

An initial assessment of the economic loss from the tsunamis that struck East and South Asia in December

The magnitude of the disaster that struck East and South Asia on 26 December has become apparent over the past 24 hours, but it will still be some time before the full scale of the disaster in terms of loss of life is known and much longer before a thorough assessment of the economic impact can be made.

It is already clear that large-scale loss of life has devastated many local communities. Without trivializing those losses, the fact that these communities in most cases represent a very small proportion of the populations of the more severely-affected countries (such as India and Indonesia) means that the overall economic impact in national terms is likely to be relatively small.

In assessing the overall economic impact it is important to distinguish between the loss of productive capacity due to loss of life that will severely affect local communities that are heavily dependent on fishing and farming, the damage to housing and communal health and education facilities; and the damage to industrial facilities, infrastructure (roads, ports, communications, etc.) and also the impact on tourism.

Costs of recent disasters

Disaster	Year	Confirmed dead	Damage (US\$bn)
Asian Tsunamis	2004	68000+	na
Bam earthquake	2003	31000	na
US terrorist attacks	2001	3000	27
Kobe earthquake	1995	5000	132
Hurricane Andrew	1992	50	30

It is clear from the table above that there is no clear correlation between the magnitude of disasters in terms of loss of life suffered and the damage in financial terms.

Initial reports suggest that there has been no serious damage to major industrial facilities, such as the Arun LNG plant in Aceh, or to ports.

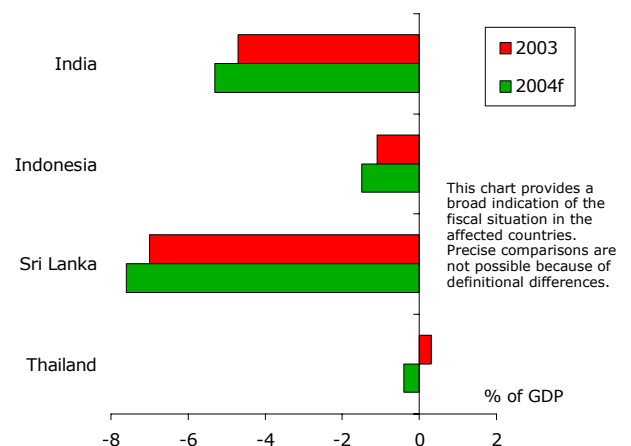
Tourism is important for many of the economies affected. Tourism is of a broadly similar order of magnitude as a share of GDP in Indonesia and Thailand, but in assessing economic damage from this disaster to tourism it is also important to identify where the damage has actually occurred.

In Indonesia there has been large-scale loss of life and material damage in Aceh, which is not a tourist destination, while in Thailand the damage has been to the leading resort of Phuket and surrounding areas. It is also important to distinguish between the immediate impact – whether tourists still want to travel and resorts are able to accommodate them – and the longer-term impact on their appeal as travel destinations.

Tourism and travel accounts for a massive proportion (over 70% of GDP) of a small economy such as the Maldives.

Leaders of countries that have suffered serious loss of life have been quick to pledge that financial assistance will be made available quickly to affected communities. The fiscal situation of the affected countries varies significantly (see chart). This is unlikely to be a major constraint on getting emergency assistance to affected communities in the short-term, but could be significant in rebuilding efforts over the longer term, particularly for countries such as Sri Lanka, which are burdened by large fiscal deficits and deep-seated ethnic hostilities and divisions.

Fiscal Balances



International relief efforts involving the UN, World Bank, IMF, national governments and aid organisations are likely to be large-scale and quickly forthcoming. While there are clearly major logistical difficulties to be overcome in directing aid efforts across such a wide area and in so many countries, these immediate practical difficulties should not be confused with the scale of the assistance that will be made available, which is likely to be substantial. The immediate task is on locating missing people, treating the injured, and

preventing the spread of disease. Over coming weeks, rebuilding efforts will begin.

The stock market in Sri Lanka fell by 4.3% when it reopened after Christmas. There has been a muted response in other markets (a small fall in Thailand, small gains in India and Indonesia) so the broader wealth effect, beyond the communities that have been devastated, appears likely to be limited based on the initial response of local stock markets.

The economic outlook immediately before the disaster in most of the affected countries was reasonably positive. Real GDP growth was not expected to be quite as strong in 2005 as 2004 in most countries (Indonesia and Sri Lanka are exceptions), but the outlook could still be judged as quite favourable.

In measuring economic activity, it is also important to remember that damage to buildings and infrastructure is not counted as a negative – but reconstruction activity is recorded as a positive.

Economic growth in affected countries*

% change	2003	2004f	2005f
India	7.0	7.0	6.3
Indonesia	4.2	5.0	5.5
Sri Lanka	5.9	5.5	6.0
Thailand	6.9	5.9	5.2

* ANZ Bank forecasts before the disaster

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