

World Economic Outlook

Legacies, Clouds, Uncertainties

International Monetary Fund
Regional Office for Asia and the Pacific

November 2014



Overview of Presentation

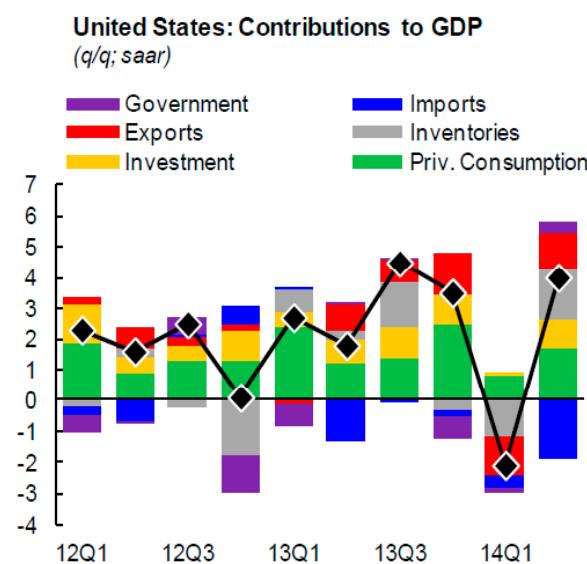
Recent Developments in the Global Economy

World Economic Outlook and Policy Issues

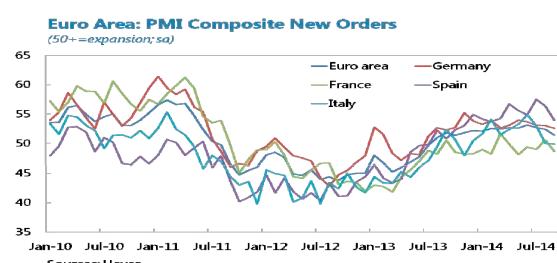
Asian Economic Outlook and Policy Implications

