



Capital Inflows and Macroeconomic Policies

*Coping with Asia's Large Capital Inflows
in a Multi-Speed Global Economy*

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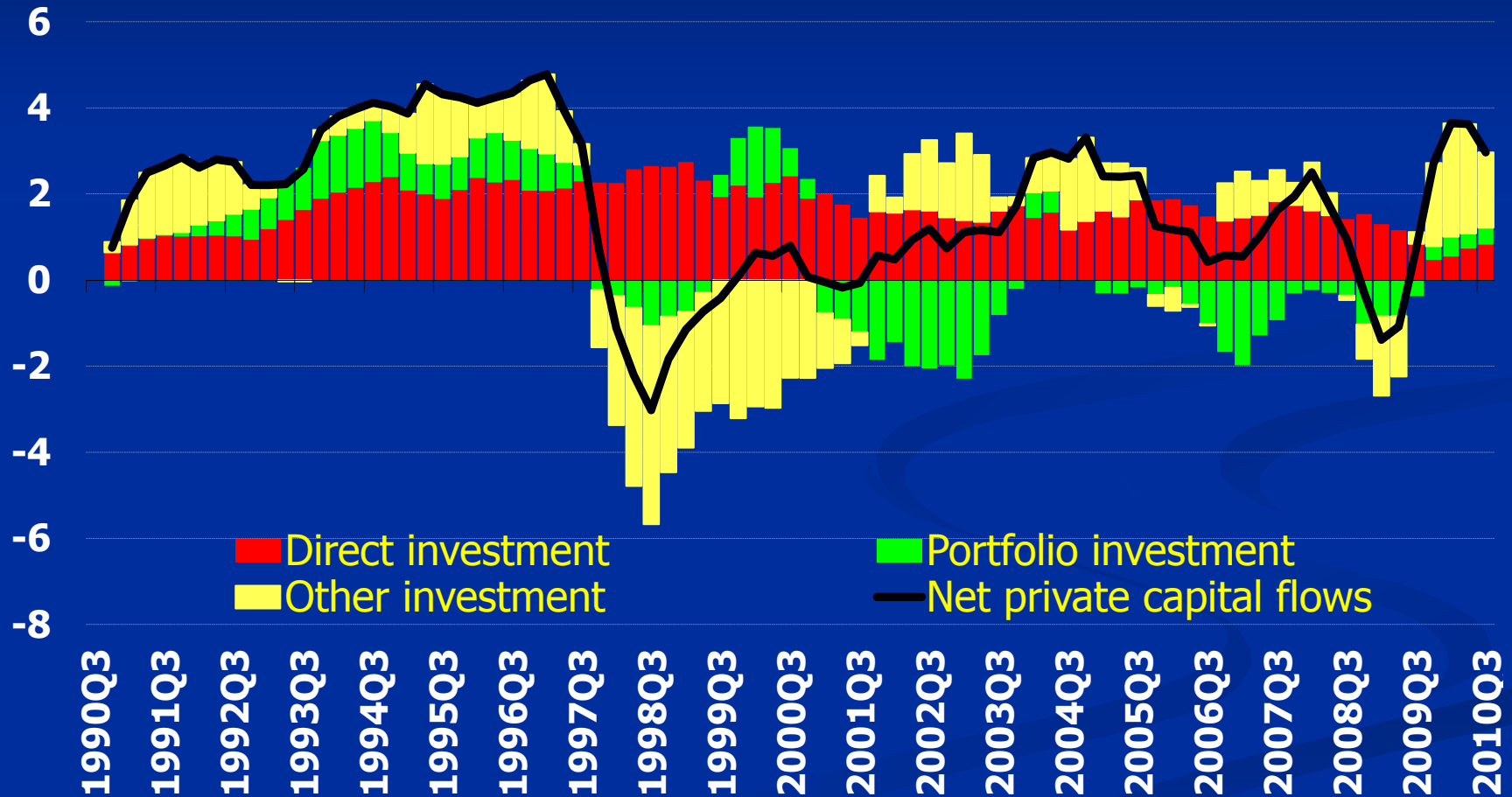
Capital Inflows and Macroeconomic Policies

