



**ASIA AND PACIFIC
DEPARTMENT**

A Protracted Recovery

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Presentation prepared for
National Stock Exchange of India**

July 2020

Today's Presentation

- IMF June WEO Forecasts: A Protracted Recovery
- Factors Behind A Protracted Recovery
- Policy Recommendations

A deeper contraction and protracted recovery in Asia (relative to April forecast)

Growth projections: Selected Asia

(Percent change from a year earlier)

| |  |  |  |  |  |  |  |  |
|----------------------------|---|---|---|--|---|---|---|---|
| | World | Asia | China | Japan | India | Korea | Australia | ASEAN |
| 2019 | 2.9 | 4.6 | 6.1 | 0.7 | 4.2 | 2.0 | 1.8 | 4.7 |
| 2020 | -4.9 | -1.6 | 1.0 | -5.8 | -4.5 | -2.1 | -4.5 | -2.0 |
| Revision from Apr. 2020 | -2.0 | -1.6 | -0.2 | -0.6 | -6.4 | -0.9 | 2.2 | -1.3 |
| 2021 | 5.4 | 6.6 | 8.2 | 2.4 | 6.0 | 3.0 | 4.0 | 6.1 |
| Revision from Apr. 2020 | -0.4 | -1.0 | -1.0 | -0.6 | -1.4 | -0.4 | -2.1 | -1.3 |

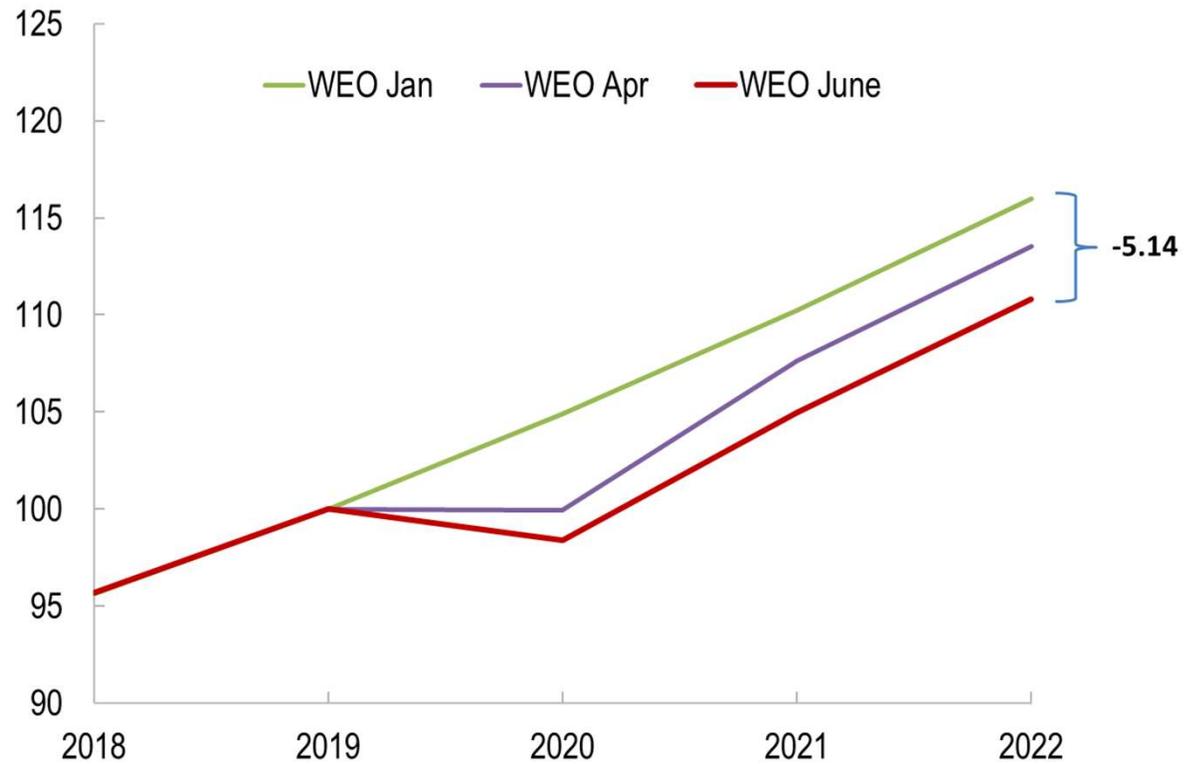
Source: IMF *World Economic Outlook*.

Note: Projections based on June 2020 Vintage of WEO. Figures for India are on a fiscal year basis.

Expect permanent and persistent output losses

Asia Real GDP Forecast (2019=100)

(Index)

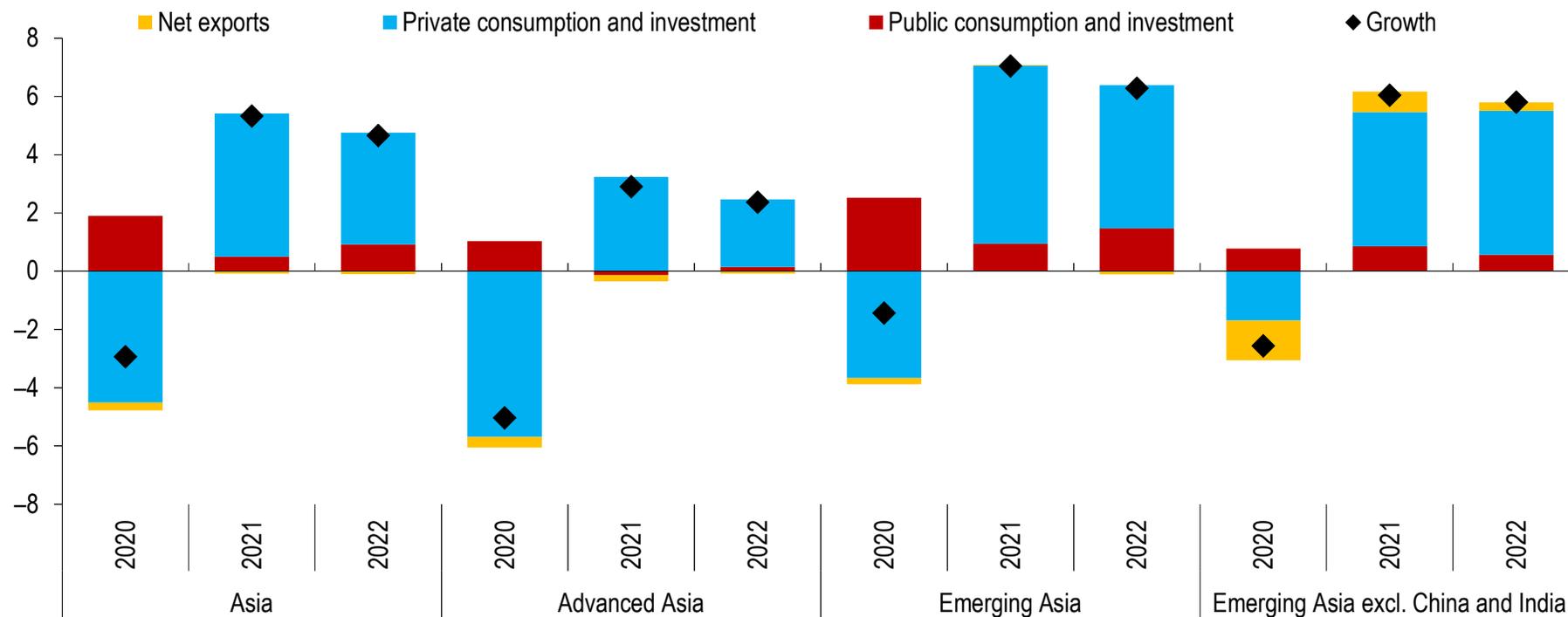


Sources: IMF WEO and staff calculations.

Recovery in domestic demand...too optimistic?

Selected Asia: Contributions to Projected Growth

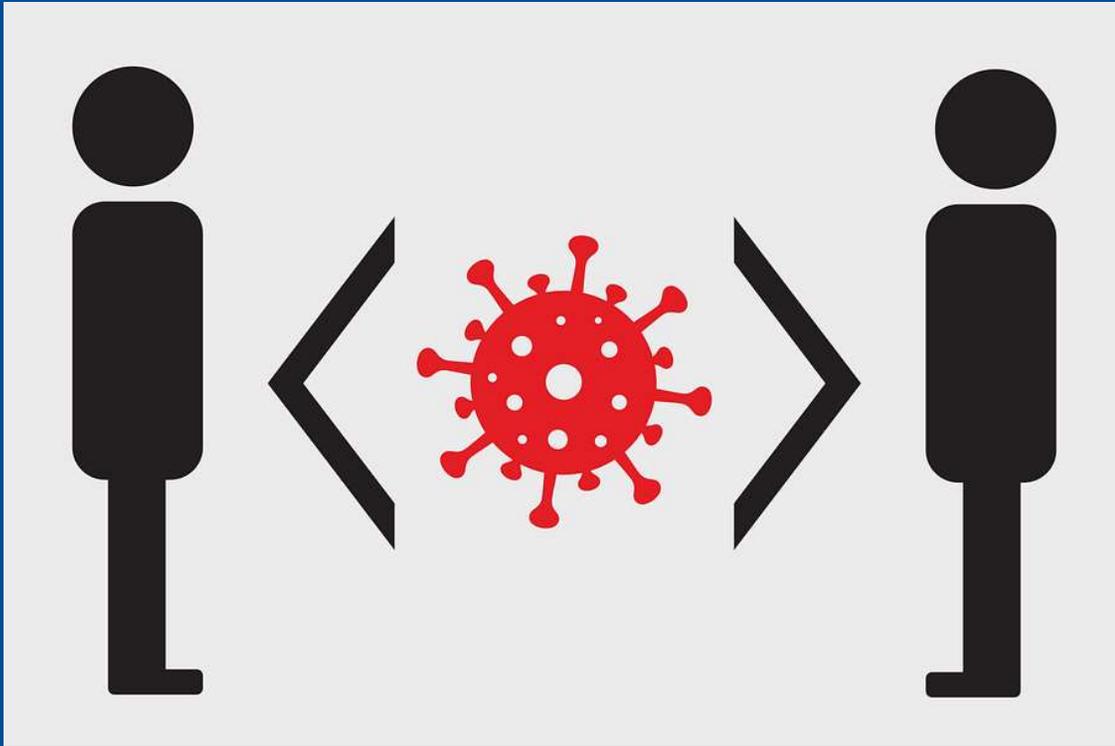
(Percentage points, year-over-year)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Asia includes Australia, China, Hong Kong SAR, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan Province of China, Thailand, and Vietnam.

