
# The Global Economic Outlook and Its Implications for Asia

*JIMS presentation, February 2013*

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## Plan of the Presentation

- Global Economic Outlook → Tail risks are receding
- Asian Outlook → Resilience and growth pick-up
- Risks and Challenges → Middle-income trap issue; Achieving inclusive growth

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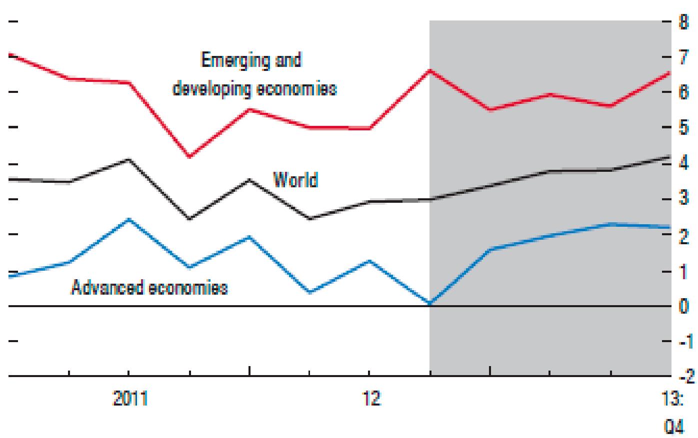
# Chapter I

# Global Economic Outlook

## World Economy: Global Economy improved modestly..

**Global GDP Growth**

*(percent; quarter over quarter, annualized)*




Source: IMF staff estimates.

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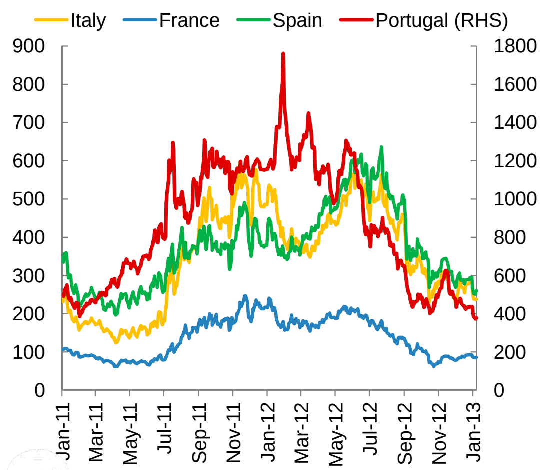
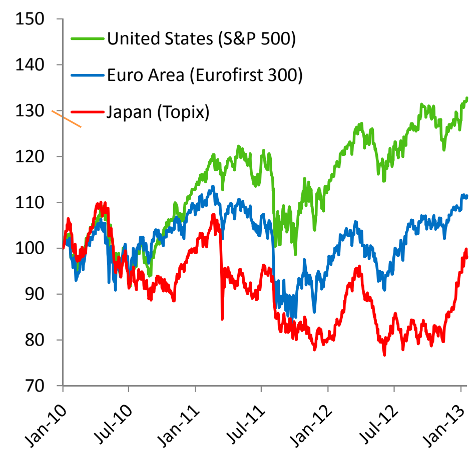
## … as financial conditions are improving due to policy actions

**Selected Europe: Sovereign CDS Spreads**
*(5-year senior debt, basis point)*




**Equity Performance**
*(1/1/2010 = 100)*

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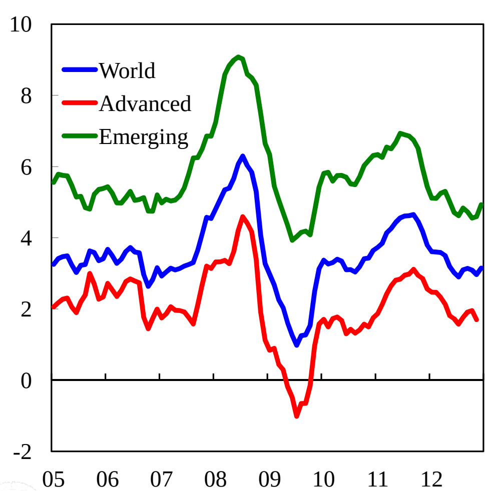
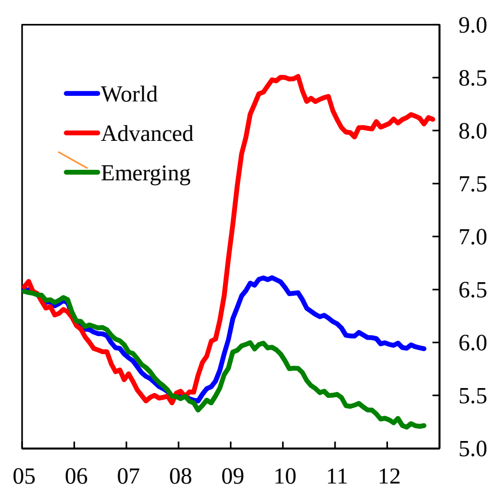
## Inflation and unemployment rate had moderated

**Headline CPI Inflation**
*(Percent, year over year)*




**Unemployment**
*(percent; weighted by labor force)*

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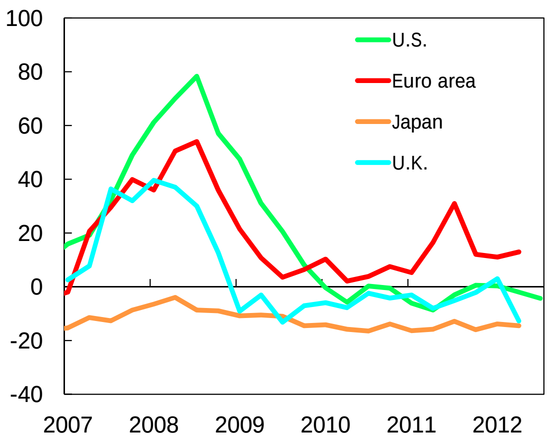
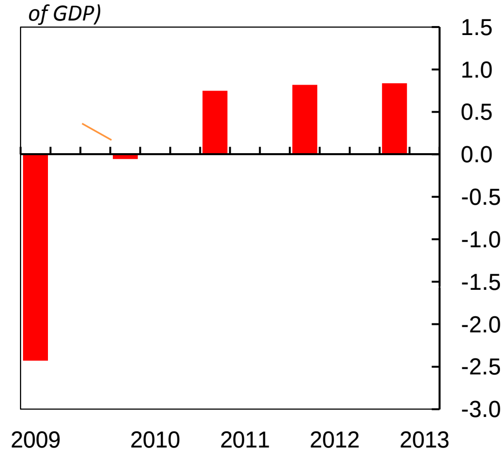
## Yet, deleveraging and fiscal consolidation in AE remain key factors weighing on global recovery

