

Asia and Pacific Spring 2015 Regional Economic Outlook

Stabilizing and Outperforming



May 7, 2015



Global growth to remain moderate

Global growth in 2015 projected to increase slightly relative to previous year; improvement expected in 2016

- 2015 forecast: 3.5 percent (no change relative to January 2015 WEO)
- 2016 forecast: 3.8 percent (no change relative to January 2015 WEO)

Uneven prospects across the main countries and regions

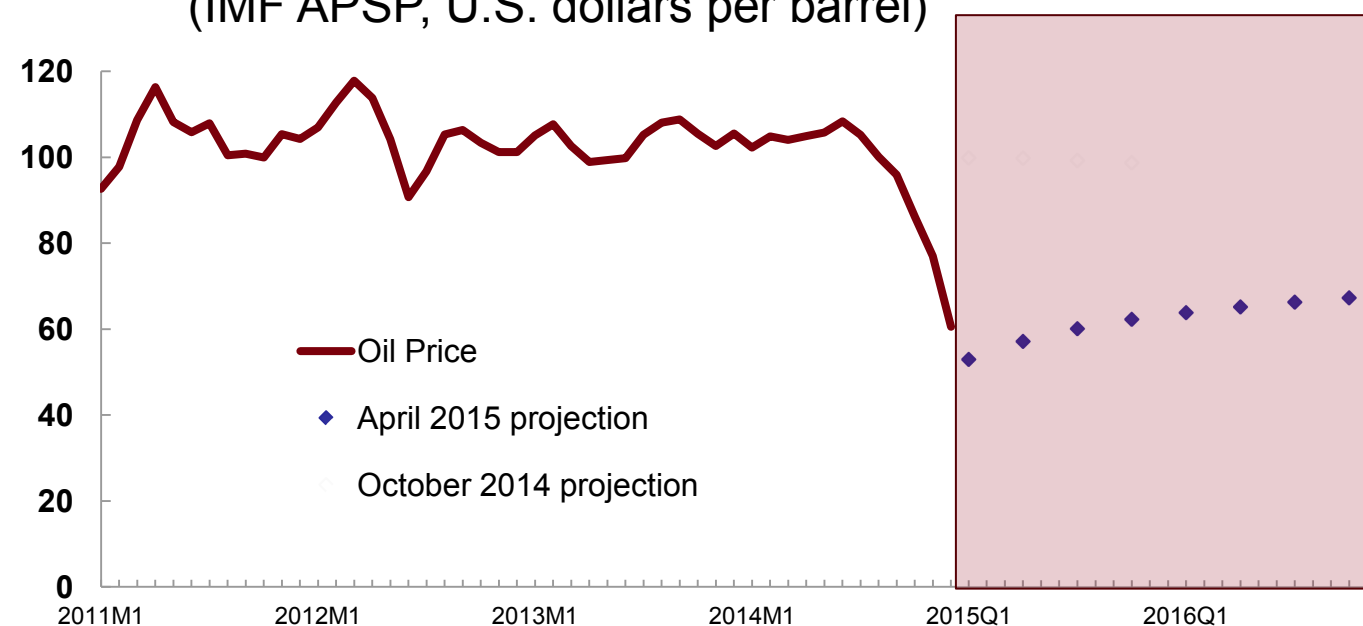
- Improving prospects in advanced economies
- Lower growth in emerging market and developing economies in 2015, mainly due to weaker prospects in some major EMs and oil exporters



Forecast assumptions: partial gradual reversal of oil price decline

Oil Spot and Futures Prices

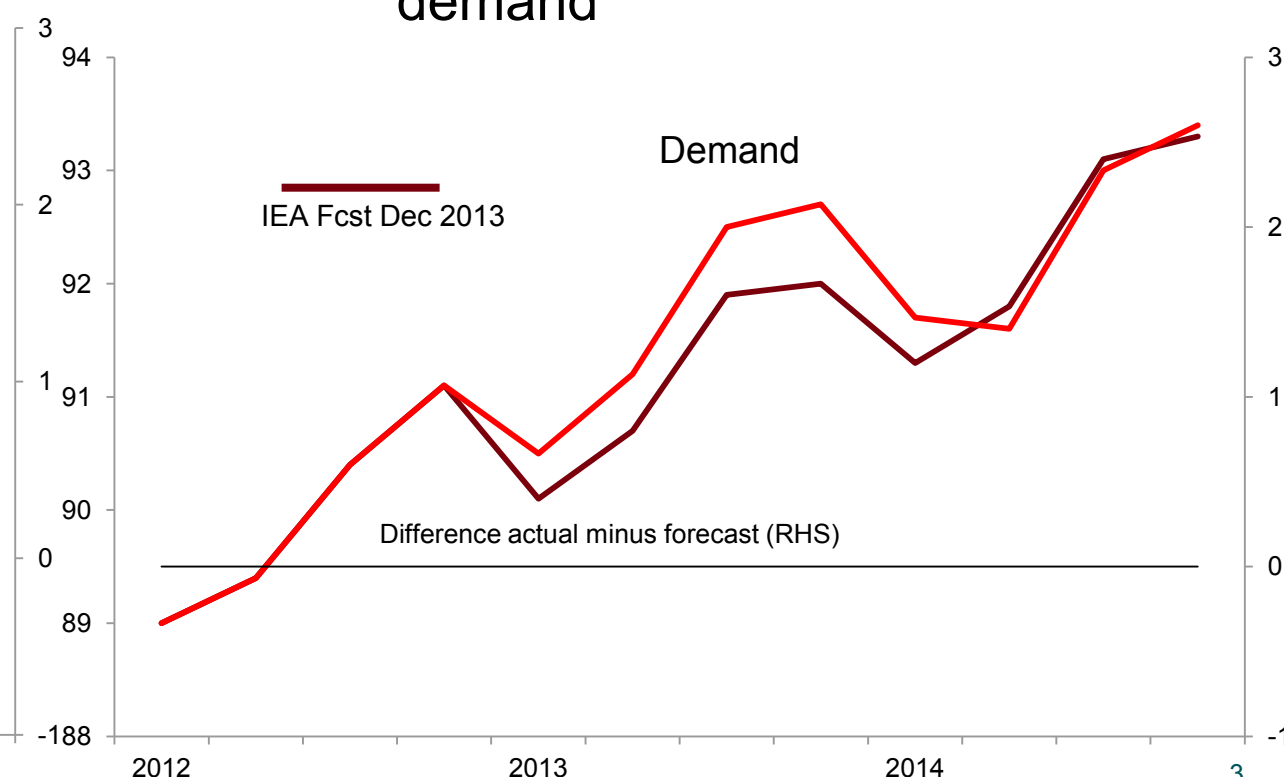
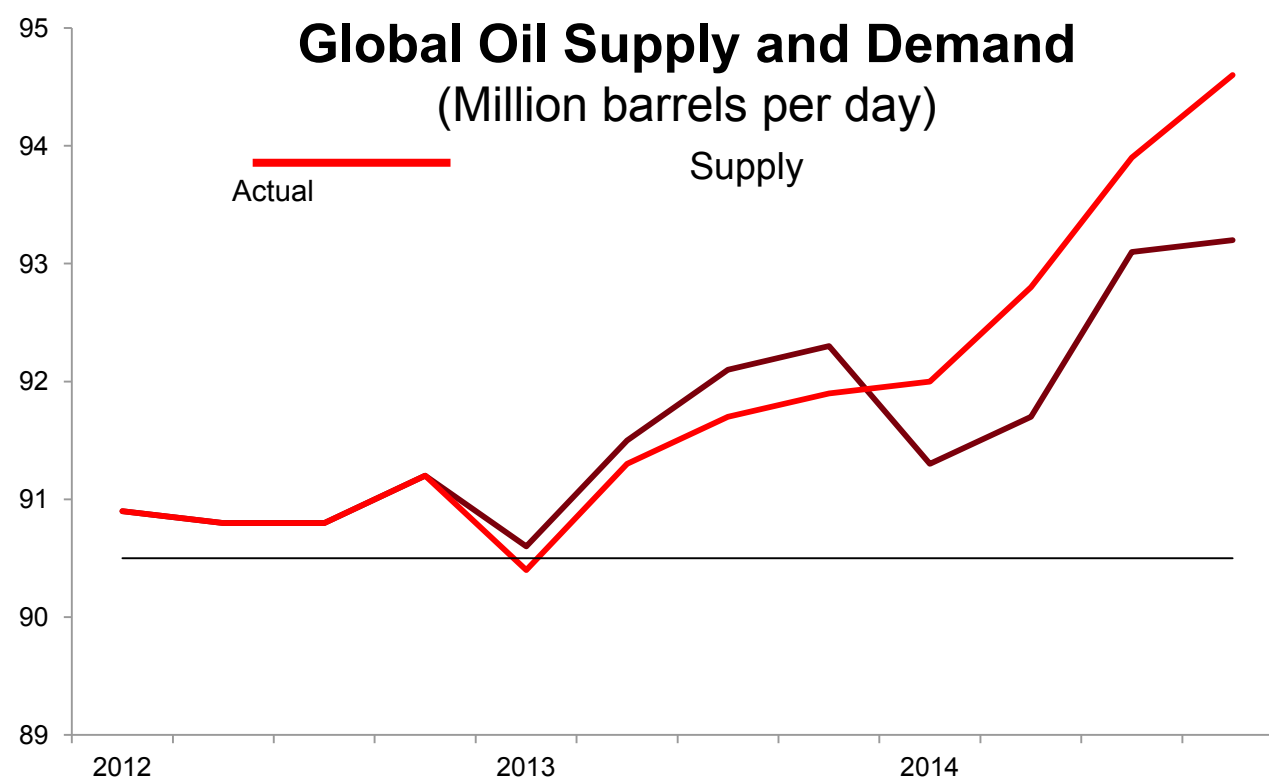
(IMF APSP, U.S. dollars per barrel)



- Sharp price declines as global market moved into oversupply (flow basis)
- Positive supply shocks contributed importantly to decline:
 - Unexpected decision to maintain OPEC supply in the face of steadily rising non-OPEC supply and weakening global demand

Global Oil Supply and Demand

(Million barrels per day)

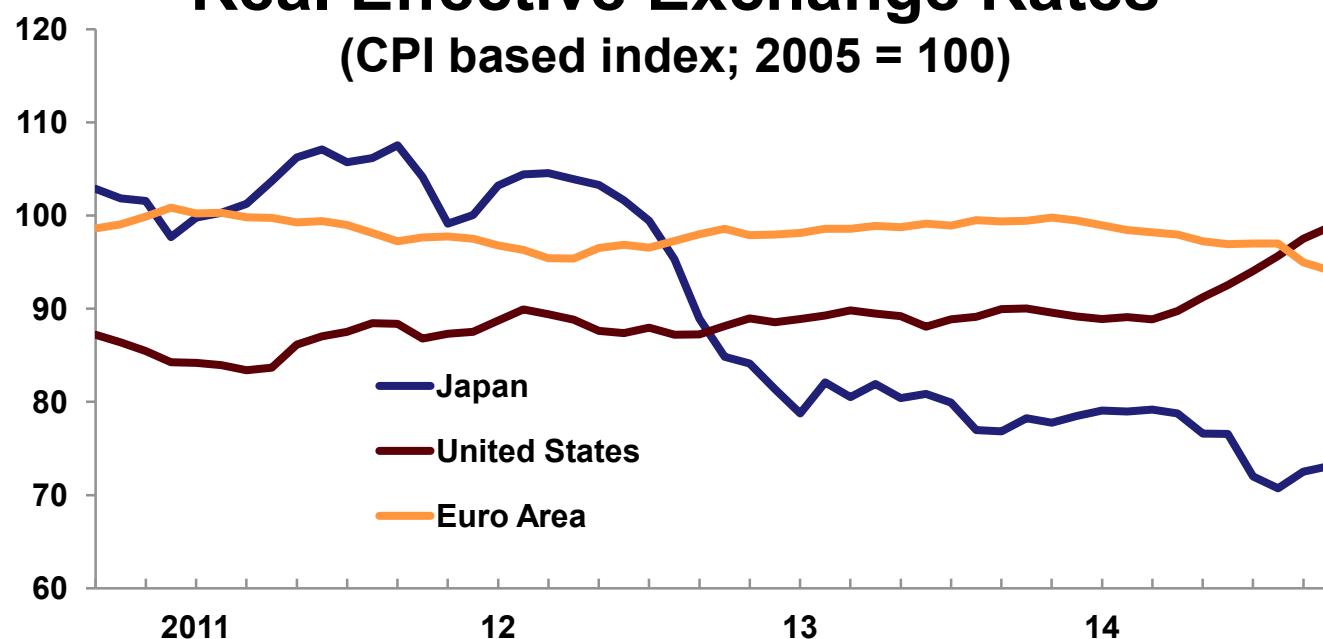




Expected growth, monetary policy divergence, and oil prices have led to exchange rate realignments

Real Effective Exchange Rates

(CPI based index; 2005 = 100)

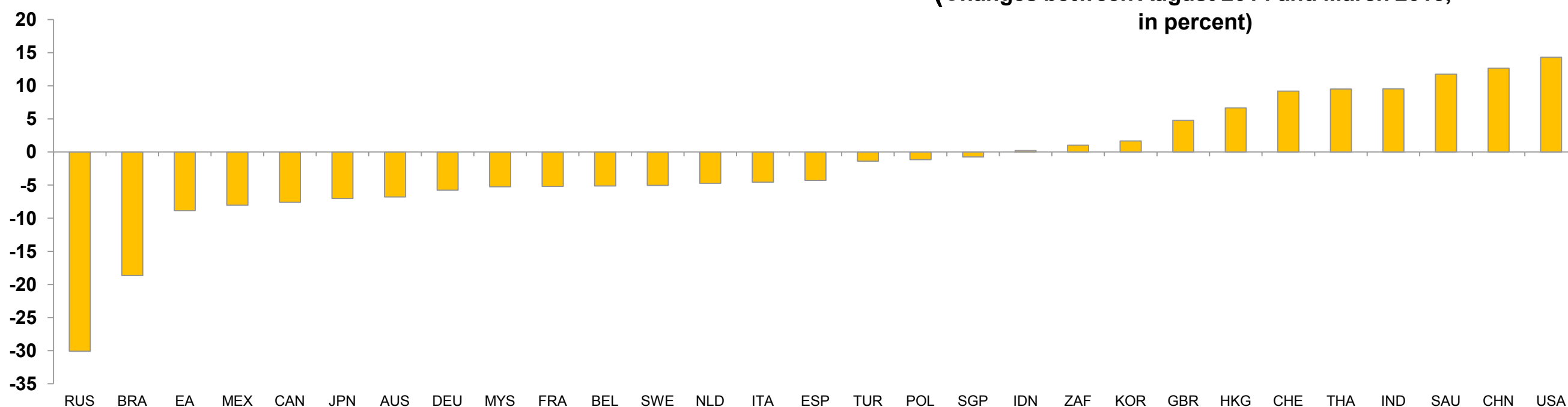


U.S. dollar has appreciated by over 10 percent in real effective terms

The yen and the euro have depreciated

Nominal Effective Exchange Rates

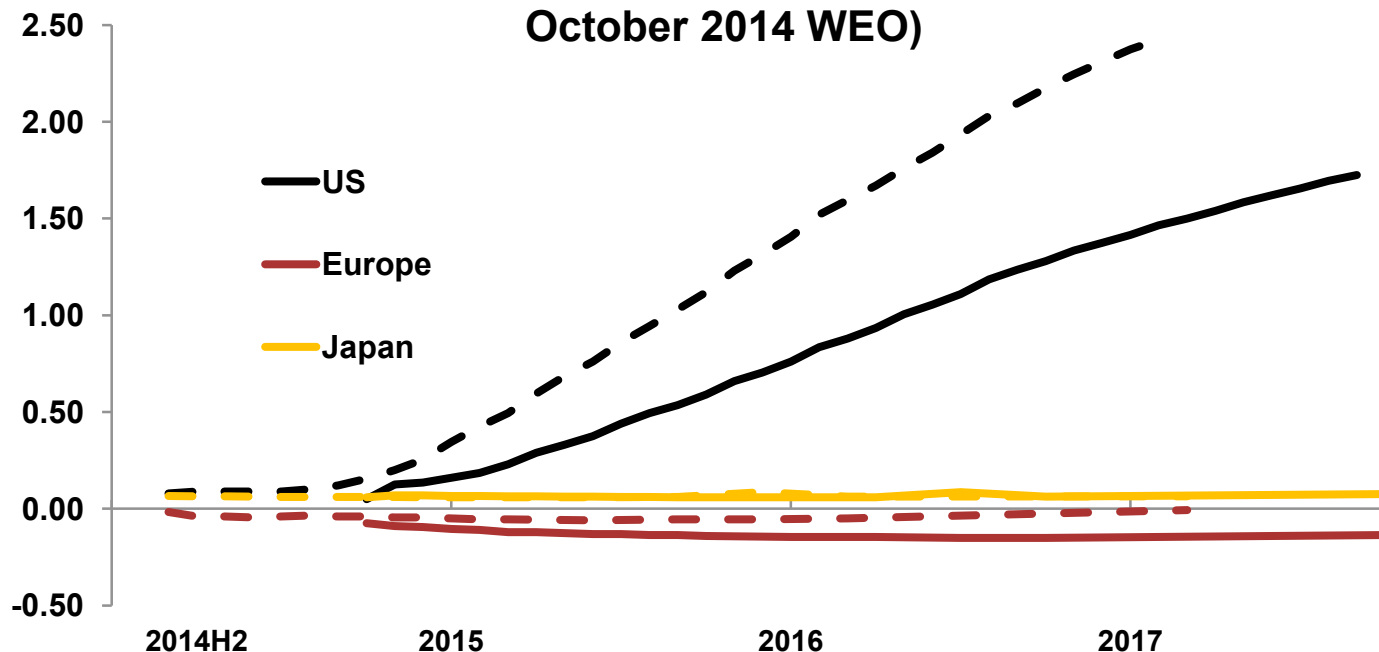
(Changes between August 2014 and March 2015, in percent)