Outline of Presentation

- The recent wave of flows – what is different?
- The macroeconomic policy responses so far.
- Looking forward: Policy priorities

Capital flows to Emerging Asia are large but not extraordinary

Emerging Asia: Net Capital Inflows by Composition 1/
(In percent of GDP; 4-quarter moving average)

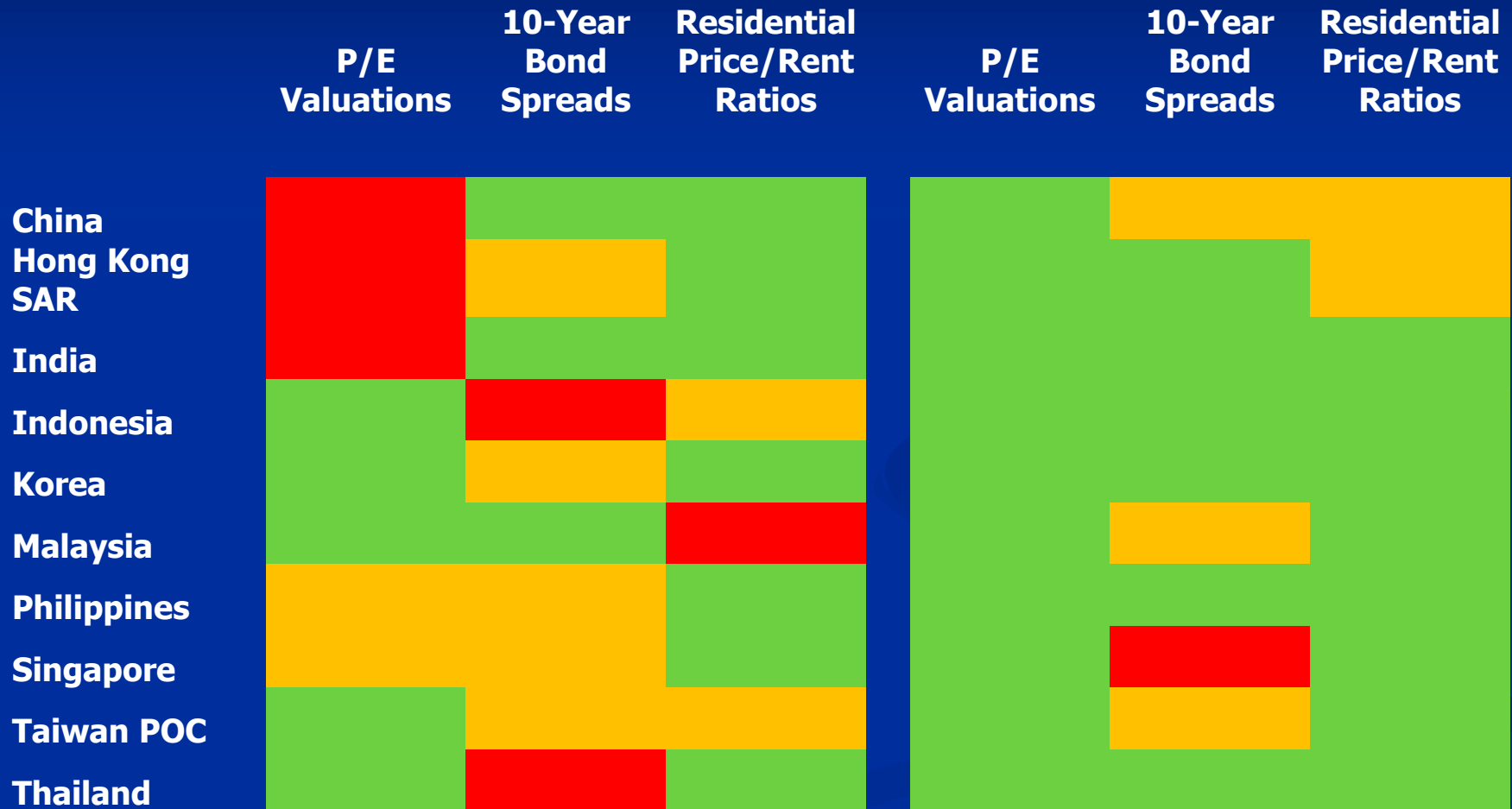


1/ EM Asia includes China, India, Indonesia, Korea, Malaysia, Taiwan Province of China, and Thailand.

