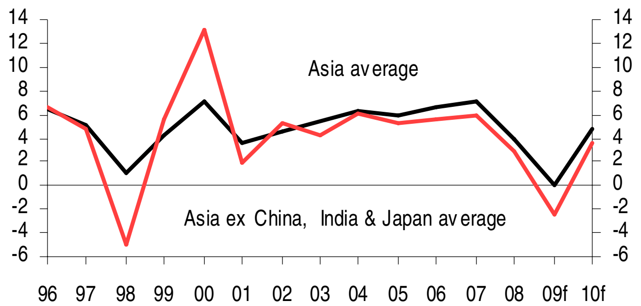
(% y-o-y)	Asia average	CN	HK	IN	ID	JN	KR	MA	PK	PH	SG	SL	TW	TH	VN
Real GDP															
2007	7.2	13.0	6.3	9.0	6.3	2.4	5.1	6.3	6.0	7.2	7.8	6.8	5.7	4.9	8.5
2008	3.9	9.0	2.5	6.7	6.1	-0.6	2.2	4.6	0.3	4.6	1.1	6.0	0.1	2.6	6.2
2009f	0.1	7.8	-4.5	6.2	2.5	-6.5	-3.7	-3.5	2.0	1.0	-7.0	3.2	-6.2	-3.5	4.5
2010f	4.8	8.5	2.4	8.0	4.5	1.6	3.4	5.5	2.9	3.0	4.5	5.0	2.2	3.0	6.5
Private consumption															
2007	5.1	9.0	8.5	8.5	5.0	0.7	5.1	10.8	8.5	5.8	5.2	7.0	2.3	1.6	9.6
2008	4.2	8.9	2.0	6.5	5.3	0.5	0.9	8.4	0.5	4.5	2.4	6.5	-0.3	2.5	7.3
2009f	2.8	8.0	-1.9	5.5	3.5	-0.7	-2.7	2.9	1.5	1.4	-0.1	4.0	-1.6	1.3	3.0
2010f	4.1	8.5	1.0	6.8	4.6	0.3	2.7	5.3	2.5	2.3	4.3	5.5	0.8	2.8	6.0
Fixed investment															
2007	11.2	25.8	3.4	12.9	9.4	1.1	4.2	9.6	3.4	11.8	19.2	5.5	1.9	1.3	23.0
2008	7.7	26.1	-0.3	9.0	11.7	-4.6	-1.7	1.1	0.5	3.7	13.7	6.0	-10.8	1.1	13.2
2009f	-0.5	20.0	-1.8	8.0	0.8	-16.1	-8.1	-10.3	4.0	-1.4	-11.5	6.5	-21.5	-7.5	3.0
2010f	8.4	20.0	9.2	13.0	5.4	-0.5	4.7	4.8	4.0	3.6	5.7	5.8	2.2	5.4	6.3
Current account balance* (% of GDP)															
2007	6.2	11.0	10.8	-1.0	2.4	4.9	0.6	15.6	-8.1	4.8	23.5	-4.5	8.6	5.9	-10.0
2008	4.1	8.6	10.9	-3.4	0.1	3.2	-0.7	15.7	-11.1	2.5	14.8	-8.1	6.4	-0.1	-13.8
2009f	2.6	5.1	10.6	-2.4	0.9	1.0	2.3	12.0	-7.9	2.0	10.7	-7.1	10.5	1.7	-7.2
2010f	2.6	4.4	9.2	-1.6	0.7	1.4	1.4	12.0	-7.3	0.4	10.5	-7.5	11.8	1.4	-5.8
CPI (period average)															
2007	2.9	4.8	2.0	6.4	6.4	0.0	2.5	2.0	7.6	2.8	2.1	15.8	1.8	2.2	8.3
2008	4.9	5.9	4.3	8.3	10.2	1.5	4.7	5.4	20.3	9.3	6.5	22.8	3.5	5.6	23.0
2009f	0.8	-0.2	1.6	6.9	5.8	-1.4	3.2	0.9	14.0	4.3	0.4	4.3	-1.3	-1.4	7.4
2010f	1.2	0.8	1.0	4.7	8.0	-1.0	3.2	2.8	8.0	4.5	1.9	9.4	-0.4	2.7	9.3
Money market interest rate (%, year-end)**															
2007	3.1	3.3	3.5	8.0	7.8	0.6	5.7	3.6	n.a.	3.7	2.4	n.a.	2.2	3.9	n.a.
2008	2.5	1.7	1.0	8.5	12.0	0.4	4.7	3.4	n.a.	6.1	1.0	n.a.	1.0	3.0	n.a.
2009f	1.6	1.0	0.7	6.0	7.5	0.4	1.7	1.3	n.a.	6.0	0.7	n.a.	0.5	1.1	n.a.
2010f	1.6	1.0	0.6	5.7	7.6	0.2	2.7	2.0	n.a.	6.0	0.8	n.a.	0.6	1.8	n.a.
Exchange rate (vs. USD, year-end)															
2007	n.a.	7.30	7.80	39.4	9,400	112	936	3.31	61.5	41.2	1.44	108.7	32.4	33.7	16,017
2008	n.a.	6.82	7.75	48.7	11,325	91	1,260	3.45	79.1	47.4	1.44	113.0	32.8	34.7	17,483
2009f	n.a.	6.80	7.80	54.0	13,500	105	1,200	4.00	90.0	53.0	1.64	124.0	36.0	38.5	18,200
2010f	n.a.	6.80	7.80	54.0	13,500	105	1,200	4.10	92.0	53.0	1.64	130.0	36.0	38.5	18,200

* Hong Kong: current account refers to visible and invisible trade balance only

** China: 3-month time deposit; Hong Kong: 3-month HIBOR; India: 3-month T-Bill; Indonesia: 3-month SBI; Korea; 3-month CD yield; Malaysia: 3-month KLIBOR; Philippines: 3-month T-bill; Singapore: 3-month SIBOR; Taiwan: 91-day secondary CP; Thailand: 3-month BIBOR. ***India GDP forecasts are fiscal-year basis.

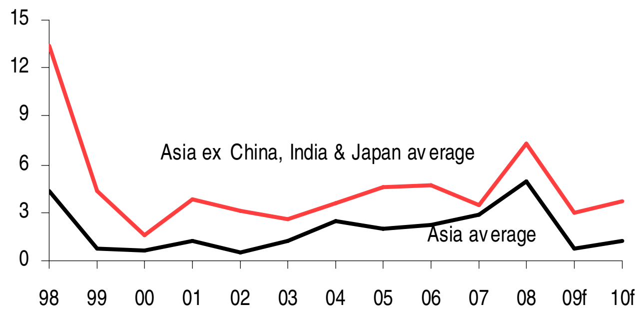
Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

GDP (% y-o-y)



Source: CEIC, HSBC

CPI (% y-o-y)



Source: CEIC, HSBC

Monetary & fiscal policy assumptions

Monetary policy

Period end (%)		Q3 2008	Q4 2008	Q1 2009	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
China	1 year base lending rate	7.20	5.31	5.04	4.50	4.50	4.50	4.50	4.50
Hong Kong SAR	Base rate	3.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
India	Repo rate	9.00	6.50	5.00	4.50	4.50	4.50	4.50	5.00
Indonesia	SBI 28 day rate	9.25	9.25	8.25	7.00	7.00	7.00	7.00	7.00
Japan	Overnight call rate	0.50	0.10	0.10	0.00	0.00	0.00	0.00	0.00
Korea	Overnight call rate	5.25	3.00	2.00	1.50	1.50	1.50	1.75	2.00
Malaysia	Overnight rate	3.50	3.25	2.00	1.25	1.25	1.25	1.25	1.25
Pakistan	Repo rate	13.00	15.00	15.00	15.00	12.00	12.00	10.00	10.00
Philippines	Reverse repo rate	6.00	5.50	4.75	4.50	4.25	4.25	4.50	4.50
Singapore	3 months rate	1.85	0.96	0.60	0.60	0.60	0.70	0.80	0.90
Sri Lanka	Repo rate	12.00	12.00	11.75	11.25	11.25	11.25	11.25	11.25
Taiwan	Rediscount rate	3.500	2.000	1.250	1.000	1.000	1.000	1.000	1.000
Thailand	1-day repo rate	3.75	2.75	1.50	0.75	0.75	0.75	0.75	0.75
Vietnam	Policy rate	14.00	8.50	7.00	6.00	6.00	6.00	6.00	6.00

Fiscal policy

	2009	2010
China	Fiscal deficit to account for less than 3% of GDP, in support of fiscal stimulus packages introduced last November, including railway and other transportation infrastructure projects, public housing projects and investment tax credit.	Expansionary policy to stay in place to support growth.
Hong Kong	The giveaway from the Budget 2009-10 was smaller than last year when the government gave away most of its investment windfall. Nevertheless, if the market condition worsens, the government is likely to increase its expenditure in the interim.	In 2010-11, HK's fiscal position should still be expansionary as a number of infrastructure projects will have commenced. Total investment is estimated to be HKD25trn for the 10 projects. While it is likely that some will be offered for private tender, we believe the government will contribute part of the investment.
India	Fiscal policy in 2009 to be guided mostly by the electoral mandate of the new government (with the budget to be held in June). The fiscal stance shouldn't, but could, remain somewhat expansionary, risking a further shift away from the FRBM mandate.	The funding of some of the current government's fiscal measures, particularly the public sector wage rises, will need to be made in the 2009-10 fiscal year. Tightening measures will be required if the budget deficit is not to blow out further. There is a danger that capital spending will bear the brunt of any squeeze.
Indonesia	The Indonesian government plans to spend IDR72trn (1.5% of GDP) on infrastructure in 2009. With revenue collections suffering on account of slower growth and softer commodity prices, we look for the budget deficit to widen to 3.3% of GDP.	In 2010, with growth picking up, expect the budget deficit to tighten to 2% of GDP.
Japan	We assume real fiscal spending of 3 trillion yen in FY2009, which can be expected to boost the real GDP growth rate by 0.5ppt. The possibility of a consumption tax hike has totally disappeared due to the economic slump.	The root of the problem is the weakness of external demand. Japan's authorities will monitor the effectiveness of global fiscal stimulus, especially in the US.
Korea	The government has announced a supplementary budget with additional spending of KRW18 trillion on the top of the previous KRW31trn fiscal stimulus package, worth 4.8% of GDP. It is likely to lead to a rise in government debt, to 34% of GDP in 2009 from 29% in 2008.	With tax cuts continuing into 2010 and a gradual economic recovery, a balanced budget is unlikely in 2010, suggesting that gross public debt will remain above 36% of GDP in 2010.
Malaysia	Having outlined a fiscal package worth 1.3% of GDP last November, a much bigger stimulus, equivalent to 9% of GDP, was announced in March. This covers both 2009 and 2010 and is extremely wide-ranging.	With the budget deficit heading rapidly towards double digits as a percentage of GDP, any further stimulus could prove counter-productive. In any case, it will hopefully prove to be unnecessary.
Pakistan	The government will have to rein in expenditure: without significant reform of the tax system and with privatisation receipts drying up, the need for more prudent fiscal management will become more apparent, forcing politicians to tighten their belts.	Fiscal consolidation will have to endure, which means further caps on spending and efforts to mobilise government revenues. The fiscal sector should thus remain a drag on overall GDP growth, provided the government heeds the need for further consolidation of its accounts.
Philippines	Fiscal consolidation is likely to grind to a halt as slowing growth reduces revenues, and, as the 2010 presidential election approaches, pressure for more spending rises. Much emphasis will be on domestic and multilateral borrowing to finance the widening fiscal deficit.	Following elections in Q2, government spending should fall once more before the incoming administration draws up new spending plans. The deficit will therefore remain largely unchanged over the previous year as new officials take the reins.
Singapore	The January budget saw a huge 8% of GDP fiscal stimulus package, focusing on preserving jobs, helping the unemployed, cutting business costs and boosting infrastructure spending.	Assuming the economy is back on track, then a more neutral budget is to be expected for 2010.
Sri Lanka	The government has announced a fiscal stimulus package worth 0.5% of GDP, paltry in the regional context. However, it is understandable given limited fiscal space as the budget deficit and debt levels are already elevated. Overall, we look for the budget deficit to widen to 8% of GDP, as the government's current focus is winning the war rather than fiscal consolidation.	With the formal war most probably over by 2010 and some improvement in growth, we expect the budget deficit to tighten to 7.5% of GDP. However, reconstruction work in the liberated areas means only a marginal improvement in the fiscal position.
Taiwan	The slowing economy and tax cuts will lower the overall revenue take of the government. A series of fiscal measures, roughly equivalent to 4% of GDP, will see the fiscal deficit deteriorate to 5.4% of GDP, approaching the -6.4% seen during the 2001 tech bust.	The infrastructure projects and stimulus packages through 2010 are likely to put further pressure on the overall fiscal balance. However, a gradual recovery in the economy will raise government revenue and provide some cushion for the deficit position.
Thailand	The new government has announced a THB300bn (3.3% of GDP) spending plan, including cash handouts, training programmes and public works. Taken together with smaller revenue collections in the face of recession, we expect the budget deficit to widen to 5.6% of GDP, comfortably the highest since at least 1980.	The government has also announced a THB1.6trn (17% of GDP) second stimulus package for 2010-12 oriented towards infrastructure, which it believe will boost GDP by 5% and create 1.6m jobs over a 3-year period. Although rising growth will boost revenue collections we think the large spending plans will keep the deficit at around 5% of GDP.
Vietnam	The government has announced a USD6bn (6.7% of GDP) spending plan to support growth and generate employment. At the same time, weaker growth and lower crude oil prices mean less revenues. Overall, we look for the budget deficit to widen to 8% of GDP.	Assuming that economic growth picks up in 2010, we think the budget deficit will tighten to 5% of GDP.

Source: HSBC

Why Asia can do better

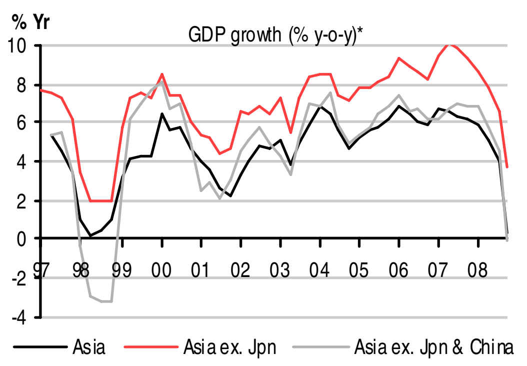
- The current Asian downturn is as bad as the 1998 crisis on some measures and Q1 GDP growth will not provide any respite either
- But all is not lost. The stimulus measures, commodity price collapse, Asia's historical experience, the longer lead indicators and China pick-up all offer grounds for hope
- Our new Asian growth model also provides reasons for optimism

Bad is not the word…

To say the Asian economies have been, and remain, weak would be something of an understatement. Chart 1 tracks weighted year-on-year GDP growth for three series – Asia as a whole, Asia excluding Japan, and Asia excluding both Japan and China. The first of these is now fractionally weaker than it was at the depth of the Asian crisis in 1998 Q3, while growth for Asia excluding both Japan and China was negative in the fourth quarter of last year for the first time since the crisis.

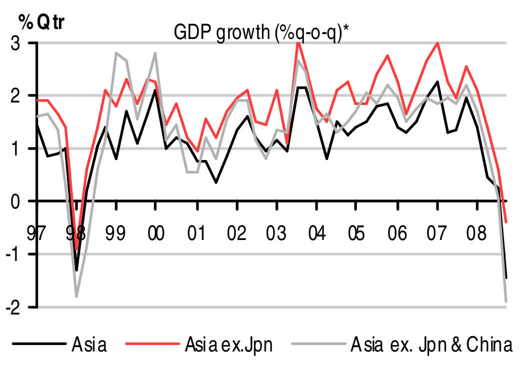
We have also calculated seasonally adjusted quarter-on-quarter numbers for the same three series, with the results shown in chart 2. This suggests that Asia as a whole saw a 1.4% quarter-on-quarter contraction in 2008 Q4, exceeding the 1.3% drop in the worst quarter of the Asian crisis in 1998 Q1. What is even more remarkable is that the sequential fall in Asian GDP, excluding both China and Japan, was also slightly bigger than at the height of the Asian crisis (-1.9% versus -1.8%), according to our calculations.

1. Asian GDP growth weaker than at depth of Asian crisis



Source: HSBC, CEIC. *Weighted up on the basis of nominal GDP at market exchange rates

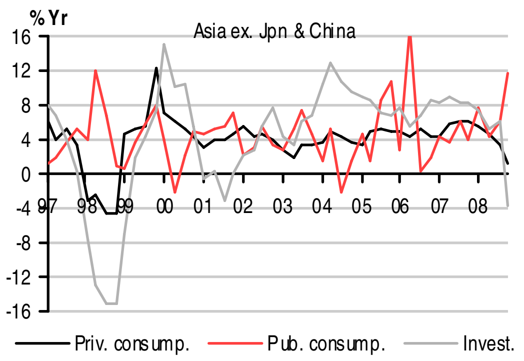
2. Biggest sequential fall in Asia ex. Japan & China GDP ever



Source: HSBC, CEIC. *Weighted up on the basis of market exchange rates

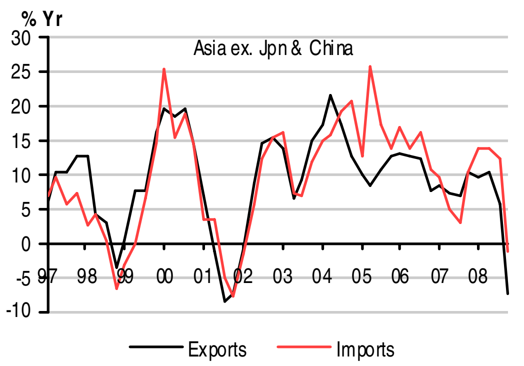
This reflects widespread weakness both across countries and in the main components of GDP, apart from public consumption (charts 3 and 4).

3. Investment growth has turned negative



Source: HSBC, CEIC

4. Export growth much weaker than imports



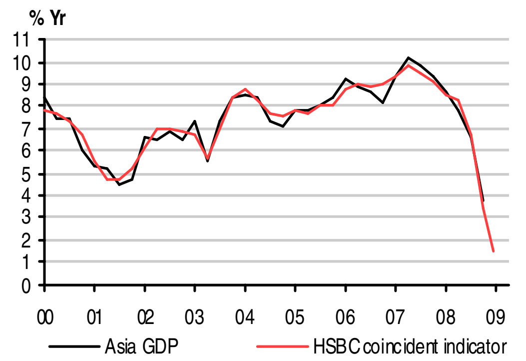
Source: HSBC, CEIC

By any standards, the region has experienced an immense, surprisingly sharp, and largely unanticipated shock. Unfortunately, it does not look to have ended in the first quarter of this year.

2009 Q1: Another disappointing quarter

Our coincident indicator of Asia ex. Japan GDP growth, which we detailed in *Asia recovery: What to look for?* (12 February 2009) points to year-on-year GDP growth slowing from 3.7% to 1.5% in 2009 Q1 (chart 5). This in turn would be consistent with a second consecutive quarter-on-quarter seasonally adjusted decline, albeit of just 0.1% (compared with -0.4% in 2008 Q4). If this is right, it would be the first back to back quarter-on-quarter contraction the region has experienced since at least the early 1990s.

5. 2009 Q1 year-on-year GDP to be even weaker



Source: HSBC, CEIC. *Excludes Japan

In the last edition of this publication we suggested that a number of factors had come together at roughly the same time to produce this extraordinary period of weakness. These include last year's massive commodity price surge, the lagged effects of earlier interest rate rises throughout the region, the highly synchronised and highly significant western world recession as well as the bursting of mini-bubbles in some Asian countries (see, for example, *Malaysia v Singapore: Down and out in South East Asia?*, 19 March 2009).

The way in which activity fell off the edge of a cliff in the fourth quarter also suggests that the Lehman Brothers collapse was a systemic shock which had a huge impact on confidence within the Asian financial sector as well on industrial and consumer sentiment. Anecdotally, credit conditions generally and the availability of trade finance in particular were tightened aggressively in the final three to four months of the year, following the Lehman Brothers crisis.

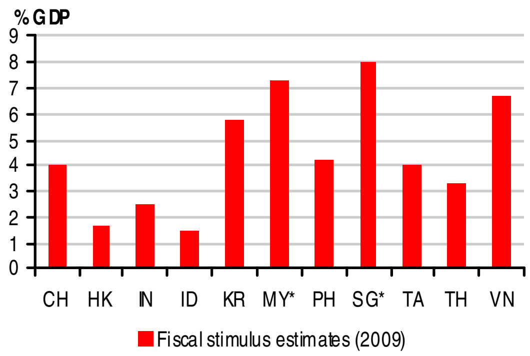
…but do not despair

Given the recent data, it is easy to despair and talk about W-, U- or even L-shaped growth patterns, as many have done. In our view, this would be the wrong reaction, as there remain good grounds for believing in a strong and fairly imminent recovery in Asia. The key reasons for optimism are as follows:

i) Fundamental supports. Until recently, oil and non-oil commodity prices had collapsed. Indeed the year-on-year change in the Commodity Research Bureau (CRB) Index showed its largest ever year-on-year fall towards the end of 2008 after the virtually unprecedented rise in the first half of the year. For commodity importers, of which the vast majority of Asian countries are, a commodity price decline effectively acts as a tax cut by boosting real incomes and profits.

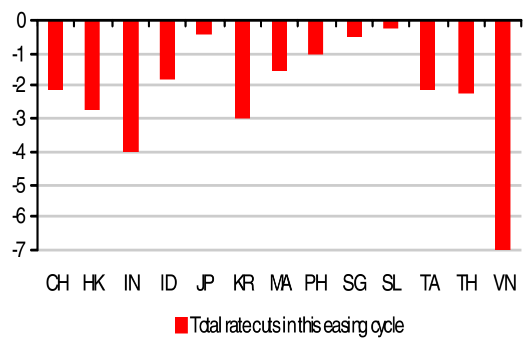
In reaction to the rapid drop in economic growth, all Asian countries have also eased fiscal policy and cut policy interest rates aggressively (see charts 6 & 7). The policy stimulus is perhaps the most aggressive and synchronised the region has ever seen.

6. Huge fiscal stimulus...



Source: HSBC. *Includes public credit guarantee schemes

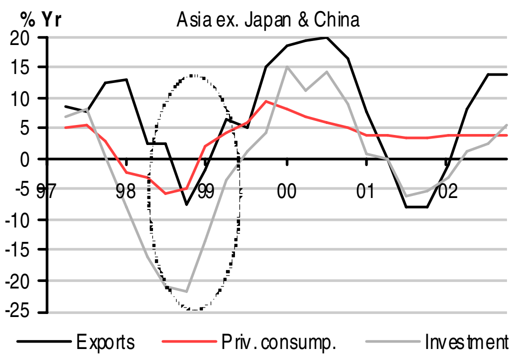
7. ...and massive monetary stimulus



Source: HSBC

ii) History. Whenever the region (or any individual Asian country) has seen a significant downturn it has subsequently enjoyed a V-shaped recovery. Although conventional wisdom has it that this is only because Asia has always been bailed out by strong growth in the Western world, this does not look to be correct. As we pointed out in *Knock-out Asia* (Asian Economics 2009 Q1), even the bounce-back after the Asian crisis was led by private consumption, with intra-regional trade picking up strongly thereafter (chart 8).

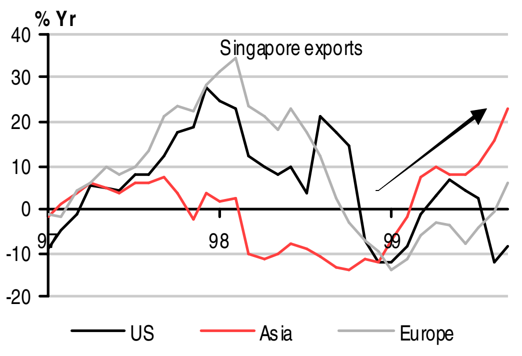
8. Private consumption led 1998-99 Asian upturn not exports



Source: HSBC, CEIC

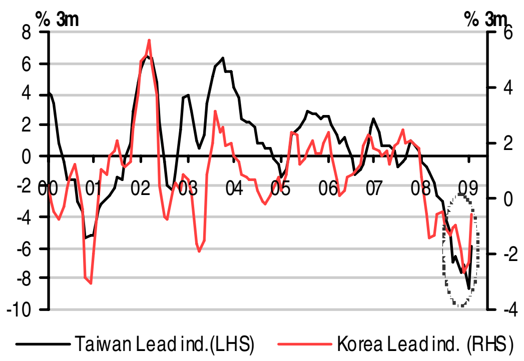
In chart 9 we have shown the development of Singapore merchandise exports in value terms to the rest of Asia, US and Europe from 1997-99 (there is no breakdown of *real* exports of goods and services by country). This shows a much stronger improvement in exports to Asia than to the western world in 1999.

9. Strong improvement in exports to Asia following '98 crisis



Source: CEIC

10. Tentative evidence of a turning point in Asian...

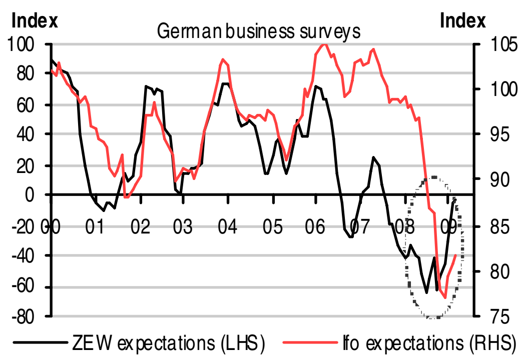


Source: CEIC, EcoWin

iii) Longer lead indicators: In *Asia recovery: What to look for?*(12 February 2009) we pointed to the fact that a couple of indicators, which have previously provided a two-year or so lead to turning points in Asian GDP growth, have been improving for some time now. These were the slope of the US yield curve, which bottomed in February 2007, and the German ZEW gap (expectations – current conditions), which hit a low in November of the same year. It should be noted that Germany is a very export dependent economy, with close trading links to Asia.

Such long term indicators need to be treated with some caution, but since publishing the report several shorter-term guides to turning points in Asian growth have also improved slightly (or, perhaps more accurately, become less bad). These include the South Korean and Taiwanese lead indicators, which we have shown in chart 10, as well as the German IFO and ZEW expectations series in chart 11.

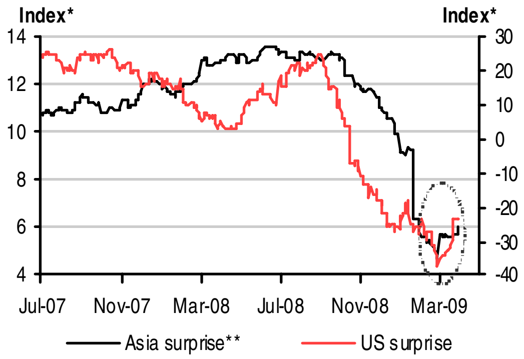
11. ...and European short-term lead indicators



Source: CEIC

Meanwhile, for the first time in months, March saw more upside than downside surprises in real economy activity indicators in both Asia and the US, as indicated by the rising lines in chart 12.

12. Asian & US economic indicators surprised the consensus on the upside in March

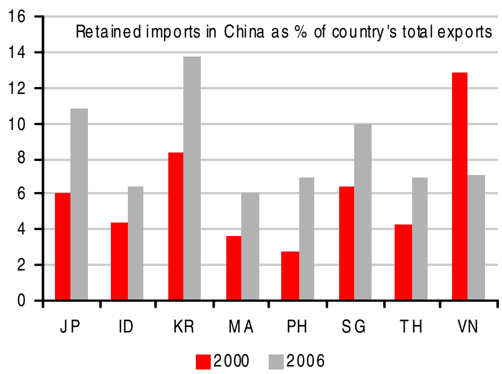


Source: HSBC Quants team. *A rising line indicates more upside surprises than down and vice versa for a falling line **Excludes China and Japan.

iv) China: Most argue that the Chinese economy is so closely tied into US (and European) consumer demand that it cannot possibly do anything but slow further. In reality, however, not only is there plenty of historical precedent suggesting this argument is wrong but there are increasing signs that China's huge stimulus package is beginning to offset the impact of declining exports.

