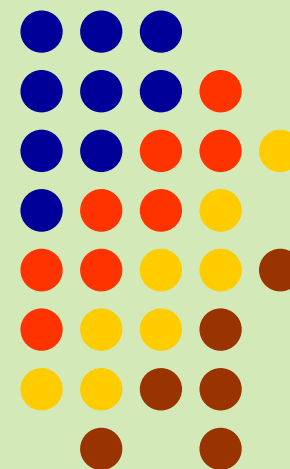


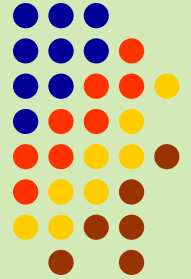
Regional Economic Outlook

April 2008

Asia and Pacific Department

Presentation by Vivek Arora
IMF Senior Resident Representative, Beijing



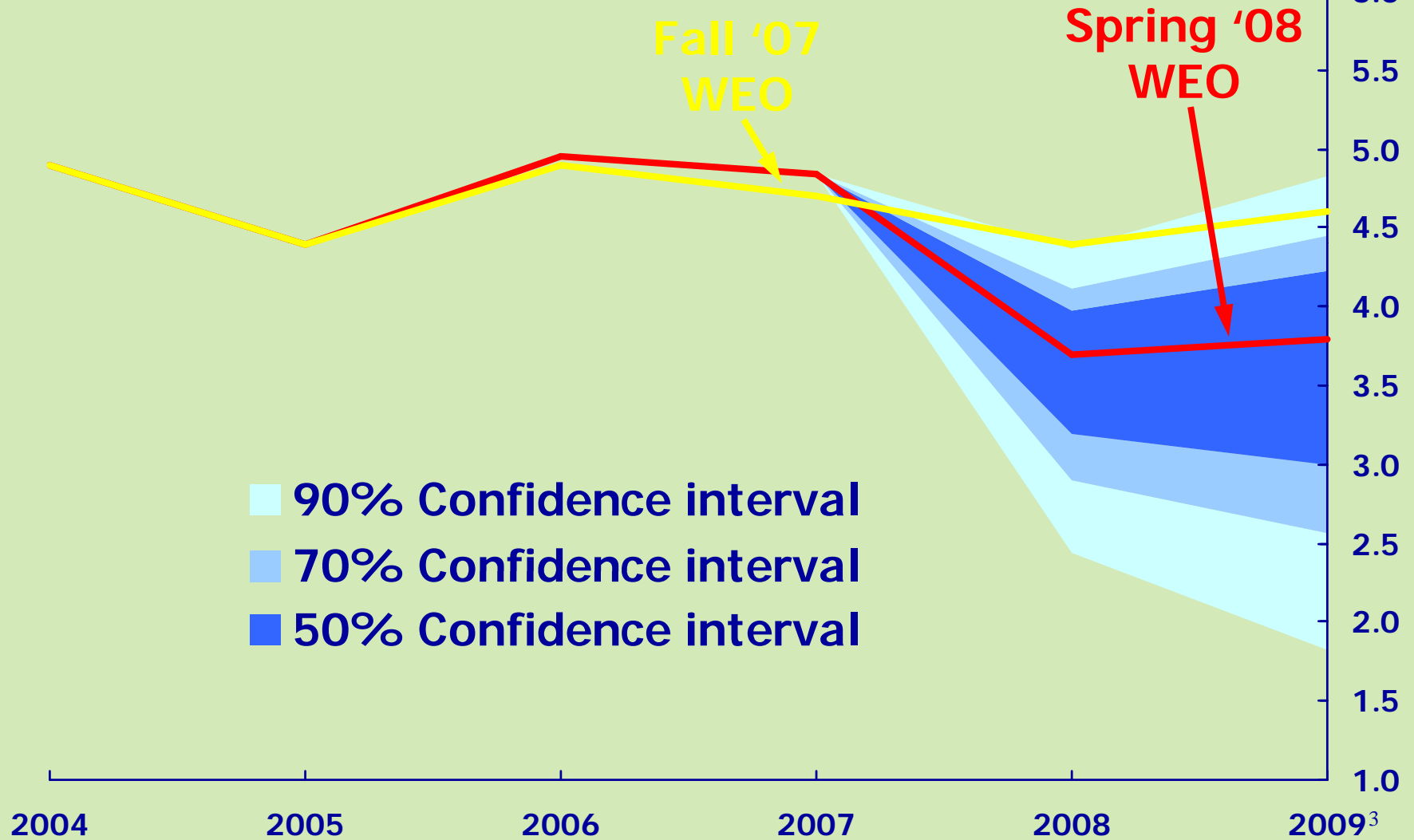
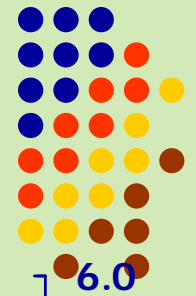


Summary

- Global developments and outlook
 - Asian developments and outlook:
 - Real activity and inflation
 - Exchange rates
 - Financial markets
 - Outlook and risks
 - Policy challenges
-
- High oil prices: impact on Asia
 - U.S. sub-prime crisis: some lessons

Global Outlook has Weakened With Risks *Still* Tilted to the Downside

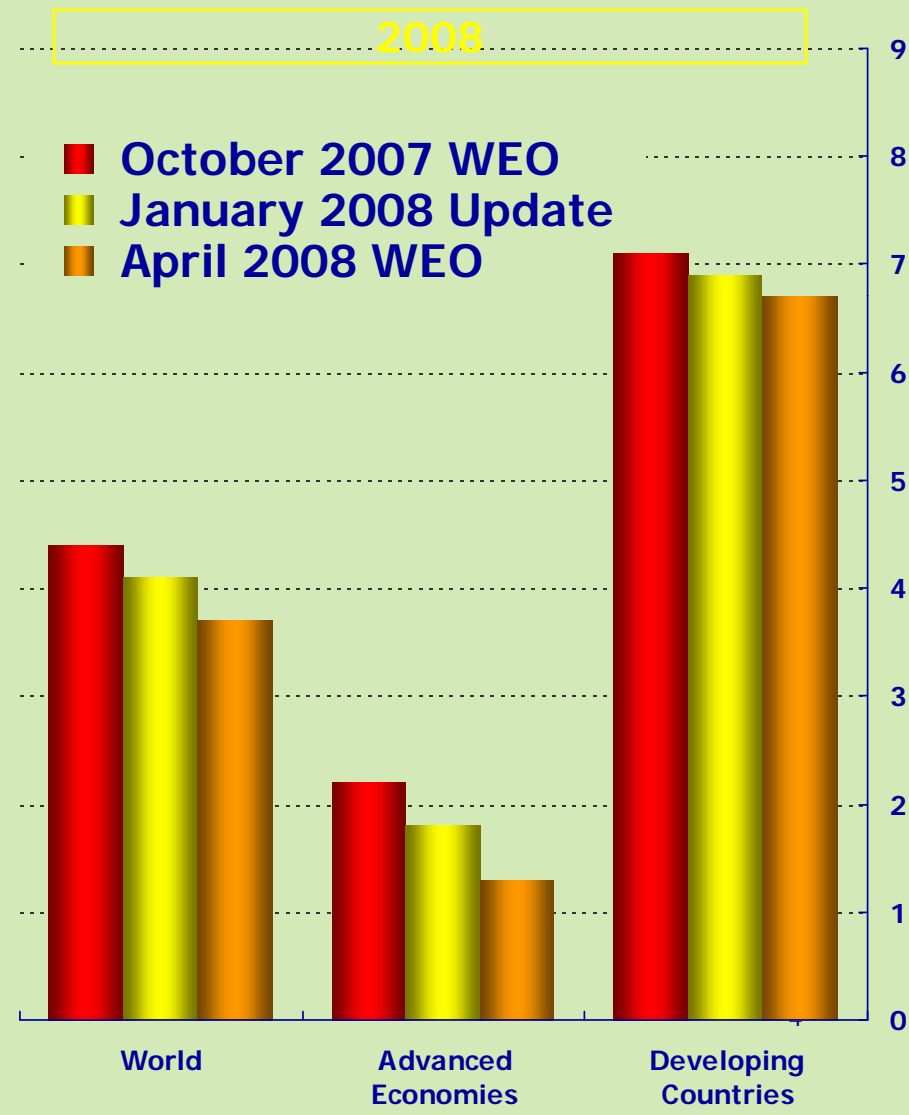
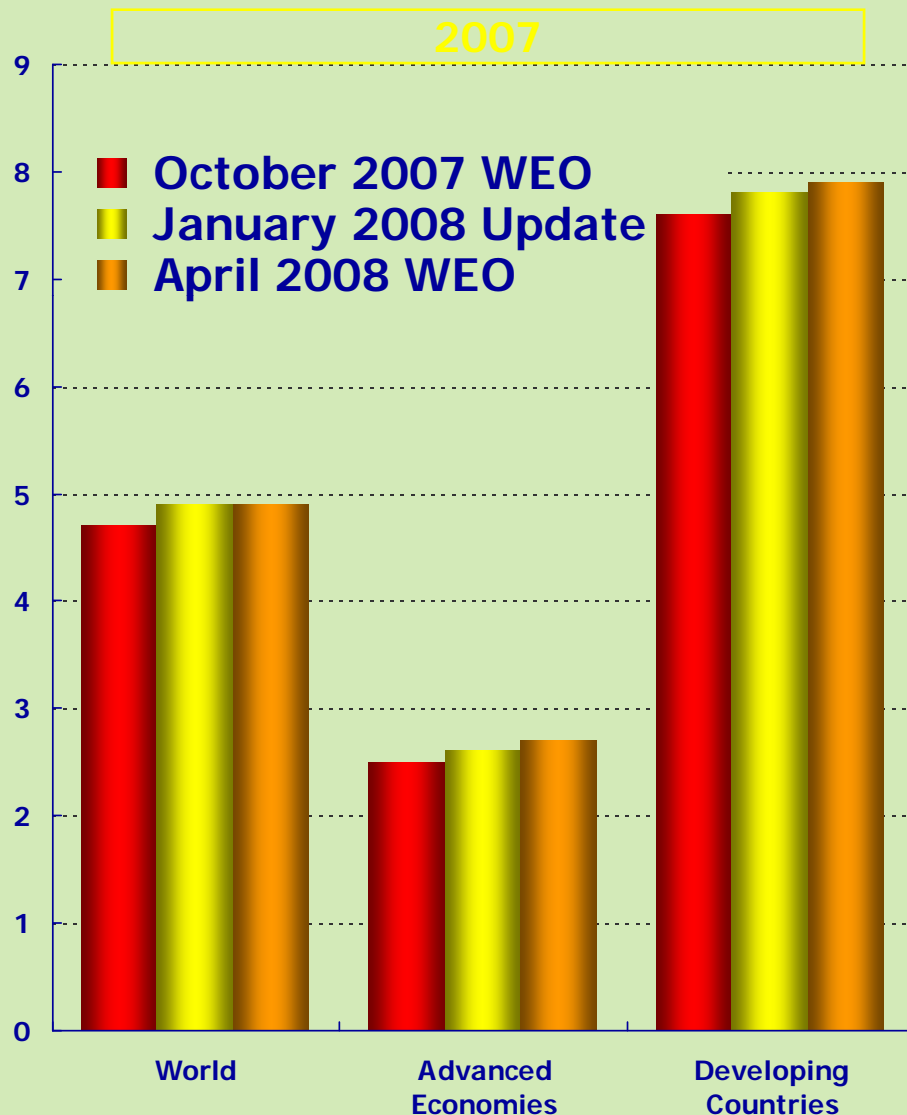
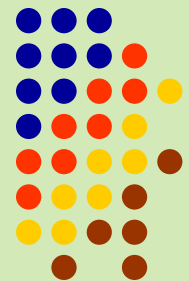
(in percent)