Recent Developments in the Global Economy

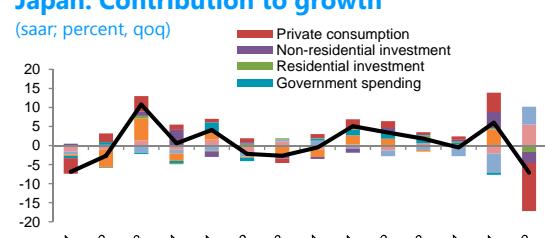
The recovery has been uneven in AEs



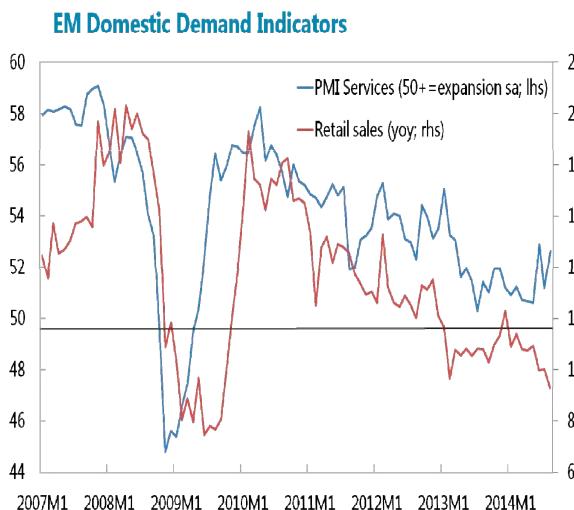
Source: HAVER



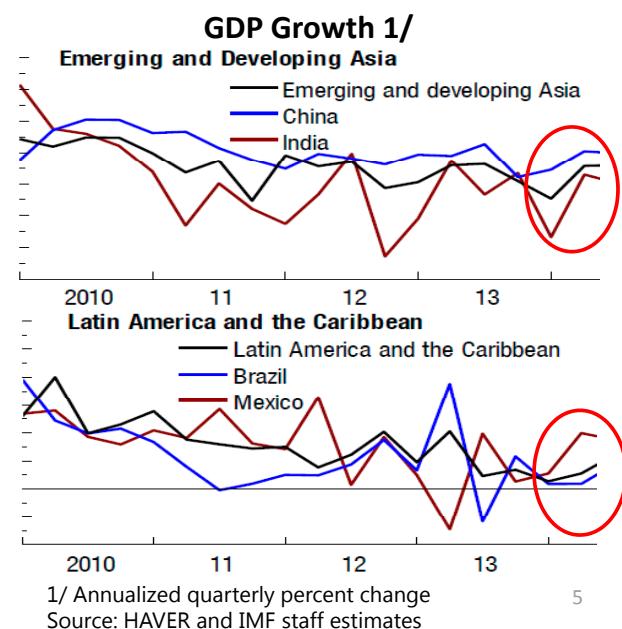
Japan: Contribution to growth



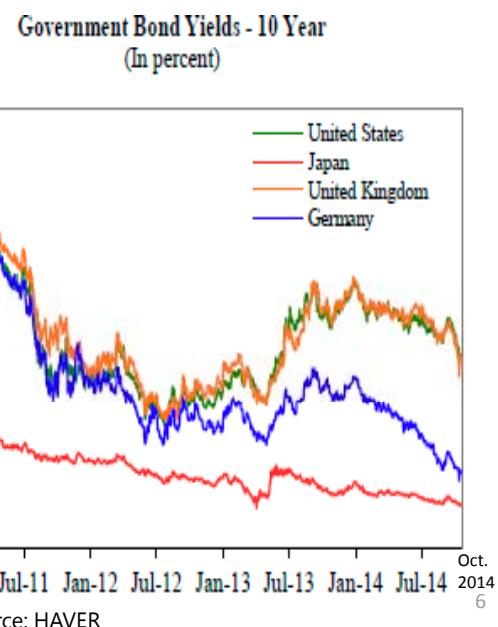
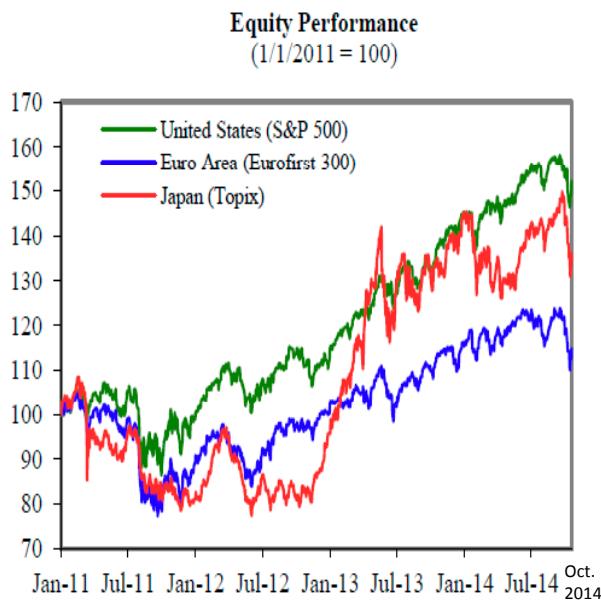
Recovery yet to be sustained in EMs



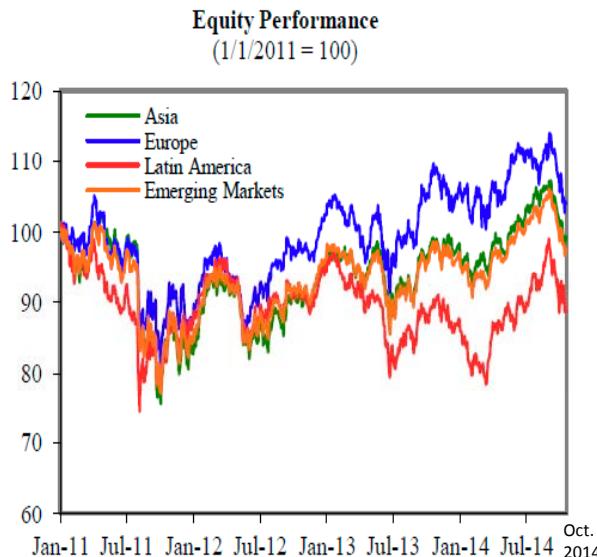
Oct.



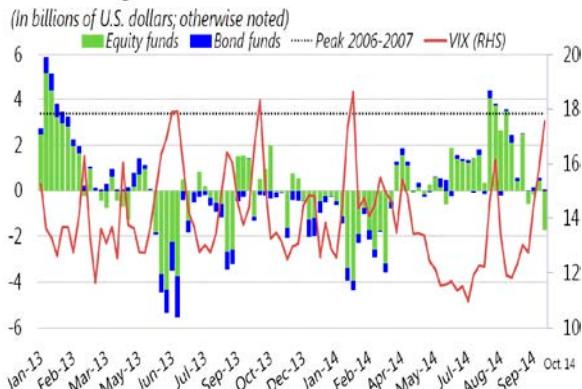
In AEs, financial conditions (until recently) easing ...



