



Leading the Global Economy: The Outlook and Policy Challenges Facing Asia

Singapore

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Presentation Outline

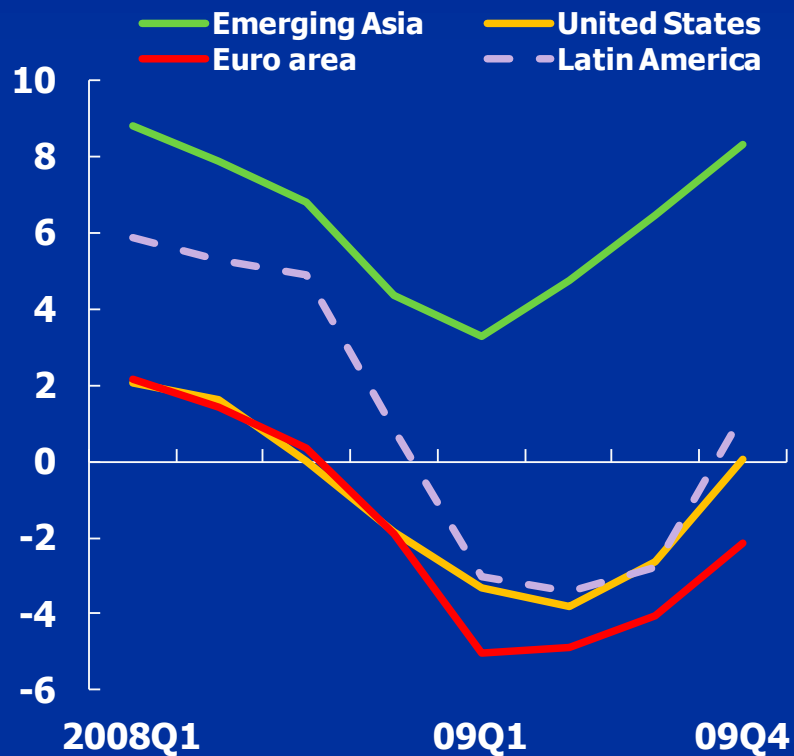
- Economic Outlook: Asian Strength in an Uncertain World
- Risks to the Outlook: Increased Uncertainty
- Policy Priorities for Securing a Durable Recovery
- Reform of the International Monetary System

Multi-speed recovery across regions....

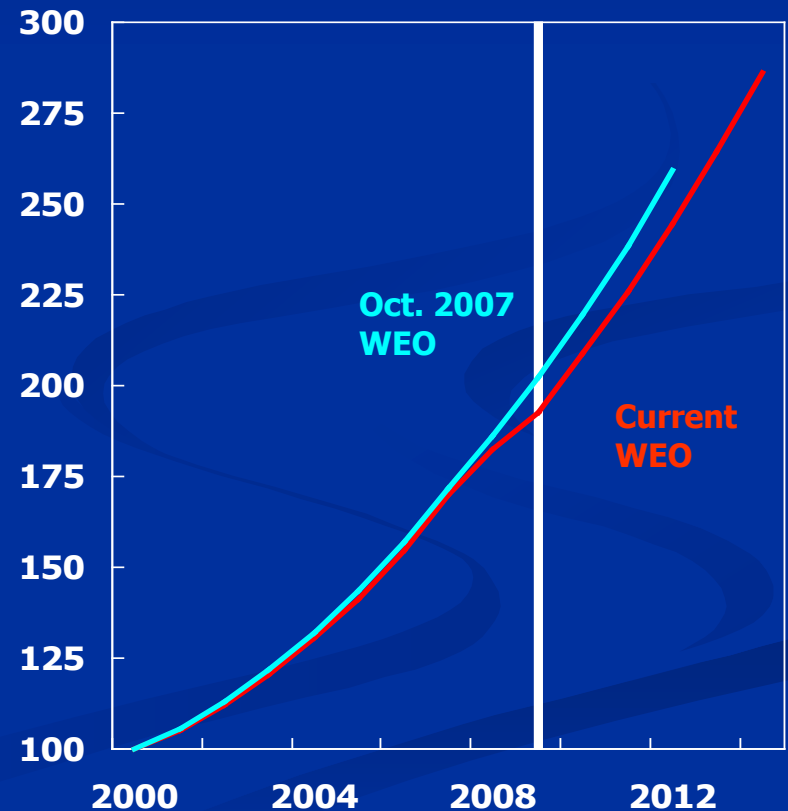


....with emerging Asia leading the global recovery

Real GDP Growth
(y/y ; percent)

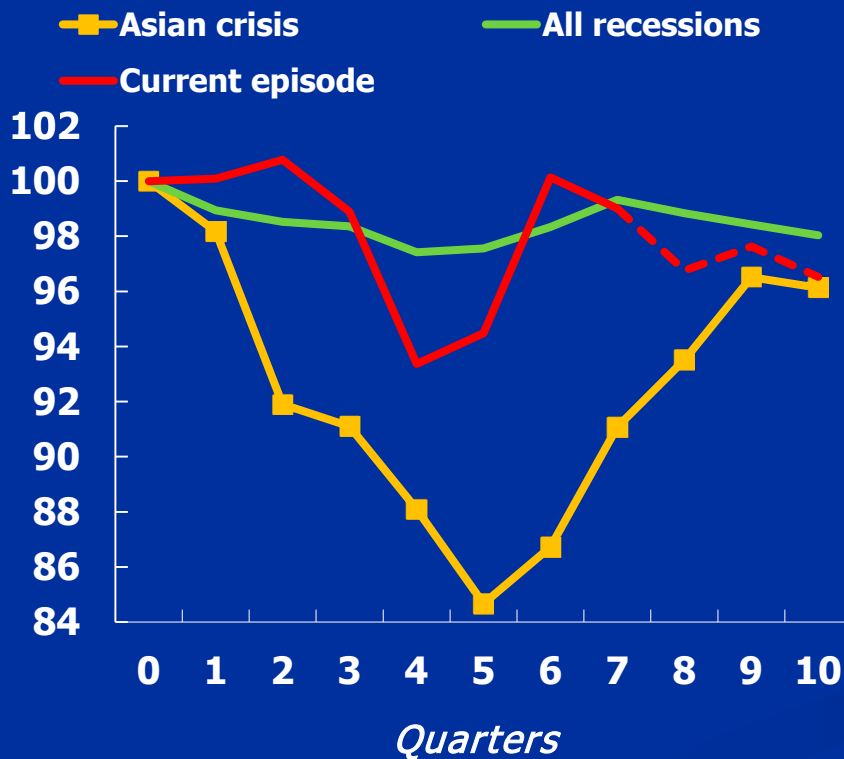


Emerging Asia: Output Levels
(levels, 2000=100)

