



**Asia-Pacific Regional Economic Outlook:
Navigating an Uncertain Global Environment
Manila, Philippines**

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Plan of the Presentation

Advanced Economies: Outlook and Risks

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

Emerging Asia: Outlook and Risks

- Still healthy growth
- Domestic demand holding
- But downside risks dominate

Emerging Asia: The Role of Policies

- Pause in tightening?
- Advancing rebalancing demand
- Will help more inclusive growth

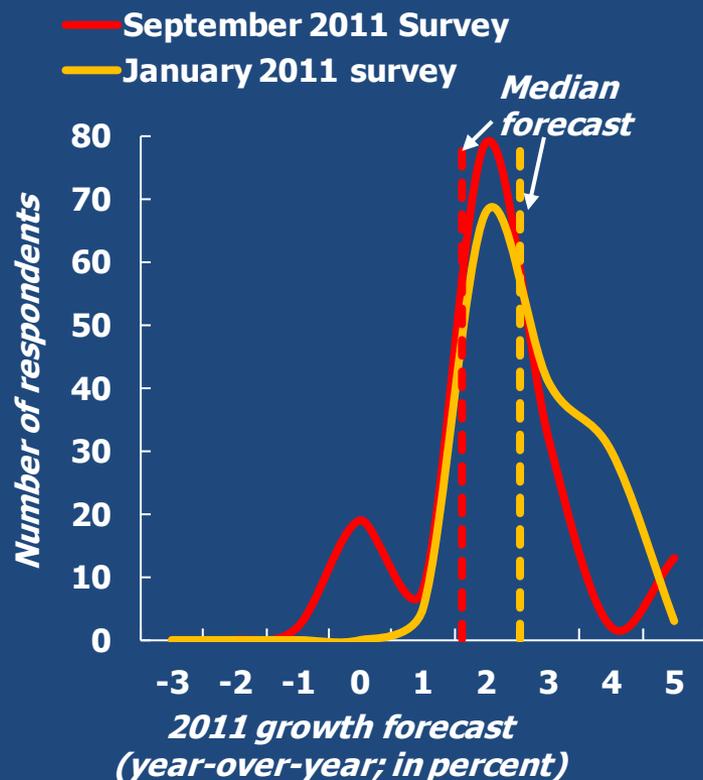


Advanced Economies Outlook and Risks

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

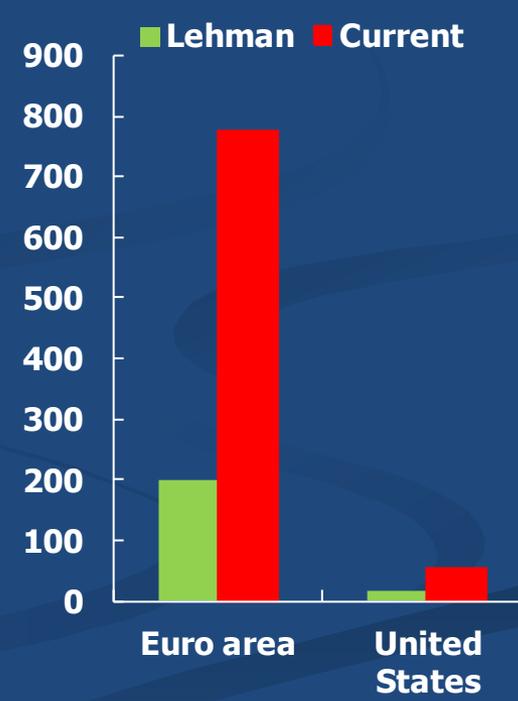


Is this Europe's Lehman?

Bank CDS spreads (5-year, basis points)



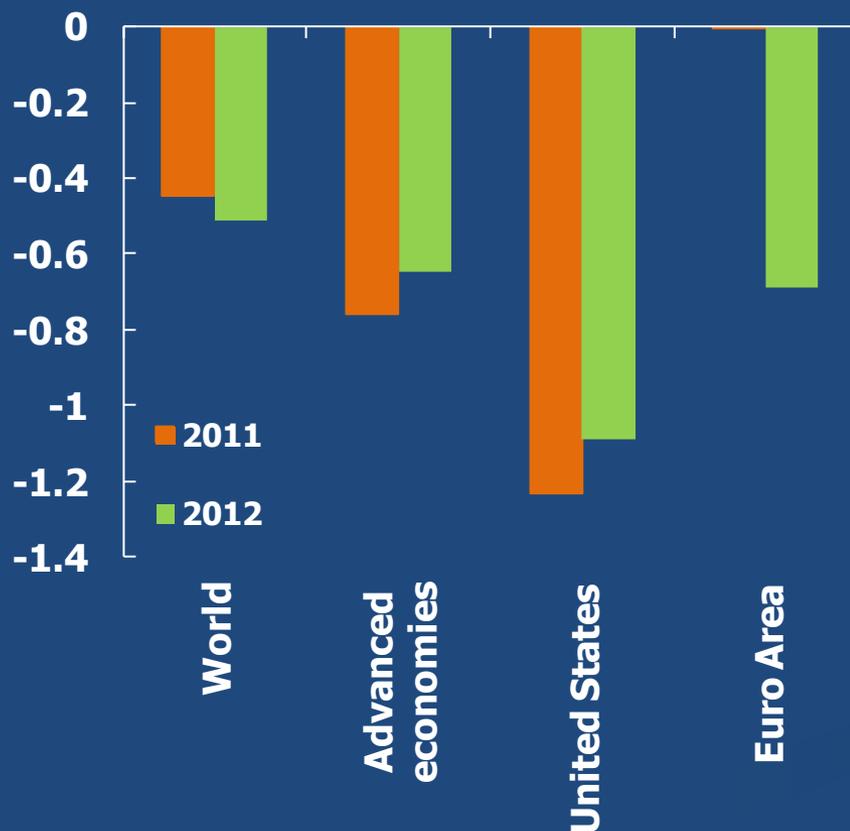
Sovereign CDS spreads (5-year, basis points)



Note: Current refers to end-September.

Global growth has been revised down

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

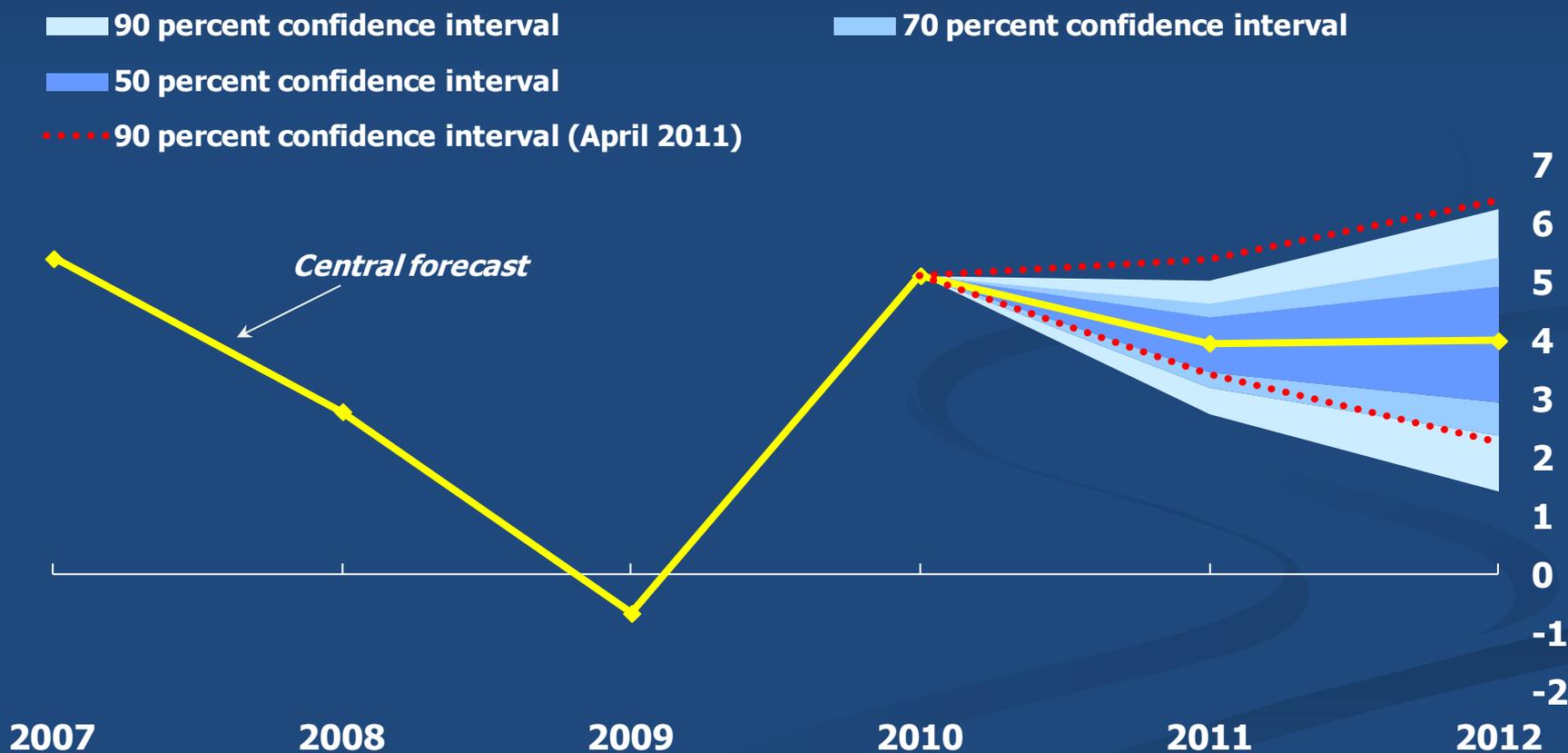


World GDP Growth
(Year-over-year; in percent)

	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)