... and the same in EMs



Asia (ex JPN)¹: Equity and Bond Funds² — Weekly Net Flows during 2013-14

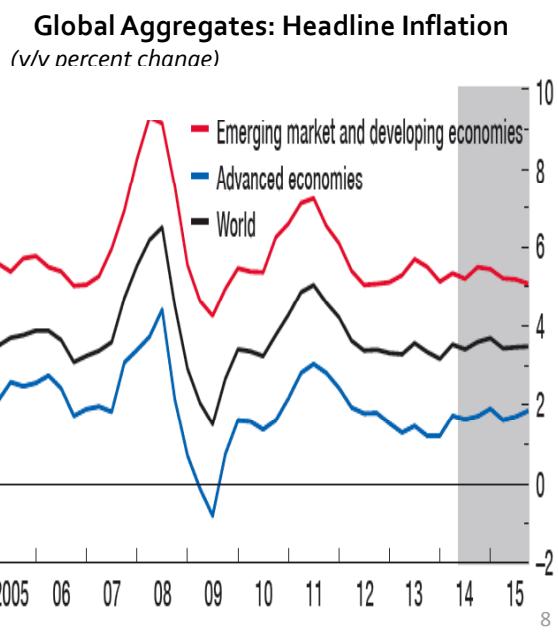
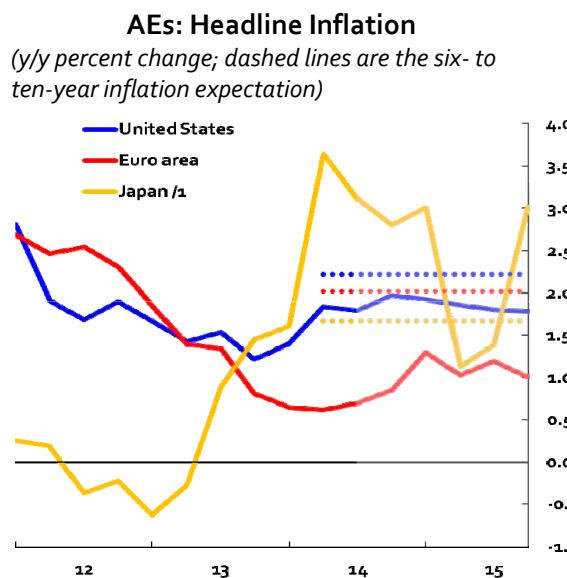


¹ Includes exchange traded fund flows and mutual fund flows.

² Asia includes Australia, New Zealand, China, Taiwan Province of China, Korea, Hong Kong SAR, India, Indonesia, Malaysia, Philippines, Vietnam, Thailand, and Singapore.

7

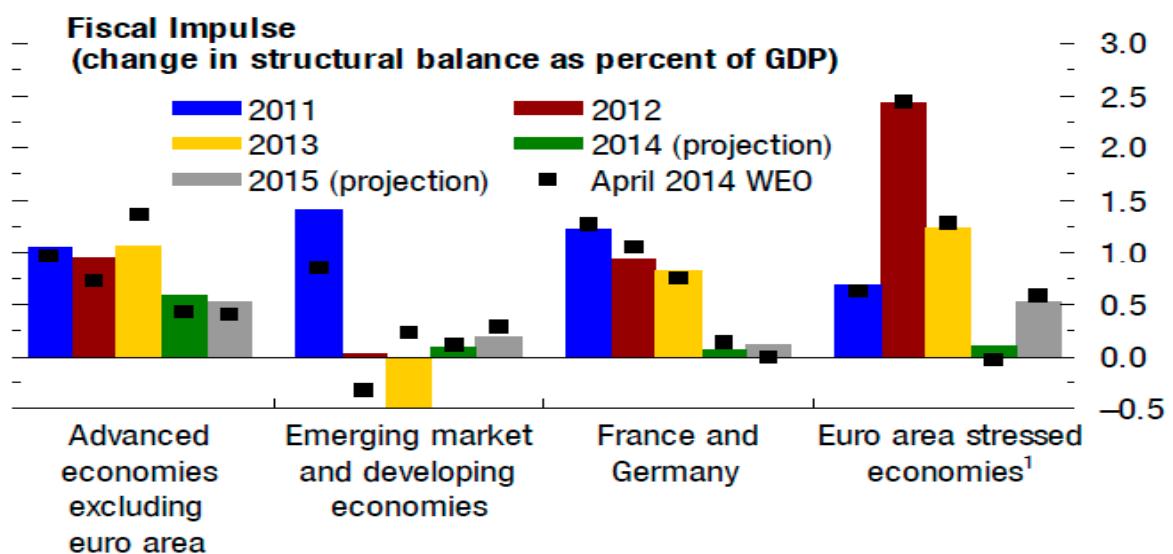
Inflation has generally been below central bank targets in AEs, while remaining stable in EMs



