REGIONAL ECONOMIC OUTLOOK

ASIA AND PACIFIC

INTERNATIONAL MONETARY FUND | **ASIA AND PACIFIC DEPARTMENT**

ECONOMIC AND FISCAL CHALLENGES IN ASIA AND THE PACIFIC

THE NINTH TOKYO FISCAL FORUM

TOKYO, JUNE 5, 2024

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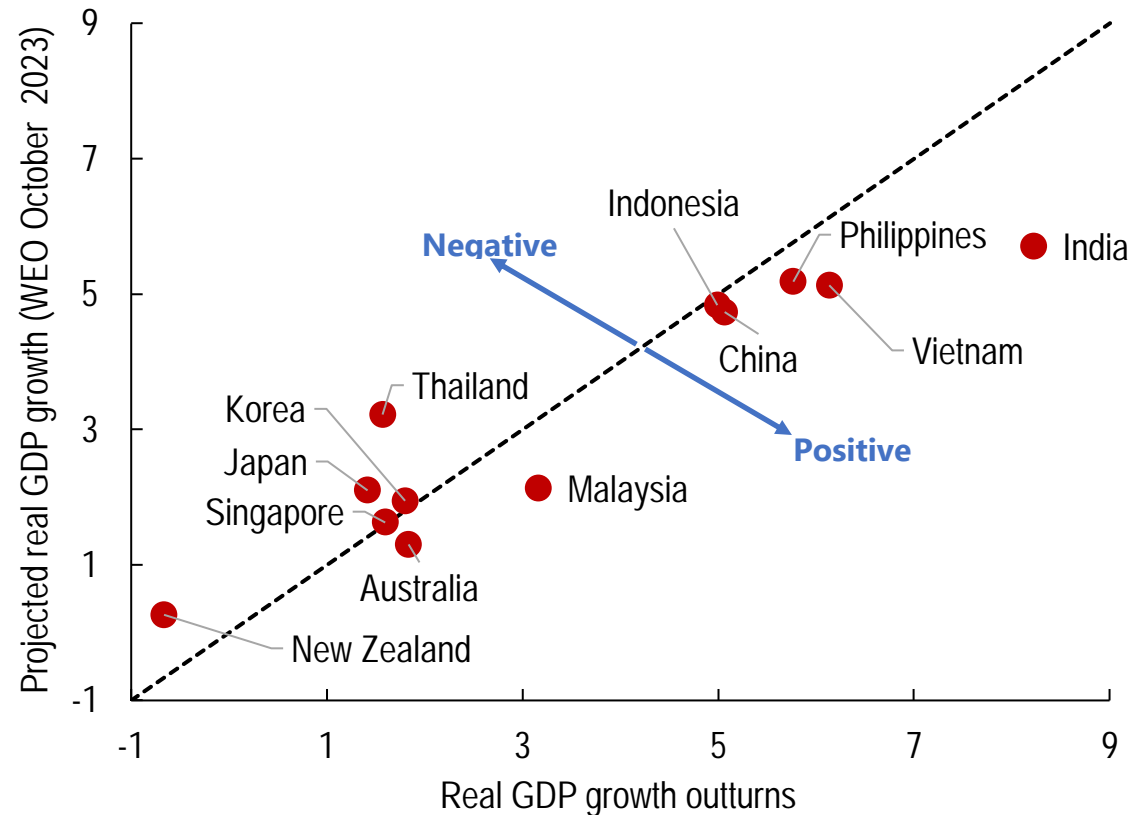
➢ Economic outlook for the Asia Pacific region

➢ Risks to the outlook

➢ The fiscal situation in the Asia Pacific region

➢ Fiscal prospects and challenges

Recent Developments and the Outlook

Most Asian EMDEs have grown faster than expected in October…

Growth surprises 2023:H2
(*year-on-year growth; percent*)

… driven primarily by private consumption, except in India, where investment played a larger role.

Contributions to GDP Growth
(*YoY growth ; percentage points; nsa*)

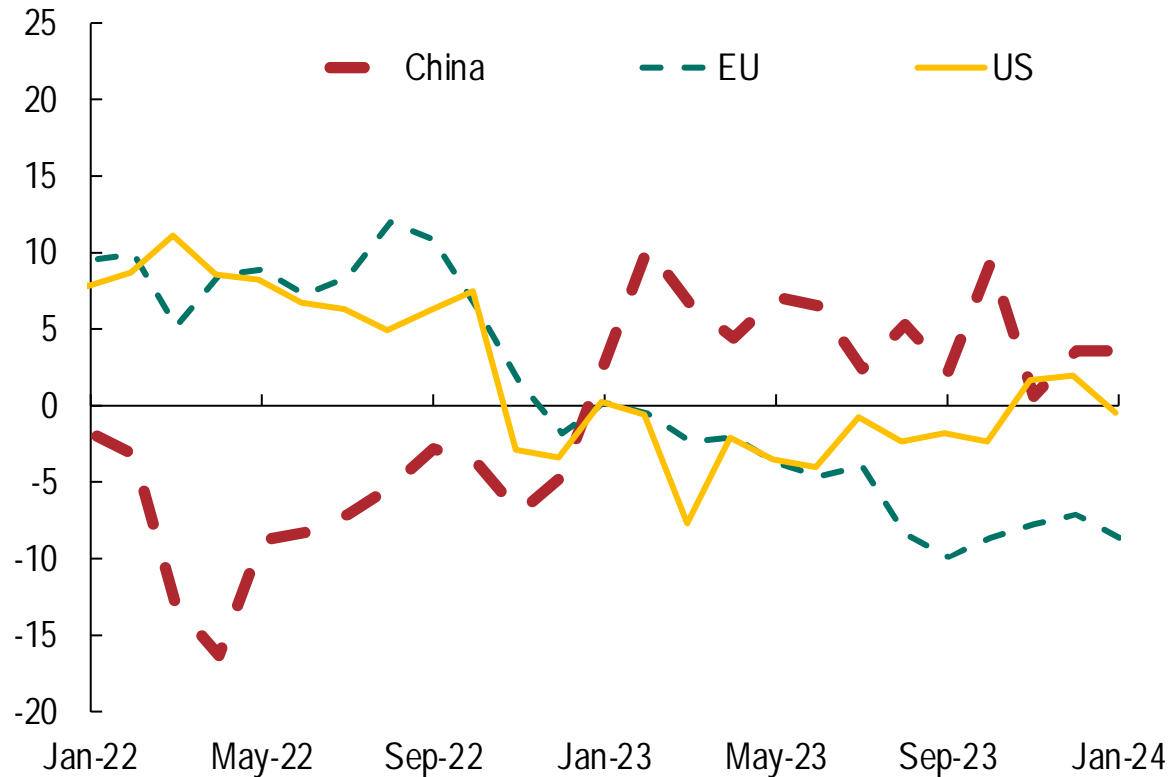Sources: HAVER, World Economic Outlook and IMF Staff calculations.
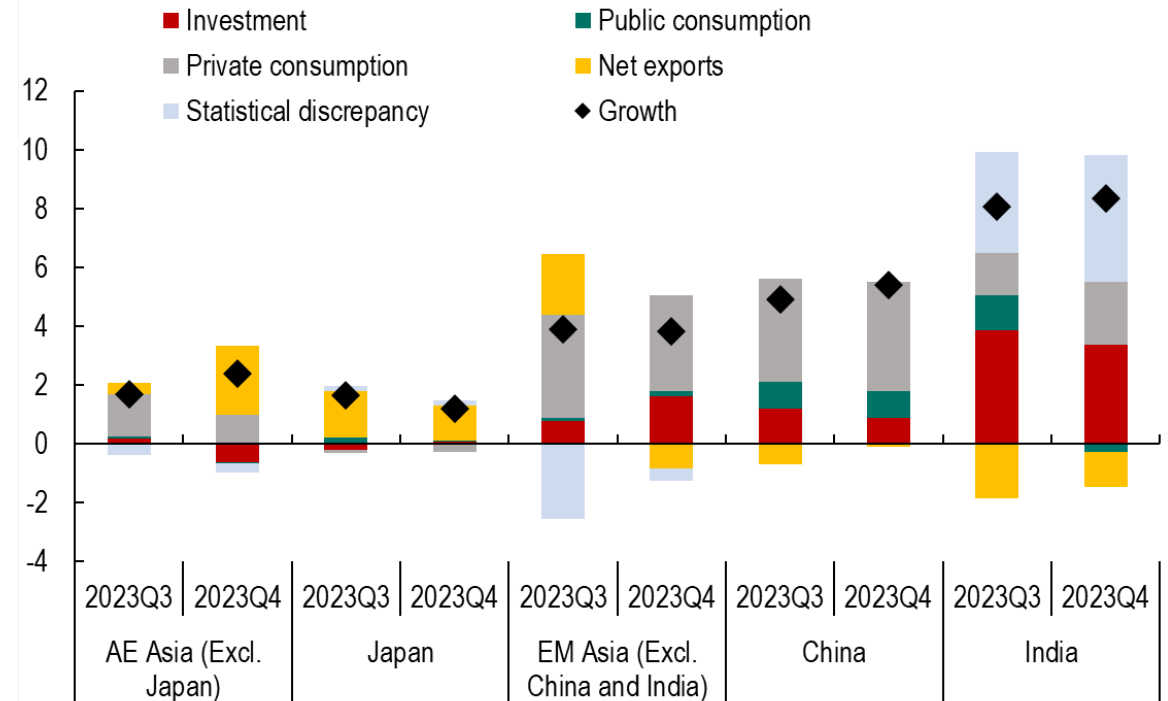
Source: HAVER and IMF staff calculations.
Note: For AE Asia includes AUS, HKG, KOR, NZL, SGP, TWN POC and JPN. EM Asia includes IDN, MYS, PHL and THA. CHN and JPN. Inventories are included in the statistical discrepancy.

External Demand has Remained Lackluster
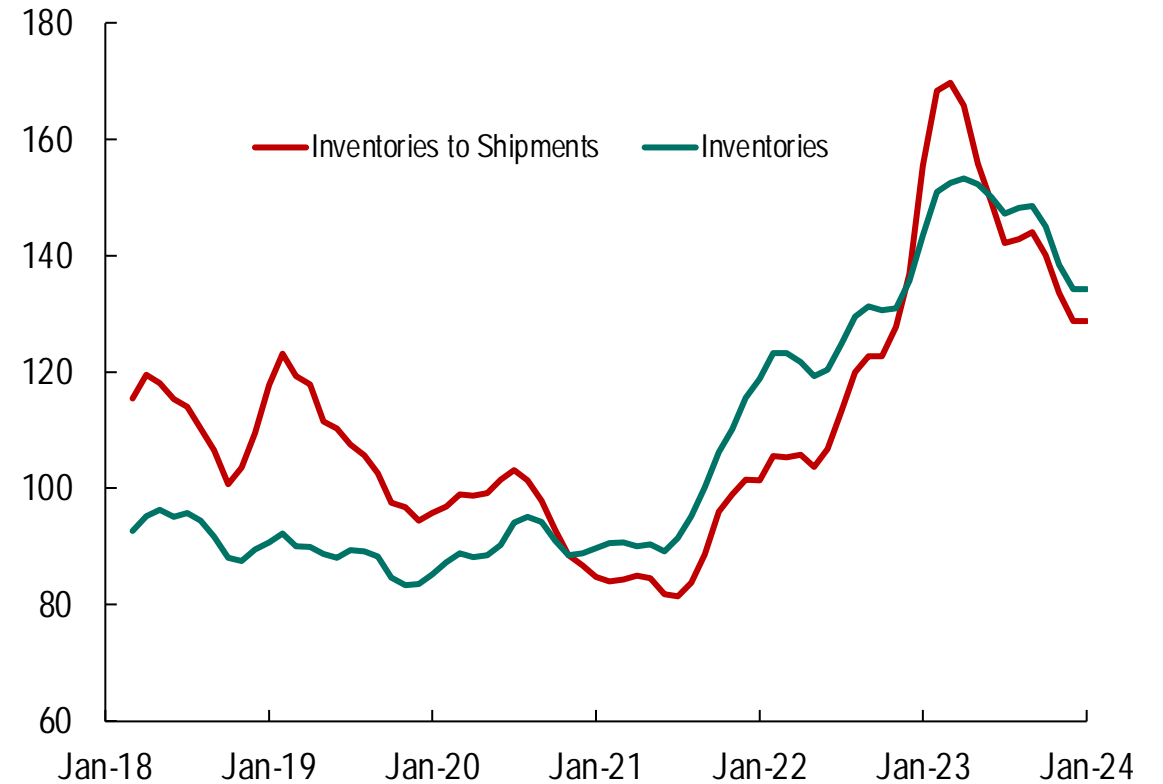
Import demand from major trading partners has been weak…

…but the tech cycle has turned, possibly reflecting demand for AI chips, and benefitting AE exporters.

