

SARS TO FURTHER REDUCE GDP FORECASTS FOR EAST AND SOUTHEAST ASIA

MANILA, PHILIPPINES (9 May 2003) – A new Asian Development Bank (ADB) economic report on the impact of (Severe) (Acute) Respiratory Syndrome (SARS) on Asian economies says that if SARS extends over the second quarter of 2003, GDP growth in 2003 could decline to 5.3% for East Asia and to 3.4% for Southeast Asia.

The economies of Hong Kong, China and Singapore would be hit hard with GDP growth reduced by 1.8 percentage points to 0.8% and by 1.1 percentage points to 1.9%, respectively. The People's Republic of China (PRC) would see a GDP decline of about 0.2 percentage points to 7.3%, while Republic of Korea would see GDP growth decline to 3.8%.

Under a second scenario, if SARS extends into the third quarter of 2003, East Asia's GDP growth could fall to 4.7% while Southeast Asia's growth might decline to 2.5%. There would be a 0.5 percentage point to 4.0 percentage point decline in individual economies. GDP growth in PRC is likely to be reduced by 0.5 percentage point to 7%, and in Hong Kong, China, it could fall 4 percentage points into negative territory.

The reduction in GDP growth will translate into huge losses in income and output, with estimated losses ranging from US\$12.3 billion to US\$28.4 billion for East and Southeast Asia should SARS extend into the third quarter of 2003, says the ADB report.

"Unemployment will rise as a result of weakening demand, which will also further reduce inflation and intensify deflationary pressure in some economies, including Hong Kong, China, the PRC, and Taipei,China," says ADB Chief Economist, Ifzal Ali. "Of particular concern is the fact that SARS will not only induce hardship for many, but also intensify the poverty faced by the most vulnerable groups in society."

The impact of SARS is felt disproportionately by small and medium enterprises (SMEs) and their workers. In many countries, SMEs are an important source of employment for the poor. The agriculture sector could also be severely affected by SARS. It would be considerably more difficult to control since rural health systems are inadequately equipped for surveillance, prevention, and treatment of SARS. The economic impact on the rural population could be significant.

While the East and Southeast Asian subregions have been the most affected, the impact of SARS has spread elsewhere through the spread of the virus, a reduction in import demand by Asian economies, especially for tourism-related services, and weakened consumer and investor sentiment because of increased uncertainty.

ADB adds, however, that one bright spot is the possibility of a rebound in private spending once SARS is brought under control. Consumers may compensate for their reduction in consumption by increasing their spending. While domestic consumption could quickly change once confidence resumes, it may take a longer period for foreign travelers and investors to return.

**Table 1. Estimation of the Impact of SARS
on Selected Asian Economies, 2003**

Economies	Estimated Reduction in Annual GDP Growth		Estimated Reduction In Annual GDP Levels	
	If SARS Lasts 1 Quarter (percentage point)	If SARS Lasts 2 Quarters (percentage point)	If SARS Lasts 1 Quarter (US\$ billion)	If SARS Lasts 2 Quarters (US\$ billion)
East Asia	0.4	1.0	9.1	20.7
PRC	0.2	0.5	2.3	5.8
Hong Kong, China	1.8	4.0	3.0	6.6
Republic of Korea	0.2	0.5	1.3	3.0
Taipei,China	0.9	1.9	2.5	5.3
Southeast Asia	0.5	1.4	3.2	7.7
Indonesia	0.5	1.4	0.7	2.0
Malaysia	0.6	1.5	0.5	1.3
Philippines	0.3	0.8	0.2	0.6
Singapore	1.1	2.3	1.0	2.0
Thailand	0.7	1.6	0.8	1.8

Source: Economics and Research Department using OEF model, staff estimates

**Table 2. Estimation of the 2003 GDP growth with SARS in Selected Asian Economies
(%)**

Economies	ADO 2003*	Scenario 1: SARS lasts 1 Quarter	Scenario 2: SARS lasts 2 Quarters
East Asia	5.6	5.3	4.7
PRC	7.3	7.3	7.0
Hong Kong, China	2.0	0.8	-1.4
Republic of Korea	4.0	3.8	3.5
Taipei,China	3.7	2.8	1.8
Southeast Asia	4.0	3.4	2.5
Indonesia	3.4	3.2	2.3
Malaysia	4.3	3.8	2.9
Philippines	4.0	3.7	3.2
Singapore	2.3	1.9	0.7
Thailand	5.0	4.3	3.4

Source: Economics and Research Department using OEF model, staff estimates

* Asian Development Outlook 2003

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