

The EU Crisis

Lessons and Implications for Lao PDR

Ministry of Planning and Investment High-Level Seminar
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Roadmap

- External environment
 - The Global Economy: Growth and financial stability
 - The EU Crisis
 - What needs to be done
- Lao PDR
 - Sources of Growth
 - Balance of payments
 - Current account
 - » Trade—DOT and Commodity Composition
 - » Commodity prices
 - Capital account
 - » FDI
 - » ODA
 - » Other flows
 - International reserves



Recovery
20 - 23

External Environment

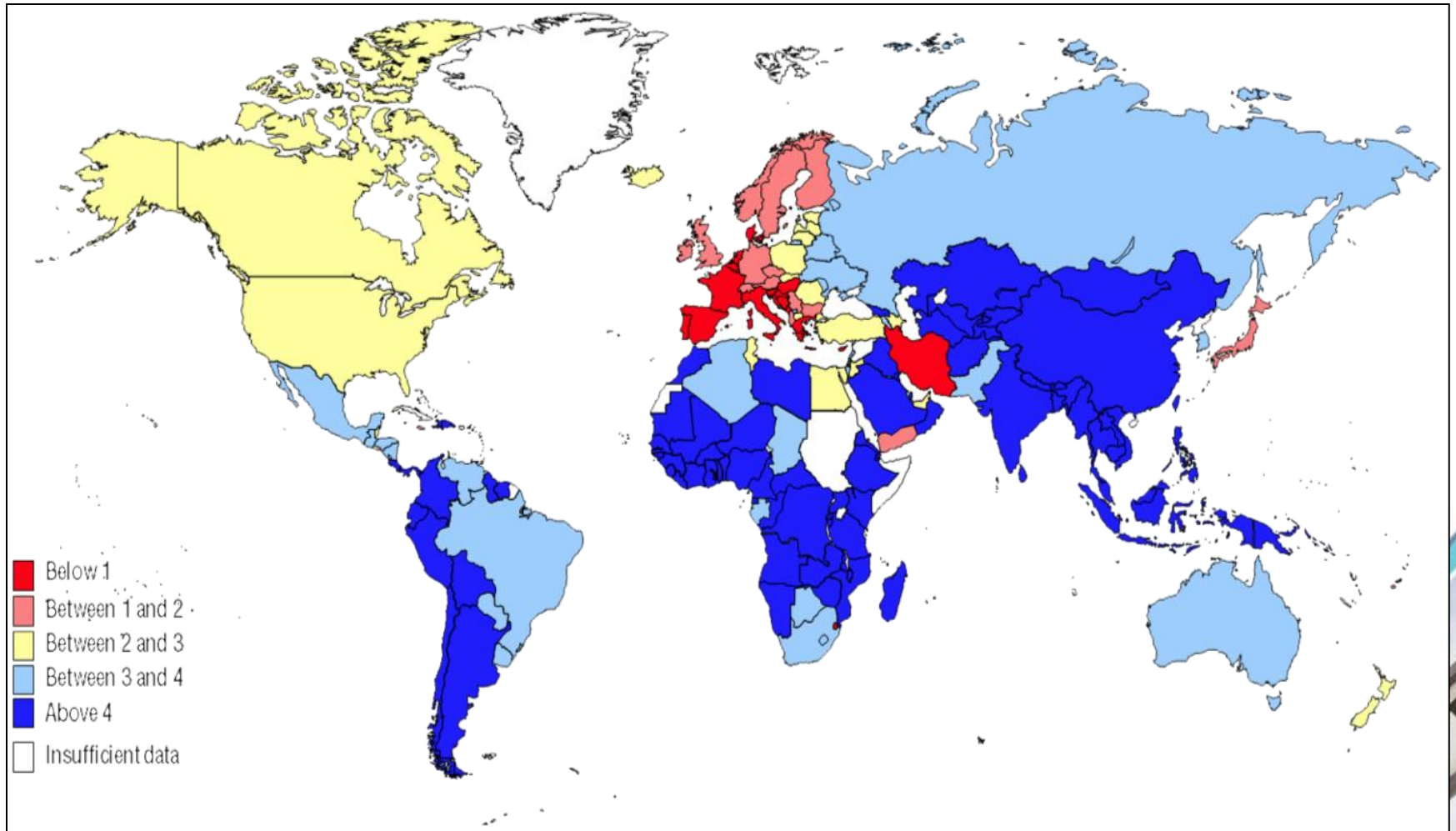




**Global growth and
financial stability**

The Global Economy

Output Growth 2012-13

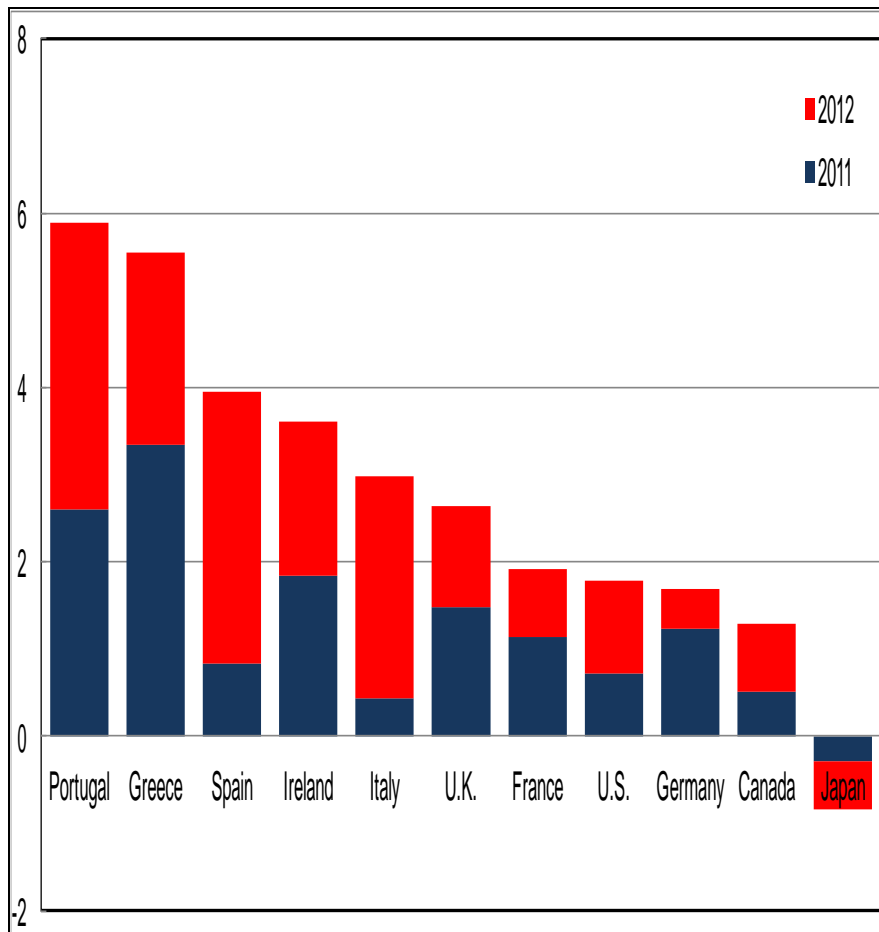


The Global Economy

Output Growth: Brakes and Risks

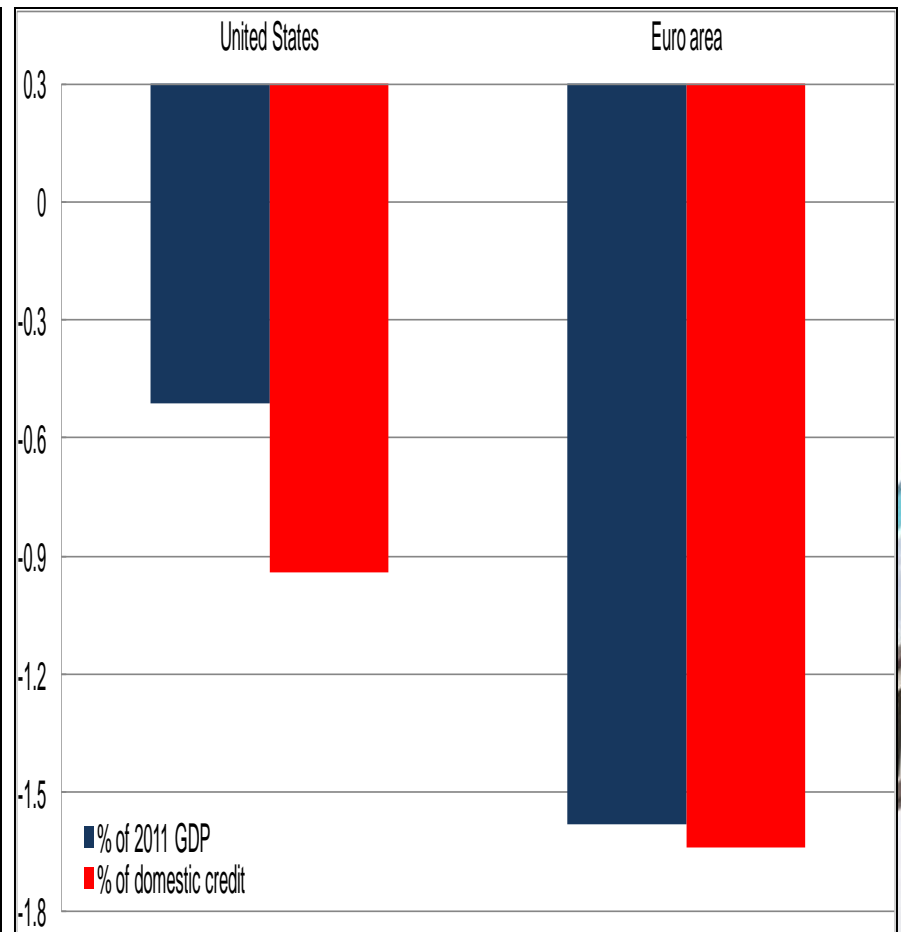
Fiscal Consolidation

(change in the structural balance;
percentage points of potential GDP)



