



# Asia-Pacific Economic Outlook

## Outlook and Risks

New Delhi, India

**Anoop Singh**

Director, Asia and Pacific Department

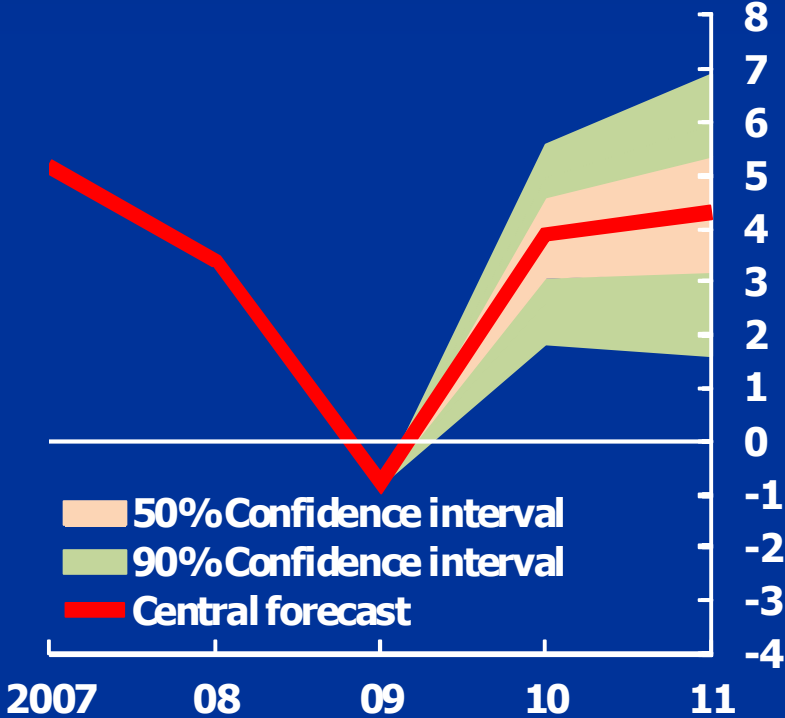
May 12, 2010

# Plan of the presentation

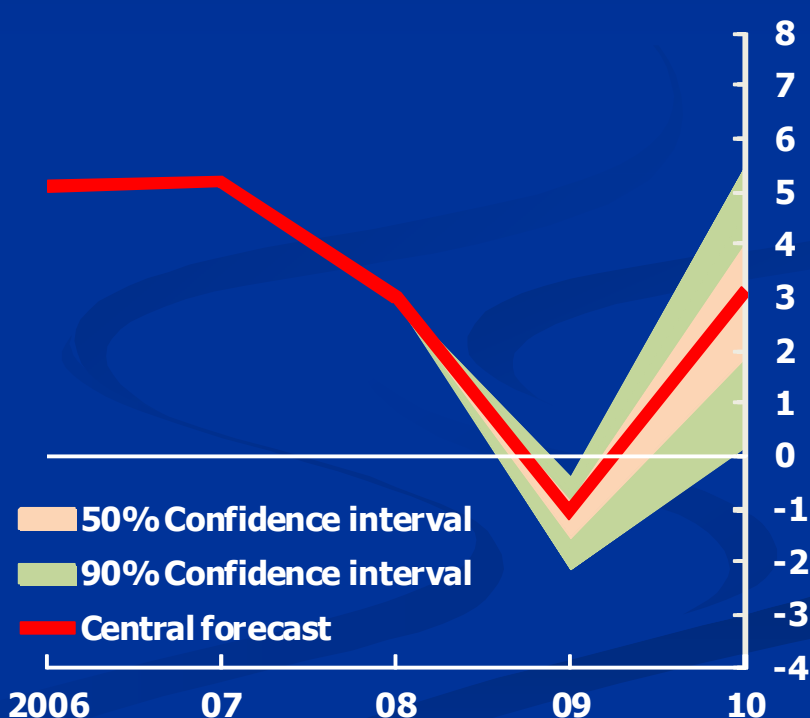
- The global and regional context: a multi speed recovery.
- Risks to the outlook: downside global/financial risks.
- Policy challenges for Asia: managing the exit from stimulus and dealing with capital inflows.
- Critical juncture and role of the IMF.

# The global recovery has gained strength

**Current Forecast of Global GDP Growth:  
Baseline and Risks**  
*(as of March 2010)*



**Previous Forecast of Global GDP Growth:  
Baseline and Risks**  
*(as of October 2009)*



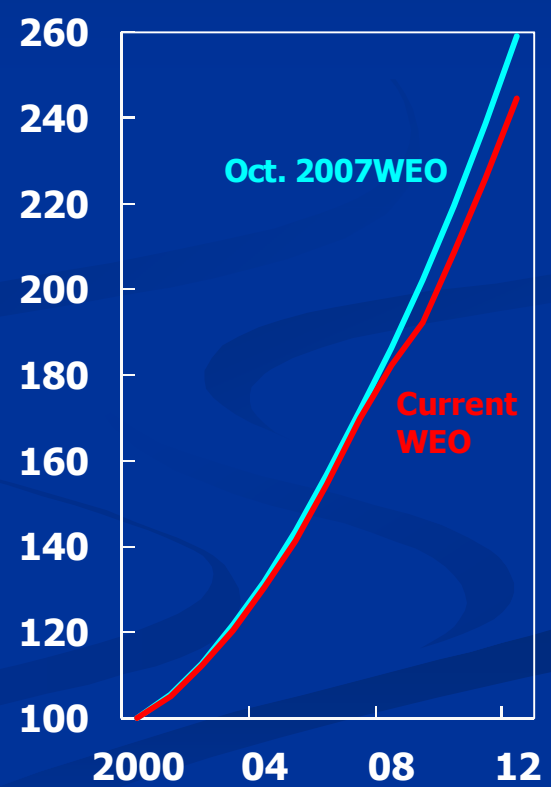
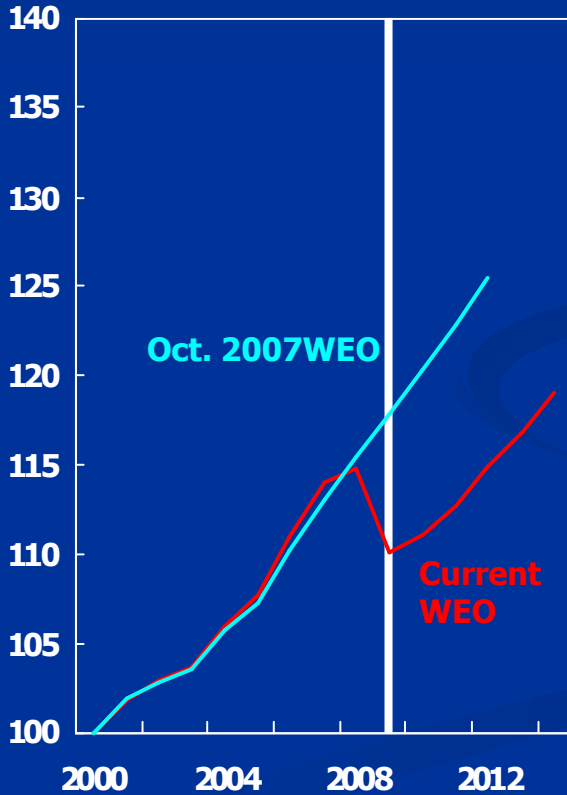
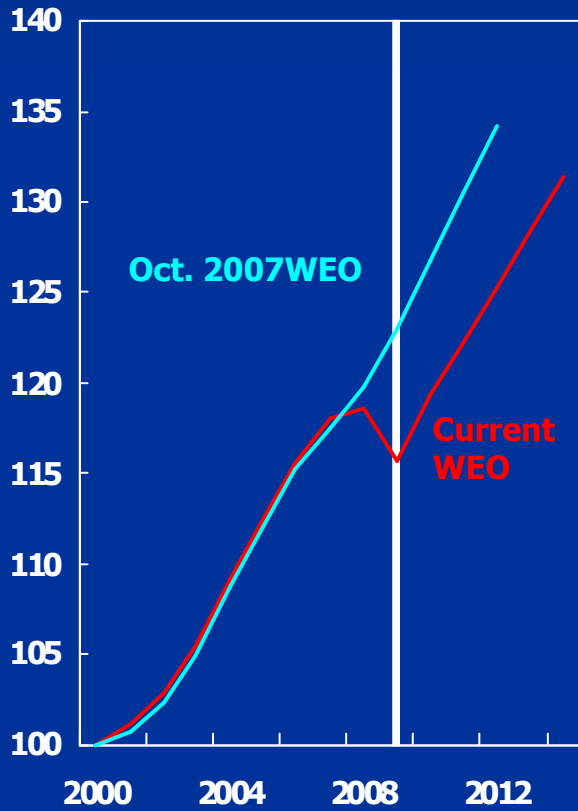
# But it is a “multi-speed” recovery