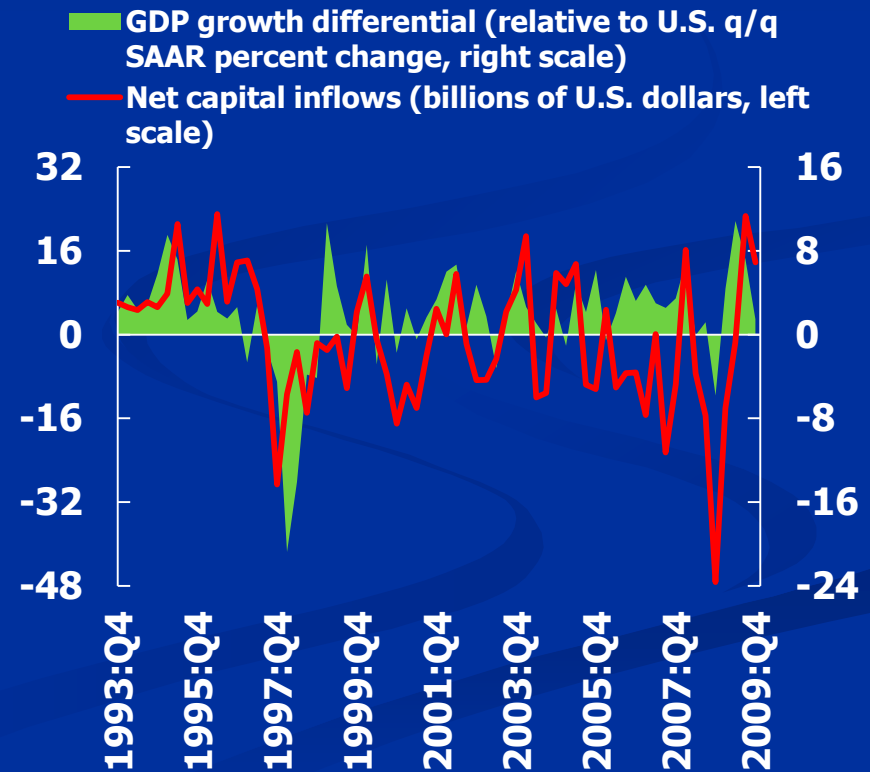


Two breaks from the past: resilient domestic demand and a quick return of capital inflows

Asia: Domestic Demand around Business Cycles
(median; peak of the cycles = 100)



Selected EM Asia: Growth Differentials and Capital Inflows
(percent)



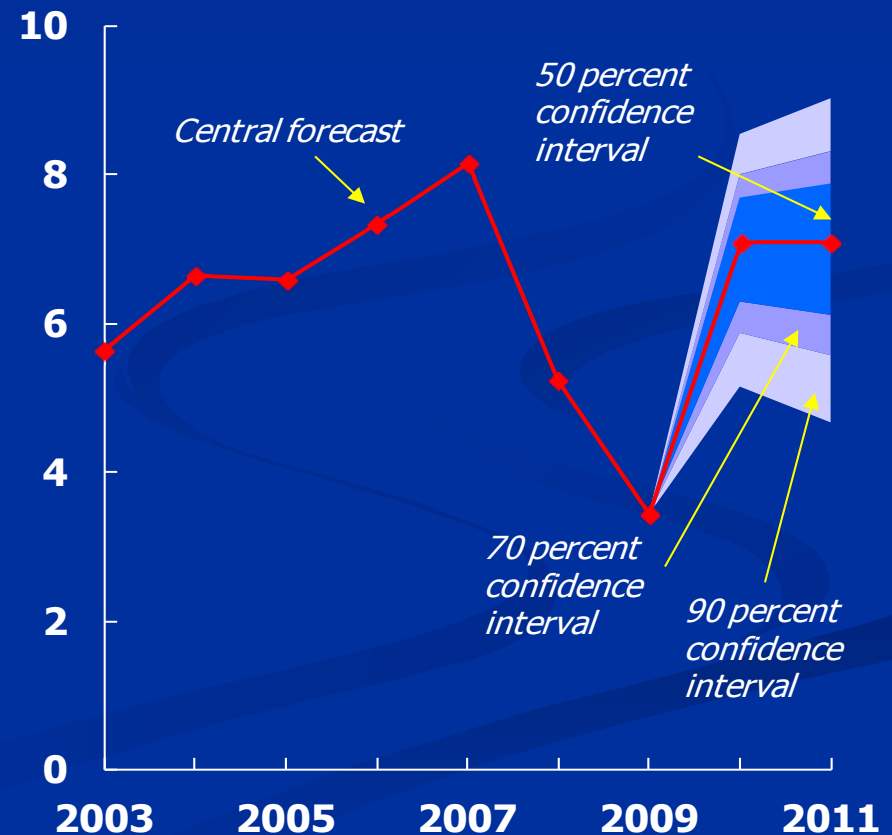
Strong growth in Asia will continue to lead the global economy forward

Asia: Real GDP Growth
(y/y; percent)

	2009	2010	2011
	Latest projections 1/		
Asia	3.4	7.1	7.1
<i>of which:</i>			
Industrial Asia	-4.1	2.1	2.2
Emerging Asia	5.7	8.5	8.4
NIEs	-0.9	5.5	5.1
ASEAN-5	1.7	5.4	5.6
World	-0.6	4.2	4.3
U.S.	-2.4	3.1	2.6
Euro area	-4.1	1.0	1.5

1/ April 2010 World Economic Outlook.