**Lending Conditions**
*(Net percentage of domestic respondents tightening standards for loans)*




**Fiscal Consolidation in Advanced Economies**
*(change in structural balance as percent of GDP)*

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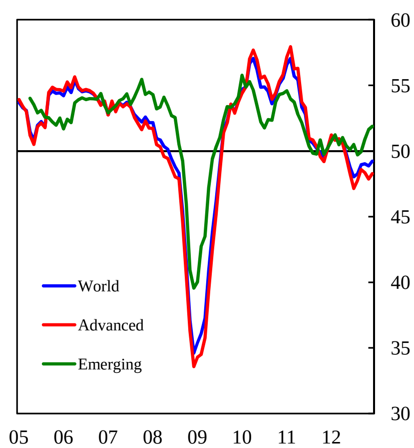
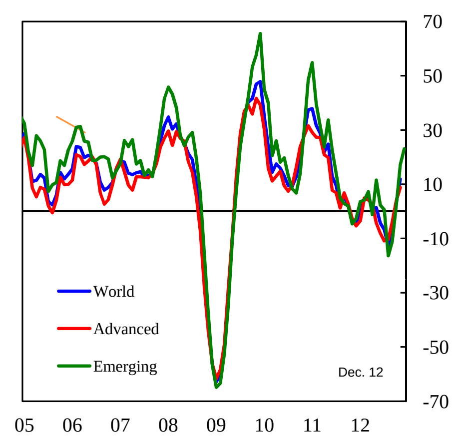
## ..and global activity remains subdued

**Manufacturing Purchasing Managers' Index (PMI)**
*(index; figures above 50 denote expansion)*




**Merchandise Exports**
*(percent; three-month moving average (3mma) over previous 3mma, annualized)*

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# Global Growth Outlook for 2013

| Key Assumptions | ✓ No renewed setbacks in the euro area<br>✓ US policymakers avoid fiscal cliff |
|---|---|
| Outlook for 2013 | ✓ Global growth is projected to strengthen gradually<br>✓ Downside risks down, upside risks up |



# Growth will strengthen gradually in 2013

**WEO Real GDP Growth Projections ( Update: January 2013)**
*(percent change from a year earlier)*

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| **World** | **3.9** | **3.2** | **3.5** | **4.1** |
| **Advanced economies** | 1.6 | 1.3 | 1.4 | 2.2 |
| United States | 1.8 | 2.3 | 2.0 | 3.0 |
| Euro area | 1.4 | -0.4 | -0.2 | 1.0 |
| Japan | -0.6 | 2.0 | 1.2 | 0.7 |
| **Emerging market and developing economies** | 6.3 | 5.1 | 5.5 | 5.9 |
| Asia | 8.0 | 6.6 | 7.1 | 7.5 |
| China | 9.3 | 7.8 | 8.2 | 8.5 |
| India | 7.9 | 4.5 | 5.9 | 6.4 |
| ASEAN-5 1/ | 4.5 | 5.7 | 5.5 | 5.7 |
| Latin America and the Caribbean | 4.5 | 3.0 | 3.6 | 3.9 |
| Central and Eastern Europe | 5.3 | 1.8 | 2.4 | 3.1 |
| Commonwealth of Independent States | 4.9 | 3.6 | 3.8 | 4.1 |

Source: International Monetary Fund, World Economic Outlook Database, January 2013.
1/ Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

## Policy Actions needed by the Euro Area and the US

| | |
|---|---|
| **Euro area** | ✓Be ready to activate firewalls (ESM, OMTs)<br>✓Further progress toward a full banking union and greater fiscal integration<br>✓Short-term demand support where possible |
| **United States** | ✓Avoid excessive fiscal consolidation<br>✓Raise the debt ceiling<br>✓A credible medium-term fiscal consolidation |

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## Policy Actions needed by Japan and Emerging Market and Developing Economies

| | |
|---|---|
| **Japan** | ✓Ambitious monetary policy easing<br>✓A credible medium-term fiscal consolidation<br>✓Structural reforms to raise potential growth |
| **Emerging market & developing economies** | ✓Rebuilding macroeconomic policy space<br>✓Manage capital flows<br>✓Address structural bottlenecks |

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## Further action needed for global rebalancing

| | |
|---|---|
| **External Deficit Economies** | •**Fiscal Consolidation**<br>•**Structural reforms to boost productivity and saving** |
| **External Surplus Economies** | •**Boost consumption**<br>•**Adopt more market-determined exchange systems** |

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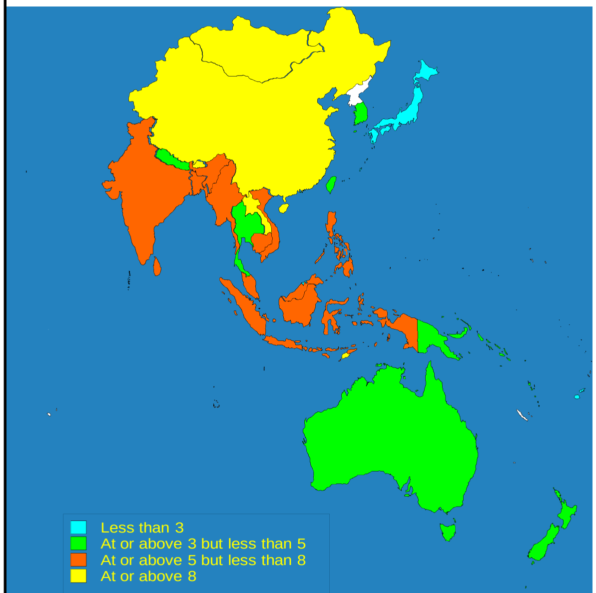
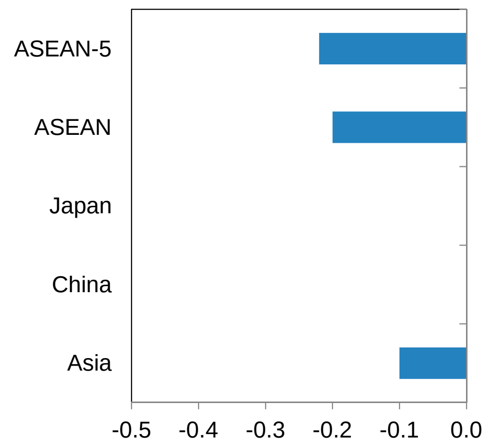
# Chapter II

