

Asia and Pacific Department

Navigating a shifting global environment



Anoop Singh
October 10, 2013



Roadmap

Global backdrop

The transmission to Asia

Implications for outlook

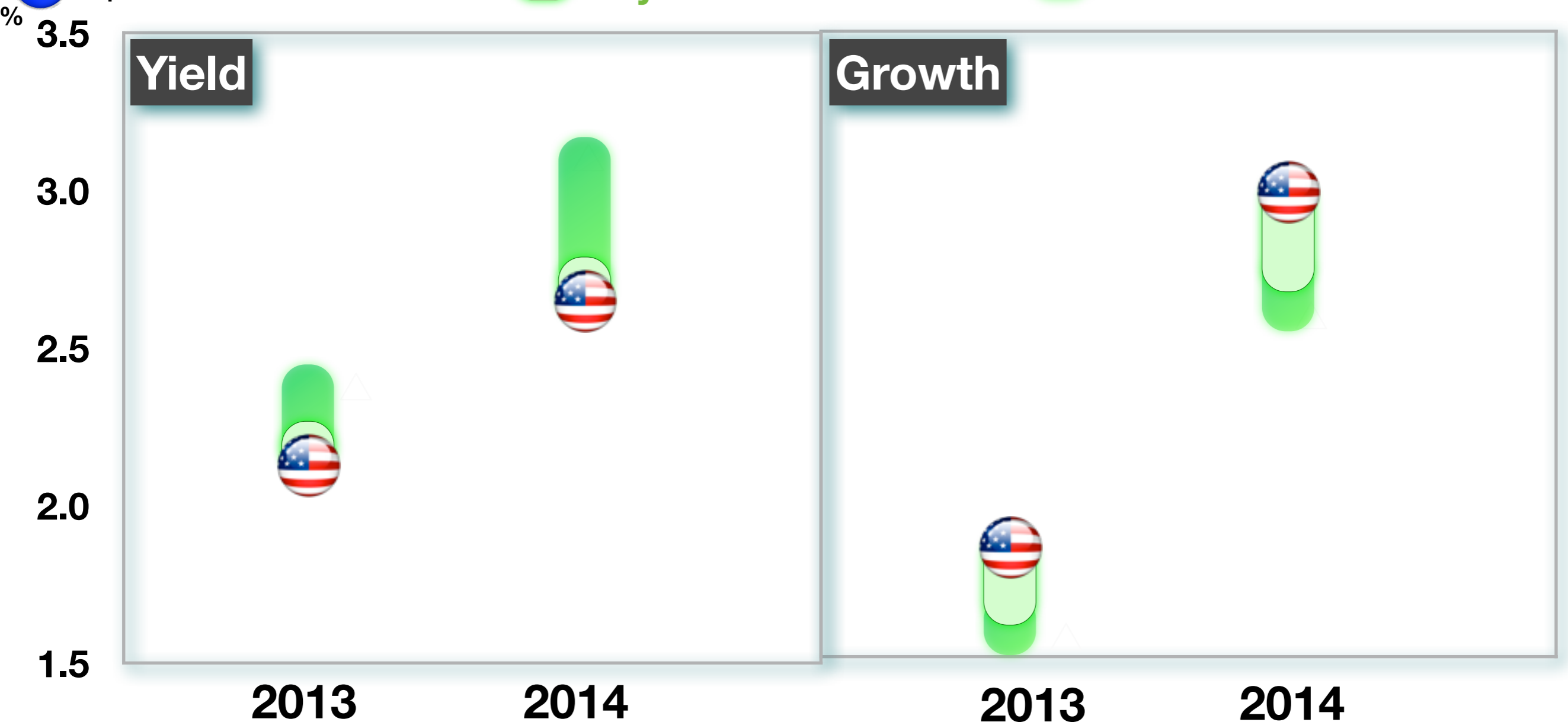
Challenges ahead



Rising US yields; A downgrade to the US growth outlook

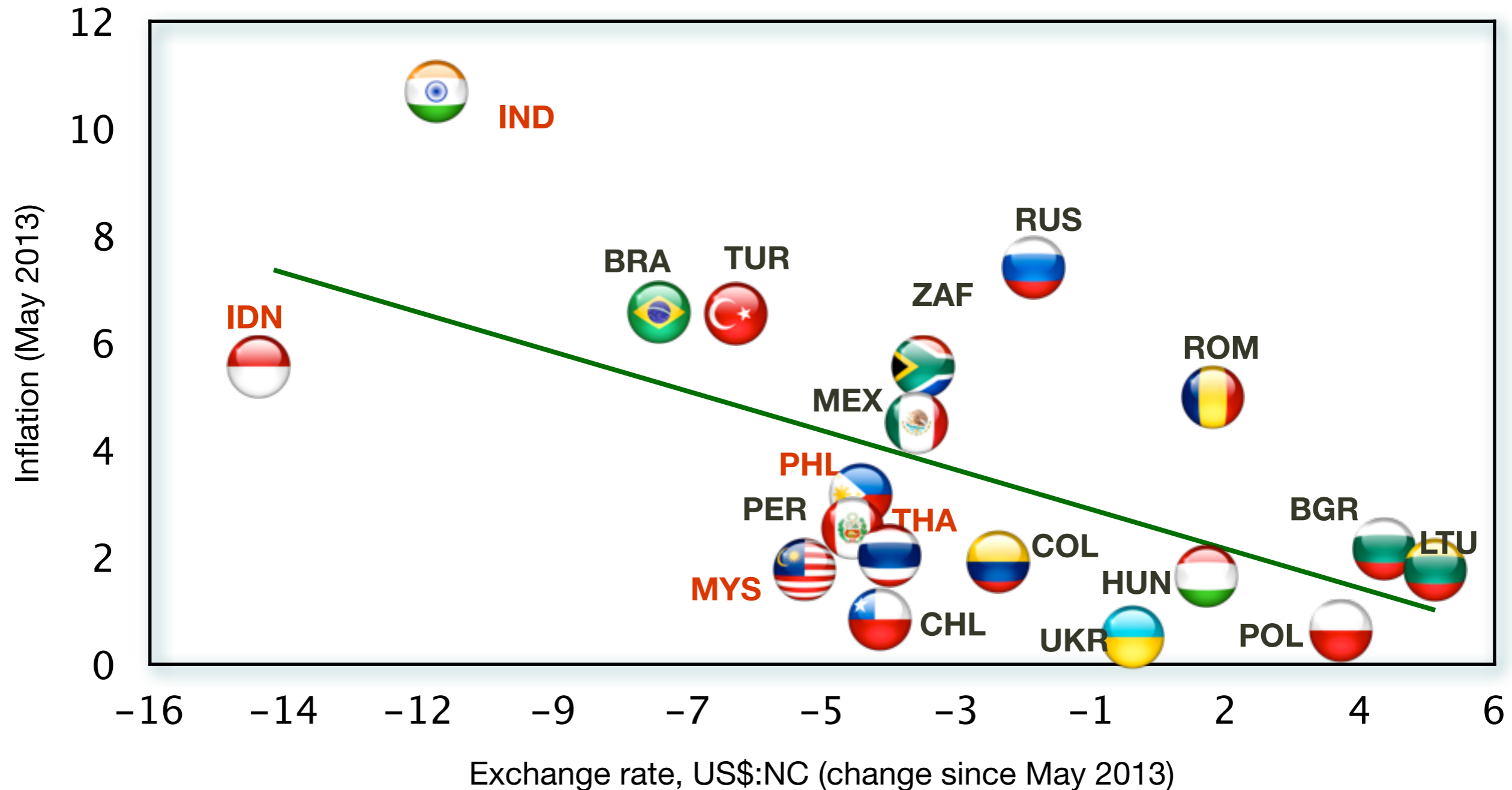
Forecast for US Growth and Yields

● April 2013 WEO forecast ● July 2013 WEO forecast ● October 2013 WEO forecast



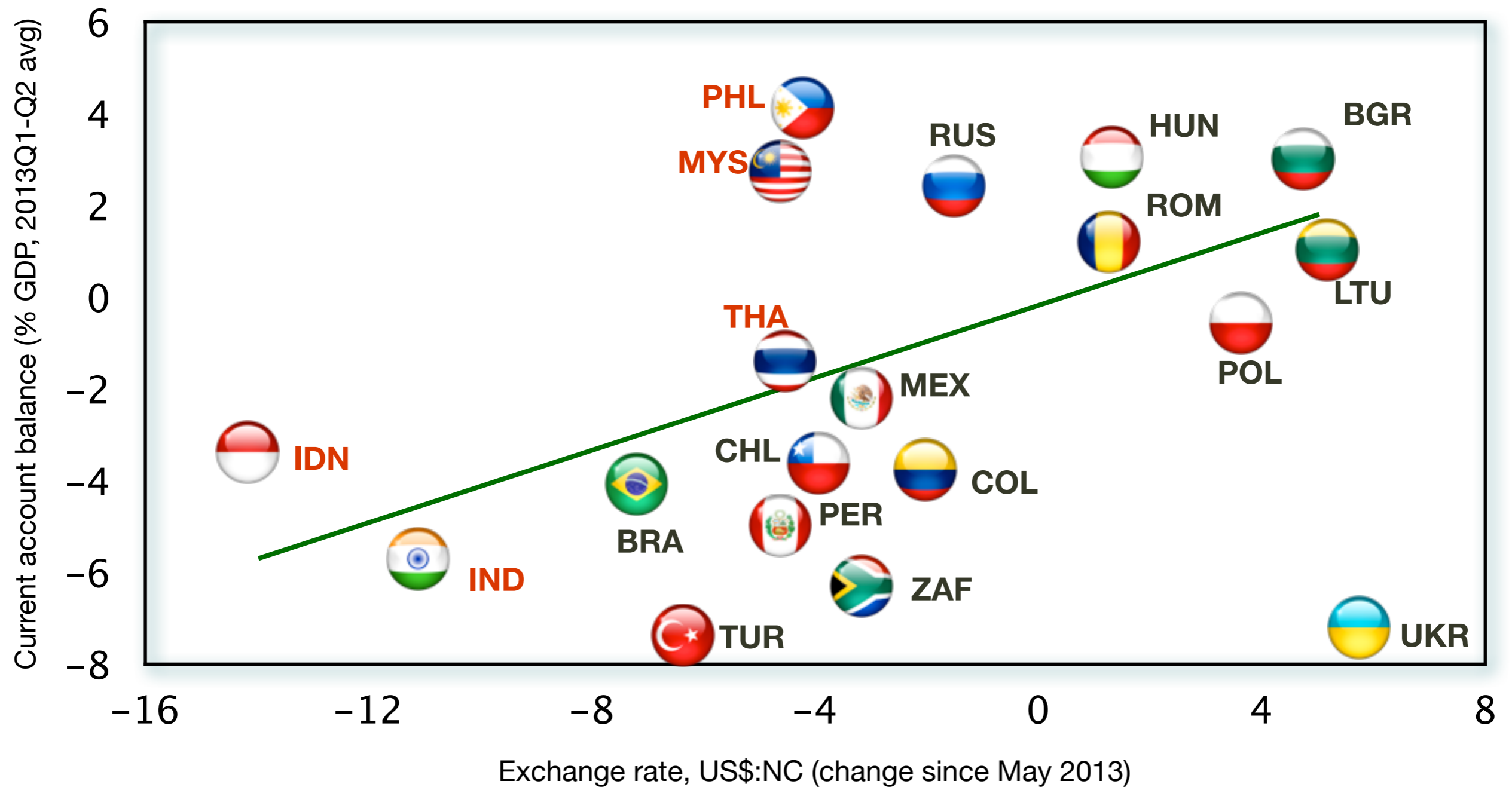
Impact of tapering differed widely across EMs--Inflation

Inflation and Exchange Rate



Impact of tapering differed widely across EMs--Current account

Current Account and Exchange Rate

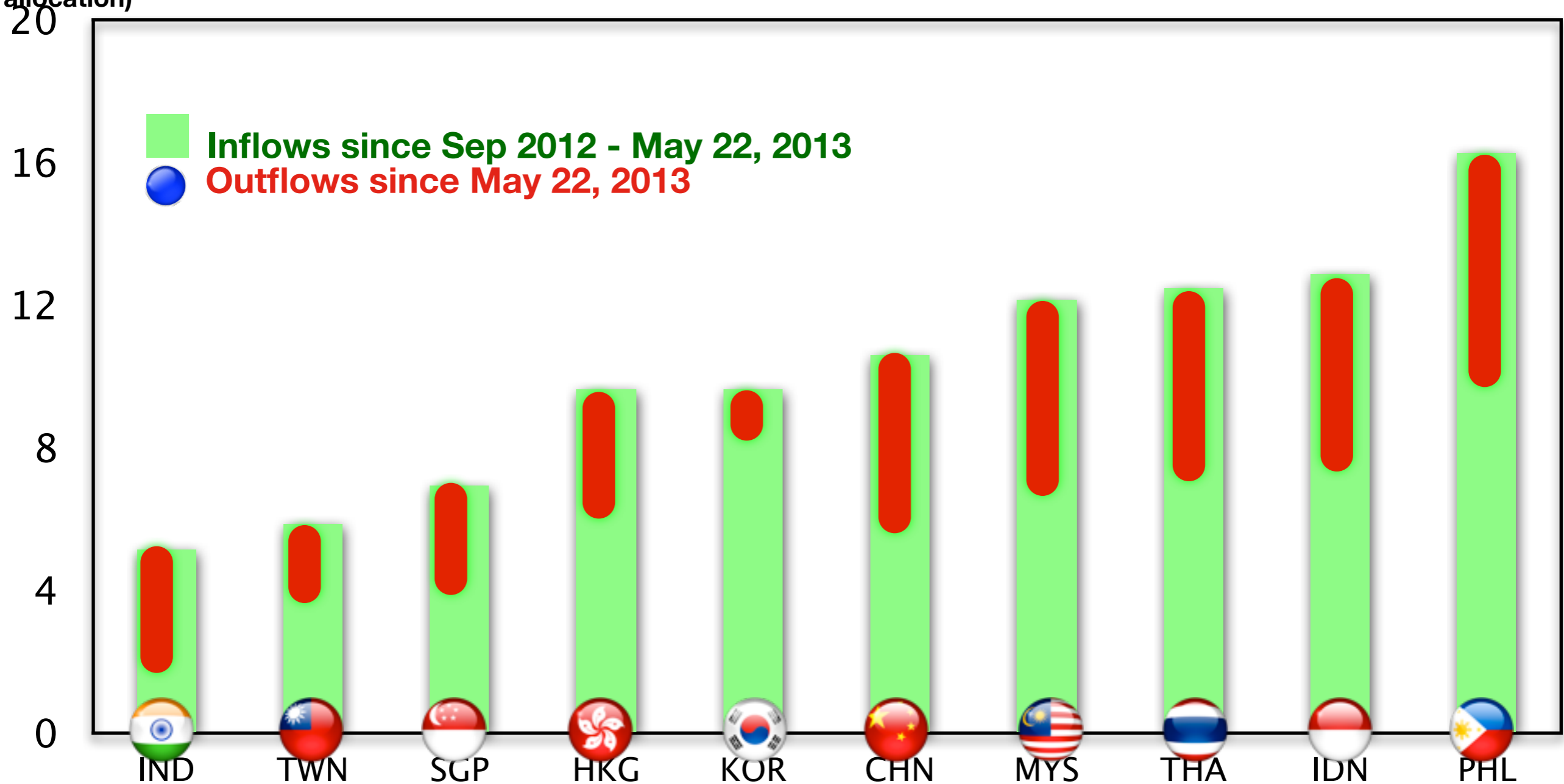




In Asia: Moderate reversal in capital flows so far

Cumulative Equity and Bond Flows

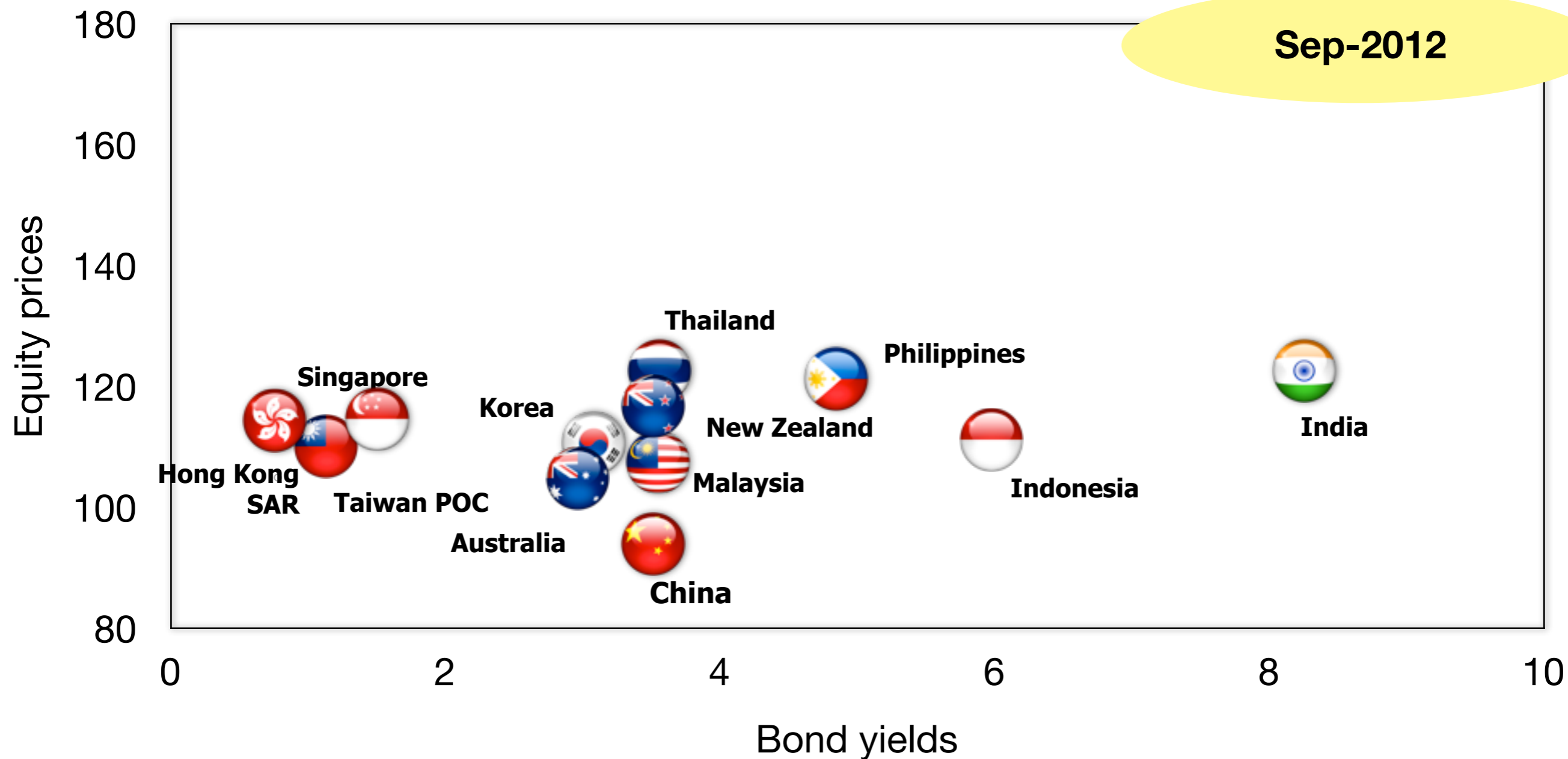
(% of starting allocation)



The run-up in regional asset markets...

