

A blue background with a white dotted world map. A dark blue horizontal band is centered across the map, containing the title text.

# World Economic Outlook and Policy Challenges

*International Monetary Fund  
Regional Office for Asia and the Pacific*

*November 2013*

# Overview

Recent Developments in the Global Economy

World Economic Outlook and Policy Issues

Asian Economic Outlook and Policy Implications

# Recent Developments in the Global Economy

# Global Dynamics Are Changing

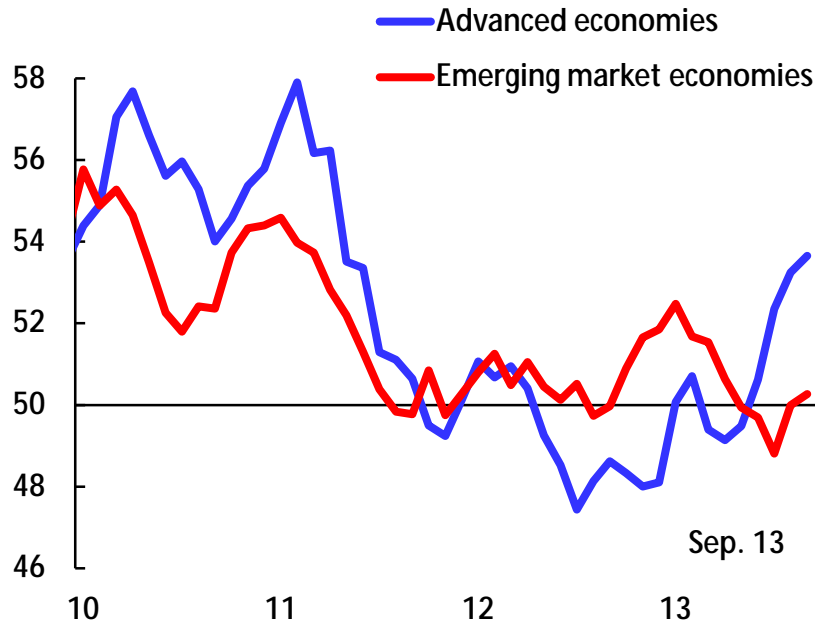
Two new main developments since WEO July update are:

- Markets anticipate a change in U.S. monetary policy (QE “tapering”)
- A growth slowdown in emerging economies, notably China

# Transition: AEs and EMs

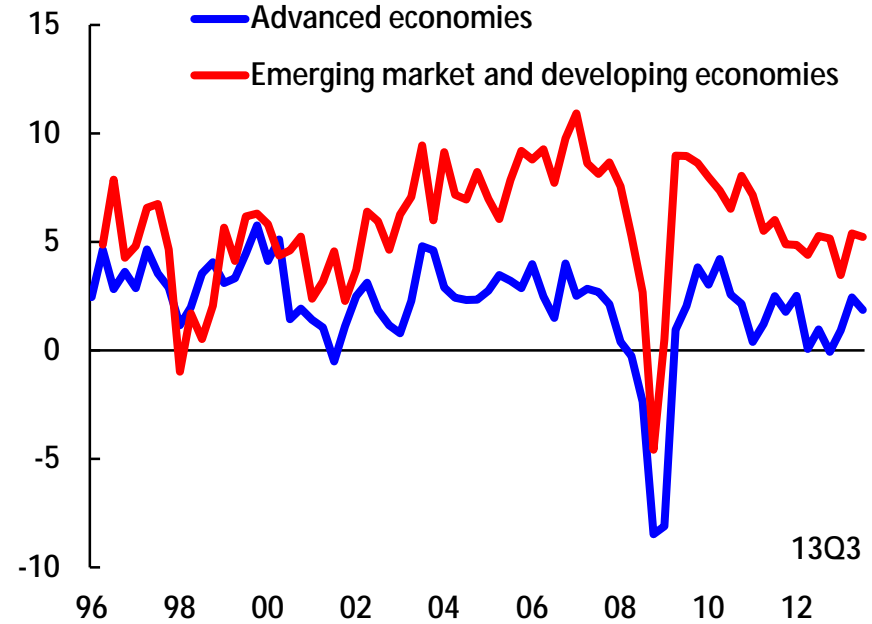
## Manufacturing PMI

(index; >50=expansion; sa)



## Real GDP Growth

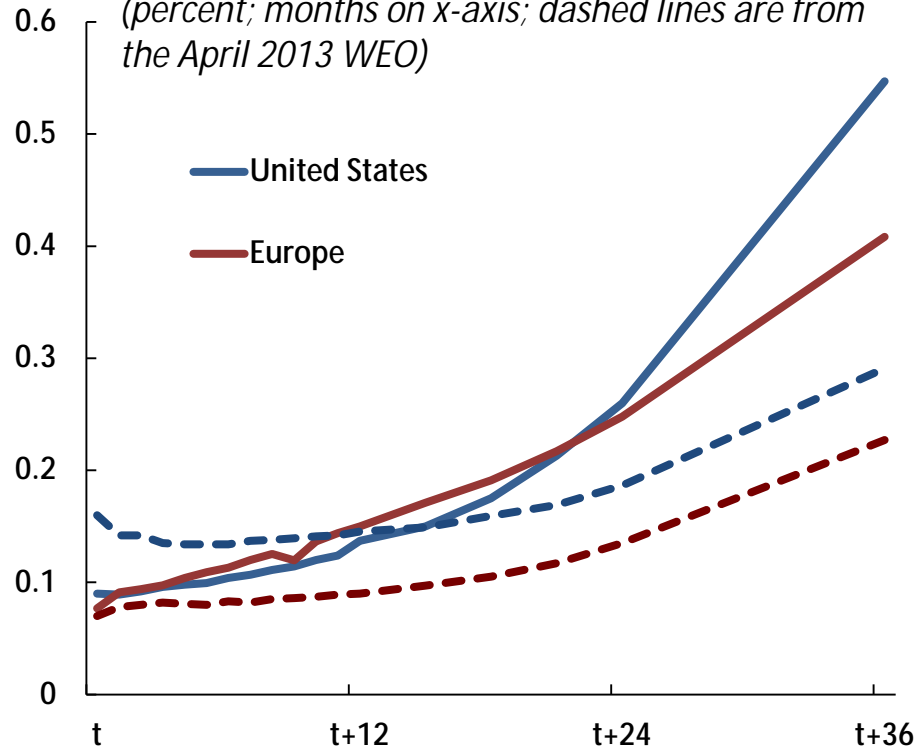
(percent; quarter on quarter annualized; sa)



