Media Seminar

International Monetary Fund
Resident Representative Office in the People's Republic of China

May 8th, 2012
Beijing, China

- **World Economic Outlook (April 2012)**
- **Global Financial Stability Report (April 2012)**
- **Regional Economic Outlook (April 2012)**

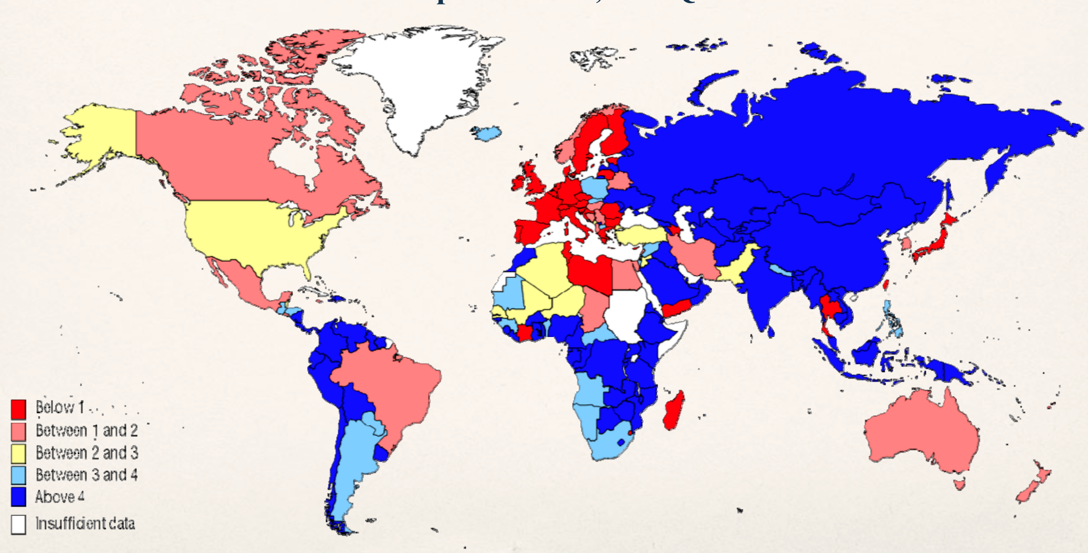
World Economic Outlook

April 2012

Presented by Mr. Il Houng Lee
IMF's Senior Resident Representative in China

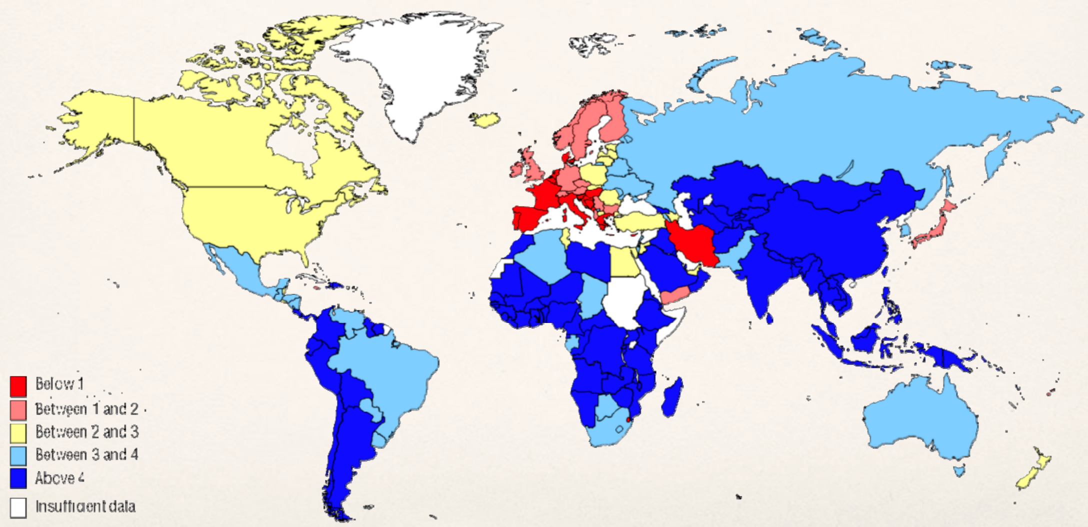
The Euro Area remains weak

Output Growth, 2011Q4



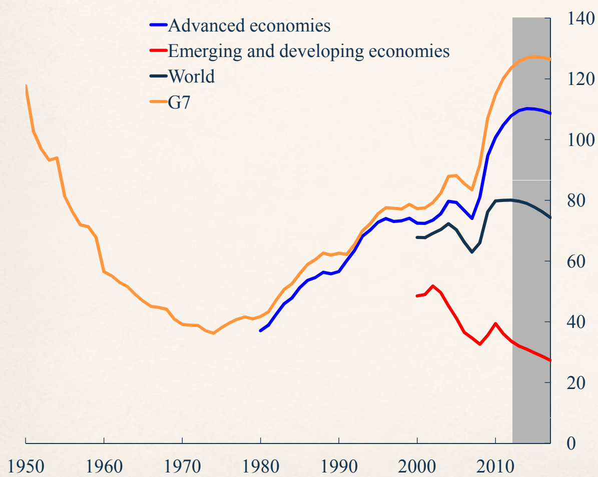
But prospects are gradually strengthening