■ 90% Confidence interval
■ 70% Confidence interval
■ 50% Confidence interval

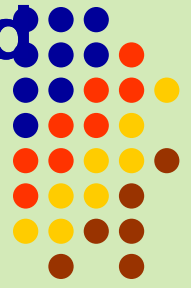
2007 Up, 2008 Down

(Percent per annum)



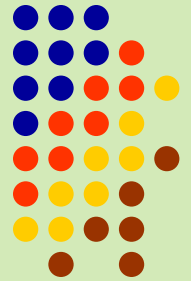
Advanced Economies Are Being Most Affected by Financial Turbulence

(Percent change)



Most Global Risk Factors Are Negative

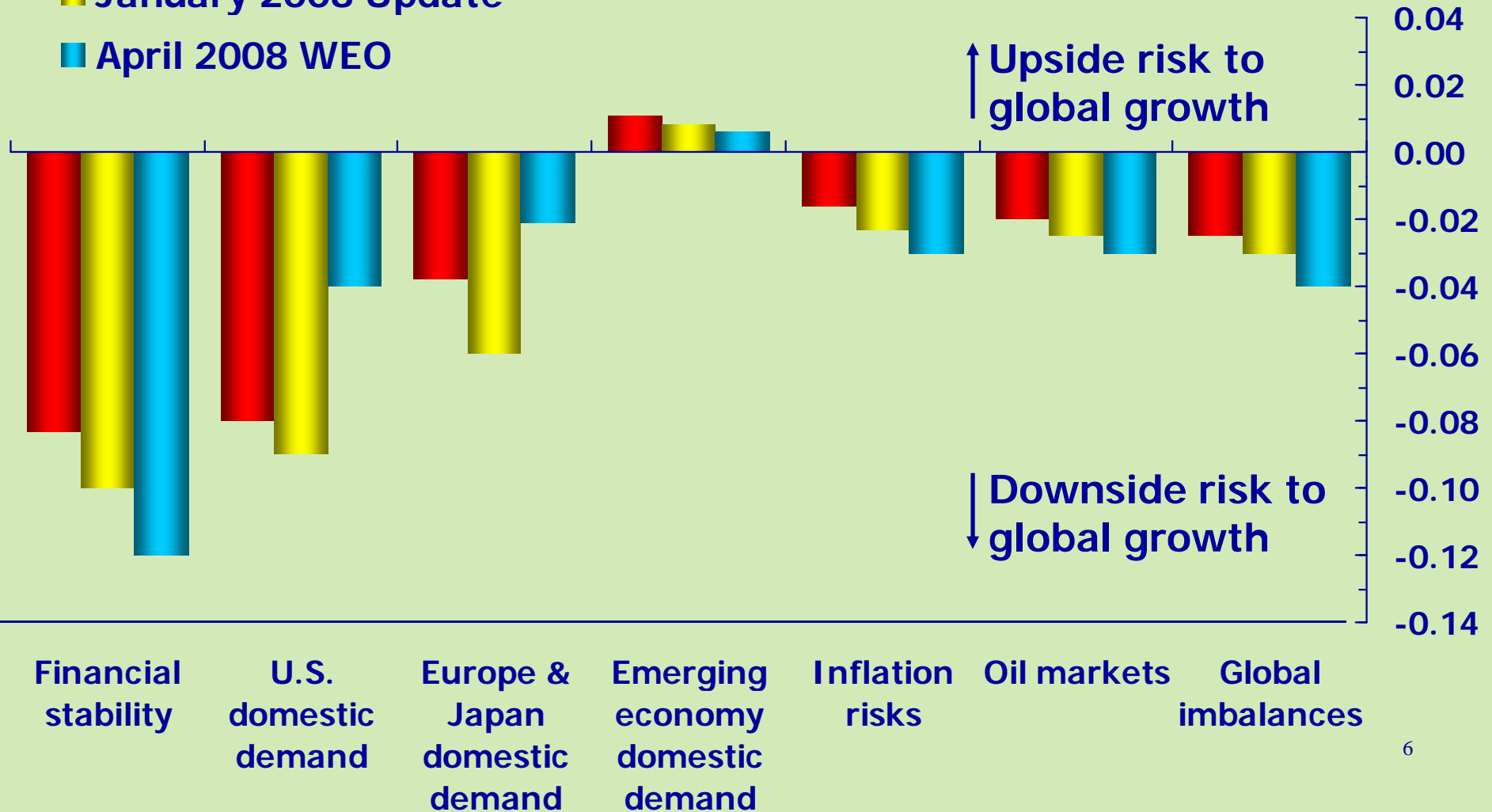
(Percentage points of global GDP growth over next 12 months)



