

REGIONAL ECONOMIC OUTLOOK

ASIA AND PACIFIC



**ASIA AND PACIFIC
DEPARTMENT**

ECONOMIC AND FISCAL POLICY CHALLENGES FOR EMERGING ASIA

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IMF-JICA CONFERENCE

FEBRUARY 13, 2025

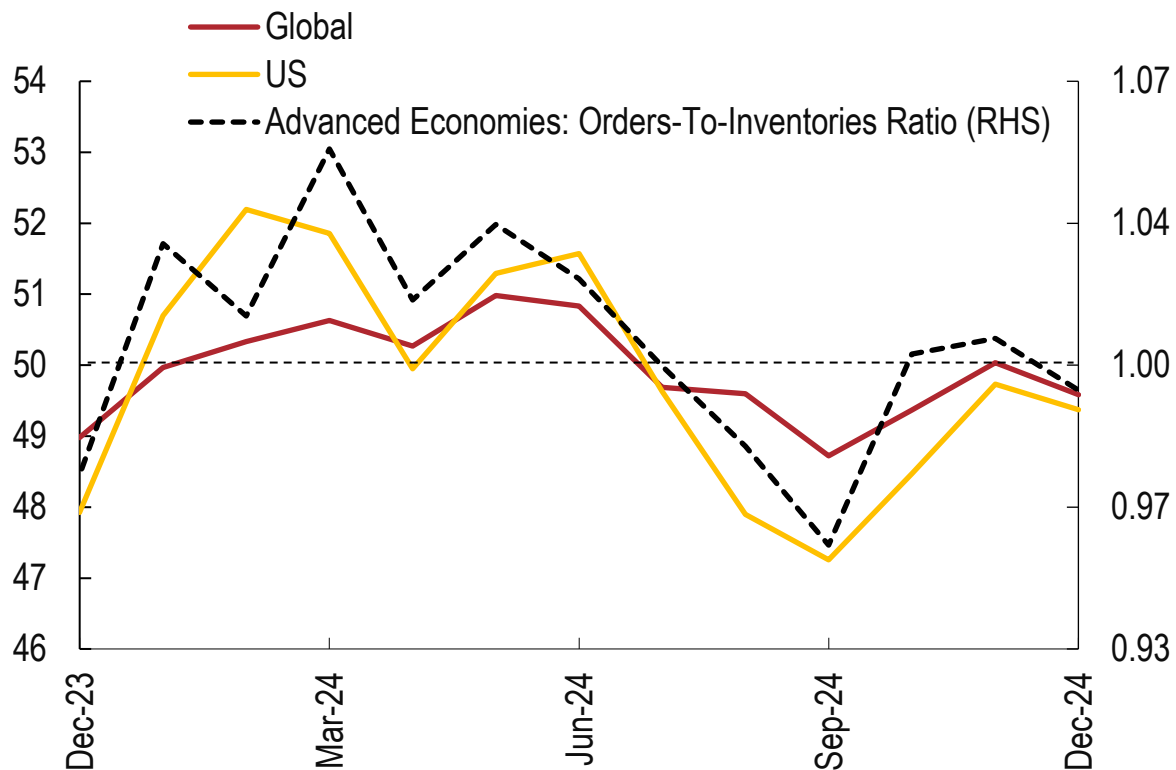
A Rougher External Environment

Forward-looking indicators for advanced economies show some weakness...

...and financial market volatility remains elevated.

Manufacturing PMI: Global and Advanced Economies

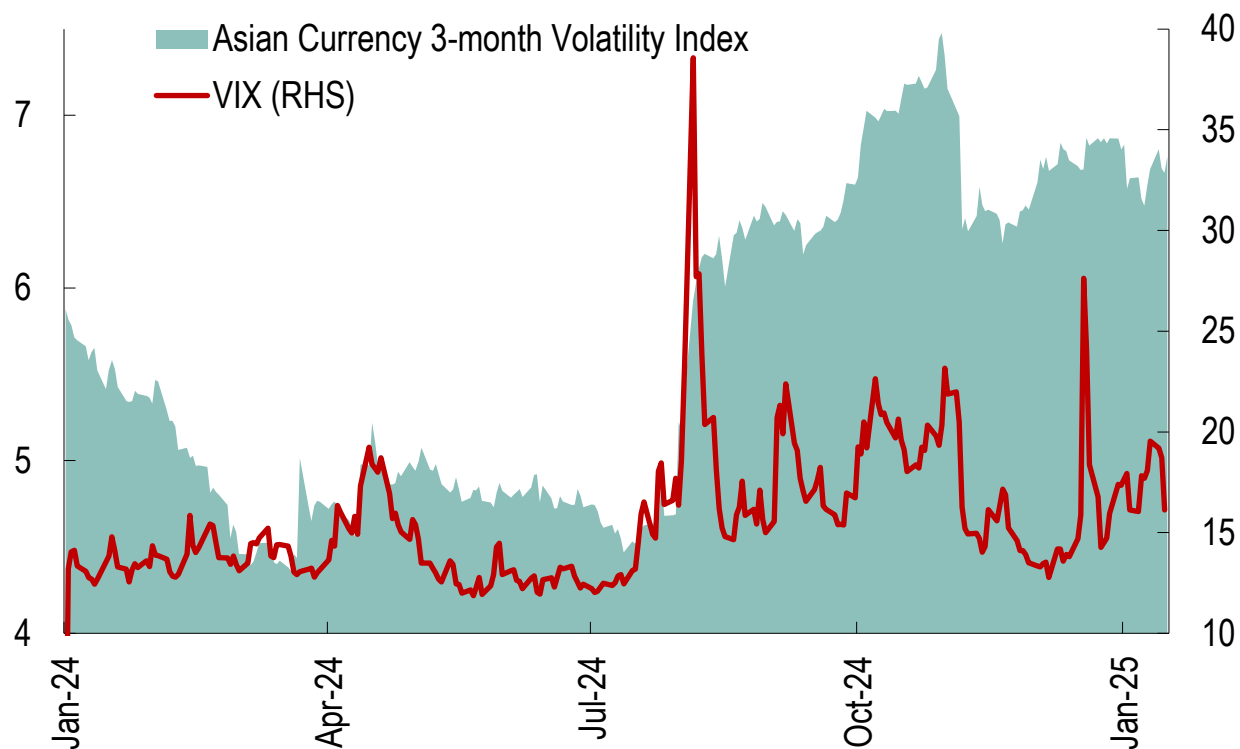
(sa, 50+ = Expansion; ratio)