# Asian Outlook

## Asia remains global growth leader; but some downward revisions to forecasts in 2013




**Asia: Change in 2013 Growth Forecast**
*(In percentage points)*




1/ Change since October 2012. ASEAN-5 includes Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

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## Asian growth holds up but does not accelerate much in 2013

**Asia: Real GDP Growth**
*(Year-over-year percent change)*

| | Actual data and latest projections | | | |
|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 |
| **Industrial Asia** | **4.1** | **-0.2** | **2.4** | **1.6** |
| Japan | 4.5 | -0.8 | 2.2 | 1.2 |
| **East Asia** | **9.9** | **8.2** | **6.8** | **7.4** |
| China | 10.4 | 9.2 | 7.8 | 8.2 |
| Korea | 6.3 | 3.6 | 2.7 | 3.6 |
| **South Asia** | **9.8** | **6.9** | **5.0** | **6.0** |
| India | 10.1 | 6.8 | 4.9 | 6.0 |
| **ASEAN-5** | **7.0** | **4.5** | **5.4** | **5.8** |
| Indonesia | 6.2 | 6.5 | 6.0 | 6.3 |
| Malaysia | 7.2 | 5.1 | 4.4 | 4.7 |
| Philippines | 7.6 | 3.9 | 4.8 | 4.8 |
| Thailand | 7.8 | 0.1 | 5.6 | 6.0 |
| Vietnam | 6.8 | 5.9 | 5.1 | 5.9 |
| **Emerging Asia[1]** | **9.6** | **7.4** | **6.1** | **6.8** |
| **Asia** | **8.4** | **5.9** | **5.4** | **5.9** |

Source: IMF staff projections.

[1] Emerging Asia includes China, Korea, India, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

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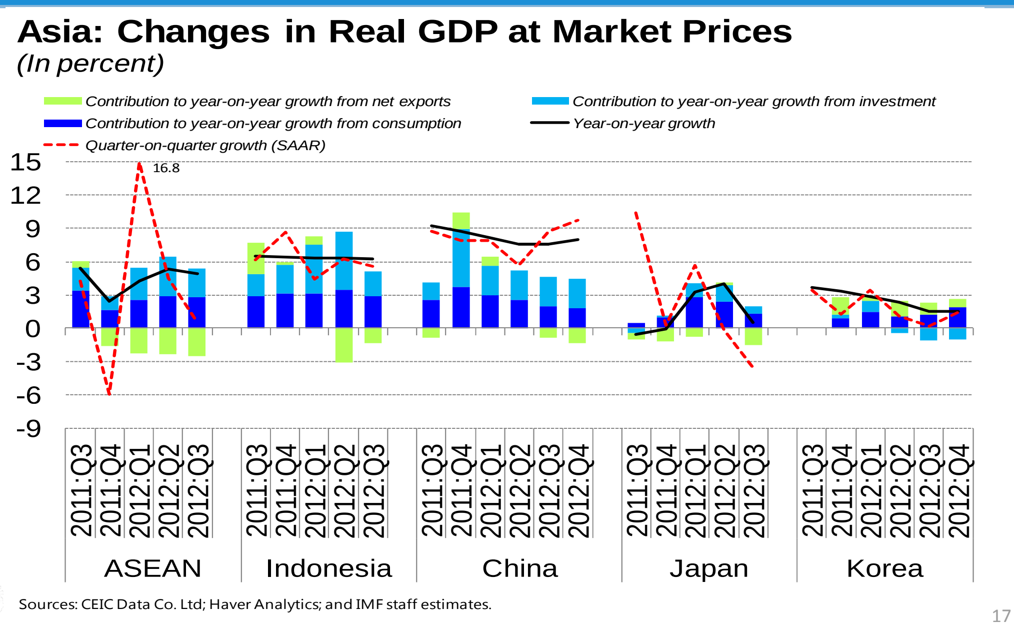
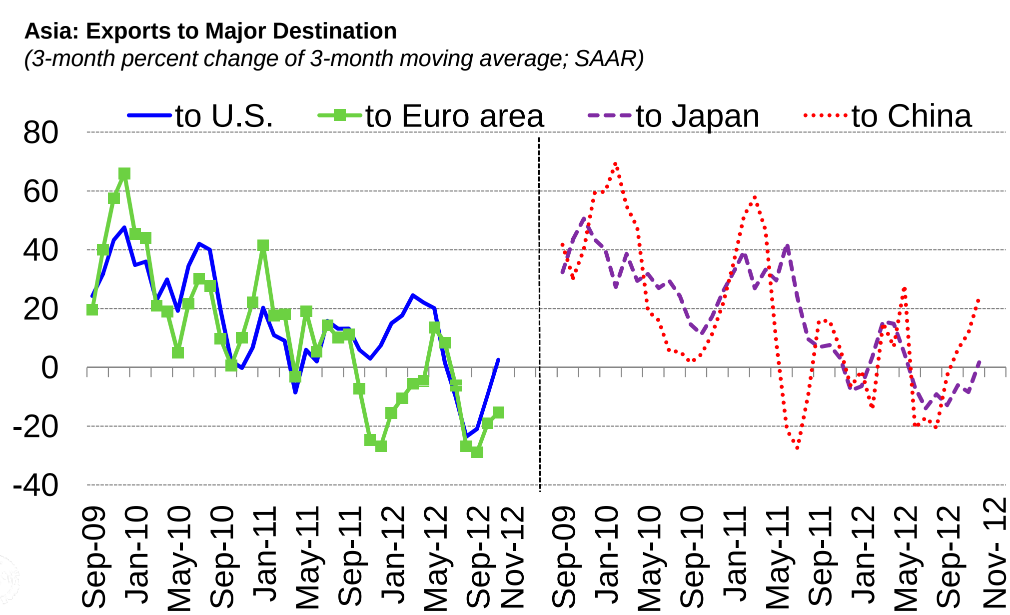
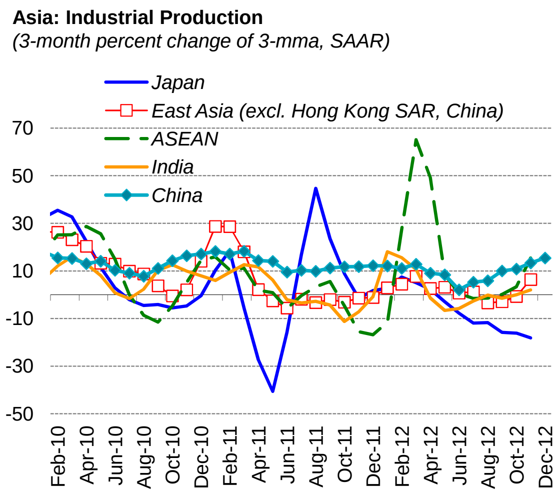
## Growth has stabilized across regions except in Japan