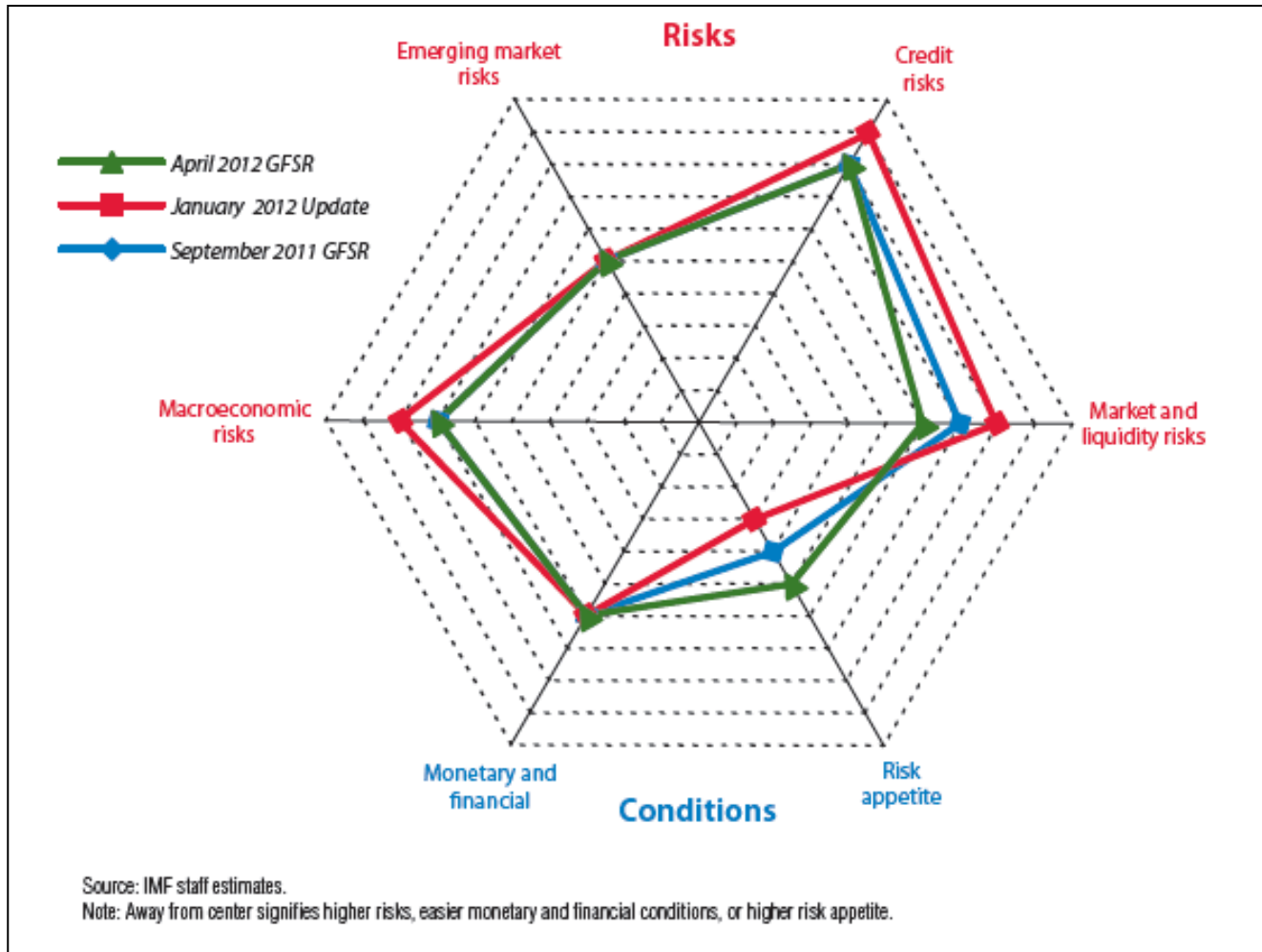
Bank deleveraging

(Projected fall in bank lending supply, 2012-13)



The Global Economy

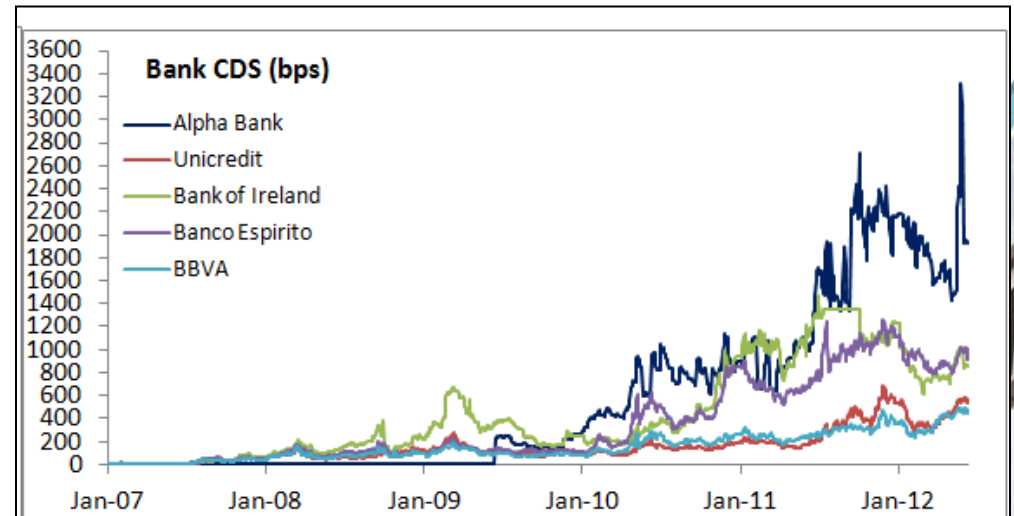
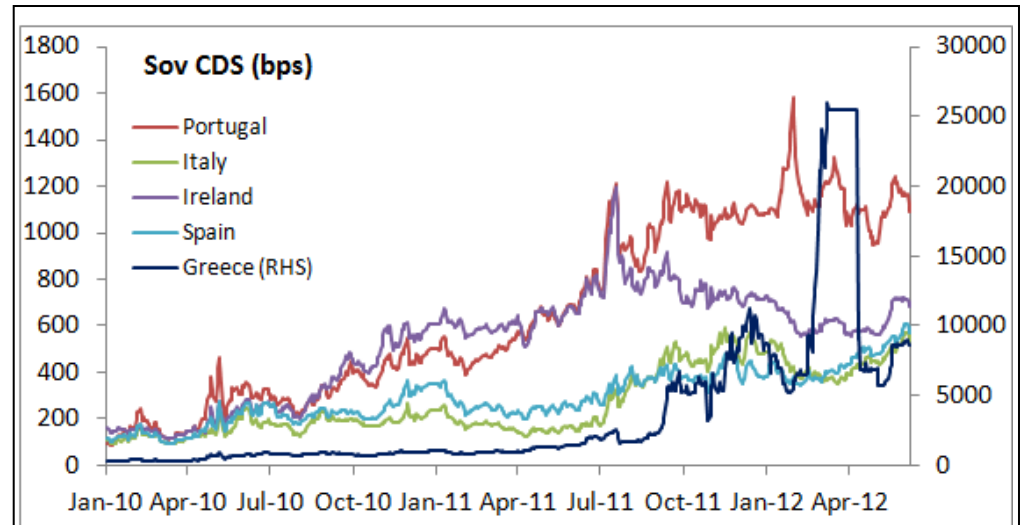
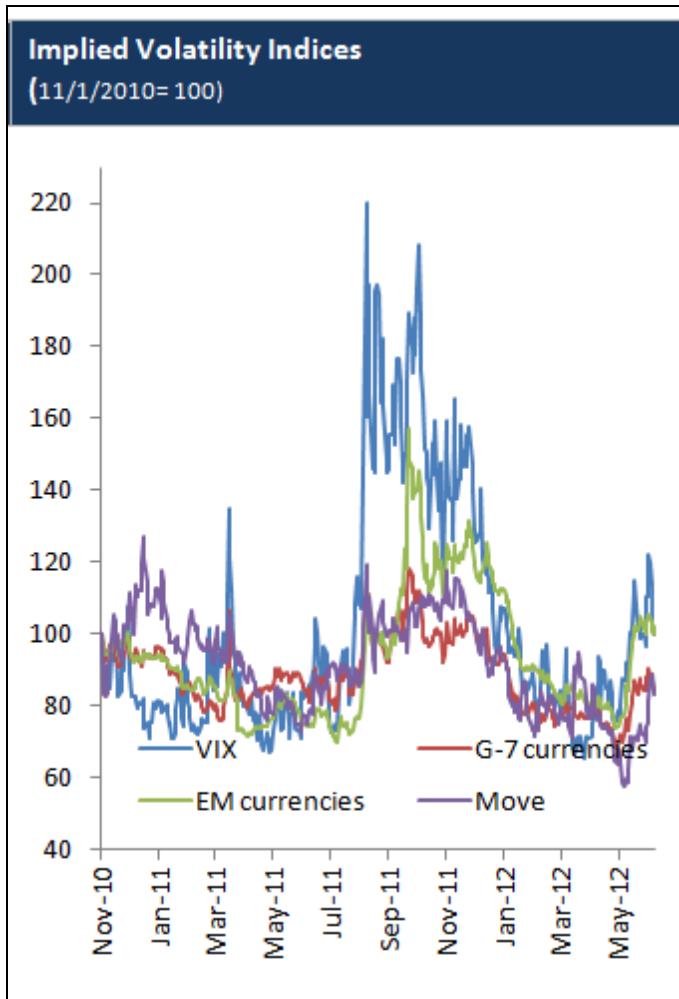
Financial stability



Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

The Global Economy

Financial stability: Volatility and Risk Aversion



The Global Economy

Asia

Asia: GDP growth (y-o-y, in percent)

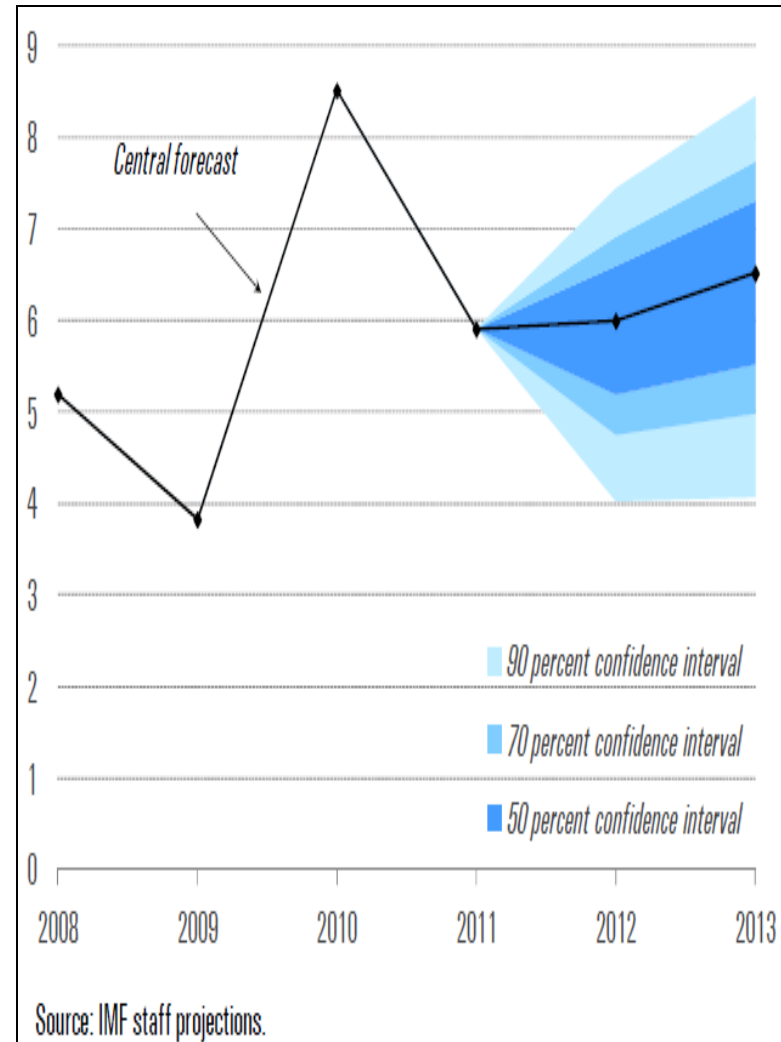
	Actual data and latest projections			Difference from January 2012 projections	
	2011	2012	2013	2012	2013
Industrial Asia	-0.2	2.2	2.0	0.3	0.0
Australia	2.0	3.0	3.5	0.0	-0.1
Japan	-0.7	2.0	1.7	0.4	0.1
New Zealand	1.4	2.3	3.2	-0.4	-0.2
East Asia	8.2	7.3	8.0	0.1	0.0
China	9.2	8.2	8.8	0.0	0.0
Hong Kong SAR	5.0	2.6	4.2	-0.1	0.2
Korea	3.6	3.5	4.0	0.0	0.0
Taiwan Province of China	4.0	3.6	4.7	0.3	0.3
South Asia	7.1	6.8	7.2	-0.1	0.0
Bangladesh	6.1	5.9	6.4	-0.3	-0.1
India	7.1	6.9	7.3	-0.1	0.0
Sri Lanka	8.2	7.5	7.0	0.5	0.5
ASEAN	4.6	5.2	6.0	0.4	1.0
Brunei Darussalam	1.9	3.2	1.6	0.8	-0.3
Cambodia	6.1	6.2	6.4	-0.3	0.0
Indonesia	6.5	6.1	6.6	0.0	0.0
Lao P.D.R.	8.3	8.4	7.1	0.0	0.0
Malaysia	5.1	4.4	4.7	0.4	0.2
Myanmar	5.5	6.0	5.9	0.3	0.0
Philippines	3.7	4.2	4.7	0.0	0.0
Singapore	4.9	2.7	3.9	0.0	0.1
Thailand	0.1	5.5	7.5	0.8	2.7
Vietnam	5.9	5.6	6.3	0.0	0.0
Emerging Asia¹	7.4	6.9	7.5	0.0	0.1
Asia	5.9	6.0	6.5	0.1	0.1

Source: IMF staff projections.

