



Asia-Pacific Economic Outlook

Outlook and Risks

New Delhi, India

Anoop Singh

Director, Asia and Pacific Department

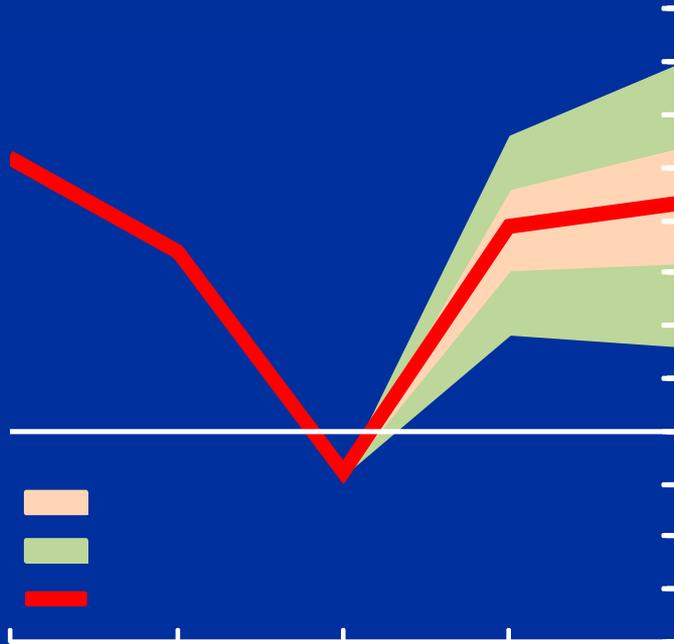
May 12, 2010

Plan of the presentation

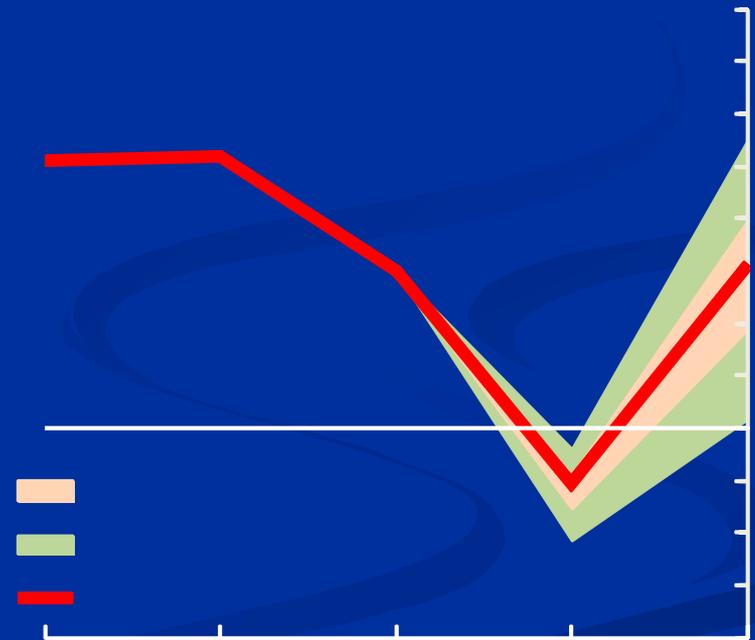
- The global and regional context: a multi speed recovery.
- Risks to the outlook: downside global/financial risks.
- Policy challenges for Asia: managing the exit from stimulus and dealing with capital inflows.
- Critical juncture and role of the IMF.

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)

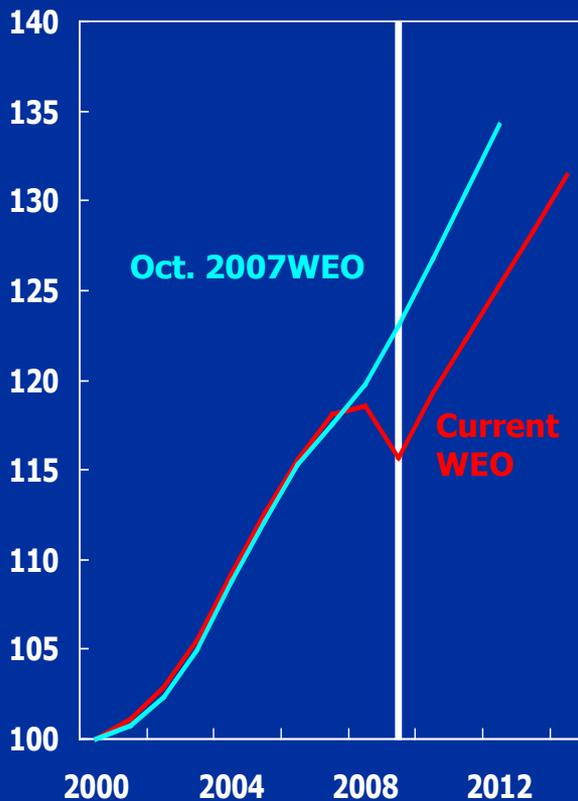


But it is a “multi-speed” recovery

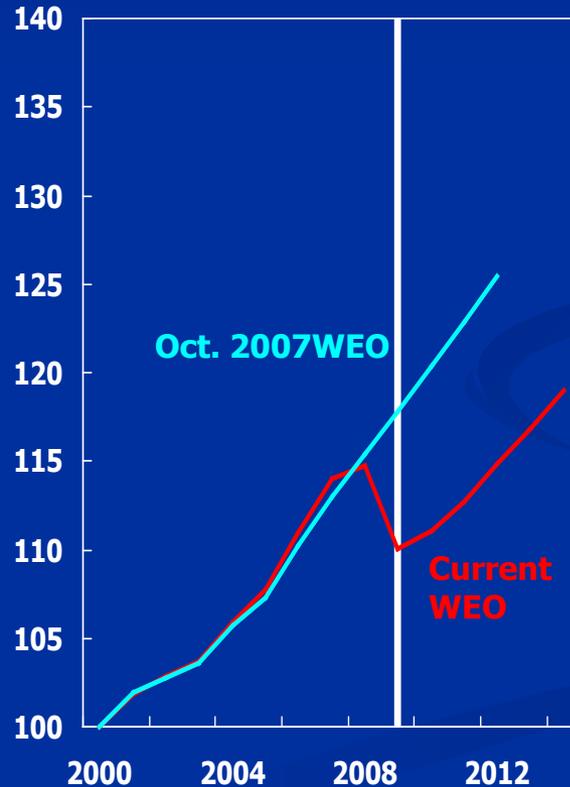
Real GDP

(levels, 2000=100)

