



INTERNATIONAL MONETARY FUND

GLOBAL and ASIA PACIFIC

Outlook, Risks, Challenges

The 10th ASEAN Central Bank Governors' Meeting



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Deputy Managing Director
April 4, 2014

Outline and Summary

1. Global Setting

- Recovery in the global economy
- Risks still to the downside

2. Asia's Developments and Outlook

- Momentum is set to continue
- Reform push in the larger economies in the region

3. Risks

- External risks relate to a tightening of global financial conditions
- Various idiosyncratic risks: China, Abenomics, geopolitics
- “Fault lines” associated with rising leverage

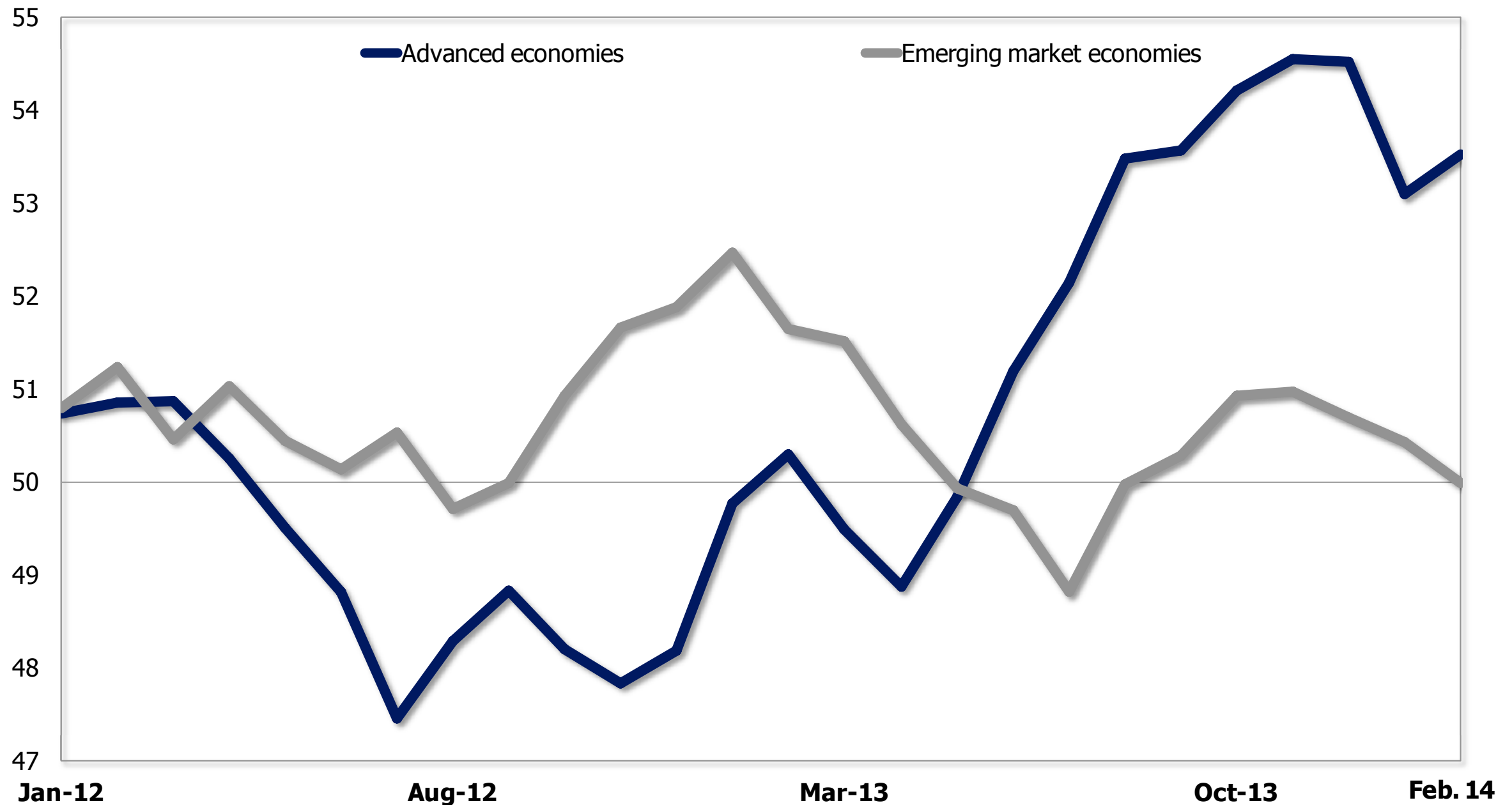
4. Policy Challenges

- Gradual normalization of monetary and fiscal policies
- Use of macro-prudential policies
- Structural reforms to boost medium-term growth



Advanced economies are strengthening, while emerging economies have been more subdued.

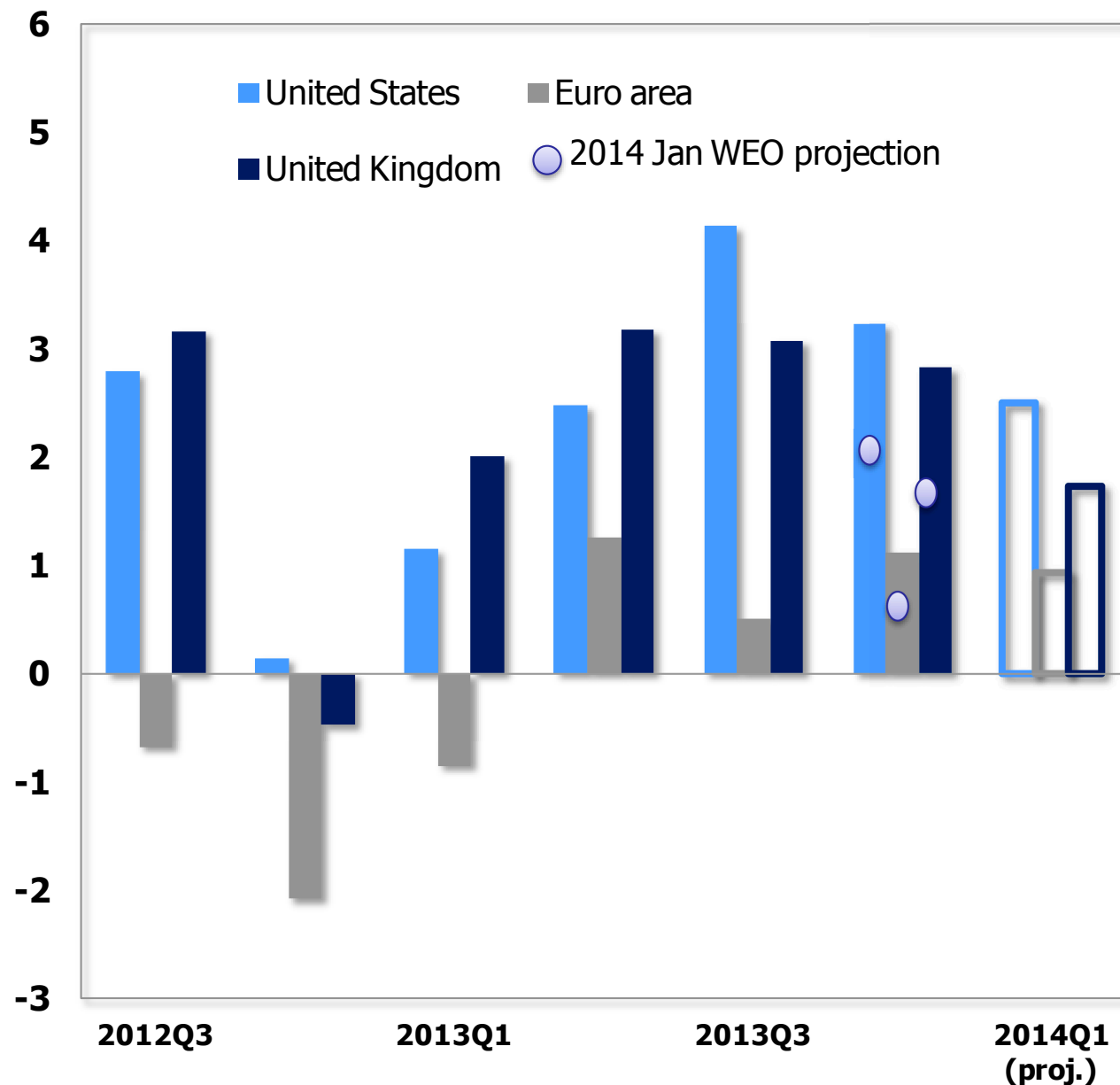
Manufacturing PMI (Index; above 50=expansion)





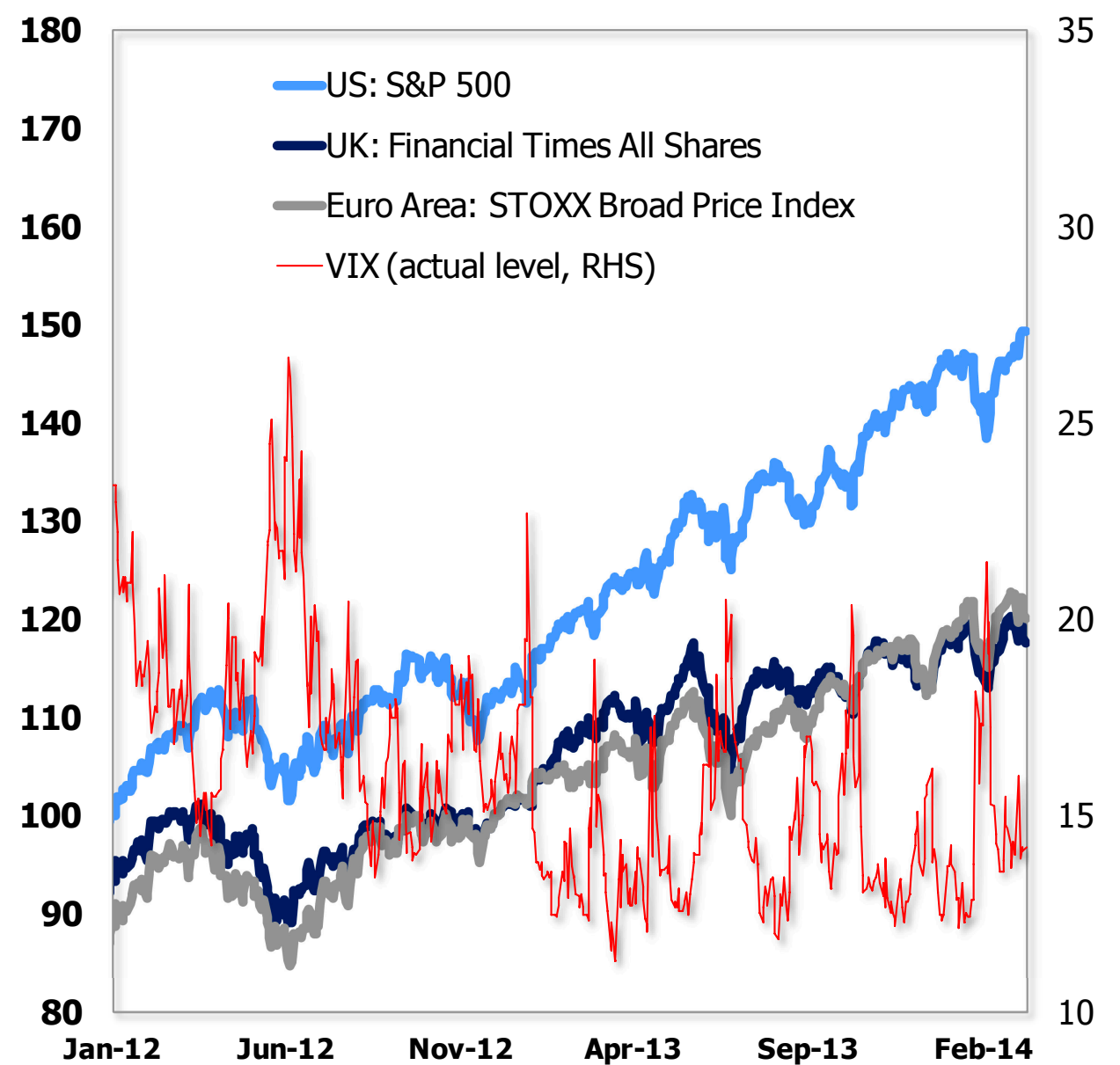
Advanced economies' recovery to continue.

