



# Asia–Pacific Economic Outlook: Policy Challenges for Asia and the Philippines

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(These are the views of the presenter and not those of the IMF, its Executive Board, or its Management)

# Plan of the presentation

## Global Recovery

- The global recovery has continued in 2011-Q1
- The slowdown in Q2 is only a bump on the road
- But downside risks have intensified since April.

## Asia: Growth Outlook

- Strong growth outlook in Asia
- Concerns about quality of growth
- Main risks are from volatile capital inflows and global slowdown

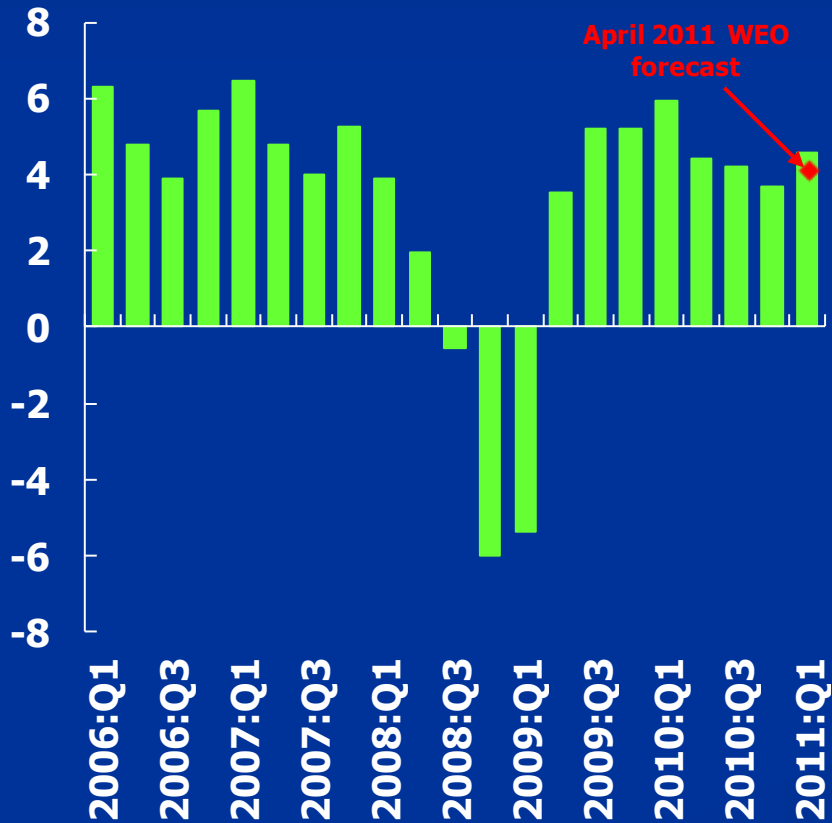
## Policy Challenges: Engineering a Smooth Landing

- Macro policy stances should be tightened further.
- Macro prudential measures a useful complement, but not a substitute
- Beyond the medium-term: need to rebalance demand, and make growth more inclusive

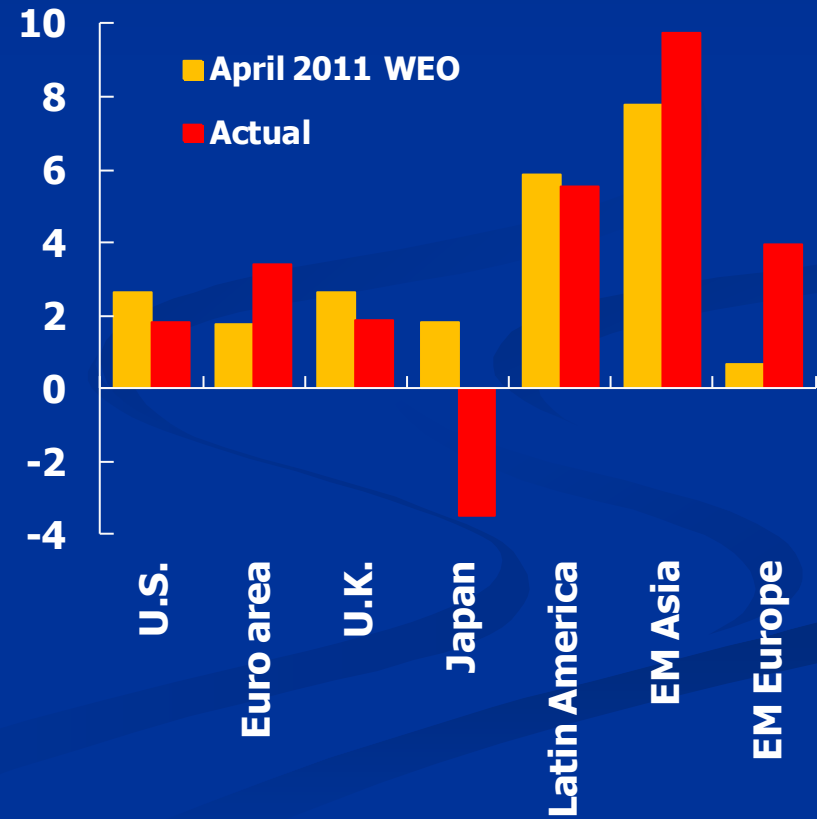
# Global Recovery

# Global economy continued to advance in Q1 despite some negative surprises

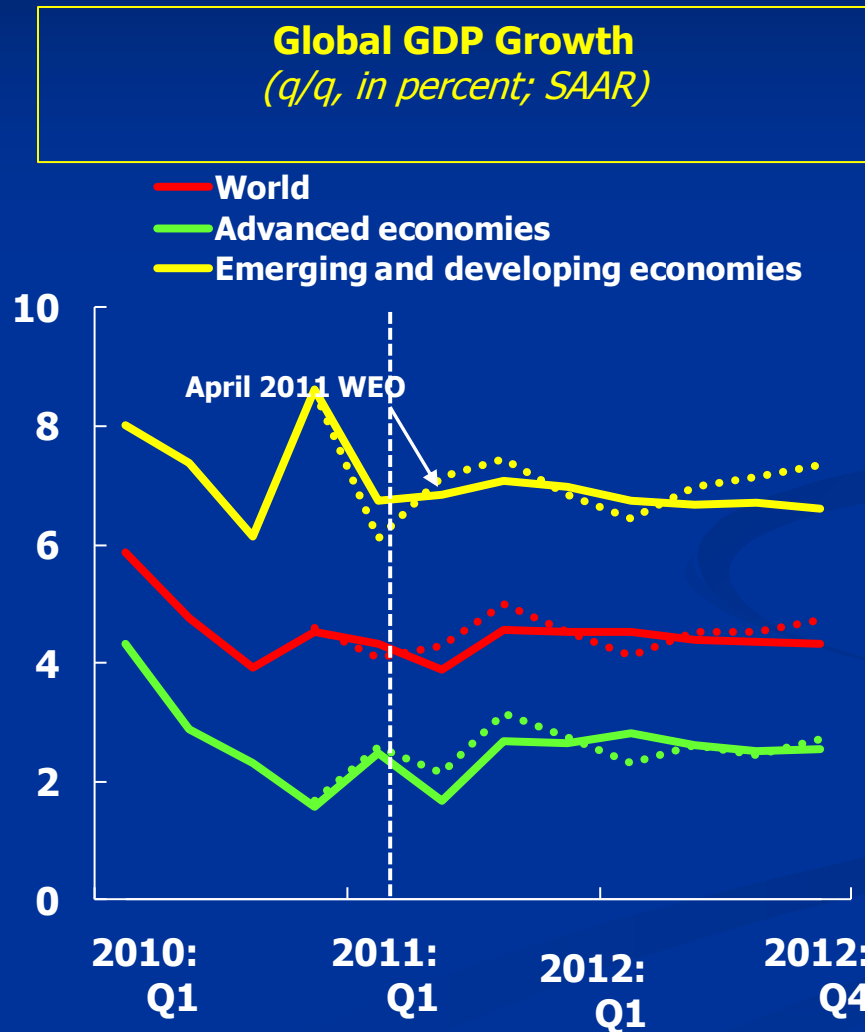
**Global GDP Growth**  
(q/q, in percent; SAAR)



**Selected Economies: GDP Growth in 2011:Q1**  
(q/q, in percent; SAAR)

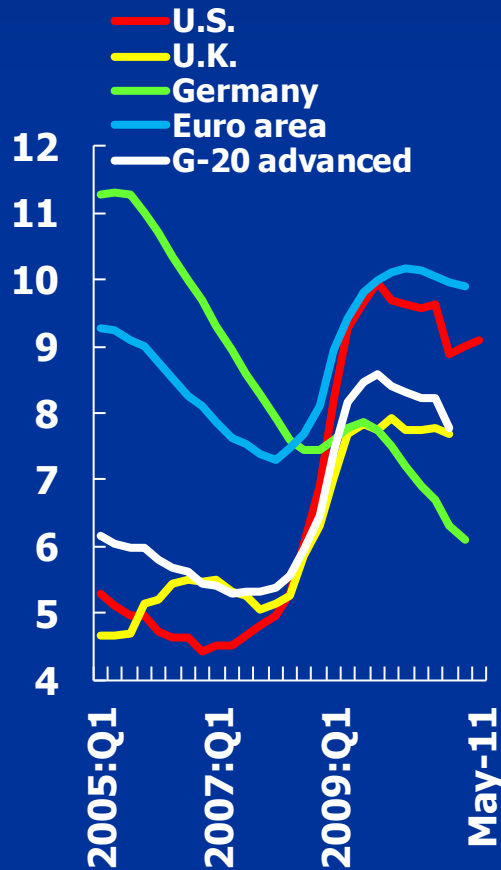


Some slowing in Q2, but expected to be temporary and growth to recover in 2<sup>nd</sup> half of year.

