

# Asia and the Pacific: Economic Outlook



PFTAC Steering Committee Meeting

March 27, 2018

Suva, Fiji



**REGIONAL OFFICE FOR  
ASIA AND THE PACIFIC**



# Growth in the region remains strong...

## Growth Projections: World and Selected Asia

(Percent change from a year earlier)

	World	U.S.	Euro Area	Japan	Emerging and Developing Asia	China	India*	ASEAN-5*	Australia	New Zealand	Pacific Island States
<b>2016</b>	<b>3.2</b>	<b>1.5</b>	<b>1.8</b>	<b>0.9</b>	<b>6.4</b>	<b>6.7</b>	<b>7.1</b>	<b>4.9</b>	<b>2.6</b>	<b>3.6</b>	<b>2.6</b>
<b>2017</b>	<b>3.7</b>	<b>2.3</b>	<b>2.4</b>	<b>1.8</b>	<b>6.5</b>	<b>6.8</b>	<b>6.7</b>	<b>5.3</b>	<b>2.2</b>	<b>3.5</b>	<b>3.3</b>
<b>2018</b>	<b>3.9</b>	<b>2.7</b>	<b>2.2</b>	<b>1.2</b>	<b>6.5</b>	<b>6.6</b>	<b>7.4</b>	<b>5.3</b>	<b>2.9</b>	<b>3.0</b>	<b>3.4</b>
Revision from Oct. 2017	0.2	0.4	0.3	0.5	0.0	0.1	0.0	0.1	0.0	N/A	N/A
<b>2019</b>	<b>3.9</b>	<b>2.5</b>	<b>1.9</b>	<b>0.9</b>	<b>6.6</b>	<b>6.4</b>	<b>7.8</b>	<b>5.3</b>	<b>3.1</b>	<b>2.5</b>	<b>3.1</b>
Revision from Oct. 2017	0.2	0.6	0.2	0.1	0.1	0.1	0.0	0.0	0.1	N/A	N/A

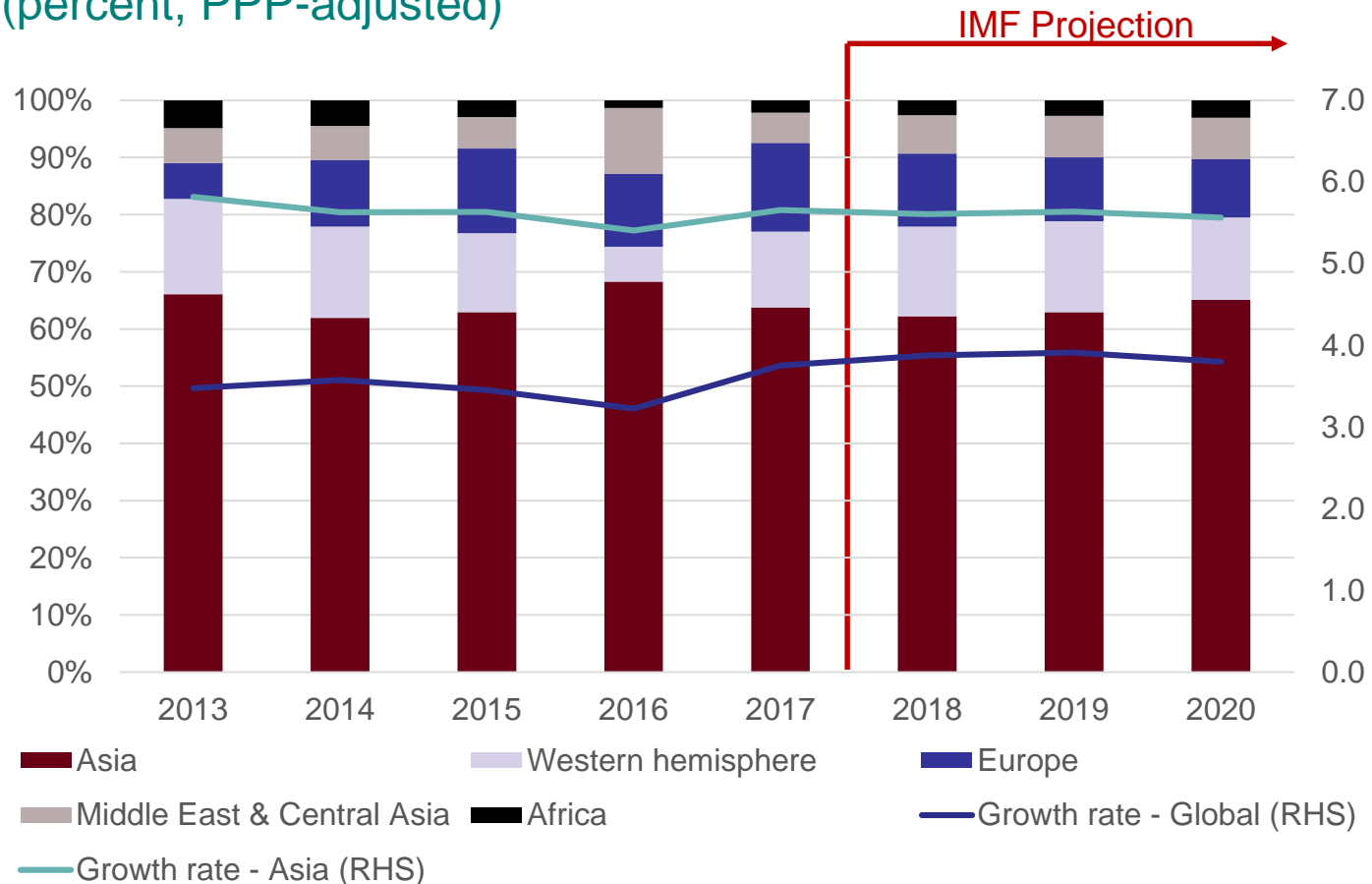
Source: World Economic Outlook, Fall 2017, and World Economic Outlook Update, January 2018.

