Regional Economic Outlook
Asia and Pacific
Shifting Risks, New Foundations for Growth

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New Delhi, India
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I. Current Context
II. Economic Outlook
III. Risks
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I. Current Context

- Receding global tail risks;
- Eased financial conditions;
- Return of capital flows to Asia;
- Activity is picking up;
Two biggest threats to the global economy are being defused.
The risk of a Euro area breakup is now sharply lower.

Re-denomination Risk in the Euro Area

Probability of the Danish Kroner Breaking the Strong-Side of the EUR-DKK ERM-II Boundary (LHS)

Google searches for Euro area break up (%; 100=max; RHS)

Sources: Bloomberg L.P.; Google.com; and IMF staff calculations.
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Sources: Bloomberg L.P.; Google.com; and IMF staff calculations.
With fiscal cliff averted, activity is picking up in the US, spurred by pent-up demand.

Cumulative Over-and-Under Building of Residential and Manufactured Homes
(In millions)

U.S. Light Vehicle Sales
(In millions of units)

Sources: Census Bureau; New Residential Construction (completions) and Manufactured Homes Survey (placements); CEA (1998); Haver Analytics; and IMF staff calculations.
Risk capital returned to Asia...

Selected Asia: Equity and Bond Funds – Quarterly Net Flows 1/
(In billions of U.S. dollars)

- Bond funds
- Equity funds

Peak during 2006–07

Source: Haver Analytics.
1/ Includes exchange traded fund flows and mutual fund flows for Emerging Asia, Singapore, Hong Kong SAR, Taiwan Province of China, and Korea.
...resulting in buoyant financial conditions,...

Asia: Stock Markets
(Percent change of stock index since January 2012)

Source: Bloomberg L.P.
Data as of April 2013.
...and many currencies strengthened.

**Effective Exchange Rates**
(In percent, change since July 2012)

- Nominal effective exchange rate
- Real effective exchange rate

Sources: IMF, Information Notice System, and IMF staff calculations.
Data as of March 2013.
Improved global conditions also support exports from and within Asia.

Asia: Exports to Major Destinations
(Three-month percent change of 3MMA; seasonally adjusted annualized rate)

Sources: Haver Analytics; CEIC Data Co.Ltd; and IMF staff calculations
Improved global conditions also support exports from and within Asia.

**Asia: Exports to Major Destinations**
(Three-month percent change of 3MMA; seasonally adjusted annualized rate)

Sources: Haver Analytics; CEIC Data Co., Ltd.; and IMF staff calculations
Economic activity has been generally picking up.

Asia: Changes in Real GDP at Market Prices
(In percent)

Year-on-year
Quarter-on-quarter (SAAR)

Australia, Japan, New Zealand
East Asia (excl. China)
ASEAN
China

Sources: Haver Analytics; CEIC Data Co.Ltd; and IMF staff calculations
1/ For India, GDP is at factor cost.
India: high frequency indicators have stabilized, but remain weak.

PMI Indices and Business Expectations

[Index]

RBI overall business situation outlook (RHS)

PMI composite, historical average

Source: Haver Analytics.
India: an investment slowdown has generalized.

GDP Growth
(Year-on-year percent change)

Investment
(In billions of Rupees)

Sources: CEIC Data Co. Ltd; and IMF staff calculations

Sources: CAPEX database; and IMF staff calculations
India: slowdown is due not only to external spillovers, but also to domestic factors.

India: GDP Growth 1/
(Year-on-year percent change)

Source: IMF staff estimates.
1/ Unexpected growth denotes real GDP growth in 2012 minus the growth forecast for 2012 projected during previous WEO vintage. Partner growth is export weighted average.
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II. Economic Outlook

- Stronger prospects overall;
- Robust domestic and regional demand;
- Benign inflation;
Amid a three-speed global recovery, Asia remains global growth leader,...

Real GDP Growth, 2013
(year-on-year growth)

Source: IMF, World Economic Outlook.
...underpinned by robust domestic demand.

Selected Asia: Contributions to Projected Growth
(Year-on-year percent change)

Sources: IMF, World Economic Outlook; and IMF staff calculations.
Inflation should generally remain within central banks’ explicit/implicit targets.

**Asia: Headline Inflation**
(In percent, year-on-year)

- **Target (mid-point)**
- **Latest**

Sources: Haver Analytics; CEIC Data Co.Ltd; IMF, World Economic Outlook; and IMF staff estimates. Note: For Thailand, core inflation and the mid-point of the core inflation target band is used. For India, WPI is used. Latest data as of March 2013 or the latest available.
Inflation should generally remain within central banks’ explicit/implicit targets.

Asia: Headline Inflation
(In percent, year-on-year)

Sources: Haver Analytics; CEIC Data Co.Ltd; IMF, World Economic Outlook; and IMF staff estimates.
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III. Risks

• More balanced risks;
• Financial imbalances slowly building up;
• Risks are mitigated by strong corporate/bank balance sheets;
Risks to forecasts are becoming more balanced.