Output Growth, 2012-13

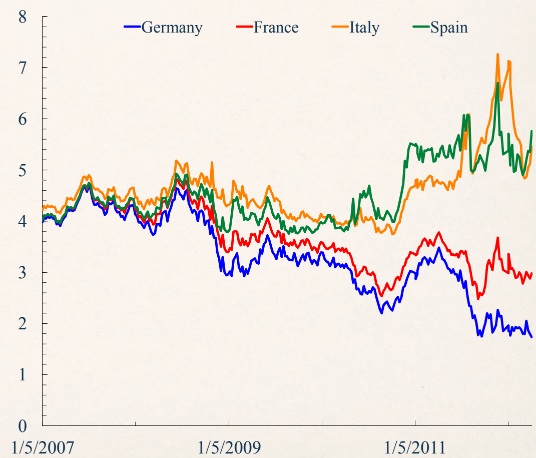


Public debt is stabilizing and risks subsiding

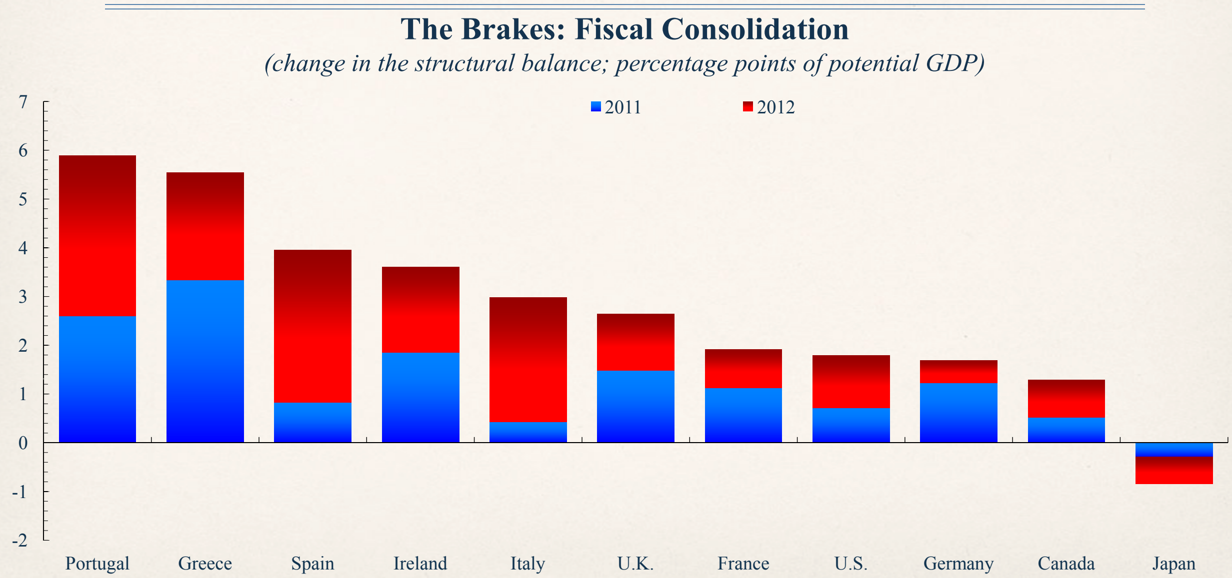
Public Debt
(% of GDP)



