

REGIONAL ECONOMIC OUTLOOK

ASIA AND PACIFIC



**ASIA AND PACIFIC
DEPARTMENT**

ECONOMIC AND FISCAL CHALLENGES IN ASIA PACIFIC

**The Tenth Tokyo Fiscal Forum
Tokyo, June 11-12, 2025**

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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.

OUTLINE

- Economic Development in Asia Pacific
- Outlook and Challenges
- Fiscal Prospects and Challenges

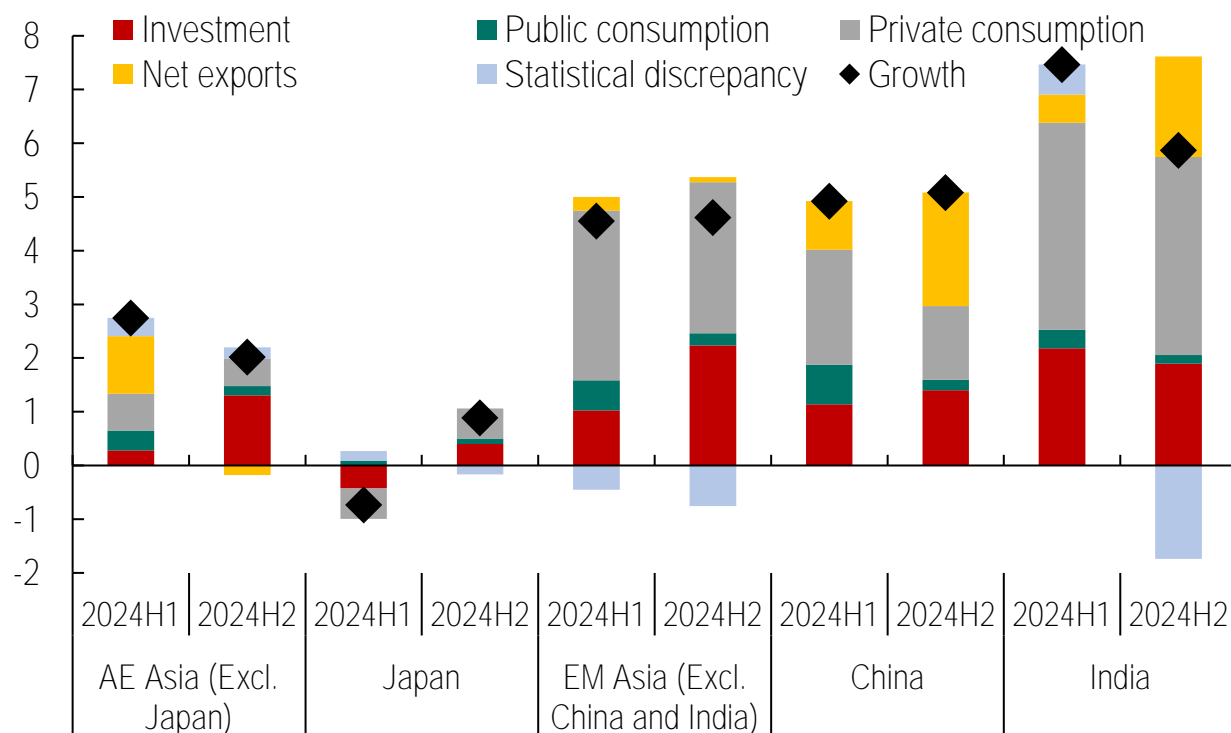
Recent Developments

Growth in 2024H2: Robust With Modest Negative Surprises

2024H2 growth was broadly robust...