Markets still expect the Fed to start tightening in mid-2015, but at a slower pace

Policy Rate Expectations
(percent; dashed lines are from the
October 2014 WEO)



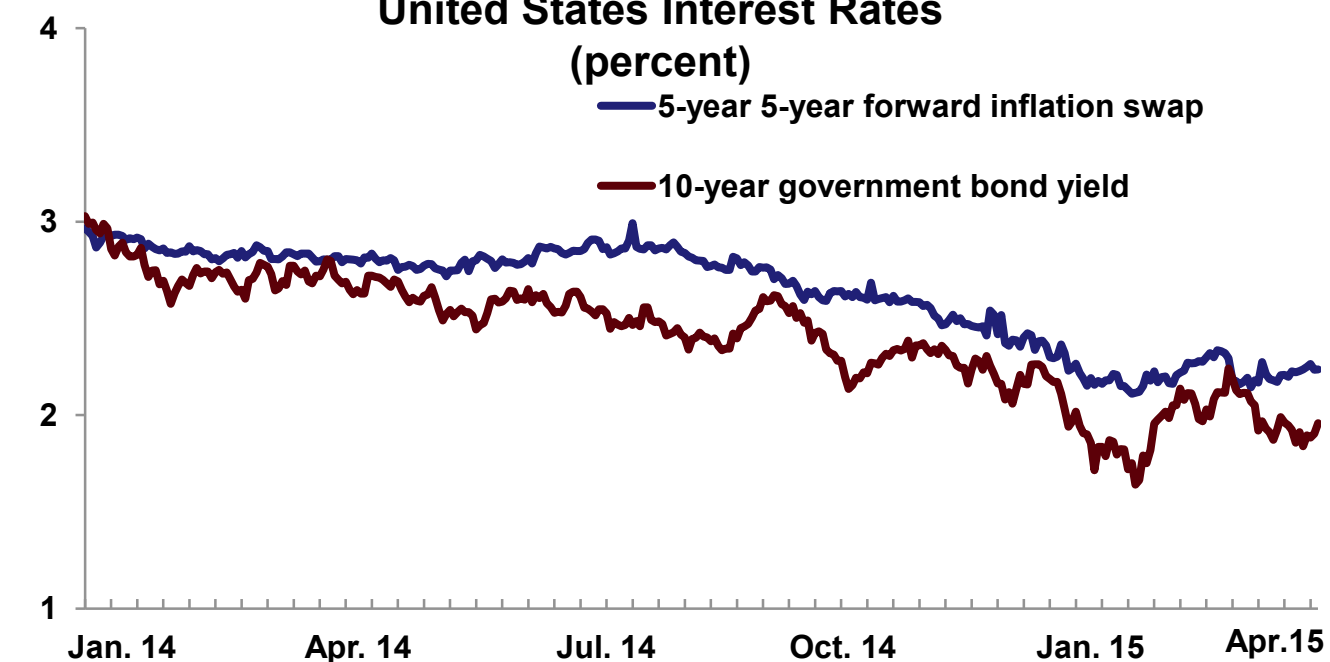
Domestic employment conditions likely to suggest tightening....

- Robust growth rebound since 2014Q2
- Boost from lower oil prices
- Unemployment rate expected to reach the FOMC's mid-point NAIRU estimate in 2015

But inflation and external conditions argue against urgency

- Dollar appreciation a drag on external demand
- Core inflation below target, further downdraft from oil price decline
- Declining MT inflation expectations

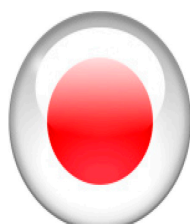
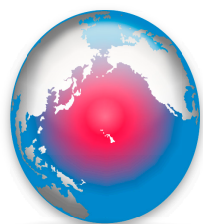
United States Interest Rates
(percent)





The outlook is for a continued recovery, but the pace is moderate and uneven...

Advanced Economies Real GDP Growth Projections (percent change from a year earlier)



World

AEs.

U.S.

EA

Japan

U.K.

Germany

France

Italy

Spain

2015
(Apr 2015)

3.5

2.4

3.1

1.5

1.0

2.7

1.6

1.2

0.5

2.5

2015
(Jan 2015)

3.5

2.4

3.6

1.2

0.6

2.7

1.3

0.9

0.4

2.0

2016
(Apr 2015)

3.8

2.4

3.1

1.6

1.2

2.3

1.7

1.5

1.1

2.0

2016
(Jan 2015)

3.7

2.4

3.3

1.4

0.8

2.4

1.5

1.3

0.8

1.8

Source: IMF, World Economic Outlook.



The outlook is for a continued recovery, but the pace is moderate and uneven...

Emerging Market and Developing Economies Real GDP Growth Projections (percent change from a year earlier)



EMDEs



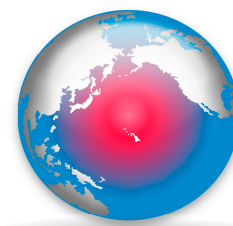
China



India



Russia



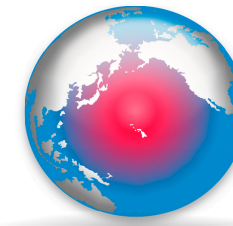
LAC



Brazil



Mexico



LIDCs

2015
(Apr 2015)

4.3

6.8

7.5

-3.8

0.9

-1.0

3.0

5.5

2015
(Jan 2015)

4.3

6.8

6.3

-3.0

1.3

0.3

3.2

5.9

2016
(Apr 2015)

4.7

6.3

7.5

-1.1

2.0

1.0

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6.0

2016
(Jan 2015)

4.7

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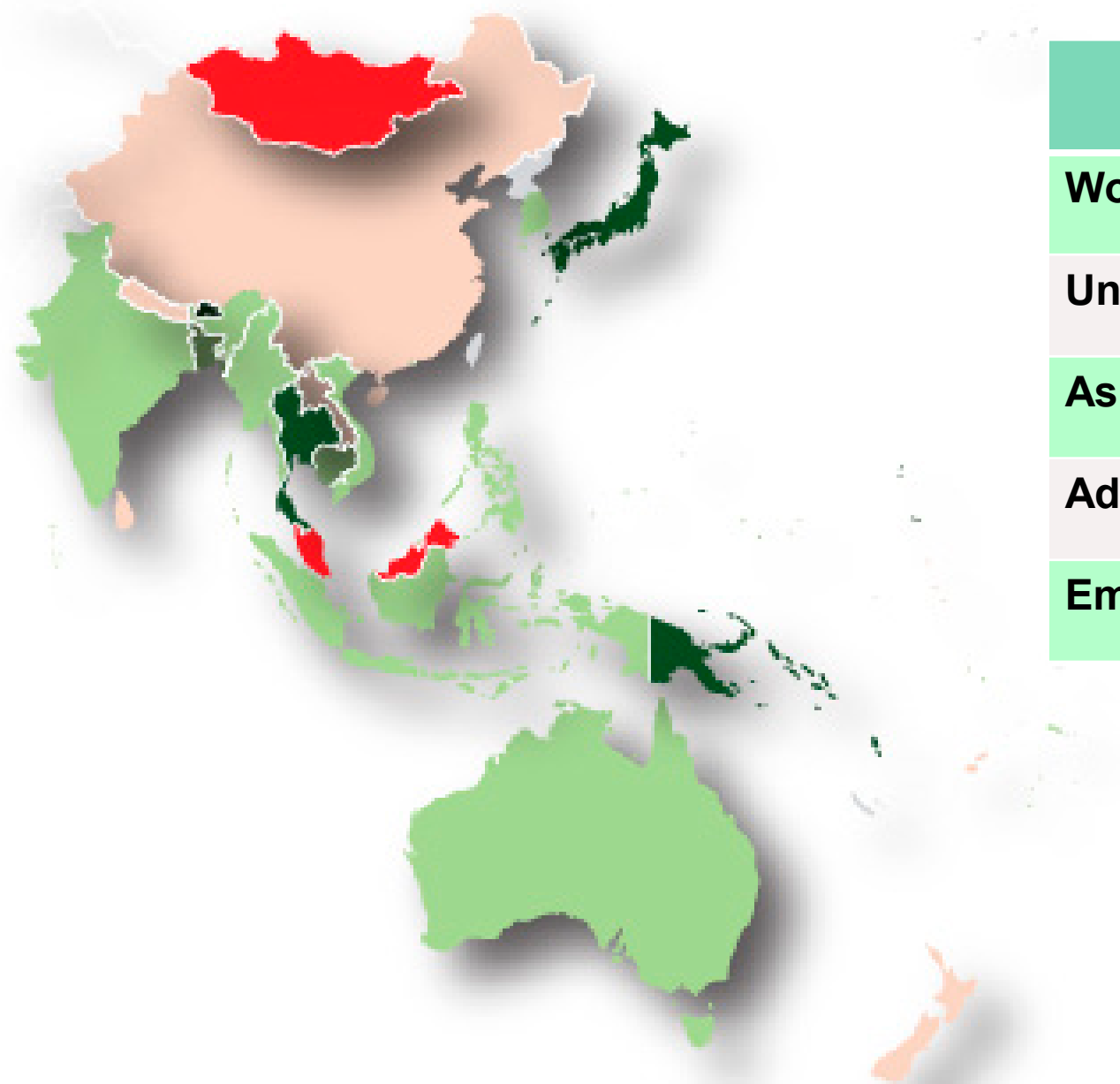
3.5

6.1



Asia will continue to outperform the rest of the world.

Change in Growth: 2015 forecast compared to 2014



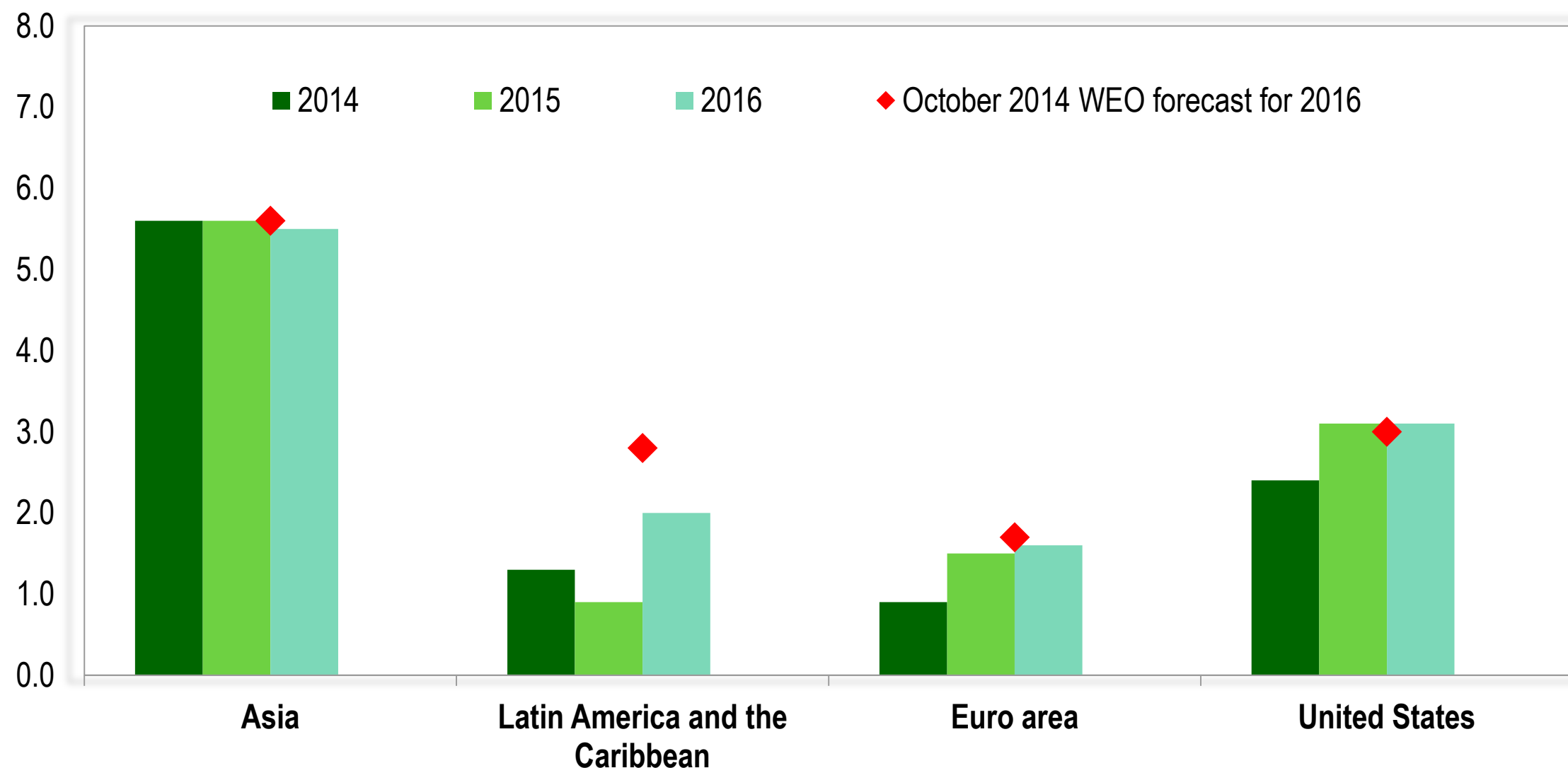
	2015 Growth
World	3.5
United States	3.1
Asia	5.6
Advanced Asia	2.2
Emerging Asia	6.6

- More sizable increase
- Modest increase
- Modest decrease
- More sizable decrease



Asia will continue to outperform the rest of the world.

Real GDP Growth (Year-on-year percent change)



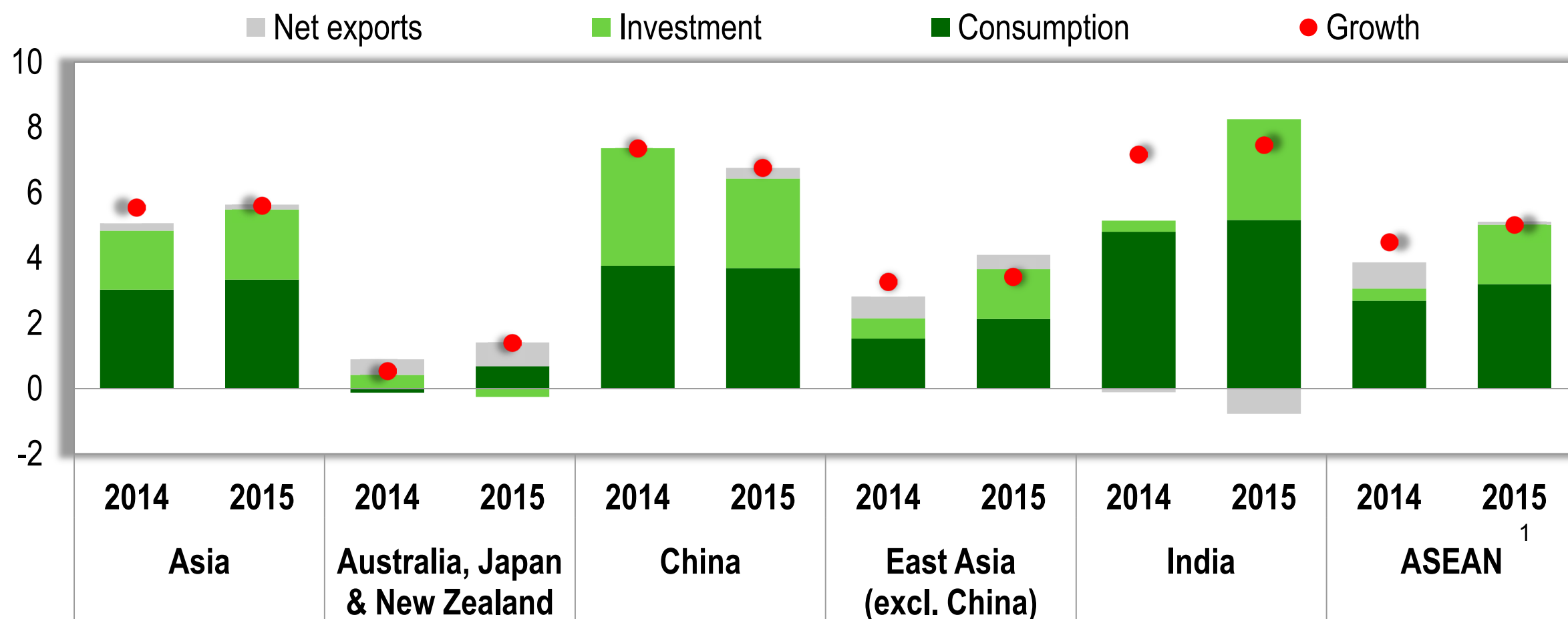
Source: IMF World Economic Outlook database.