¹ Emerging Asia includes East Asia, India, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Risks to the Outlook

(Forecast and confidence intervals; in percent)



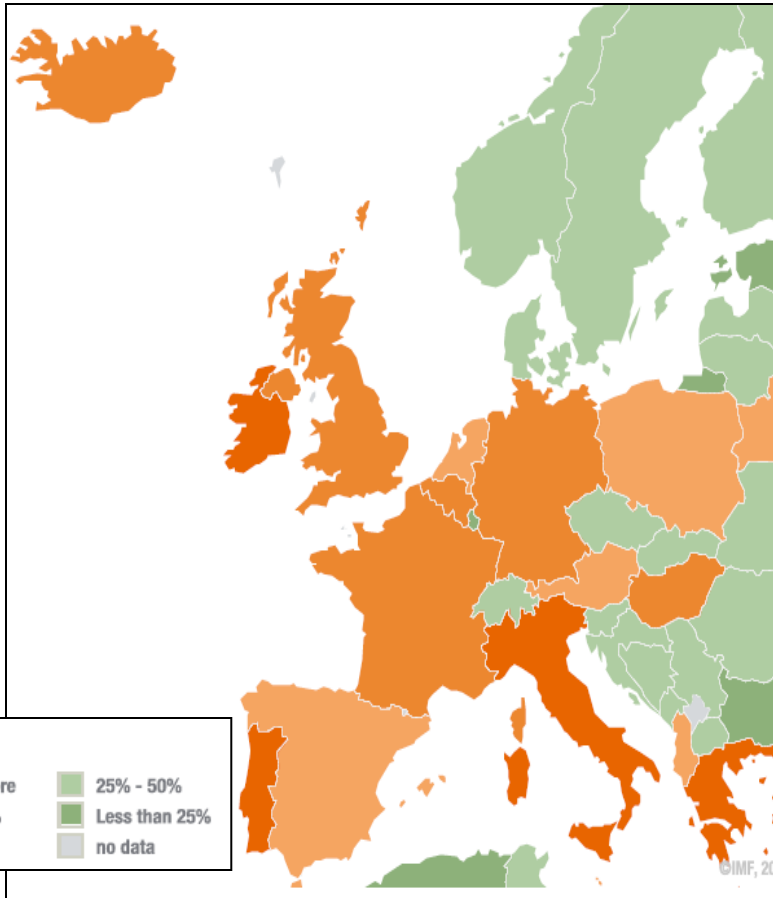


The EU Crisis

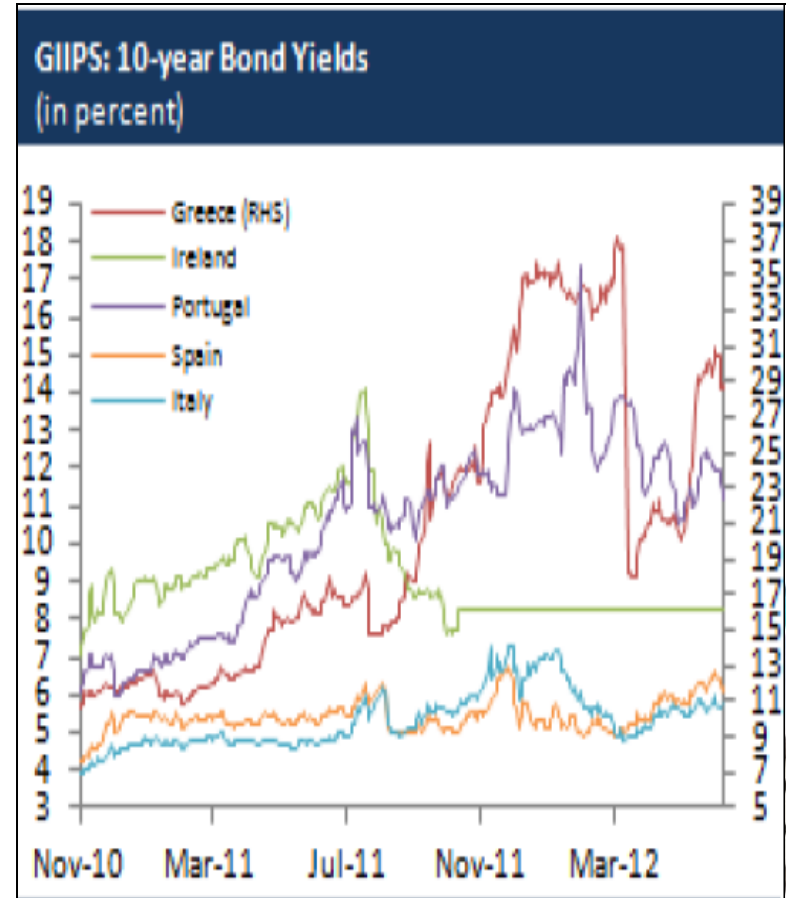
The EU Crisis

Sovereign stress

Public Debt
(in percent of GDP)



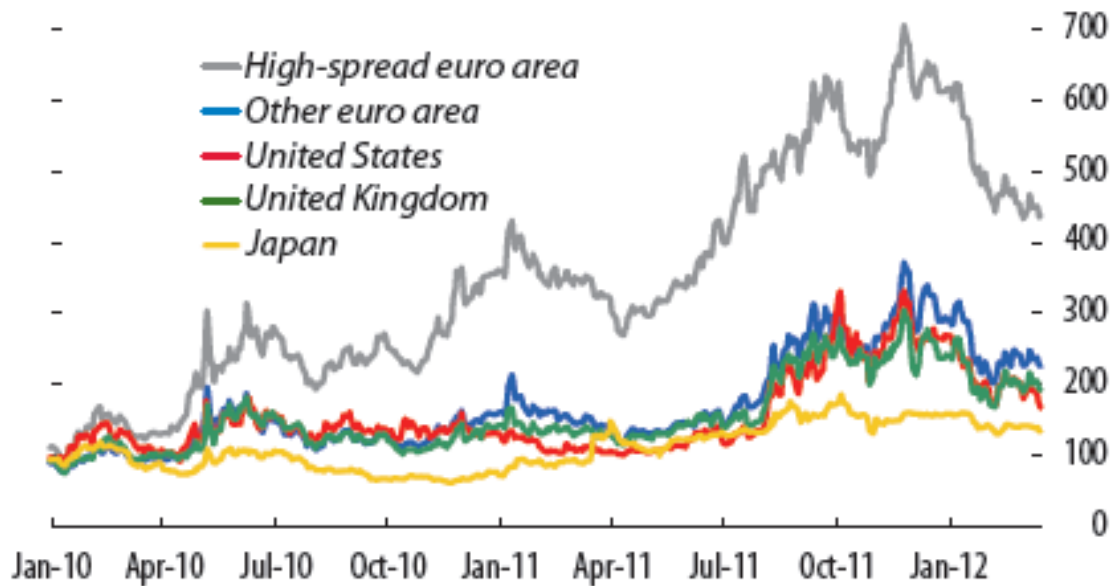
Bond Yields
(in percent)



The EU Crisis

Banking sector stress

Figure 2.18. Bank Five-Year Credit Default Swap Spreads
(In basis points)



Sources: Bloomberg L.P.; and IMF staff estimates.

Note: High-spread countries are Belgium, Greece, Ireland, Italy, Portugal, and Spain.

Recovery
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The EU Crisis

Banking sector stress

Table 2.3. Amount of Additional Funding from Domestic Investors Required by Selected Euro Area Sovereigns under Three Policy Scenarios, 2012

	Billions of Euros			Percentage of Domestic Bank Assets		
	Complete policies	Current policies	Weak policies	Complete policies	Current policies	Weak policies
Austria	7	7	7	0.8	0.8	0.8
Belgium	24	29	34	4.1	4.9	5.8
France	146	144	144	2.4	2.3	2.3
Germany	148	133	118	2.0	1.8	1.6
Italy	205	223	241	8.1	8.8	9.5
Netherlands	30	41	52	1.3	1.7	2.2
Spain	107	135	162	3.1	3.9	4.6

Source: IMF staff estimates.

Recovery
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The EU Crisis

Banking sector stress

Figure 2.2.1. EU Banks with Announced Changes to Business Strategy

Country and bank	Banking Activities			Assets					Global Reach				
	Investment	Corporate ¹	Retail	Bank subsidiaries or branches	Insurance	Asset management	Securities companies	Shadow banks ²	Eastern Europe ³	Asia	Latin America	European Union	North America
Austria													
Erste													
Rafflisen													
Belgium													
Dexia ⁴													
KBC Bank ⁴													
Germany													
DB													
Commerzbank ⁴													
HSH Nordbank ⁴													
Ldb BW ⁴													
WestLB ⁴													
France													
BNP Paribas													
BPCE													
Crédit Agricole													
Société Générale													
Italy													
UniCredit													
Banco Popolare													
Ireland													
Allied Irish ⁴													
Bank of Ireland ⁴													
Netherlands													
ING													
SNS													
United Kingdom													
RBS ⁴													
HSBC													
Lloyds ⁴													
Spain													
Banco Santander													

Source: Company websites; and IMF staff estimates.

¹Includes interbank lending and commercial real estate loans; and working capital, project, and specialized finance, including leasing, equipment, trade, and commodities finance.

²Includes companies that specialize in car, aircraft, shipping, leasing, project, and structured finance; investment banks; and municipal bond agencies.

³All EU and non-EU countries in eastern Europe, including Poland, Russia, and Turkey.

⁴Has received government financial support.



What needs to be done?

What needs to be done?