Bank lending growth, business confidence, industrial production, Fixed Asset Investment (particularly government FAI), motor vehicle sales, electricity usage and commodity imports have all strengthened recently. Admittedly, we need to be a little careful in reading too much into data which may have been distorted somewhat by the earlier than normal Chinese New Year holidays, but the improvement in many of these series has been continuing for several months now and backs anecdotal stories of the infrastructure sector getting going again.

13. Most Asian countries unlikely to be bailed out by China



Source: HKMA, HSBC

In reality, the direct spill over effects to the rest of Asia from a pick-up in the region's second largest economy is likely to be limited. Most countries, with the exception of Japan, Korea and Taiwan, do not export that much to China and some of what they do will in any case eventually end up in the developed world. Chart 13 strips out the impact of the latter, just showing retained (by China) imports as a proportion of each country's total exports. Nevertheless, a Chinese recovery should hopefully bolster confidence, illustrating, once again, that it is possible to break away from what is happening in the western world.

The Japanese economy, which generally accounts for a slightly larger share of Asia's exports than China, is working in the opposite direction, experiencing the most remarkable drop in activity. Our Japanese economist, Seiji Shiraishi, is expecting the country's GDP to contract by 6.5% this year.

To the extent this reflects weaker domestic demand it will represent a restraining influence, but there is a danger of the argument becoming a little circular here. Japan has shown time and again that it simply unable to generate a decent self-sustaining domestic recovery without strong support from exports. In other words, if China does continue to recover and the rest of Asia joins in then exports will start to improve and, hopefully, so will Japanese domestic demand. Seiji has also pointed to a close relationship between Japanese exports (and hence GDP) and the US ISM manufacturing new orders series. The latter, although still below 50 and hence consistent with contraction, has risen 18 points to 41.2 in the last three months (to March).

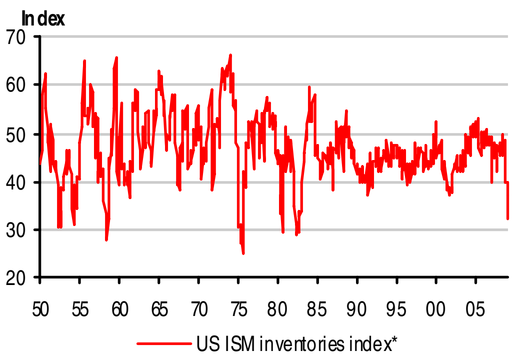
What about inventories?

Many have touted a potential turnaround in the inventory cycle as a likely boost to growth in the region. But while this seems intuitively plausible the quality of Asia's inventory data makes it difficult to be that precise.

Outside of Japan, only Korea and Taiwan publish inventory and shipment figures, but the ratio of the two has never been a good lead indicator of industrial activity. For what it's worth, inventories have fallen in both countries but not as much as shipments. Hence the ratio has continued to deteriorate although the pace of deterioration has at least now eased somewhat.

Another exercise we conducted was to examine inventory trends in the US, where the data is much better. This shows sizeable inventory declines over recent quarters, particularly in the retail sector. Meanwhile, the inventory component of the US Institute of Supply Management (ISM) manufacturing index is close to levels where we have seen strong improvements in the past (chart 14), although admittedly the past is not always a good guide to the future.

14. US inventories close to the bottom?



Source: EcoWin. *A number below 50 points to an inventory contraction and vice versa for a number above 50

Quantifying the fundamentals

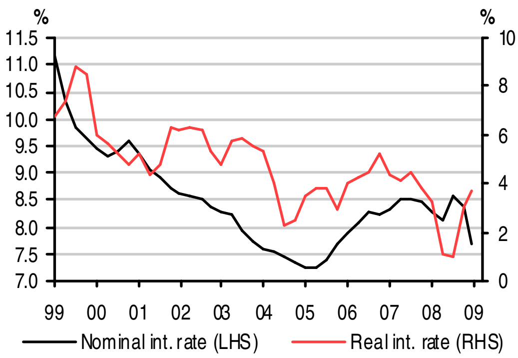
So far, we have simply asserted that the combination of lower commodity prices and huge fiscal and monetary easing will deliver stronger growth. But it is useful to try and be more precise about the timing and magnitude of these effects on Asian economic growth. Inevitably any such analysis has to be based on historical experience, which may not be valid this time around given the unprecedented nature of the current downturn. It is, however, a useful starting point.

Our approach was to estimate a regression equation to explain quarterly Asian GDP growth, excluding both China and Japan, in year-on-year terms from the beginning of 1999. We tried a range of explanatory variables, with the most important being exports, oil and non-oil commodity prices, the real interest rate, the structural budget deficit and the equity market. All the relevant series were weighted up on the basis of nominal GDP levels converted to US dollars using market exchange rates.

Before detailing the results, it is worth making some observations about a couple of the variables we used.

The **interest rate** series was not the average policy rate but commercial bank lending rates. This was designed to give us a better guide as to how much of the policy rate cuts banks have actually passed on and hence how much the private sector is actually paying to borrow. In order to generate the real interest rate, we subtracted the year-on-year change in the GDP deflator from the nominal rate. Both the nominal and real rate series are shown in chart 15.

15. Nominal bank interest rates have only fallen slightly

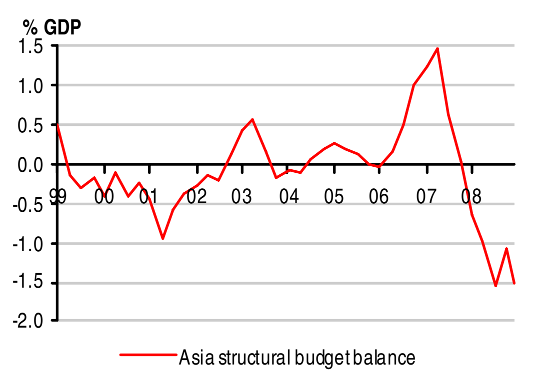


Source: HSBC, CEIC

Interestingly, the nominal rate has only fallen by about 75bp since its high in 2008 Q3 – in other words much less than the 2ppt average drop in policy rates. In part this is likely to reflect the normal lag between the rates, although heightened caution on the part of commercial banks has probably also played a role. The drop in the real rate from 5.2% in 2006 Q4 to 1% in 2008 Q3 has been much more dramatic, although it has since moved higher given the fall in inflation. Both series are comfortably below their long-term averages at present.

We calculated the **structural budget deficit** by taking the residual from an equation explaining the headline budget deficit on the basis of GDP growth and interest rates. The results are shown in chart 16, with a rising line indicating an underlying fiscal tightening and a falling line pointing to a fiscal easing. What is intriguing is that it suggests that Asian governments have been easing fiscal conditions pretty much continuously since the middle of 2007, no doubt in response to the upside commodity price shock. The pace of easing will presumably increase in 2009 if the various governments are true to their budgetary promises.

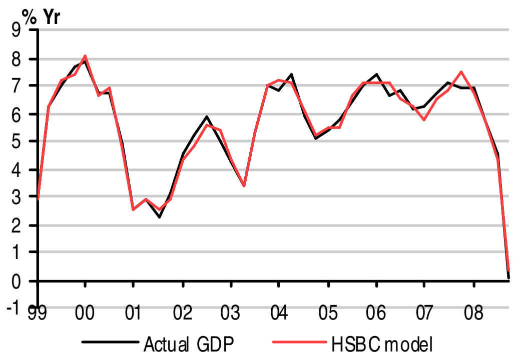
16. Fiscal policy has been eased continuously since 2007 Q3



Source: HSBC

We have shown the fit of our GDP growth model, which has an R-squared of 0.98, in chart 17. Clearly it is extremely tight, although this partly reflects the fact that we have cheated in a sense by using contemporaneous export growth as an explanatory variable. We also incorporated the year-on-year change in Asian equity prices, again in contemporaneous form. This is not likely to pick up wealth effects (we have a lagged equity term in the equation to do that) but rather the influence of confidence – something which we suspect is key to understanding the current downturn in particular.

17. Asian growth model has explained the past very well



Source: HSBC

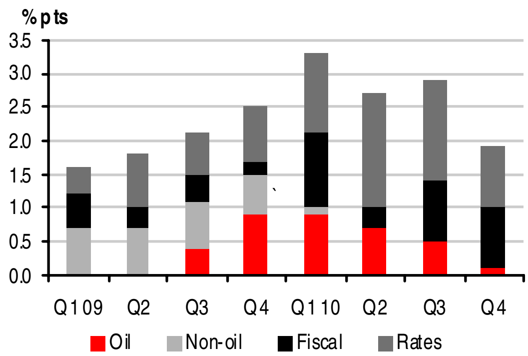
As such, this makes the model less useful for forecasting purposes, but there are still plenty of important points to come from it:

- There are no lags of export growth in the equation, while there are plenty of other series that are important in the equation. This supports our long-held view that the significance of external demand as a driver of domestic growth is often overstated
- Apart from the contemporaneous term, the equity variable also enters with a 7 quarter lag, suggesting that a 10% rise in equity prices adds 0.2% to GDP growth
- Non-oil commodity price inflation operates with one-quarter lag, while it typically takes a year for oil price moves to have an impact. The latter is likely to be the result of the subsidy regime operating in several Asian countries
- We find numerous interest rate influences – both real and nominal (in level and change terms). The biggest effects are usually felt after two years, although there is strong evidence of shorter term impacts as well

- The change in the structural budget deficit has historically taken a long time to start impacting GDP growth – around 18 months. This is somewhat surprising to us. Typically, a 1ppt fiscal easing can eventually be expected to add 1.5% to the level of GDP

We can also use the model to estimate the potential impact on GDP growth of the oil and non-oil commodity price falls, as well as the fiscal and monetary easing measures to date. Chart 18 shows the results, which we derived by comparing what would have happened to growth, according to the equation, if the various series had not eased with what is likely to occur given what has actually happened to the four series and assuming they remain at their 2009 Q1 levels through the rest of 2009 and 2010. We have built in a 3% of GDP fiscal easing during the course of this year.

18. Estimated additions to Asian* growth



Source: HSBC. *Excluding Japan and China

According to the equation, the biggest addition to Asian (ex. China and Japan) GDP comes in the first quarter of 2010, when growth is boosted by 3.3ppt. The estimated impact of the stimulus amounts to at least 2.5ppt in each quarter from 2009 Q4 to 2010 Q3.

Two questions arise from this analysis:

1. What are the risks surrounding these estimates? If commercial banks are restricting credit availability, the interest rate effects are likely to be smaller than we are estimating. However, it is difficult to draw hard and fast conclusions in relation to this point. Anecdotally this looks to have been the case in the immediate aftermath of the Lehman Brothers collapse, but it is less clear now. What *is* apparent is that liquidity conditions are generally more than ample in the banking sector of most Asian countries, while a number of governments have introduced measures designed to encourage bank lending by promising to cover the vast majority of any losses if the loan recipient goes under. We suspect the bigger issue now is more a lack of demand for credit than a lack of supply.

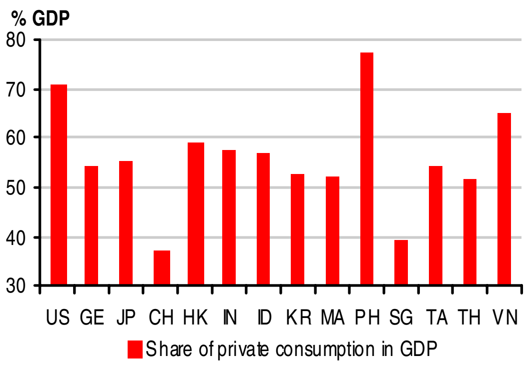
On the fiscal side, we would not be surprised if the latest stimulus measures come through more quickly than normal given the determination of governments across the region to deal with plunging growth and the implications for jobs. The quality of the fiscal measures is also high, as the money is not going to bail out financial institutions and there is not much in the way of tax cuts, which are likely to be saved in the current environment. In general, the main focus of the various stimulus packages is infrastructure as well as measures designed to protect employment.

Interestingly, some countries are also improving their social safety nets which could help bring down precautionary savings, thereby boosting consumption, over time. In the case of China, for example, this involves the provision of better public housing, schooling and hospitals, while Singapore has provided top-up payments to low income workers and is now giving benefits to the unemployed who attend training courses.

The key lesson likely to be taken from the current, mainly externally generated, downturn is that private consumption needs to account for a larger share of Asian GDP. However, a word of warning seems appropriate here. It is important that savings do not fall so much, particularly in the less developed Asian countries, that it becomes difficult to finance important domestic investment projects without running very large external deficits.

It is also interesting that private consumption generally accounts for around 50-60% of GDP in most Asian countries, roughly in line with developed countries such as Germany and Japan, for example (chart 19). The US ratio is, of course, higher, but almost certainly too high. Only China and Singapore really stick out as countries that have a lower-than-normal private consumption share, perhaps helping to explain the social measures being taken in these countries.

19. A need for Asia to raise the consumption share in GDP?

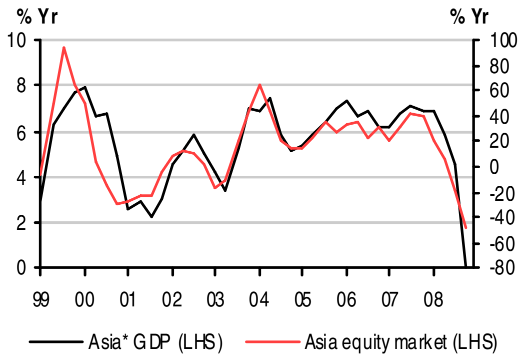


Source: HSBC, CEIC

2. Is the stimulus big enough to generate a decent recovery? We can fairly safely say that the various stimulatory developments described were not enough to prevent Asia from having a very weak Q1 in seasonally adjusted quarter-on-quarter terms. This in turn illustrates an important point – policy can be incredibly loose but if the other growth drivers are extremely negative the economy may still perform very poorly.

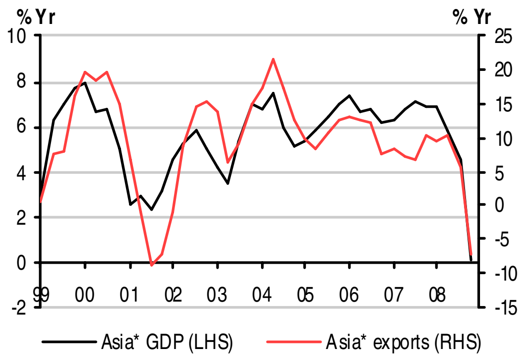
In our model, those "other" factors are effectively represented by exports and the equity market – the latter effectively picking up confidence or risk aversion effects. Chart 20 illustrates the extraordinarily close relationship between the year-on-year change in the equity market and Asian GDP growth over the last 10 years, while chart 21 shows another surprising feature – that is overall GDP growth has consistently *led* export growth rather than vice versa as many assume. The exports series includes intra-Asian export growth and could suggest that the region own domestic demand is an important driver of the region's export performance. In other words, domestic demand gets going and that in turn boosts trade within the region. If true, it undermines another conventional wisdom surrounding the determination of Asia's economic growth.

20. Equity market a great coincident indicator of growth



Source: HSBC, CEIC. *Excludes China and Japan

21. Asian exports have often lagged GDP growth!

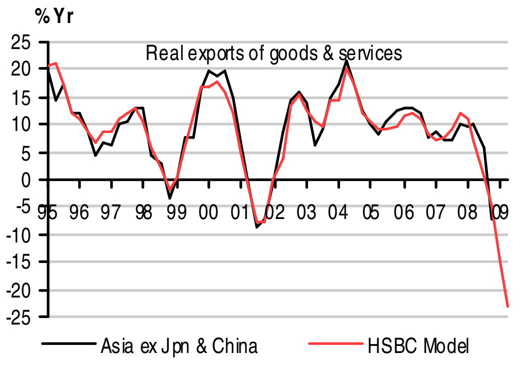


Source: HSBC, CEIC. *Excludes China and Japan

In practice, it is really anybody's guess how Asian equities will perform over coming months. But it seems hard to believe that markets will continue to fall 50% per year.

As for exports, our lead indicator model (first described in *Exports to turn* (30 July 2008) points to further sharp falls in the first and second quarters of the year. The model itself allows us to go out only to 2009 Q2, but, as we noted earlier, the impressive improvement in the longer lead indicators offers some grounds for optimism as far as the second half of the year is concerned.

22. Lead indicator model points to further export weakness



Source: HSBC

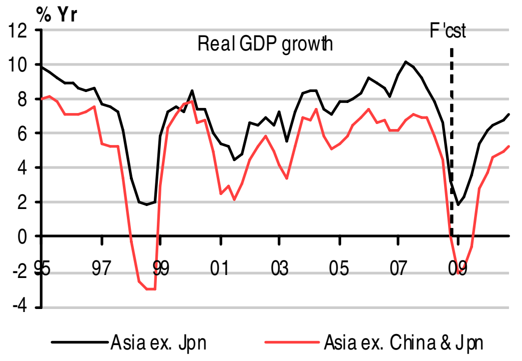
Overall, therefore, while it is hard to pinpoint whether year-on-year GDP growth will begin to pick up in Q2 or Q3 of this year, a turning point seems likely and, in our view, the pace of recovery will take many by surprise.

According to the model, even if we assume equities fall by an average of 30% in 2009 and 10% in 2010, while year-on-year export growth declines by 20% on average this year and is flat in 2010, then Asian (excluding China and Japan) GDP growth improves from 2009 Q3 and hits 5.5% in 2010 Q1.

Forecasts

Our GDP growth profile for Asia is shown in chart 23. On both measures (Asia excluding Japan and Asia excluding Japan & China) we are expecting the low point to roughly match that of the 1998 Asian crisis. For the reasons discussed, however, we are also looking for a strong bounce, albeit not to the levels of growth seen in 2005-07 and not as big as suggested by the simple model-based scenario described in the previous paragraph.

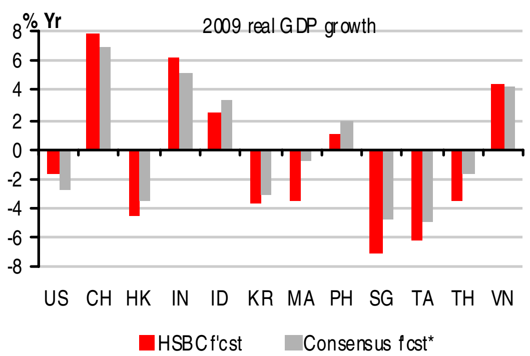
23. Bounce-back ahead



Source: HSBC, CEIC

Relative to the consensus, we continue to look for downside growth surprises for most Asian countries in 2009 as a whole, although China and India are major exceptions (chart 24). This is despite the fact that our US growth forecast is above consensus and reflects our greater gloom with regard to the likely first quarter outcome.

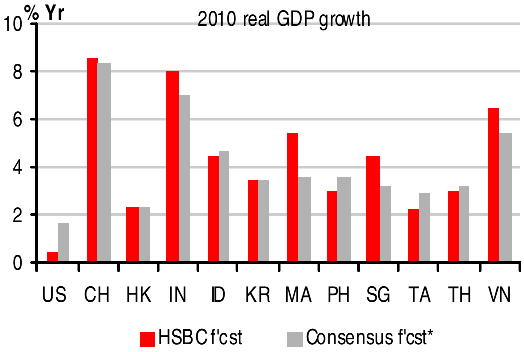
24. HSBC forecasts for 2009 generally below consensus...



Source: HSBC, Consensus Economics. *March edition

The picture is rather different for 2010, however, when we expect the majority of Asian countries to surprise the consensus on the upside despite the prospect of a disappointing US performance. In summary, we are expecting a more pronounced downturn followed by a sharper upturn than most.

25. ...but generally above consensus in 2010



Source: HSBC, Consensus Economics. *March edition

The next section will discuss some of the key risks with regard to this view.

Where the risks lie

- While a vigorous policy response and relief from falling commodity prices should fuel a growth rebound over the second half of 2009…
- …risks remain that the slump will be more prolonged than currently envisioned, especially if recovery in the West is delayed
- Here, we discuss two particular risks: unemployment and deflation, both of which could weigh on domestic demand while exports linger

One side and the other

It is important to keep the crisis in perspective. There are two drivers of Asia's downturn. First, the collapse in export demand represents a growth shock to the region, explaining much of the sudden collapse in industrial output in recent months. Second, domestic demand was already slowing sharply into the export bust as both consumption and investment responded to soaring commodity prices last year and attendant monetary tightening.

As discussed, this second driver of the current slump in growth should gradually reverse as interest rates fall and commodity prices return to their more customary levels. This will afford Asia considerable relief over the second half of 2009, providing some boost to growth, even if exports continue to linger in the face of sluggish demand from the West. In addition, a sizeable fiscal stimulus will help to spur things along, partially offsetting the drag from external demand.

Such is the broad outline of our current view on Asia's prospects. We remain optimistic about the region's ability to rebound to relatively robust growth rates next year, not least because financial systems have suffered few of the structural dislocations experienced elsewhere. Still, risks to this outlook remain, and we highlight two in particular that may derail Asia's expected return to relative economic health. The first risk is that a relentless rise in unemployment will put a dent in consumption, via outright income losses or via wage pressures more generally among those still holding jobs.

The second big risk is that faltering demand globally will drag down manufactured goods prices, leading to a plunge in profits for Asian economies in particular, which in turn will weigh on investment. While we are not prepared to call for outright deflation across the region quite yet, we emphasise the distinct possibility that core prices may come under increasing pressure, which will eventually hurt corporate profitability, reduce investment, and could spark further lay-offs. More aggressive monetary measures may therefore be needed at some stage, although we expect outright quantitative easing, if at all, not before 2010.

Those dreaded memories

A key risk for Asia, evidently, is that mounting job losses could amplify second round effects from plunging exports, thereby curtailing the expected recovery in private consumption and growth more generally. Fears of this effect sit deep in Asia. There is evidence that the jobless rate surged during the Asian Financial Crisis, even if this was not always reflected in the hard statistical data. In addition, there are also indications that real wages declined substantially in some countries, with the concomitant effects on household spending.

Charts 1 and 2 tell the story. However, bear in mind that the data may not be entirely accurate: most Asian economies have notoriously poor labour market statistics, reflecting in part the fact that welfare and unemployment insurance schemes remain underdeveloped, reducing the incentive to collect systematic and reliable data. Also, informal job arrangements still dominate in much of Southeast and South Asia, as well as in China, with official data possibly underreporting job losses and gains across sectors, especially those geared towards domestic demand.

In sum, the overall impact of the Asian Financial Crisis on the labour market may have been larger than official numbers suggest. These caveats are also important to keep in mind when analysing recent employment trends and the risks for another surge in joblessness across Asia in the wake of the current financial crisis in the West.

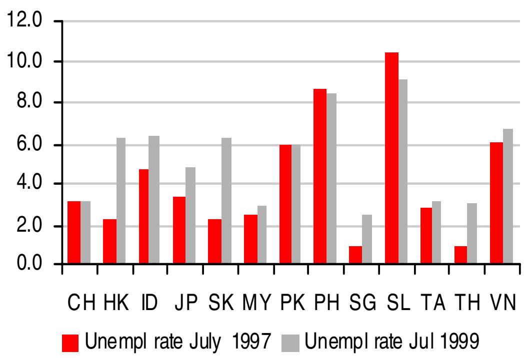
As the charts below show, during the Asian Crisis, Hong Kong, Indonesia, Korea, Singapore, and Thailand saw the biggest rise in the jobless rates. Real wages also fell rapidly during the depths of the crisis, an often-cited reason why domestic consumption slowed so sharply. Still, it is important to remember that the decline in real wages was largely due to soaring inflation, itself a response to the collapse of exchange rates. In fact, official data suggests that employment actually rose in Indonesia in 1998, although this is hard to reconcile with the rising unemployment rate.

This cursory look at the Asian Crisis suggests that economies in the region have experienced large-scale job losses before, although we should also point out that rising unemployment didn't in the end prevent a rather swift recovery in household spending. Also, there are key differences between the Asian Crisis and the current episode, which lead us to suspect that unemployment rates may not rise quite as much this time around. Moreover, the impact on private consumption may be more muted now, in turn helping to curtail job losses.

A different hit

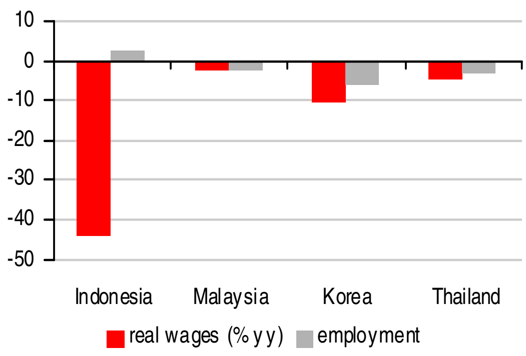
The first crucial difference between the current episode and the Asian Crisis is that the hit is now largely coming via the export sector, with the cyclical downturn in domestic demand likely abating over the coming quarters, with falling raw commodity prices and various stimulus measures.

1. Unemployment rates rose during the Asian Financial Crisis



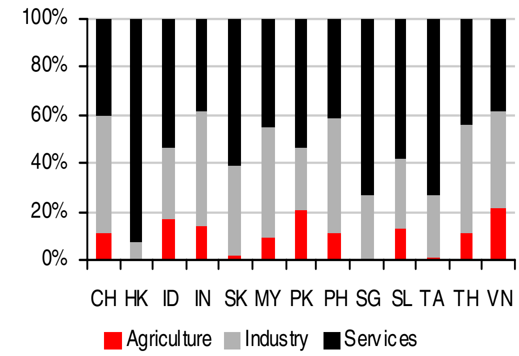
Source: CEIC, World Bank

2. Labour market impact of Asian Financial Crisis (% y-o-y, 1998)



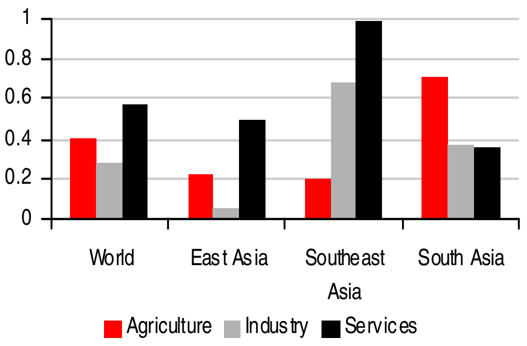
Source: World Bank

3. Sectoral share of GDP 2008 (%)



Source: CEIC, HSBC

4. Estimated job elasticities across sectors and regions

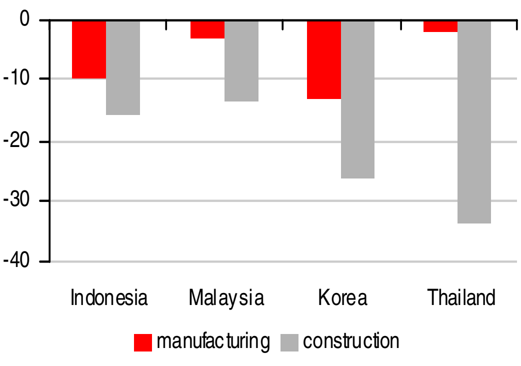


Source: ILO

During the Asian Crisis, the reverse was true: whereas the rapid depreciation of currencies led to a swift recovery in exports, it was investment and consumption that bore the brunt of the dislocation in domestic financial systems.

This time around the opposite is true. Exports can essentially be ruled out as a source of growth for the time being – at least as far as shipments to the West are concerned; the West still takes in just under half of the region's exports, and possibly more if one accounts properly for re-exports and supply-chain trading. But domestic demand, as we frequently argued, should hold up far better than during the Asian Crisis.

5. Construction jobs hit most in Asian Crisis (% y-o-y, 1998)



Source: World Bank

The relative importance of the export and more domestically oriented sectors for employment, and their relative susceptibility to job losses, is hard to gauge given the lack of data. But the common notion that the export sector is highly labour intensive, and that job losses this time around might therefore exceed those during the Asian Crisis, is perhaps somewhat misleading. In fact, one of the most labour intensive sectors is construction, which should hold up relatively well this time because of the huge public spending packages.

Indeed, the widespread job losses during the Asian financial crisis suggest that the domestic sector is hugely important for overall employment in Asia. The sensitivity of employment to growth tends to be greater in the service than in the industrial sector. Chart 4 shows the percentage change in employment in response to a percentage point change in growth in a particular sector (or so-called elasticities).

Of course, the trouble with this analysis is that growth in industrial value added is historically more volatile, so that total job losses and gains may still exceed those in the service sector. Nevertheless, it is worth noting that services comprise the bulk of Asian GDP and that employment is rather more sensitive to changes in growth in the service than the industrial sector. Since the former is bound to remain more stable this time around than the latter (as opposed to the Asian Crisis), the overall employment impact may also remain a little more muted.

