



Spillovers from the Global Economy to Asia

Manila

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(These are the views of the presenter and not those of the IMF, its Executive Board, or its Management)

Outline

- Global economic situation and risks
- Spillover channels to Asia

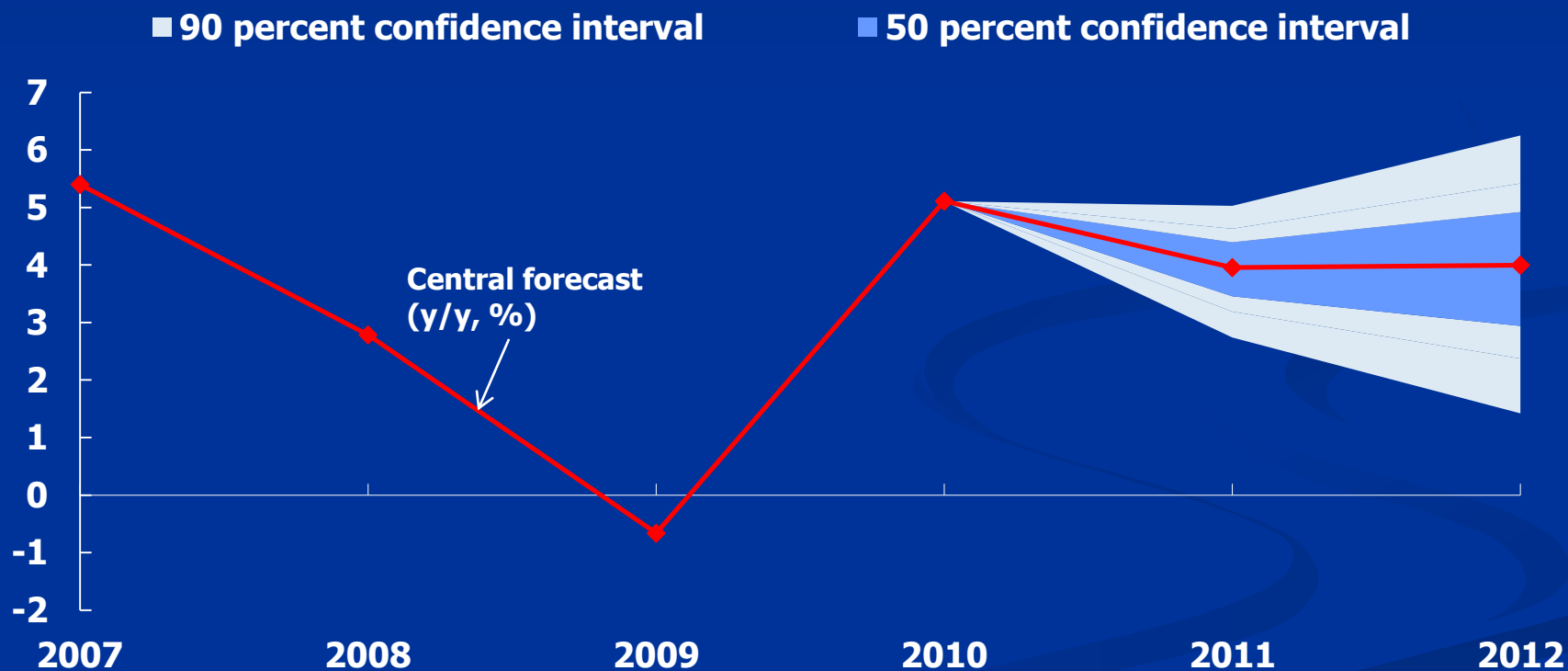


Global Economy: A Dangerous Phase

Global growth: Risks have deteriorated since October