(Index, Jan1, 2012=100)

Yields and Equity Prices

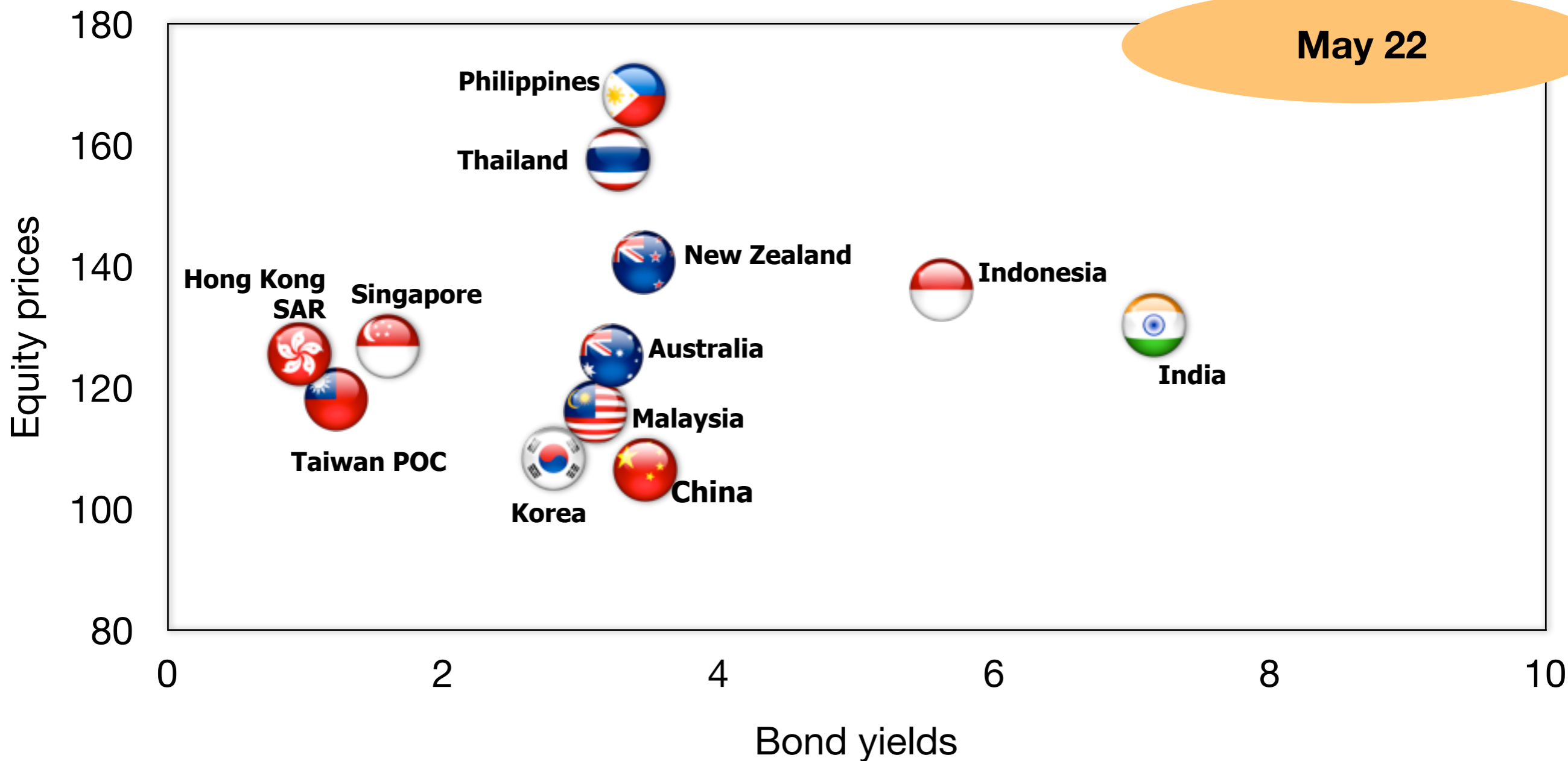




The run-up in regional asset markets...

(Index, Jan1, 2012=100)

Yields and Equity Prices

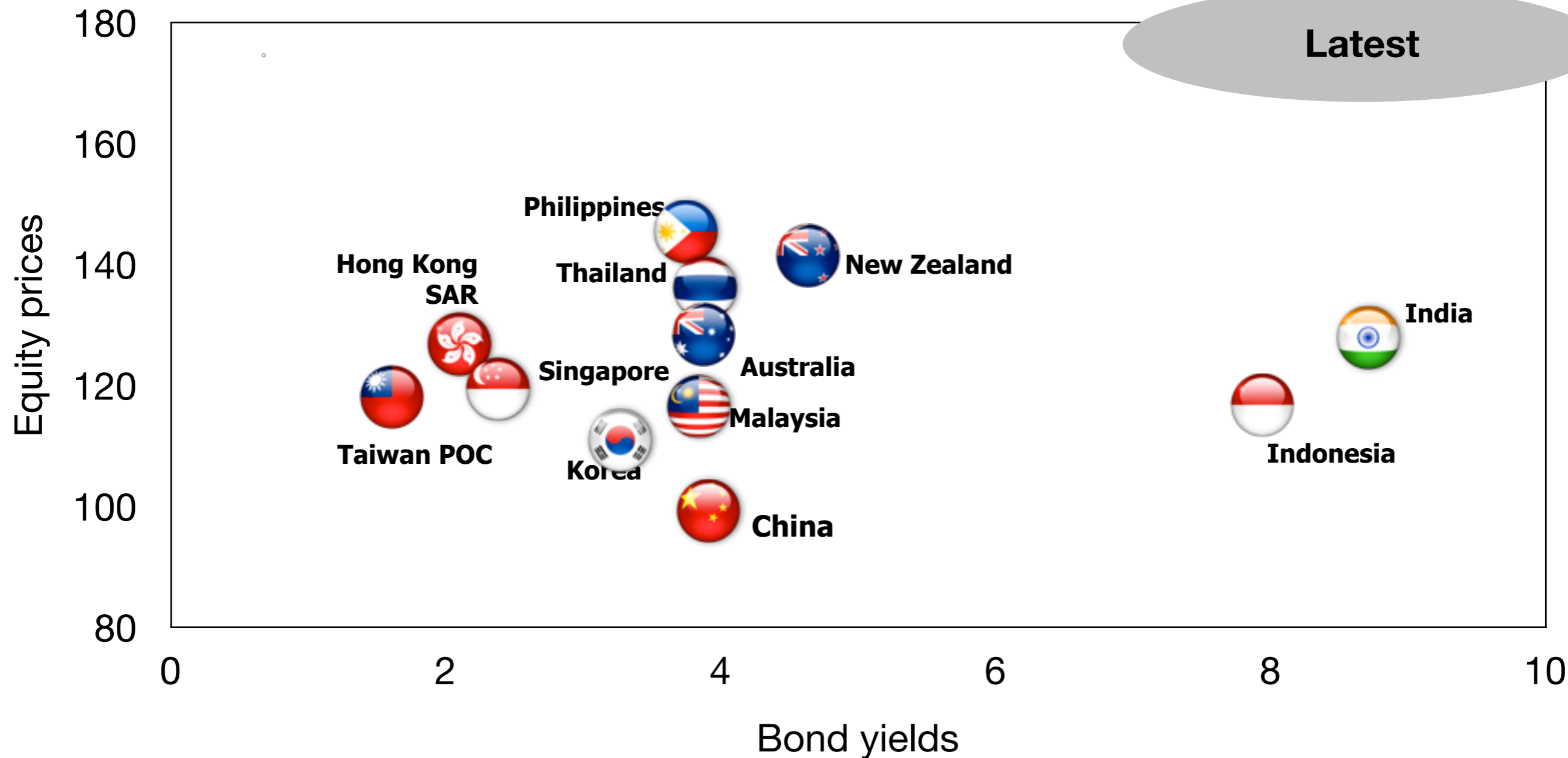




... has reversed, with increases in yields particularly for India/Indonesia

(Index, Jan1, 2012=100)

