Asia-Pacific Economic Outlook
Outlook and Risks

New Delhi, India

Anoop Singh
Director, Asia and Pacific Department

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Plan of the presentation

- The global and regional context: a multi speed recovery.
- Risks to the outlook: downside global/financial risks.
- Policy challenges for Asia: managing the exit from stimulus and dealing with capital inflows.
- Critical juncture and role of the IMF.
The global recovery has gained strength

Current Forecast of Global GDP Growth: Baseline and Risks (as of March 2010)

Previous Forecast of Global GDP Growth: Baseline and Risks (as of October 2009)
But it is a “multi-speed” recovery

Real GDP
(levels, 2000=100)

United States

Euro area

Emerging Asia

The Global and Regional Context
Asia is leading the global recovery, and will continue to do so in 2010-2011

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

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industrial Asia</strong></td>
<td>-4.1</td>
<td>2.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Japan</td>
<td>-5.2</td>
<td>1.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Australia</td>
<td>1.3</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>New Zealand</td>
<td>-1.6</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Emerging Asia</strong></td>
<td>5.7</td>
<td>8.5</td>
<td>8.4</td>
</tr>
<tr>
<td>NIEs</td>
<td>-0.9</td>
<td>5.5</td>
<td>5.1</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>-2.7</td>
<td>5.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Korea</td>
<td>0.2</td>
<td>4.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>-2.0</td>
<td>8.9</td>
<td>6.8</td>
</tr>
<tr>
<td>Taiwan Province of China</td>
<td>-1.9</td>
<td>6.5</td>
<td>4.8</td>
</tr>
<tr>
<td>China</td>
<td>8.7</td>
<td>10.0</td>
<td>9.9</td>
</tr>
<tr>
<td>India</td>
<td>5.7</td>
<td>8.8</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>ASEAN5</strong></td>
<td>1.7</td>
<td>5.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.5</td>
<td>6.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-1.7</td>
<td>4.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.9</td>
<td>3.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>-2.3</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>5.3</td>
<td>6.0</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Asia</strong></td>
<td>3.4</td>
<td>7.1</td>
<td>7.1</td>
</tr>
</tbody>
</table>
The drivers of growth vary within the region

<table>
<thead>
<tr>
<th></th>
<th>2005-07 (avg.)</th>
<th>08</th>
<th>09</th>
<th>10 (f)</th>
<th>11 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Contribution from gross exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Export-oriented Asia</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Asia: Contribution to GDP Growth
(percentage points; y/y)

- Contribution from gross exports
- Contribution from private investment
- Growth (percent)
China’s growth is becoming more broad based, with positive spillovers for the region.

**China: Contributions to GDP Growth (percentage points)**

- Private domestic demand
- Public domestic demand
- Net exports
- Growth

**GDP Growth and Trade Links with China (percent)**

<table>
<thead>
<tr>
<th>China: Contributions to GDP Growth (percentage points)</th>
<th>GDP Growth and Trade Links with China (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2005</strong></td>
<td><strong>2006</strong></td>
</tr>
<tr>
<td>-------------------------------------------------------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>16.0</td>
<td>12.0</td>
</tr>
<tr>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>16.0</td>
<td>12.0</td>
</tr>
<tr>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Average q/q SAAR GDP growth between 2009Q2 and 2009Q4**

- Non-Asian EM

**Trade weights of China**

- JPN
- AUS
- THA
- MYS
- PHL
- IDN
- HKG
- SGP
- TWN
- KOR
- IND

The Global and Regional Context
In Japan, the recovery is also underway and deflation is expected to moderate.
Plan of the presentation

- The global and regional context: a multi speed recovery.

- Risks to the outlook: downside global/financial risks.

- Policy challenges for Asia: managing the exit from stimulus and dealing with capital inflows.

- Critical juncture and role of the IMF.
Multiple factors will weigh on the recovery in advanced economies.
New global risks are also evolving, notably from rising sovereign debt burdens and financial market sentiment.