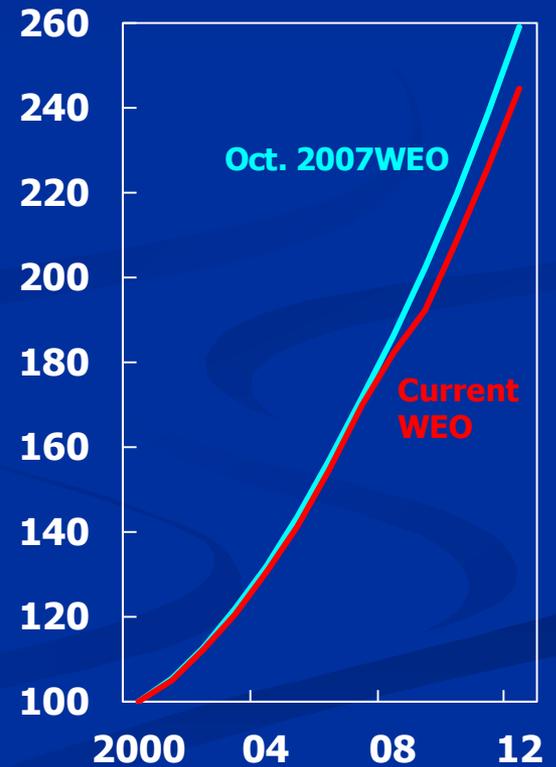
United States



Euro area



Emerging Asia

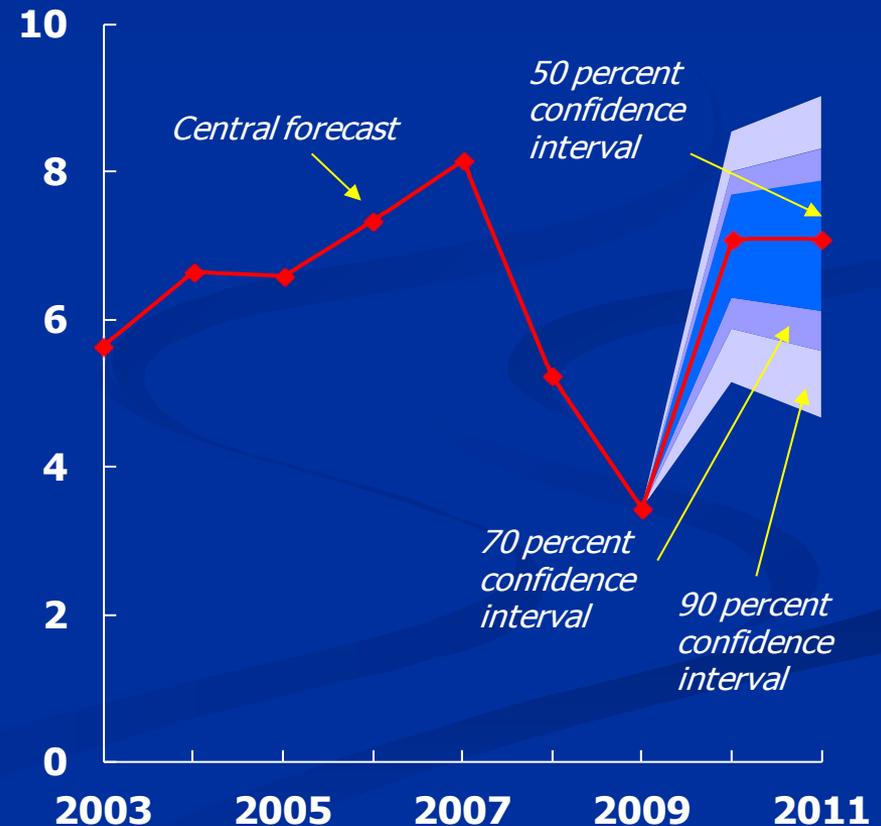


Asia is leading the global recovery, and will continue to do so in 2010-2011

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

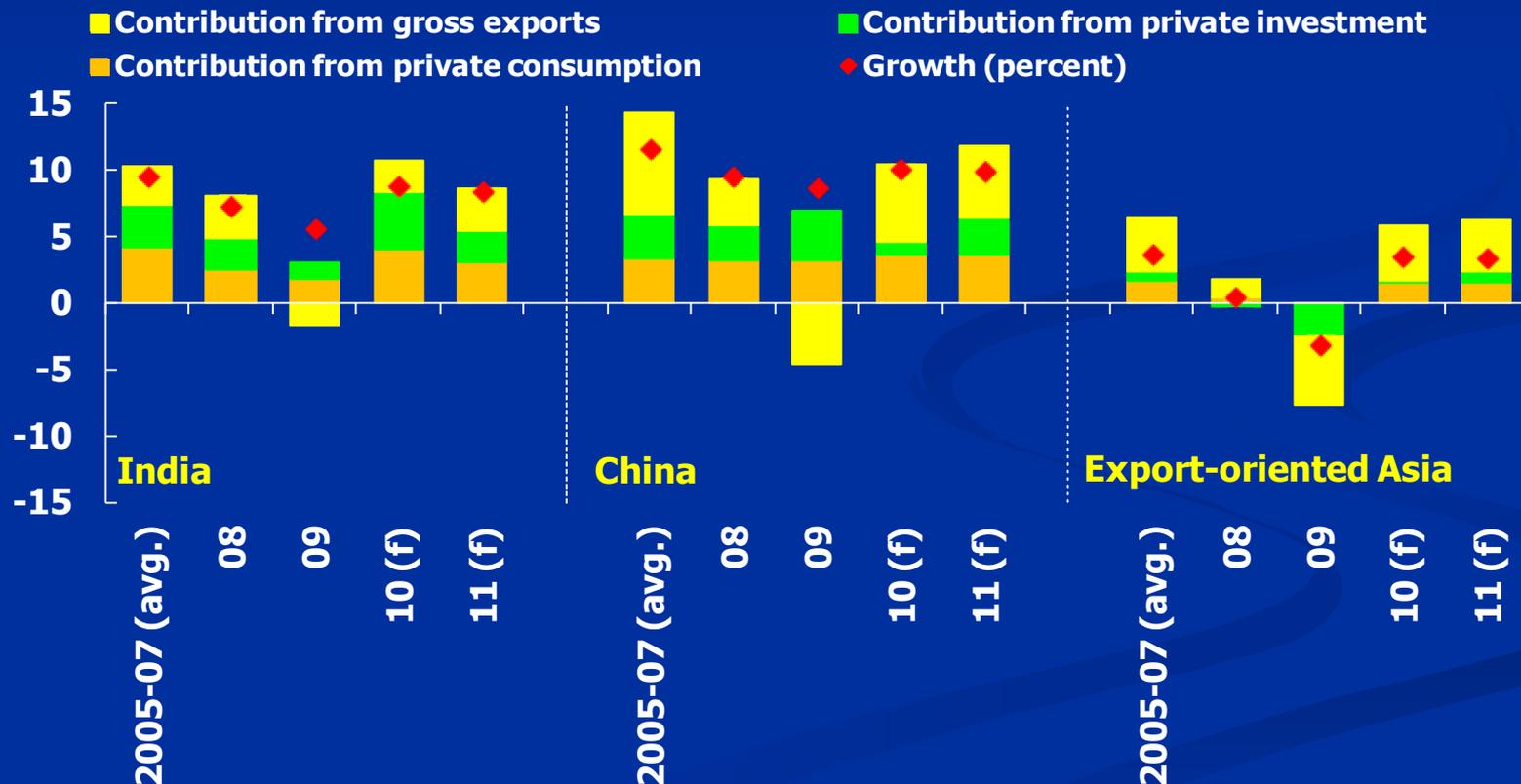
	2009	2010	2011
	Latest projection		
Industrial Asia	-4.1	2.1	2.2
Japan	-5.2	1.9	2.0
Australia	1.3	3.0	3.5
New Zealand	-1.6	2.9	3.2
Emerging Asia	5.7	8.5	8.4
NEs	-0.9	5.5	5.1
Hong Kong SAR	-2.7	5.0	4.4
Korea	0.2	4.5	5.0
Singapore	-2.0	8.9	6.8
Taiwan Province of China	-1.9	6.5	4.8
China	8.7	10.0	9.9
India	5.7	8.8	8.4
ASEAN-5	1.7	5.4	5.6
Indonesia	4.5	6.0	6.2
Malaysia	-1.7	4.7	5.0
Philippines	0.9	3.6	4.0
Thailand	-2.3	5.5	5.5
Vietnam	5.3	6.0	6.5
Asia	3.4	7.1	7.1

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



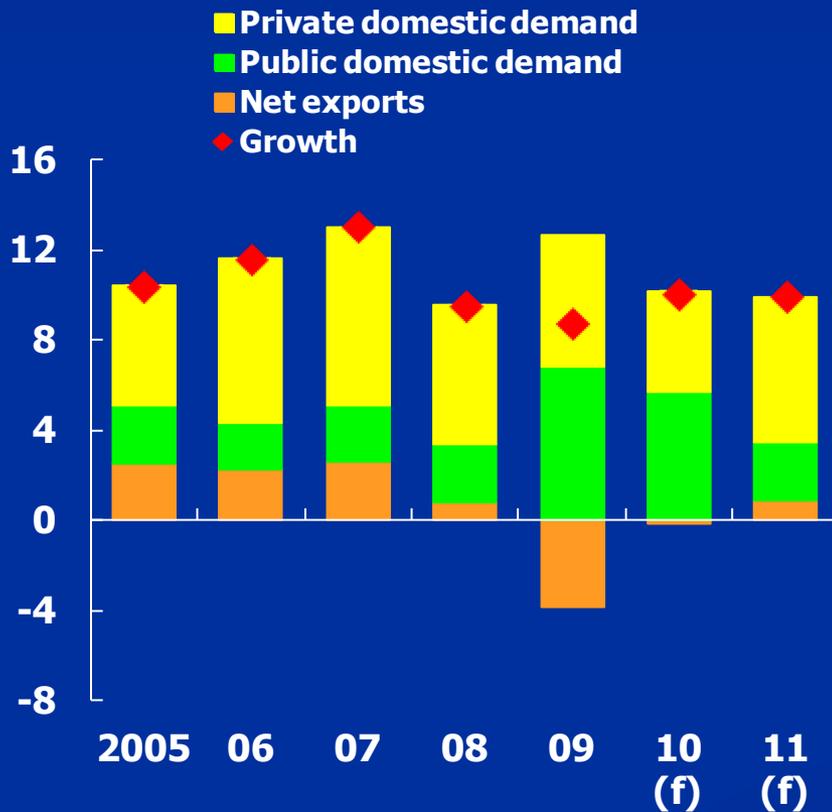
The drivers of growth vary within the region

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

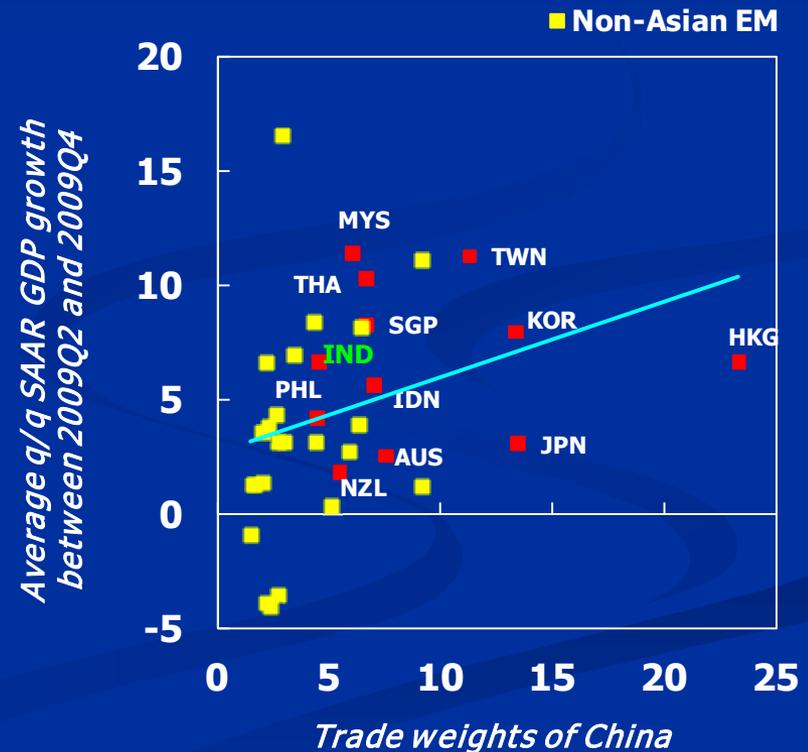


China's growth is becoming more broad based, with positive spillovers for the region