Source: Haver Analytics and IMF staff calculations.

Asian Currency Volatility and VIX

(Index)



Source: Bloomberg Finance L.P., and IMF staff calculations

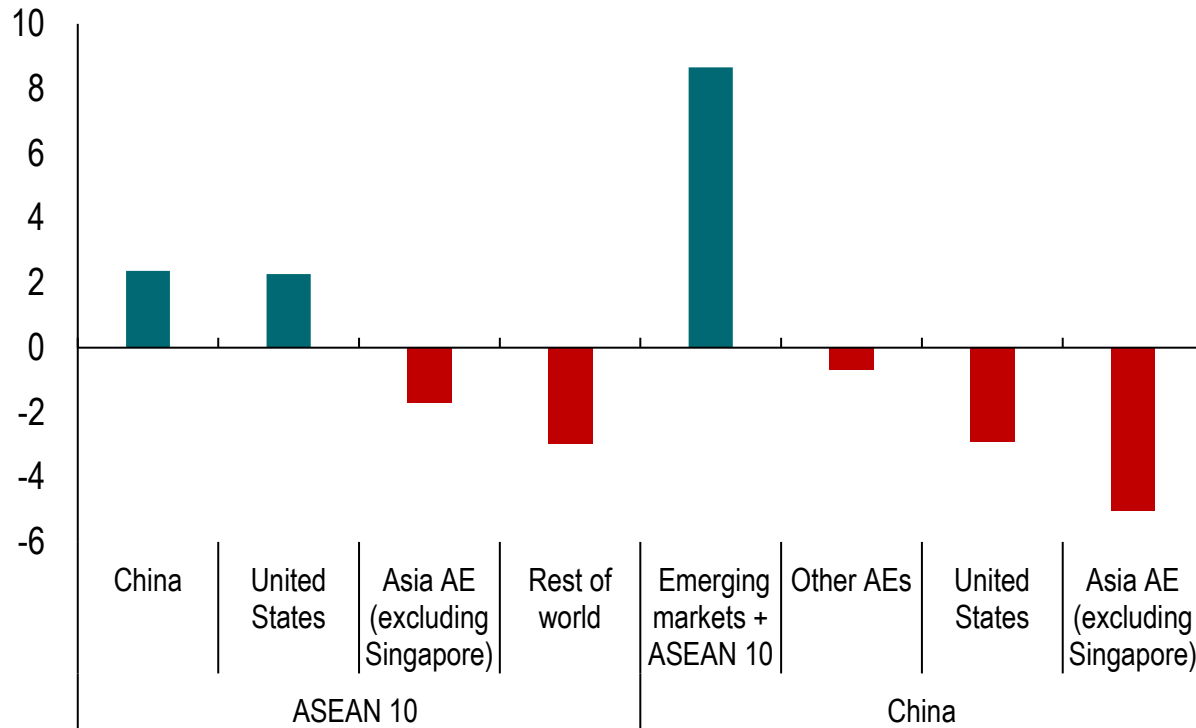
Note: Asia currency volatility index is a weighted average of three-month implied volatility of CNY, HKD, INR, IDR, KRW, MYR, PHP, SGD, TWD, and THB. Data as of January 16, 2025.

Changing Trade Patterns

Trade patterns are shifting, with China exporting more to EMs and less to AEs

Changes in Export Market Share (2024:H1 vs. 2019:H1)

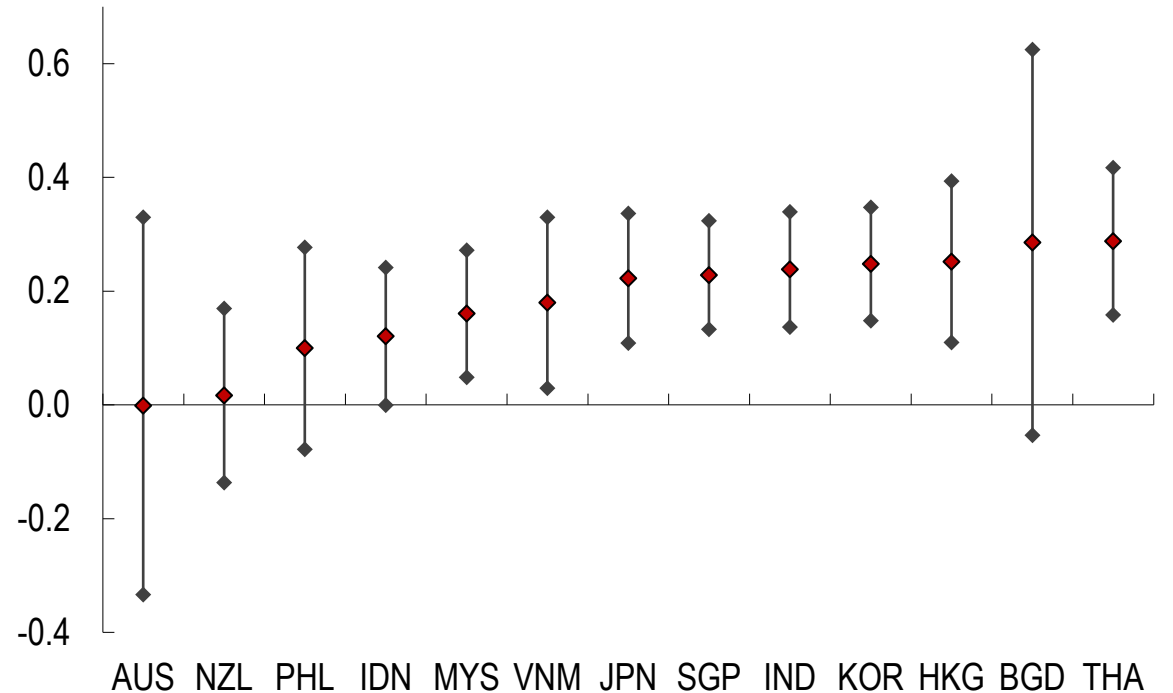
(Percentage points)



