



**Economic Outlook: Regional and Cambodian  
Perspectives  
February 16, 2012**

**Faisal Ahmed**

**IMF Resident Representative, Cambodia**



# Plan of the Presentation

## Global Economy: A Precarious Stage

- Global economic slowdown continues
- Acute financial tensions have eased...
- ...but downside risks remains

## Asia: Strengthening Fundamentals amid some challenges

- Corporates and financial systems much healthier than a decade ago
- Policy frameworks have been strengthened but contagion risks remain, though less than 2008

## Cambodia Perspectives

- Recovery strengthening though risks from advanced economy remain
- Potential growth for Cambodia has been revised upward but will need continued policy implementation



# Global Economy at a Precarious Stage



# Global activity has slowed sharply in H2:2011, and growth prospects have dimmed....

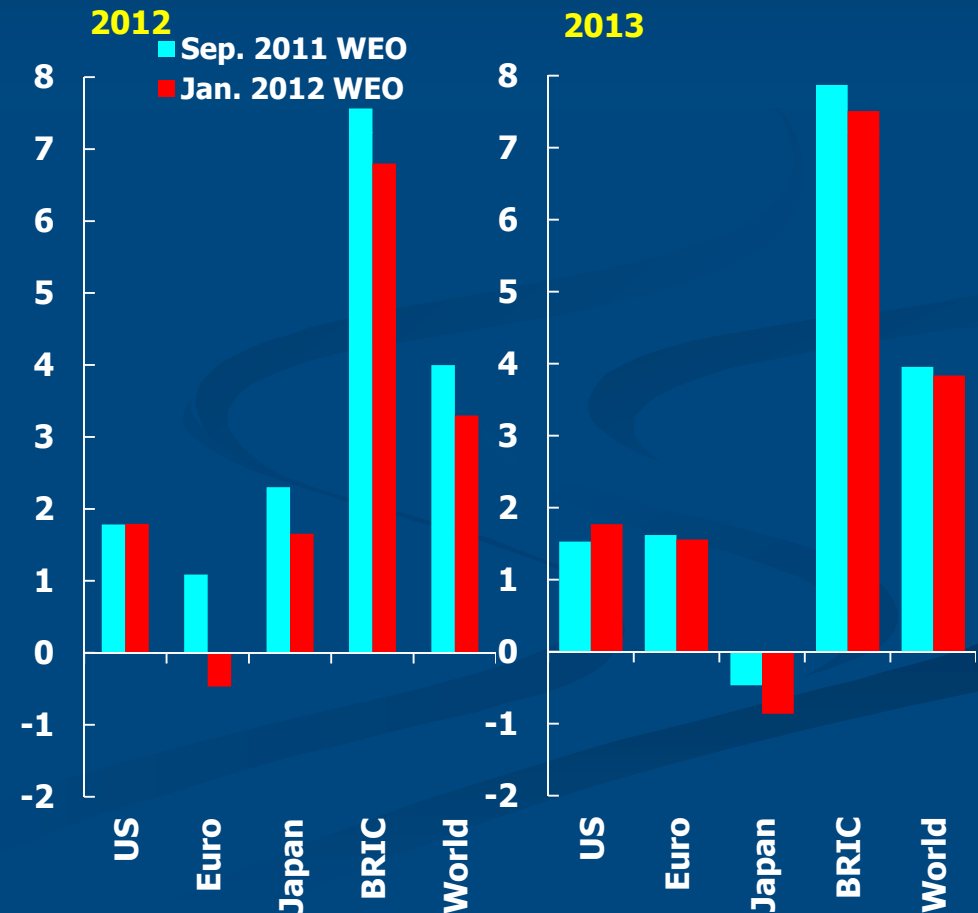
## Global GDP Growth

*(Percent; quarter over quarter, annualized)*



## Global GDP Growth Projections

*(Percent change from a year earlier)*



# Global forecasts have been revised down substantially.

## WEO Real GDP Growth Projections (percent change from a year earlier)



<b>2012 (current)</b>	3.3	1.8	-0.5	5.4	7.3	3.6	3.2	5.5
2012 (Sep11 WEO)	4.0	1.8	1.1	6.1	8.0	4.0	3.6	5.8
<b>2013 (current)</b>	3.9	2.2	0.8	5.9	7.8	3.9	3.6	5.3
2013 (Sep11 WEO)	4.5	2.5	1.5	6.5	8.4	4.1	4.3	5.5

Source: IMF, *World Economic Outlook*.

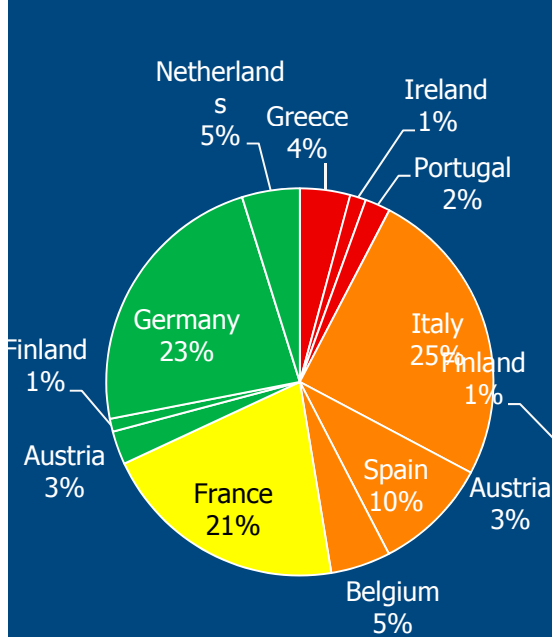


# Fear of sovereign default has spread across Europe, while the U.S. housing market remains weak

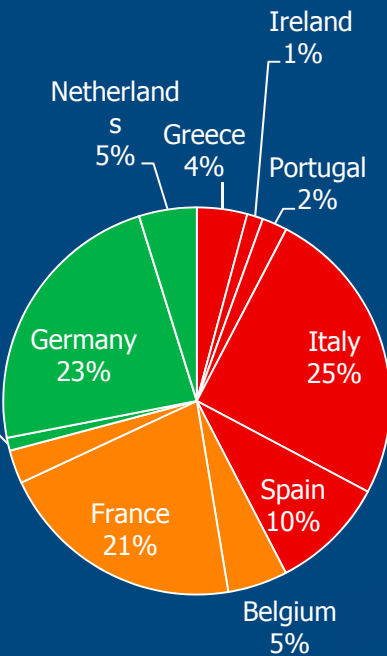
## Sovereign CDS Spreads



### September 2011

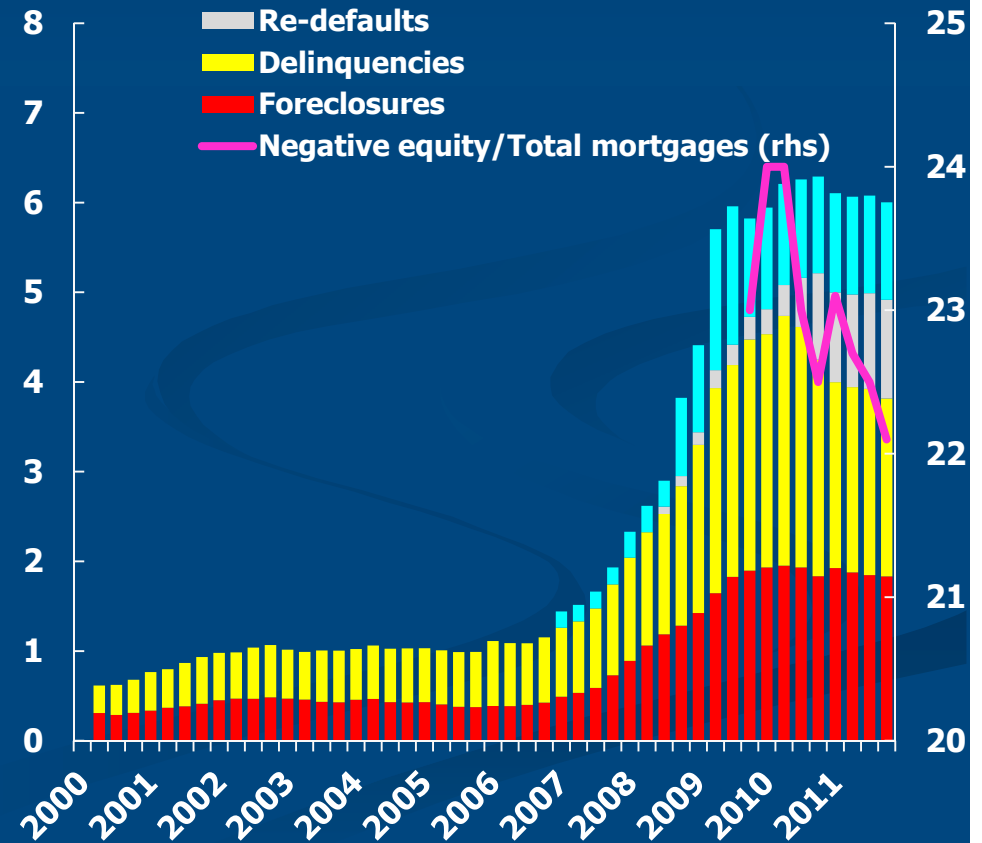
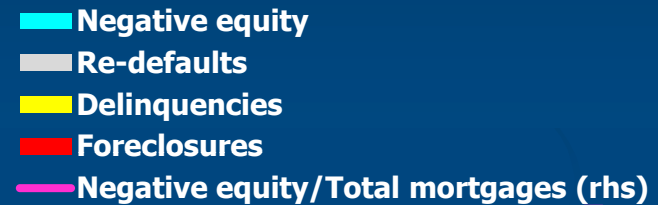


### January 2012



## U.S. Shadow Housing Inventories

(Millions of units)