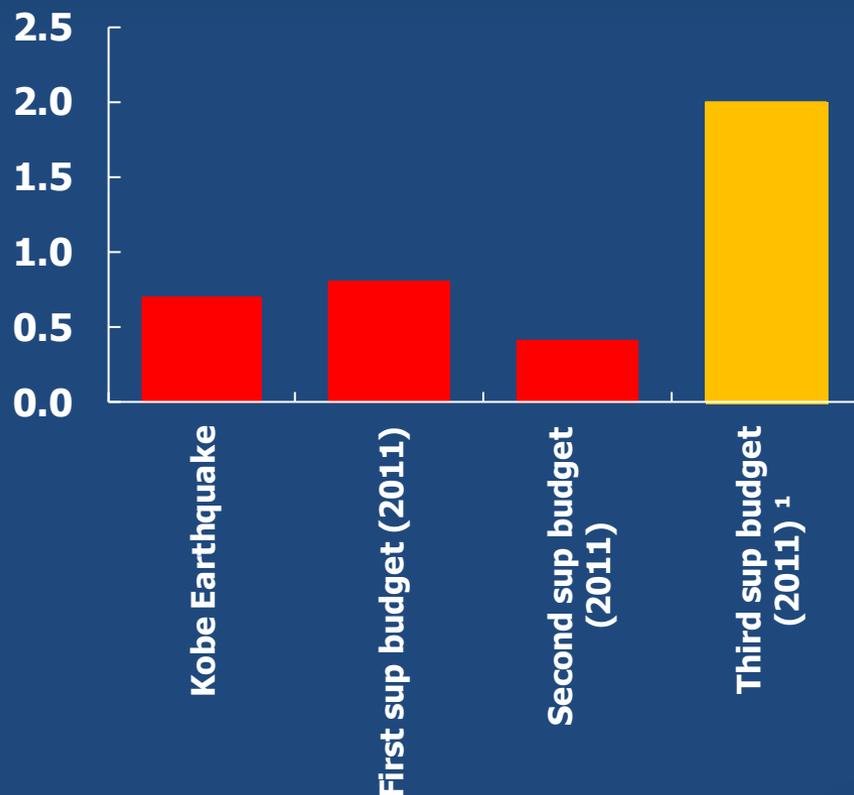


Japan: Reconstruction spending should lift growth in 2012

Private sector's recovery is weak

Size of Reconstruction Spending

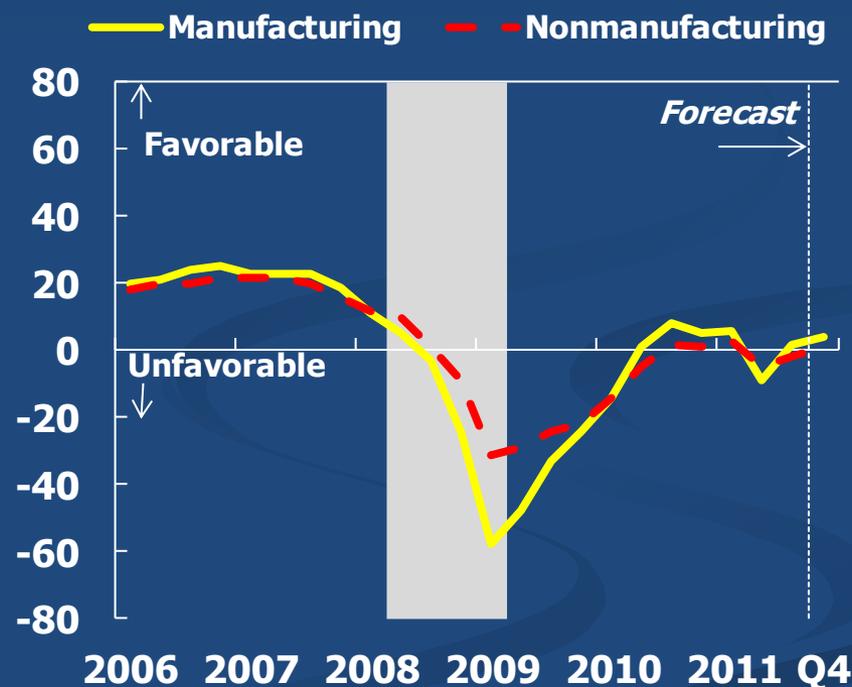
(In percent of GDP)



¹ IMF staff projections

Business Conditions for Large Enterprises

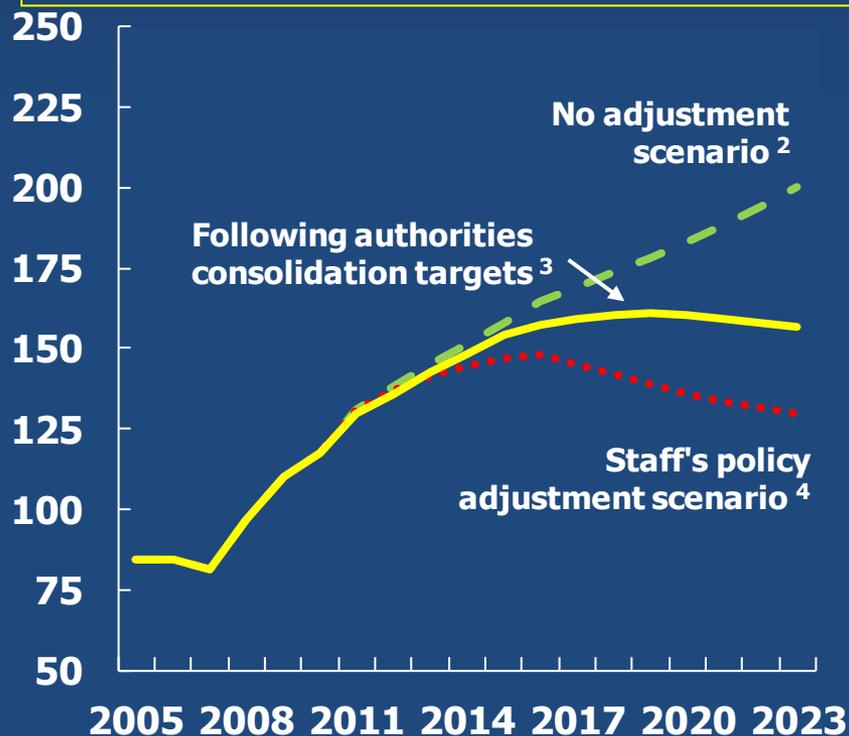
(In percent)



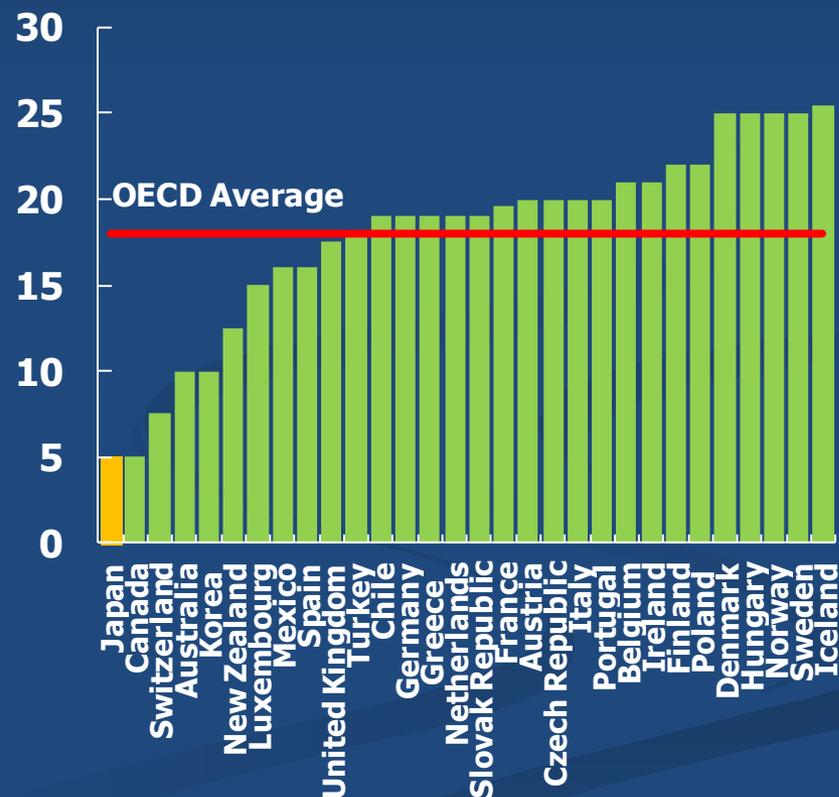
Note: Shaded area indicate periods of recession according to the Cabinet Office. There is no continuity between the figures up to the December 2003 survey and those from the March 2004 survey.

Japan's main fiscal challenge: Strategy to reduce public debt

Japan: Net Public Debt ¹
(In Percent of GDP)



OECD Economies: Standard VAT Rate, 2010
(In Percent)



¹ Net debt of the general government including the social security fund.

² No new tax measures are assumed.

³ IMF staff estimates.

⁴ Policy adjustment scenario assumes a 10 percent of GDP improvement (7.5 percent of GDP relative to no adjustment scenario) of the structural primary balance during 2010–20.