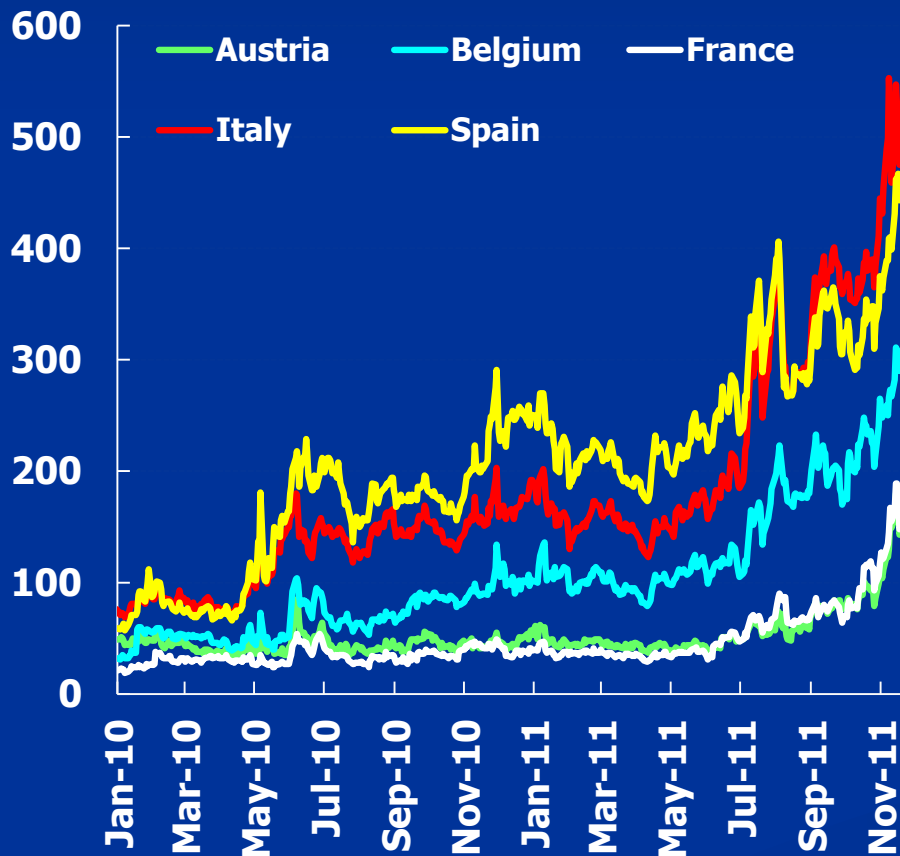
Risks to the Global Outlook

(Baseline forecast and selected confidence bands)

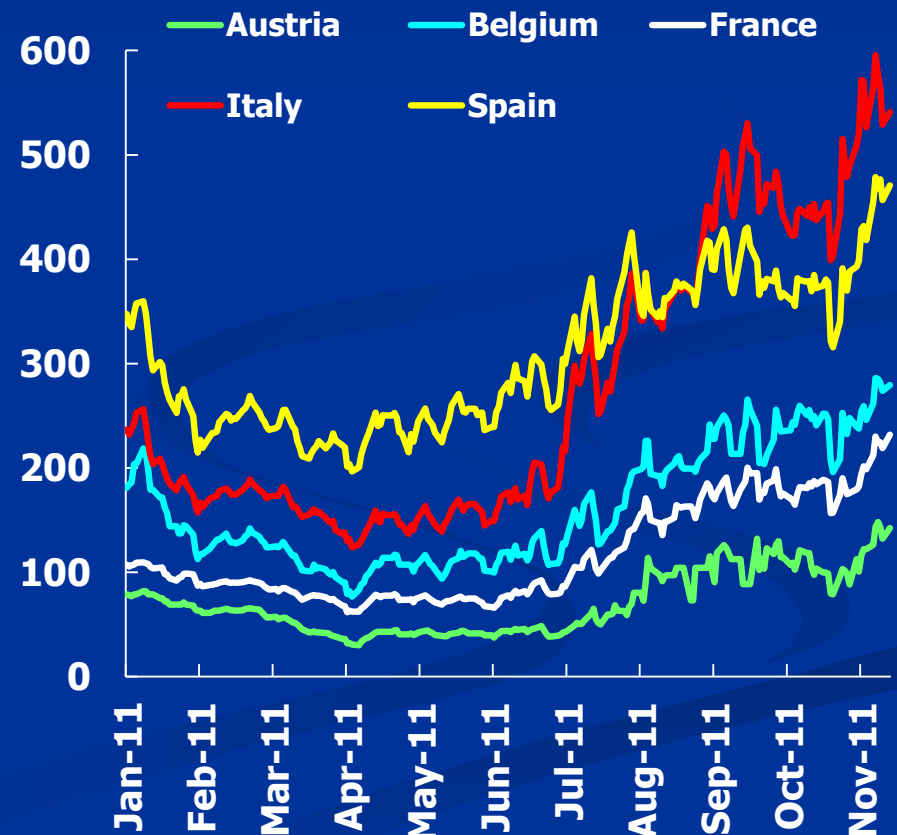


Euro Area: Recent events have increased pressures on sovereigns

Europe: Spreads over 10-year German Bunds
(Basis points)



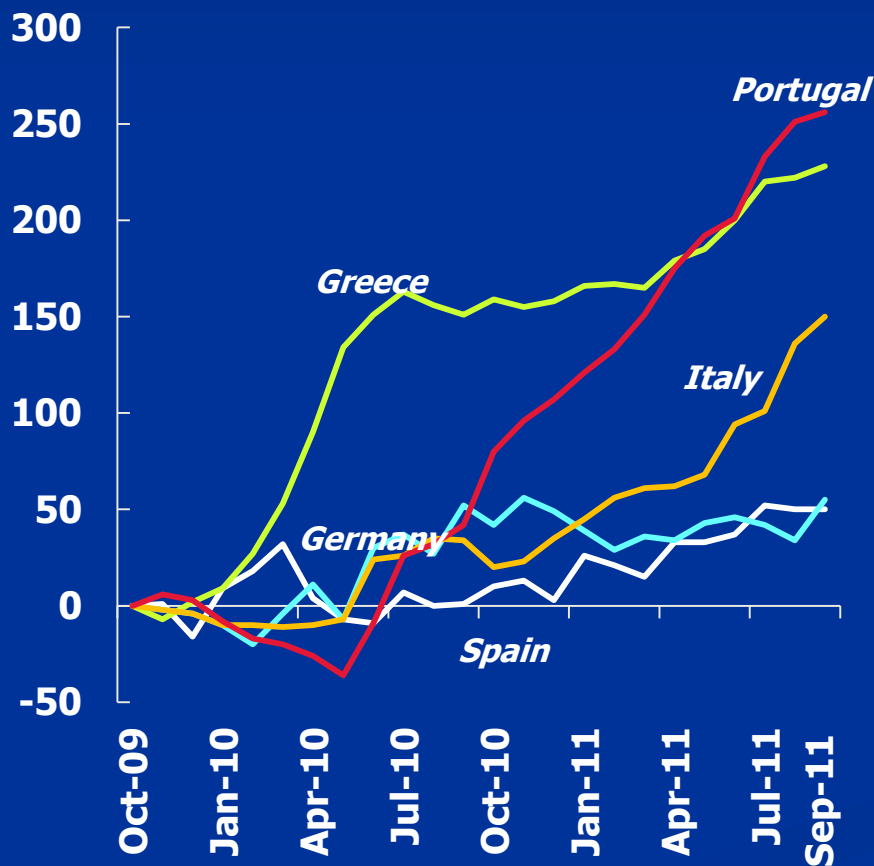
Europe: Sovereign CDS Spreads
(Basis points; 5 year)



