



International Monetary Fund

**World Economic Outlook and the Asia Pacific Region
— Navigating global divergences —**

(based on Chap. 1 of IMF World Economic Outlook (WEO) October 2023)

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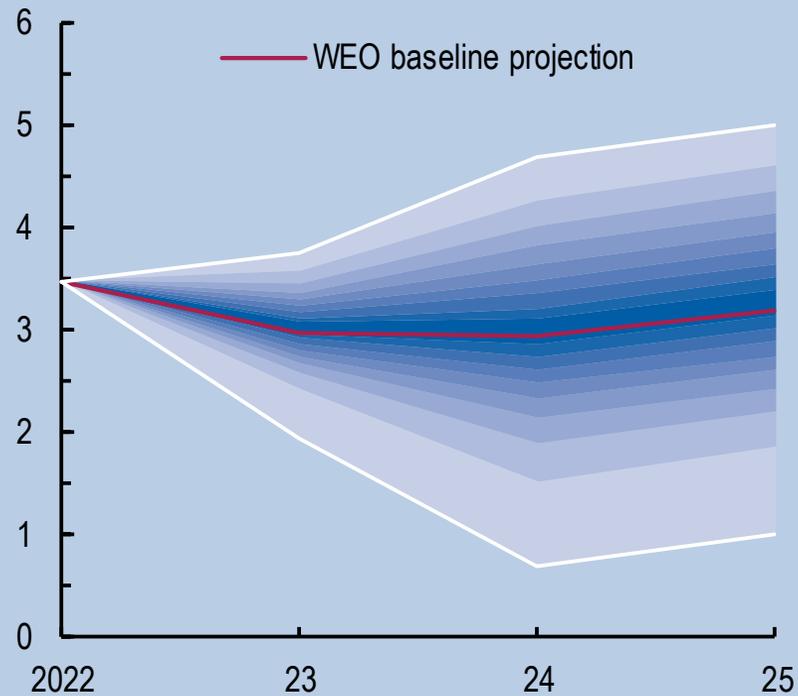
November 8, 2023

Overview

Global Economy: Resilient but Losing Momentum / Inflation Easing

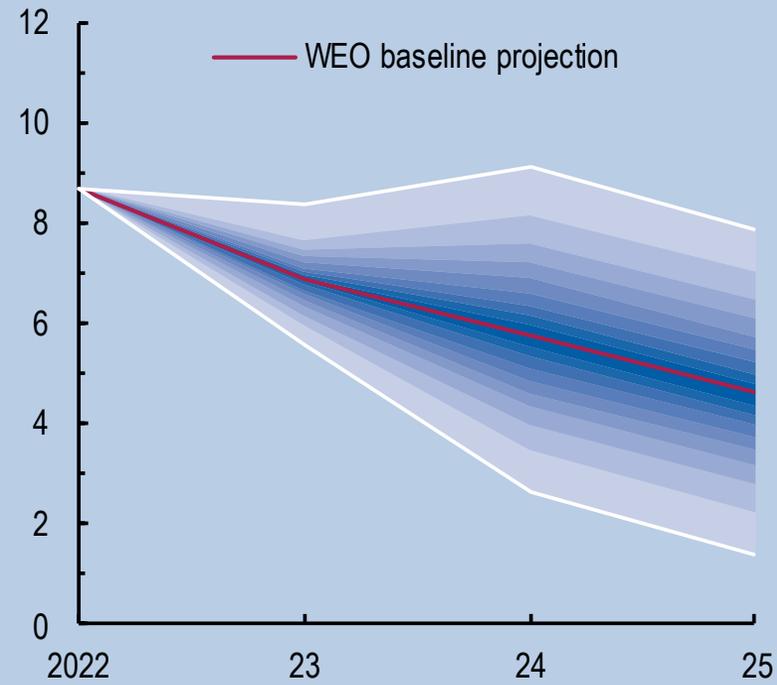
World real GDP growth

(percent; y/y)



World inflation

(percent; y/y)



Main Forces

Headwinds ahead:

- Slowing growth in China
- Monetary policy biting
- Debt high, fiscal buffers limited

Risks

Upside:

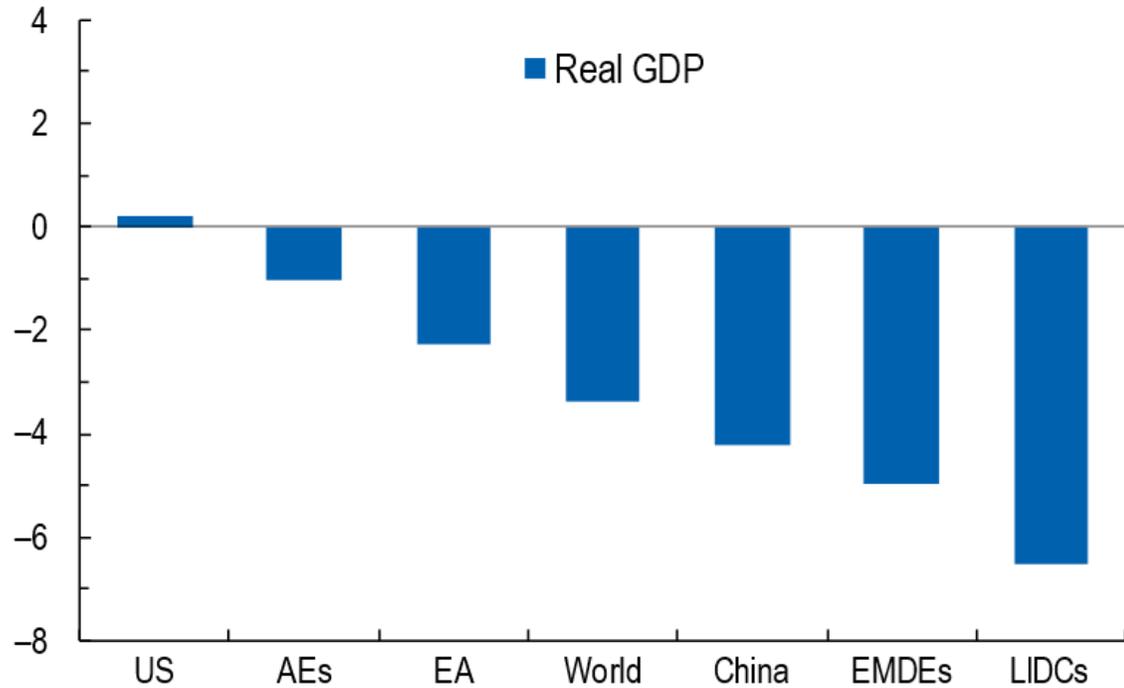
- Underlying inflation falling faster than expected
- Faster recovery of domestic demand

Downside:

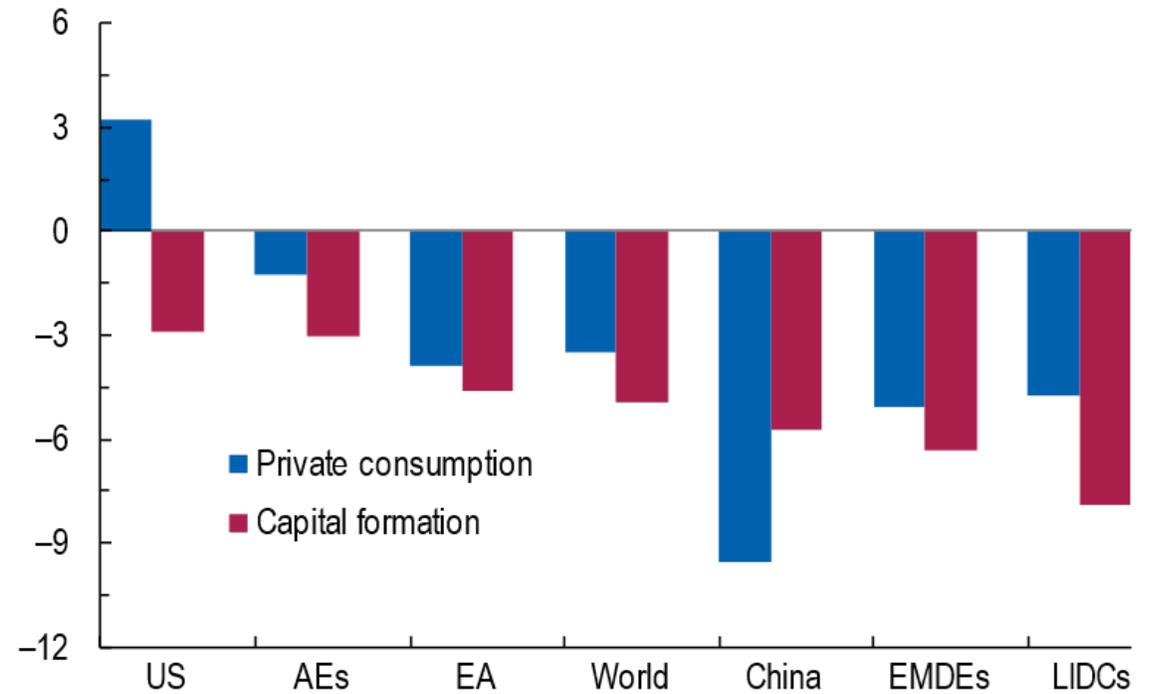
- China property downturn intensifies
- "Higher for longer" leading to financial market repricing
- Increase in commodity prices
- Debt distress
- More geoeconomic fragmentation

Growing Global Divergences

Scarring from 2020-22 Shocks: GDP
(percent; deviation in 2023 from pre-pandemic projections)



Scarring from 2020-22 Shocks: Domestic Demand
(percent; deviation in 2023 from pre-pandemic forecasts)

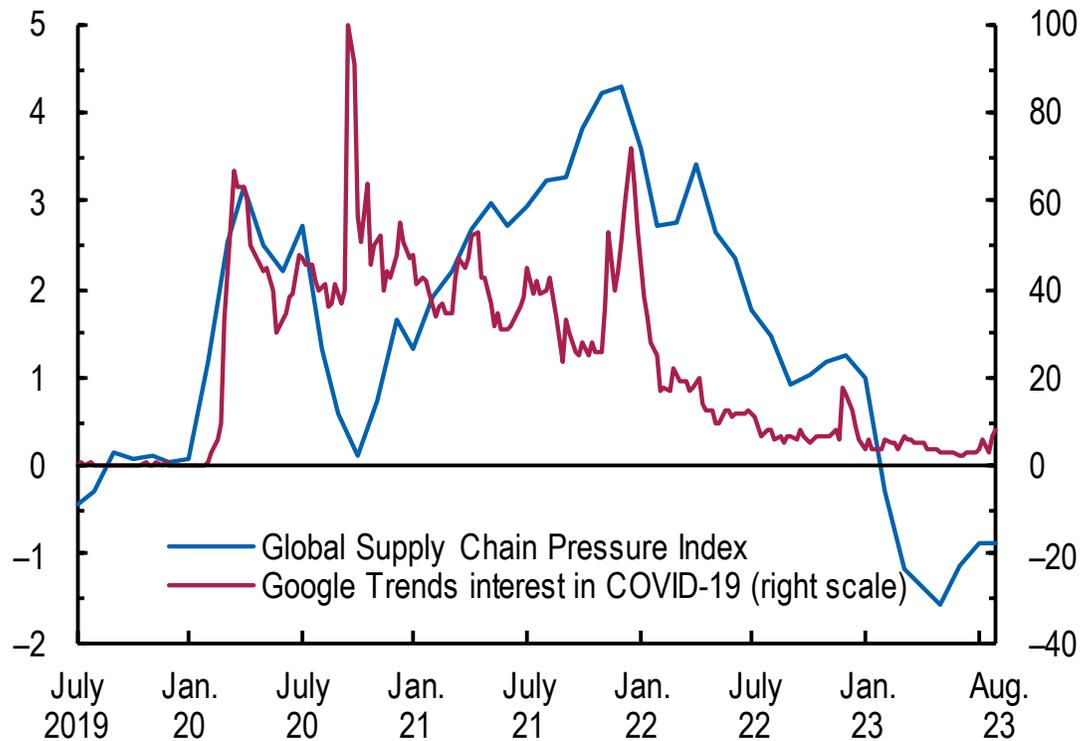


Recent developments

Resilient 2023H1: Supply Normalization and Pent-up Demand ...

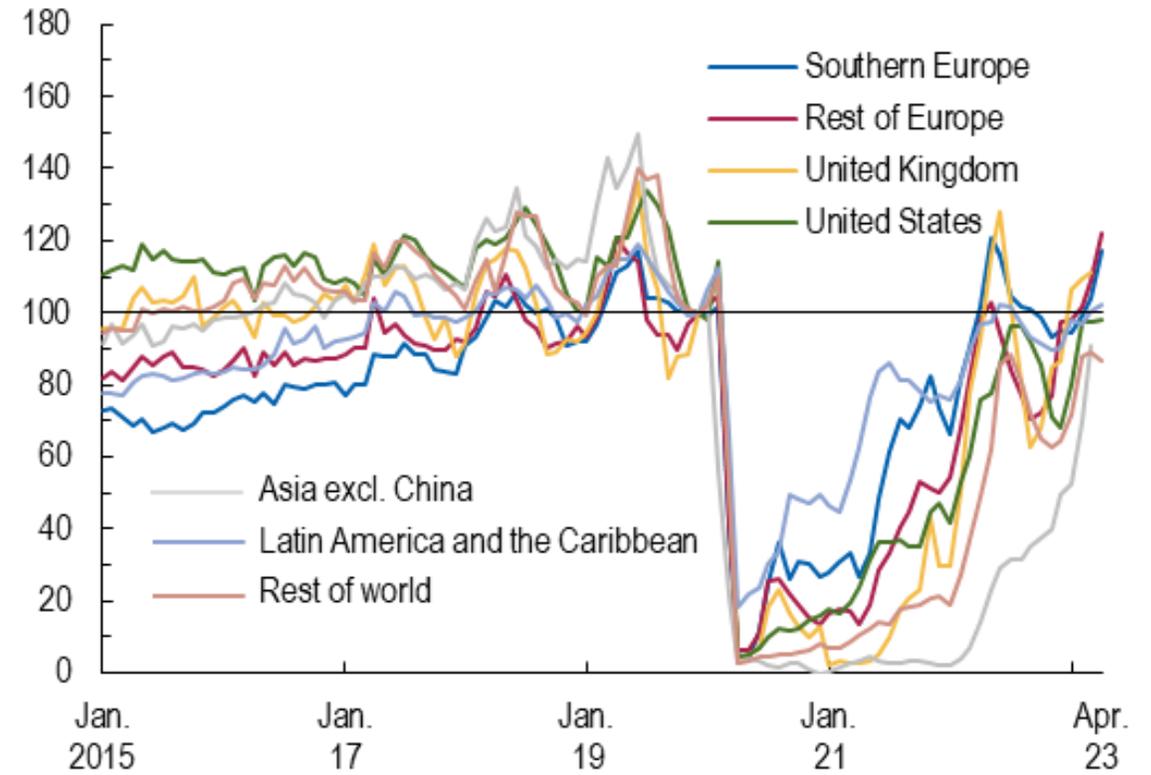
The COVID-19 Shock: Returning to Normal

(St. dev. from average value; index, 100 = highest point worldwide during 2008-23, on right scale)



