IMF Asia and Pacific Regional Economic Outlook

In global context, with implications for Nepal

National College – Kathmandu (June 9, 2014)

Thomas Richardson

Senior Resident Representative in India and Nepal

Outline

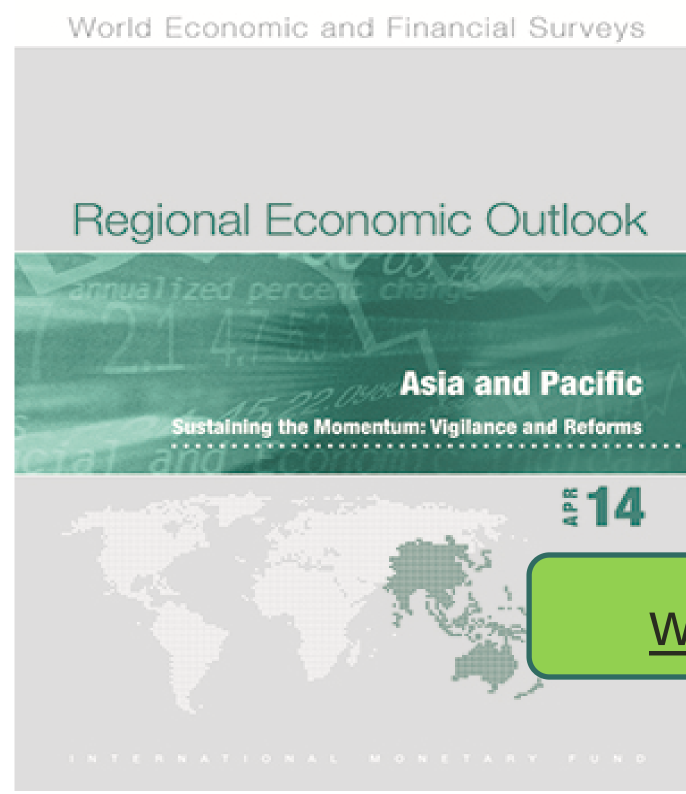
- **Background on the IMF**
- **World economic outlook**
  - **US, Euro area, Japan, major EMs, developing countries**
- **Asia – Pacific Regional Economic Outlook**
- **Implications for Nepal**

IMF Background: lending, surveillance and technical

www.imf.org/weo

www.imf.org/gfsr

www.imf.org/fiscalmonitor



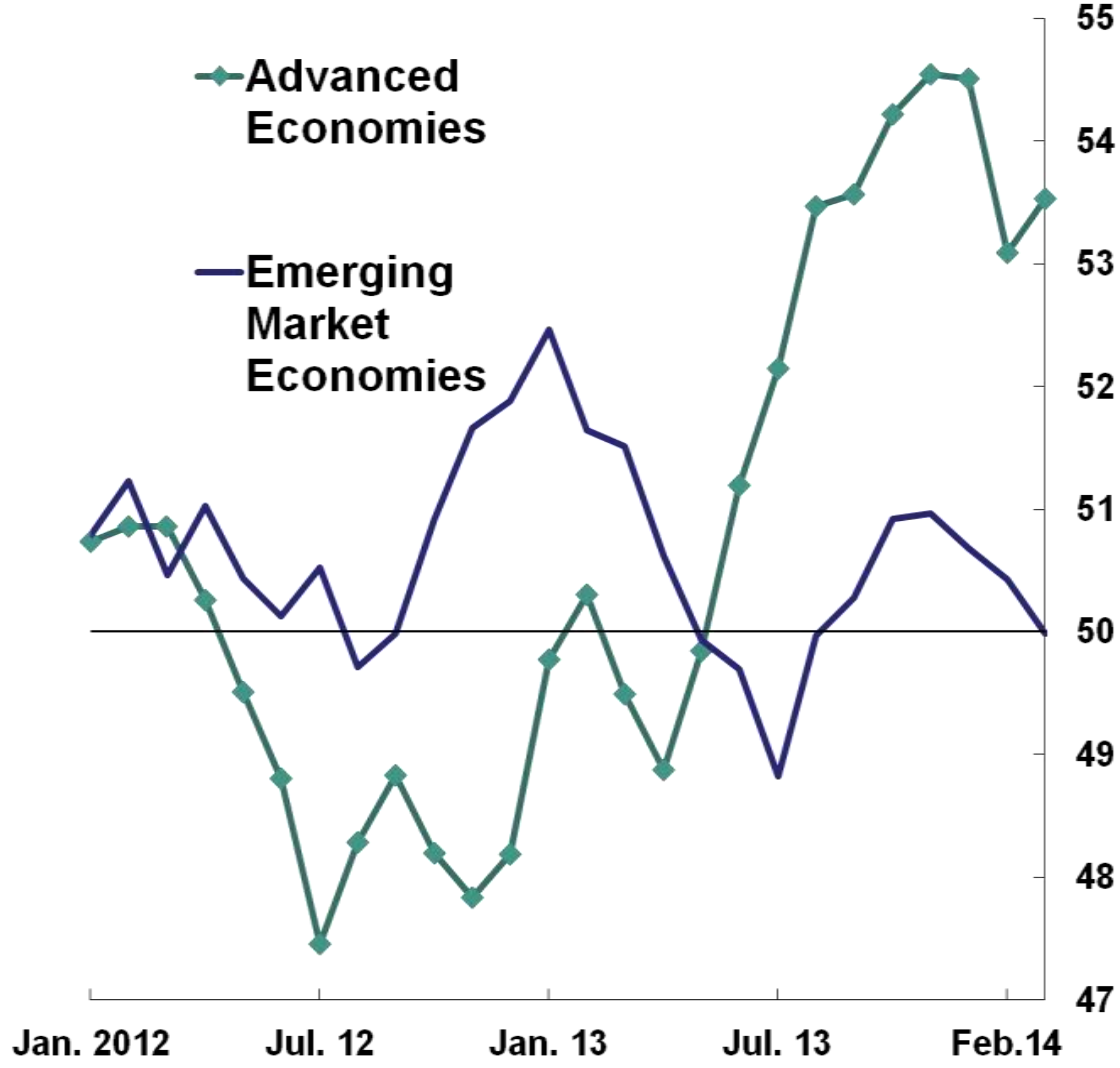
www.imf.org/asia

World economic outlook: global growth is picking up

- **Momentum is coming mainly from advanced economies (AEs), at the margin**
- **Emerging markets and developing economies (EMDEs) are still leading global growth**
    - ✓ **Helped by export demand from AEs**
- **Risks: Ukraine/Russia, euro area (deflation), tapering effect on EMs**

Manufacturing PMI

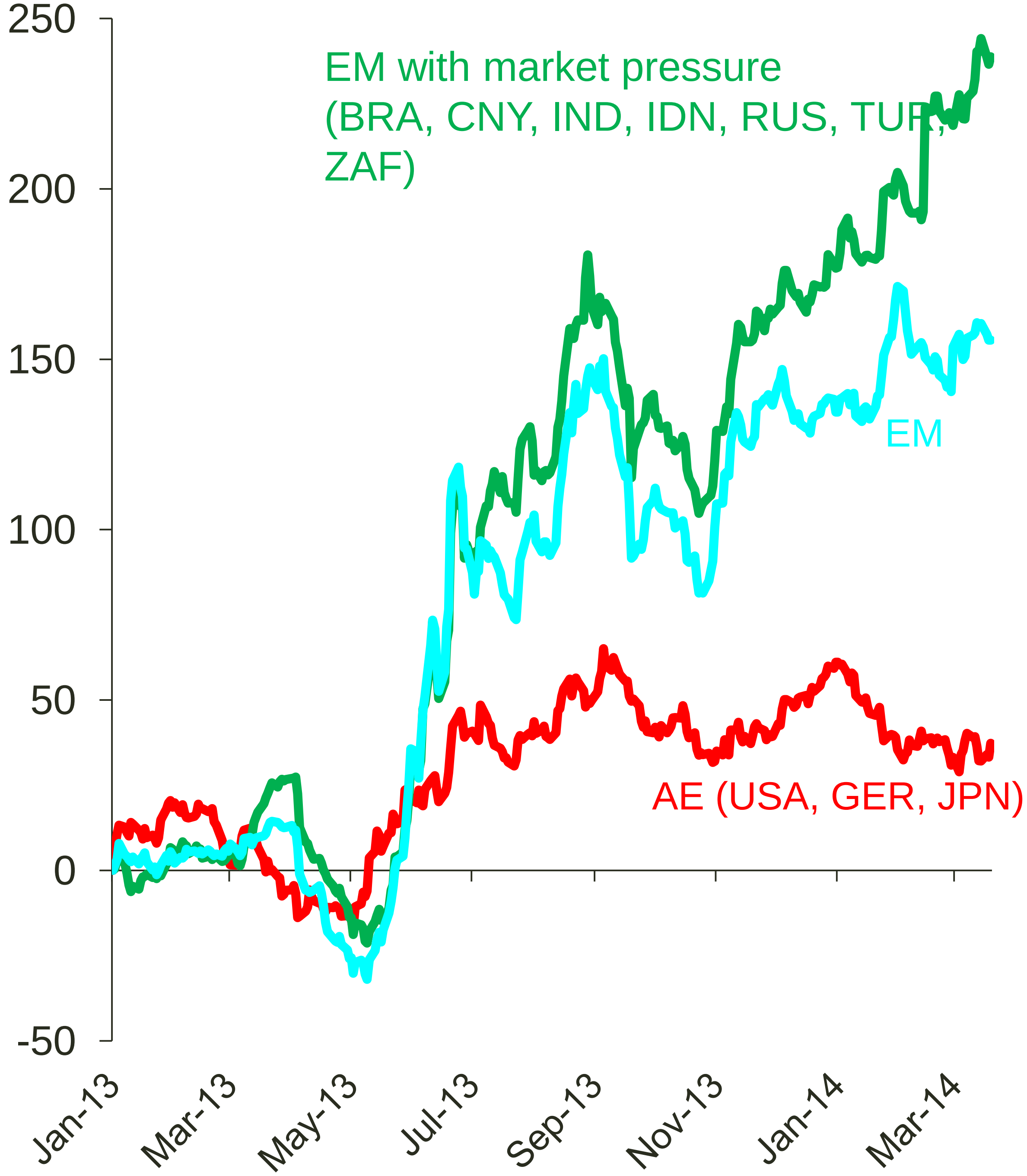
(index; above 50 = expansion)



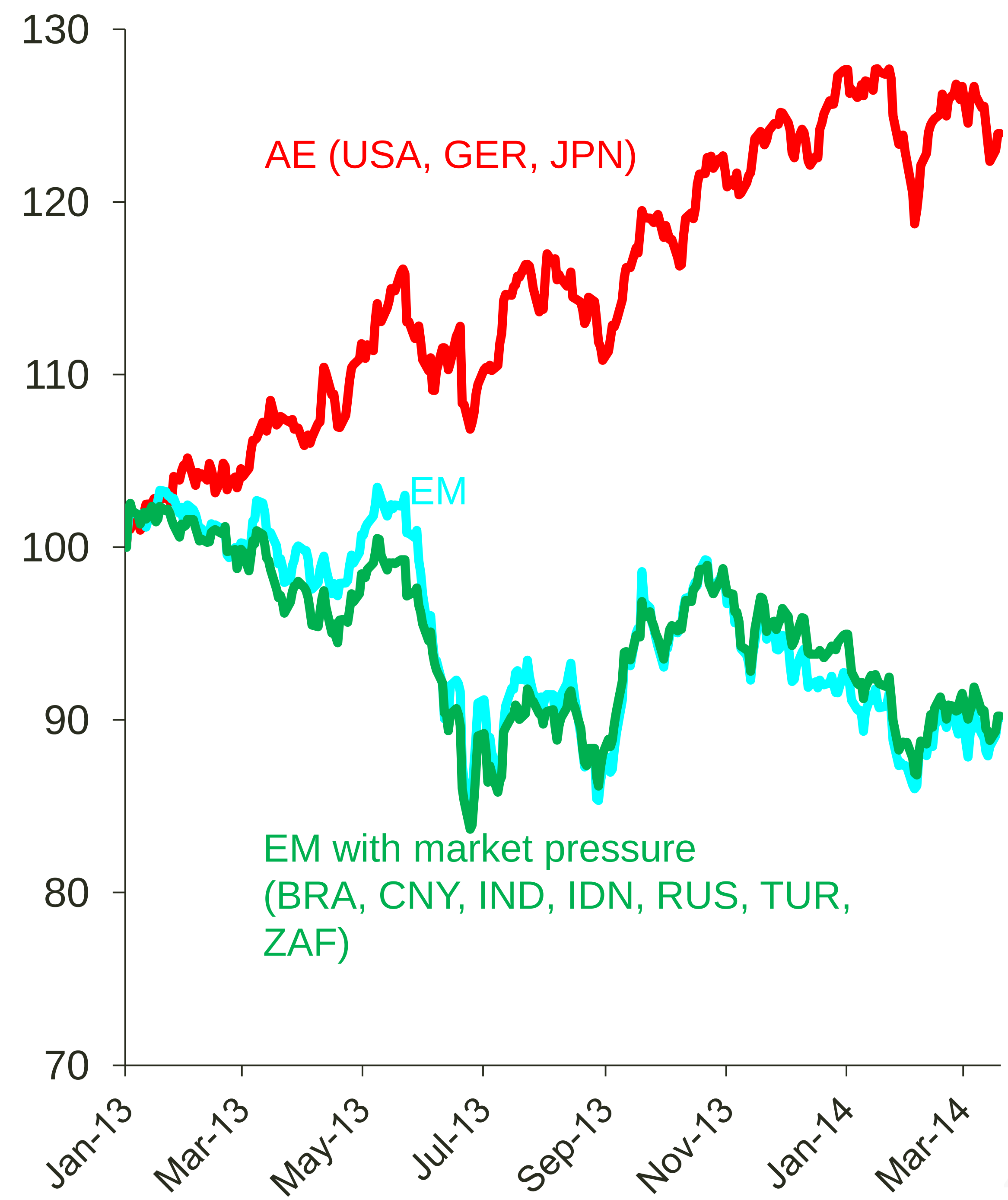
Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and IMF staff calculations.

AE-EM Divergences: financial markets

Long-term rates
(change since Jan 1, 2013, in bps)



Equity prices
(Jan 1, 2013 = 100)



Global growth is expected to strengthen…

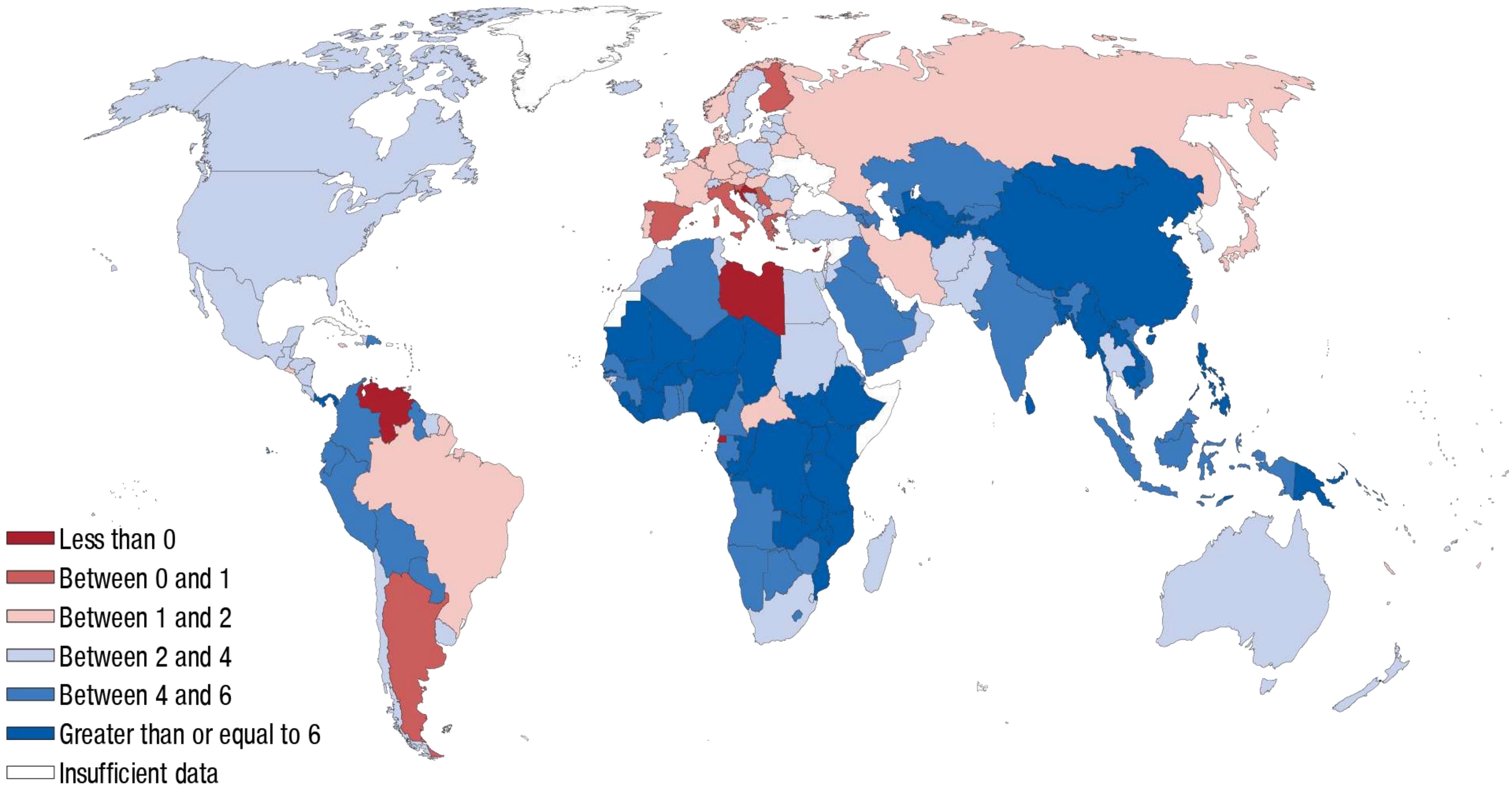
WEO Real GDP Growth Projections

(percent change from a year earlier)

	World	U.S.	Euro Area	Japan	Brazil	Russia	India	China
2014 (Apr. 2014)	3.6	2.8	1.2	1.4	1.8	1.3	5.4	7.5
Revision from Jan. 2014	-0.1	0.0	0.1	-0.3	-0.5	-0.6	0.0	0.0
2015 (Jan. 2014)	3.9	3.0	1.5	1.0	2.7	2.3	6.4	7.3
Revision from Jan. 2014	-0.1	0.0	0.1	0.0	-0.2	-0.2	0.0	0.0

Source: IMF, World Economic Outlook.