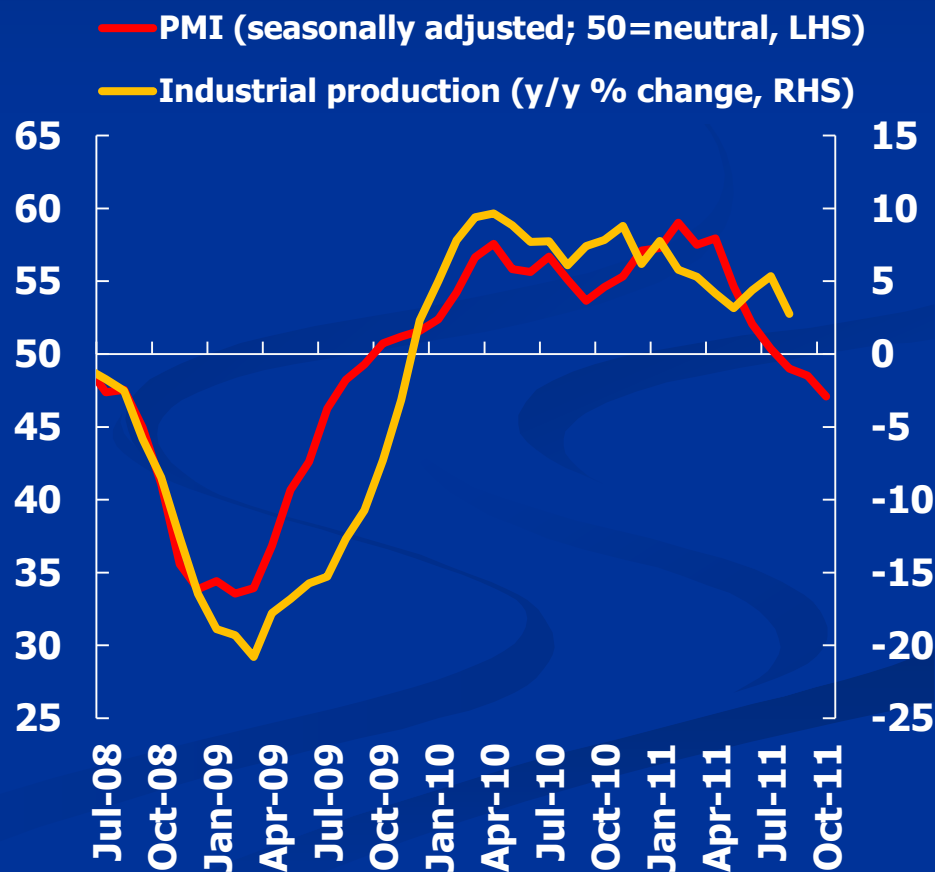
Note: Data as of November 21.

Euro Area: Bank funding costs have increased, undermining recovery prospects

Europe: Increase in bank deposit rates since October 2009
(In basis points)



