



# Southeast Asia and the Pacific: Macroeconomic Developments and Outlook

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# Roadmap

- The Global Economy
  - Growth
  - Financial Stability
- The EU Debt Crisis
- Asia
  - Growth—Development and Outlook
  - Financial Sector—The Credit Cycle
  - Financial Sector—The “Search for Yield” and Capital Flows



# The Global Economy: Growth and Financial Stability



# Growth

## The Global Economy

- Global economy at dangerous stage
- G2 growth has slowed
- Downside risks

## Eurozone

- Weak growth, risk of recession
- Banking and sovereign debt crisis
- Downside risks dominate

## Emerging Asia

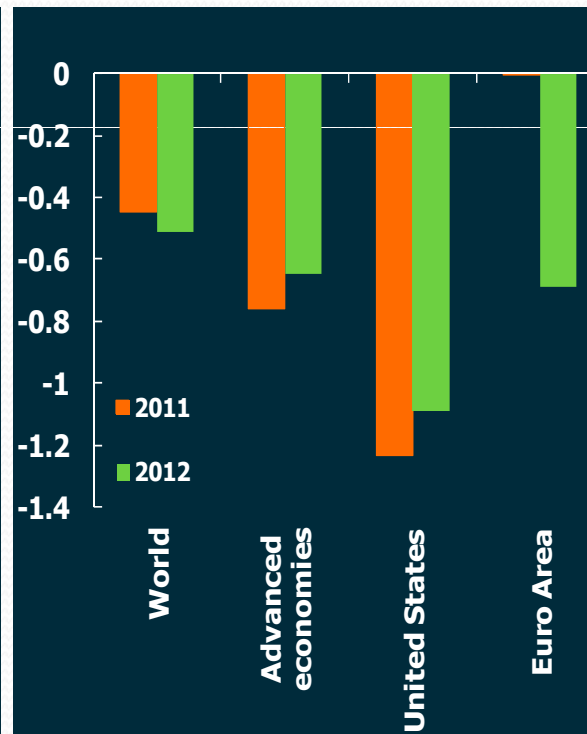
- Still healthy growth
- Domestic demand holding
- But downside risks dominate

# The Global Economy

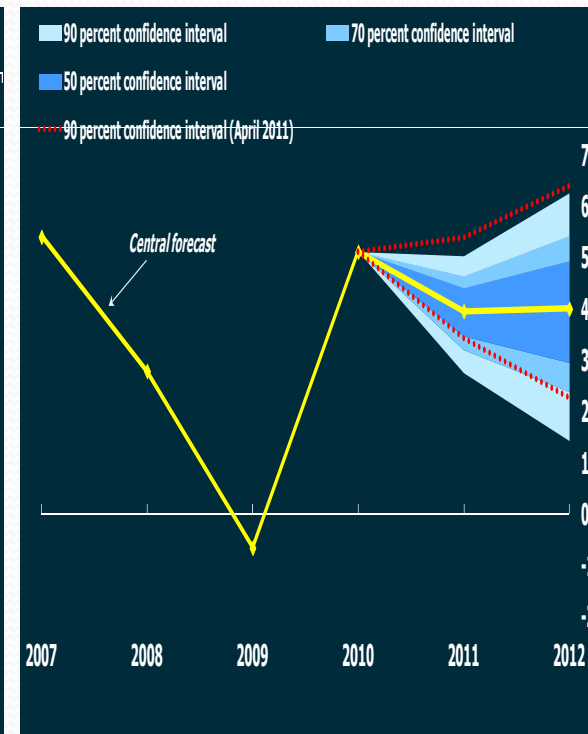
**World GDP Growth**  
(y-o-y; in percent)

	2010	2011 (Proj.)	2012 (Proj.)
<b>World</b>	<b>5.1</b>	<b>4.0</b>	<b>4.0</b>
<b>Advanced economies</b>	<b>3.1</b>	<b>1.6</b>	<b>1.9</b>
<b>USA</b>	<b>3.0</b>	<b>1.5</b>	<b>1.8</b>
<b>Euro area</b>	<b>1.8</b>	<b>1.6</b>	<b>1.1</b>
<b>United Kingdom</b>	<b>1.4</b>	<b>1.1</b>	<b>1.6</b>
<b>Japan</b>	<b>4.0</b>	<b>-0.5</b>	<b>2.3</b>

**Downward Revisions in Growth Forecasts since Apr-'11 WEO**  
(In percentage points)



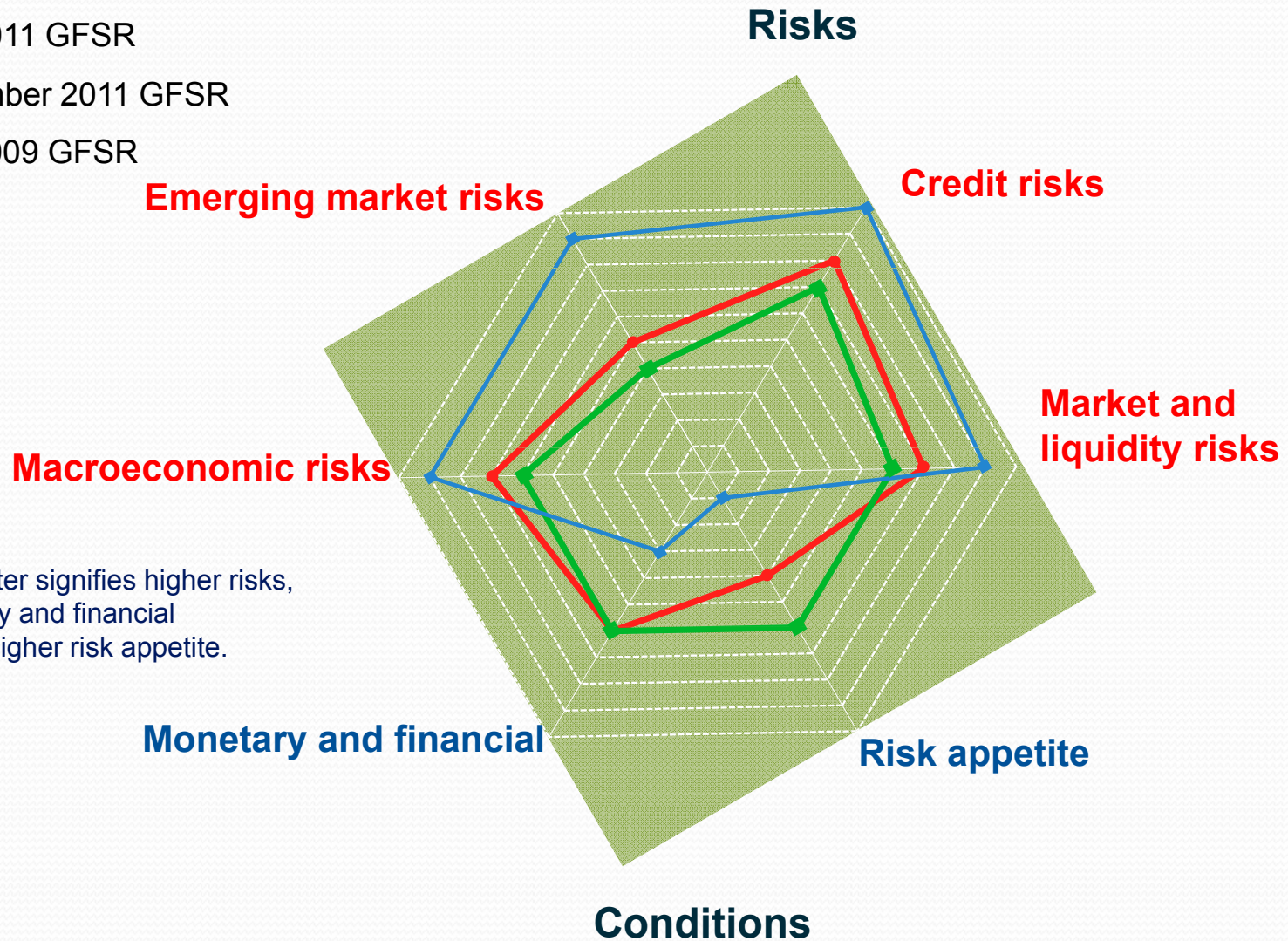
**Risks to the Global Outlook**  
(Baseline forecast and selected confidence bands)