Contributions to GDP Growth

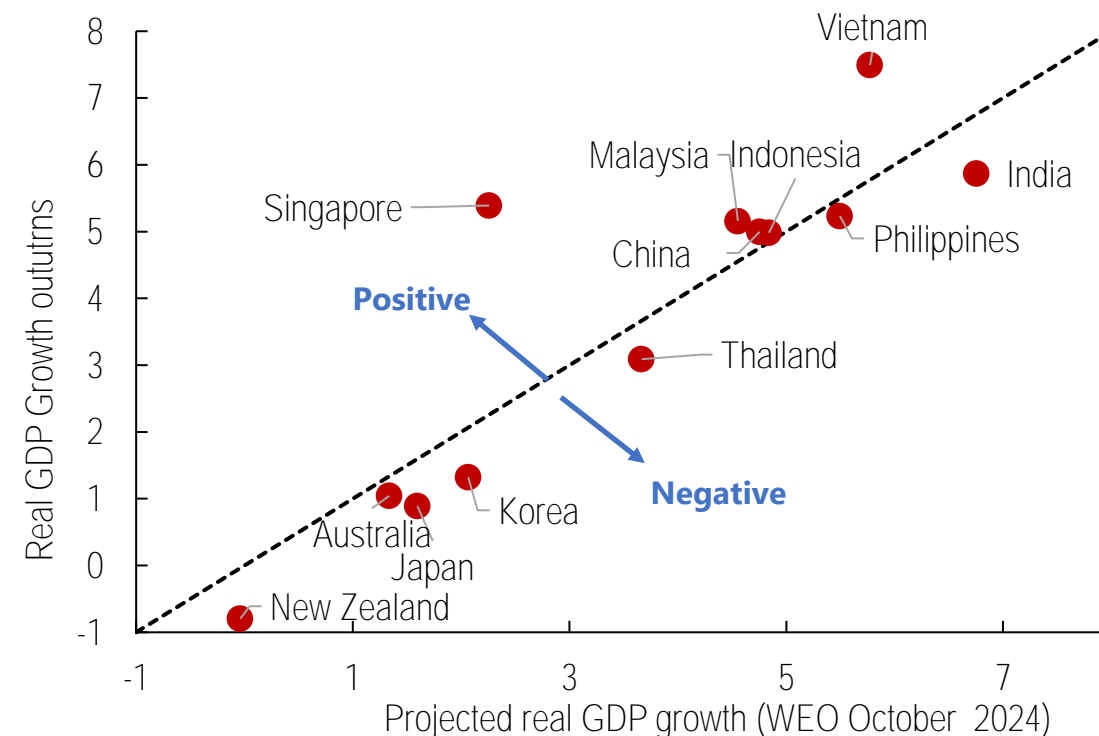
(year-on-year growth; percentage points; nsa)



... but outturns surprised somewhat on the downside, reflecting weaker consumption.

Growth Surprises 2024:H2

(year-on-year growth; percent)



Source: Haver, WEO and IMF staff calculations.

Note: For 2024H1 AE Asia includes AUS, HKG, KOR, NZL, SGP and TWN POC. EM Asia includes IDN, MYS, PHL and THA. China data is from WEO April 25.

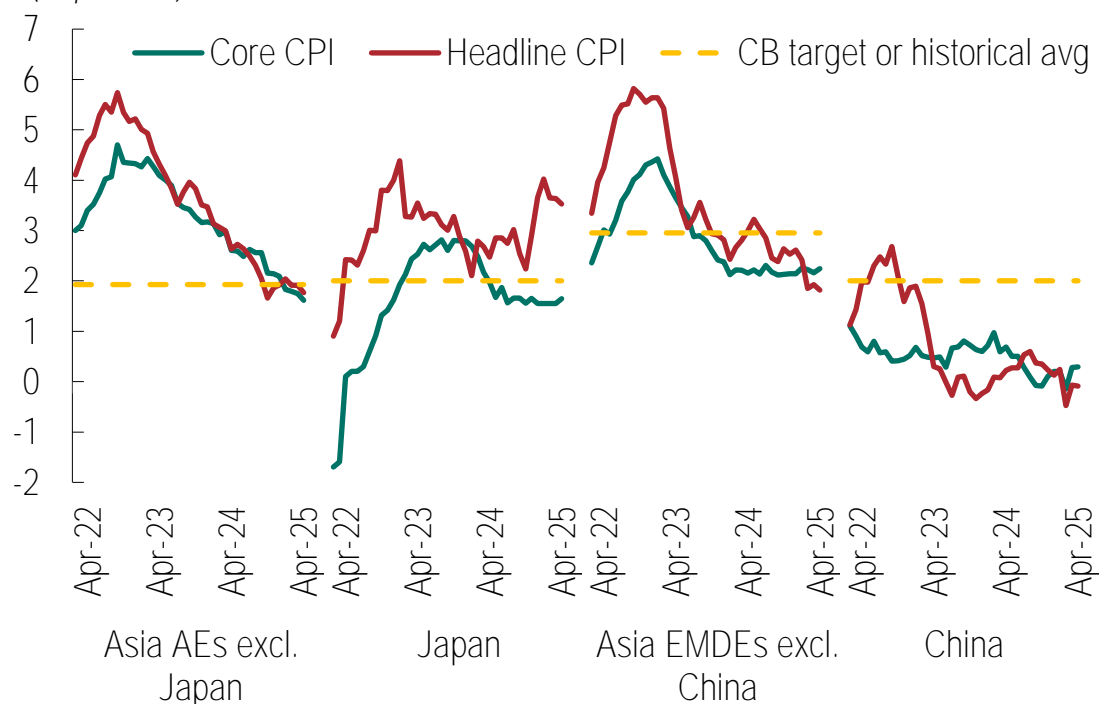
Sources: Haver, WEO and IMF Staff calculations.