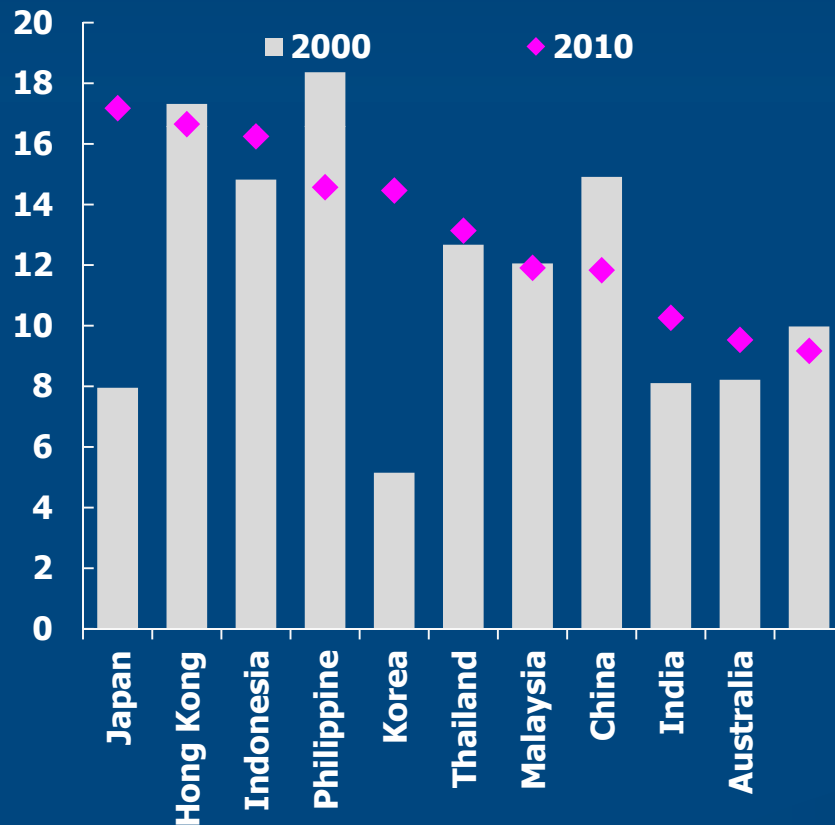




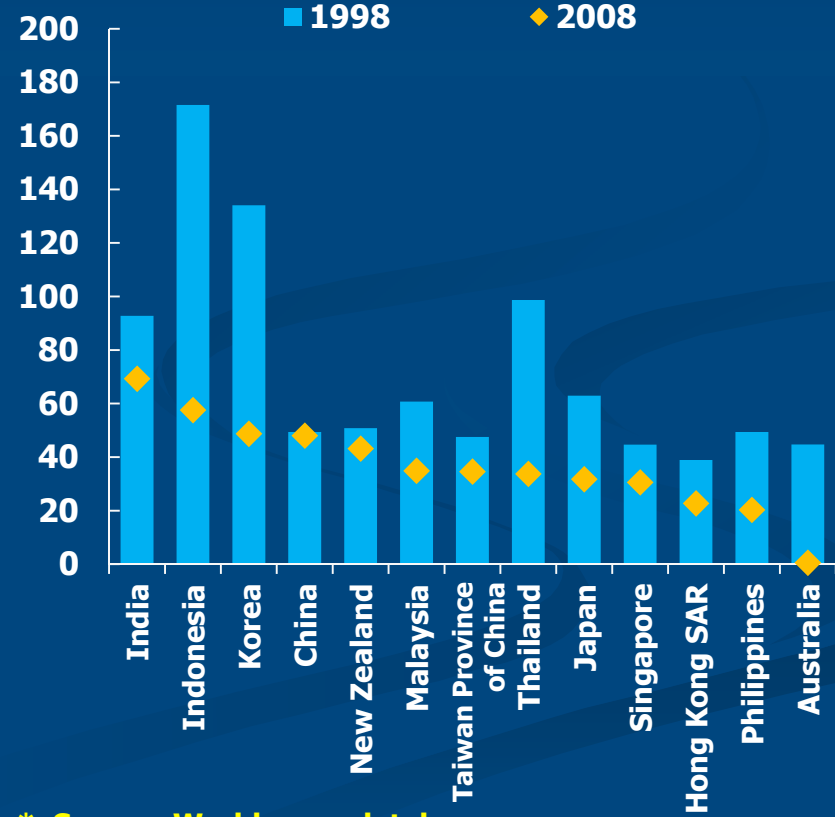
# Asia: A Decade of Strengthening Fundamentals

# Rapid deleveraging during the 2000s has led to stronger corporate and bank balance sheets

**Selected Asia: Tier-1 Capital**  
(In percent of risk weighted assets)



**Selected Asia: Debt-to Equity of Firms**  
(In percent)



\* Data for Hong Kong SAR, Indonesia, Philippines, and Australia are as of end of 2005.

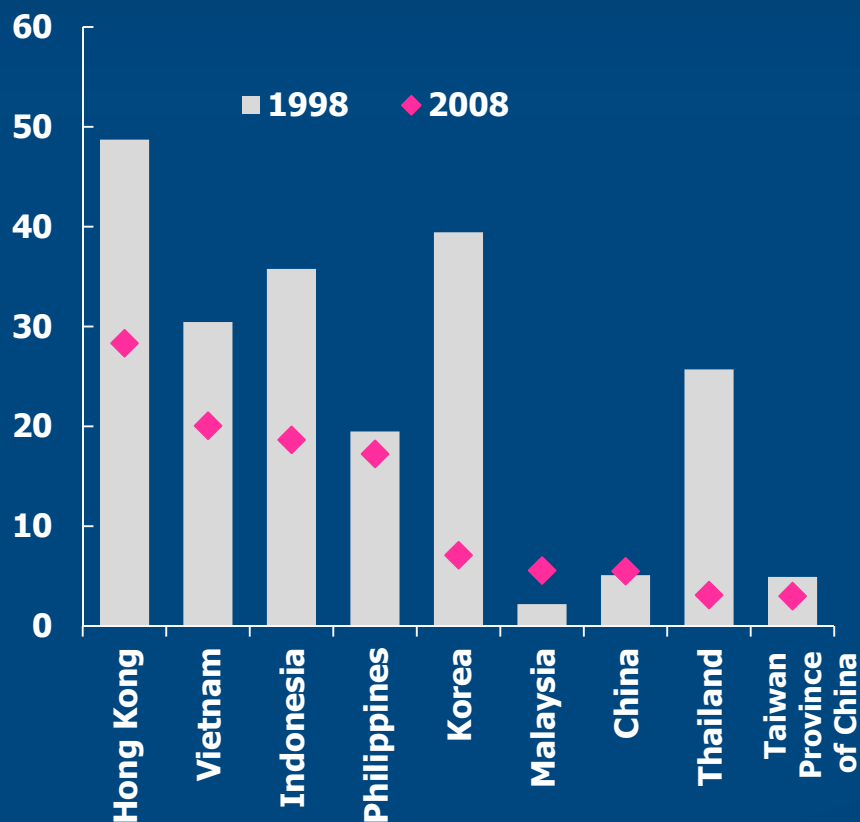
\* Source: Bankscope database.

\* Source: Worldscope database.

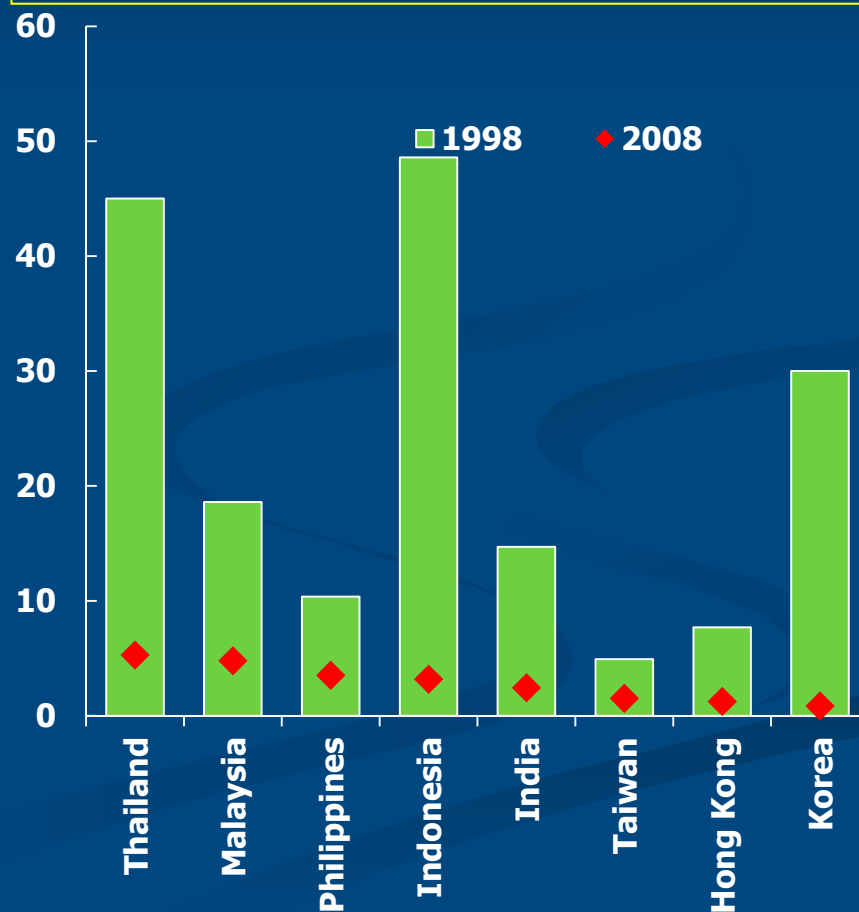


# Firms and households reduced currency mismatches and banks strengthened their asset quality

**Selected Asia: Foreign Currency loans**  
(In percent of total loans)



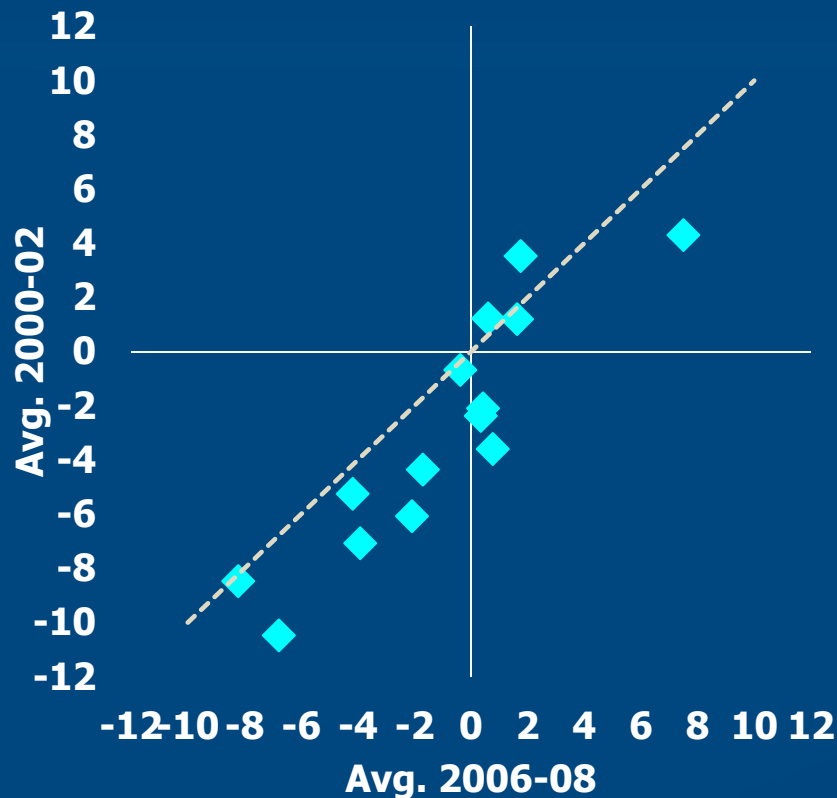
**Asian Banks: Non-Performing Loans Ratio**  
(In percent of total loans)