Advanced Economies: Real GDP Growth
(Quarter-over-quarter percentage change, SAAR)



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

Advanced Economies: Stock Market Performance
(Index: December 31, 2010=100)

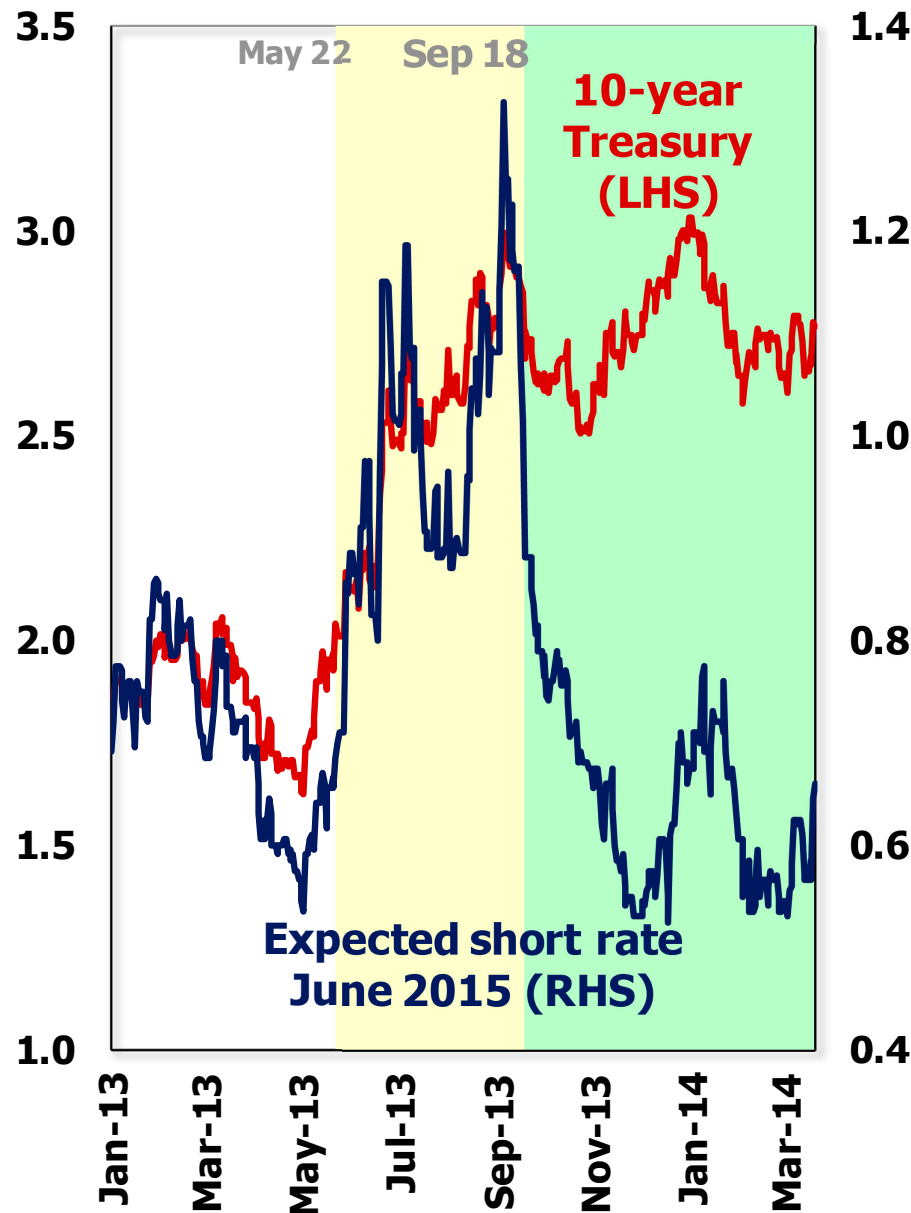


Sources: Haver Analytics; Thomson Reuters Datastream; and IMF staff calculations.

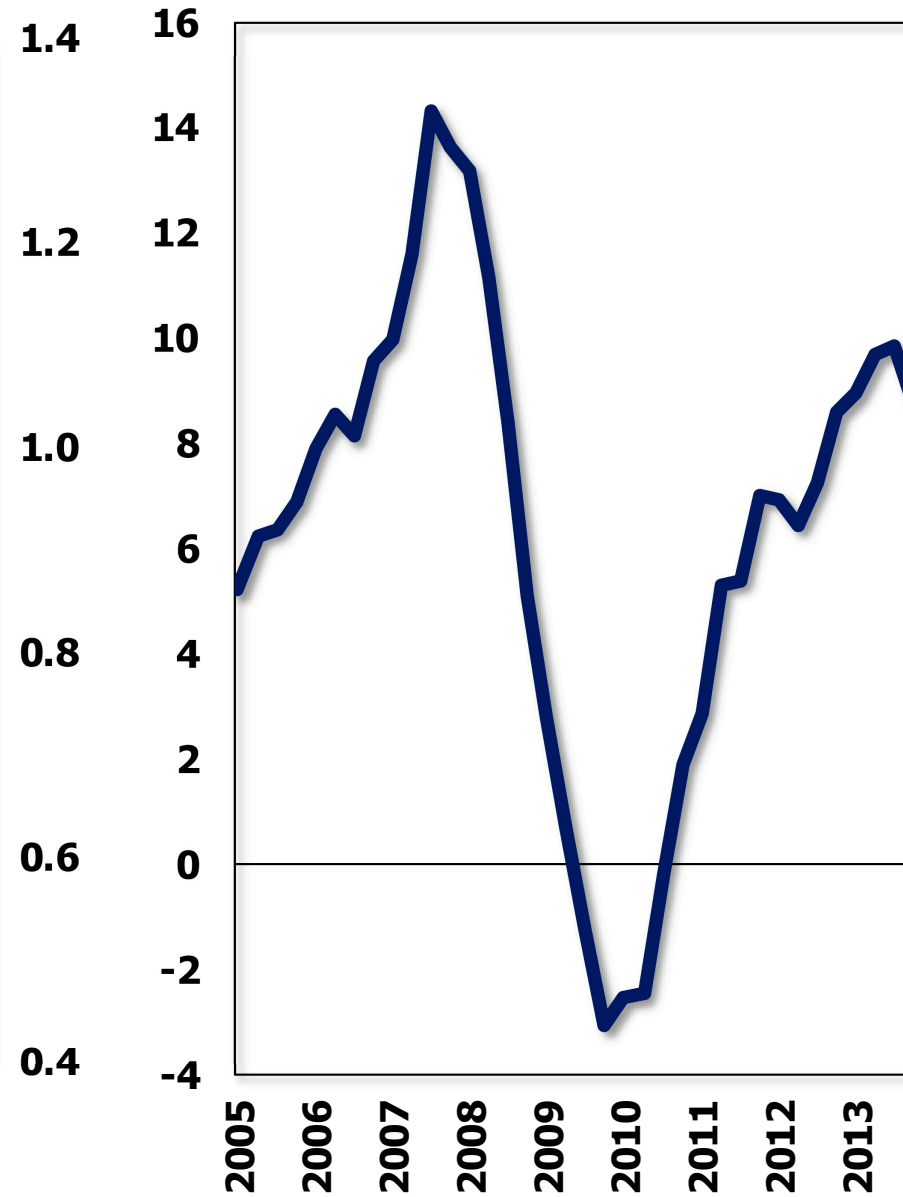


U.S.: smoother exit from tapering and green shoots.

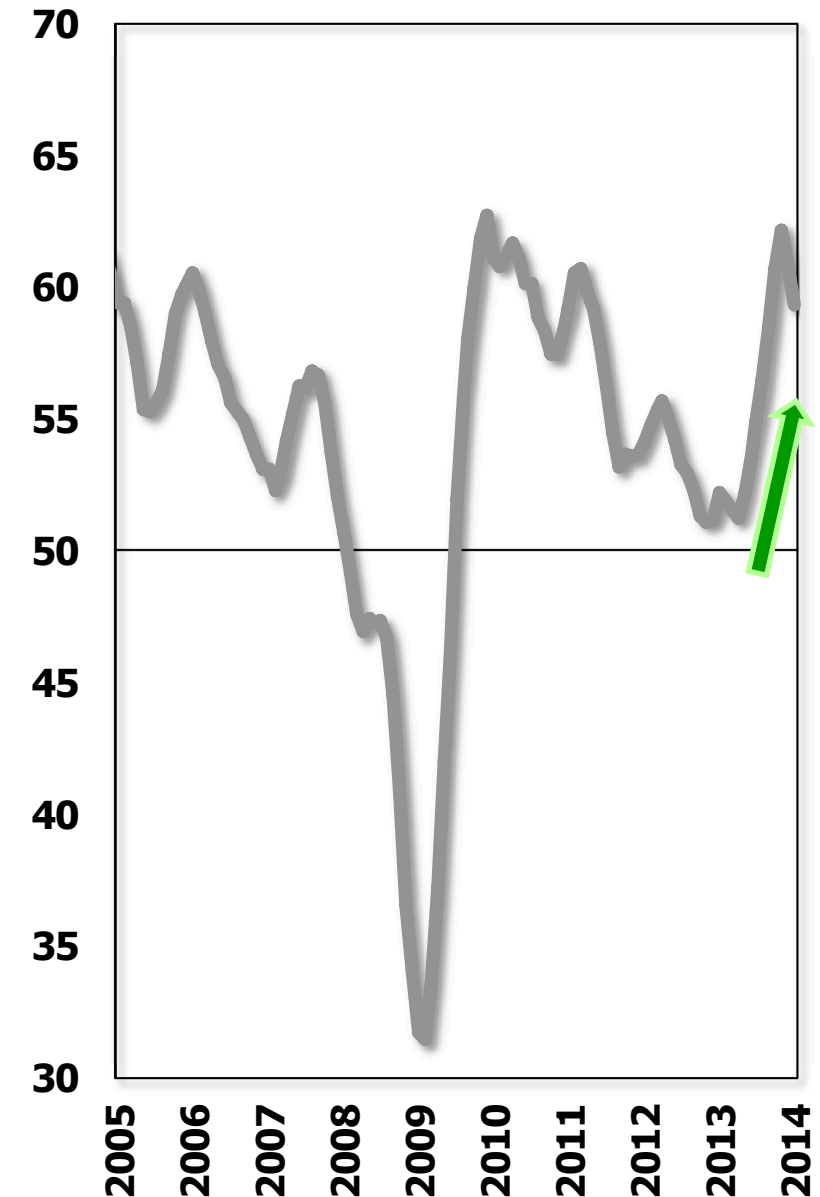
Tapering not Tightening
(percent)



Credit Flowing to Corporates
(qoq growth rate, percent)



New Orders Rising
(6-month moving average of ISM)

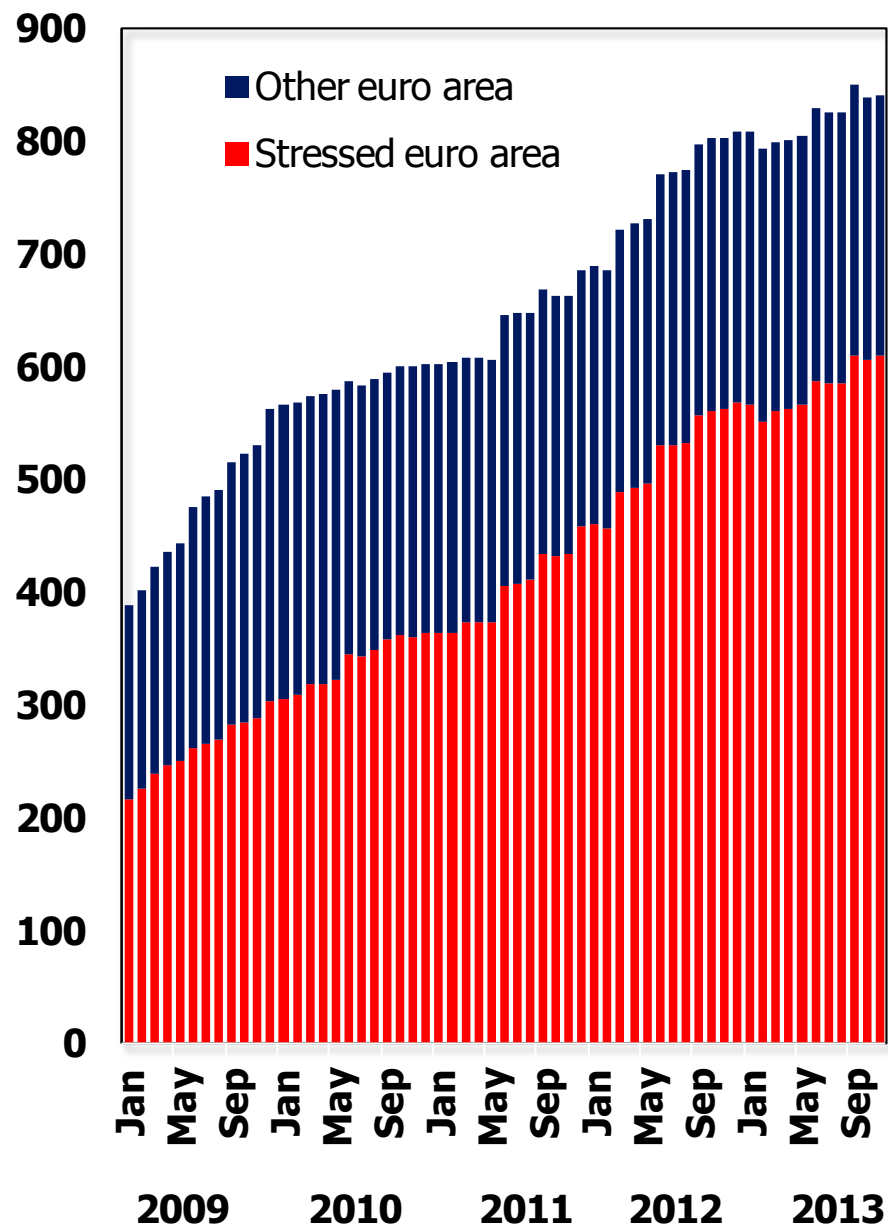


Sources: Bloomberg LP; IMF, staff calculations.