Emerging Asia Outlook and Risks

Growth in emerging Asia moderating

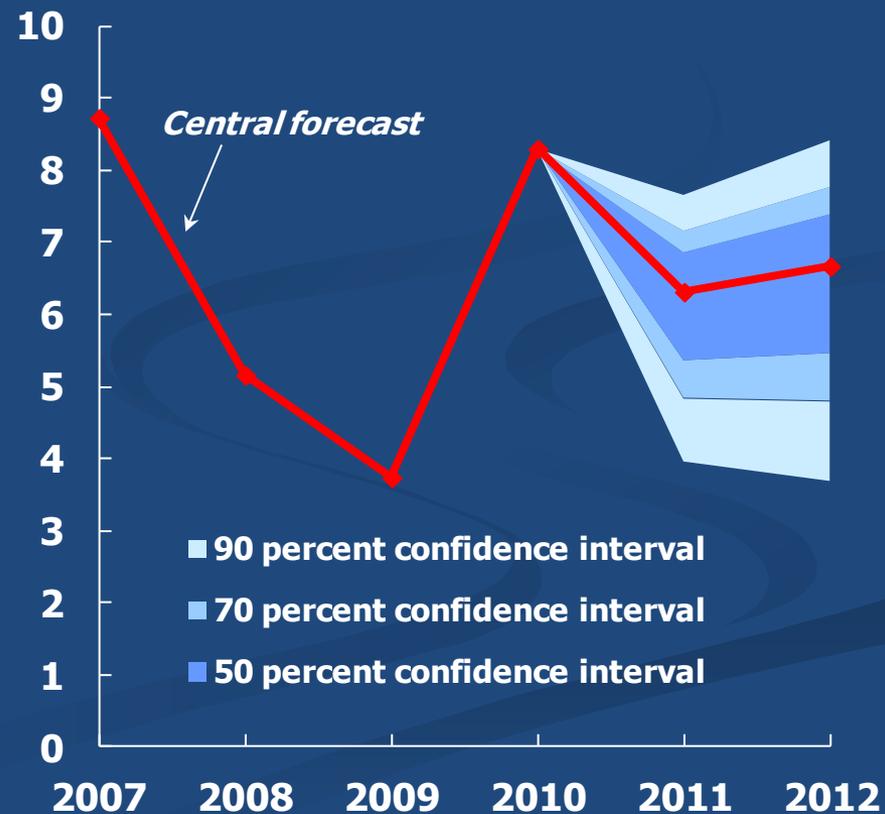
But risks tilted decidedly to the downside

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

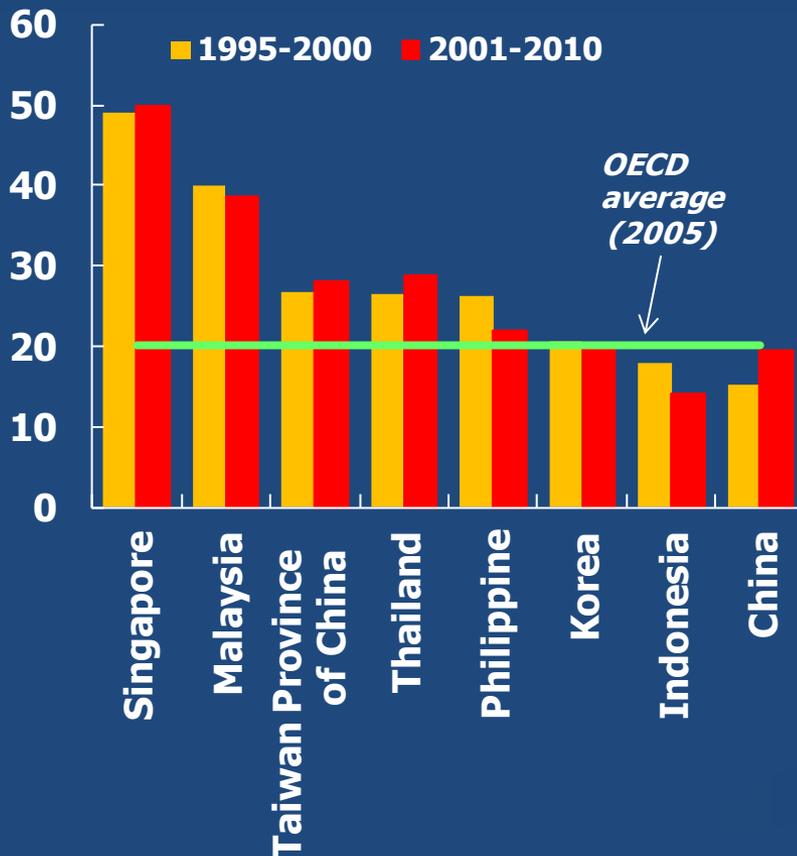
(Central forecast and selected confidence intervals; in percent)



Another global recession: Would hit emerging Asia hard through trade channel...

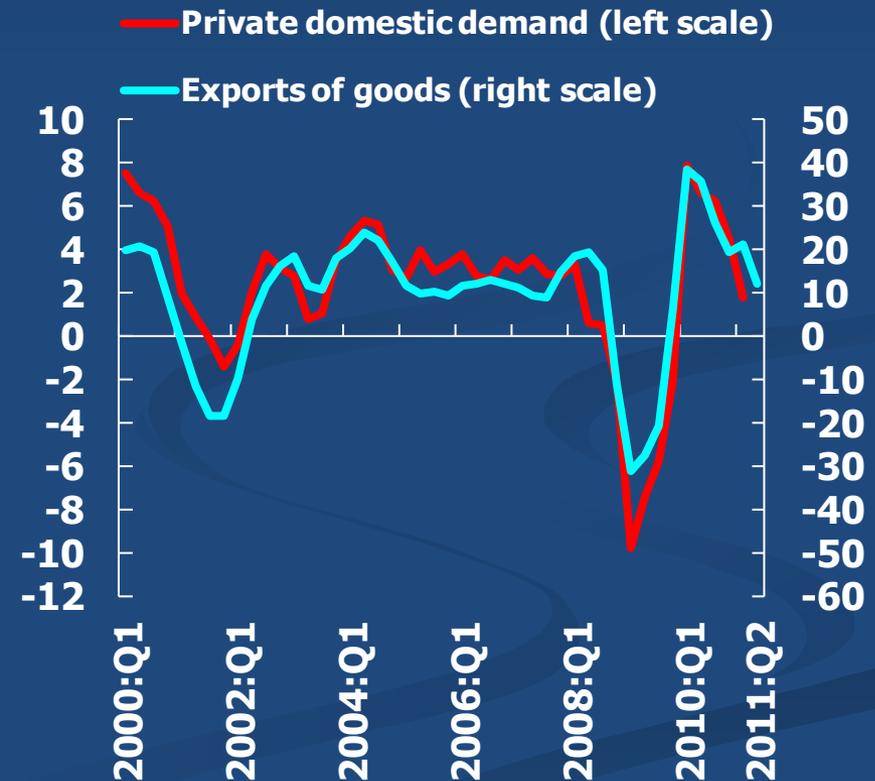
Selected Asia: Contribution of Non-Asian Final Demand to Value Added

(In percent of GDP)



Export-Oriented Asia: Private Domestic Demand and Exports

(Year over year percent change)



Note: Includes Japan, East Asia, Malaysia, Philippines, and Thailand.

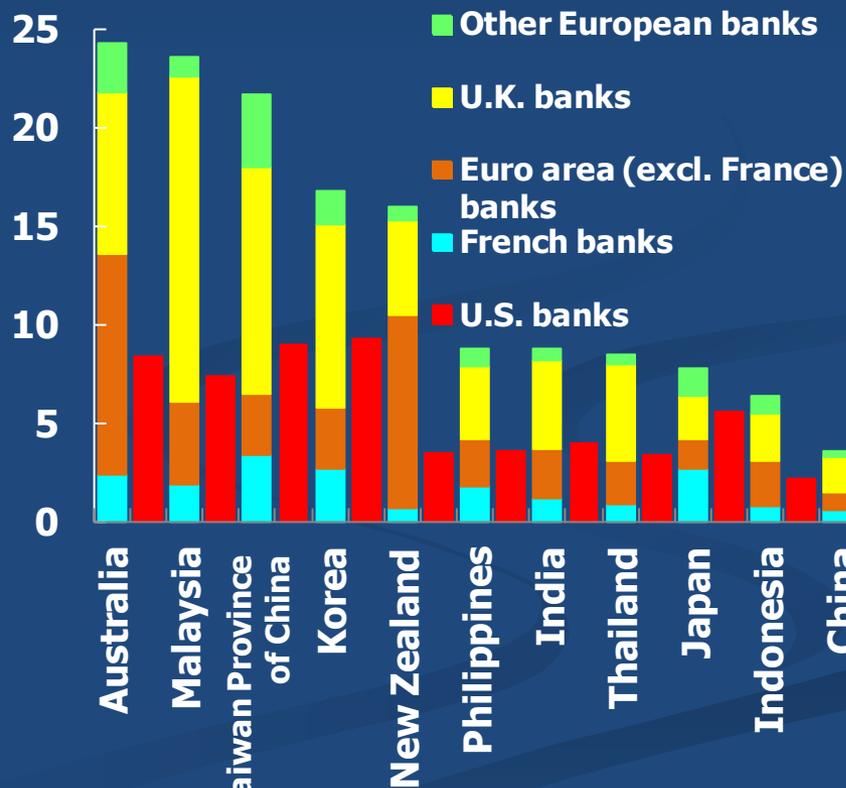
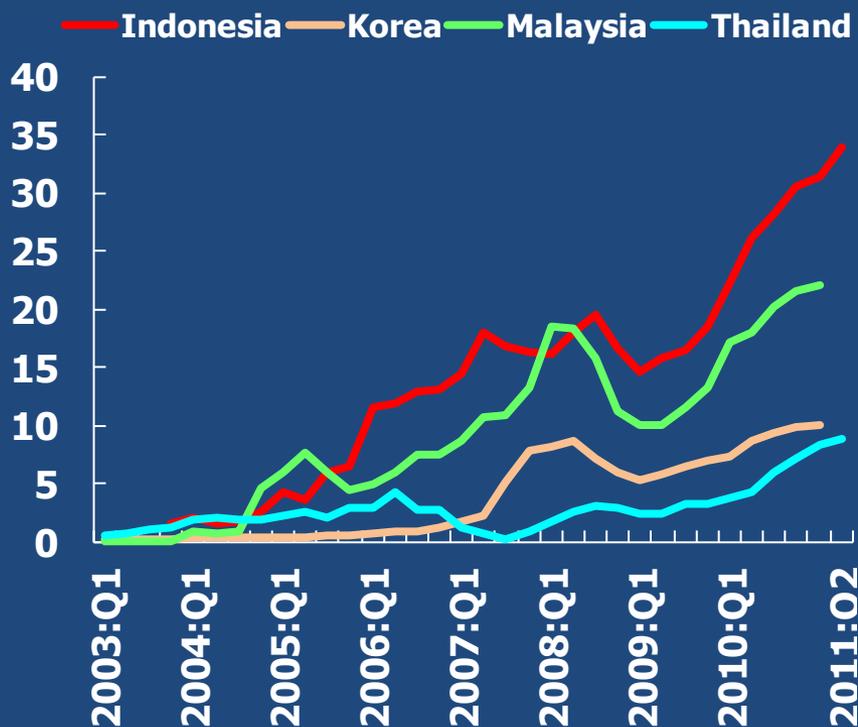
... and financial channel

Selected Asia: Foreign Holdings in Local Currency Government Bonds

(In percent of total outstanding local currency government bond)

Consolidated Claims of European and U.S. Banks on Selected Asia

(In percent of GDP)