Asset valuations: generally not excessive yet

Before Global Crisis

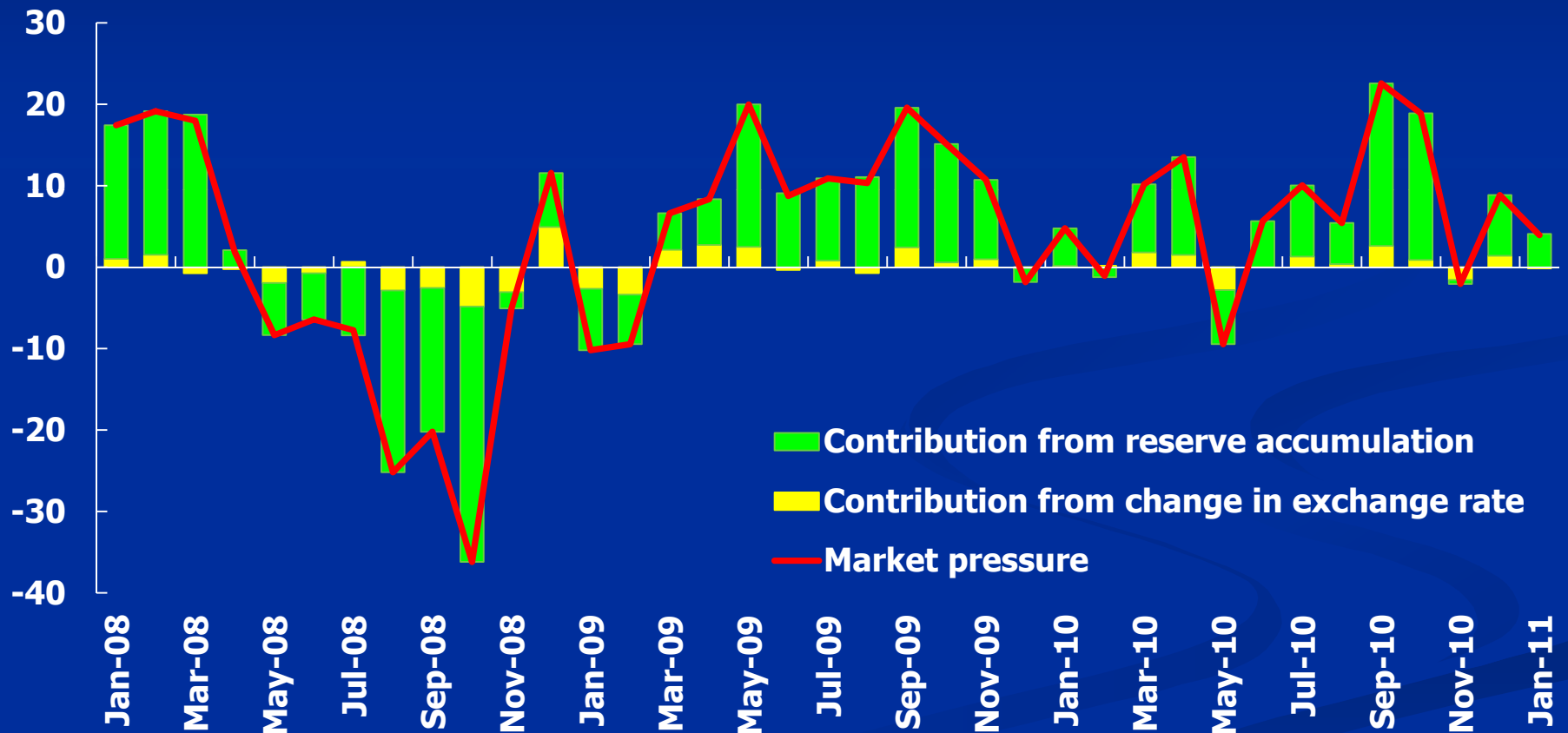
Current Episode



Heat map shows the deviation of latest observation from the long-term average. Green is less than 1.5, orange is between 1.5 and 2, and red is more than 2 standard deviations above the long-term average.

Emerging Asia: More reserve accumulation than appreciation