8

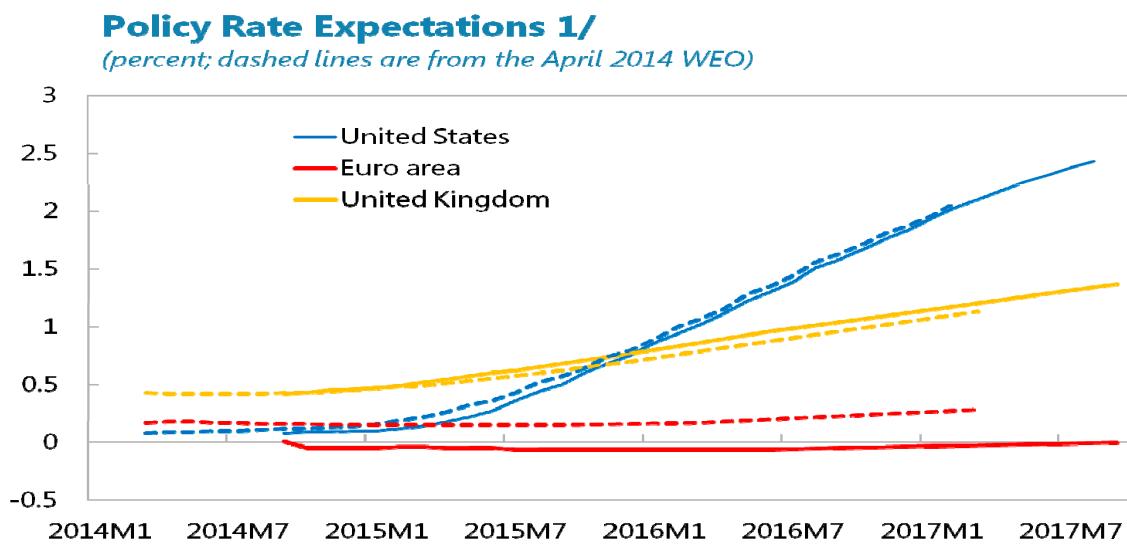
World Economic Outlook and Policy Issues

The drag from fiscal consolidation expected to moderate overall



Source: World Economic Outlook (Oct. 2014)

Policy interest rates expected to diverge



Source: Bloomberg, L.P.; and World Economic Outlook (Oct. 2014)

1/ Expectations are based on the federal fund futures for the U.S., the sterling overnight interbank average rate for the U.K., and the euro interbank offered forward rate for the euro area; updated on Sep. 22, 2014

Continued recovery expected but at an uneven pace

WEO Real GDP Growth Projections

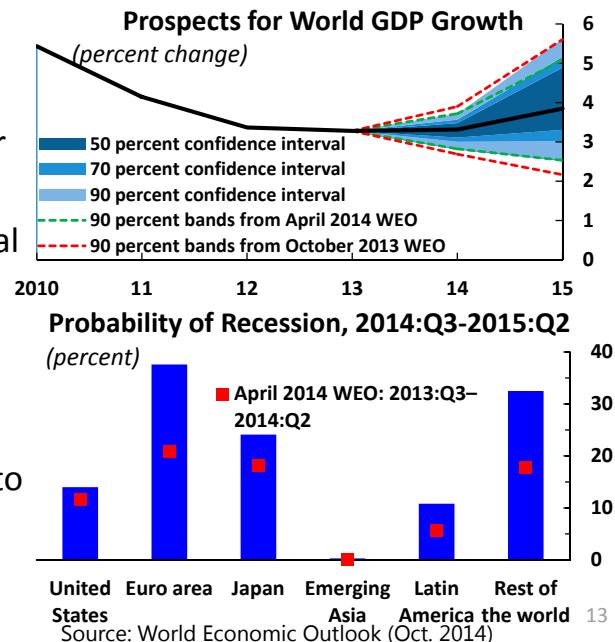
(percent change from a year earlier)