Global Import Volumes
(year-on-year percent change)

Semiconductors Inventories
(index, 2015 = 100)

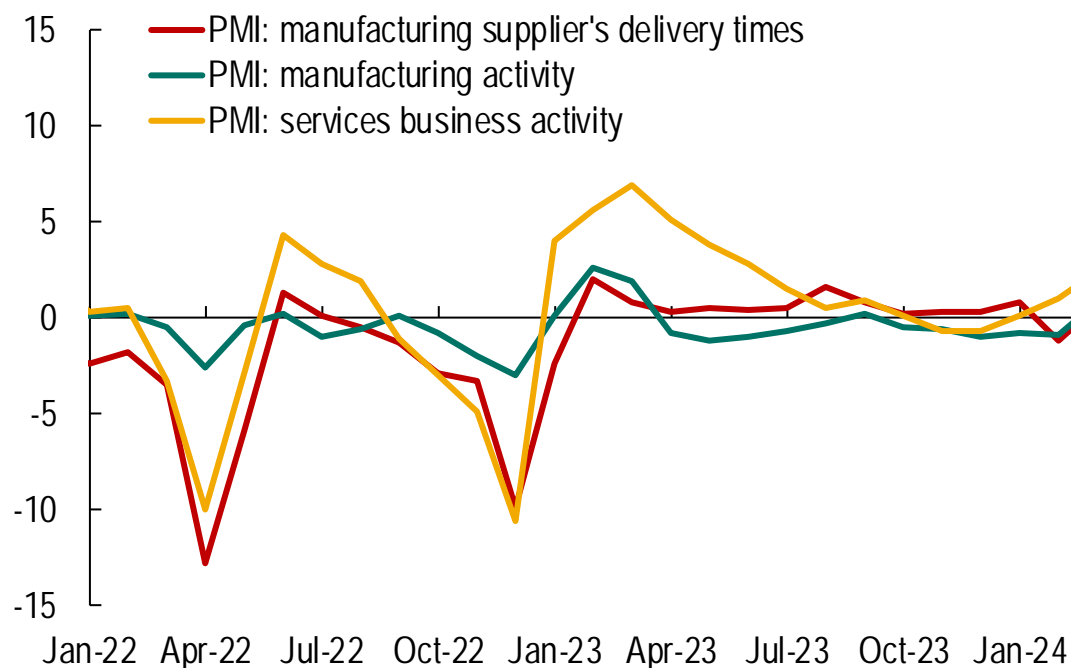Sources: Haver Analytics and IMF staff calculations.

Source: Haver Analytics.
Note: Data includes JPN, KOR and TWN POC.

Data from China Have Been Mixed

Near-term activity indicators have improved…
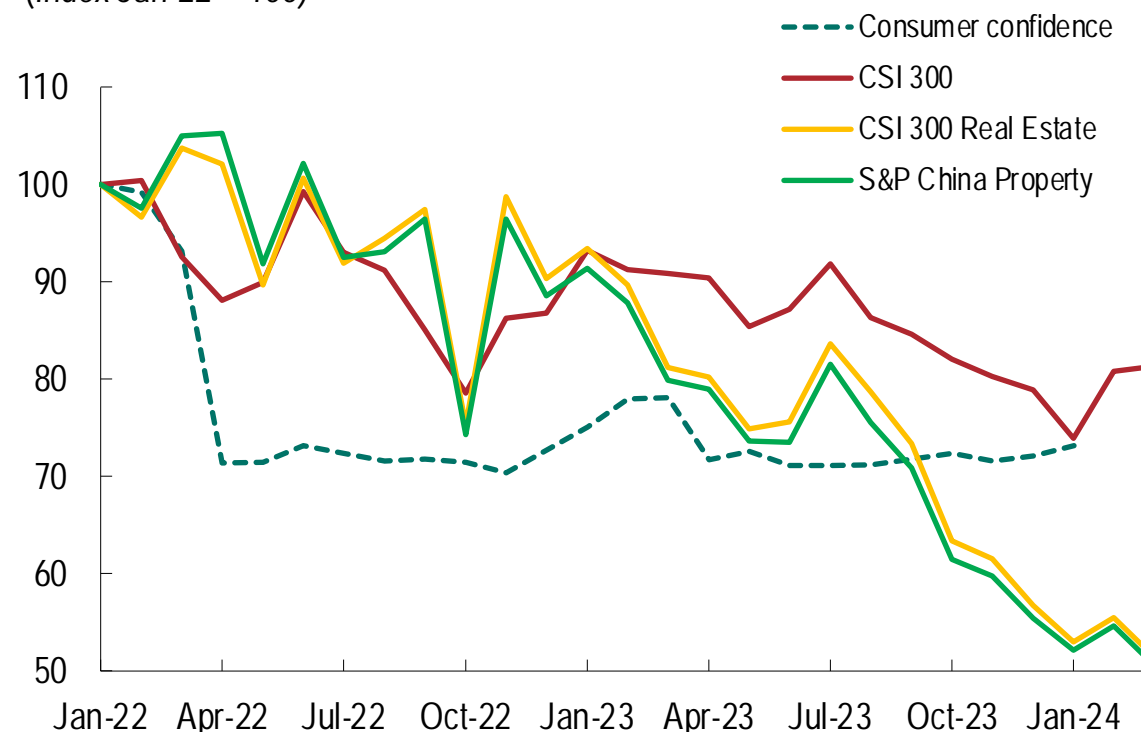
…but market sentiment has deteriorated further, especially on real estate.

China: Manufacturing and Services Indexes
(PMI Index less 50; positive = expansion)

- PMI: manufacturing supplier's delivery times
- PMI: manufacturing activity
- PMI: services business activity

China: Market Price Indices and Consumer Confidence
(Index Jan-22 = 100)

- Consumer confidence
- CSI 300
- CSI 300 Real Estate
- S&P China Property

Source: China National Bureau of Statistics; and IMF staff calculations.
Note: PMI = purchasing managers' index.

Source: Bloomberg Finance L.P; and IMF staff calculations.

Contributions to Headline Inflation
(Percent)

Legend: Other categories (core), Food, Energy/Fuel/Transport, Headline CPI

EMDE: China, Asia Excl. China, Rest of the World
AE: Japan, Asia Excl. JPN, Rest of the World
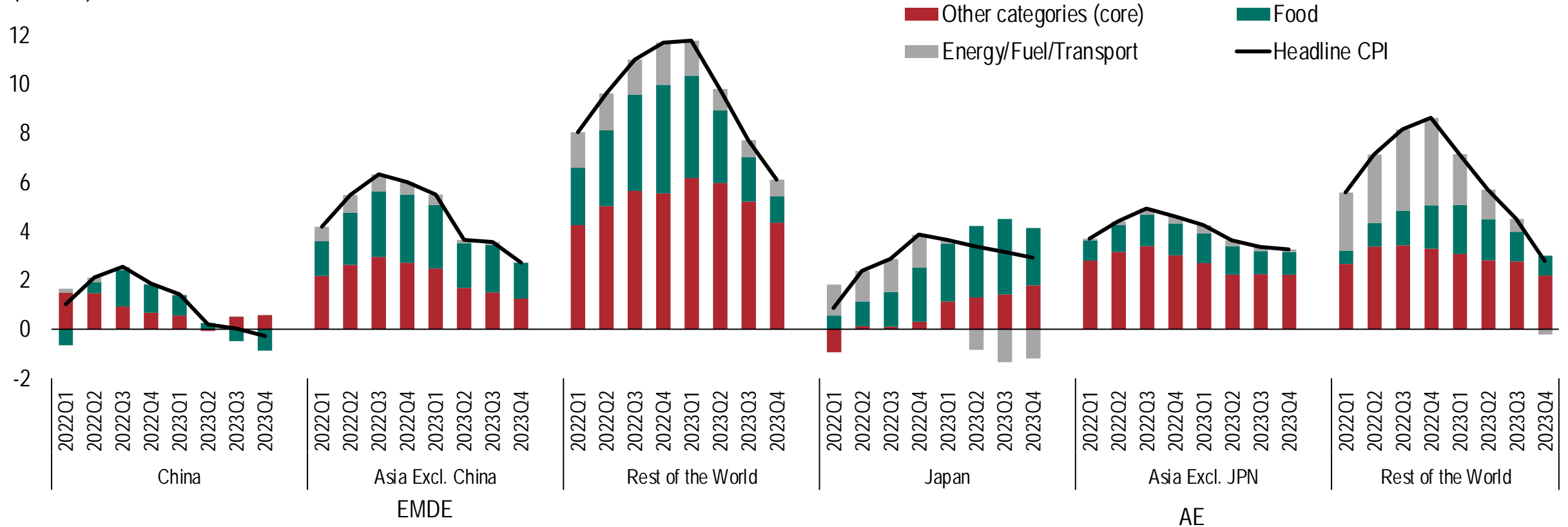
Source: Haver Analytics; and IMF staff calculations.
Note: Core refers to CPI basket excluding food and energy, fuel, and transport. The exact categories used in the decomposition of these categories varies across countries. AE Asia includes AUS, HKG SAR, KOR, MAC SAR, NZL, SGP, TWN POC. EMDE Asia includes IDN, IND, MYS, PHL, THA. Other AE include BEL, CAN, CHE, DEU, FRA, GBR, ITA, NLD, SWE, US/ Other EMDE include BRA, CHL, COL, HUN, MEX, ZAF.