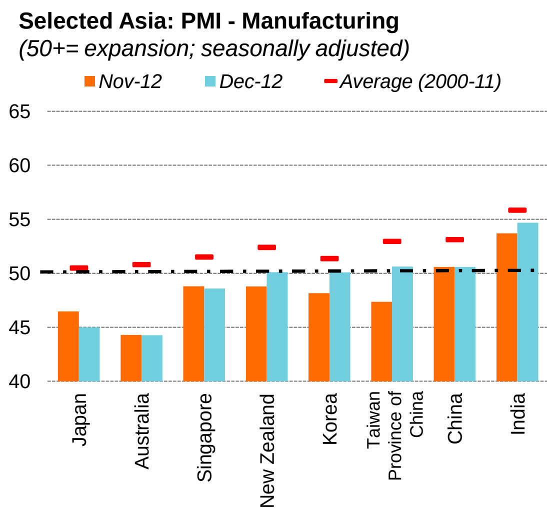

## …as external demand shows signs of bottoming out



## And domestic demand remained robust..




ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

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## Frontier Asia: Real GDP generally remains stable


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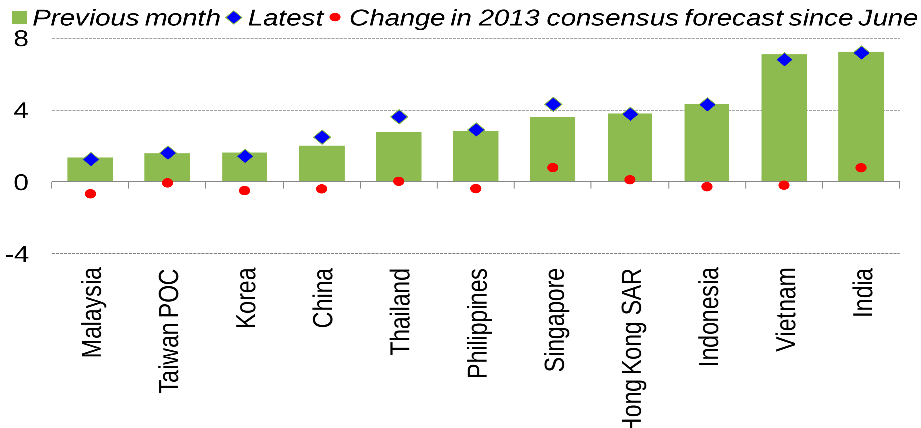
## Headline Inflation generally remains low

**Selected Asia: Headline Inflation**[1]
*(Year-on-year percent change)*




[1] Wholesale prices used for India. For India, change in expectations of average annual wholesale price inflation for fiscal year ending in March 2013.

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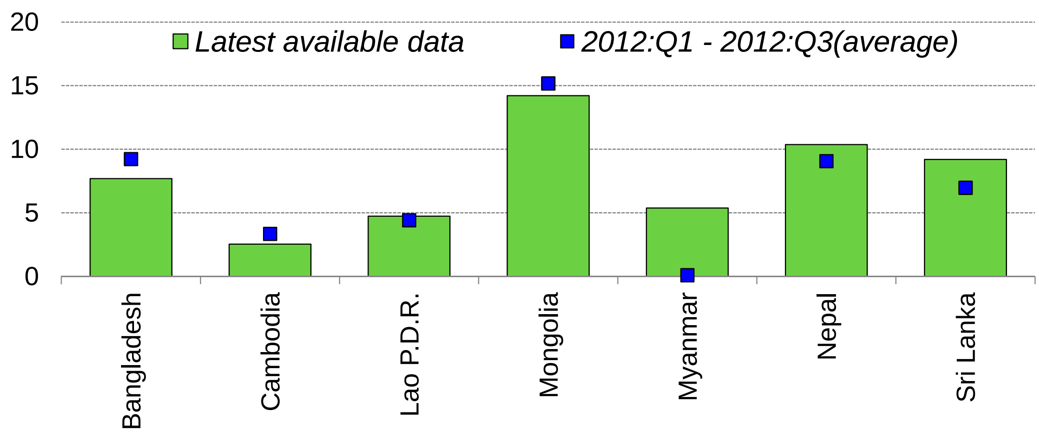
## Frontier Asia: Inflation picture is more mixed

**Frontier Asia: Consumer Prices**
*(Year over year percent change)*




Latest data as of December 2012 for all countries except for Myanmar (October).