Tourism Pent-up Demand: Monthly Arrival of Foreign Visitors

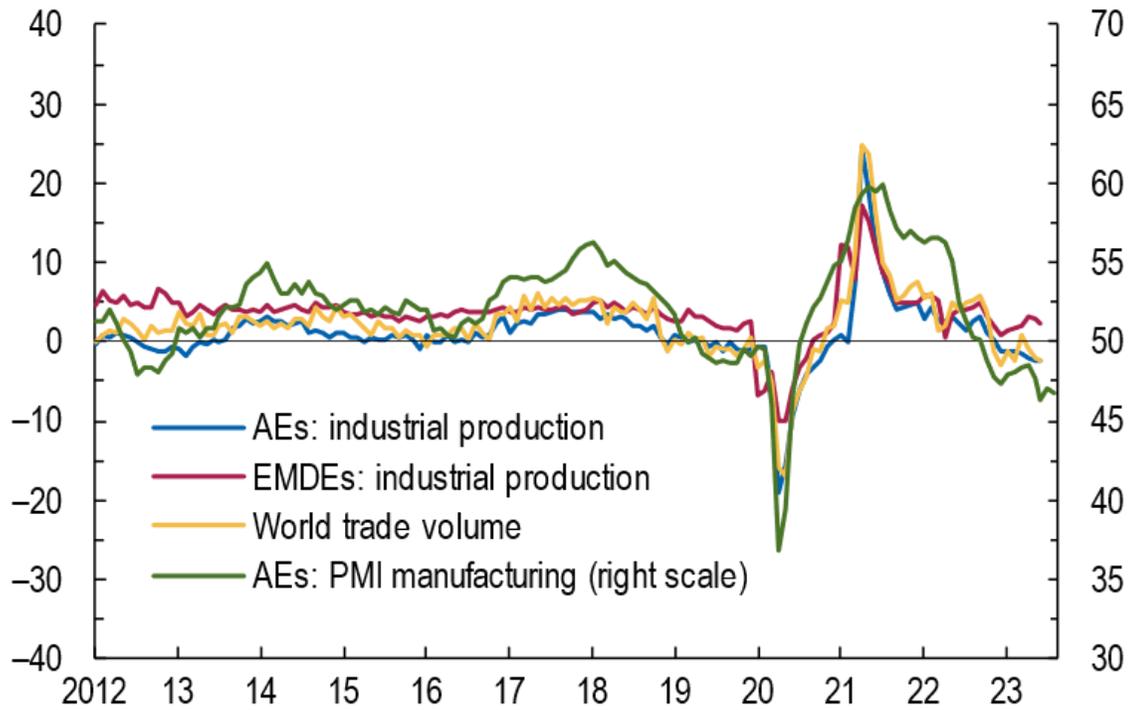
(Index, Dec. 2019 = 100)



... But Clear Signs of Slowdown Ahead ...

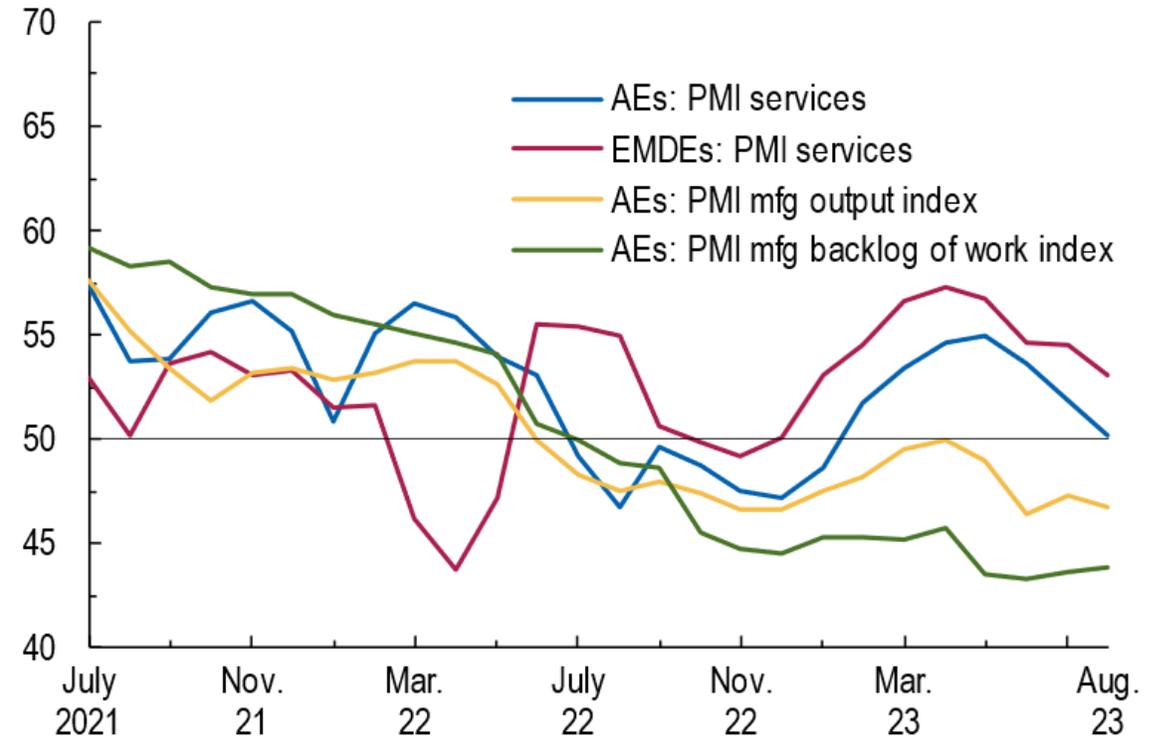
Industrial Production and Trade to Weaken Further

(Percent, y-o-y; index, 50+ = expansion, on right scale)



Services Growth Momentum Fading

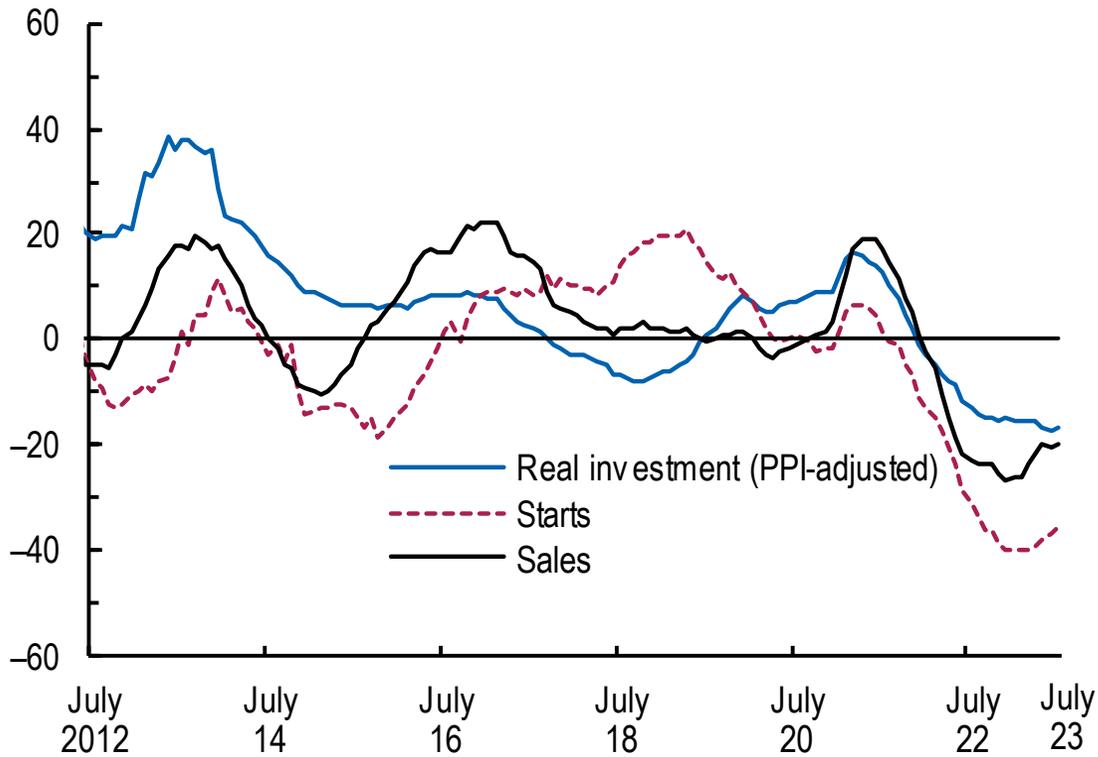
(PMI index, 50+ = expansion)



... Notably in China Due to Real Estate Sector Downturn

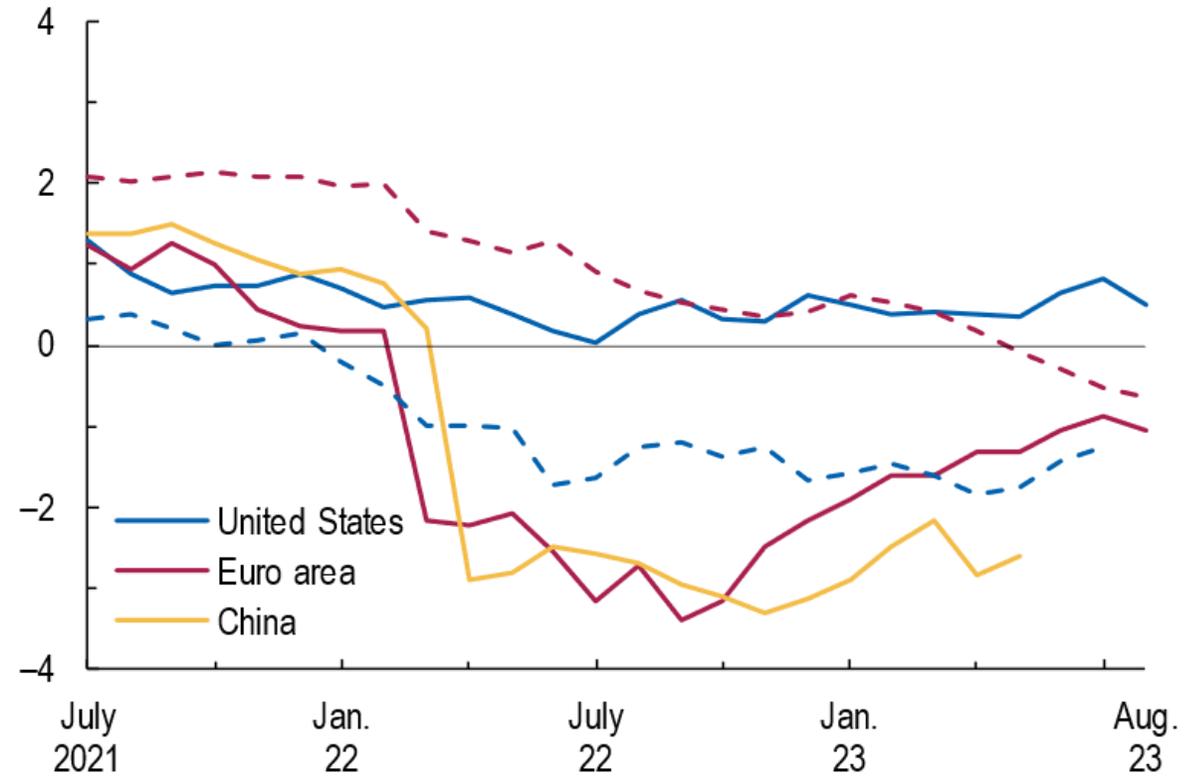
Deepening Real Estate Downturn

(Year-over-year percent change in 12-month moving sums)



Battered Consumer Confidence

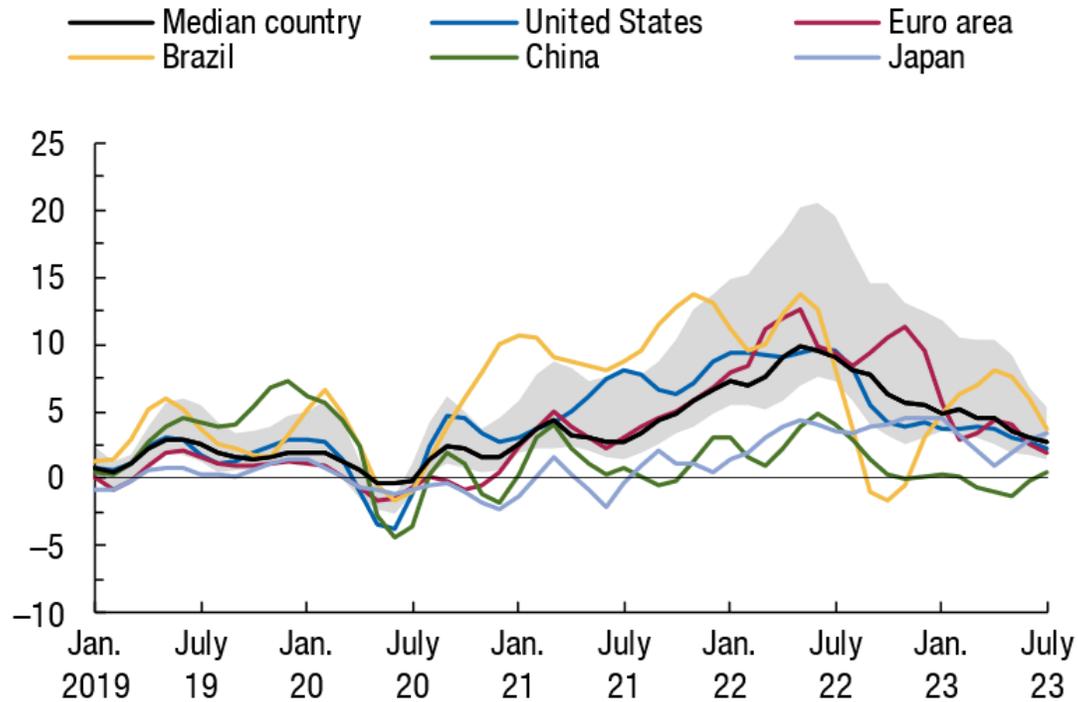
(Standard Deviation from Average Value)