... and Borrowing Costs have Fallen Across the Board

## Sovereign spreads have declined, especially in frontier markets

EMBI Spreads
(Change, in basis points)

Legend:
- Jan. 2023 to Oct. 2023
- Oct. 2023 to Jan. 2024
- Jan. 2024 to date
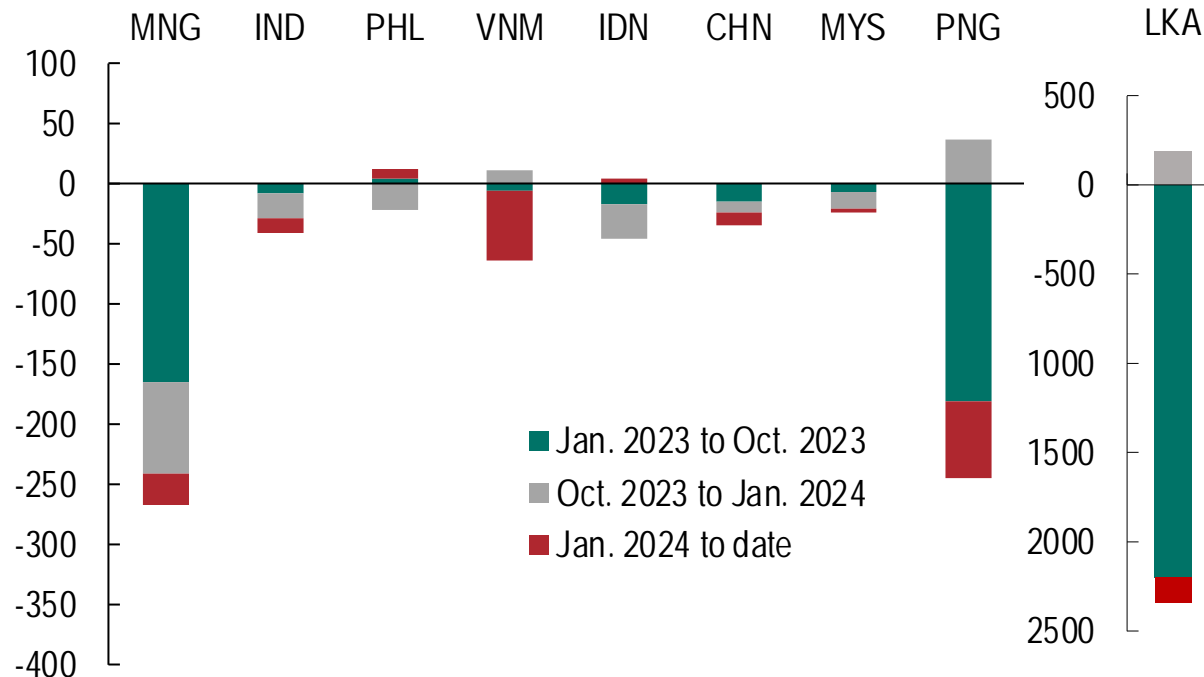
Source: Bloomberg Finance L.P and IMF staff calculations.
Latest Date: 17th April 2024.

Portfolio outflows from China contrast with inflows elsewhere

Asia Cumulative Portfolio Flows: Debt and Equity
(In percent of IIP liabilities)

Legend:
- China
- Asia EMDEs Excl. China
- ASEAN
- Asia EMDEs
- Korea
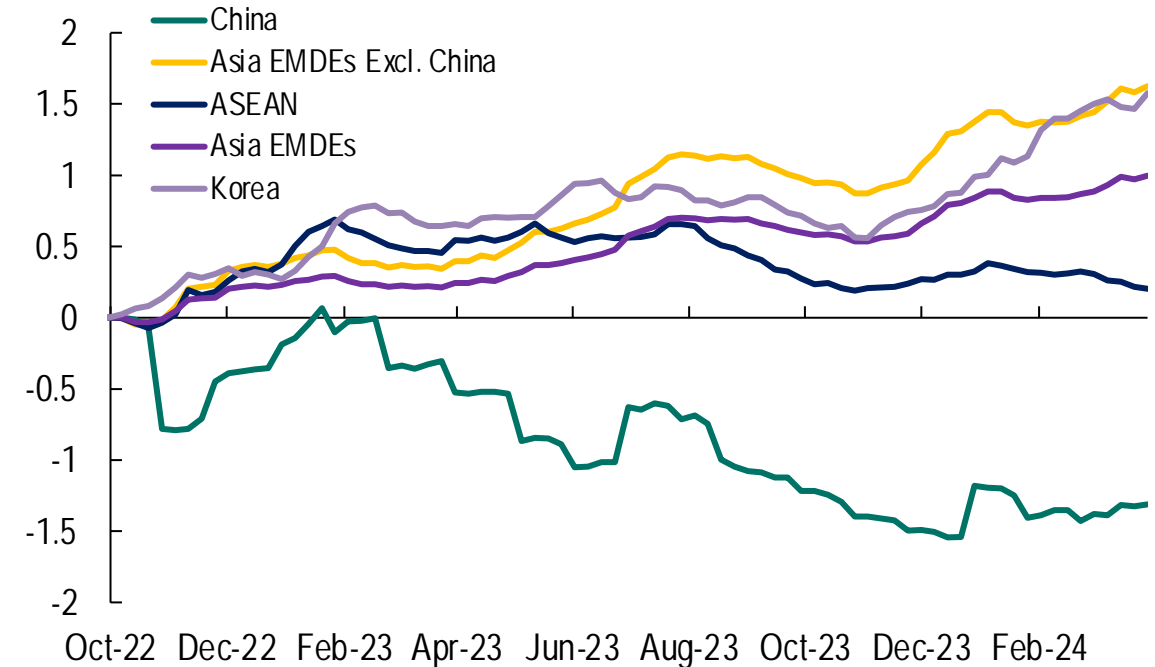
Source: Institute of International Finance, Haver Analytics and IMF staff calculations.
Note: Asia EMDEs excl. China includes IDN, IND, PHL, LKA and THA. ASEAN include IDN, PHL and THA.
Latest data through March 29, 2024.

GDP Growth Forecasts

	World	Asia	AEs	Australia	Hong Kong SAR	Japan	Korea	New Zealand	Singapore
2023	3.2	5.0	1.7	2.1	3.2	1.9	1.4	0.6	1.1
2024	3.2	4.5	1.6	1.5	2.9	0.9	2.3	1.0	2.1
Revisions since Oct. 2023 WEO	0.3	0.3	-0.1	0.3	0.0	-0.1	0.1	0.0	0.0
2025	3.2	4.3	1.8	2.0	2.7	1.0	2.3	2.0	2.3
Revisions since Oct. 2023 WEO	0.0	0.0	0.2	0.0	-0.2	0.4	0.0	-0.1	-0.2

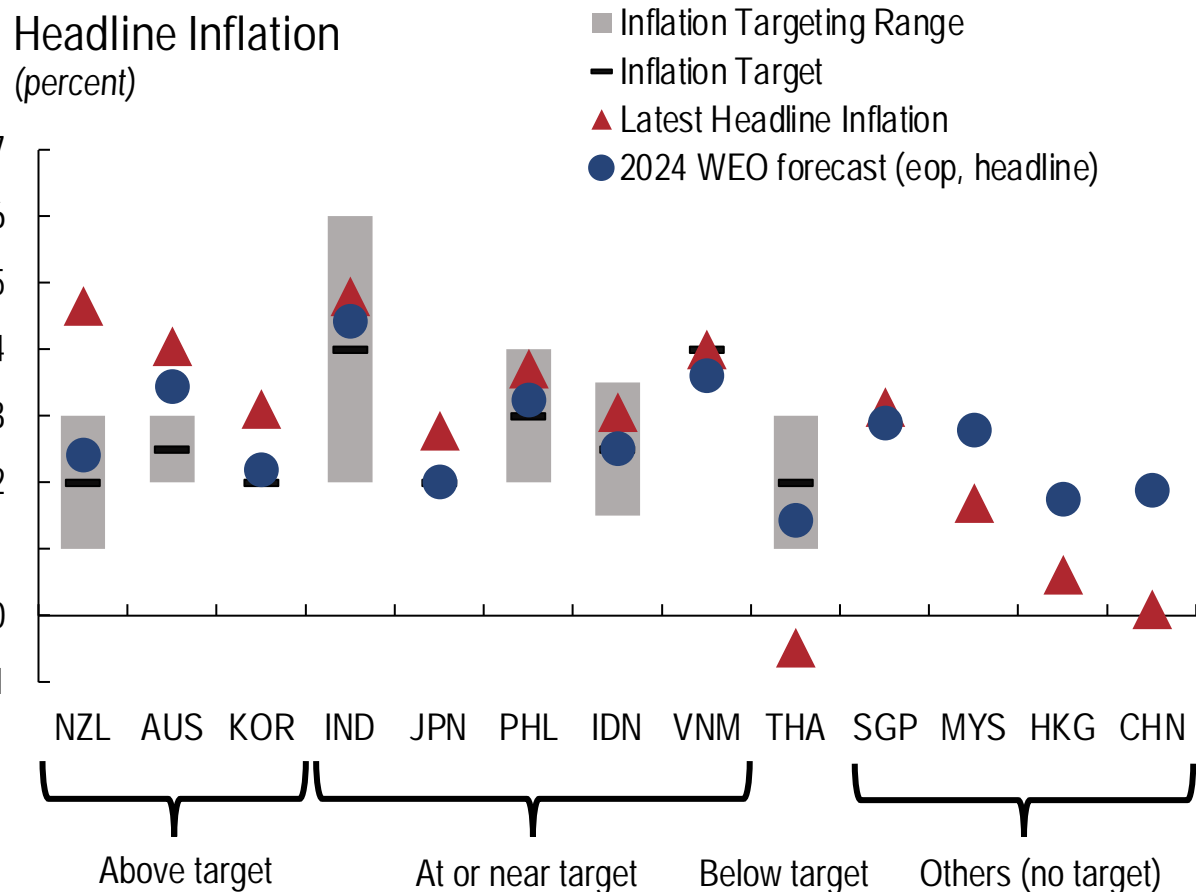Source: IMF *April 2024 World Economic Outlook.*