# Tighter U.S. monetary conditions ... spilled over to other advanced economies

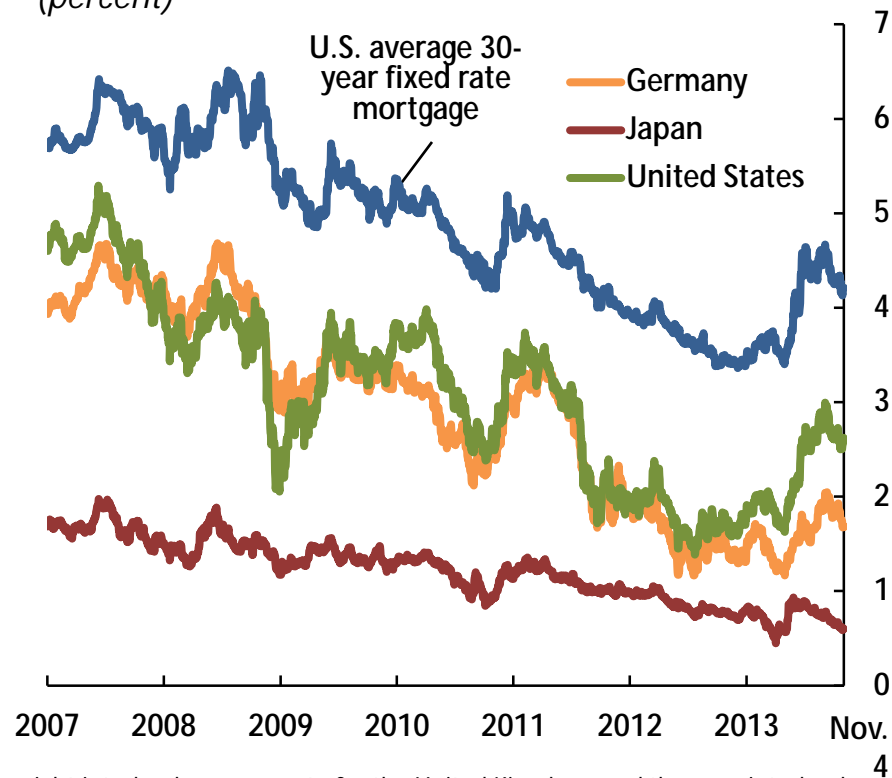
## Policy Rate Expectations 1/

(percent; months on x-axis; dashed lines are from the April 2013 WEO)



## Key Interest Rates 2/

(percent)



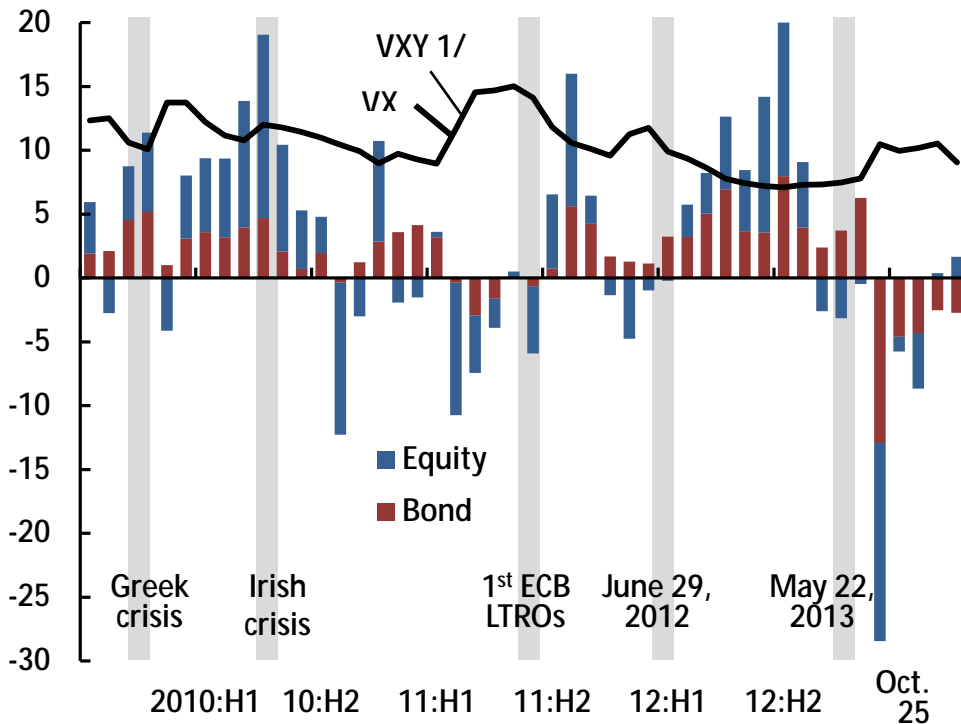
Source: Bloomberg, L.P.

1/ Expectations are based on the federal funds rate for the United States, the sterling overnight interbank average rate for the United Kingdom, and the euro interbank offered forward rate for Europe; updated September 24, 2013.

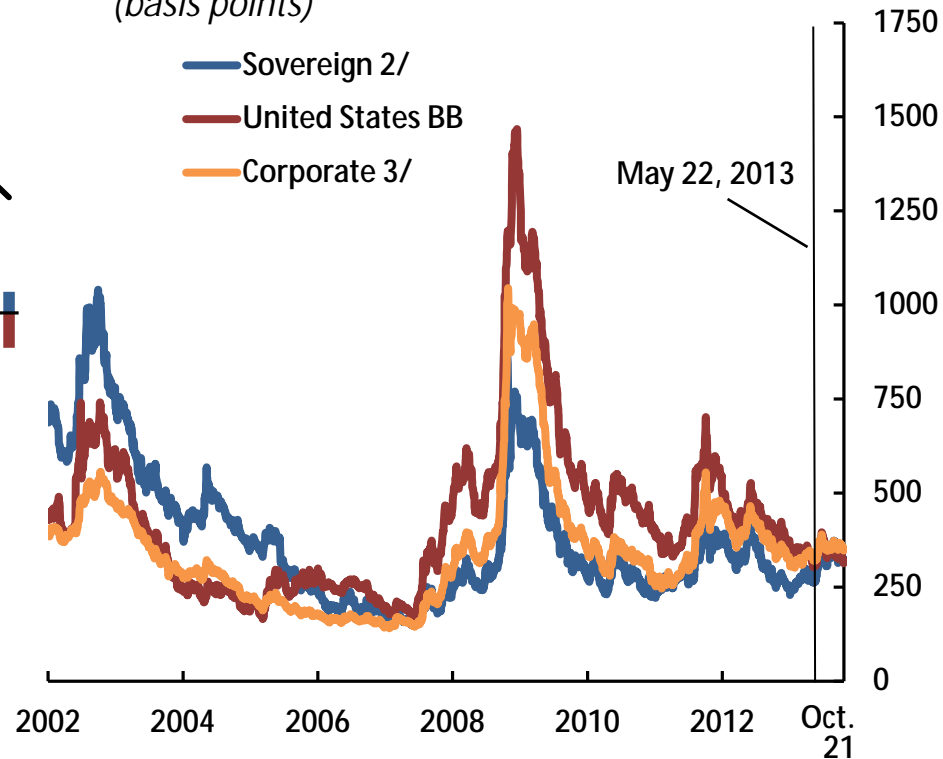
2/ Interest rates are 10-year government bond yields unless noted otherwise.