Inflation: Nearer but Not Quite There Yet

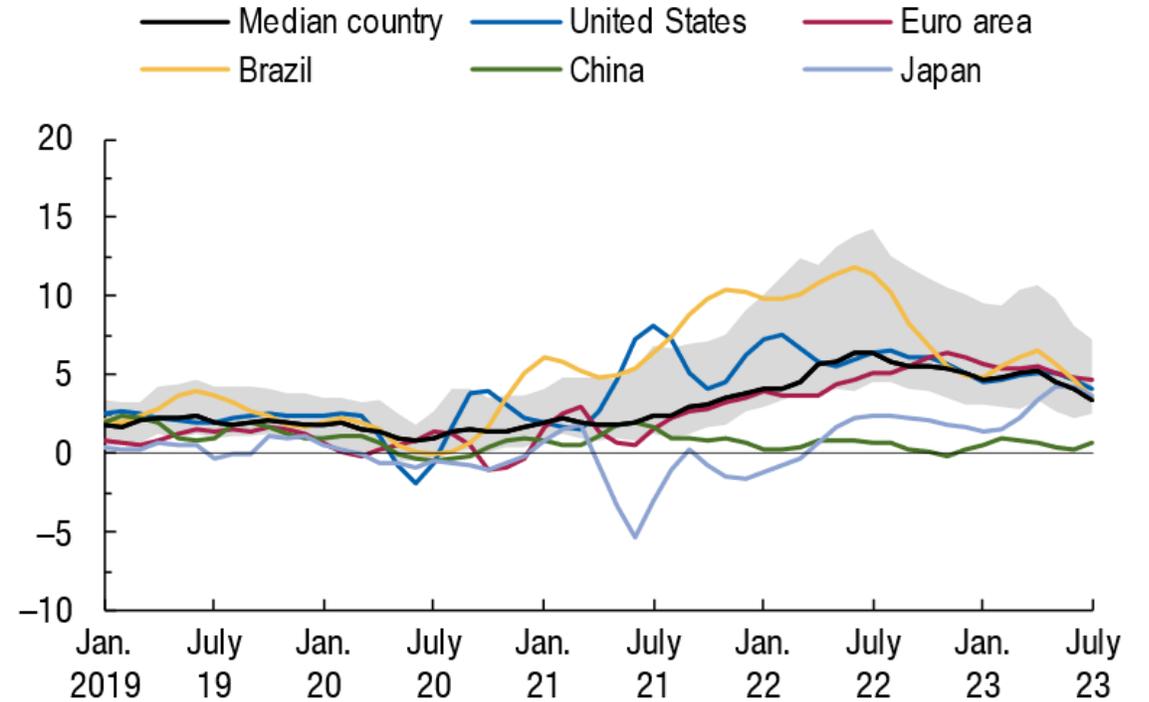
Headline Inflation Has Halved

(Percent, three-month moving average; SAAR)



Core Inflation Has Declined More Gradually

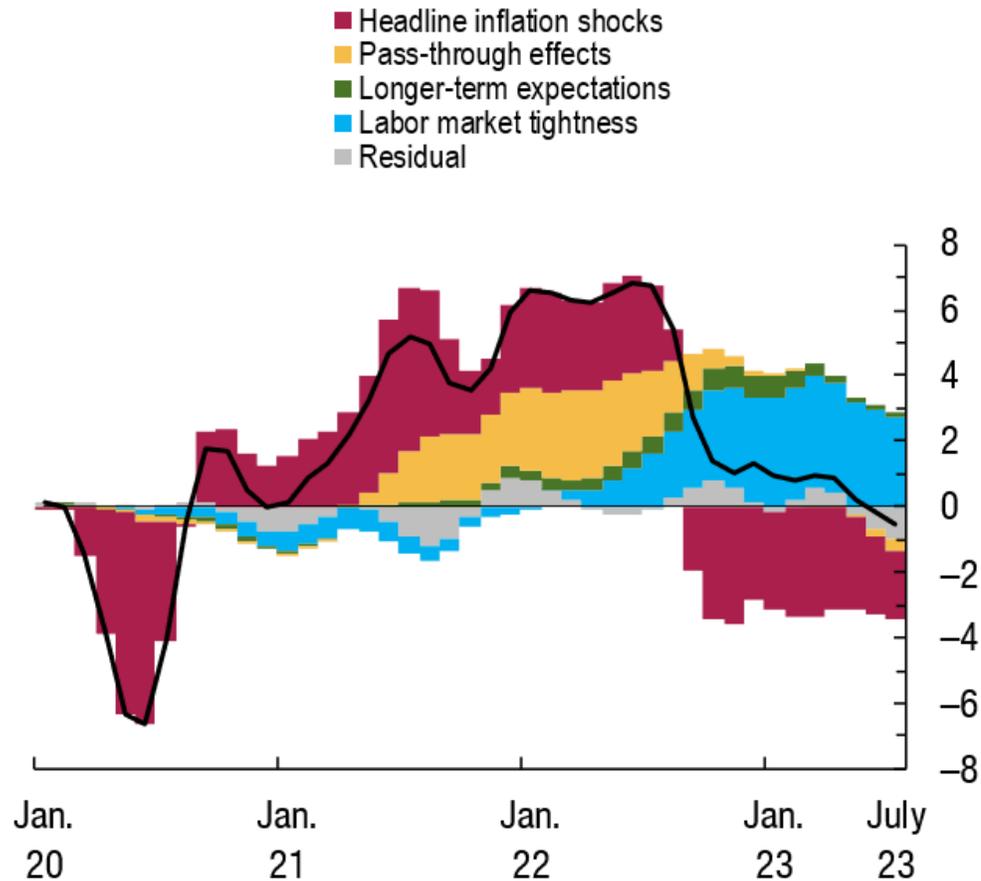
(Percent, three-month moving average; SAAR)



Drivers of Inflation are Not Uniform Across Countries

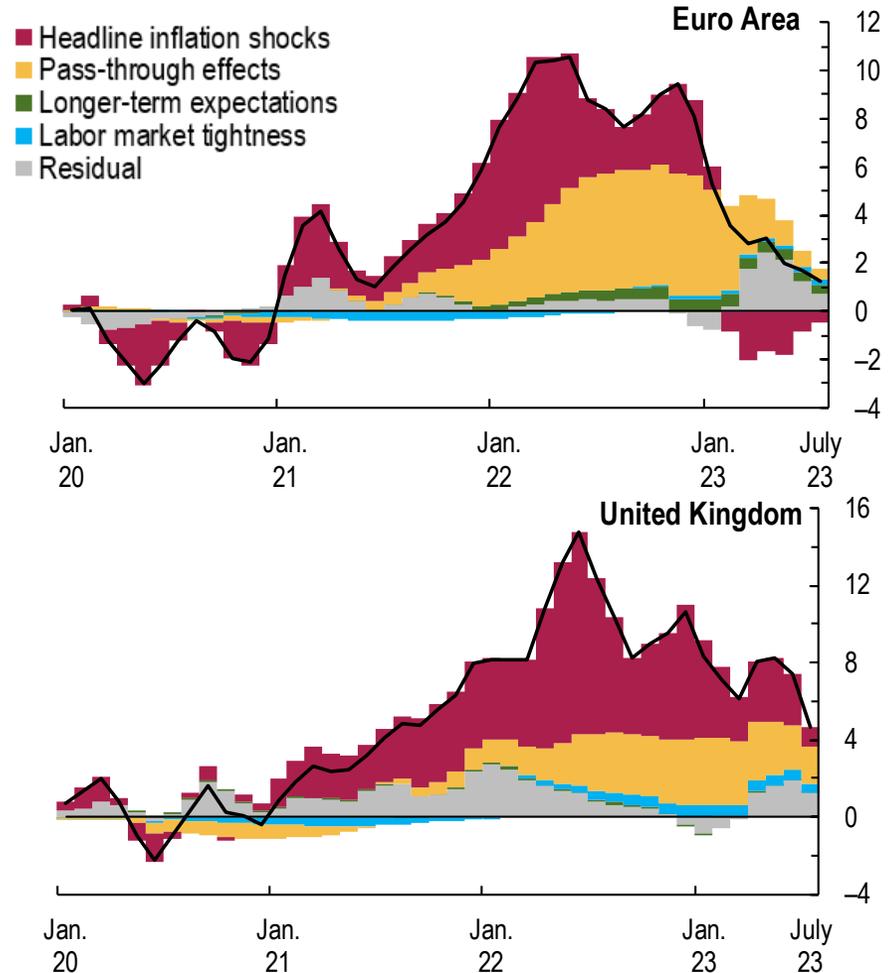
US Inflation

(Percentage points, three-month moving average; SAAR; deviations from December 2019)



Euro Area and UK Inflation

(Percentage points, three-month moving average; SAAR; deviations from December 2019)

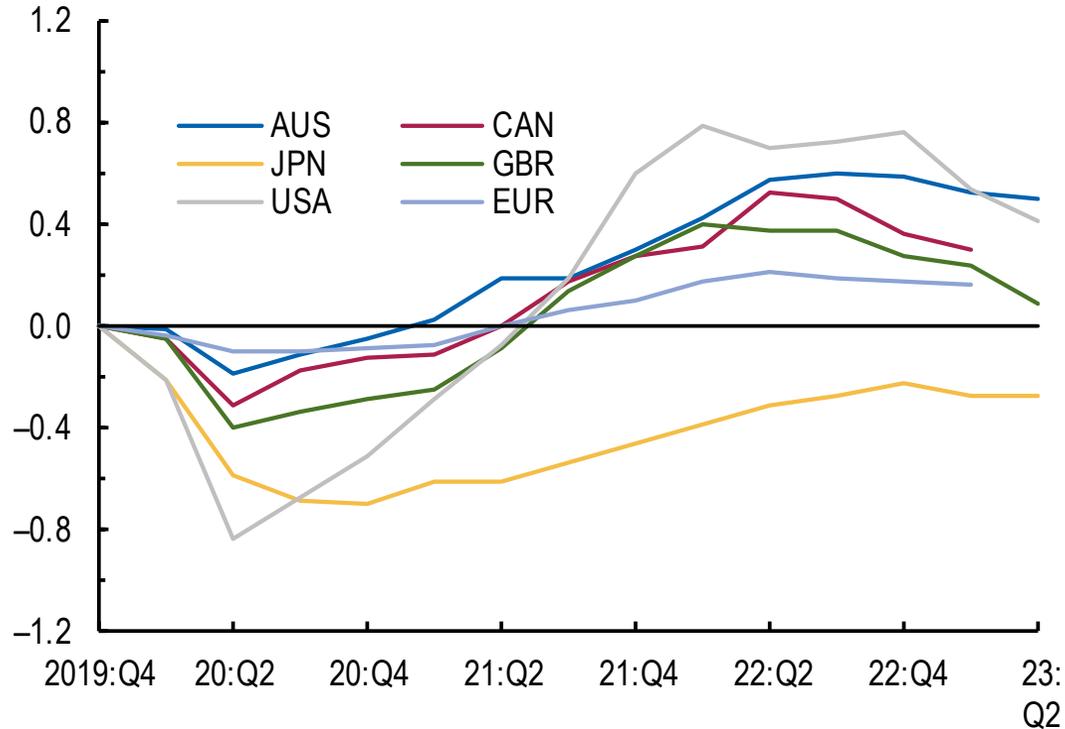


Note: IMF staff calculation using methodology as in Ball, Leigh and Mishra (2022) and Dao and others (2023).

Labor Market Still Tight but Signs of Easing

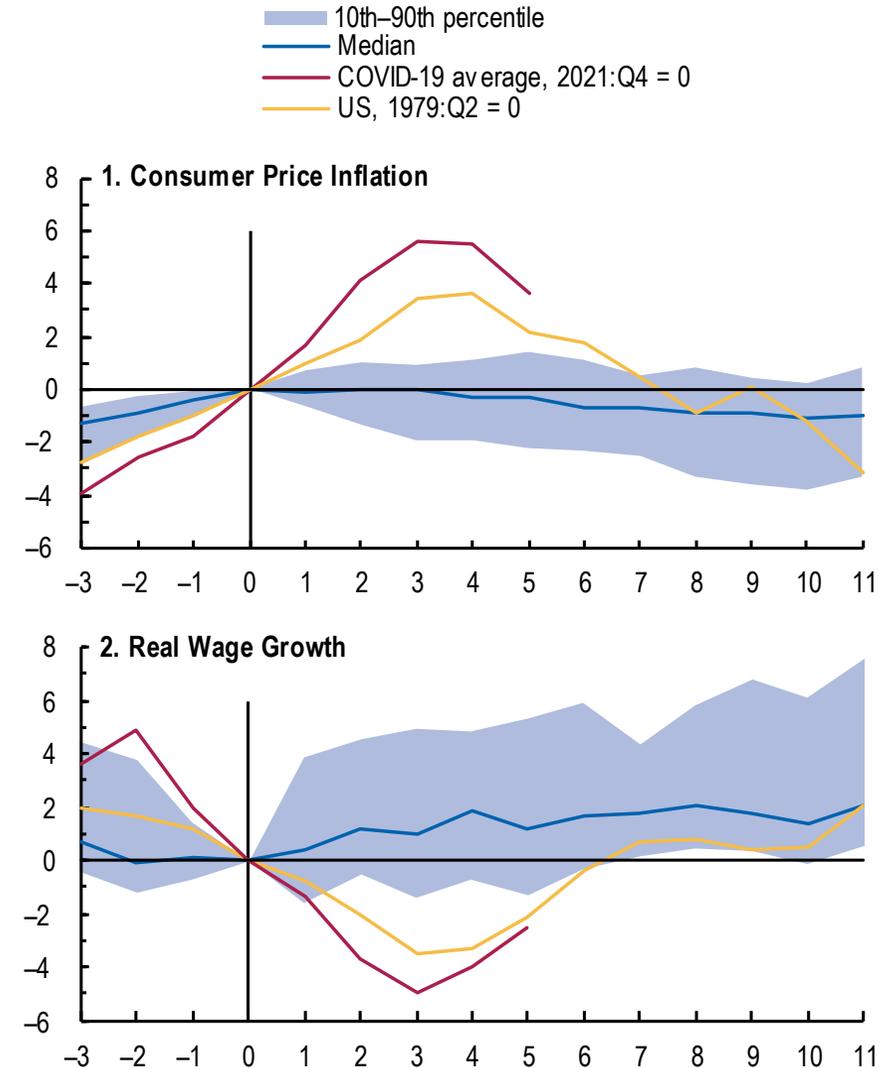
High Level of Vacancies Points to Tightness

