



Asia Pacific Region: Outlook, Risks and Policy Implications*

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ICRIER, New Delhi, October 17, 2012

* Material prepared by Romain Duval and IMF Asia Pacific Department Regional Studies Division

Outline of presentation

- Recent economic developments
- Outlook and risks
- Policy implications

World Economic Outlook (WEO) available at: www.imf.org/weo

Asia-Pacific Regional Economic Outlook (REO) available at:

<http://www.imf.org/external/pubs/ft/reo/2012/APD/ENG/areo1012.htm>

Growth has slowed across the region...

Asia: Changes in Real GDP at Market Prices
(In percent)



...including for India
(but important to keep definitions clear)...

For international comparability:

- WEO uses calendar year (CY) not fiscal year (FY)
- WEO uses market prices not factor costs
 - Difference is taxes and subsidies

Real GDP growth rate

	July WEO update	October WEO
CY 2012 (market prices)	6.1	4.9
FY 2012-13 (factor costs)	6.4	5.6
CY 2013 (market prices)	6.5	6.0
FY 2013-14 (factor costs)	6.6	6.0

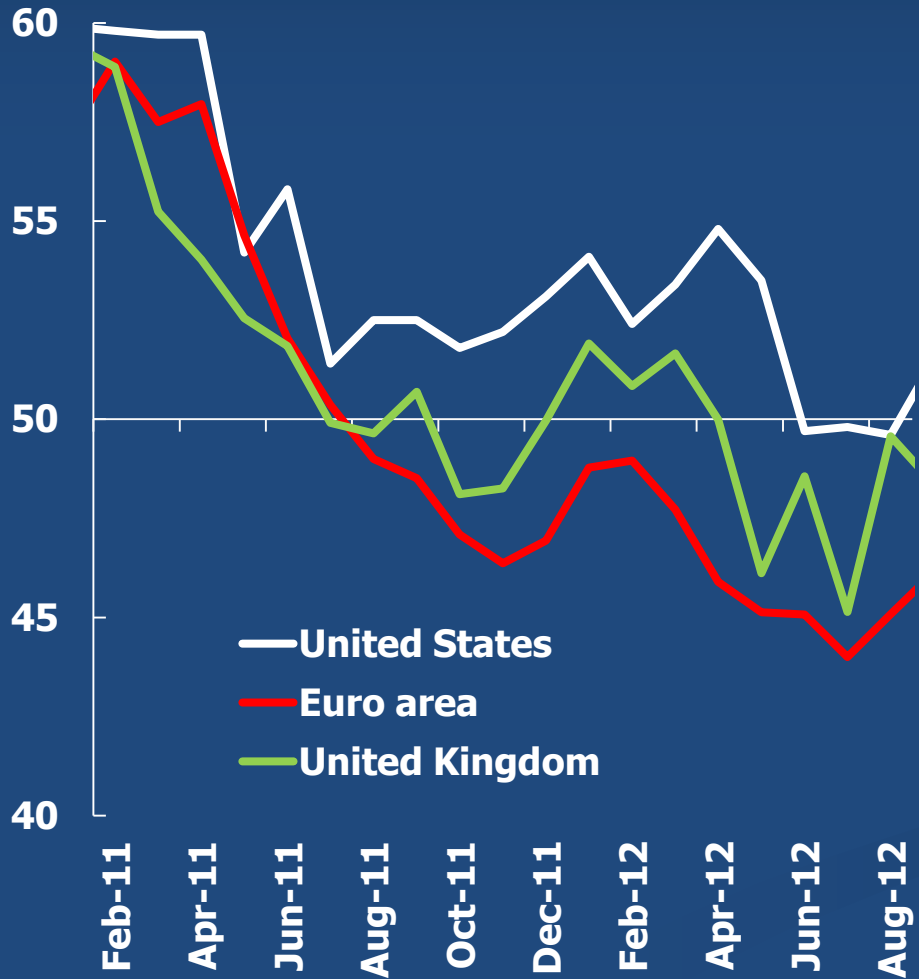
...while inflation has come down (not in India)

Asia: Headline Consumer Prices
(Year-over-year percent change)

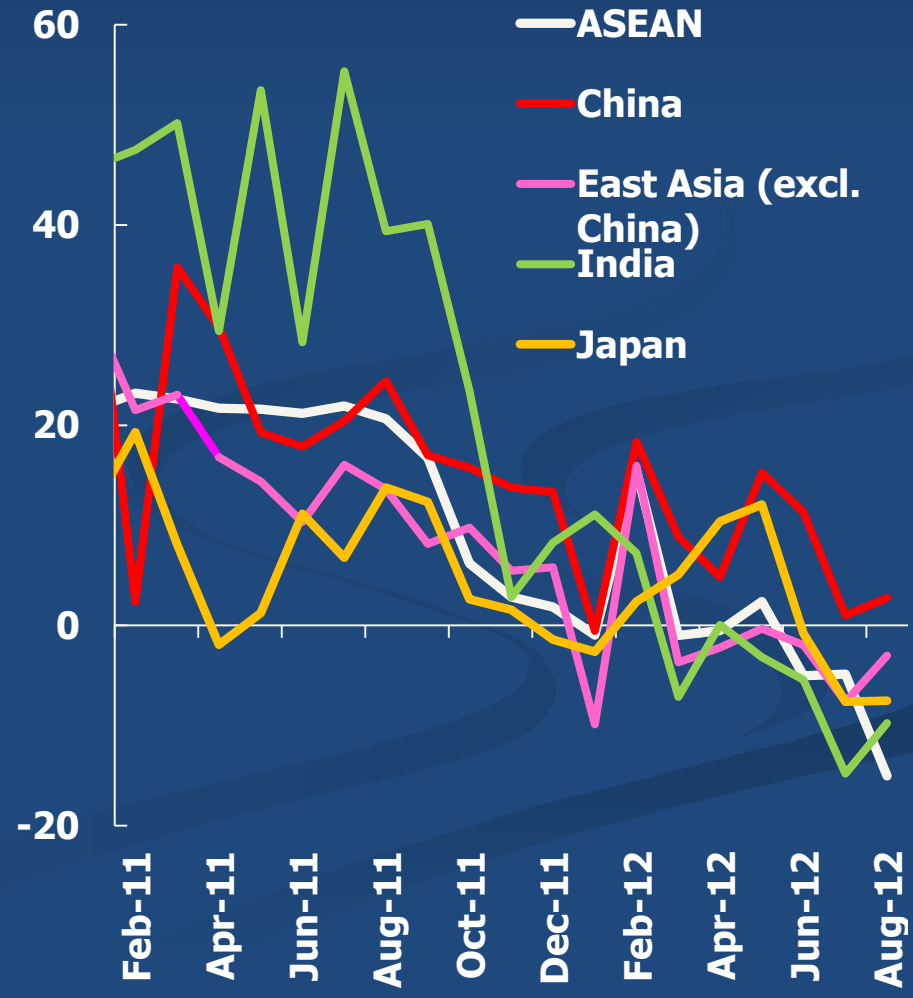


Main driver has been weakening external demand...

Advanced Economies: Manufacturing PMI
(Seasonally adjusted; 50=neutral)

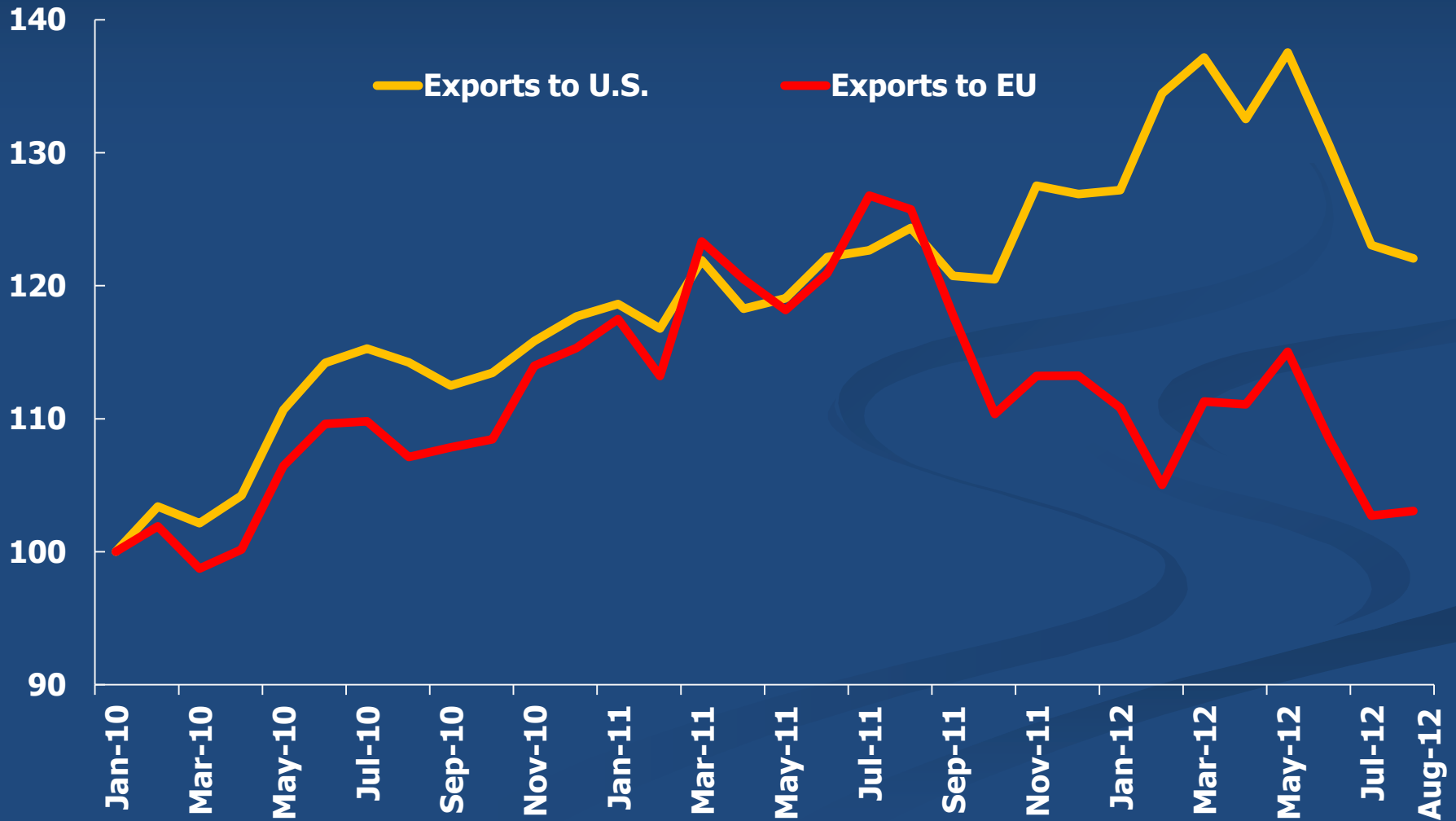


Asia: Exports by Economies
(Year-over-year percent change)



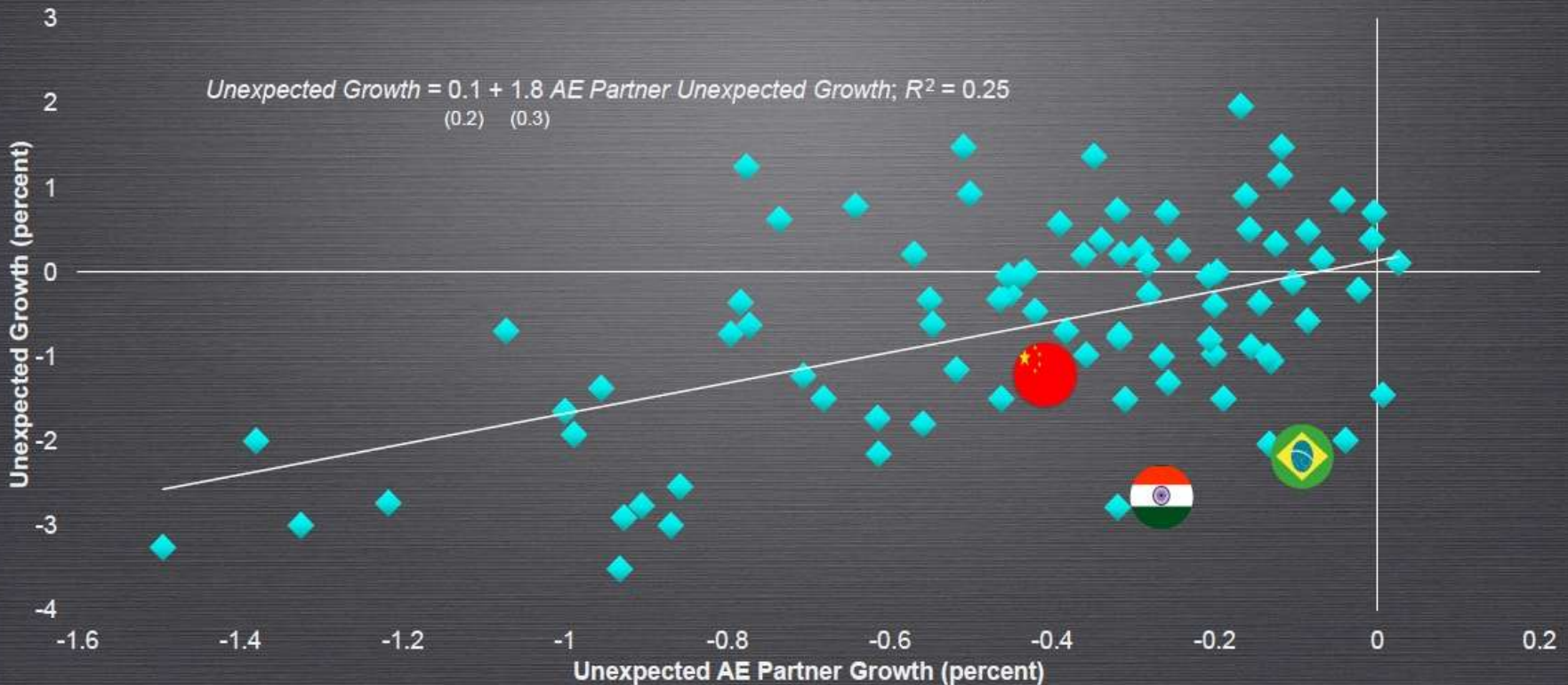
...primarily from Europe, although exports to the US have also fallen lately

Asia: Exports of Goods to U.S. and EU
(January 2010=100; seasonally adjusted)



Domestic factors have played a role in some cases...

