



Overview of the Macro Context

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Asia and Pacific Department, IMF

IMF/PFTAC Steering Committee Meeting, Port Moresby, Papua New Guinea
March 27th, 2019



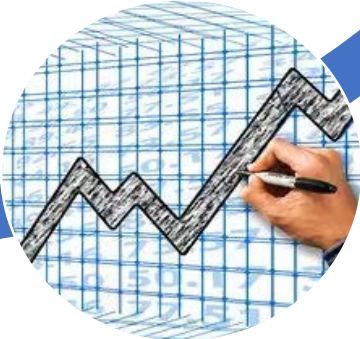
Today's Briefing



Recent Developments In Global Economy and Asia



Outlooks, Risks, and Opportunities in the Pacific



IMF's work in the Pacific



Global Overview



Asia is exposed to swirling winds.



Headwinds

Global growth deceleration

Crosswinds

Trade tensions & talks
Elections



Tailwinds

Pause in monetary policy normalization
Drop in commodity prices
Stimulus measures

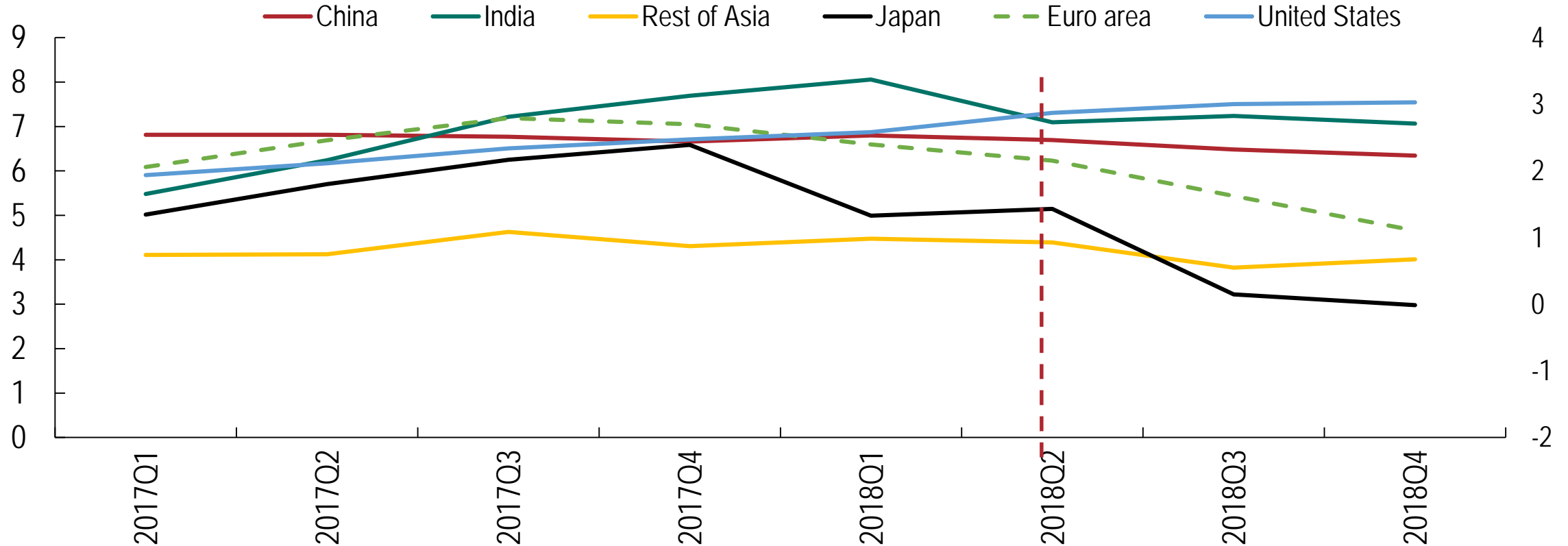




Growth in 2018 H2 decelerated, especially in Europe...

GDP Growth

(Percent; year-on-year)



Source: IMF, World Economic Outlook.

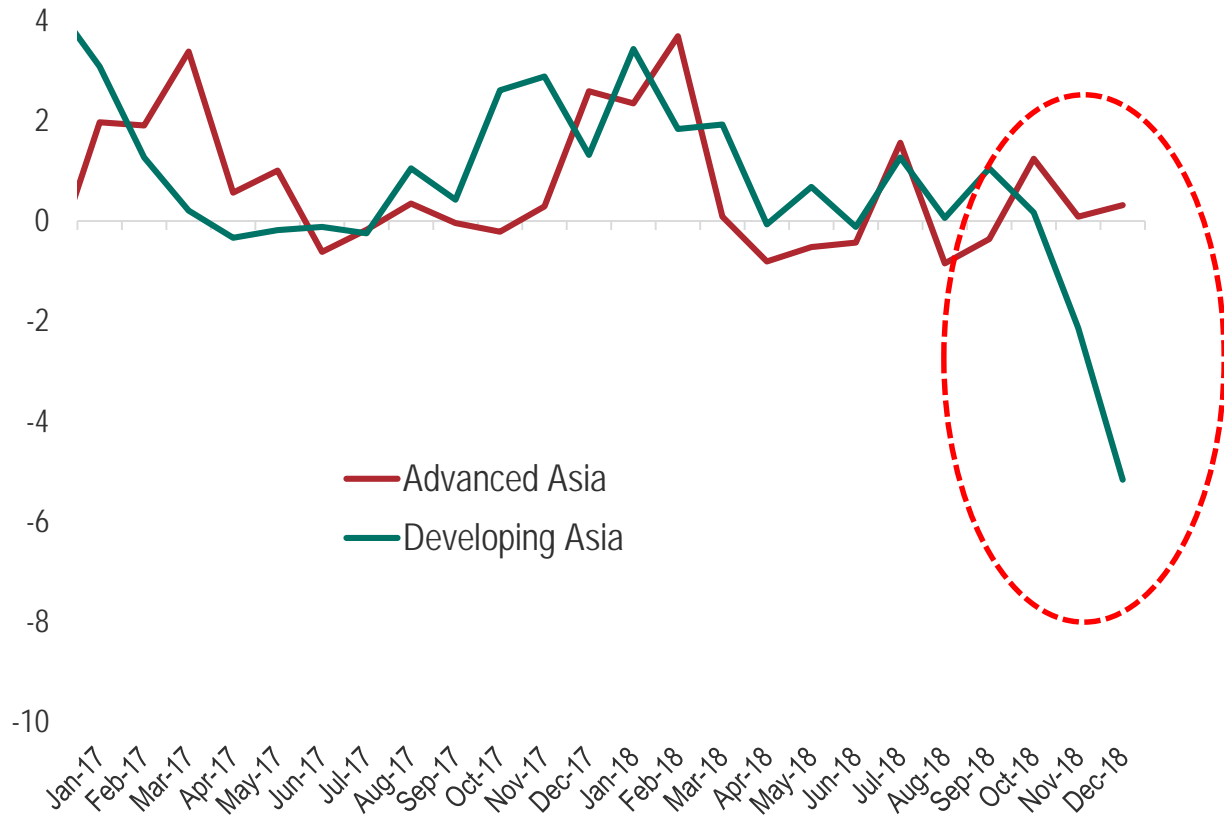
Note: 2018Q4 is an estimate. Rest of Asia = Australia, New Zealand, Hong Kong, Korea, Singapore, Taiwan Province of China, Indonesia,



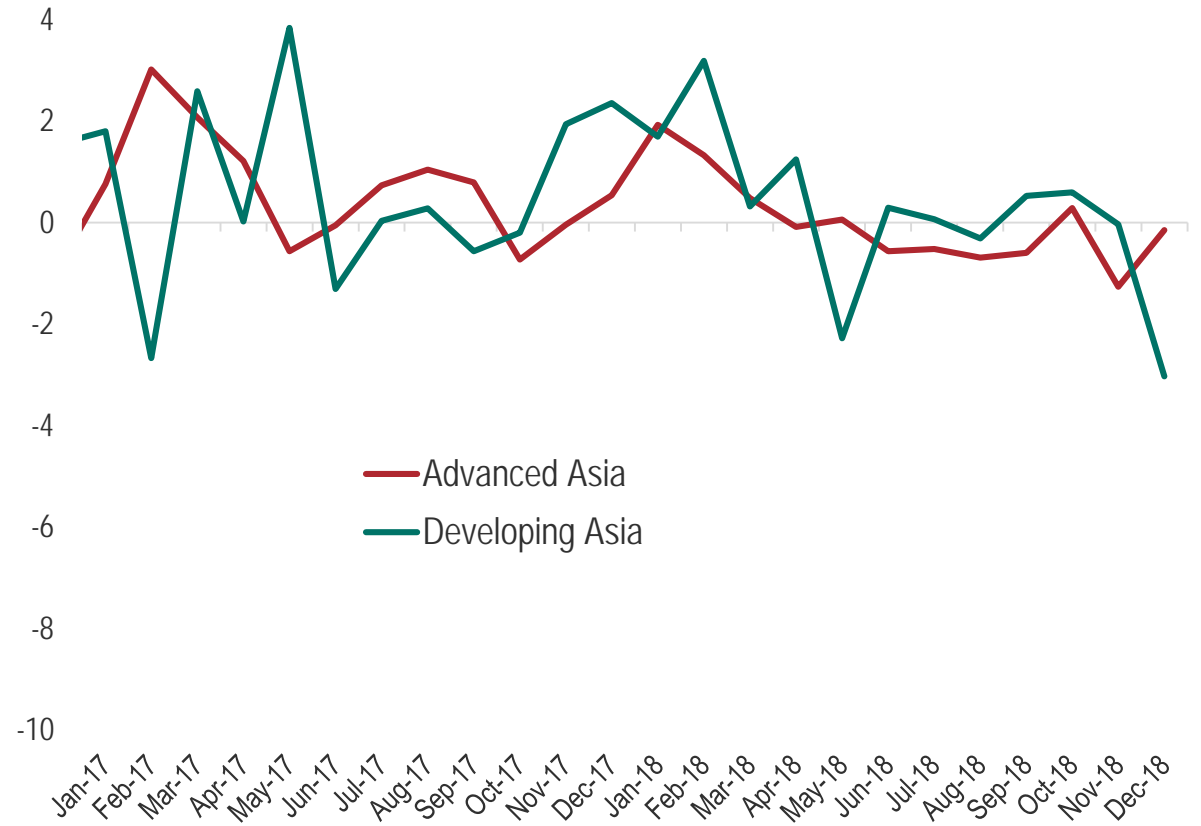


...and regional trade plunged in late 2018 amidst ongoing trade tensions...

Merchandise Imports: Growth Rate (Jan 2017-Dec 2018)
(seasonally adjusted, deflated, 3-month moving average of month-on-month, weighted by GDP PPP)



Merchandise Exports: Growth Rate (Jan 2017-Dec 2018)
(seasonally adjusted, deflated, 3-month moving average of month-on-month, weighted by GDP PPP)



Source: Haver. IMF Staff Calculations.