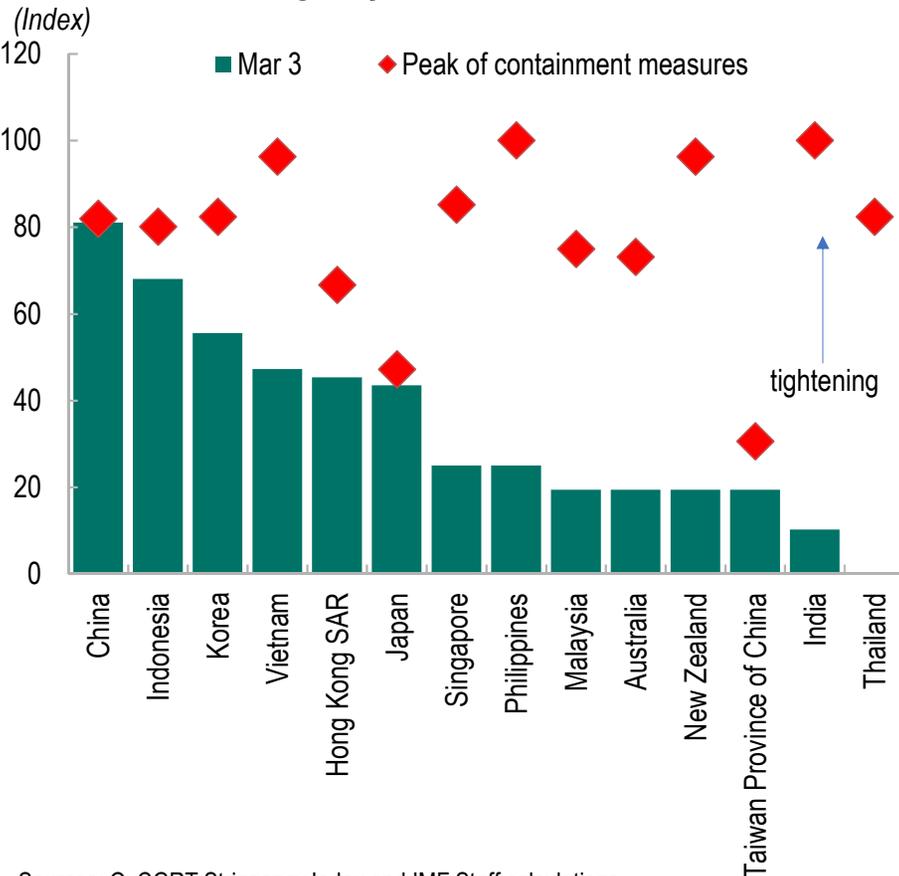
Advanced Asia includes Australia, Hong Kong SAR, Japan, Korea, New Zealand, Singapore, and Taiwan Province of China, while Emerging Asia includes the rest of the economies in this group.



FACTORS BEHIND A PROTRACTED RECOVERY

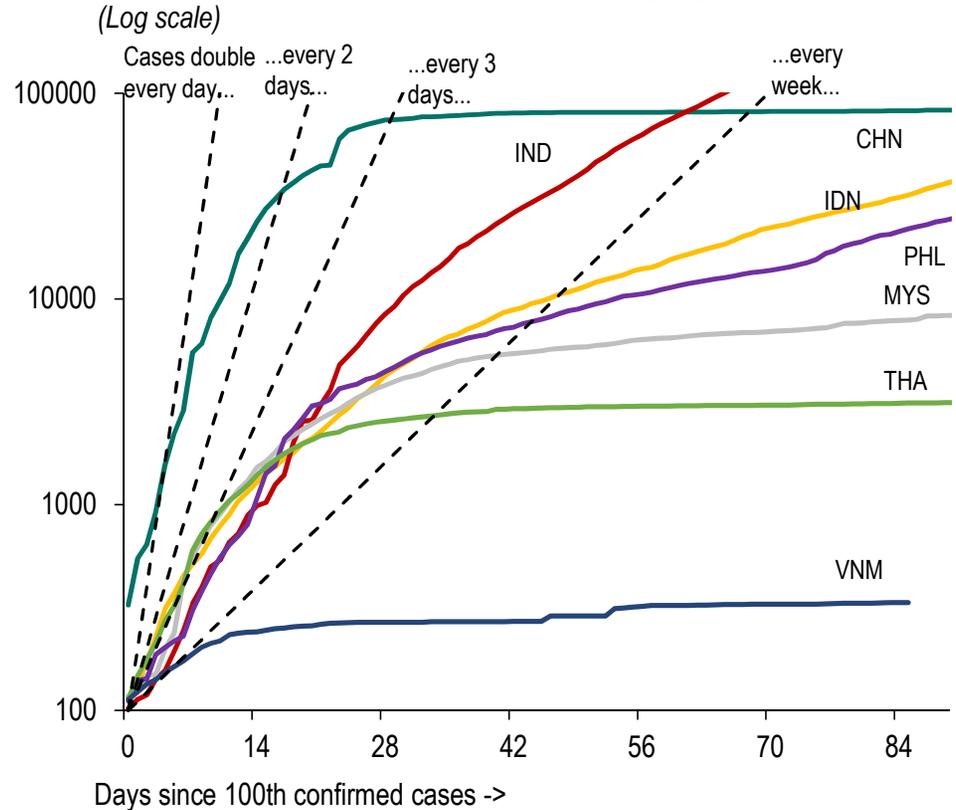
Stringent containment measures will weigh on..

Containment Stringency Index



Sources: OxCGRT Stringency Index and IMF Staff calculations.

Cumulative Confirmed Cases, Emerging Asia

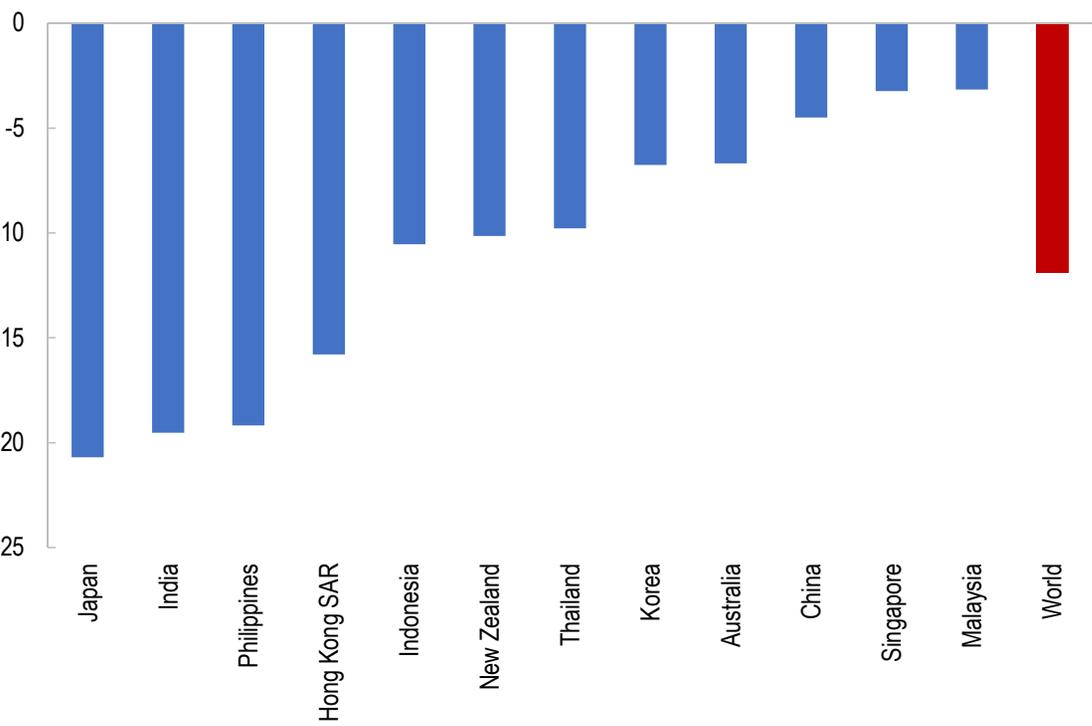


Sources: Johns Hopkins University, and IMF staff calculations.

Slower global growth expected to reduce export demand

Anticipated Decline in Export and Import, 2020

(Percent)

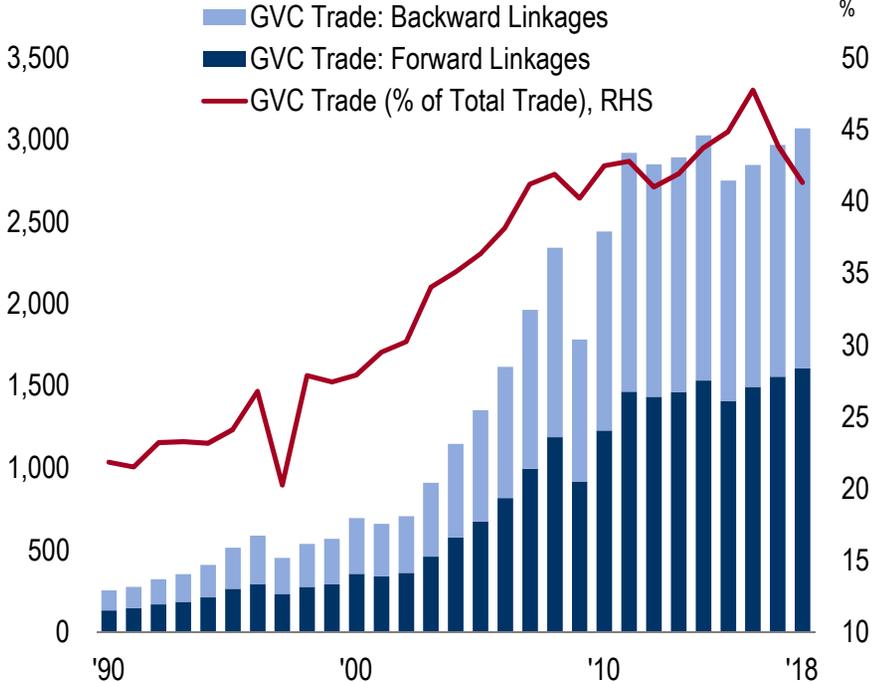


Sources: WEO and staff calculations.

Note: Calculated as the average of import and export volume percent change.

