World Economic and Financial Surveys

# Regional Economic Outlook

## Asia and Pacific

### Shifting Risks, New Foundations for Growth

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New Delhi, India
May 2013

INTERNATIONAL MONETARY FUND

# Contents

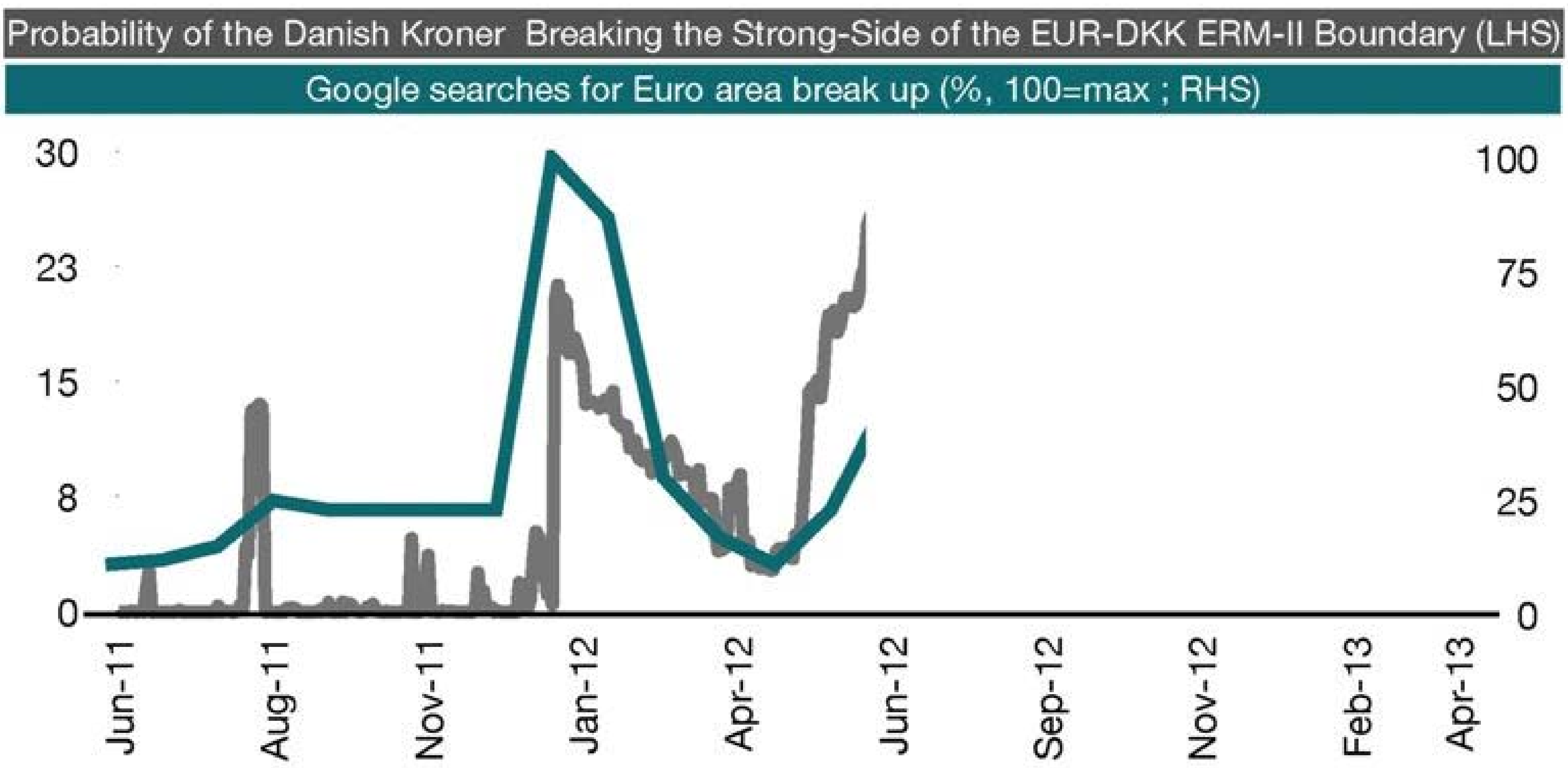
# I. Current Context

- *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




Sources: Bloomberg L.P.; Google.com; and IMF staff calculations.

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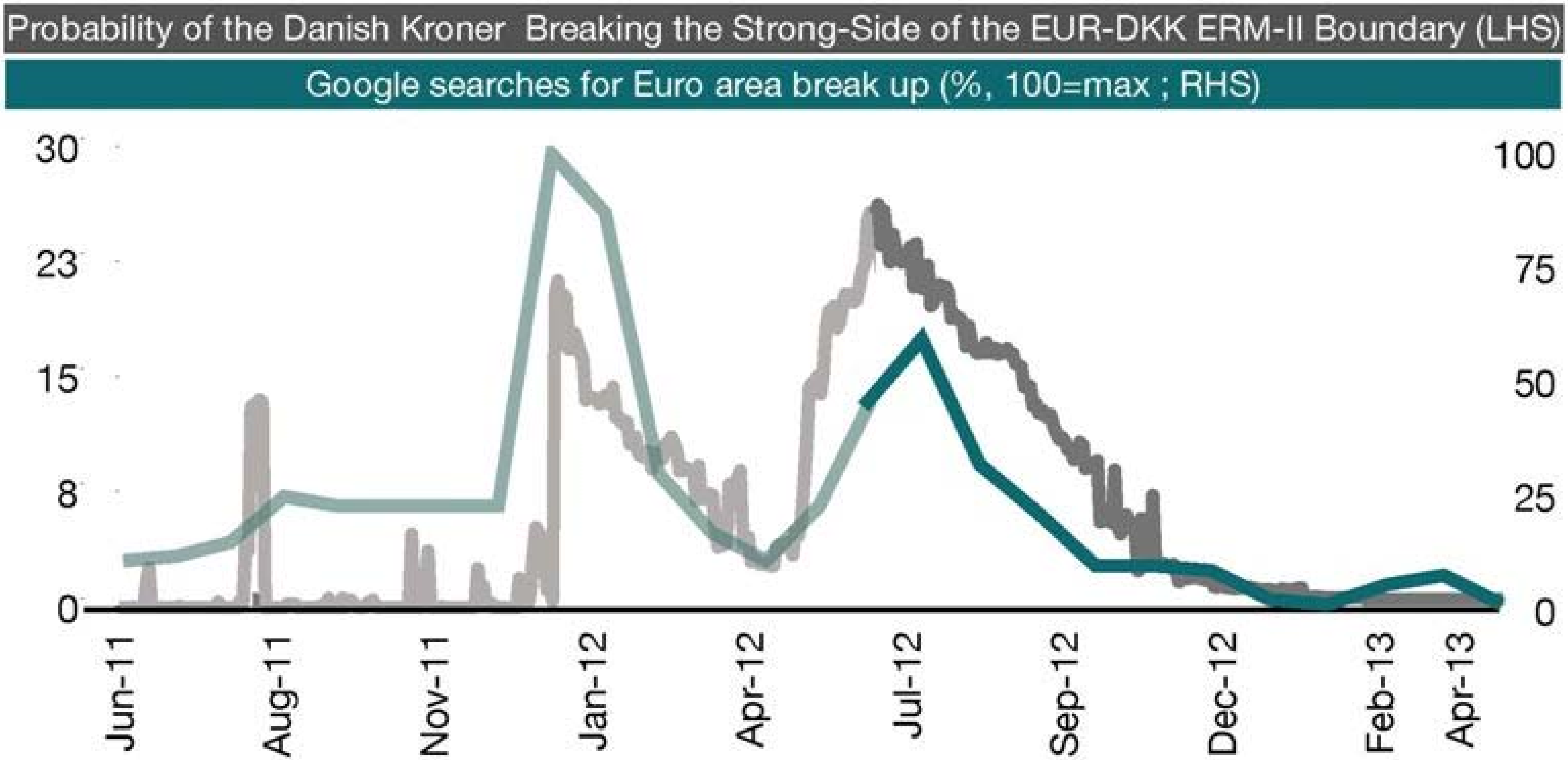
## Re-denomination Risk in the Euro Area

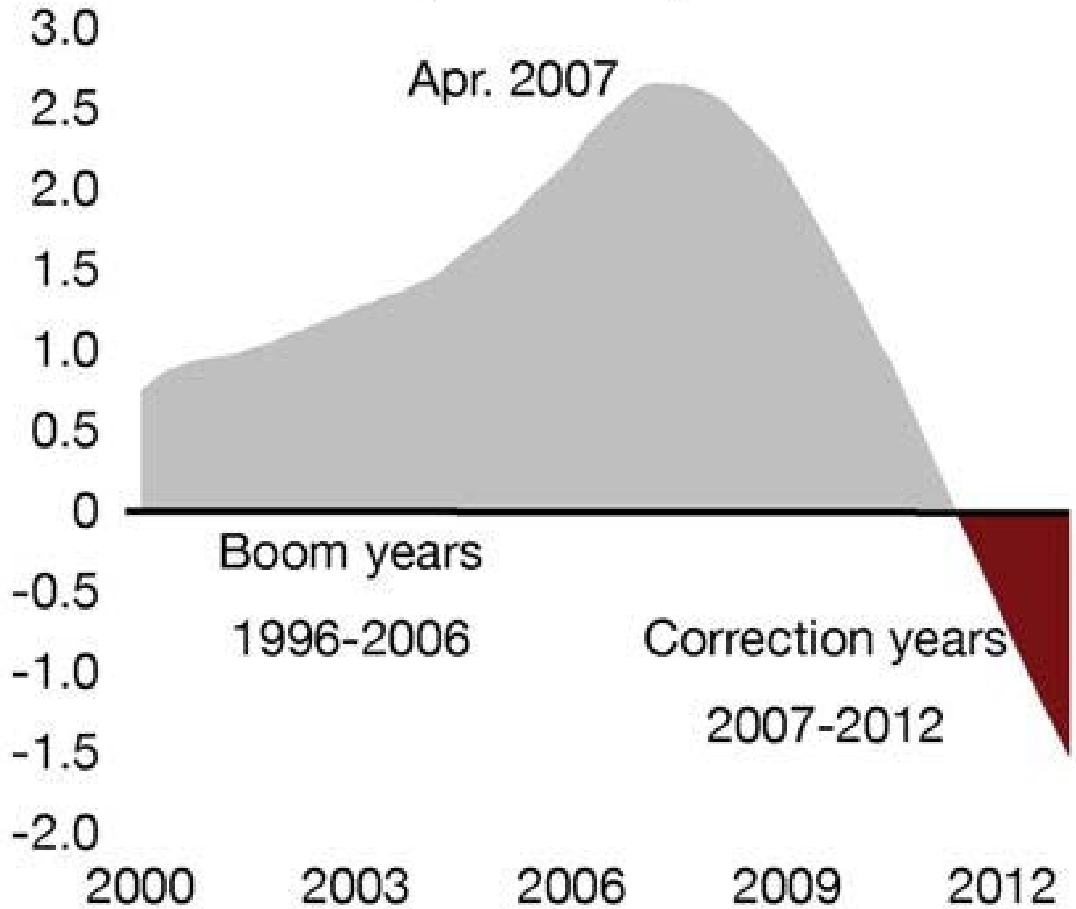



Sources: Bloomberg L.P.; Google.com; and IMF staff calculations.

# With fiscal cliff averted, activity is picking up in the US, spurred by pent-up demand.

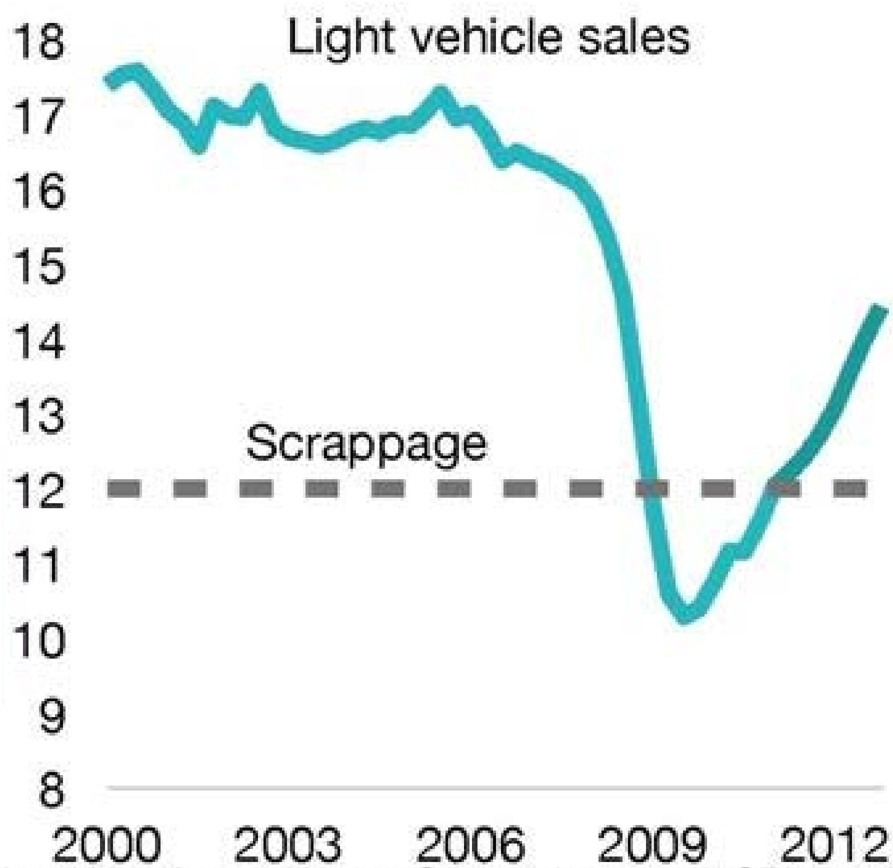
**Cumulative Over-and-Under Building of Residential and Manufactured Homes**

(In millions)




**U.S. Light Vehicle Sales**

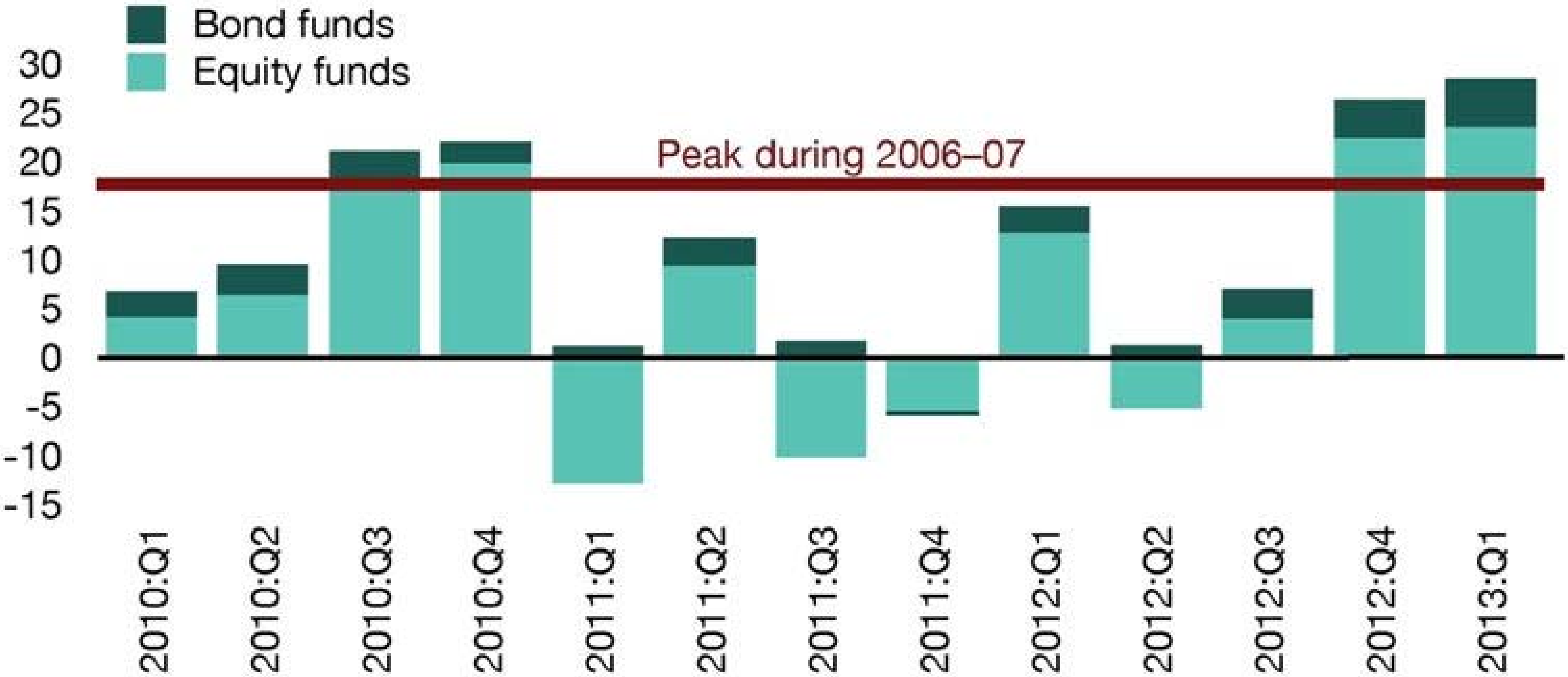
(In millions of units)




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

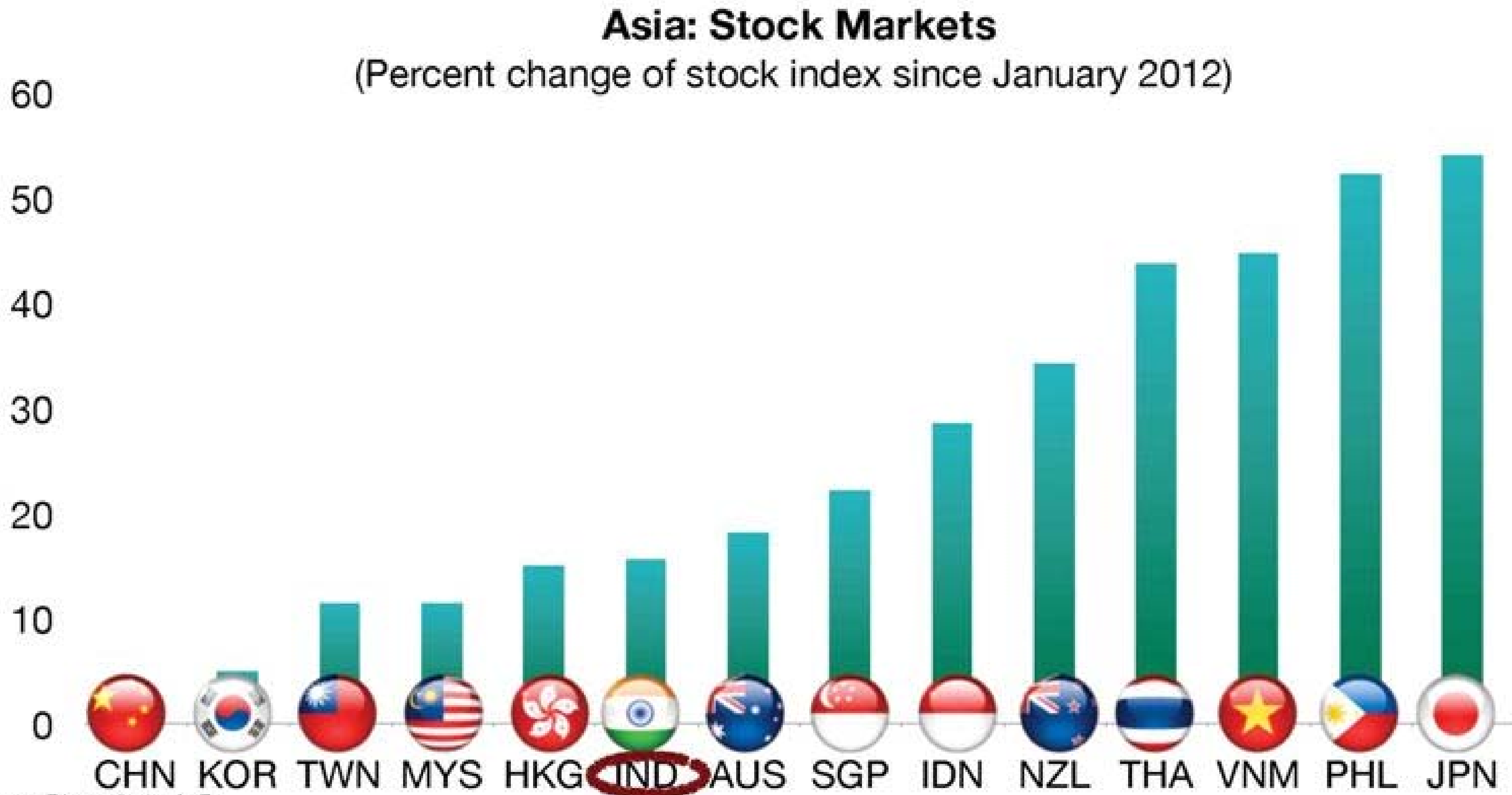
# Risk capital returned to Asia...