## Real GDP (levels, 2000=100)

### United States

### Euro area

### Emerging Asia

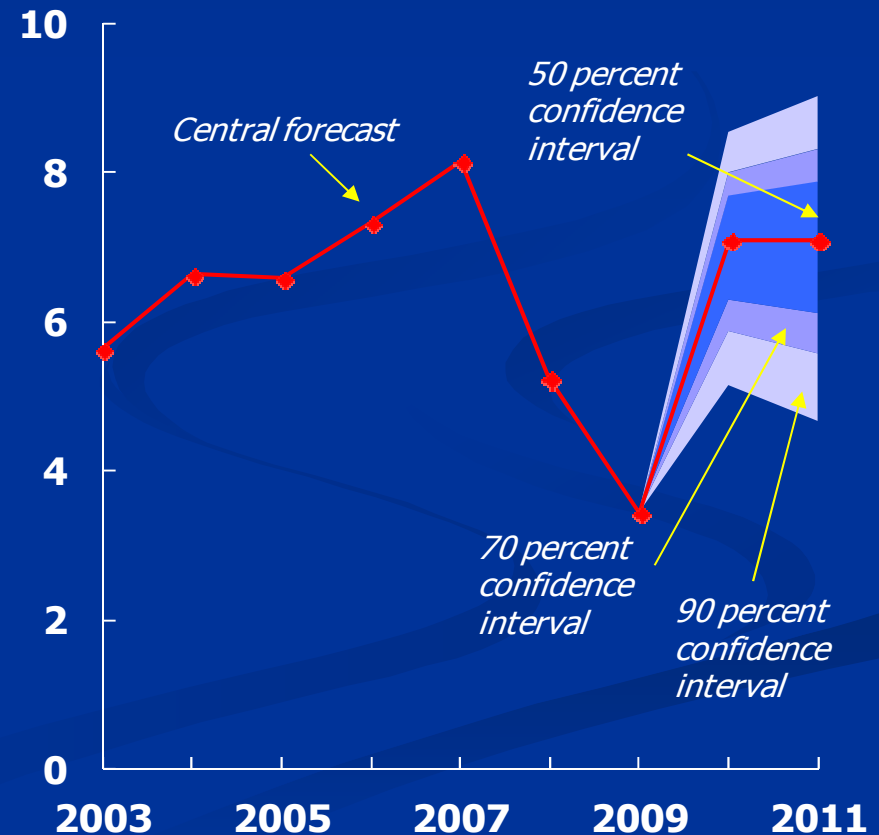


# Asia is leading the global recovery, and will continue to do so in 2010-2011

**Asia: Real GDP Growth**  
(y/y; percent)

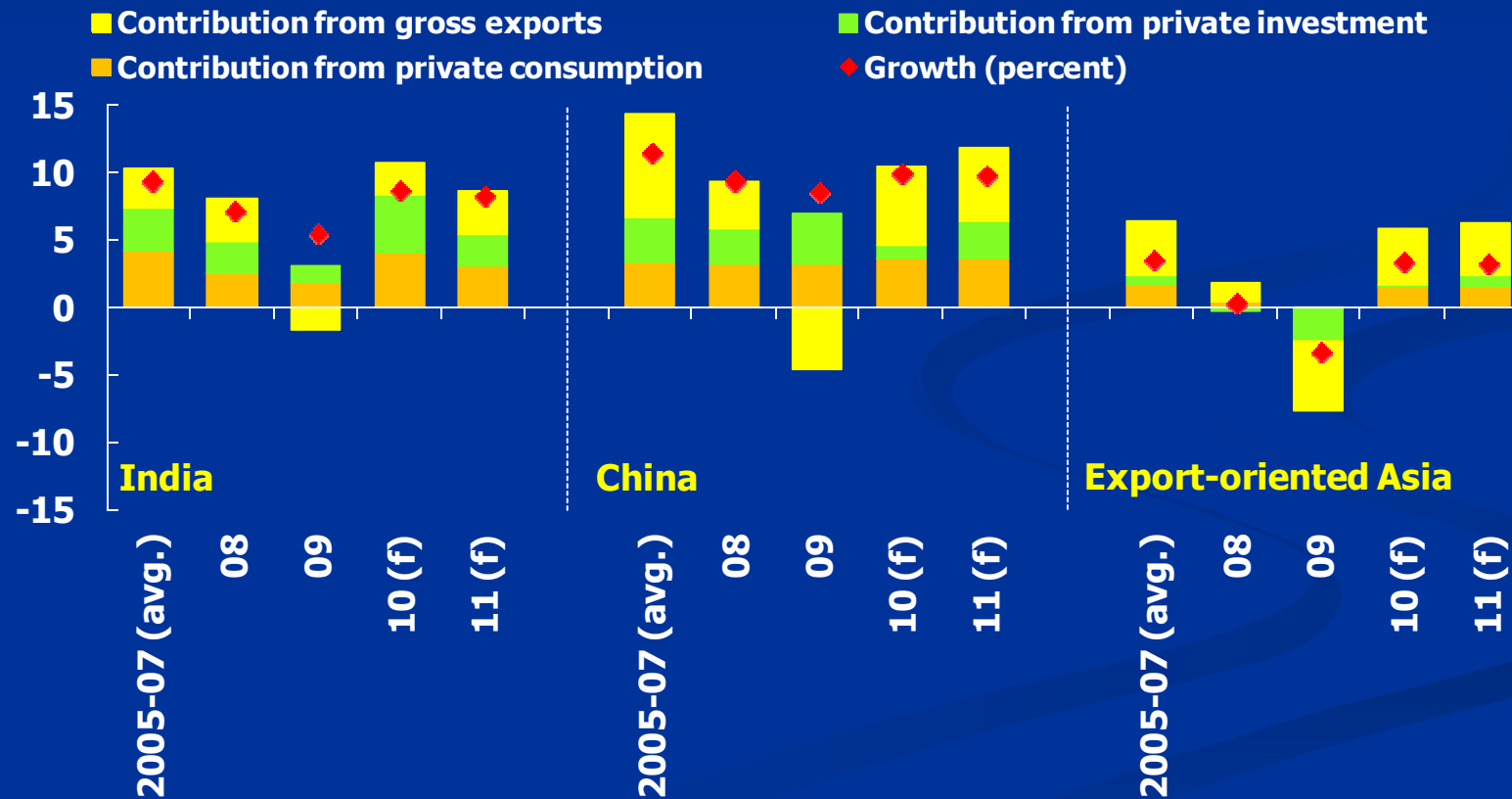
	2009	2010	2011
		Latest projection	
<b>Industrial Asia</b>	<b>-4.1</b>	<b>2.1</b>	<b>2.2</b>
Japan	-5.2	1.9	2.0
Australia	1.3	3.0	3.5
New Zealand	-1.6	2.9	3.2
<b>Emerging Asia</b>	<b>5.7</b>	<b>8.5</b>	<b>8.4</b>
<b>NEs</b>	<b>-0.9</b>	<b>5.5</b>	<b>5.1</b>
Hong Kong SAR	-2.7	5.0	4.4
Korea	0.2	4.5	5.0
Singapore	-2.0	8.9	6.8
Taiwan Province of China	-1.9	6.5	4.8
China	8.7	10.0	9.9
India	5.7	8.8	8.4
<b>ASEAN-5</b>	<b>1.7</b>	<b>5.4</b>	<b>5.6</b>
Indonesia	4.5	6.0	6.2
Malaysia	-1.7	4.7	5.0
Philippines	0.9	3.6	4.0
Thailand	-2.3	5.5	5.5
Vietnam	5.3	6.0	6.5
<b>Asia</b>	<b>3.4</b>	<b>7.1</b>	<b>7.1</b>

**Asia: Real GDP Growth**  
(central forecast and selected confidence intervals; percent)



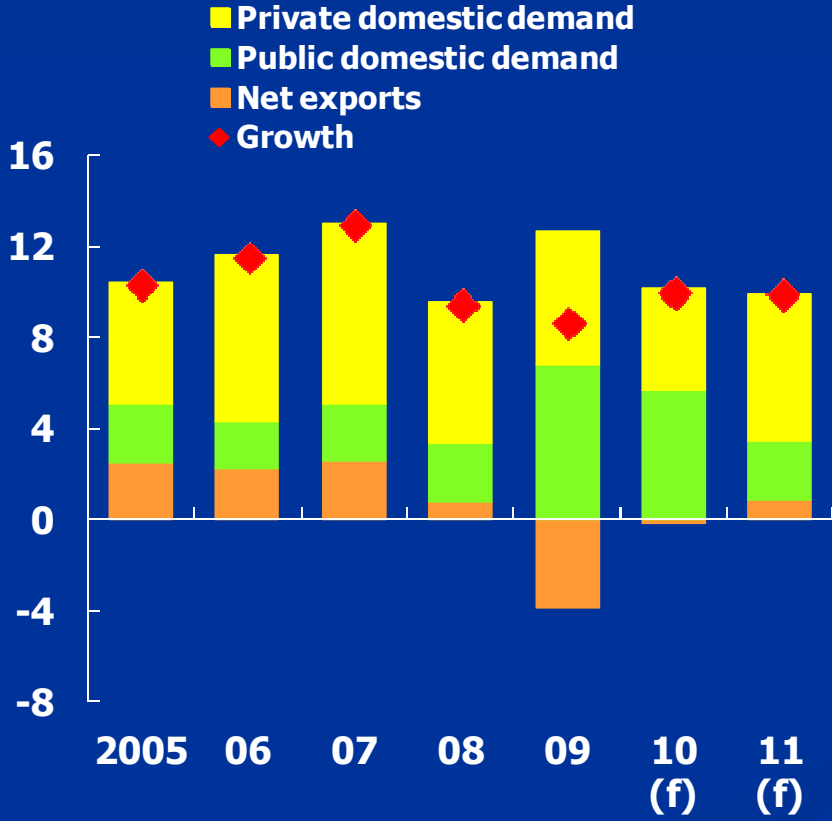
# The drivers of growth vary within the region