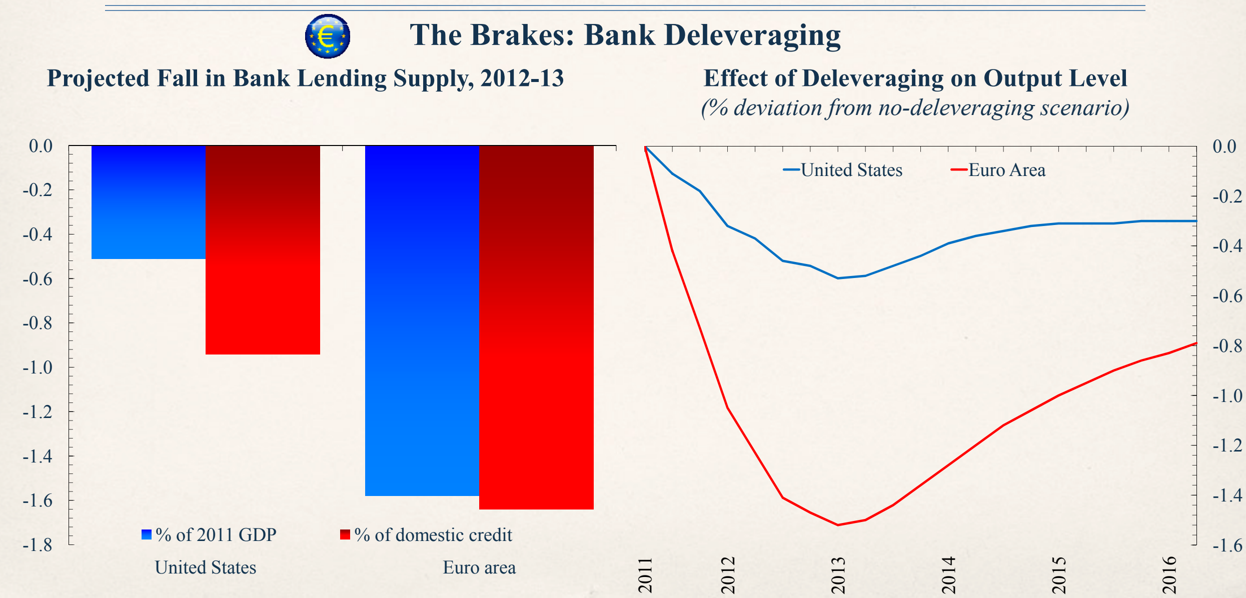
10-Year Government Bond Yields



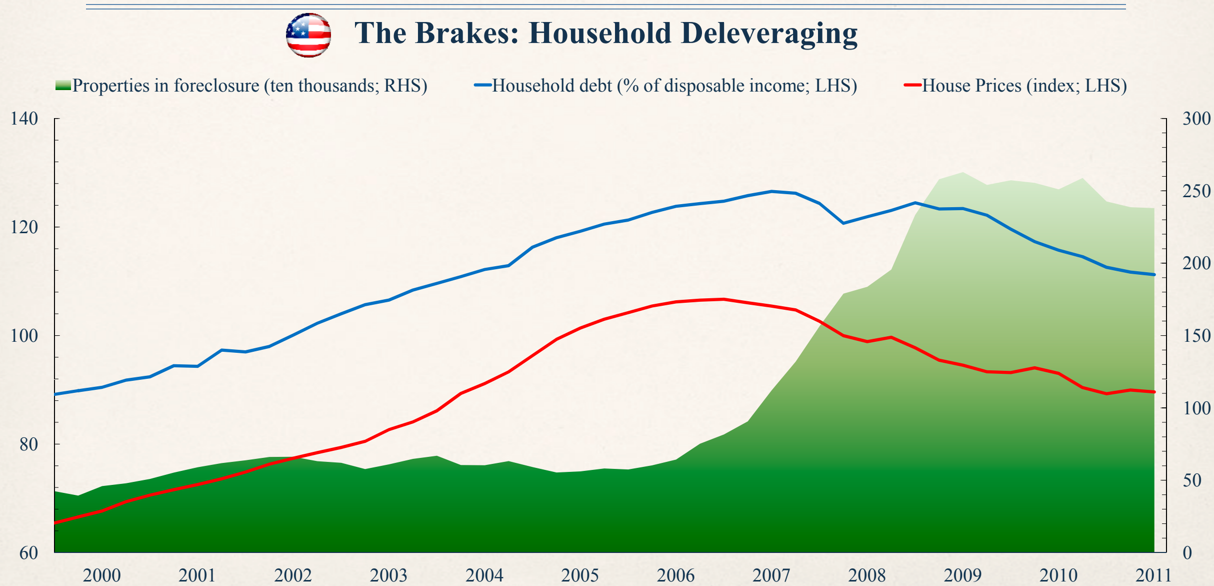
As European countries consolidate



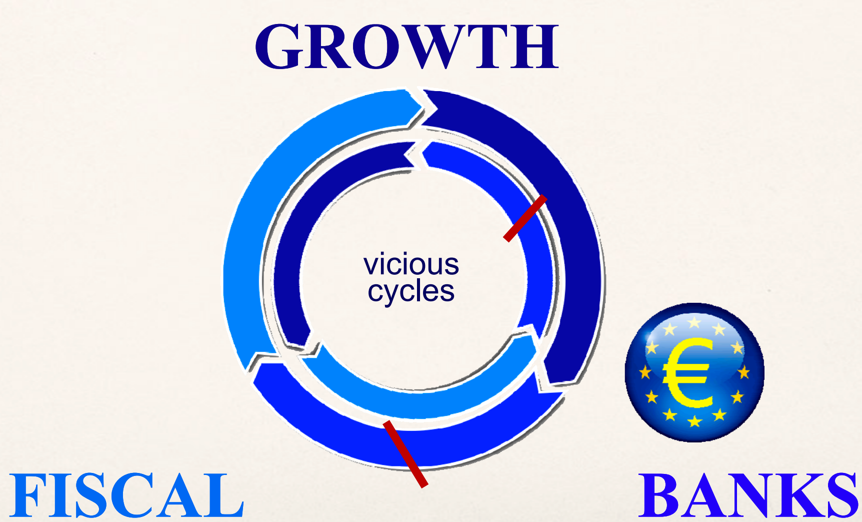
However, deleveraging slows growth



Including from US household

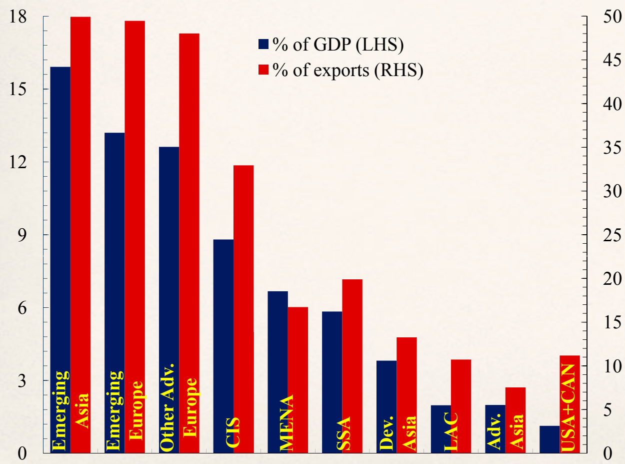


What are the risks?

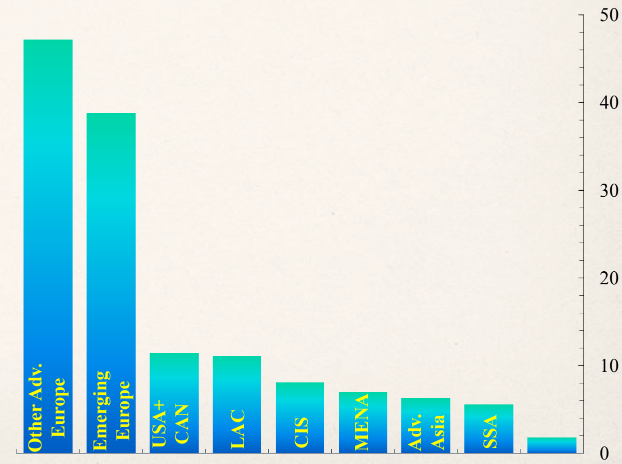


Spillover from Europe are two fold

Exports of Goods to the Euro Area
(2010)



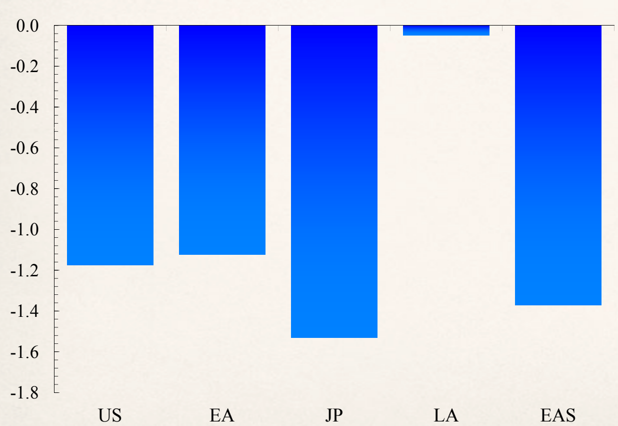
Euro Area Bank Claims
(% of GDP; Sep. 2011)



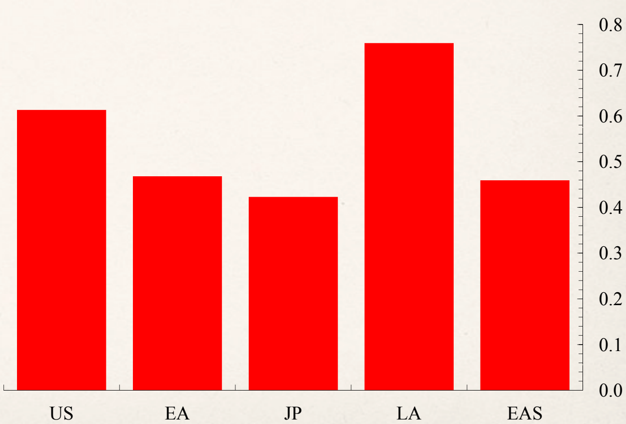
Another risk is from higher oil prices

WEO Downside Scenario for a Disruption in the Global Oil Supply
(percent or percentage point deviation from baseline)

GDP Loss after Two Years



Rise in Inflation after One Year



What needs to be done?

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

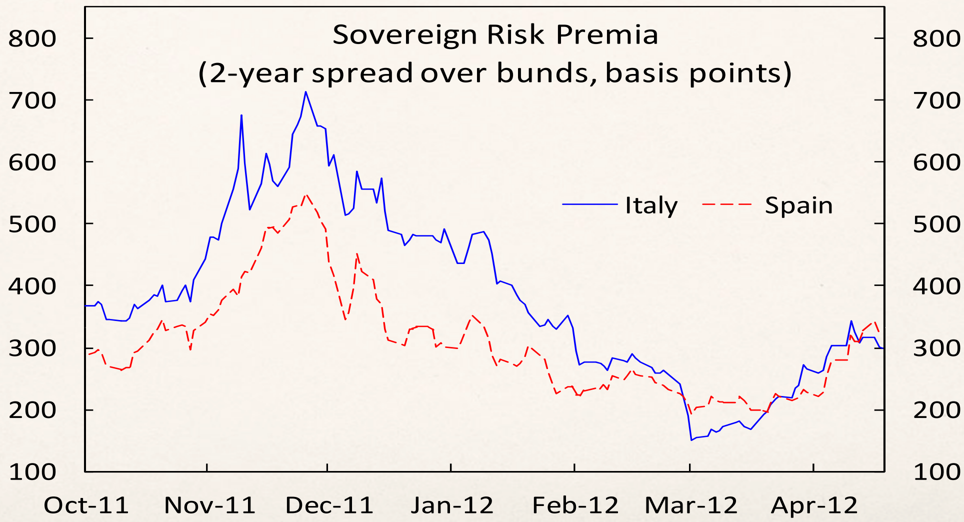
Strengthening prudential policies and frameworks

