



*Global Economic Outlook and
the Pacific Island Economies*

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Plan of the Presentation

Global Environment

- Global economy at dangerous stage
- G2 growth has slowed
- Downside risks

Asia: Outlook and policy challenges

- Still healthy growth but not immune
- Domestic demand is holding up
- Pause in tightening ?
- Pushing for rebalancing & inclusive growth

Pacific Island Countries

- Slow recovery in most PICs
- Risks have increased
- Improve resilience to shocks
- Pushing for structural reforms to lift sustainable growth

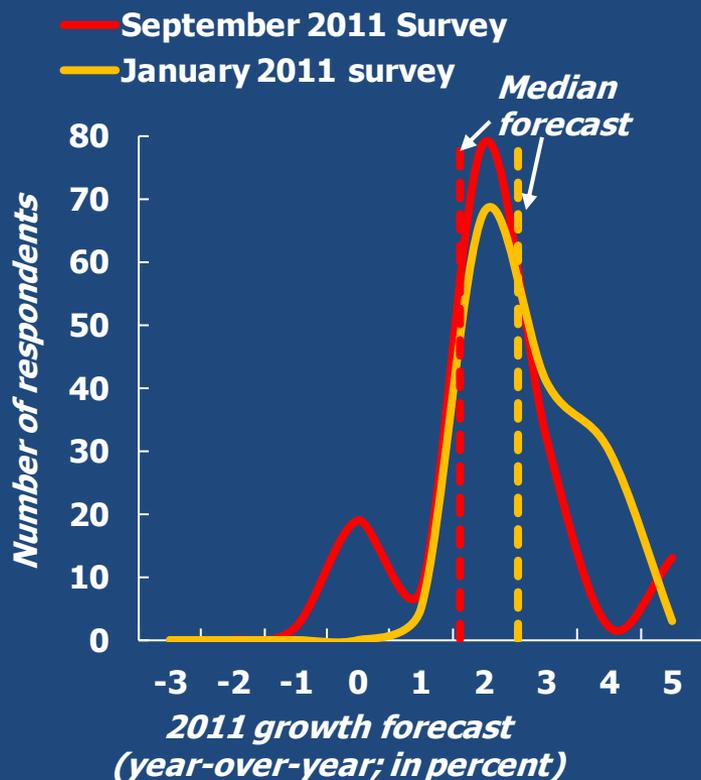


Global Environment: Outlook and risks

The global economy is at a dangerous stage. Bank-sovereign feedback loops have strengthened

Are we in a bi-modal world?

Advanced Economies: Distribution of Consensus Growth Forecast for 2011

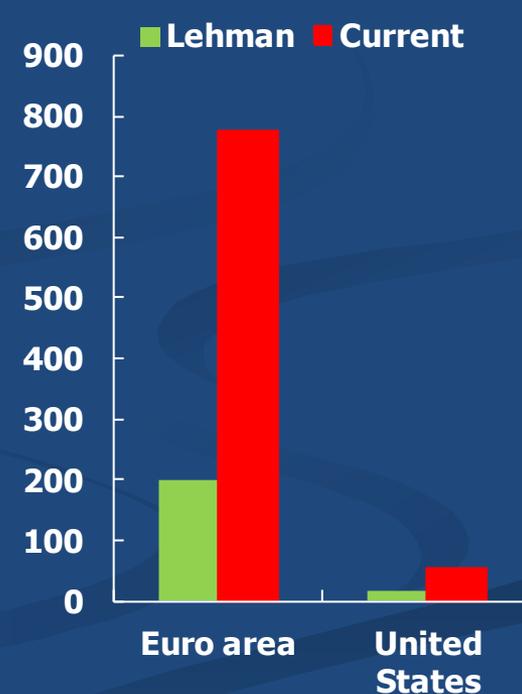


Is this Europe's Lehman?

Bank CDS spreads (5-year, basis points)



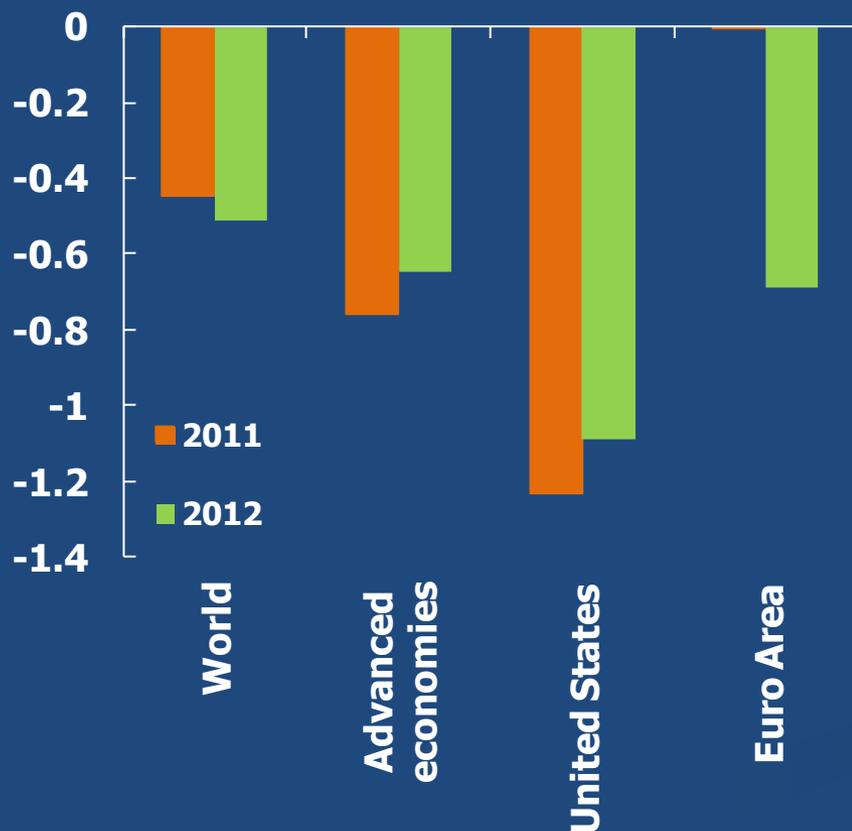
Sovereign CDS spreads (5-year, basis points)



Note: Current refers to end-September.

Global growth has been revised down

Downward Revisions in Growth Forecasts since April 2011 *WEO*
(In percentage points)

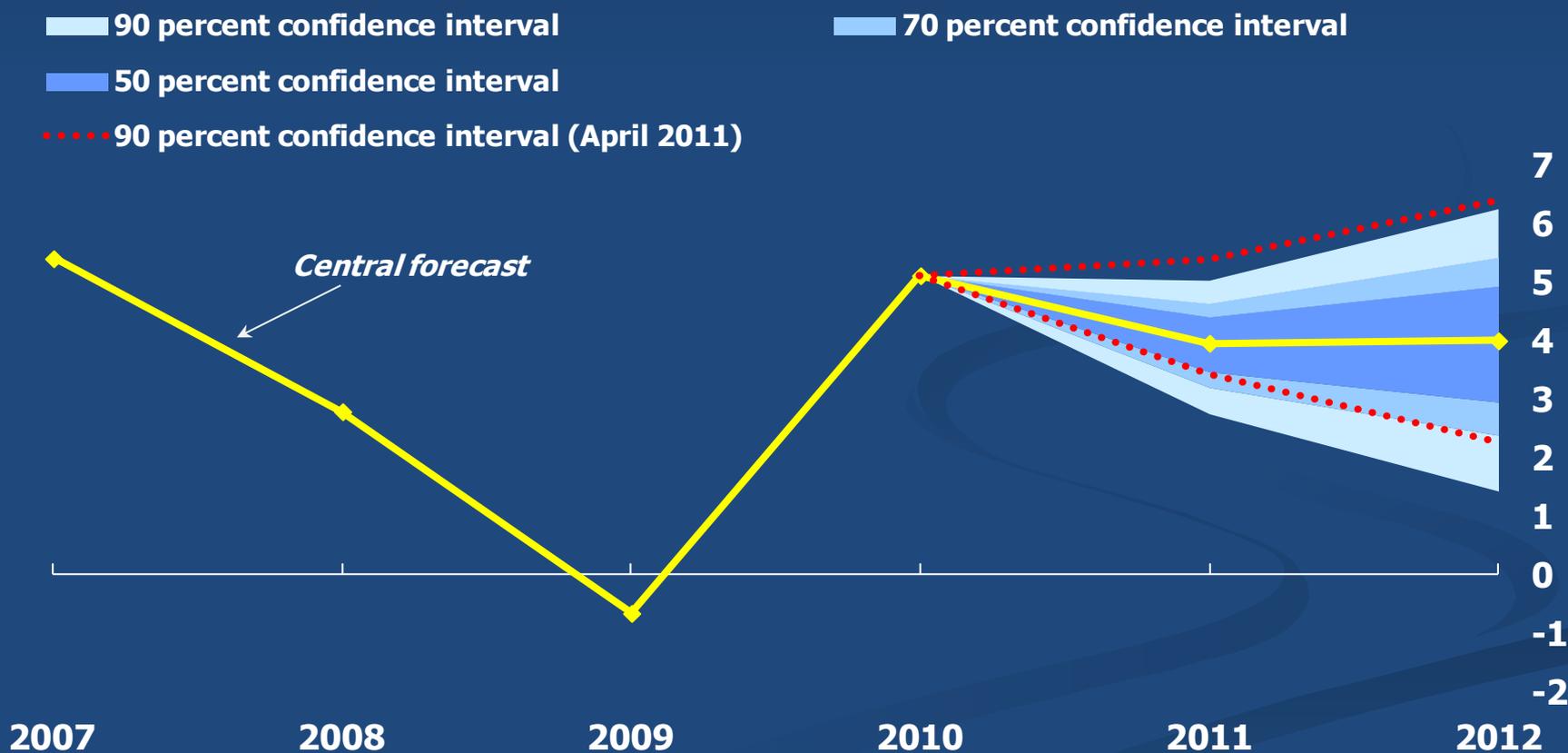


World GDP Growth
(Year-over-year; in percent)

	2010	2011 (Proj.)	2012 (Proj.)
World	5.1	4.0	4.0
Advanced economies	3.1	1.6	1.9
USA	3.0	1.5	1.8
Euro area	1.8	1.6	1.1
United Kingdom	1.4	1.1	1.6
Japan	4.0	-0.5	2.3

Risks to the global economy are tilted to the downside

Risks to the Global Outlook
(Baseline forecast and selected confidence bands)



Emerging Asia: Outlook and Risks

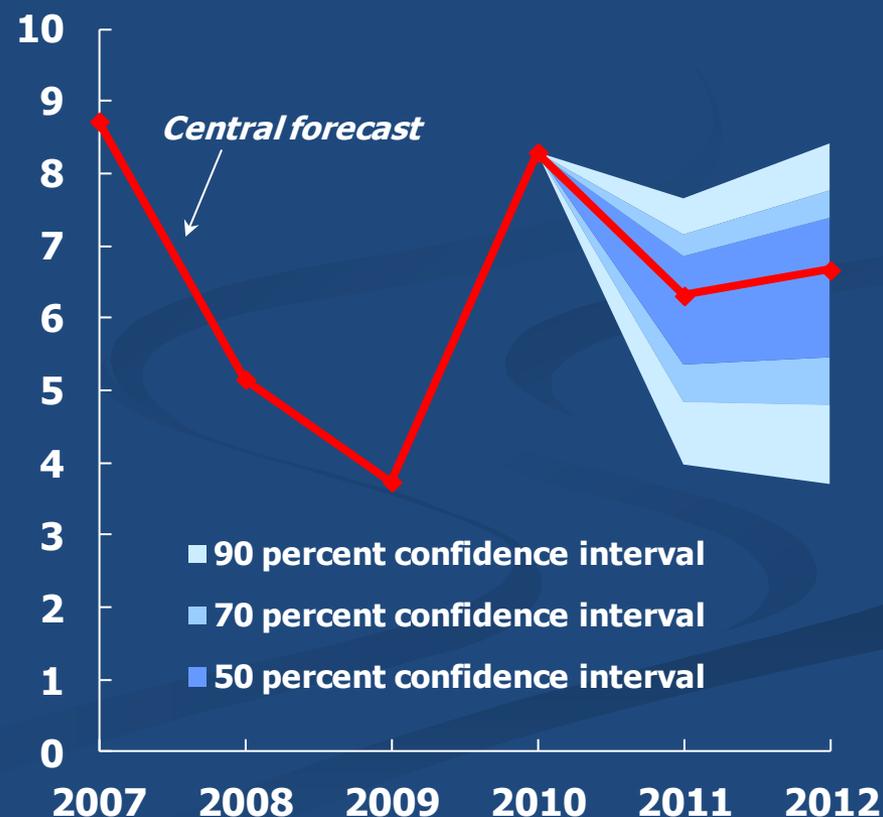
Growth in emerging Asia moderating

But risks tilted decidedly to the downside

Asia: Projected GDP Growth (in percent; year over year)