	World	U.S.	Euro Area	Japan	Brazil	Russia	India	China	LIDCs
2014 (October 2014)	3.3	2.2	0.8	0.9	0.3	0.2	5.6	7.4	6.1
2014 (April 2014)	3.6	2.8	0.8	1.4	1.8	1.3	5.4	7.5	6.3
2015 (October)	3.8	3.1	1.3	0.8	1.4	0.5	6.4	7.1	6.5
2015 (April 2014)	4.0	3.0	1.3	1.0	2.7	2.3	6.4	7.3	6.5

Source: World Economic Outlook (Oct. 2014)

Downside risks to the baseline have increased

- **Geopolitics:** developments in the Middle East and Ukraine/Russia.
- **Financial markets:** sharper and faster rise in US long-term interest rates.
- **Emerging economies:** shift in financial market sentiment and reversal in capital flows.
- **Advanced economies and key EMs:** stagnation over the medium term.
- **Ebola outbreak:** the spread can add to economic costs.



Economic policy priorities ...

AEs: battle low inflation and sustain recovery

- **Monetary Policy:** continue supporting the recovery, although challenges are diverging
- **Financial Stability:** closely monitor risks relating to continued low interest rates
- **Fiscal Policy:** fiscal adjustment attuned to supporting recovery and long-term growth

EMs: adapt to a changing environment

- **Maintain financial stability, strengthen policy frameworks, and contain external vulnerabilities**
- **Allow exchange rates to adjust to external shocks**
- **Build buffers, to allow macroeconomic policies to support growth if needed**

All: further action towards sustained and balanced growth

- **Public investment** in infrastructure where conditions are right: Boost demand in the short term, help to raise potential growth in the long term
- **Structural reforms** to raise productivity and potential output, make growth more sustainable

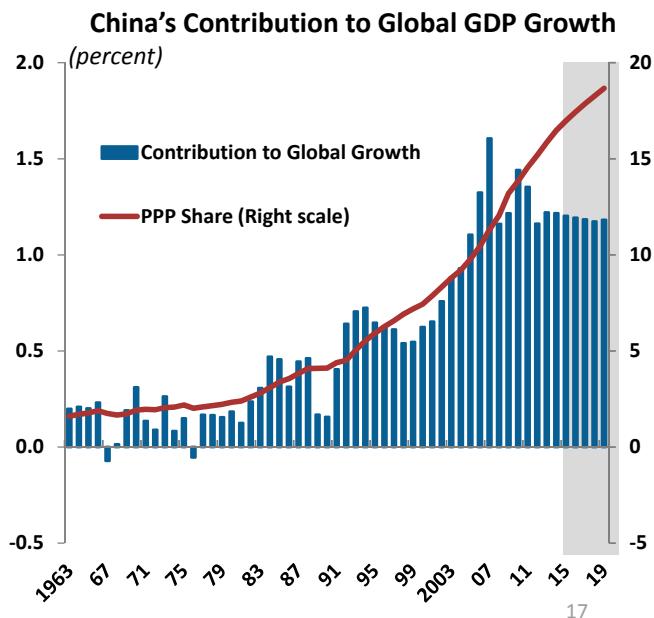
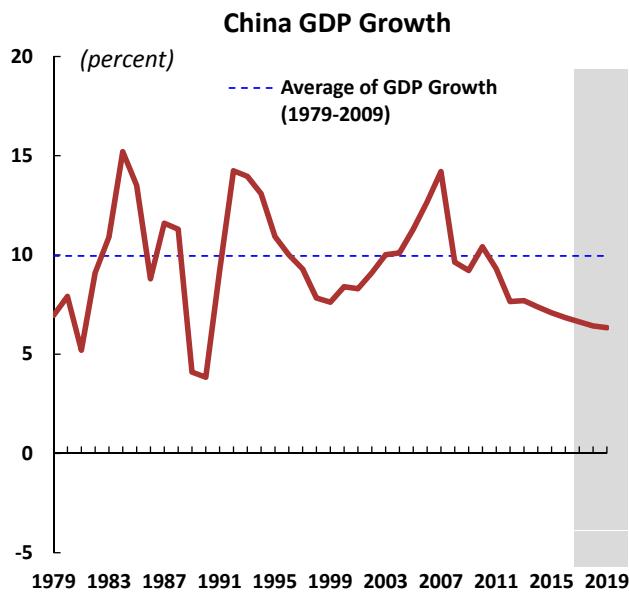
Asian Economic Outlook and Policy Implications