China: Contributions to GDP Growth
(percentage points)

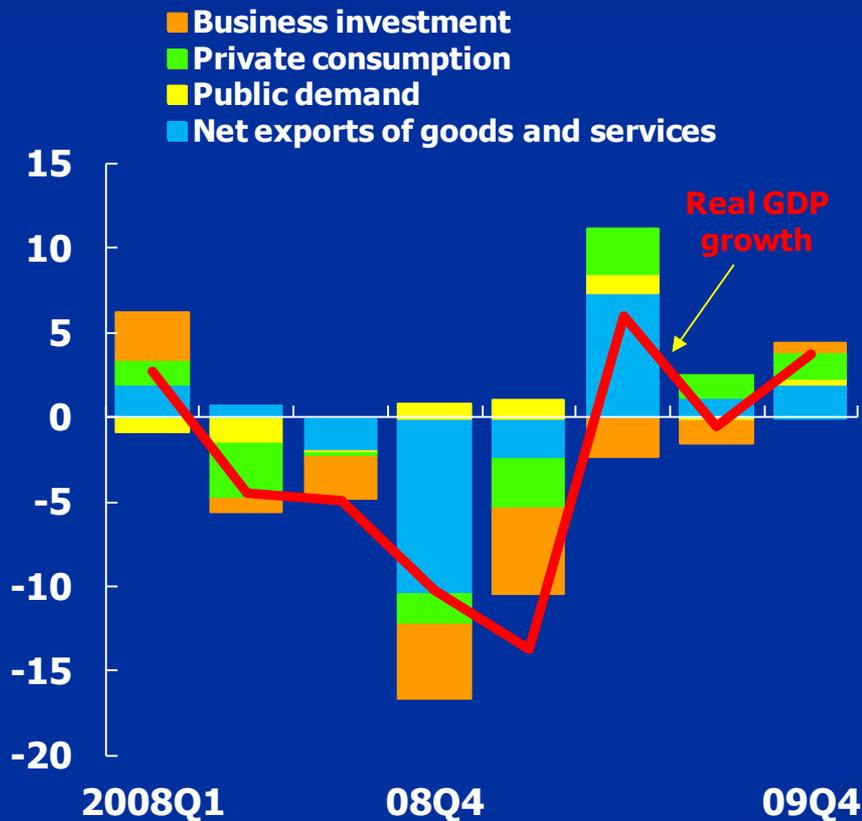


GDP Growth and Trade Links with China
(percent)

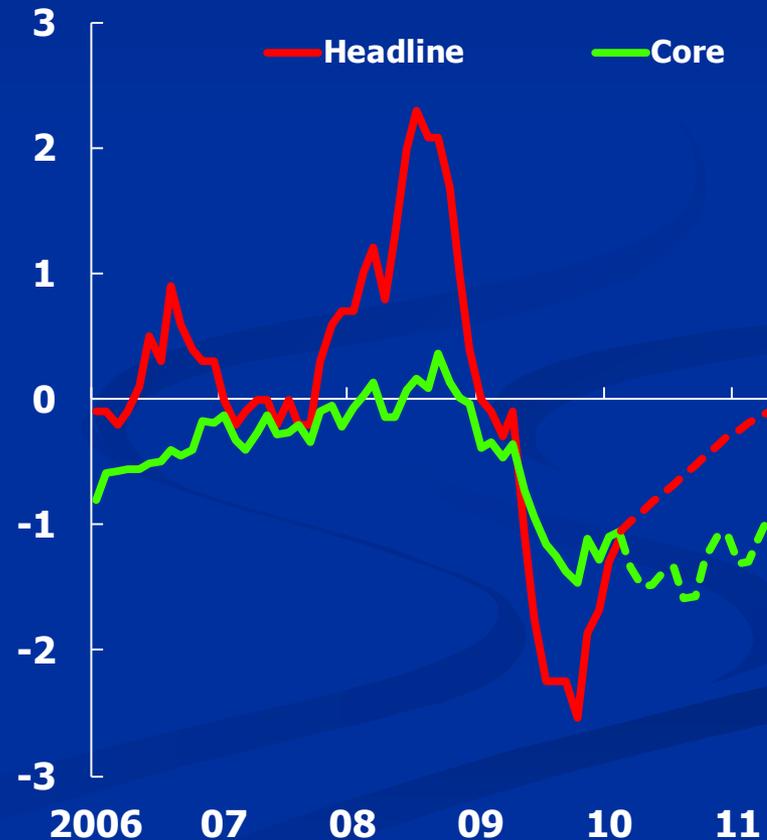


In Japan, the recovery is also underway and deflation is expected to moderate

Japan: Contributions to GDP Growth
(q/q saar; percentage points)



Japan: Headline and Core Inflation
(y/y; percent)

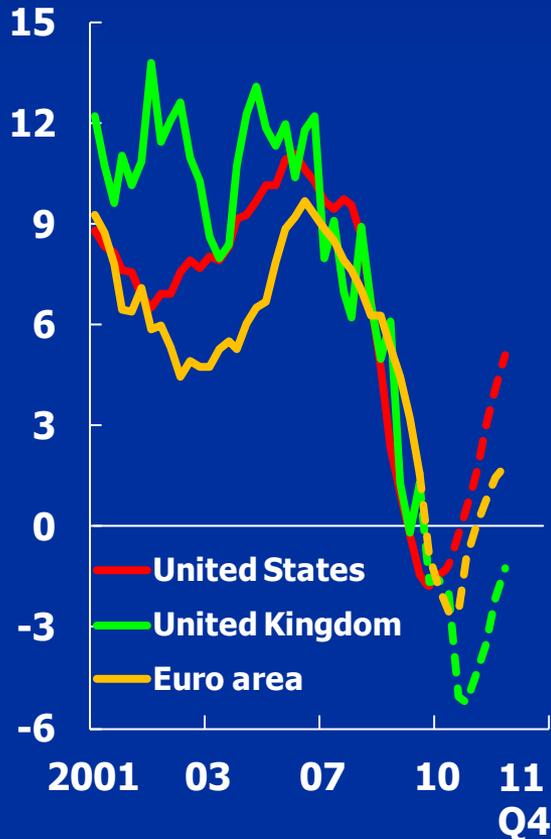


Plan of the presentation

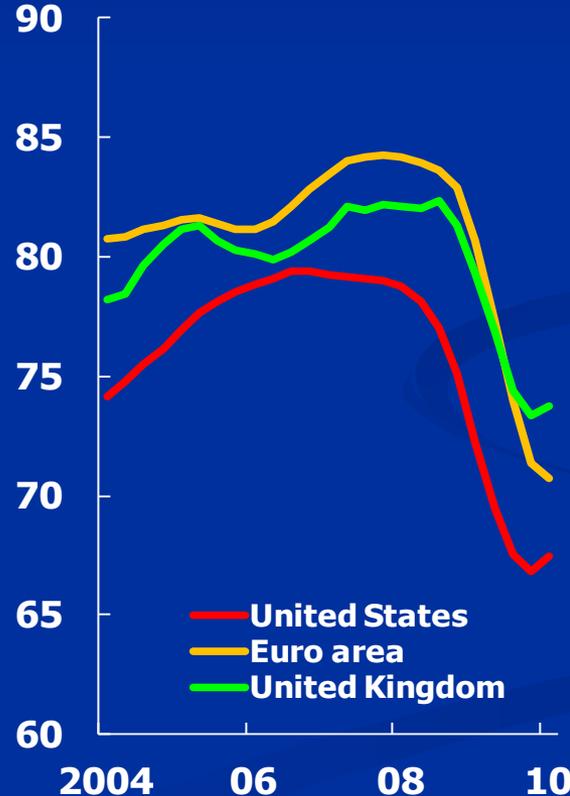
- The global and regional context: a multi speed recovery.
- **Risks to the outlook: downside global/financial risks.**
- Policy challenges for Asia: managing the exit from stimulus and dealing with capital inflows.
- Critical juncture and role of the IMF.

Multiple factors will weigh on the recovery in advanced economies

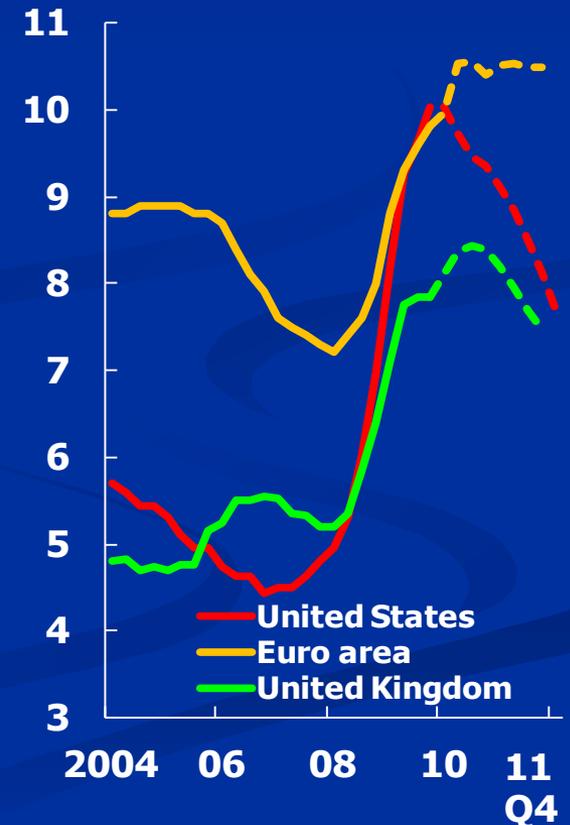
Non-Financial Private Sector Credit
(y/y percent change)