## Asia: Contribution to GDP Growth (percentage points; y/y)

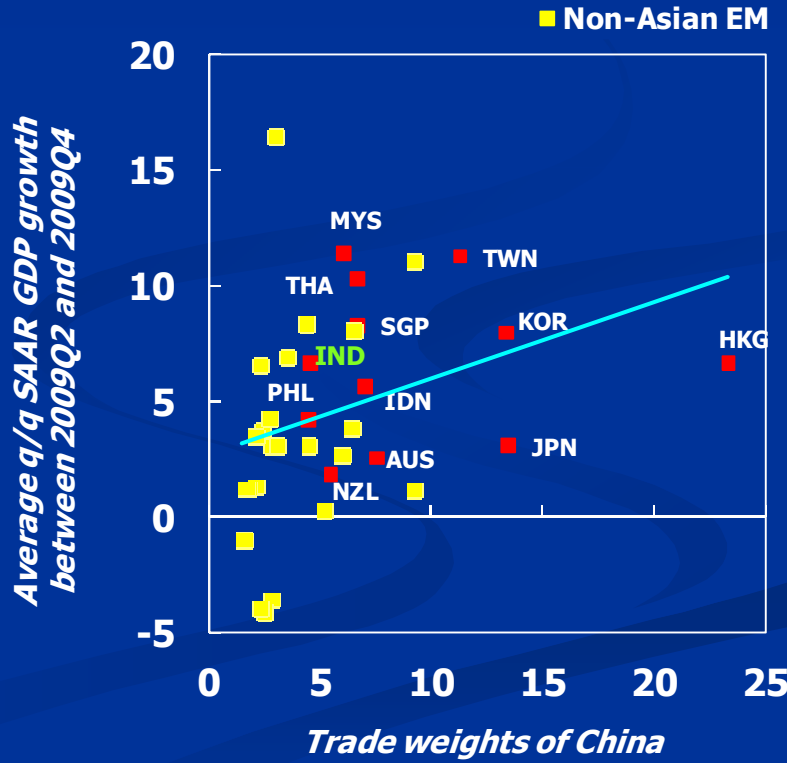


# China's growth is becoming more broad based, with positive spillovers for the region

**China: Contributions to GDP Growth**  
*(percentage points)*

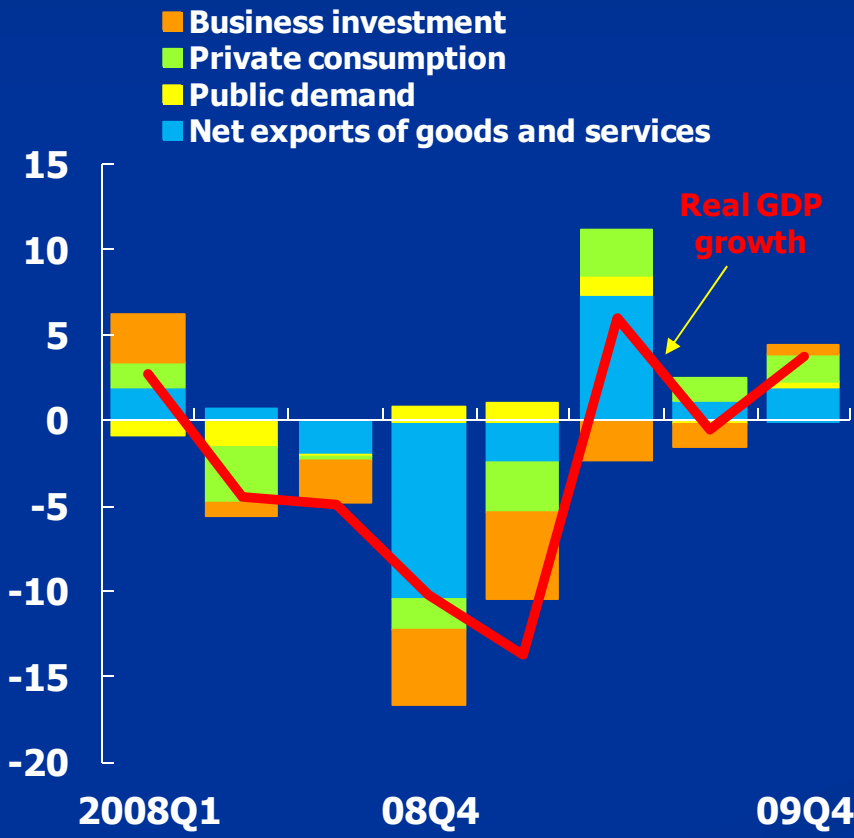


**GDP Growth and Trade Links with China**  
*(percent)*

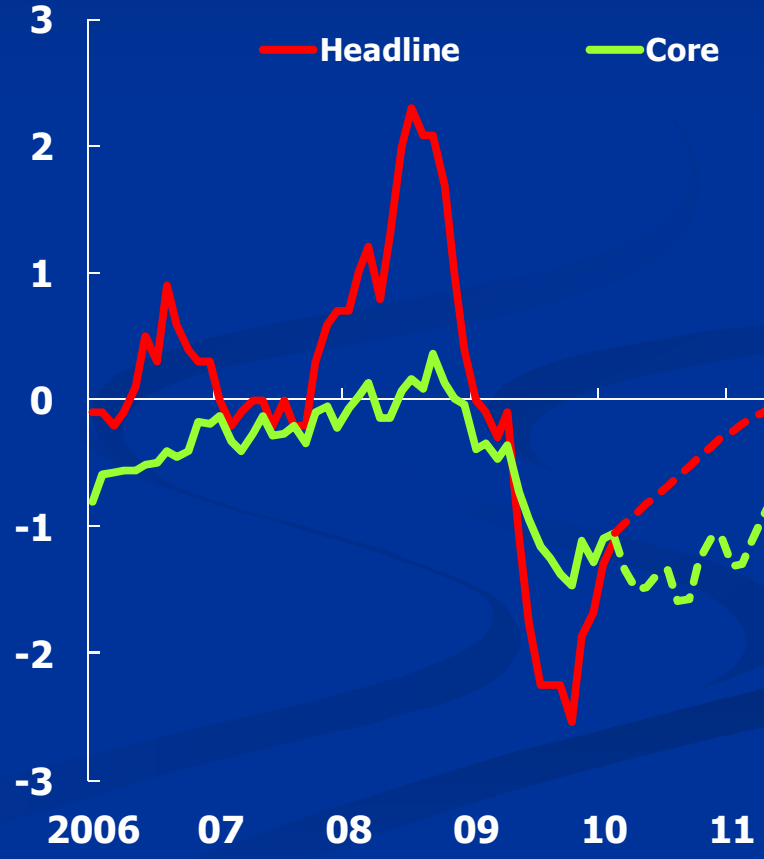


# In Japan, the recovery is also underway and deflation is expected to moderate

**Japan: Contributions to GDP Growth**  
*(q/q saar; percentage points)*



**Japan: Headline and Core Inflation**  
*(y/y; percent)*



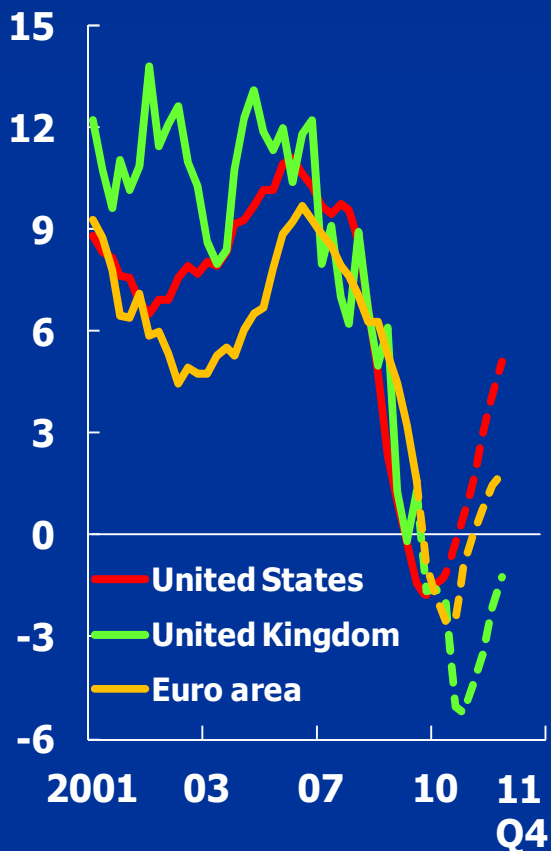


# Plan of the presentation

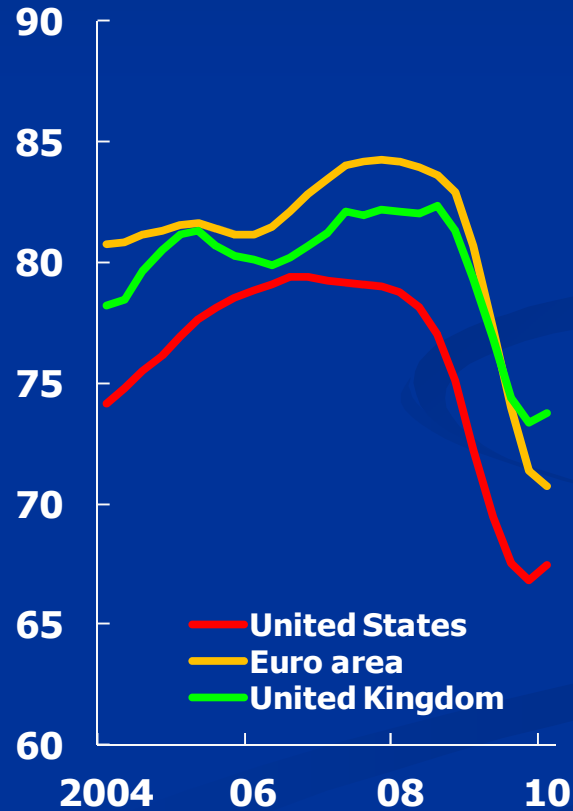
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# Multiple factors will weigh on the recovery in advanced economies

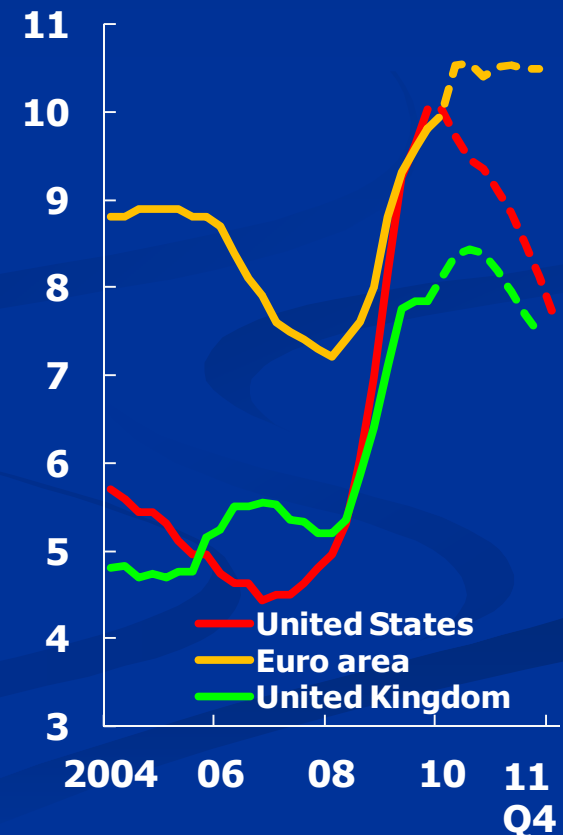
**Non-Financial Private Sector Credit**  
(y/y percent change)



