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The Economic Outlook of Asian-Pacific Emerging Markets as well as Markets in Austral-Asia

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Asia-Pacific Region

- APAC Region is the part of the world in or near Pacific ocean
- Includes much of Asia, South East Asia and Oceania
- For commercial purposes, it includes all of Asia, Australasia and Pacific island nations
- Asia Pacific business is balanced between established markets of Korea, Japan and Australia and emerging markets of China, India, Malaysia etc
- Over 160 Free Trade Agreements in Inter-Asia Region
- Major Trade Agreements: AFTA, GCC,SAFTA,CEPA
- Dragon-Elephant Tango a major force

Significance of Asia-Pacific Region

- Economically most dynamic region in the world
- Asia-Pacific Region is home to about half of world's population
- Nine of the 20 largest metropolitan areas located in this region
- Accounts for about 44% of world trade
- Contributes to 56% of global economic output
- Consumes more than 60% of exports from US and other major exporters
- Within APAC, APEC's real GDP(PPP) has doubled from $17.7 trillion in 1989 to $35.80 trillion in 2010.
- APEC's share of world real GDP increased from 51% in 1989 to 53% in 2010

Significance of Australasia Region

- Economic growth continuously for 22 years
- Twelfth largest economy in the world
- Low unemployment
- Low interest rate and inflation
- Public finance in good shape
- AAA sovereign rating
- High rate of saving and investment

Recent Developments

APAC emerging markets

- Economic indicators are down for most emerging market economies in 2013
- Wave of capital outflow
- Quantitative easing in US hit emerging currencies
- Most emerging market currencies have fallen sharply in 2013 against USD
- Slowdown in demand from advanced economies as well as in China
- Dampened industrial activity in emerging market countries
- Slow paced GDP growth
- Growth prospects in most Pacific islands have continued to be undermined by structural impediments
- In some cases, external and fiscal imbalances are growing
- Infrastructure spending , a major theme in ASEAN economies

Recent Developments

Major Countries in APAC Region

China : Largely insulated from volatilities, growth projected to decelerate, inflation will be stable

Japan: Coming out of chronic deflation, robust domestic demand and a better export picture

Korea: Economy set for modest recovery spurred by monetary and fiscal stimulus

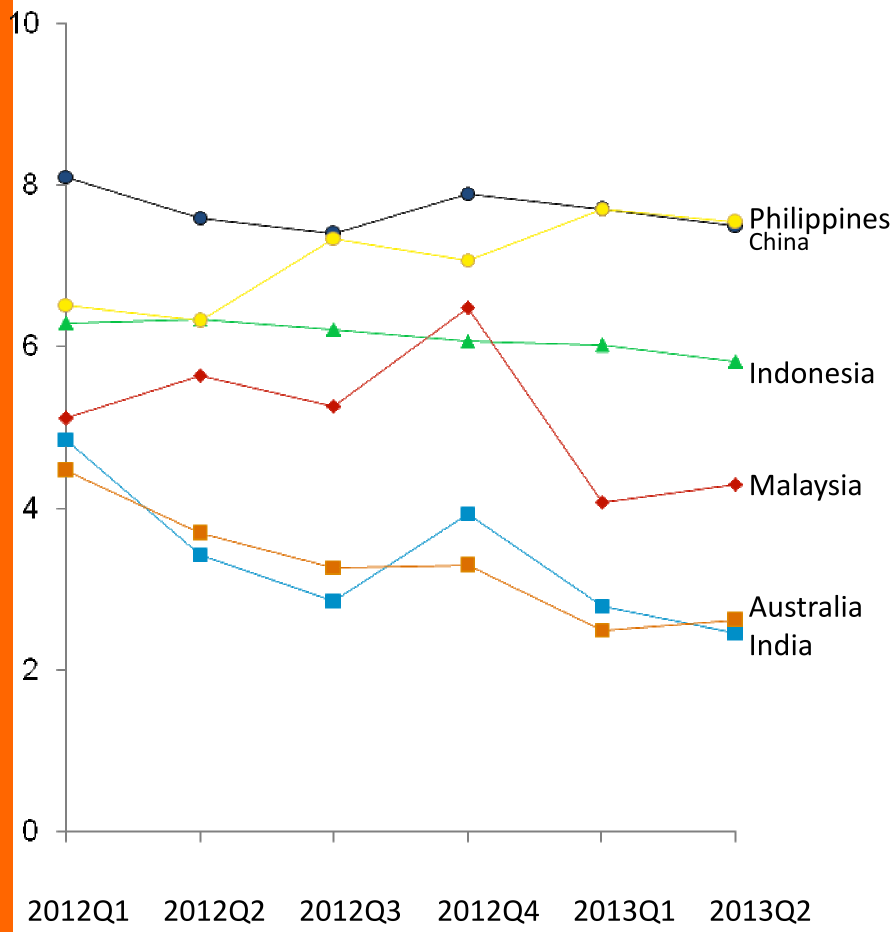
Australia: Fall in investment dragging the growth

