Star BUSINESS
E-mail: business@thedailystar.net

A close look at Asian performance: Citigroup's economics takeout (Sept 2006)

Asia Investor Checklist

Key Underlying Assumptions Behind Our Forecasts	Confidence	Citigroup Comments
Global		
Global inflationary pressure should be contained with moderate monetary policy tightening around the world	●	US growth moderated, likely capping upside risk to inflation and interest rates. We expect a 25bp rate hike in October in Europe and a gradual rate rise in Japan
A solid economic outlook in emerging markets probably will not suffer much from market turmoil	●	Emerging market economies have started to stablize following the latest fallout
Regional		
Growth is likely to consolidate further in much of Asia in 2006 before rebounding	+	Growth has already started to moderate, outside China and India, which is likely to continue
The export outlook remains robust, and large current account surpluses continue	●	The export outlook probably dimmed slightly, and current accounts could deteriorate on higher oil prices
Limited monetary tightening through either currency appreciation or interest rate hikes	●	Interest rates may rise further, but central banks will likely stay cautious on currencies
Bangladesh		
Textile exports and workers' remittances to drive growth	●	Exports are currently in positive territory though the impact of quota dismantling continues to be a risk
Natural disasters will remain a risk	●	Flood disasters have impacted agricultural production in the past
Shifting political situation to hinder growth	-	Governance remains a problem and has slowed reform implementation. Political disruptions are also a risk even impending elecyions later this year
China		
Shifting sources of growth to emphasize the quality of growth	●	A modest slowdown could occur in 2H06 as the government becomes keen to improve energy consumption efficiency. Measures to promote consumption are also expected
Likely tightening of monetary conditions in part via currency appreciation	●	Likely liquidity reduction measures include higher interest rates and faster currency appreciation to discourage further capital inflows
Accelerating reforms. Urbanization may speed up as local governments start to abolish the household registration system	●	Removing price distortions in the resource sector, abolishing the household registration system. broadening coverage of social security and restructuring the banking sector would foster structural adjustment
Hong Kong		
The interest rate rising cycle comes to an end	+	Persistent excess bank liquidity is likely to keep the HKD prime rate stable in coming months
A mild housing price correction	+	A pickup in property sales is seen after the US-Fed rate pause in August and one major bank in Hong Kong cut the prime rate. Home sales recovery is likely to ease the downward pressure on housing prices
Steady RMB appreciation and no change to the HKD peg	●	By keeping the peg system unchanged, Hong Kong would gain from having its currency weaken against the RMB
India		
Investment spending (infrastructure and business investment) should lead GDP growth	●	The investment ratio is at a record high. The government's latest budget focuses on rural development, fiscal consolidation and infrastructure.
Solid consumption supported by favourable demographics and the trickle-down impact; positive trends in outsourcing to continue	●	There is a strong potential for food processing, bio-fuels, microfinance and knowledge process outsourcing
GDP is likely to continue to be driven by non-farm growth and supported by favourable demographics, rising income and outsourcing	●	We think a further hike in interest rates by 50-100bps will hurt, but not derail, growth. We maintain our FY07 GDP growth estimate at 7.6%
Indonesia		
Macro stability persists despite recent hurdles, but there could be pressure from an unproductive government spending spree	+	Benign core inflation, healthy real interest rates and interest rate differentials support capital inflows and the IDR. Slow fiscal spending remains a problem. High oil prices create a soft destabilizing effect
increasing role of investment through infrastructure spending and a better climate	-	Recent policies to improve the investment climate reflect commitment, but implementation is key. The government is still ambivalent about new risk-sharing policies for fear of increasing contingent liabilities
Efforts to revitalize the agricultural sector to provide more jobs	-	Contrary to government plans, we recommend creating incentives to increase agricultural productivity. The labour union rejected efforts to make the labour market more flexible
Korea		
Consumption recovery likely to be constrained by income growth	+	June and July saw weak data for non-auto retail sales, service Industry activity, the labour market, consumer confidence and large store sales
Exports should be capped by global monetary tightening and a strong won	●	Exports in July were strong despite auto strikes. A contrast persists between the strong industrial material sector and weak high-tech sector
BOK rate hike cycle will likely end soon with only one more hike	+	BOK raised call rates in August, but the governor's dovish comments support our-view that rate hikes would likely end at 4.50%
Malaysia		
Fiscal consolidation should continue	●	Stabilizing/declining oil prices should prevent fuel subsidies from ballooning and put the 2006 fiscal deficit target within reach
Prime Minister Abdullah steps up the reform drive	●	Domestic political rifts have not distracted Prime Minister Abdullah from stepping up efforts to launch initiatives planned under the 9th Malaysia Plan
Prompt monetary tightening caps inflation concerns	●	Concern over extermal risks to growth and easing headline inflation have put BNM on an extended standstill
Philippines		
Shift in policy bias to neutral in 2H06E	+	Decelerating inflation risks are likely to persist for 2H06. Lackluster domestic demand is likely to deter a rapid pass-through of oil prices and moderate wage adjustments to inflation
Delayed approval of the 2006 budget	+	A re-enacted 2005 budget may lead to fiscal outperformance but reduce fiscal stimulus. Congress may approve a supplementary budget to strengthen social expenditure and funding for current projects
Political uncertainties continue	●	The economic policy bias remains unchanged despite political challenges and is favourable for market expectations

(TO BE CONTINUED)

Note: Movement in Confidence Level reflects present assessment versus last month.
Source: Citigroup estimates.

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