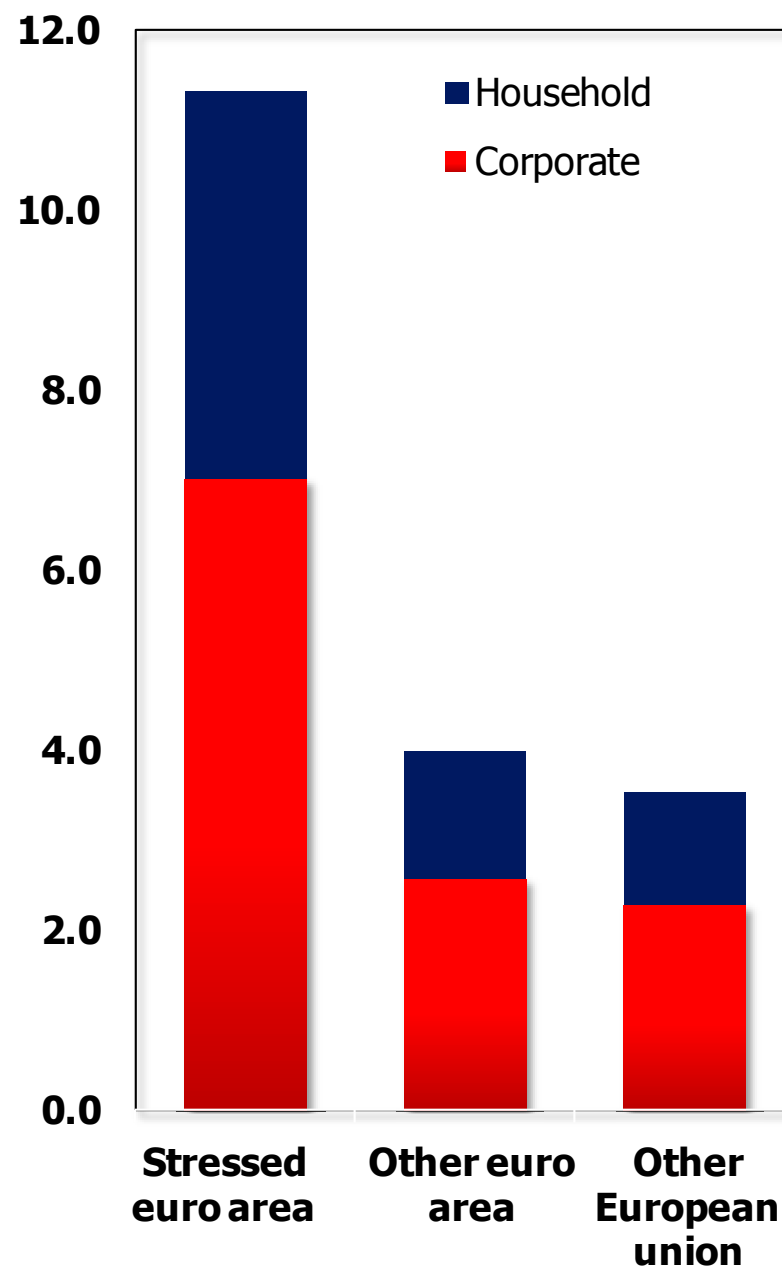


Europe still faces balance sheet weaknesses, but credit conditions have improved.

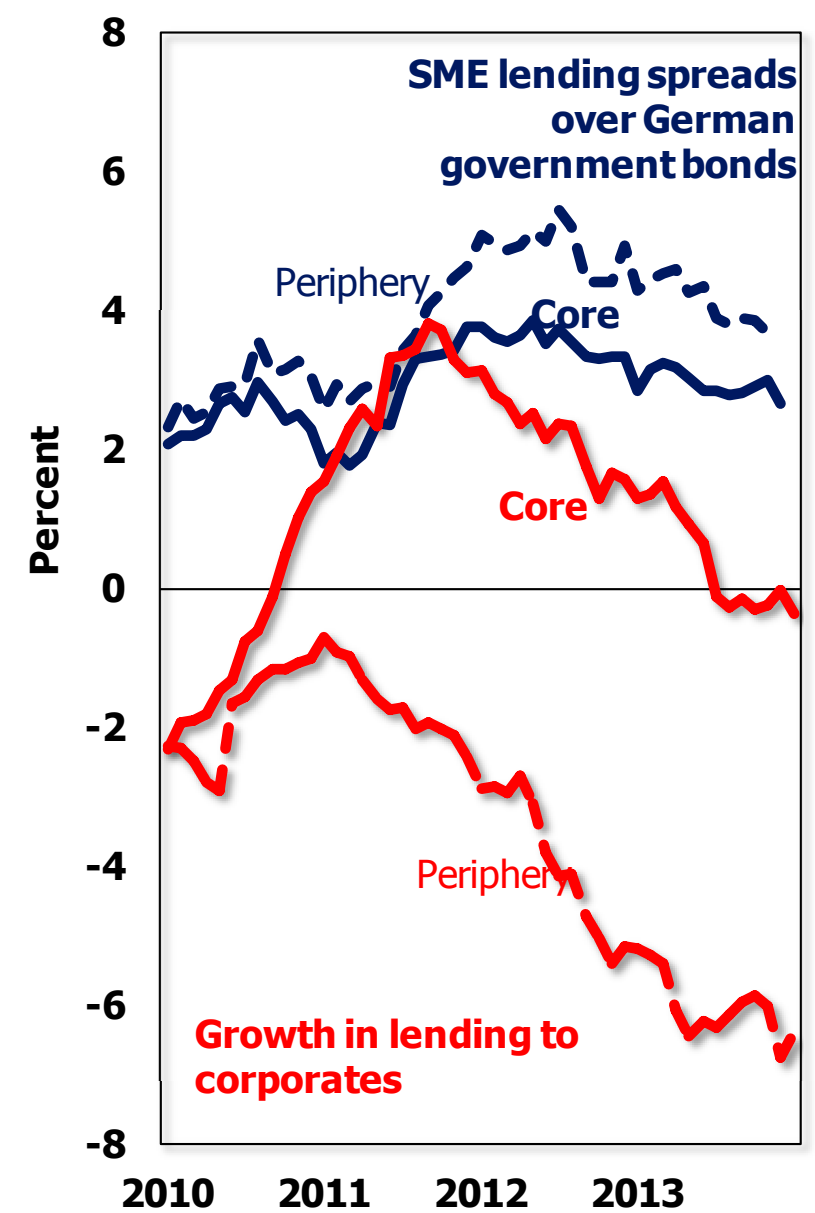
Non-performing Loans (Euro, billion)



Non-performing Loans (percent of total exposures)



Credit Conditions

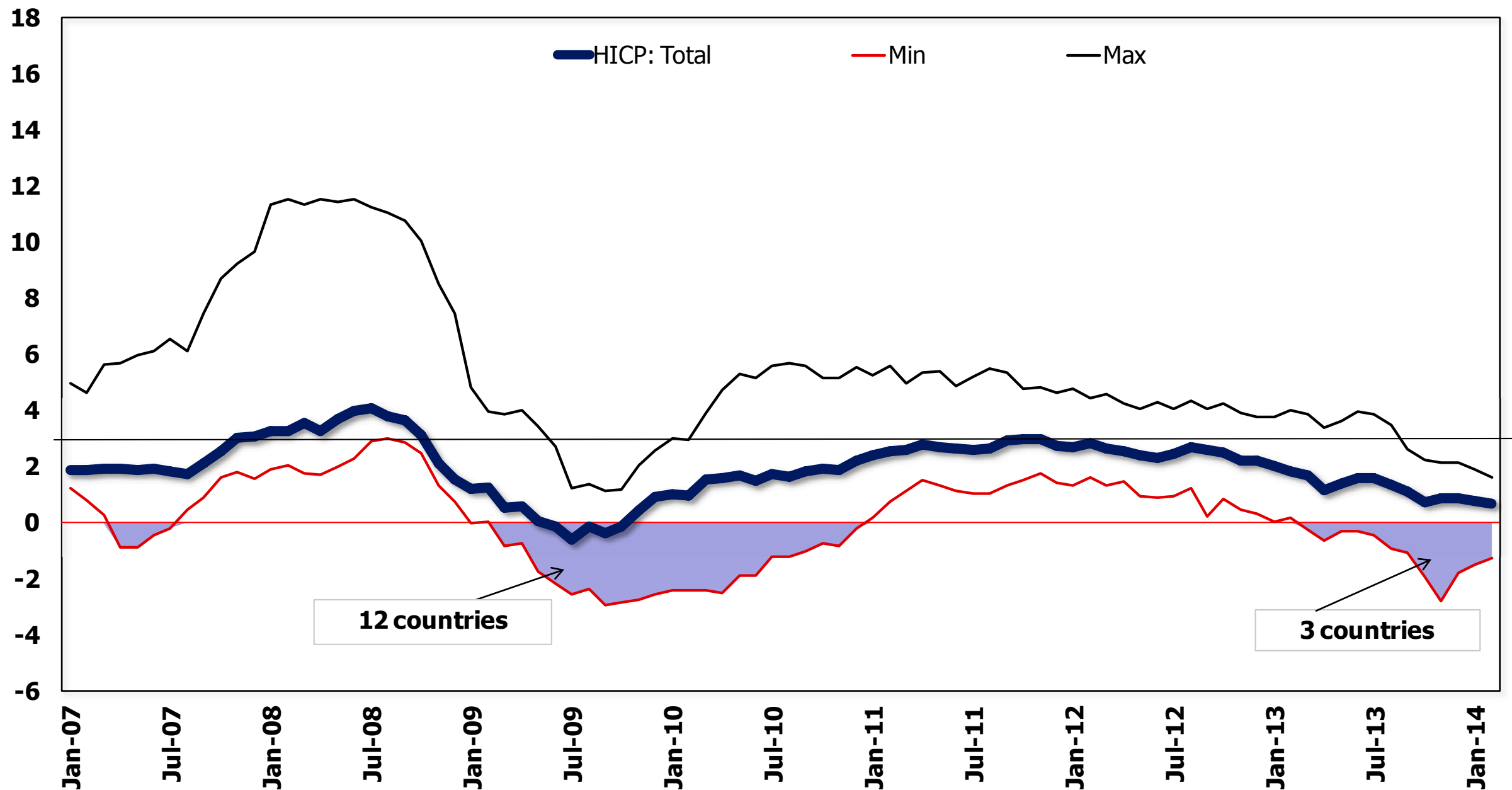


Sources: Bloomberg; European Banking Authority; European Central Bank; national central banks; and IMF staff estimates.



Deflation risks are significant, especially in southern Europe.

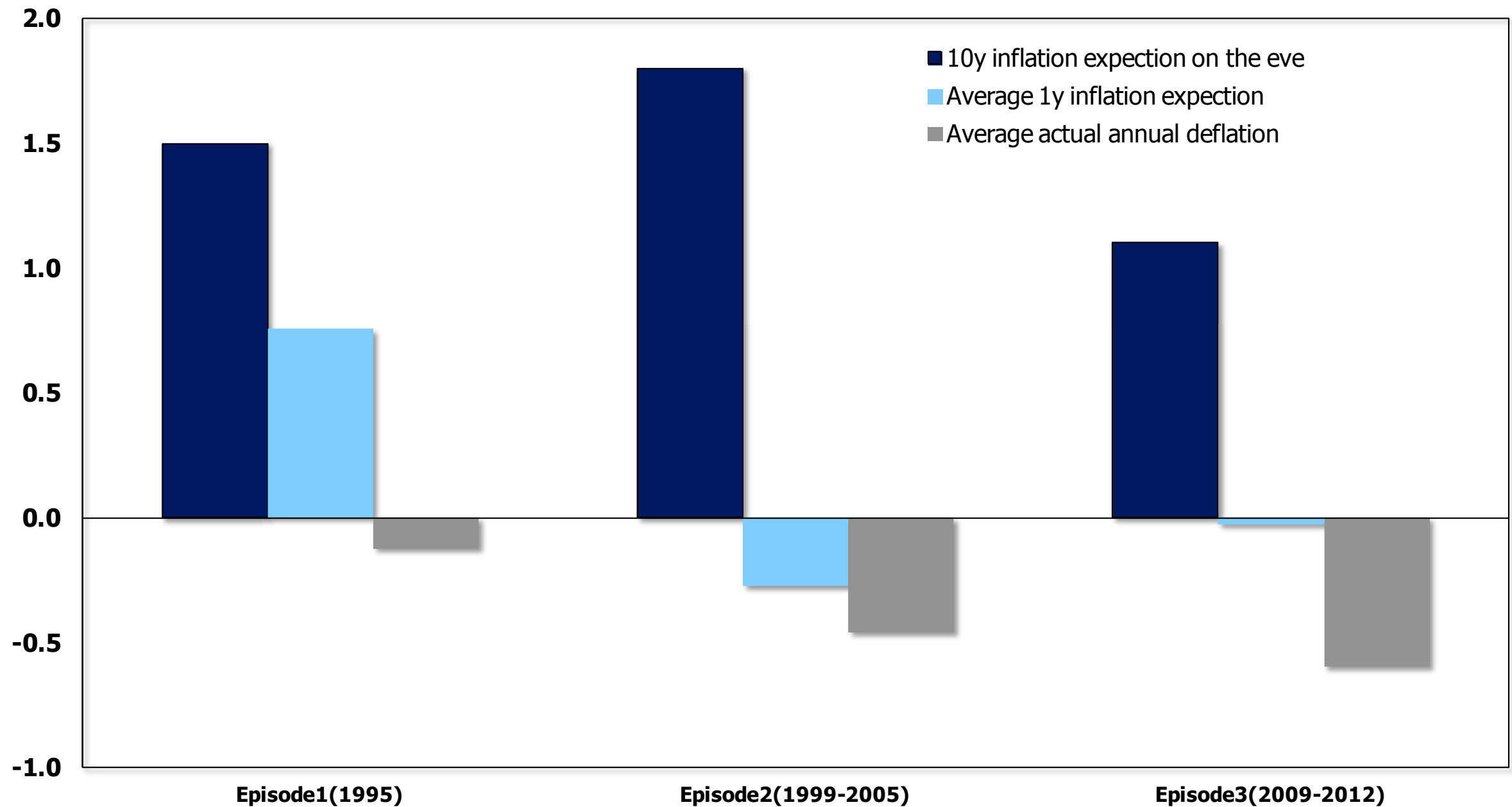
Euro Area: Annual Headline Inflation
(Seasonally adjusted; in percent)





The Japanese experience with deflation shows that action against low inflation is warranted.

