



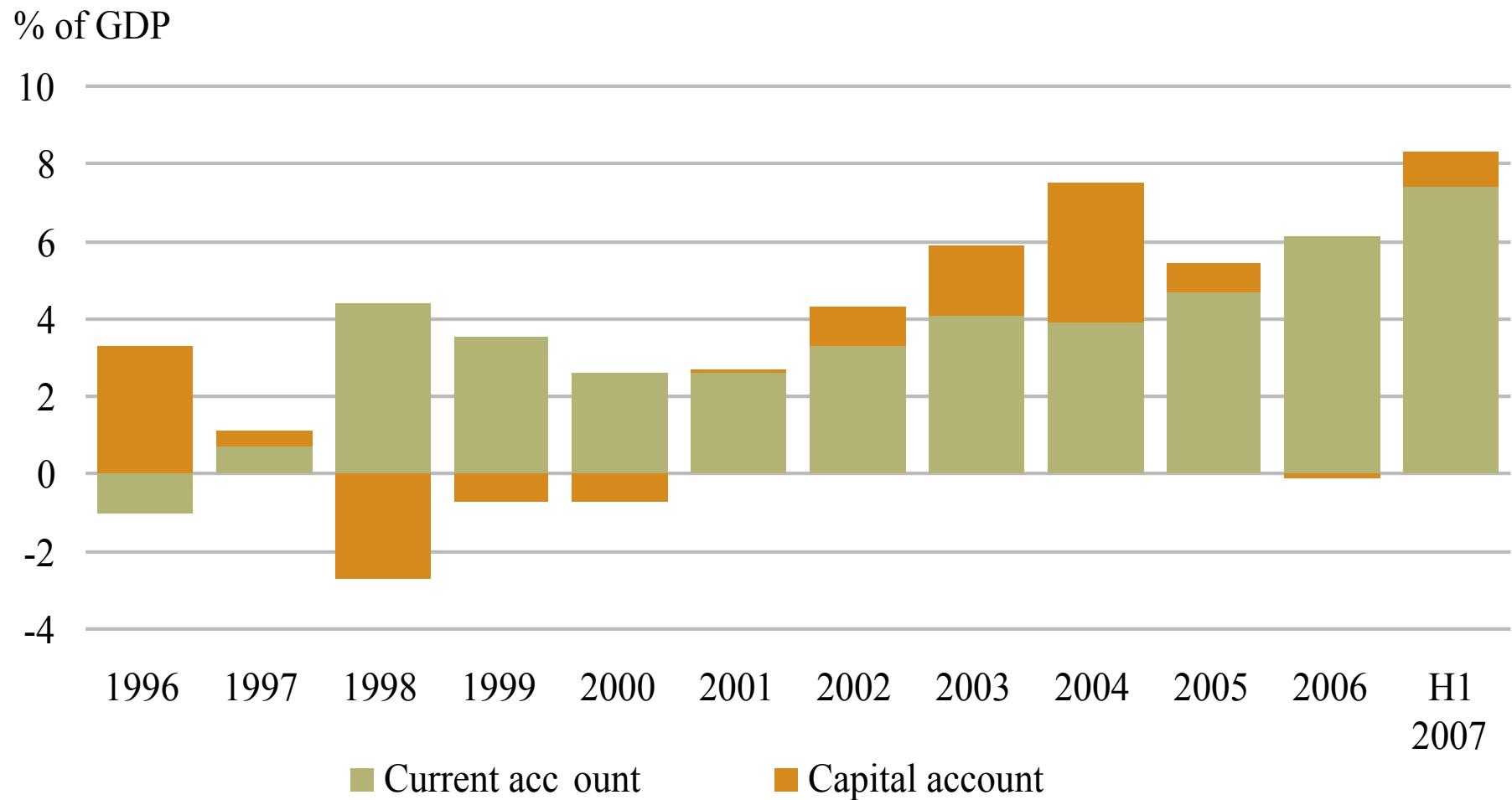
Recent Asia experiences with capital flows