GDP Growth Forecasts

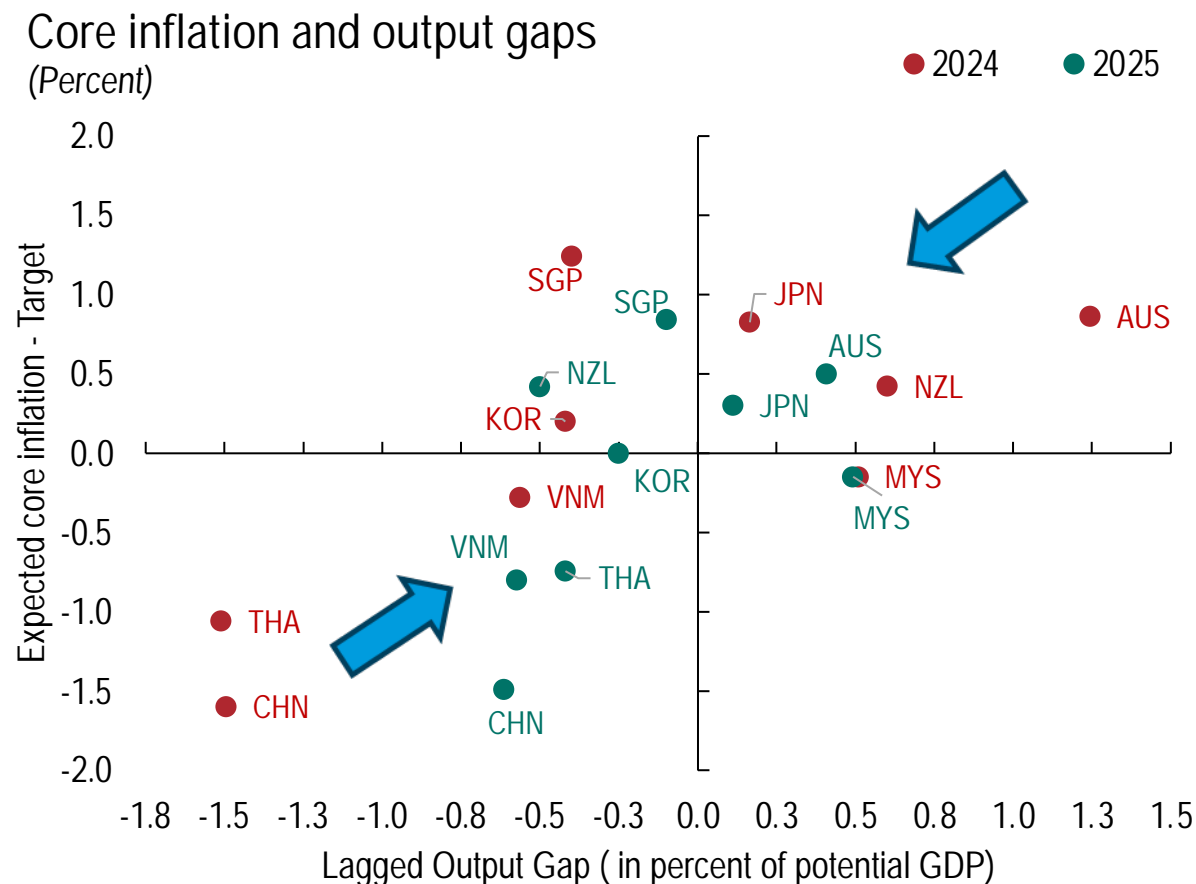|	EMDEs	Bangladesh	Cambodia	China	India	Indonesia	Malaysia	Mongolia	Philippines	Thailand	Vietnam	PICs
2023	5.6	6.0	5.0	5.2	7.8	5.0	3.7	7.0	5.6	1.9	5.0	3.3
2024	5.2	5.7	6.0	4.6	6.8	5.0	4.4	6.5	6.2	2.7	5.8	4.0
Revisions since Oct. 2023 WEO	0.4	-0.3	-0.1	0.4	0.5	0.0	0.1	2.0	0.3	-0.5	0.0	0.2
2025	4.9	6.6	6.1	4.1	6.5	5.1	4.4	6.0	6.2	2.9	6.5	3.5
Revisions since Oct. 2023 WEO	0.0	0.0	-0.3	0.0	0.2	0.1	0.0	2.5	0.1	-0.2	-0.4	0.0

Source: IMF *April 2024 World Economic Outlook.*

Inflation is Expected to Move to CB Targets

Headline inflation is projected to move closer to central bank target ranges…

…as closing output gaps help return core inflation to target in both overheating and underperforming economies.

Headline Inflation (percent)

Legend:
- Inflation Targeting Range
- Inflation Target
- Latest Headline Inflation
- 2024 WEO forecast (eop, headline)

X-axis: NZL AUS KOR | IND JPN PHL IDN VNM | THA | SGP MYS HKG CHN

Above target | At or near target | Below target | Others (no target)

Source: IMF staff calculations. Note: Data as of April 15,2024.

Core inflation and output gaps (Percent)

Legend: 2024, 2025

Y-axis: Expected core inflation - Target
X-axis: Lagged Output Gap (in percent of potential GDP)

Source: IMF World Economic Outlook.
Note: 2025(2024) Bubbles - Expected core inflation 2025(2024) and output gap 2024(2023).
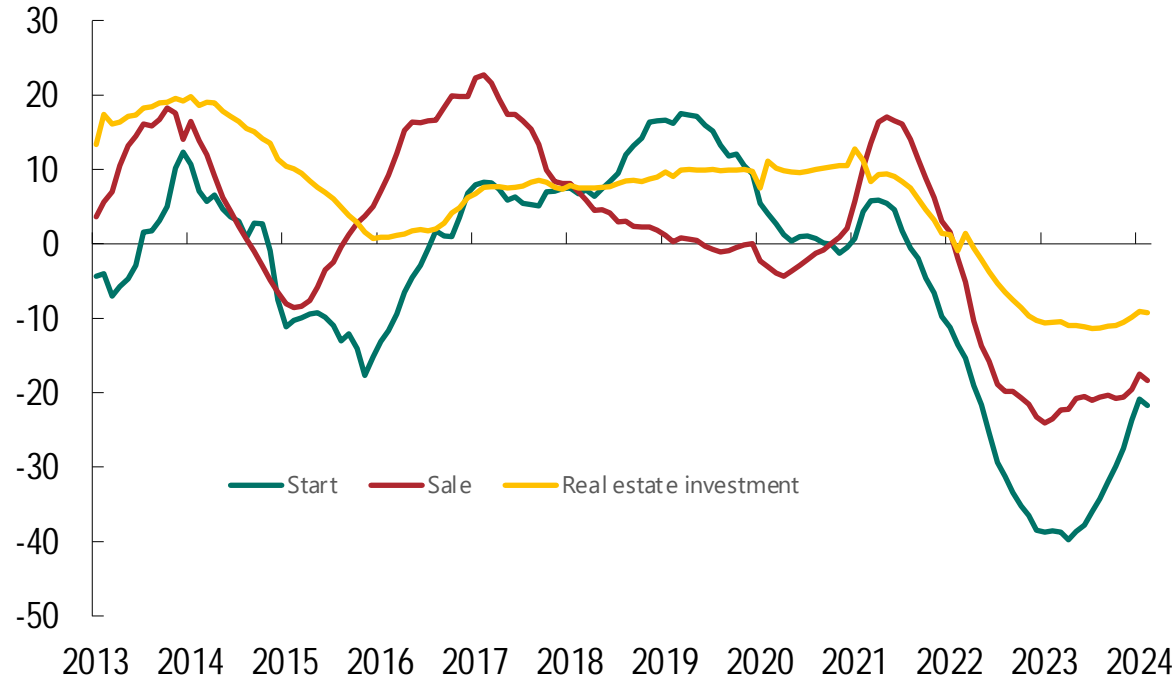
Risks to the Outlook

China: Real Estate and Deflation are Key Concerns

The real estate sector remains under pressure.

Headline inflation has been driven by food prices, while core inflation remains positive.

Real Estate Sector Indicators
(percent, 12 month moving average, y/y change)

China Consumer Prices
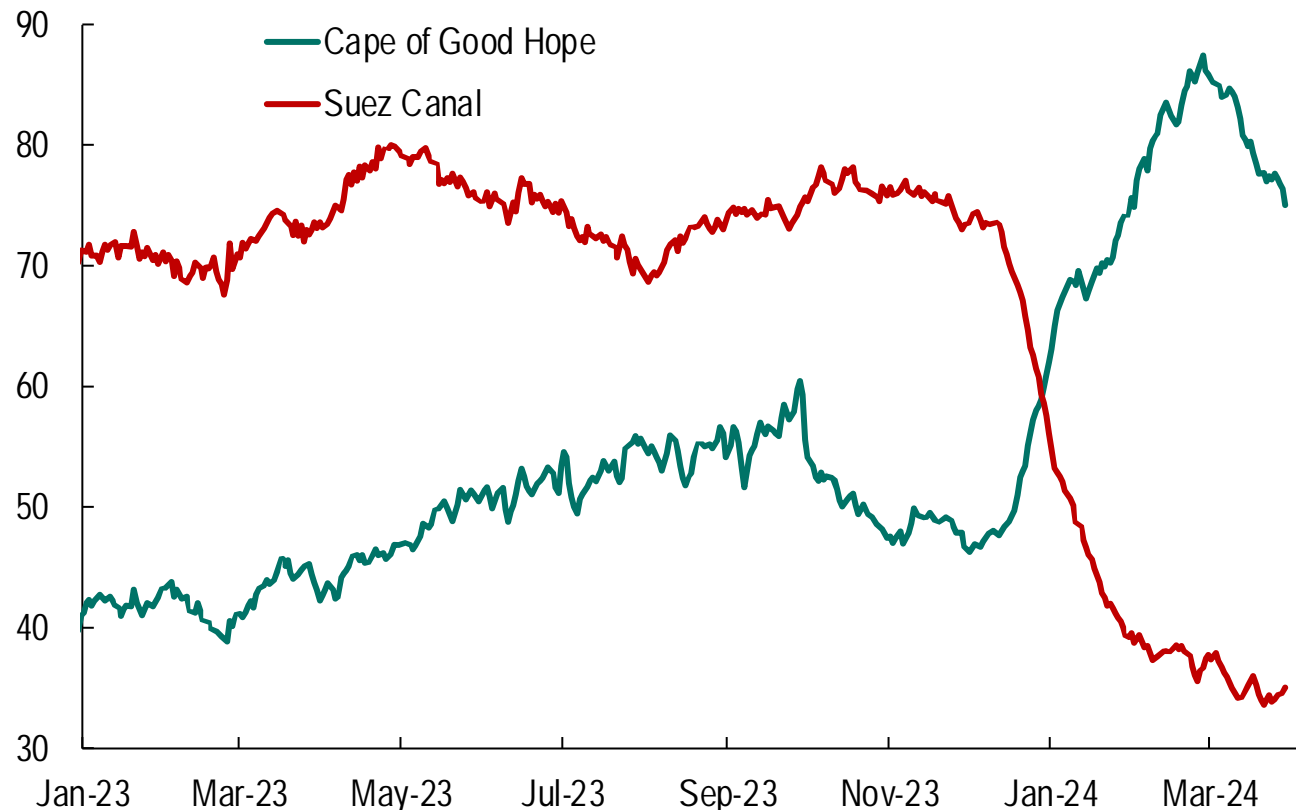*(percent, y/y change)*
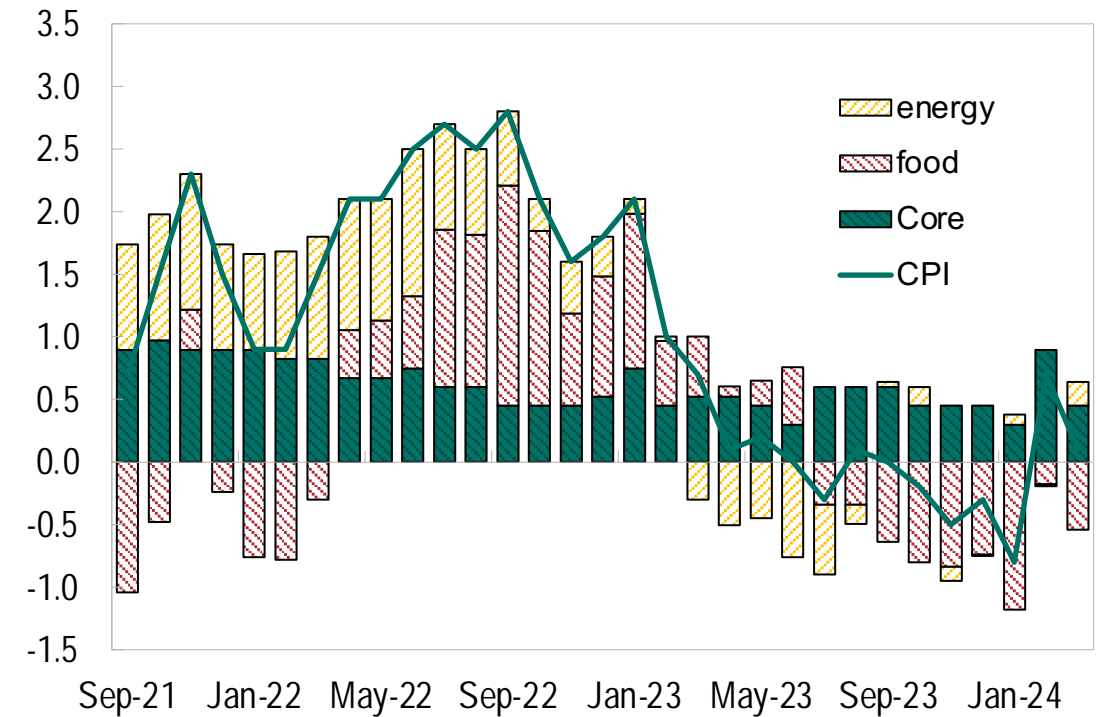
Source: China NBS

Global Tensions May Disrupt Trade

Trade from Asia to Europe is being rerouted around the Cape of Good Hope, increasing transit times.