Source: IMF DOTS; and IMF staff calculations.

Third economies appear to have been able to take advantage of US-China tariffs.

Estimated relative export gains in tariff-targeted products, 2022-23



Source: BACI, Trade Monitor; and IMF staff calculations.

Note: The figure plots each country's (log) change in predicted exports of products tariffed by China or the U.S. in 2018-2019 relative to other products to the world. The 90 percent confidence intervals (green dots) were constructed using 50 bootstrap samples as in Fajgelbaum et al. (2024). A positive coefficient (red dots) indicates that a country's exports to the world in tariff-targeted relative to untargeted products have increased because of the tariffs.

Fiscal Challenges

Public Debt Has Soared

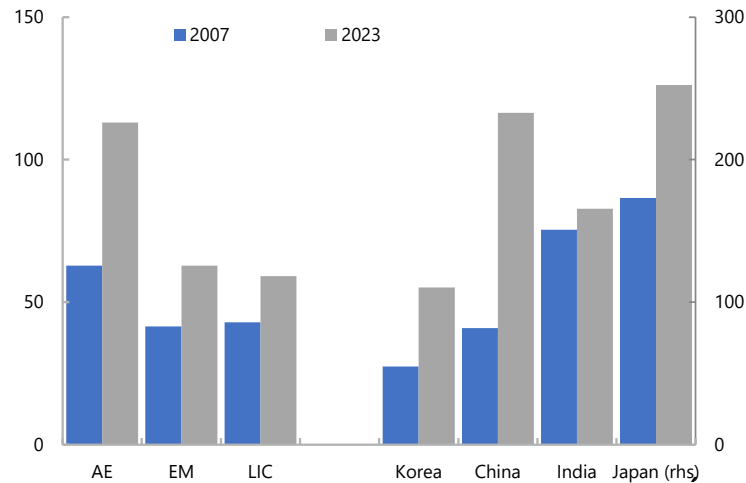
Public debt soared since the GFC in Asia Pacific....

... partly reflecting post-GFC lower growth

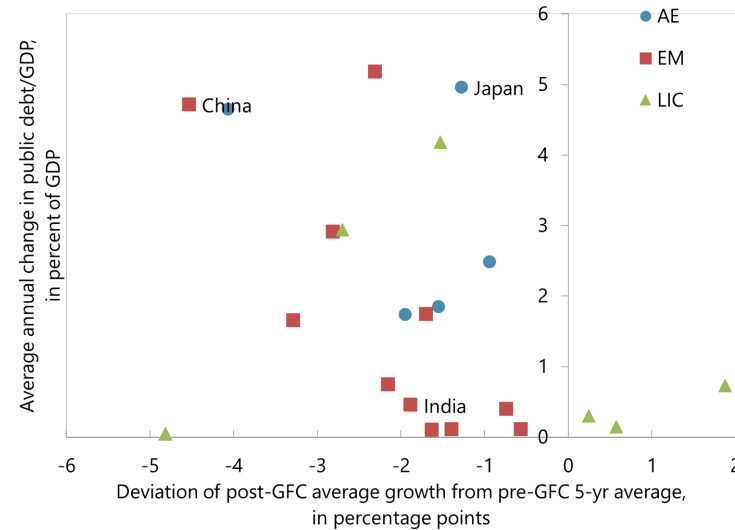
... and fiscal support during large shocks.

Public debt

(Percent of GDP, mean of respective group)

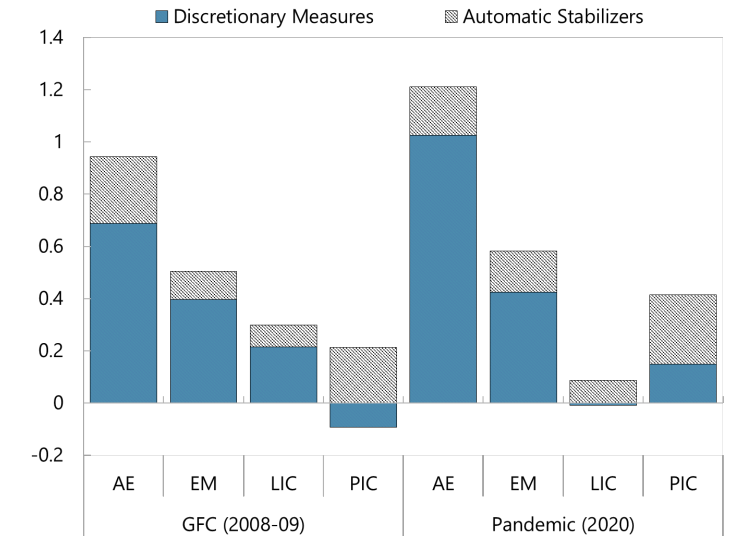


Post-GFC change in debt and growth



Fiscal countercyclicity during the GFC and the Pandemic

(Percent of GDP, in response to one pp growth decline)



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

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 Note: The x-axis shows the deviation of post-global financial crisis average real GDP growth from its pre-global financial crisis five-year average (in percentage points), and the y-axis shows the post-global financial crisis average annual change in public debt-to-GDP ratio. Countries in the upper-left quadrant are those that have experienced lower growth and higher debt in the post-global financial crisis period. AE = advanced economies; EM = emerging markets; GFC = global financial crisis; LIC = low-income countries.