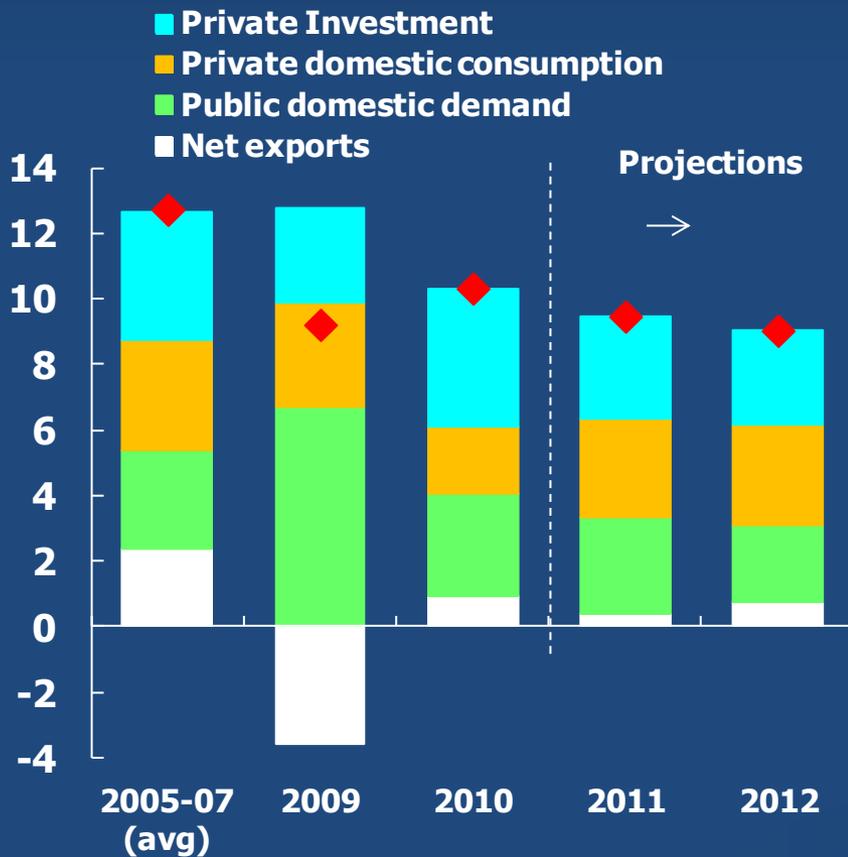


Note: Claims are on immediate borrower basis. Uses sum of quarterly GDP in U.S. dollar between 2010:Q2 and 2011:Q1 in the denominator.

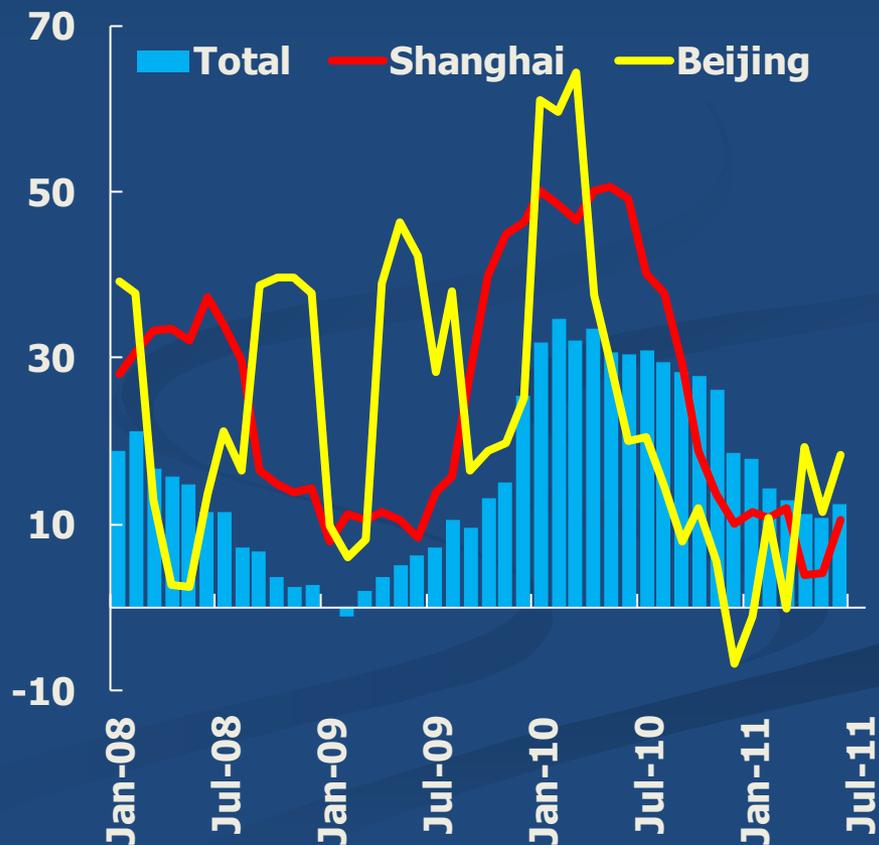
China: Growth still robust

Among risks: those from a property bubble

China: Contributions to GDP Growth
(In percentage points; year over year)



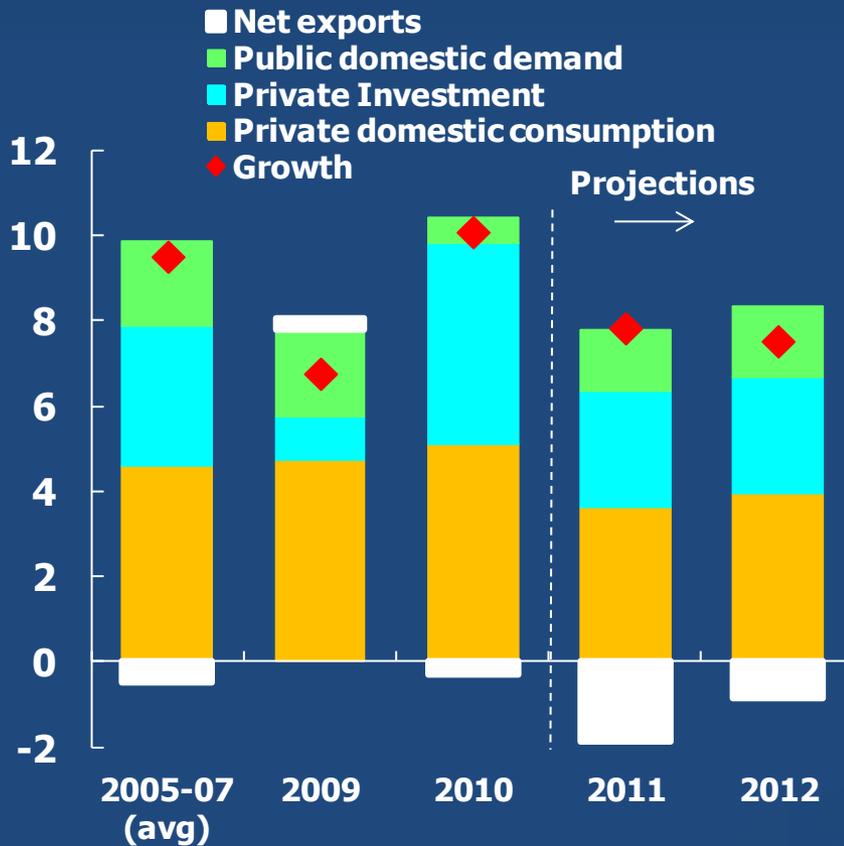
China: Property Prices
(In Percent, Year-on-year)



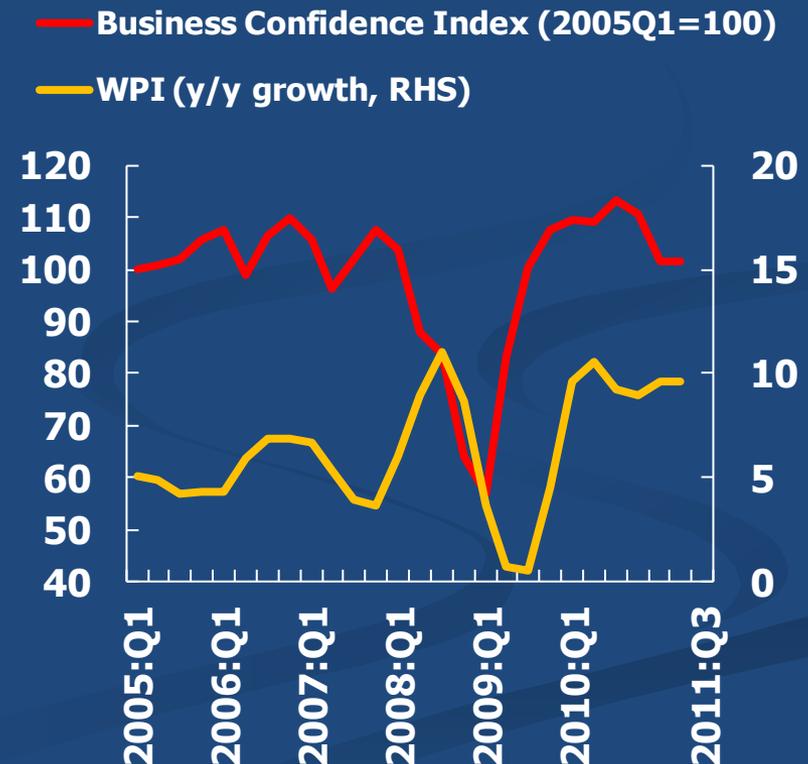
India: Growth underpinned by private consumption

But elevated inflation has weakened business confidence

India: Contributions to Real GDP Growth
(In percentage points; year over year)