Asia: GVC Participation

(In billions of USD)

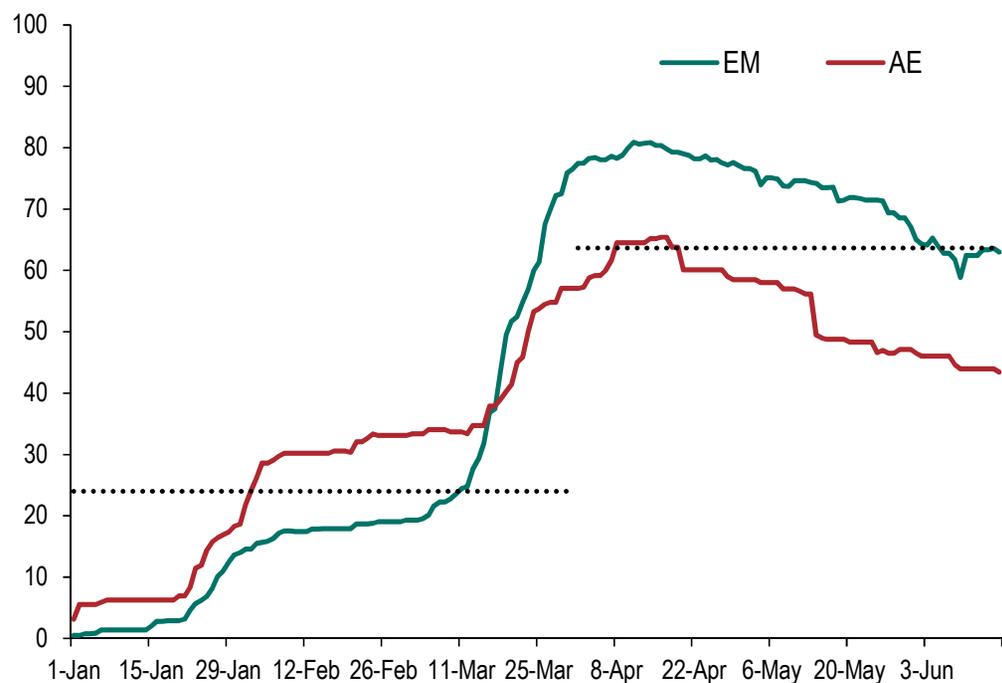


Source: Haver Analytics, IMF Staff Calculations.

Note: Asia refers to China, Hong Kong SAR, India, Japan, Korea, Singapore, Malaysia, Thailand, Indonesia, Philippines and Vietnam.

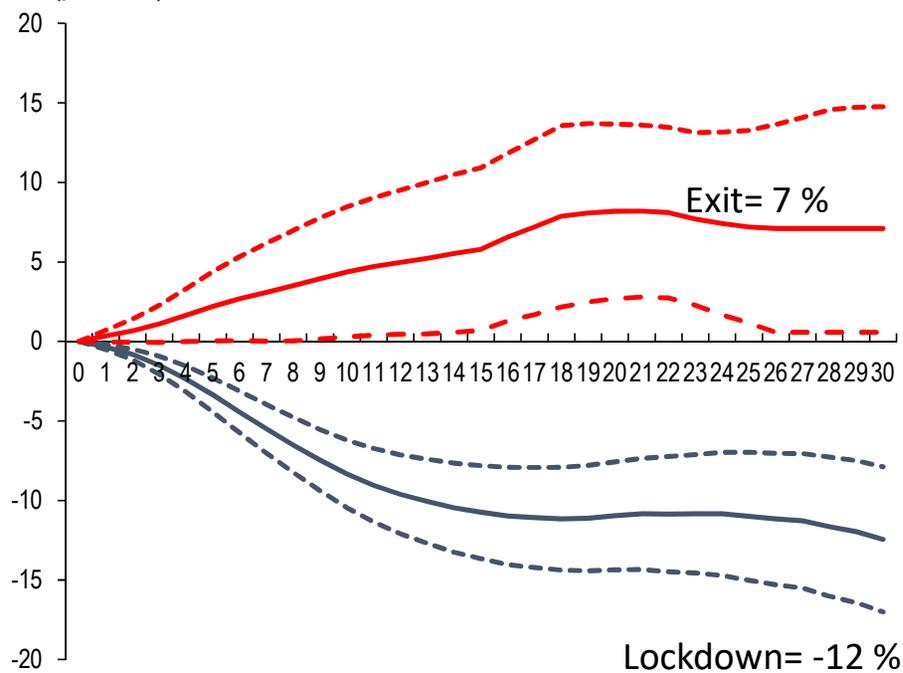
Longer-than-expected lockdowns and slow recovery after exits

Stringency of Containment Measures, Asia
(0-100, 100=strictest)



Sources: OxCGRT, and IMF staff calculations.

Impact of lockdown and exit on Industrial production
(percent)



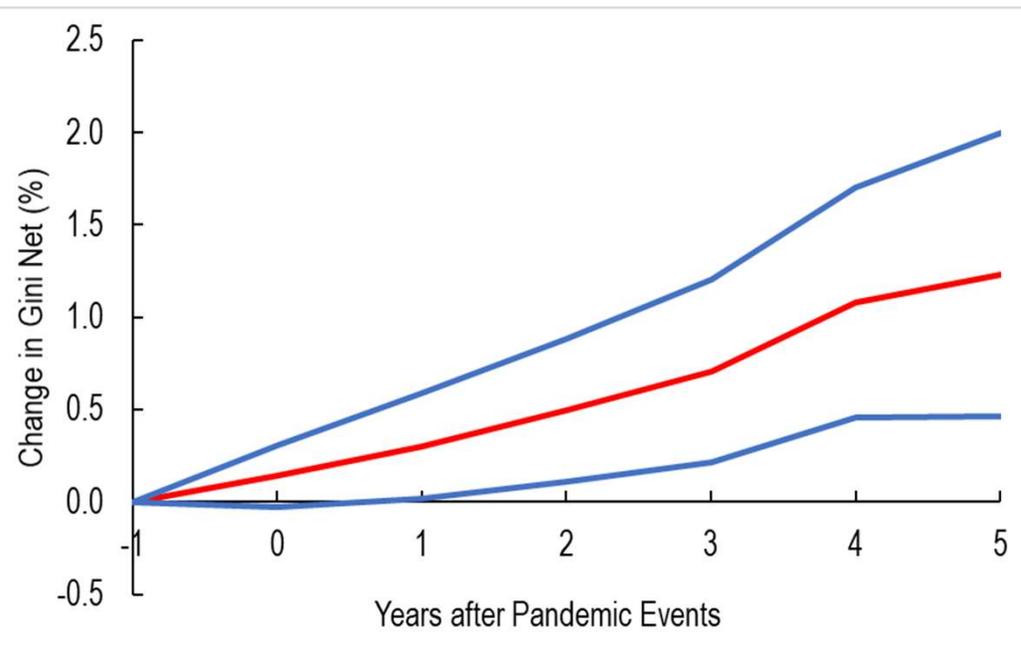
Note: x-axis reports days after the implementation (removal) of containment measures
Sources: Deb, Furceri, Ostry, and Tawk (2020b)

Rising inequality and informality: a combustible mix

Average response net Gini to a pandemic for 175 countries

1961-2017

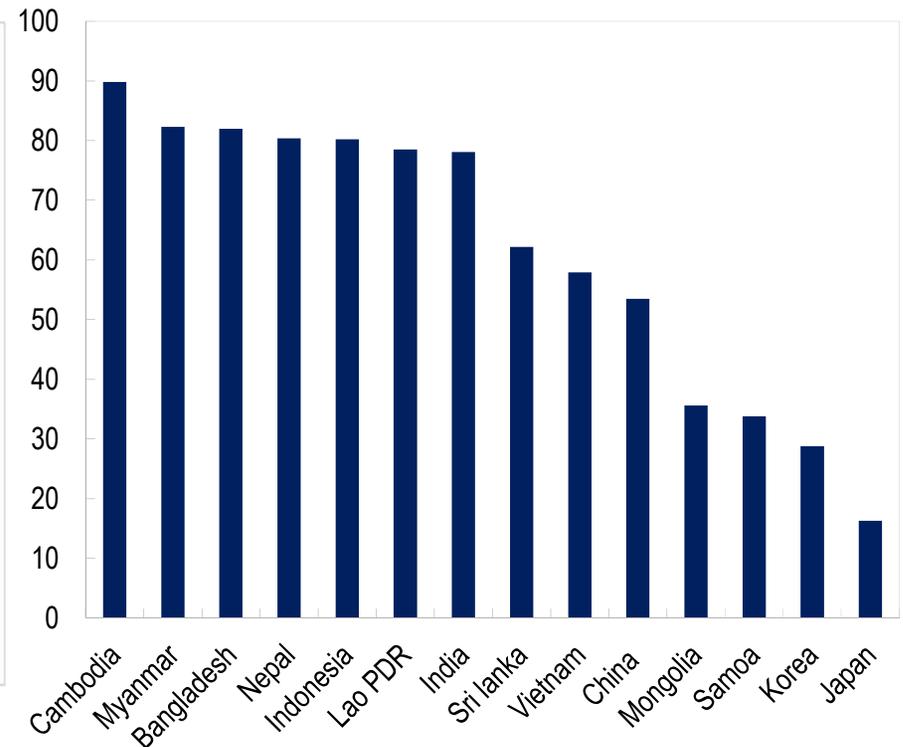
(Change in Gini net, percent)



Source: Furceri, Loungani, Ostry and Pizzuto (2020)

Informal Employment in Select Asian Countries

(Latest year, percentage of total non-farm employment)