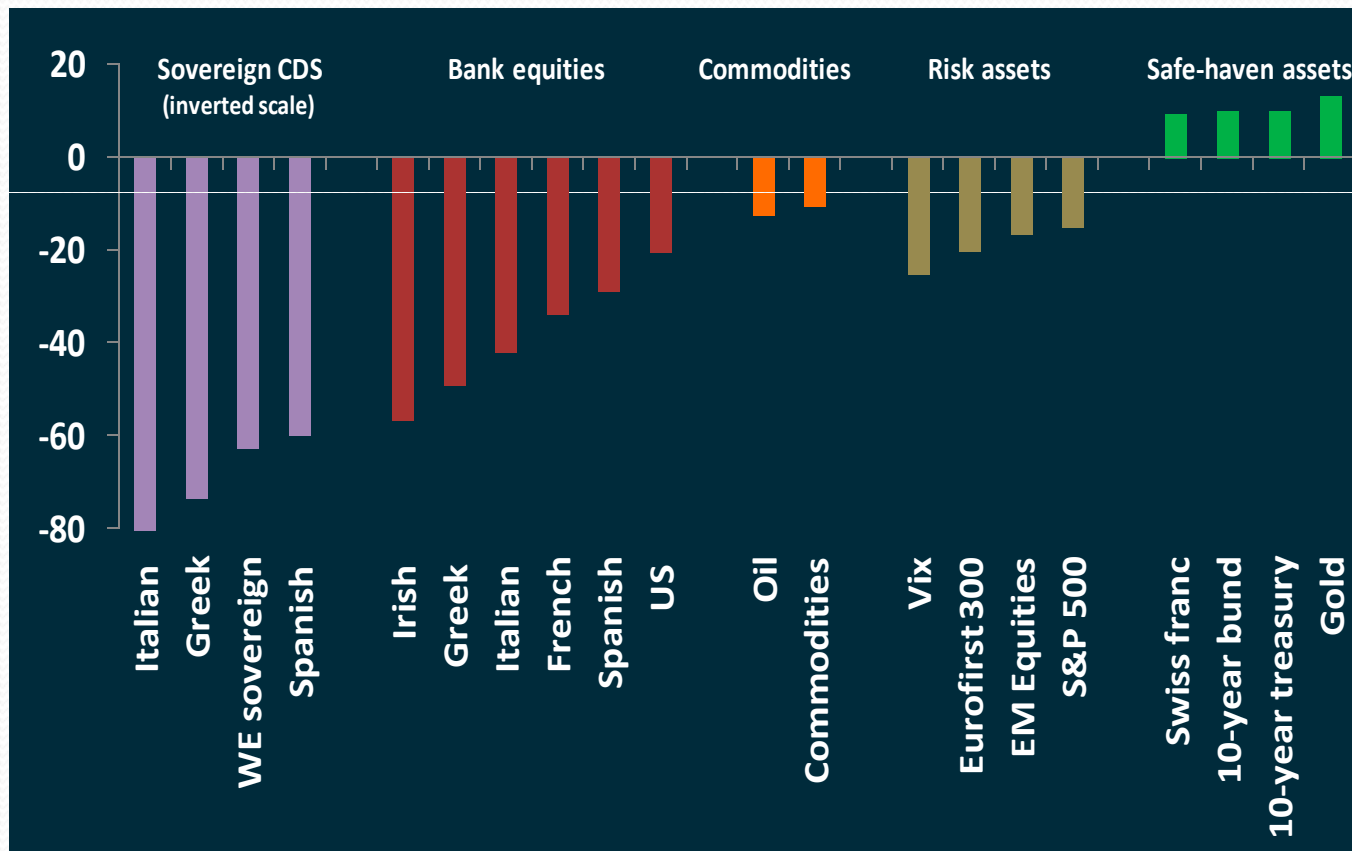
# Global Financial Stability

- April 2011 GFSR
- September 2011 GFSR
- ◆ April 2009 GFSR



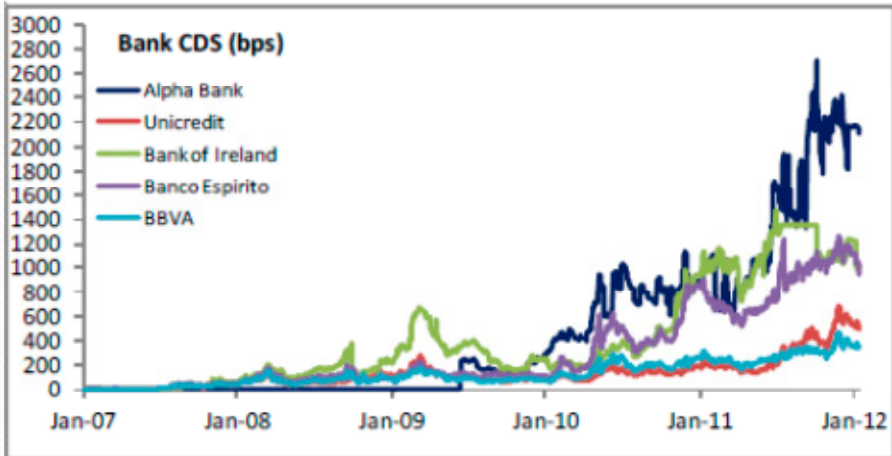
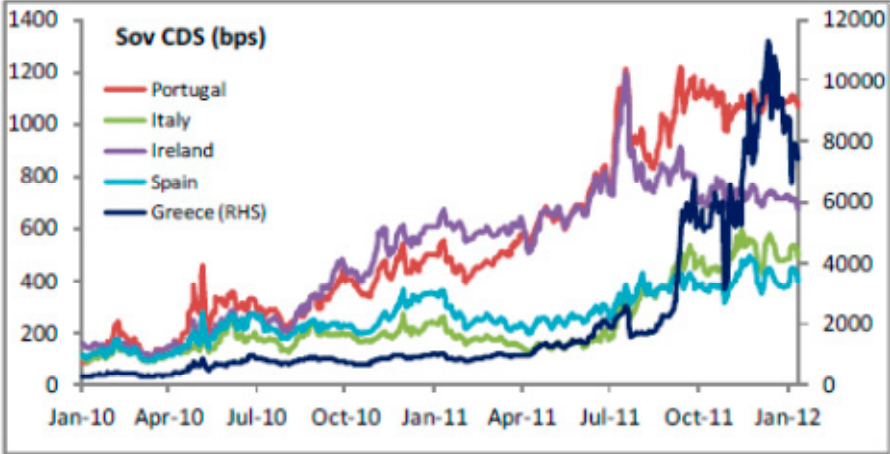
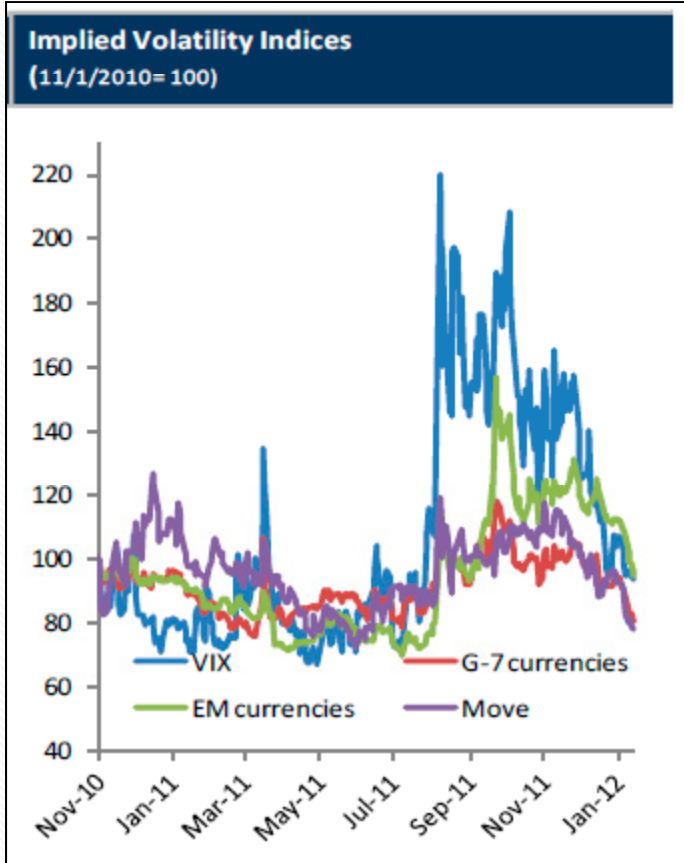
# Flight to "Safe Havens"

Asset Price Performance since April GFSR  
(percent)





# Volatility and Risk Aversion







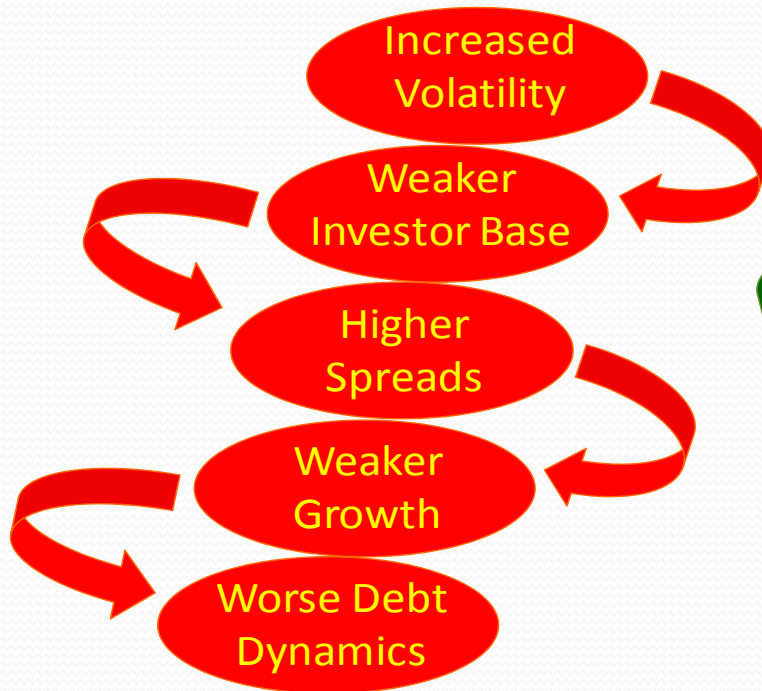
## A Dangerous Spot to be In?

- Financial markets continue to question policymakers' ability to secure sufficient support for necessary policy actions
- High uncertainty in light of political disagreement on crucial questions in euro area and US
- Risk of an adverse feedback loop between sovereigns, banks, and real economy

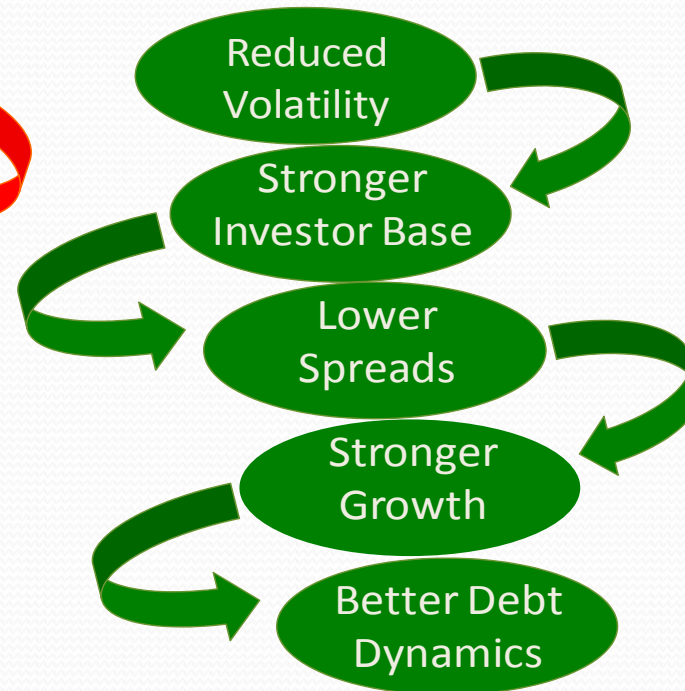
# Bad Equilibrium, Good Equilibrium

Shock to Debt Dynamics for Vulnerable Sovereign

Bad Equilibrium  
Inadequate  
Policy Response



Good Equilibrium  
Adequate  
Policy Response





# The EU Debt Crisis

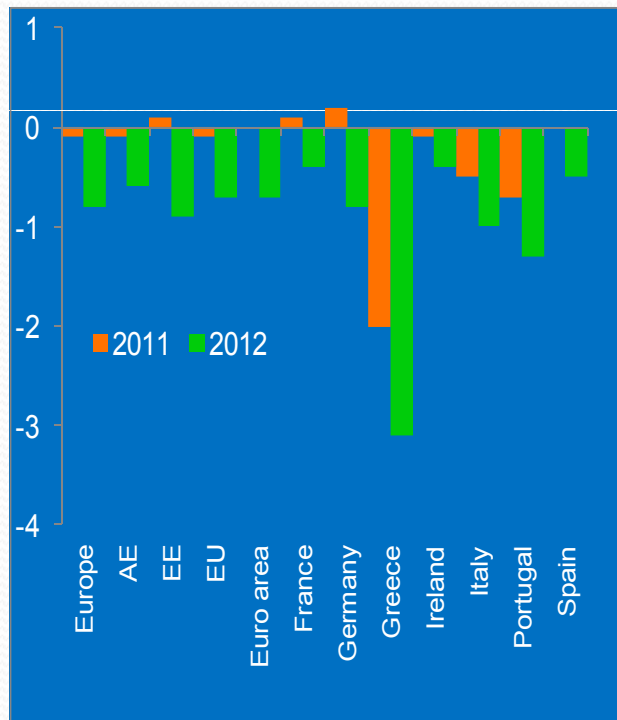


# Europe

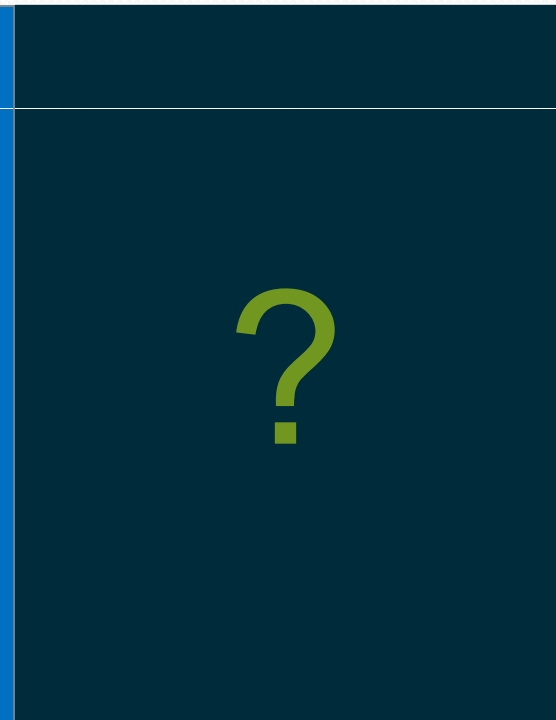
## European countries: GDP growth (y-o-y, in percent)