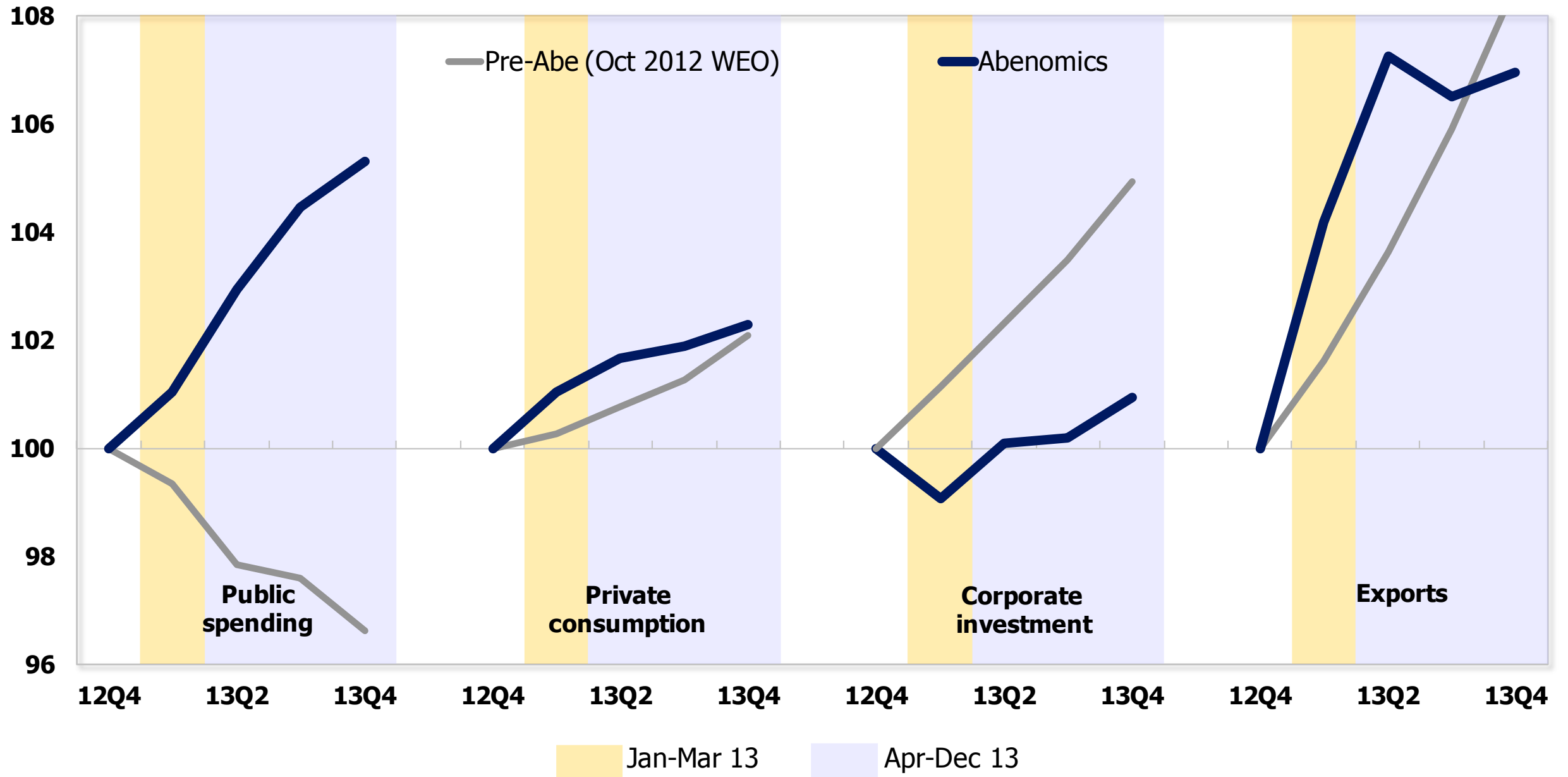
Japan: Deflation Episodes





Initial success of Abenomics could be waning.

Japan: Components of Real GDP
(Index; 2012:Q4=100)



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

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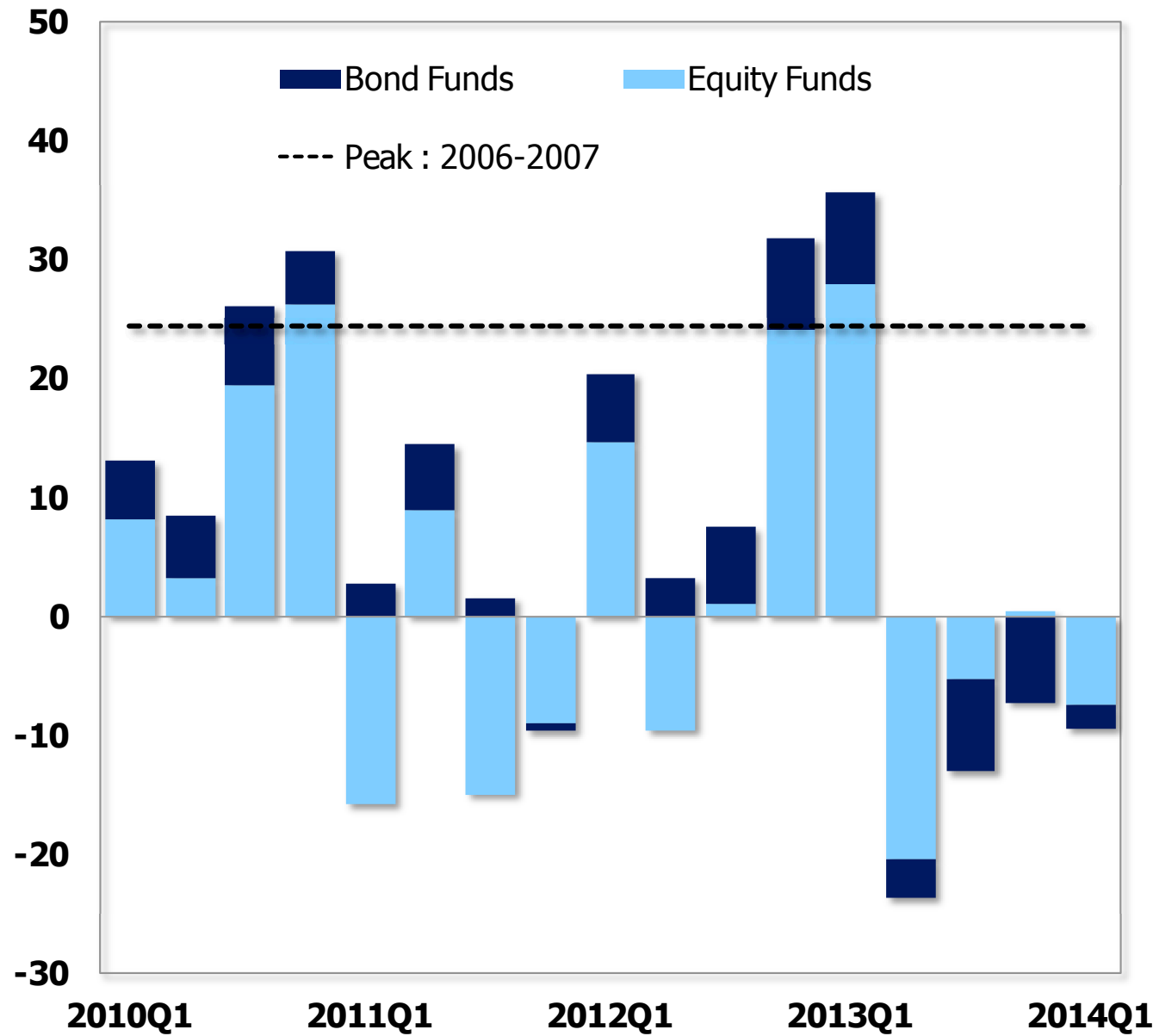
4. Policy Challenges

- Gradual normalization of monetary and fiscal policies
- Use of macro-prudential policies
- Structural reforms to boost medium-term growth

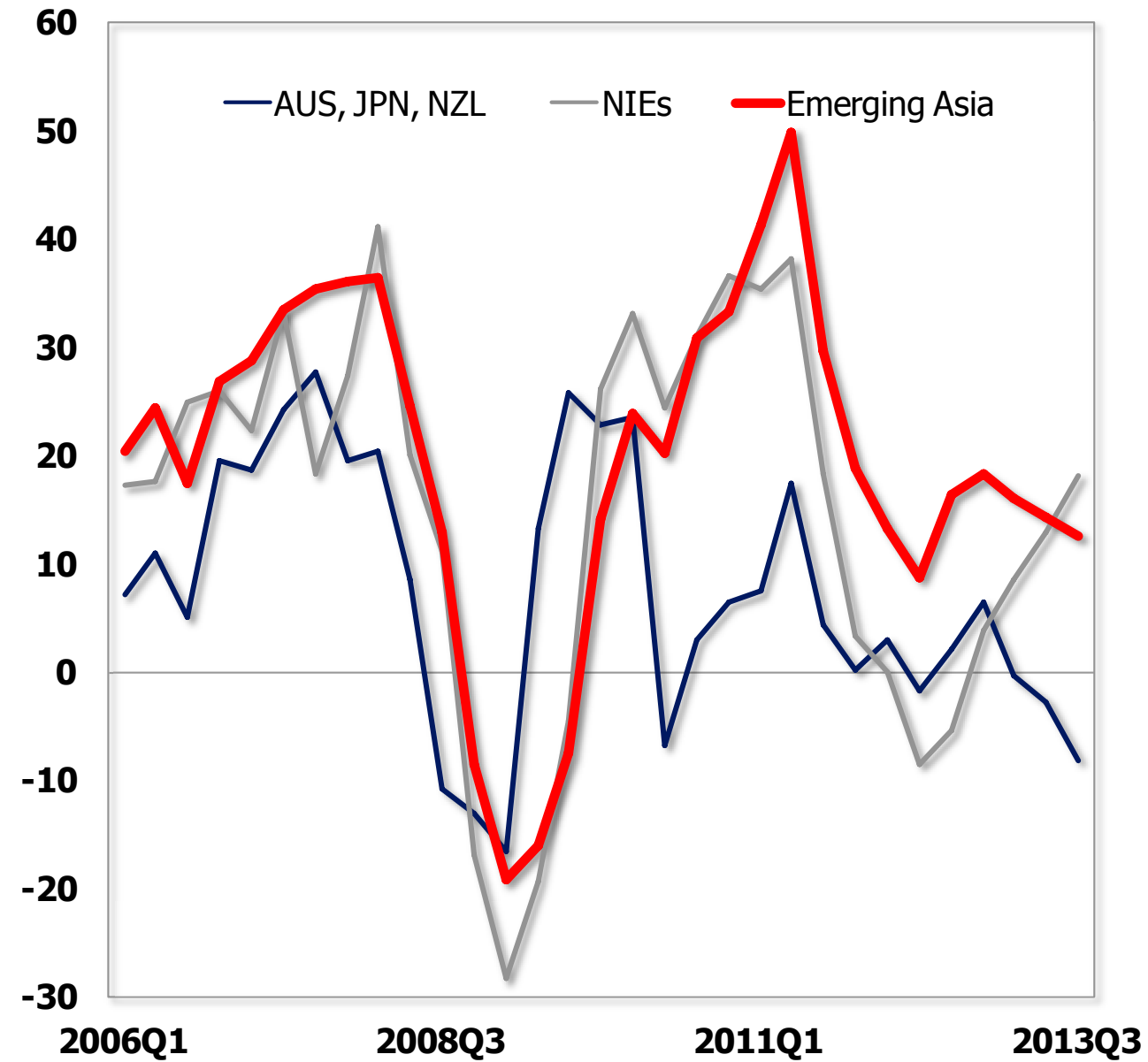


Capital flow reversal has been large and persistent.

Asia: Equity and Bond Funds—Quarterly Net Flows During 2010–14
(In billions of U.S. dollars)



Asia: Consolidated Foreign Bank Claims
(Year-over-year percentage change; immediate risk basis)



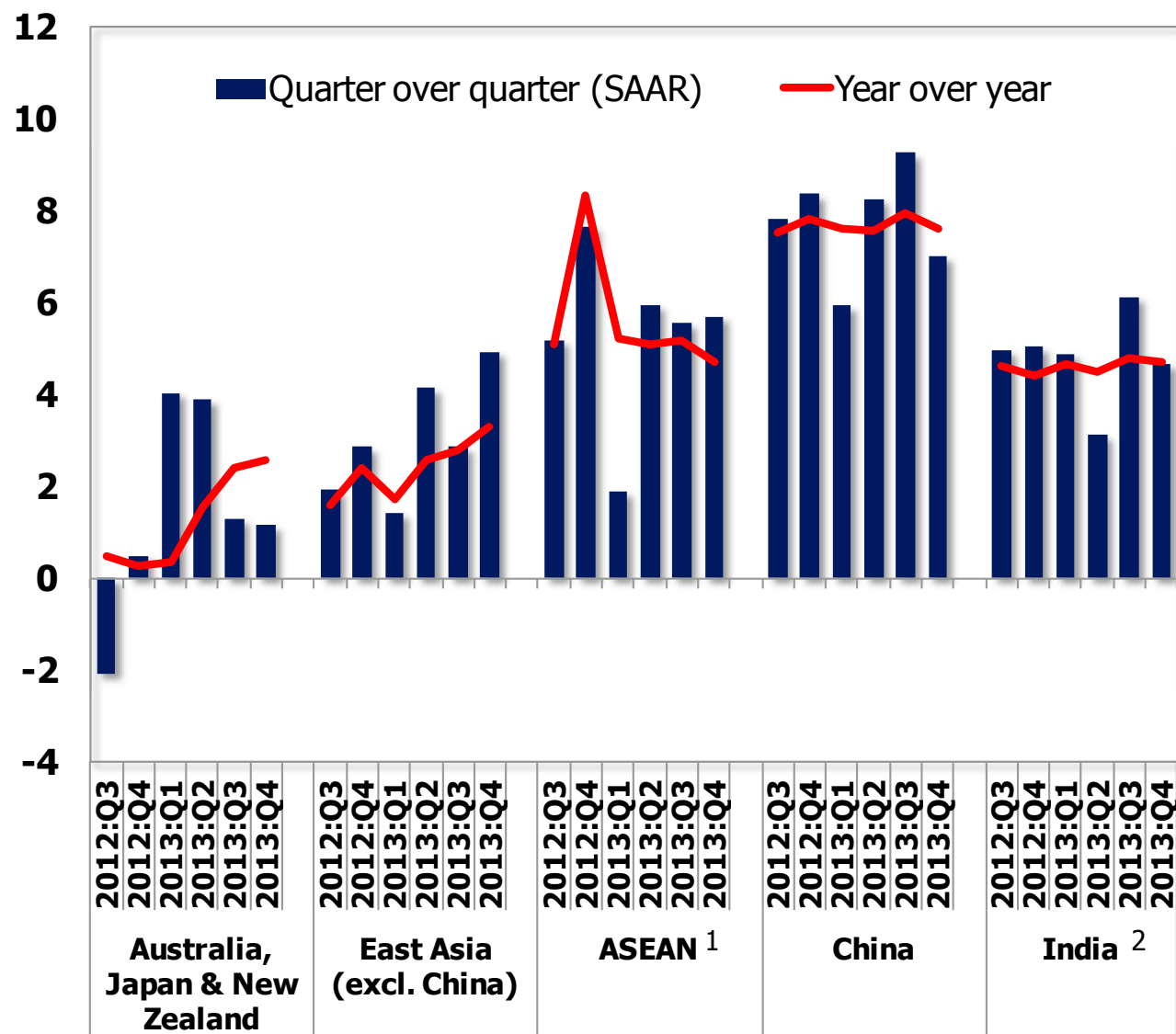
Sources: Haver Analytics; and IMF staff calculations.