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



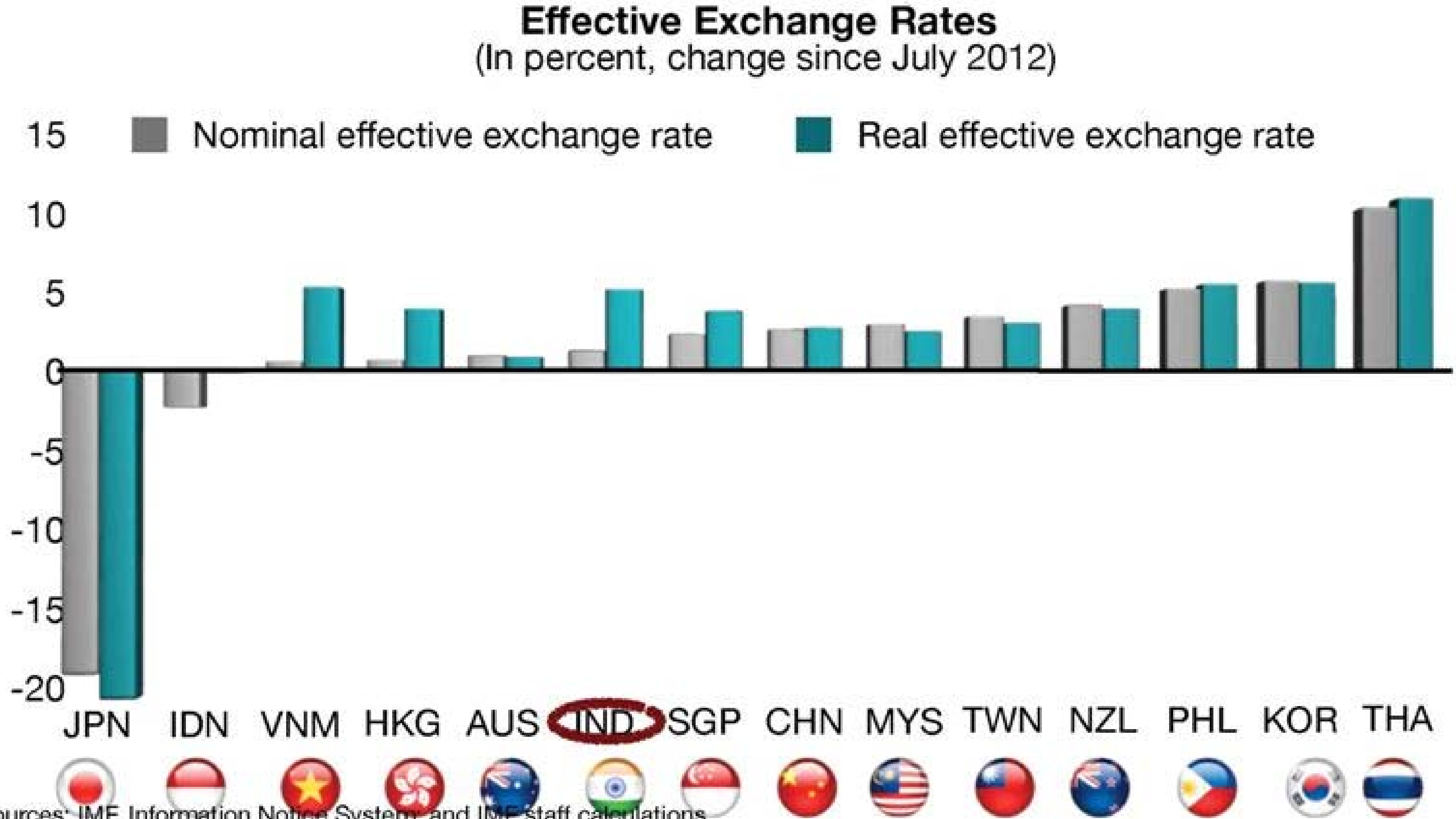

Source: Haver Analytics.
1/ Includes exchange traded fund flows and mutual fund flows for Emerging Asia, Singapore, Hong Kong SAR, Taiwan Province of China, and Korea.

# ...resulting in buoyant financial conditions,...




Source: Bloomberg L.P.
Data as of April 2013.

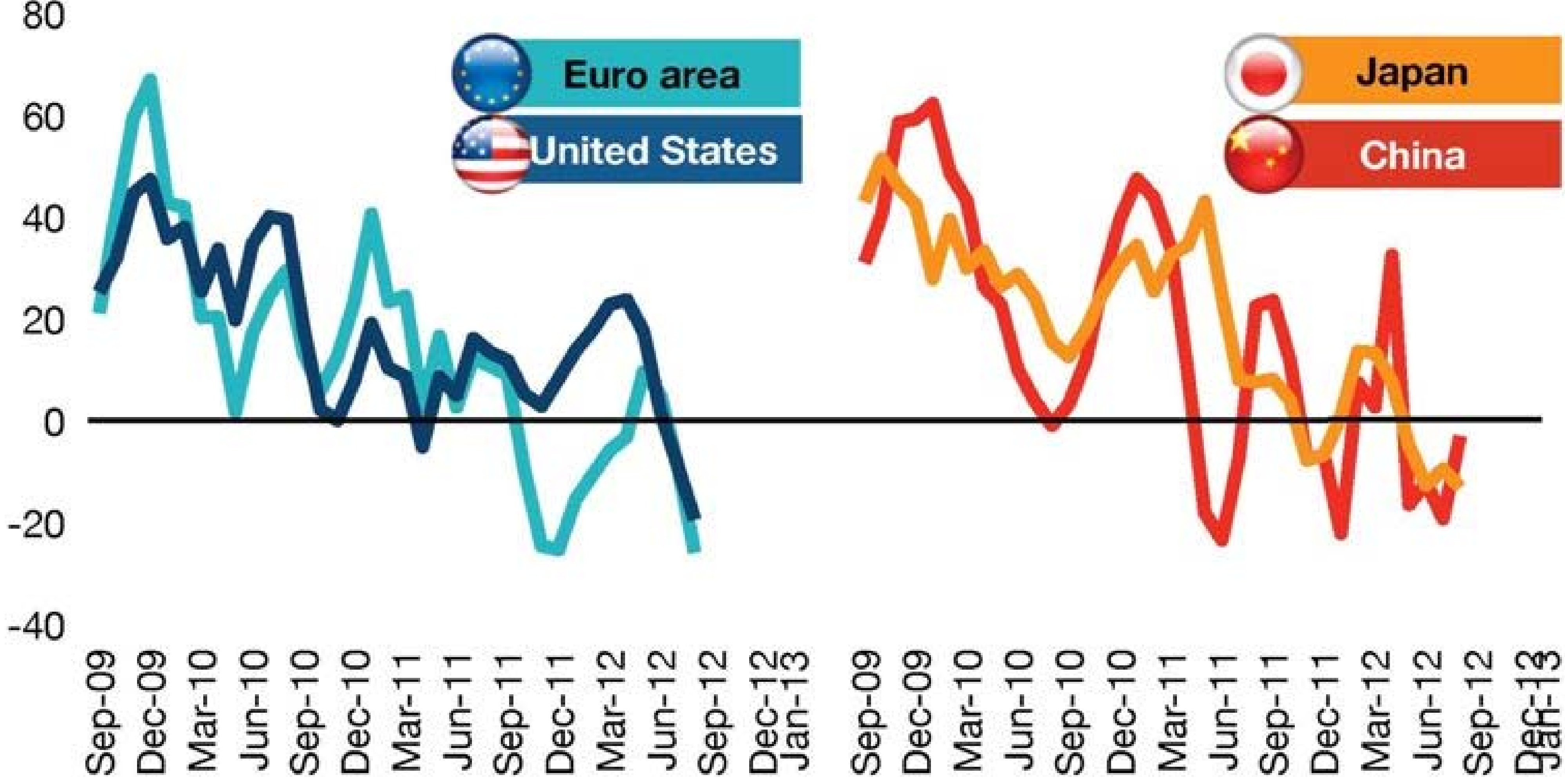
# ...and many currencies strengthened.




Sources: IMF, Information Notice System, and IMF staff calculations.
Data as of March 2013.

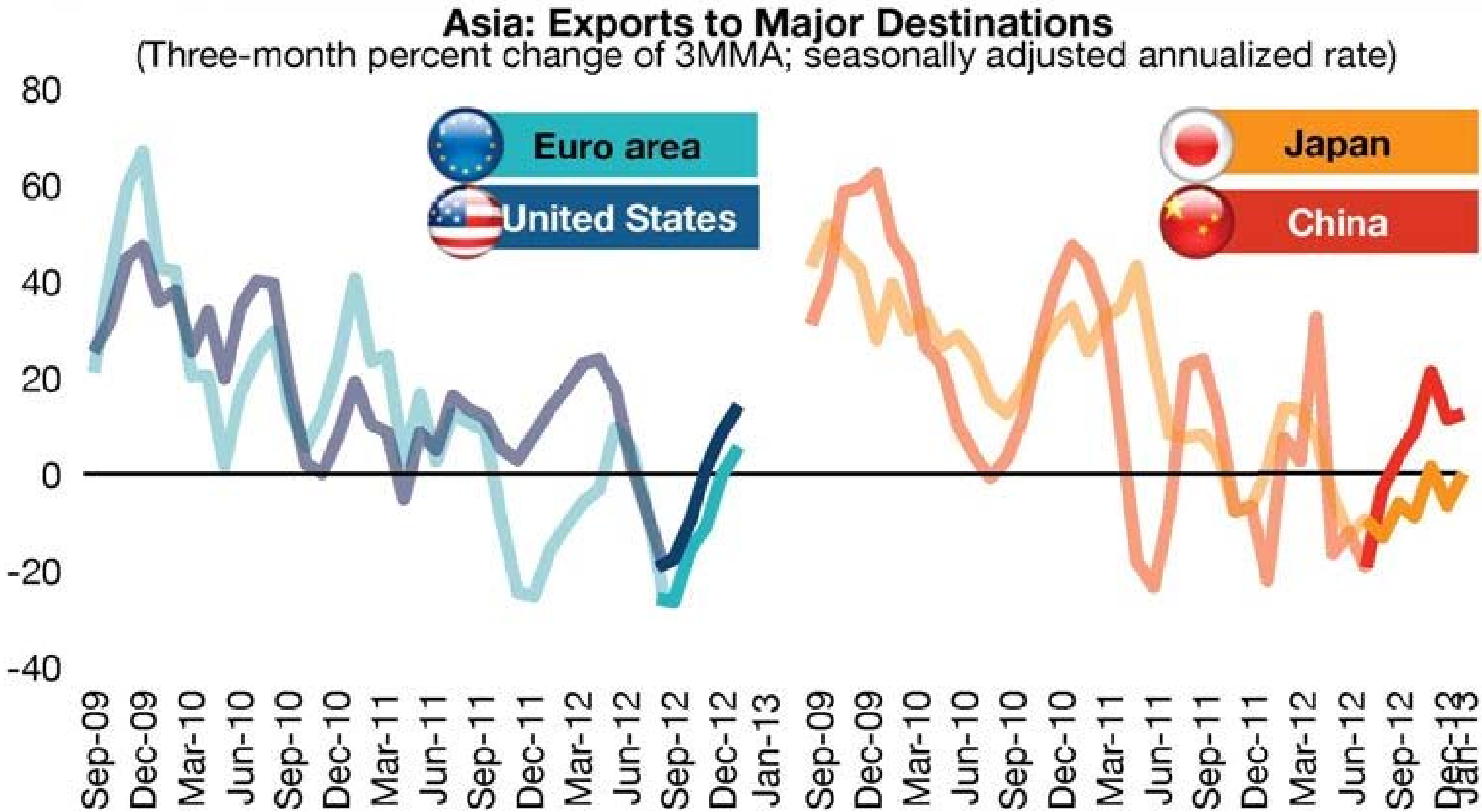
# Improved global conditions also support exports from and within Asia.