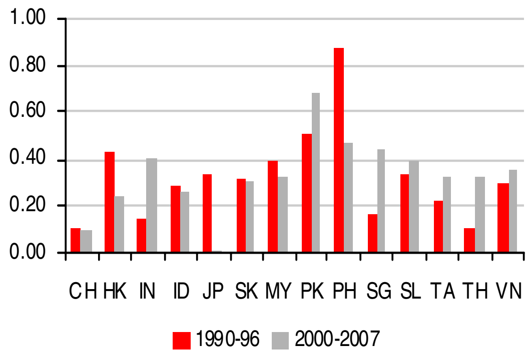
The second difference with the Asian crisis plays to a similar point. As argued in the first chapter, the fiscal stimulus measures planned for the coming year are larger than anything seen before. During the Asian Crisis, many governments ran indeed large fiscal deficits, but it is important to keep in mind that these were largely aimed at cleaning up banks' balance sheets. This time around, extra spending and tax cuts are squarely aimed at boosting domestic demand, with emphasis on job preservation and generation.

A third big difference this time around is that price pressures are not nearly as large. This, to be sure, is more of a consumption story, but with spending holding up better over the current bust, this should also help to sustain employment in domestically oriented sectors. As noted earlier, the dramatic fall in real wages during the Asian Crisis, was largely a reflection of soaring inflation, which ultimately knocked out household spending. In the current environment, price pressures are hardly a problem and, if anything, consumers and firms are seeing considerable relief from falling commodity prices, although this is not to say that deflationary pressures in the manufacturing sector will not ultimately weigh on profits, investment, and, hence, end up pushing unemployment higher.

Putting numbers to it

Estimating the exact size of job losses over the coming year and next is a tricky affair, not least because the relative sectoral impact in the current crisis is difficult to gauge. However, we made an attempt to get an idea of the overall size of job losses across the region – generally poor labour market statistics notwithstanding.

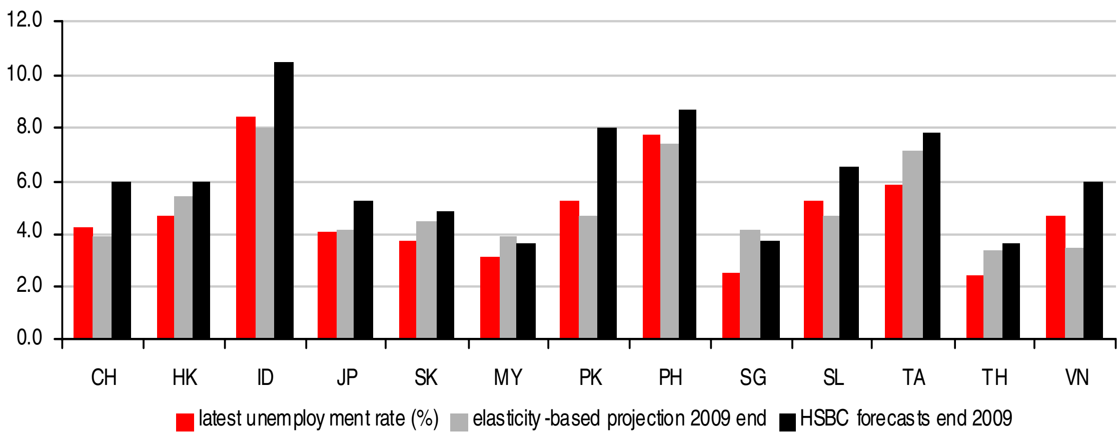
6. Employment elasticities usually higher this decade



Source: HSBC, ILO

To this end, we calculated employment elasticities based on annual data for 2000-07 which measure the sensitivity of job creation (or destruction) to economic growth. These elasticities vary widely across Asia, with China exhibiting surprisingly low job sensitivity to growth, while the Philippines and India are near the other end of the spectrum,

7. Unemployment rates set to rise across Asia, although impact varies considerably between individual countries (%)



Source: ILO, CEIC, HSBC; NB: India is left out because of lack of reliable unemployment data; 2009 projections based on 2000-07 employment elasticities and HSBC growth forecasts suggesting they are at greater risk of job losses when growth slows.

We also estimated employment elasticities for the period from 1990 to 1996, which provides a rough guide to the relative sensitivity of local job markets compared with the run-up to the Asian Financial Crisis. Employment elasticities were generally higher during this decade than the last, which suggests that a number of countries, including India, Singapore, Taiwan, and Thailand, may see a bigger impact on local labour markets during the current bust than in the Asian crisis.

Based on our own growth forecasts, which for this year still remain largely below consensus, we can then use our elasticities to estimate the impact of the slump in growth on unemployment (chart 7 shows the result of this exercise). This analysis should serve only as a rough guide, however. For one, the relationship between unemployment and growth may be subject to non-linearities, whereby an extreme fall in growth has a much more severe impact on unemployment than marginal changes in economic activity.

In addition, and as mentioned above, data quality is generally poor. In China, for example, the jobless rate is currently almost certainly higher than the official numbers suggest. Still, our elasticity-based projections provide a sense of the trend and the magnitude of changes of jobless rates in Asia, even if the absolute numbers understate the true extent of unemployment.

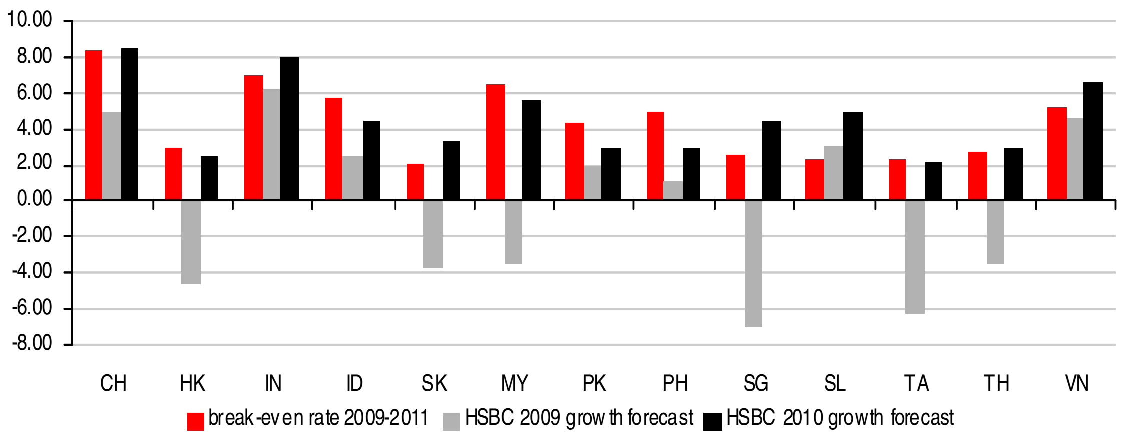
Another way to look at it

Elasticities are also useful in another way. Using data on labour force growth, we can calculate the required GDP growth rate needed to keep the jobless rate constant in Asian economies. This has the advantage that the unemployment rate itself need not be known, which allows us to include India, where no systematic jobless data currently exists, in this particular exercise.

While such “break-even” rates of economic growth do not provide a clear-cut estimate of the likely number of job cuts in Asia, they provide a sense of the severity of the problem and the relative labour market pressures in various economies due to a rapidly expanding labour force as well as plunging growth. Virtually everywhere in the region, our projected GDP growth rate in 2009 is well below the required growth rate to absorb new labour force entrants and therefore keep the jobless rate constant.

For a number of countries, the forecast 2010 GDP

8. Estimated GDP growth rate needed to absorb new labour force entrants and HSBC growth forecasts (%)



Source: US Census Bureau, ILO, HSBC

growth rate is not sufficient to offer jobs to all new labour force entrants. Here, unemployment is bound to rise further into 2010 and possibly beyond, despite a recovery in growth. In fact, a sustained period of above break-even rate GDP growth would be needed to bring unemployment rates back down to pre-crisis levels in most Asian economies. On our break-even measure, the most affected markets in Asia in terms of unemployment appear to be China, Indonesia, the Philippines, Malaysia, Pakistan, and Taiwan, although on current estimates the problem has not quite reached the proportions where an autonomous domestic demand recovery would have to be ruled out.

When prices tumble

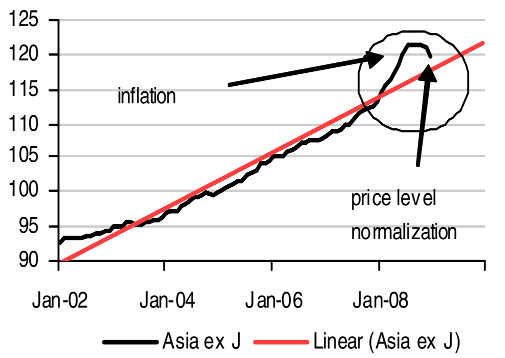
The second major risk for Asia is that more persistent deflationary pressures are taking hold. Fundamentally, deflation weighs on growth via two channels. First, falling prices raise the real burden of debt, making it harder to service liabilities as cash flow deteriorates. Such debt-deflation can have nasty consequences: firms focus on repaying their debts, rather than take out new credit to expand capacity, a phenomenon observed in Japan, for example, over the past 15 years. In addition, deflation can weigh on the asset quality of banks, making them more reluctant to extend credit.

The second channel is deteriorating profitability. If productivity gains do not outpace the drop in prices, corporations are likely to see their margins shrink. In theory, of course, firms could maintain their profits if their input costs fall as well, but since wages rarely drop as fast as prices, margins tend to suffer when deflation sets in and firms have little scope to boost their productivity.

Evidently, deflation can be a real problem, being potentially more harmful, in fact, than mild inflation (the reason why most economists tend to be more mindful of the former than the latter).

Still, deflation comes in different guises and it's important to differentiate a little. After all, Hong Kong saw prices fall for four consecutive years after the Asian Financial Crisis, even though growth and income rose steadily. Even in Japan, per capita income continued to rise even as the Bank of Japan battled to keep prices from falling. On the other hand, during the Great Depression, the sustained fall in the price level had decidedly negative effects on growth and welfare – something to be avoided at all costs.

9. Price level is reverting back to trend (index)

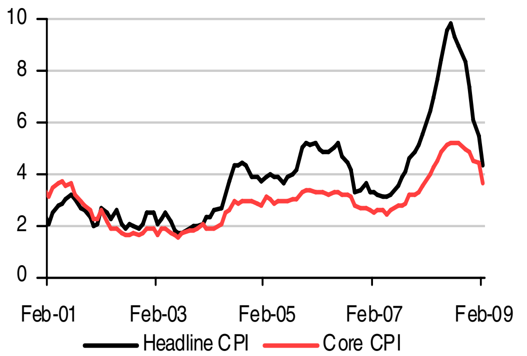


Source: CEIC, HSBC; NB: simple country averages

The first approach to thinking about inflation is to look at prices in level, rather than growth, terms. Chart 9 shows what we mean: prices tend to rise over time, but they have recently jumped well ahead of trend. The recent drop in inflation thus represents more a normalisation of the price level than outright deflation in the classic sense, and is something to be welcomed. At least for the time being, lower inflation should have a positive effect on household and even corporate purchasing power (PPIs have dropped faster than CPIs in most countries).

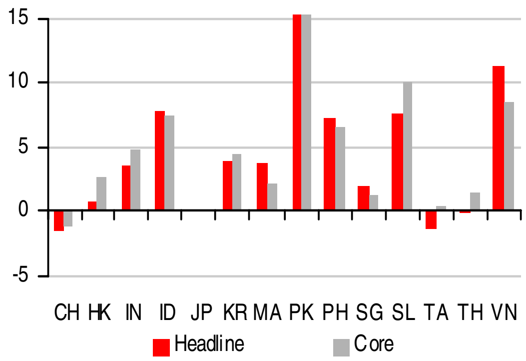
This becomes a little clearer when we look at the source for the recent slowdown in inflation. In essence, this is an energy and food story, with the normalisation in raw material costs helping to stabilise the price level. Since most Asian economies are net importers of crude, for

10. Headline inflation coming down faster than core (% y-o-y)



Source: CEIC, HSBC

11. So far, negative CPIs in three countries (latest, % y-o-y)



Source: CEIC, HSBC; NB: Pakistan capped at 15% for representational purpose

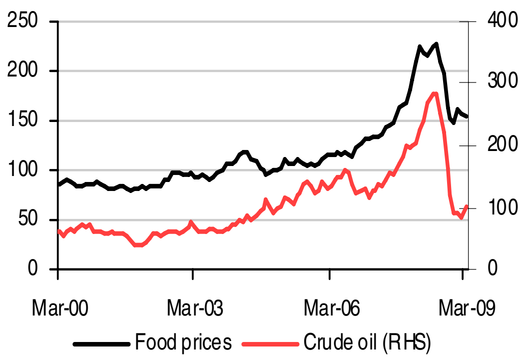
example, the drop in oil prices amounts to substantial savings on the nation's oil bill. For food, the issue is a little trickier since a lot of it is produced locally and falling prices amount to a redistribution of income within economies, rather than a net gain for the country as a whole. However, given that soaring food costs had disruptive effects on urban consumption in Asia, the normalisation of such prices should help stabilise household spending in the short term.

The trouble with this argument, however, is that once the benefits of normalising food and energy costs have run their course, a much more malign form of deflation might set in, one that would especially hurt Asian economies. Manufactured goods prices may begin to tumble if massive overcapacity in the region, especially in the export sector, is not adequately met by final demand growth, either in the West or domestically.

As chart 10 shows, headline inflation has so far fallen faster than core inflation, which underlines the positive effect of the current phase of price level normalisation. However, core inflation also tends to be rather sluggish, responding only with a long lag to changes in overall demand conditions. There is therefore a good chance that core prices will drop much further, which would ultimately begin to cut into the profitability of producers.

Another potential problem, apart from core goods price pressures, is that raw material costs may not fall by quite the same degree. In fact, indices of both food and oil prices have picked up a little in recent weeks. Structural obstacles in both sectors may prevent prices from falling further: in the energy sector the global credit crunch may harm investment activity, while in the agricultural sector reports persist that environmental degradation, as well as other structural factors, is pointing to potential bottlenecks in supply.

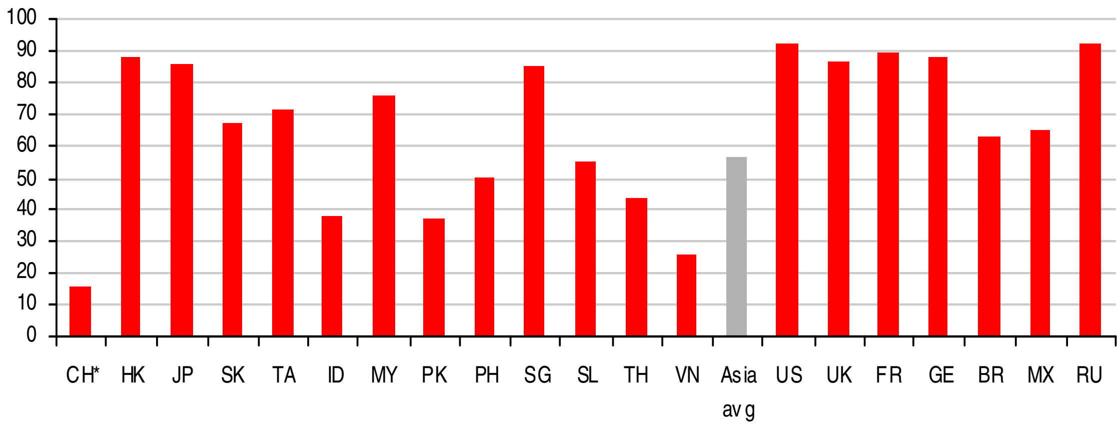
12. Food and crude price indices (January 2005 = 100)



Source: HSBC, CEIC, Reuters; crude refers to WTI, food prices to economist food price index

Unlike in previous episodes, therefore, input costs may not continue to drop as sharply as those for final goods, which would ultimately harm profitability in the manufacturing sector and, on top of limited credit availability, restrain investment spending. Indeed, as we have

13. Share of formal salary and wage employment in total employment (%)



Source: ILO, HSBC; NB: * for China: ratio of employees to total employment, India unavailable; Asia average for Asia ex Japan

previously highlighted, structural changes in the global economy since about 2004 have led to a faster rise in headline vis-à-vis core inflation, the latter failing to act as a statistical attractor of the former. While global demand continued to rise at a healthy pace, and productivity gains kicked in, this effect remained largely overlooked, having had only a marginal impact on the profitability of producers. Now, however, there are real risks that goods deflation could become a real problem, especially if non-core prices do not fall by equal measure from here on out.

This, evidently, is quite a bleak scenario. But there are also some countervailing forces that may blunt the impact of sticky raw material prices on corporate profitability. For one, while overall world demand may continue to decline, we need to be mindful of the shift in the composition of demand. Massive government pump priming, for example, will tilt spending towards infrastructure, green energy projects, and even health care and education. This may benefit producers, and prices, in these particular sectors. Elsewhere, in consumer electronics for instance, or in sectors tied to transportation equipment, suffering end-demand and an evident overhang of capacity will exert powerful downward pressures on prices and profitability for some time to come.

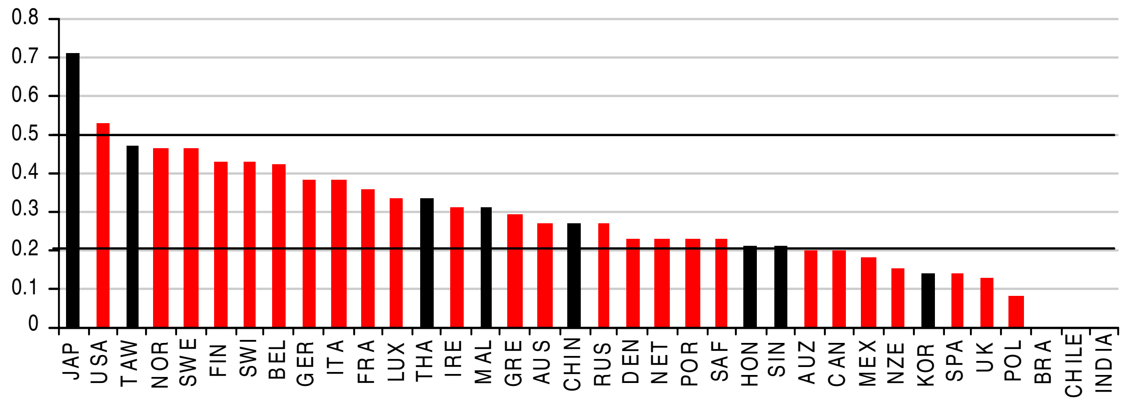
14. Collective bargaining coverage 2007 or latest

China	51-70%
Korea	less than 15%
India	15-50%
Asean-5	less than 15%
Eurozone	above 70%
UK	15-50%
Brazil	less than 15%
Russia	above 70%
US	less than 15%

Source: ILO; NB: Eurozone is simple average

Second, as far as Asia is concerned, job markets are somewhat more flexible than elsewhere, even if the region exhibits huge variations on this count. Relative to Europe or even Latin America, for instance, the share of official salaried workers in respective labour forces is rather low, with most job arrangements being rather informal. Also, collective bargaining coverage is generally below levels seen elsewhere. This, at the margin, will allow producers to reduce wage costs much more rapidly than in other economies and helps to protect profitability. Of course, in the short term, this will be a clear negative for aggregate consumption, but it should help economies in the region to adjust a little more rapidly than other countries.

15. Deflation risk index: 0 = no risk, 1 = high risk, projected deflation risk for 4Q 2009



Source: IMF; see Joerg Decressing and Douglas Laxton: Gauging Risks for Deflation, January 28, 2009, IMF

The third advantage that Asia currently has is that leverage in the region is relatively low. Going into this crisis, firms carried comparatively little debt, especially in the export sector after years of record profits and lingering caution subsequent to the Asian Financial Crisis, which exposed the dangers of excessive leverage. This, in fact, also explains why the region's banks are generally in a more comfortable position than their peers in the West, with loan to deposit ratios usually well below one. Anecdotal evidence abounds, for instance, that a number of small manufacturers in southern China have closed up, but that these firms carried very low debt, leaving banks' balance sheets relatively unaffected so far.

Nevertheless, the risk of sustained manufactured goods price deflation remains real, especially in light of significant over-capacity in sectors like electronics, transportation equipment and steel. For the moment, however, we suggest that the issue might better be approached as a story of relative price changes, rather than a sustained fall in the overall price level, with sectors suffering from major overcapacity or direct exposure to private investment in the West being most at risk.

To gauge the relative risk of deflation in Asia, the IMF conducted a useful exercise, compiling a summary index of various indicators traditionally associated with deflation. These include the output gap, price indices, money supply growth, and asset price trends. Usefully, the index allows us to gauge both the relative risk of deflation between countries and the absolute risk of deflation for individual economies. A reading below 0.2 signals minimal risk for deflation, while anything above 0.5 indicates higher risk.

On this measure, both Japan and Taiwan appear at considerable risk of deflation, while other markets in Asia are in the middle of the pack. Our own country forecasts for headline inflation match these findings, although we stress that they are contingent on domestic demand reviving over the second half of 2009. If our forecast rebound does not materialise, deflation pressures will inevitably mount much more rapidly.

What to do about it

The key question, of course, is what should officials do if deflation indeed takes hold? The standard recipe is quantitative easing, or expansion of base money supply, a policy which is now being explicitly adopted by the Bank of England, the Federal Reserve, and the Bank of Japan, and, at the time of writing, it appeared as if other developed world central banks were about to follow down the same path.

16. HSBC headline inflation forecasts and central bank targets in Asia (% y-o-y)

	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	2008	2009f	Target	2010f	Target
CH	5.3	2.5	0.4	-0.8	-0.6	0.1	0.4	0.7	8.9	-0.2	1.7	0.8	1.7
HK	4.6	2.3	2.2	0.6	1.0	2.6	2.6	1.2	2.0	1.6	N/A	1.0	N/A
IN	9.0	10.2	9.5	7.5	6.0	5.0	4.8	4.5	6.5	6.9	4.7	4.7	4.7
ID	12.0	11.6	8.6	6.2	3.9	4.9	7.1	7.9	5.3	5.8	5.2	8.0	5.2
JP	2.2	1.0	-0.4	-1.3	-2.1	-2.0	-1.4	-1.1	0.5	-1.4	N/A	-1.0	N/A
KR	5.5	4.5	3.9	3.4	3.0	2.6	2.2	2.7	0.9	3.2	2.8	3.2	2.8
MA	8.4	5.9	3.5	1.3	-1.7	0.5	2.5	2.8	8.4	0.9	2.7	2.8	2.7
PK	24.5	24.3	20.0	17.2	11.8	6.8	8.0	8.0	0.5	14.0	N/A	8.0	N/A
PH	12.2	9.7	6.5	3.8	3.0	3.8	4.3	4.6	4.5	4.3	3.5	4.5	4.5
SG	6.6	5.4	2.1	0.3	-0.4	-0.3	1.0	1.8	2.4	0.4	1.0	1.9	1.0
SL	25.3	17.0	7.8	2.3	2.8	4.3	7.0	9.5	6.5	4.3	N/A	9.4	N/A
TA	4.5	1.9	0.1	-1.3	-1.8	-1.9	-0.7	-0.6	-0.3	-1.3	2.0	-0.4	2.0
TH*	7.2	2.7	-0.5	-2.8	-2.1	-0.1	2.1	2.6	2.5	-1.4	0.0-3.5*	2.7	0.0-3.5*
VN	27.7	23.6	14.5	6.1	3.0	6.0	8.0	9.3	7.3	7.4	7.6	9.3	7.6

Source: CEIC, HSBC; NB: *Thailand targets core inflation

Much has been written on the tools and potential effects of quantitative easing. However, a number of misconceptions appear to persist, which need to be addressed here. First, the expansion of base money in itself does not create inflation – this is an oversimplification, even if frequently repeated. Prices, ultimately, are set in goods markets and not by central bankers. Base money, in short, can only affect prices if it affects aggregate demand (and pushes it above aggregate supply capacity) at least in the short run. Over time, excess base money expansion should be associated purely with inflation, of course, but the intervening variable must always be at least a temporary change in demand.

The idea, therefore, that quantitative easing will prevent deflation hinges on the assumption that policymakers will succeed in temporarily boosting demand. This, in fact, is our baseline assumption and is why we don't forecast outright deflation across Asia, or the rest of the world for that matter. But it's still important to remember that the expansion of base money in itself does not stabilise prices if demand doesn't stabilise in the first place. Of course, fiscal policy is also being deployed along with base money expansion to lift demand and prevent deflation – but whether this operation will be successful remains to be seen.

The second big misconception concerns the potential for quantitative easing in Asia outside of Japan. First, a number of central banks, including the Bank of Korea, the Reserve Bank of India, Bank Negara in Malaysia, and the central bank in Taiwan, are frequently thought to have embarked, or being on the verge of embarking, on QE. But, so far, central banks are more likely to change the composition of their liabilities, rather than expand the overall size of their balance sheets, which is what quantitative easing is about, strictly speaking.

For example, the authorities may curtail issuance of central bank notes, reducing such obligations to the public, but at the same time pumping cash into the economy. This extra cash, in turn, may help accommodate rising government bond issuance. While this may at the surface have the appearance of quantitative easing, strictly speaking it is not: all that is occurring is that the central bank is changing the composition of its liabilities, while QE would involve an outright expansion of such.

For the time being, central banks across Asia – again with the obvious exception of Japan – are not likely to engage in outright quantitative easing this year (although India may potentially be an exception). Fleeting announcements that central banks may help accommodate the issuance of more government bonds mostly involves only a switch of central bank liabilities.

The third misconception about quantitative easing involves its effectiveness in small open economies like Asia's. As discussed, the main threat in Asia is that goods producers, especially in the export sector, will see the prices for their products dwindle. Domestic quantitative easing and the hoped for impact on domestic demand growth, therefore, in itself are hardly sufficient to support profit margins. What is also needed is that either (a) global demand revives for their products or (b) that local currencies depreciate fast enough to sustain profit margins for local producers.

The latter point highlights why decisions on QE cannot be divorced from exchange rate policy. Ultimately, its success – measured in terms of sustaining profit margins for local manufacturers – can only be assured if it also entails a fall in the exchange rate. Conversely, rapid depreciation, possibly due to further capital outflows, would make it less necessary to engage in quantitative easing. For the time being, our FX strategists maintain a fairly aggressive depreciation call for most of the region's currencies.

Whether this is enough to obviate the need for a more active quantitative easing policy remains to be seen. In this context, it is also important to recognise that quantitative easing may be achieved far more potently via an unsterilised purchase of dollars, which expands the local base money supply, depreciates the currency, and helps to replenish the central bank's dollar reserves. It's therefore not entirely clear that government bond purchases, the form of quantitative easing now adopted in the West, is the optimal option in Asia, not least because local liquidity generally remains sufficient to absorb scheduled local bond supplies.

In sum, we currently do not expect outright QE in Asian economies, although we wouldn't rule out further cash injections by central banks into local financial systems via a roll off of their maturing liabilities. Should deflation pressures persist into 2010, or become more aggravated, outright QE may indeed be on the table, although, from a local perspective, it may be more potent to expand base money supply via foreign exchange purchases.

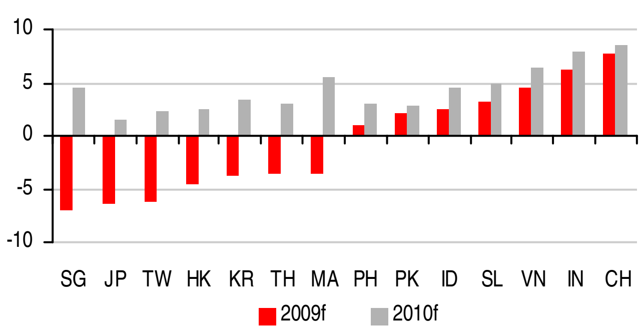
Whispers about the potential threat of competitive devaluations are already making their rounds, but, for now, we stick to our view that this is an issue to be concerned about in 2010, and we remain hopeful that at least a partial reflation of the global economy, and the growing wisdom of policymakers, will avert such a dreadful state.

