

A person is standing on a large, curved, light-colored structure that resembles a giant's arm or a massive piece of machinery. The background is a deep blue with a textured, almost crystalline or fibrous appearance. The overall mood is one of scale and uncertainty.

# Caught in Prolonged Uncertainty

International Monetary Fund  
Regional Economic Outlook Launch

October 23, 2019



# Context

# Key Global Development and Risks

## Key development

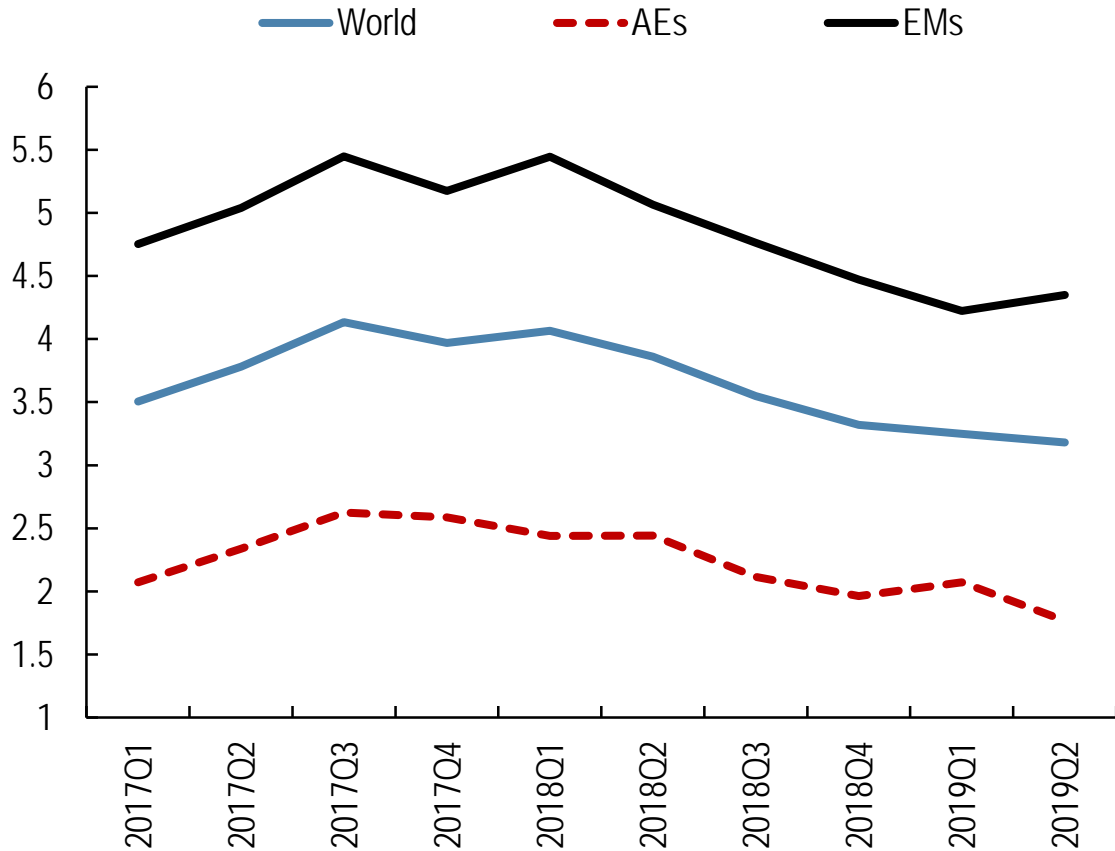
- Global growth at its slowest since financial crisis; with a synchronized slowdown
- Manufacturing downturn, rising trade barriers, services holding up
- Accommodative macro policies provide vital support to activity

## Risks are skewed to the downside

- Trade tensions could escalate, with associated elevated policy uncertainty
- Financial market sentiment could deteriorate, giving rise to a generalized risk-off episode
- Climate change could severely weaken prospects, especially in vulnerable countries
- Key emerging market economies under stress may not achieve durable normalization

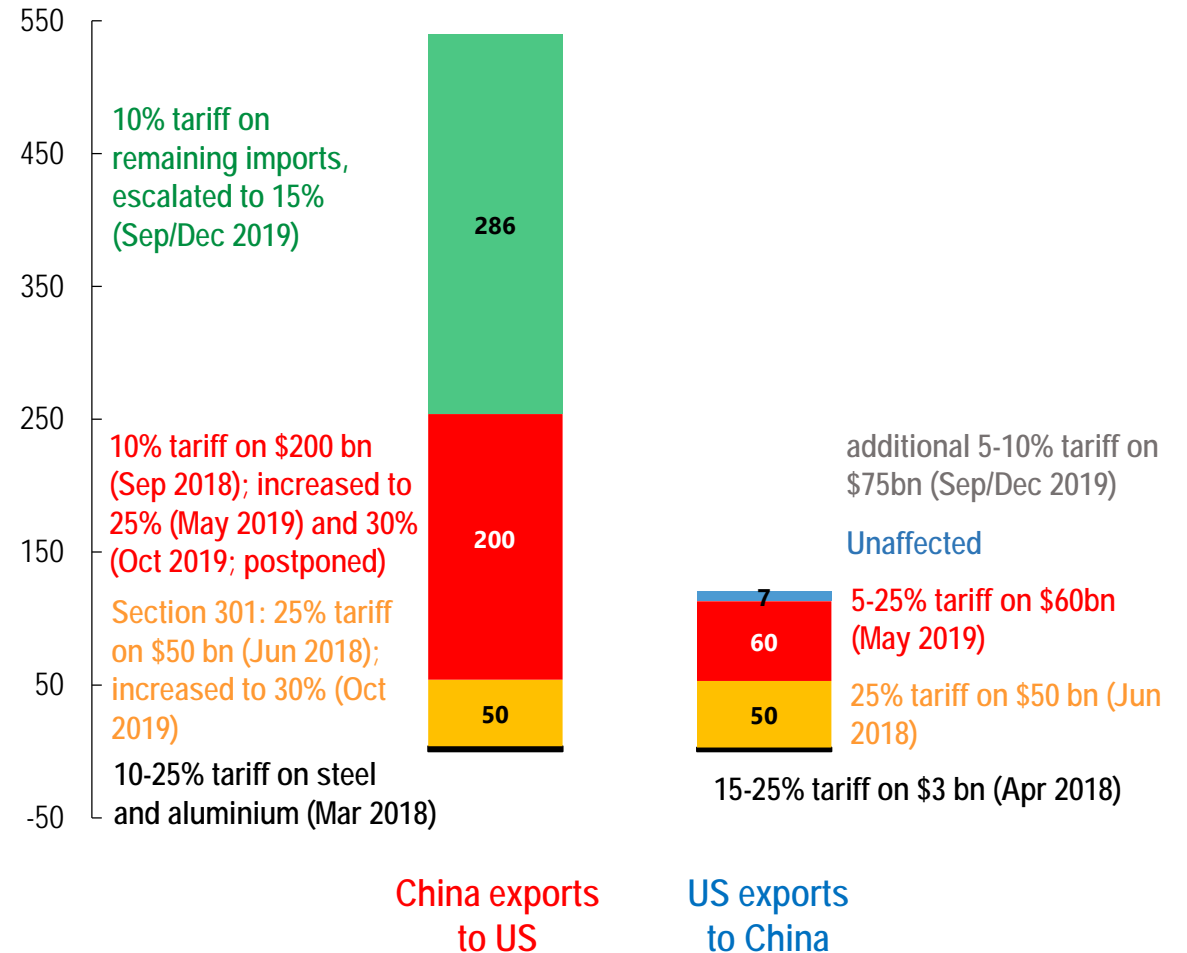
# Growth remains subdued amid trade tensions that have resulted in a period of prolonged uncertainty

**Real GDP Growth**  
(percent, yoy)



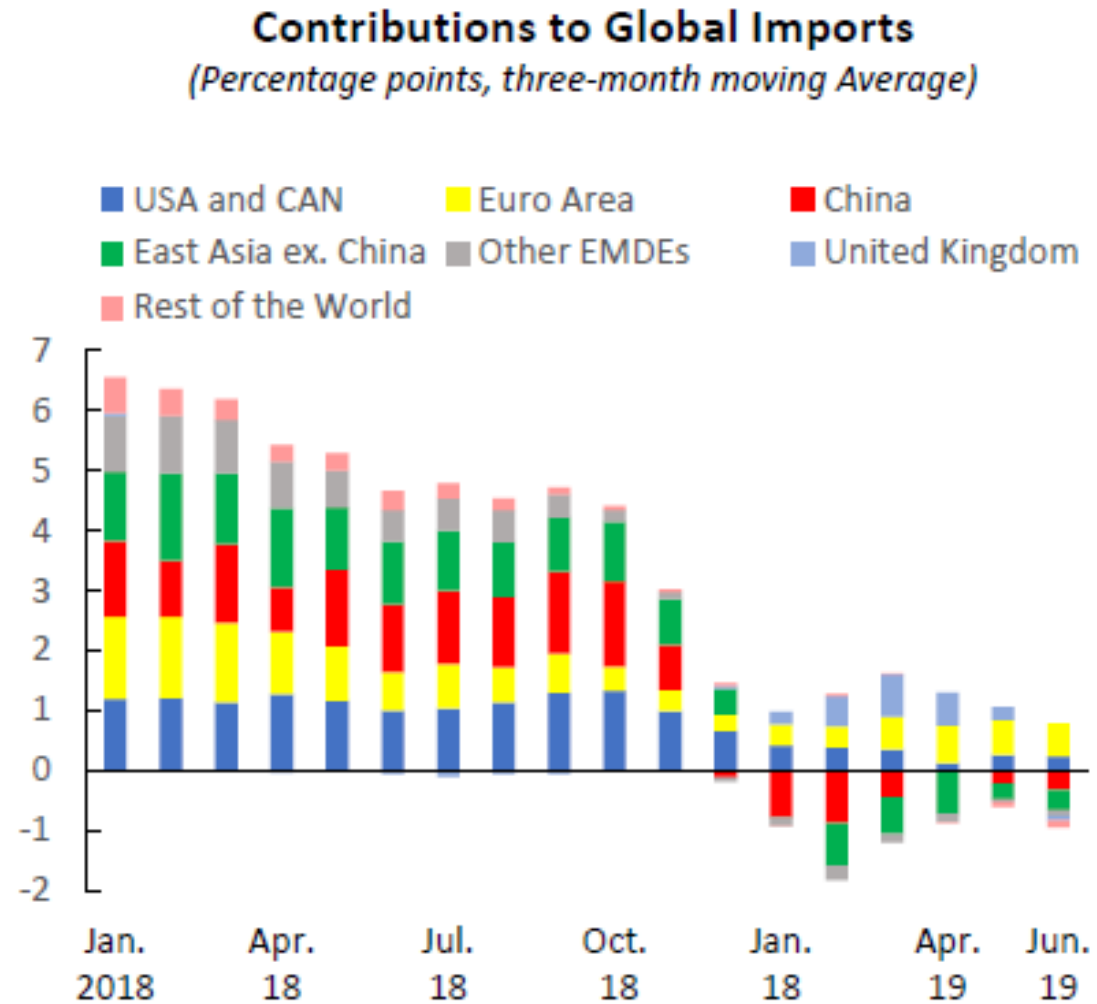
**Tariff announcements**

(Goods trade 2018, in USD billions)



Sources: IMF *World Economic Outlook* and staff calculation.

# Global trade growth: slowest pace since 2012

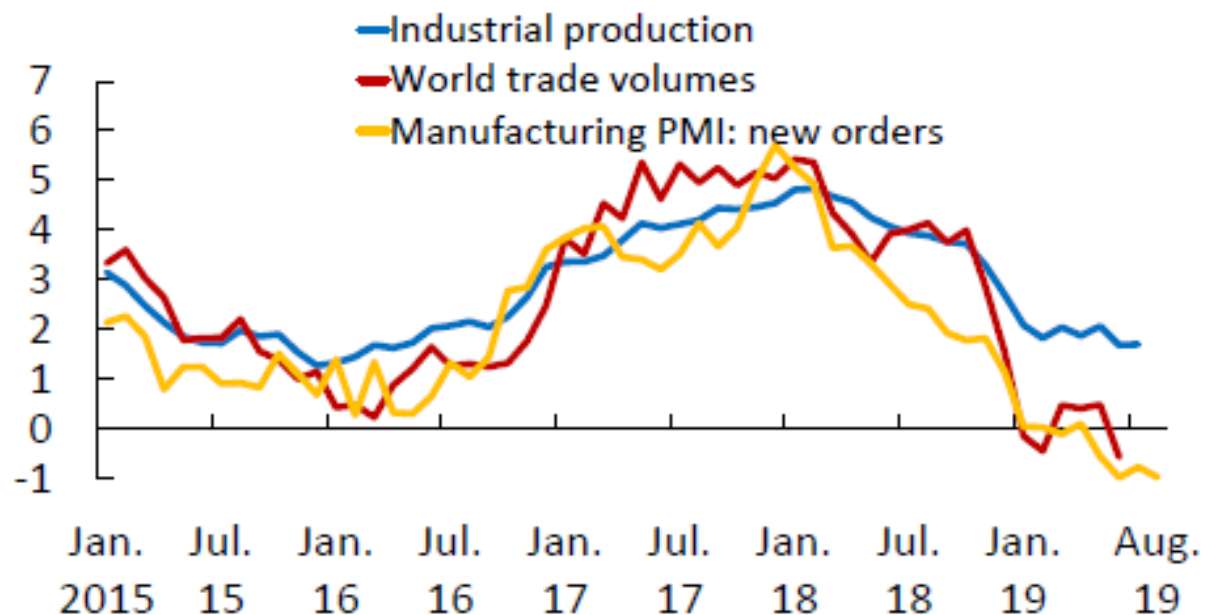


Sources: Haver Analytics; Markit Economics; and IMF Staff Calculations.  
Note: CAN = Canada, EMDEs = emerging market and developing economies .

# Broad-based slowdown in manufacturing, trade, capex, durables

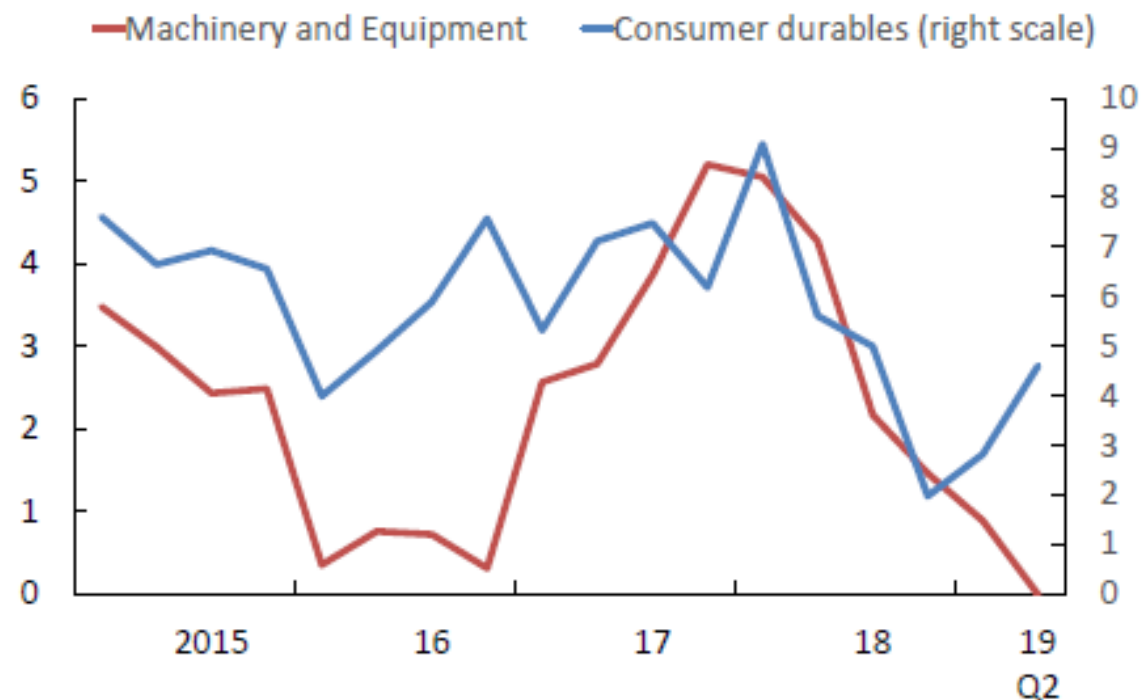
## World Trade, Industrial Production, and Manufacturing PMI

(Three-month moving average, year-over-year percent change; Deviations from 50 for Manufacturing PMI)