All economies

- More coordination of financial policies; reform of financial stability frameworks
- Strengthening the global firewall

Advanced Economies

- Fiscal consolidation: Not too much, not too little; not too fast, not too slow
- Monetary and liquidity policies should continue to be accommodative
- Structural reforms to boost long-term productivity and employment
- Support for the unemployed

Euro Area

- Building a stronger currency union
 - Improved fiscal rules and institutions
- Strengthening banking systems

Emerging market and developing economies

- Rebuilding macroeconomic policy room
- Strengthening prudential policies and frameworks
- Promoting more inclusive growth



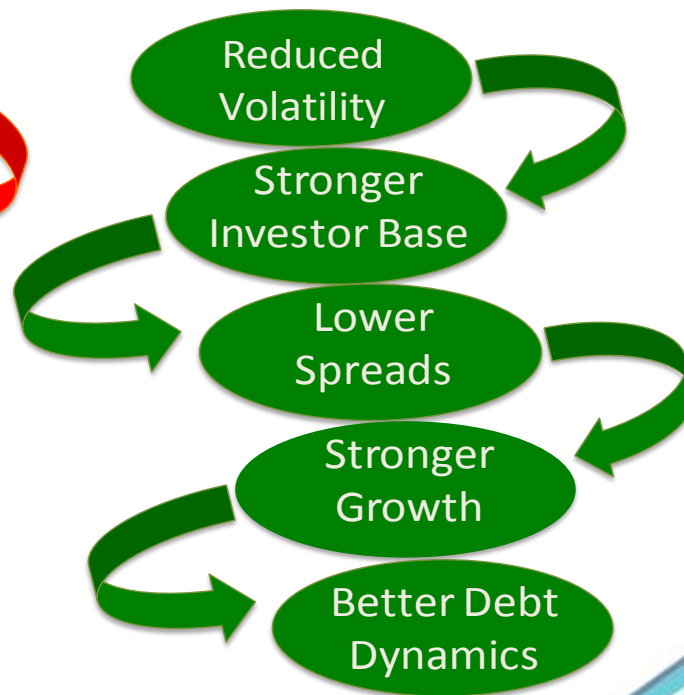
Bad Equilibrium, Good Equilibrium

Shock to Debt Dynamics for Vulnerable Sovereign

Bad Equilibrium
Inadequate
Policy Response



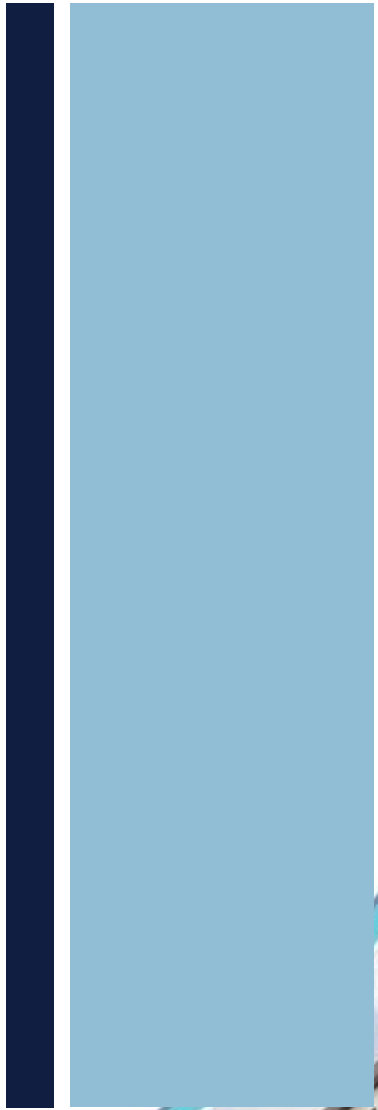
Good Equilibrium
Adequate
Policy Response



Recovery

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Lao PDR



Roadmap

- External environment
- Lao PDR
 - Sources of Growth
 - Balance of payments
 - Current account
 - » Commodity prices
 - » Exports—DOT and commodity composition
 - Capital and financial account
 - International reserves
 - Money and credit
 - Deficits and debt



Recovery

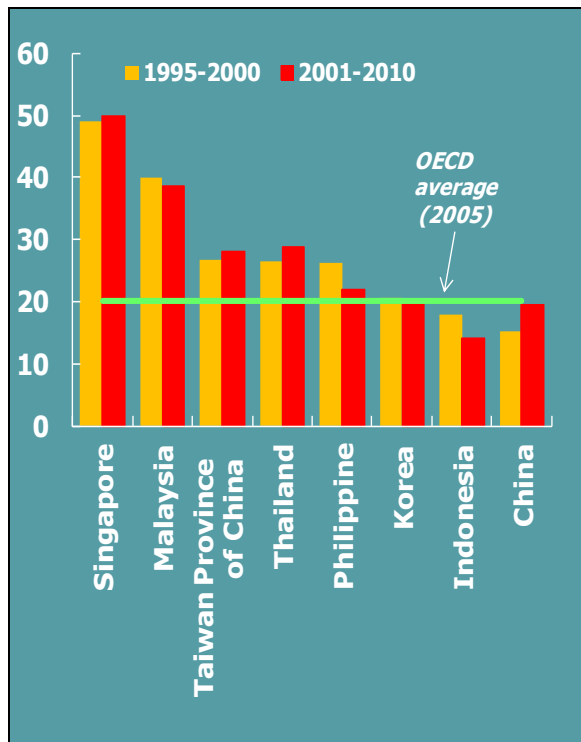
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Asia and the Global Economy

Trade and financial sector channels

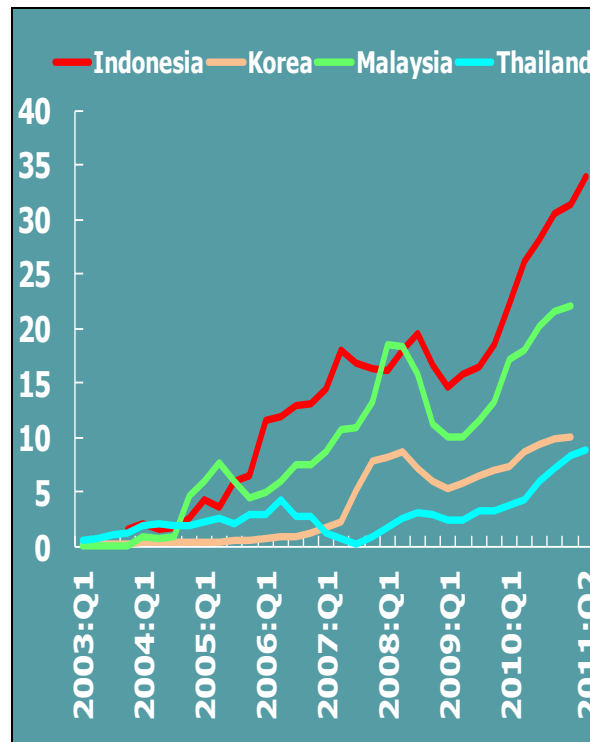
Selected Asia: Contribution of Non-Asian Final Demand to Value Added

(In percent of GDP)



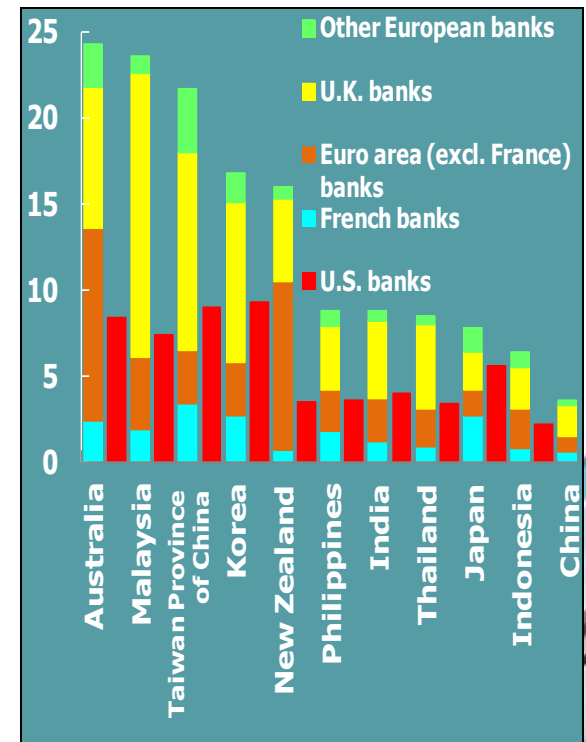
Selected Asia: Foreign Holdings in Local Currency Government Bonds

(In percent of total outstanding local currency government bond)



Consolidated Claims of European and U.S. Banks on Selected Asia

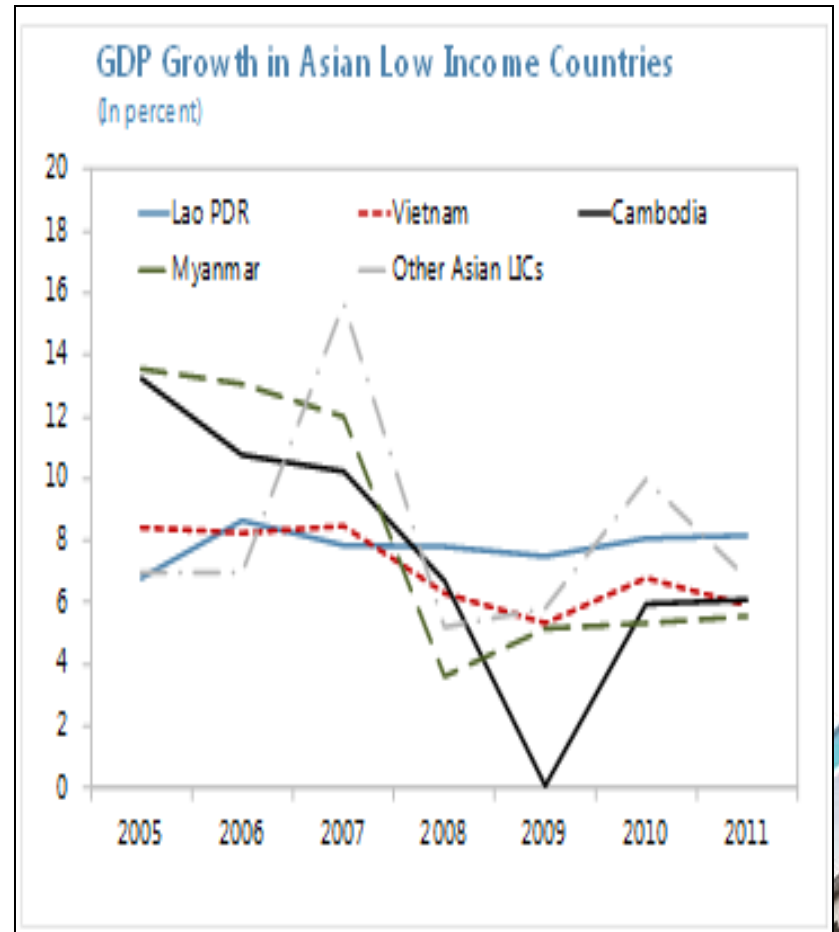
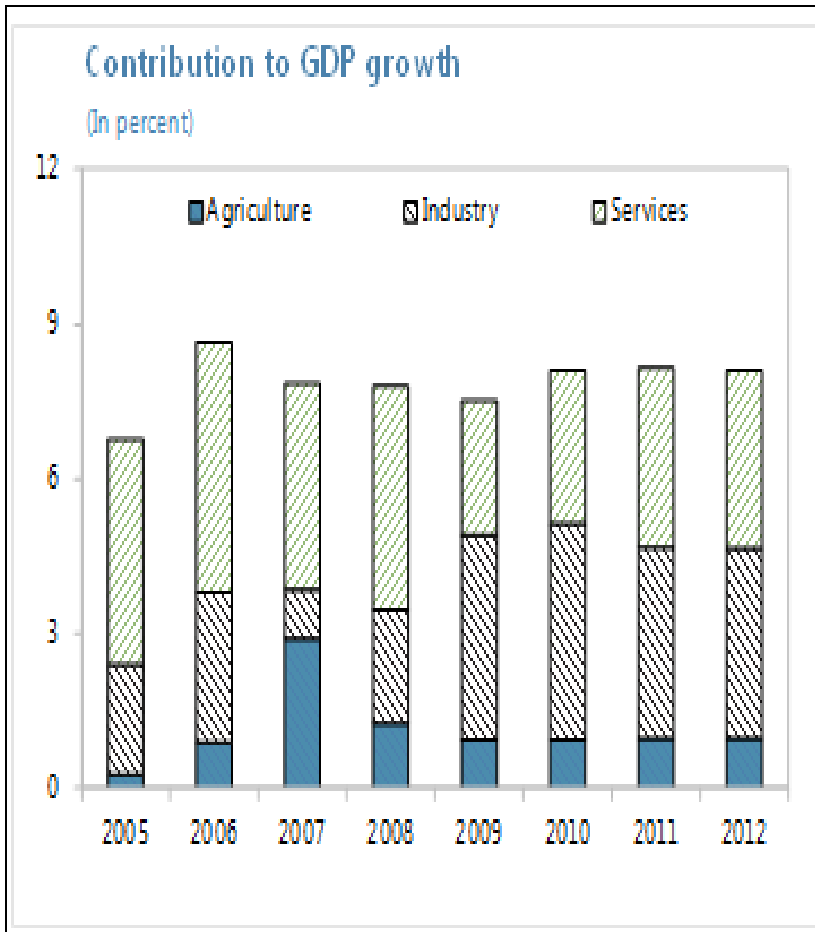
(In percent of GDP)