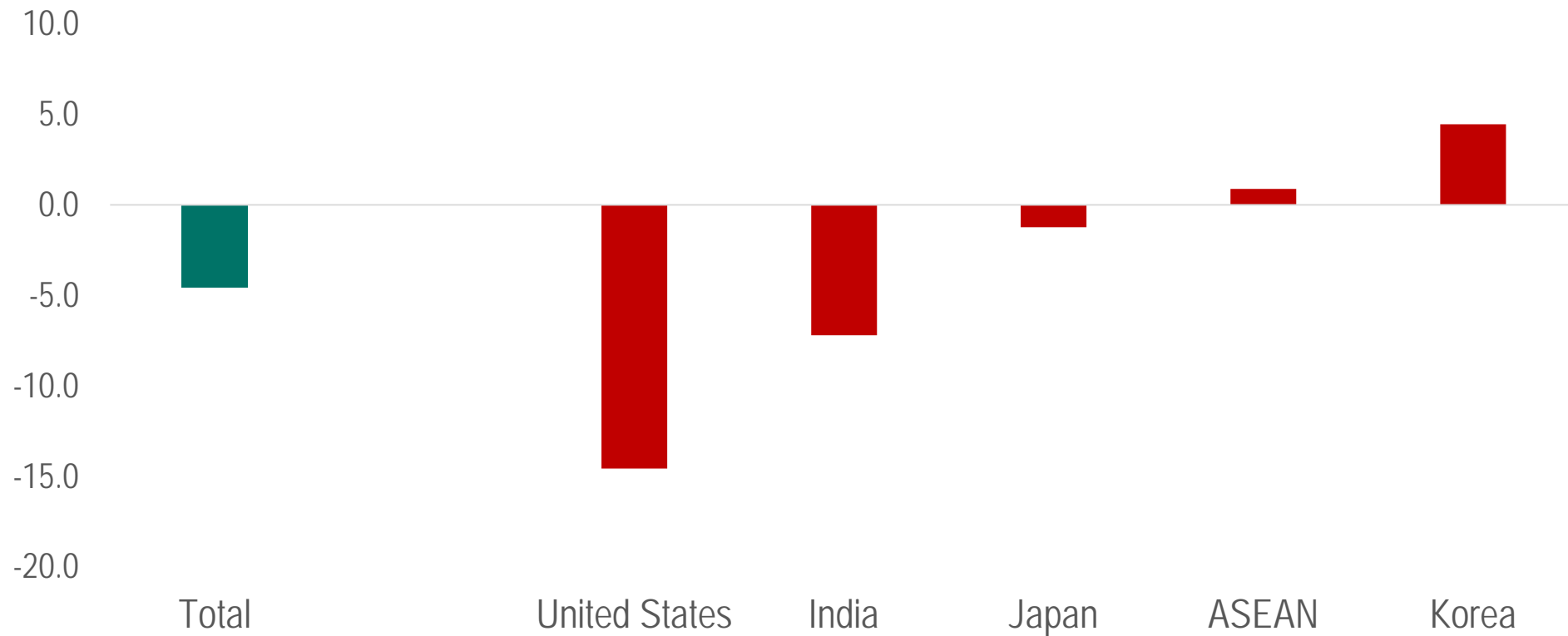
Note: REO-14 Asian economies included; moving average based on 2 lags and current levels.





...led by an unexpectedly large dip in China's January-February trade.

Figure: China's 2019 Jan-Feb Exports
(Year-on-year, percent change)



Source: CEIC Data. IMF Staff Calculations.





High frequency, forward-looking indicators suggest that weaker activity will continue into Q1 2019.

Manufacturing PMIs (50+ = expansion, seasonally adjusted)

| | Jan-2018 | Feb-2018 | Mar-2018 | Apr-2018 | May-2018 | Jun-2018 | Jul-2018 | Aug-2018 | Sep-2018 | Oct-2018 | Nov-2018 | Dec-2018 | Jan-2019 | Feb-2019 |
|--------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Australia | 55.4 | 55.6 | 54.3 | 55.5 | 53.2 | 55.0 | 52.4 | 53.2 | 54.0 | 54.5 | 54.6 | 54.0 | 53.9 | 52.9 |
| China | 51.5 | 51.6 | 51.0 | 51.1 | 51.1 | 51.0 | 50.8 | 50.6 | 50.0 | 50.1 | 50.2 | 49.7 | 48.3 | 49.9 |
| India | 52.4 | 52.1 | 51.0 | 51.6 | 51.2 | 53.1 | 52.3 | 51.7 | 52.2 | 53.1 | 54.0 | 53.2 | 53.9 | 54.3 |
| Indonesia | 49.9 | 51.4 | 50.7 | 51.6 | 51.7 | 50.3 | 50.5 | 51.9 | 50.7 | 50.5 | 50.4 | 51.2 | 49.9 | 50.1 |
| Japan | 54.8 | 54.1 | 53.1 | 53.8 | 52.8 | 53.0 | 52.3 | 52.5 | 52.5 | 52.9 | 52.2 | 52.6 | 50.3 | 48.9 |
| Korea | 50.7 | 50.3 | 49.1 | 48.4 | 48.9 | 49.8 | 48.3 | 49.9 | 51.3 | 51.0 | 48.6 | 49.8 | 48.3 | 47.2 |
| Malaysia | 50.5 | 49.9 | 49.5 | 48.6 | 47.6 | 49.5 | 49.7 | 51.2 | 51.5 | 49.2 | 48.2 | 46.8 | 47.9 | 47.6 |
| New Zealand | 55.8 | 53.4 | 53.0 | 59.1 | 54.3 | 52.7 | 51.3 | 52.2 | 52.0 | 53.6 | 53.5 | 54.8 | 53.1 | |
| Philippines | 51.7 | 50.8 | 51.5 | 52.7 | 53.7 | 52.9 | 50.9 | 51.9 | 52.0 | 54.0 | 54.2 | 53.2 | 52.3 | 51.9 |
| Taiwan Province of China | 56.9 | 56.0 | 55.3 | 54.8 | 53.4 | 54.5 | 53.1 | 53.0 | 50.8 | 48.7 | 48.4 | 47.7 | 47.5 | 46.3 |
| Thailand | 50.6 | 50.9 | 49.1 | 49.5 | 51.1 | 50.2 | 50.1 | 49.9 | 50.0 | 48.9 | 49.8 | 50.3 | 50.2 | 49.9 |
| Vietnam | 53.4 | 53.5 | 51.6 | 52.7 | 53.9 | 55.7 | 54.9 | 53.7 | 51.5 | 53.9 | 56.5 | 53.8 | 51.9 | 51.2 |





Prospects of a trade deal have improved but are still uncertain.

U.S. and China Near a Trade Deal to Drop Tariffs

Trump and Xi could meet this month to end the US-China trade war

By Ben Westcott, CNN
Updated 5:18 AM ET, Mon March 4, 2019



WORLD | ASIA | CHINA

U.S., China Close

Both countries could lift some ta

9.0K 23K 122K

Donald J. Trump @realDonaldTrump

...and I did not increase their second tranch of Tariffs to 25% on M
This is very important for farmers - and me!

4:08 PM - 1 Mar 2019

18,005 Retweets 16

12K 18K

Politics



U.S. and China Near Deal That Could End Most U.S. Tariffs

By Jenny Leonard
March 3, 2019, 2:45 PM EST Updated on March 4, 2019, 3:33 AM EST

- ▶ Beijing has demanded U.S. lift tariffs as part of any deal
- ▶ China offers to lower tariffs on U.S. farm goods, autos: WSJ

News continues after the advertisement...
DELTA IS GIVING 80,000 EMPLOYEES





Political uncertainty looms ahead.