Promoting more inclusive growth

Global and Financial Stability Report
April 2012

Presented by Mr. Andre Meier
IMF's Resident Representative in Hong Kong SAR

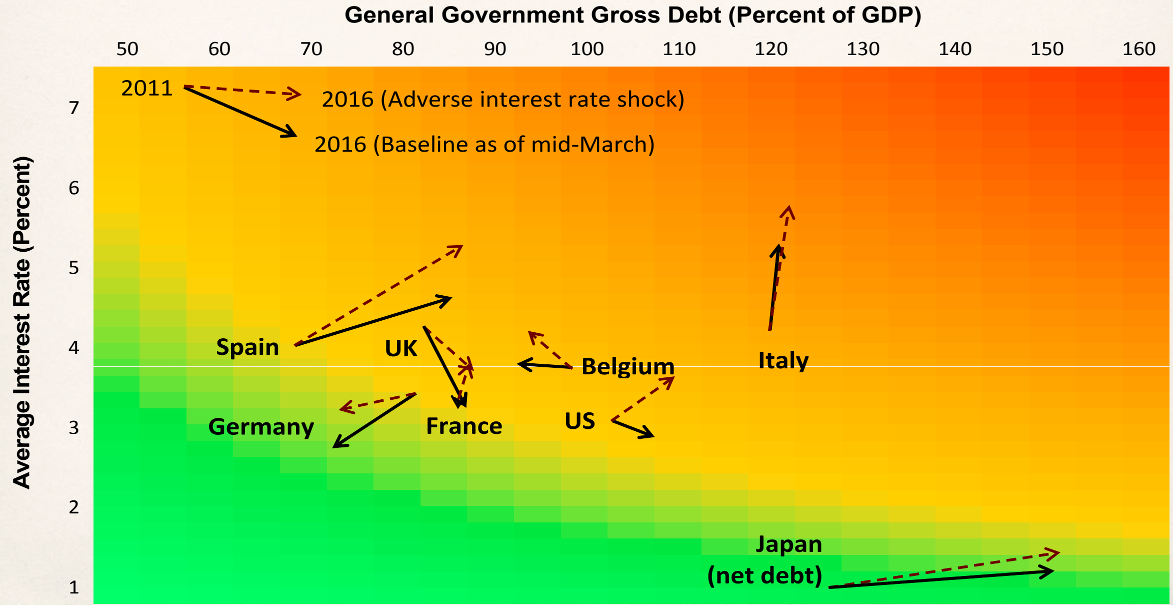
The euro area went in and out of "intensive care" over the past six months



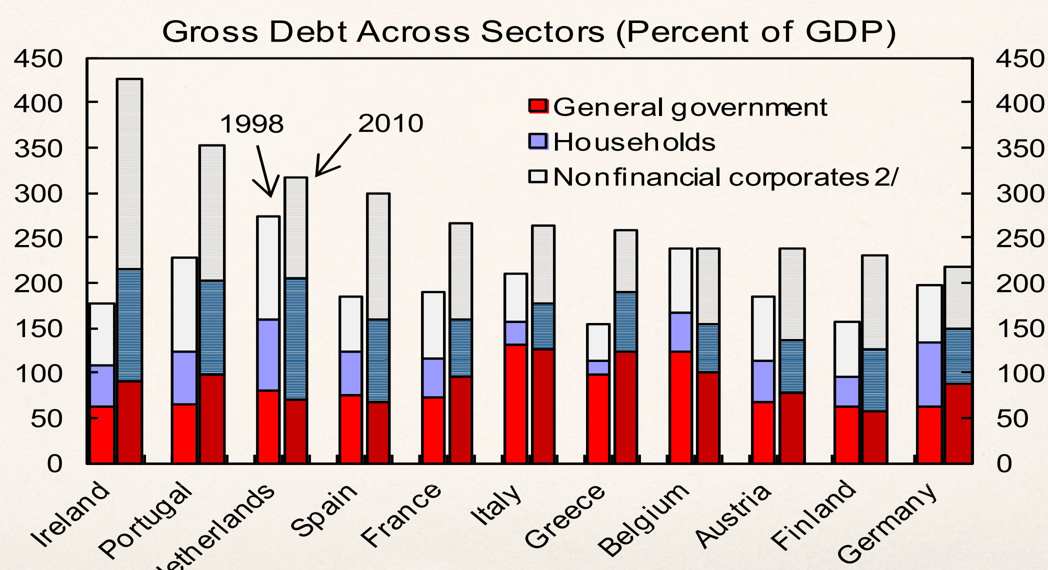
Acute fear of bank/sovereign default in late 2011 prompted bold new policy steps

- ECB lent more than € 1 trillion in three-year funds to banks
  - ➢ Replacing market funding that had become scarce
  - ➢ Averting severe liquidity and credit crunch
  - ➢ Prompting bank purchases of government bonds
- Member countries under market strains put new reform programs in train
- Euro area agreed on "fiscal compact" to curb excessive deficits in the future

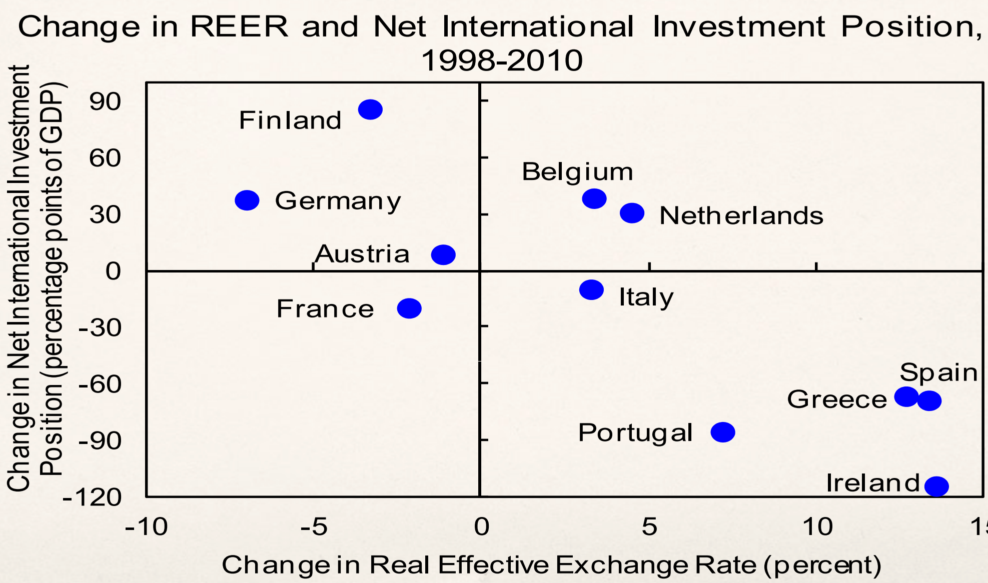
Despite the much-needed stabilization, the patient's health remains fragile…