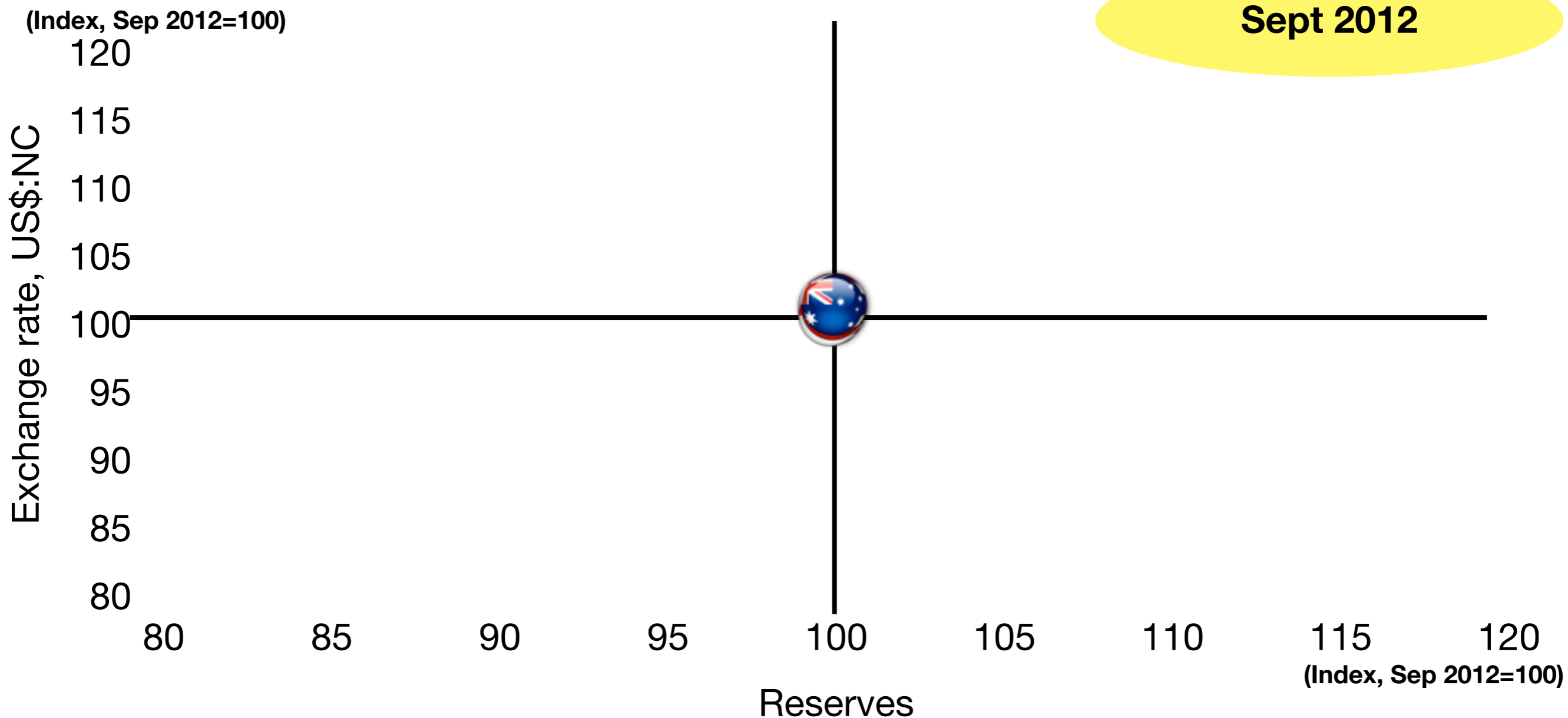
Yields and Equity Prices





More reserve accumulation on the upside

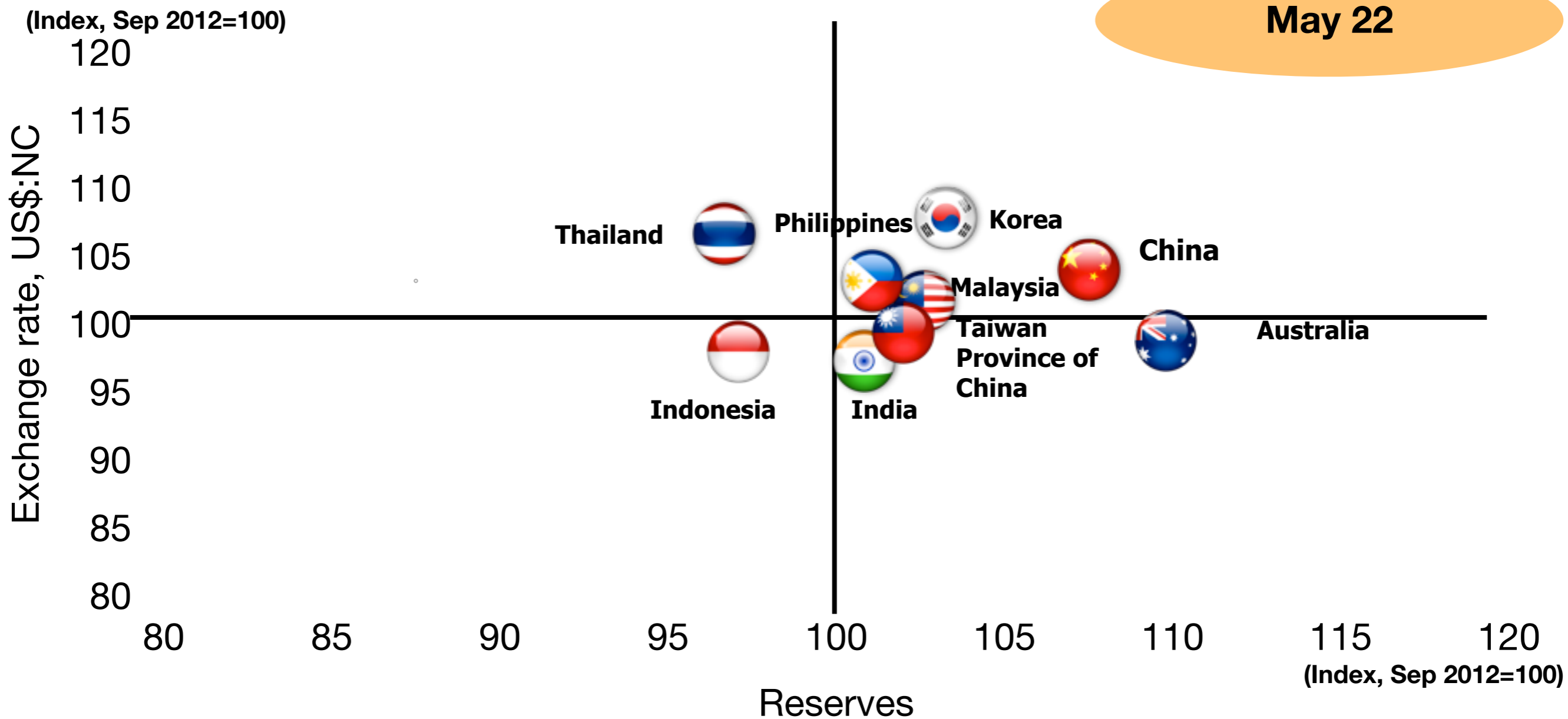
Reserves and Exchange Rates





More reserve accumulation on the upside

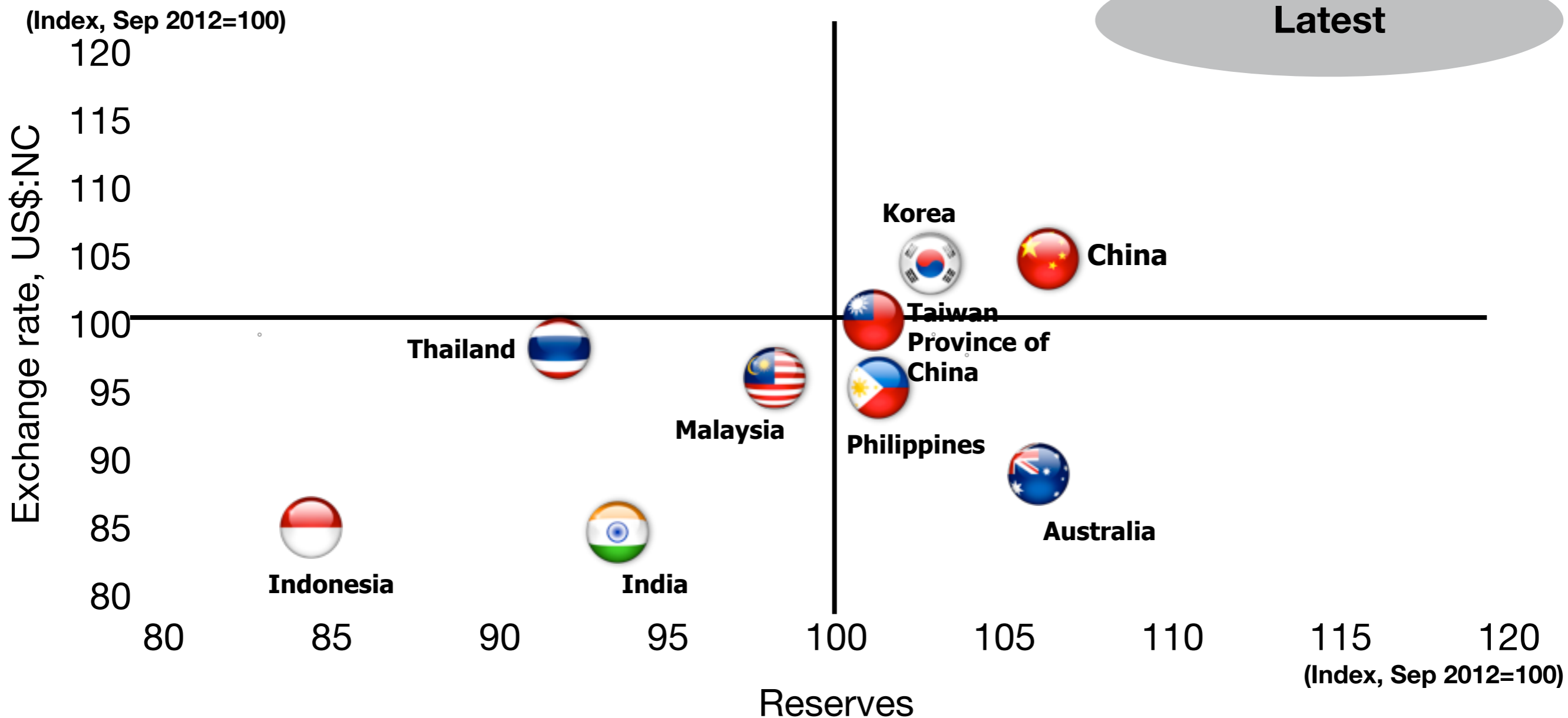
Reserves and Exchange Rates





More depreciation on the downside, but with some loss of reserves

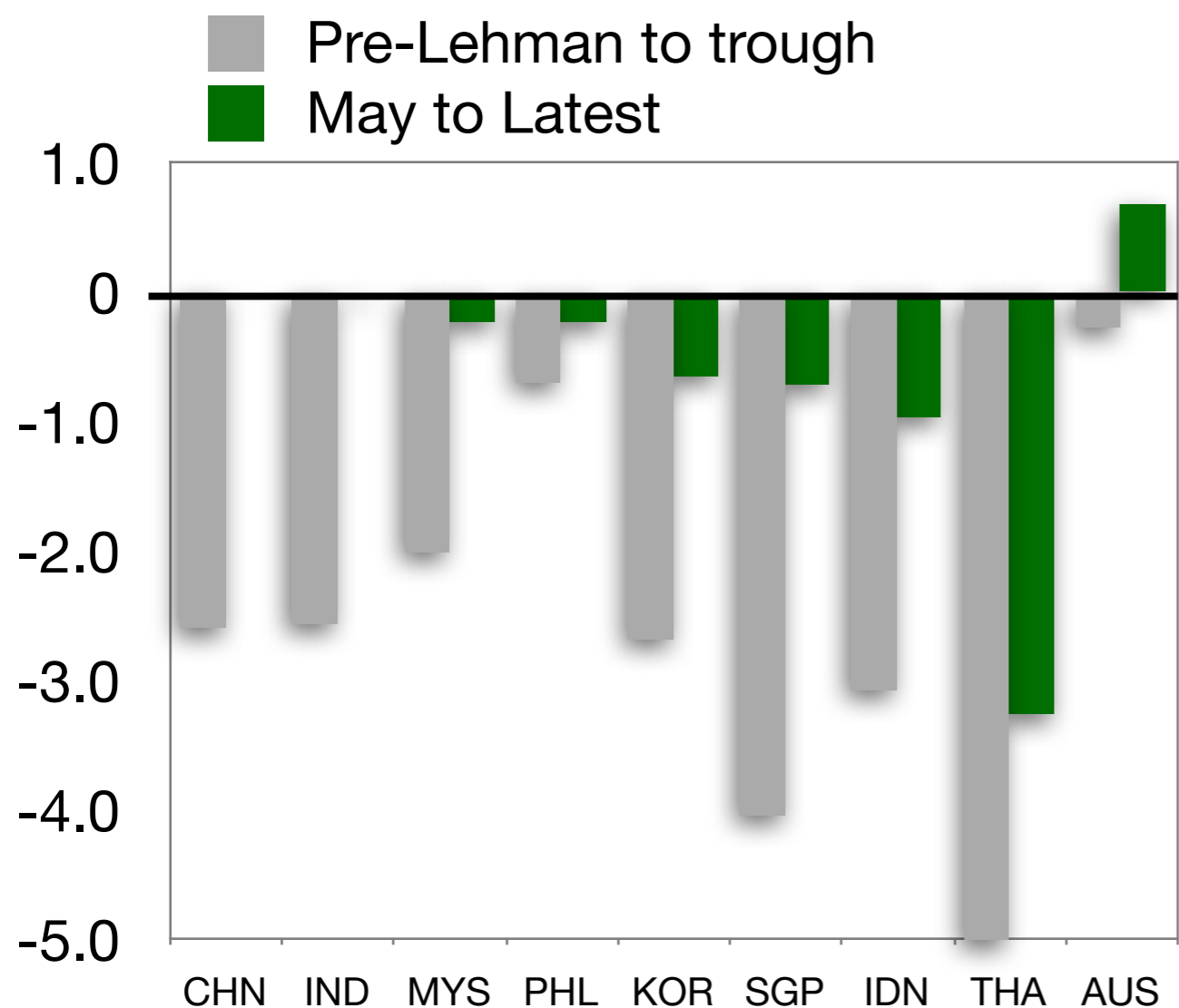
Reserves and Exchange Rates



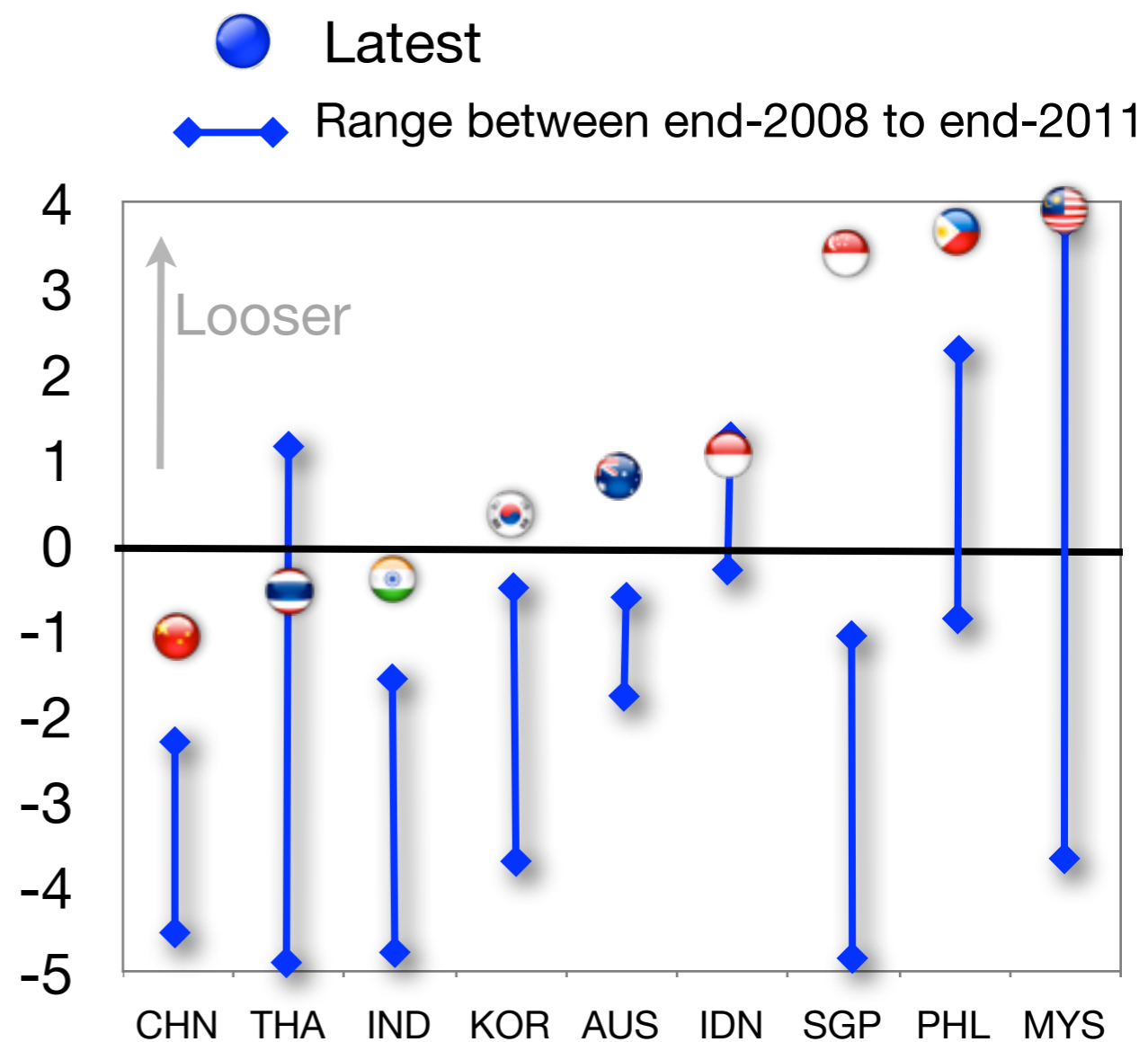


Financial conditions have tightened but are still relatively supportive

Change in Financial Conditions



Level of Financial Conditions



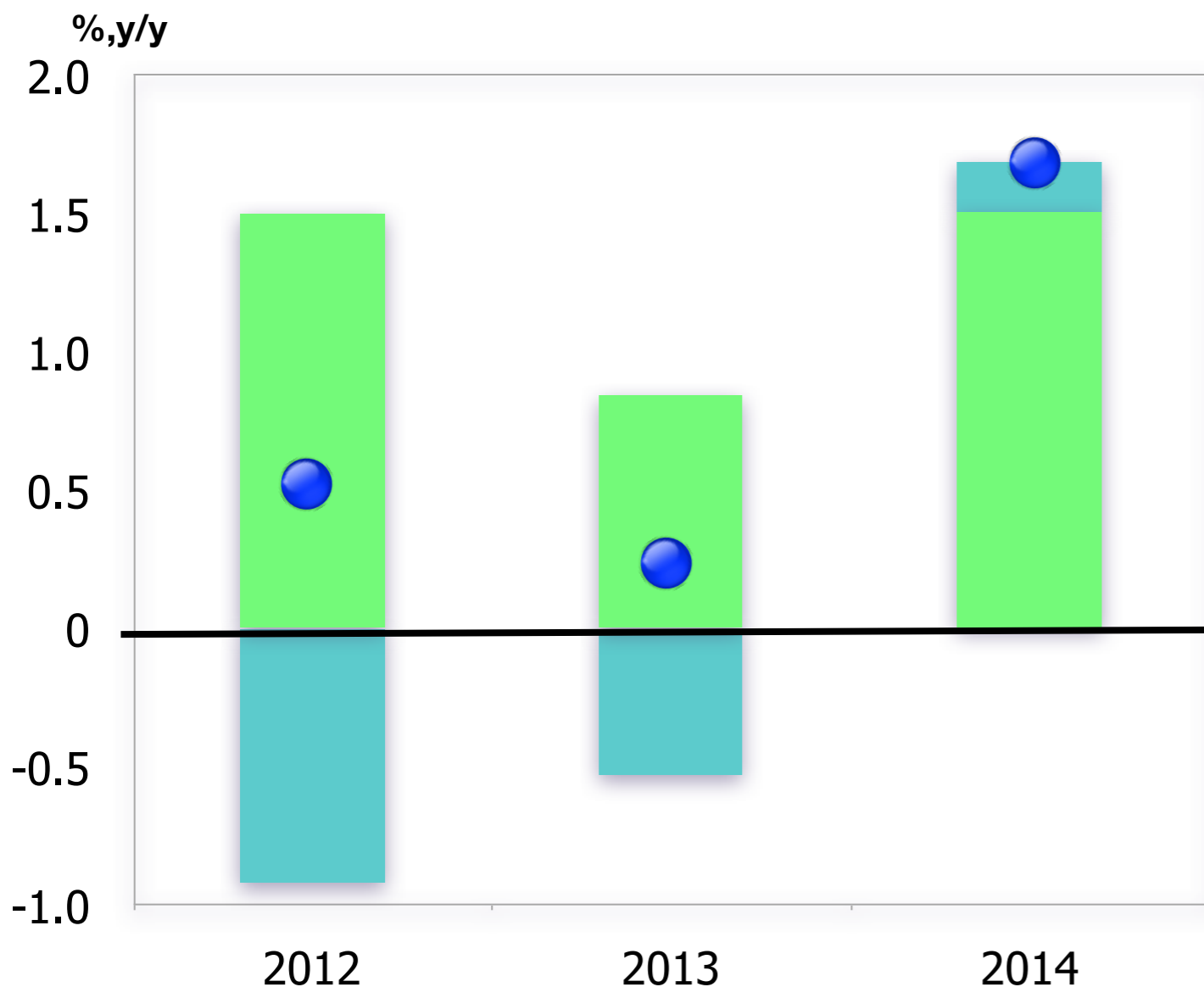
Source: IMF staff estimates.
 Note: decrease = tightening of financial conditions index.



