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Asian Economies Faces 'Much Greater' Risks From Global Slowdown, ADB Says

By Shamim Adam - Dec 5, 2011

Asian economies are facing "much greater downside risks" now because of the possibility of a recession in the U.S. and Europe and the threat of destabilizing capital flows, the [Asian Development Bank](#) said.

The biggest challenge for policy makers in emerging East Asian nations is to safeguard growth against the threat of another global economic crisis, the Manila-based lender said in its Asia Economic Monitor report today. Uncertainty over the world economy means officials in the region must have "sufficient flexibility" to adjust policies quickly, it said.

"The cautiously optimistic outlook for emerging East Asia is subject to much greater downside risks now than just a few months ago," the ADB said. "The global economic recovery could flounder if the [euro zone](#) and the U.S. fall back into recession, causing another global financial crisis. Large and destabilizing capital flows could complicate the region's macroeconomic management and jeopardize economic growth."

Asian policy makers have shifted their focus to shielding growth, rather than stemming inflation, as [Europe's](#) debt woes and a struggling U.S. economy increase the risk of another global recession. [Australia](#) lowered borrowing costs for a second straight month today and Indonesia and Thailand cut [interest rates](#) last month, while the [Philippines](#) in October unveiled a fiscal stimulus package to spur the economy.

Asia stocks fell for the first time in seven days today after [Standard & Poor's](#) put 15 European nations on watch for potential ratings downgrades. The MSCI Asia Pacific Index retreated 1.3 percent as of 1:13 p.m. in [Tokyo](#).

Best Case

Emerging East Asian economies may grow 7.2 percent next year after expanding 7.5 percent in 2011, according to the report today. The estimates are lower than the lender's September prediction for 7.6 percent growth this year and 7.5 percent in 2012, it said.

The 2012 forecast is the "best case" scenario, Iwan Azis, head of the office of regional economic integration at the ADB, said in an interview with Bloomberg Television in [Hong Kong](#) today. Recessions in the U.S. and Europe may cut emerging East Asia's growth rate to about 5.4 percent in

2012, he said.

“Asian policy makers should shift the pendulum from controlling inflation to stimulating growth,” Azis said. Governments can stimulate domestic demand through consumption and investment to offset weaker exports as the U.S. and European economies slow, he said.

‘Risk Aversion’

Asian stocks and currencies have retreated amid concern that the region’s export-reliant economies will suffer the impact of diminished global demand as the euro region struggles to stem its debt crisis. The [MSCI Asia-Pacific Index \(MXAP\)](#) fell about 16 percent last quarter, the biggest drop since the last three months of 2008.

Standard & Poor’s said yesterday [Germany](#) and [France](#) may be stripped of their AAA credit ratings as it put 15 euro nations on review for possible downgrade.

“The lingering eurozone debt crisis could boost risk aversion among investors, with rapid swings in risk appetite boosting capital flow volatility beyond the spurts and stops seen in the third quarter this year,” the ADB said. “Consequently, exchange rate volatility would follow from large but fickle capital movements.”

Asian central banks may undertake more foreign-exchange intervention if the debt crisis in Europe continues to worsen, as their currencies weaken because of capital outflows, Azis told reporters in Hong Kong today.

Not Immune

Emerging [East Asia](#) won’t be immune to a “major” slowdown in advanced economies, which would hurt the region’s economic growth and pose “significant” policy challenges, the ADB said.

“With the euro zone’s sovereign debt crisis unfolding and risks of faltering global recovery rising, macroeconomic policy must remain cautious and prudent,” it said. “Should the euro zone fall into a full-blown financial and economic crisis, emerging East Asian economies must respond promptly, decisively, and collectively.”

The ADB cut its 2012 growth estimate for China, the region’s largest economy, to 8.8 percent from a 9.1 percent forecast in September as external demand weakens and “government efforts to cool the economy and achieve a soft landing bear fruit,” it said.

The People’s Bank of [China](#) reduced lenders’ reserve requirements on Nov. 30 for the first time since 2008.

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