High public debt is but one aspect of weak balance sheets in some countries…



…along with external competitiveness problems

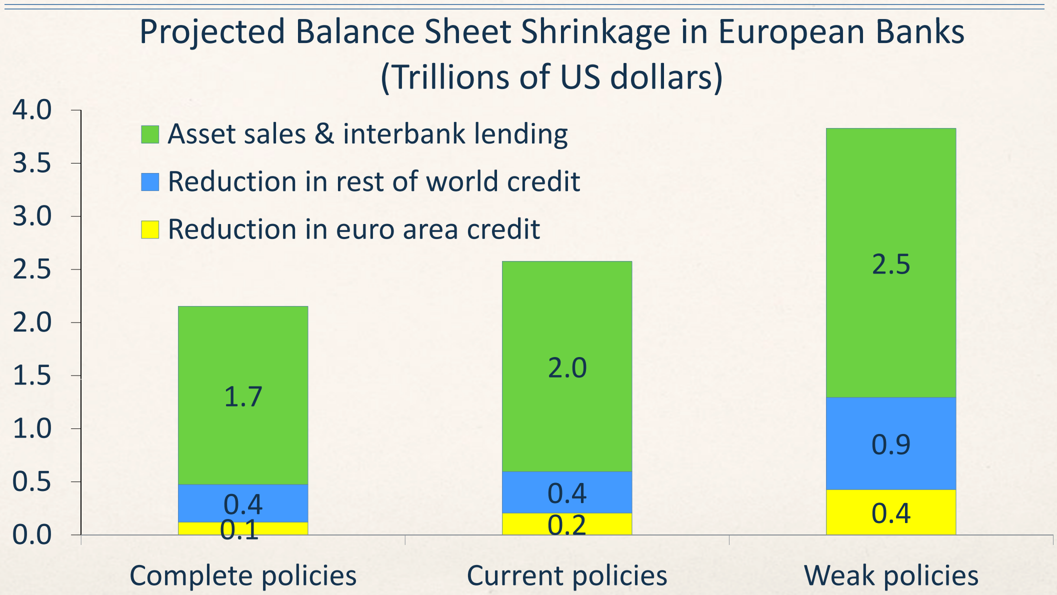


The inevitable balance sheet repair will take time and weigh on growth…

- Given weak domestic sectors, hopes rest on higher net exports
- But strong sources of external demand are few and far between…
- …and gains in competitiveness require wage restraint, which increases real debt burdens

=> Sustaining growth will be key challenge

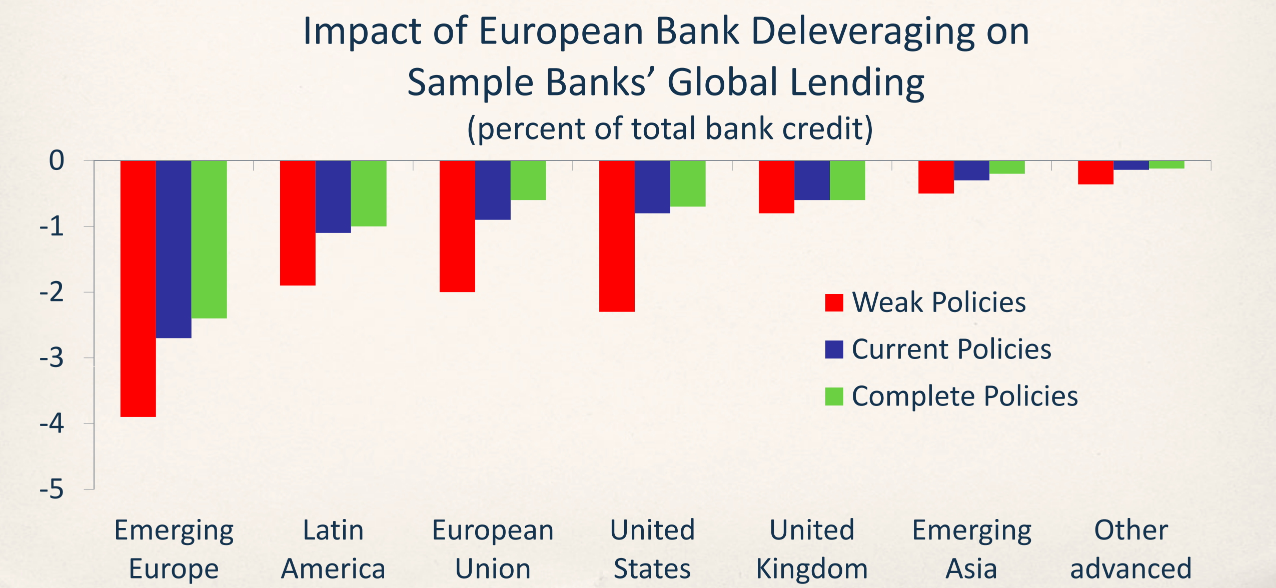
…especially when the banking sector is also expected to deleverage further…



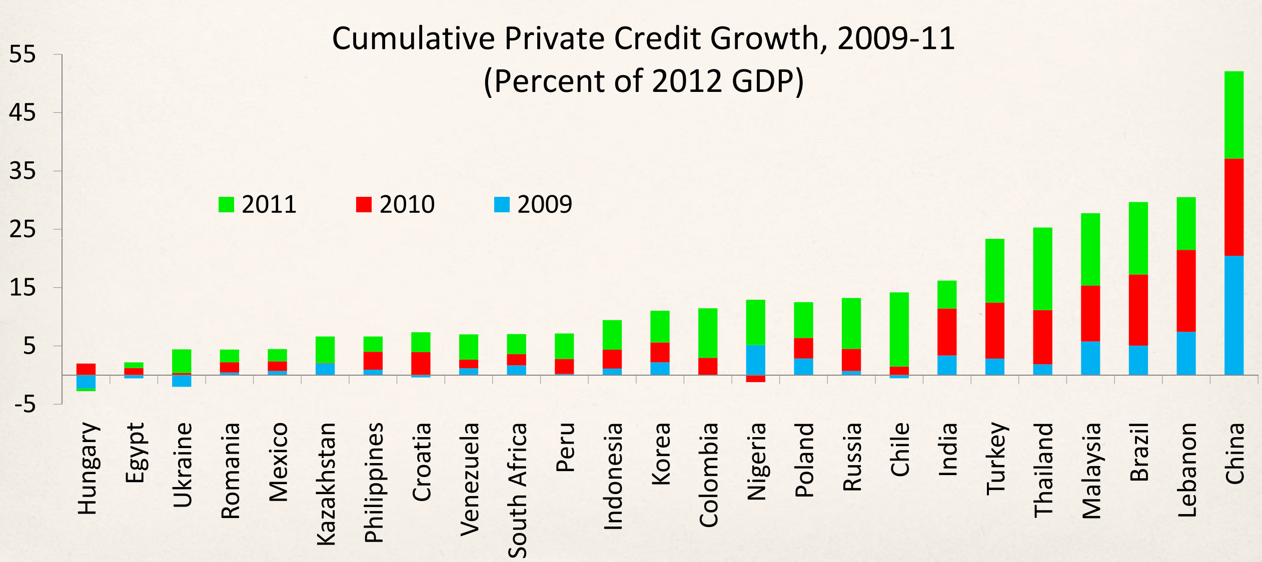
…putting the onus on policymakers to engineer the right mix of policies