Domestic demand remains the regional growth driver

Selected Asia: Contributions to Projected Growth

(In percentage points; year over year)



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

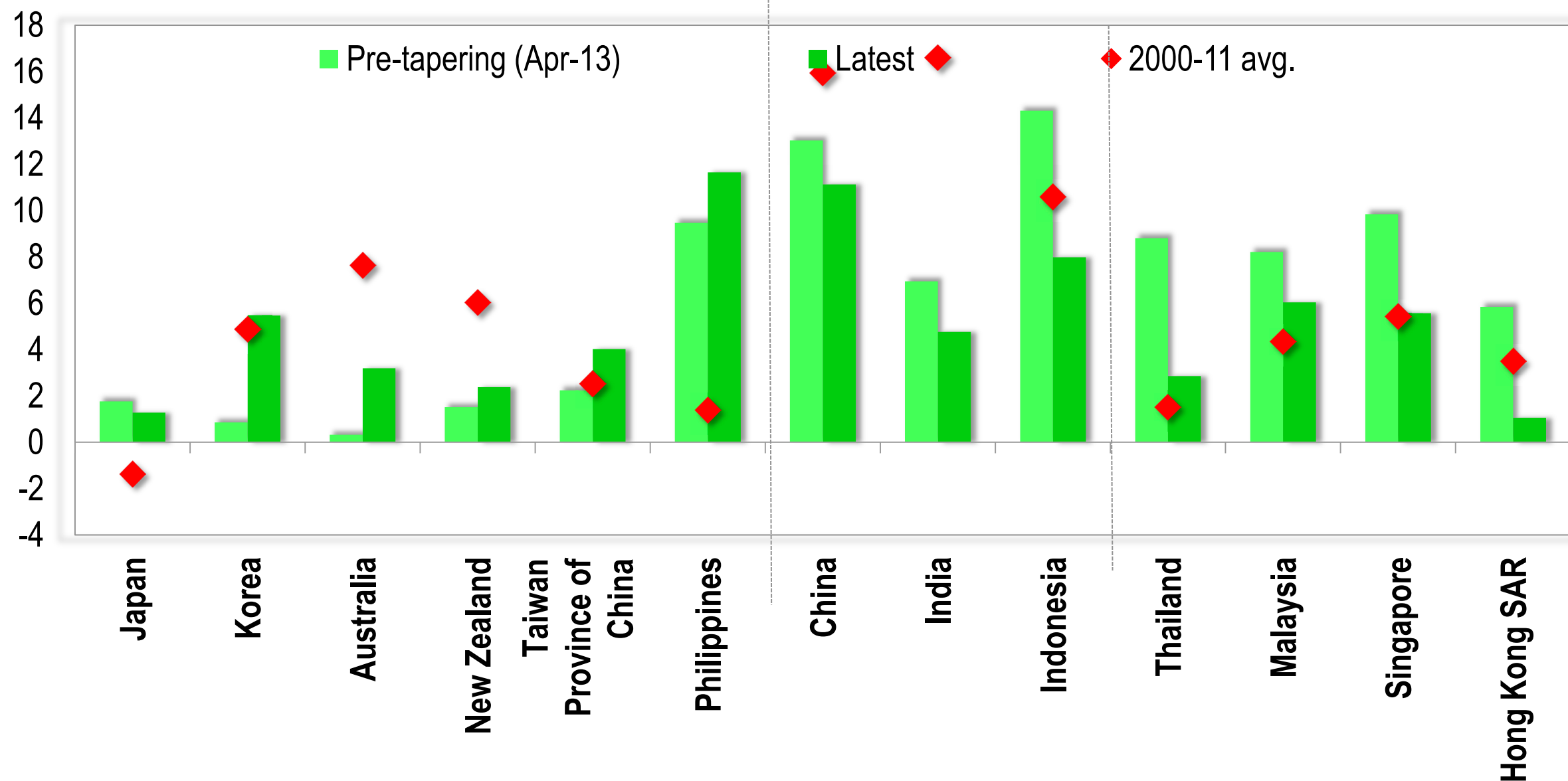
¹ ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam



Rapid credit growth contributed to Asia's robust domestic demand after the GFC

Selected Asia: Real Credit Growth

(Year-on-year; in percent)

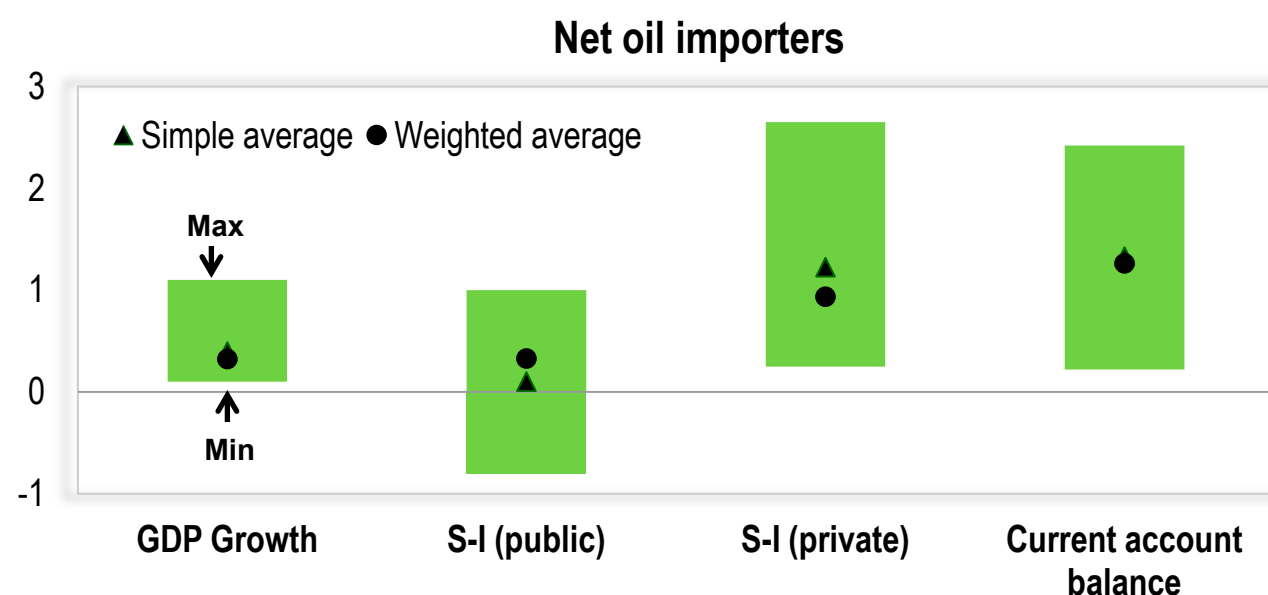
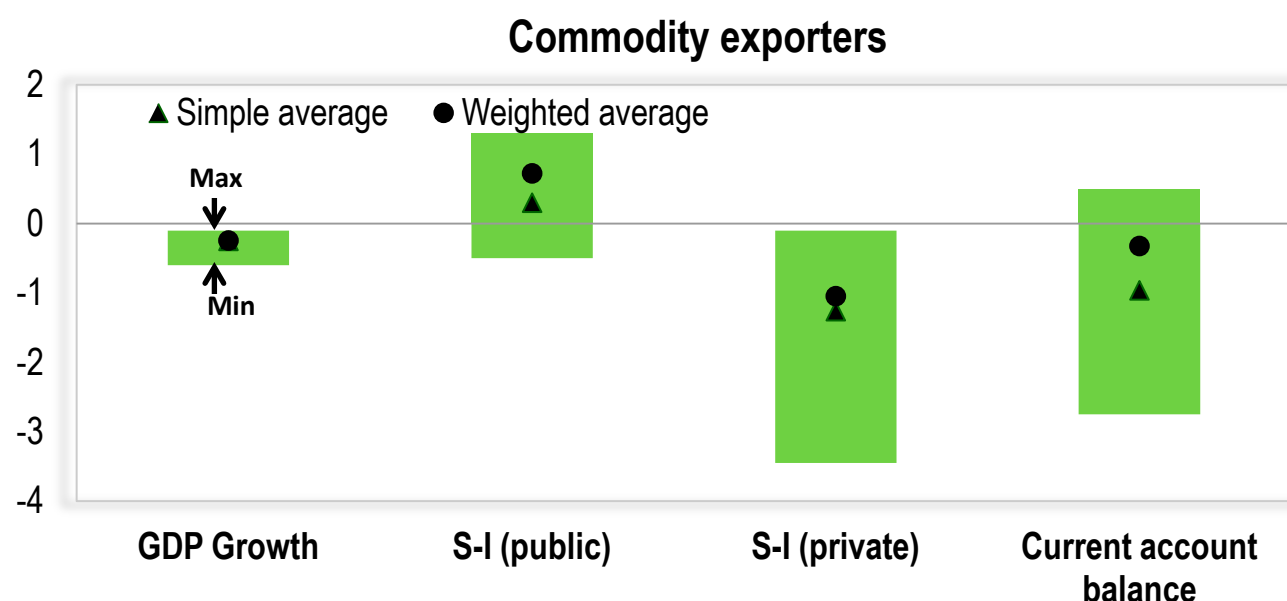




Most of Asia will benefit from oil price decline.

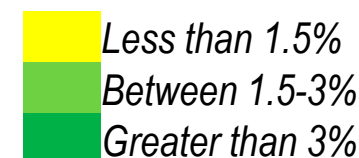
Impact of Oil Price Decline on Macro-forecasts

(In percentage points of GDP; growth in percent)



Oil Price Windfall: Impact on the Oil Trade Balance in 2015

(In percent of GDP)



Country	Oil Price windfall
Australia	0.2
Vietnam	0.4
Malaysia	0.7
New Zealand	0.9
China	0.9
Indonesia	1.1
Japan	1.4
Philippines	1.8
Singapore	1.9
India	2.0
Taiwan Province of China	2.1
Korea	2.7
Hong Kong SAR	2.8
Thailand	5.0
Asia (simple average)	1.7
Asia (weighted average)	1.4

Source: IMF staff estimates.

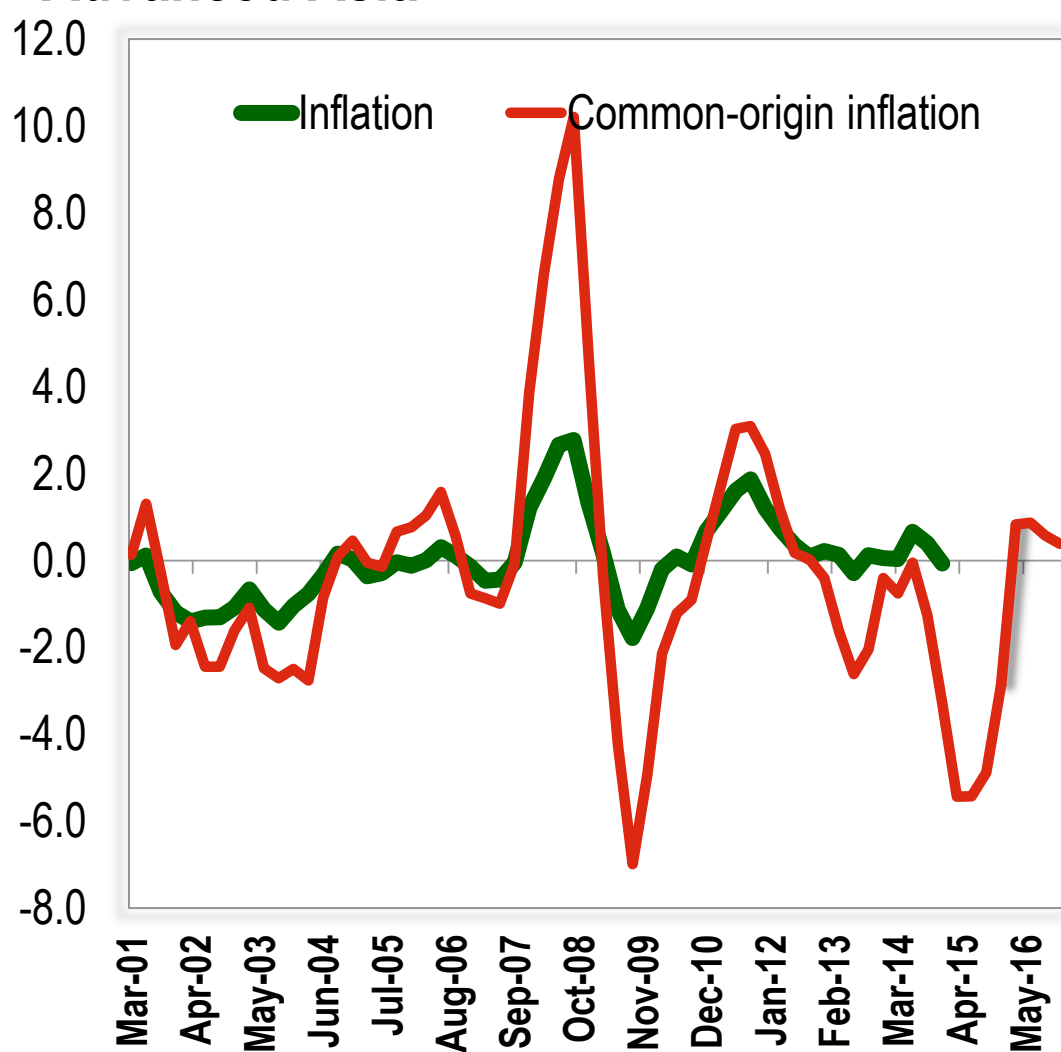
Note: Based on 2014 oil trade balance, assuming unchanged quantities and the April 2015 WEO oil price projections for 2015.



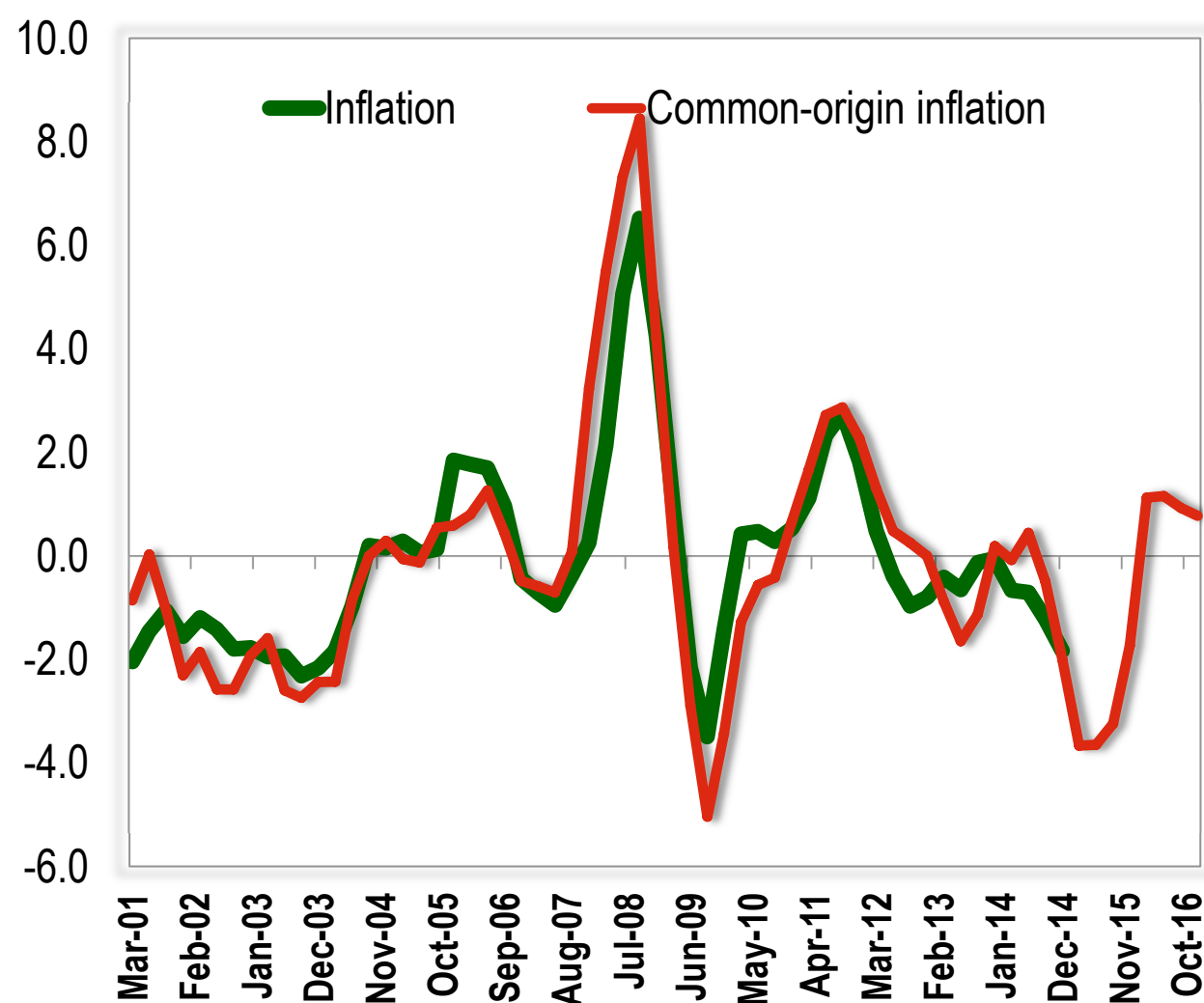
With widespread, but temporary, decline in headline inflation

Asia: Actual and Global Factor Inflation (In percent; demeaned)

Advanced Asia¹



Emerging Asia²



Source: IMF staff estimates.