The 2012 Slowdown: More than Spillovers from AEs

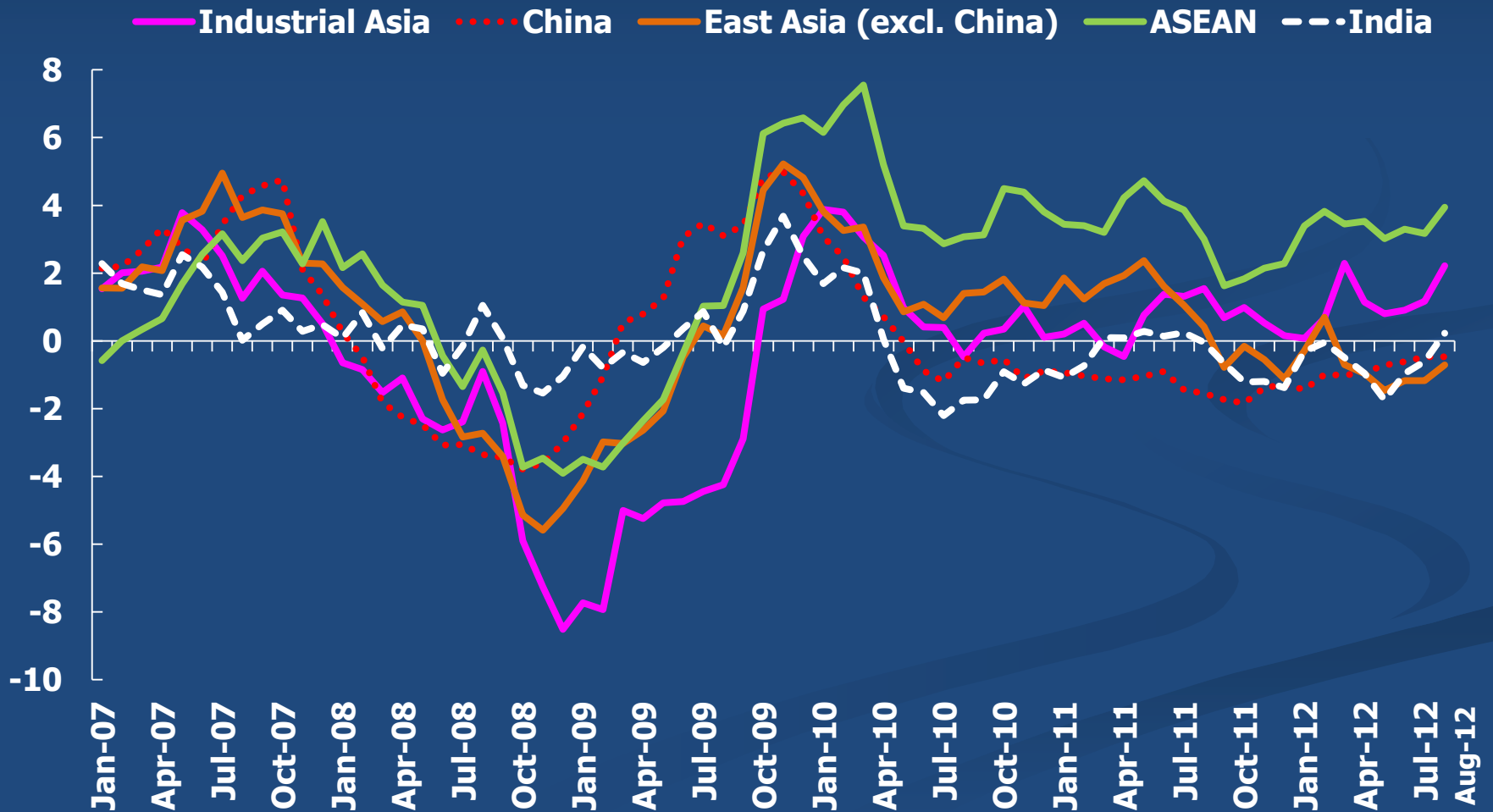


Note: Unexpected growth denotes real GDP growth in 2012 (September 2012 WEO) minus the forecast (September 2011 WEO). Unexpected AE partner growth denotes export-weighted average of growth of advanced-economy trading partners in 2012 minus the forecast for the same period, multiplied by the economy's 2011 share of exports in real GDP.

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

...with supportive financial conditions...

Asia: Financial Conditions Index (FCI)
(Index; increase = loosening of financial conditions)



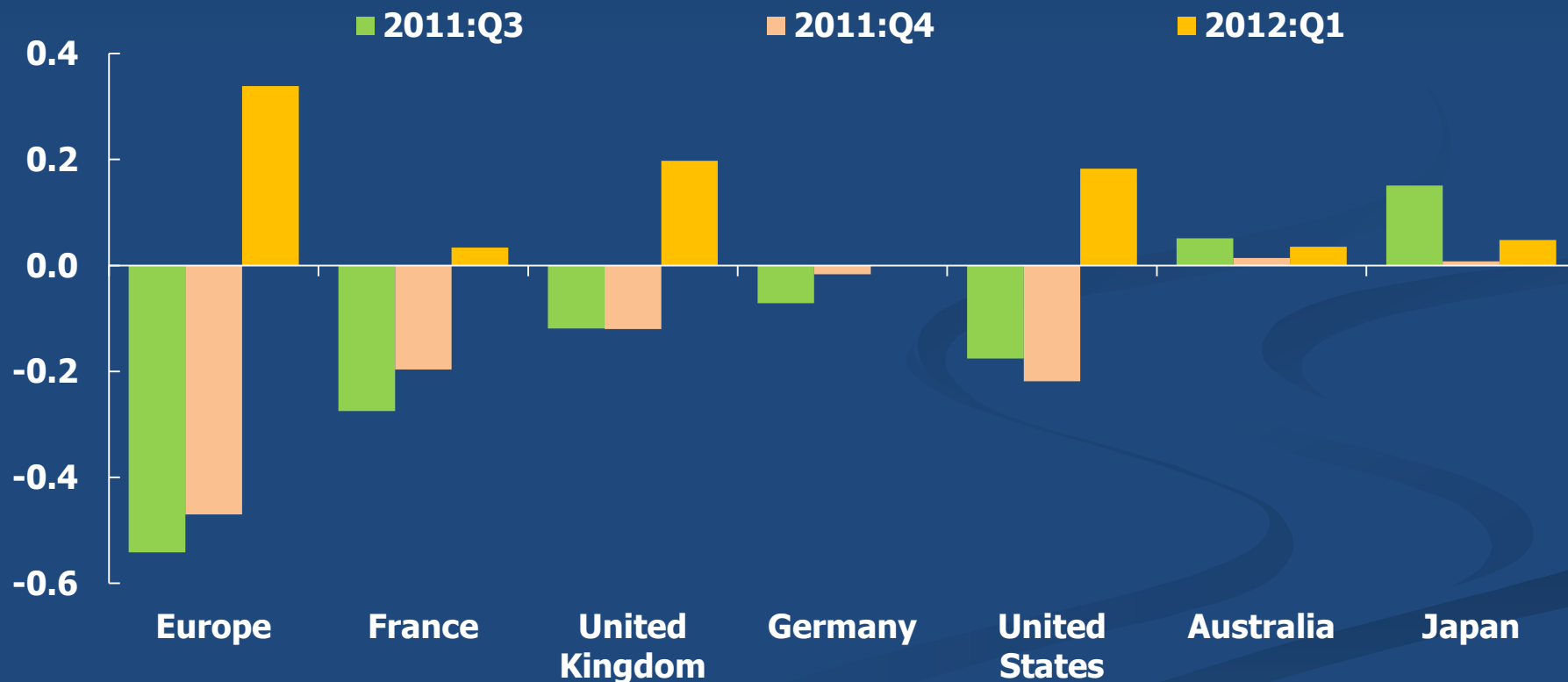
...and correspondingly robust credit growth

Asia: Credit to Private Sector
(Year-over-year percent change, as of July 2012)



European banks' deleveraging has been manageable so far

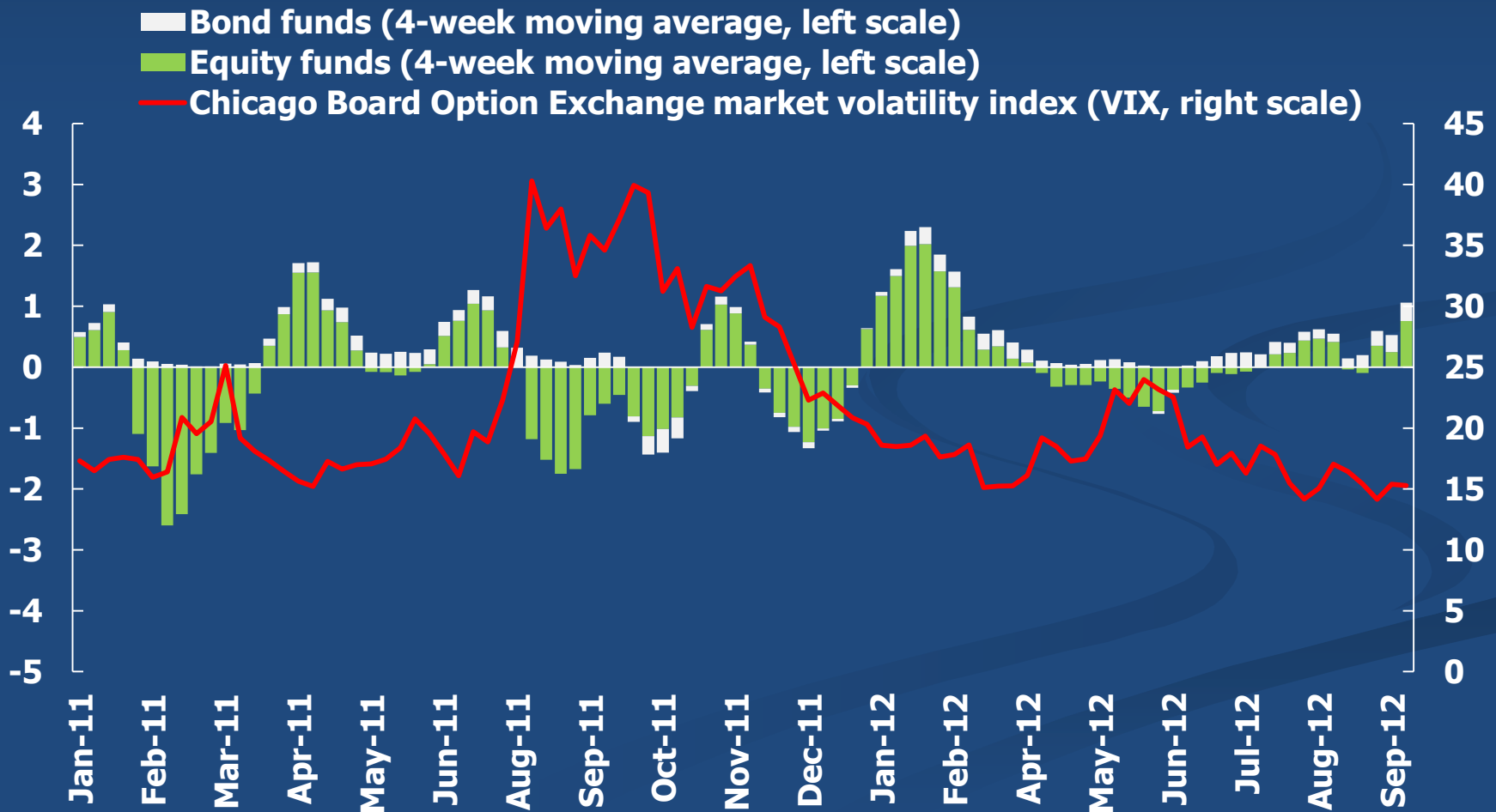
Change in Consolidated Foreign Claims of BIS Reporting Banks on Emerging Asia
(Change over previous quarter, in percent of Emerging Asia GDP)



Note: Claims are on ultimate risk basis. Expressed in terms of four-quarter sum of quarterly GDP (in U.S. dollar) of Emerging Asia.

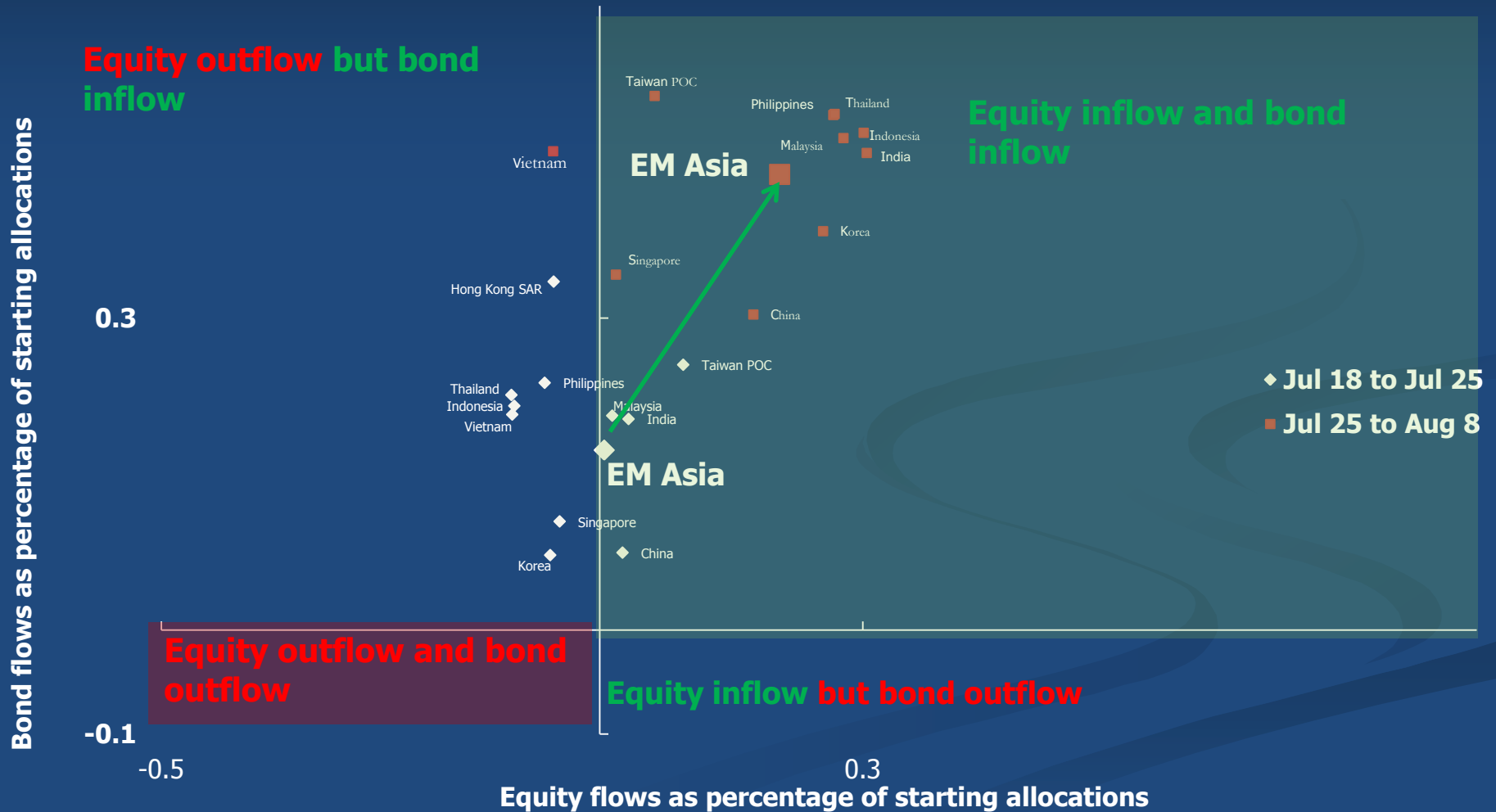
Portfolio inflows have resumed as global risk aversion receded...