GDP

(% y-o-y)	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China	8.3	9.1	10.0	10.1	10.2	11.6	13.0	9.0	7.8	8.5
Hong Kong	0.5	1.8	3.0	8.5	7.1	6.7	6.3	2.5	-4.5	2.4
Japan	0.2	0.3	1.4	2.7	1.9	2.0	2.4	-0.6	-6.5	1.6
Korea	4.0	7.2	2.8	4.6	4.0	5.2	5.1	2.2	-3.7	3.4
Taiwan	-2.2	4.6	3.5	6.2	4.2	4.8	5.7	0.1	-6.2	2.2
North Asia-ex Japan	6.5	8.2	8.1	8.9	8.6	9.9	10.9	7.0	4.4	7.0
North Asia	3.6	4.6	5.1	6.1	5.6	6.3	7.0	3.5	-0.5	4.5
India	5.8	3.8	8.5	7.5	9.5	9.7	9.0	6.7	6.2	8.0
Indonesia	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.1	2.5	4.5
Malaysia	0.3	4.4	5.4	7.3	5.3	5.8	6.3	4.6	-3.5	5.5
Pakistan	3.2	4.8	7.4	7.7	6.2	6.0	6.0	0.3	2.0	2.9
Philippines	1.8	4.4	4.9	6.4	5.0	5.4	7.2	4.6	1.0	3.0
Singapore	-2.3	4.0	2.9	8.7	8.7	8.4	7.8	1.1	-7.0	4.5
Sri Lanka	-1.5	4.0	6.0	5.4	6.0	7.4	6.8	6.0	3.2	5.0
Thailand	2.2	5.3	7.0	6.4	4.7	5.2	4.9	2.6	-3.5	3.0
Vietnam	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.2	4.5	6.5
South Asia	3.7	4.3	6.8	6.9	7.5	7.6	7.5	5.2	2.4	5.8
Asia-ex China, India & Japan	2.0	5.2	4.3	6.1	5.2	5.7	5.9	2.9	-2.4	3.6
Asia-ex China & Japan	3.0	4.8	5.4	6.5	6.4	6.8	6.8	3.9	-0.1	4.8
Asia-ex Japan	5.6	6.9	7.6	8.2	8.2	9.1	9.8	6.4	3.8	6.6
Asia	3.7	4.5	5.4	6.3	6.0	6.6	7.2	3.9	0.1	4.8

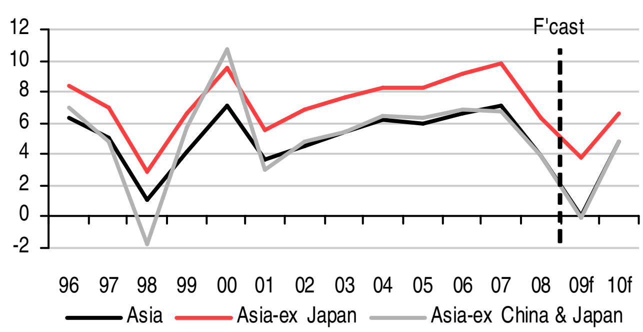
Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

GDP (% yr): Singapore, Japan and Taiwan to slow the most in 2009



Source: HSBC, CEIC

GDP (% yr): Further slowdown in 2009, with a recovery to follow in 2010



Source: HSBC, CEIC

GDP

(% y-o-y)	2008				2009f				2010f			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
China	10.6	10.1	9.0	6.8	6.5	7.2	8.4	8.5	9.0	8.7	8.9	9.1
Hong Kong	7.3	4.3	1.7	-2.5	-4.5	-4.7	-5.3	-3.7	1.5	2.5	2.5	3.2
India	8.9	7.9	7.6	5.3	5.9	5.3	5.6	6.8	6.9	7.6	7.9	8.1
Indonesia	6.2	6.4	6.4	5.2	3.2	1.6	1.6	3.5	3.3	4.2	4.6	5.6
Japan	1.5	0.7	-0.2	-4.3	-7.9	-7.4	-7.5	-3.6	0.8	1.6	2.4	1.7
Korea	5.5	4.3	3.1	-3.4	-7.7	-7.6	-3.6	4.0	3.3	3.4	3.3	3.4
Malaysia	7.4	6.7	4.7	0.1	-3.2	-5.2	-4.6	-0.8	2.8	5.3	6.7	7.2
Philippines	4.7	4.4	5.0	4.5	1.5	1.0	0.5	1.1	2.2	2.9	3.2	3.6
Singapore	6.7	2.5	0.0	-4.2	-9.1	-8.6	-7.6	-2.5	1.2	4.3	5.7	6.6
Sri Lanka	6.3	7.0	6.4	4.2	2.5	2.8	3.3	4.0	4.5	4.8	5.2	5.5
Taiwan	6.2	4.6	-1.0	-8.4	-10.2	-7.4	-5.1	-1.8	1.9	2.1	2.2	2.6
Thailand	6.0	5.3	3.9	-4.3	-5.6	-5.0	-2.6	-0.6	1.7	2.5	3.8	4.0
Vietnam	7.5	5.8	6.5	5.7	3.1	4.0	5.0	6.0	6.0	6.5	6.6	7.0

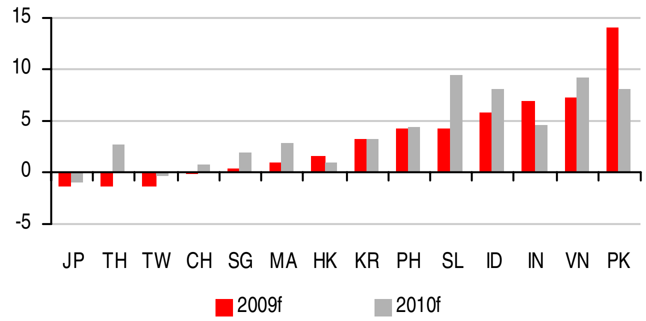
Source: HSBC

Inflation

(% y-o-y)	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China	0.7	-0.8	1.2	3.9	1.8	1.5	4.8	5.9	-0.2	0.8
Hong Kong	-1.6	-3.0	-2.6	-0.4	0.9	2.0	2.0	4.3	1.6	1.0
Japan	-0.8	-0.9	-0.2	0.0	-0.3	0.1	0.0	1.5	-1.4	-1.0
Korea	4.1	2.8	3.5	3.6	2.8	2.2	2.5	4.7	3.2	3.2
Taiwan	0.0	-0.2	-0.3	1.6	2.3	0.6	1.8	3.5	-1.3	-0.4
North Asia-ex Japan	1.1	-0.3	1.3	3.5	2.0	1.6	4.1	5.5	0.3	1.1
North Asia	0.3	-0.5	0.6	1.9	0.9	0.9	2.2	3.7	-0.5	0.2
India	4.3	4.0	3.7	3.9	4.0	6.3	6.4	8.3	6.9	4.7
Indonesia	11.5	11.9	6.8	6.1	10.5	13.1	6.4	10.2	5.8	8.0
Malaysia	1.4	1.8	1.1	1.4	3.0	3.6	2.0	5.4	0.9	2.8
Pakistan	3.2	3.5	2.9	7.4	9.1	7.9	7.6	20.3	14.0	8.0
Philippines	6.8	2.9	3.5	6.0	7.7	6.3	2.8	9.3	4.3	4.5
Singapore	1.0	-0.4	0.5	1.7	0.5	1.0	2.1	6.5	0.4	1.9
Sri Lanka	14.2	9.6	6.3	7.6	11.6	13.7	15.8	22.8	4.3	9.4
Thailand	1.5	0.7	1.8	2.8	4.5	4.6	2.2	5.6	-1.4	2.7
Vietnam	-0.3	4.1	3.1	7.8	8.3	7.5	8.3	23.0	7.4	9.3
South Asia	4.9	4.6	3.6	4.3	5.6	7.0	5.4	9.5	5.3	5.1
Asia-ex China, India & Japan	3.8	3.1	2.6	3.6	4.6	4.7	3.5	7.4	2.9	3.7
Asia-ex China & Japan	4.0	3.4	2.9	3.7	4.4	5.1	4.3	7.6	4.0	4.0
Asia-ex Japan	2.4	1.3	2.1	3.8	3.2	3.4	4.5	6.8	2.0	2.4
Asia	1.3	0.5	1.2	2.4	1.9	2.2	2.9	4.9	0.8	1.2

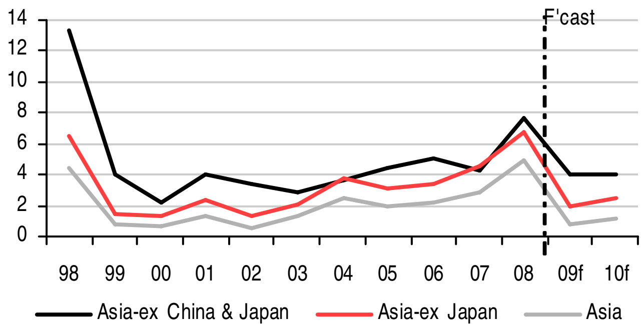
Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

CPI (% yr): Deflation in Japan, Thailand, Taiwan and China in 2009



Source: HSBC, CEIC

Inflation (% yr): Sharp deceleration in 2009, with a gradual pickup in 2010



Source: CEIC, HSBC

CPI

(% y-o-y)	2008				2009f				2010f			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
China	8.0	7.8	5.3	2.5	0.4	-0.8	-0.6	0.1	0.4	0.7	0.9	1.3
Hong Kong	4.6	5.7	4.6	2.3	2.2	0.6	1.0	2.6	2.6	1.2	0.7	-0.6
India	6.3	7.8	9.0	10.2	9.5	7.5	6.0	5.0	4.8	4.5	4.5	4.8
Indonesia	6.5	9.0	12.0	11.6	8.6	6.2	3.9	4.9	7.1	7.9	8.3	8.6
Japan	1.0	1.4	2.2	1.0	-0.4	-1.3	-2.1	-2.0	-1.4	-1.1	-0.8	-0.6
Korea	3.8	4.8	5.5	4.5	4.0	3.5	3.0	2.6	2.2	2.7	3.1	3.2
Malaysia	2.6	4.9	8.4	5.9	3.5	1.3	-1.7	0.5	2.5	2.8	3.0	3.0
Pakistan	12.4	19.3	24.5	24.3	20.0	17.2	11.8	6.8	8.0	8.0	8.0	8.0
Philippines	5.5	9.7	12.2	9.7	6.5	3.8	3.0	3.8	4.3	4.6	4.6	4.6
Singapore	6.6	7.5	6.6	5.4	2.1	0.3	-0.4	-0.3	1.0	1.8	2.3	2.5
Sri Lanka	22.1	26.6	25.3	17.0	7.8	2.3	2.8	4.3	7.0	9.5	10.0	11.0
Taiwan	3.6	4.2	4.5	1.9	0.1	-1.3	-1.8	-1.9	-0.7	-0.6	-0.3	0.3
Thailand	5.0	7.5	7.2	2.7	-0.5	-2.8	-2.1	-0.1	2.1	2.6	2.8	3.2
Vietnam	16.4	24.5	27.7	23.6	14.5	6.1	3.0	6.0	8.0	9.3	9.7	10.3

Source: HSBC

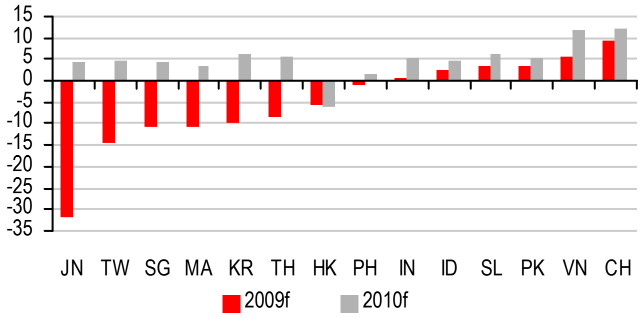
Industrial production & unemployment

Industrial production

(% y-o-y)	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China (VAI)	9.7	12.7	16.7	16.3	15.9	16.2	16.0	12.9	9.5	12.0
Hong Kong	-4.4	-9.7	-9.2	2.9	2.5	2.2	-1.6	-5.6	-5.5	-6.0
Japan	-6.8	-1.3	3.3	5.5	1.1	4.8	2.8	-3.4	-31.5	4.1
Korea	0.6	8.0	5.5	10.4	6.3	8.4	6.9	3.1	-9.6	6.0
Taiwan	-8.4	7.1	8.7	8.4	3.8	4.7	7.8	-1.8	-14.5	4.5
North Asia-ex Japan	6.3	10.7	13.3	14.2	12.9	13.6	13.2	9.5	4.0	9.8
North Asia	0.4	5.2	8.7	10.2	7.6	9.6	8.5	3.6	-12.1	7.2
India	2.7	5.8	7.0	8.4	8.2	11.5	8.5	2.5	0.6	5.4
Indonesia	3.3	5.3	5.3	6.4	4.6	4.6	4.7	3.7	2.2	4.6
Malaysia	-5.9	4.3	8.4	11.3	5.2	7.1	3.1	1.4	-10.5	3.3
Pakistan	9.4	4.0	13.3	17.8	14.9	10.7	5.5	-0.3	3.5	5.2
Philippines	2.9	3.5	4.2	5.0	5.3	4.6	3.4	4.3	-1.1	1.5
Singapore	-11.6	8.4	-30.3	13.9	9.5	11.9	5.9	-4.2	-10.6	4.1
Sri Lanka	-4.1	1.7	5.9	5.6	6.0	5.7	6.6	4.9	3.5	6.1
Thailand	2.7	9.1	14.0	11.7	9.1	7.3	8.2	5.3	-8.3	5.8
Vietnam	16.2	14.2	19.8	17.6	25.5	16.0	11.6	11.8	5.8	11.5
South Asia	1.9	6.0	5.5	9.5	8.2	9.2	6.8	2.7	-1.3	5.0
Asia-ex China, India & Japan	-0.6	5.8	4.4	9.6	6.7	7.0	5.8	1.7	-6.5	4.3
Asia-ex China & Japan	0.3	5.8	5.1	9.3	7.1	8.3	6.5	1.9	-4.5	4.6
Asia-ex Japan	4.9	9.1	10.7	12.6	11.4	12.1	11.1	7.3	2.3	8.2
Asia	0.7	5.4	8.1	10.1	7.7	9.5	8.2	3.4	-9.8	6.7

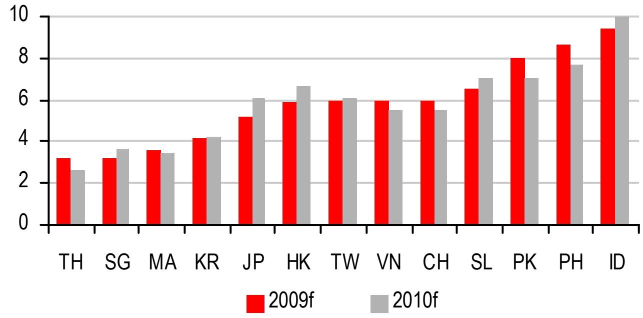
Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

Industrial production (% yr): Japan and Taiwan to slow the most in 2009



Source: HSBC, CEIC

Unemployment rate (%): Highest in Indonesia, Philippines and Pakistan



Source: HSBC, CEIC

Unemployment rate ave.

(%)	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China	3.6	4.0	4.3	4.2	4.2	4.1	4.0	4.2	6.0	5.5
Hong Kong	5.1	7.3	7.9	6.8	5.6	4.8	4.0	3.6	5.9	6.6
Japan	5.0	5.4	5.2	4.7	4.4	4.1	3.9	4.0	5.2	6.1
Korea	4.0	3.3	3.6	3.7	3.7	3.5	3.2	3.2	4.7	4.2
Taiwan	4.6	5.2	5.0	4.4	4.1	3.9	3.9	4.1	6.0	6.1
North Asia-ex Japan	3.8	4.1	4.4	4.2	4.2	4.0	3.9	4.0	5.8	5.4
North Asia	4.4	4.7	4.8	4.5	4.3	4.1	3.9	4.0	5.5	5.7
Indonesia	7.1	8.6	9.3	9.7	10.6	10.8	9.7	8.8	9.4	10.0
Malaysia	3.7	3.5	3.6	3.6	3.6	3.3	3.2	3.4	3.6	3.5
Pakistan	8.3	8.3	7.7	7.7	6.2	5.3	7.0	8.0	8.0	7.0
Philippines	10.9	11.5	11.5	11.9	8.0	7.9	7.2	7.5	8.7	7.7
Singapore	2.5	3.6	4.0	3.5	3.2	2.7	2.2	2.1	3.2	3.7
Sri Lanka	7.9	8.8	8.1	8.1	7.2	6.3	5.5	5.2	6.5	7.0
Thailand	3.3	2.4	2.2	2.1	1.9	1.5	1.4	1.4	3.2	2.6
Vietnam	6.3	6.0	5.8	5.6	5.3	4.8	4.6	5.0	6.0	5.5
South Asia	6.0	6.4	6.6	6.7	6.3	6.0	5.7	5.5	6.4	6.3
Asia-ex China & Japan	5.1	5.4	5.6	5.5	5.2	4.9	4.6	4.5	5.8	5.7
Asia-ex Japan	4.3	4.6	4.9	4.8	4.6	4.5	4.3	4.3	5.9	5.6
Asia	4.6	4.9	5.0	4.7	4.6	4.3	4.1	4.2	5.6	5.8

Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

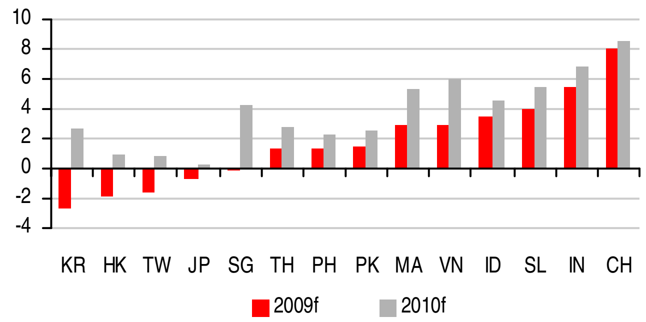
Consumption & saving

Consumer expenditure

(% y-o-y)	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China	6.2	6.2	6.5	7.2	8.5	8.7	9.0	8.9	8.0	8.5
Hong Kong	1.9	-0.9	-1.3	7.0	3.0	5.9	8.5	2.0	-1.9	1.0
Japan	1.6	1.1	0.4	1.6	1.3	1.5	0.7	0.5	-0.7	0.3
Korea	5.7	8.9	-0.4	0.3	4.6	4.7	5.1	0.9	-2.7	2.7
Taiwan	0.7	2.6	1.5	4.5	3.0	1.8	2.3	-0.3	-1.6	0.8
North Asia-ex Japan	5.5	6.1	4.7	5.9	7.3	7.4	7.8	6.7	5.2	6.7
North Asia	3.8	3.8	2.8	3.9	4.6	4.8	4.6	3.9	2.5	3.8
India	6.1	2.9	8.2	5.2	7.1	6.3	8.5	6.5	5.5	6.8
Indonesia	3.5	3.8	3.9	5.0	4.0	3.2	5.0	5.3	3.5	4.6
Malaysia	2.4	4.4	6.6	10.5	9.1	6.5	10.8	8.4	2.9	5.3
Pakistan	1.4	0.4	10.1	12.9	1.0	4.8	8.5	0.5	1.5	2.5
Philippines	3.6	4.1	5.3	5.9	4.8	5.5	5.8	4.5	1.4	2.3
Singapore	4.7	4.9	0.9	5.9	3.1	4.0	5.2	2.4	-0.1	4.3
Sri Lanka	0.4	7.5	6.5	4.7	2.6	7.3	7.0	6.5	4.0	5.5
Thailand	4.1	5.4	6.4	6.1	4.9	3.0	1.6	2.5	1.3	2.8
Vietnam	4.5	7.6	8.0	7.1	7.3	8.3	9.6	7.3	3.0	6.0
South Asia	4.5	3.7	6.6	6.2	5.7	5.3	7.0	5.4	3.6	5.2
Asia-ex China, India & Japan	3.6	5.1	2.7	4.7	4.3	4.3	5.4	2.7	0.0	3.0
Asia-ex China & Japan	4.3	4.5	4.2	4.8	5.1	4.9	6.2	3.7	1.5	4.0
Asia-ex Japan	5.2	5.3	5.3	6.0	6.7	6.7	7.6	6.2	4.7	6.2
Asia	3.9	3.8	3.6	4.4	4.8	4.9	5.1	4.2	2.8	4.1

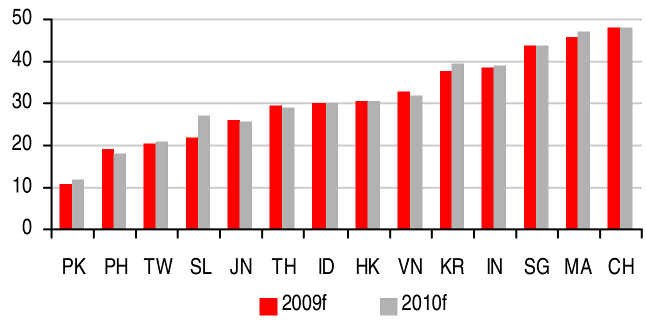
Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

Consumer expenditure(% y-o-y): China and Vietnam lead



Source: HSBC, CEIC

Saving as a % GDP: China, Malaysia and Singapore highest



Source: HSBC, CEIC

Gross saving ratios

% of GDP	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China	38.6	40.4	43.2	45.7	48.2	50.1	51.2	49.0	48.0	48.1
Hong Kong	30.1	30.7	30.4	30.2	33.3	33.3	31.0	30.4	30.4	30.5
Japan	25.9	24.5	25.7	26.7	26.2	27.1	26.5	26.0	26.0	25.5
Korea	31.9	31.4	33.0	35.0	33.2	31.5	30.8	37.6	37.4	39.3
Taiwan	23.6	25.0	25.7	26.0	25.6	27.1	29.0	26.0	20.5	21.1
North Asia-ex Japan	36.1	37.5	39.8	41.9	43.5	44.7	45.5	44.7	43.6	44.0
North Asia	31.5	31.6	33.4	35.0	35.6	36.7	36.8	36.2	35.6	35.6
India	25.3	27.1	29.3	33.8	35.1	37.0	38.1	38.0	38.5	39.0
Indonesia	30.0	25.1	23.7	24.9	27.5	28.7	28.1	30.6	30.0	29.8
Malaysia	42.3	42.3	42.5	44.0	43.5	43.4	46.2	49.1	45.7	47.2
Pakistan	20.8	22.2	17.1	14.6	13.9	14.6	10.8	7.4	10.9	11.8
Philippines	17.1	19.1	19.3	21.2	21.0	20.1	20.9	20.1	19.0	18.1
Singapore	42.0	40.9	42.0	46.8	48.7	49.9	51.7	48.3	43.7	43.7
Sri Lanka	21.5	20.3	19.5	21.6	21.6	23.7	25.7	22.0	21.7	27.1
Thailand	31.4	31.7	32.0	31.7	30.9	32.4	34.1	33.2	29.6	29.0
Vietnam	33.2	32.0	30.6	32.0	34.6	35.0	32.5	32.6	33.0	32.0
South Asia	28.5	28.5	29.1	31.6	32.7	34.0	34.6	34.6	33.9	34.2
Asia-ex China, India & Japan	30.2	29.6	29.8	31.0	31.0	31.1	31.2	32.8	31.2	31.9
Asia-ex China & Japan	28.8	28.9	29.7	31.7	32.2	32.8	33.1	34.2	33.2	33.9
Asia-ex Japan	33.6	34.5	36.2	38.5	39.9	41.2	41.9	41.4	40.4	40.8
Asia	30.8	30.9	32.5	34.3	35.0	36.1	36.4	35.9	35.2	35.3

Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

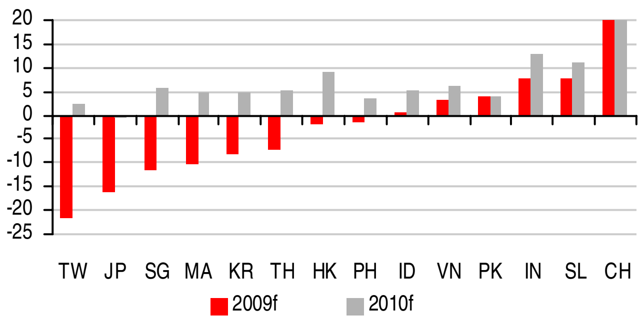
Investment

Total investment

(% y-o-y)	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China	13.0	16.9	27.7	27.6	27.2	24.5	25.8	26.1	20.0	20.0
Hong Kong	2.9	-4.6	0.9	2.7	4.1	7.1	3.4	-0.3	-1.8	9.2
Japan	-0.9	-4.9	-0.5	1.4	3.1	0.5	1.1	-4.6	-16.1	-0.5
Korea	0.3	7.1	4.4	2.1	1.9	3.4	4.2	-1.7	-8.1	4.7
Taiwan	-19.9	1.1	1.7	19.5	1.2	0.9	1.9	-10.8	-21.5	2.2
North Asia-ex Japan	8.2	13.3	21.0	21.9	20.3	18.7	19.7	17.9	11.5	15.8
North Asia	4.1	5.0	11.2	12.6	12.5	10.4	11.2	7.7	-1.0	8.4
India	4.3	7.7	9.7	18.9	17.6	14.5	12.9	9.0	8.0	13.0
Indonesia	6.5	4.7	0.6	14.7	10.9	2.6	9.4	11.7	0.8	5.4
Malaysia	-2.8	0.3	2.7	3.1	5.0	7.9	9.6	1.1	-10.3	4.8
Pakistan	-0.4	4.1	-6.1	13.5	19.9	16.0	3.4	0.5	4.0	4.0
Philippines	-13.0	2.3	3.6	1.3	-6.6	3.8	11.8	3.7	-1.4	3.6
Singapore	-3.9	-11.4	-3.2	10.2	-2.0	13.3	19.2	13.7	-11.5	5.7
Sri Lanka	-1.8	6.4	10.1	17.8	9.8	13.9	12.0	11.0	8.0	11.0
Thailand	1.1	6.5	12.1	13.2	10.5	3.9	1.3	1.1	-7.5	5.4
Vietnam	10.7	12.9	11.9	10.4	9.7	9.9	23.0	13.2	3.0	6.3
South Asia	2.1	4.9	5.8	14.2	11.8	10.2	11.1	7.8	1.7	8.6
Asia-ex China, India & Japan	-2.1	3.3	3.0	8.8	4.8	5.1	6.6	1.6	-6.9	5.0
Asia-ex China & Japan	-0.3	4.5	4.8	11.6	8.3	7.7	8.4	3.6	-2.8	7.2
Asia-ex Japan	6.2	10.5	16.0	19.3	17.5	15.9	16.8	14.5	8.3	13.4
Asia	3.6	5.0	10.1	12.9	12.4	10.4	11.2	7.7	-0.5	8.4

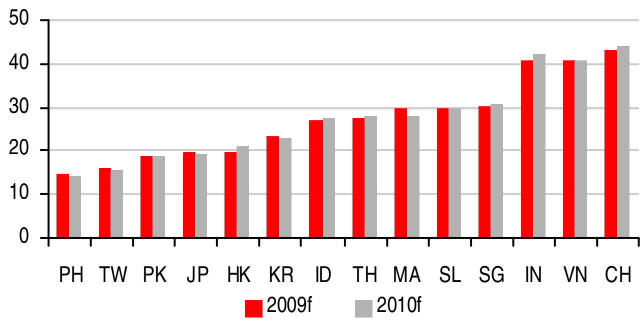
Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