# ... and also led to tighter EM funding conditions

**Net Capital Flows to Emerging Markets Breakdown**  
(billions of U.S. dollars; monthly flows)



**Interest Rate Spreads**  
(basis points)



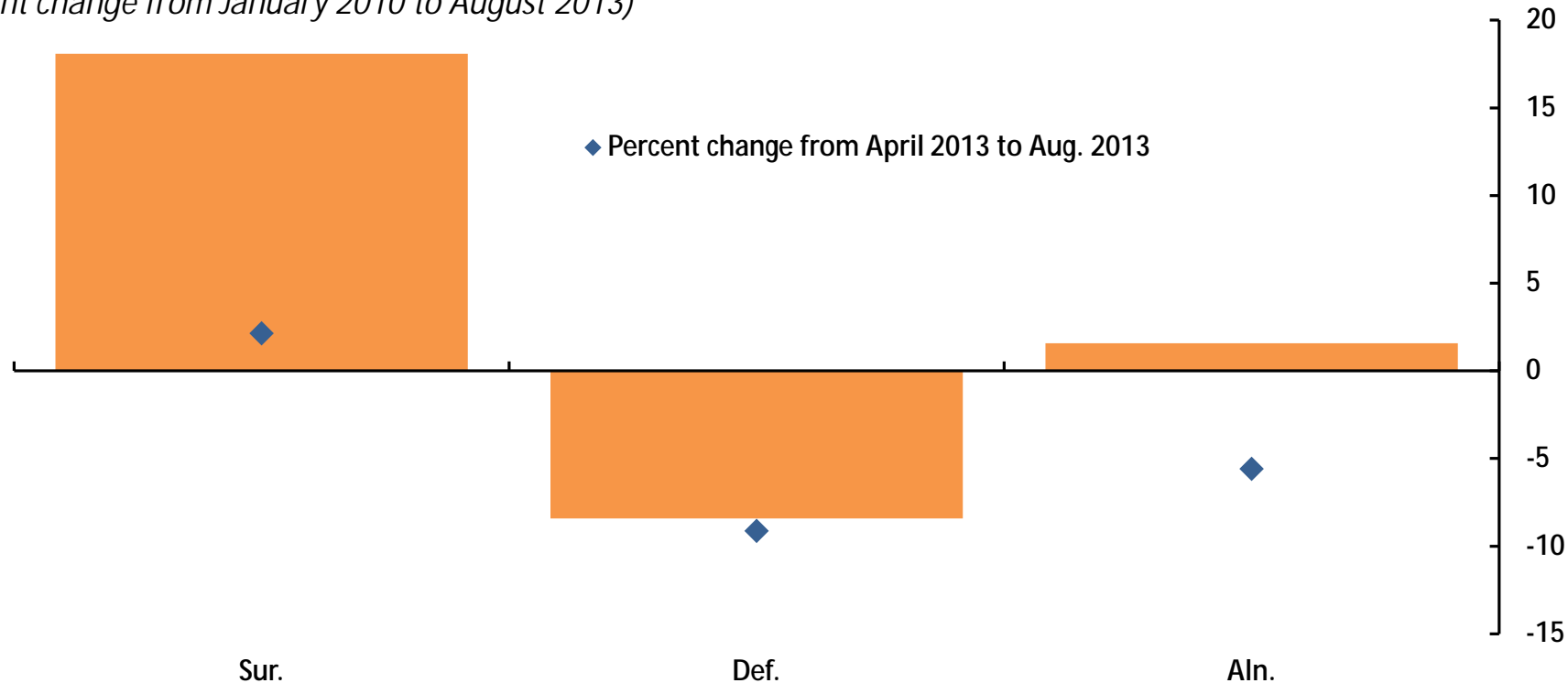
Sources: Bloomberg, L.P.; EPFR Global/Haver Analytics; and IMF staff calculations.  
Note: ECB = European Central Bank; LTROs = longer-term refinancing operations.

1/ JPMorgan emerging market volatility index.  
2/ JPMorgan EMBI Global Index spread.  
3/ JPMorgan CEMBI Broad Index spread.

# Exchange rates responded to market pressures

## Real Effective Exchange Rates

(percent change from January 2010 to August 2013)



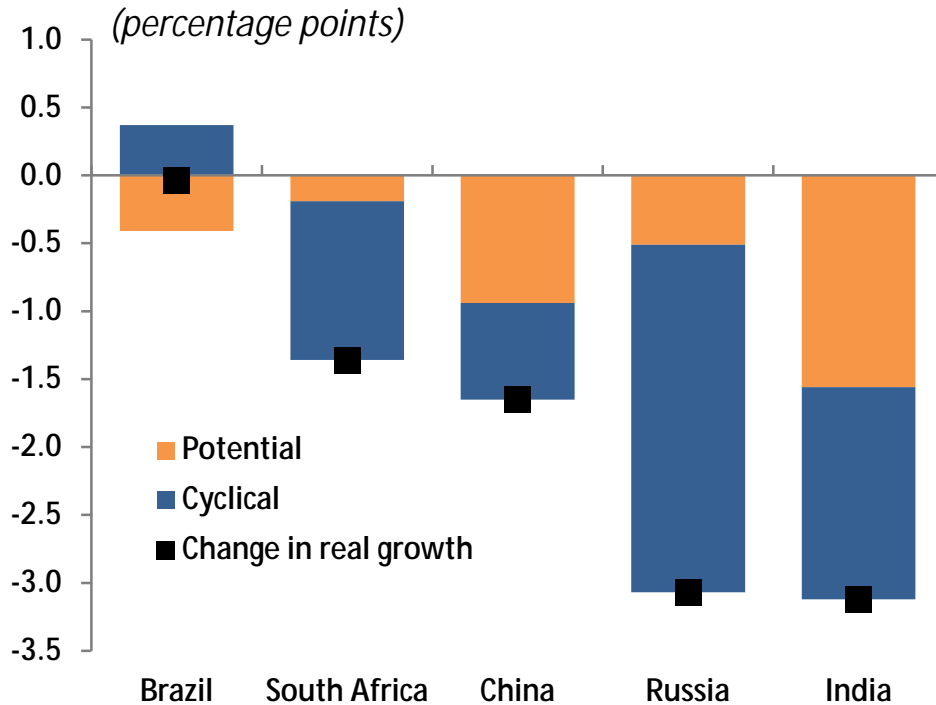
Sources: Haver Analytics; IMF, *World Economic Outlook*, April 2013 and IMF staff calculations.

Note: Aln. = aligned emerging market economies, including India, Mexico, Poland, Russia, Saudi Arabia; Def. = deficit emerging market economies, including Brazil, Indonesia, South Africa, Turkey; Sur. = surplus emerging market economies, including China, Malaysia, Thailand.