Inflation Soft, Reflecting Cyclical Positions

Inflation broadly returned to targets but remained persistently low in a few EMs...

Asian Headline and Core Inflation from Target 2022-25

(In percent)



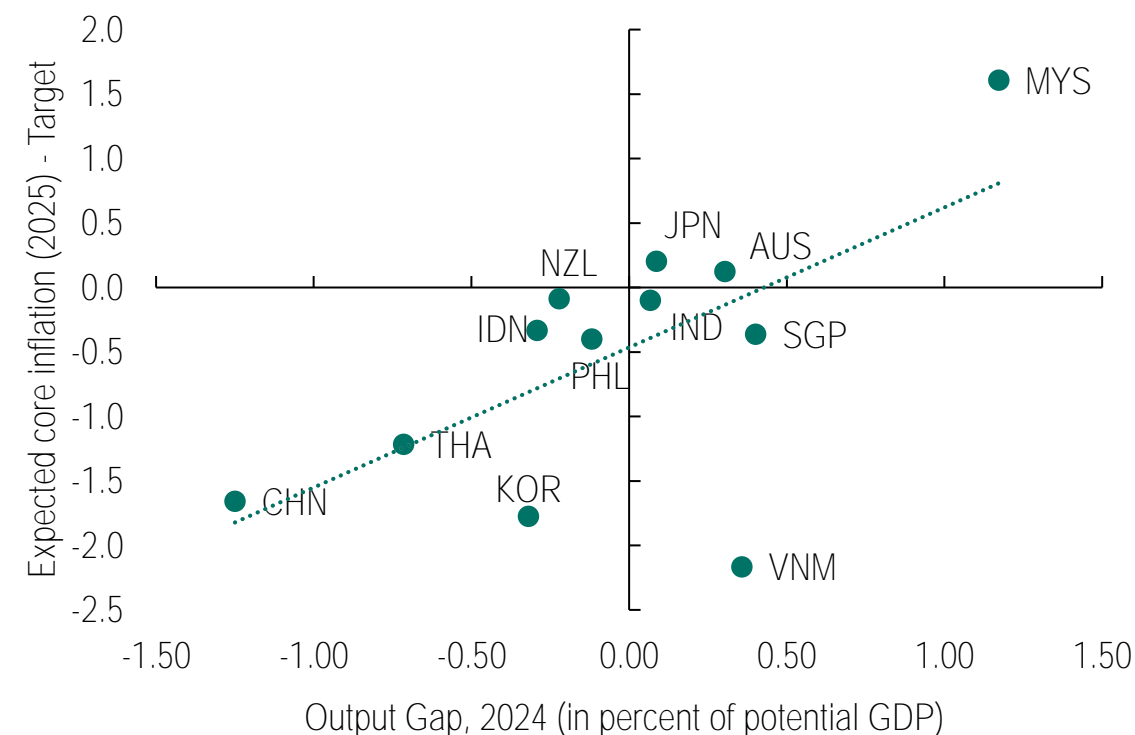
Source: Haver Analytics; and IMF staff calculations.