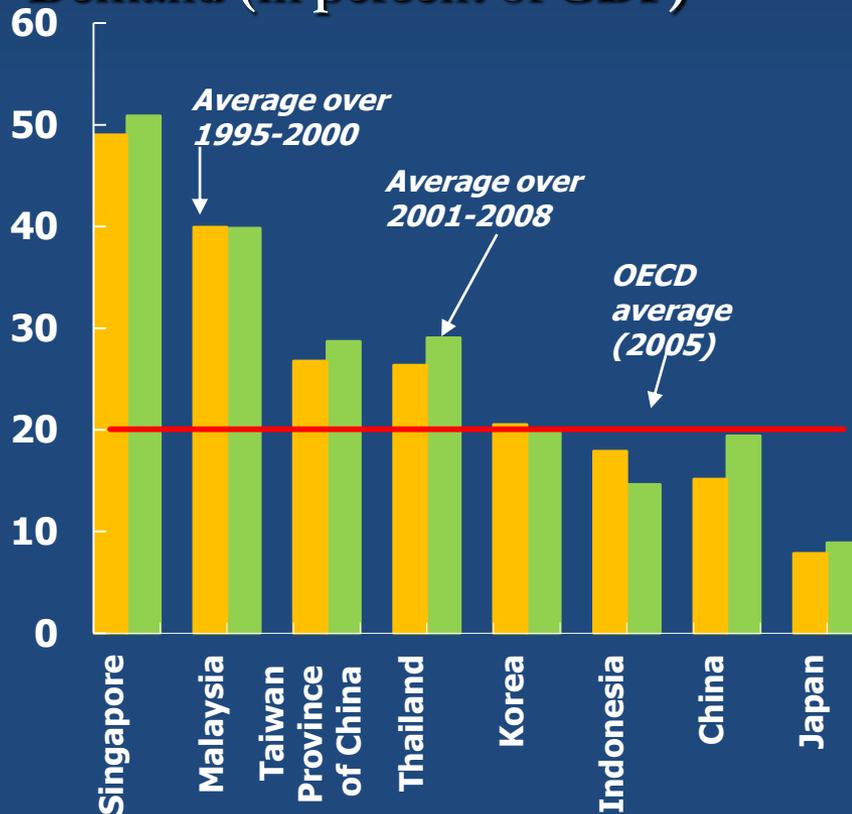
	Actual data and latest projections			Difference from April 2011	
	2010	2011	2012	2011	2012
Emerging Asia	9.5	7.9	7.7	-0.2	-0.3
China	10.3	9.5	9.0	-0.1	-0.5
Hong Kong SAR	7.0	6.0	4.3	0.6	0.1
Korea	6.2	4.0	4.4	-0.5	0.2
Taiwan Province of China	10.9	5.2	5.0	-0.2	-0.2
India	10.1	7.8	7.5	-0.4	-0.3
Indonesia	6.1	6.4	6.3	0.2	-0.2
Malaysia	7.2	5.2	5.1	-0.3	-0.1
Philippines	7.6	4.7	4.9	-0.3	-0.1
Singapore	14.5	5.3	4.3	0.1	-0.1
Thailand	7.8	3.5	4.8	-0.4	0.3
Vietnam	6.8	5.8	6.3	-0.5	-0.5

Asia: GDP Growth (Central forecast and selected confidence intervals; in percent)

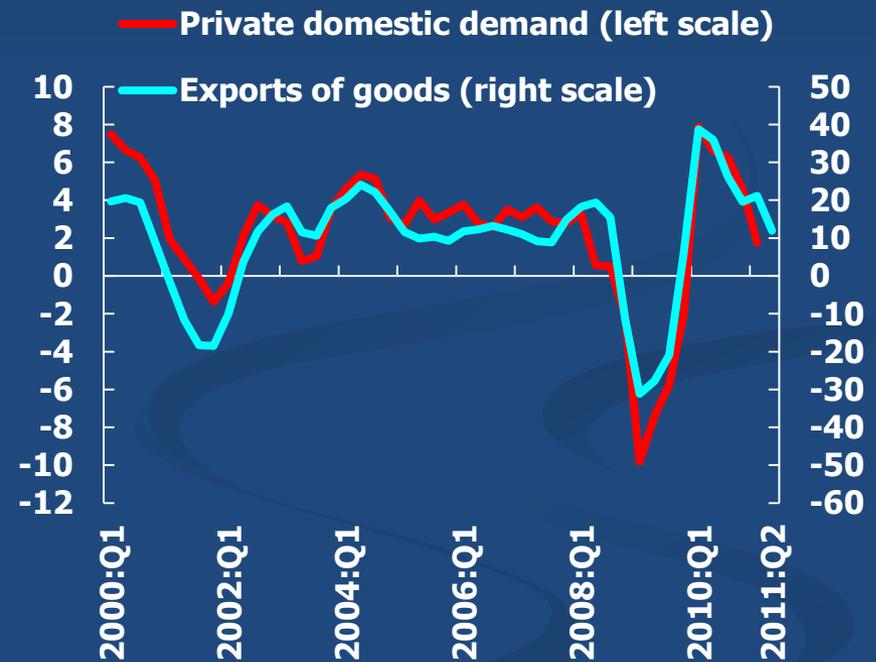


Another global recession: would hit emerging Asia hard through trade channels...

Contribution to External Demand to value Added by Source of Final Demand (in percent of GDP)



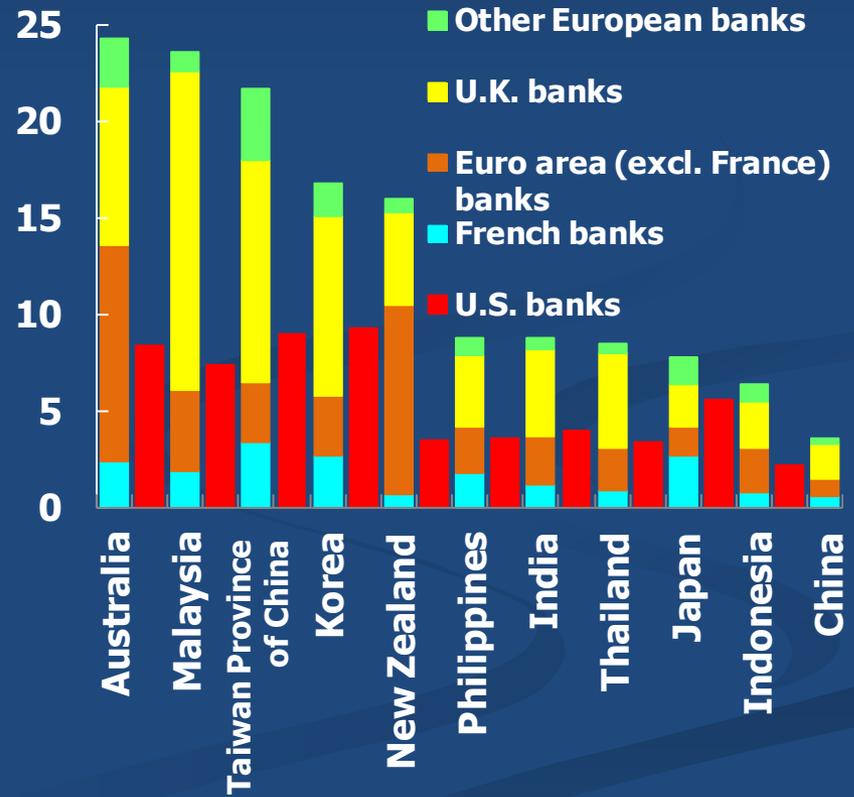
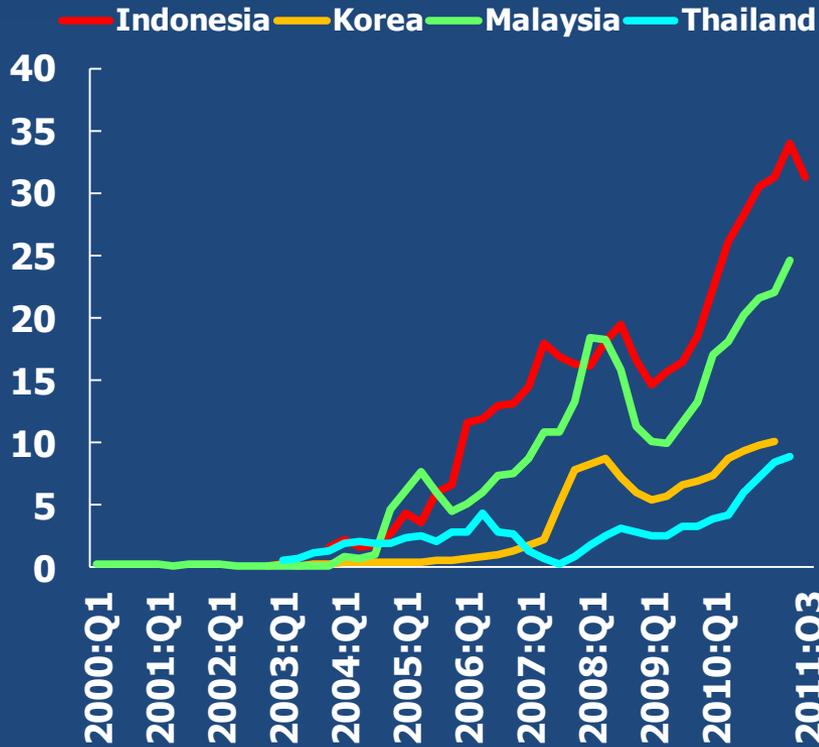
Export-Oriented Asia: Private Domestic Demand and Exports (y/y percentage change)



Note: Includes the ASEAN-4 (excluding Indonesia), Japan, and the NIEs.

... and financial channels

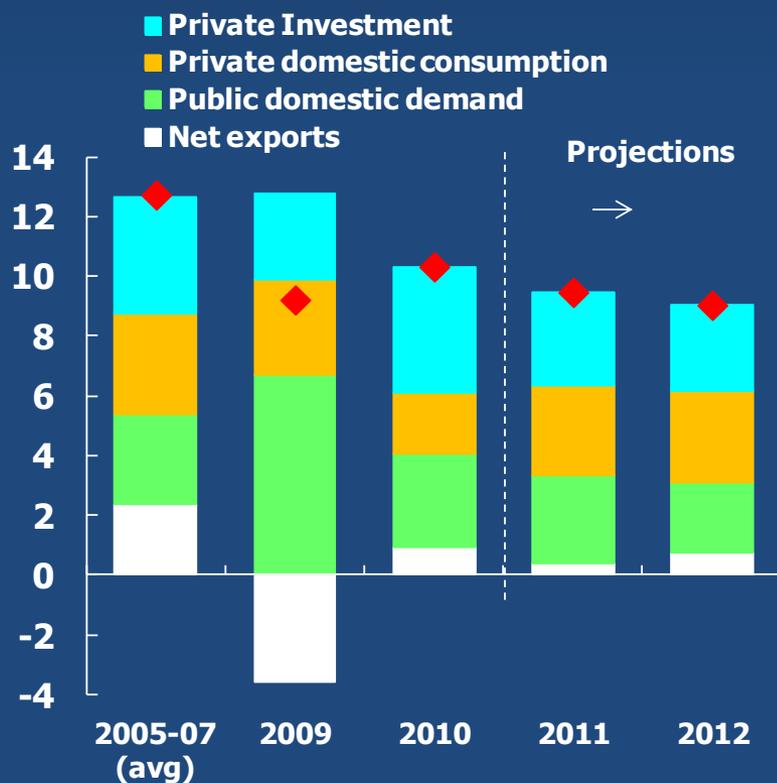
Selected Asia: Foreign Holdings in Local Currency Government Bonds
(In percent of total outstanding local currency government bond)