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



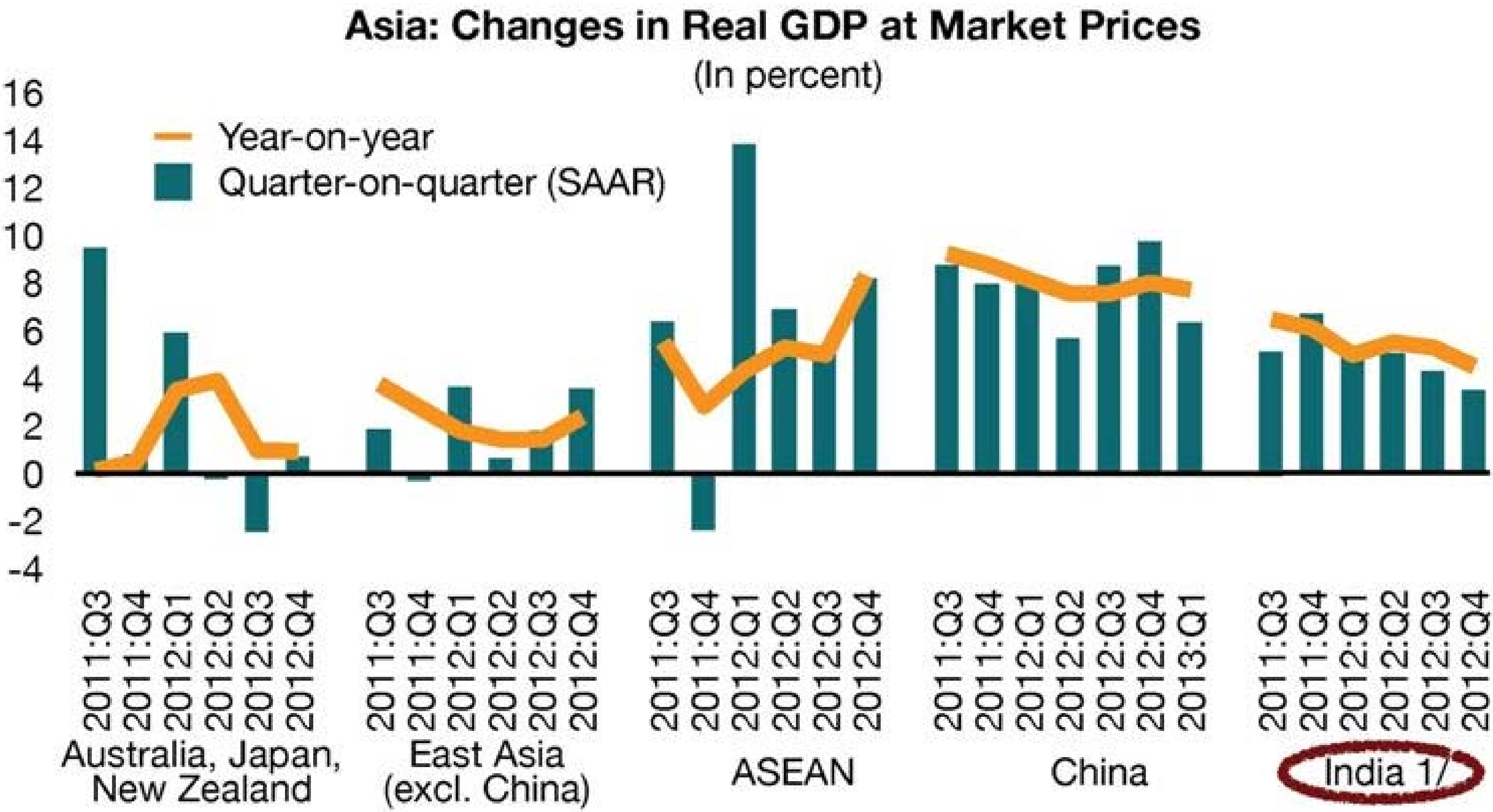

Sources: Haver Analytics; CEIC Data Co.Ltd; and IMF staff calculations

# Improved global conditions also support exports from and within Asia.



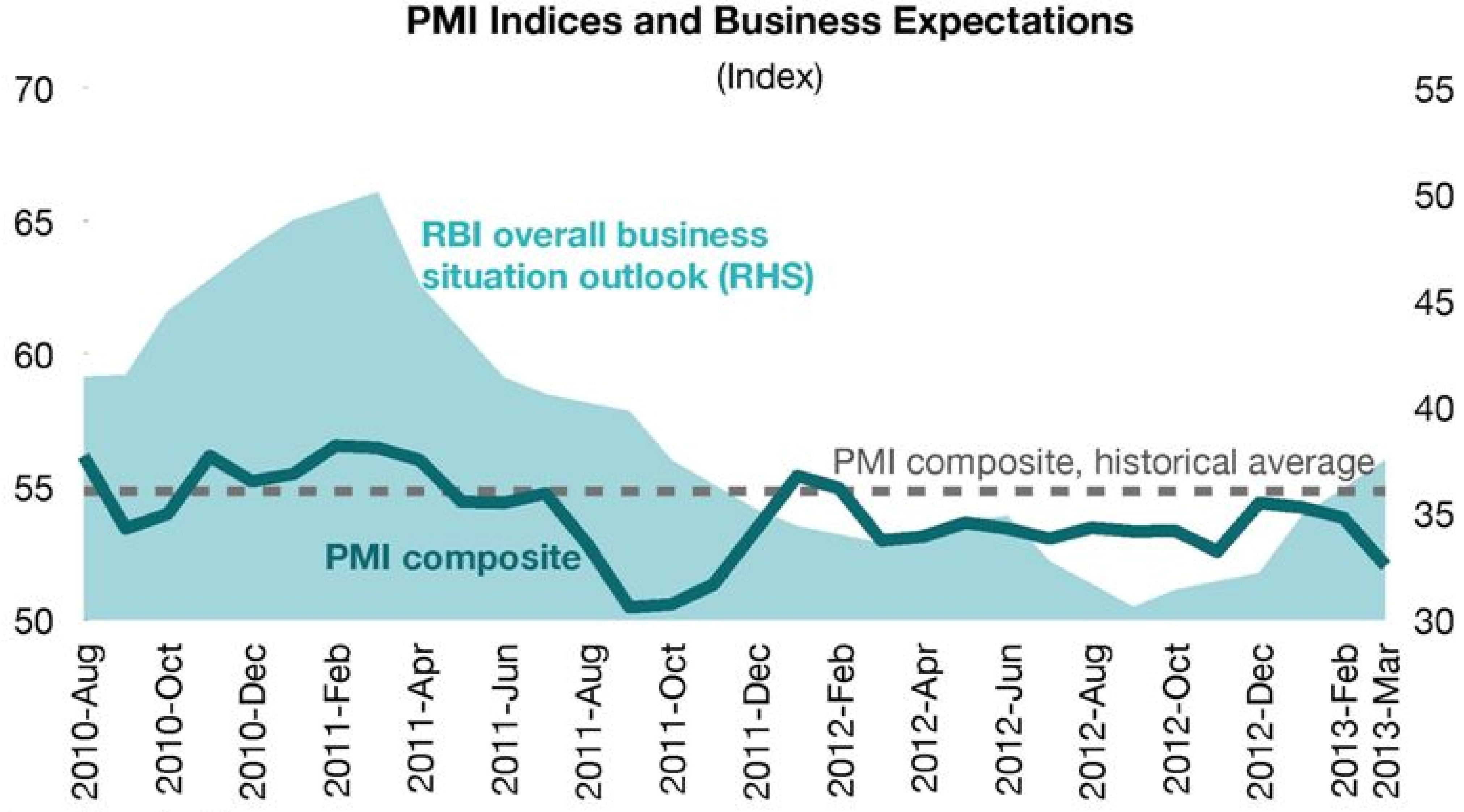

Sources: Haver Analytics; CEIC Data Co.Ltd; and IMF staff calculations

# Economic activity has been generally picking up.




Sources: Haver Analytics; CEIC Data Co.Ltd; and IMF staff calculations
1/ For India, GDP is at factor cost.

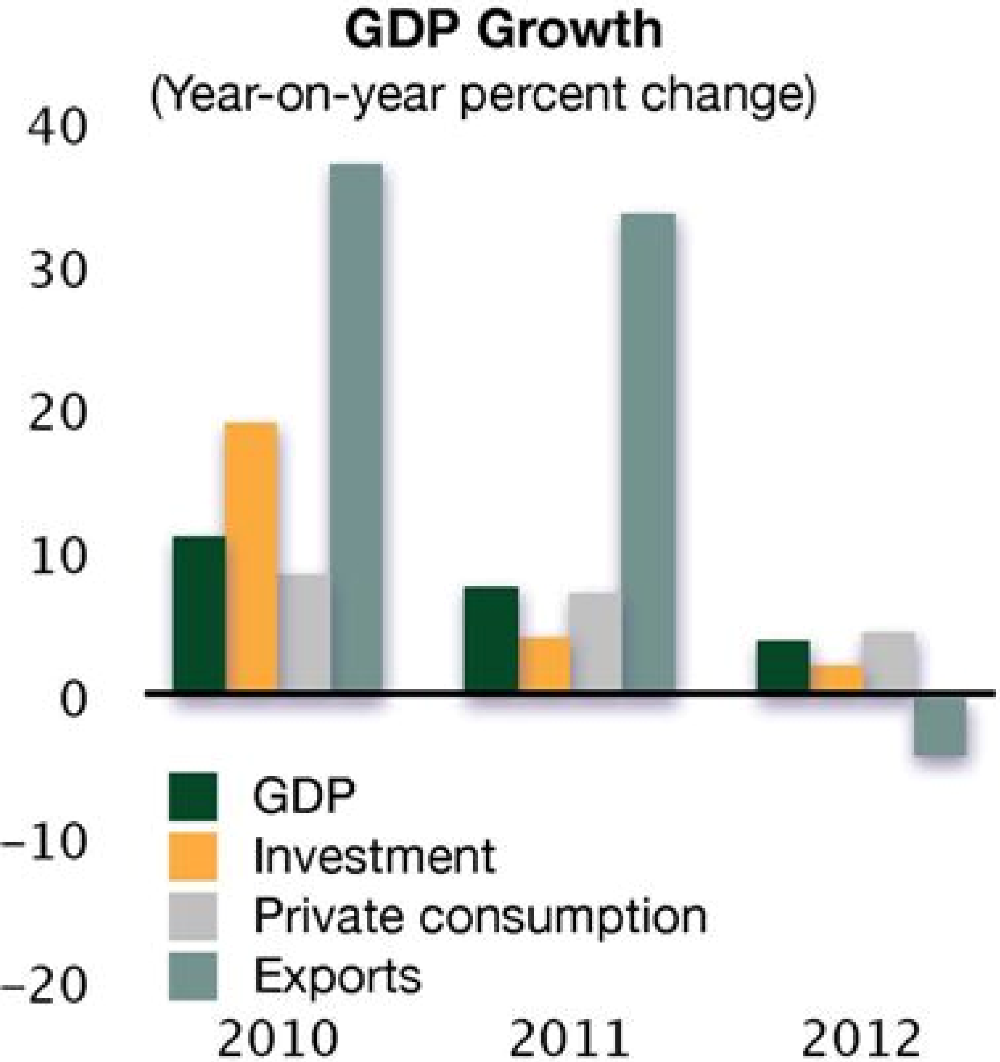
# India: high frequency indicators have stabilized, but remain weak.



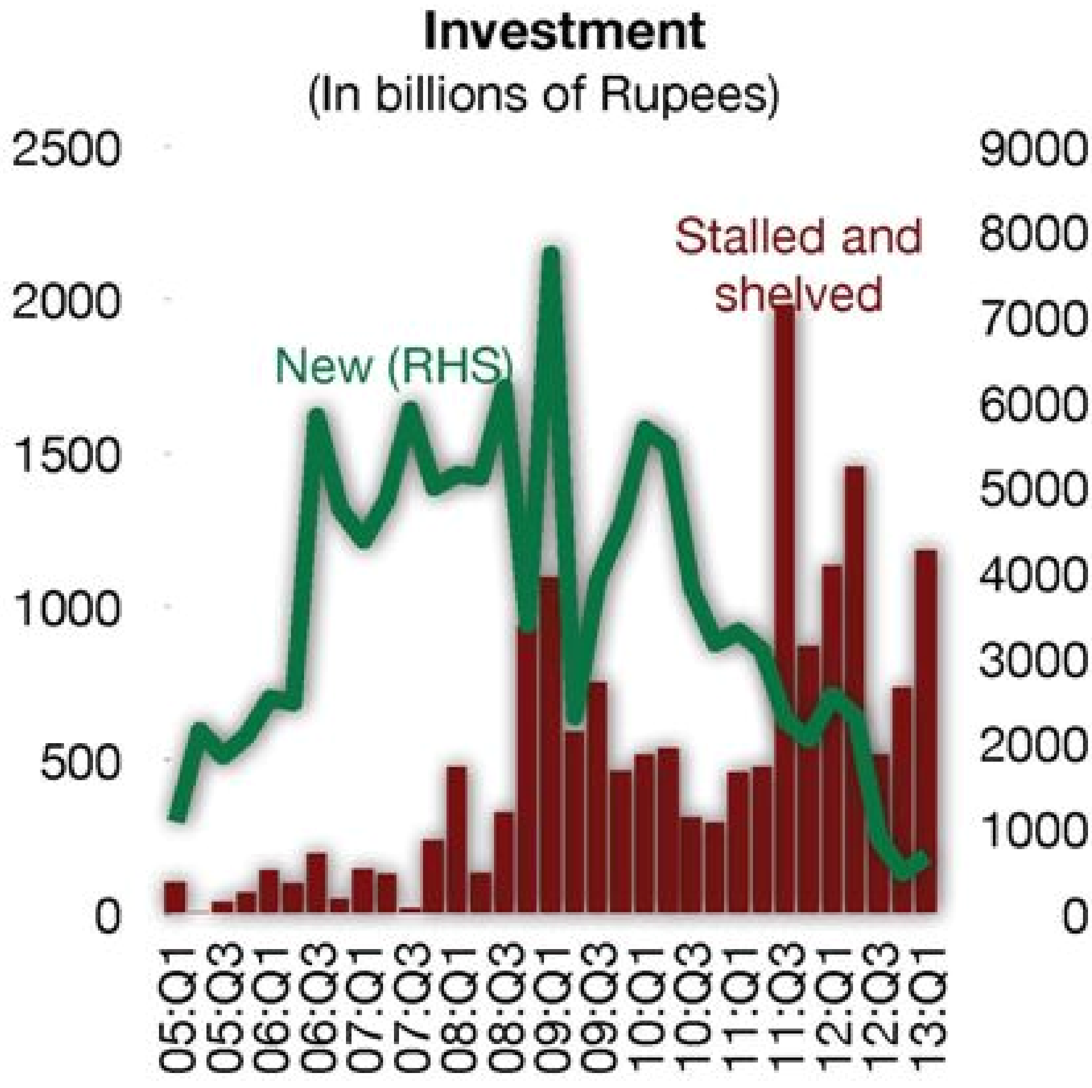

Source: Haver Analytics.

Current Context

# India: an investment slowdown has generalized.

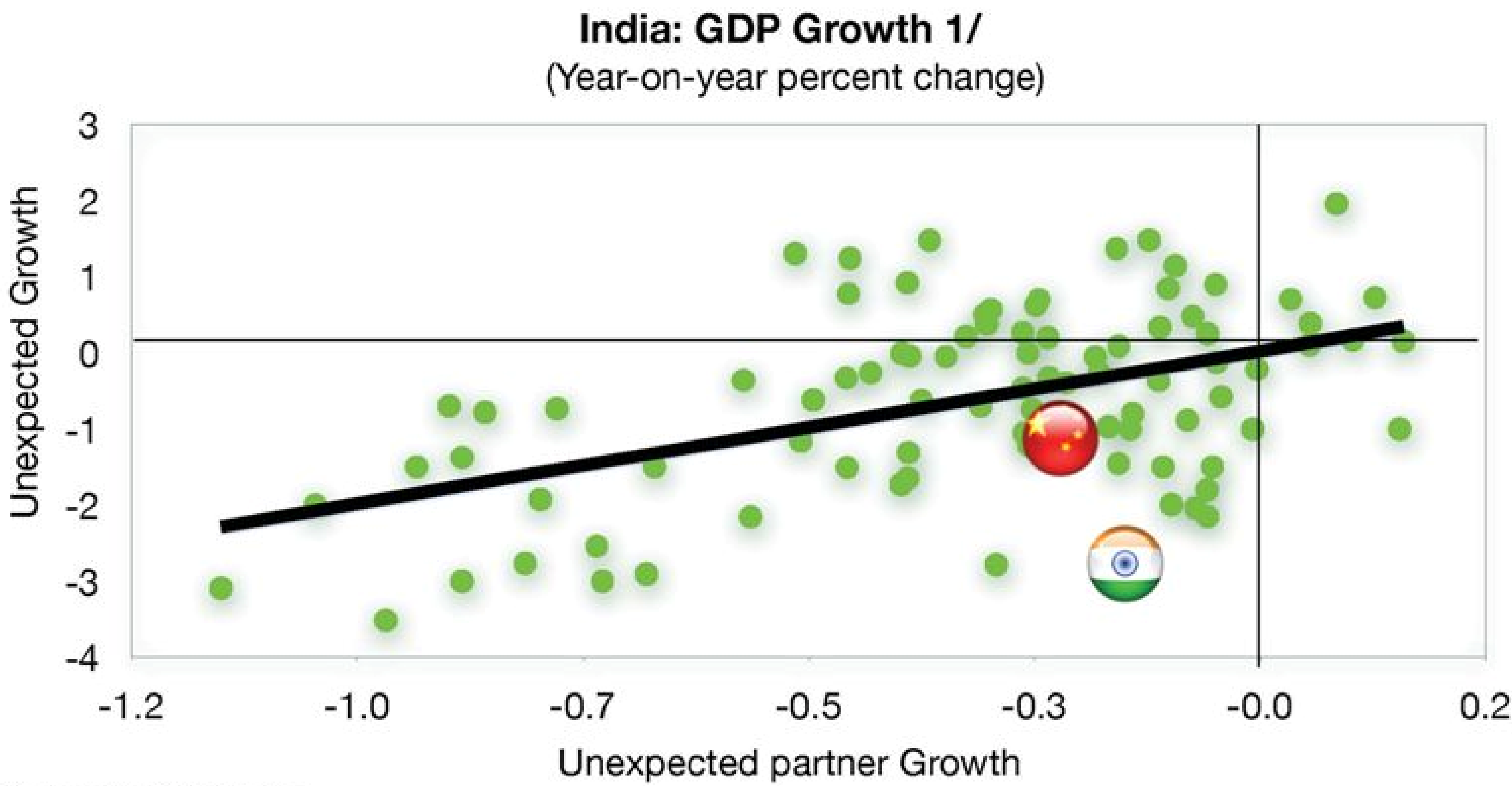



Sources: CEIC Data Co. Ltd; and IMF staff calculations




Sources: CAPEX database; and IMF staff calculations

# India: slowdown is due not only to external spillovers, but also to domestic factors.




Source: IMF staff estimates.

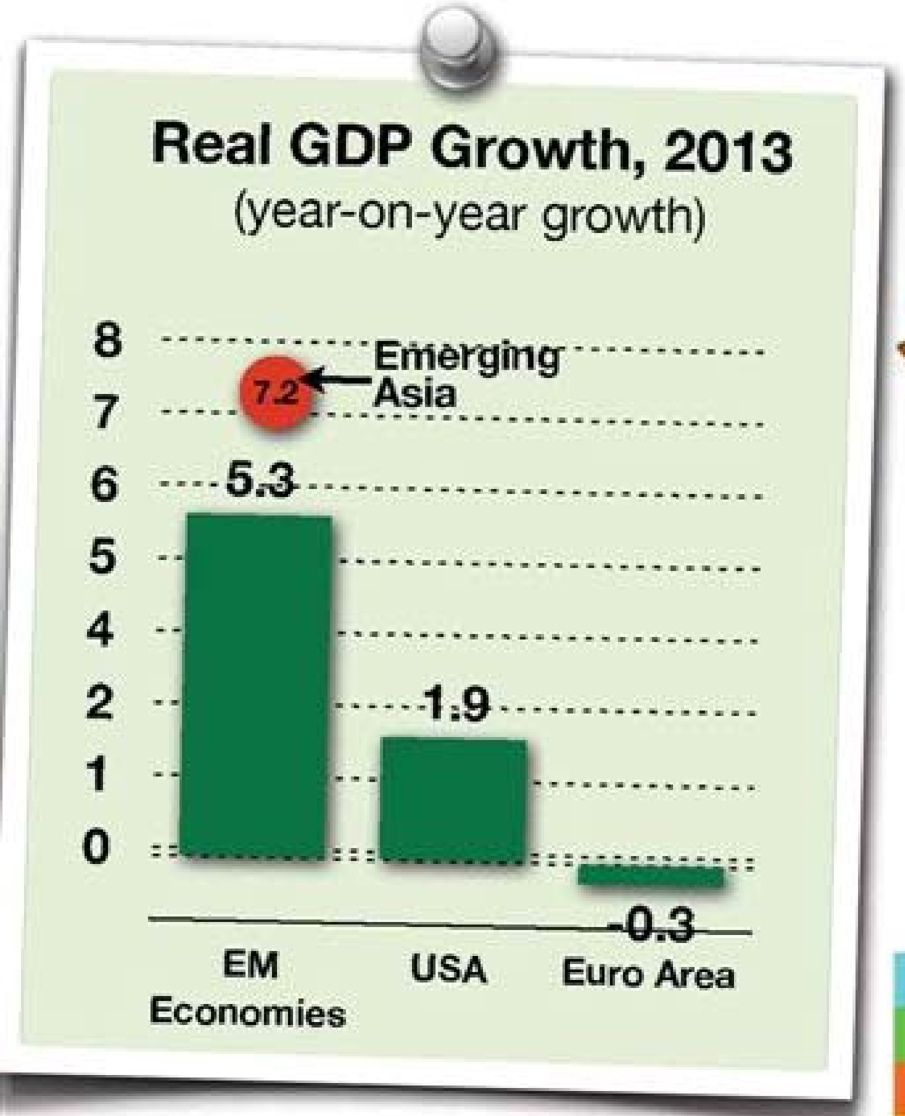
1/ Unexpected growth denotes real GDP growth in 2012 minus the growth forecast for 2012 projected during previous WEO vintage. Partner growth is export weighted average.