Indonesia: Tighter financing condition, weaker investment expected to give slow growth

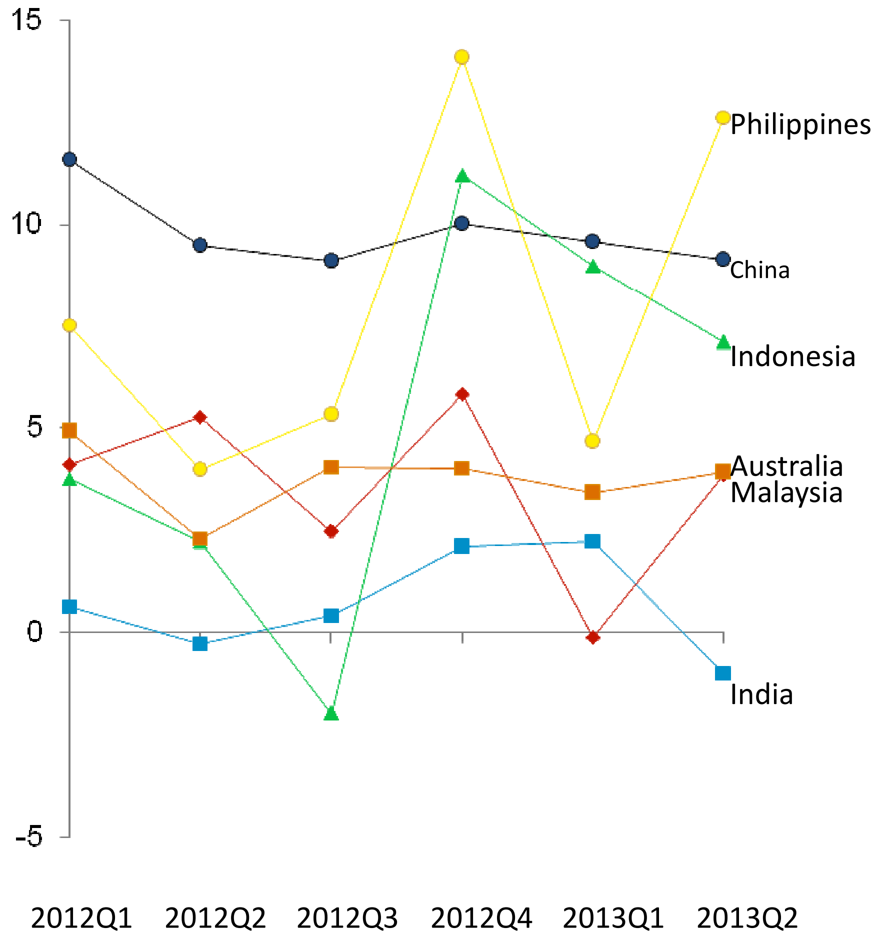
Economic growth in most countries dropped in 2012. While pace is slowing, it will still contribute 40% of global growth and one-third of global trade this year

Dampened GDP growth

Real GDP Growth (%)



Industrial Production Growth (% p.a.)