Emerging Asia: Equity and Bond Funds Net Flows (In billions of U.S. dollars)



...further stimulated by ECB announcements...

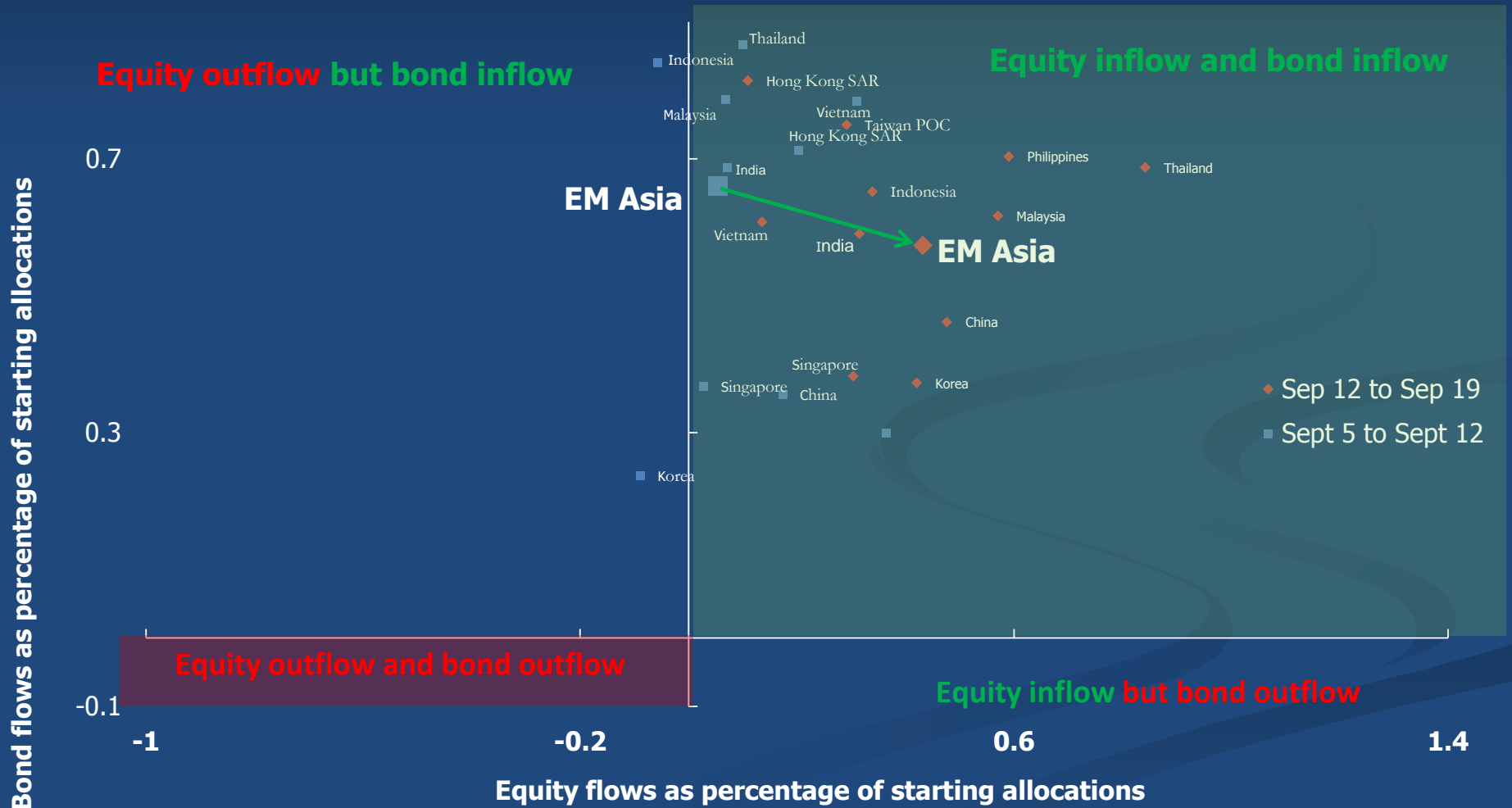
Weekly Bond and Equity flows
(Percentage of starting allocation)



Emerging Asia for IMF includes East Asia, India, Indonesia, Malaysia, the Philippines, Singapore, Thailand & Vietnam.

...and recent FED announcements

Weekly Bond and Equity flows (Percentage of starting allocation)

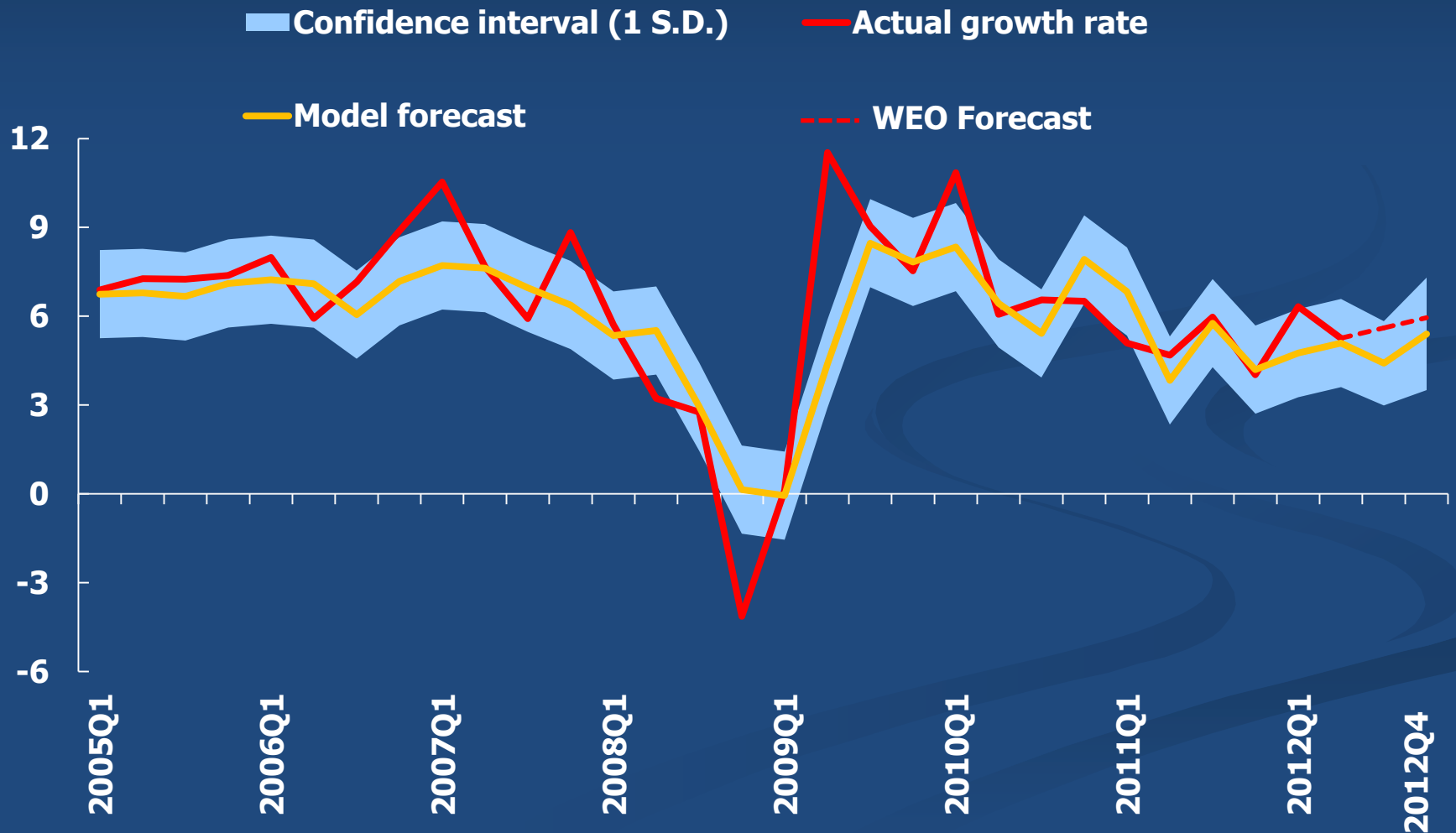


Emerging Asia for IMF includes East Asia, India, Indonesia, Malaysia, the Philippines, Singapore, Thailand & Vietnam.

OUTLOOK AND RISKS

Growth is projected to pick up modestly and gradually, driven by accommodative policies and stronger external demand

Indicator Model for Asia: Projected *versus* Actual Growth in Real GDP
(Quarter over quarter, in percent; SAAR)



...but despite significant downward revisions to our forecast Asia will remain the global growth leader

Asia: Change in 2012 Growth Forecast
(In percentage points)