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December 2007

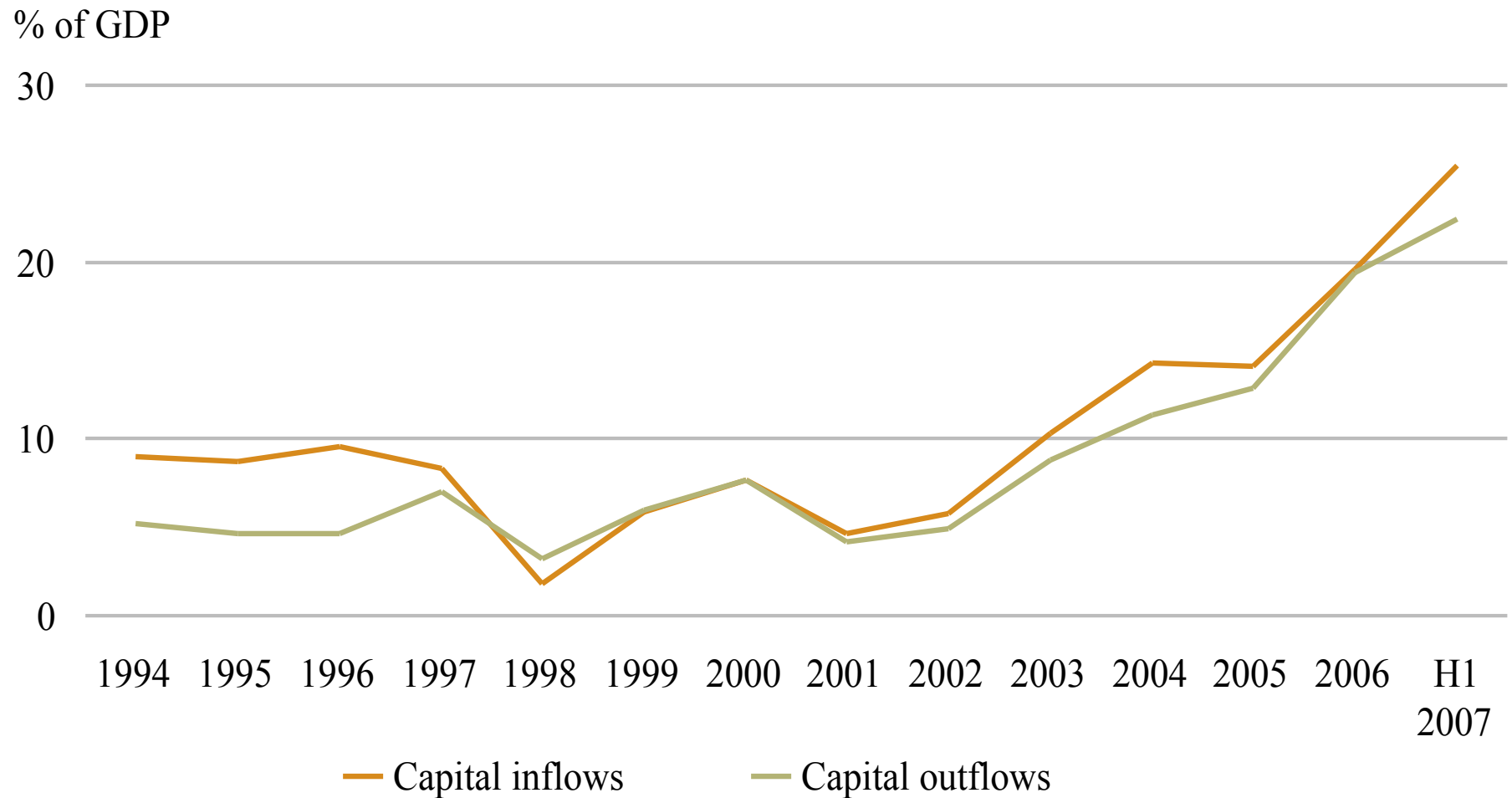
LEHMAN BROTHERS

Asia ex-Japan's total balance of payments



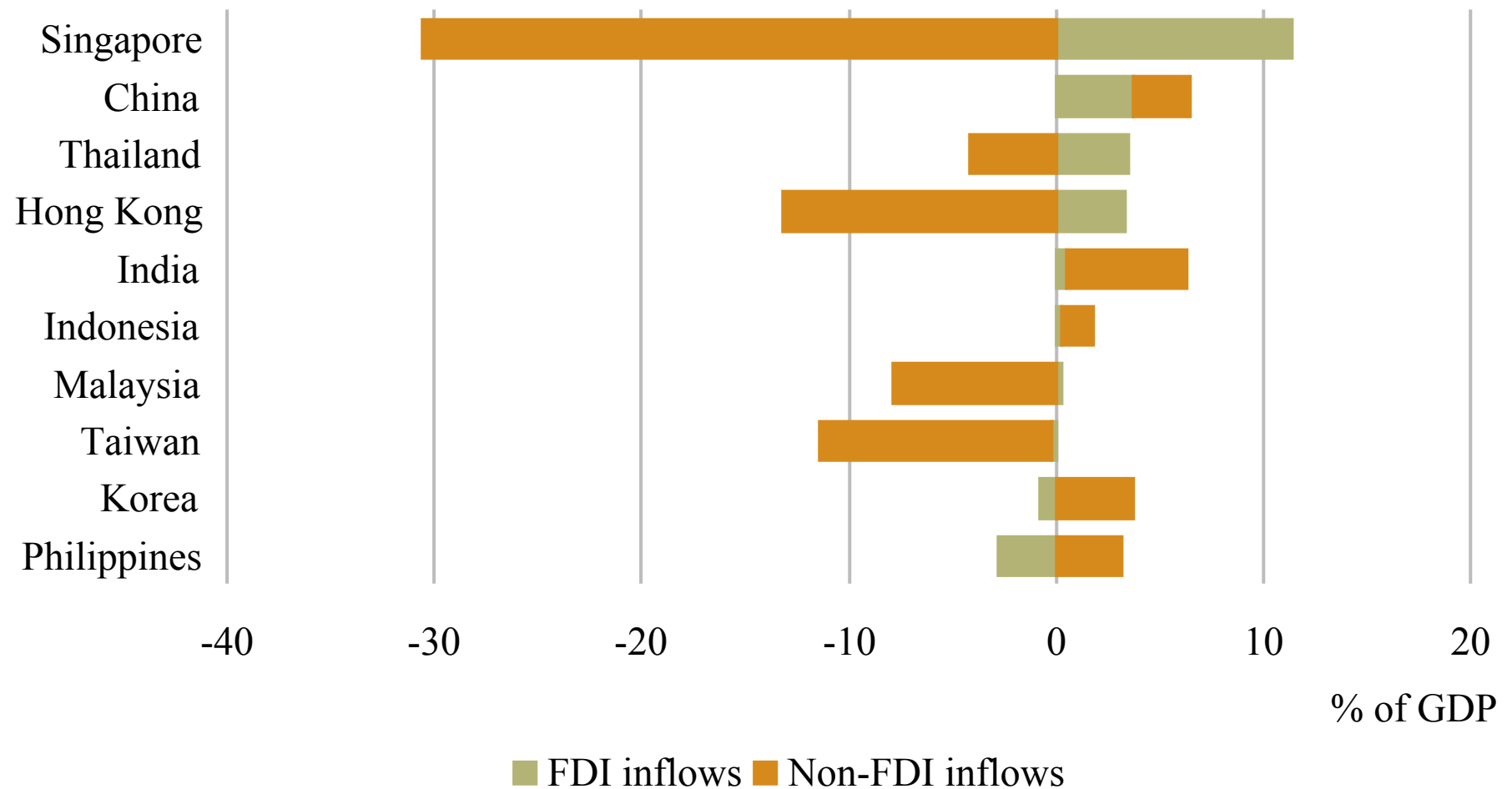
Source: CEIC, IMF and Lehman Brothers.