External demand is improving; Domestic drivers are still strong

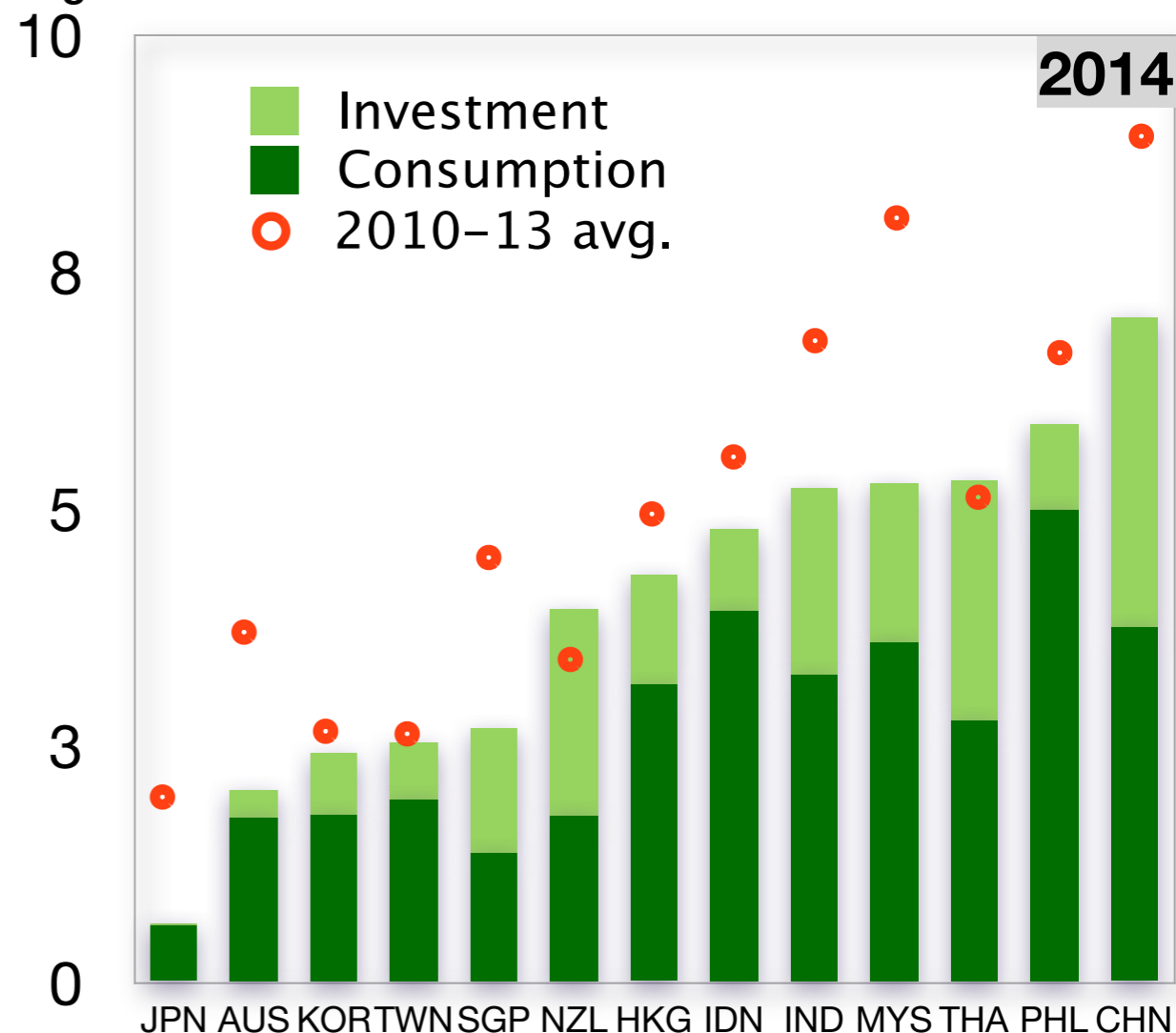
Advanced Economies Demand

■ US ■ EU ● Total



Domestic Demand

contr. GDP growth



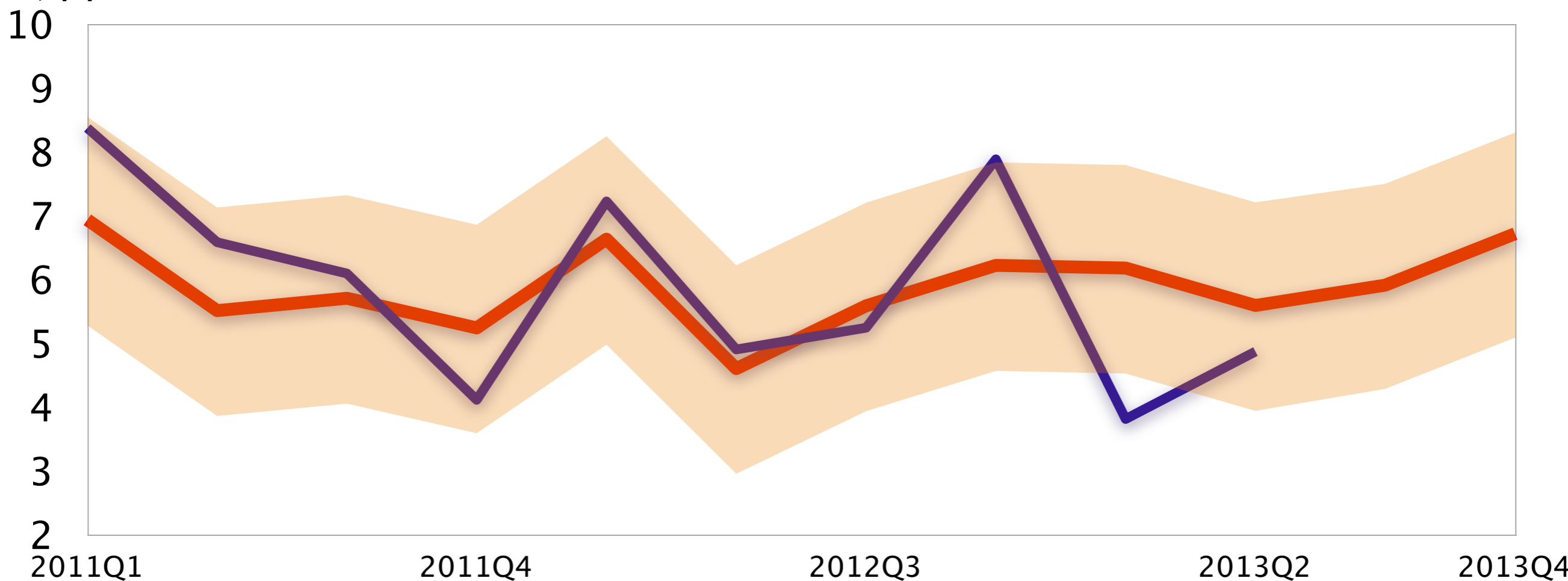


Near-term indicators point to better EM Asia growth

EM Asia Growth Model

— Actual growth — Model forecast

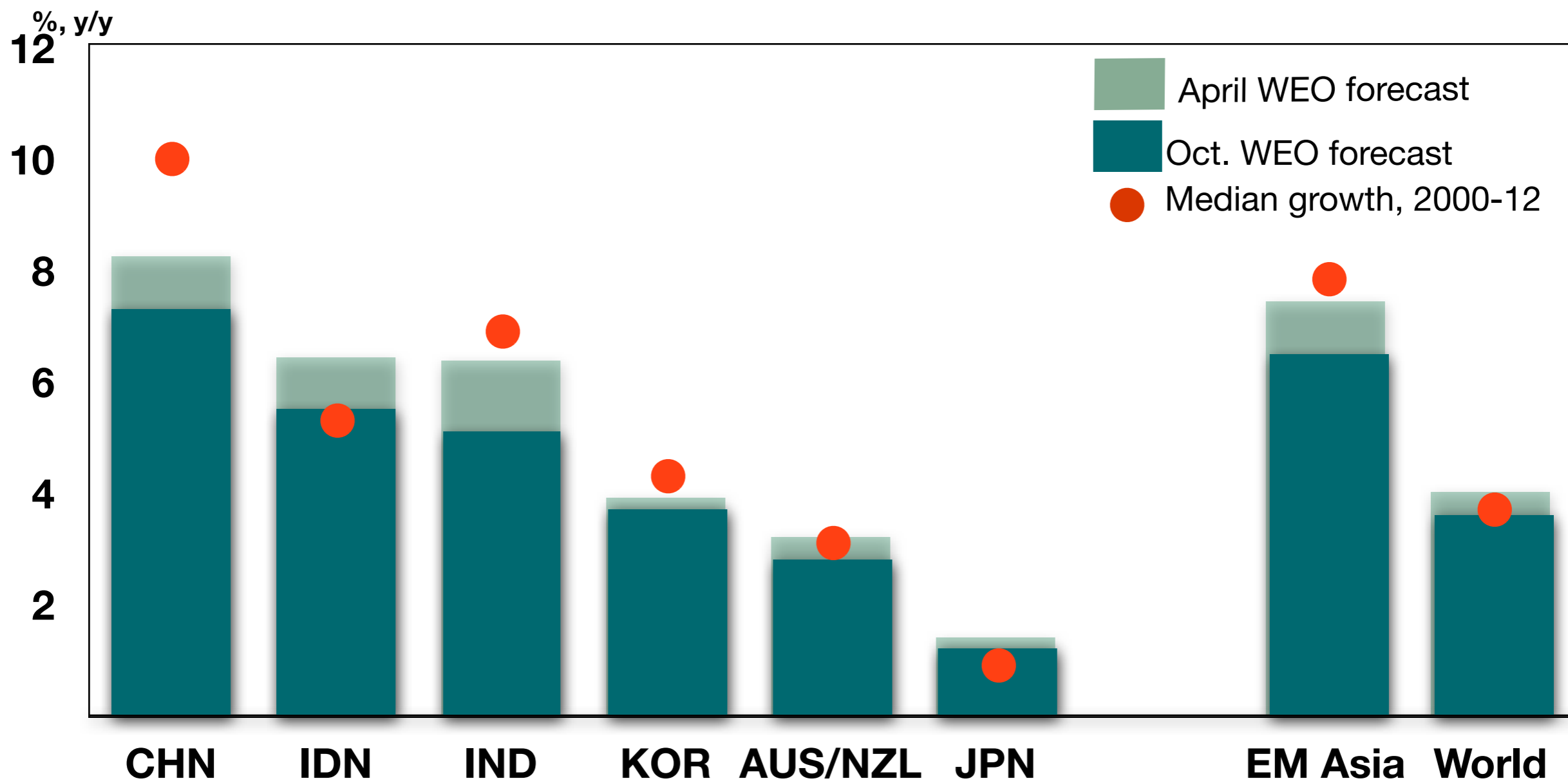
%, q/q SAAR





Asia remains a global growth leader

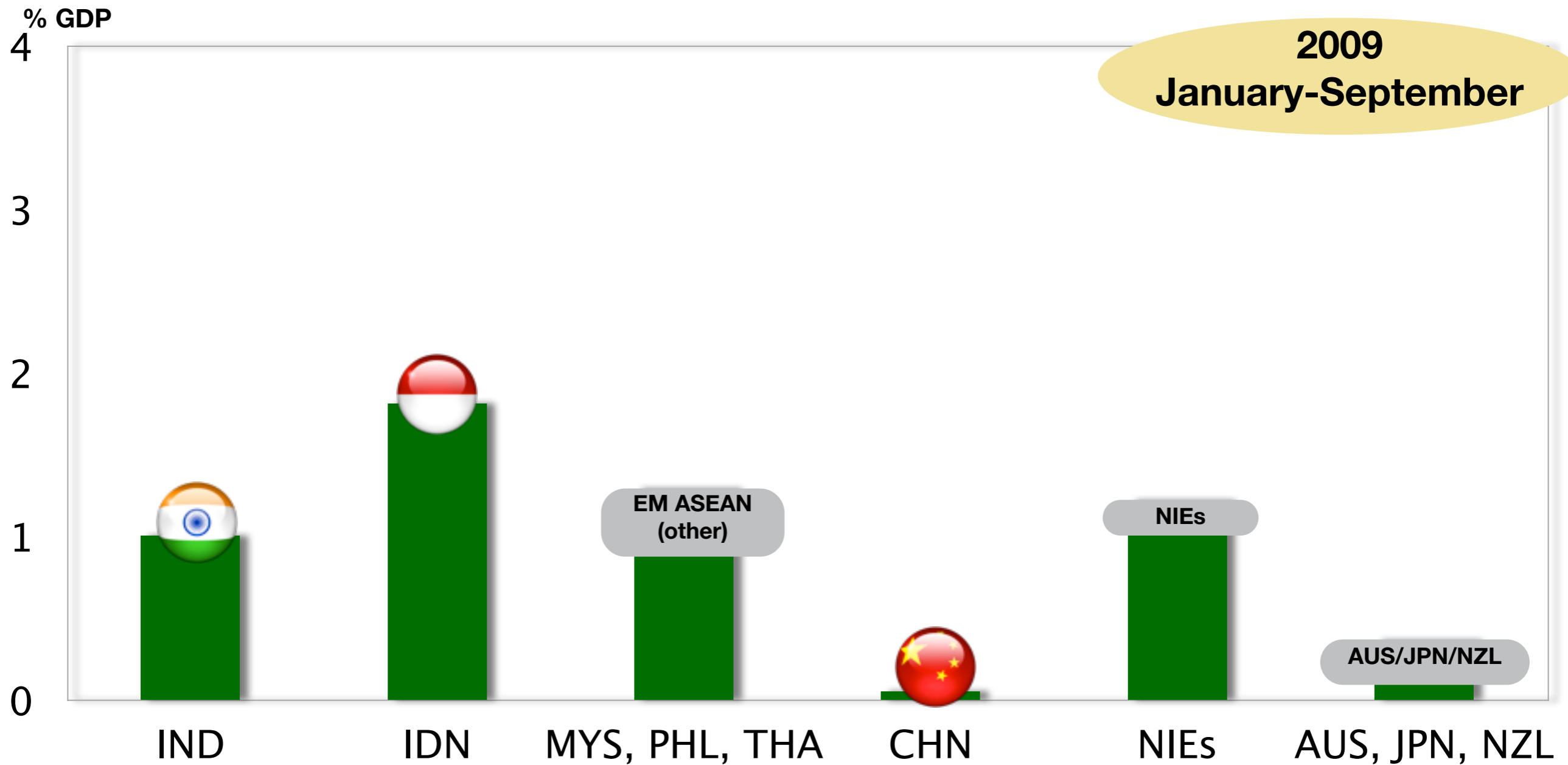
Growth Forecast, 2014





High-yield corporate borrowing has gone up

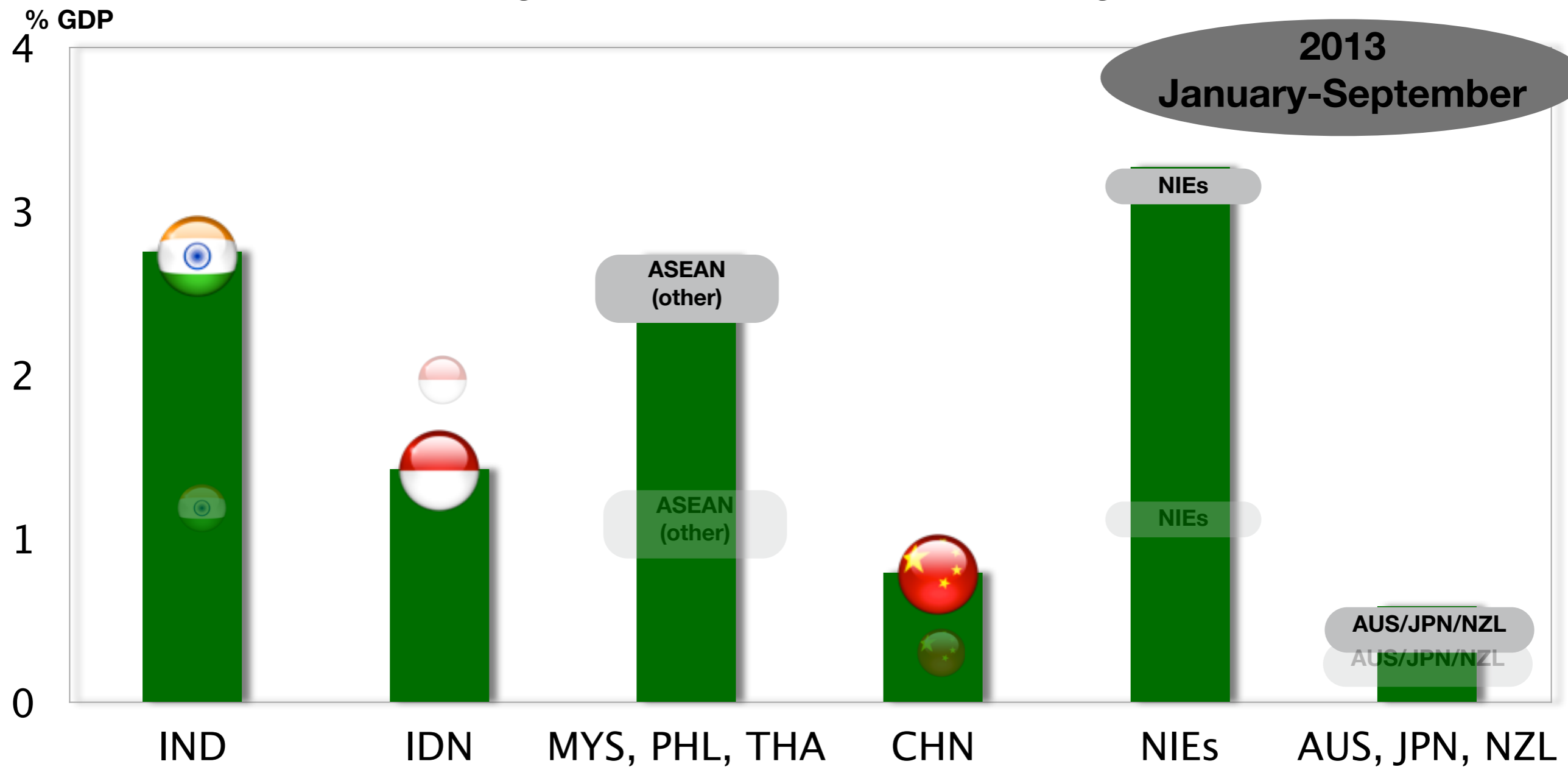
High-Yield Corporate Borrowing





High-yield corporate borrowing has gone up

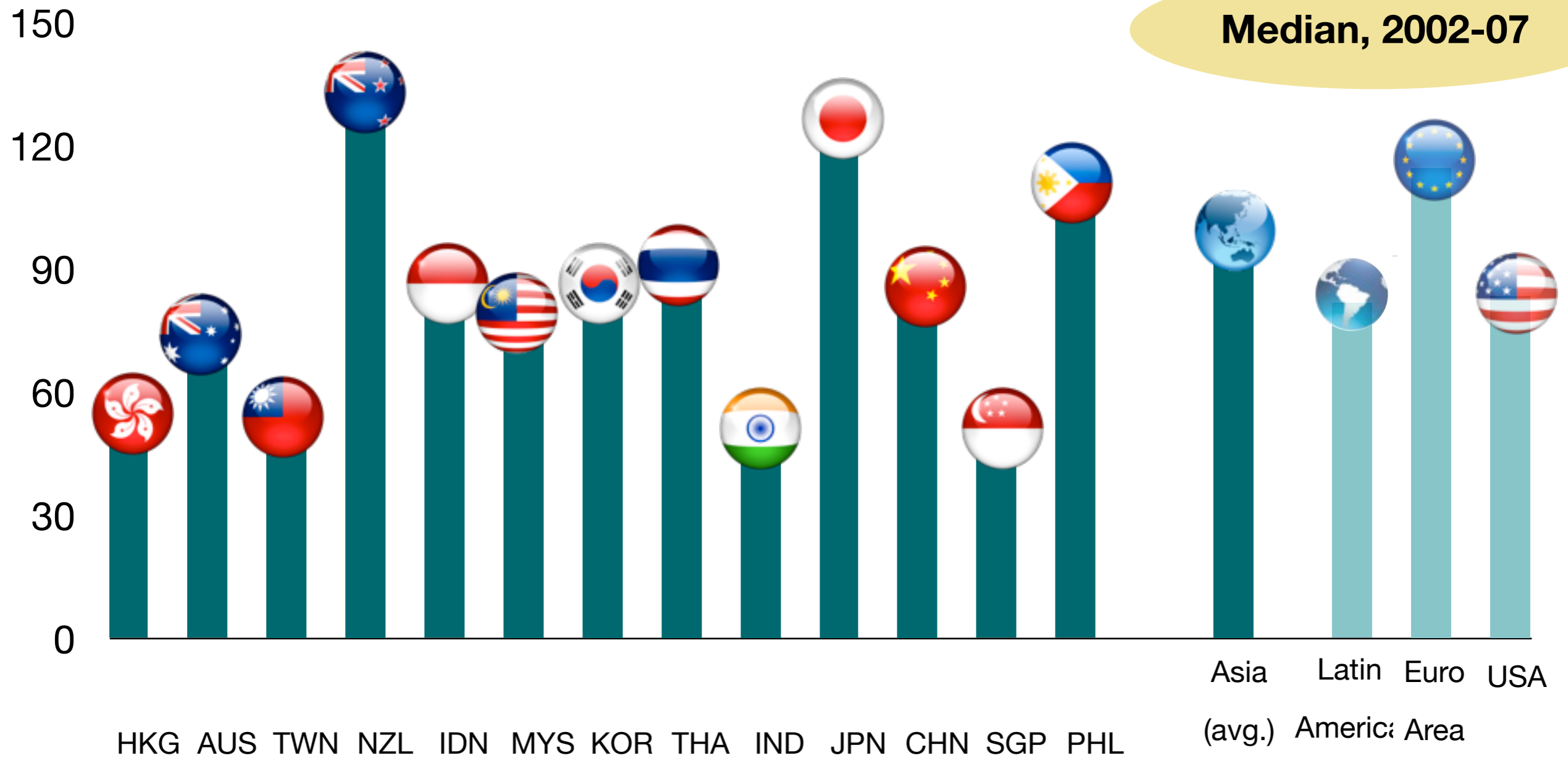