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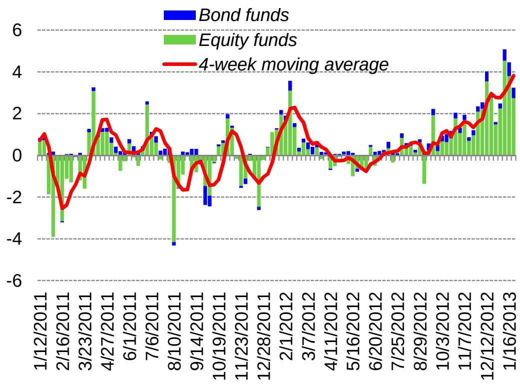
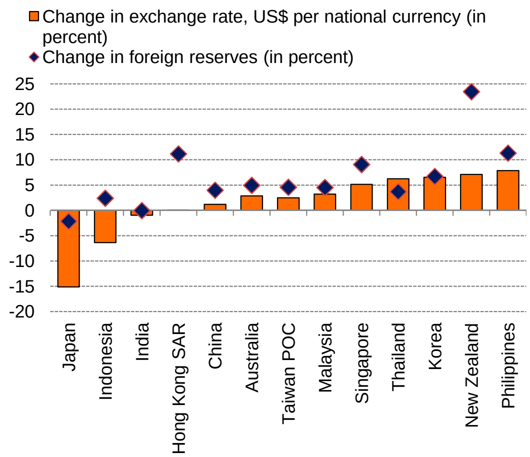
# Portfolio inflows have picked up, putting upward pressures on exchange rates and reserves

**Emerging Asia: Equity and Bond Funds — Weekly Net Flows during 2011–13[1]**
*(In billions of U.S. dollars)*




**Asia: Changes in Latest Bilateral Exchange Rates and Foreign Reserves Since End-2011**




[1] Includes exchange traded fund flows and mutual fund flows.

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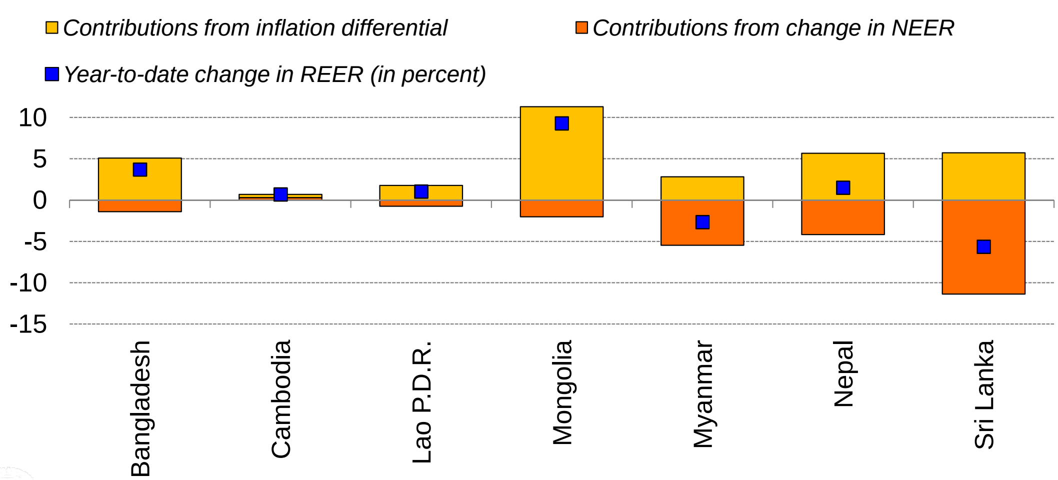
# Frontier Asia: REER has been stable or appreciated

**Frontier Asia: Contributions to Change in REER**
*(In percentage points; as of December 2012 )*

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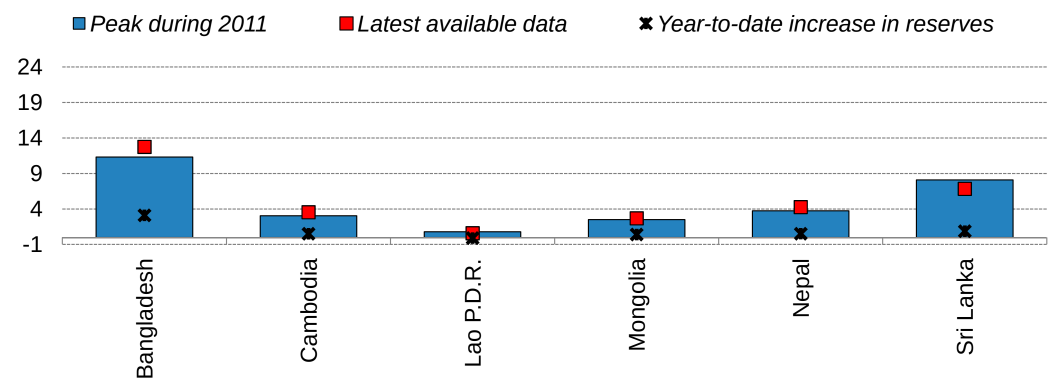
## Frontier Asia: Reserves are stable

**Selected Asia: Official FX Reserves**
*(In billions of U.S. dollars)*




Latest data is as of December (Bangladesh, Sri Lanka, Cambodia), November (Vietnam, Mongolia), September (Lao PDR), July (Nepal).