Total capital inflows and outflows for Asia ex-Japan



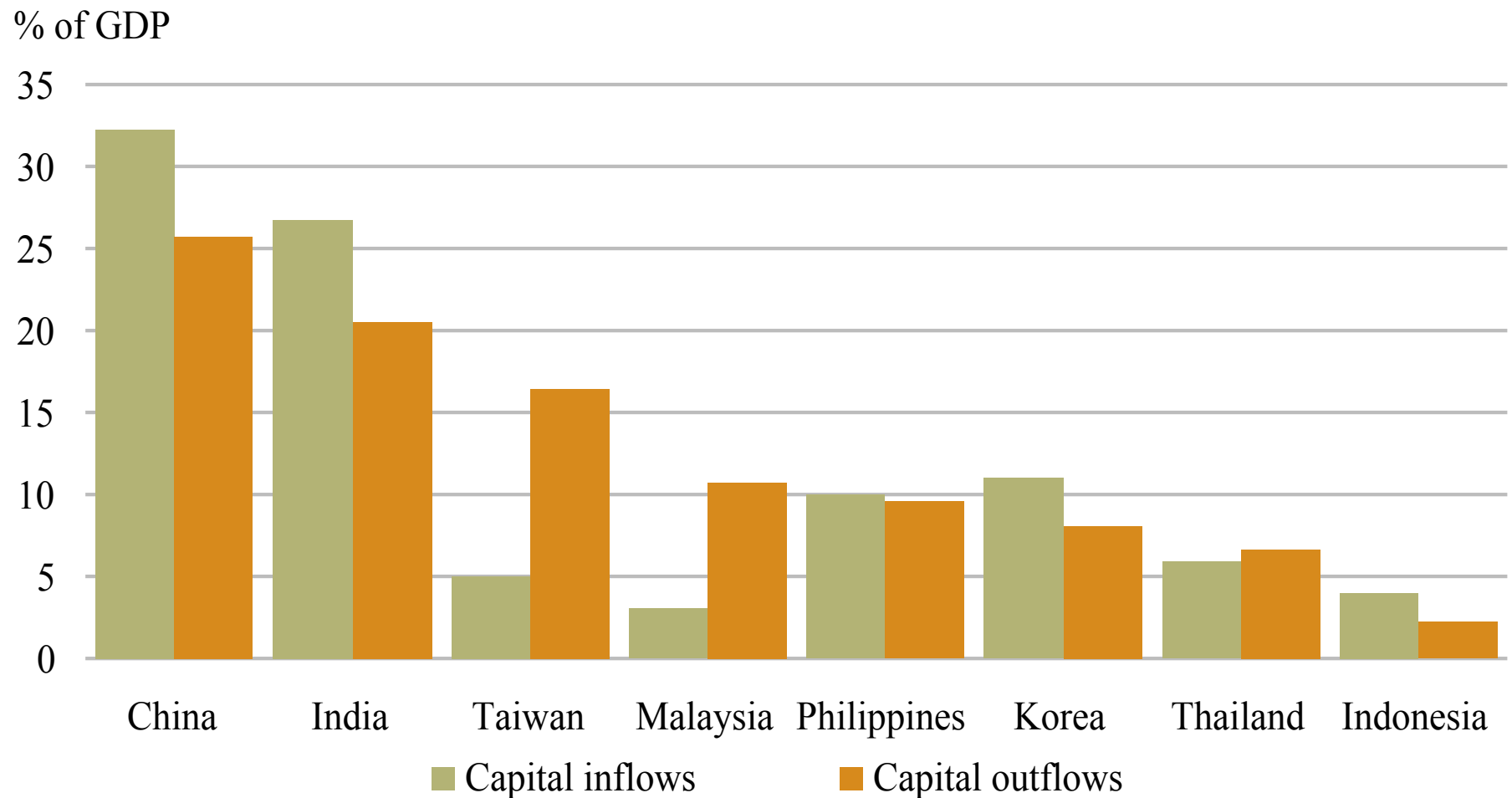
Source: CEIC, IMF and Lehman Brothers.

Net capital inflows in 1H 2007



Source: CEIC, IMF and Lehman Brothers.

Capital inflows and outflows in 1H 2007



Source: CEIC, IMF and Lehman Brothers.

