

# REGIONAL ECONOMIC OUTLOOK

ASIA AND PACIFIC



**ASIA AND PACIFIC  
DEPARTMENT**

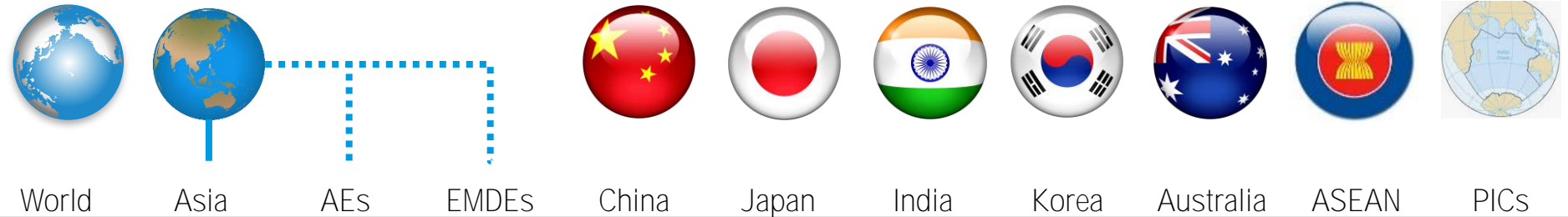
## ECONOMIC AND FISCAL CHALLENGES IN ASIA AND THE PACIFIC

**THE EIGHTH TOKYO FISCAL FORUM  
TOKYO, JUNE 6, 2023**

Thomas Helbling

*The views expressed in this presentation are those of the presenter and should not be attributed to the IMF, its Executive Board, or IMF Management.*

# GDP growth forecasts



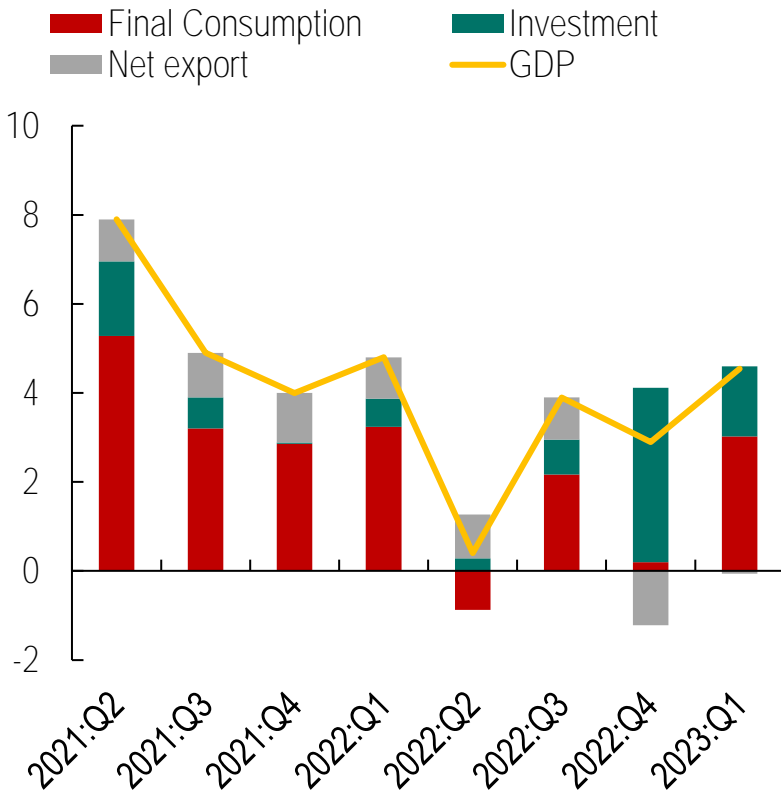
	World	Asia	AEs	EMDEs	China	Japan	India	Korea	Australia	ASEAN	PICs
2022	3.4	3.8	1.8	4.4	3.0	1.1	6.8	2.6	3.7	5.7	1.0
2023	2.8	4.6	1.6	5.3	5.2	1.3	5.9	1.5	1.6	4.6	3.9
Revisions since Oct. 2022 WEO	0.1	0.3	-0.4	0.4	0.8	-0.3	-0.2	-0.5	-0.3	-0.1	-0.4
2024	3.0	4.4	1.7	5.0	4.5	1.0	6.3	2.4	1.7	4.9	3.6
Revisions since Oct. 2022 WEO	-0.2	-0.2	-0.2	-0.2	0.0	-0.3	-0.5	-0.3	-0.1	-0.2	-0.1

Source: WEO April 2023.

# China's reopening has boosted growth prospects...

**China's reopening led to a strong rebound in consumption in Q1 ...**

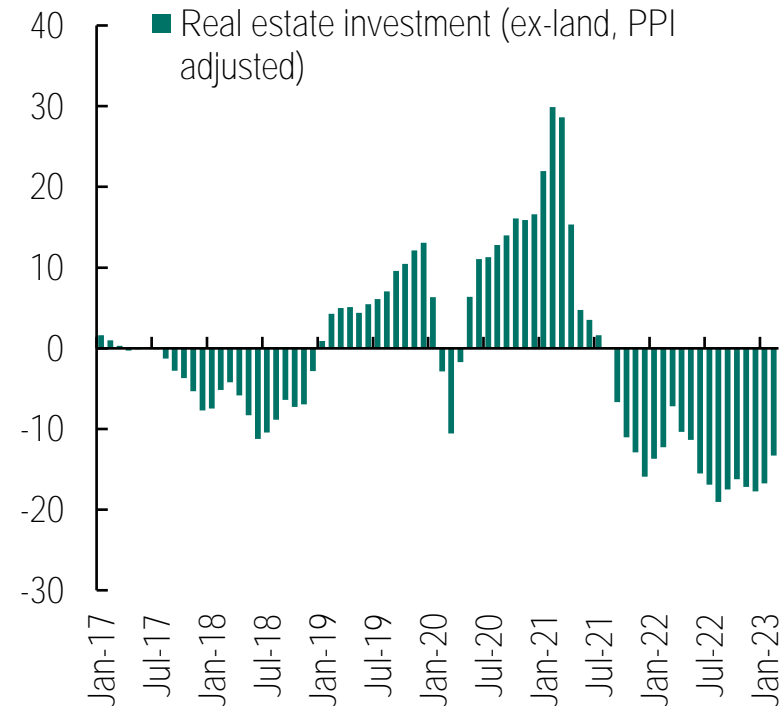
Expenditure Contribution to GDP  
(In percent year-over-year)



Source: China NBS and IMF staff calculations.  
IMF | Asia and Pacific Department - Regional Economic Outlook

**... while the property sector s expected to remain subdued.**

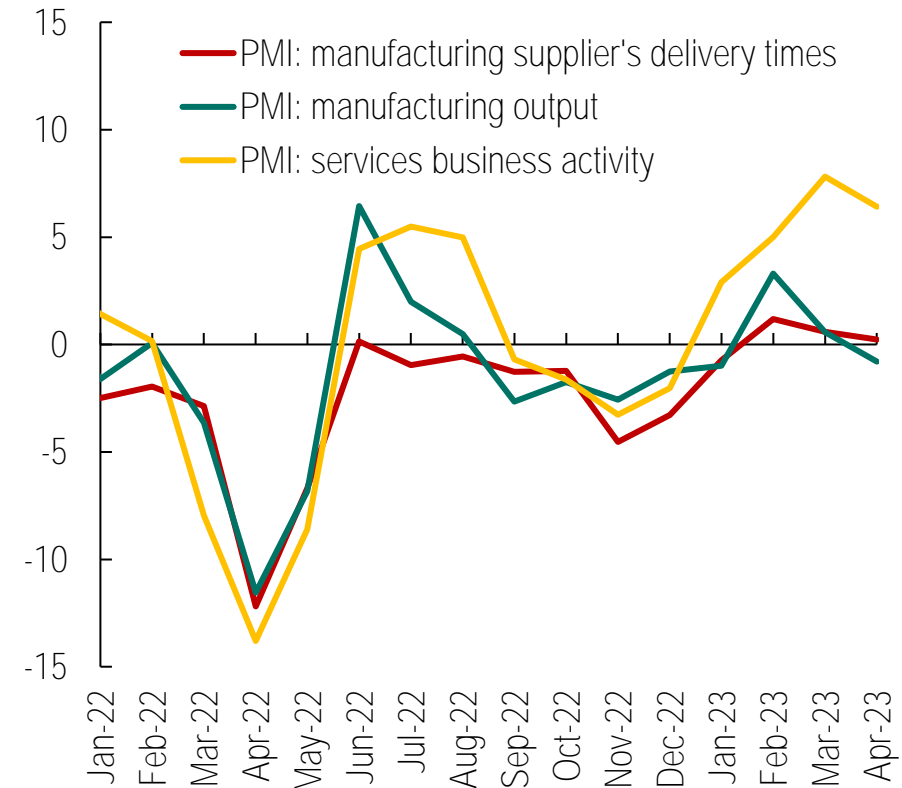
Real Estate Investment  
(In percent year-over-year; 3MMA)



Sources: CEIC Data Company Limited; National Bureau Statistics China Consumer Confidence Survey; and IMF staff calculations.

The counterpart to the consumption rebound is relatively stronger service sector growth.

Manufacturing and Services  
(PMI indexes subtracted by 50)

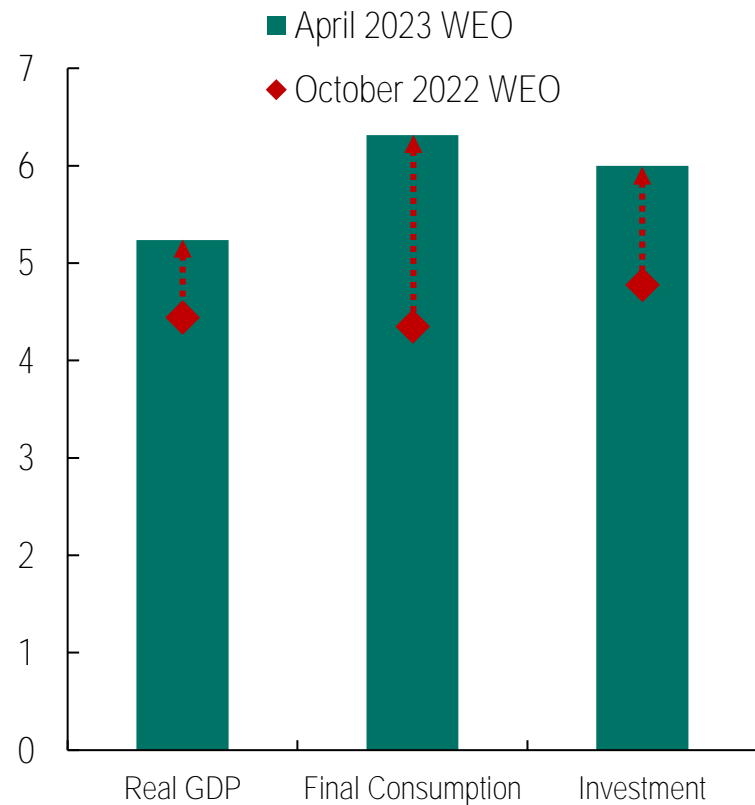


Sources: Haver Analytics and IMF staff calculations.

# ... domestically and in the region

Chinese growth in 2023 is projected to be 0.8 percent higher than in October WEO ...

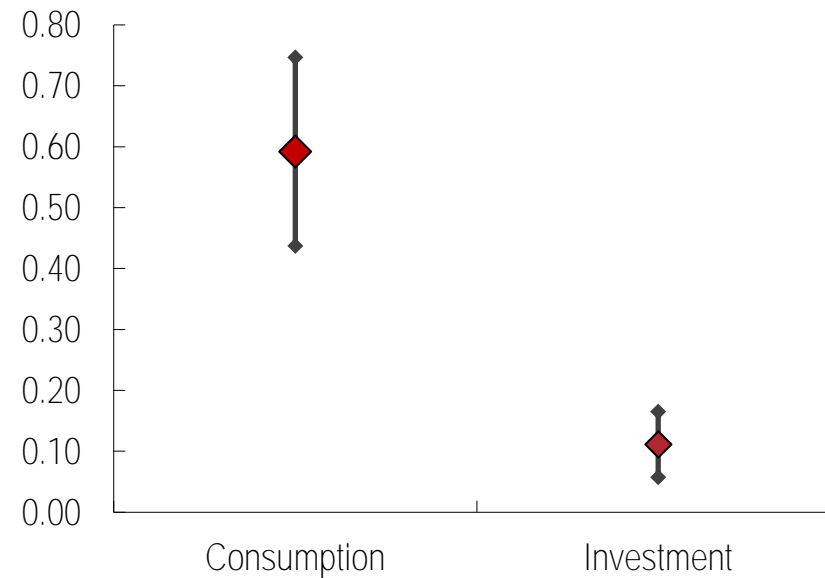
China: Growth Revision  
(In percent)



Source: IMF World Economic Outlook April 2023.

... which should have positive growth spillovers to the rest of Asia Pacific ...