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# Chapter III

# Risks and Challenges for Asia

## Risks: What are the risks?

Downside risks

- Renewed setbacks in the euro area

Upside risks

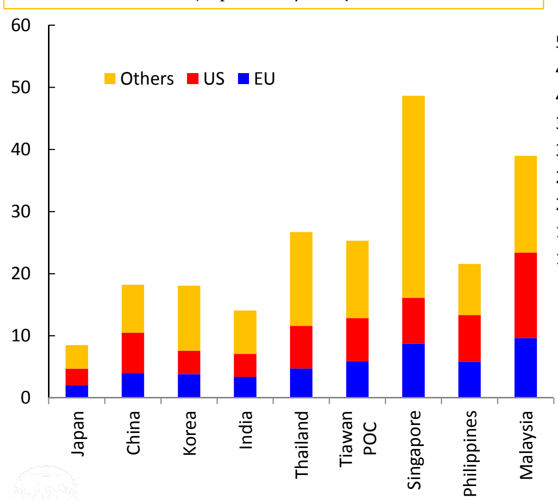
- Continued strong capital inflows



## Asia is linked to Europe through trade and financial channels

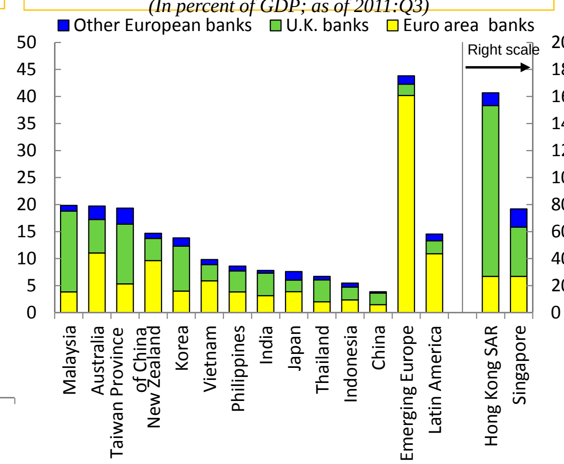
**Value Added Exported by Destination**

*(In percent of GDP)*




**Consolidated Foreign Claims of European Banks on Asia**

*(In percent of GDP; as of 2011:Q3)*

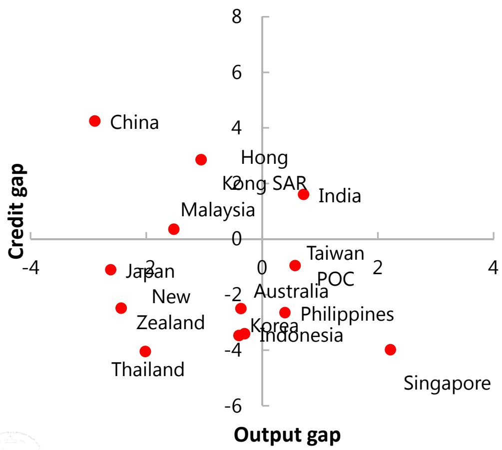



Sources: Bank for International Settlements; CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.

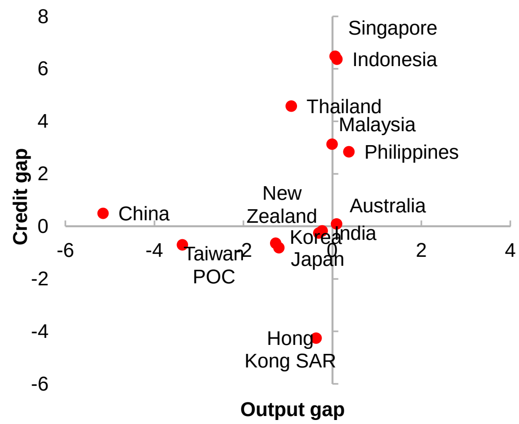
[1] Claims are on immediate borrower basis. Uses sum of quarterly GDP in U.S. dollars between 2010:Q4 and 2011:Q3.

## Domestic and regional risks need attention, too

**Output Gap vs. Credit Gap, 2010**
(In percent)




**Output Gap vs. Credit Gap, Latest**
*(In percent)*




Sources: CEIC Data Co. Ltd; and IMF staff calculations.

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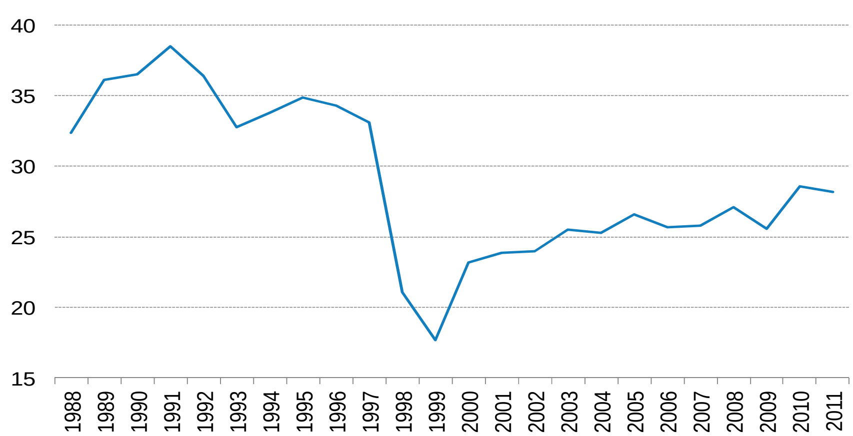
## Medium-term challenges: Boosting investment

**Selected Asia: Investment**
*(In percent of GDP)*

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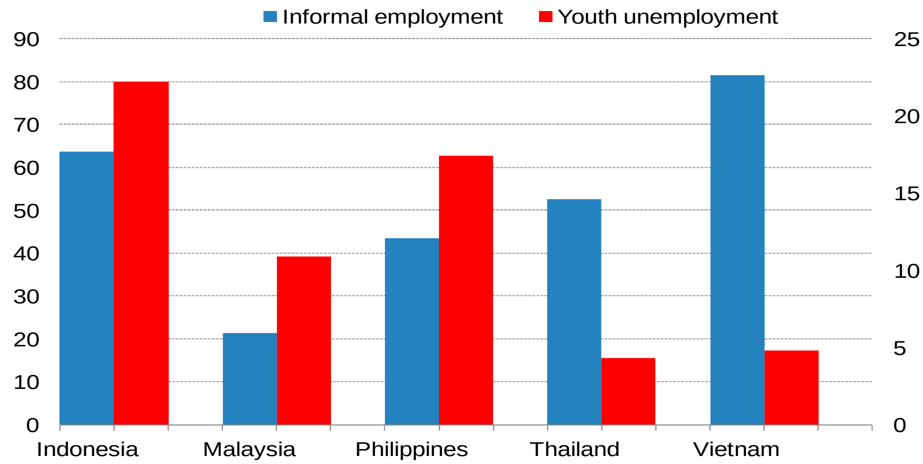
## …and boosting formal employment

**Selected ASEAN: Employment**
*(In percent)*

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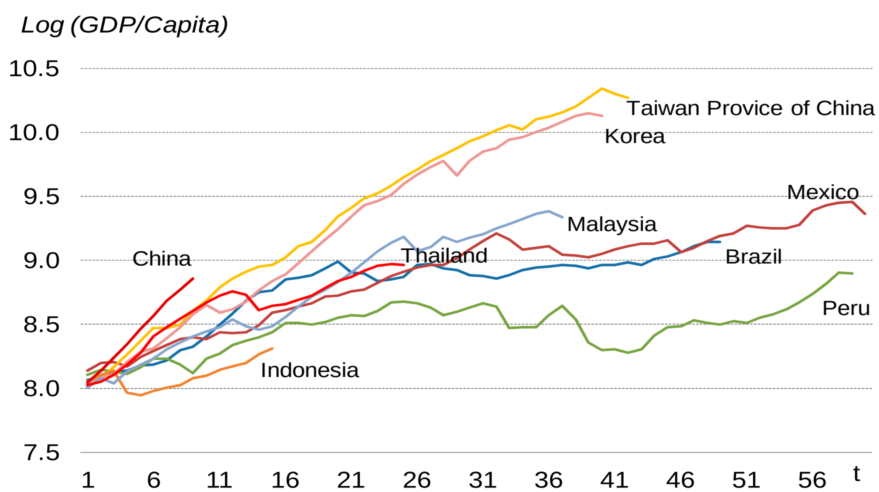
## Medium-term challenges II: Avoiding middle-income trap

**Growth trajectories**




Note: t=0 is defined as the year when the GDP/capita for a particular country reached US$ 3000 in PPP terms.