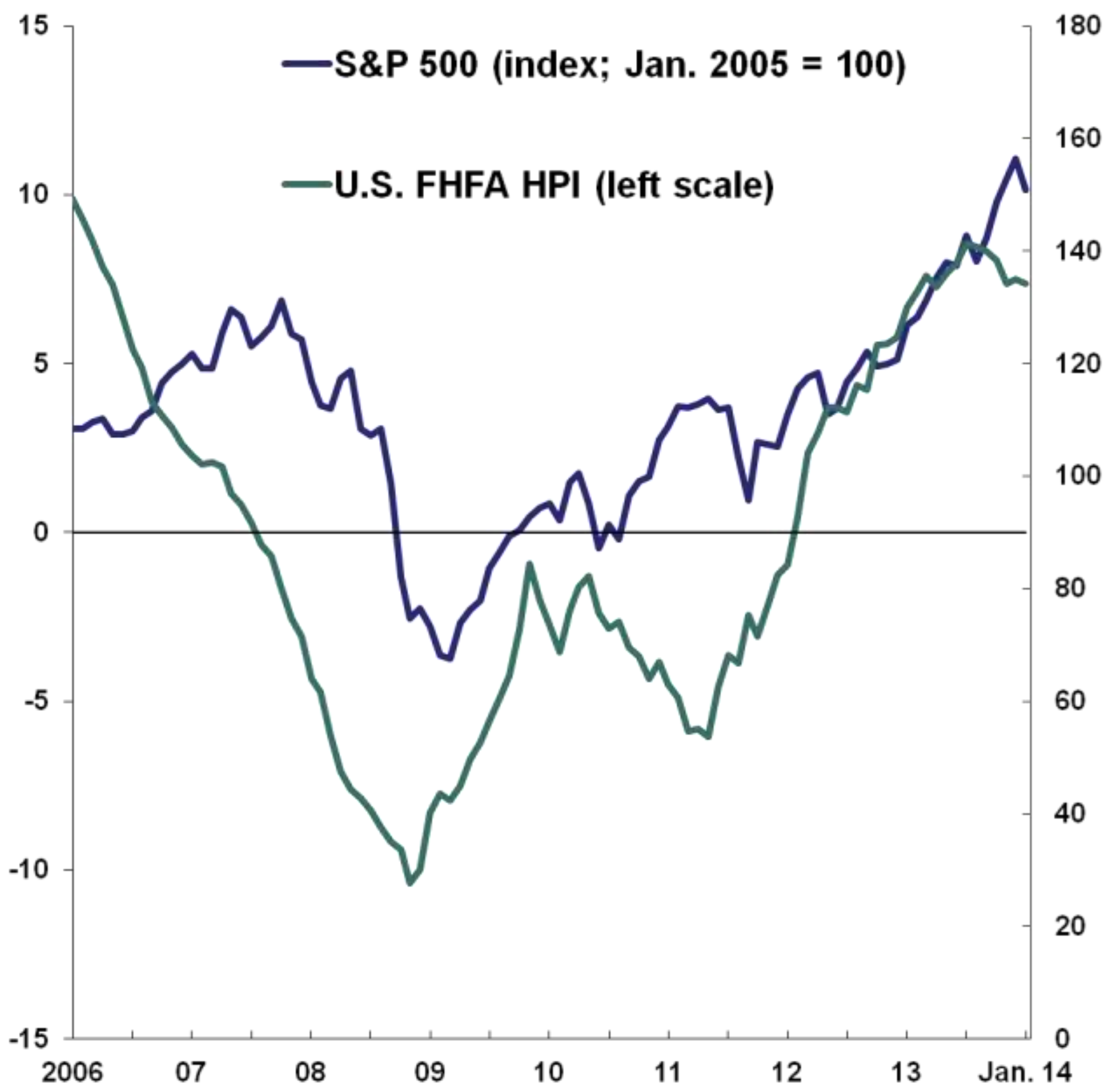
…but it will be uneven



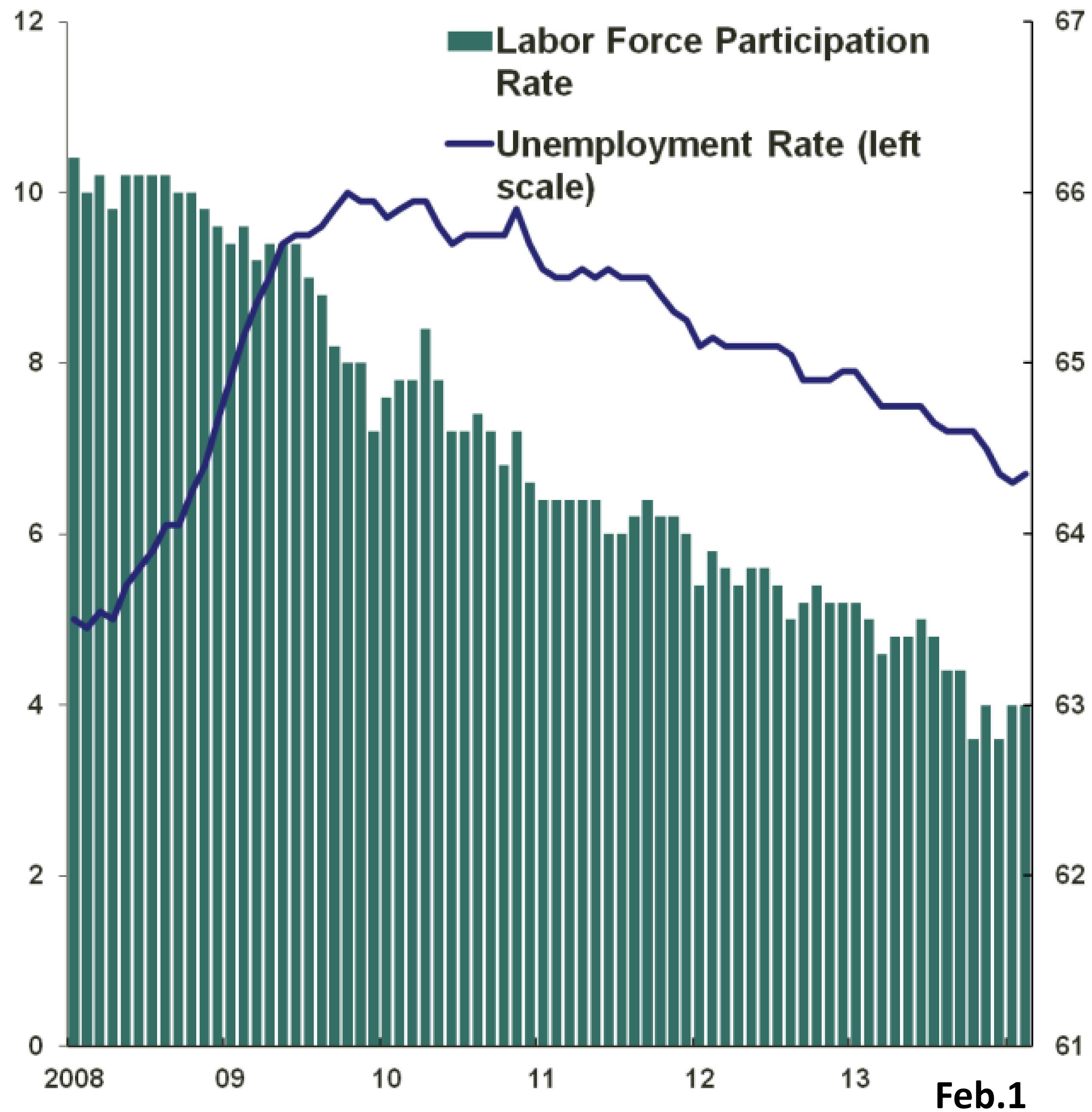
Sources: IMF, World Economic Outlook; and IMF staff calculations.

US consumer demand supported by housing and equity prices, and better labor market

House and Equity Prices
(year-over-year percent change)



U.S. Labor Market
(percent)

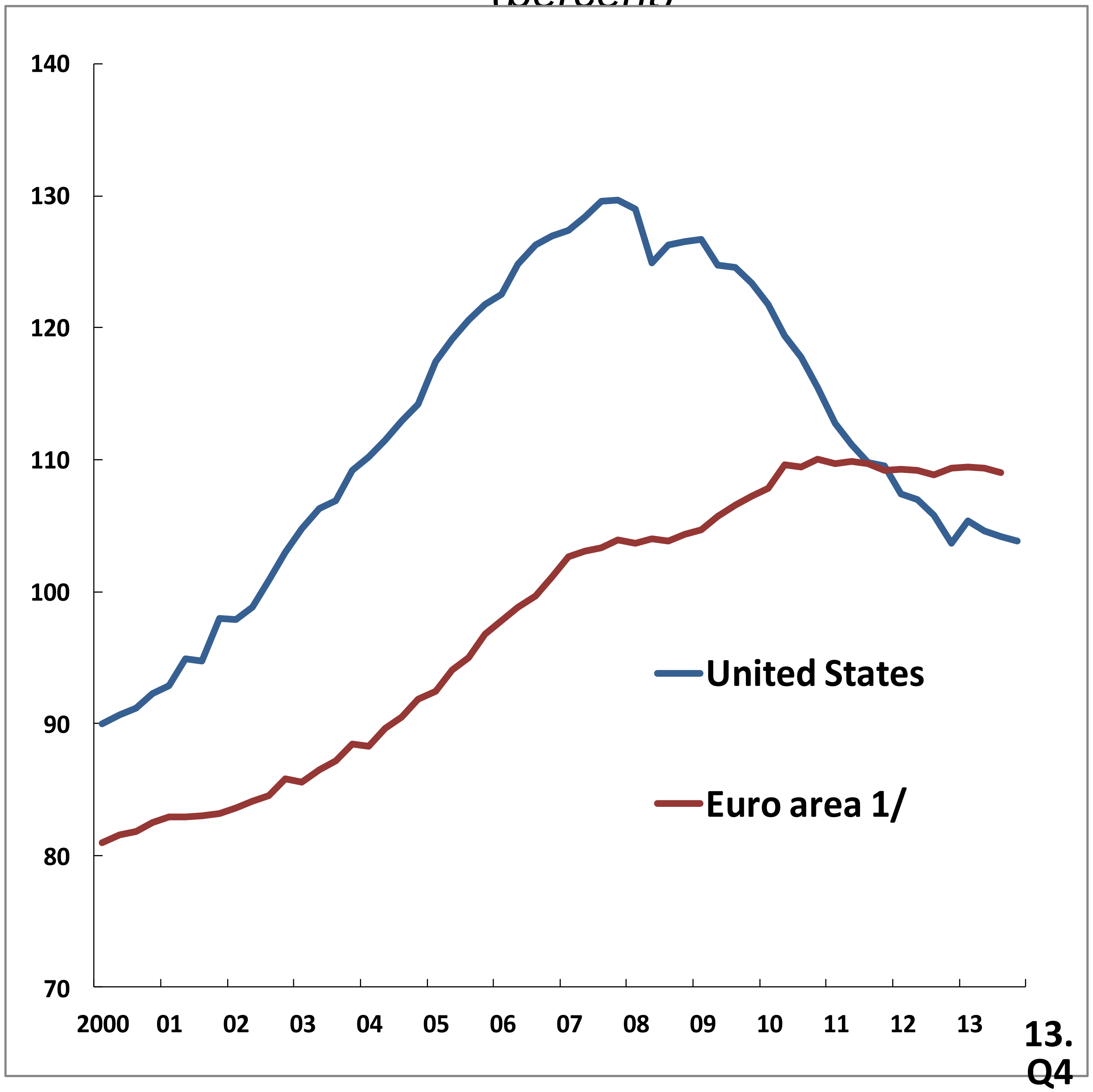


Feb.14

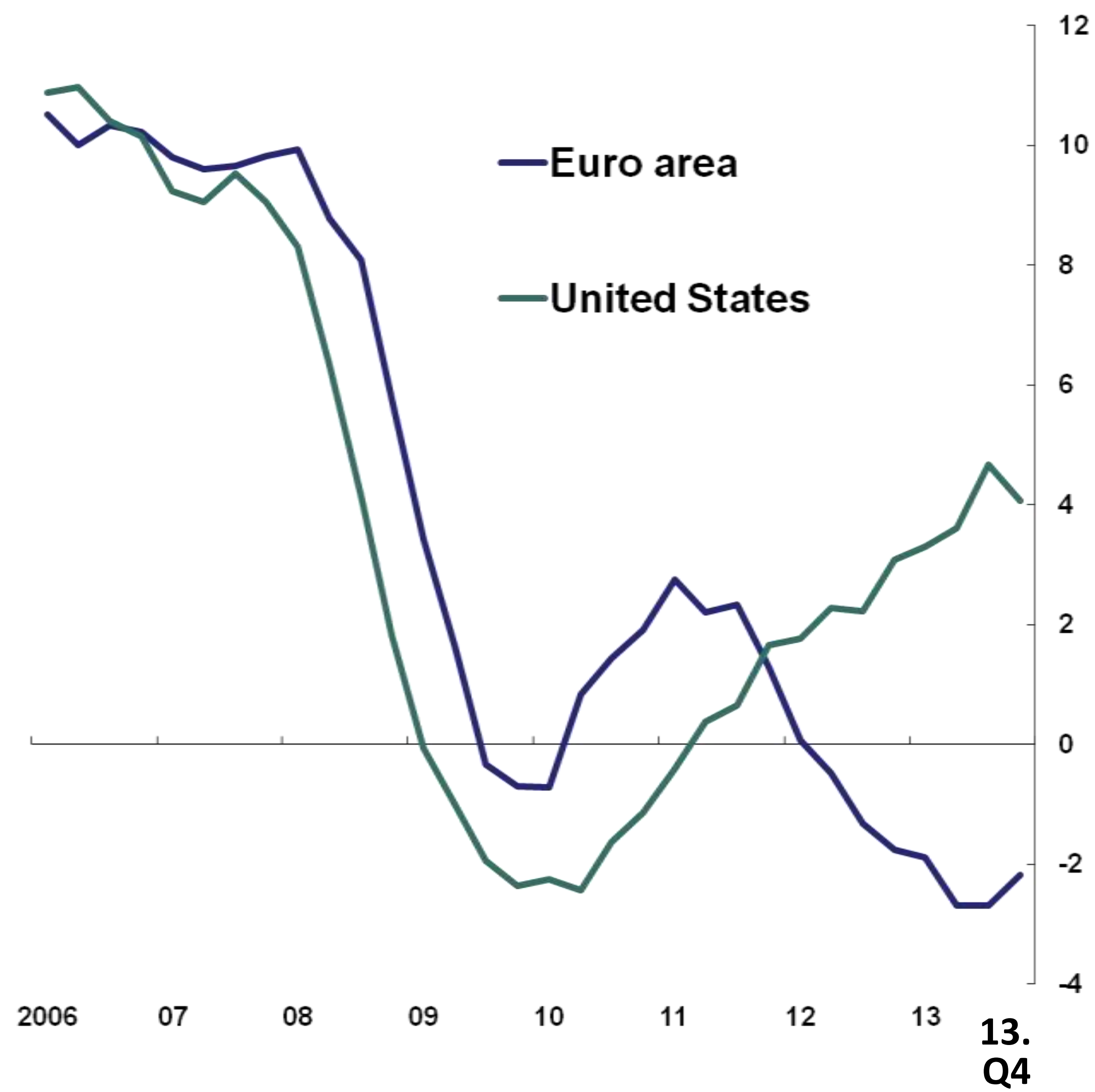
Source: Bloomberg, L.P.; Bureau of Labor Statistics; Federal Housing Finance Agency; Haver Analytics; and IMF staff calculations.
Note: FHFA HPI = Federal housing Finance Agency Housing Price index.

US also helped by falling HH debt & credit conditions: contrast to Europe…

Household (HH) Debt-to-Income Ratio
(percent)

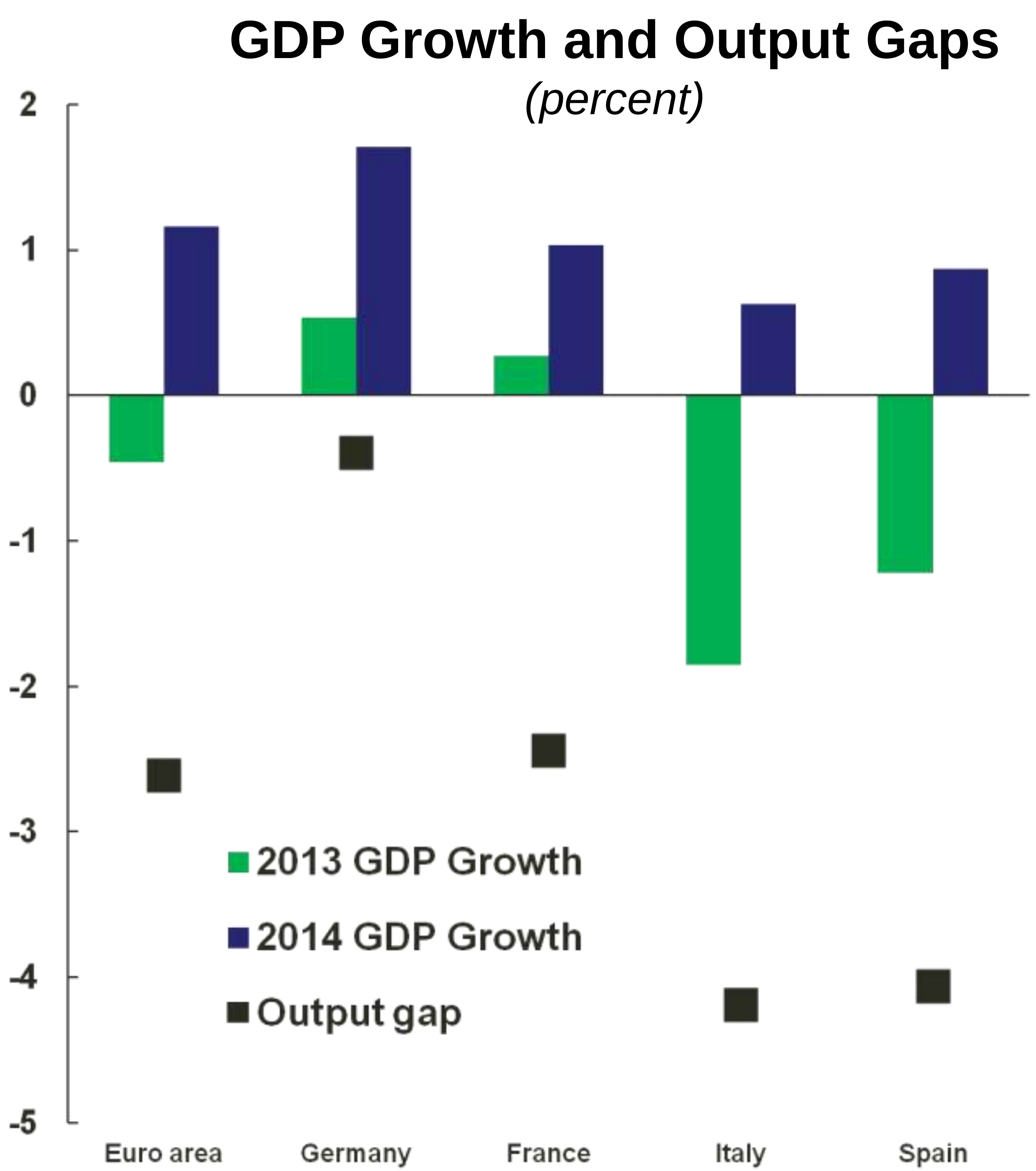


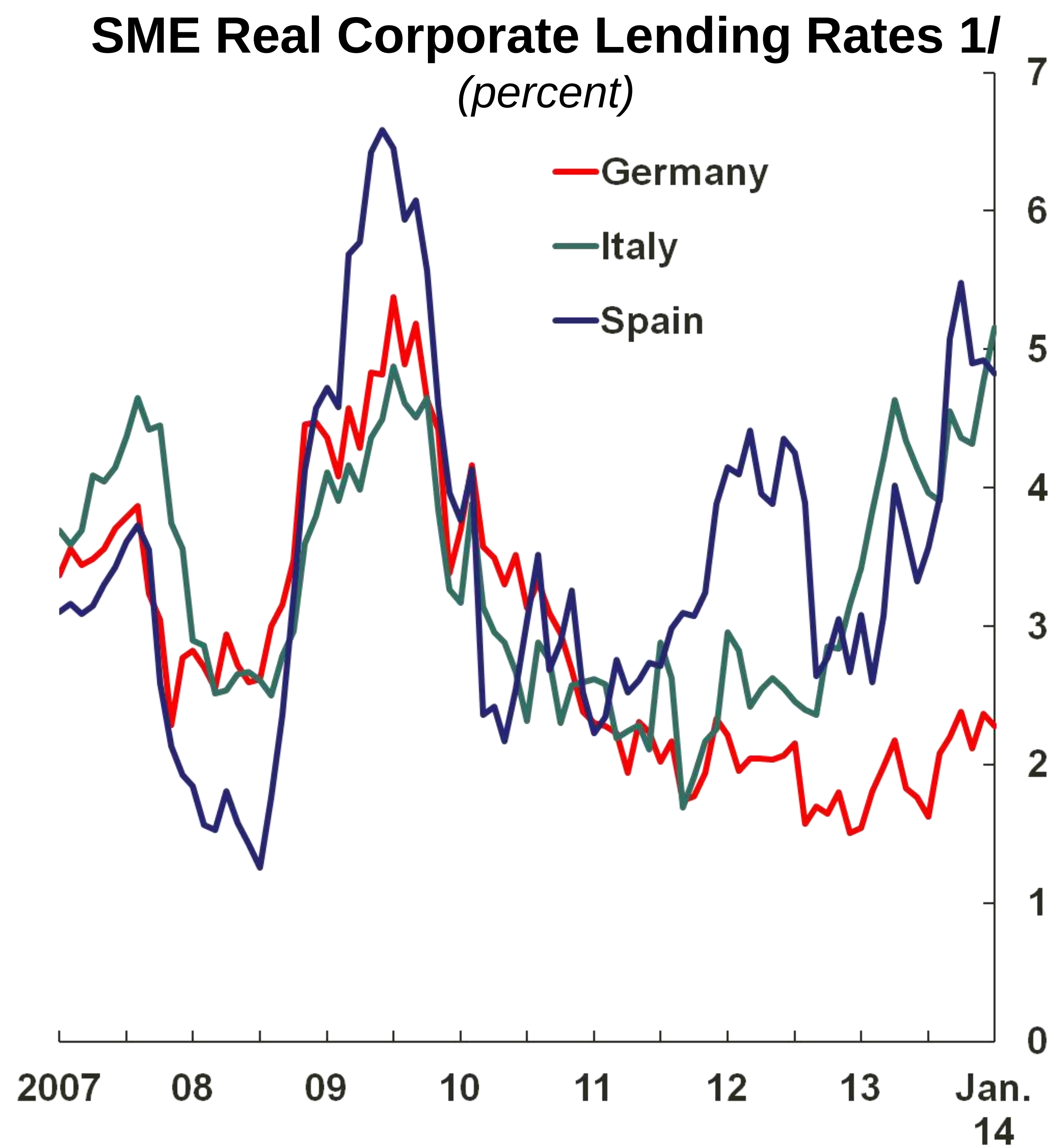
Nonfinancial Firm and HH Credit Growth
(year-over-year percent change)



Sources: Haver Analytics; and IMF staff calculations.
1/ Euro area includes subsector employers (including own-account workers).