Manufacturing Capacity Utilization
(percent of total capacity; 3mma)

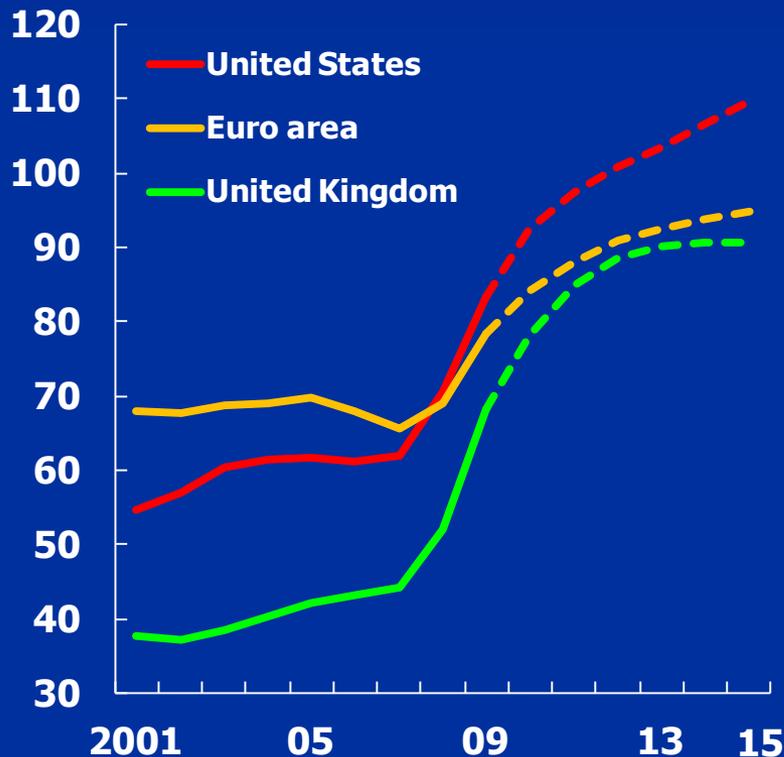


Unemployment Rate (percent)

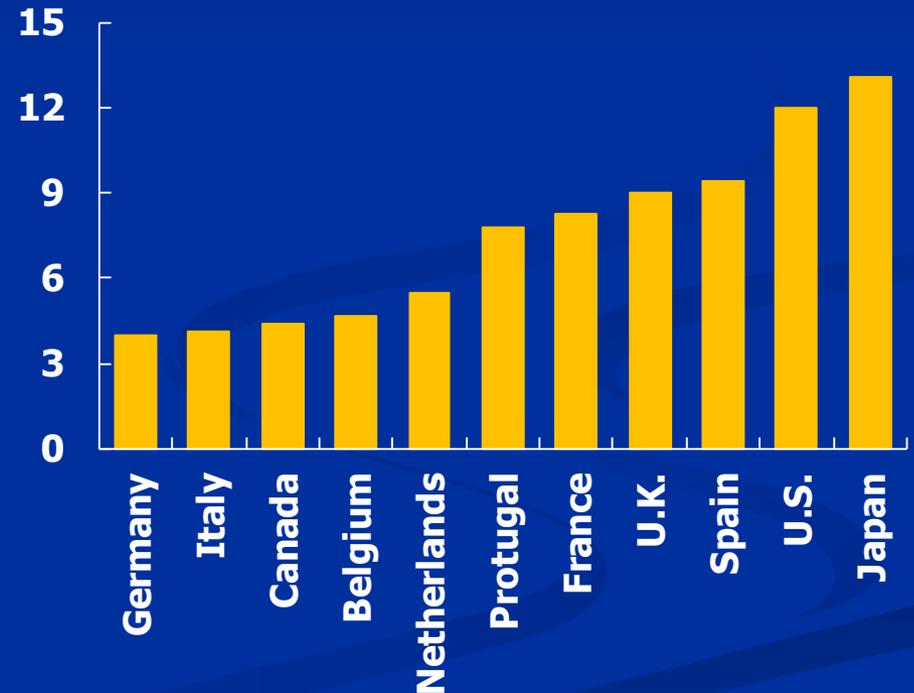


New global risks are also evolving, notably from rising sovereign debt burdens and financial market sentiment

Public Debt
(percent of GDP)



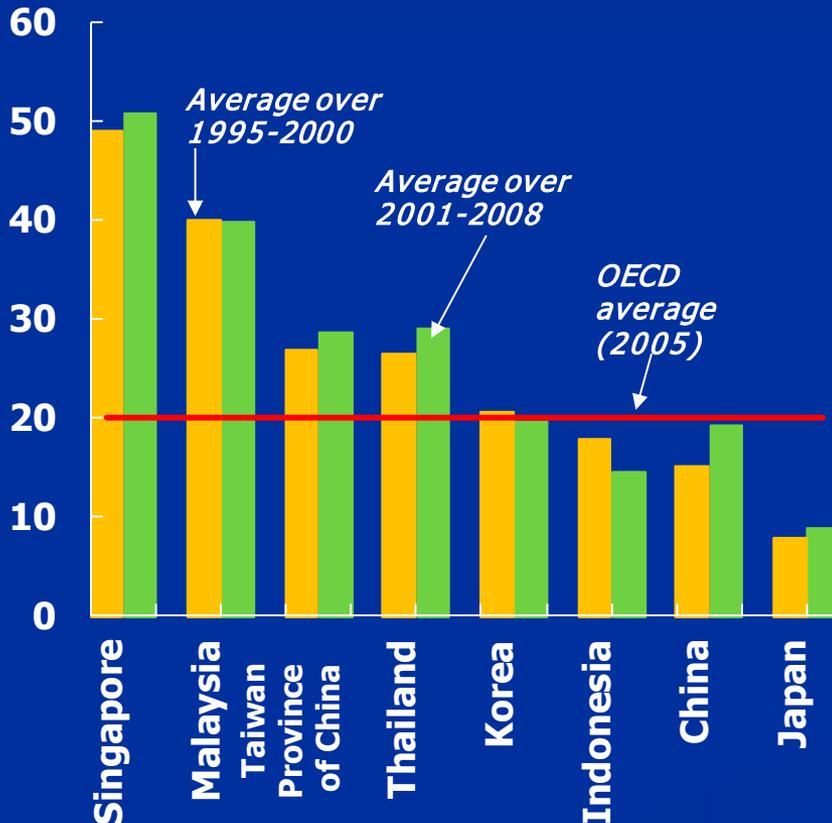
Required Adjustments in Primary Balance¹
(percent of GDP)



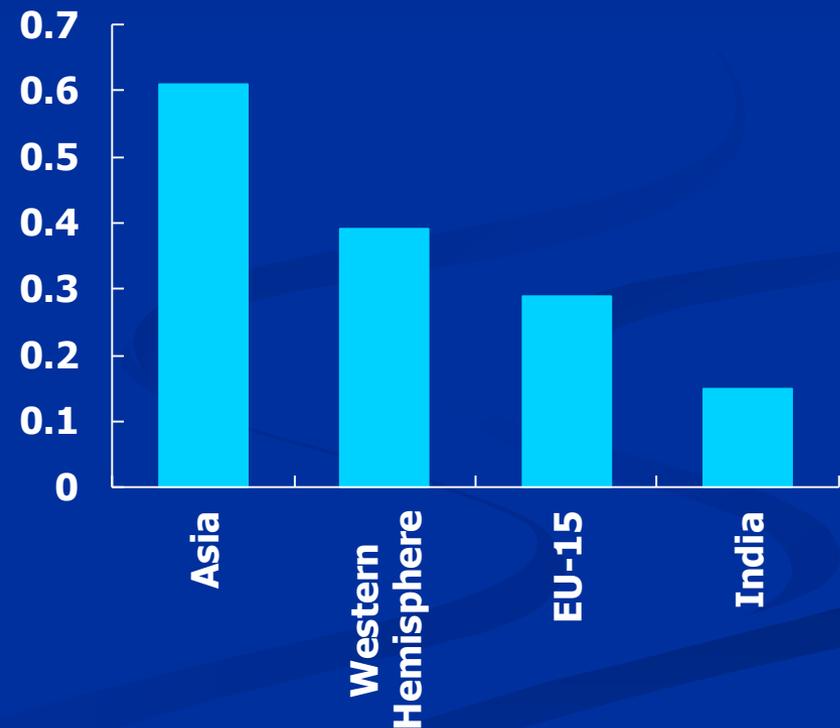
¹ Primary balance adjustment needed between 2010 and 2020 to bring the debt ratio to 60 percent in 2030.