Real effective exchange rates

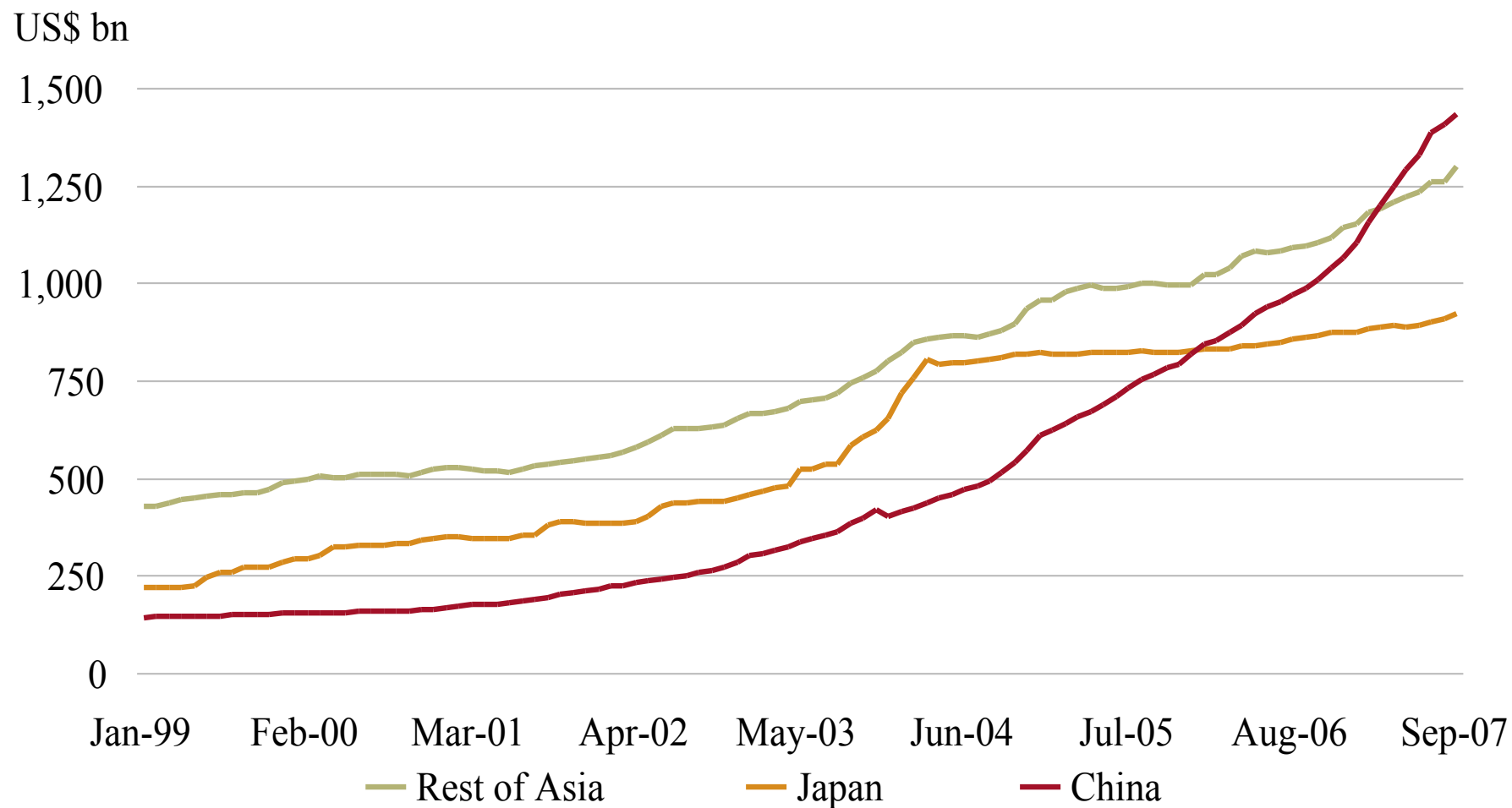
	Dec-96	Dec-00	Oct-07
China	100	110	105
Hong Kong	100	106	77
India	100	107	118
Indonesia	100	60	84
Korea	100	85	106
Malaysia	100	81	80
Philippines	100	74	89
Singapore	100	93	88
Taiwan	100	93	77
Thailand	100	74	86
Asia ex-Japan*	100	98	101

**GDP-weighted average real effective exchange rate for the region.*

•Increase in index denotes currency appreciation.