(Change in vacancy-to-unemployment ratios relative to 2019:Q4)



Little Evidence of a Wage Price Spiral

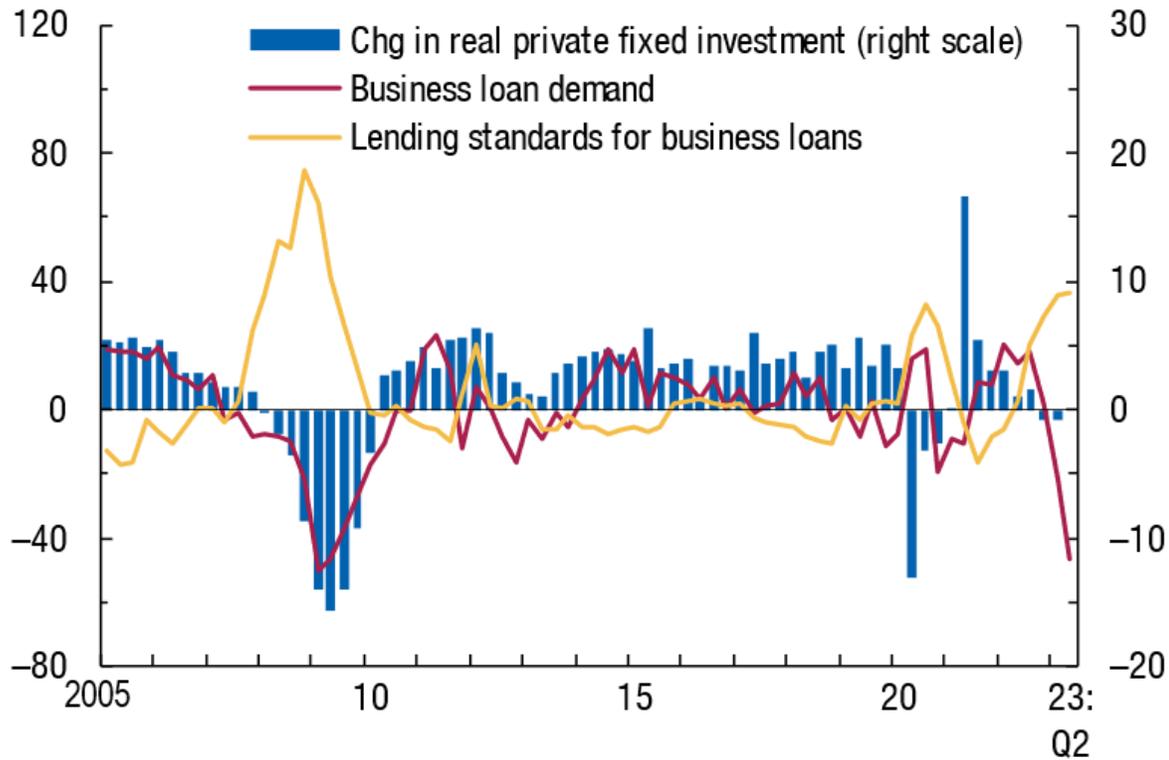
(Percentage points deviations from t=0)



Monetary Policy Is Biting

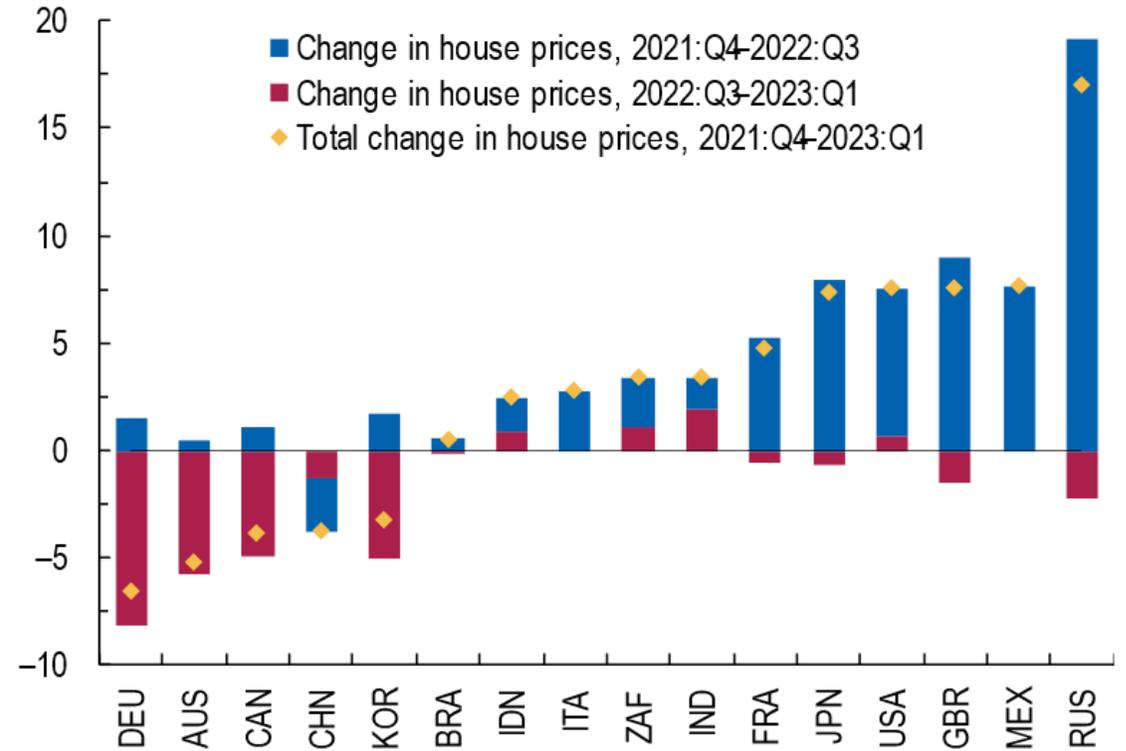
Tighter Credit Standards, Lower Investment

(Business loan index; percent, y-o-y on right scale)



House Prices Slowing or Reversing, 2022-23

(Cumulated percent change)



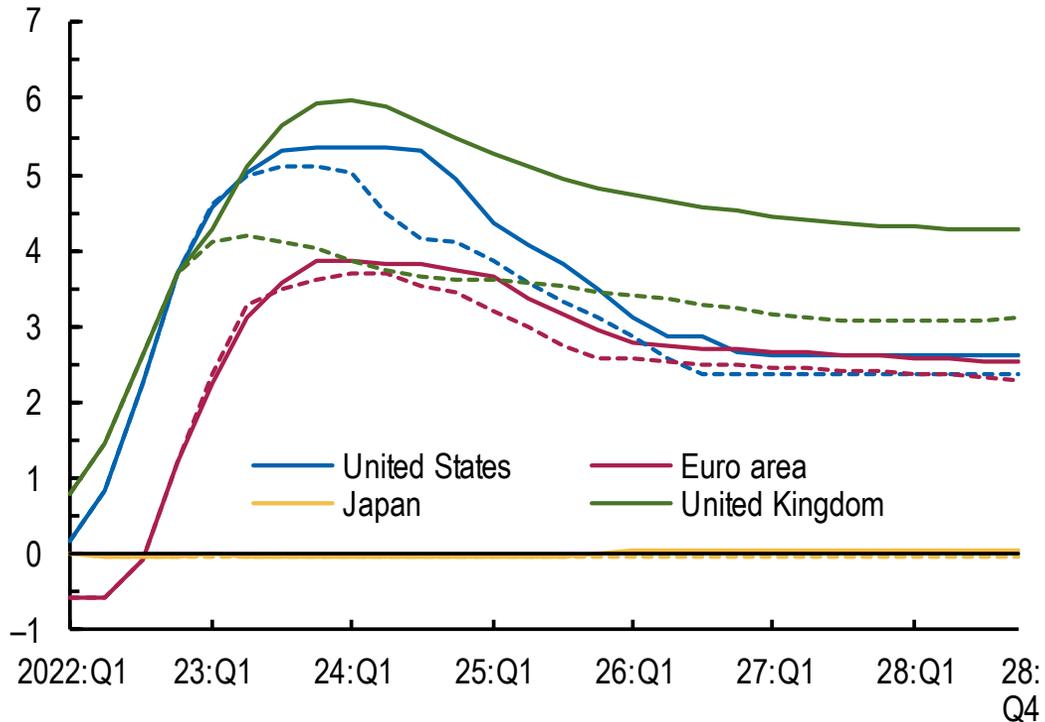
The outlook

Assumptions for the Baseline Forecast

Monetary policy rates: higher for longer

Policy Rates in Selected AEs

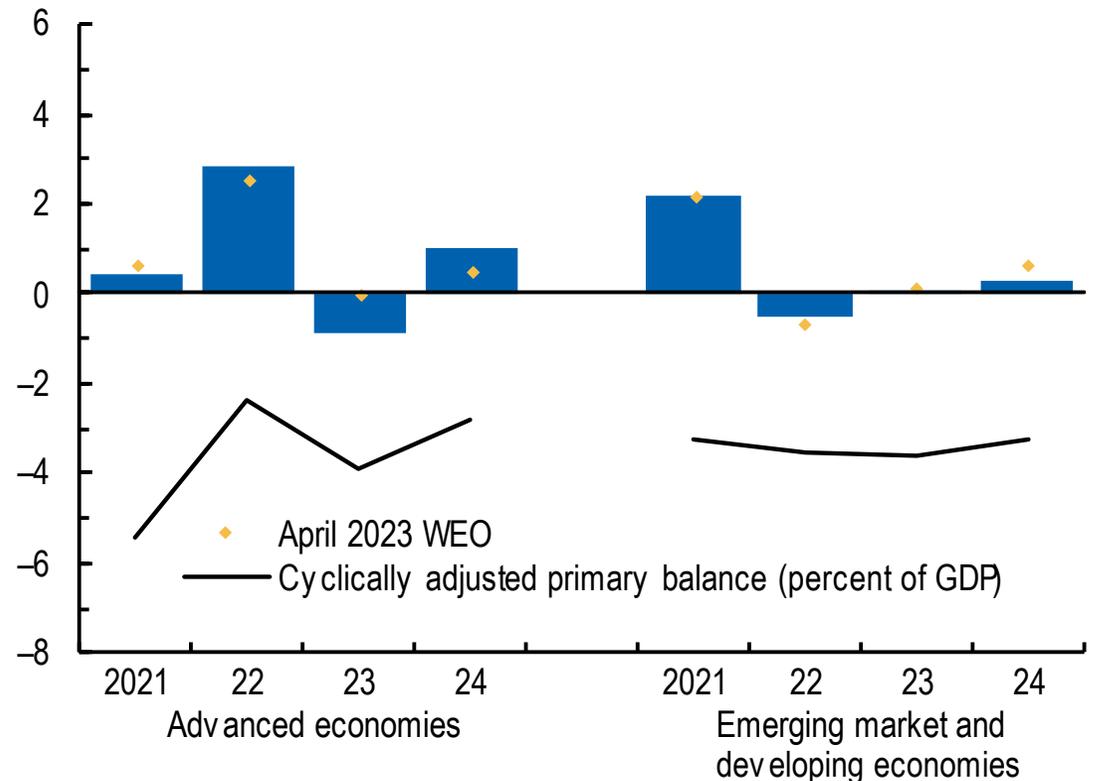
(Percent; annualized; dashed lines are April 2023 WEO vintage)



Government support: fiscal consolidation in 2024

Fiscal Stance, 2021-24

(Change in structural primary fiscal balance, percent of potential GDP)