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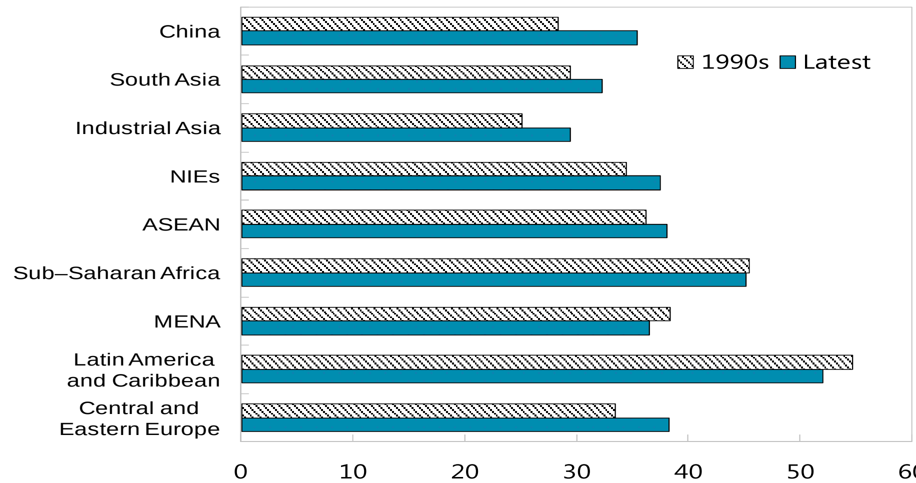
## … and achieving inclusive growth

**GINI Index**
(Weighted by population)

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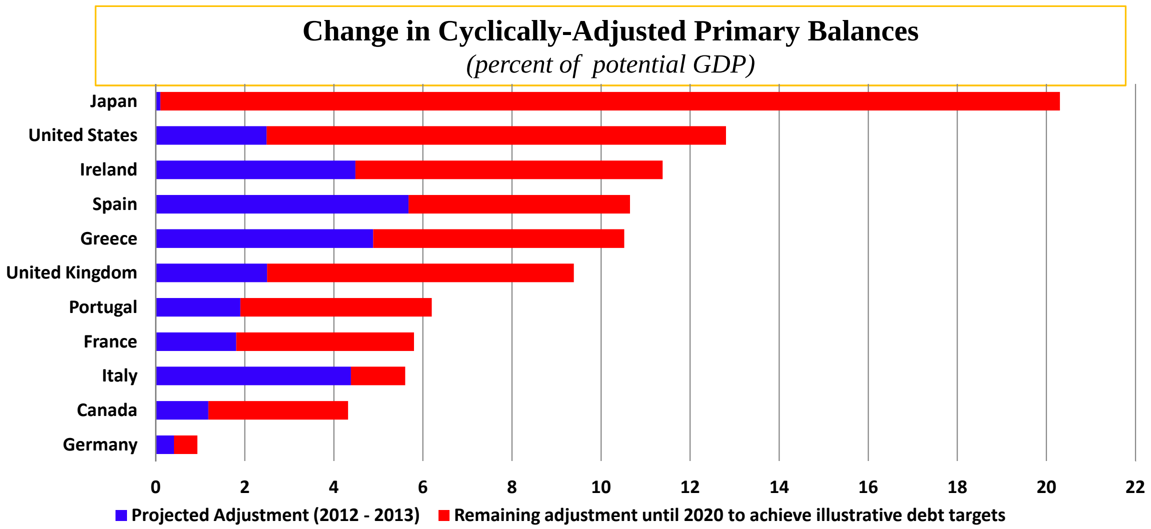
# Thank you!

# Backup slide 1
# Fiscal Adjustment: Progress but a long way to go




Source: IMF staff estimates.
Note: Total required adjustment to reduce the gross debt ratio to 60 percent by 2030 (net debt target of 80 percent for Japan). After 2020, the primary balance must be maintained constant at the prevailing level until 2030.

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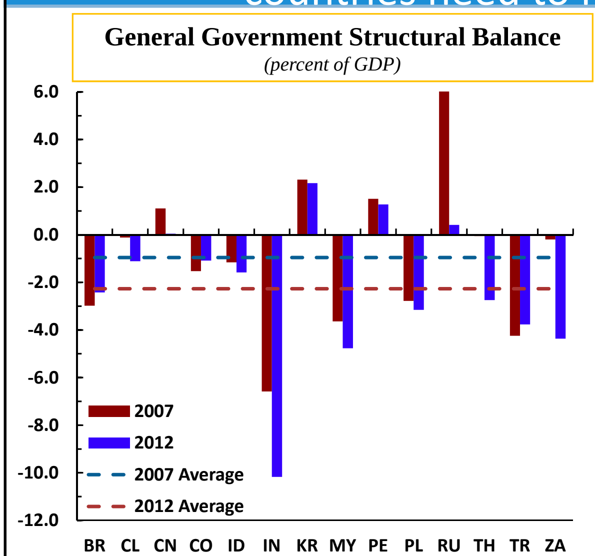
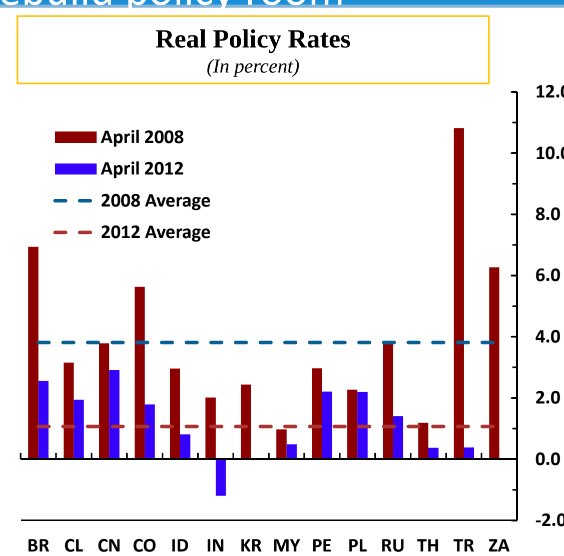
# Backup slide 2 Many emerging markets and developing countries need to rebuild policy room




BR: Brazil; CL: Chile; CN: China; CO: Colombia; ID: Indonesia; IN: India; KR: Korea; MX: Mexico; MY: Malaysia; PE: Peru; PH: Philippines; PL: Poland; RU: Russia; TH: Thailand; TR: Turkey; ZA: South Africa.