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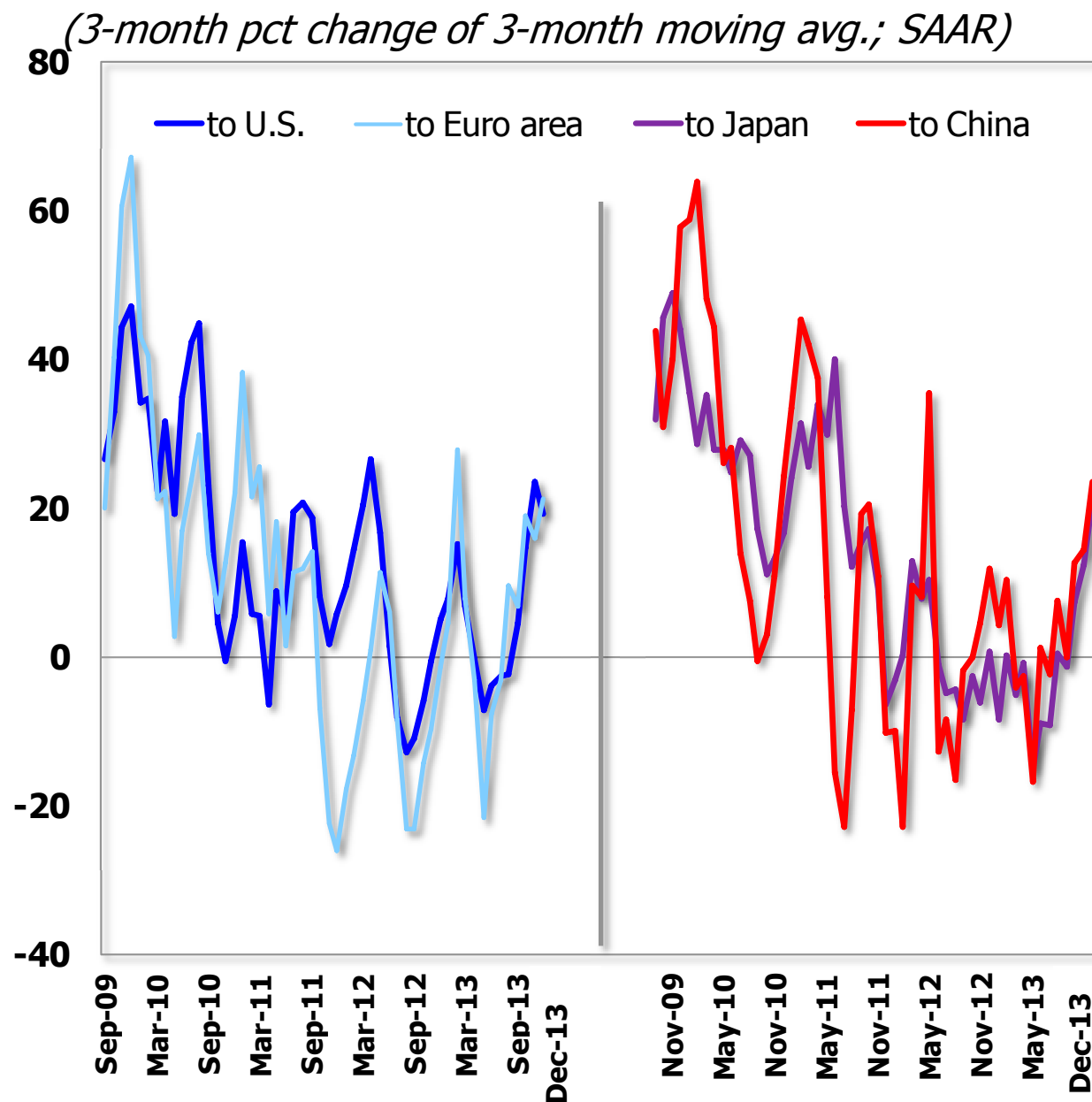


Growth has picked up on improving external demand.

Asia: Changes in Real GDP at Market Prices (In percent)



Selected Asia: Exports to Major Destinations



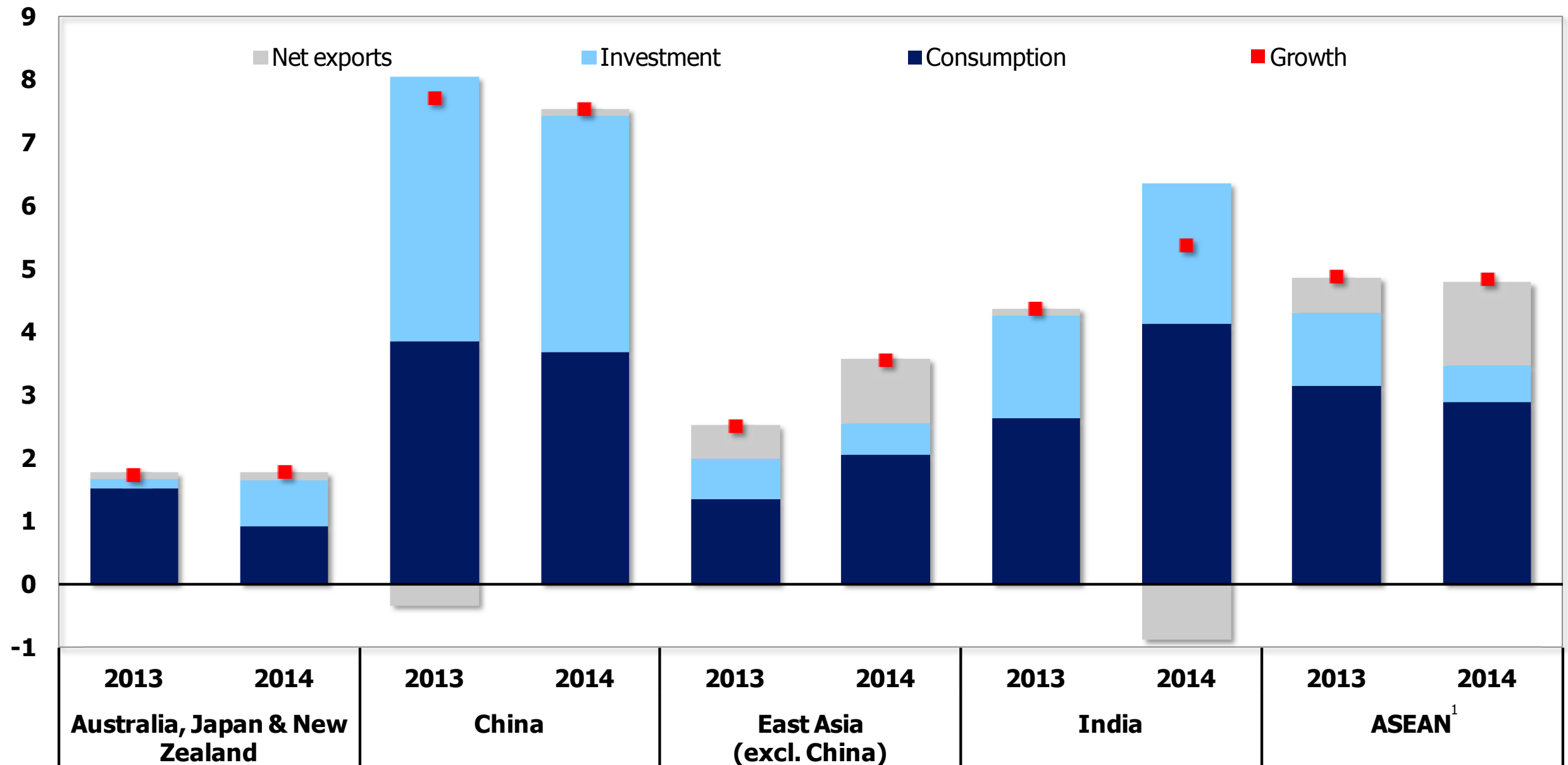
Sources: CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.
¹ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.
²India's GDP is at factor cost

Sources: CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.
 Selected Asia includes Japan, Malaysia, Thailand, the Philippines, Singapore, and East Asia.
 Indonesia and Vietnam excluded due to data lag.



Domestic demand should also continue to be a main contributor to growth.

Selected Asia: Contributions to Projected Growth
(In percentage points; year-over-year)

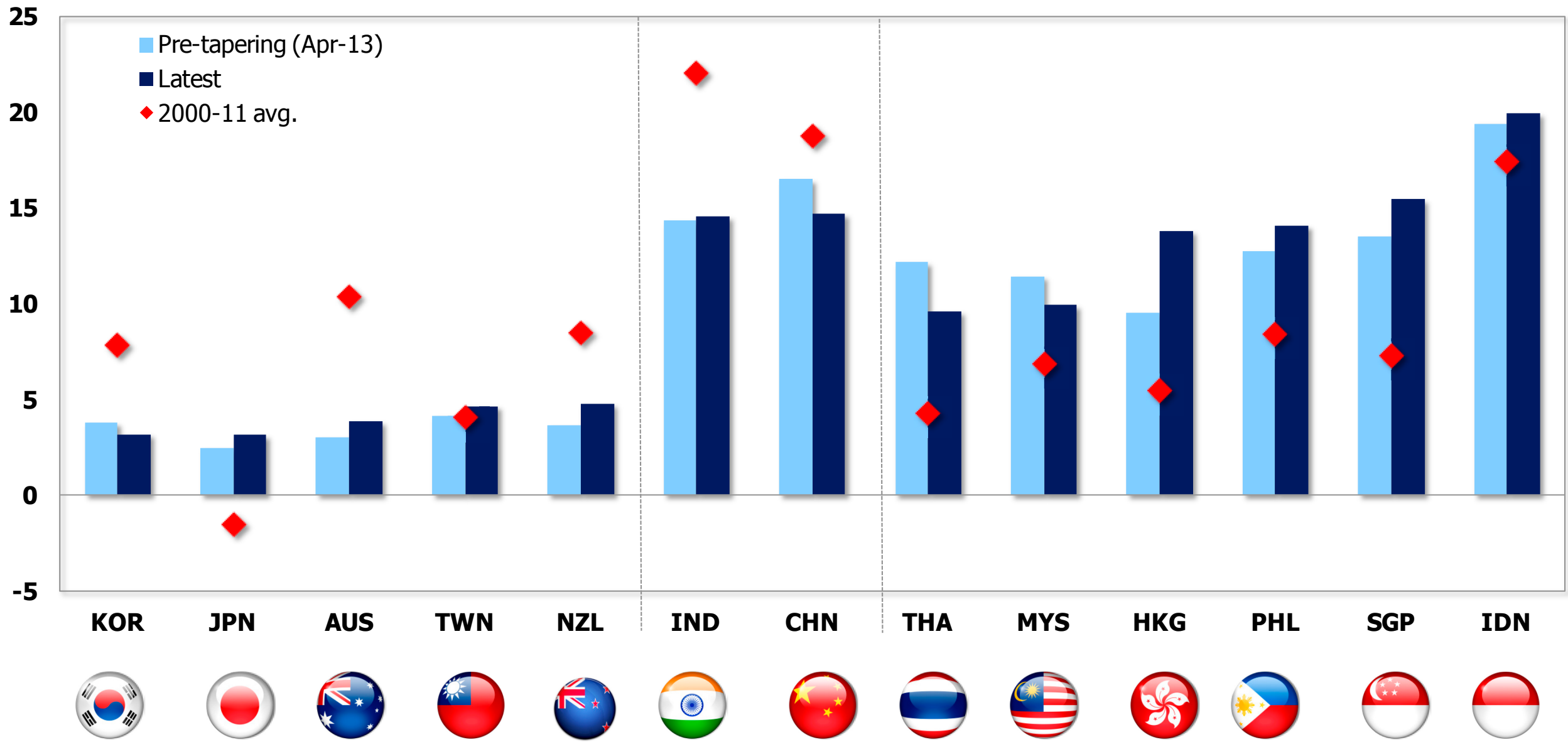


Source: IMF, *World Economic Outlook*, and IMF staff calculations.
¹ ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam



Domestic demand will be supported by robust credit growth.