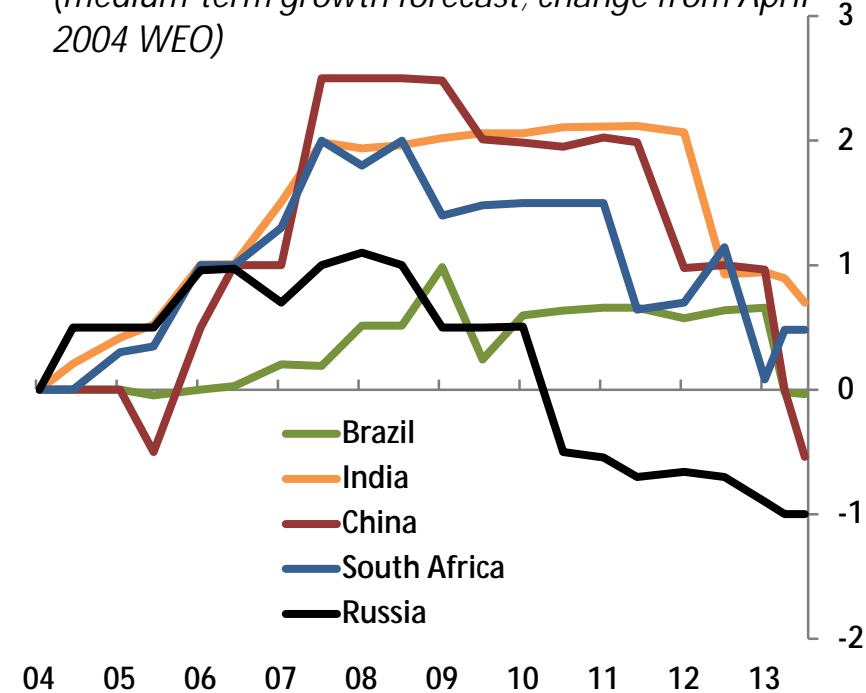


# EM Slowdown: Lower potential growth and cyclical shift

## Decomposing the 2011-13 Slowdown 1/ (percentage points)



## Long-term Expectations: Up and Down 2/ (medium-term growth forecast; change from April 2004 WEO)



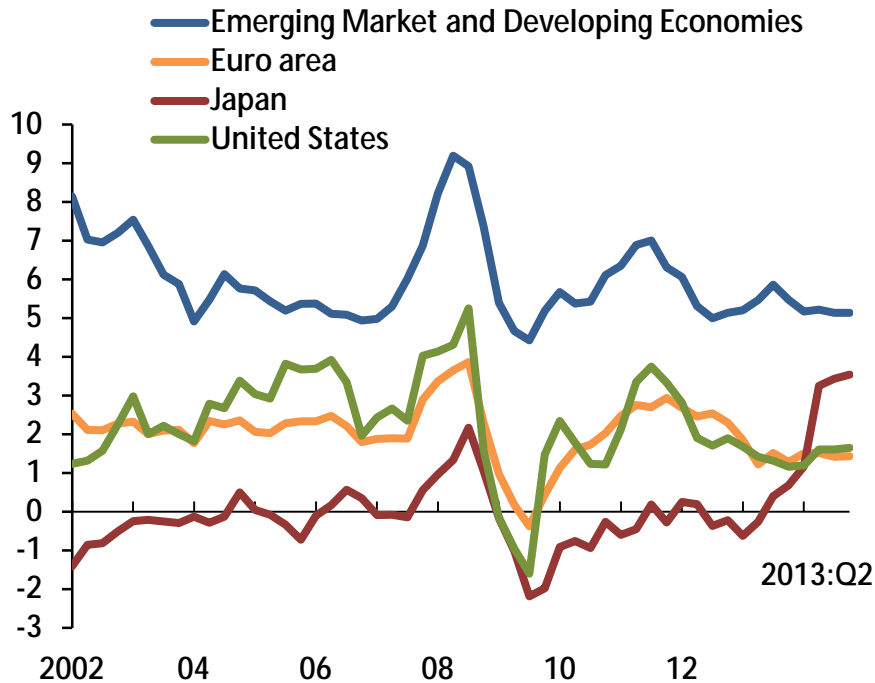
Source: IMF, *World Economic Outlook*.

1/ Cyclical component of growth calculated as the difference between real and potential growth. Potential growth estimated using multivariate filter (see Box 1.2 of the October 2013 WEO for details).

2/ 5-year ahead growth forecasts used as a proxy for longer term growth expectations. India's figures for the July 2013 update are in fiscal year terms.

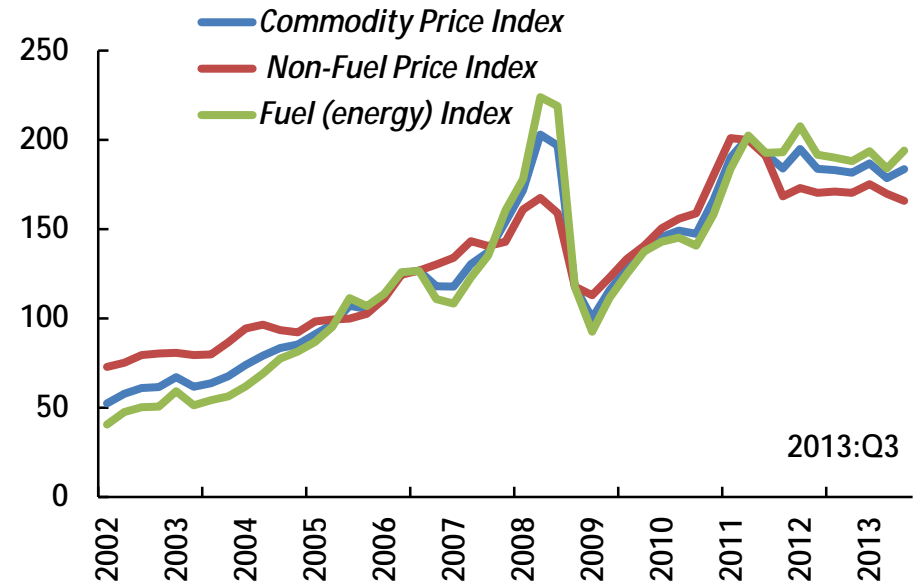
# Inflation pressures are subdued

**Global aggregates: Headline Inflation**  
(year-over-year percent change)



Sources: *Consensus Forecast*; and IMF staff estimates.

**Global Commodity Prices<sup>1</sup>**  
(Index, 2005=100)



Sources: IMF Global Assumptions;

<sup>1</sup> Commodity Price Index includes both Fuel and Non-Fuel Price Indices; Commodity Fuel (energy) Index includes Crude oil (petroleum), Natural Gas, and Coal Price Indices; Commodity Non-Fuel Price Index includes Food and Beverages and Industrial Inputs Price Indices.

# World Economic Outlook and Policy Issues

# Assumptions

**AE monetary policy: U.S. “tapers” gradually, keeps rates on hold until 2016  
Euro area and Japan stay very accommodative**

**AE fiscal policy: less tightening in U.S. & Euro area; more in Japan**

**EM: tightening of external conditions is largely one off**

# The WEO growth forecast has been revised down, mainly on account of emerging economies.

## WEO Real GDP Growth Projections (percent change from a year earlier)



World      U.S.      Euro Area      Japan      Brazil      Russia      India      China

2013  
(Oct. 2013)

2.9      1.6      -0.4      2.0      2.5      1.5      3.8      7.6

2013  
(Jul. 2013)

3.1      1.7      -0.6      2.0      2.5      2.5      5.6      7.8

2014  
(Oct. 2013)

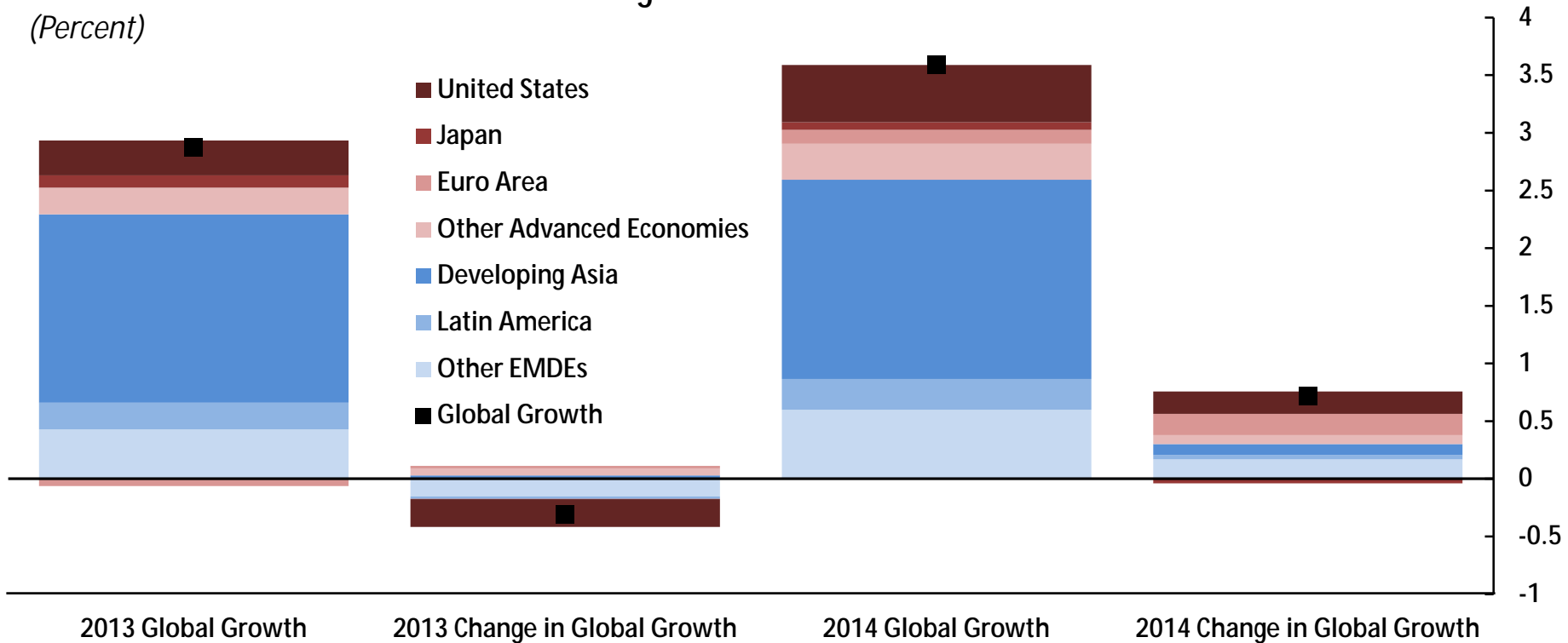
3.6      2.6      1.0      1.2      2.5      3.0      5.1      7.3