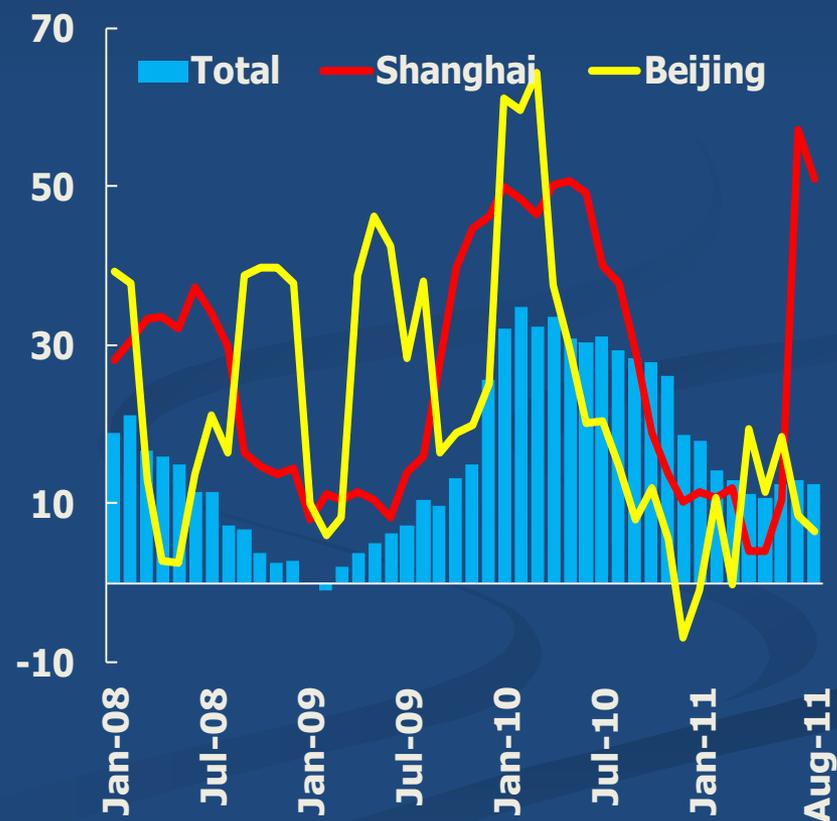
China: Growth still robust

Among risks: those from a property bubble

China contribution to GDP growth (y/y percentage change)

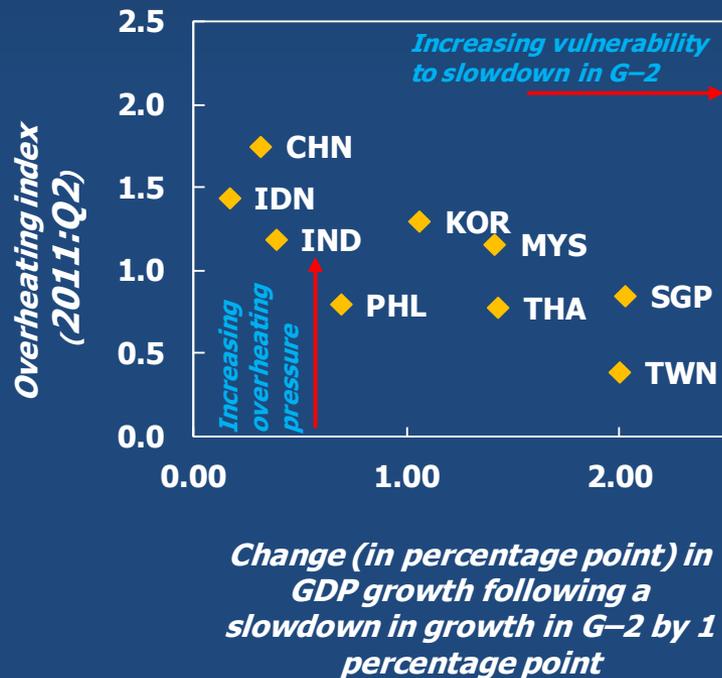


China : Property Bubble (y/y, in percent)



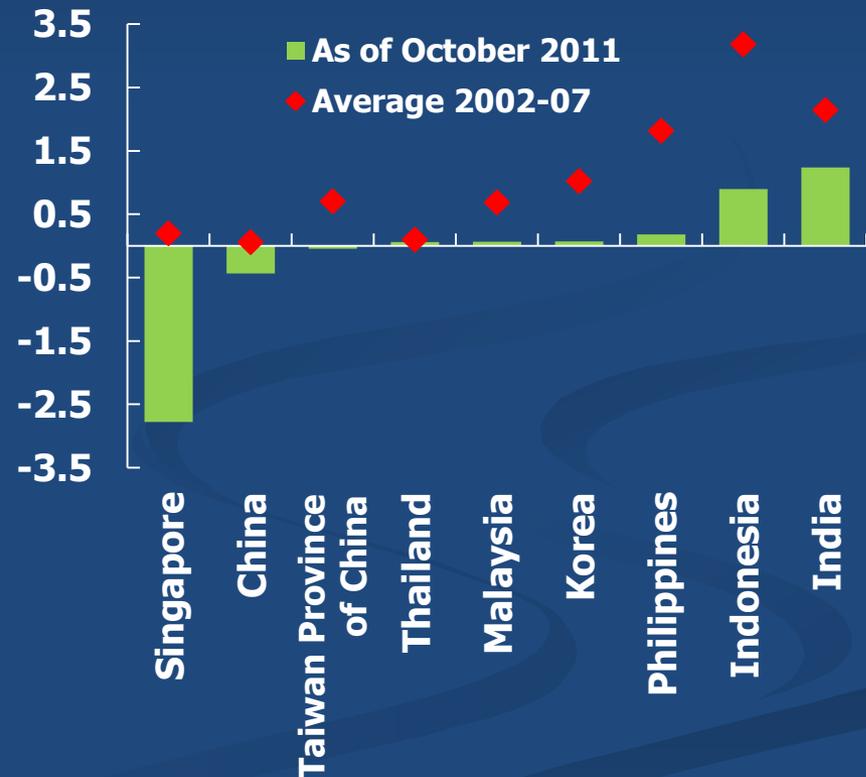
Do downside risks warrant a pause in monetary tightening?

Emerging Asia: Overheating Index and Vulnerability to a slowdown in the US and EU



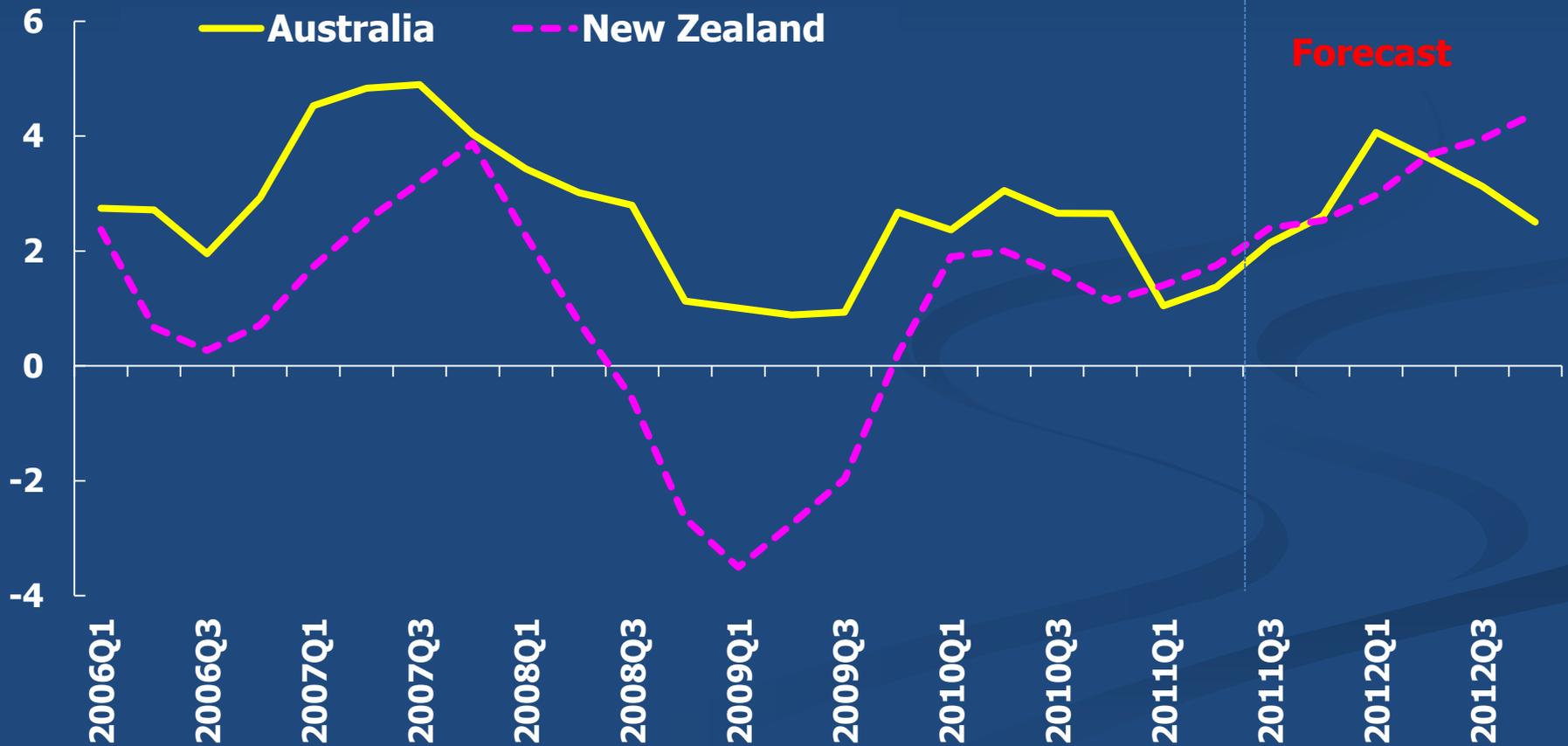
Note: Responses to a slowdown in G-2 growth are based on regression estimates, and include effects of discretionary policy measures.

Emerging Asia: Real Policy Rate (in percent)



Australia and New Zealand are expected to remain resilient, but with increasing uncertainty

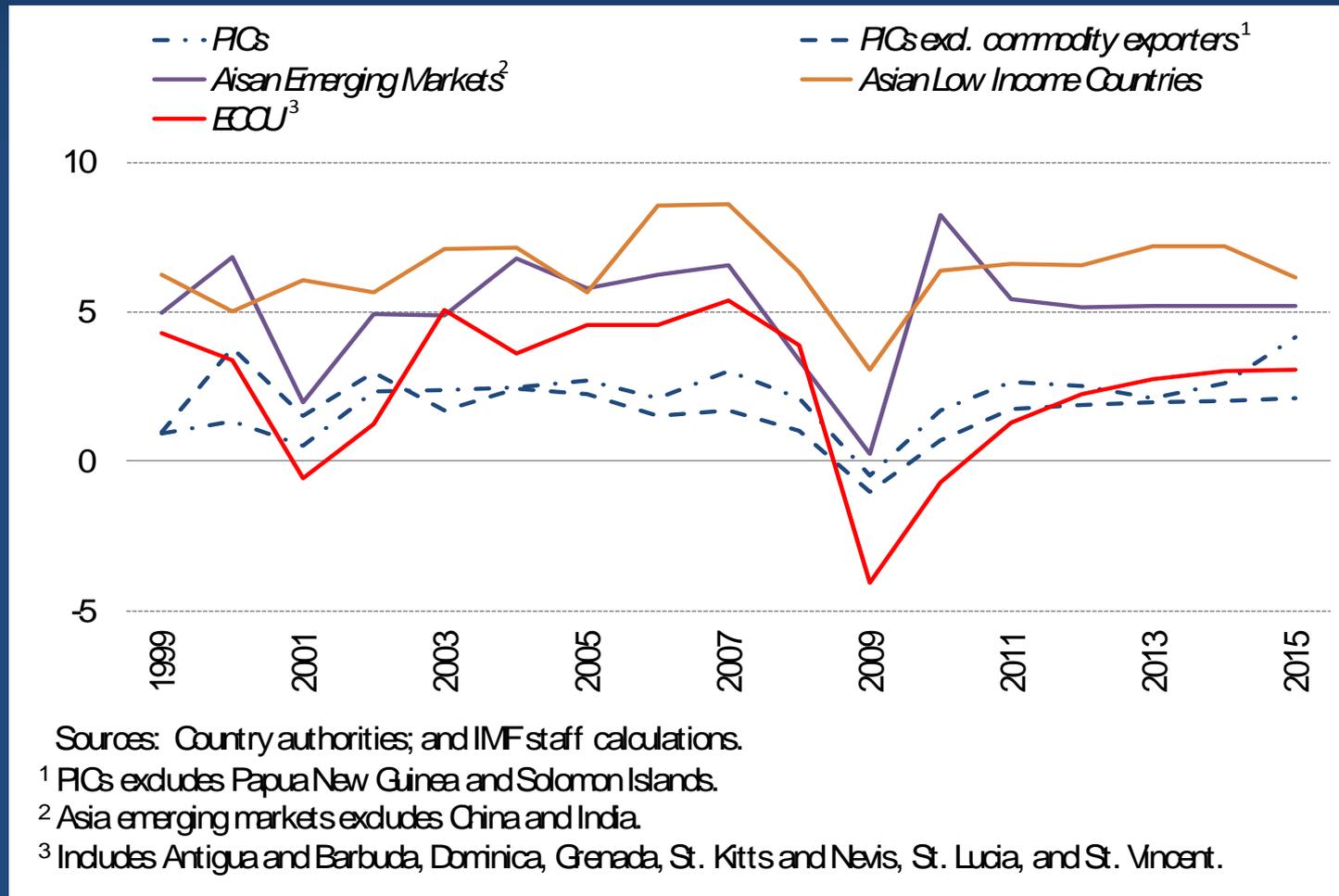
Real GDP Growth
(Year-on-year percentage change)