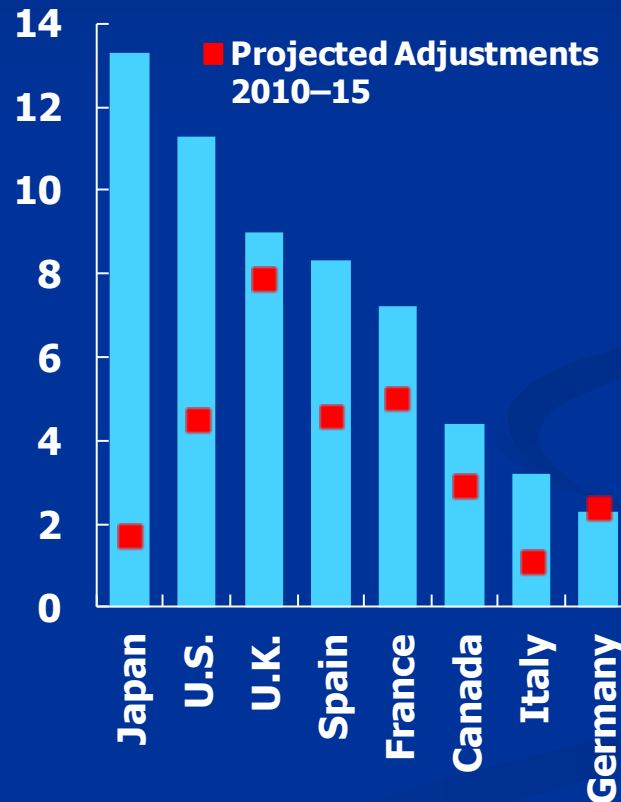


# Risks remain from slow progress in reducing unemployment and insufficient fiscal and financial adjustment in AE

**Unemployment Rate**  
(Percent)

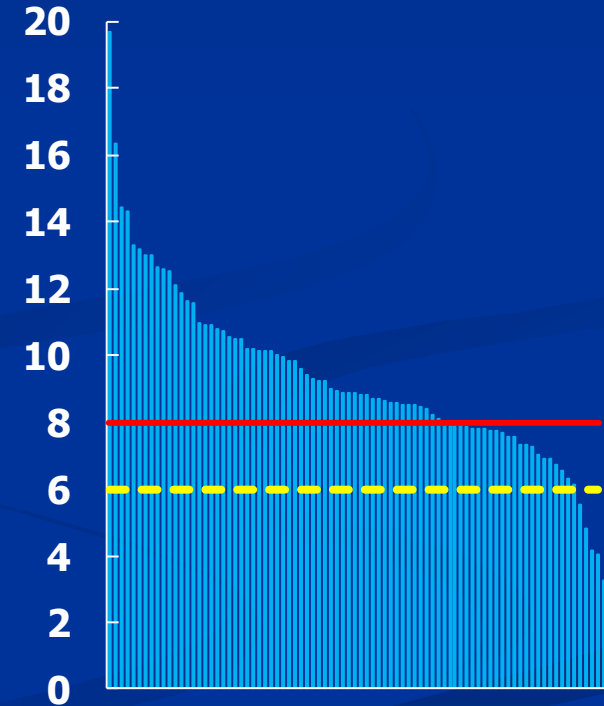


**Required Fiscal Adjustment**  
(In percent of GDP)



Note: Cyclically adjusted primary balance adjustment needed to bring the debt ratio to 60 percent in 2030, except for Japan.

**EU Banks: Core Tier-1 Ratios**  
(In percent; end-2010)

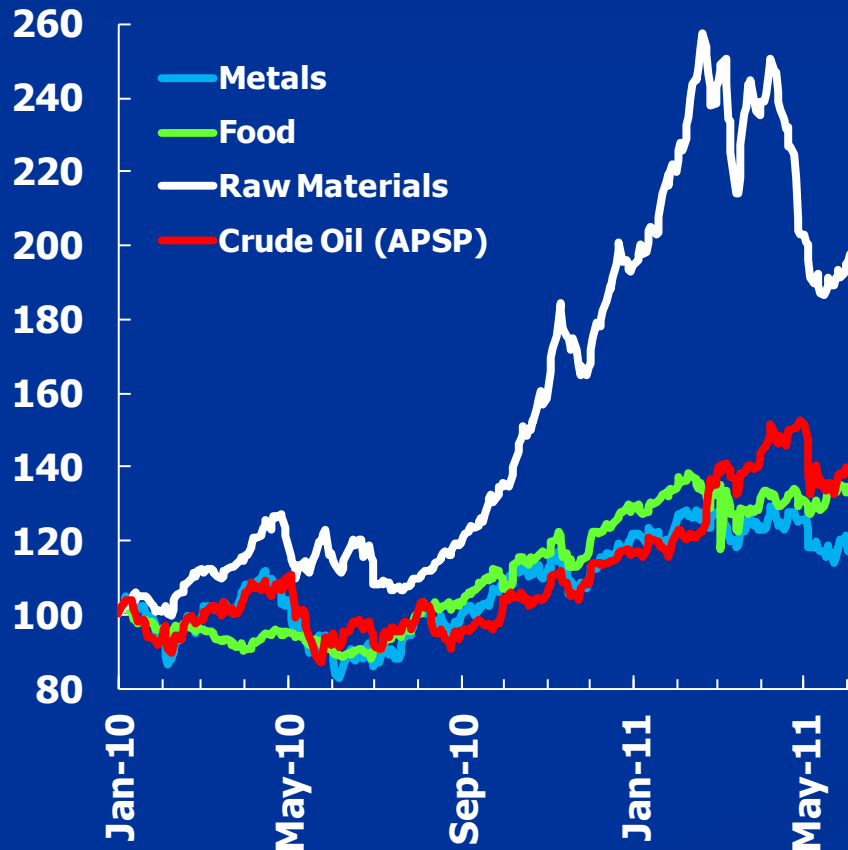


Source: GFSR, April 2011.  
Note: Includes 84 EU banks.

# Commodity prices have declined since April and supply disruptions from Japan should soon fade

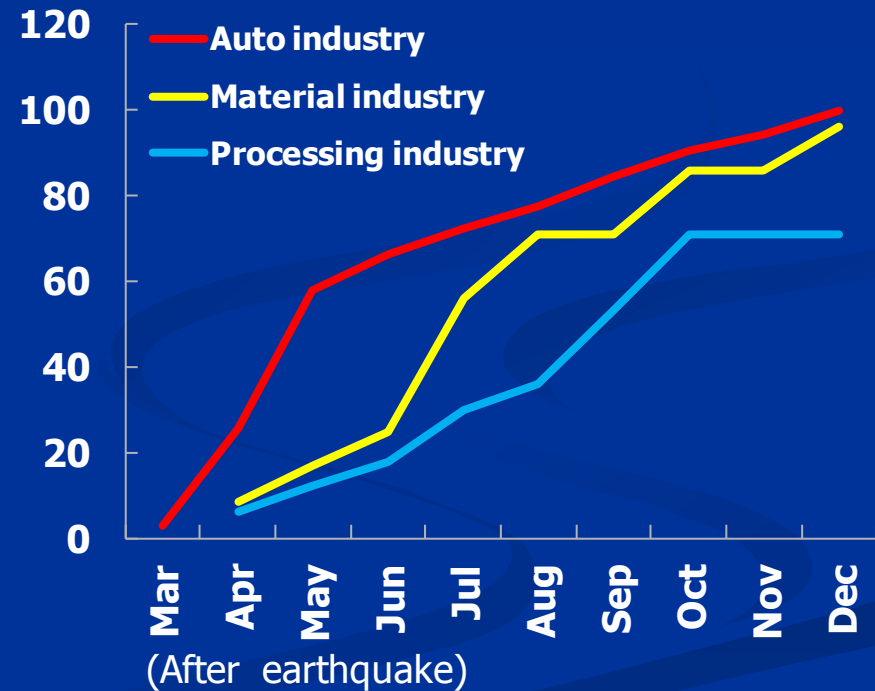
## Commodity Price Indices

(January 2010 = 100)



## Japan: Restoration of Capacity in Different Sectors

(Percent of firms with restored capacity)



