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
Oil Spot and Futures Prices
(IMF APSP, U.S. dollars per barrel)

Forecast assumptions: partial gradual reversal of oil price decline

- 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)

Sources: IMF, GAS Live database; International Energy Agency (IEA).
Expected growth, monetary policy divergence, and oil prices have led to exchange rate realignments.

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

The yen and the euro have depreciated.

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)

- **US**
- **Europe**
- **Japan**

**United States Interest Rates**
(percent)

- 5-year 5-year forward inflation swap
- 10-year government bond yield

**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

Sources: Bloomberg, L.P.
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)*

<table>
<thead>
<tr>
<th></th>
<th>World</th>
<th>AEs.</th>
<th>U.S.</th>
<th>EA</th>
<th>Japan</th>
<th>U.K.</th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(Apr 2015)</td>
<td>3.5</td>
<td>2.4</td>
<td>3.1</td>
<td>1.5</td>
<td>1.0</td>
<td>2.7</td>
<td>1.6</td>
<td>1.2</td>
<td>0.5</td>
<td>2.5</td>
</tr>
<tr>
<td>(Jan 2015)</td>
<td>3.5</td>
<td>2.4</td>
<td>3.6</td>
<td>1.2</td>
<td>0.6</td>
<td>2.7</td>
<td>1.3</td>
<td>0.9</td>
<td>0.4</td>
<td>2.0</td>
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<tr>
<td>2016</td>
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</tr>
<tr>
<td>(Apr 2015)</td>
<td>3.8</td>
<td>2.4</td>
<td>3.1</td>
<td>1.6</td>
<td>1.2</td>
<td>2.3</td>
<td>1.7</td>
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<td>1.4</td>
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<td>2.4</td>
<td>1.5</td>
<td>1.3</td>
<td>0.8</td>
<td>1.8</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Year/Quarter</th>
<th>EMDEs</th>
<th>China</th>
<th>India</th>
<th>Russia</th>
<th>LAC</th>
<th>Brazil</th>
<th>Mexico</th>
<th>LIDCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 (Apr 2015)</td>
<td>4.3</td>
<td>6.8</td>
<td>7.5</td>
<td>-3.8</td>
<td>0.9</td>
<td>-1.0</td>
<td>3.0</td>
<td>5.5</td>
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<td>2015 (Jan 2015)</td>
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<td>1.3</td>
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<td>2.3</td>
<td>1.5</td>
<td>3.5</td>
<td>6.1</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook.
Asia will continue to outperform the rest of the world.

Change in Growth: 2015 forecast compared to 2014

<table>
<thead>
<tr>
<th>Region</th>
<th>2015 Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.5</td>
</tr>
<tr>
<td>United States</td>
<td>3.1</td>
</tr>
<tr>
<td>Asia</td>
<td>5.6</td>
</tr>
<tr>
<td>Advanced Asia</td>
<td>2.2</td>
</tr>
<tr>
<td>Emerging Asia</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Source: World Economic Outlook.
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.
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)

Less than 1.5%
Between 1.5-3%
Greater than 3%

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

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)

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...

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**REER appreciation since June vs 2014 external assessment**

- **Appreciation**
  - CHN
  - HKG
  - IND
  - IDN
  - KOR
  - MYS
  - PHL
  - SGP
  - THA
  - AUS
  - NZL

- **External position**
  - "weaker"
  - "stronger"

- **"moderately"**
  - "moderately"
  - "substantially"
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)*

- Resident
- Nonresident national

**Asia: Nonfinancial Corporate Sector Potential Vulnerabilities, 2015**

- Foreign currency debt issuance (% total issuance)
- Maturing debt in 2015 (% total outstanding debt)
- Non-investment Grade debt issuance (% total issuance)
- Foreign currency debt maturities in 2015 (% total maturing debt)

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.
Longer-term risks - New mediocre?

Potential Growth

- World
- Emerging Asia
- Middle East
- Africa
- L. America & Caribbean
- Emerging Europe

- 2003-2008
- 2010-2014
- 2015-2019
China: Growth slows down for good reasons

**Growth Slowing Down**
(In percentage points unless otherwise specified)

**Total Debt in China, by Sector**
(in percent of GDP)

Sources: CEIC; and IMF staff calculations.

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)

- Nominal wage bill (yoy)
- Real wage bill (yoy)
India: Bright spot, but fiscal consolidation and further structural reforms needed

Current Account, Fiscal Balance, and Inflation

- General govt. Balance (LHS)
- Current account balance (LHS)
- Inflation (RHS)

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

Investment

New investment projects (LHS):
- Private
- Public

Stalled and shelved projects [RHS]

Sources: CAPEX; and IMF staff calculations.
Sri Lanka: Comparatively Strong GDP Growth Likely, but Inflation Pressures Could Rise
Sri Lanka: Need for Fiscal Buffers

**Interest Payment – 2014**
(Percent of total government expenditures)

**Annual Growth in Expenditure and Tax Revenue**
(In percent)

Sources: Fiscal Monitor Database
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 - 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)

Spread (prime lending-deposit) (RHS)
Prime Lending Rate
Deposit

Private credit growth (LHS)
Nonperforming loans (LHS)
Raise overall productivity and competitiveness by incentivizing business entry and investment.

Ease of Doing Business Rank

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