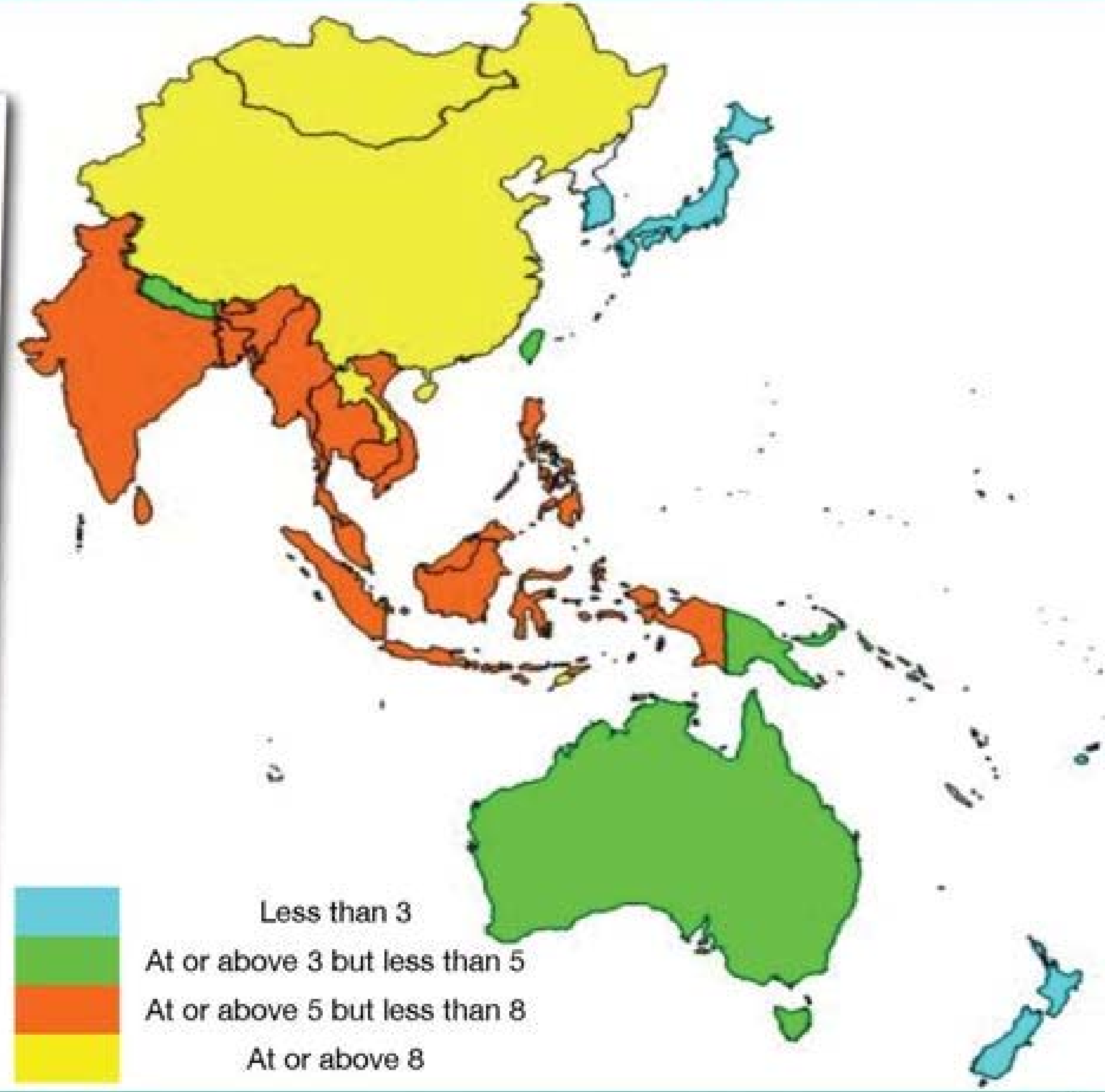
# Contents

# II. Economic Outlook

- *Stronger prospects overall;*
- *Robust domestic and regional demand;*
- *Benign inflation;*

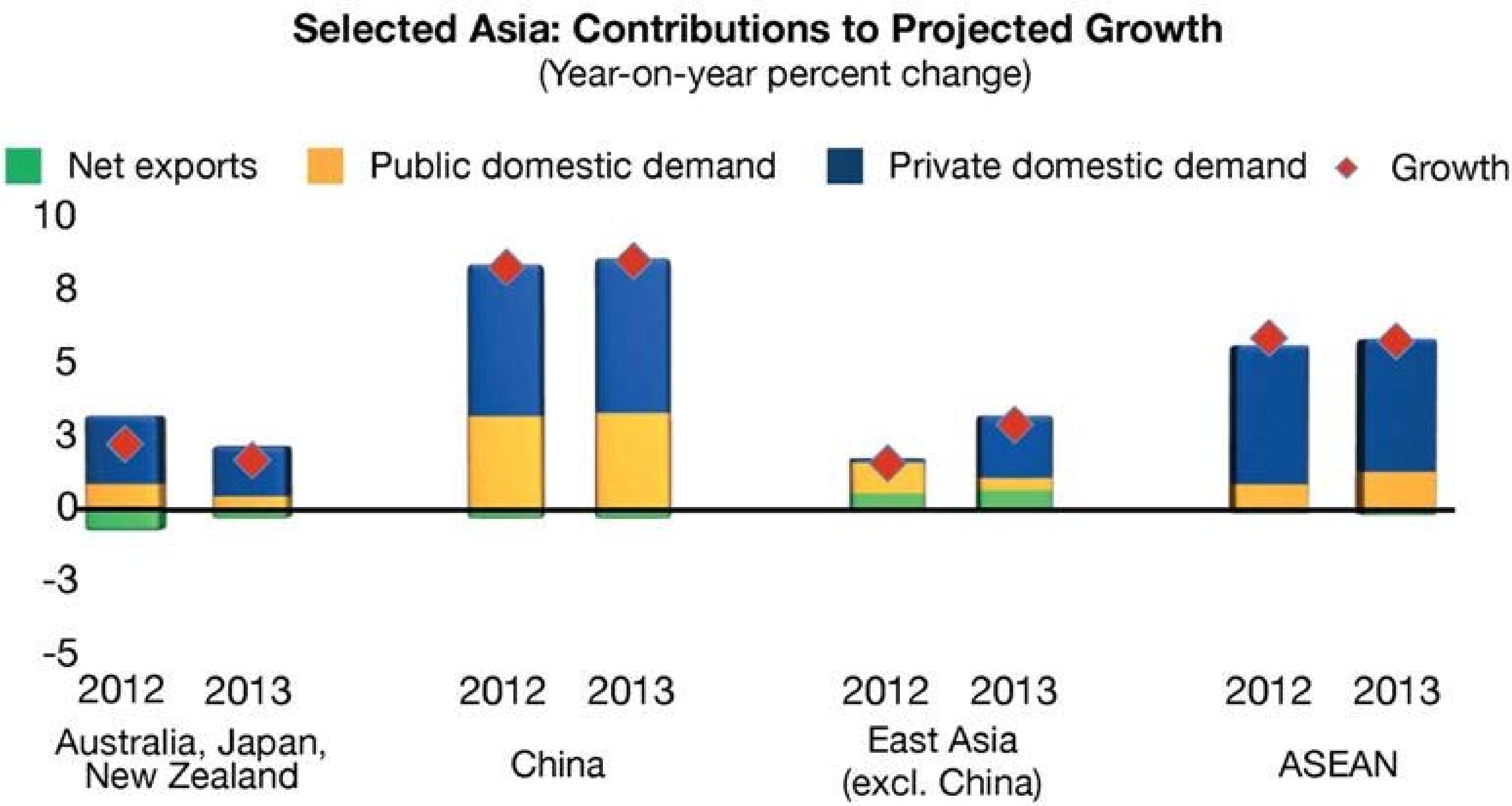
# Amid a three-speed global recovery, Asia remains global growth leader,...




Source: IMF, World Economic Outlook.

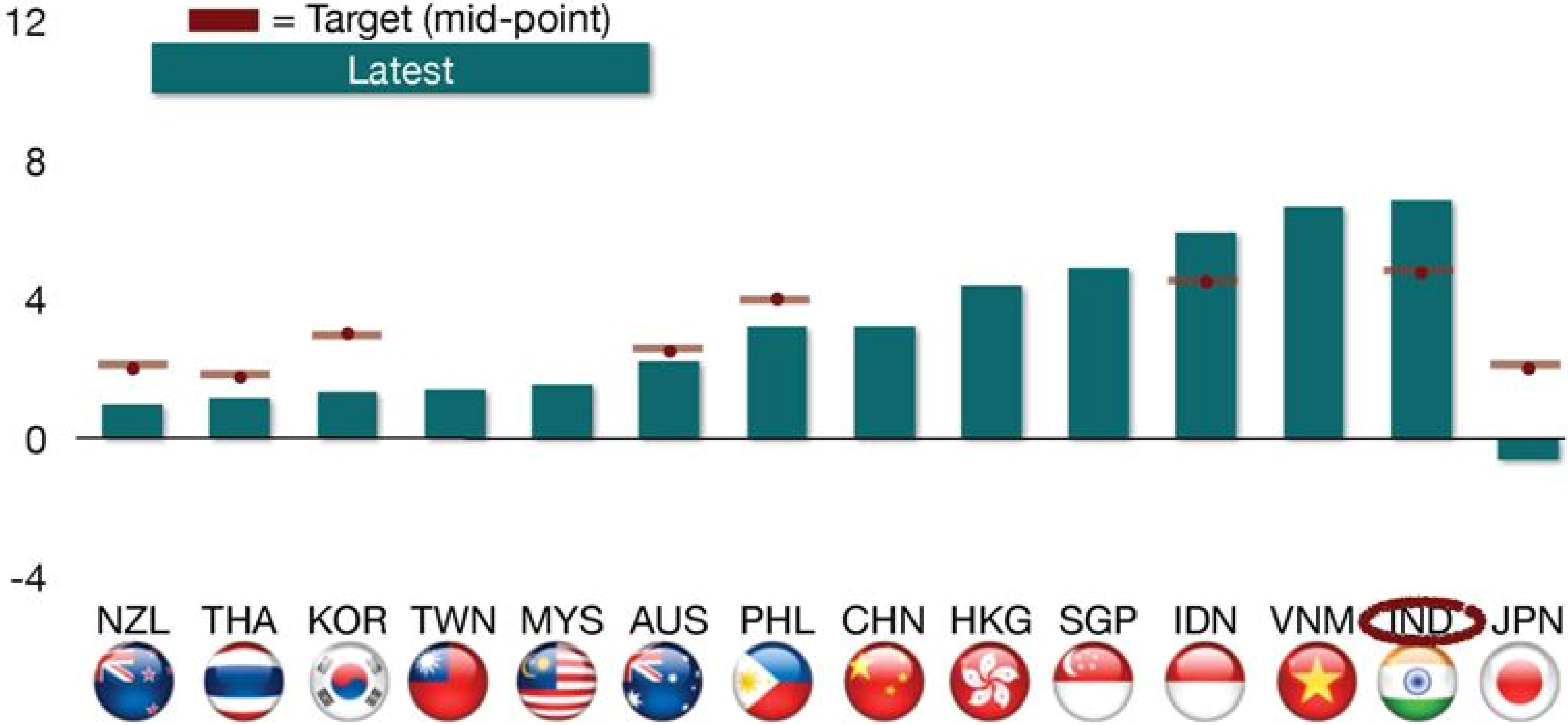
# ...underpinned by robust domestic demand.




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)




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.

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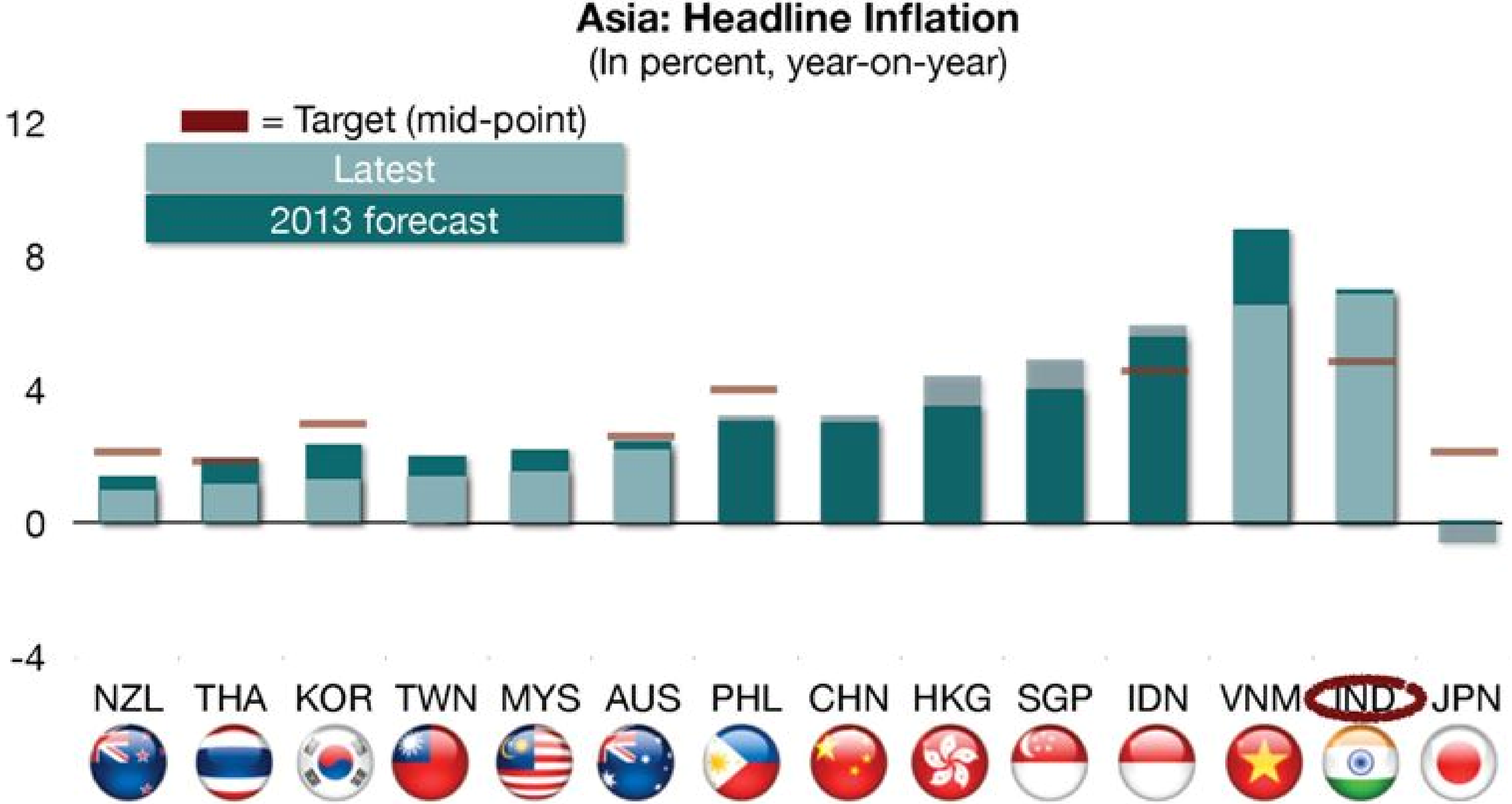


Sources: Haver Analytics; CEIC Data Co.Ltd; IMF, World Economic Outlook; and IMF staff estimates.
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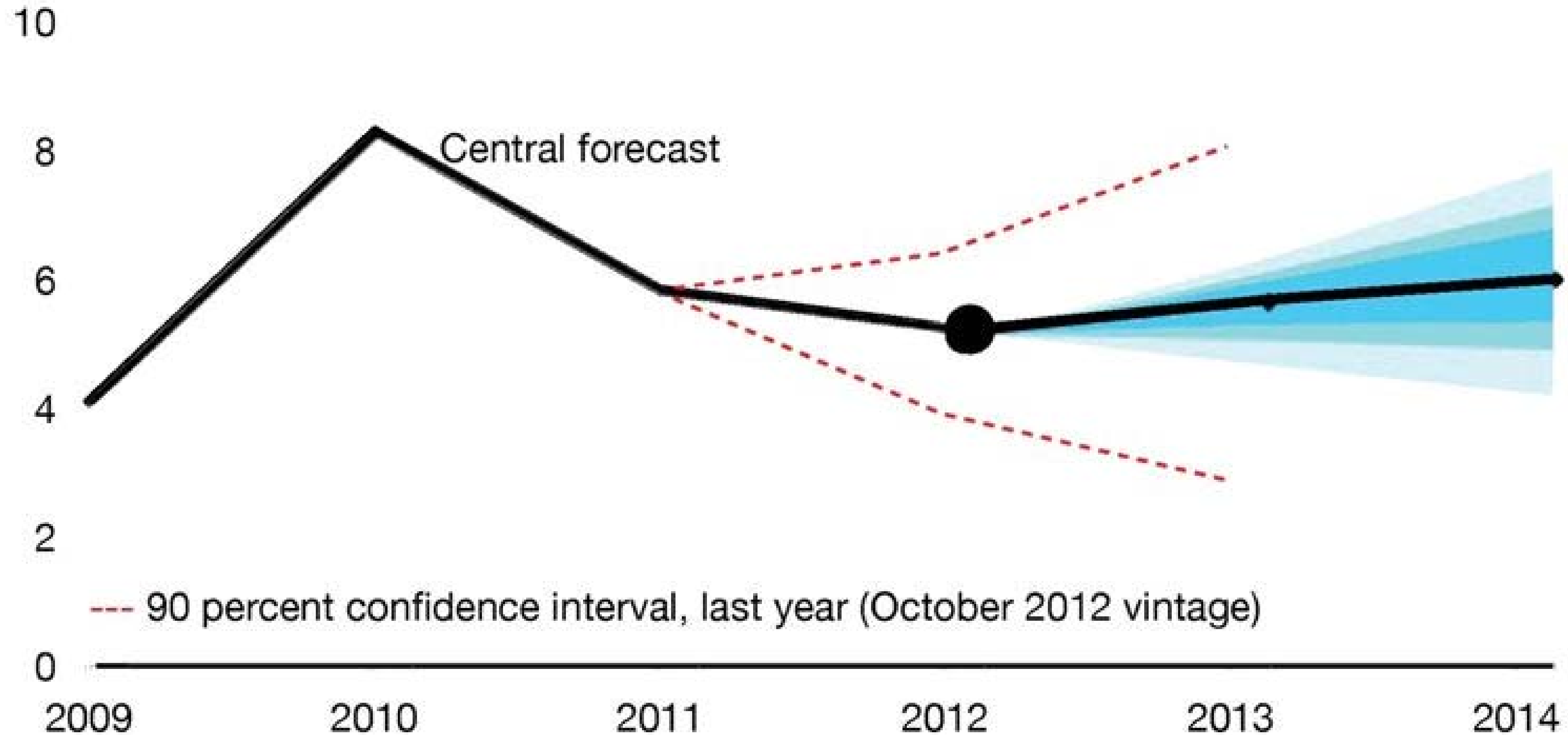
# III. Risks