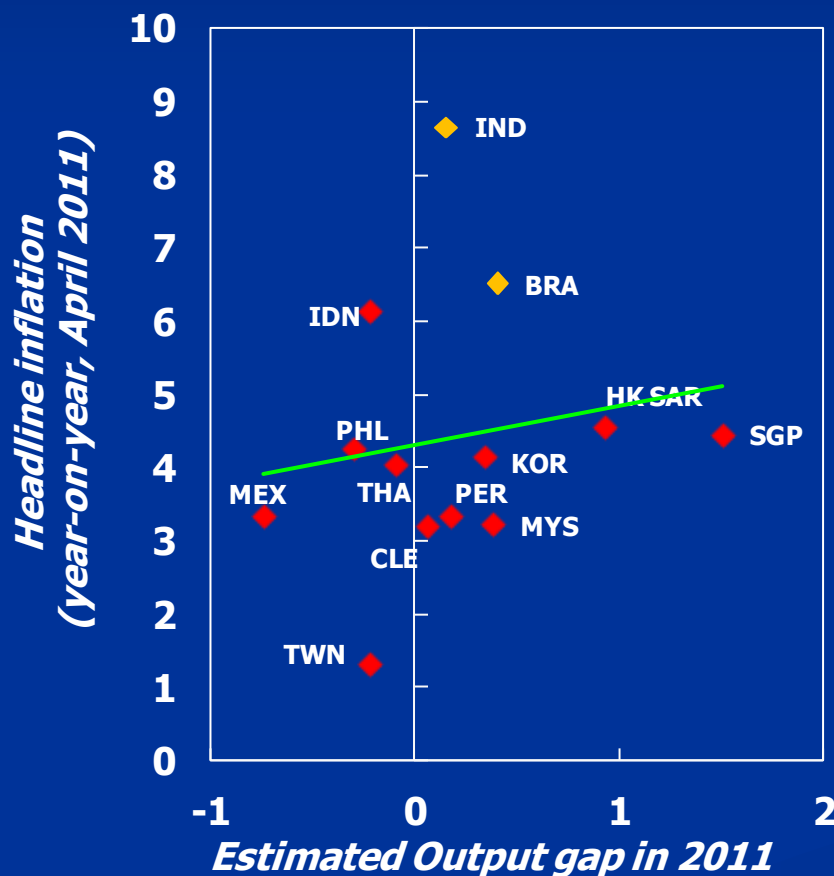
Source: METI and IHS Automotive.

Note: The chart is from April and restoration plans have been moved up by 1-2 months, but no new comprehensive survey data are available.

# Overheating is a concern in many EMs

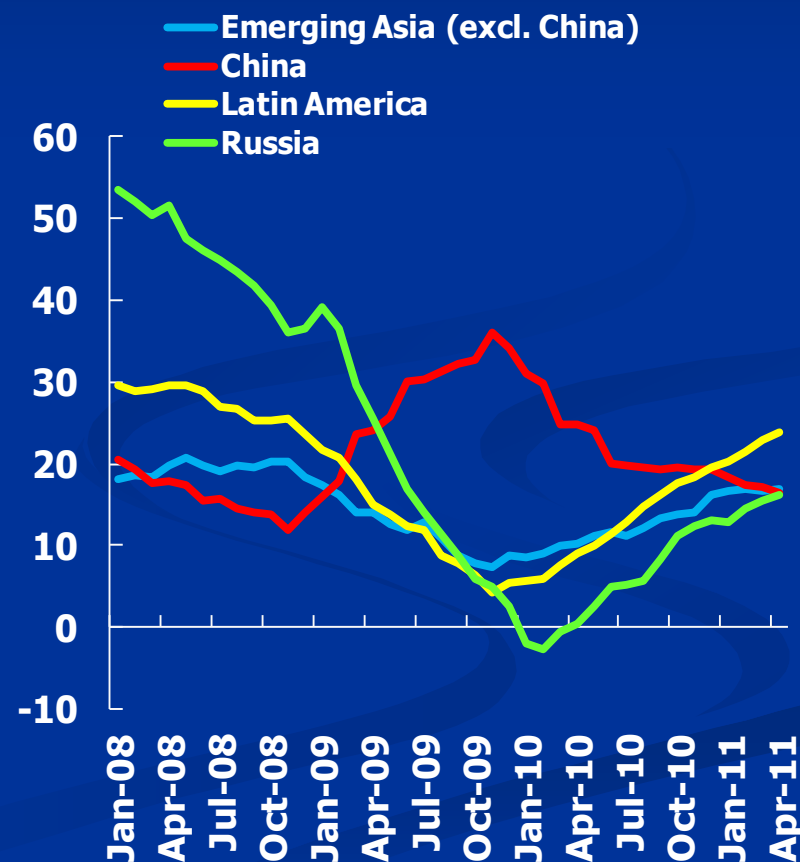
## Output Gap and Inflation

(In percent)



## Credit to Private Sector

(Year-on-year percent change)



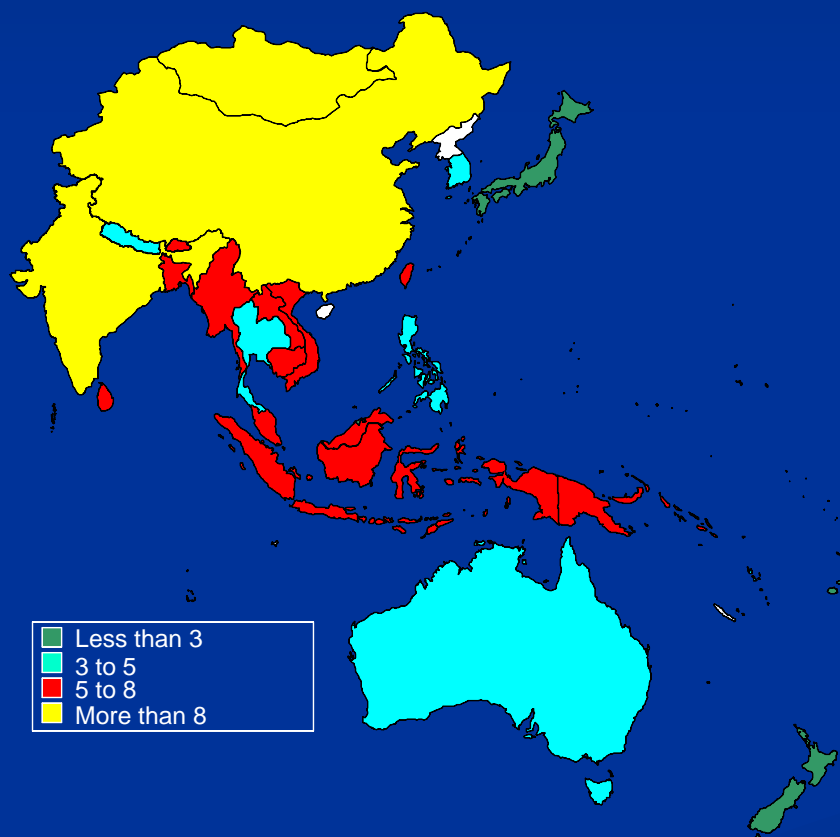


# Asia: Growth Outlook

# Strong growth outlook, with notable differences in the region.

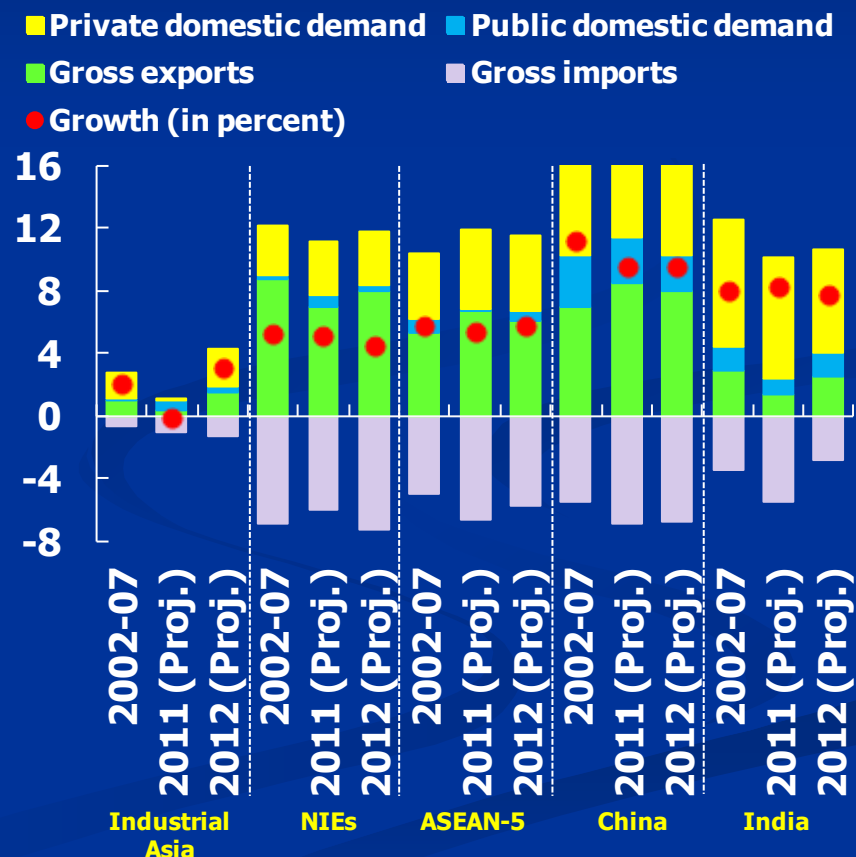
## Asia: GDP Growth

(Year-on-year, average 2011-12; in percent)