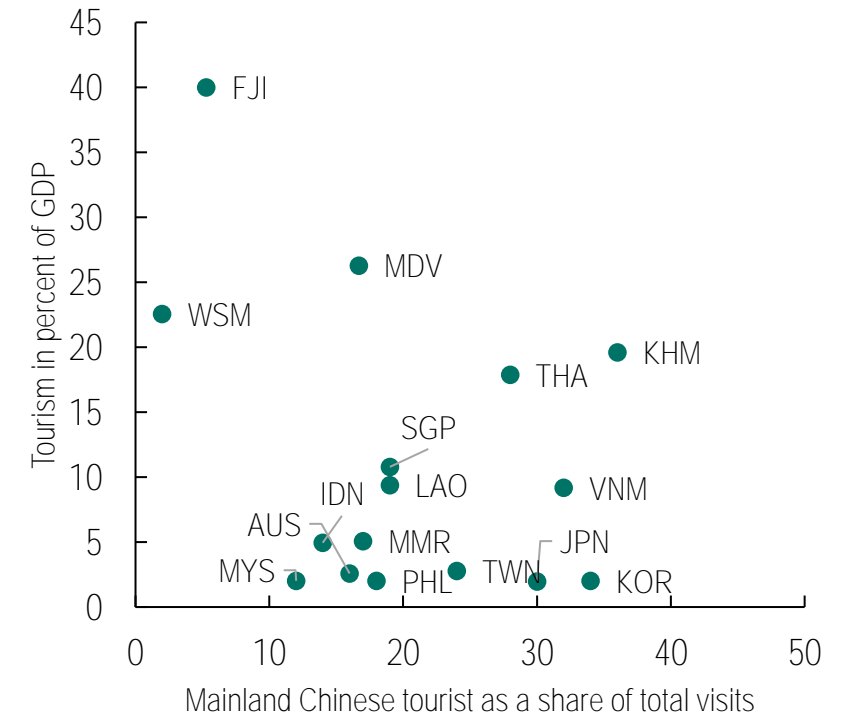
China Activity Spillovers  
(Change in Asia-Pacific growth, percentage points)



Sources: World Economic Outlook, Asia-Pacific Regional Economic Outlook October 2022 and IMF staff calculations.  
Note: Diamonds represent mean response in Asia-Pacific countries (excluding China), lines are 68 percent confidence intervals. Shocks are scaled to be equivalent to China private investment (1 pp) and consumption (1.5 pp) growth forecast revision from October 2022 World Economic Outlook to April 2023 World Economic Outlook.

... with tourism-exporting neighbors being the main beneficiaries.

Mainland China Tourism in Asia 2019  
(In percent)

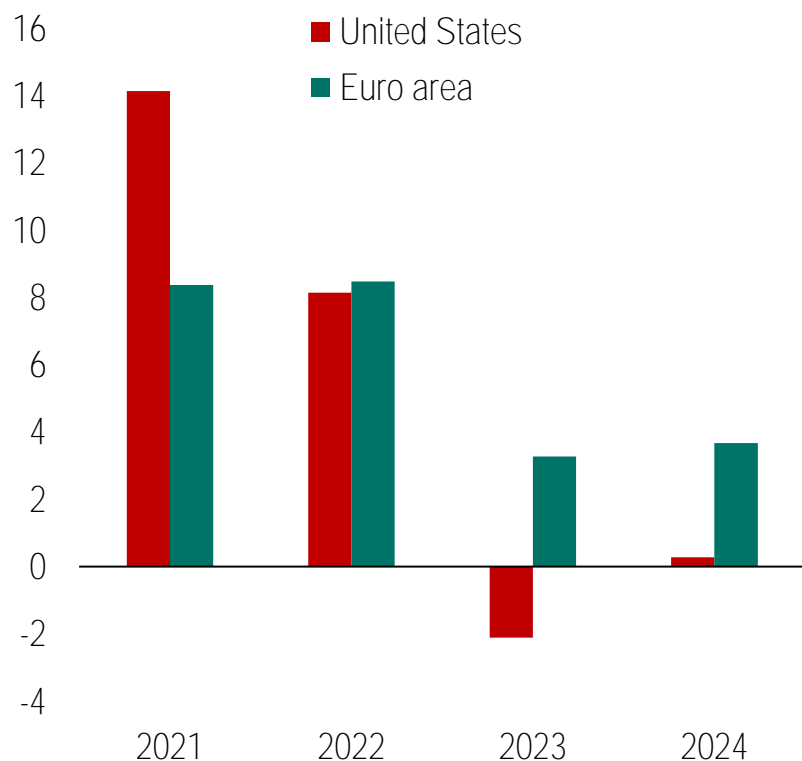


Sources: OECD, Statista and the Economist.

# Weaker external demand and tech cycle will weigh on activity

Weaker demand from US and Europe has put **pressure on Asia's export performance.**

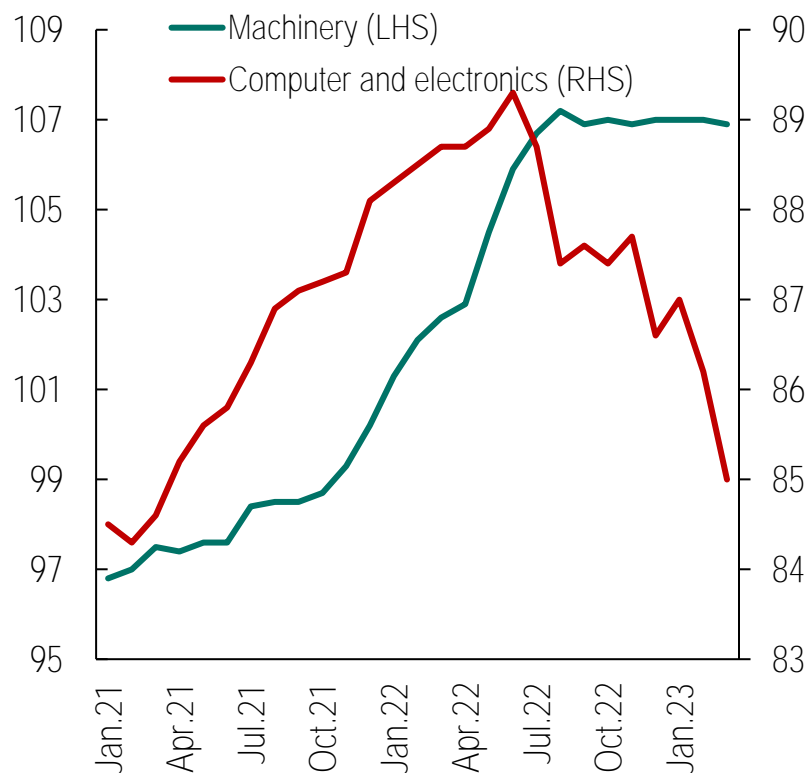
Imports of Good and Services Growth (in percent)



Sources: World Economic Outlook and IMF staff calculations.

Prices for technology exports from Asia, such as semiconductors, are off peaks.

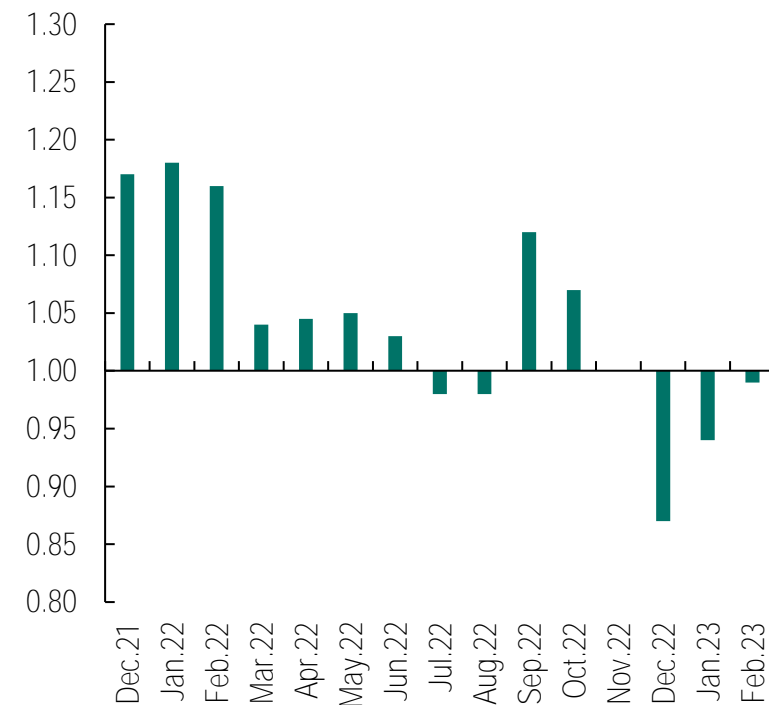
Price index of US manufacturing imports from Asia



Source: U.S Bureau of Labor Statistics.  
Note: Data as of June 2, 2023

US semiconductor industry data also show forward demand lagging.

Trend in North American PCB Book-to-Bill Ratio (Units)



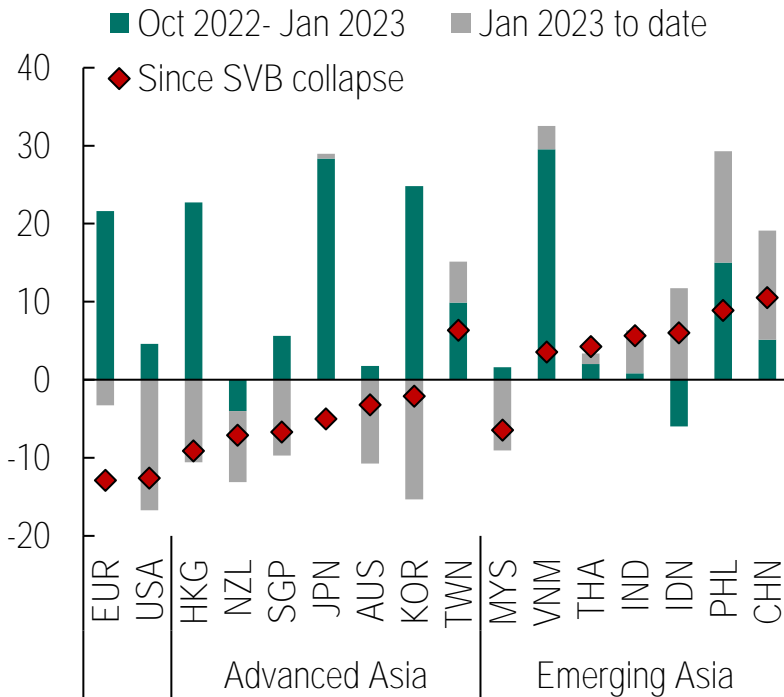
Source: IPC.

Note: Book-to-Bill ratio as the quotient between the value of orders booked over the past three months by the values of sales billed during the same period.

# Limited direct spillover from global financial turmoil

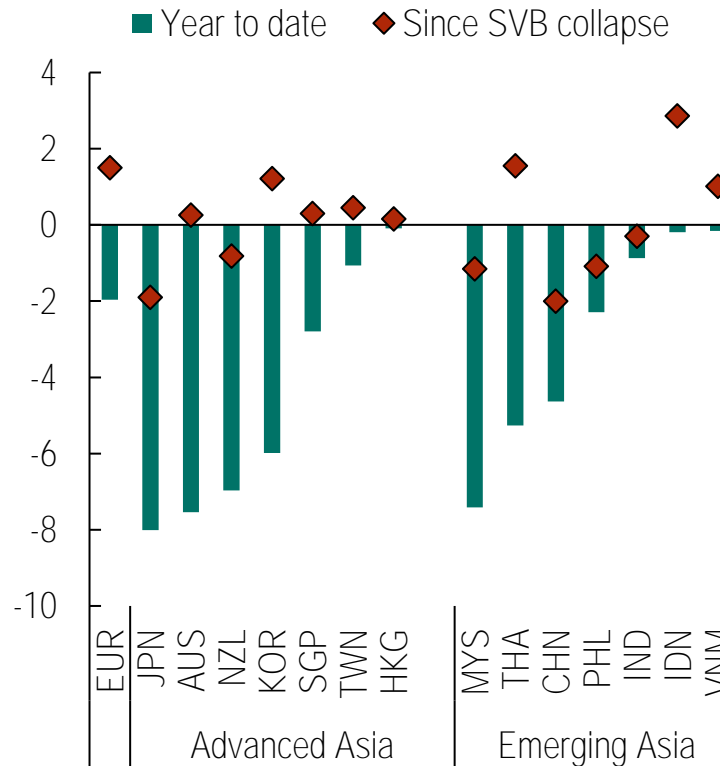
Asian bank equities have been resilient following the failure of SVB ...

Change in bank equity prices  
(In percent)



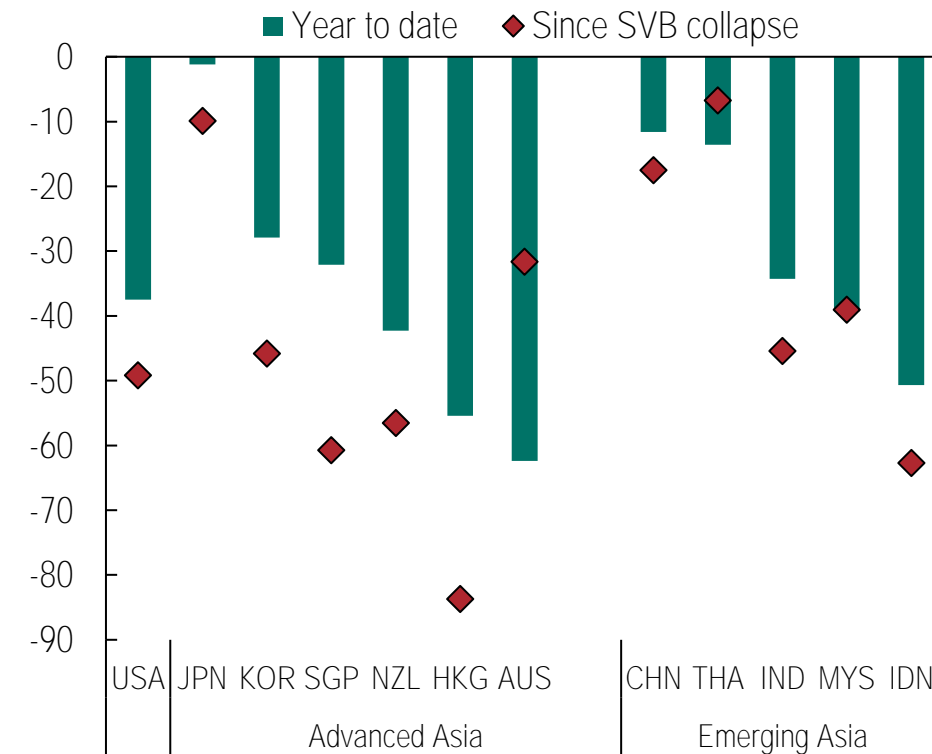
...with an appreciation of Asian currencies against USD ...