- *More balanced risks;*
- *Financial imbalances slowly building up;*
- *Risks are mitigated by strong corporate/bank balance sheets;*

# Risks to forecasts are becoming more balanced.

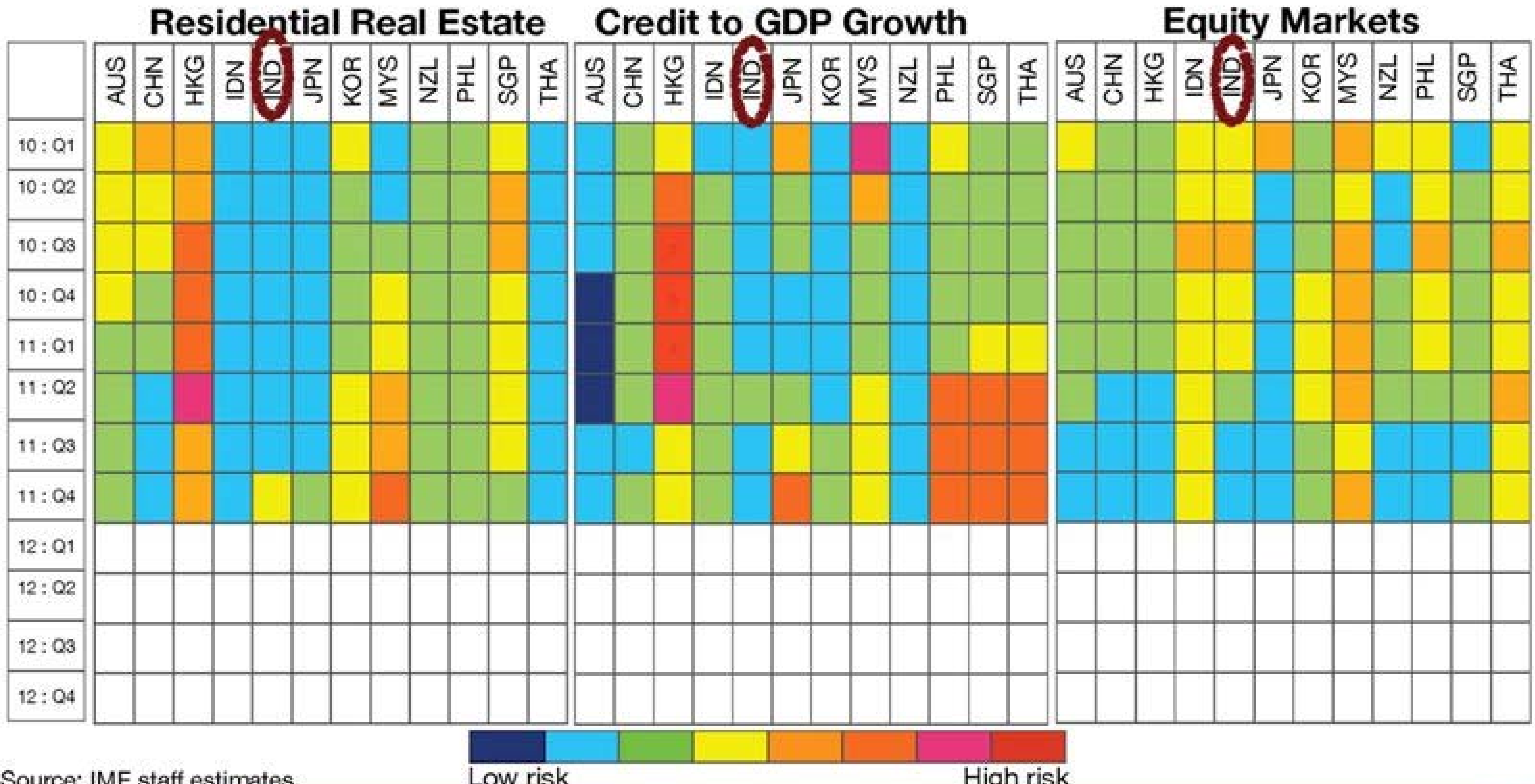
**Asia: Real GDP Growth**
(Central forecast and selected confidence intervals; in percent)




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**

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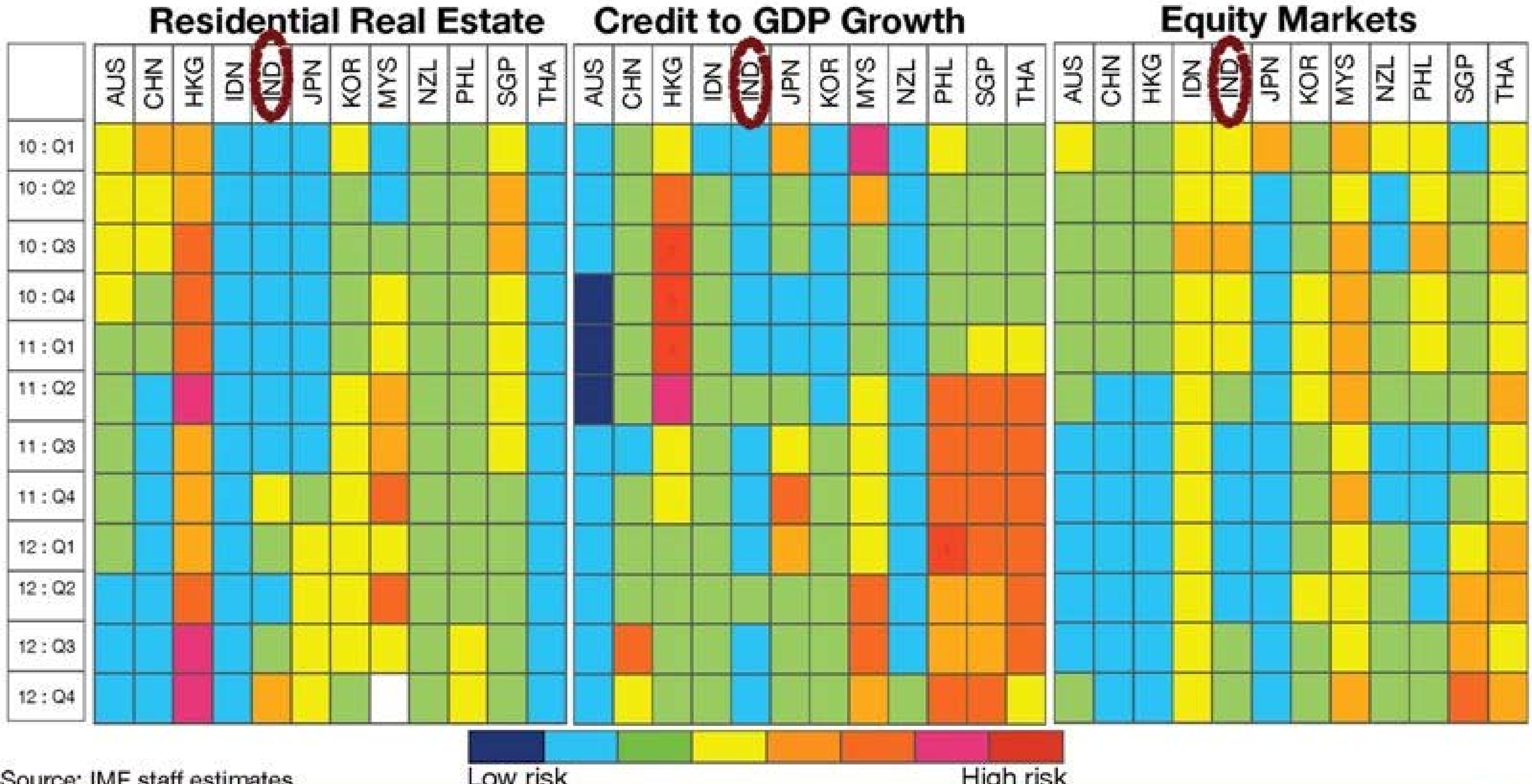
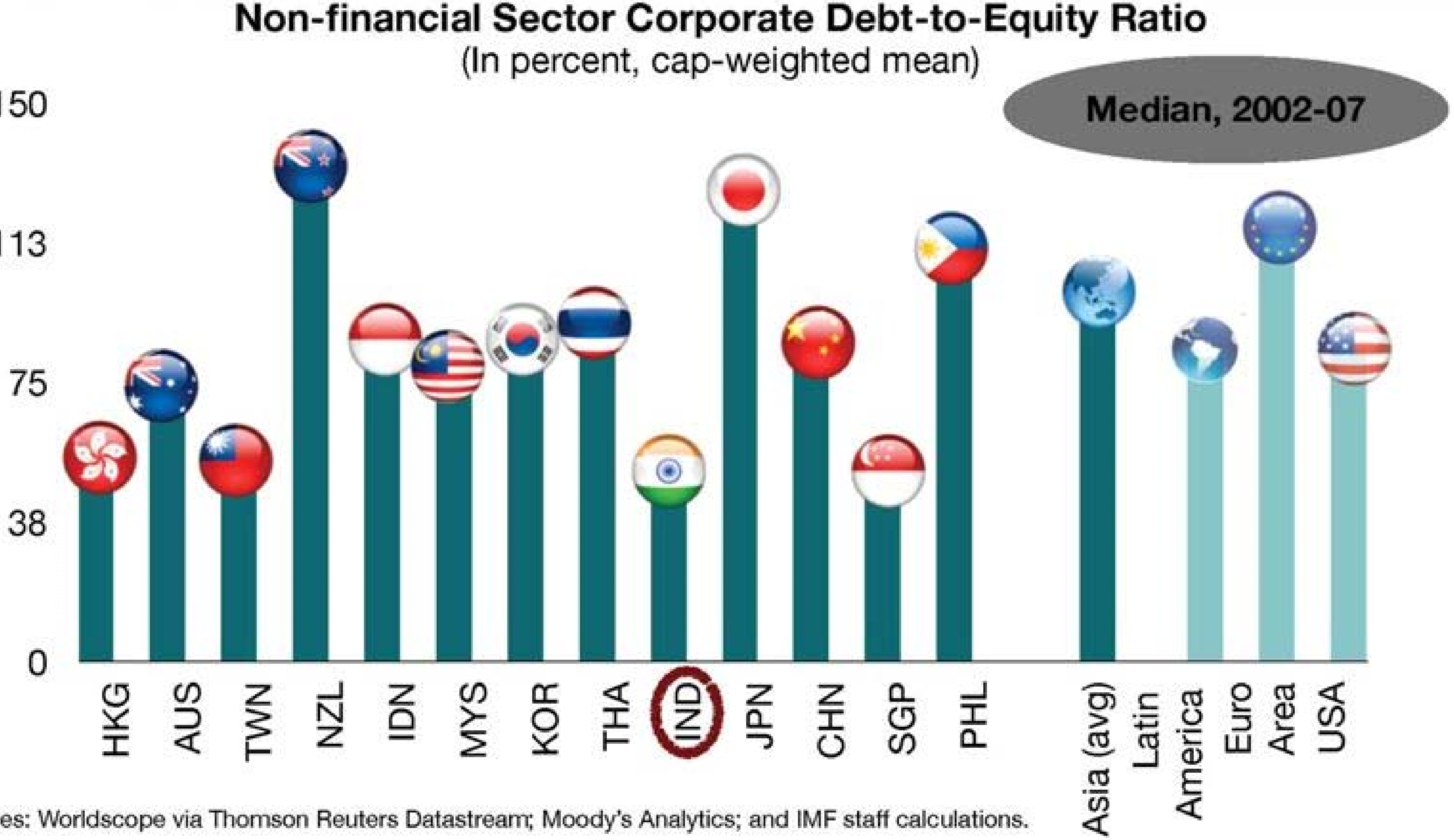


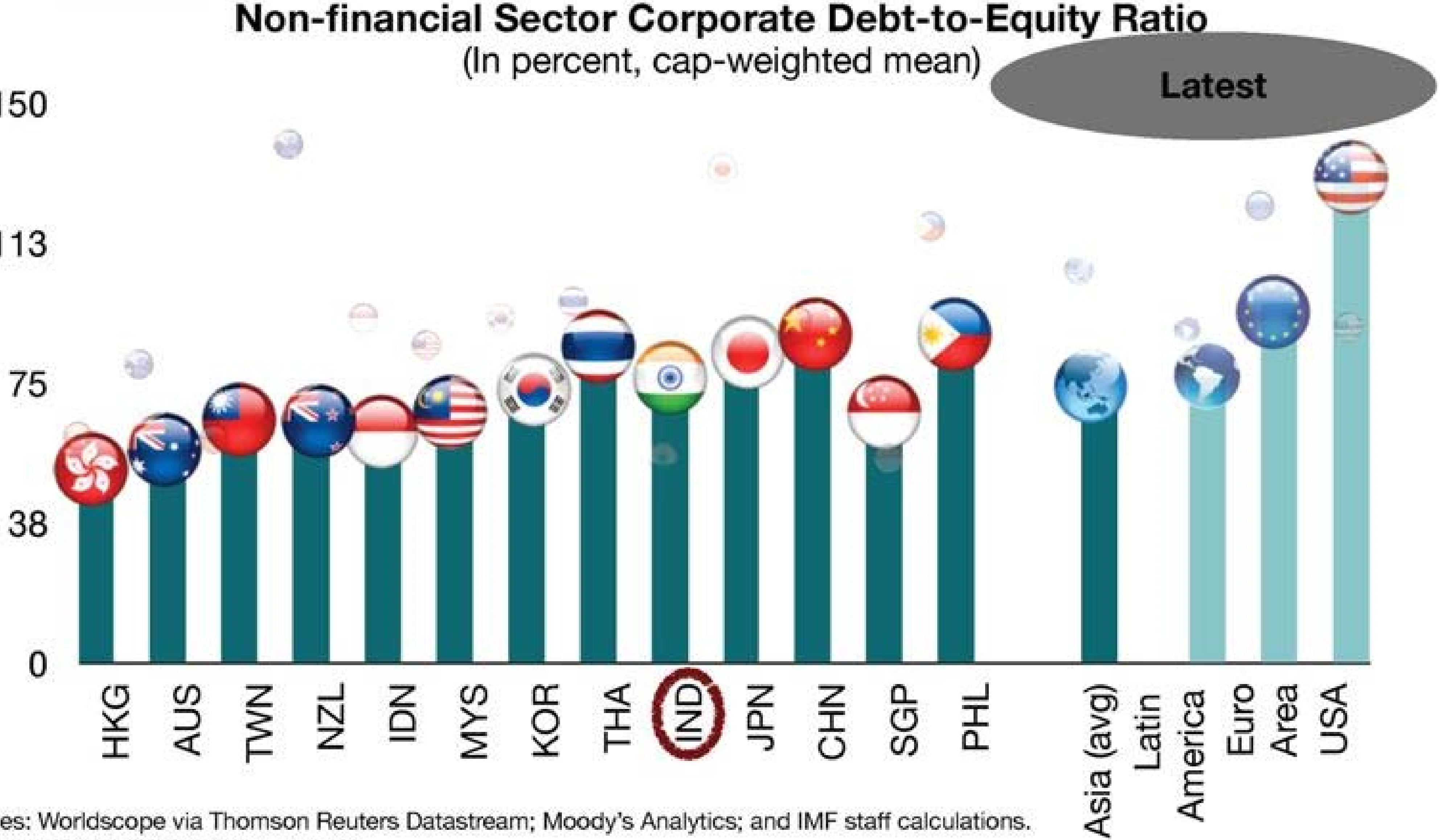

Source: IMF staff estimates.

# ...but risks are generally mitigated by robust corporate balance sheets...



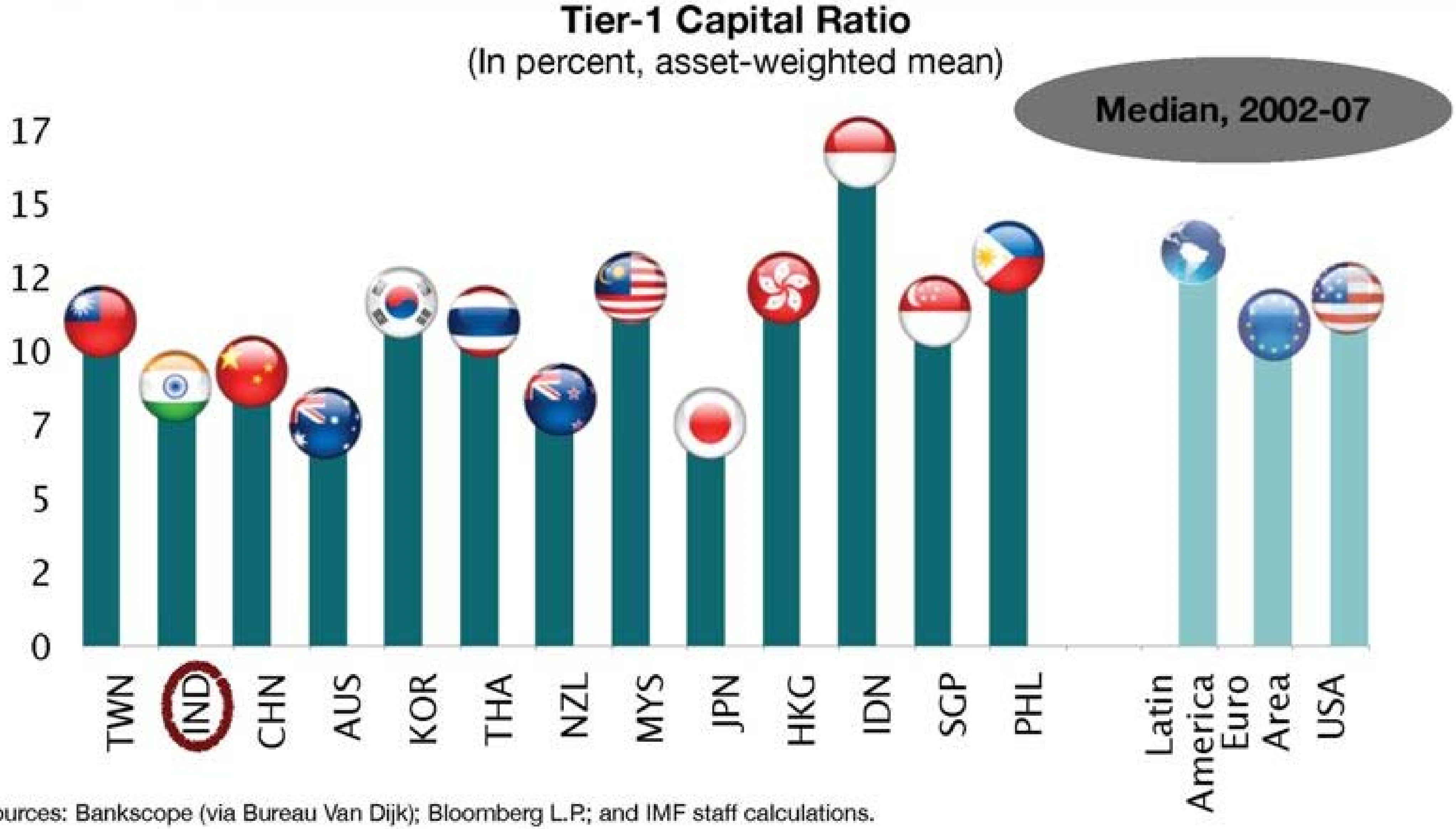

Sources: Worldscope via Thomson Reuters Datastream; Moody's Analytics; and IMF staff calculations.