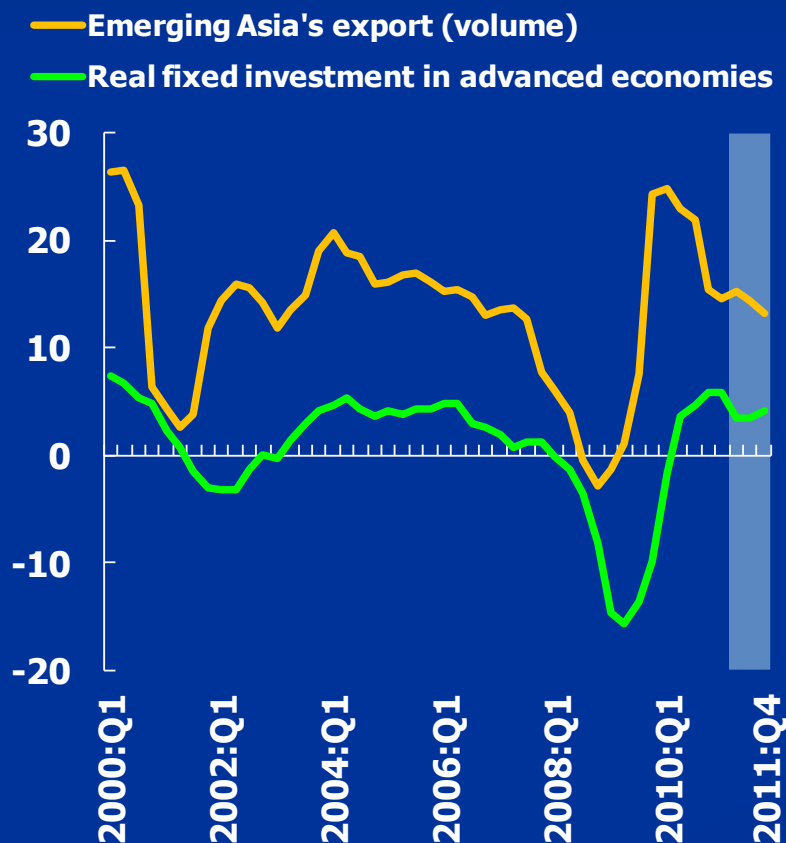
## Asia: Contributions to GDP Growth

(Year-on-year; in percentage points)

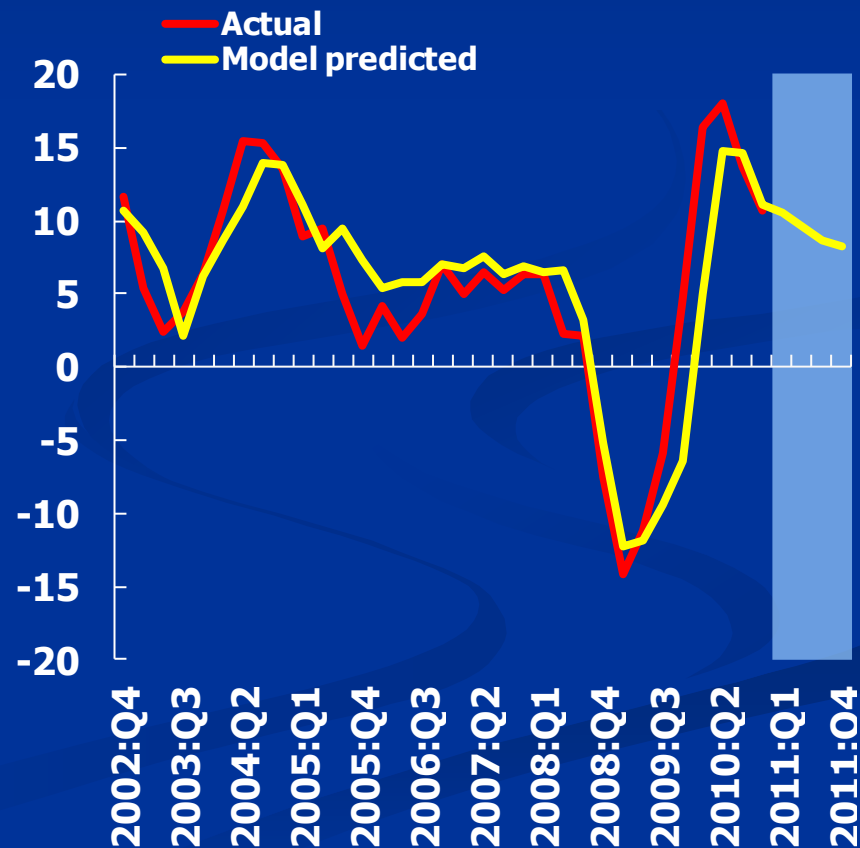


Exports boosted by global investment cycle.  
Private domestic demand will also remain strong.