Note: Figures for India are on a fiscal year basis. ASEAN-5 includes Indonesia, Malaysia, Philippines, Thailand and Vietnam.



...and it contributes most to global growth.

## Contribution to Growth and Growth Rate (percent, PPP-adjusted)



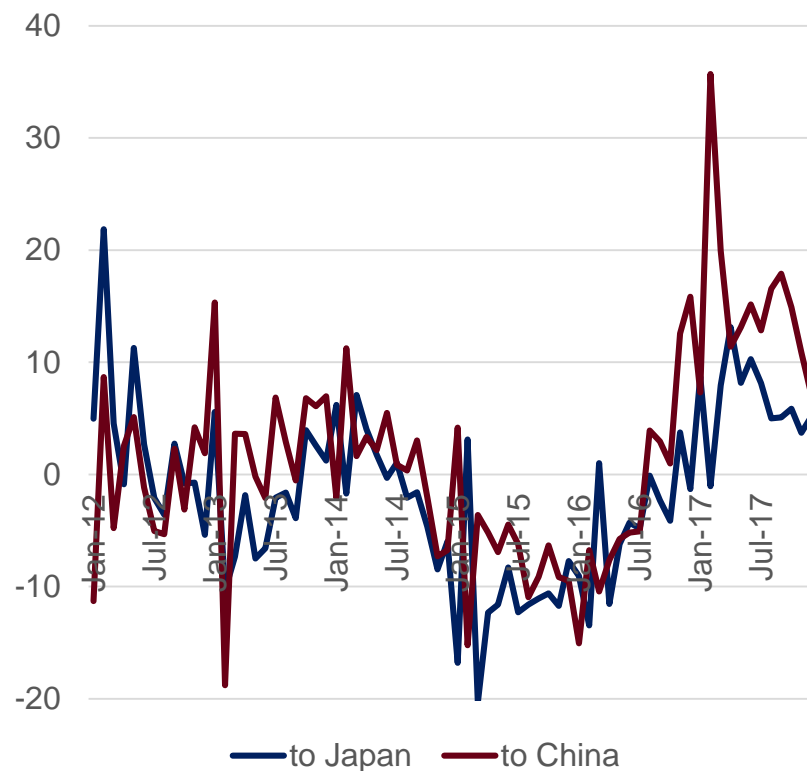
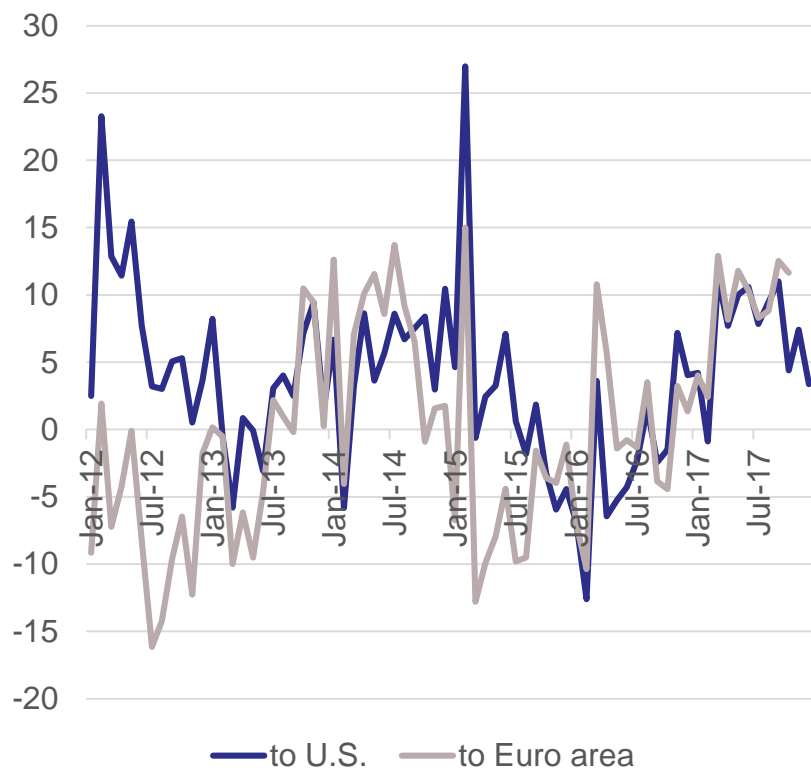
Source: IMF Staff estimates.