Change in exchange rates against USD  
(In percent)



... and a decline in sovereign bond yields across Asia.

Change in 10-year sovereign yields  
(local currency bonds; basis points)



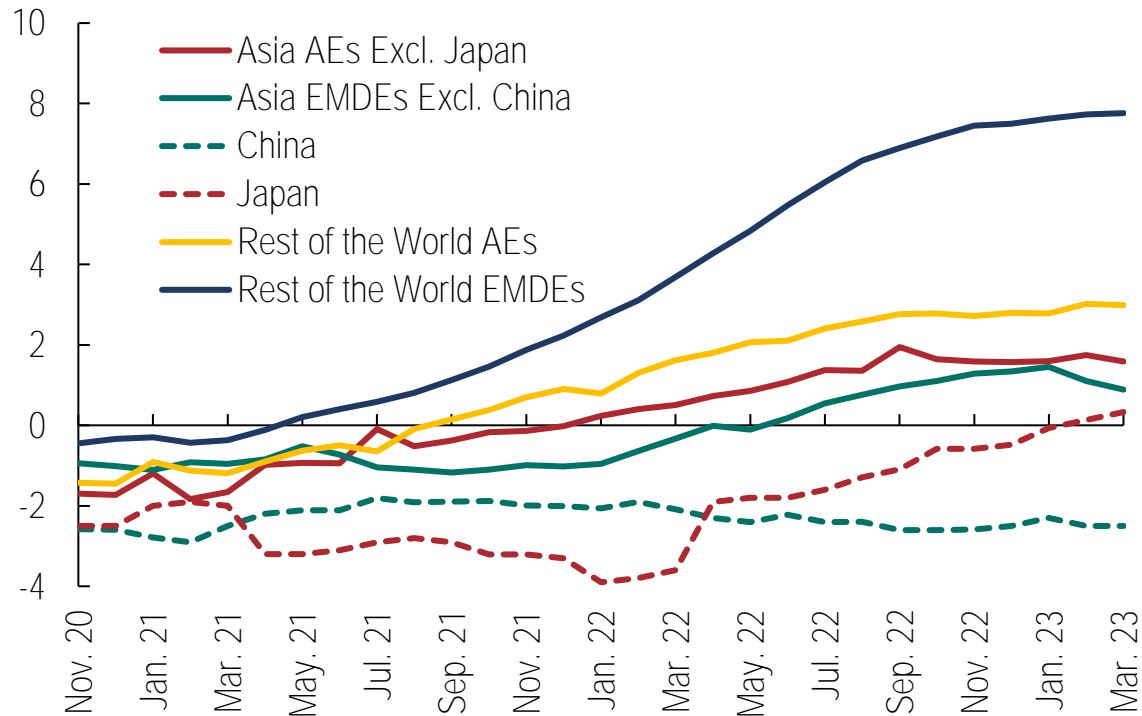
Source: Bloomberg Finance L.P and IMF staff calculations.  
Note: Data as of June 2, 2023.

# Risks to the outlook

# Inflation could be more persistent than expected...

Core inflation is becoming the main driver of inflation and remains above target in most economies

Core Inflation: Deviation from target  
(Percentage; year-on-year change)

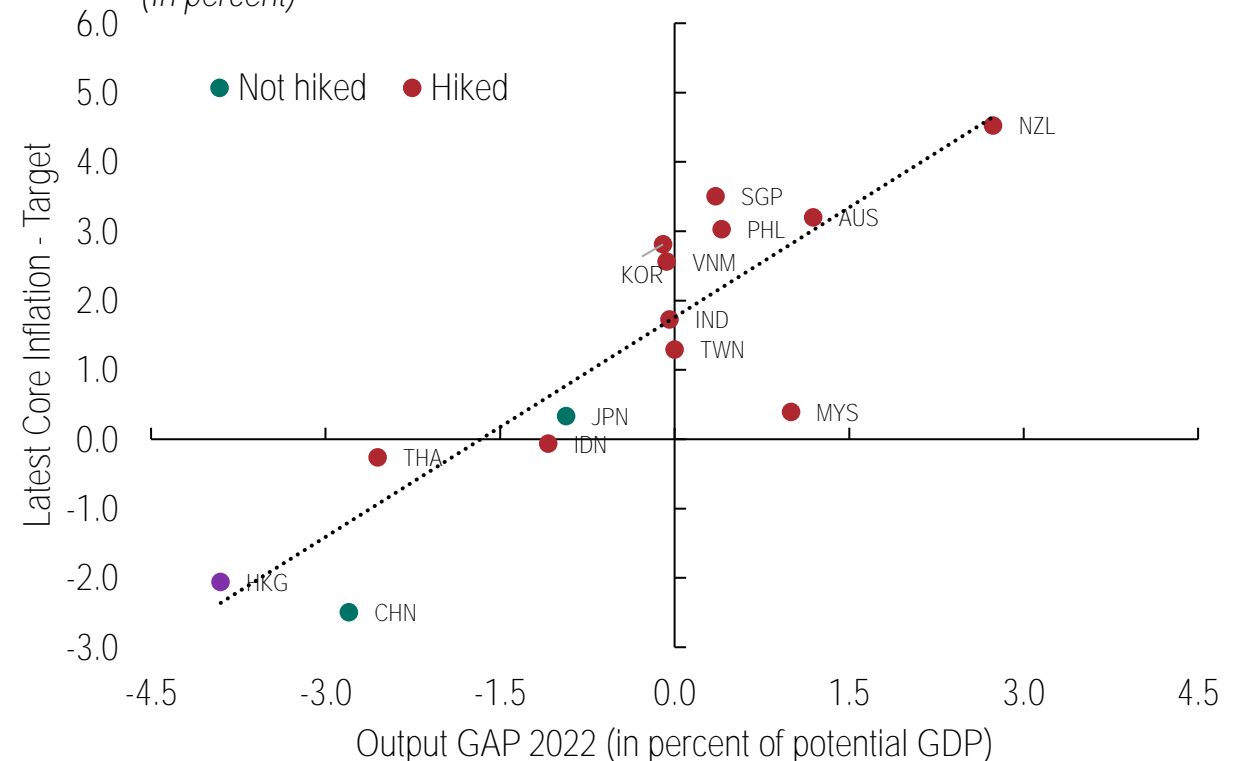


Sources: Haver Analytics; and IMF staff calculations.

Note: The inflation target shown for China is the CPI objective for headline inflation that the central government sets each year. Asia AE Excl. Japan includes AUS, HKG, KOR, MAC, NZL, SGP, and TWN. Asia EMDEs Excl. China includes IND, IDN, MYS, PHL, THA, and VNM. Rest of world AEs include CAN, CHE, DEU, ESP, FRA, GBR, ITA, and USA. Rest of the world EMDEs include BRA, COL, CHL, CZE, HUN, MEX, PER, and ZAF.

Core inflation could become more persistent as output gaps close across Asia.

Core Inflation - Deviation from Target and Output Gap  
(In percent)



Source: Haver Analytics; World Economic Outlook and IMF staff calculations.

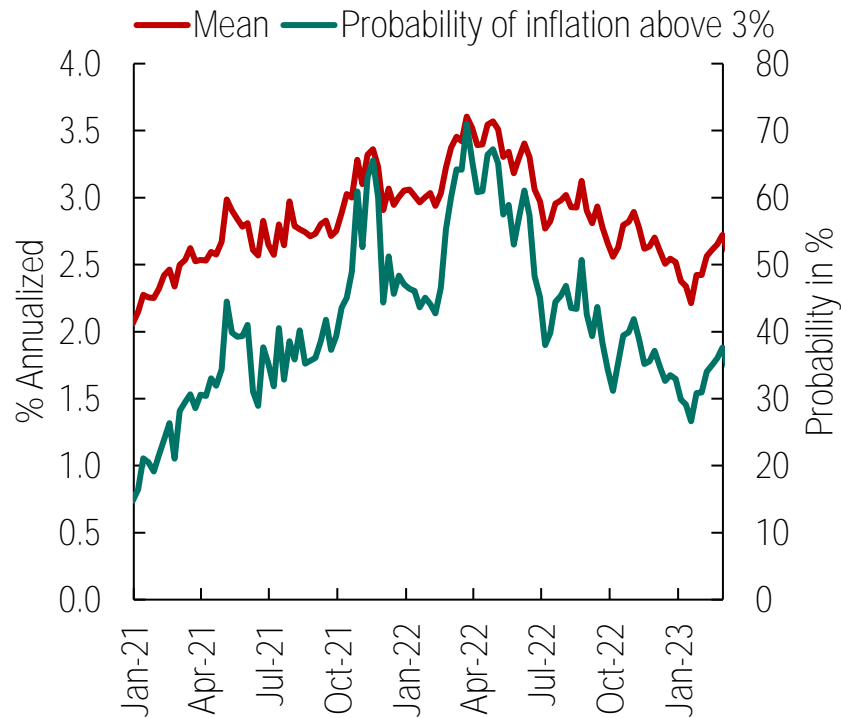
Note: For inflation targeting countries, deviation from target or midpoint of the inflation target range is used. For countries without an inflation target (Hong Kong SAR, Malaysia, Taiwan Province of China and Singapore) an implicit target is calculated using the long-term average inflation between 2010-19. Dotted line as linear regression line. Latest core inflation data as of May 1, 2023.



# ...not only in Asia

Inflation expectations in the US have stopped declining and remain above target.

US CPI over 5 Years: Market Expectations

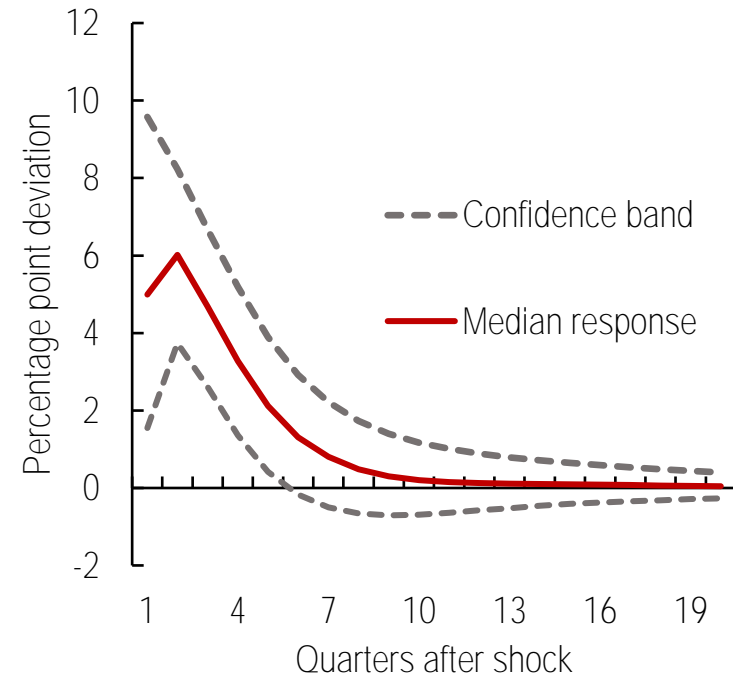


Source: Federal Reserve Bank of Minneapolis and IMF staff calculations.

Note: Data as of June 2, 2023.

China's reopening could make it hard for commodity prices to decline further.

Response of Brent Oil price to 1 pp Chinese Demand Shock  
(Percentage point deviation)

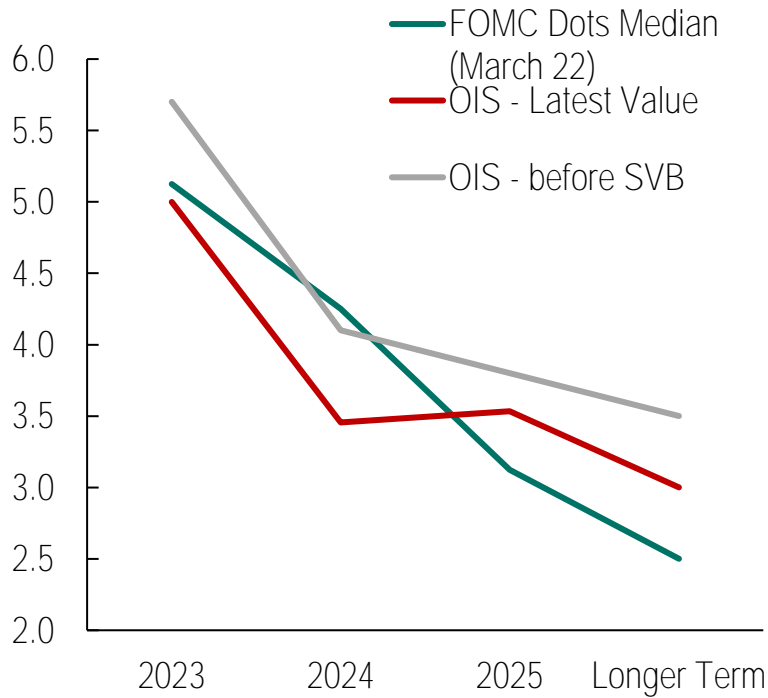


Source: IMF staff calculations.