India: Business Confidence Index

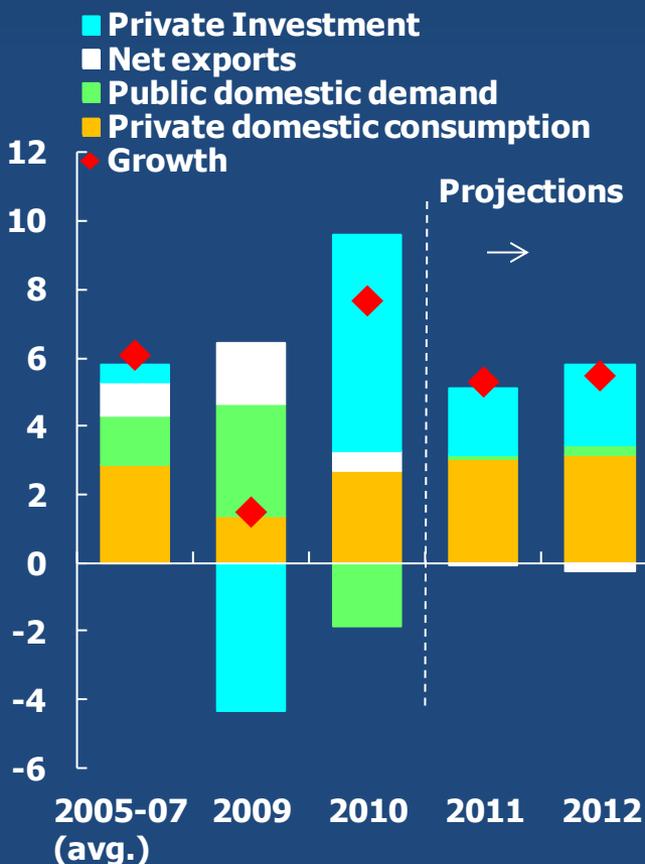


Despite slowing, ASEAN growth remains healthy

Some continuing overheating pressures

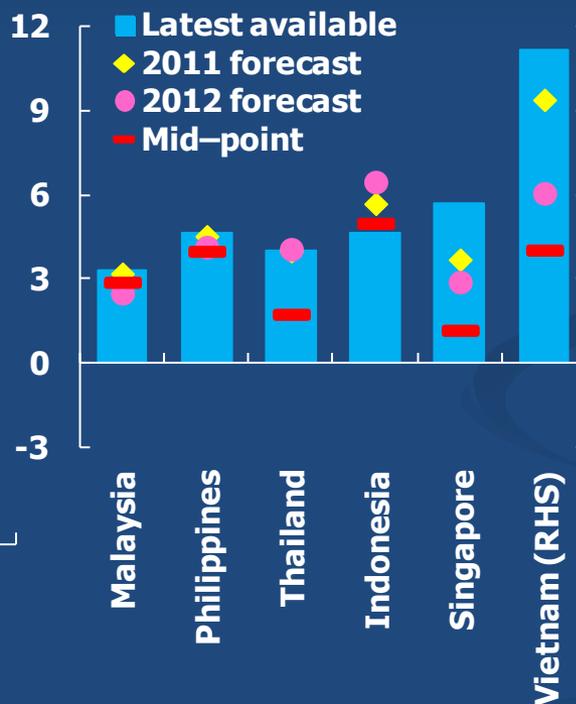
ASEAN: Contributions to Projected Growth

(In percentage points; year over year)



ASEAN: Headline Consumer Price Inflation

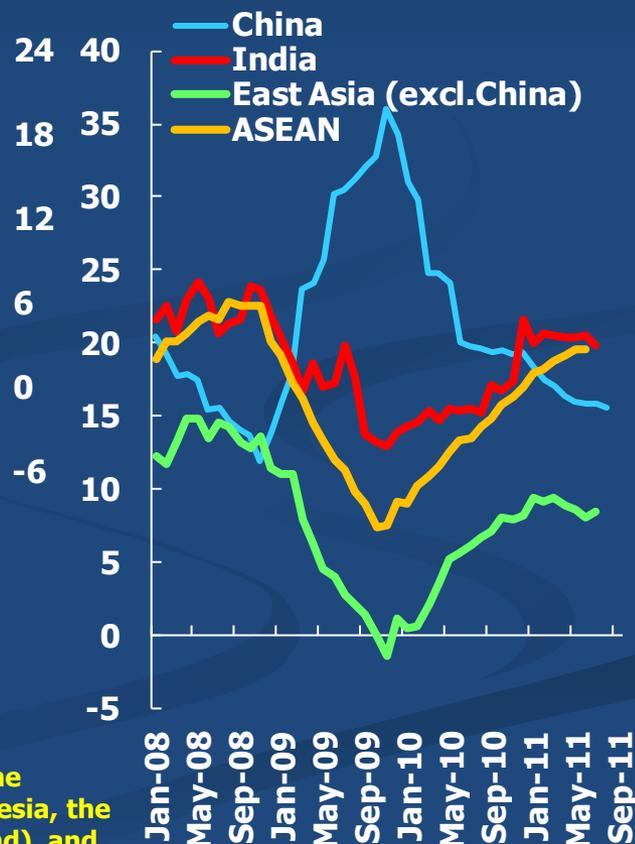
(Year over year; in percent)



Note: Mid-point refers to the center of the inflation target band (headline for Indonesia, the Philippines; and core inflation for Thailand), and average headline inflation over 2005-07 for other economies.

Emerging Asia: Credit growth

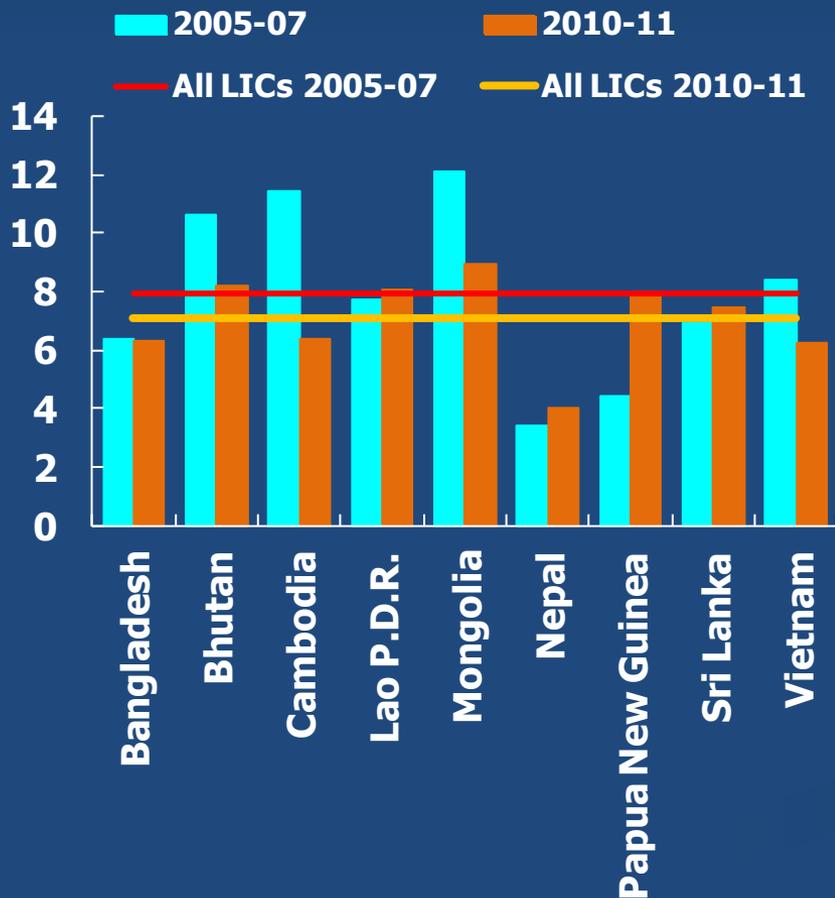
(Year-on-year percent change)



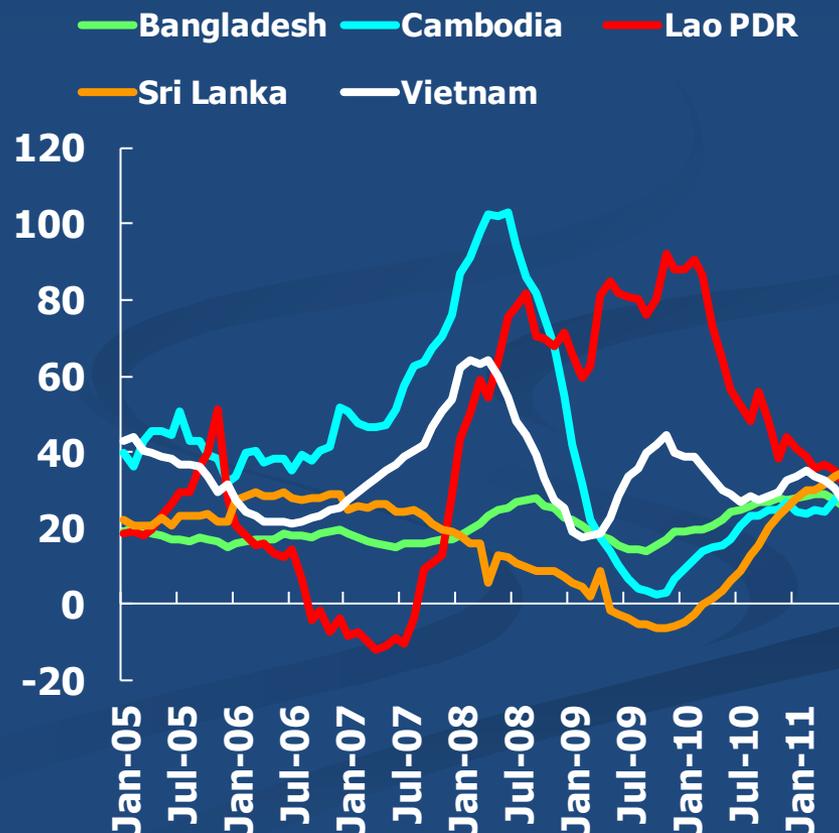
LICs: growth remain below pre-crisis levels

Risks from weak asset quality

Asian LICs: Real GDP Growth
(Average; year over year; in percent)



Asian LICs: Private Sector Credit
(Year over year percent change)