Asia's performance is expected to remain solid

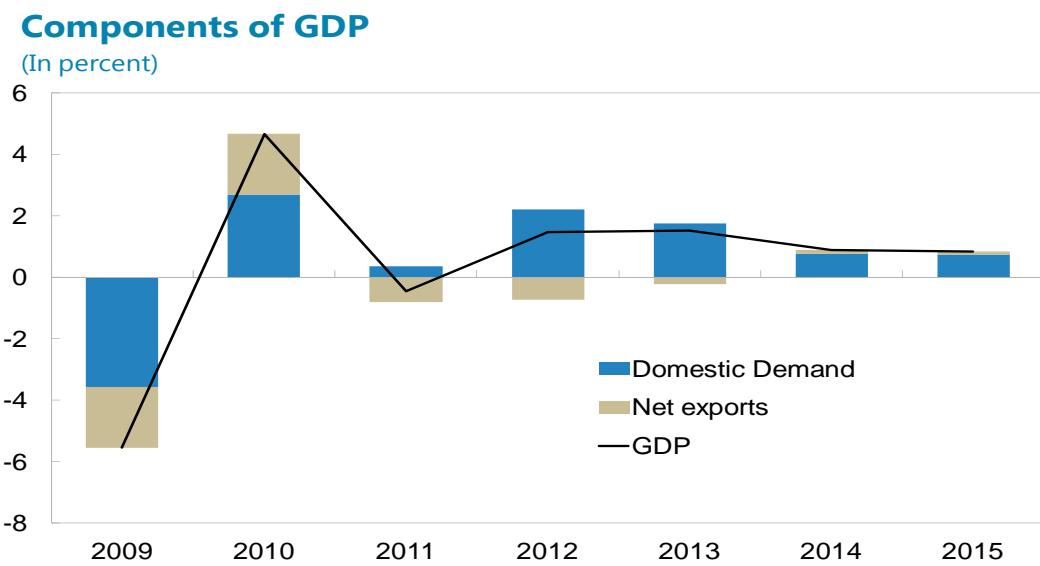
									
	Asia	China	Japan	ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand
2014 (October 2014)	5.5	7.4	0.9	4.7	5.2	5.9	6.2	3.0	1.0
2014 (April 2014)	5.4	7.5	1.4	5.0	5.4	5.2	6.5	3.6	2.5
2015 (October 2015)	5.6	7.1	0.8	5.4	5.5	5.2	6.3	3.0	4.6
2015 (April 2015)	5.5	7.3	1.0	5.3	5.8	5.0	6.5	3.6	3.8

Source : Regional Economic Outlook (October 2014).

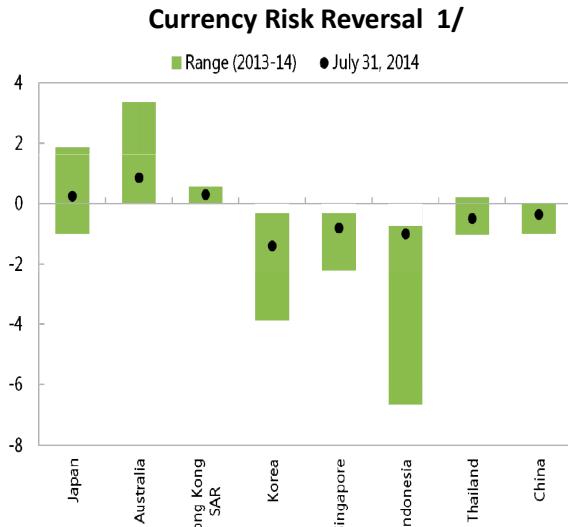
China: Growth expected to moderate, with contribution to global growth broadly unchanged