High-Yield Corporate Borrowing





Despite this, average corporate leverage is not high

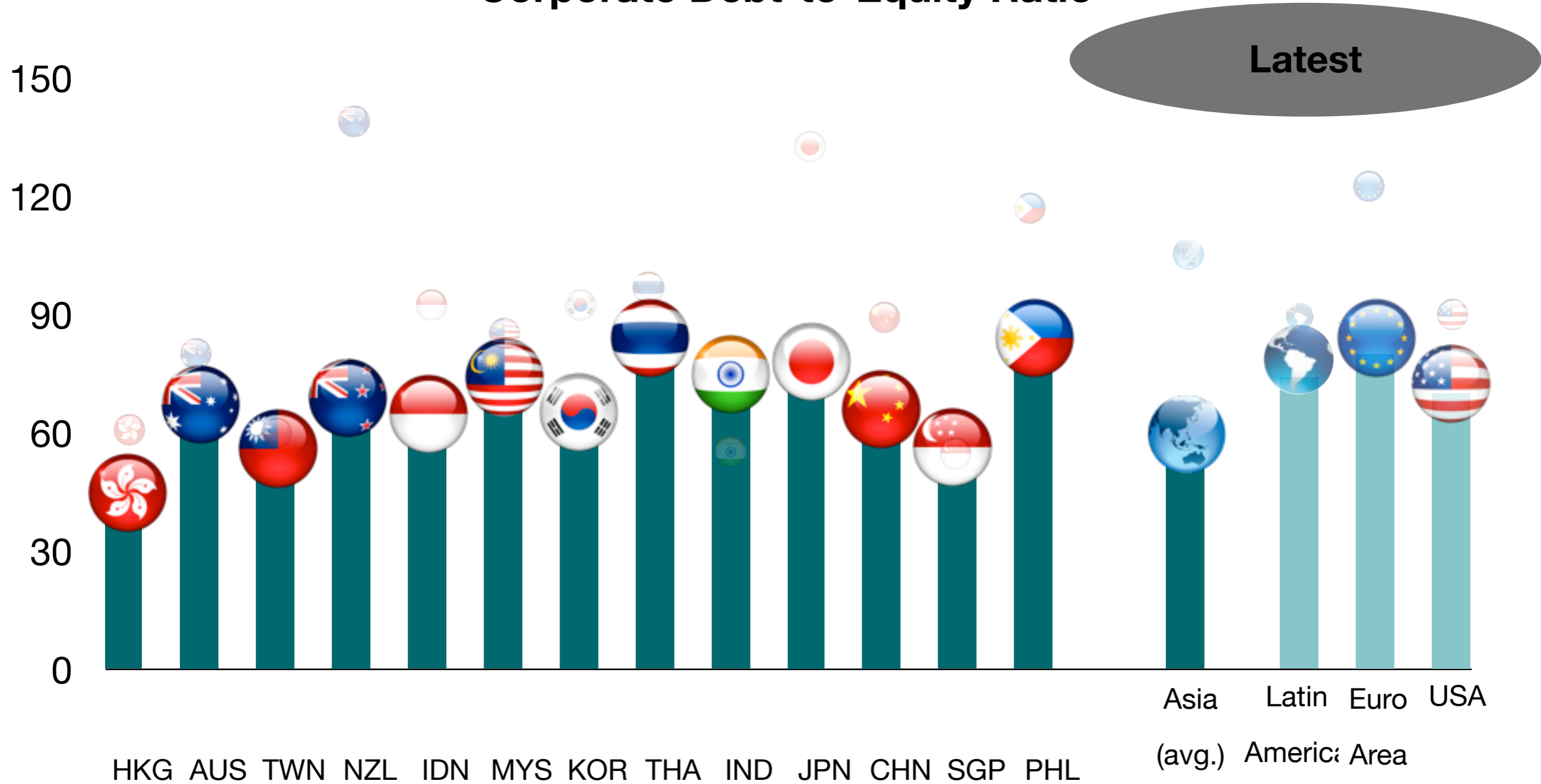
Corporate Debt-to-Equity Ratio





Despite this, average corporate leverage is not high

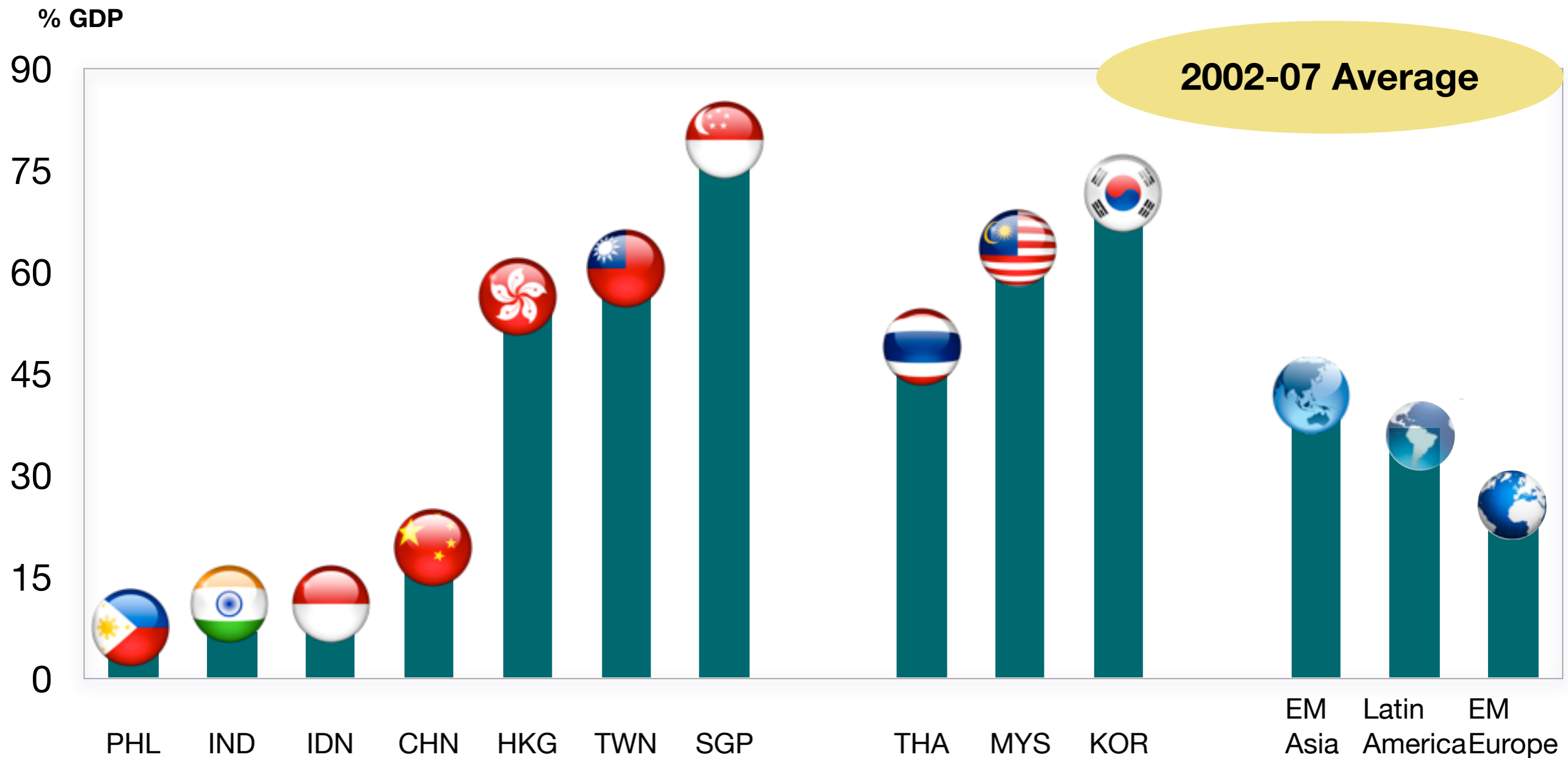
Corporate Debt-to-Equity Ratio



Household debt: the rise is a vulnerability



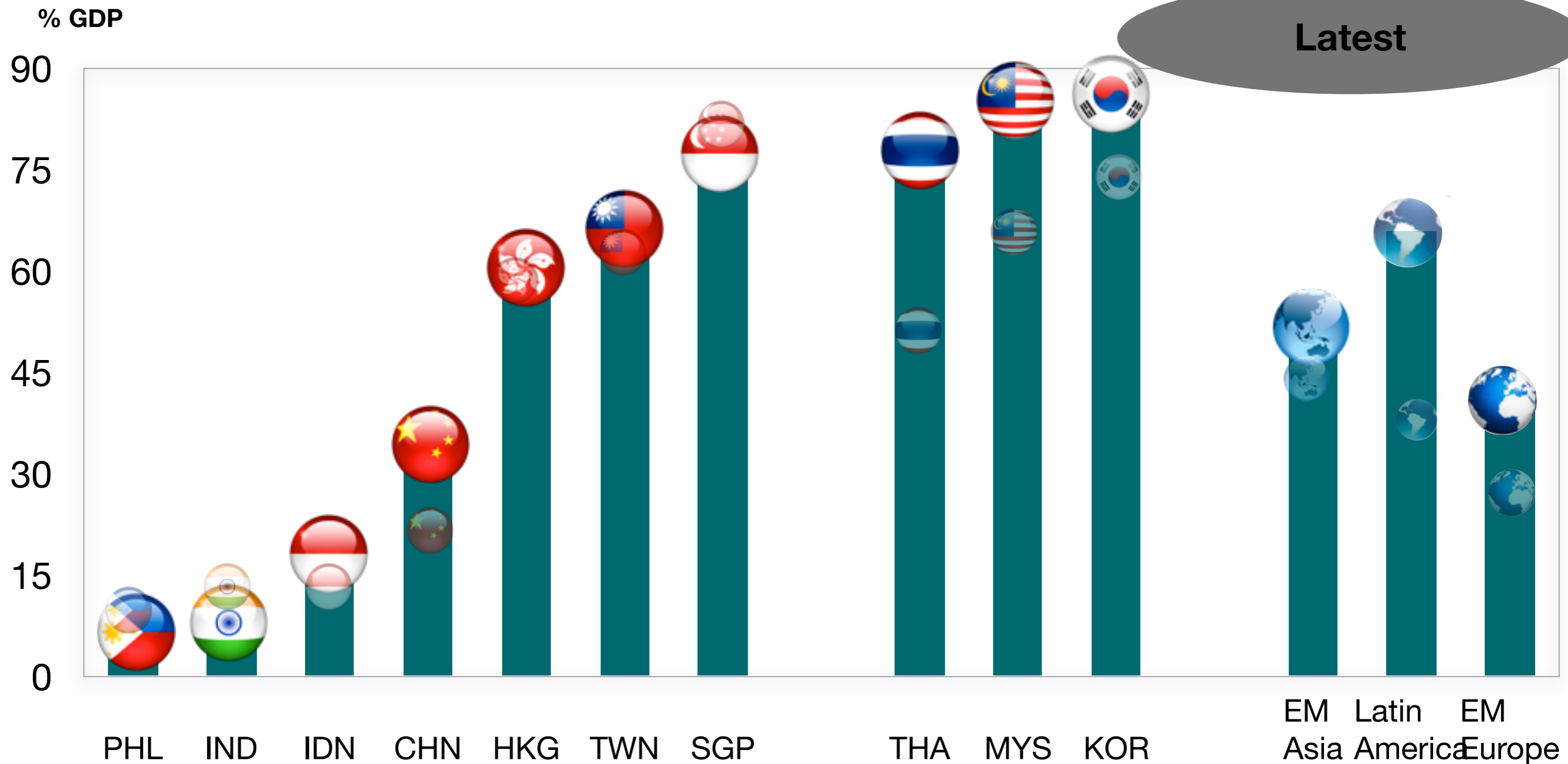
Household Debt



Household debt: the rise is a vulnerability



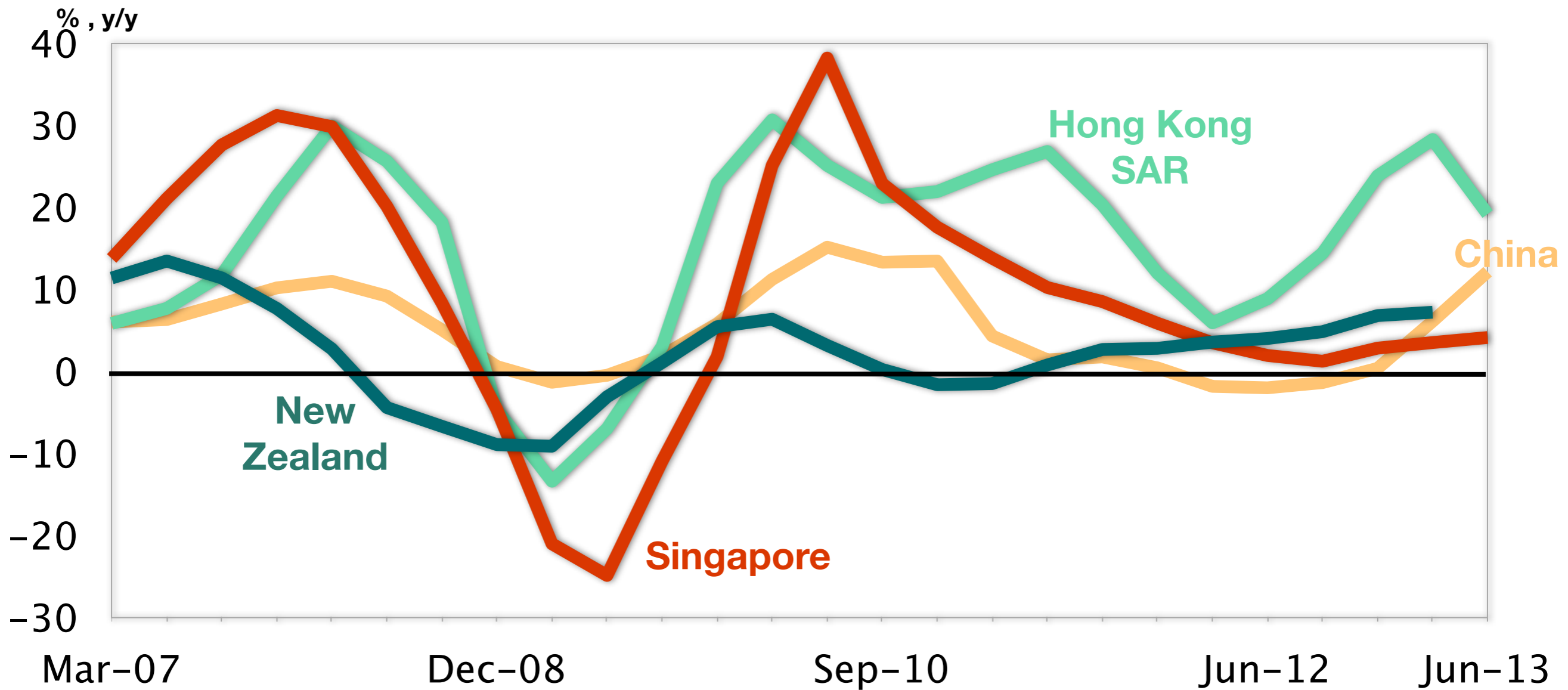
Household Debt





House prices: potential for bubbles in some economies

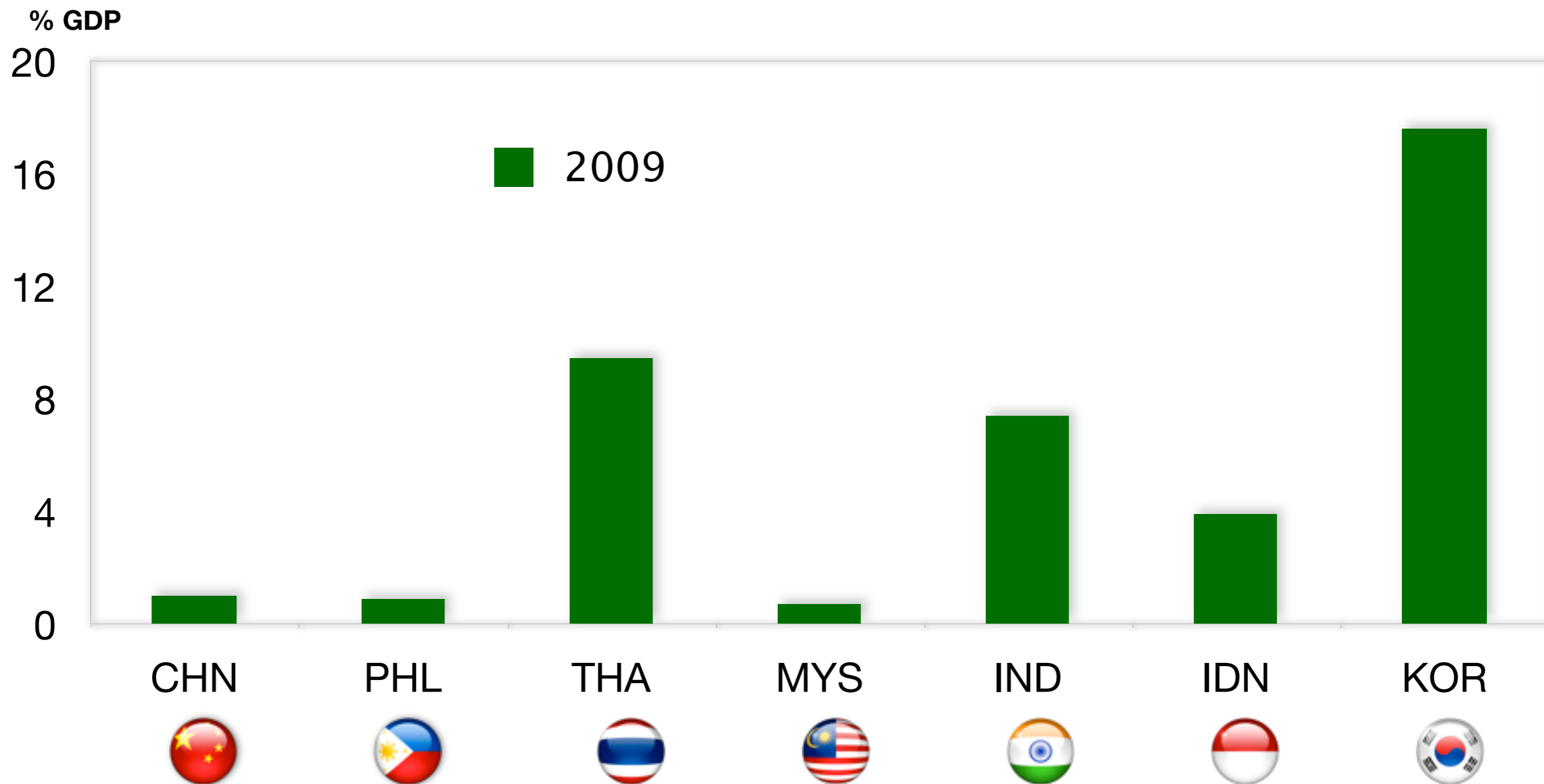
House Price Changes





External financing needs: Increase due to deterioration in current accounts

