



2017 Asia and Pacific Regional Economic Outlook:

Preparing for Choppy Seas

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Key messages and roadmap

- The near-term outlook for the Asia-Pacific region remains robust—and globally the strongest.
- While there are some upside risks to growth, the outlook, on balance, is clouded by significant downside risks.
- Medium-term growth faces secular headwinds, including population aging and limited productivity convergence.















Growth Outlook in Asia



The outlook for the Asia-Pacific region remains robust—and globally the strongest

Growth Projections: Selected Asia

(percent change from a year earlier)

												
	World	Asia	China	Japan	Korea	India	Singapore	Thailand	Australia	New Zealand	ASEAN	APD Small States
2016	3.1	5.3	6.7	1.0	2.8	6.8	2.0	3.2	2.5	4.0	4.8	3.4
2017	3.5	5.5	6.6	1.2	2.7	7.2	2.2	3.0	3.1	3.1	4.9	3.4
Revision from Oct. 2016	0.1	0.1	0.4	0.7	-0.4	-0.4	0.0	-0.3	0.5	0.4	-0.1	0.1
2018	3.6	5.4	6.2	0.6	2.8	7.7	2.6	3.3	3.0	2.9	5.1	3.8
Revision from Oct. 2016	0.0	0.0	0.1	0.1	-0.2	0.0	-0.1	0.2	0.1	0.3	-0.1	0.1

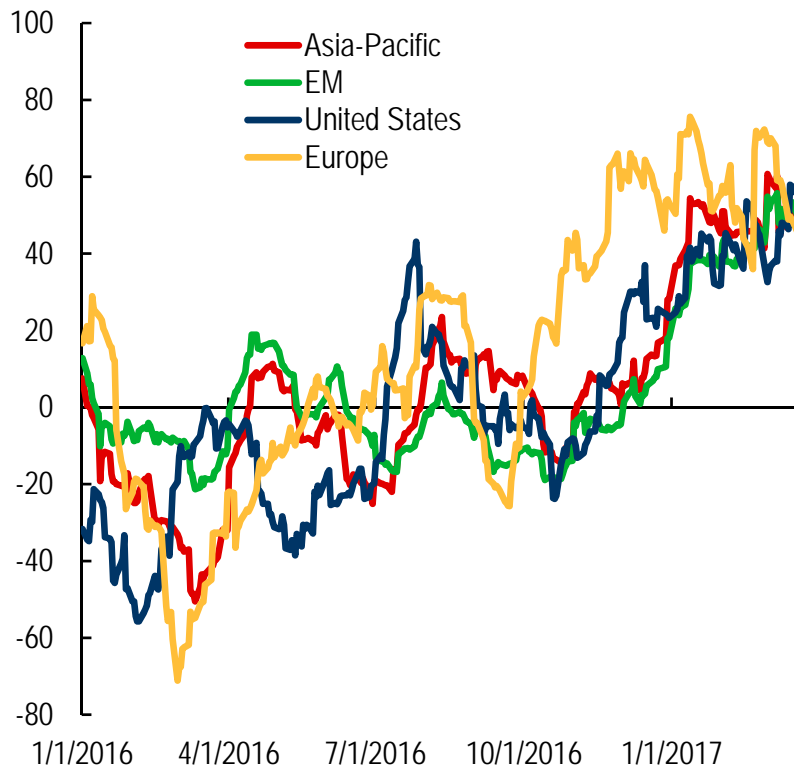
Source: IMF staff.

Note: Figures for India are on a fiscal year basis.



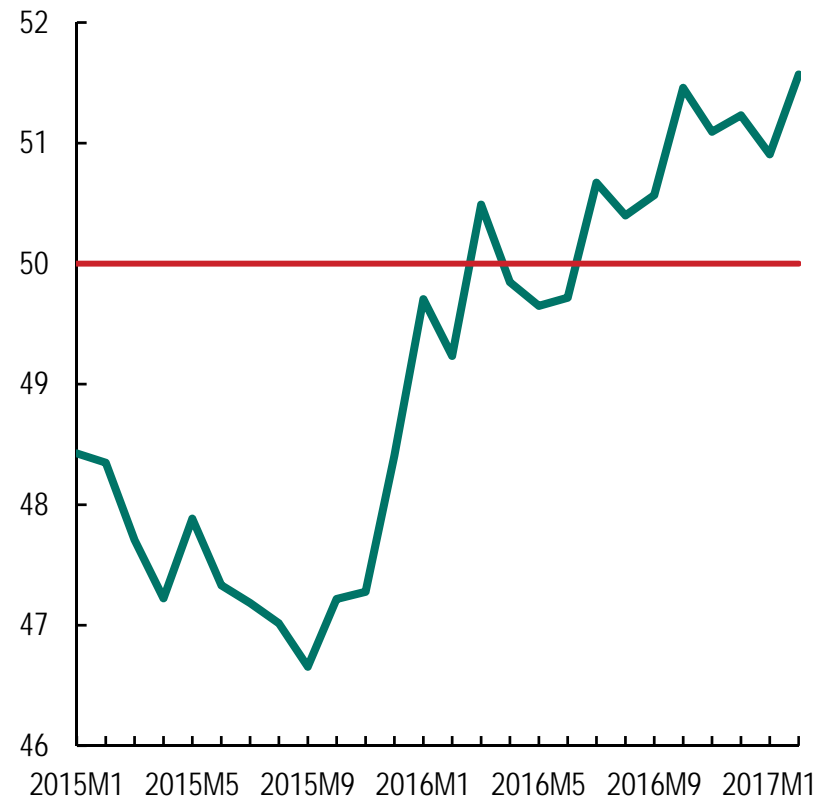
Pickup since mid-2016 with positive momentum

Economic Surprise Index



Sources: Citigroup; Haver Analytics

Asia PMI: Manufacturing



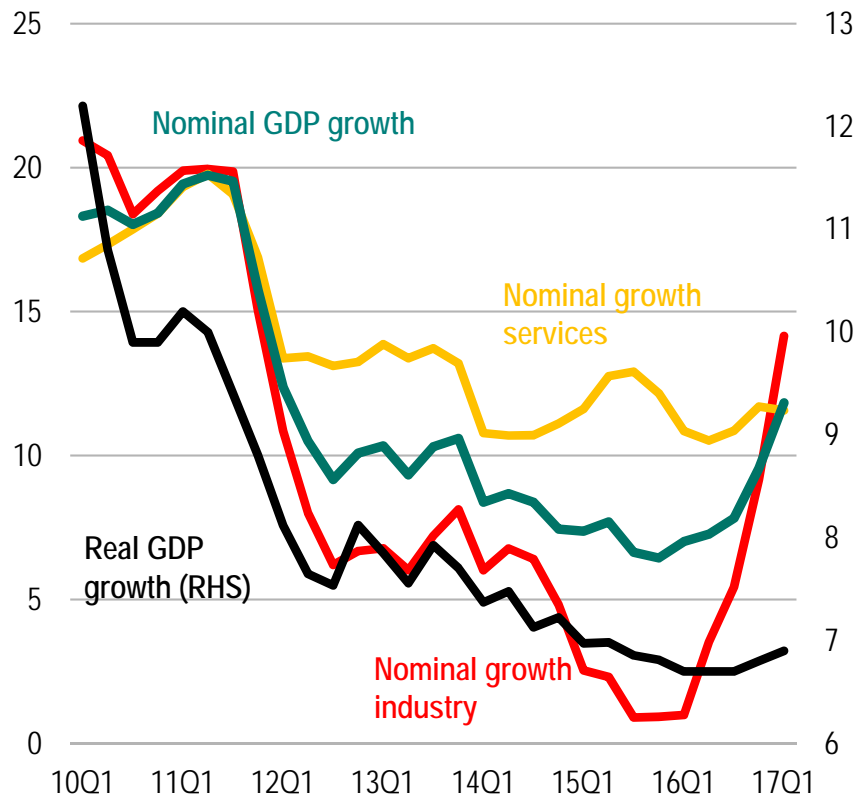
Sources: World Economic Outlook Database; Haver Analytics; and IMF calculation.