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

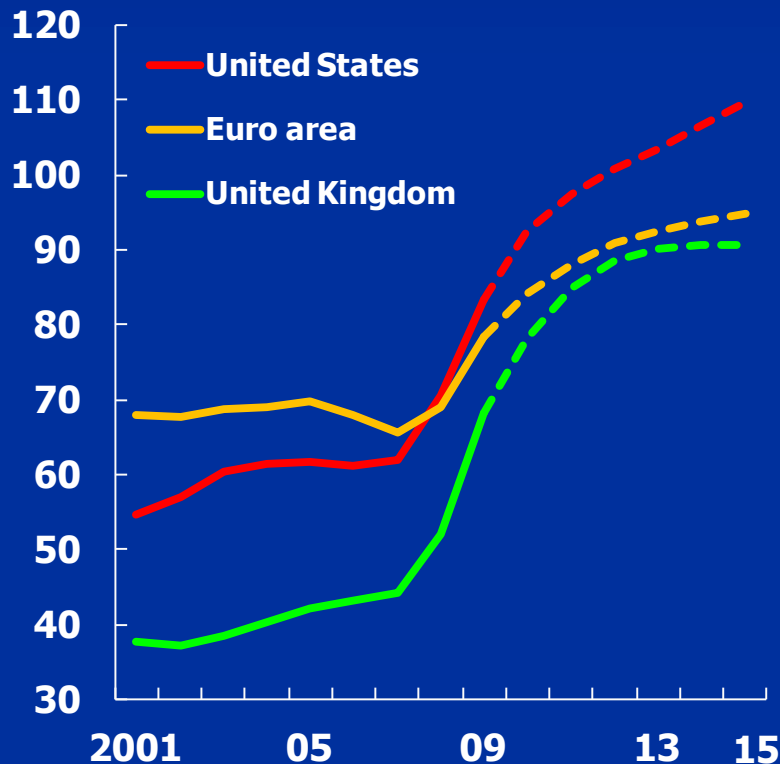


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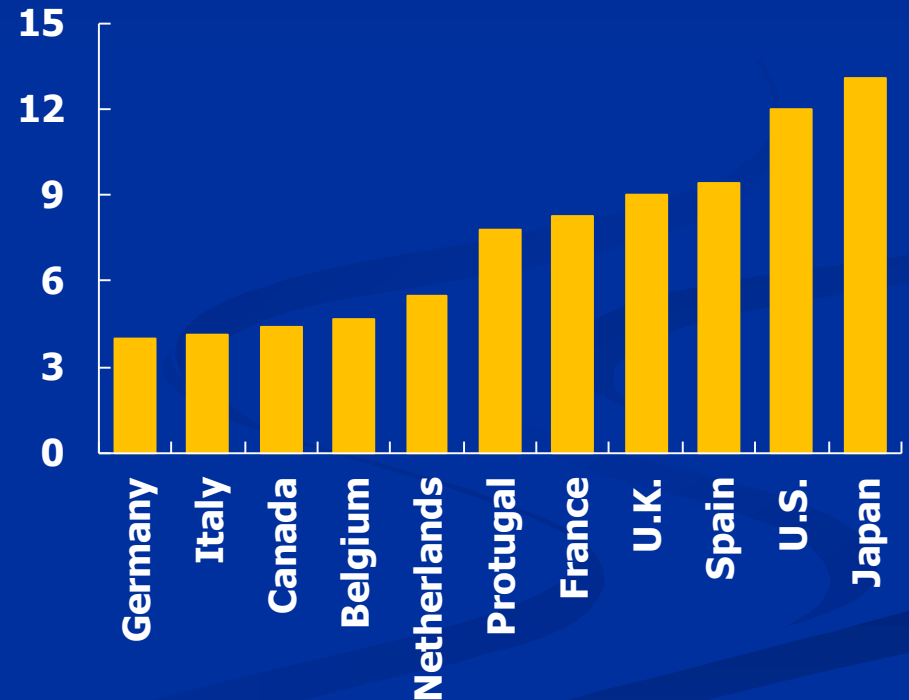
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Downside risks have risen, especially fiscal vulnerabilities in some countries

Public Debt
(percent of GDP)



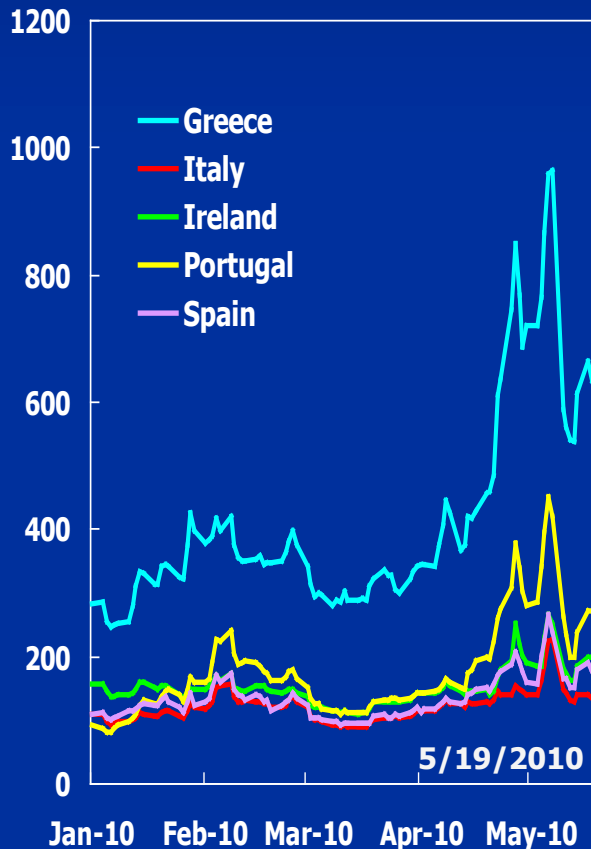
Required Adjustments in Primary Balance¹
(percent of GDP)



¹ Primary balance adjustment needed between 2010 and 2020 to bring the debt ratio to 60 percent in 2030.