¹The sample comprises Australia, Hong Kong SAR., Japan, Korea, New Zealand, Singapore, and Taiwan Province of China;

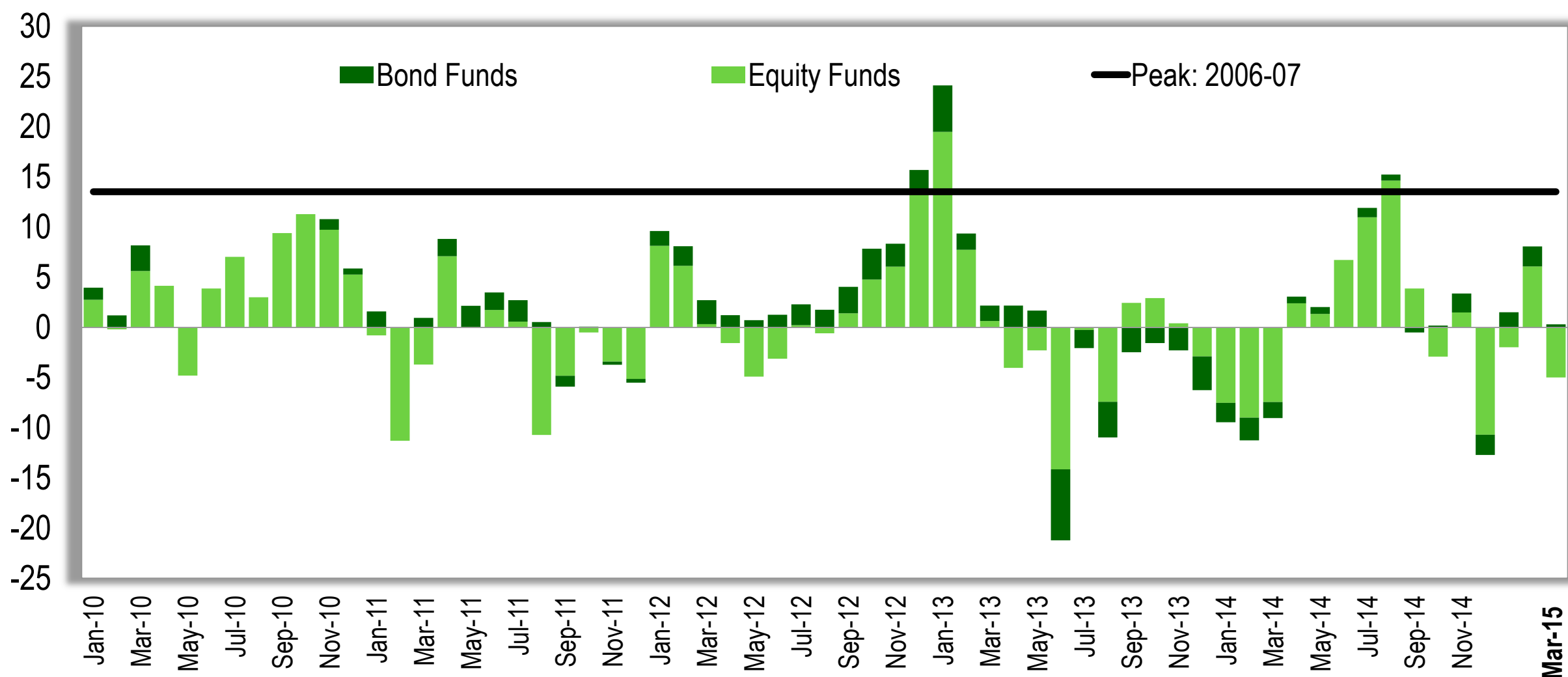
²The sample comprises China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.



The prospect of higher U.S. interest rates triggered a reversal of capital flows

Asia: Equity and Bond Funds—Monthly Net Flows

(In billions of U.S. dollars)



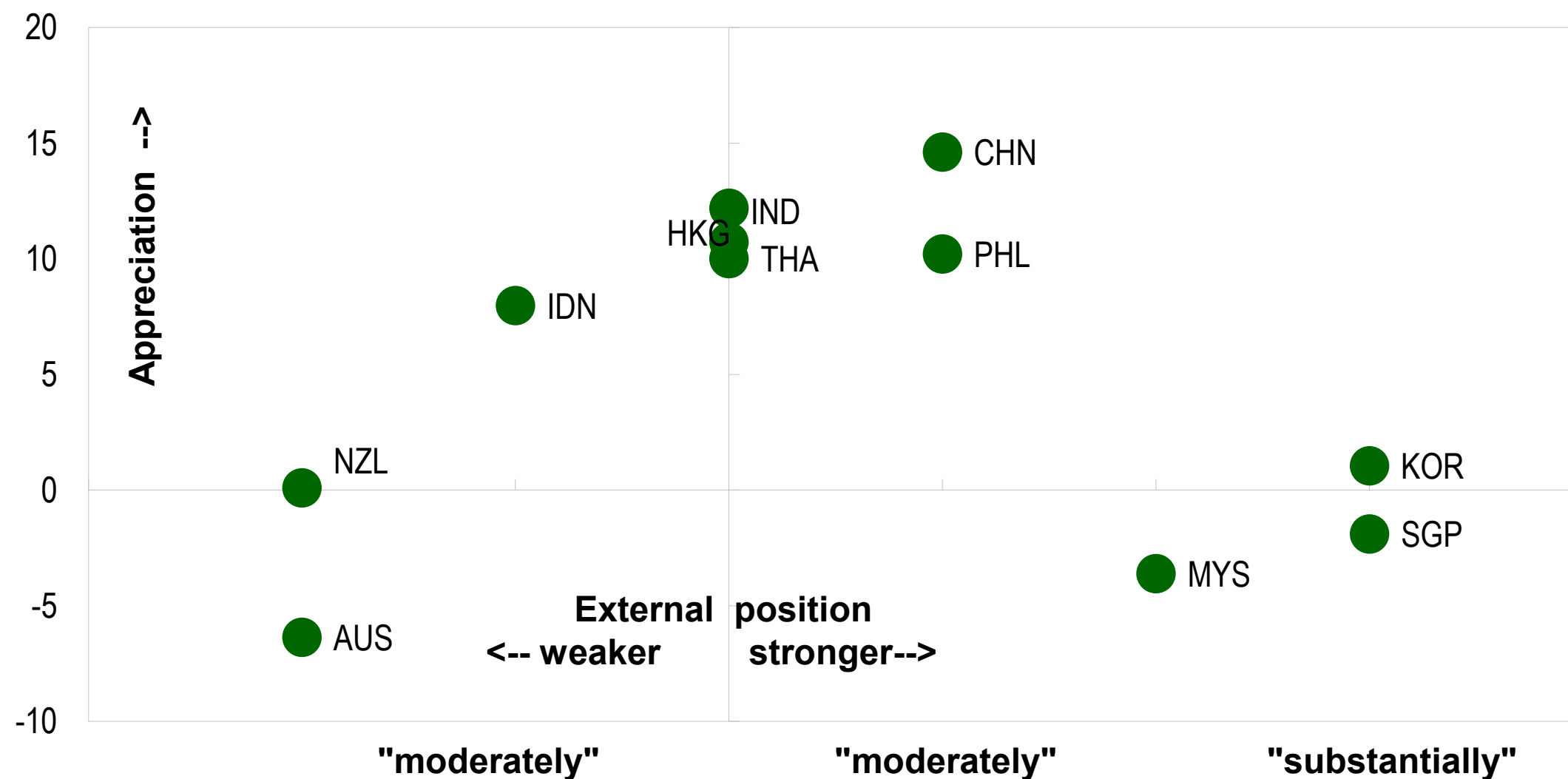
Source: Haver Analytics.

Note: Includes exchange traded fund flows and mutual fund flows for emerging Asia, Australia, Hong Kong SAR, Korea, New Zealand, Singapore, and Taiwan Province of China.



So far, most Asia-Pacific currencies have appreciated in real effective terms...

REER appreciation since June vs 2014 external assessment

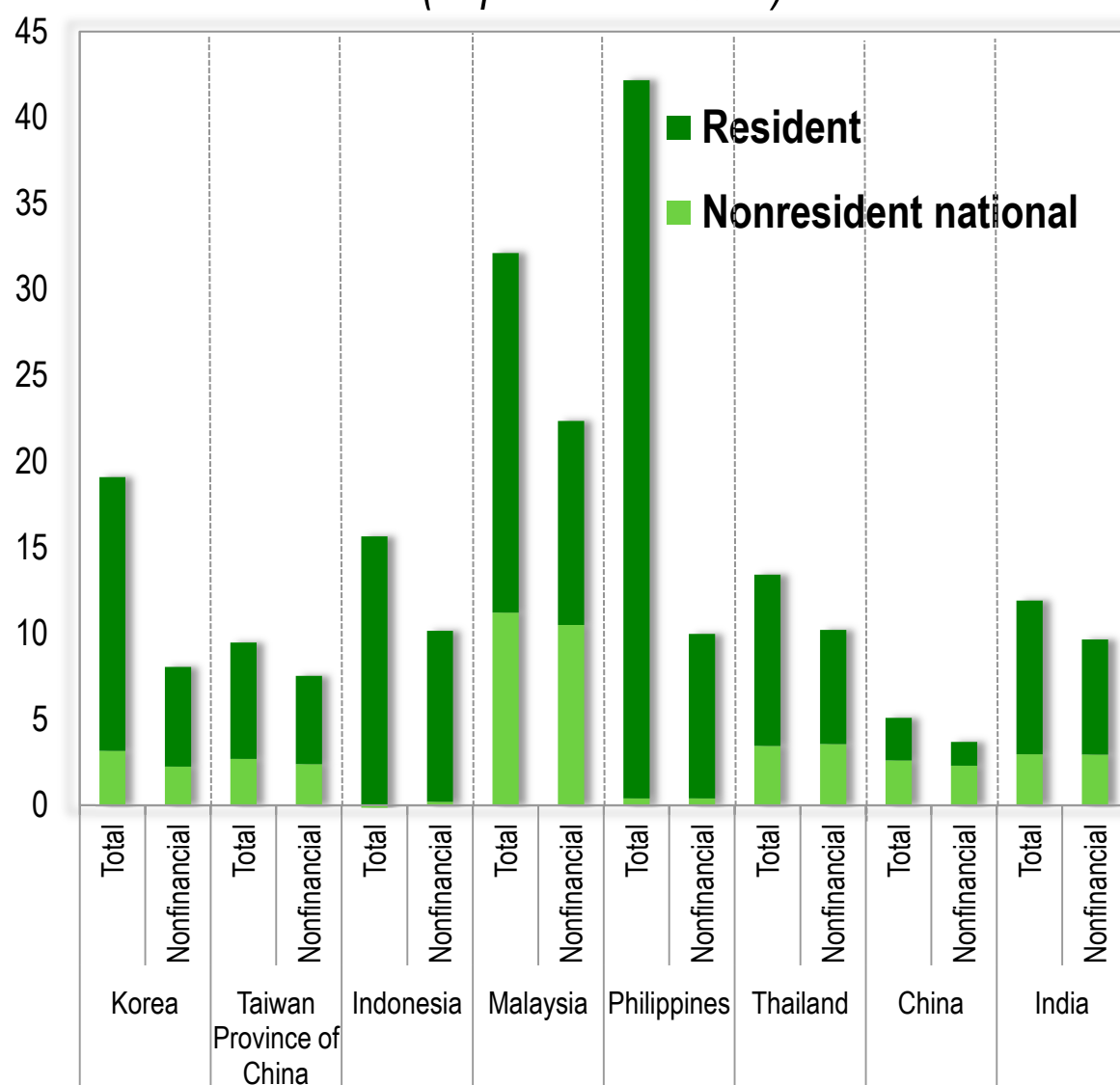




Vulnerabilities are rising, and large FX moves could create challenges.

Stock of Outstanding Bonds and Syndicated FX Denominated Loans—End-2014

(In percent of GDP)

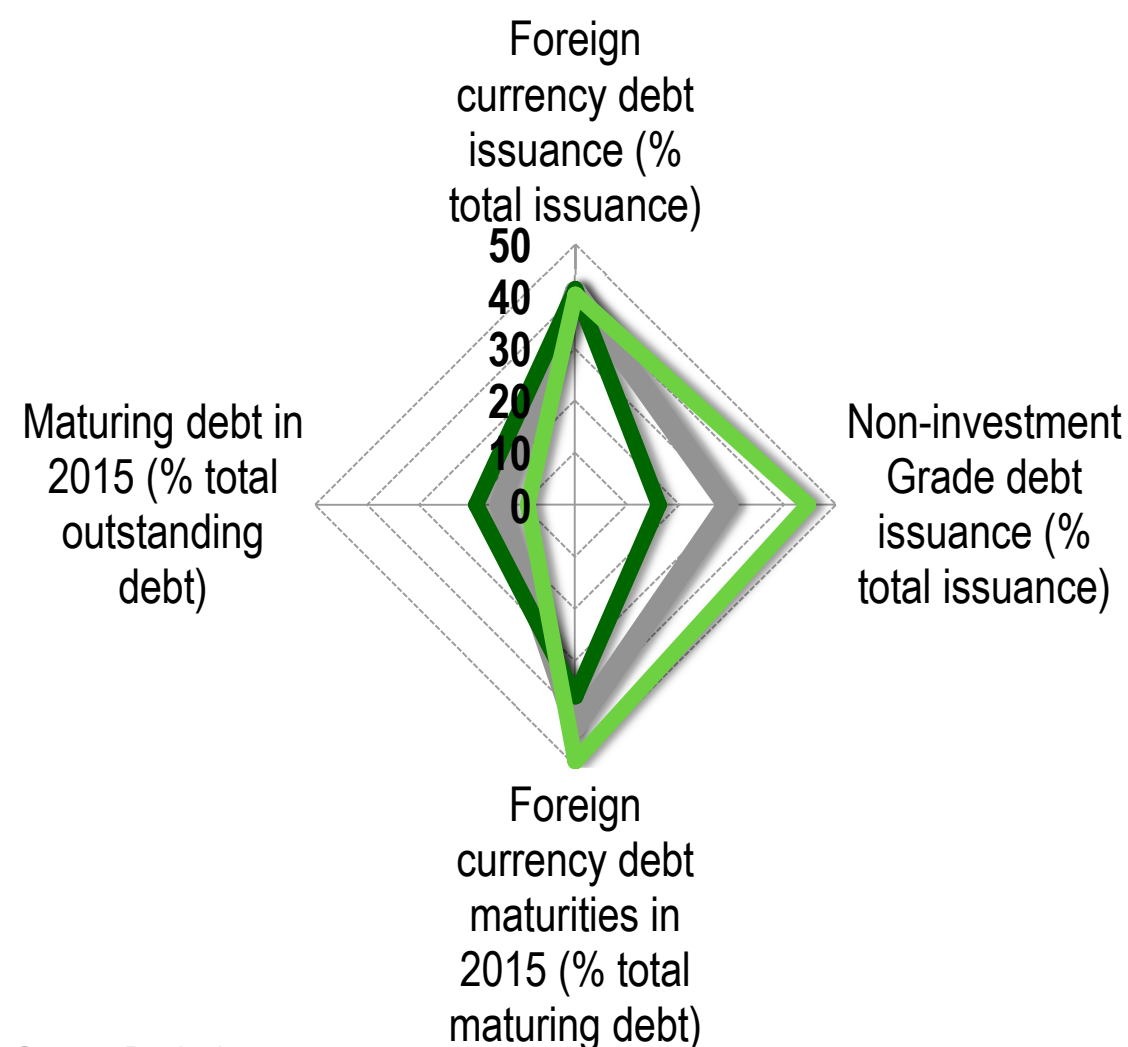


Sources: Dealogic; and IMF staff calculations.