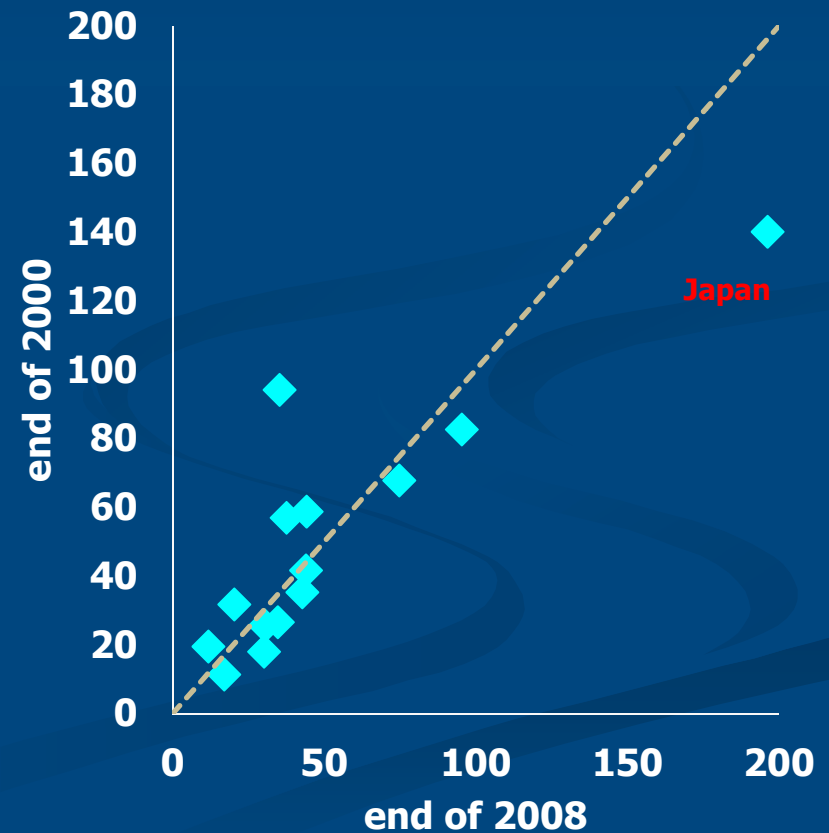
\*Data for Philippines and Thailand are end of 1997, and for China is end of 2000.

# Fiscal consolidation helped reduce public debt and create space for future shocks

**Selected Asia: Structural Government Balance**  
*(In percent of GDP)*

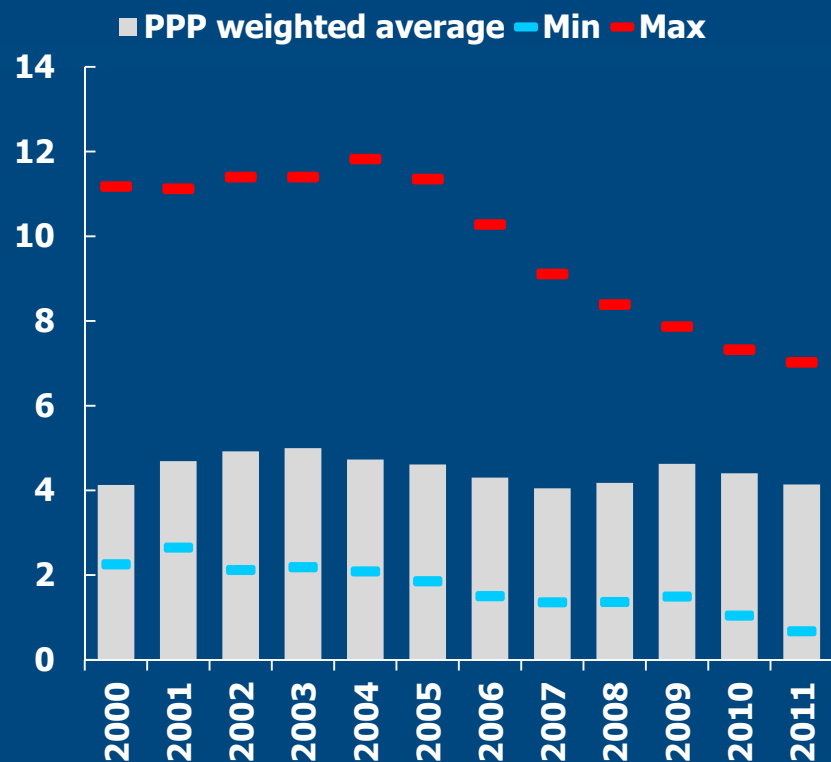


**Selected Asia: Total Government Debt**  
*(In percent of GDP)*

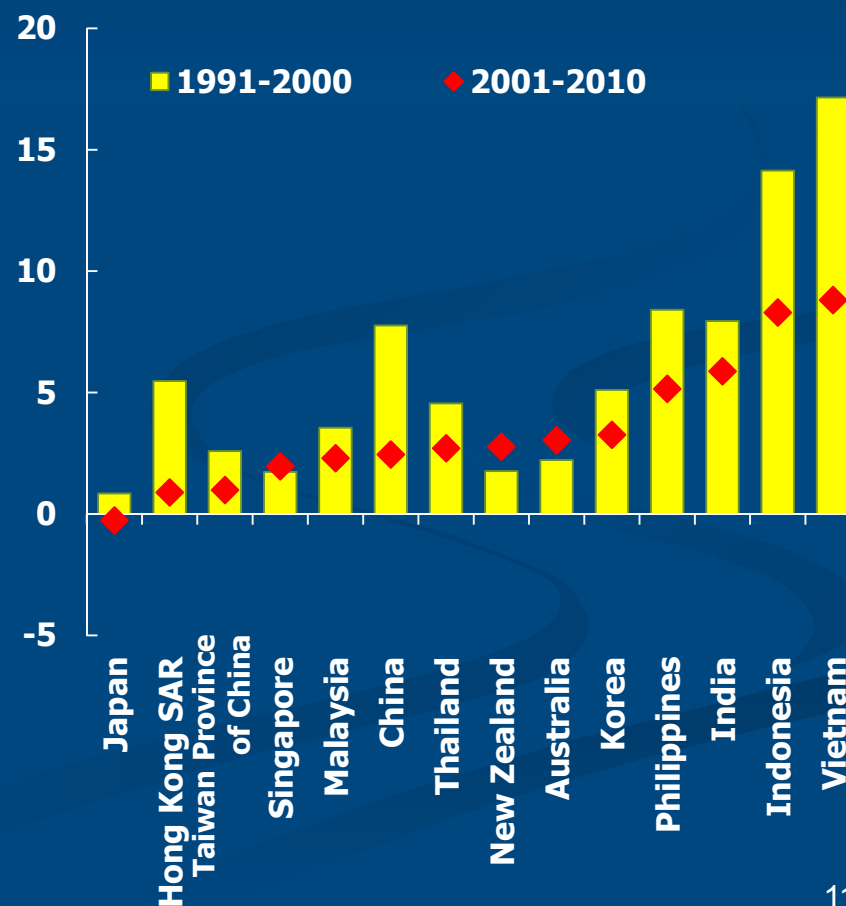


# Strengthened policy frameworks: unemployment and inflation converged to low levels across the region

**Asia: Unemployment rate**  
(In percent)



**Selected Asia: Annual Average Inflation**  
(In percent)



\* India is missing due to lack of data.  
Sources: WDI, CEIC Asia.