- Change from September 2011 forecast
- Change from April 2012 forecast

Industrial Asia

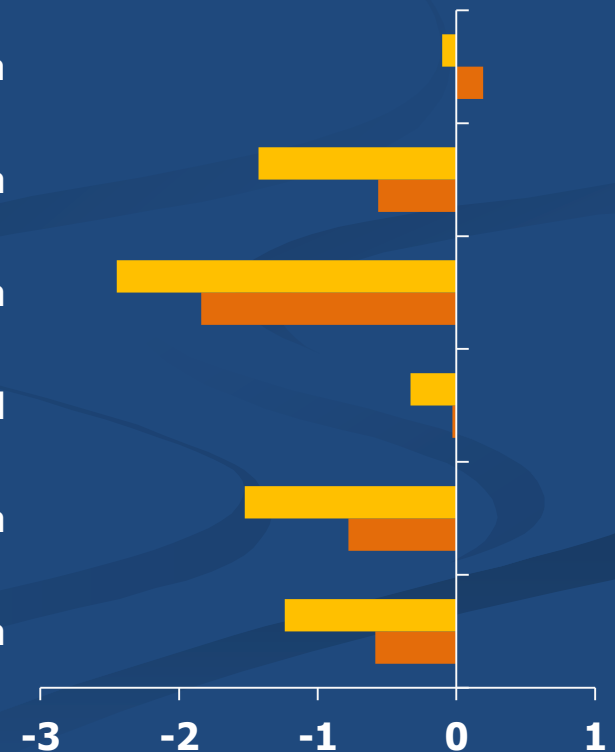
East Asia

South Asia

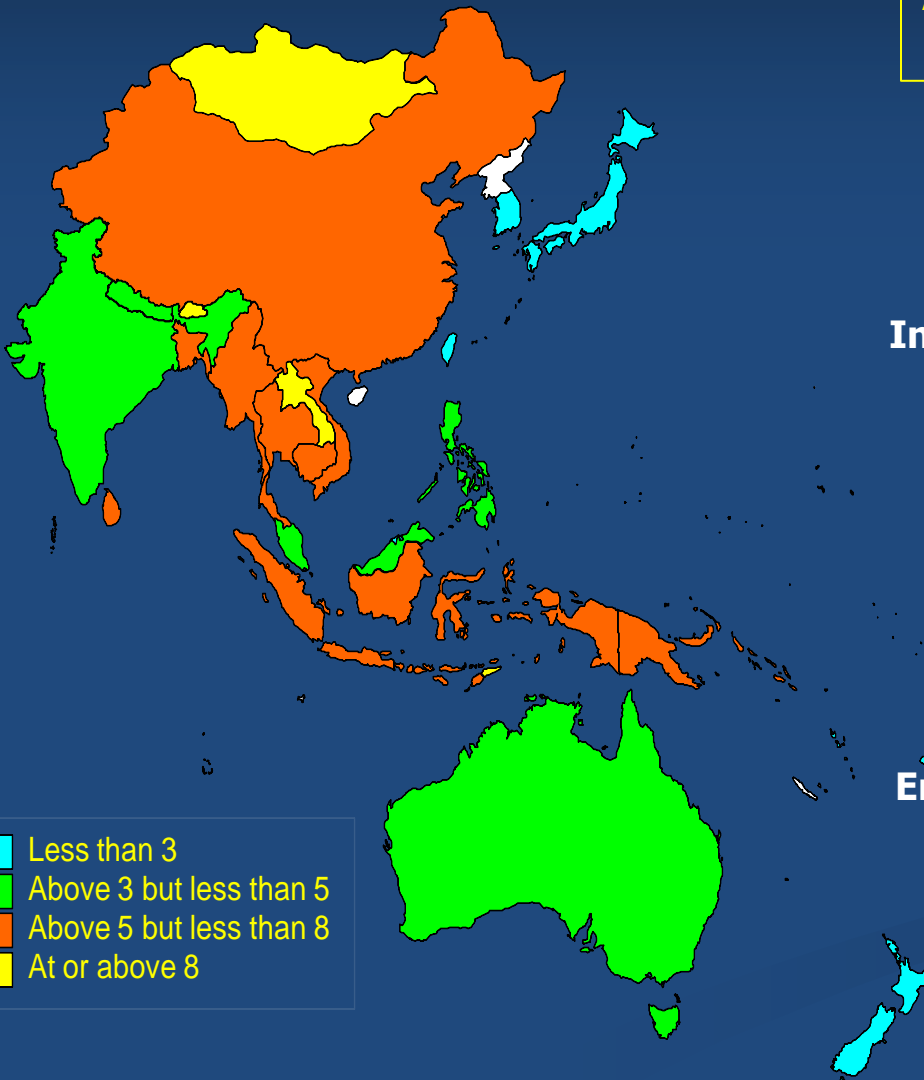
ASEAN

Emerging Asia

Asia



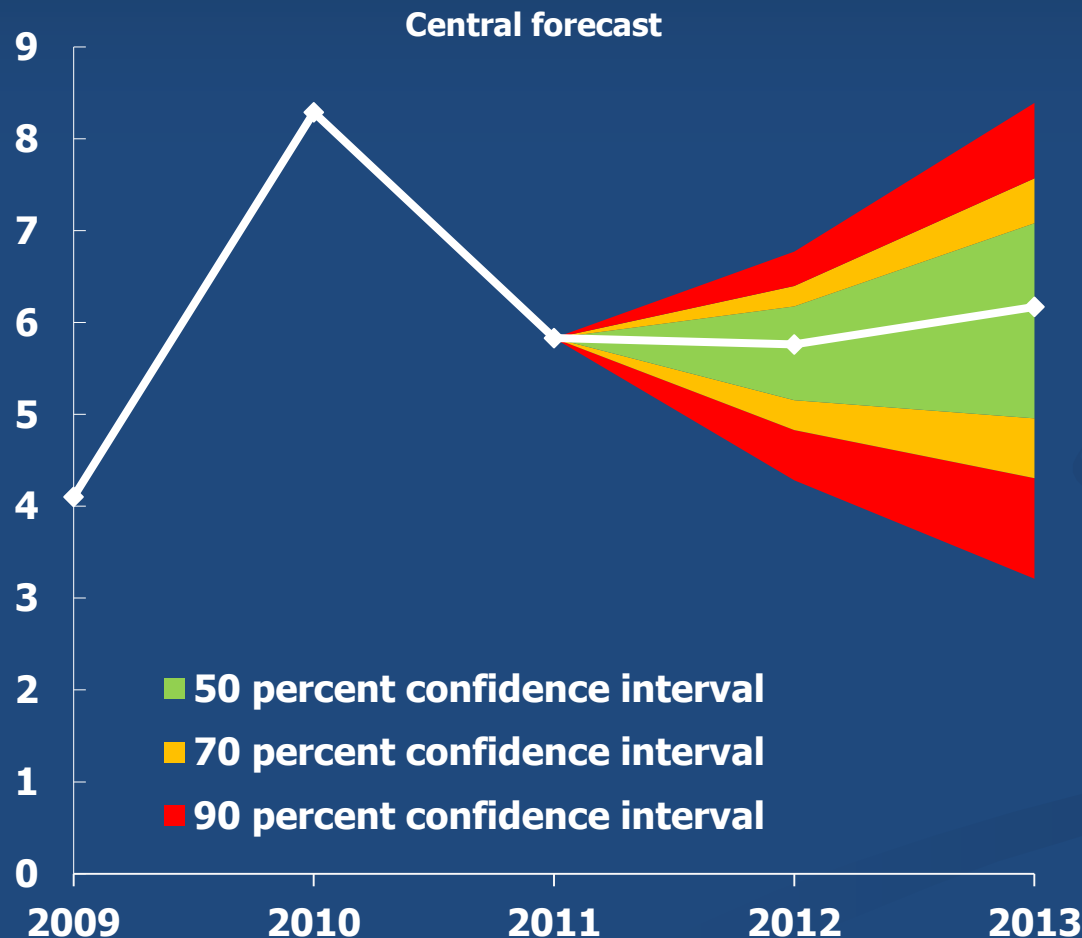
- Less than 3
- Above 3 but less than 5
- Above 5 but less than 8
- At or above 8



Risks to growth are tilted to the downside

Asia: Real GDP growth

(Central forecast and selected confidence intervals; in percent)



Global risks

1. Escalation in euro area crisis
2. 'Fiscal cliff' in the US
3. Sharp increase in commodity prices

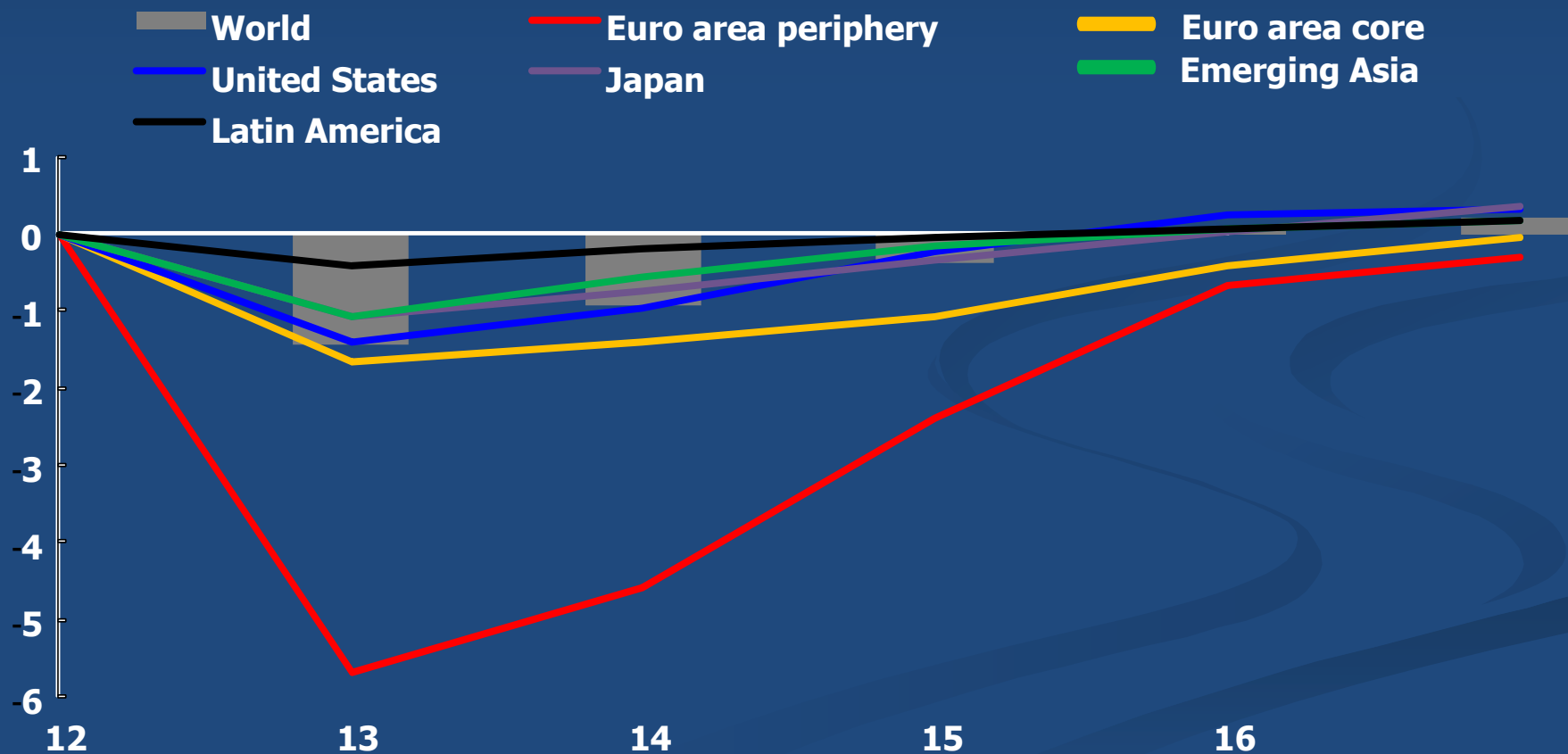
Regional risks

1. Hard-landing in China
2. Sustained drop in potential growth

Further escalation of euro area crisis remains top risk

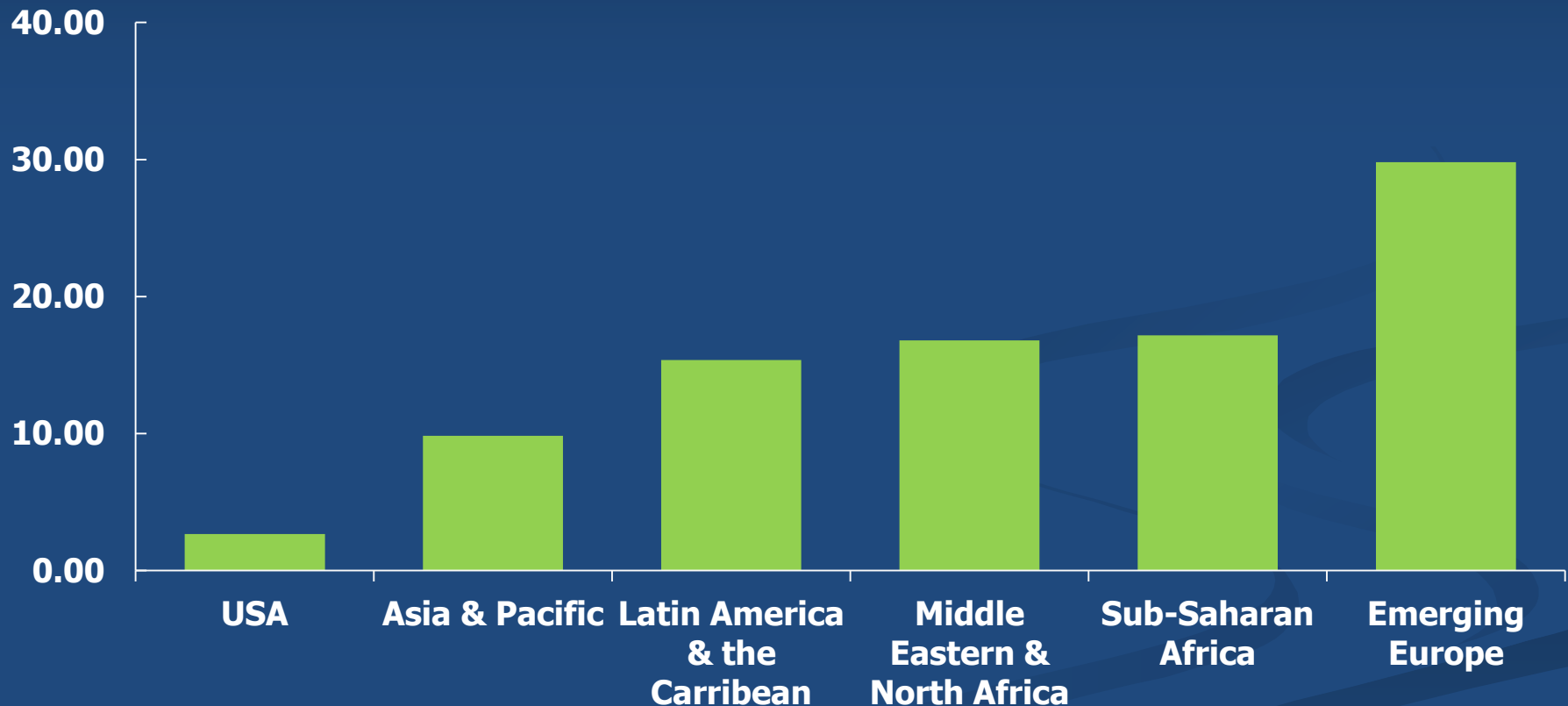
Euro Area Downside scenario

(GDP growth; percentage deviation from baseline)



...although Asia is less vulnerable than other regions both through financial channel...

Consolidated Foreign Claims - Selected Regions
(In percent of GDP; as of 2012:Q1)

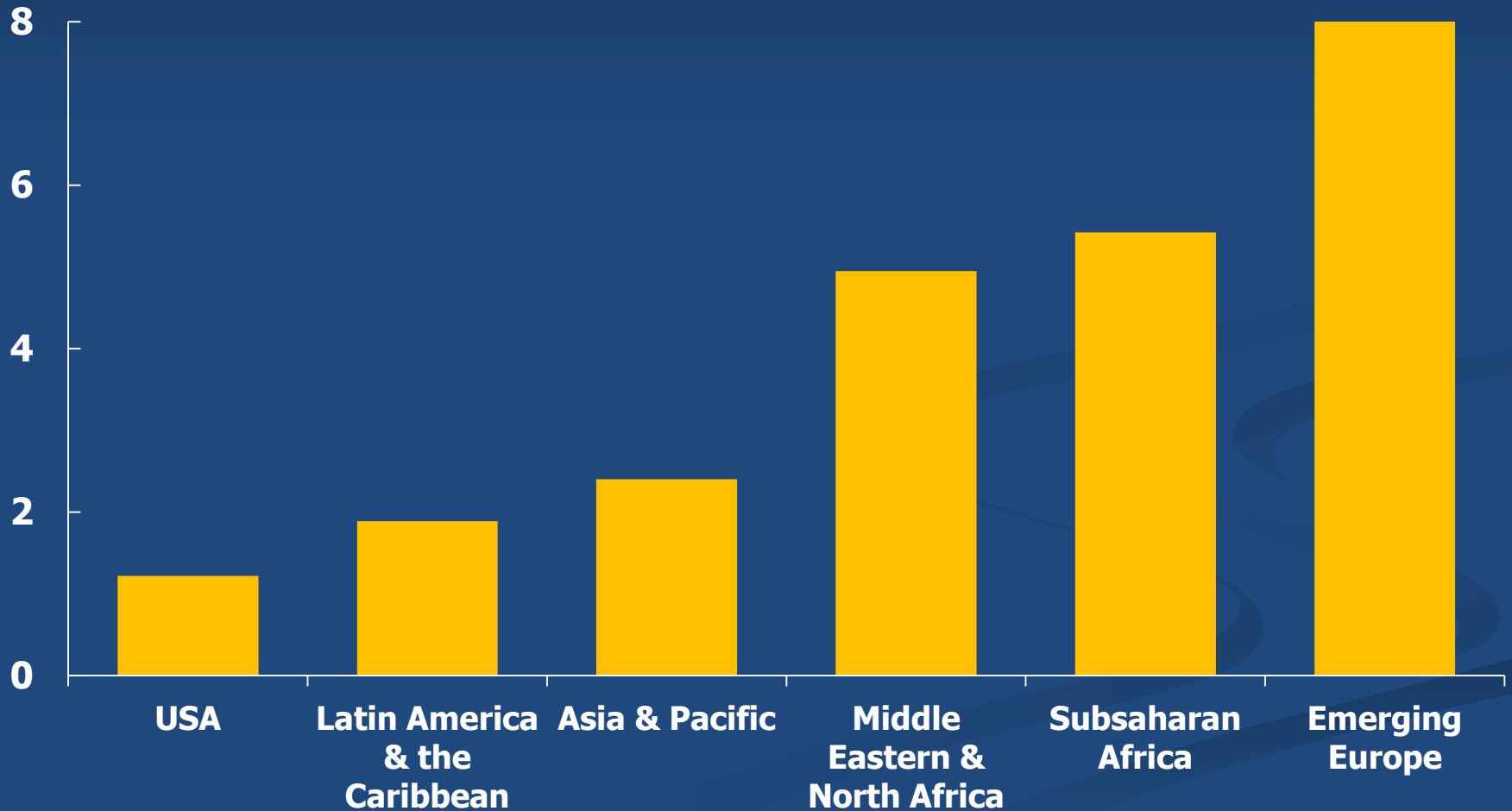


Claims are on immediate borrower basis. Uses quarterly rolling sum of GDP (U.S. dollar) in the denominator. For SSA 2011 annual GDP is used.