Recent Developments

Indian Market

- Slowdown evident in Indian economy
- Widening current account deficit in India
- Fiscal deficit at 4.80% of GDP
- India's GDP rate moderated to 5% which is currently 2.9% below trend
- Slow credit off-take
- Weakening of Rupee
- Sharp increase in inflation

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Asia Pacific Region – Banking Scenario

- Banks have high core capital.
- Average Risk Adjusted Capital framework (RACF) Compare favorably with world's 100 largest banks
- Standard & Poor: 78% of bank group ratings are stable
- Moderate rise in NPA in China, India, Japan, Singapore
- Lending is expanding faster than in other regions
- In emerging markets, lending is growing at 10-20% per year

Australasia – Banking Scenario

Australia:

- Bank regulations getting tougher
- Interest rates at record low
- Competition for mortgage loans – economists warn of potential housing bubble
- Outlook is cautious but optimistic

New Zealand:

- Tighter regulatory requirements
- Reduced dependence on wholesale funding markets

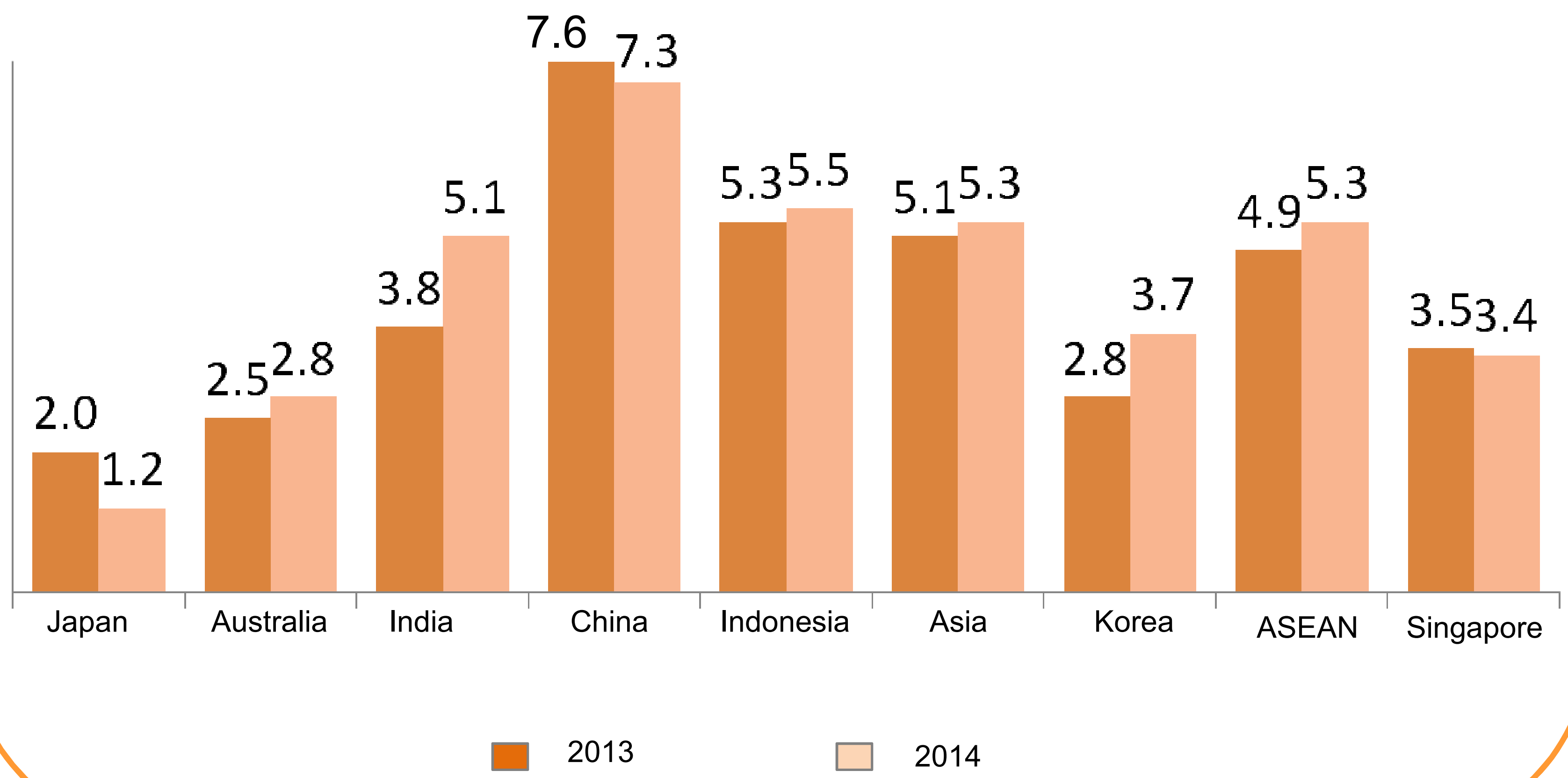
Outlook for APAC

- Further tightening of global funding conditions is possible
- This could trigger renewed portfolio outflows, falling asset prices, and tighter financial conditions
- IMF forecasts higher GDP growth in 2014 for most emerging markets
- However, there are risks and therefore key structural reforms are much needed
- Long term prospects positive, provided longer term measures taken to unlock full potential
- Exports are reviving across the region