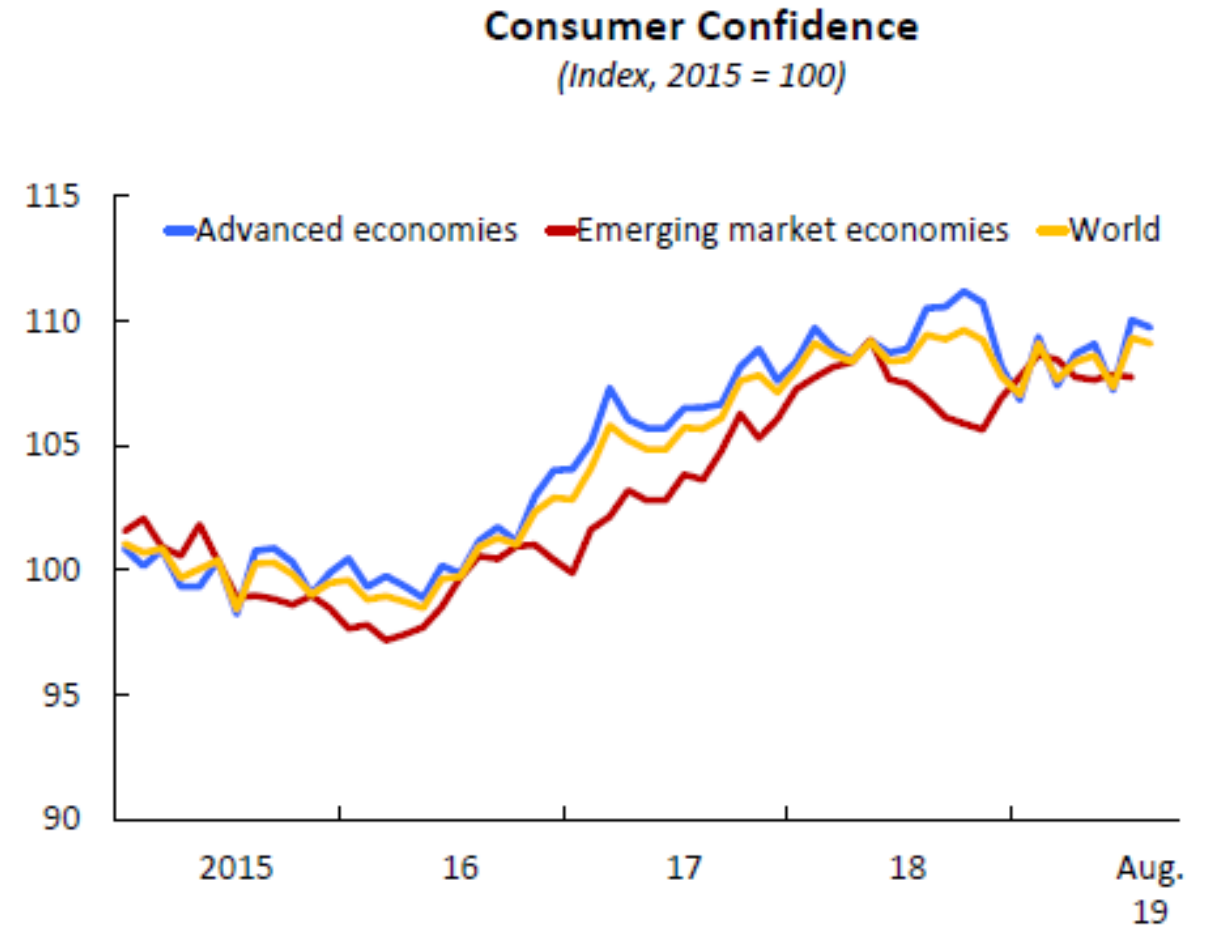
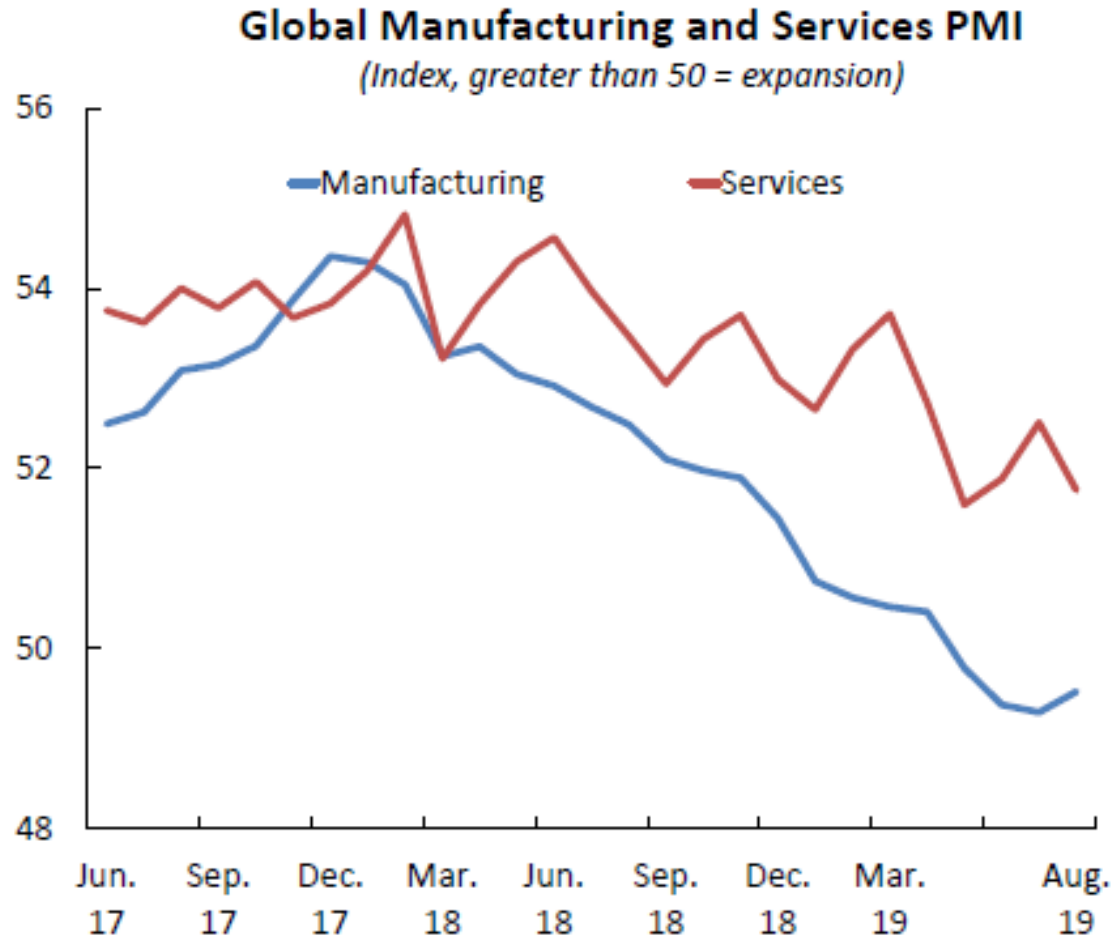
## Spending on durable goods

(Percent change from a year ago)



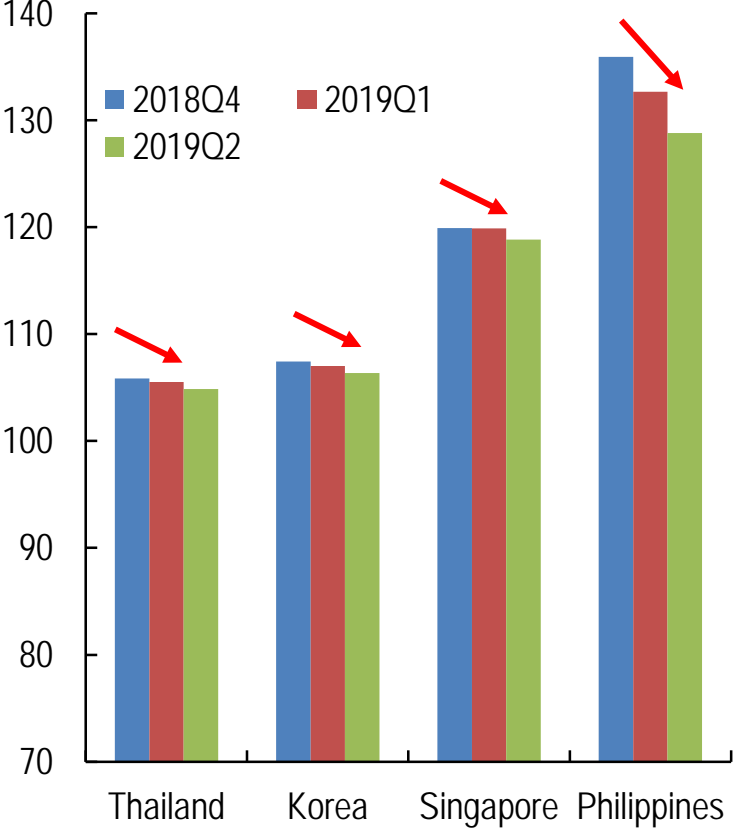


While manufacturing weakened, services activity and consumer confidence have remained resilient



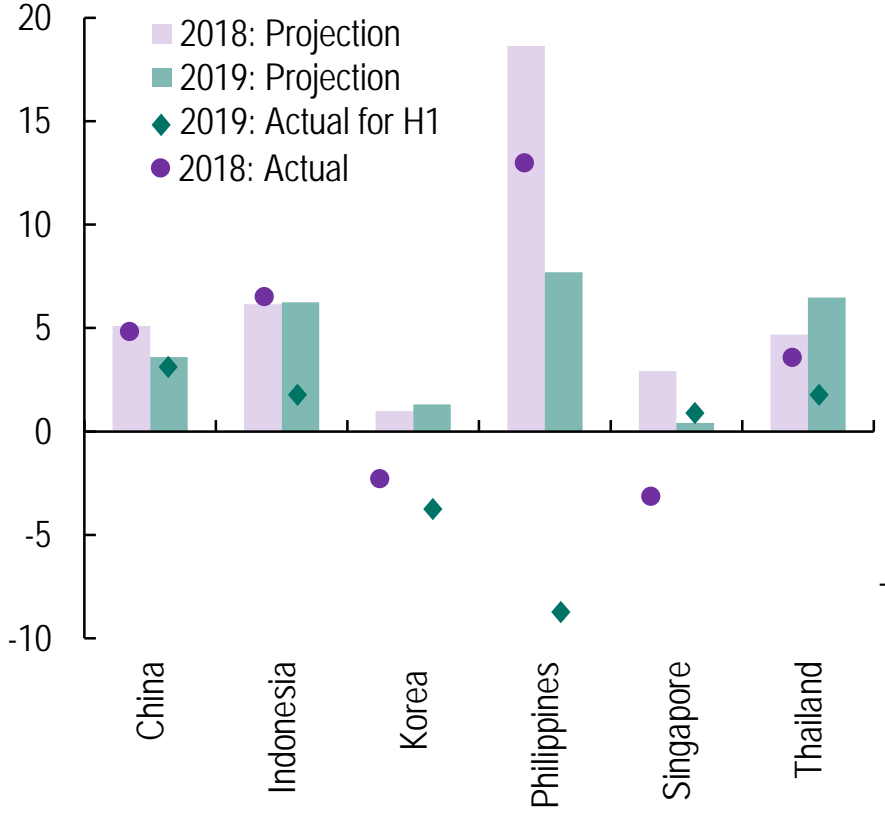
# Asia has been hit particularly hard, with a pronounced slowdown in manufacturing, investment and trade

**Industrial Production**  
(Seasonally Adjusted, 4-Quarter MA, 2015Q1=100)



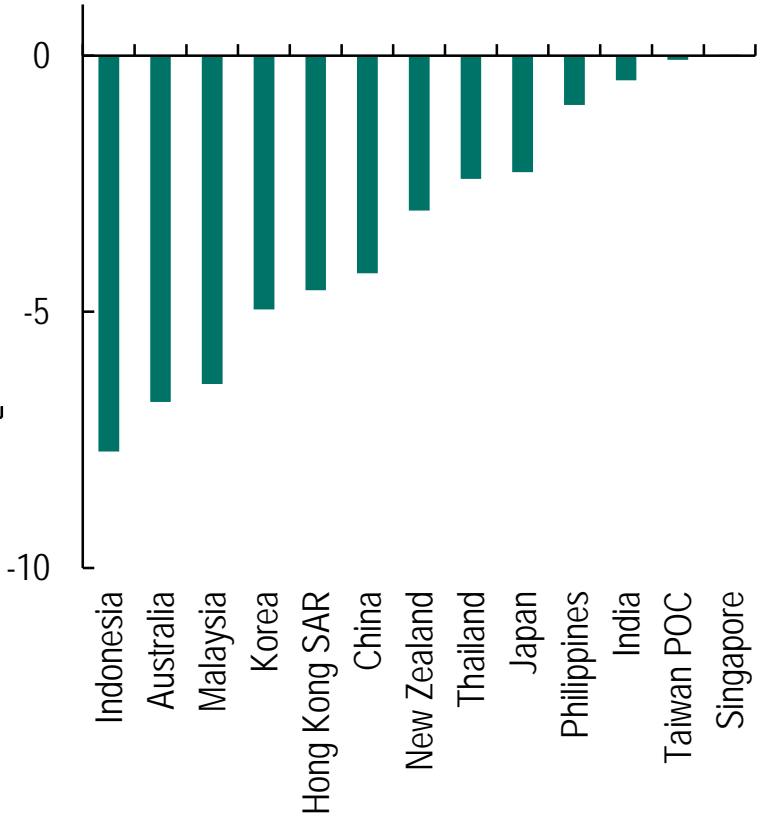
Sources: Haver Analytics.

**Real Investment**  
(Y-o-Y Percent Change)



Sources: World Economic Outlook

**Import Growth, 2019 H1**  
(In percent)












Sources: Haver Analytics and IMF staff calculations. 8















# Outlook

# Significant growth revisions among Advanced Economies

	 World	 Advanced Economies	 U.S.	 U.K.	 Japan	 Euro Area	 Germany	 Canada	 Other Advanced Asia
<b>2018</b>	3.6	2.3	2.9	1.4	0.8	1.9	1.5	1.9	2.8
<b>2019</b>	3.0	1.7	2.4	1.2	0.9	1.2	0.5	1.5	1.6
Revision from Apr. 2019	-0.3	-0.1	0.1	0.0	-0.1	-0.1	-0.3	0.0	-0.6
<b>2020</b>	3.4	1.7	2.1	1.4	0.5	1.4	1.2	1.8	2.7
Revision from Apr. 2019	-0.2	0.0	0.2	0.0	0.0	-0.1	-0.2	-0.1	-0.5

# Across the board downward revisions in growth

## Growth projections: Selected Asia (Percent change from a year earlier)

										
	World	Asia	China	Japan	India	Korea	Australia and New Zealand	ASEAN	Singapore	Thailand
2018	3.6	5.5	6.6	0.8	6.8	2.7	2.8	5.2	3.1	4.1
2019	3.0	5.0	6.1	0.9	6.1	2.0	1.8	4.6	0.5	2.9
Revision from Apr. 2019	-0.3	-0.4	-0.2	-0.1	-1.2	-0.6	-0.3	-0.4	-1.8	-0.6
2020	3.4	5.1	5.8	0.5	7.0	2.2	2.5	4.8	1.0	3.0
Revision from Apr. 2019	-0.2	-0.3	-0.3	0.0	-0.5	-0.6	-0.5	-0.3	-1.4	-0.5














Source: IMF *World Economic Outlook*.

Note: Projections based on October 2019 Vintage of WEO. Figures for India are on a fiscal year basis.

# Across the board downward revisions in growth

## Growth Projections: Selected Asia

(Percent change from a year earlier)

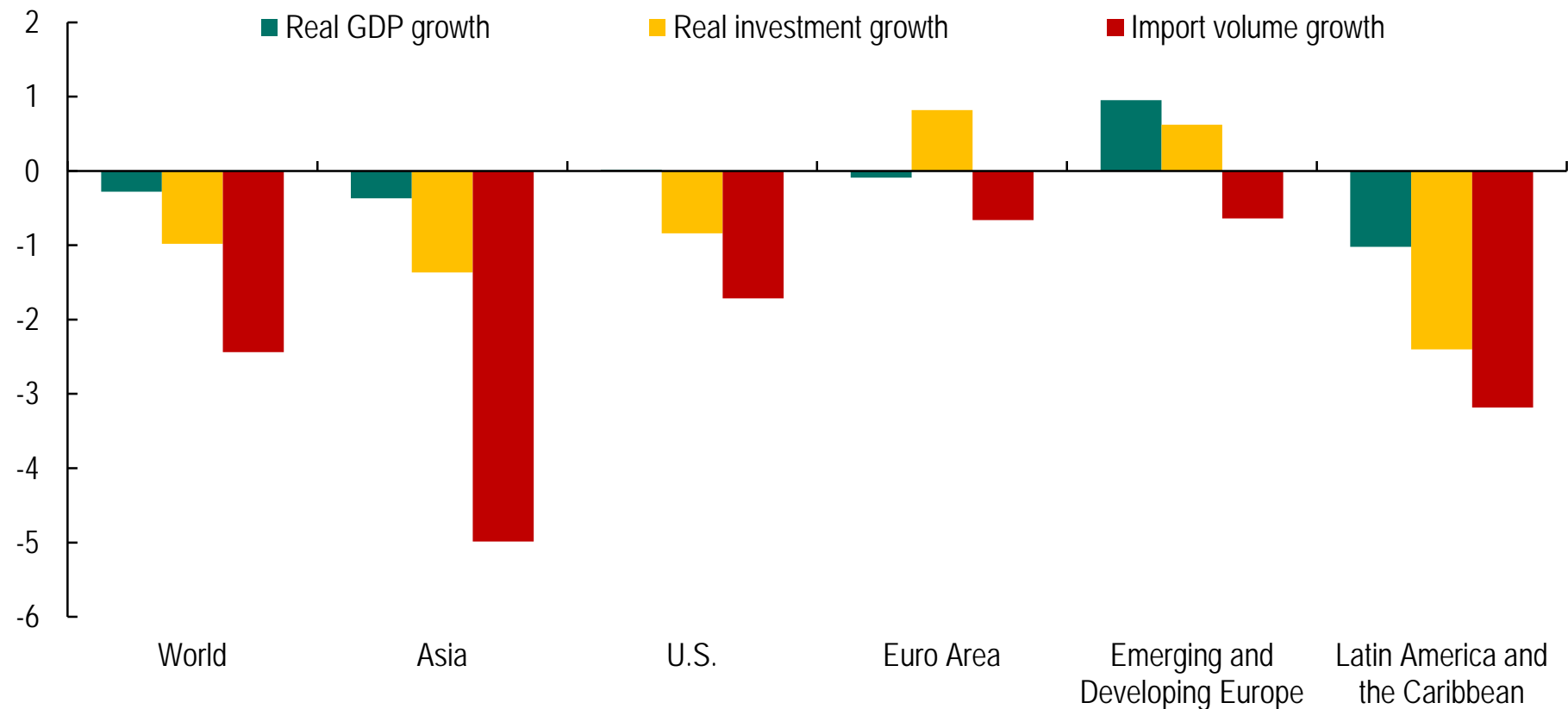
													
	Bangladesh	Bhutan	Brunei Darussalam	Cambodia	Indonesia	Lao P.D.R.	Maldives	Myanmar	Mongolia	Nepal	Philippines	Sri Lanka	Vietnam
2018	7.9	4.6	0.1	7.5	5.2	6.3	7.5	6.8	6.9	6.7	6.2	3.2	7.1
2019	7.8	5.5	1.8	7.0	5.0	6.4	6.5	6.2	6.5	7.1	5.7	2.7	6.5
Revision from Apr. 2019	0.5	0.7	-3.0	0.2	-0.2	-0.3	0.2	-0.2	0.2	0.6	-0.8	-0.8	0.0
2020	7.4	7.2	4.7	6.8	5.1	6.5	6.0	6.3	5.4	6.3	6.2	3.5	6.5
Revision from Apr. 2019	0.4	0.9	-1.9	0.1	-0.1	-0.3	0.5	-0.3	0.5	0.0	-0.4	-0.5	0.0

Sources: IMF, World Economic Outlook.