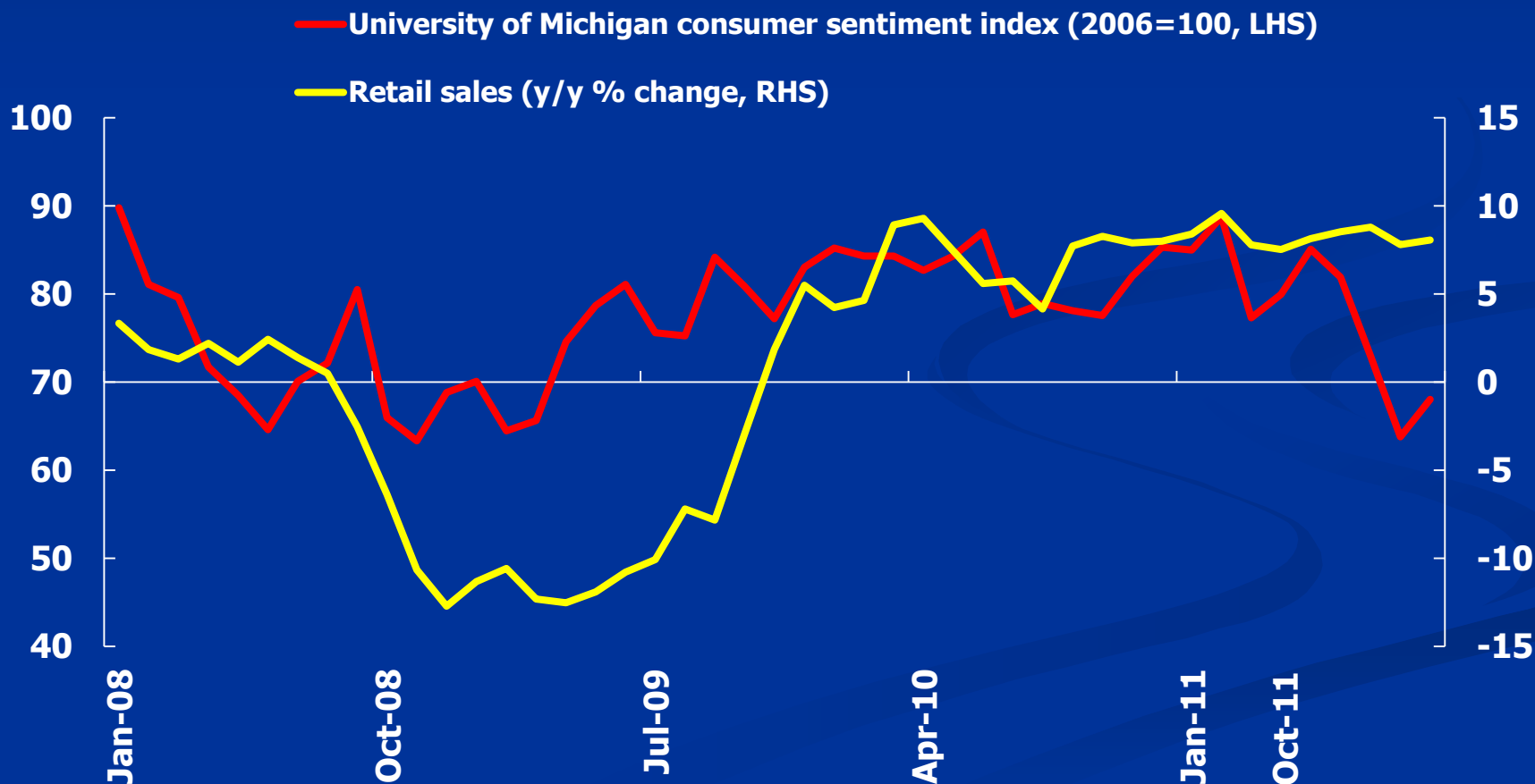
Europe: Manufacturing PMI and Industrial Production



Note: Chart shows deposit rates on new business up to 1-year.

United States: Some tentative signs of stabilization but risks of an abrupt fiscal withdrawal have increased