**EM Asia: Exports of Goods and Global Investment Cycle**  
(Year-on-year percent change)

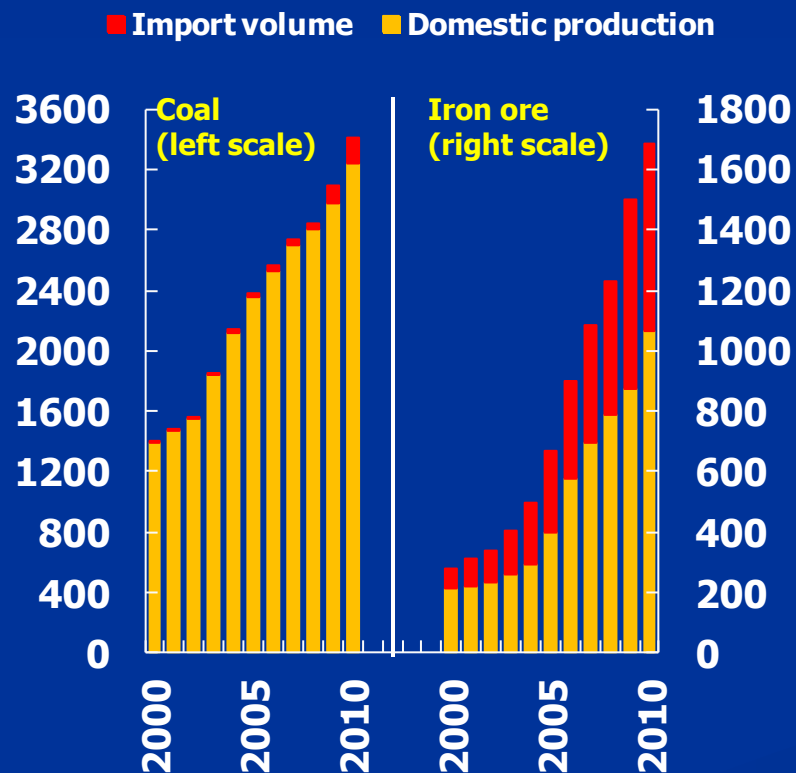


**Selected EM Asia: Private Investment**  
(Year-on-year percent change)

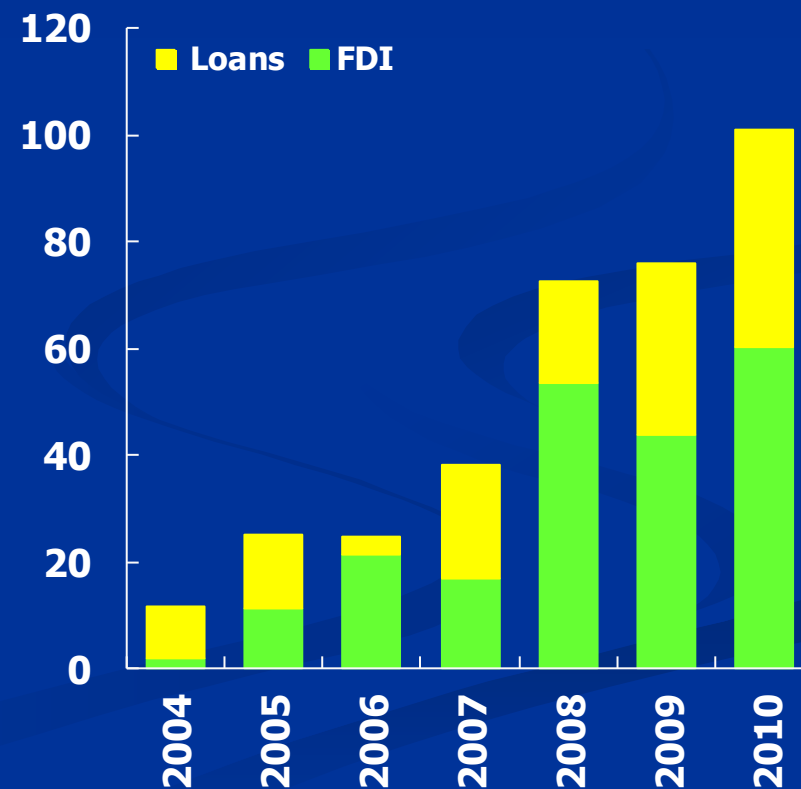


# China is becoming a more important source of growth

**China: Domestic Production and Imports of Selected Commodities**  
(In millions of tons)

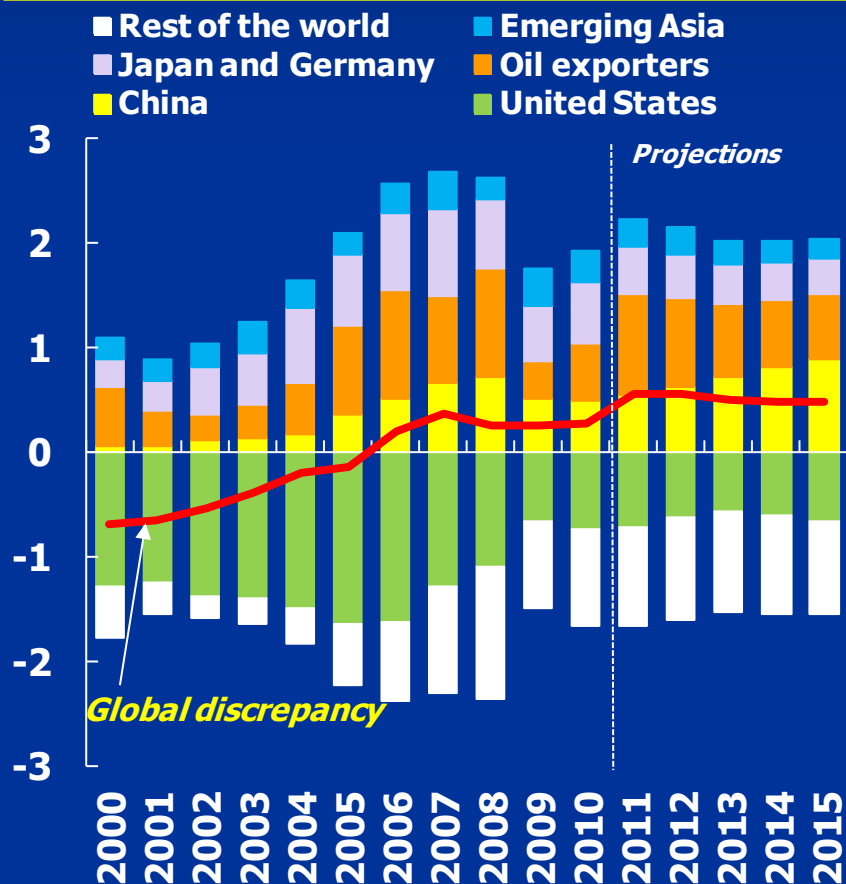


**China: Outward FDI and Loans**  
(In billions of U.S. dollars)

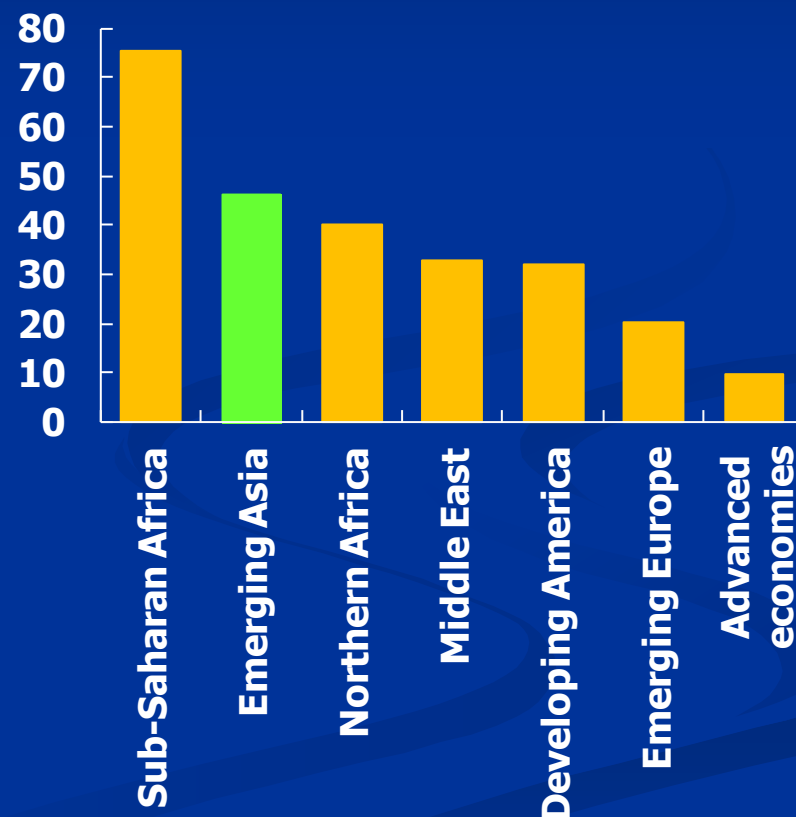


However, concerns about *quality* of growth across Asia: to rebalance demand and make growth more inclusive.

**Global Current Account Balances**  
(In percent of world GDP)



**Vulnerable Employment**  
(In percent of total employment)

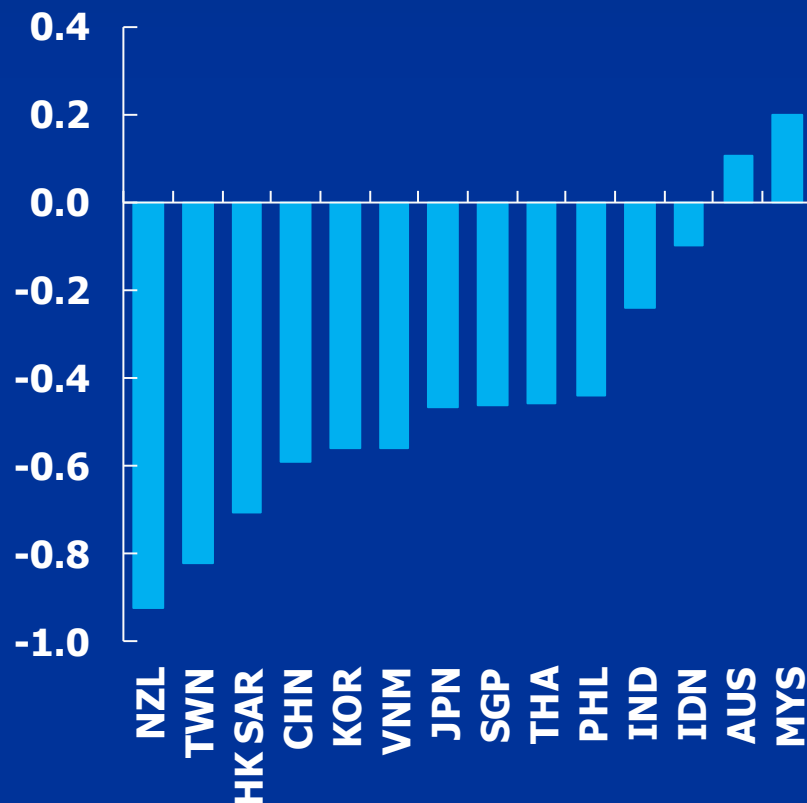


Note: Vulnerable employment is defined as sum of own-account workers, casual workers and contributing family workers (Source: ILO).

# New risks for Asia from high commodity prices, volatile capital inflows...

## Asia: Impact of Oil Price Shock on 2011 Growth

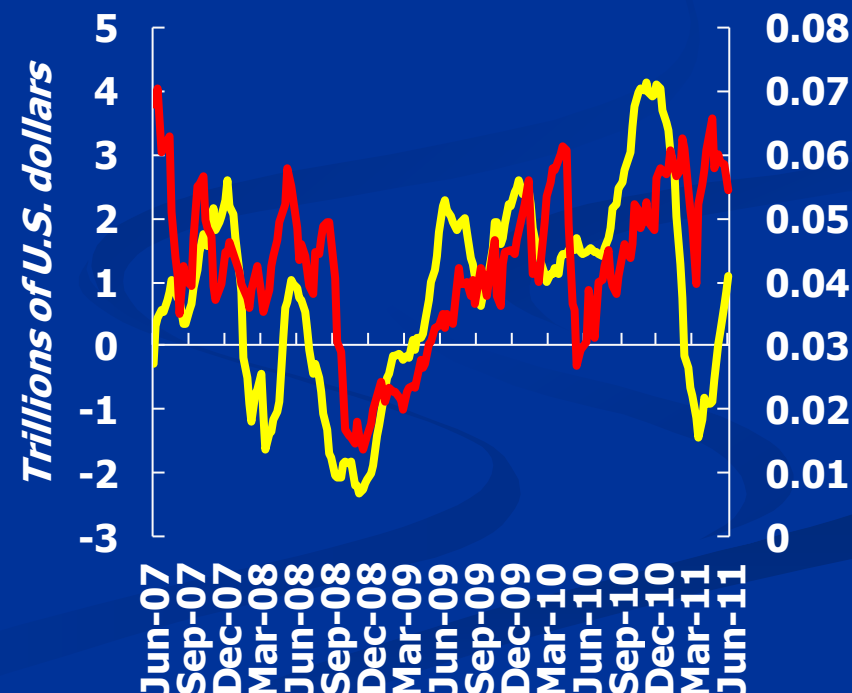
(Deviation from baseline; in percentage points)



Note: Impact of a 40 percent rise in oil prices from current baseline assumption.