...and trade channel

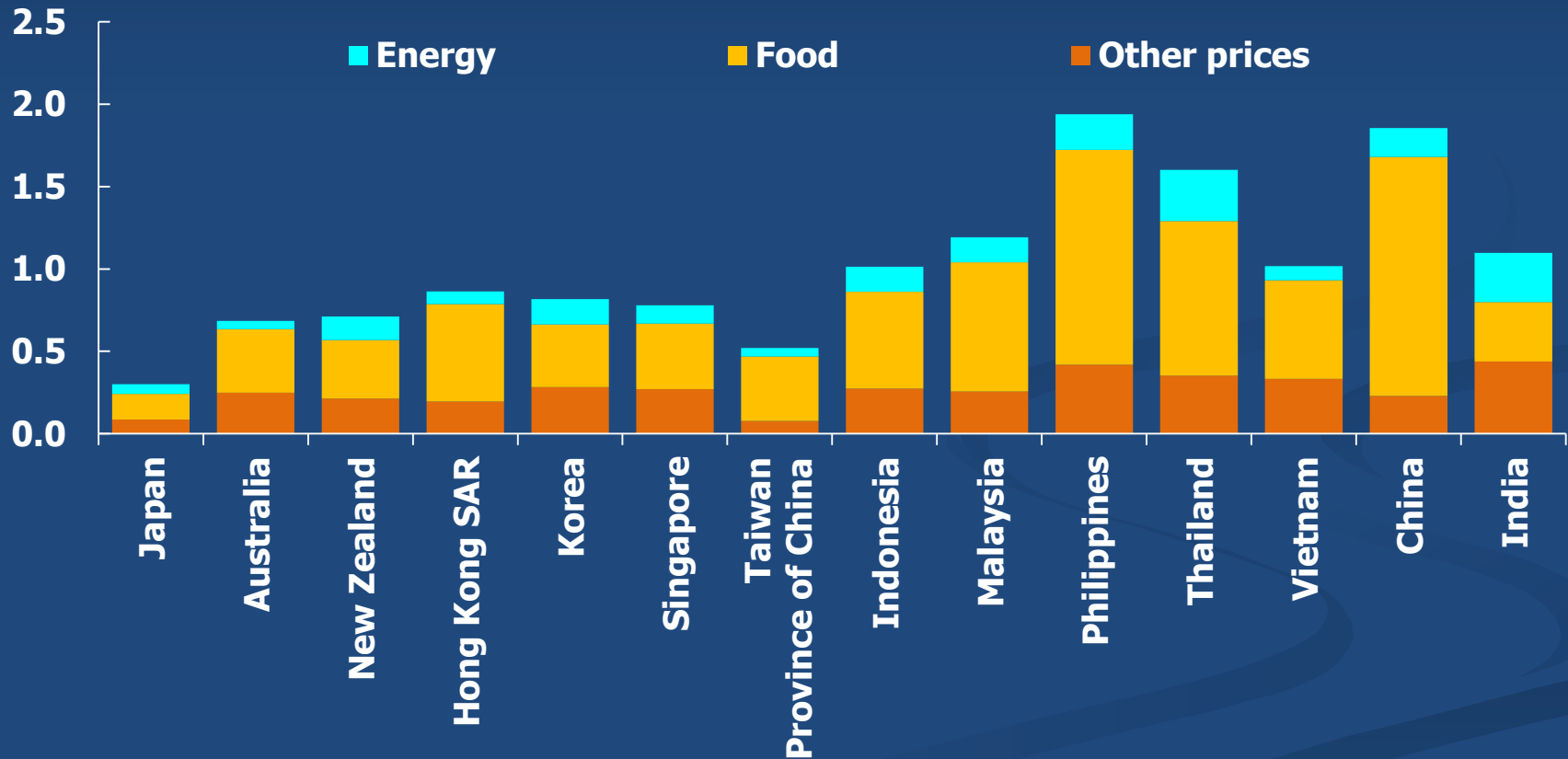
Exports to Europe - Selected Regions
(in percent of GDP, as of 2010)

13



A further pickup in commodity prices is another risk

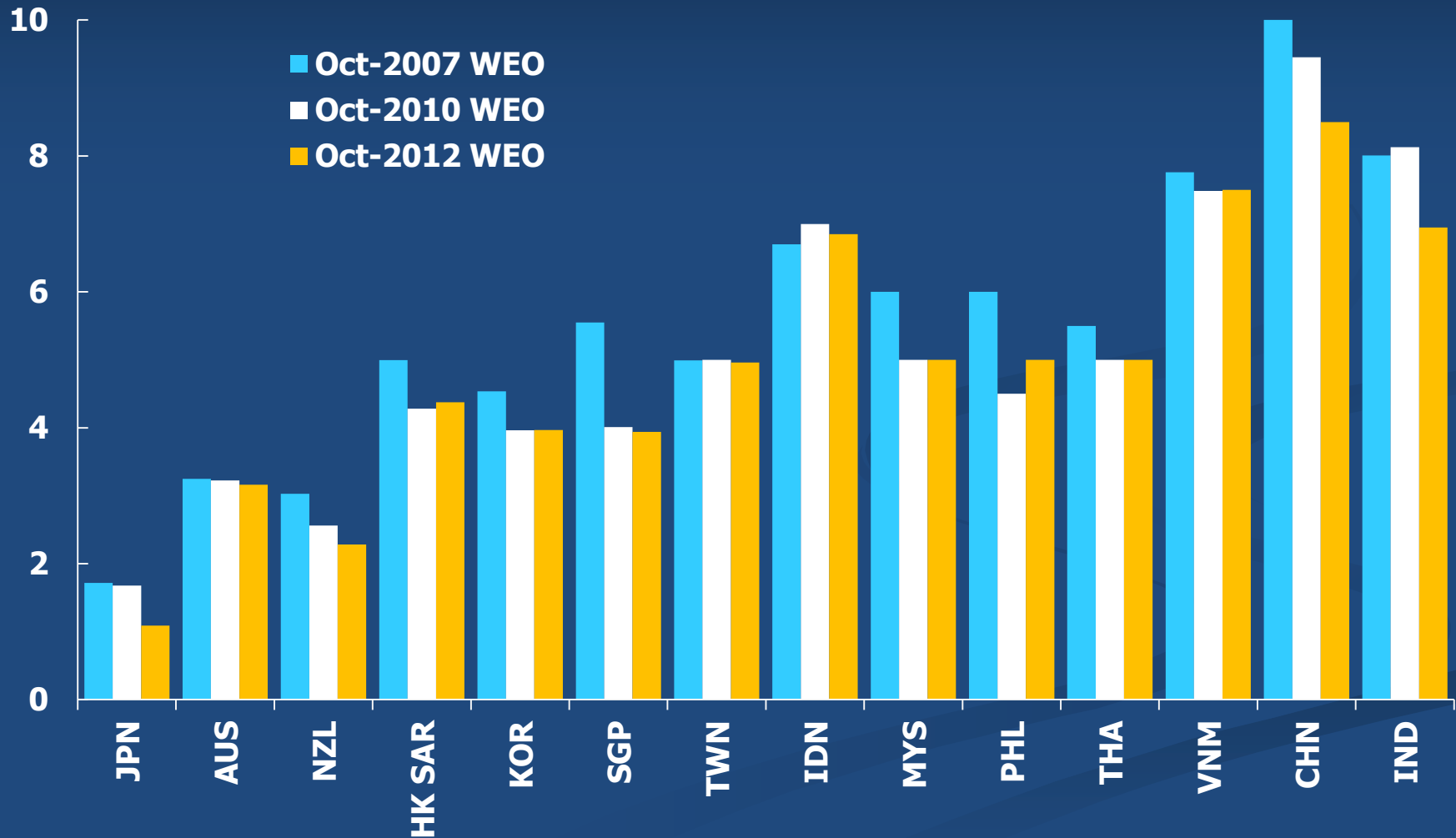
Asia: Impact of 10 Percent Increase in Global Commodity Prices on Headline Inflation (in percentage points)



Note: Calculated as the sum of the direct pass through from global food and energy prices to domestic food and energy prices, and pass through from domestic food and energy prices to core inflation (second-round effects). Wholesale prices used for India.

One risk emanating within the region: has potential growth declined?

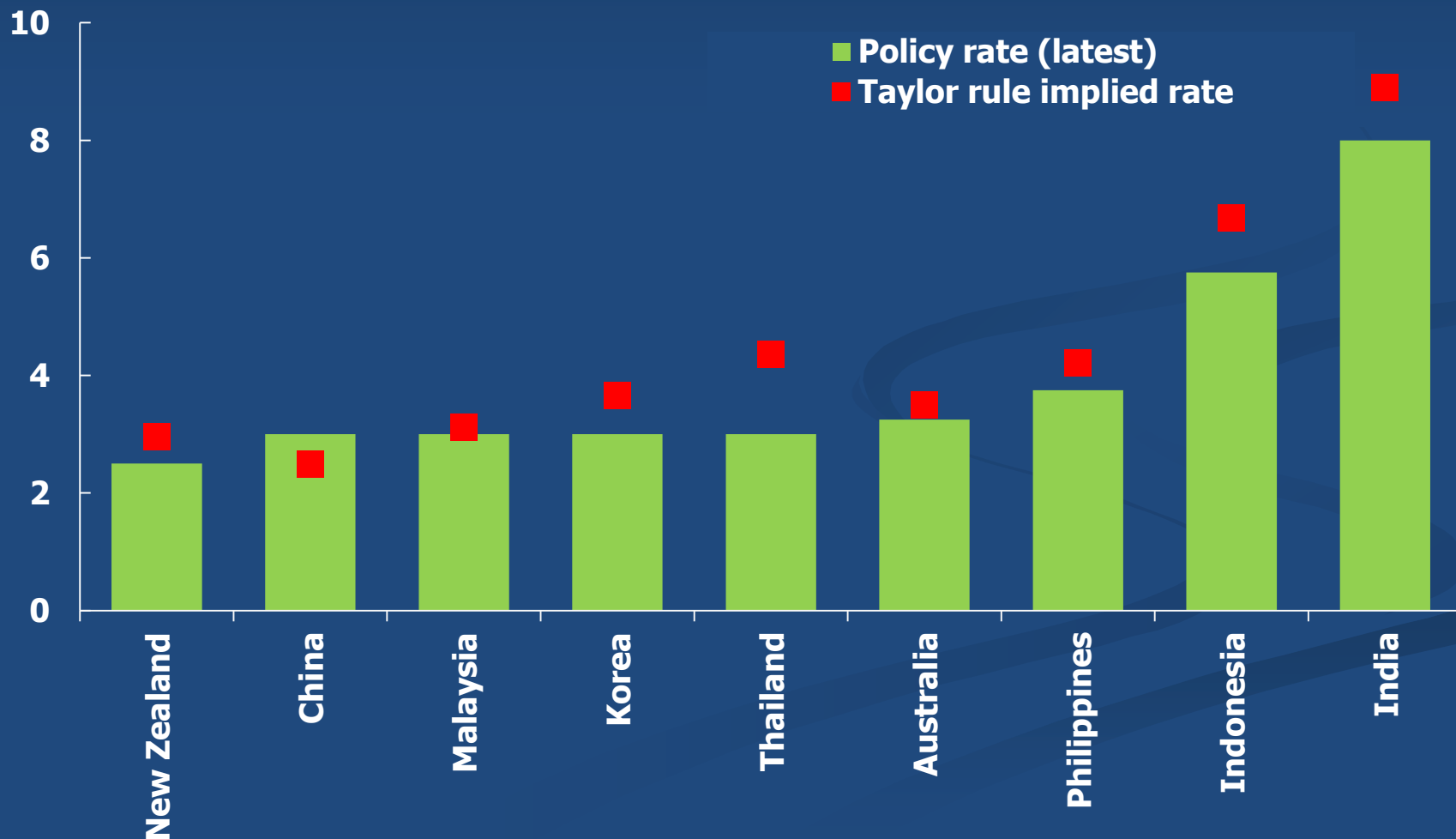
Asia: Projected Growth 5-year ahead (In percent; year over year)



POLICY IMPLICATIONS

Current monetary stances buy some appropriate insurance against downside risks...