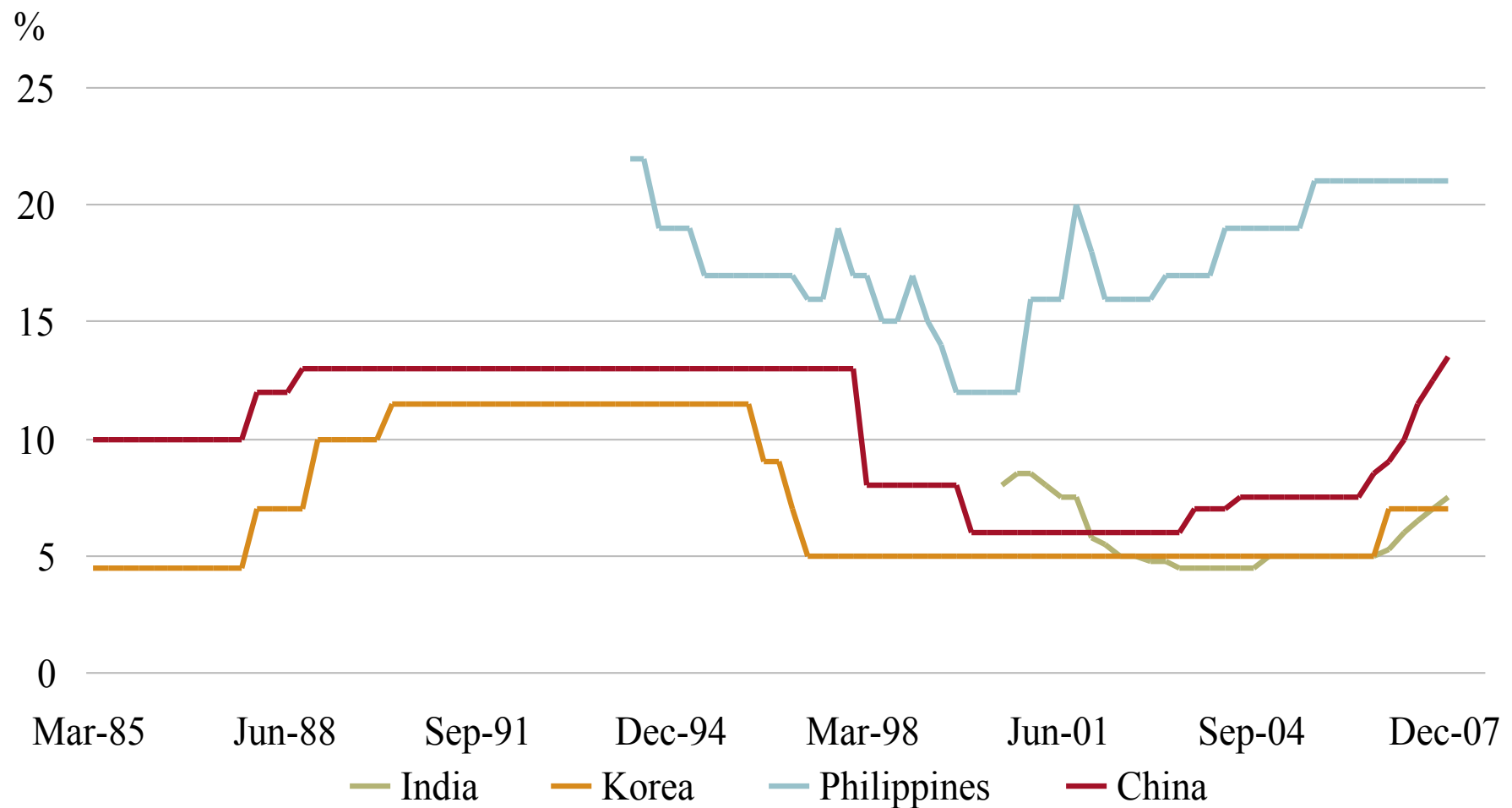
Source: BIS and Lehman Brothers.

Asian FX reserves



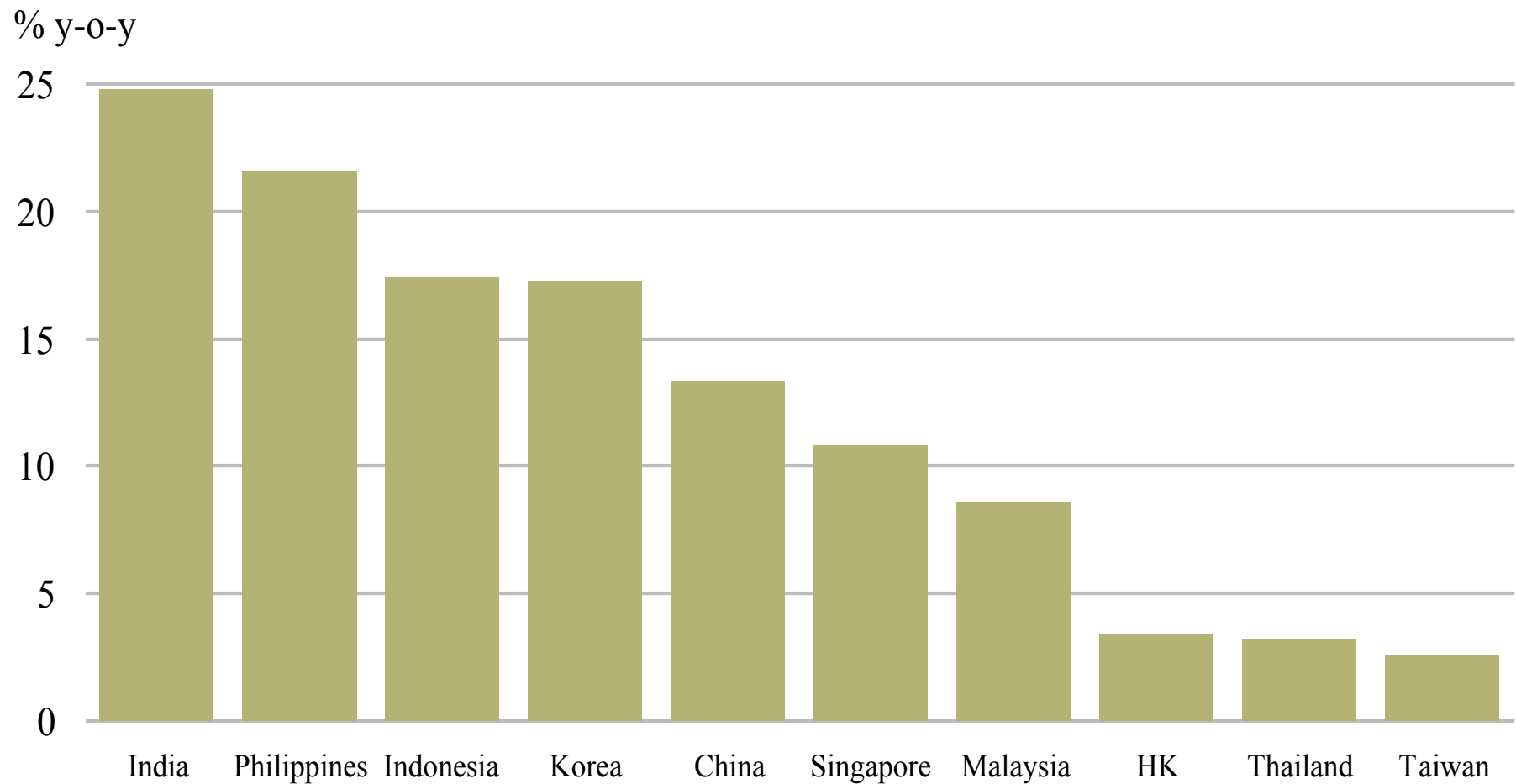
Source: CEIC and Lehman Brothers.