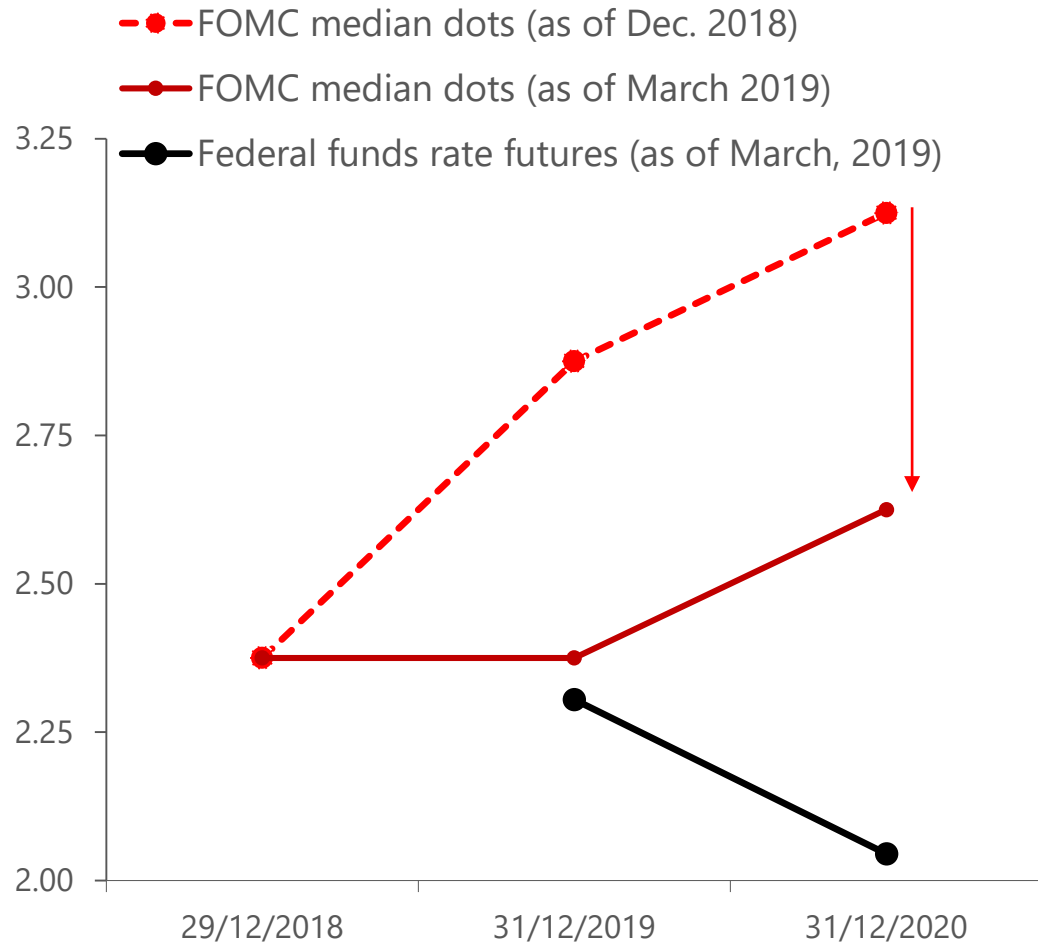
Upcoming Elections in 2019





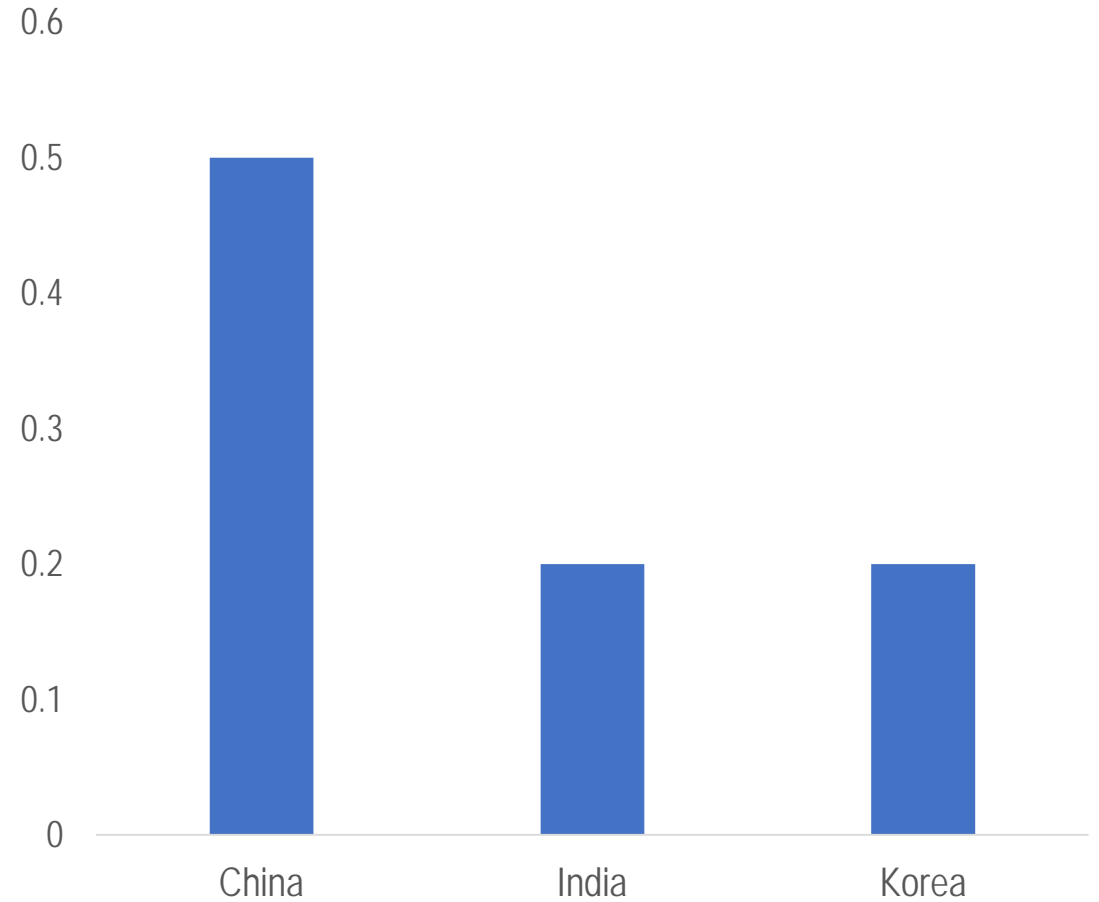
In response to these developments, AE central banks and regional authorities have eased policies.

Expected Fed Fund Rate vs. FOMC Dots
(end-of-period, percent)



Source: Bloomberg

Figure: 2019 Growth Impact from Fiscal Stimulus (% of GDP)



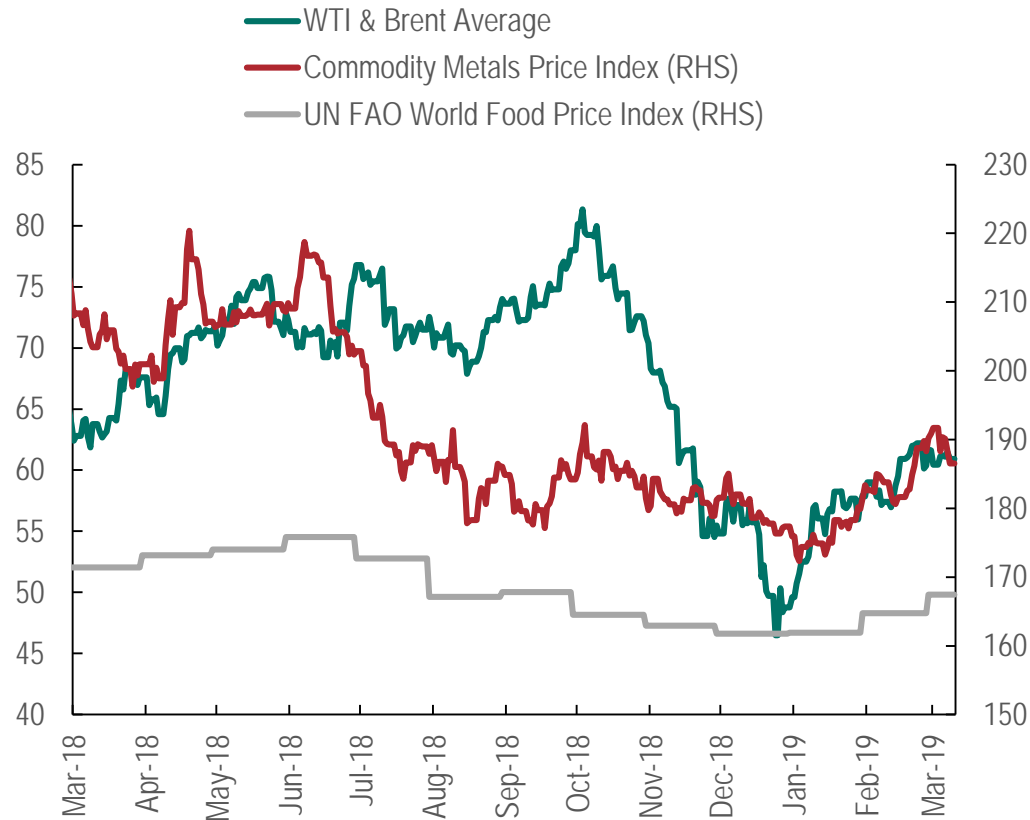
Source: IMF staff estimates.





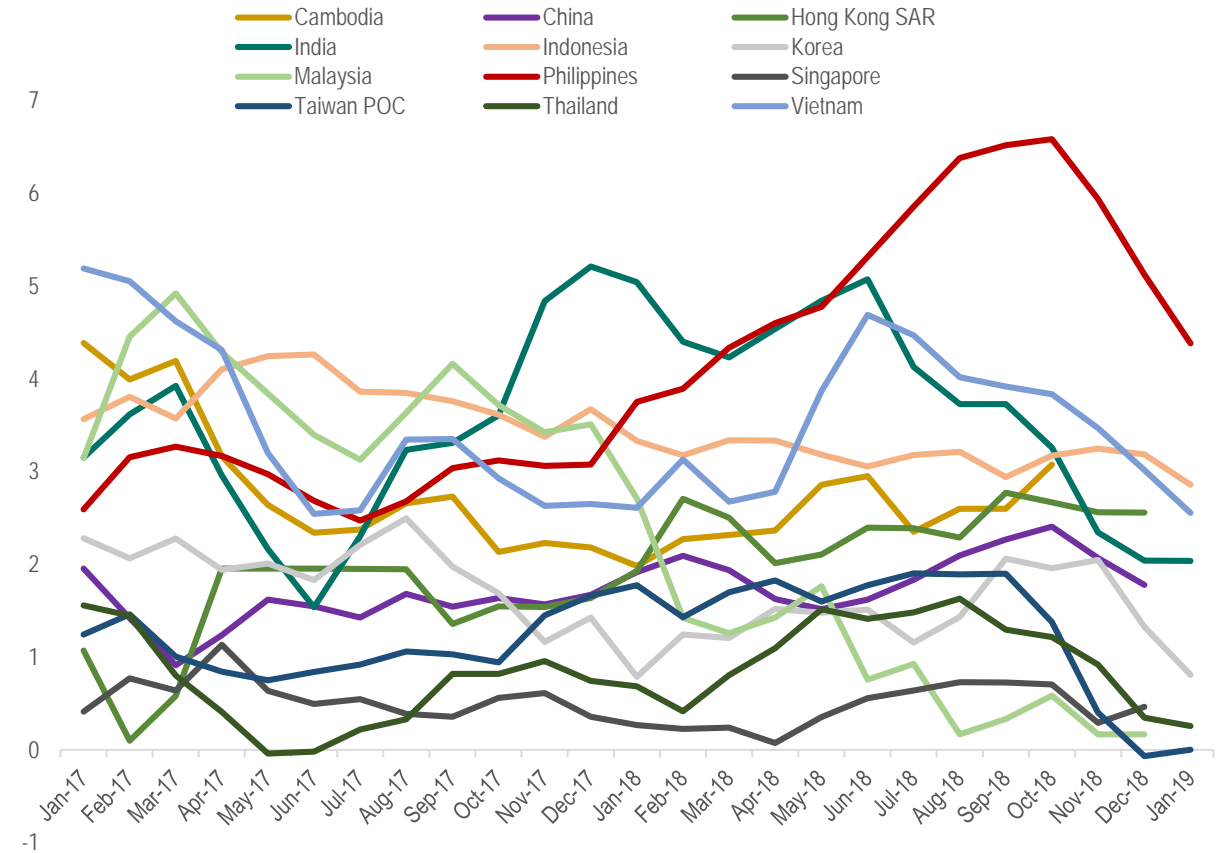
The drop in commodity prices in late 2018 helped soften inflation in most economies and may bolster growth.

Commodity Prices (Index; average)



Source: Bloomberg. IMF Staff Calculations.