- Robust financial firewall to restore confidence
- Sustained efforts toward deficit reduction and structural reform in vulnerable economies
- Accommodative monetary policy; and measured withdrawal of fiscal support in strong economies
- Further steps to strengthen the banking system
- Progress toward deeper euro area integration:
  - Centralized financial sector oversight
  - *Ex ante* fiscal risk sharing

Emerging markets have been resilient, but are facing adverse spillovers from Europe…



…as well as home-grown vulnerabilities that require careful management



Regional Economic Outlook

April 2012

Presented by Mr. Murtaza Syed
IMF's Resident Representative in China

Growth in Asia should pick up momentum over the course of 2012, in line with global economy

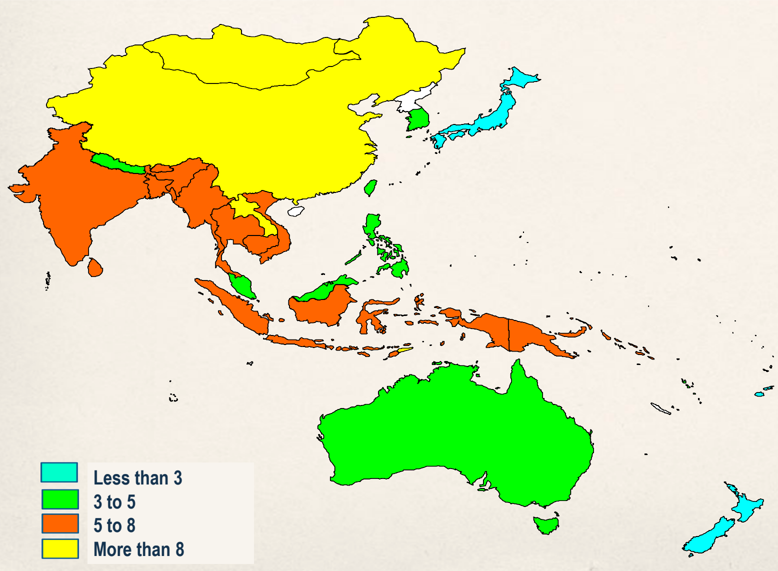


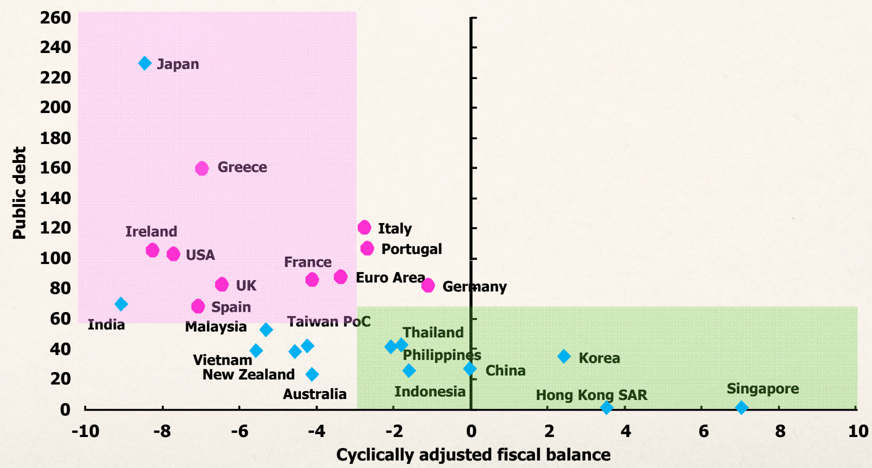
Table 1.1. Selected Asia: Real GDP
(Year-over-year percent change)

	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 Asia[1]	**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.

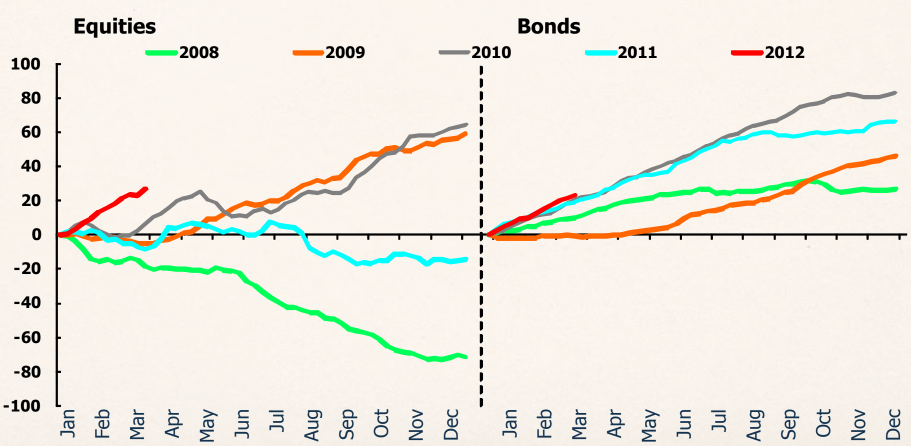
Risks still tilted to downside, but many regional economies have space for strong response to a severe global downturn

Cyclically adjusted fiscal balances and public debt ratios in 2011
(In percent of GDP)



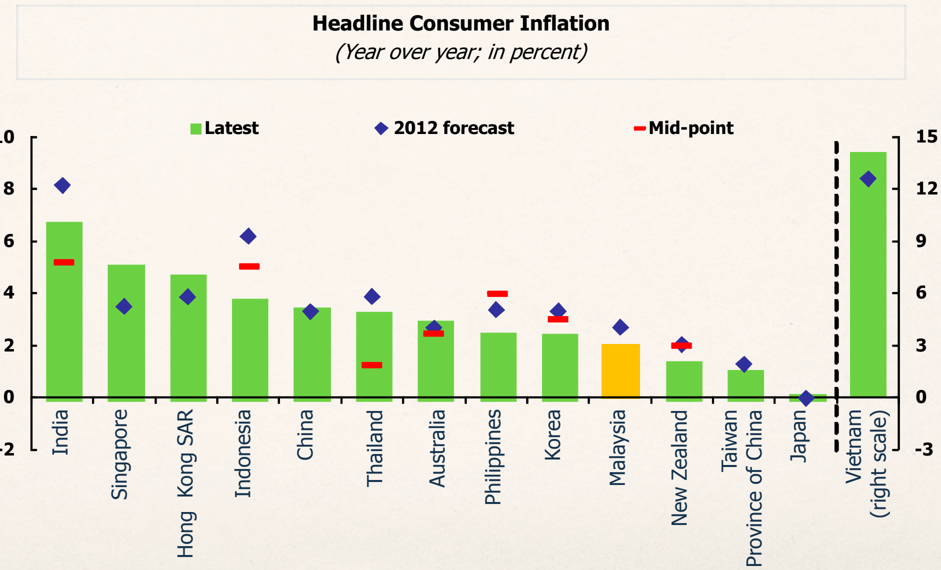
On other hand, if global financial conditions stabilize further, overheating pressures may resurface as in 2010…

Nonresident Investment in Selected Asian Markets
(In billions of U.S. dollars; cumulative net flows)