Going Forward

- Asian economies with weaker fundamentals and exposures will have higher impact.
- Another potential source of risk would come from a steep investment decline
- IMF forecast growth for Asia at 5% (2013) and 5.25% (2014),
- Emerging Asia projected to grow at 6.25–6.50% in these two years
- Activity in China firming helped by mini-stimulus
- In Indonesia, growth is expected to slow given tighter financing conditions and weakening investment, before some stabilization next year.
- In Thailand, external demand will improve while domestic demand is likely to prove resilient Even with Fed QE taper, effects will be moderate with adequate global liquidity

Estimates of GDP growth 2014



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Factors Affecting GDP Forecast

Negative	Positive
Tighter external funding conditions	**Stronger growth in advances economies**
Domestic structural impediments such as supply side factors in China and India	**Robust domestic demand**
Possibility of Federal Reserve tapering could further weaken currencies	**Resilient labor markets**
China: Continued measures to slow credit growth from its fast recent pace and work through the excesses of past years	**Japan: Exchange rate depreciation and the asset price rally triggered by quantitative and qualitative monetary easing**
India: supply constraints	**Korea: Fiscal and monetary stimulus**
Australia: slowdown in the resource investment boom	**New Zealand: continued low interest rates and the acceleration of post-earthquake reconstruction**
Indonesia: tighter financing conditions and weakening investment climate	**Thailand: External demand will improve while domestic demand is likely to prove resilient to tighter domestic financial conditions, partly reflecting stronger public infrastructure spending**

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Outlook for Australasia

- Economic condition in Australasia and Australia in particular, continue to improve
- Liquidity in Australasia will continue to be an issue with access to debt posing challenge
- M&A activity is likely to progressively increase
- Australasian economy would continue to depend on Asian industrialization
- Trade deficit, inflation rate fall in Australia and the trend would continue

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APAC and Australasia as Investment Destination

- Impressive economic growth and stability
- Rapid urbanisation, rising middle classes
- Ample natural resources, increasing transparency, infrastructure improvement plans
- PWC Survey: 42% of CEOs in Asia Pacific very confident of revenuer growth over the next 12 months.
- International Firms extensively branch out to South East Asia.