# Asia's exports expand on the back of the upswing in other regions.

## Exports to Major Destinations

*(in percent; year-over-year growth)*



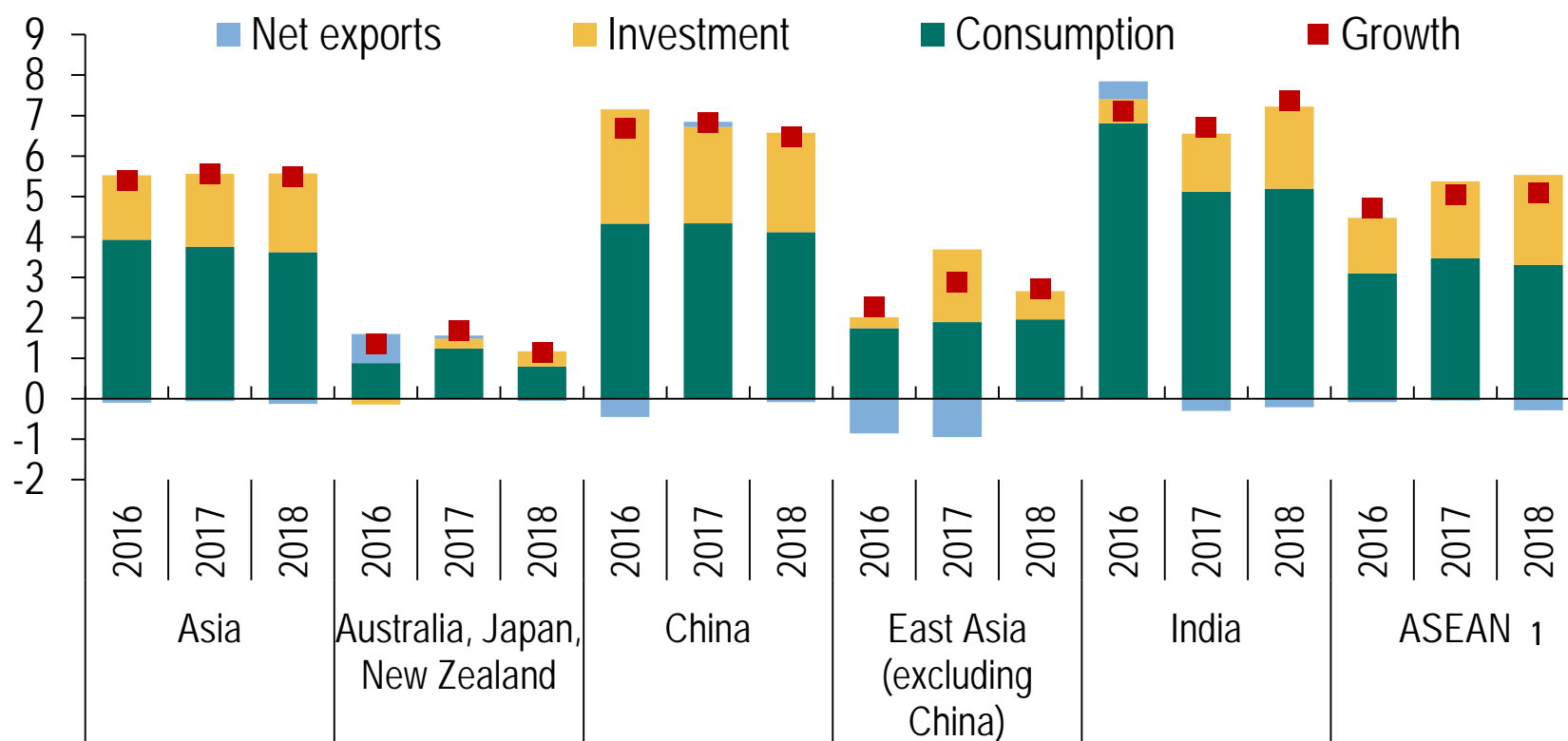
Source: Haver Analytics



...and the region's domestic demand is also strong, boosting imports...

## Contributions to Projected Growth

(Year-over-year; percentage points)



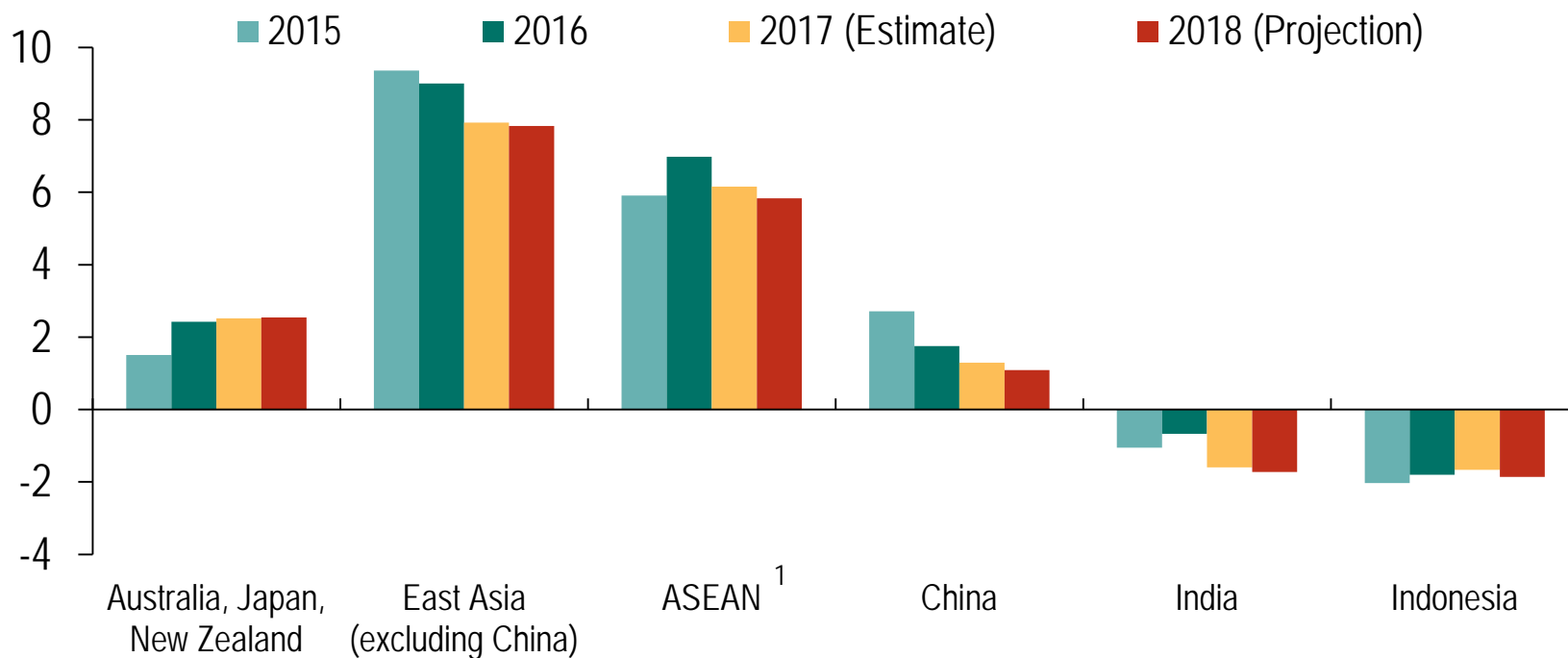
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