Selected Asia: Private Sector Credit Growth
(Year-on-year growth; in percent)

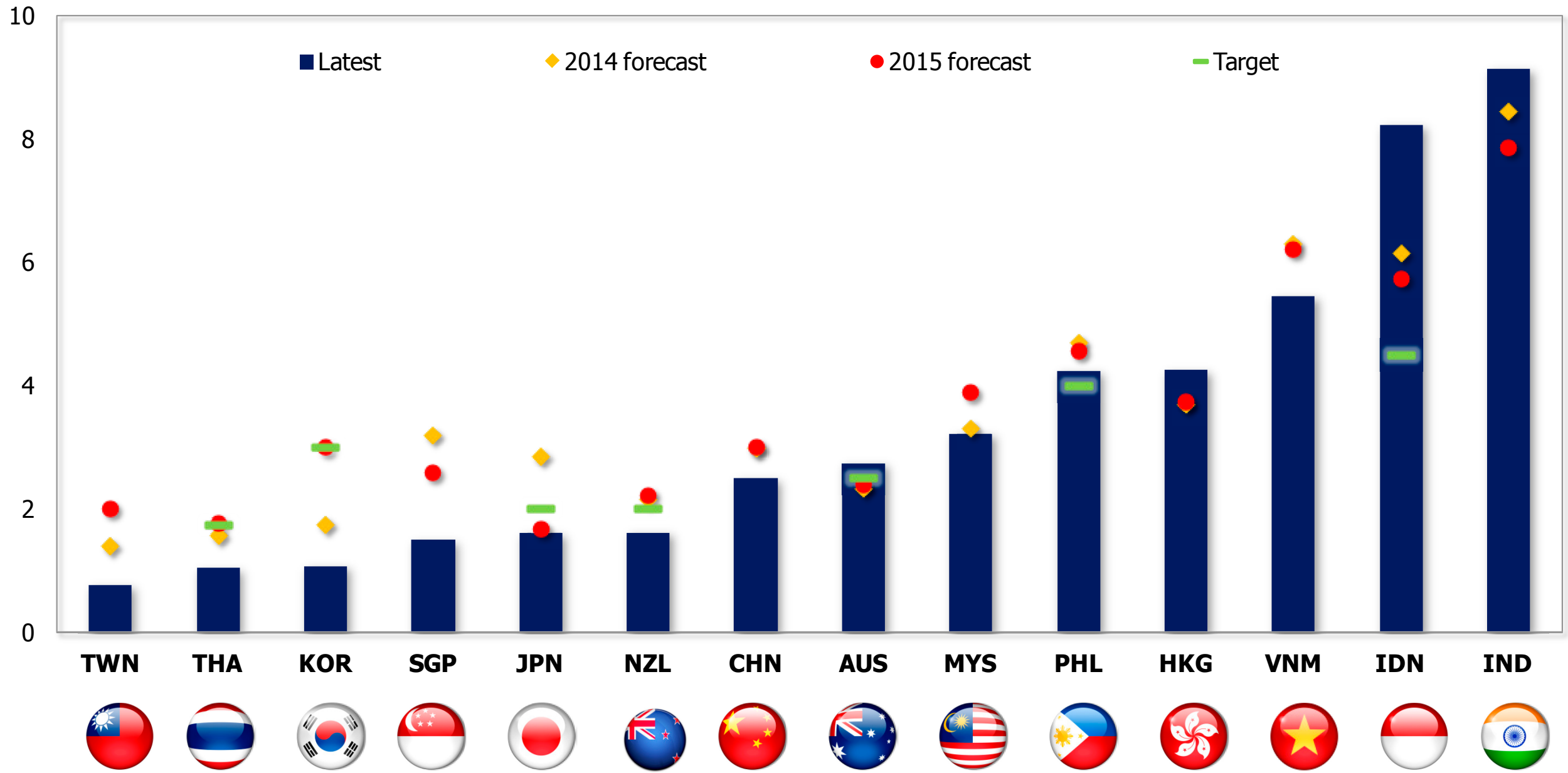


Sources: CEIC Data Co. Ltd; Haver Analytics; and IMF staff calculations.



Headline inflation will remain generally low across most of the region.

Asia: Headline Consumer Price Inflation
(Year over year; in percent)



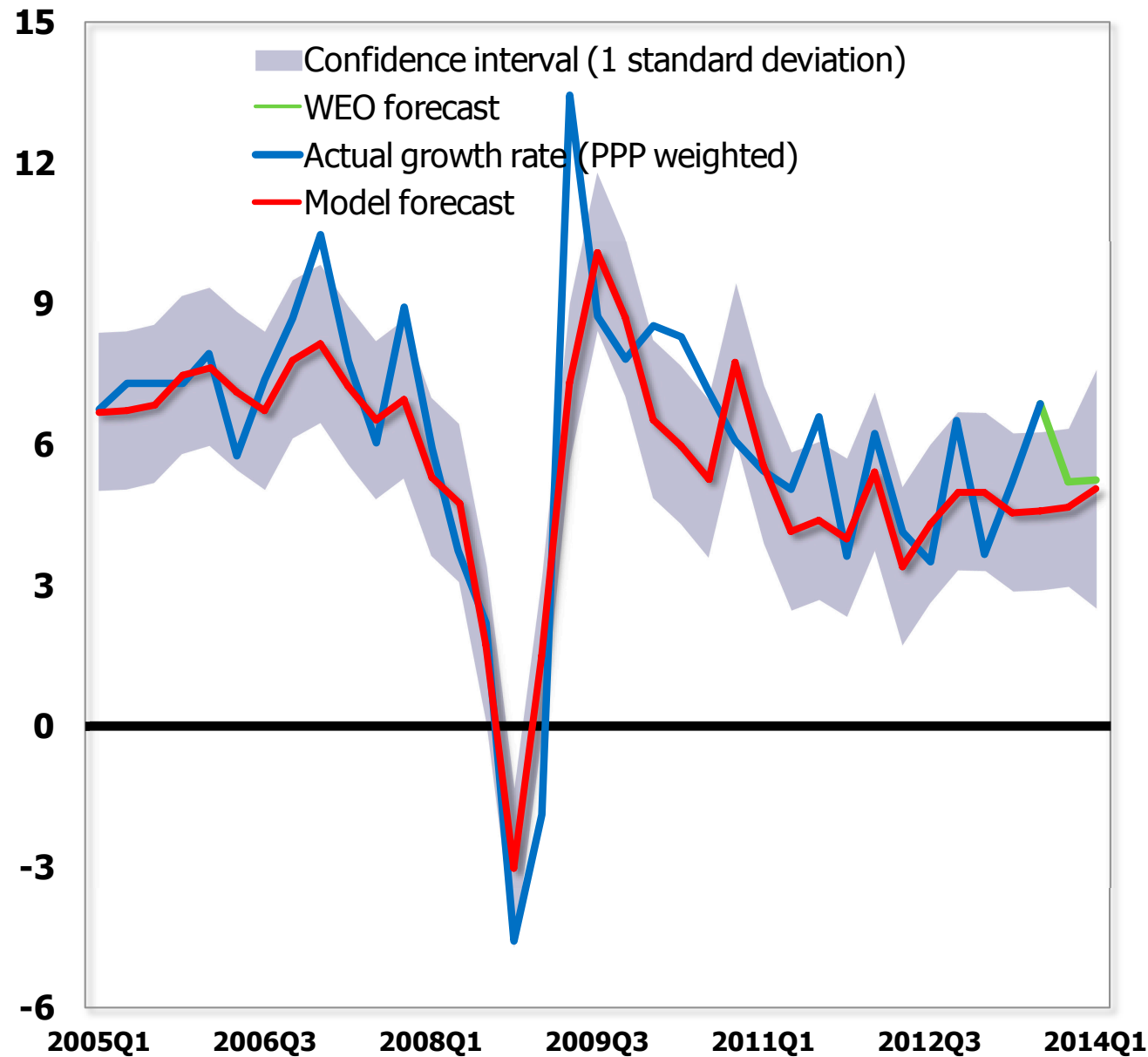
Sources: CEIC Data Co. Ltd; Haver Analytics; and IMF staff calculations.



High-frequency indicators and stock prices point to steady growth, consistent with our forecasts.

Indicator Model for Asia: Projected vs. Actual Real GDP Growth

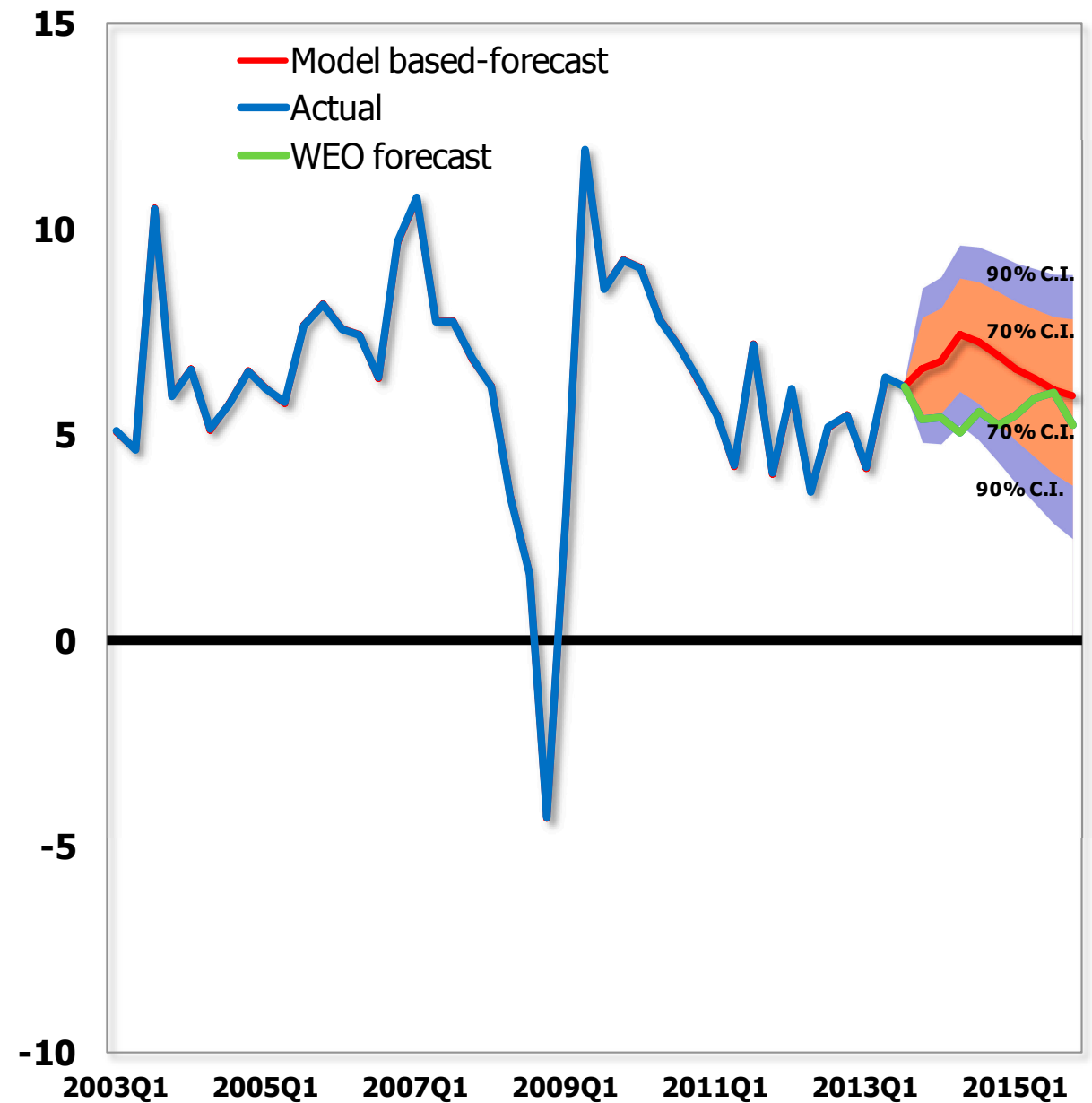
(In percent; quarter-over-quarter annualized rate)



Source: IMF staff estimates.

Gordon Equity Price Model for Asia: Projected vs. Actual Real GDP Growth

(Quarter-over-quarter percent change; annualized)



Source: IMF staff estimates.