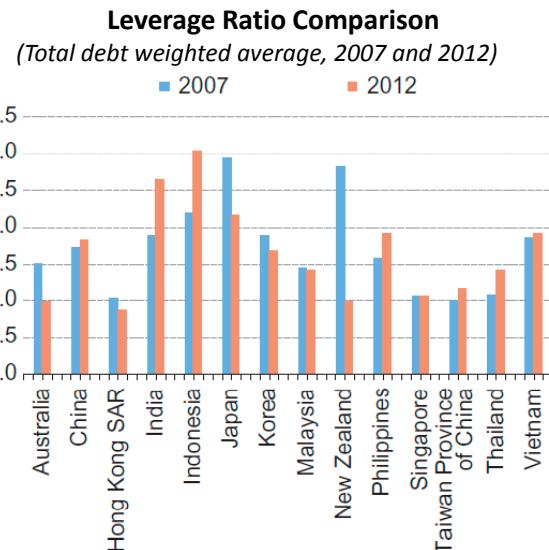
Japan: Further policy reforms needed to overcome structural headwinds to growth



Downside risks to the outlook have increased



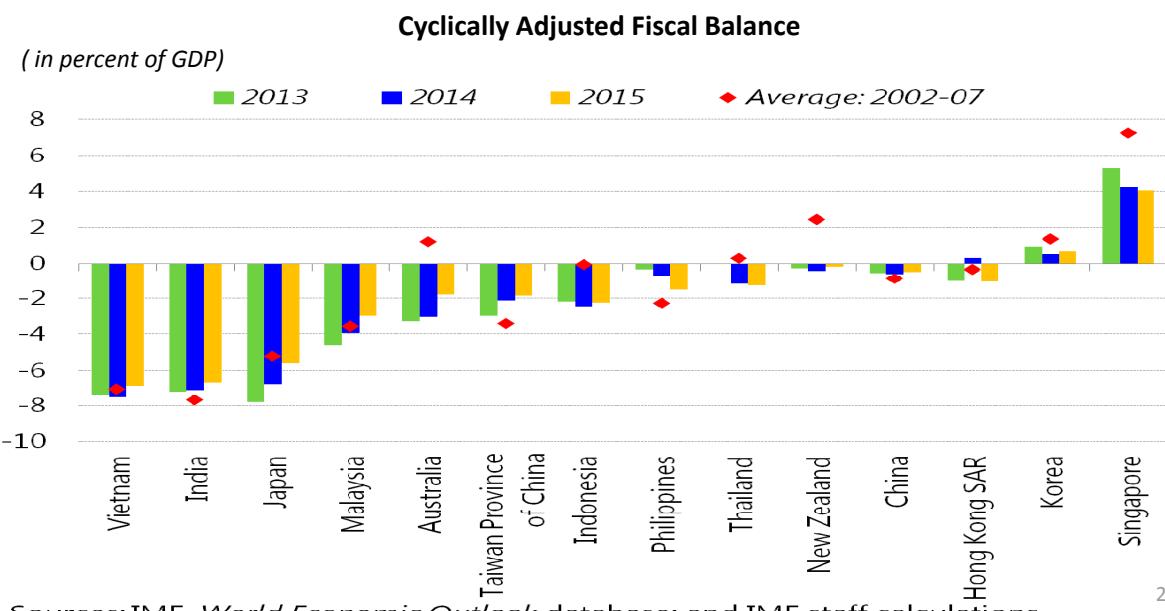
Sources: Bloomberg L.P.; and IMF staff calculations.
1/ Negative risk reversal implies disproportionate probability of depreciation of local currencies against the U.S. dollar



Source: Asia and Pacific Regional Economic Outlook (Apr. 2014)

19

Fiscal Policy: Gradual fiscal consolidation remains appropriate



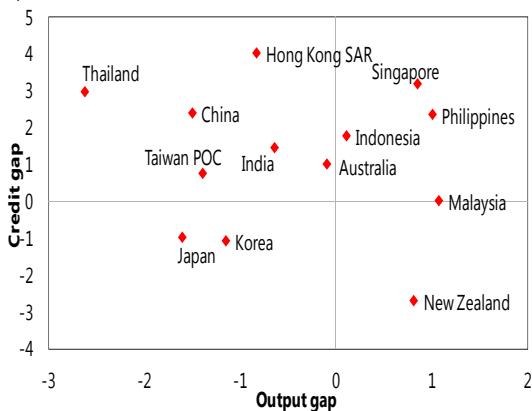
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