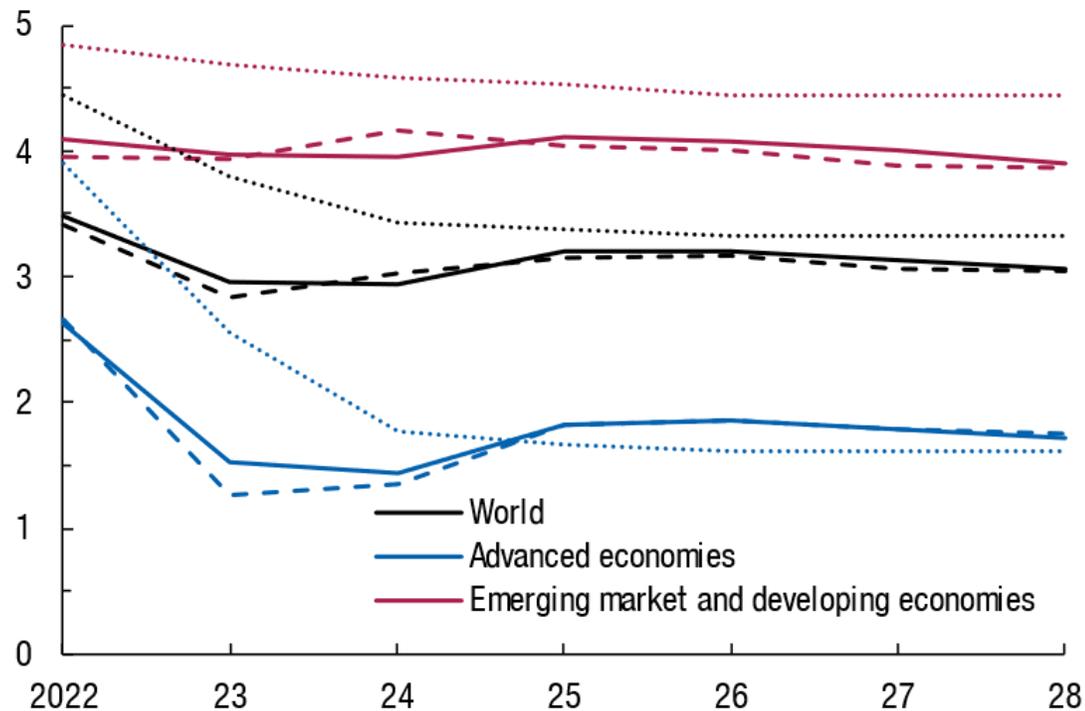


Global Outlook: Too Weak for Comfort

Global growth: Stable and slow

Growth Outlook

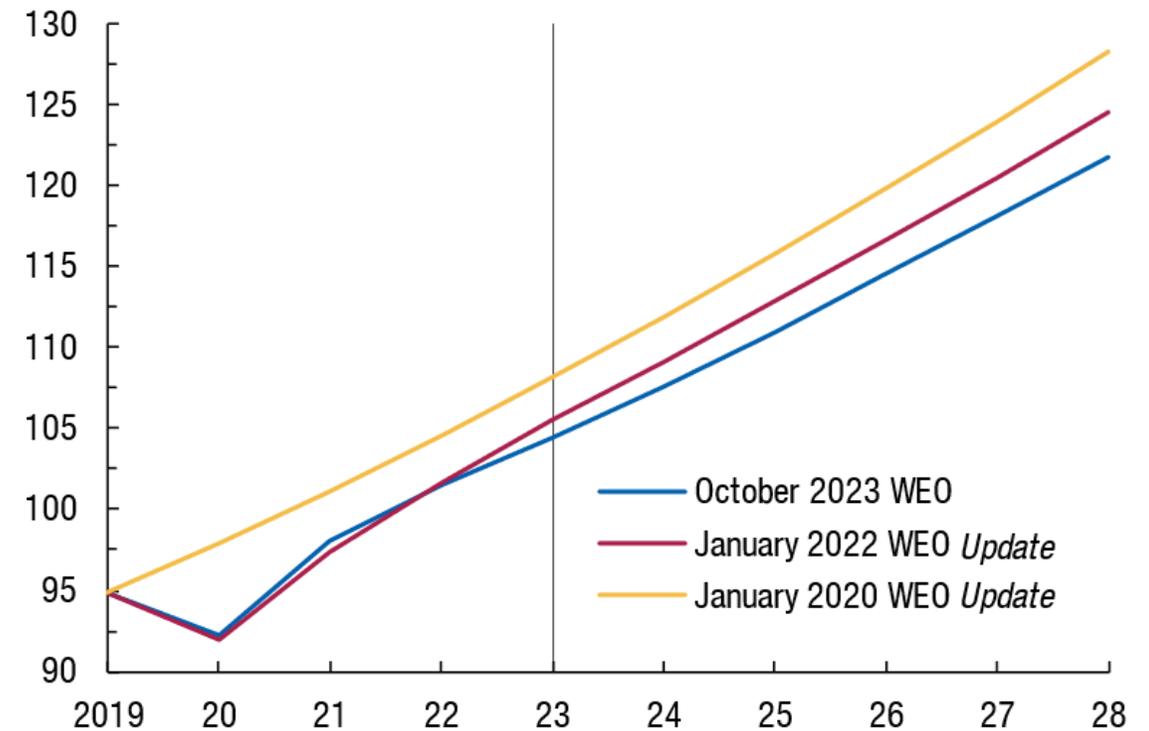
(Percent; dashes from April 2023 and dotted from January 2022 WEO forecast)



Permanent scarring expected

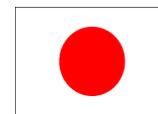
Long-Term Global Growth Projections

(Trillions of US dollars in 2023 prices)



Growth Projections: Advanced Economies

(percent change from a year earlier)



World

Advanced Economies

U.S.

Euro Area

Japan

U.K.

Canada

Other Advanced Asia

2022

3.5

2.6

2.1

3.3

1.0

4.1

3.4

2.5

Revision from
Jul. 2023

0.0

-0.1

0.0

-0.2

0.0

0.0

0.0

0.0

2023

3.0

1.5

2.1

0.7

2.0

0.5

1.3

1.5

Revision from
Jul. 2023

0.0

0.0

0.3

-0.2

0.6

0.1

-0.4

-0.3

2024

2.9

1.4

1.5

1.2

1.0

0.6

1.6

2.2

Revision from
Jul. 2023

-0.1

0.0

0.5

-0.3

0.0

-0.4

0.2

0.0

Source: IMF, October 2023 *World Economic Outlook*.

Growth Projections: Emerging Markets and LIDCs

(percent change from a year earlier)

	 World	 Emerging Market and Developing Economies	 China	 India	 Brazil	 Russia	 Commodity Exporting Economies	 Low Income Developing Countries
2022	3.5	4.1	3.0	7.2	2.9	-2.1	3.7	5.2
Revision from Jul. 2023	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.2
2023	3.0	4.0	5.0	6.3	3.1	2.2	2.7	4.0
Revision from Jul. 2023	0.0	0.0	-0.2	0.2	1.0	0.7	0.0	-0.5
2024	2.9	4.0	4.2	6.3	1.5	1.1	3.0	5.1
Revision from Jul. 2023	-0.1	-0.1	-0.3	0.0	0.3	-0.2	0.1	-0.1

Source: IMF, October 2023 *World Economic Outlook*.

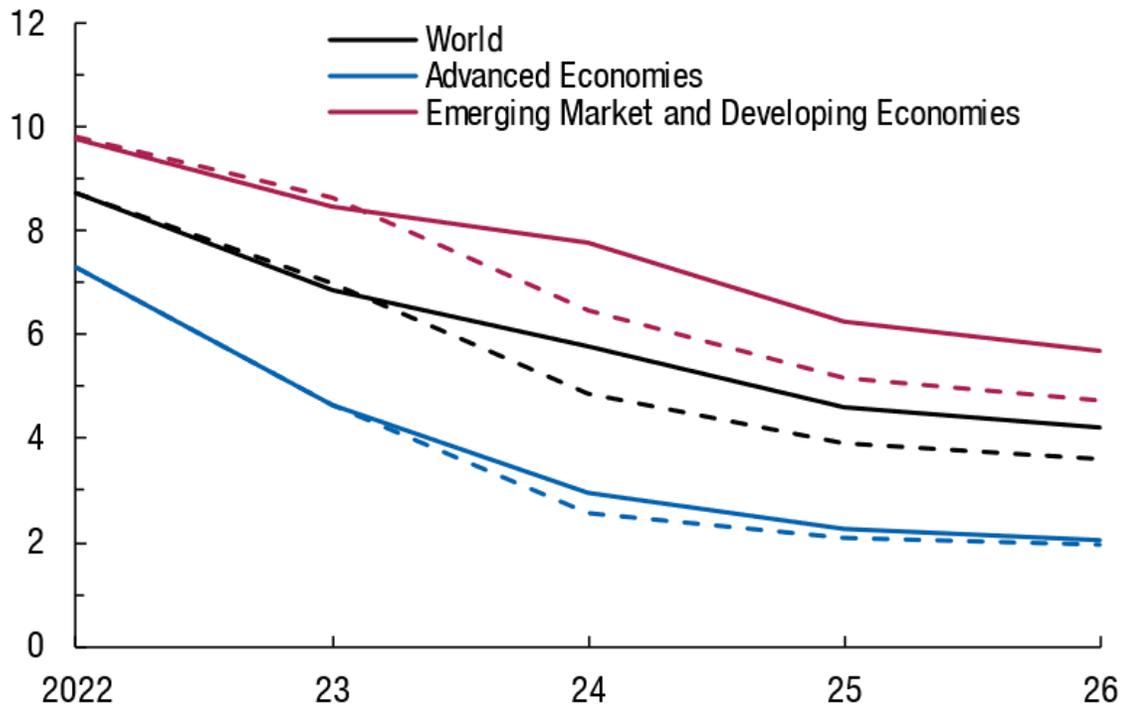
Inflation: Falling but Stickier than Expected

Headline inflation to fall in $\frac{3}{4}$ of countries in 2023

Core inflation: Down but sticky

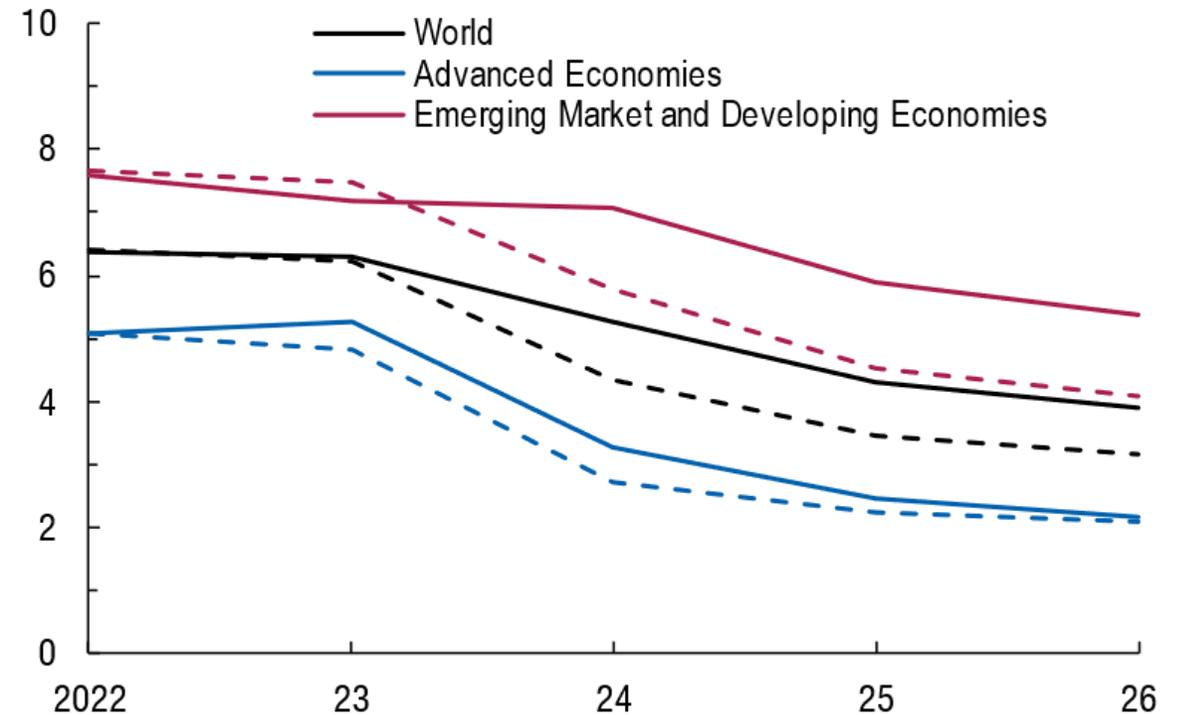
Headline Inflation

(Percent; dashed lines from April 2023 WEO)



Inflation Excluding Food and Energy

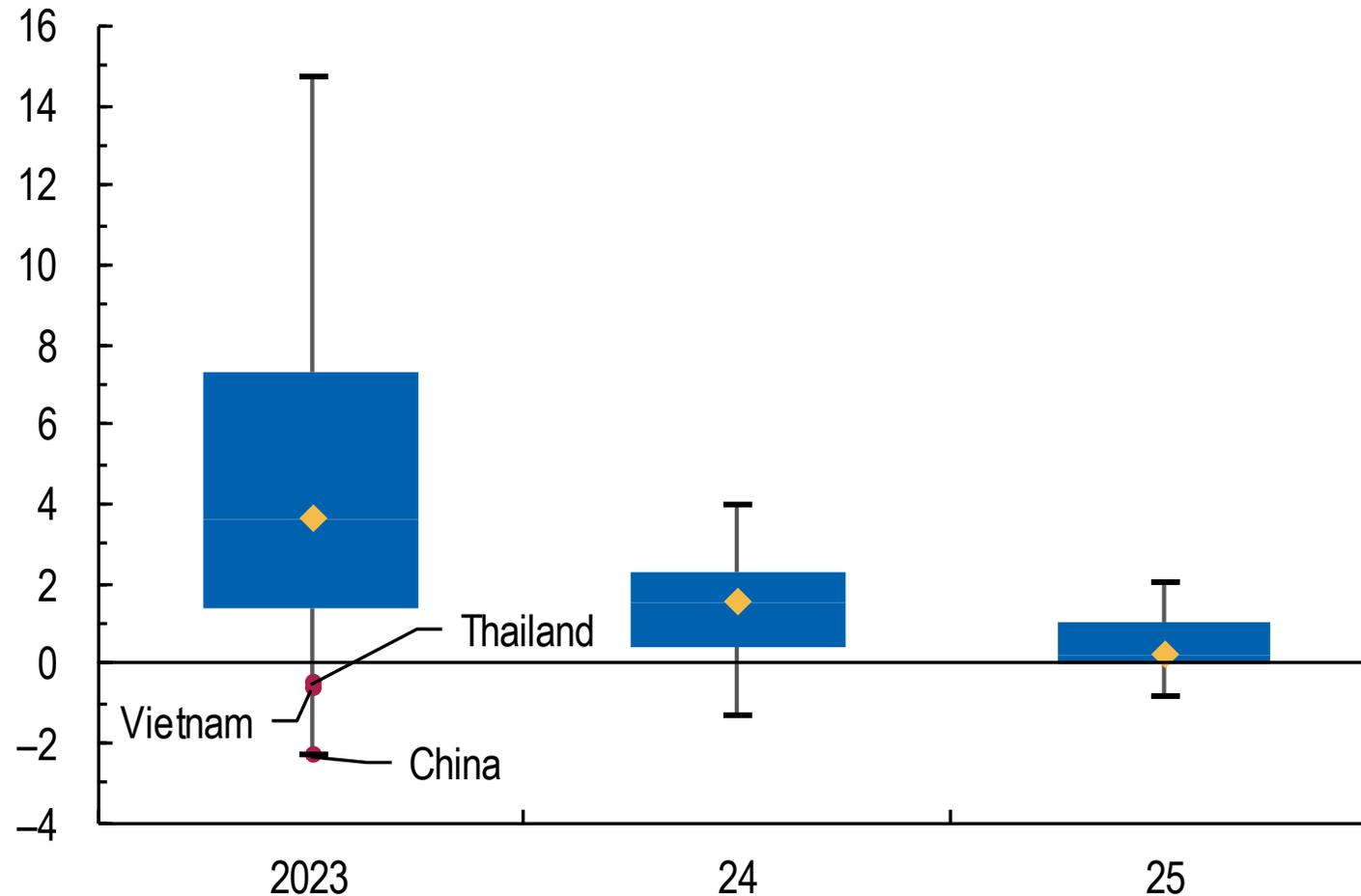
(Percent; dashed lines from April 2023 WEO)