<sup>1</sup> ASEAN 1 includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.



...and contributing to the reduction in current account balances.

### Asia: Current Account Balances (Percent of GDP)



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

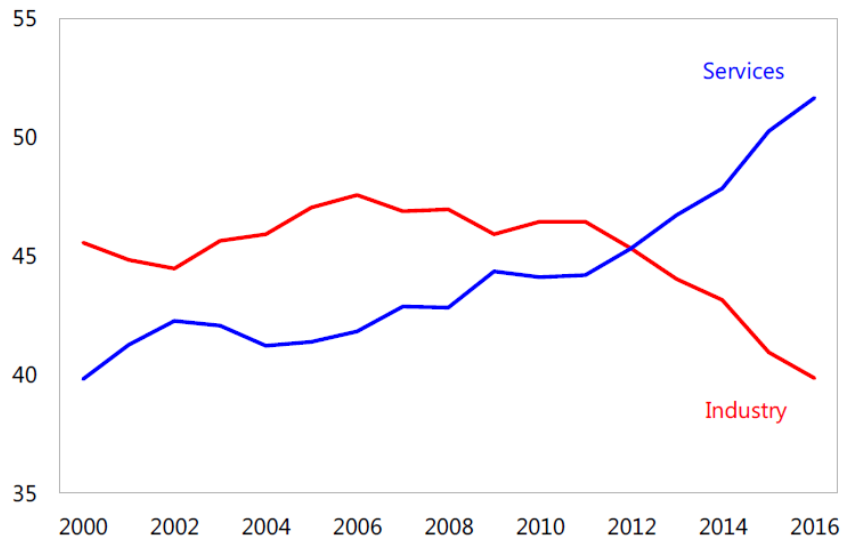
<sup>1</sup> ASEAN includes Malaysia, the Philippines, Singapore, Thailand, and Vietnam.



# China's growth is rebalancing, however, the country still faces a large credit gap

## GDP by Production

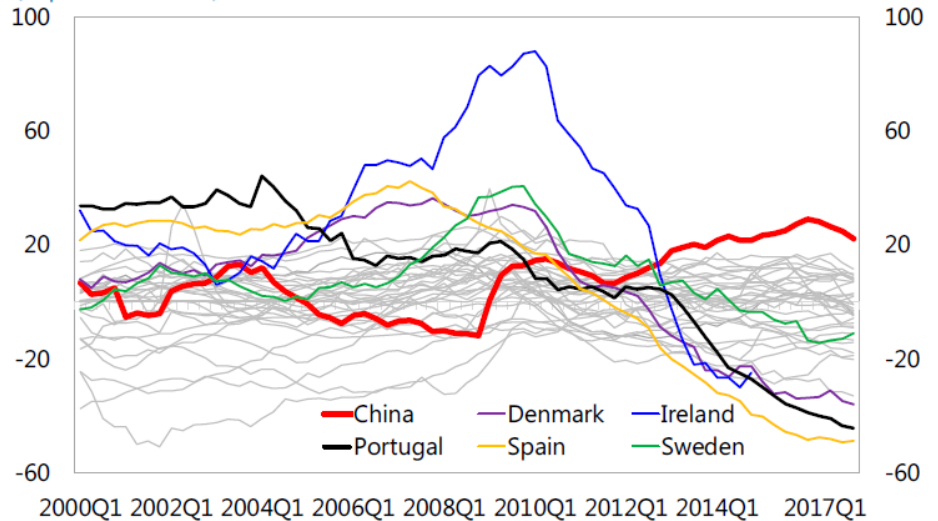
(In percent of nominal GDP)



Source: IMF Staff estimates.

## China's Large Credit Gap

(In percent of GDP)



Note: Based on credit to private non-financial sector.

Sources: Bank for International Settlements (BIS); and IMF staff estimates.