U.S.: Consumer Confidence Index and Retail Sales

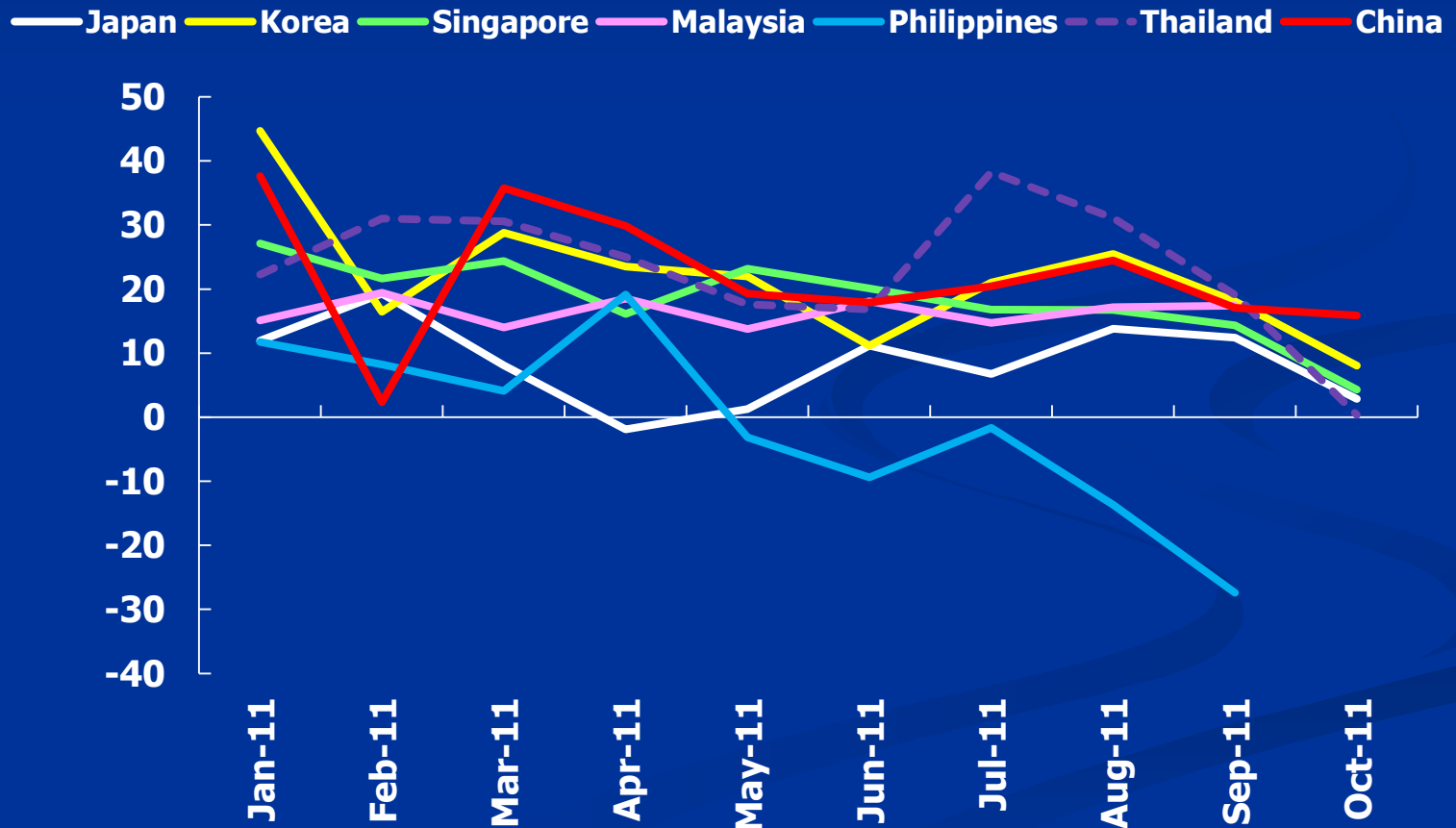




Spillovers to Asia

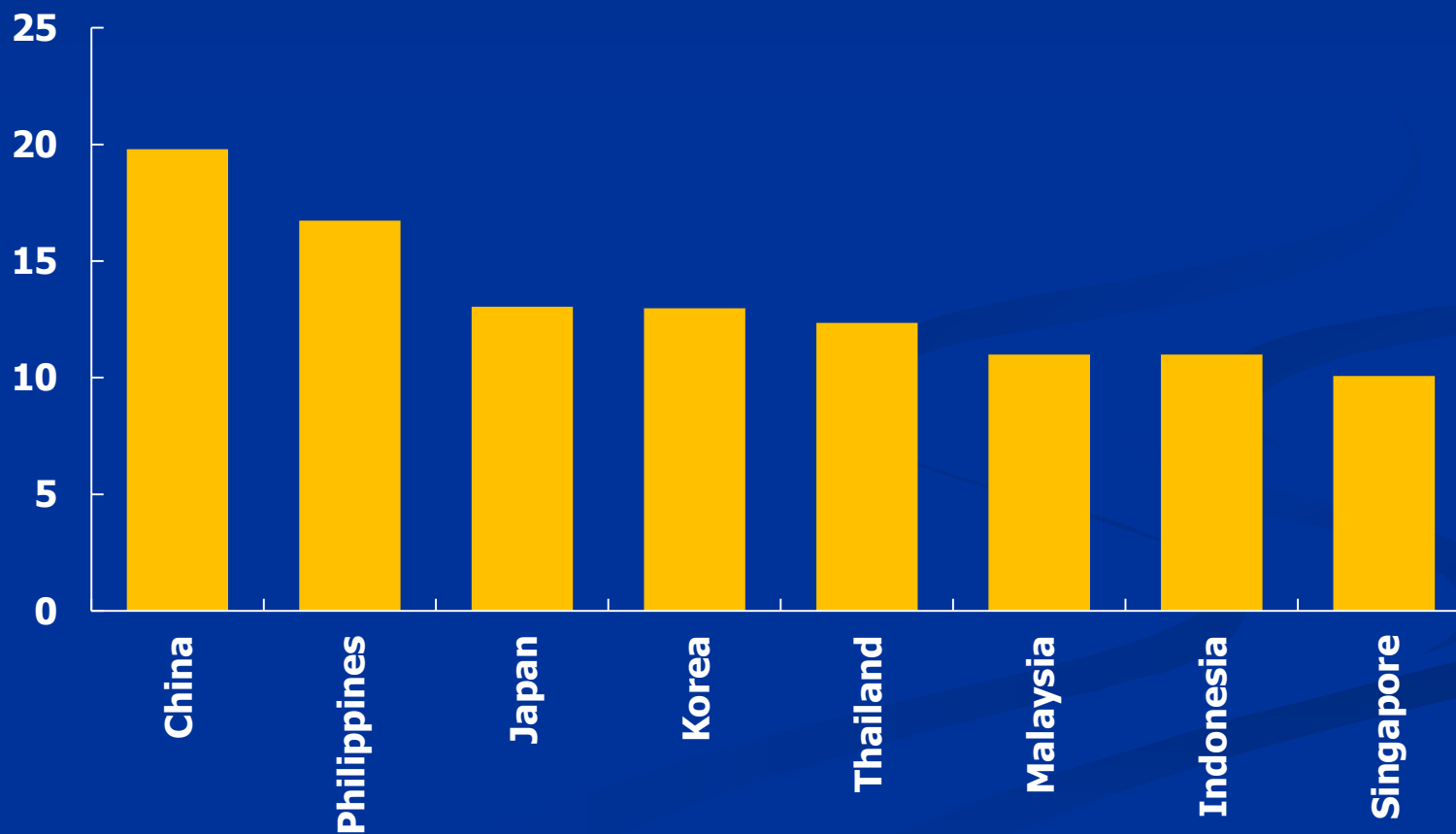
Asian exports are slowing down because of sluggish global demand

