

# **IMF Asia and Pacific Regional Economic Outlook**

**In global context, with implications for India**



***Indian Institute of Management – Bangalore June 14, 2014***

**Thomas Richardson**

**Senior Resident Representative in India**



# Outline

- **Background on the IMF**
- **World economic outlook**
  - **US, Euro area, Japan, major EMs, developing countries**
- **Asia – Pacific Regional Economic Outlook**
- **Implications for India**



# IMF Background: lending, surveillance and technical



[www.imf.org/weo](http://www.imf.org/weo)



[www.imf.org/gfsr](http://www.imf.org/gfsr)



[www.imf.org/fiscalmonitor](http://www.imf.org/fiscalmonitor)



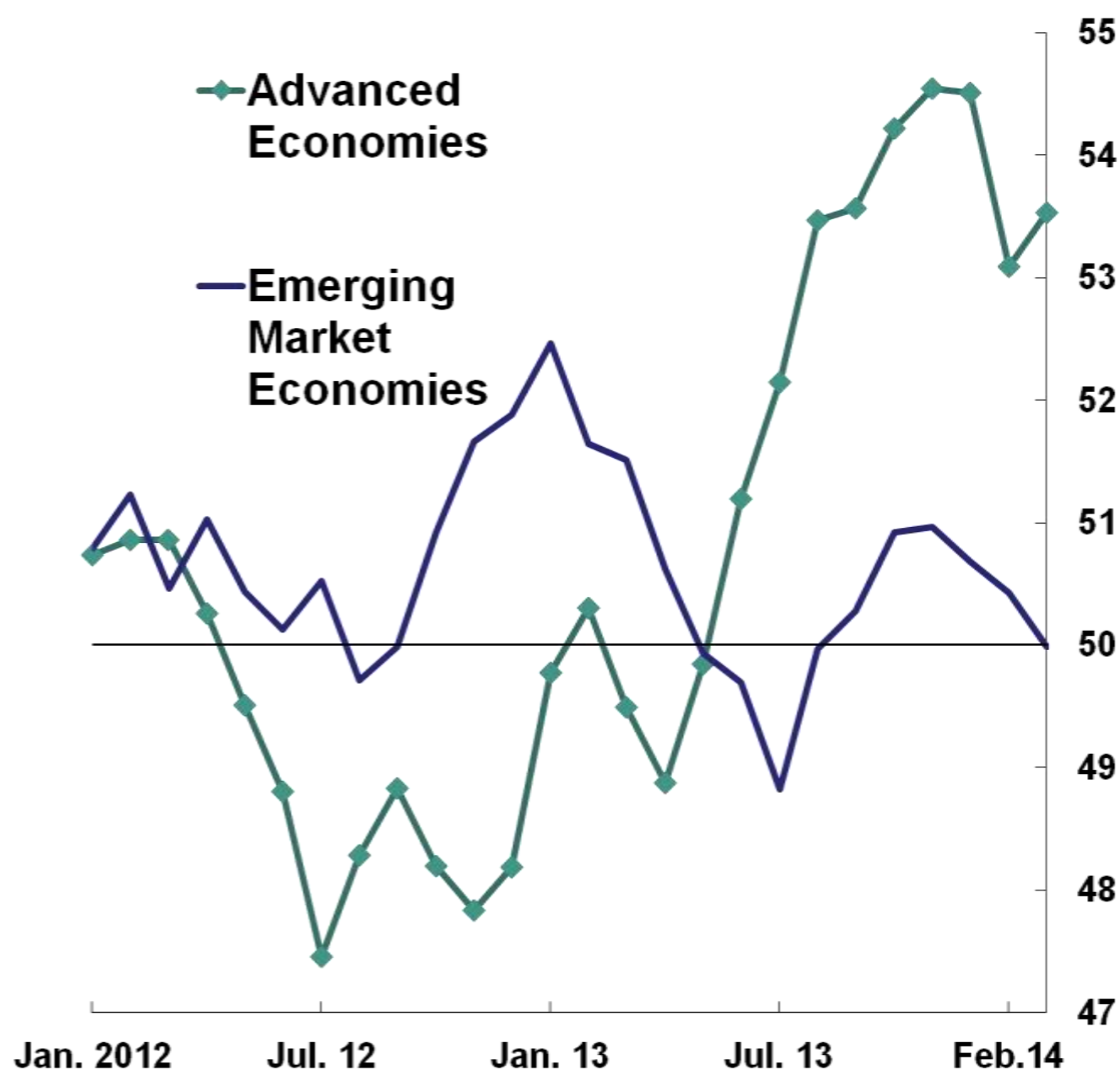
[www.imf.org/asia](http://www.imf.org/asia)



# World economic outlook: global growth is picking up

- **Momentum is coming mainly from advanced economies (AEs), at the margin**
- **Emerging markets and developing economies (EMDEs) are still leading global growth**
  - ✓ Helped by export demand from AEs
- **Risks remain: Ukraine, euro area (deflation), tapering effect on EMs**

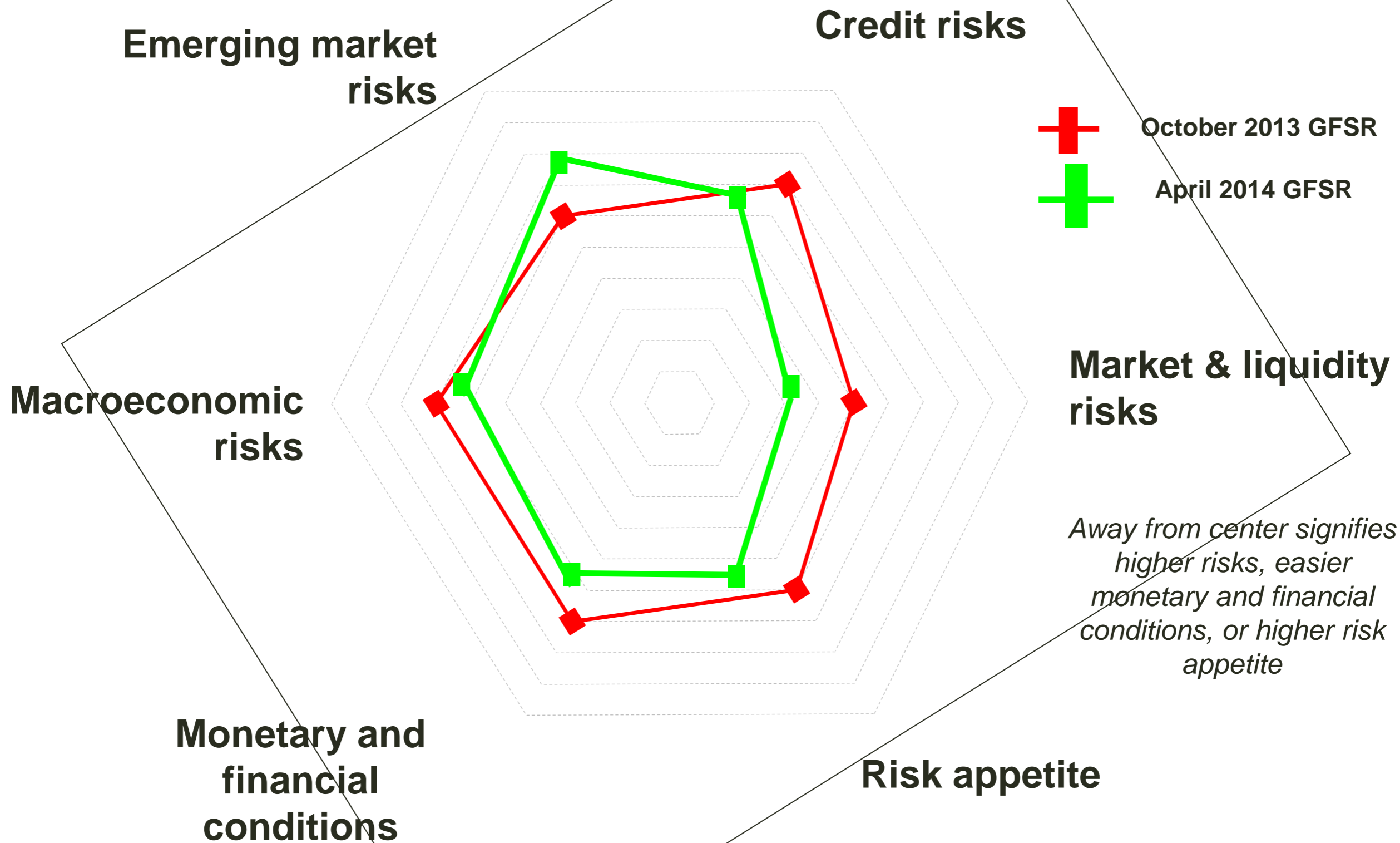
**Manufacturing PMI**  
(index; above 50 = expansion)



Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and IMF staff calculations.



# Global Financial Stability: improving but challenges remain

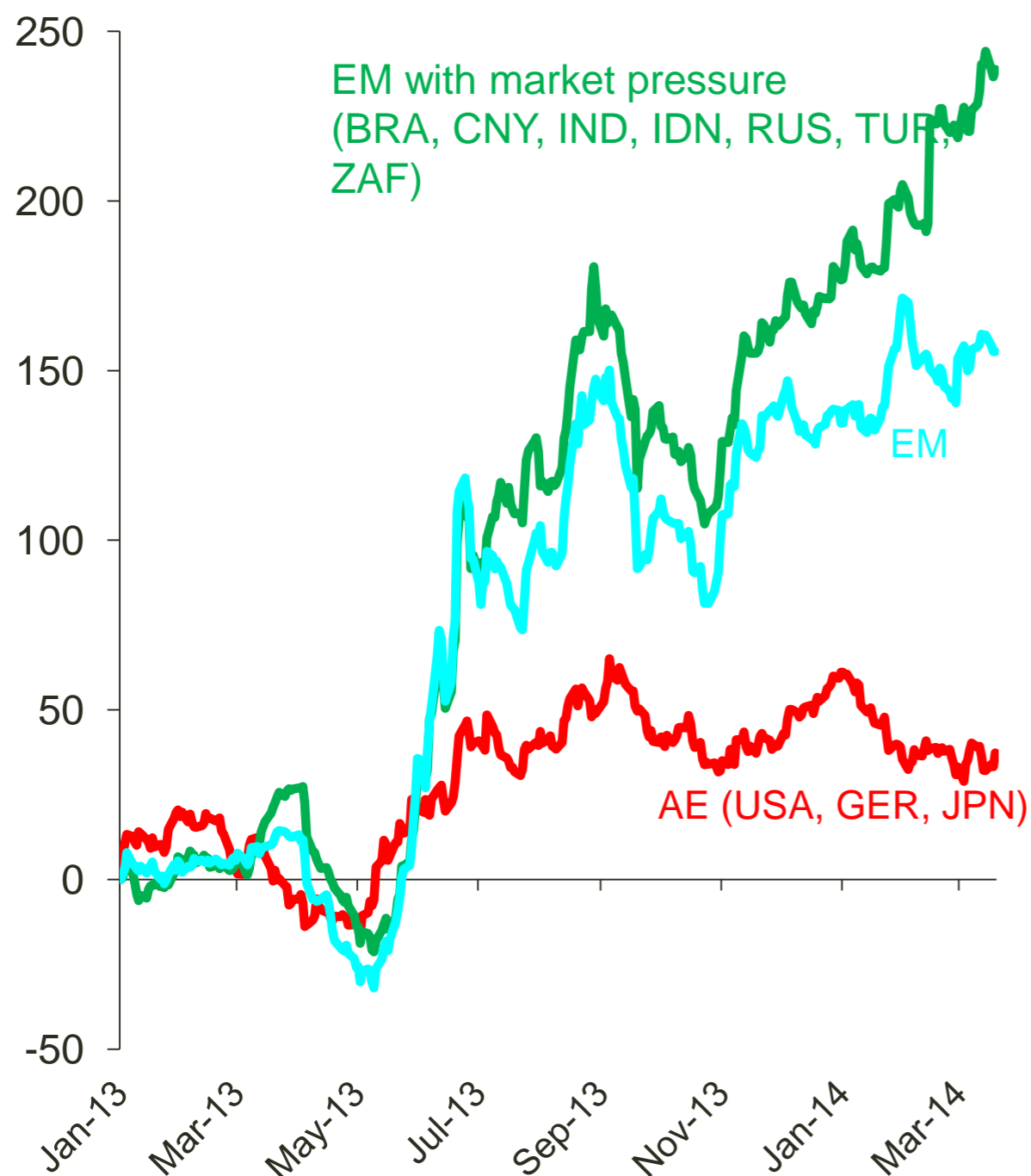




# AE-EM Divergences: financial markets

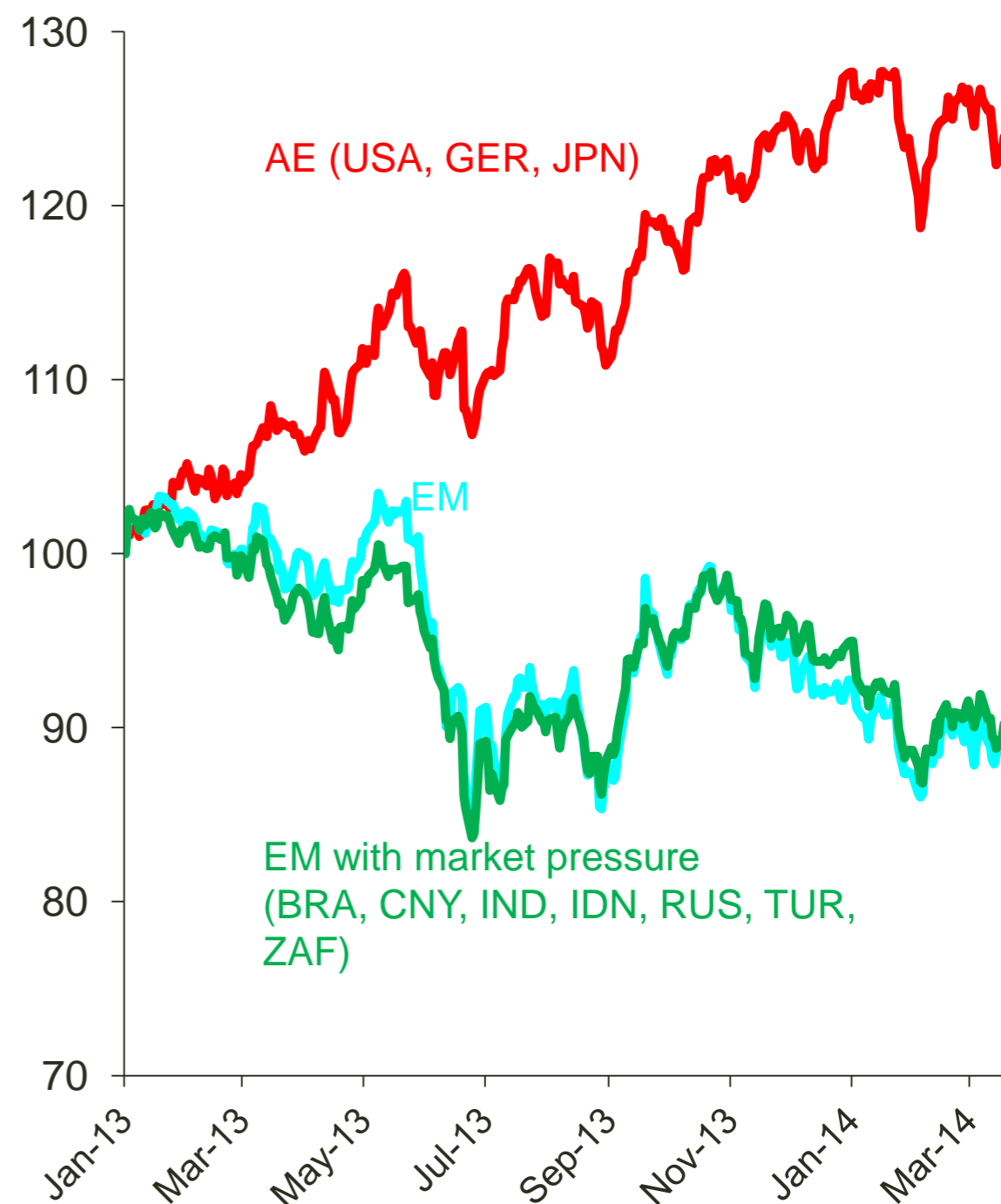
## Long-term rates

(change since Jan 1, 2013, in bps)



## Equity prices

(Jan 1, 2013 = 100)

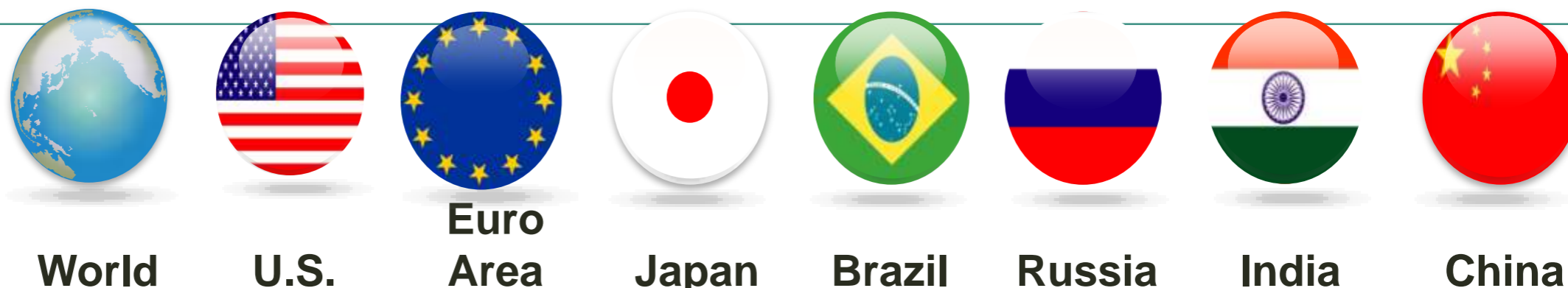




# Global growth is expected to strengthen...

## WEO Real GDP Growth Projections

*(percent change from a year earlier)*



**2014  
(Apr.  
2014)**

3.6

2.8

1.2

1.4

1.8

1.3

5.4

7.5

**Revision  
from Jan.  
2014**

-0.1

0.0

0.1

-0.3

-0.5

-0.6

0.0

0.0

**2015  
(Jan.  
2014)**

3.9

3.0

1.5

1.0

2.7

2.3

6.4

7.3

**Revision  
from Jan.  
2014**

-0.1

0.0

0.1

0.0

-0.2

-0.2

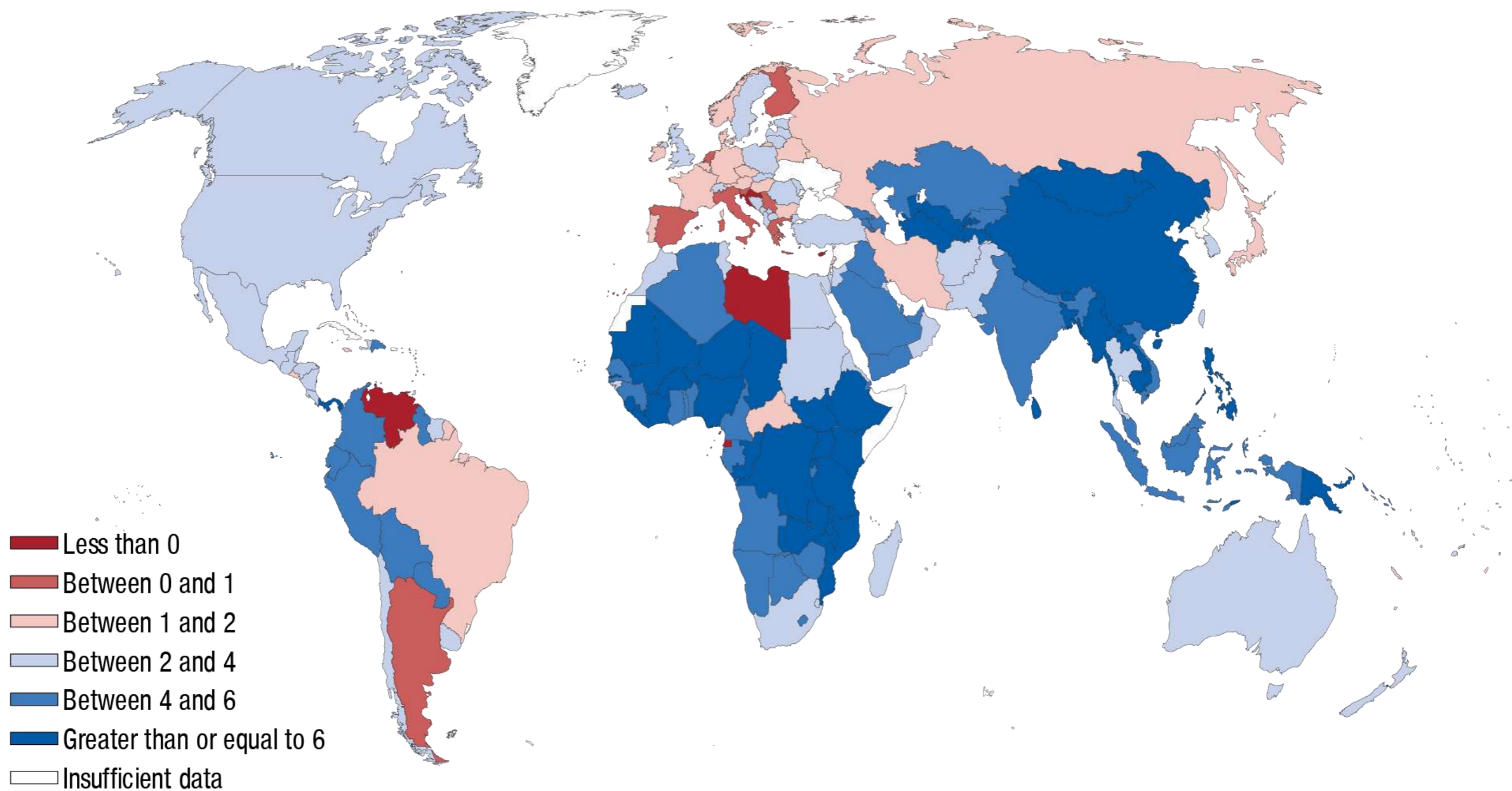
0.0

0.0

Source: IMF, World Economic Outlook.



# ...but it will be uneven

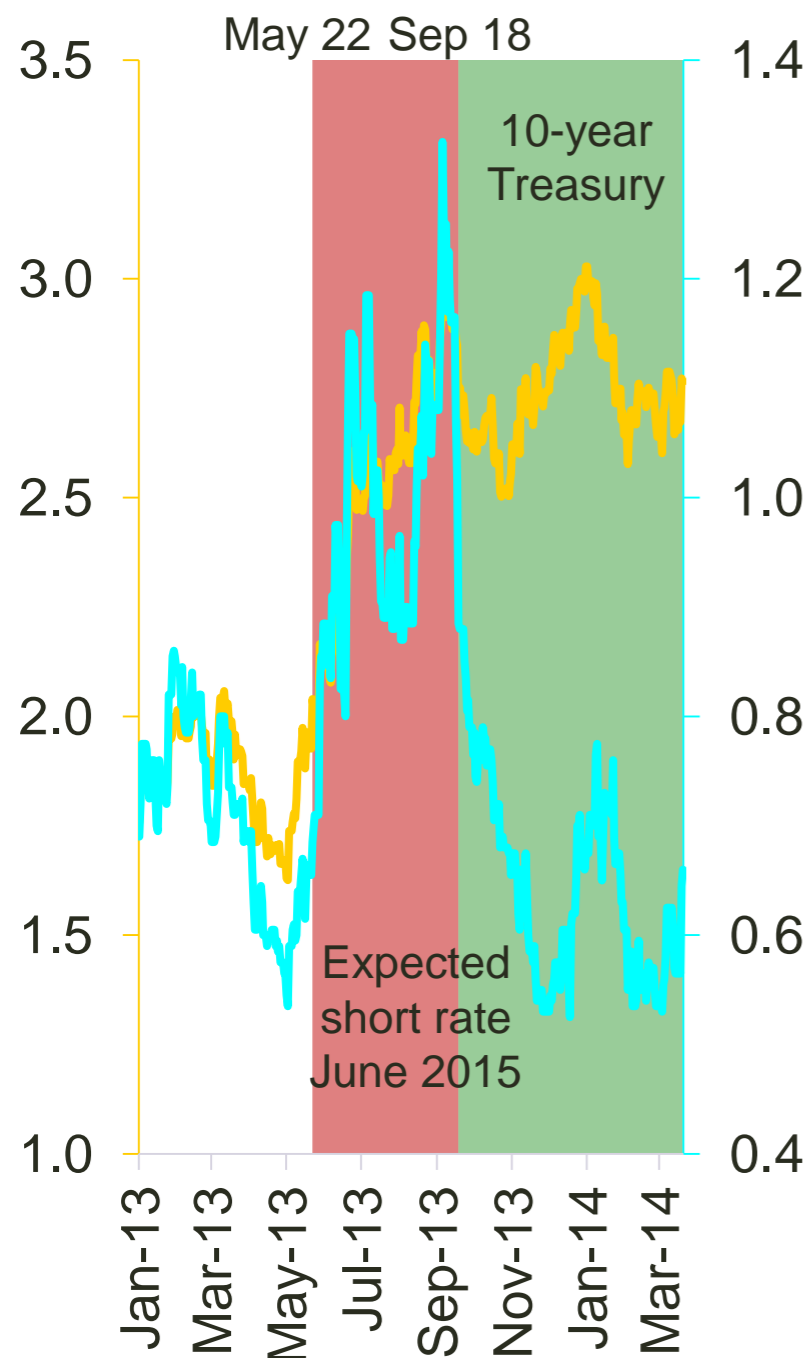


Sources: IMF, World Economic Outlook; and IMF staff calculations.