Pacific Island Countries: Current state and challenges

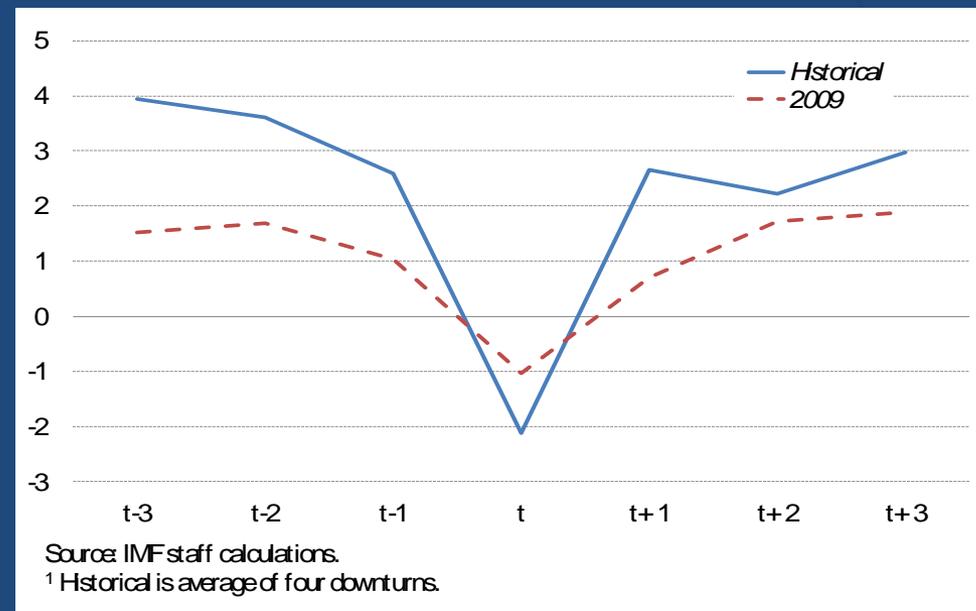
Despite strong Aust and NZ economies, recovery has been slow



The recovery: struggling commodity importers

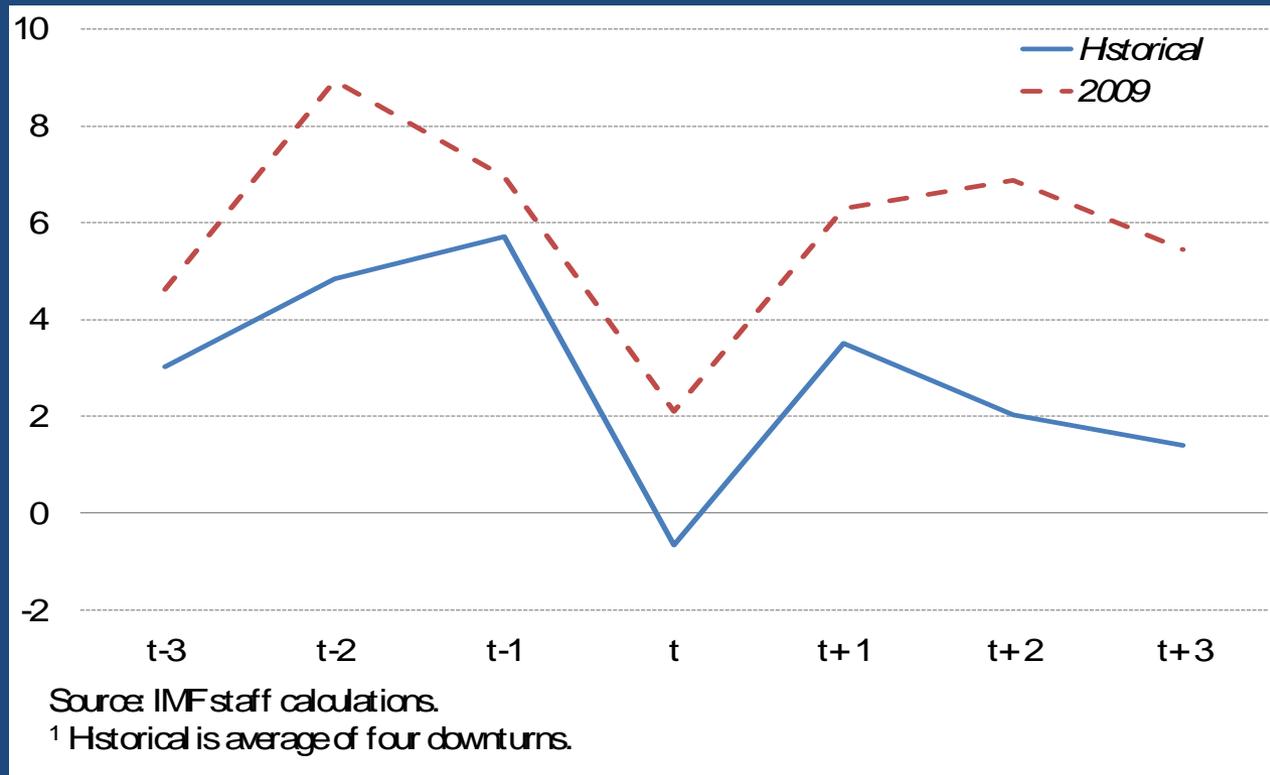
- Milder recession in 2009, yet slower recovery for commodity importers
- Growth in normal times has become slower.

Real GDP growth around downturns

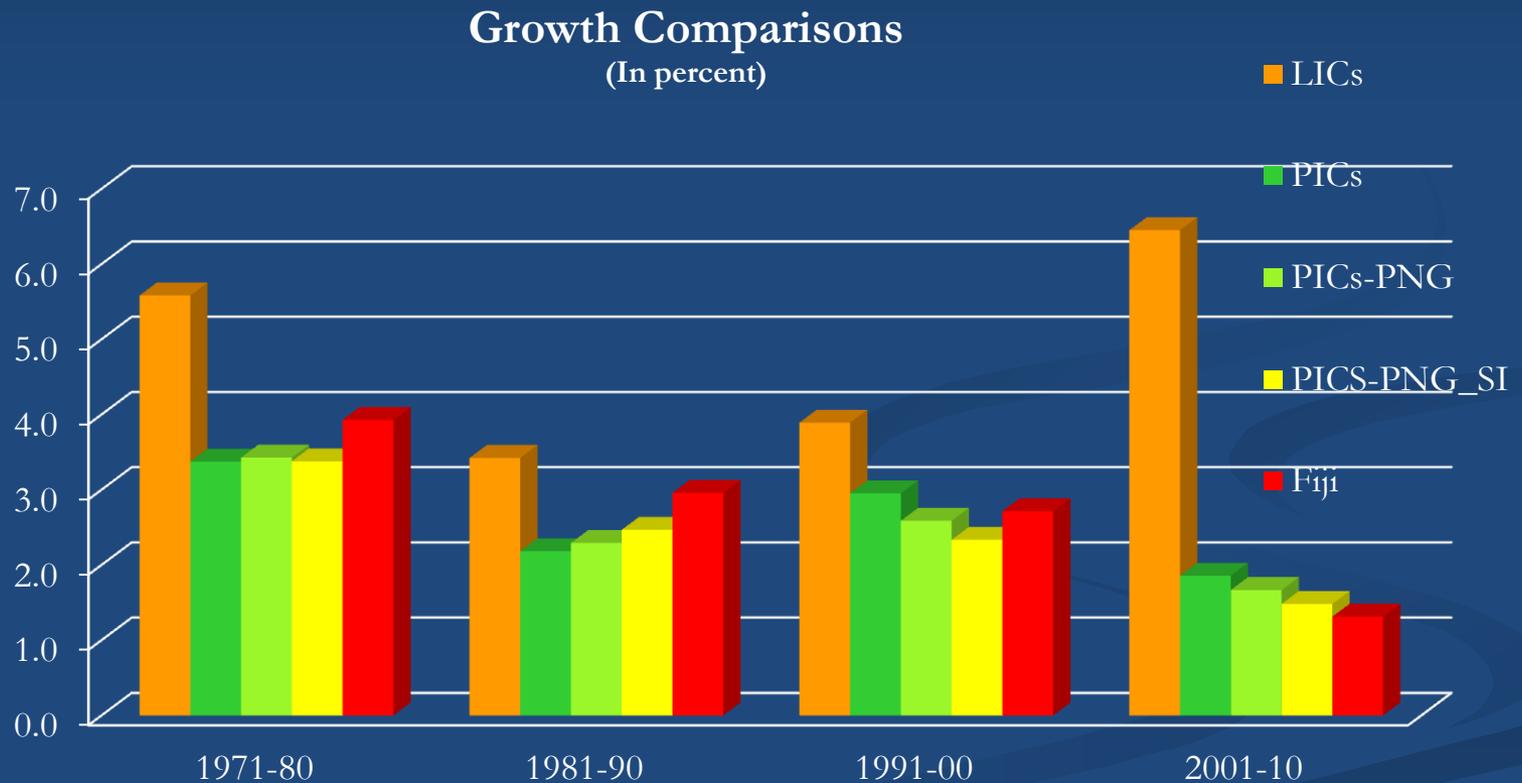


A different story for commodity exporters —but can strong growth be sustained?

Real GDP Growth around Downturns

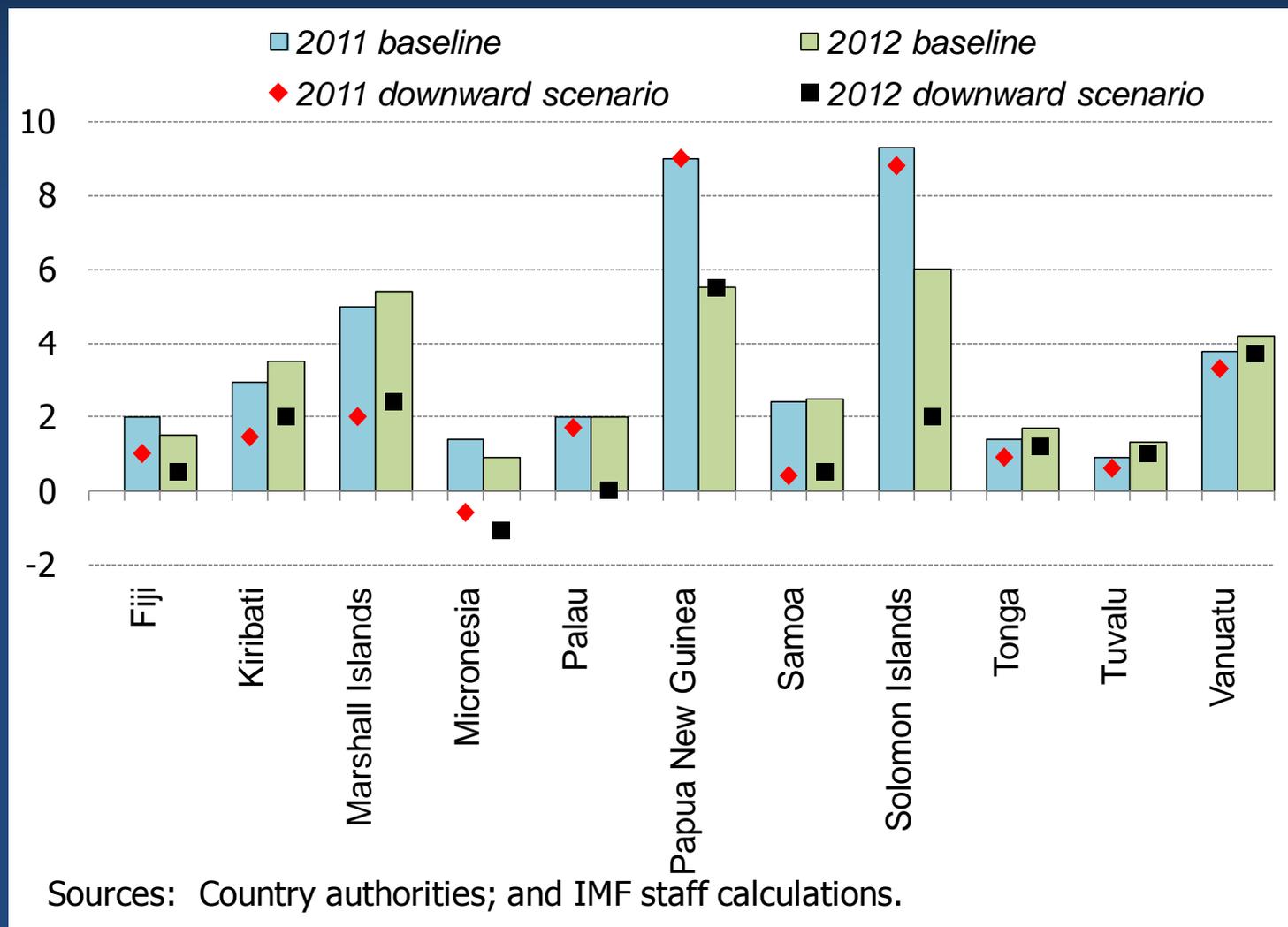


Growth has slowed over time and increasingly lagged behind low-income countries



Sources: Country authorities and IMF staff estimates.