Selected Asia: Nominal Policy Rates and Taylor Rule Implied Rates
(In percent)



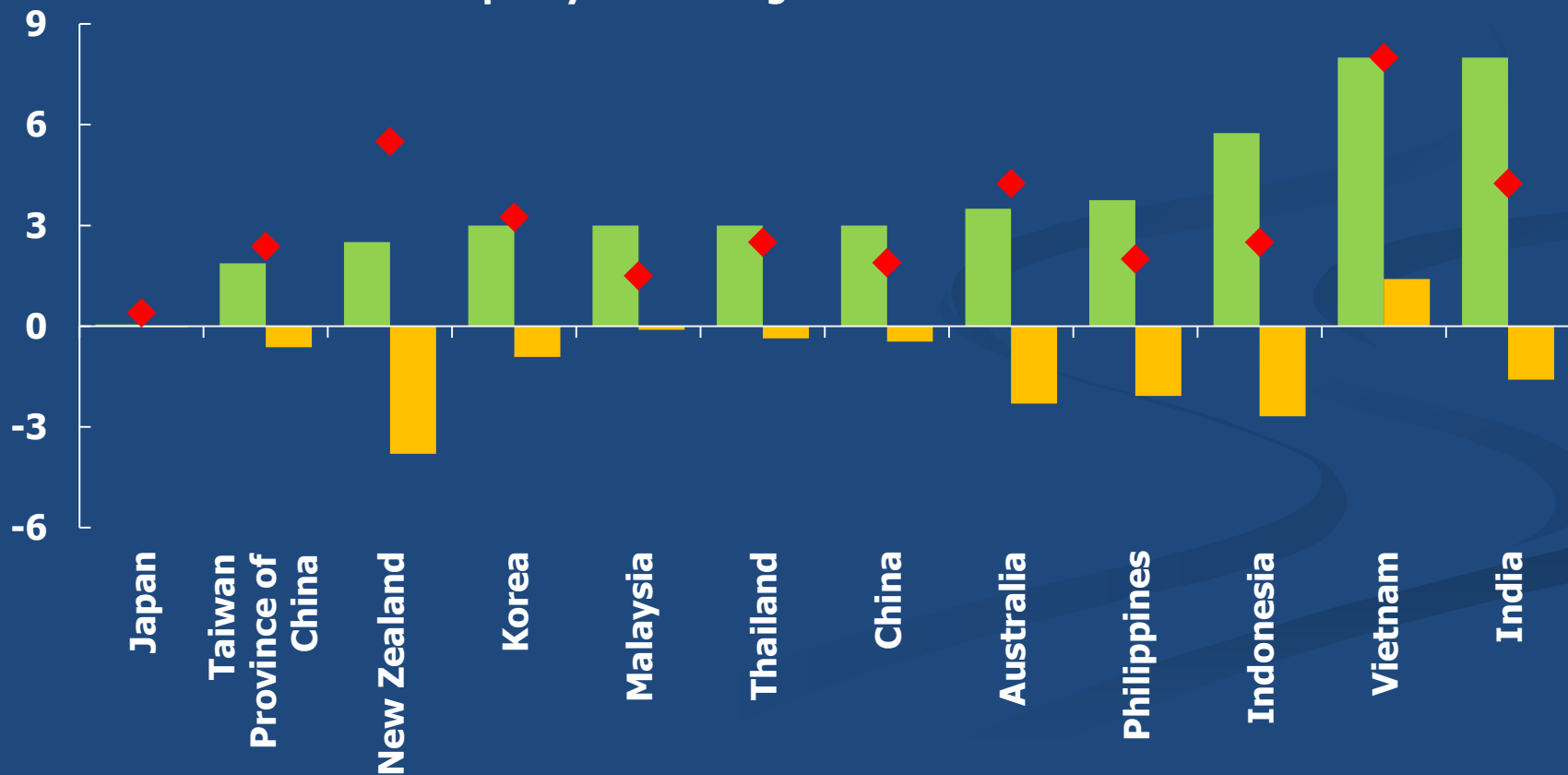
...and could be eased further in case of downturn...

Selected Asia: Policy Rates
(In percent; as of September, 2012)

■ Current nominal policy rates

■ Real policy rates (deviation from 2002–07 average, in percentage points)

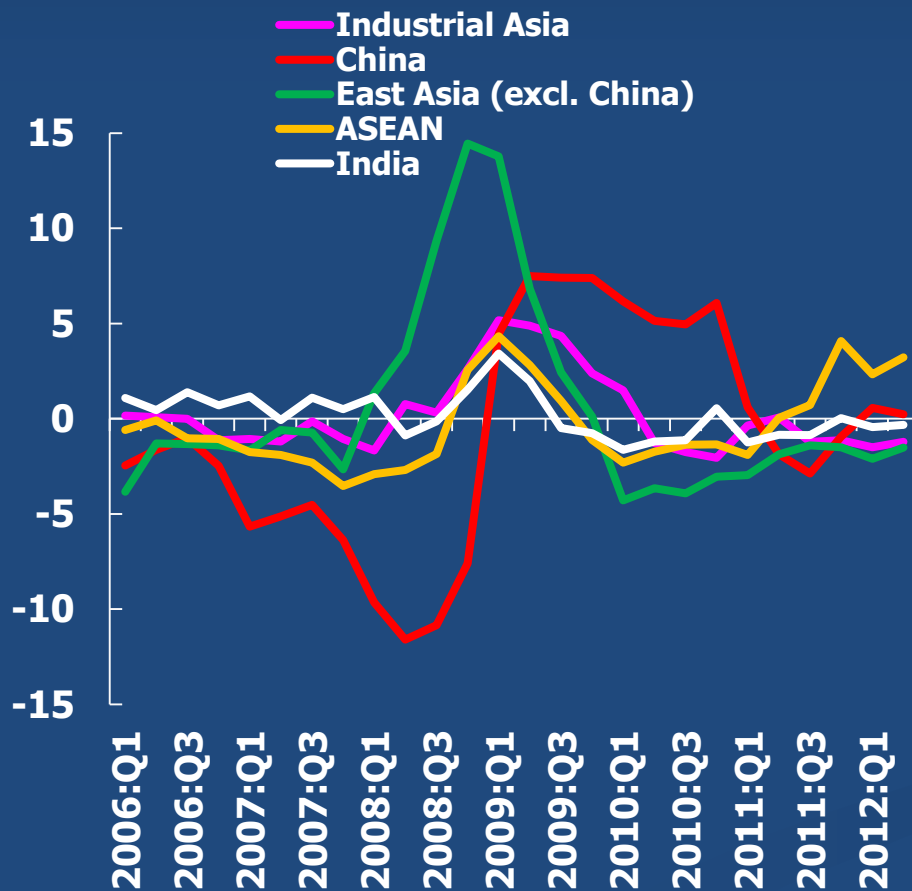
◆ Cut in nominal policy rate during Lehman crisis



...although scope for policy support varies depending on credit conditions...

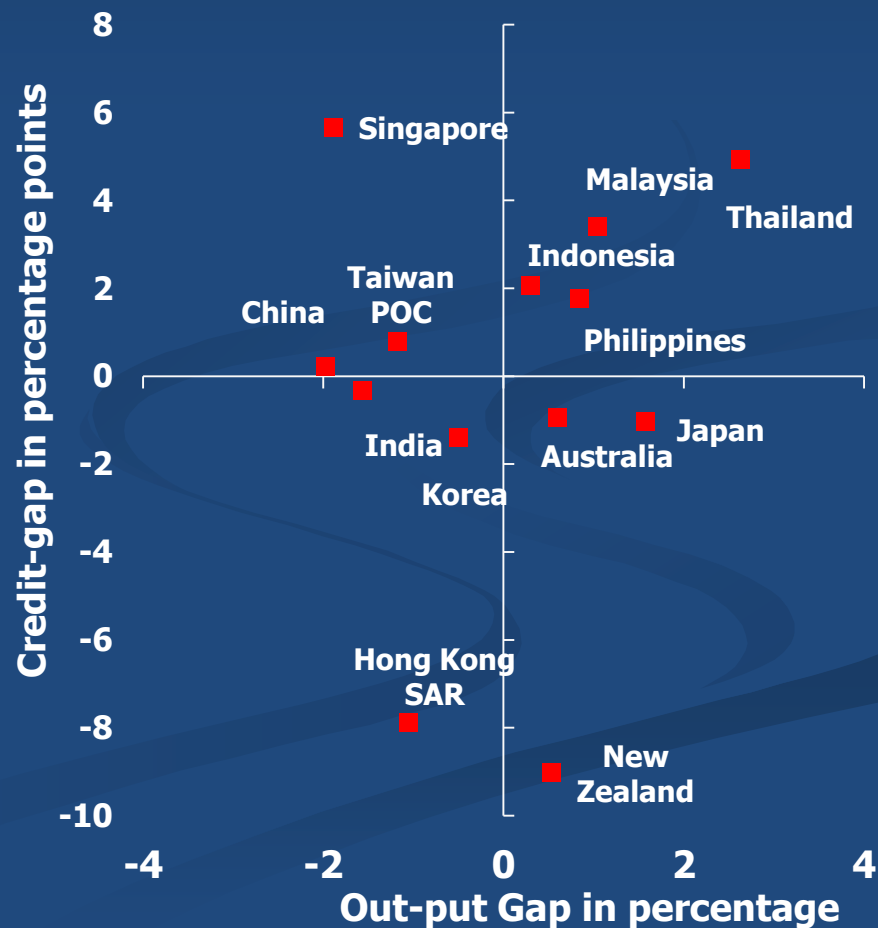
Credit-to-GDP

(In percentage point; deviation from HP-trend)



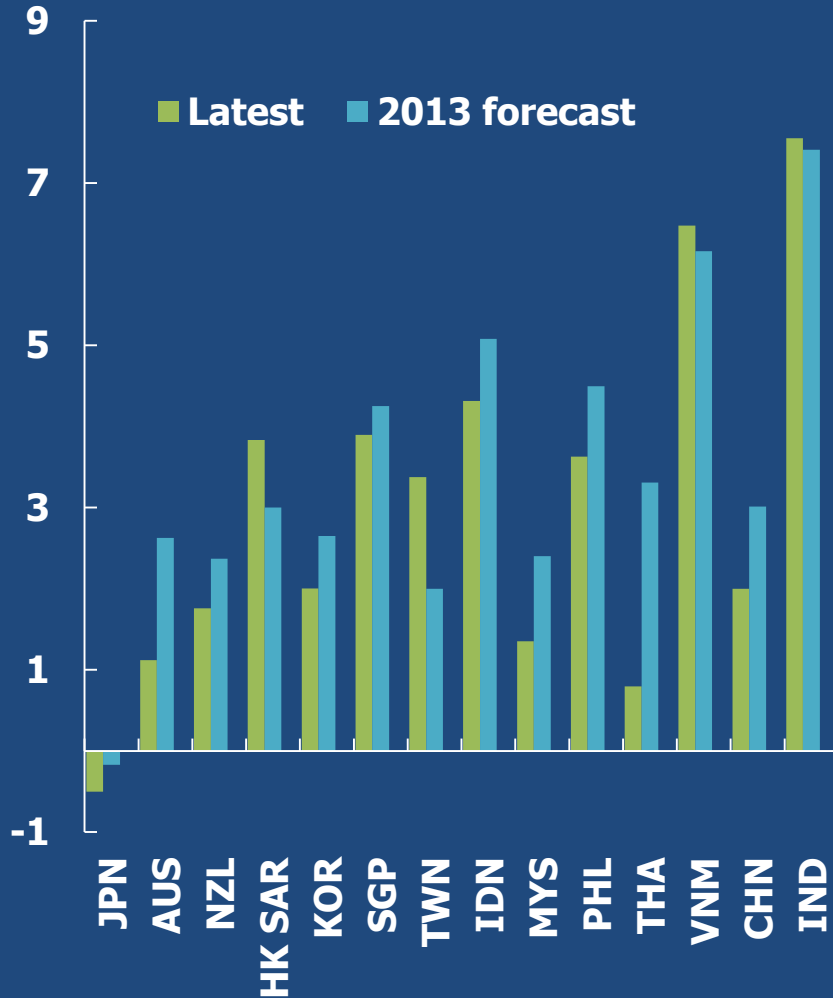
Output gap vs. credit gap

(As of 2012:Q2)

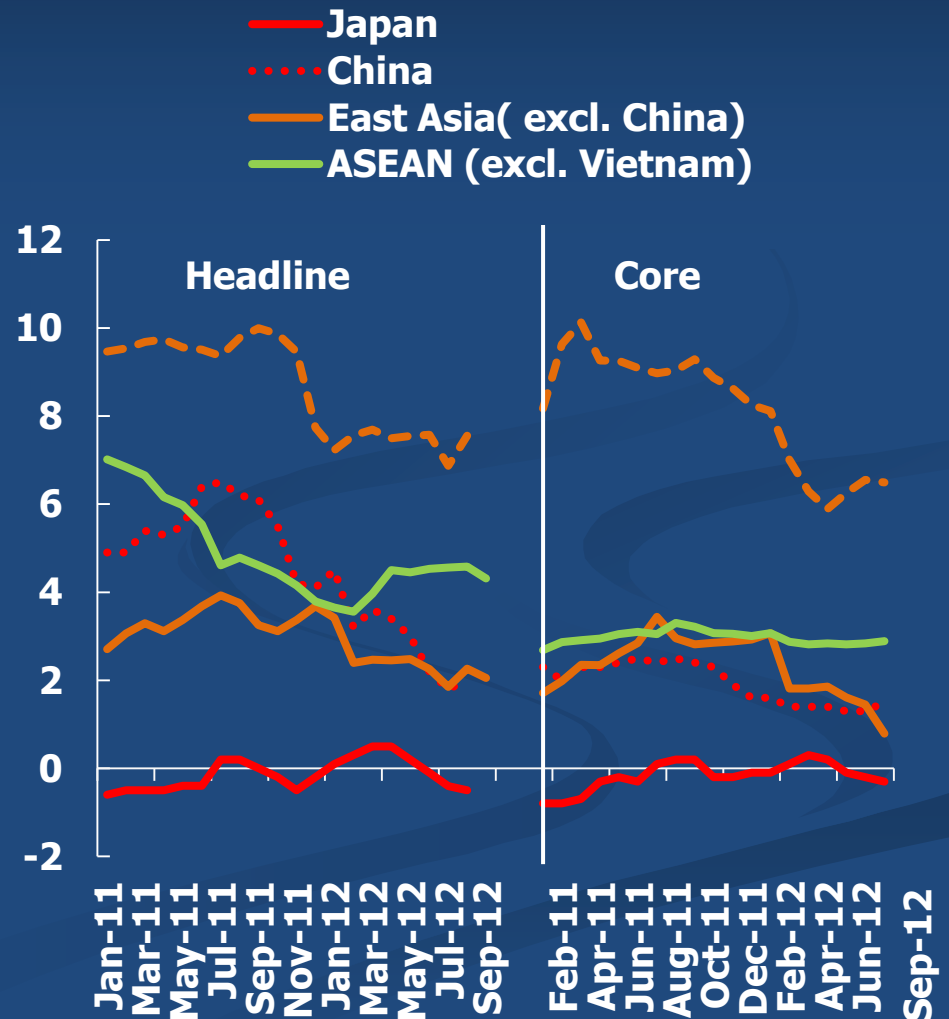


... and on inflation situation and prospects

Asia: Consumer Price Inflation
(Year-over-year percent change)