# ...but risks are generally mitigated by robust corporate balance sheets...



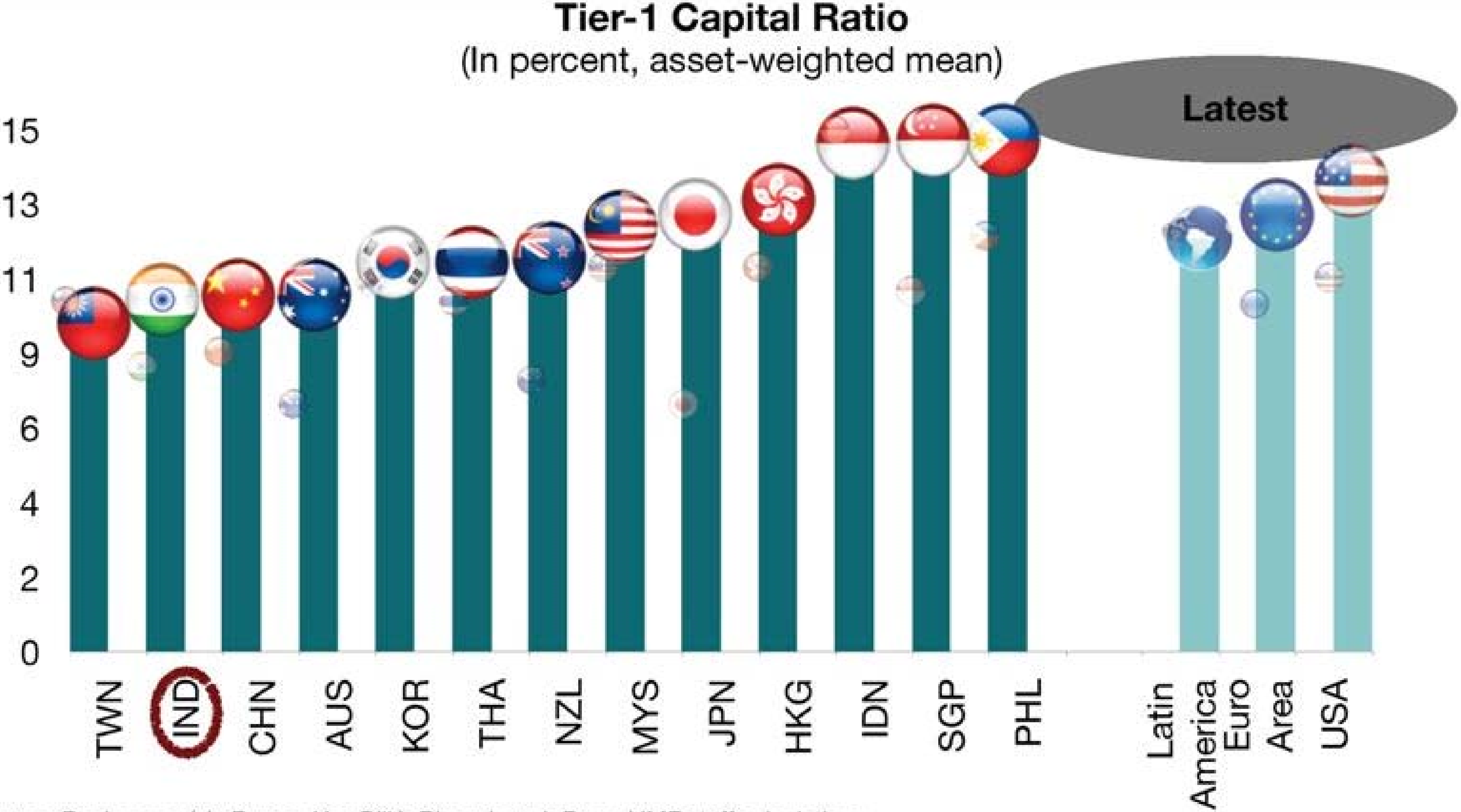

Sources: Worldscope via Thomson Reuters Datastream; Moody's Analytics; and IMF staff calculations.
Latest as of 2012:Q3 or latest available.

# ...and buildup of bank capital.




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

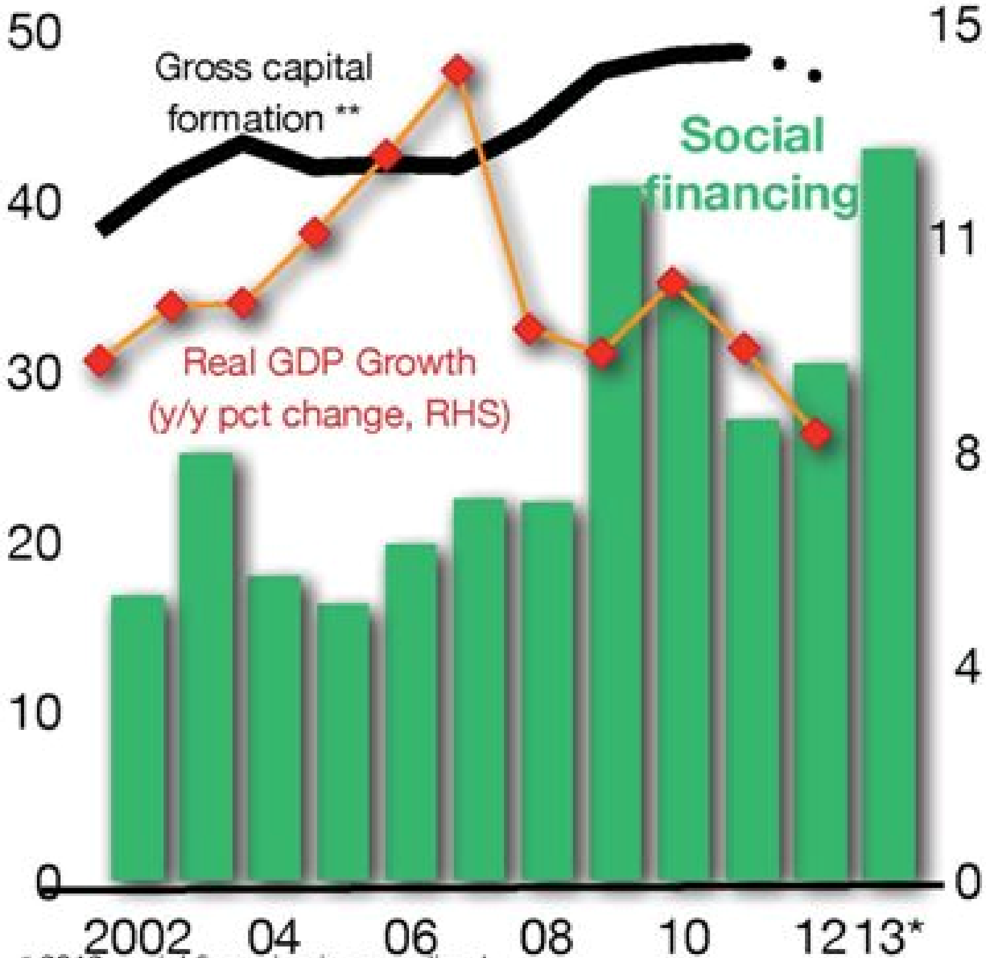
# ...and buildup of bank capital.




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.

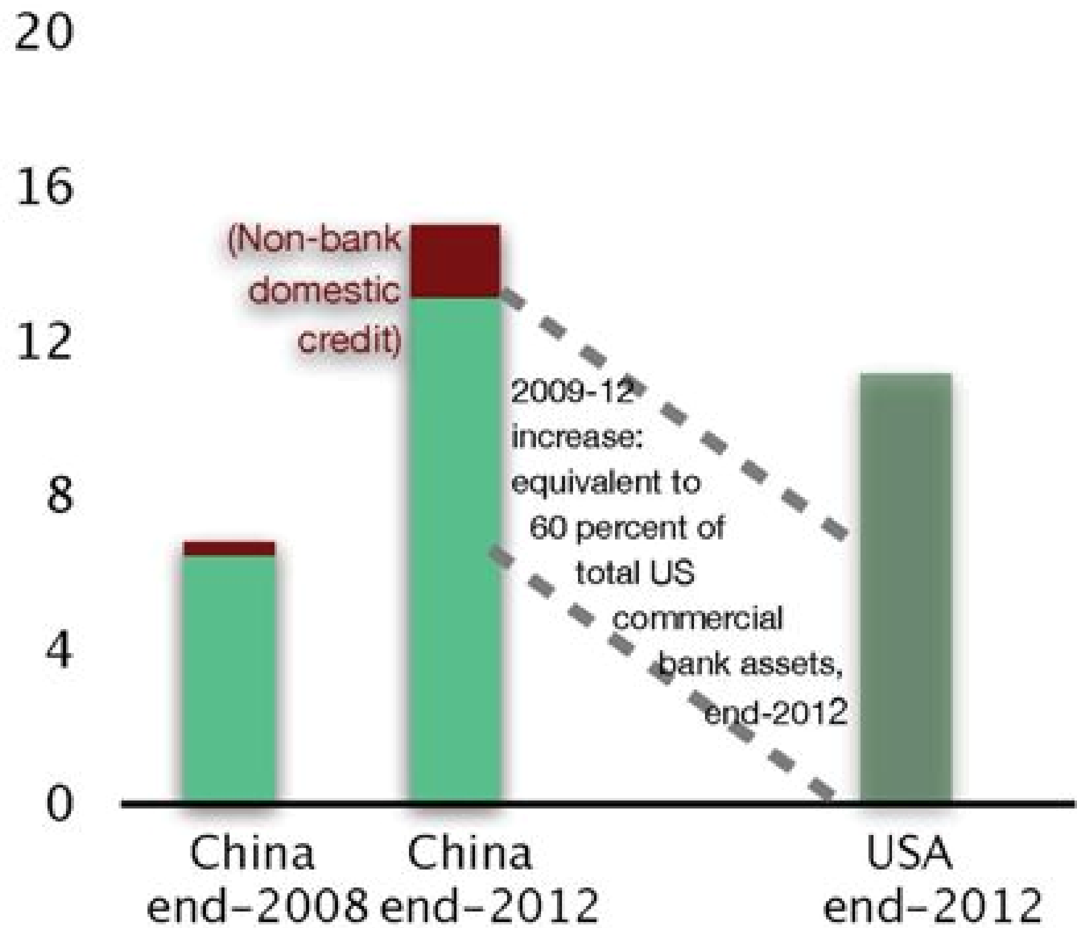
**China: Social Financing and Investment**
(In percent of GDP)




* 2013 social financing is annualized.

**Gross capital formation is in percent of expenditure-side GDP and is projected for 2012.

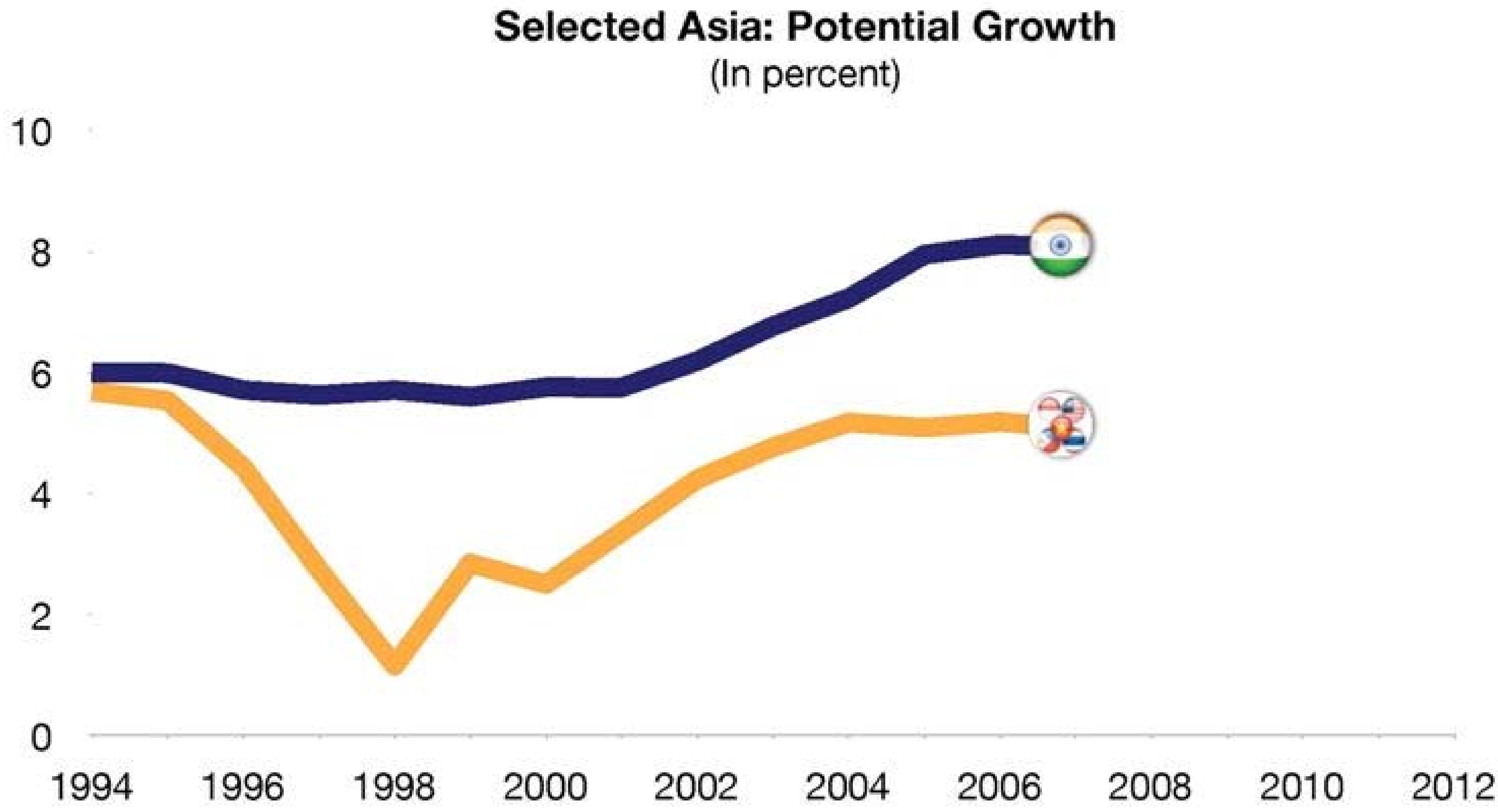
**Banking Assets– China and the United States 1/**
(In trillions of U.S. dollars)




1/ For China, includes domestic depository corporations, total domestic assets excluding interbank loans. For the United States, includes all domestically charted commercial banks' total assets.

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

# Potential growth appears to have slowed down in India.




Source: IMF staff estimates.