# The downward revisions in Asia are large, driven by weakness in investment and trade

## 2019 Projection Revisions

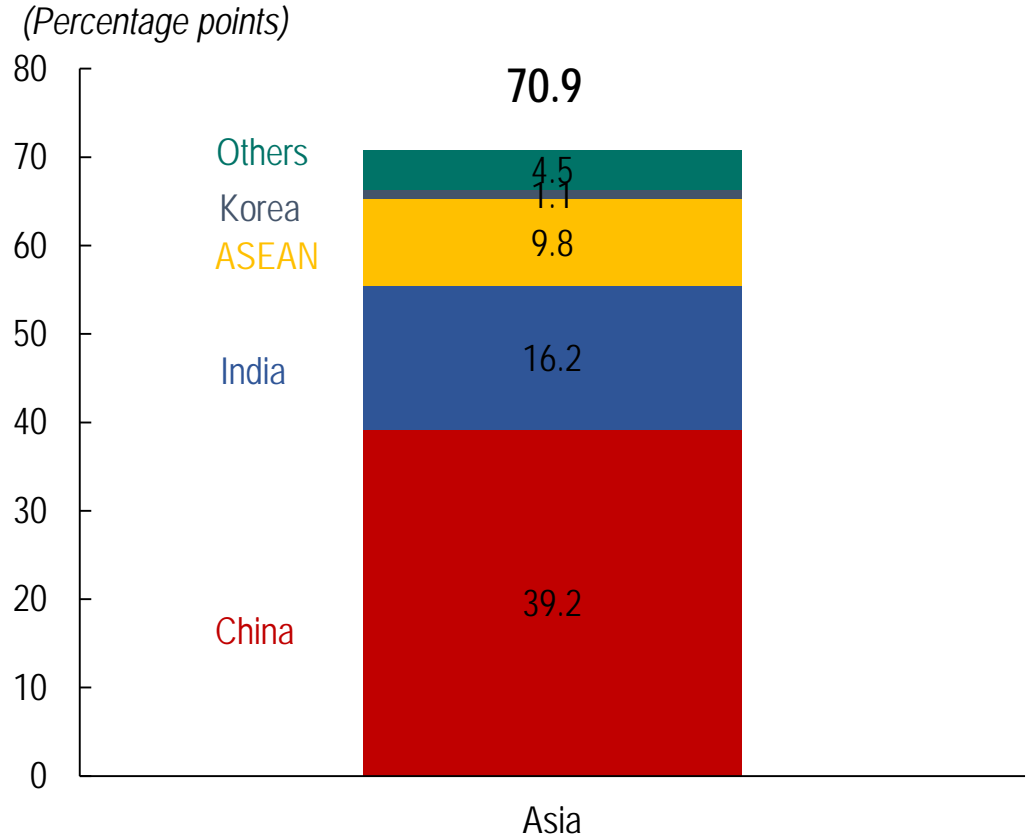
(In percent, difference between October 2019 WEO and April 2019 WEO)



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

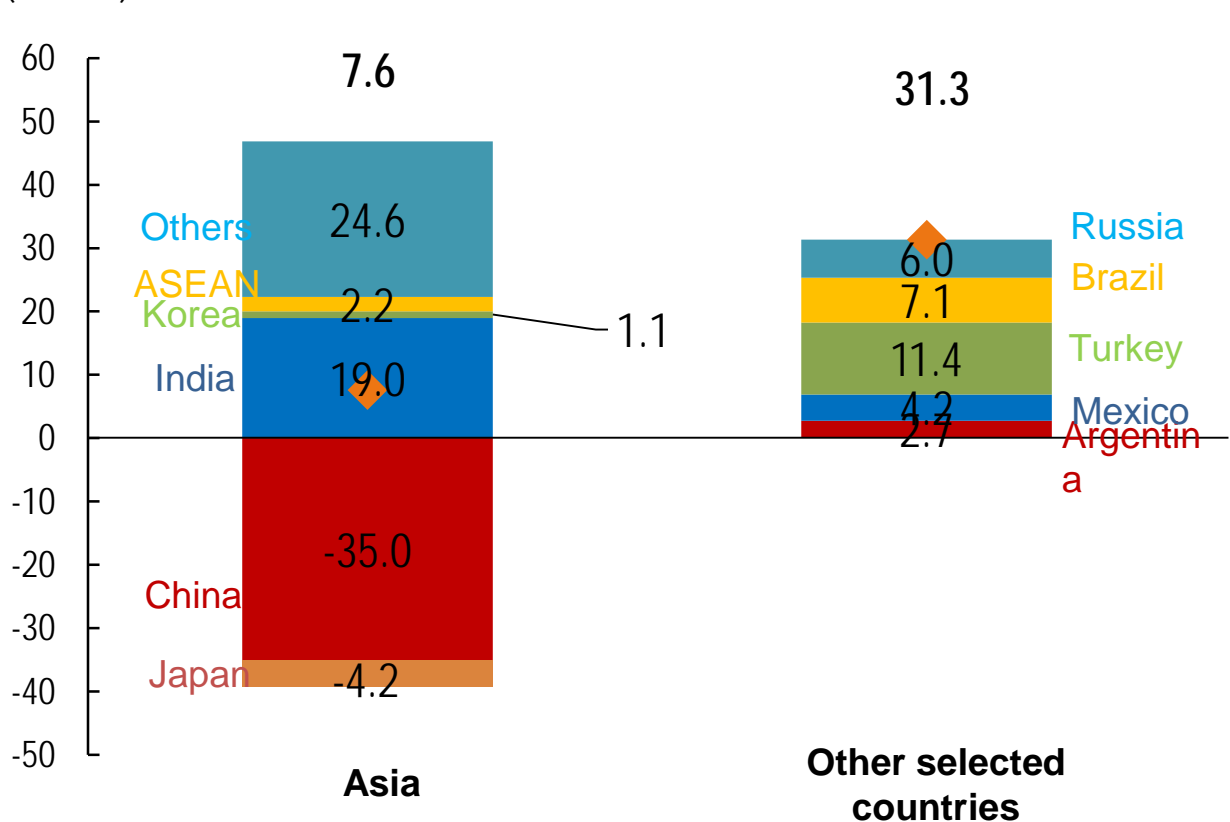
# Asia remains the fastest-growing major region, but the projected pickup in global growth in 2020 is largely due to other regions

Contribution to Global Growth by Region, 2019  
(Percentage points)



Source: IMF, *World Economic Outlook* and IMF staff estimates.  
Note: Regional categories based on IMF classification, ASEAN: Association of Southeast Asian Nations.

Contribution to Change in Global Growth, 2019-2020  
(Percent)



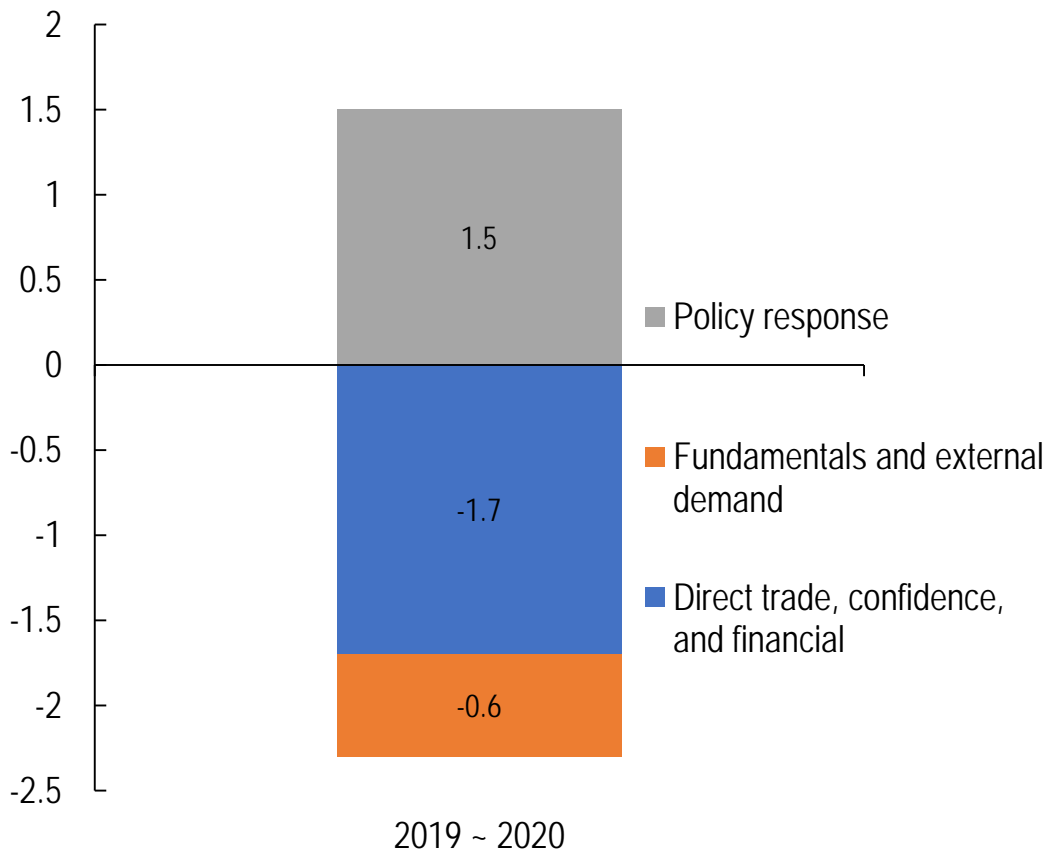
Source: IMF, *World Economic Outlook* and IMF staff estimates.  
Note: Regional categories based on IMF classification, ASEAN: Association of Southeast Asian Nations.



# China: Prolonged trade tensions and tighter domestic financial conditions have dampened near term growth outlook

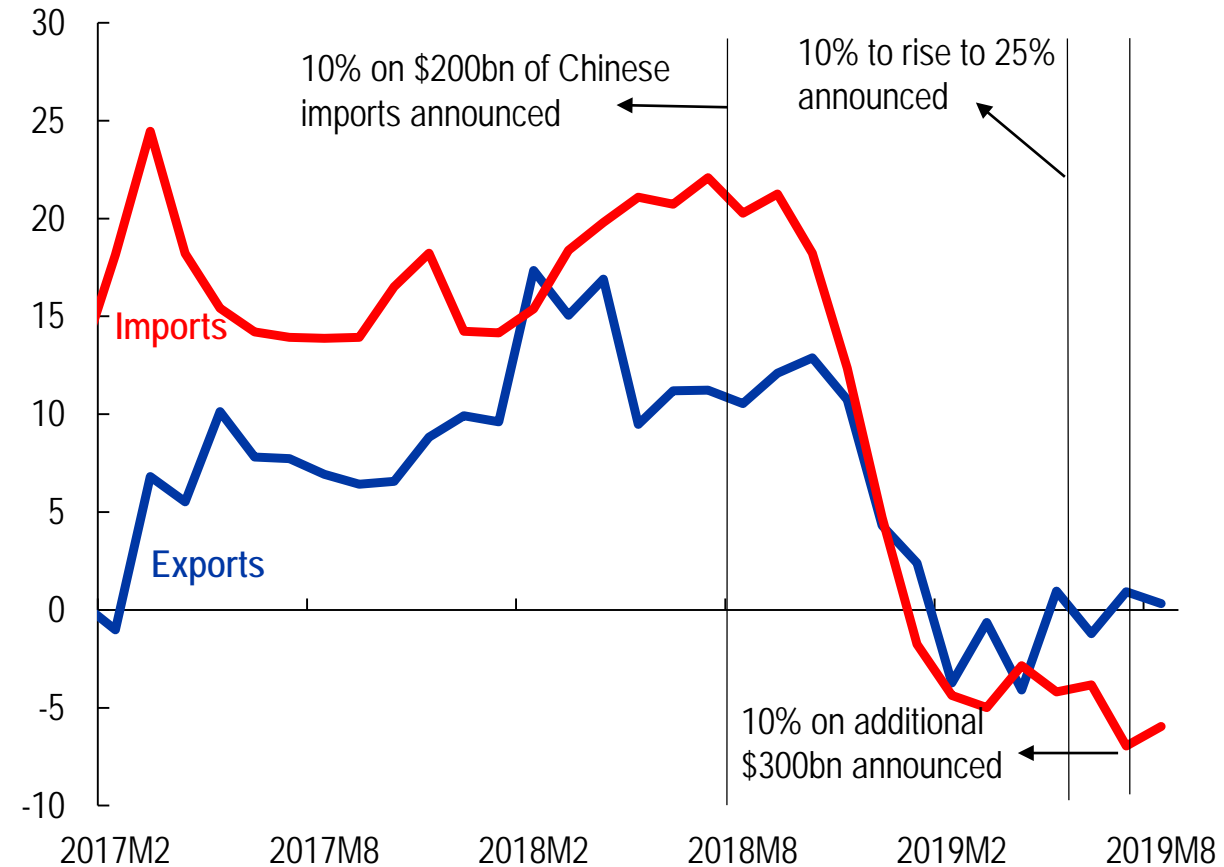
China's 2019-2020 Growth, Decomposition of Revisions relative to July 2018 WEO Vintage

(Percentage points)



Exports, and especially imports, weakened...

(In percent, USD, goods, yoy, 3mma)

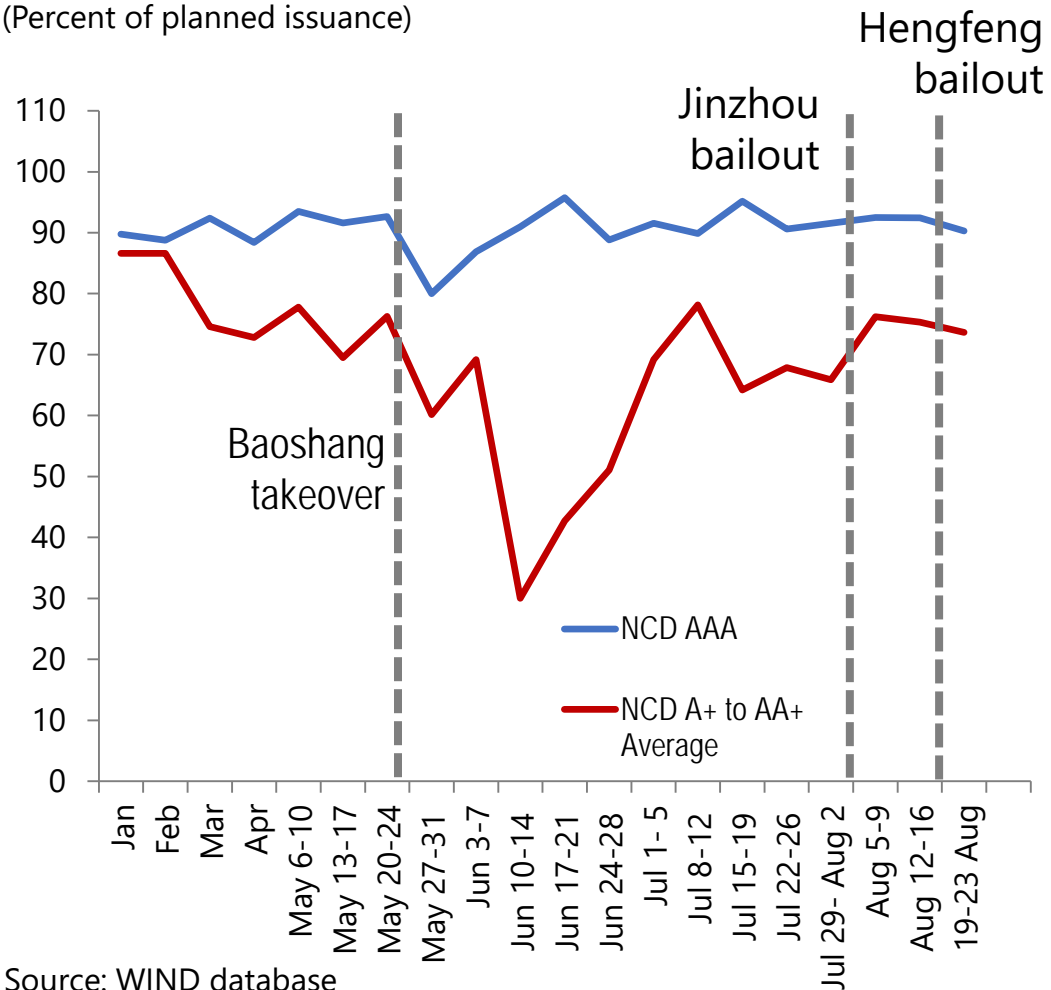


Source: Haver Analytics.

# China: Additional risks in the banking sector

## NCD Issuance, 2019

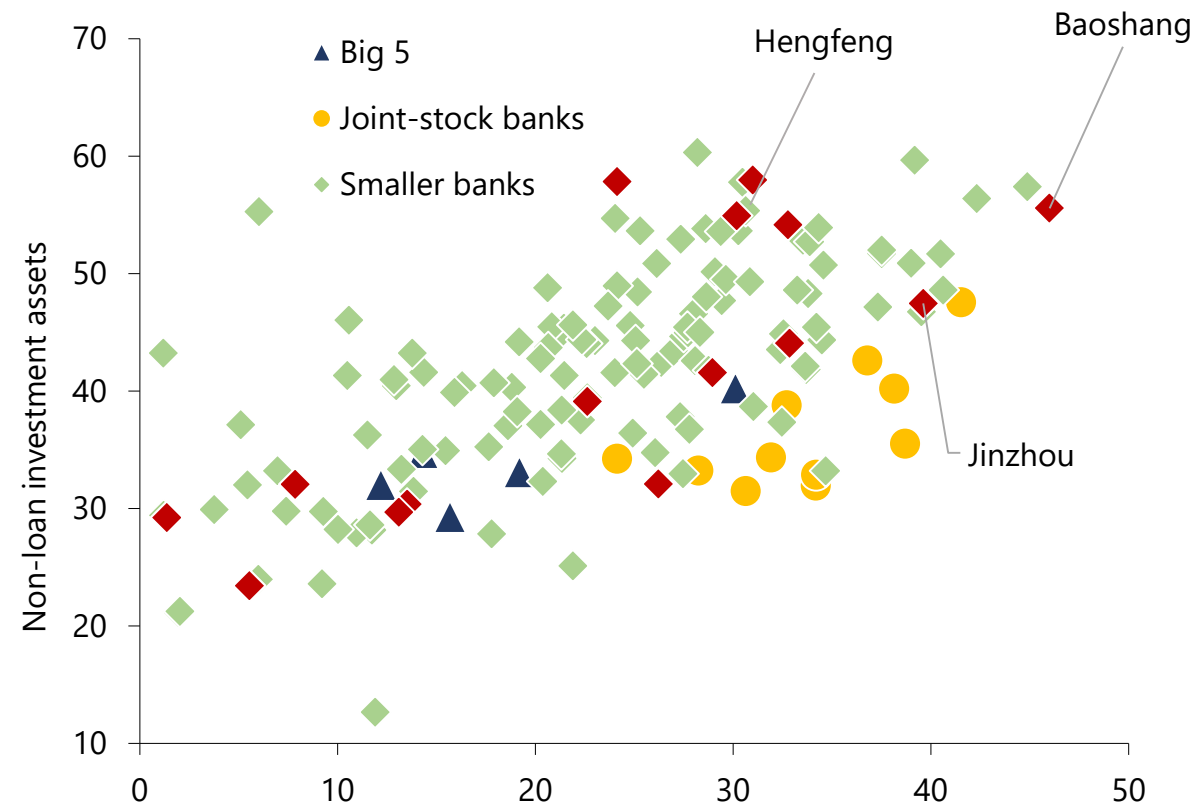
(Percent of planned issuance)



Source: WIND database

## Bank Balance Sheet Characteristics, 2018

(Percent of assets)

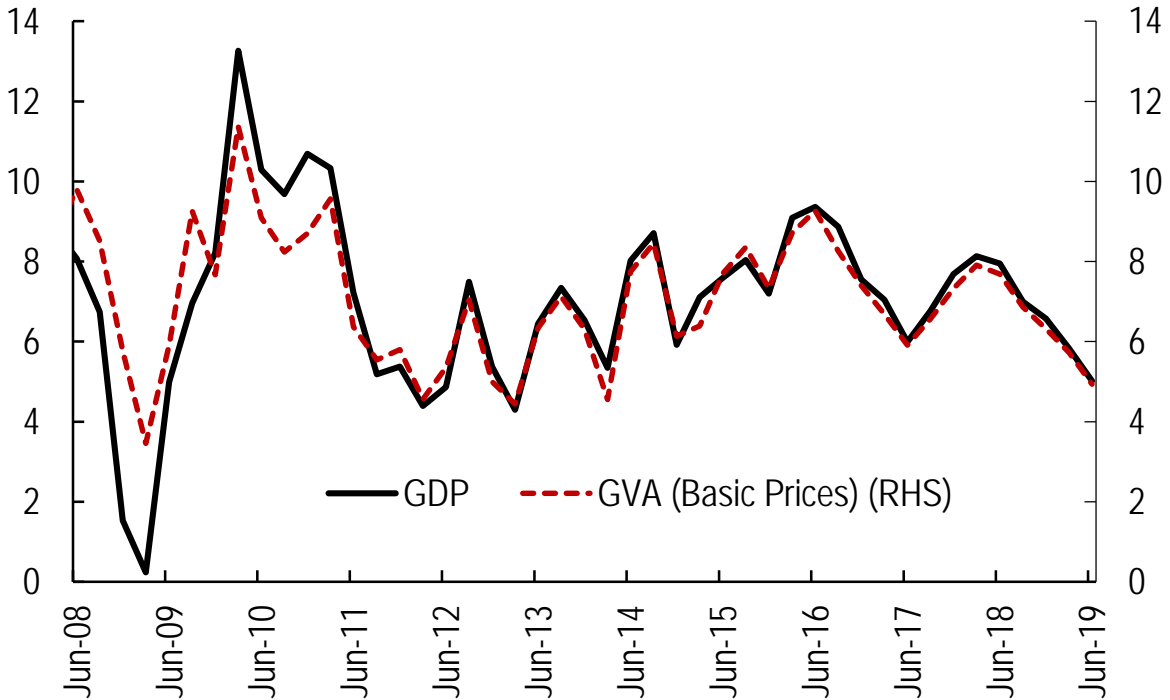


Note: Red dots are for banks with a delay in the publication of their annual report.