China and Japan: Strong Near-term Outlook

China: Growth and 2017Q1 Outturn

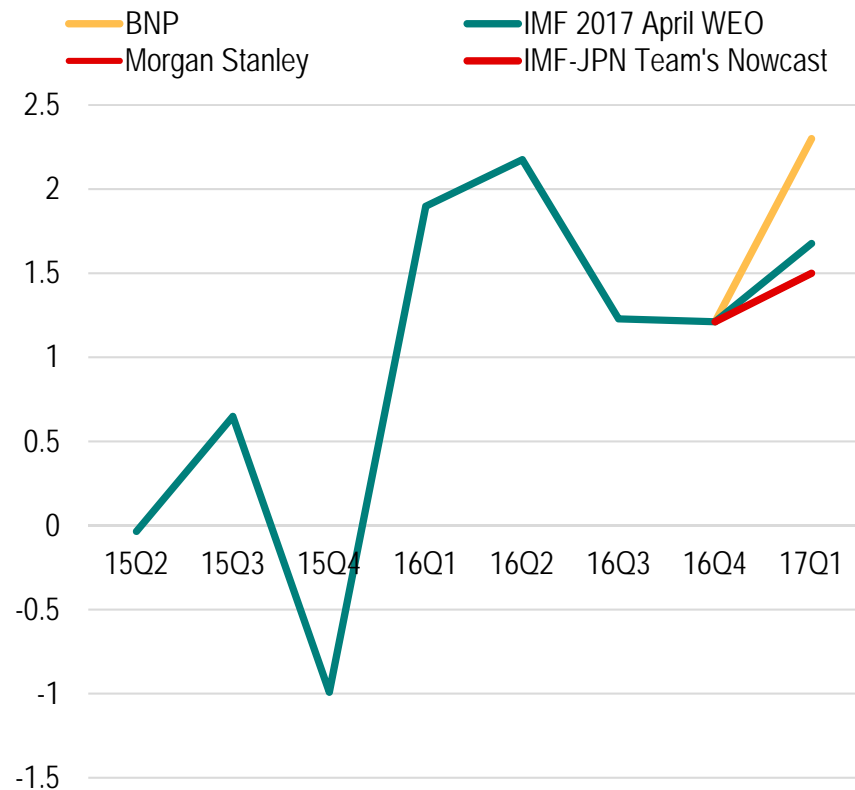
(In percent, year-over-year)



Sources: CEIC; and IMF staff calculations.

Japan: Growth and 2017 Q1 Forecast

(In quarter-over-quarter percent, seasonally adjusted annual rate)



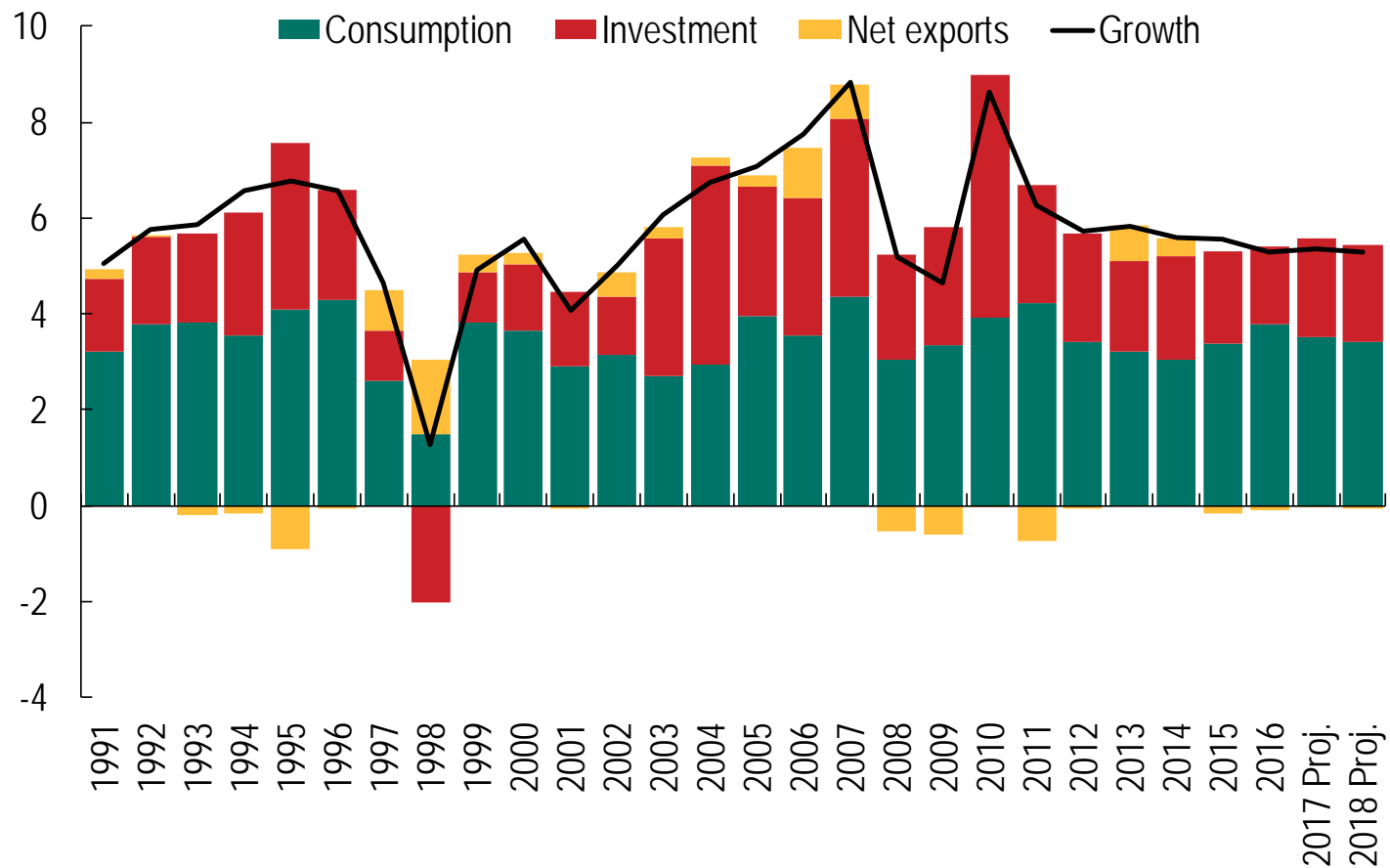
Note: the labels indicate the sources.