# Medium-term risks and vulnerabilities are tilted to the downside

## Major risks and vulnerabilities on the horizon:

- (1) Tightening of financial conditions;
- (2) Retreat from global integration, and geo-political uncertainties;
- (3) Population aging;

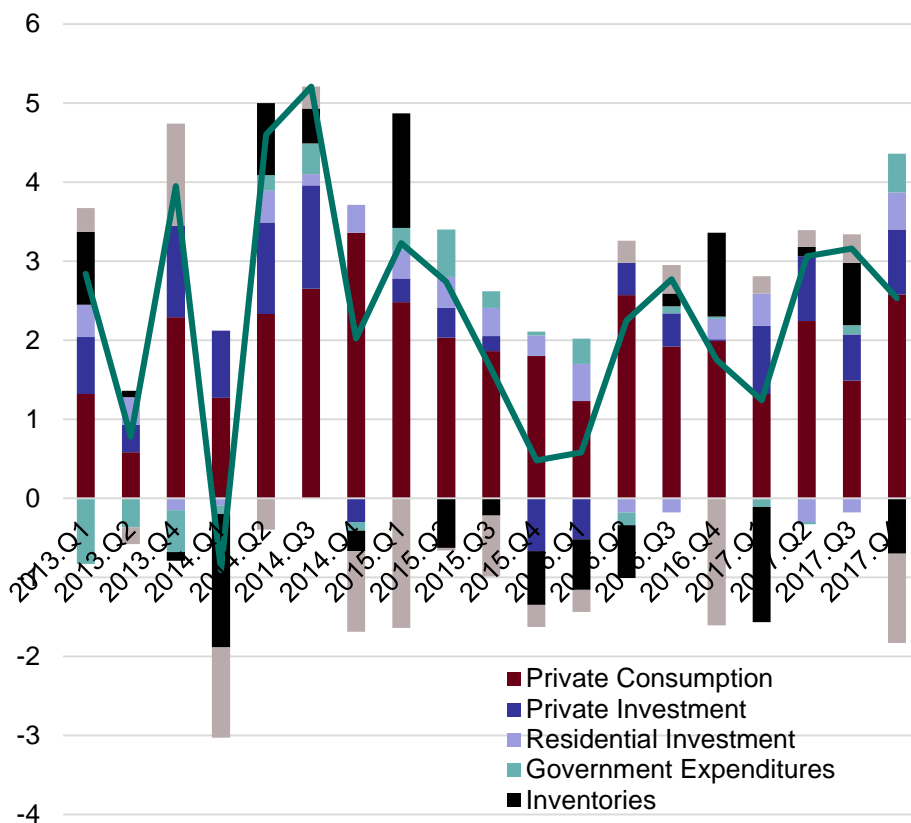




# (1) Market participants expect US monetary policy to sustain cyclical growth...

## US: Contribution to Growth

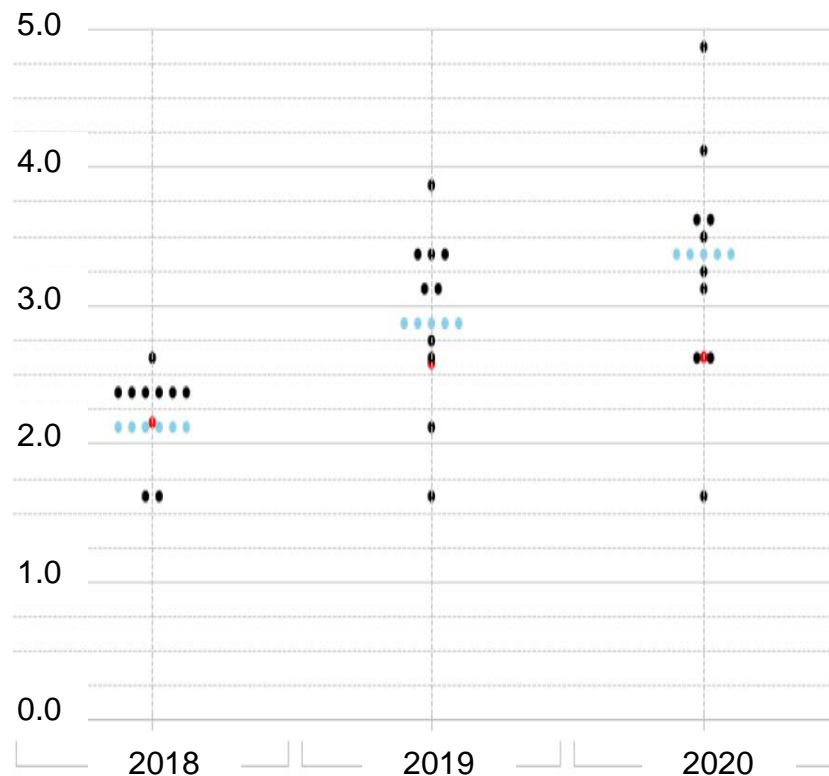
(percent, q/q seasonally adjusted, annualized)



Source: Haver Analytics

## US FOMC participants expect a faster tightening than market participants

(percent, FF rate projections)