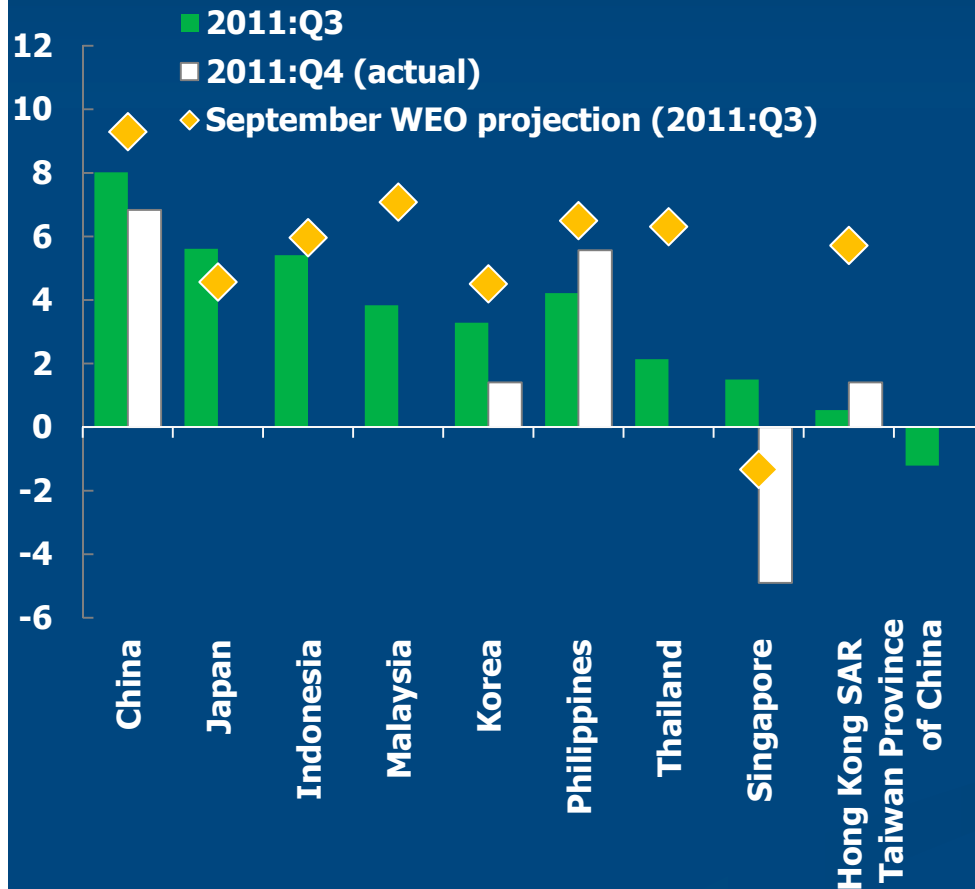


# Asia: Facing Old and New Challenges

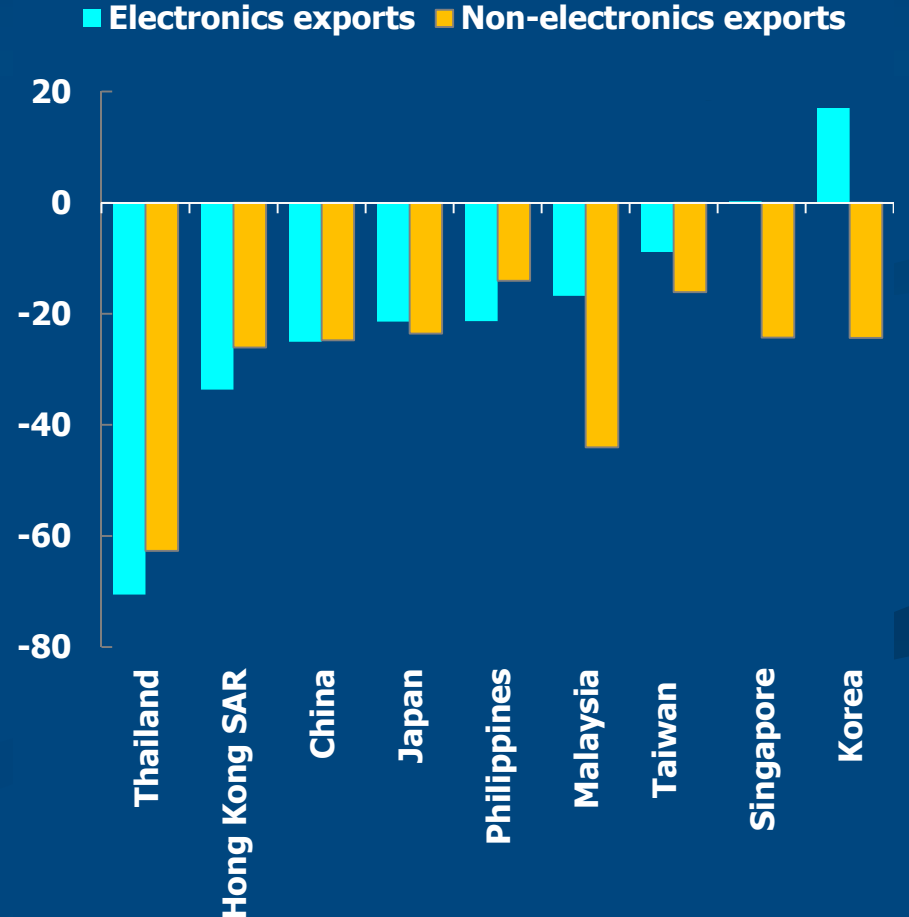


# Activity in Asia has slowed, led by weak external demand

**Selected Asia: Quarterly GDP Growth**  
*(Quarter-over-quarter percent change; SAAR)*



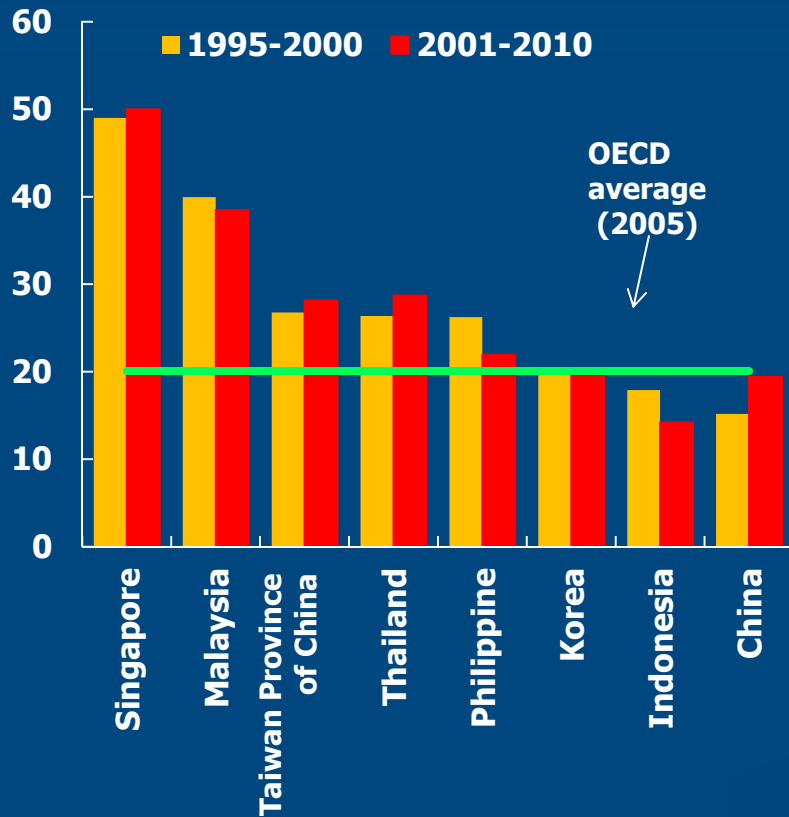
**Selected Asia: Exports Growth**  
*(Difference between latest 3-month percent change in 3-month moving average, SAAR from its 2011 year-to-date average; in percentage points)*





# Trade channels remain powerful, even if China is becoming a stronger source of regional demand

**Selected Asia: Contribution of Non-Asian Final Demand to Value Added**  
(In percent of GDP)



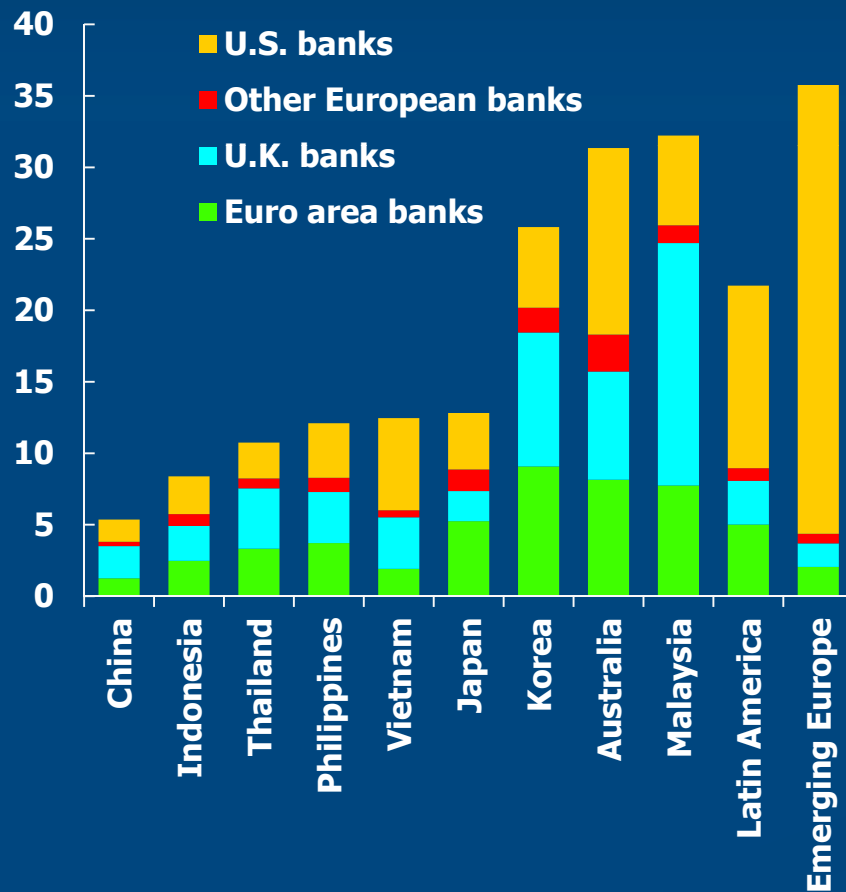
**Selected Asia: Exports of Goods**  
(3-month percent change of 3-months moving average; SAAR; 2011Q4)