Domestic demand is strong, supported by robust private consumption

Asia: Contribution to Growth

(Year-over-year; percentage points)



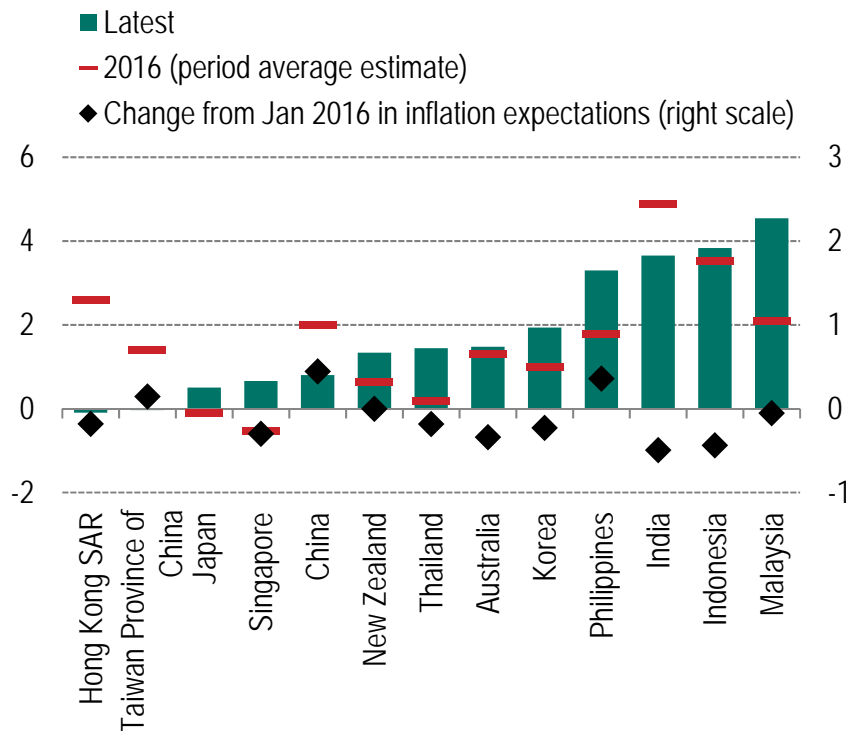
Sources: : IMF *World Economic Outlook* database; and IMF staff calculations.



Commodity price recovery has modestly pushed up headline inflation

Asia: Headline Inflation and Expectations

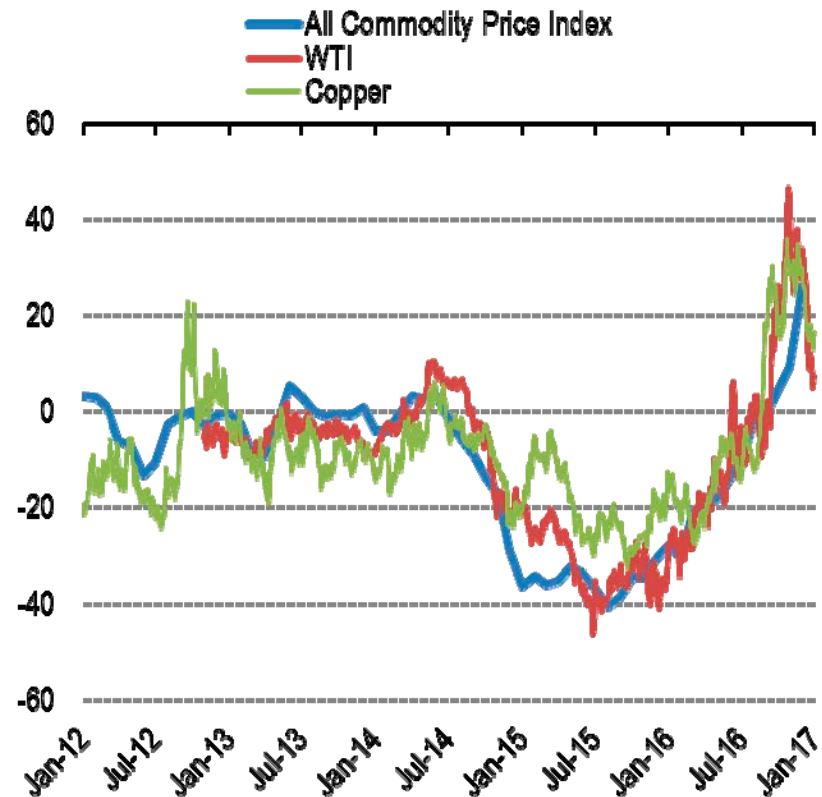
(Year-over-year; percent)



Sources: CEIC Data Company Ltd.; Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
 Note: For India, inflation expectations and the 2016 projection are based on a fiscal year basis.

Global Commodity Prices

(Year-over-year; percentage points)



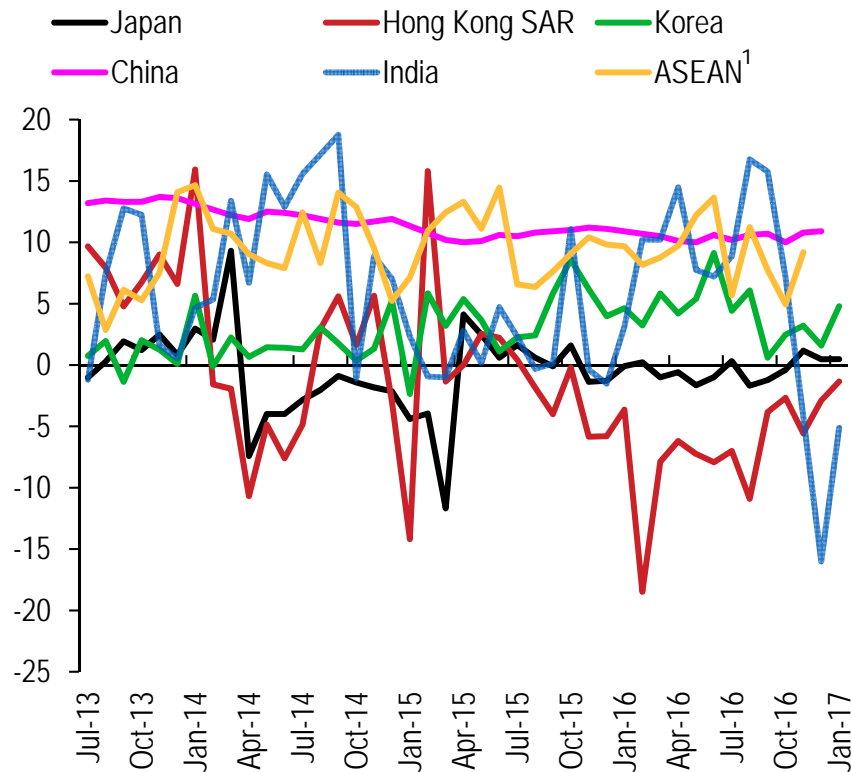
Sources: Bloomberg L.P.; IMF; and IMF staff calculations.
 Note: WTI = West Texas Intermediate