Source: CME, as of March 21

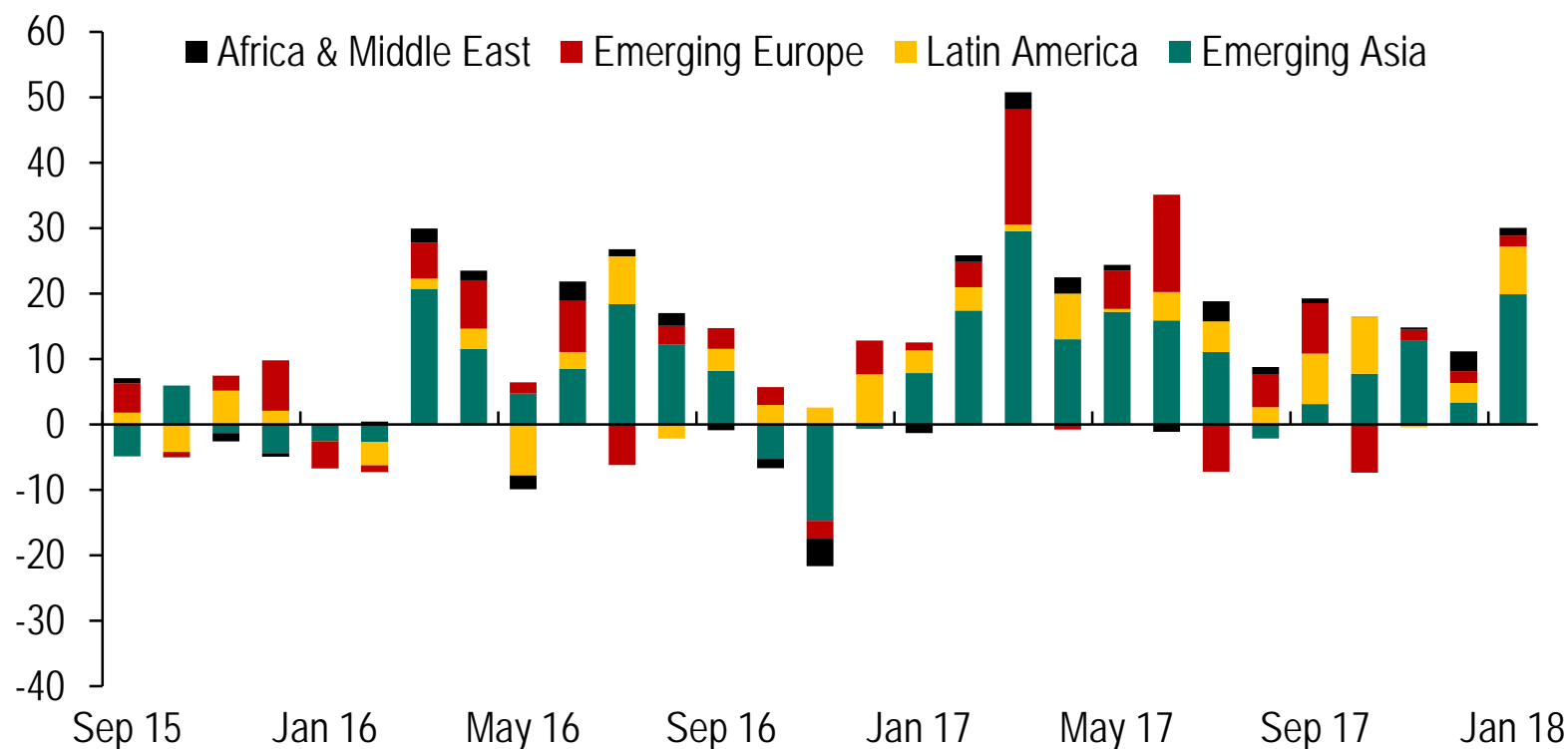
Note: Blue dots indicate the median projection. Red dots indicate the effective rate implied by the year-end Fed Fund future price.



...and capital inflows to emerging countries have remained positive...

## Total Portfolio Flows

(Billions of U.S. dollars)



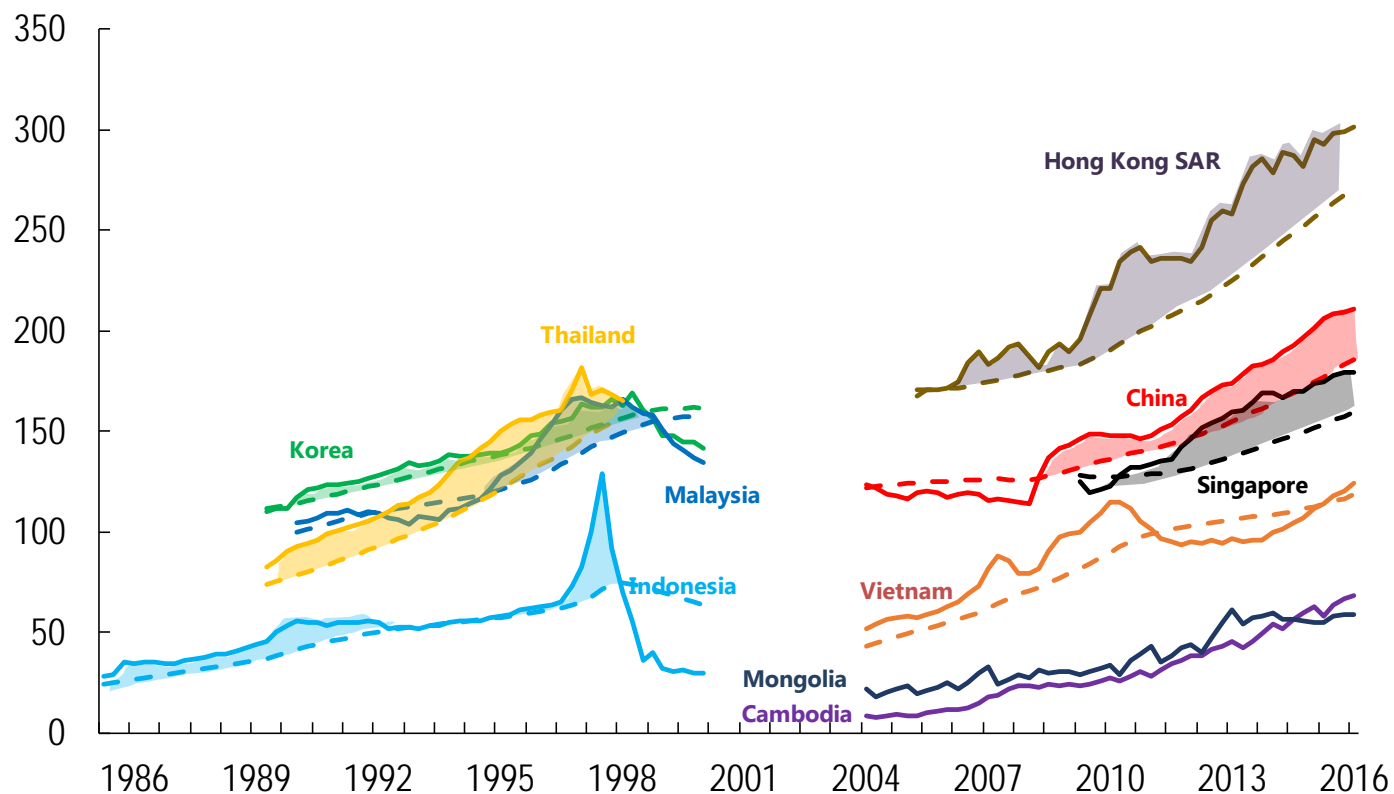
Sources: National Sources; Bloomberg Finance L.P.; and Institute of International Finance.