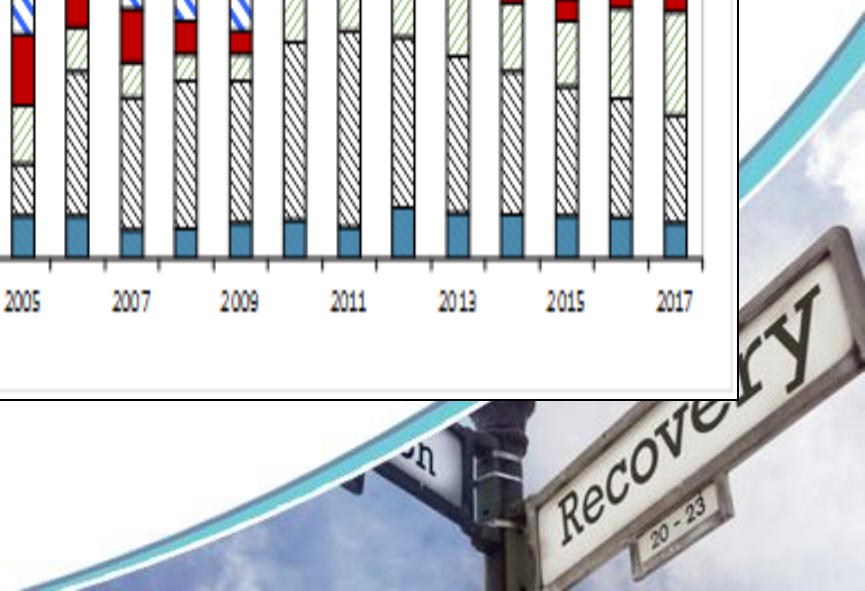
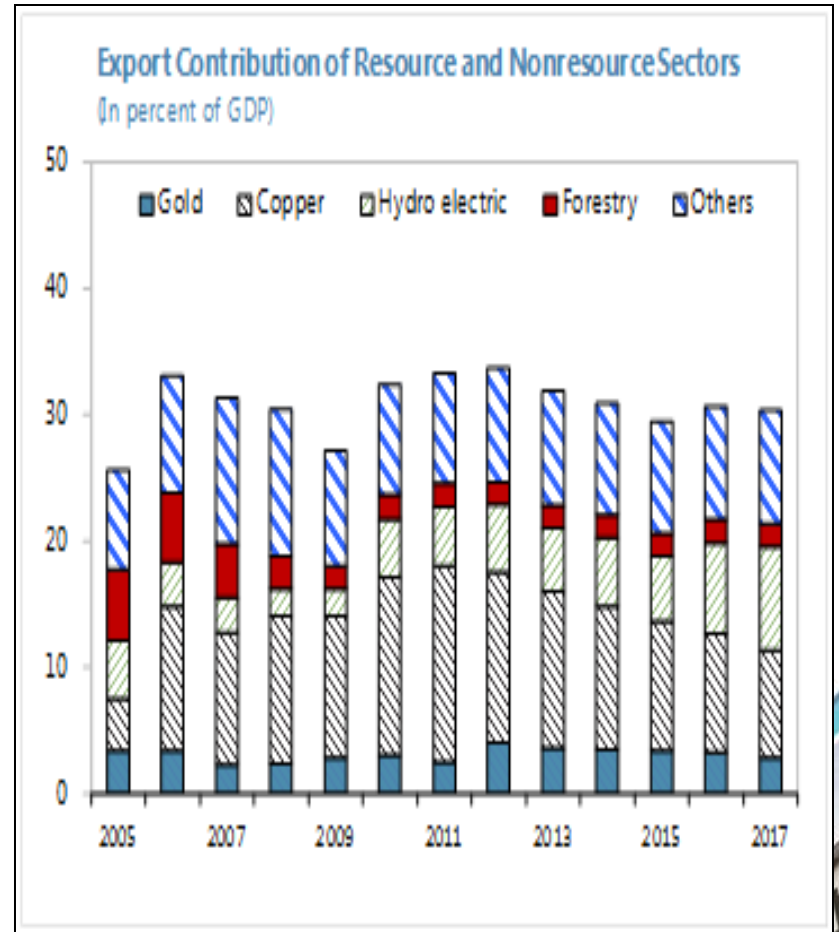
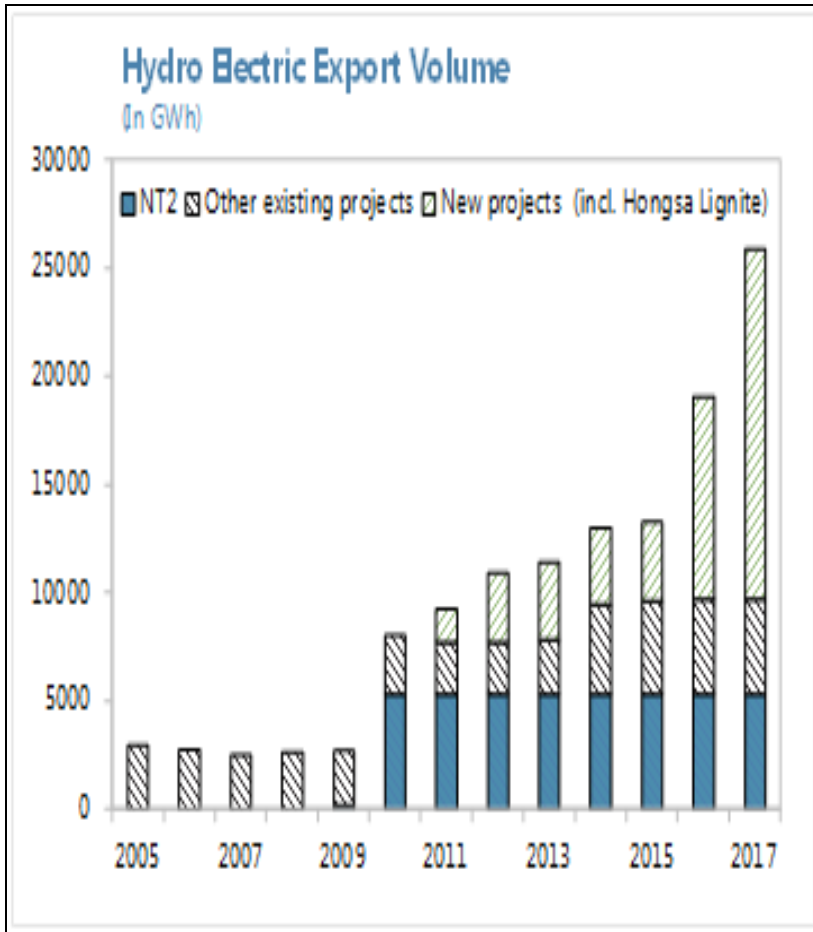


Sources of Growth

Sources of growth



Sources of growth

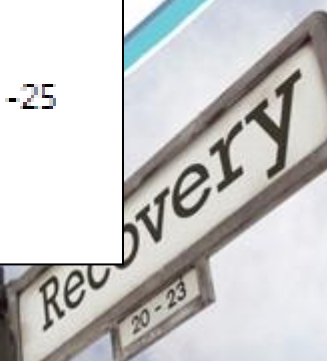
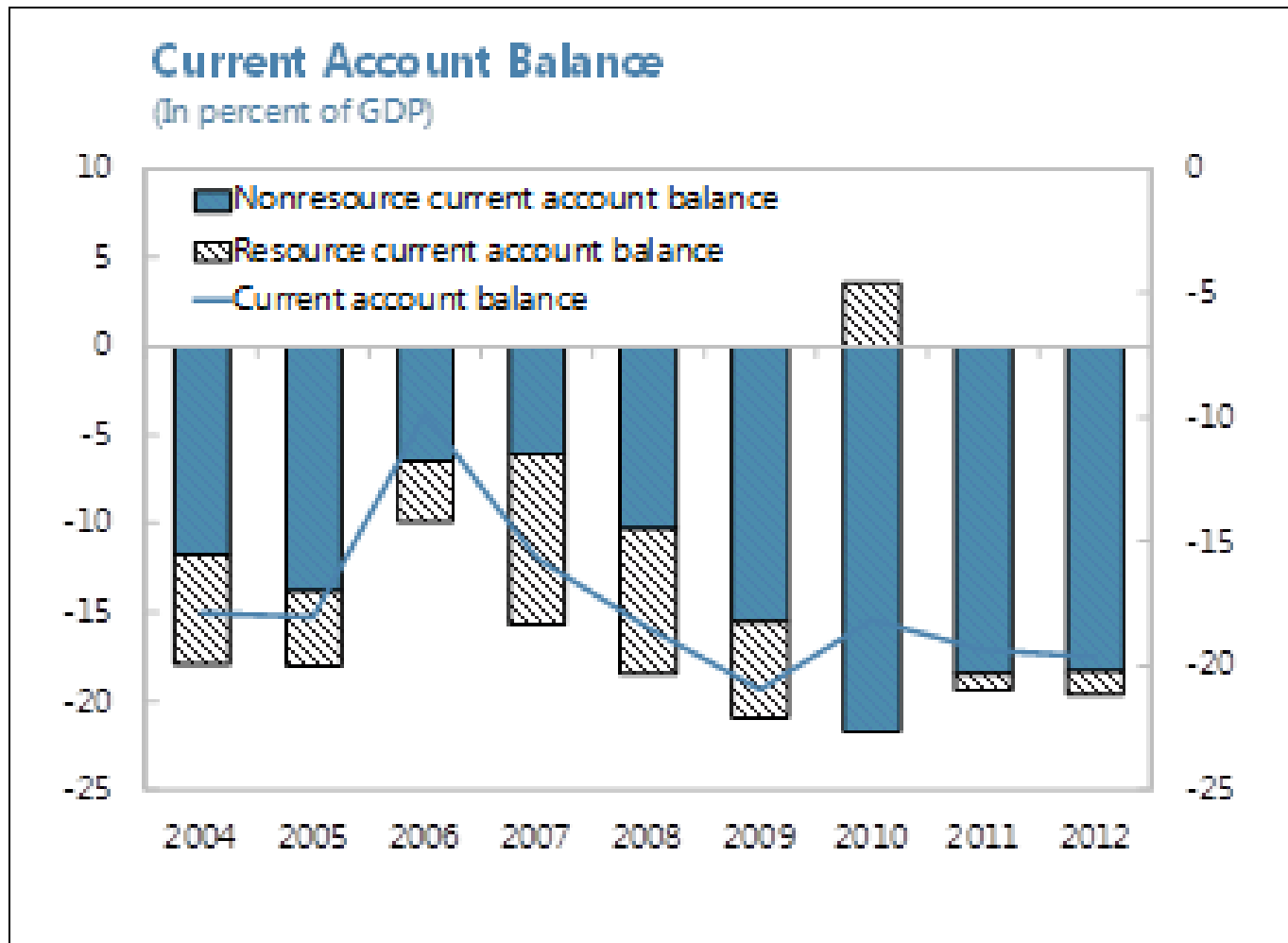