… where growth has picked up, but debt and financial fragmentation persist





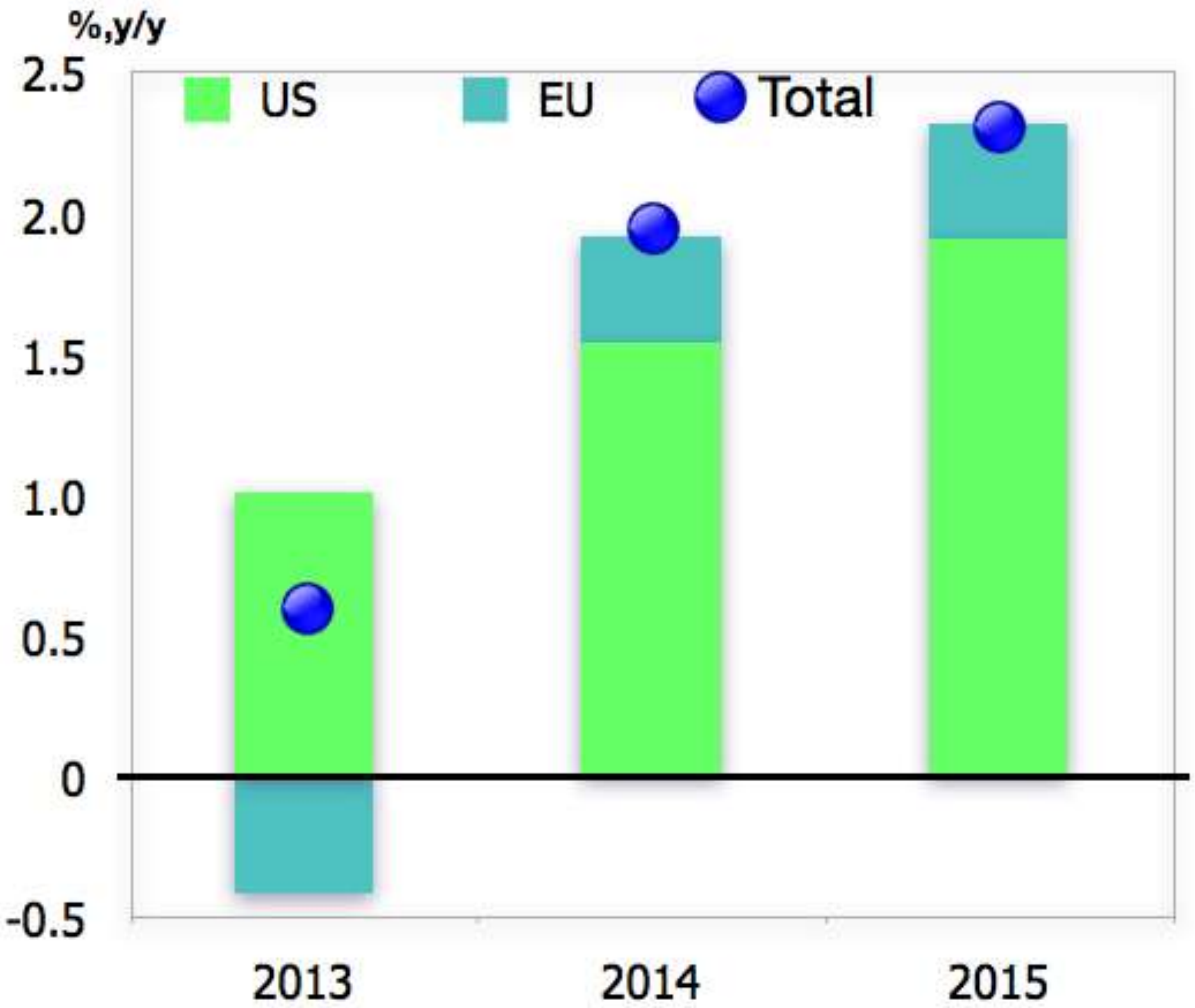
Sources: European Central Bank (ECB); Haver Analytics; and IMF staff estimates.
1/ Monetary and financial institutions' lending to corporations under €1 million, 1–5 years.

Turning to Asia: Key Messages from Asia REO

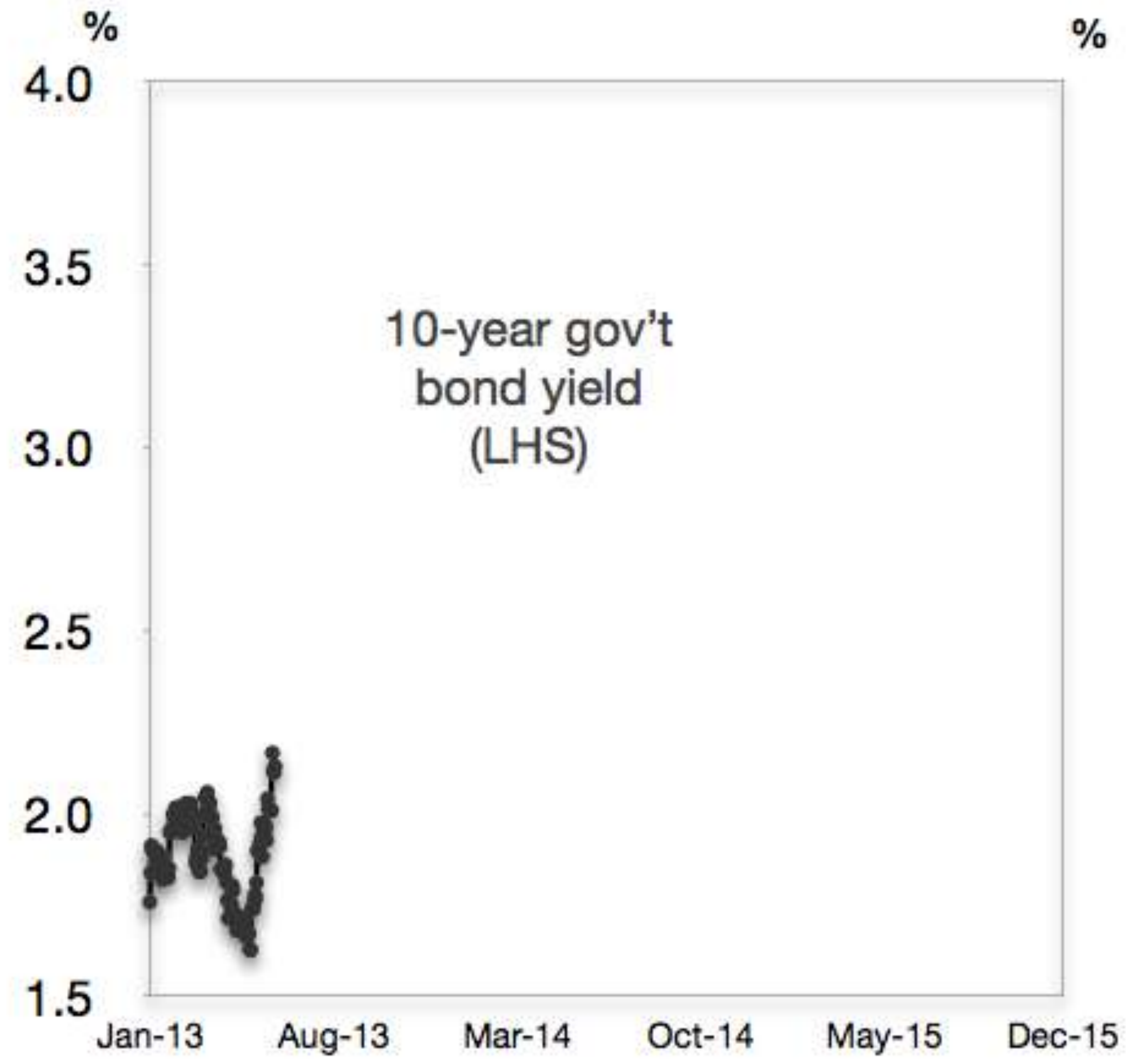
- **Asia remains most dynamic region in the world**
- **Risks from outside Asia have receded**
- **But need for vigilance and reforms**