Emerging Asia (excl. China): Exchange Market Pressure Index

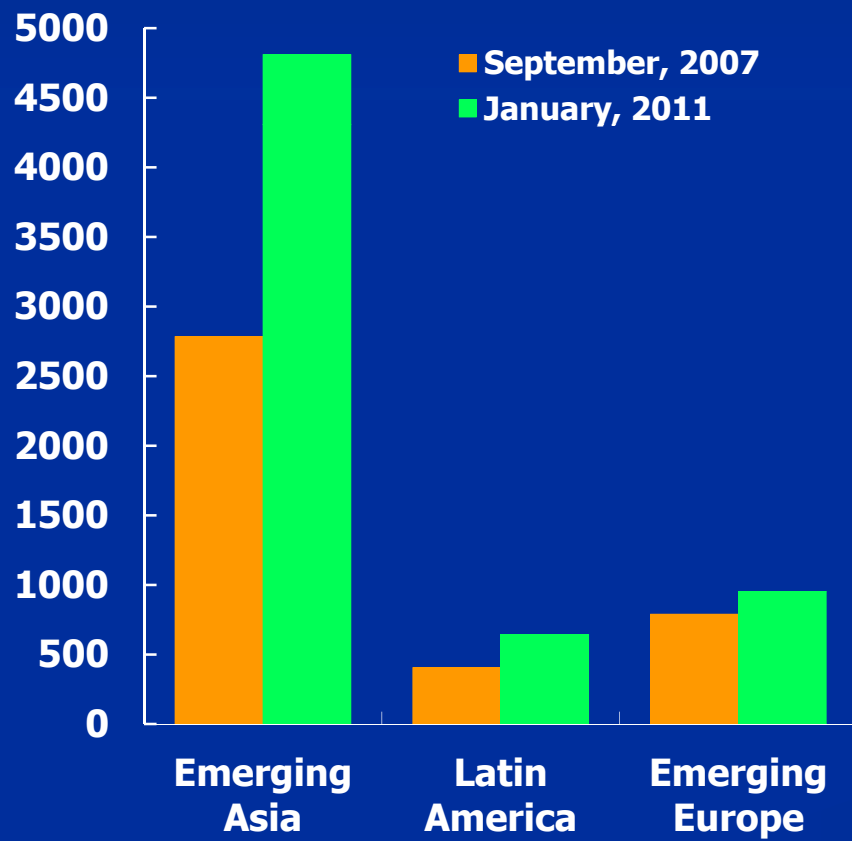


Note: The exchange market pressure (EMP) index is defined as: month-on month change in nominal exchange rate vis-à-vis U.S. dollar plus month-on-month change in international reserves (including interventions in the forwards market) in percent of monetary base. Positive (negative) index implies appreciation (depreciation) pressure.