	2010	2011 (Proj.)	2012 (Proj.)
Europe	2.4	2.3	1.8
Advanced economies	1.7	1.6	1.3
Emerging economies	4.4	4.4	3.4
European Union	1.8	1.7	1.4
Euro area	1.8	1.6	1.1
France	1.4	1.7	1.4
Germany	3.6	2.7	1.3
Greece	-4.4	-5.0	-2.0
Ireland	-0.4	0.4	1.5
Italy	1.3	0.6	0.3
Portugal	1.3	-2.2	-1.8
Spain	-0.1	0.8	1.1

## Downward Revisions in Growth Forecasts since Apr-'11 WEO (In percentage points)



## Risks to the Eurozone Outlook



Note: AE: Advanced European economies  
EE: Emerging European economies



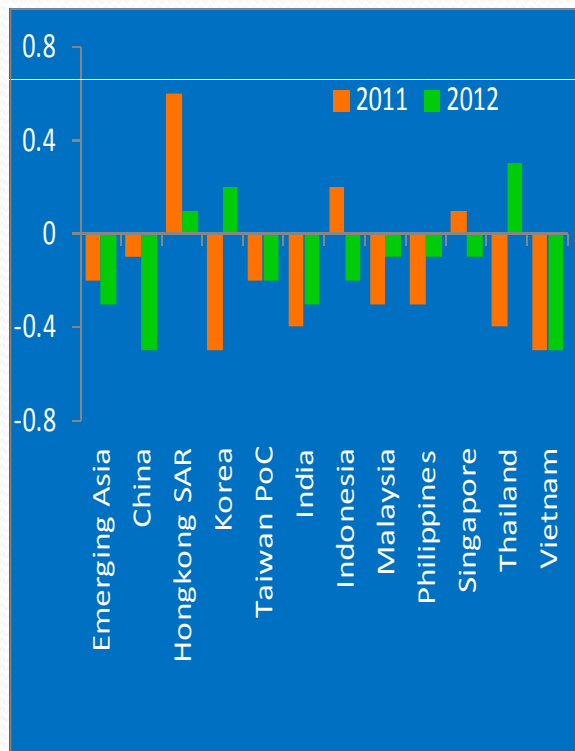
Asia

# Growth—Developments and Outlook

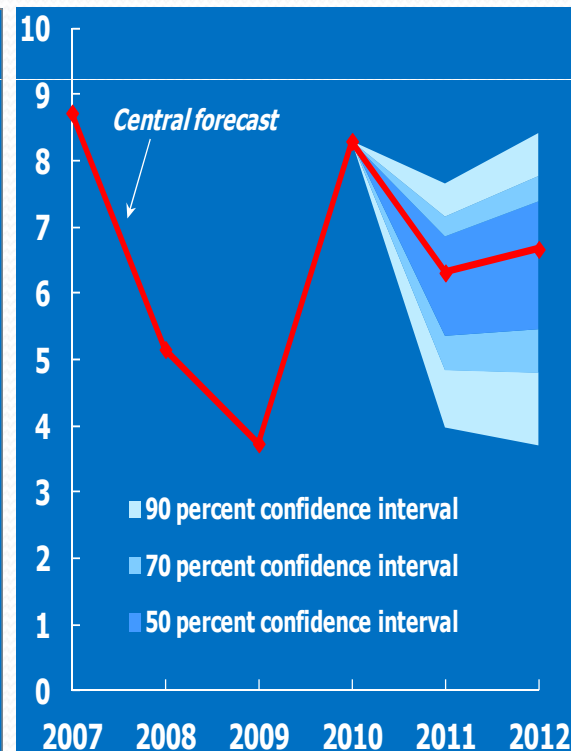
**Asia: GDP growth**  
(y-o-y, in percent)

	2010	2011 (Proj.)	2012 (Proj.)
Emerging Asia	9.5	7.9	7.7
China	10.3	9.5	9
Hong kong SAR	7	6	4.3
Korea	6.2	4.0	4.4
Taiwan PoC	10.9	5.2	5.0
India	10.1	7.8	7.5
Indonesia	6.1	6.4	6.3
Malaysia	7.2	5.2	5.1
Philippines	7.6	4.7	4.9
Singapore	14.5	5.3	4.3
Thailand	7.8	3.5	4.8
Vietnam	6.8	5.8	6.3

**Downward Revisions in  
Growth Forecasts since  
Apr-'11 WEO**  
(In percentage points)

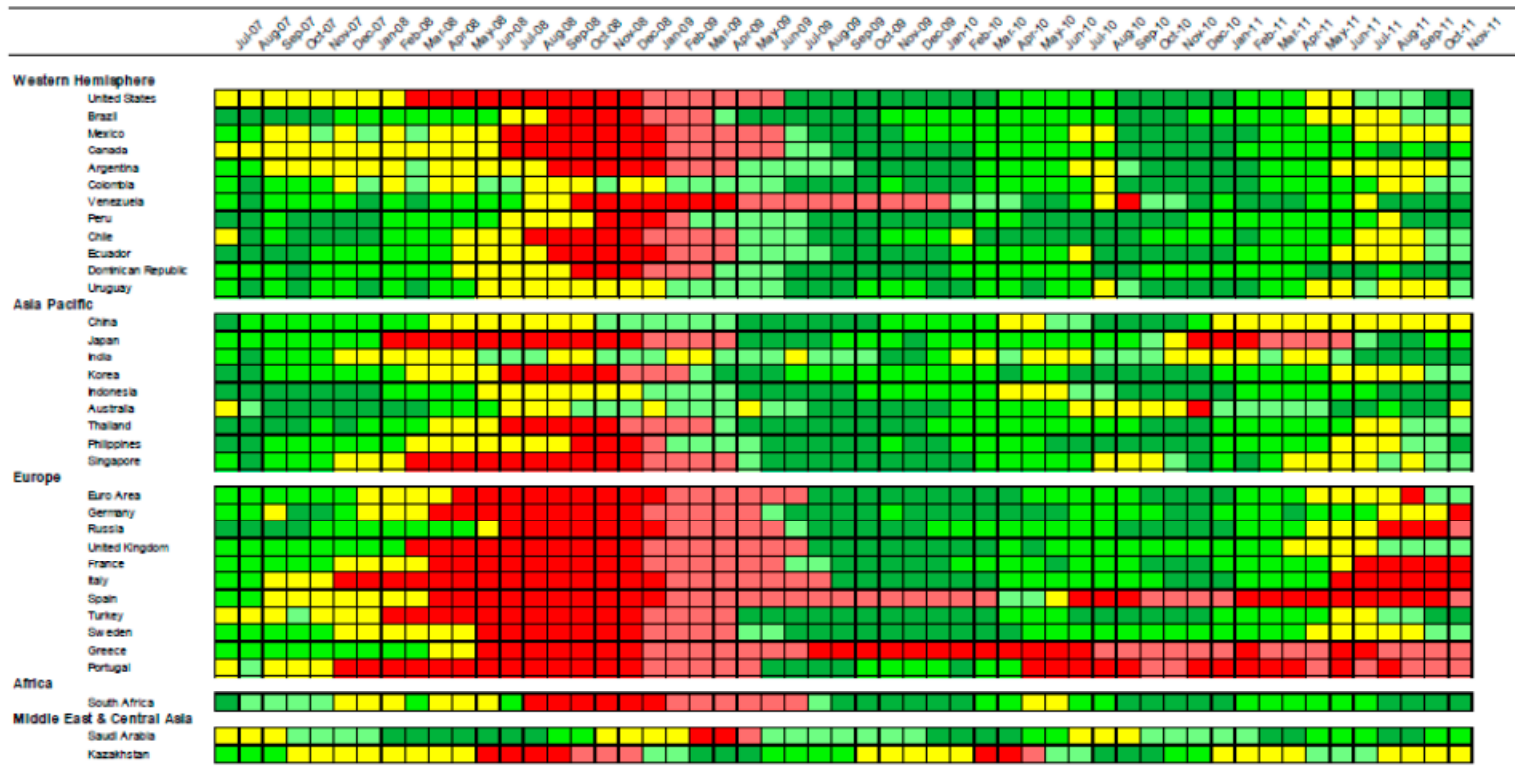


**Risks to Asian Outlook**  
(Baseline forecast and selected  
confidence bands)





# Growth Tracker

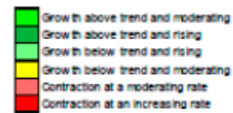


\*Source: Haver and IMF Staff estimates.

The growth trackers are constructed using a large number of daily, monthly, and quarterly indicators and a dynamic factor model that incorporates all available data. The trackers are estimated and forecast at the monthly frequency. The classifications represented in the table are based on the behavior of a centered 7-month-moving average. The most recent estimates implicitly include forecasts and can change with the arrival of more data.

Appendix 1.2 of the October 2010 WEO describes the methodology in greater detail.

Estimates based on data available on:  
1/9/2012

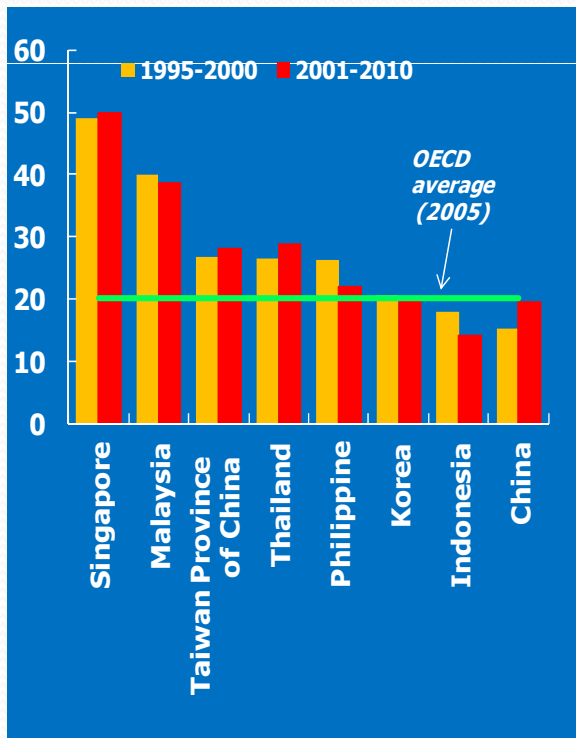


\* trend is potential output growth taken from GRM, where available.  
if not available, the trend is taken from the 'live' WEO database.  
if not available in the WEO database, the HP trend is used.