**Manufacturing Capacity Utilization**  
(percent of total capacity; 3mma)

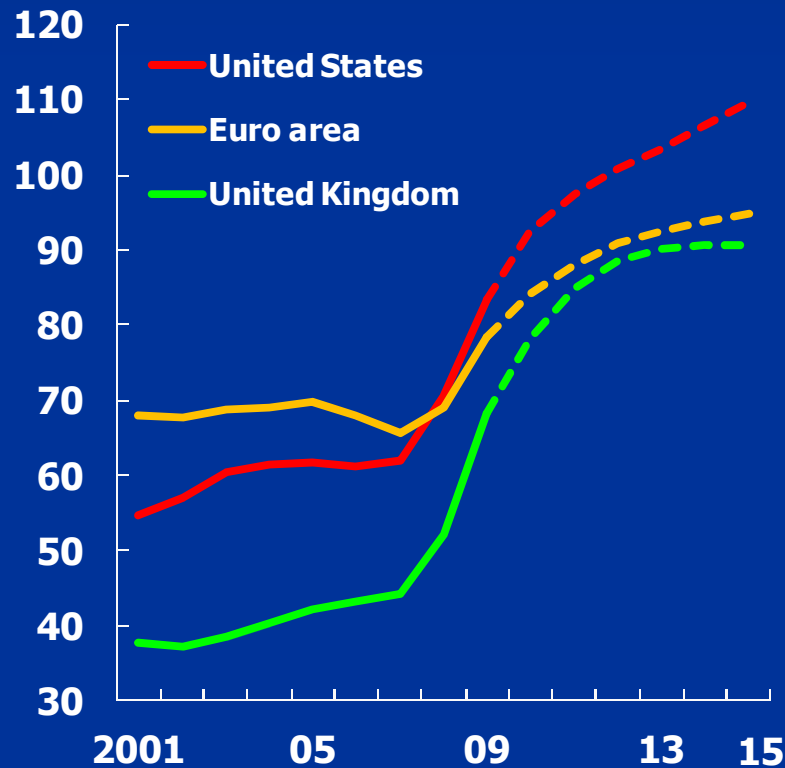


**Unemployment Rate**  
(percent)

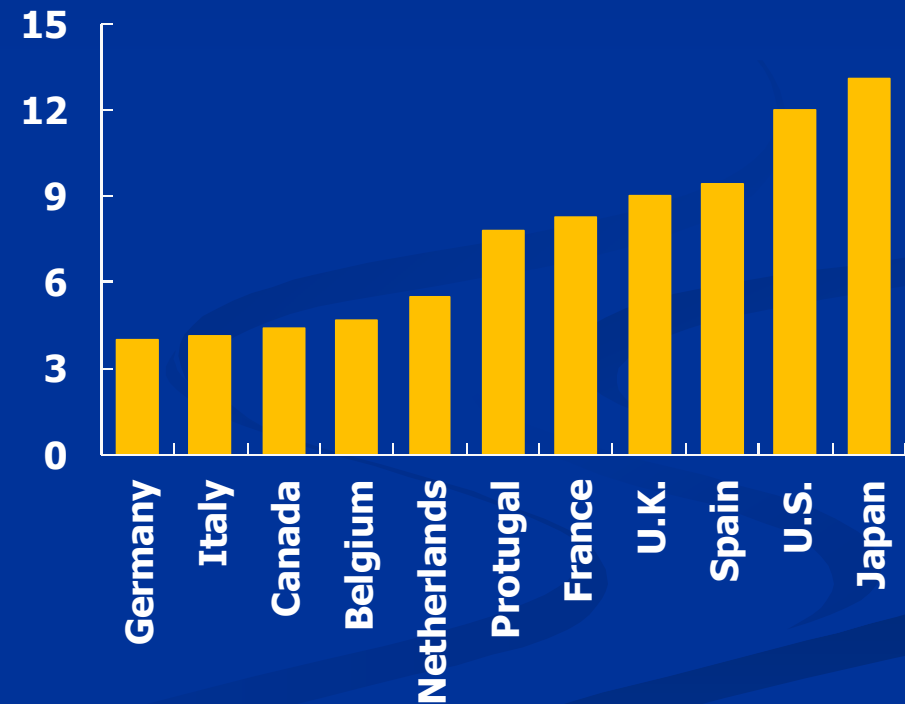


# New global risks are also evolving, notably from rising sovereign debt burdens and financial market sentiment

**Public Debt**  
(percent of GDP)



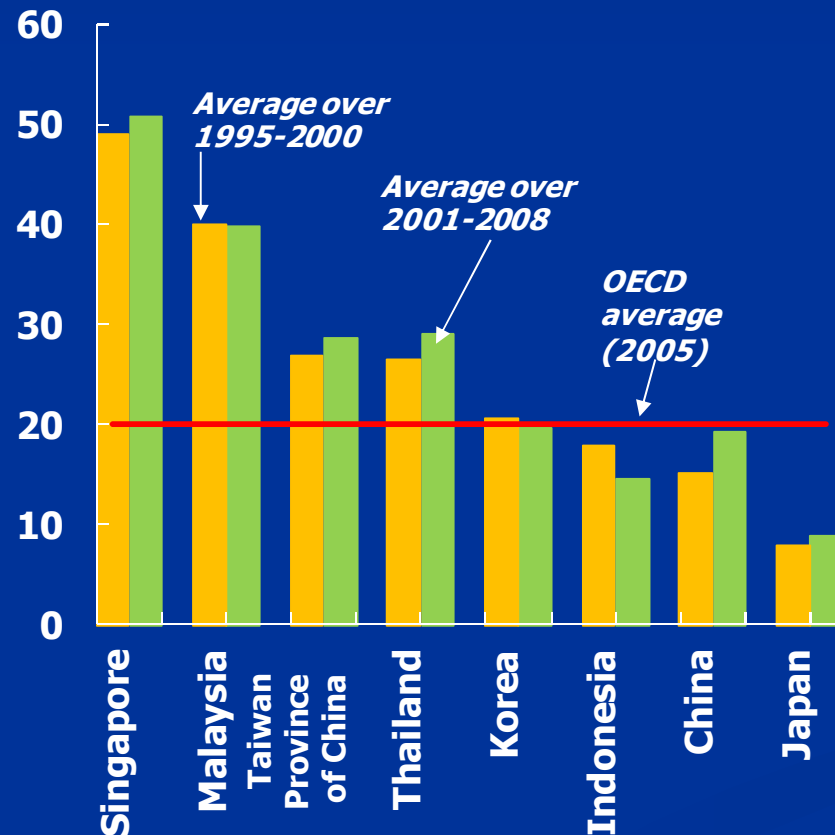
**Required Adjustments in Primary Balance<sup>1</sup>**  
(percent of GDP)



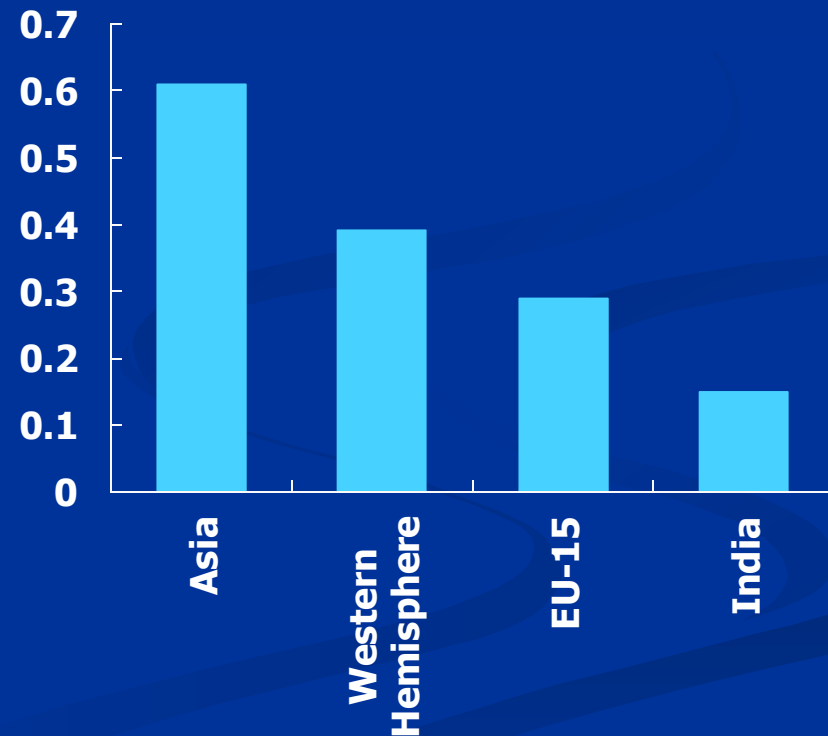
<sup>1</sup> Primary balance adjustment needed between 2010 and 2020 to bring the debt ratio to 60 percent in 2030.

