

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

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



***National College – Kathmandu (June 9, 2014)***

**Thomas Richardson**

**Senior Resident Representative in India and Nepal**



# Outline

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



# 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)

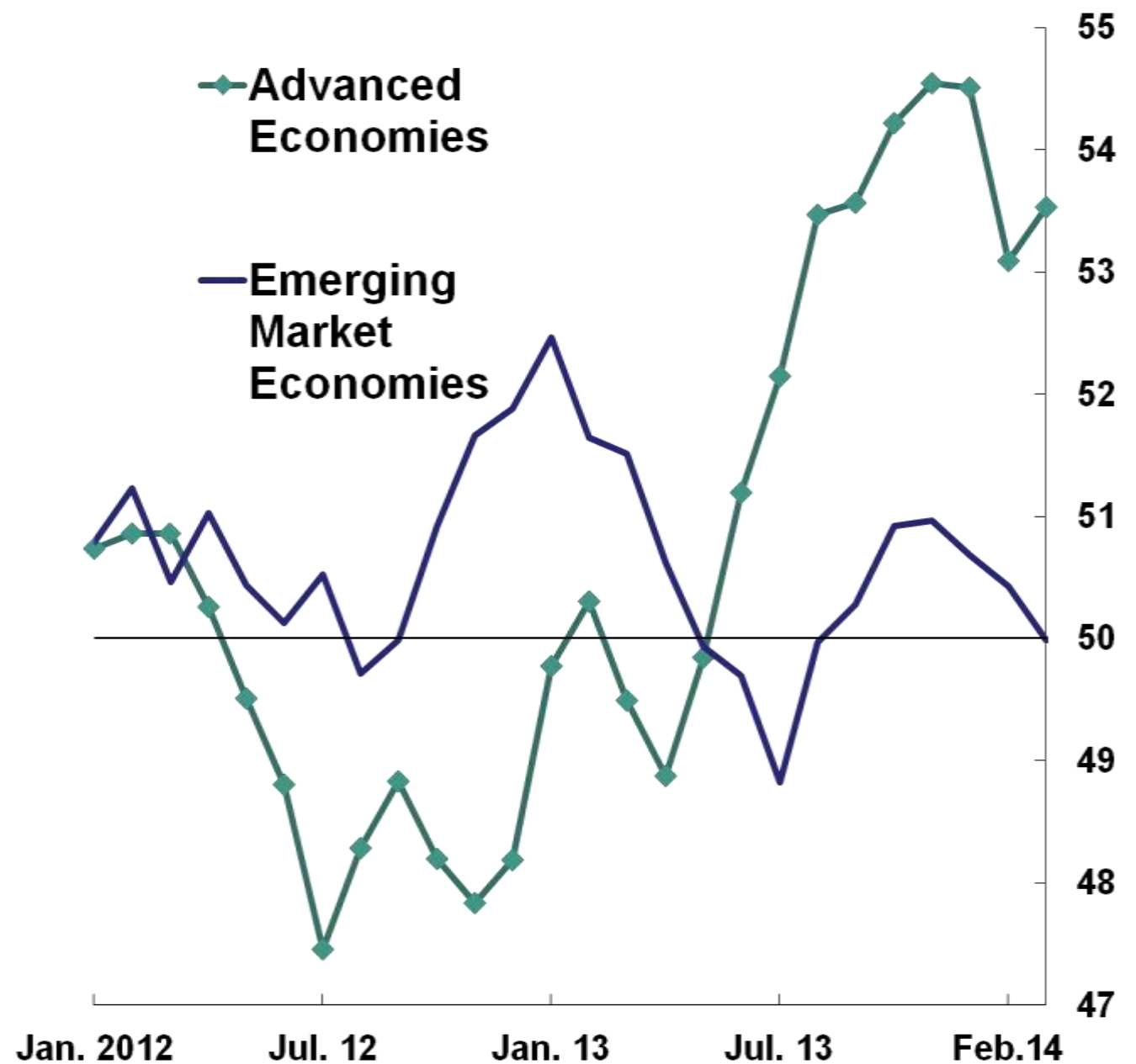


# World economic outlook: global growth is picking up

- **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: Ukraine/Russia, euro area (deflation), tapering effect on EMs**

## Manufacturing PMI

(index; above 50 = expansion)

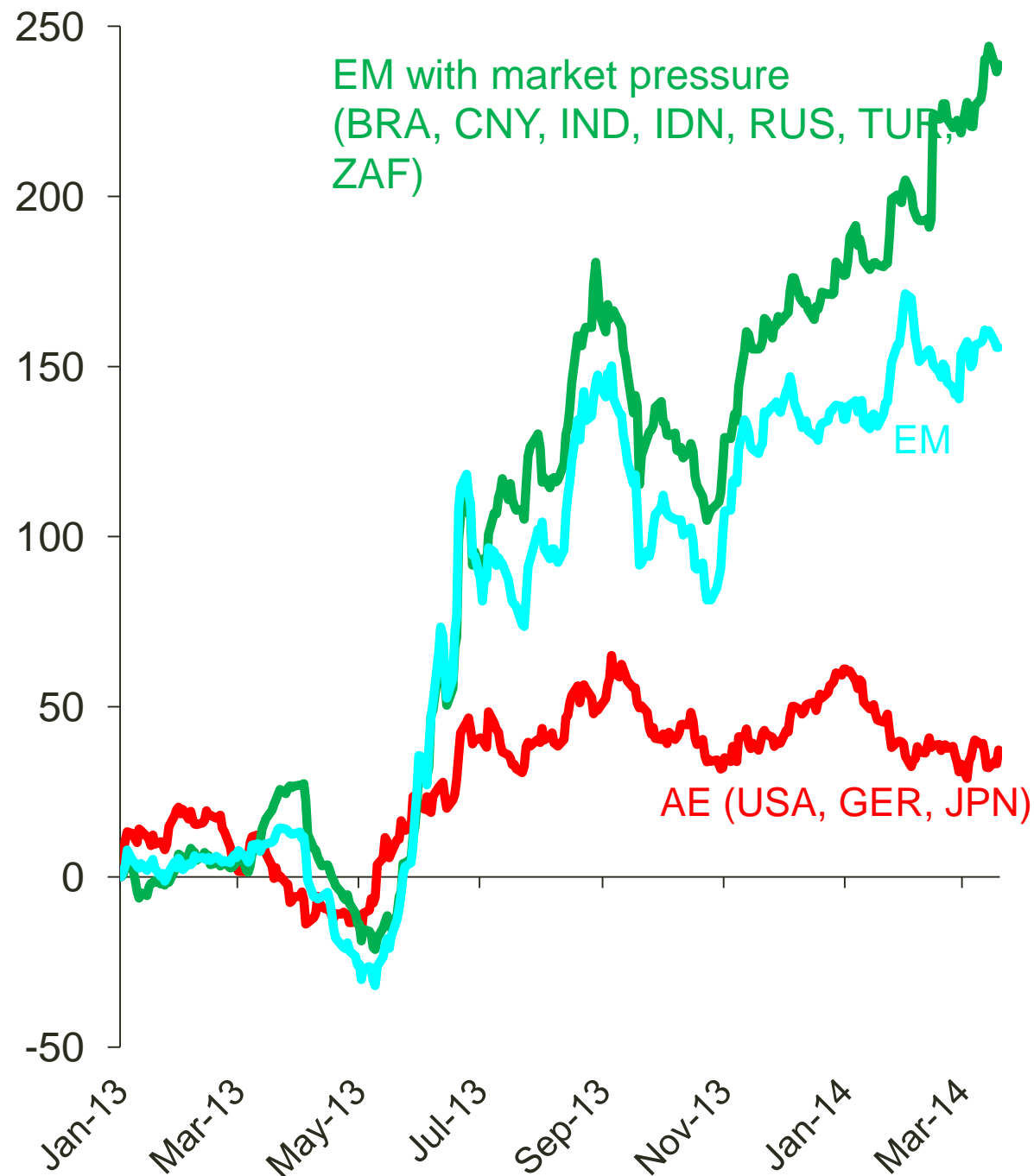




# AE-EM Divergences: financial markets

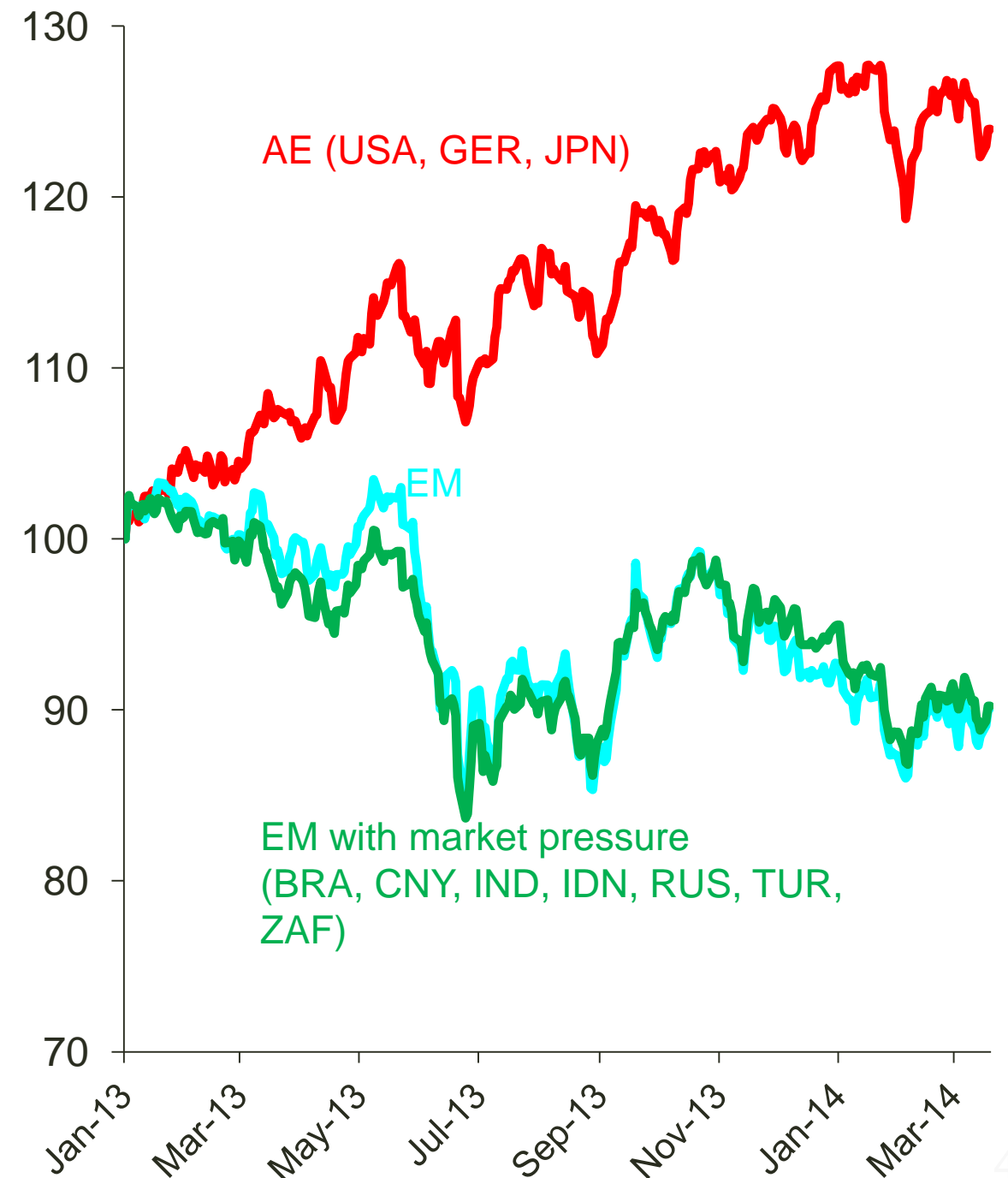
## Long-term rates

(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)



World U.S. Euro Area Japan Brazil Russia India China

**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

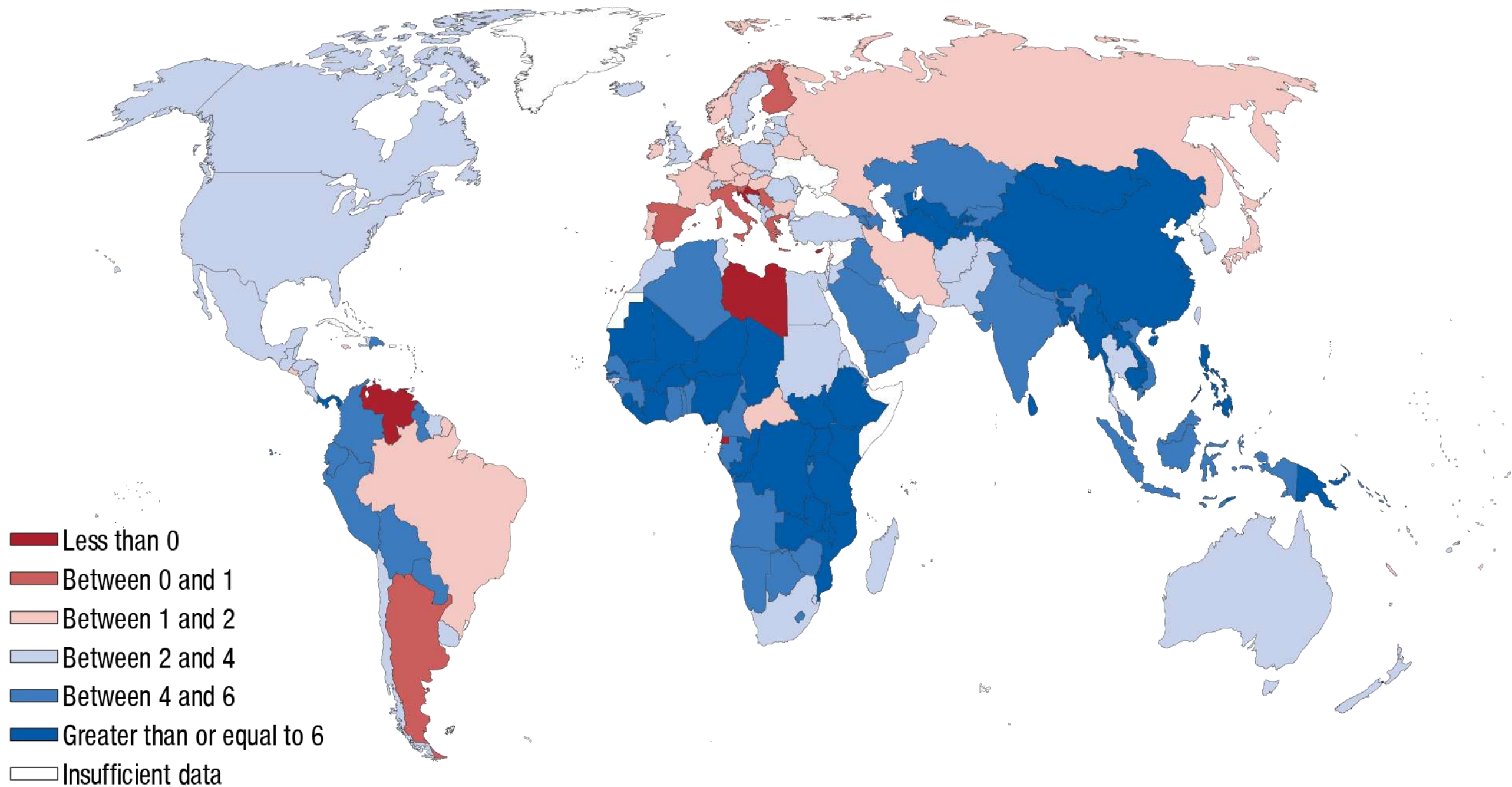
**Revision  
from Jan.  
2014**

-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

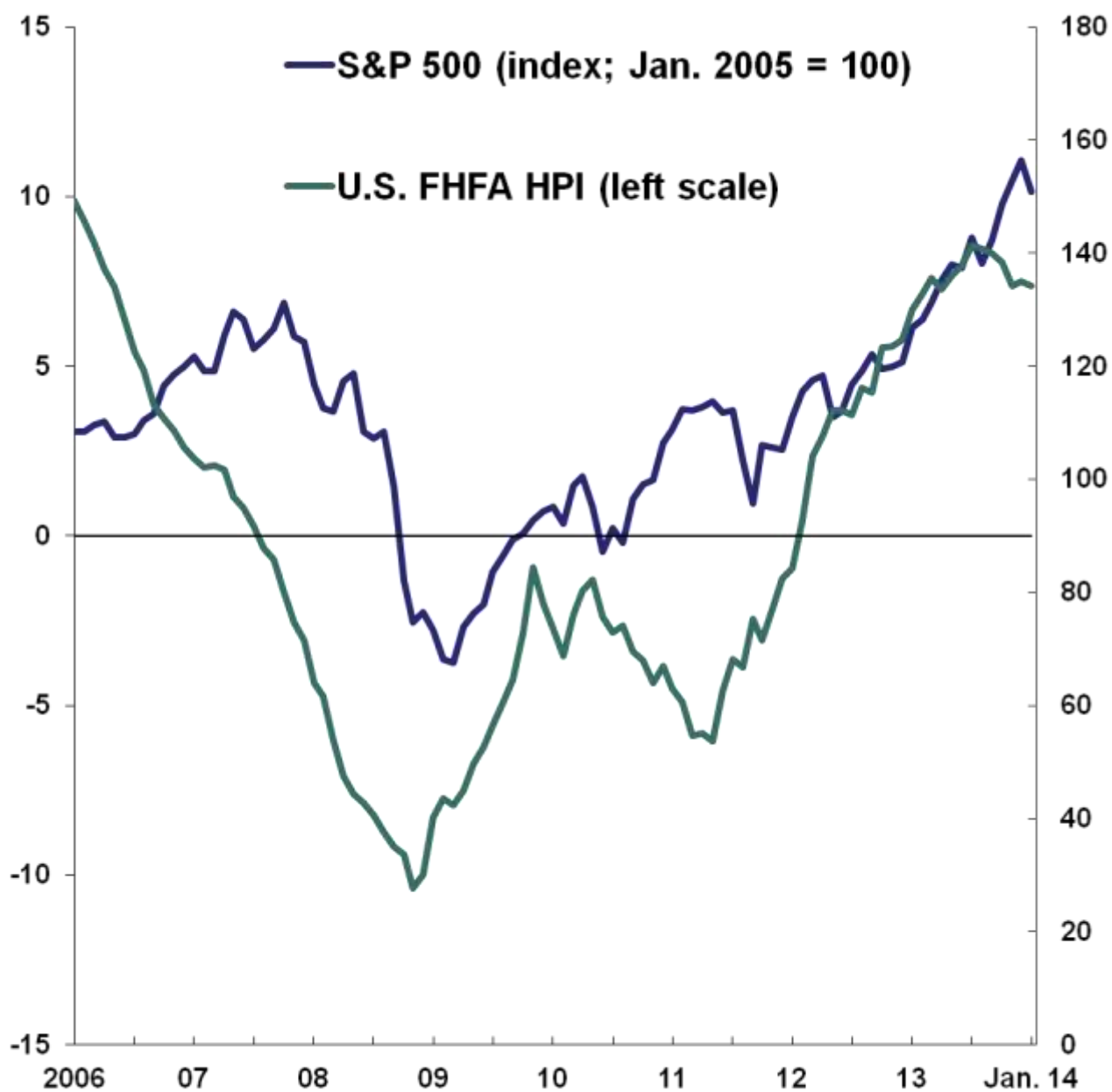


Sources: IMF, World Economic Outlook; and IMF staff calculations.