Investment growth (% yr): Taiwan and Japan to fall the most in 2009



Source: HSBC, HSBC

Investment as a % of GDP: high in China; room to rise elsewhere



Source: HSBC, CEIC

Investment / GDP

(%)	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China	36.5	37.9	41.0	43.2	42.7	42.6	42.3	42.5	43.0	44.0
Hong Kong	25.6	22.4	21.2	21.3	20.9	21.9	20.1	19.5	19.8	21.3
Japan	24.9	23.6	23.2	22.9	23.2	22.9	22.7	21.8	19.5	19.1
Korea	29.3	29.1	30.0	30.4	30.1	29.8	29.4	25.4	23.4	23.1
Taiwan	18.4	18.0	18.4	22.7	21.4	21.5	21.5	21.2	16.2	15.8
North Asia –ex Japan	33.6	34.4	36.8	38.7	38.3	38.2	37.8	37.3	37.0	37.7
North Asia	29.6	29.5	30.6	31.5	31.4	31.2	30.9	30.2	29.0	29.2
India	25.6	26.7	28.1	33.2	36.8	38.4	41.1	42.0	41.0	42.0
Indonesia	22.5	21.4	25.6	24.1	25.1	25.4	24.9	27.8	27.2	27.4
Malaysia	23.9	24.0	21.6	22.7	19.9	20.0	28.6	30.6	29.6	28.1
Pakistan	17.0	17.3	15.2	16.0	17.8	19.4	18.9	18.6	18.9	19.0
Philippines	19.0	17.7	16.7	16.7	14.6	14.5	15.3	15.3	14.8	14.4
Singapore	26.4	23.6	16.0	21.8	20.2	20.1	20.7	30.9	30.5	30.7
Sri Lanka	28.0	22.0	21.2	22.1	25.0	28.7	29.9	30.0	29.9	30.0
Thailand	24.1	23.8	25.0	26.8	31.4	28.4	26.6	28.8	27.6	28.2
Vietnam	29.7	31.3	32.7	33.5	33.9	34.4	39.0	41.6	41.0	40.9
South Asia	24.1	24.1	24.7	27.4	29.2	29.9	31.6	33.6	32.8	33.2
Asia-ex China, India & Japan	24.5	23.7	23.9	25.0	25.0	25.0	25.2	25.4	23.9	23.8
Asia-ex China & Japan	24.8	24.5	25.1	27.3	28.3	28.7	29.6	30.0	28.6	28.8
Asia-ex Japan	30.5	31.0	32.8	35.0	35.3	35.4	35.8	36.1	35.6	36.2
Asia	28.5	28.3	29.4	30.7	31.0	30.9	31.1	30.9	29.8	30.1

Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

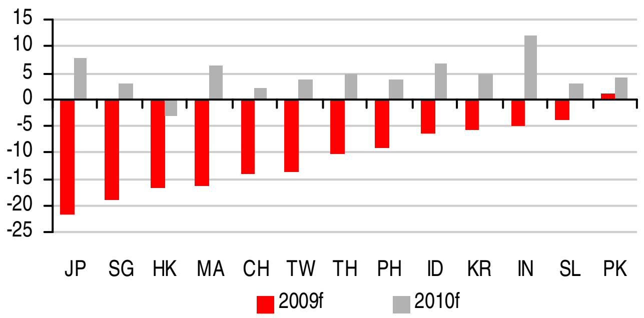
Trade

Real exports

(% y-o-y)	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China	7.5	18.0	32.0	32.0	29.0	25.0	23.8	11.2	-14.0	2.0
Hong Kong	-1.7	9.0	12.8	15.4	10.6	9.4	8.3	2.7	-16.8	-3.0
Japan	-6.9	7.5	9.2	13.9	7.0	9.7	8.4	1.7	-21.6	8.0
Korea	-3.4	12.1	14.5	19.7	7.8	11.4	12.6	5.7	-5.7	4.8
Taiwan	-7.8	10.6	10.4	14.4	7.6	10.3	8.8	-0.2	-13.7	3.5
North Asia-ex Japan	4.2	16.2	26.8	28.1	23.3	21.1	20.3	9.2	-12.7	2.4
North Asia	-0.8	12.2	18.8	21.6	15.9	15.9	14.9	5.8	-16.8	4.9
India	4.3	21.1	9.6	27.2	17.6	21.1	2.1	11.0	-5.0	12.0
Indonesia	0.6	-1.2	5.9	13.5	16.6	9.4	8.5	9.5	-6.6	6.8
Malaysia	-7.5	4.5	5.7	2.3	8.3	7.0	4.2	1.5	-16.3	6.4
Pakistan	10.0	28.4	-1.5	9.6	9.9	2.3	-8.9	-7.0	1.0	4.0
Philippines	-3.4	4.1	4.8	15.0	4.8	13.4	5.6	0.0	-9.2	3.6
Singapore	-4.0	7.2	13.7	20.6	11.7	11.7	8.7	1.3	-19.0	3.0
Sri Lanka	-5.3	6.3	5.4	7.6	5.6	4.8	5.8	4.0	-4.0	3.0
Thailand	-4.2	12.0	7.0	9.6	4.2	9.1	7.1	5.5	-10.1	4.7
South Asia	1.0	13.1	7.7	18.6	13.6	14.3	4.0	7.0	-7.5	8.2
Asia-ex China, India & Japan	-3.0	9.1	9.7	14.8	9.2	9.9	8.3	3.7	-9.4	4.3
Asia-ex China & Japan	-0.9	12.5	9.7	18.3	11.6	13.0	6.6	5.8	-8.2	6.4
Asia-ex Japan	3.2	15.2	20.6	25.0	20.1	18.9	15.0	8.5	-11.0	4.3
Asia	-0.4	12.4	16.5	21.0	15.4	15.6	12.6	6.0	-14.9	5.6

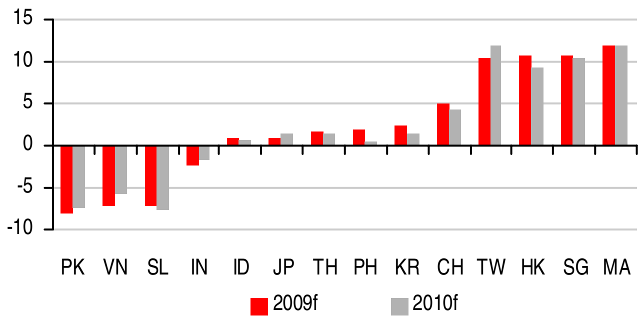
Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

Real exports (% yr): Exports to fall across Asia in 2009, but expected to bounce back in 2010



Source: HSBC, CEIC

Current account % GDP: First line of defence and not all negative



Source: HSBC, CEIC

Current account balance

(% of GDP)	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
China	1.3	2.4	2.8	3.6	7.2	9.5	11.0	8.6	5.1	4.4
Hong Kong	4.5	8.3	9.2	8.9	12.4	11.4	10.8	10.9	10.6	9.2
Japan	2.2	2.9	3.2	3.7	3.7	3.9	4.9	3.2	1.0	1.4
Korea	1.7	1.0	2.0	4.1	1.9	0.6	0.6	-0.7	2.3	1.4
Taiwan	6.5	8.9	10.0	6.0	4.9	7.2	8.6	6.4	10.5	11.8
North Asia-ex Japan	1.9	2.9	3.4	4.0	6.4	8.0	9.1	7.0	5.2	4.6
North Asia	2.0	2.9	3.3	3.9	5.1	6.1	7.2	5.3	3.3	3.2
India	0.8	1.5	1.6	0.1	-1.9	-1.1	-1.0	-3.4	-2.4	-1.6
Indonesia	4.2	3.9	3.4	0.6	0.1	3.0	2.4	0.1	0.9	0.7
Malaysia	8.3	8.4	12.8	12.1	15.0	16.3	15.6	15.7	12.0	12.0
Pakistan	3.8	5.0	1.9	-1.4	-3.9	-4.8	-8.1	-11.1	-8.0	-7.3
Philippines	1.9	6.9	0.9	1.1	2.0	4.5	4.8	2.5	2.0	0.4
Singapore	16.2	17.7	31.0	26.4	27.5	25.4	23.5	14.8	10.7	10.5
Sri Lanka	-1.6	-1.4	-0.4	-3.2	-2.8	-4.9	-4.5	-8.1	-7.1	-7.5
Thailand	5.4	5.5	5.6	1.7	-4.3	1.1	5.9	-0.1	1.7	1.4
Vietnam	2.1	-1.9	-4.9	-3.4	0.4	0.5	-10.0	-13.8	-7.2	-5.8
South Asia	3.6	4.3	4.8	2.8	1.6	3.0	2.7	-0.3	0.2	0.5
Asia-ex China, India & Japan	4.6	5.2	6.2	5.0	4.2	5.0	4.9	2.4	3.9	3.6
Asia-ex China & Japan	3.5	4.2	4.9	3.7	2.5	3.3	3.2	0.8	2.2	2.2
Asia-ex Japan	2.5	3.3	3.9	3.6	4.8	6.3	7.0	4.6	3.6	3.3
Asia	2.4	3.2	3.7	3.7	4.4	5.5	6.2	4.1	2.6	2.6

Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights

Exchange rates & interest rates

Exchange rates

(vs USD, period end)	2006	2007	2008	2009f 1Q	2009f 2Q	2009f 3Q	2009f 4Q	2010f 1Q	2010f 2Q	2010f 3Q	2010f 4Q
China (RMB)	7.81	7.30	6.82	6.83	6.80	6.80	6.80	6.80	6.80	6.80	6.80
Hong Kong (HKD)	7.77	7.80	7.75	7.75	7.80	7.80	7.80	7.80	7.80	7.80	7.80
India (INR)	44.3	39.4	48.7	50.7	54.0	54.0	54.0	54.0	54.0	54.0	54.0
Indonesia (IDR)	8,994	9,400	11,325	11,700	13,000	13,500	13,500	13,500	13,500	13,500	13,500
Japan (JPY)	118.9	112.0	90.7	100	100	105	105	105	105	105	105
Korea (KRW)	930	936	1,260	1,367	1,400	1,400	1,200	1,200	1,200	1,200	1,200
Malaysia (MYR)	3.53	3.31	3.45	3.64	3.80	3.90	4.00	4.10	4.10	4.10	4.10
Pakistan (PKR)	60.9	61.5	79.1	80.5	86.0	88.0	90.0	92.0	92.0	92.0	92.0
Philippines (PHP)	49.0	41.2	47.4	48.2	51.0	52.0	53.0	53.0	53.0	53.0	53.0
Singapore (SGD)	1.53	1.44	1.44	1.52	1.60	1.62	1.64	1.64	1.64	1.64	1.64
Sri Lanka (LKR)	107.5	108.7	113.0	115.1	120.0	122.0	124.0	125.5	127.0	128.5	130.0
Taiwan (TWD)	32.6	32.4	32.8	33.9	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Thailand (THB)	35.5	33.7	34.7	35.5	36.5	38.0	38.5	38.5	38.5	38.5	38.5
Vietnam (VND)	16,050	16,017	17,483	17,797	17,900	18,050	18,200	18,200	18,200	18,200	18,200

Source: HSBC Note: Thai baht forecasts are for onshore rate.

3-month interest rates

(%pa, period end)	2006	2007	2008	2009f 1Q	2009f 2Q	2009f 3Q	2009f 4Q	2010f 1Q	2010f 2Q	2010f 3Q	2010f 4Q
China	1.80	3.33	1.71	1.26	0.99	0.99	0.99	0.99	0.99	0.99	0.99
Hong Kong	3.90	3.45	0.95	0.90	0.85	0.80	0.70	0.60	0.60	0.60	0.60
India	8.24	8.01	8.45	7.10	6.30	6.10	6.00	5.70	5.90	6.00	6.50
Indonesia	9.50	7.83	11.98	9.25	8.00	7.75	7.50	7.25	7.15	7.05	7.55
Japan	0.55	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Korea	4.76	5.73	4.68	2.43	1.70	1.70	1.70	1.95	2.20	2.45	2.70
Malaysia	3.71	3.61	3.37	2.00	1.25	1.25	1.25	1.25	1.25	1.50	2.00
Philippines	4.84	3.67	6.12	4.50	5.00	5.00	6.00	6.00	6.00	6.00	6.00
Singapore	3.44	2.38	0.96	0.60	0.60	0.60	0.70	0.80	0.90	1.00	1.20
Taiwan	1.76	2.16	1.01	0.45	0.30	0.40	0.50	0.60	0.50	0.70	0.60
Thailand	5.25	3.85	2.95	1.80	1.05	1.05	1.05	1.05	1.05	1.30	1.80

Source: HSBC

Country profiles

China

Stimulus package starts to filter through

China exports growth collapsed to -20% y-o-y in January and February, the deepest decline since 1993. Given the deepening prolonged recession in the developed world, the picture of China's exports is likely to deteriorate in the coming months. We have lowered our full year exports growth forecast to -12% from -3%, and we now expect imports to decline 5%, given the dominant role of processing trade.

However, encouragingly, the RMB4trn stimulus package introduced last November has started to work earlier than expected, as indicated by improvement in industrial output, the decade-high growth of bank lending, and the acceleration of fixed-asset investment (FAI). Notwithstanding the credit crunch in developed market, Chinese banks lent out RMB2.69trn in the first two months, accounting for 55% of total new loans last year. This not only supported the industrial sector with more working capital to recapitalise demand, but also financed medium- and long-term infrastructure projects – the bulk of the stimulus package. We expect FAI growth to top 20% in 2009, up from our previous projection of 17.5%. Meanwhile, retails sales have slowed but are still resilient, with real growth above 15% in the first two months. Despite the worsening export outlook, we believe domestic demand is likely to receive a substantial boost as the bulk of the stimulus package filters through in 2Q, which should lift GDP growth above 8% in 2H. On balance, our full year GDP forecast of 7.8% remains unchanged.

The negative February CPI reading, due to collapsing international commodities prices and base effect, gives the PBoC leeway for additional rate cuts. However, in view of stronger-than-expected bank lending, we believe there is less need for the PBoC to aggressively cut rates. Therefore, we revise our call for rate cuts this year to 81bp from 108bp, expecting a one-year lending rate of 4.5% versus 5.31% currently.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	10.6	10.1	9.0	6.8	6.5	7.2	8.4	8.5	9.0	8.7
Industrial production* (% y-o-y)	16.2	15.9	13.0	6.4	6.0	9.6	10.6	11.6	11.0	12.0
CPI, end quarter (% y-o-y)	8.3	7.1	4.6	1.2	-0.5	-1.0	-0.2	0.3	0.5	0.8
PPI, end quarter (% y-o-y)	8.0	8.8	9.1	-1.1	2.0	1.6	2.0	1.9	2.0	2.5
Trade balance (% GDP)	4.5	5.5	7.8	8.4	1.8	3.4	5.4	4.8	1.5	3.0
International reserves (USDbn)	1,682	1,809	1,906	1,946	1,960	2,000	2,050	2,100	2,112	2,137
Policy rate, end quarter (%)	7.47	7.47	7.20	5.31	5.04	4.50	4.50	4.50	4.50	4.50
5yr lending rate, end quarter (%)	7.74	7.74	7.56	5.76	5.22	4.86	4.86	4.86	4.86	4.86
RMB /USD, end quarter	7.01	6.85	6.85	6.82	6.83	6.80	6.80	6.80	6.80	6.80
RMB /EUR, end quarter	9.81	10.82	9.73	9.48	9.02	9.52	9.86	10.20	10.20	10.20

Note: Industrial production is the output of companies with annual sales over RMB5 million.
Source: HSBC

HSBC

China: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	10.1	10.2	11.6	13.0	9.0	7.8	8.5
Nominal GDP (USDbn)	1,932	2,239	2,661	3,386	4,331	4,749	5,202
GDP per capita (USD)	1,495	1,723	2,035	2,576	3,278	3,577	3,898
Nominal retail sales (% y-o-y)	13.3	12.9	13.7	16.8	21.6	15.0	16.0
Fixed Asset Investment (nominal, % y-o-y)	27.6	27.2	24.5	25.8	26.1	20.0	20.0
Industrial production (excl. small enterprises % y-o-y)	16.3	15.9	16.2	16.0	12.9	9.5	12.0
Gross domestic saving (% GDP)	45.7	48.2	50.1	51.2	49.0	48.0	48.1
Unemployment rate, average (%)	4.2	4.2	4.1	4.0	4.2	6.0	5.5
Prices & wages							
CPI, average (% y-o-y)	3.9	1.8	1.5	4.8	5.9	-0.2	0.8
CPI, end-year (% y-o-y)	2.4	1.6	2.8	6.5	1.2	0.3	1.5
PPI, end-year (% y-o-y)	7.1	3.2	3.1	5.4	-1.1	1.9	3.5
Manufacturing wages, nominal (% y-o-y)	12.3	12.3	14.0	16.2	17.0	9.0	11.0
Money, FX & interest rates							
Central bank money M0, average (%)	10.8	9.9	13.2	13.6	12.4	8.0	11.0
Broad money supply M2, average (%)	16.2	16.0	18.1	17.5	16.7	16.4	16.3
Policy rate, end-year (%)	5.58	5.58	6.12	7.47	5.31	4.50	4.50
5yr yield, end-year (%)	5.85	5.85	6.48	7.74	5.76	4.86	4.86
RMB /USD, end-year	8.28	8.07	7.81	7.30	6.82	6.80	6.80
RMB /USD, average	8.28	8.18	7.96	7.60	6.94	6.81	6.80
RMB /EUR, end-year	11.30	9.52	10.30	10.66	9.48	10.20	10.20
RMB /EUR, average	10.32	10.19	10.01	10.56	10.11	9.95	10.20
External sector							
Merchandise exports (USDbn)	593.3	762.0	969.0	1,219	1,429	1,257	1,307
Merchandise imports (USDbn)	561.2	660.0	791.5	956.0	1,133.1	1,076	1,141
Trade balance (USDbn)	32.1	102.0	177.5	262.7	295.5	180.7	166.4
Current account balance (USDbn)	69	161	253	372	372	240	230
Current account balance (% GDP)	3.6	7.2	9.5	11.0	8.6	5.1	4.4
Net FDI (USDbn)	60.6	72.4	72.7	83.5	108.3	85.0	86.0
Net FDI (% GDP)	3.1	3.2	2.7	2.5	2.5	1.8	1.7
Current account balance plus FDI (% GDP)	6.7	10.4	12.2	13.4	11.1	6.8	6.1
Exports (% y-o-y)	35.4	28.4	27.2	25.8	17.2	-12.0	4.0
Imports (% y-o-y)	36.0	17.6	19.9	20.8	18.5	-5.0	6.0
International FX reserves (USDbn)	609.9	818.9	1,066	1,528	1,946	2,100	2,250
Import cover (months)	12.1	13.8	15.0	17.7	20.8	24.9	26.4
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	129.7	169.3	200.3	188.4	237.1	278.0	320.2
Gross external debt (USDbn)	247.5	281.0	323.0	373.6	370.0	350.0	330.0
Short term external debt (% of int'l reserves)	20.2	19.1	17.2	14.4	9.2	7.1	5.3
Consolidated government balance (% GDP)	-1.3	-1.2	-1.0	0.6	-0.4	-2.9	-3.1

Note: Industrial production is the output of all industrial companies
Source: HSBC

HSBC

Hong Kong SAR

A long process

In Hong Kong, the impact of the global financial crisis lingers on, as rescue packages around the globe have had little effect thus far, and further rescue packages are still being rolled out. While we maintain our expectation that Hong Kong's economy will continue to be dragged down by weak external demand, we now expect the recovery to take longer.

Hong Kong's exports have contracted since November 2008. While this was driven mainly by weak external demand in the western world, the second-round effect on intra-regional trade in Asia has also weighed on the territory's exports. Shipments to China, which account for 50% of Hong Kong's total exports, fell at an average annual rate of 18.5% between November and January, and the rate of contraction has been accelerating. This could be distorted by the Chinese New Year effect, as the holiday fell in January this year versus February in 2008. However, the contraction in China's exports by 21% y-o-y for the first two month this year suggests that restocking from the developed world has not yet occurred.

Private consumption contracted in 4Q08 for the first time since the SARS epidemic in 2003. While this was due partly to a high base effect, the unemployment rate's rapid rise from the decade's low of 3.2% in August 2008 to 5% in February 2009 is another major factor. This is likely to be eased by the 120,000 new jobs to be created by the HKSAR government. However, the impact is not likely to be significant, as most of these jobs are in the construction sector, and some are only temporary.

A total of HKD8.3bn will be given back to individuals, mainly through tax rebates and rate concessions under the 2009-10 budget. This should give some support to local consumption, but consumers are likely to cut their spending as a result of the gloomier economic outlook. We expect private consumption to stay in negative territory for all of 2009.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	7.3	4.3	1.7	-2.5	-4.5	-4.7	-5.3	-3.7	1.5	2.5
Industrial production (% y-o-y)	-4.4	-4.2	-6.7	-7.2	-4.0	-6.0	-3.0	-2.0	1.5	1.6
CPI, ave quarter (% y-o-y)	4.1	6.1	3.1	2.1	1.4	0.8	3.8	1.7	4.2	3.5
PPI, end quarter (% y-o-y)	5.8	6.8	5.4	2.4	2.5	2.3	2.4	2.2	2.0	1.8
Trade balance (% GDP)	-11.2	-15.4	-9.6	-7.0	-10.1	-12.9	-9.8	-8.9	-10.2	-13.8
G&S balance (% GDP)	9.5	4.2	13.3	15.8	11.1	6.3	12.1	12.6	10.1	5.4
International reserves (USDbn)	160.8	157.6	160.6	182.5	182.0	184.0	187.0	187.0	188.0	188.0
Policy rate, end quarter (%)	3.75	3.50	3.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5yr yield, end quarter (%)	2.04	3.23	2.57	1.19	1.62	1.50	1.40	1.40	1.40	1.40
HKD /USD, end quarter	7.80	7.80	7.80	7.80	7.75	7.80	7.80	7.80	7.80	7.80
HKD /EUR, end quarter	10.92	12.32	11.08	10.84	10.23	10.92	11.31	11.70	11.70	11.70

Source: HSBC

HKSAR: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	8.5	7.1	6.7	6.3	2.5	-4.5	2.4
Nominal GDP (USDbn)	165.9	177.8	189.9	207.1	215.2	206.0	211.3
GDP per capita (USD)	24,093	25,629	25,630	25,630	25,631	27,333	27,882
Private consumption (% y-o-y)	7.0	3.0	5.9	8.5	2.0	-1.9	1.0
Government consumption (% y-o-y)	0.7	-3.2	0.2	3.0	2.1	4.0	2.0
Investment (% y-o-y)	2.7	4.1	7.1	3.4	-0.3	-1.8	9.2
Industrial production (% y-o-y)	2.9	2.5	2.2	-1.6	-5.6	-5.5	-6.0
Gross domestic saving (% GDP)	30.2	33.3	33.3	31.0	30.4	30.4	30.5
Unemployment rate, end-year (%)	6.6	5.2	4.4	3.4	4.1	6.5	6.5
Prices & wages							
CPI, average (% y-o-y)	-0.4	0.9	2.0	2.0	4.3	1.6	1.0
CPI, end-year (% y-o-y)	0.3	1.4	2.3	3.8	2.1	1.7	4.0
PPI, end-year (% y-o-y)	1.4	1.0	2.1	4.2	2.4	2.2	1.5
Overall wages, nominal (% y-o-y)	-2.5	2.6	1.3	0.3	4.0	1.0	1.0
Money, FX & interest rates							
Central bank money M1, average (% y-o-y)	33.7	1.2	11.9	17.8	4.6	4.8	2.5
Broad money supply M3, average (% y-o-y)	7.8	7.4	12.7	18.4	7.0	3.5	4.5
Real private sector credit growth (% y-o-y)	2.4	6.9	6.9	13.2	12.5	-3.8	3.2
Policy rate, end-year (%)	3.75	5.75	6.75	5.75	0.50	0.50	0.50
5yr yield, end-year (%)	2.66	4.11	3.69	3.10	1.19	1.40	1.40
HKD /USD, end-year	7.78	7.75	7.77	7.80	7.75	7.80	7.80
HKD /USD, average	7.79	7.77	7.77	7.80	7.78	7.79	7.80
HKD /EUR, end-year	10.62	9.14	10.26	11.39	10.77	11.70	11.70
HKD /EUR, average	9.69	9.68	9.76	10.84	11.33	11.38	11.70
External sector							
Merchandise exports (USDbn)	259.9	288.7	316.3	346.0	364.6	298.5	286.9
Merchandise imports (USDbn)	269.2	296.3	330.3	365.7	387.7	319.9	310.9
Trade balance (USDbn)	-9.3	-7.6	-14.0	-19.7	-23.1	-21.4	-24.1
G & S balance (USDbn)	14.7	22.1	21.7	22.4	23.5	21.8	19.5
G & S balance (% GDP)	8.9	12.4	11.4	10.8	10.9	10.6	9.2
Net FDI (USDbn)	-11.7	6.4	0.1	-6.7	5.0	3.0	6.0
Net FDI (% GDP)	-7.0	3.6	0.0	-3.3	2.3	1.5	2.8
G & S balance plus FDI (% GDP)	1.8	16.0	11.4	7.6	13.2	12.1	12.1
Exports (% y-o-y)	15.9	11.1	9.6	9.4	5.4	-17.9	-3.9
Imports (% y-o-y)	17.0	10.1	11.5	10.7	6.0	-17.3	-2.8
International FX reserves (USDbn)	123.6	124.3	133.2	152.7	182.5	187.0	185.0
Import cover (months)	5.5	5.0	4.8	5.0	5.6	7.0	7.1
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	529.4	531.4	603.9	789.1	864.0	950.0	1,183.0
Gross external debt (USDbn)	29.0	43.0	52.0	83.0	59.0	60.0	55.0
Consolidated government balance (% GDP)	1.7	1.0	4.0	7.7	-0.3	-3.0	-1.9

Note: Public debt refers to government debt only
Source: HSBC

HSBC

India

Don't give up

GDP growth of 5.3% in calendar Q4 was far from disastrous, but much worse than expectations. The surprise came from agriculture, where output slumped more than 2% on the year. Excluding agriculture, GDP was 7.4%, down from 8.4% and a high of 11.5% in 2006 Q3 – the weakness explained by slumping manufacturing production, as service sector growth has remained remarkably robust (thanks partly to strong government spending).

Having been gloomier than most about India's economic prospects over the last couple of years, we now have an above consensus view. Our forecasts of 6.2% growth in 2009/10 and 8% in 2010/11 are both about 1ppt above the current consensus.

While India is hardly immune to the dramatic deterioration in the world trade cycle and has some domestic banking problems, which we have highlighted in the past, there are a number of positive factors we believe are being forgotten about. These include the huge commodity price drop (which, according to our growth equation, could add 1.5% to growth), the government's fiscal stimulus (worth around 2.5% of GDP), the extra oil and gas output to be pumped from Indian fields (another 0.5% boost to GDP), and the lagging benefits of strong inward and outward FDI.

Interestingly, the country has already seen domestic motor vehicle sales turn around abruptly (from a decline of 18.2% in December to positive 12.7% growth in February), while cement sales have also picked up smartly. Such "green shoots" could, of course, prove temporary, but they are encouraging nevertheless.

On the policy front, we believe whatever government materialises from the general election will have little choice but to tighten the fiscal stance, as the combined central and state deficit is heading into the double digits. The Reserve Bank of India is likely to cut policy rates a little further, although it is more eager to ensure the rate cuts it has already delivered are passed on to the private sector. The case for further rate reductions will be strengthened by wholesale price inflation turning negative, and significantly so.