Source: S&P Market Intelligence; and IMF staff estimates

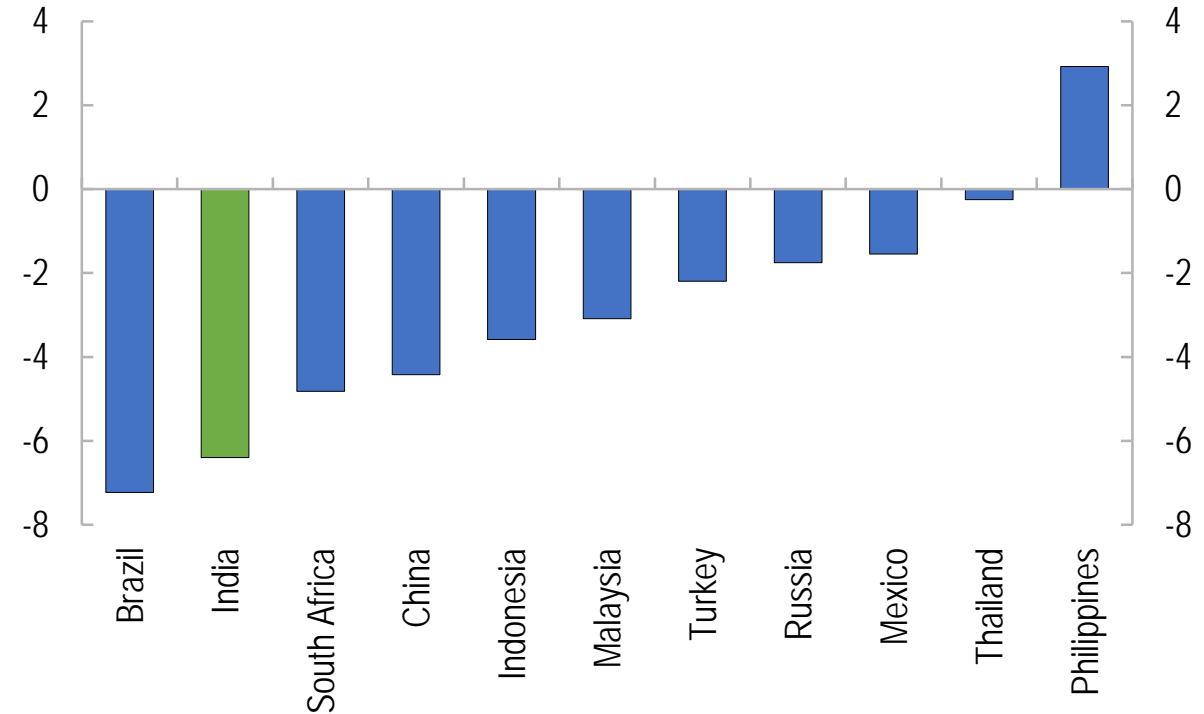
**India:** With activity slowing and limited fiscal space, structural reforms, along with continued monetary accommodation, are needed.

**India: Real GDP Growth**  
(In percent, Year-on-Year)



Sources: CEIC, and IMF staff calculations.

**General government fiscal balance, 2018**  
(In percent of GDP)

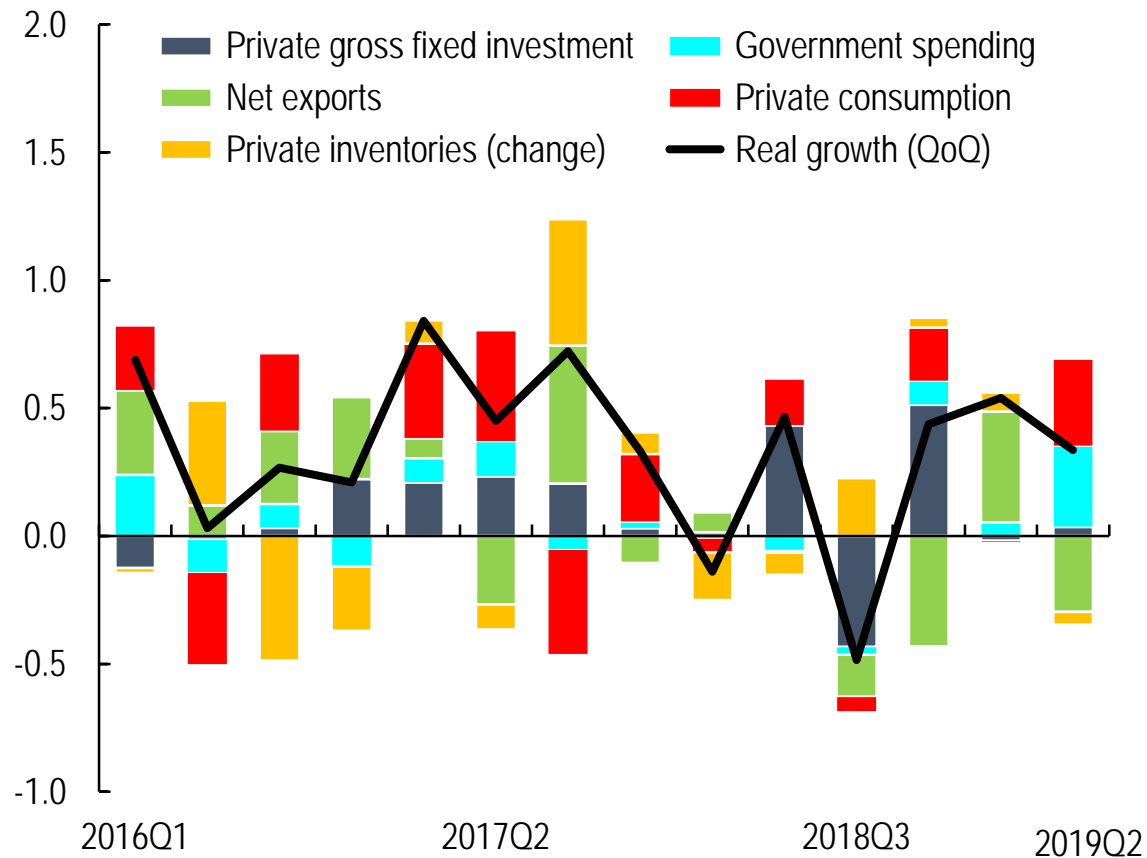


Source: IMF, *World Economic Outlook*.

# Japan: Strong domestic demand supports economic growth; yen appreciates at times of global uncertainty

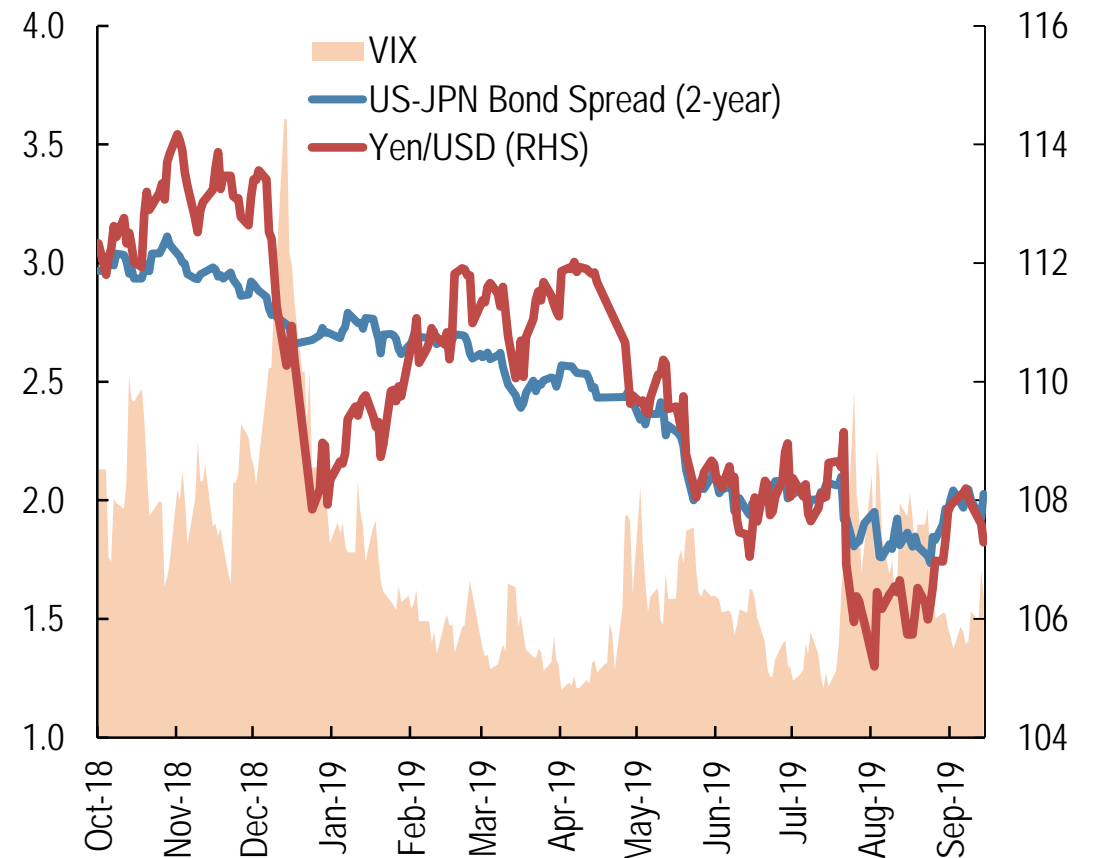
## Japan: Contributions to Real GDP

(In percent QoQ, SA)



Source: Haver Analytics.

## Yen Appreciation, Uncertainty and US-JPN Interest Rate Spread

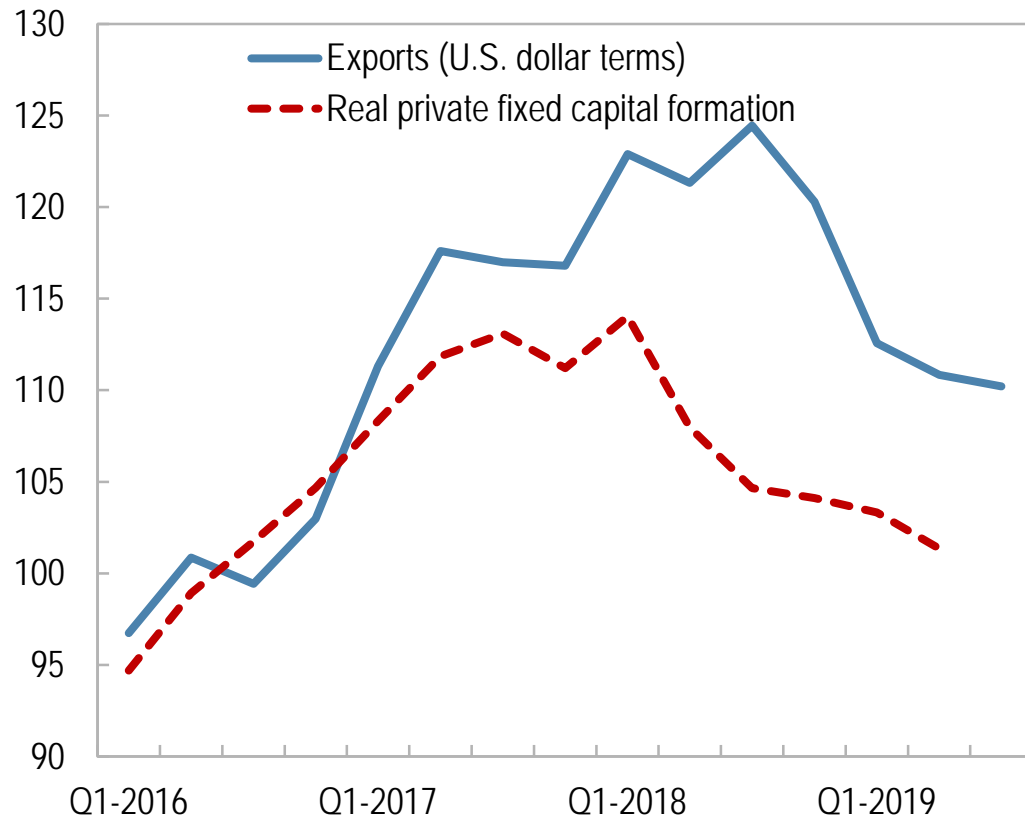


Source: Haver Analytics.

# Korea: Despite modest policy easing, the output gap has widened and inflation remains well below target

## Exports and private investment remain sluggish

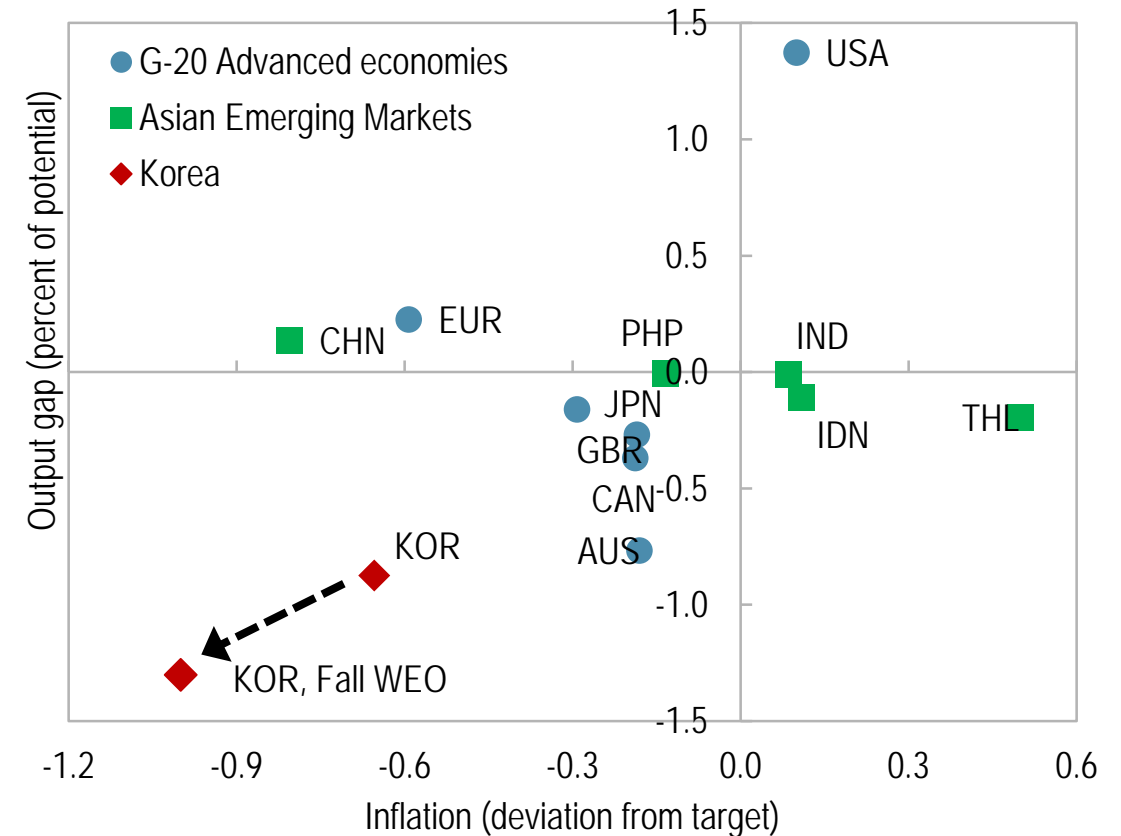
(Index, 2016 = 100)



Sources: Haver Analytics; National sources; and IMF staff calculations.

## Korea's economy is moving further from internal balance

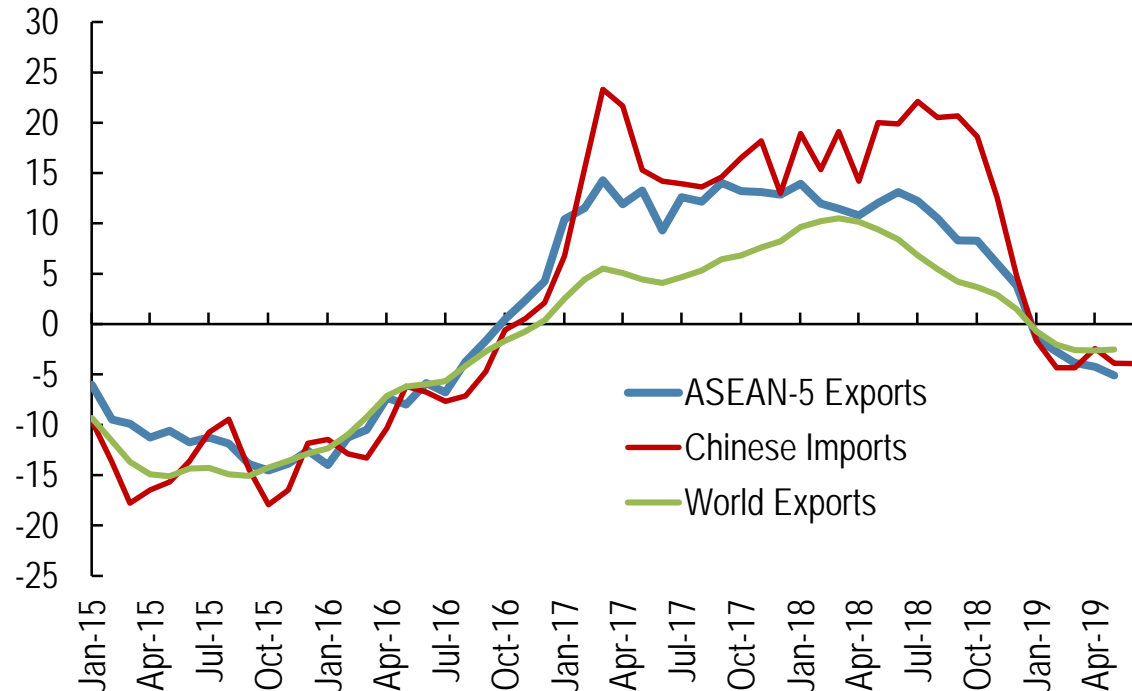
(Spring WEO projection for 2019)



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

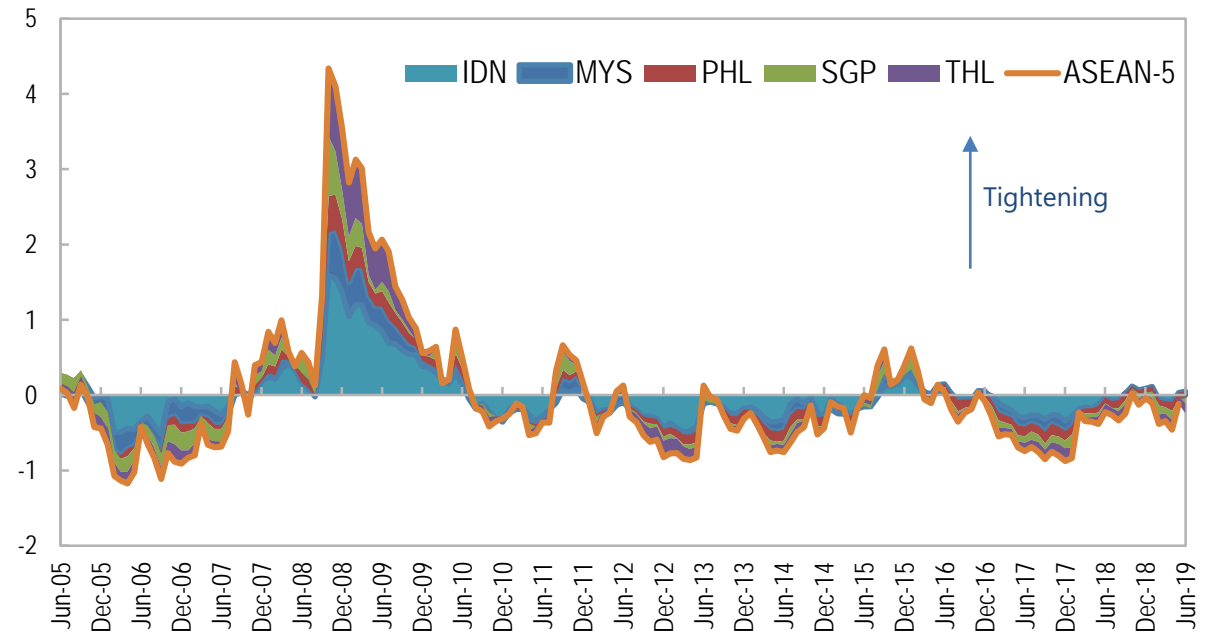
# ASEAN-5: Growth is moderating reflecting slowdown in external demand, though financial conditions remain accommodative