Asia is still very exposed to global demand

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



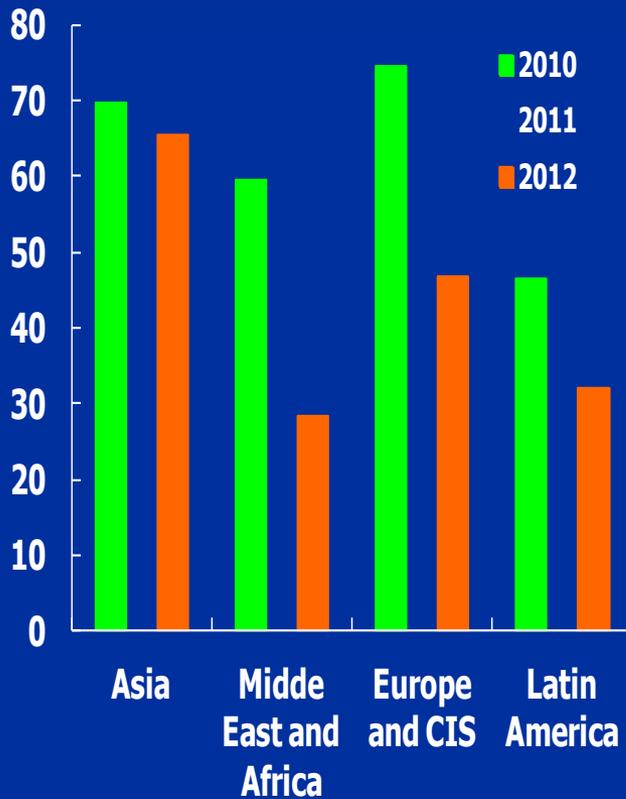
GDP Growth Loss From a 1 percent Decline in U.S. Growth¹
(percentage points)



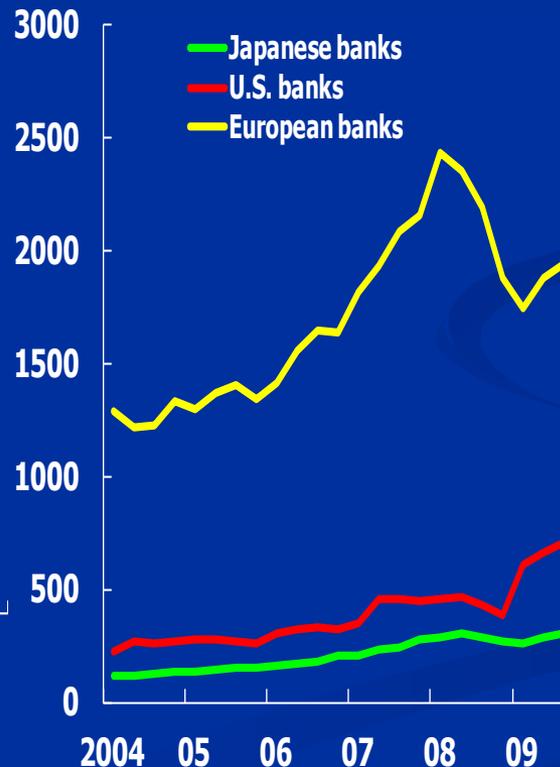
¹ Source: *Regional Economic Outlook*, April 2008.

And Asia remains reliant on external financing

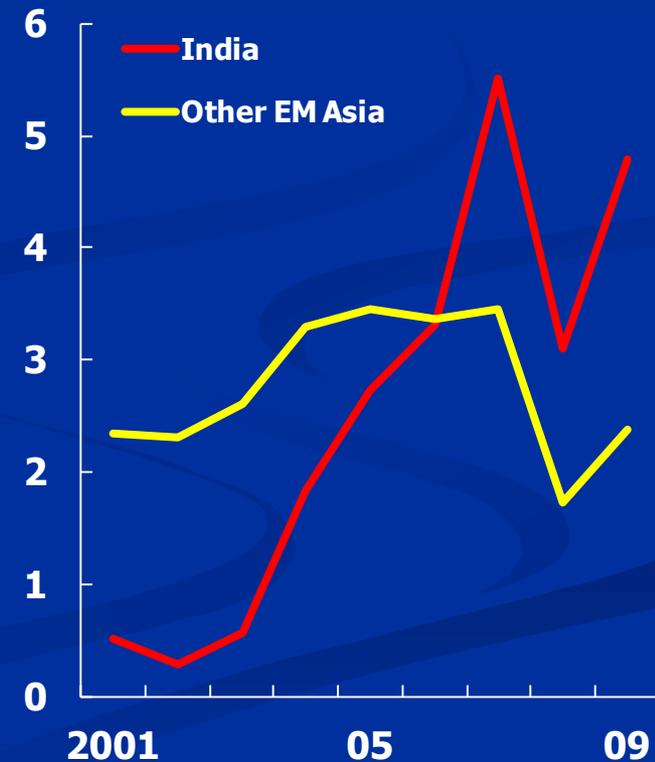
Rollover of Foreign Currency Bonds and Loans by Corporates
(billions of U.S. dollars)



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)

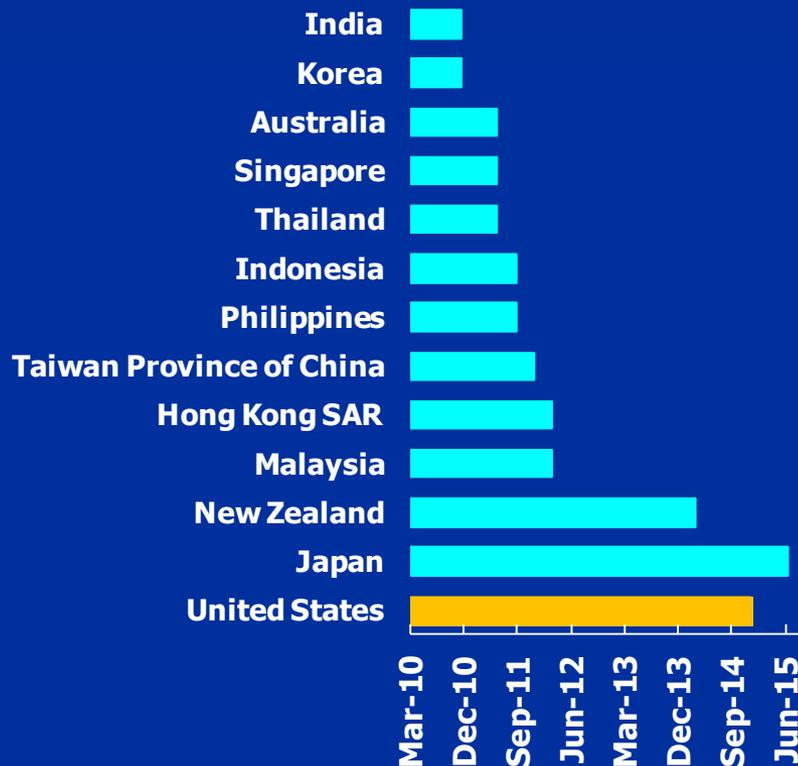


Plan of the presentation

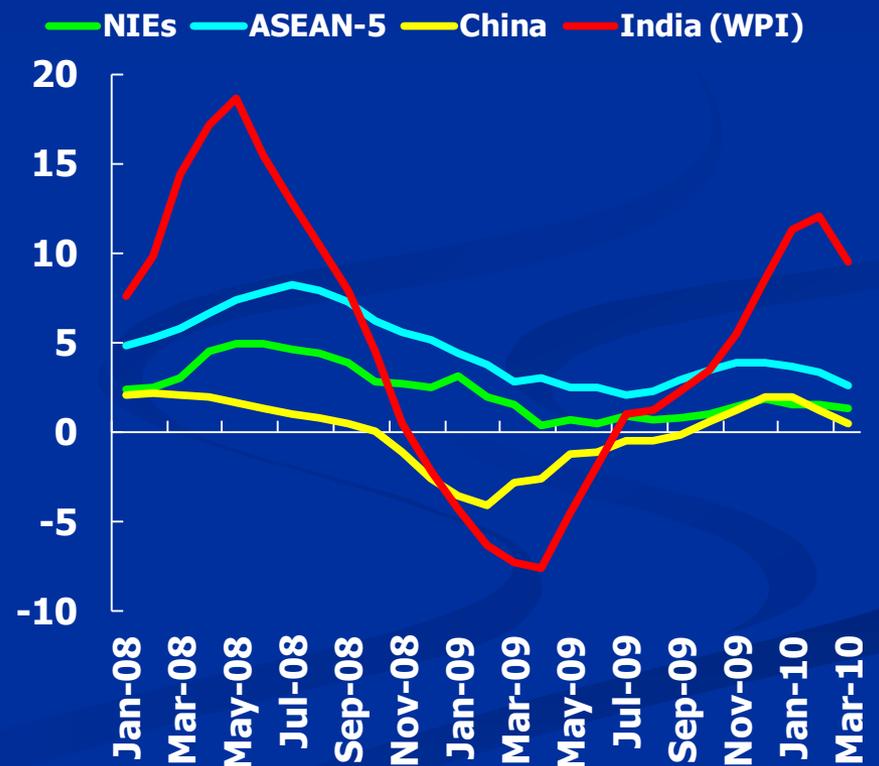
- The global and regional context: a multi speed recovery.
- Risks to the outlook: downside global/financial risks.
- Policy challenges for Asia: managing the exit from stimulus and dealing with capital inflows.
- Critical juncture and role of the IMF.