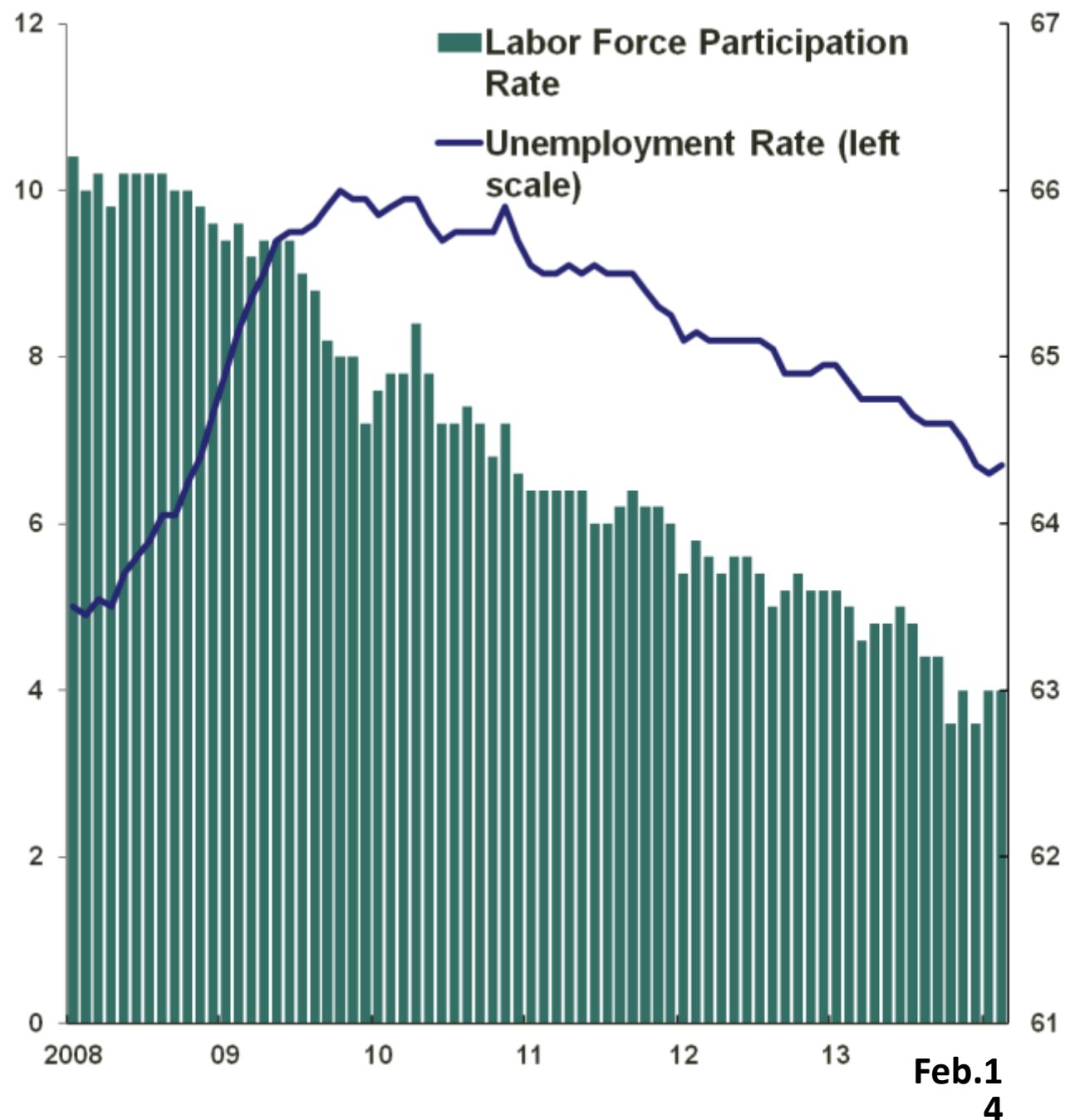


# US consumer demand supported by housing and equity prices, and better labor market

## 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.

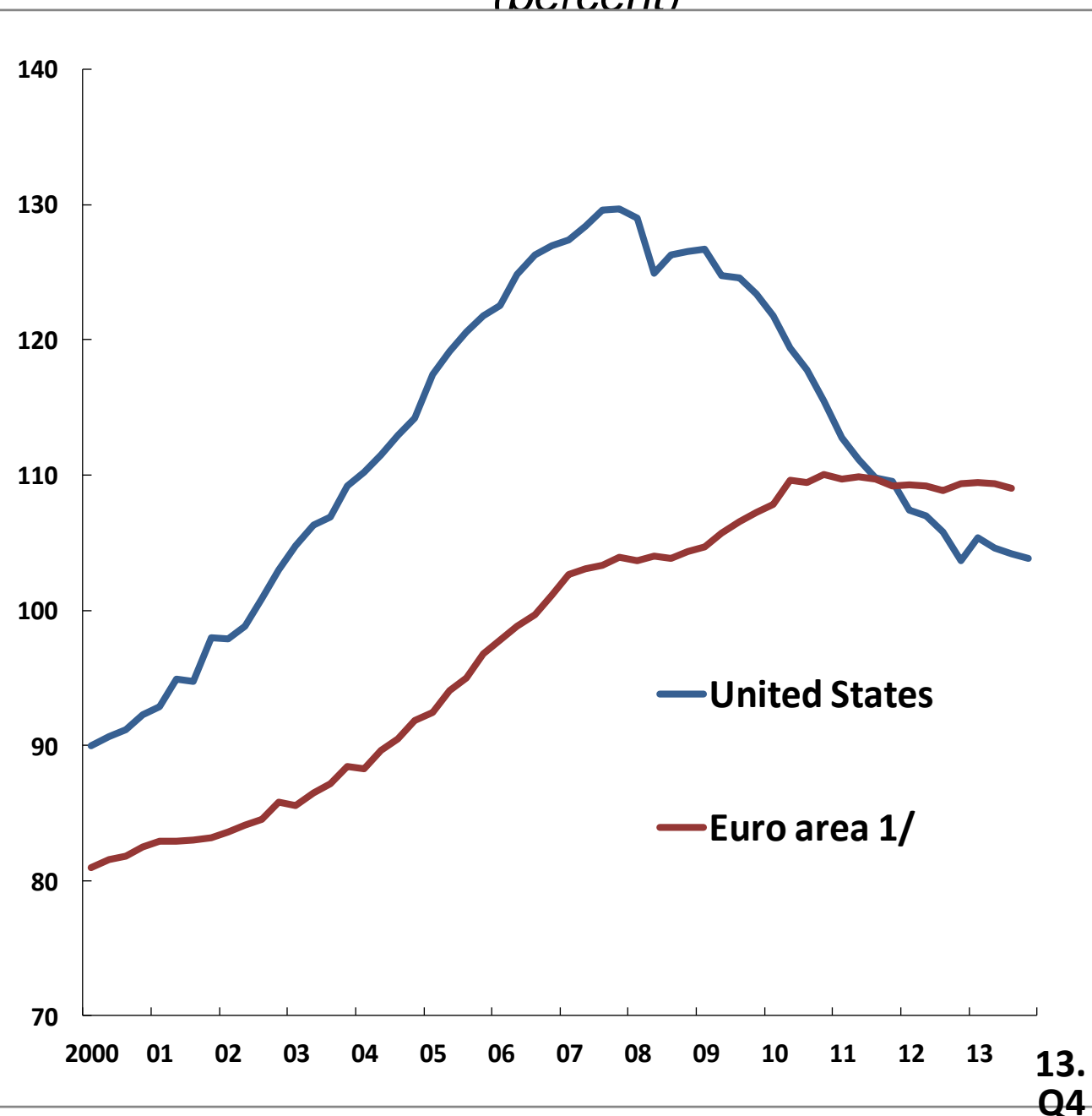
Note: FHFA HPI = Federal housing Finance Agency Housing Price index.



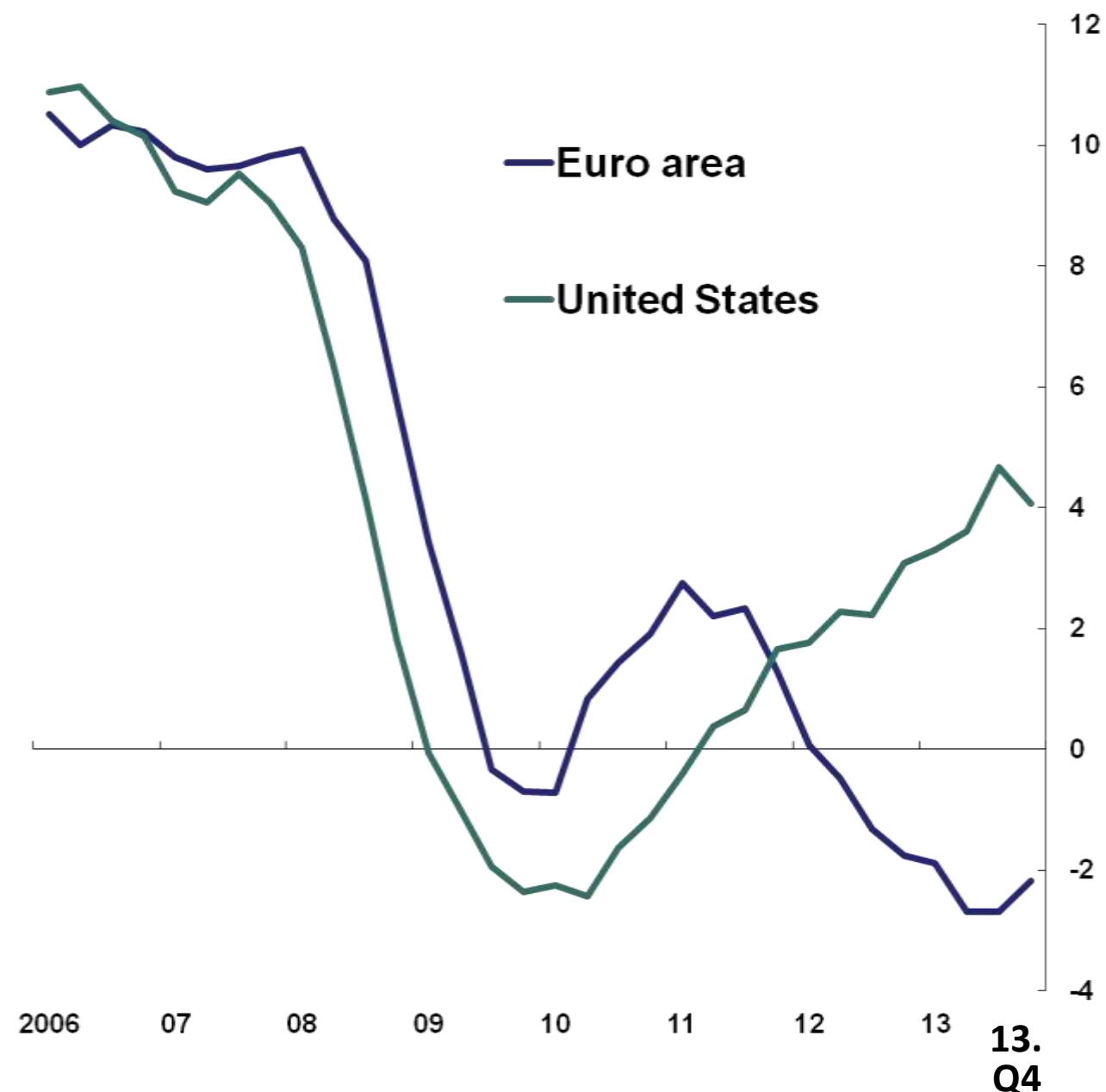


# US also helped by falling HH debt & credit conditions: contrast to Europe...

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



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



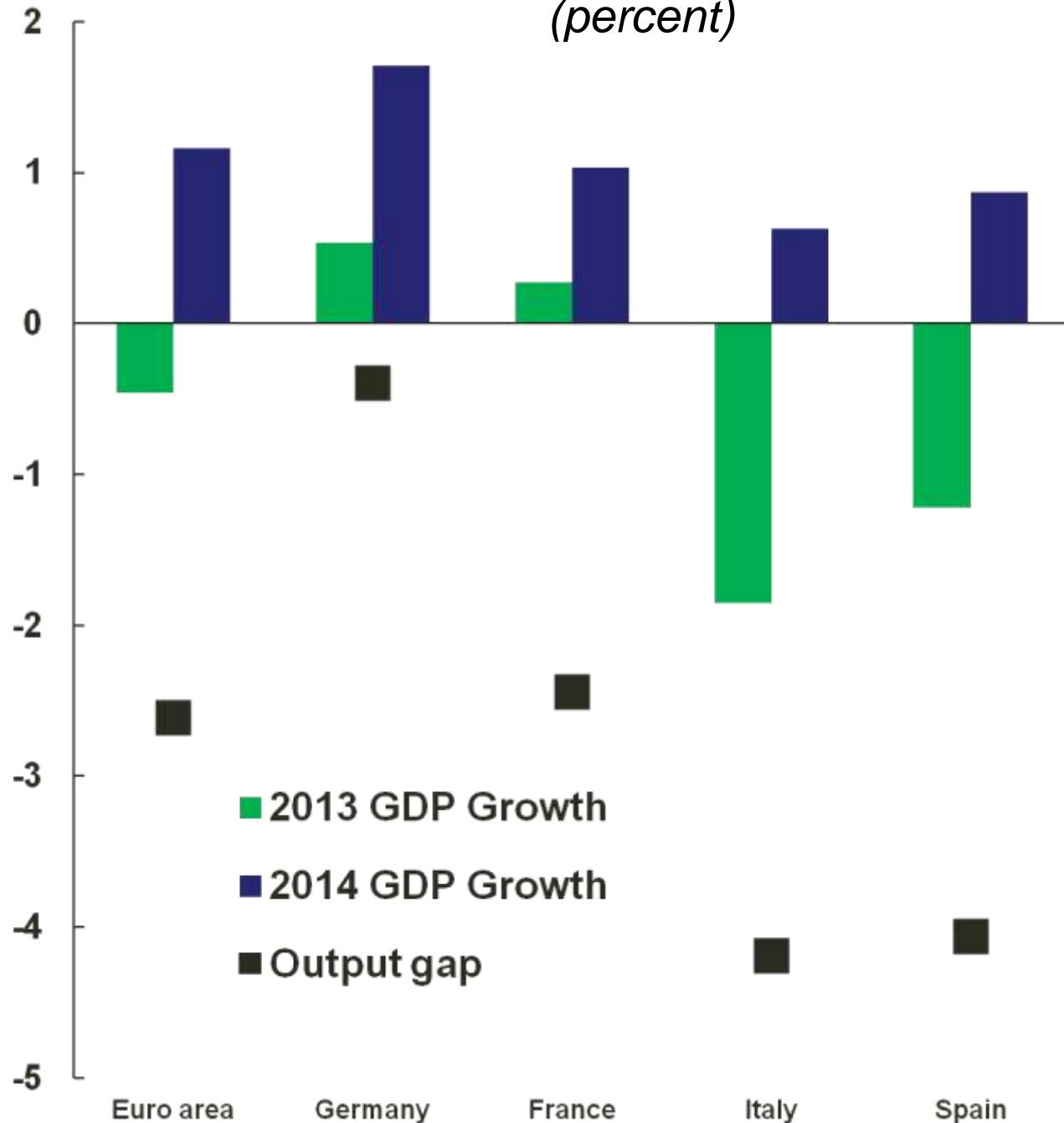
Sources: Haver Analytics; and IMF staff calculations.

1/ Euro area includes subsector employers (including own-account workers).