Source: Authors' calculations.

Note: Blue and patterned bars denote the countercyclicity coefficients based on 5-year windows that include the GFC (2008 and 2009) or the pandemic (2020).

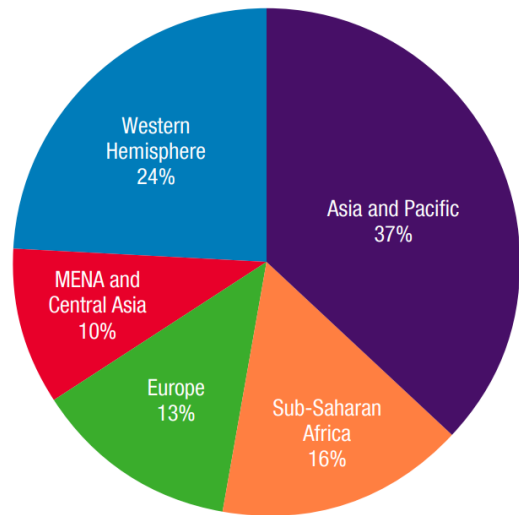
Spending Pressures Are Mounting

Asia Pacific is most prone to natural disasters and ageing fastest in the world.

Public investment needs for adaptation are high, putting pressure on budgets over time ...

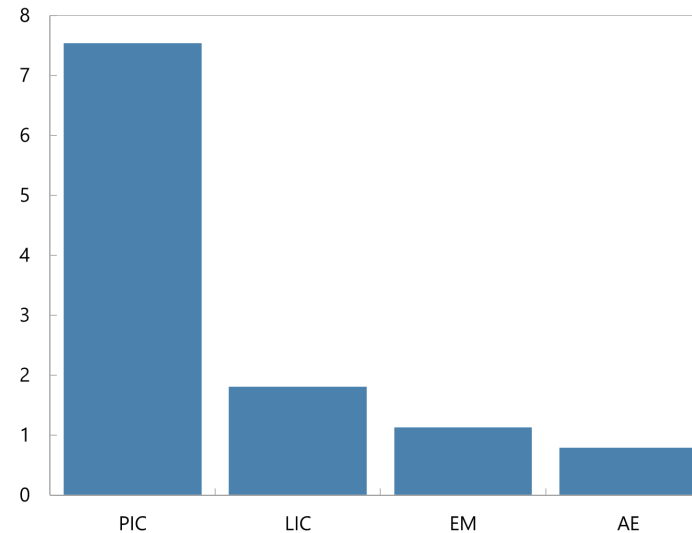
.... as well as age-related spending.

Occurrence, all weather-related disasters, 2000–19



Source: EM-DAT 2020.

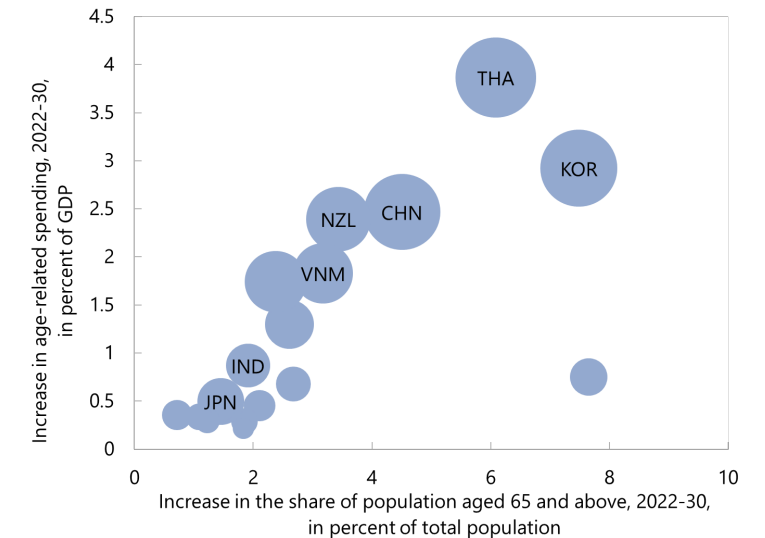
Public annual adaptation costs
(Percent of GDP, mean of respective group)



Sources: IMF (2021).

Note: Bars correspond to the sum of upgrading and retrofitting costs in the public sector and coastal protection costs. The level of protection being costed corresponds to the protection that keeps average annual losses below 0.01 percent of local GDP for protected areas.

Increases in age-related spending and the elder population share



Sources: IMF, Fiscal Monitor database; United Nations, World Population Prospects database; and authors' calculations.

Note: Bubble sizes show the net present value of the increase in age-related spending over 2022–50. Data labels in the figure use International Organization for Standardization (ISO) country codes.