Increased near-term risk: Impact of downward scenario on real GDP growth



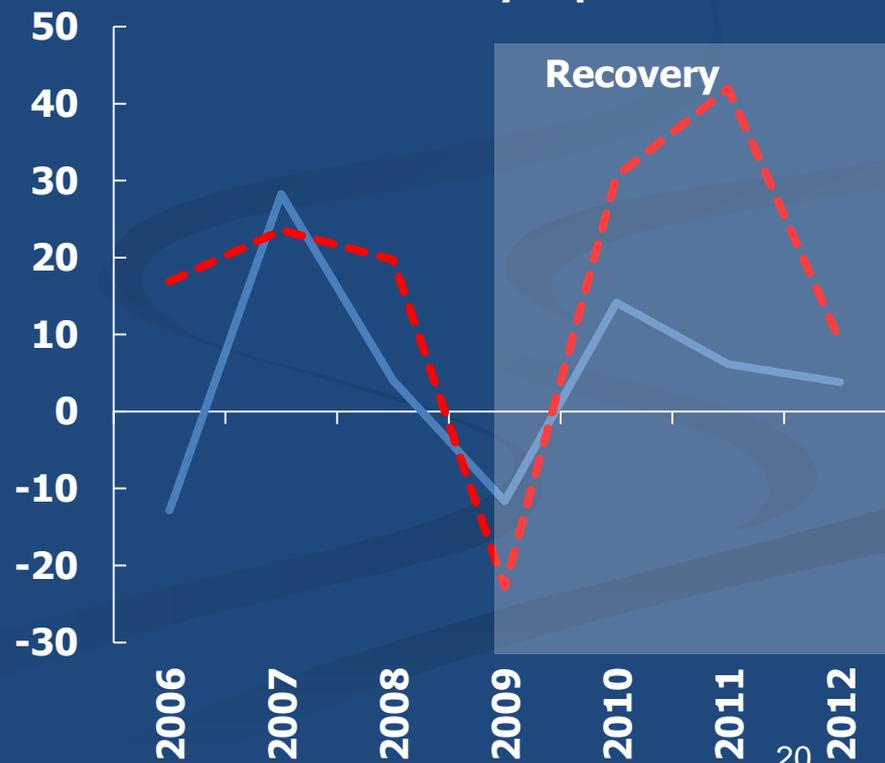
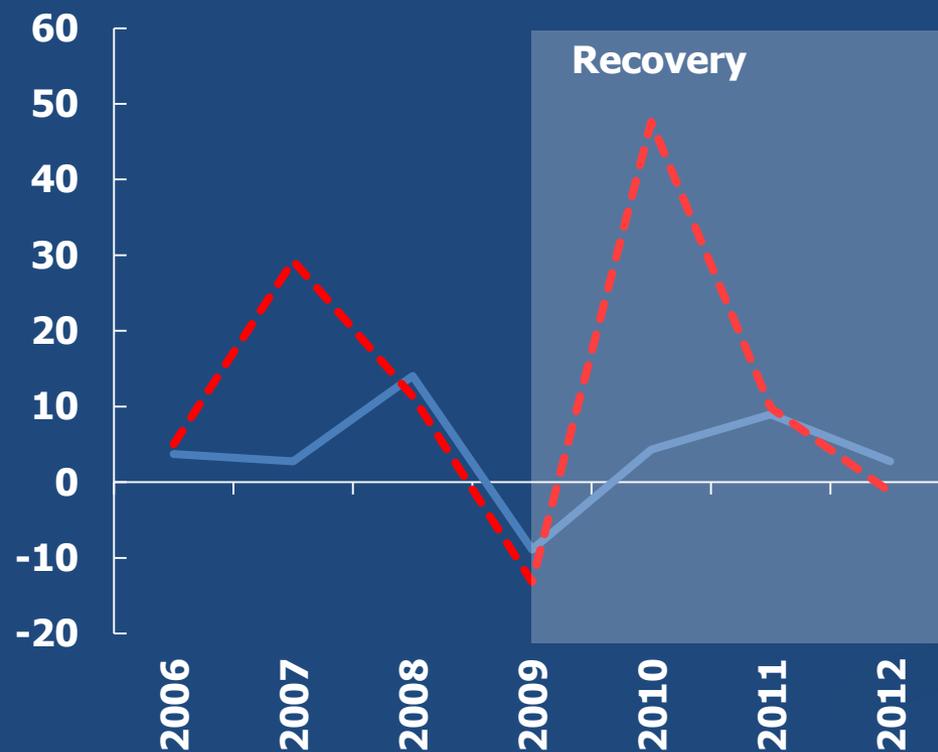
As during 2008/09, a global slowdown would hit trade, which is expected to slow next year

Real Imports
(Year-on-year percentage change)

Real Exports
(Year-on-year percentage change)

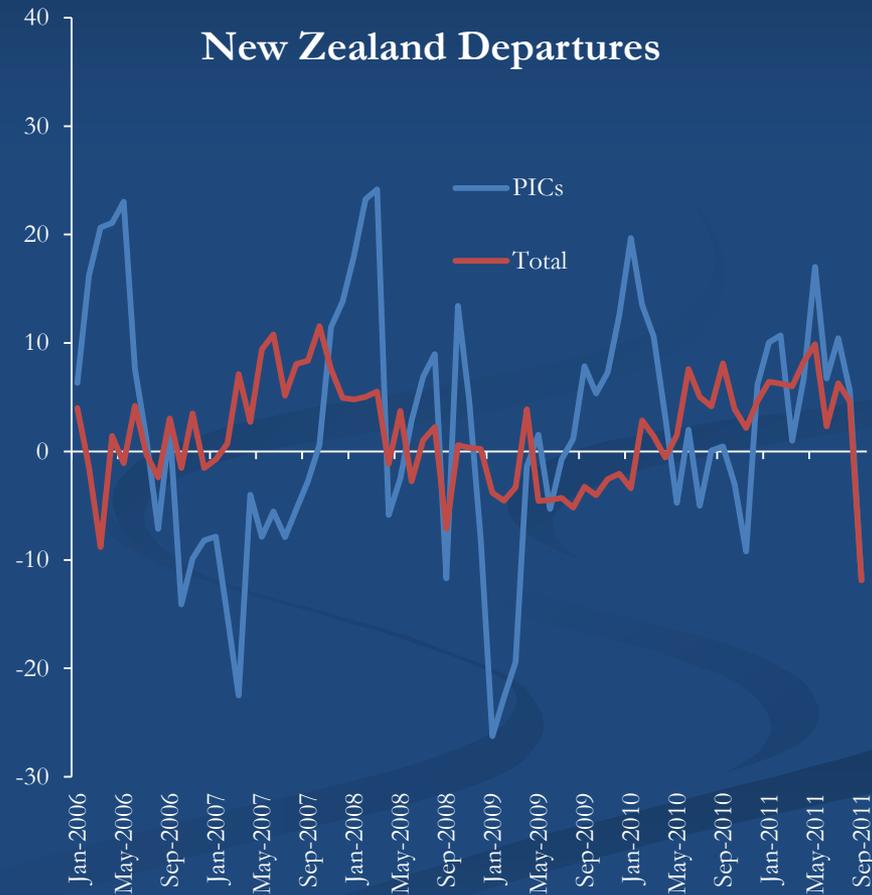
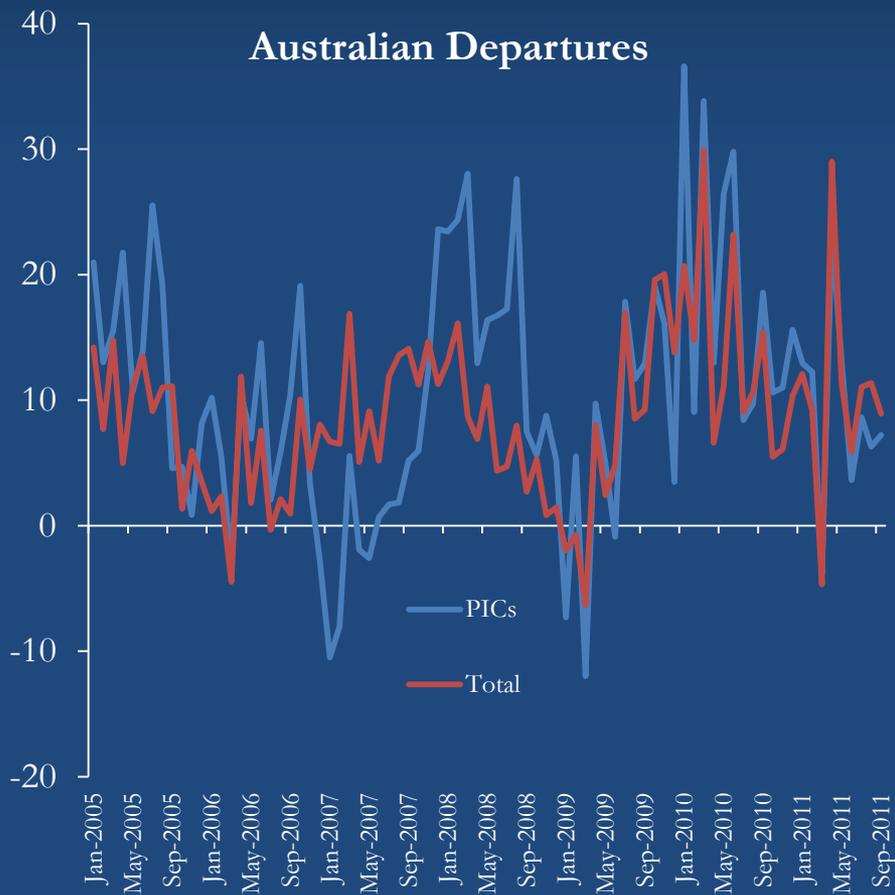
— PICs: Commodity importers
- - - PICs: Commodity exporters

— PICs: Commodity importers
- - - PICs: Commodity exporters



Tourism: Growth of Australian tourists has slowed in recent months; NZ tourists?