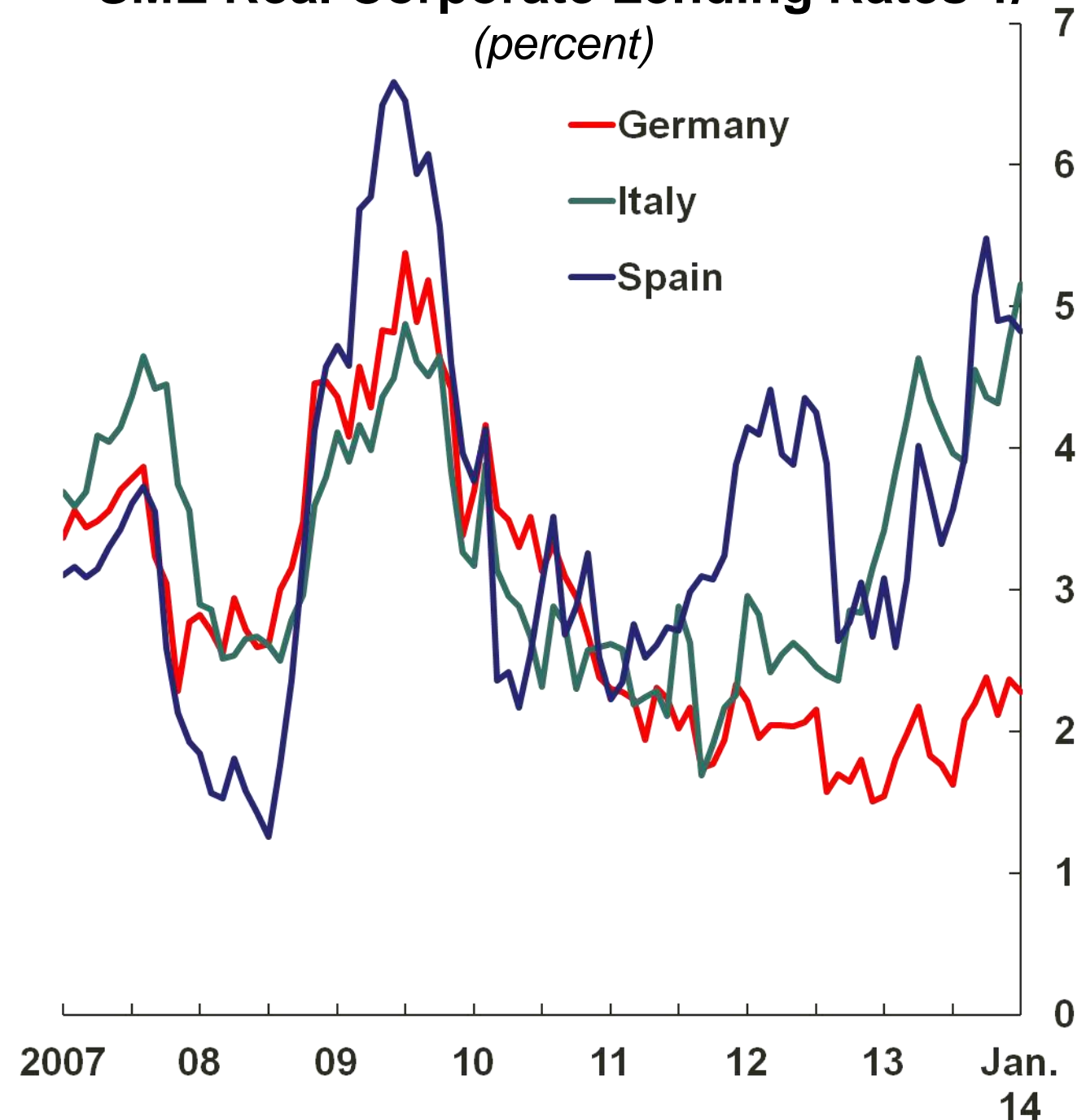


# ... where growth has picked up, but debt and financial fragmentation persist

## 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.



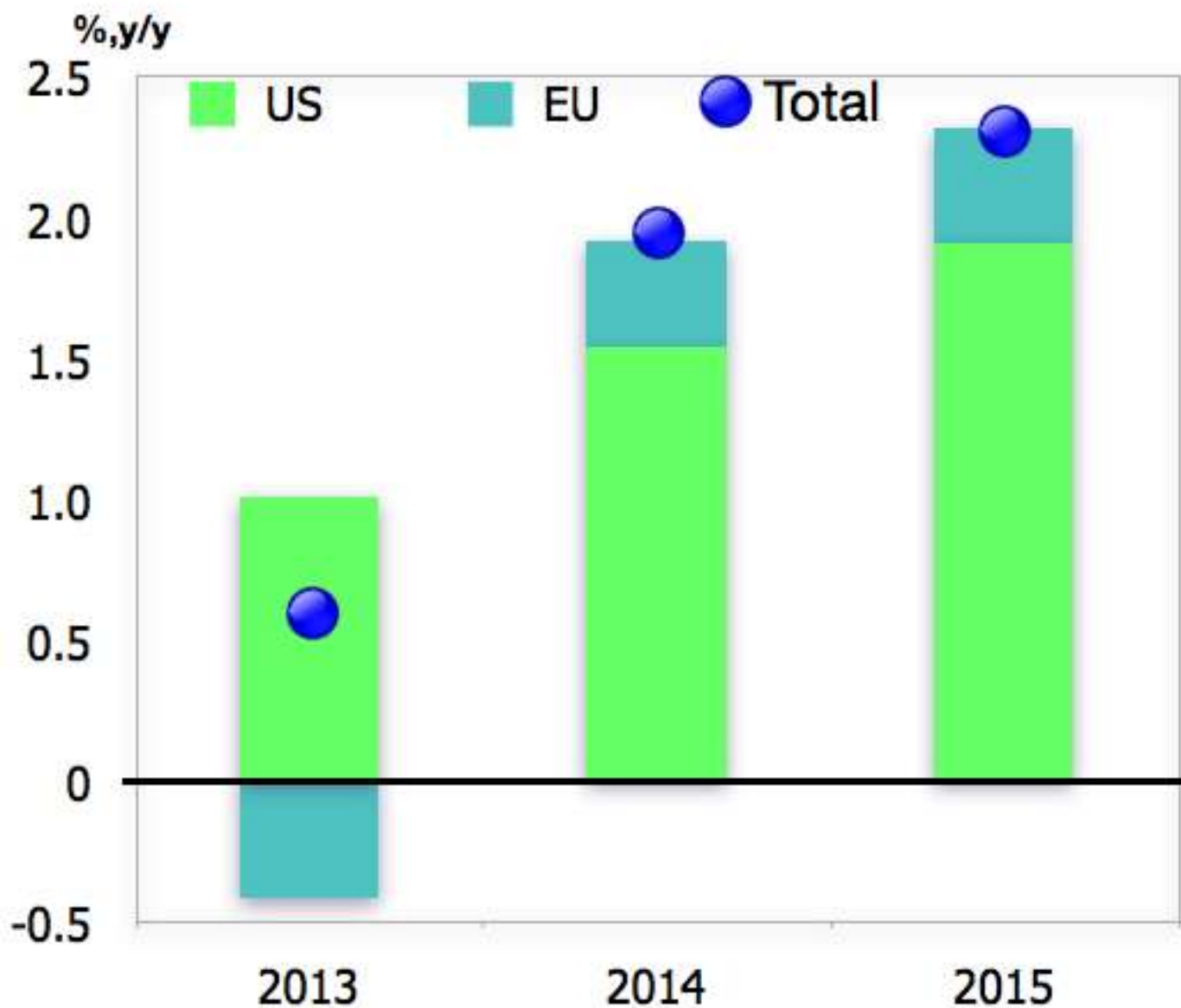
# Turning to Asia: Key Messages from Asia REO