In a number of Asian economies output gaps are closing and inflationary pressures are emerging

Output Gap - Estimated Dates of Closure

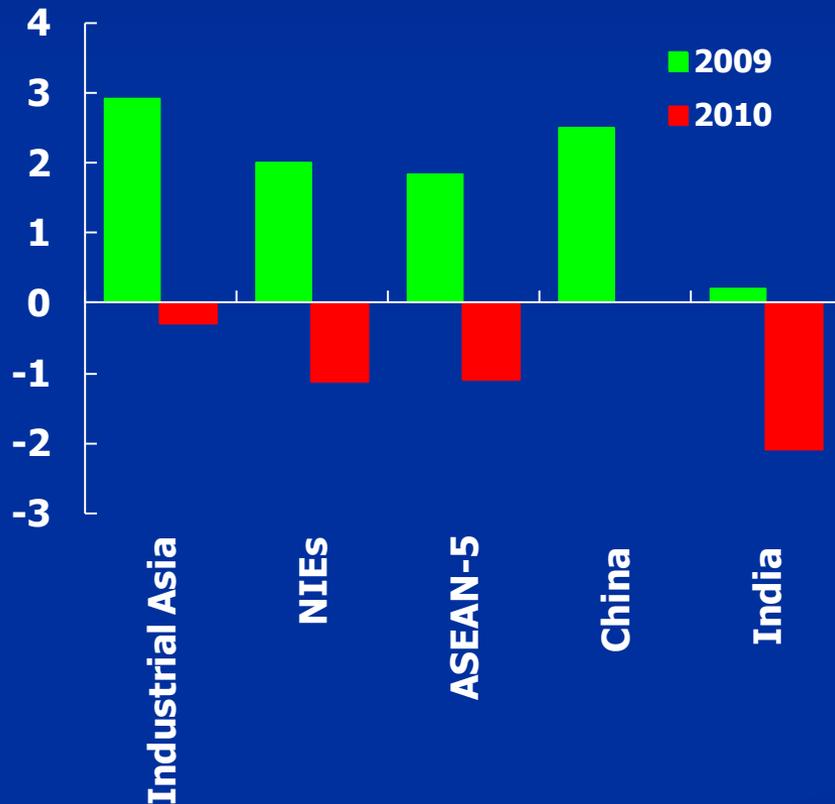


EM Asia: Core Inflation
(3-month percent change of 3-mma; SAAR)

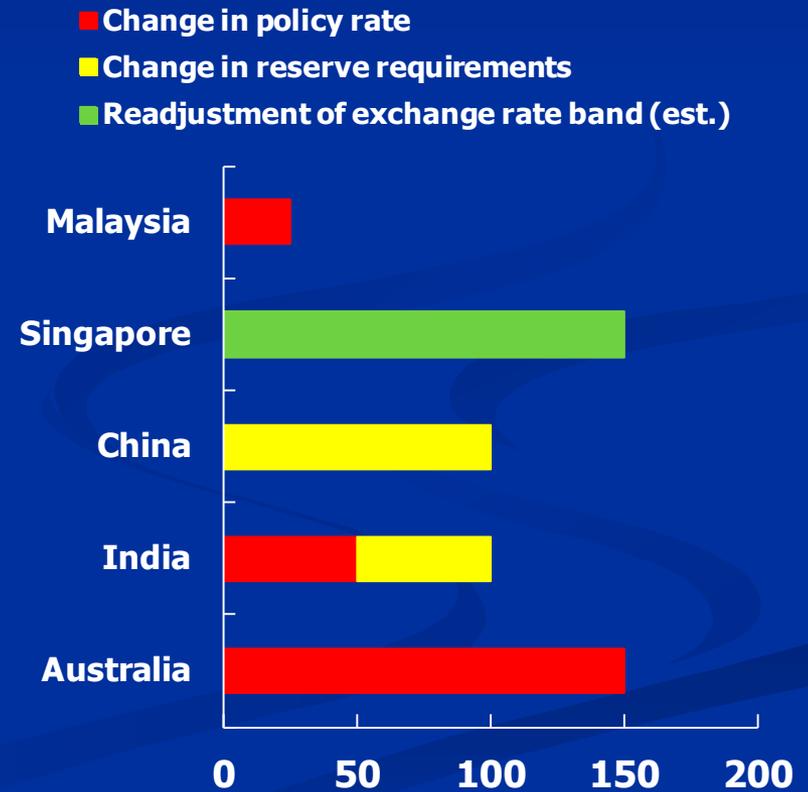


With higher inflationary pressure in the region, several countries are moving toward policy normalization

Asia: Fiscal Impulse
(percent of GDP)

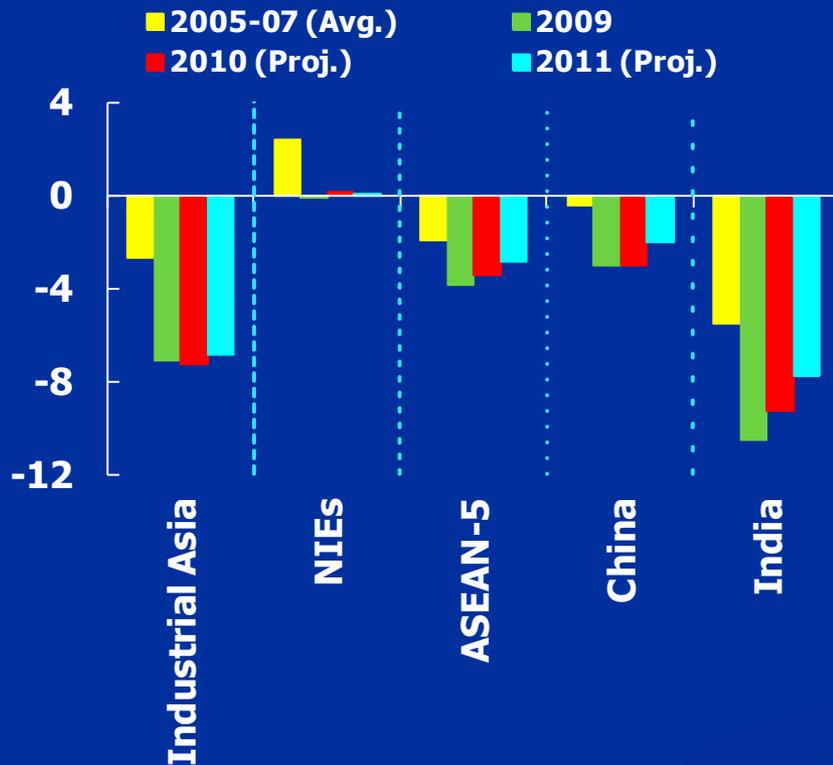


Asia: Monetary Tightening
(basis points)

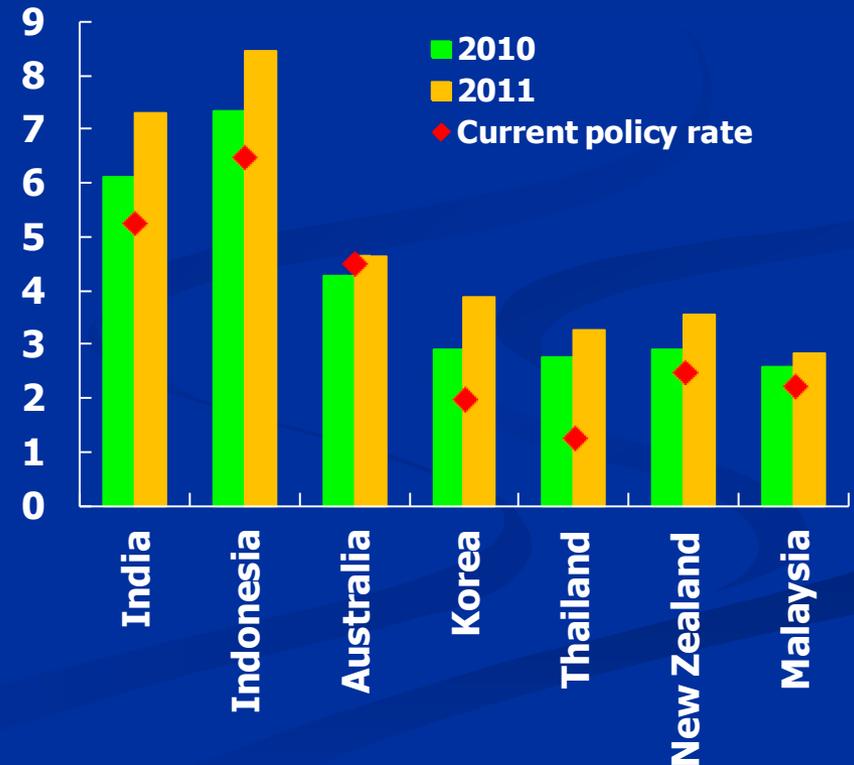


Given the persistence of downside risks, should the withdrawal of stimulus be gradual?

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

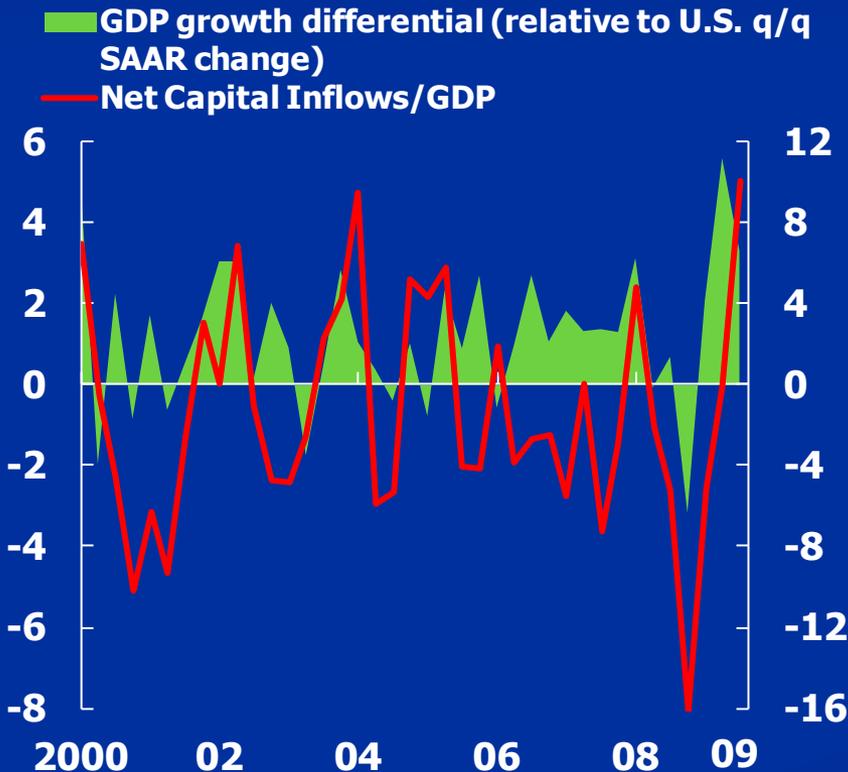


Asia: Estimated Nominal Taylor Rule Rates
(percent)