Drivers: supportive global environment on balance

Domestic Demand from EU and US



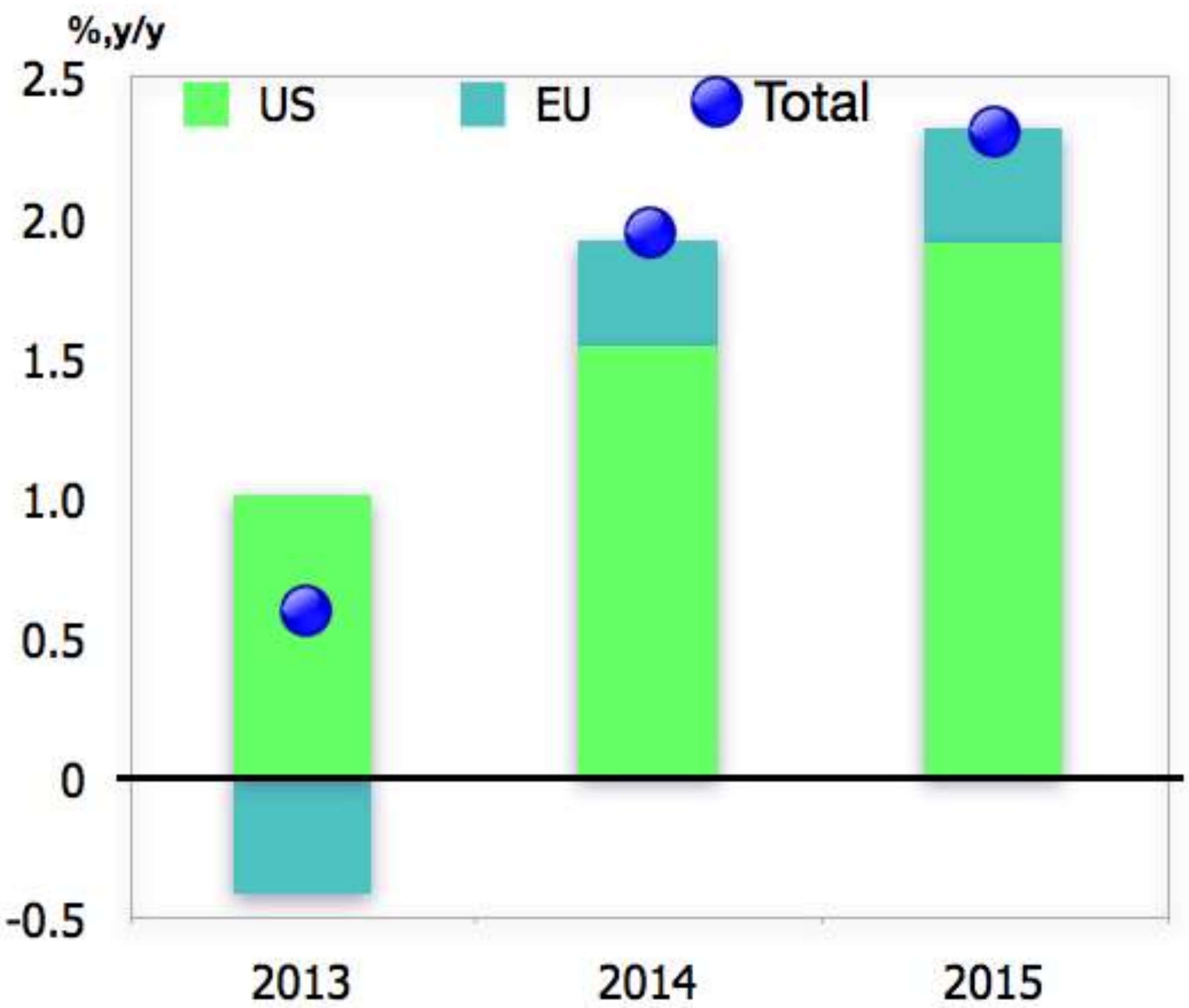
US Interest Rates



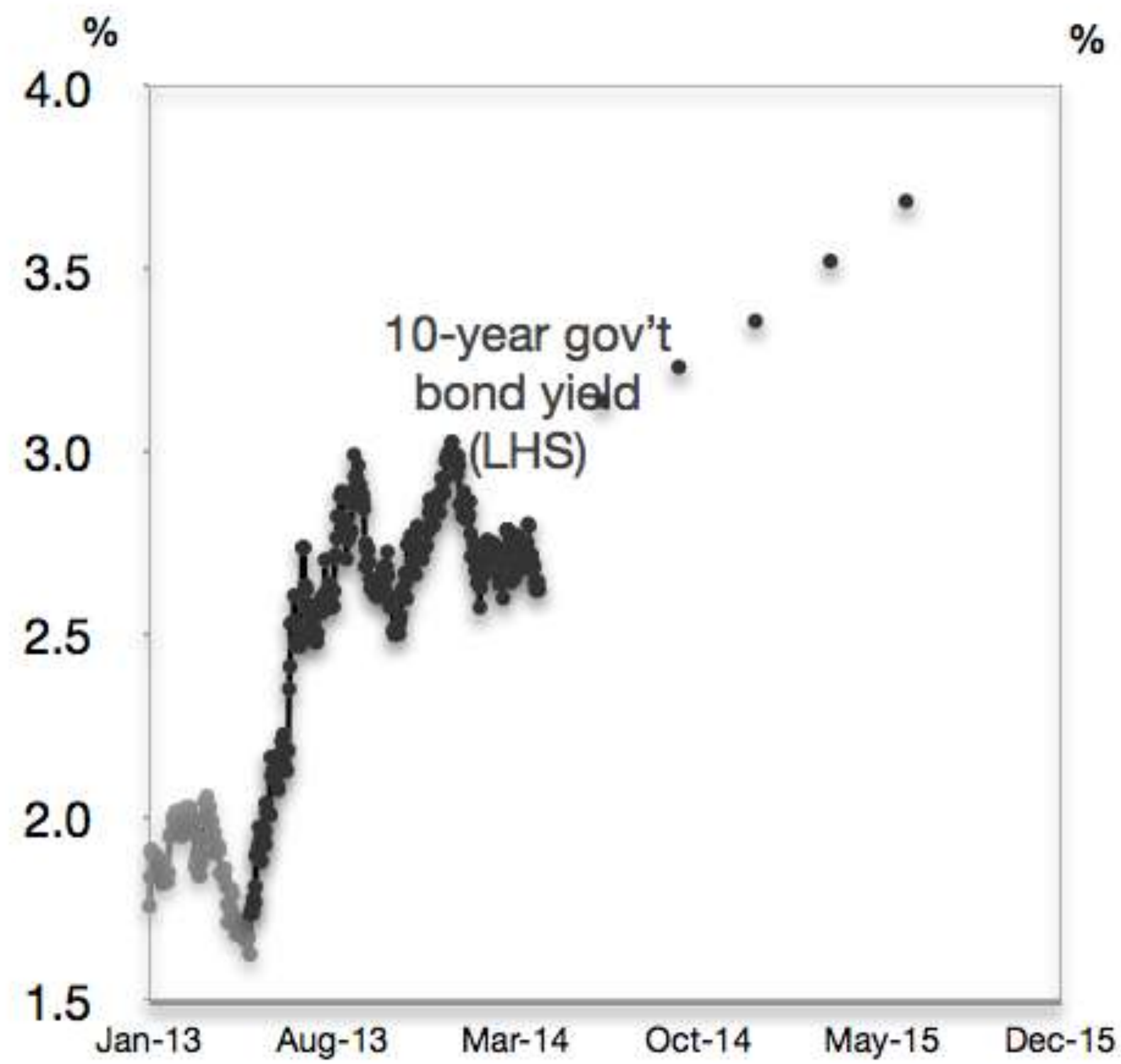
Outlook

Drivers: supportive global environment on balance

Domestic Demand from EU and US



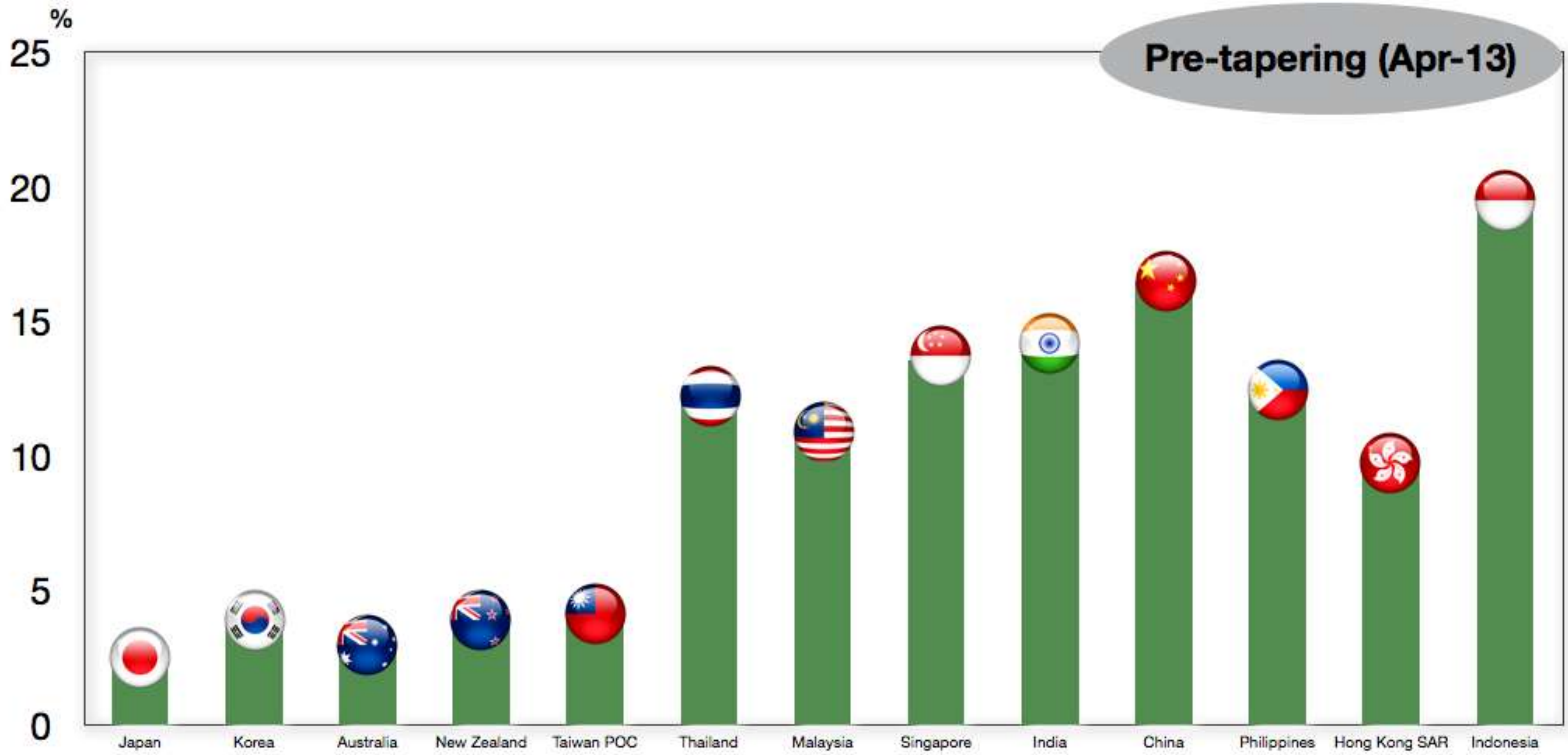
US Interest Rates



Outlook

Drivers: resilient domestic demand supported by solid credit growth

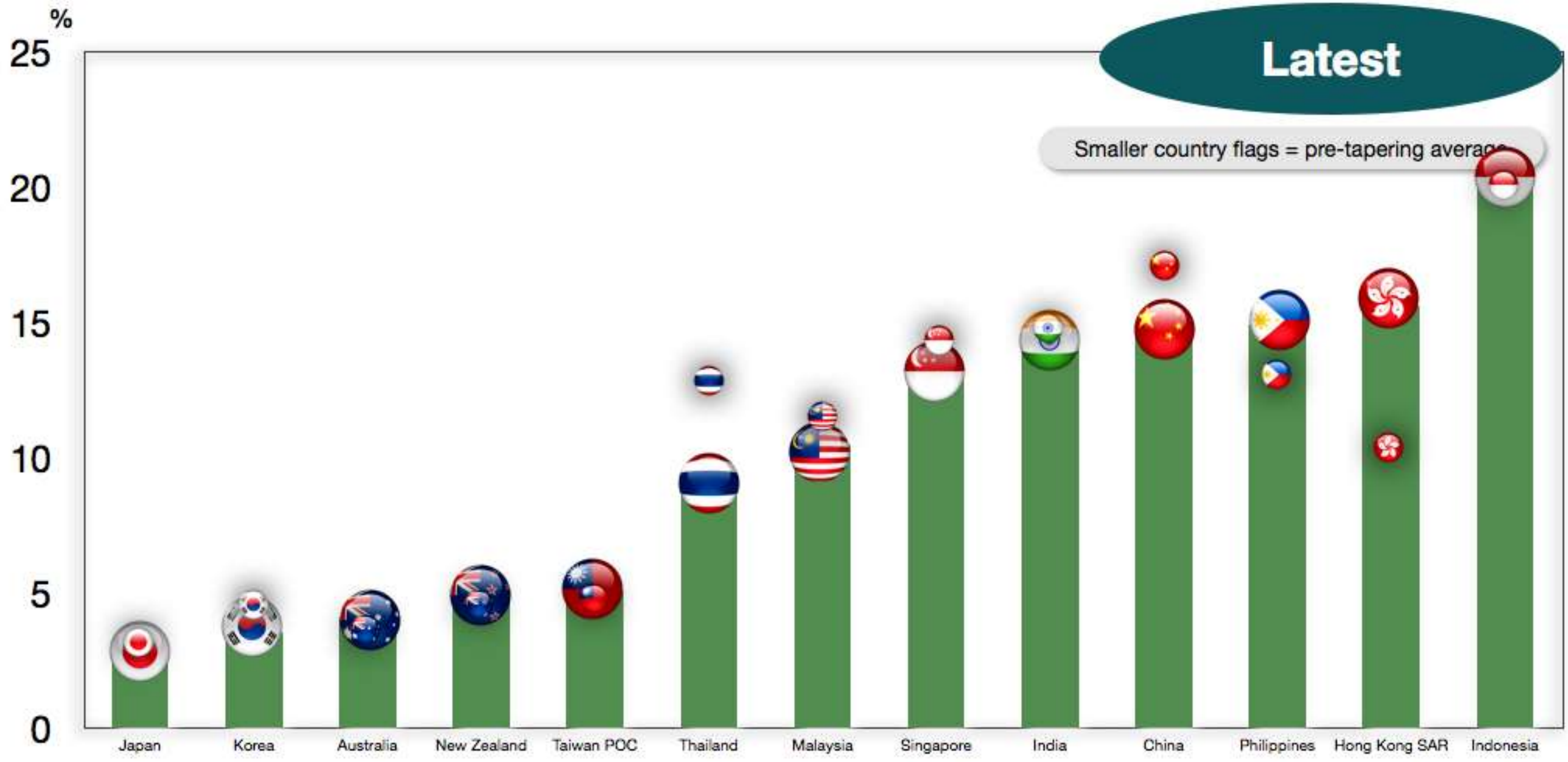
Credit to Private Sector Growth



Outlook

Drivers: resilient domestic demand supported by solid credit growth

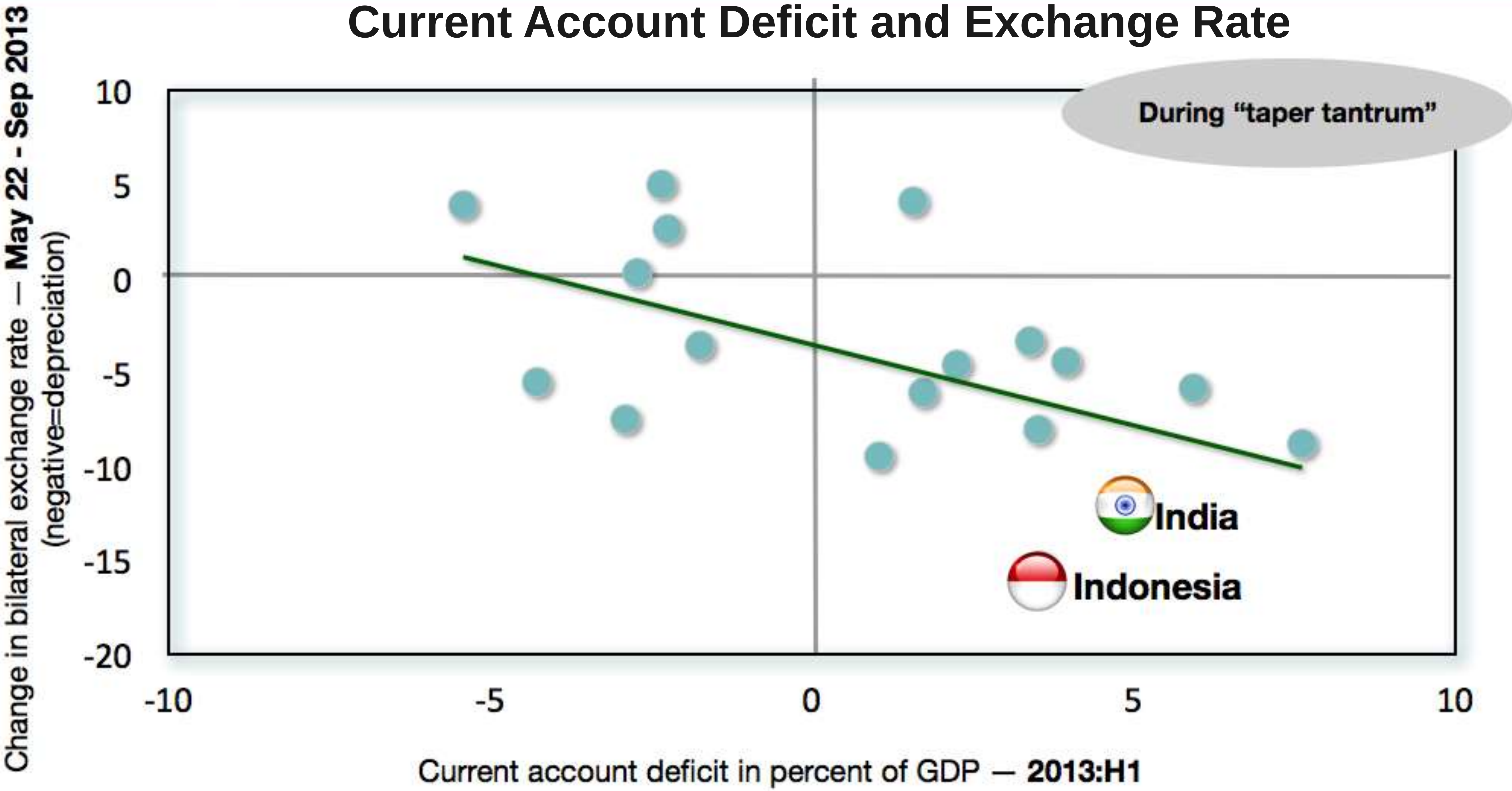
Credit to Private Sector Growth



Outlook

Drivers: actions taken to reduce vulnerabilities are bearing fruit

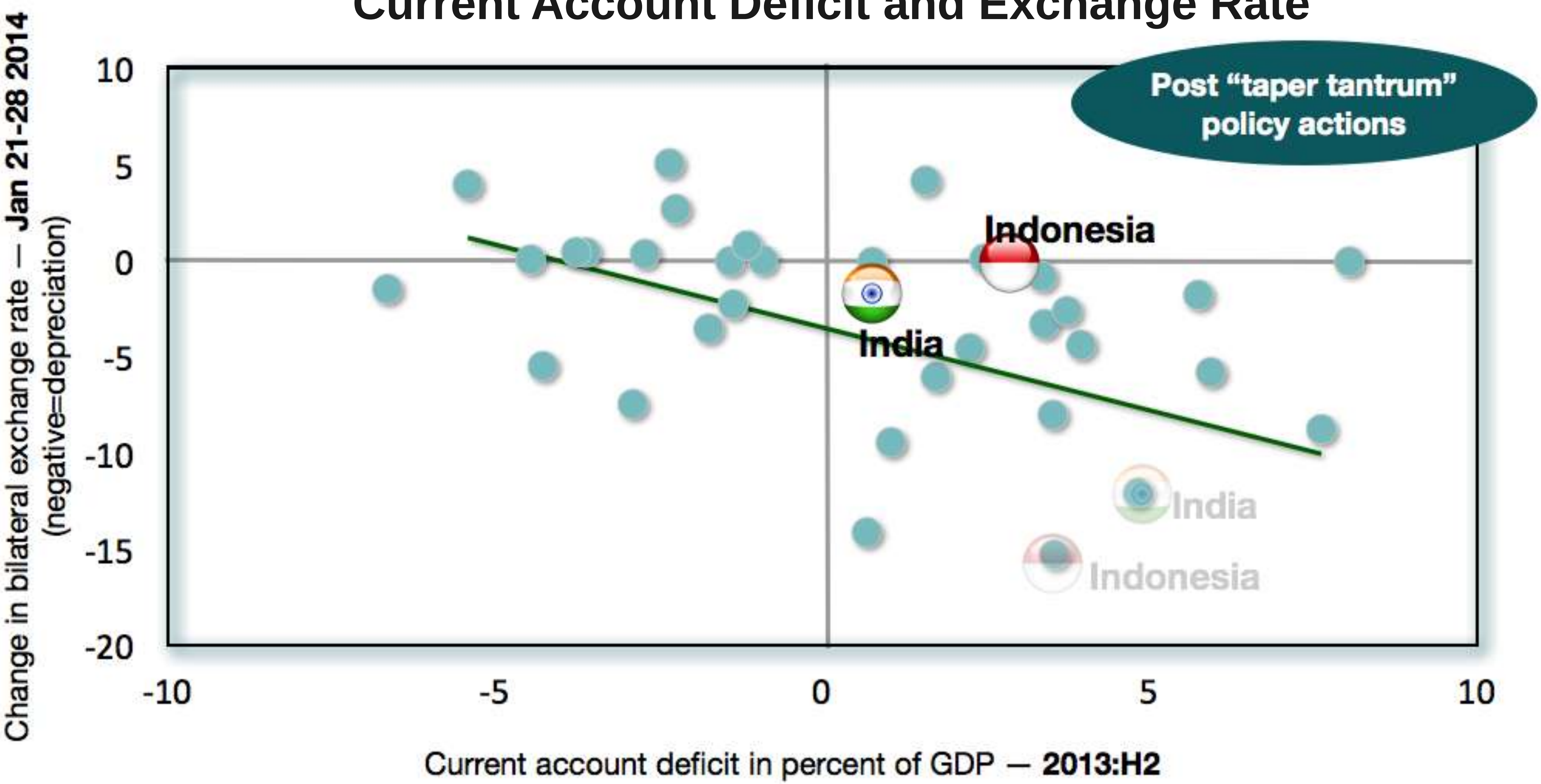
Current Account Deficit and Exchange Rate



Outlook

Drivers: actions taken to reduce vulnerabilities are bearing fruit

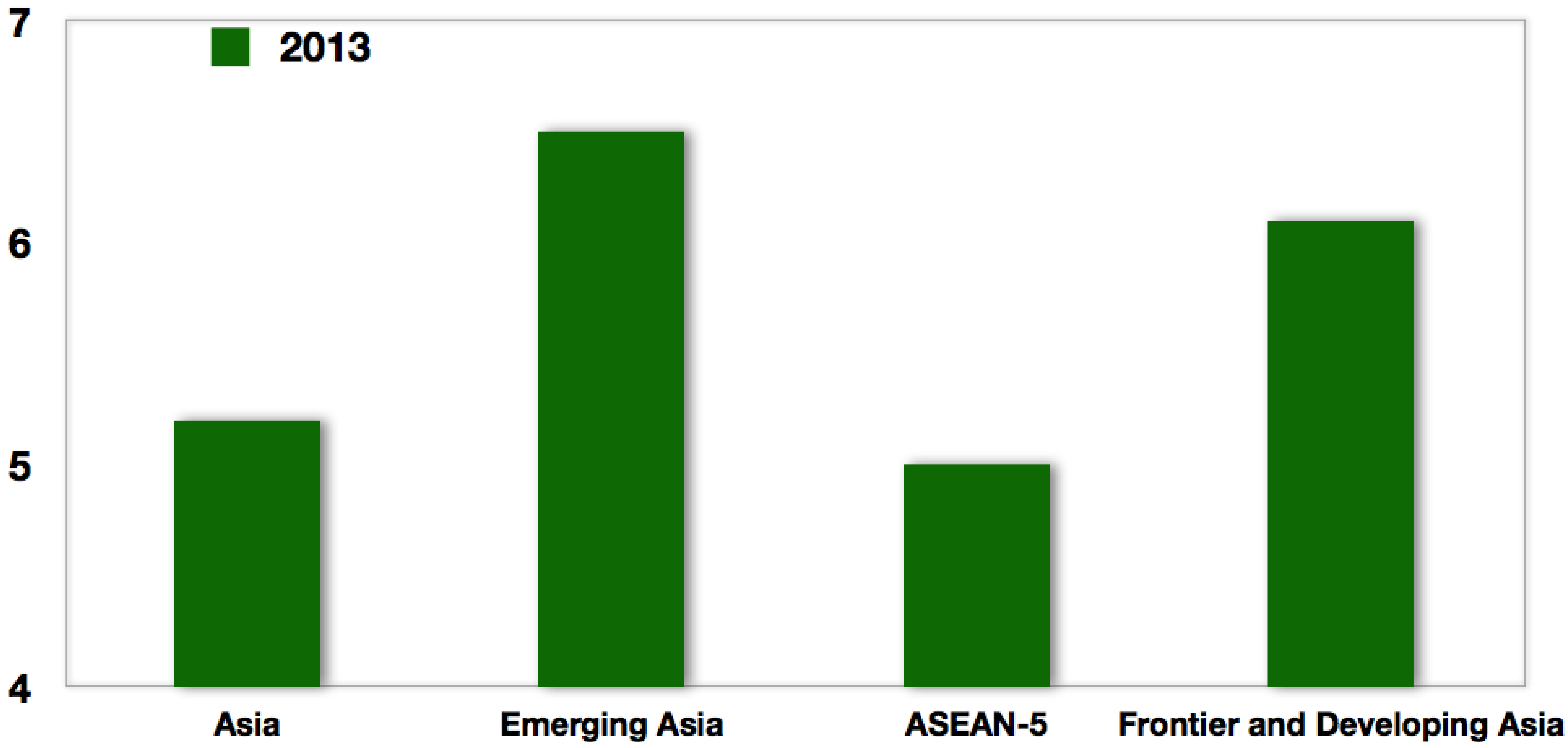
Current Account Deficit and Exchange Rate



Outlook

Steady growth ahead...

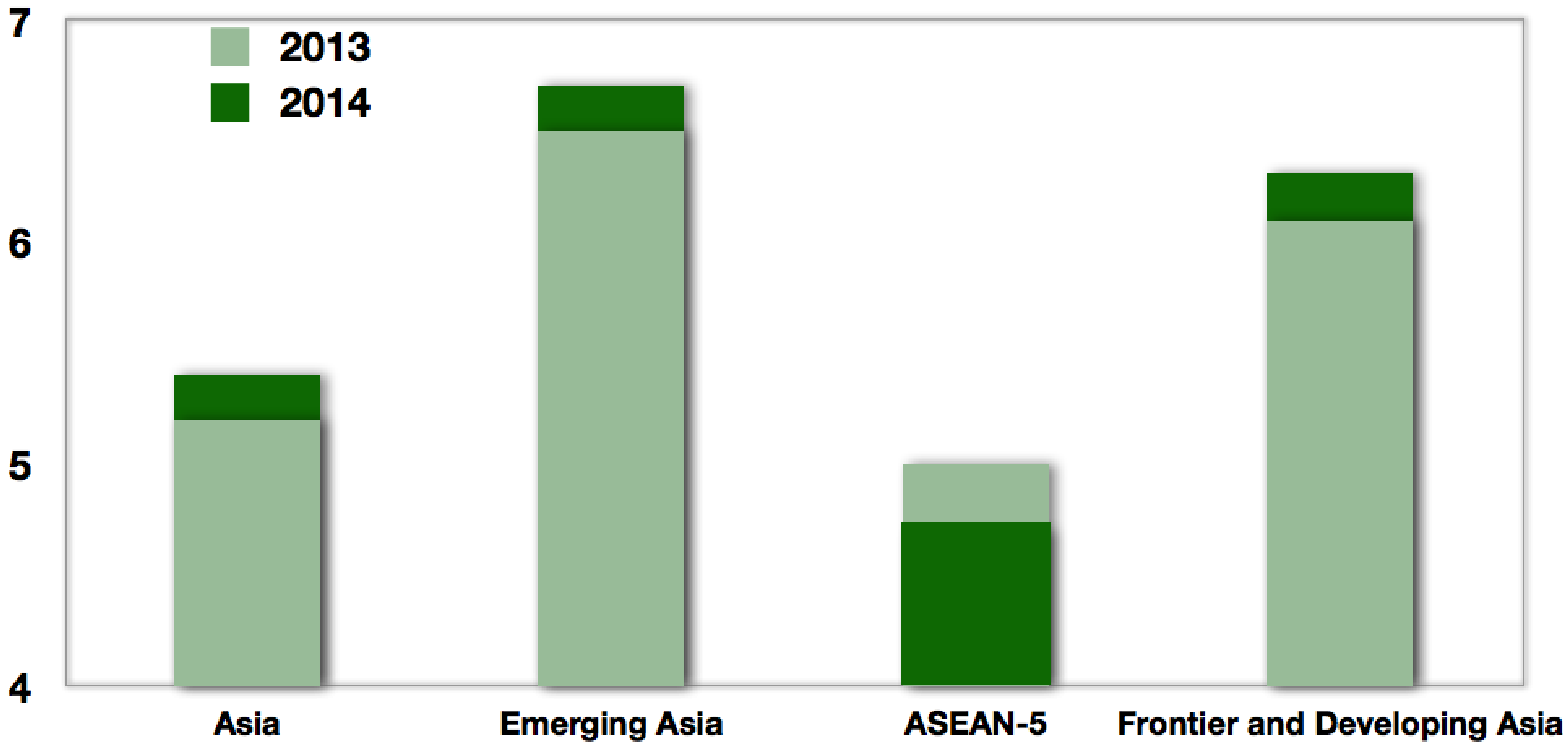
Asia: Real GDP Growth by Region



Outlook

Steady growth ahead...