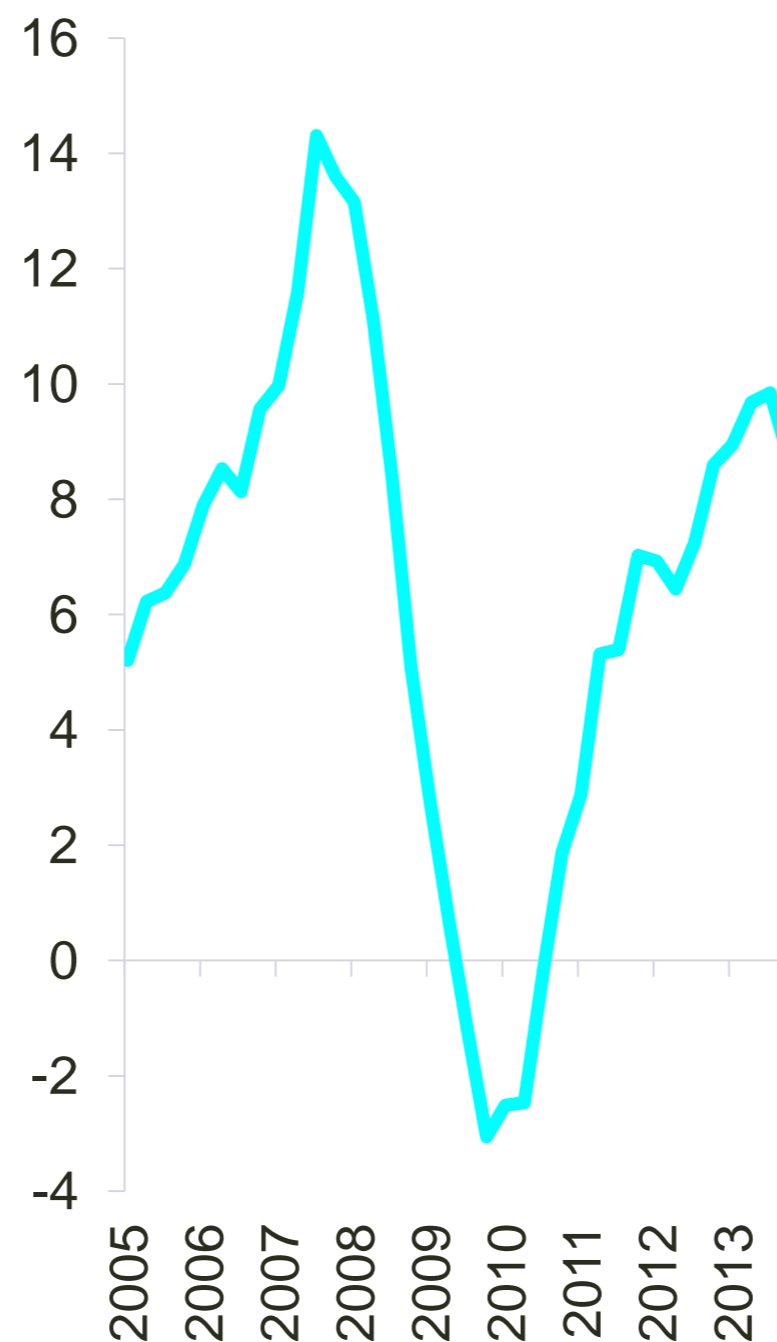


# US: Smoother exit from UMP and signs of green shoots

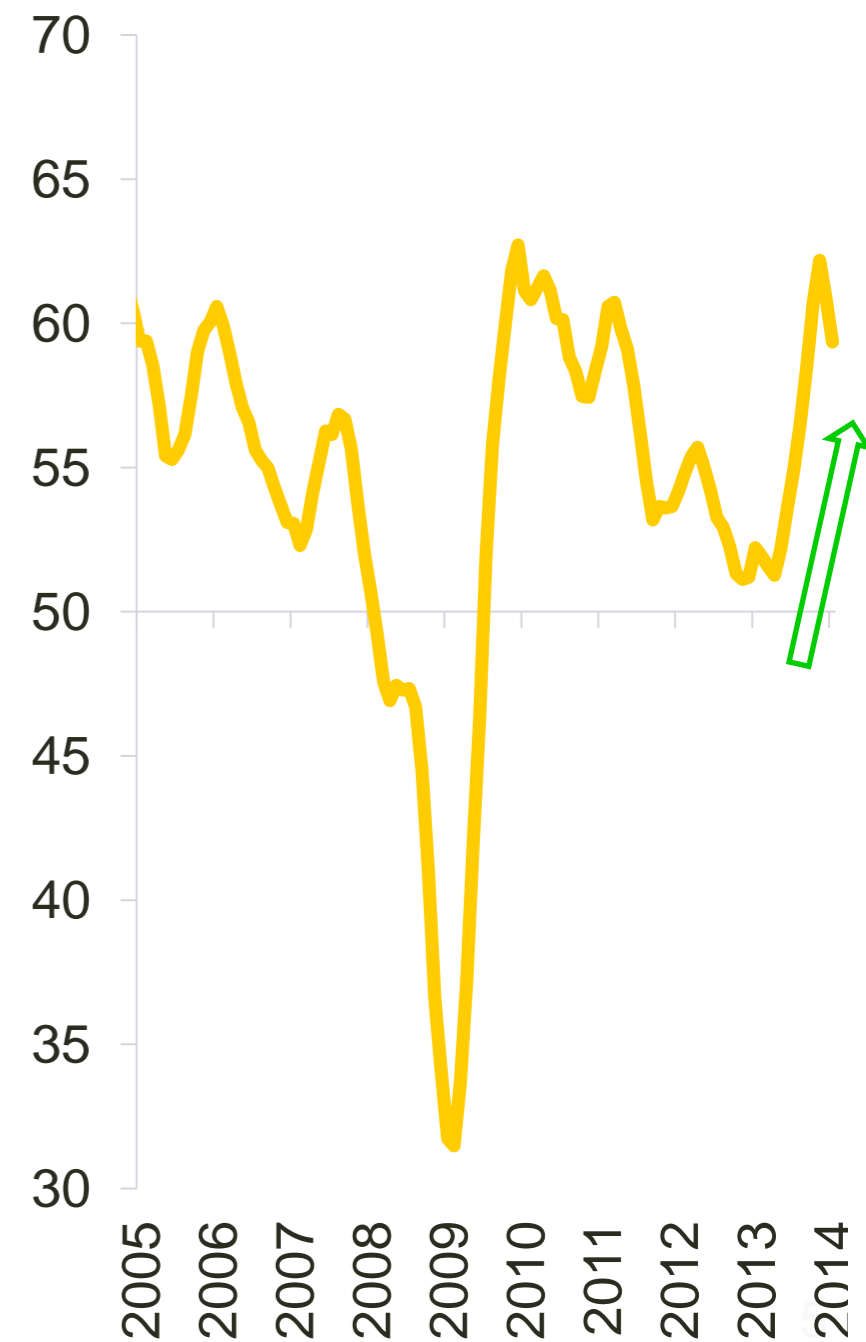
**Tapering not tightening**  
(percent)



**Credit flowing to corporates**  
(qoq growth rate, percent)



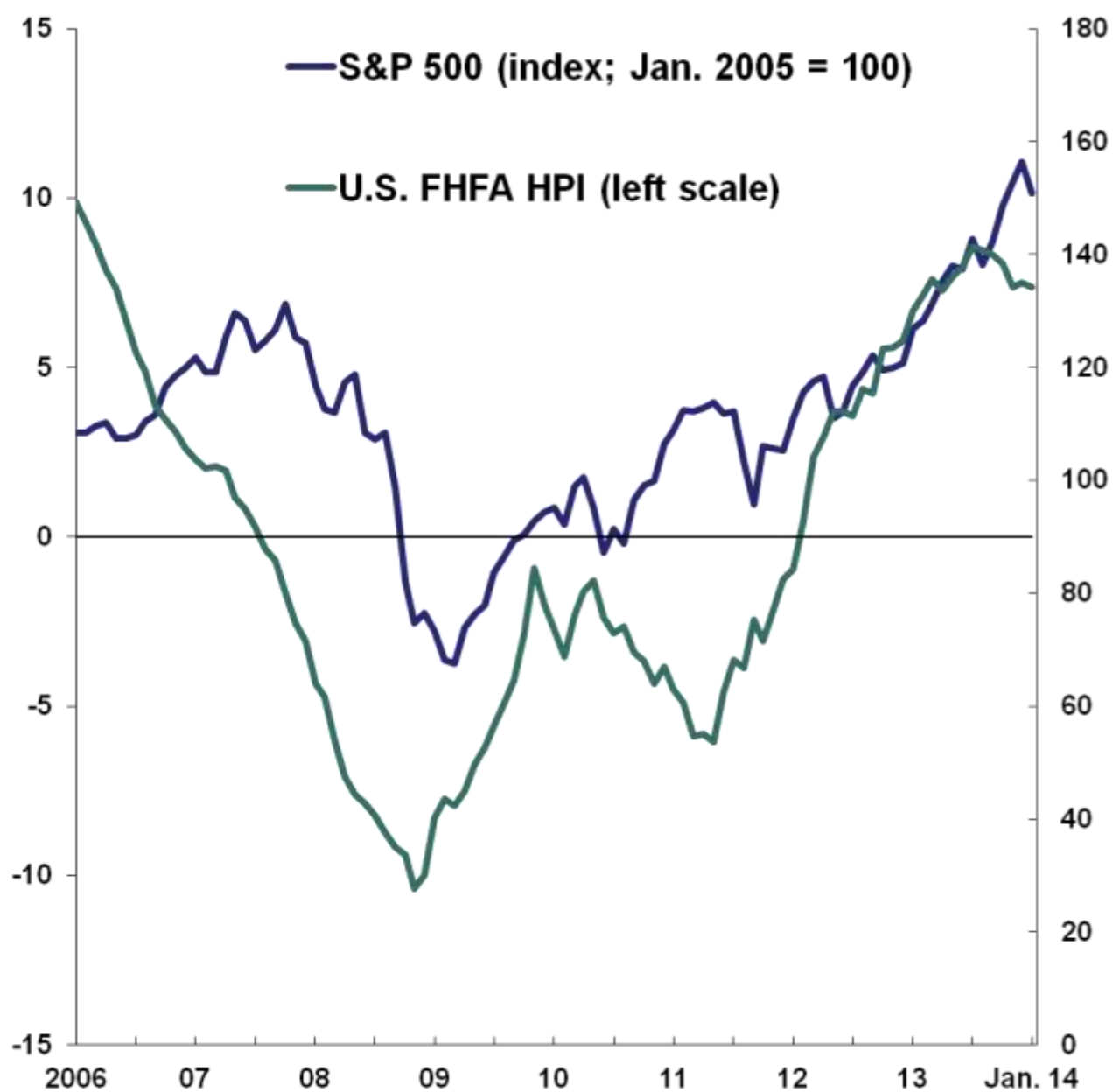
**New orders rising**  
(6-month moving average of ISM)



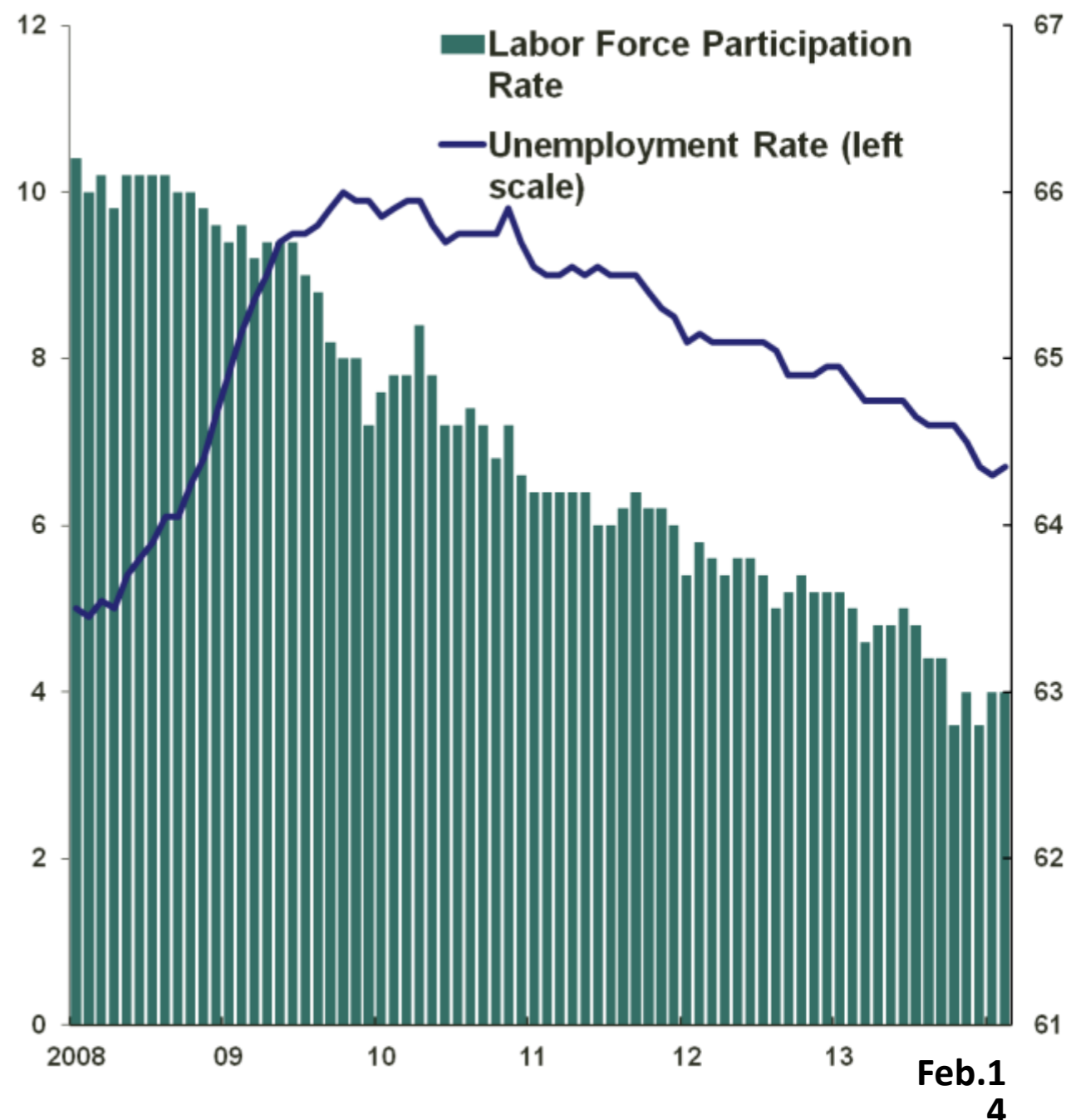


# US consumer demand supported by housing and equity prices, and better labor market

## House and Equity Prices (year-over-year percent change)



## U.S. Labor Market (percent)



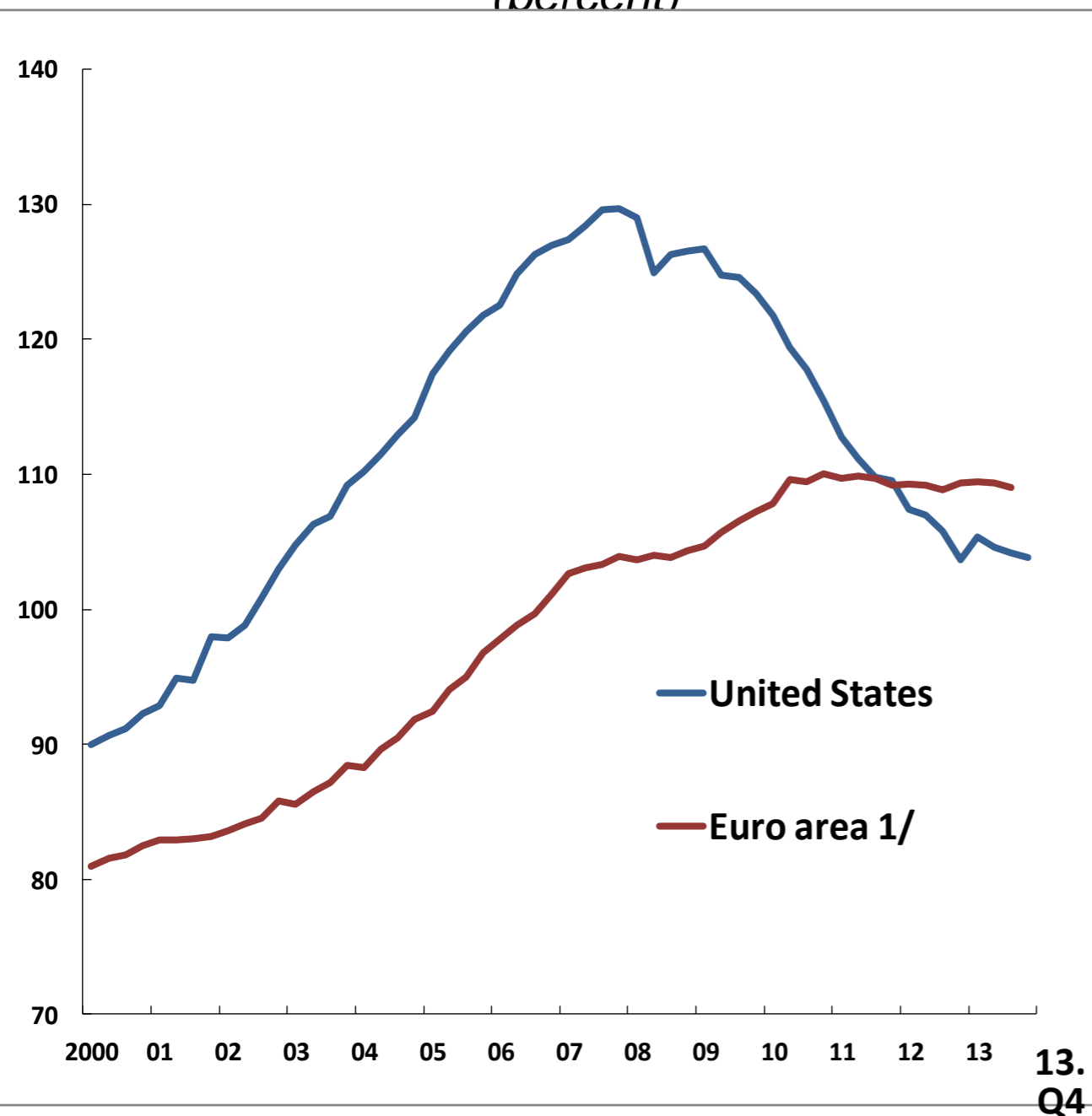
Source: Bloomberg, L.P.; Bureau of Labor Statistics; Federal Housing Finance Agency; Haver Analytics; and IMF staff calculations.

Note: FHFA HPI = Federal housing Finance Agency Housing Price index.

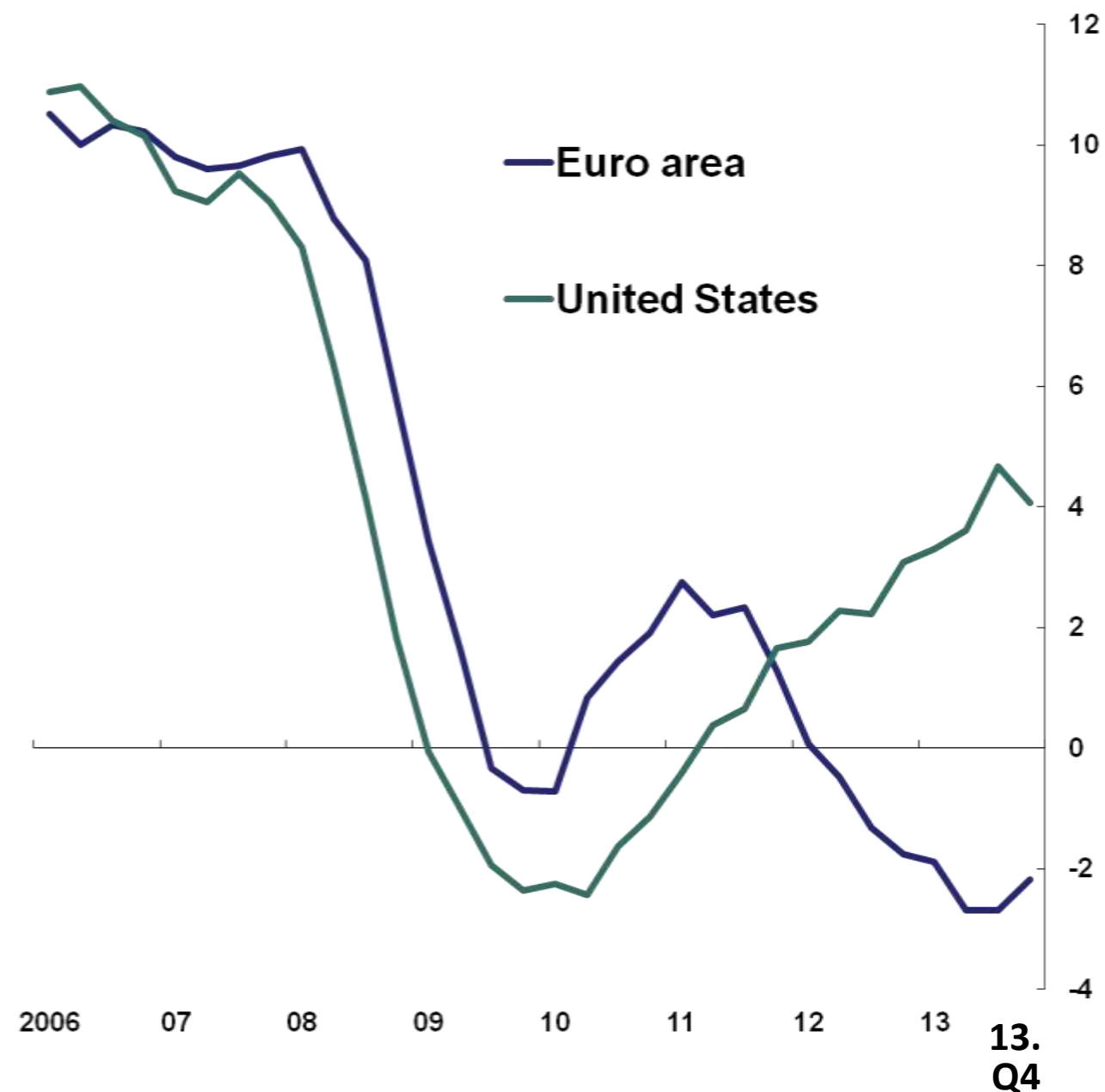


# US also helped by falling HH debt & credit conditions: contrast to Europe...

## Household (HH) Debt-to-Income Ratio (percent)



## Nonfinancial Firm and HH Credit Growth (year-over-year percent change)

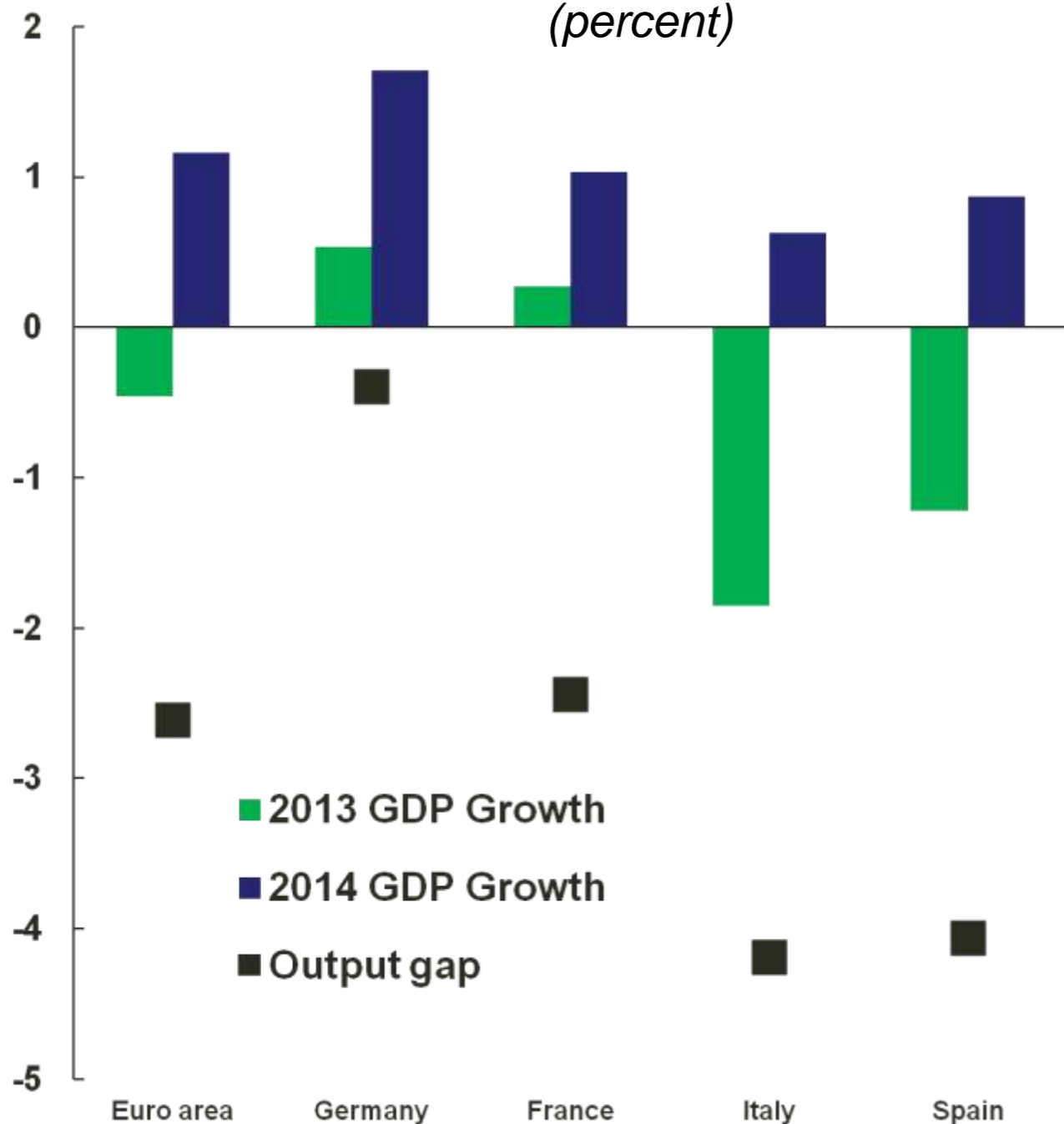


Sources: Haver Analytics; and IMF staff calculations.  
1/ Euro area includes subsector employers (including own-account workers).