Reserve requirement ratio in select Asian countries



Source: CEIC and Lehman Brothers.

Reserve money growth in 2007*



**Data for 2007 are from Jan-Oct except for Philippines and Thailand (Jan-Sep).*

Source: CEIC and Lehman Brothers.

Real policy interest rates*

	Real short-term interest rate (% p.a.)	
	Dec-06	Oct-07
China	3.3	0.8
HK	1.6	1.2
India	0.5	1.3
Indonesia	3.2	1.4
Korea	2.4	2.0
Malaysia	0.4	1.6
Philippines	3.2	3.0
Singapore	2.6	-1.1
Taiwan	2.1	-2.1
Thailand	1.5	0.7
Asia ex-Japan**	2.6	1.5

* Short-term policy rates less headline CPI inflation.

** GDP-weighted average real policy interest rate for the region.

Source: CEIC and Lehman Brothers.

Asian response: encouraging outflows

◆ **China:**

- Banks, mutual funds, and insurance firms encouraged to invest in overseas markets under qualified domestic institutional investor (QDII) program (Apr 06)
- Greenfield outward FDI and merger & acquisition activities encouraged (2006-07).
- Annual quotas for individuals to purchase FX raised, US\$20K → \$50K (Feb 07)
- Plans to allow households to invest directly in HK's stock markets (Aug 07)
- Sovereign wealth fund set up with US\$200bn AUM (Sep 07)

◆ **Korea:**

- Local investors exempted from capital tax gains on overseas equity funds and allowed to invest in unlisted or unregistered stocks offshore (Jun 07 – Dec 09)
- Firms and individuals allowed to invest US\$3m in property abroad, up from US\$1m. Pension funds permitted to invest in overseas securities (Feb 07)

◆ **Malaysia:**

- Total limit for FX borrowing by firms raised, to RMB100m→RMB50m (Mar 07)
- Unit trust coys allowed to invest up to 50% of the NAV overseas and fund management coys allowed to invest up to 50% of the funds of resident clients (Apr 07)
- Individuals with domestic credit facilities can invest abroad RMB1m annually (Apr07)

◆ **Philippines:** Doubled the ceiling on resident investment abroad to US\$12m (Feb 07)

◆ **Thailand:** Govt Pension Fund % of assets in o/s investments, raised 13%→25% (Nov 07)

◆ **Taiwan:** Insurance coys % working capital in o/s investments, raised 35%→45% (Jun 07)