ASEAN+3: Exports of Goods
(Year-on-year percent change)



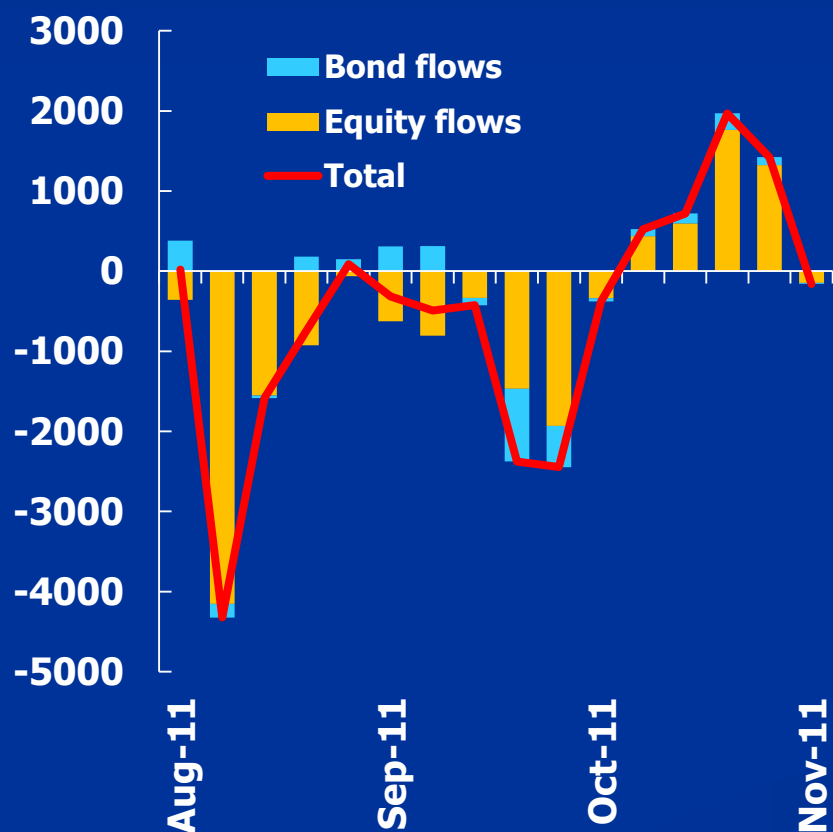
Trade remains a key channel of contagion

ASEAN+3: Exports to the European Union
(Percent of total exports, average over 2006-2011)

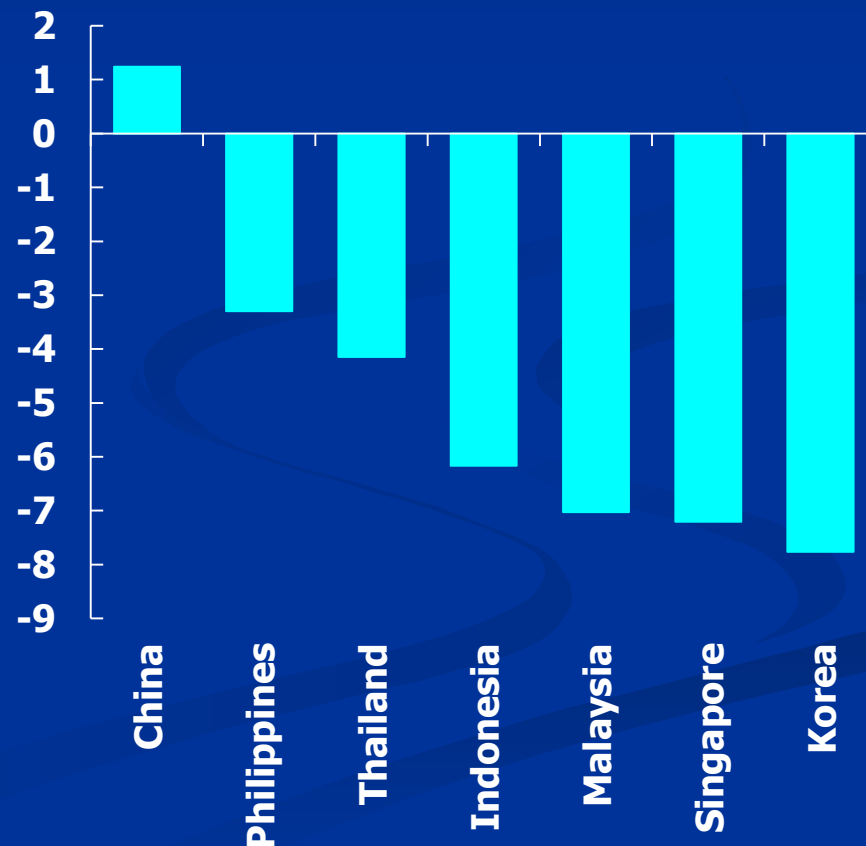


Financial contagion also a key concern, and volatile capital flows pose downside risk for currencies