...but financial conditions have also increased vulnerabilities.

## Fast Credit Growth and Wide Credit Gap

(Percent of GDP)



Notes: Total credit to the private nonfinancial sector.

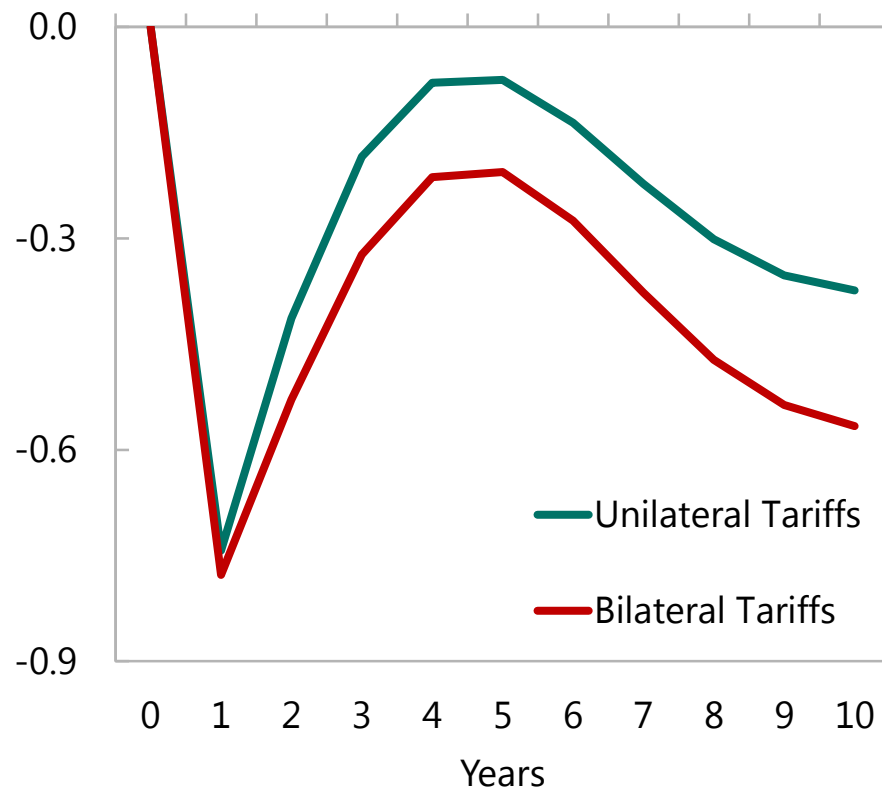
Sources: Bank for International Settlements; and IMF staff estimates.



## (2) Threats to global economic integration have become more acute.

### Impact of Tariffs on China's GDP

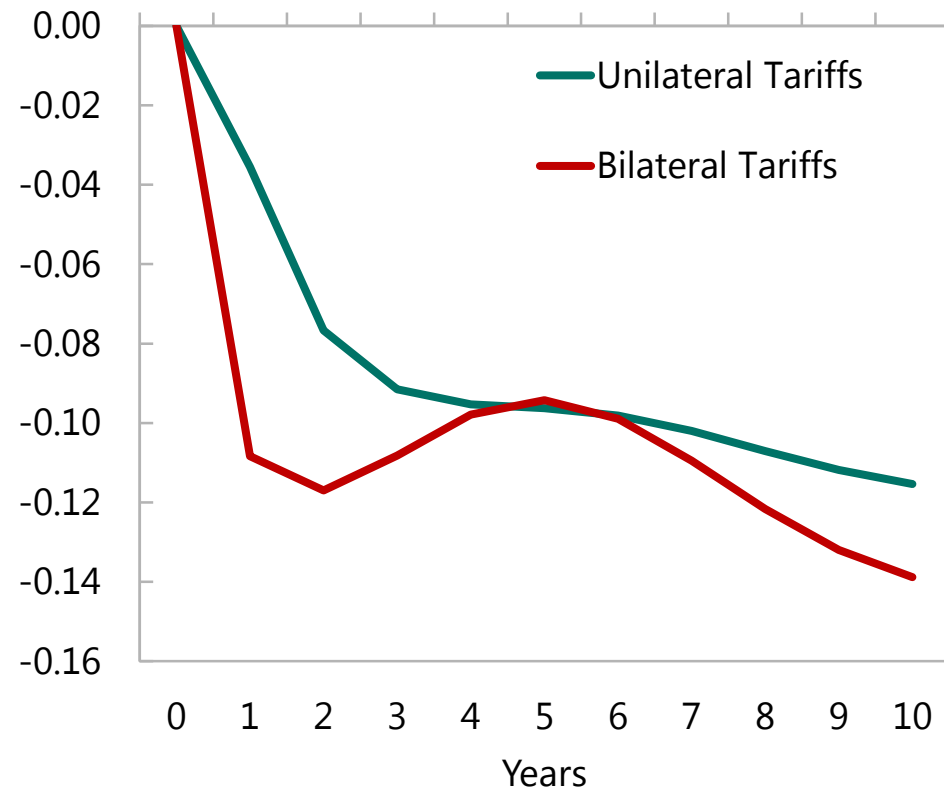
(Percent deviation from baseline on account of unilateral or bilateral 10 percent tariff)