Breadth and sustainability of the pickup still not clear

Selected Asia: Retail Sales Volumes

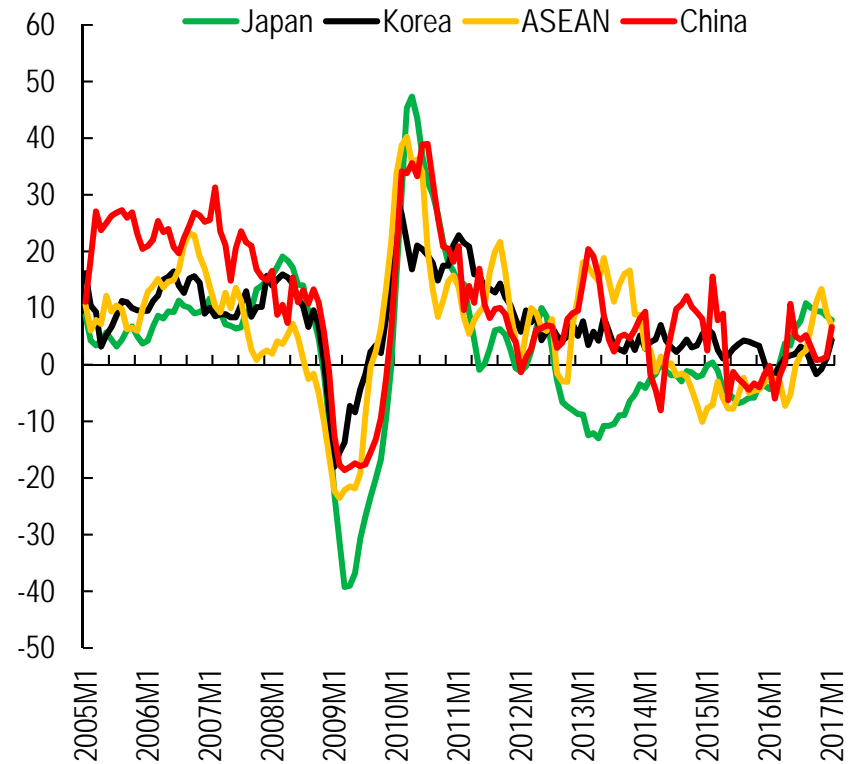
(Year-over-year change; percent)



Sources: CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.
¹ ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Selected Asia: Exports Volume by Economies

(Year-over-year growth of 3mma)



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



Risks to the Outlook



The risks, on balance, remain slanted to the downside

Near-term:

- Upside Risks—Strong Momentum and Larger U.S. Policy Stimulus
- Tighter global financial conditions, in light of balance sheets weaknesses
- More inward-looking policies in major global economies
- A bumpier-than-expected transition in China

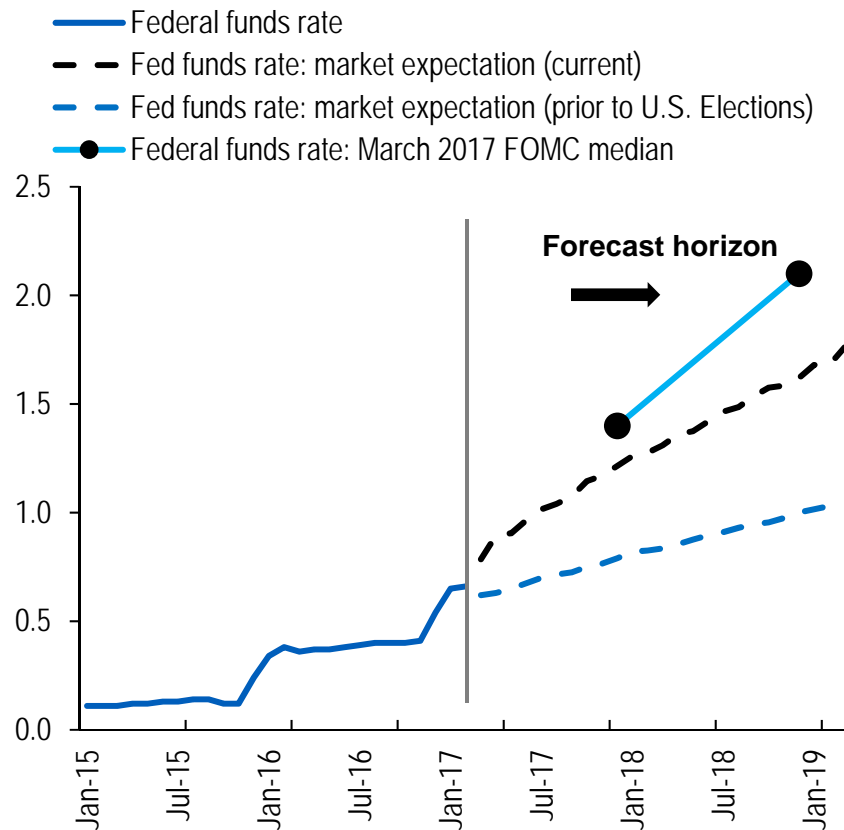
Medium-term:

- Parts of Asia risk growing old before becoming rich
- Productivity growth has slowed, with limited convergence



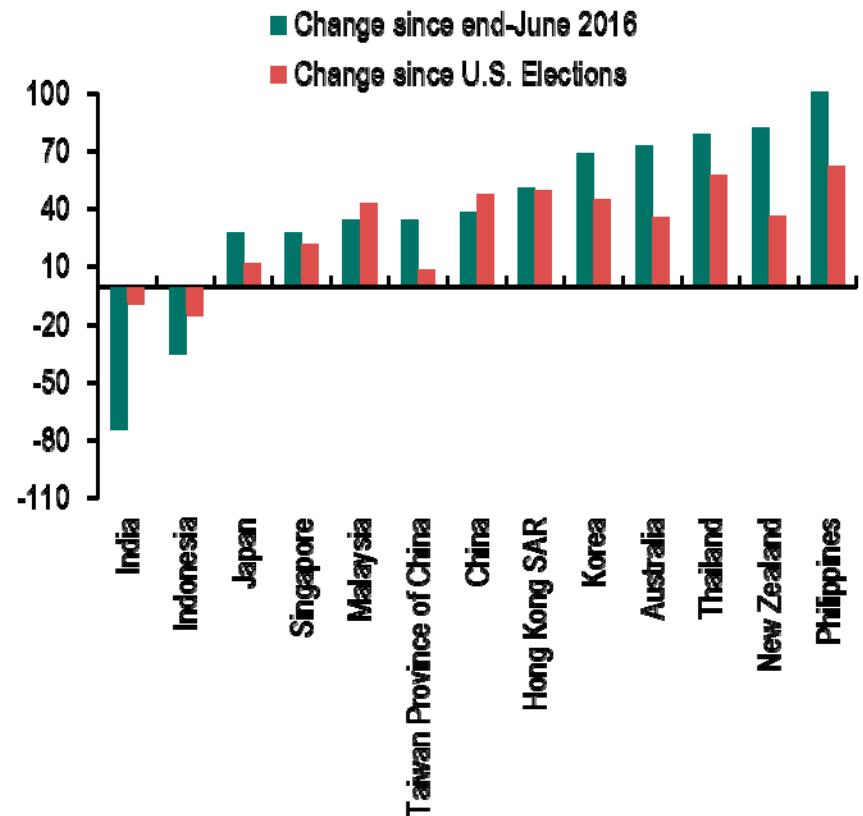
Tighter-than-expected global financial conditions could trigger capital flow volatility