Balance of payments

Balance of payments

Current account



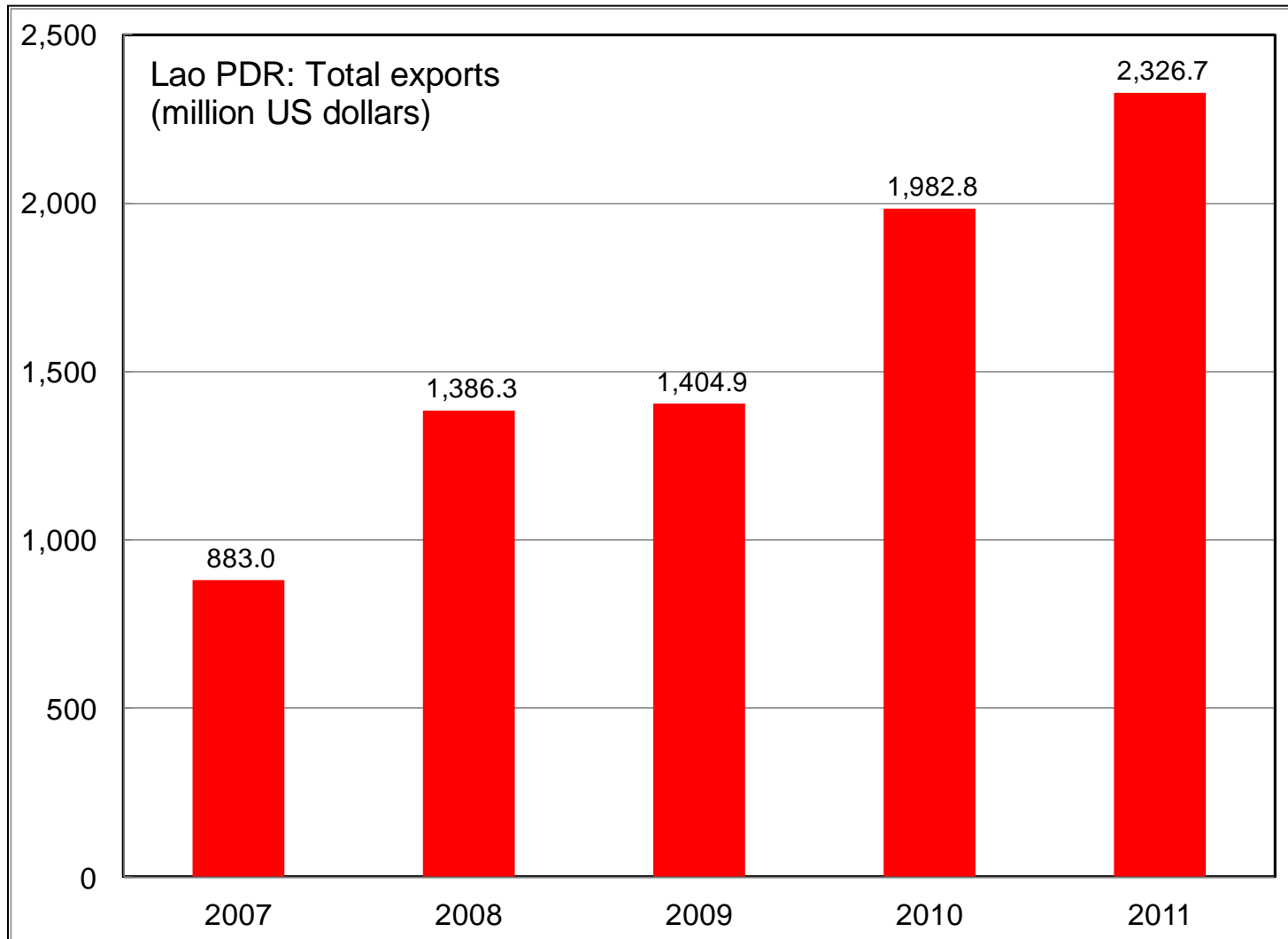
Current account

Commodity prices



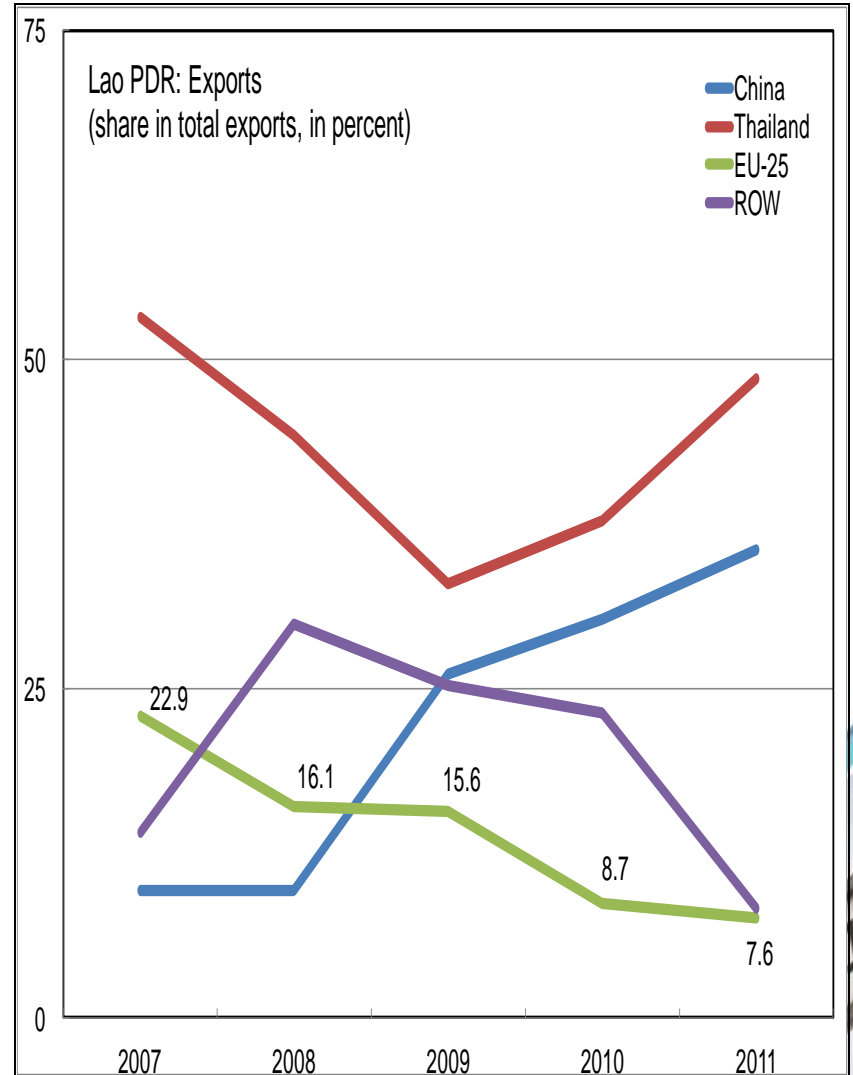
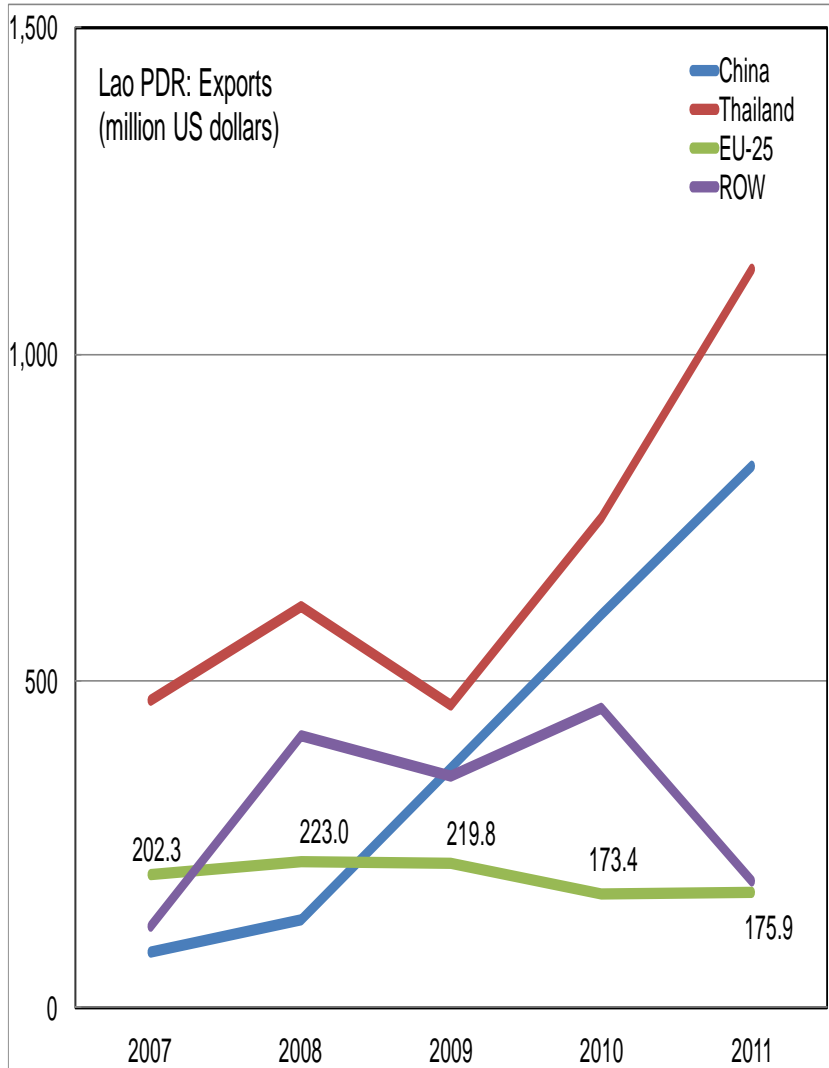
Current account

Exports



Current account

Exports—Direction of trade



Current account

Exports—Direction of trade and commodity composition

Laos PDR: Exports--Direction of Trade and Composition, 2011

SITC Category	million US dollars					share (in percent)				
	World	China	Thailand	EU-25	ROW	World	China	Thailand	EU-25	ROW
0 Food and live animals	161.3	20.7	52.5	41.5	46.7	6.9	0.9	2.3	1.8	2.0
1 Beverages and tobacco	5.7	0.5	2.1	0.5	2.5	0.2	0.0	0.1	0.0	0.1
2 Crude materials, inedible, except fuels	803.5	719.0	65.5	6.3	12.6	34.5	30.9	2.8	0.3	0.5
3 Mineral fuels, lubricants and related materials	469.5	4.8	464.7	-	-	20.2	0.2	20.0	0.0	0.0
4 Animal and vegetable oils, fats and waxes	0.1	0.0	0.1	0.0	-	0.0	0.0	0.0	0.0	0.0
5 Chemicals and related products, n.e.s.	49.0	1.0	12.4	5.0	30.6	2.1	0.0	0.5	0.2	1.3
6 Manufactured goods classified chiefly by material	599.5	78.0	499.4	8.7	13.3	25.8	3.4	21.5	0.4	0.6
7 Machinery and transport equipment	28.0	0.1	26.1	0.3	1.6	1.2	0.0	1.1	0.0	0.1
8 Miscellaneous manufactured articles	209.0	3.2	6.9	113.3	85.5	9.0	0.1	0.3	4.9	3.7
9 Commodities and transactions not classified elsewhere	1.0	-	-	0.3	0.8	0.0	0.0	0.0	0.0	0.0
Total	2,326.7	827.6	1,129.7	175.9	193.5	100.0	35.6	48.6	7.6	8.3

Note: Computed from imports of partner country.

Source: WITS; IMF staff estimates

Recovery
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Current account

Exports—Direction of trade

Lao, P.D.R.