Note: Residency basis measures borrowing by firms in the country of registration; nationality basis includes also offshore borrowing by nonresident affiliates of resident firms. LCY=local currency denominated debt; FCY=foreign currency denominated debt.

Asia: Nonfinancial Corporate Sector Potential Vulnerabilities, 2015

Asia Advanced Asia Emerging Asia



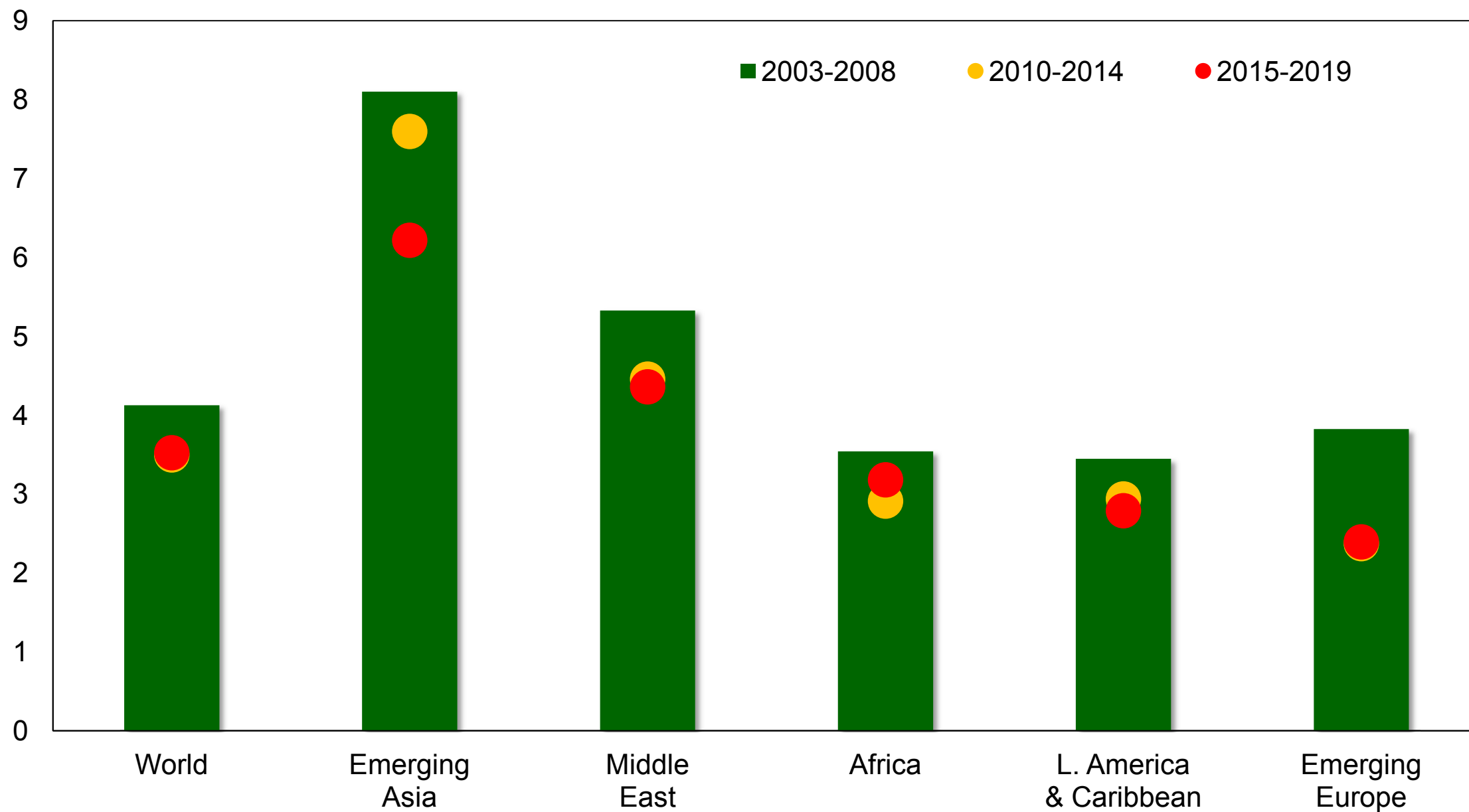
Source: Dealogic.

Note: Based on data related to issuance and maturing debt (i.e. bonds and



Longer-term risks - New mediocre?

Potential Growth

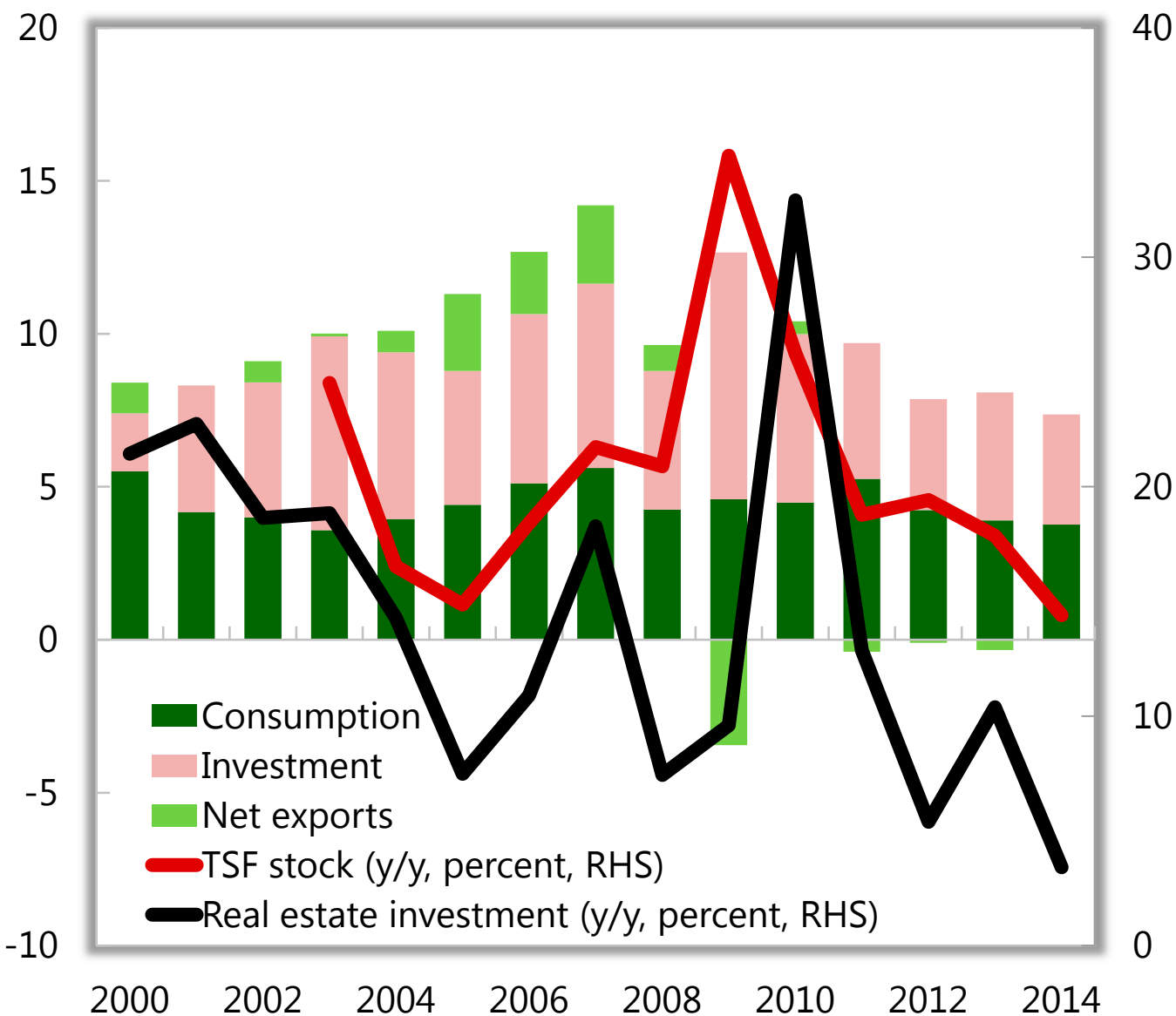


China: Growth slows down for good reasons



Growth Slowing Down

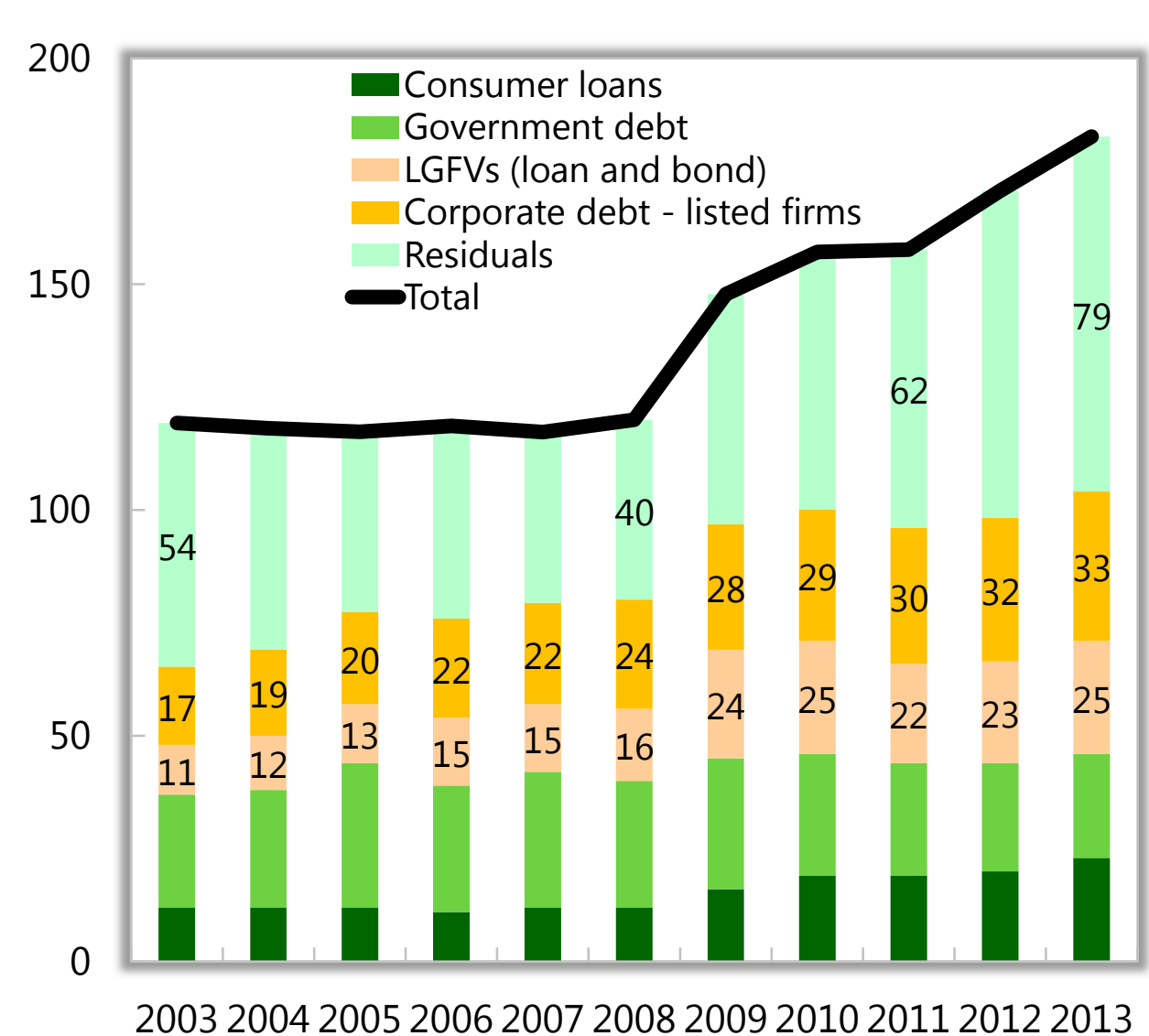
(In percentage points unless otherwise specified)



Sources: CEIC; and IMF staff calculations.

Total Debt in China, by Sector

(in percent of GDP)