Emerging Asia: Equity Funds — Weekly Net Flows during 2011
(In billions of U.S. dollars)



Emerging Asia: Exchange Rates against U.S. Dollar
(Change since August 1, in percent)

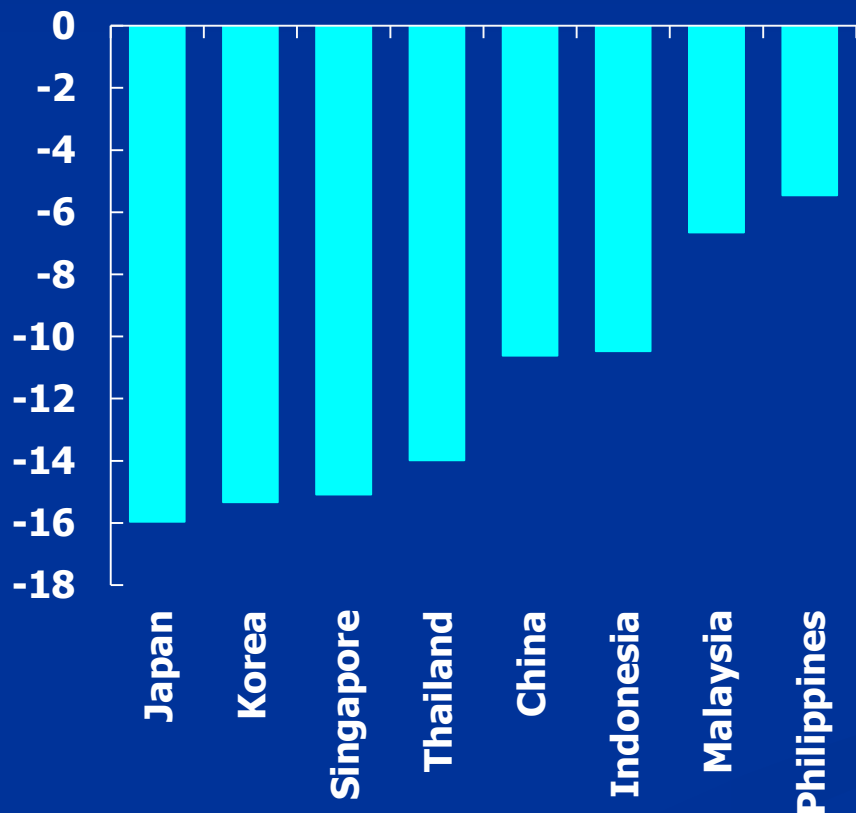


Note: Data as of November 18. Negative= depreciation. 11

Volatile capital flows also pose a risk for equity and bond markets

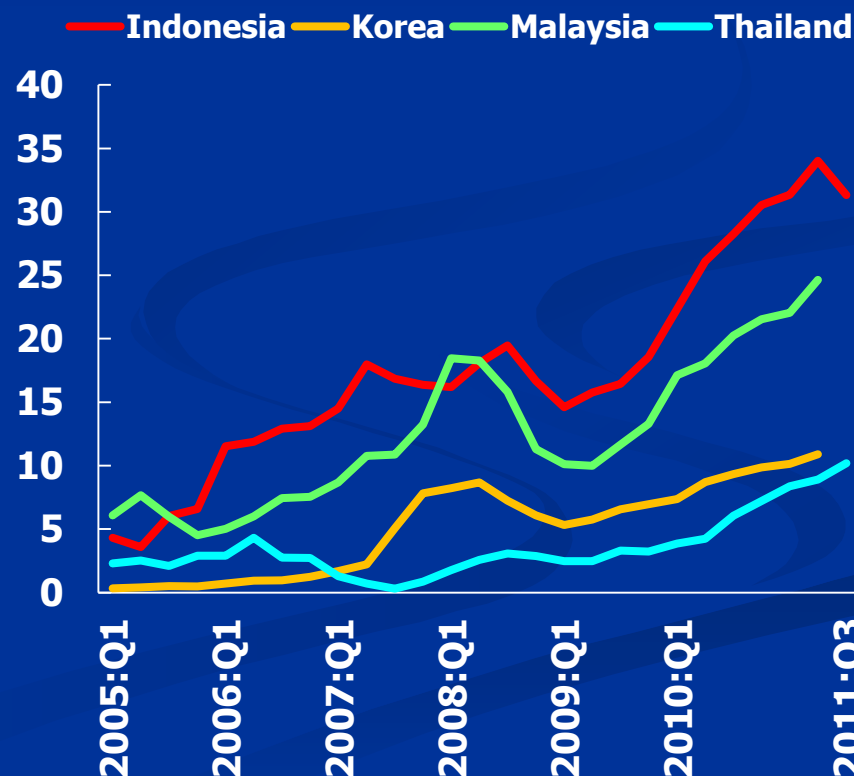
ASEAN+3: Stock Markets

(Change since August 1, in percent)



Foreign Holdings in Local Currency Government Bonds

(In percent of total outstanding local currency government bond)