20

Monetary policy: Measured normalization of monetary conditions

Output Gap vs. Credit Gap, Latest

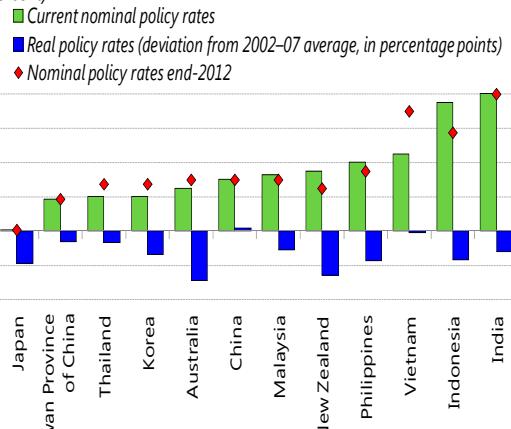
(In percent)



Sources: CEIC Data Company Ltd.; IMF, *World Economic Outlook*; and IMF staff calculations. Credit-to-GDP as of May 2014 or latest available. Credit gap is calculated as a percent deviation from the trend credit-to-GDP ratio (approximated using the H-P filter over the period 2000–2012). Output gap is based on country estimates for 2014.

Selected Asia: Policy Rates

(In percent)



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

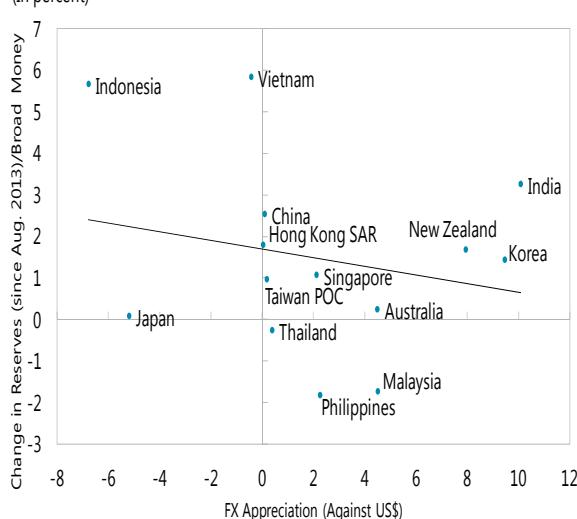
Note: Data is the latest available for each country.

21

Exchange rates have been a shock absorber...

Change in Reserves and Currency Appreciation

(In percent)

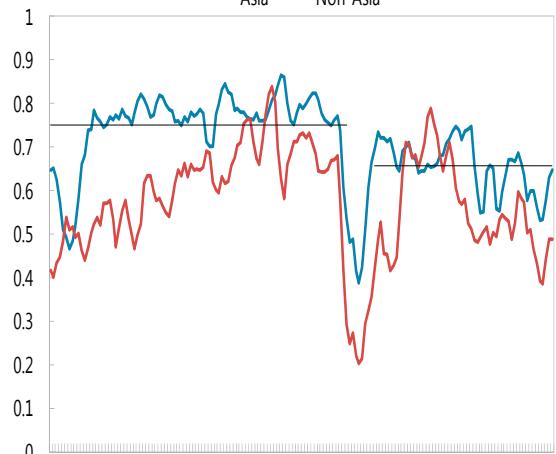


Sources: CEIC Data Ltd.; and Haver Analytics

Asia: Resistance Index

(Larger=more intervention; 3-month moving average)

— Asia — Non-Asia



Sources: Haver Analytics; IFS; and IMF staff calculations.

22

Structural reforms

- China: implement its reform blueprint—including financial, fiscal, and SOE reforms; better manage local government borrowing
- Japan: ensure the effective implementation of the third arrow of Abenomics (including services and labor market deregulation)
- India: remove structural impediments to investment; liberalize its FDI regime and labor market regulations
- Fiscal reforms: energy subsidy reforms (e.g., India, Malaysia, and Indonesia); and improve the efficiency of SOEs (e.g., China and Vietnam)
- Other EM/FEs: promote investment in infrastructure and enhance labor market flexibility; reduce red tape and improve governance

23

All told: Key messages

- **Despite setbacks, an uneven global recovery continues**
- **Downside risks have increased since the spring**
- **Given these increased risks, raising actual and potential growth remains a priority**
 - In advanced economies, this will require continued support from monetary policy, and fiscal adjustment attuned in pace and composition to supporting both the recovery and long-term growth.
 - In a number of economies, an increase in public infrastructure investment can also provide support to demand in the short term and help boost potential output in the medium term.
 - In emerging markets, the scope for macroeconomic policies to support growth if needed varies across countries and regions, with space limited in countries with vulnerabilities.
 - In advanced economies as well as emerging market and developing economies, there is a general, urgent need for structural reforms to strengthen growth potential or make growth more sustainable.

24

Thank you !