# Asia is still very exposed to global demand

**Asia's Dependence on Demand from Outside the Region**  
(percent of GDP)



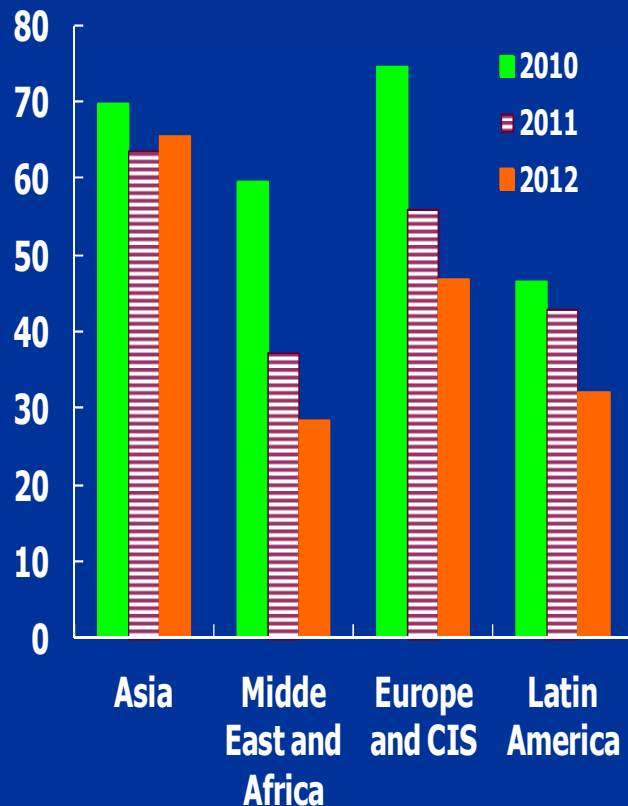
**GDP Growth Loss From a 1 percent Decline in U.S. Growth<sup>1</sup>**  
(percentage points)



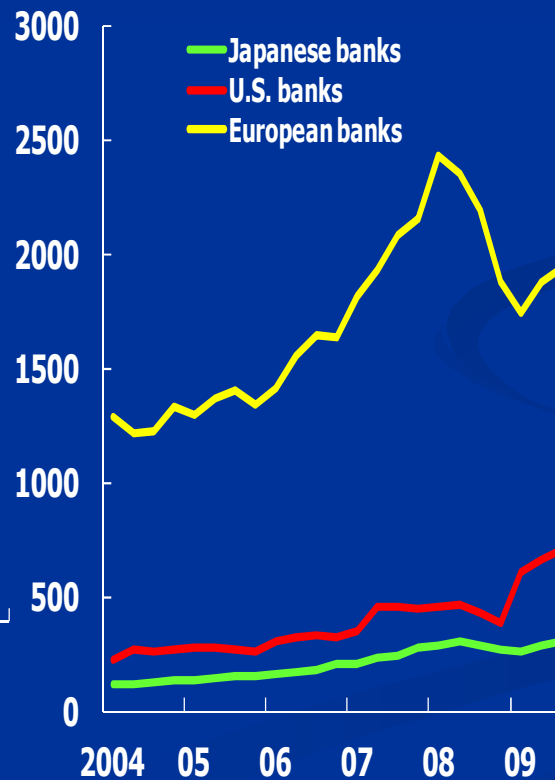
<sup>1</sup> Source: *Regional Economic Outlook*, April 2008.

# And Asia remains reliant on external financing

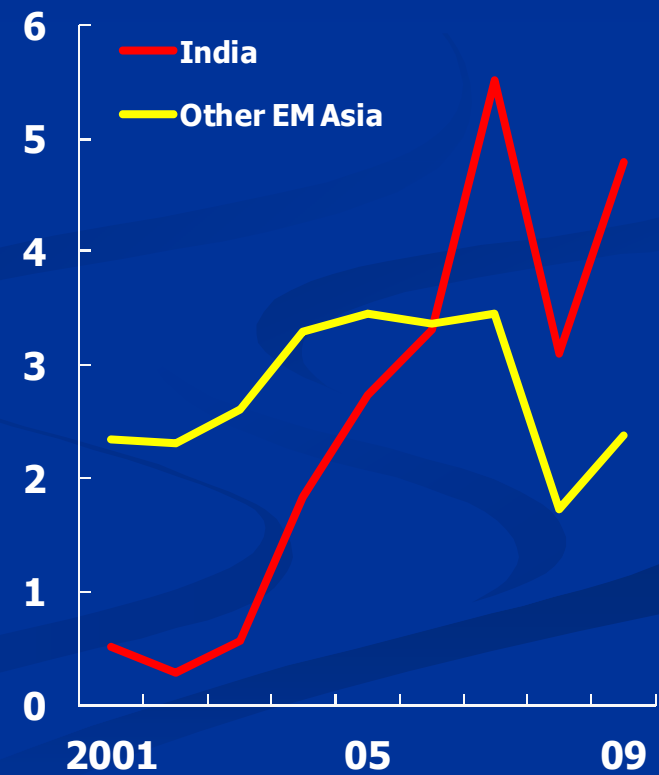
**Rollover of Foreign Currency Bonds and Loans by Corporates**  
(billions of U.S. dollars)



**Outstanding Claims of BIS Reporting Banks vis-à-vis Asia**  
(billions of U.S. dollars)



**Total External Issuance: Bonds, Equities and Loans**  
(percent of GDP)

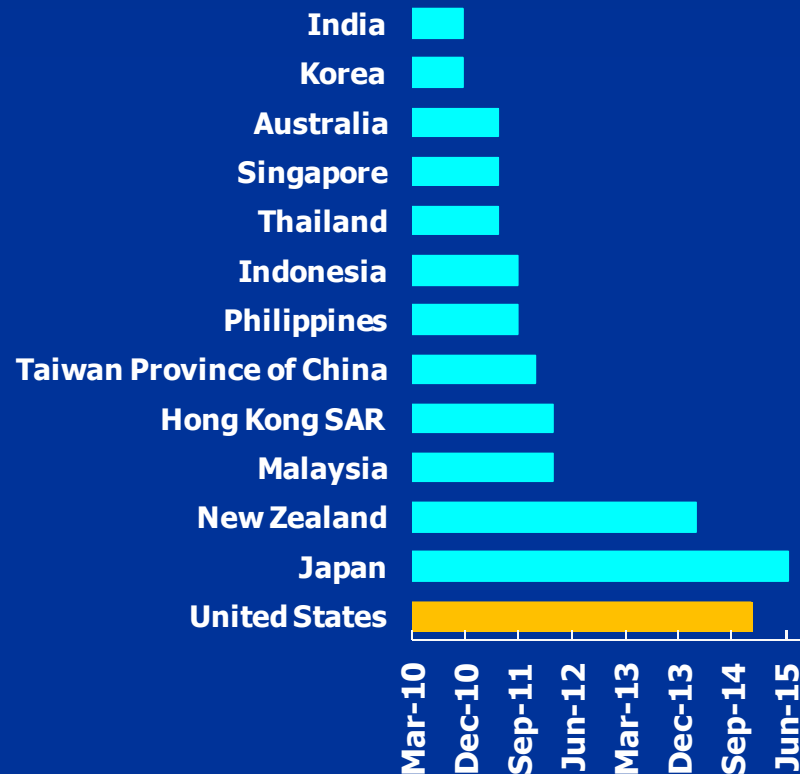


# Plan of the presentation

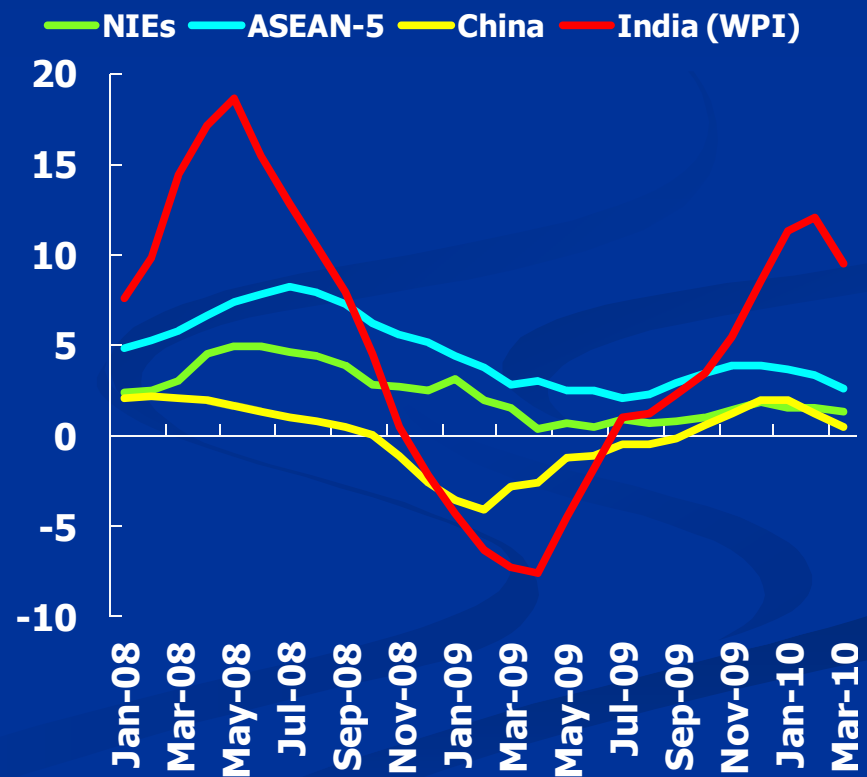
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# In a number of Asian economies output gaps are closing and inflationary pressures are emerging