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

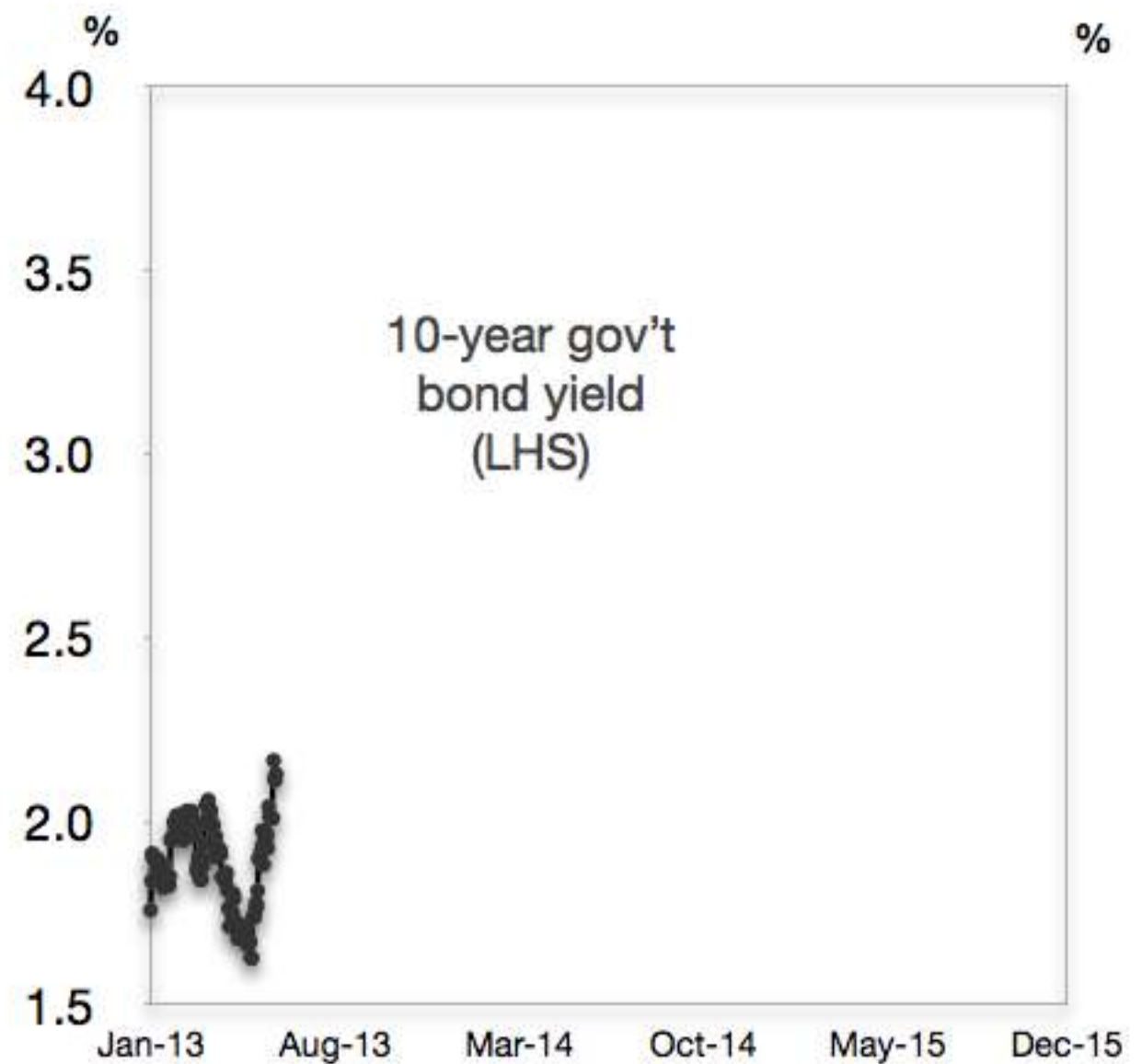


# Drivers: supportive global environment on balance

## Domestic Demand from EU and US



## US Interest Rates

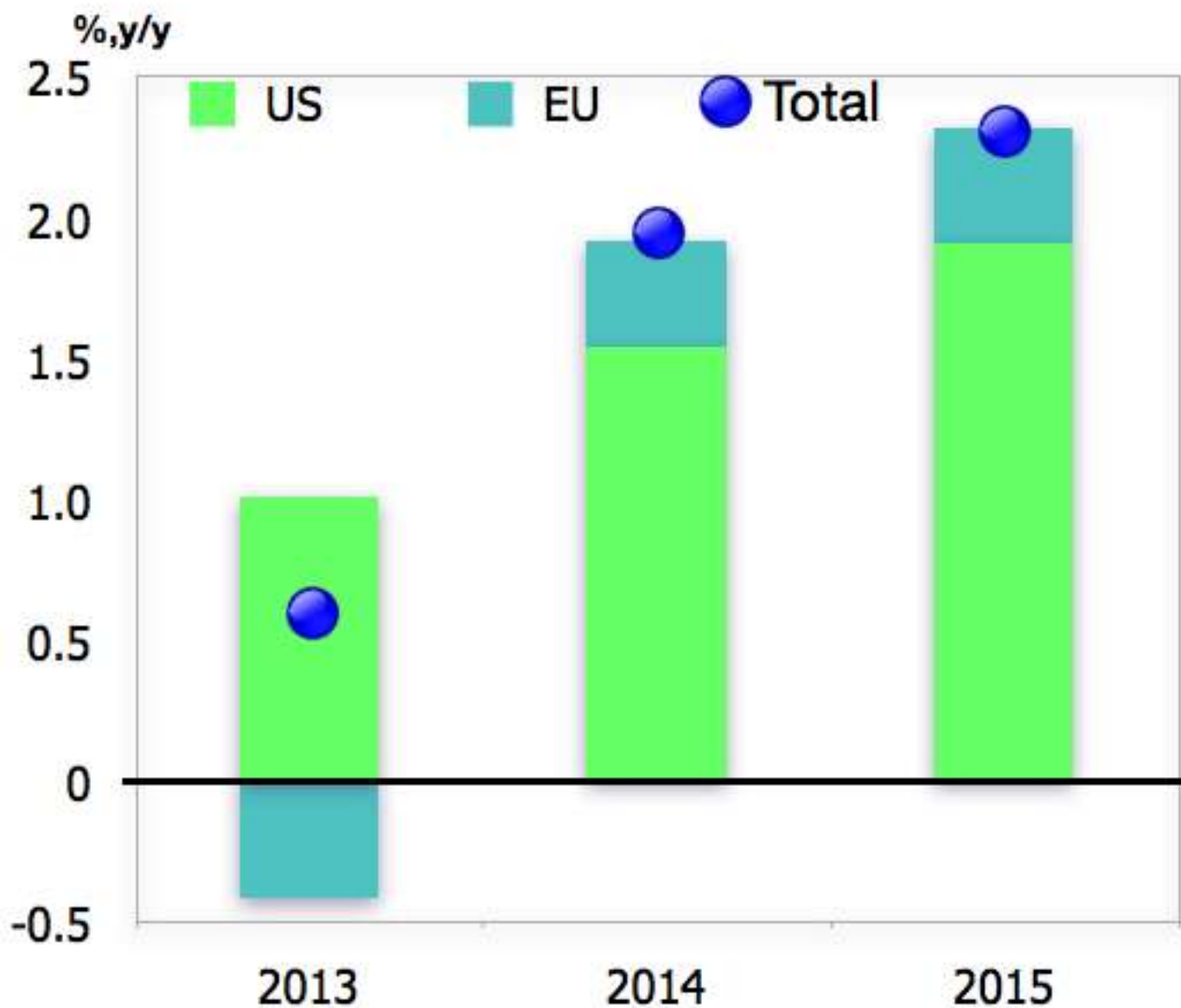


## Outlook

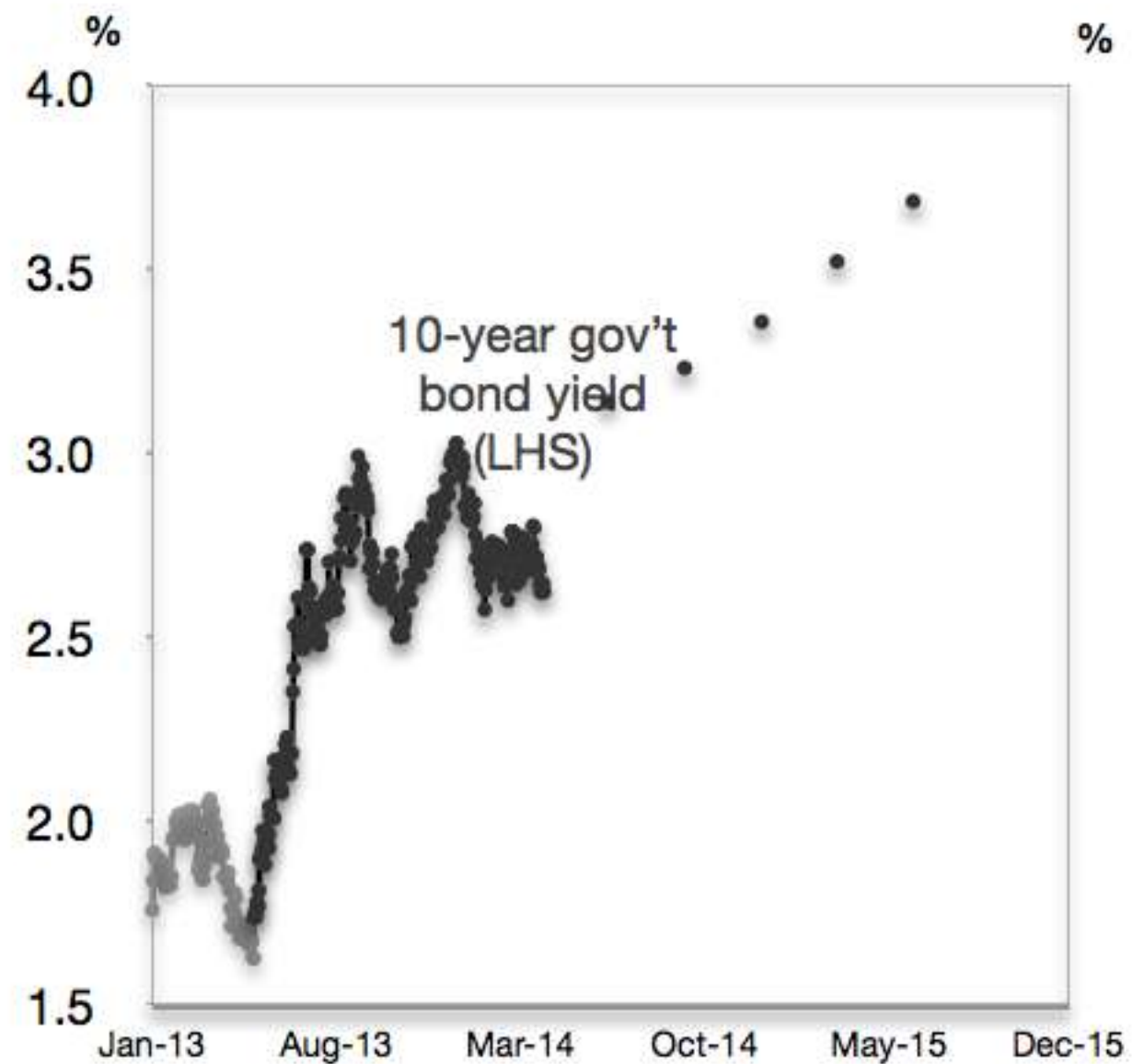


# Drivers: supportive global environment on balance

## Domestic Demand from EU and US



## US Interest Rates



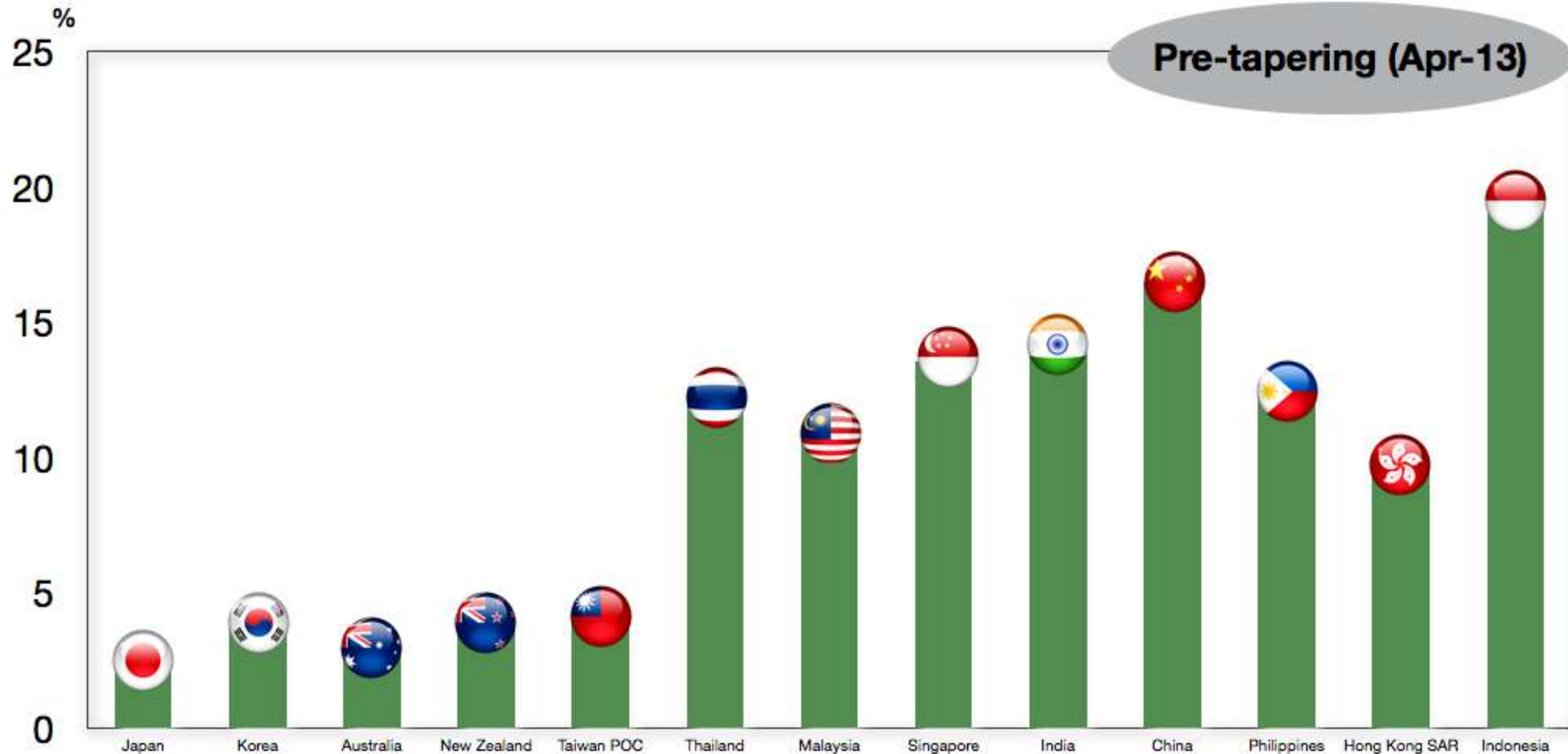
Outlook





# Drivers: resilient domestic demand supported by solid credit growth

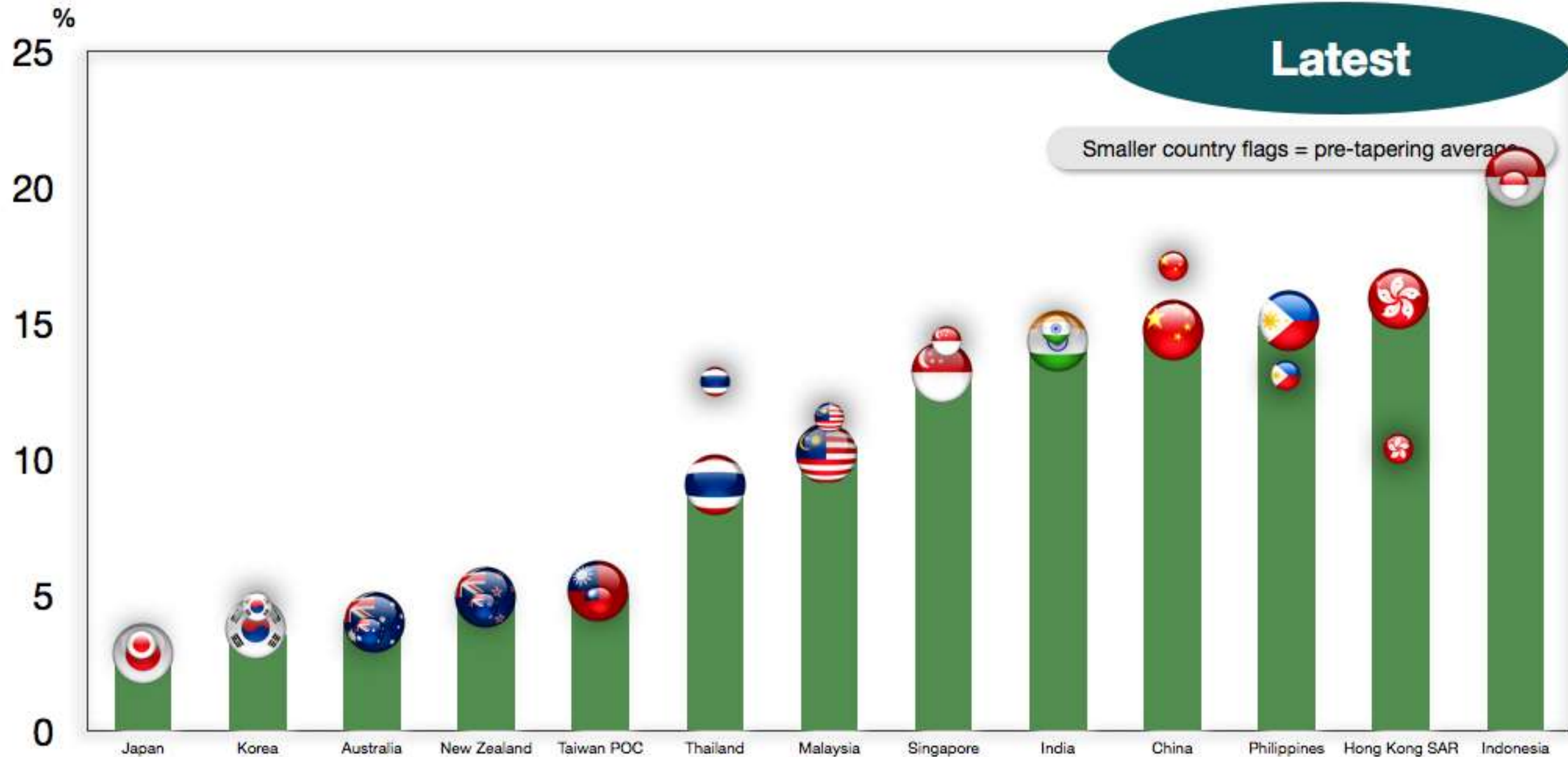
## Credit to Private Sector Growth





# Drivers: resilient domestic demand supported by solid credit growth

## Credit to Private Sector Growth

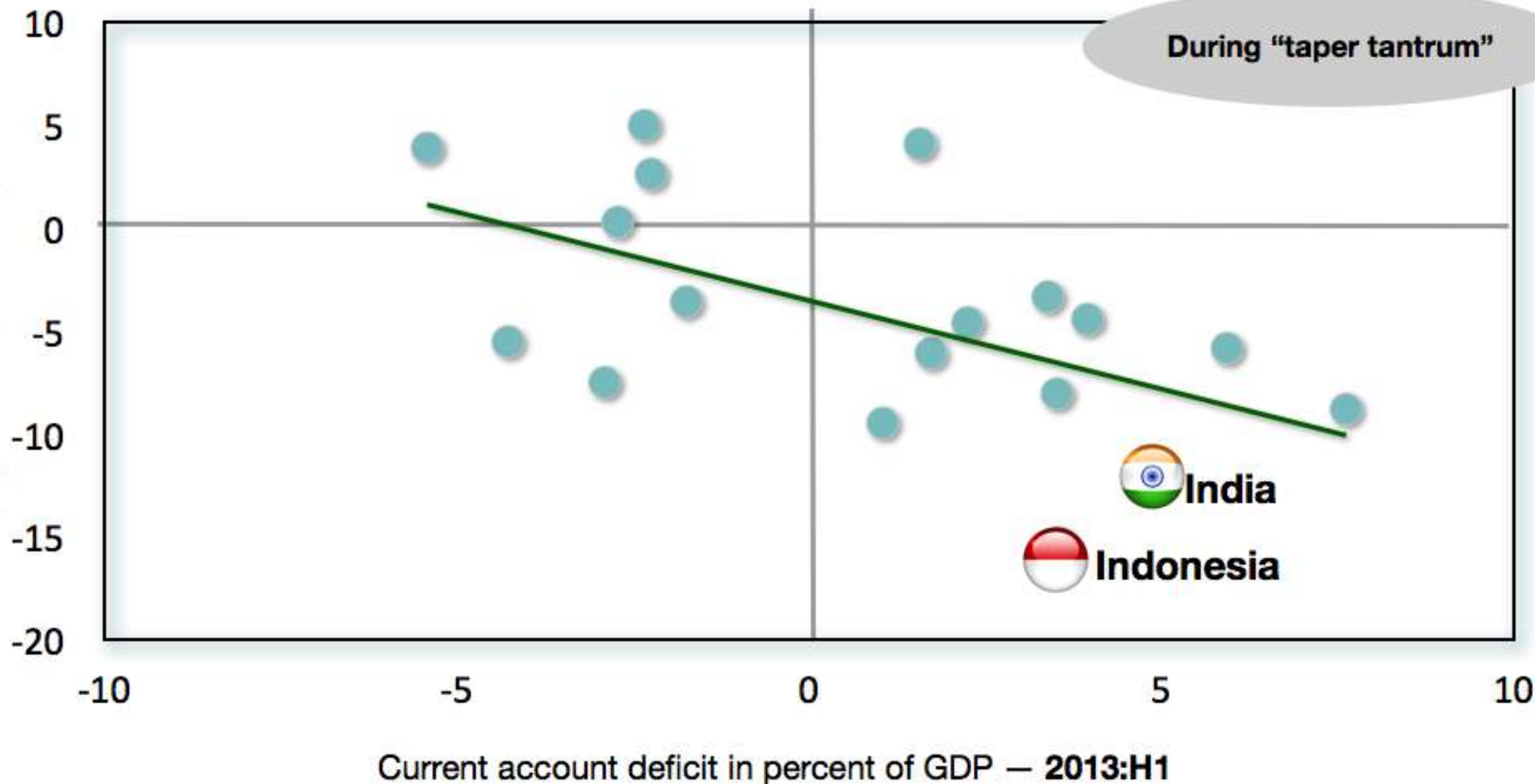




# Drivers: actions taken to reduce vulnerabilities are bearing fruit

## Current Account Deficit and Exchange Rate

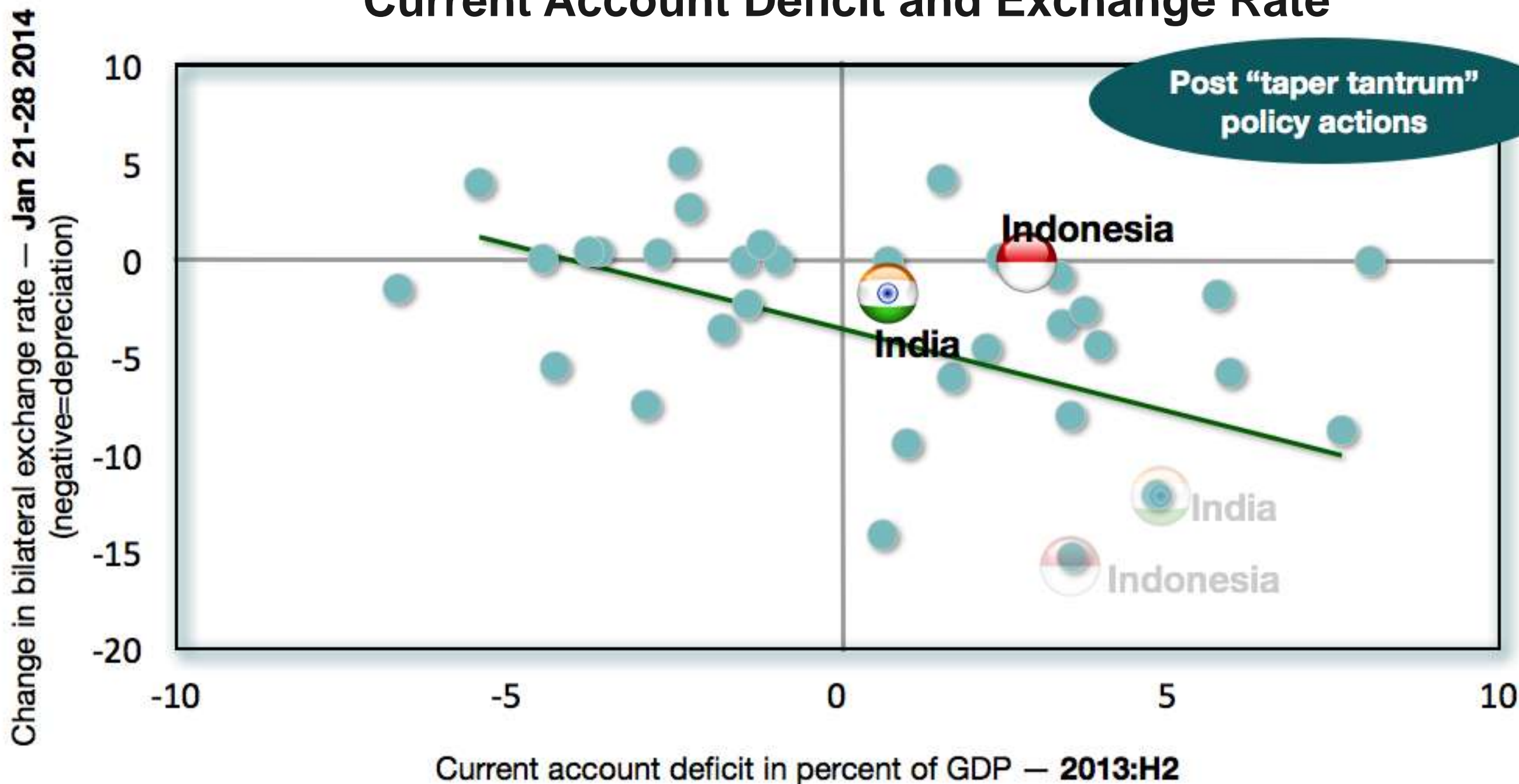
Change in bilateral exchange rate – May 22 - Sep 2013  
(negative=depreciation)