Upgrade Fiscal Policy and Frameworks

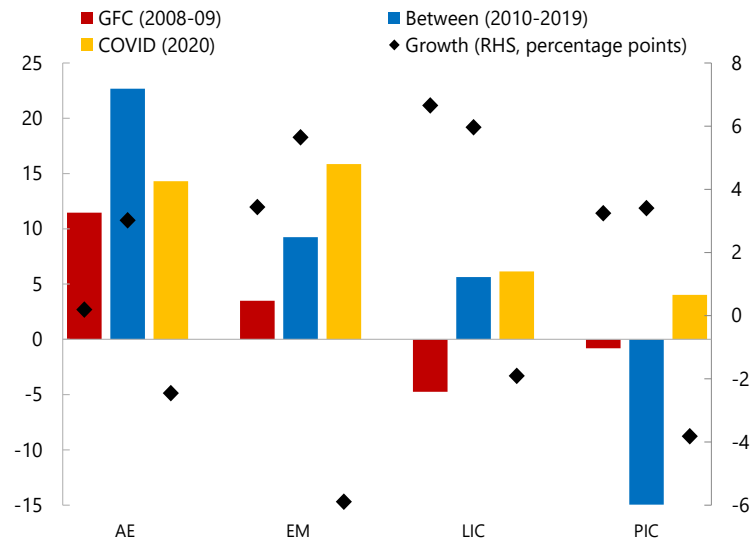
Build larger fiscal buffers

Enhance tax revenues to meet spending pressures.

Develop adequate social safety nets .

Changes in public debt during crises and normal times

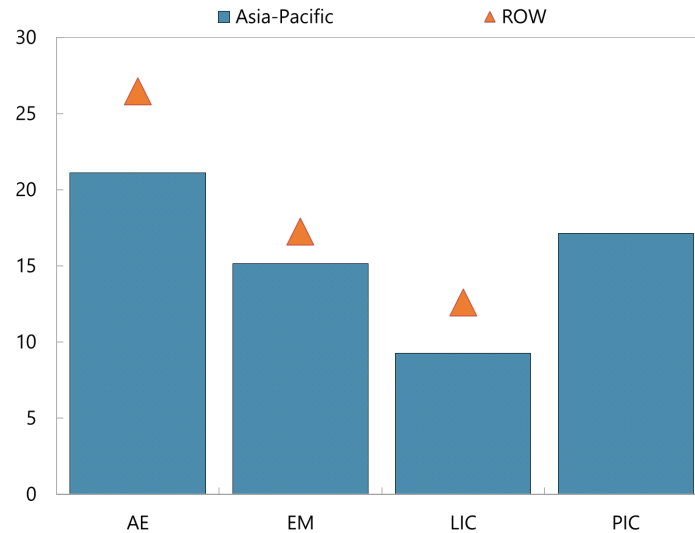
(Percent of GDP, mean of respective group)



Source: IMF, World Economic Outlook database; and authors' calculations.
Note: AE = advanced economies; EM = emerging markets; LIC = low-income countries; PIC = Pacific island countries; RHS = right scale

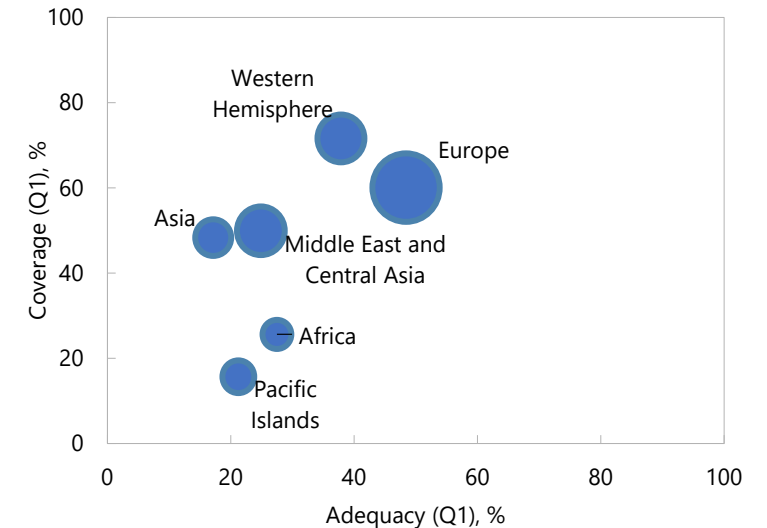
Tax revenues

(Percent of GDP, mean of respective group during 1995-2023)



Sources: IMF, World Economic Outlook database; and authors' calculations.
Note: AE = advanced economies; EM = emerging markets; LIC = low-income countries; PIC = Pacific island countries; ROW = rest of the world..