Asian response: limiting inflows

◆ **China:**

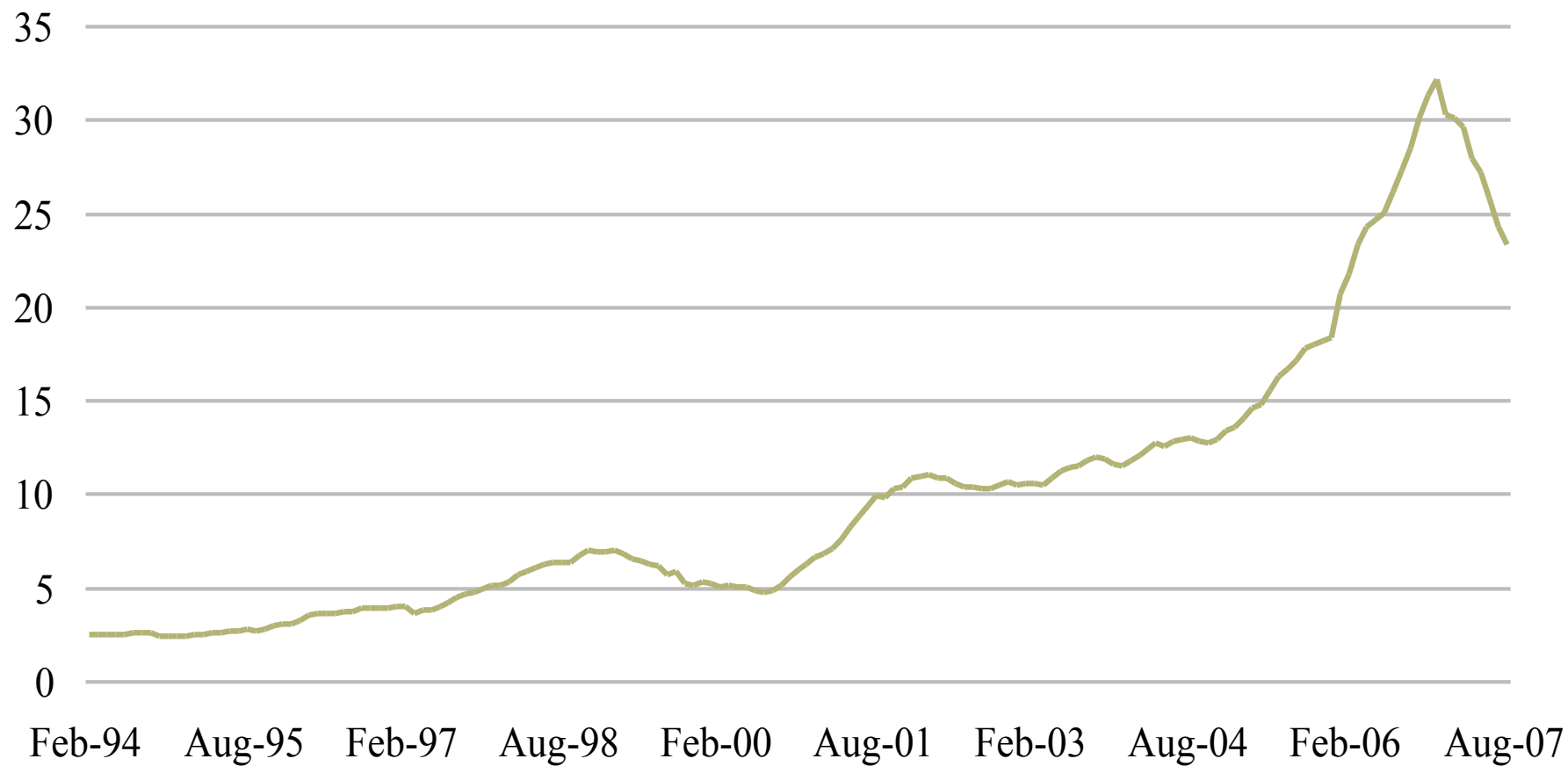
- Quota on short-term external debt for banks cut to 30% of 2006 levels and for non-bank financial institutions to 60% of the 2006 level in 2007-2008
- Slowed approvals under qualified foreign institutional investors (QFII) program

◆ **Korea:** Limit on tax deductible borrowings of foreign banks reduced from six times of their paid up capital to three times to reduce short-term external debt (Jan 08)

◆ **Thailand:** 30% of all foreign currency inflows of more than US\$20,000 in bonds and other debt instruments to be held as interest free deposit by central bank. Investors to be repatriated full amount after a year or only two-thirds the amount if taken out before one year (Dec 06)