There is room for stronger currencies across the region

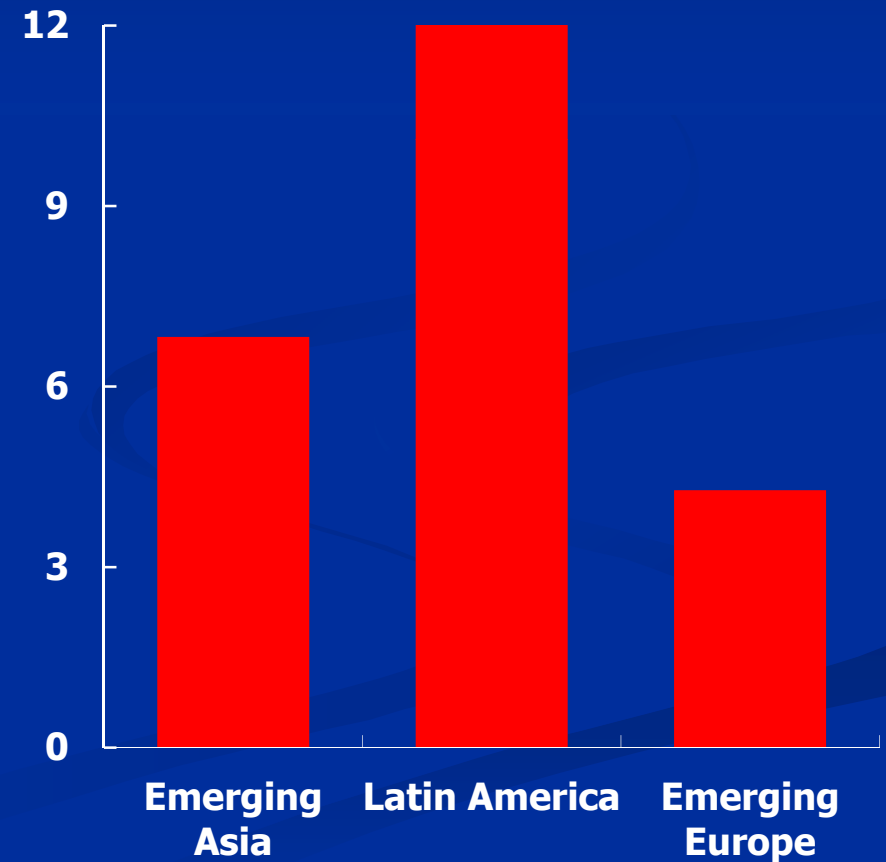
Foreign Exchange Reserves

(In billions of US dollars)



REER Change

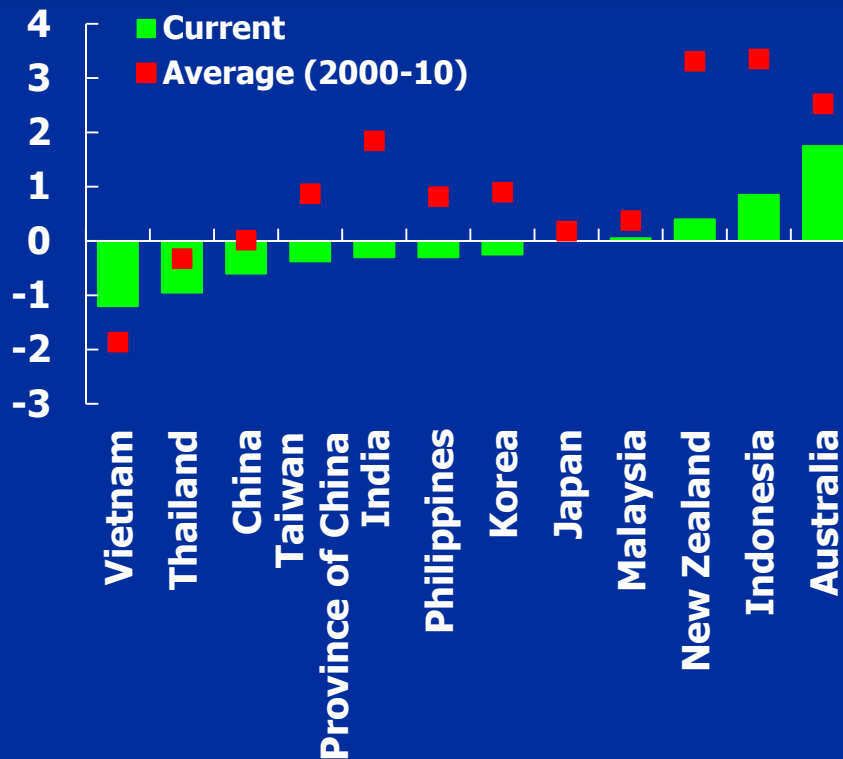
(In percent; between September 2007 and January 2011; GDP weighted)