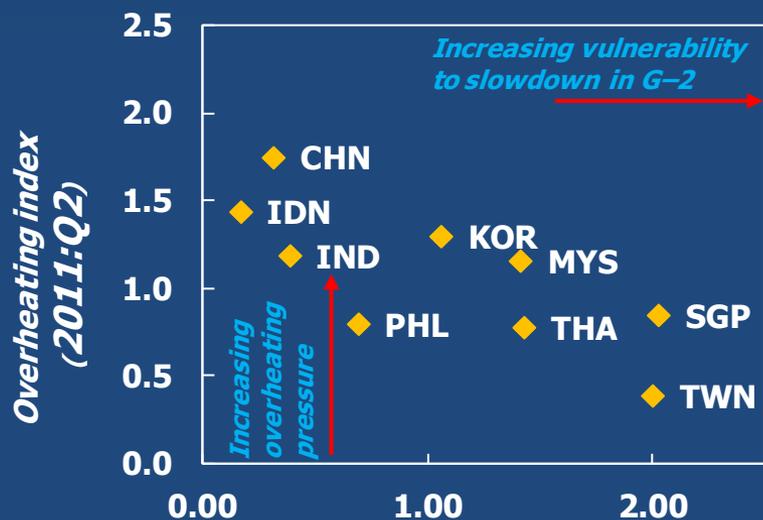


Emerging Asia

The Role of Policies

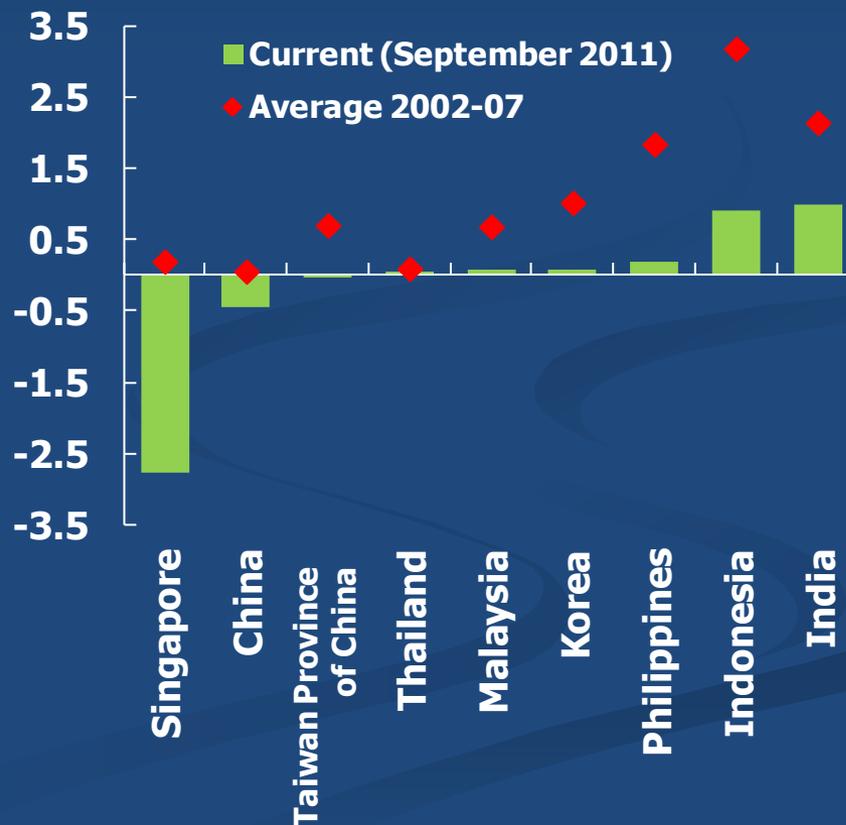
Do downside risks warrant a pause in monetary tightening?

Emerging Asia: Overheating Index and Vulnerability to a Slowdown in G2 Growth



Change (in percentage point) in GDP growth following a slowdown in growth in G-2 by 1 percentage point

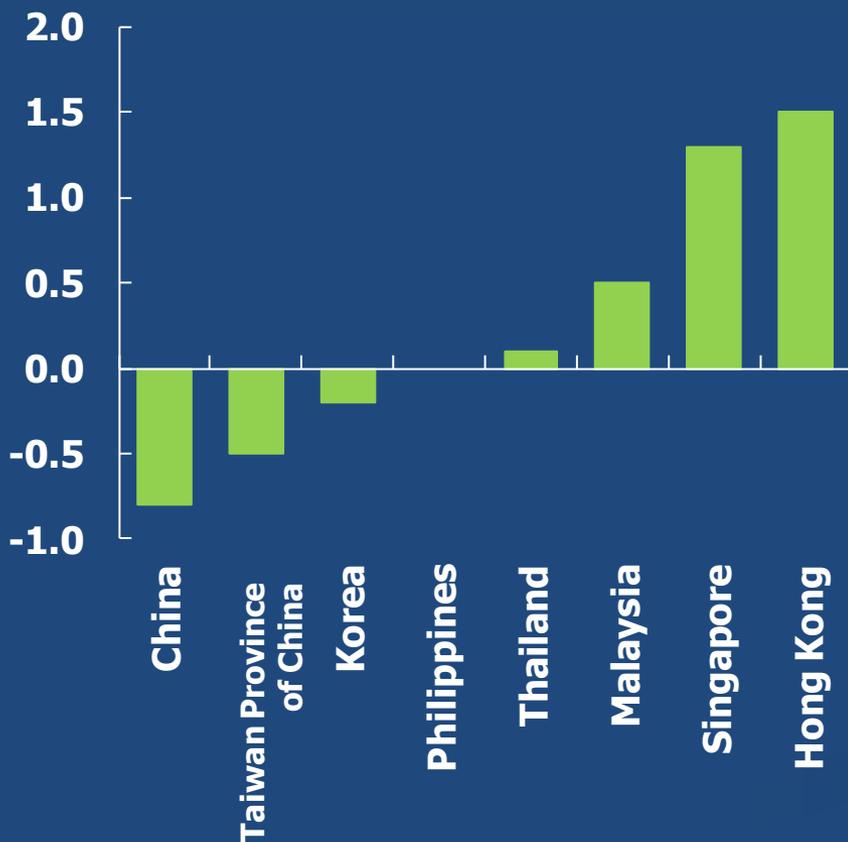
Emerging Asia: Real Policy Rates (In percent)



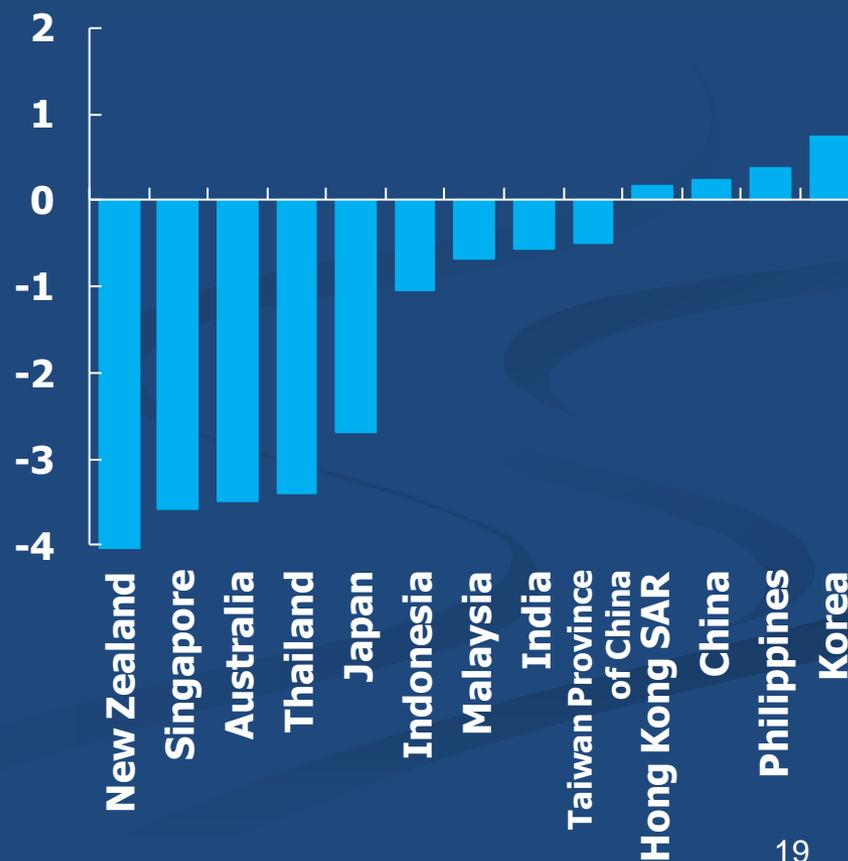
Note: Responses to a slowdown in G-2 growth are based on regression estimates, and include effects of discretionary policy measures.

Fiscal normalization: should be allowed to stay the course

Asia: Fiscal Impulse in 2011
(In percent of GDP)

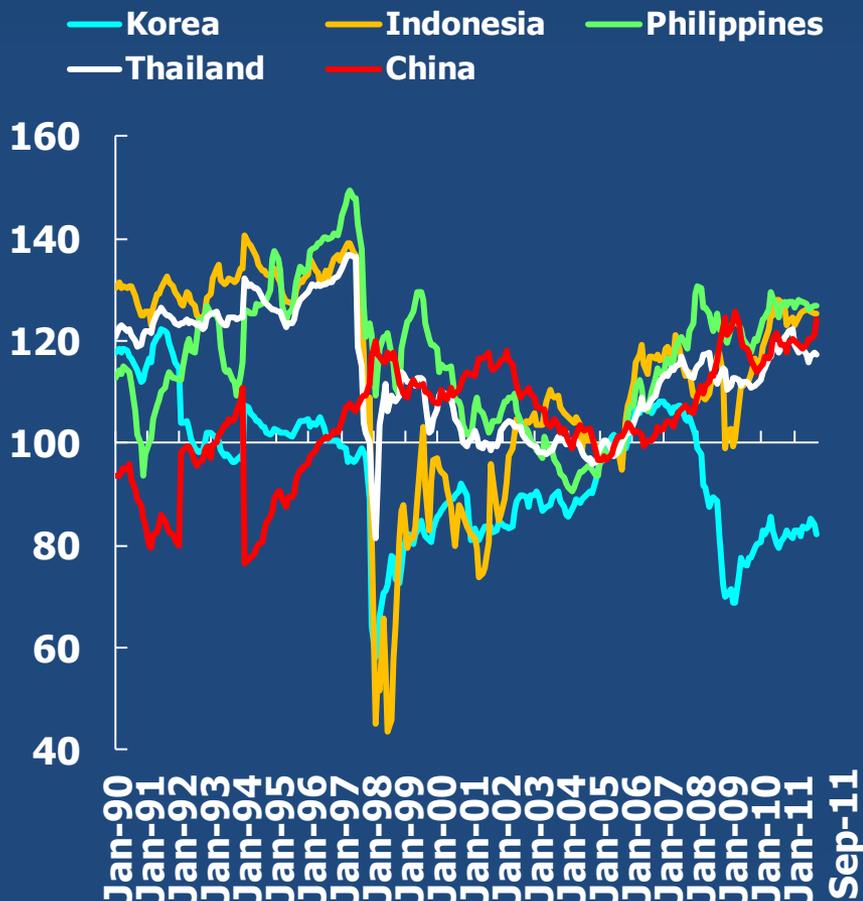


Asia: Cyclically Adjusted Fiscal Balances in 2012
(Deviation from 2002-07 average, percent of GDP)