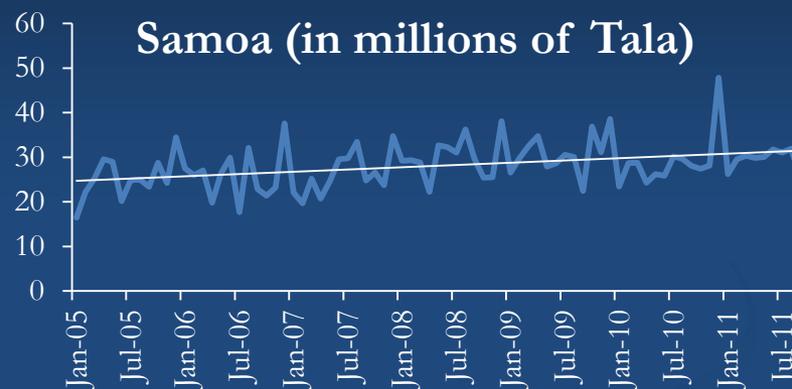
(Percentage change y/y)



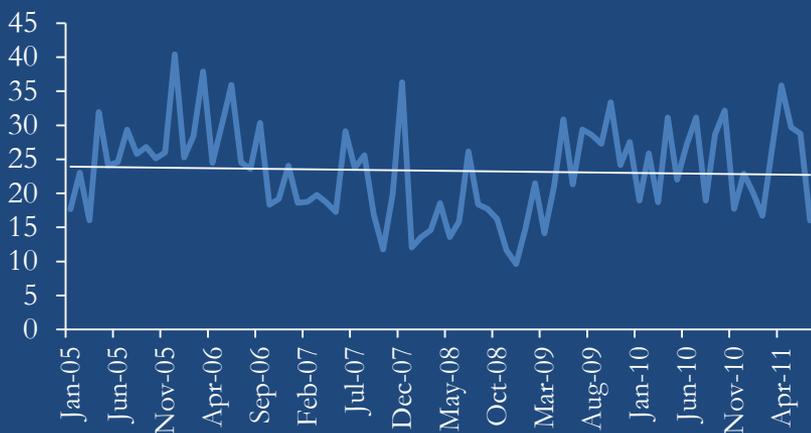
Remittances: Growth has been weak or negative in recent months

Long-run trend:

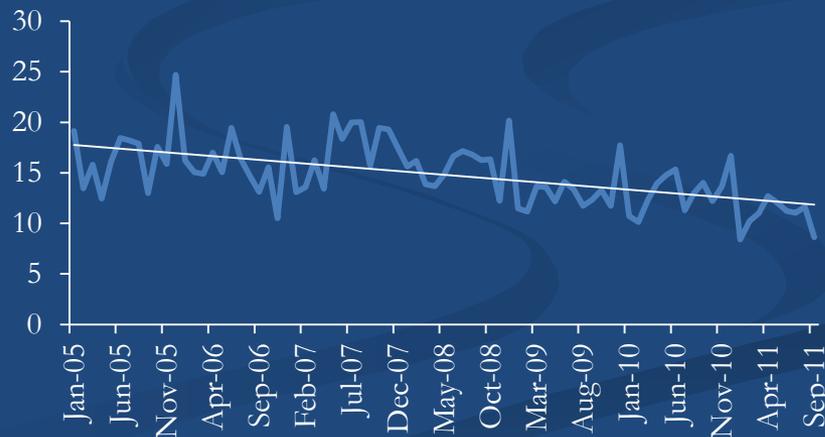
- Flat in Fiji
- Growing slowly in Samoa
- Declining in Tonga



Fiji (n millions of Fijian dollars)

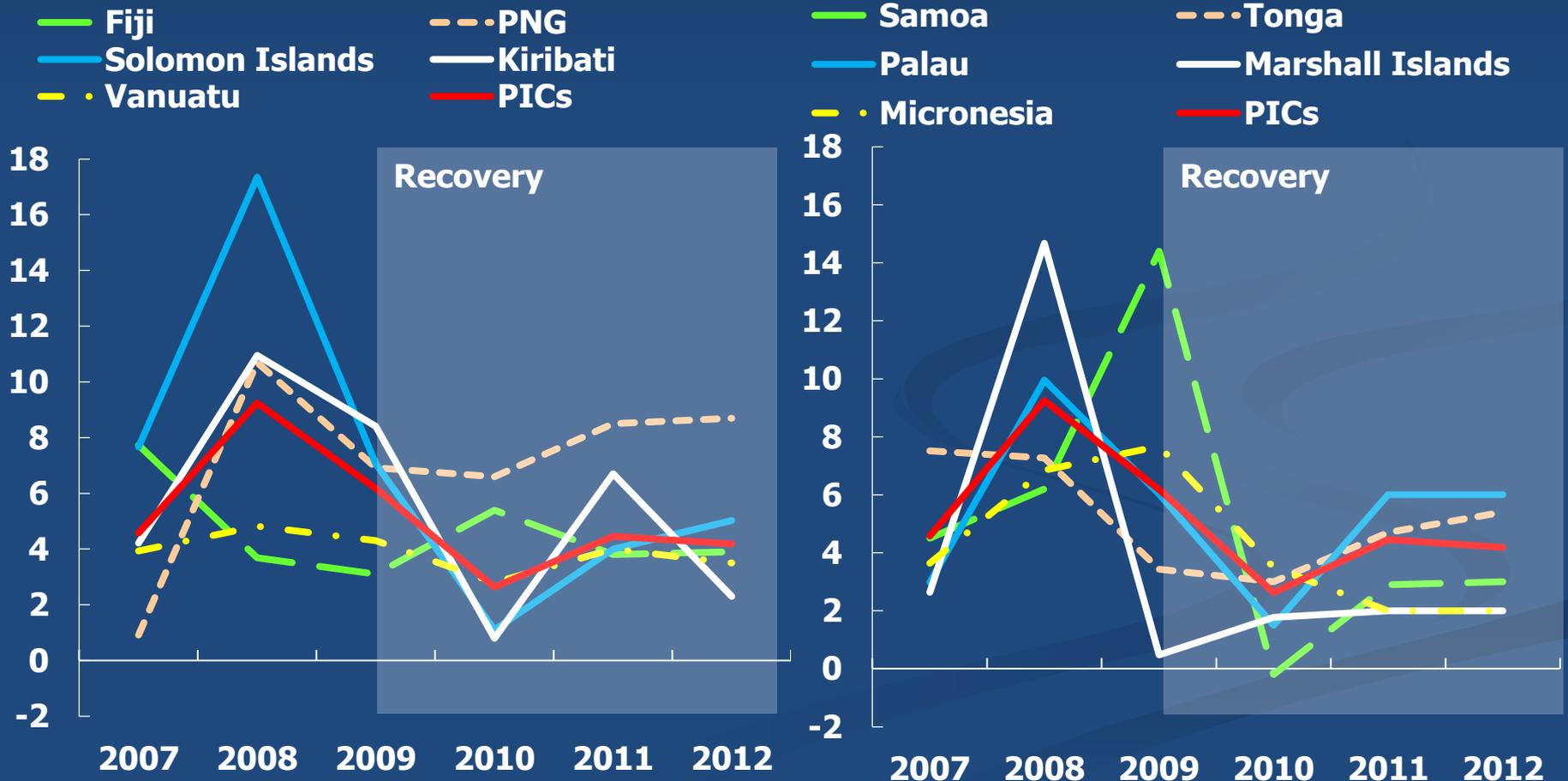


Tonga (in millions of Pa'anga)



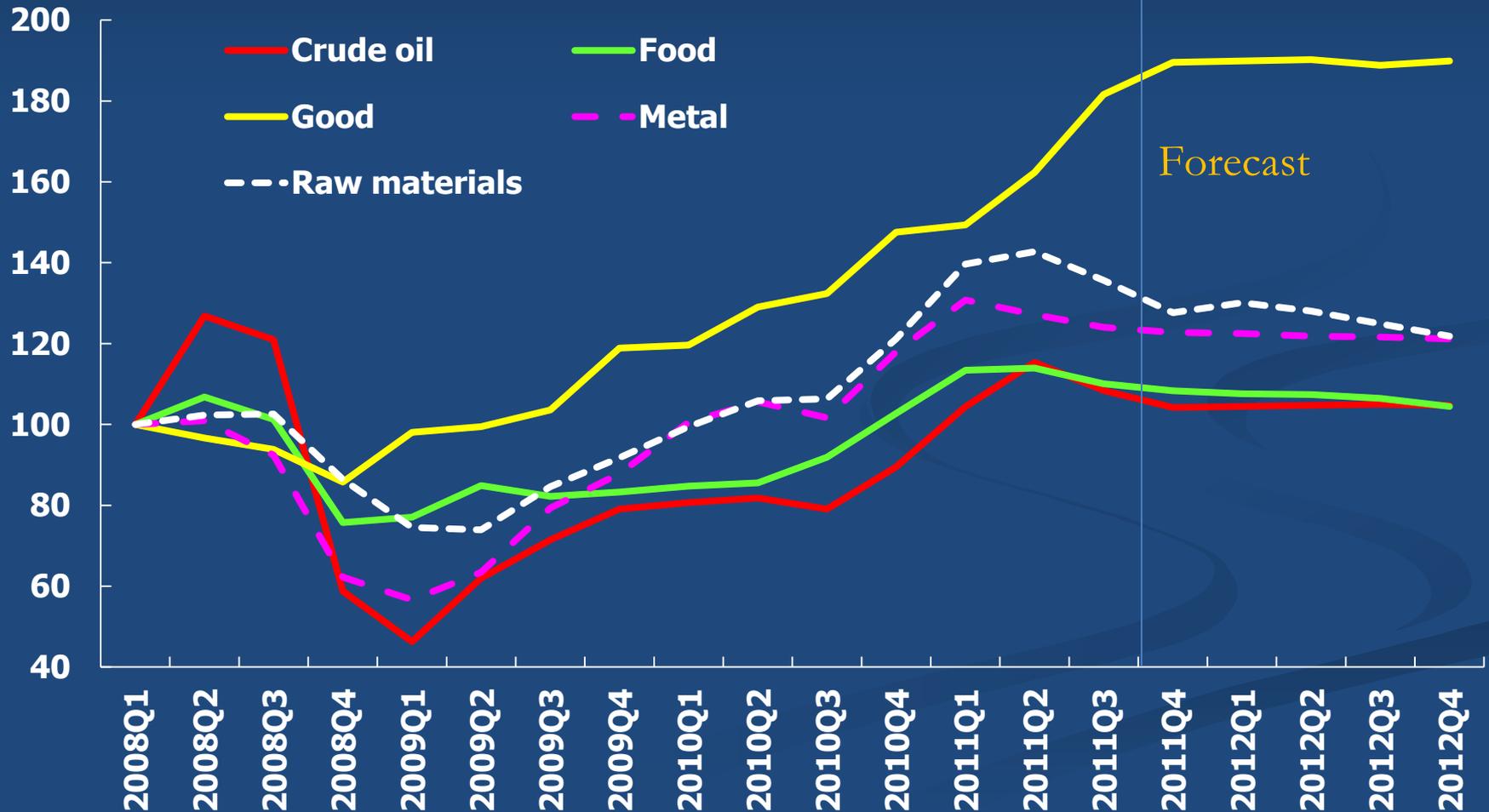
Inflation has picked up this year, but expected to stabilize in most countries

Consumer Price Inflation
(Year-on-year percentage change)



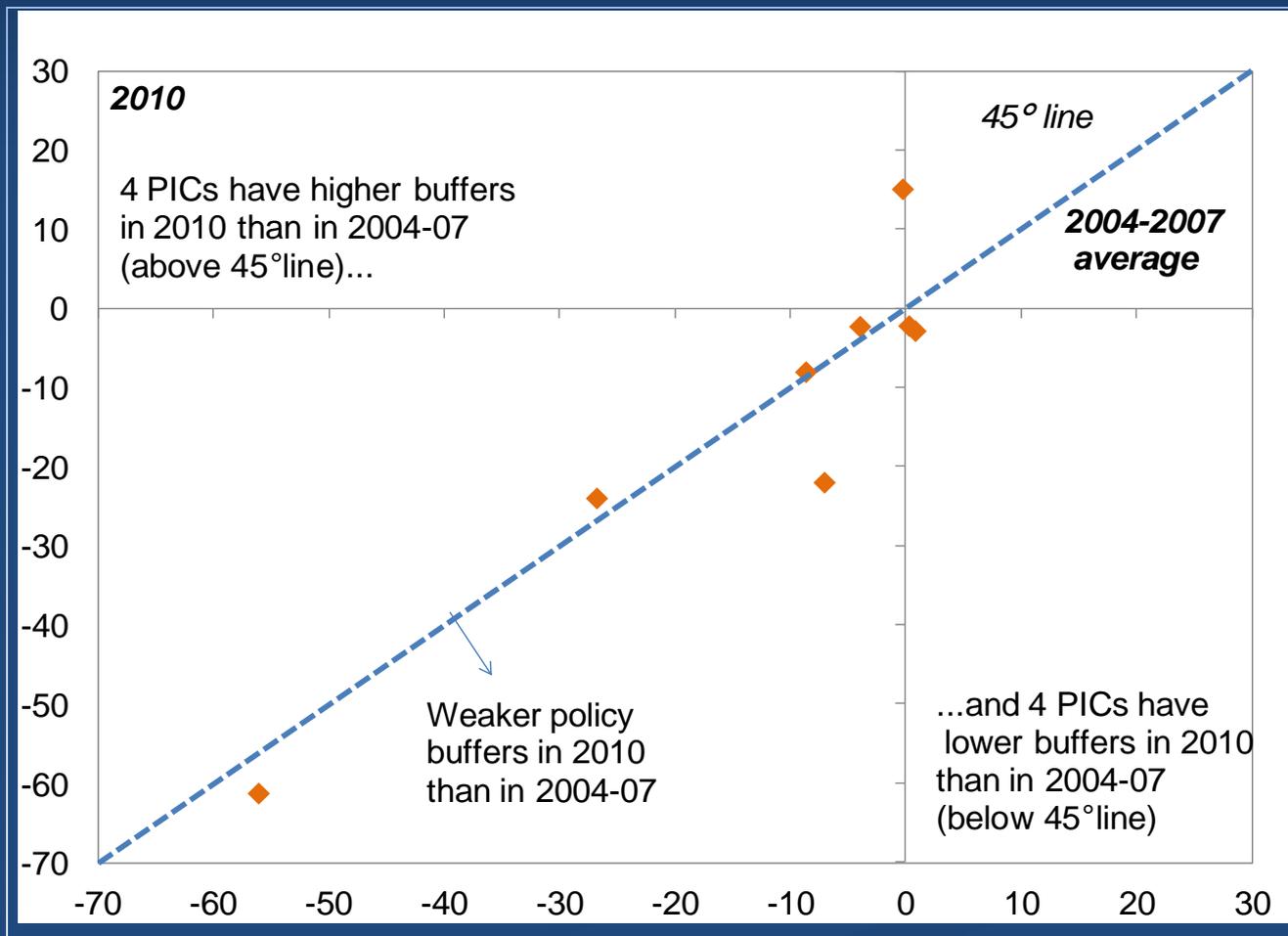
Most commodity prices have receded recently and are expected to decline somewhat