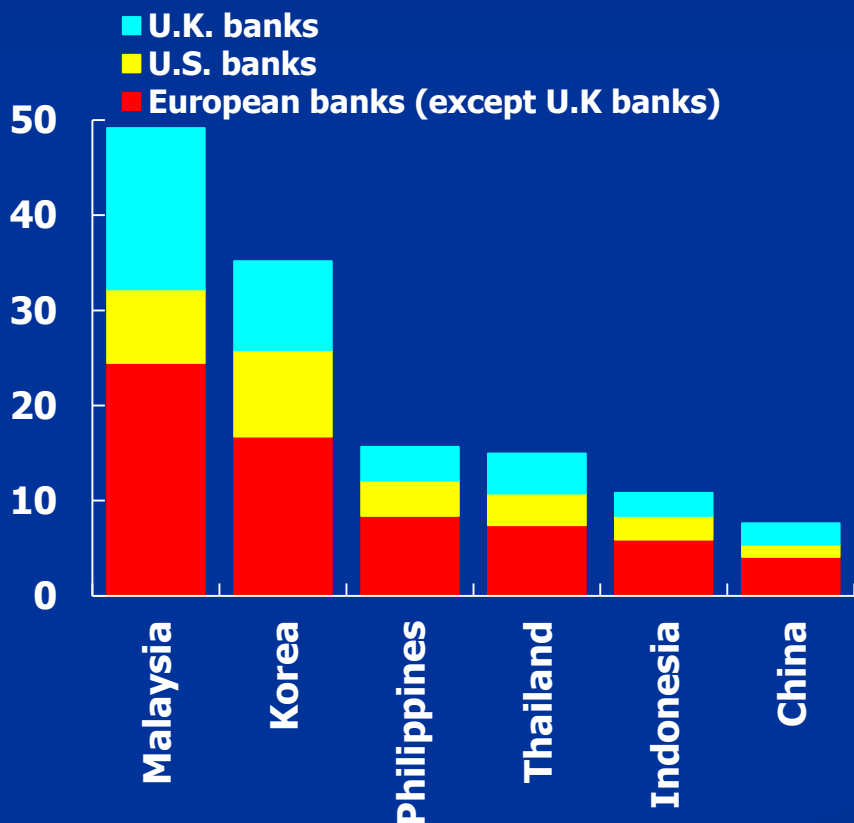


Note: Data as of November 18.

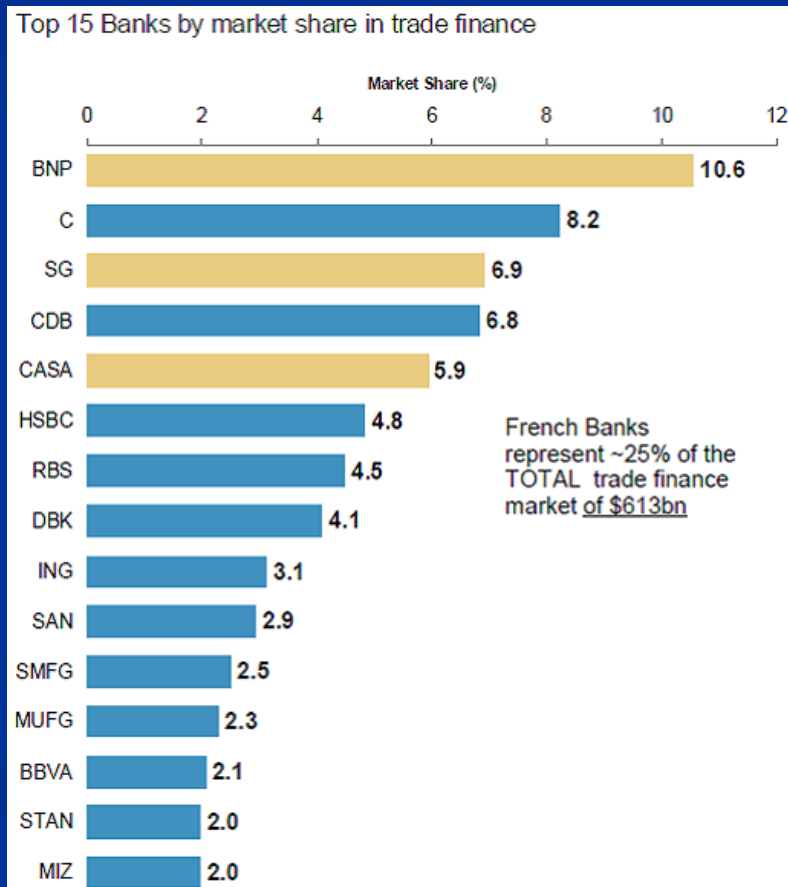
By curtailing financing to the region, European bank deleveraging can affect ASEAN+3

Consolidated Foreign Claims of European and U.S. Banks on Selected Asian Economies

(In percent of GDP; as of 2011:Q2)



Trade Finance (share of total, by banks, in percent)



Policy response

- Policies to prepare for the risks: build up policy space; ensure bank liquidity/funding; monitor risks; swap arrangements.
- Policies to respond to the risks; similar to 2008-2009 response: macroeconomic easing; attention to key pressure points (trade finance; bank liabilities; swap lines).



Thank You.