....highlighting the link with financial stability

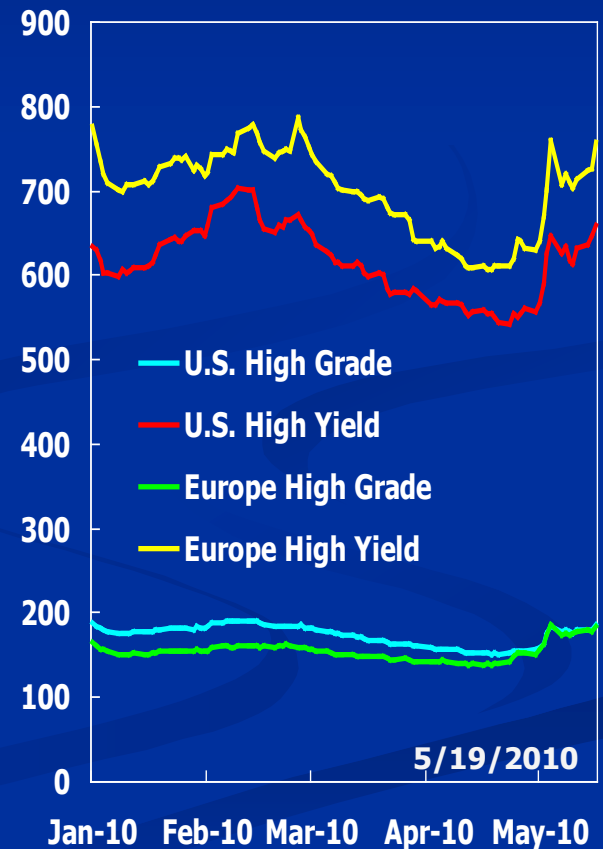
Sovereign CDS Spreads
(Basis points)



Money Market Spreads
(Basis points)

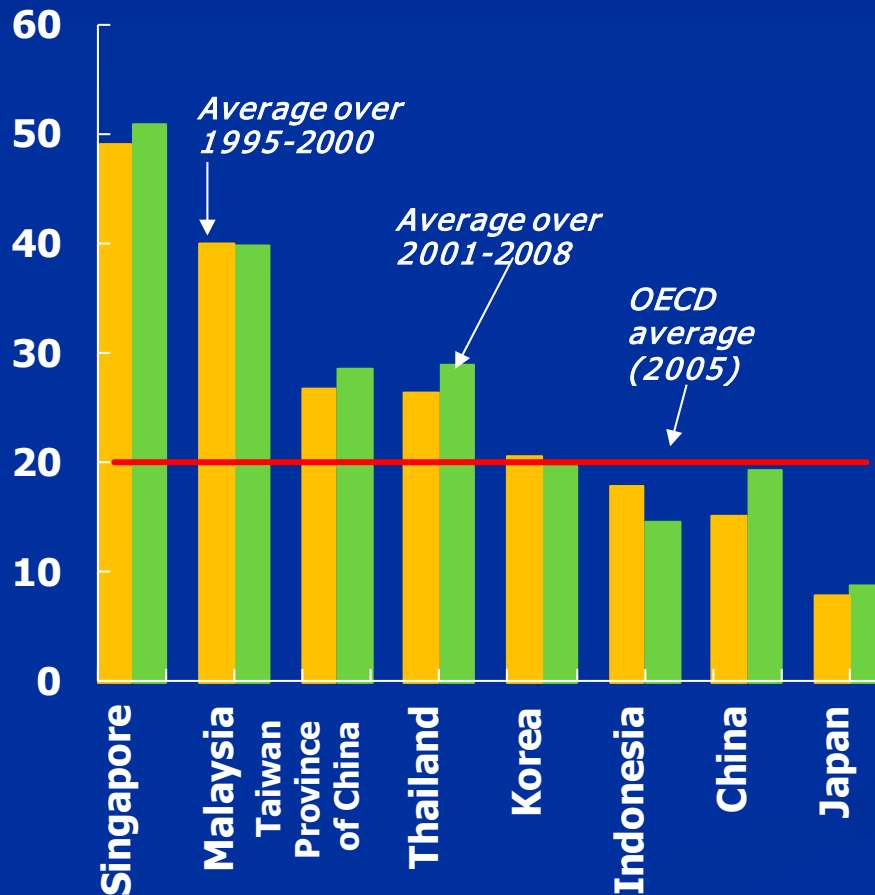


Corporate Bond Spreads
(Basis points)

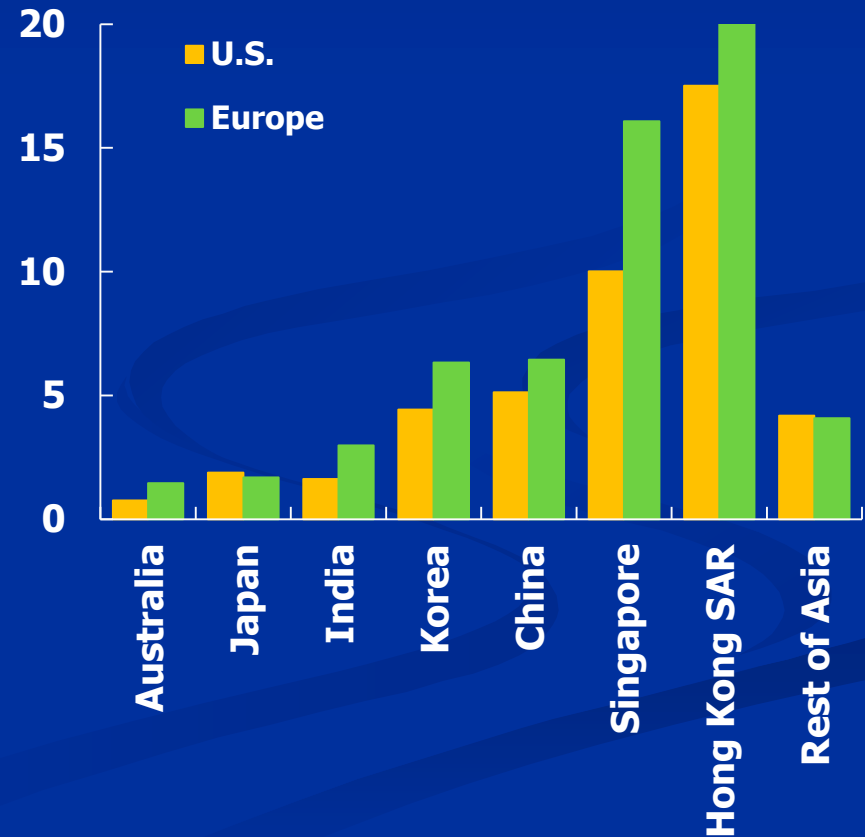


Asia is exposed to stalling global demand given the importance of external demand