Top 10 Export Partners in 2011

US Dollars, Millions

	2005	2006	2007	2008	2009	2010	2011
Thailand	204	475	431	561	424	690	1,029
China, P.R.: Mainland	23	45	77	136	306	511	729
Vietnam	89	151	192	253	226	265	297
United Kingdom	38	50	42	54	62	70	95
Japan	7	11	11	16	24	34	88
Germany	32	35	43	42	48	53	71
United States	4	8	19	40	42	56	55
Netherlands	13	14	11	9	14	14	29
India	0	0	0	1	0	18	22
Italy	9	7	7	11	7	13	20
Total	420	797	834	1,124	1,152	1,724	2,435

Source: Direction of Trade Statistics (DOTS)

Recovery
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Balance of payments

Capital and financial account

	2009	2010	2011 Est.
	(In millions of U.S. dollars)		
Capital and financial account	1,094	1,340	1,747
Public sector	163	161	191
Disbursements	229	238	287
Amortization	-67	-78	-97
Banking sector (net)	140	-26	-17
Private sector	792	1,206	1,573
Foreign direct investment (net) 1/	759	671	1,170
Of which: Mining and hydropower projects	704	250	743
Of which: Mining projects	20	-37	62
Hydropower projects	684	287	681
Other private flows and errors and omissions	33	534	403
Overall balance	-80	102	-45
Core Balance (CA+FDI+ODA)	-300	-449	-474
Financing	80	-102	45
Central bank net foreign assets	80	-102	45
Assets (increase -)	6	-95	51
Liabilities (reduction -)	74	-7	-6

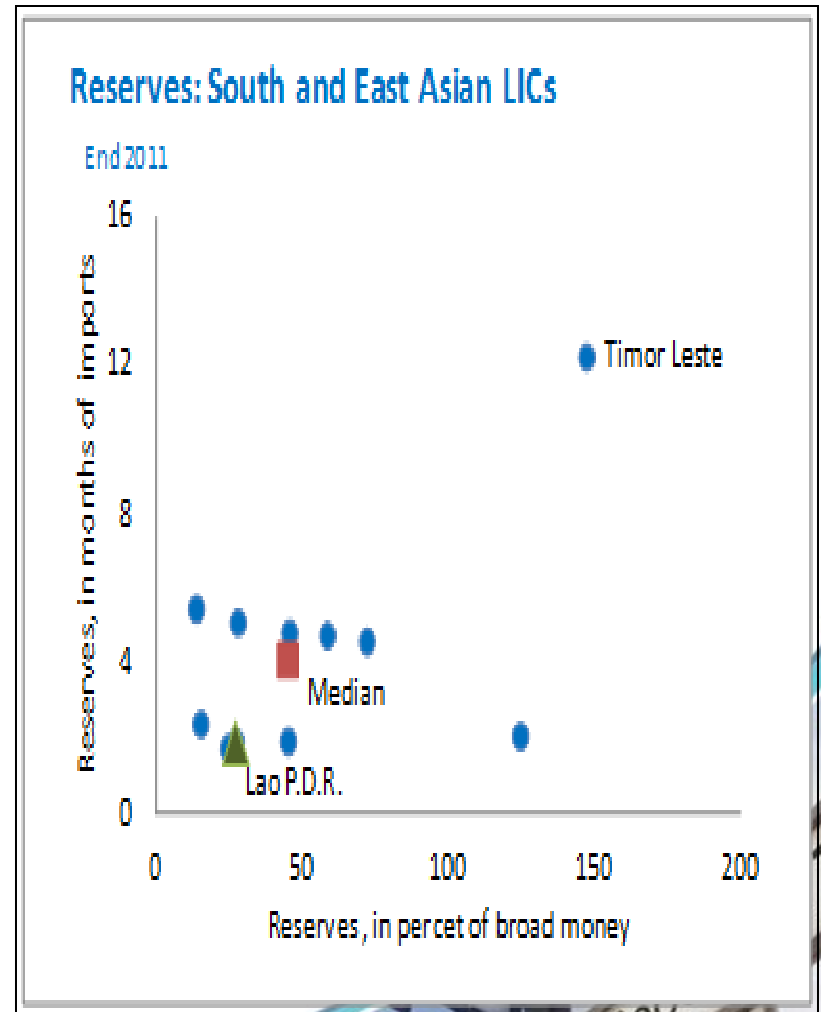
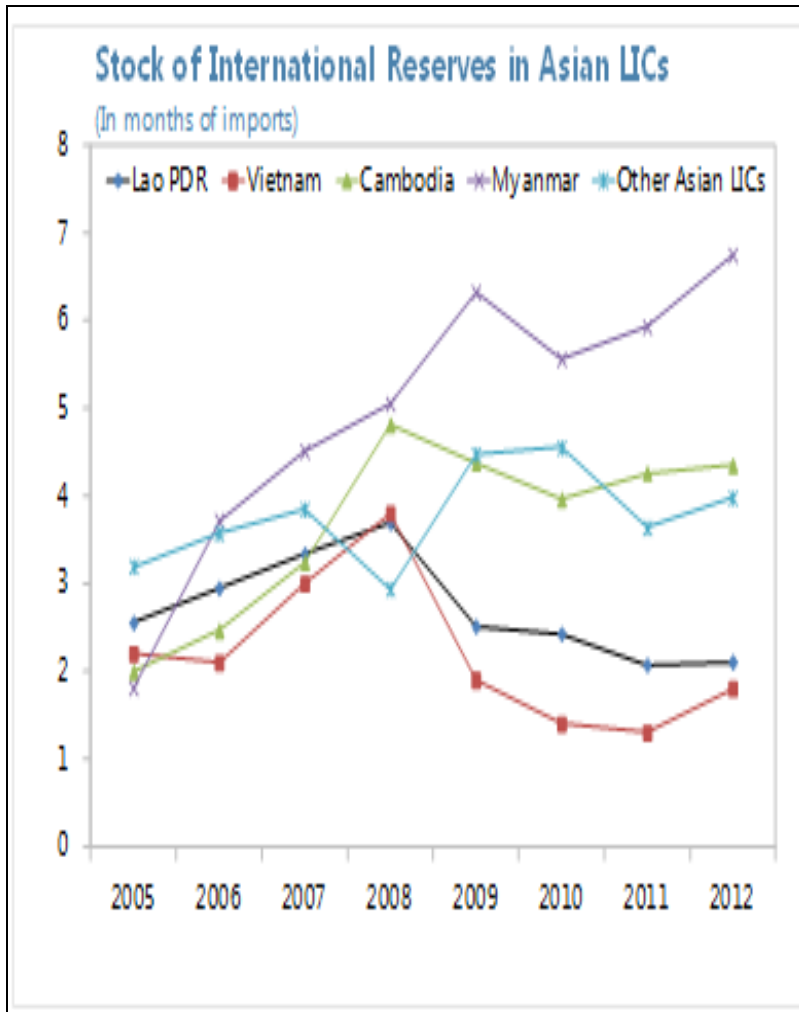
Sources: Data provided by the Lao P.D.R. authorities; and IMF staff estimates and projections.

1/ Includes repayment of private debt. FDI in the balance of payments includes both equity and debt, whereas only the nondebt portion is included in the debt sustainability analysis.

Recovery
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Balance of payments