United States: Interest Rates



Source: Bloomberg L.P.
Note: FOMC = Federal Open Market Committee.

Asia: Ten-year Sovereign Bond Yields (Basis points)



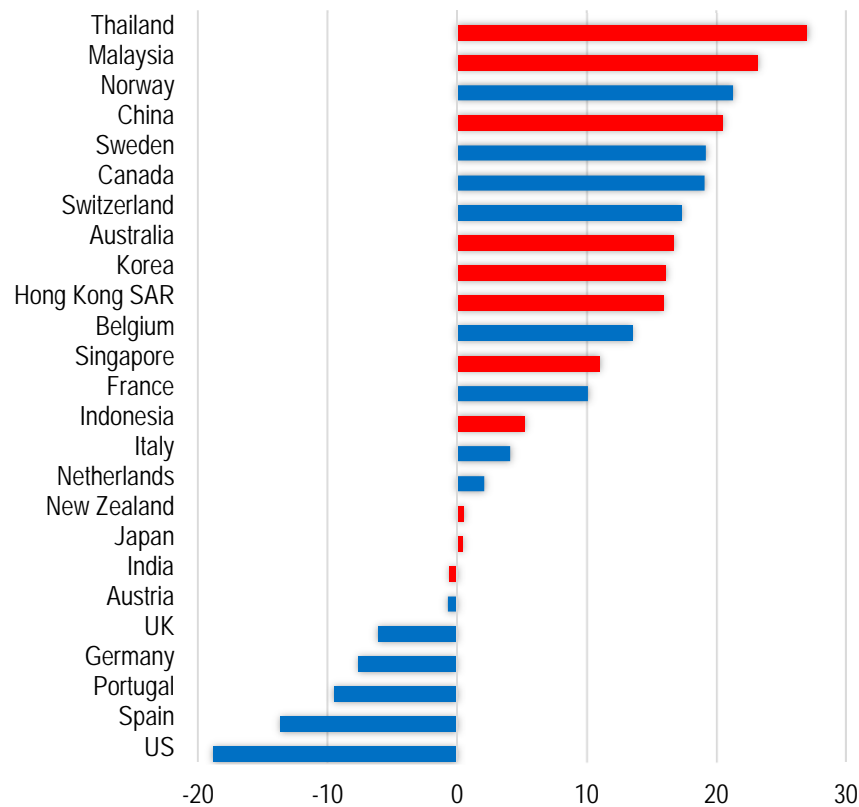
Sources: Bloomberg L.P.; and Haver Analytics.
Note: Data as of March 24, 2017



Household and corporate leverage are high

Selected Economies: Change in Household Debt to GDP Ratio

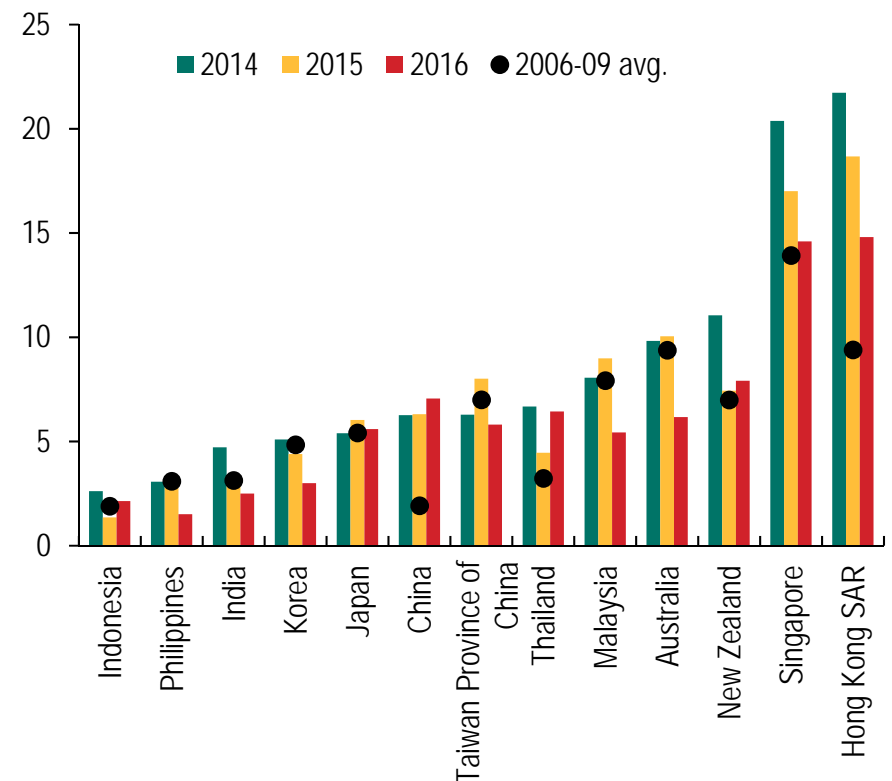
(Percentage points; from end-2007 to end-2015)



Sources: Bank of International Settlement, and IMF staff calculations.

Asia: Nonfinancial Corporate Sector Debt Issuance

(Percent of GDP)



Sources: Dealogic; and IMF, World Economic Outlook database.