Asia's Dependence on Demand from Outside the Region
(percent of GDP)

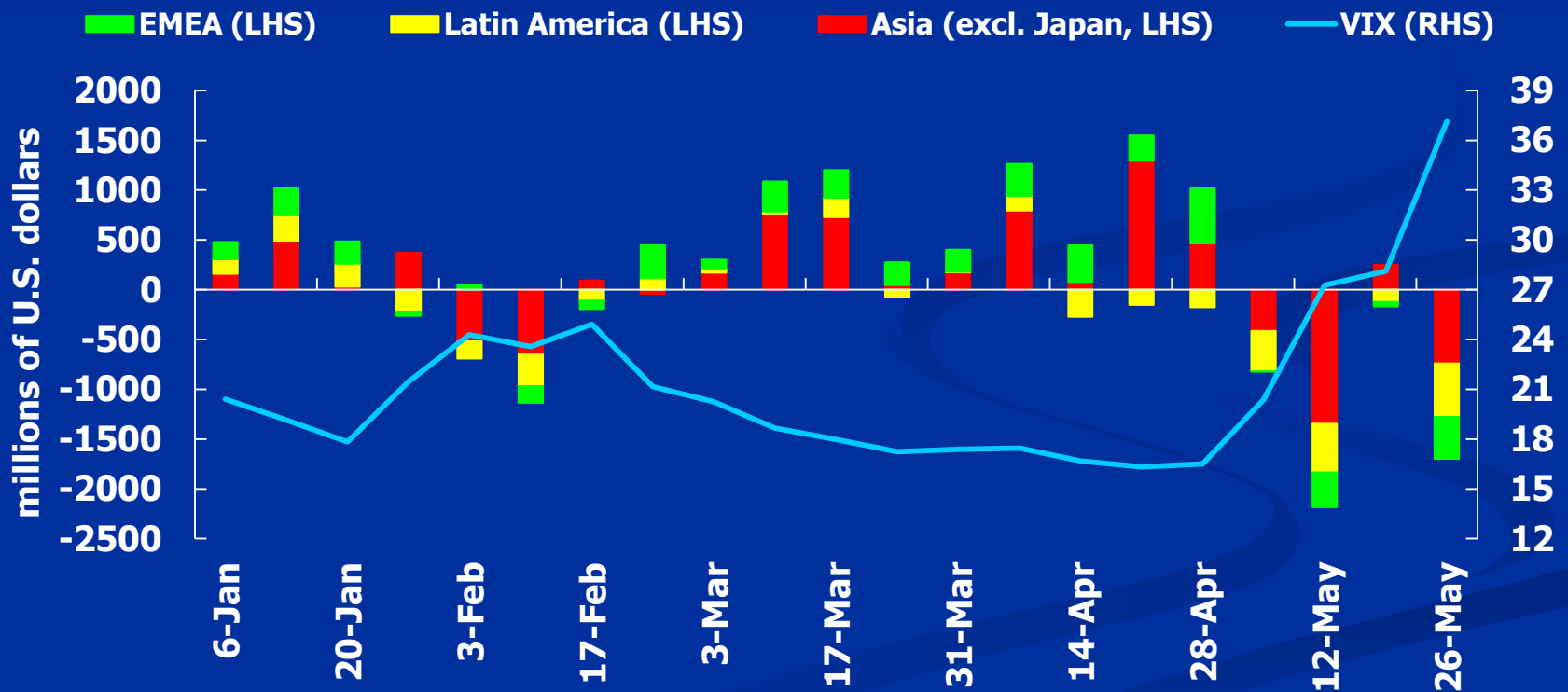


Asia: Direction of Exports, 2009
(percent of GDP)



...when the potential for increased global risk aversion could put pressure on capital flows

Emerging Market Equity Funds Flows and VIX in 2010



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Action is needed to achieve fiscal sustainability, financial stability and encourage growth...

Pace of unwinding macro stimulus

- Depends critically on country circumstances
- Difficult balance: reduce vulnerabilities & encourage growth

Advance financial sector reform

- Needed for lasting financial stability
- Implementation key: timely, effective, consistent