# ...and expectations about the future path of US monetary policy have been shifting...

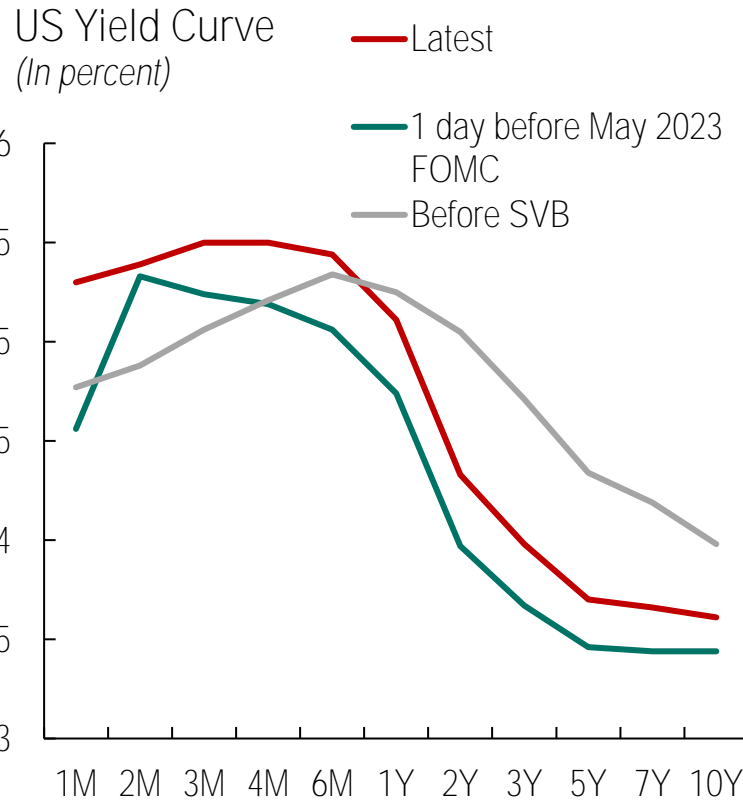
Expected Federal Funds rate has been **volatile ...**

Policy Rate Expectations vs. FOMC Dots (Percent)



Sources: Bloomberg Finance LP.  
Note: Data as of June 2, 2023.

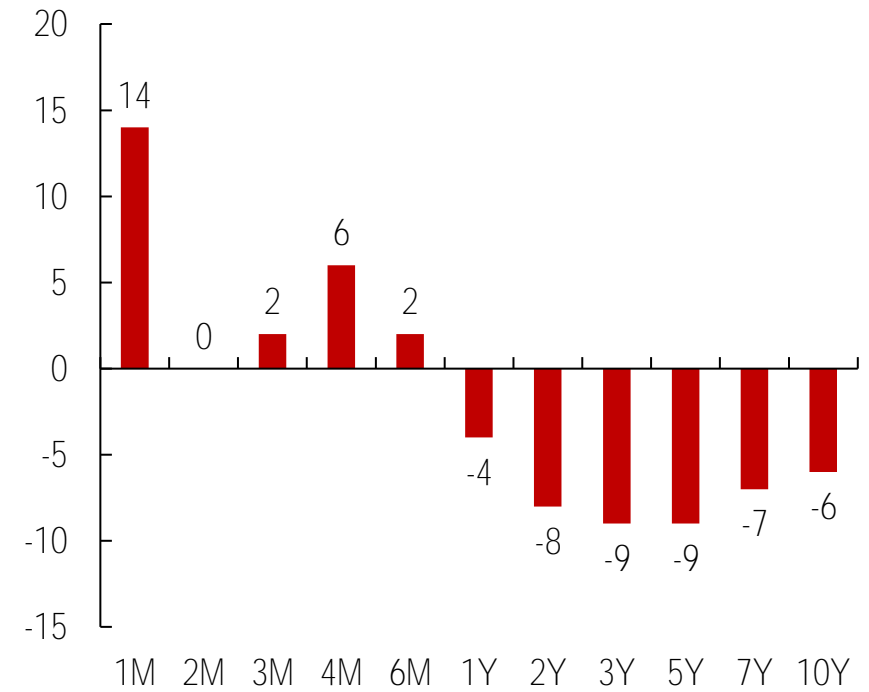
...and so has the U.S. Treasury yield curve...



Source: US Department of Treasury.

...partly reflecting differing short and medium-term prospects including concerns on the U.S. debt ceiling.

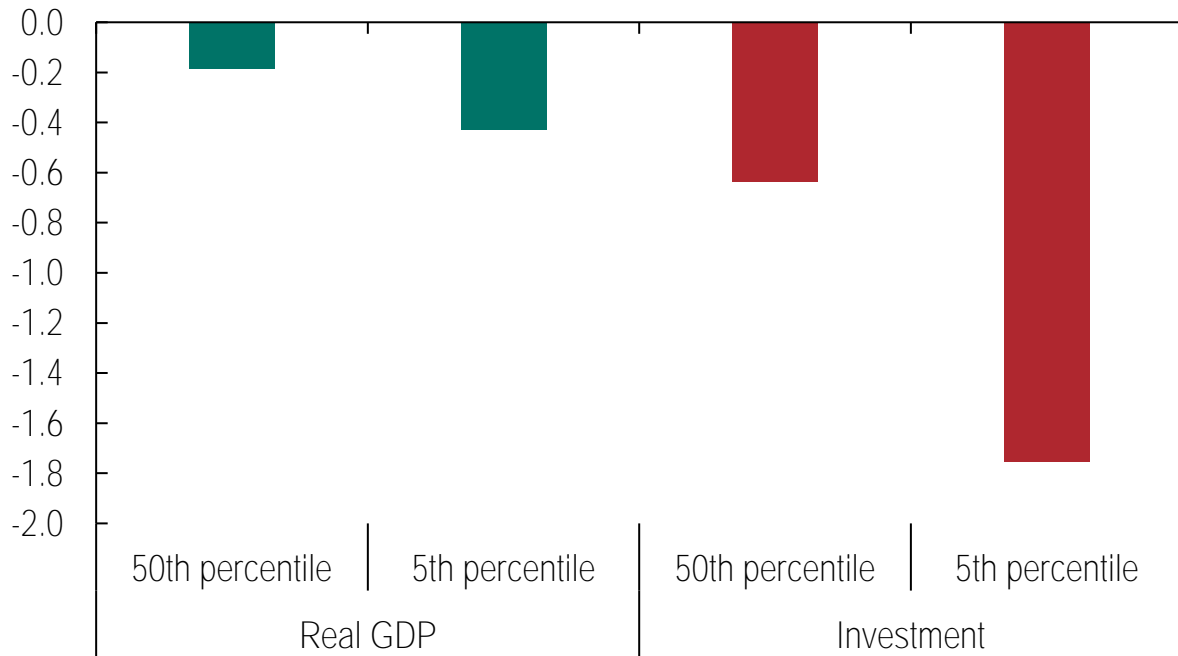
Change in US Yield Curve FOMC May Meeting (Basis points)



# ...with potentially large spillovers on the region

Larger and more persistent US monetary tightening than expected could **have significant spillovers on demand in Asia ...**

Response of Real GDP and Investment to US monetary policy shock  
(Impulse responses at 4 quarters - percentage change)

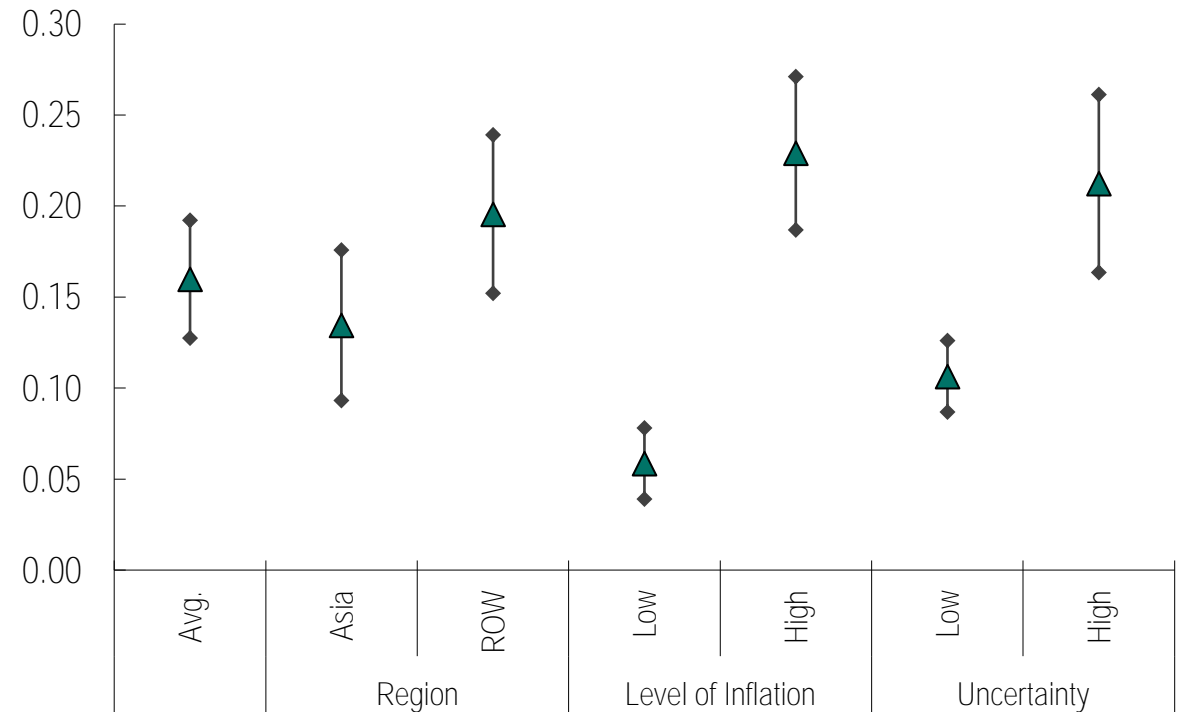


Source: Arbatli-Saxegaard and others (2022).

Note: Estimations show the impact of a 100-basis-point US monetary policy shock based on panel quantile regressions.

... causing depreciations that could put stronger pressure on prices, given high levels of inflation and global uncertainty.

Exchange Rate Pass-through into Inflation  
(Impulse responses at 1-year horizon, percentage points)



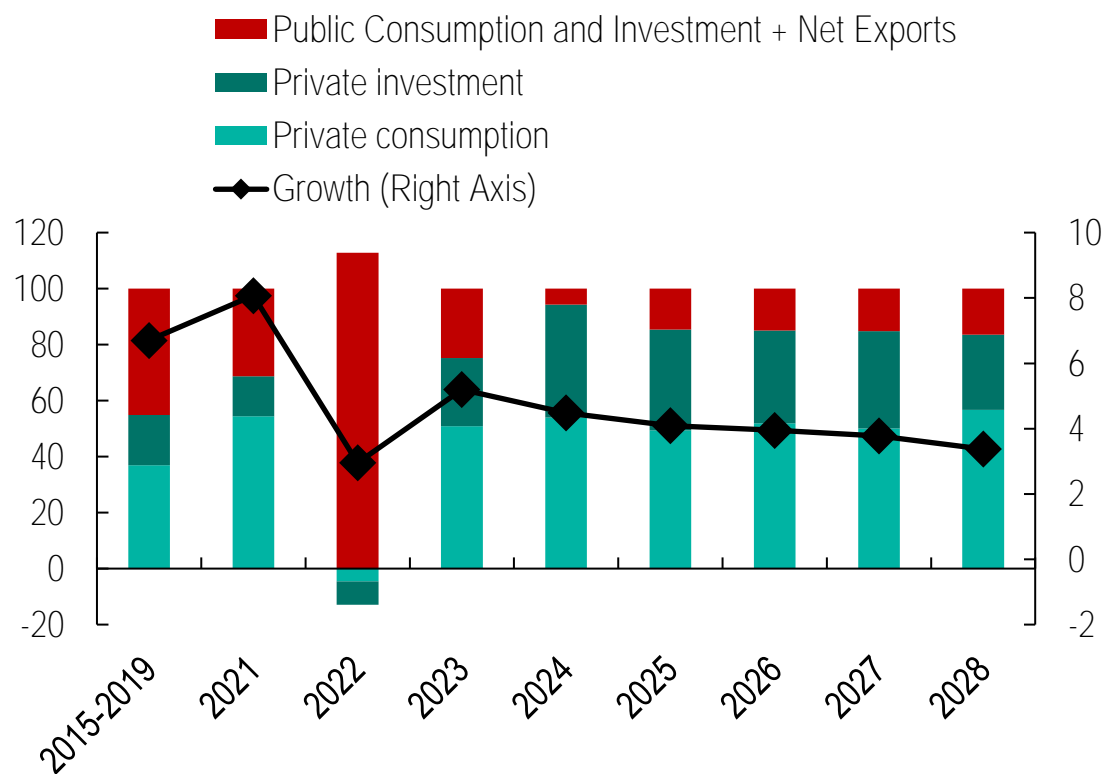
Source: Carrière-Swallow and others (2023).