# Drivers: actions taken to reduce vulnerabilities are bearing fruit

## Current Account Deficit and Exchange Rate

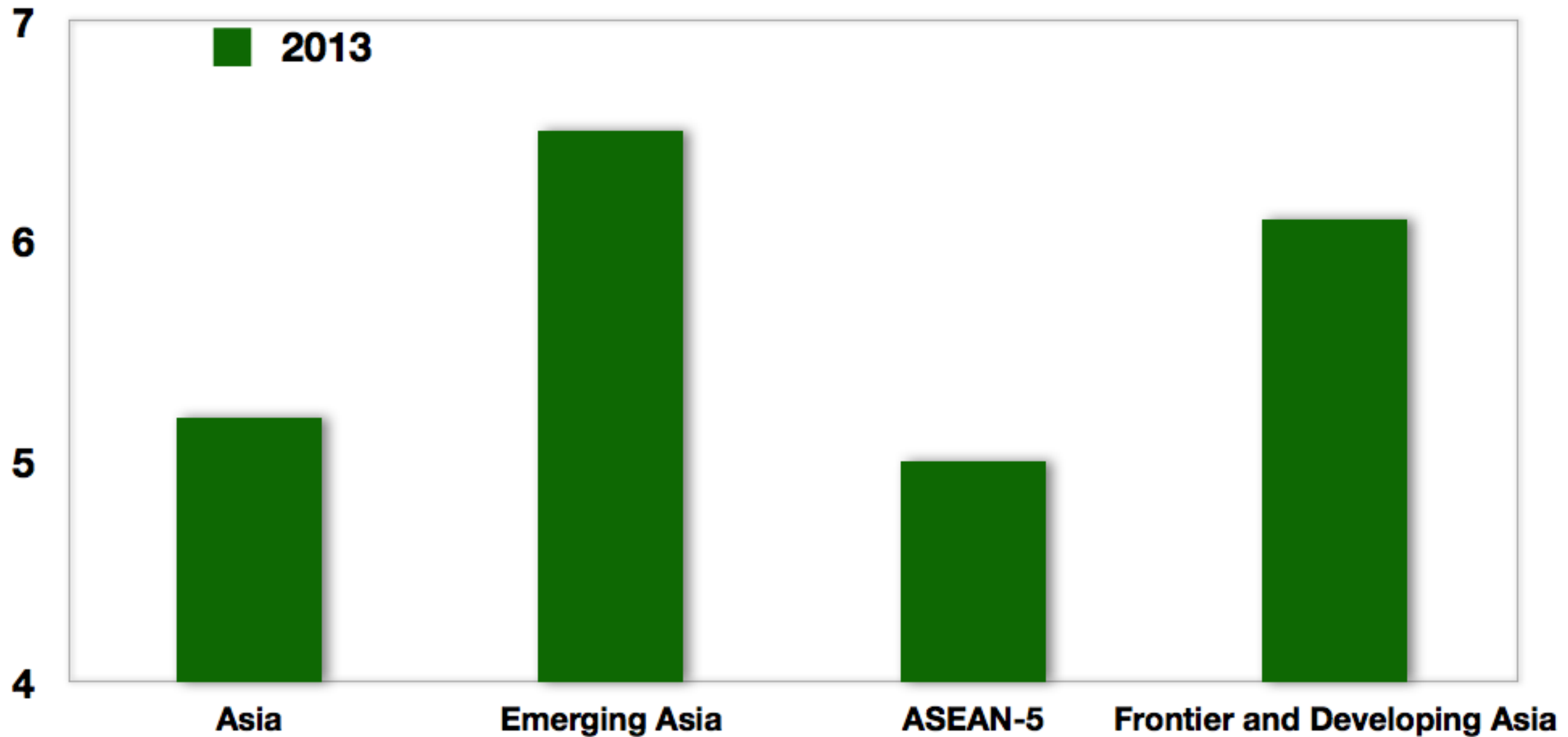






# Steady growth ahead...

## Asia: Real GDP Growth by Region

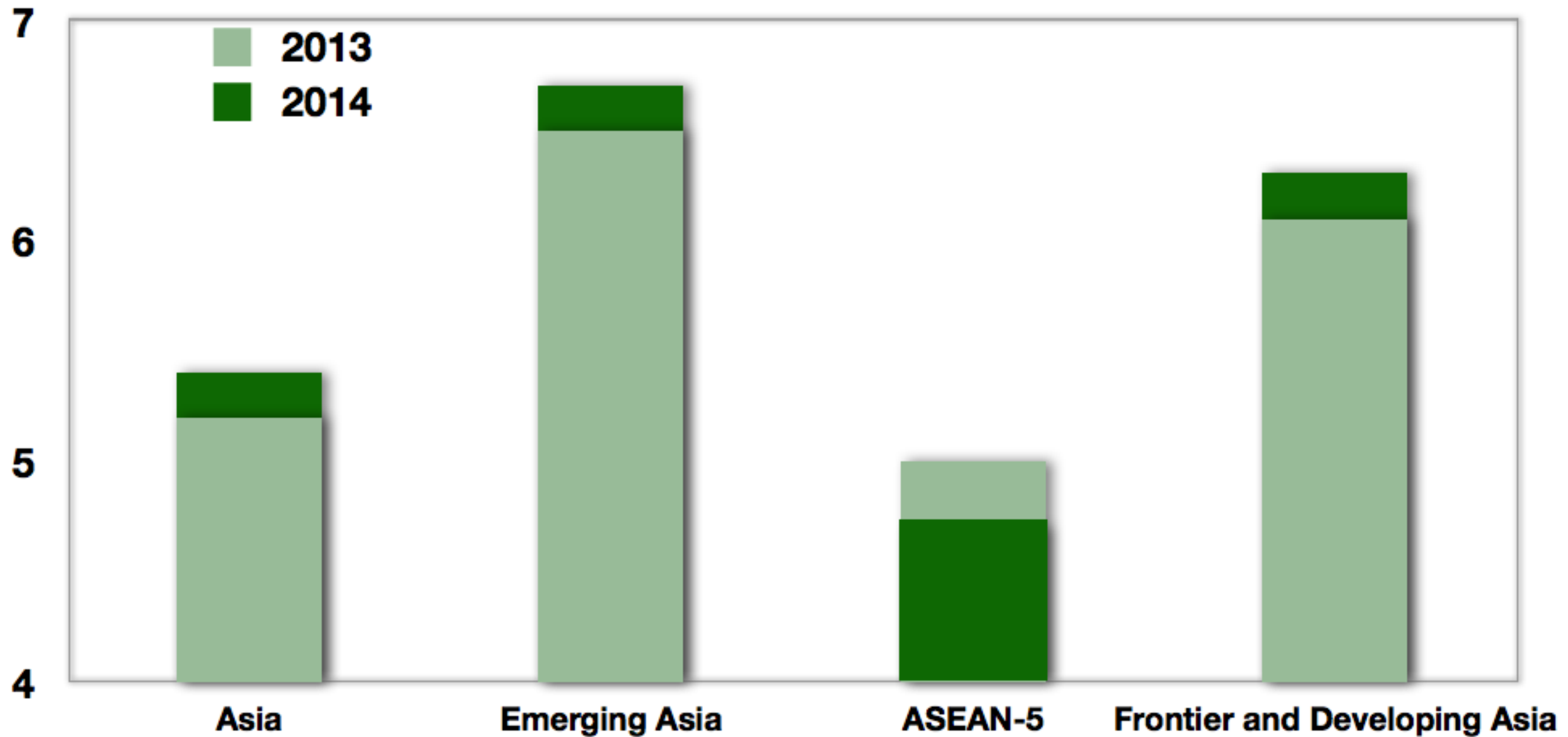






# Steady growth ahead...

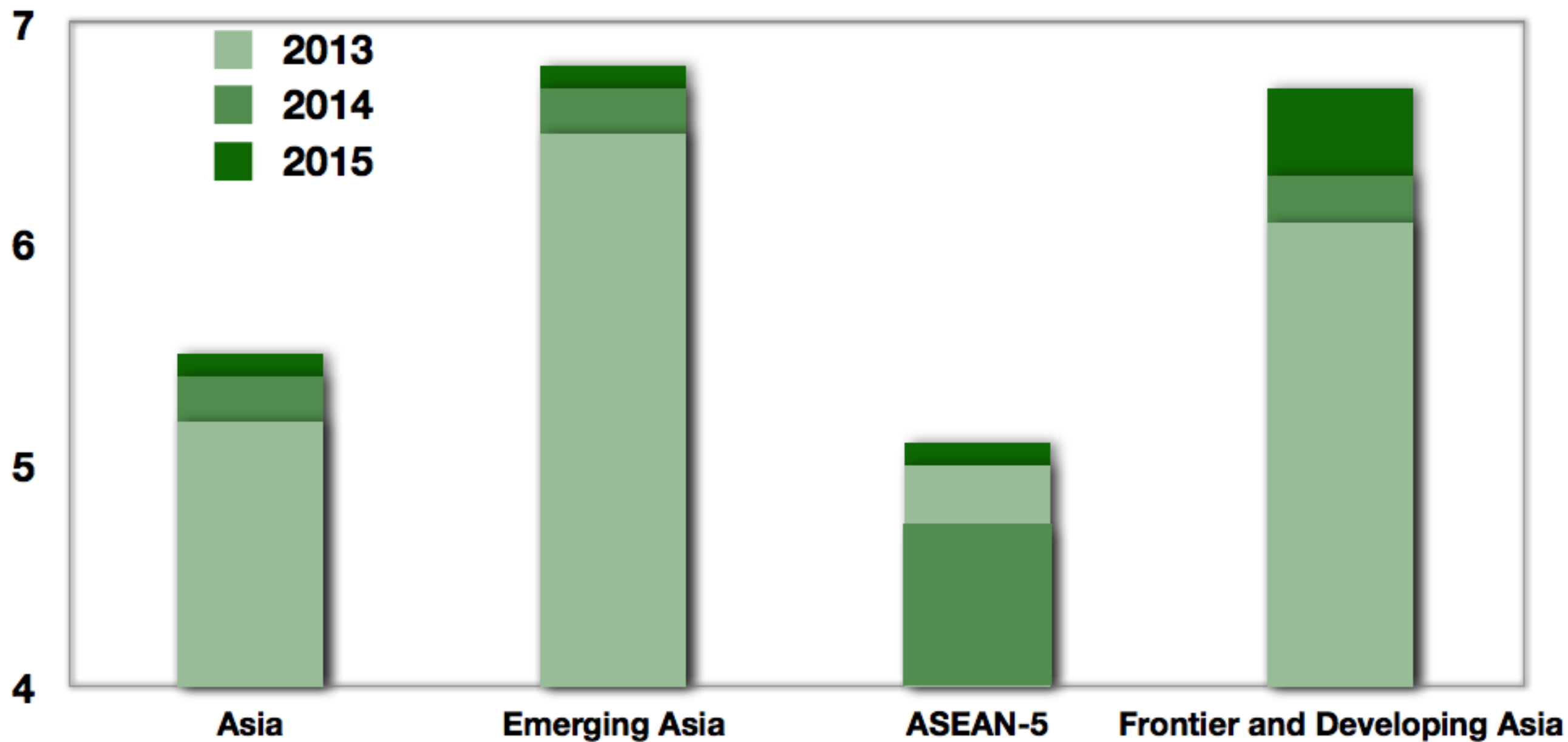
## Asia: Real GDP Growth by Region





# Steady growth ahead...

## Asia: Real GDP Growth by Region





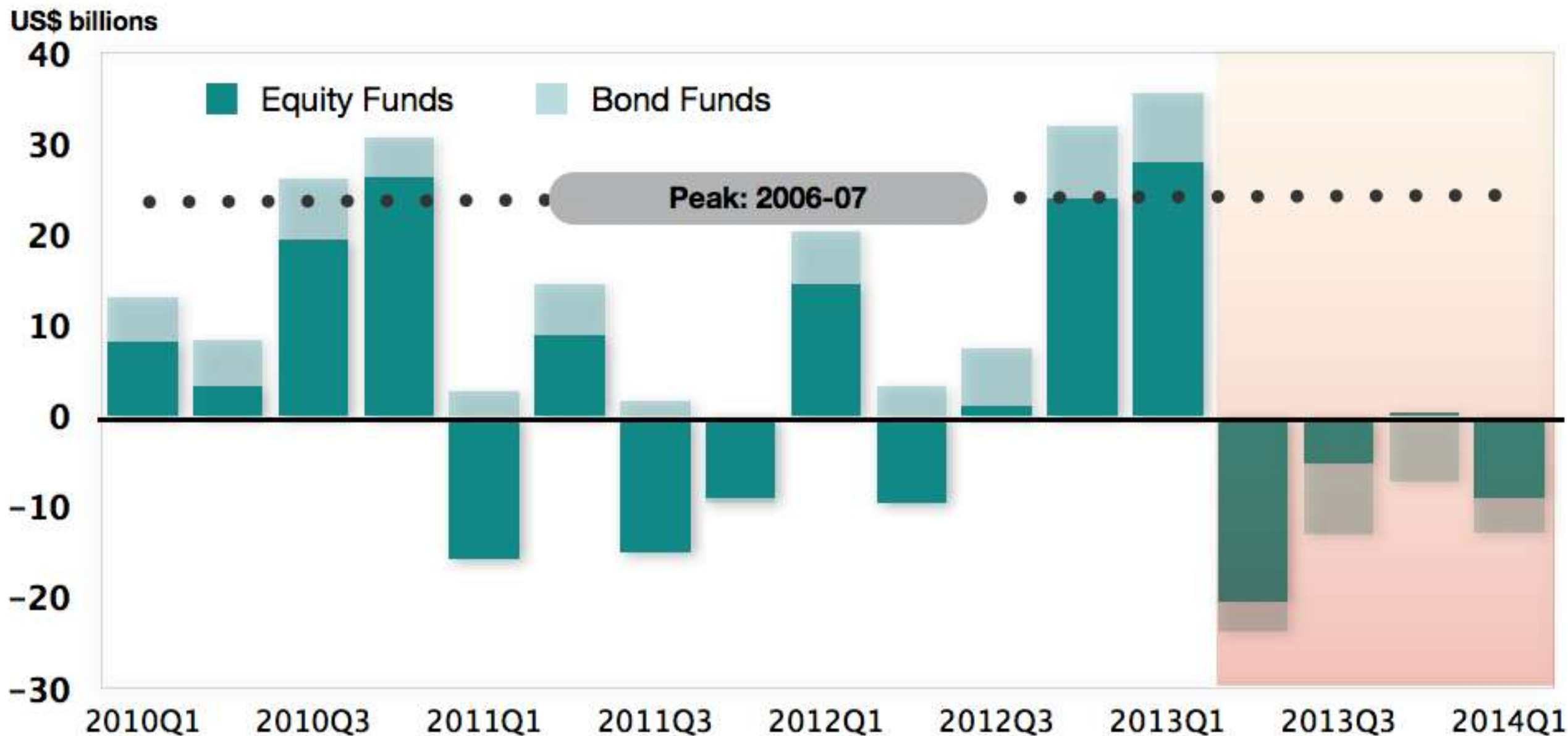
## Risks – three of them

- 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



Outlook

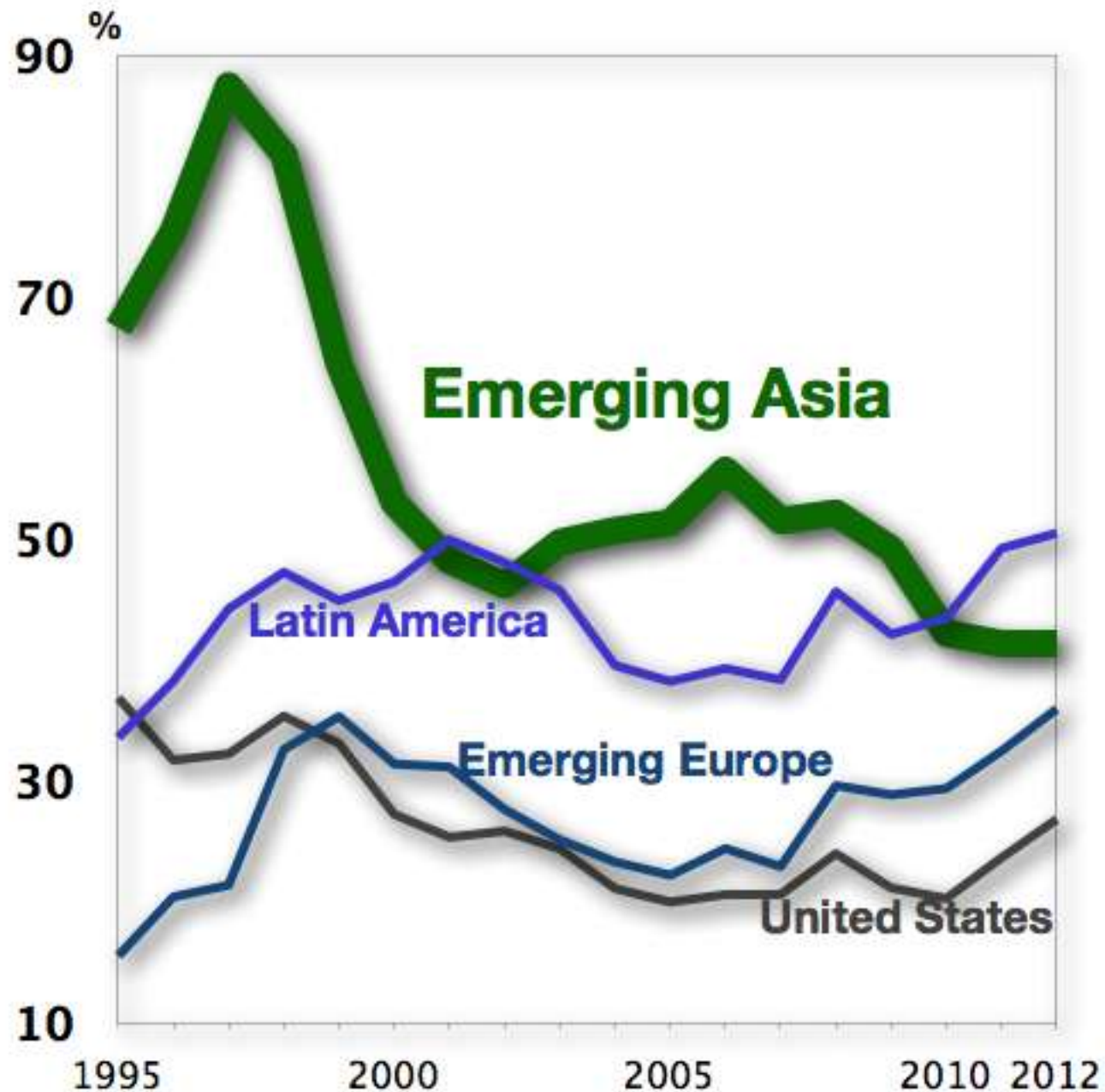
Risks



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

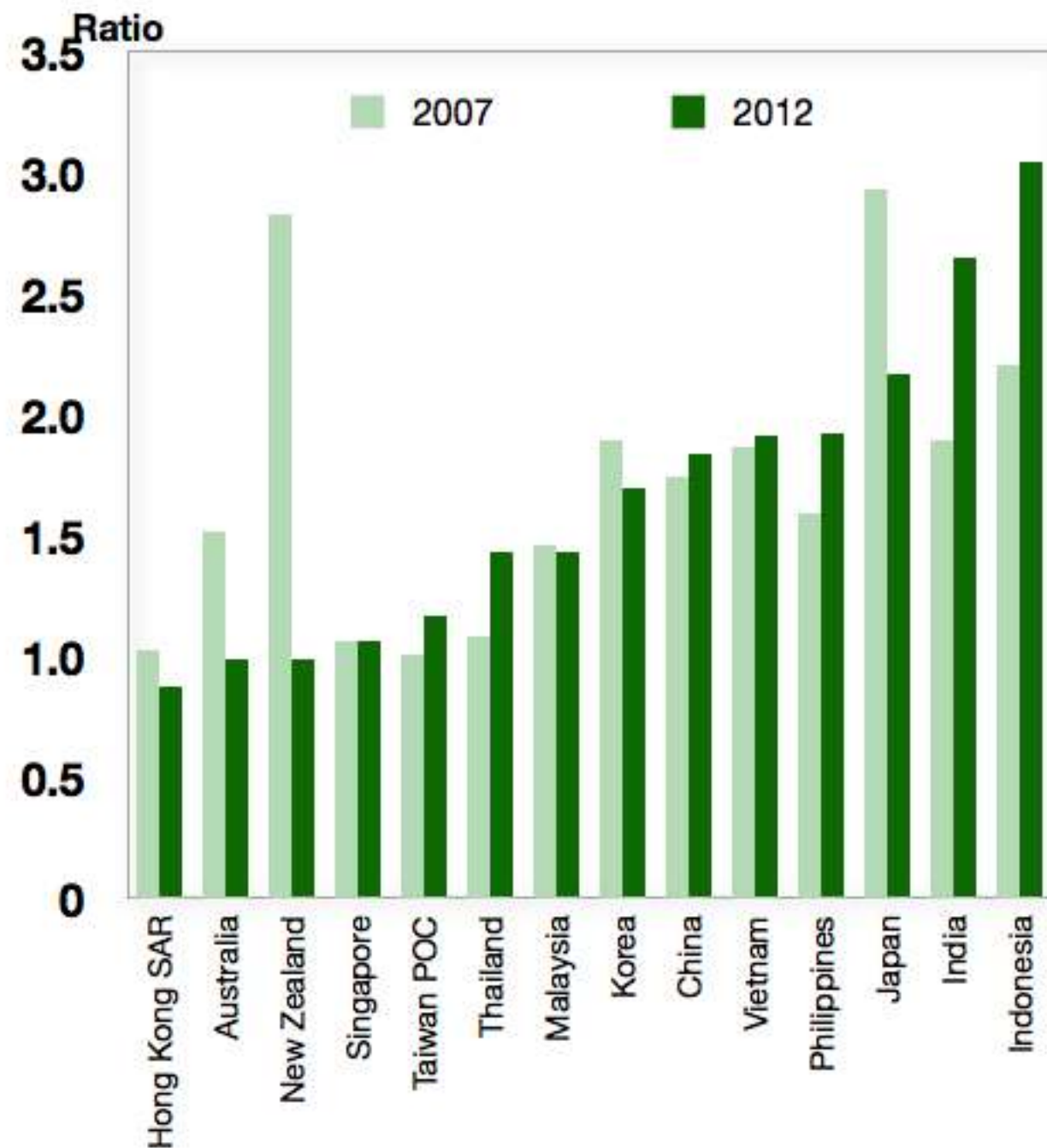
## Debt to Equity Ratio

(In percent; median for non-financial corporates)



## Asia: Debt to Equity Ratio

(Ratio, total debt-weighted average)

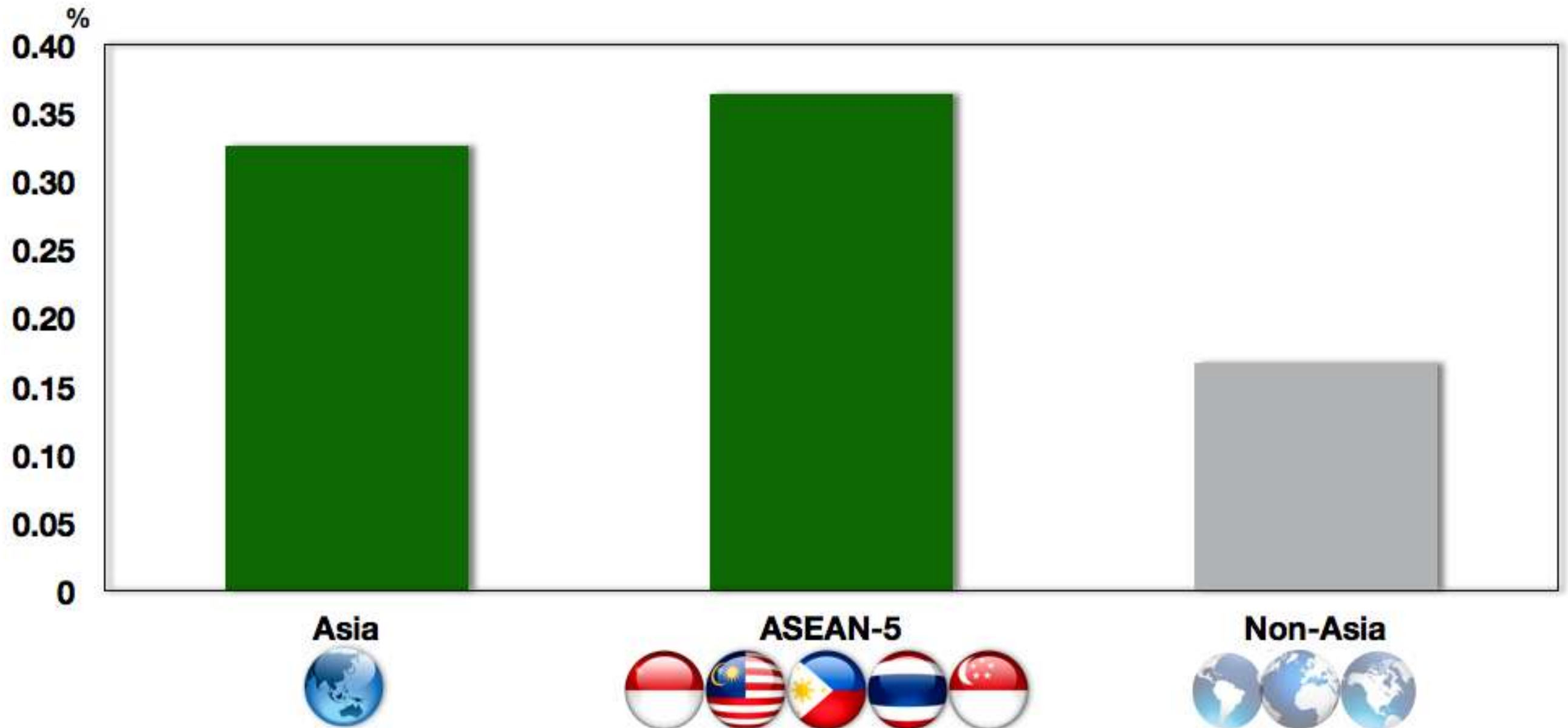






### 3) China: slowdown welcome, but sharp growth fall would have spillovers (chap 3)

## Estimated Impact of 1% Growth Surprise in China on Partner Country Growth (GDP growth impact after one year, in percentage points: Median)