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	Q1 2008	Q2 2008f	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	8.9	7.9	7.6	5.3	5.9	5.3	5.6	6.8	6.9	7.6
Industrial production (% y-o-y)	7.0	5.3	4.7	0.4	-0.7	0.6	1.2	1.5	3.2	4.8
CPI, end quarter (% y-o-y)	7.9	7.7	9.8	9.7	8.5	6.8	5.5	4.9	4.7	4.5
WPI, end quarter (% y-o-y)	7.5	11.8	12.3	6.2	0.0	-2.0	-1.5	0.0	1.8	3.5
Trade balance (% GDP)	-6.8	-10.6	-14.1	-11.6	-5.4	-9.2	-12.3	-10.7	-4.7	-8.0
Current account (% GDP)	-0.5	-3.4	-4.6	-5.4	-0.5	-2.0	-3.6	-3.6	1.7	-0.8
International reserves (USDbn)	299.2	302.3	277.3	246.6	235.7	231.2	222.0	212.2	222.5	225.5
Policy rate, end quarter (%)	7.75	8.50	9.00	6.50	5.00	4.50	4.50	4.50	4.50	5.00
5yr yield, end quarter (%)	7.64	8.65	8.72	8.45	6.76	7.25	7.25	6.75	7.25	7.00
INR /USD, end quarter	40.1	43.0	47.0	48.7	50.7	54.0	54.0	54.0	54.0	54.0
INR /EUR, end quarter	56.1	67.9	66.7	67.7	66.9	75.6	78.3	81.0	81.0	81.0

Source: HSBC
Note: Data pertain to fiscal year, eg. 2005 numbers are for FY05/06 (April 05 – March 06)

India: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	7.5	9.5	9.7	9.0	6.7	6.2	8.0
Nominal GDP (USDbn)	677.4	784.7	877.3	1,114	1,183	1,052	1,150
GDP per capita (USD)	586.5	668.5	739.1	919.6	952	788	764
Private consumption (% y-o-y)	5.2	7.1	6.3	8.5	6.5	5.5	6.8
Government consumption (% y-o-y)	3.6	6.2	5.5	7.4	16.0	9.0	6.0
Investment (% y-o-y)	18.9	17.6	14.5	12.9	9.0	8.0	13.0
Industrial production (% y-o-y)	8.4	8.2	11.5	8.5	2.5	0.6	5.4
Gross domestic saving (% GDP)	33.8	35.1	37.0	38.1	38.0	38.5	39.0
Prices							
CPI, average (% y-o-y)	3.9	4.0	6.3	6.4	8.3	6.9	4.7
CPI, end-year (% y-o-y)	4.2	5.3	6.7	5.5	9.7	4.9	5.0
WPI, average (% y-o-y)	6.2	4.5	4.8	4.8	9.1	-0.3	3.4
WPI, end-year (% y-o-y)	6.7	4.4	5.7	3.8	6.2	0.0	5.8
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	13.6	14.7	17.3	15.0	18.8	16.0	18.0
Broad money supply M3, average (% y-o-y)	14.1	16.1	19.6	21.8	20.9	15.0	18.0
Real private sector credit growth (% y-o-y)	25.0	20.2	18.7	11.3	18.0	15.0	17.0
Policy rate, end-year (%)	6.00	6.75	7.75	7.75	6.50	4.50	6.00
5yr yield, end-year (%)	6.38	6.66	7.52	7.81	8.45	6.75	7.00
INR /USD, end-year	43.5	45.1	44.3	39.4	48.7	54.0	54.0
INR /USD, average	44.8	44.1	45.2	40.9	44.7	53.2	54.0
INR /EUR, end-year	59.1	53.1	58.4	57.5	67.7	81.0	81.0
INR /EUR, average	58.2	54.9	56.8	56.8	65.1	77.7	81.0
External sector							
Merchandise exports (USDbn)	77.9	102.2	123.8	149.3	187.0	165.1	176.1
Merchandise imports (USDbn)	106.0	149.4	184.9	231.0	312.5	263.0	274.8
Trade balance (USDbn)	-28.0	-47.3	-61.2	-81.7	-125.6	-97.9	-98.7
Current account balance (USDbn)	0.8	-14.7	-9.3	-11.3	-39.7	-25.1	-18.2
Current account balance (% GDP)	0.1	-1.9	-1.1	-1.0	-3.4	-2.4	-1.6
Net FDI (USDbn)	3.6	4.6	6.0	7.8	27.1	12.0	18.0
Net FDI (% GDP)	0.5	0.6	0.7	0.7	2.3	1.1	1.6
Current account balance plus FDI (% GDP)	0.6	-1.3	-0.4	-0.3	-1.1	-1.2	0.0
Exports (% y-o-y)	28.0	31.1	21.1	20.6	25.2	-11.7	6.7
Imports (% y-o-y)	40.3	41.0	23.8	24.9	35.3	-15.9	4.5
International FX reserves (USDbn)	135.6	131.0	170.2	266.6	246.6	212.2	224.6
Import cover (months)	15.4	10.5	11.0	13.8	9.5	9.7	9.8
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	148.4	162.8	209.5	323.9	275.0	300.0	325.0
Gross external debt (USDbn)	133.0	138.1	171.4	224.8	250.0	260.0	295.0
Short term external debt (% of int'l reserves)	6.0	6.6	7.0	16.4	20.3	18.9	20.0
Consolidated government balance (% GDP)	-9.0	-9.3	-7.0	-6.5	-9.8	-11.5	-10.0
Central government balance (% GDP)	-4.1	-4.2	-3.6	-2.9	-6.6	-7.3	-6.4

Note: Data pertain to fiscal year, eg. 2005 numbers are for FY05/06 (April 2005–March 2006)
Source: Central Statistical Organisation, Reserve Bank of India, Bloomberg, CEIC and HSBC

HSBC

Indonesia

Decade-low growth

Economic growth slowed to 5.2% in the fourth quarter of 2008, with the outlook for the year ahead not very bright. This derives from the sharp deterioration in trading partner growth and the associated drop in investment. At the same time, in an environment of rising layoffs, consumers have become more cautious as well. For the year as a whole, then, we look for Indonesia to grow 2.5% – the weakest in a decade – compared with the government's forecast of 4.5%. However, this still leaves the country as a major outperformer in the region.

Weakening growth and collapsing inflation expectations have seen Bank Indonesia (BI) cut the policy rate by 175bp, to 7.75%. However, the pass-through in terms of lending rate reductions has been only 30bp or so, which suggests more easing ahead – we look for another 75bp, with rates bottoming at 7% in Q2 – and increased pressure on banks to pass on the benefits.

The government has done its bit as well, announcing a stimulus package worth IDR 73.3trn (1.5% of GDP) – relatively modest in the regional context. There is talk that a second package may be announced, most probably after the parliamentary elections in April, but before the presidential elections in July.

In recent times, there has been some concern about Indonesia's ability to meet its short-term external debt obligations. According to the central bank's latest estimates, short-term private external debt stands at USD22.6bn (USD5.2bn trade credit and USD17.4bn short-term loans). This should be seen in the context of USD51bn in FX reserves, a USD12bn swap line with Japan (20% draw-down without IMF conditions), swap lines of USD3bn each with China and Korea, USD6bn in stand-by loans from the World Bank, the Asian Development Bank, etc., USD5bn in programme and project loans, and USD1.5bn in Japan-guaranteed Samurai issuance. Overall, then, we think the concern has been overdone.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	6.2	6.4	6.4	5.2	3.2	1.6	1.6	3.5	3.3	4.2
Industrial production (% y-o-y)	4.3	4.2	4.3	1.8	2.5	2.0	2.0	2.5	3.5	4.0
CPI, end quarter (% y-o-y)	7.1	11.0	12.1	11.1	7.9	4.5	3.8	5.9	7.5	8.2
PPI, end quarter (% y-o-y)	24.2	29.2	31.7	18.2	13.0	8.0	5.0	8.0	7.0	7.0
Trade balance (% GDP)	6.3	4.1	4.1	3.7	5.5	7.4	8.0	5.4	5.5	7.3
Current account (% GDP)	2.3	-0.8	-0.7	-0.2	-0.3	1.7	2.4	-0.3	-0.2	1.9
International reserves (USDbn)	59.0	59.5	57.1	51.6	52.1	50.0	49.0	46.0	47.0	46.0
Policy rate, end quarter (%)	8.00	8.50	9.25	9.25	8.25	7.00	7.00	7.00	7.00	7.00
5yr yield, end quarter (%)	9.74	13.19	13.01	11.80	11.69	10.50	9.50	9.50	10.00	9.50
IDR/USD, end quarter	9,204	9,228	9,506	11,325	11,700	13,000	13,500	13,500	13,500	13,500
IDR/EUR, end quarter	12,886	14,580	13,499	15,742	15,444	18,200	19,575	20,250	20,250	20,250

Source: HSBC

HSBC

Indonesia: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	5.0	5.7	5.5	6.3	6.1	2.5	4.5
Nominal GDP (USDbn)	256.9	285.6	364.4	432.0	517.4	423.6	446.5
GDP per capita (USD)	1,188	1,304	1,641	1,921	2,271	1,852	1,932
Private consumption (% y-o-y)	5.0	4.0	3.2	5.0	5.3	3.5	4.6
Government consumption (% y-o-y)	4.0	6.6	9.6	3.9	10.4	8.4	5.6
Investment (% y-o-y)	14.7	10.9	2.6	9.4	11.7	0.8	5.4
Industrial production (% y-o-y)	6.4	4.6	4.6	4.7	3.7	2.2	4.6
Gross domestic saving (% GDP)	24.9	27.5	28.7	28.1	30.6	30.0	29.8
Unemployment rate, end-year (%)	9.9	11.2	10.3	9.1	8.4	10.5	9.5
Prices & wages							
CPI, average (% y-o-y)	6.1	10.5	13.1	6.4	10.2	5.8	8.0
CPI, end-year (% y-o-y)	6.4	17.1	6.6	6.6	11.1	5.9	8.8
WPI, end-year (% y-o-y)	10.0	21.6	7.7	19.7	18.2	8.0	10.0
Manufacturing wages, nominal (% y-o-y)	16.4	8.5	6.3	5.1	10.0	7.0	8.0
Money, FX & interest rates							
Broad money supply M2, average (% y-o-y)	7.4	12.4	15.5	15.9	16.1	11.8	10.0
Real private sector credit growth (% y-o-y)	17.2	18.9	1.1	15.0	17.0	6.0	9.0
Policy rate, end-year (% y-o-y)	7.43	12.75	9.75	8.00	9.25	7.00	7.50
5yr yield, end-year (%)	10.07	13.31	9.43	9.22	11.80	9.50	10.0
IDR /USD, end-year	9,270	9,830	8,994	9,400	11,325	13,500	13,500
IDR /USD, average	8,933	9,705	9,166	9,143	9,575	12,653	13,500
IDR /EUR, end-year	12,607	11,595	11,871	13,724	15,742	20,250	20,250
IDR /EUR, average	11,336	12,083	11,519	12,708	13,944	18,490	20,250
External sector							
Merchandise exports (USDbn)	70.8	87.0	103.5	118.0	139.3	97.5	105.0
Merchandise imports (USDbn)	50.6	69.5	73.9	85.3	116.0	69.6	77.0
Trade balance (USDbn)	20.2	17.5	29.7	32.8	23.3	27.9	27.9
Current account balance (USDbn)	1.6	0.3	10.9	10.5	0.6	3.7	3.3
Current account balance (% GDP)	0.6	0.1	3.0	2.4	0.1	0.9	0.7
Net FDI (USDbn)	-1.5	5.3	2.2	2.3	2.5	1.0	2.0
Net FDI (% GDP)	-0.6	1.8	0.6	0.5	0.5	0.2	0.4
Current account balance plus FDI (% GDP)	0.0	1.9	3.6	3.0	0.6	1.1	1.2
Exports (% y-o-y)	10.4	22.9	19.0	14.0	18.0	-30.0	7.6
Imports (% y-o-y)	28.0	37.2	6.3	15.4	36.0	-40.0	10.7
International FX reserves (USDbn)	36.3	34.7	42.6	56.9	51.6	46.0	48.0
Import cover (months)	8.6	6.0	6.9	8.0	5.3	7.9	7.5
Public and external solvency indicators							
Gross external debt (USDbn)	137.0	130.7	128.7	136.6	129.1	139.0	143.0
Short term external debt (% of int'l reserves)	47.1	53.9	47.0	50.2	44.5	41.3	41.7
Private sector external debt (USDbn)	54.3	50.6	52.9	56.0	62.6	57.0	58.0
Central government balance (% GDP)	-1.0	-0.5	-0.9	-1.3	-0.1	-3.3	-2.0
Primary balance (% GDP)	1.7	1.8	1.5	0.8	1.9	-1.0	0.0
Gross public domestic debt (IDRtrn)	950.0	1270.0	1302.2	1385.0	1448.3	1577.6	N/A
Gross public domestic debt (% GDP)	33.7	45.2	39.7	34.1	24.7	27.6	N/A
Gross public external debt (USDbn)	82.7	80.1	75.8	80.6	66.5	82.0	85.0
Gross public external debt (% GDP)	32.2	28.0	20.8	18.7	12.9	19.4	19.0

Source: HSBC

Japan

Worst downswing ever

We have significantly lowered our forecast of real GDP growth in 2008 to -0.6% from +0.3% previously, and to -6.5% from -1.4% in 2009. The revision for 2009 was due mainly to the double-digit negative real GDP q-o-q annualized growth in 4Q08 and 1Q09. Industrial production is expected to decline more than 30% y-o-y in 2009, and recurring profit for all industries is expected to be in the red in 1H09 as a result of the sudden and drastic shrink of the external demand amid the global financial turmoil. We project that negative GDP q-o-q growth will continue until 3Q09 but, assuming overseas economies improve somewhat against the backdrop of the various sizable stimulus packages, we expect this rate to turn positive from 4Q09. But the global balance sheet adjustment of households and financial sectors should persist, so we think the positive ripple effect on Japan's export performance will be basically limited.

With the large drop in commodity prices and the unprecedented large deflationary gap, we now project CPI to decline 1.4% in 2009 (0.0% previously), and to drop another 1.0% in 2010. The unemployment rate should rise to around 6% in early 2010.

The risk of a deflationary spiral in Japan rises to the extent that the effectiveness of global fiscal stimulus in response to the bursting of the global bubble does not meet expectations. A downswing in domestic private consumption would also increase the risk of a downward spiral. We anticipate a domestic fiscal stimulus of JPY3trn in real spending to boost GDP in 2009, together with a zero interest rate policy by the Bank of Japan in 2Q09.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	1.5	0.7	-0.2	-4.3	-7.9	-7.4	-7.5	-3.6	0.8	1.6
Industrial production (% y-o-y)	2.3	1.0	-1.4	-14.8	-32.8	-34.8	-34.6	-23.1	-0.6	5.1
CPI, end quarter (% y-o-y)	1.0	1.4	2.2	1.0	-0.4	-1.3	-2.1	-2.0	-1.4	-1.1
Dom. CGPI, end quarter (% y-o-y)	3.5	4.9	7.1	3.0	0.0	-7.4	-10.1	-6.9	-5.1	-0.2
Trade balance (% GDP)	1.6	0.8	2.5	-1.0	-3.3	-1.7	-1.1	-0.5	-0.4	0.3
Current account (% GDP)	4.1	3.9	3.0	1.7	1.3	0.8	1.0	1.0	1.3	1.4
International reserves (USDbn)	992.0	1015.0	1032.0	1030.0	1,060	1,090	1,110	1,115	1,130	1,150
Policy rate, end quarter (%)	0.5	0.5	0.5	0.1	0.10	0.00	0.00	0.00	0.00	0.00
10-yr yield, end quarter (%)	1.3	1.6	1.5	1.3	1.4	1.3	1.4	1.4	1.3	1.3
JPY/USD, end quarter	105	106	106	91	100	100	105	105	105	105
JPY/EUR, end quarter	147	168	151	126	130	140	152	158	158	158

Source: HSBC

HSBC

Japan: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	2.7	1.9	2.0	2.4	-0.6	-6.5	1.6
Nominal GDP (USDbn)	4,607	4,555	4,376	4,385	4,659	4,492	4,291
GDP per capita (USD)	36,510	36,090	34,686	34,775	39,262	36,920	35,333
Private consumption (% y-o-y)	1.6	1.3	1.5	0.7	0.5	-0.7	0.3
Government consumption (% y-o-y)	1.9	1.6	0.4	2.0	0.9	1.5	1.1
Investment (% y-o-y)	1.4	3.1	0.5	1.1	-4.6	-16.1	-0.5
Industrial production (% y-o-y)	5.5	1.1	4.8	2.8	-3.4	-31.5	4.1
Gross domestic saving (% GDP)	26.7	26.2	27.1	26.5	26.0	26.0	25.5
Unemployment rate, end-year (%)	4.7	4.4	4.1	3.9	4.0	5.2	6.1
Prices & wages							
CPI, average (% y-o-y)	0.0	-0.3	0.1	0.0	1.5	-1.4	-1.0
CPI, end-year (% y-o-y)	0.2	-0.4	0.3	0.7	1.0	-2.0	-0.6
Domestic CGPI, average (% y-o-y)	1.3	1.7	2.2	1.8	4.6	-6.1	-0.8
Total wages, nominal (% y-o-y)	-0.7	0.6	0.2	-0.7	0.4	-3.5	0.5
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	7.1	2.0	-13.3	-7.8	0.1	8.0	0.1
Broad money supply M2+CDs, average (% y-o-y)	1.9	1.8	1.0	1.6	1.9	1.8	2.0
Policy rate, end-year (%)	0.00	0.00	0.26	0.50	0.10	0.00	0.00
10yr yield, average (%)	1.5	1.4	1.8	1.7	1.5	1.4	1.4
JPY /USD, end-year	103	118	119	112	91	105	105
JPY /USD, average	106	112	117	117	102	101	105
JPY /EUR, end-year	140	139	157	164	126	158	158
JPY /EUR, average	132	140	147	163	149	147	158
External sector							
Merchandise exports (USDbn)	565.5	596.0	647.0	713.9	801.6	595.8	599.1
Merchandise imports (USDbn)	455.0	517.0	579.0	622.1	755.2	670.3	596.5
Trade balance (USDbn)	110.5	79.0	67.9	91.8	46.4	-74.5	2.6
Current account balance (USDbn)	172.1	165.8	170.7	212.4	157.7	47.2	66.1
Current account balance (% GDP)	3.7	3.7	3.9	4.9	3.2	1.0	1.4
Net FDI (USDbn)	-23.1	-43.0	-56.8	-53.9	-67.9	-60.2	-56.5
Net FDI (% GDP)	-0.5	-0.9	-1.3	-1.2	-1.5	-1.3	-1.3
Current account balance plus FDI (% GDP)	3.2	2.7	2.6	3.6	1.7	-0.4	0.1
Exports (% y-o-y)	12.1	7.3	14.6	11.5	-1.5	-22.1	7.1
Imports (% y-o-y)	10.9	15.7	18.3	8.6	6.4	-7.0	-5.2
International FX reserves (USDbn)	833.8	834.3	879.7	952.8	1,030	1,115	1,200
Import cover (months)	44.0	38.7	36.5	36.8	32.7	39.9	48.3
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	1,139	1,369	1,523	1,783	1,850	1,900	1,950
Gross external debt (USDbn)	1,254	1,281	1,243	1,402	1,250	1,200	1,220
Private sector external debt (USDbn)	929.9	973.8	824.1	818.7	900.0	900	900
General government balance (% GDP)	-5.5	-6.1	-1.0	-1.4	-3.5	-5.0	-4.0
Primary balance (% GDP)	-4.1	-2.9	-1.7	-2.8	-2.0	-3.5	-2.5
Gross public domestic debt (JPY trn)	885.4	930.9	964.8	990	1,063	1,105	1,140
Gross public domestic debt (% GDP)	180.6	181.9	188.0	192.7	223.6	244.0	253.0
Gross public external debt (USDbn)	324.3	307.3	418.8	583.8	350.0	300.0	320.0
Gross public external debt (% GDP)	7.0	6.7	9.6	13.3	7.5	6.7	7.5
Gross public sector debt (% GDP)	187.7	188.7	197.6	206.0	231.1	250.7	260.5

Note: Public debt refers to government debt only
Source: HSBC

HSBC

Korea

Rolling out the stimulus

Korea had a rocky start to 2009. Exports fell sharply in January, although there are some signs of tentative stabilisation. Meanwhile, domestic demand is also weakening rapidly, with the unemployment rate ticking upwards and firms cutting back on investment spending. Growth, in short, continues to slow this year from an already depressed level of economic activity.

However, the government has swung into action, rolling out a range of aggressive measures to stabilise the financial system and revive growth. Fiscal spending measures and tax cuts should amount to some 4.8% of GDP this year, comfortably one of the largest stimulus packages in the region. Meanwhile, the Korean Asset Management Company (KAMCO), which was first launched in 1998 to clean up the NPLs of banks, will be reactivated with an initial KRW40 trillion capital infusion.

Still, it is unclear whether the government's efforts will be sufficient to overcome the near-term challenges to economic growth. As the outlook for exports remains challenging at best, and as banks domestically are forced to curtail credit growth, thus dampening domestic demand, Korea's recovery will remain only gradual.

We thus cut our GDP growth forecasts to -3.7% from -3.2% for 2009, and expect only a gradual rebound to 3.4% growth in 2010. The rapid depreciation of the won has raised inflation pressures for the moment, but we expect price pressures to stabilise with deteriorating domestic demand. We still expect another 50bps of interest rate cuts in the second quarter, bringing the target call rate to 1.5% year-end. Quantitative easing by the central bank may not be ruled out as the government aims to boost deficit spending.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	5.5	4.3	3.1	-3.4	-7.7	-7.6	-3.6	4.0	3.3	3.4
Industrial production (% y-o-y)	11.0	8.9	5.6	-11.3	-18.0	-15.0	-12.0	8.0	6.0	6.0
CPI, end quarter (% y-o-y)	3.9	5.5	5.1	4.1	4.1	3.5	3.1	2.0	2.4	2.9
PPI, end quarter (% y-o-y)	6.0	10.5	11.3	5.6	4.4	4.0	3.6	3.0	3.2	3.5
Trade balance (% GDP)	-0.5	2.2	-1.5	2.3	3.1	4.3	2.4	1.2	2.5	3.5
Current account (% GDP)	-2.1	-0.1	-3.7	3.5	4.1	4.6	0.0	0.8	2.2	3.1
International reserves (USDbn)	264.2	258.1	239.7	201.2	199.9	199.0	190.9	184.5	184.8	187.5
Policy rate, end quarter (%)	5.00	5.00	5.25	3.00	2.00	1.50	1.50	1.50	1.75	2.00
5yr yield, end quarter (%)	5.04	5.41	5.77	4.25	4.69	5.00	4.50	4.50	4.50	4.50
KRW /USD, end quarter	991	1,047	1,187	1,260	1,392	1,400	1,400	1,200	1,200	1,200
KRW /EUR, end quarter	1,387	1,654	1,686	1,751	1,837	1,960	2,030	1,800	1,800	1,800

Source: HSBC

Korea: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	4.6	4.0	5.2	5.1	2.2	-3.7	3.4
Nominal GDP (USDbn)	693.1	790.8	890.1	970.7	947.4	756	902
GDP per capita (USD)	14,428	16,428	18,430	20,033	19,494	15,513	18,482
Private consumption (% y-o-y)	0.3	4.6	4.7	5.1	0.9	-2.7	2.7
Government consumption (% y-o-y)	3.8	4.3	6.6	5.4	4.2	8.7	3.5
Investment (% y-o-y)	2.1	1.9	3.4	4.2	-1.7	-8.1	4.7
Industrial production (% y-o-y)	10.4	6.3	8.4	6.9	3.1	-9.6	6.0
Gross domestic saving (% GDP)	35.0	33.2	31.5	30.8	37.6	37.4	39.3
Unemployment rate, end-year (%)	3.8	3.5	3.3	3.1	3.3	4.8	3.6
Prices & wages							
CPI, average (% y-o-y)	3.6	2.8	2.2	2.5	4.7	3.2	3.2
CPI, end-year (% y-o-y)	3.0	2.6	2.1	3.6	4.1	2.0	3.2
PPI, end-year (% y-o-y)	5.3	1.5	0.3	3.6	5.6	3.0	3.8
Manufacturing wages, nominal (% y-o-y)	9.9	7.8	5.6	6.9	3.7	2.3	4.3
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	5.8	2.7	6.4	18.1	7.5	11.6	5.0
Broad money supply M3, average (% y-o-y)	6.1	7.0	8.2	10.3	11.6	9.5	9.5
Real private sector credit growth (% y-o-y)	1.5	5.8	11.7	12.4	9.4	5.7	5.8
Policy rate, end-year (%)	3.25	3.75	4.50	5.00	3.00	1.50	2.50
5yr yield, end-year (%)	3.35	5.04	4.82	5.65	4.25	4.50	4.75
KRW /USD, end-year	1,035	1,008	930	936	1,260	1,200	1,200
KRW /USD, average	1,124	1,025	953	928	1,081	1,349	1,200
KRW /EUR, end-year	1,411	1,189	1,228	1,367	1,751	1,800	1,800
KRW /EUR, average	1,302	1,276	1,197	1,290	1,574	1,972	1,800
External sector							
Merchandise exports (USDbn)	257.7	289.0	331.8	379.0	433.4	362.8	396.6
Merchandise imports (USDbn)	220.1	256.3	303.9	350.9	427.4	342.6	377.2
Trade balance (USDbn)	37.6	32.7	27.9	28.2	6.0	20.1	19.4
Current account balance (USDbn)	28.2	15.0	5.4	5.9	-6.4	17.1	12.2
Current account balance (% GDP)	4.1	1.9	0.6	0.6	-0.7	2.3	1.4
Net FDI (USDbn)	4.6	2.0	-4.5	-13.8	-10.6	-6.0	-2.6
Net FDI (% GDP)	0.7	0.3	-0.5	-1.4	-1.1	-0.8	-0.3
Current account balance plus FDI (% GDP)	4.7	2.1	0.1	-0.8	-1.8	1.5	1.1
Exports (% y-o-y)	30.6	12.1	14.8	14.2	14.3	-16.3	9.3
Imports (% y-o-y)	25.6	16.4	18.6	15.4	21.8	-19.8	10.1
International FX reserves (USDbn)	199.1	210.4	239.0	262.2	201.2	184.5	184.7
Import cover (months)	10.9	9.9	9.4	9.0	5.6	6.5	5.9
Public and external solvency indicators							
Gross external debt (USDbn)	172.3	187.9	260.1	383.2	380.5	350.0	335.0
Short term external debt (% of int'l reserves)	28.3	31.3	47.6	61.1	75.1	85.4	72.5
Private sector external debt (USDbn)	155.9	172.3	240.2	329.5	329.3	285.4	257.8
Central government balance (% GDP)	0.7	0.4	0.4	3.8	-0.5	-5.0	-3.9
Primary balance (% GDP)	1.8	1.7	1.9	5.2	1.0	-3.4	-2.2
Gross public domestic debt (KRWbn)	159,991	227,055	262,369	278,790	293,861	371,240	443,552
Gross public domestic debt (% GDP)	20.5	28.0	30.9	30.9	28.7	36.4	41.0
Gross public external debt (USDbn)	16.4	15.5	19.9	53.6	51.2	64.6	77.2
Gross public external debt (% GDP)	2.4	2.0	2.2	5.5	5.4	8.6	8.6
Gross public sector debt (% GDP)	25.2	29.5	32.2	32.1	31.9	40.4	45.5

Source: HSBC

Malaysia

Double-digit fiscal easing

Malaysia, being one of the most open economies in Asia, could not hope to escape the consequences of worst synchronised downturn since the 1930s. Sure enough, real exports of goods and services dropped 13% year-on-year in 2008 Q4, dragging down investment by more than 10%.

Sadly, things are likely to get worse before they get better. While GDP managed to rise 0.1% in the final quarter of last year, our downwardly revised projections foresee the economy contracting more than 5% in the year to the second quarter on the back of a 25% drop in exports. In 2009 as a whole, we expect GDP to fall an average of 3.5%.

Believe it or not, such a forecast is consistent with economic recovery beginning in the second half of this year – and at a reasonable clip. In 2010, we expect average GDP growth of 5.5%. Our optimism is based partly on an improvement in the world trade cycle, as signalled by a long-standing rise in the longer lead indicators. But domestic factors are important here as well.

In particular, the government has announced two fiscal packages worth a combined 10.3% of GDP. The stimulus is spread over 2009 and 2010, and although there are uncertainties, as always, as to how much will be delivered in practice, this is a big move by any standards. The various measures are aimed at raising employment, easing the burden on "vulnerable" groups, assisting the private sector and building capacity for the future.