Note: Estimates show the response of headline inflation following a 1 percent increase (depreciation) in local currency per US dollar. Error bars denote the confidence intervals at 90 percent significance. ROW = rest of the world.

# China's structural growth deceleration and geopolitical fragmentation could affect Asia over time

## China's projected growth slowdown and shift from investment to consumption.

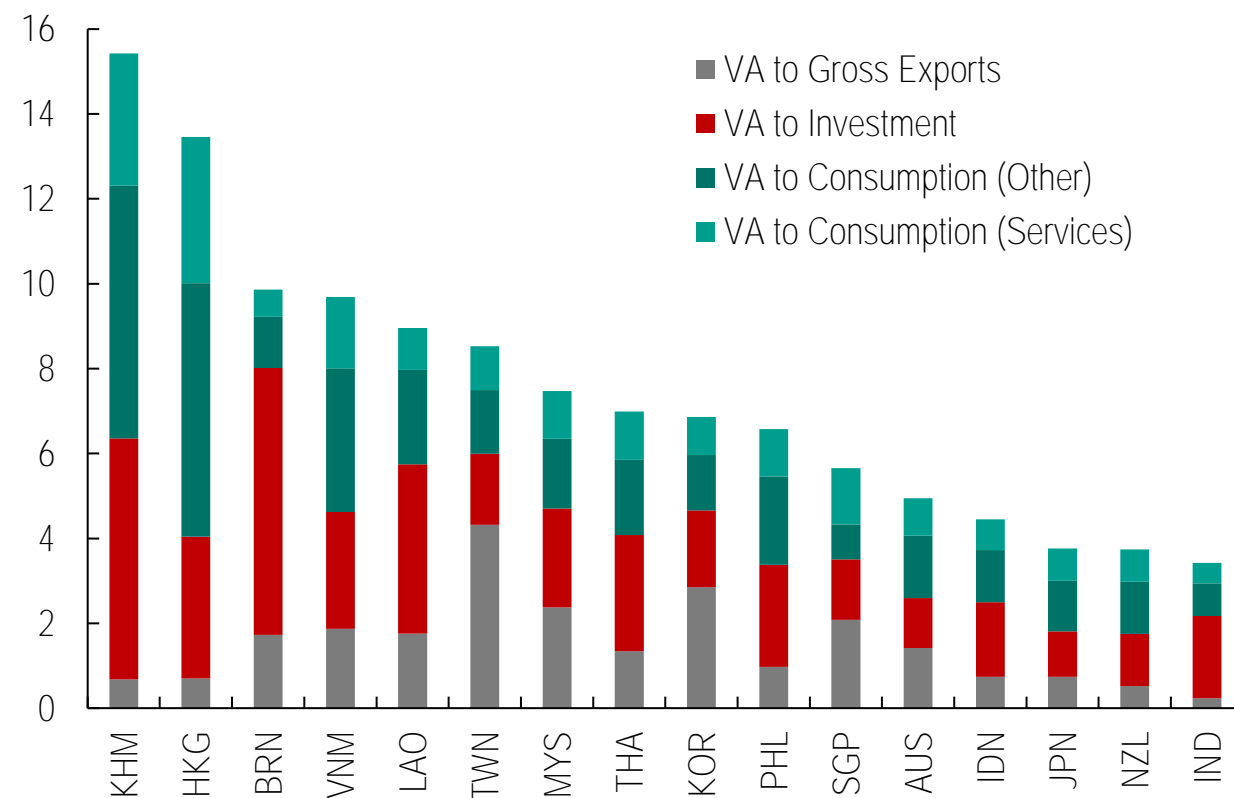
China: Contributions to GDP Growth  
(Percent of total growth, year-over-year)



Source: World Economic Outlook and IMF staff calculations.

The impact on trading partners will be through both domestic demand and global-value-chain channels.

Export Value Added to China  
(Percent of GDP)



Source: OECD Trade in Value Added (TiVA) and IMF staff calculations.

# Economic and Fiscal Challenges

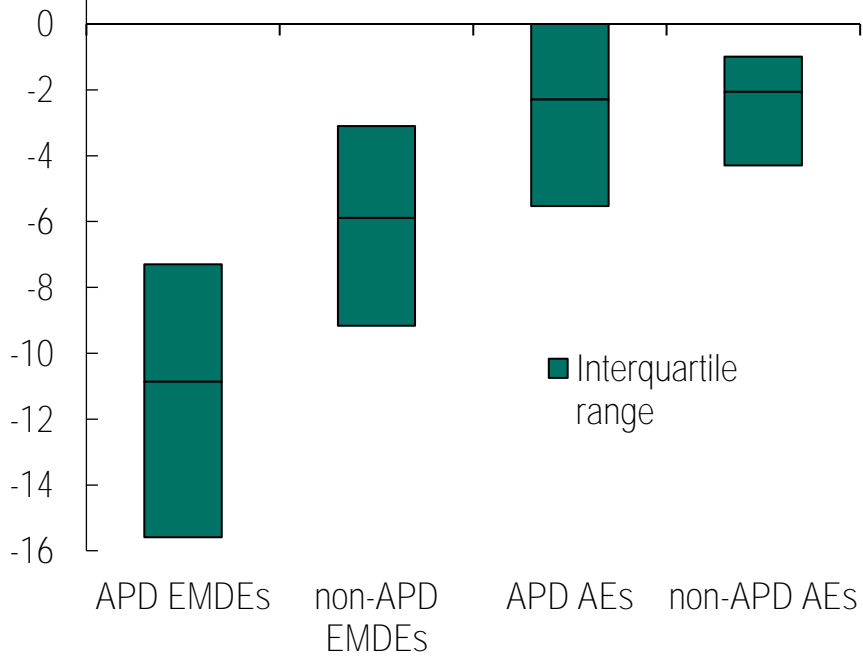
# Challenge 1: economic scarring

Medium-term output losses due to the pandemic are **forecast to be large in Asia, especially in EMDEs,....**

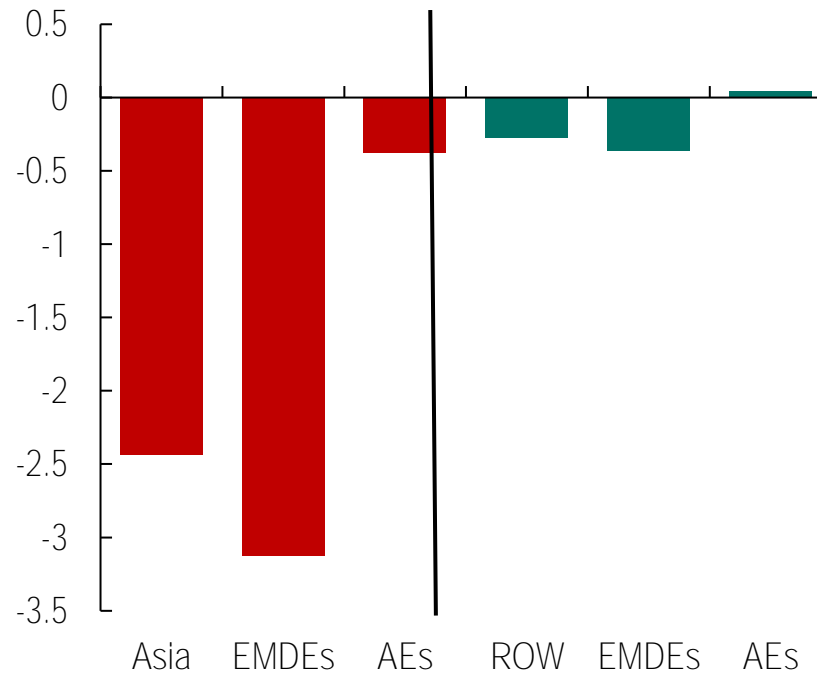
**... partly driven by lower investment induced by the pandemic, and....**

**... learning losses due to protracted school closures during the pandemic**

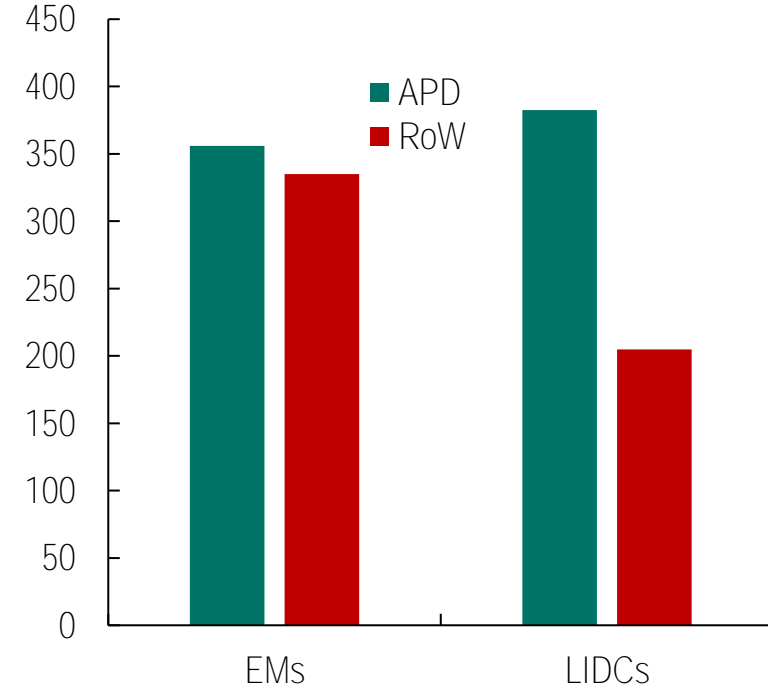
Output Losses: by Income Group  
(Percent, deviation in GDP from pre-pandemic projections, 2024)



Capital Investment Losses from COVID-19  
(Simple average, percentage points)



School Closures Due to COVID19  
(Average Days with Closed Schools)



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

Note: bars denote the difference between projected pre-pandemic and post-pandemic investment ratios for 2024.

Source: UNESCO and IMF staff calculations.

Note: Analysis excludes PICs.

Source: World Economic Outlook and IMF staff calculations.

# Challenge 2: rising geoeconomic fragmentation, which may lead to further output losses

Signs of fragmentation are appearing, with trade-related uncertainty spiking...

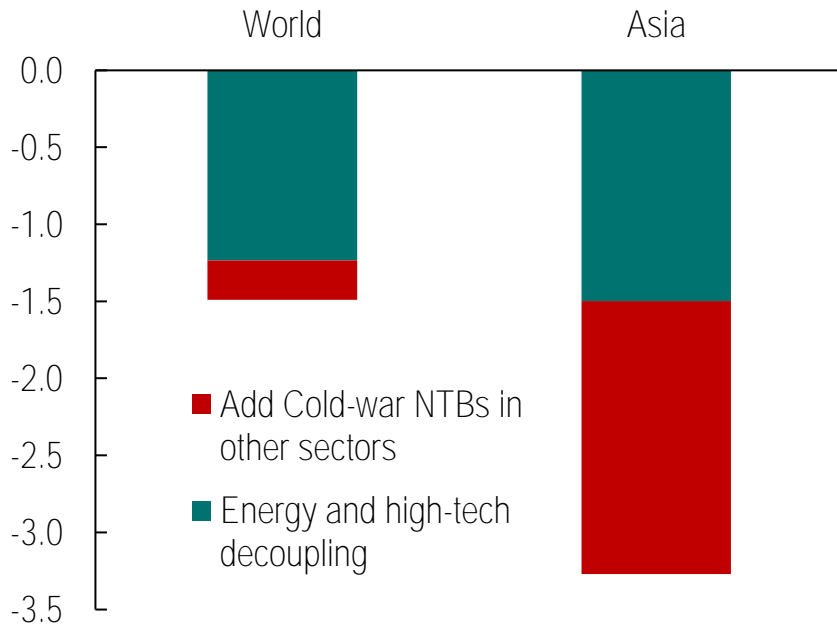
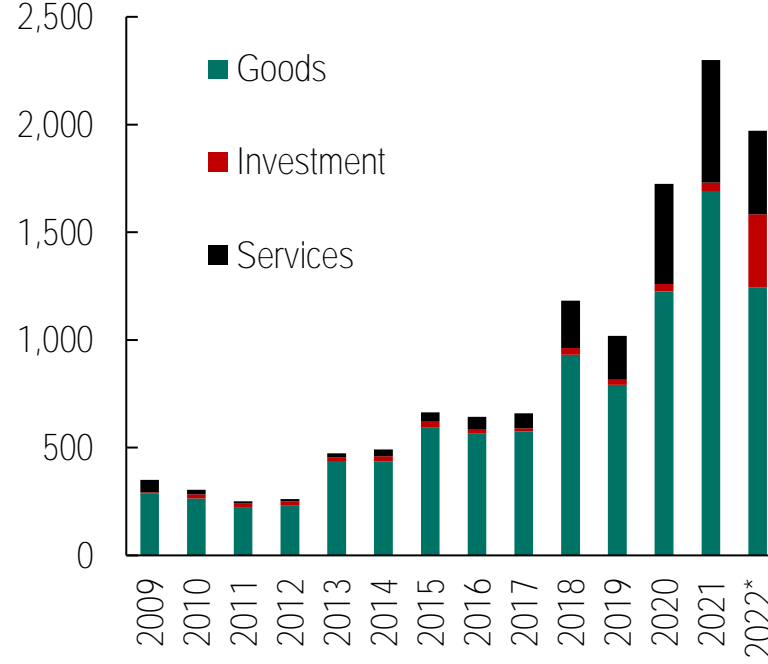
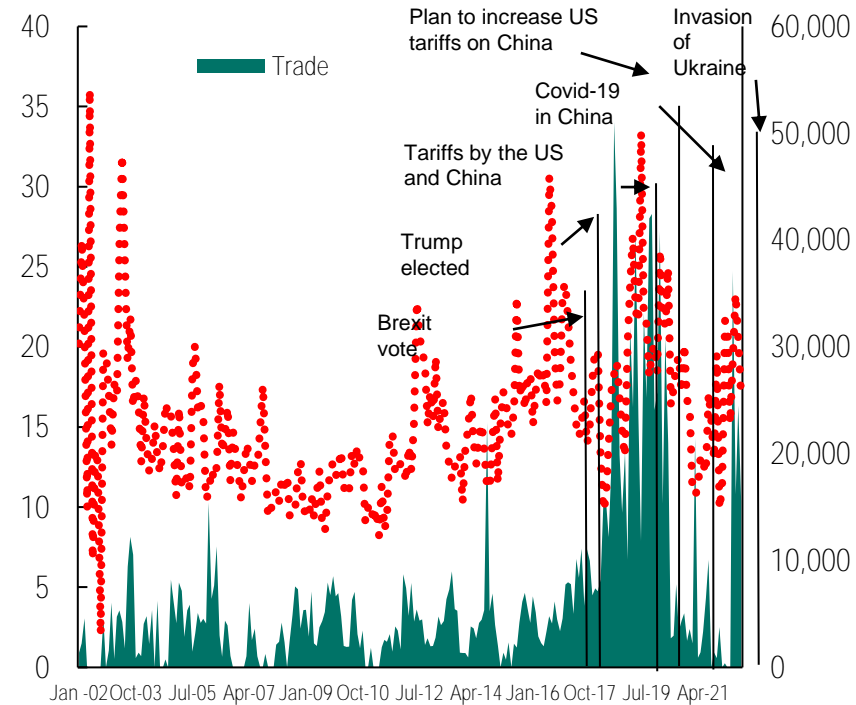
...and the number of trade restrictions on the rise.