2014  
(Jul. 2013)

3.8      2.7      0.9      1.2      3.2      3.3      6.3      7.7

# Global growth impulses to be increasingly driven by advanced economies

**Contributors to Global Growth and Changes in Global Growth**  
(Percent)

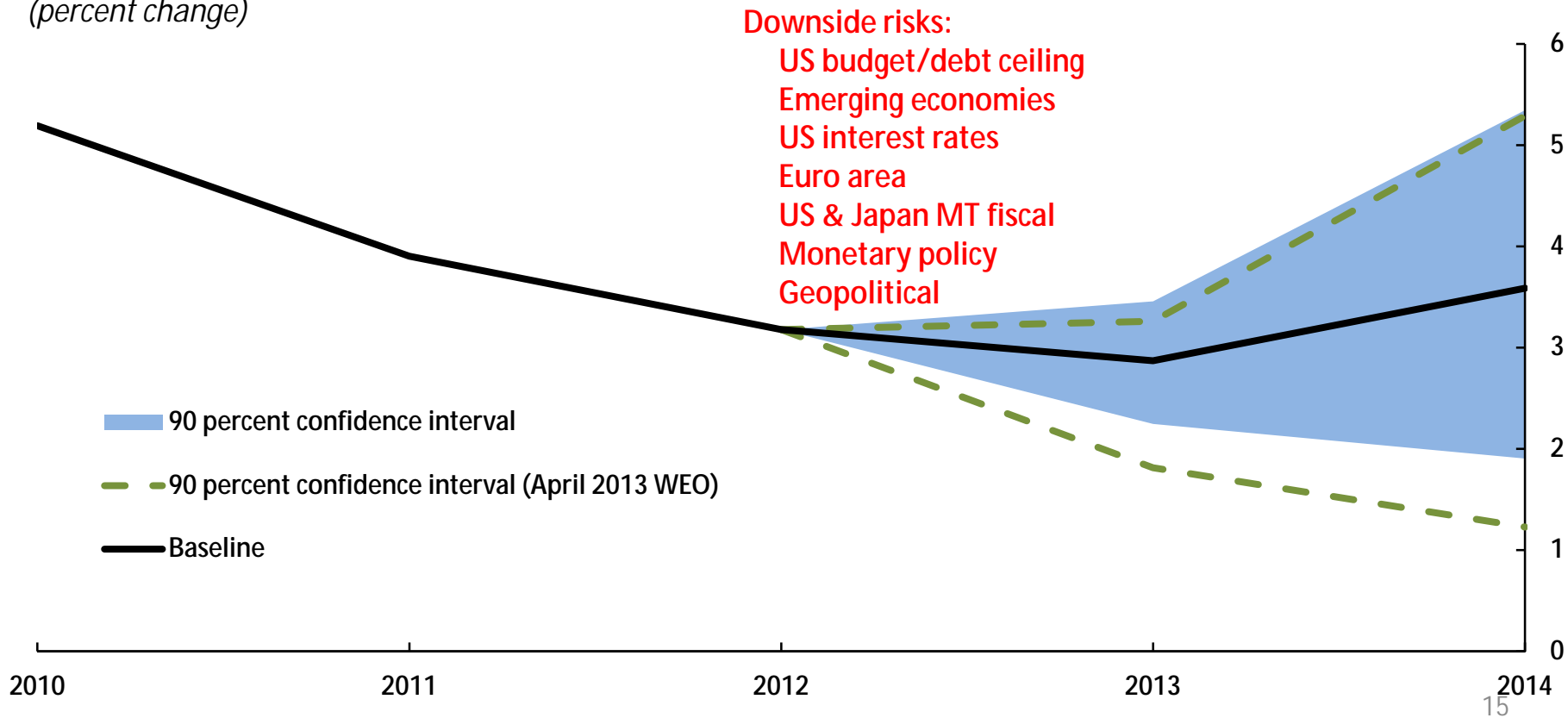


Source: IMF staff estimates.

Note: EMDEs = Emerging Market and Developing Economies.

# Risks to the WEO forecast remain on the downside

Prospects for World GDP Growth  
(percent change)



Source: Consensus Forecasts; and IMF staff estimates.

# Policy Challenges: What needs to be done?

## Advanced Economies

- Euro area: Banking repair, banking union; structural reforms
- Japan: Medium-term fiscal consolidation plan, proper speed; structural reforms
- US: Reduce fiscal uncertainty; monetary policy, communication

## Emerging and Developing Economies

- Get macro house in order where needed – fiscal tightening, stronger monetary policy framework
- Accelerate structural reforms – address bottlenecks in infrastructure, reform fuel price subsidies
- Let the exchange rate adjust in response to outflows



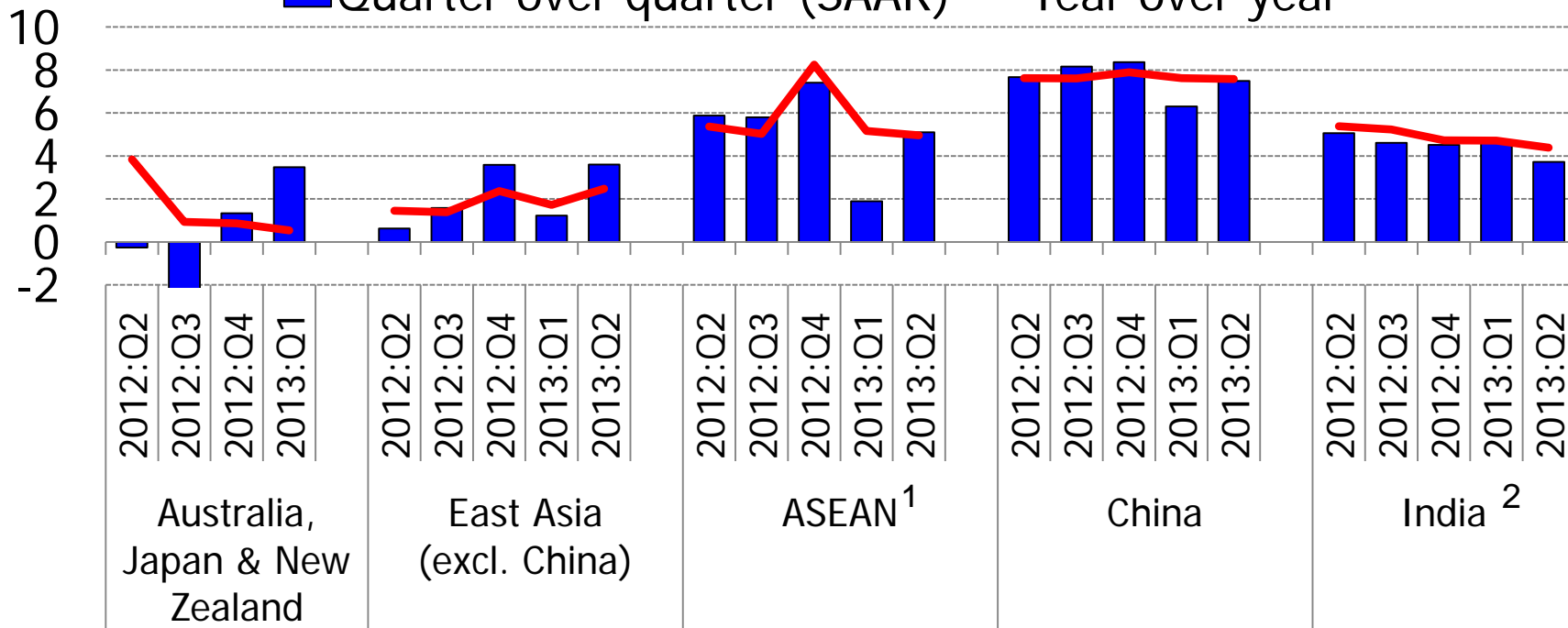
# Asian Economic Outlook and Policy Implications