The impact of the fiscal measures will probably begin to be felt in earnest at roughly the same time as the first effects of Bank Negara's rate cuts come through. Having been the only major central bank not to tighten last year, BNM has already lowered the overnight policy rate by 150bp and there is another 75bp cut to come, in our view. The case for further action should be strengthened by a few months of negative CPI inflation readings.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2009f	Q2 2009f
GDP (% y-o-y)	7.4	6.7	4.7	0.1	-3.2	-5.2	-4.6	-0.8	2.8	5.3
Industrial production (% y-o-y)	7.0	5.6	1.8	-8.8	-16.0	-15.0	-8.0	-3.0	1.0	3.0
CPI, end quarter (% y-o-y)	2.8	7.7	8.2	4.4	3.2	-1.5	-1.3	2.0	2.6	2.9
PPI, end quarter (% y-o-y)	10.2	14.4	8.7	-3.4	-4.5	-5.0	-3.0	-1.0	1.0	2.5
Trade balance (% GDP)	19.3	25.4	24.8	15.2	15.2	19.8	20.8	13.2	14.3	19.3
Current account (% GDP)	13.6	19.6	19.5	9.7	10.3	15.0	15.3	7.2	9.2	14.4
International reserves (USDbn)	120.2	126.0	110.3	91.8	81.0	77.2	76.9	74.6	73.6	77.1
Policy rate, end quarter (%)	3.50	3.50	3.50	3.25	2.00	1.25	1.25	1.25	1.25	1.25
5yr yield, end quarter (%)	3.52	4.27	4.06	3.00	3.49	3.20	3.20	3.30	3.30	3.30
MYR/USD, end quarter	3.20	3.26	3.44	3.45	3.64	3.80	3.90	4.00	4.10	4.10
MYR/EUR, end quarter	4.48	5.15	4.88	4.80	4.80	5.32	5.66	6.00	5.25	5.25

Source: HSBC

Malaysia: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	7.3	5.3	5.8	6.3	4.6	-3.5	5.5
Nominal GDP (USDbn)	124.7	137.9	156.1	186.9	223.1	191.4	191.1
GDP per capita (USD)	4,631	5,002	5,581	6,879	8,051	6,770	6,626
Private consumption (% y-o-y)	10.5	9.1	6.5	10.8	8.4	2.9	5.3
Government consumption (% y-o-y)	6.0	6.5	4.9	6.6	11.6	7.0	5.3
Investment (% y-o-y)	3.1	5.0	7.9	9.6	1.1	-10.3	4.8
Industrial production (% y-o-y)	11.3	5.2	7.1	3.1	1.4	-10.5	3.3
Gross domestic saving (% GDP)	44.0	43.5	43.4	46.2	49.1	45.7	47.2
Unemployment rate, end-year (%)	3.3	3.8	3.0	3.0	3.2	3.9	3.3
Prices & wages							
CPI, average (% y-o-y)	1.4	3.0	3.6	2.0	5.4	0.9	2.8
CPI, end-year (% y-o-y)	2.2	3.3	3.1	2.4	4.4	2.0	3.0
PPI, end-year (% y-o-y)	3.4	9.9	1.3	10.8	-3.4	-1.0	1.5
Manufacturing wages, nominal (% y-o-y)	3.4	3.9	2.1	4.2	5.4	3.0	4.0
Money, FX & interest rates							
Central bank money M0, end-year (% y-o-y)	10.0	5.1	10.6	9.8	7.2	5.0	8.0
Broad money supply M3, average (% y-o-y)	10.5	11.7	8.6	12.7	12.5	8.9	7.5
Real private sector credit growth (% y-o-y)	4.6	5.8	4.2	7.0	6.5	3.0	5.0
Policy rate, end-year (%)	2.70	3.00	3.50	3.50	3.25	1.25	2.00
5yr yield, end-year (%)	3.64	3.73	3.76	3.78	3.00	3.30	3.30
MYR /USD, end-year	3.80	3.78	3.53	3.31	3.45	4.00	4.10
MYR /USD, average	3.80	3.79	3.67	3.43	3.32	3.77	4.09
MYR /EUR, end-year	5.17	4.46	4.66	4.83	4.80	6.00	6.15
MYR /EUR, average	4.79	4.72	4.62	4.77	4.83	5.50	6.13
External sector							
Merchandise exports (USDbn)	126.8	142.3	160.5	176.5	197.1	145.1	142.3
Merchandise imports (USDbn)	99.2	108.3	123.9	139.3	149.5	111.9	109.6
Trade balance (USDbn)	27.6	34.0	36.6	37.2	47.6	33.1	32.7
Current account balance (USDbn)	15.1	20.7	25.4	29.2	35.1	23.0	22.8
Current account balance (% GDP)	12.1	15.0	16.3	15.6	15.7	12.0	12.0
Net FDI (USDbn)	2.6	1.0	0.0	-2.7	-6.9	-3.5	-2.0
Net FDI (% GDP)	2.1	0.7	0.0	-1.4	0.4	0.4	0.4
Current account balance plus FDI (% GDP)	14.1	15.7	16.3	14.2	16.1	12.4	12.4
Exports (% y-o-y)	21.1	11.9	9.3	2.7	8.0	-16.5	6.4
Imports (% y-o-y)	25.6	8.9	10.9	5.1	3.8	-15.0	6.3
International FX reserves (USDbn)	66.2	70.2	82.3	101.5	120.2	74.6	82.2
Import cover (months)	8.0	7.8	8.0	8.7	9.6	8.0	9.0
Public and external solvency indicators							
Gross external debt (USDbn)	52.8	53.1	56.0	55.8	54.3	55.0	55.0
Short term external debt (% of int'l reserves)	17.5	16.5	16.2	12.7	13.1	17.4	15.8
Private sector external debt (USDbn)	27.1	29.1	31.0	29.8	29.3	30.0	30.0
Central government balance (% GDP)	-4.1	-3.6	-3.3	-3.2	-5.1	-9.5	-7.8
Primary balance (% GDP)	-1.9	-1.4	-1.2	-2.2	-3.5	-8.0	-7.5
Gross public domestic debt (MYRbn)	182.0	198.7	217.2	247.1	280.0	300.0	325.0
Gross public domestic debt (% GDP)	38.4	38.0	37.9	38.5	37.8	41.6	41.6
Gross public external debt (USDbn)	25.7	24.0	25.0	26.0	25.0	25.0	25.0
Gross public external debt (% GDP)	20.6	17.4	16.0	13.9	11.2	13.1	13.1
Gross public sector debt (% GDP)	59.0	55.4	53.9	52.4	49.0	54.7	54.7

Source: HSBC

HSBC

Pakistan

Needs stability

Pakistan is evidently accustomed to its fair share of political uncertainties but, even by local standards, the current outlook is challenging. While the country has returned to civilian rule, political violence continues to upset public order, stifling any signs of economic recovery. Whether growth returns in Pakistan with any vigour depends therefore largely on the outlook for political stability and public security.

Still, the fundamentals for an eventual recovery are being laid. With the adoption of a relatively orthodox IMF programme late last year, the country's macroeconomic imbalances are being addressed. Monetary tightening appears to be curtailing inflationary pressures, even if the headline CPI index has not fallen as rapidly as elsewhere. Falling commodity prices and weak domestic demand have also led to an improvement in the trade balance, despite a slump in Pakistan's exports. Lastly, public finances are being put onto a more sustainable path, although progress is being hampered by soaring public security costs and still-underperforming revenue collection. In short, progress is being made, although arguably at too slow a pace.

Meanwhile, there are bright spots that are too often overlooked by casual observers. Remittances, for example, continued to rise at a double-digit pace into this year. Much of this comes from the Middle East, where growth is also bound to slow further over the coming year. But, for the time being, remittances help to sustain consumption and bring in much needed dollars.

Dollars, in fact, are what the country may receive more of as foreign lenders and donors gear up to put more money into Pakistan. This should help to stabilise the economy and sentiment, at least temporarily, although it may delay those urgently needed reforms, once more exposing weaknesses once the flow of dollars dries up again. What Pakistan needs, in short, is more time and stability to put its house in order.

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	Q1 2008	Q2 2008f	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
Industrial production (% y-o-y)	5.4	1.2	-5.5	-3.1	3.0	3.0	4.0	4.0	5.0	5.0
CPI, end quarter (% y-o-y)	14.1	21.5	23.9	23.3	18.0	20.0	8.0	8.0	8.0	8.0
WPI, end quarter (% y-o-y)	12.1	19.8	30.6	29.0	30.0	15.0	10.0	10.0	10.0	9.0
M2 growth (% y-o-y)	16.3	15.3	13.4	8.7	12.0	10.0	10.0	10.0	10.0	10.0
Trade balance (USDbn)	-6.2	-6.2	-5.5	-4.0	-5.0	-4.4	-3.1	-3.9	-5.0	-4.7
Remittances (USDbn)	1.7	1.7	1.9	1.8	1.7	1.8	2.0	1.8	1.9	2.0
International reserves (USDbn)	13.2	11.3	8.2	10.0	13.2	11.2	8.2	9.9	13.1	11.1
Policy rate, end quarter (%)	10.50	12.00	13.00	15.00	20.00	20.00	18.00	12.00	10.00	10.00
2 yr yield, end quarter (%)	10.35	12.45	13.30	14.88	12.45	10.75	10.75	10.50	9.80	9.80
PKR /USD, end quarter	62.7	68.4	78.3	79.1	80.5	86.0	88.0	90.0	92.0	92.0
PKR /EUR, end quarter	87.8	108.1	111.2	109.9	106.3	120.4	127.6	135.0	138.0	138.0

Source: HSBC
Note: Data pertain to fiscal year, eg. 2005 numbers are for FY05/06 (April 2005–March 2006)

HSBC

Pakistan: Macro framework

	2004	2005	2006	2007	2008f	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	7.7	6.2	6.0	6.0	0.3	2.0	2.9
Nominal GDP (USDbn)	111.0	128.0	144.7	172.5	156.3	142.0	145.9
GDP per capita (USD)	721.1	816.2	920.0	1,094	988	895	917
Private consumption (% y-o-y)	12.9	1.0	4.8	8.5	0.5	1.5	2.5
Government consumption (% y-o-y)	1.7	48.3	-9.6	5.1	5.0	4.0	3.0
Investment (% y-o-y)	13.5	19.9	16.0	3.4	0.5	4.0	4.0
Industrial production (% y-o-y)	17.8	14.9	10.7	5.5	-0.3	3.5	5.2
Gross domestic saving (% GDP)	14.6	13.9	14.6	10.8	7.4	11.0	11.8
Unemployment rate, end-year (%)	7.7	6.2	5.3	7.0	8.0	8.0	7.0
Prices							
CPI, average (% y-o-y)	7.4	9.1	7.9	7.6	20.3	14.0	8.0
CPI, end-year (% y-o-y)	7.4	8.5	8.9	8.8	23.3	8.0	8.0
WPI, average (% y-o-y)	8.5	8.7	8.5	8.5	25.0	7.1	9.4
WPI, end-year (% y-o-y)	4.2	11.0	8.0	12.1	17.6	10.0	9.0
Money, FX & interest rates							
Central bank money M1, end (% y-o-y)	21.5	17.0	74.9	24.4	11.5	10.0	8.0
Broad money supply M2, end (% y-o-y)	20.5	17.2	14.7	20.0	8.7	10.0	7.0
Real private sector credit growth (% y-o-y)	9.6	18.8	9.7	7.6	-7.3	3.2	0.0
Policy rate, end-year (%)	7.50	9.00	9.50	10.00	15.00	12.00	10.00
2 yr yield, end-year (%)	4.50	8.75	9.50	9.58	14.88	10.5	9.8
PKR /USD, end-year	59.4	59.8	60.9	61.5	79.1	90.0	92.0
PKR /USD, average	58.5	59.6	60.3	60.8	69.9	84.8	91.8
PKR /EUR, end-year	80.8	70.5	80.4	89.8	109.9	135.0	138.0
PKR /EUR, average	76.1	74.2	75.8	84.5	101.8	123.9	137.6
External sector							
Merchandise exports (USDbn)	12.9	15.9	16.8	17.3	20.2	18.0	19.0
Merchandise imports (USDbn)	13.0	17.8	25.3	29.8	32.6	42.2	35.3
Trade balance (USDbn)	-0.1	-1.9	-8.5	-12.5	-12.4	-24.1	-16.3
Current account balance (USDbn)	-1.5	-5.0	-6.9	-14.0	-17.4	-11.2	-10.6
Current account balance (% GDP)	-1.4	-3.9	-4.8	-8.1	-11.1	-7.9	-7.3
Net FDI (USDbn)	1.5	3.5	5.0	5.1	3.0	3.0	3.0
Net FDI (% GDP)	1.3	2.7	3.5	2.9	1.9	2.1	2.1
Current account balance plus FDI (% GDP)	-0.1	-1.2	-1.3	-5.2	-9.2	-5.8	-5.2
Exports (% y-o-y)	17.9	14.2	5.4	10.7	17.0	-10.8	5.1
Imports (% y-o-y)	44.7	29.6	6.3	28.4	29.3	-16.3	3.5
International FX reserves (USDbn)	12.0	11.7	12.9	15.6	2.8	N/A	N/A
Import cover (months)	11.0	7.9	6.1	6.3	1.0	N/A	N/A
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	2.8	2.4	2.3	2.2	3.3	3.4	3.5
Gross external debt (USDbn)	34.0	36.0	39.0	44.5	48.9	52.8	56.5
Short term external debt (% of int'l reserves)	2.3	1.4	0.2	4.6	8.8	na	na
Private sector external debt (USDbn)	1.3	1.6	2.3	2.9	2.2	2.3	2.5
Consolidated government balance (% GDP)	-4.3	-4.3	-3.7	-7.4	-8.2	-7.6	-6.9
Primary balance (% GDP)	-0.1	-1.2	-0.1	-2.7	-1.9	-1.4	-0.7
Gross public domestic debt (PKRbn)	215.8	231.4	252.3	282.7	332.0	382.5	433.4
Gross public domestic debt (% GDP)	33.2	30.4	28.9	27.0	30.4	31.8	32.4
Gross public external debt (USDbn)	34.0	36.0	39.0	44.5	50.2	55.1	59.6
Gross public external debt (% GDP)	30.7	28.1	27.0	25.8	32.1	38.8	40.9
Gross public sector debt (% GDP)	69.8	63.9	58.5	55.9	52.8	62.5	70.6

Note: Fiscal and national accounts data pertain to fiscal year, eg. 2005 numbers are for FY05/06 (July 2005–June 2006)
Source: Central Statistical Organisation, Reserve Bank of India, Bloomberg, CEIC and HSBC

HSBC

Philippines

Not immune to contagion

As the recession in the developed world rumbles on, the Philippines' hitherto resilient economic fundamentals have started weakening. The economy is riding on a razor's edge as its biggest support pillar, remittances, are shrinking on the back of global frailties. Remittance growth decelerated significantly to 0.1% y-o-y in January from last year's peak of 30%. We forecast a 20% drop this year. Exports, too, are facing challenges given the country's reliance on electronics, and both FDI and portfolio investment registered a massive decline in 2008.

The upheaval in the external sector has gradually begun to spill over into the real economy: the deepening export downturn has led to huge job losses, which, in addition to the repatriation of a large number of overseas Filipino workers (OFWs), has worsened the country's employment scenario. Together, all these will dampen private consumption growth and further weigh on investment. Thus, we have revised down our GDP growth forecast to 1% and 3% for 2009 and 2010 from 2% and 4.2%, respectively. Growing concern over growth has spurred officials into action: the government has approved the national budget worth PHP1.4trn and previously rolled out a stimulus package worth PHP330bn. The official budget deficit target has been pushed to PHP177.2bn (2.2% of GDP); in our view it is still conservative and may well reach PHP261bn (3.3% of GDP).

Still, the Philippines may escape a major slippage. One of the reasons is a relatively stable financial system, which is less exposed to external stress and awash with liquidity. The central bank has executed its role rather successfully through lowering the policy rate by 125bp from its peak and unveiling a series of liquidity measures. The record fall in commodity prices may not only help inflation reach the official target, but will also reduce the import bill, keeping the current account in surplus in 2009.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010ff
GDP (% y-o-y)	4.7	4.4	5.0	4.5	1.5	1.0	0.5	1.1	2.2	2.9
Industrial production (% y-o-y)	2.4	6.3	5.5	3.2	-3.0	-3.0	-1.0	2.0	1.0	1.0
CPI, end quarter (% y-o-y)	6.4	11.4	11.8	8.0	5.0	2.5	3.5	4.1	4.5	4.6
PPI, end quarter (% y-o-y)	0.6	4.5	6.6	7.7	4.0	2.0	2.0	3.0	3.0	3.0
Trade balance (% GDP)	-6.8	-8.6	-9.9	-4.7	-5.0	-7.0	-10.5	-5.3	-5.8	-7.7
Current account (% GDP)	3.2	2.2	-0.7	5.1	4.5	2.6	-2.8	3.3	1.8	0.6
International reserves (USDbn)	36.5	36.6	36.6	37.4	33.5	31.0	28.7	28.3	27.5	27.6
Policy rate, end quarter (%)	5.00	5.25	6.00	5.50	4.75	4.50	4.25	4.25	4.50	4.50
10yr yield, end quarter (%)	7.16	9.20	8.05	7.25	8.16	9.25	9.25	9.25	9.25	9.25
PHP /USD, end quarter	41.5	44.8	47.1	47.4	48.2	51.0	52.0	53.0	53.0	53.0
PHP /EUR, end quarter	58.1	70.8	66.9	65.9	63.6	71.4	75.4	79.5	79.5	79.5

Source: HSBC

HSBC

Philippines: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	6.4	5.0	5.4	7.2	4.6	1.0	3.0
Nominal GDP (USDbn)	86.9	99.0	117.6	147.1	168.8	155.3	157.6
GDP per capita (USD)	1,052	1,171	1,375	1,700	1,928	1,742	1,737
Private consumption (% y-o-y)	5.9	4.8	5.5	5.8	4.5	1.4	2.3
Government consumption (% y-o-y)	1.4	2.3	10.4	8.3	4.3	9.7	8.6
Investment (% y-o-y)	1.3	-6.6	3.8	11.8	3.7	-1.4	3.6
Industrial production (% y-o-y)	5.0	5.3	4.6	3.4	4.3	-1.1	1.5
Gross domestic saving (% GDP)	21.2	21.0	20.1	20.9	20.1	19.0	18.1
Unemployment rate, end-year* (%)	11.3	8.1	7.8	7.4	7.7	8.4	9.0
Prices & wages							
CPI, average (% y-o-y)	6.0	7.7	6.3	2.8	9.3	4.3	4.5
CPI, end-year (% y-o-y)	8.6	6.7	4.3	3.9	8.0	4.1	4.6
PPI, end-year (% y-o-y)	14.3	12.1	3.7	-3.0	7.7	3.0	3.0
Manufacturing wages, nominal** (% y-o-y)	3.6	8.5	7.9	4.5	5.3	3.8	4.5
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	9.6	11.5	20.7	35.1	17.2	-7.2	6.4
Broad money supply M3, average (% y-o-y)	16.5	7.0	13.8	17.1	14.2	11.5	8.0
Real private sector credit growth (% y-o-y)	-3.7	-4.0	-2.3	2.7	10.0	7.6	1.5
Policy rate, end-year (%)	6.75	7.50	7.50	5.25	5.50	4.25	4.75
10yr yield, end-year (%)	13.87	10.19	6.38	6.37	7.25	9.25	9.25
PHP /USD, end-year	56.2	53.1	49.0	41.2	47.4	53.0	53.0
PHP /USD, average	56.0	55.0	51.3	45.2	44.4	50.4	53.0
PHP /EUR, end-year	76.3	62.6	64.7	60.2	65.9	79.5	79.5
PHP /EUR, average	70.1	68.5	64.4	62.8	64.7	73.6	79.5
External sector							
Merchandise exports (USDbn)	38.7	40.3	46.5	49.5	48.2	42.4	44.5
Merchandise imports (USDbn)	45.1	48.0	53.3	57.9	60.8	53.1	56.3
Trade balance (USDbn)	-6.4	-7.8	-6.7	-8.4	-12.6	-10.7	-11.8
Current account balance (USDbn)	0.9	2.0	5.3	7.1	4.2	3.0	0.7
Current account balance (% GDP)	1.1	2.0	4.5	4.8	2.5	2.0	0.4
Net FDI (USDbn)	0.1	1.7	2.8	-0.6	1.3	0.1	1.4
Net FDI (% GDP)	0.1	1.7	2.4	-0.4	0.8	0.1	0.9
Current account balance plus FDI (% GDP)	1.2	3.7	6.9	4.4	3.3	2.0	1.3
Exports (% y-o-y)	9.6	3.8	15.6	6.4	-2.6	-12.1	5.0
Imports (% y-o-y)	10.6	8.0	10.9	8.7	5.0	-12.7	6.0
International FX reserves (USDbn)	16.1	18.4	22.8	33.6	37.4	28.3	27.5
Import cover (months)	4.3	4.6	5.1	7.0	7.4	6.4	5.9
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	9.4	11.8	14.8	15.9	17.7	17.2	17.2
Gross external debt (USDbn)	54.8	54.2	53.4	54.9	53.0	50.0	48.0
Short term external debt (% of int'l reserves)	31.4	34.8	21.9	21.1	17.0	21.2	20.9
Private sector external debt (USDbn)	22.5	22.8	20.3	21.5	12.3	21.0	20.0
Consolidated government balance (% GDP)	-4.8	-1.8	0.2	0.5	-0.9	-3.3	-3.6
Central government balance (% GDP)	-3.8	-2.7	-1.1	-0.2	-0.9	-3.3	-3.6
Primary balance (% GDP)	1.5	2.8	4.1	3.8	2.7	0.3	0.0
Gross public domestic debt (PHPbn)	2,001	2,164	2,154	2,201	2,414	2,413	2,558
Gross public domestic debt (% GDP)	41.1	39.8	35.7	33.1	32.2	30.9	30.6
Gross public external debt (USDbn)	32.3	31.3	33.1	33.5	40.7	29.0	28.0
Gross public external debt (% GDP)	39.2	31.7	28.1	22.7	24.1	26.8	26.5
Gross public sector debt (% GDP)	81.4	71.4	75.1	82.2	95.0	89.5	90.1

Note: * *Sep 2005, the ILO definition of unemployment has been adopted by official sources; * *refers to minimum wage index
Source: HSBC

HSBC

Singapore

A record-breaking recession

To say the Singapore economy is weak at present would be somewhat of an understatement. GDP has already experienced its biggest-ever quarter-on-quarter contraction in 2008 Q4 and is about to suffer its largest-ever year-on-year decline in 2009 Q1 (since records began in the mid-1970s).

The primary cause is obvious – collapsing exports which are breaking all the wrong kind of records. There is, however, another factor at play – the bursting of domestic credit, real-estate and investment bubbles that we believe developed in the run up to the current crisis.

Looking ahead, more pain is inevitable as our lead indicator suggests external demand is likely to remain extremely depressed through the first half of calendar 2009. The widespread weakness in the economy will also filter through into the labour market, which has remained remarkably firm so far. If we are right, then the MAS may opt to shift its currency band lower at the April meeting and the government to ease fiscal policy even further. It has already announced an 8% of GDP loosening in the budgetary stance.

Recent history suggests Singapore has become more susceptible to recessions (it is in the midst of its fourth period of year-on-year GDP contraction in the last 10 years), although it typically bounces back sharply. We expect the current episode to be no exception, with GDP seeing average growth of 4.5% in 2010.

Apart from historical precedent, grounds for hope stem from the exceptionally loose monetary and fiscal policy, as well as the biggest drop in commodity prices for 50 years (which effectively operates as a tax cut). For a country as open as Singapore, it is also important that the world trade cycle begins to improve, and it is therefore encouraging that the longer lead indicators have been rising for months.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	6.7	2.5	0.0	-4.2	-9.1	-8.6	-7.6	-2.5	1.2	4.3
Industrial production (% y-o-y)	12.3	-5.6	-11.0	-10.5	-22.0	-12.0	-5.0	-2.0	1.0	3.0
CPI, end quarter (% y-o-y)	6.7	7.5	6.7	4.3	1.5	0.1	-0.3	0.8	1.5	2.0
PPI, end quarter (% y-o-y)	6.7	9.6	9.1	-11.2	-15.0	-15.0	-10.0	0.0	1.0	2.0
Trade balance (% GDP)	19.4	17.4	19.8	10.9	14.5	13.9	16.8	9.8	13.5	13.6
Current account (% GDP)	17.3	14.5	17.1	10.4	11.1	10.8	14.3	6.9	10.0	10.8
International reserves (USDbn)	177.5	176.8	169.4	173.9	167.2	160.9	156.5	156.2	158.2	160.4
3M interbank rate, end-quarter (%)	1.38	1.25	1.85	0.96	0.60	0.60	0.60	0.70	0.80	0.90
5yr yield, end-quarter (%)	1.64	2.64	2.40	1.40	1.42	1.35	1.35	1.50	1.75	1.75
SGD /USD, end-quarter	1.38	1.36	1.43	1.44	1.52	1.60	1.62	1.64	1.64	1.64
SGD /EUR, end-quarter	1.93	2.15	2.03	2.00	2.01	2.24	2.35	2.46	2.46	2.46

Source: HSBC

HSBC

Singapore: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	8.7	8.7	8.4	7.8	1.1	-7.0	4.5
Nominal GDP (USDbn)	109.7	120.8	139.7	167.5	184.0	153.2	156.0
GDP per capita (USD)	26,339	28,324	31,743	36,503	38,014	31,509	37,211
Private consumption (% y-o-y)	5.9	3.1	4.0	5.2	2.4	-0.1	4.3
Government consumption (% y-o-y)	-1.1	9.6	6.6	2.2	8.1	7.7	5.2
Investment (% y-o-y)	10.2	-2.0	13.3	19.2	13.7	-11.5	5.7
Industrial production (% y-o-y)	13.9	9.5	11.9	5.9	-4.2	-10.6	4.1
Gross domestic saving (% GDP)	46.8	48.7	49.9	51.7	48.3	43.7	43.7
Unemployment rate, end-year (%)	3.0	2.6	2.6	1.7	2.6	3.7	3.4
Prices & wages							
CPI, average (% y-o-y)	1.7	0.5	1.0	2.1	6.5	0.4	1.9
CPI, end-year (% y-o-y)	1.3	1.3	0.8	4.4	6.7	0.8	2.6
PPI, end-year (% y-o-y)	8.6	4.1	-2.9	4.9	-11.2	0.0	4.0
Manufacturing wages, nominal (% y-o-y)	2.6	4.3	3.5	4.1	5.0	2.5	4.0
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	5.2	7.1	6.9	7.0	12.2	6.0	6.0
Broad money supply M3, average (% y-o-y)	7.7	5.2	11.9	20.6	10.9	6.0	7.0
Real private sector credit growth (% y-o-y)	4.4	1.8	2.6	12.0	11.0	6.0	7.0
3M interbank rate, end-year (%)	1.50	3.25	3.44	2.38	0.96	0.70	0.80
5yr yield, end-year (%)	2.07	3.01	3.03	2.33	1.40	1.50	1.75
SGD /USD, end-year	1.63	1.66	1.53	1.44	1.44	1.64	1.64
SGD /USD, average	1.69	1.67	1.58	1.50	1.40	1.57	1.64
SGD /EUR, end-year	2.22	1.96	2.03	2.10	2.00	2.46	2.46
SGD /EUR, average	2.13	2.07	1.99	2.09	2.04	2.29	2.46
External sector							
Merchandise exports (USDbn)	199.6	232.3	276.0	305.0	347.6	250.4	246.7
Merchandise imports (USDbn)	168.8	196.0	233.0	257.8	316.4	229.3	226.0
Trade balance (USDbn)	30.7	36.3	43.0	47.2	31.2	21.1	20.7
Current account balance (USDbn)	29.0	33.2	35.5	39.3	27.3	16.4	16.4
Current account balance (% GDP)	26.4	27.5	25.4	23.5	14.8	10.7	10.5
Net FDI (USDbn)	9.2	3.2	14.4	7.0	13.9	3.2	7.0
Net FDI (% GDP)	8.4	2.6	10.3	4.2	7.5	2.1	4.5
Current account balance plus FDI (% GDP)	34.8	30.1	35.7	27.7	22.4	12.8	15.0
Exports (% y-o-y)	23.4	16.4	18.8	10.5	14.0	-28.0	-1.5
Imports (% y-o-y)	27.5	16.1	18.9	10.6	22.7	-27.5	-1.4
International FX reserves (USDbn)	112.4	115.9	136.2	162.9	173.9	156.2	160.5
Import cover (months)	8.0	7.1	7.0	7.6	6.6	8.2	8.5
Public and external solvency indicators							
Consolidated government balance (% GDP)	-0.8	-0.2	0.6	1.7	2.7	-5.9	-4.5

Source: HSBC

HSBC

Sri Lanka

Large twin deficits

Economic growth slowed to 4.2% y-o-y in the fourth quarter of 2008 – the weakest since the dot-com bust – pulled down by the poor performance of the services sector and also industry. This partly reflects weakening external demand but domestic demand has also softened, given the lagged impact of the tight monetary policy maintained by the central bank through most of 2008.

The outlook for exports is fairly depressing given that Sri Lanka has the largest exposure to the developed world in the Asian region. We therefore look for exports to contract 9% in 2009 after having risen 8% last year. Although rapidly cooling inflation will help support real disposable incomes, we doubt there will be a big increase in consumption given increasing lay-offs. Overall then we look for the economy to expand 3.2% in 2009.

The current account deficit is expected to improve marginally to 7% of GDP as imports fall more than exports, pulled down by the collapse in food and oil prices.