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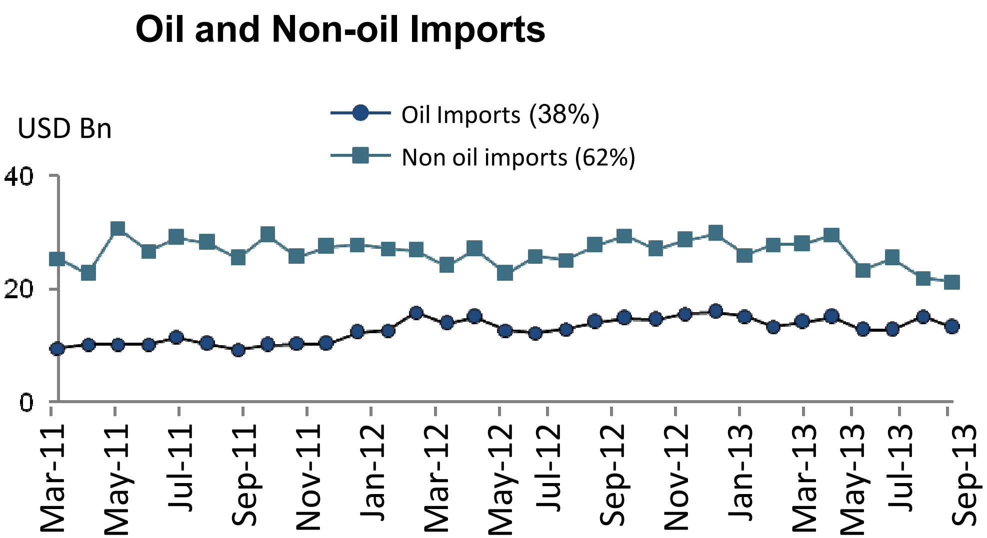
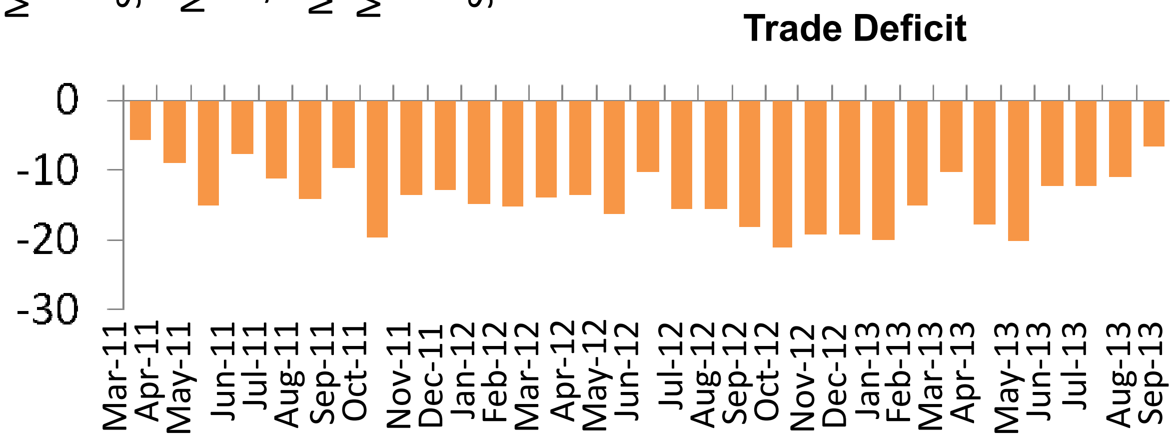
Outlook for India

- Lower trade deficit
- Correction in fiscal deficit
- Indian Rupee has stabilised following RBI policy measures
- Higher exports
- Increase in FII and NRI deposits and improved industrial production.
- RBI increases policy rates by 25 bps and liquidity improves in Oct/Nov'13
- Despite inflation at 7%, IIP improves
- Good monsoon
- Growth drivers for H2: agriculture, export, import substituting sectors
- About 267 mn people expected to be in middleclass by 2016
- Early signs of recovery in India

Early signs of recovery

Lower oil imports led to lower trade deficits – Sep'13





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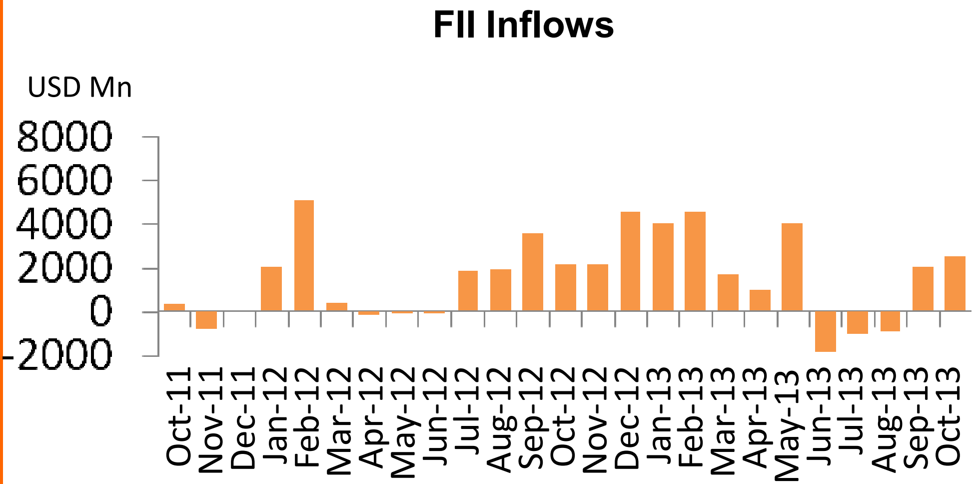
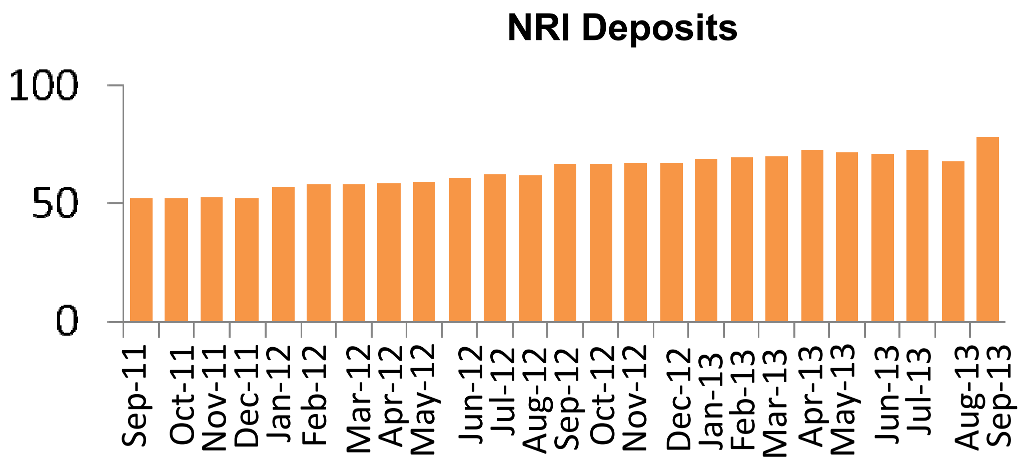
Early signs of recovery