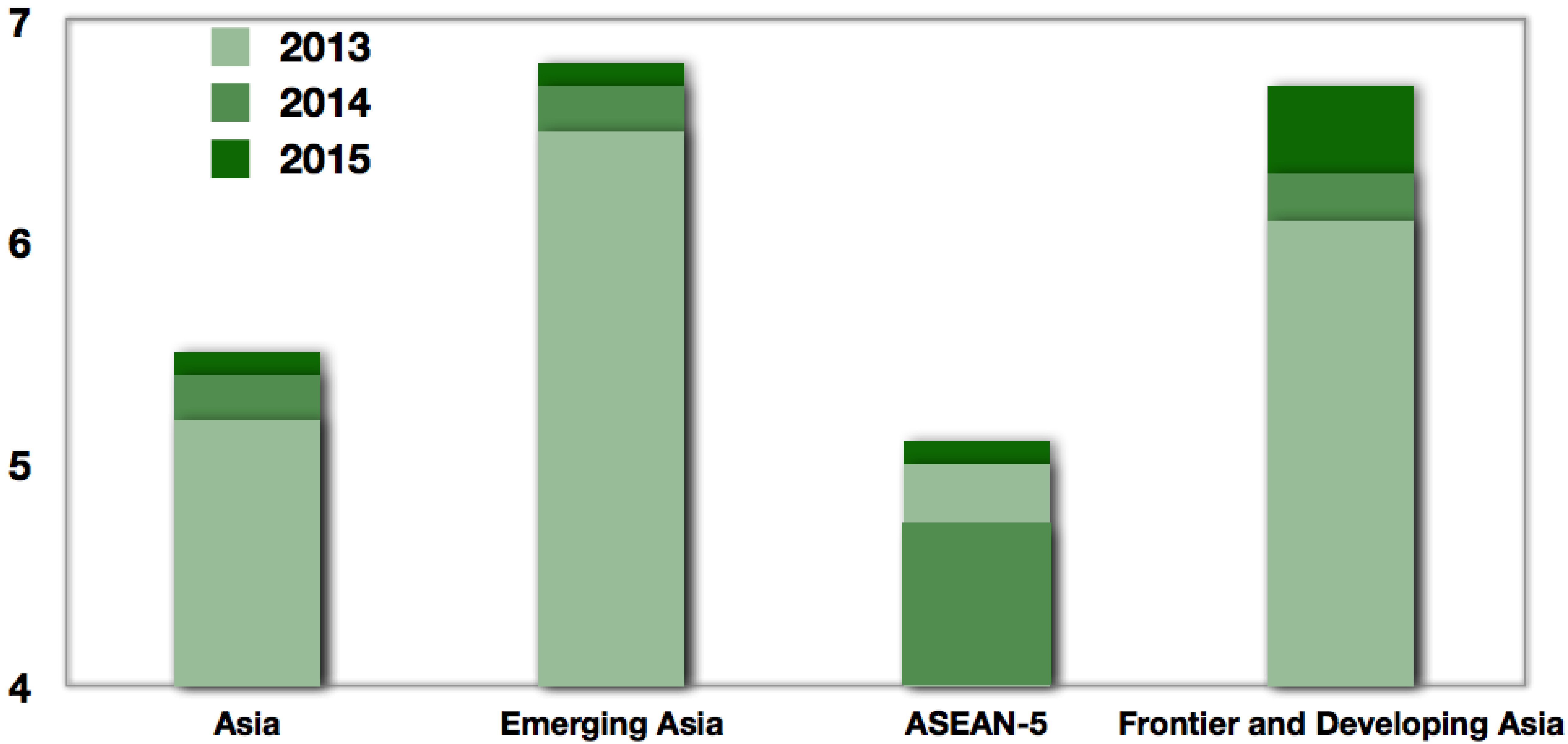
Asia: Real GDP Growth by Region



Outlook

Steady growth ahead...

Asia: Real GDP Growth by Region



Outlook

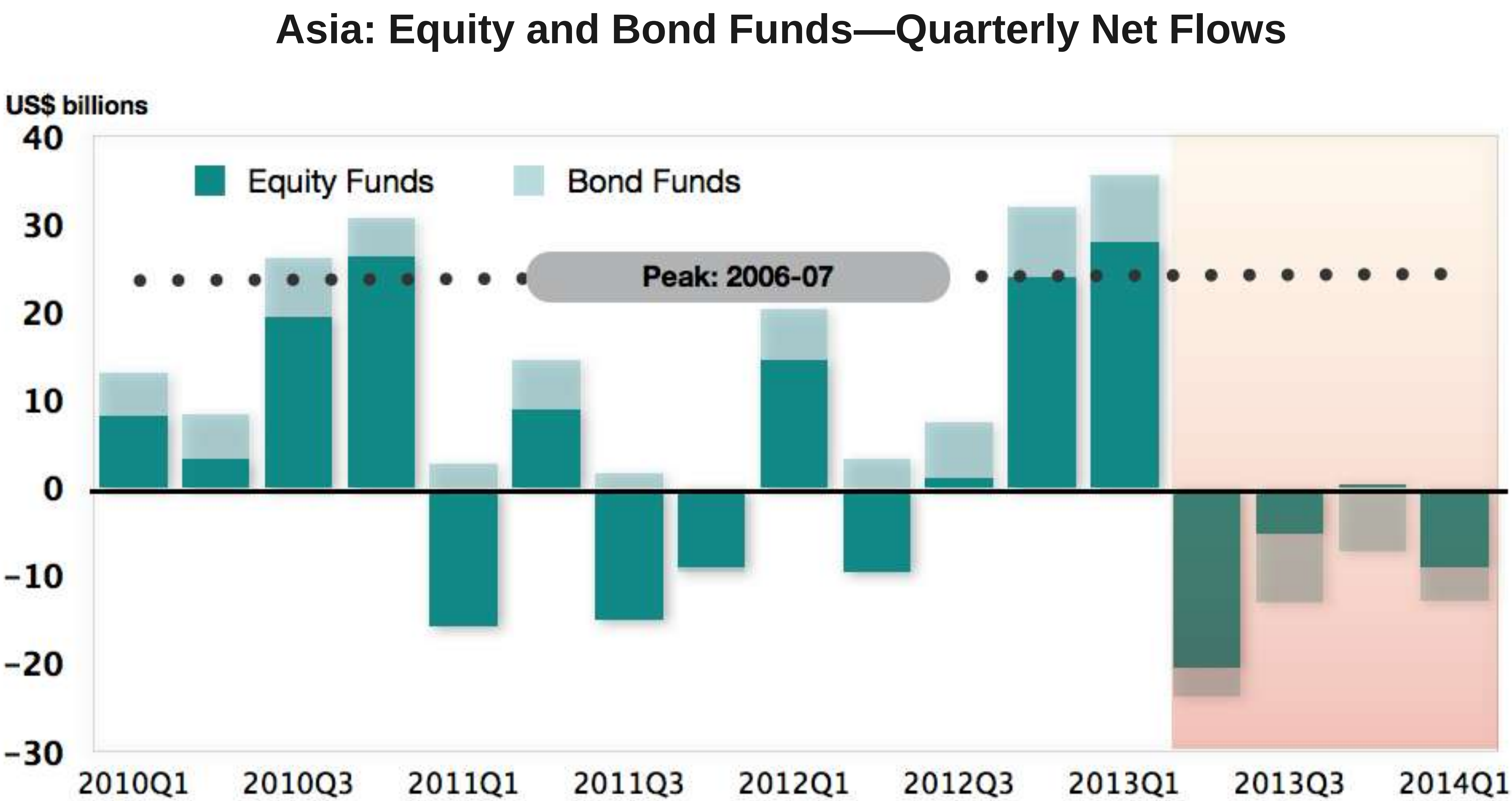
Risks – three of them

1) Tightening of global liquidity

2) Corporate leverage

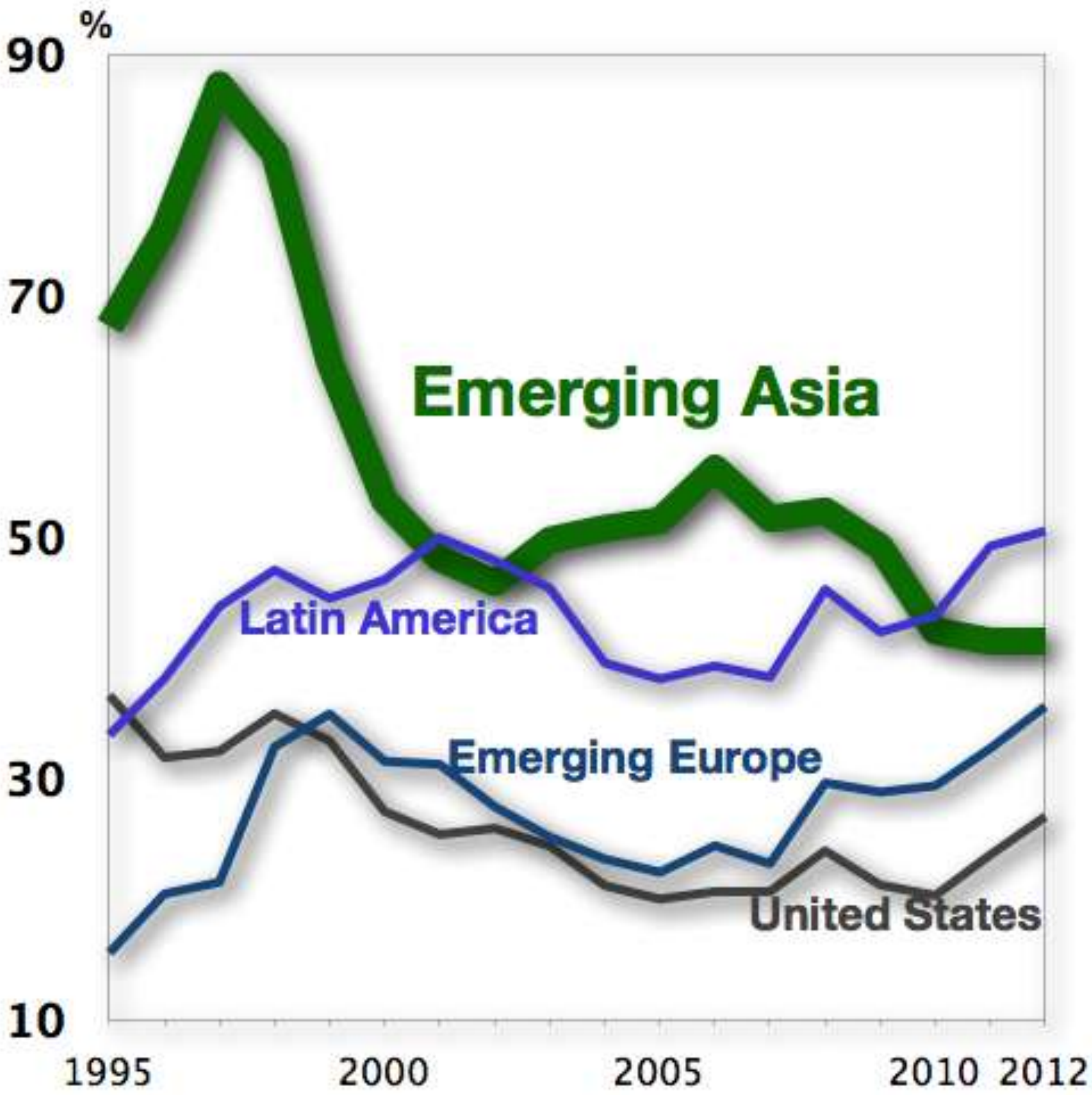
3) China: slowdown welcome, but sharp one would have spillovers

1) Unexpected tightening of global liquidity could lead to new financial pressure

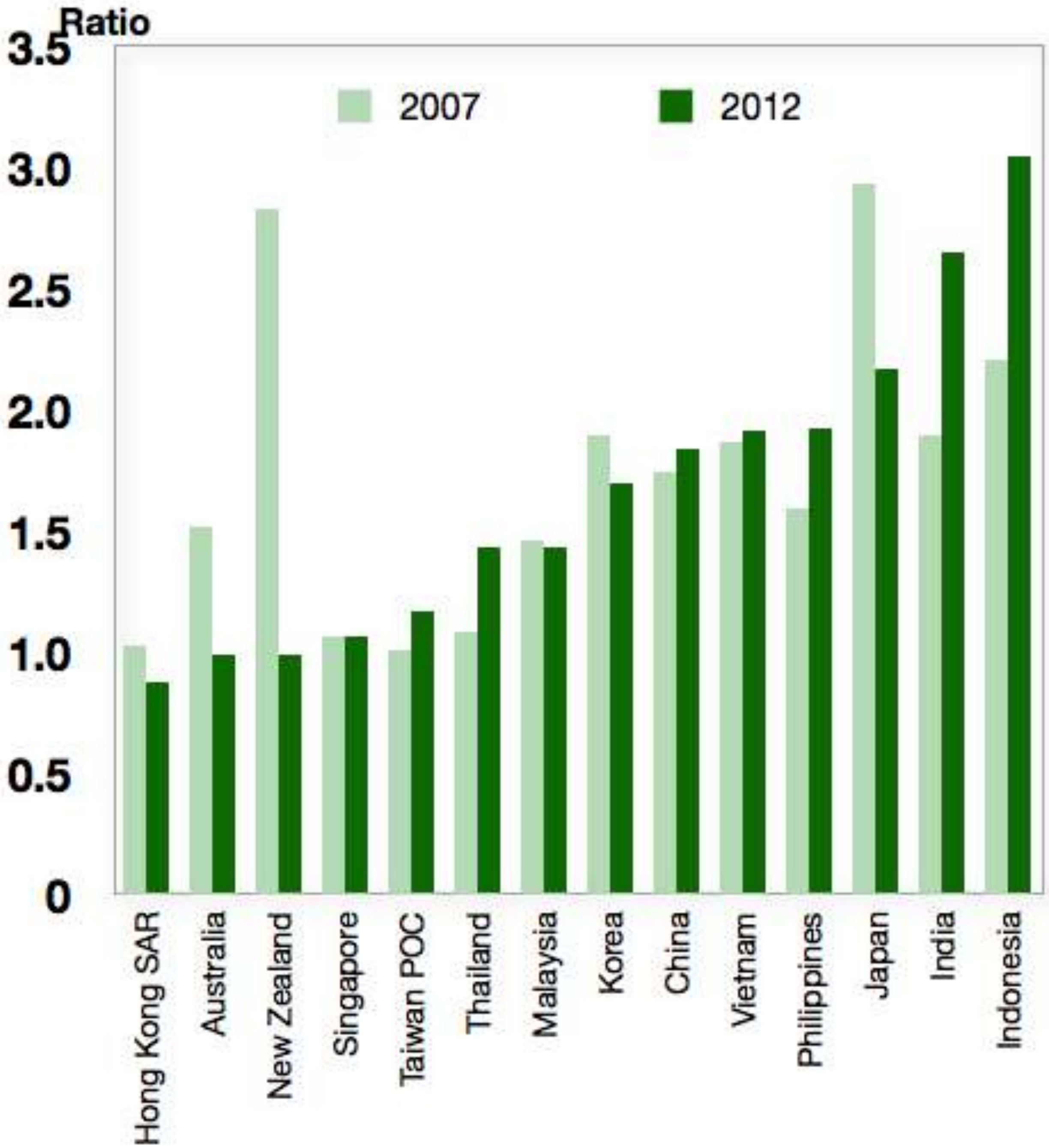


2) Corporate leverage could amplify impact, but no alarming build-up overall (chap 2)

Debt to Equity Ratio
(In percent; median for non-financial corporates)



Asia: Debt to Equity Ratio
(Ratio, total debt-weighted average)

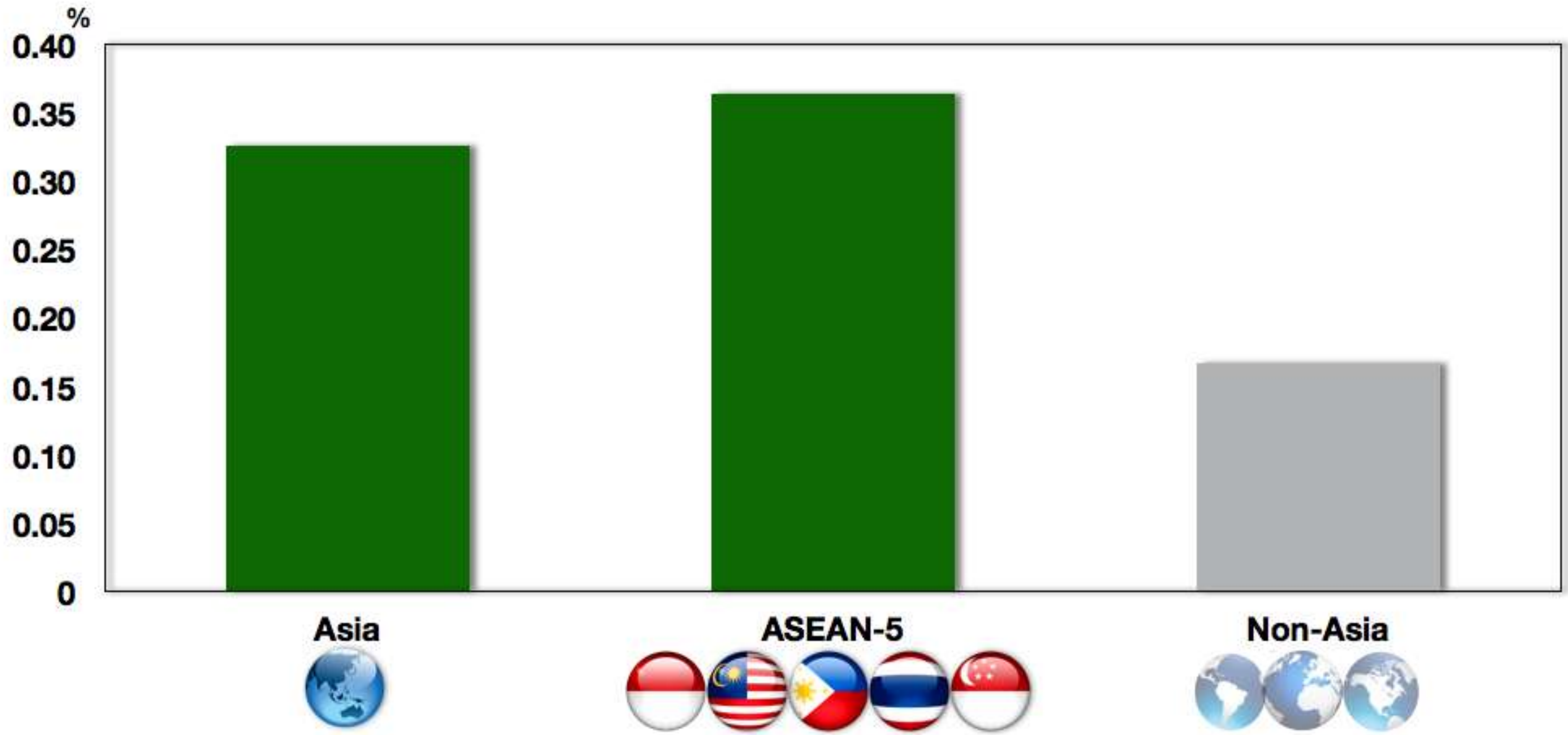


Outlook Risks

3) China: slowdown welcome, but sharp growth fall would have spillovers (chap 3)