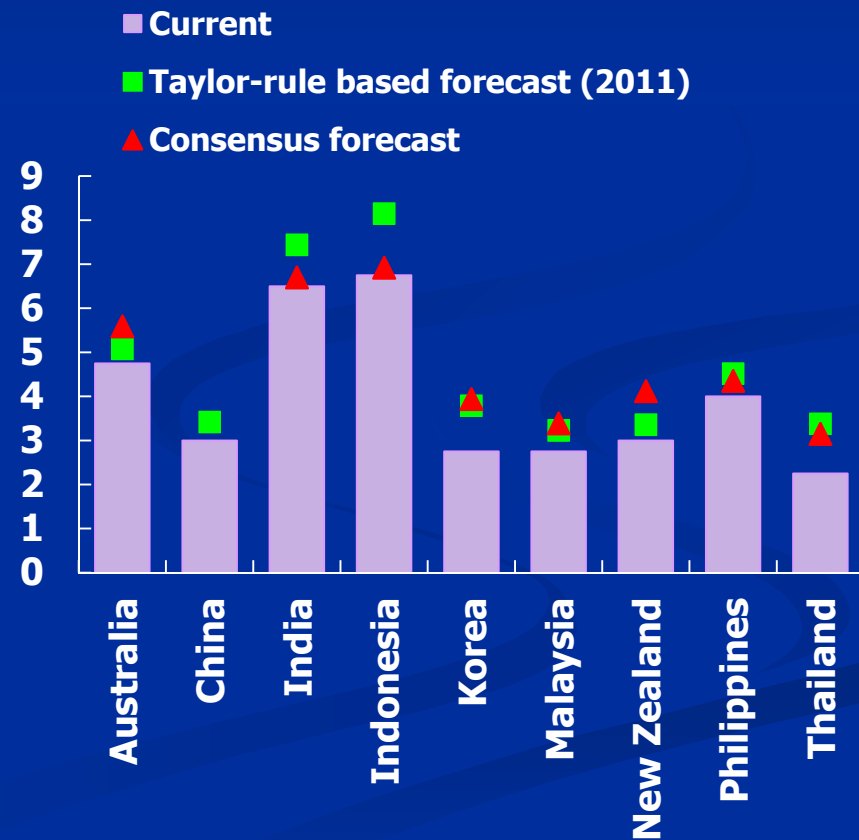
Note: Increase implies appreciation.

Monetary policy behind closing output gaps

Asia: Real Policy Rates¹
(In percent; as of February 2011)