Social safety nets



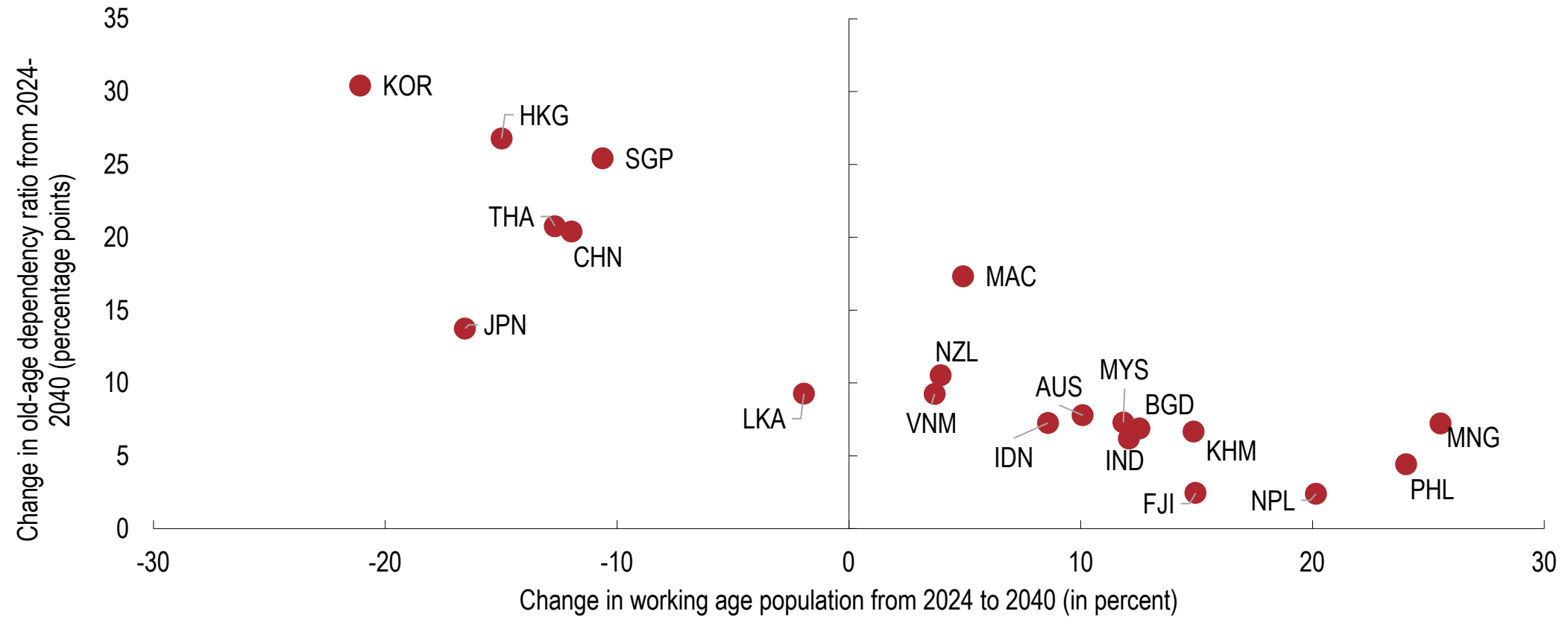
Sources: World Bank, ASPIRE database; and authors' calculations.
Note: Unweighted averages within each region. Data refers to the most recent year available. Adequacy for the first quintile is the size of transfer amount received by those in the bottom quintile as a share of the pretransfer total income/expenditure of all beneficiaries. Coverage is the share of the bottom quintile that receives a social assistant benefit as a fraction of all individuals in the first quintile. The bubble size represents the poverty reduction—defined as the difference between poverty headcount after and before transfers divided by poverty headcount before transfers—with a larger size of bubble representing greater poverty reduction.

Challenges to Growth

A Diverse Region with Diverse Demographics

Demographic Developments Across Asia

(In percent)

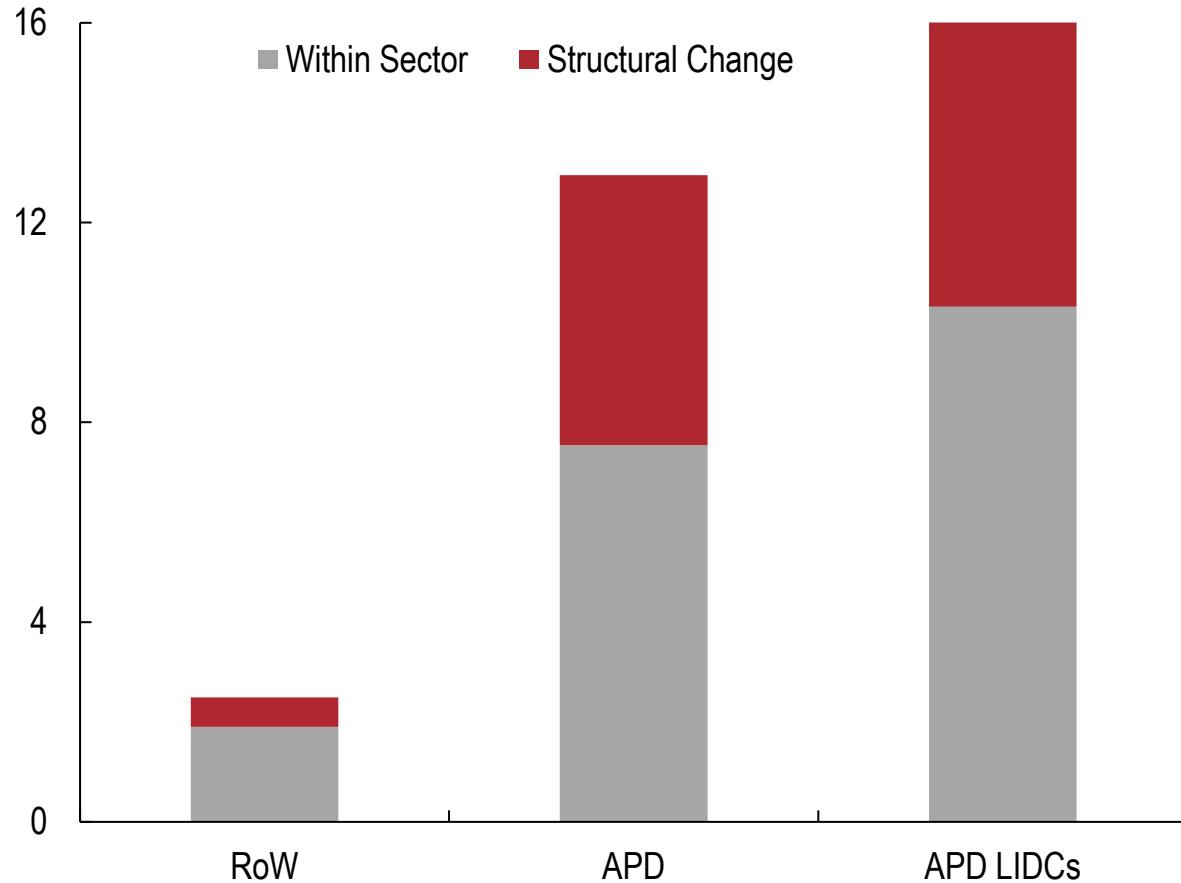


Sources: United Nations World Population Prospects 2022; and IMF staff calculations.