Daily Transit Calls
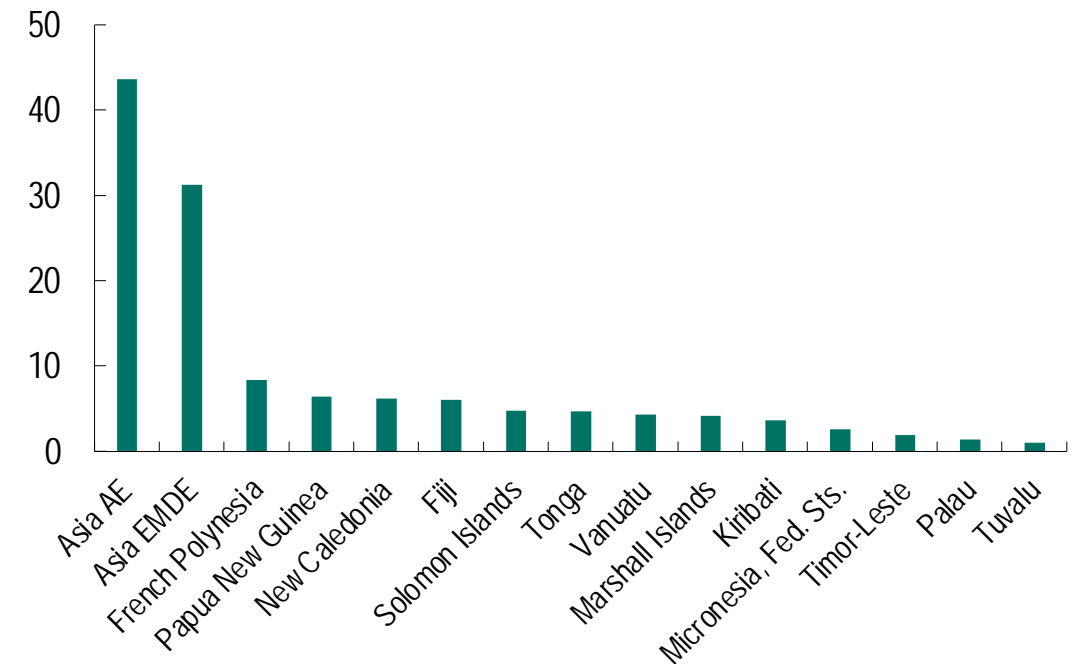*(number of Ships; 21-day Moving Average)*

Source: IMF Portwatch and IMF staff calculations.

Disruptions to vessel schedules are likely to affect poorly-connected small island countries the most.

Liner shipping connectivity
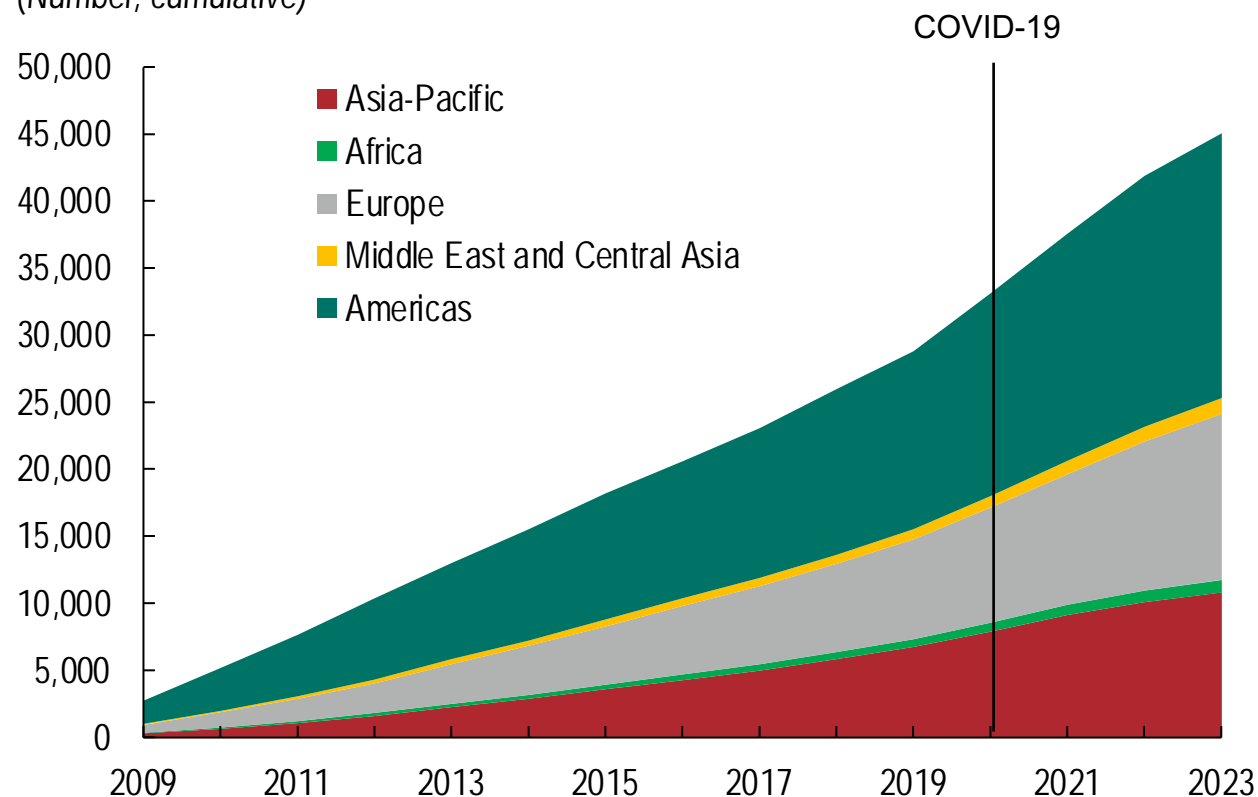*(Index, most connected country in 2023 = 100)*

Source: UNCTAD.
Note: The Liner Shipping Connectivity Index captures how well countries are connected to global shipping networks based on: number of ships, their container-carrying capacity, maximum vessel size, number of services, and number of companies that deploy container ships in a country's ports.

Fragmentation Remains a Critical Concern

New trade restrictions continue to be imposed, including in Asia...

...resulting in an inefficient lengthening of supply chains, as seen in shifting import and value-added shares.

Harmful Restrictions Imposed
(Number, cumulative)

Legend:
- Asia-Pacific
- Africa
- Europe
- Middle East and Central Asia
- Americas

COVID-19

Weight in US Imports
(Change, percent of total)

Legend:
- Imports (2020-2023)
- Imports (2017-2020)
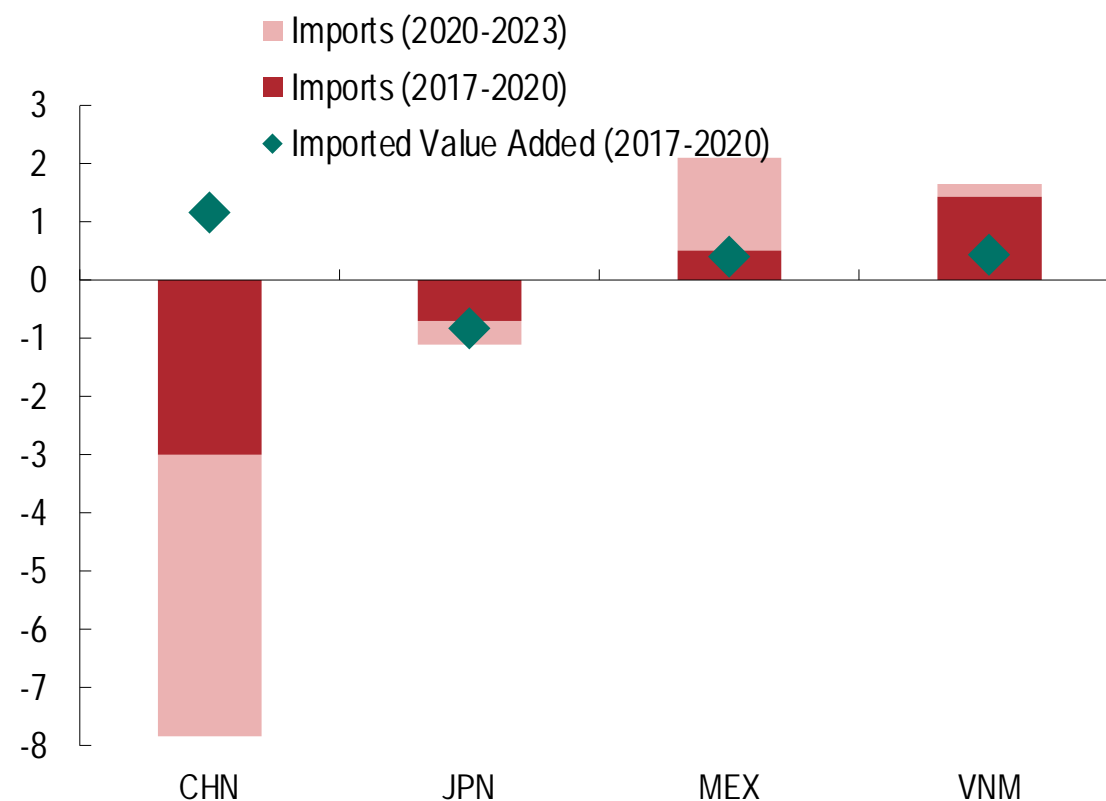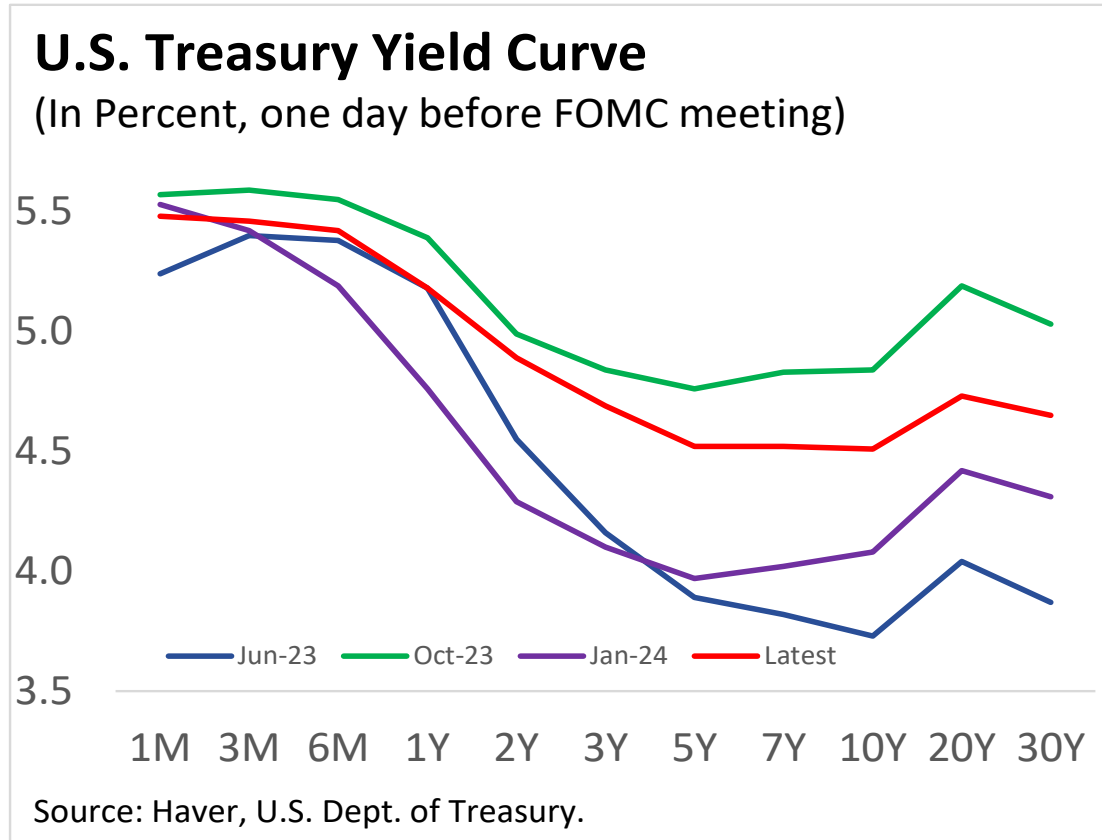- Imported Value Added (2017-2020)