International reserves

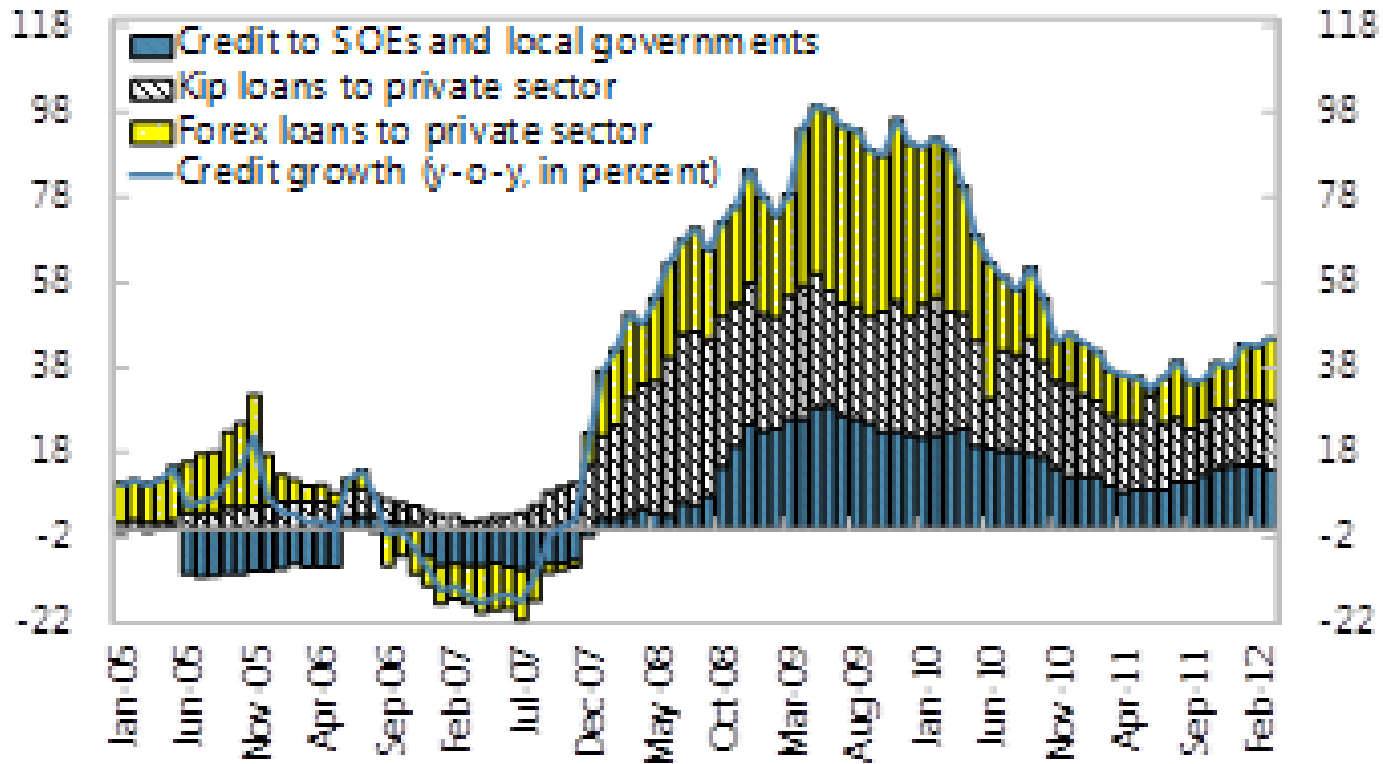




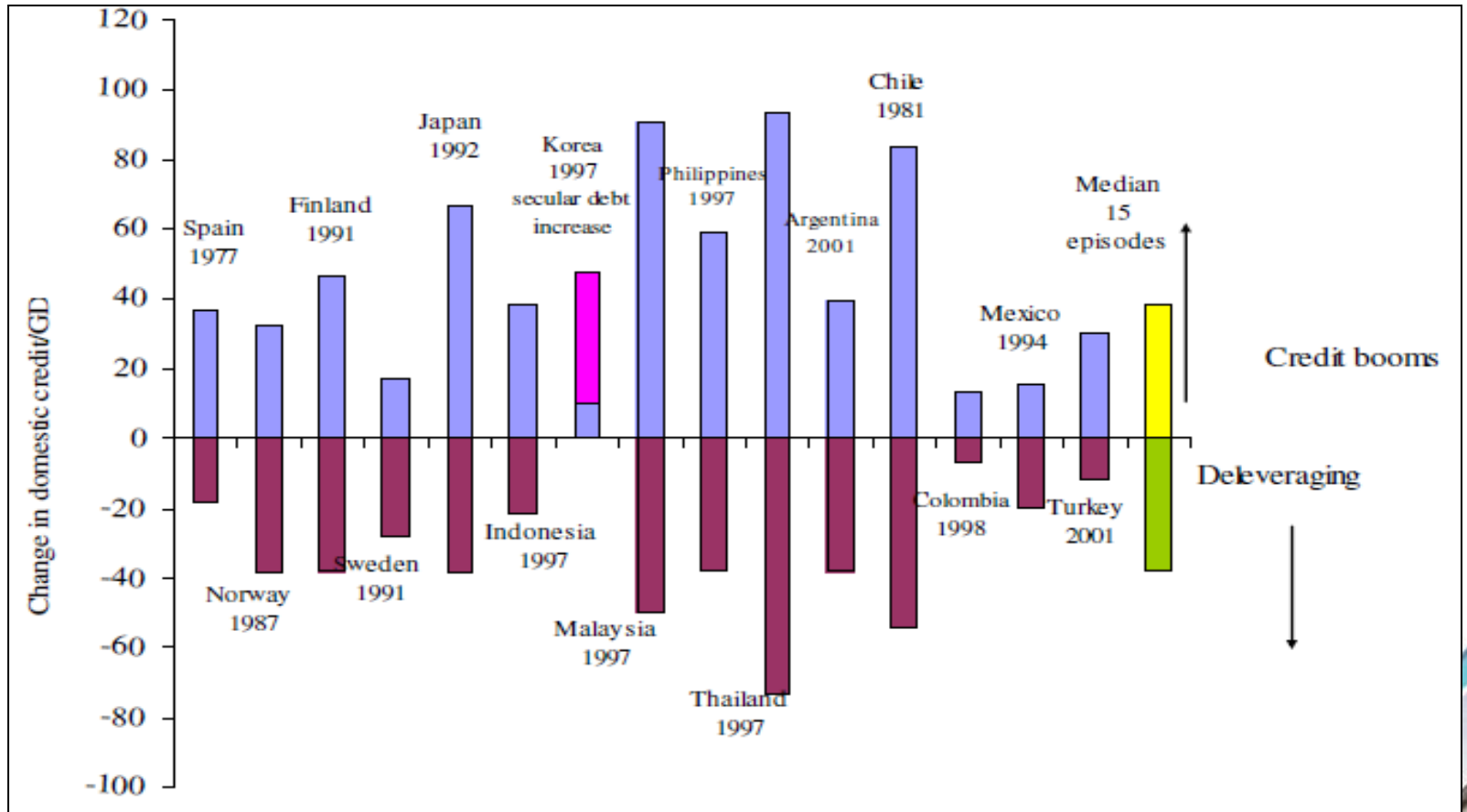
Money and credit

Credit growth

Contribution to Credit Growth, Jan.2005-Mar.2012
(Year-on-year percent change)



Deleveraging



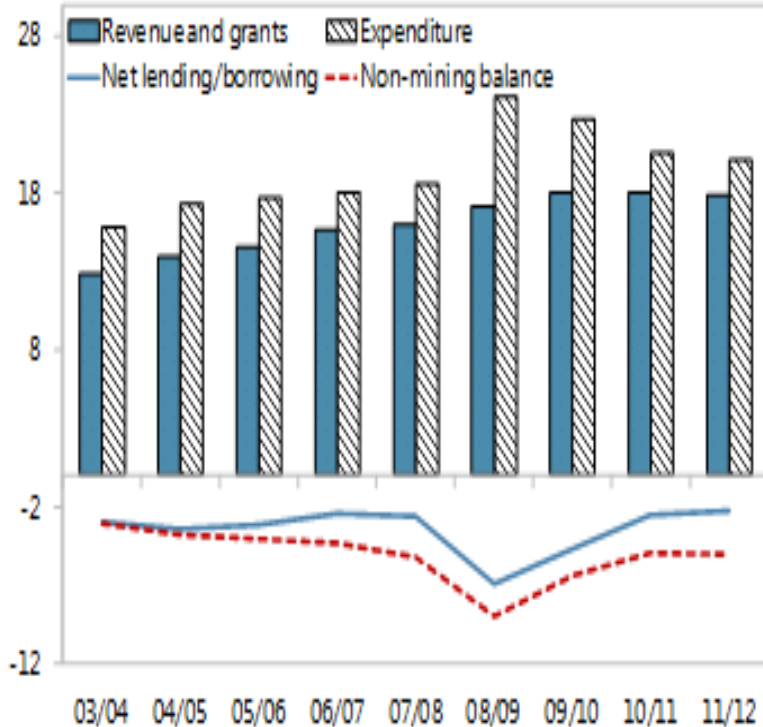


Deficits and debt

Deficits and debt

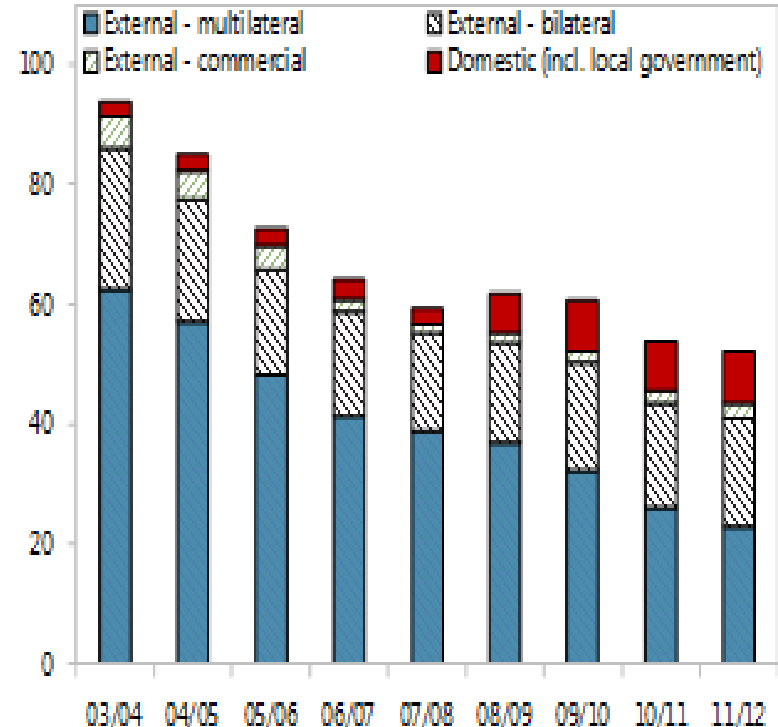
Fiscal Balance

(In percent of GDP)



Public Sector Debt

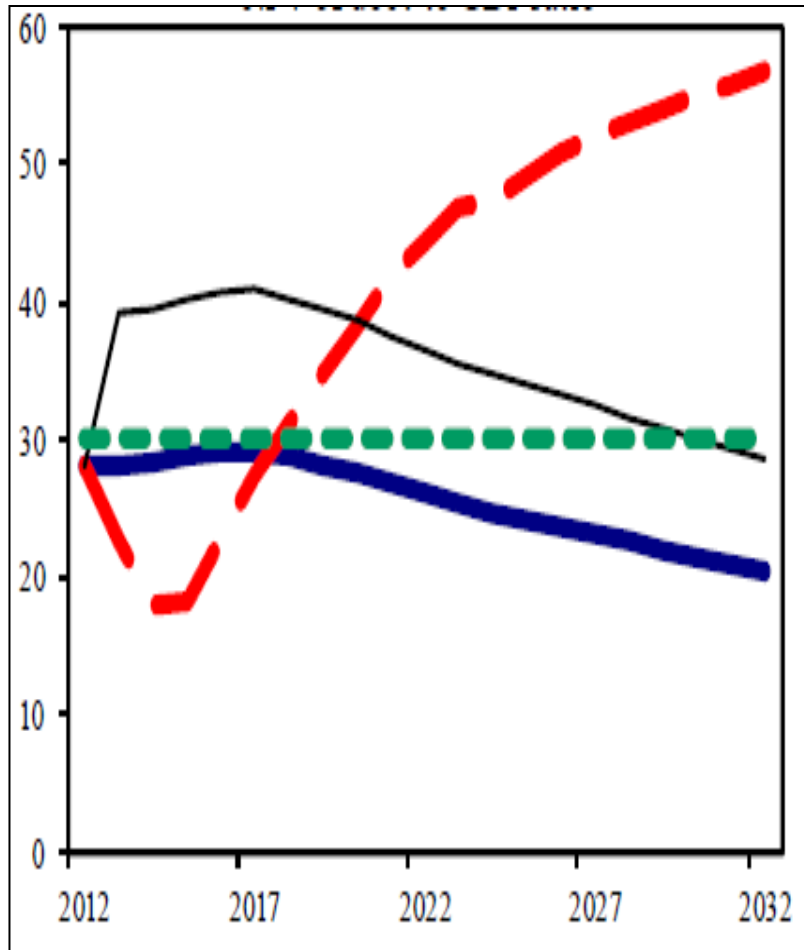
(In percent of GDP)



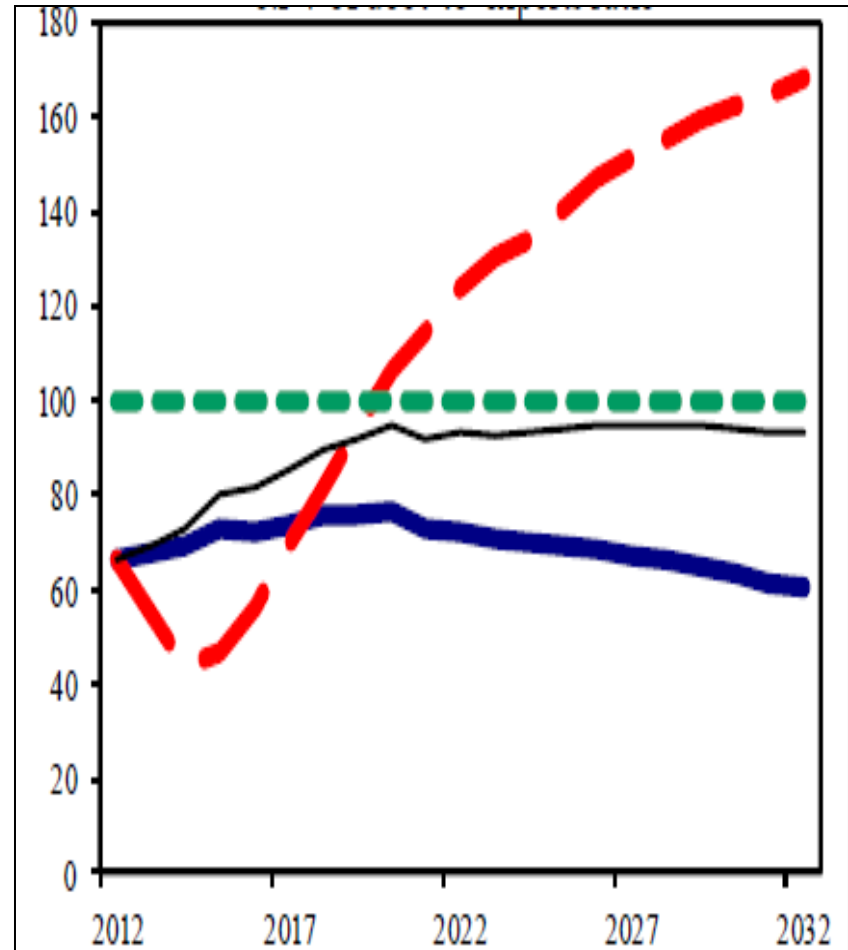
Recovery
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Fiscal sustainability

Present value of debt-to-GDP
(In percent)



Present value of debt-to-exports
(In percent)



— Baseline

- - - Historical scenario

— Most extreme shock 1/

- - - Threshold

Thank you