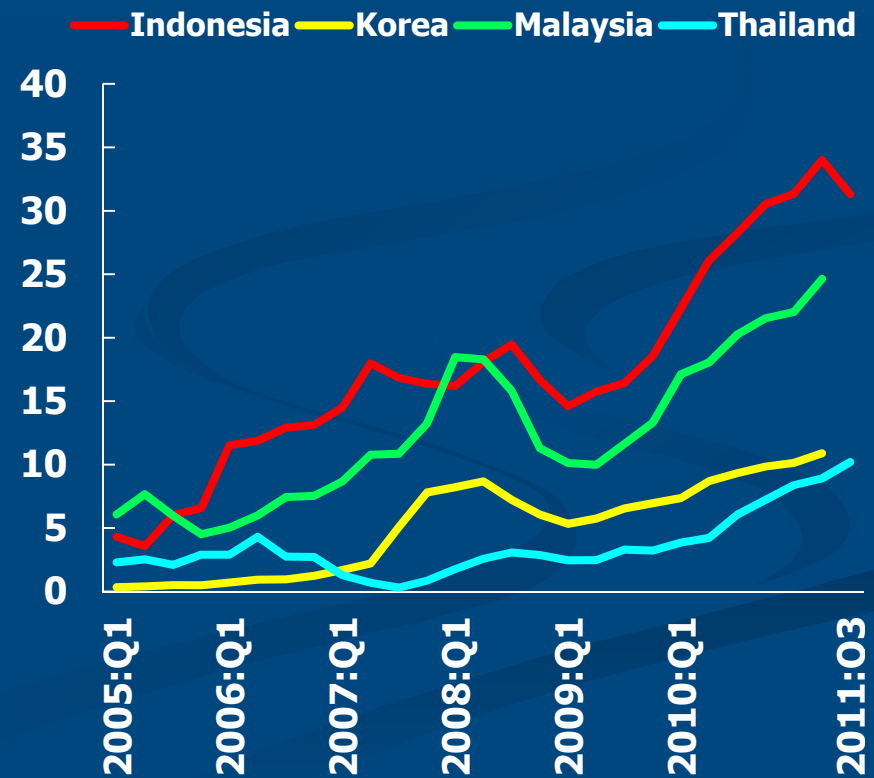


# Financial contagion could also be large...

**European and U.S. Banks' Claims on Selected Asian and other EM Economies**  
*(In percent of GDP; as of 2011:Q2)*



**Foreign Holdings in Local Currency Government Bonds**  
*(In percent of total outstanding)*





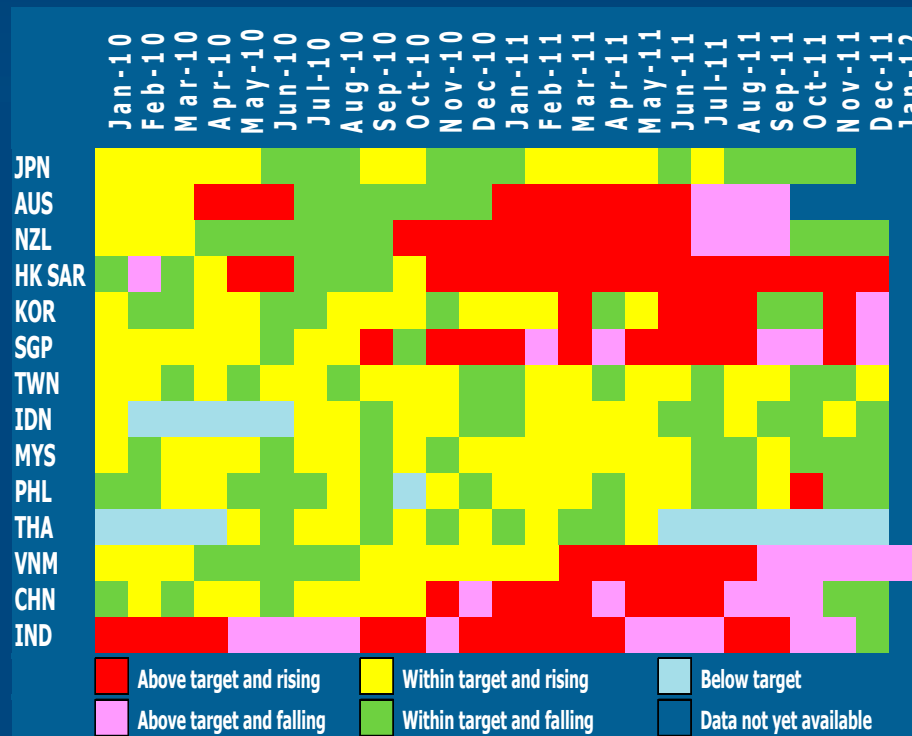
# Policy Challenges



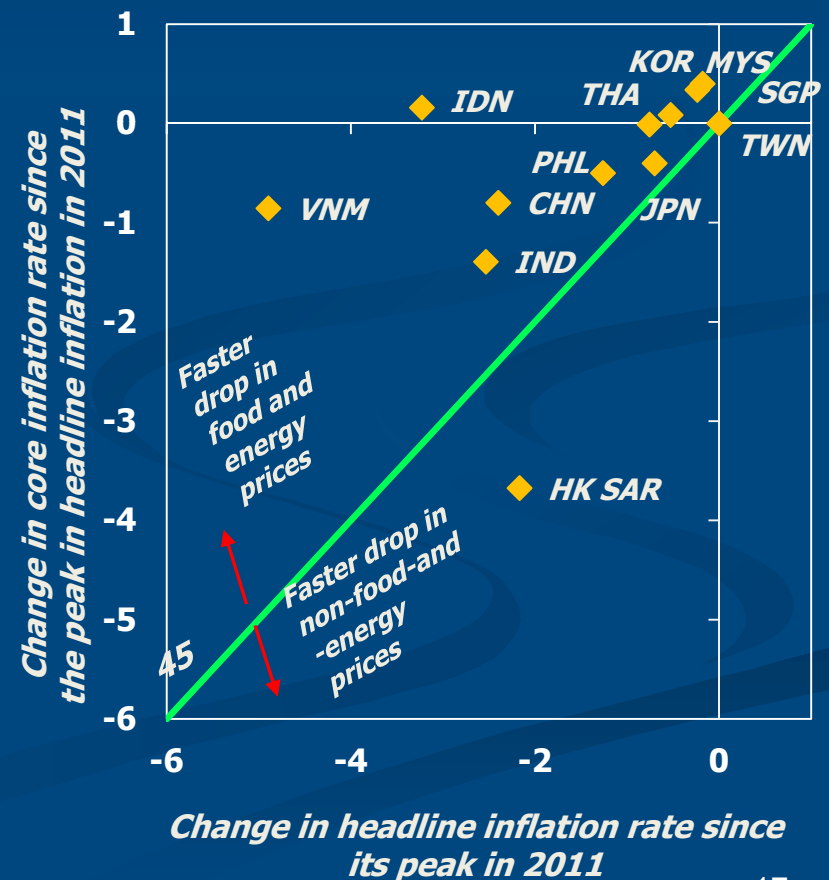


# Receding inflationary pressures provide room to support growth in uncertain times, but to varying degrees

## Asia: Inflation Target Tracker



## Asia: Core and Headline Inflation Dynamics in 2011 (In percentage points)



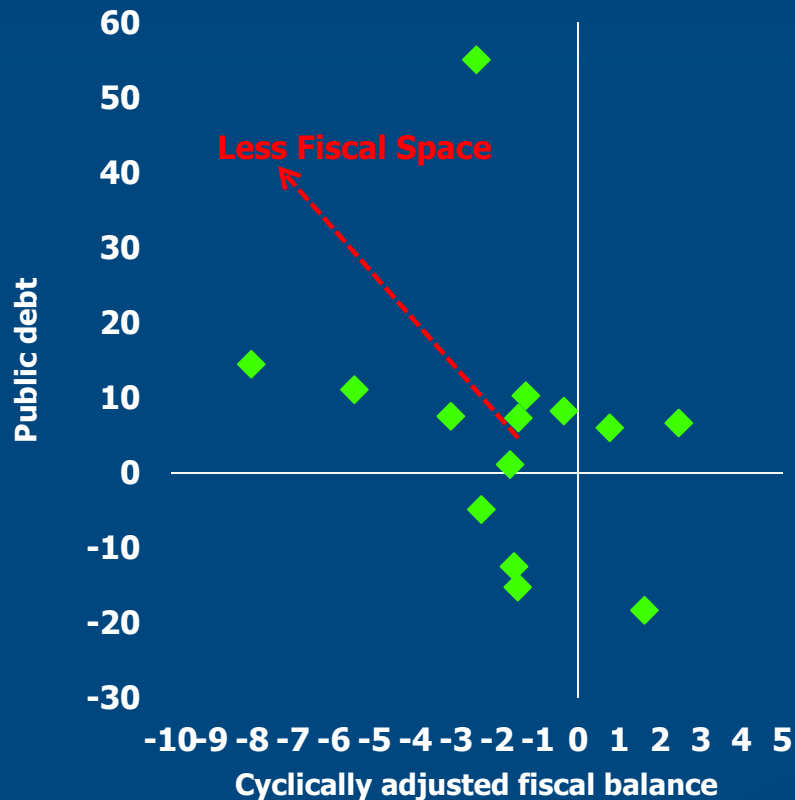
**Note:** Year-on-year headline inflation rates are used except for Indonesia and Thailand as these two countries target core inflation. For economies without any explicit inflation target, one standard deviation band around 2000–10 average (year-on-year) rate used as implicit target band.



# There is space for accommodative fiscal policies, but effectiveness is also key

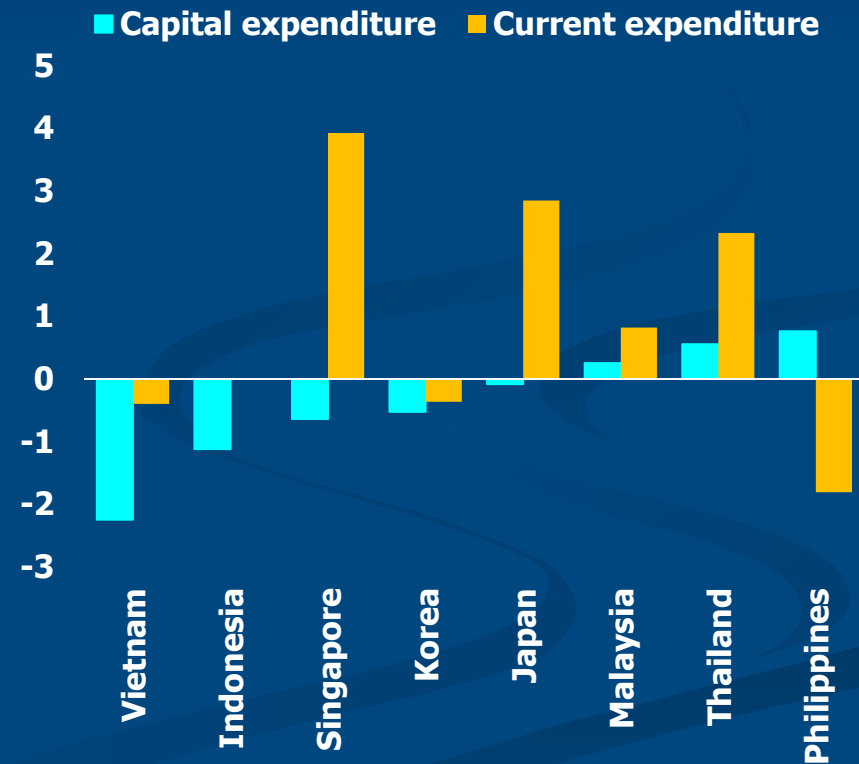
## Cyclically adjusted fiscal balance versus Public debt

(In percent of GDP, 2011 minus avg. 2002-07)



## Structural Spending and Revenue Shifts – Cyclically adjusted 2011–12 Average vis-à-vis 2002–07 Average

(In percent of GDP)



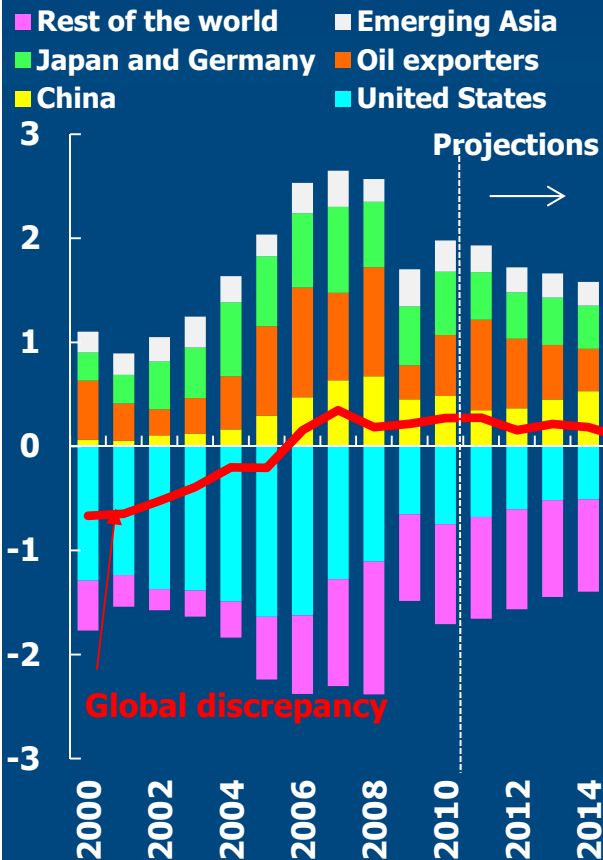
Sources: IMF, WEO database and staff calculations.  
\*Negative number means decrease (increase) in spending (revenue).