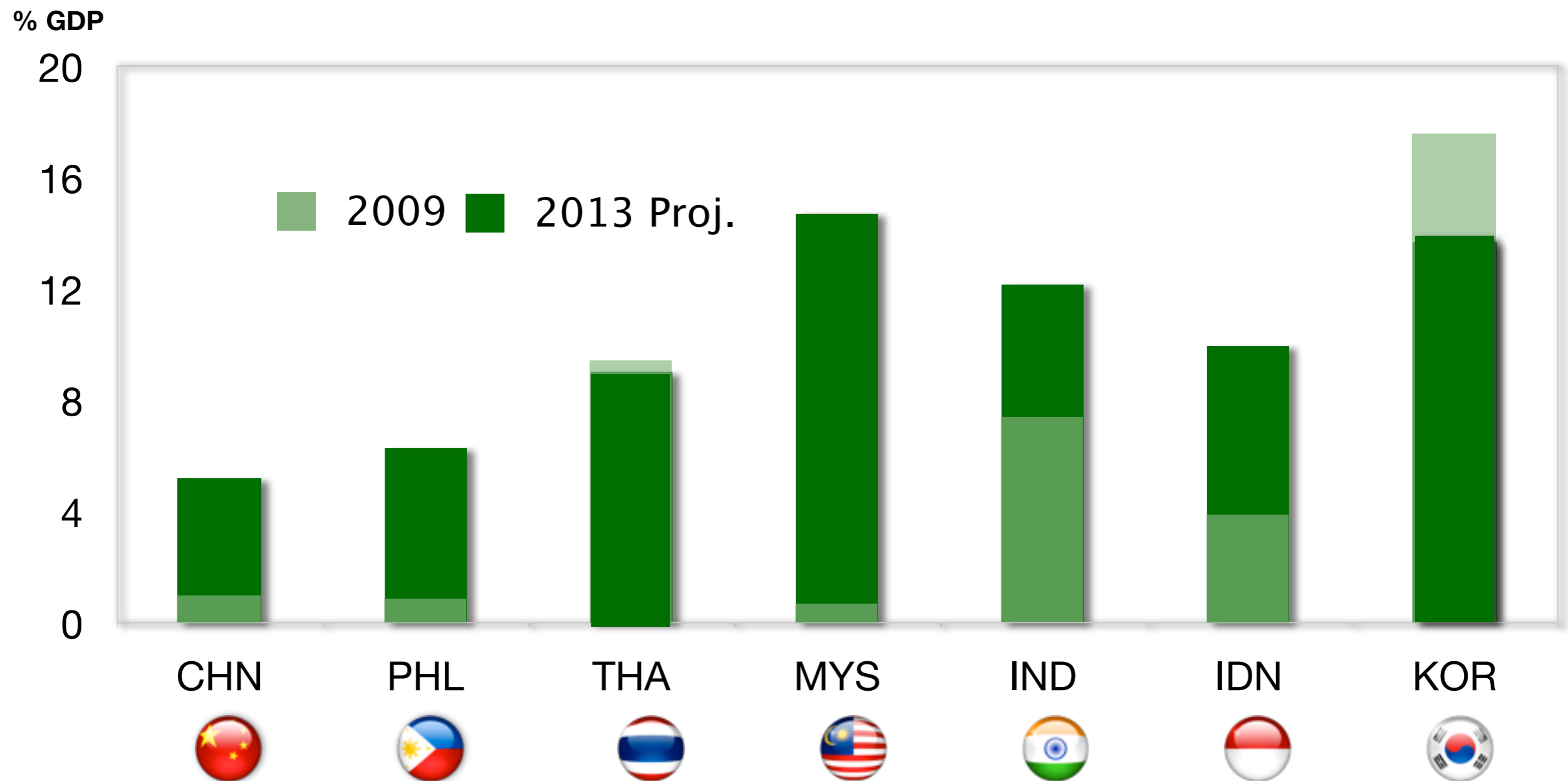
Total External Financing Requirement





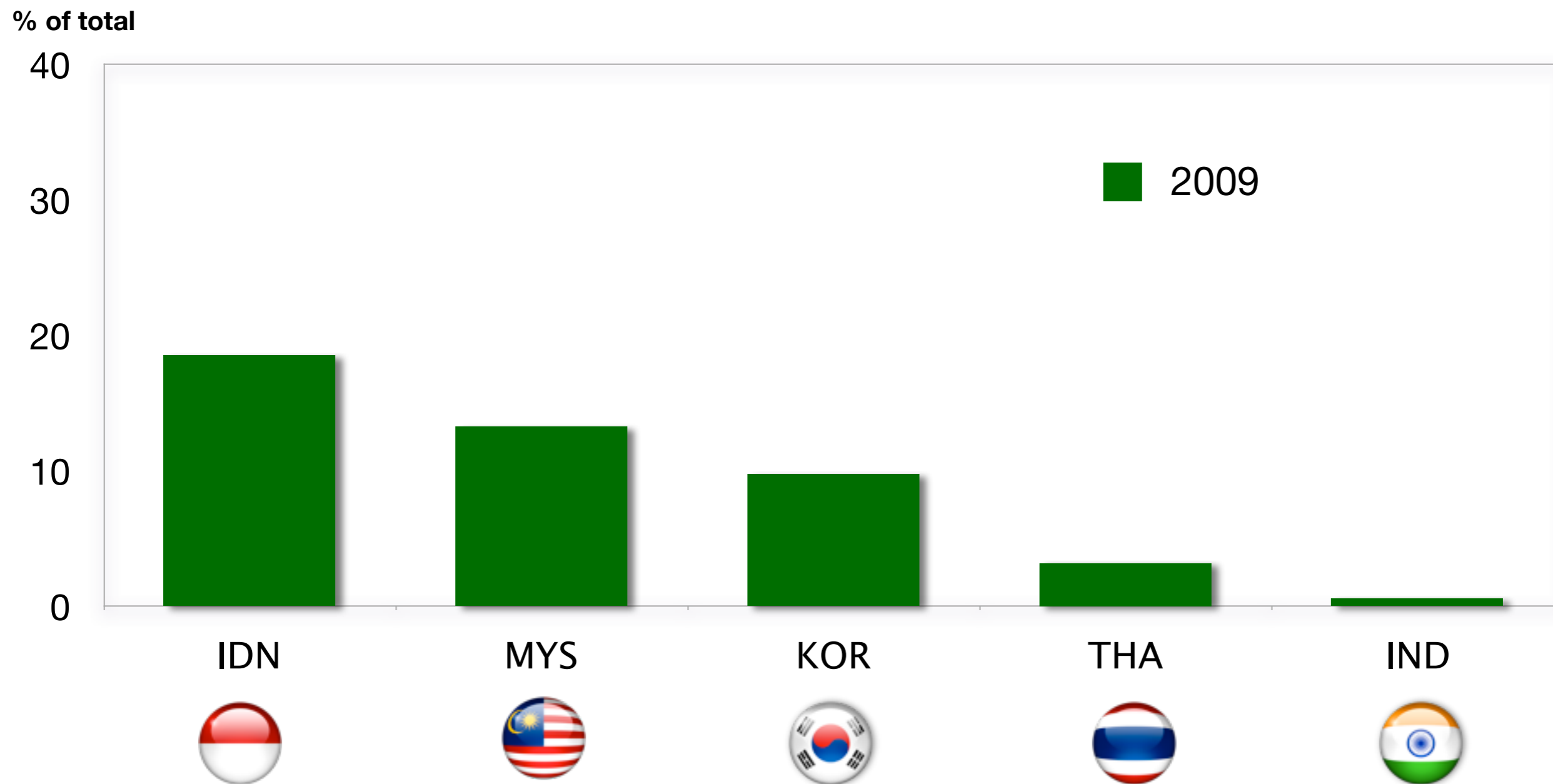
External financing needs: Increase due to deterioration in current accounts

Total External Financing Requirement



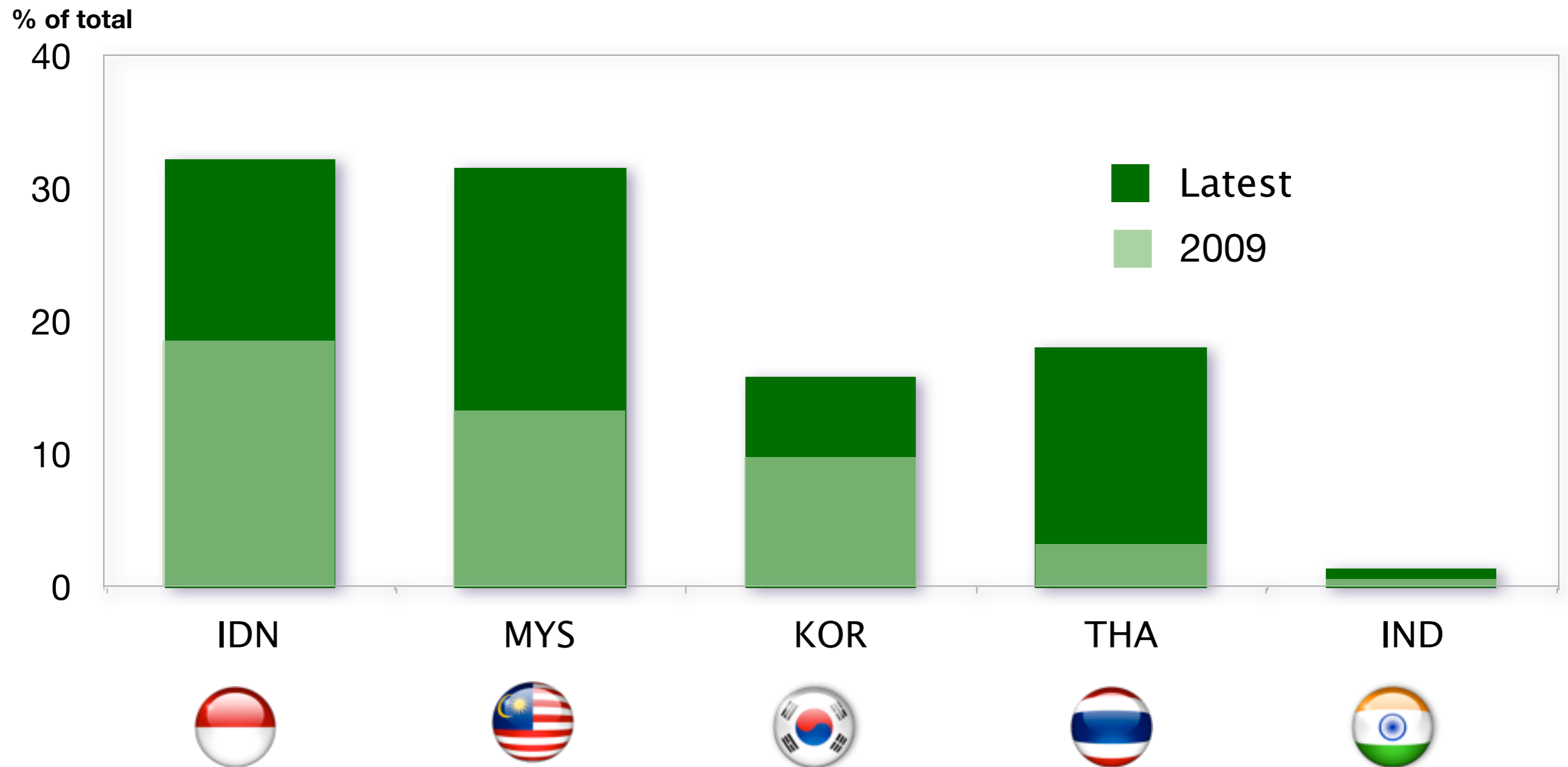
A greater presence of nonresidents in domestic bond markets

Foreign Holdings of Local Sovereign Bonds



A greater presence of nonresidents in domestic bond markets

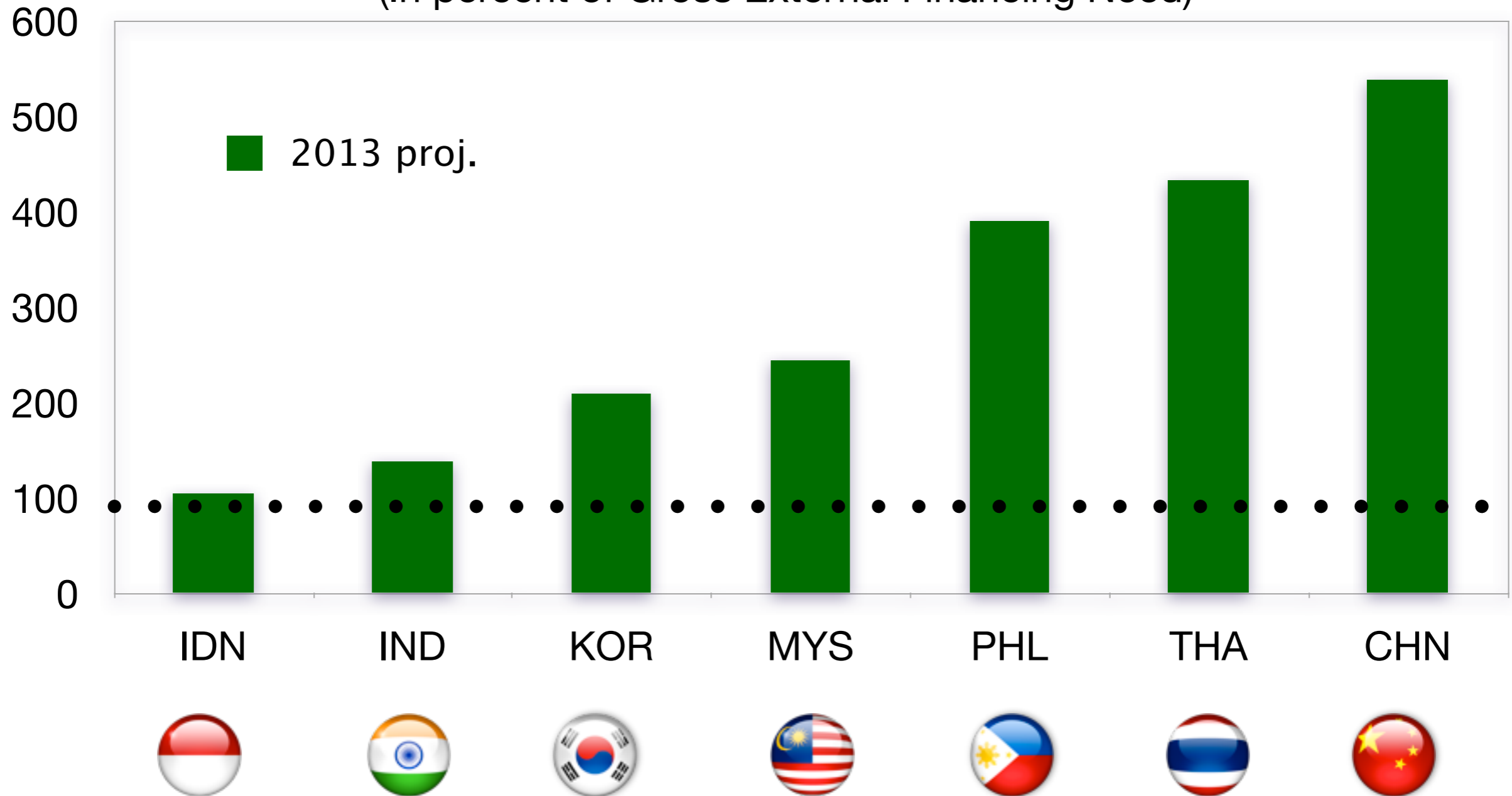
Foreign Holdings of Local Sovereign Bonds



But reserves are generally ample

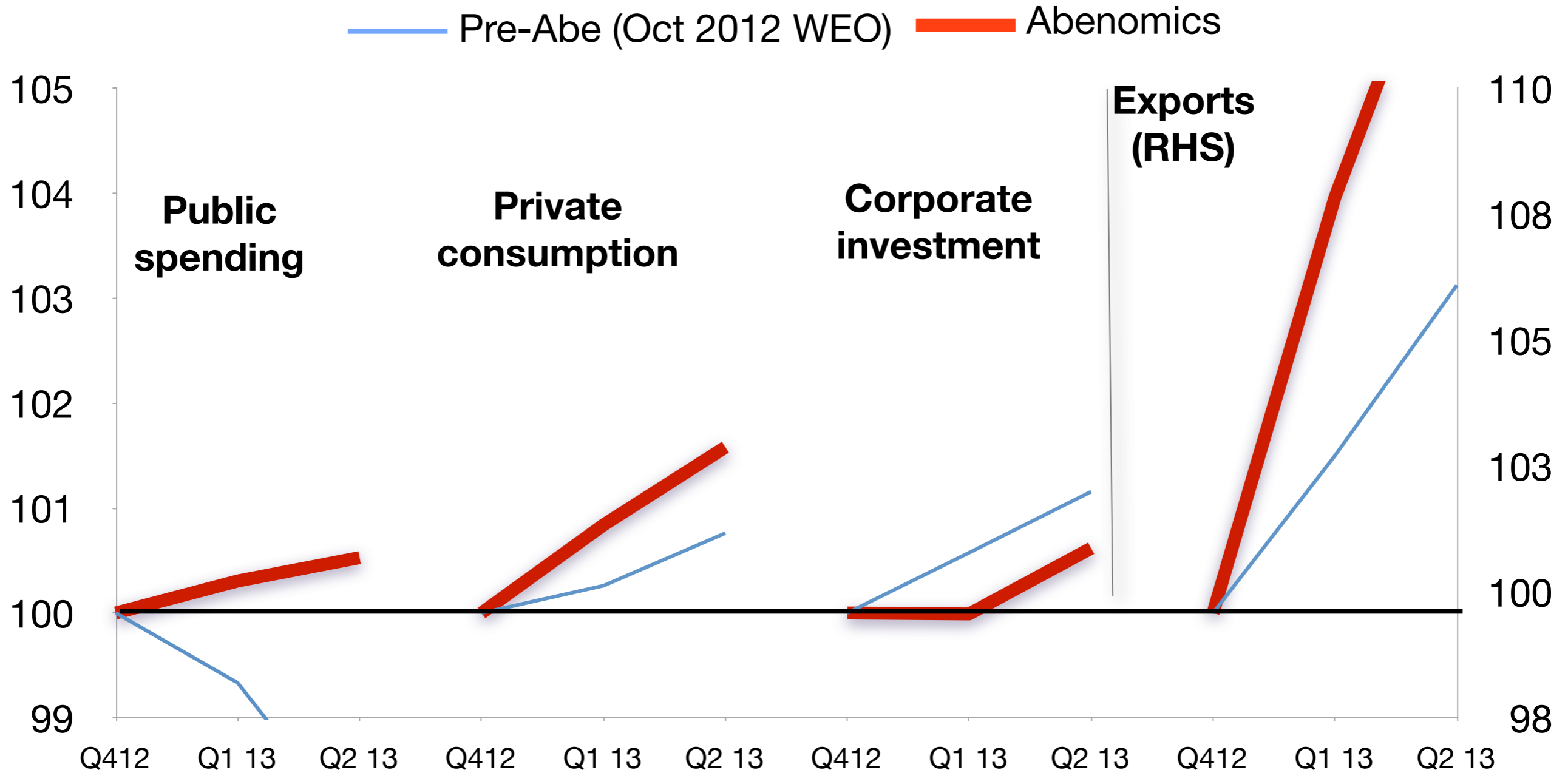
Reserves

(In percent of Gross External Financing Need)





Japan: Abenomics has had a positive impact on activity...