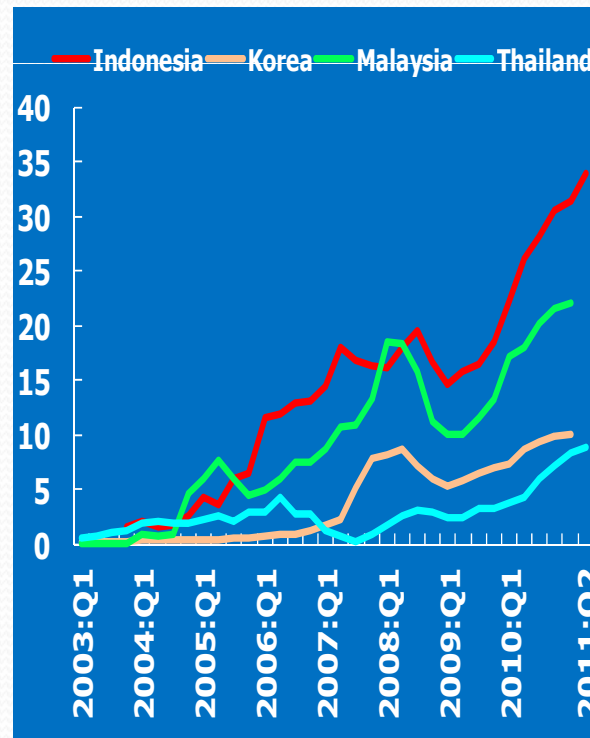
# Asia and the Global Economy

## Trade and Financial Sector Channels

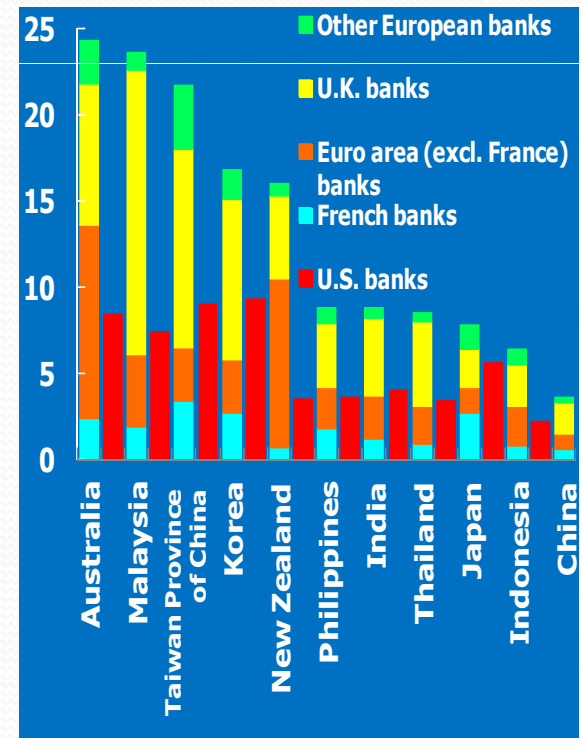
**Selected Asia: Contribution of Non-Asian Final Demand to Value Added**  
(In percent of GDP)



**Selected Asia: Foreign Holdings in Local Currency Government Bonds**  
(In percent of total outstanding local currency government bond)