Selected Asia: Headline CPI Inflation (percent change, year-on-year)

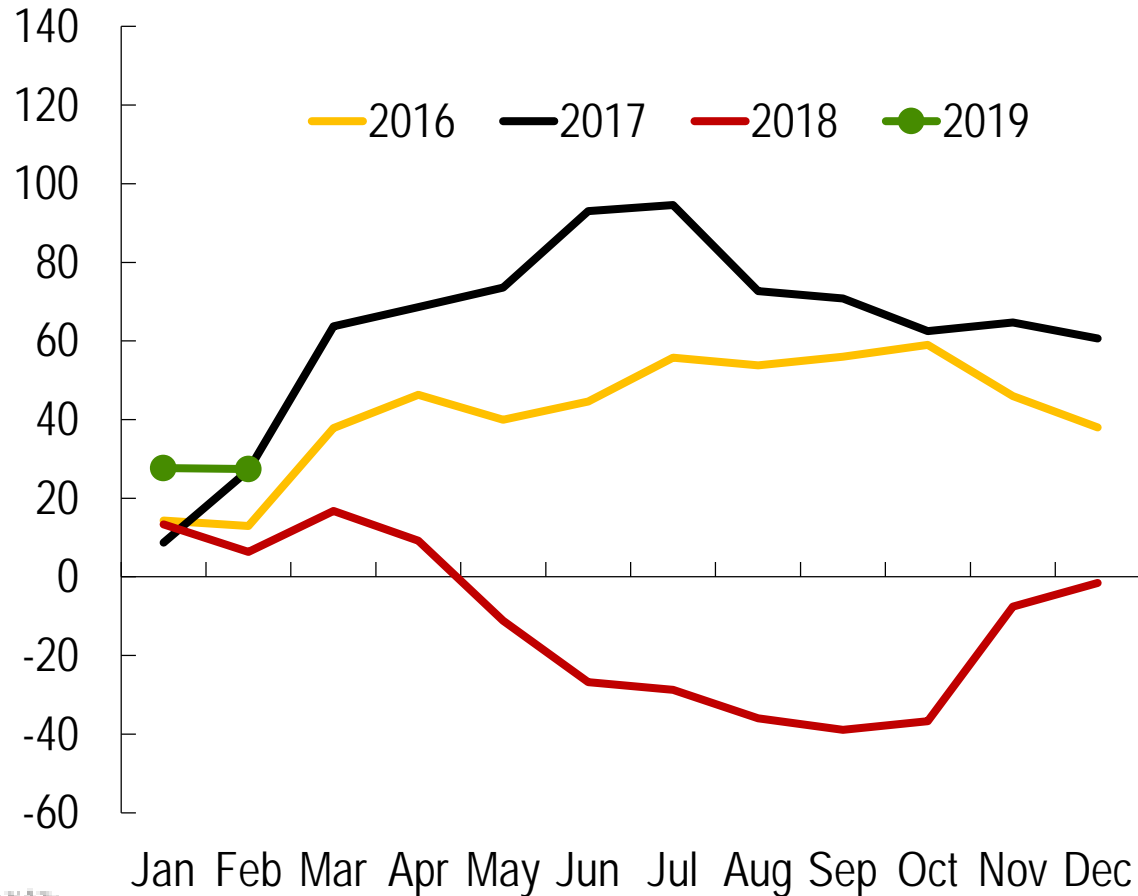


Source: Haver Analytics; and CEIC Ltd.



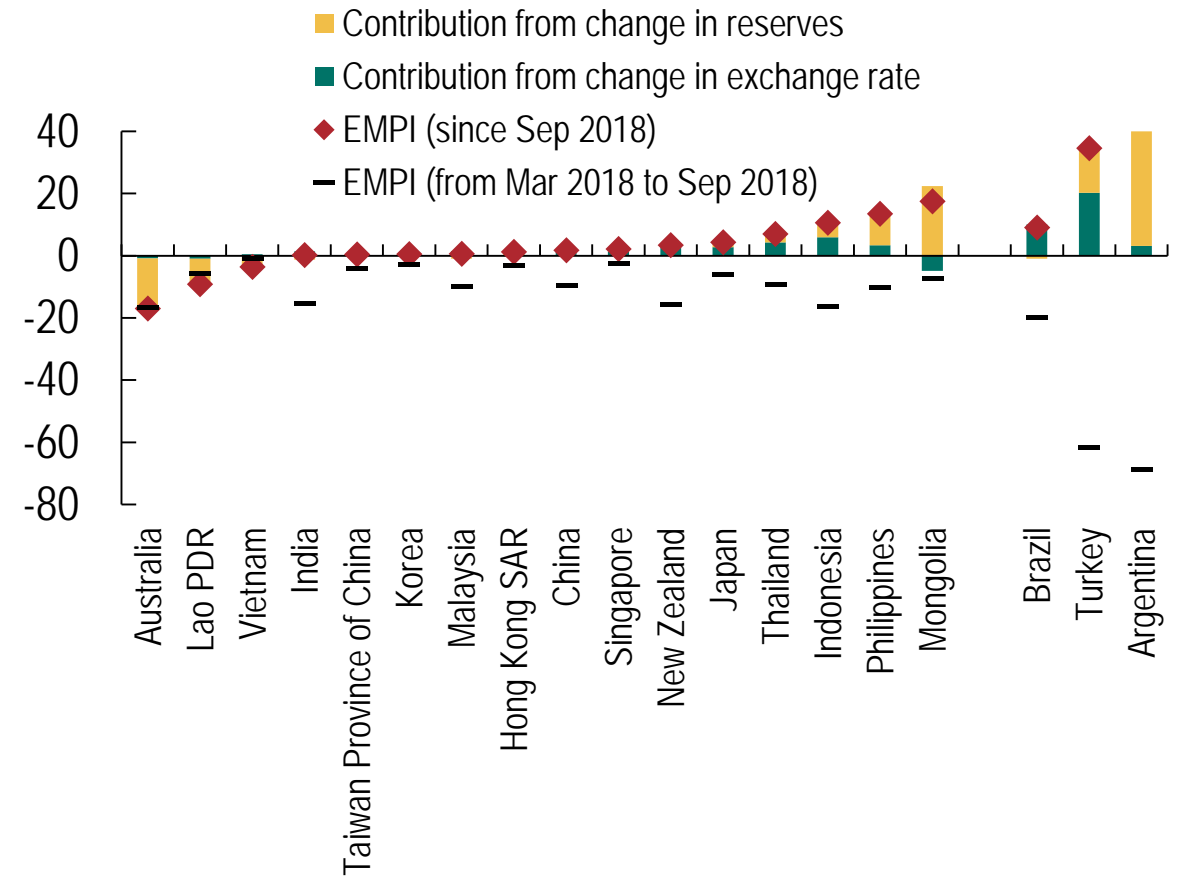
Asian EM financial conditions improved.

Emerging Asia Excluding China Non Resident Portfolio Inflows (In billion US dollars)



Source: IIF.

Exchange Market Pressure Index (EMPI) (Percent change in U.S. dollar/local currency exchange rate plus percent change in reserves; since Sep 2018)



Source: IMF staff calculations.

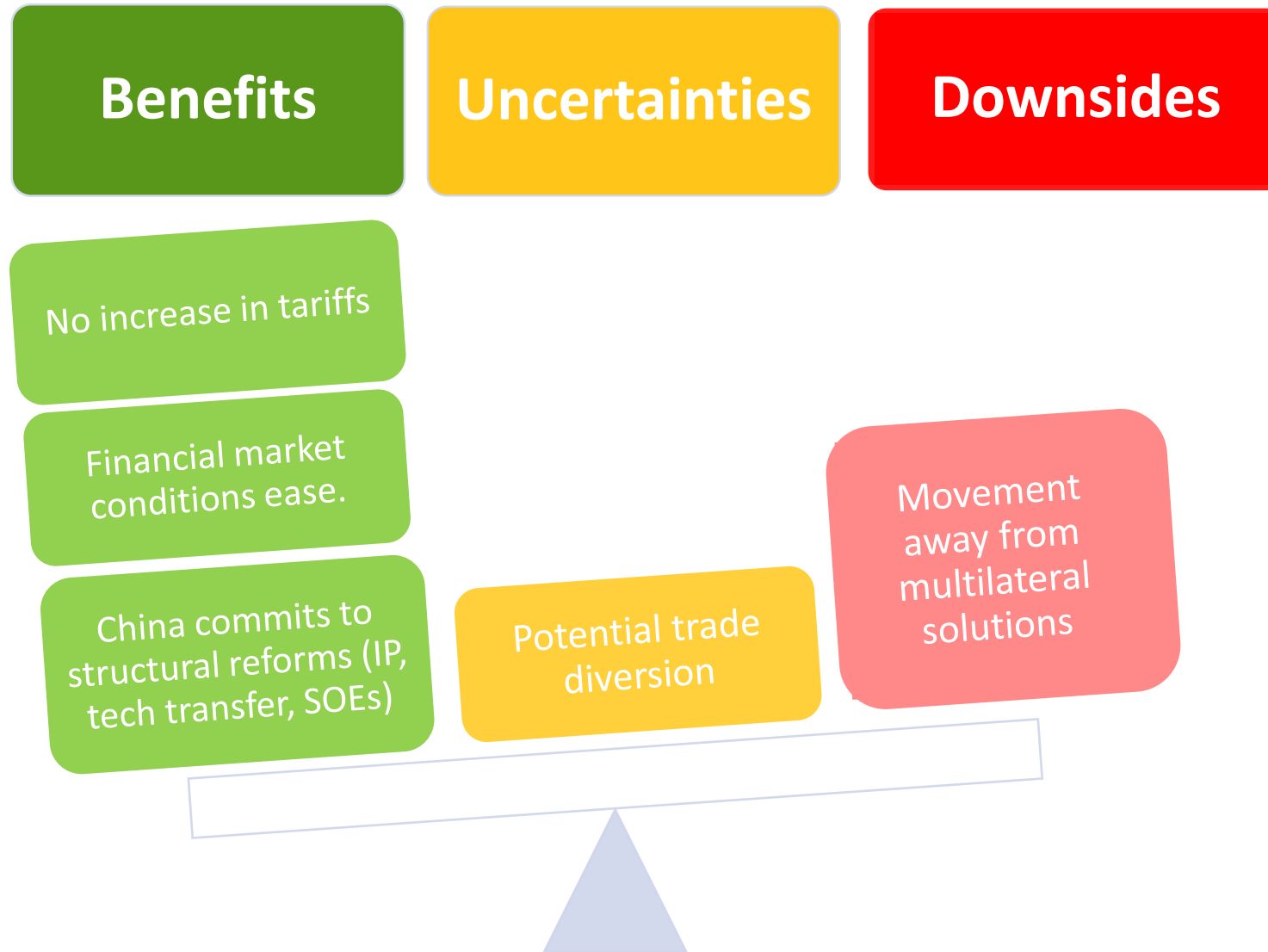
Note: As of Feb 2019.