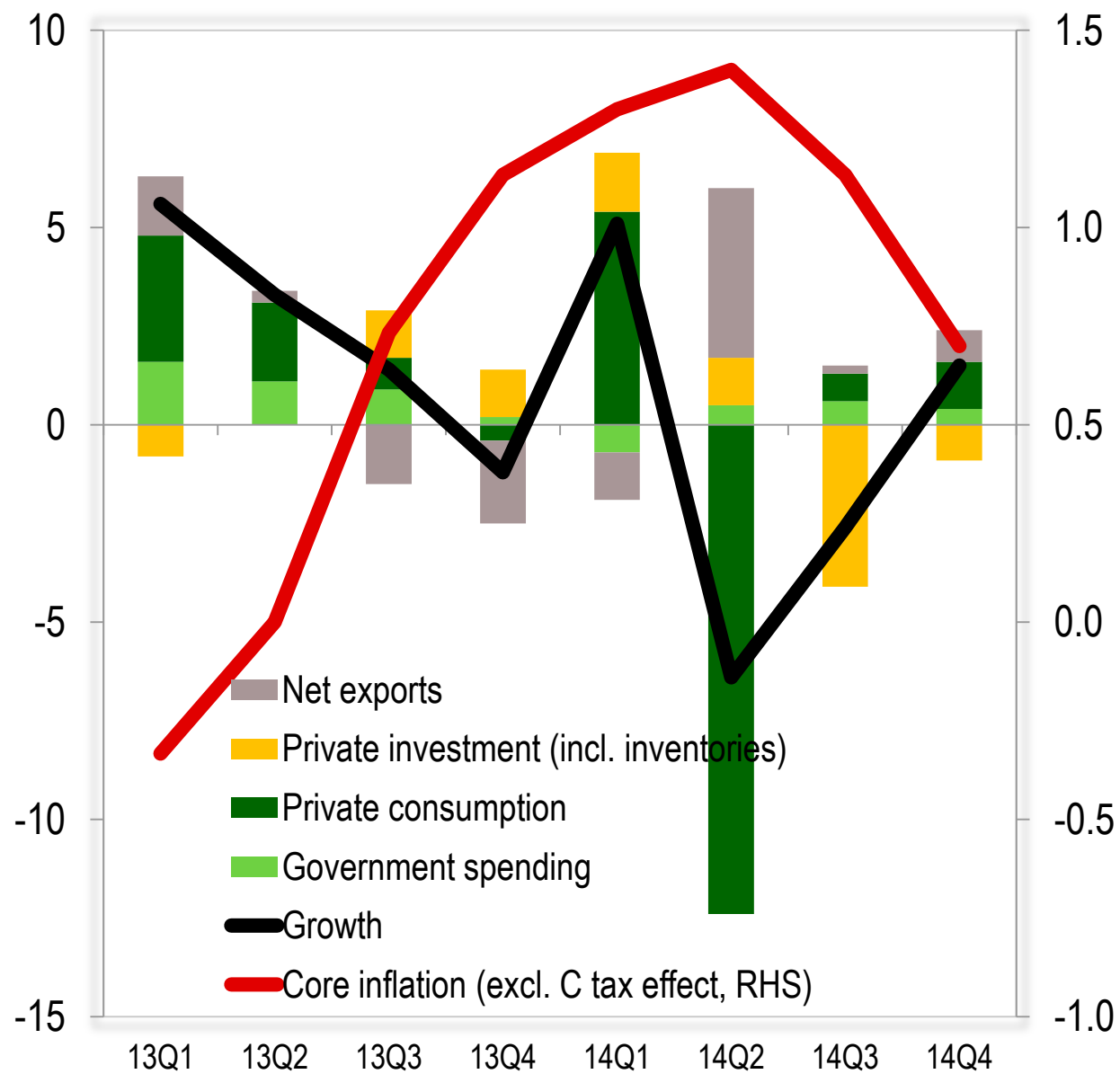


Sources: WIND database, PBoC, GS, and staff estimates

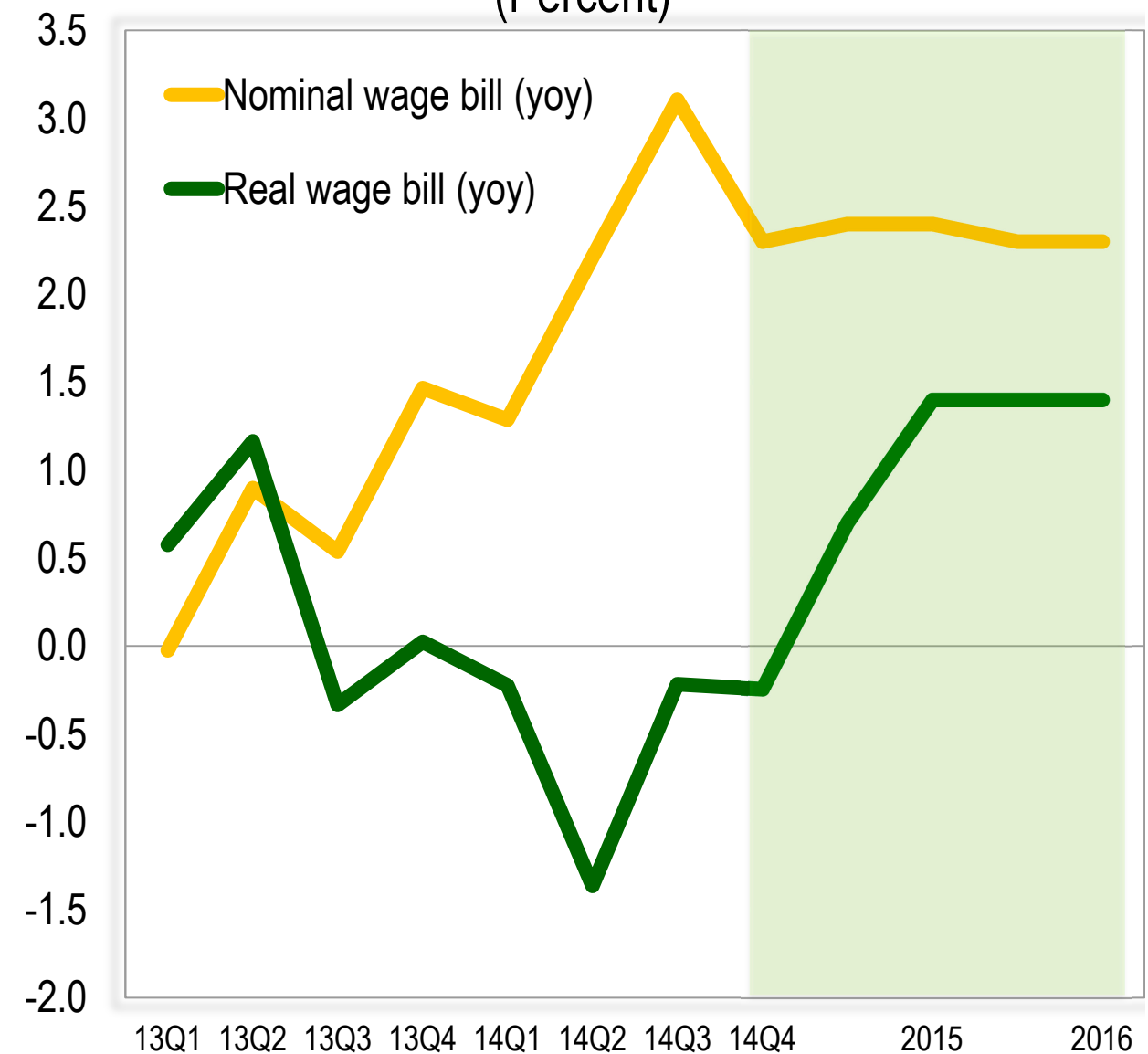


Japan: Success of Abenomics depends on rising wages

Japan. Contribution to Growth and Inflation
(Percent, q/q)



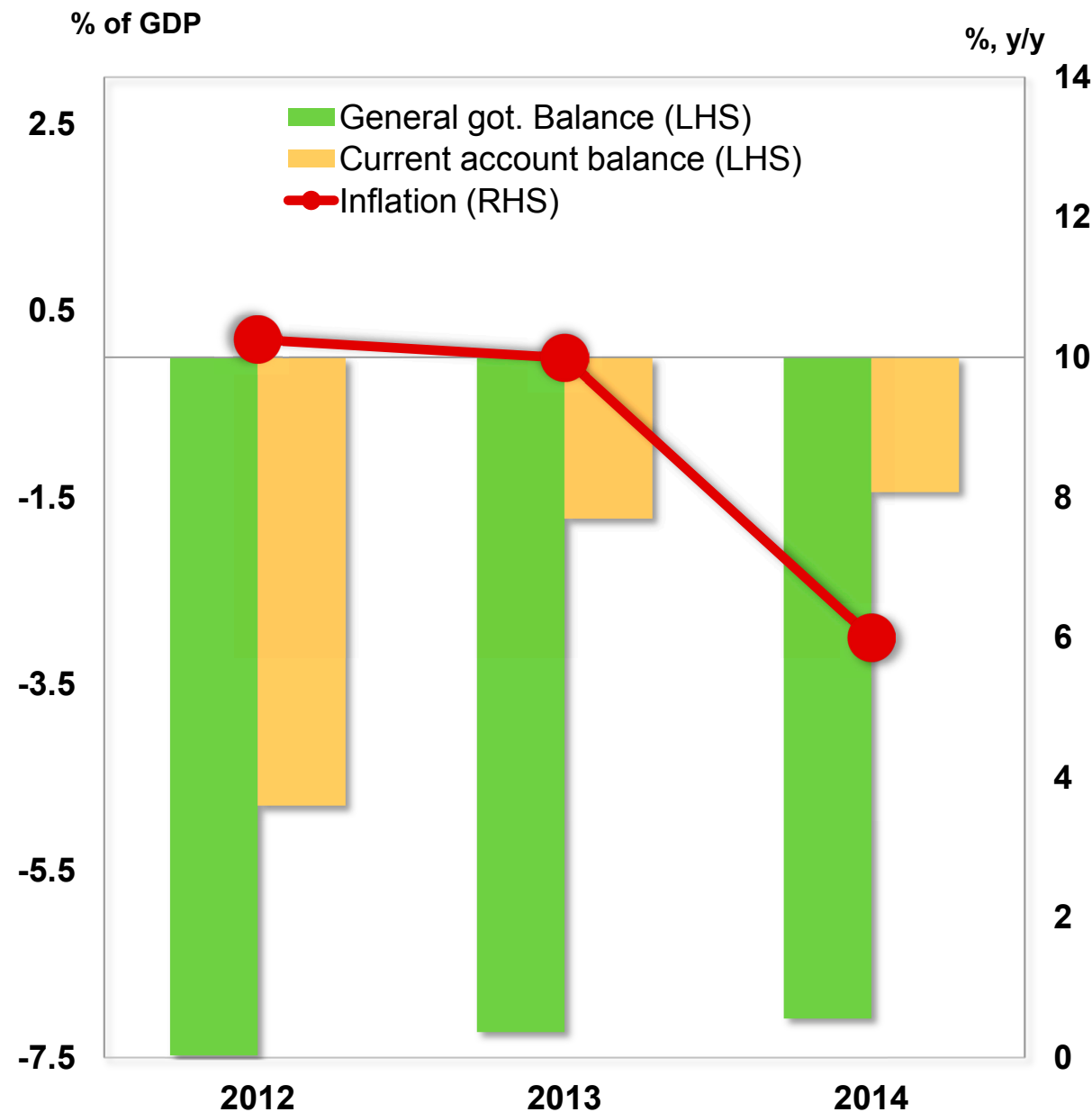
Japan. Wage bill
(Percent)





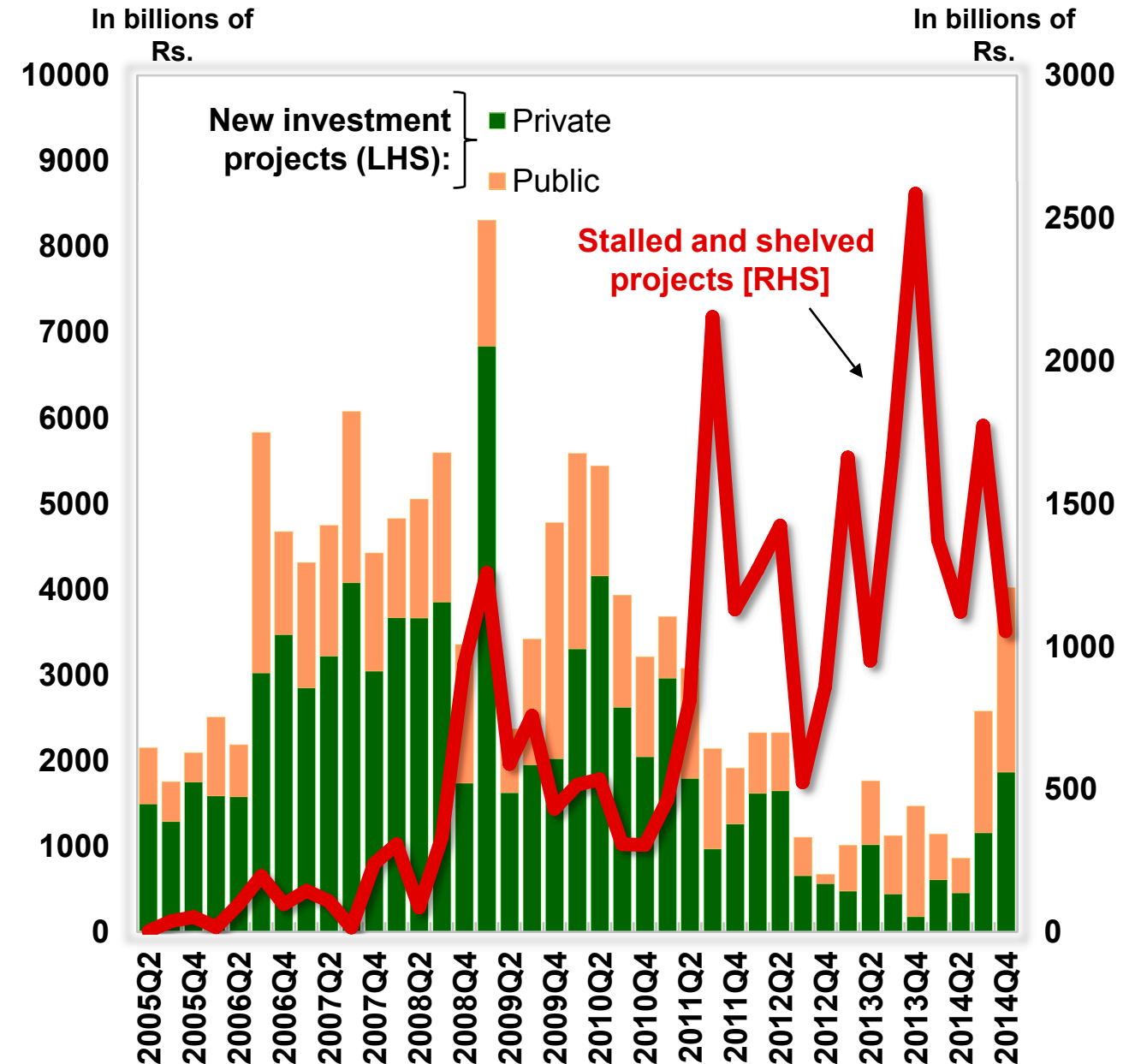
India: Bright spot, but fiscal consolidation and further structural reforms needed

Current Account, Fiscal Balance, and Inflation



Sources: Haver Analytics; Reserve Bank of India; and India Ministry of Finance.

Investment



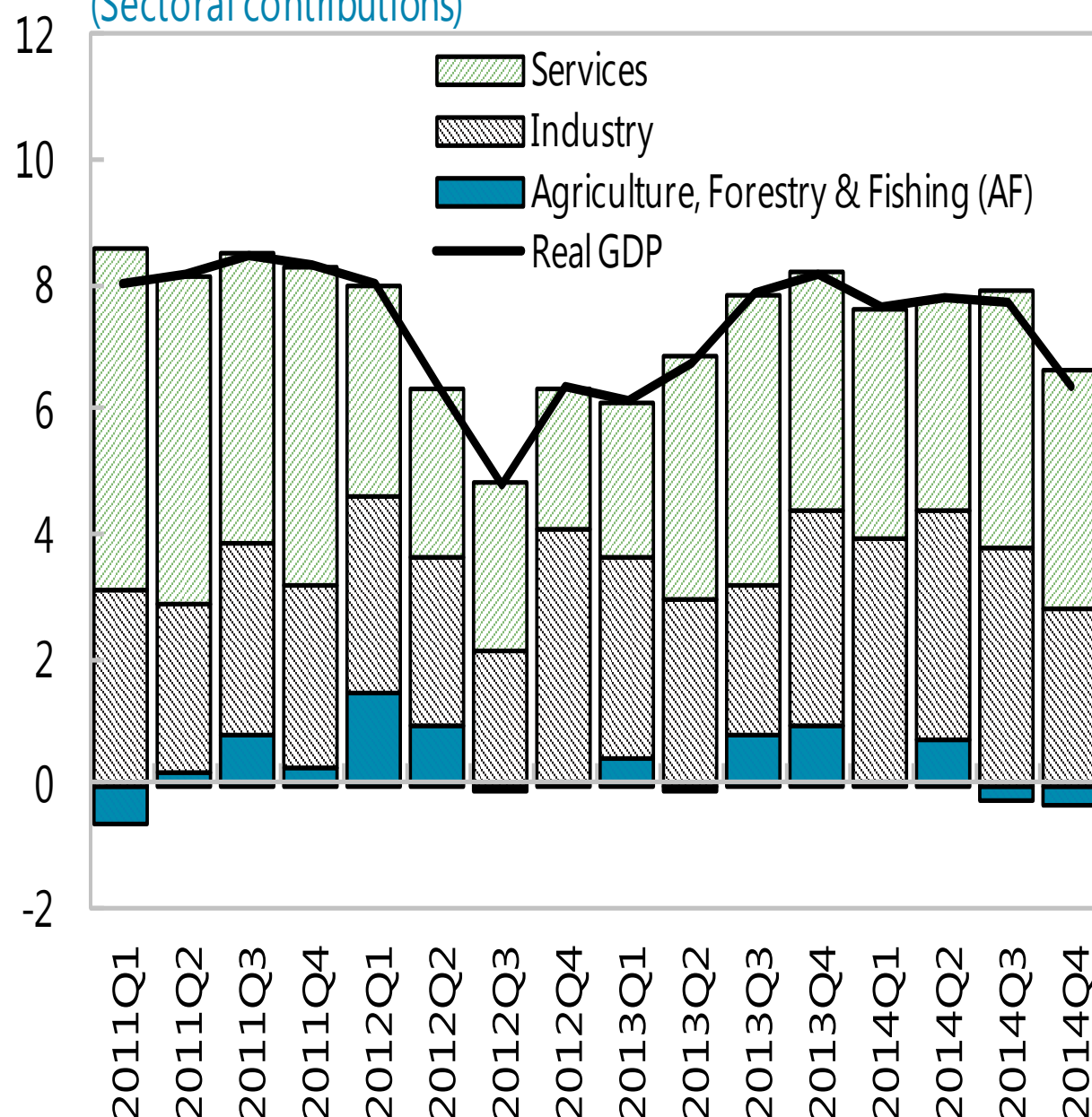
Sources: CAPEX; and IMF staff calculations.