CHN   JPN   MEX   VNM

Source: Global Trade Alert Database.
Note: Cumulative measures implemented since 2009. Measures by supra-national bodies with binding consequences for its member states are counted only once and not as one measure per member.

Source: USA Trade Online and OECD TiVA.

US yields are inching up again, following strong inflation and activity numbers…

… and US interest rates affect Asian interest and exchange rates.

U.S. Treasury Yield Curve
(In Percent, one day before FOMC meeting)

Jun-23   Oct-23   Jan-24   Latest

1M 3M 6M 1Y 2Y 3Y 5Y 7Y 10Y 20Y 30Y

Source: Haver, U.S. Dept. of Treasury.

Impact of US Monetary Policy in Asia
(Basis points-LHS and in percent - RHS)

1 year yield (LHS)   10 year yield (LHS)   Exchange rate (RHS)
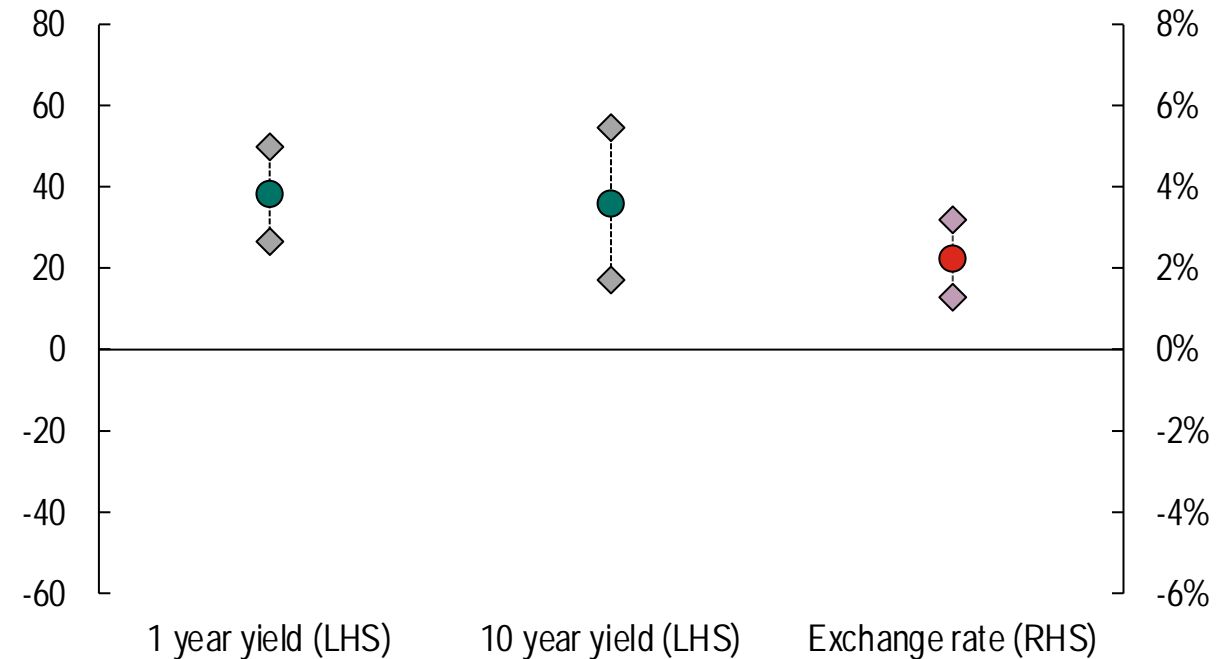
Source: Arbatli-Saxegaard et al. (2022).
Note: Estimated effects of a 100 bps US monetary policy shock. The deviation bars depict the 90% confidence interval. Exchange rate is measured as USD/LCU and in nominal terms so that positive values reflect a depreciation of the local currency. LHS= left-hand scale; RHS = right-hand scale.
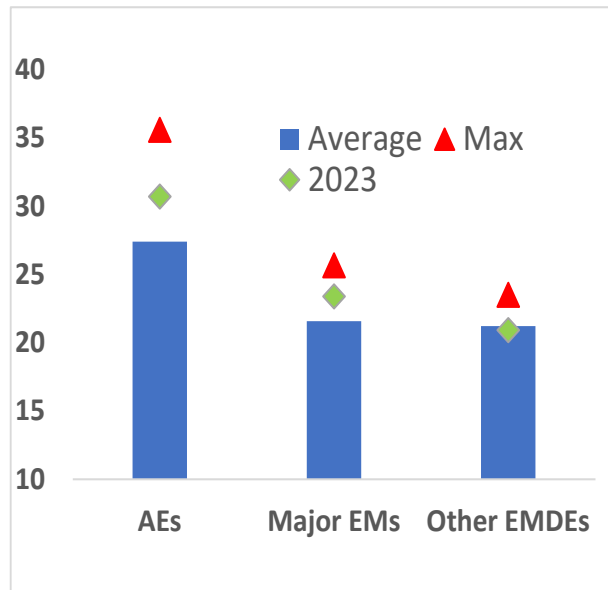
The fiscal situation in Asia and the Pacific

Government expenditure rose noticeably during the pandemic in many countries. The increase is not yet fully reversed everywhere.

Budget deficits are also larger than pre-pandemic averages.

General Government Expenditure
(In percent of GDP)

General Government Budget Balance
(In percent of GDP)

Source: IMF, World Economic Outlook database.
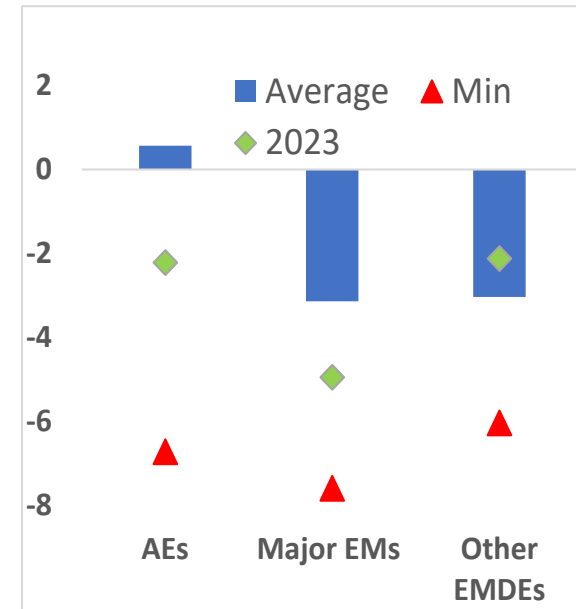Note: Average is for 2015-19. Max is the largest annual expenditure ratio in 2020-22. Changes show the difference relative to the 2015-19 average in percentage points. Major EMs or other EMDEs do not include China.

Source: IMF, World Economic Outlook database.
Note: Average is for 2015-19. Min is the largest annual budget deficit in 2020-22. The 2023 values are IMF staff estimates. Changes show the difference relative to the 2015-19 average in percentage points. Major EMs or other EMDEs do not include China.

The increase in expenditure ratios in Pacific Island countries was even larger, although this also reflected much larger GDP declines.

Budget deficits are still above pre-pandemic averages.

General Government Expenditure
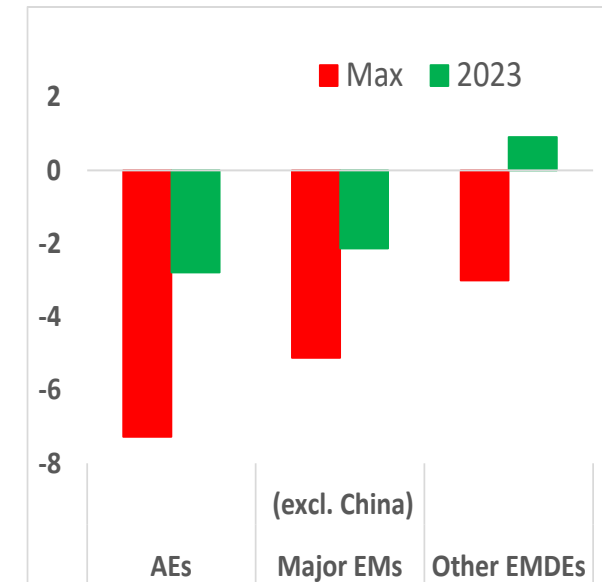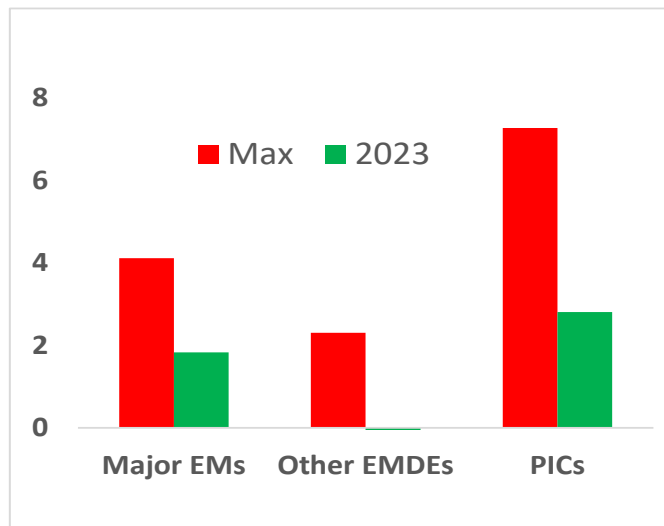*(In percent of GDP)*

Changes
(Compared to average)

General Government Budget Balance
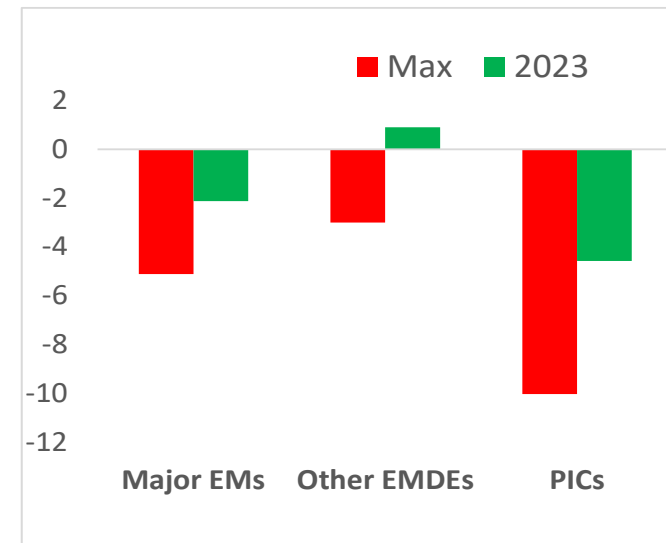(In percent of GDP)

Changes
(Compared to average)

Source: IMF, World Economic Outlook database.
Note: Average is for 2015-19. Max is the largest annual expenditure ratio in 2020-22. Changes show the difference relative to the 2015-19 average in percentage points. Major EMs or other EMDEs do not include China.