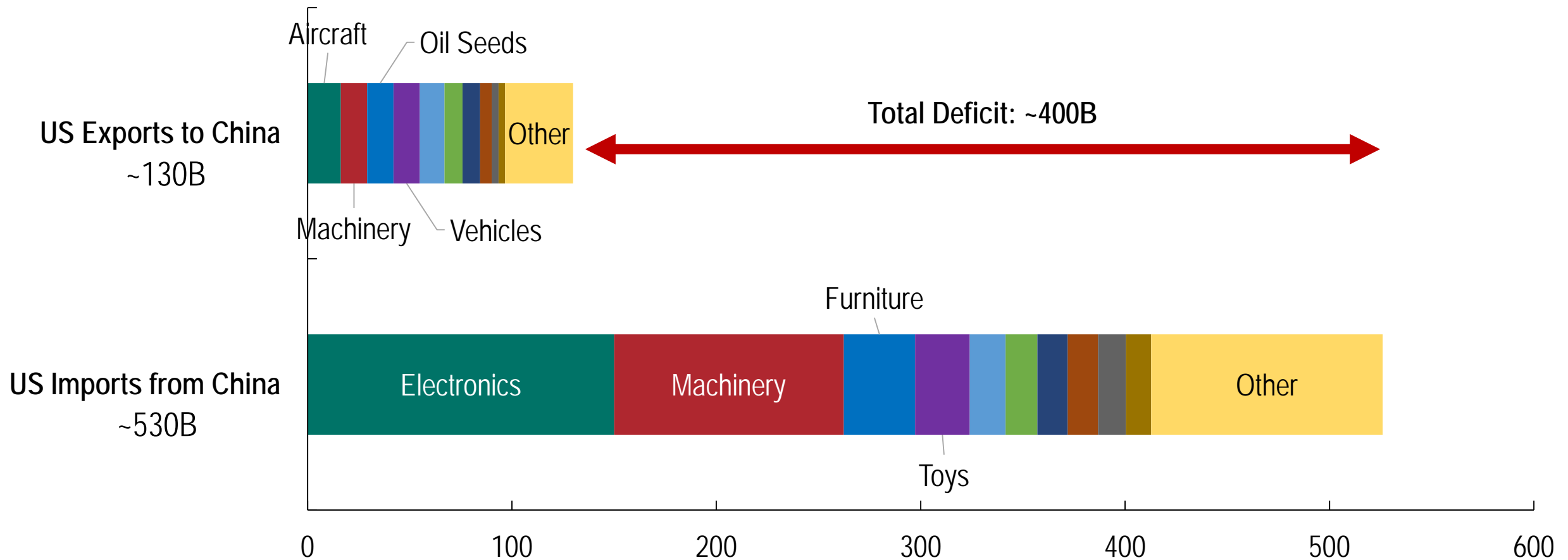
Trade Tensions & Talks

US-China Deal: Every silver lining has a touch of grey, especially if the multilateral approach to trade was put at risk.



Closing the US-China bilateral deficit via managed trade will be a challenge.

US-China Trade of Goods Structure
(Billions of USD)

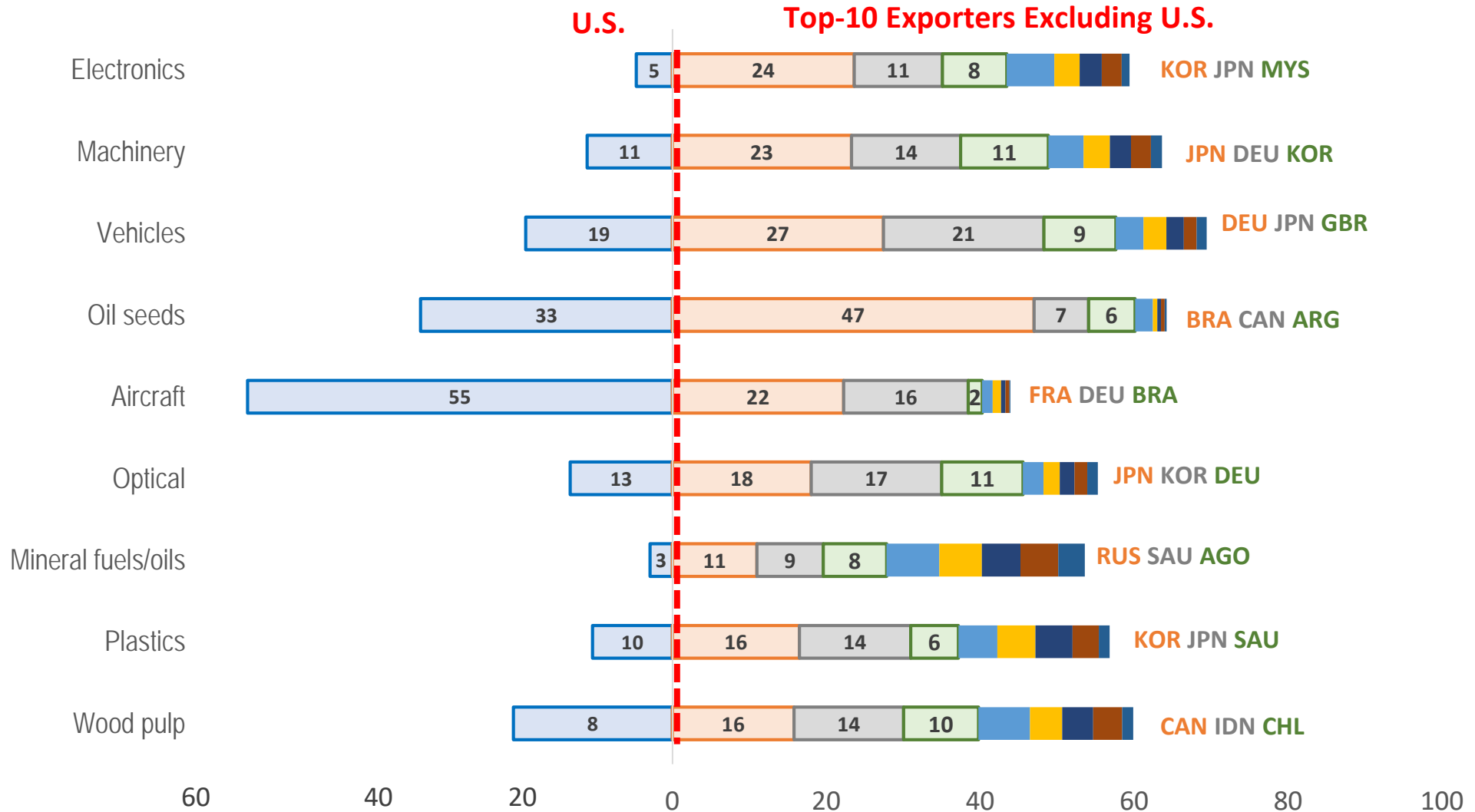


Source: Comtrade. IMF Staff Calculations. Based on 2017 data.

How might the trade deal impact other economies?

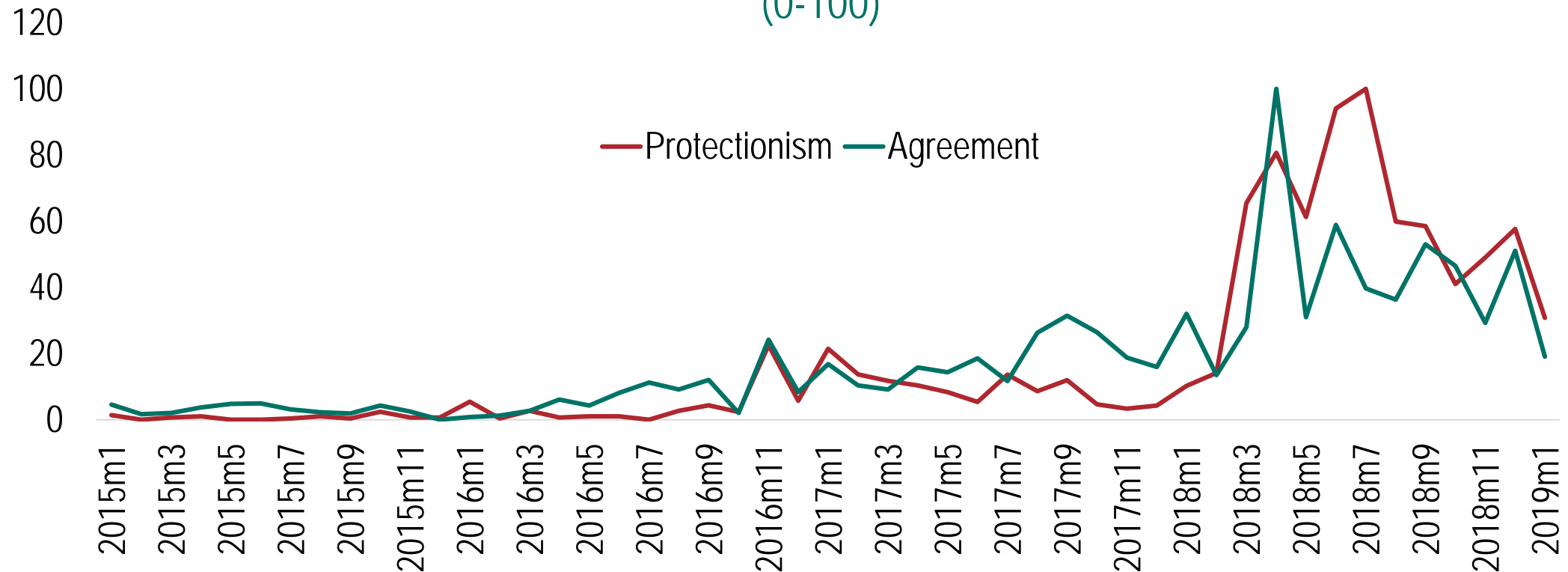
China's Import Structure for Top Products Imported from the United States

(2017; Share of China's total imports of each product)



Despite the possible deal, trade policy uncertainty will likely remain above historical averages.

Figure: US Trade Protectionism & Agreement
Policy Uncertainty
(0-100)



Source: Hlatshwayo (2018) and IMF Staff Calculations.



In sum, US-China deal should be positive, with many issues remaining.