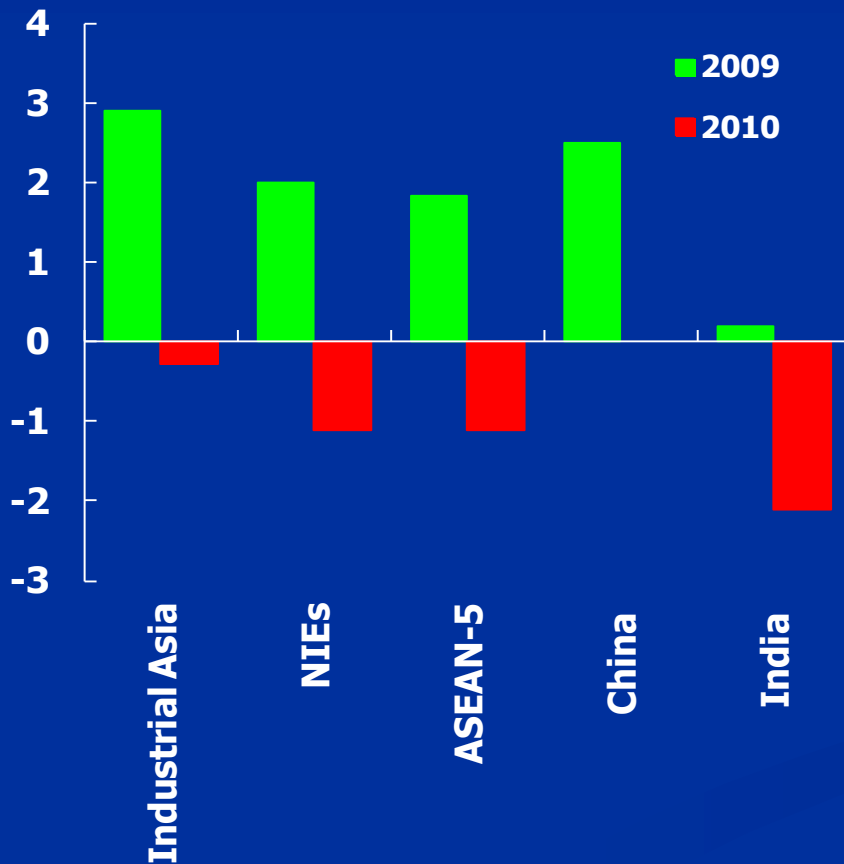
Managing volatile capital flows

- Contribute to growth & contain financial market dislocations
- Preserve benefits of globalization

Policies begun to normalize in some countries, but policy space to respond flexibly if needed

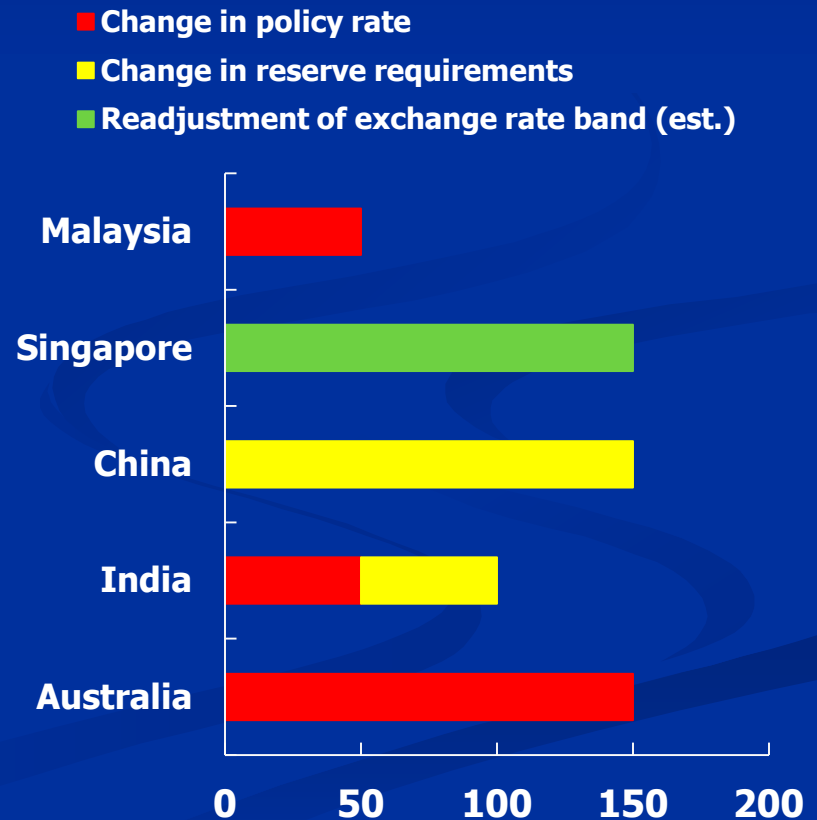
Fiscal Impulse

(change in cyclically adjusted balance; percent of GDP)