Source: IMF, World Economic Outlook database.
Note: Average is for 2015-19. Min is the largest annual budget deficit in 2020-22. The 2023 values are IMF staff estimates. Changes show the difference relative to the 2015-19 average in percentage points. Major EMs or other EMDEs do not include China.

# ... and public debt levels increased substantially as result

Public debt ratios increased substantially in the first year of the pandemic and are projected to remain above 2019 levels in 2028.

Primary deficits and interest payments contributed much of the increase in public debt ratios in the pandemic years.

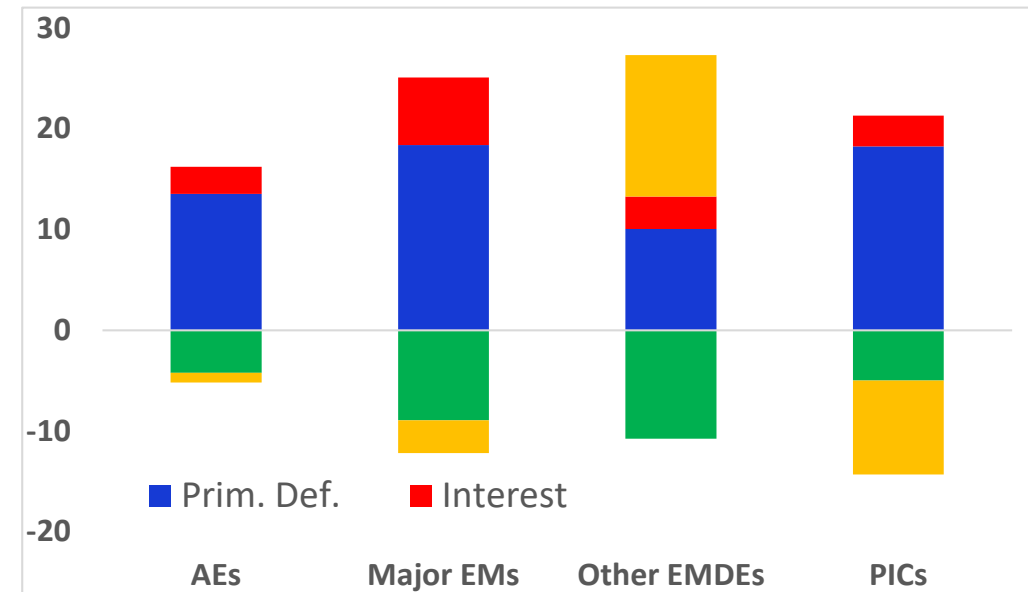## General Government Debt
(In percent of GDP)

Changes
(Compared to 2019)

Change in Debt-to-GDP ratio (2020-22)
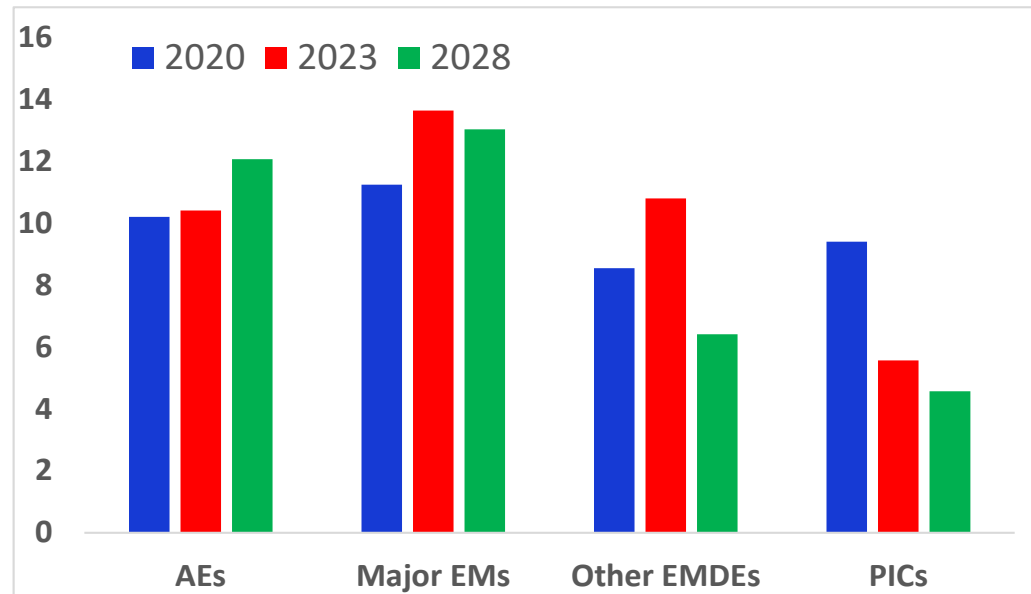
Source: IMF, World Economic Outlook database.
Note: Average is for 2015-19. Changes show the difference relative to the value of the 2019 ratio.

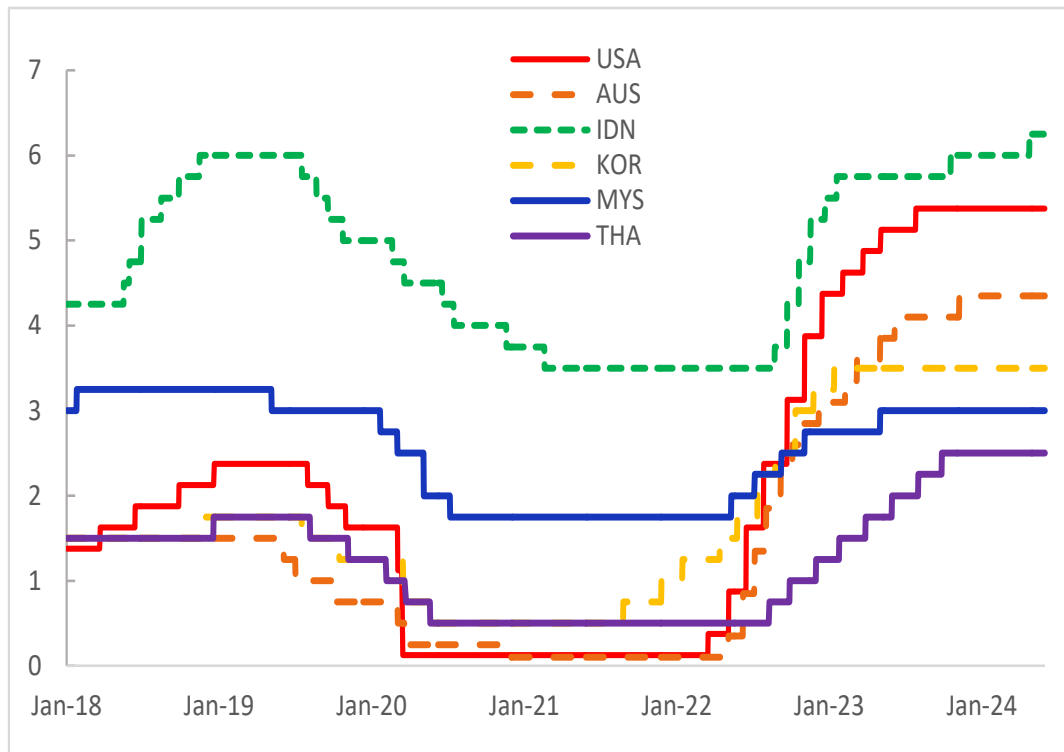Source: IMF, World Economic Outlook database.
Note: Average is for 2015-19. Min is the largest annual budget deficit in 2020-22. The 2023 values are IMF staff estimates. Changes show the difference relative to the 2015-19 average in percentage points. Major EMs or other EMDEs do not include China.

Economic and Fiscal Challenges

Monetary policy tightening in Asia has not been as steep as it has been in AEs or some other EMs.

Longer-term yields have increased less in Asia and the Pacific than elsewhere, but they are still above pre-pandemic levels.

Policy Rates
(In percent)

10-Year Government Bond Yields
(Local currency, In percent)

Source: Haver Analytics.
Note: Latest data: May 31, 2024.
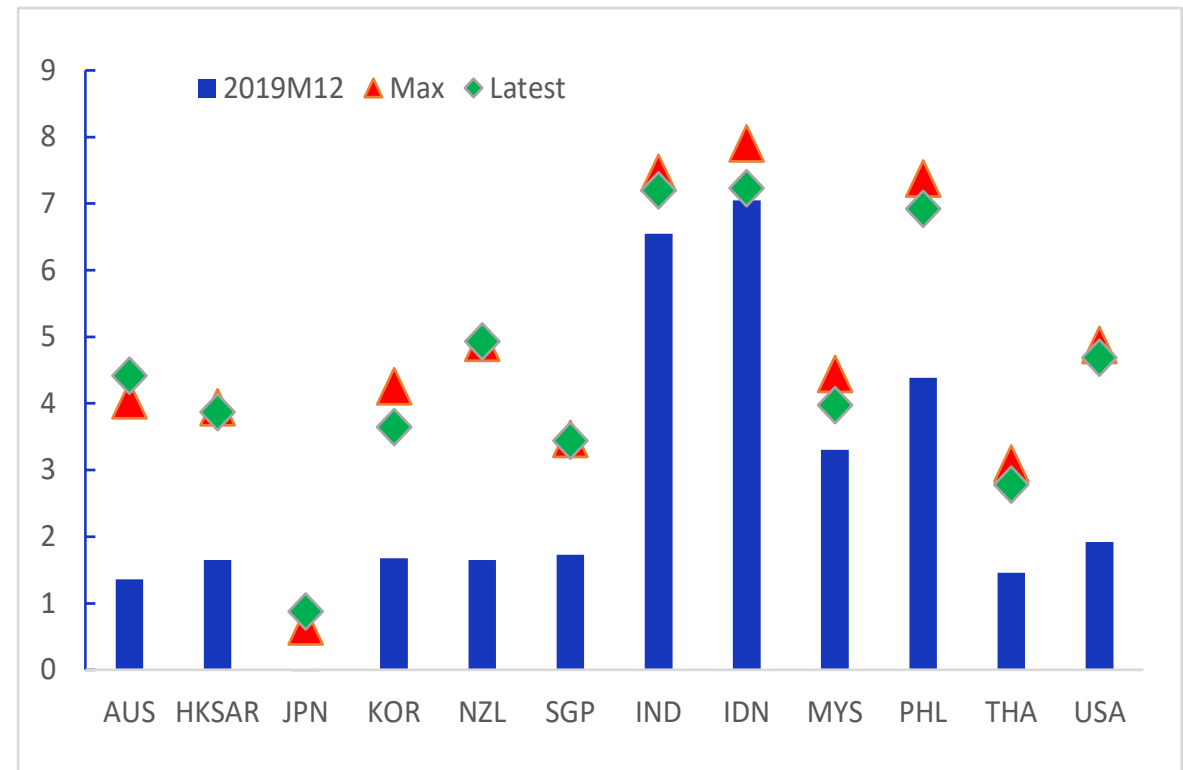
Source: Haver Analytics.
Note: Monthly data, end-period basis, latest is August 2023.