Commodity Price Indices
(2008:Q1= 100)

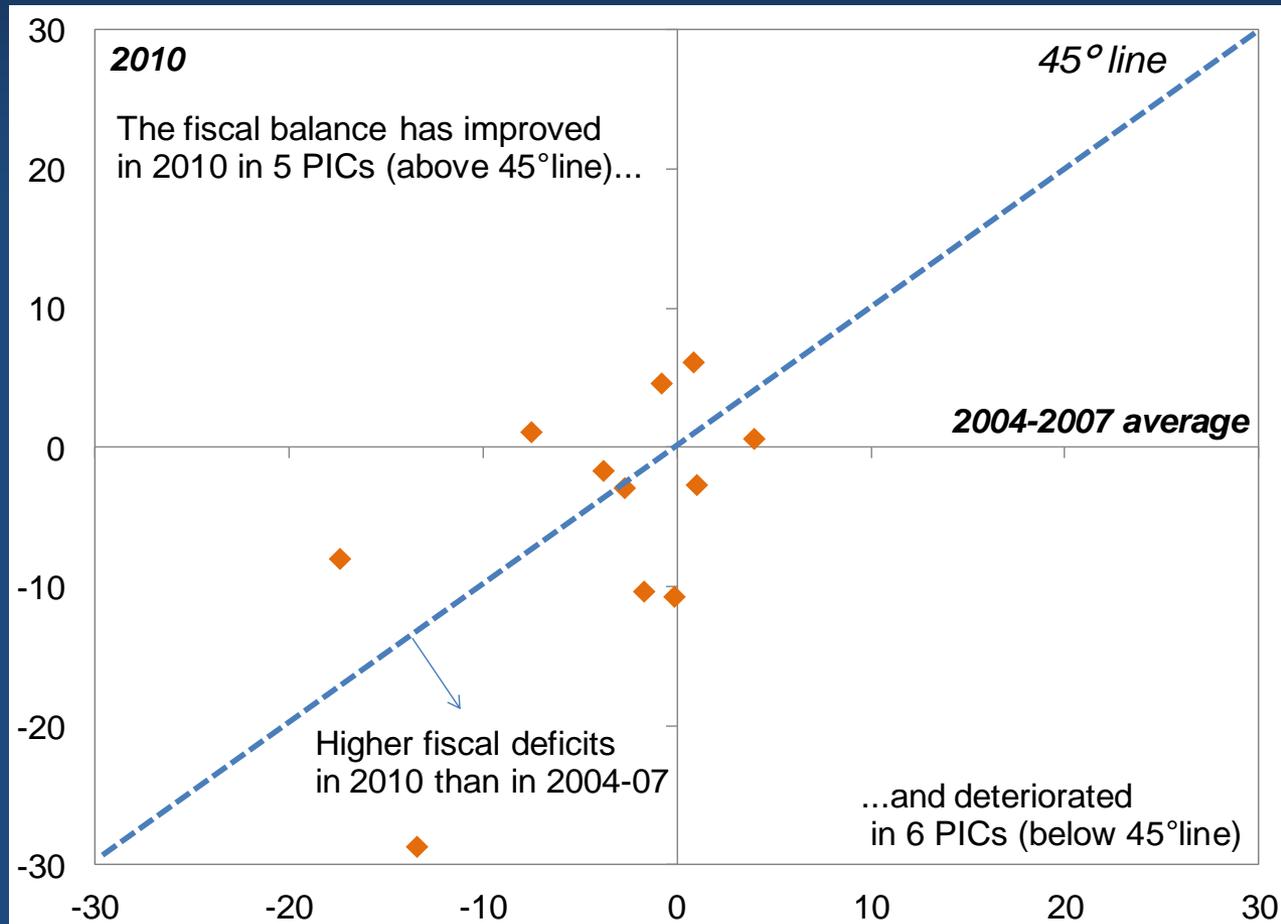


Rebuilding Policy Buffers is Key

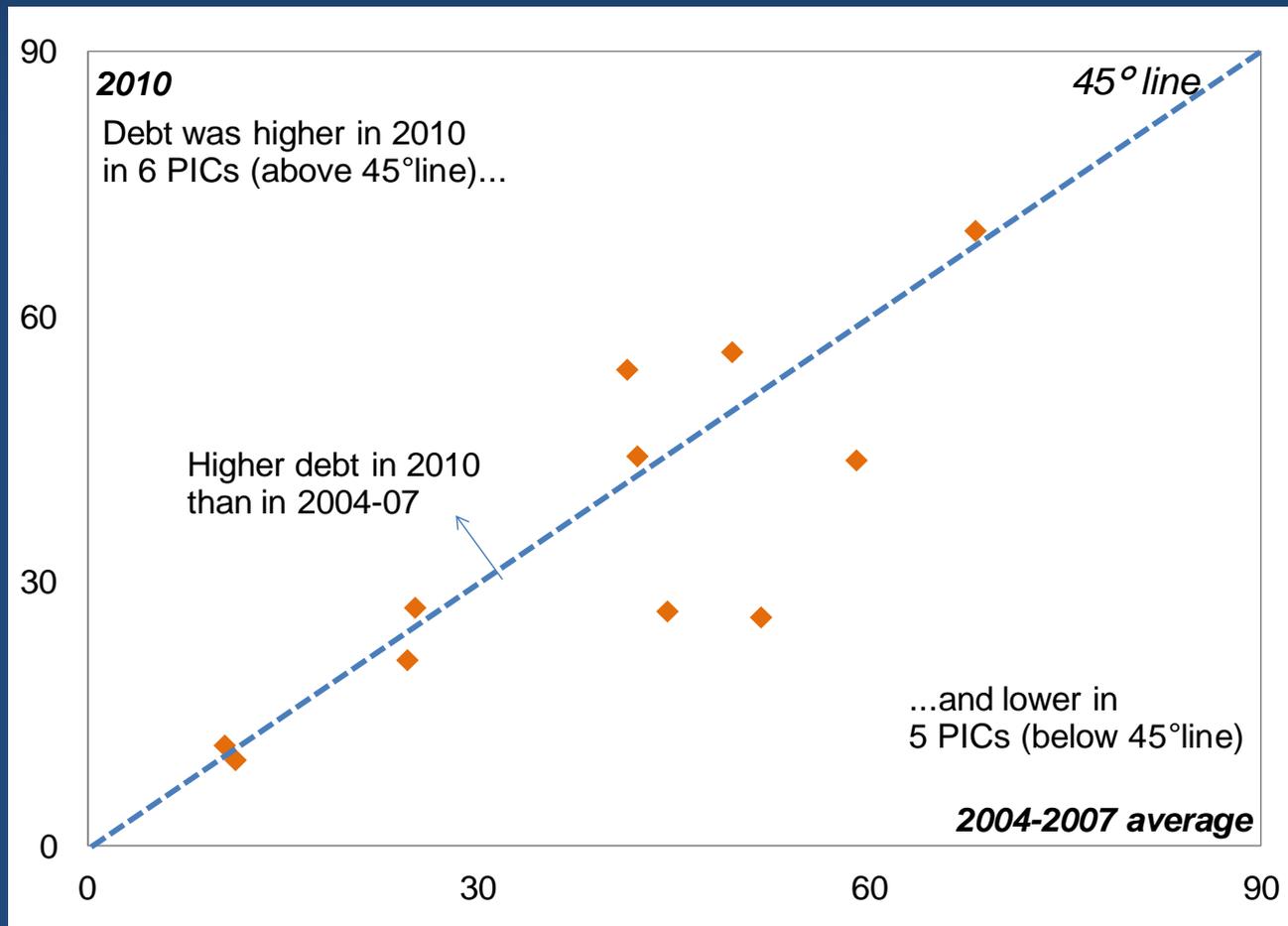
Overall Buffer Index: Mixed Picture across all Indicators



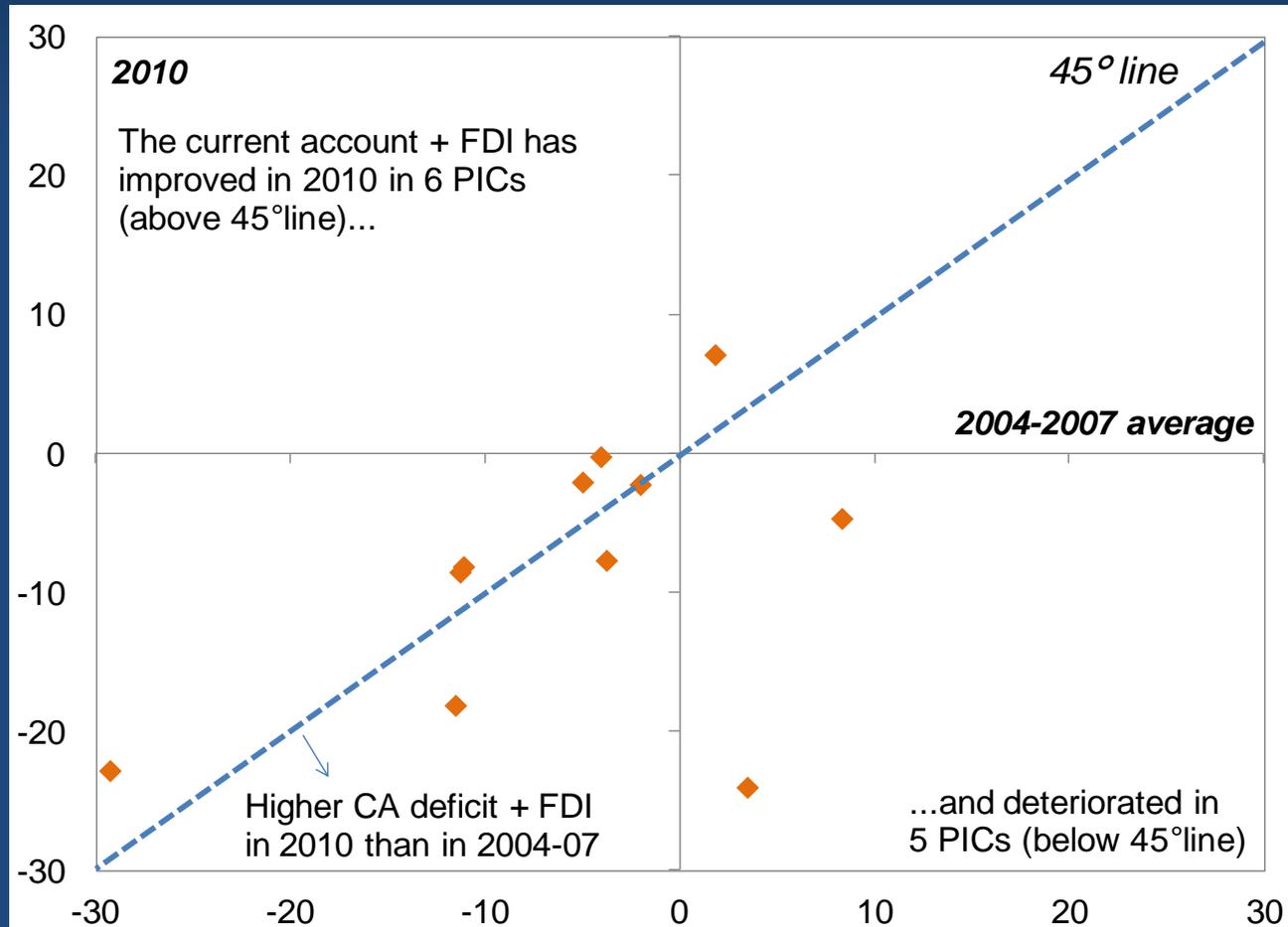
Fiscal Buffers (i.e. fiscal balance and debt) have improved in half of the PICs... and deteriorated in the others