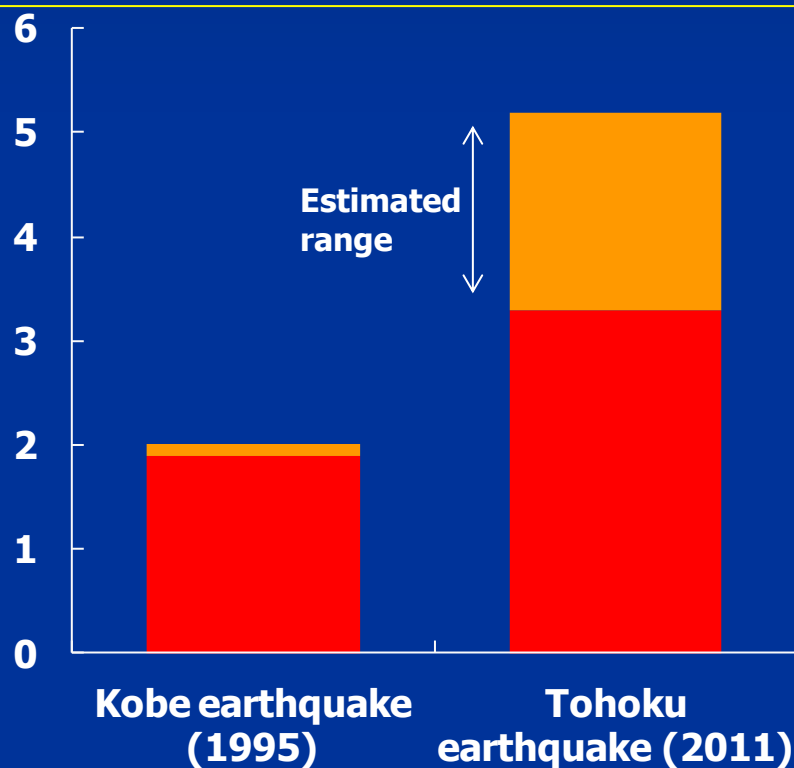
## EM Asia: Capital Inflow and Global Risk Aversion

— Flows (12-week moving average, left scale)  
— CBOE VIX (inverted, right scale)

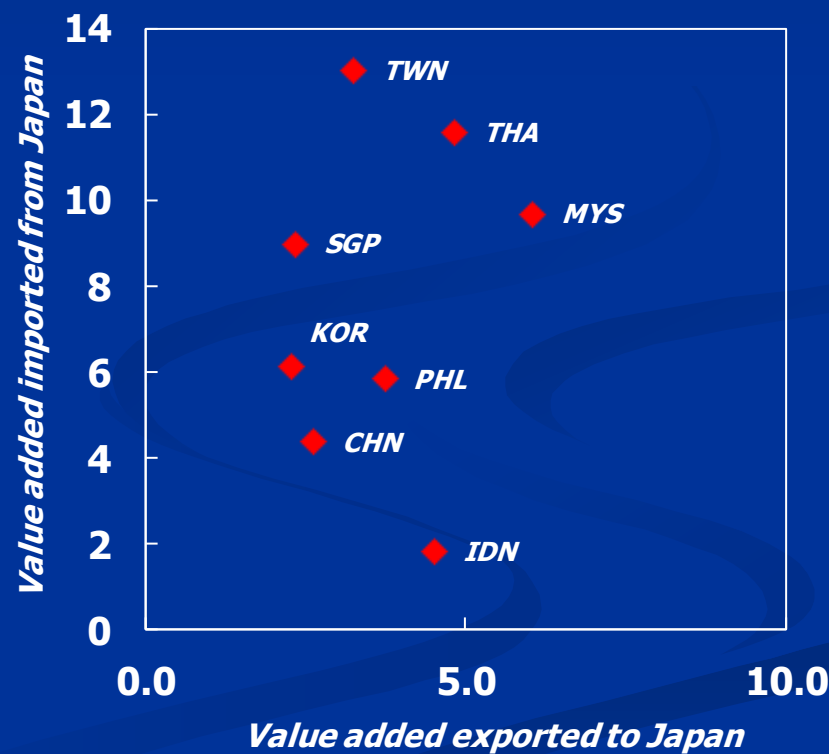


...and Japan's earthquake-related tragedy could have spillover effects through the supply chain.

**Japan: Estimated Damage to Capital Stock**  
(In percentage of GDP)



**Selected EM Asia: Demand and Supply Exposures to Japan**  
(In percent of total value added)



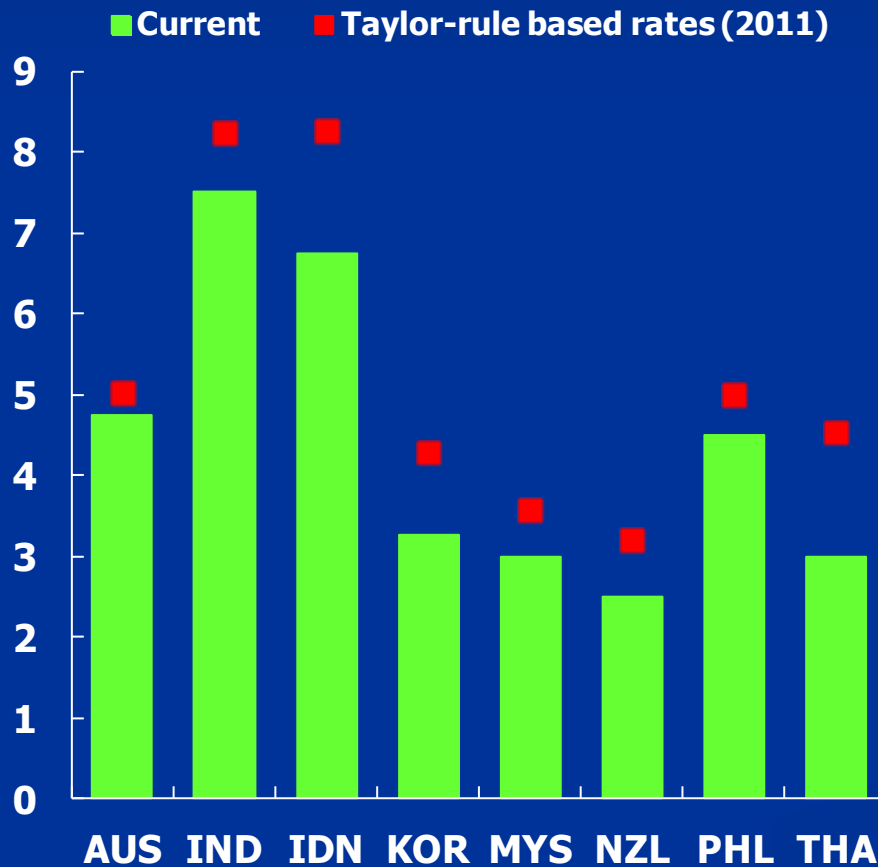
Source: Cabinet Office

# Policy Challenges: Engineering A Smooth Landing

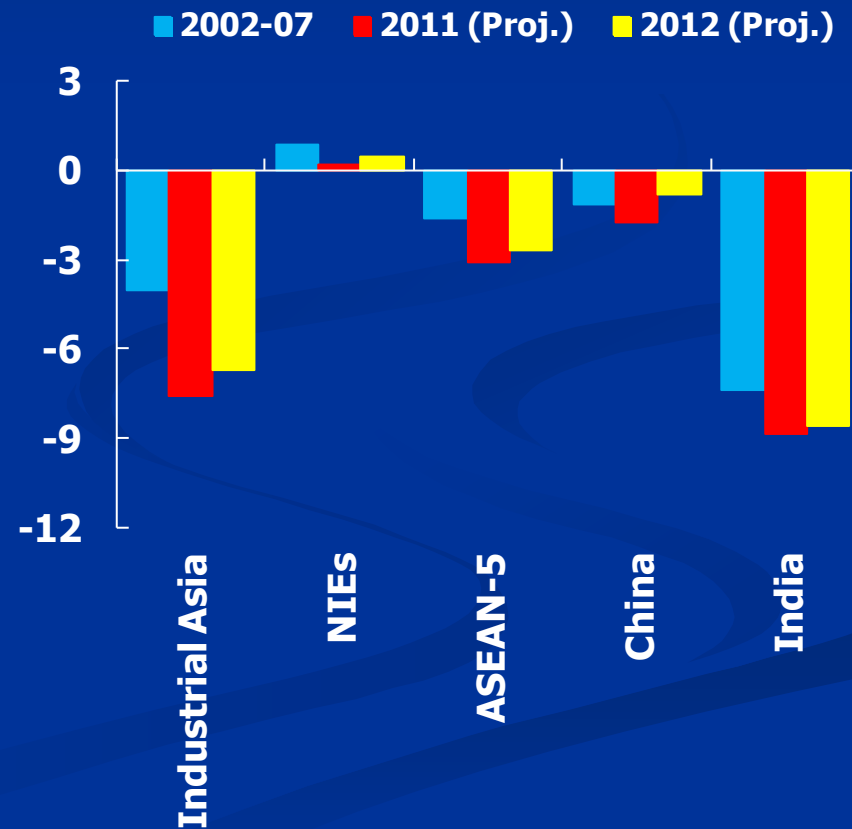


Both monetary and fiscal policy tightening is warranted in economies facing generalized inflationary pressures.