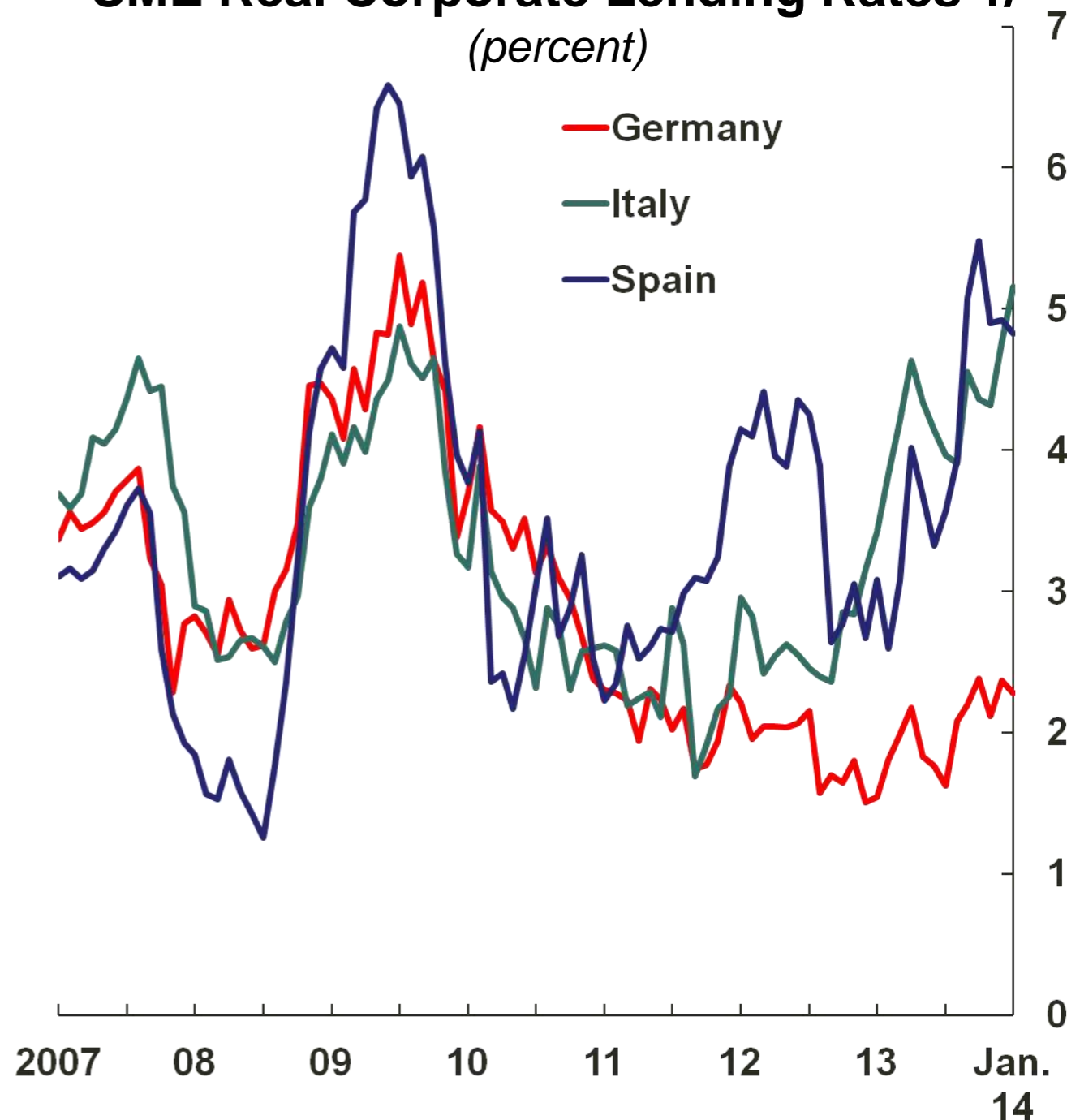


... where growth has picked up, but debt and financial fragmentation persist

**GDP Growth and Output Gaps**  
(percent)



**SME Real Corporate Lending Rates 1/**  
(percent)

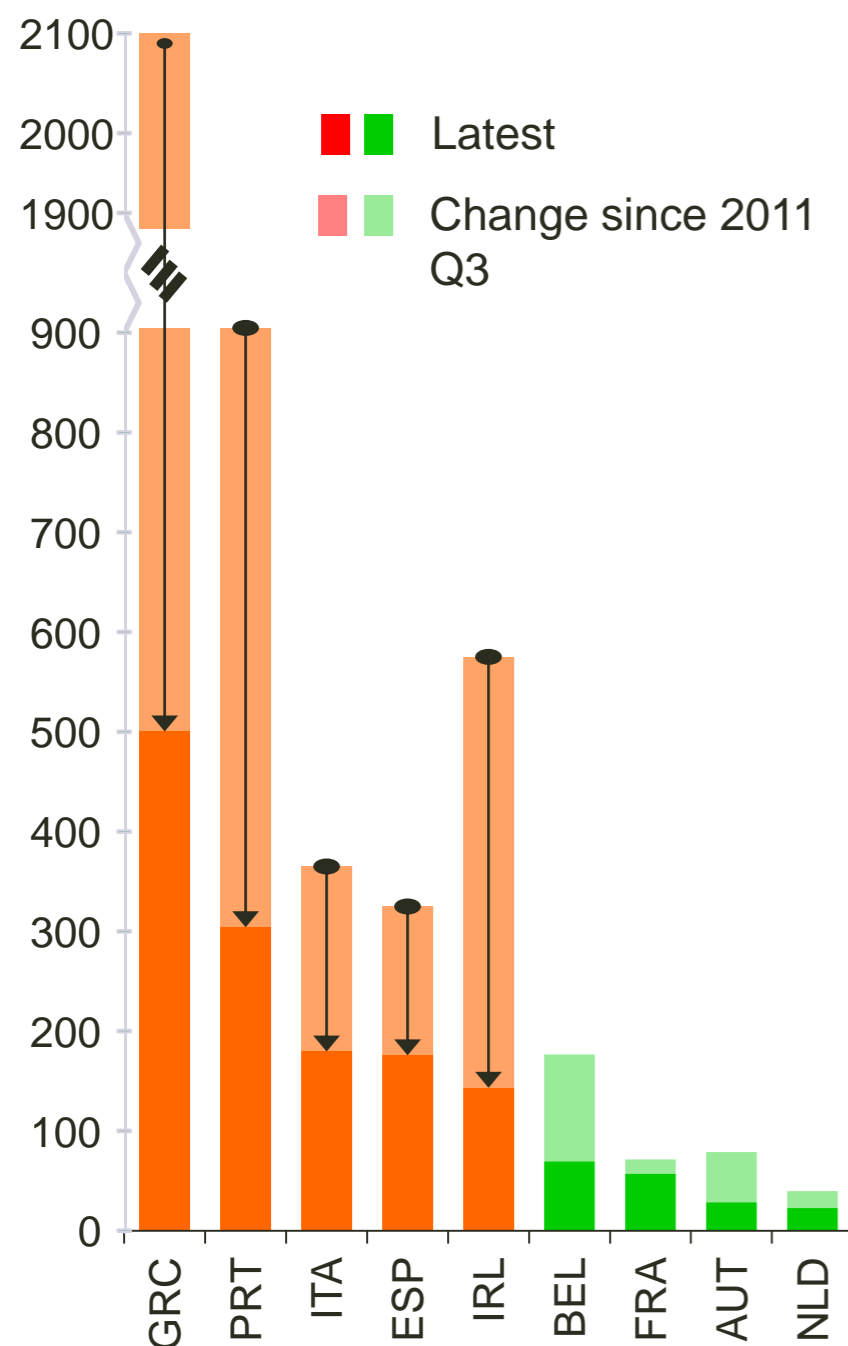


Sources: European Central Bank (ECB); Haver Analytics; and IMF staff estimates.  
1/ Monetary and financial institutions' lending to corporations under €1 million, 1–5 years.

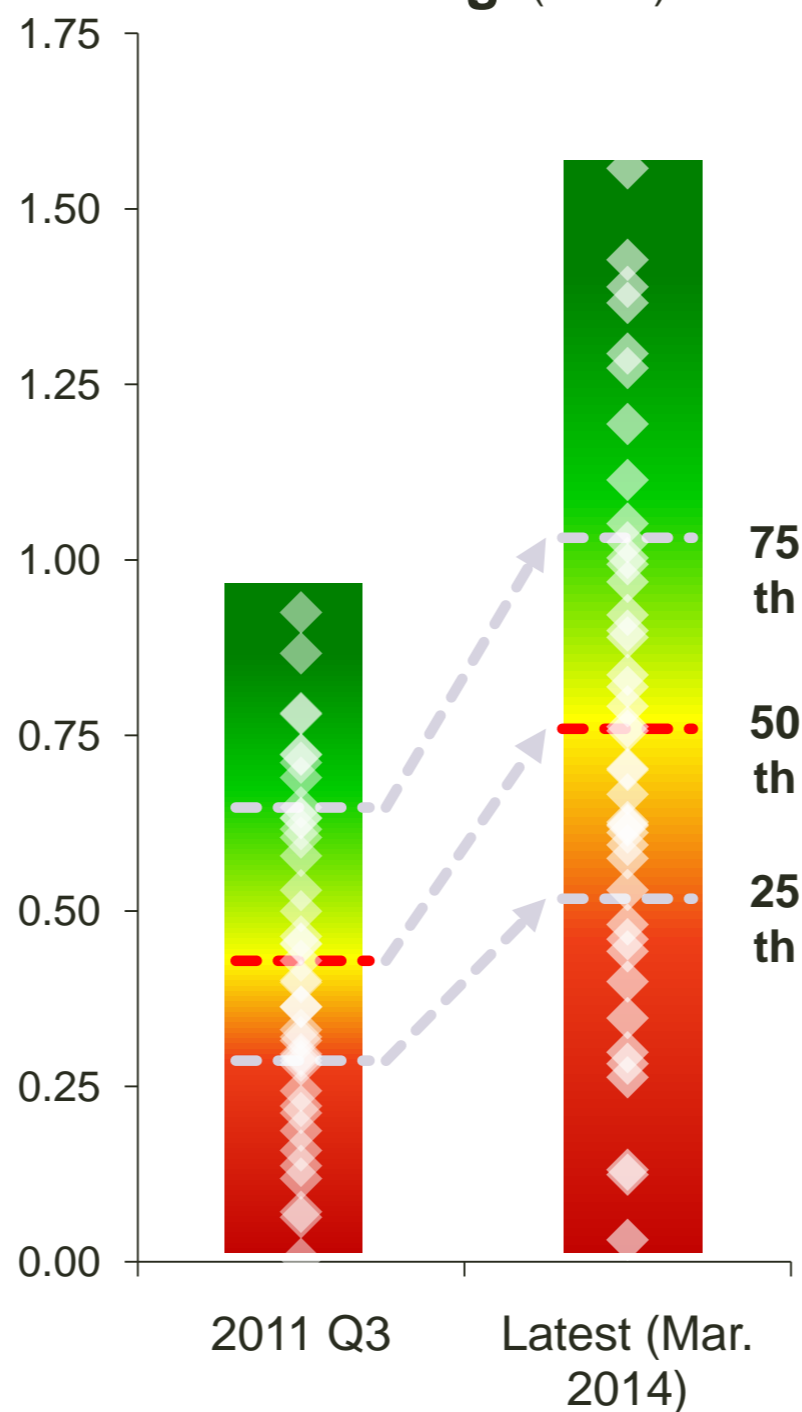


# Euro area: despite more confidence in sovereigns and banks...

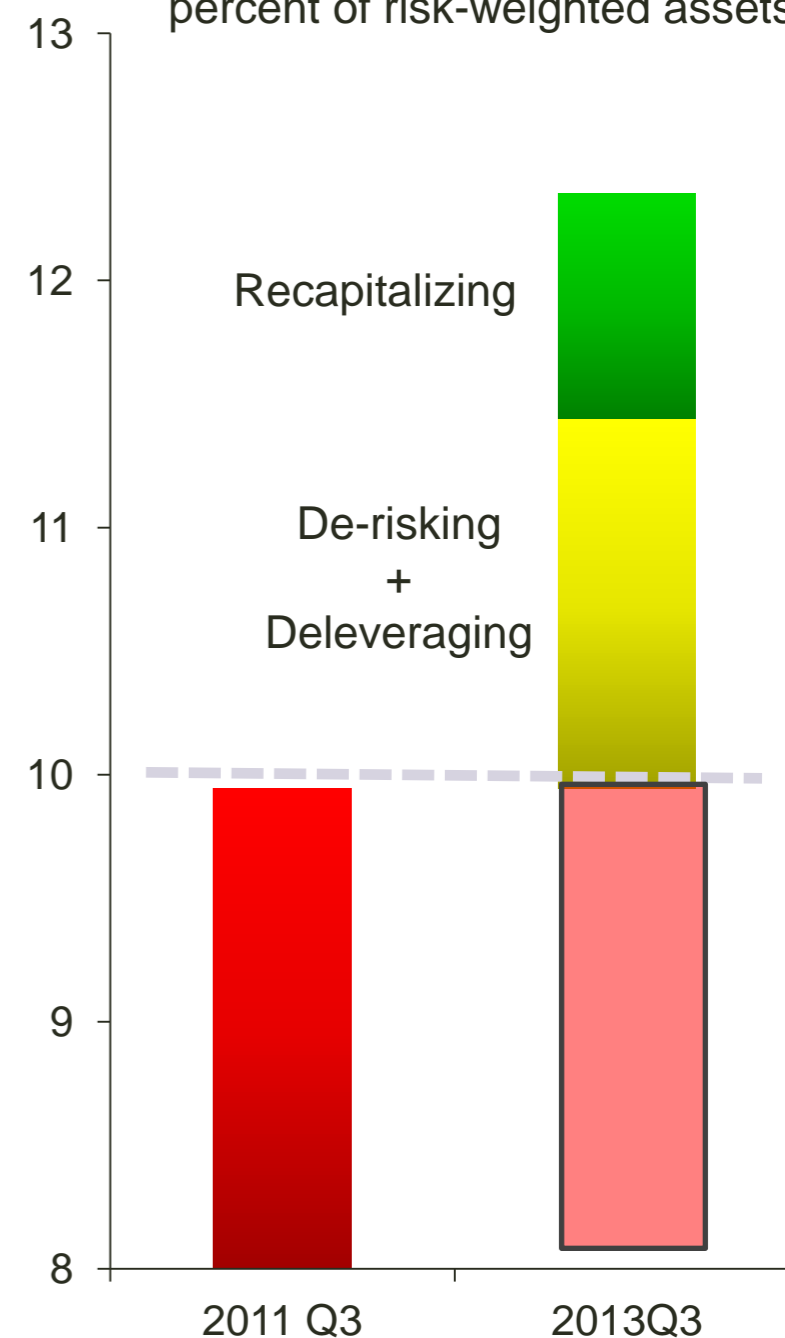
## Sovereign spreads falling (bps)



## Bank price-to-book ratios rising (times)



## Bank capital increasing (change in core Tier 1 ratio, percent of risk-weighted assets)

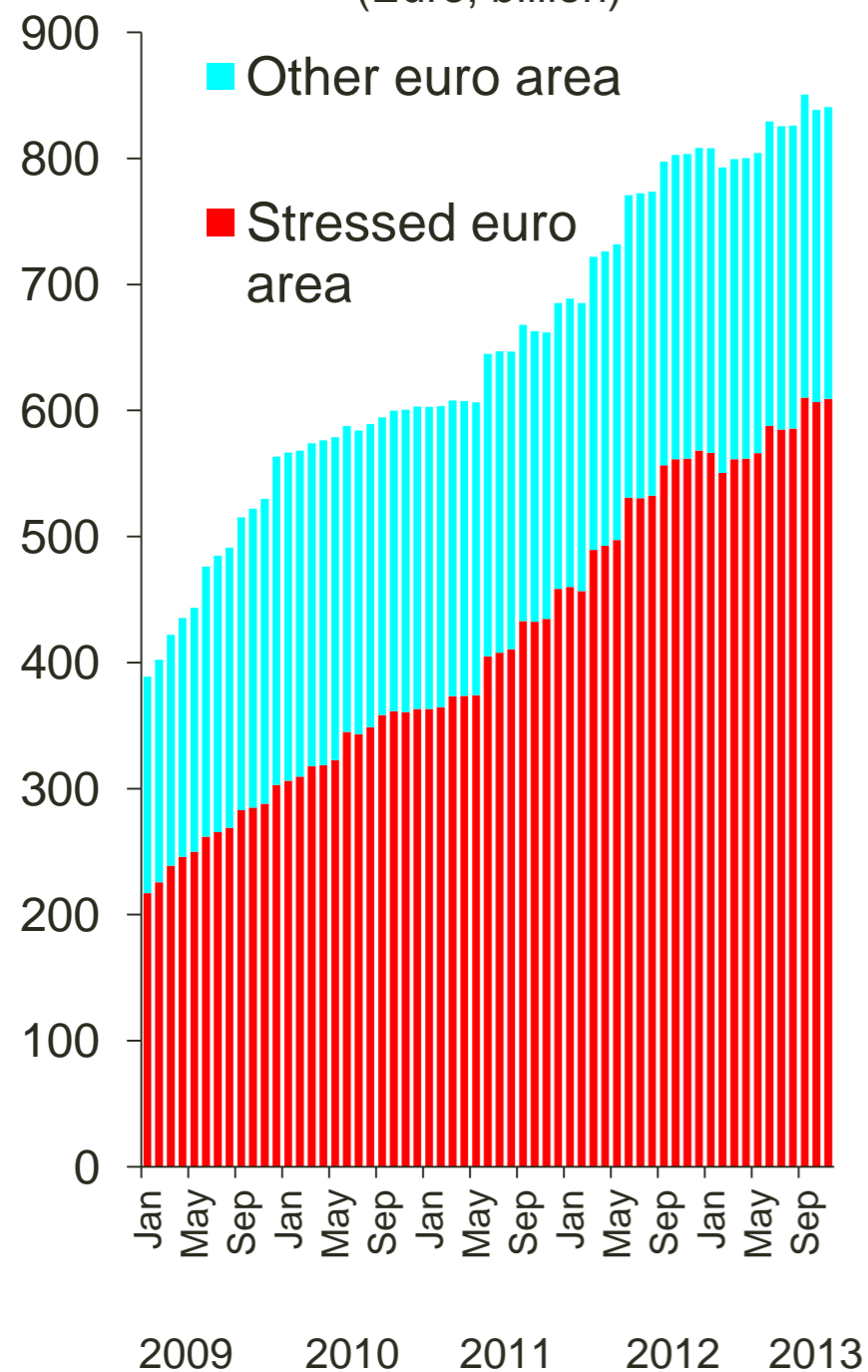




# ...incomplete repair of banks and corporates remains a concern

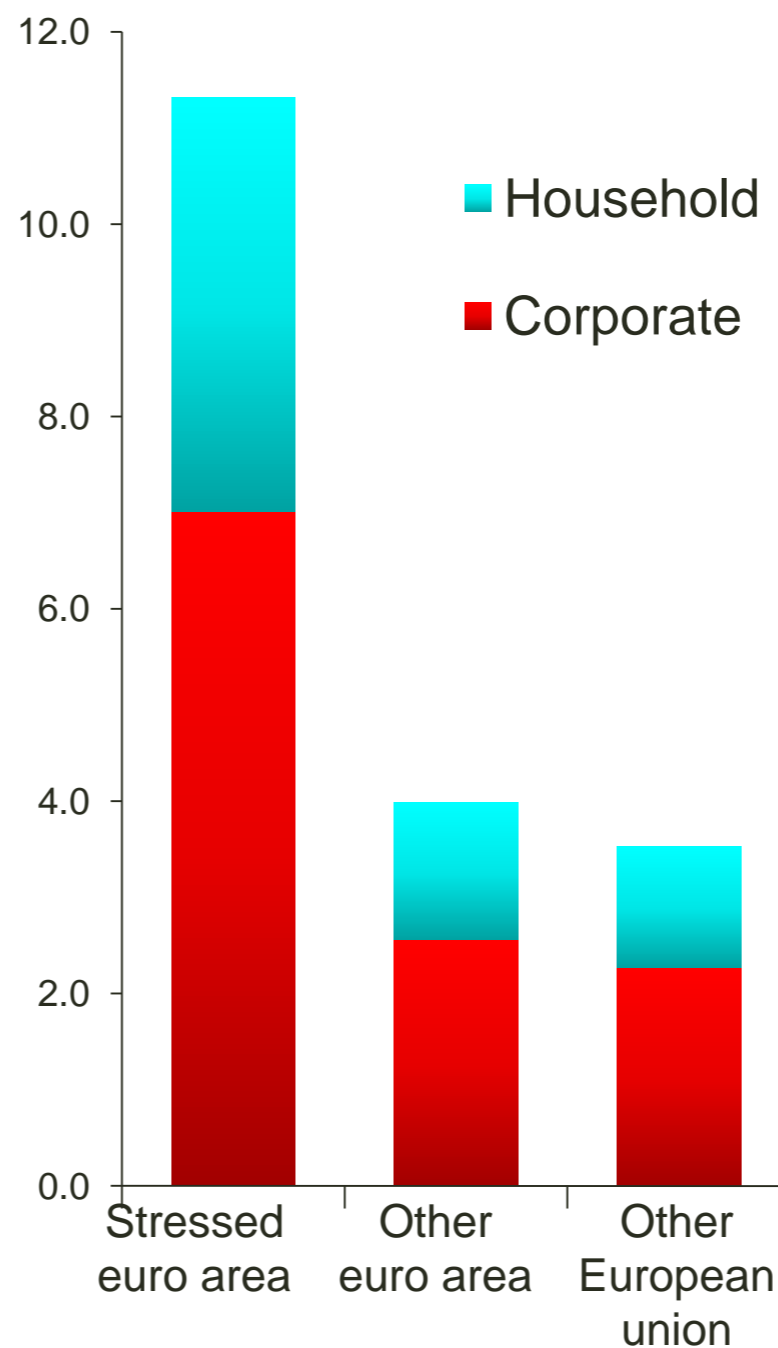
## Non-performing loans

(Euro, billion)

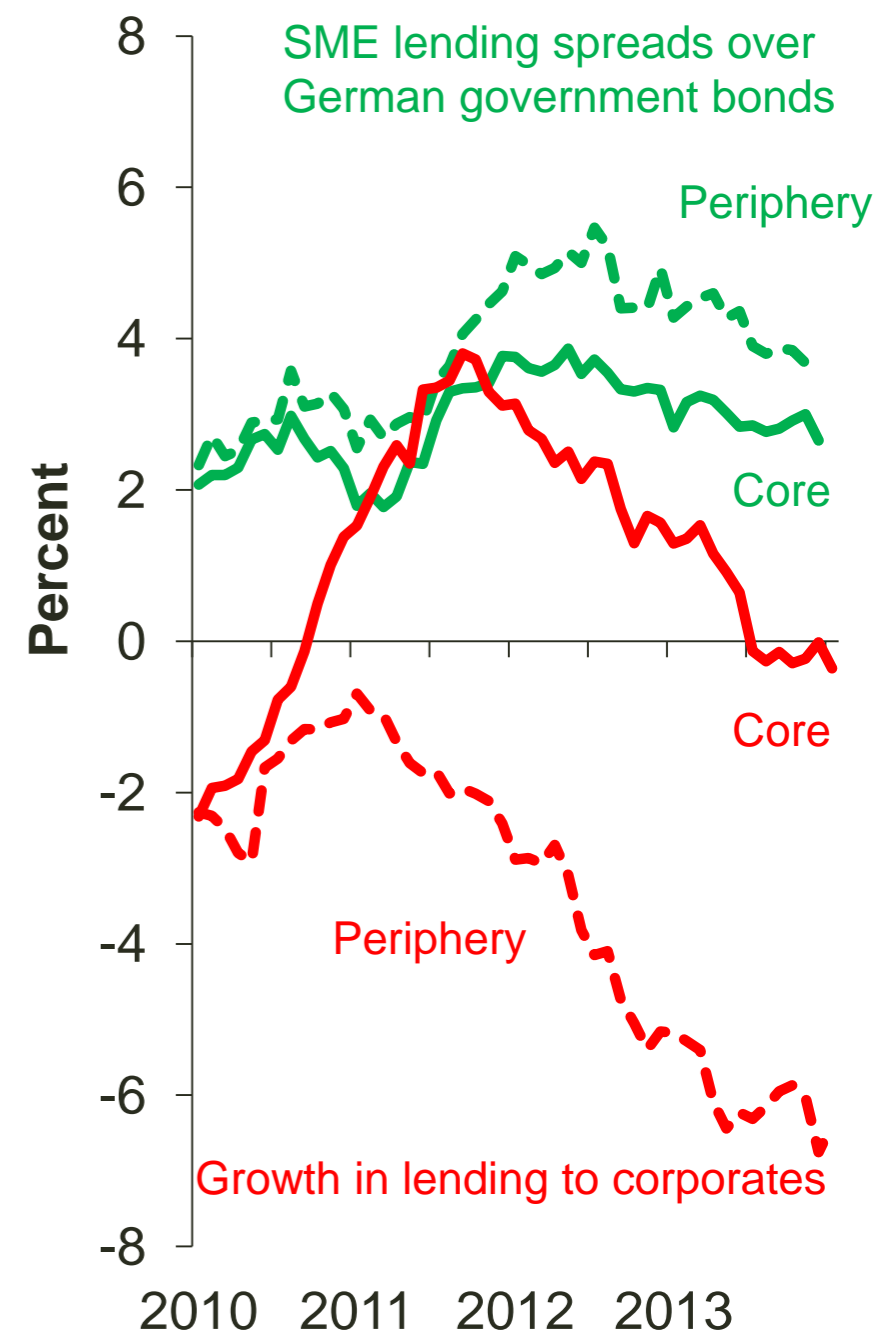


## Non-performing loans

(percent of total exposures)