Sri Lanka: Comparatively Strong GDP Growth Likely, but Inflation Pressures Could Rise

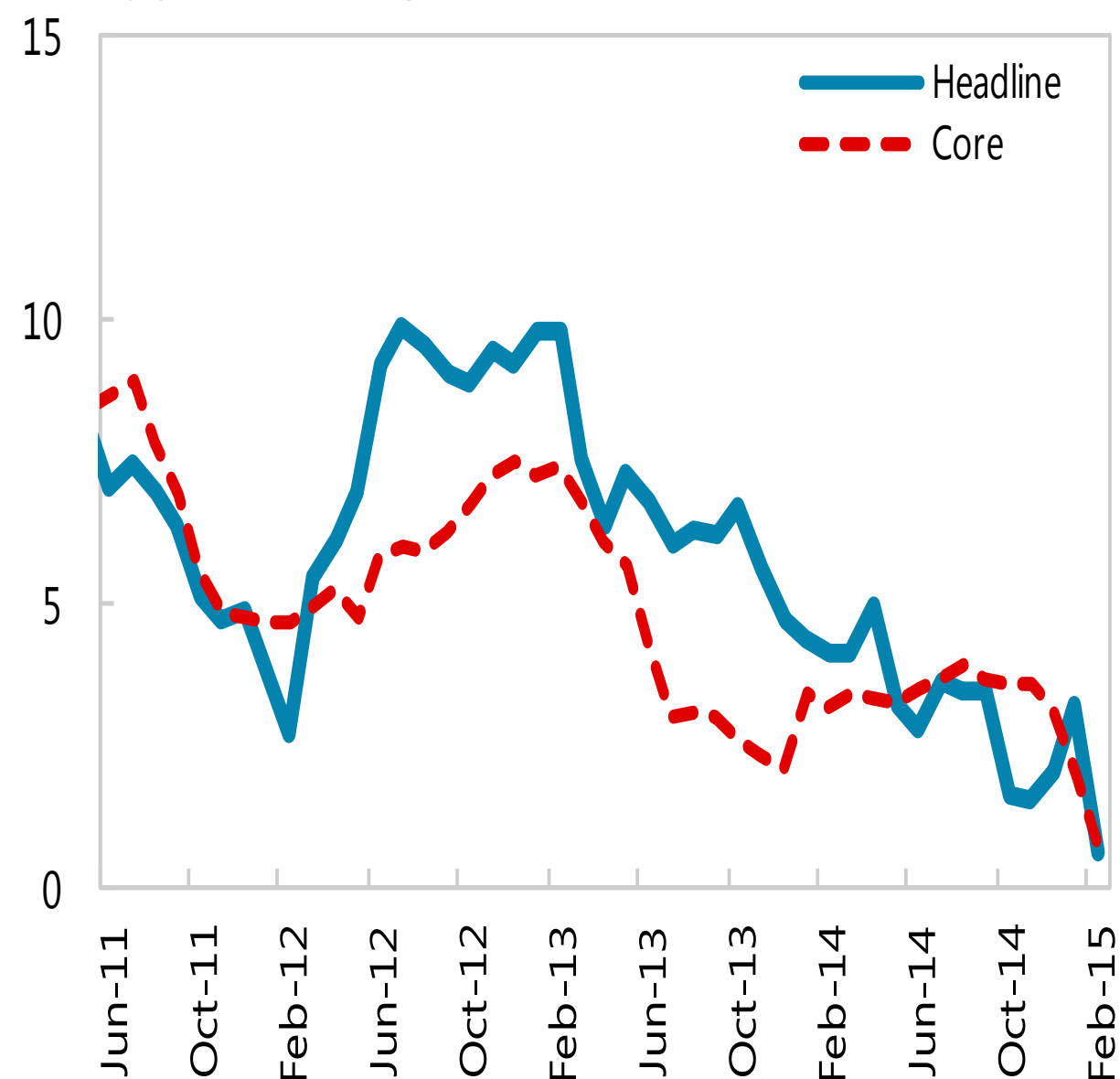
Sri Lanka: Real GDP Growth

(Sectoral contributions)



Consumer Price Index

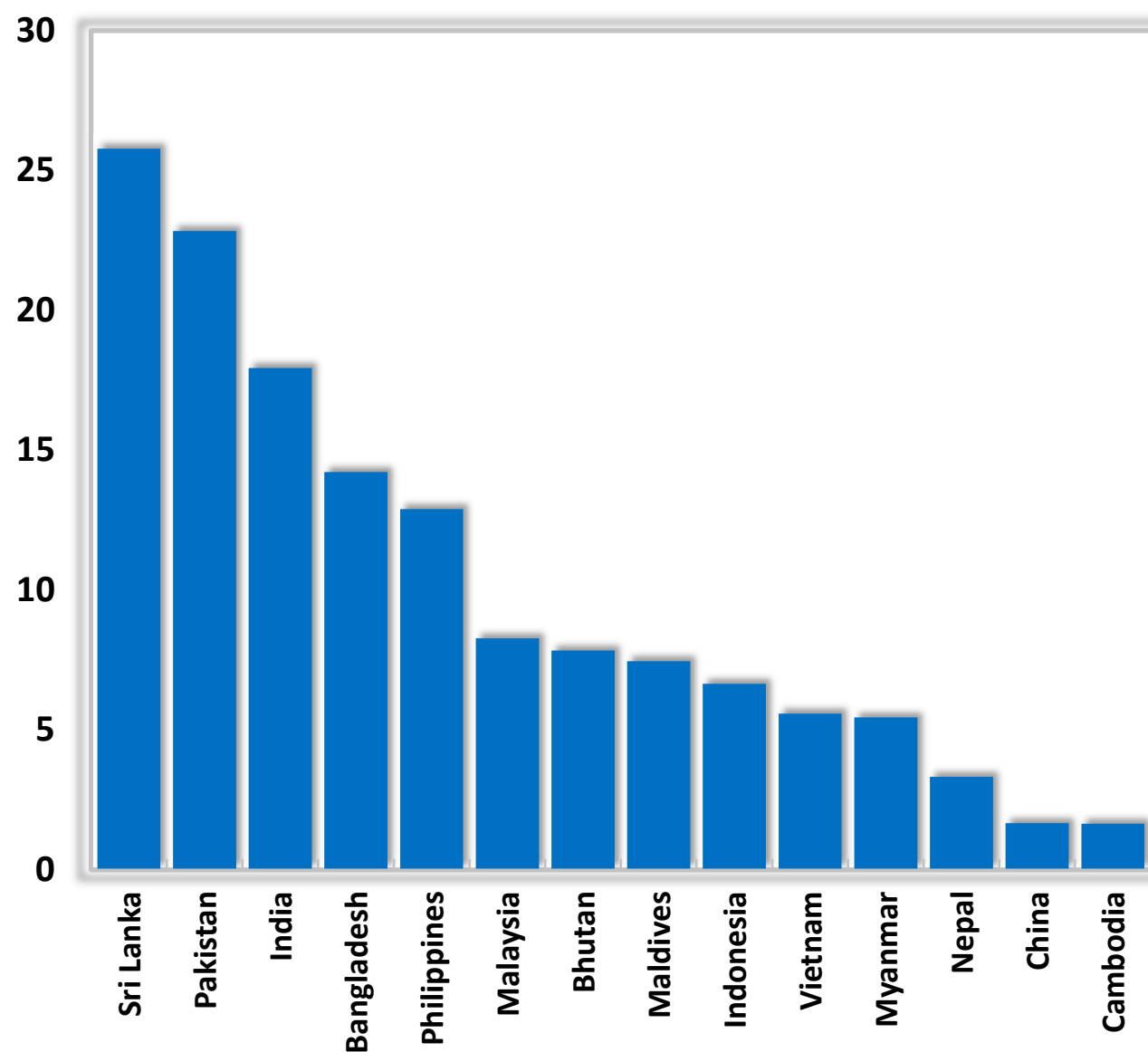
(y/y percent change)





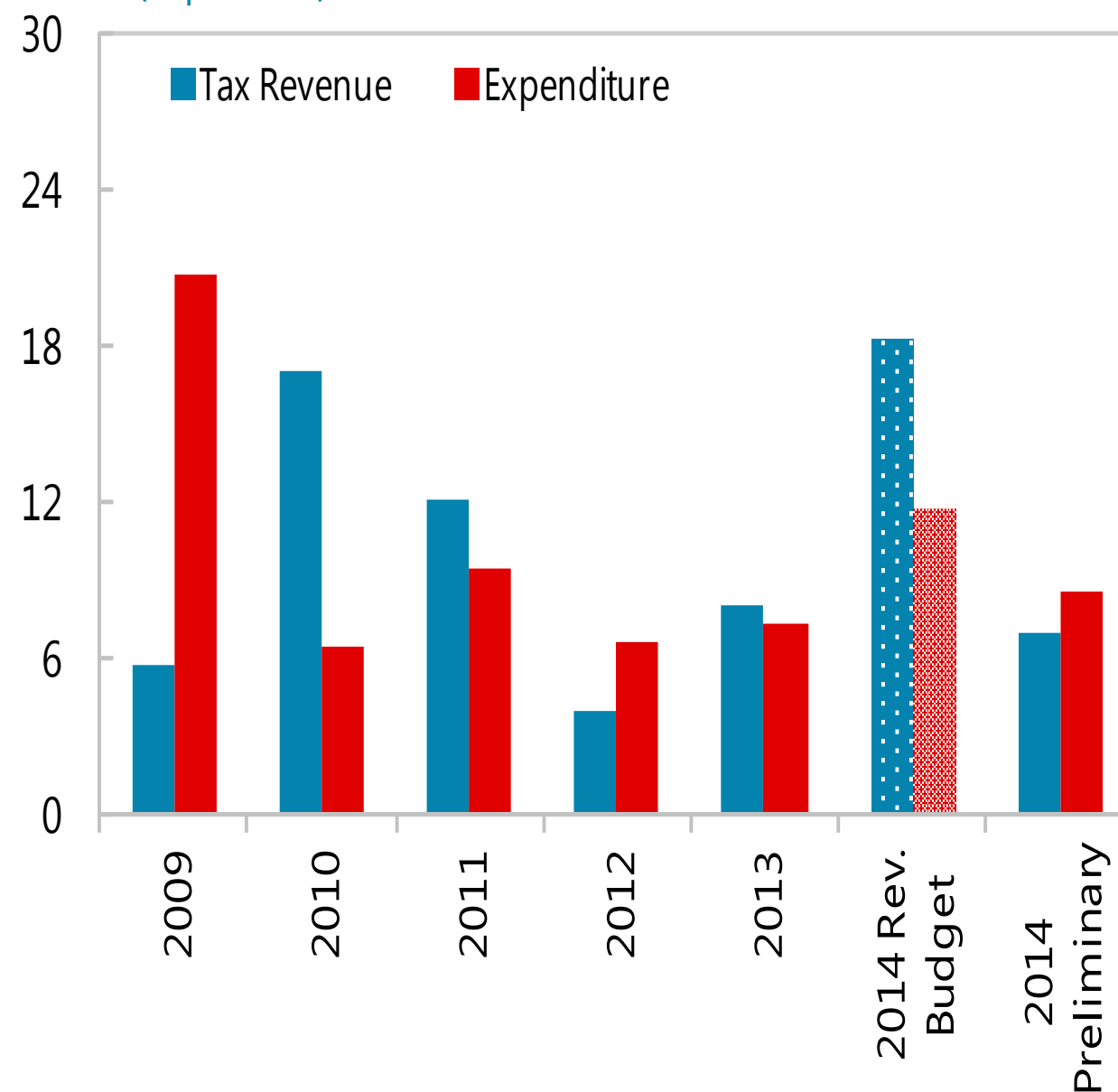
Sri Lanka: Need for Fiscal Buffers

Interest Payment – 2014
(Percent of total government expenditures)



Sources: Fiscal Monitor Database

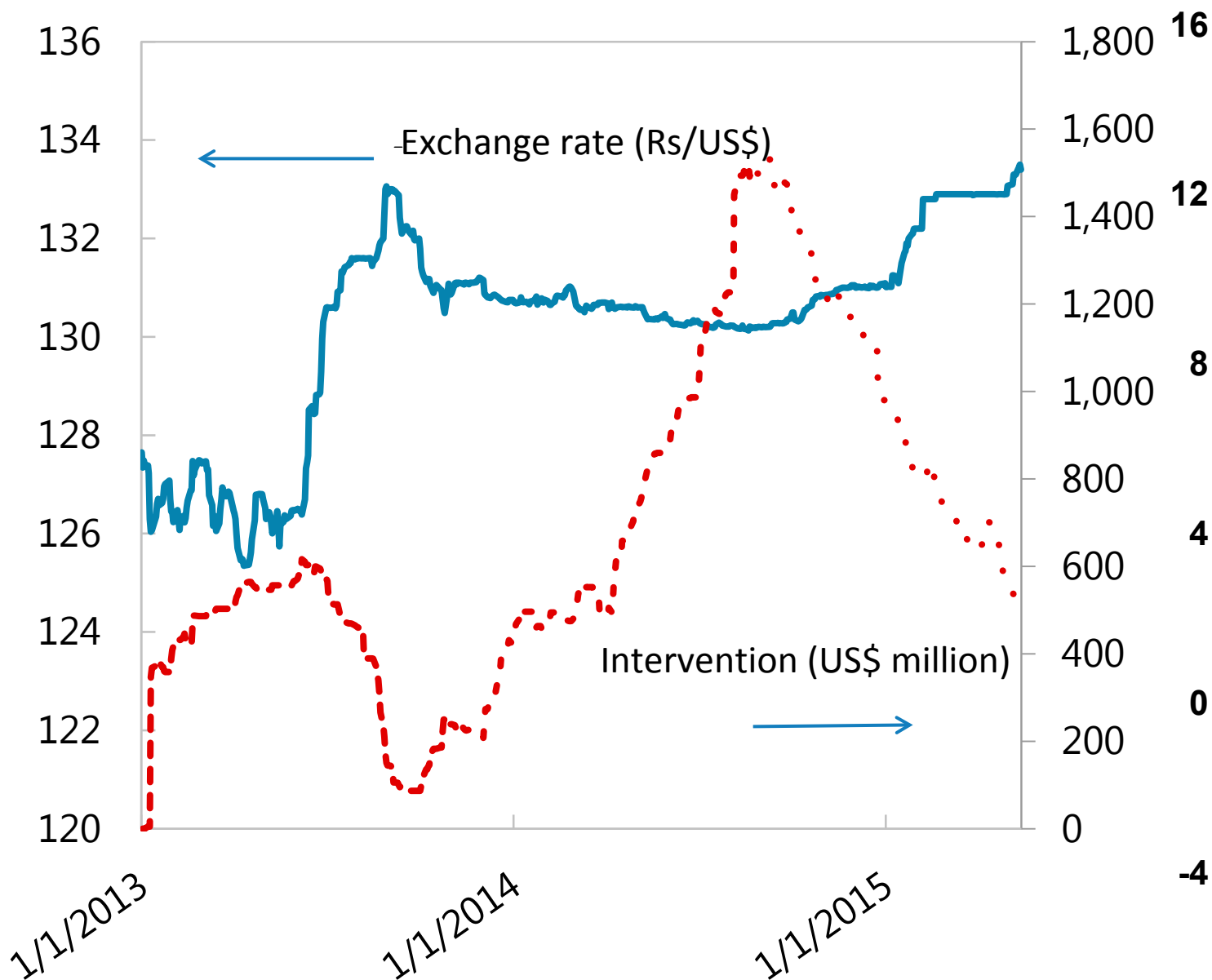
Annual Growth in Expenditure and Tax Revenue
(In percent)





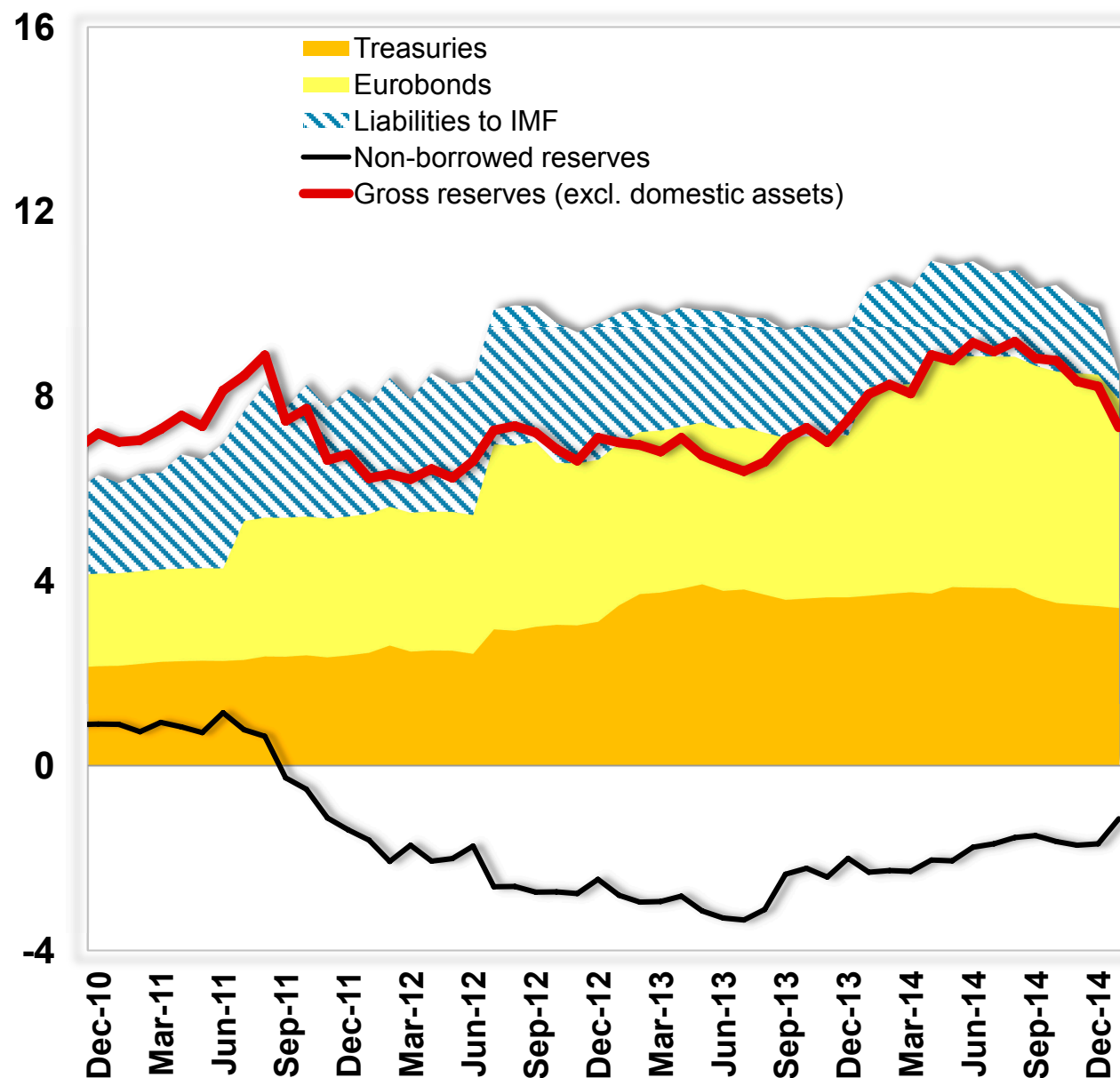
Sri Lanka: Need for External Buffers

Sri Lanka - Exchange Rate and Cumulative Foreign Exchange Intervention, 2013-15



Evolution of Gross Reserves

(In billions of U.S. dollars)