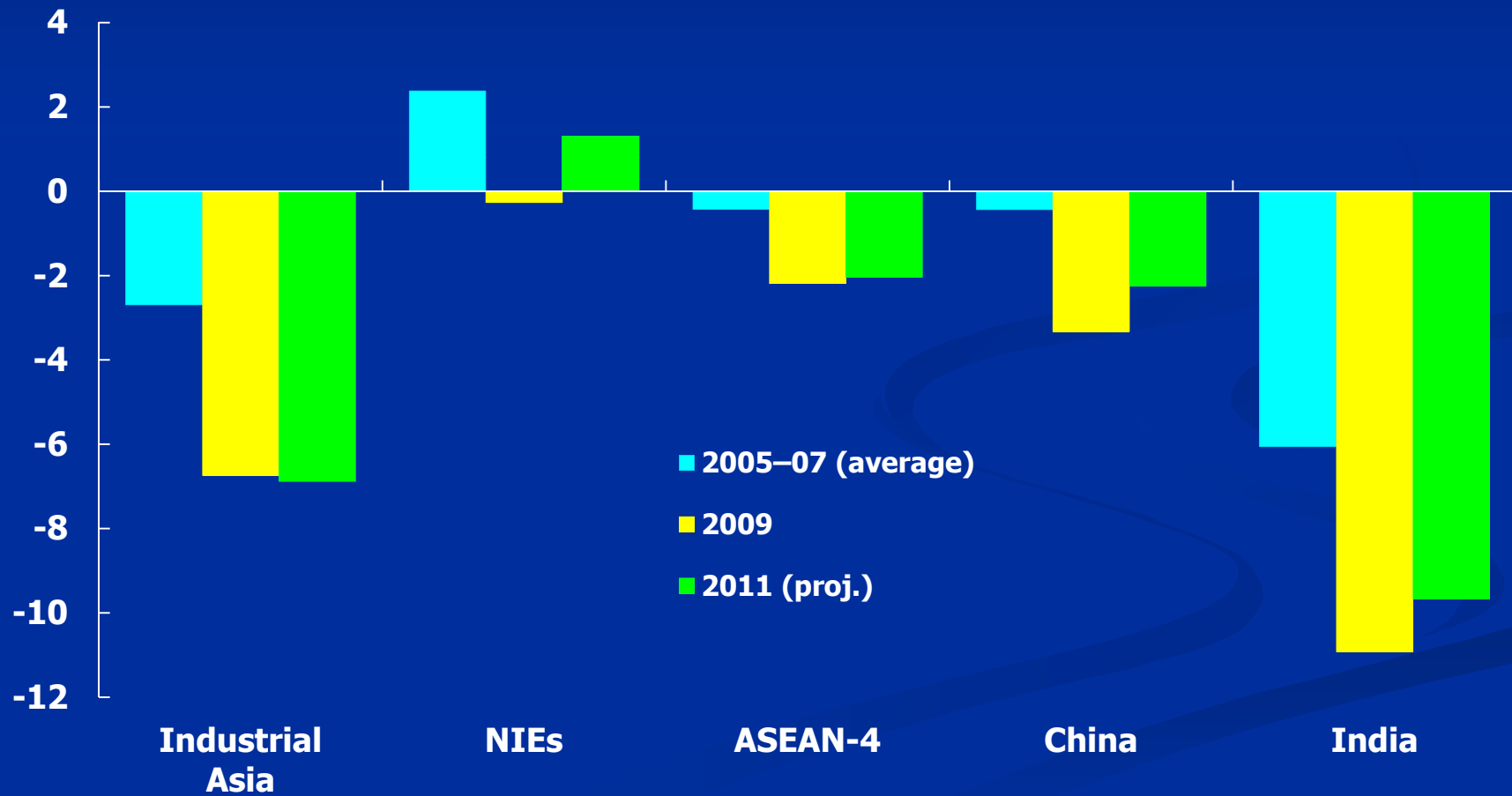
Selected Asia: Policy Interest Rates
(In percent)



¹ Real policy rates are defined as nominal policy rates adjusted for consensus forecast for average consumer price inflation in 2012 (average wholesale price inflation expectation for fiscal year ending in March 2012 for India).