Simulations find that output losses from deeper trade fragmentation would be large for Asia

Trade Uncertainty  
(LHS Contributions to index; RHS: Overall index)

Harmful Trade Restrictions Imposed  
(Number)

Estimated Aggregate GDP Losses  
(Percent)



Source: Ahir, Bloom, and Furceri (2022).  
Note: LHS = left-hand scale; RHS = right-hand scale.

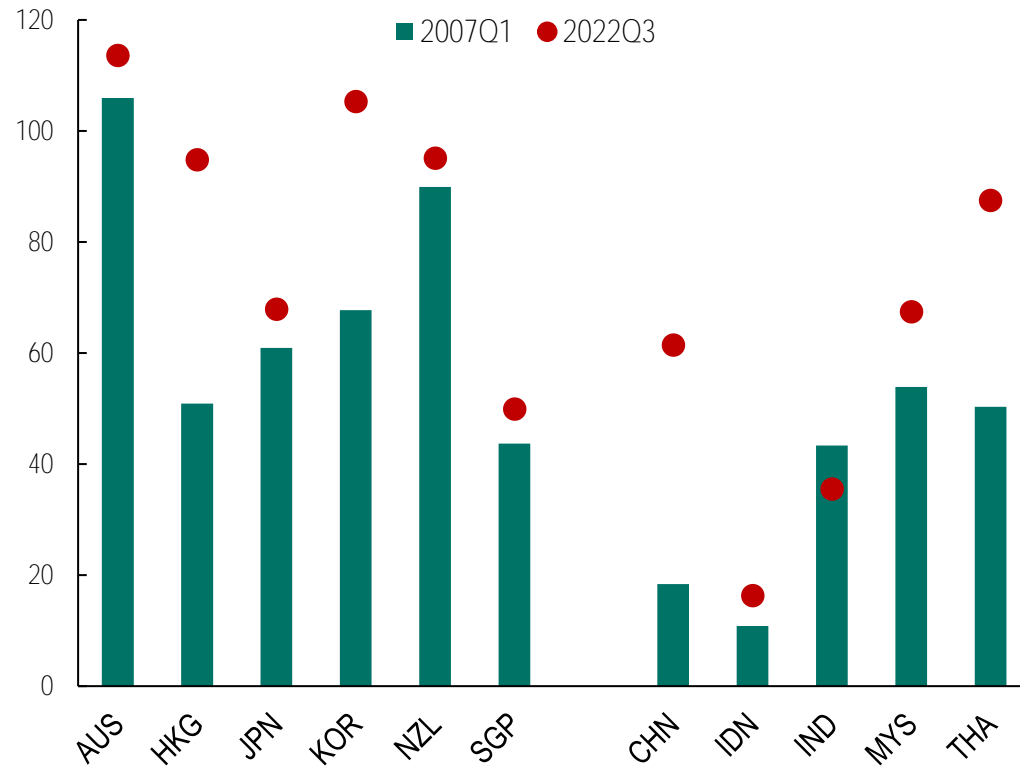
Source: Global trade alert. Note: Data for all years adjusted for reporting lag as of the last day of the year. For 2022, data as of July 29 is scaled up based on number of measures reported by the same day in 2021 relative to total measures reported for 2021.

Sources: IMF staff calculations; EORA Global Input-Output. Note: Simulations reported in Chapter 3 of Regional Economic Outlook: Asia and Pacific, based on the model by Caliendo and others (2017). Simulations are based on two illustrative scenarios: (1) green bar: countries abstaining or voting negative to UN resolution form a bloc that fragments from the positive voters were only high-tech and energy sectors impacted; and (2) red bar: scenario 1 plus also other sectors see NTBs revert to cold war levels.

# Challenge 3: high initial debt levels

Vigilance is needed to monitor risks from rising private debt, including households.

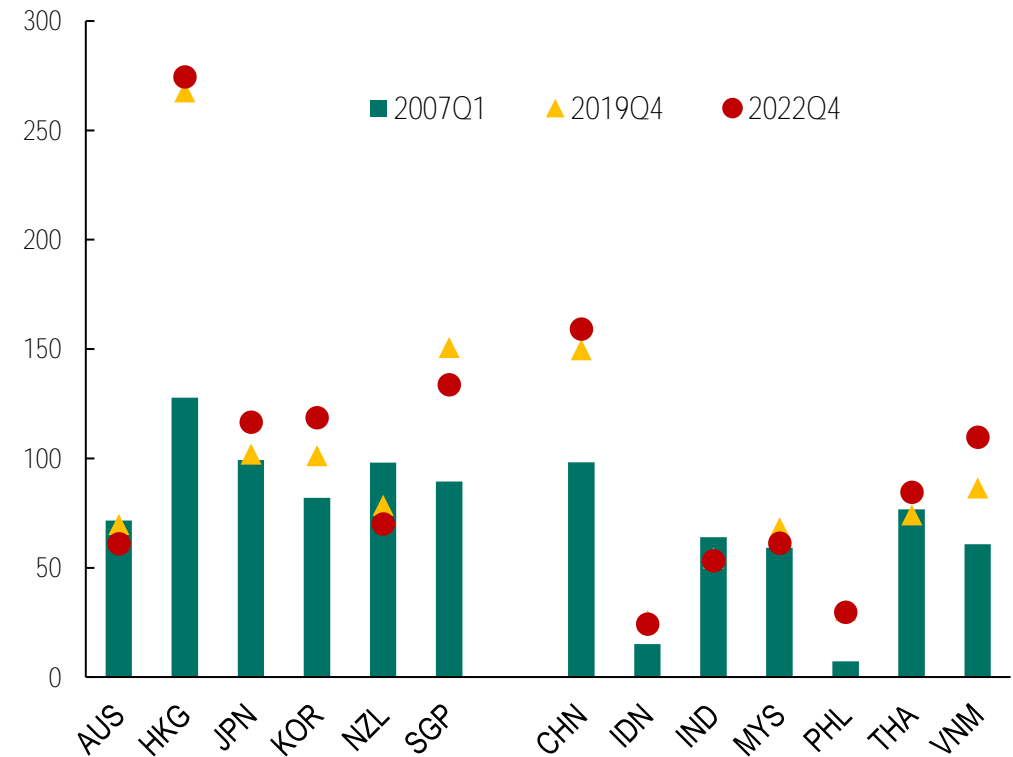
Household debt  
(Percent of GDP)



Sources: IIF and IMF staff calculations.

Corporate debt burdens are elevated throughout the region, and generally above their pre-GFC levels.

Corporate debt  
(Percent of GDP)



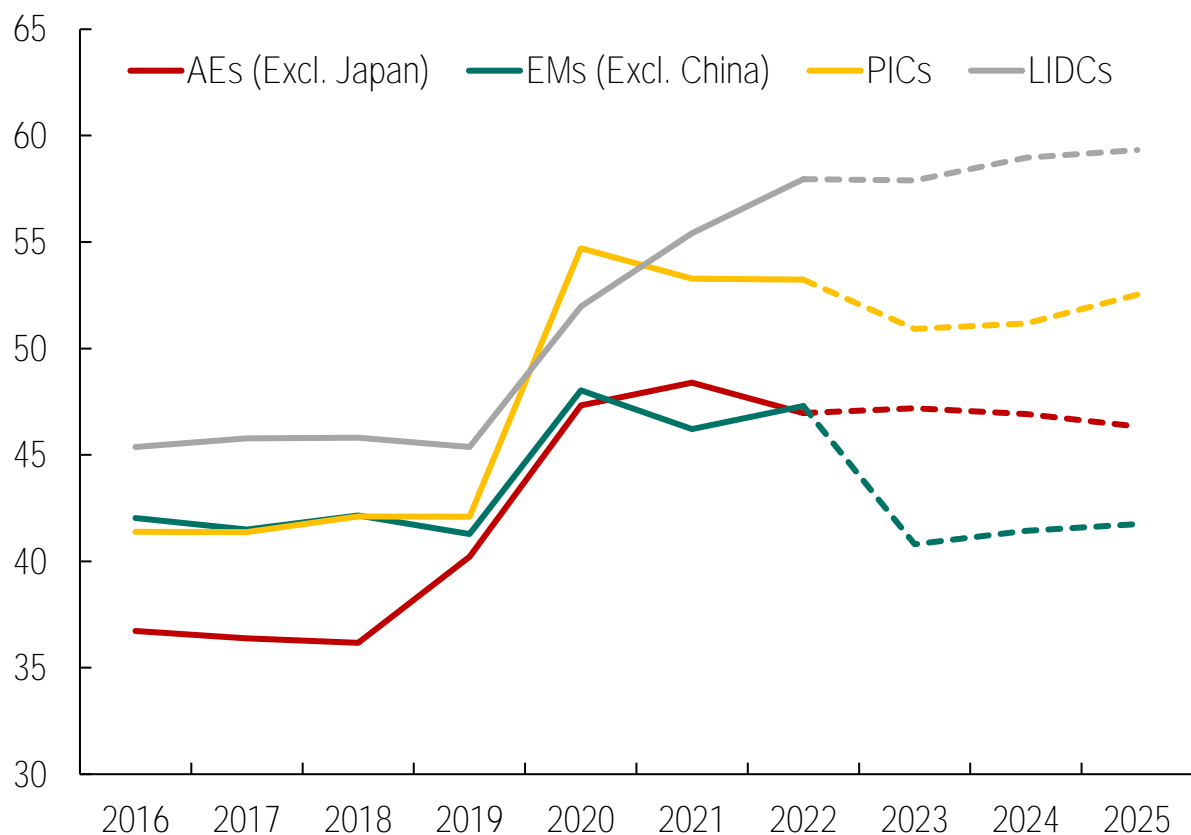
Sources: IIF Haver; BIS, WB EDS; IMF staff calculations.



# Public Debt levels increased substantially in the pandemic...

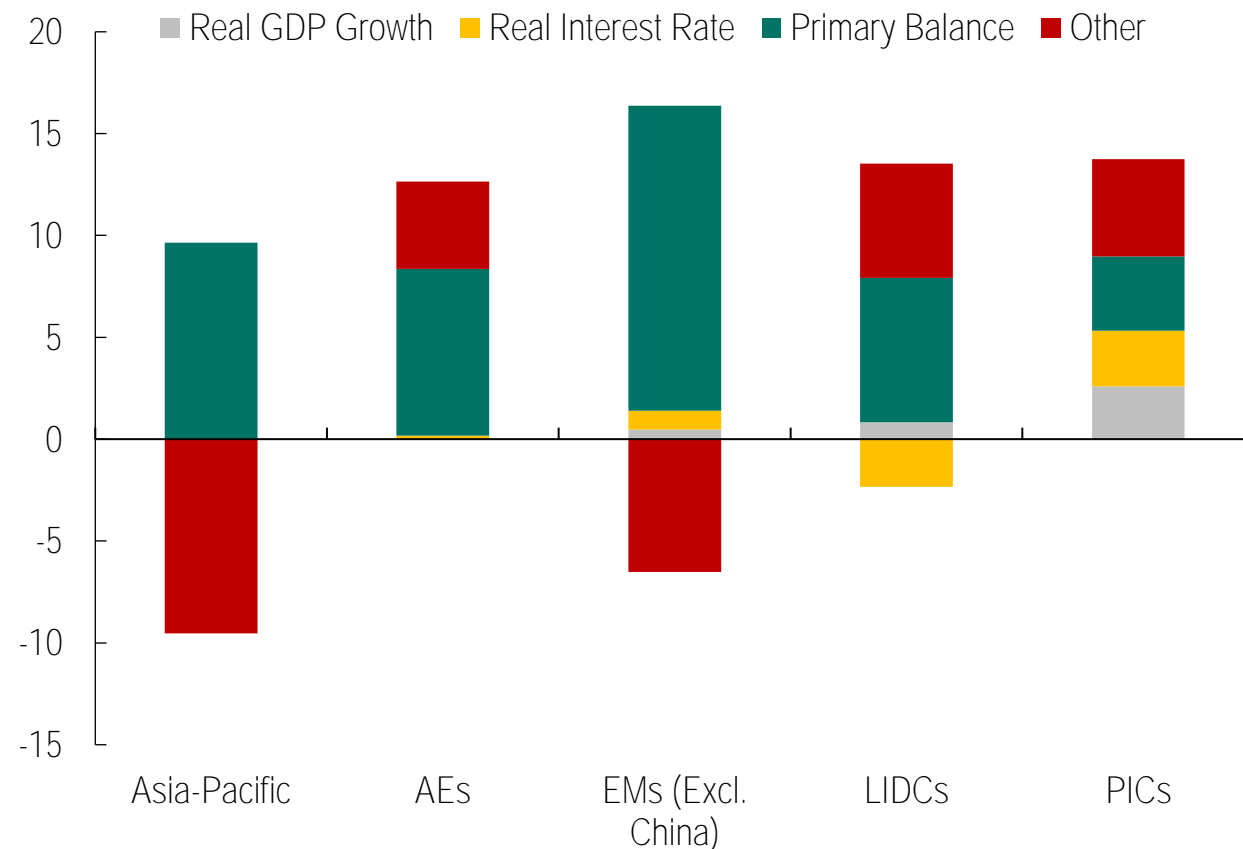
Public debt-to-GDP ratios have significantly increased since 2019, ...