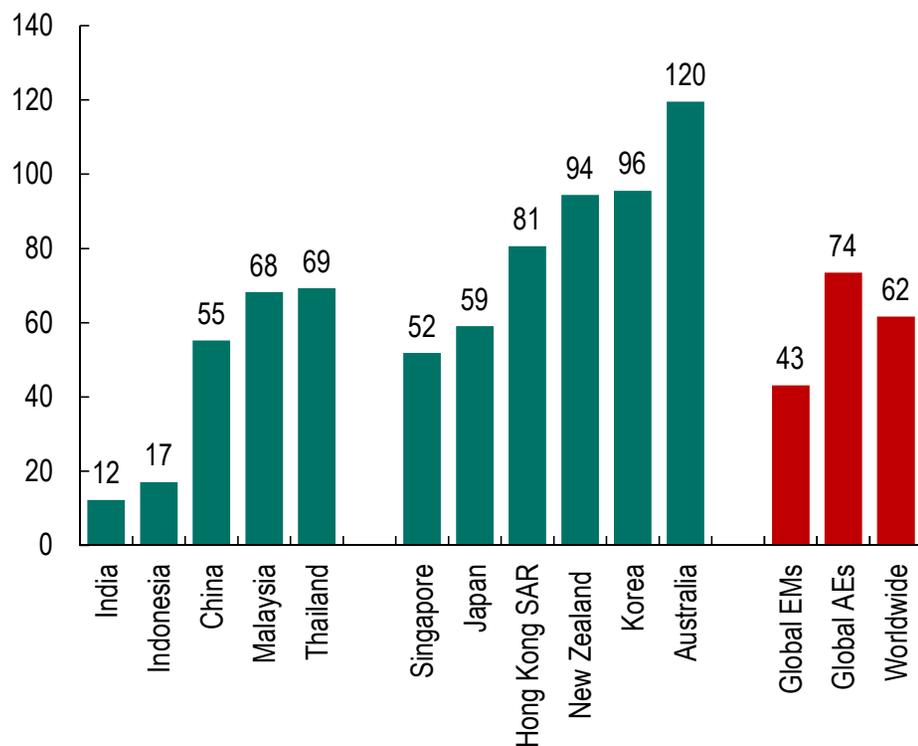


Sources: Women and men in the informal economy: a statistical picture, ILO, 2018

High leverage likely to weigh on domestic demand

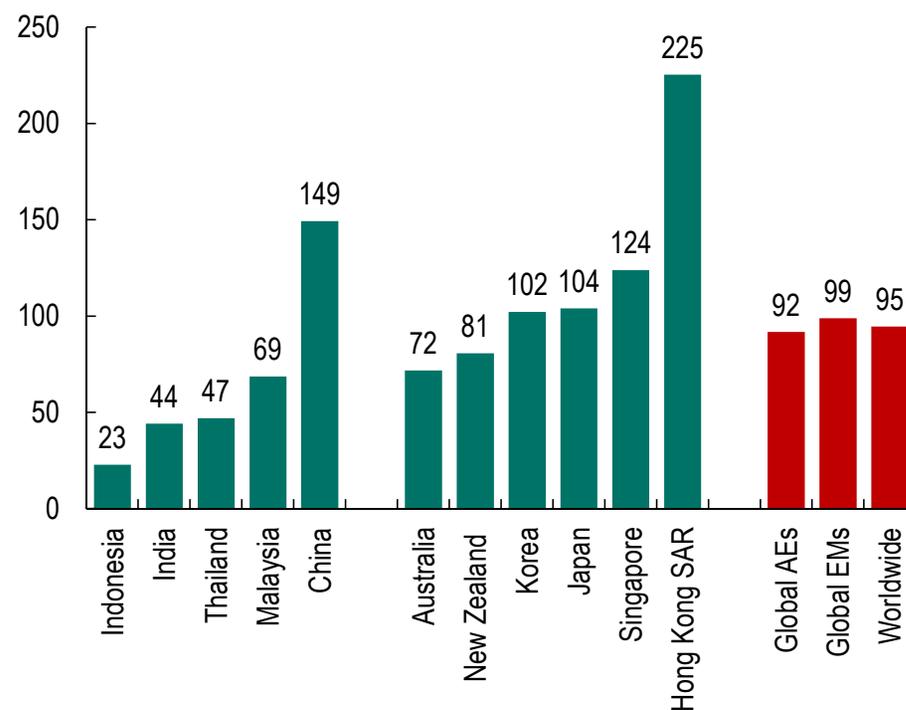
Households Credit

(Percent of GDP)



Non-Financial Corporations Credit

(Percent of GDP)

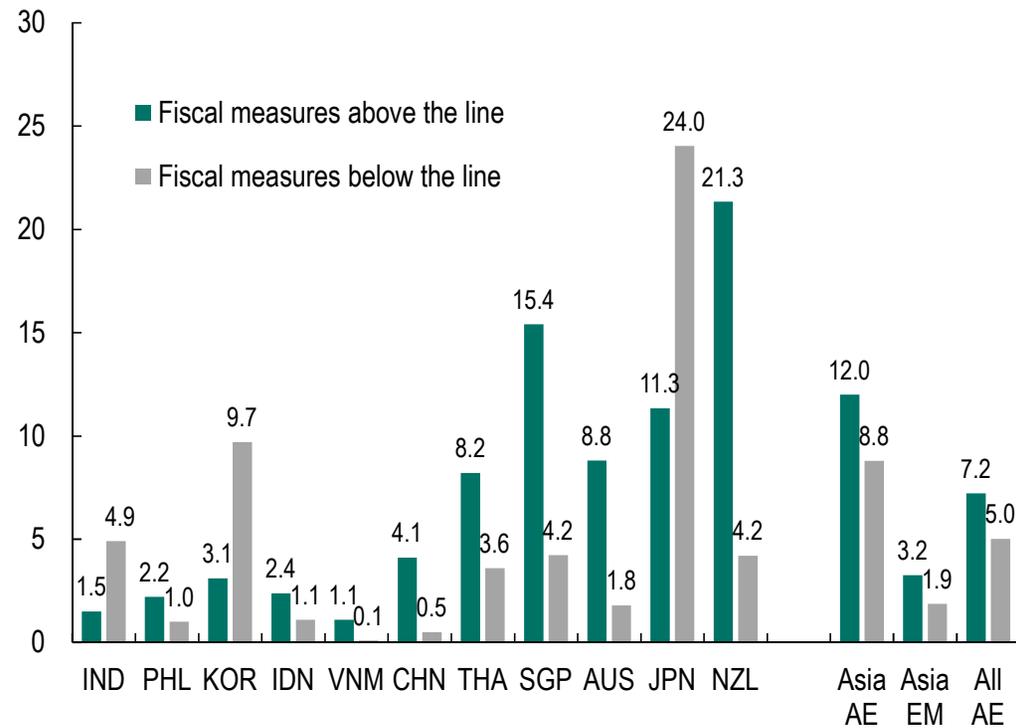


Note: Data as of 2019Q4. Total credit to the private nonfinancial sector is estimated based on the sum of the stock of loans from all series, domestic and foreign, to non-financial corporations, households and non-profit institutions serving households, plus the debt securities issued by non-financial corporations.

Source: BIS.

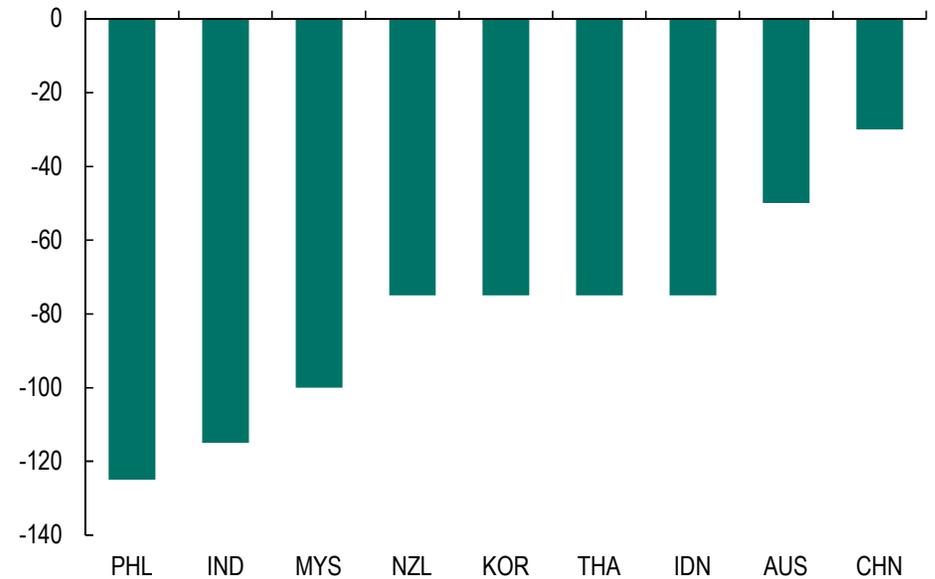
Substantial policy support, but ...

Fiscal Measures
(percent of GDP)



Sources: IMF Policy Tracker, WEO, and IMF staff calculations

Policy Rate Cut
(basis points)



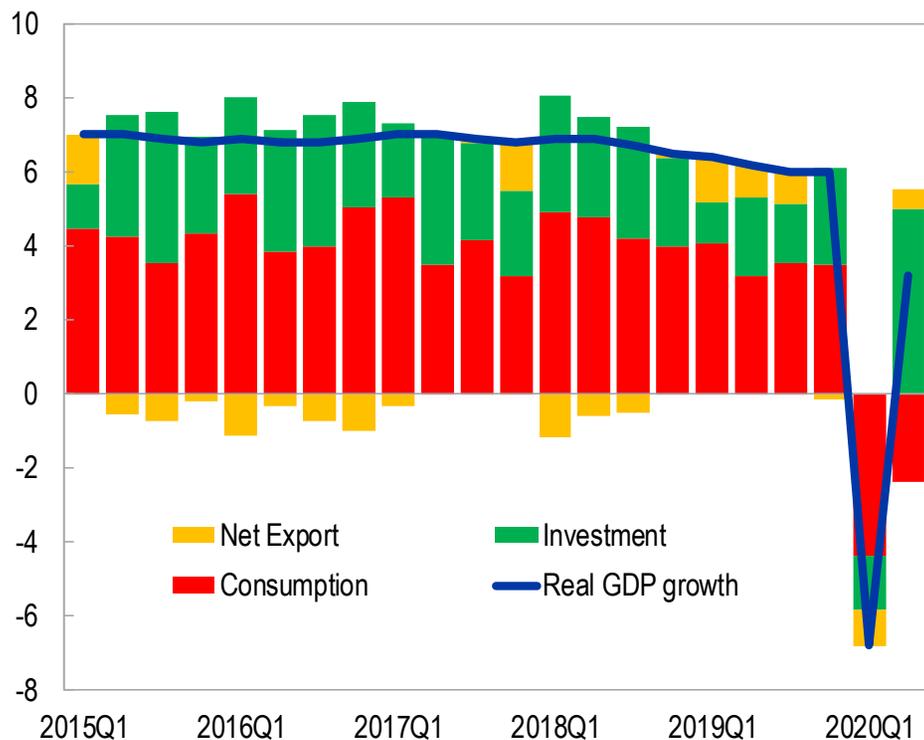
Note: In addition, the Reserve Bank of India lowered the reverse repo by 145 bps and several Asian central banks have adopted unconventional monetary policy measures.

Sources: IMF Policy Tracker

China's recovery is on the way — but it is uneven...