Note: Working age population defined as population ages 15-64. Old-age dependency ratio defined as ratio of population 65+ to working age population.

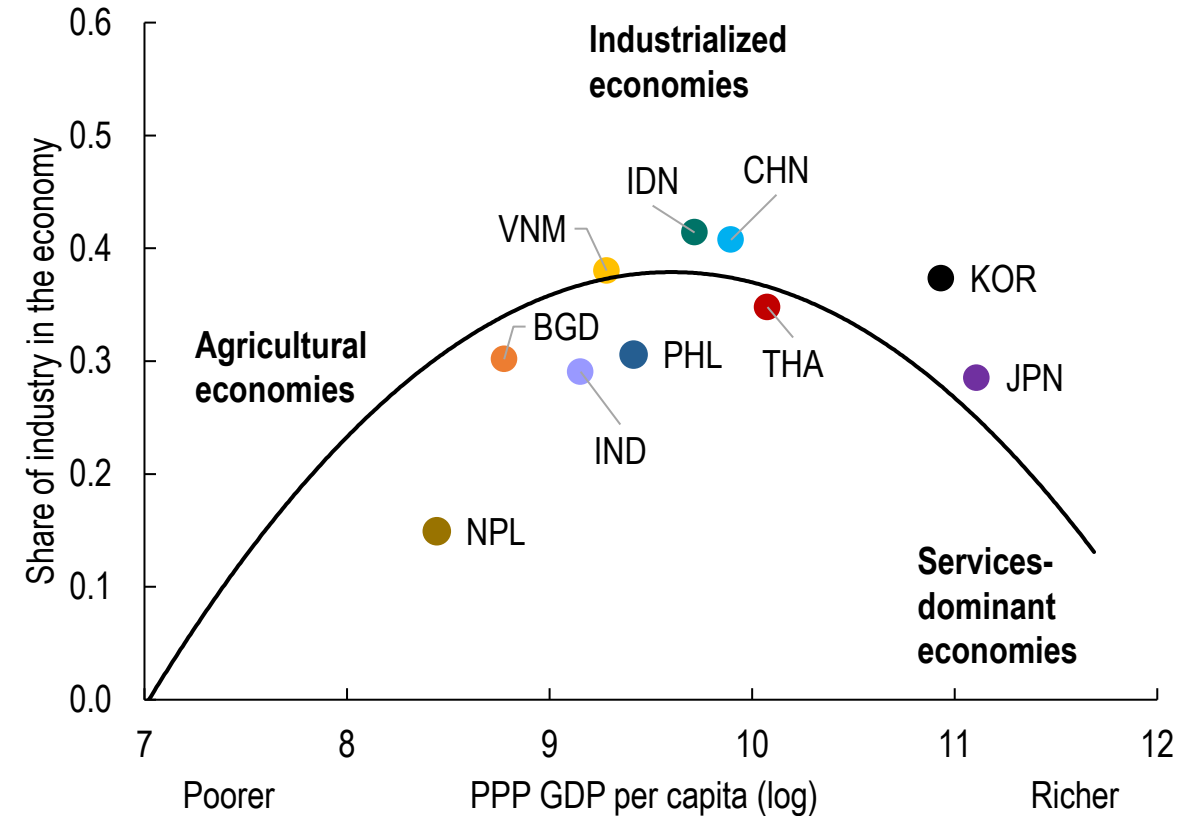
A Large Transformation in the Structure of Asian Economies

Labor Productivity Growth Decomposition, 1990-2018
(Change during the period relative to initial year)



Source: GGDC Economic Transformation Database and IMF Staff calculations.