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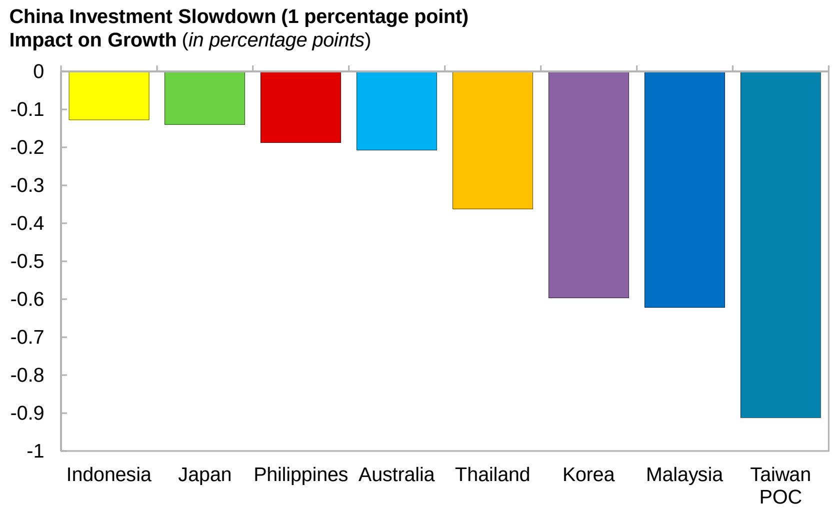
# Backup slide 3
## If China's investment growth slows…

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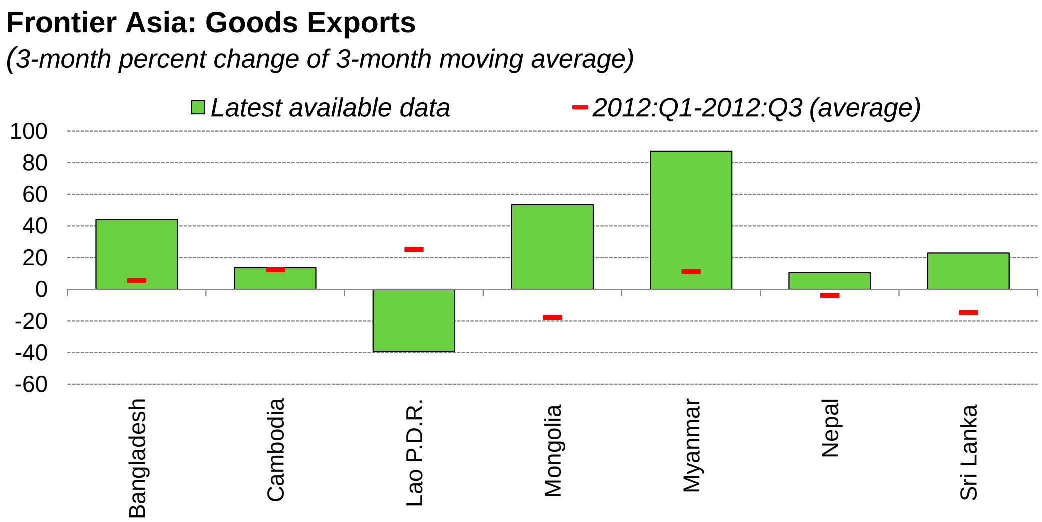
# Backup slide 4
## Frontier Asia: Exports increased in most cases




Latest data as of December (Bangladesh, Cambodia, Mongolia, Nepal, Vietnam), November (Myanmar, Sri Lanka), Sep (Lao PDR).

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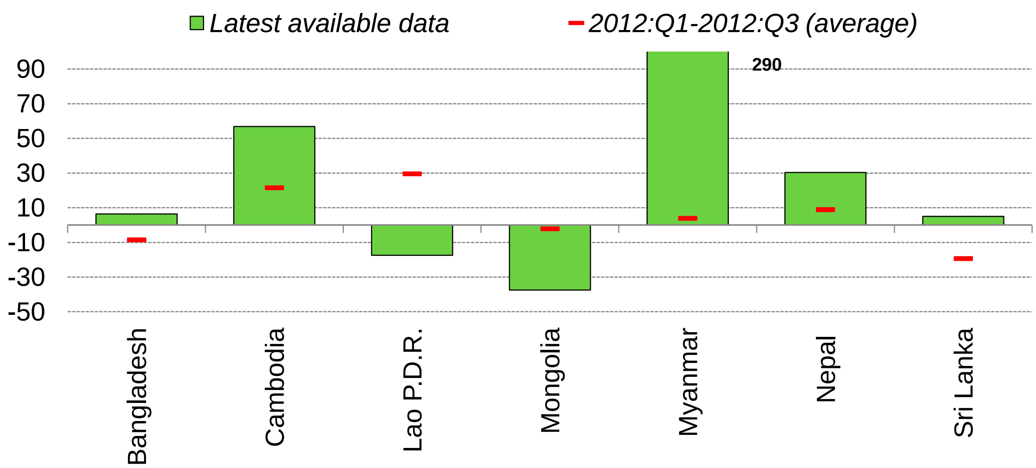
## Backup Slide 5
## Frontier Asia: Imports are more mixed

**Selected Asia: Goods Imports**
*(3-month percent change of 3-month moving average)*




Latest data as of December (Mongolia, Nepal, Vietnam), November (Bangladesh, Cambodia, Myanmar, Sri Lanka), Sep (Lao PDR).