

SPECIAL FEATURE: *Assessing the monetary policy stance in Asia*

Global expectations of an early US exit from quantitative easing—with the possibility that interest rates may rise before year-end—could affect monetary policy across the region. An assessment of the monetary stance around the region offers a hint at whether rates could rise in parallel.

Monetary policies in the region remained accommodative. Seven countries have cut policy rates this year on growth concerns: Azerbaijan, India, the Republic of Korea, Pakistan, Thailand, Sri Lanka, and Viet Nam. Other central banks have held rates steady since 2011/2012, due to general price stability. And Indonesia is the only country that raised rates this year amid rising inflation.

With the rate cuts, all policy rates in the region remain below the 2008/09 peak. The differential is particularly large for Azerbaijan; Viet Nam; Hong Kong, China; Kazakhstan; Pakistan; Sri Lanka; and Indonesia—ranging from 3.50 to 10.25 percentage points (ppt). For the Philippines and the Republic of Korea, the differential is moderate (2.50 ppt, 2.80 ppt); and modest for the remainder (below 1.75 ppt).

With the exception of the Philippines and Indonesia, output growth in the region has also remained below trend in 2013Q1. The output gap also shifted negative for Malaysia; Taipei,China; Thailand; and Viet Nam. The general price stability in the region combined with downside risks to second quarter growth suggests that there is further room for monetary easing in the short-run. In the medium-term, however, interest rates may move closer to their 2008/09 peaks following any rise in US Fed rates and as a precaution against buildup of asset bubbles.

Policy Rate Movement—Asia

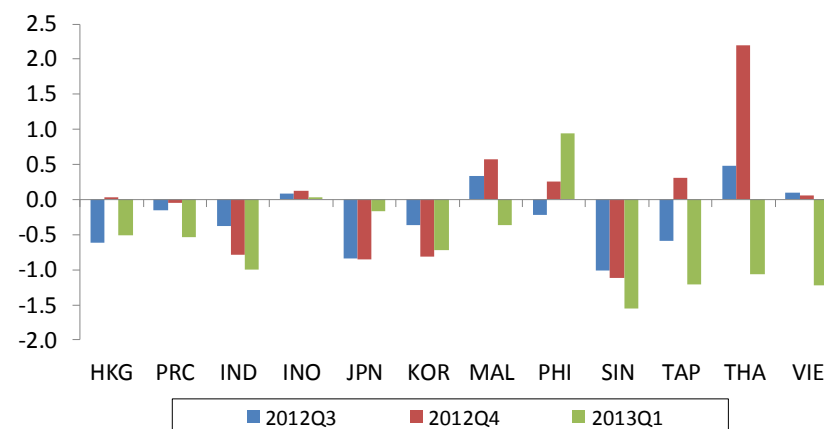
Economy	Current	Difference from 2008-09 peak	Direction of Last Change	Date of change
Azerbaijan	4.75	-10.25	●	11-Feb-2013
China, People's Rep. of	6.0	-1.50	●	06-Jul-2012
Hong Kong, China	0.5	-5.30	●	17-Dec-2008
India	7.25	-1.75	●	03-May-2013
Indonesia	6.0	-3.50	●	13-Jun-2013
Japan	0.1	-0.40	●	19-Dec-2008
Kazakhstan	5.5	-5.50	●	06-Aug-2012
Korea, Rep. of	2.5	-2.80	●	09-May-2013
Malaysia	3.0	-0.50	●	05-May-2011
Pakistan	9.0	-6.00	●	24-Jun-2013
Philippines	3.5	-2.50	●	25-Oct-2012
Sri Lanka	7.0	-3.50	●	10-May-2013
Taipei,China	1.875	-1.75	●	01-Jul-2011
Thailand	2.5	-1.30	●	29-May-2013
Viet Nam	7.0	-8.00	●	13-May-2013

Red = up, Green = down.

Note: Refinancing rate (Azerbaijan); one year lending rate (People's Republic of China); base rate (Hong Kong, China); repurchase (repo) rate (India); Bank Indonesia rate (Indonesia); target policy rate (Japan); repo rate (Kazakhstan); The Bank of Korea base rate (Republic of Korea); overnight policy rate (Malaysia); discount rate (Pakistan); reverse repo rate (Philippines); central bank repo (Sri Lanka); discount rate (Taipei,China); and one-day repo rate (Thailand); and refinancing rate (Viet Nam).

Source: ADB calculations using data from Datastream and Bloomberg.

Output Deviation from Trend (%)



HKG = Hong Kong, China; PRC = People's Republic of China; IND = India; INO = Indonesia; JPN = Japan; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; SIN = Singapore; TAP = Taipei,China; THA = Thailand; VIE = Viet Nam. Note: Output gap is computed as the percentage deviation of actual real gross domestic product (GDP) from trend. A positive value denotes that actual output is above its trend. Real GDP series ending 2013Q1 are extended to 2014Q4 using forecasts from Consensus Economics. Output gap is calculated using the Hodrick-Prescott filter with a smoothing parameter of 1600.

Source: ADB calculations using data from CEIC, Consensus Economics, and Oxford Economics for PRC data only.