■ October 2007 WEO

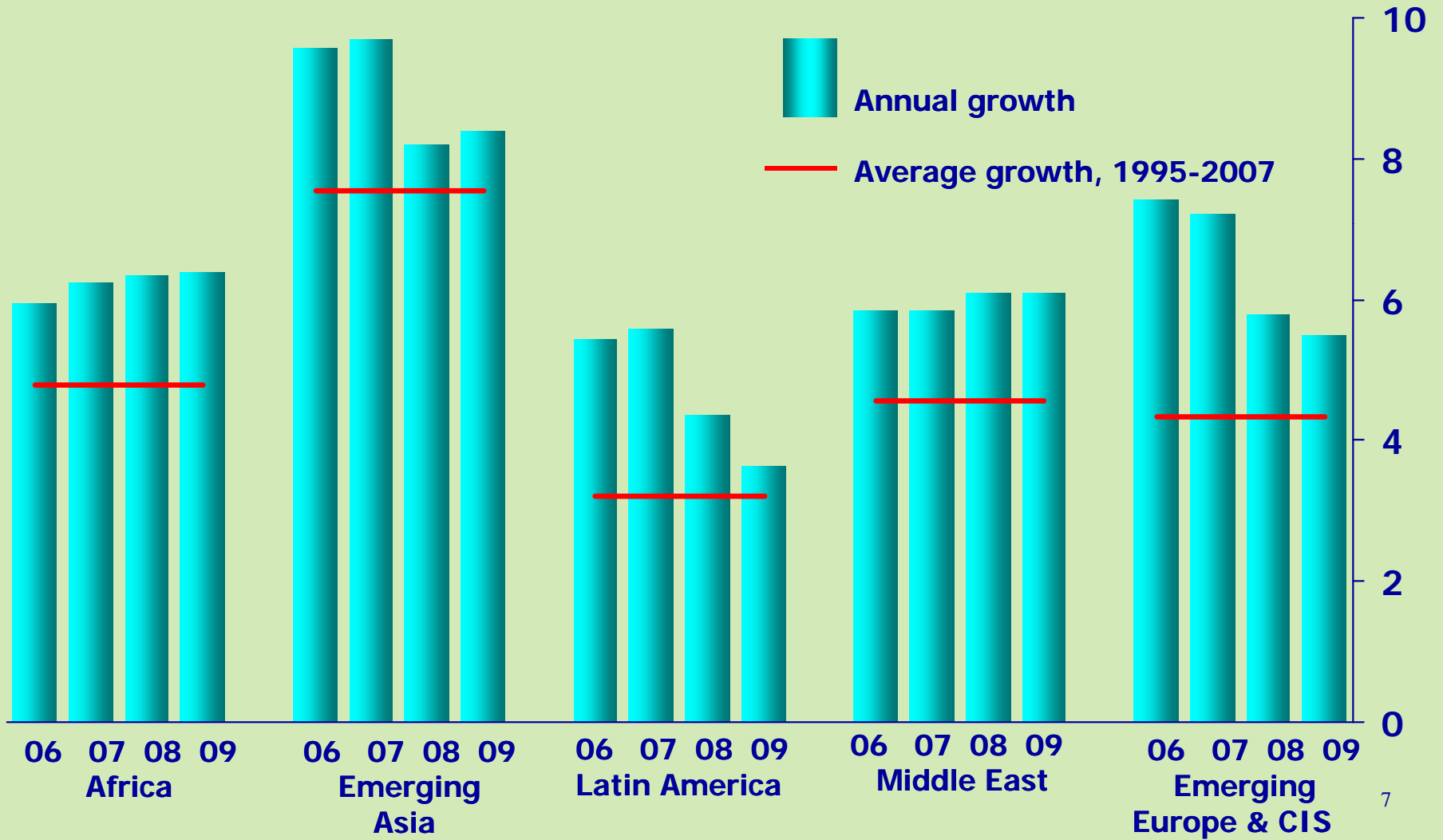
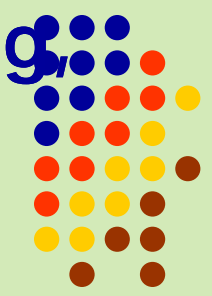
■ January 2008 Update

■ April 2008 WEO



Emerging and Developing Economies Slowing, But Still Above Trend

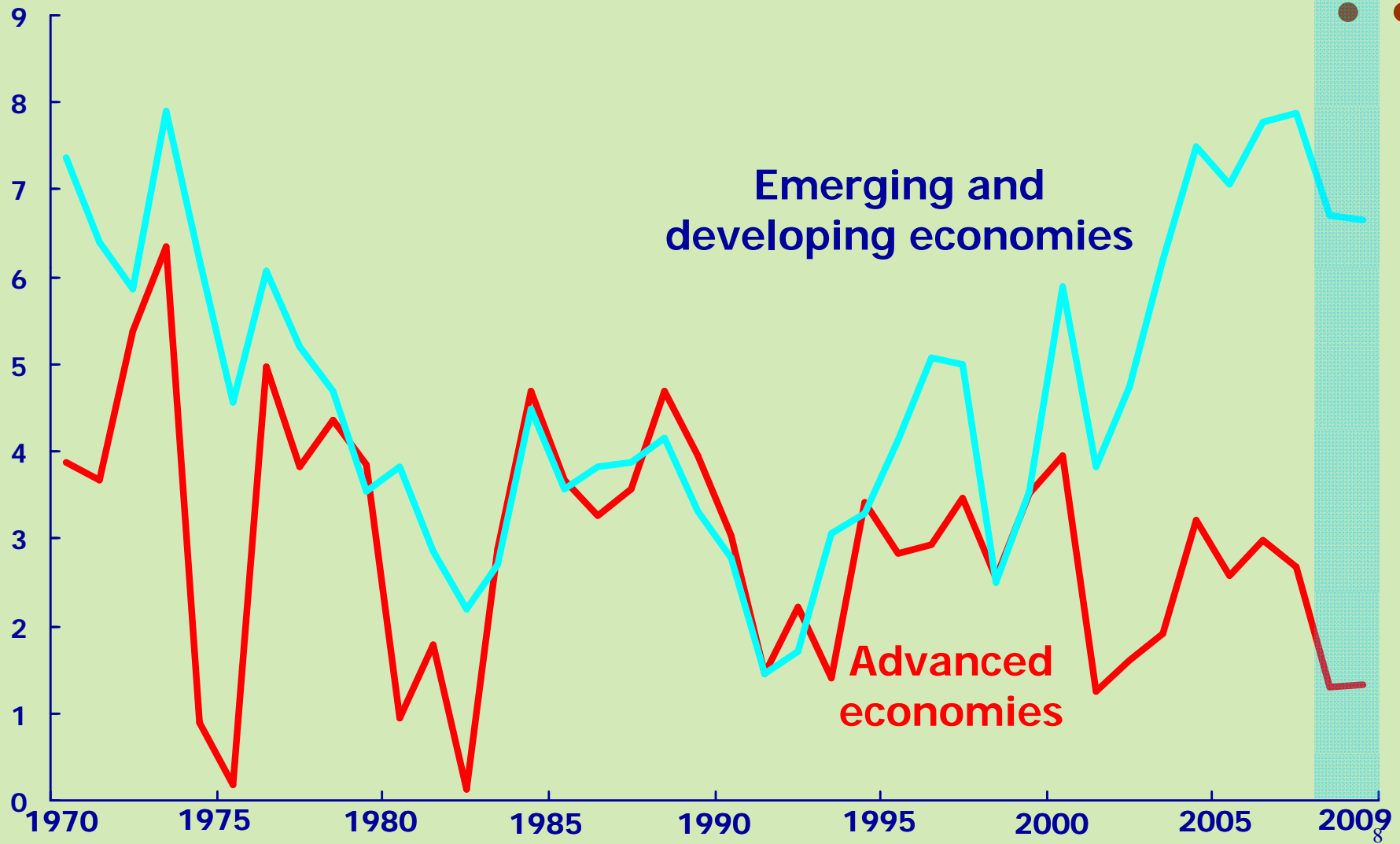
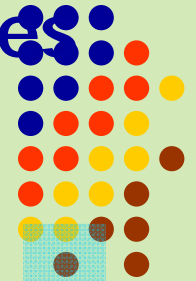
(Percent change)



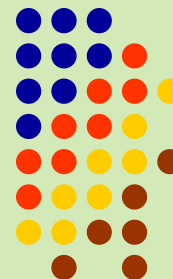
Advanced Economies and Emerging Economies

Have Diverged, But Not Decoupled

(Annual percent change)

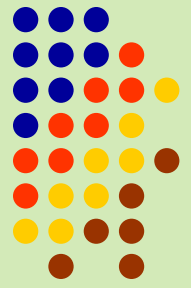


Asian developments and outlook



- **Real activity** buoyant but slowing;
- **Inflation** pressures building;
- **Exchange rate** trends vary across the region;
- **Financial markets** affected but less than elsewhere;
- **Outlook and risks:** growth still robust, but slowing somewhat (“de-coupling”? No.) Risks on downside
- **Policy challenges:** balance between inflation pressures and external slowdown. Most countries have “policy space.” Financial supervision/regulation.