## Output Gap - Estimated Dates of Closure

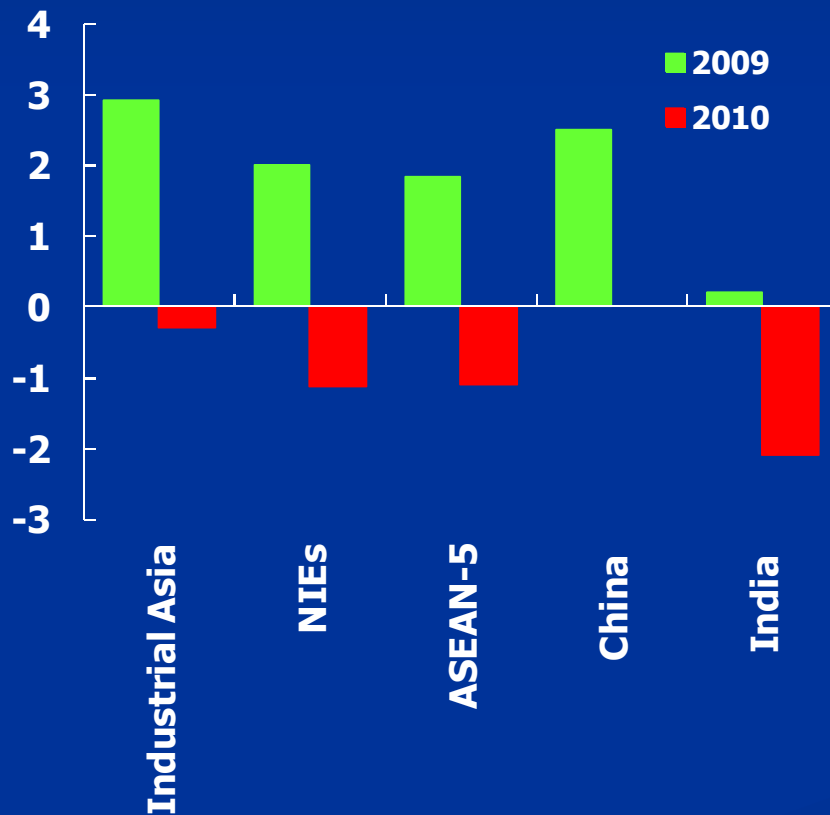


## EM Asia: Core Inflation (3-month percent change of 3-mma; SAAR)

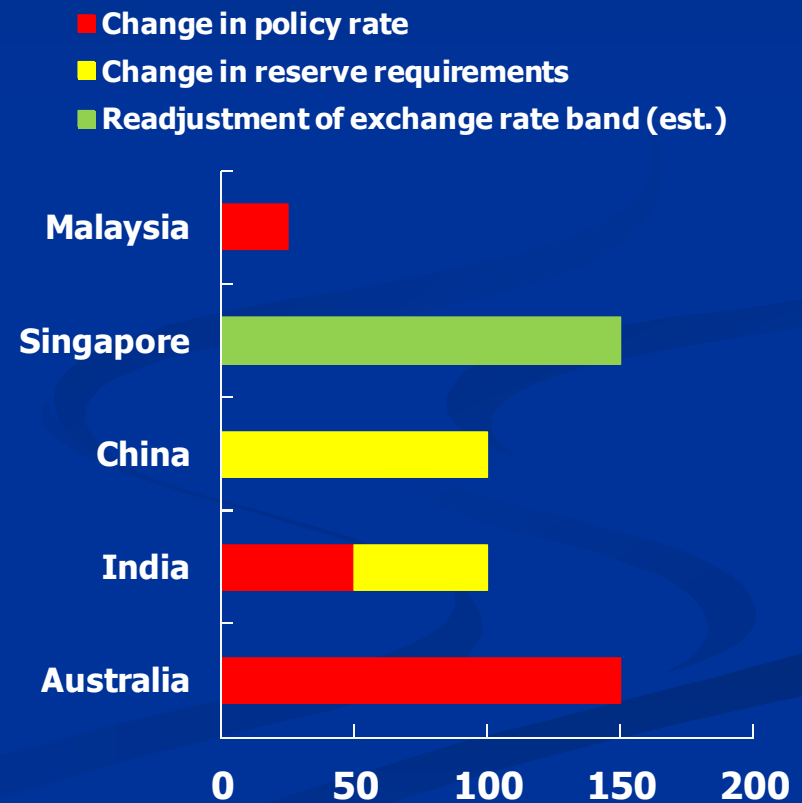


# With higher inflationary pressure in the region, several countries are moving toward policy normalization

**Asia: Fiscal Impulse**  
(percent of GDP)



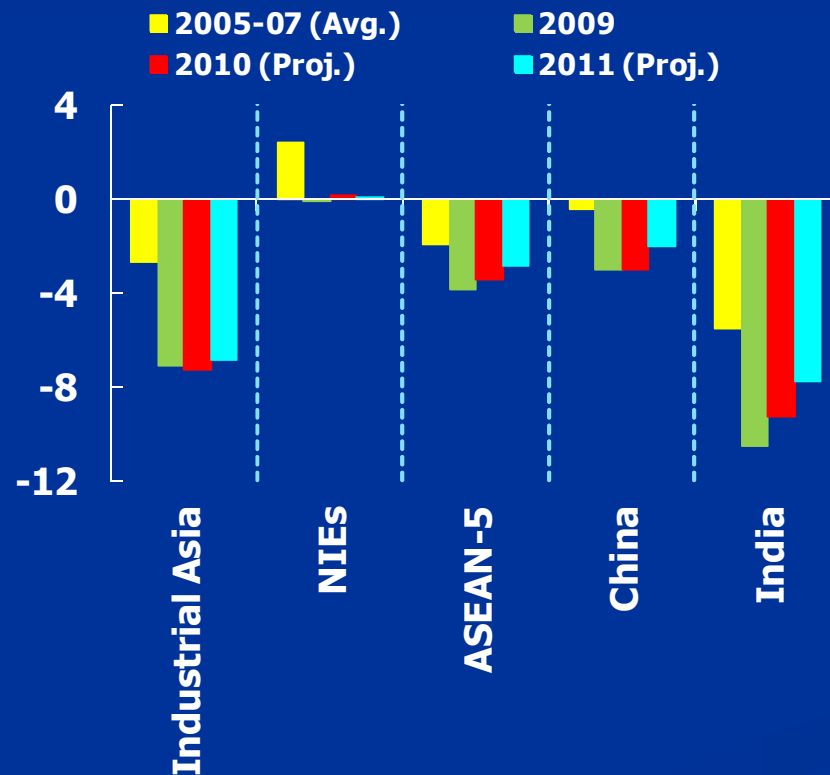
**Asia: Monetary Tightening**  
(basis points)