And fiscal policy still adding to demand pressures

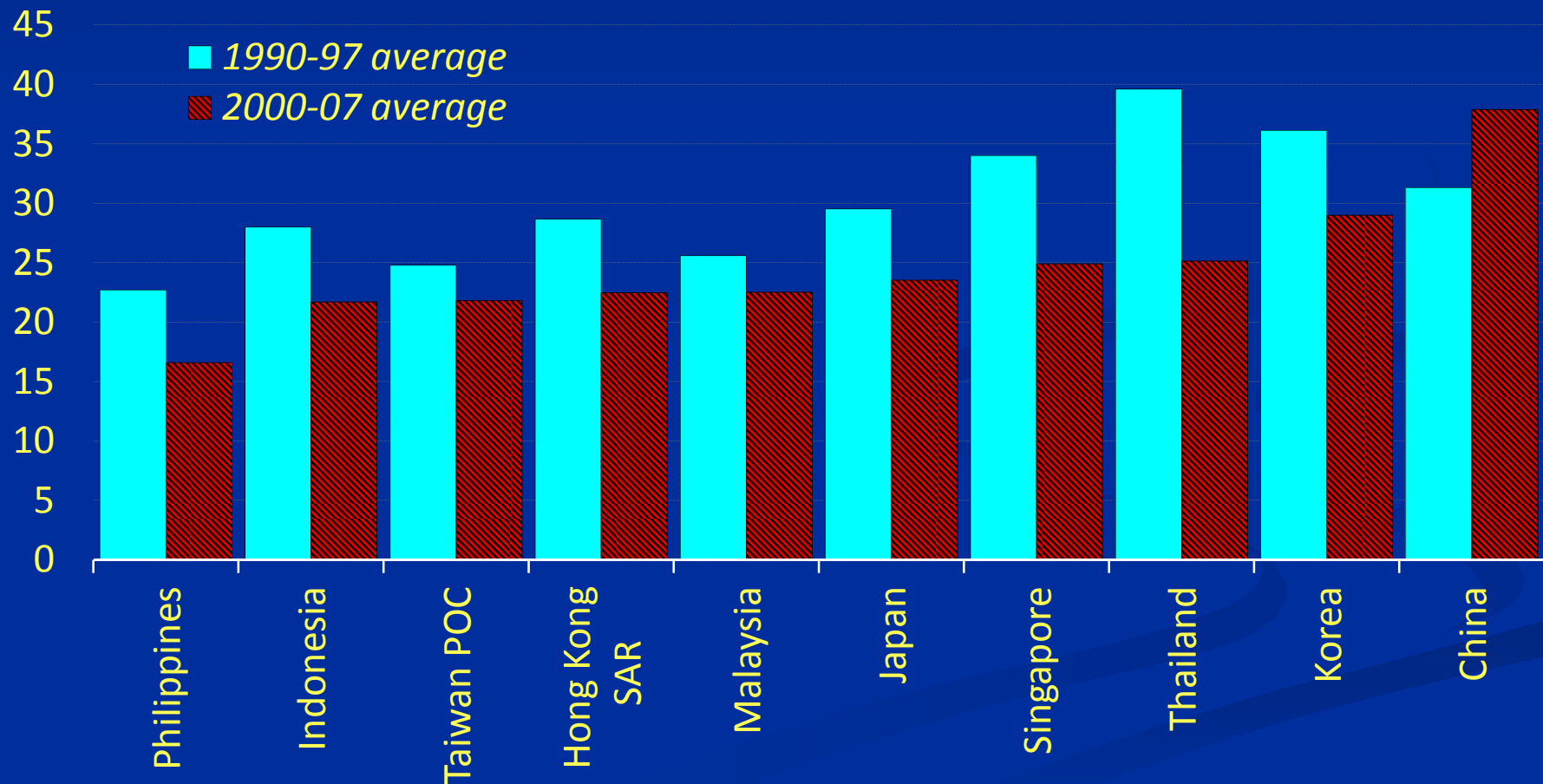
Asia: Cyclically Adjusted General Government Balance
(In percent of GDP)



Priority: Rather than resist inflows, guide them to meet Asia's large investment needs

Selected Asia: Gross Fixed Investment

(In percent of GDP)



Source: CEIC Data Company Ltd.

Conclusions

- The multi-speed global economy makes policy challenges in Asia more complex.
- Capital inflows need to be managed carefully but are not currently a threat to macroeconomic stability.
- There is still significant scope for fiscal, monetary/exchange rate policies to respond.
- This is important transition to harness flows to facilitate broader rebalancing.



THANK YOU