Estimated Impact of 1% Growth Surprise in China on Partner Country Growth

(GDP growth impact after one year, in percentage points: Median)



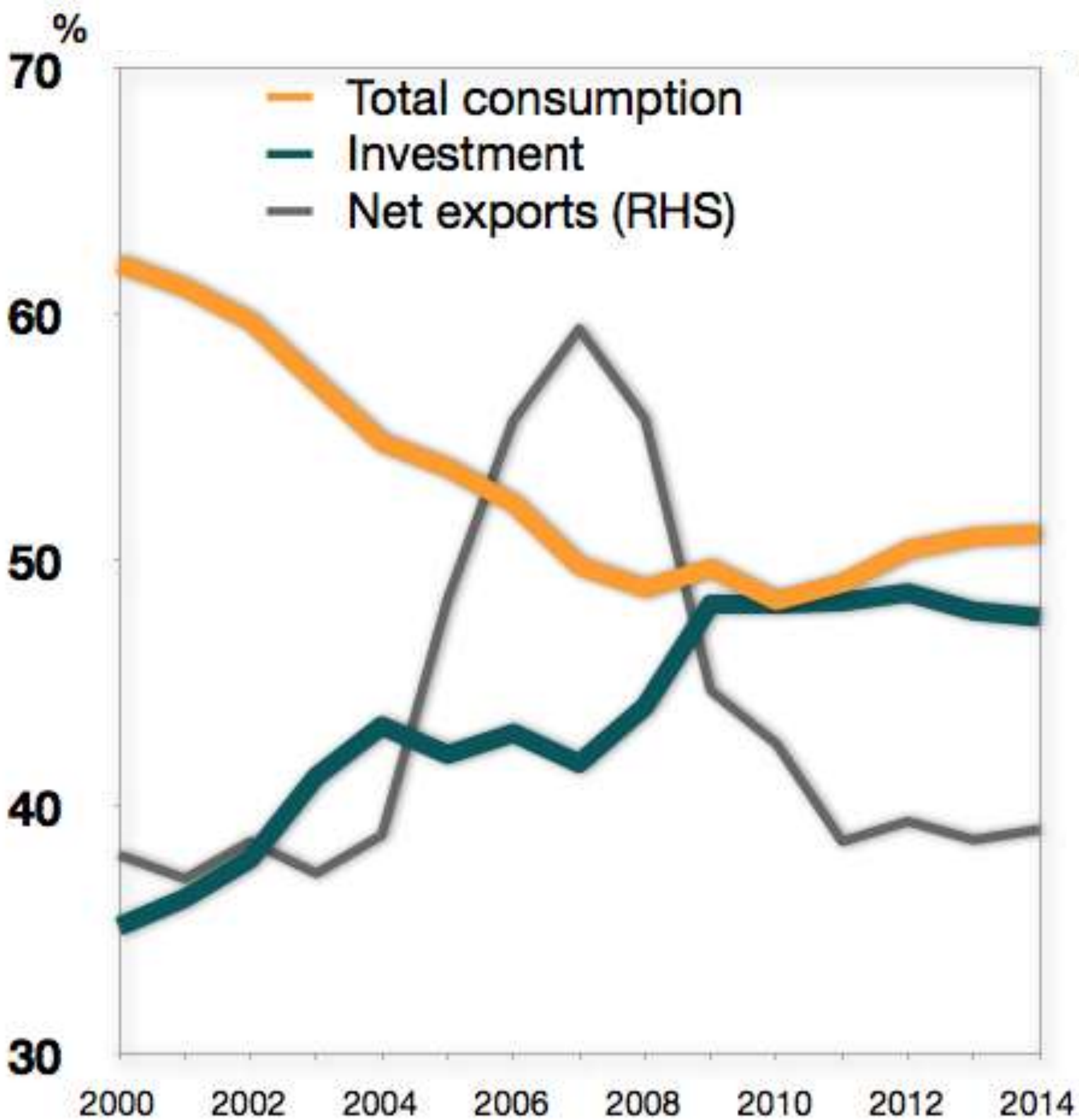
Sources: IMF, staff estimates (APD REO Chapter 3)

Outlook

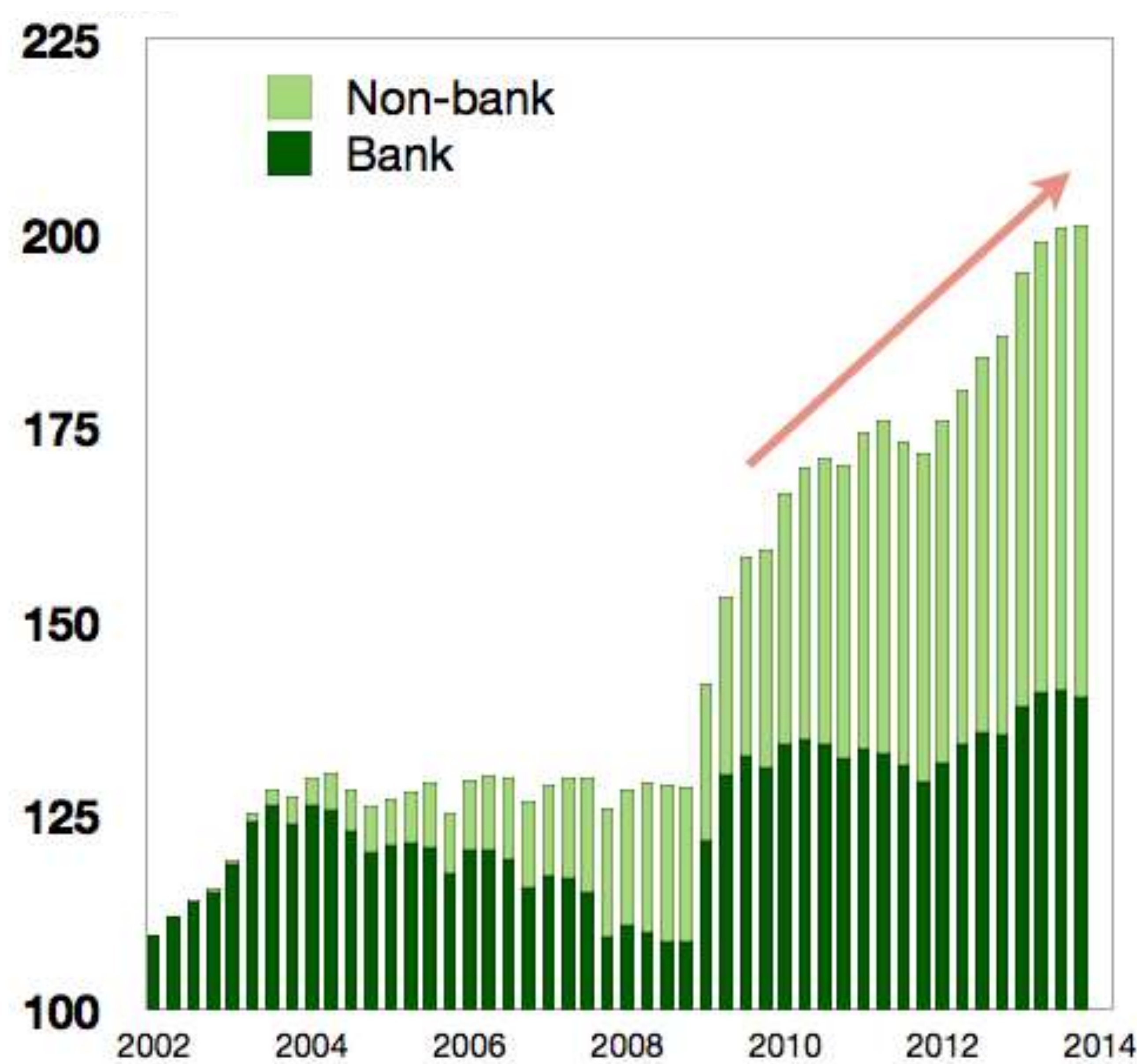
Risks

China: putting growth on a more sustainable path including by slowing credit growth

China: GDP Expenditure Components

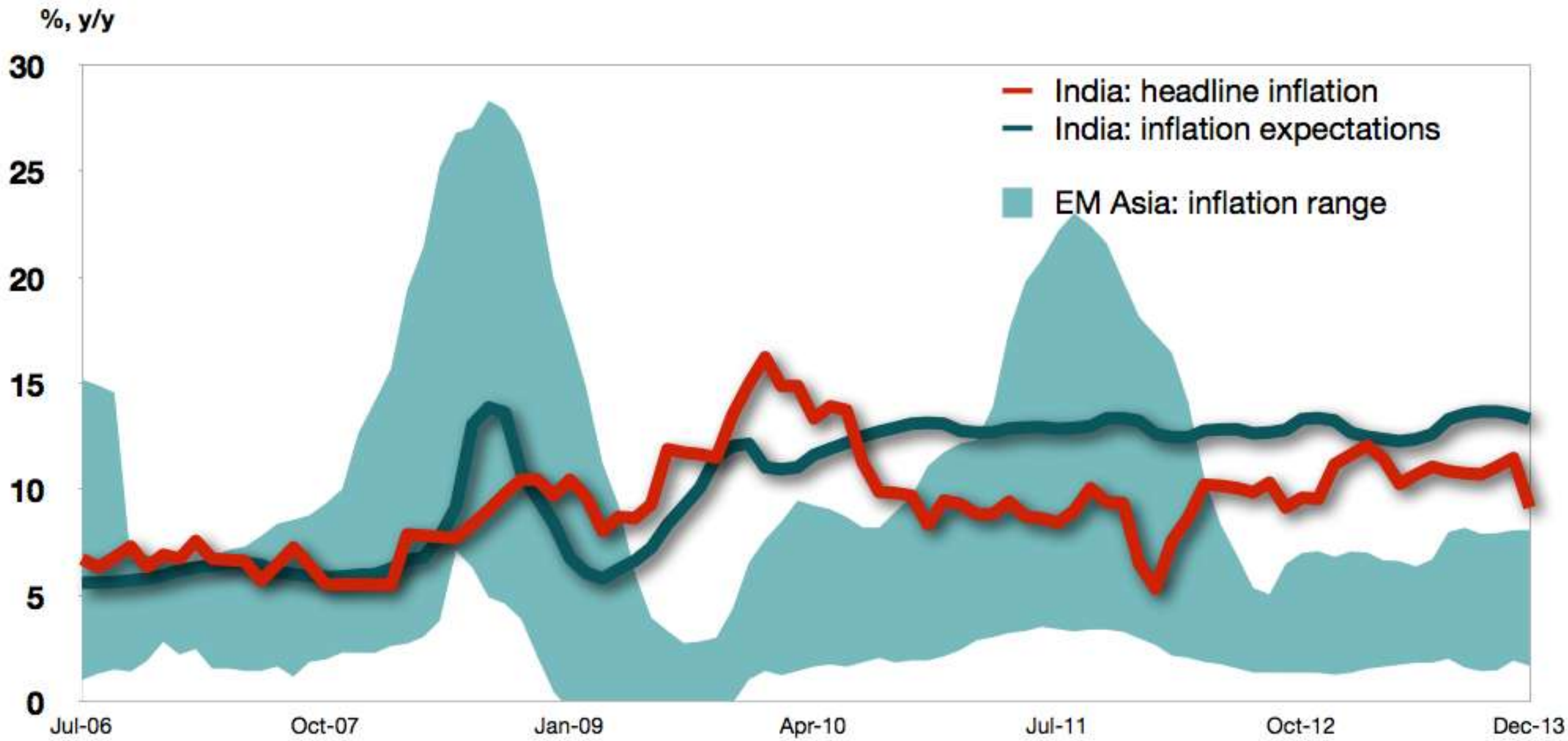


China: Social Financing Outstanding



India: addressing growth bottlenecks and high inflation

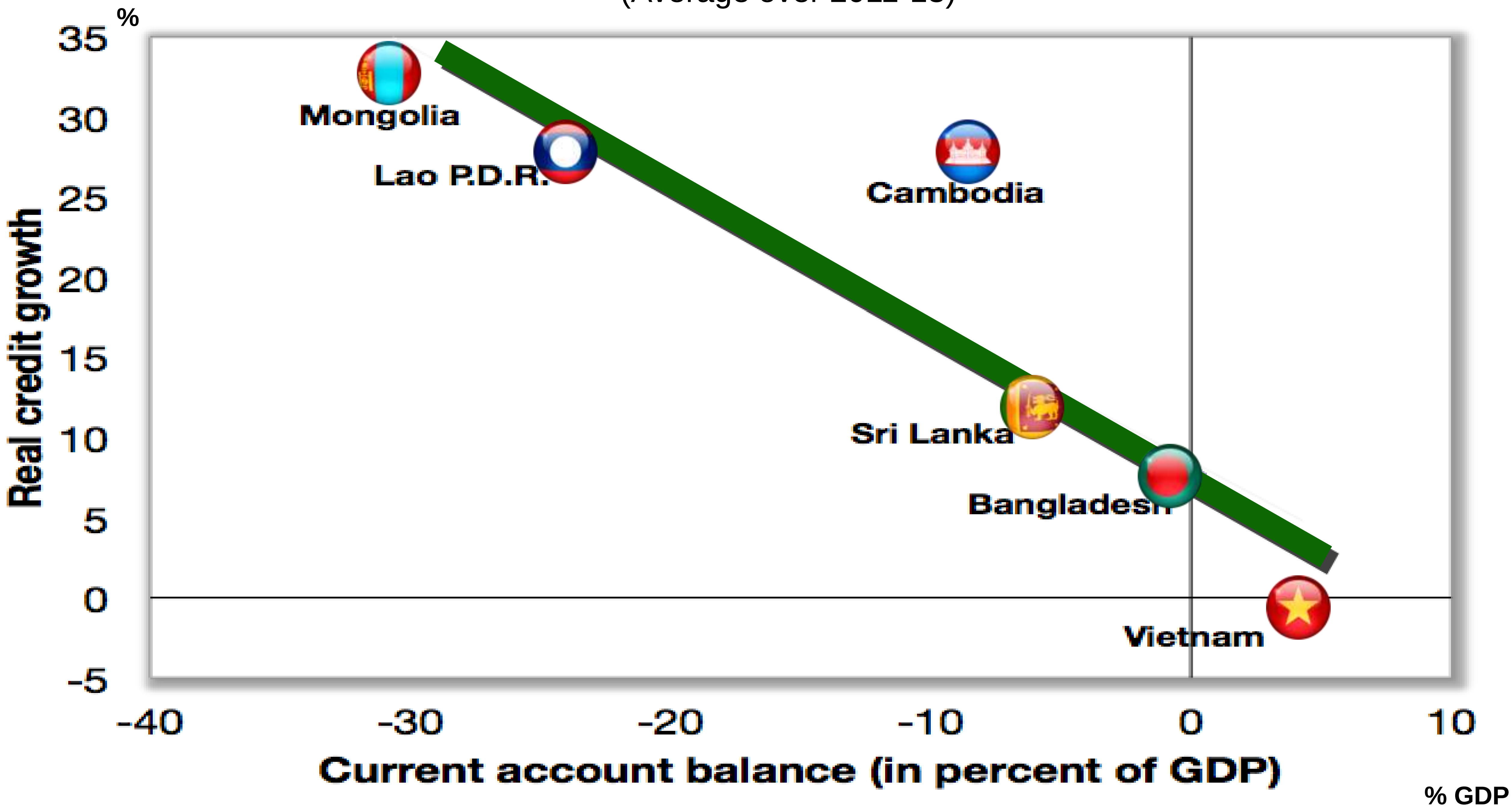
India vs. Emerging Asia: Headline Inflation



Frontier and developing economies: avoiding overheating and curbing imbalances

Current Account and Real Credit Growth

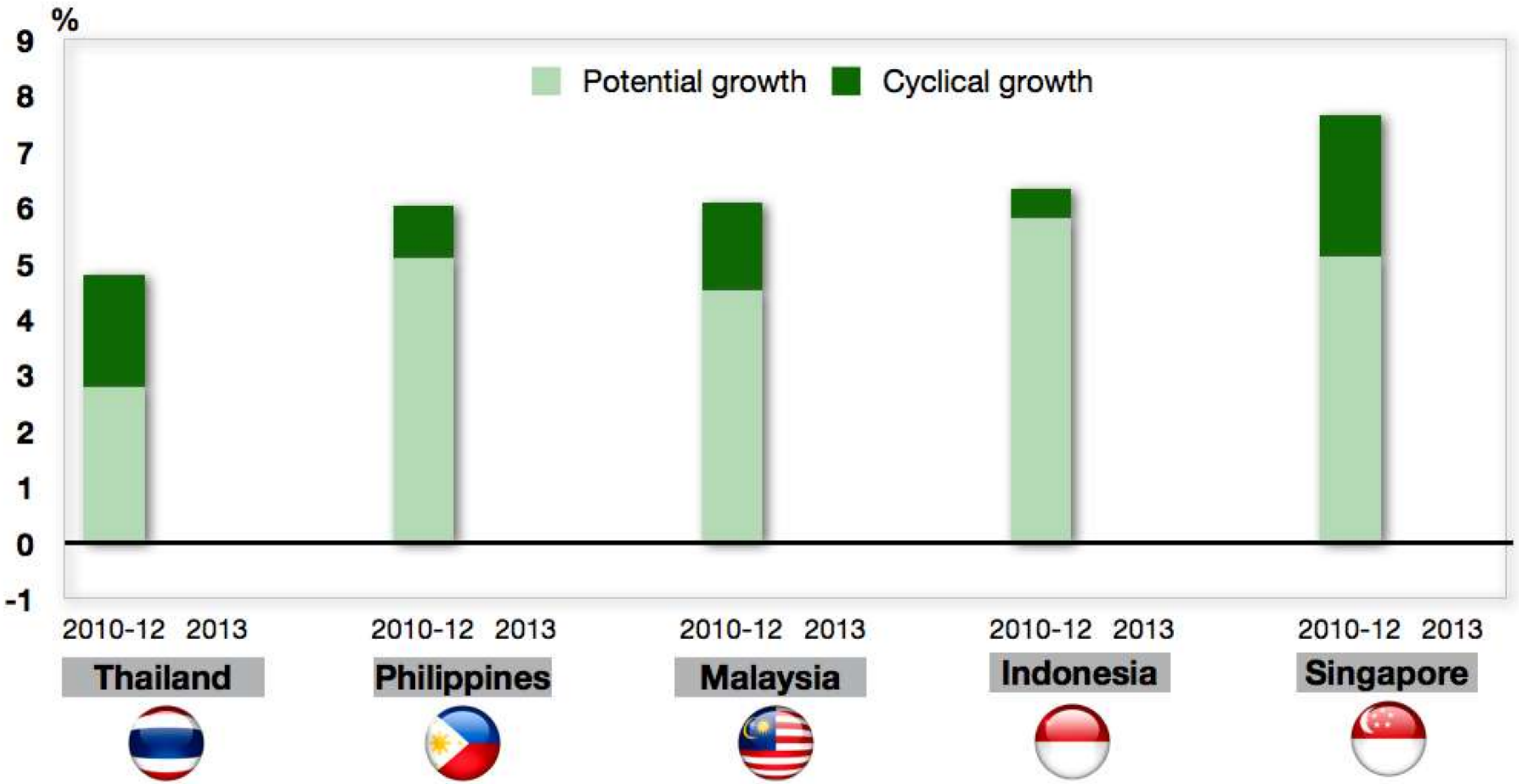
(Average over 2011-13)