# Growth has slowed down across Asia...

## Asia: Changes in Real GDP at Market Prices

(In percent)

■ Quarter over quarter (SAAR) — Year over year

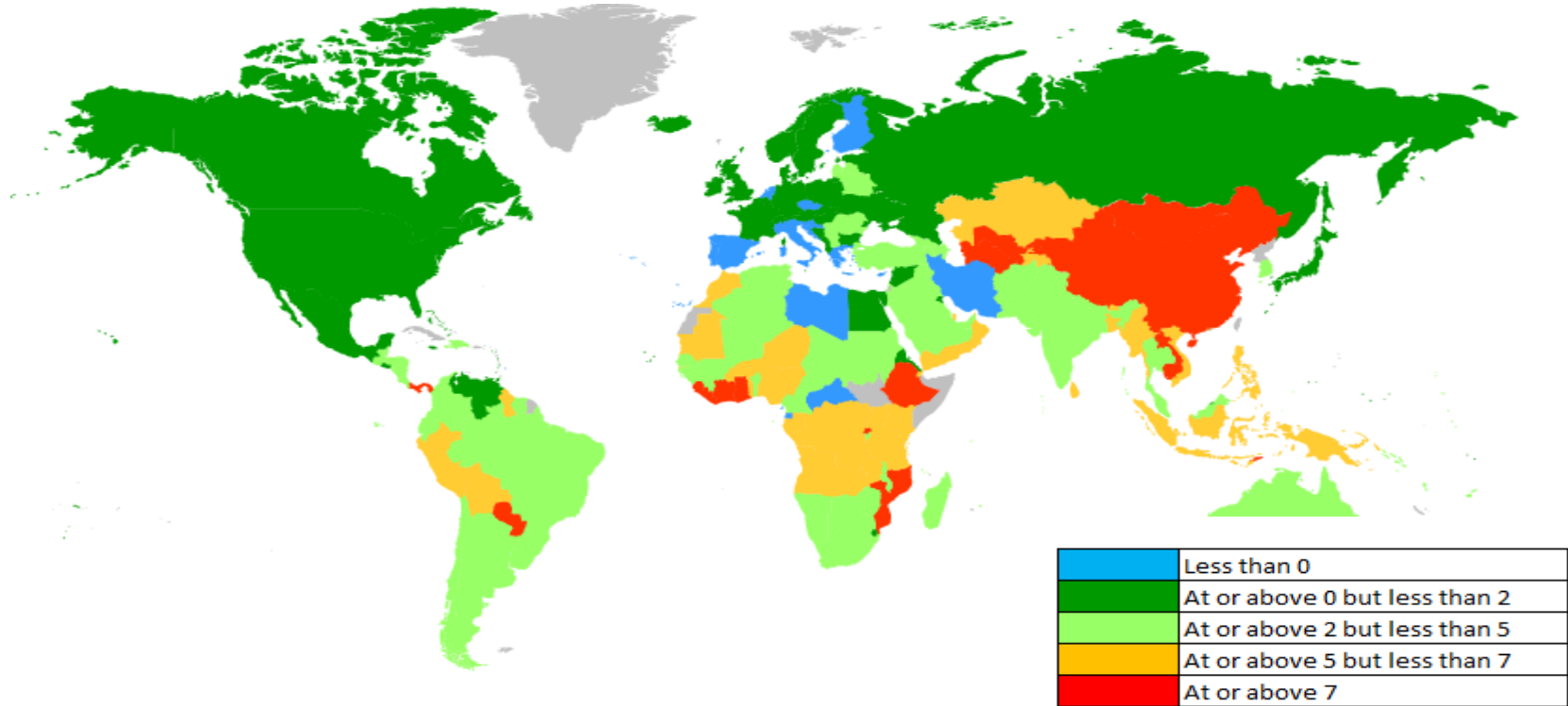


Sources: CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.

<sup>1</sup> ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

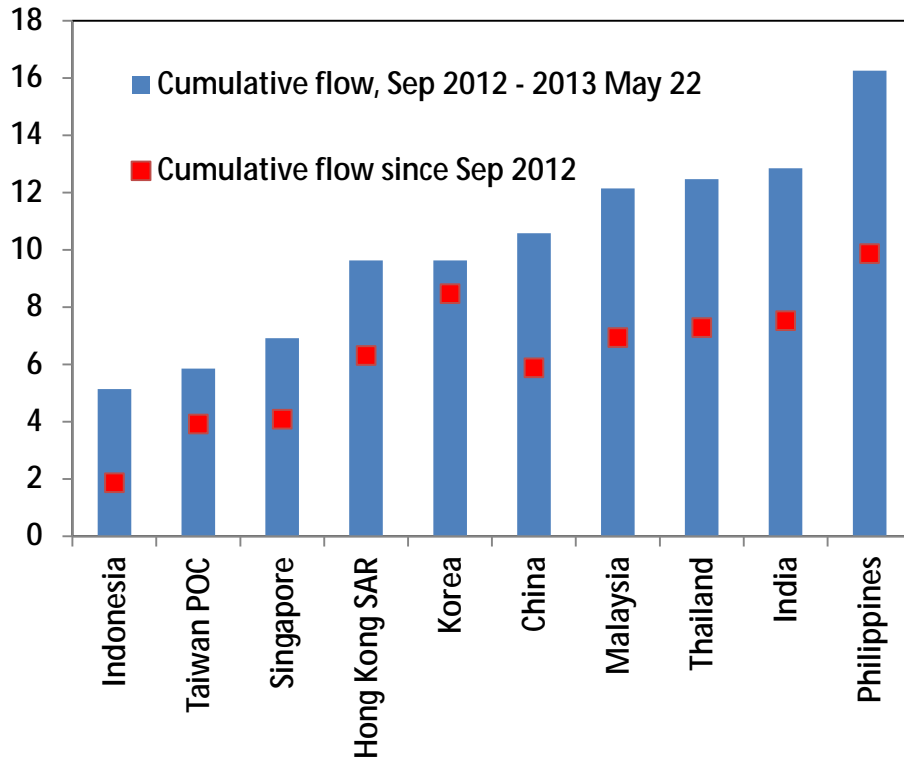
# ...but Asia remains a global growth leader

Real GDP Growth, 2013  
(October 2013 WEO Round)