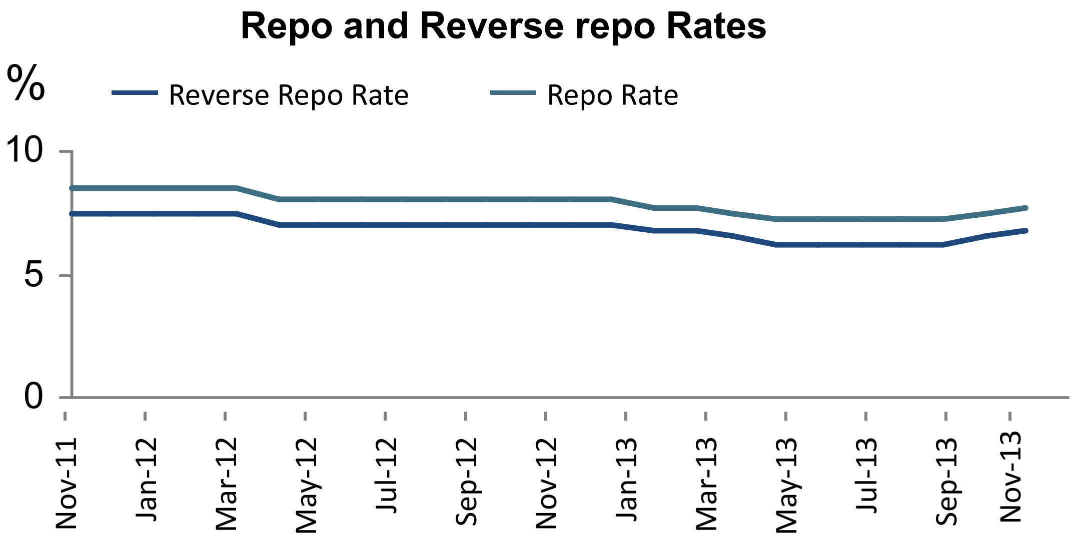
Falling currency rates pulled up the NRI deposits and FII – Sep/Oct '13