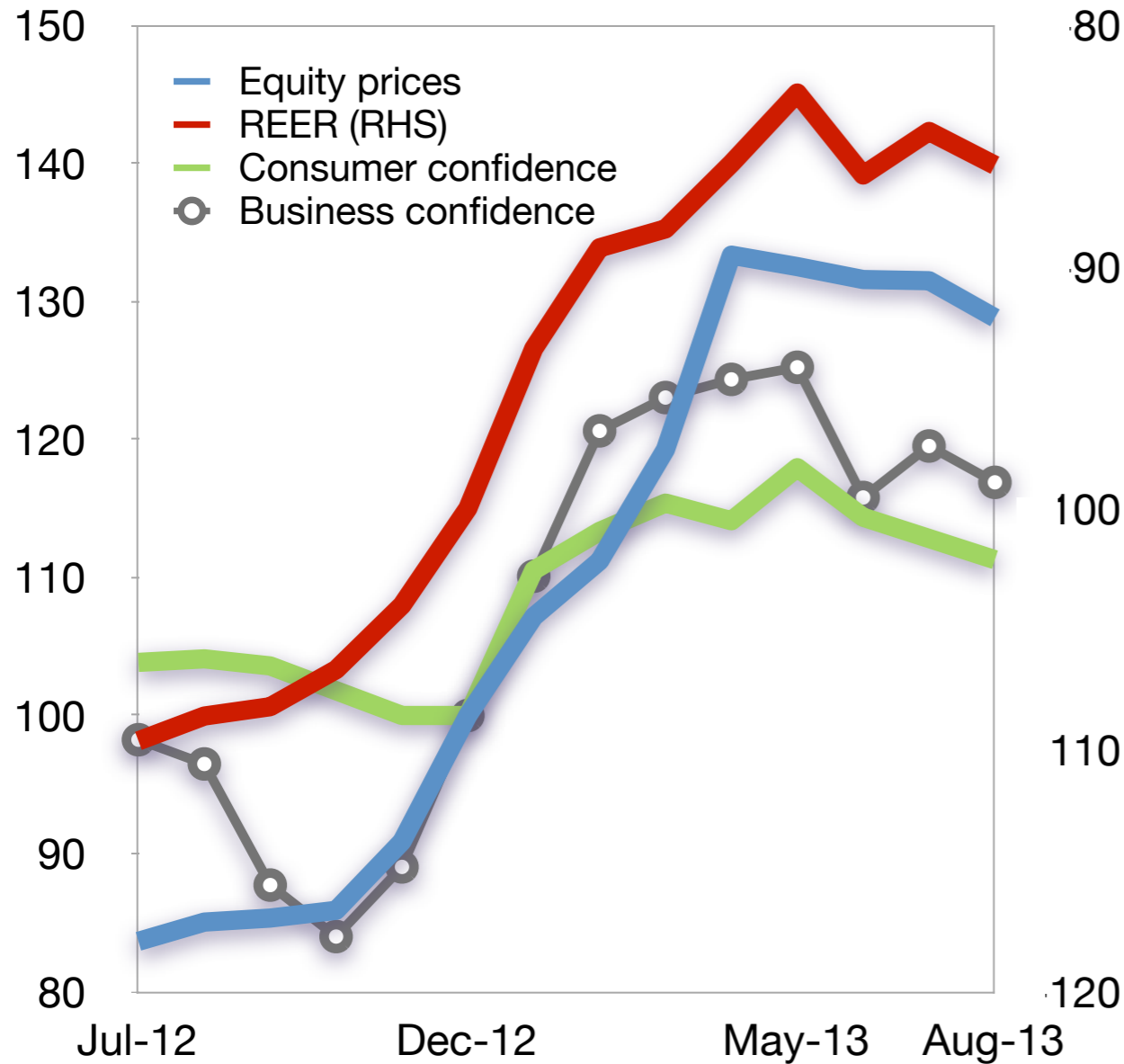




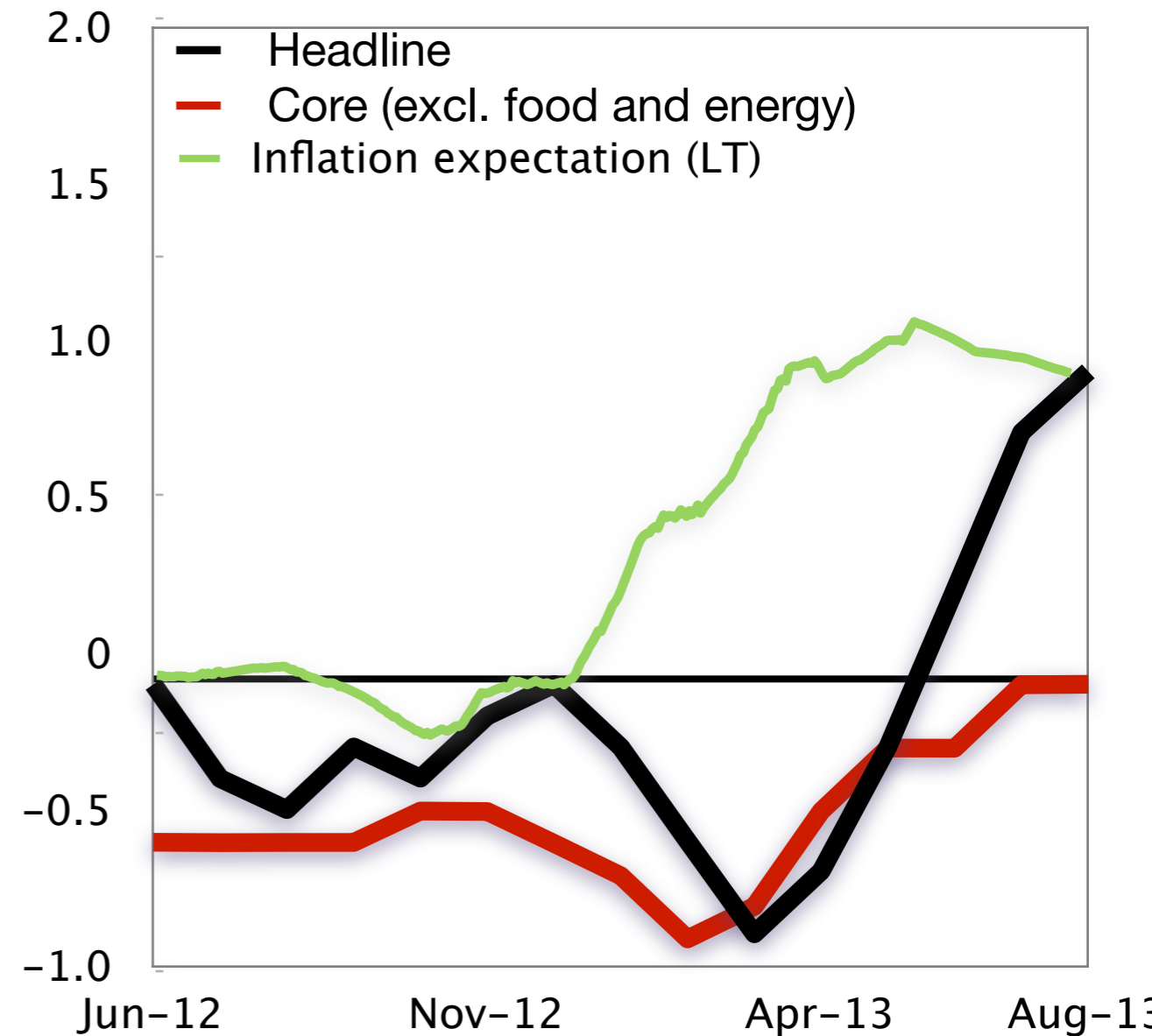
...sentiment, asset prices, and inflation

Sentiment and Asset Markets

Index (2012M12=100)



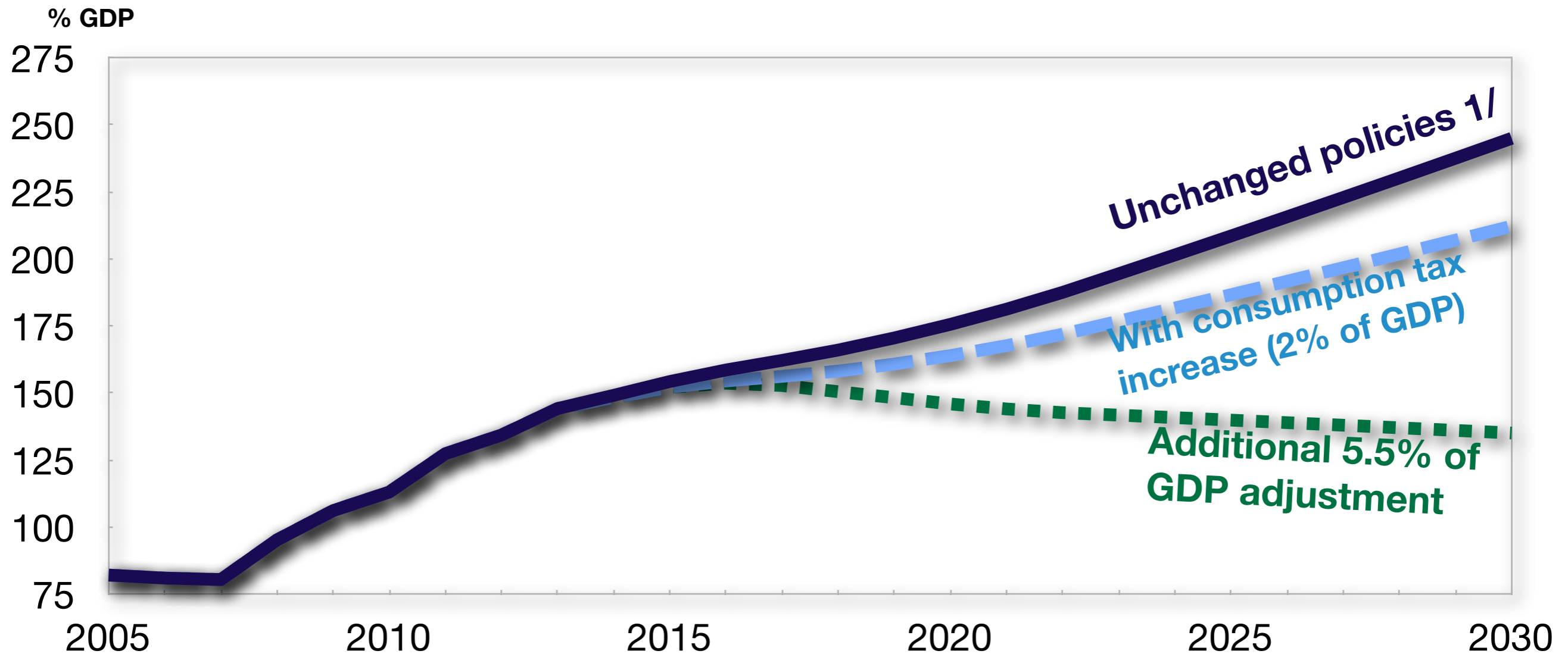
Inflation





But large fiscal challenges remain

Net Public Debt

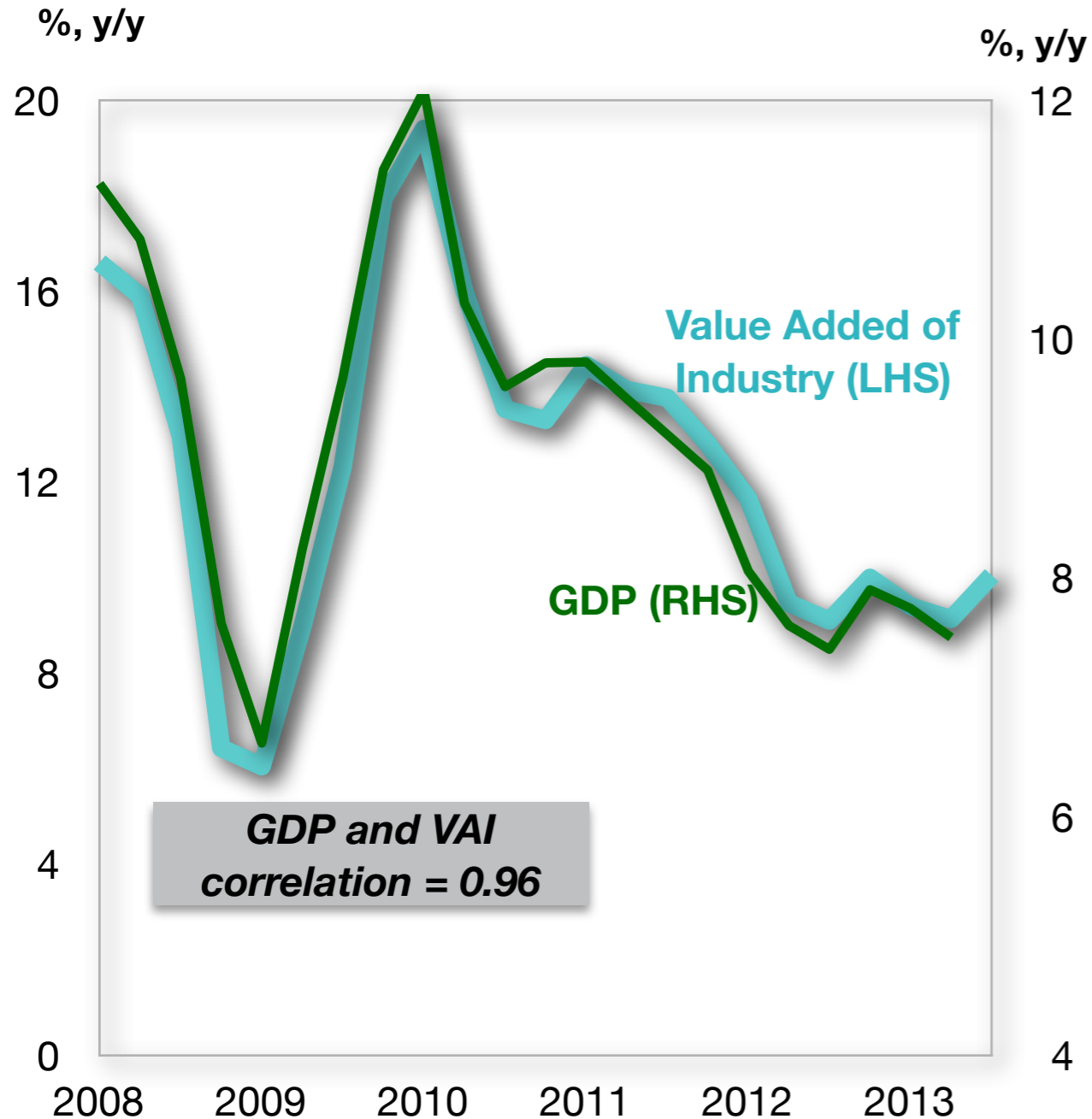


1/ Includes 3.5% GDP adjustment by automatic withdrawal of fiscal stimulus.