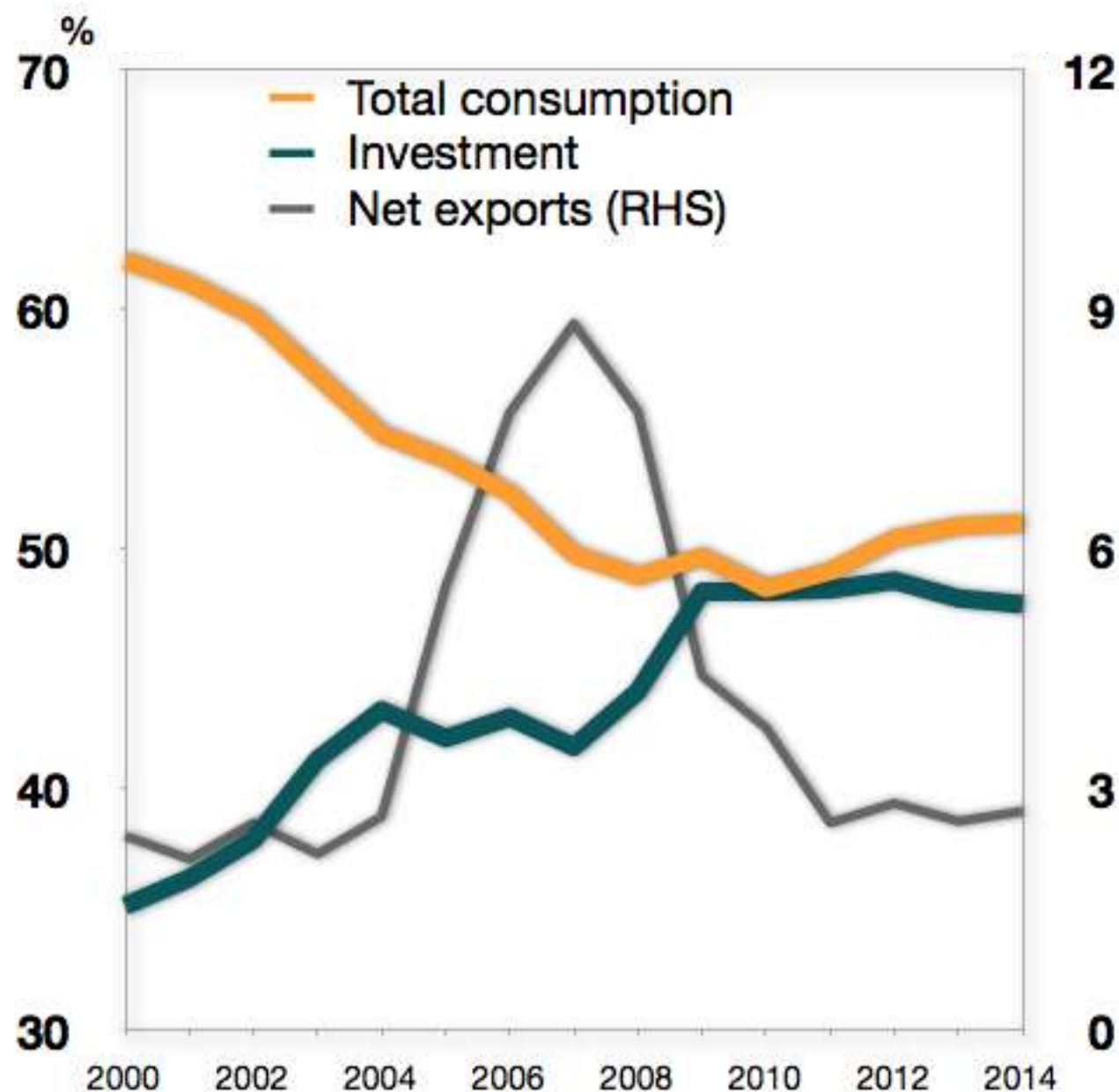


Sources: IMF, staff estimates (APD REO Chapter 3)

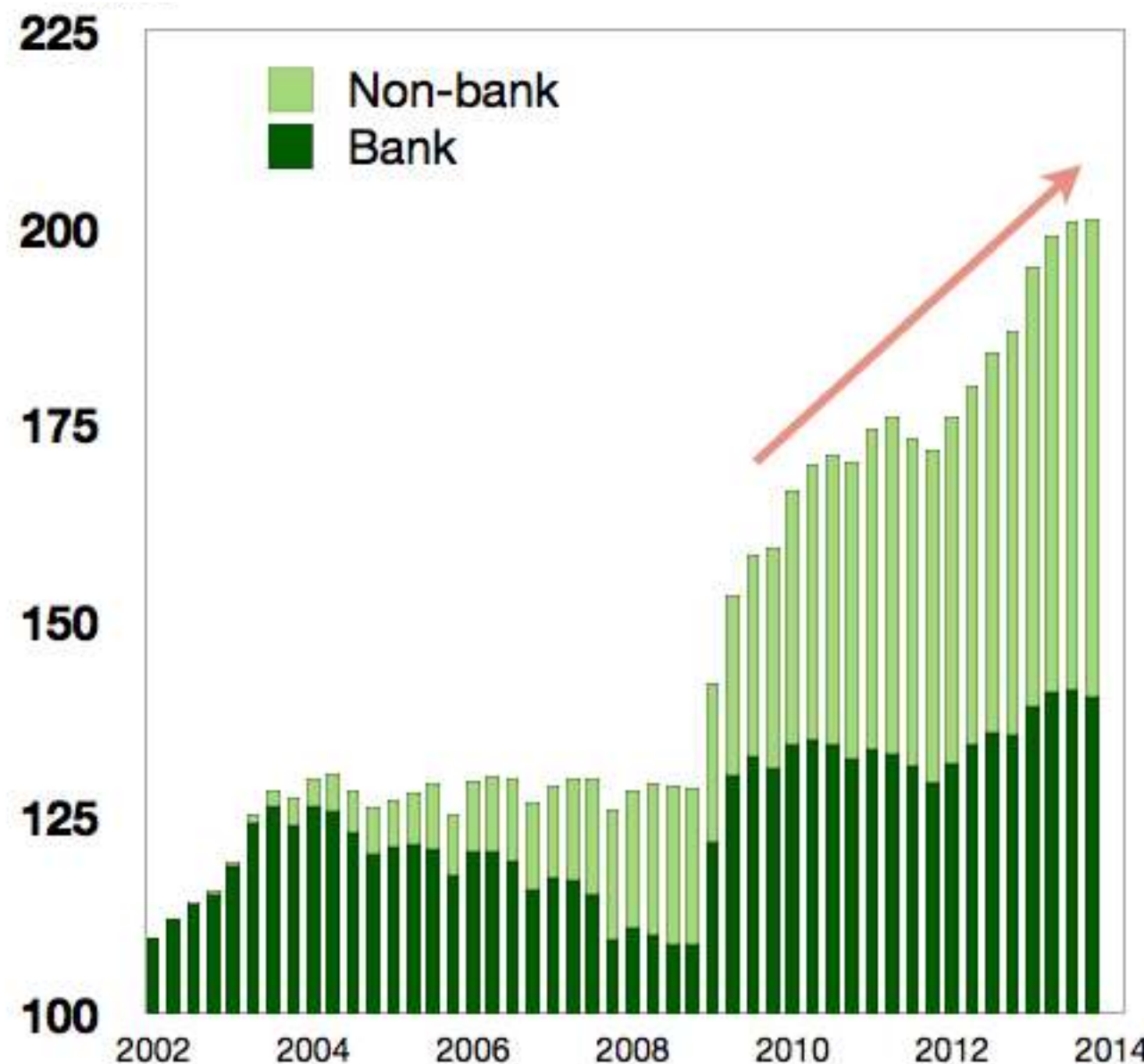


# China: putting growth on a more sustainable path including by slowing credit growth

## China: GDP Expenditure Components



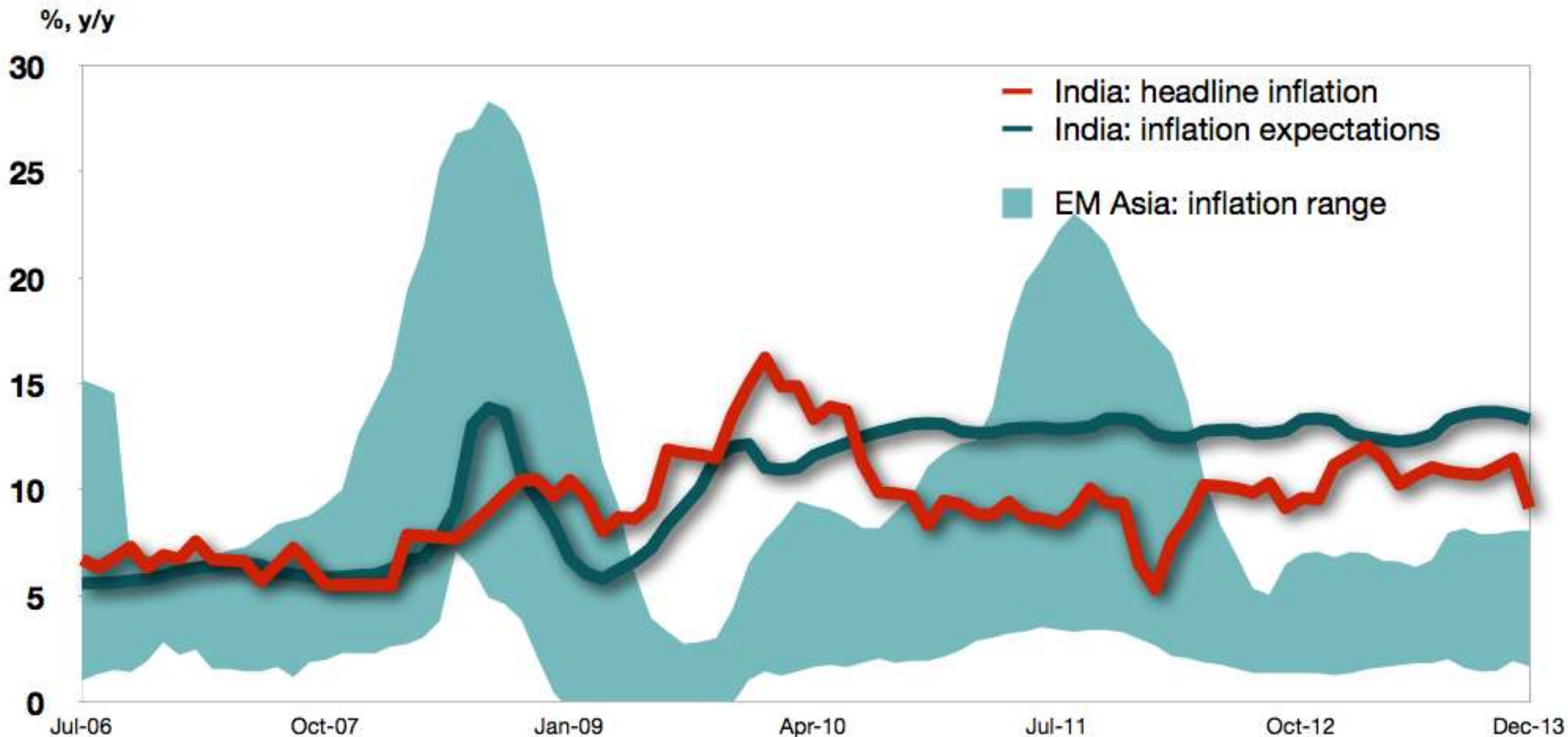
## China: Social Financing Outstanding





# India: addressing growth bottlenecks and high inflation

## India vs. Emerging Asia: Headline Inflation

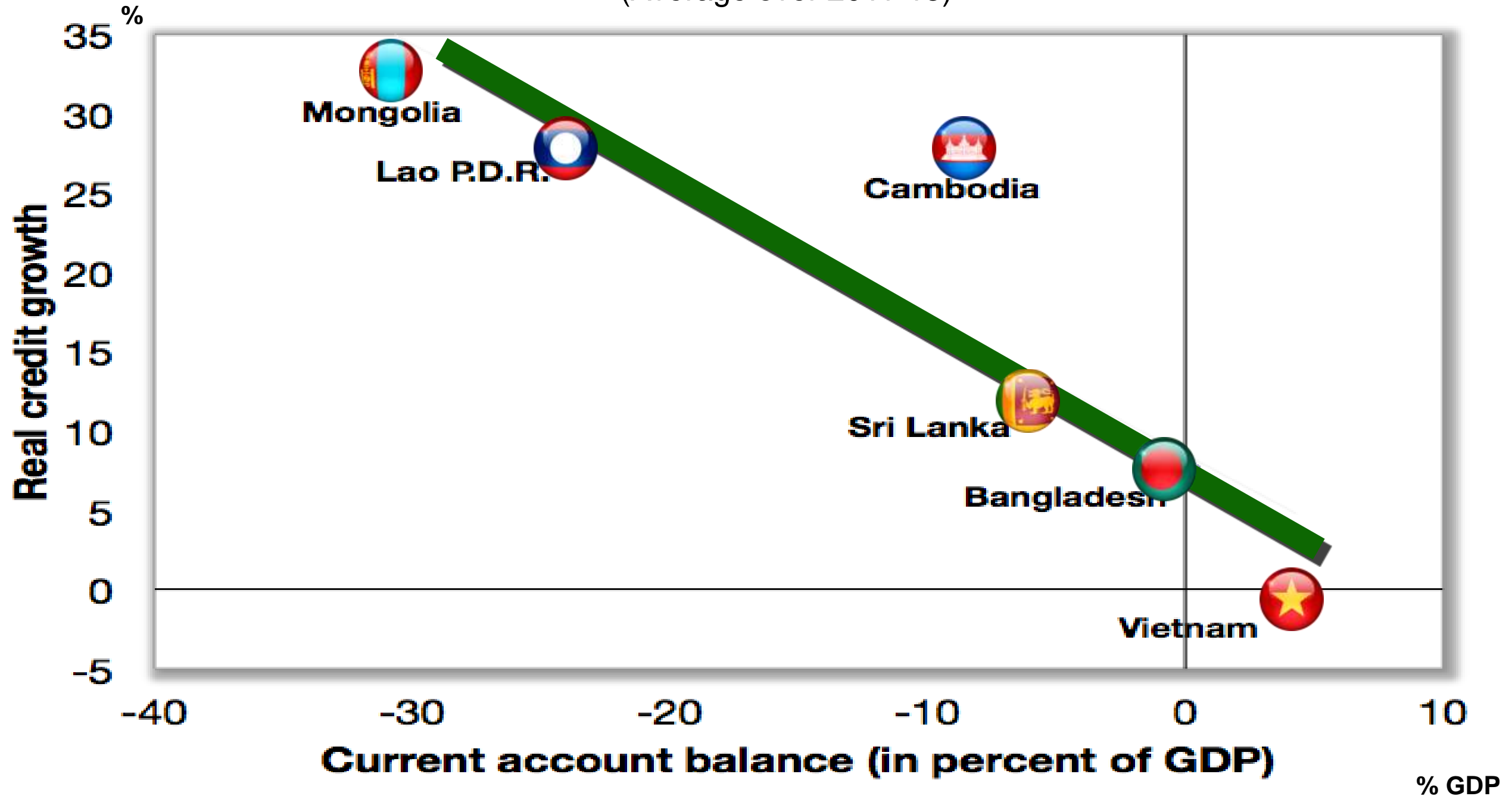




# Frontier and developing economies: avoiding overheating and curbing imbalances

## Current Account and Real Credit Growth

(Average over 2011-13)