Outlook

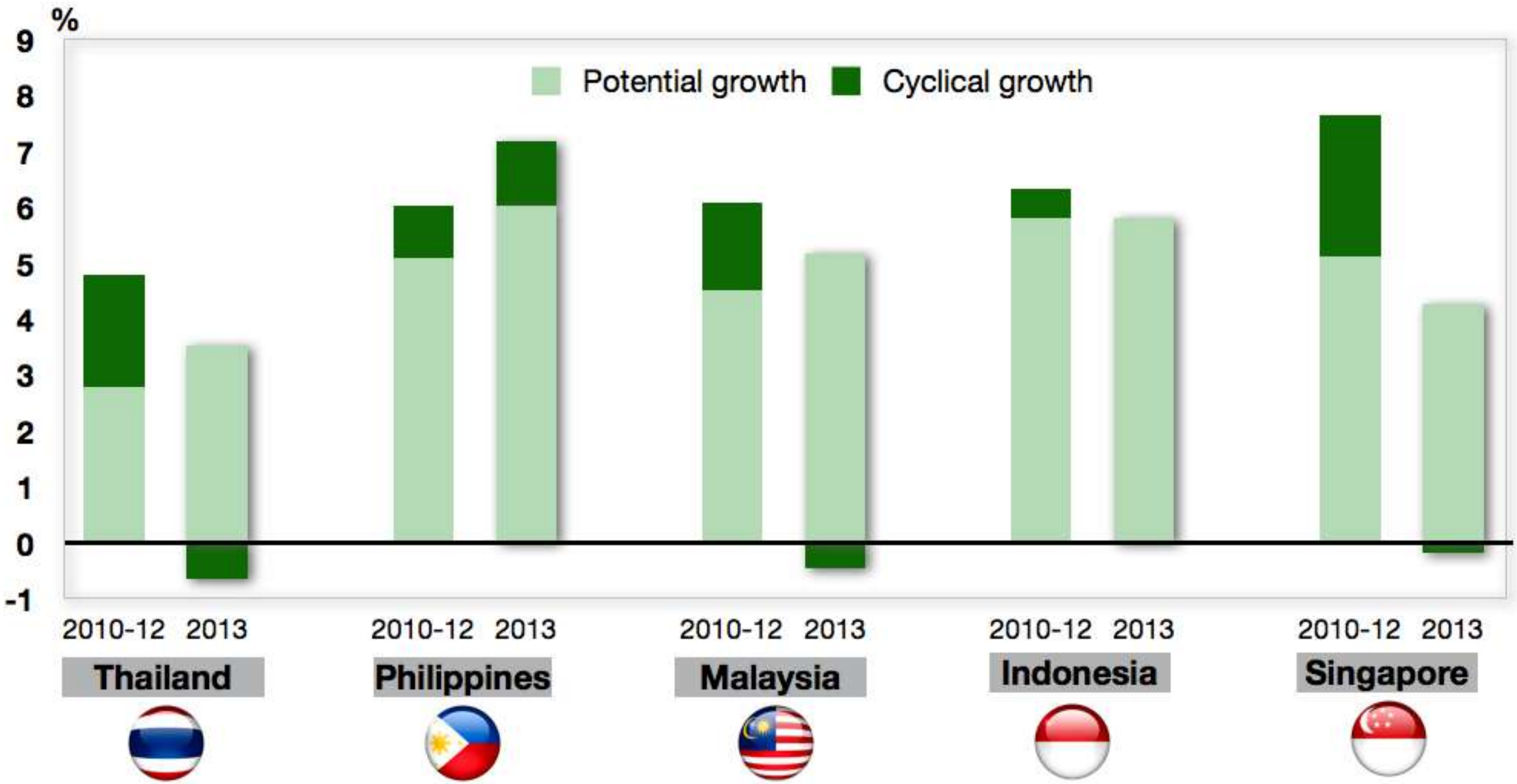
Risks

ASEAN: gradual recovery after a cyclical slowdown



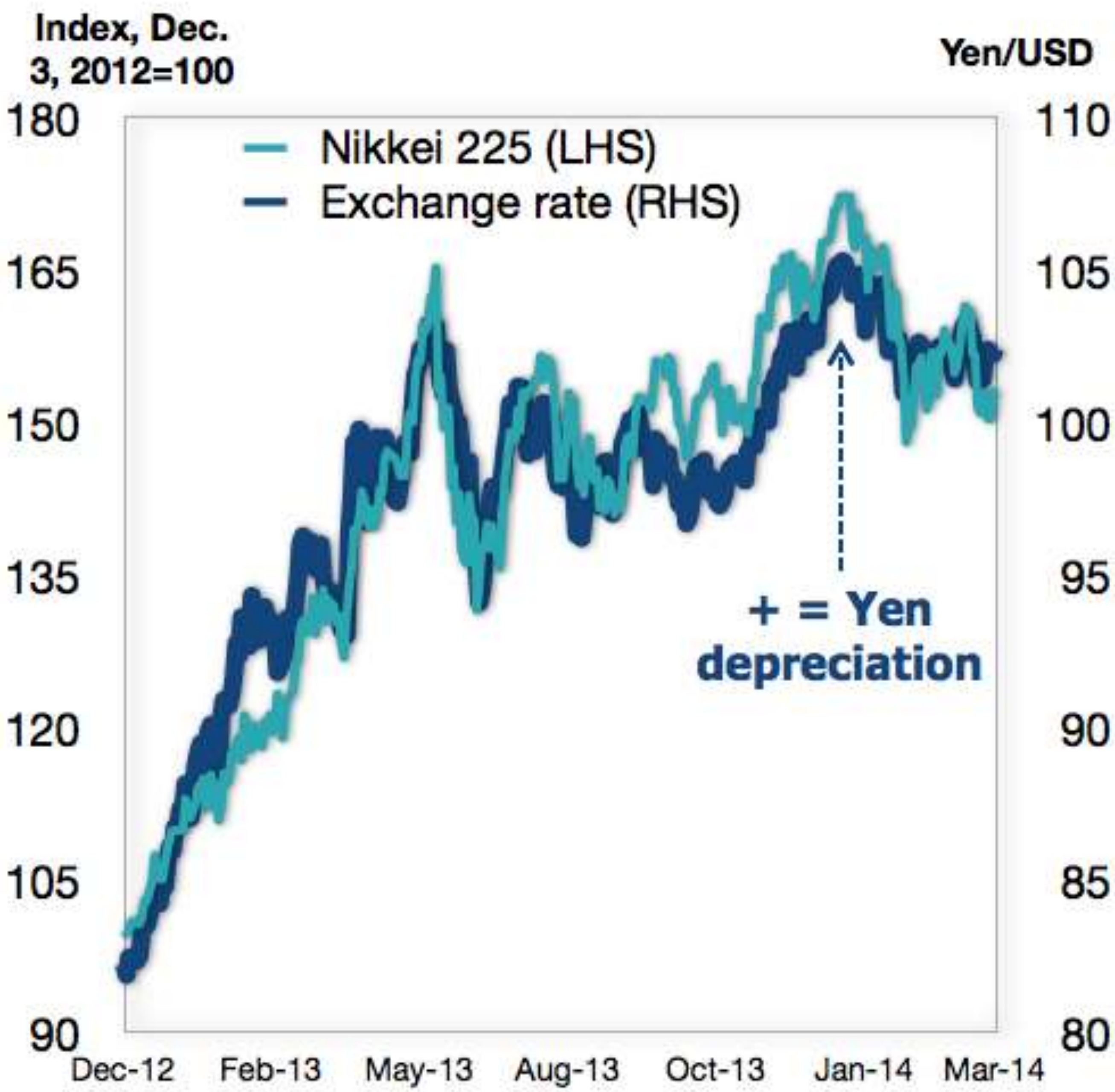
ASEAN: gradual recovery after a cyclical slowdown

ASEAN–5 Growth: 2010-12 vs. 2013

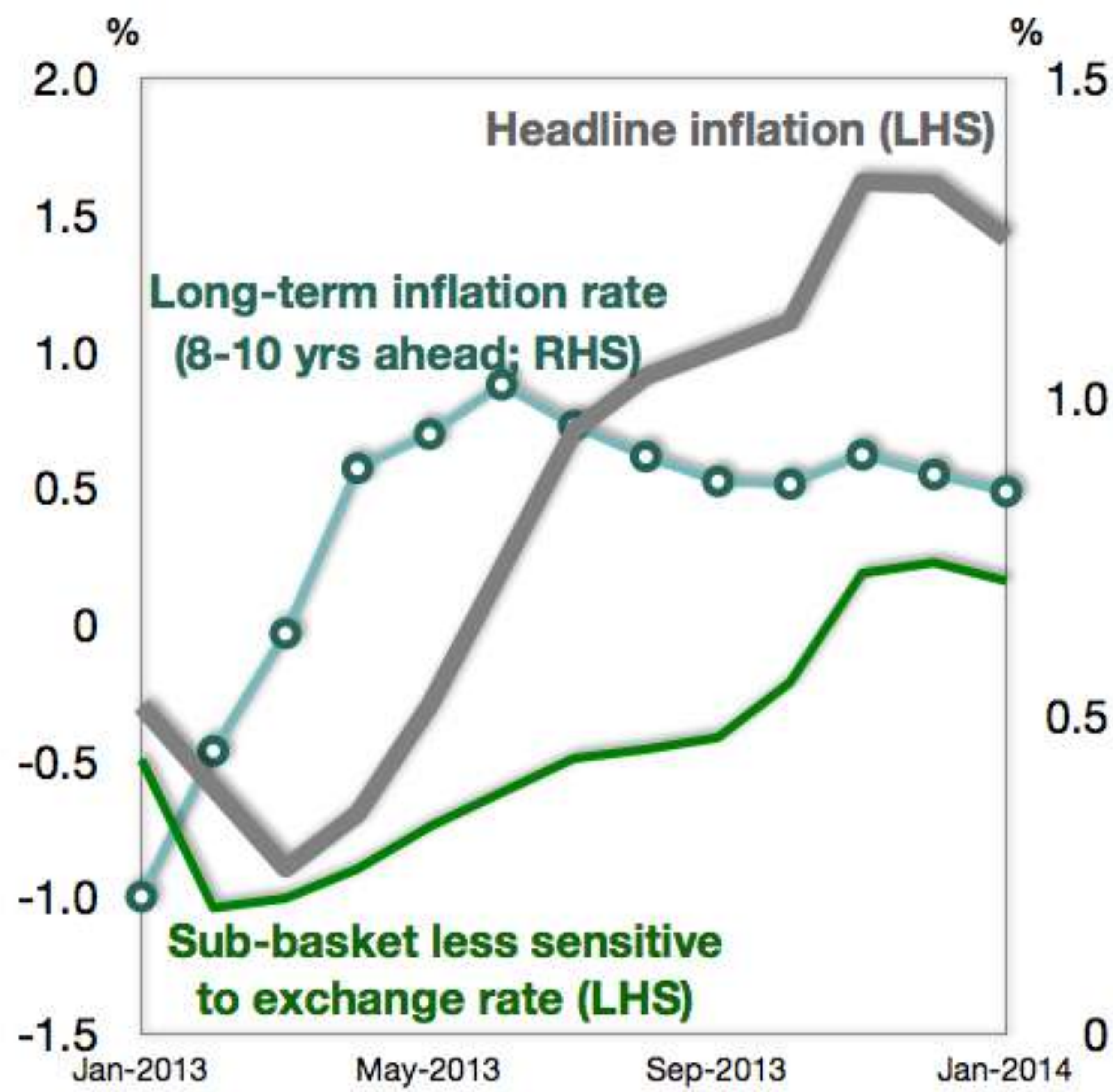


Japan: steady progress but accommodative stance remains appropriate

Japan: Financial Markets



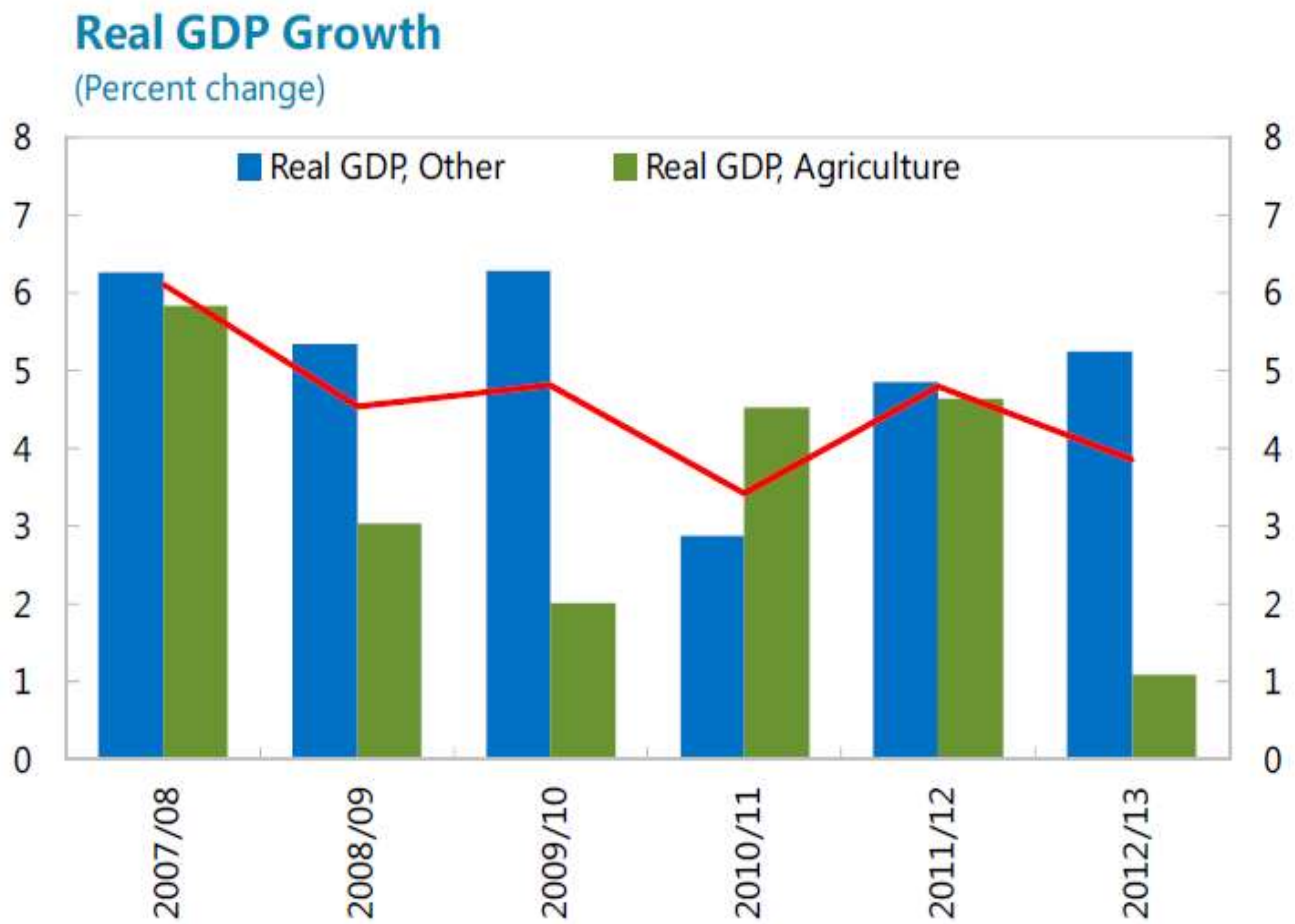
Japan: Inflation



Implications for Nepal

- **Growth has slowed, but why?**
  - **External causes or domestic?**
  - **Are remittances the only thing driving growth?**
- **Inflation is imported from India**
- **Fiscal policy has been very tight**
- **Implications for poverty reduction**

Growth has slowed – partly due to the slowdown in India

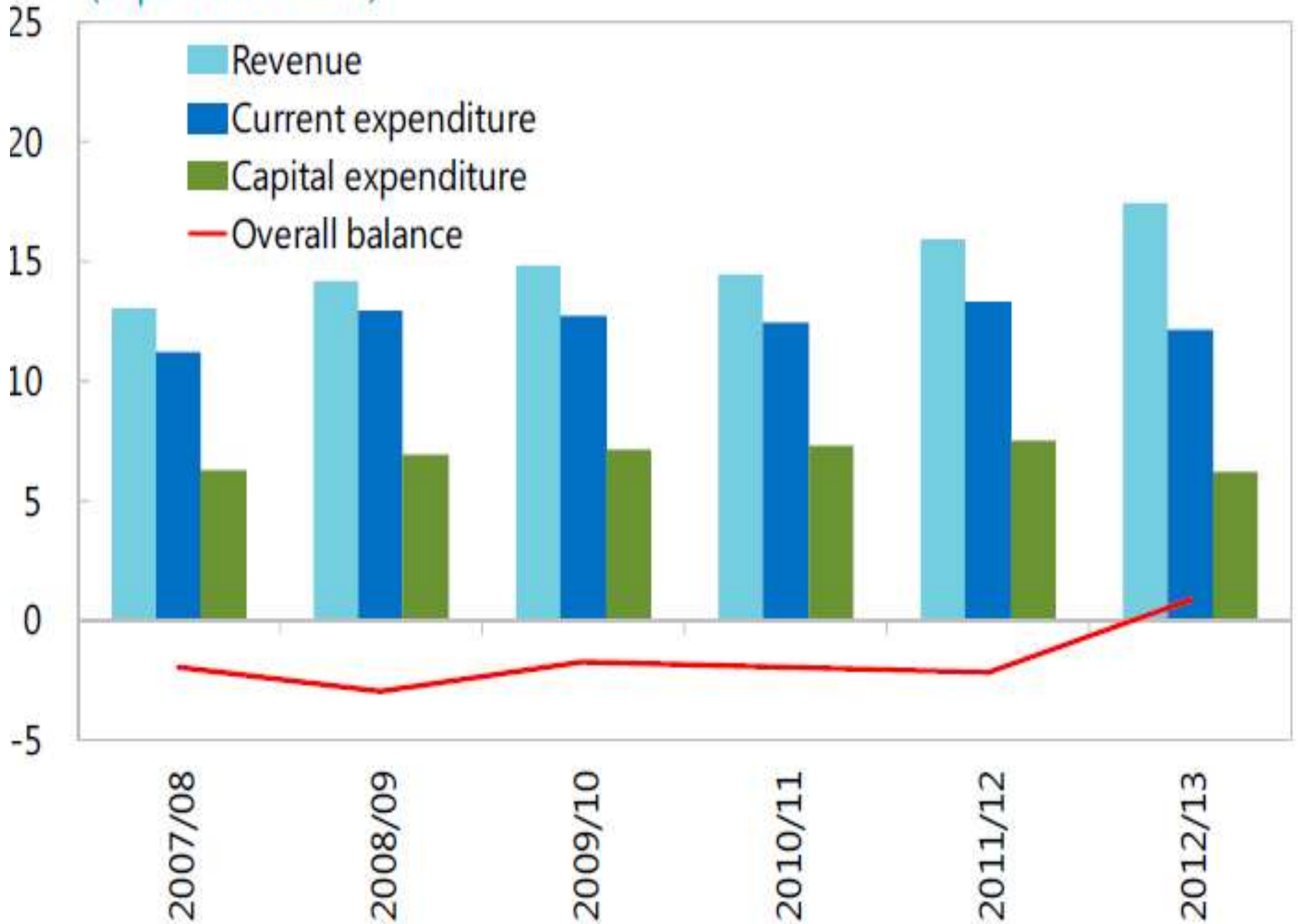


Sources: Nepali authorities; and IMF staff estimates

At the same time, fiscal policy has been too tight (a drag on growth)