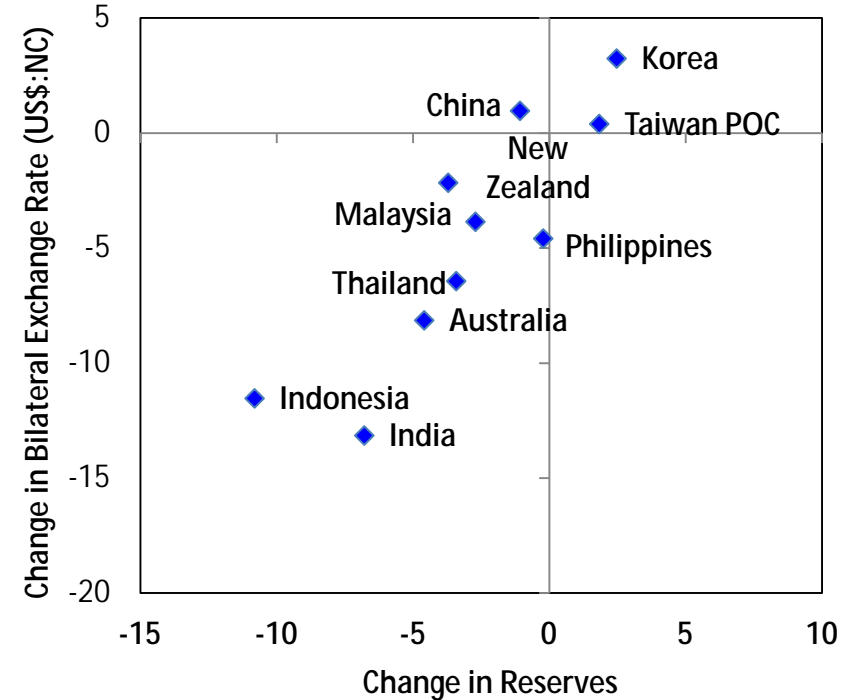


# Asia was not spared from the re-pricing of financial assets

**Cumulative Equity and Bond Flows**  
(% of starting allocation)



**Change in Exchange rates and Reserves**  
(May to Latest; in percent)

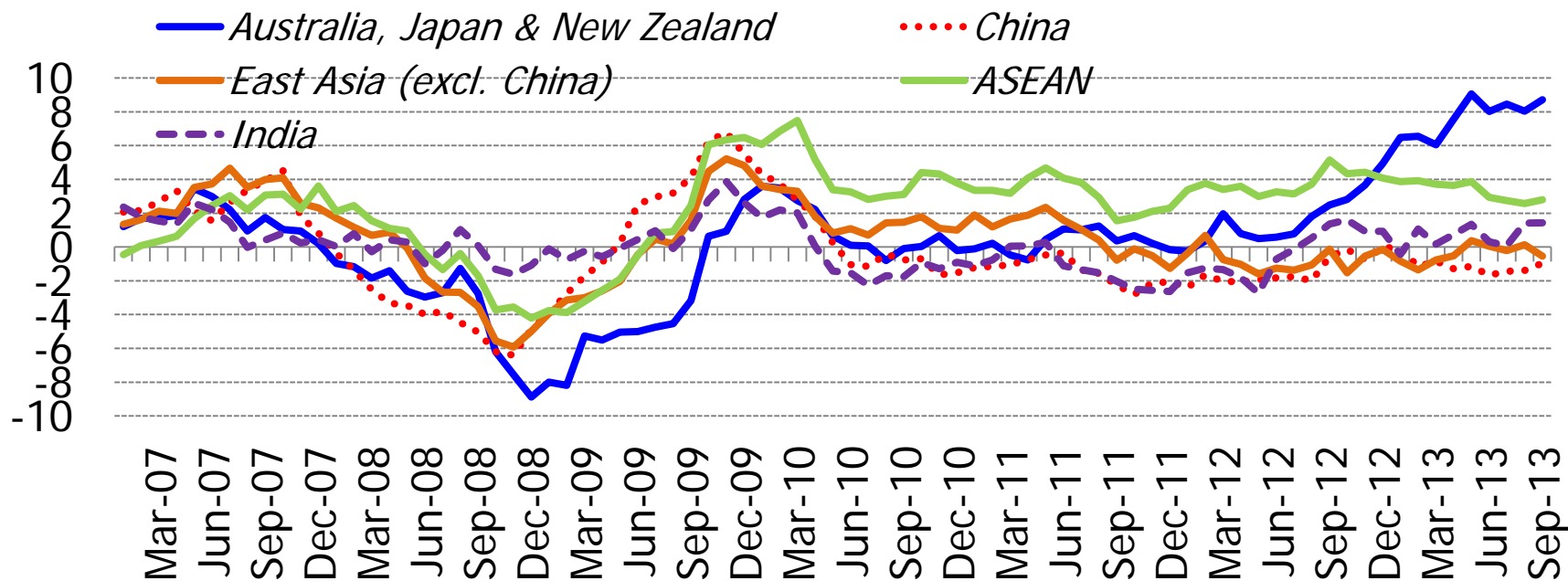


Exchange rate as of October 15, 2013.  
Reserves as of September, August (New Zealand), June (China)

# Asia: Financial conditions have tightened but are still relatively supportive

## Asia: Financial Conditions Index (FCI)

(Index; increase = loosening of financial conditions)



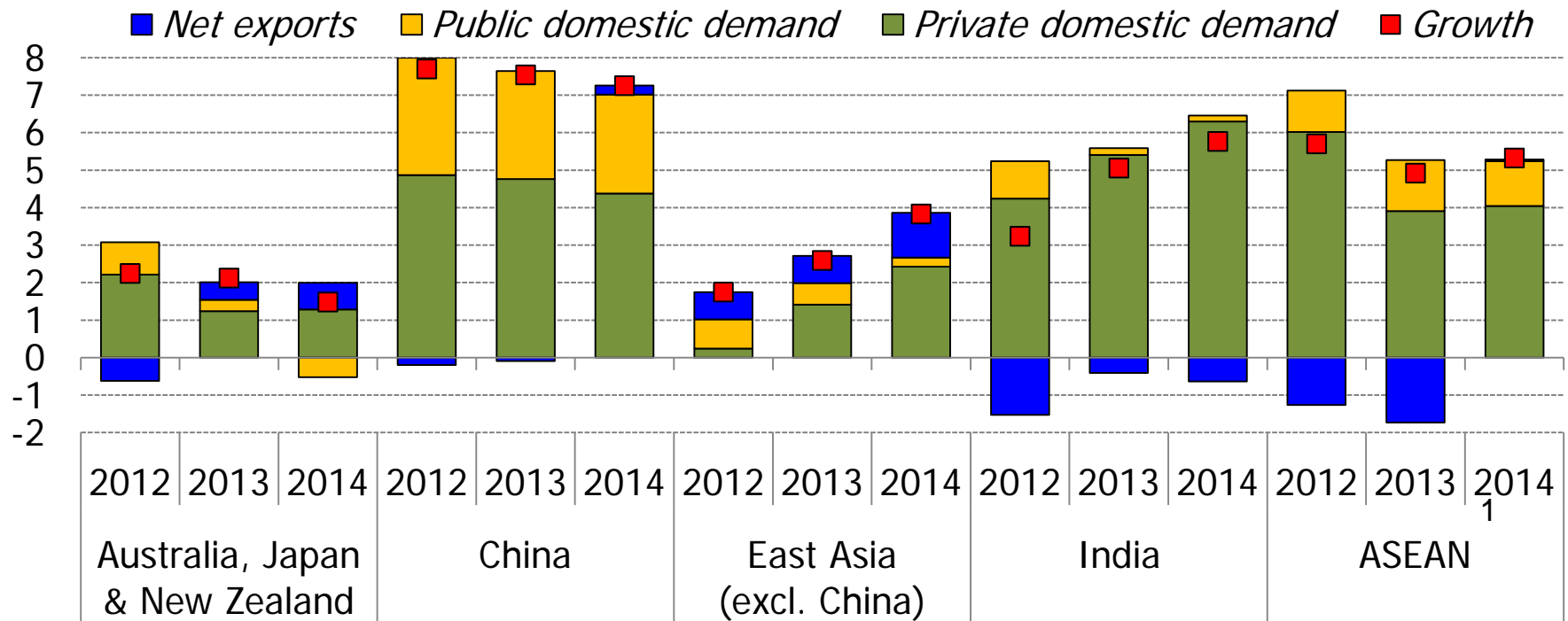
Data as of September, 2013

Source: IMF staff estimates (see Osorio, Pongsaparn, and Unsal, 2011, "A Quantitative Assessment of Financial Conditions in Asia," IMF Working Paper 11/170 for details).