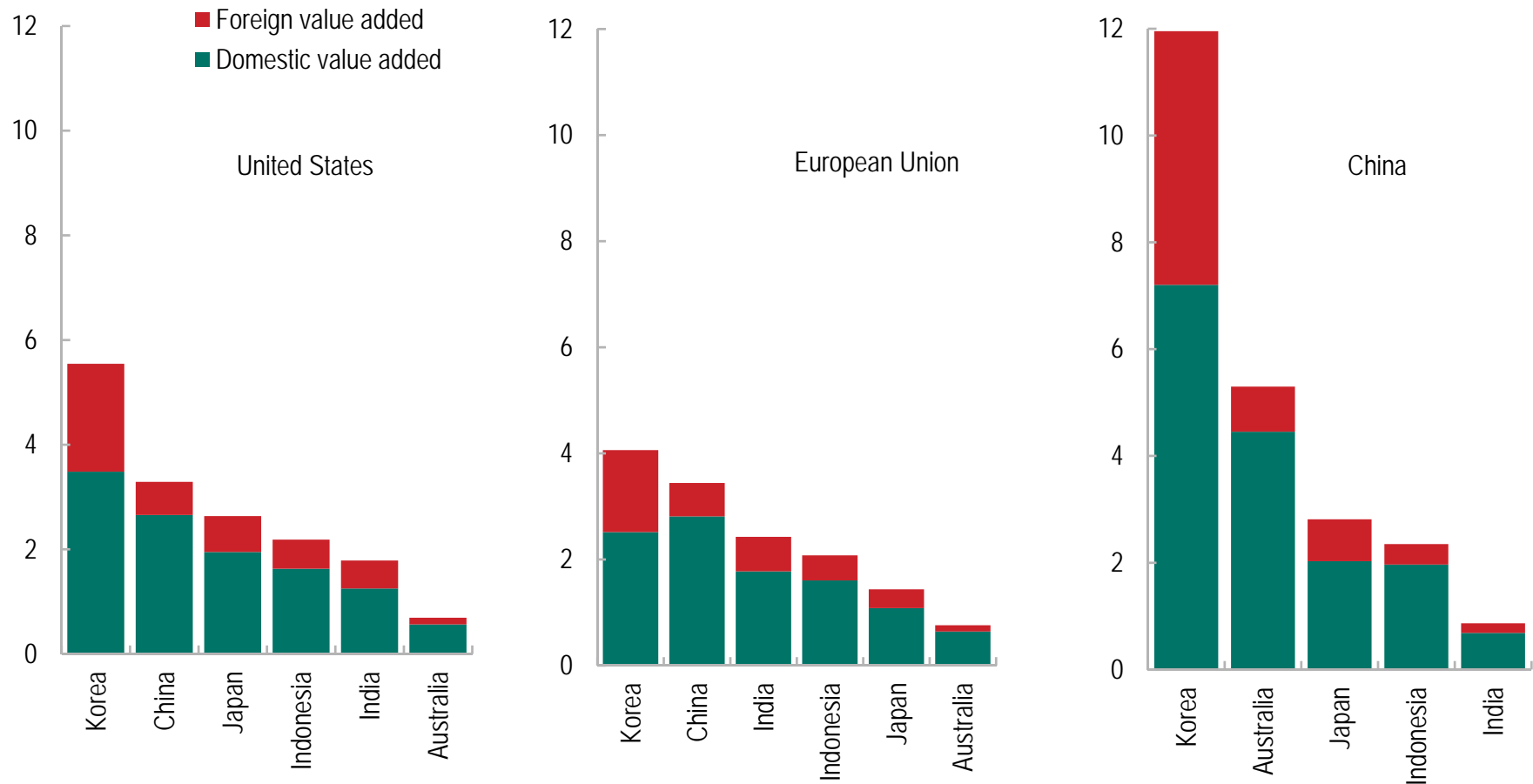
Note: Includes both bond issuance and syndicated loan issuance. Data compiled on residency basis.



Trade exposures to major trading partners

Exports and Value added to United States, European Union, and China

(In percent of National GDP, 2014)

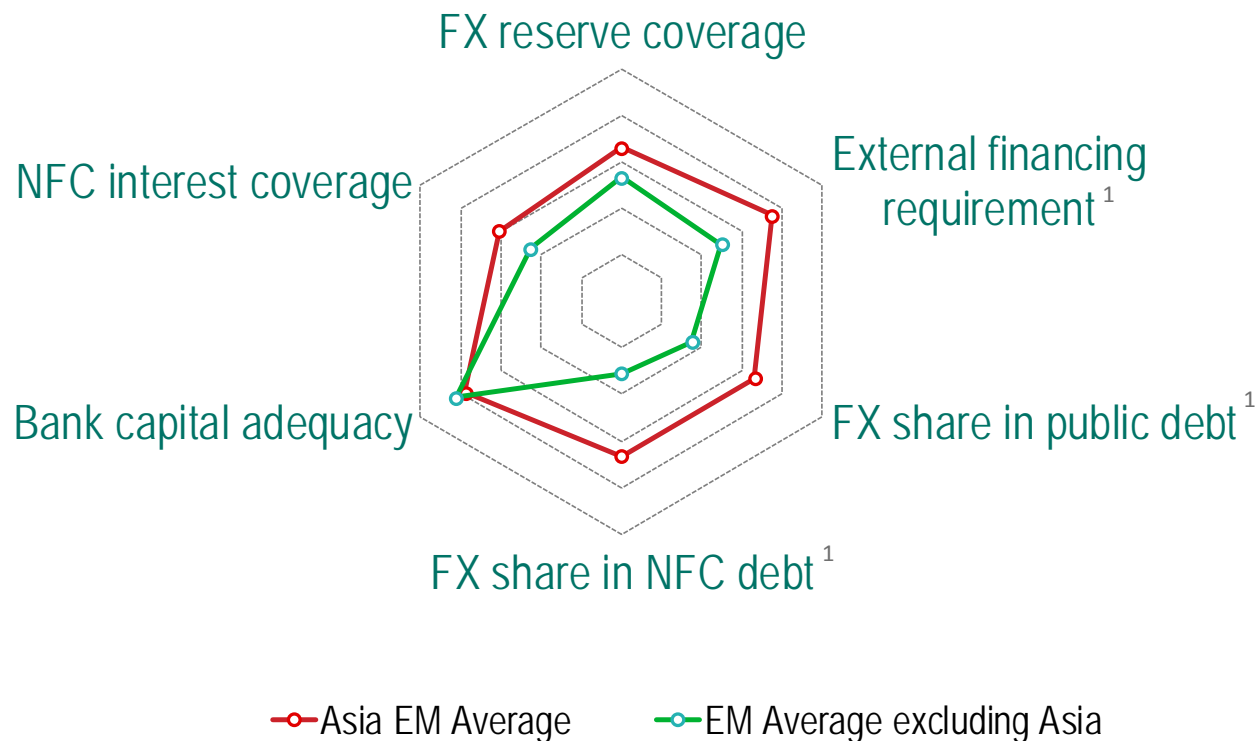


Sources: WIOT, IMF; and IMF staff calculations



Asian EMEs appear relatively better positioned to deal with external shocks

Selected Vulnerability Indicators



Sources: IMF, Vulnerability Exercise database; and IMF staff calculations.

¹ Inverted axis with the maximum axis value at the center and the minimum at the periphery.