## Credit conditions





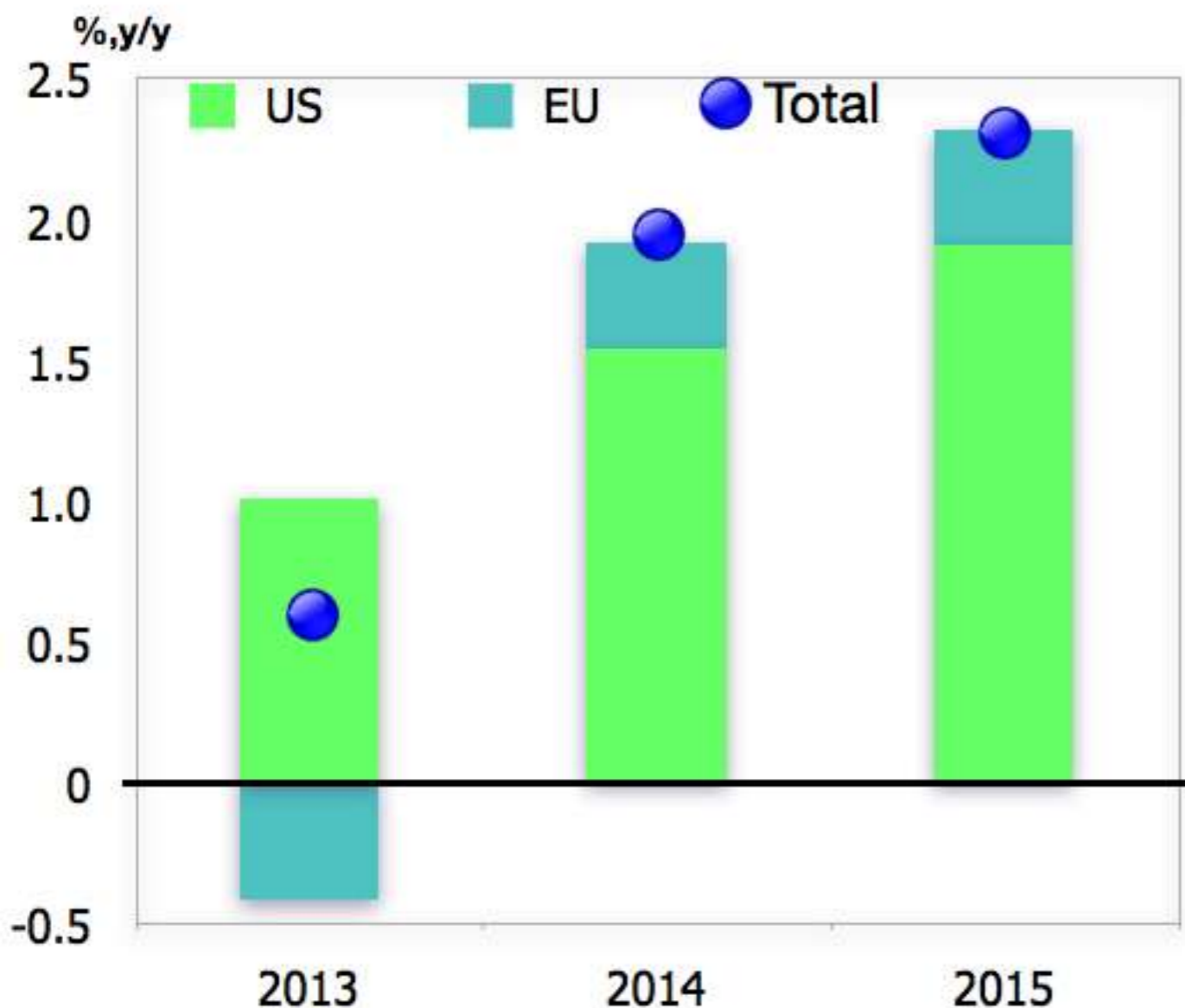
# Turning to Asia: Key Messages from Asia REO

- **Asia remains most dynamic region in the world**
- **Risks from outside Asia have receded**
- **But need for vigilance and reforms**