<sup>1</sup> ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

# Asia: Domestic demand is driving growth

## Selected Asia: Contributions to Projected Growth

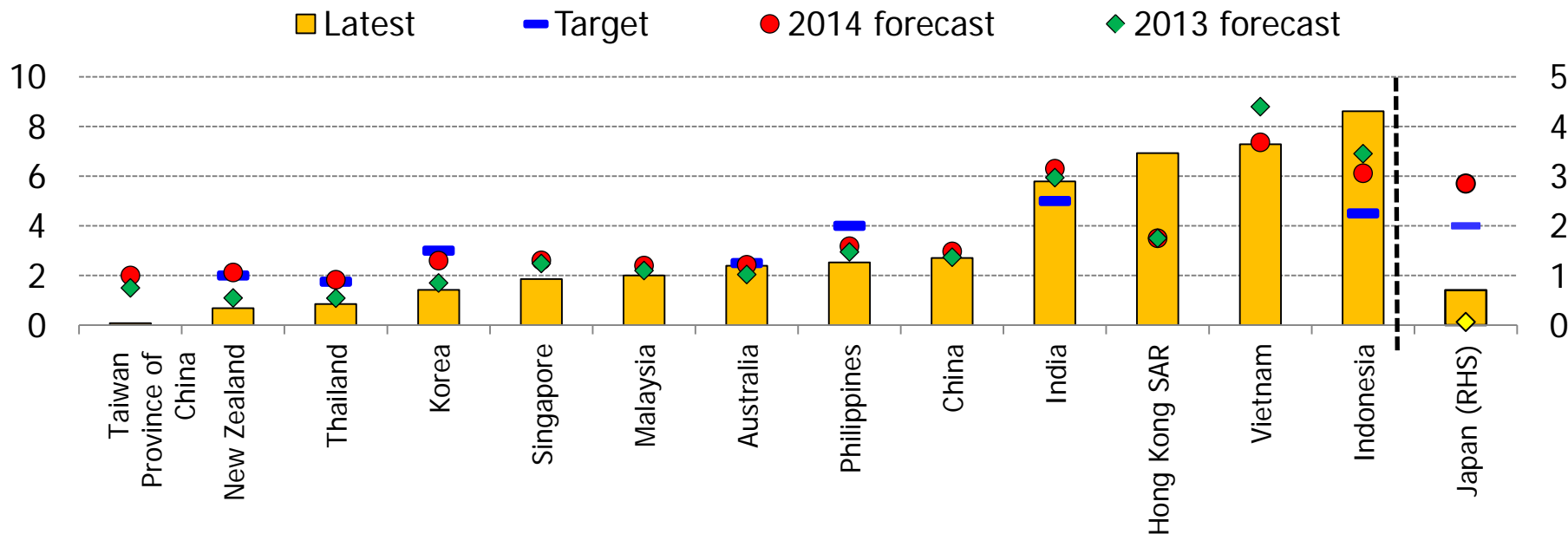


Source: IMF, *World Economic Outlook*; and IMF staff calculations.

# Asia: Inflation remains subdued with a few exceptions

## Asia: Headline Consumer Price Inflation<sup>1</sup>

(Year over year; in percent)



Sources: CEIC Data Company Ltd.; Haver Analytics; Country authorities; IMF, *World Economic Outlook*; and IMF staff projections.

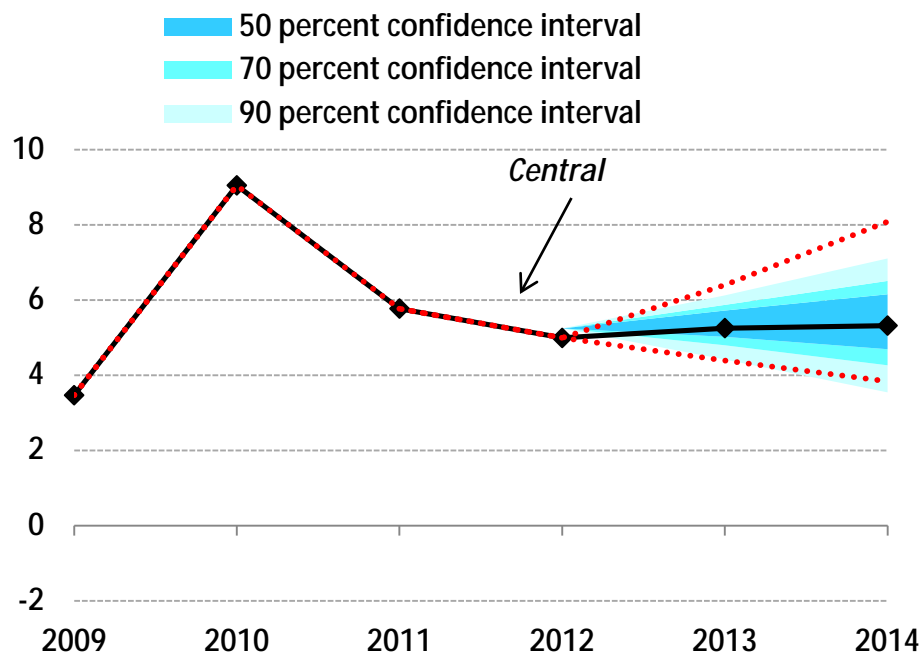
<sup>1</sup> Target refers to mid-point of headline inflation target band (Australia, Korea, New Zealand, Indonesia, Japan and Philippines). Core inflation and core inflation target band mid-point (Thailand). For India WPI is used. Japan 2014

# Asia Economic Outlook

Asia: Real GDP Growth  
(year on year percent change)

	2012	2013	2014
Asia	5.1	5.1	5.3
Advanced Asia	2.3	2.1	1.5
Japan	2.0	2.0	1.2
East Asia	6.6	6.7	6.6
China	7.7	7.6	7.3
Korea	2.0	2.8	3.7
South Asia	3.5	4.0	5.2
India	3.2	3.8	5.1
ASEAN	5.7	4.9	5.3
Indonesia	6.2	5.3	5.5
Malaysia	5.6	4.7	4.9
Philippines	6.8	6.8	6.0
Singapore	1.3	3.5	3.4
Thailand	6.5	3.1	5.2
Vietnam	5.2	5.3	5.4

Asia: Real GDP Growth  
(Central forecast and selected confidence intervals; in percent)



Sources: IMF, *World Economic Outlook*; and IMF staff estimates.



# Asia: Policy Implications

Structural reforms to boost long-term growth

Flexible exchange rate and monetary policy

Safeguard financial stability

Rebuilding fiscal space

# Summary

## § Global growth remains subdued and the underlying dynamics are changing

- A slowdown in emerging markets
- A gradual pickup in advanced economies
- Downside risks continue to dominate

## § Global economic policy agenda

- Advanced economies: credible and sustainable medium-term fiscal framework, repairing financial systems
- Emerging economies: guard against the normalization of monetary policy in advanced economies, adjust to lower potential growth
- Asia: implement structural reforms to boost long-term growth, strike a balance between supporting demand and guard against financial stability risks



Thank you !