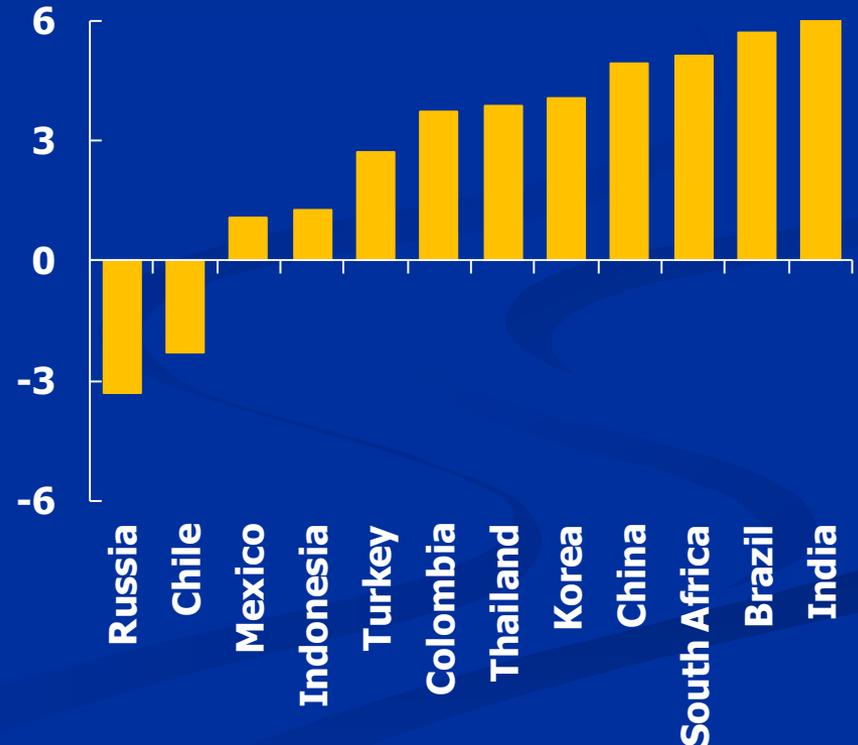


The ample supply of global liquidity and brighter growth prospects are driving capital inflows

EM Asia: Growth Differential with U.S. and Capital Inflows
(percent)

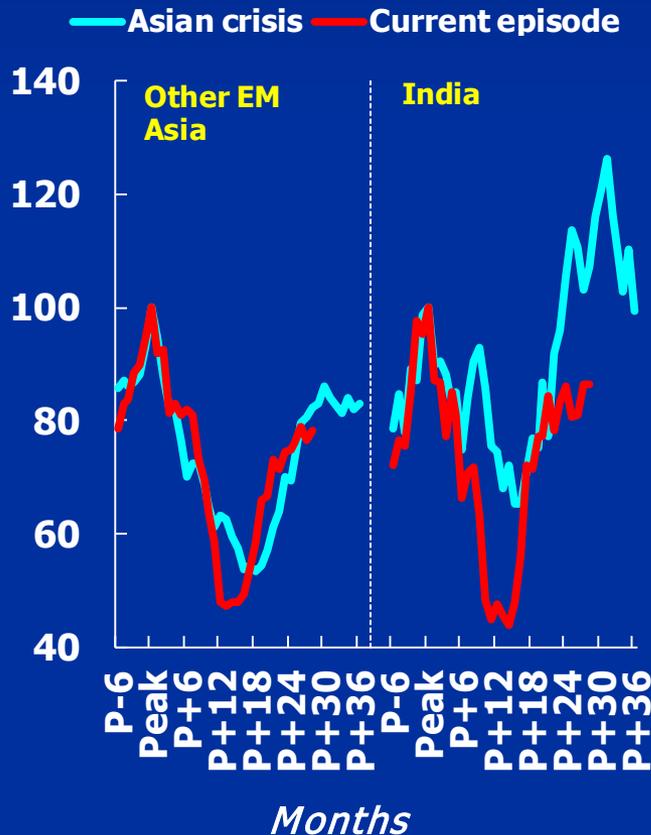


Selected EM: Net Capital Inflows in 2009:H2
(percent of GDP)

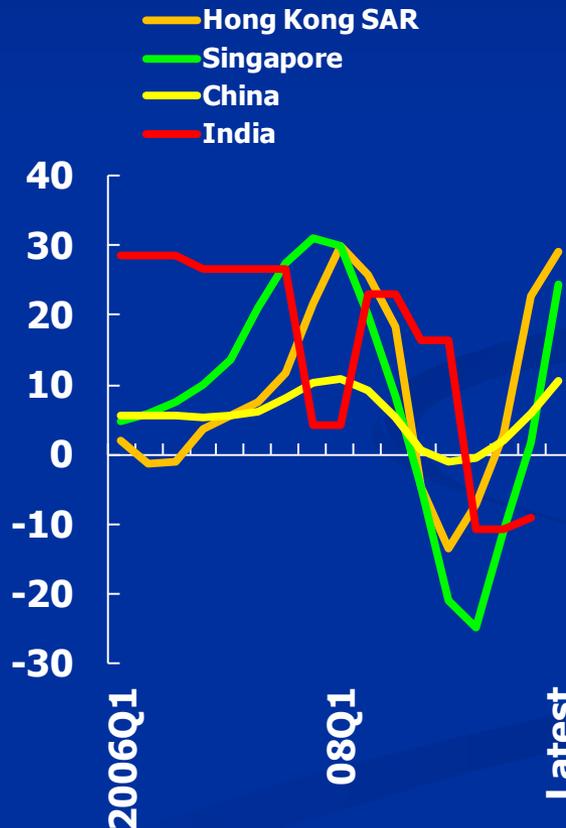


There is no clear evidence of asset bubbles so far, but the high levels of liquidity in the region raise a concern

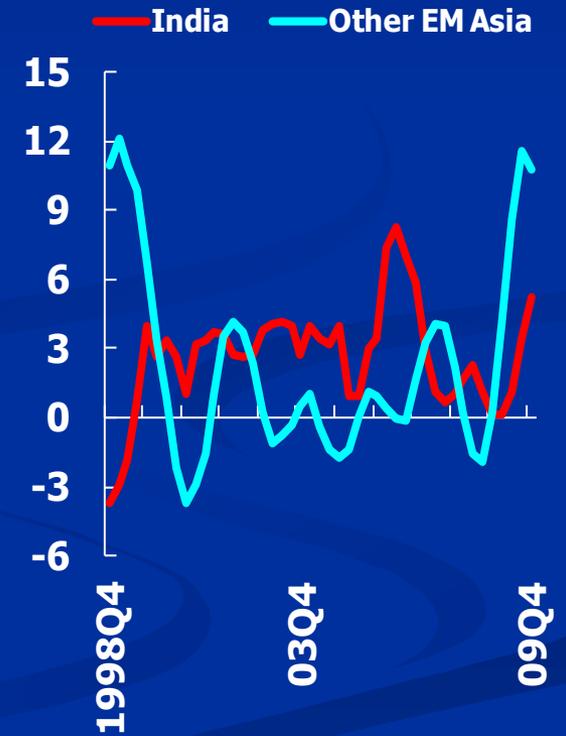
EM Asia: Equity Prices
(pre-downturn peak =100)



Property Prices
(y/y percent change)



EM Asia : Excess Liquidity¹



¹ Plots 4-quarter moving average of difference in year-on-year change in broad money supply and nominal GDP.

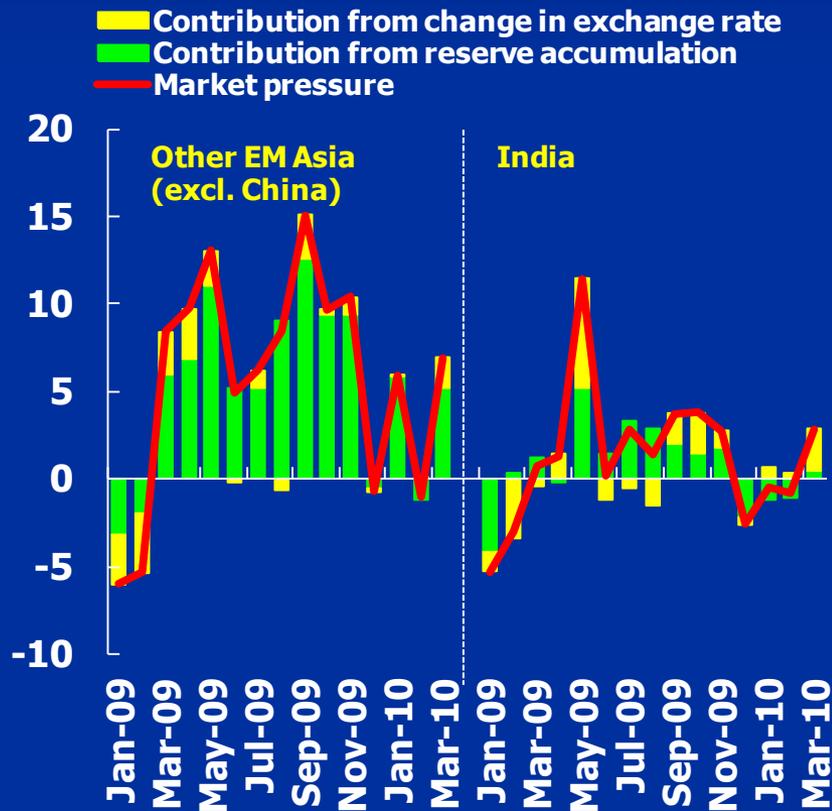
Safeguarding stability will require a range of macro-prudential measures...