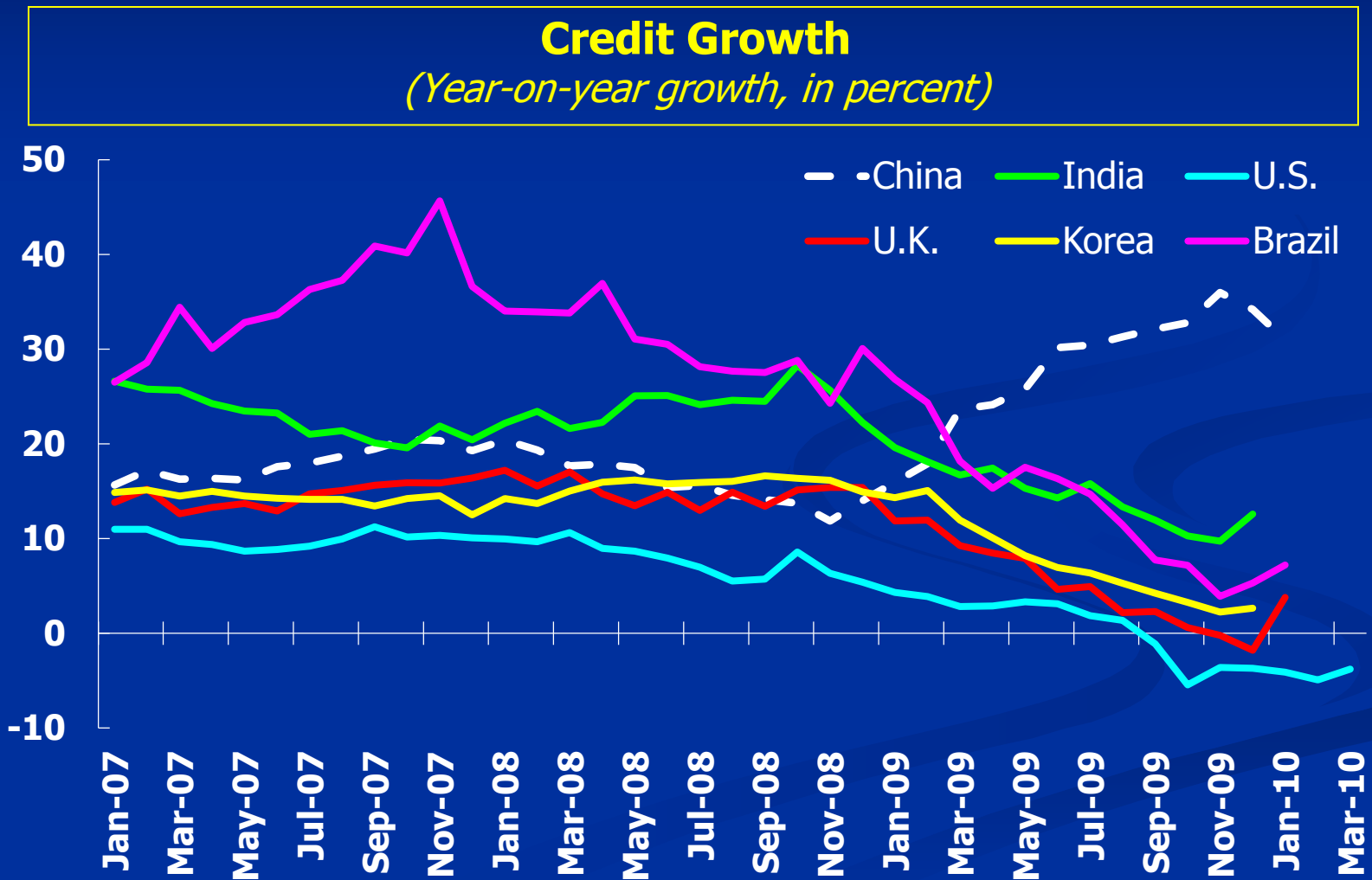


Selected Asia: Monetary Tightening

(basis points; since mid-2009)



Asia's financial systems remained resilient, but reforms remain important...

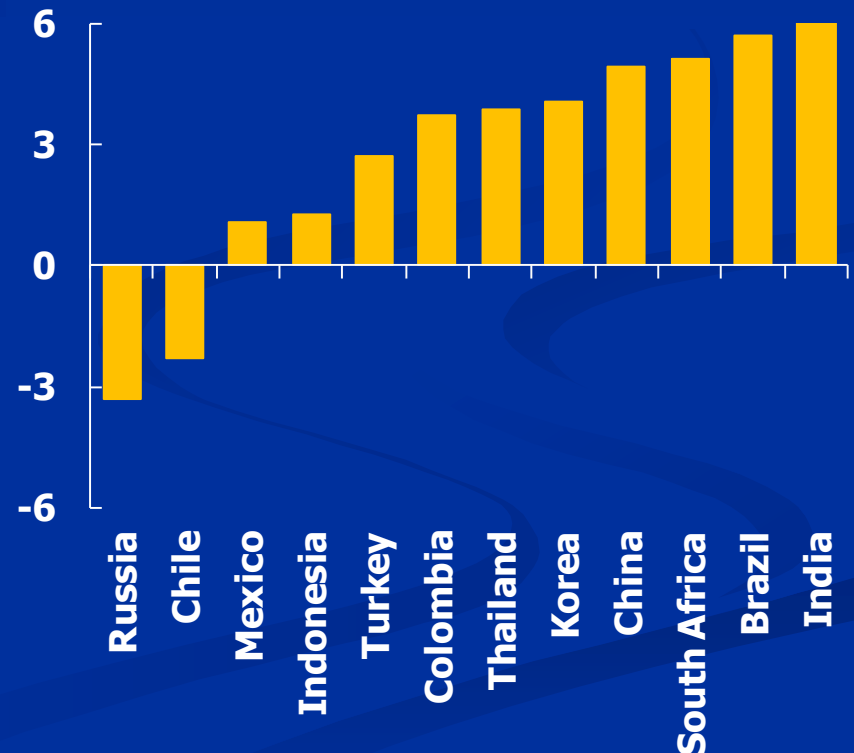


Managing uncertain capital flows, without financial market disruptions, will be vital for Asian growth

Selected Asia: Macro-prudential Measures

- **Singapore:** Interest-only loans disallowed; assistance measures for property developers wound down.
- **China:** Higher taxes on the sale of properties purchased less than five years prior to the sale; limits on loan-to-value ratios for second homes.
- **Hong Kong SAR:** Limits to mortgages for luxury homes; increase in stamp duty on sales of luxury properties.
- **Korea:** Maximum loan-to-value ratios and debt-to-income ratios lowered in Seoul and surrounding areas.

Selected EM: Net Capital Inflows in 2009:H2 (percent of GDP)



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The crisis highlighted “imperfections” in the International Monetary System

No self-adjustment to imbalances

- Only deficit countries that are not reserve issuers adjust
- No effective constraint on surplus countries

Volatile capital flows

- Uneven openness and integration of capital markets
- Uncertainty about availability of global liquidity

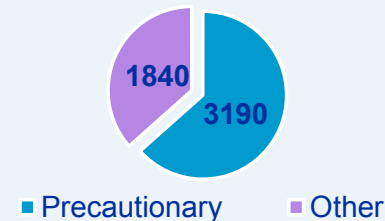
Large demand for FX reserves

- Heavy reliance on handful of reserve assets
- Distorts global capital flows to the center

