Overview of the Macro Context

Jonathan D. Ostry
Deputy Director
Asia and Pacific Department, IMF

IMF/PFTAC Steering Committee Meeting, Port Moresby, Papua New Guinea
March 27th, 2019
Asia is exposed to swirling winds.

<table>
<thead>
<tr>
<th>Headwinds</th>
<th>Global growth deceleration</th>
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<td>Crosswinds</td>
<td>Trade tensions &amp; talks</td>
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<td>Elections</td>
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<td>Tailwinds</td>
<td>Pause in monetary policy normalization</td>
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<td>Drop in commodity prices</td>
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<td>Stimulus measures</td>
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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.

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Source: Haver Analytics
Prospects of a trade deal have improved but are still uncertain.

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

Both countries could lift some tariffs and roll back others.

U.S., China Close

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

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
Political uncertainty looms ahead.

Upcoming Elections in 2019

March
- Micronesia
- Thailand
- Tuvalu

April
- Indonesia
- Maldives
- Solomon Islands

May
- India
- Philippines
- Australia

July
- Japan
- Nauru

November
- Hong Kong
- Marshall Islands

December
- Kiribati
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)

- **FOMC median dots (as of Dec. 2018)**
- **FOMC median dots (as of March 2019)**
- **Federal funds rate futures (as of March, 2019)**

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

Source: Bloomberg

Source: IMF staff estimates.
The drop in commodity prices in late 2018 helped soften inflation in most economies and may bolster growth.
Asian EM financial conditions improved.

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

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

Source: IIF.

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.

- **Benefits**
  - No increase in tariffs
  - Financial market conditions ease.
  - China commits to structural reforms (IP, tech transfer, SOEs)

- **Uncertainties**
  - Potential trade diversion

- **Downsides**
  - Movement away from multilateral solutions
Closing the US-China bilateral deficit via managed trade will be a challenge.

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

US Exports to China
~130B

US Imports from China
~530B

Total Deficit: ~400B

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.

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.

- Global growth deceleration
- Low commodity prices (for commodity exporters)
- Tourism
- [Fishing]
- Low commodity prices (for commodity importers)

Spillovers from trade tensions

Headwinds

Tailwinds

Crosswinds
Tourism is an important driver of growth in the region.

Visitor Arrivals in Selected Pacific Island Countries
(In thousands of persons)

Share of Visitor Arrivals, by Source Markets
(In percent of Total Arrivals)

Note: Includes Fiji, Samoa, Palau, PNG, Solomon Islands, Tonga and Vanuatu. Sources: South Pacific Tourism Organisation (SPTO).

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**

- Public External Debt
- Public Debt

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
- Natural disasters
- Weaker than expected global growth
Raising long-term growth is a key developmental challenge.

Real GDP Growth
(Index, 1990 = 100)

Sources: IMF, World Economic Outlook, and staff calculations.
But there are other opportunities: technology could offer new growth opportunities to the PICs.
And regional approaches could provide opportunities.

Correspondent Banking Relationships/ AML CFT

Solomon Islands
Marshall Islands
Papua New Guinea
Kiribati
Micronesia
Tuvalu
Nauru

Cook Islands
Fiji

Tourism Based

Fishing License Fees

Financial Inclusion
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
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!