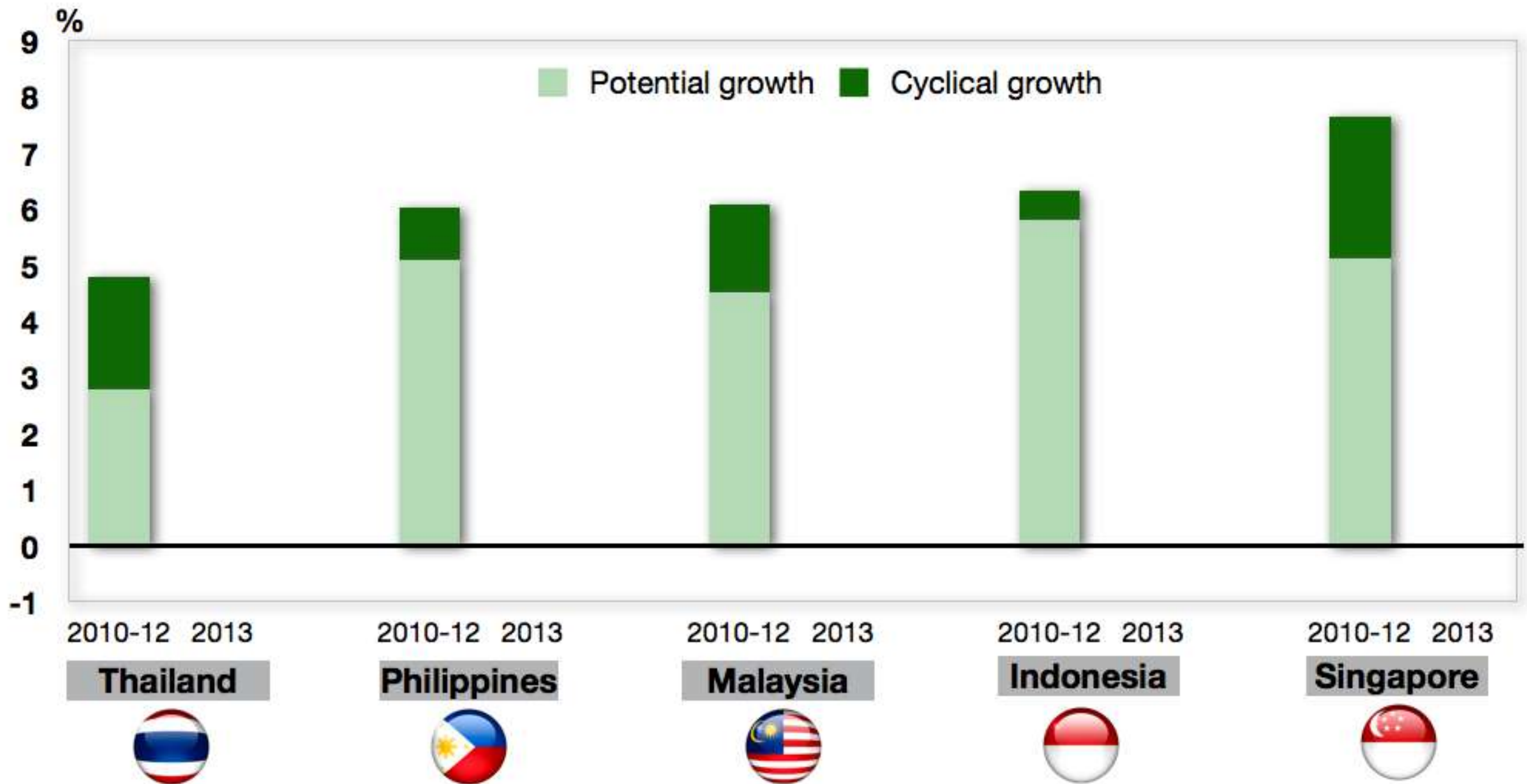
Outlook

Risks





# ASEAN: gradual recovery after a cyclical slowdown



2010-12 2013  
**Thailand**

2010-12 2013  
**Philippines**

2010-12 2013  
**Malaysia**

2010-12 2013  
**Indonesia**

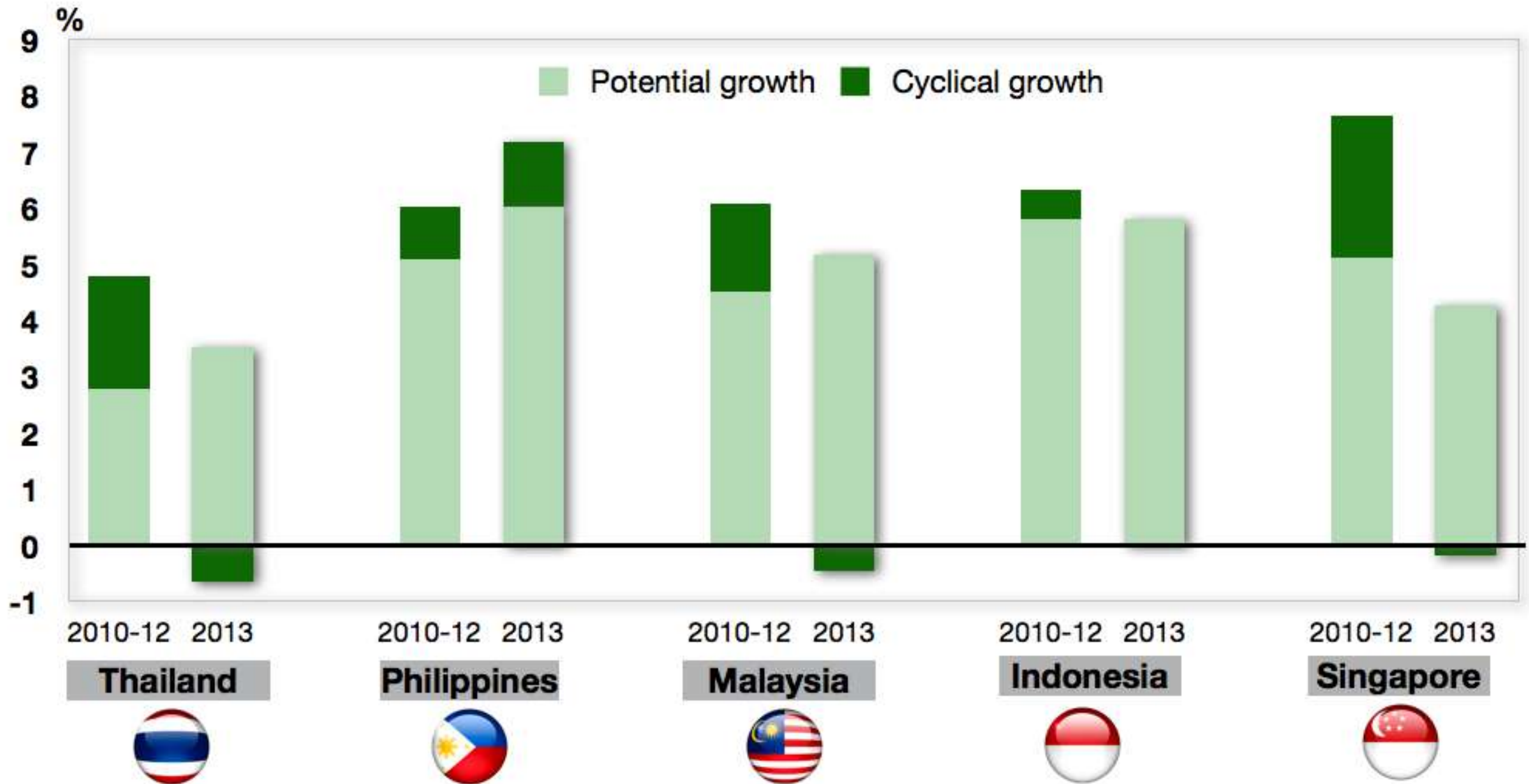
2010-12 2013  
**Singapore**





# ASEAN: gradual recovery after a cyclical slowdown

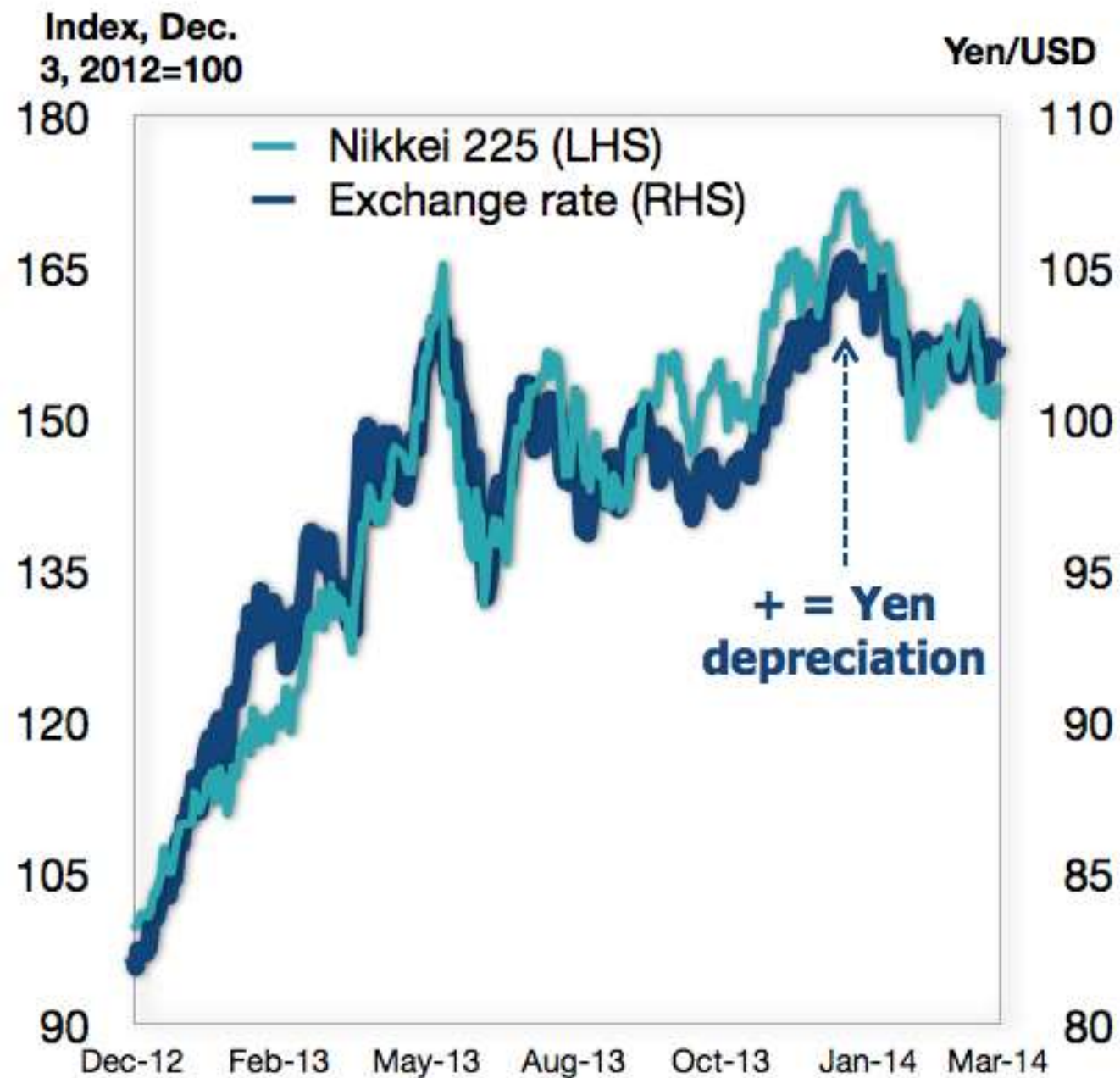
**ASEAN-5 Growth: 2010-12 vs. 2013**



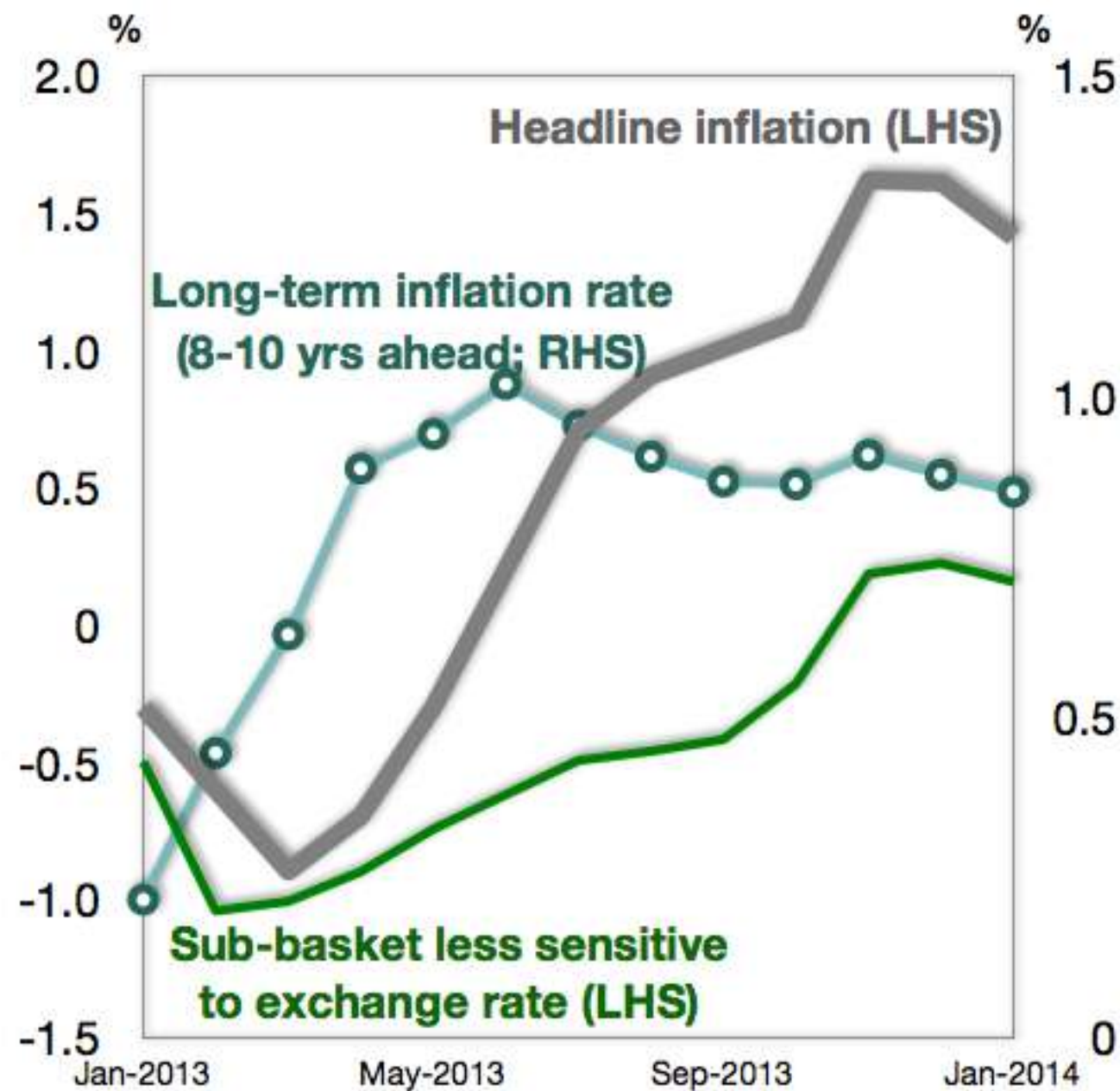


# Japan: steady progress but accommodative stance remains appropriate

## Japan: Financial Markets



## Japan: Inflation





# Implications for Nepal

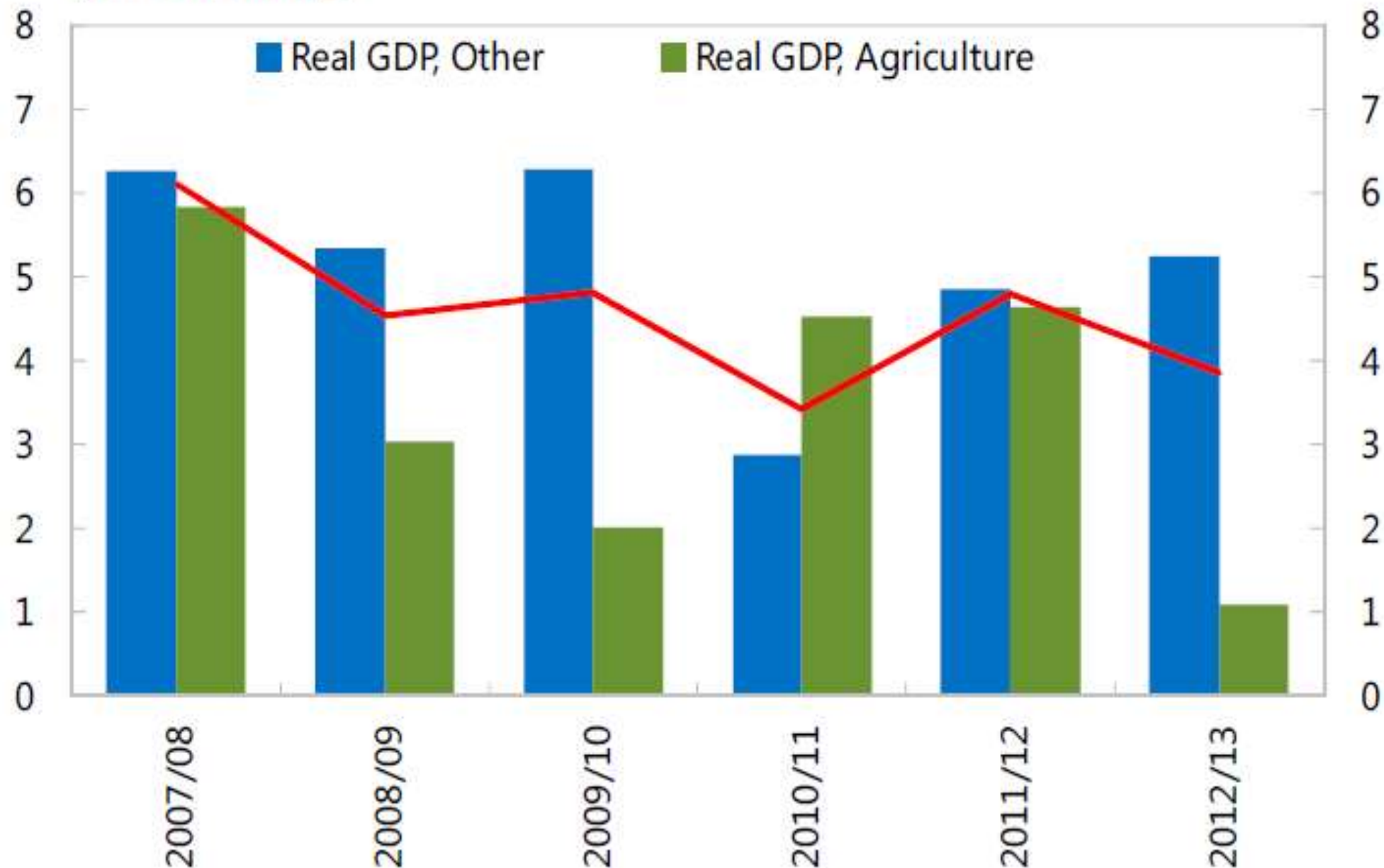
- **Growth has slowed, but why?**
  - **External causes or domestic?**
  - **Are remittances the only thing driving growth?**
- **Inflation is imported from India**
- **Fiscal policy has been very tight**
- **Implications for poverty reduction**



# Growth has slowed – partly due to the slowdown in India

## Real GDP Growth

(Percent change)



Sources: Nepali authorities; and IMF staff estimates

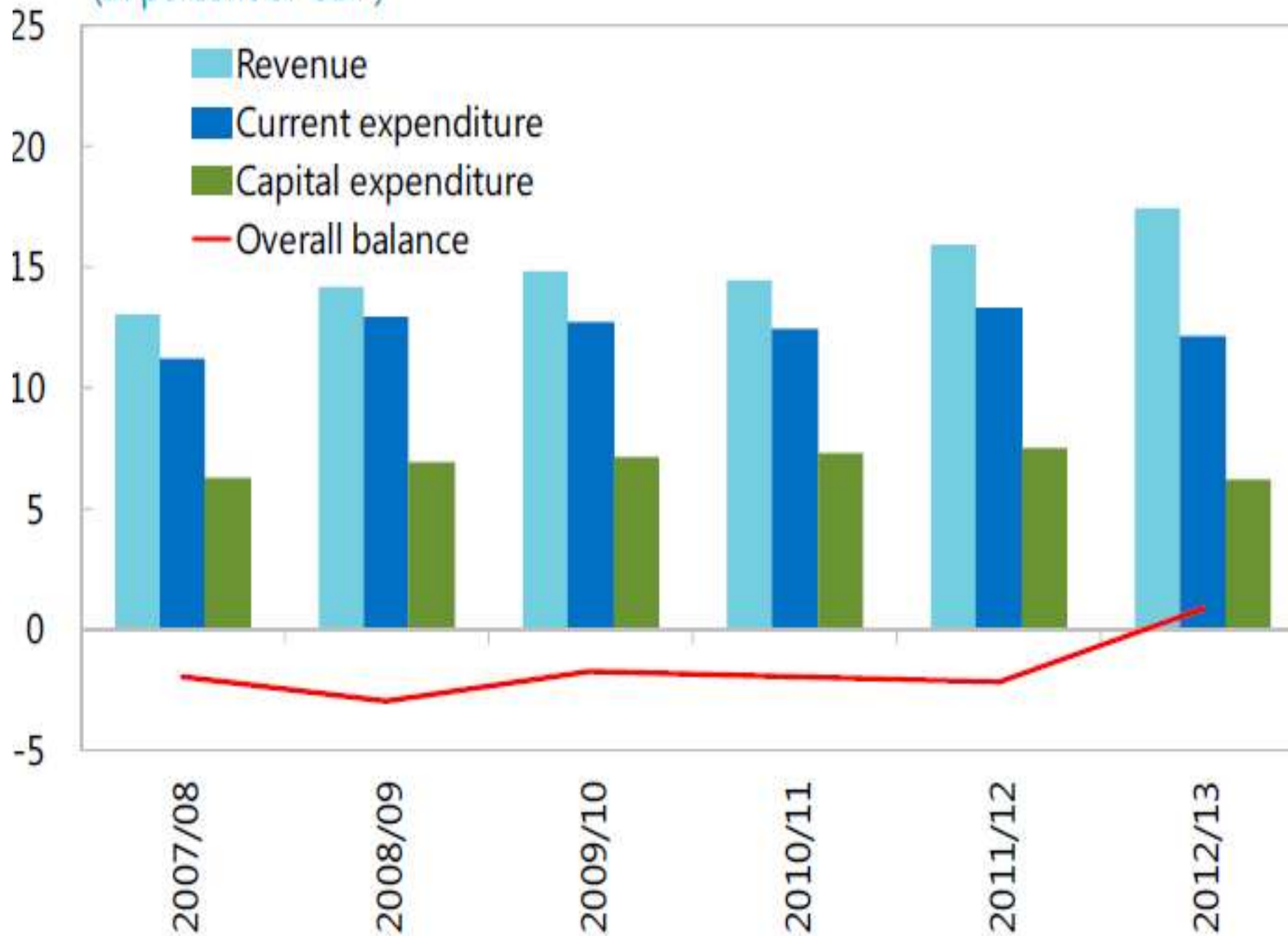




At the same time, fiscal policy has been too tight (a drag on growth)

## Fiscal Performance

(In percent of GDP)