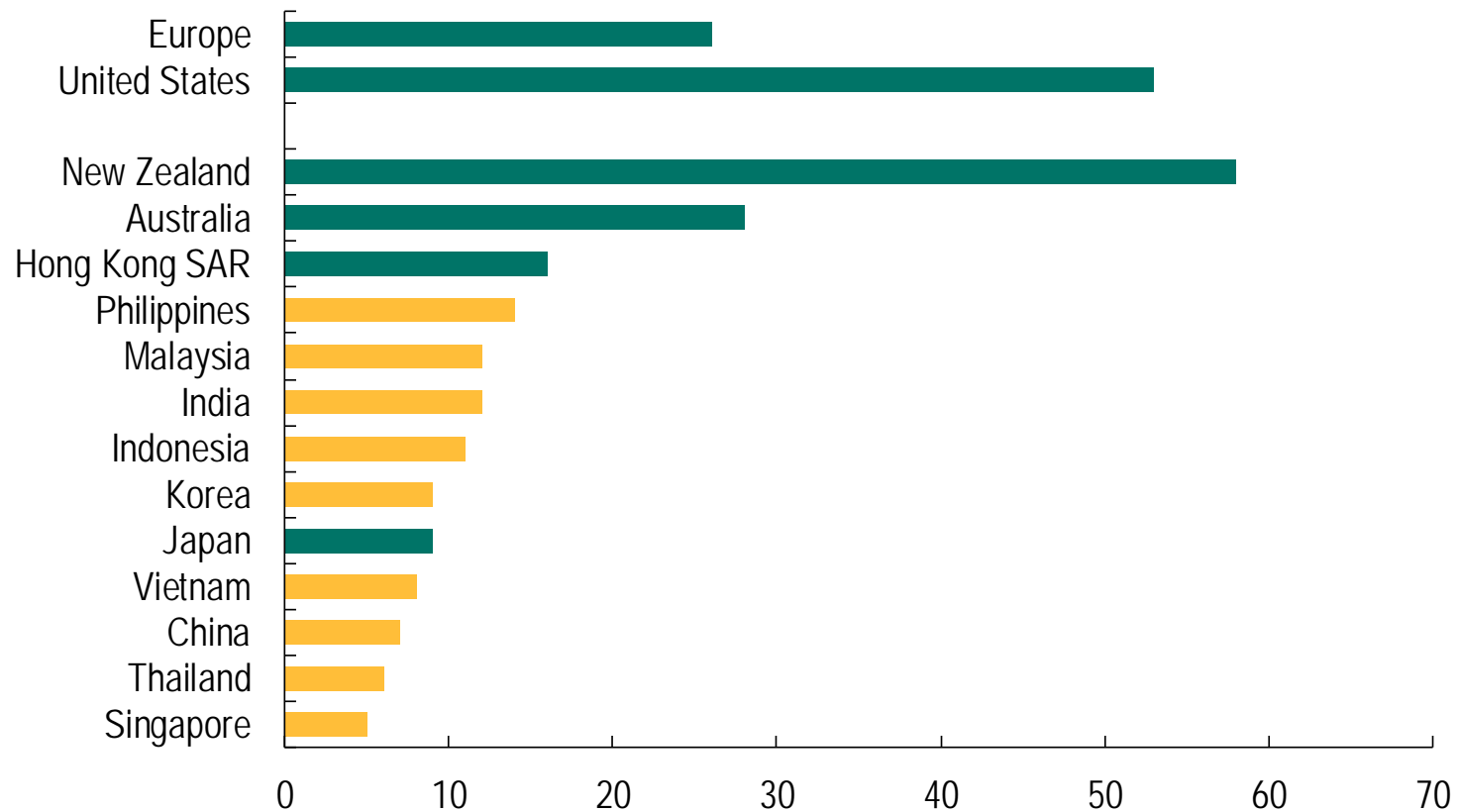


Medium-Term Headwinds



Asia is aging fast

Number of Years for the Old-Age Dependency Ratio to Increase from 15 Percent to 20 Percent

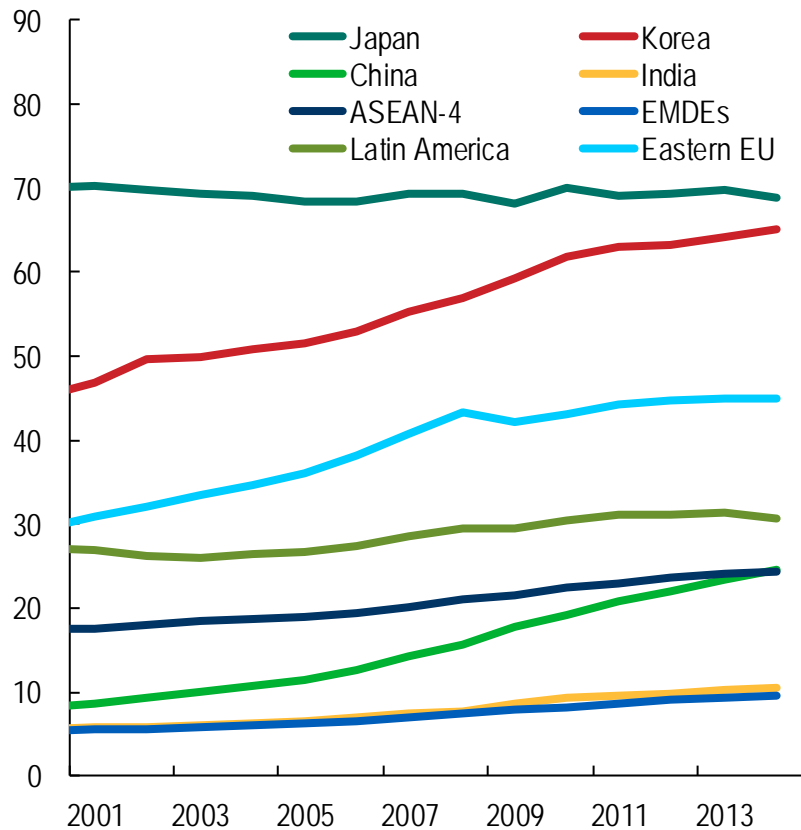


Source: IMF staff calculations based on United Nations, *World Population Prospects: 2015 Revision* (medium-fertility scenario).