Industry Share in Value Added versus Income

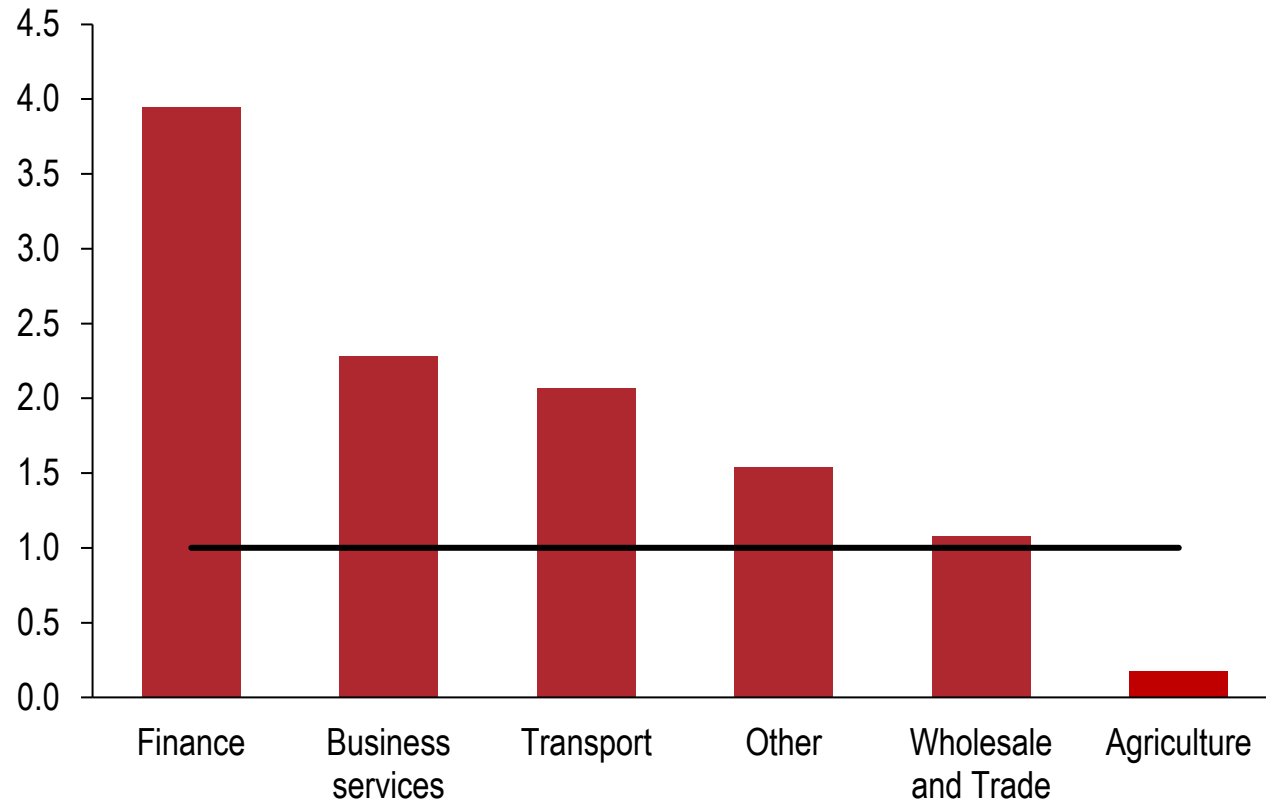


Source: GGDC Economic Transformation Database and IMF Staff calculations.

Are Services the Future?

Labor Productivity Relative to Manufacturing - Asia, 2018

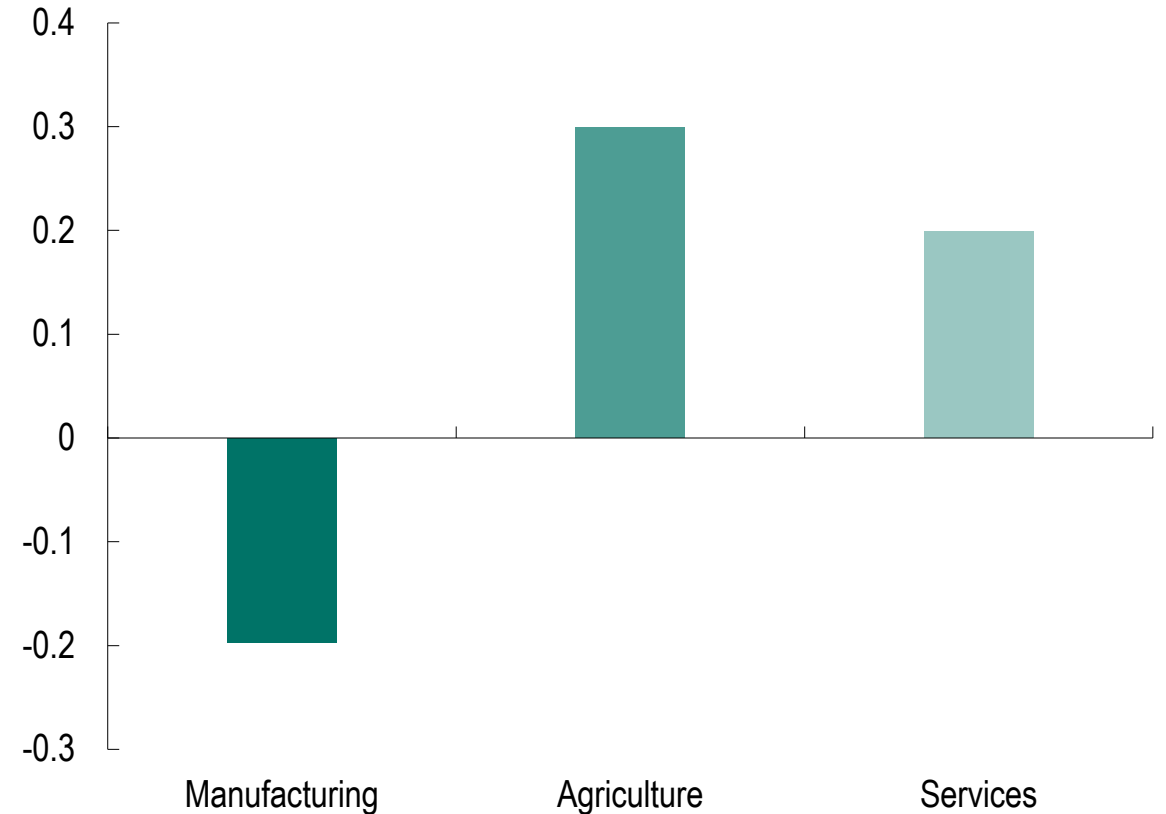
Median (across countries) productivity relative to manufacturing (manufacturing = 1)



Source: GGDC/UNU-WIDER Economic Transformation Database (ETD), PWT, and IMF staff calculations.

Trade restrictiveness in Asia and Pacific

(Z-score: standard deviations from the global average)



Source: WITS, WB-WTO, and IMF staff calculations.

Note: The figure shows z-scores (difference from the global average in terms of standard deviation) of simple averages in Asia and Pacific. Manufacturing and agriculture restrictiveness is based on import tariffs, and service trade restrictiveness is based on WB-WTO service trade

Thank You