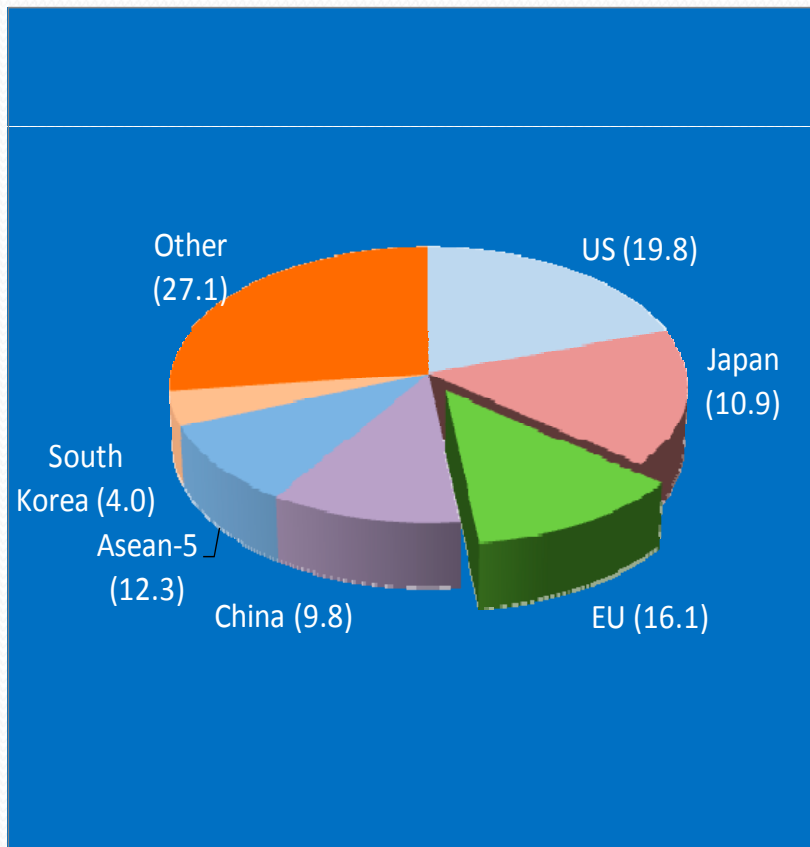


**Consolidated Claims of European and U.S. Banks on Selected Asia**  
(In percent of GDP)

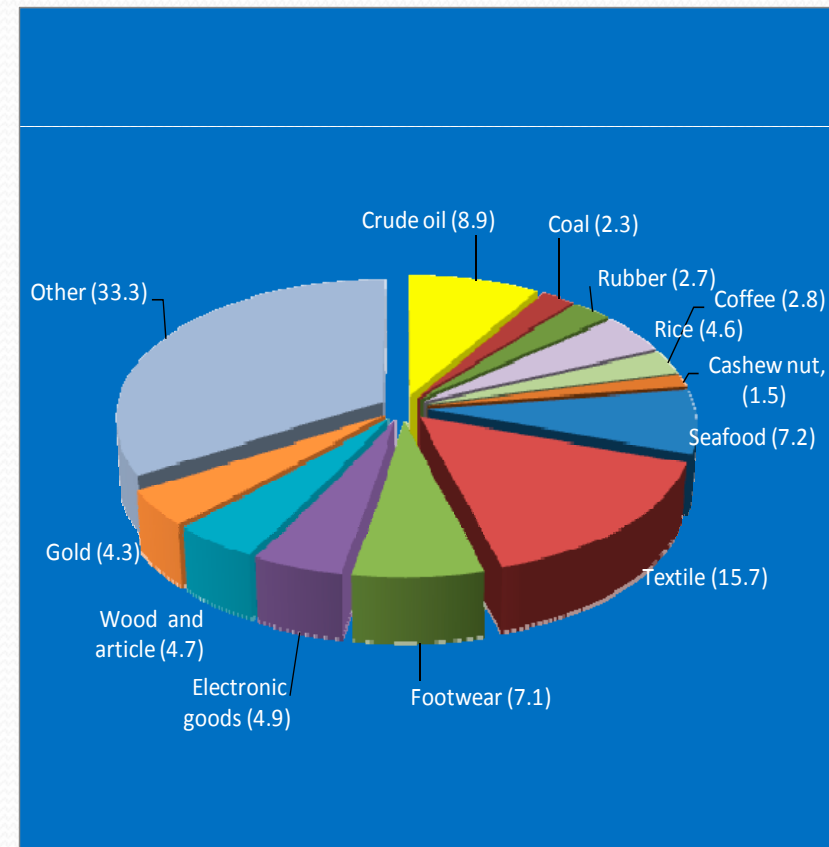


## Trade—Direction of Trade and Commodity Composition

**Vietnam: Exports by destination**  
(In percent)



**Vietnam: Exports by commodities**  
(In percent)

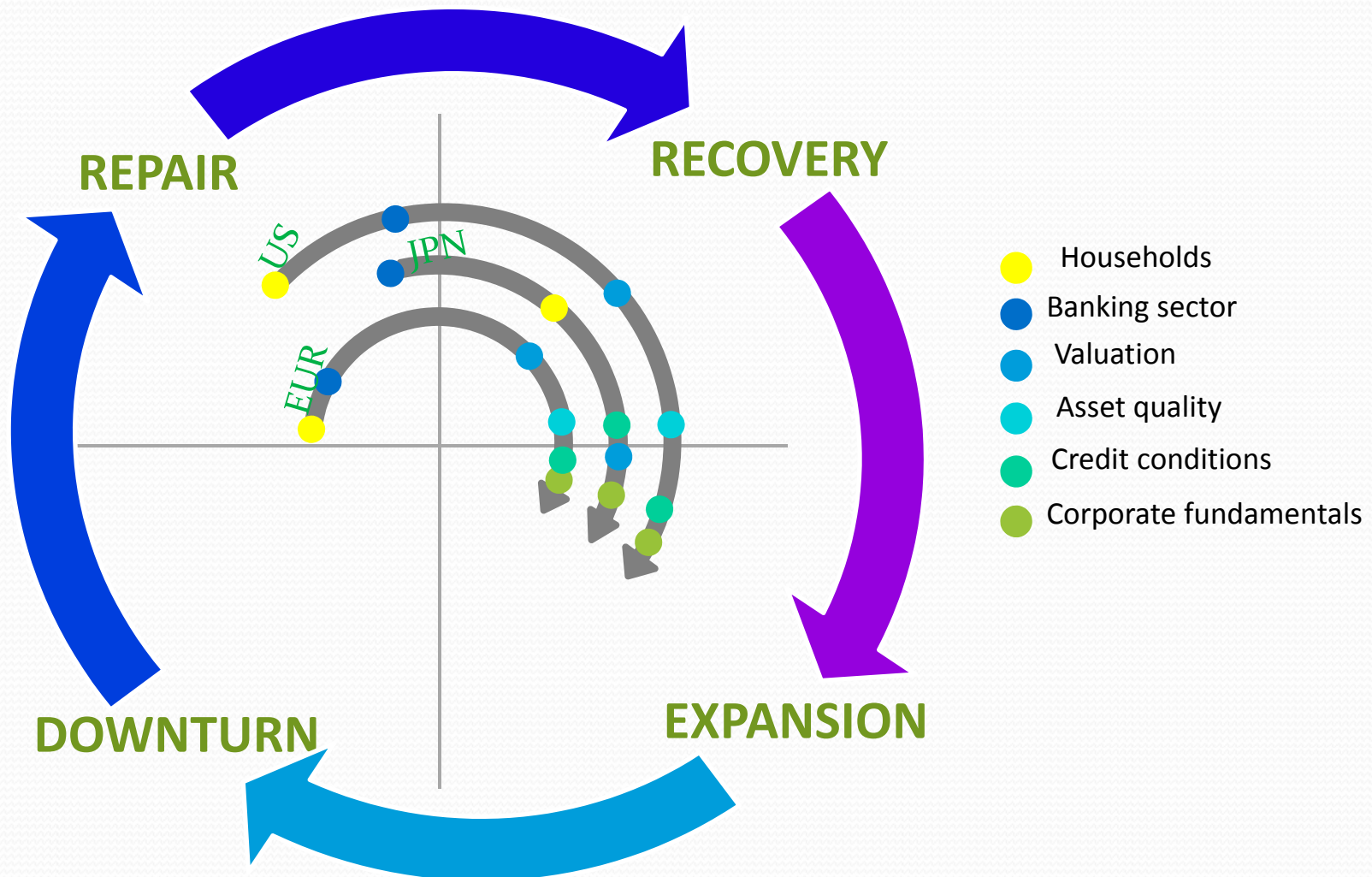




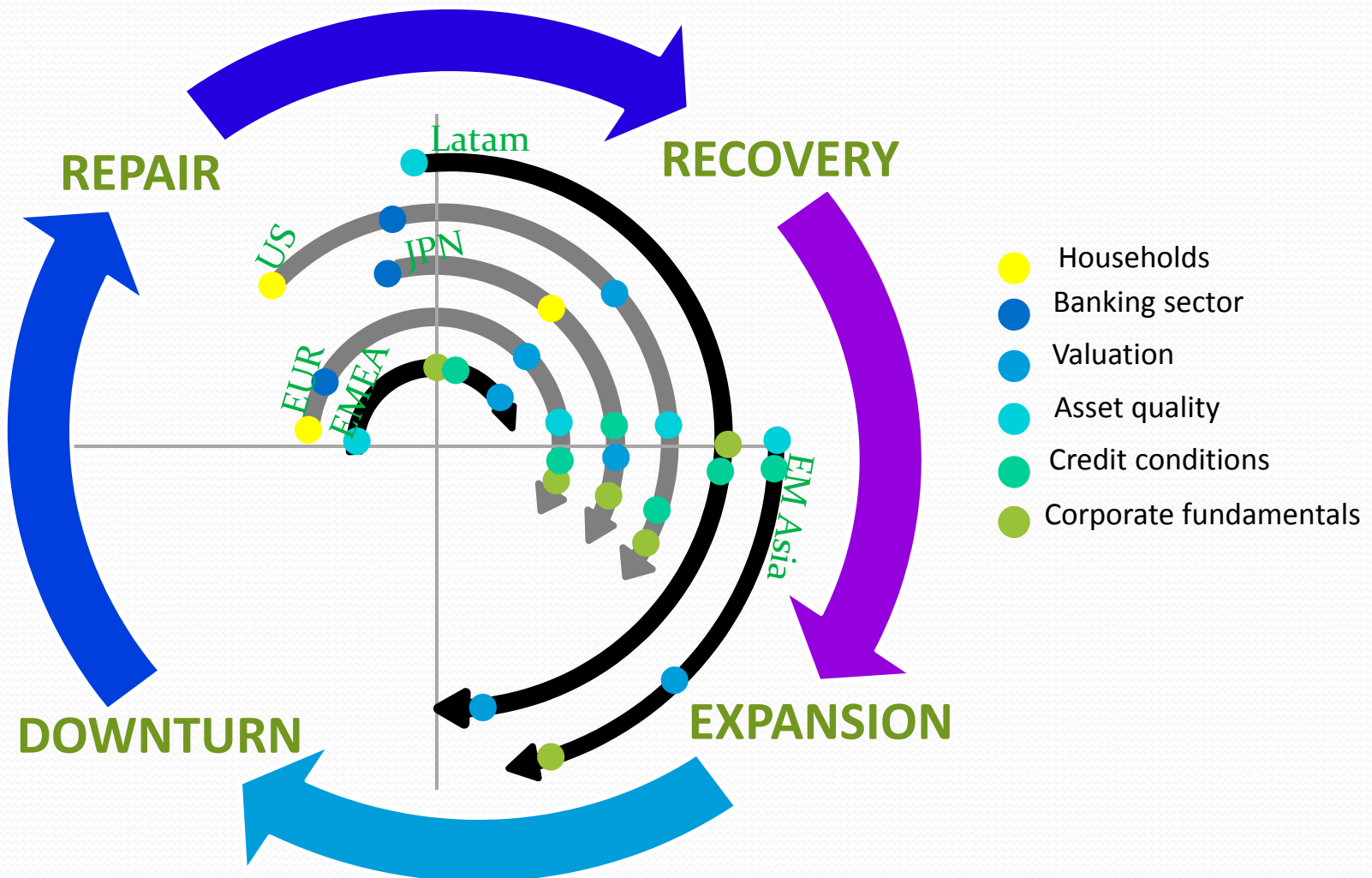


## **Financial Sector—The Credit Cycle**

# Advanced economies are stuck between repair and expansion phase of the credit cycle

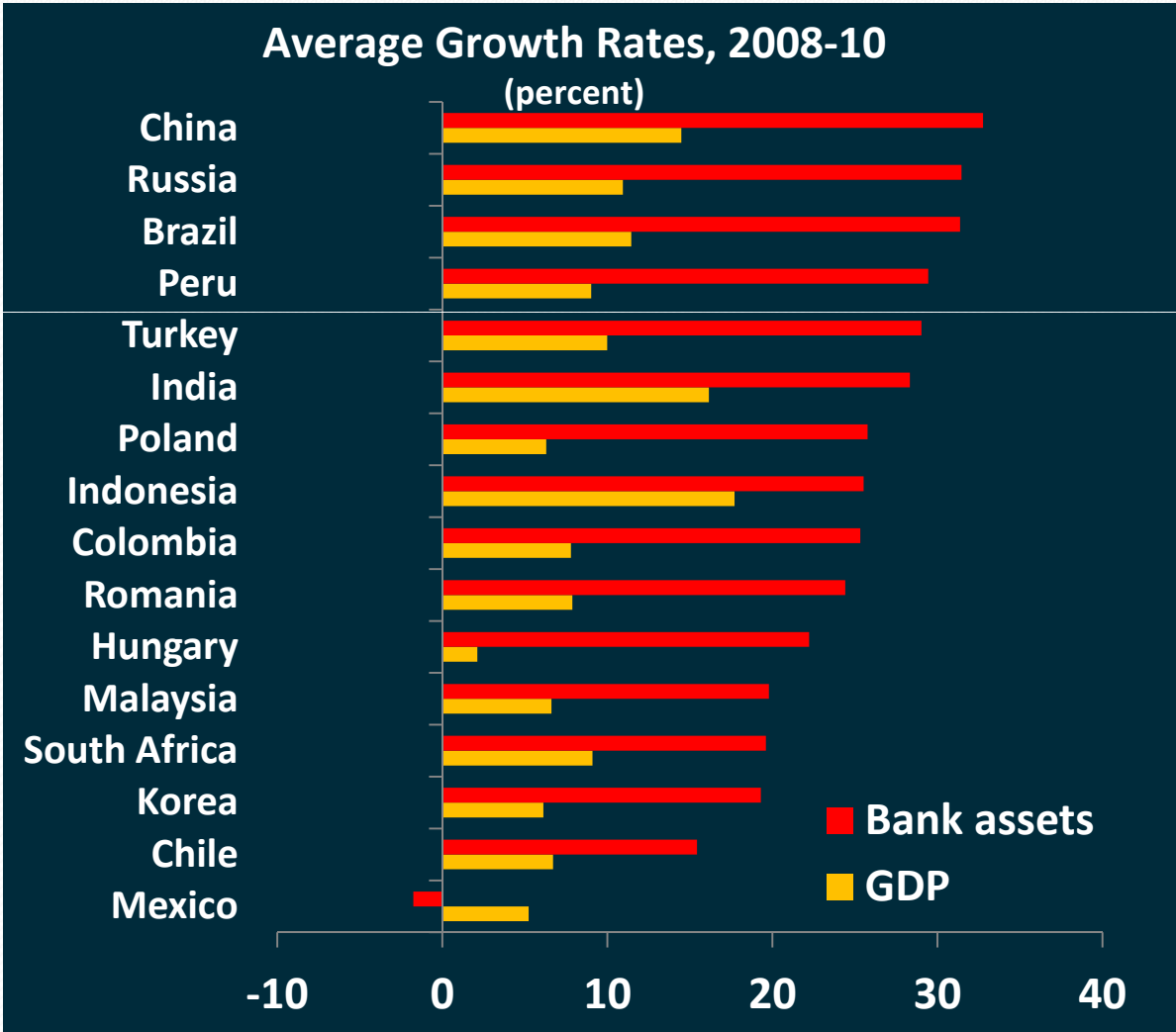


# Emerging economies are further along in the credit cycle



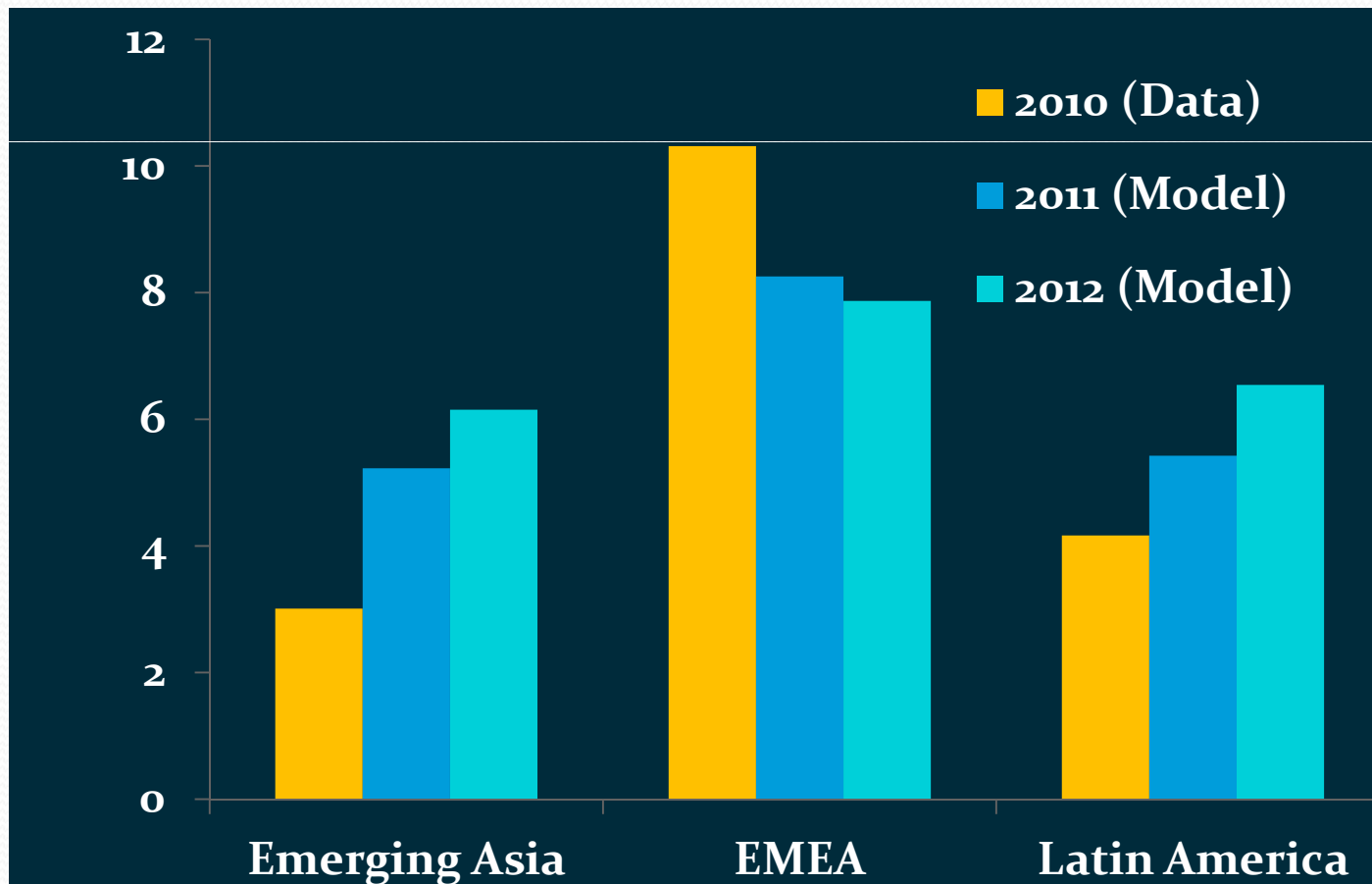


# In many economies credit is running well ahead of GDP



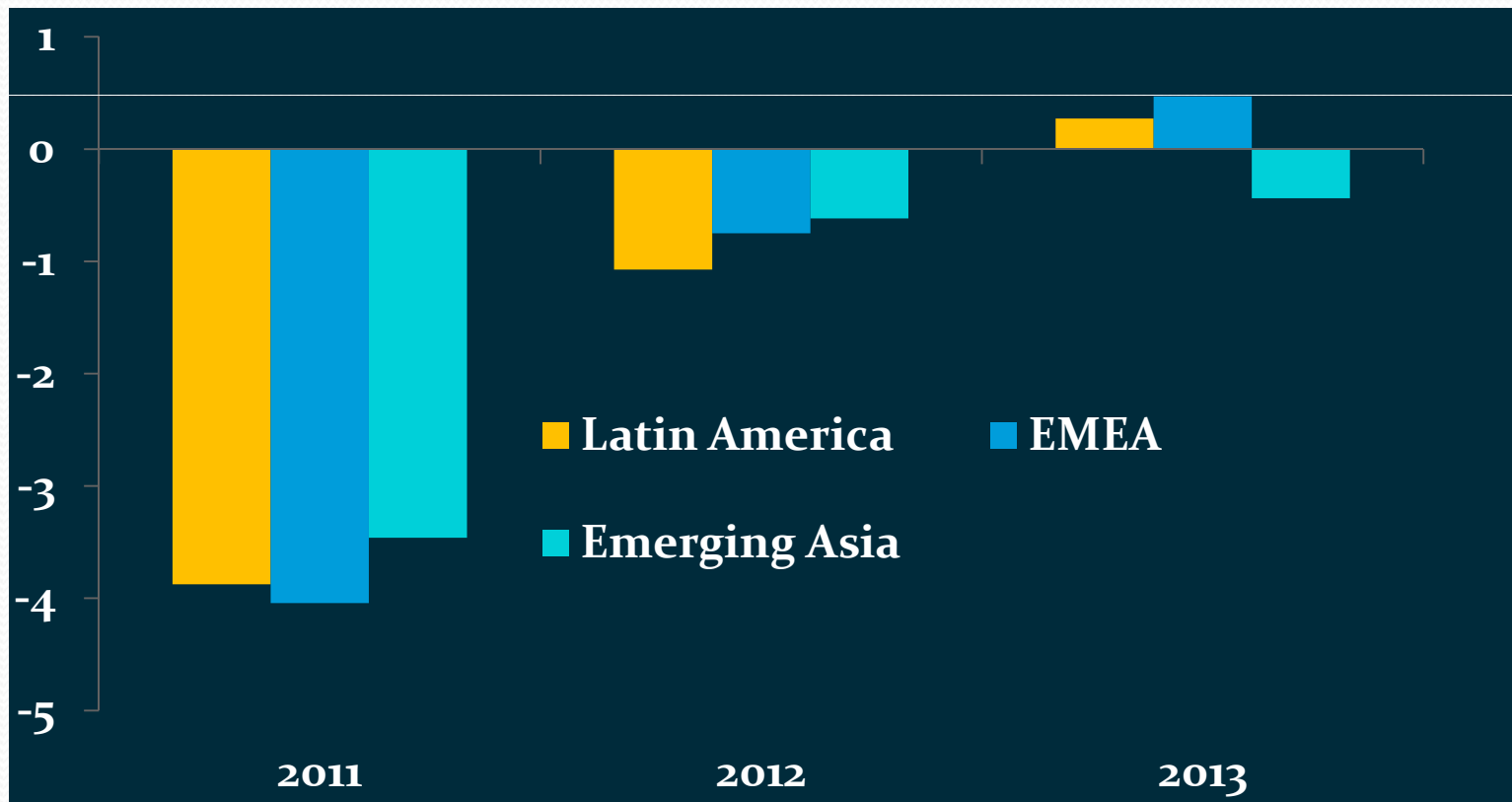