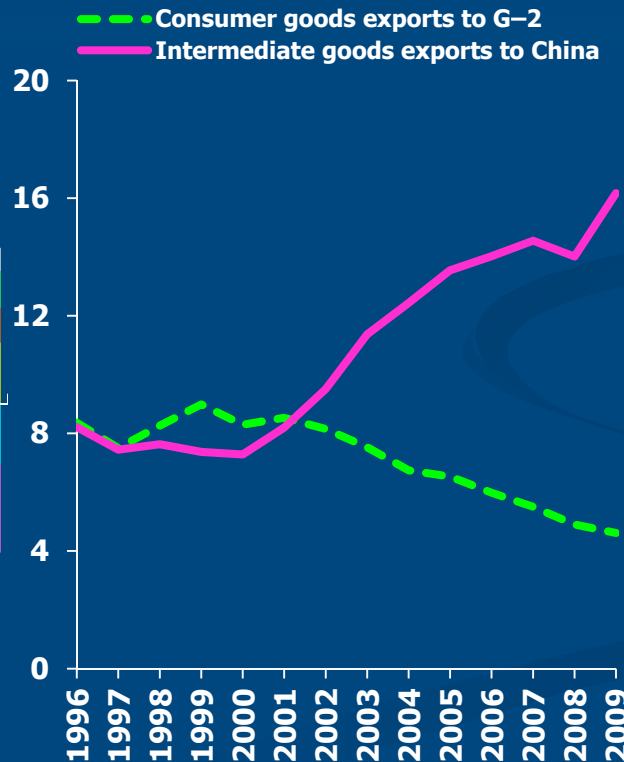
# A medium-term challenge is reaping the benefits from economic rebalancing, including in China

### Global Current Account Balances

(In percent of world GDP)

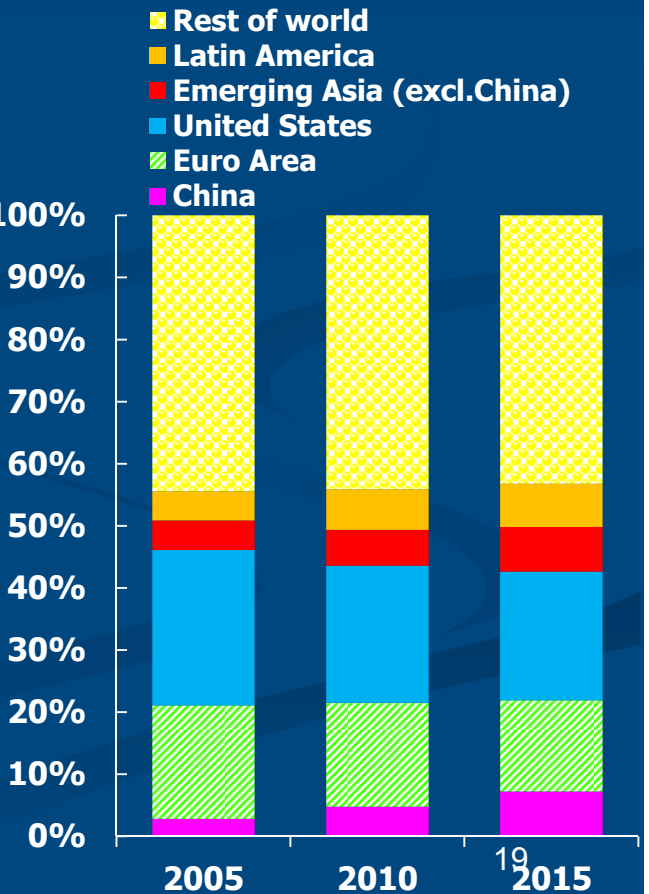


### China-Asia Supply Chain



### Global Consumption

(By major source, in percent of total)



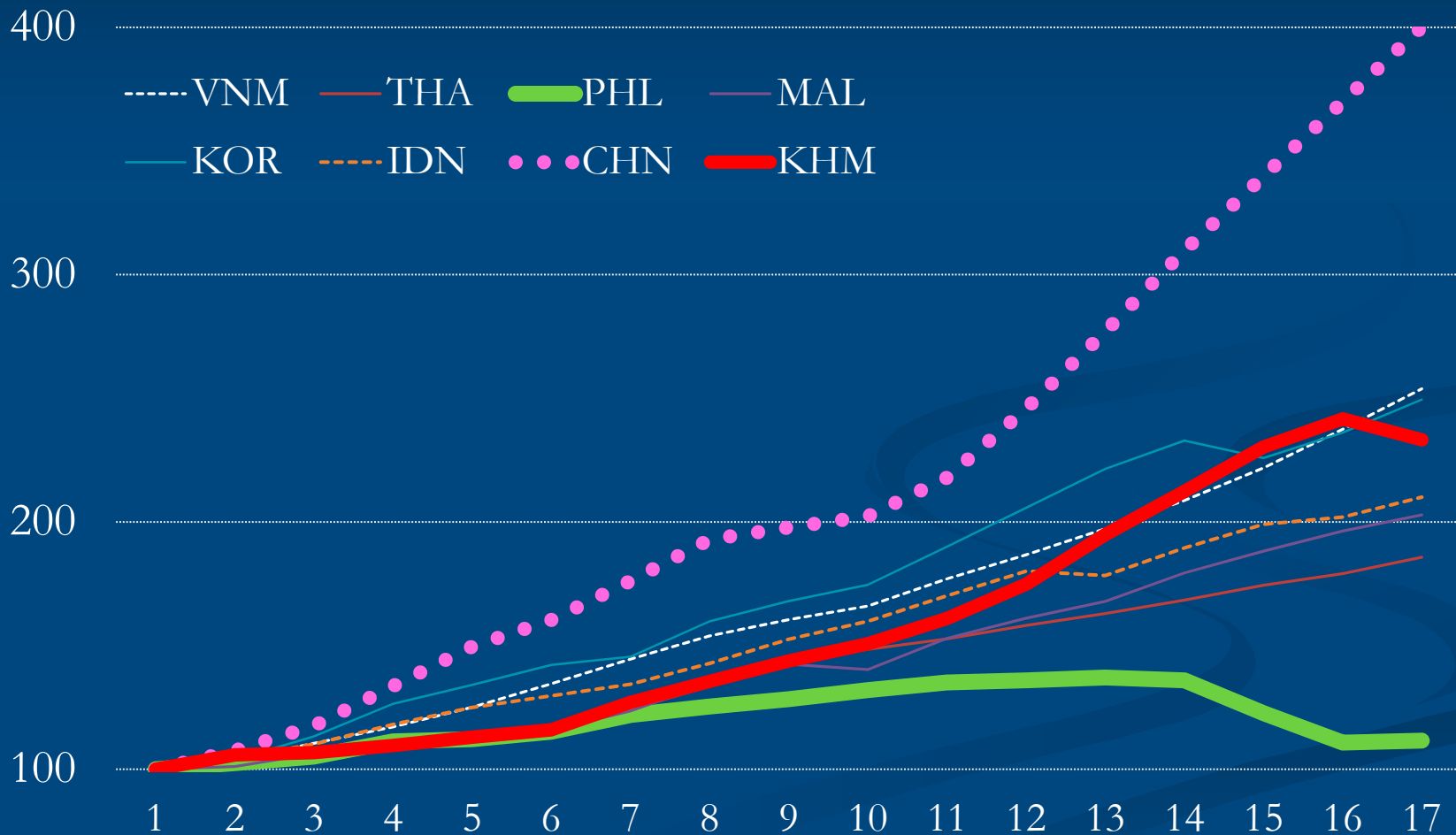
Source: United Nations, Comtrade database.



# Cambodia Perspectives

# Cambodia's growth performance so far: Respectable relative to regional peers during their takeoff phase

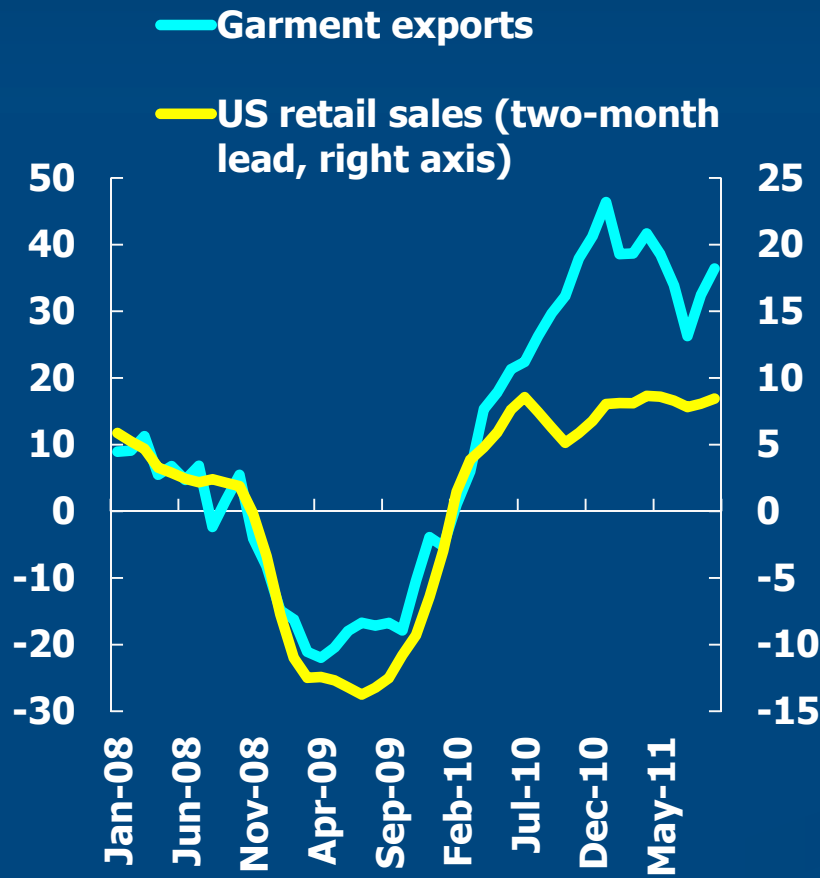
(GDP per capita = 100 at period 1 of the takeoff phase)