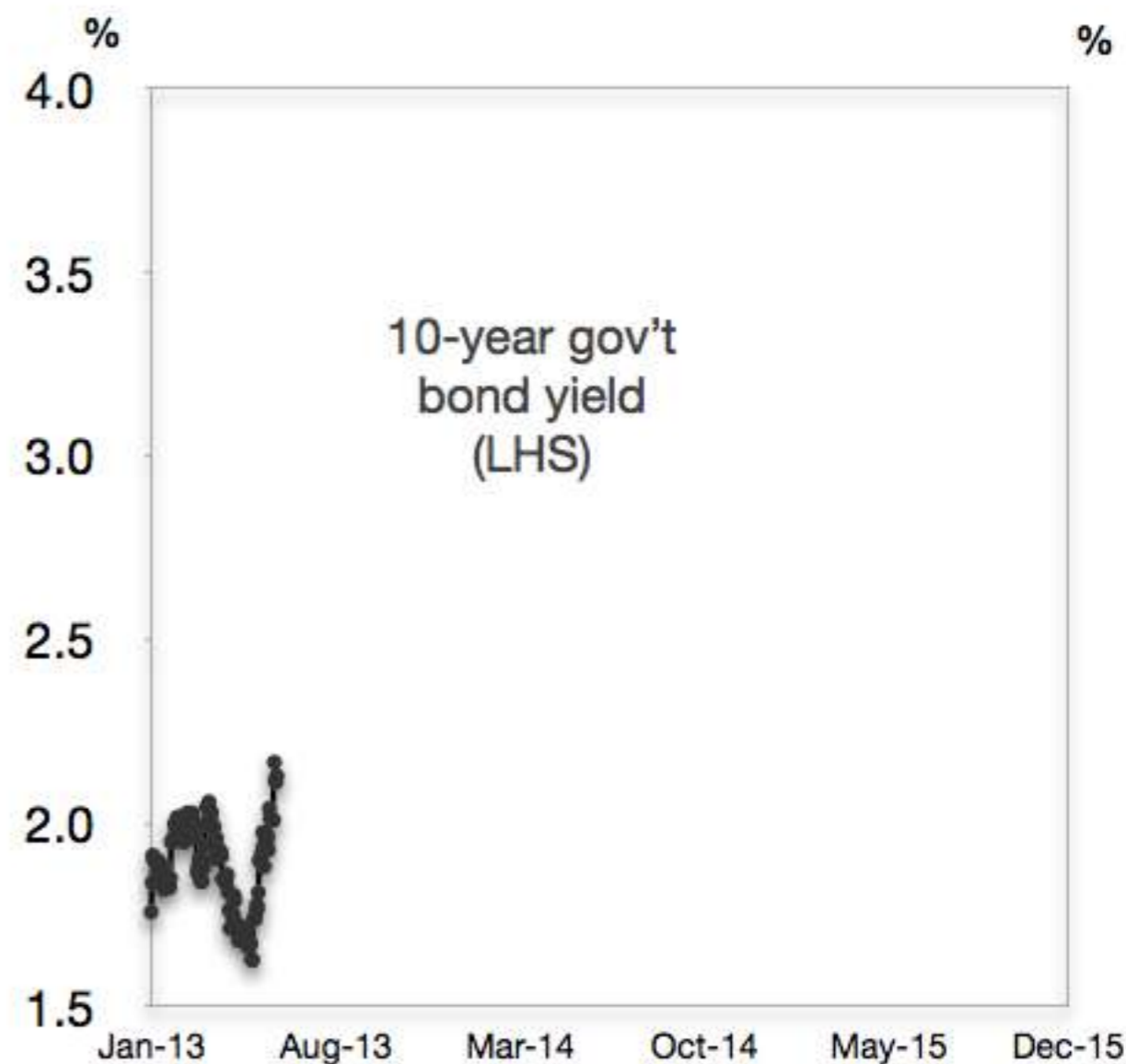


# Drivers: supportive global environment on balance

## Domestic Demand from EU and US



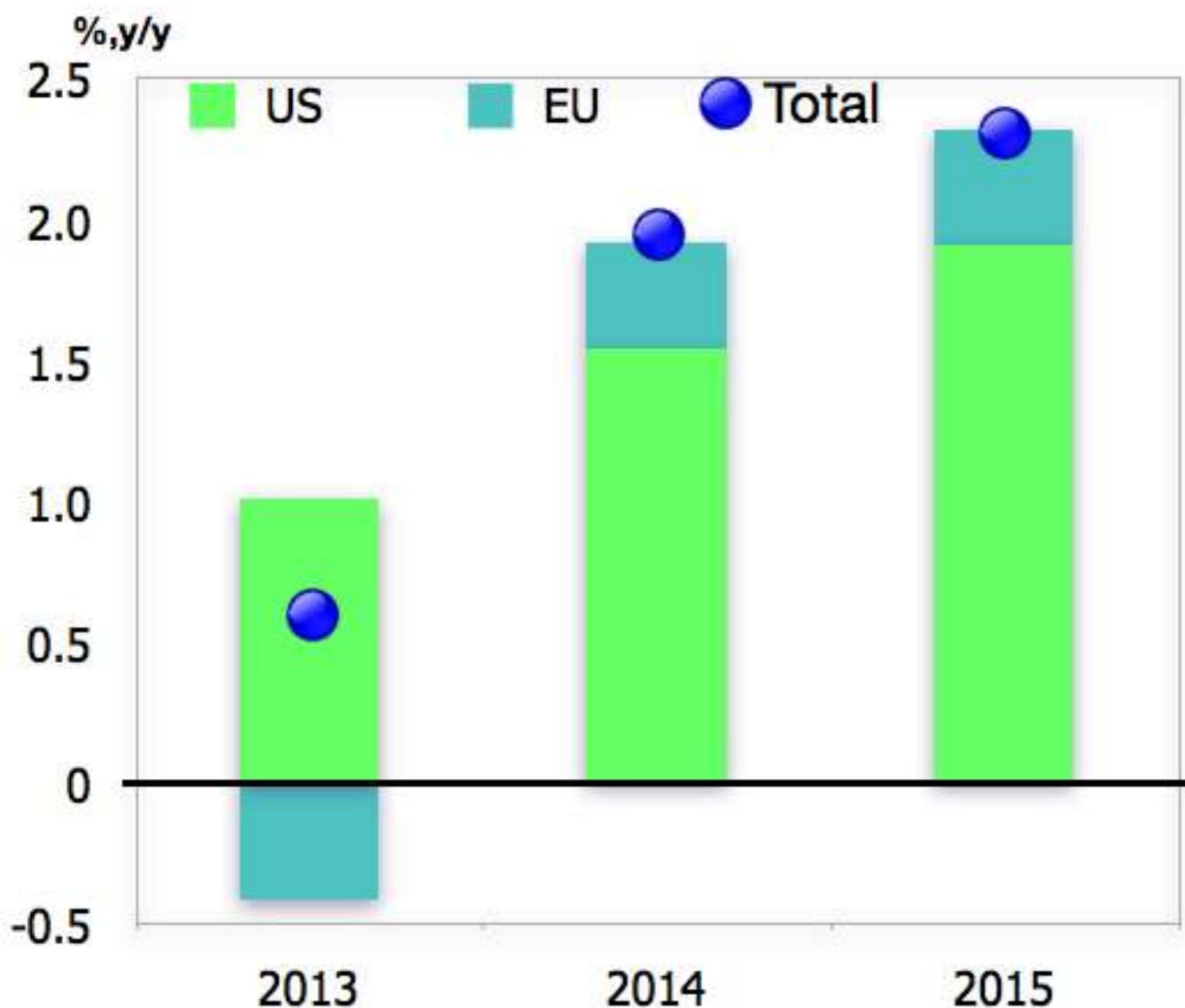
## US Interest Rates



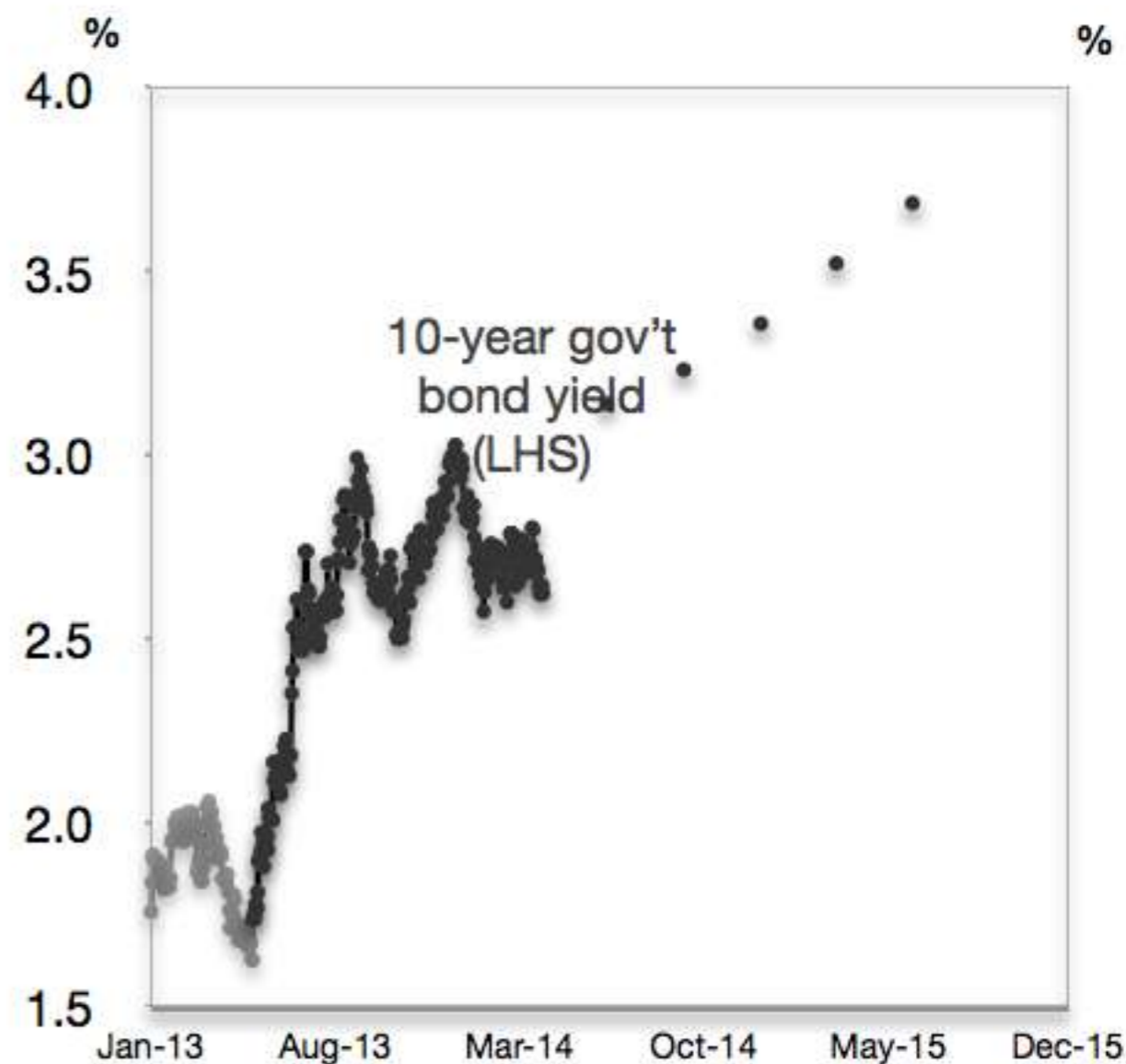


# Drivers: supportive global environment on balance

## Domestic Demand from EU and US



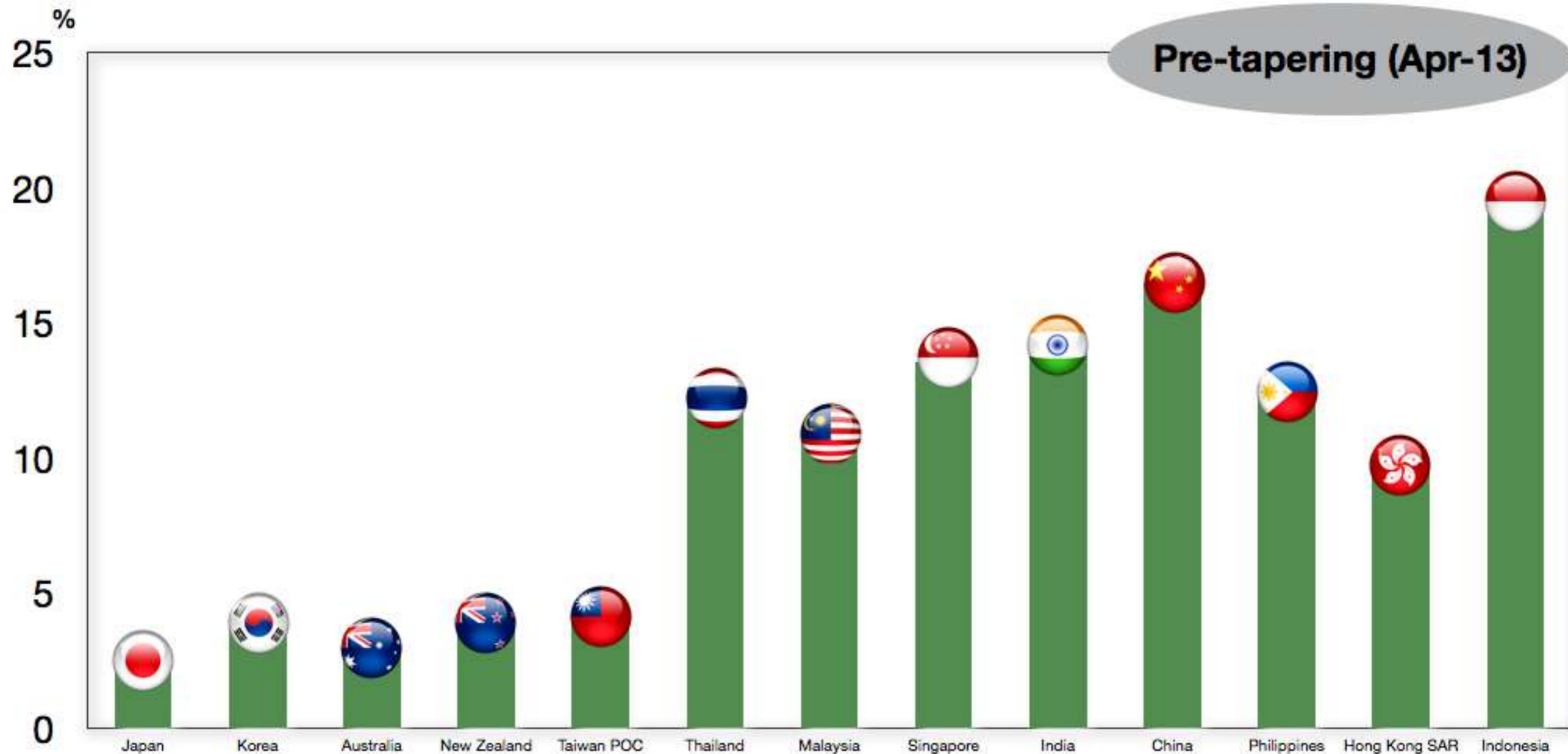
## US Interest Rates





# Drivers: resilient domestic demand supported by solid credit growth

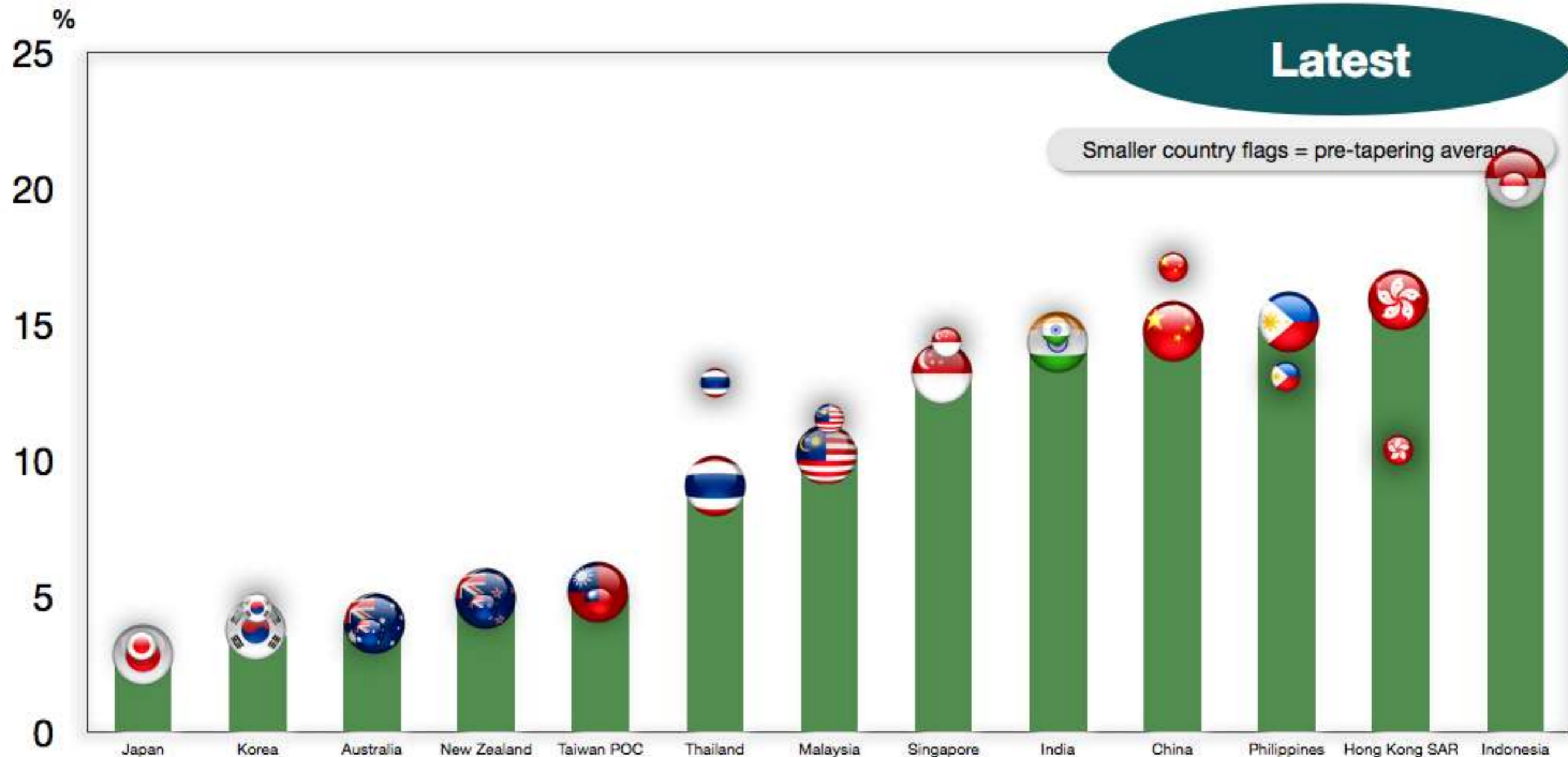
## Credit to Private Sector Growth





# Drivers: resilient domestic demand supported by solid credit growth

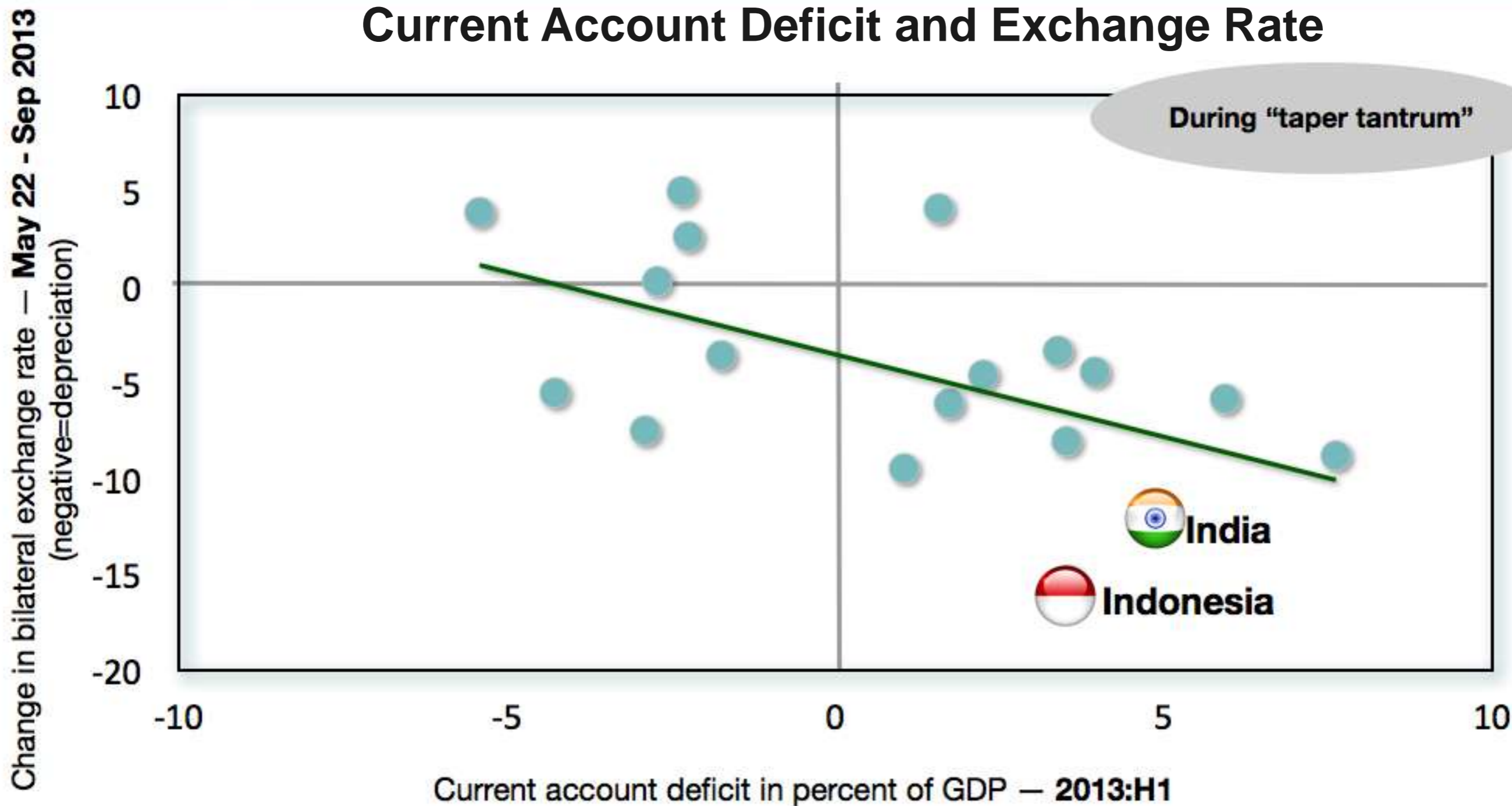
## Credit to Private Sector Growth





# Drivers: actions taken to reduce vulnerabilities are bearing fruit

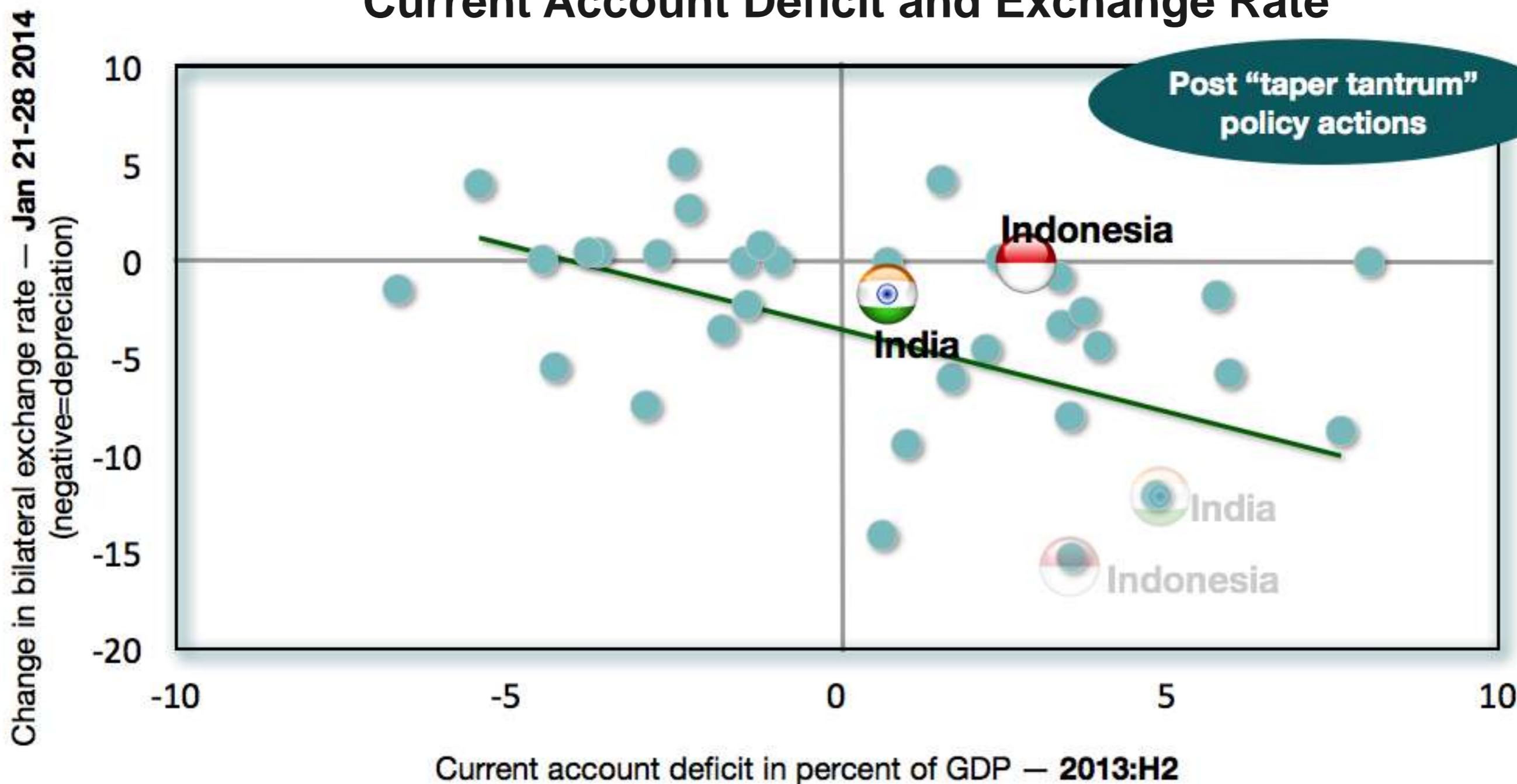
## Current Account Deficit and Exchange Rate





# Drivers: actions taken to reduce vulnerabilities are bearing fruit

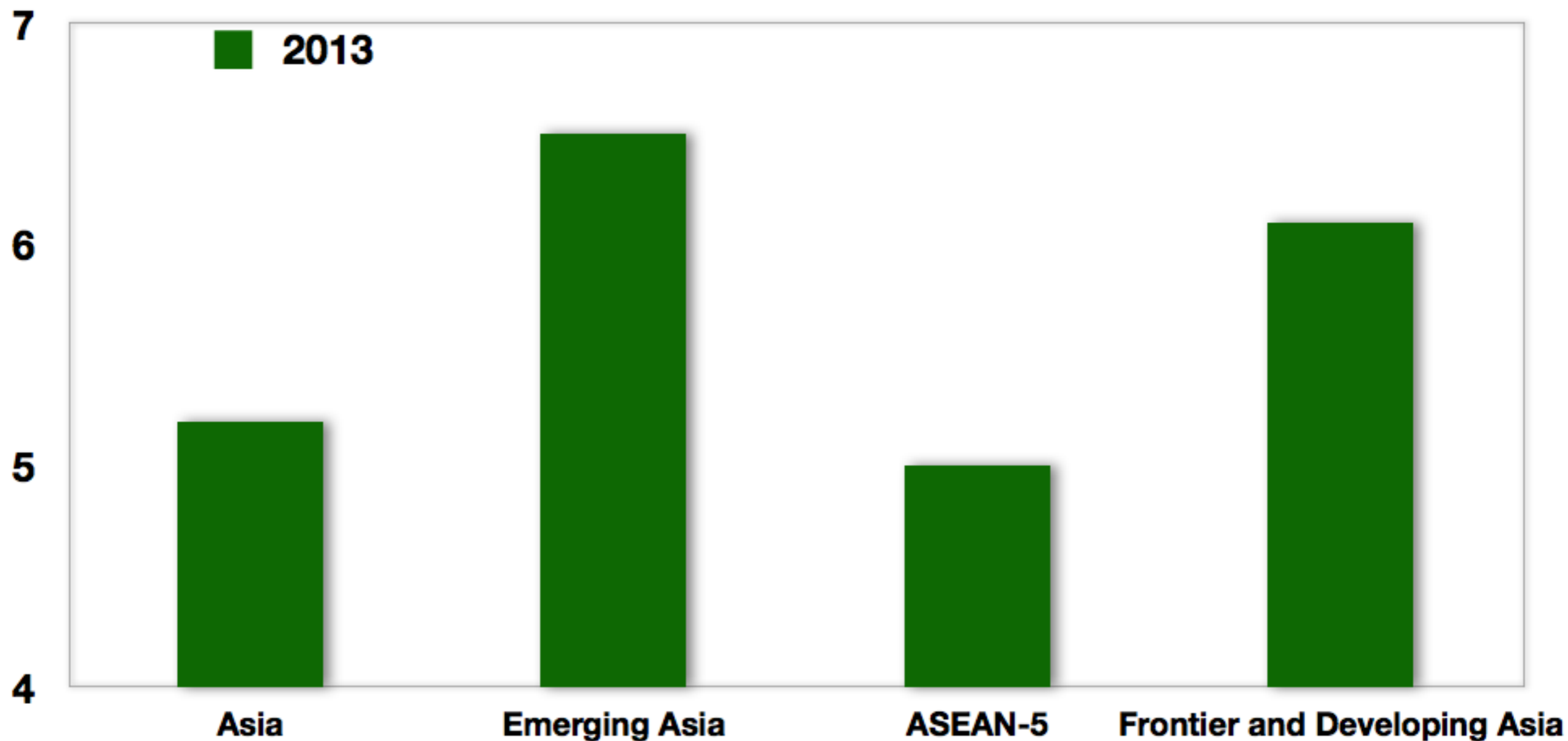
## Current Account Deficit and Exchange Rate





# Steady growth ahead...

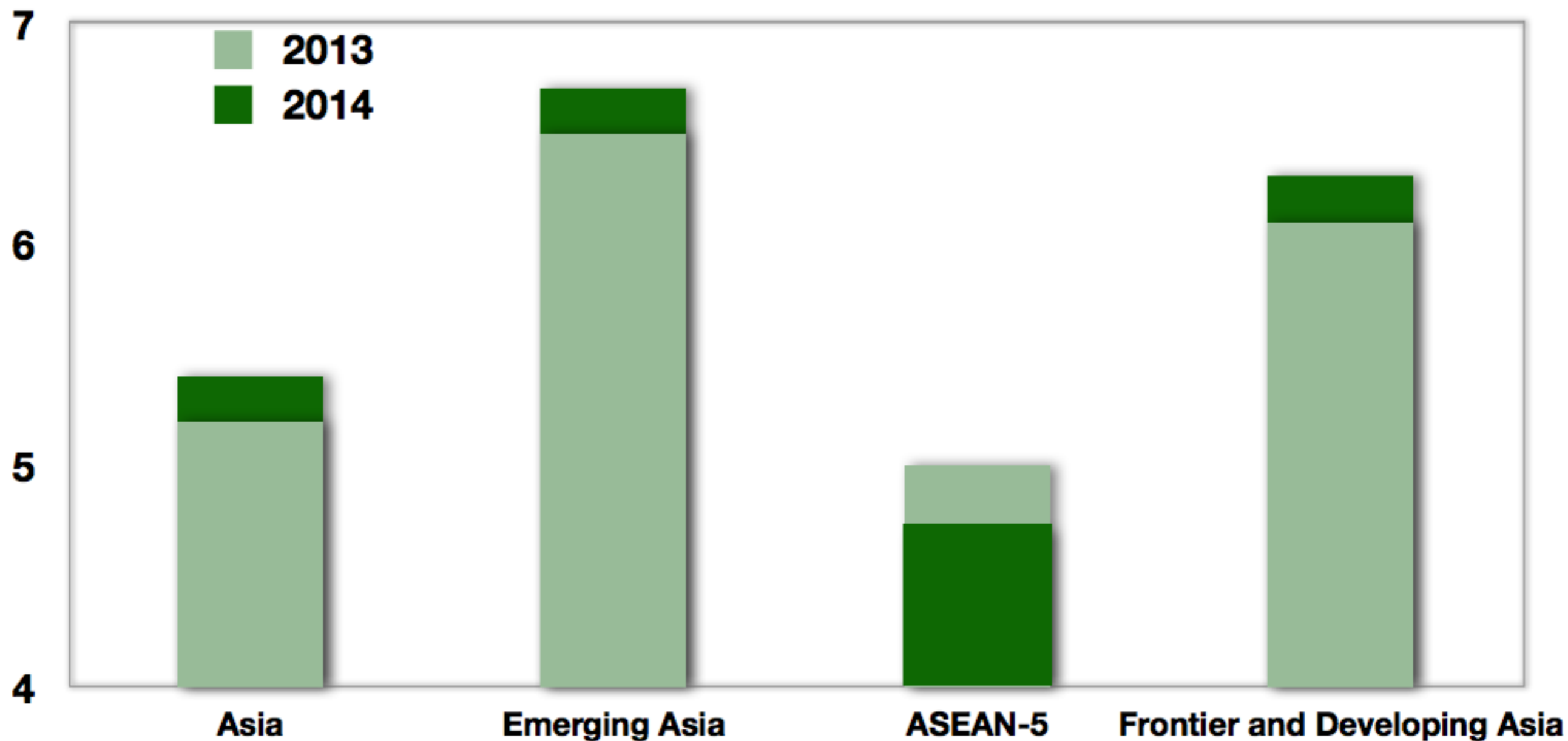
## Asia: Real GDP Growth by Region





# Steady growth ahead...

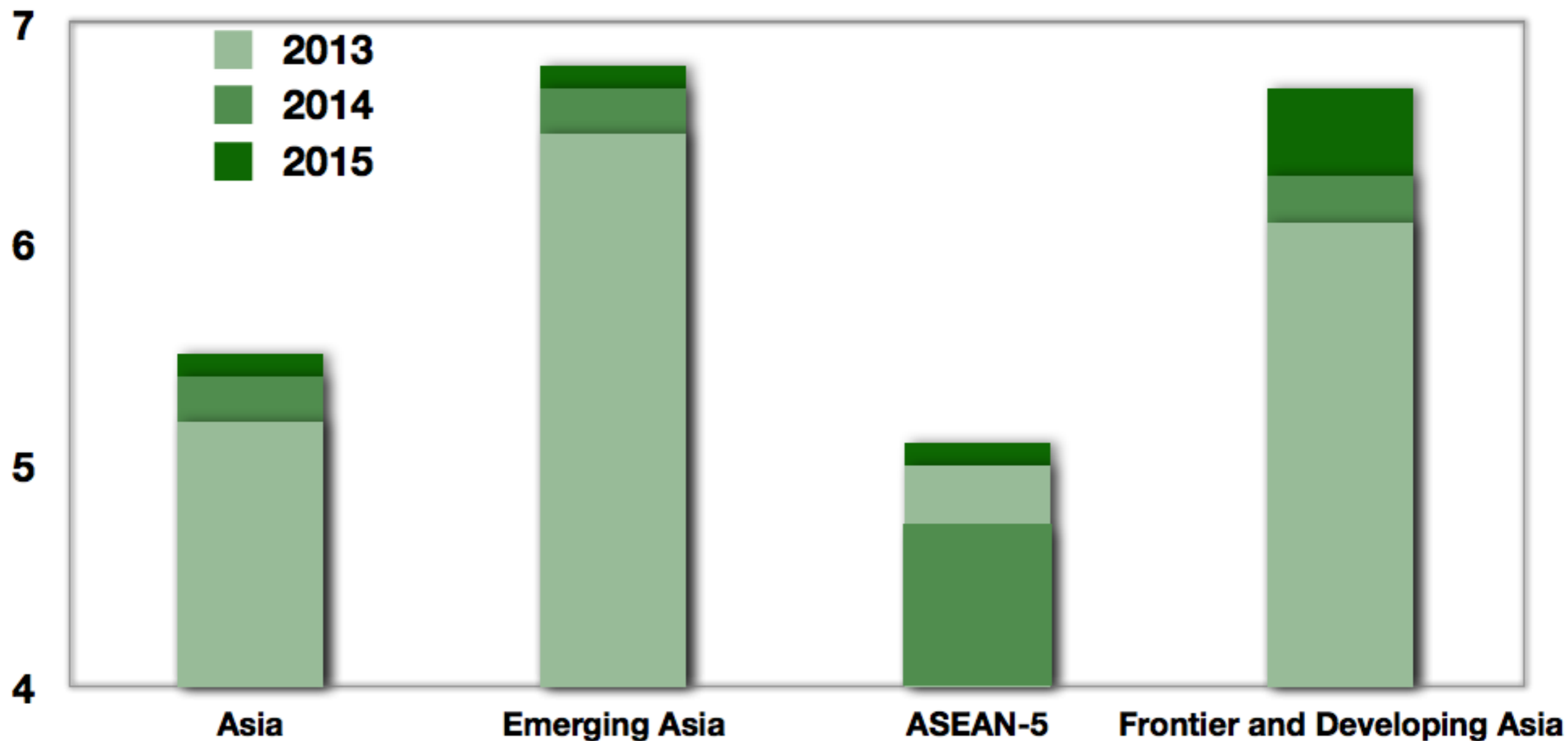
## Asia: Real GDP Growth by Region





# Steady growth ahead...

## Asia: Real GDP Growth by Region





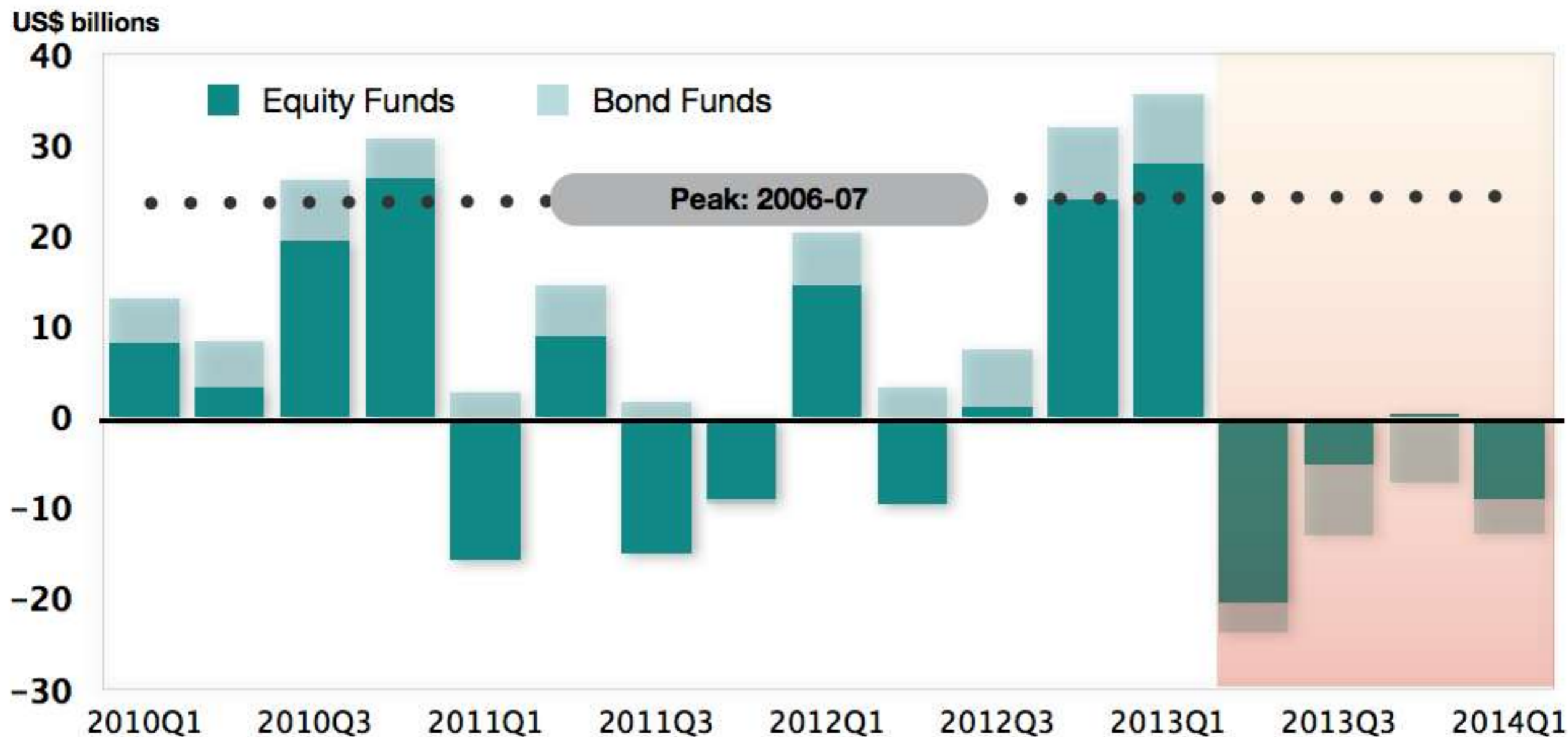
## Risks – three of them

- 1) Tightening of global liquidity
- 2) Corporate leverage
- 3) China: slowdown welcome, but sharp one would have spillovers



# 1) Unexpected tightening of global liquidity could lead to new financial pressure

## Asia: Equity and Bond Funds—Quarterly Net Flows

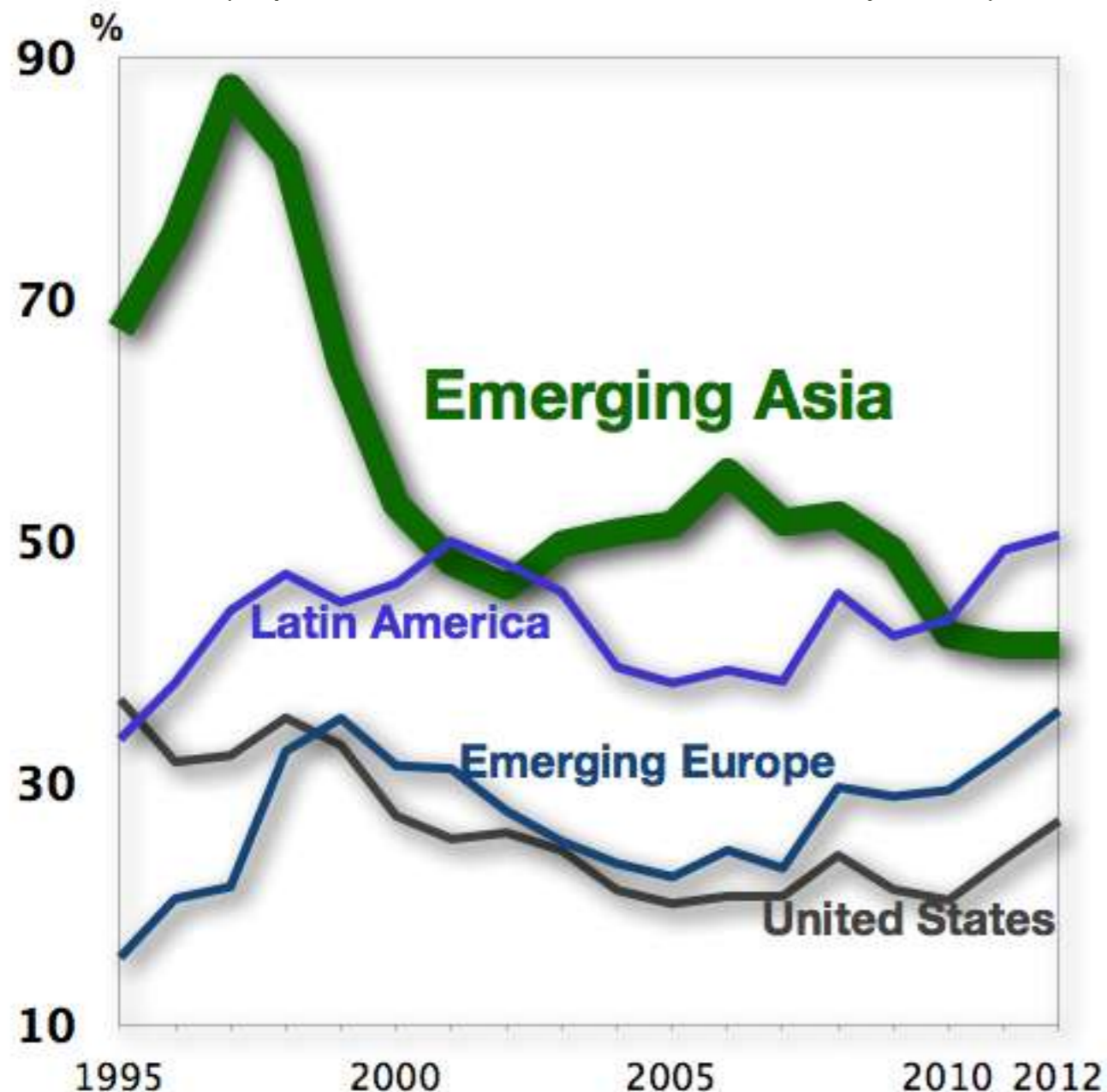




## 2) Corporate leverage could amplify impact, but no alarming build-up overall (chap 2)

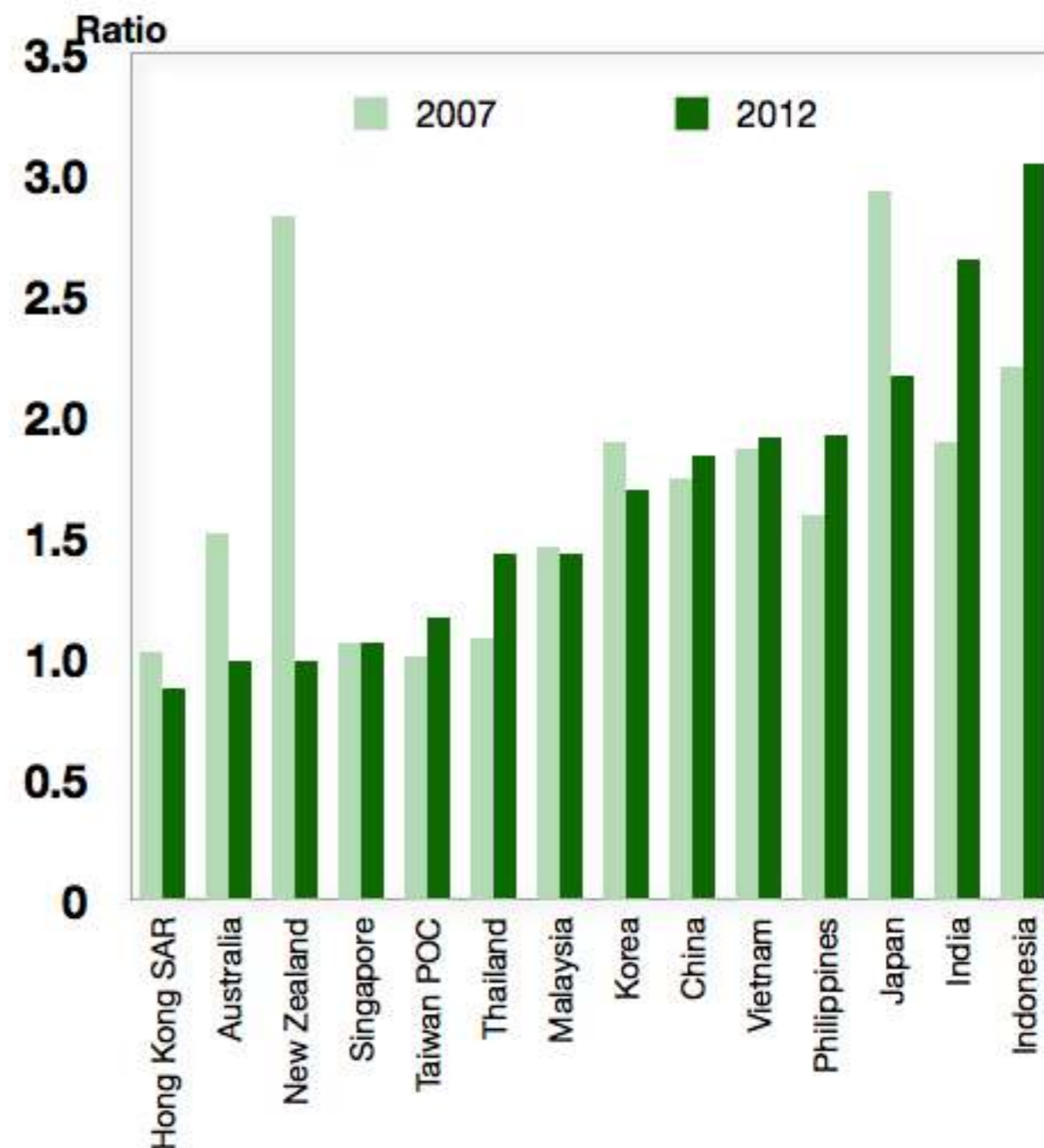
### Debt to Equity Ratio

(In percent; median for non-financial corporates)



