INFLATION CHALLENGE ASIA CONFRONTING

By Gerard Lyons*



ing, with a succession of cen-tral banks raising interest weeks have seen a further A up to its inflation challenge. Recent The policy challenge is prices. India, in particular ures to put a cap on rising rates, or taking other measround of monetary tightenhave again pushed up reserve whilst others such as China before, with a large rate hike. has taken tougher action than allowing people to pay high-er prices. This is akin to a is the very issue of food and quickly enough. Then there out of hand if not addressed wage-price spiral, albeit in labour market conditions cern, rising wages and good

much, too soon - as there are there are expectations of too little, too late: taking never easy. Is this a case of in turn taking the heat out economy has started to slow more to come? Or is it, too already taken off and when action after inflation food and energy prices eassubsidies in place, on areas cult politically to do this countries, there are complex be phased out, but it is diffi-

the Middle East testify. And problems in North Africa and world, as different growth a divided and disconnected economies and by policy easing in the West. But, it is many places it doesn't feel The world is two years into that way. This recovery has and recent rates emerging

Across Asia, and large parts of the emerging world, the ble-dip recession is the fear. economies are fragile, a dourisks are on the upside: infla-

costs and to sustain or boost their margins by raising in Asian economies is far grew strongly, and the slack sons. Last year the region greater in Asia for many reaprices. Whilst this is a con opportunity to pass on higher retailers and producers the less than in the West. Strong The inflation challenge is by raising allows

overseas, it seeks out a in equities, or in real estate, home, and all too often this is adding to existing domestic

energy prices itself. Higher prices of these staples hit Although subsidies may ease the pain for some, they comfor the poor and those on low cause problems, in particular hard into spending and can fuel. These subsidies need to plicate the inflation picture, such as food, fertilizer and Thus, in many reflects the focus of both For those in red, prices are already too hot, and policyto put countries into green, used the idea of traffic lights domestic needs. Thus, rates being too low for Kong and Singapore, this Beijing top this Singapore, Hong Kong and makers must stop them amber and red categories. property prices shows the ate, resulting in interest economies on the exchange pubble-o-metre'. For Hong

a Presidential term is often 'America's year' by some investors, as the third year of good for the US equity marchange. This has been called this year, this may soon when money flooded in Although less of a concern fore as an issue last year inflows. This came to the how to cope with capital drivers, there is the addition-al challenge for Asia and for To these domestic inflation

hanging parts of Europe, and suggests that the problem of emerging economies. This may start flowing back to key concern for Asian counnflows will again become a now to absorb is easy to see why capital

Often challenges are most

China is experimenting with property taxes. Overall tion challenge in its first-tier measures, as it faces an inflatoo, is making use of such ratios and curbs on buying controls on loan-to-value can include, amongst others, multiple properties. China curbing property prices and targeted policies aimed dential measures. These are increased use of macro-pru-

enhanced by the additional debt still needs to be repaid. stimulus wears off, and as year. But now, as policy received at the start of this stimulus measures America greater challenges lie ahead

Add in the debt crisis over

When money flows in from A recent analysis by Standard Chartered of Asian

and

emerging market prospects, sons to be positive about While there are many rea-

property prices

across the region.

across China are in the nothing can, or should, be amber territory, as indeed taken for granted. The busithey are in many countries ness cycle exists. Setbacks

can occur. One fear has been

Thus Asia faces inflation the setback from high oil on the opportunities and

4,000 people from across the provide an occasion to focus public and private sector. The annual ADB meetings

improvement witnessed the Asian economies that have Development Indices in Human biggest



damentals are good and as a deross the wider economy. way of curbing imported currencies, as economic funthe case for stronger Asian tightening. It also supports This justifies recent policy inflation could take off, iniexpectations. If they don't, whole economy, impacting everyone. Central banks asset prices, especially in challenges on two fronts: in across the emerging world need to avoid the lethal comgeneral terms, across the property and equities; and in bination of cheap money, one-way

attracted a record turnout of This four-day

and monetary policy is not already tight, so there is ample scope for economies prices. This oil shock has hit relatively early in the cycle, when profit margins are high

price shock in the early 1970's was followed by a mate the inflation risks from under-performed. tion, in which economies failure to cope with the oil recent strong growth and the prolonged period of stagna possible fall-out. Europe's Asia should not under-esti-

topic at the recent annual and food costs were a hot (ADB) meeting in Hanoi. ot surprisingly, high energy ing, plus there was a strong focus on inclusive growth. important at this year's meet-This can take many facets

in Indonesia focused on the bond markets. By last year, challenges ahead Asia's huge infrastructure bill. All of these issues were integration and paying for Tashkent was on regional the focus at the meeting in for job creation; and the need sized firms as they are key age excess saving; the need to help small and mediumsocial safety nets, to discour demand. Then, three issues need for Asia to rebalance, were identified: the need for Iwo years ago, the meeting domestic

immediate challenges ahead inflation. Although there those is the need to address Asia is moving in the right further to go, recent actions by central banks suggest nothing if macro-economic should be clear. All of these achieve sustainable growth. inflation in check policy does not confront the longer-term issues count for nomic policies that help keep upon credible macro-ecogrowth is also dependent Bangladesh. Yet inclusive For Asia, the message China

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such as bringing more people