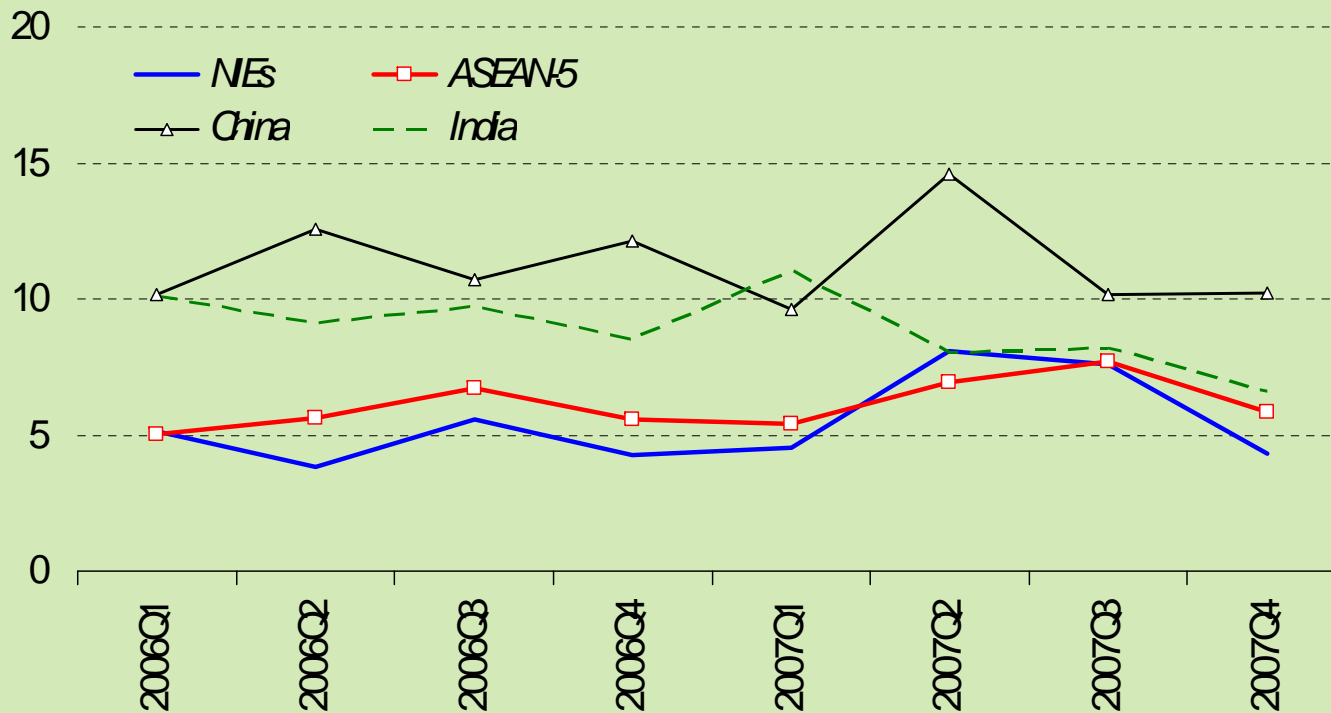
-
- High oil prices: impact on Asia
 - U.S. sub-prime crisis: some lessons



Growth is still strong, but slowing

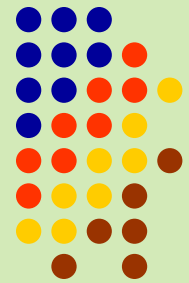
Emerging Asia: Real GDP Growth

(Quarter-on-quarter percent change, SAAR)



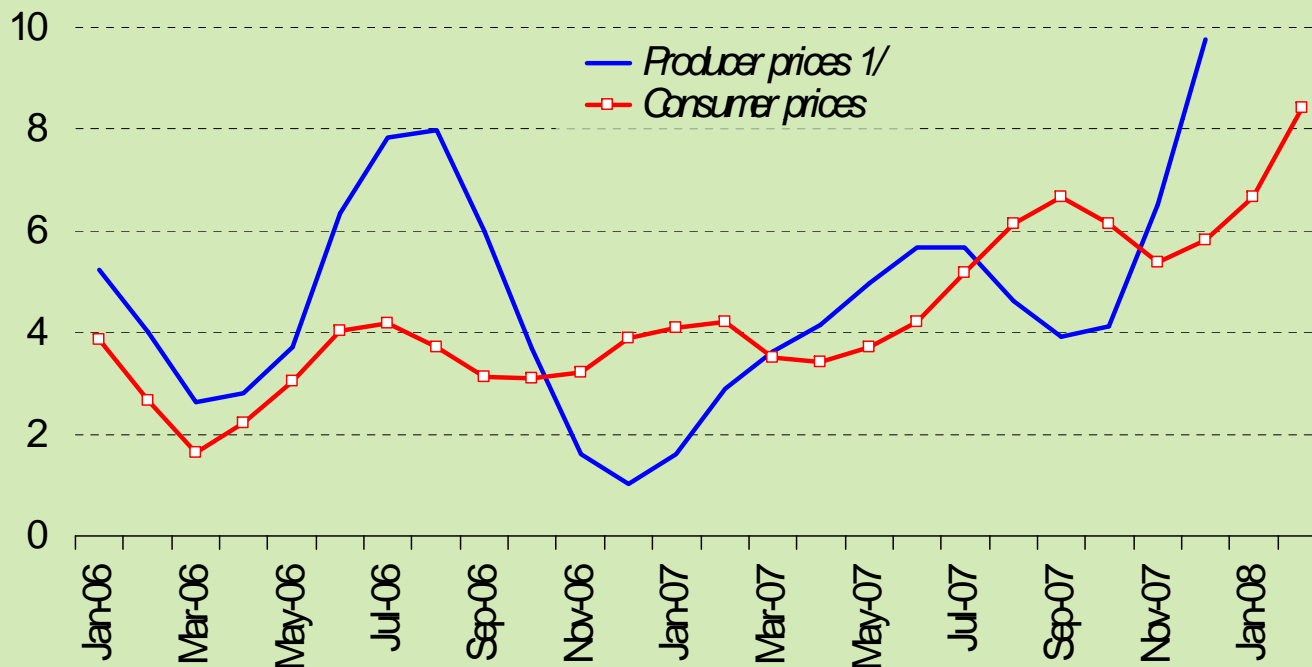
Sources: CIBC Data Company Ltd, and IMF staff calculations.

Inflation pressures building since early/mid-2007



Emerging Asia: Consumer and Producer Prices

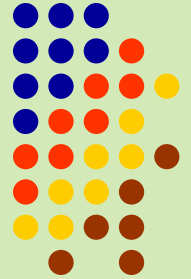
(3-month percent change of 3-mma, SAAR)



Sources: OECData Company Ltd, and IMF staff calculations.

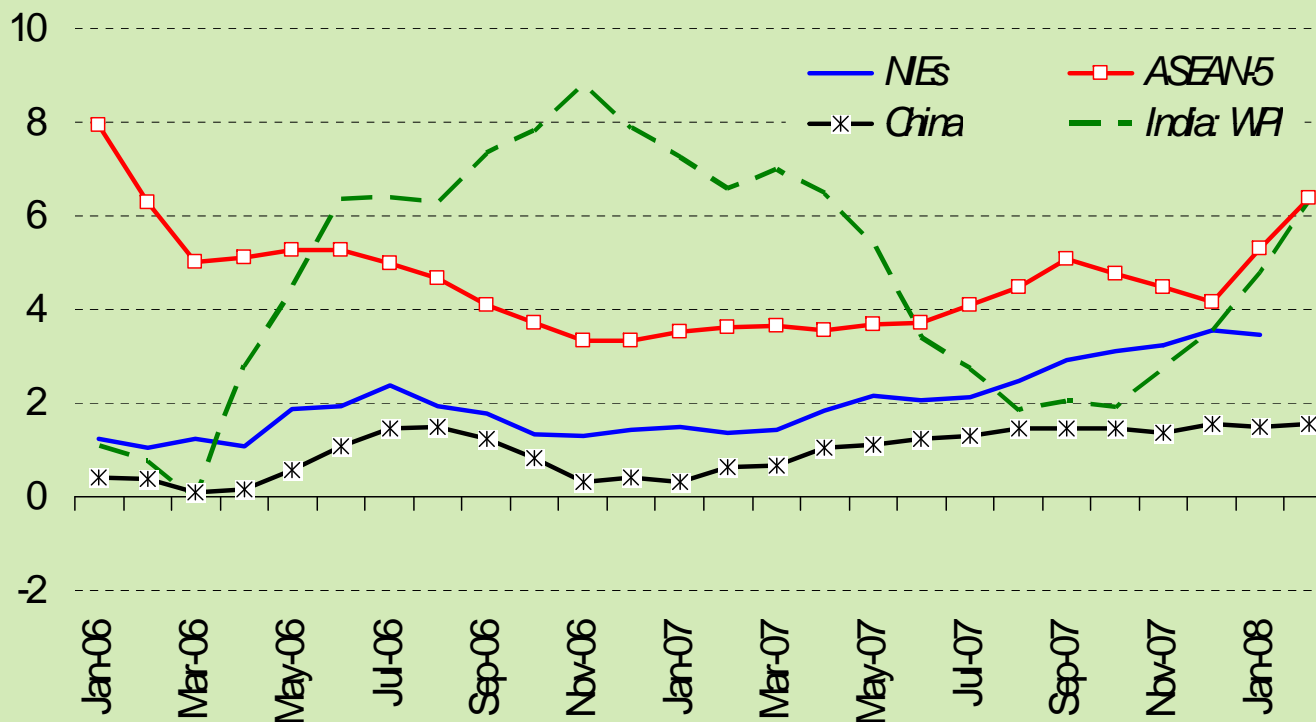
¹ Exclude Vietnam

Not just in food prices

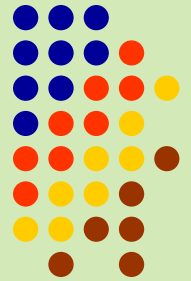


Emerging Asia: Core CPI

(3-month percent change of 3-mma, SAAR)



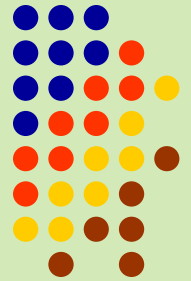
Sources: CEIC Data Company Ltd, and IMF staff calculations.