**Trade Performance**  
(Percent, y/y, 3mma)



Source: CEIC, CPB World Trade Monitor

**ASEAN-5 Financial Conditions Index**  
(Standard deviations & pp contribution)



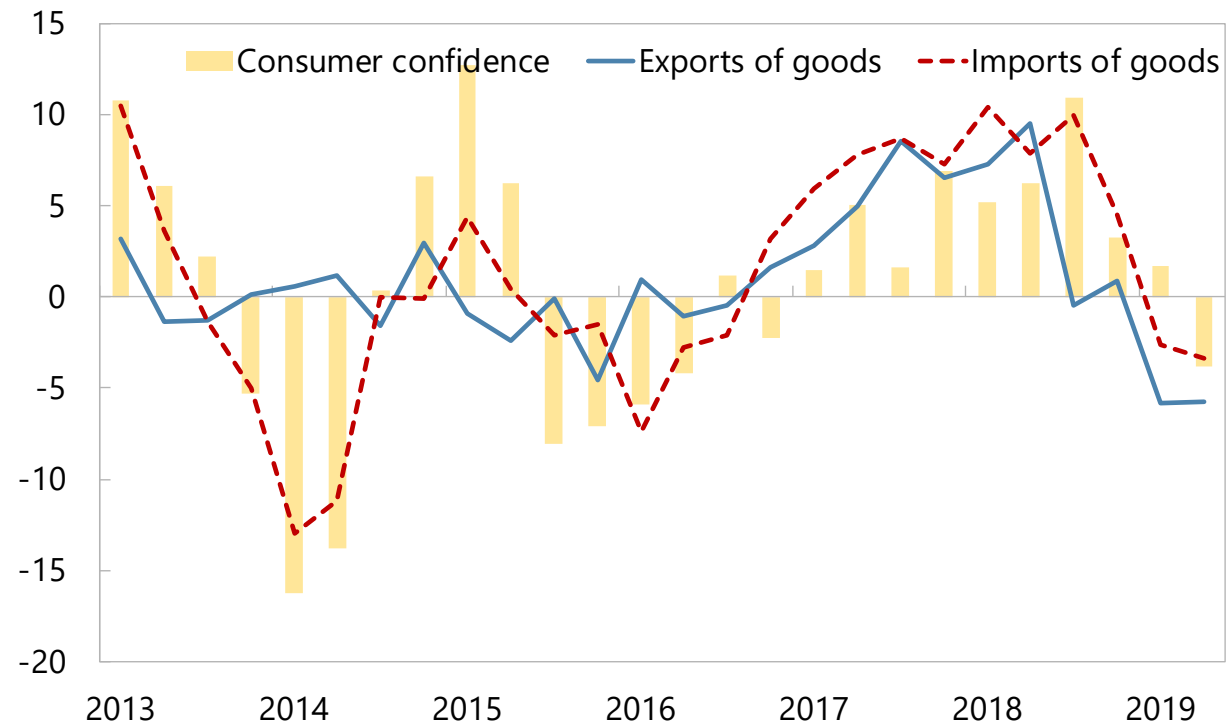
Source: Bloomberg, CEIC, Haver



# Thailand: Growth remains subdued amid a cyclical downturn and persistent macro imbalances

## Consumer Confidence, and Exports and Imports of Goods

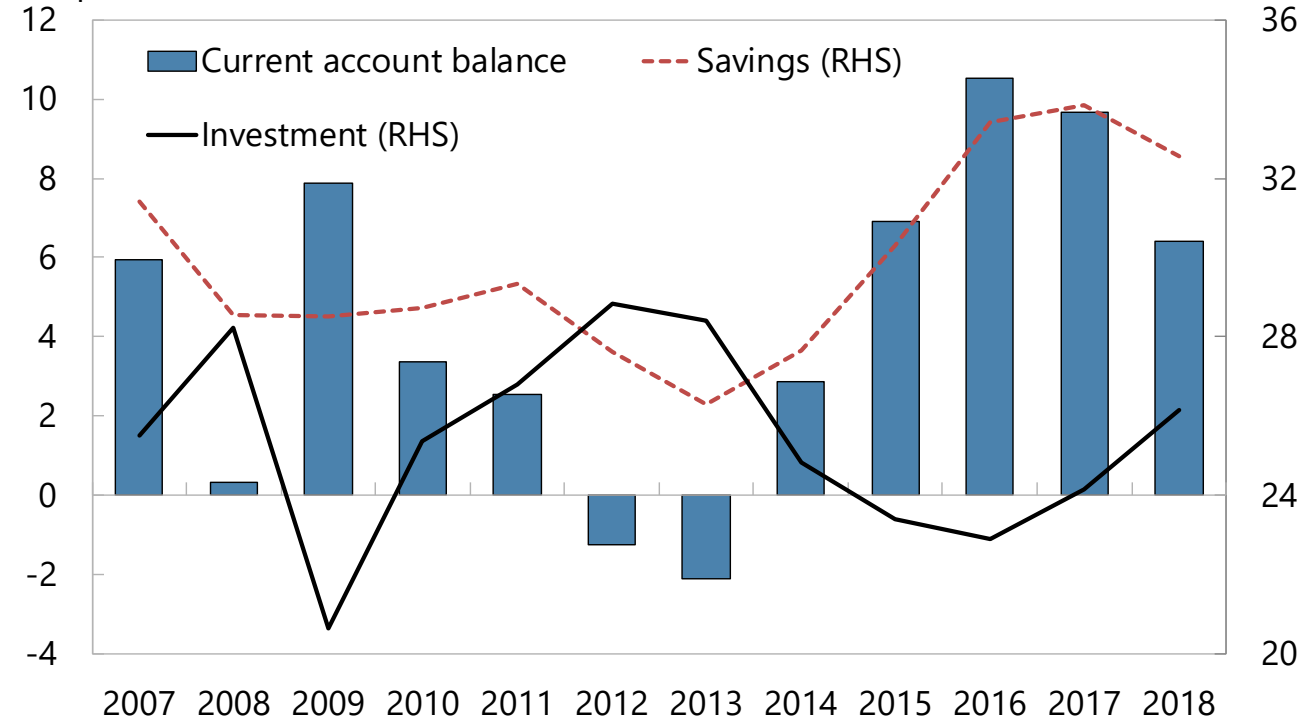
(Percentage, year-on-year change)



Sources: Haver Analytics and IMF staff calculations.

## Thailand: Current Account Balance, Savings and Investment

(In percent of GDP)

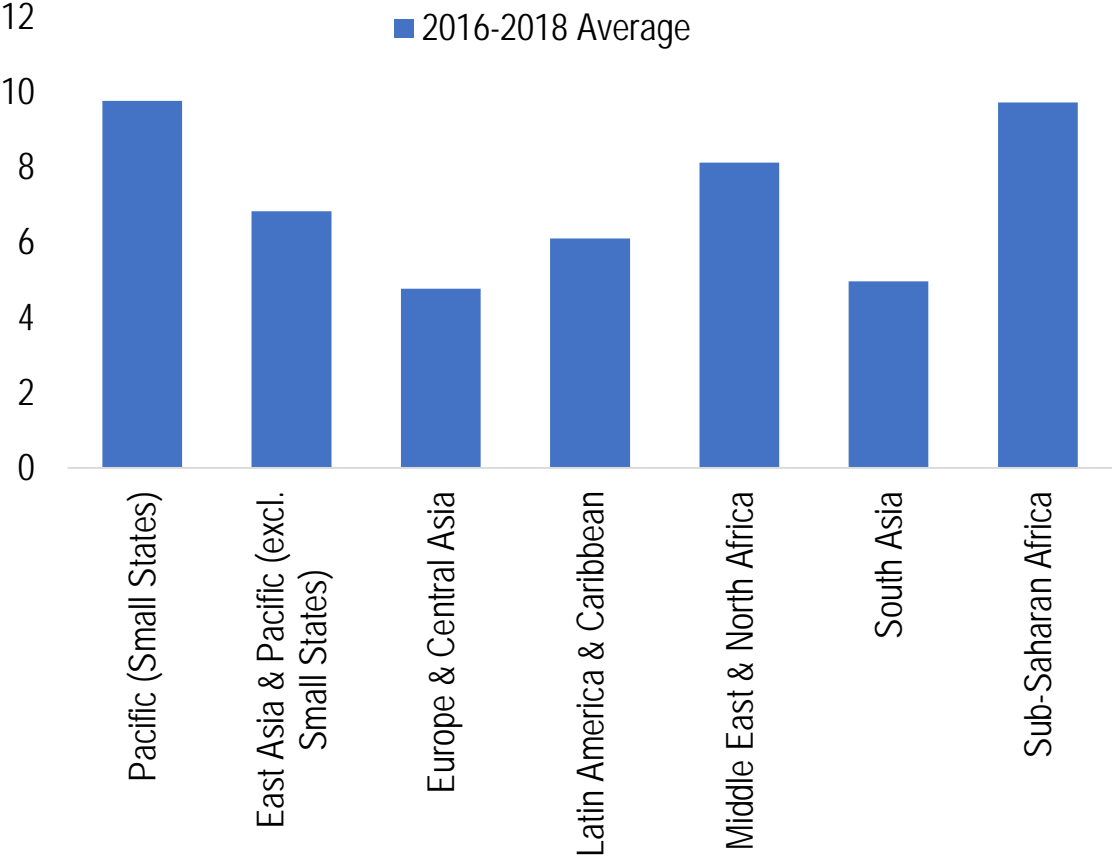


Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

# Remittances and Correspondent Banking Issues

## Cost of Remittance by Destination Region

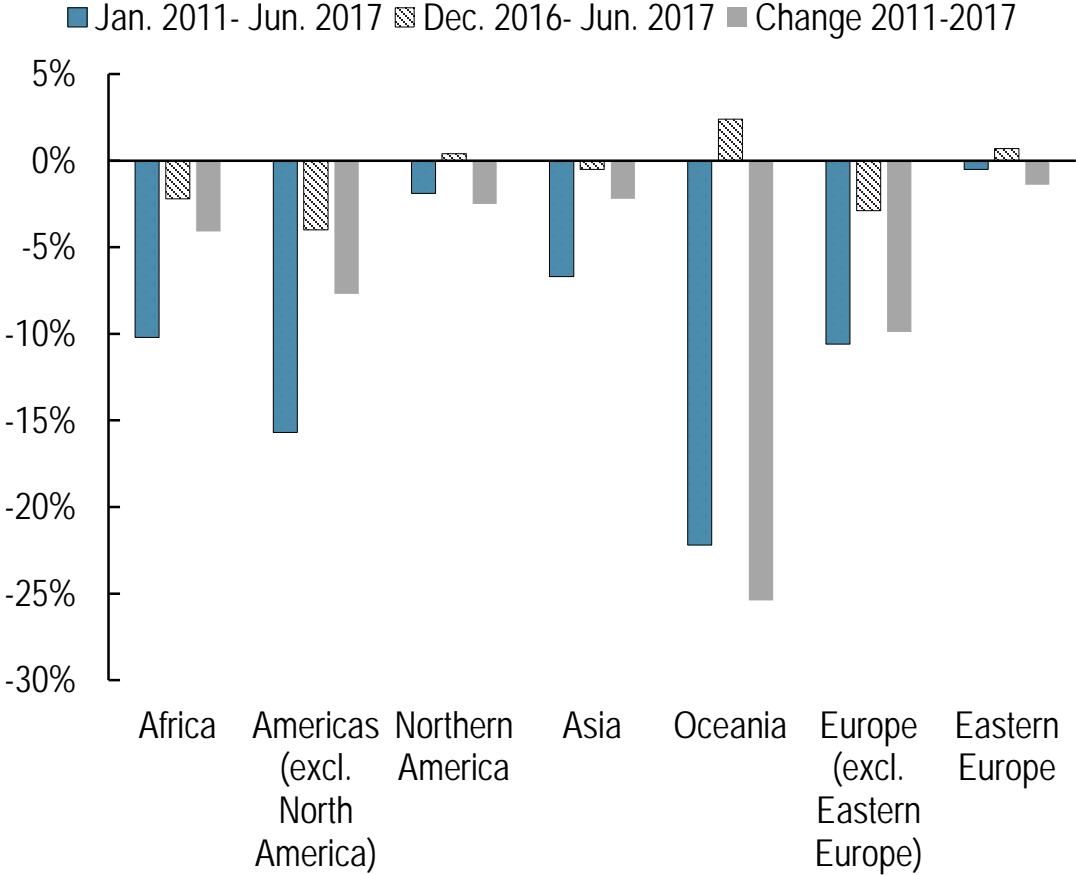
(In percent of amount sent)



Sources: World Bank, Remittance Prices Worldwide; and IMF staff calculations.

## Number of Active Counterparty Countries by region

(Average percent change across region)



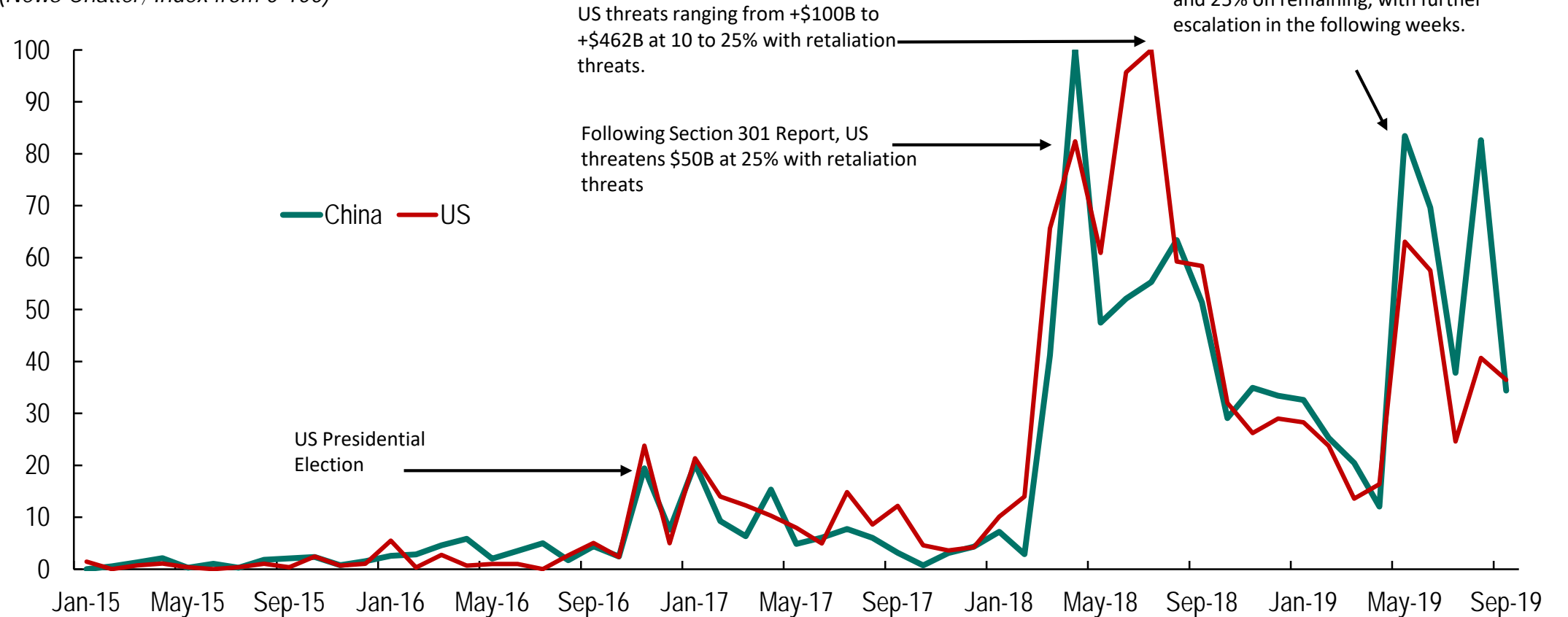
Sources: Financial Stability Board; SWIFT Watch; and National Bank of Belgium.



Risks tilted to the  
downside

# Uncertainty surrounding China-US trade tensions remains a key risk

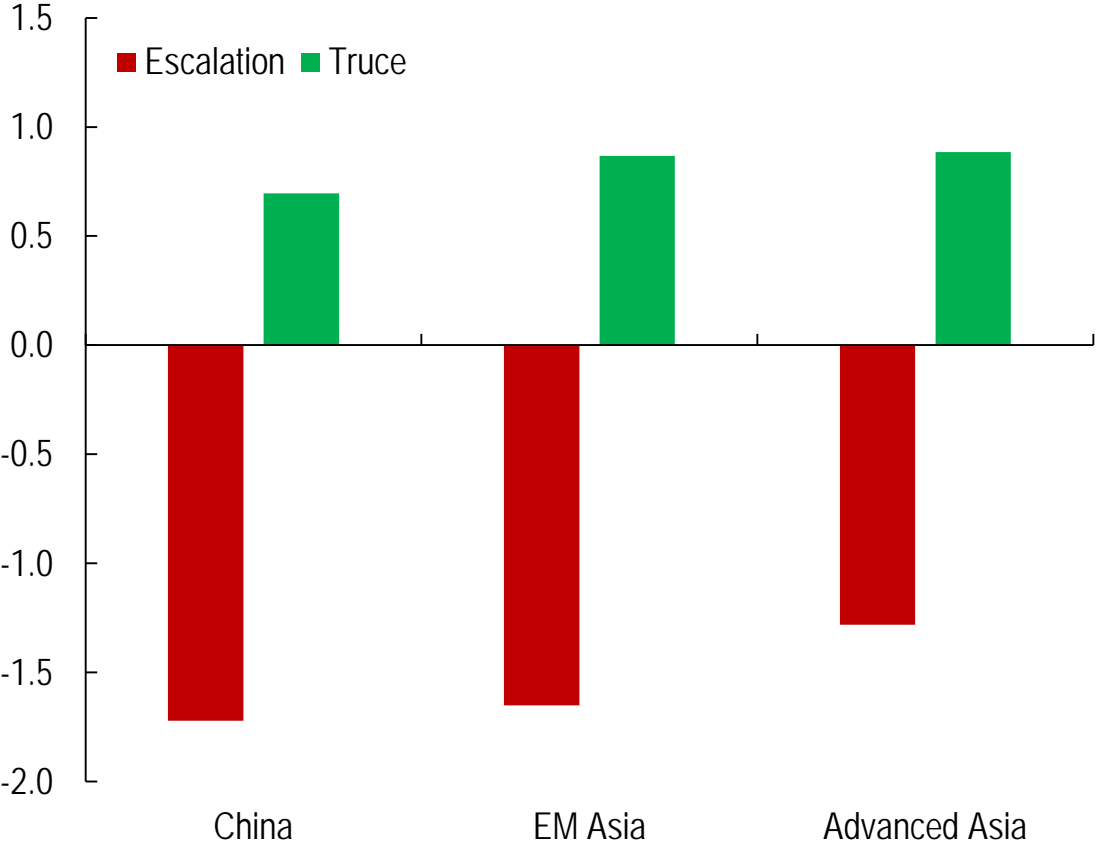
## Trade Protectionism Policy Uncertainty (News Chatter; Index from 0-100)



Source: IMF staff estimates.