Source: IMF staff estimates.

### Impact of Tariffs on US GDP

(Percent deviation from baseline on account of unilateral or bilateral 10 percent tariff)



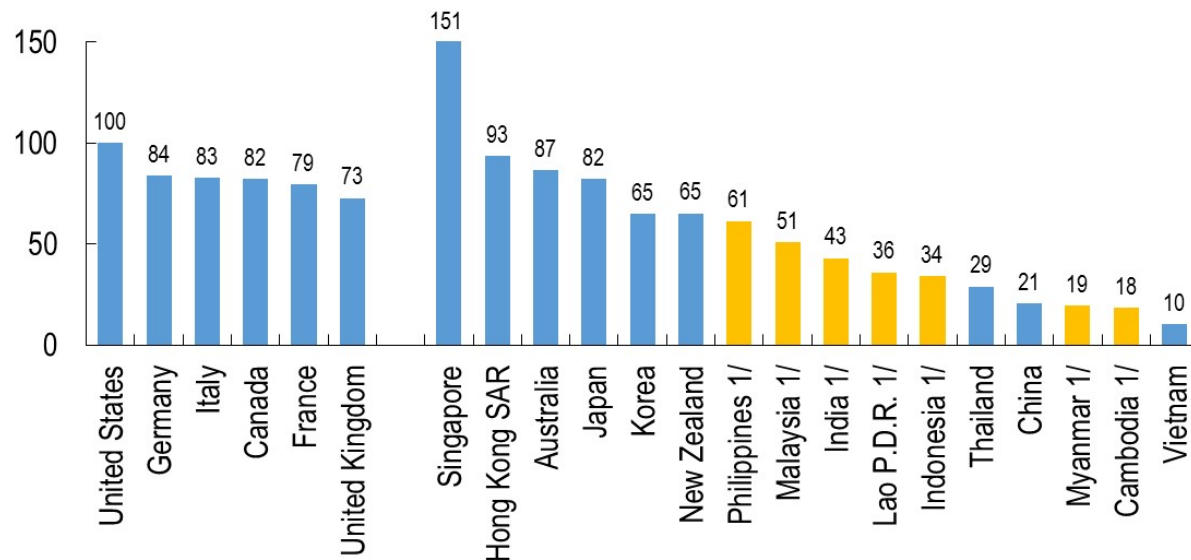
Source: IMF staff estimates.



### (3) Many parts of Asia are at risk of growing old before becoming rich.

#### Per Capita Income Level at the Peak of Working-Age Population Share

*(Purchasing power parity based; in percent of U.S. per capita income at each country's peak year)*



Sources: IMF World Economic Outlook database; and IMF staff calculations based on United Nations World Population Prospects: 2015 Revision (medium-fertility scenario)-

Note: 1/ Based on IMF staff projection. For Malaysia, the income level relative to the United States is calculated from the April 2017 WEO projection for 2020. For the Philippines, India, and Indonesia, the income levels are calculated by applying the projected PPP per capita income growth rate in 2022, starting from 2023 and up to the year in which the working-age population share is projected to peak, respectively.



The favorable position provides an opportunity to implement ambitious structural reforms.

### Main Challenge

### Key structural policy recommendations

**China**

**Credit growth**

Growth targets should be de-emphasized and the focus should be more on the quality and sustainability of growth.

**India**

**Corporate and banking sector strains**

Addressing corporate and banking sector balance sheet weaknesses is key to safeguard financial stability and support credit growth and private investment.

**Japan**

**Reflation and fiscal sustainability**

A comprehensive policy package of structural reforms combined with income and demand policies should help to reflate the economy and lift potential growth.

**Korea**

**Declining productivity growth and demographic headwinds**

Enhance the role of women in the economy, and emphasize innovation, especially in SMEs.

**AUS and NZL**

**Housing affordability and recalibrating investment incentives**

Promote housing affordability and supply through planning-zoning reforms and infrastructure push. Recalibrate tax incentives.

**ASEAN**

**Infrastructure gaps and quality**

Tackle structural constraints to growth such as the low quality of infrastructure.

**Small States**

**Natural disasters/climate change**

Restore fiscal discipline to build buffers.



## Conclusion: Key messages

- The region is in a favorable position: growth remains strong.
- Medium-term risks and vulnerabilities are tilted to the downside.
- The “window for reforms” is now.