China: Contribution to Real GDP Growth

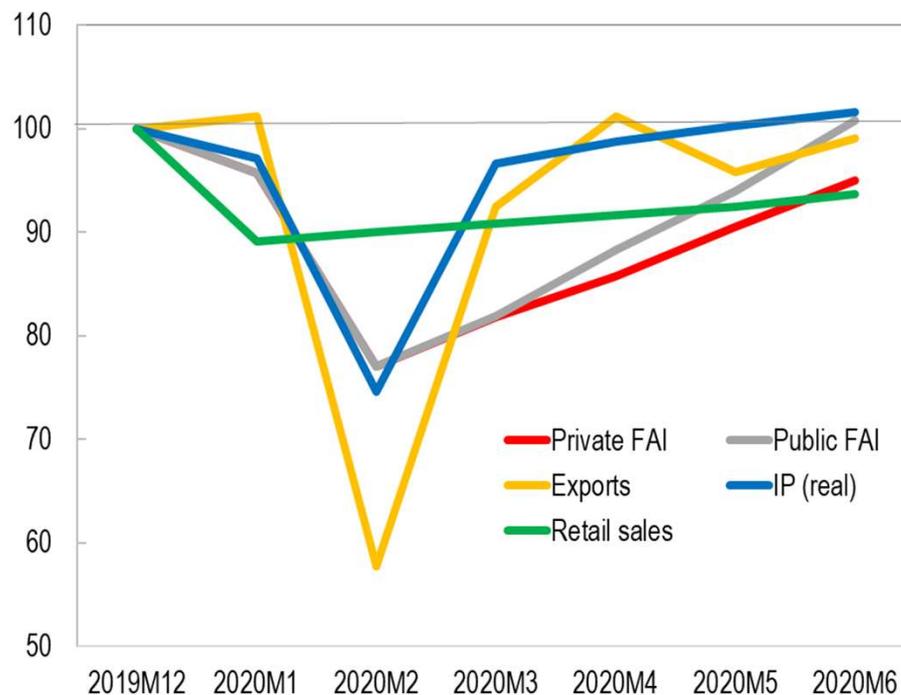
(In percent, yoy)



Source: CEIC and IMF Staff Calculation

China: High Frequency Indicators

(Index, 2019M12=100)



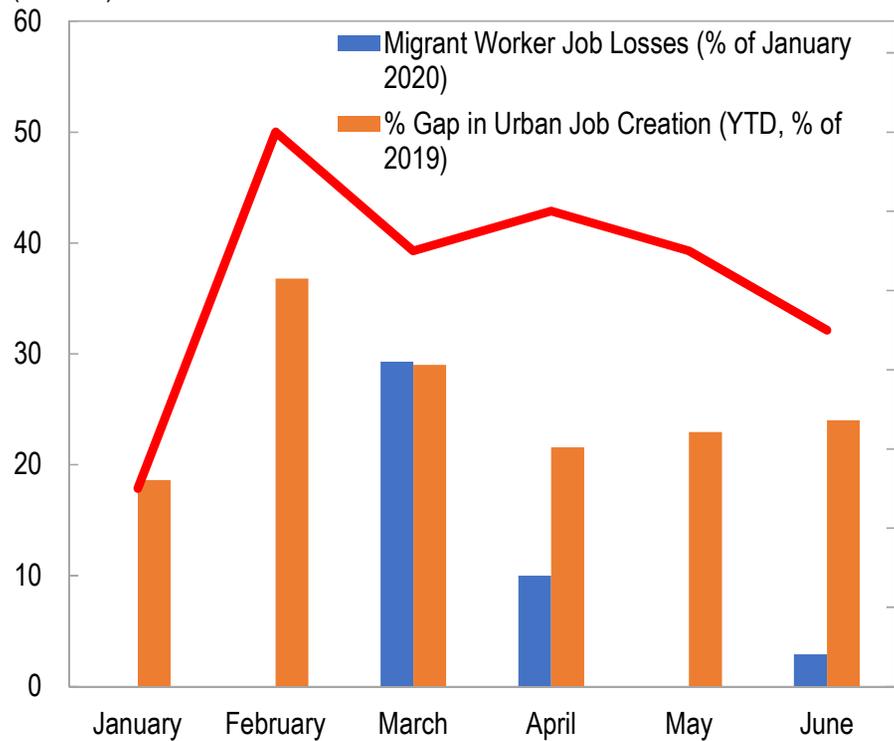
Source: CEIC and IMF staff calculation

Note: January and February numbers of private FAI, public FAI, and exports are estimated; all series are seasonally adjusted; except IP, all series are nominal term

...and there are significant downside risks

China: Unemployment and Employment Gaps

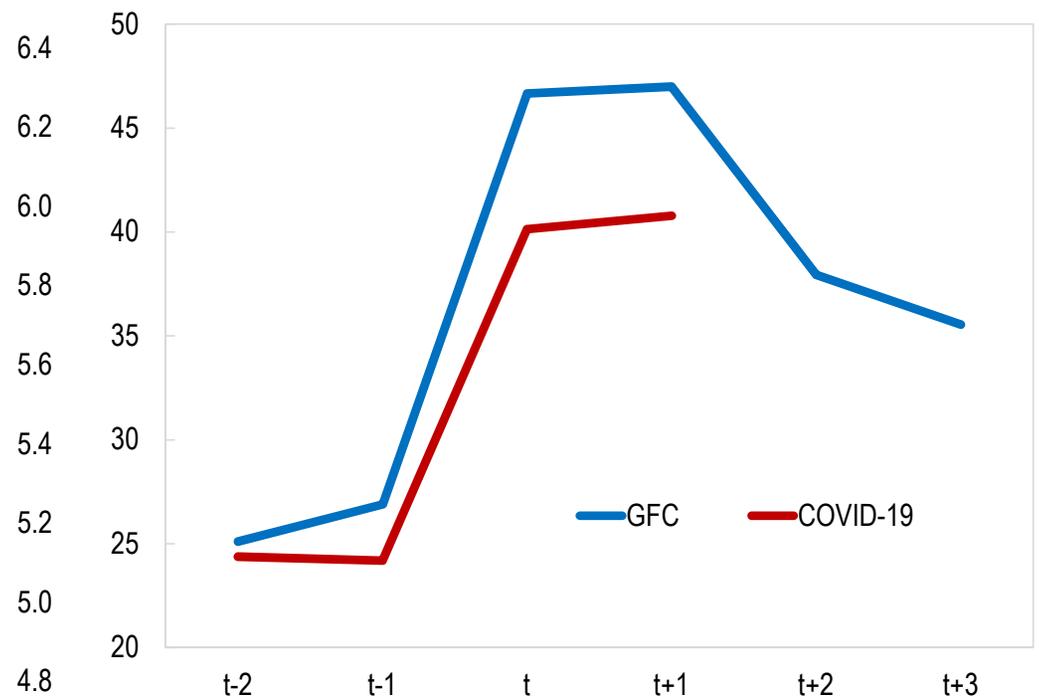
(Percent)



Source: National Bureau of Statistics of China, and IMF staff calculations

New Credit Flows-to-GDP ratio

(Percent of GDP)



Note: t = 2009Q1 for GFC and 2020Q1 for COVID-19. GDP is 4Q MA, and credit flow is the flow of total social financing.

Sources: People's Bank of China and IMF staff calculations.



POLICY RECOMMENDATIONS AND IMF SUPPORT

Better balance between stimulus and deeper reforms

Close monetary-fiscal policy collaboration

- Continued central bank support (forward guidance, asset purchase)
- Use central bank balance sheets flexibly, transparently when fiscal needs large
- CFMs may be needed where there are external stability pressures

Improved new normal in post-lockdown

- Contain outbreak: public health and micro-level measures, sequenced conditional approach
- Greener, smarter, more inclusive policies

Rebalance fiscal support and manage high debt

- Gradually unwind targeted support as recovery gets under way
- Balance short-term stimulus with credible commitment to medium term consolidation

Better safety nets with more flexible product and labor markets

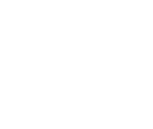
- Strengthen social safety nets, health care systems and reduce informality
- More flexible labor and product markets in exchange
- Ease obstacles for labor market reallocation (e.g., hiring subsidies, training)

Ensure sound financial system to support recovery

- Continued support for financial markets and institutions
- Resources for capital buffers, workouts, efficient bankruptcy/ insolvency regimes
- Address underlying weaknesses

Main Messages

- Asia is in different stages of the pandemic with different degrees of policy space
- Protracted recovery is more likely
- Those that still need more stimulus to fight the pandemic may run into policy space constraints and need to be creative
- Others should stand ready to do more if needed but guard against building up vulnerabilities
- All need to accelerate structural reforms to adapt to the new post-virus environment and address policy gaps exposed by the pandemic



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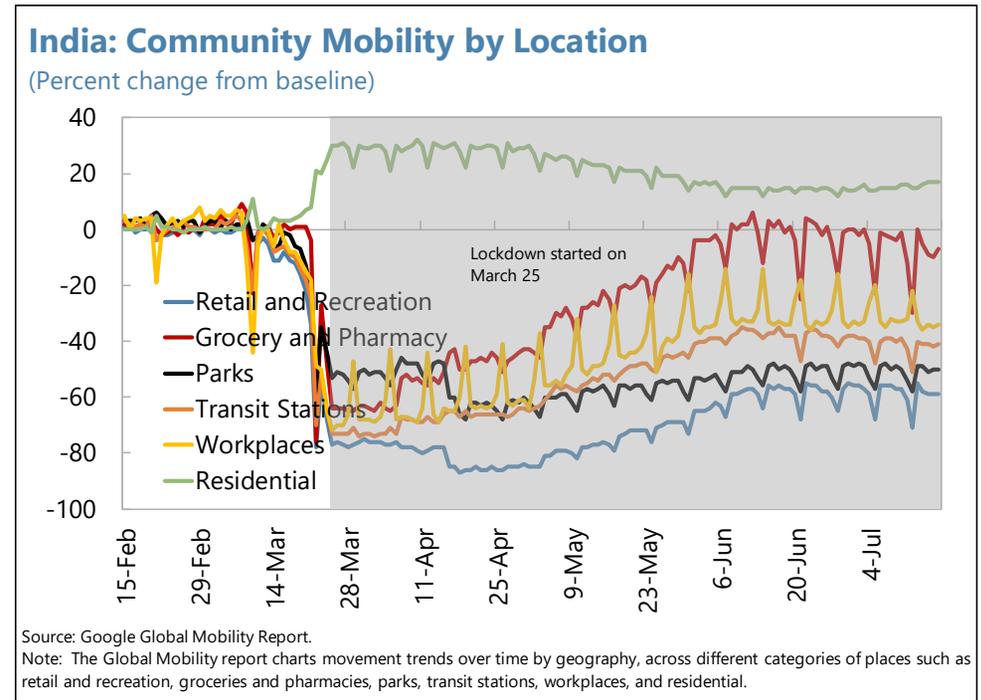
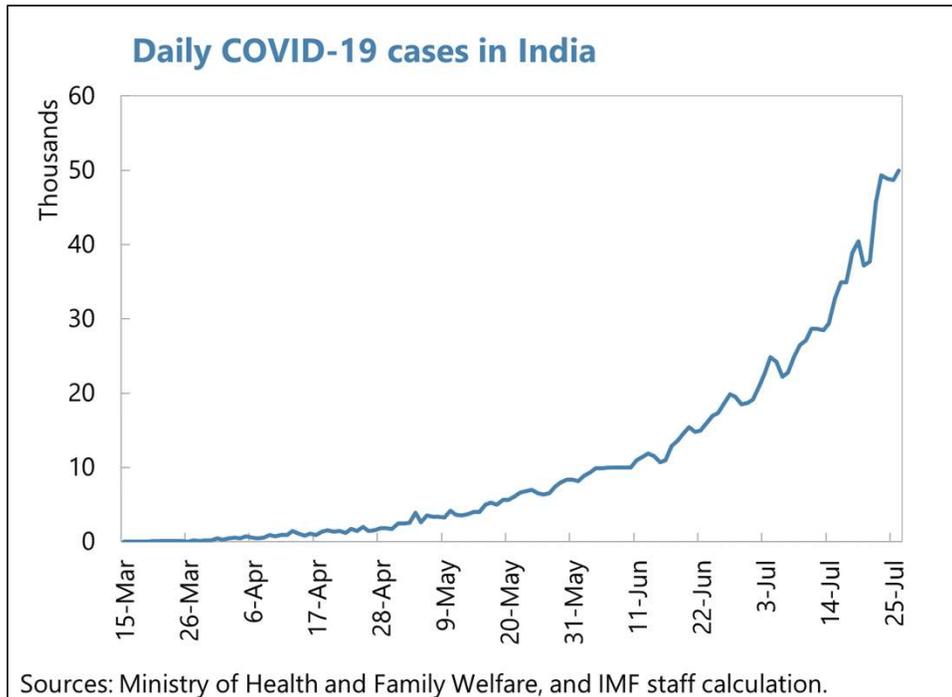
COVID Impact on India