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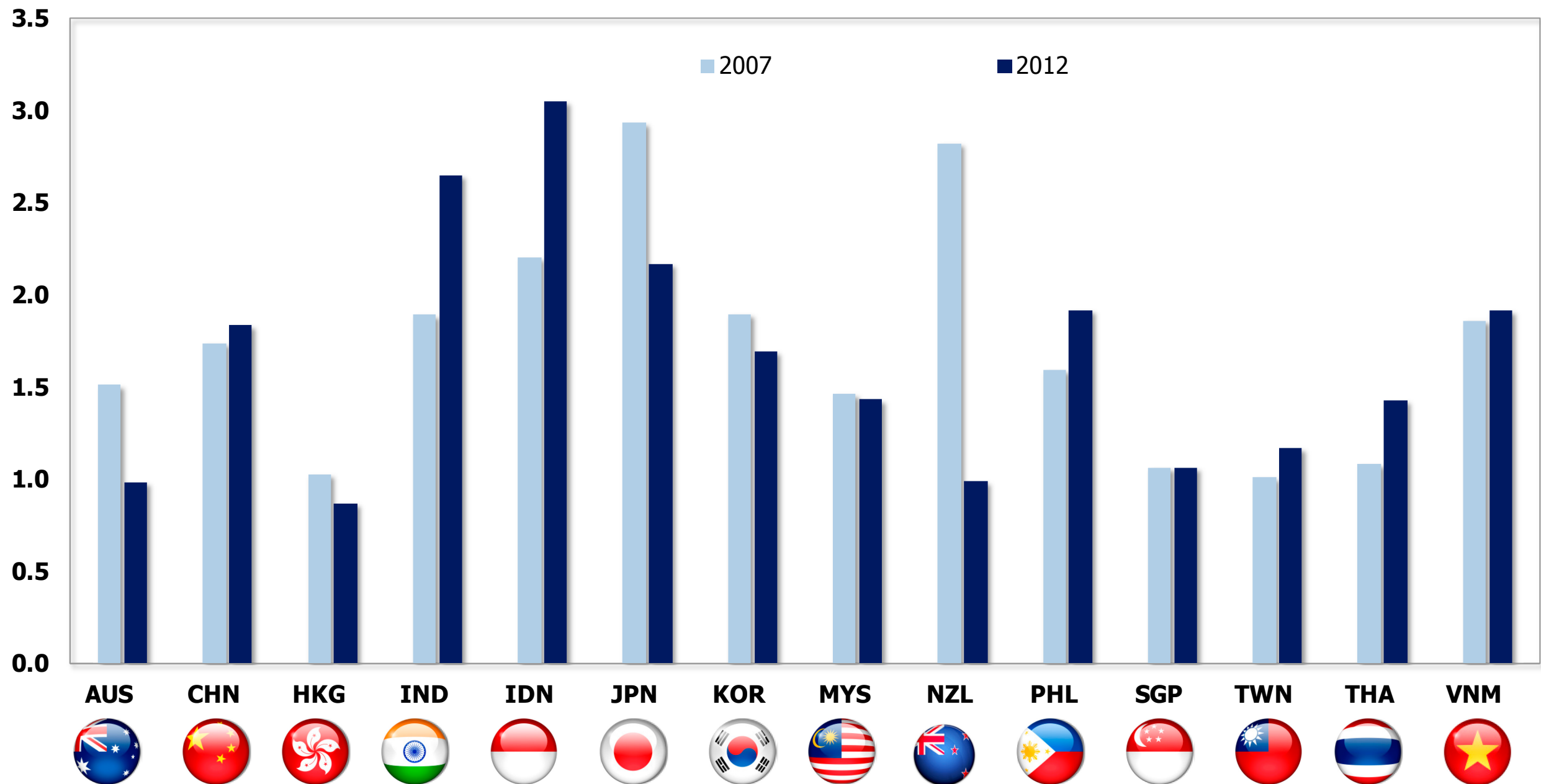
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But there are pockets of vulnerability such as rising corporate leverage.

Asia: Leverage Ratio Comparison
(Total debt-weighted average; 2007 and 2012)

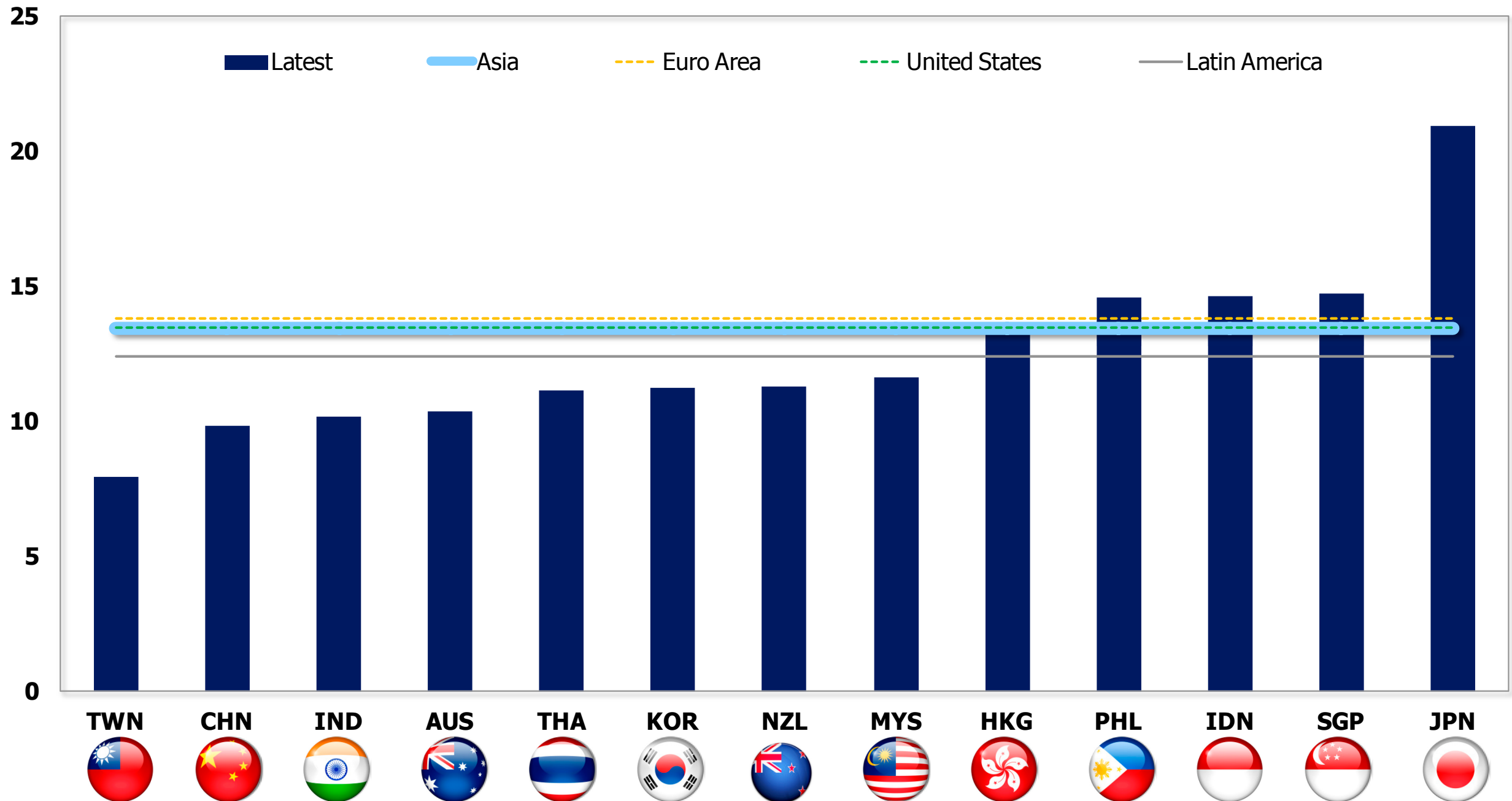


Sources: Thomson Reuters Worldscope; and IMF staff calculations.



But banks across most of the region have generally strengthened their balance sheets.

Selected Asia: Tier 1 Capital Ratio¹
(In percent)



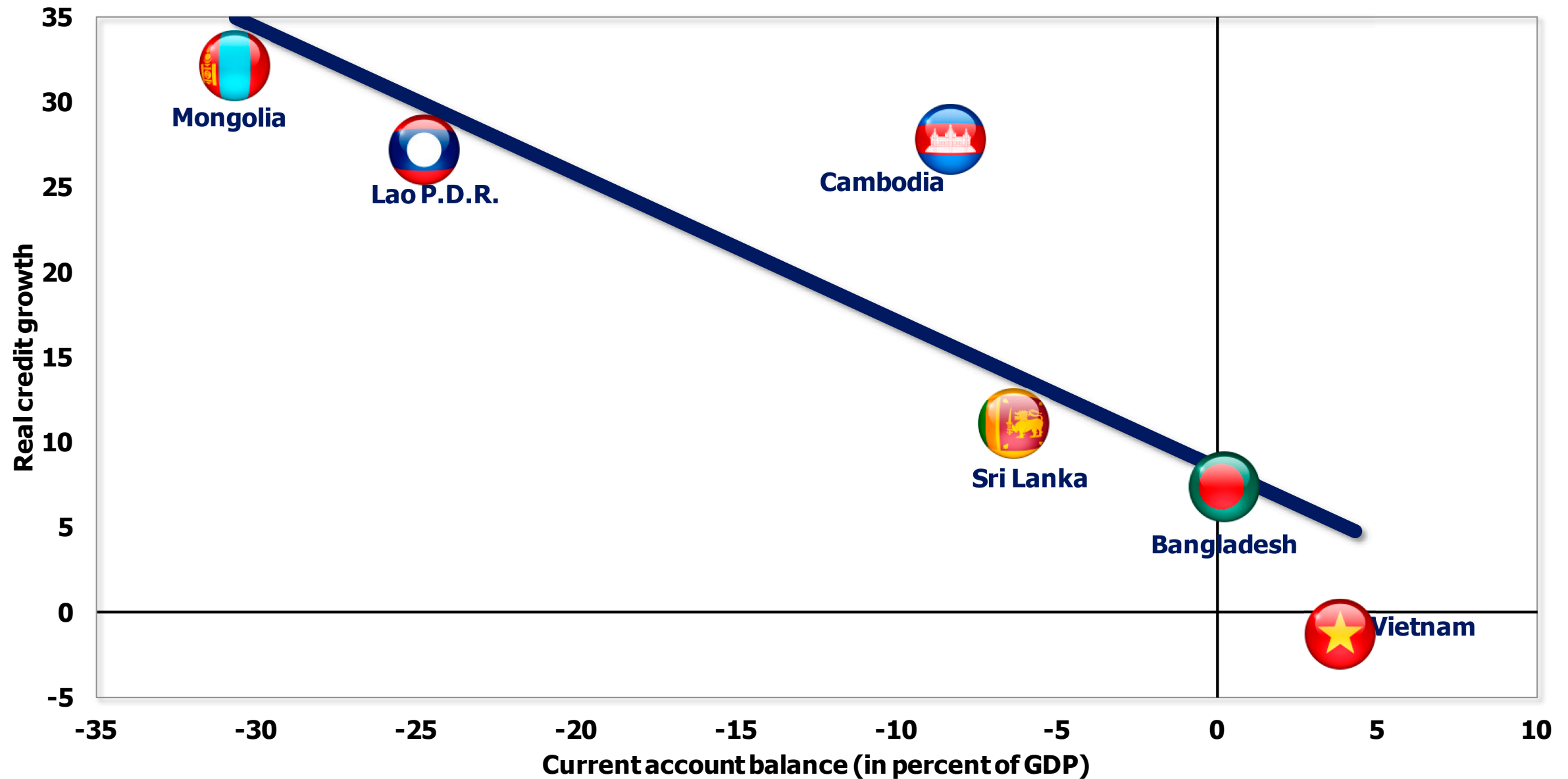
Sources: Bankscope, Bureau van Dijk, and IMF staff calculations.
¹ Median is between 2000-2012. Latest values available since 2012 are used.



Frontier and Developing Asian Economies are experiencing rapid credit growth and external imbalances.

Frontier Asia: Current Account and Real Credit Growth

(In percent, average over 2011-13)



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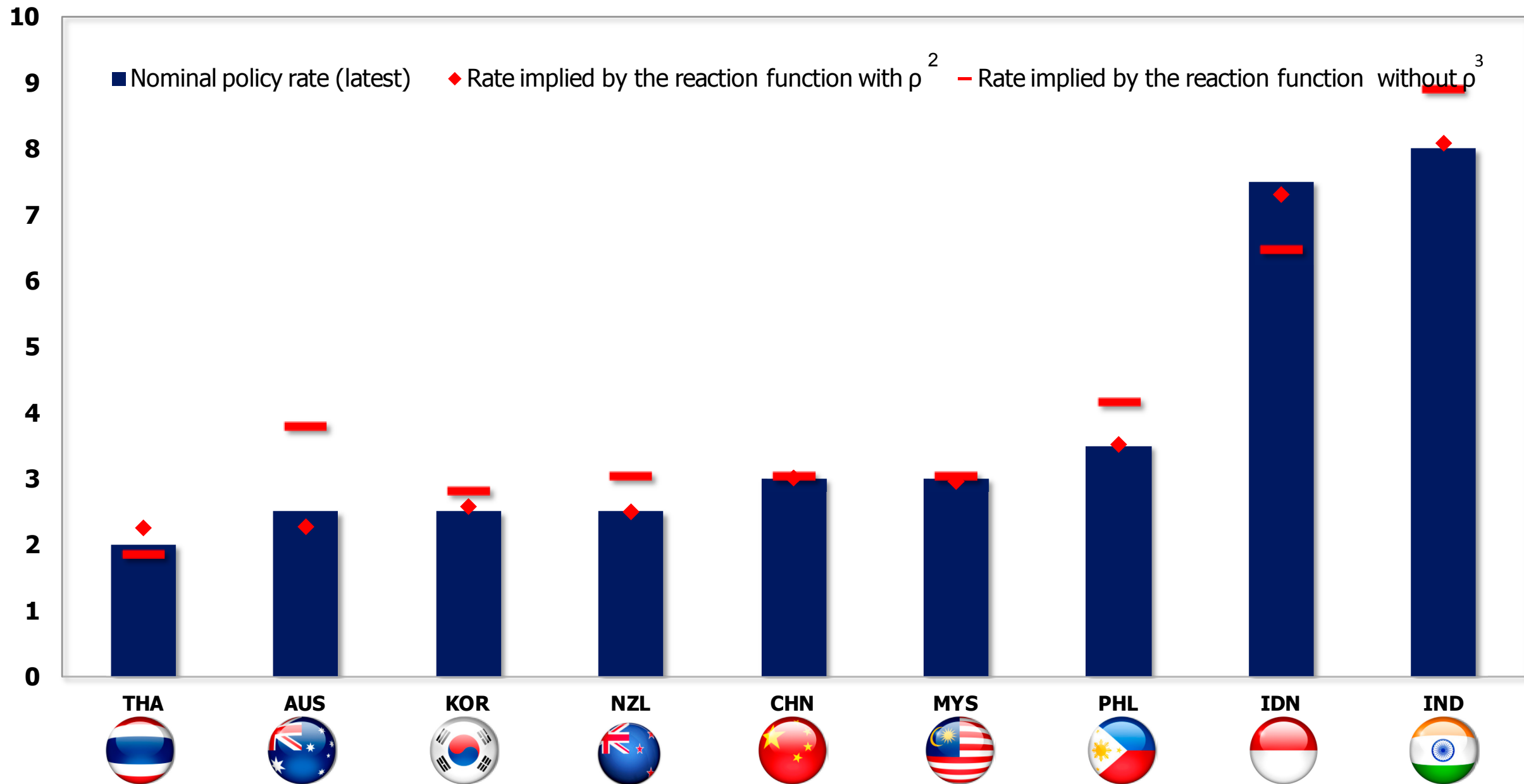
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Monetary Policy is in line with historical behavior by central banks.