**Selected Asia: Policy Interest Rates**  
(In percent)

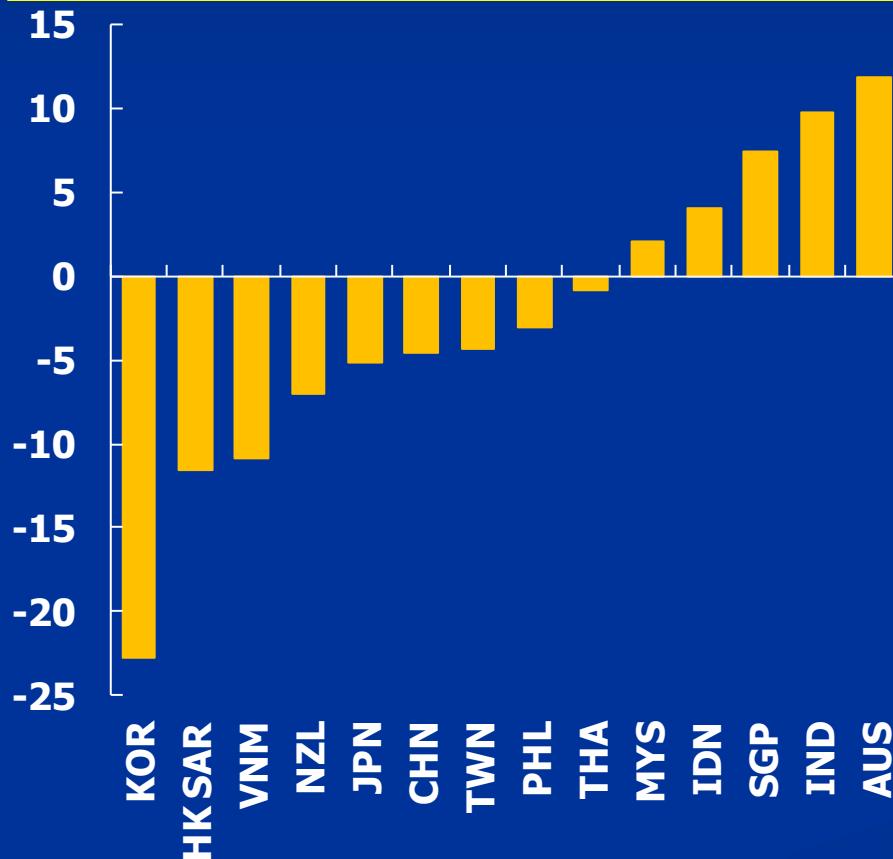


**Asia: General Government Cyclically Adjusted Fiscal Balances**  
(In percent of GDP)

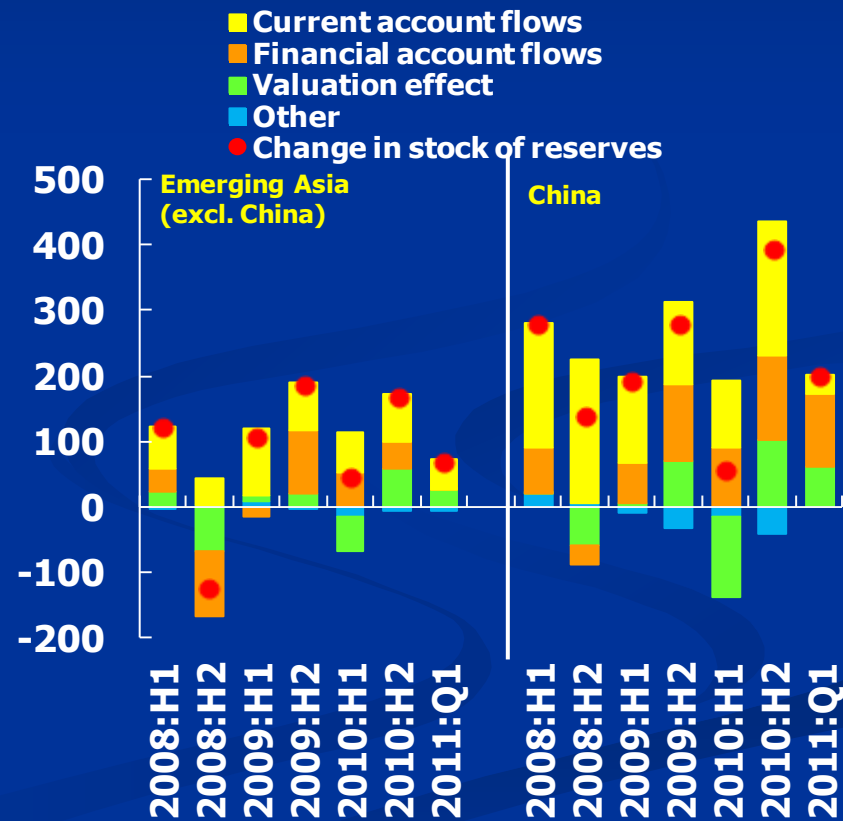


There is also room for further exchange rate appreciation that would help tighten monetary conditions.

**Asia: Real Effective Exchange Rate**  
*(Percent change between peak during 2007-08 and May 2011; increase = appreciation)*



**EM Asia: Sources of Change in Stock of Foreign Exchange Reserves**  
*(In billions of U.S. dollars)*



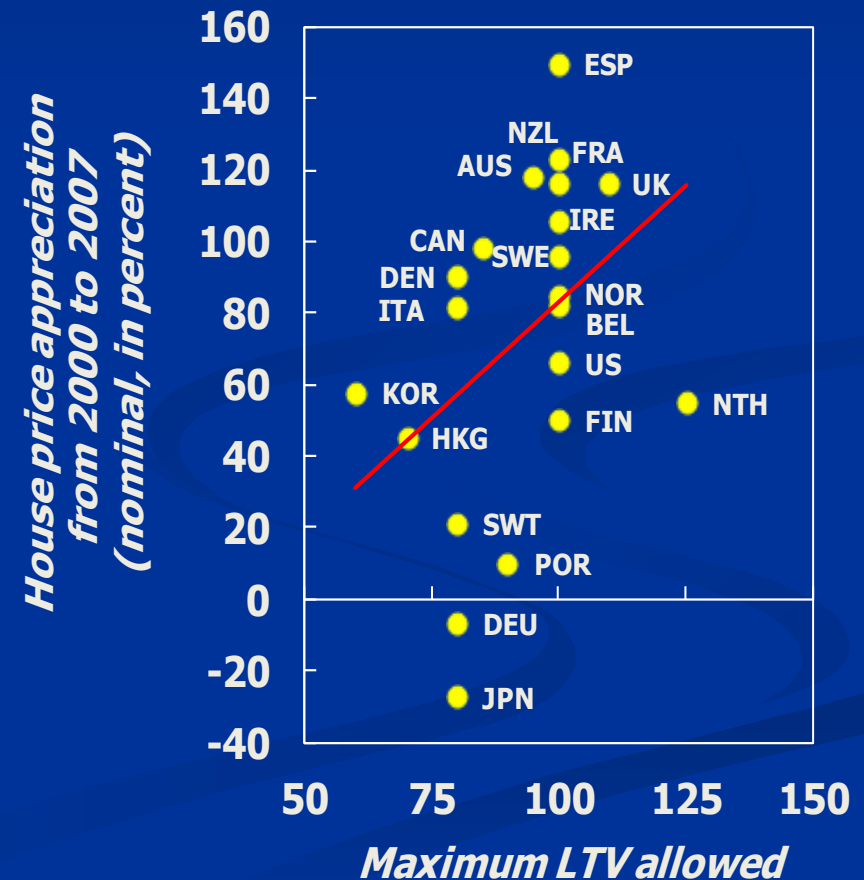
Note: China's 2011:Q1 financial account flows are calculated as the difference between already released data on overall balance and current account balance.

# The strong response to property inflation should help contain risks of bubbles.

## EM Asia: Recent Property Market Measures

Property market measures	Recent examples
Reductions in LTV ceilings	Hong Kong SAR; Korea; China; Singapore; and India.
Other real estate lending restrictions	Hong Kong SAR; India; Singapore; and China.
Increase in supply of land	Singapore; Hong Kong SAR.
Transaction taxes	China; Hong Kong SAR; and Singapore.
Property taxes	China.