**Ranil Salgado
India Mission Chief, IMF
Presentation prepared for
National Stock Exchange of India**

July 2020

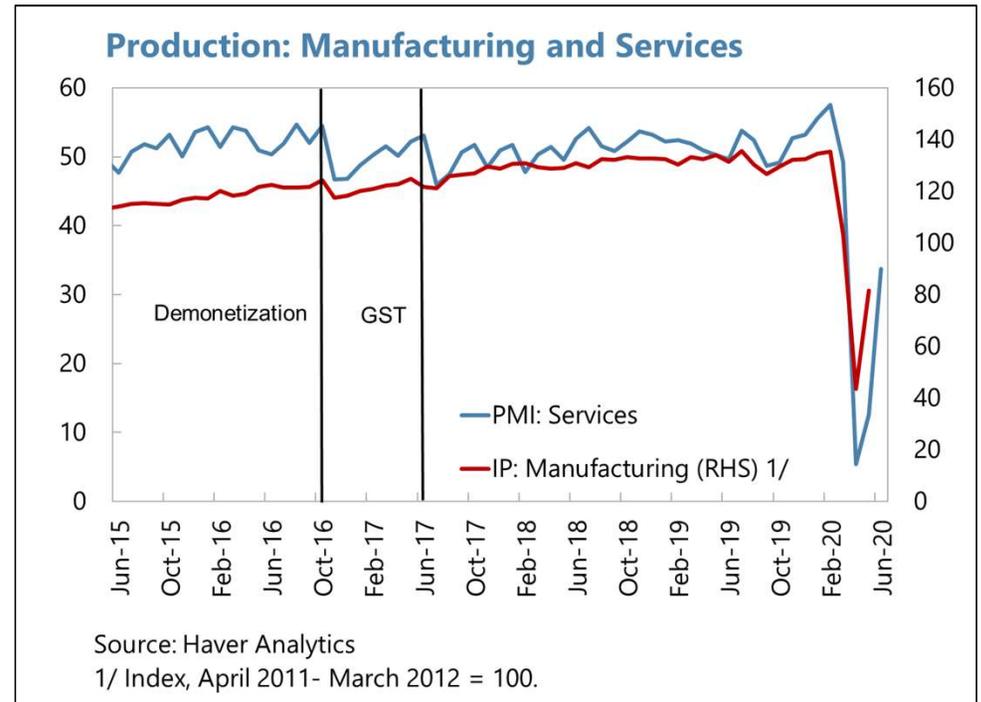
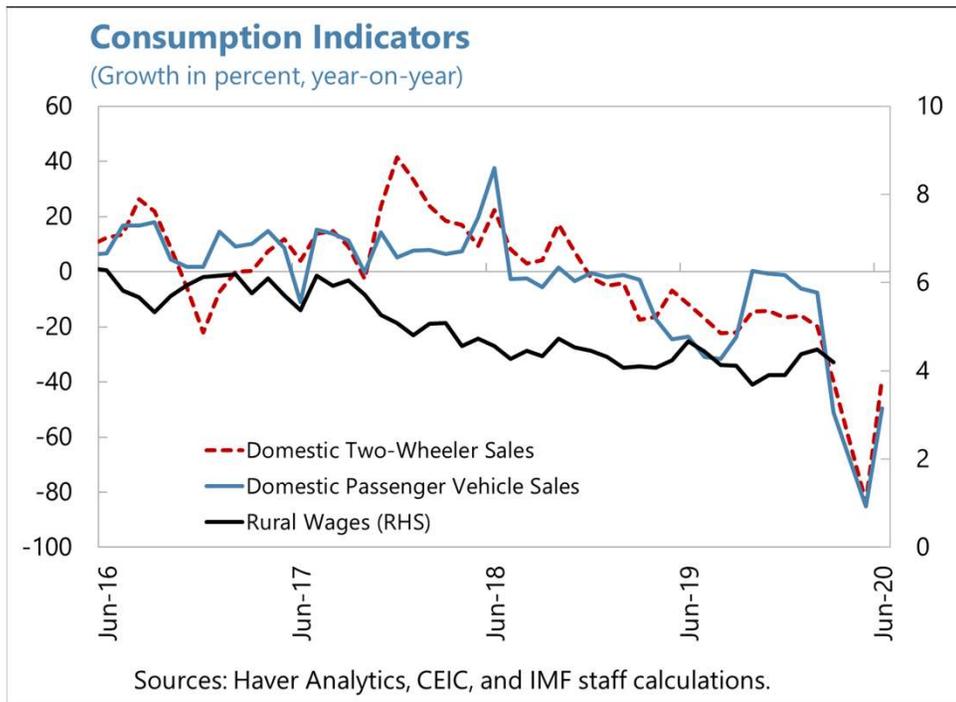


Rising Covid-19 Cases Despite Lockdown





Weak Consumption and PMIs

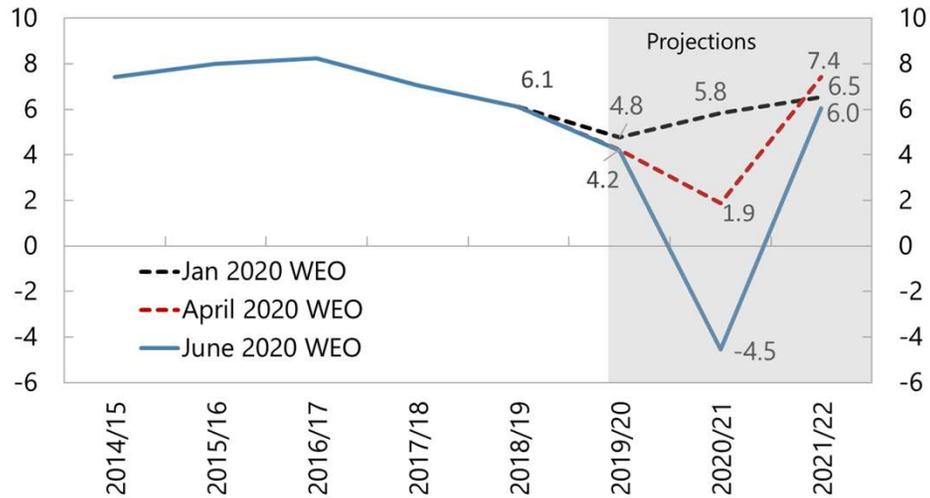




Sizable Downward Revision in GDP Growth

India: Real GDP Growth

(In percent, year-on-year)

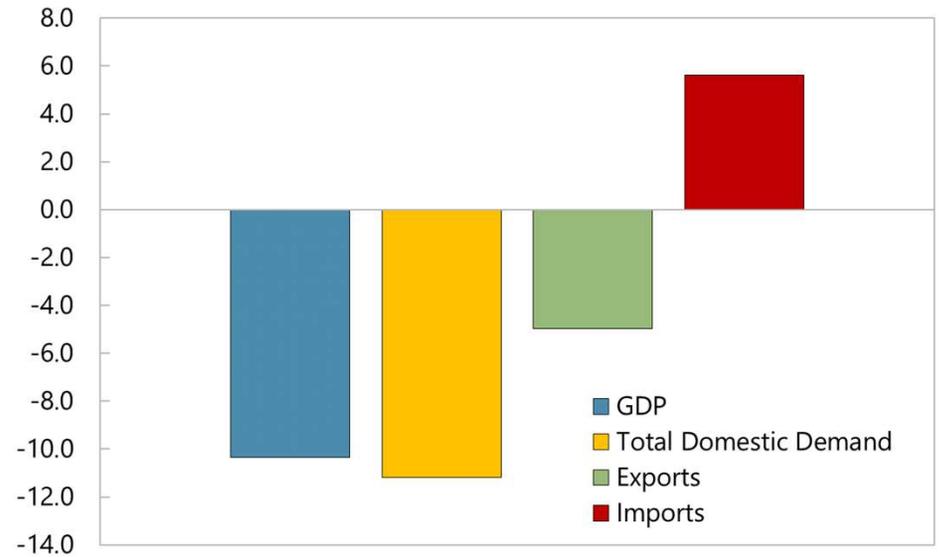


Source: IMF, *World Economic Outlook*.

Note: In Jan and April WEO, data for 2019/20 was projected, but as of June WEO, data is provisional estimate.

India: Contributions to FY2020/21 GDP Growth Revision

(In percent, calculated as June WEO minus Jan WEO)



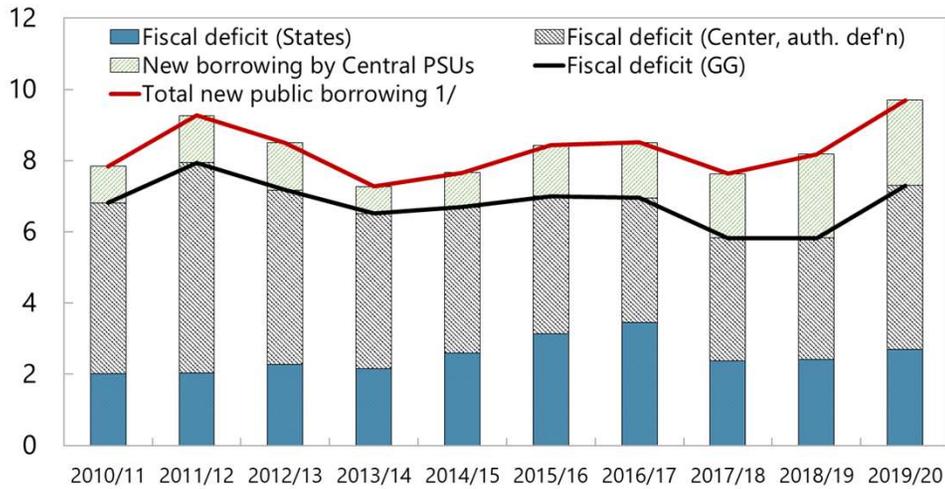
Source: IMF, *World Economic Outlook*.