### Asia: Debt to Equity Ratio

(Ratio, total debt-weighted average)

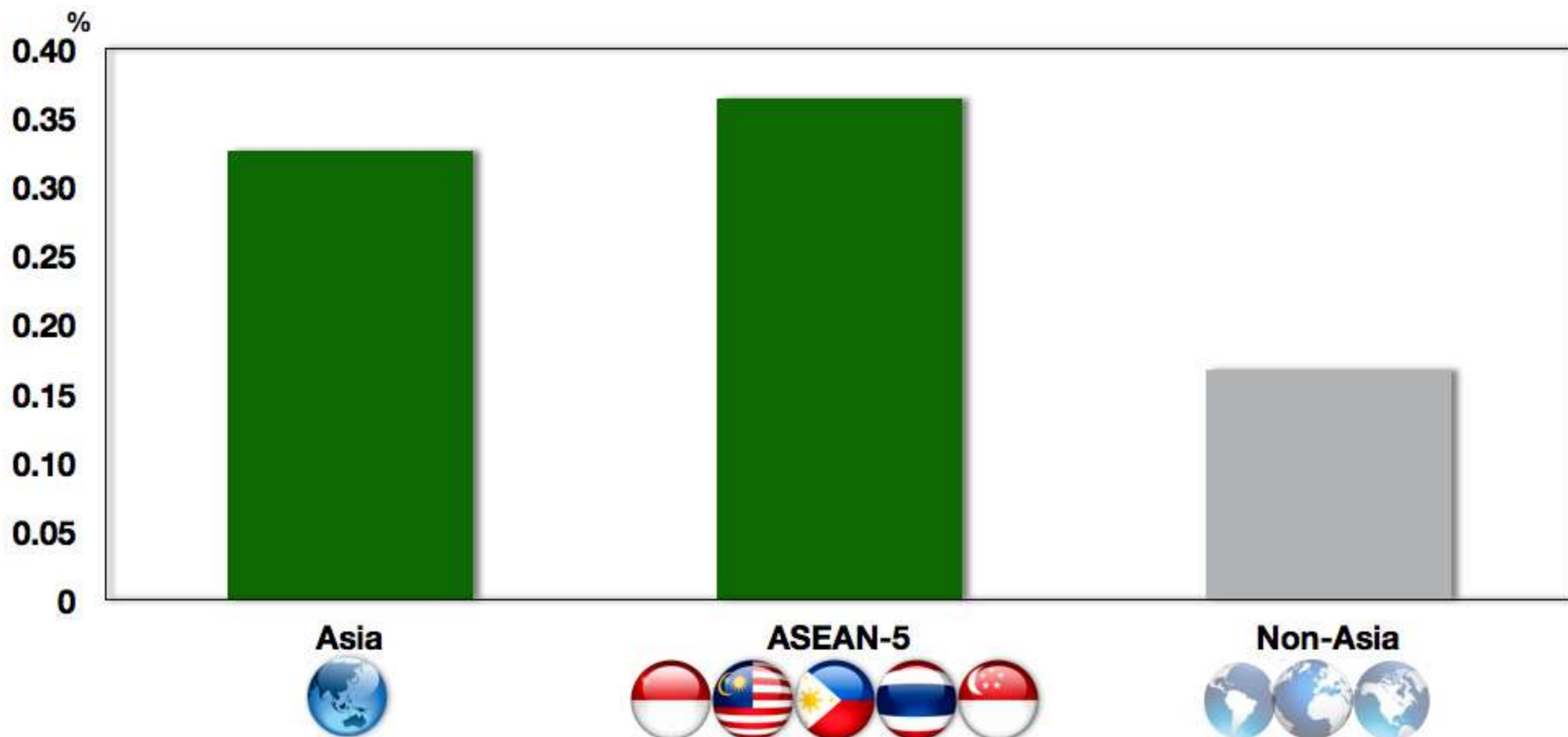




### 3) China: slowdown welcome, but sharp growth fall would have spillovers (chap 3)

#### Estimated Impact of 1% Growth Surprise in China on Partner Country Growth

(GDP growth impact after one year, in percentage points: Median)



Sources: IMF, staff estimates (APD REO Chapter 3)



# Policy settings and challenges

In general across Asia:

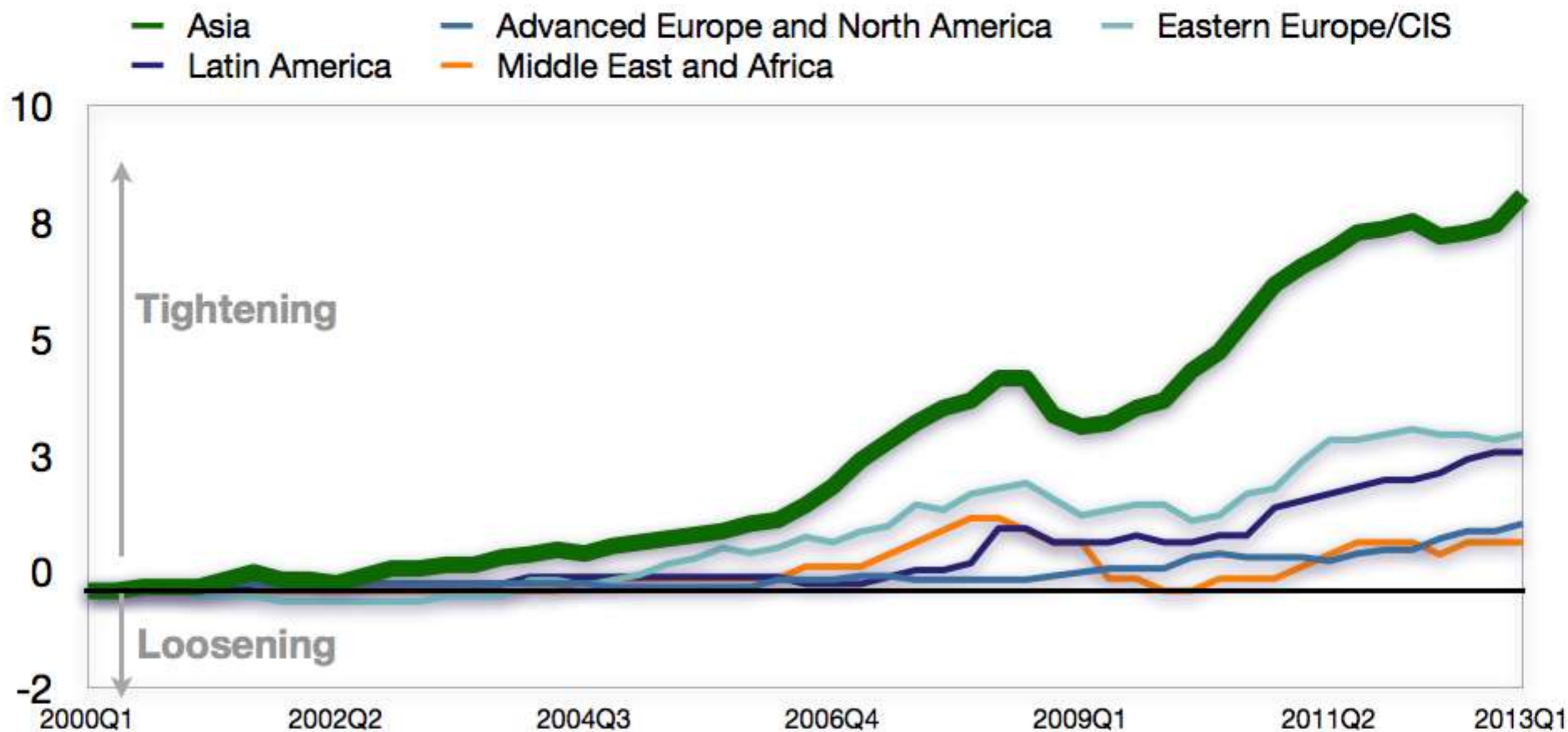
- Monetary: progressive normalization as conditions warrant
- Fiscal: gradual consolidation
- Macroprudential: remains part of the toolkit
- Structural: key for both short-term financial stability and medium-term growth

But no one-size-fits-all: there are subregional specificities



# Macprudential policies: helpful in curbing credit and asset prices (chap 4)

## Macprudential Policies: Cumulative by Region



Source: IMF staff calculations, Asia and Pacific Regional Economic Outlook-Chapter 4 (2014).

<sup>1</sup> Index summing up housing-related measures, credit measures, reserve requirements, dynamic provisioning and core funding ratio. Simple average across countries within country groups.



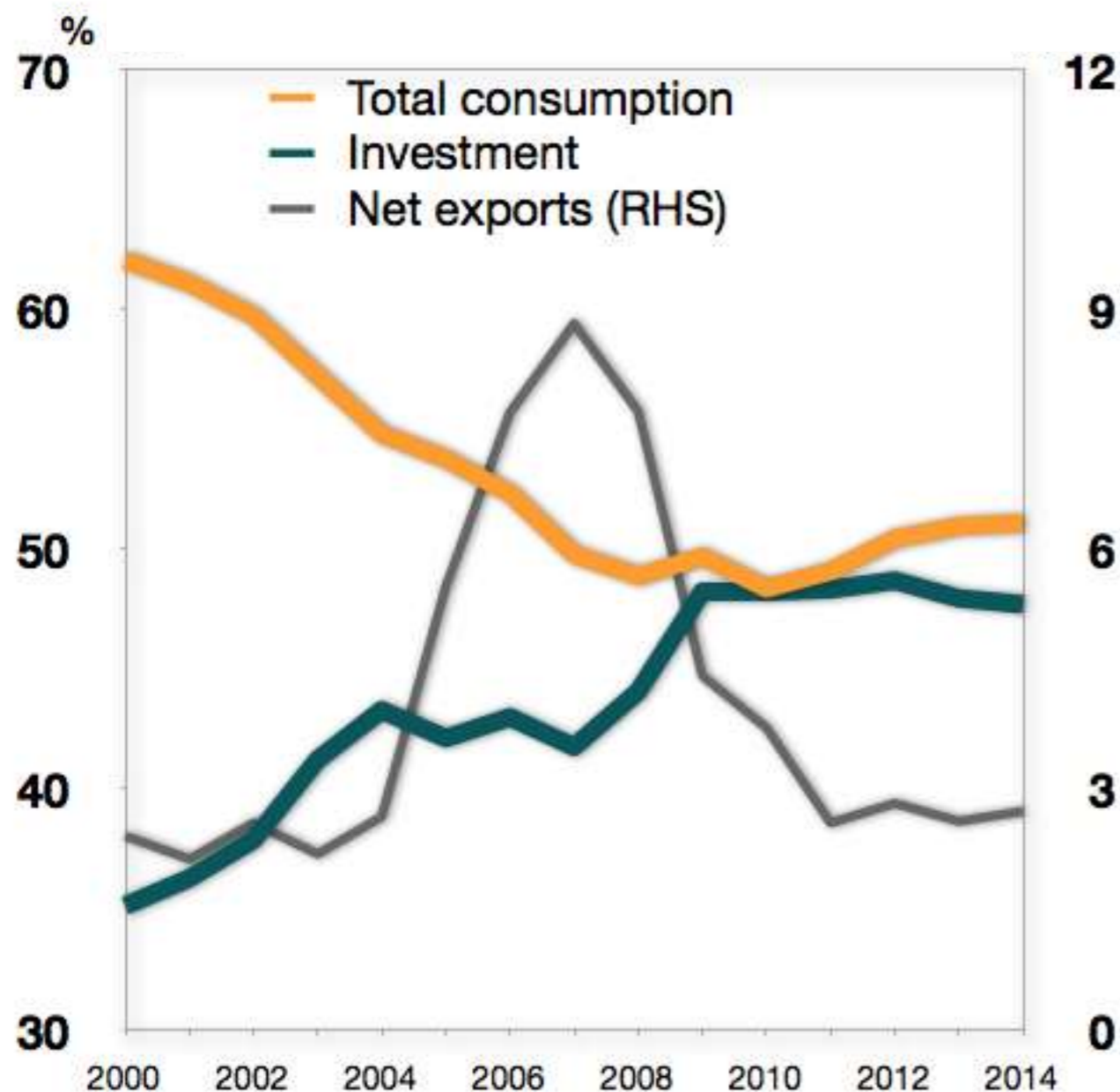
## Some sub-regional Specificities

- China: putting growth on a more sustainable path
- India: addressing growth bottlenecks and high inflation
- Some frontier and developing economies: overheating risks
- Japan: moving away from stimulus toward private-sector led growth