Trade deal

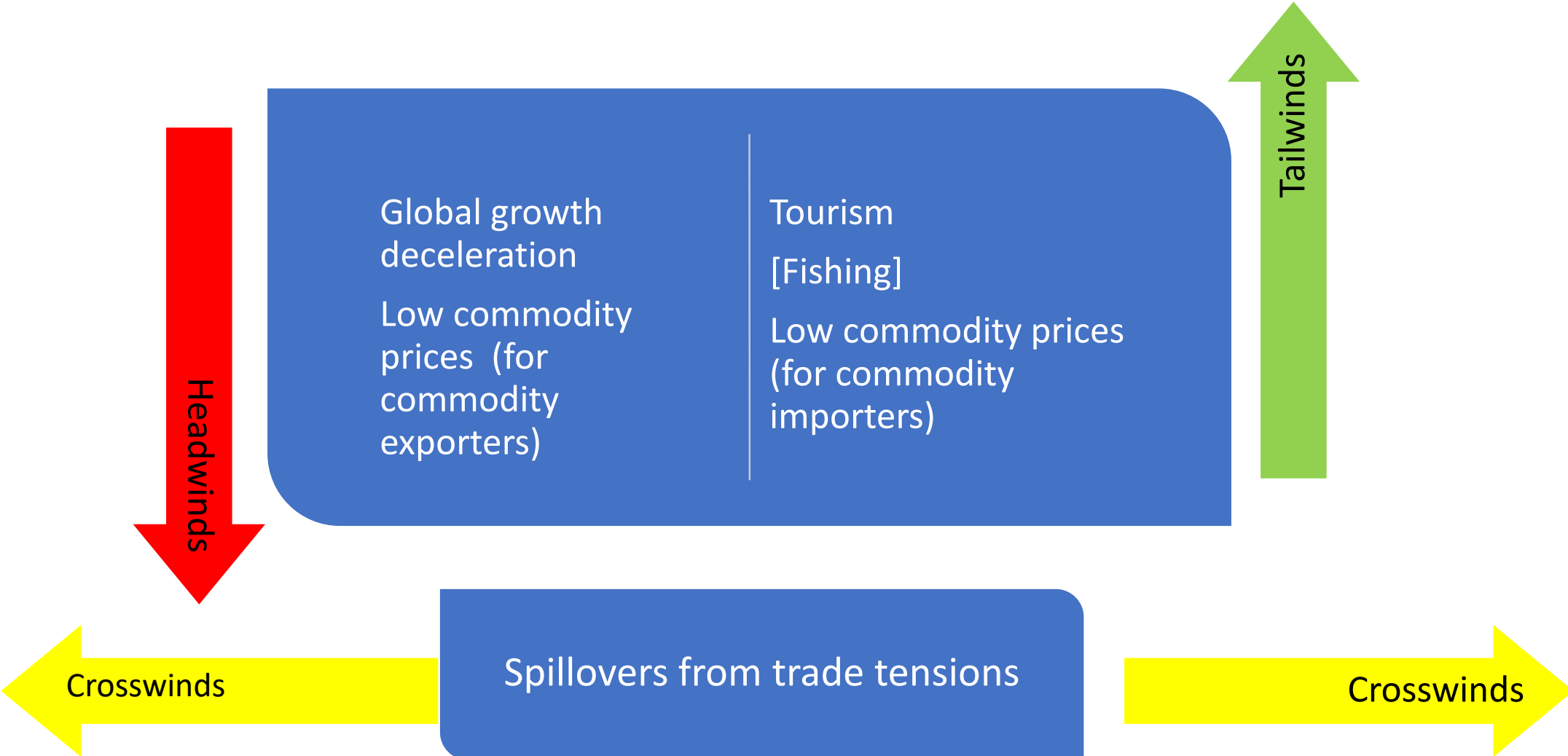
- Lower tariffs, reduced uncertainty, and structural reform in China would be helpful for global growth
- But trade diversion would likely affect some countries
- China's market opening should be accessible to all, not undermining multilateralism



Pacific Island Countries



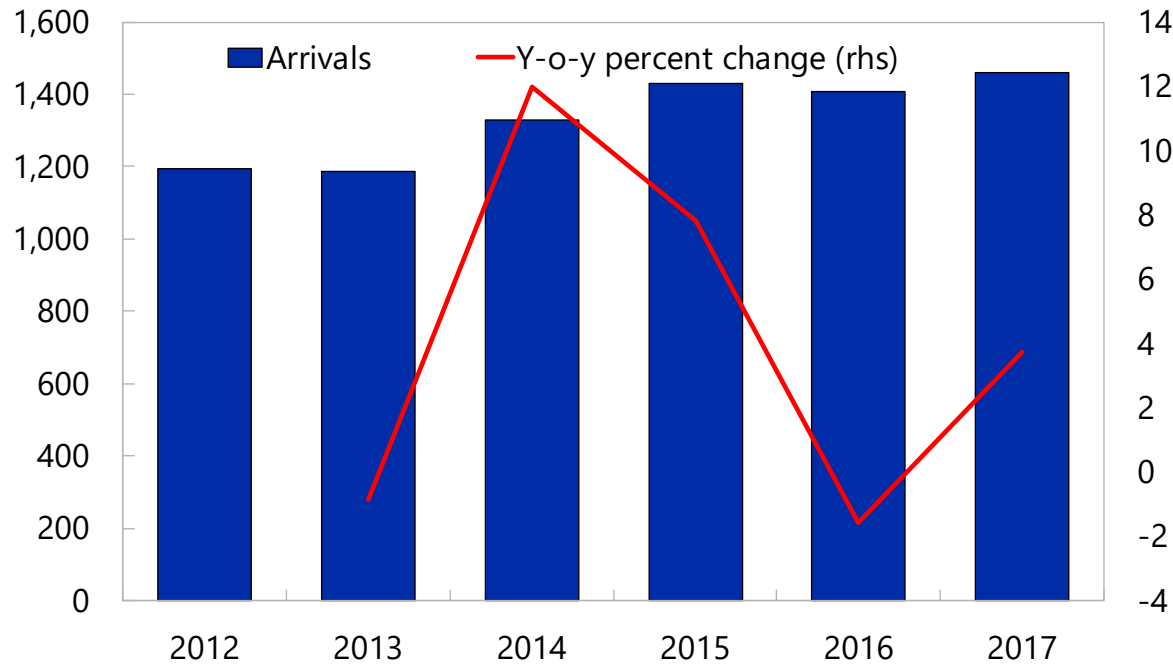
What does this mean for the Pacific Islands: there are global headwinds but also idiosyncratic factors.



Tourism is an important driver of growth in the region.

Visitor Arrivals in Selected Pacific Island Countries

(In thousands of persons)

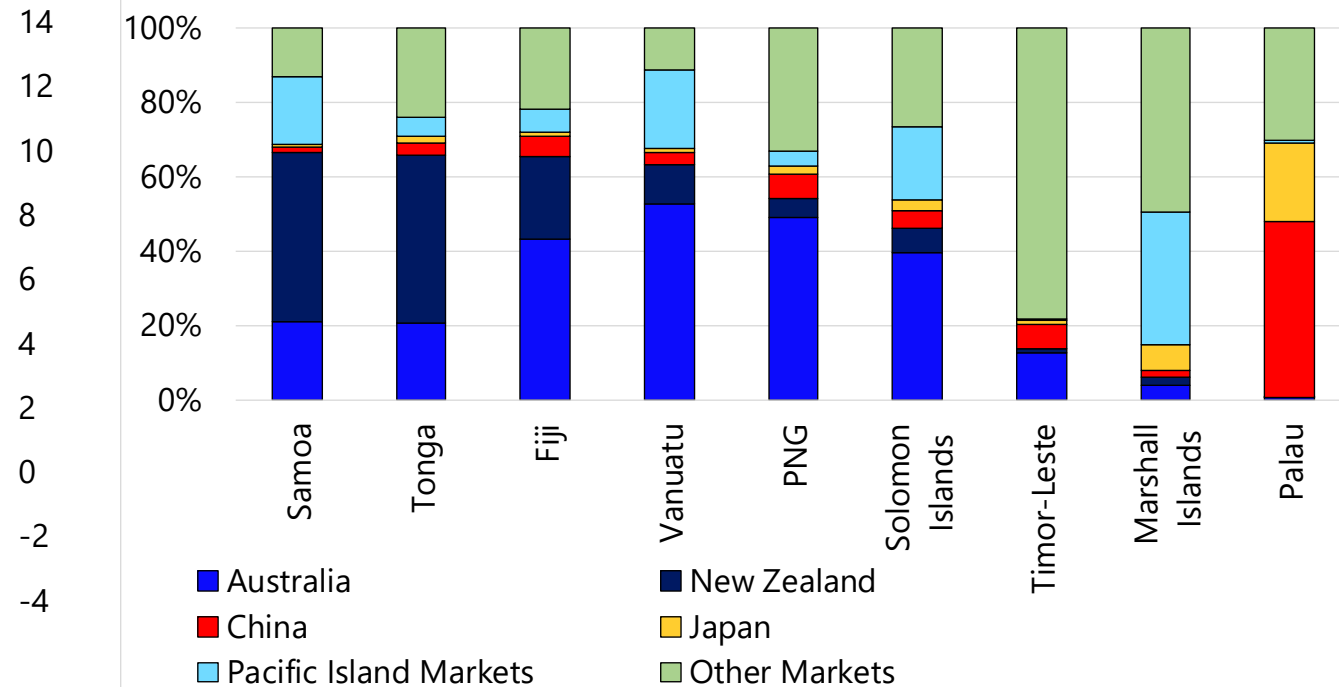


Note: Includes Fiji, Samoa, Palau, PNG, Solomon Islands, Tonga and Vanuatu.

Sources: South Pacific Tourism Organisation (SPTO).

Share of Visitor Arrivals, by Source Markets

(In percent of Total Arrivals)



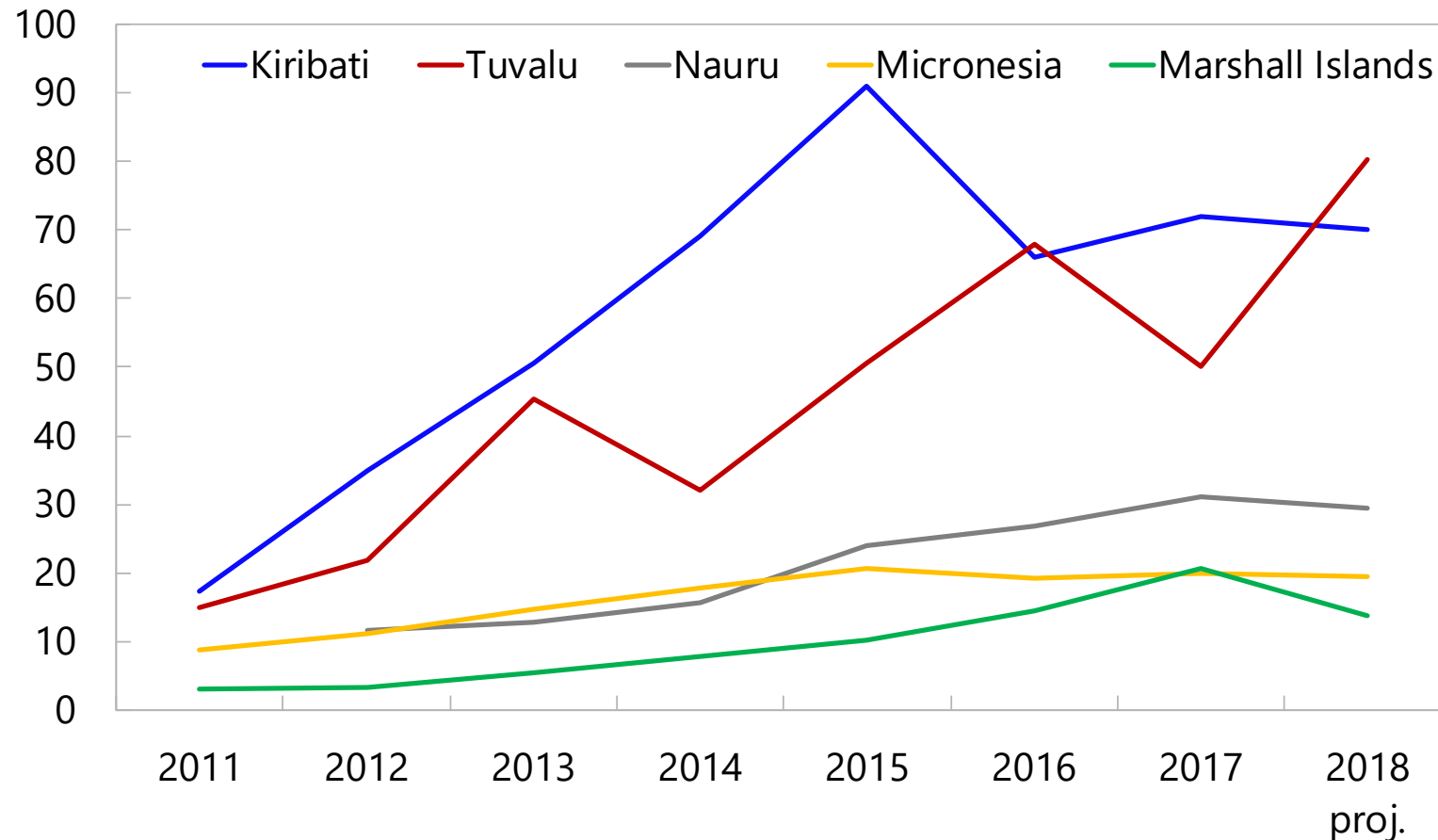
Source: South Pacific Tourism Organisation (SPTO).