Impact of high oil prices

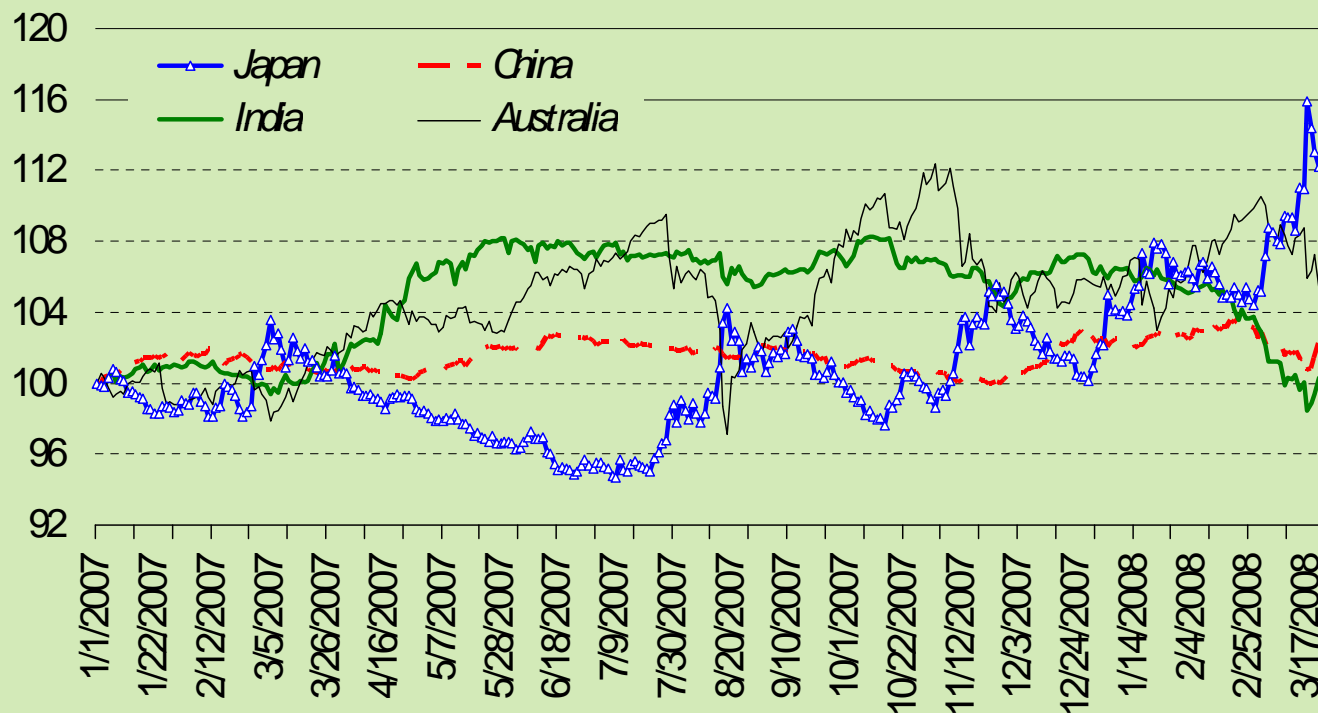
- Economic effects relatively muted so far;
- Benefited net petrol exporters (Malaysia, Vietnam, Brunei, Timor-Leste, PNG);
- Strong world economy has cushioned impact;
- Exchange rate appreciation v. \$ offset rise in \$ oil prices;
- Some prices controlled: gasoline prices generally passed on to consumers, but not diesel and kerosene. (So pressure might come.)

Exchange rate trends vary across countries...



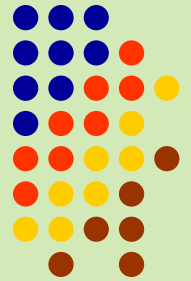
Selected Asia: Nominal Effective Exchange Rates

(January 1, 2007=100)



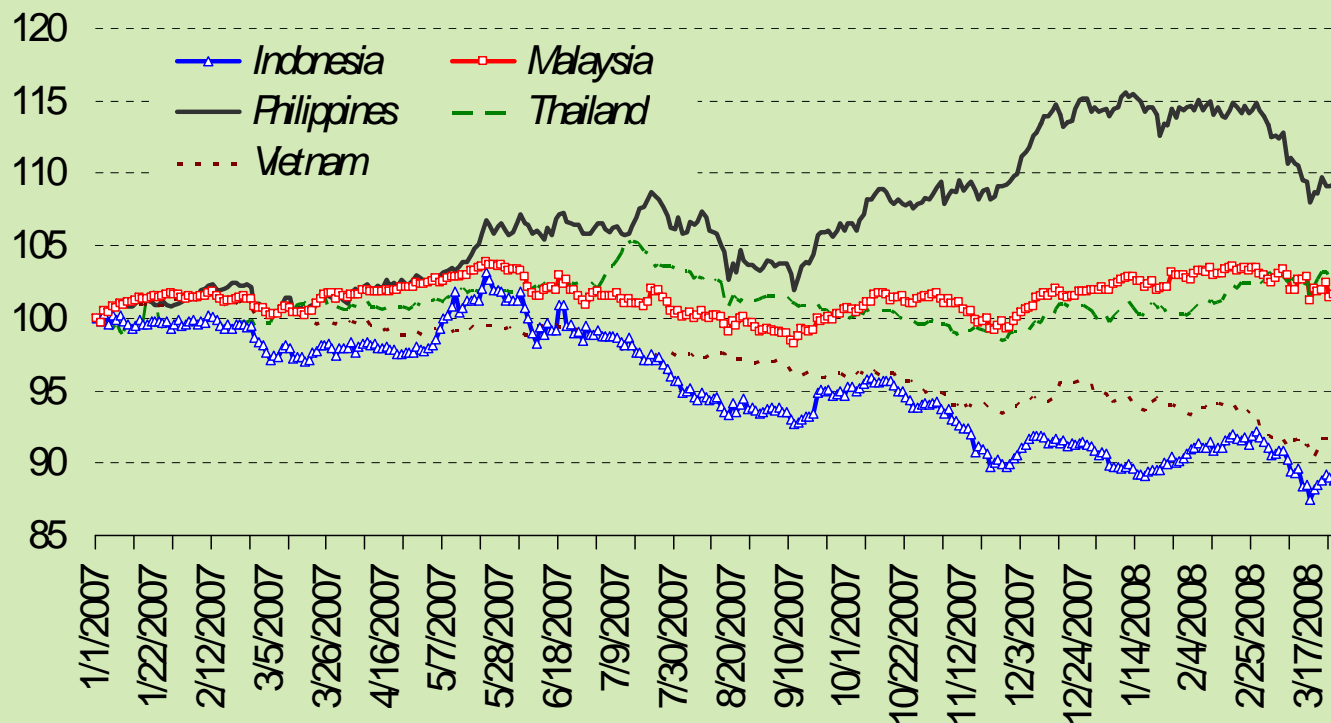
Sources: IMF, Information Notice System, and APD staff calculations.

...appreciation in some countries, depreciation in others.