However, we expect the fiscal deficit to worsen as revenues come under pressure from slowing growth and an environment of civil war. The government also announced a stimulus package (0.5% of GDP). Overall we expect the budget deficit to widen to 8% of GDP.

With the formal conflict close to its end and a large amount of reconstruction work in the pipeline, we think Sri Lanka's balance of payments will receive long-term support as aid money comes in and overseas Sri Lankans increase investment at home. A better security situation will also help improve the prospects of the tourism industry, which has immense potential, in our view.

In the near term, some concerns remain about the country's ability to meet its external payment liabilities given the extremely low levels of FX reserves. Here the USD1.9bn proposed loan from the IMF, when it materialises, will provide some confidence to investors.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	6.3	7.0	6.4	4.2	2.5	2.8	3.3	4.0	4.5	4.8
Industrial production (% y-o-y)	6.6	3.5	5.1	4.3	3.0	2.5	4.0	4.5	5.4	6.0
CPI, end quarter (% y-o-y)	23.8	28.2	24.3	14.4	5.0	2.0	4.0	6.0	8.0	9.5
WPI, end quarter (% y-o-y)	38.8	34.2	20.6	0.7	-11.0	-7.0	5.0	7.0	10.0	12.0
Trade balance (% GDP)	-14.5	-17.4	-13.9	-12.1	-10.3	-11.9	-11.6	-12.7	-13.0	-13.1
International reserves (USDbn)	3.5	3.4	3.2	1.8	1.5	3.4	3.0	2.4	2.6	2.7
Policy rate, end quarter (%)	12.0	12.0	12.0	12.0	11.75	11.25	11.25	11.25	11.25	11.25
2-yr yield, end quarter (%)	18.2	18.3	19.2	20.5	16.9	16.0	16.0	15.0	15.0	14.0
LKR/USD, end quarter	107.8	107.7	108.2	113.0	116.0	120.0	122.0	124.0	125.5	127.0
LKR/EUR, end quarter	170.3	170.2	151.4	158.2	145.0	150.0	152.5	151.3	153.1	154.9

Source: HSBC

HSBC

Sri Lanka: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	5.4	6.0	7.4	6.8	6.0	3.2	5.0
Nominal GDP (USDbn)	19.9	23.5	26.8	29.9	35.0	36.7	40.0
GDP per capita (USD)	1,030	1,197	1,355	1,504	1,745	1,808	1,951
Private consumption (% y-o-y)	4.7	2.6	7.3	7.0	6.5	4.0	5.5
Government consumption (% y-o-y)	7.8	4.8	6.0	5.5	6.0	6.5	5.8
Investment (% y-o-y)	17.8	9.8	13.9	12.0	11.0	8.0	11.0
Industrial production (% y-o-y)	5.6	6.0	5.7	6.6	4.9	3.5	6.1
Gross domestic saving (% GDP)	21.6	21.6	23.7	25.3	22.0	21.7	27.1
Unemployment rate, end-year (%)	8.1	7.2	6.3	5.5	5.2	6.5	7.0
Prices							
CPI, average (% y-o-y)	7.6	11.6	13.7	15.8	22.8	4.3	9.4
CPI, end-year (% y-o-y)	13.8	8.0	19.3	18.8	14.4	6.0	11.5
WPI, end-year (% y-o-y)	23.9	1.7	17.3	26.8	0.7	7.0	15.0
Minimum wages, nominal (% y-o-y)	2.3	7.8	2.2	21.3	30.0	15.0	7.0
Money, FX & interest rates							
Central bank money M0, end (% y-o-y)	17.5	18.3	21.2	10.2	1.5	5.0	10.0
Broad money supply M2, end (% y-o-y)	17.1	20.0	17.8	16.6	8.5	14.0	12.0
Real private sector credit growth (% y-o-y)	12.4	12.0	17.5	20.8	7.3	15.7	15.6
Policy rate, end-year (%)	7.5	8.8	10.0	12.0	12.0	11.3	11.8
2yr yield, end-year (%)	9.55	11.20	13.35	17.63	20.50	15.00	14.00
LKR /USD, end-year	104.7	102.1	107.5	108.7	113.0	124.0	130.0
LKR /USD, average	102.0	100.8	104.4	110.7	109.2	120.5	127.8
LKR /EUR, end-year	141.8	121.0	141.8	160.2	158.2	151.3	158.6
LKR /EUR, average	128.8	123.4	132.6	154.1	162.5	149.7	155.9
External sector							
Merchandise exports (USDbn)	5.6	6.3	6.9	7.7	8.4	7.6	8.2
Merchandise imports (USDbn)	7.9	8.8	10.2	11.3	14.2	12.2	13.8
Trade balance (USDbn)	-2.4	-2.6	-3.3	-3.6	-5.9	-4.6	-5.6
Current account balance (USDbn)	-0.6	-0.6	-1.3	-1.4	-2.8	-2.6	-3.0
Current account balance (% GDP)	-3.2	-2.8	-4.9	-4.5	-8.1	-7.1	-7.5
Net FDI (USDbn)	0.2	0.2	0.4	0.6	0.7	0.5	0.6
Net FDI (% GDP)	1.1	1.0	1.7	1.8	2.0	1.2	1.5
Current account balance plus FDI (% GDP)	-2.1	-1.8	-3.3	-2.7	-6.1	-5.9	-6.0
Exports (% y-o-y)	9.2	12.0	10.4	11.6	8.4	-9.0	7.9
Imports (% y-o-y)	19.1	11.2	15.5	10.6	26.1	-14.3	13.1
International FX reserves (USDbn)	1.8	2.5	2.5	3.1	1.8	2.4	3.0
Import cover (months)	2.8	3.3	3.0	3.3	1.5	2.4	2.6
Public and external solvency indicators							
Gross external debt (USDbn)	12.8	13.0	14.2	16.8	19.9	19.2	20.1
Short term external debt (% of int'l reserves)	33.6	25.8	23.3	32.8	116.8	45.9	40.0
Budget balance (% GDP)	-8.2	-8.7	-8.4	-7.8	-7.4	-8.0	-7.5
Gross public domestic debt (LKRbn)	10.9	12.2	13.5	14.7	16.3	15.9	16.1
Gross public domestic debt (% GDP)	54.8	51.9	50.3	47.9	46.5	43.4	40.4
Gross public external debt (USDbn)	9.5	9.2	10.3	12.2	13.9	14.2	14.9
Gross public external debt (% GDP)	47.7	39.2	38.4	37.9	39.7	38.7	37.4
Gross public sector debt (% GDP)	102.5	91.1	88.7	85.8	86.2	82.1	77.8

Source: HSBC

Taiwan

Many fronts

Taiwan's economy is among the most exposed in Asia to the global slowdown, with GDP growth falling by a record 8.4% y-o-y in 4Q08. For 2008, the island's economy expanded merely 0.1%, significantly down from 5.7% in 2007. These numbers, along with bleak trade and industrial production for January and February, underline the extent of the recession.

Taiwan is not only suffering from a sharp fall in exports but also from a marked slowdown in domestic demand. Private investment fell a dramatic 33.2% y-o-y in 4Q08 and private consumption 1.7%; it is the first time private consumption has recorded a contraction in two consecutive quarters. The ripple effects from the ongoing slump in exports will continue to weigh on domestic demand growth in 2009 and 2010.

Even more worrying is that deflation risks are growing in Taiwan as global commodities prices remain soft and domestic demand falters. With unemployment rising sharply to 5.3% in January and consumer confidence reaching a record low level, deflation in this environment could pose further downside risks to Taiwan's economic growth.

We believe the announced fiscal stimulus, roughly 4% of GDP, will not prove sufficient to offset the current downturn. Furthermore, the near-term benefits from cross-strait ties will be limited given Taiwan's dependence on the West's demand for electronics. We expect the island's economy to contract by 6.2% in 2009, with a recovery to follow at a below trend growth of 2.2% in 2010.

We expect the CBC to cut rates to 0.75% by end of 2Q09, but room for further rate cuts will be limited as policymakers have stressed that Taiwan will not adopt a zero interest rate policy. Instead, we expect a more unorthodox strategy, including the extension of further bank lending guarantees.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	6.2	4.6	-1.0	-8.4	-10.2	-7.4	-5.1	-1.8	1.9	2.1
Industrial production (% y-o-y)	12.3	6.8	0.4	-24.2	-26.0	-19.0	-10.0	0.0	6.0	5.0
CPI, end quarter (% y-o-y)	3.9	5.0	3.1	1.3	-0.9	-1.3	-1.5	-0.7	-0.8	-0.5
WPI, end quarter (% y-o-y)	7.2	9.9	6.1	-9.5	-11.0	-10.0	-5.0	1.2	2.0	3.0
Trade balance (% GDP)	4.1	6.1	1.6	6.8	9.4	11.7	5.0	8.9	11.4	14.1
Current account (% GDP)	8.3	6.8	1.9	8.6	11.2	13.8	5.5	11.4	13.1	16.2
International reserves (USDbn)	286.9	291.4	281.1	291.7	297.6	305.4	310.4	318.7	329.9	343.4
Policy rate, end-quarter (%)	3.500	3.625	3.500	2.000	1.250	1.000	1.000	1.000	1.000	1.000
5yr yield, end-quarter (%)	2.21	2.63	2.00	1.03	1.03	1.00	1.15	1.25	1.35	1.35
TWD /USD, end-quarter	30.4	30.4	32.2	32.8	33.9	36.0	36.0	36.0	36.0	36.0
TWD /EUR, end-quarter	42.6	48.0	45.7	45.6	44.7	50.4	52.2	54.0	54.0	54.0

Source: HSBC

HSBC

Taiwan: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	6.2	4.2	4.8	5.7	0.1	-6.2	2.2
Nominal GDP (USDbn)	331.2	356.2	364.9	385.5	393.8	326.4	323.9
GDP per capita (USD)	14,645	15,701	16,011	16,857	17,164	14,185	14,032
Private consumption (% y-o-y)	4.5	3.0	1.8	2.3	-0.3	-1.6	0.8
Government consumption (% y-o-y)	-0.5	1.1	-0.4	0.9	1.1	4.6	2.3
Investment (% y-o-y)	19.5	1.2	0.9	1.9	-10.8	-21.5	2.2
Industrial production (% y-o-y)	8.4	3.8	4.7	7.8	-1.8	-14.5	4.5
Gross domestic saving (% GDP)	26.0	25.6	27.1	29.0	26.0	20.5	21.1
Unemployment rate, ave. (%)	4.4	4.1	3.9	3.9	4.1	6.0	6.1
Prices & wages							
CPI, average (% y-o-y)	1.6	2.3	0.6	1.8	3.5	-1.3	-0.4
CPI, end-year (% y-o-y)	1.6	2.2	0.7	3.3	1.3	-0.7	0.8
WPI, end-year (% y-o-y)	6.0	1.7	6.4	8.6	-9.5	1.2	3.0
Manufacturing wages, nominal (% y-o-y)	2.7	2.7	1.4	1.7	-0.3	-1.8	2.0
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	8.9	8.5	5.1	2.4	7.0	5.3	3.9
Broad money supply M2, average (% y-o-y)	7.5	6.2	6.2	4.3	2.7	2.7	3.1
Real private sector credit growth (% y-o-y)	8.4	6.0	1.9	0.9	-1.0	-0.7	1.9
Policy rate, end-year (%)	1.750	2.250	2.750	3.375	2.000	1.000	1.000
5yr yield, end-year (%)	1.93	1.75	1.93	2.49	1.03	1.25	1.35
TWD /USD, end-year	31.7	32.8	32.6	32.4	32.8	36.0	36.0
TWD /USD, average	33.4	32.2	32.7	32.8	31.4	35.1	36.0
TWD /EUR, end-year	43.2	38.7	43.0	47.3	45.6	54.0	54.0
TWD /EUR, average	42.1	40.0	41.0	45.6	45.7	51.3	54.0
External sector							
Merchandise exports (USDbn)	182.4	198.5	223.8	246.5	254.9	202.5	213.1
Merchandise imports (USDbn)	165.0	179.0	199.6	216.1	236.8	173.9	179.4
Trade balance (USDbn)	17.4	19.5	24.2	30.4	18.2	28.6	33.7
Current account balance (USDbn)	19.7	17.6	26.3	33.0	25.0	34.2	38.1
Current account balance (% GDP)	6.0	4.9	7.2	8.6	6.4	10.5	11.8
Net FDI (USDbn)	-5.2	-4.4	0.0	-3.3	-4.9	-10.0	1.6
Net FDI (% GDP)	-1.6	-1.2	0.0	-0.9	-1.2	-3.1	0.5
Current account balance plus FDI (% GDP)	4.4	3.7	7.2	7.7	5.1	7.4	12.3
Exports (% y-o-y)	21.1	8.8	12.8	10.1	3.4	-20.6	5.3
Imports (% y-o-y)	32.6	8.5	11.5	8.2	9.6	-26.6	3.2
International FX reserves (USDbn)	241.7	253.3	266.1	270.3	291.7	318.7	358.7
Import cover (months)	17.6	17.0	16.0	15.0	14.8	22.0	24.0
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	278.4	324.5	336.3	346.7	411.9	379.8	381.1
Gross external debt (USDbn)	80.9	86.7	85.8	94.5	109.5	120.8	125.7
Short term external debt (% of int'l reserves)	25.4	N/A	N/A	N/A	N/A	N/A	N/A
Private sector external debt (USDbn)	75.9	72.8	75.2	91.1	106.0	113.0	116.5
Central government balance (% GDP)	-2.8	-0.6	-0.6	-0.2	-0.5	-5.4	-5.0
Gross public domestic debt (TWDbn)	2,544	2,831	3,046	3,395	3,306	3,920	4,500
Gross public domestic debt (% GDP)	23.0	24.7	25.6	26.9	26.7	34.2	38.6
Gross public external debt (USDbn)	5.0	13.9	10.6	3.5	3.5	7.8	9.2
Gross public external debt (% GDP)	1.5	3.9	2.9	0.9	0.9	2.4	2.8
Gross public sector debt (% GDP)	24.5	28.6	28.5	27.8	27.6	36.6	41.4

Source: HSBC

HSBC

Thailand

Needs more lending

Economic growth fell very sharply in the last quarter of 2008, with GDP contracting 4.3% y-o-y – the worst reading since the dark days of the Asian Financial Crisis – largely driven by the fall-off in exports. No doubt the closure of Bangkok airport had some role to play but a collapse in external demand is the key to explaining a near 10% fall in real exports. Unfortunately, things are going to get worse, with forward indicators suggesting that the economy is set to contract by roughly 5-5.5% in the first half of the year.

The central bank, no doubt wary of such an outcome, eased policy aggressively by 225bps to 1.5%, with the government chipping in with an initial fiscal package of THB300bn (3.3% of GDP). However, the reluctance of commercial banks to pass on the easing and the impediments caused by the political stalemate mean that the benefits will only start feeding through in the later part of 2009.

Despite the measures already announced, we think there is more to come. Negative inflation readings and very weak activity outcomes will keep the pressure on the Bank of Thailand; we expect rates to bottom at 0.75% in Q2 and stay at that level well into 2010. The government has also announced an infrastructure package worth around THB1.6trn (17% of GDP) to be spent over the next three years. Taking these together with our view of a regional trade recovery, we expect the Thai economy to bounce back in 2010 with GDP expanding by 3%.

The big fiscal plans, however, mean that the country is set to see its largest budget deficit since the 1980s, putting supply pressure on the bond market. At least the current account is set to improve and the country's foreign exchange reserve position remains relatively solid at above USD110bn. Note short-term external debt was roughly USD25bn at the end of last year.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	6.0	5.3	3.9	-4.3	-5.6	-5.0	-2.6	-0.6	1.7	2.5
Industrial production (% y-o-y)	9.5	7.7	6.1	-6.8	4.0	2.0	2.0	3.0	4.0	4.0
CPI, end quarter (% y-o-y)	5.3	8.9	6.0	0.4	-0.2	-3.0	-2.0	1.8	2.4	2.7
PPI, end quarter (% y-o-y)	11.1	18.6	19.0	-1.7	-4.0	-11.0	-10.0	5.0	6.0	7.0
Trade balance (% GDP)	0.3	2.2	-0.3	-2.1	7.0	5.8	-0.3	-3.9	7.2	5.8
Current account (% GDP)	4.3	0.2	-2.0	-3.1	7.7	3.5	-0.5	-4.3	7.1	4.1
International reserves (USDbn)	110.0	105.7	102.4	111.0	113.6	115.2	115.5	114.5	119.9	124.3
Policy rate, end-quarter (%)	3.25	3.25	3.75	2.75	1.50	0.75	0.75	0.75	0.75	0.75
5yr yield, end-quarter (%)	3.59	5.40	4.34	2.48	2.42	2.25	2.25	2.75	2.75	3.25
THB /USD, end-quarter	31.5	33.5	33.9	34.7	35.5	36.5	38.0	38.5	38.5	38.5
THB /EUR, end-quarter	44.1	52.9	48.1	48.2	46.8	51.1	55.1	57.8	57.8	57.8

Source: HSBC

Thailand: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	6.4	4.7	5.2	4.9	2.6	-3.5	3.0
Nominal GDP (USDbn)	161.5	176.1	206.7	236.8	273.6	236.4	238.1
GDP per capita (USD)	2,469	2,708	3,156	3,724	4,115	3,619	3,501
Private consumption (% y-o-y)	6.1	4.9	3.0	1.6	2.5	1.3	2.8
Government consumption (% y-o-y)	5.8	11.4	2.4	9.2	0.4	10.2	5.5
Investment (% y-o-y)	13.2	10.5	3.9	1.3	1.1	-7.5	5.4
Industrial production (% y-o-y)	11.7	9.1	7.3	8.2	5.3	-8.3	5.8
Gross domestic saving (% GDP)	31.7	30.9	32.4	34.1	33.2	29.6	29.0
Unemployment rate, end-year (%)	1.5	1.4	1.0	0.8	1.4	3.6	1.5
Prices & wages							
CPI, average (% y-o-y)	2.8	4.5	4.6	2.2	5.6	-1.4	2.7
CPI, end-year (% y-o-y)	2.9	5.8	3.5	3.2	0.4	1.8	3.4
PPI, end-year (% y-o-y)	10.1	8.0	2.7	8.7	-1.7	5.0	10.0
Manufacturing wages, nominal (% y-o-y)	2.3	6.9	6.2	3.0	10.2	4.0	4.9
Money, FX & interest rates							
Central bank money M0, end (% y-o-y)	14.4	5.2	2.7	7.9	11.3	7.0	8.0
Broad money supply M2, end (% y-o-y)	5.4	8.2	6.0	6.3	9.2	4.0	5.0
Real private sector credit growth (% y-o-y)	5.4	2.0	-0.9	3.4	15.6	6.4	7.3
Policy rate, end-year (%)	2.00	4.00	5.00	3.25	2.75	0.75	1.50
5yr yield, end-year (%)	N/A	5.49	4.87	4.62	2.48	2.75	3.25
THB /USD, end-year	38.9	41.0	35.5	33.7	34.7	38.5	38.5
THB /USD, average	40.3	40.3	37.9	34.6	33.3	36.6	38.5
THB /EUR, end-year	52.9	48.4	46.8	49.2	48.2	57.8	57.8
THB /EUR, average	50.7	50.2	47.7	48.1	48.5	53.5	57.8
External sector							
Merchandise exports (USDbn)	94.9	109.4	127.9	150.0	175.3	151.0	163.7
Merchandise imports (USDbn)	93.5	117.6	126.9	138.5	175.1	145.6	159.0
Trade balance (USDbn)	1.5	-8.3	1.0	11.6	0.2	5.3	4.6
Current account balance (USDbn)	2.8	-7.6	2.3	14.0	-0.2	4.0	3.3
Current account balance (% GDP)	1.7	-4.3	1.1	5.9	-0.1	1.7	1.4
Net FDI (USDbn)	5.8	7.5	8.5	9.4	7.7	2.8	6.2
Net FDI (% GDP)	3.6	4.3	4.1	4.0	2.8	1.2	2.6
Current account balance plus FDI (% GDP)	5.3	-0.1	5.2	9.9	2.8	2.9	4.0
Exports (% y-o-y)	21.6	15.2	17.0	17.3	16.8	-13.9	8.4
Imports (% y-o-y)	25.7	25.8	7.9	9.1	26.4	-16.8	9.2
International FX reserves (USDbn)	49.8	52.1	67.0	87.5	111.0	114.5	127.0
Import cover (months)	6.4	5.3	6.3	7.6	7.6	9.4	9.6
Public and external solvency indicators							
Gross external debt (USDbn)	51.3	52.0	59.6	61.7	64.8	61.5	64.1
Short term external debt (% of int'l reserves)	24.4	31.5	27.7	24.7	22.2	16.6	15.8
Private sector external debt (USDbn)	36.4	38.0	45.6	49.7	51.8	44.0	46.0
Consolidated government balance (% GDP)	0.0	0.3	1.2	-2.3	-1.1	-5.5	-5.2
Gross public domestic debt (THBbn)	2,482	2,705	3,187	3,226	3,434	3,684	3,838
Gross public domestic debt (% GDP)	38.2	38.1	40.6	39.4	37.7	42.5	41.9
Gross public external debt (USDbn)	14.9	14.0	13.1	11.7	12.6	17.5	18.1
Gross public external debt (% GDP)	9.2	7.9	6.4	4.9	4.6	7.4	7.6

Source: HSBC

HSBC

Vietnam

Averting recession

Over the last six months, policy focus in Vietnam has been focused on supporting growth to avoid a recession. The base rate is down by 700bps to 7%, the cash reserve ratio is down 800bps to 3%, a fiscal package worth USD6bn or nearly 7% of GDP (including USD1bn for interest rate subsidy of 4ppts for corporates) has been introduced and there has been a c10% nominal depreciation of the dong versus the USD. At some levels, the efforts have been successful.

GDP growth slowed to a decade low of 3% year-on-year in the first quarter of 2009 but it was still "positive", which in itself is an achievement in the current global downturn, especially for a country that is fairly open (exports make up 70% of GDP).

A closer look shows that the poor performance was, not surprisingly, on account of the export oriented manufacturing sector. The sectors geared to the domestic economy, such as the retail trade, are holding up well, helped no doubt by the collapse in inflation. At the same time, construction is making a strong comeback as projects that were stalled during the inflation scare of 2008 are coming back on line. The government is also working to expedite project execution.

Looking ahead, as the benefits of the monetary and fiscal easing start feeding through, we think things will gradually improve. Taking this together with our view of a regional trade recovery, we believe Vietnam is capable of clocking 6% growth by the end of the year.

On the policy front, although the bulk has already been delivered, we think the central bank's bias will remain to ease a bit more. We look for another 100bps of cuts in the case reserve ratio and possibly the base rate. The currency is expected to depreciate further, in line with the regional trend and weakening remittance and foreign direct investment inflows.

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	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
GDP (% y-o-y)	7.5	5.8	6.5	5.7	3.1	4.0	5.0	6.0	6.0	6.5
Industrial production (% y-o-y)	16.8	14.3	10.6	5.3	3.0	4.0	7.0	9.0	10.0	11.0
CPI, end quarter (% y-o-y)	19.4	26.8	27.9	19.9	11.3	4.0	3.0	7.0	9.0	10.0
Trade balance (% GDP)	-52.8	-26.0	-5.9	-7.2	10.0	-8.9	-10.6	-11.1	-10.3	-7.4
International reserves (USDbn)	26.4	22.3	23.8	22.0	21.0	20.0	22.0	22.0	22.0	22.0
Policy rate, end quarter (%)	8.75	14.00	14.00	8.50	7.00	6.00	6.00	6.00	6.00	6.00
5-yr yield, end quarter (%)	8.70	19.70	15.90	10.00	9.17	11.00	11.00	11.00	11.00	10.00
VND/USD, end quarter	16,110	16,842	16,600	17,483	17,797	17,900	18,050	18,200	18,200	18,200
VND/EUR, end quarter	22,554	26,610	23,572	24,301	23,492	25,060	26,173	27,300	27,300	27,300

Source: HSBC

HSBC

Vietnam: Macro framework

	2004	2005	2006	2007	2008	2009f	2010f
Production, demand and employment							
GDP growth (% y-o-y)	7.8	8.4	8.2	8.5	6.2	4.5	6.5
Nominal GDP (USDbn)	45.5	53.0	60.9	71.0	79.5	89.7	100.7
GDP per capita (USD)	555	638	724	833	921	1,026	1,139
Private consumption (% y-o-y)	7.1	7.3	8.3	9.6	7.3	3.0	6.0
Government consumption (% y-o-y)	7.8	8.1	8.6	9.0	5.8	6.5	6.0
Investment (% y-o-y)	10.4	9.7	9.9	23.0	13.2	3.0	6.3
Industrial production (% y-o-y)	17.6	25.5	16.0	11.6	11.8	5.8	11.5
Gross domestic saving (% GDP)	32.0	34.6	35.0	32.5	32.6	31.9	32.0
Unemployment rate, end-year (%)	5.6	5.3	4.8	4.6	5.0	6.0	5.5
Prices							
CPI, average (% y-o-y)	7.8	8.3	7.5	8.3	23.0	7.4	9.3
CPI, end-year (% y-o-y)	9.7	8.8	6.6	12.6	19.9	7.0	11.0
PPI, end-year (% y-o-y)	7.8	4.4	4.2	7.0	12.0	5.0	7.0
Money, FX & interest rates							
Broad money supply M2, average (% y-o-y)	29.5	29.8	33.6	40.0	30.0	15.0	20.0
Real private sector credit growth (% y-o-y)	26.0	28.7	23.5	41.7	12.0	12.6	15.7
Policy rate, end-year (%)	7.50	7.75	7.75	8.25	8.50	6.00	8.00
5yr yield, end-year (%)	8.50	8.75	8.30	8.73	10.00	11.00	11.00
VND /USD, end-year	15,754	15,896	16,050	16,017	17,483	18,200	18,200
VND /USD, average	15,738	15,866	16,006	16,096	16,759	17,987	18,200
VND /EUR, end-year	21,425	18,751	21,164	23,385	24,301	27,300	27,300
VND /EUR, average	20,460	19,753	20,114	22,373	24,405	26,283	27,300
External sector							
Merchandise exports (USDbn)	26.5	32.4	39.6	48.6	63.1	59.0	65.6
Merchandise imports (USDbn)	28.8	33.3	44.4	62.7	80.6	65.0	73.0
Trade balance (USDbn)	-2.3	-0.8	-4.8	-14.1	-17.5	-6.0	-7.4
Current account balance (USDbn)	-1.6	0.2	0.3	-7.1	-11.0	-6.5	-5.8
Current account balance (% GDP)	-3.4	0.4	0.5	-10.0	-13.8	-7.2	-5.8
Net FDI (USDbn)	1.9	2.0	2.4	6.6	11.0	5.0	6.0
Net FDI (% GDP)	4.1	3.8	3.9	9.3	13.8	5.6	6.0
Current account balance plus FDI (% GDP)	0.7	4.2	4.4	-0.7	0.0	-1.7	0.2
Exports (% y-o-y)	31.4	22.5	22.1	22.7	29.9	-6.5	11.2
Imports (% y-o-y)	26.6	15.7	33.4	41.2	28.5	-19.4	12.3
International FX reserves (USDbn)	7.0	9.0	13.4	23.5	22.0	22.0	24.0
Import cover (months)	2.9	3.2	3.6	4.5	3.3	4.1	3.9
Public and external solvency indicators							
Gross external debt (USDbn)	13.5	14.2	15.6	19.3	24.0	25.6	27.6
Short term external debt (% of int'l reserves)	21.4	17.8	13.4	20.9	29.5	22.7	25.0
Private sector external debt (USDbn)	0.9	1.6	1.7	2.7	4.8	4.9	5.4
Consolidated government balance (% GDP)	-4.9	-4.9	-5.0	-5.0	-5.0	-8.0	-5.0
Primary balance (% GDP)	-3.0	-3.0	-3.5	-3.4	-2.5	-5.0	-3.0
Gross public domestic debt (VNDbn)	7.0	9.2	11.3	13.4	16.5	20.6	25.0
Gross public domestic debt (% GDP)	15.4	17.4	18.6	19.4	20.8	23.0	24.8
Gross public external debt (USDbn)	12.6	12.6	13.9	16.6	19.2	20.6	22.2
Gross public external debt (% GDP)	27.7	23.8	22.9	23.4	24.1	23.0	22.0

Source: HSBC

Notes

Disclosure appendix

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