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Abbreviations and Acronyms

ADB	Asian Development Bank	Lao PDR	Lao People's Democratic Republic
ADO	Asian Development Outlook	LIBOR	London Interbank Offered Rate
AEM	Asia Economic Monitor	MSCI	Morgan Stanley Capital International Inc.
ARIC	Asian Regional Integration Center	m-o-m	month on month
ASEAN	Association of Southeast Asian Nations	NEER	nominal effective exchange rate
ASEAN+3	ASEAN plus People's Republic of China, Japan, and Republic of Korea	NIE	newly industrialized economy
ASEAN-4	Indonesia, Malaysia, Philippines, Thailand	NIIP	net international investment position
ASEAN-5	Indonesia, Malaysia, Philippines, Thailand, Viet Nam	NPL	nonperforming loan
BIS	Bank for International Settlements	OECD	Organisation for Economic Co-operation and Development
BI	Bank Indonesia	OREI	Office of Regional Economic Integration
bp	basis point	PCOMP	Philippine Composite Index
BSP	Bangko Sentral ng Pilipinas	PIIGS	Portugal, Ireland, Italy, Greece, and Spain
CDS	credit default swap	PRC	People's Republic of China
CMI	Chiang Mai Initiative	PMI	purchasing managers' index
CMIM	Chiang Mai Initiative Multilateralization	Q1	first quarter
ECB	European Central Bank	q-o-q	quarter on quarter
EU	European Union	repo	reverse repurchase
FY	fiscal year	SET	Stock Exchange of Thailand
G3	US, eurozone, Japan	STI	Straits Times Index
GDP	gross domestic product	TWSE	Taiwan Stock Exchange Index
HKMA	Hong Kong Monetary Authority	UK	United Kingdom
IMF	International Monetary Fund	US	United States
IT	information technology	VNINDEX	Ho Chi Minh Stock Index
JCI	Jakarta Composite Index	y-o-y	year on year
KLCI	Kuala Lumpur Composite Index		
KOSPI	Korean Stock Price Index		

Note: Unless otherwise indicated "\$" refers to US dollars

Emerging
East Asia—
**A Regional
Economic
Update**

Highlights

Recent Economic Performance

- Economic recovery in emerging East Asia continued to strengthen in the first half of 2010, with domestic demand and a revival in external demand driving the recovery; both business sentiment and consumer confidence continue to improve.
- As the recovery strengthened, inflation across the region edged upward during the first 6 months of the year, but remains manageable.
- Balance of payments were strong across the region as current accounts remained in surplus and capital continued to flow into the region.
- After strong gains through March 2010, most emerging East Asian stock markets retreated on the back of the sovereign debt crisis in Europe.
- Most of the region's currencies appreciated against the US dollar during the first half of 2010, although some have retrenched lately in response to the sovereign debt crisis in Europe.
- Bond yields in emerging East Asia generally fell in the first half of 2010 as capital continued to flow in.
- As emerging East Asia's recovery gathered momentum, some economies have begun to unwind policy stimulus; Malaysia; Taipei, China; Republic of Korea; and Thailand have raised policy rates, while others have used alternative monetary tools to tighten monetary policy.
- With limited impact from the sovereign debt crisis in Europe, emerging East Asia's financial systems remain stable, with banks holding ample capital cushions and showing strong profitability.

Outlook and Risks

- The overall external environment for emerging East Asia remains positive, although the financial crisis in Europe casts some doubt over the strength of its recovery.
- Emerging East Asia's V-shaped recovery is firmly on track, with GDP growth forecast at 8.1% for 2010; however, growth will likely taper to 7.2% in 2011.
- The economic outlook is subject to three major risks: (i) a disruption in the recovery in advanced economies; (ii) destabilizing capital flows; and (iii) unintended policy errors or an inappropriate policy mix when unwinding stimulus.

Policy Issues

- Well-designed exit strategies from unprecedented macroeconomic stimulus are critical to sustain the region's recovery.
- With a few exceptions, it is now time to begin unwinding policy stimulus.
- In terms of policy mix, a "Money First" strategy is more appropriate for most of emerging East Asia—using a judicious mix of currency appreciation and interest rate adjustments to help rebalance the region's sources of growth.
- The pace at which economies unwind stimulus should depend on the speed of recovery as well as evolving risks.
- Managing capital flows effectively requires an array of policy measures, including sound macroeconomic management, flexible exchange rates, resilient financial systems, and in some cases, possibly temporary, well-targeted capital controls.

Unwinding Policy Stimulus: Options for Emerging East Asia

- With emerging East Asia's V-shaped economic recovery firmly on track, monetary and fiscal stimulus must begin to unwind, and macroeconomic policy should return to normal.
- The magnitude of stimulus in emerging East Asia has been more modest compared with advanced economies; therefore, the scale of unwinding needed is smaller.
- The main challenge is to reduce stimulus without disrupting growth; critical is the timing, policy mix, and pace of unwinding.
- Timing depends primarily on the strength and resilience of the recovery in each economy and the risks to its economic outlook; unwinding is more urgent where recovery is strong, output gaps are narrowing quickly, and inflationary pressures are emerging.
- In terms of policy mix, in contrast to advanced economies' "Fiscal First" unwinding, emerging East Asia is better attuned to a "Money First" unwinding strategy.
- And in terms of pace, unwinding stimulus should be in step with the speed of the region's V-shaped recovery—though ever-mindful of the risks facing the overall global recovery.
- Collaborating and coordinating exit strategies among emerging East Asian economies, particularly on exchange rate policy, can help sustain recovery and facilitate economic rebalancing.

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The Asia Economic Monitor is a semiannual review of emerging East Asia's growth and policy issues. It covers the 10 members of the Association of Southeast Asian Nations; People's Republic of China; Hong Kong, China; Republic of Korea; and Taipei, China. This issue includes a special section on options for unwinding policy stimulus for emerging East Asia.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.