Asia: Real GDP Growth
(Central forecast and selected confidence intervals; in percent)

- Central forecast

90 percent confidence interval, last year (October 2012 vintage)

Sources: IMF, World Economic Outlook; and IMF staff estimates.
Financial imbalances are slowly building up...

Asia Financial Stability Heatmap
(Standardized deviation from long-term median)

Source: IMF staff estimates.
Financial imbalances are slowly building up...

### Asia Financial Stability Heatmap
(Standardized deviation from long-term median)

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<th>Residential Real Estate</th>
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**Source:** IMF staff estimates.

- **Low risk**
- **High risk**
...but risks are generally mitigated by robust corporate balance sheets...

Non-financial Sector Corporate Debt-to-Equity Ratio
(In percent, cap-weighted mean)

Median, 2002-07

Sources: Worldscope via Thomson Reuters Datastream; Moody’s Analytics; and IMF staff calculations.
...but risks are generally mitigated by robust corporate balance sheets...

Non-financial Sector Corporate Debt-to-Equity Ratio
(In percent, cap-weighted mean)

Sources: Worldscope via Thomson Reuters Datastream; Moody’s Analytics; and IMF staff calculations. Latest as of 2012:Q3 or latest available.
...and buildup of bank capital.

Tier-1 Capital Ratio
(In percent, asset-weighted mean)

Median, 2002-07

Sources: Bankscope (via Bureau Van Dijk); Bloomberg L.P.; and IMF staff calculations.
...and buildup of bank capital.

Tier-1 Capital Ratio
(In percent, asset-weighted mean)

Sources: Bankscope (via Bureau Van Dijk); Bloomberg L.P.; and IMF staff calculations. Latest as of 2012:Q3 or latest available.
China: risks associated with the growth of non-bank financing.

China: Social Financing and Investment (In percent of GDP)

- Gross capital formation
- Real GDP Growth (y/y pct change, RHS)
- Social financing

Banking Assets—China and the United States (In trillions of U.S. dollars)

- Non-bank domestic credit
- 2009-12 increase: equivalent to 60 percent of total US commercial bank assets, end-2012

Sources: CEIC Data Co. Ltd; and IMF staff calculations.
Potential growth appears to have slowed down in India.

Selected Asia: Potential Growth
(In percent)

Source: IMF staff estimates.
Potential growth appears to have slowed down in India.

Selected Asia: Potential Growth
(In percent)

Source: IMF staff estimates.
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IV. Policy Implications

- Flexible monetary and exchange rate management;
- Safeguarding financial stability;
- Rebuilding fiscal space;
Monetary policy has generally been accommodative in Asia.

Selected Asia: Monetary Policy Stance
(In percent)

= Rate implied by the central bank reaction function

= Policy rate as of April, 2013

Sources: Haver Analytics; CEIC Data Co. Ltd.; Thomson Reuters Datastream; and IMF staff estimates.
But in ASEAN-5, both credit ratios and output levels are now above trend.

Output Gap vs. Credit Gap
(In percent of potential level)

Sources: CEIC Data Co., Ltd; Haver Analytics; IMF staff estimates.
But in ASEAN-5, both credit ratios and output levels are now above trend.
India: vigilance on inflation will pay dividends for long-term growth.

**India: Inflation**
(Year-on-year percent change)

- Wholesale Price Index
- CPI-Industrial Workers

Sources: CEIC Data Co. Ltd; and IMF staff calculations
India: vigilance on inflation will pay dividends for long-term growth.

India: Inflation
(Year-on-year percent change)

Sources: CEIC Data Co. Ltd; and IMF staff calculations
Greater exchange rate flexibility would also help curb overheating pressures.

Selected Asia: Change in Reserves and Bilateral Exchange Rate since October 2012

(In percent)

Change in Foreign Reserves

Change in Bilateral Exchange Rate (US$ to national currency)

Sources: CEIC Data Co., Ltd; Haver Analytics; IMF staff calculations.
Greater exchange rate flexibility would also help curb overheating pressures.

Selected Asia: Change in Reserves and Bilateral Exchange Rate since October 2012

(In percent)

Sources: CEIC Data Co., Ltd.; Haver Analytics; IMF staff calculations.
Macroprudential and capital flow measures can also complement conventional monetary policy.

Selected Asia: Macroprudential and Capital Flow Measures Taken during 2010–13

Sources: IMF (2012); country authorities; IMF country teams.
Japan: new monetary framework is welcome, needs to be complemented by fiscal and growth reforms.

Bank of Japan: Monetary Base Target and Balance Sheet Projection

- JGBs
- Other
- Monetary base (RHS)

Projection: 60

Source: Bank of Japan.
India: Key measures to address the growth slowdown

- Cabinet Committee on Investment constituted

- FDI regime is further liberalized

- Fiscal consolidation measures initiated
  - adoption of fiscal consolidation roadmap
  - raised diesel prices, quantity limits on subsidized LPG
  - cash transfer schemes

- Policy rates are reduced: 50 bps since January 2013.
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Thank You