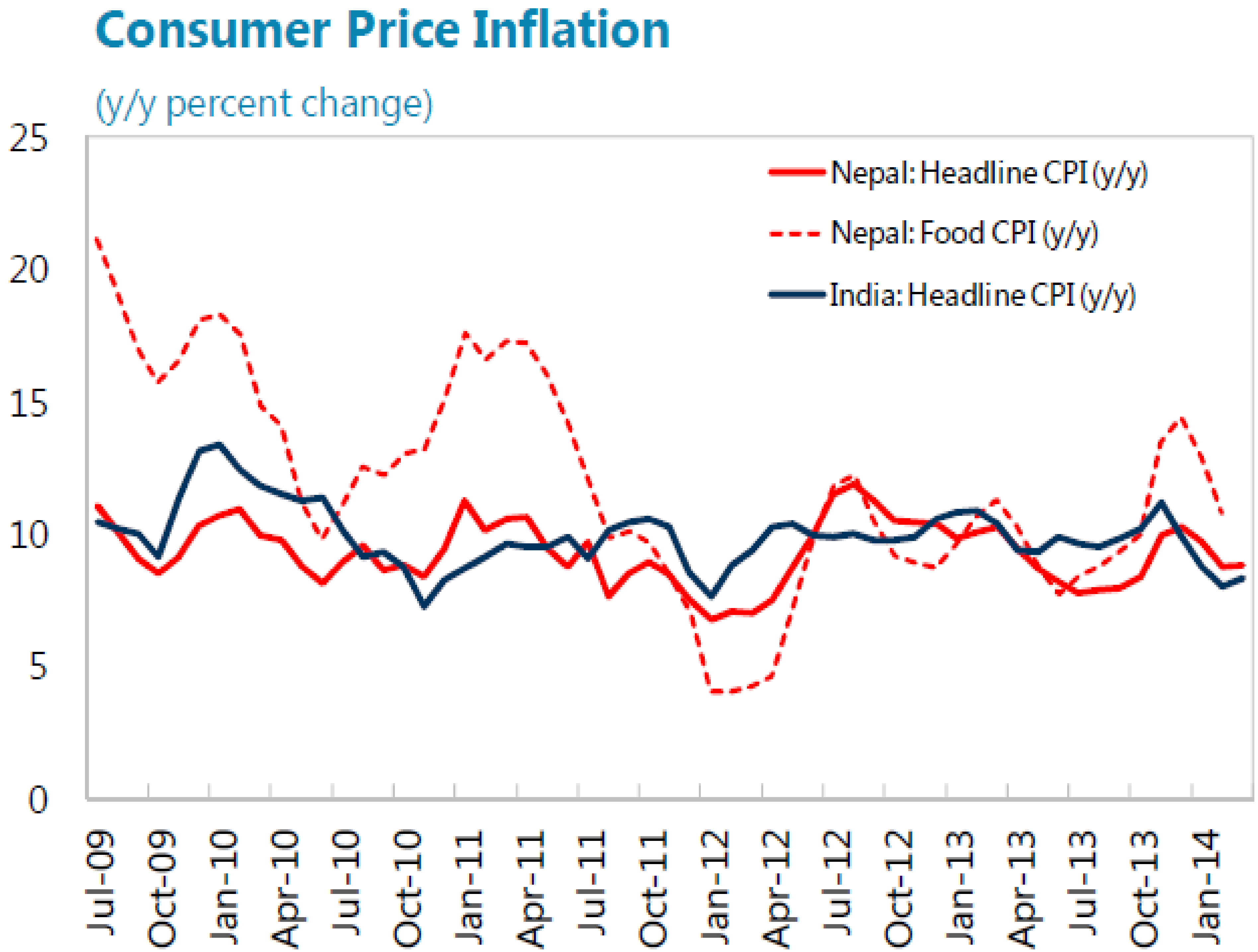
Fiscal Performance

(In percent of GDP)



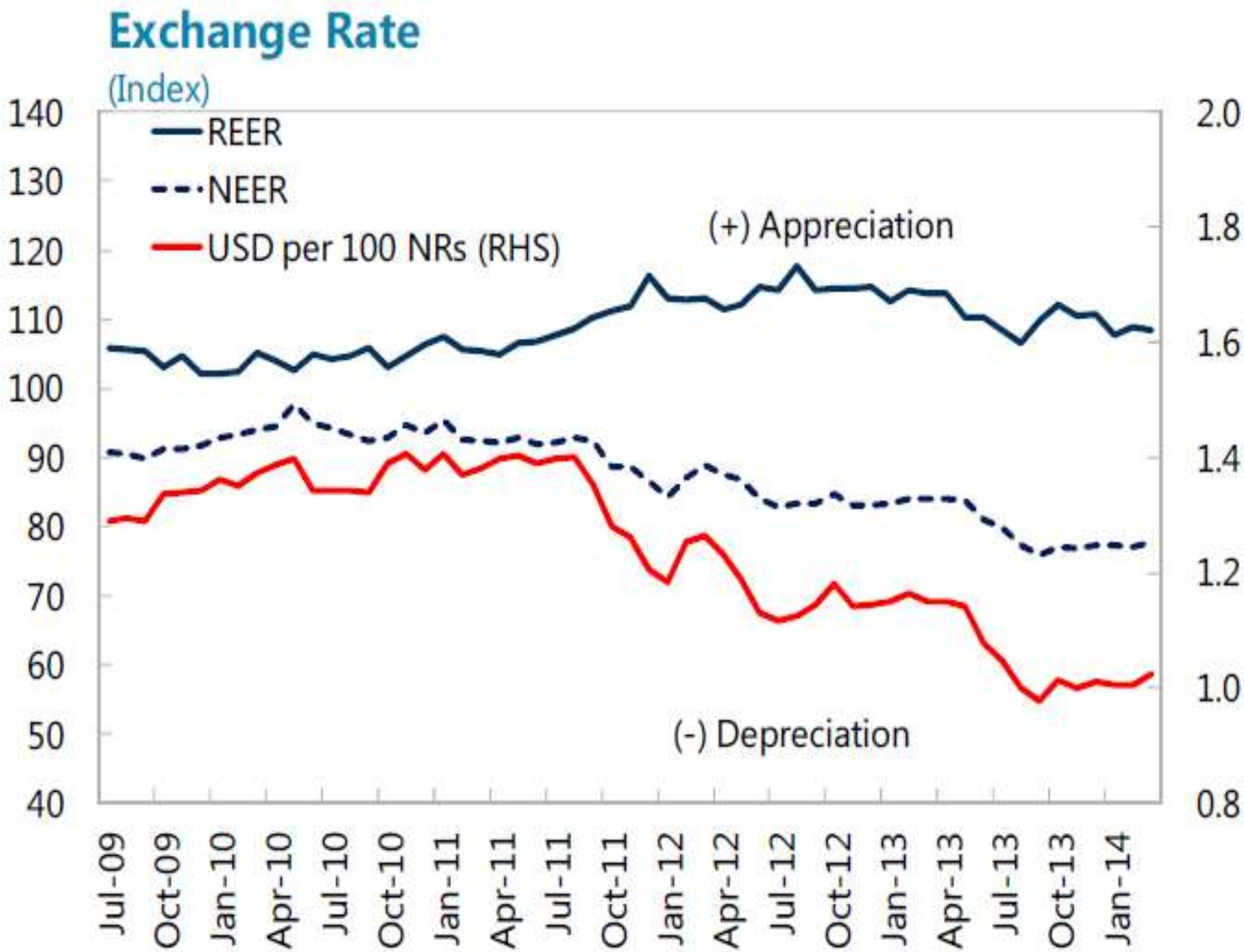
Sources: Nepali authorities; and IMF staff estimates

Inflation remains high – again, because of imported inflation from India



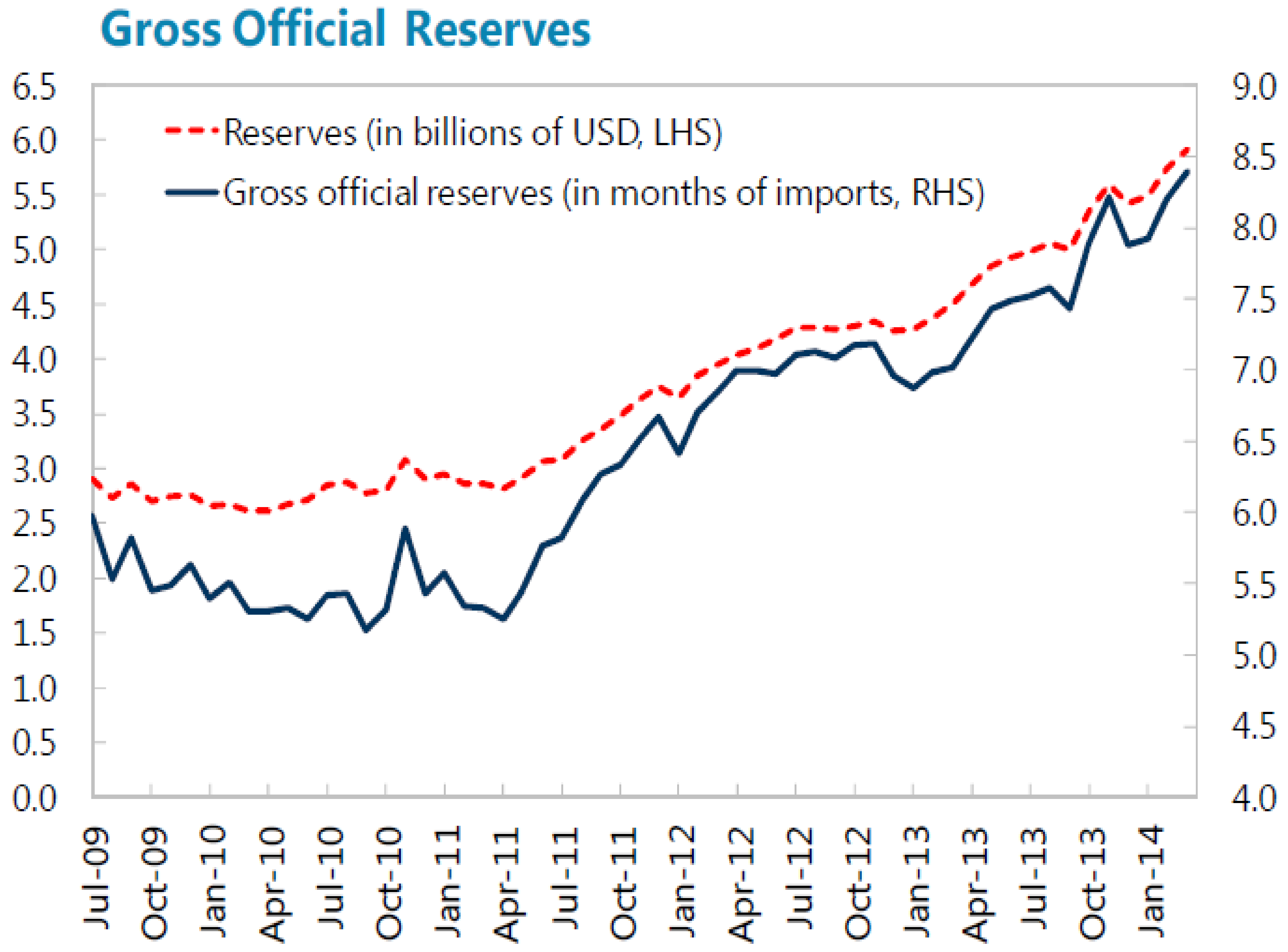
Sources: Nepali authorities, Haver analytics; and IMF staff estimates.

The exchange rate has strengthened – in real effective terms



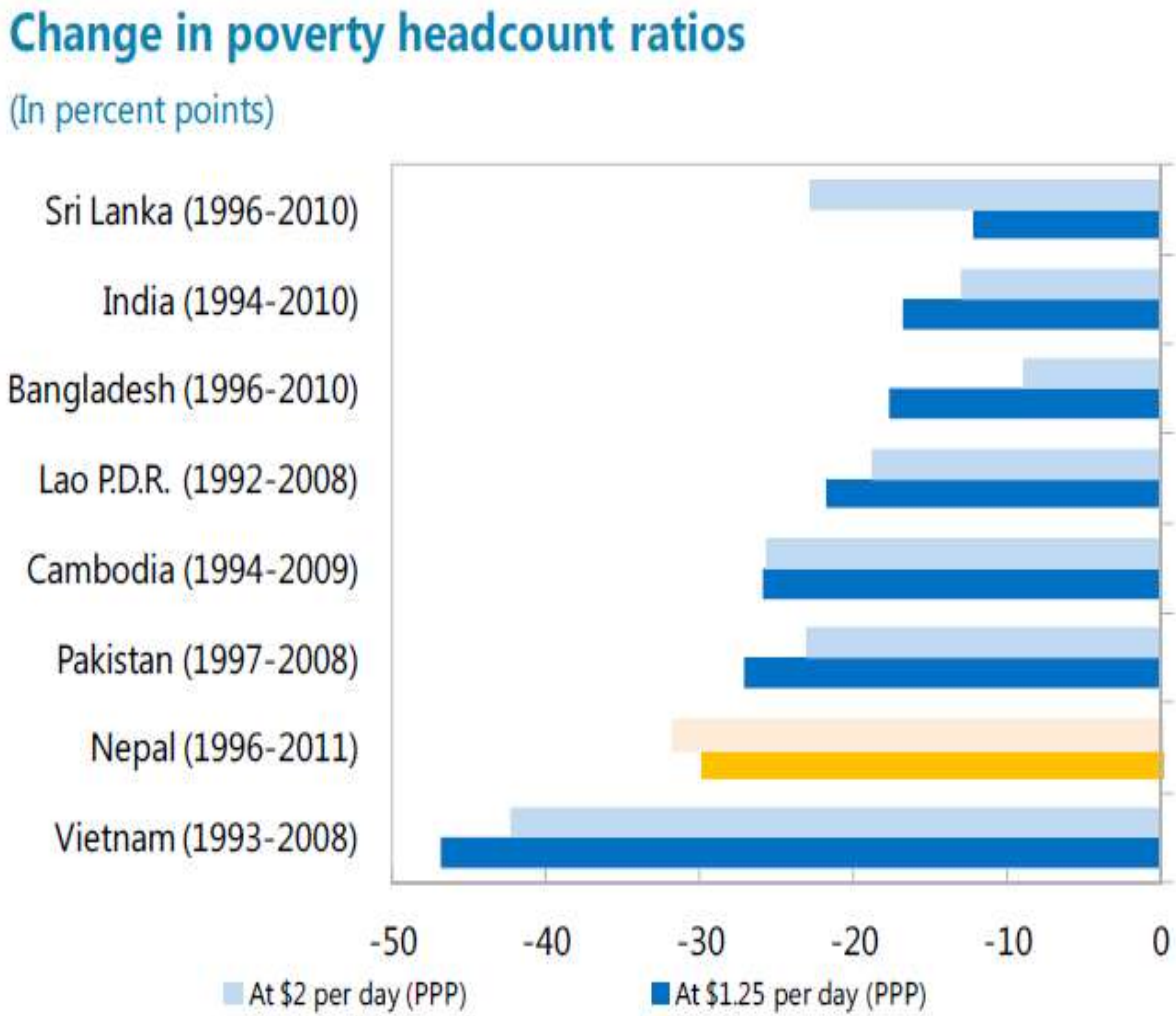
Sources: Nepali authorities; and IMF staff estimates.

Remittances have funded a build-up in international reserves of the NRB



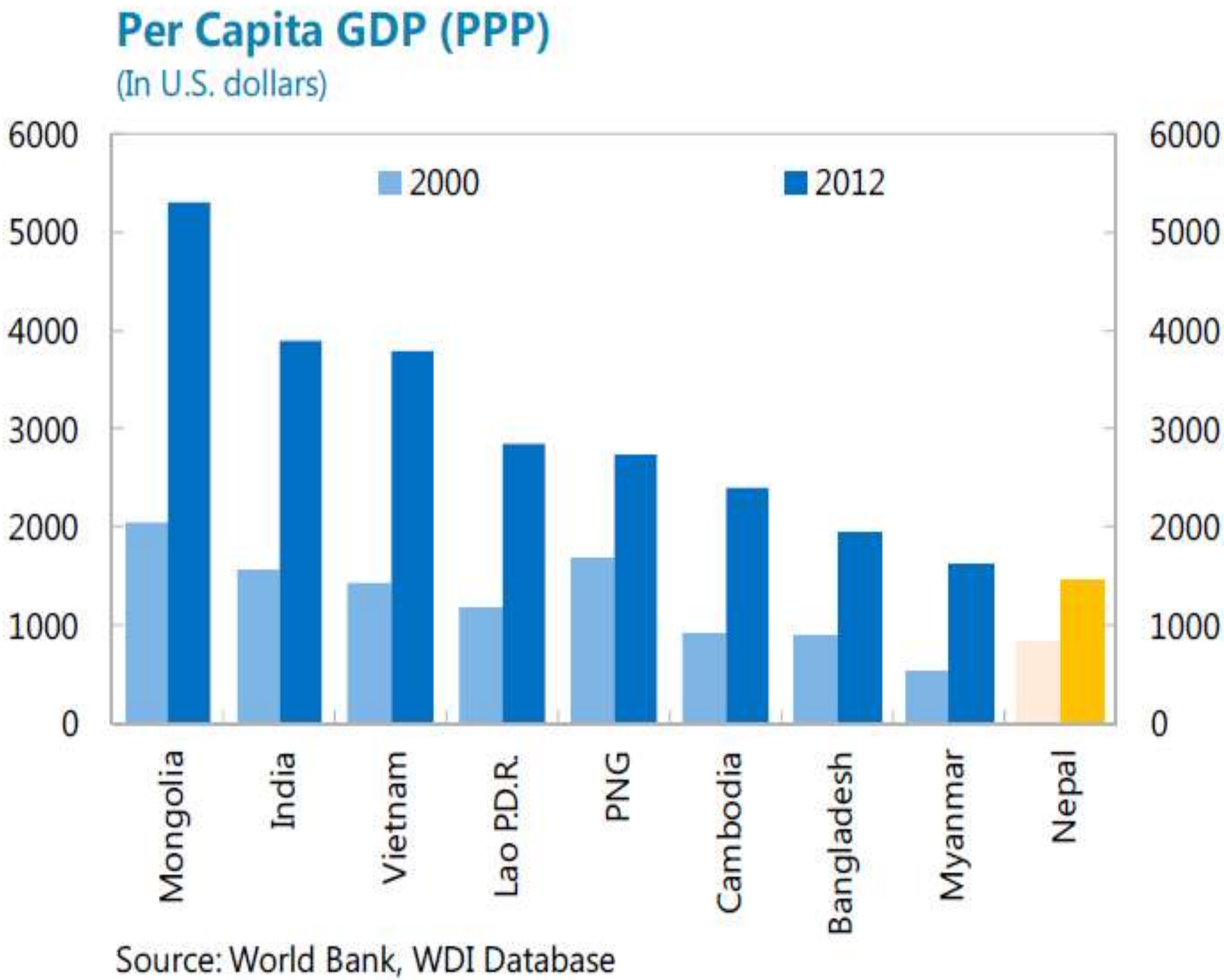
Sources: Nepali authorities; and IMF staff estimates

While poverty levels have fallen (in part because of remittance flows)…



Source: World Bank, WDI Database

… Nepal remains one of the poorest countries in the world



Conclusions (1/2)

Global outlook

- **Growth is picking up, with momentum coming from AEs (tho EMDEs still lead global growth)**
- **Risks: Ukraine/Russia, Euroarea deflation, tapering**

Asia – Pacific outlook

- **Risks from outside Asia have receded somewhat**
- **But need for vigilance and reforms**

Conclusions (2/2)

<u>Implications for Nepal</u>

- **Slowdown in growth, due mainly to India’s slowdown**
- **But over-tight fiscal policy has not helped**
- **Inflation remains high (imported from India)**
- **Remittances have led to a decline in poverty**

But what development model is best for Nepal?

Thank You

Want to know more?	www.imf.org/nepal (follow on twitter: @IMF_India)

IMF Resident Representative office in Nepal (www.imf.org/Kathmandu)