Inflation Slowly Converging to Target

Returning inflation to target to take until 2025 in most cases

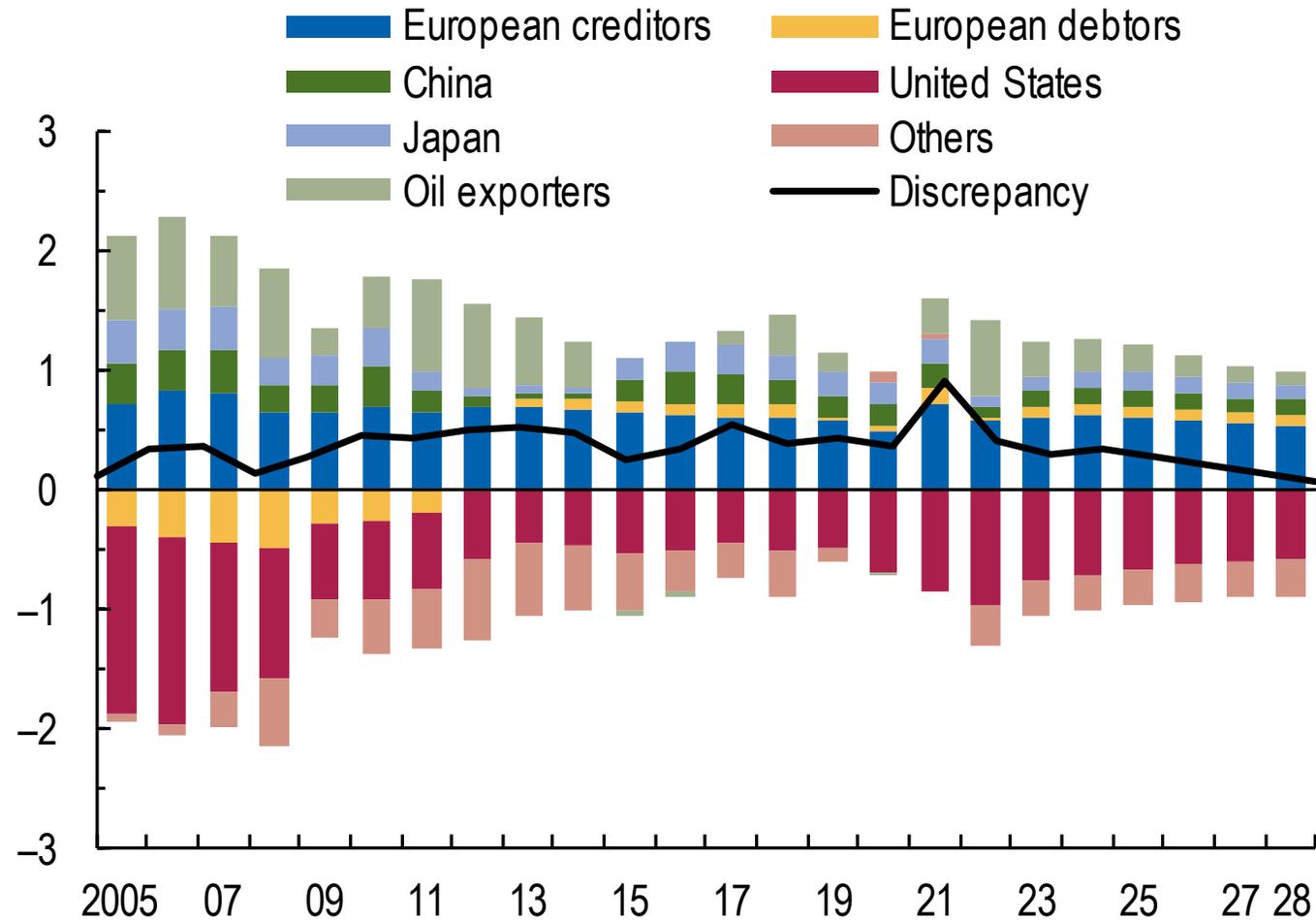
Distribution of Deviation of Inflation from Inflation Target
(Percentage points; diamond is median)



Trade Growth Historically Low, Narrowing Balances

After rising in 2022 due to higher commodity prices, current account balances to narrow over time

Global Current Account Balance
(Percent of global GDP)

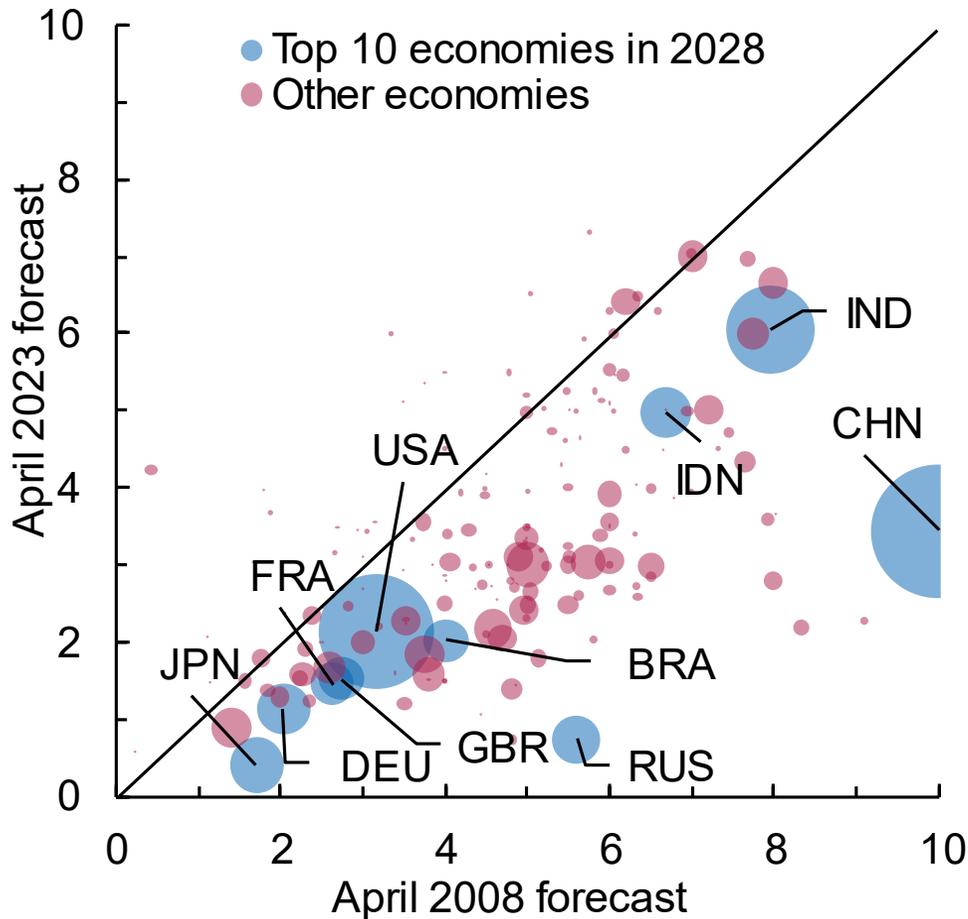


The Medium Term: Threading New Lows

Medium term forecasts are the lowest in decades, with the largest downshift in Asia

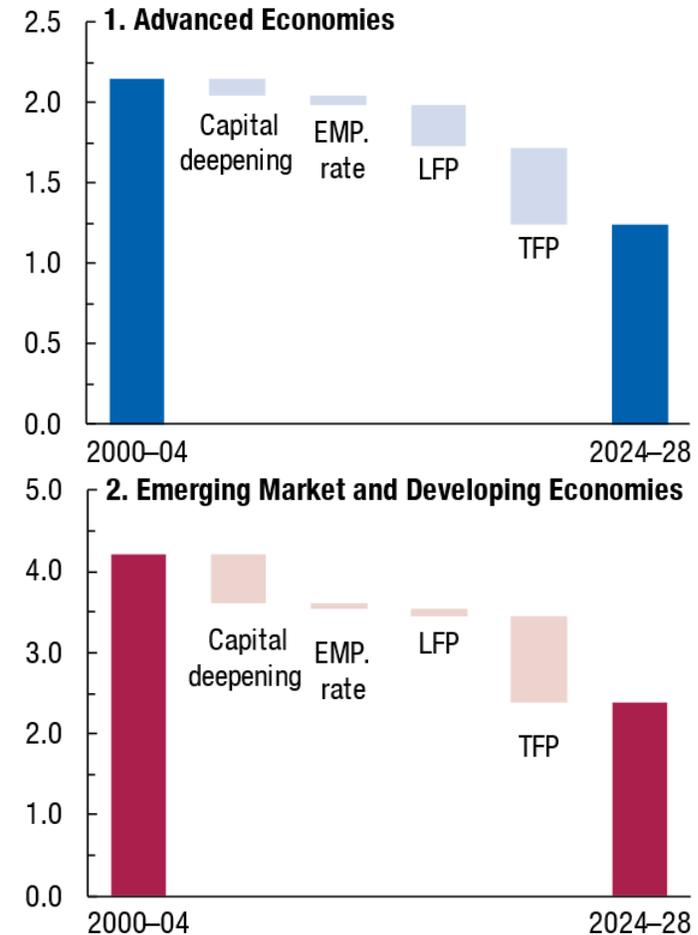
Five-Year-Ahead Growth Projections Over Time

(Percent; bubble size for GDP at PPP)



Per Capita Growth Forecast Decomposition

(Percent; 80 percent of world GDP at 2023 PPP)



Risks

Downside Risks to Growth and Upside Risk to Inflation

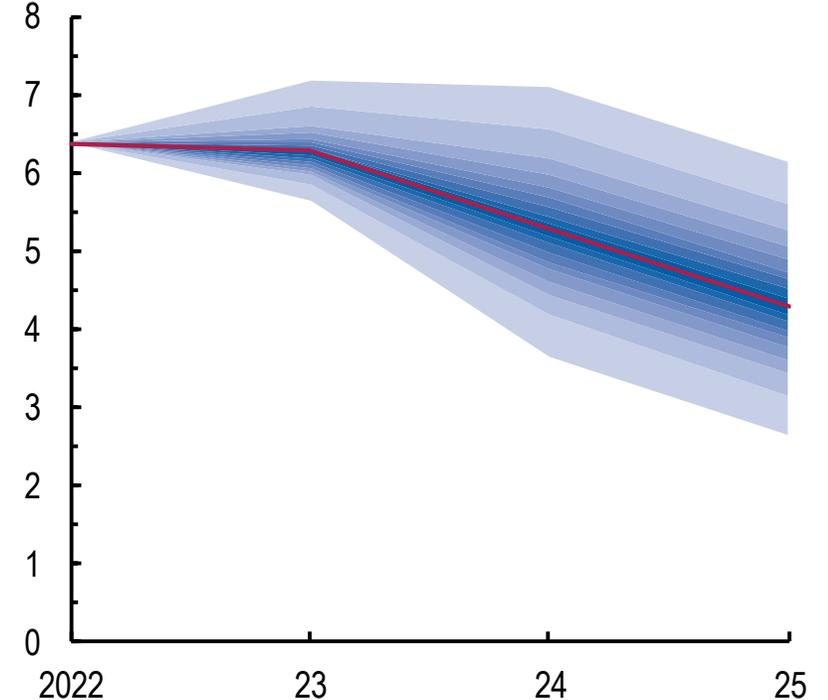
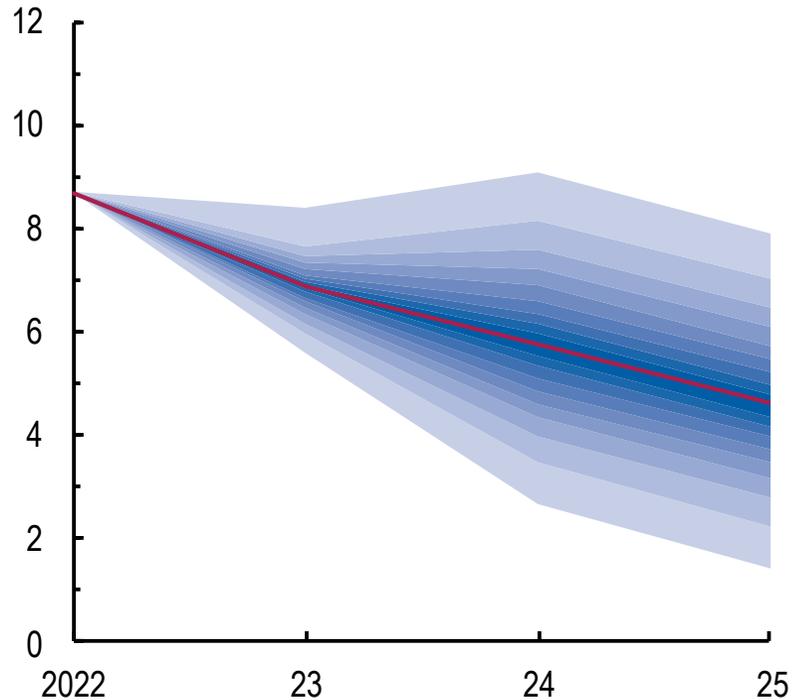
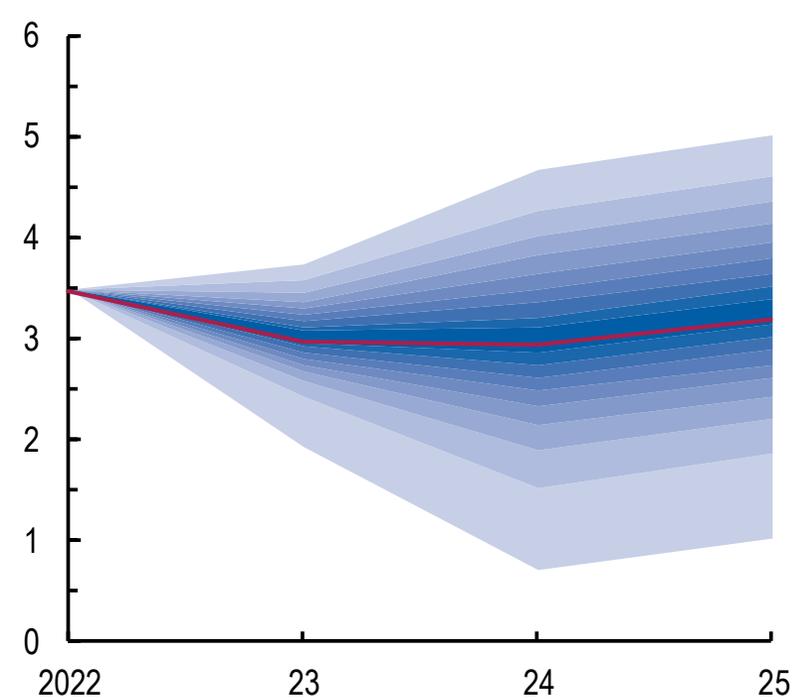
Risks to growth are more balanced than in April, but still tilted to the downside...

... while the distribution of risks to both headline and core inflation has shifted up since April

World Growth
(Percent)

World Headline Inflation
(Percent)

World Core Inflation
(Percent)



Source: IMF staff calculations.
Note: Each shade of blue represents a five percentage point interval.