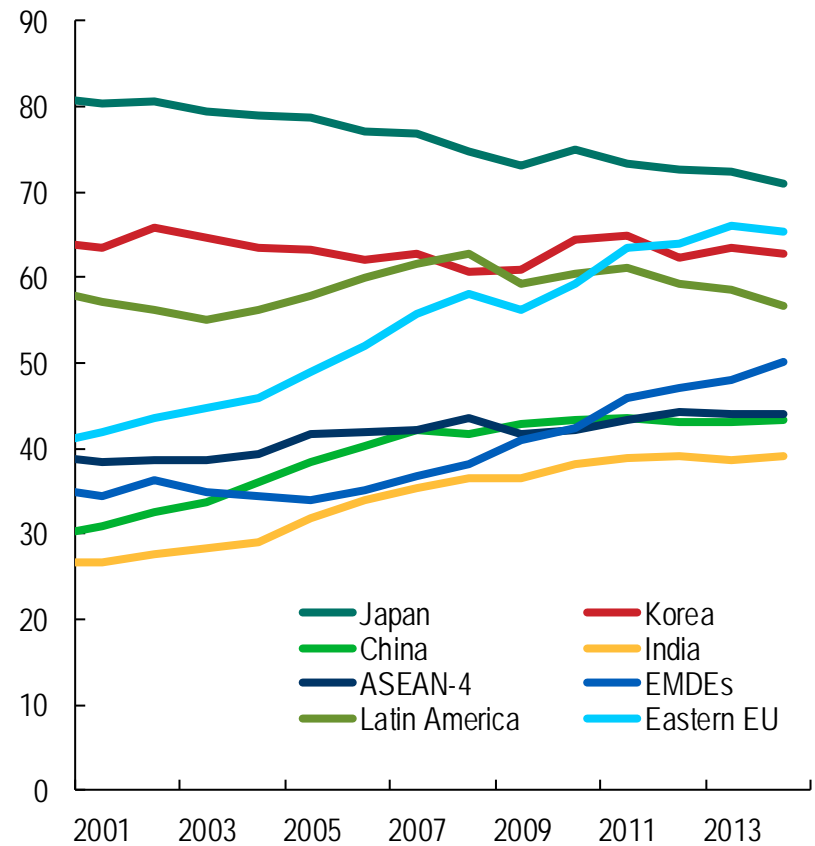


There has been convergence in incomes with world leaders, but not much in productivity

GDP per Capita
(Percent of U.S. PPP per Capita)



Total Factor Productivity
(At current PPPs; United States=1)



Sources: Penn World Table 9.0; and IMF staff calculation

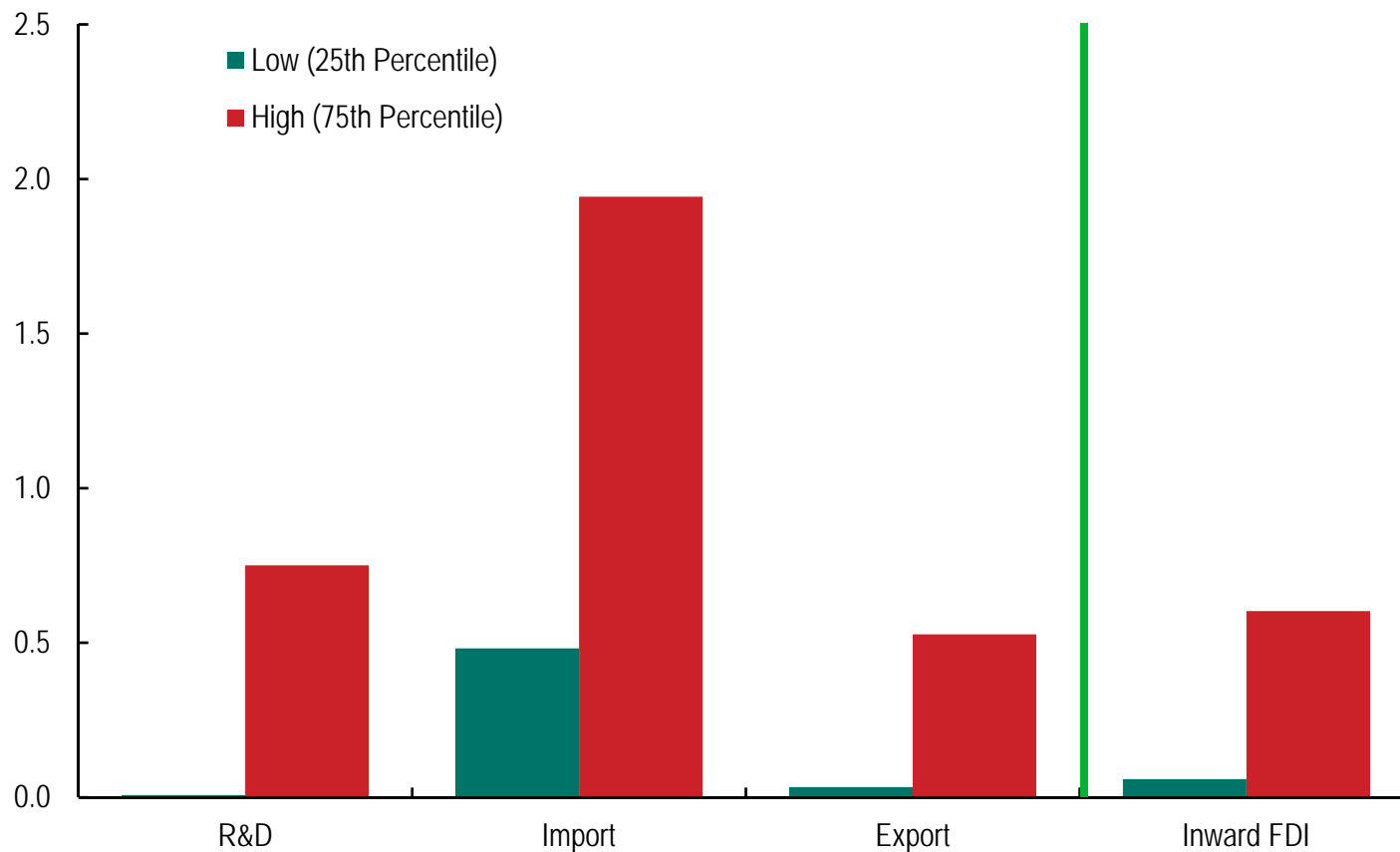
Note: All TFPs are weighted by PPP; EMDEs for GDP include Bangladesh, Sri Lanka, Vietnam, Bhutan, Cambodia, Laos, Myanmar, Nepal, Fiji; ASEAN-4 include Indonesia, Malaysia, the Philippines, and Thailand; EMDEs for TFP include Sri Lanka, Laos, Fiji.



Openness, human capital, and R&D are important for productivity

Estimated Impact on Sectoral Labor Productivity Growth

(Percentage point)



Sources: Financial Flows Analytics Database; and IMF staff calculations.

Note: The 25th and 75th percentiles are calculated based on the R&D expenditure, import from U.S., export to U.S., and inward FDI for all sectors and countries.



Policy Recommendations



Policy recommendations

- Reinforcing the growth momentum
 - The three-pronged approach (monetary, fiscal, and structural policies) remains appropriate
 - Asia needs to continue to build buffers in light of balance sheet weaknesses
- Addressing near-term risks
- Dealing with challenges from demographic transition and boosting productivity
- Heterogeneous recommendations; the pickup provides opportunity to accelerate structural reforms



Near-term risks to Asia and policies to address them

Risks	Policies
Significant further strengthening of the US dollar and/or higher rates	Strengthen macroprudential framework
Disruptions to trade	Exchange rate flexibility
	Preserving the gains from trade integration
	Continue multilateral cooperation



Critical to deal with challenges from demographic transition and to boost productivity

- Structural reforms: labor markets and pension systems (country specific)
- Macroeconomic policies should adapt early before aging sets in
- How to raise productivity when external factors might not be as supportive as they were before?



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