# Rapid credit growth *now* can lead to rising NPLs *later*

Model Prediction for NPL Ratios in 2011 and 2012  
Based on 2010 Values  
(percent, no shock)



# An external shock would test the resilience of EM banks

Absolute Change in Capital Adequacy Ratios  
Under Combined Macro Shocks  
(percentage points)





# EMarket Banks: Sensitivity to Macro and Funding Shocks

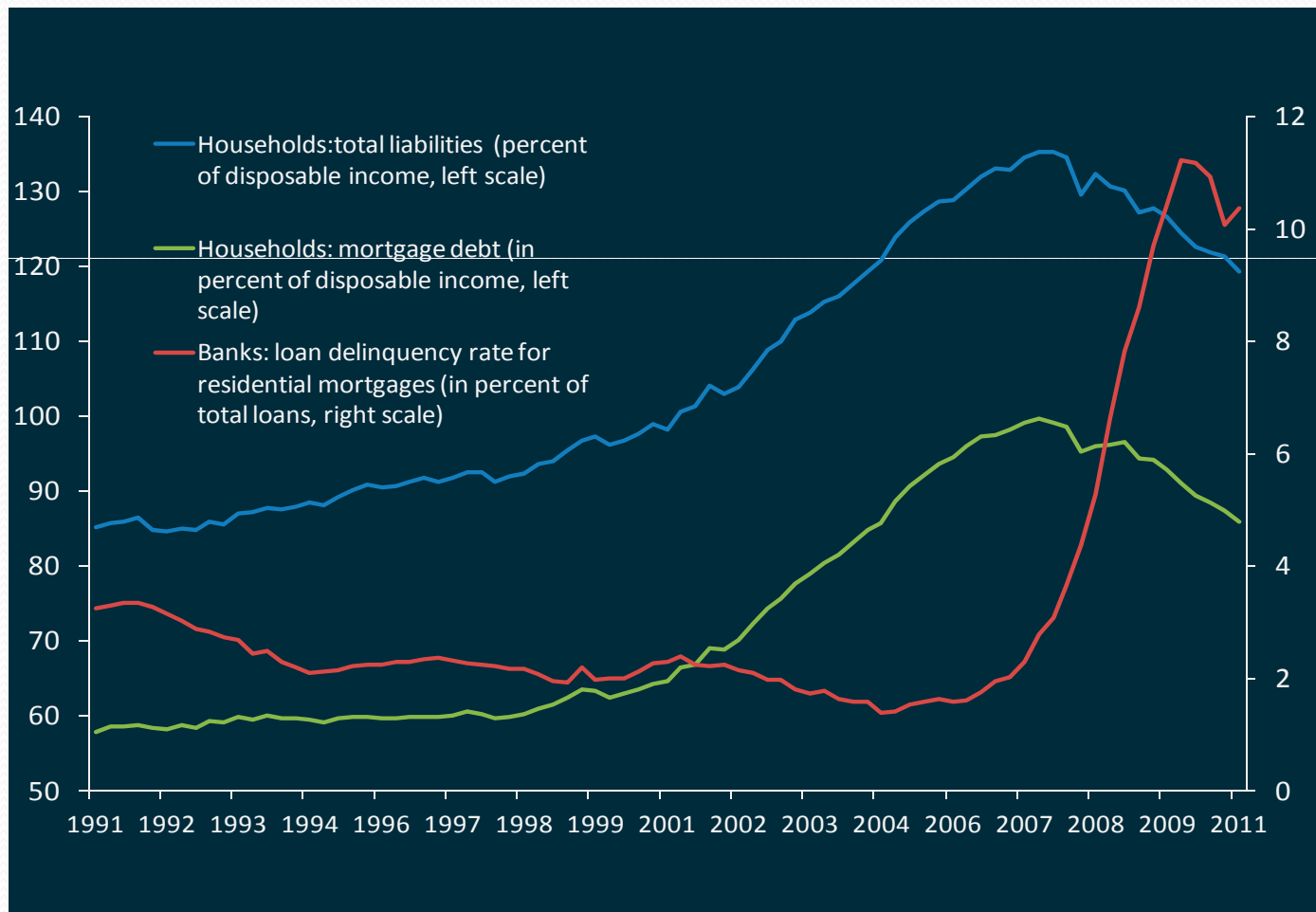
**Regulatory capital/RWA using economic (IRB/Basel II) risk weights**  
(Percentage point deviations from baseline CARs in 2013)

	GDP growth shock (5 percentage points lower than WEO)	Terms of trade shock (2 standard deviations)	Funding shock (300 basis points)	Combined shock
Europe, Middle East, and Africa	-3.4	-1.1	-1.2	-5.1
Latin America	-4.5	-1.5	-0.8	-5.7
Asia	-1.3	-0.7	-1.3	-2.5



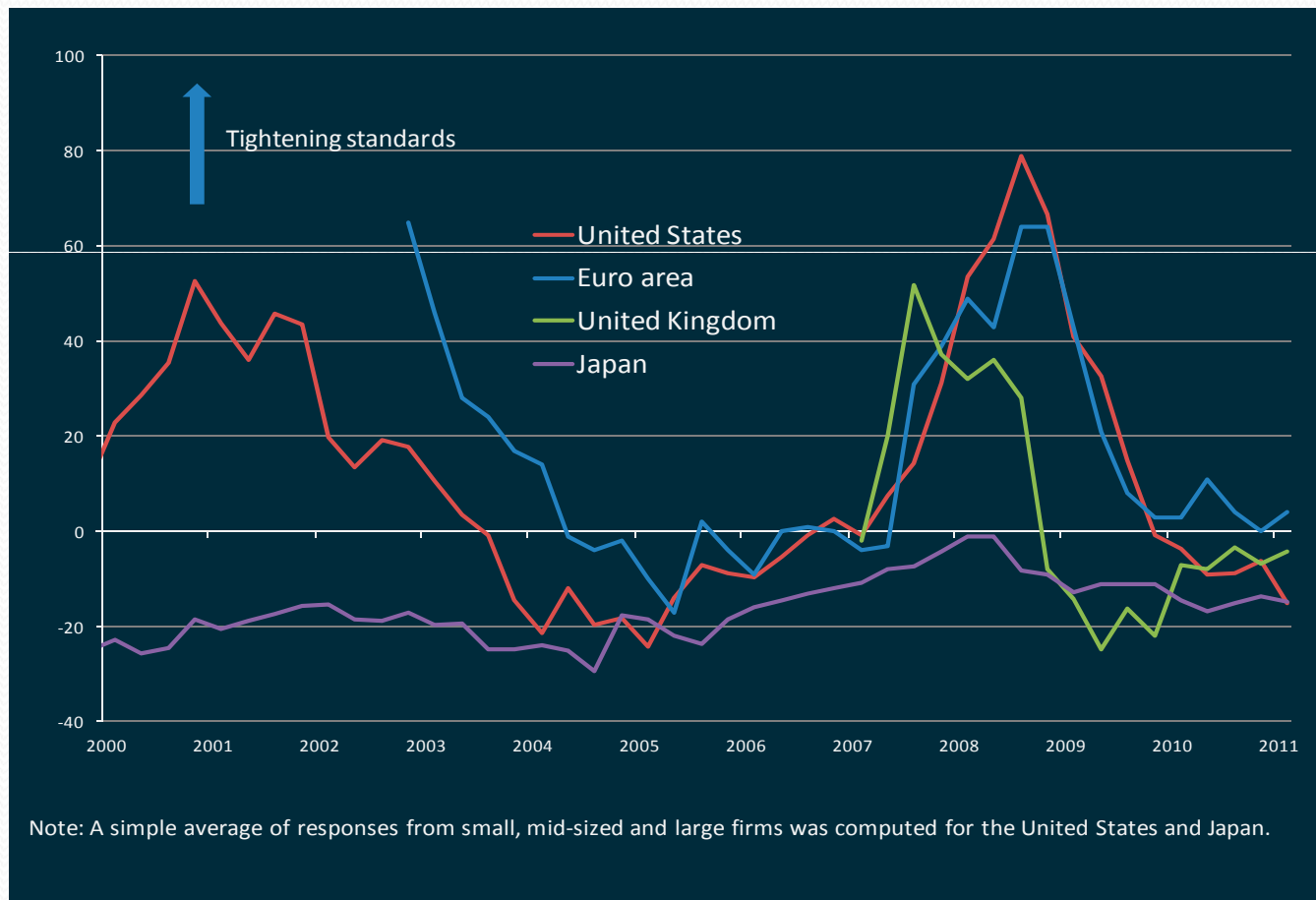
## **Financial Sector—The “Search for Yield” and Capital Flows**