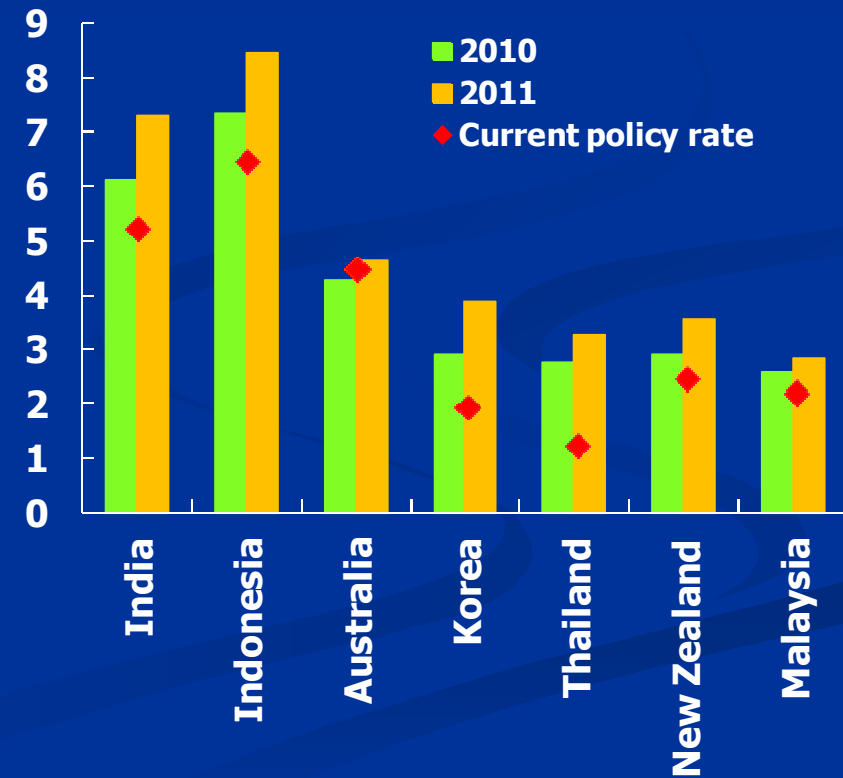


# Given the persistence of downside risks, should the withdrawal of stimulus be gradual?

**Asia: Cyclically Adjusted General Government Balance**  
(percent of GDP)

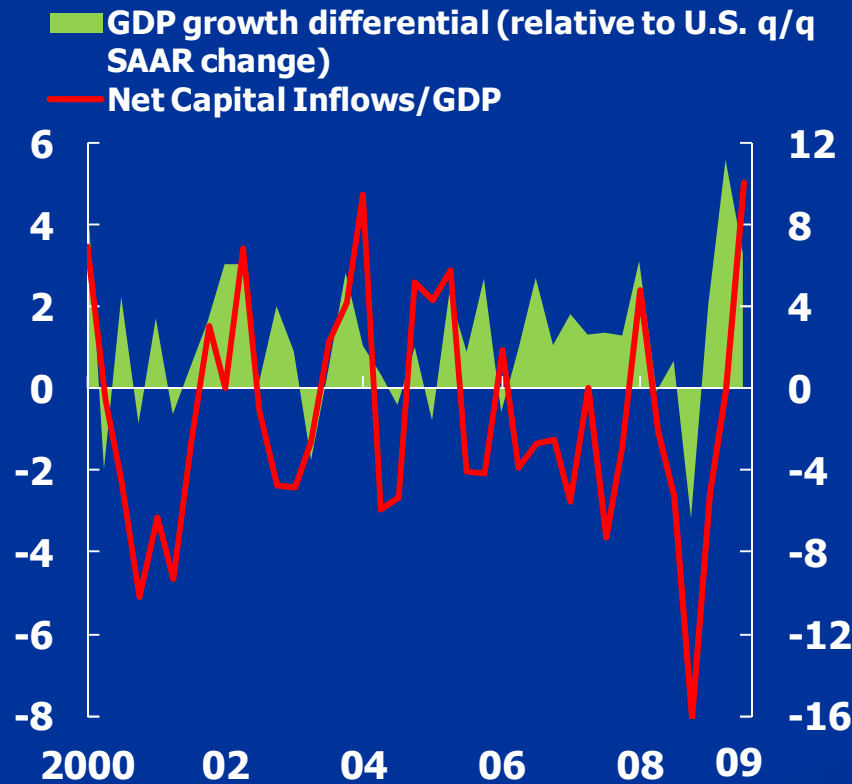


**Asia: Estimated Nominal Taylor Rule Rates**  
(percent)

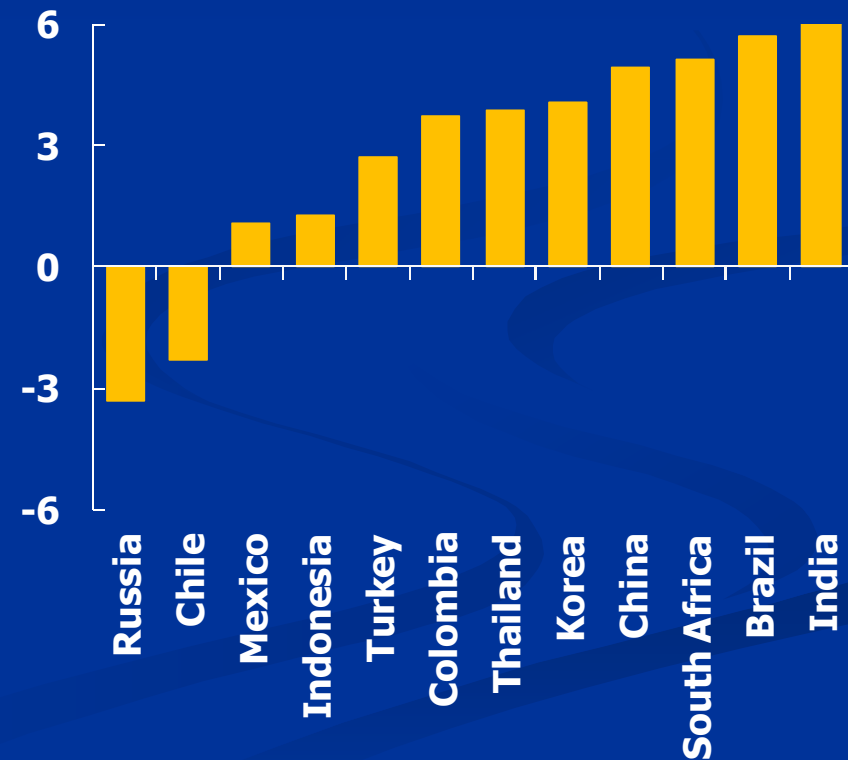


# The ample supply of global liquidity and brighter growth prospects are driving capital inflows

**EM Asia: Growth Differential with U.S. and Capital Inflows**  
(percent)

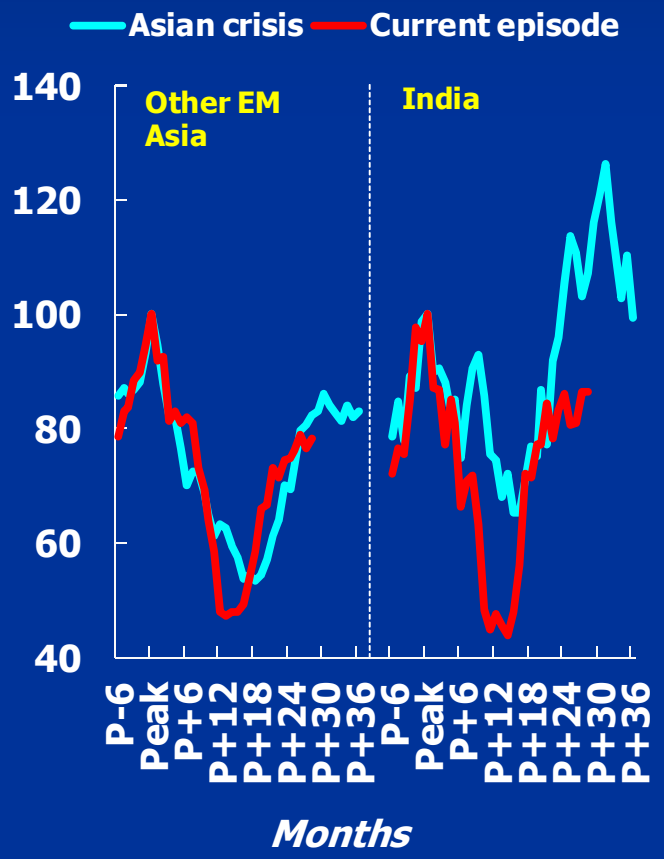


**Selected EM: Net Capital Inflows in 2009:H2**  
(percent of GDP)

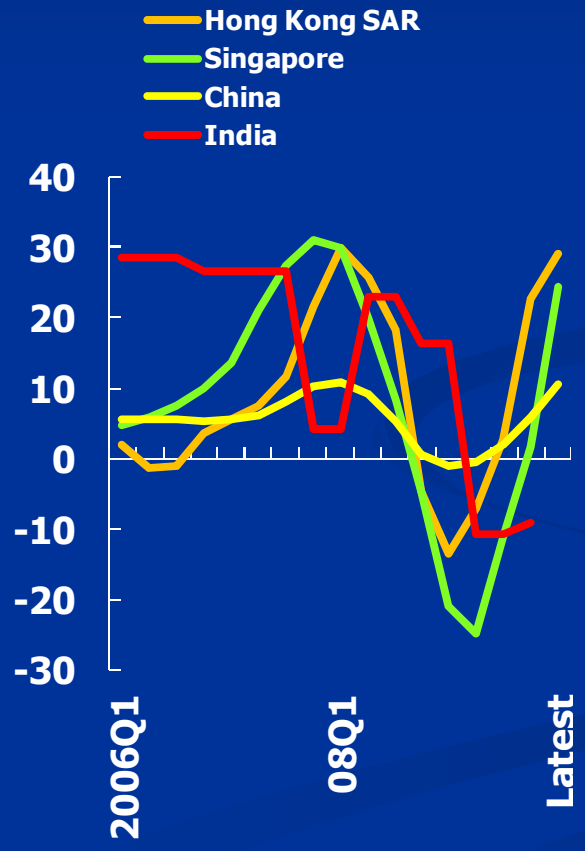


There is no clear evidence of asset bubbles so far, but the high levels of liquidity in the region raise a concern

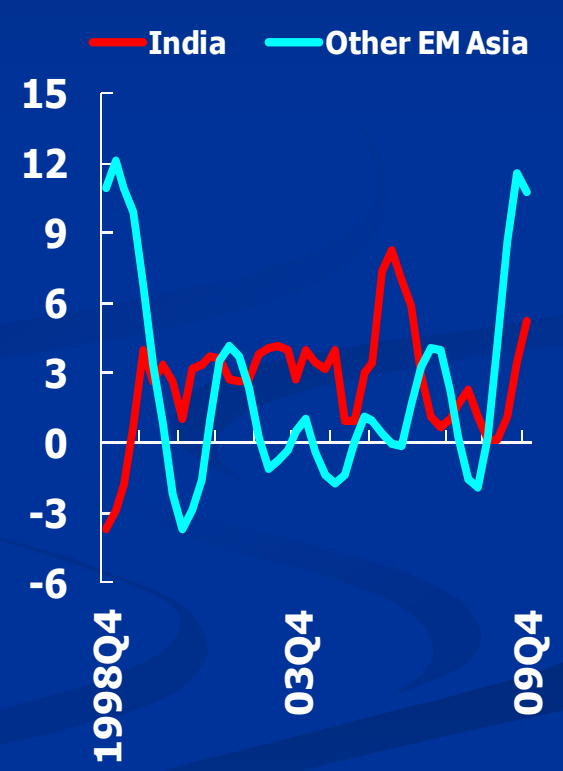
**EM Asia: Equity Prices**  
(pre-downturn peak =100)



**Property Prices**  
(y/y percent change)



**EM Asia : Excess Liquidity<sup>1</sup>**



<sup>1</sup> Plots 4-quarter moving average of difference in year-on-year change in broad money supply and nominal GDP.

# Safeguarding stability will require a range of macro-prudential measures...

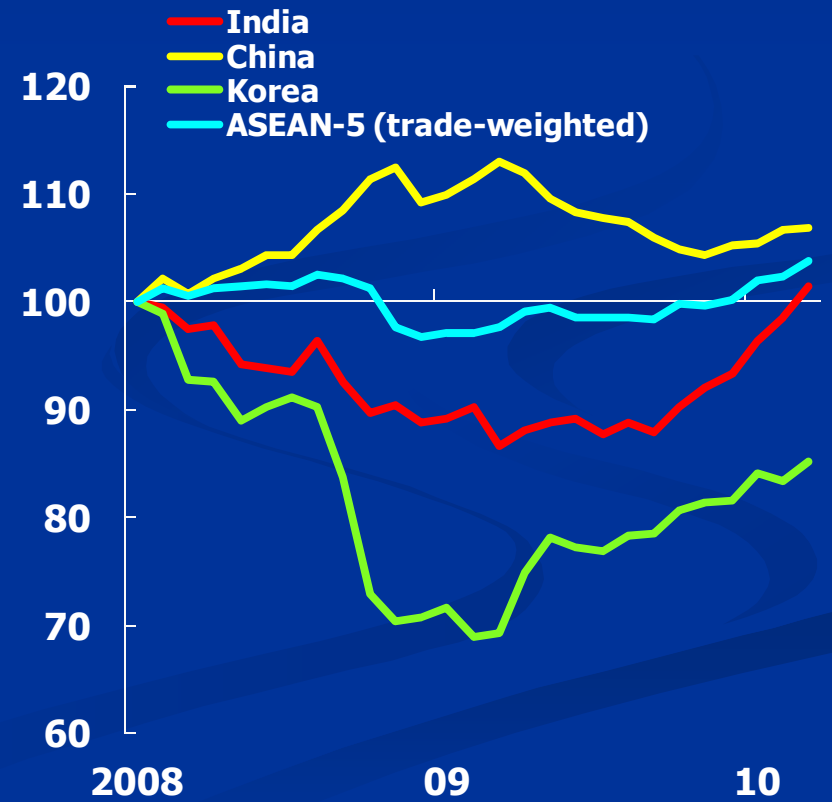
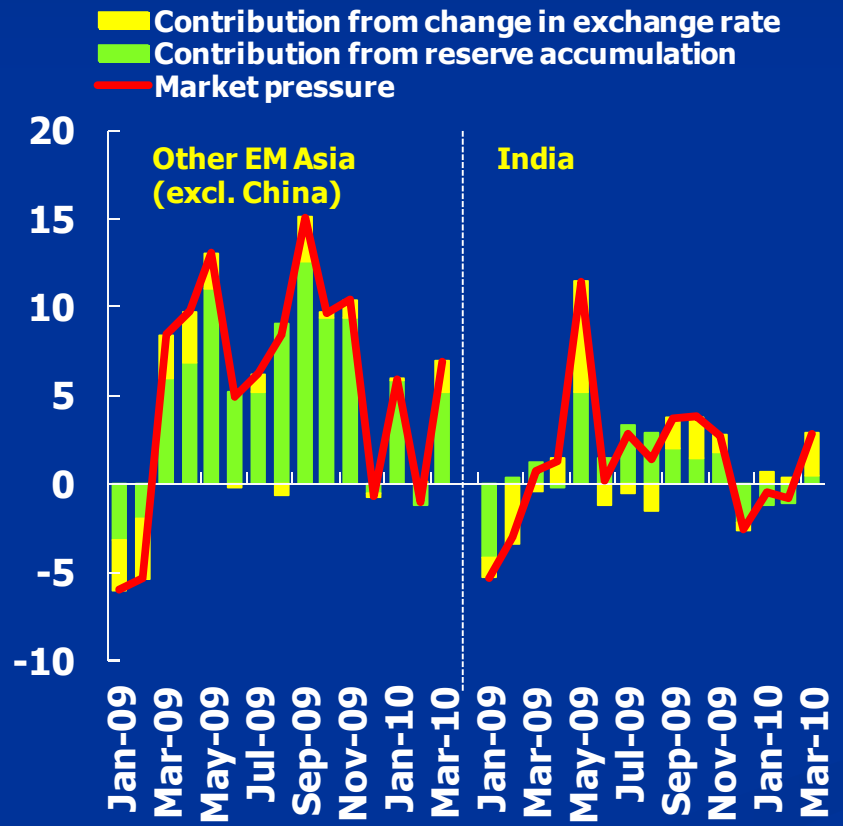
## Selected Asia: Macro-prudential Measures