Key drivers of demand for reserves

**Precautionary/
self-insurance
motive**

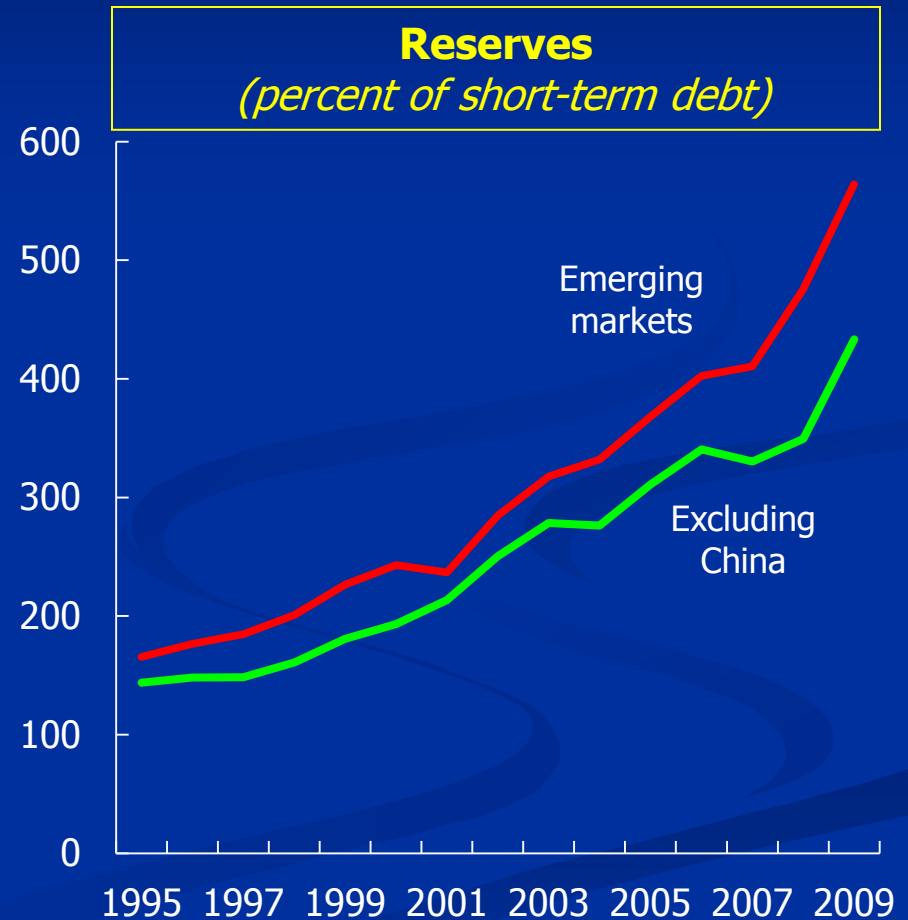
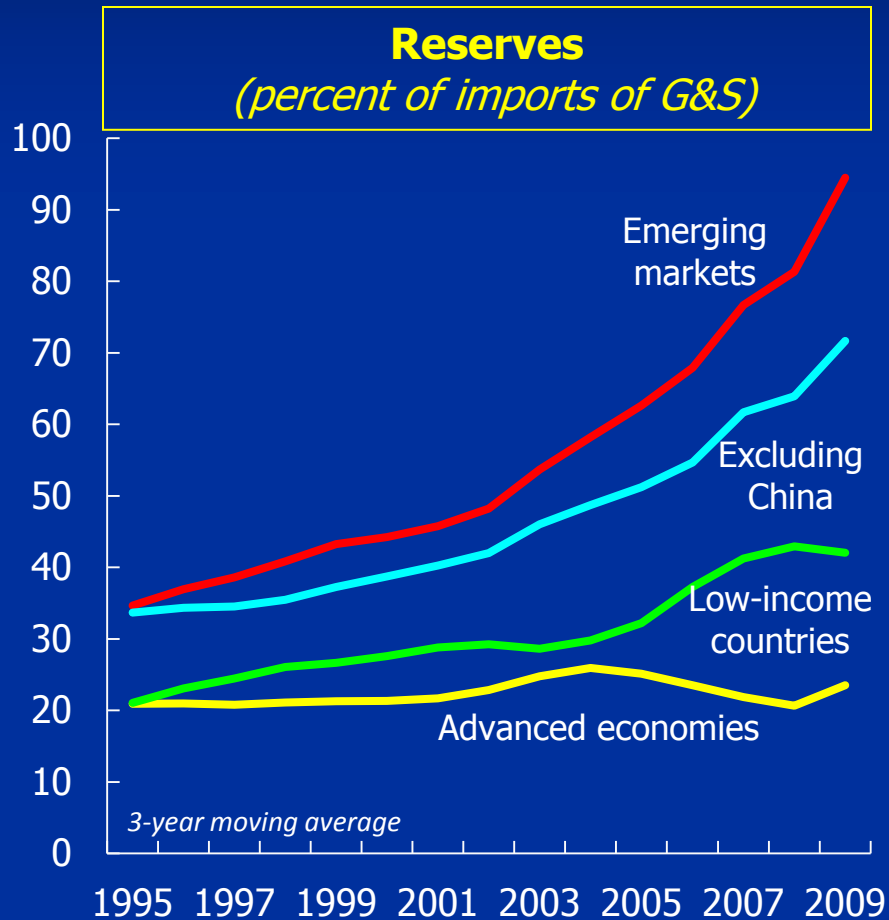
Foreign Reserves in Emerging Market and Developing Countries, \$ bn, 2008



**Non-precautionary
motives**

- Consumption smoothing
- Counterpart to export-led growth

Rapid reserve accumulation beyond traditional prudential metrics



Reducing the demand for reserves

Improve the financial safety net *(IMF has role to play)*

- Stronger insurance facilities – a better FCL & a more attractive precautionary credit line
- Stronger synergies with regional pools
- New multi-country credit mechanism

Better surveillance of capital flows

- Improved understanding and better measures to manage capital flows

Strengthen peer review

- G-20 Mutual Assessment Process ⇒ major step
- Limits on interventions/encourage more exchange rate flexibility

Orderly diversification of the supply of reserves

- No near term options for global substitution
- Longer term: pro-actively diversify reserve supply?
 - Multi-polar reserve system: more symmetric, policy discipline; but smaller scale, more ER volatility
 - SDR-based system: more stable, symmetric; need to increase liquidity, promote use

Concluding Thoughts

- Global crisis and recovery ⇒ challenges and opportunities
 - A collaborative approach is needed to meet these challenges
 - The IMF must do a better job of identifying spillovers and risks
- Asia is leading the global recovery and policy debate
 - **Lead by example** with Asia's economic successes reflecting enduring reforms and effective policies
 - **Regional cooperation** and policy dialogue has borne fruit
 - **Governance structures** must better reflect global realities