## US Household Sector Financial Conditions





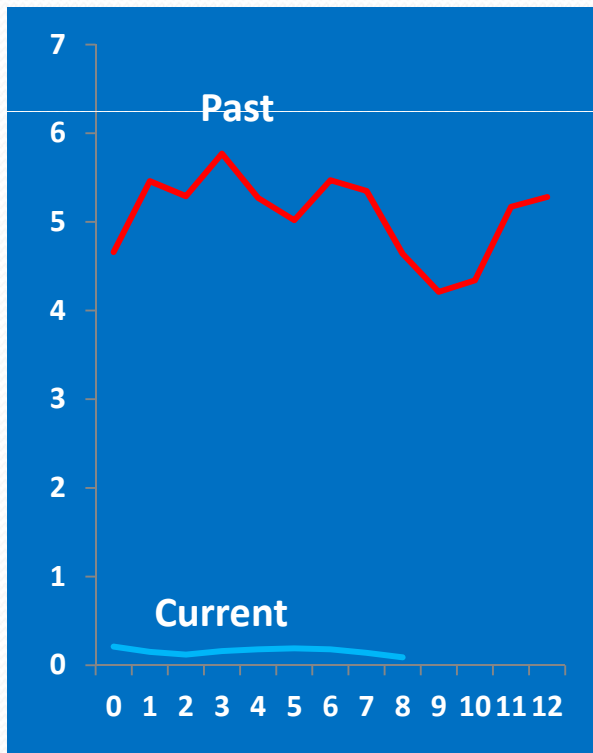
# Bank Lending Conditions for Non-financial Corporates



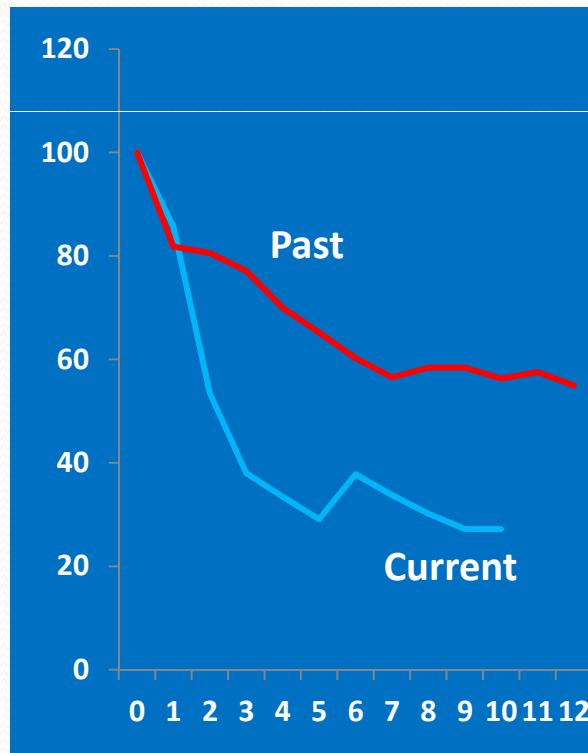
# Low policy rates encourage a “search for yield”

## Fed Funds Rates, BBB-rated Corporate Credit Spreads, and U.S. Real GDP Cumulative Growth

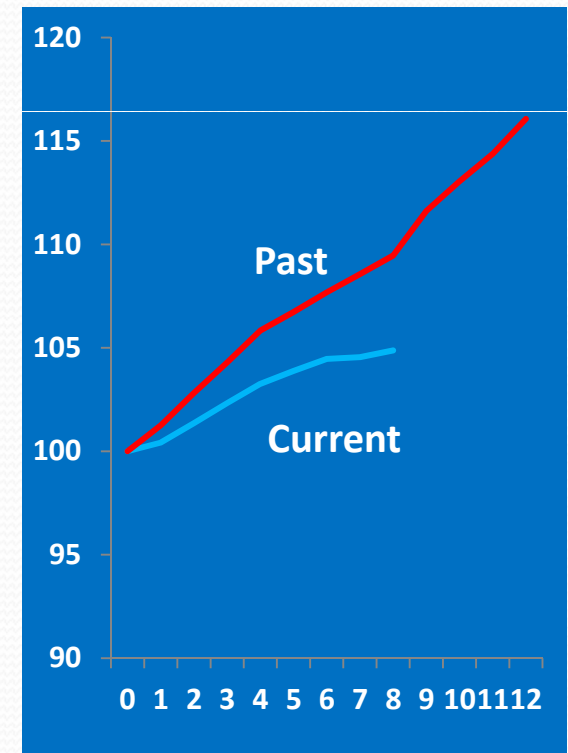
**U.S. Fed Funds Rate**  
(percent)



**U.S. BBB-rated Corporate Spreads**  
(100 = beginning of each cycle)

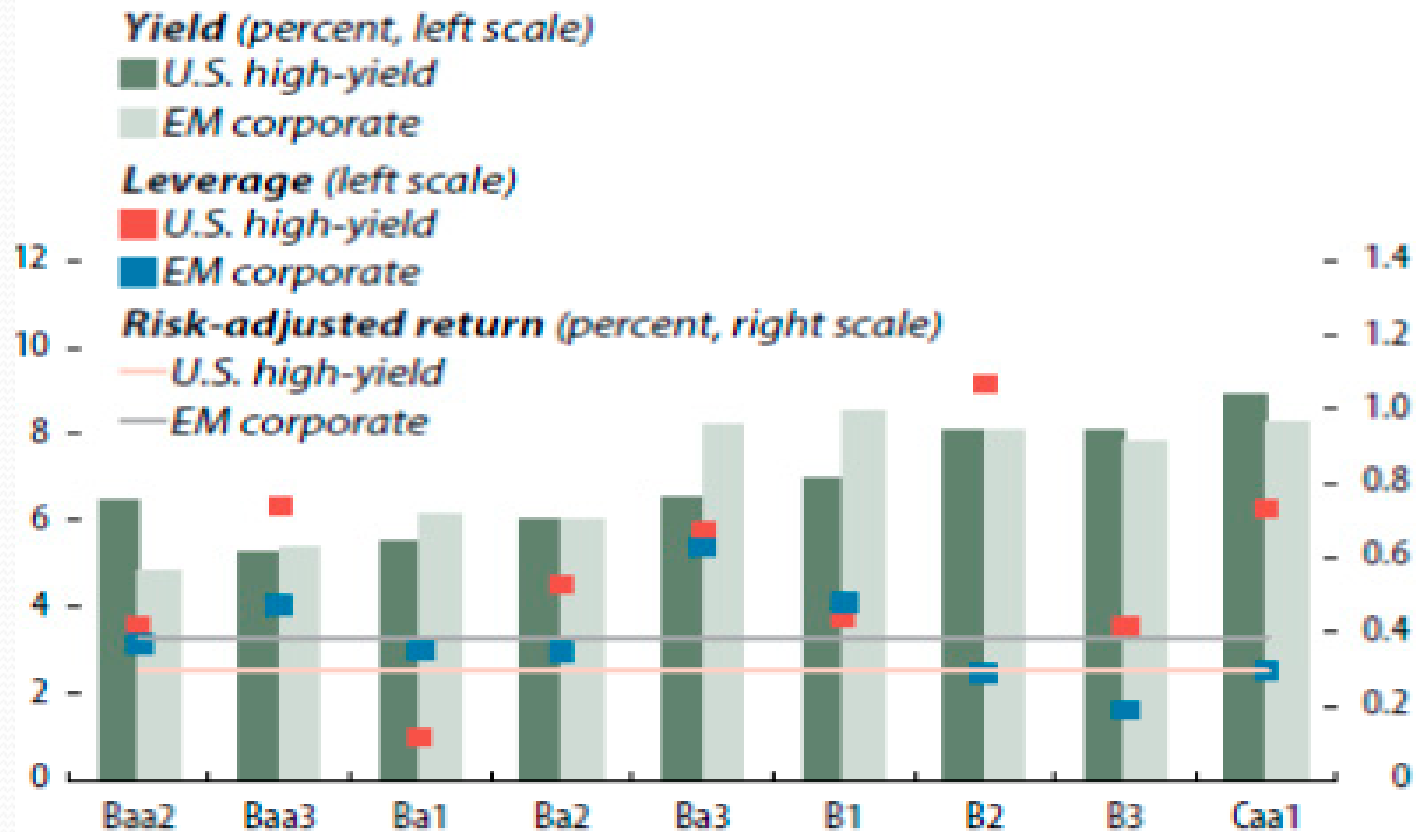


**U.S. Real GDP Cumulative Growth**  
(100 = beginning of each cycle)



— Past cycles      — Current cycle

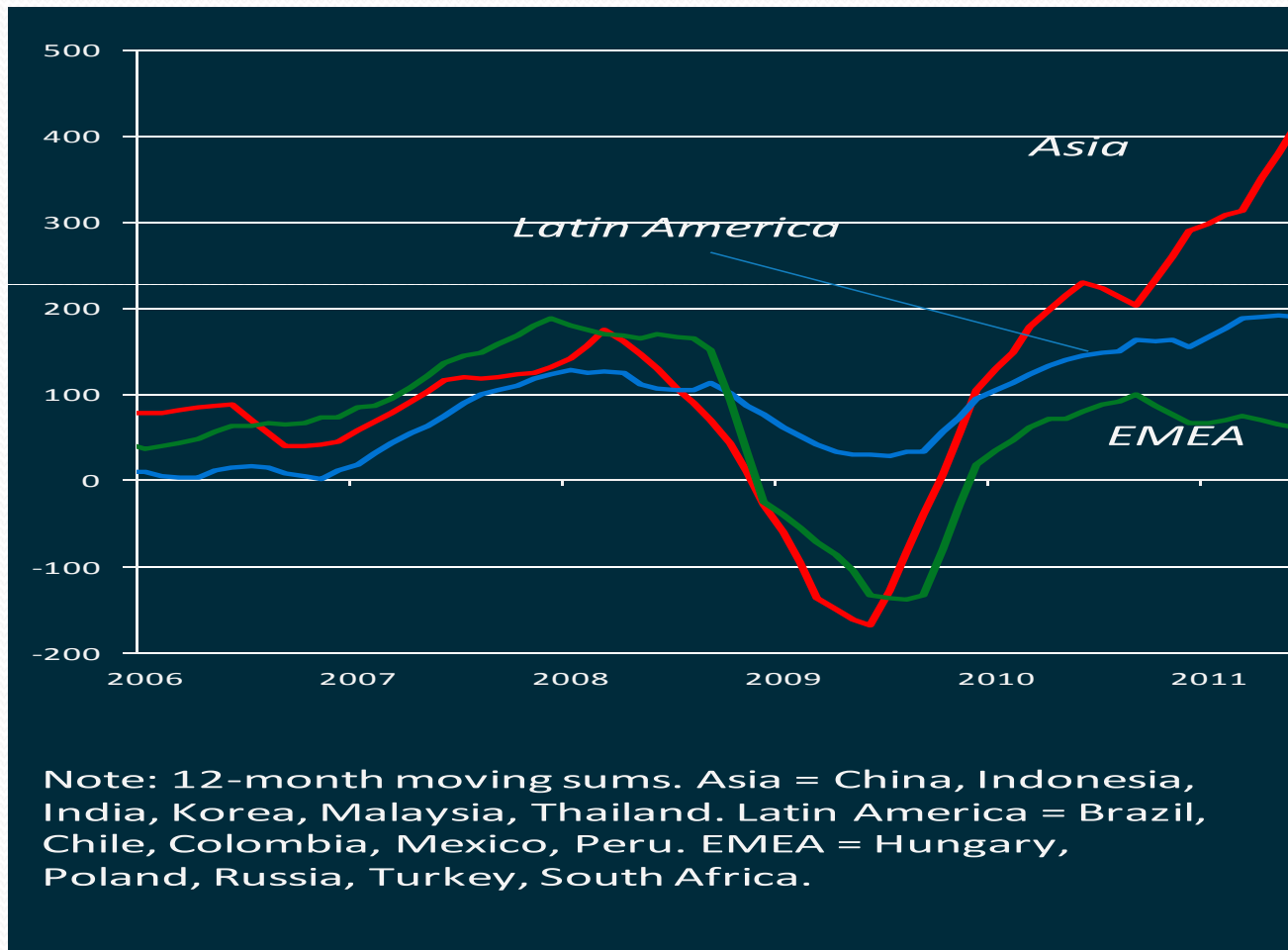
## Emerging Market Corporate vs. US High-yield Debt