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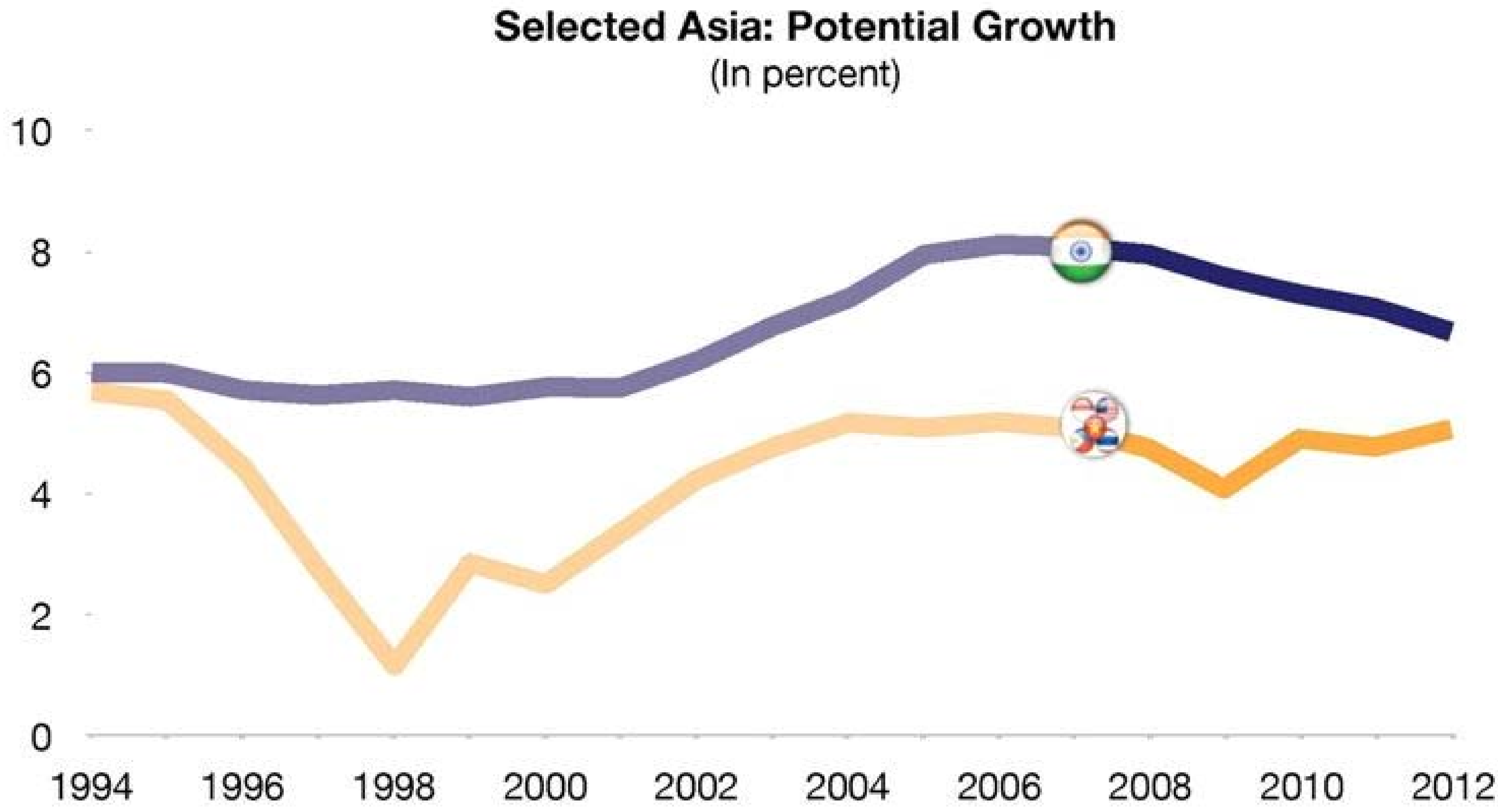


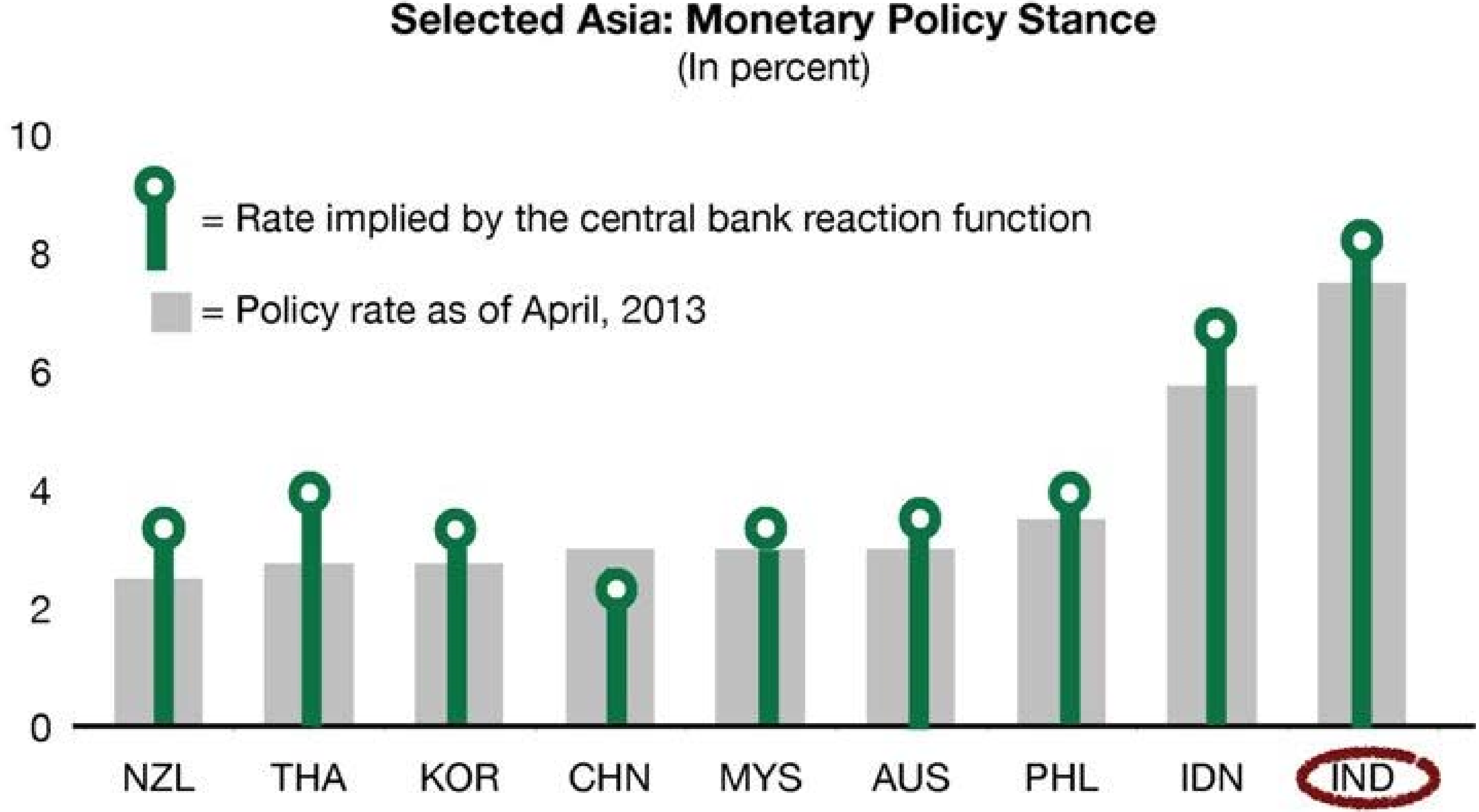

Source: IMF staff estimates.

# Contents

# IV. Policy Implications

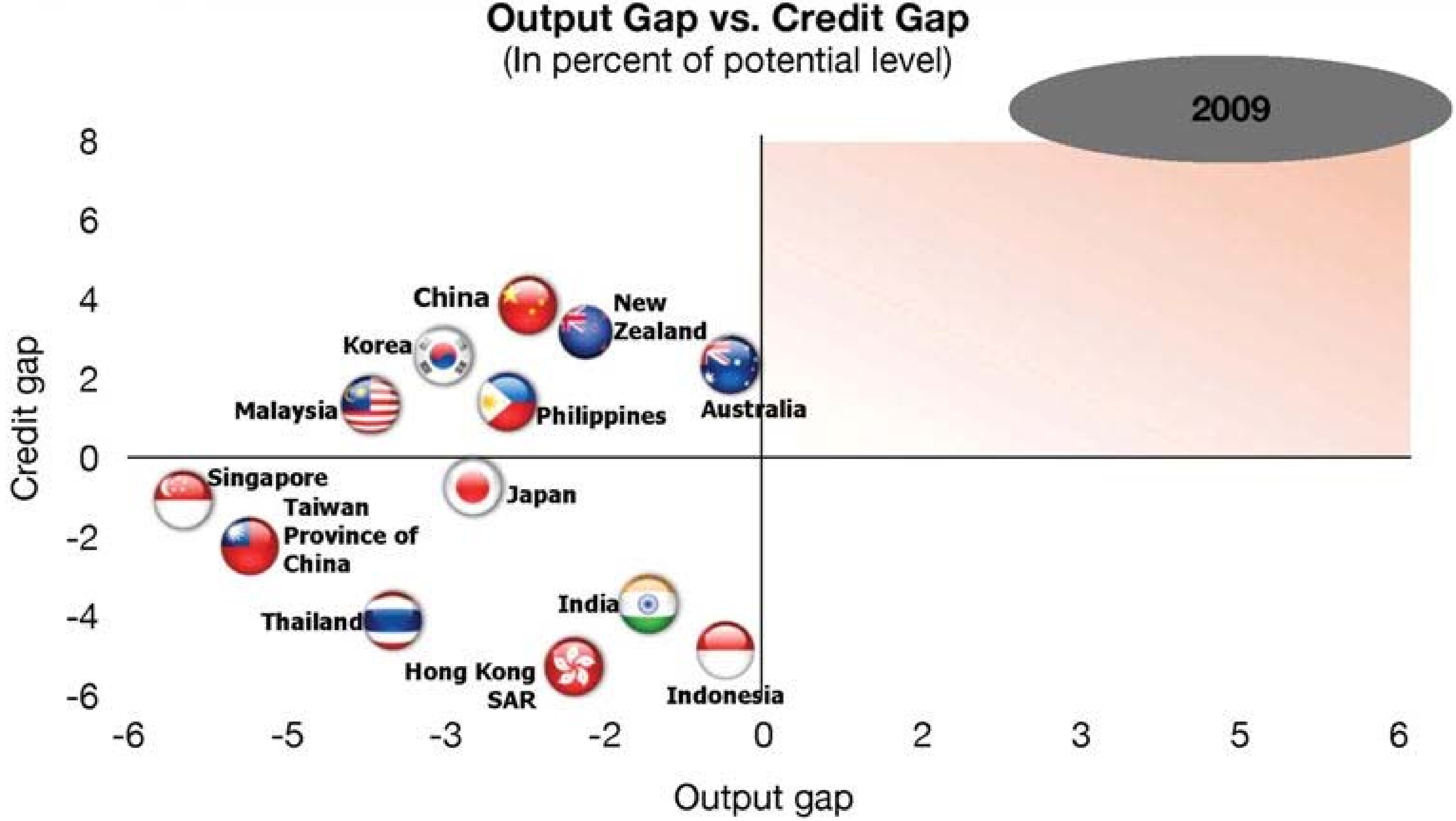
- *Flexible monetary and exchange rate management;*
- *Safeguarding financial stability;*
- *Rebuilding fiscal space;*

# Monetary policy has generally been accommodative in Asia.




Sources: Haver Analytics; CEIC Data Co. Ltd.; Thomson Reuters Datastream; and IMF staff estimates.

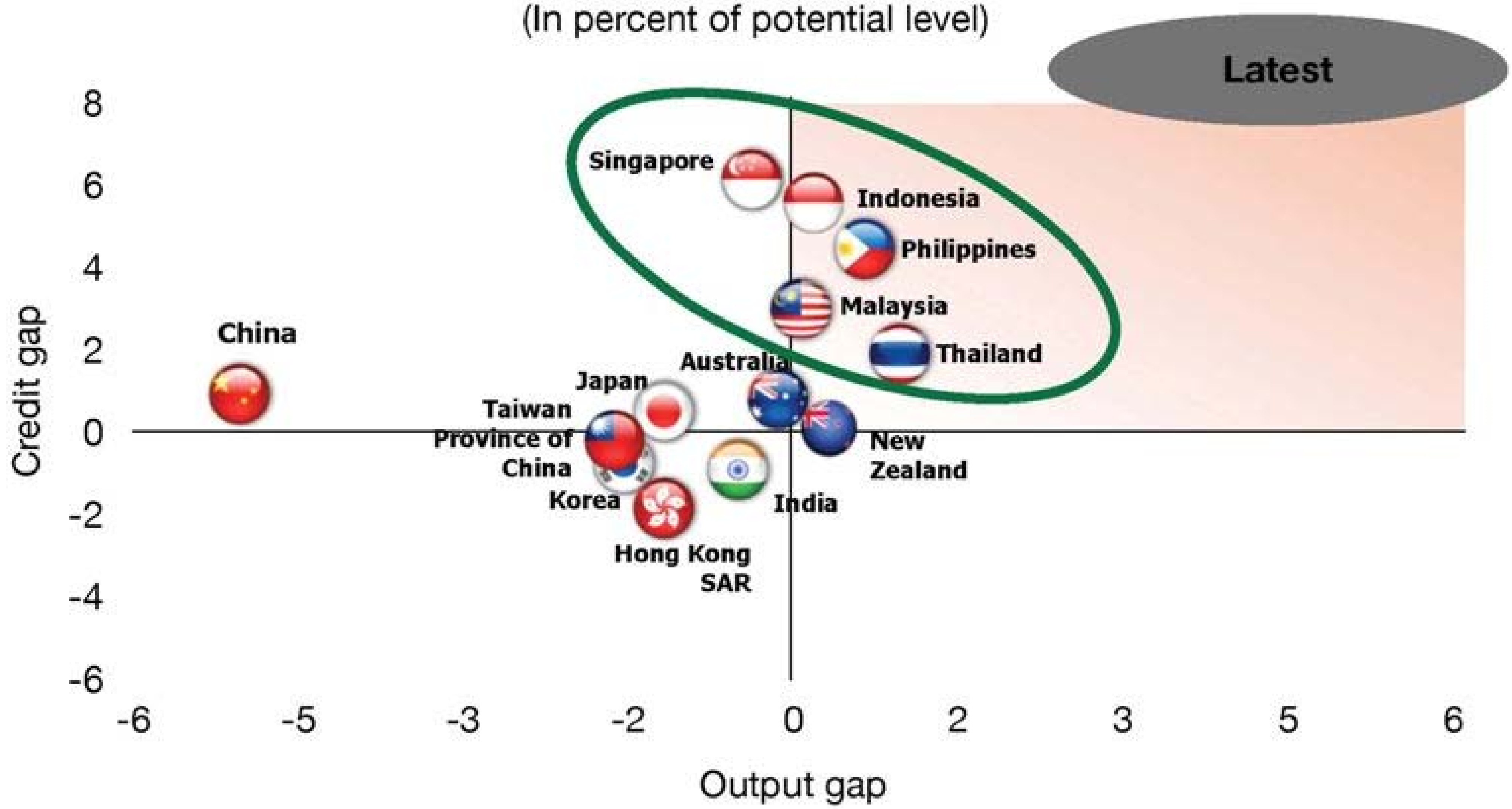
# But in ASEAN-5, both credit ratios and output levels are now above trend.




Sources: CEIC Data Co.Ltd; Haver Analytics; IMF staff estimates.

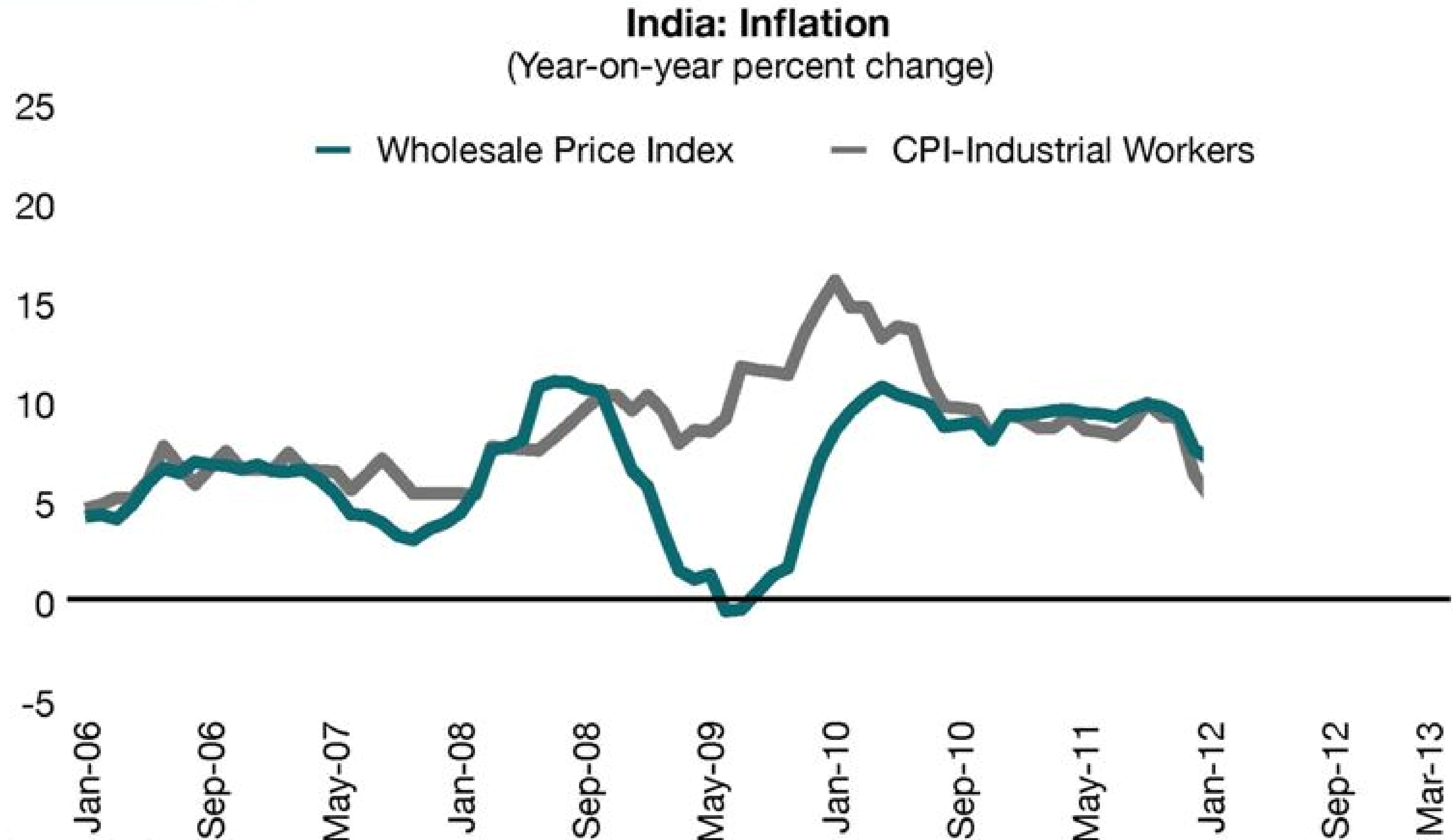
# But in ASEAN-5, both credit ratios and output levels are now above trend.

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




Sources: CEIC Data Co.Ltd; Haver Analytics; IMF staff estimates.