And fishing revenues have been buoyant.

Outlook on Fishing Revenue in the Pacific

(Fishing revenue in percent of GDP)

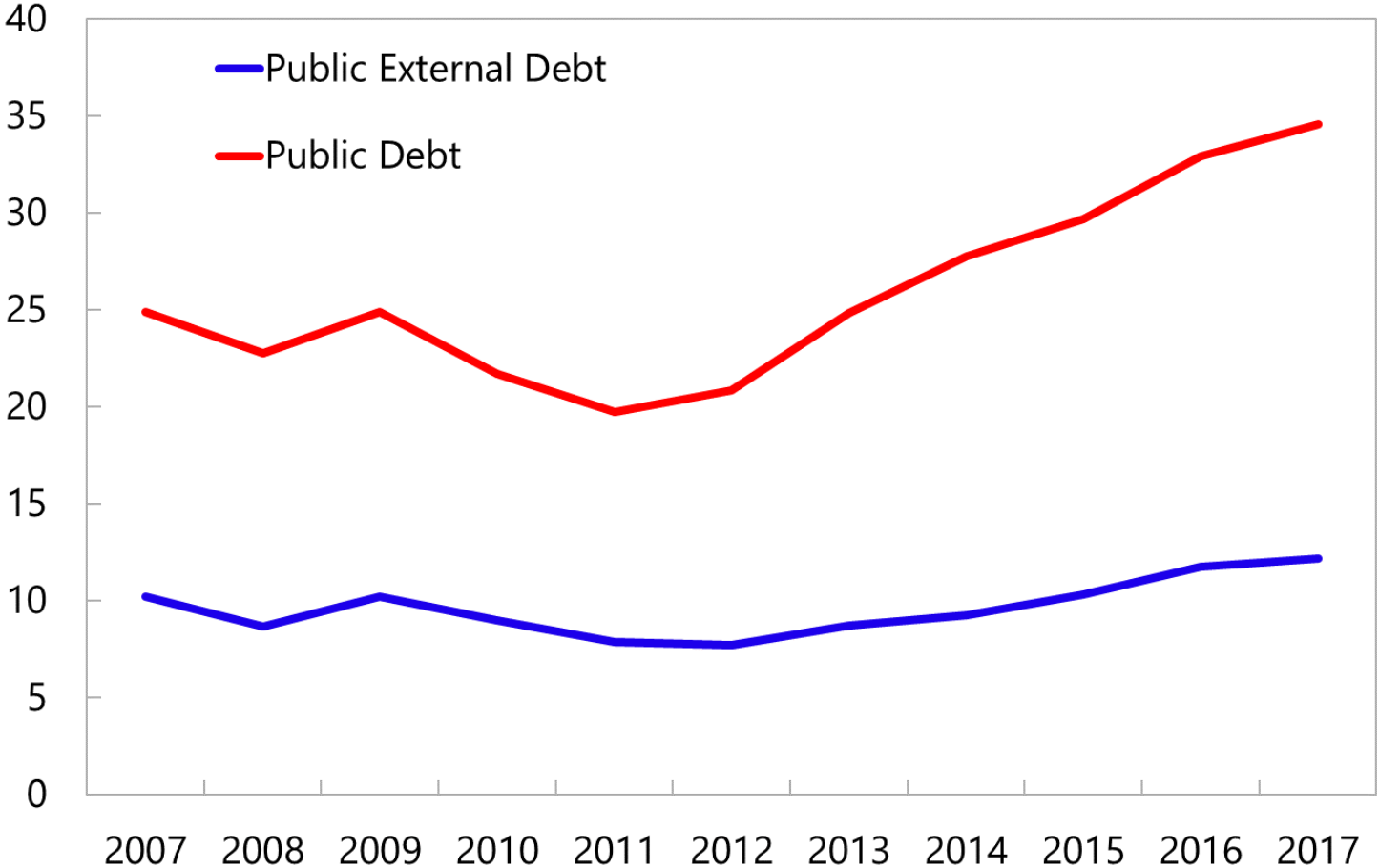


Sources: Countries authorities, and IMF staff projections.



Debt has been rising amid weakening fiscal balances, although...

Public and Public External Debt-to-GDP Ratio in PICs



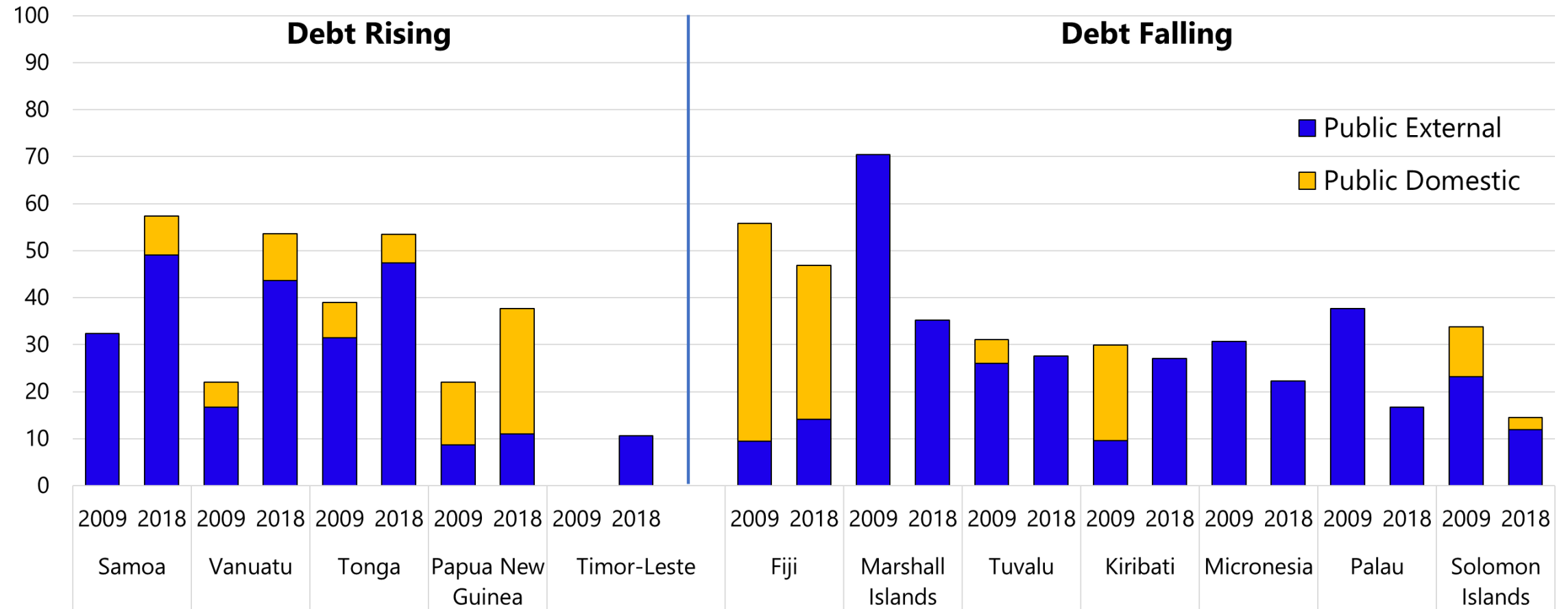
Sources: Country desks and latest DSA available.



The pattern of debt differs across countries

Pacific Small States: Public Sector Debt

(In percent of GDP, ordered by debt level in 2018)



Sources: Latest published DSA and country desks.



Short term risks are on the downside...

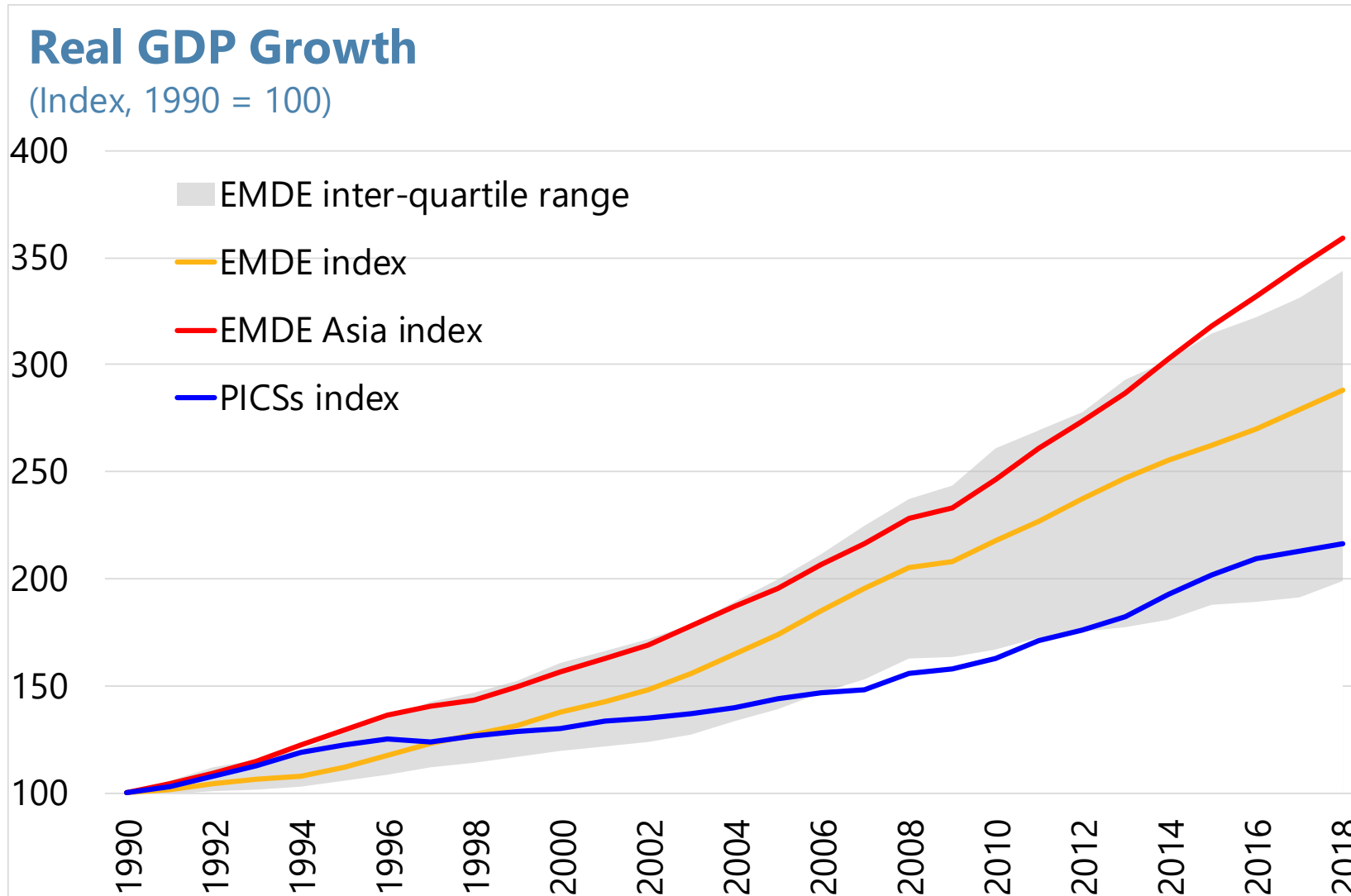
- Natural disasters
- Weaker than expected global growth
- Loss of correspondent banking relationships
- Infrastructure delays (Authorities' view)