- **Public Debt (percent of GDP)**
  - United States
  - Euro area
  - United Kingdom

- **Required Adjustments in Primary Balance (percent of GDP)**
  - Germany
  - Italy
  - Canada
  - Belgium
  - Netherlands
  - Portugal
  - France
  - U.K.
  - Spain
  - U.S.
  - Japan

1. Primary balance adjustment needed between 2010 and 2020 to bring the debt ratio to 60 percent in 2030.
Asia is still very exposed to global demand

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

GDP Growth Loss From a 1 percent Decline in U.S. Growth\(^1\) (percentage points)

1 Source: *Regional Economic Outlook, April 2008.*
And Asia remains reliant on external financing

**Rollover of Foreign Currency Bonds and Loans by Corporates**
(billions of U.S. dollars)

- Asia
- Middle East and Africa
- Europe and CIS
- Latin America

**Outstanding Claims of BIS Reporting Banks vis-à-vis Asia**
(billions of U.S. dollars)

**Total External Issuance: Bonds, Equities and Loans**
(percent of GDP)

- Japanese banks
- U.S. banks
- European banks
- India
- Other EM Asia

Risks to the Outlook
Plan of the presentation

- The global and regional context: a multi speed recovery.
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In a number of Asian economies output gaps are closing and inflationary pressures are emerging.

**Output Gap - Estimated Dates of Closure**

<table>
<thead>
<tr>
<th>Country</th>
<th>Date Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Mar-10</td>
</tr>
<tr>
<td>Korea</td>
<td>Dec-10</td>
</tr>
<tr>
<td>Australia</td>
<td>Sep-11</td>
</tr>
<tr>
<td>Singapore</td>
<td>Jun-12</td>
</tr>
<tr>
<td>Thailand</td>
<td>Mar-13</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Dec-13</td>
</tr>
<tr>
<td>Philippines</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Taiwan Province of China</td>
<td>Jun-15</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>Mar-16</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Nov-17</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Dec-18</td>
</tr>
<tr>
<td>Japan</td>
<td>Jan-19</td>
</tr>
<tr>
<td>United States</td>
<td>Mar-20</td>
</tr>
</tbody>
</table>

**EM Asia: Core Inflation**

(3-month percent change of 3-mma; SAAR)

![Chart showing output gap and core inflation trends for various countries in Asia](chart.png)
With higher inflationary pressure in the region, several countries are moving toward policy normalization.
Given the persistence of downside risks, should the withdrawal of stimulus be gradual?

Asia: Cyclically Adjusted General Government Balance
(percent of GDP)

Asia: Estimated Nominal Taylor Rule Rates
(percent)
The ample supply of global liquidity and brighter growth prospects are driving capital inflows.
There is no clear evidence of asset bubbles so far, but the high levels of liquidity in the region raise a concern.
Safeguarding stability will require a range of macro-prudential measures...

**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; restrictions on buying properties for individuals and companies.

- **Korea**: maximum loan-to-value ratios and debt-to-income ratios lowered in Seoul and surrounding areas.

- **India**: increased risk weight on banks’ exposure to commercial real estate; restrictions on external commercial borrowing for real estate.
...and more exchange rate flexibility

**EM Asia: Exchange Market Pressure**

- Contribution from change in exchange rate
- Contribution from reserve accumulation
- Market pressure

**Asia: REER**
*(January 2008 =100)*

- India
- China
- Korea
- ASEAN-5 (trade-weighted)
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- Policy challenges for Asia: managing the exit from stimulus and dealing with capital inflows.

- Critical juncture and role of the IMF.
We are at a critical juncture

- Global financial stability improved, but not assured
- Address the legacy of the present crisis, otherwise
  - Recovery undermined
  - Crisis extended

**Critical juncture and role of the IMF**
Over the medium term, private domestic demand will need to become a more prominent source of growth in Asia.
Achieving “Strong, Sustained, and Balanced Growth”? 

- Fiscal consolidation and decrease in domestic demand in advanced economies
- Increase in net exports in advanced economies
- Decrease in net exports in emerging market economies
- Decrease in saving and increase in domestic demand in emerging markets
- The required adjustment of exchange rates
In this new global environment, the IMF is reforming to increase its effectiveness

Strategy:

- Improve governance
- Enhance the lending framework including new lending tools (notably the FCL)
- Strengthen bilateral surveillance
- Enhance multilateral surveillance, especially for systemic countries
- Further develop regional surveillance
Conclusions

- The global outlook is shaping up better than expected, but growth varies across regions, with emerging Asia in the lead.

- Asia’s fast recovery argues for an exit from policy stimulus, while taking into account the uncertain strength of external demand and the risks posed by surges in capital inflows.

- Private domestic demand needs to become a more prominent source of growth in Asia.