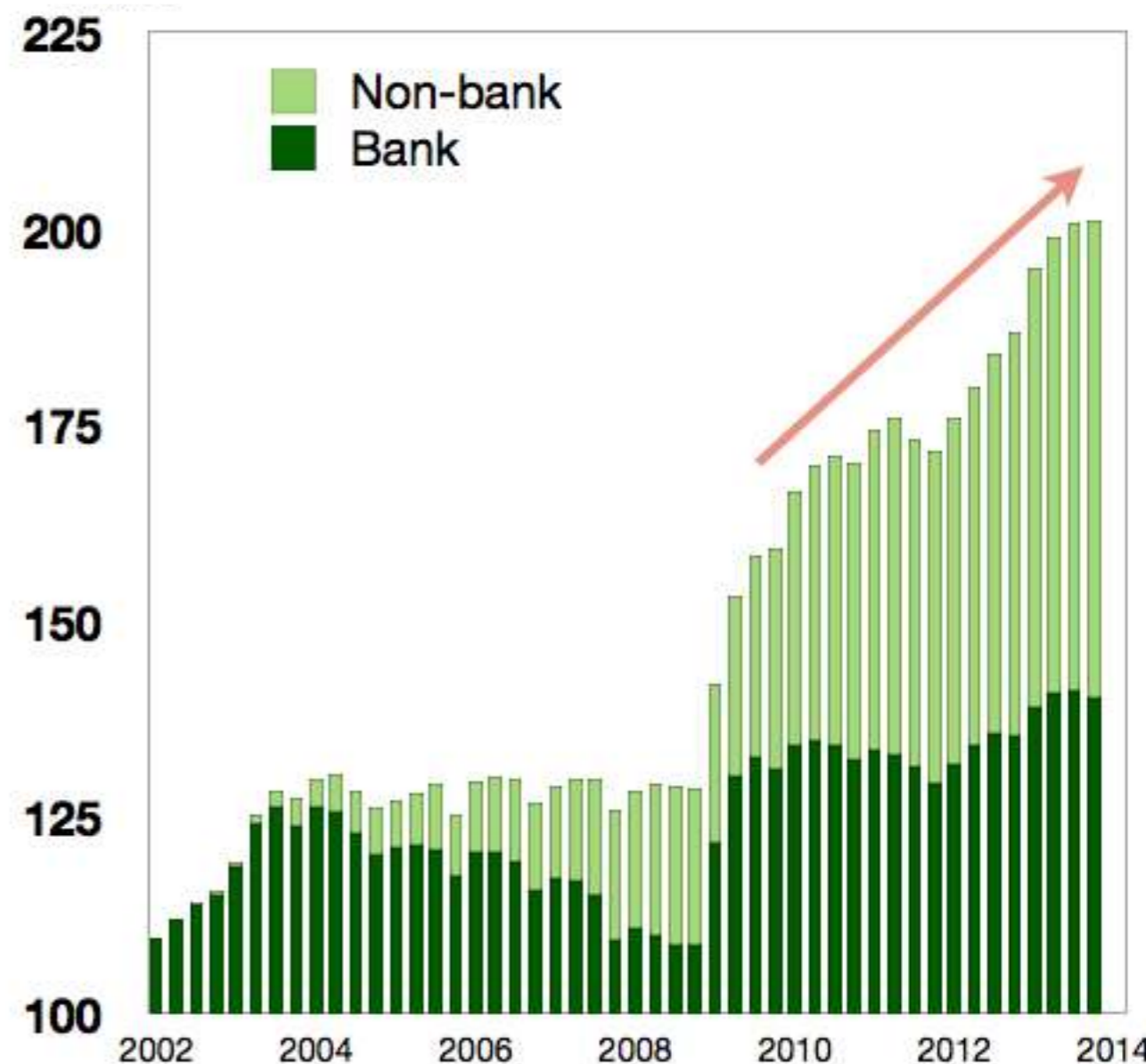


# China: putting growth on a more sustainable path including by slowing credit growth

## China: GDP Expenditure Components



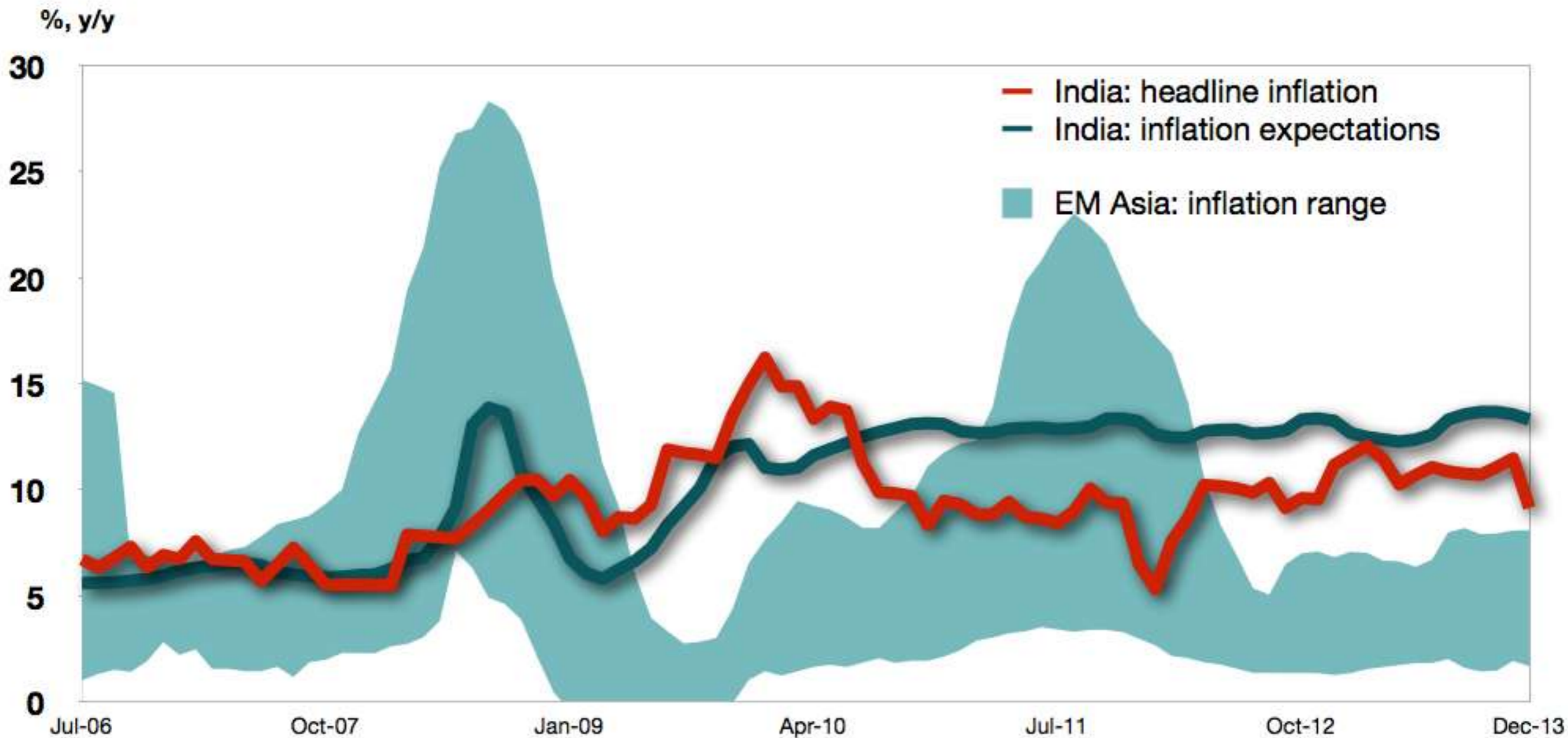
## China: Social Financing Outstanding





# India: addressing growth bottlenecks and high inflation

## India vs. Emerging Asia: Headline Inflation

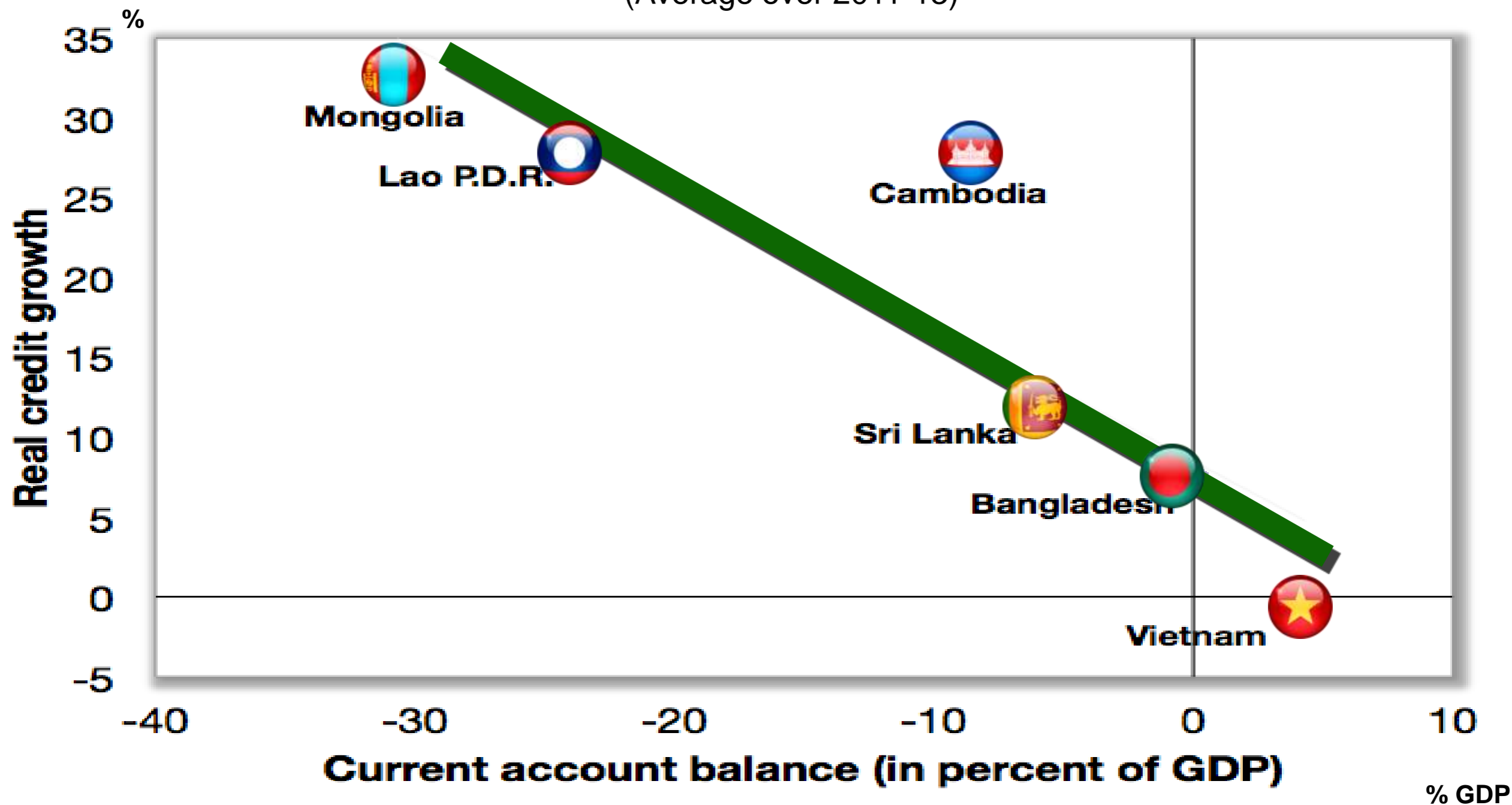




# Frontier and developing economies: avoiding overheating and curbing imbalances

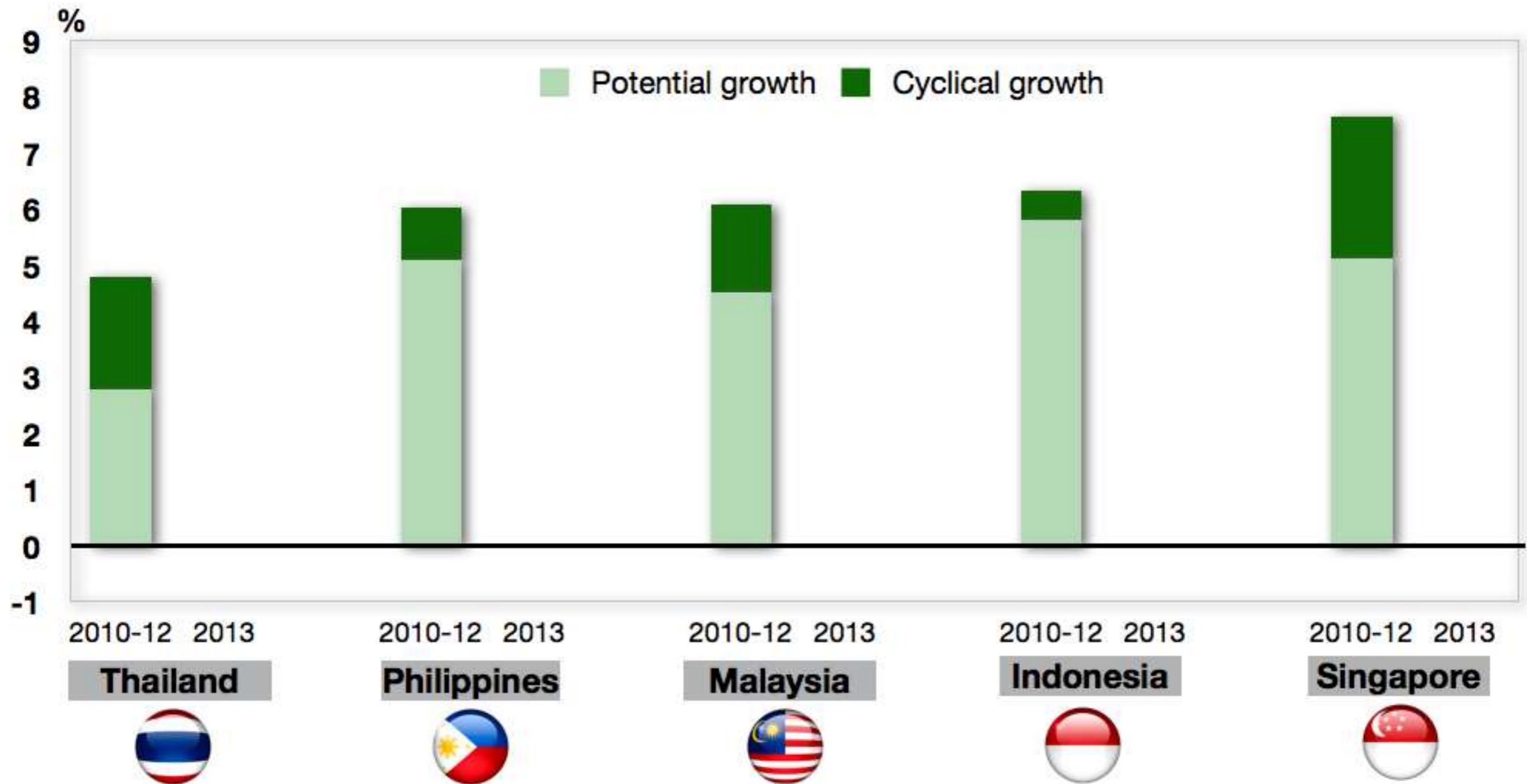
## Current Account and Real Credit Growth

(Average over 2011-13)





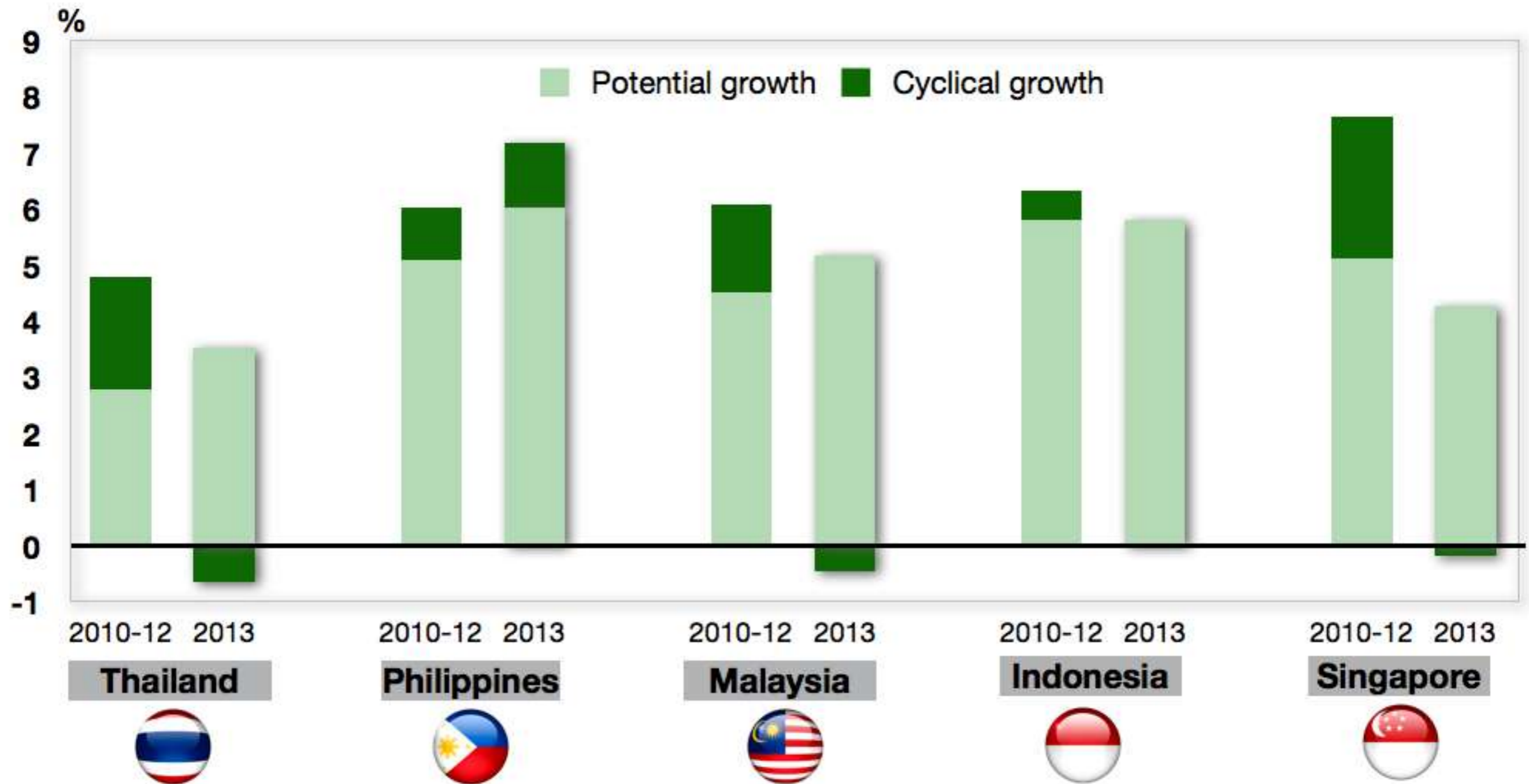
# ASEAN: gradual recovery after a cyclical slowdown





# ASEAN: gradual recovery after a cyclical slowdown

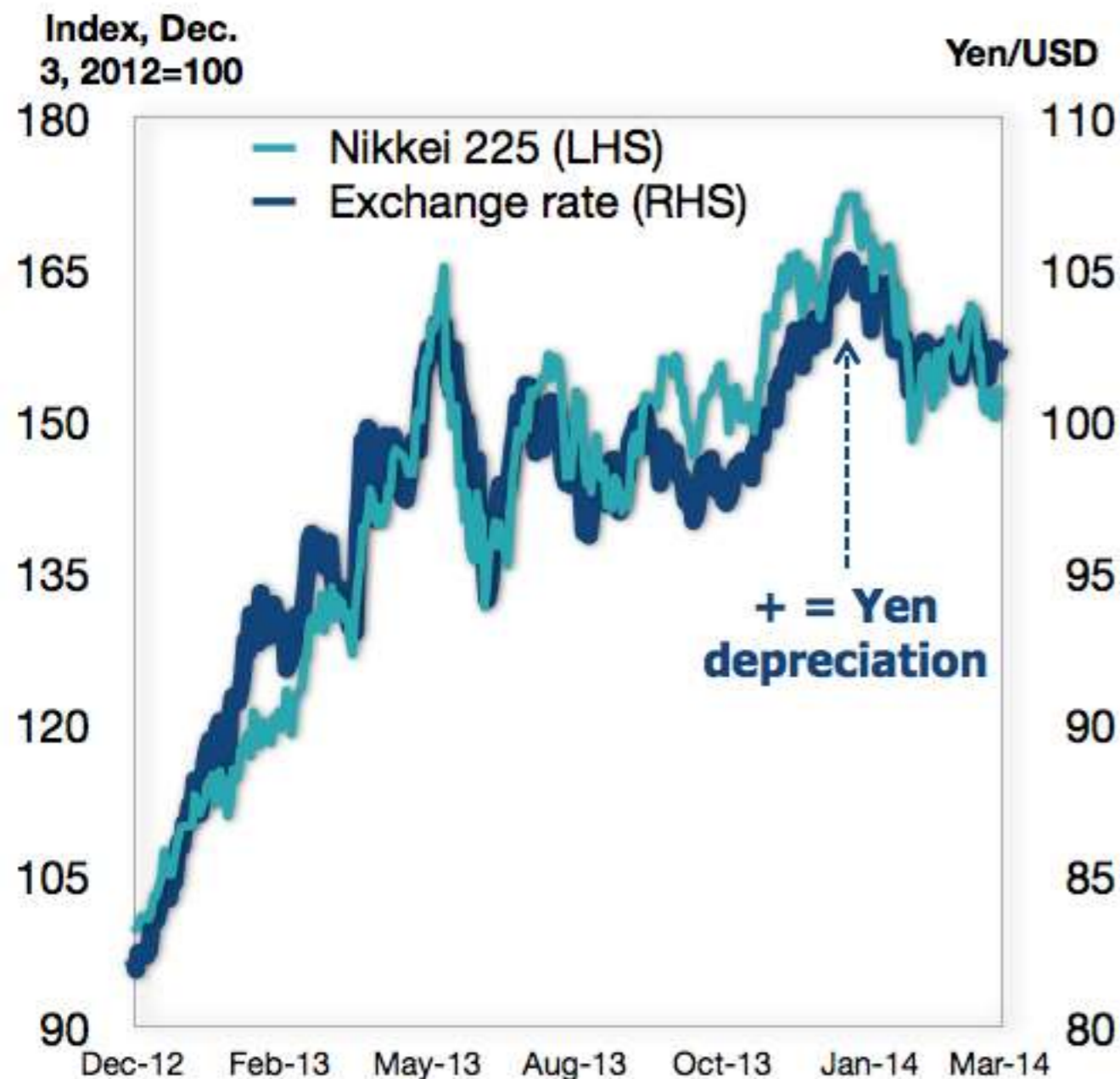
ASEAN-5 Growth: 2010-12 vs. 2013



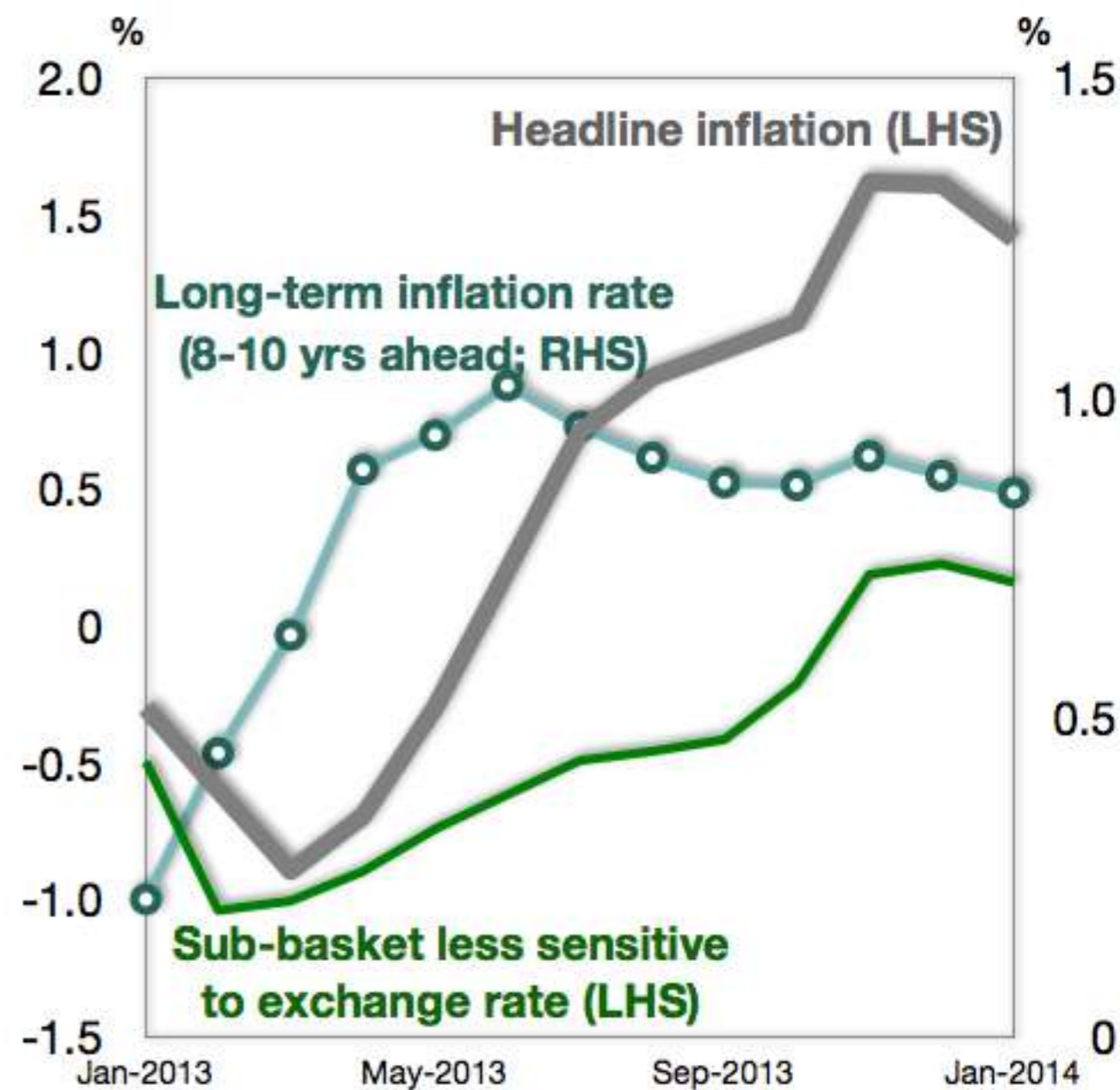


# Japan: steady progress but accommodative stance remains appropriate

## Japan: Financial Markets



## Japan: Inflation





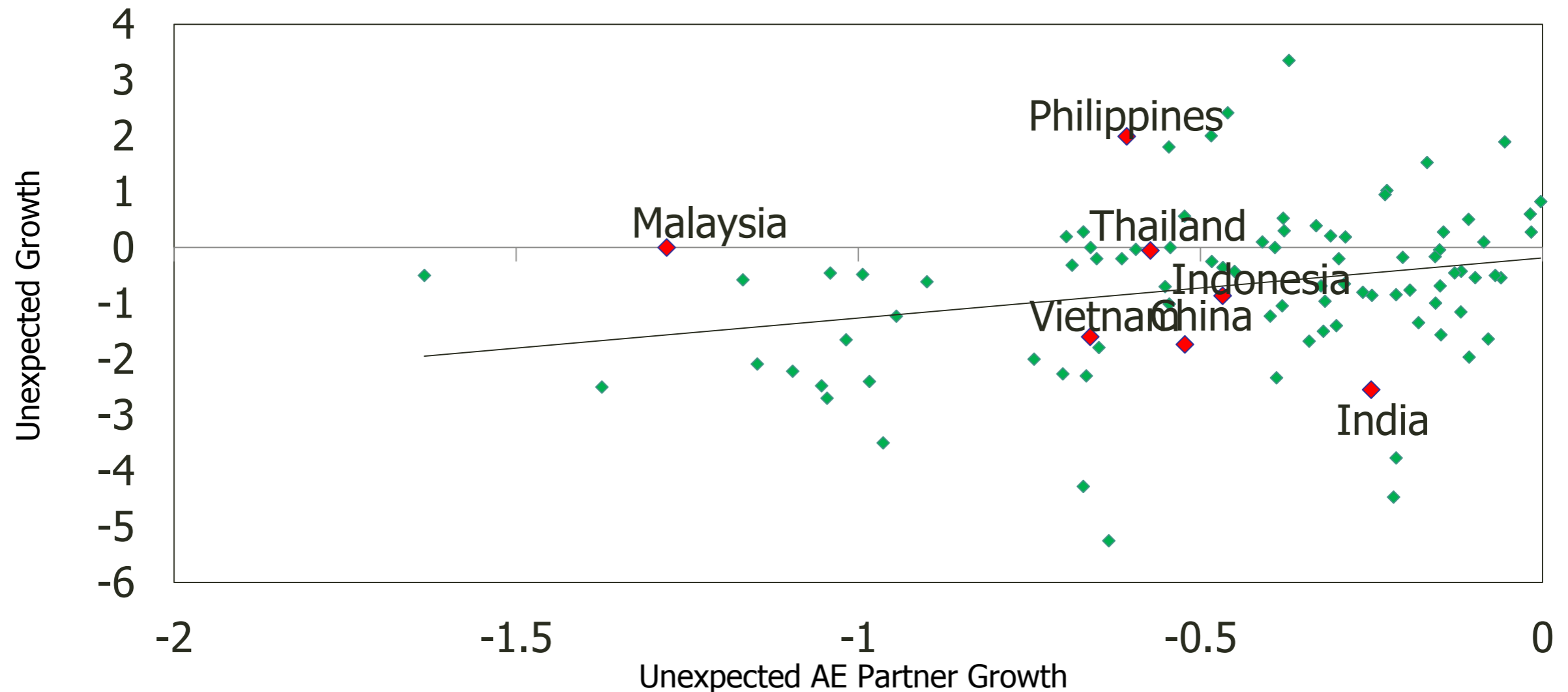
# Implications for India

- **Growth has slowed, but why?**
  - Domestic or external causes?
- **Is India still one of the “fragile five?”**
  - CAD and reserves, inflation, fiscal deficit
- **Corporate and financial sector vulnerabilities**



# There is a domestic component to India's economic growth slowdown

## Spillovers from Advanced Economies



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

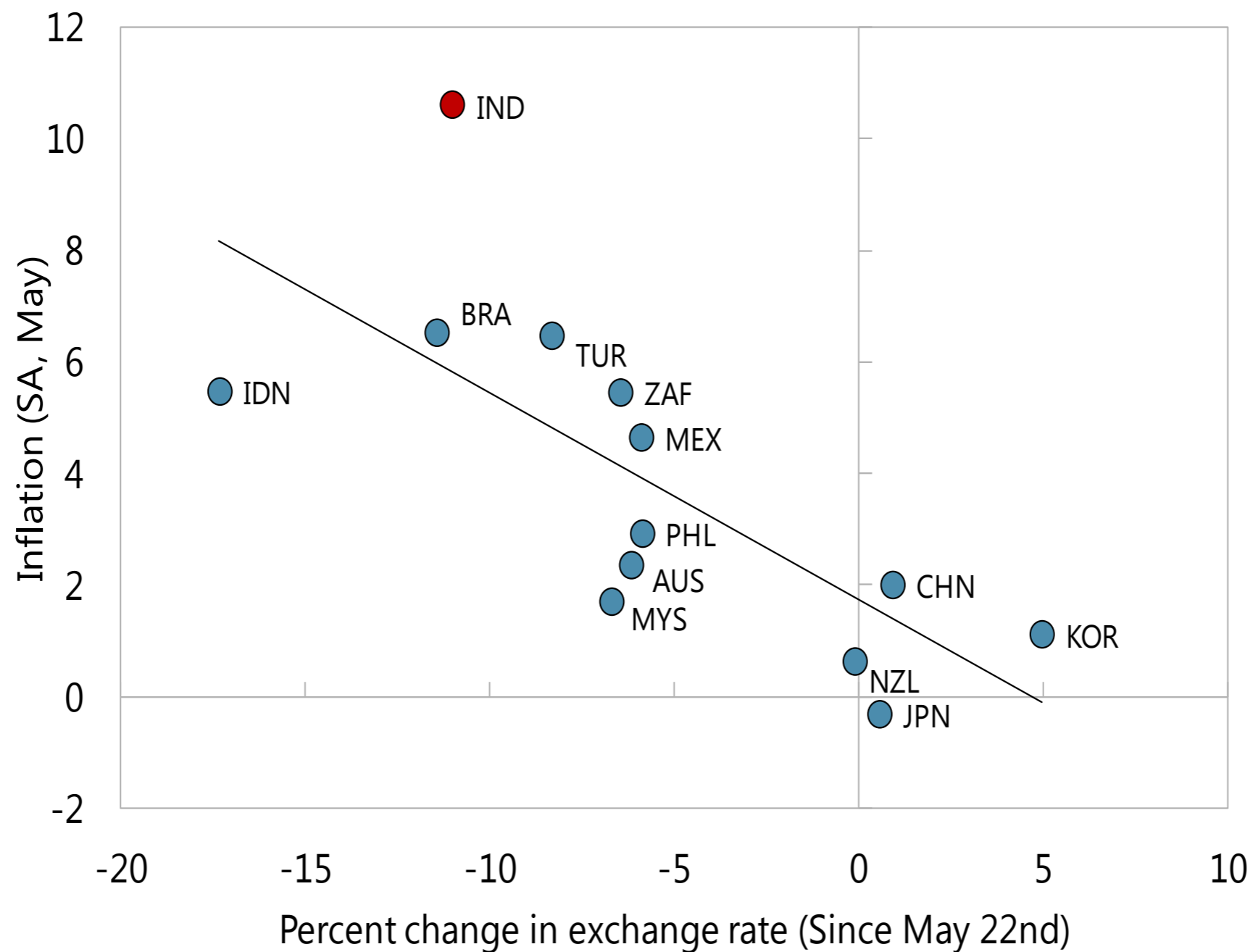
Note: Unexpected growth denotes real GDP growth in 2013 minus the forecast. AE partner unexpected growth denotes export-weighted average of growth of advanced-economy trading partners in 2013 minus the forecast, multiplied by the economy's share of exports in real GDP. Forecasts are taken from the September 2011 WEO.