Selected Asia: Estimated Central Bank Reaction Functions¹ (In percent)



Sources: Haver Analytics; and IMF staff estimates.

¹ Estimated as of March 2014 with monthly data.

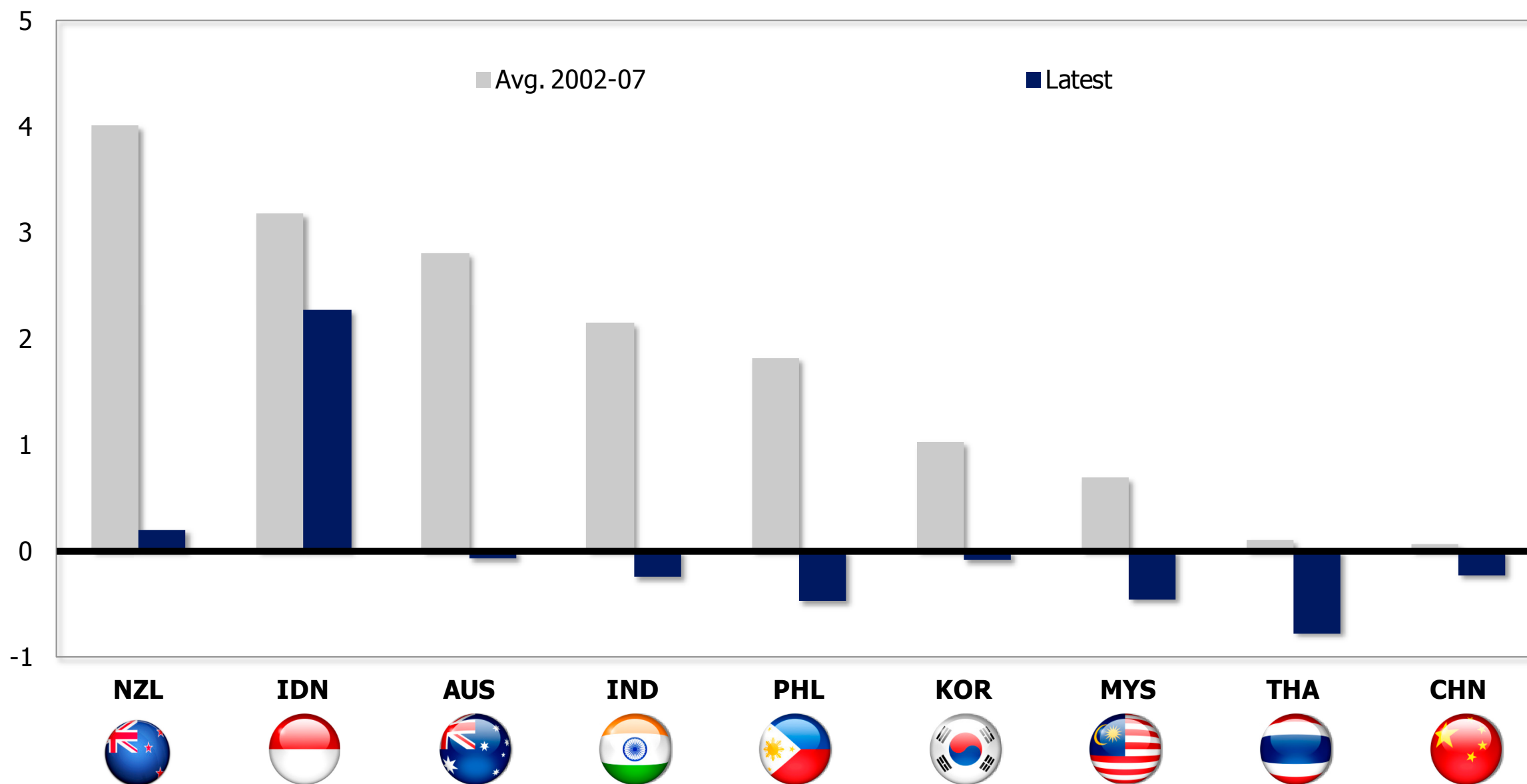
² Estimated as $i_t = \rho^* i_{t-1} + (1-\rho^*) (\alpha + \gamma_1 E_t[\pi_{t+1} - \pi^*] + \gamma_2 E_t[\text{OutputGap}_{t+1}] + \delta_1 \text{REER}_t + \delta_2 \text{US_3Myield}_t) + \varepsilon_t$

³ Estimated as $i_t = \alpha + \gamma_1 E_t[\pi_{t+1} - \pi^*] + \gamma_2 E_t[\text{OutputGap}_{t+1}] + \delta_1 \text{REER}_t + \delta_2 \text{US_3Myield}_t + \varepsilon_t$



But low real interest rates call for a gradual normalization as growth prospects continue to improve and downside risks recede.

Selected Asia: Real Policy Rates¹
(In percent)



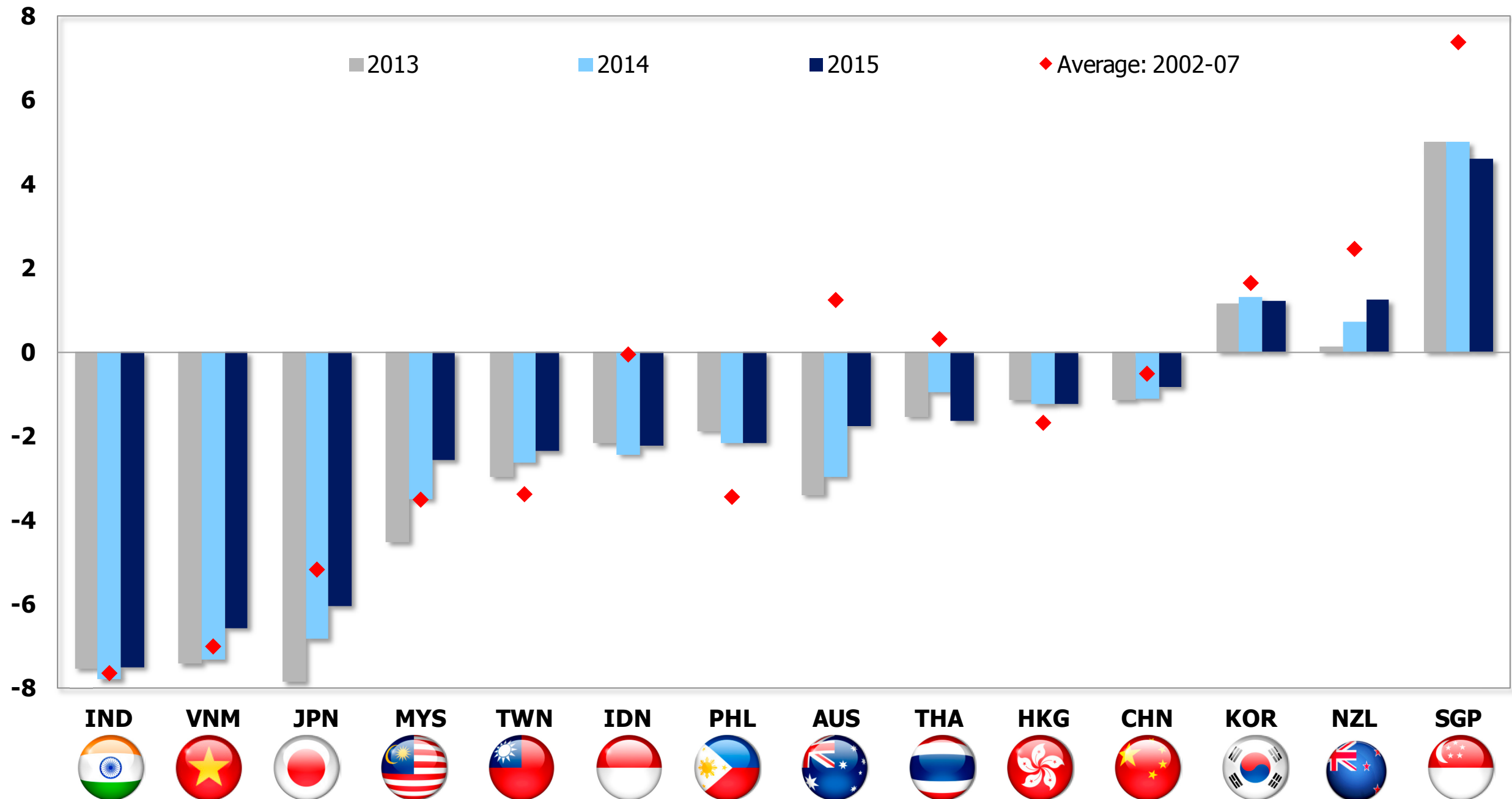
Sources: CEIC Data Co. Ltd.; Haver Analytics; and IMF staff calculations.

¹ Data as of March 2014.



Fiscal consolidation should be undertaken to create fiscal space.

Selected Asia: Cyclically Adjusted Fiscal Balance
(In percent of GDP)

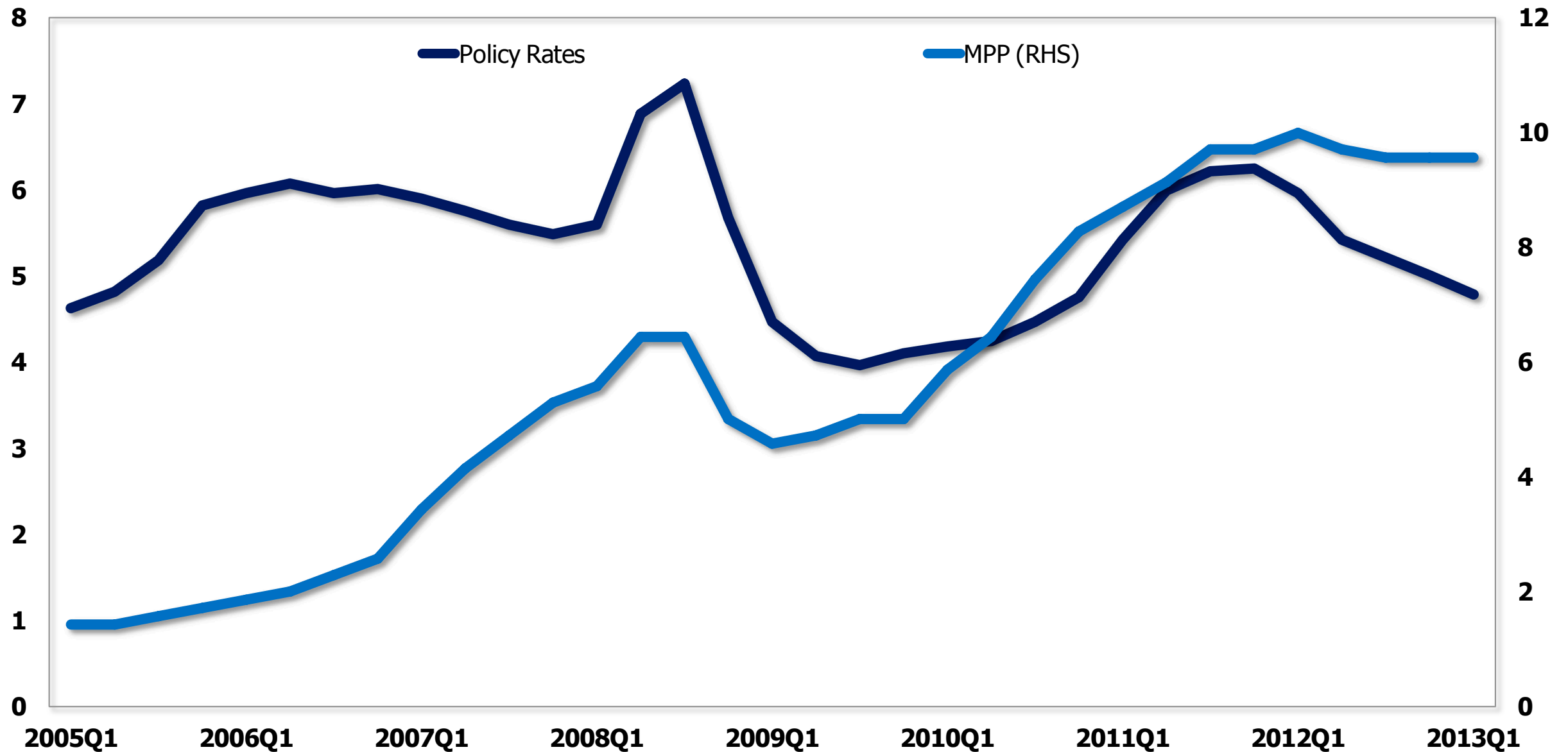


Sources: IMF, *World Economic Outlook*, and IMF staff calculations.



In emerging Asia macro-prudential measures have complemented monetary policy.

Emerging Asia: Use of Monetary Policies vs. Macroprudential Measures¹ (Policy rates - simple average in percent; index - cumulative)



Source: IMF staff estimates.

¹ Emerging economies include China, India, Indonesia, Malaysia, Philippines, Thailand, Vietnam.

Thank You