- **Singapore:** Interest-only loans disallowed; assistance measures for property developers wound down.
- **China:** higher taxes on the sale of properties purchased less than five years prior to the sale; limits on loan-to-value ratios for second homes.
- **Hong Kong SAR:** Limits to mortgages for luxury homes; increase in stamp duty on sales of luxury properties; restrictions on buying properties for individuals and companies.
- **Korea:** maximum loan-to-value ratios and debt-to-income ratios lowered in Seoul and surrounding areas.
- **India:** increased risk weight on banks' exposure to commercial real estate; restrictions on external commercial borrowing for real estate.

# ...and more exchange rate flexibility

**EM Asia: Exchange Market Pressure**

**Asia: REER**  
*(January 2008 = 100)*

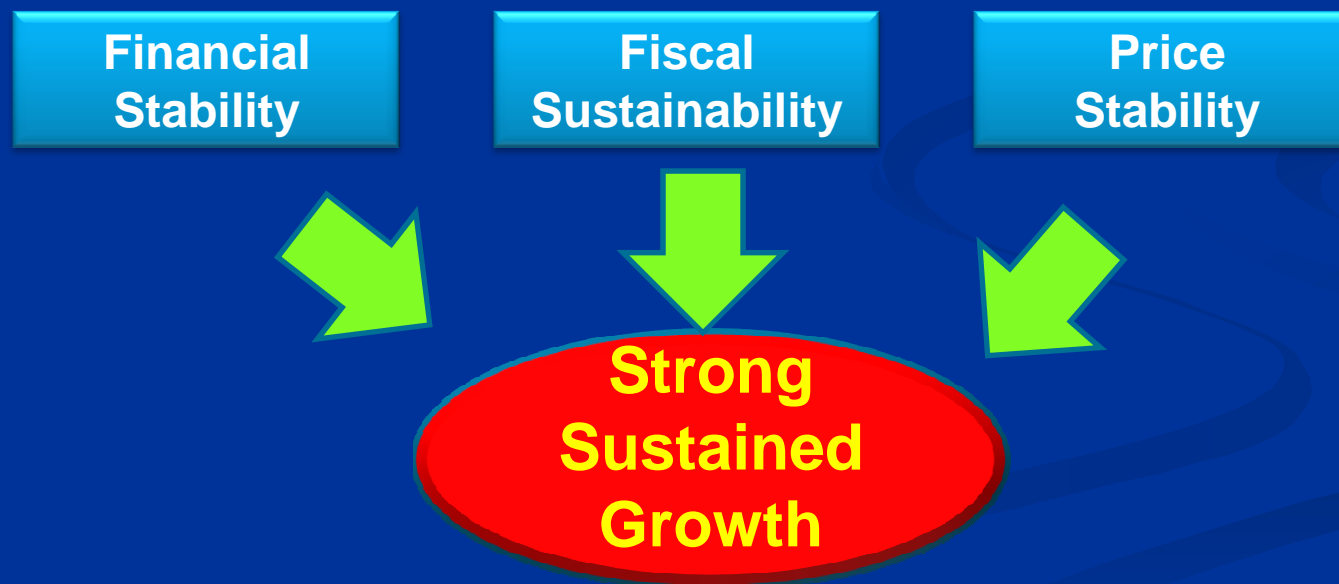


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- The global and regional context: a multi speed recovery.
- Risks to the outlook: downside global/financial risks.
- Policy challenges for Asia: managing the exit from stimulus and dealing with capital inflows.
- **Critical juncture and role of the IMF.**

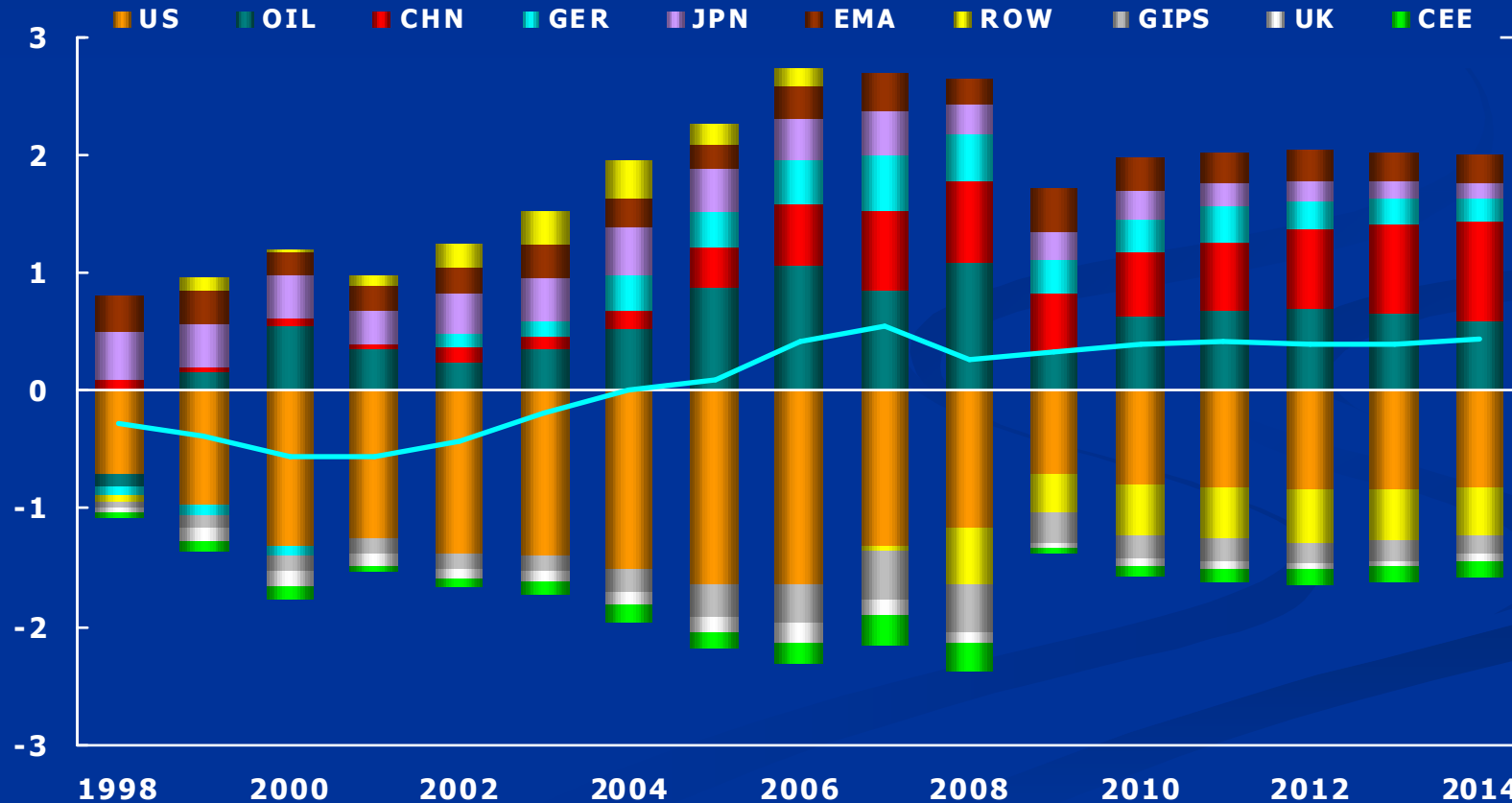
## We are at a critical juncture

- Global financial stability improved, but not assured
- Address the legacy of the present crisis, otherwise
  - Recovery undermined
  - Crisis extended



Over the medium term, private domestic demand will need to become a more prominent source of growth in Asia

**Current Account Balances**  
*(percent of world GDP)*





## Achieving “Strong, Sustained, and Balanced Growth”?

- Fiscal consolidation and decrease in domestic demand in advanced economies
- Increase in net exports in advanced economies
- Decrease in net exports in emerging market economies
- Decrease in saving and increase in domestic demand in emerging markets
- The required adjustment of exchange rates

## In this new global environment, the IMF is reforming to increase its effectiveness

### ■ Strategy:

- Improve governance
- Enhance the lending framework including new lending tools (notably the FCL)
- Strengthen bilateral surveillance
- Enhance multilateral surveillance, especially for systemic countries
- Further develop regional surveillance

# Conclusions

- The global outlook is shaping up better than expected, but growth varies across regions, with emerging Asia in the lead.
- Asia's fast recovery argues for an exit from policy stimulus, while taking into account the uncertain strength of external demand and the risks posed by surges in capital inflows.
- Private domestic demand needs to become a more prominent source of growth in Asia.