Risks to the Outlook

Downside

- **Deepening slowdown in China with spillovers to trading partners**
- **Stickier inflation forcing higher interest rates for longer and financial market repricing**
- **Systemic sovereign debt distress in EMDEs**
- **Commodity price increases amid climate and geopolitical shocks**
- **Intensification of geoeconomic fragmentation**
- **Resumption of social unrest**

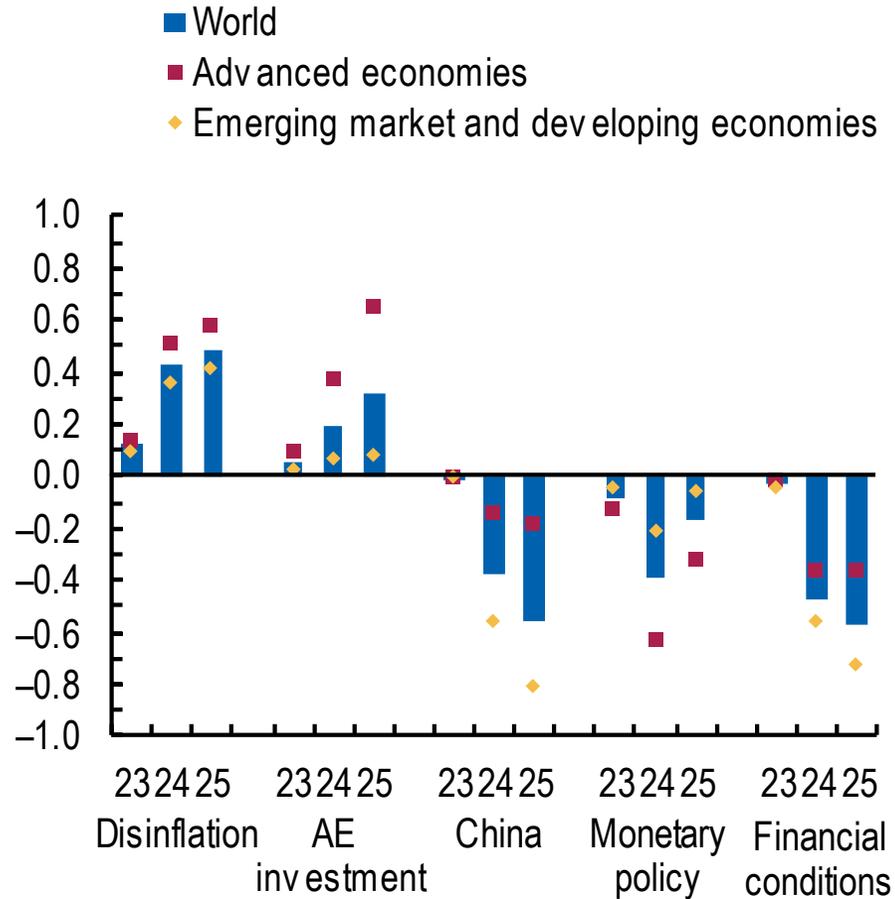
Upside

- **Rapid easing of inflationary pressures restoring purchasing power and allowing easier monetary policy**
- **Faster consumption and investment recovery driven by pandemic savings, tight labor markets, new technological breakthrough and effective policy support.**

Risks Scenarios Around the Baseline

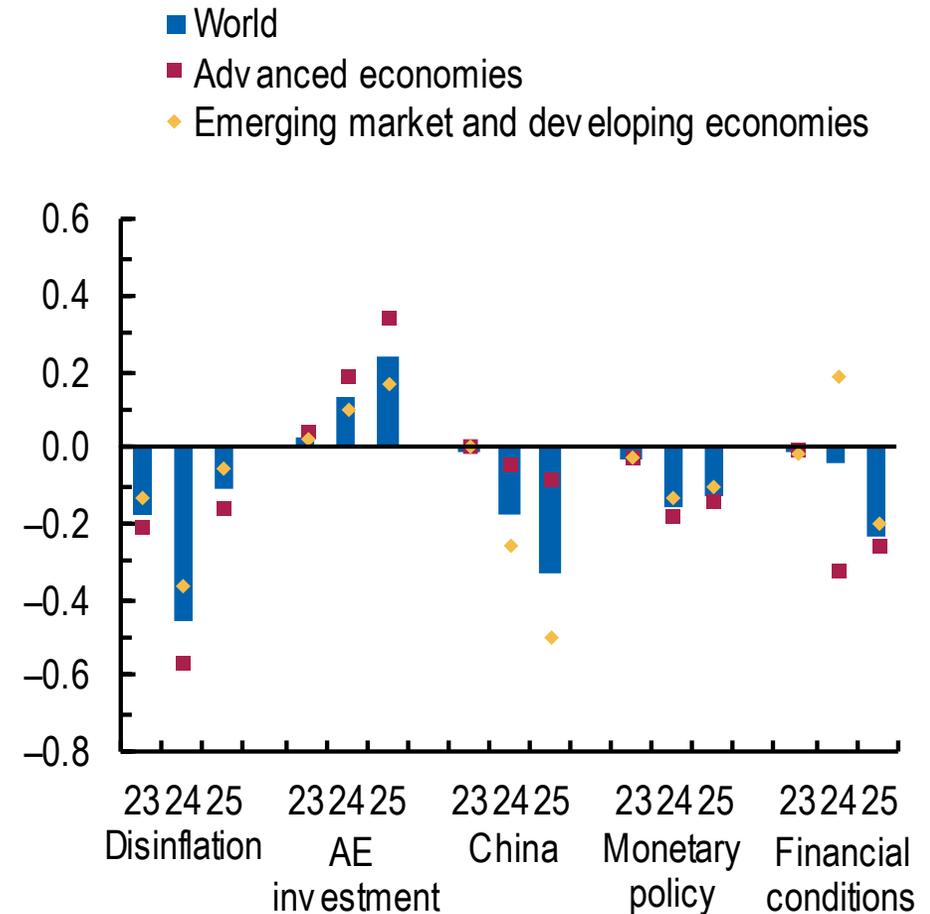
Impact on GDP level

(percent deviation from baseline)



Impact on core inflation

(percent deviation from baseline)

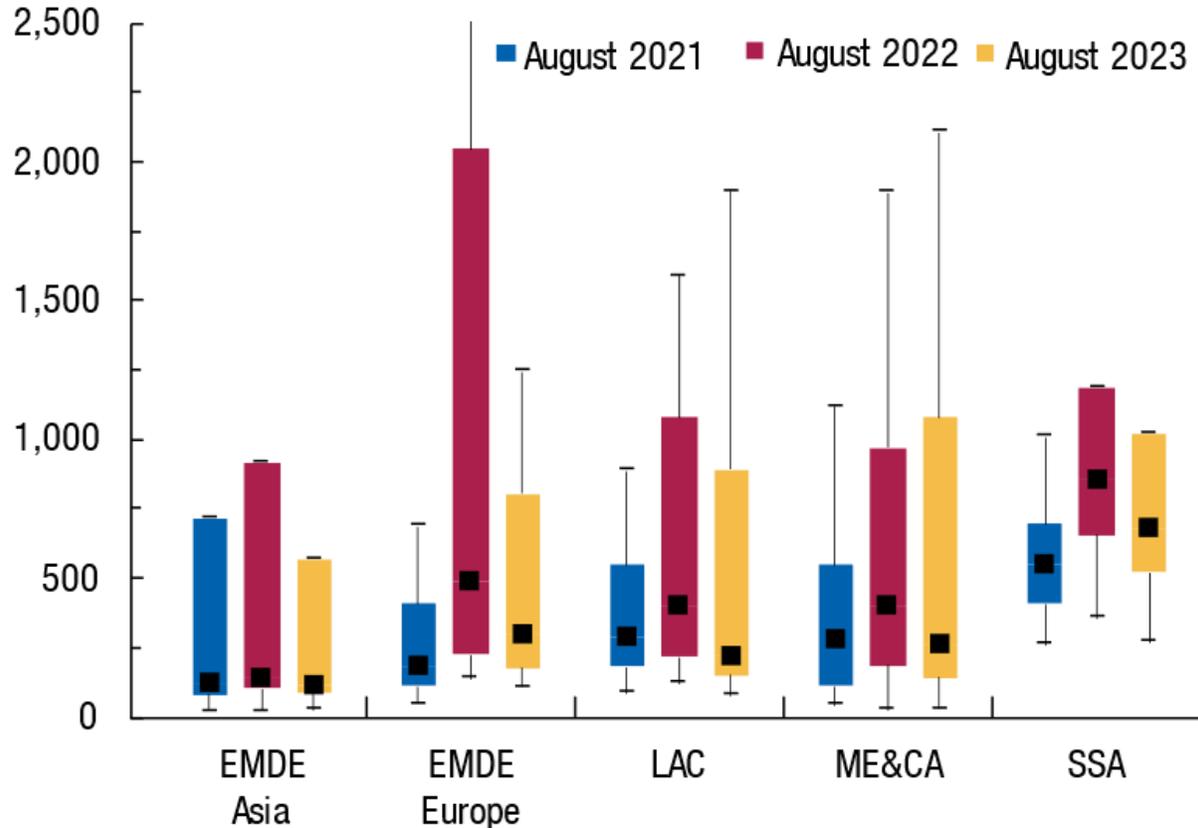


Additional Risks

Higher for longer triggering systemic
Sovereign debt distress

Sovereign Spreads in EMDEs

(Basis points, distribution by economic group)

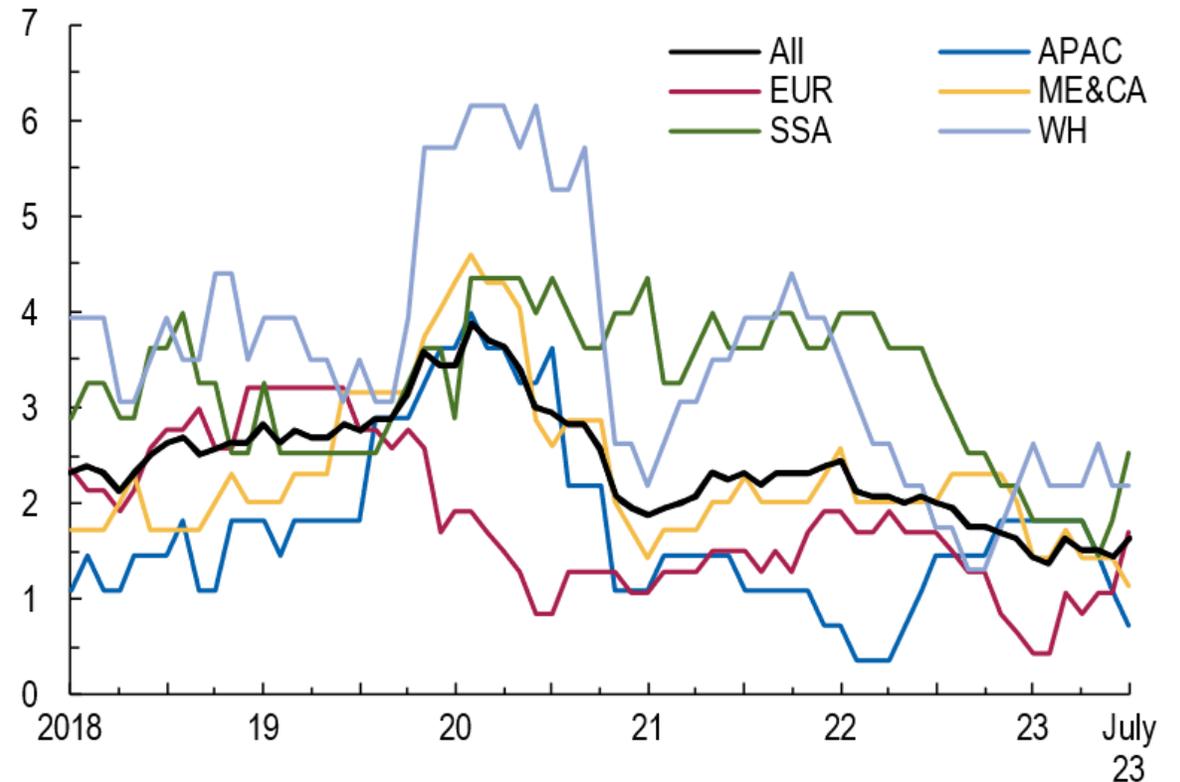


Sources: Bloomberg Finance L.P. and IMF staff calculations.

Food and energy price spikes could reignite
social unrest

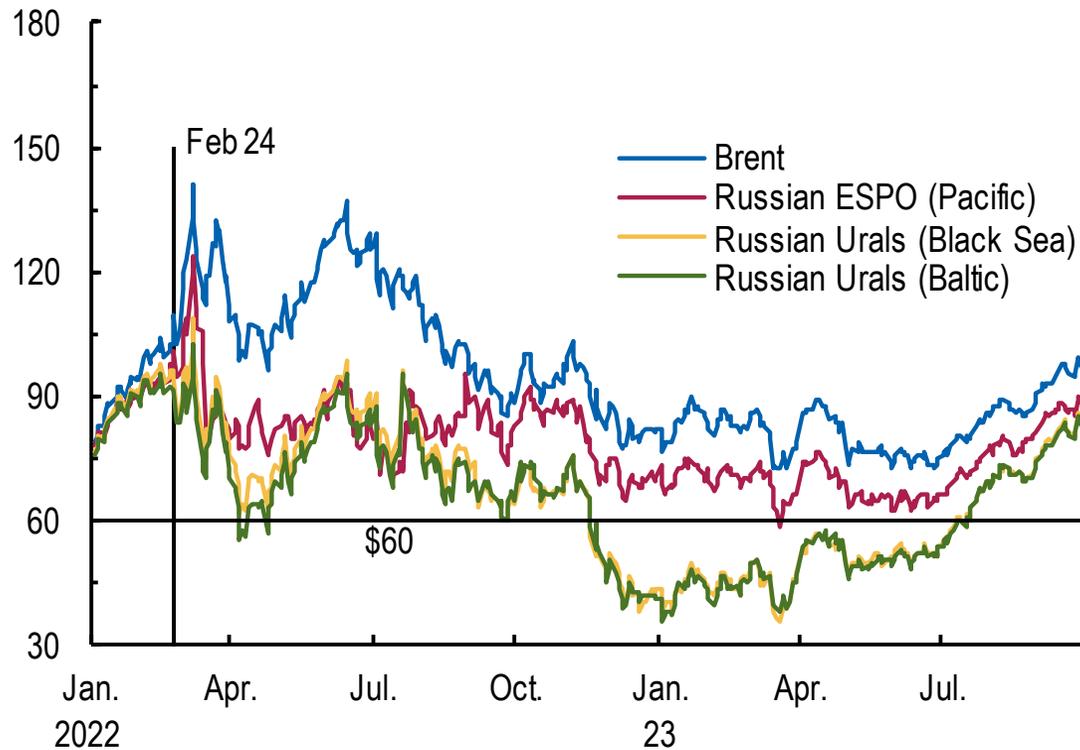
Indicator of Social Unrest

(Percent of economies experiencing major social unrest)