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
(in percent, relative to 10-year pre-pandemic trend growth, median and interquartile range)
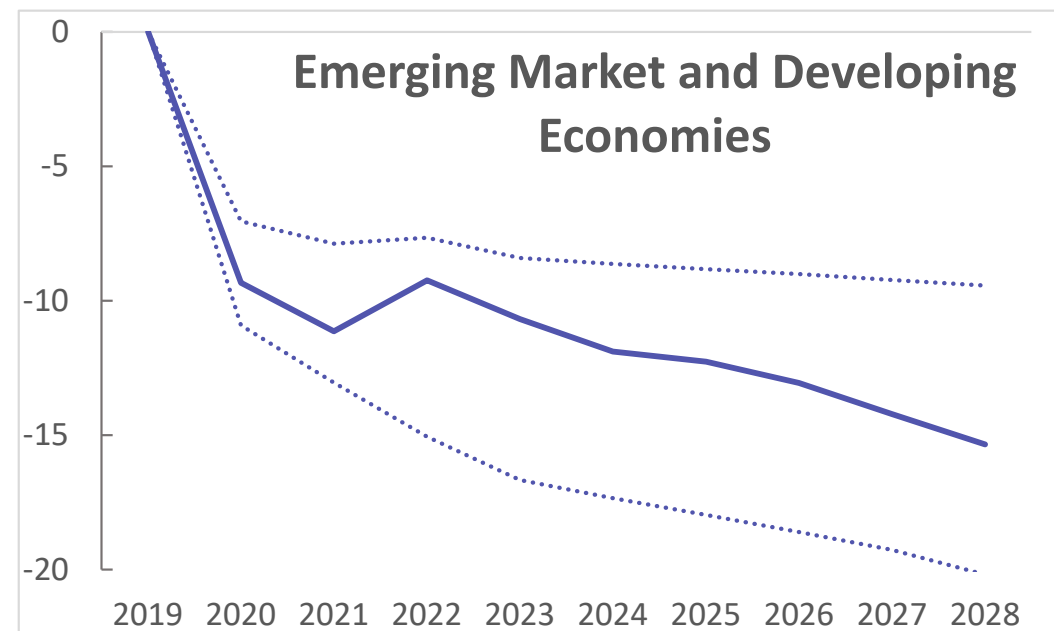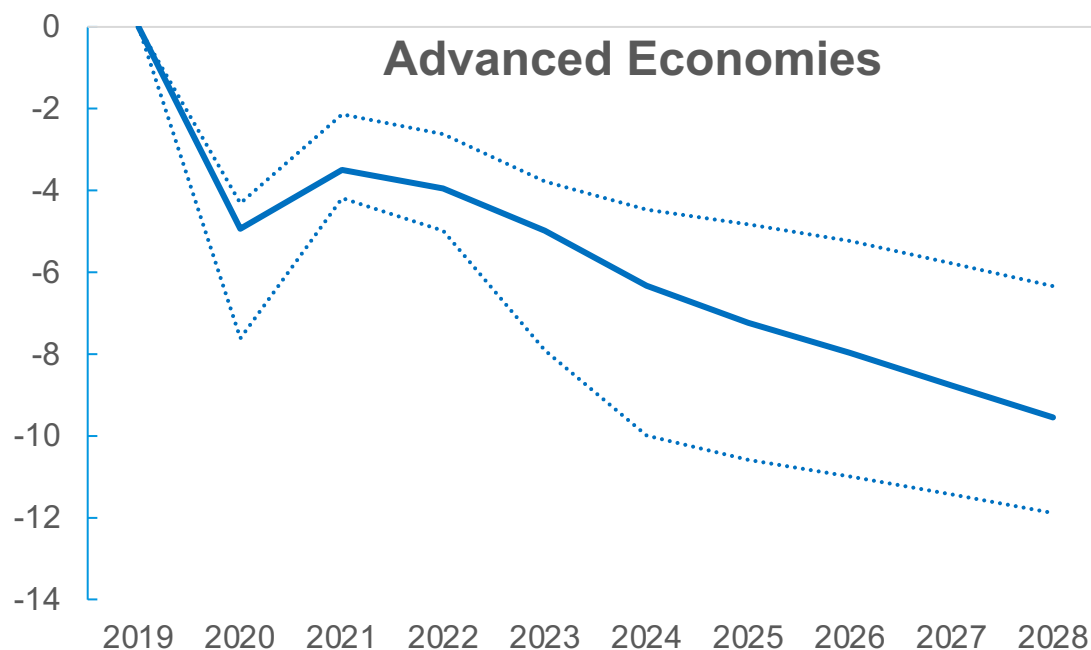
Advanced Economies

Emerging Market and Developing Economies

Source: World Economic Outlook and IMF staff calculations.

Debt is well above pre-pandemic levels in most of the region…

…though envisioned consolidation would stabilize debt levels in most countries.

Debt Ratios
(% Fiscal year GDP; weighted average)

Legend:
- Asia AE (Excl. Japan)
- Asia EMs (Excl.China)
- Asia PICs
- Asia LIDCs

COVID-19

Fiscal Consolidation and Debt
(Cumulative rise in primary balance to GDP ratio between 2023 and 2026, percentage points)

Legend:
- Planned consolidation 2023-2026
- Consolidation to stabilize debt in 2026

AE Asia: AUS, HKG, JPN, KOR, NZL
EMDE Asia: IDN, IND, MYS, PHL, THA, VNM

Source: World Economic Outlook and IMF Staff calculations.
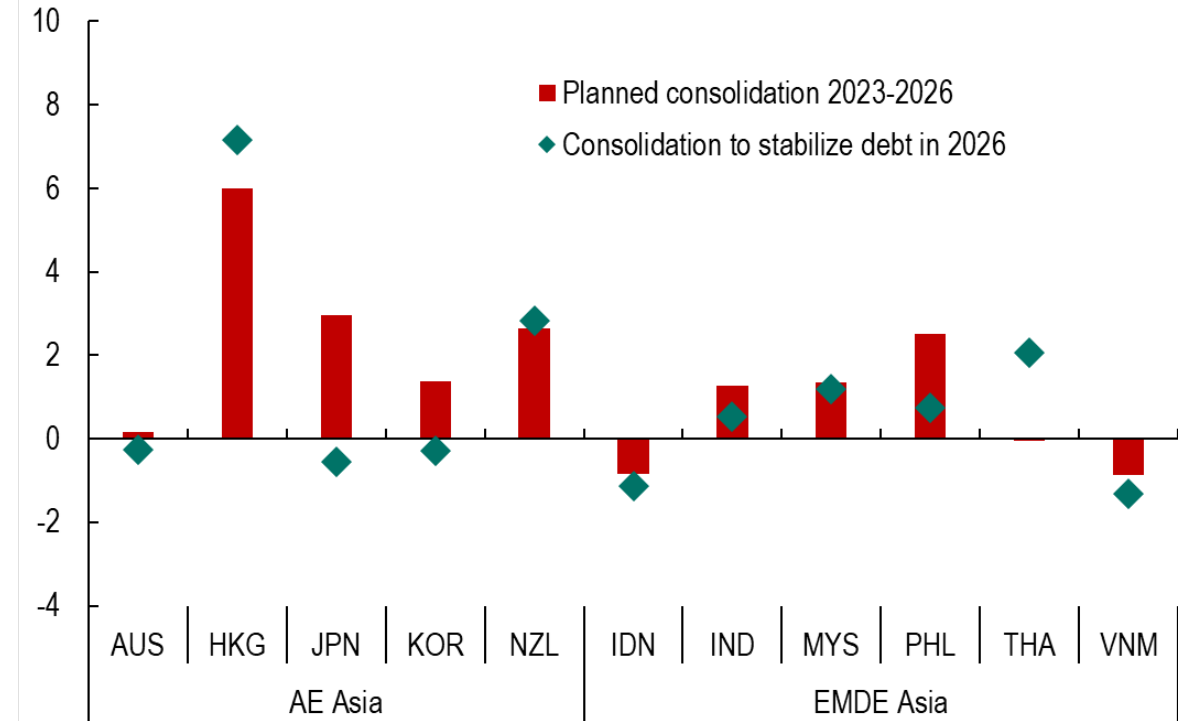
Source: IMF World Economic Outlook and staff calculations.
Note: Analysis incorporates staff projections based on announced policies. Consolidation needed to stabilize debt at 2026 levels is illustrative and not intended as a policy recommendation. Other variables such as existing buffers could have implications for the policy stance.

There is scope to increase tax revenue ratios in emerging market and developing economies in Asia and the Pacific.

Tax Revenue
(In percent of GDP, period averages)
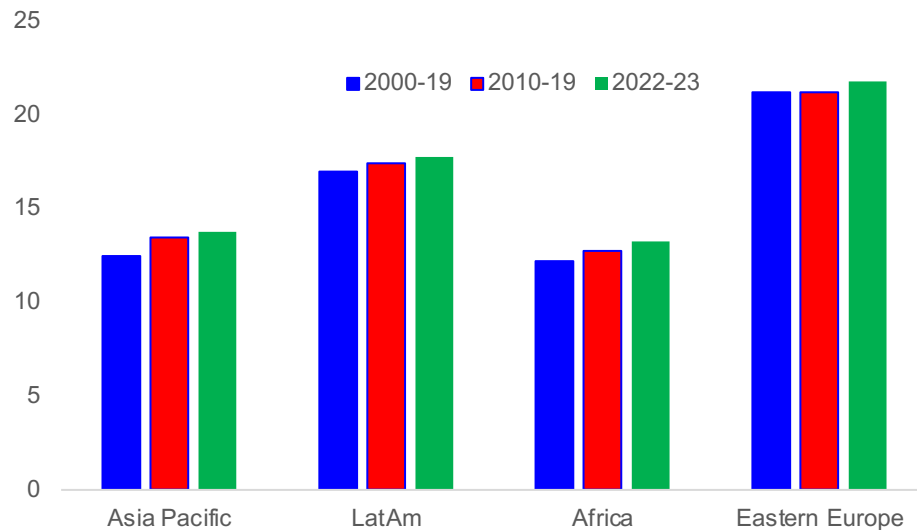
Source: IMF, World Economic Outlook database.
Note: Figure shows averages across of period averages across countries in each region.

Fiscal Consolidation—Considerations

- Improving revenue mobilization is a priority to avoid the need to reduce productive expenditure.

- Substantial scope for revenue mobilization when comparing to other EMDEs.

- Expanding tax bases and reducing tax expenditure in addition to tax rate increases. Tax administration reforms and digitalization.

- Targeting subsidies and social safety nets. Digitalization can improve efficiency and reduce governance risks.

- Reducing energy subsidies, with cash transfers to compensate the poor.

Thank you!