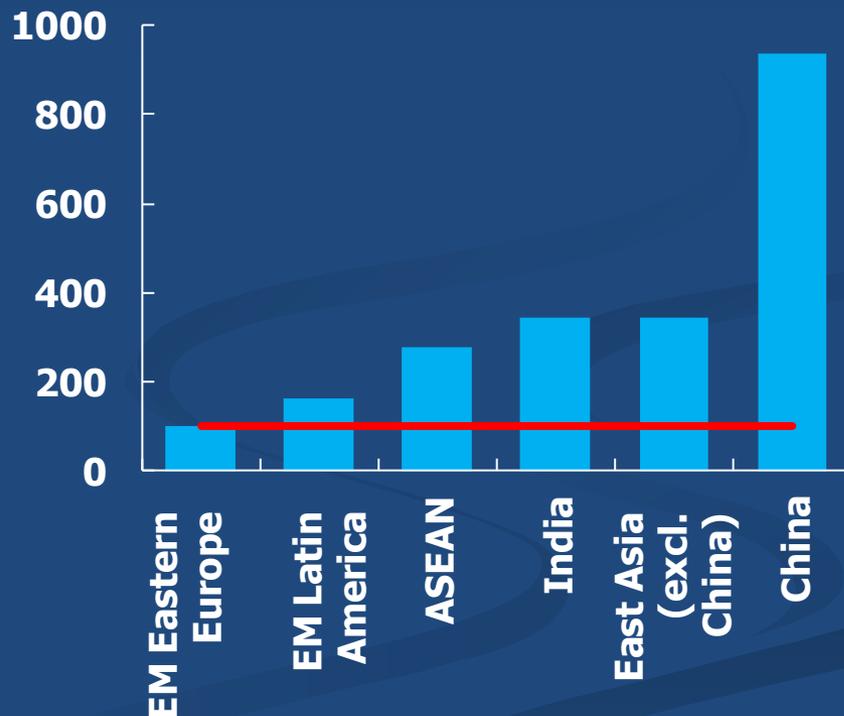


Exchange rates: room for further appreciation

Selected Asia: REER
(index, 2007=100)



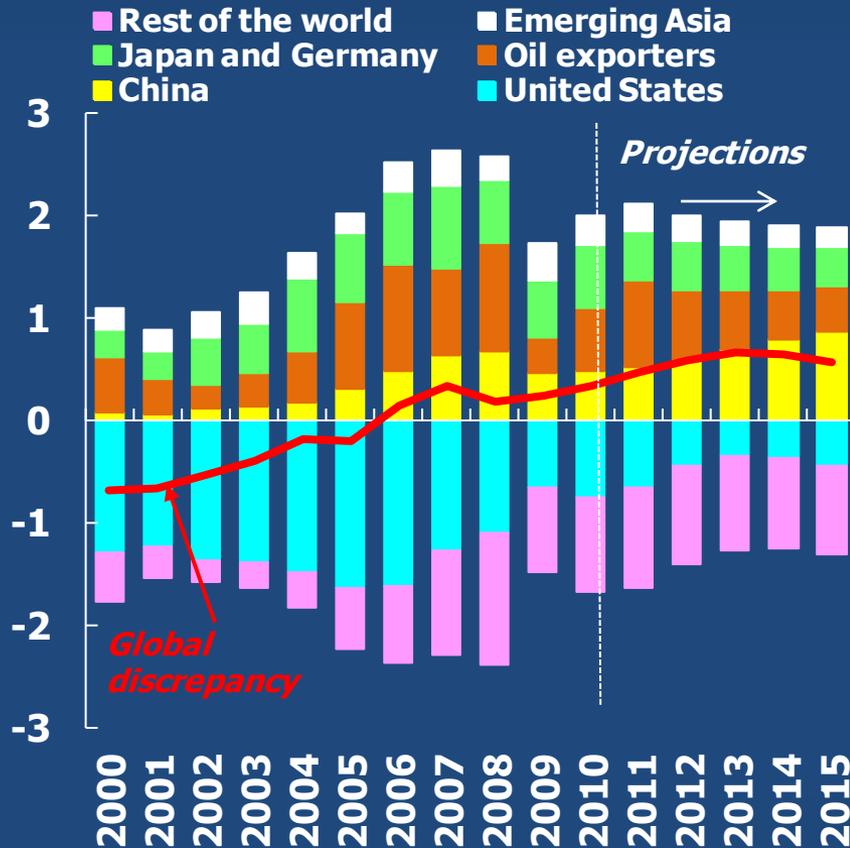
FX Reserves to Short Term Debt
(end of 2010, in remaining maturity basis)



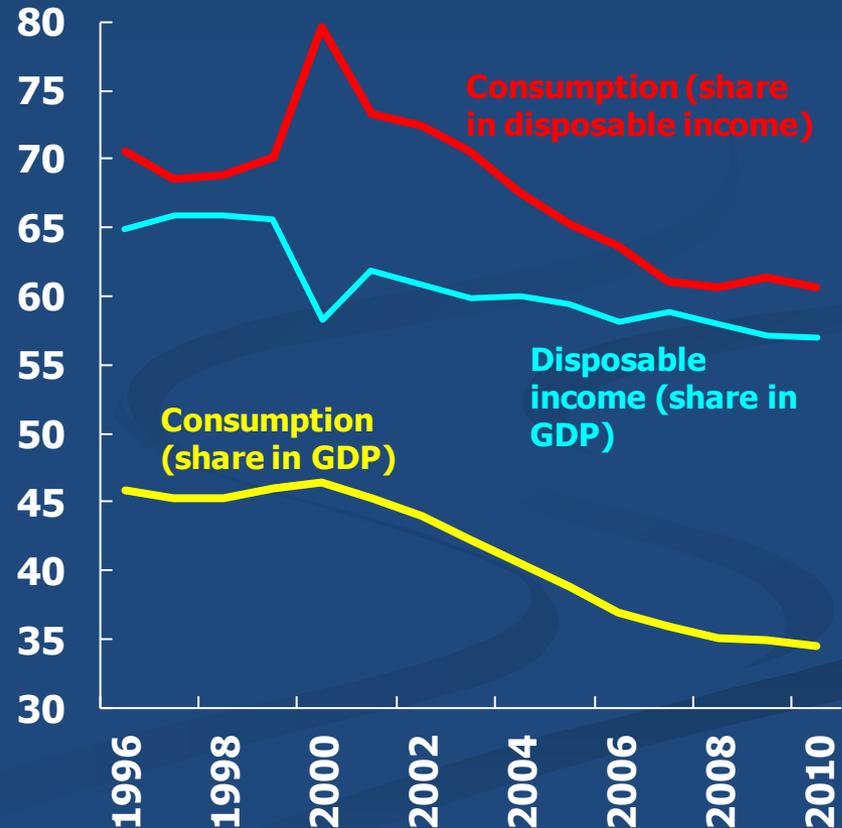
ASEAN includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

Case for advancing rebalancing: Would reduce the vulnerability to external shocks...

Global Current Account Balances
(in percent of world GDP)



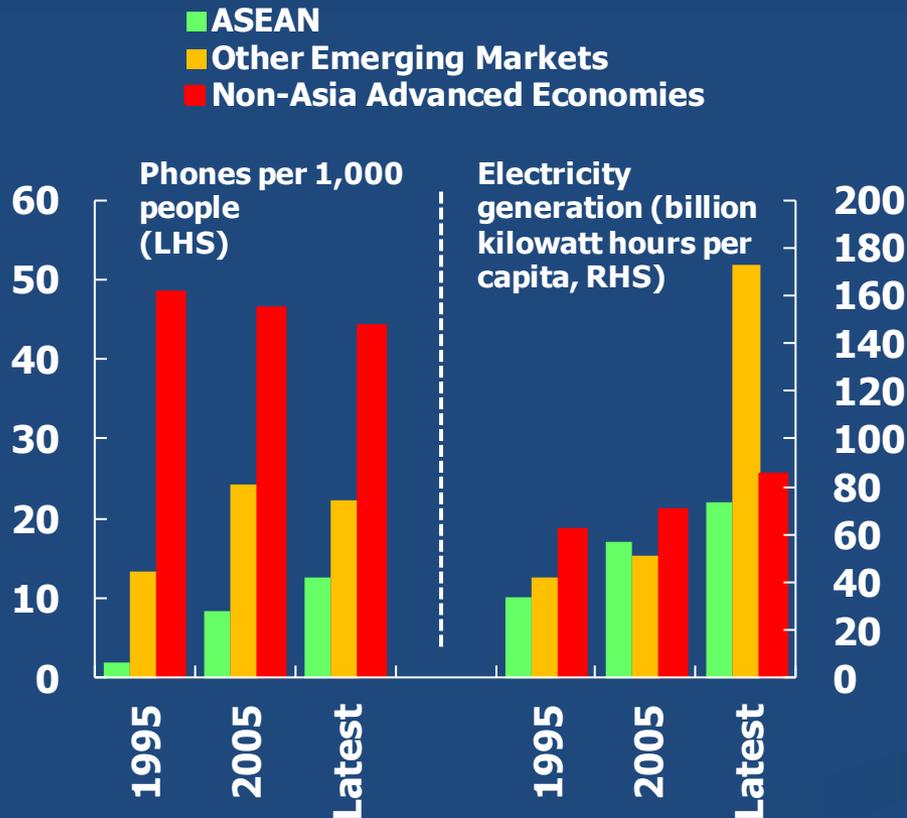
China: Household Consumption and Income
(in percent)