# Inflation was one of the things markets were concerned about

## Inflation vs. Exchange Rate

(In percent)

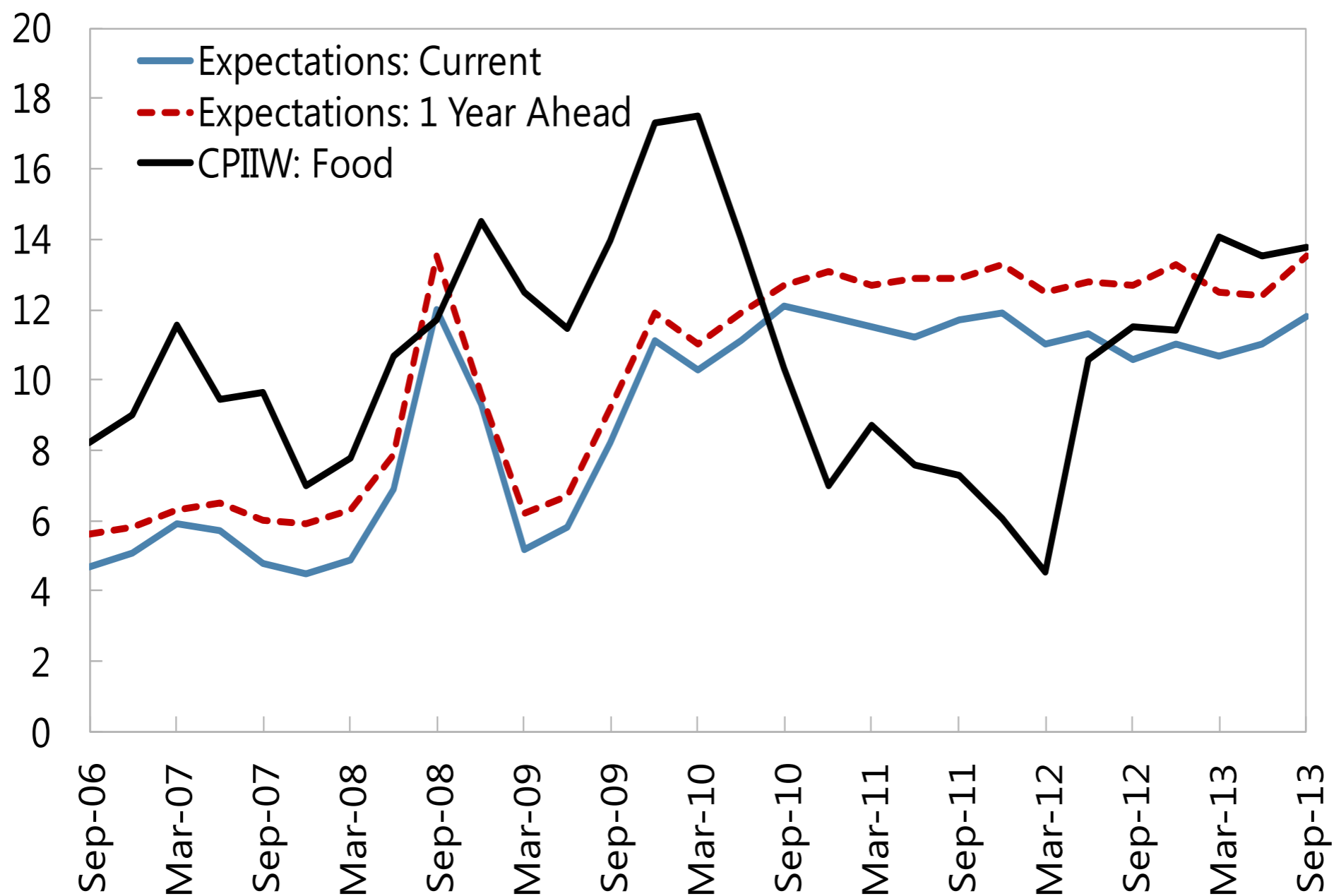




# Entrenched inflation expectations remain a worry

## Household Inflation Expectations and Food Inflation

(In percent)



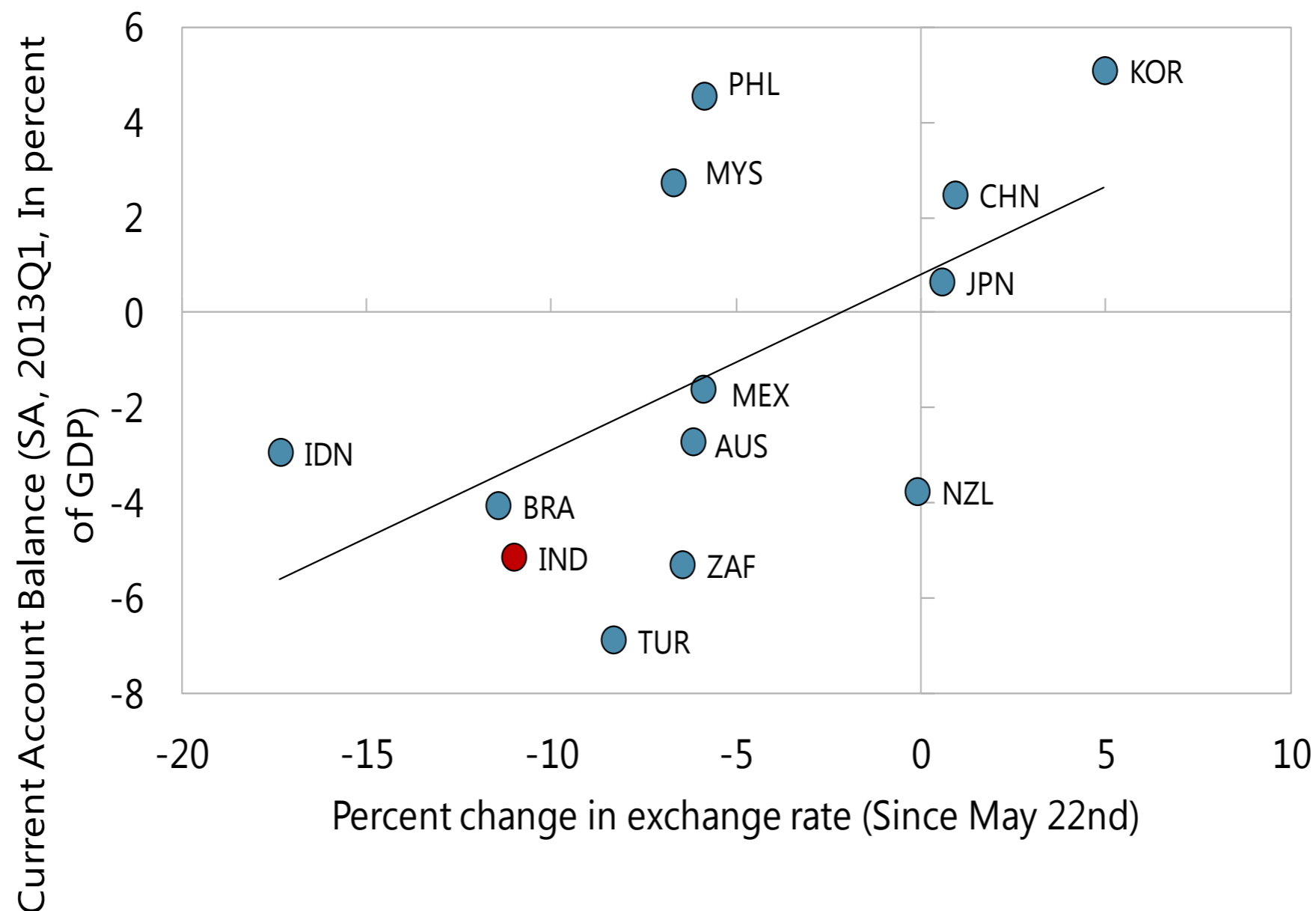
Sources: CEIC, Haver Analytics and IMF staff calculations.



# Current account was a major concern – It has adjusted, as we saw (but durably?)

## Current Account Balance vs. Exchange Rate

(In percent)

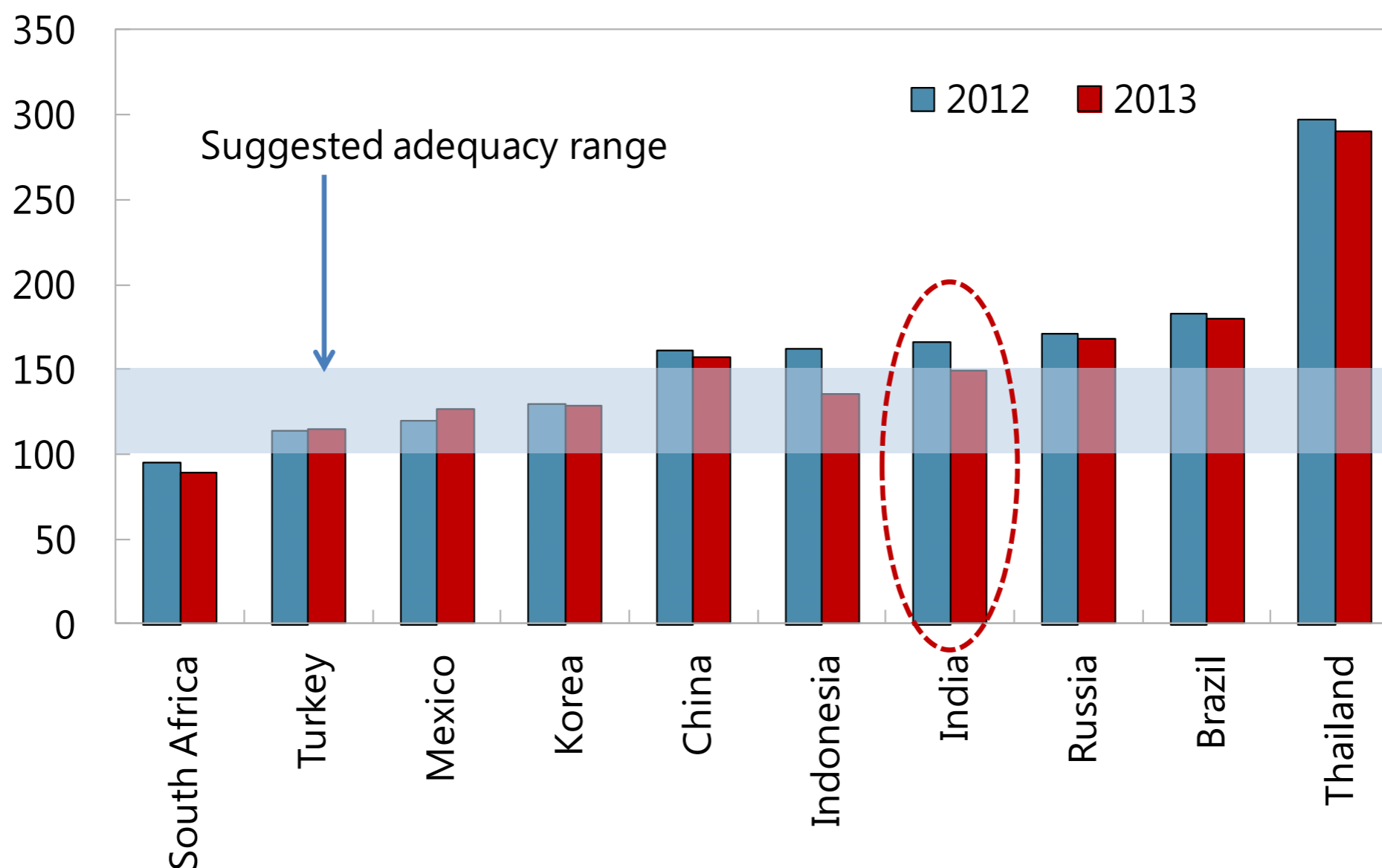




# Reserve adequacy is not a real concern

## Estimated Reserve Adequacy

(Official reserves as a percent of IMF country-specific metric)



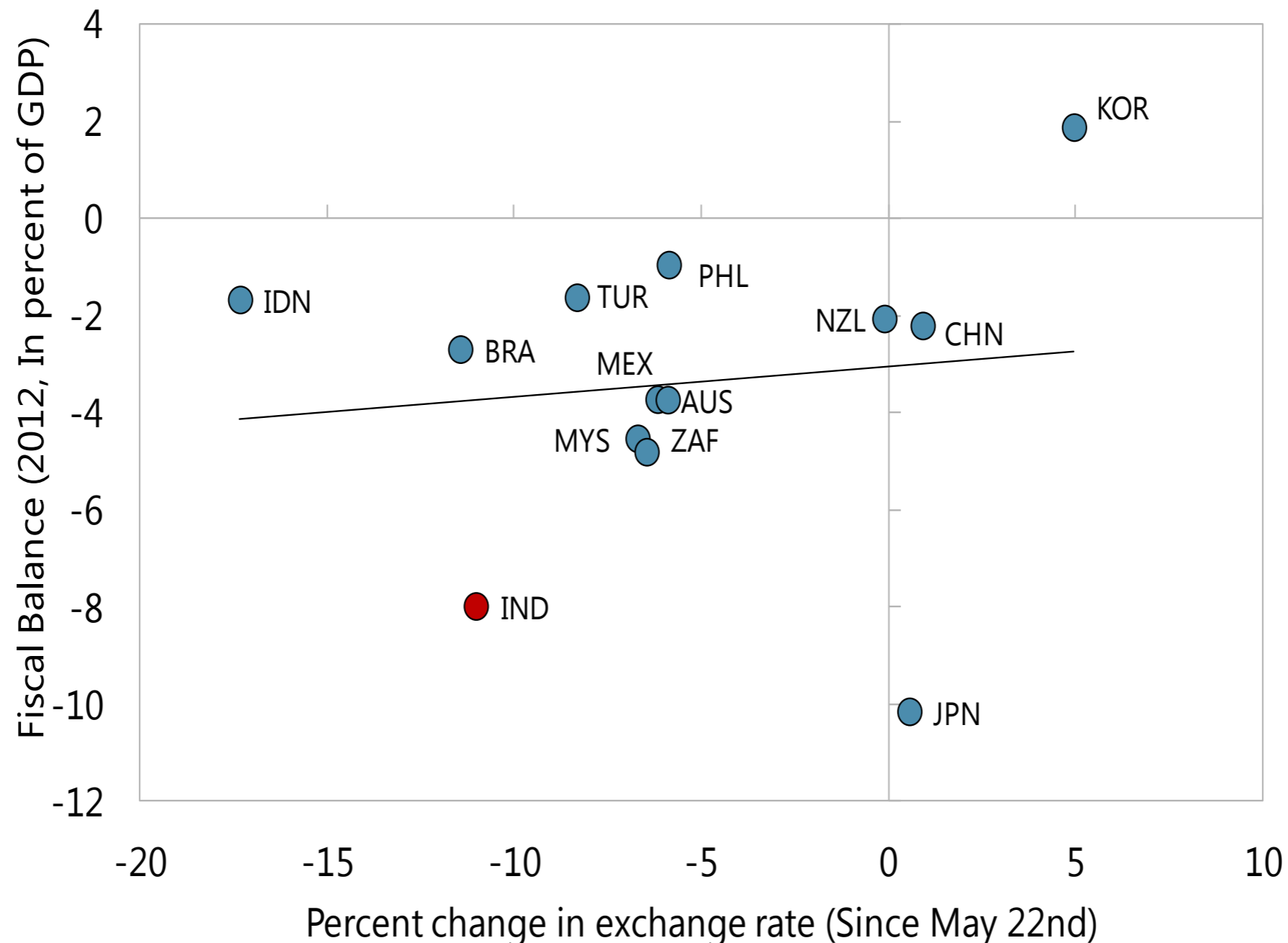
Sources: IMF, *International Financial Statistics*; and IMF staff calculations.



# The fiscal deficit was the third big concern for markets

## Fiscal Balance vs. Exchange Rate

(In percent)

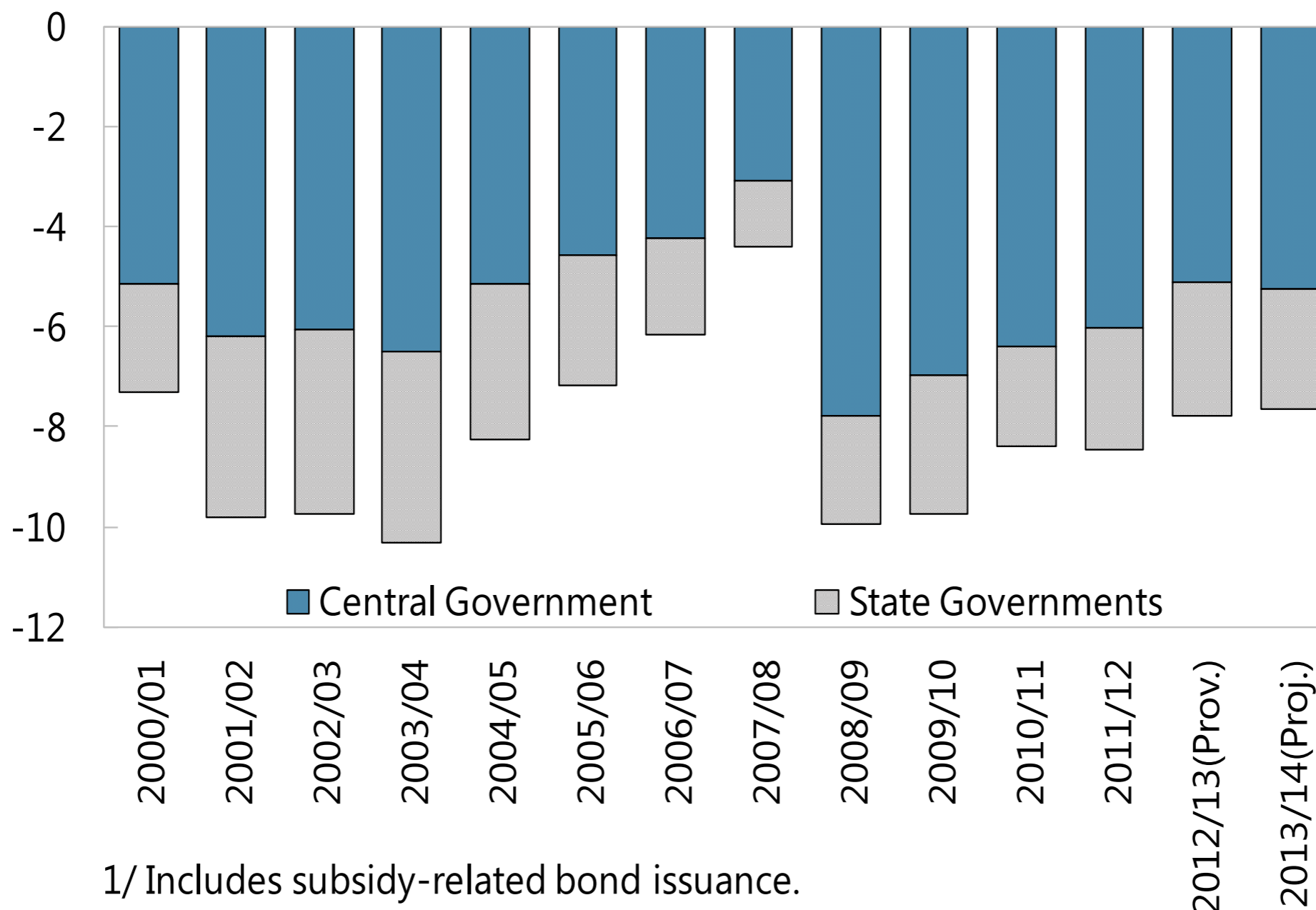




# The fiscal deficit is still too high (what does it imply for debt dynamics if growth slows?)

## Government Balance

(In percent of GDP) 1/



1/ Includes subsidy-related bond issuance.

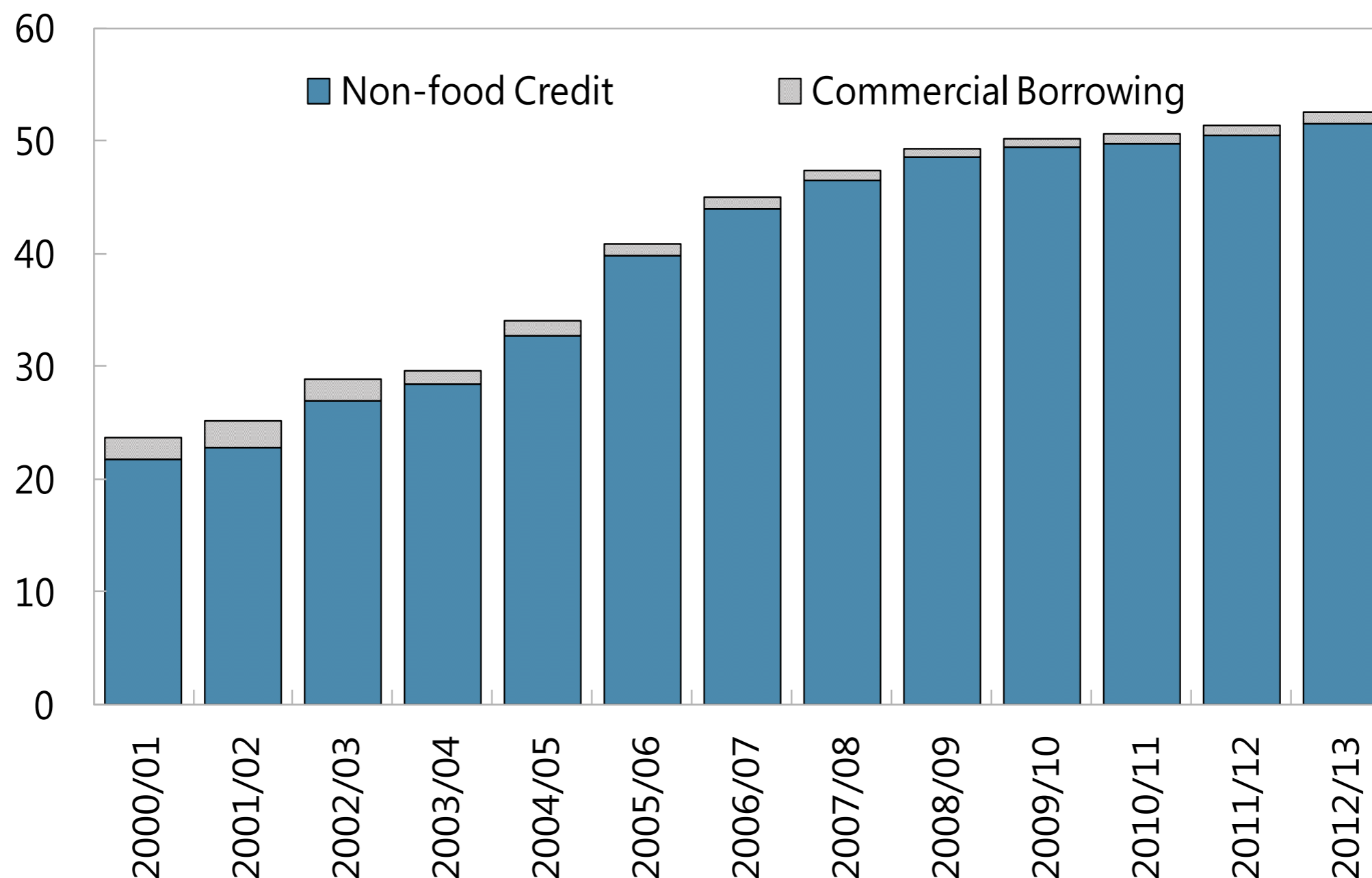
Source: IMF staff data.



# Corporate borrowing has slowed, but remains significant

## Corporate Borrowing

(In percent of GDP)



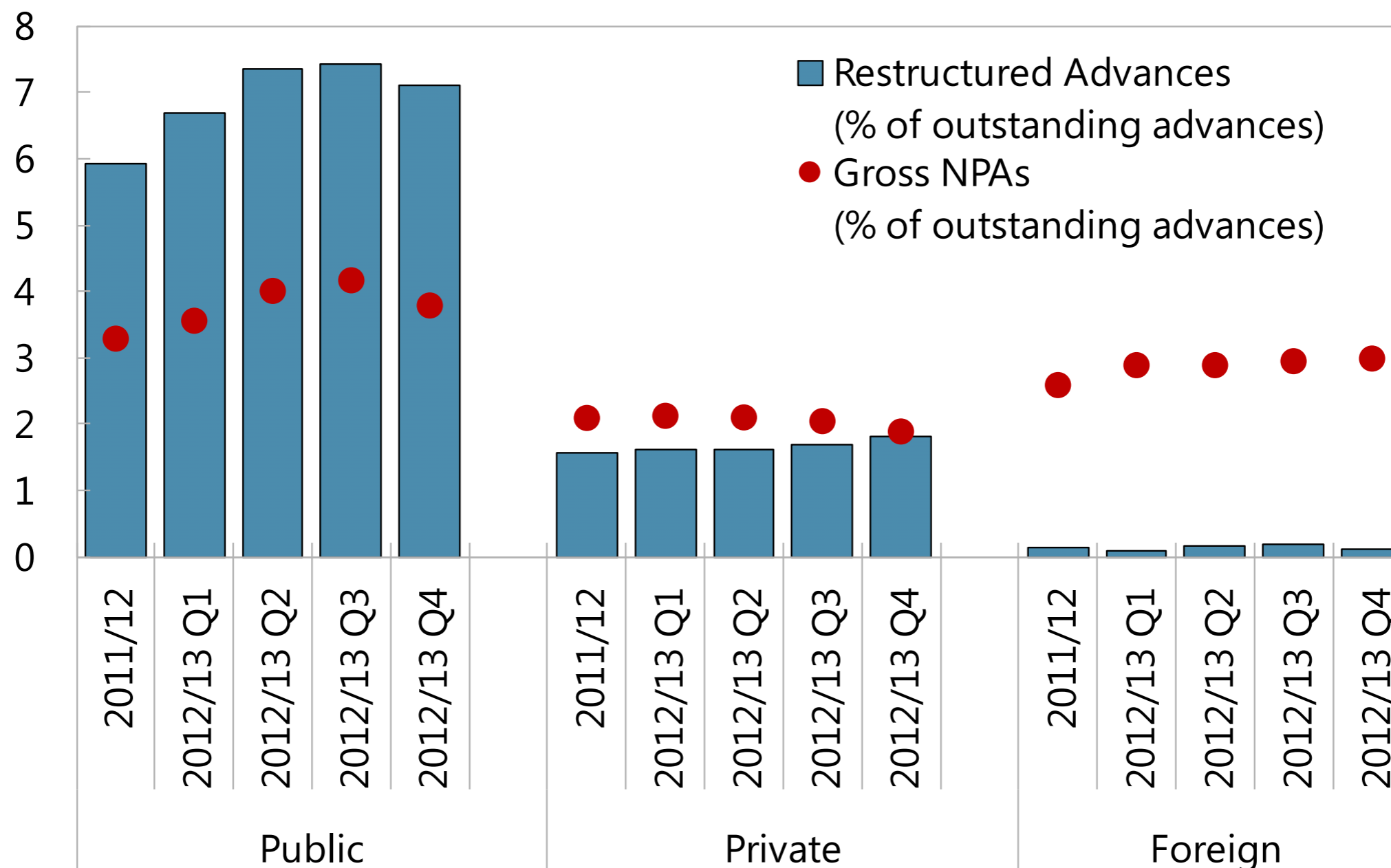
Sources: CEIC and IMF staff calculations.



# And bank balance sheets are stressed

## Commercial Banks: Restructured Advances & NPAs

(In percent)



Sources: Reserve Bank of India and IMF staff calculations.



# Conclusions (1/2)

## *Global outlook*

- Growth is picking up, with momentum coming from AEs (tho EMDEs still lead global growth)
- Risks: Ukraine/Russia, Euroarea deflation, tapering

## *Asia – Pacific outlook*

- Risks from outside Asia have receded somewhat
- But need for vigilance and reforms



# Conclusions (2/2)

## *Outlook for India*

- **Slowdown in growth, due mainly to investment bottlenecks (not weaker external demand)**
  - ✓ **Recovery could take until FY15/16**
- **Looser monetary or fiscal policy would not help**
- **Inflation remains too high (undermines competitiveness)**
- **Corporate and financial sector balance sheets need cleaning up**

# Thank You

Want to  
know more?

[www.imf.org/india](http://www.imf.org/india)  
(or follow on twitter: @IMF\_India)

IMF Resident Representative office in New Delhi ([www.imf.org/delhi](http://www.imf.org/delhi))