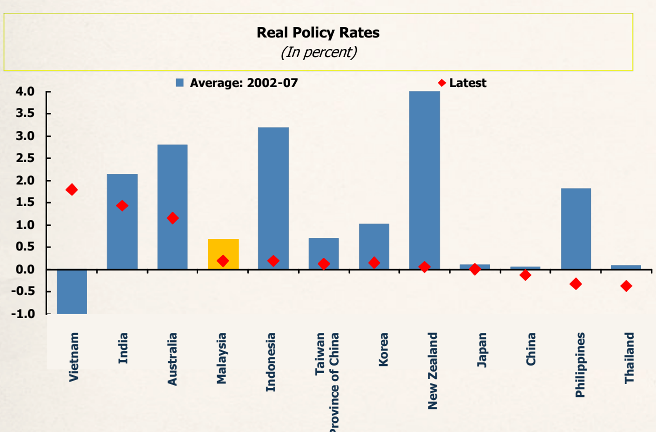


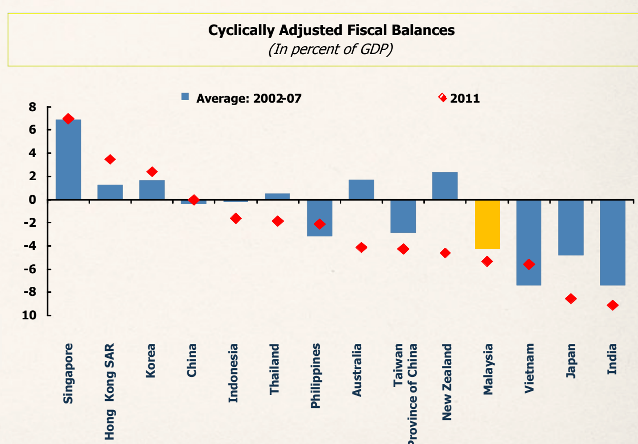
Note: The chart aggregates data for India, Indonesia, Korea, Malaysia the Philippines, Taiwan Province of China (equities only), and Thailand. Aggregate bonds data for Thailand starts from 2009.

…and, together with commodity price volatility, inflationary pressures could re-emerge



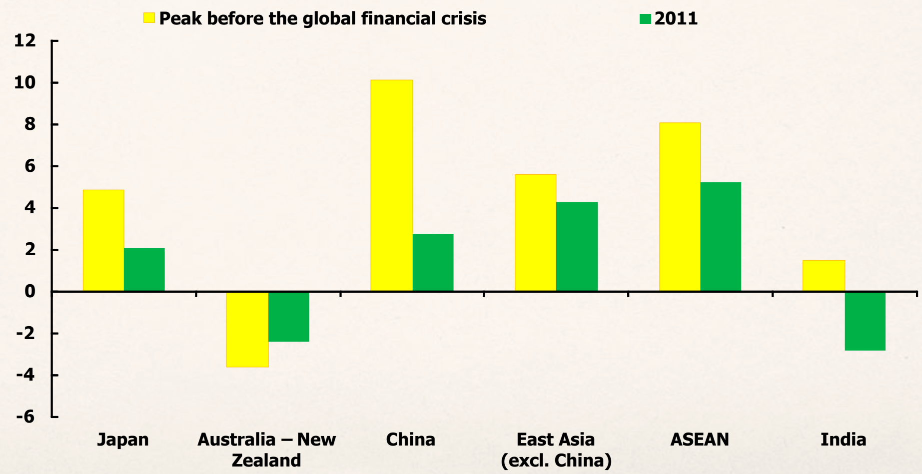
As policy stances are generally accommodative, normalization may need to restart in 2012





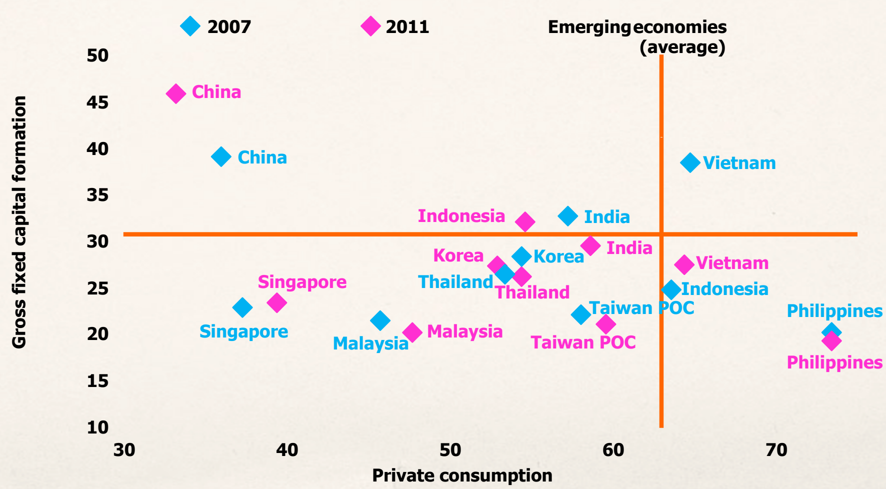
To create insurance against external shocks and make growth more inclusive, rebalancing toward domestic demand is needed; lower current account surpluses point to progress…

Current Account Balances
(In percent of GDP)



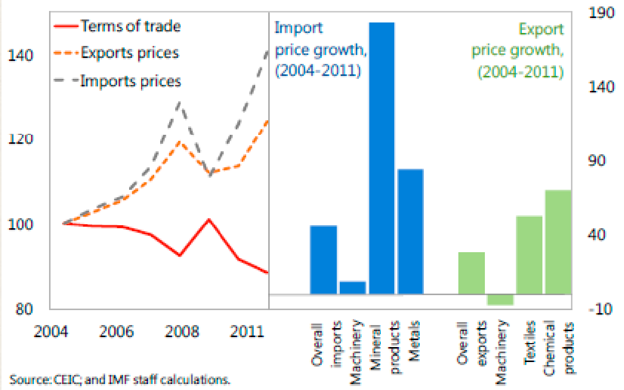
But more needs to be done to boost investment in some economies and consumption in others…

Private Consumption and Investment
(In percent of GDP)



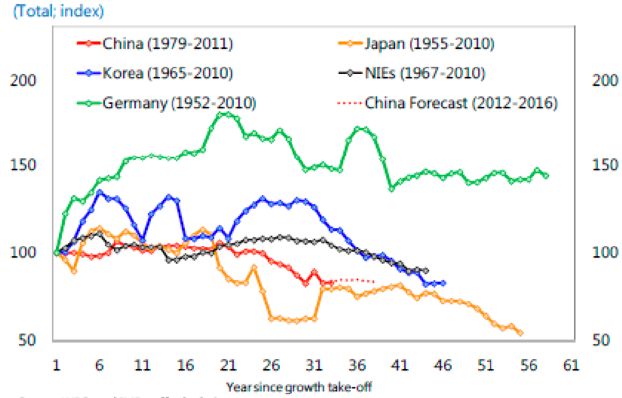
For China, 4 factors behind decline in CA surplus: (1) Worsening terms of trade accounted for 1/5-2/5…

China Terms of Trade
(Index, 2004=100)



Source: CEIC; and IMF staff calculations.