Leverage is total debt/EBITIDA, returns estimated for the 6-months through June 2011

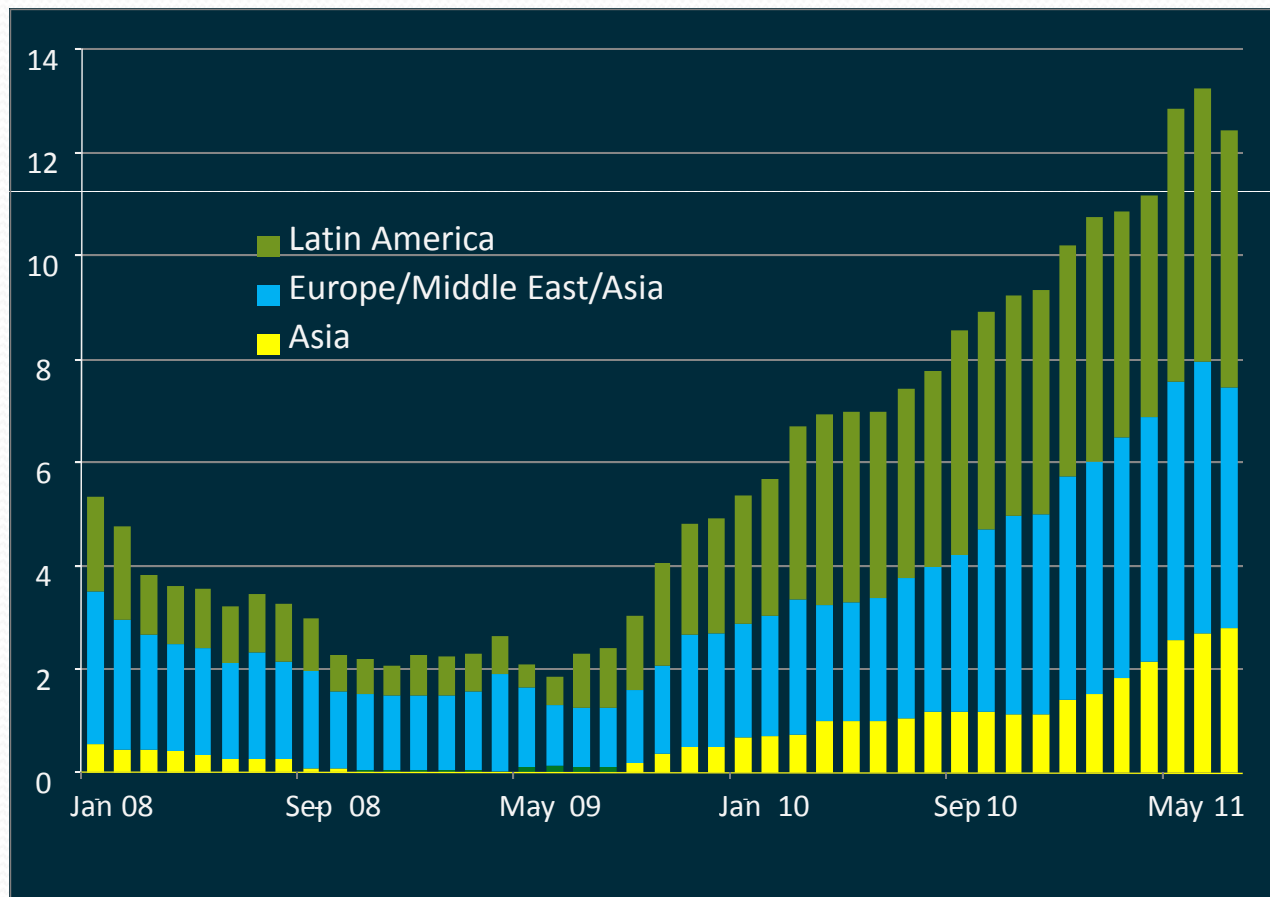


## Emerging Markets: Capital Flows

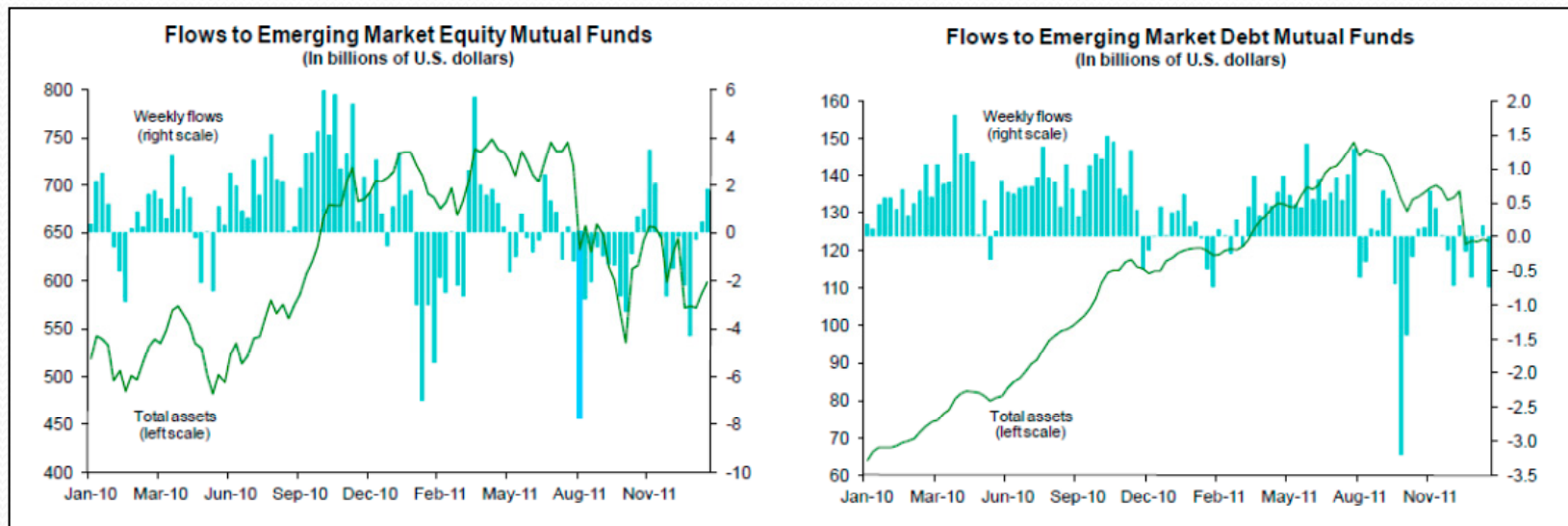


# Emerging Market External Corporate Issuance

(in billions of US dollars, 12-month moving average)



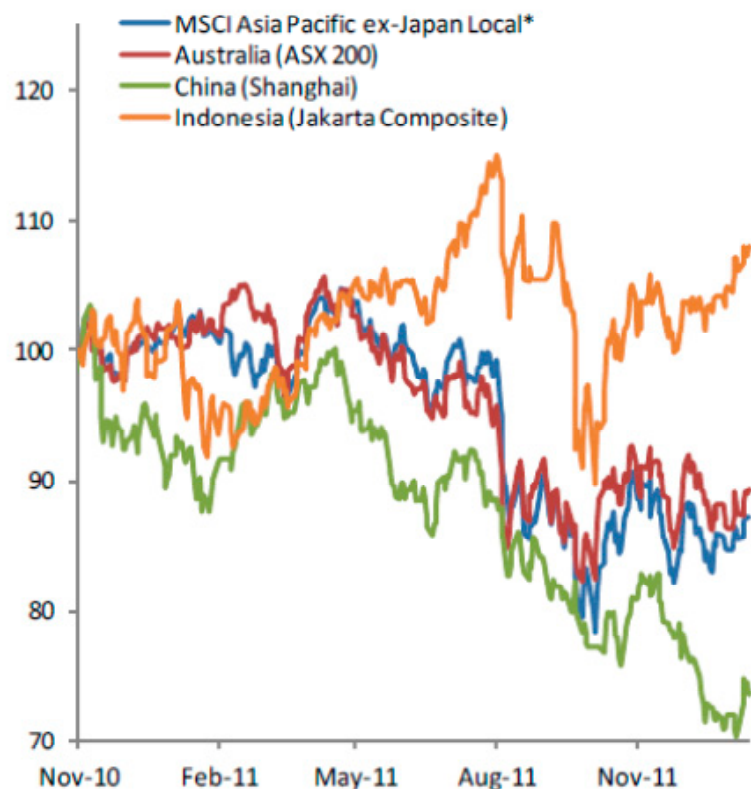
# Emerging Market Flows



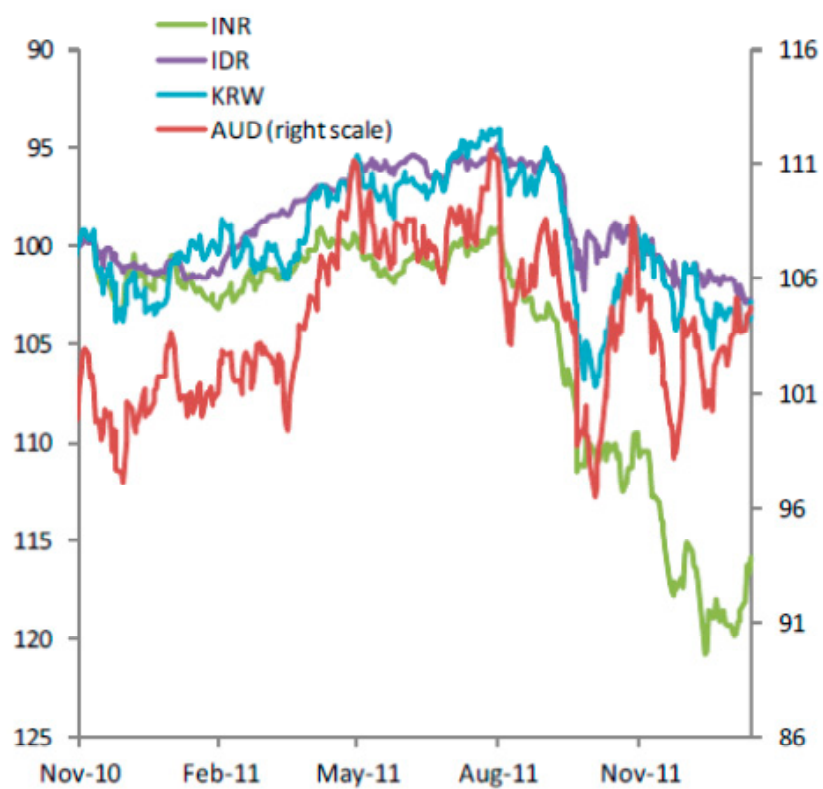


## Asia: Equities and Currencies

**Equity indices**  
(11/02/2010=100)



**Currencies**  
(11/01/2010=100, inverted scaled except for AUD)



## Emerging Economies—To Avoid *Future* Crisis

**Contain buildup of macro-financial vulnerabilities**

**Enhance macro-financial resilience to cope with external shocks**

**macro (monetary, fiscal)**

**macro-prudential and CFM**

**structural financial reform**



**Thank you**