Accommodative Fiscal Policy Amidst Limited Fiscal Space

India: New Public Borrowing Requirements

(In percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.

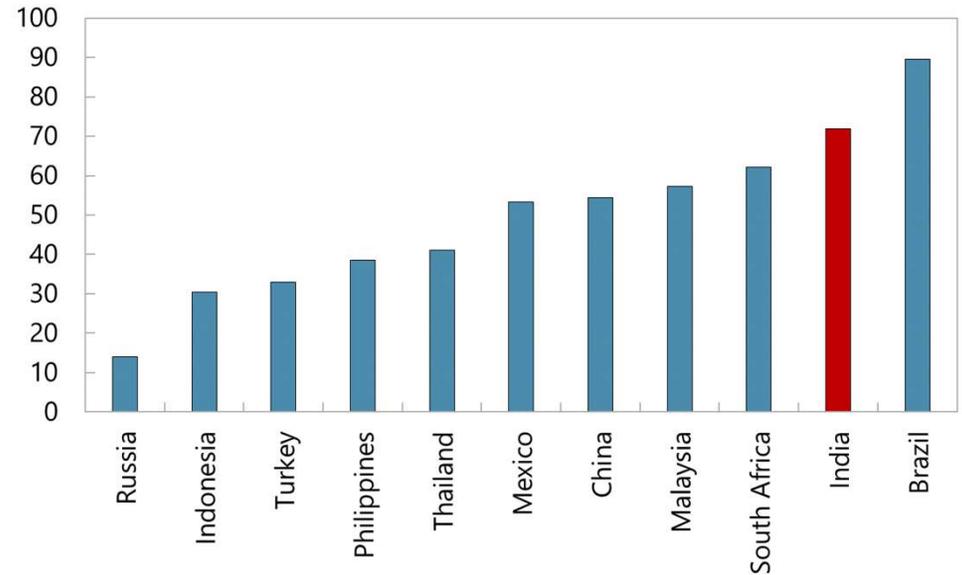
1/ Excludes borrowing by state public corporations and debt-rollover requirements.

2/ Based on actual data for central government deficit, and staff estimates for state deficit and new PSU borrowing.

Note: PSU = Public Sector Undertaking.

General Government Gross Public Debt

(In percent of GDP, as of 2019)



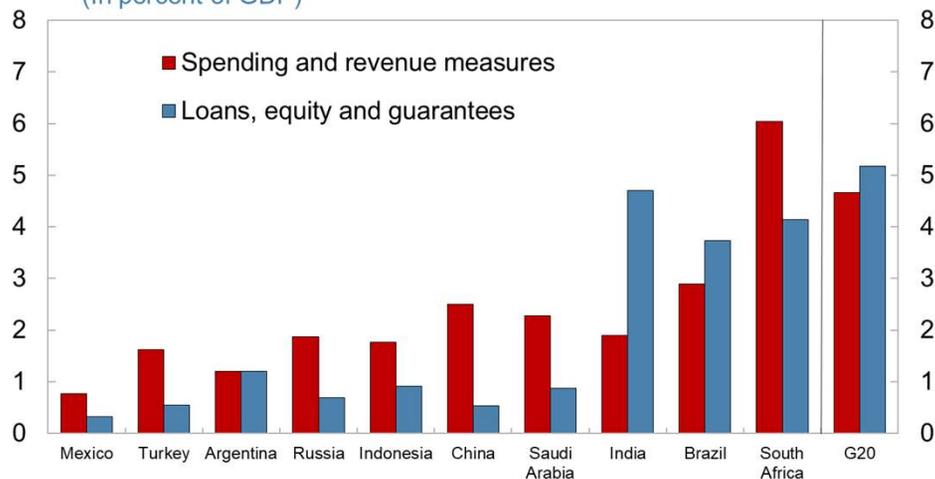
Source: IMF, *World Economic Outlook*.



Large, Mostly Below-the-Line Fiscal Stimulus

Announced Fiscal Measures

(In percent of GDP)



Sources: National Authorities, and IMF staff estimates.

Note: Panel adds below-the-line measures (loans, equity injections) and government guarantees to revenue and expenditure measures adopted in 2020, excluding deferral of taxes and social security contributions to the extent possible. For India, information available as of May 19, 2020 and exclude measures taken by the RBI; for the rest, data as of May 13, 2020.

Fiscal Measures in Response to COVID-19 (share of GDP)

Above-the-line

| | |
|--|------------|
| Healthcare | 0.1 |
| Direct support and employment to vulnerable households | 1.3 |
| Extension of rural employment guarantee | 0.2 |
| Tax measures (reduction in up-front collections) | 0.2 |
| Total | 1.9 |

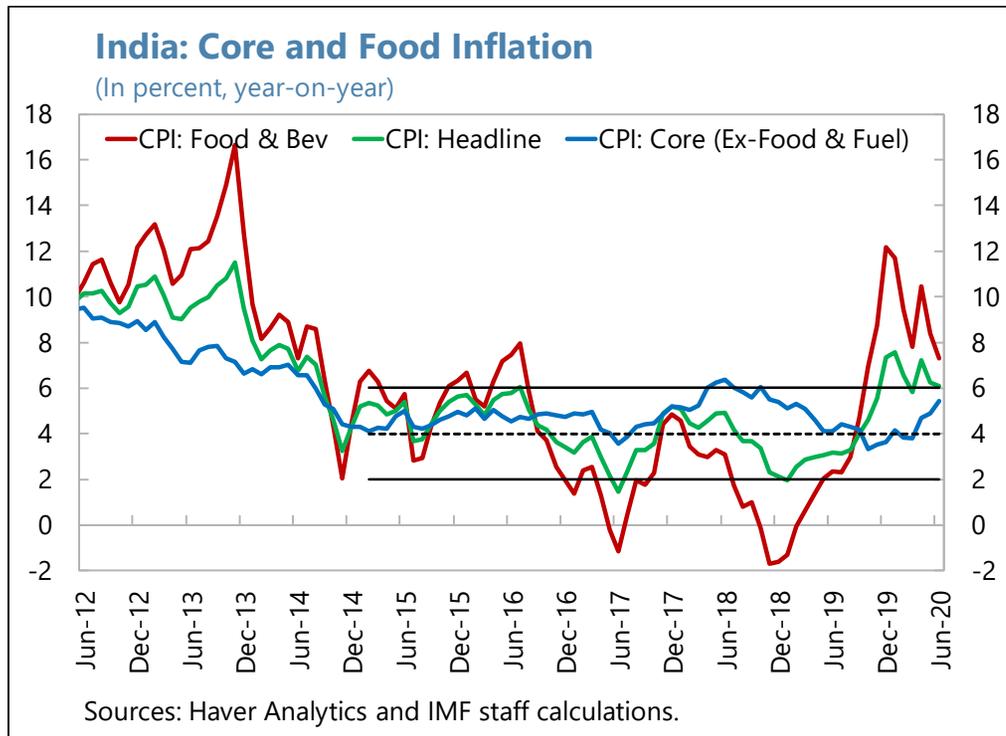
Below-the-line

| | |
|---|------------|
| Business and NBFC support | 2.2 |
| Credit provision for farmers and agri | 1.5 |
| Equity injection for electricity distribution companies | 0.4 |
| Other support for agri (e.g. infra fund) | 0.7 |
| Total | 4.9 |

1/ Shares of GDP calculated using latest (live WEO) projections



Inflation Targeting Helped Monetary Policy Credibility and Better Anchored Expectations

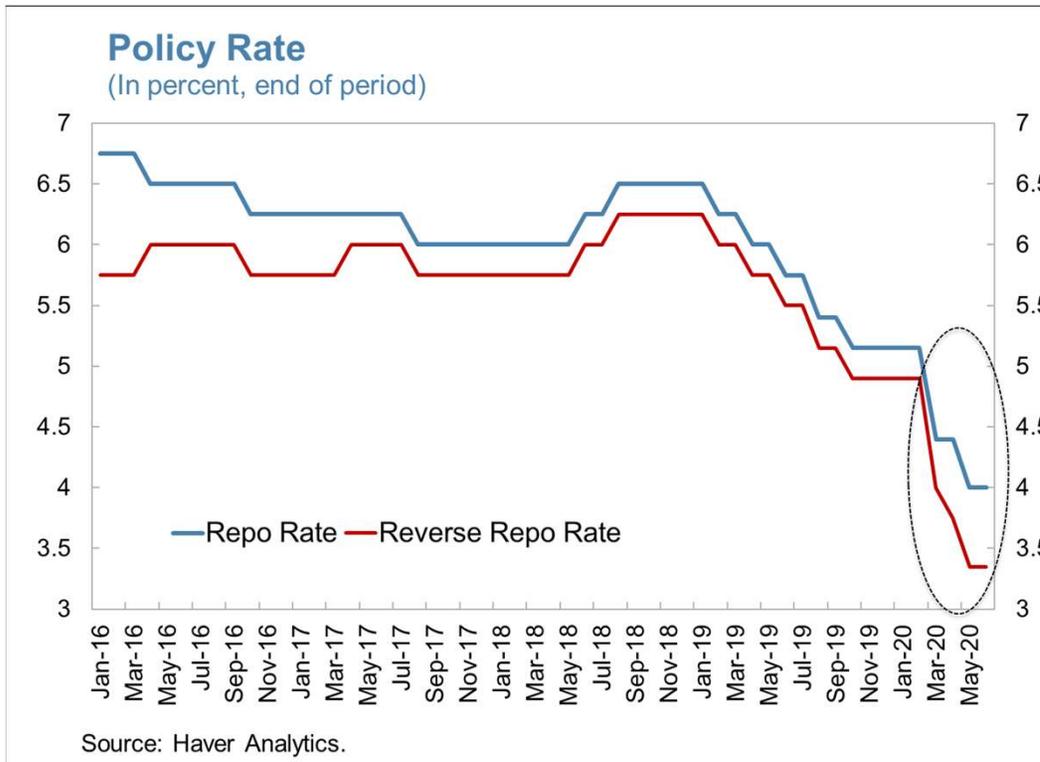


Since the adoption of inflation targeting:

- Headline inflation declined significantly, remaining mostly contained within the RBI's target band (likely also aided by favorable commodity prices), until the food price shock in end-2019, which is expected to reverse over the coming months
- Staff analysis suggests that inflation expectations have become better anchored.