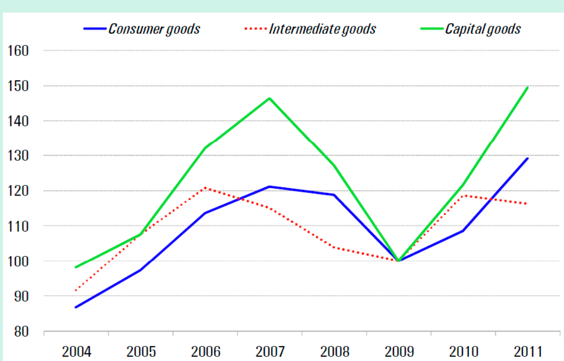
Terms of Trade of Selected Economies since Growth Take-off
(Total; index)



Source: WEO; and IMF staff calculations.

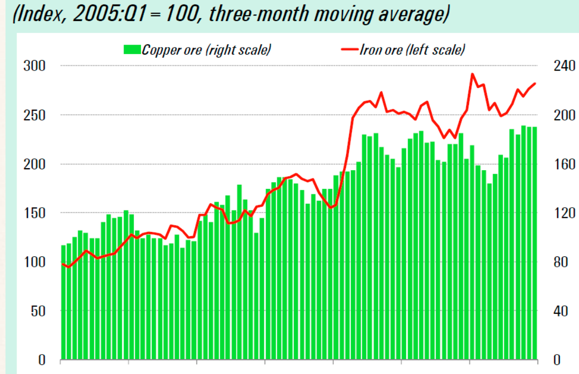
(2) Step up of investment—and associated increased demand for capital goods and commodities—contributed another ¼-⅓…

Figure 4.6. China: Import Quantum Index
(2009 = 100)



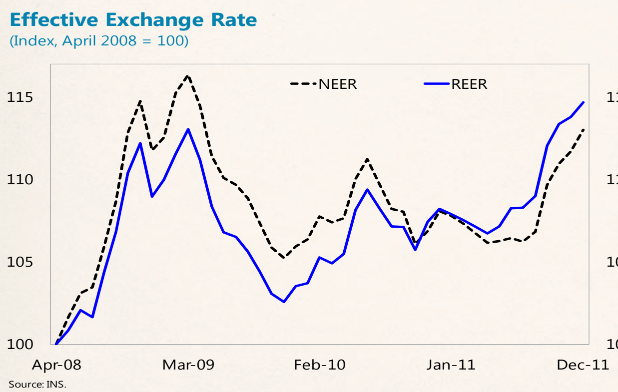
Sources: CEIC Data Company Ltd.; and IMF staff calculations.

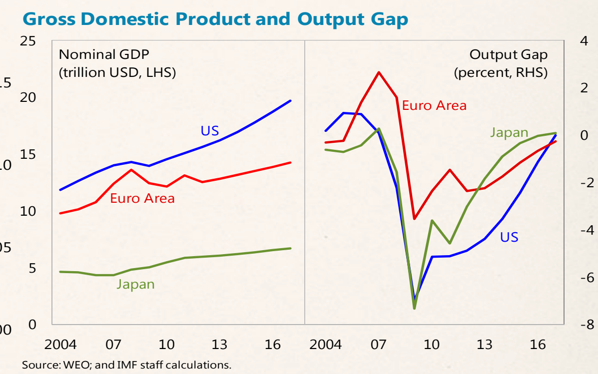
Figure 4.4. China: Mineral Import Volumes
(Index, 2005:Q1 = 100, three-month moving average)



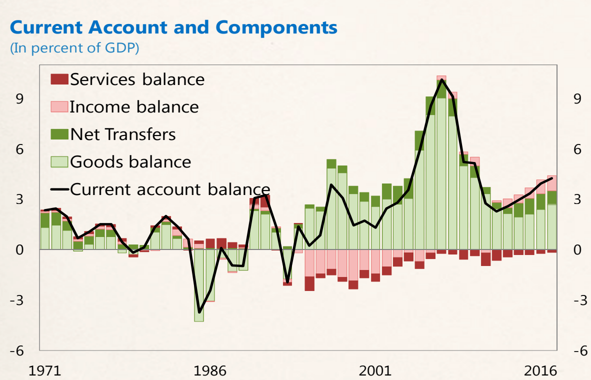
Sources: CEIC Data Company Ltd.; and IMF staff calculations.

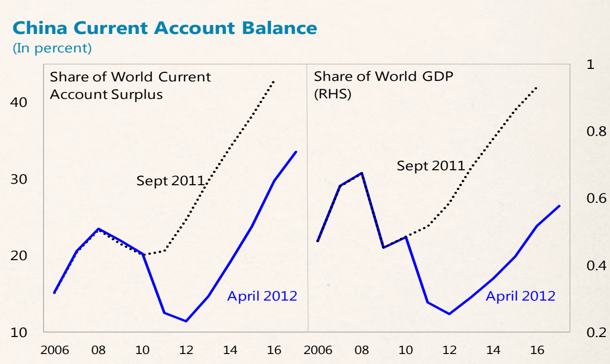
(3) RMB appreciation accounts for 1/5 to 1/3; and (4) collapse in global demand for remaining 1/5



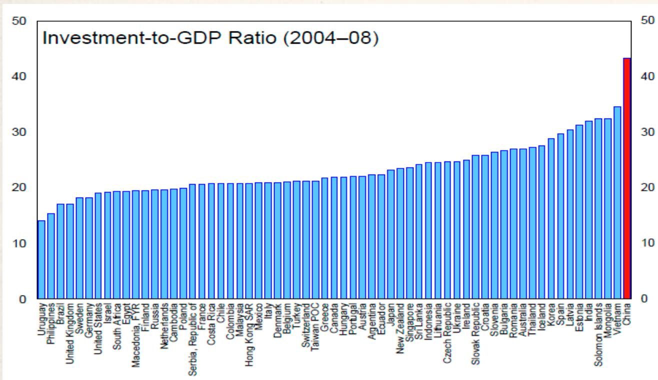


With many of these factors likely to endure, MT CA surplus now expected to be 4–4½ percent of GDP, though still rising as share of world GDP



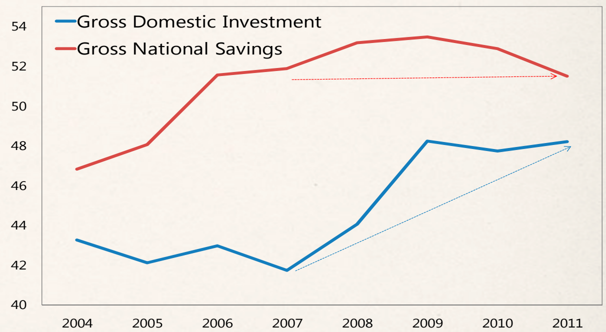


But bigger challenge is how to achieve internal rebalancing from high levels of investment to more sustainable growth based on consumption



Source: World Economic Outlook.

China: Saving and Investment
(In percent of GDP)



Thank You!