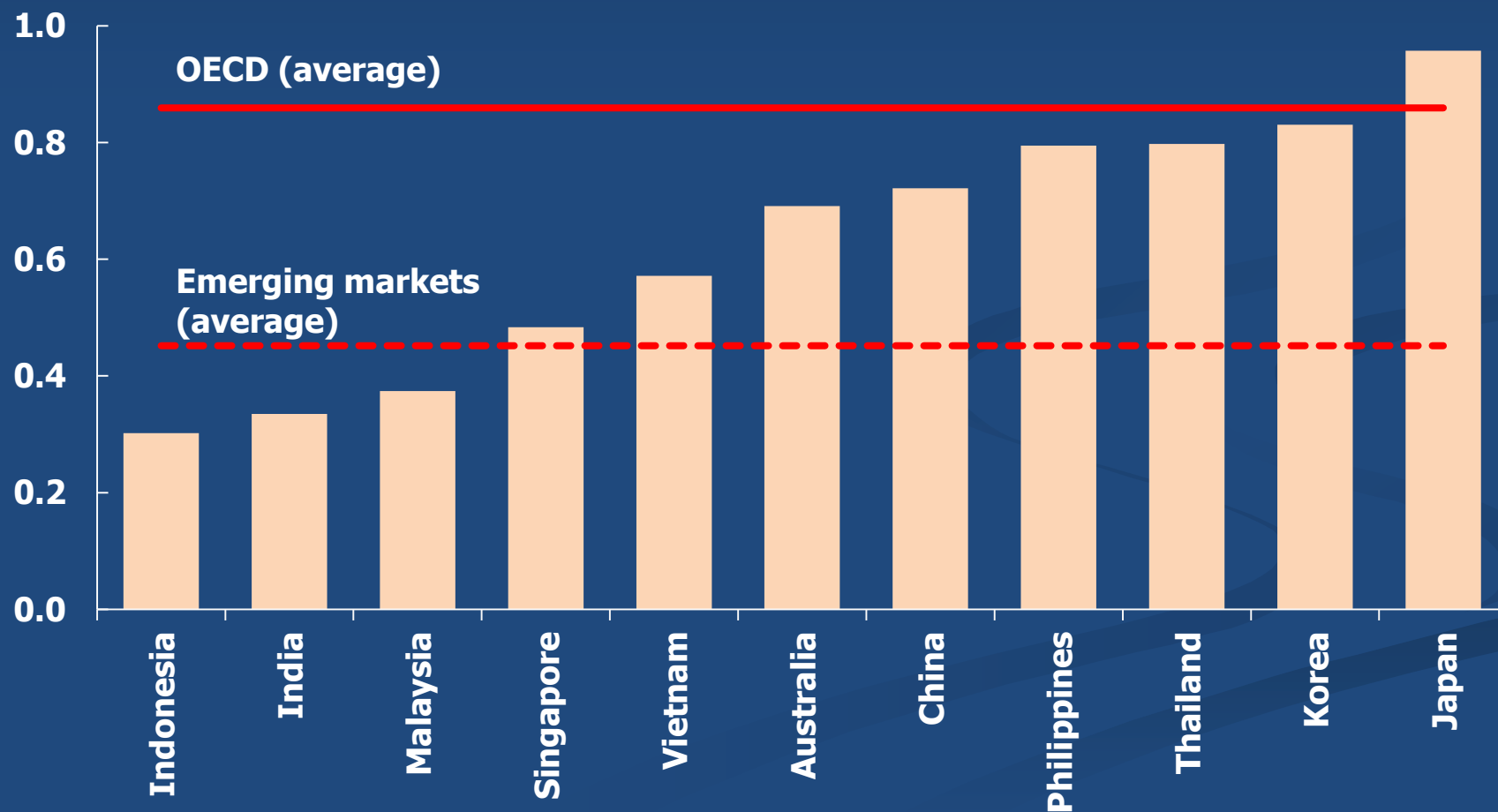
Asia: Headline and Core Consumer Prices
(Year-over-year percent change)



On fiscal front, need to rebuild buffers but automatic stabilizers could be allowed to play if activity fails to pick up as projected

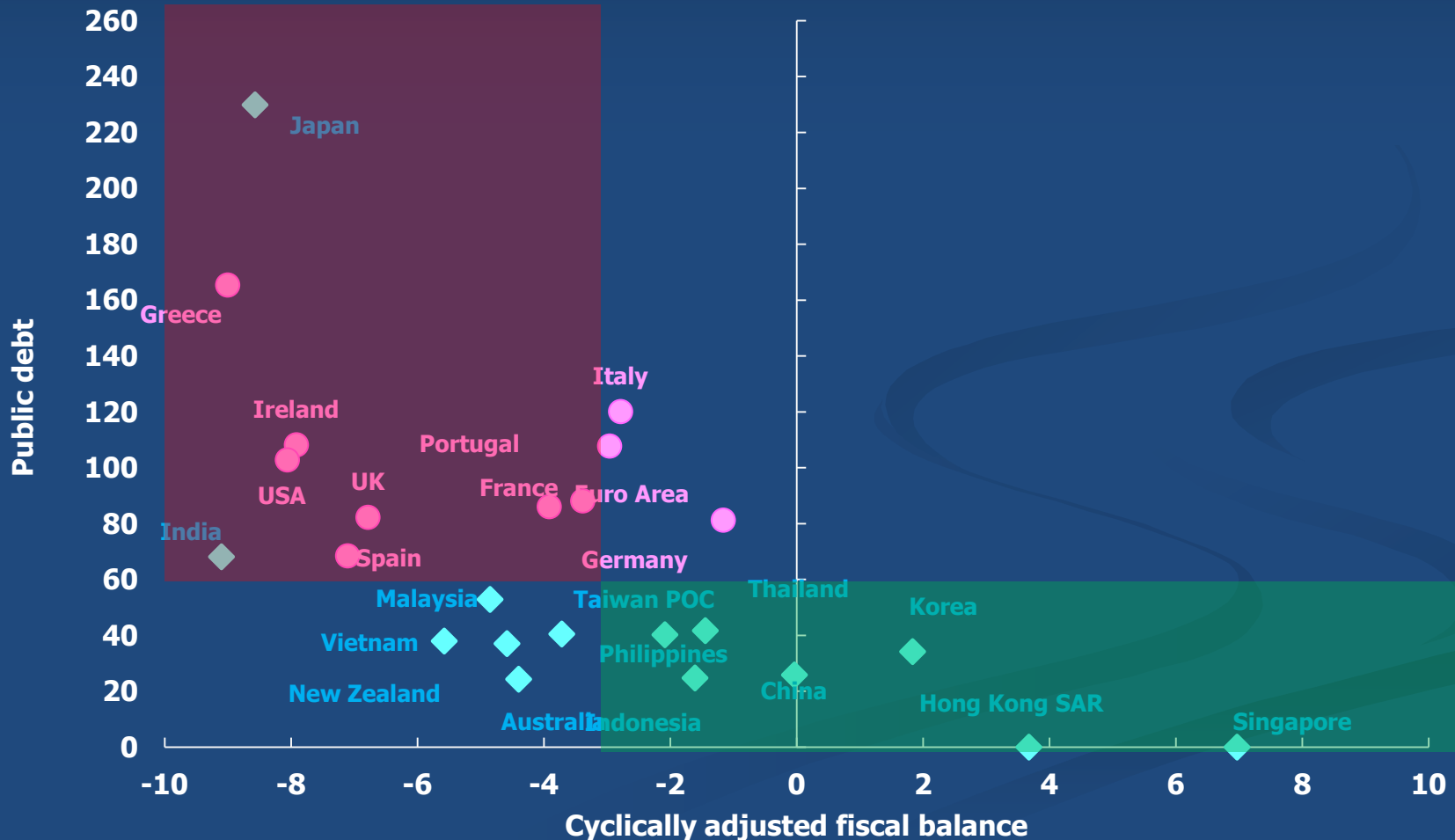
Automatic Stabilizers

(Correlation between output gaps and cyclical fiscal balances)



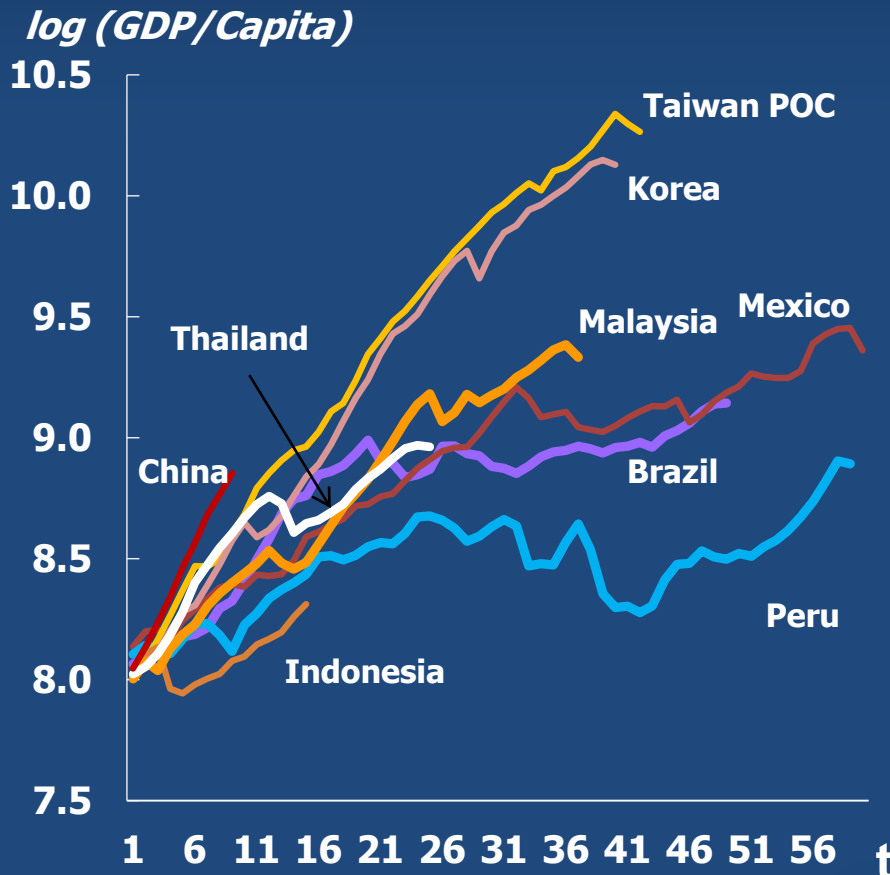
And in many cases there remains enough space for discretionary action in case of severe downturn

Cyclically adjusted fiscal balance versus Public debt
(In percent of GDP, 2011)



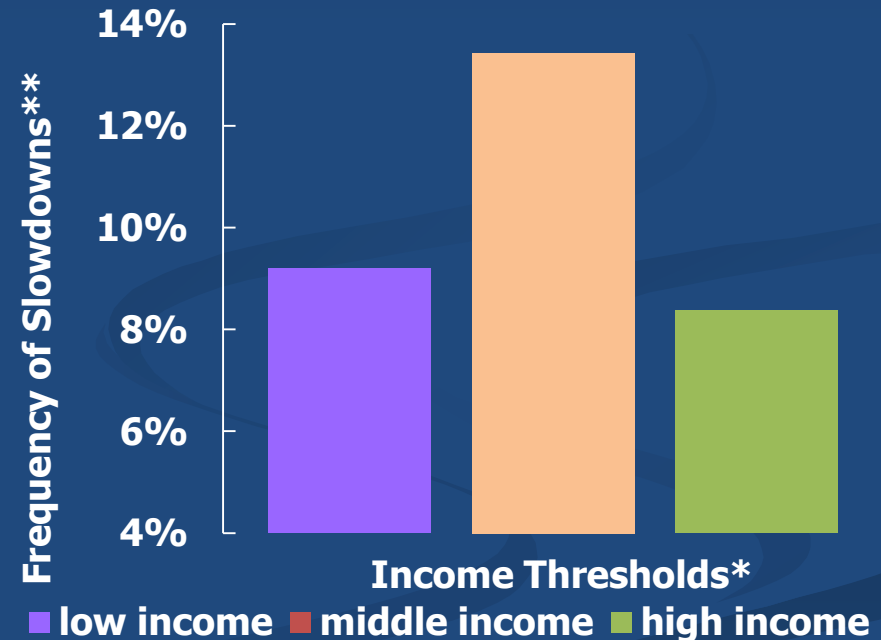
Need for structural reforms to maintain/raise potential growth and alleviate risks of sustained slowdown...

Growth Trajectories



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

There seems to be a "middle income trap"



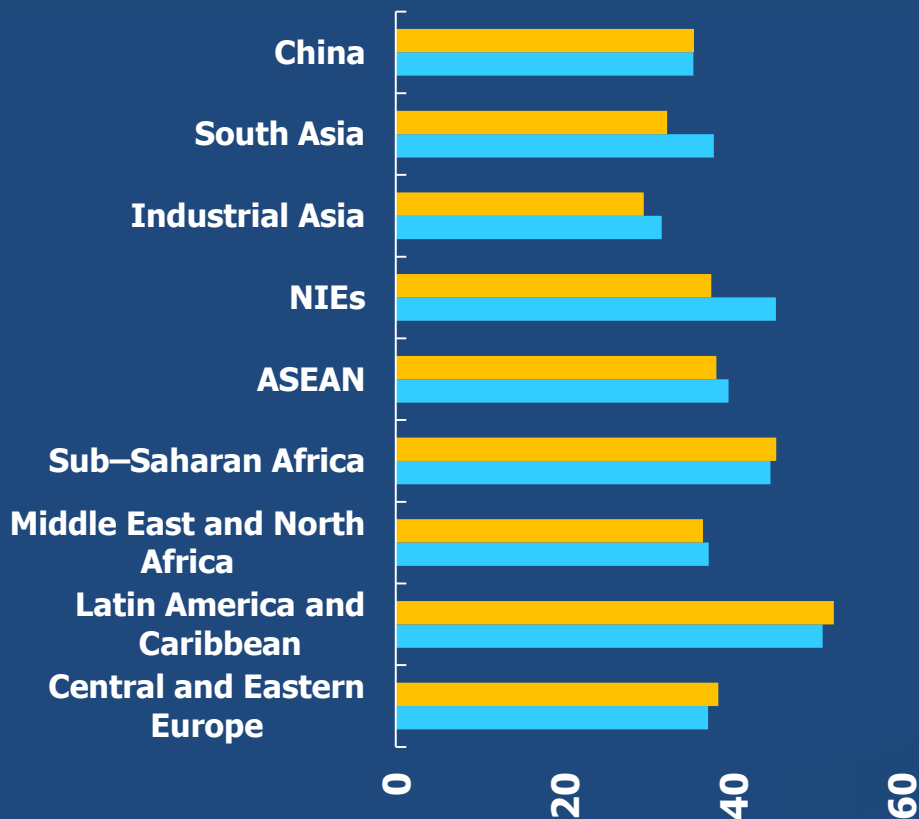
* 1/12 refers to a low income threshold of 1000\$ and a high income threshold of 12000\$.