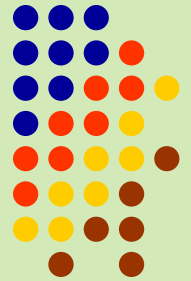
ASEAN-5: Nominal Effective Exchange Rates

(January 1, 2007= 100)



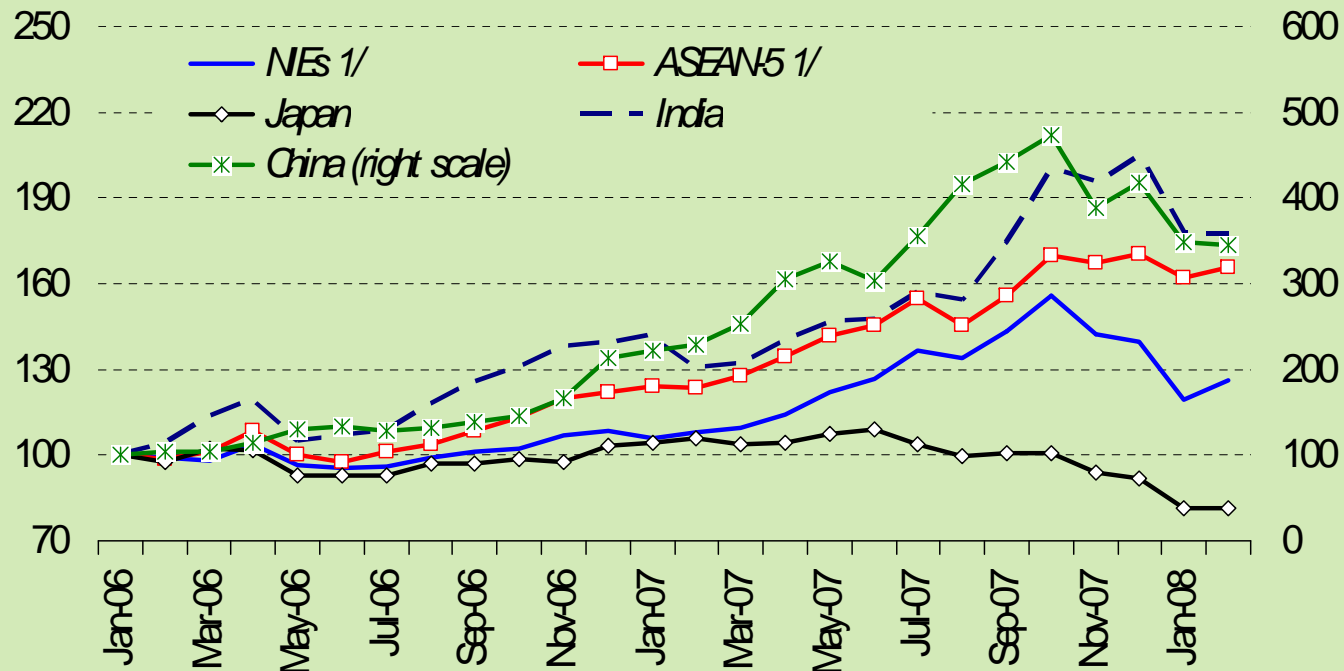
Sources: IMF, Information Notice System, and APD staff calculations.

Equity markets have been cooling off...



Selected Asia: Stock Market Indices

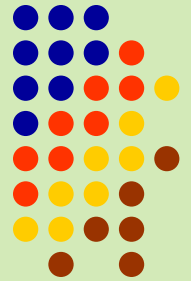
(January 2006= 100)



Sources: CEIC Data Company Ltd, and IMF staff calculations.

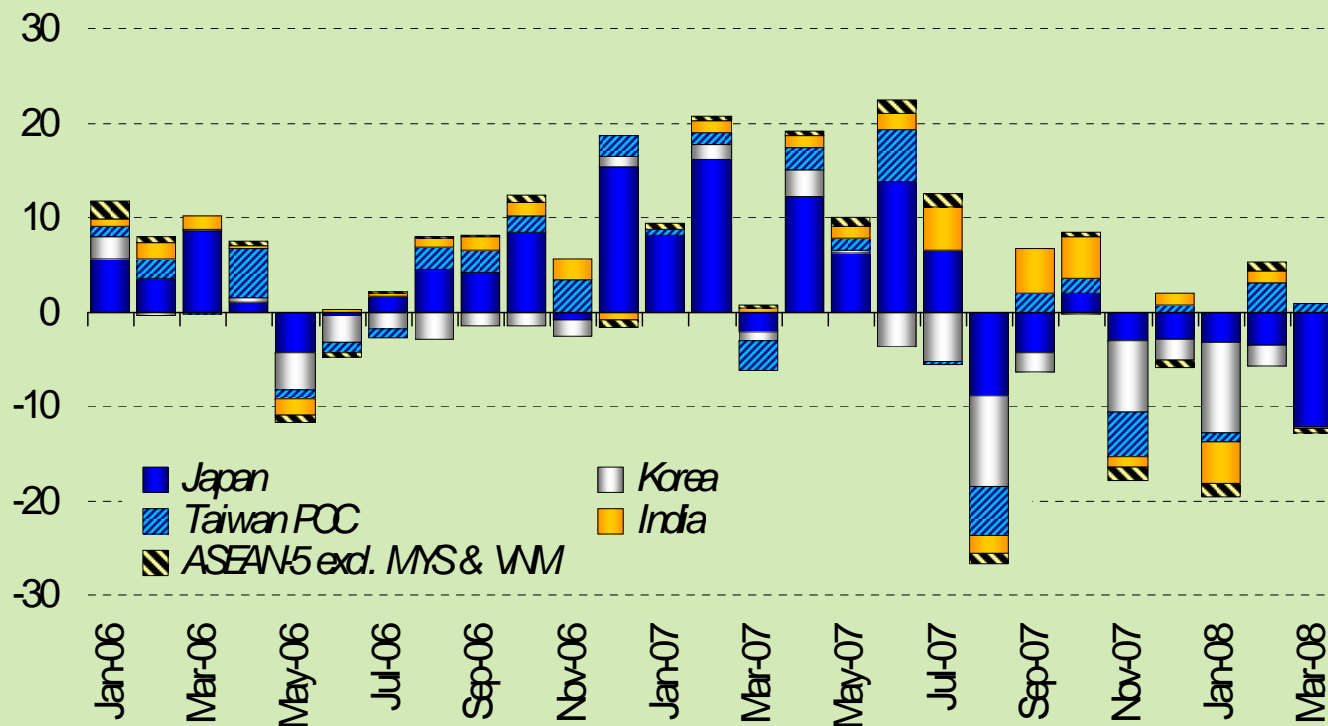
¹ Weighted by market cap.

...and inflows have moderated.



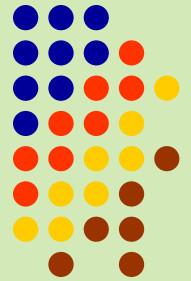
Selected Asia: Net Equity Inflows

(In billions of U.S. dollars)

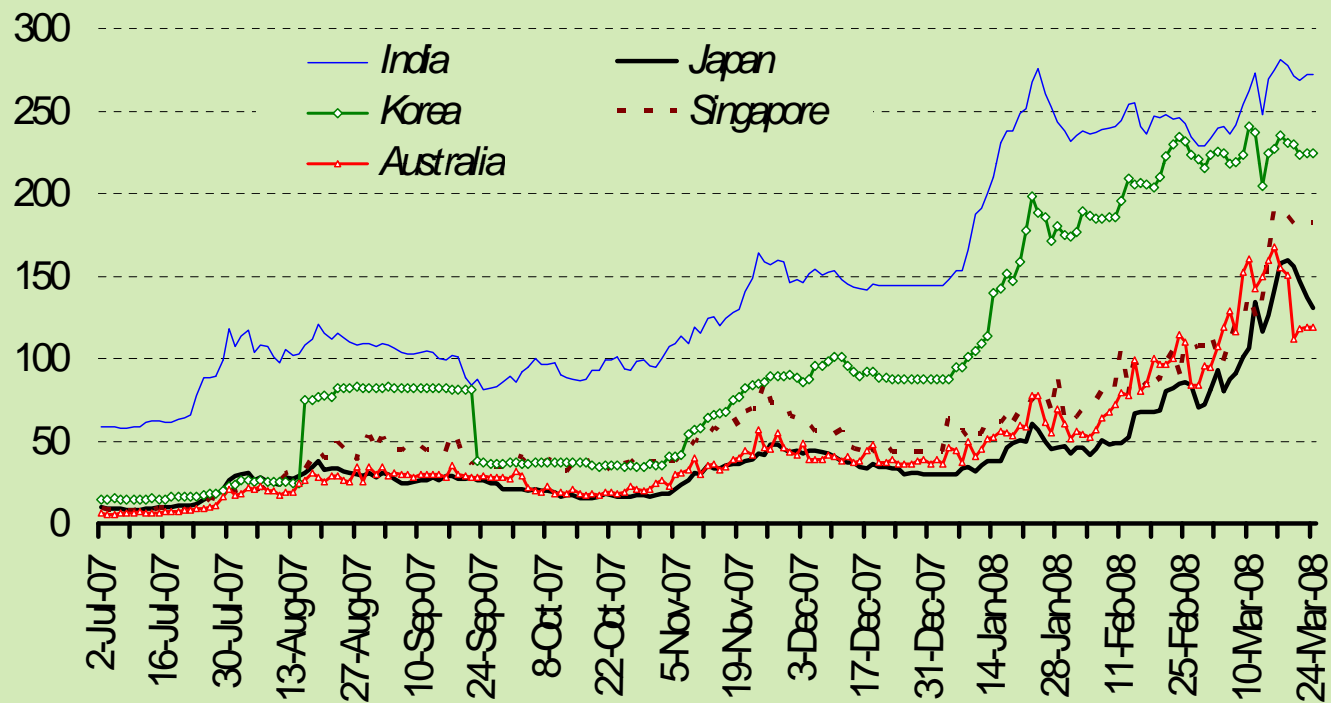


Source: Bloomberg LP.