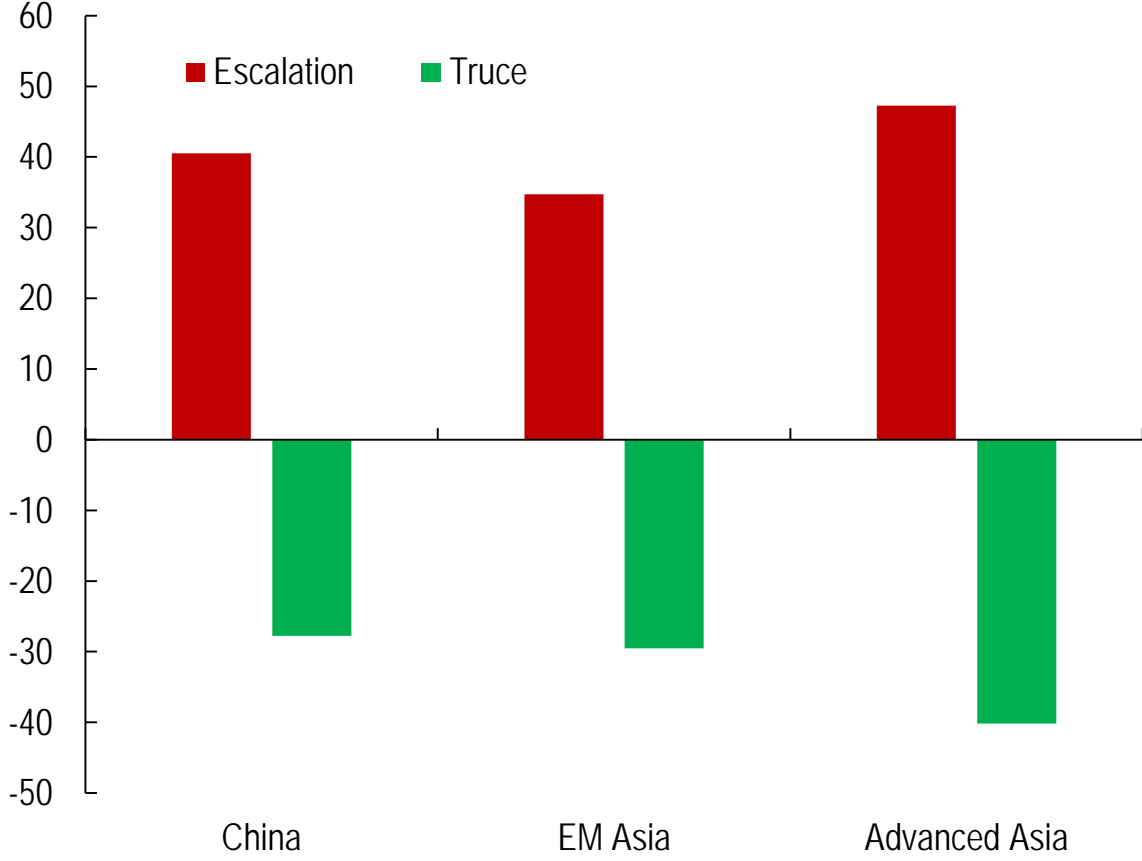
# This has a large impact on investment and corporate spreads in Asia...

### Impact of Trade Policy Uncertainty on Investment to GDP (Percent)



Source: IMF staff calculations

### Impact of Trade Policy Uncertainty on Corporate Spreads (Basis points)



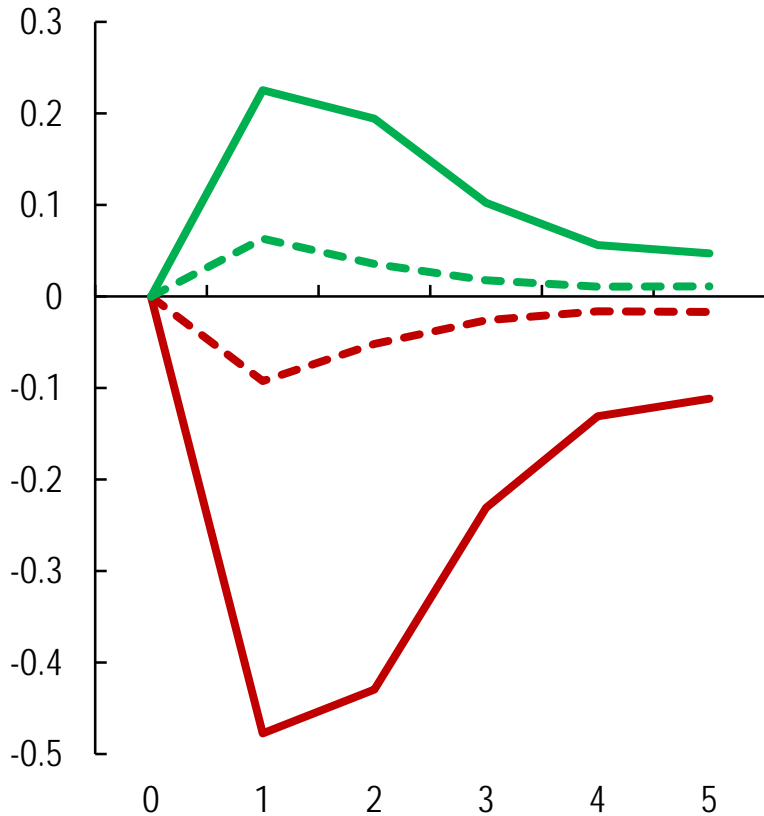
Source: IMF staff calculations

# ...and confidence and financial market effects can result in a range of growth outcomes

Escalation Truce DASHED is Corporate Spread Shock SOLID adds Investment Shock (Confidence)

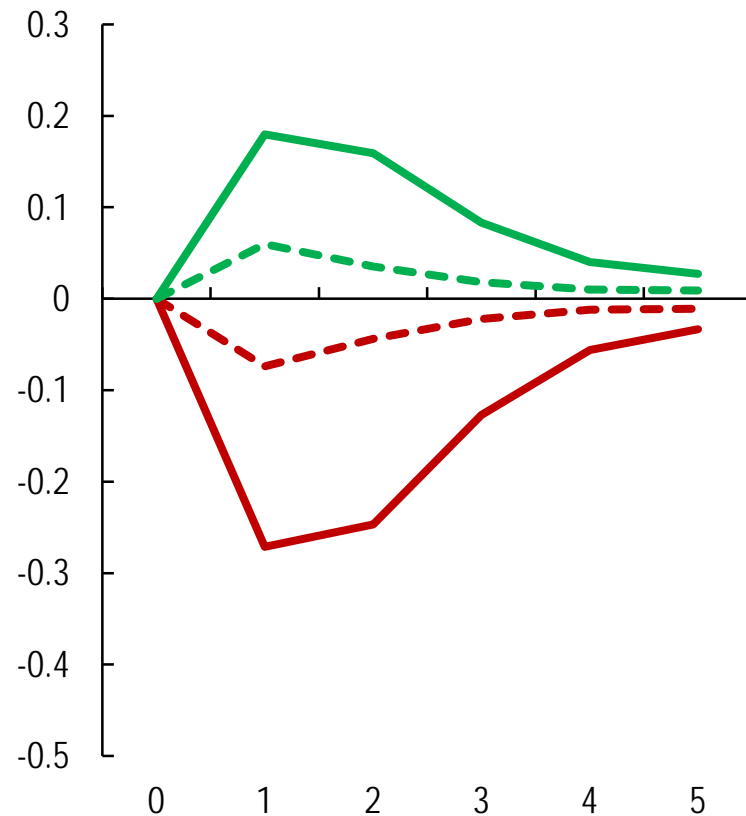
### China

(Percent difference)



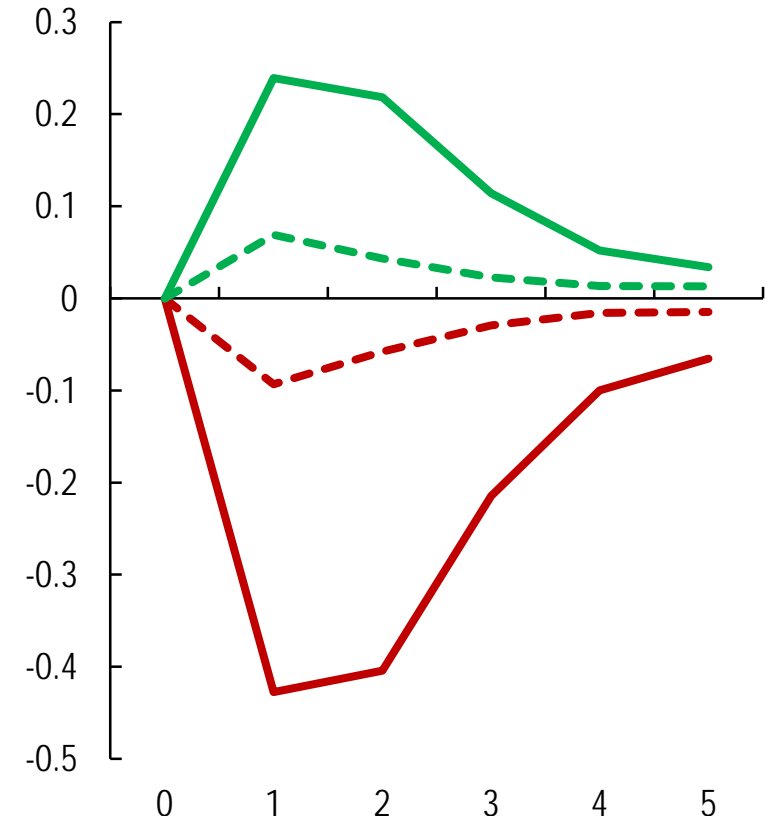
### Advanced Asia

(Percent difference)



### Emerging Asia

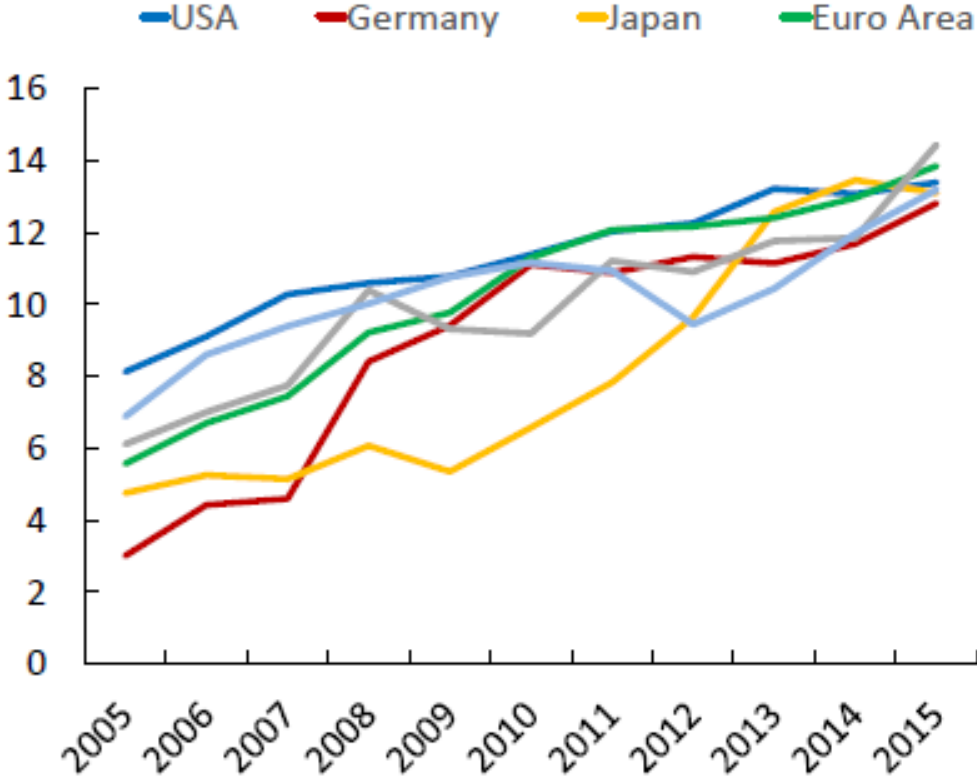
(Percent difference)



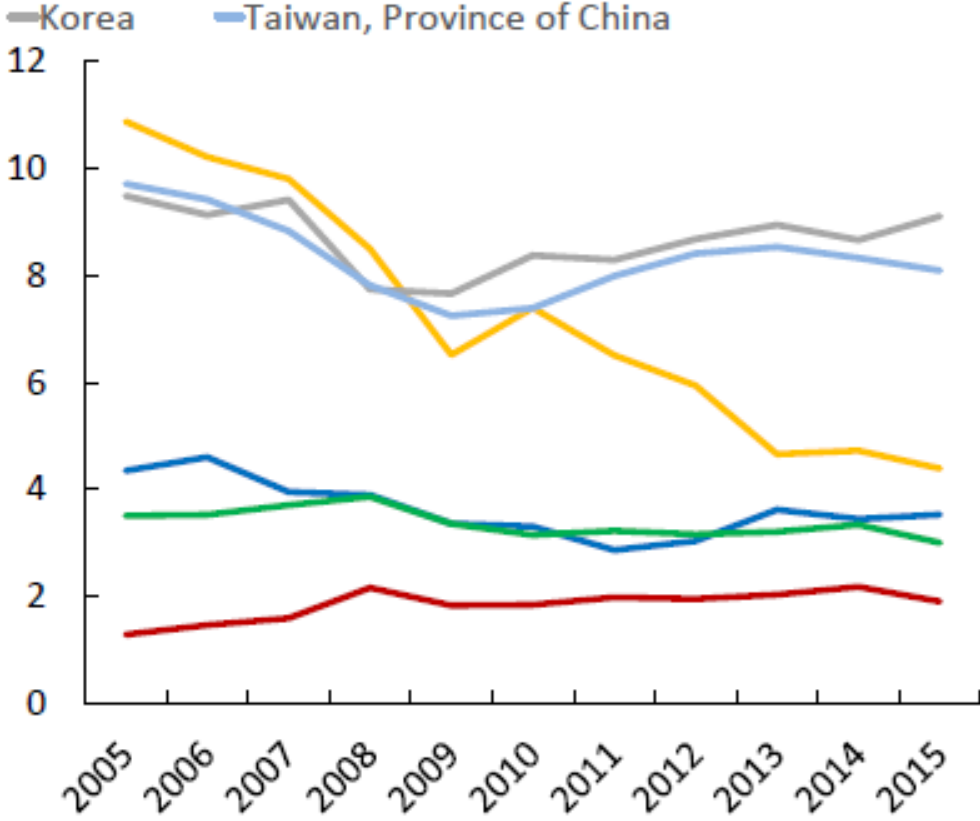


# Increased role of GVCs in trade raises GVC dislocation vulnerability

**China's Value-Added Share Embedded in Trading Partner Final Demand<sup>1</sup>**  
(Percent)



**Trading Partners' Value-Added Share Embedded in China's Final Demand<sup>1</sup>**  
(Percent)

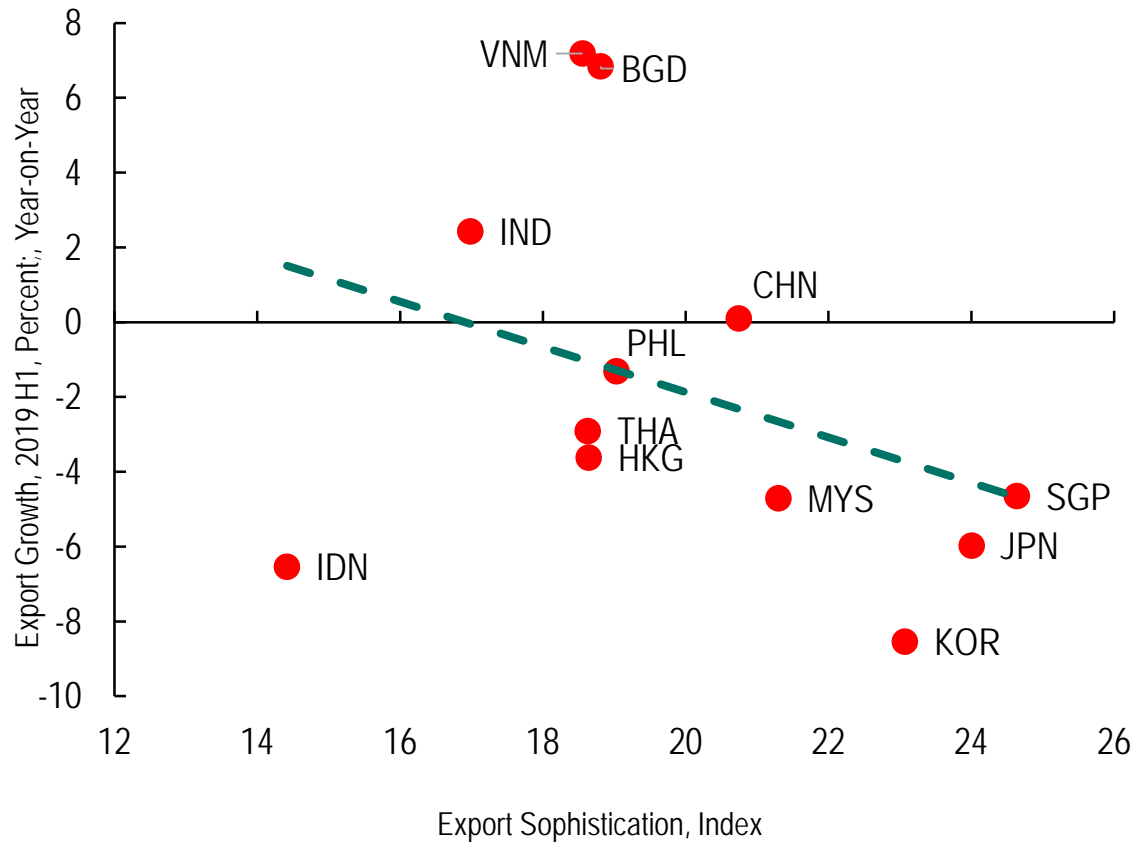


Sources: Organisation for Economic Co-operation and Development, Trade in Value Added (TiVA), 2018 vintage

<sup>1</sup>Computers, electronics, and electronic equipment.