Selected Asia: Macro-prudential Measures

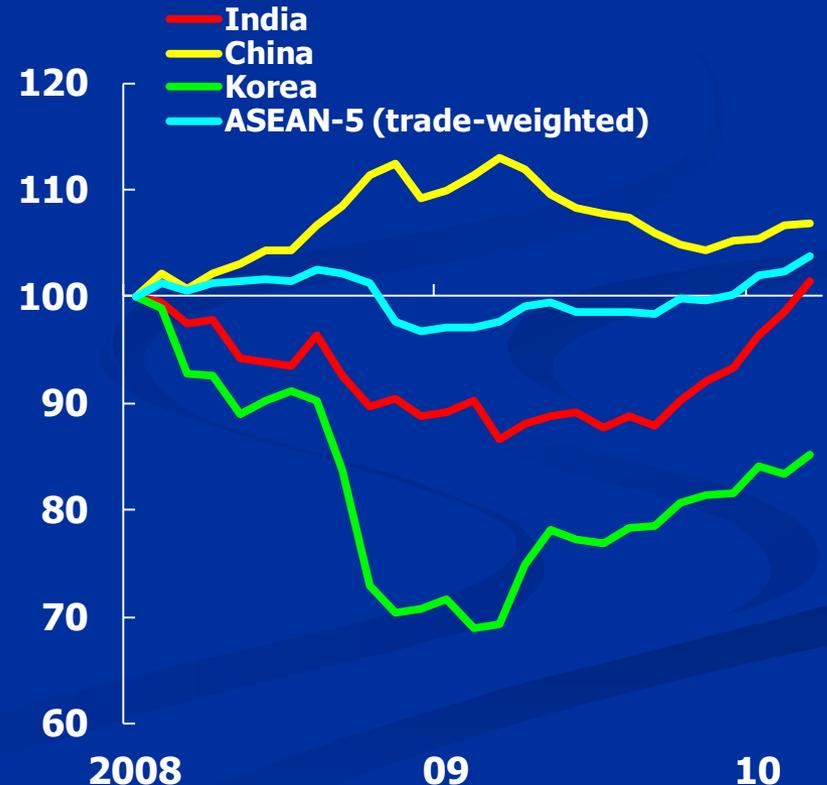
- *Singapore:* Interest-only loans disallowed; assistance measures for property developers wound down.
- *China:* higher taxes on the sale of properties purchased less than five years prior to the sale; limits on loan-to-value ratios for second homes.
- *Hong Kong SAR:* Limits to mortgages for luxury 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



Asia: REER
(January 2008 = 100)

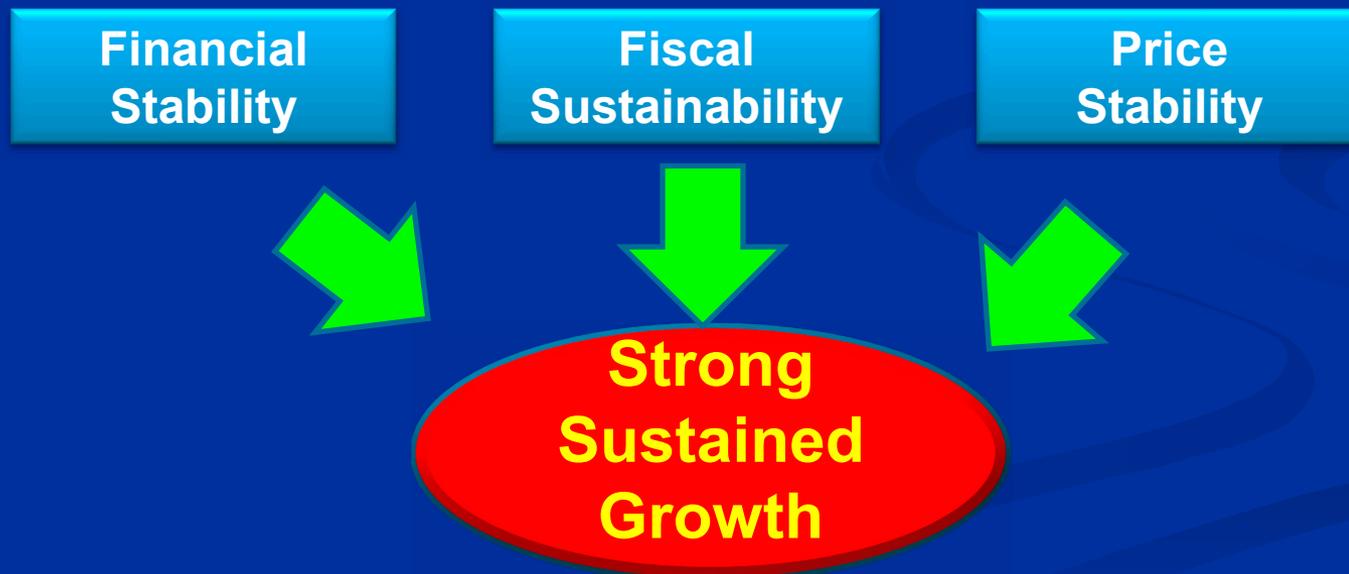


Plan of the presentation

- 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.**

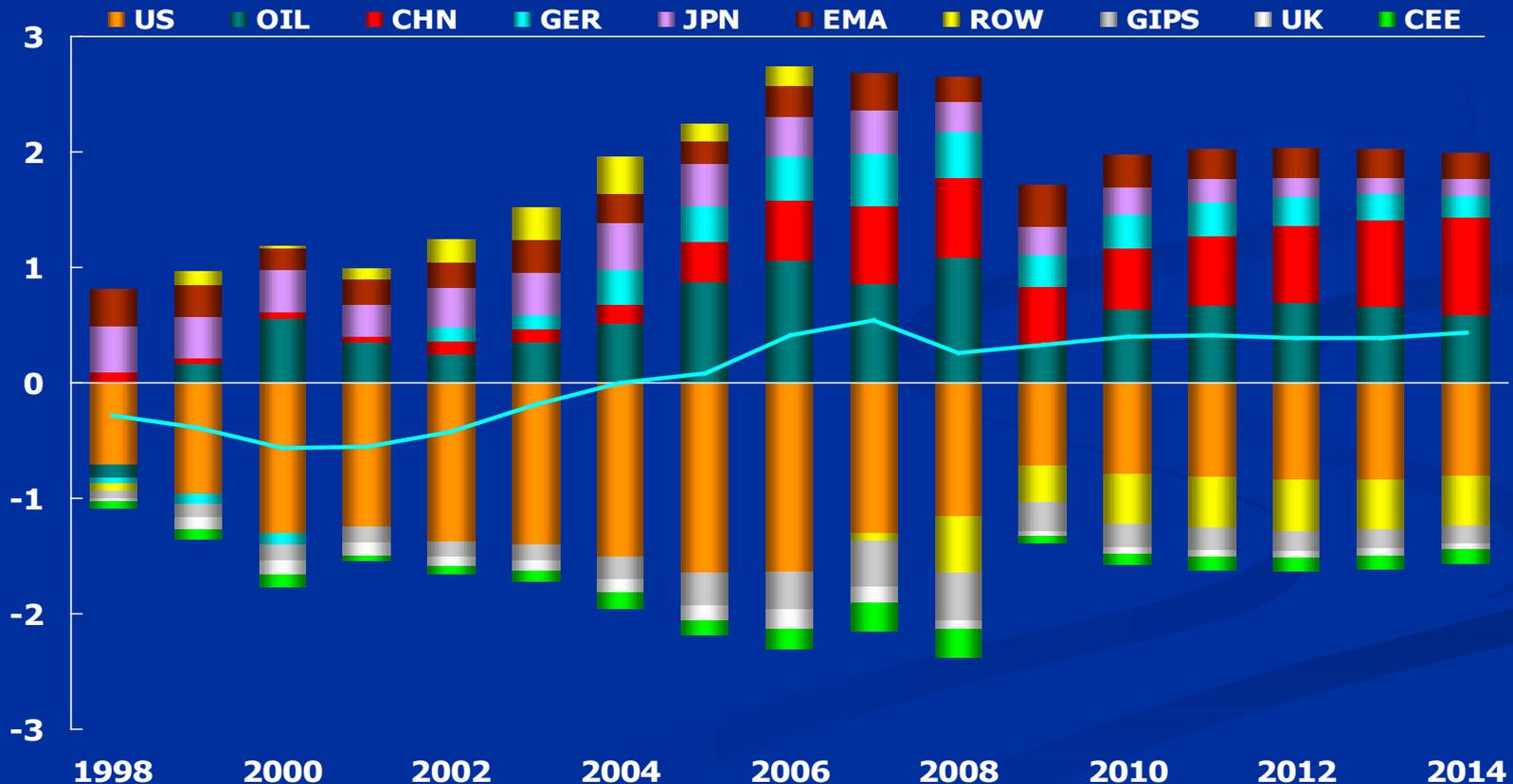
We are at a critical juncture

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



Over the medium term, private domestic demand will need to become a more prominent source of growth in Asia

Current Account Balances
(percent of world GDP)



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.