** frequencies are calculated as the ratio of slowdown episodes to the total number of

...and to deliver more inclusive growth

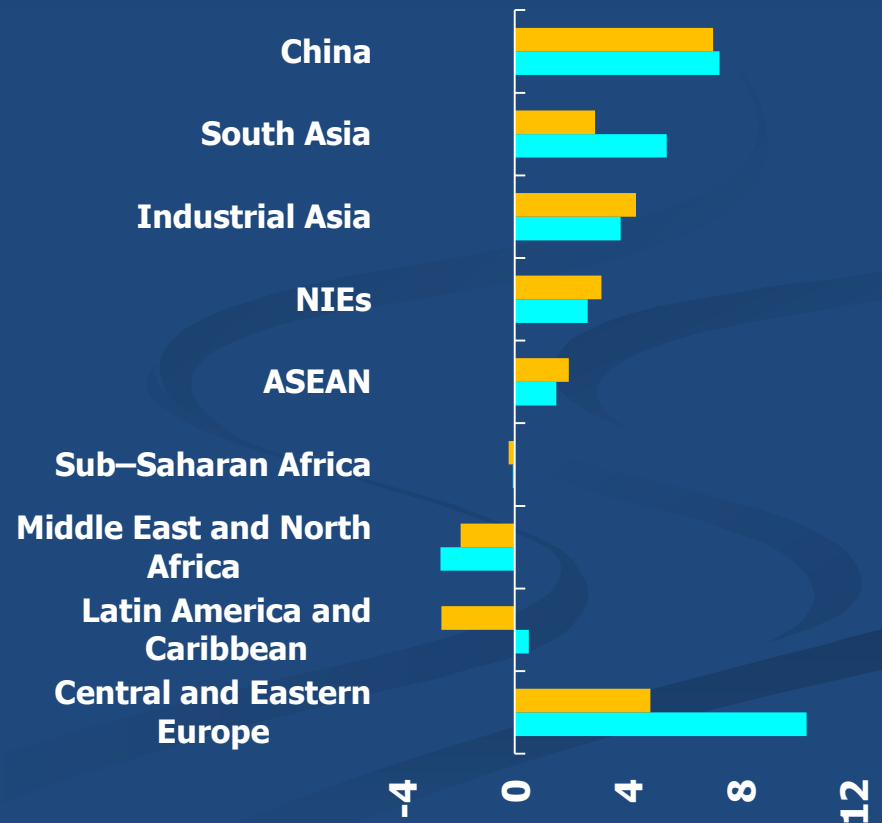
Gini Index
(In Gini points, latest available)

- Weighted Average (by 2009 Population)
- Average



Change in Gini Index
(In Gini points, since 1990)

- Weighted Average (by 2009 Population)
- Average





Thank you

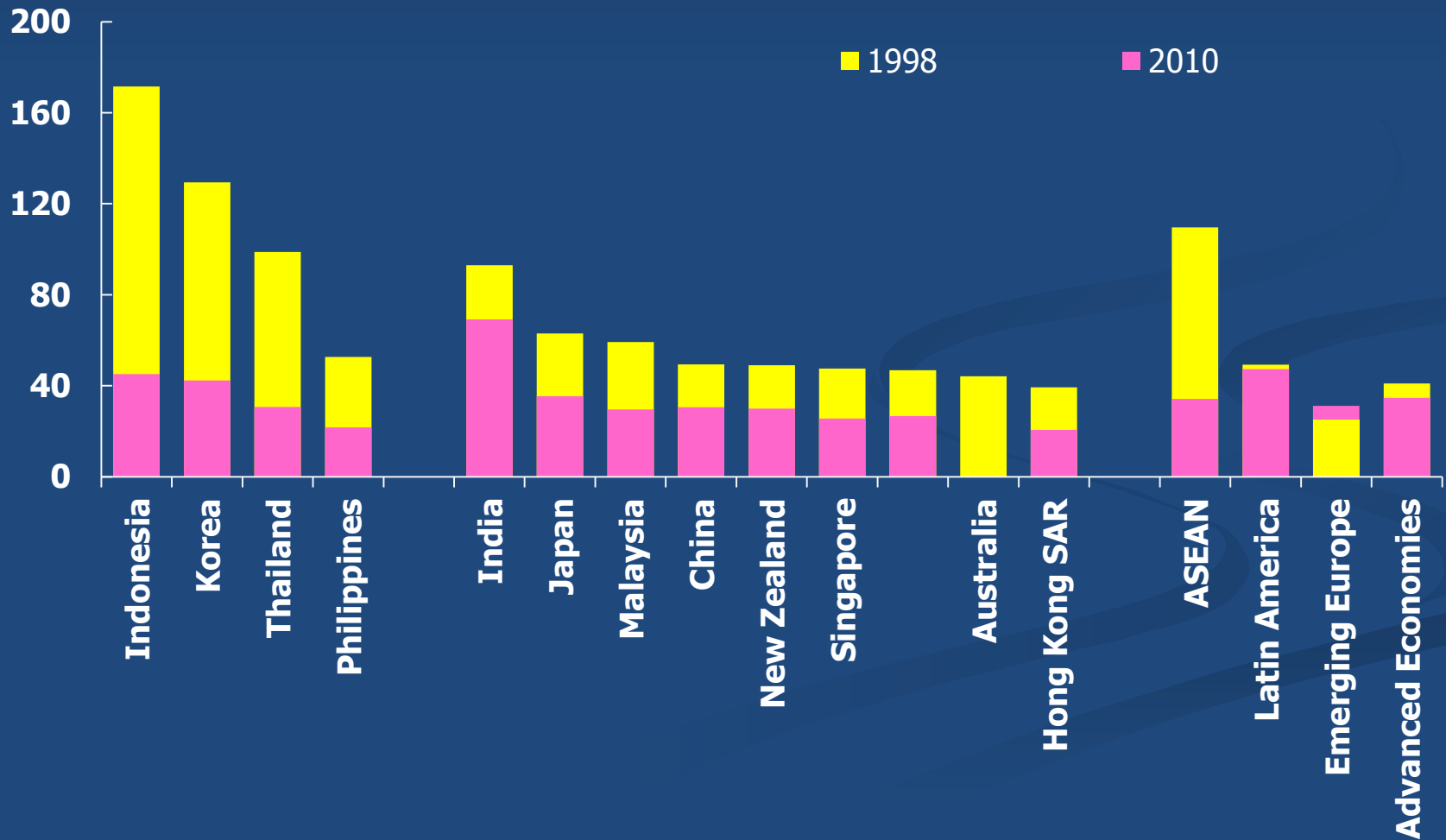
Want to know more? See www.imf.org/india



BACKGROUND MATERIAL

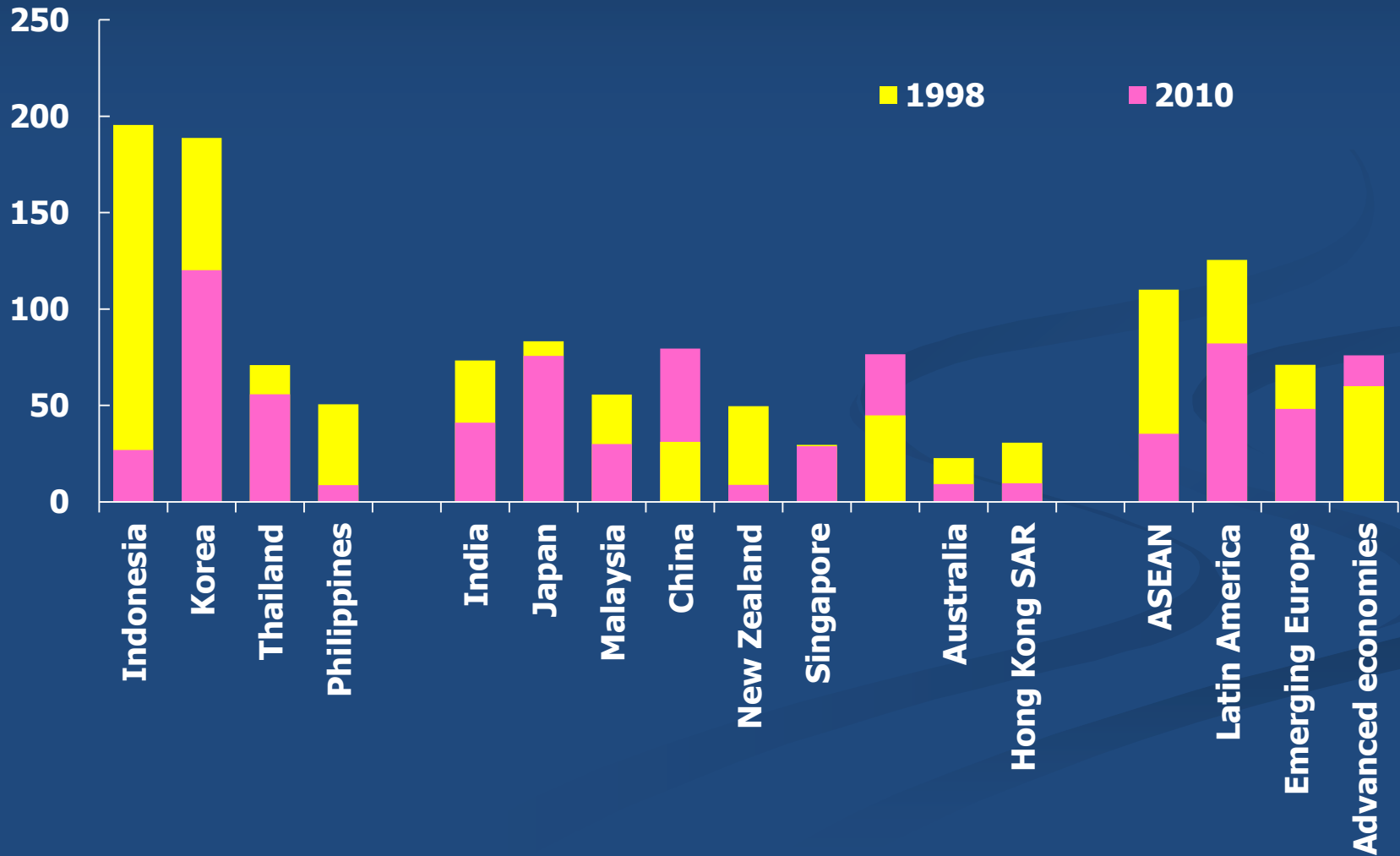
Improved fundamentals: reduced corporate leverage

Corporate Debt-to-Equity Ratios
(In percent)



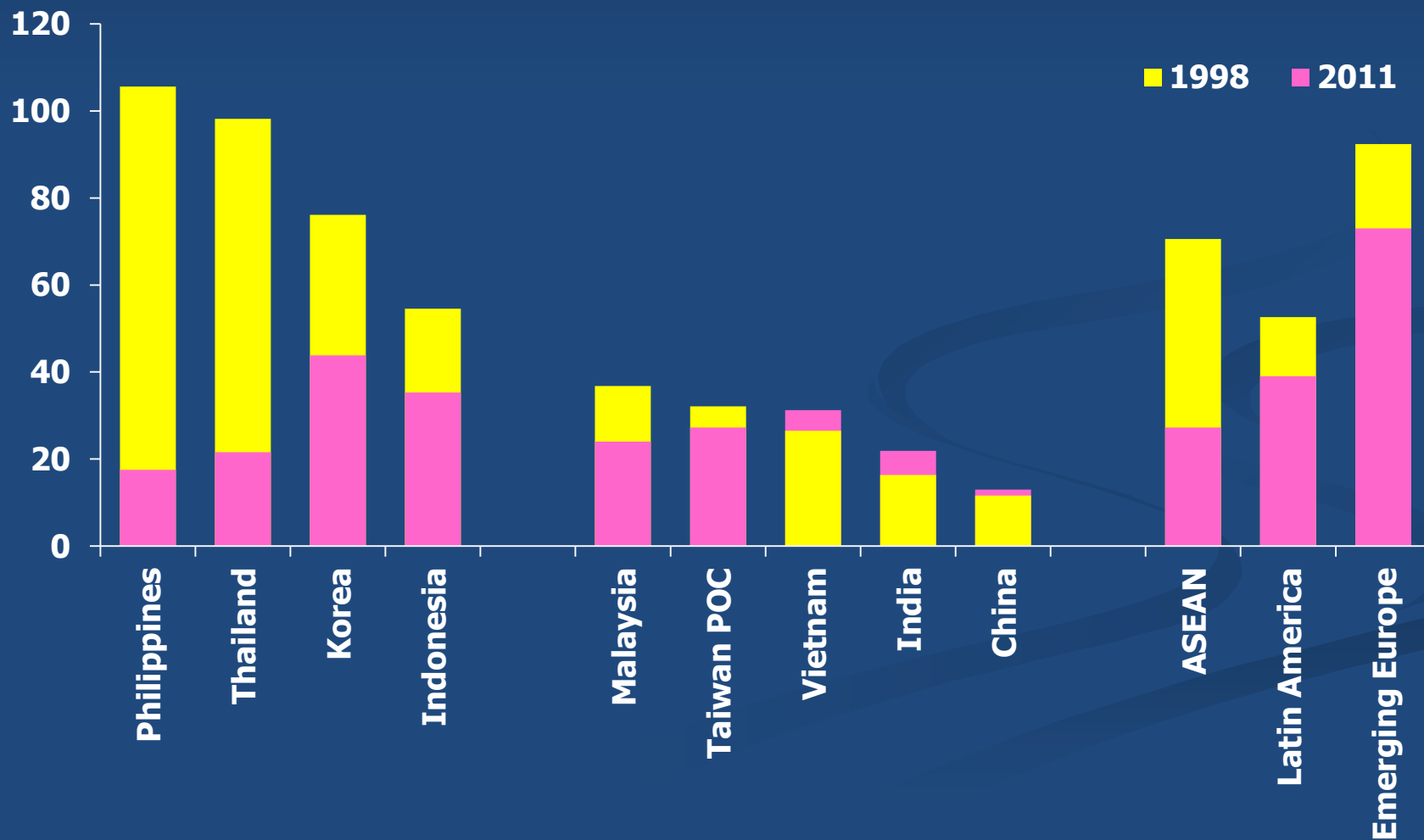
Improved fundamentals: reduced financial sector leverage

Debt-to-Equity Ratios in Financial Firms
(In percent)



Improved fundamentals: reduced exposure to short-term external funding

**Short-term External Debt
(In percent of gross official reserves)**



New potential sources of vulnerability: increased international financial integration

Foreign Holdings of Local Sovereign Bonds
(in percent)