...And long-term trends pose challenges

- Climate change
- Non-communicable diseases
- Demographic changes due to migration



Raising long-term growth is a key developmental challenge.

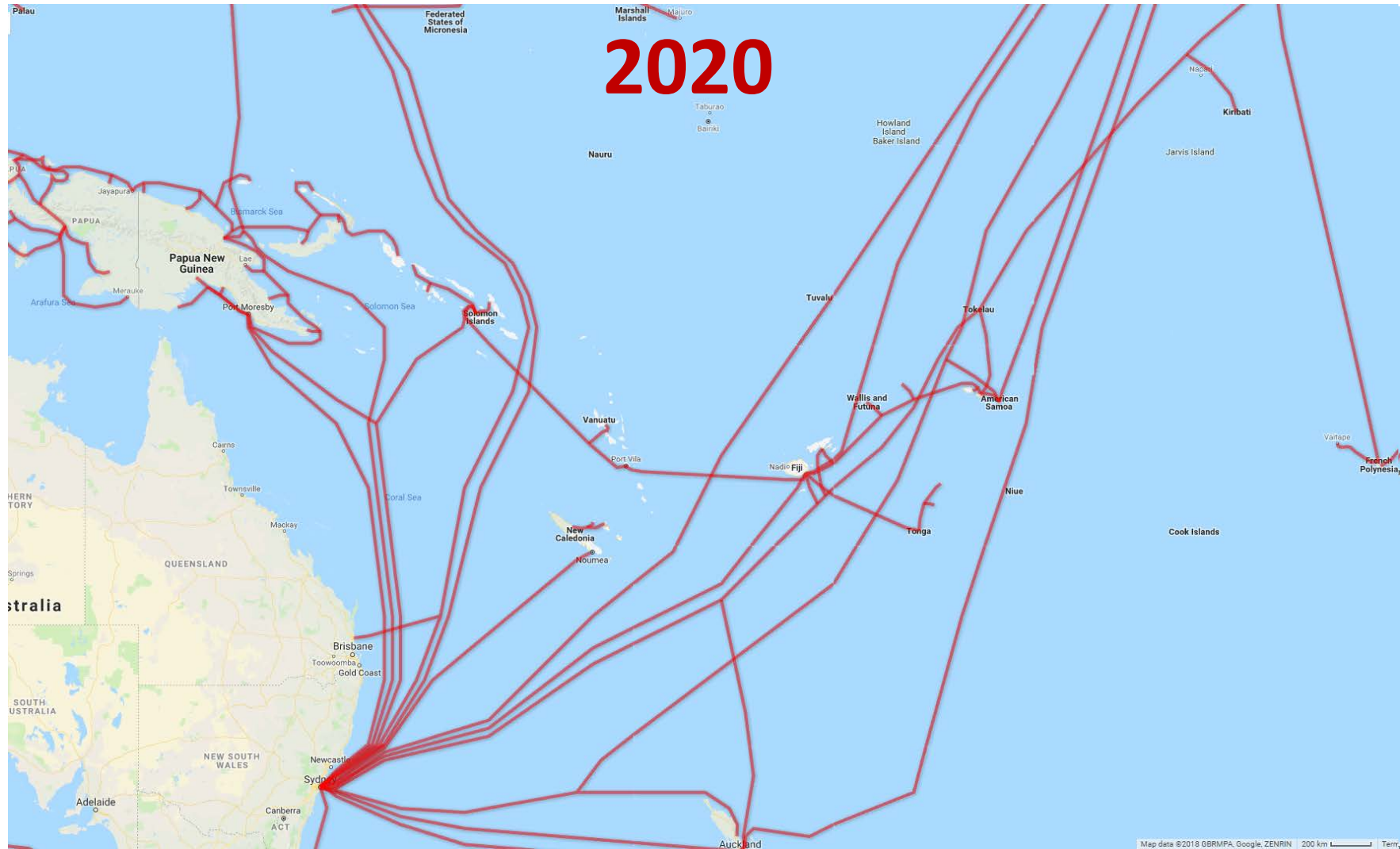


Sources: IMF, World Economic Outlook, and staff calculations.

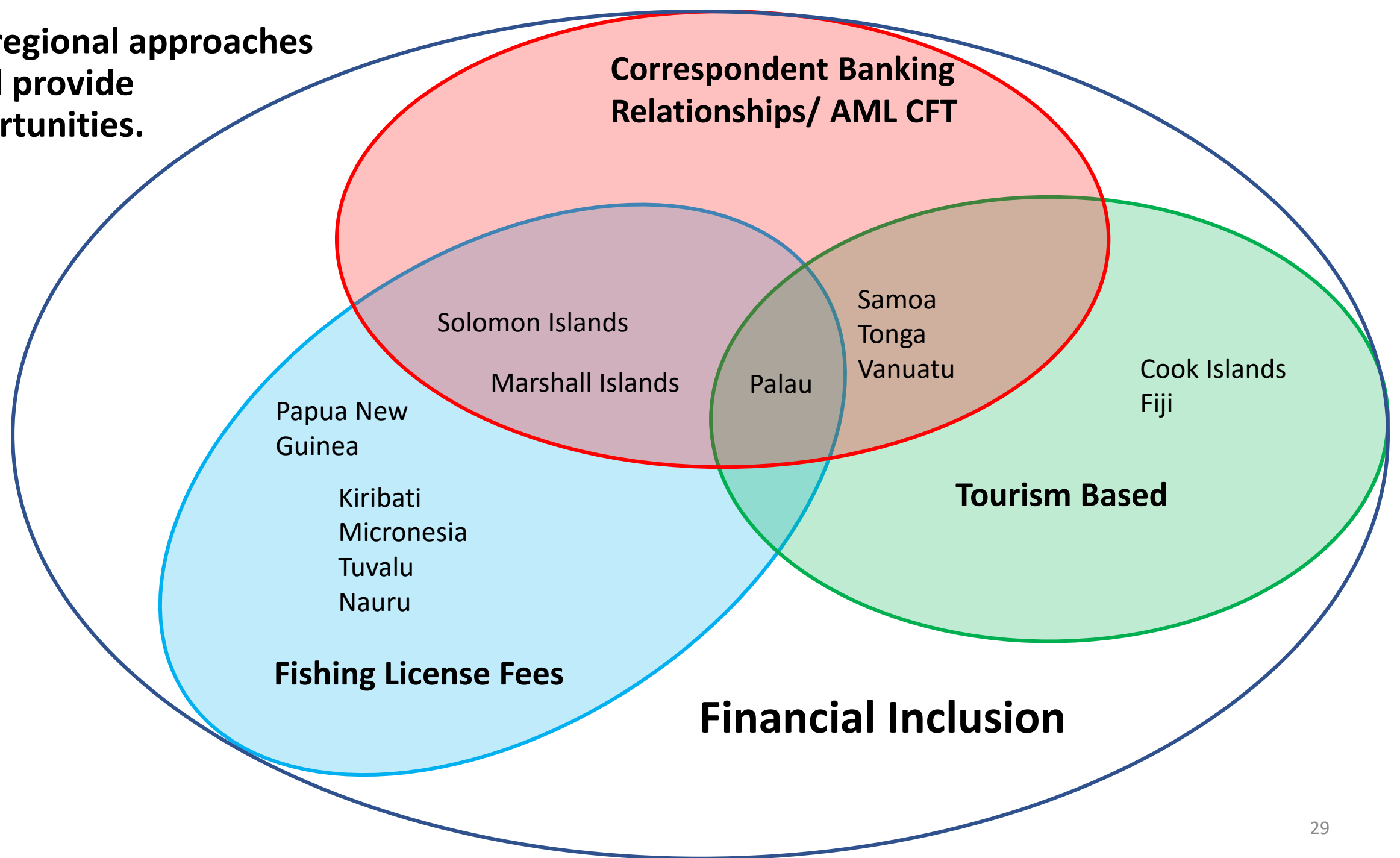


But there are other opportunities: technology could offer new growth opportunities to the PICs.

Submarine Internet Cable



And regional approaches could provide opportunities.



IMF's work in the Pacific.



What is the IMF doing?

Country Surveillance

- Integration with Capacity Development
- Adjusting for Natural Disasters
- Non-Technical Summary for Cabinet
- Note on Central Bank Digital Currency
- Paper on Correspondent Banking
- Paper on Fintech

Outreach

- IMF Management visits to the Region
- Annual Meetings Event
- Non-Technical Summary for Cabinet

Policy Development

- Focus on Building Resilience to Disasters
- Independent Evaluation Office: Review of Small States
- Comprehensive Surveillance Review
- Capacity Development Strategy



What is the IMF doing?

Capacity Development

- Scaling up revenue mobilization
- Joint CARTAC/PFTAC workshop
- Recruitment of Macro-Adviser

More Tailored Training

- Macro-training (PNG/Solomon Islands)
- Fiscal Sustainability for Low Income Countries
- Debt Sustainability Analysis
- AML/CFT
- Roundtable on Correspondent Banking



**Thank you for your
attention!**