CDS spreads have been rising...



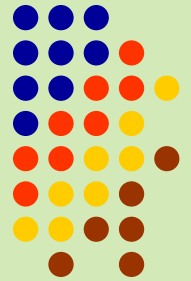
Credit Risk: Banking Sector Credit Default Swap Spreads¹



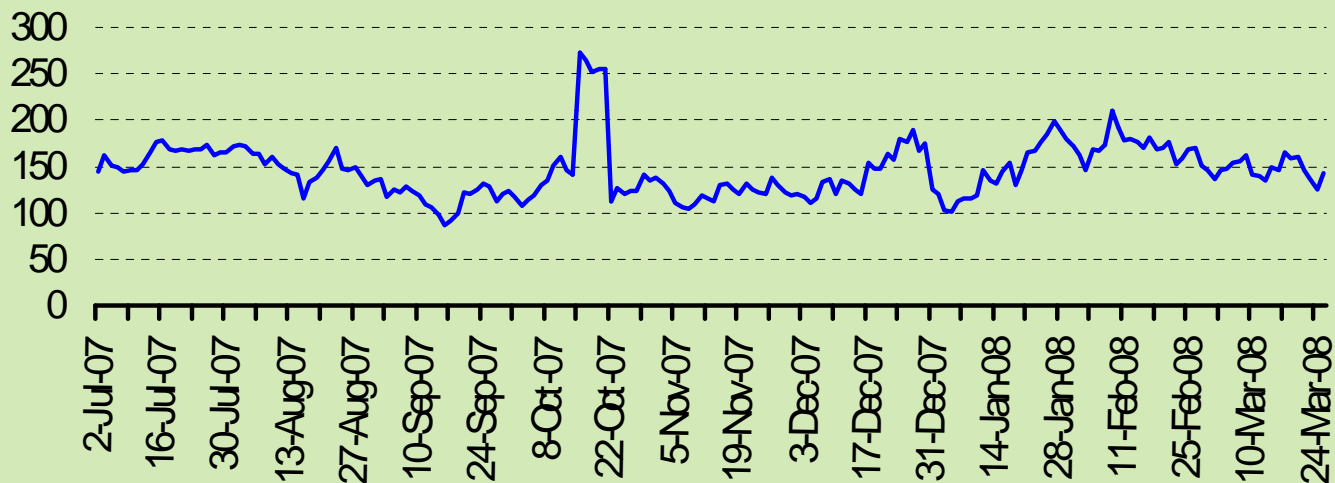
Sources: Bloomberg, and IMF staff calculations.

¹ Country spreads are weighted averages based on relative assets

But markets have functioned well, with no real signs of credit squeeze...



Liquidity Risk: Composite Indicator^{1,2}
(Emerging Asia²)

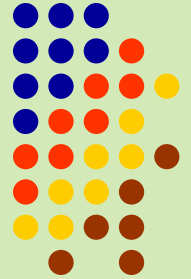


Sources: Bloomberg, and IMF staff calculations.

¹ The index is calculated based on (i) currency bid-ask spreads, (ii) spreads between inter-bank rates and t-bills, and (iii) daily equity market return-to-volume ratios. A higher value indicates higher liquidity risk.

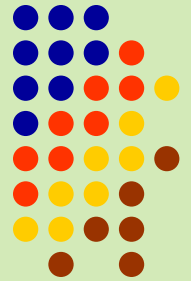
² It includes China, India, Indonesia, Thailand and Malaysia.

Several factors have supported Asian financial markets...

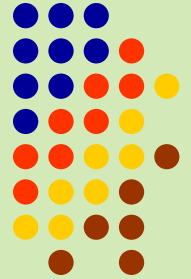


- Relatively limited exposure to structured products;
- Positive and rising interest rate differentials vs. U.S.;
- Positive long-term investor sentiment towards Asia.

Lessons from U.S. sub-prime crisis



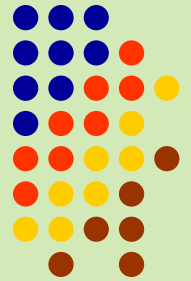
- Markets and regulators were ill-equipped to deal with structured products. Basel II might help;
- Important to have sound **firm-wide** risk management capabilities;
- Use of off-balance-sheet entities by banks: rules on them should be implemented;
- Supervisors should closely monitor liquidity;
- Use of government housing agencies and measures to strengthen housing markets.



Outlook

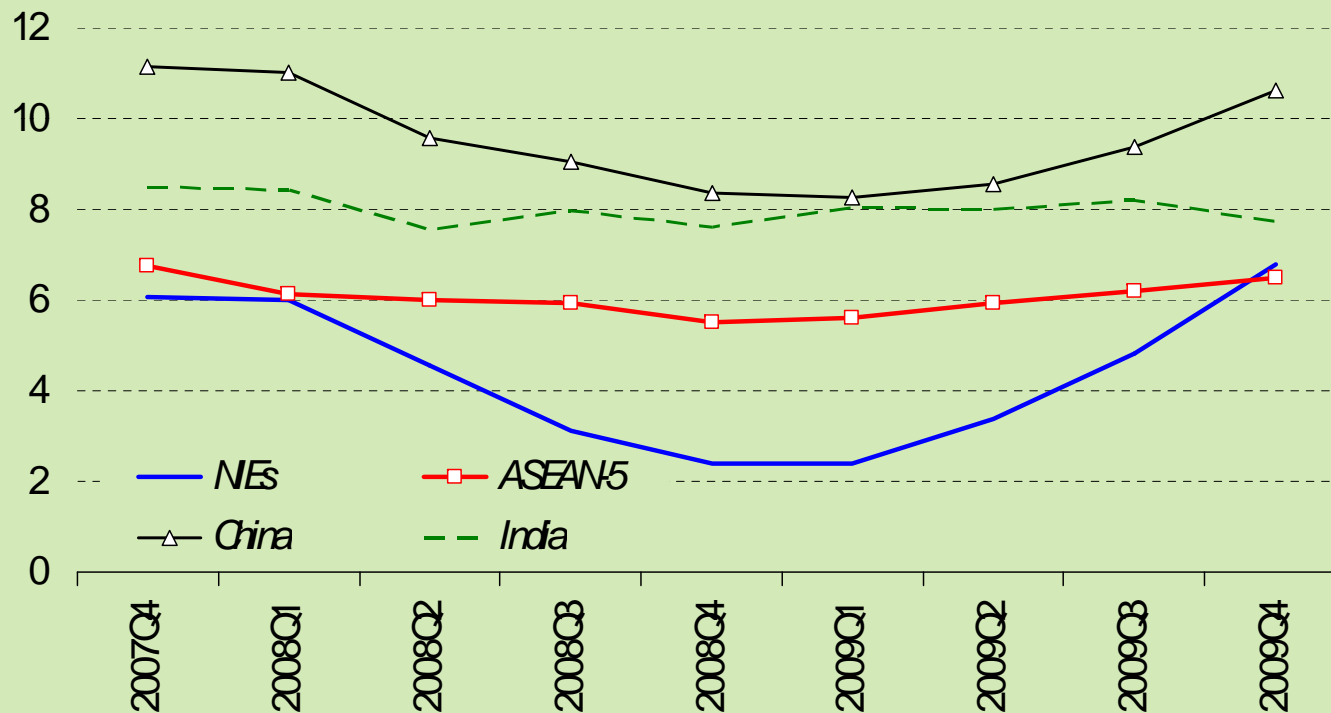
- External environment has weakened substantially in recent months.
- Asian GDP growth will slow to 6.2 percent in 2008, mainly because of lower export growth, and recover gradually in 2009.

Growth will slow in 2008 before recovering gradually in 2009



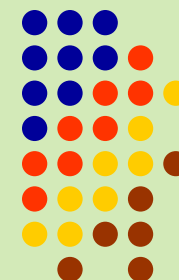
Emerging Asia: Quarterly GDP Growth Forecasts

(Year-on-year percent change)



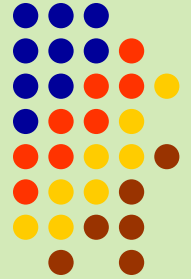
Source: IMF, WEO database.