Sources: Nepali authorities; and IMF staff estimates

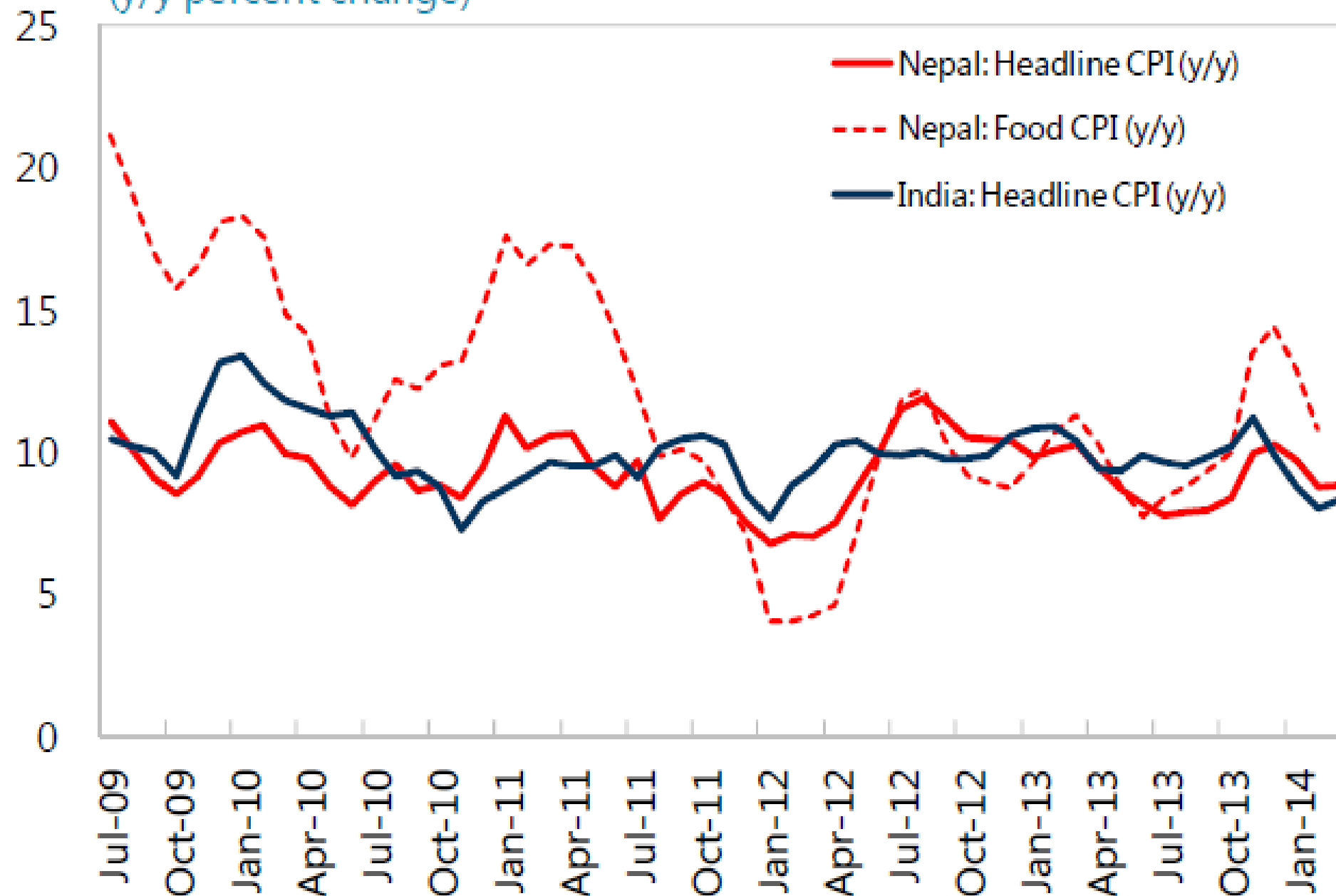




# Inflation remains high – again, because of imported inflation from India

## Consumer Price Inflation

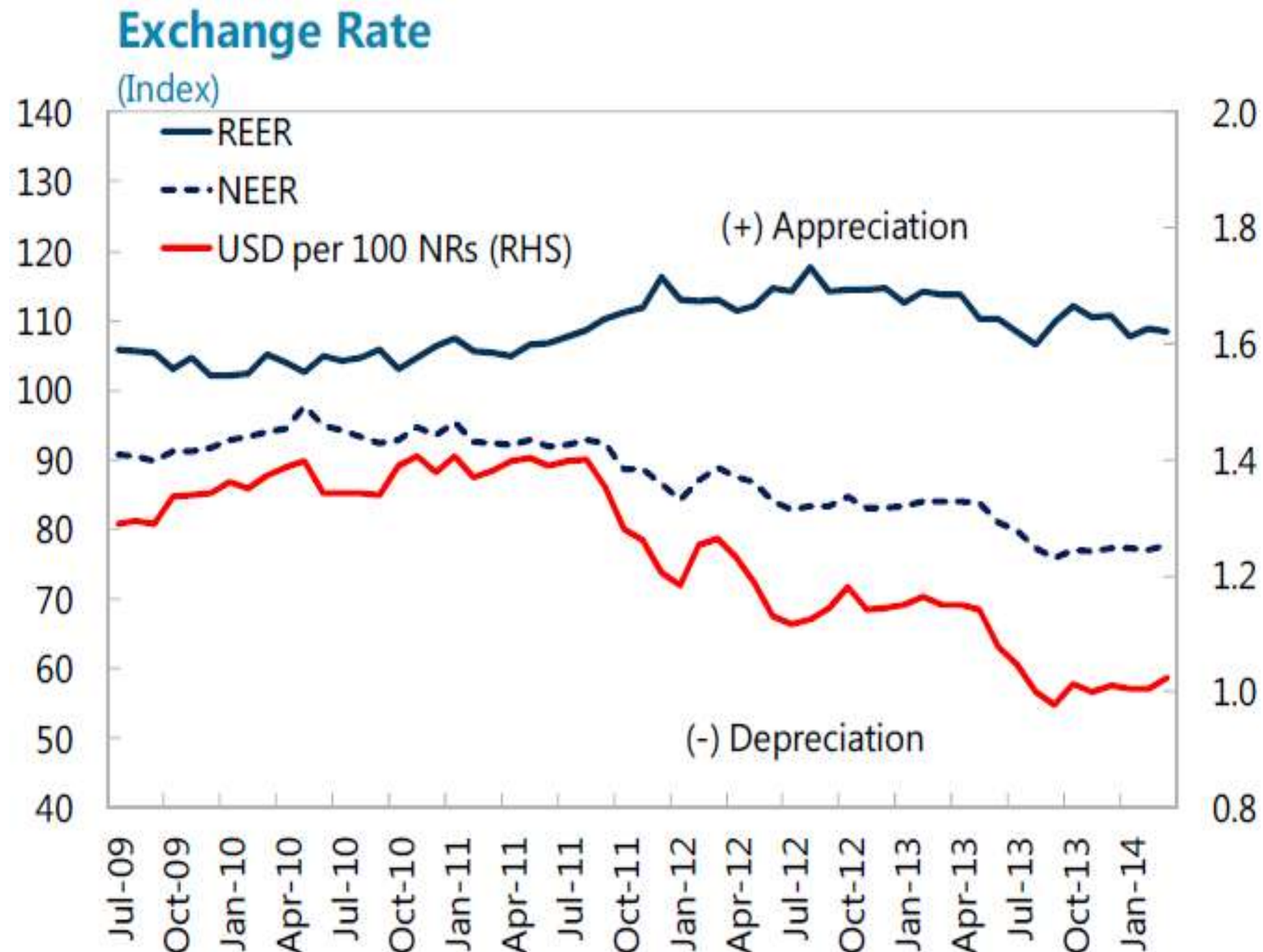
(y/y percent change)



Sources: Nepali authorities, Haver analytics; and IMF staff estimates.



# The exchange rate has strengthened – in real effective terms

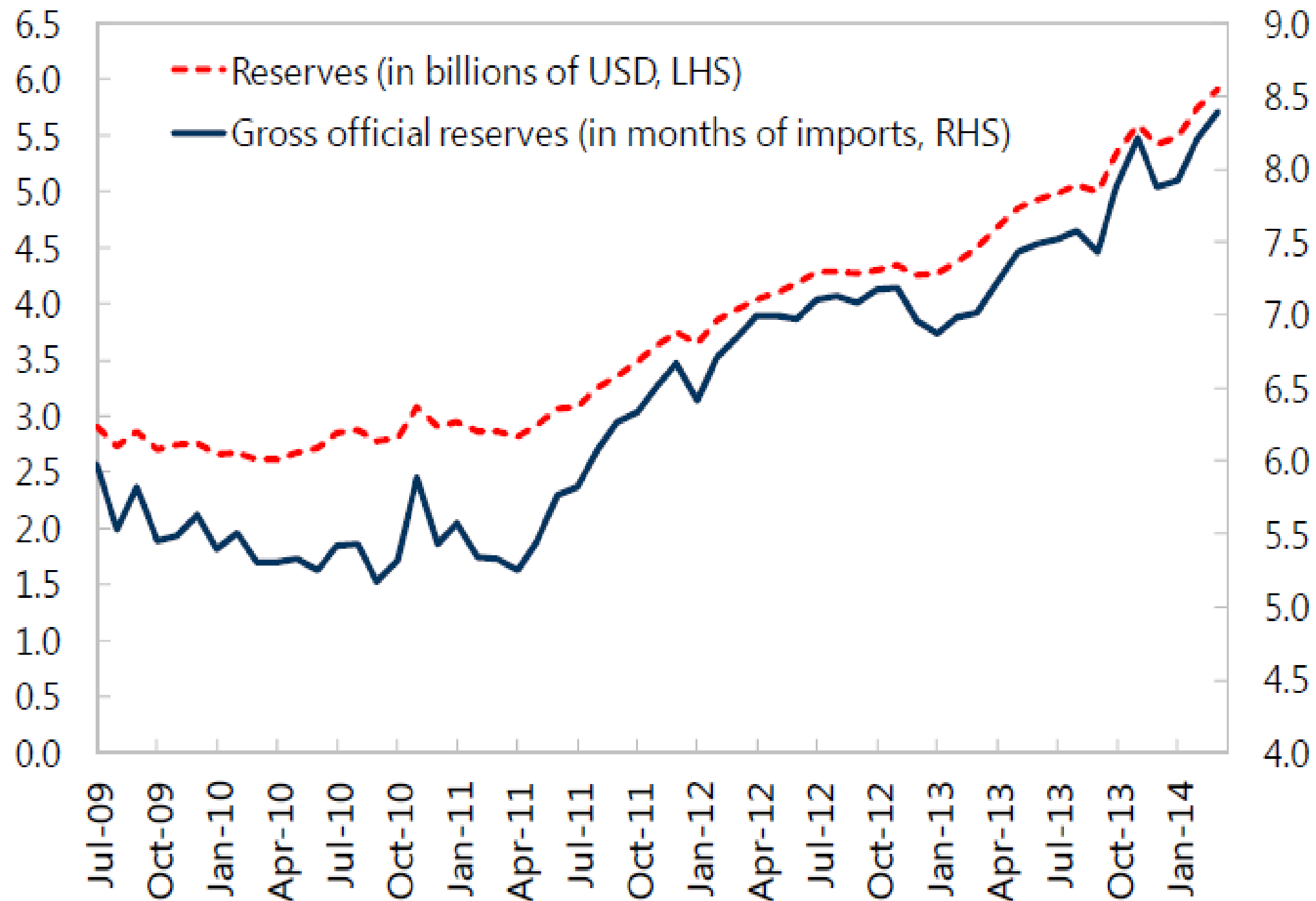


Sources: Nepali authorities; and IMF staff estimates.



# Remittances have funded a build-up in international reserves of the NRB

## Gross Official Reserves



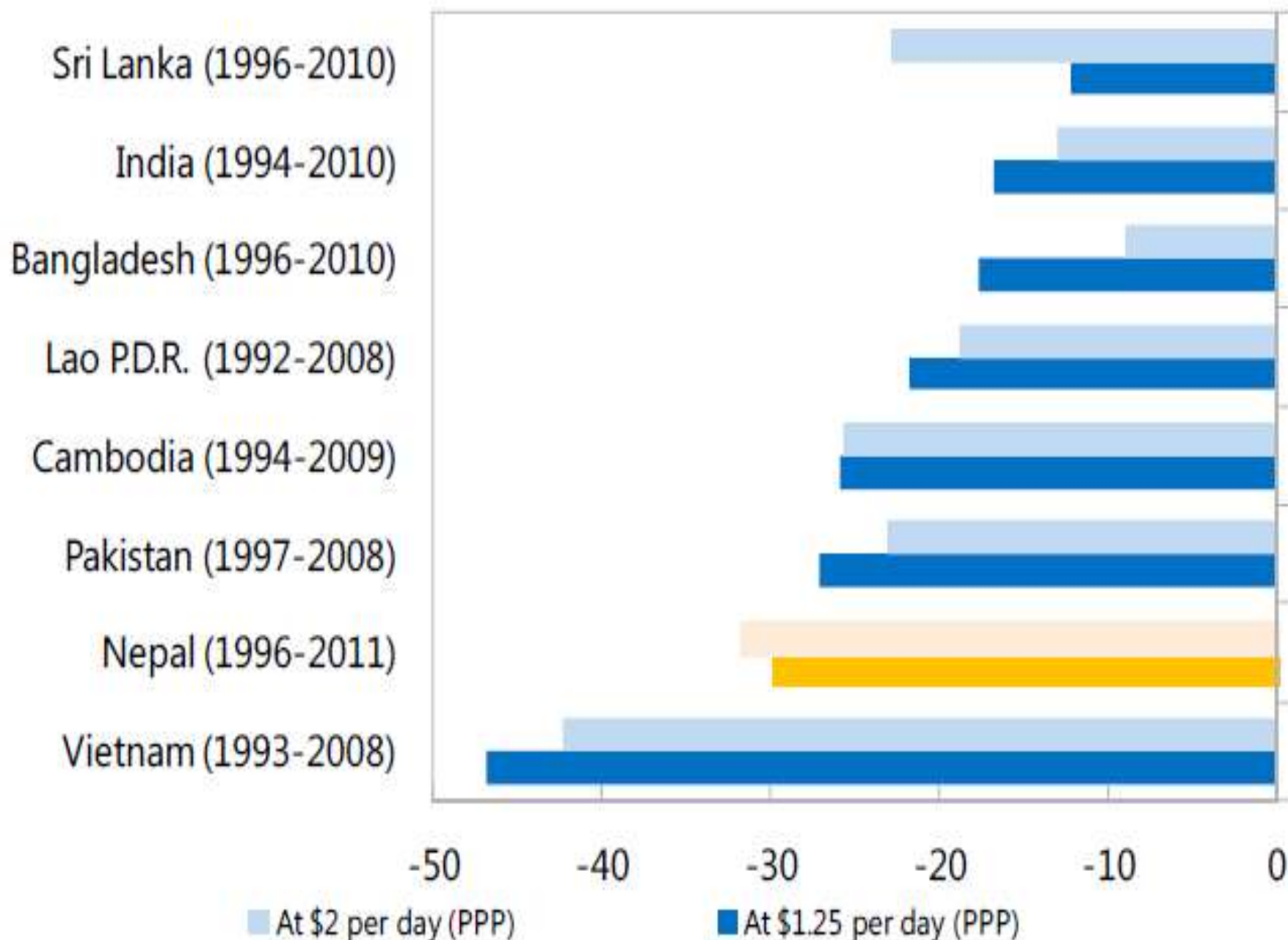
Sources: Nepali authorities; and IMF staff estimates



# While poverty levels have fallen (in part because of remittance flows)...

## Change in poverty headcount ratios

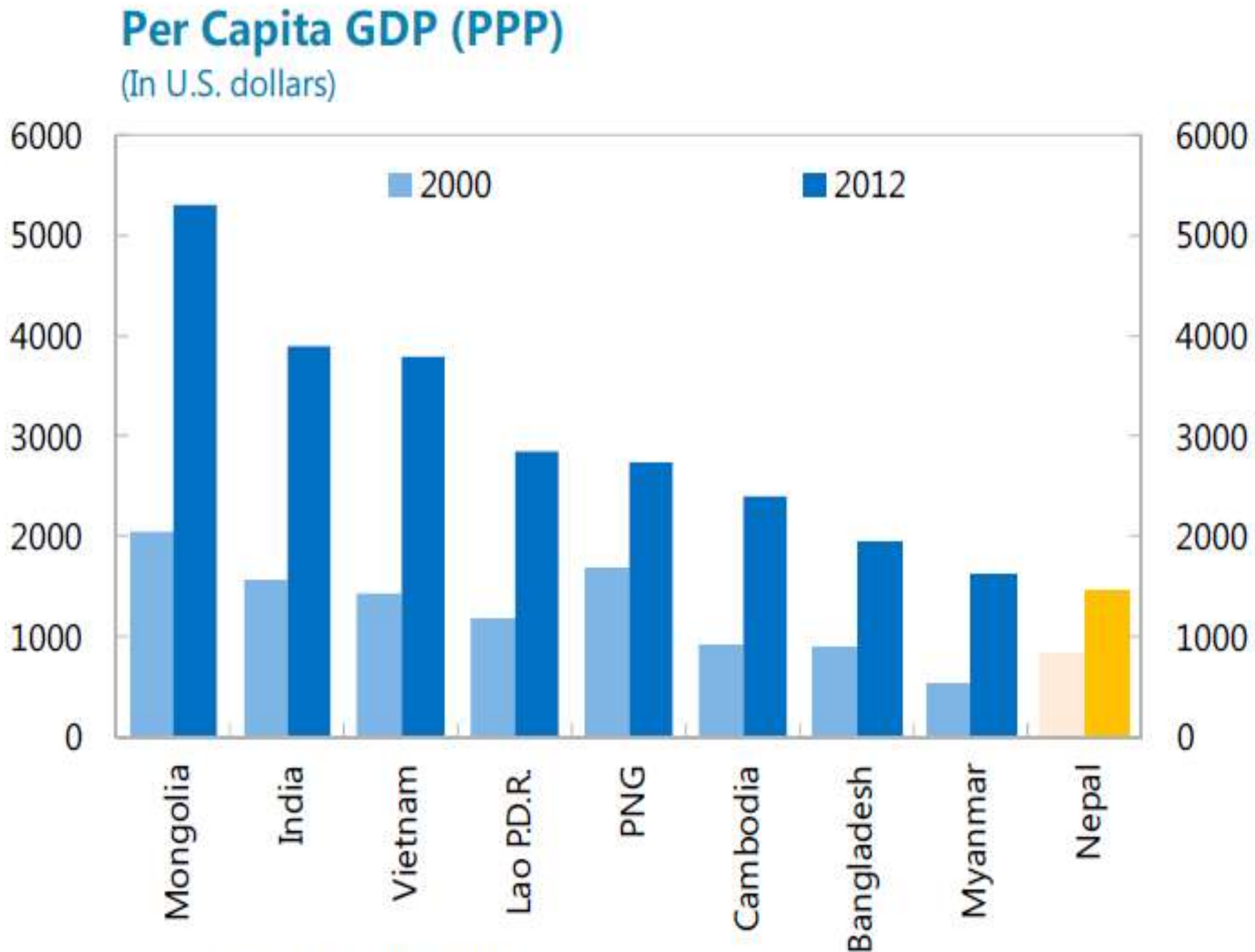
(In percent points)



Source: World Bank, WDI Database



... Nepal remains one of the poorest countries in the world



Source: World Bank, WDI Database





# 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)

## *Implications for Nepal*

- Slowdown in growth, due mainly to India's slowdown
- But over-tight fiscal policy has not helped
- Inflation remains high (imported from India)
- Remittances have led to a decline in poverty



*But what development model is best for Nepal?*

# Thank You

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