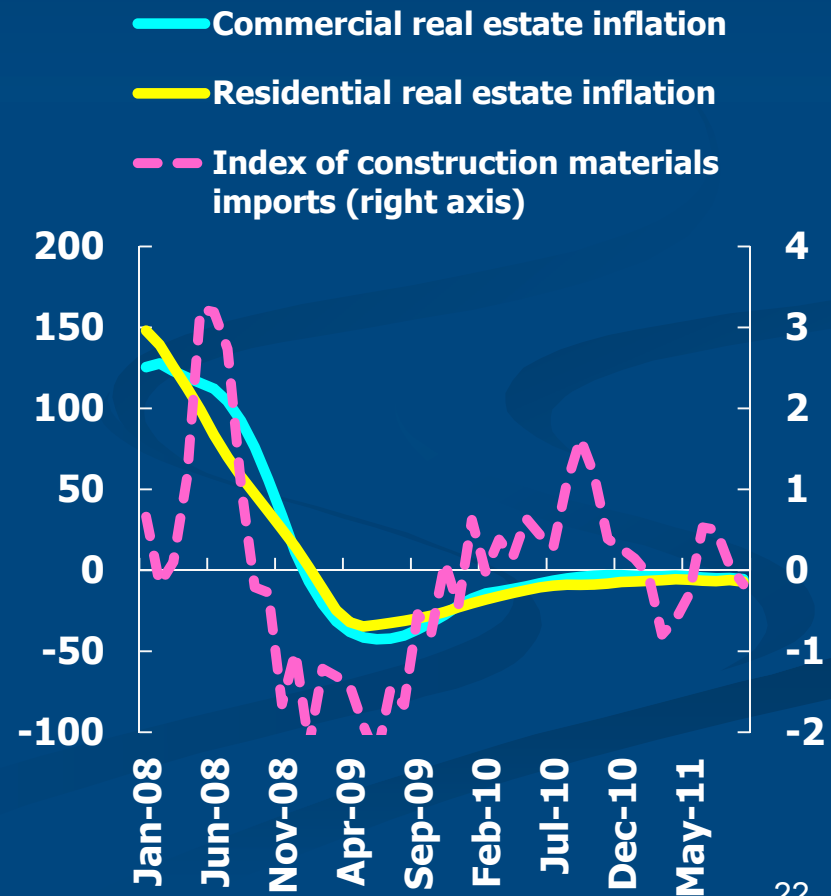


# The recovery has gained strength...

**Garment Exports and U.S. Retail Sales**  
(Y/Y percent change; 3mma)



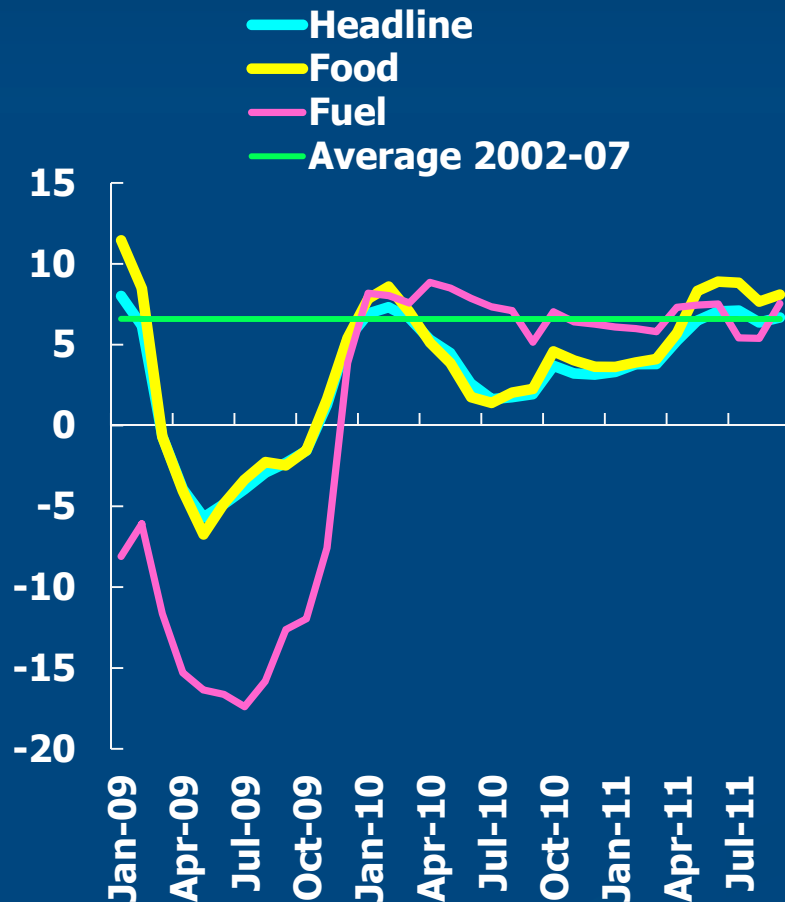
**Real Estate Prices and Construction Material Imports**  
(Y/Y percent change; 3mma)