## Maximum Loan-to-Value (LTV) Ratios and House Prices

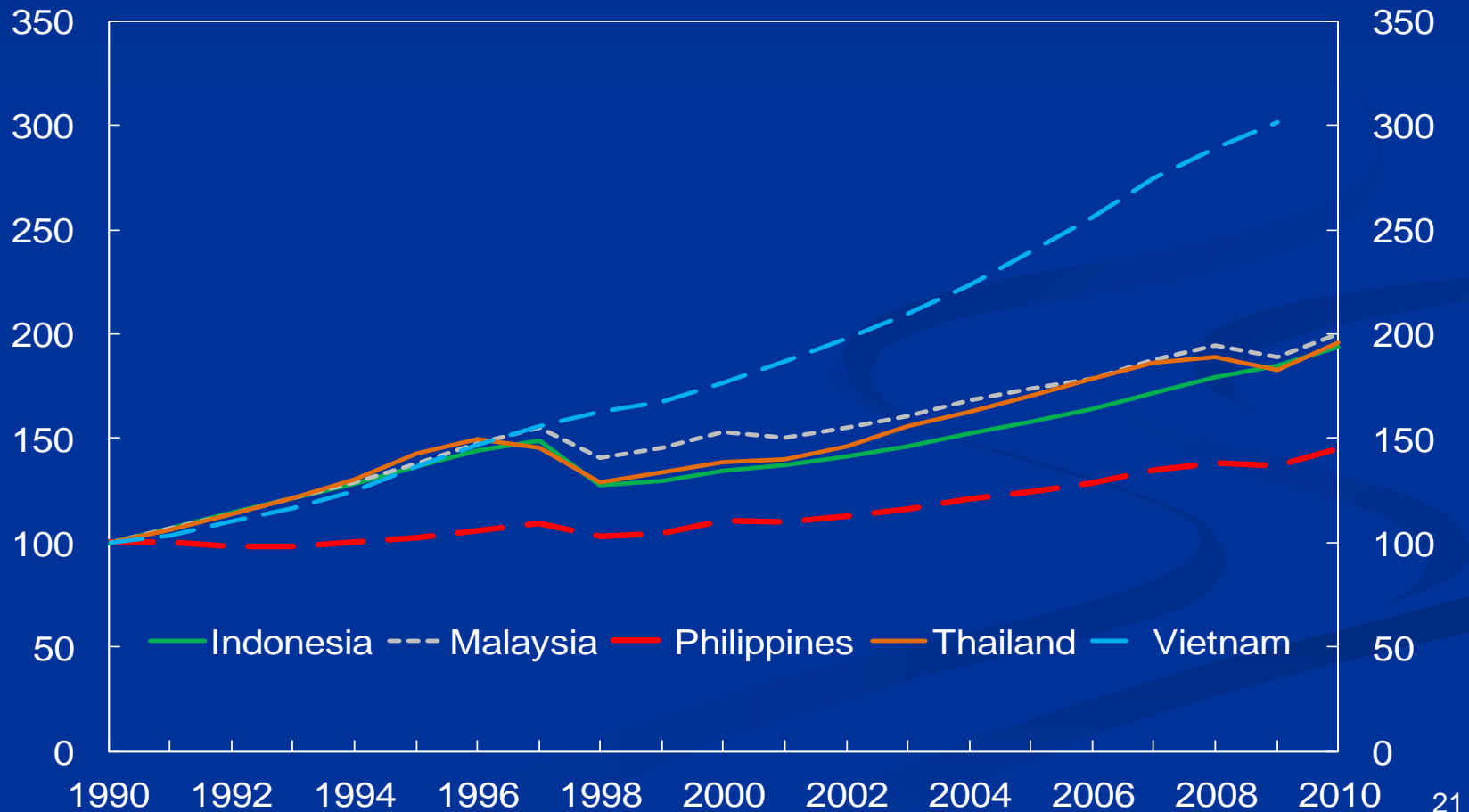


# There is room to increase social protection policies to reduce inequalities.



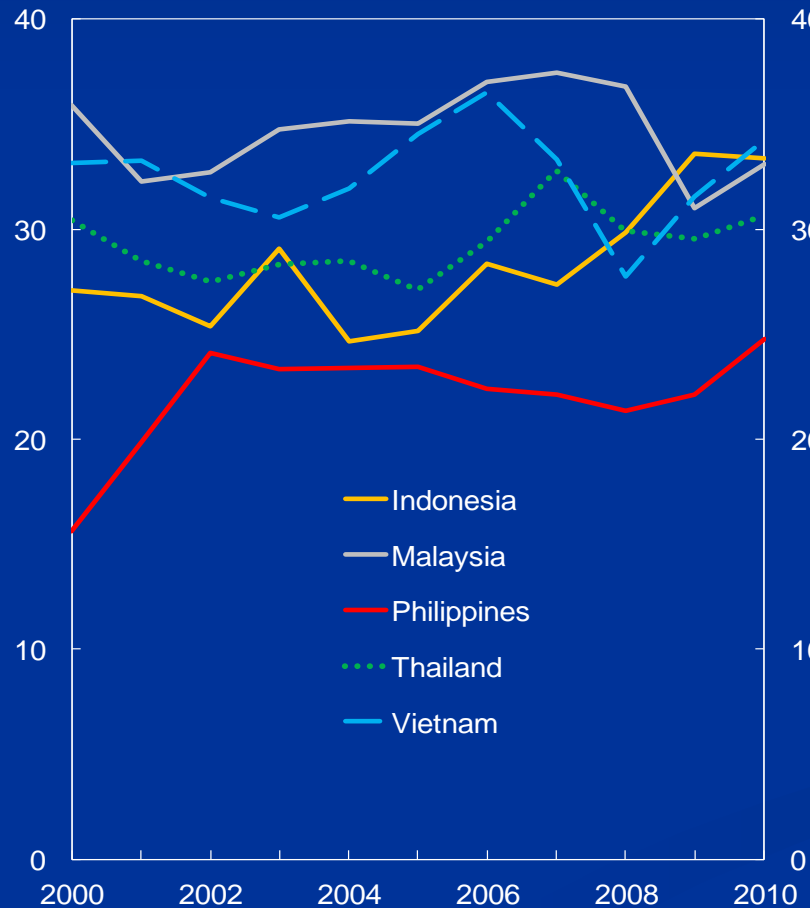
# A key challenge for the Philippines is is to sustain rapid growth

**Real GDP per Capita**  
(Index number, 1990 = 100)

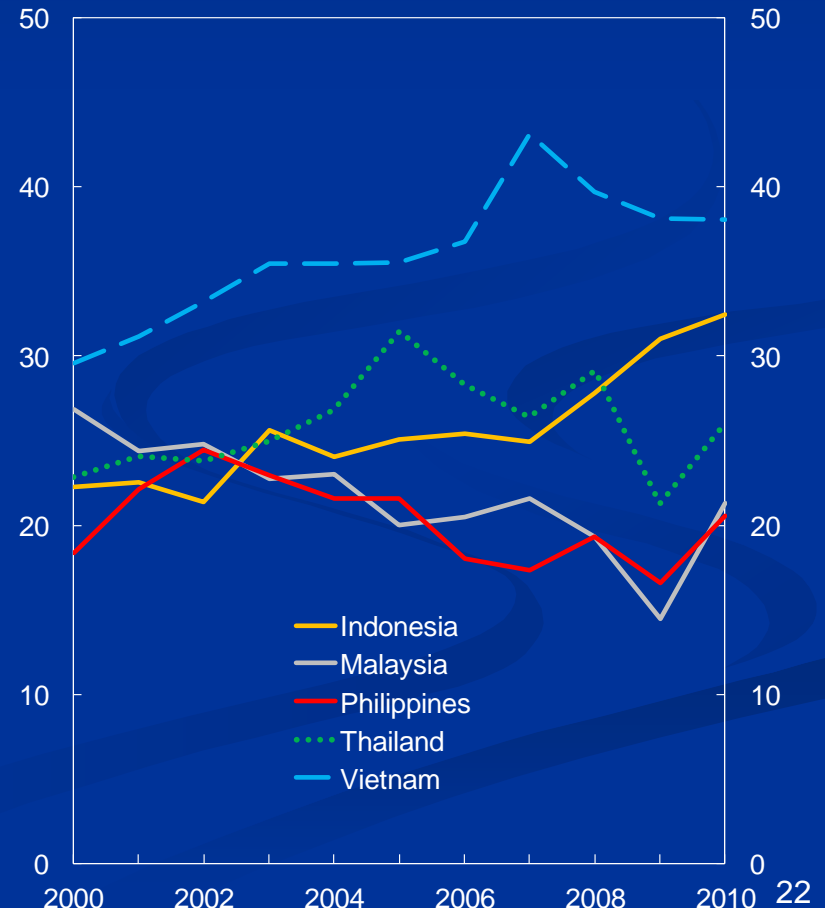


# A stronger investment environment is key

**Saving Rate**  
(In percent of GDP)



**Investment Rate**  
(In percent of GDP)



## Conclusions

- Asia's growth outlook remains strong but overheating pressures have surfaced in a number of regional economies. Need to remain vigilant against the risk of credit/property prices cycles in a few regional economies.
- Dealing with these pressures requires tightening fiscal stances and stronger currencies. Higher policy interest rates should be part of the policy mix. Macro-prudential measures are a useful complement, not a substitute
- In addition to dealing with overheating risks, policymakers need to make sure that growth will be balanced and inclusive.



Thank You.