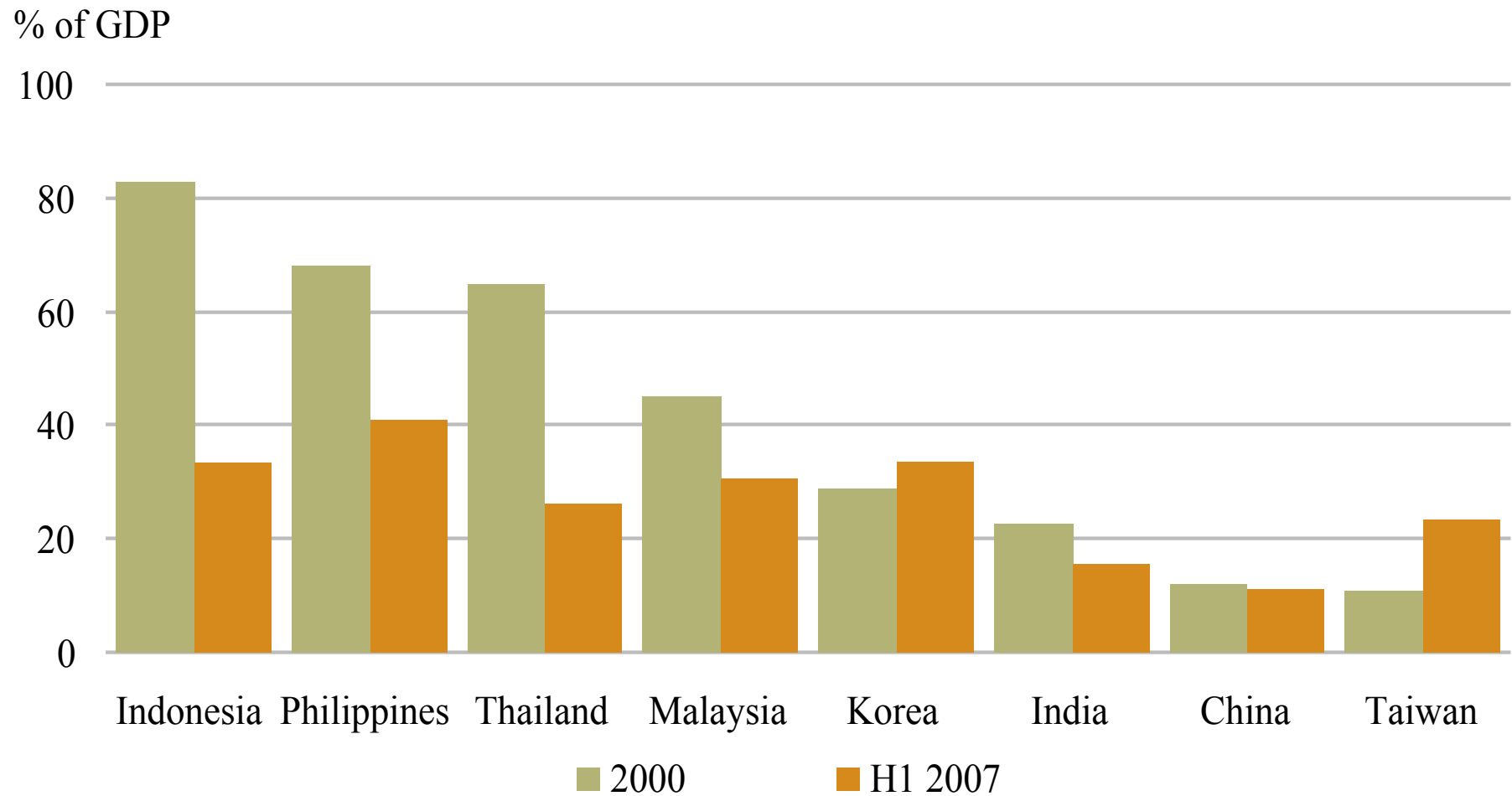
Thailand: FDI inflows

US\$bn, 12- month rolling sum



Source: CEIC and Lehman Brothers.

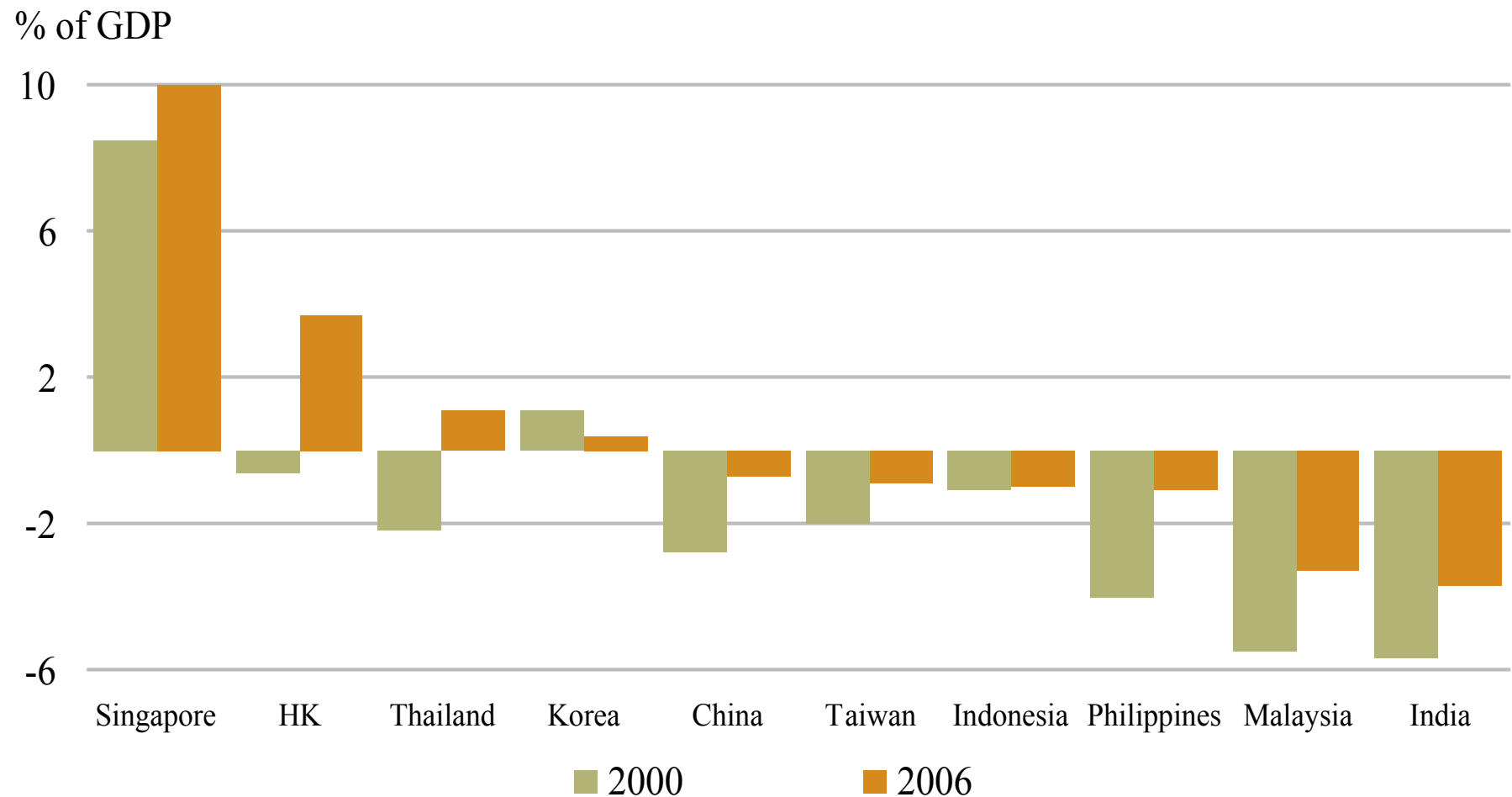
External debt-to-GDP ratio*



*Data for Indonesia are for 2001, not 2000. All external debt data are from domestic sources, except Singapore (BIS data).

Source: CEIC, BIS and Lehman Brothers.

Central government fiscal balance, % GDP



Source: ADB, CEIC and Lehman Brothers.

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