Real GDP forecasts (2008-2009)



Asia: Real GDP Growth (Year-on-year percent change)						
	2006	2007	2007	2008	2008	2009
			REOOct '07		Latest Proj.	
Industrial Asia	2.4	2.3	2.3	2.0	1.7	1.7
Japan	2.4	2.1	2.0	1.7	1.4	1.5
Australia	2.6	4.1	4.4	3.8	3.2	3.1
New Zealand	1.5	3.1	2.8	2.3	2.0	2.1
Emerging Asia	9.0	9.2	9.0	8.2	7.6	7.9
NEs	5.6	5.6	5.0	4.5	4.0	4.4
Hong Kong SAR	7.0	6.3	5.7	4.7	4.3	4.8
Korea	5.1	5.0	4.8	4.6	4.2	4.4
Singapore	8.2	7.7	7.5	5.8	4.0	4.5
Taiwan POC	4.9	5.7	4.1	3.8	3.4	4.1
China	11.1	11.4	11.5	10.0	9.3	9.5
India	9.8	9.2	8.9	8.4	7.9	8.0
ASEAN-5	5.7	6.3	5.9	5.8	5.8	6.0
Indonesia	5.5	6.3	6.2	6.1	6.1	6.3
Malaysia	5.9	6.3	5.8	5.6	5.0	5.2
Philippines	5.4	7.3	6.3	5.8	5.8	5.8
Thailand	5.1	4.8	4.0	4.5	5.3	5.6
Vietnam	8.2	8.5	8.3	8.2	7.3	7.3
Emerging Asia excl. China	7.2	7.2	6.8	6.4	6.1	6.3
Emerging Asia excl. China & India	5.6	5.9	5.4	5.1	4.9	5.2
Asia	7.2	7.4	7.3	6.6	6.2	6.4

Sources: CIBC Data Company Ltd, and IMF, WEO database.

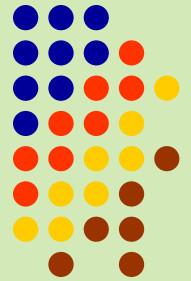


Risks are on the downside

Further deterioration in global financial markets that could impact:

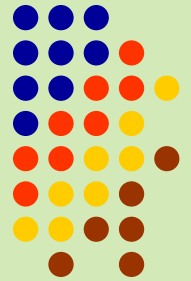
- equity/asset markets → balance sheets;
- consumer/business confidence → consumption, investment;
- counterparty risk → borrowing costs.

Policy challenges



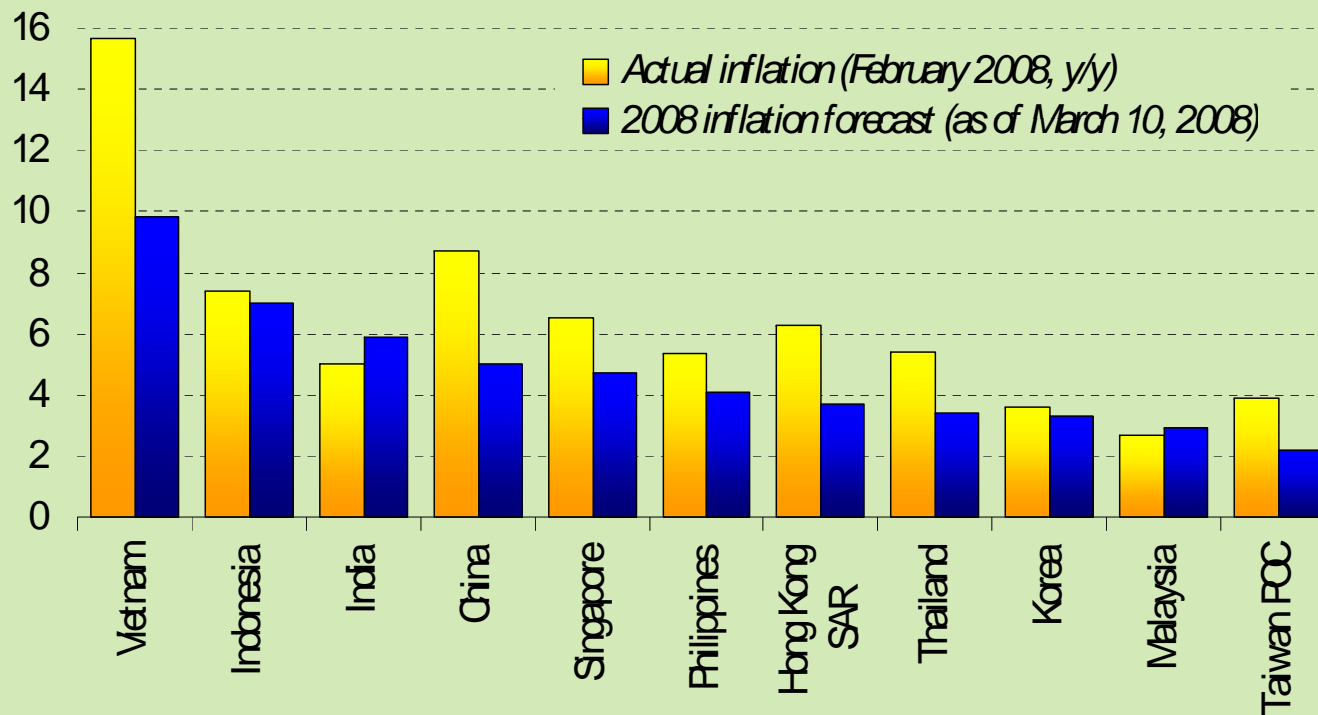
x

Manage inflation pressure vs. slowing external demand



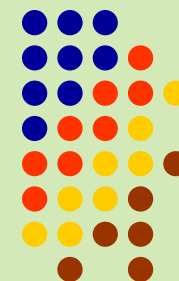
Private Sector Inflation Forecasts

(Annual percentage change)



Sources: Consensus Economics; and CIEC Data Company Ltd.

Most countries have “fiscal space” to respond if slowdown v. sharp



Asia: Selected Fiscal Indicators
(In percent of GDP)

	General Government Gross Debt				Central Government Fiscal Balance			
	2006	2007 Est.	2008 Prj.	2009 Prj.	2006	2007 Est.	2008 Prj.	2009 Prj.
Industrial Asia	164.0	164.1	165.1	163.3	-3.6	-2.5	-2.6	-2.6
Japan	194.7	195.5	197.5	196.0	-4.7	-3.4	-3.5	-3.5
Australia ¹	8.9	8.7	7.9	7.2	1.6	1.3	1.2	1.4
New Zealand ²	23.3	23.6	21.8	20.0	5.1	3.4	3.6	2.2
Emerging Asia	36.7	37.7	36.4	34.9	-0.9	0.2	-1.0	-0.9
NEs	29.0	28.0	28.1	27.6	2.1	3.3	1.8	2.2
Hong Kong SAR	1.7	1.3	1.2	0.9	4.0	7.2	-0.3	2.9
Korea ^{3,4}	32.2	32.1	32.9	32.9	1.8	2.7	2.3	2.4
Singapore	7.6	9.1	7.1	7.0
Taiwan POC	34.9	32.1	31.3	29.7	0.3	0.9	0.0	0.0
China ⁵	16.6	21.1	19.0	17.5	-0.8	1.1	-0.8	-0.7
India ⁶	80.1	79.3	79.2	77.0	-3.6	-3.2	-3.1	-3.1
ASEAN5	45.2	41.3	40.3	39.5	-0.9	-1.4	-1.7	-1.7
Indonesia ³	39.0	35.0	33.1	31.5	-1.0	-1.2	-2.1	-1.9
Malaysia ³	43.3	41.8	42.6	43.2	-3.3	-3.2	-3.4	-3.4
Philippines ⁷	73.9	62.3	59.1	57.1	-1.2	-1.6	-0.6	-0.5
Thailand ^{7,8}	41.1	38.2	38.2	38.4	0.6	0.4	-0.4	-0.4
Vietnam ⁷	43.0	43.7	43.7	42.7	-0.3	-3.4	-2.1	-2.5
Asia	72.4	71.6	69.4	66.4	-1.6	-0.5	-1.4	-1.3

Sources: IMF, WEO database, and staff estimates.

¹ Fiscal year ending June. Fiscal balance for Australia includes net surplus from state-owned enterprises.

² Fiscal year ending June. Fiscal balance is defined as operating balance net of revaluations up to FY07 and operating balance net of gains and losses thereafter. Figures exclude net New Zealand Superannuation (NZS) Fund asset returns.

³ Central government only.

⁴ Consolidated central government debt including government guaranteed debt for financial sector restructuring.

⁵ Net debt.

⁶ Fiscal year ending March; privatization receipts excluded from revenues.

⁷ Public sector debt.

⁸ Fiscal year ending September.