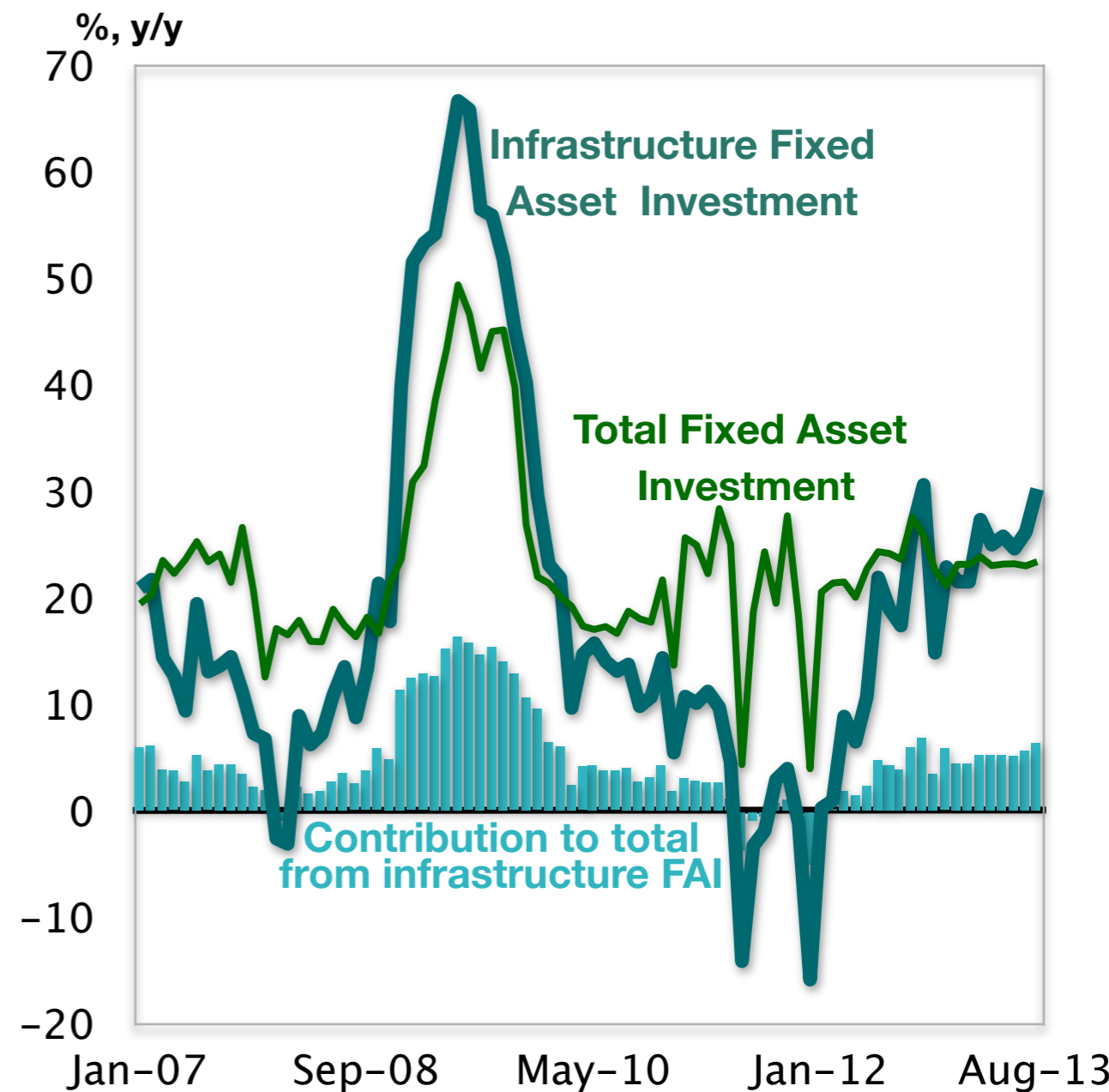


China: Activity is stabilizing

Real GDP and Value Added of Industry

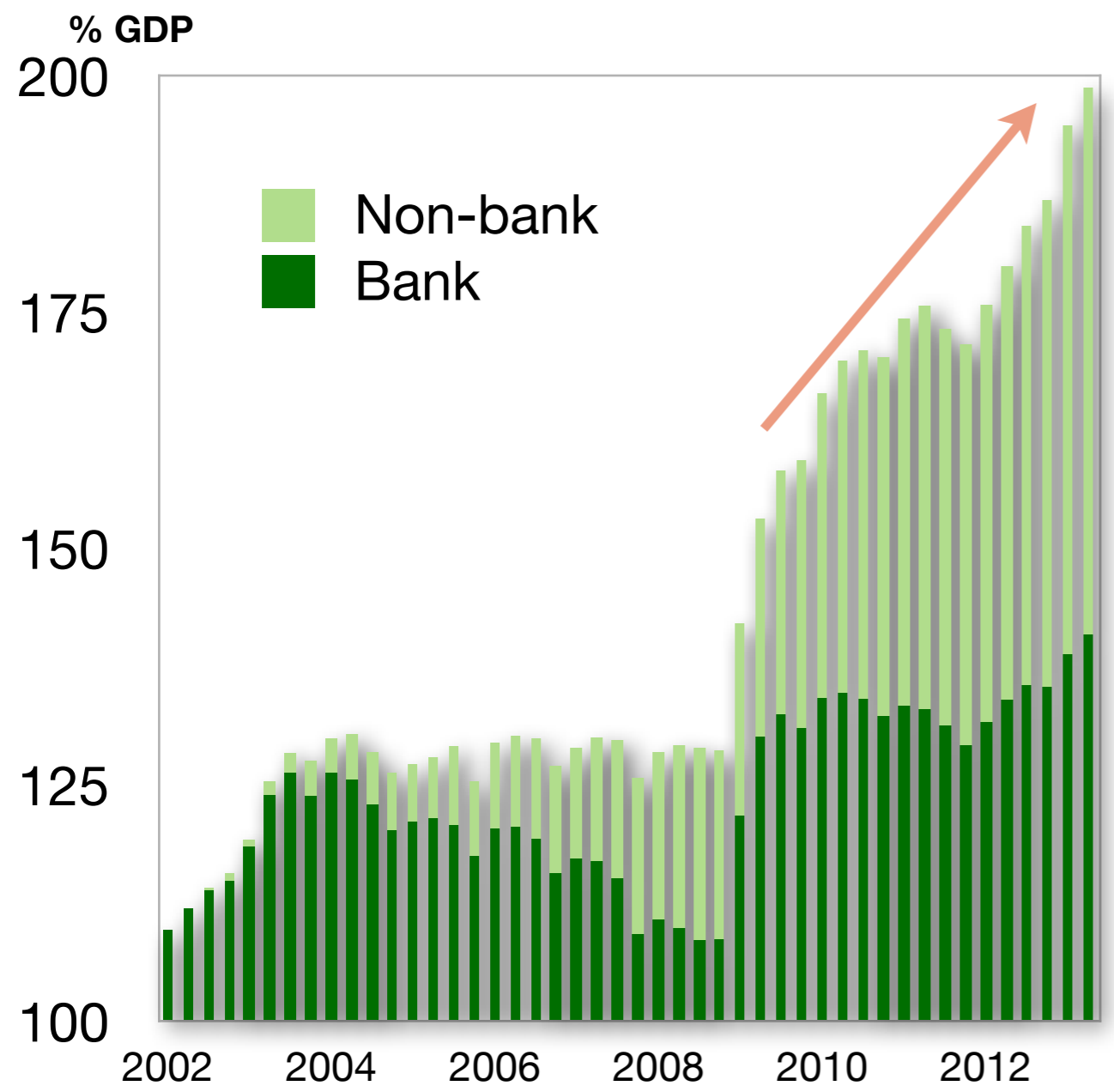


Real Fixed Asset Investment

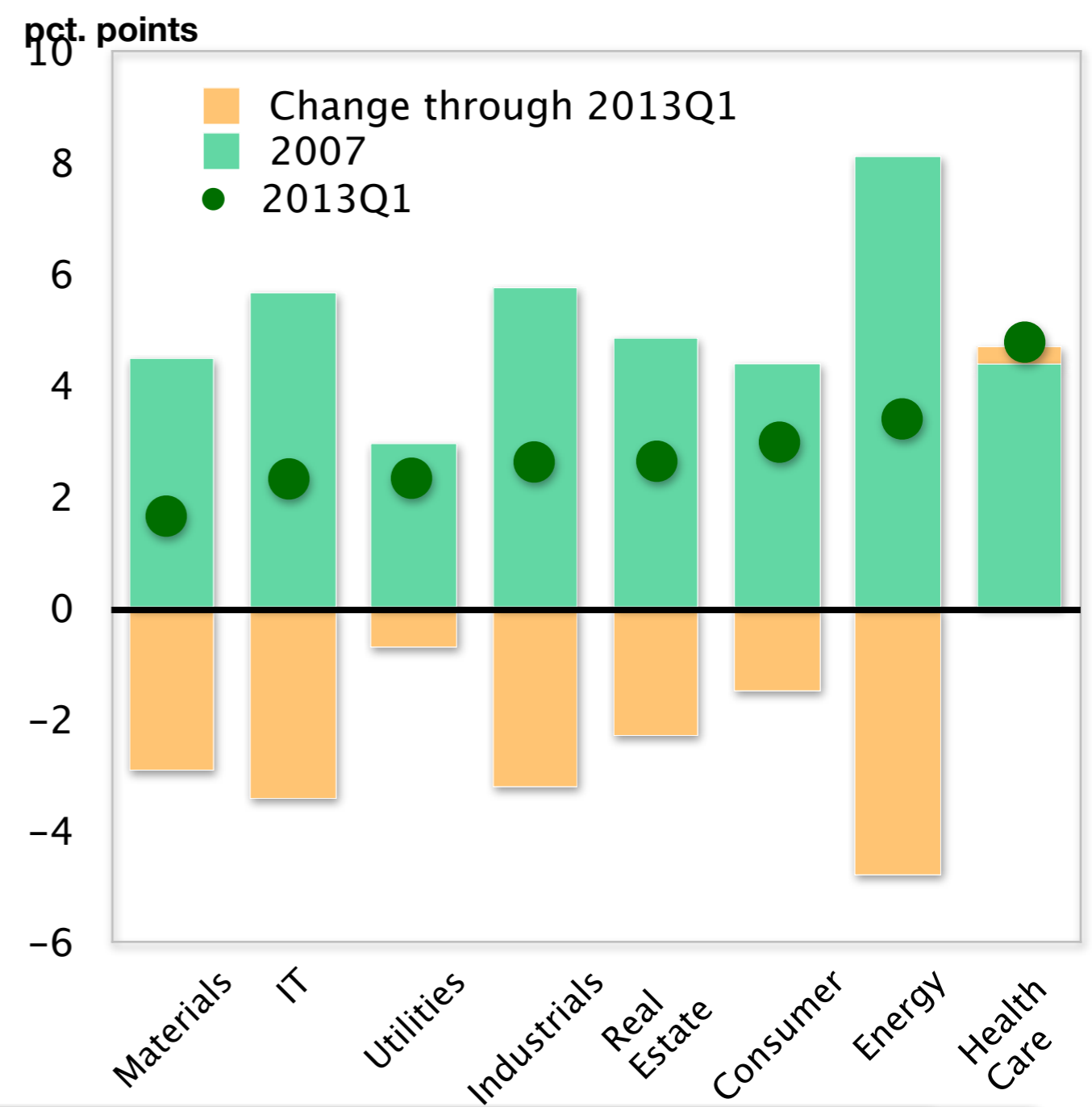


China: Continuing rise in leverage

Social Financing



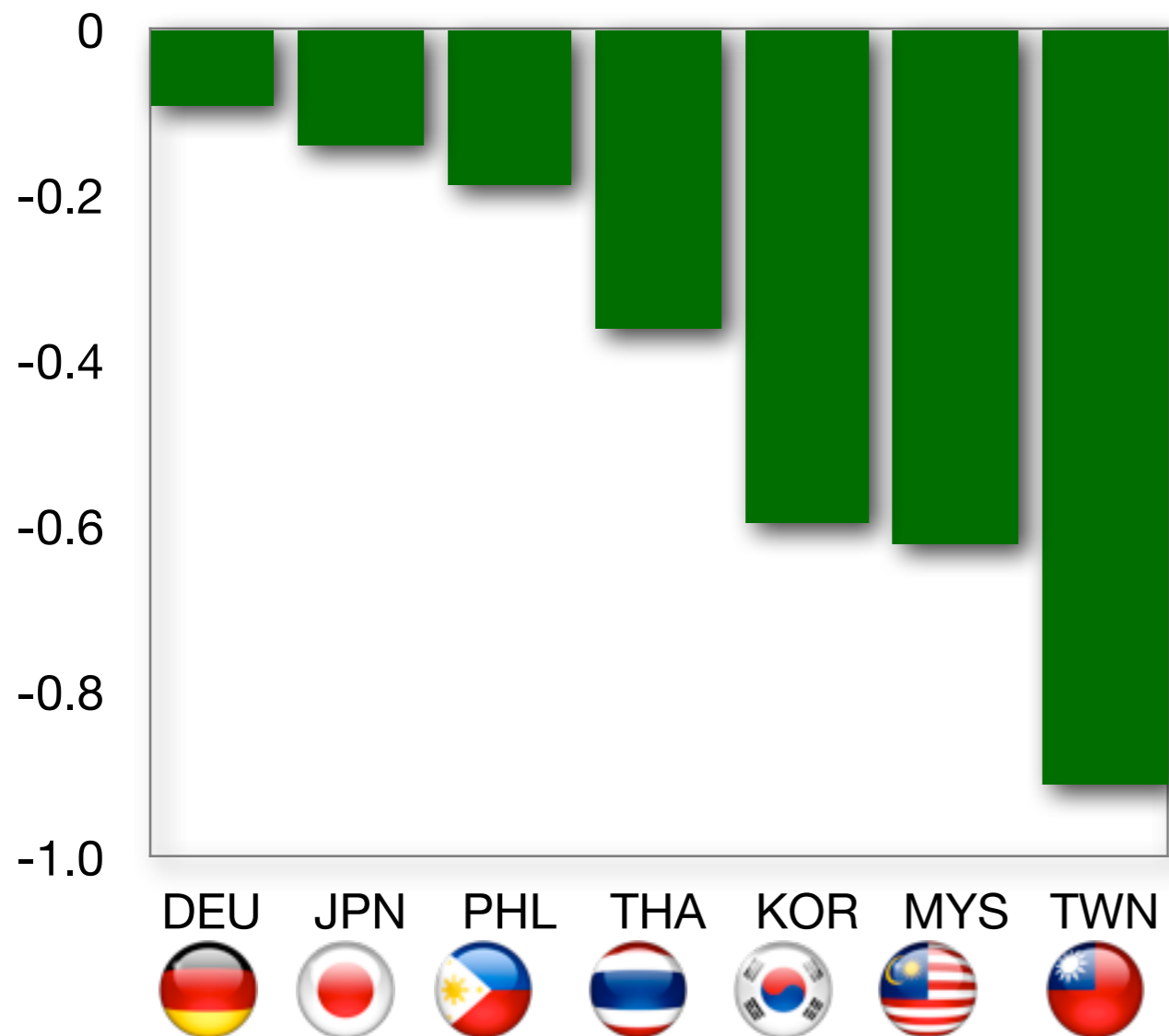
Change in Firms' Interest Coverage Ratio



China: Implications of investment slowdown

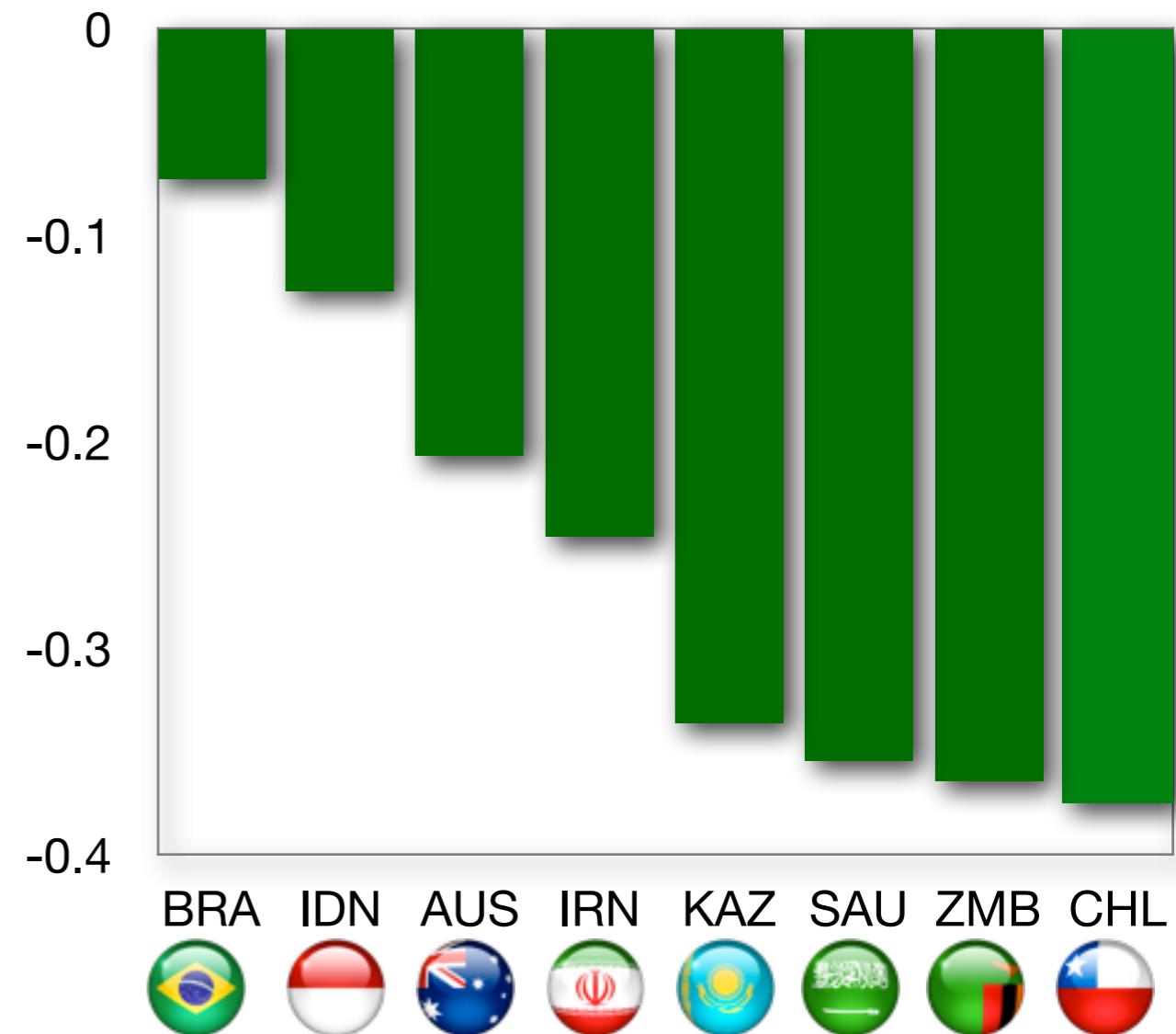
Effect on Trading Partners

pct. points



Effect on Commodity Producers

pct. points

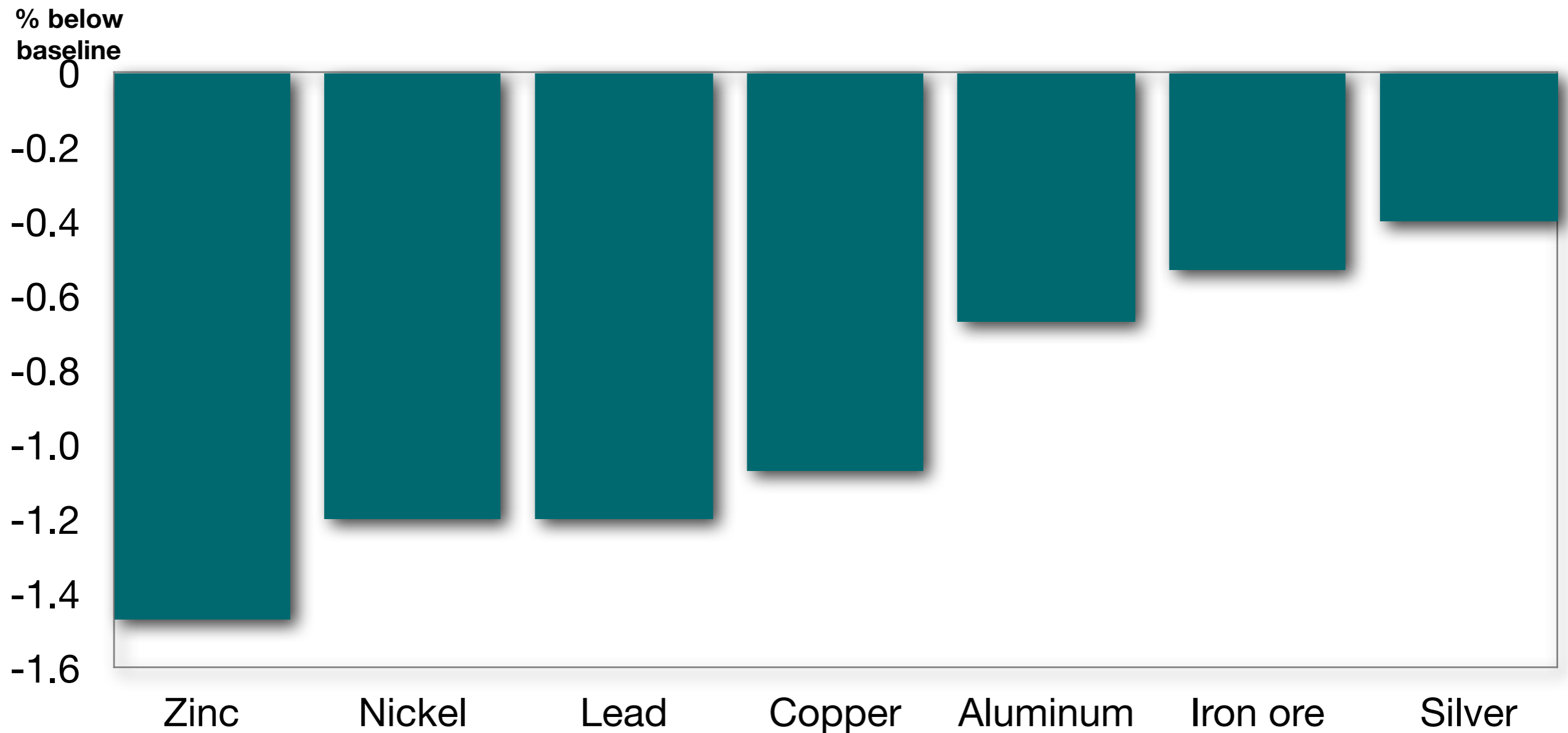


Note: Growth impact of a 1 percentage point drop in China investment.



China: Implications of investment slowdown

Impact on Commodity Prices of 1% Decline in China Investment



Key Takeaways

Region generally well placed to handle withdrawal of global liquidity

But there are concerns:

India, Indonesia in EMs

Despite a modest slowdown, EM Asia remains the global growth leader

Japan: so far, so good with Abenomics but need to articulate medium-term fiscal and structural plans

China: Activity has stabilized but risks of credit and investment based growth are mounting