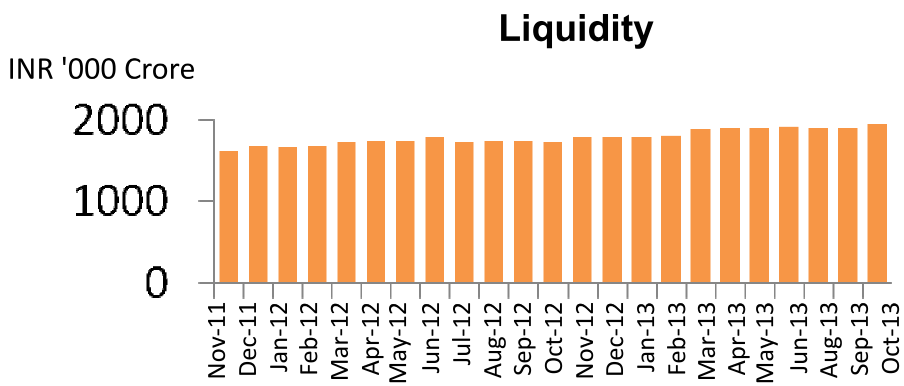




Early signs of recovery

RBI increases policy rates by 25 bps, liquidity improves – Oct/Nov '13

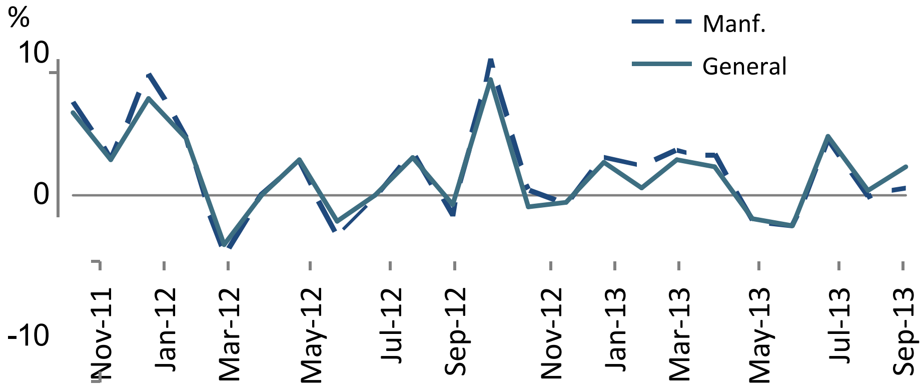




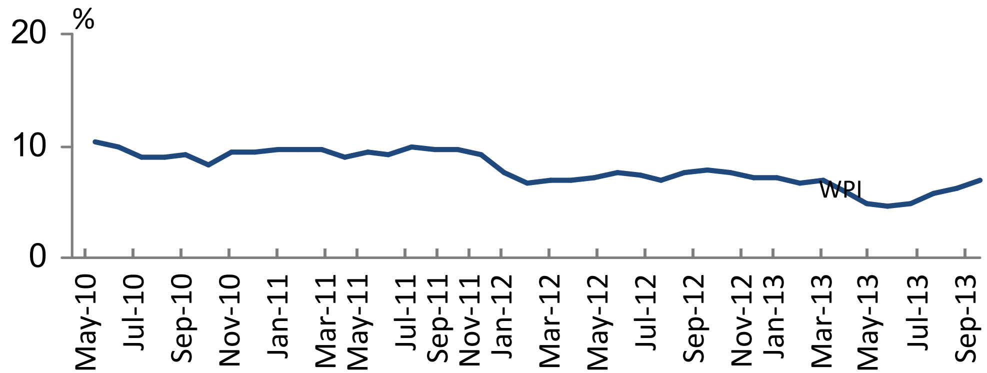
Early signs of recovery

Industrial production improved, though inflation is still ~7% - Sep'13

IIP



Inflation



India as Investment Destination

- Indian Economic fundamentals very strong.
- Second fastest growing large economy next to China.
- With labor problem in China & Bangladesh, India's market share in exports improves rapidly.
- External financing risks are reduced significantly with Fex reserves touching $286 Bn.
- Attractive and cheap valuation and steadily improving business make equity outlook positive

India as Investment Destination

- Industrial production is reviving.
- HSBC Survey: Manufacturing sector activity witnessed expansion driven by new domestic orders.
- New project announcements to the tune of Rs.861 Bn.
- RBI has improved comfort level in money market through Fex interventions and OMOs.
- Increased sowing under summer and improved prospects for winter crop to support food inflation and rural consumption.

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Enablers

- Clearance of stuck / locked projects
- De-bottlenecking infrastructure
- Fiscal consolidation
- Removing supply side constraints to rein in inflation
- Stable currency
- Coherent macro-economic frameworks (monetary policy, fiscal policy, macro-prudential tools as well as any capital flow measures)
- Longer term measures and reforms (in power, infrastructure, healthcare and education) key for unlocking full potential of India's economic growth

Food for Thought

"Globalisation – the removal of barriers to free trade and closer integration of national economies – can be a force for good that has the potential to enrich everyone in the world, particularly the way it has been managed (especially the international trade agreements) needs to be rethought."

- Joseph Stiglitz

Thank You