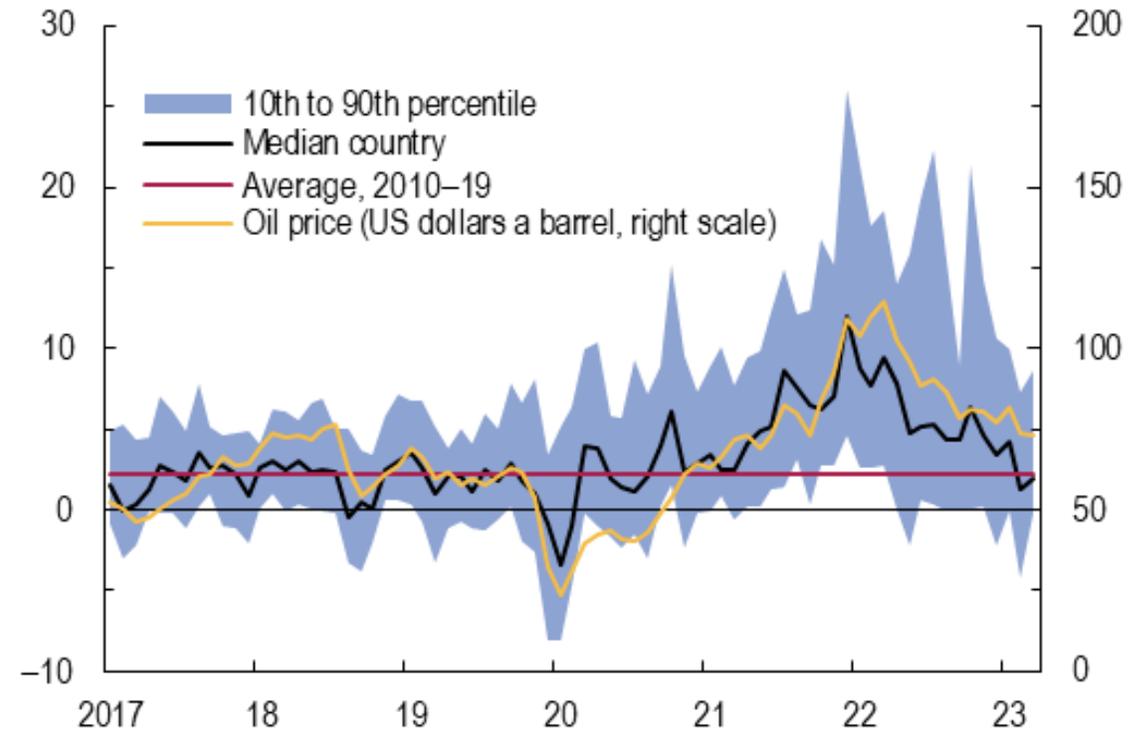


Oil Prices to Put Pressure on Headline Inflation ?

Rising Oil prices
(US dollars a barrel)



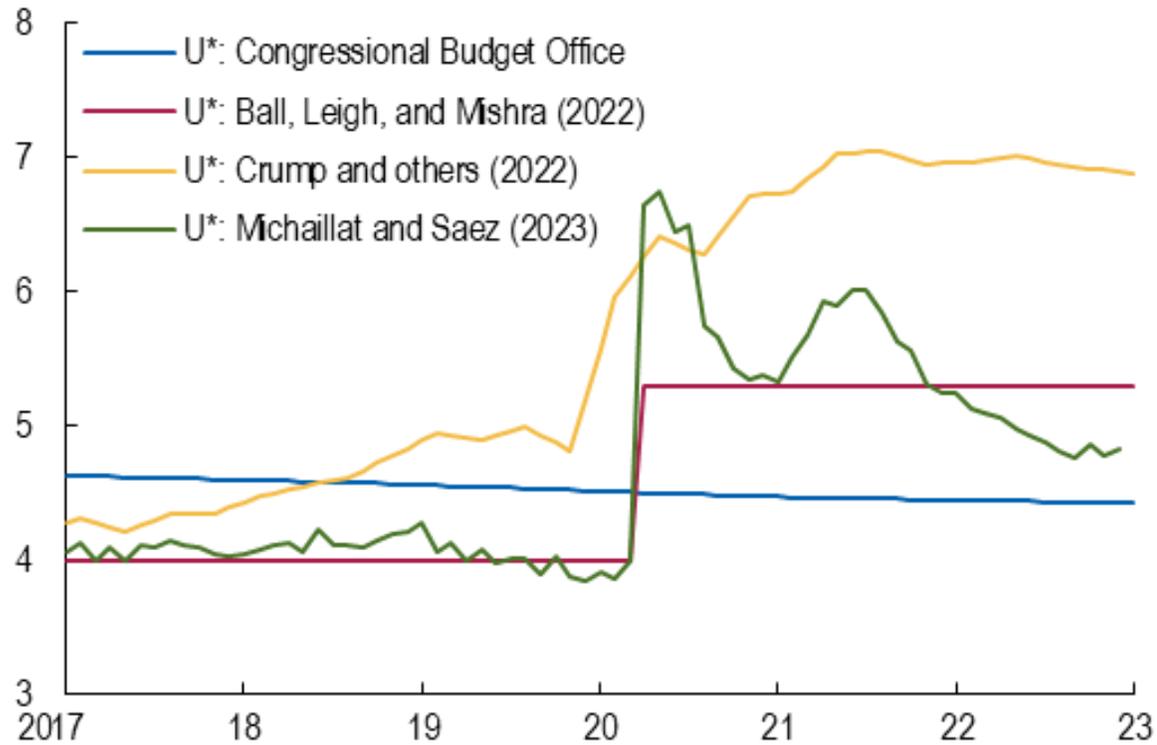
Oil price and headline inflation
(M-o-M percent change, seasonally adjusted)



Policy priorities: from disinflation to sustained growth

Monetary and Financial Policies: Ensuring Price and Financial Stability

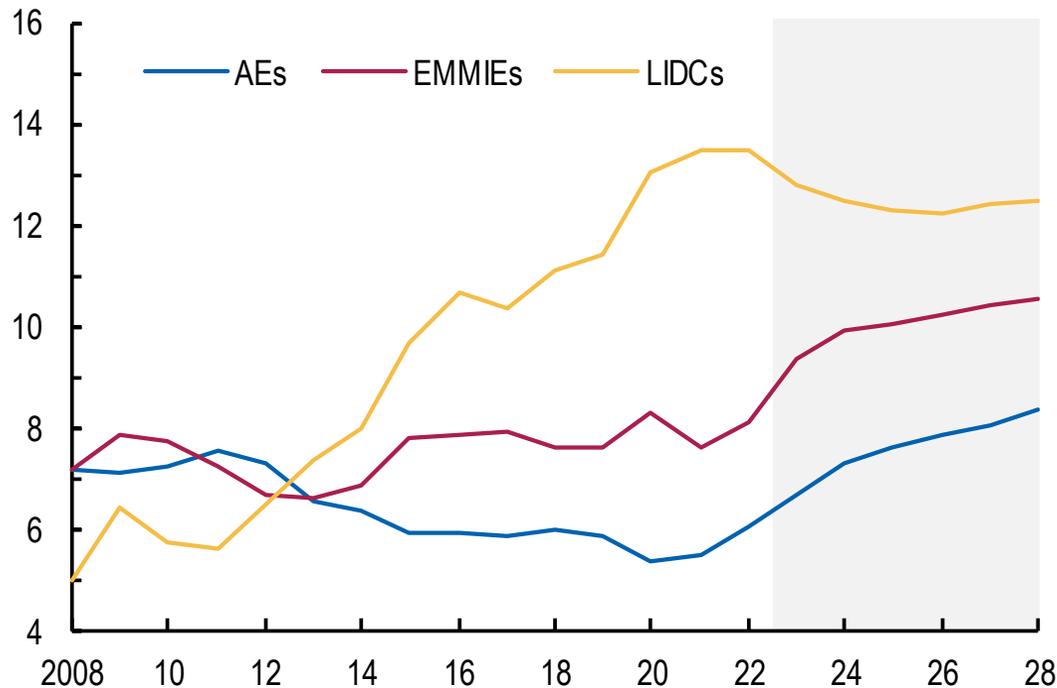
Uncertainty on US natural rate of unemployment (Percent)



- **Given sticky core inflation, avoid premature easing**
 - Stay data-dependent amid high uncertainty (natural rates, lags, effects)
 - If inflation elevated and persistent: $r > r^*$; if inflation rapidly cooling and in sight of target, gradually move r to r^* may be warranted; if inflation is consistently below target: $r < r^*$
 - Communicate clearly on objectives and responses to safeguard credibility and minimize sacrifice ratio (chapter 2)
- **Safeguard financial stability**
 - Contain financial stress with proper tools
 - Monitor financial risks in banks, NBFIs and real estate sectors
 - Address governance, risk management practices and supervisory gaps

Fiscal Policy Normalization

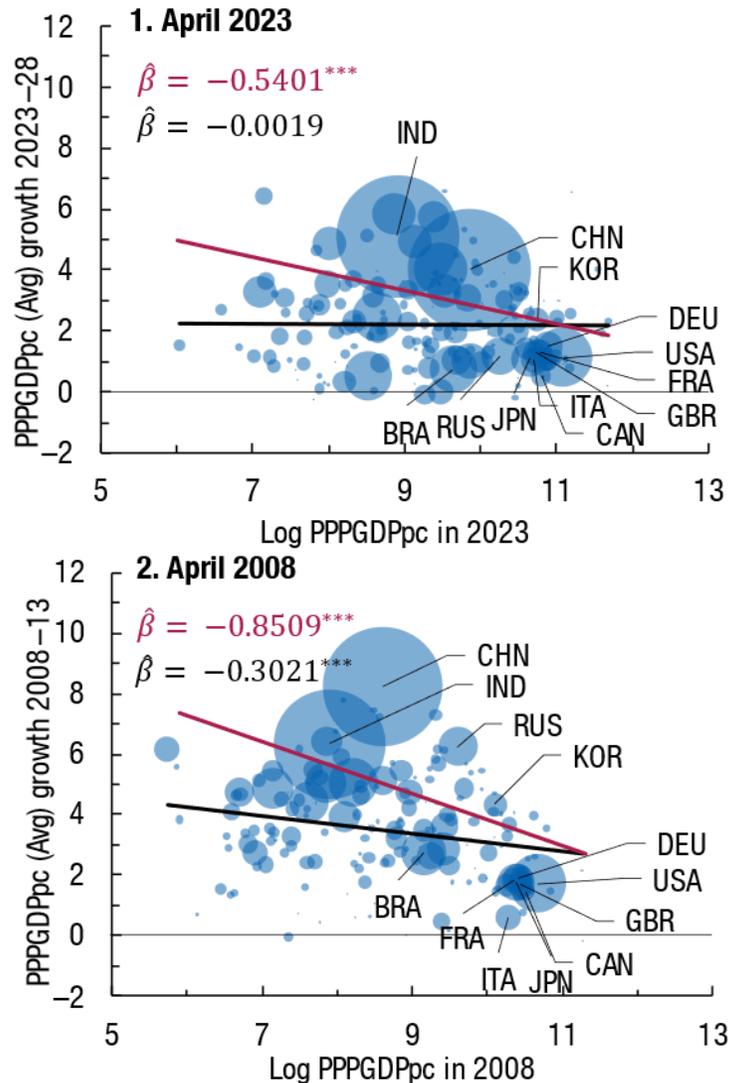
Increasing Interest Rate Cost of Debt (Percent of general government revenues)



- **Normalize fiscal policy**
 - Tightening needed to support monetary policy & restore debt sustainability and buffers
 - Rebuild buffers by improving spending/boosting revenues
 - With shocks: let automatic stabilizers operate and provide temporary support if fiscal space
- **Protect the vulnerable through targeted support**
- **Accelerate coordinated restructuring where necessary (Chapter 3 WEO April 2023)**

Preventing Growing Global Divergences

Medium-Term Growth and Income Convergence



- **Strengthen multilateral cooperation to avoid increasing fragmentation**
- **Intensify macrostructural reforms to boost long-term growth**
 - Prioritize and bundle reforms that alleviate the largest impediment to economic activity – such as governance, business regulations, external sector
 - Mitigate potential adverse effects of reforms through redistribution and regulation to maximize buy-in
 - Industrial policies only where market failures are well established and if consistent with WTO

Policy Priorities with Near-Term Impact

- **Durably restoring price stability**
 - Return inflation to target (critical to safeguard credibility of central banks)
 - Navigate exceptional uncertainty: requires constant reassessment of monetary policy stance
 - Coordinate fiscal and monetary policy: refrain from fiscal expansion in overheated economies
- **Safeguarding macro-financial stability: financial and external policies**
 - Implement Basel III and remove forbearance measures
 - Monitor financial risks in banks, NBFIs and real estate sector
 - Address governance, risk management practices and supervisory gaps
 - Where market strains emerge, deploy tools that provide liquidity while avoiding moral hazard
 - If imminent outflow crisis: consider combining targeted FXI and CFM. Don't substitute needed macro adjustment
- **Normalizing fiscal policy with an eye on the vulnerable and accelerate restructuring where necessary to avoid debt distress**
- **Improving food security through strengthened rules-based framework**
- **Enhancing labor supply to boost growth and ease disinflation process**

Policy Priorities with Medium–Term Payoffs

- **Intensifying macrostructural reforms to boost long-term growth**
 - Identify the largest gaps and prioritize and bundle reforms that alleviate the largest impediment to economic activity – such as governance, business regulations, external sector
 - Mitigate potential adverse effects of reforms through regulation and redistribution to max. buy-in
 - Industrial policies only where market failures are well established and if consistent with WTO
- **Speeding the green transition**
 - Carbon pricing and subsidies for low-carbon investment can help make production both greener and more efficient
 - Carbon border-adjustment mechanism can ensure a level playing field and incentivize investment in cleaner production; only if compatible with WTO
 - Green industrial policies have large potential; only if compatible with WTO
 - Establish a “green corridor” to safeguard international flow of critical mineral
- **Strengthening multilateral cooperation is urgently needed to ensure food and energy security, boost productivity growth, fight climate change and regulate potential emerging technologies**