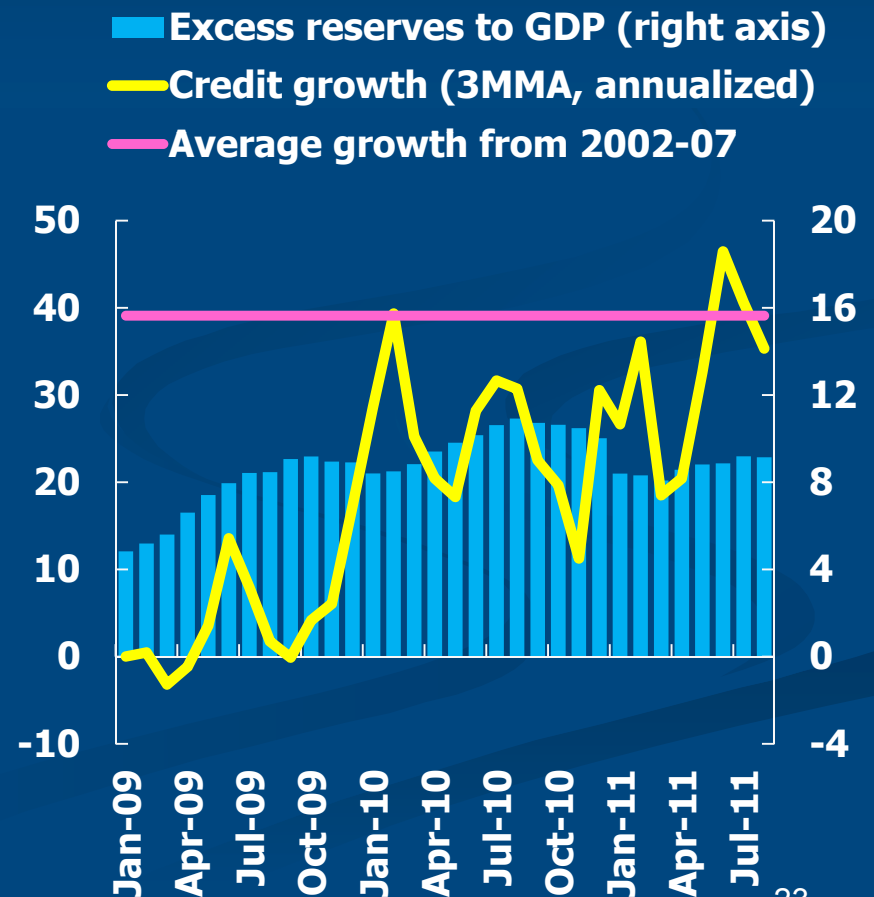


# ... amid strong credit growth

**Inflation**  
(Y/Y percent change)



**Credit to the Economy and Excess Reserves**  
(In percent)

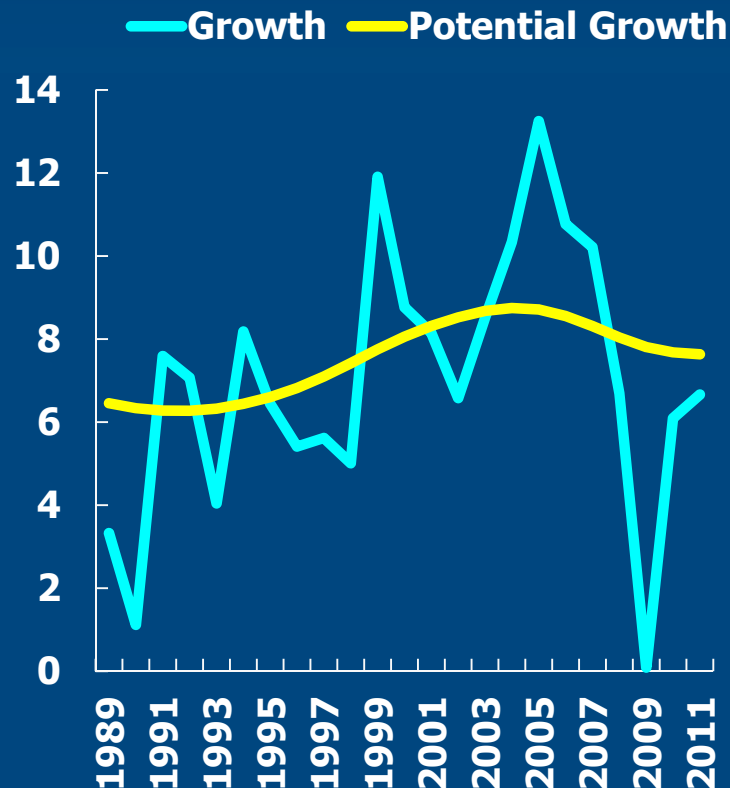




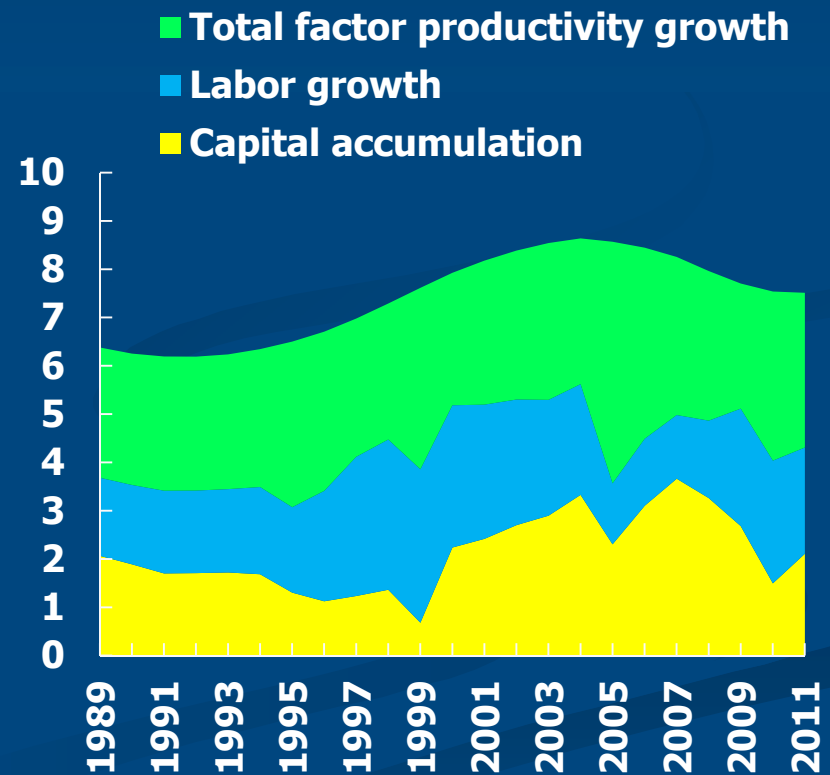
# Foundations for Stronger Growth

## Cambodia's growth potential now is higher at 7-8 percent (emerging diversification, improving infrastructure)

**Potential Growth Estimates**  
(In percent)



**Contributions to Potential Growth**  
(In percent)

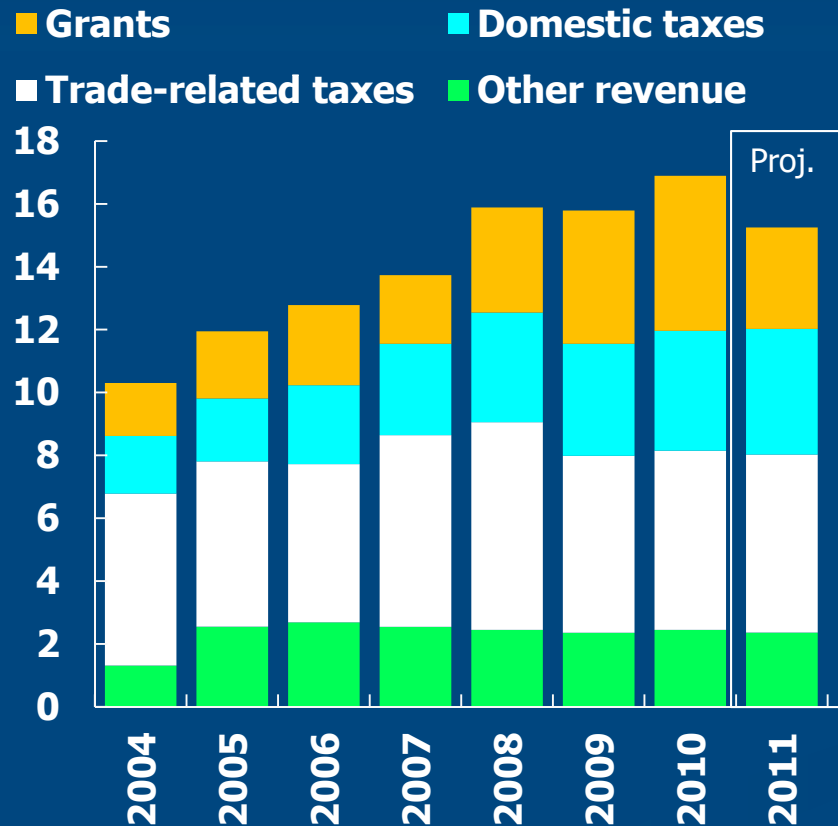




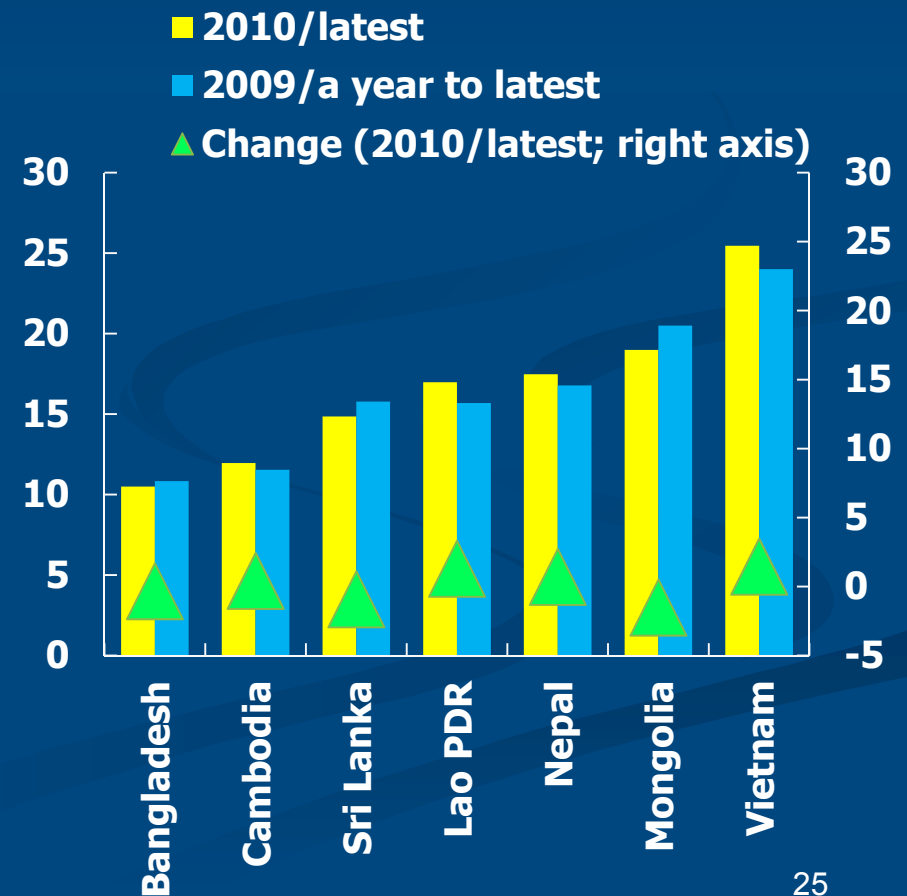


# Management of fiscal space will be critical for macroeconomic stability and long-term growth

**Government Revenue**  
(In percent of GDP)



**LIC Asia: Revenue Excluding Grants**  
(In percent of GDP)

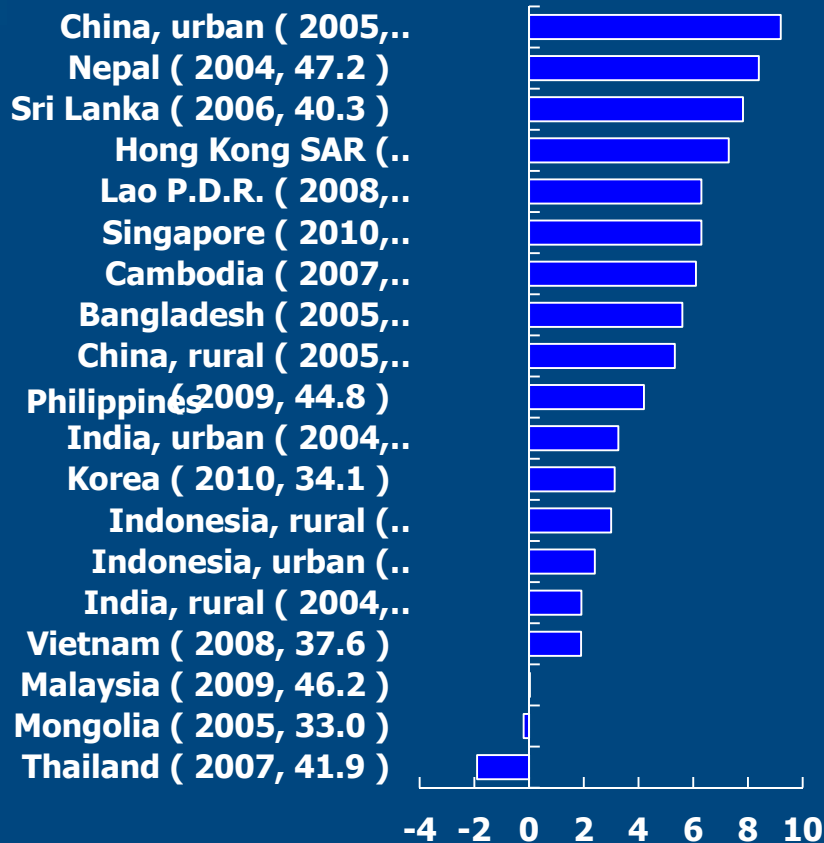




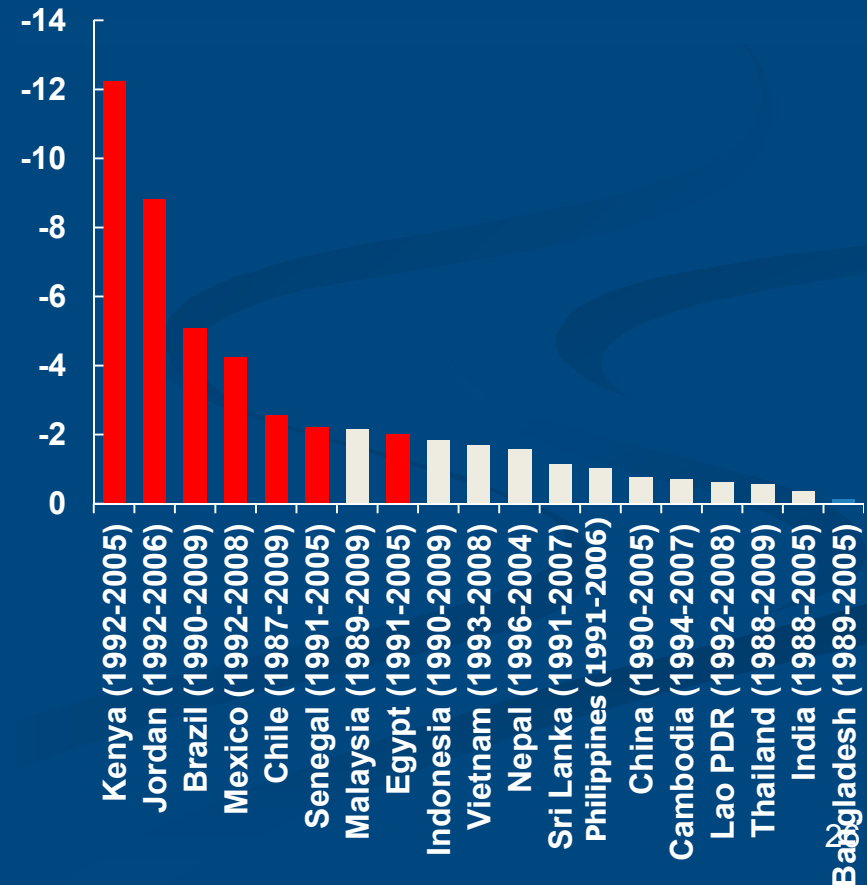
# Foundations for Stronger Growth

## Measures to raise private investment will also make growth more inclusive

**Selected Asia: Change in Gini Index**  
(In Gini points, since 1990)



**Emerging Economies: Partial Elasticities of Poverty Reduction**  
(w.r.t. 1 percent GDP growth)





## Conclusions

- Global economy is at a precarious stage owing to acute downside risks.
- Asia's growth will remain solid, thanks to largely improved fundamentals over the past decade.
- However, the region is not immune to severe downside risks. Large financial and trade spillovers loom in the event of an escalation of euro area financial turmoil.
- Over the medium term, reaping the benefits from further economic rebalancing, including in China, will be important.
- Long-term growth policies in Cambodia rightly focus on improving the investment climate, education, and infrastructure to leverage Asia's rebalancing. Fiscal and financial sector risks also need to be managed prudently to ensure growth sustainability.



THANK YOU.