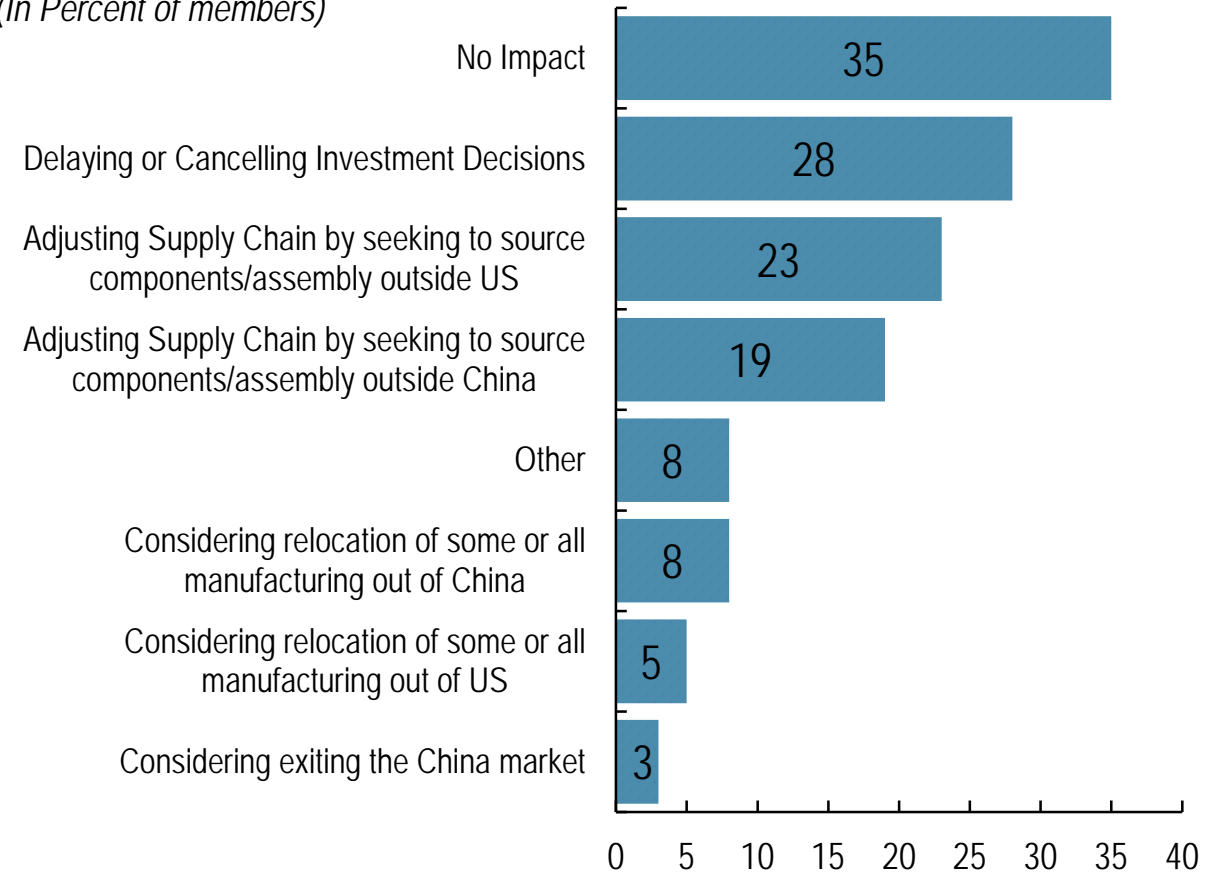
# Data is still emerging on the extent of GVC dislocation amid rising concerns

**Export Growth and Export Sophistication**  
(2019H1; yoy; Index)



Sources: Haver Analytics and IMF Staff

**Impact of tariff and US-China Trade Tensions on Business Strategy**  
(In Percent of members)



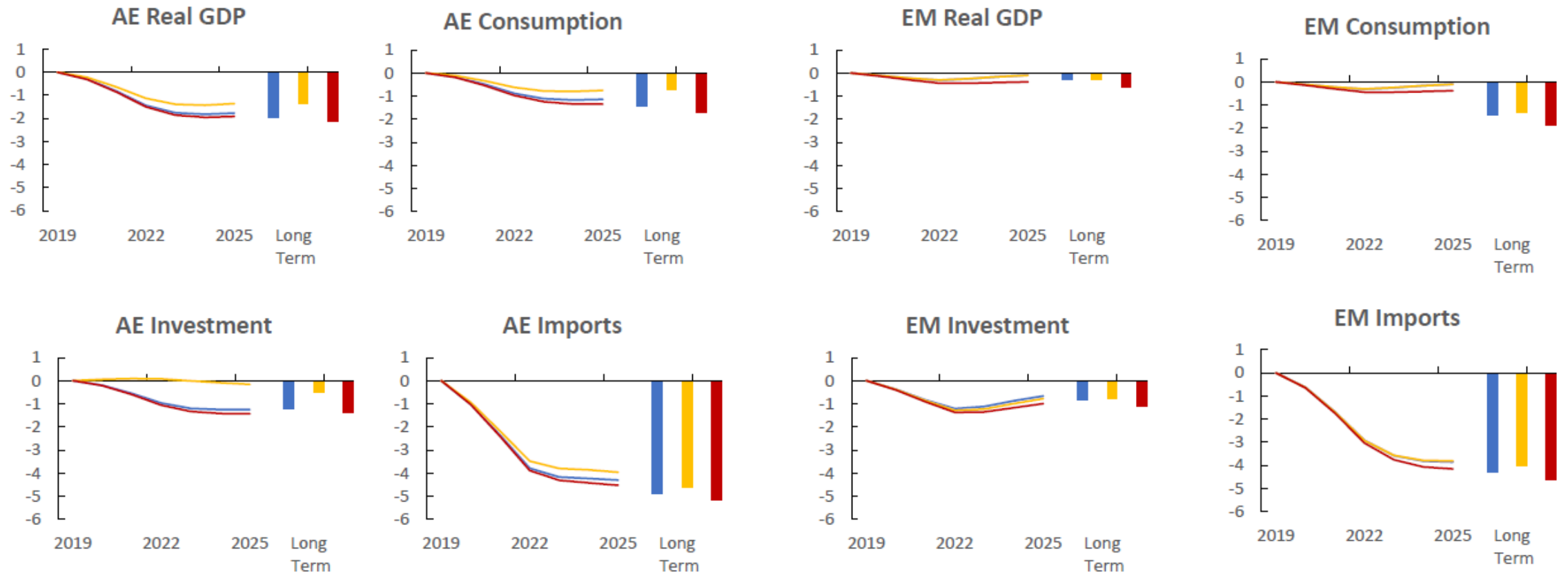
Sources: AmCham China Business Climate Survey

# What is the impact of reshoring production after a GVC dislocation

## Advanced Economies Reshoring

(Percent deviation from control)

— Reshoring — Reshoring plus lower margins — Reshoring plus weaker technological diffusion



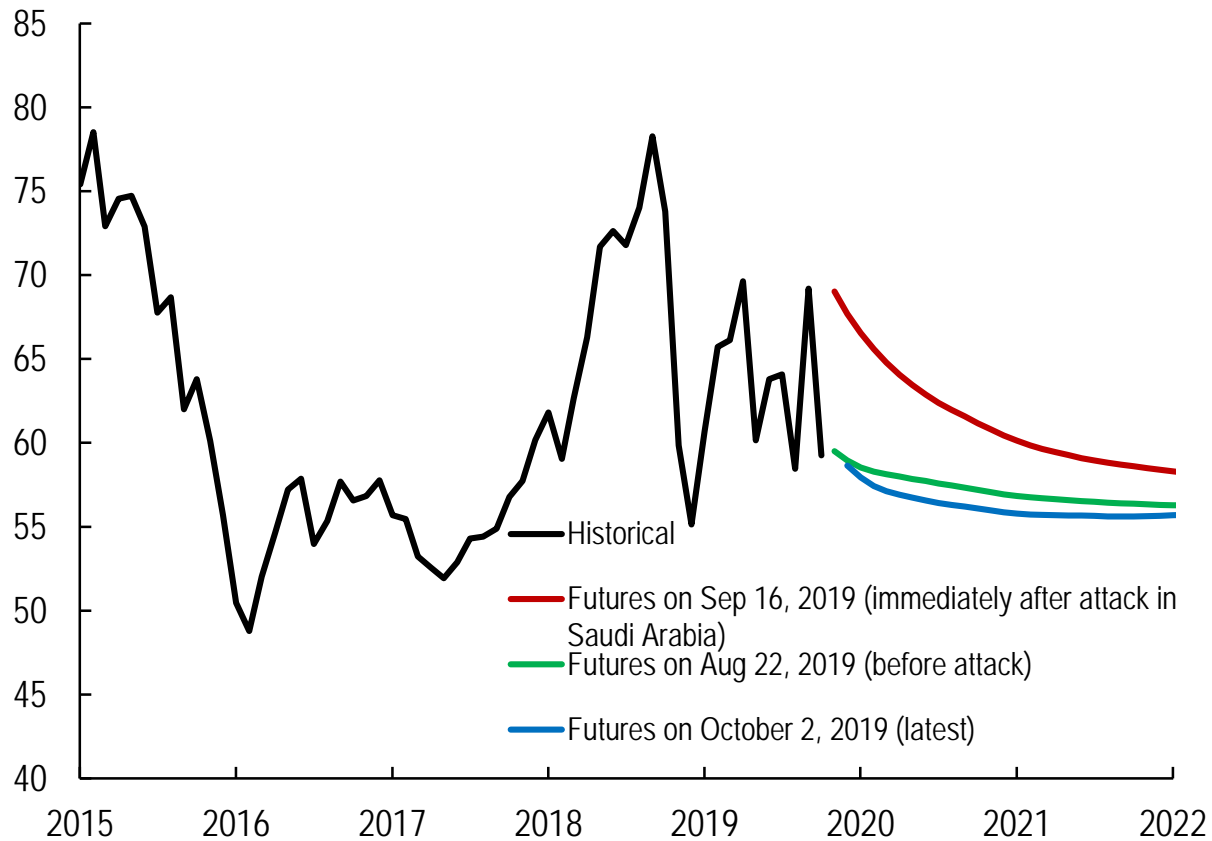
Source: IMF staff estimates

Note: AE = advanced economies; EM = emerging markets

# Uncertainty over oil prices is a key risk but also opportunity for Asia

## Crude Oil Prices and Brent Futures Curves

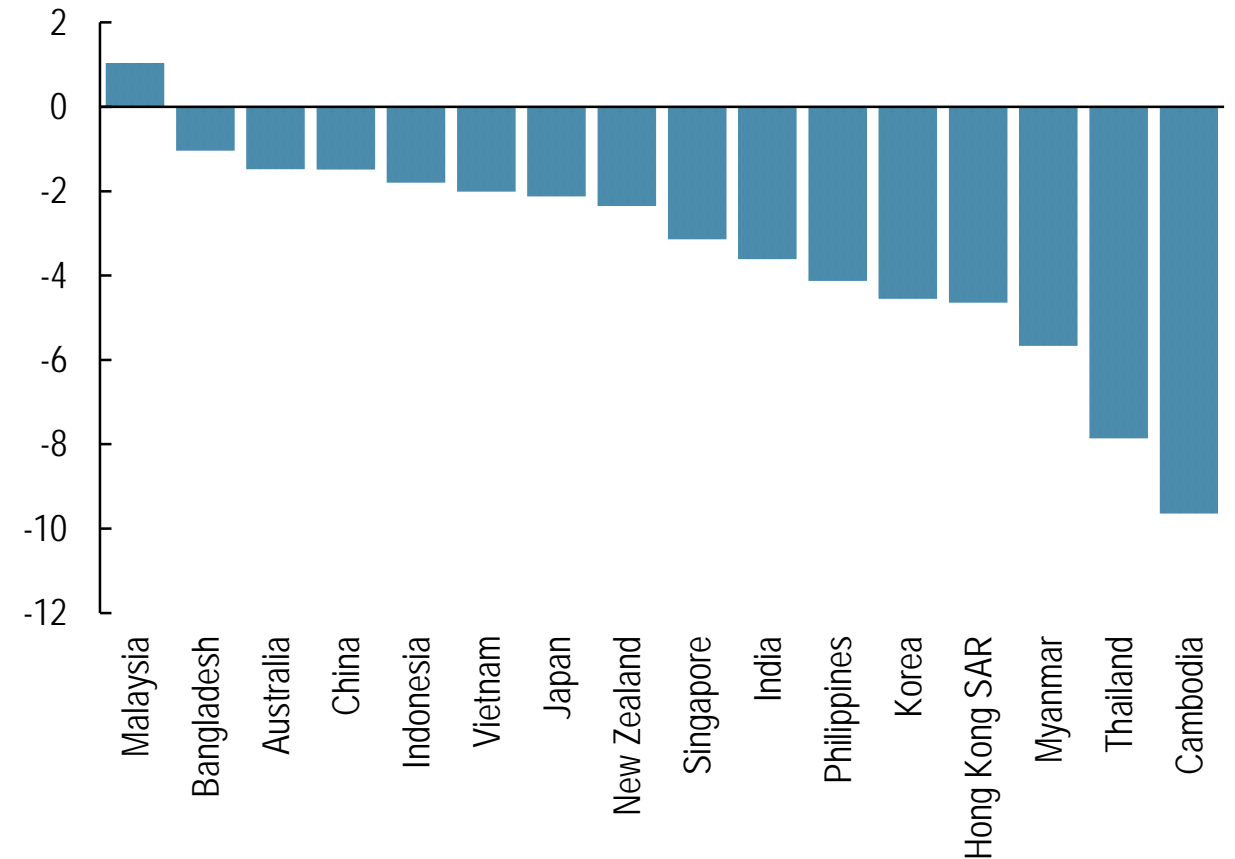
(US dollar per barrel)



Source: Bloomberg L.P.

## Oil Trade Balance

(In Percent of GDP, 2018)

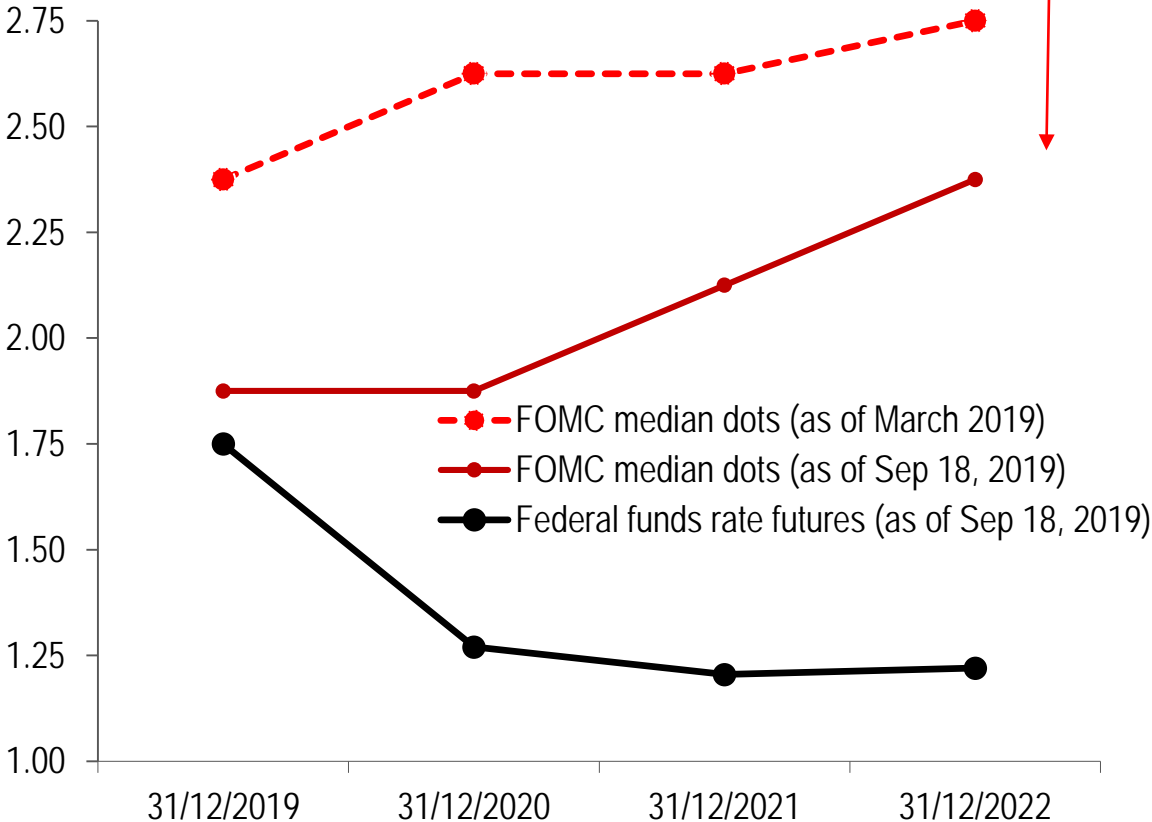


Sources: IMF World Economic Outlook..

# Risk that accommodative financial conditions could reverse

## Expected Fed Fund Rate vs. FOMC Dots

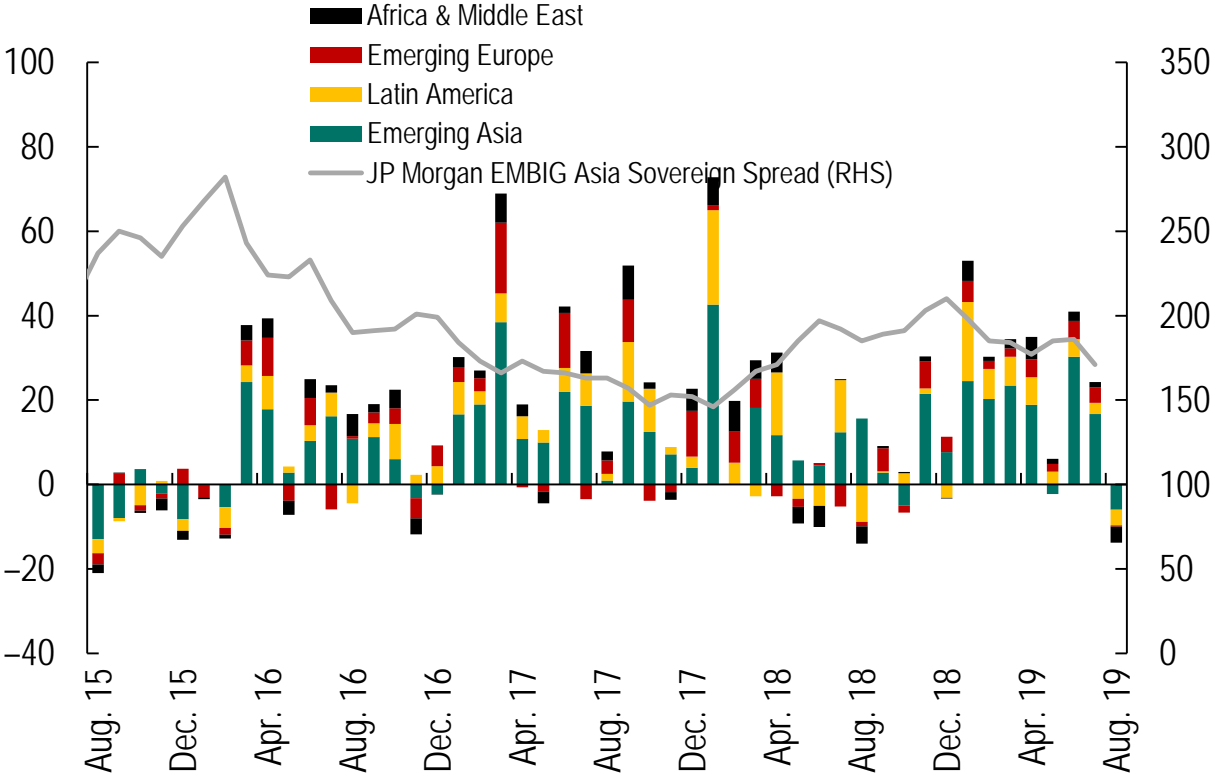
(Percent, end-of-period)



Source: Bloomberg L.P.