Asia-Pacific: Debt Ratios  
(Percent of fiscal year GDP; simple average)



... as a result of unprecedented policy responses and output losses due to the pandemic

Asia-Pacific: Change in Debt-to-GDP ratio (2019-2022)  
(Percentage points; simple average)



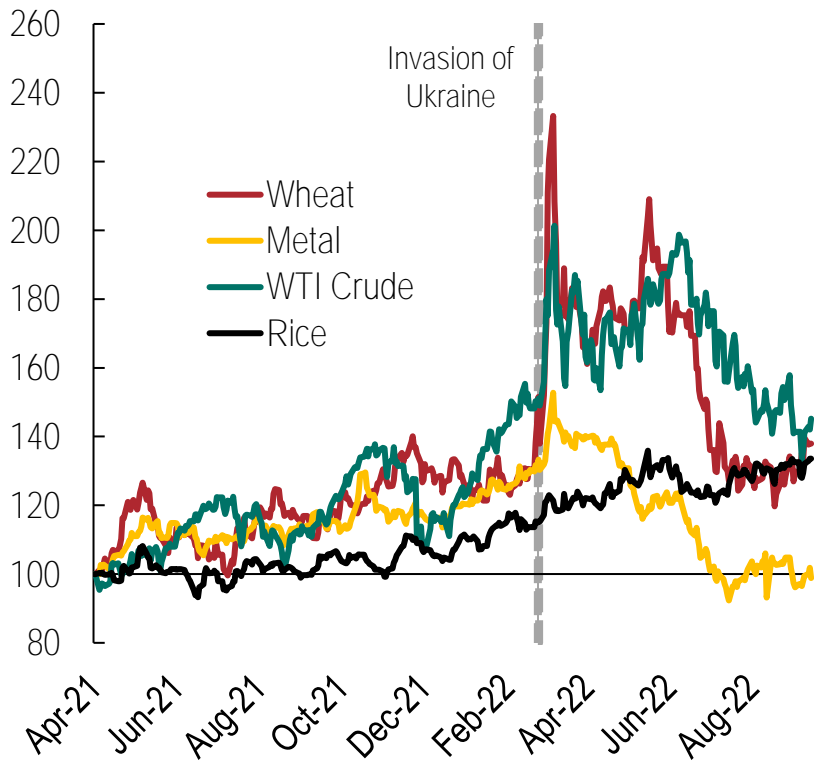
Source: World Economic Outlook and IMF Staff calculations.

Source: World Economic Outlook and IMF Staff calculations.

# The cost-of-living crisis required additional fiscal responses

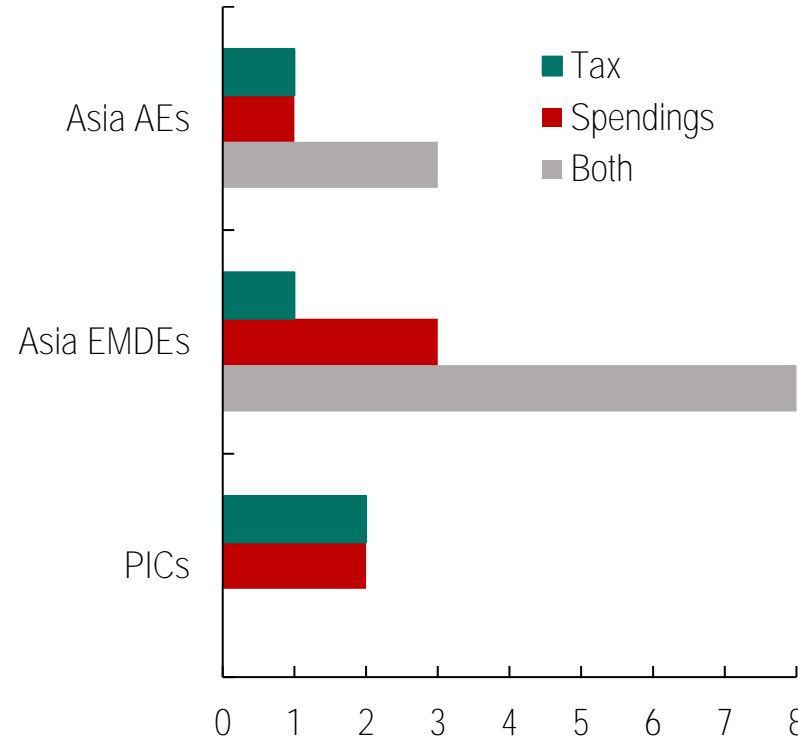
The War in Ukraine led to Spikes in Commodity prices and a rise in domestic inflation....

Commodity Prices  
(Index = 100 April 2021)



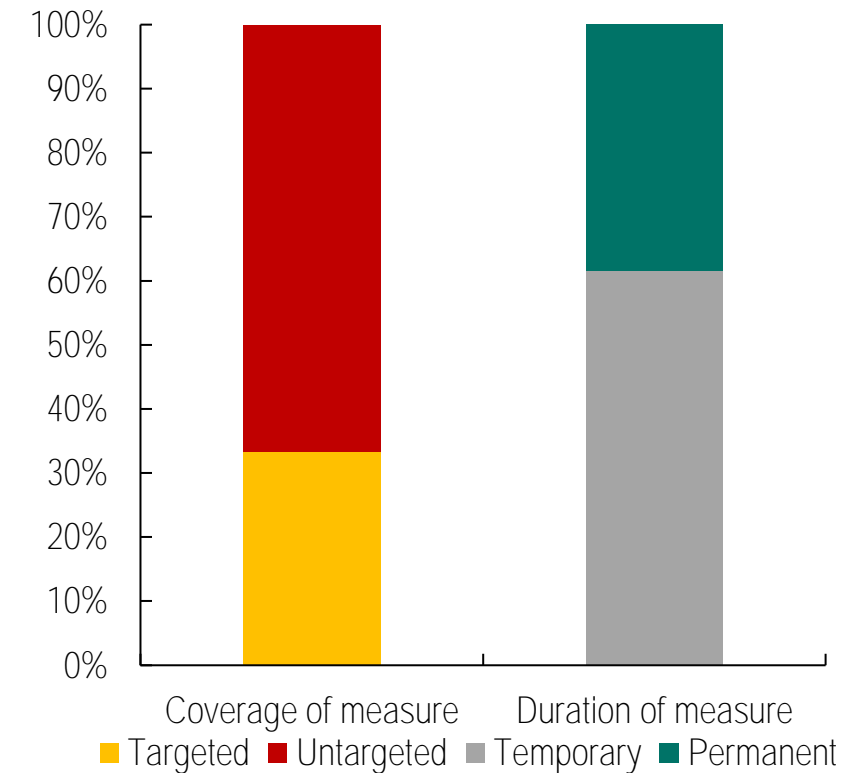
...leading to an introduction of fiscal measures to support the vulnerable, ...

Introduction of fiscal measures in response to rise in energy and food prices  
(Number of countries)



...with some of the measures untargeted and permanent

Coverage and duration of fiscal measures since March 2022  
(Percent of total measures)



Source: Bloomberg Finance L.P. and IMF staff calculations.  
Note: Metals index based on Bloomberg Base Metals Spot Price Commodity Index with the following weights: Aluminum (45%), Copper (25%), Nickel (2%), Lead (12%), Zinc (15%) and Tin (1%).

Sources: IMF desk survey and IMF staff calculations.  
Note: Based on a survey of 16 Asian economies. Bars show the share of economies in the group that have introduced discretionary tax or spending measures in 2022 as a response to the rise in energy and food prices.

Sources: IMF FAD Database of Energy and Food Price Actions Survey and IMF staff calculations.

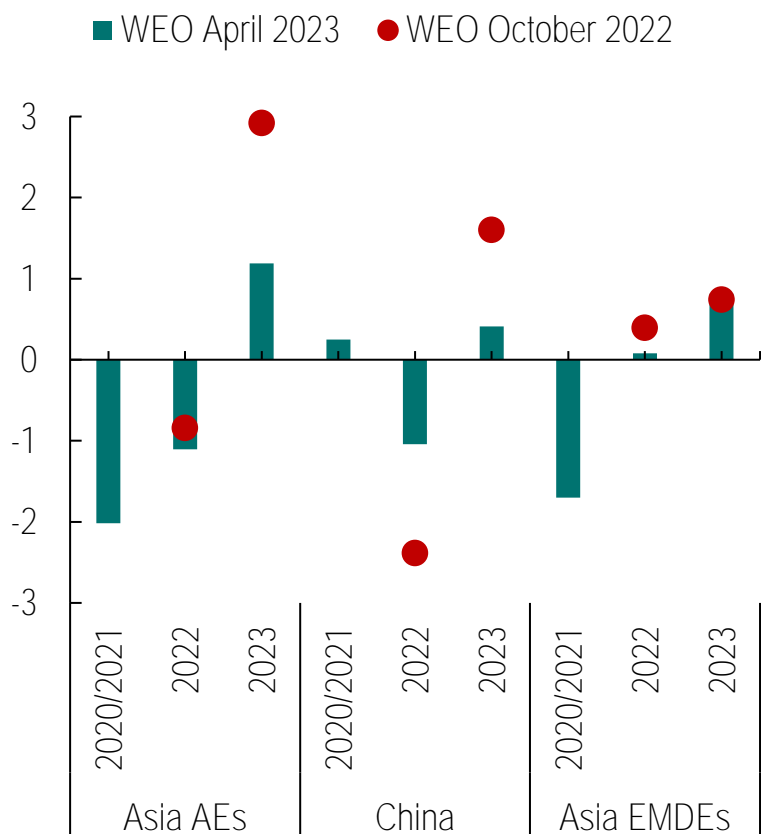
# Fiscal consolidation and adherence to revised medium term fiscal frameworks is key to debt sustainability but challenges remain...

Projected unwinding of covid-related fiscal stimulus in **2023...**

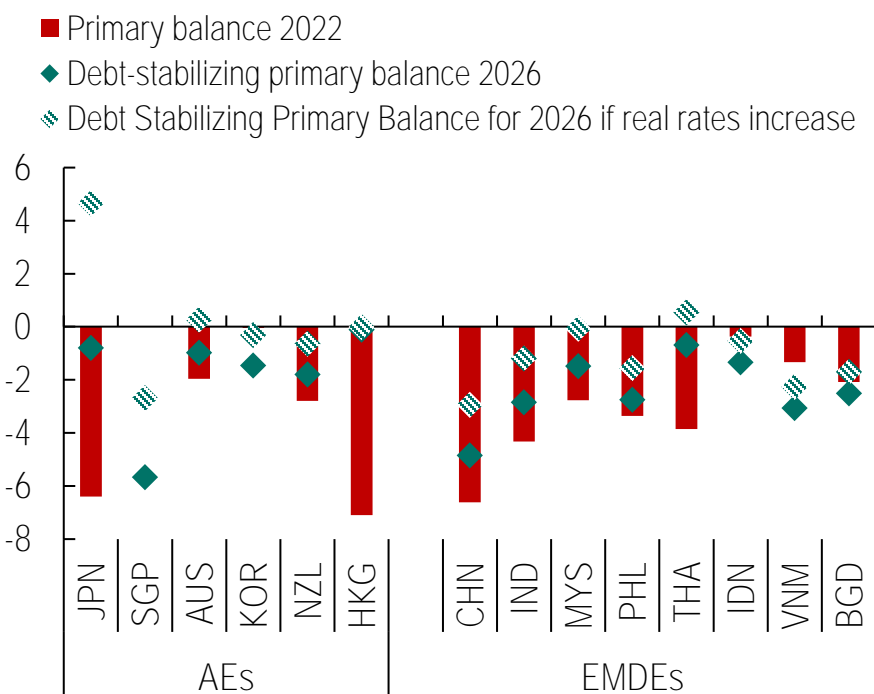
**...but rising long term real rates will make fiscal consolidation more challenging...**