Significant Monetary Easing



- Constraints to monetary transmission reflecting risk aversion from financial stress
- Since March, the RBI has lowered the policy rates (115 bps of repo and 145 bps of reverse repo) and boosted liquidity
- Additional measures focused on increasing liquidity in parts of the financial system with the largest needs, including through TLTROs, and easing public financing and financial sector balance sheet pressures
- Scope for further easing and additional measures



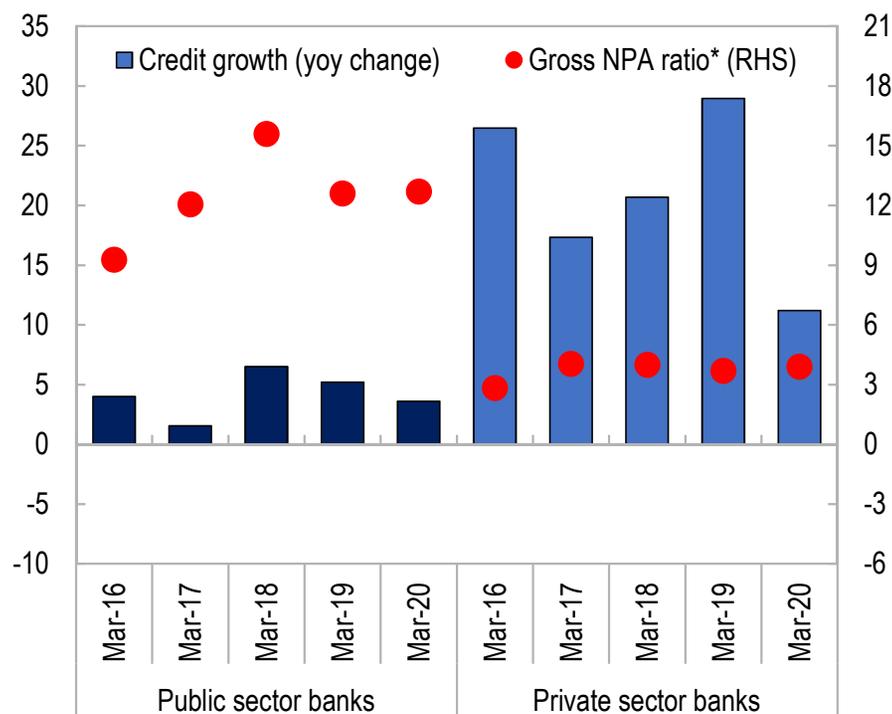
Structural Reforms to Support MT Growth

- **A wide range of structural reforms**
 - **Agriculture:** significant push to deregulate production and stocking of key commodities, liberalize marketing, and improve pricing.
 - **FDI:** the government will raise the limit in defense manufacturing from 49 percent to 74 percent under the automatic route.
 - **Ease of doing business:** plans to promote private participation in various sectors, reduce subsidies, and decriminalize defaults under the Companies Act.
- **Likely to support medium-term potential growth, if well implemented.**
 - Measures—especially in the agriculture sector—are likely to support potential growth over the medium term. The eventual impact will depend on implementation scope and timing of the reforms.
- **Further efforts will be needed as land, labor, and trade restrictions, among others, remain bottlenecks to growth**

COVID-19 may worsen India's credit crunch

Banks' Credit and Non-Performing Assets

(In percent)

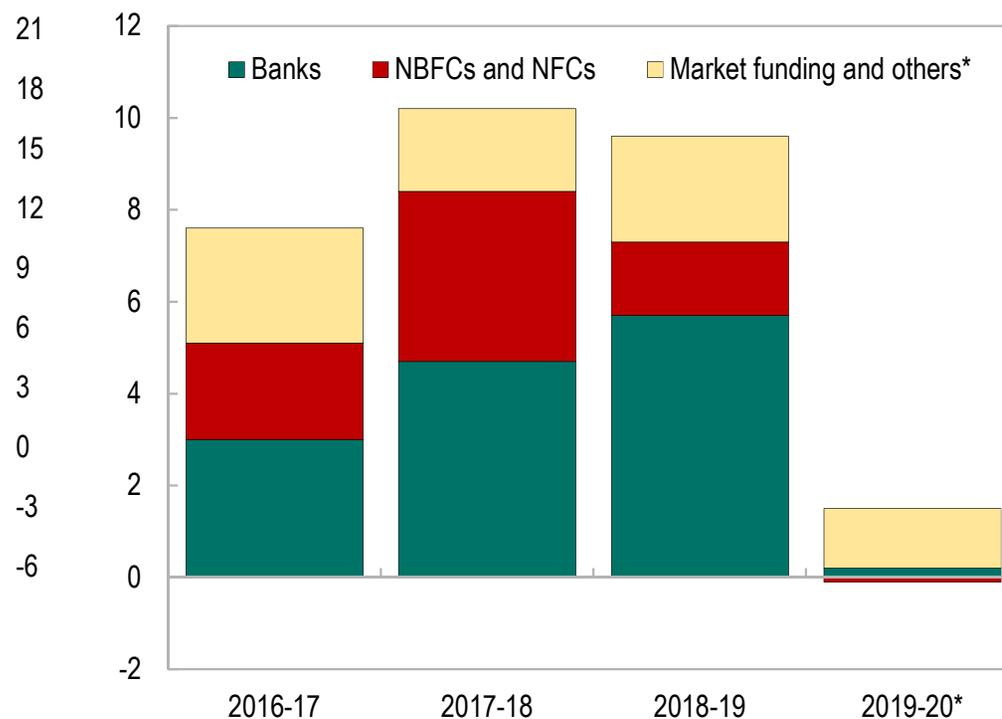


* The latest as of end-September 2019.

Sources: Reserve Bank of India, and IMF staff calculations.

Domestic Flow of Funds to the Non-Financial Sector

(In Percent of GDP)



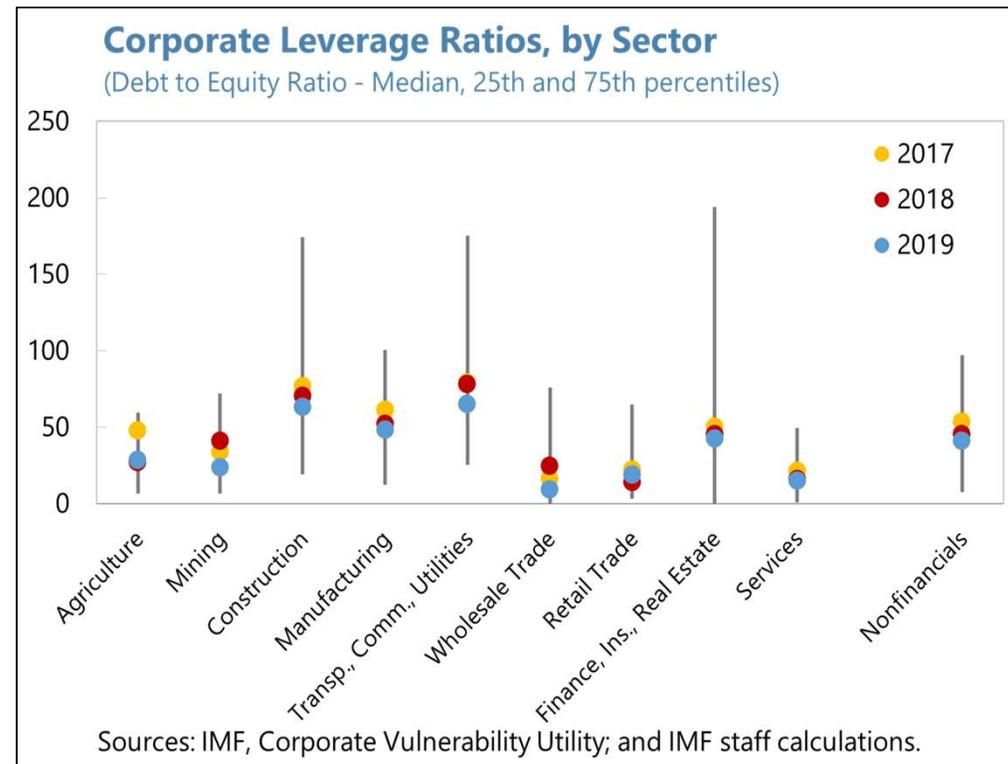
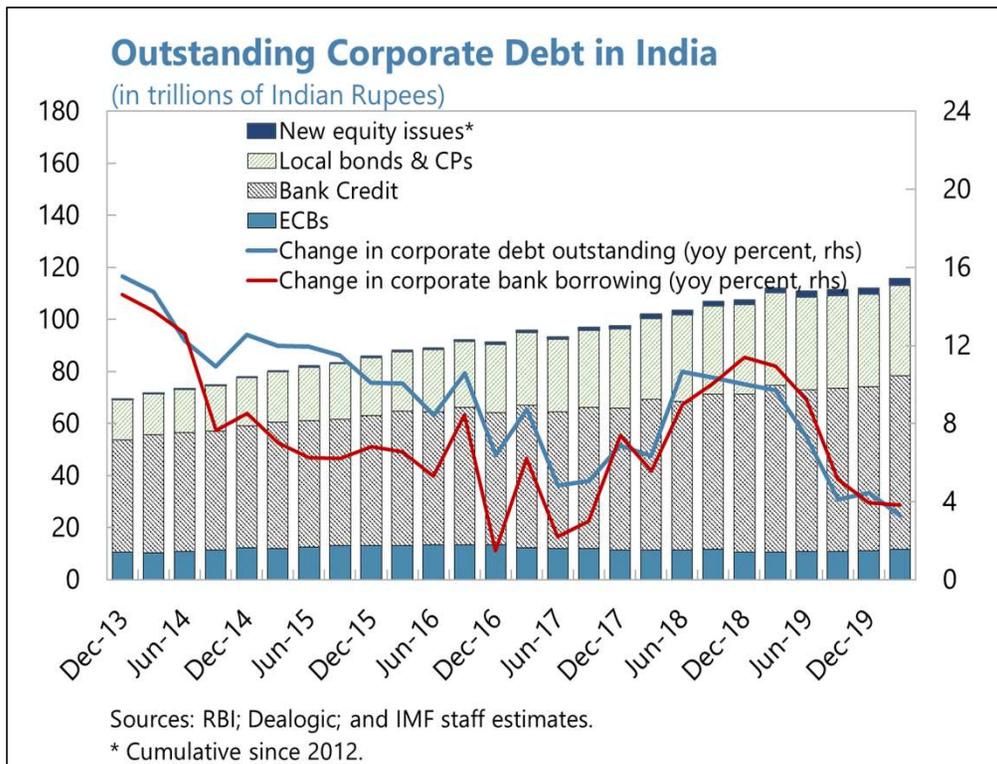
Sources: IMF Staff Calculations

Note: For FY19-20, half year flows as a share of half year GDP is depicted.

* Includes funding from commercial paper, capital markets and development banks.



Addressing Corporate Sector Vulnerability



Thank you!