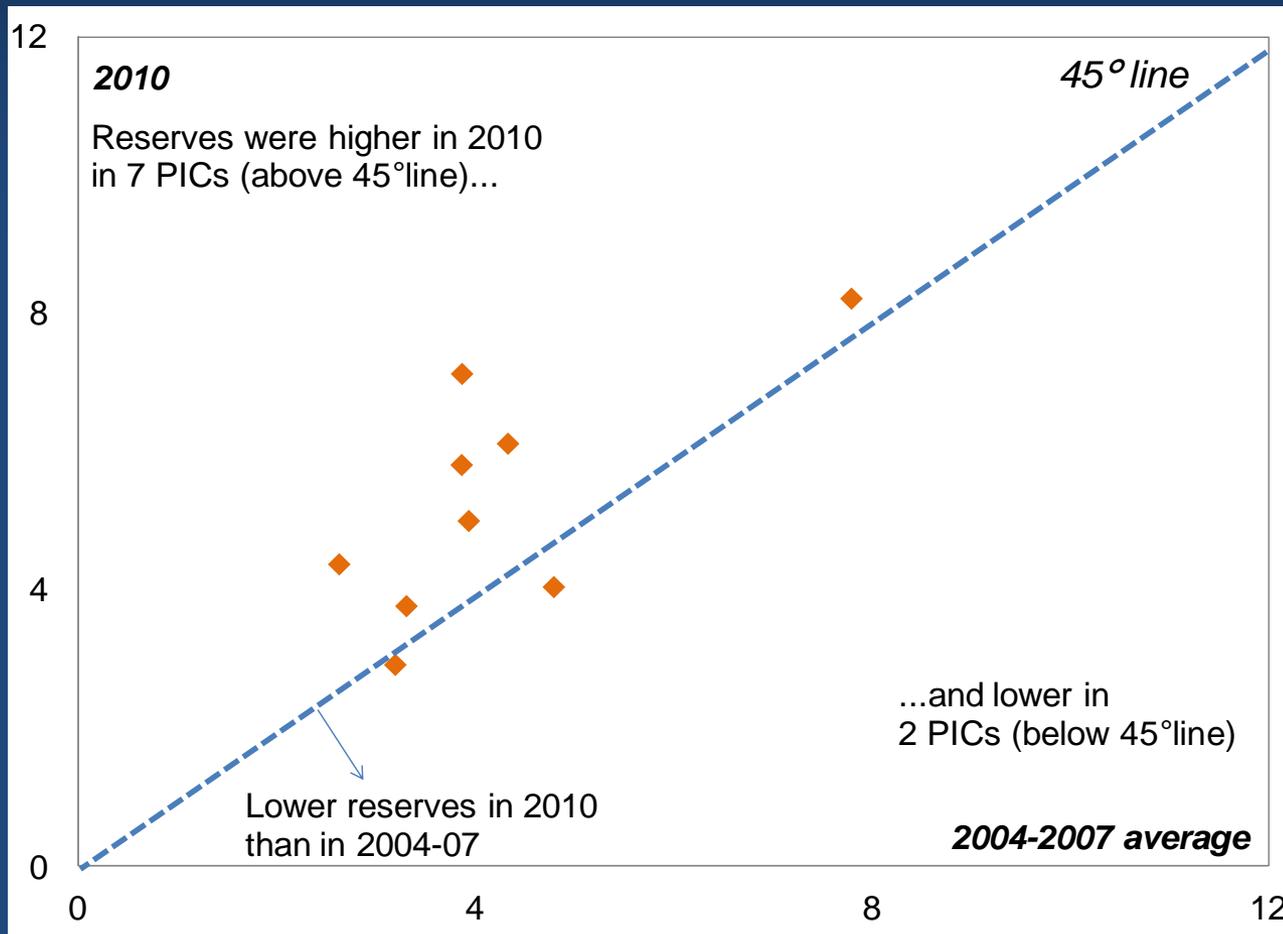
Public debt has fallen in several countries but remain high and rising in some



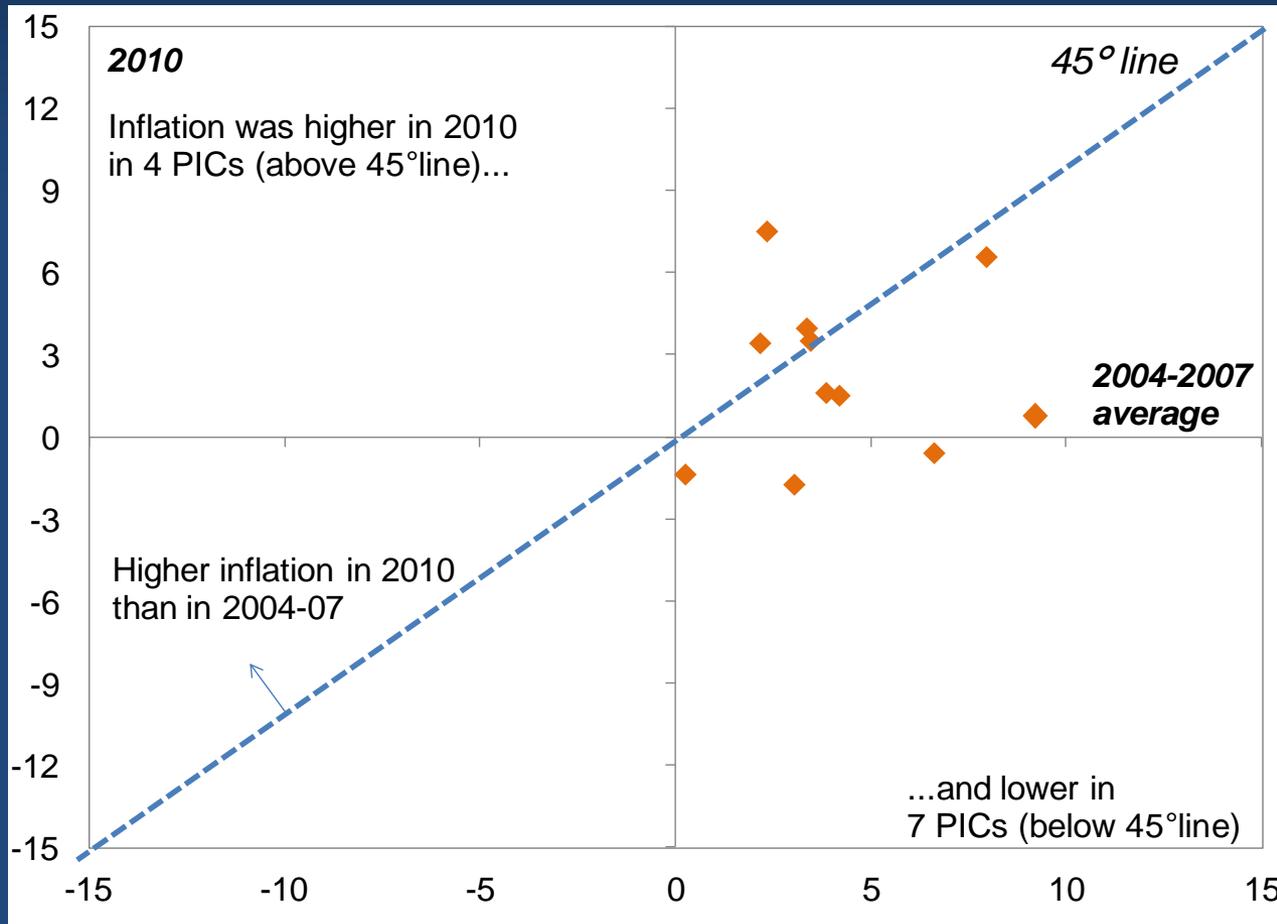
External vulnerability shows a mixed picture too



Reserves are higher, but often a result of slow growth and generous aid

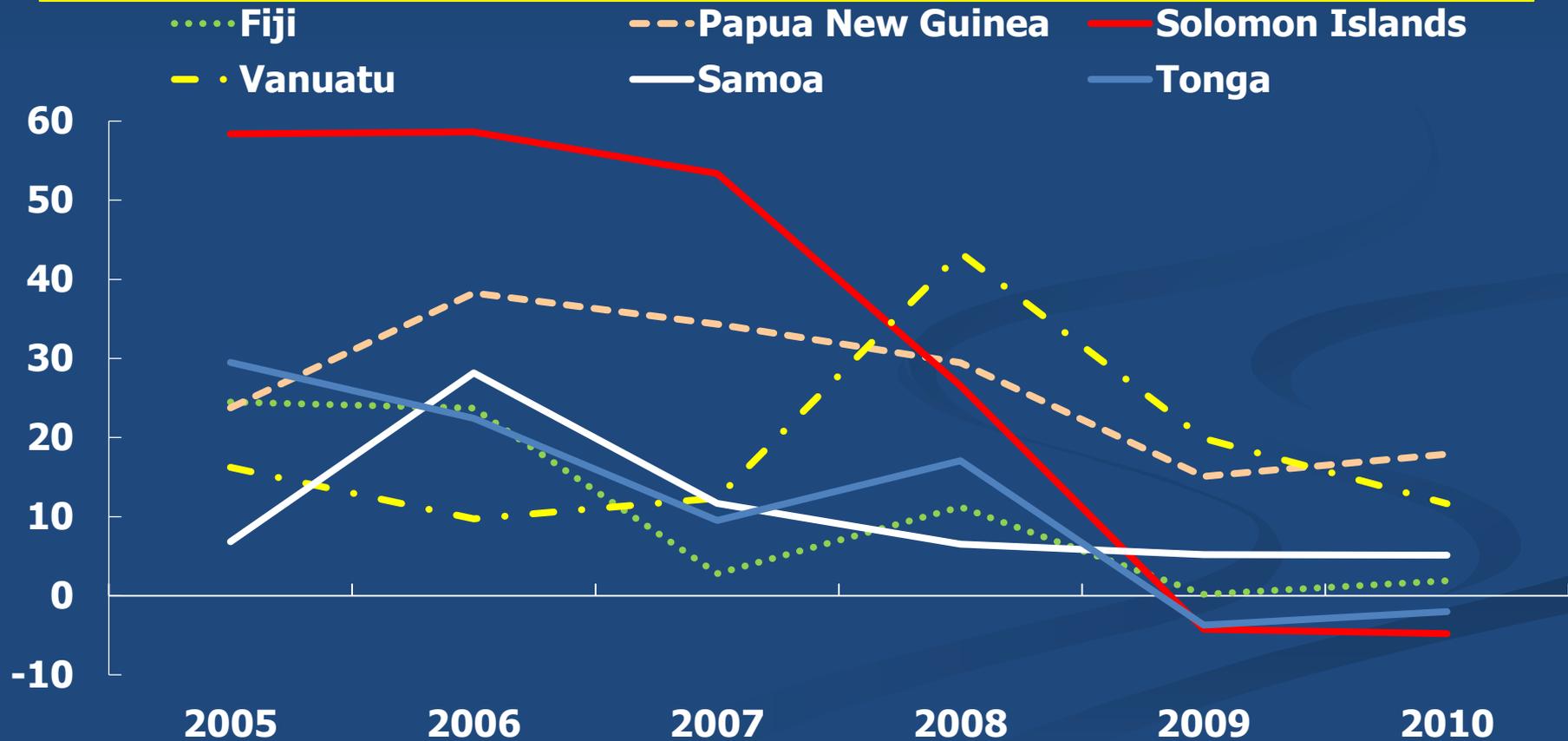


Inflation has been lower than in the past in some PICs



Credit growth has been sluggish in most countries despite monetary easing

Domestic Credit to Private Sector (Year-on-year percentage change)



Policy Challenges—Short Run

- Fiscal policy: how to balance supporting growth and maintaining long-run debt sustainability?
- Monetary policy: how to boost credit growth to the private sector? Any inflation risks?
- What role can exchange rate policy play in supporting growth and managing inflation?
- What should be the policy mix should a global severe impact materialize?

Policy Challenges—Long Run

- Structural reform: how to engender high, sustained, growth?
- How to increase economic resilience—broadening the economic base and building policy buffers?
- What role can central banks play in achieving high, sustained growth and increasing resilience?
- How can the IMF help?



THANK YOU

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