**...underscoring the need to recommit to credible fiscal frameworks across the region.**

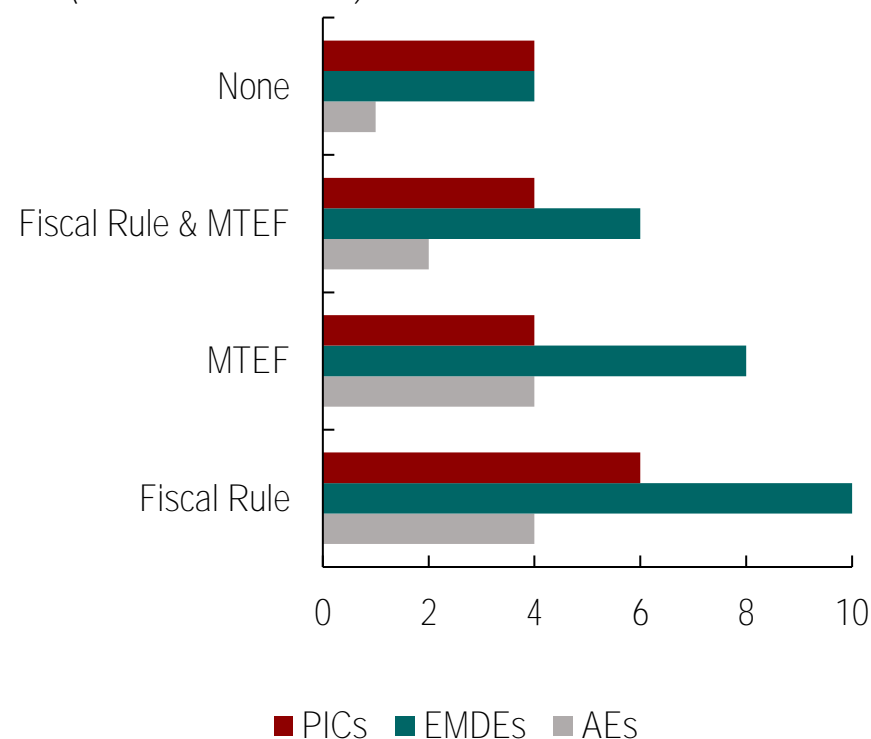
Change in Structural Primary Balance  
(Percent of potential GDP, weighted average)



Debt Stabilizing Primary Balance  
(Percent GDP)



Medium-term Fiscal Frameworks in Asia and the Pacific  
(Number of countries)



Source: World Economic Outlook and IMF Staff calculations.  
Note: Shows impact on long-term debt stabilizing primary balance assuming a level shift in the yield curve of 210 basis points (difference between US 10-year real rates during the pandemic and the long-term average between 1998 and 2019). Assumes the entire debt stock is refinanced at higher yields—to the extent that maturity structure differs across countries, the impact on debt stabilizing primary balance may occur over different time horizons.

Source: IMF staff calculations.  
Notes: MTEF corresponds to Medium Term Expenditure Framework. AEs includes a total of 7 countries, EMDEs includes 16 countries and PICs includes 10 countries.

Source: World Economic Outlook and IMF staff calculations.  
Note: 2020/2021 is cumulative change.

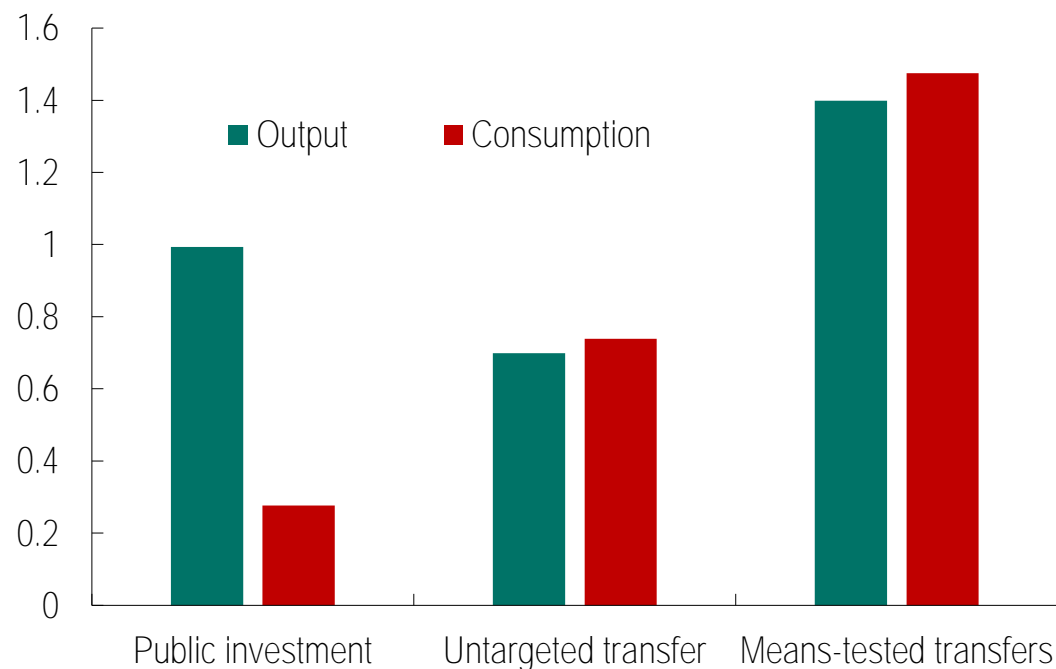
Thank you!

# Additional slides

# China: Near-term policy advice

Fiscal policy should avoid premature tightening, remaining neutral and with support reoriented toward strengthened social protection.

Estimated Fiscal Multipliers



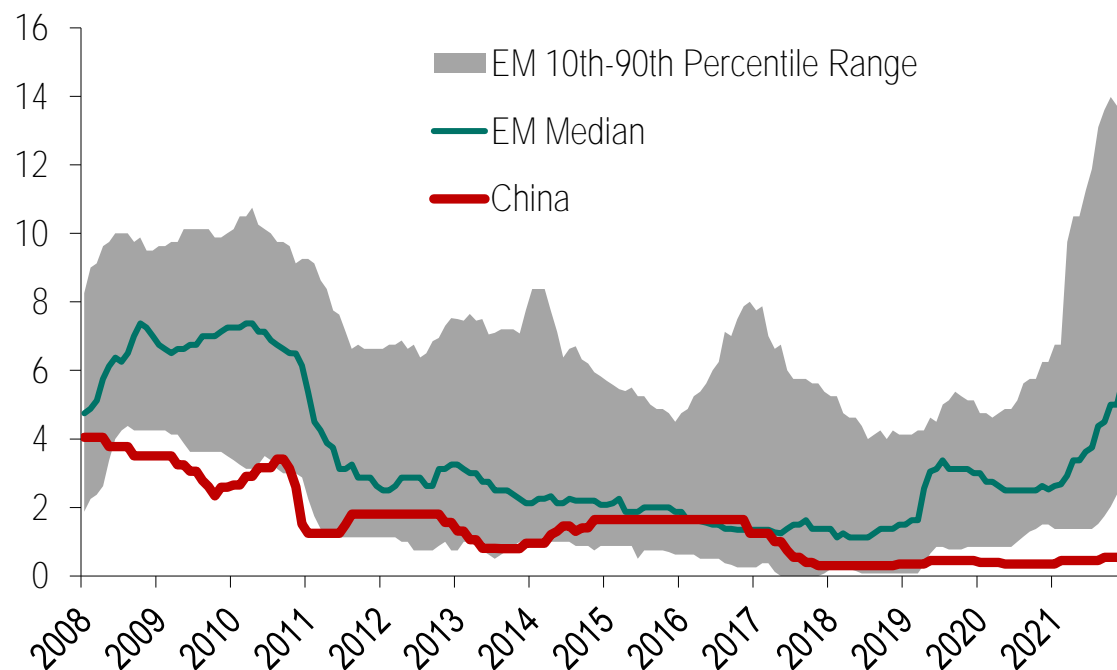
Source: IMF staff calculations.

Notes: Estimated multipliers from a general equilibrium model calibrated to China.

See “China - Selected Issues” paper on fiscal multipliers for more details.

Monetary policy should remain accommodative and would be more effective if more reliant on interest rate-based instruments.

Selected Emerging Markets: Monetary Policy Usage  
(In percentage points; three-year rolling sum of changes in policy interest rate)



Source: Haver Analytics; and IMF staff calculations.

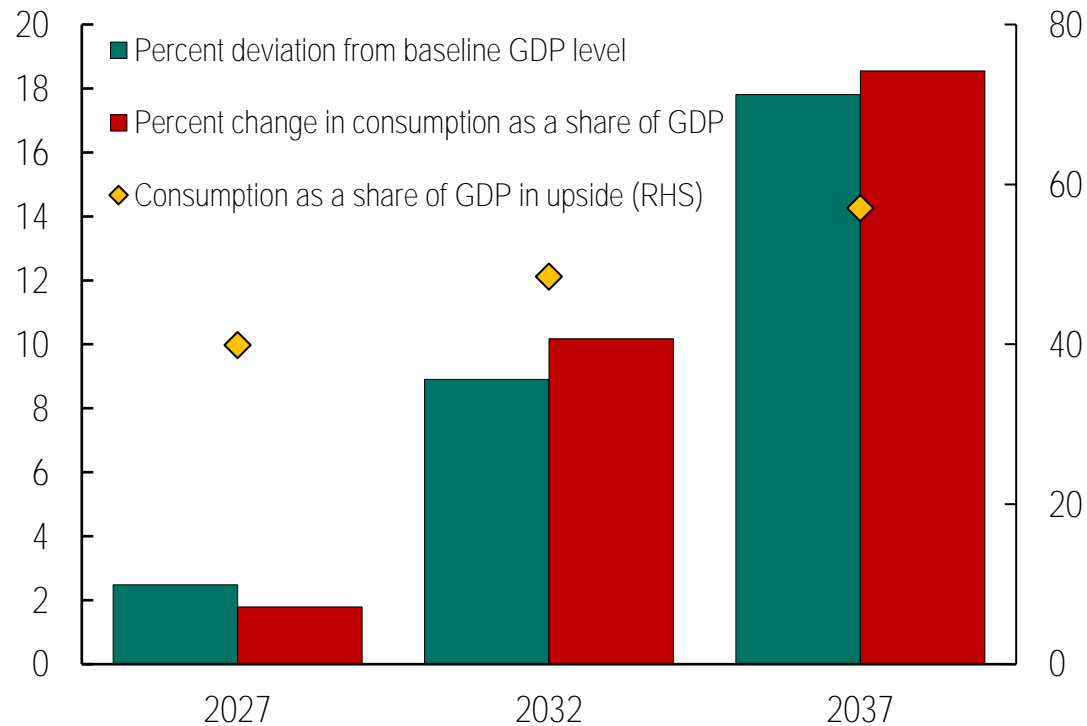
Notes: Data is calculated using rolling sums of absolute values of policy rate changes.

# China: Achieving high-quality growth in the medium term

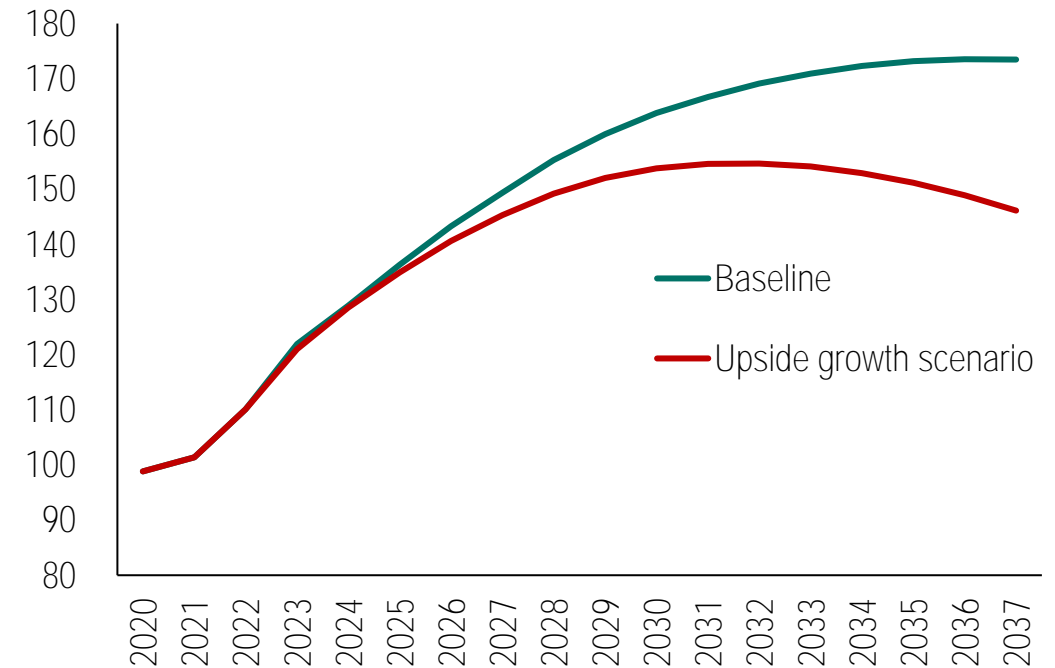
A comprehensive set of reforms could deliver higher, more **inclusive, and more balanced growth in the medium term ...**

... and make growth less risky.

Gains Over the Reform Period in Illustrative Scenario  
(In percent)



Augmented Debt Scenarios  
(In percent of GDP)



Source: IMF staff estimates.

Notes: Reforms in illustrative scenario are assumed to be phased in linearly over a reform period of 15 years.

Source: IMF staff calculations.