## Total Portfolio Flows

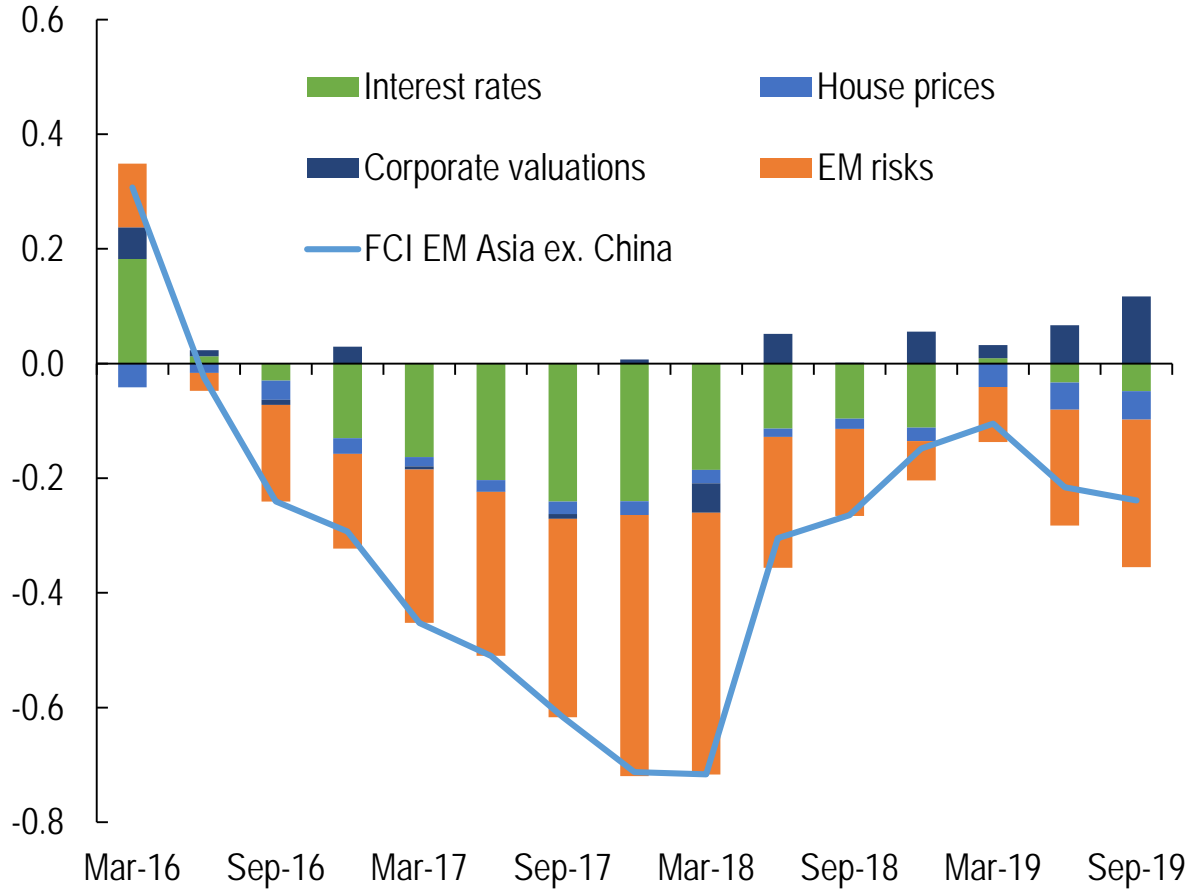
(Billions of US dollars; basis points)



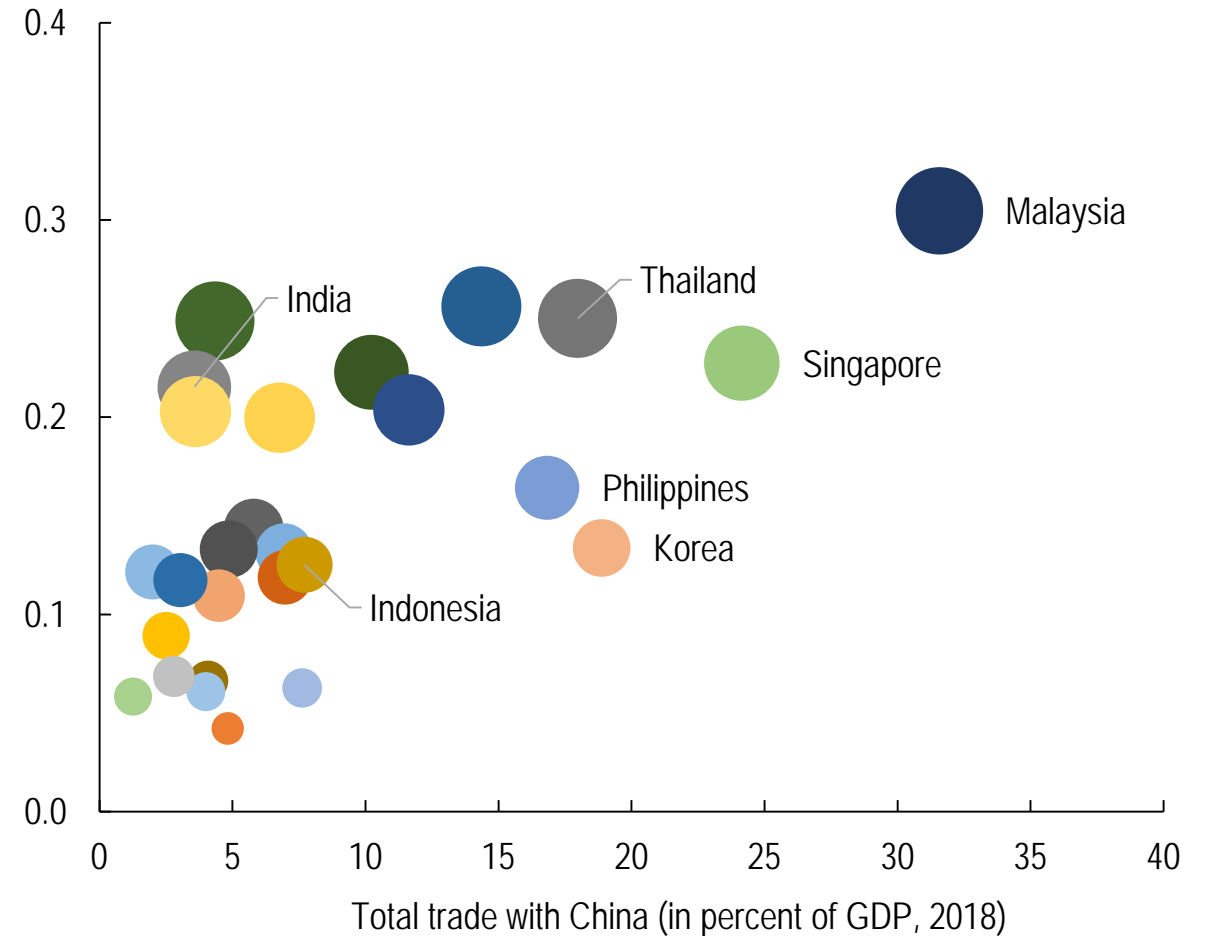
Sources: Bloomberg Finance L.P.; Institute of International Finance; national sources; and IMF staff calculations.

# ...Asian EM are susceptible to a sudden tightening of financial conditions and risk-off episodes, with significant spillovers

**Financial Conditions Index, Emerging Asia excl. China**  
*(Standard deviations from mean)*



**Sensitivity to China's Exchange Rate Movements**  
*(FX CoRisk from China, 2019)*





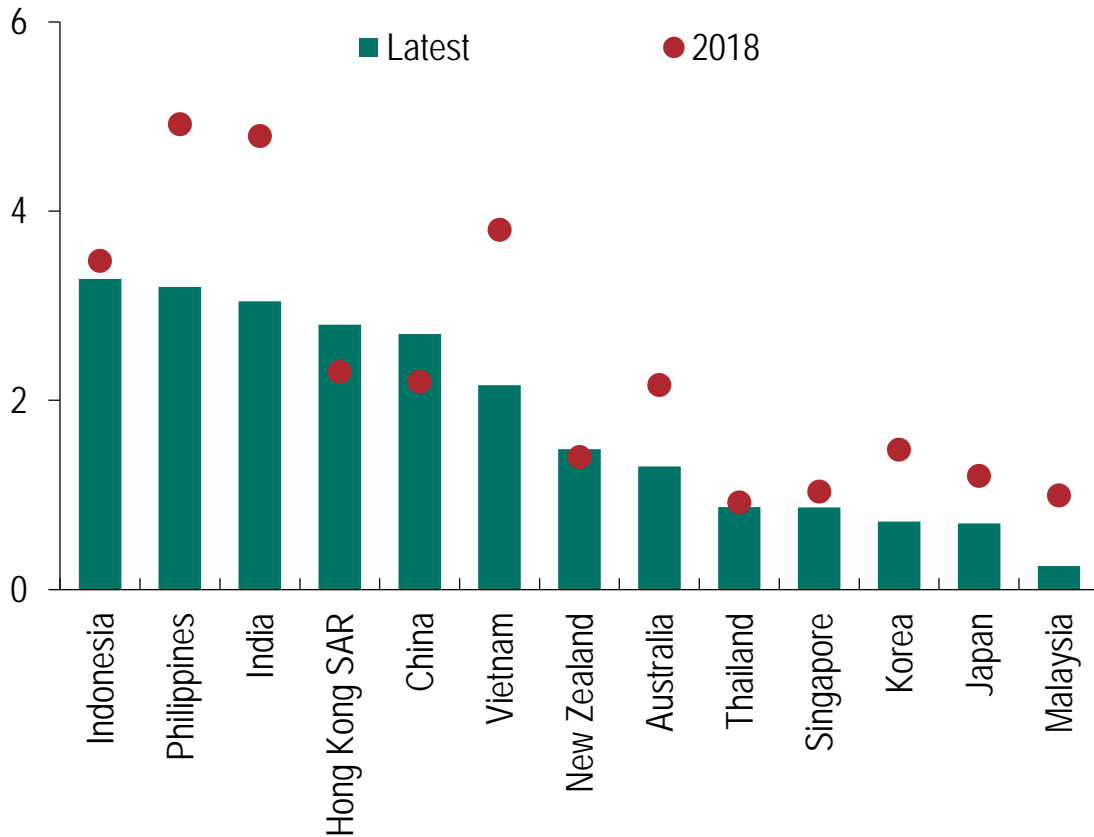


# Policy Discussion

# Monetary policy support is possible in some cases, given inflation pressures have been low...

## Selected Asia: Headline Inflation

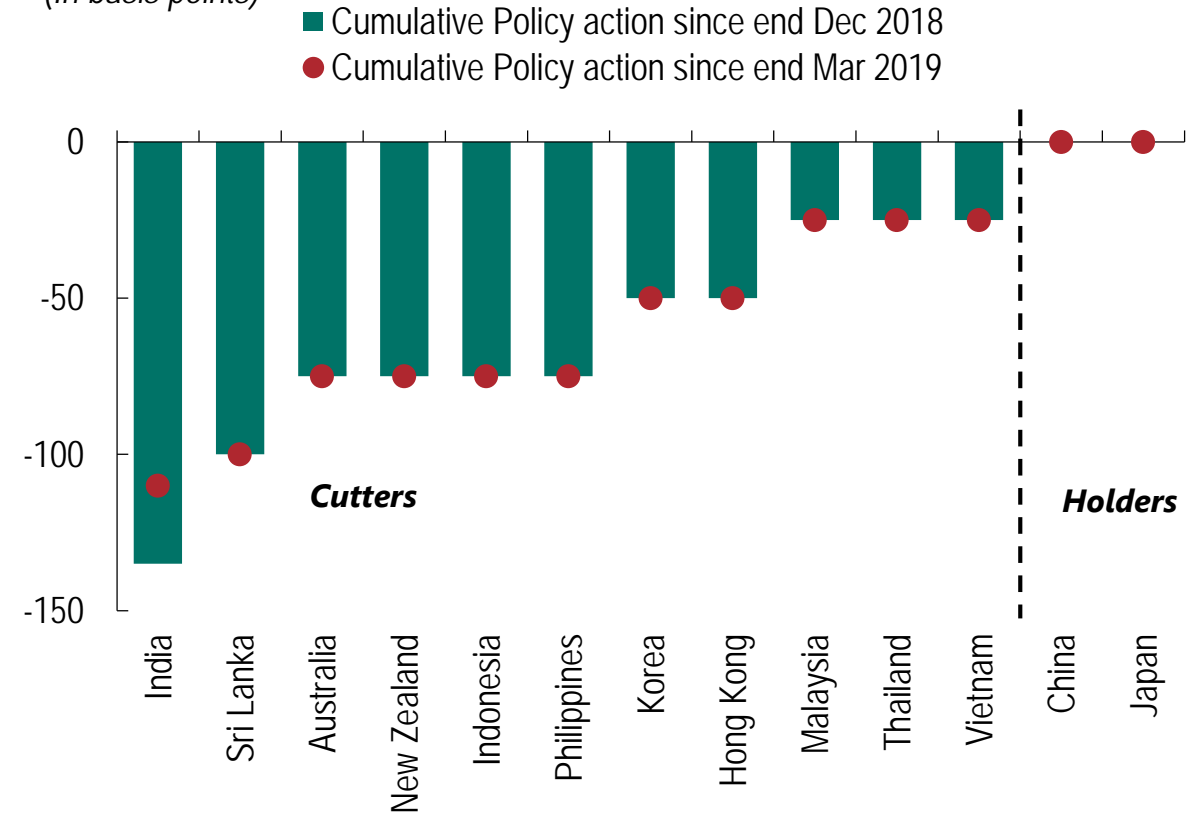
(Percent change; year-over-year)



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

## Selected Asia: Policy Rate Actions

(In basis points)

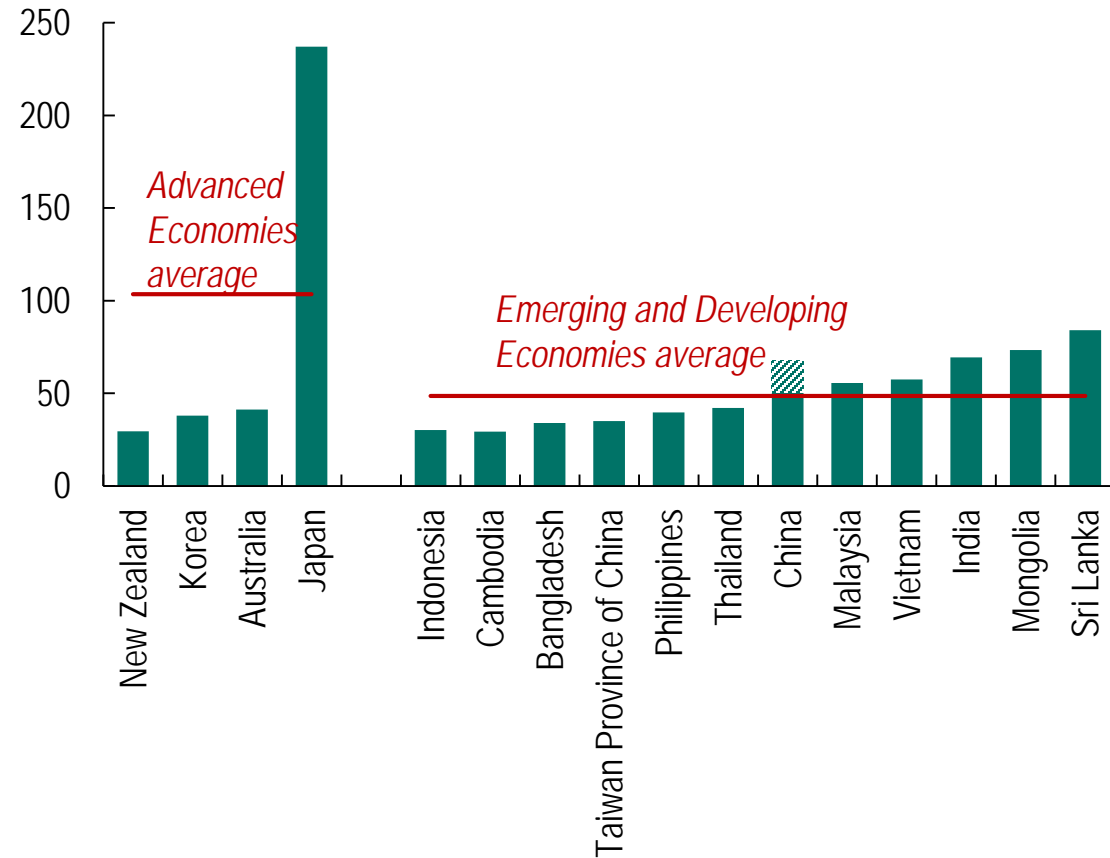


Sources: Haver Analytics; Bloomberg L.P.; and IMF staff calculations.

Note: Cutters/Hikers/ Holders are classified based on policy action since end December 2018; China: 7-day reverse repo rate. The new policy rate series was applied for Indonesia in April 2016.

# ... and some countries have fiscal space to offset external shocks

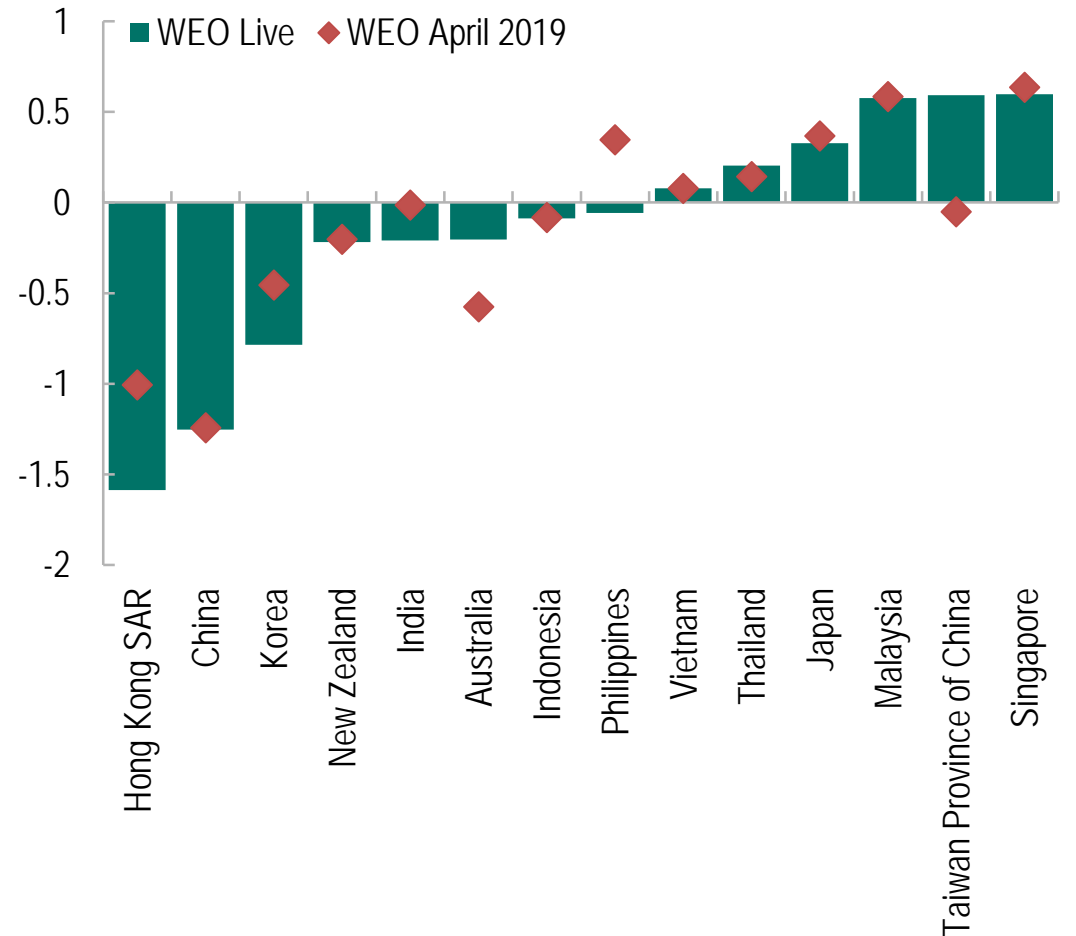
**Government Debt, 2018**  
(% of FY GDP)



Note: The shaded portion in China's debt refers to "augmented debt", including local government financing vehicles and other off-budget activity. Mongolia's debt as percent of calendar year GDP. Sources: WEO, China Staff Report, Mongolia Staff Report.

**Change in Fiscal Balance**

(Percent of GDP; difference between 2019 projections and 2018 actuals)



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

# Key policy objectives

## Overarching priority

- Reduce global policy uncertainty

## Policies for stability and inclusive growth

- Policy mix adjusted to offset slowdown in demand stemming from the effects of prolonged uncertainty
- Financial risks should be contained, using macroprudential policy
- Structural reforms to promote higher productivity and inclusive growth

The presentations on managing capital flows and the effective structural policies will elaborate on these recommendations

**Thank you!**