Rebalancing in ASEAN involves more infrastructure spending

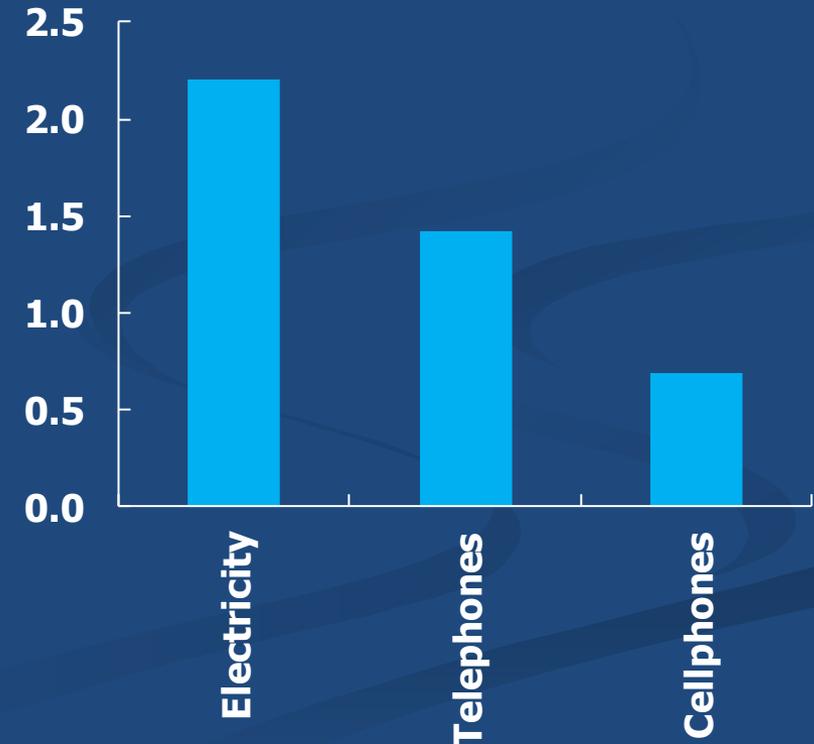
This would crowd in private investment and raise potential growth

Infrastructure Gap



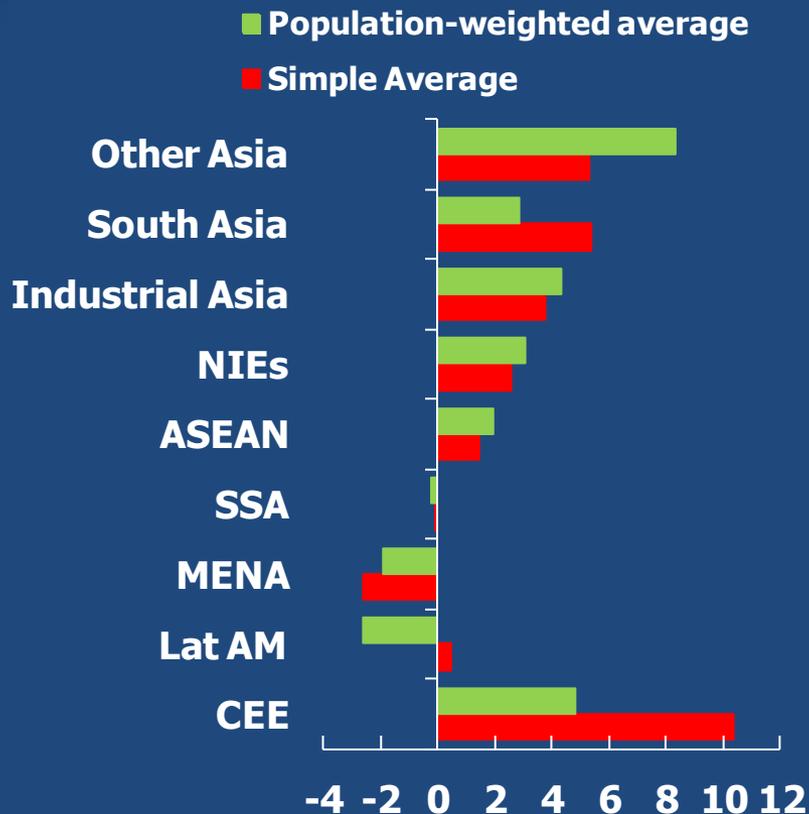
Effect of Infrastructure on Private Investment Spending

(In percent of GDP: increase associated with one percent increase in infrastructure)

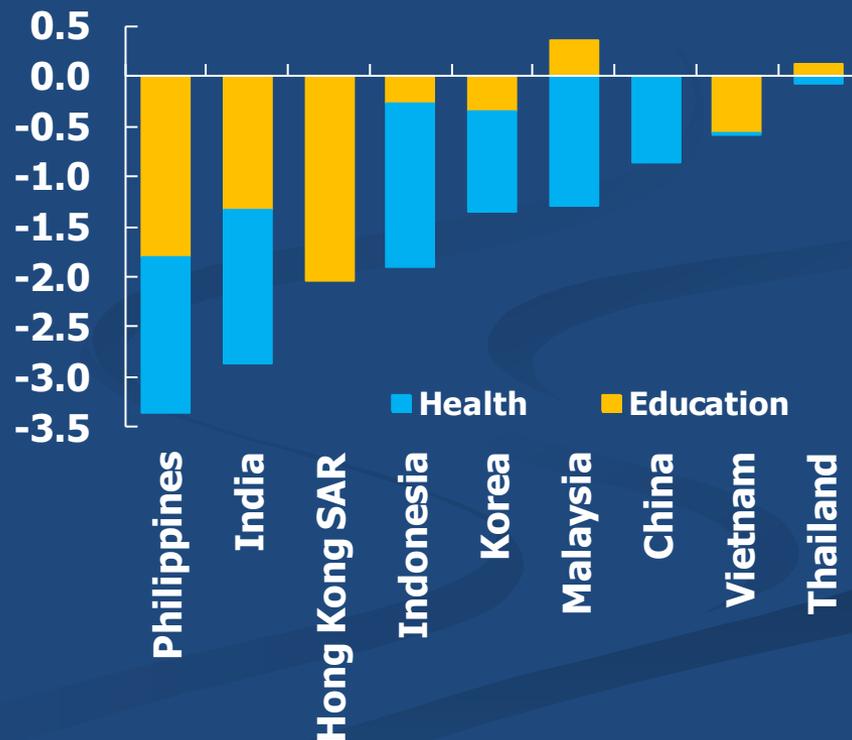


Rebalancing would help make growth more inclusive

EMs: Change in Gini Index, Last Two Decades
(In Gini points, since 1990)



Selected Asia: Deviation of Public Spending on Health and Education from a Model Based Benchmark
(In percent of GDP)



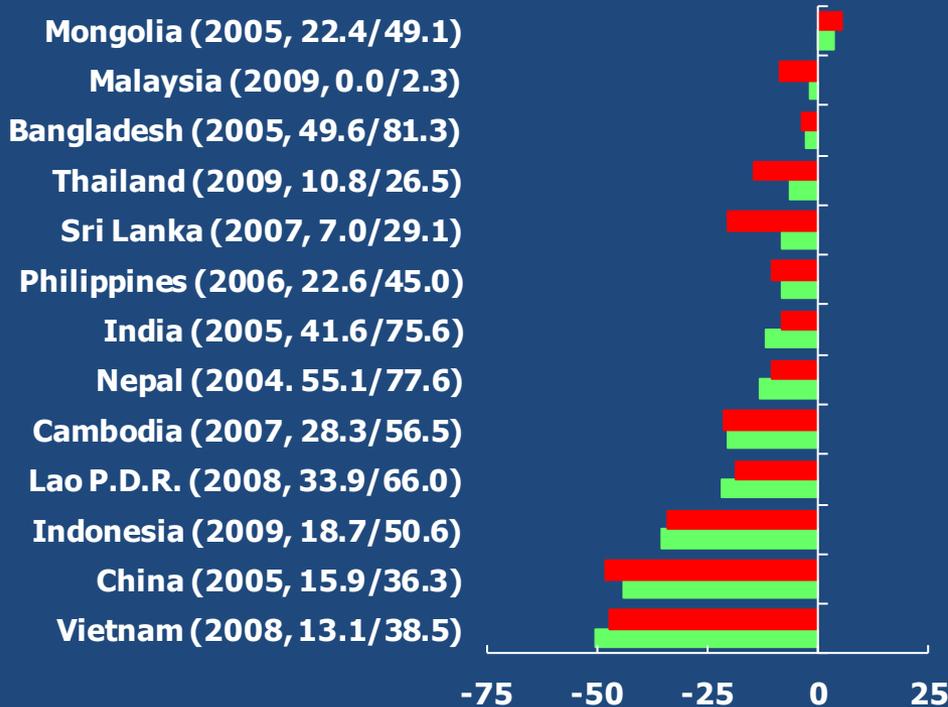
Note: Based on a sample of 171 developing and advanced economies.

In the Philippines, poverty reduction remains an issue

The Philippine Development Plan focuses on inclusive growth

Selected Asia: Change in Poverty Headcount
(In percentage points, since 1990)

■ At \$2 per day ■ At \$1.25 per day



Key measures for inclusive growth in the Philippine Development Plan:

- Infrastructure investment
- Governance reform
- Investment in education and health
- Supporting the poor

At 2005 PPP prices.



Conclusions (1)

What are the main policy priorities under the baseline?

- Asia is still expected to continue growing at a solid rate in 2011 and 2012. But downside risks from a weakening global economy have greatly intensified.
- Persistent weakness in advanced economies underscores the importance of shifting the growth model in Asia.
- This means advancing the policies needed for rebalancing and maintaining flexible exchange rates. This would help shift the engines for growth toward domestic demand and make growth more inclusive.
- In the near term, Asia should pause monetary tightening in those countries where there is room, to allow time for greater clarity on the prospects for the advanced economies.



Conclusions (2)

What if there is another global crisis/recession?

Asia has ample room to respond:

- Draw on abundant FX reserves or regional reserve pooling arrangements
- Shift aggressively to ease monetary policy
- Reverse fiscal consolidation (for those with fiscal space)
- Guarantees bank liabilities
- Deploy extraordinary measures (such as expansion of central bank balance sheets or exceptional liquidity provision) should rates approach the zero bound



THANK YOU.