# India: vigilance on inflation will pay dividends for long-term growth.




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

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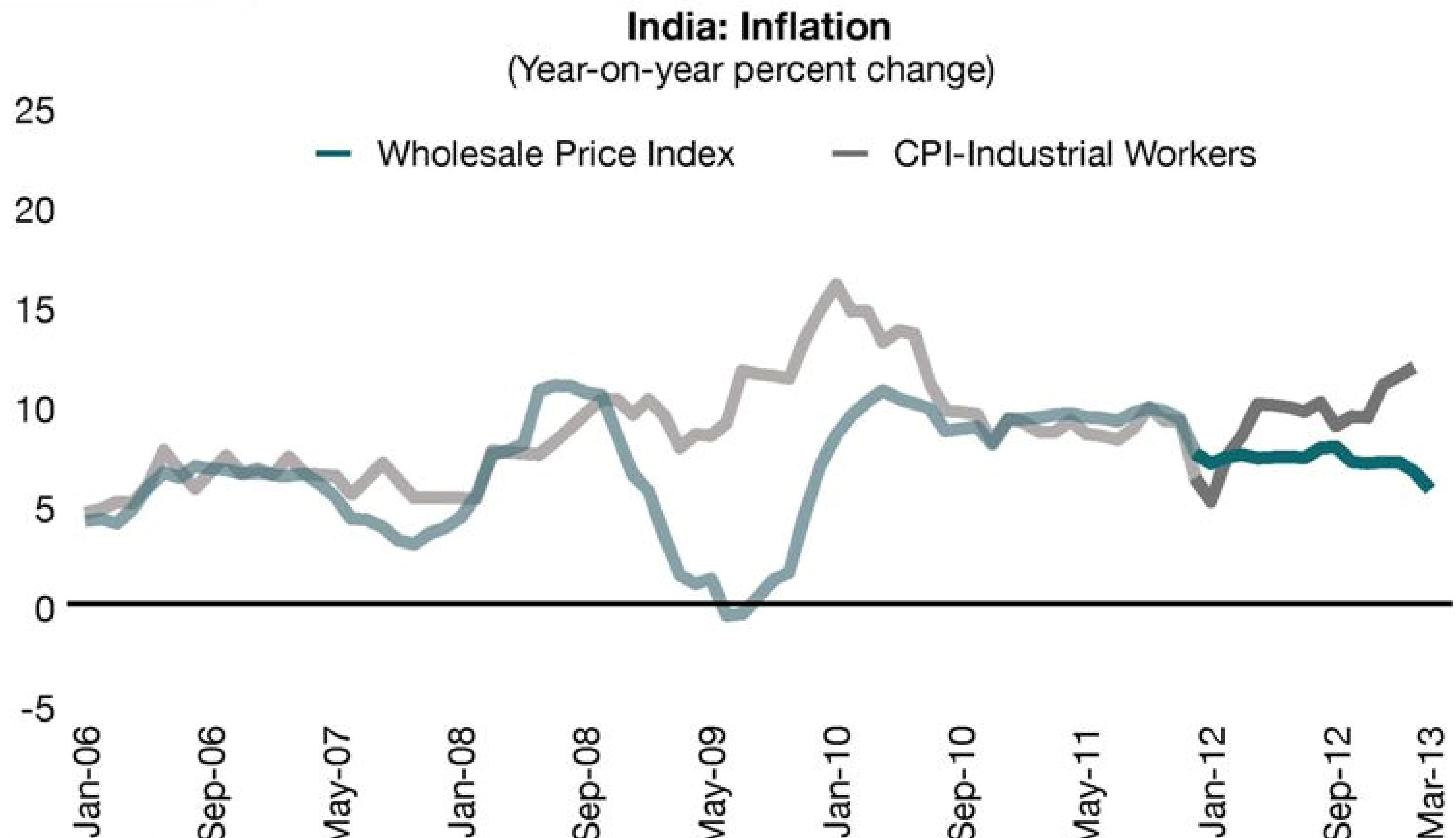
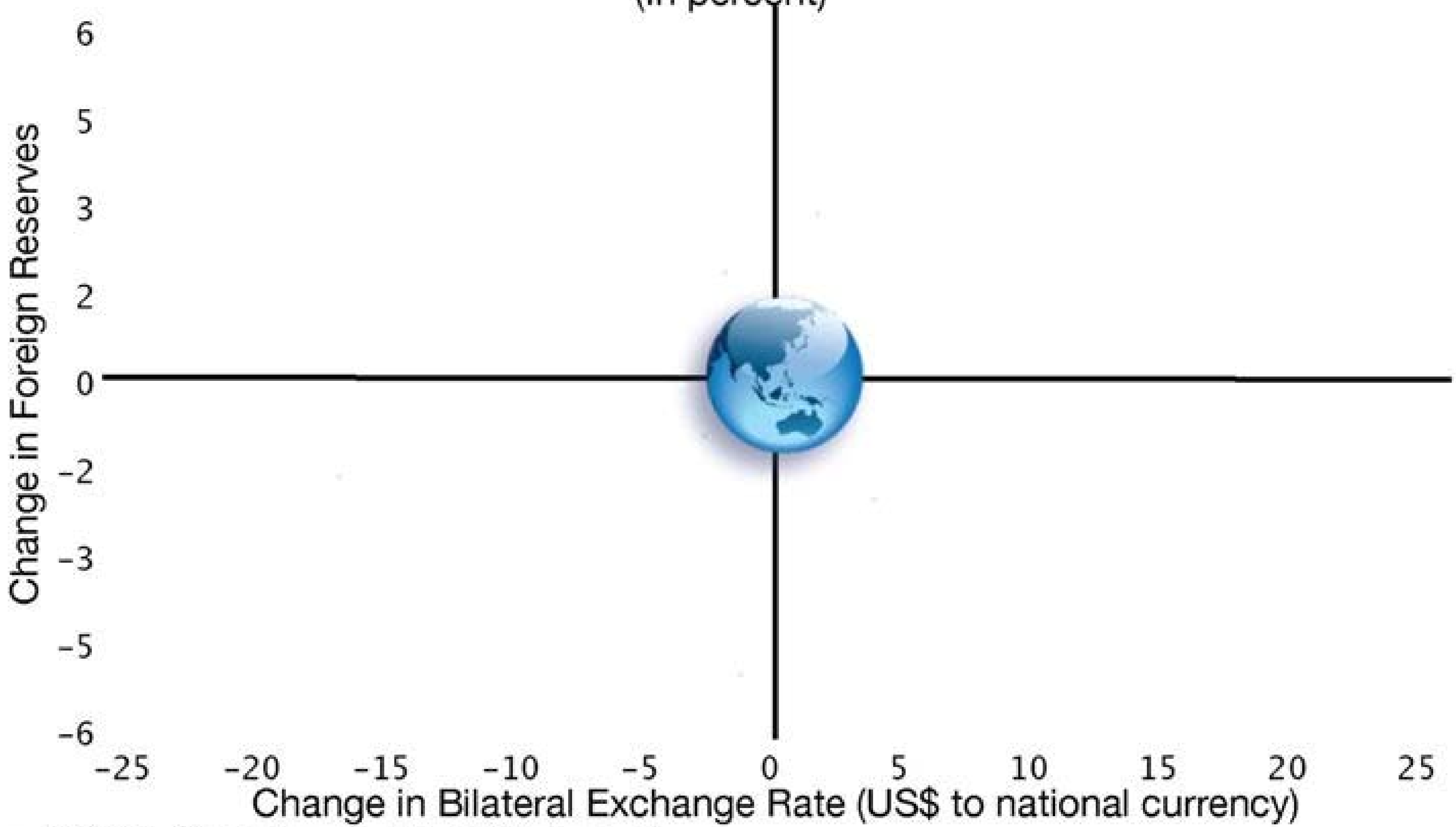



Sources: CEIC Data Co. Ltd; and IMF staff calculations

# Greater exchange rate flexibility would also help curb overheating pressures.

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

(In percent)

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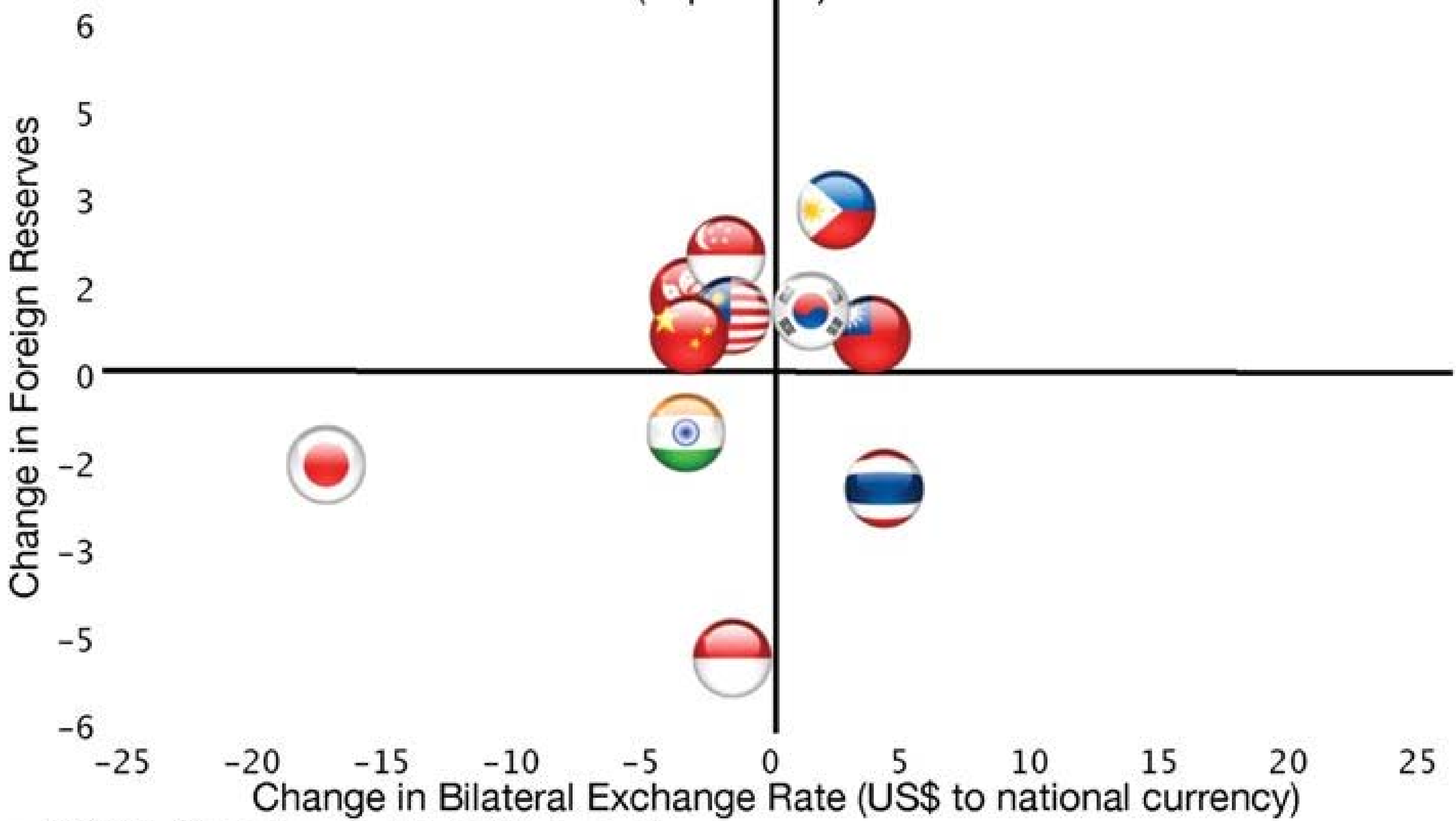
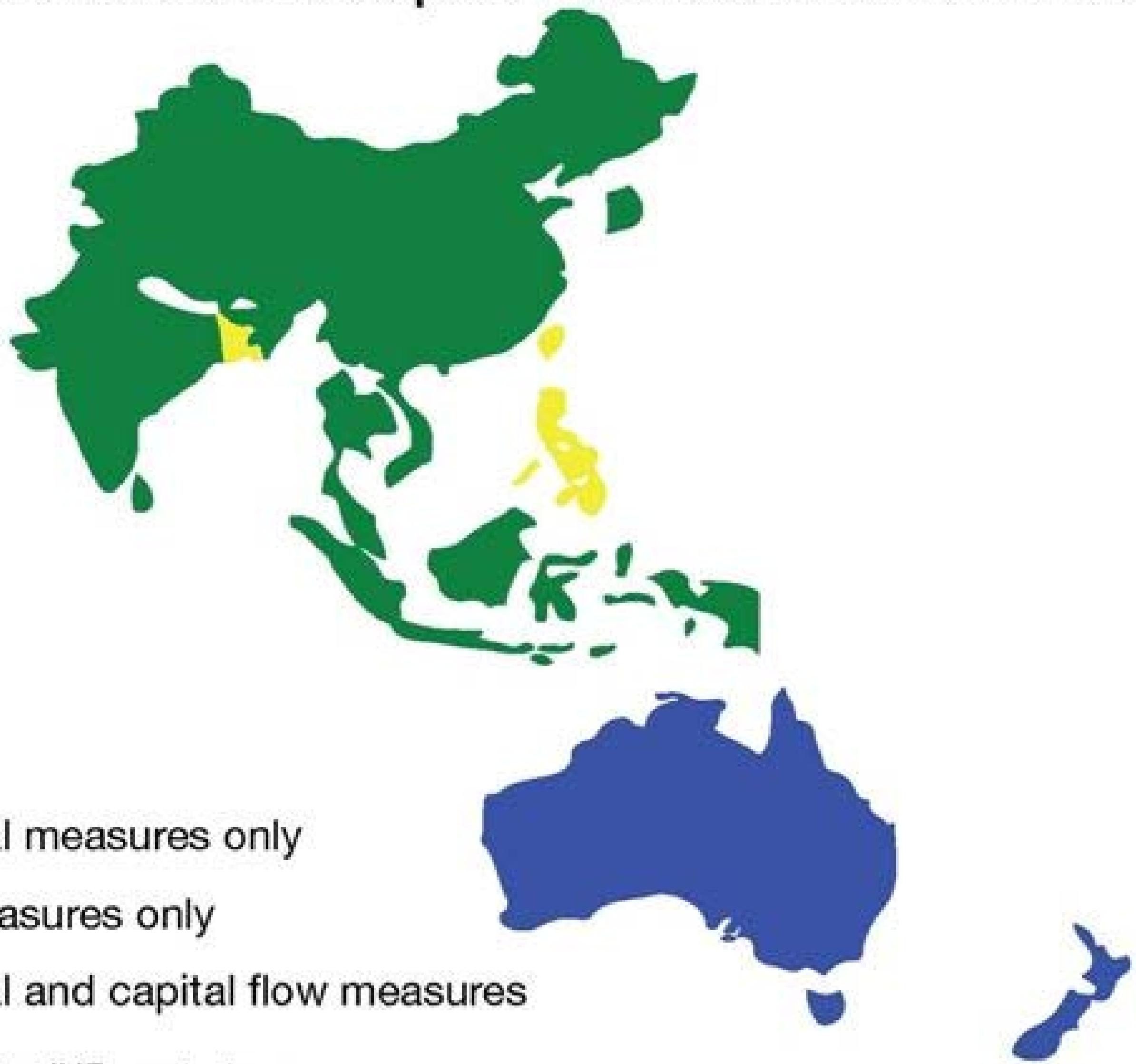



Sources: CEIC Data Co.Ltd; Haver Analytics; IMF staff calculations.

# Macroprudential and capital flow measures can also complement conventional monetary policy.

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

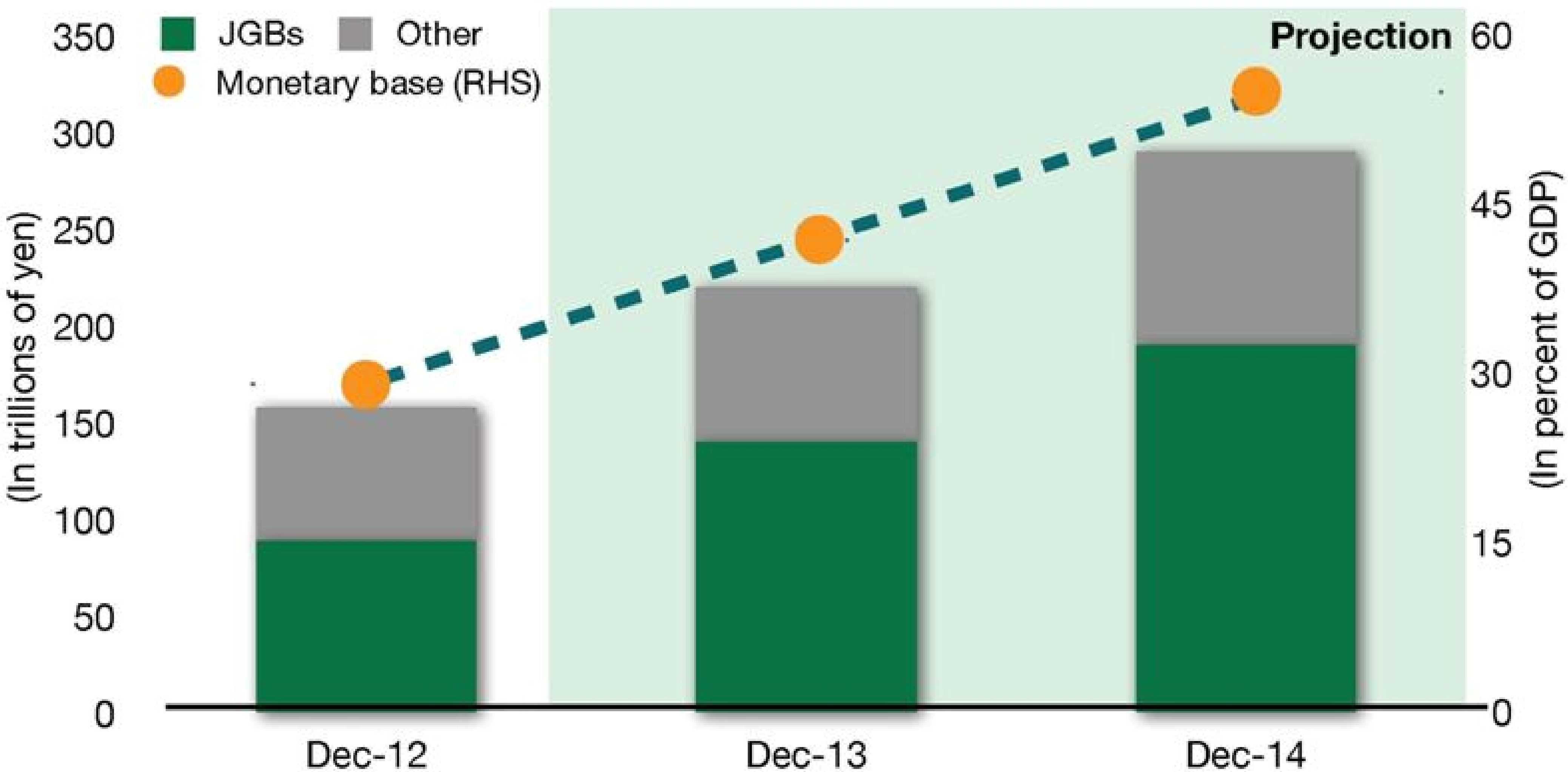


Macroprudential measures only
Capital flow measures only
Macroprudential and capital flow measures

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




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.**

# Contents

# Thank You

Regional Economic Outlook
Asia and Pacific, 2013