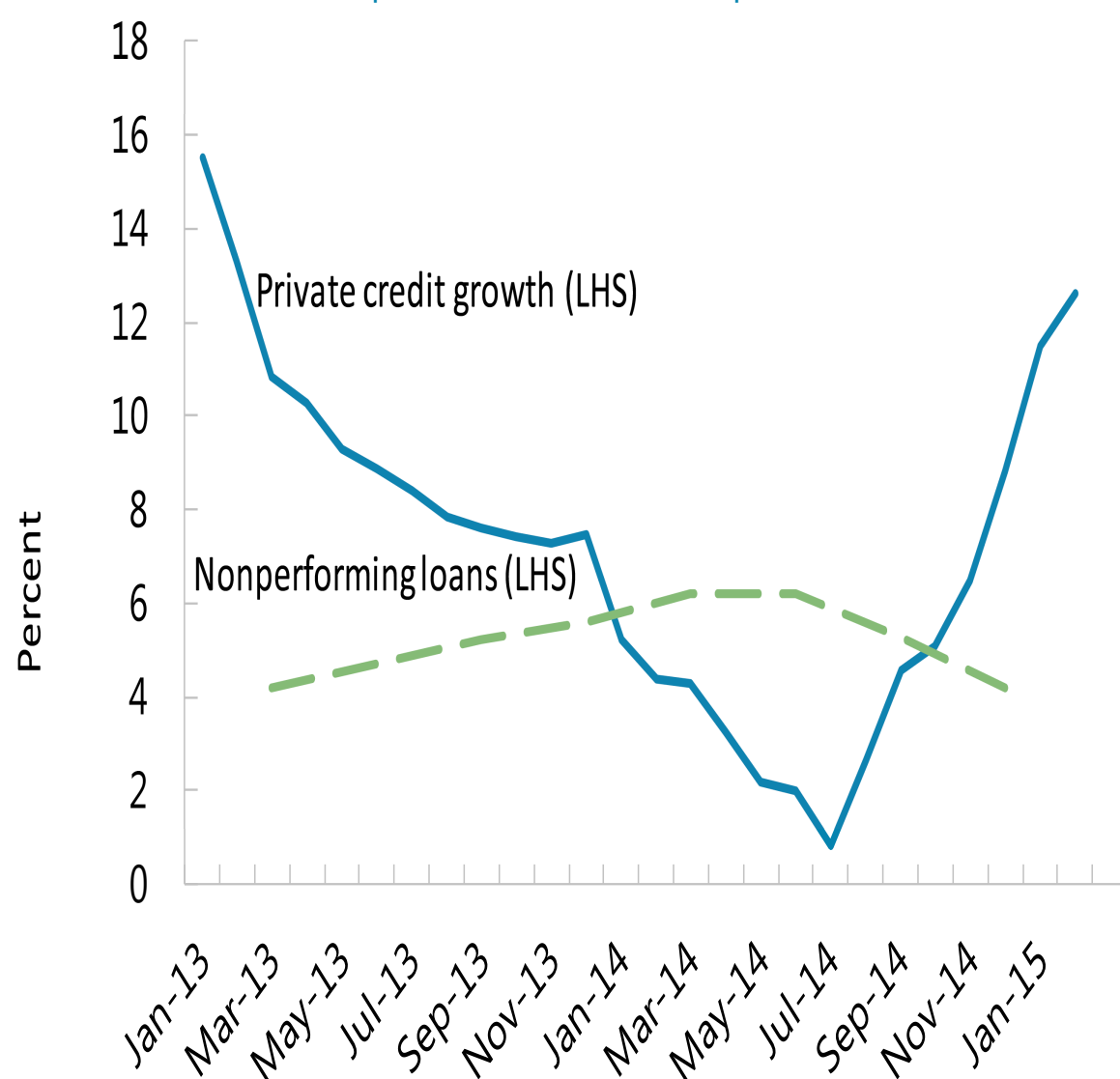
Source: IMF staff estimates.



Sri Lanka: Pick up in Private Sector Growth

Sri Lanka - Private Credit, NPLs and Liquidity

(In percent or billions of rupees)

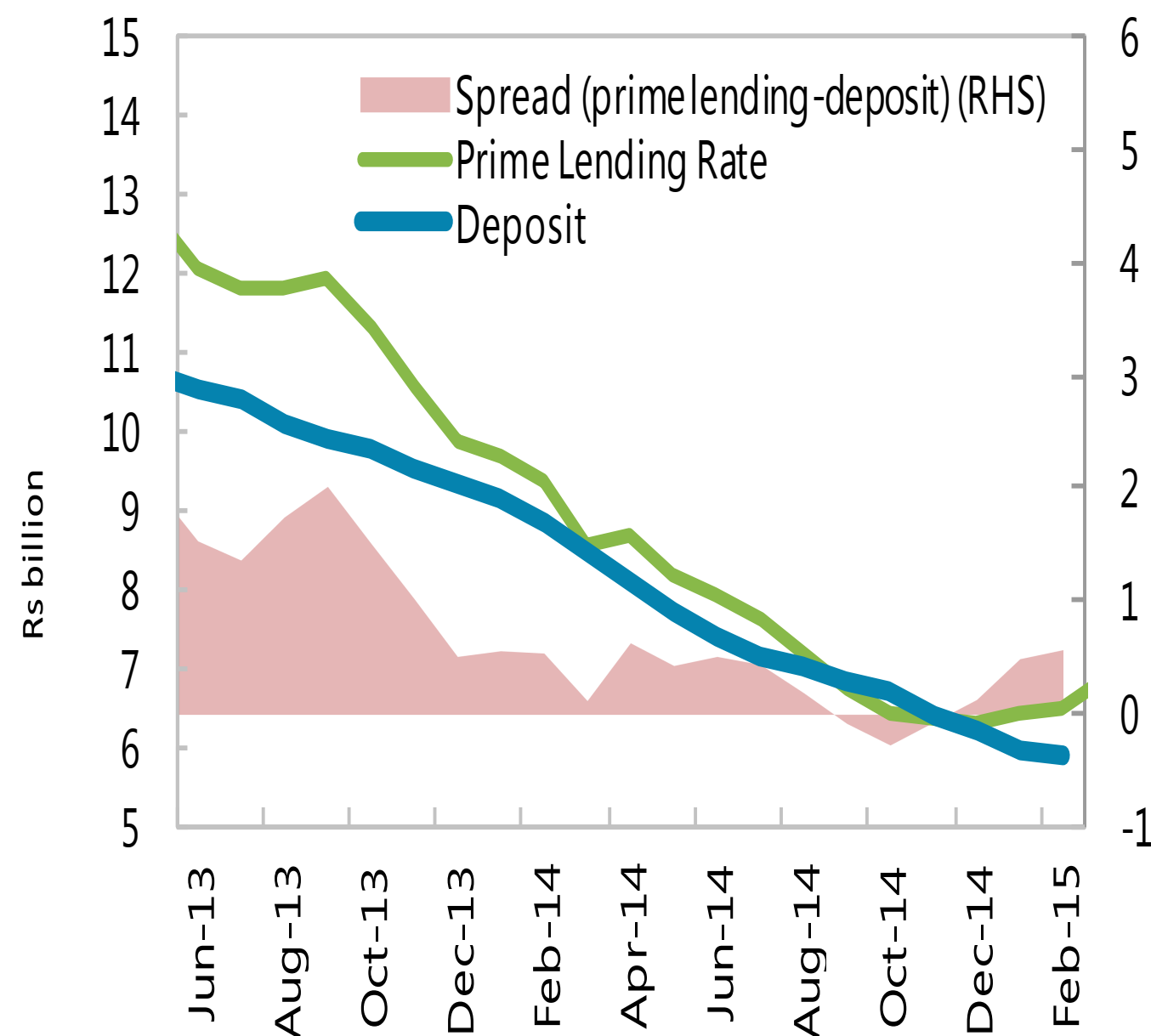


Sources: Central bank of Sri Lanka, staff estimates

1/ Bank reserves excluding the impact of short-term (o/n) operations

Deposit Rate and Spread

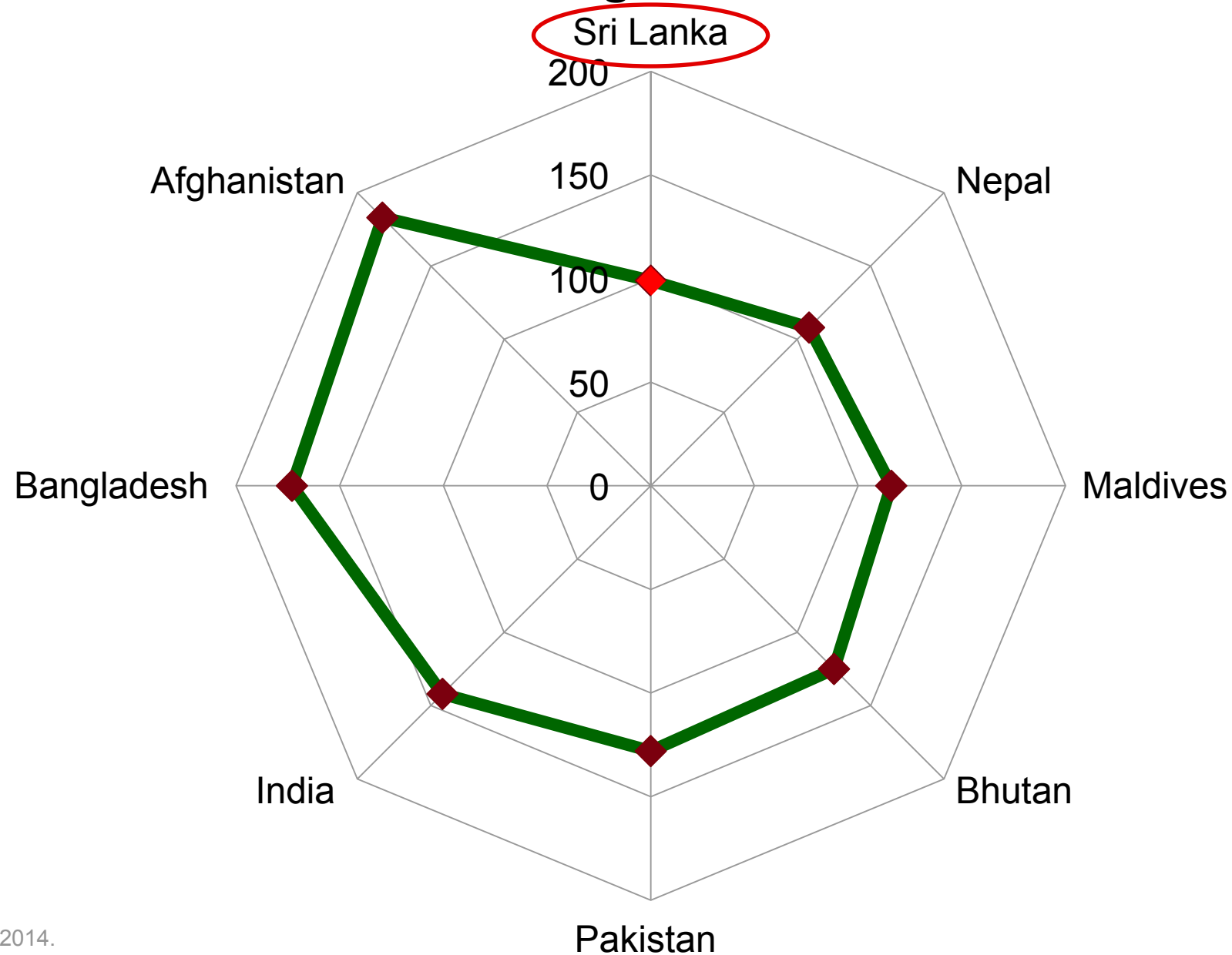
(In percent)





Raise overall productivity and competitiveness by incentivizing business entry and investment

Ease of Doing Business Rank

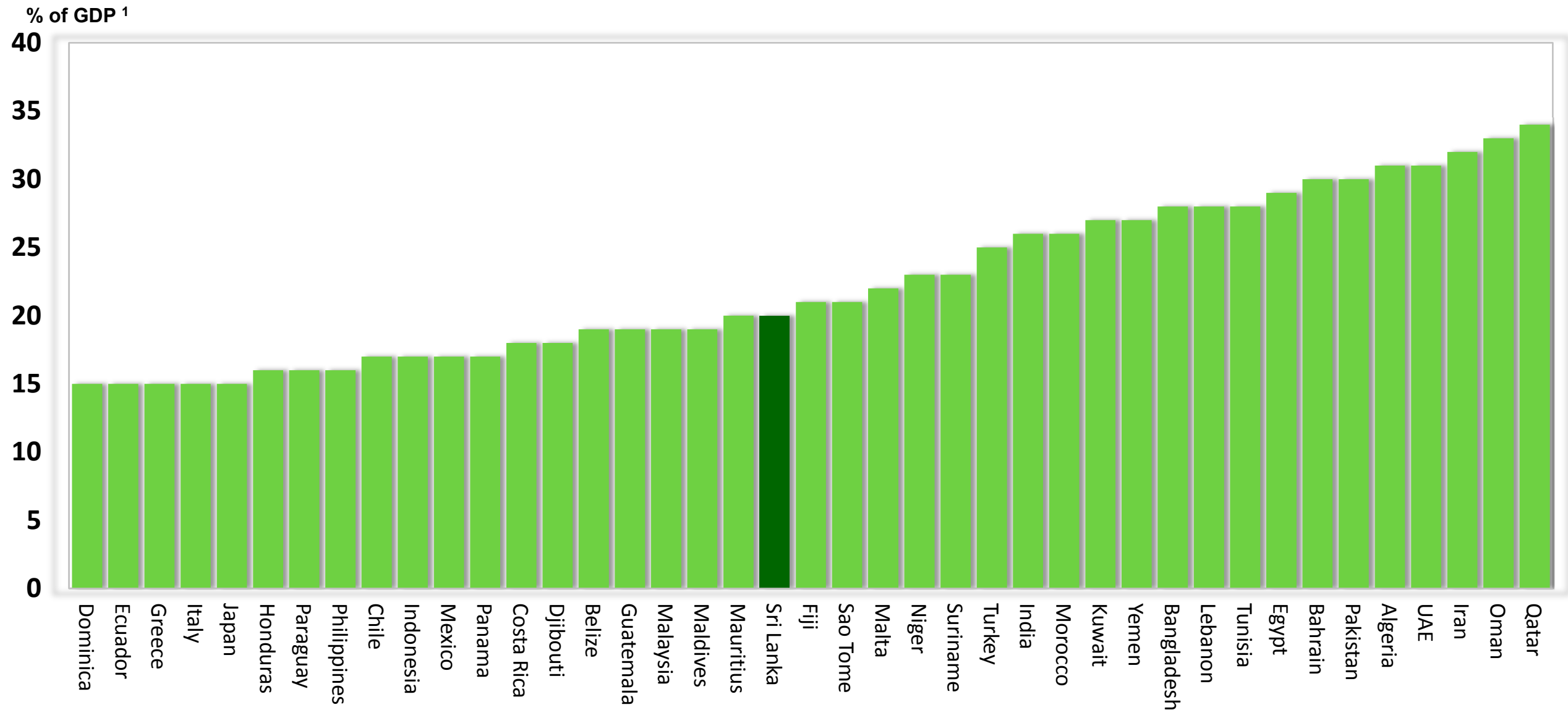


Source: World Bank EDB 2014.



Potentially big payoffs to policies that reduce economic gender gaps

GDP Losses due to Economic Gender Gaps in Selected Countries



Source: Estimates by Cuberes and Teignier (2014)

¹Losses are estimated for a particular year for each country and can thus be interpreted as a one-off increase in GDP if gender gaps were to be removed



Recap: Sri Lanka

Policy priorities

- **Build buffers by placing public revenue back on a sustainable path**
- **Enact structural reforms to raise overall productivity**