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 economies. We use the historical average for HKG, CHN, MYS. We use the inflation target for IND, JPN, and KOR. For countries with a target range, we use the mid-point of the range as the target.

... reflecting their cyclical positions.

Core Inflation and Output Gaps

(Percent)



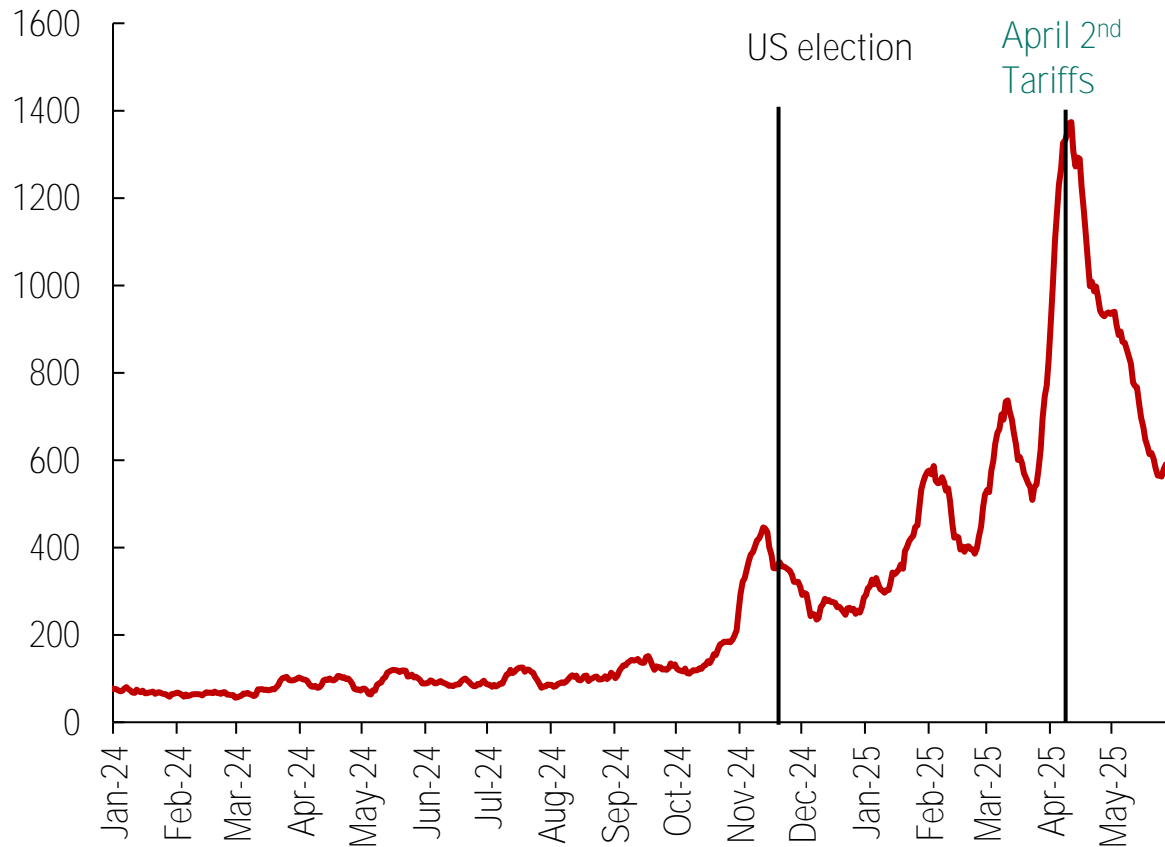
Source: IMF World Economic Outlook.

Note: The midpoint of the headline inflation target range is used to calculate the value for AUS, IND, IDN, PHL, THA, VNM and NZL.

Trade Uncertainty Remains Elevated

Trade policy uncertainty declined after the pause but remains elevated.

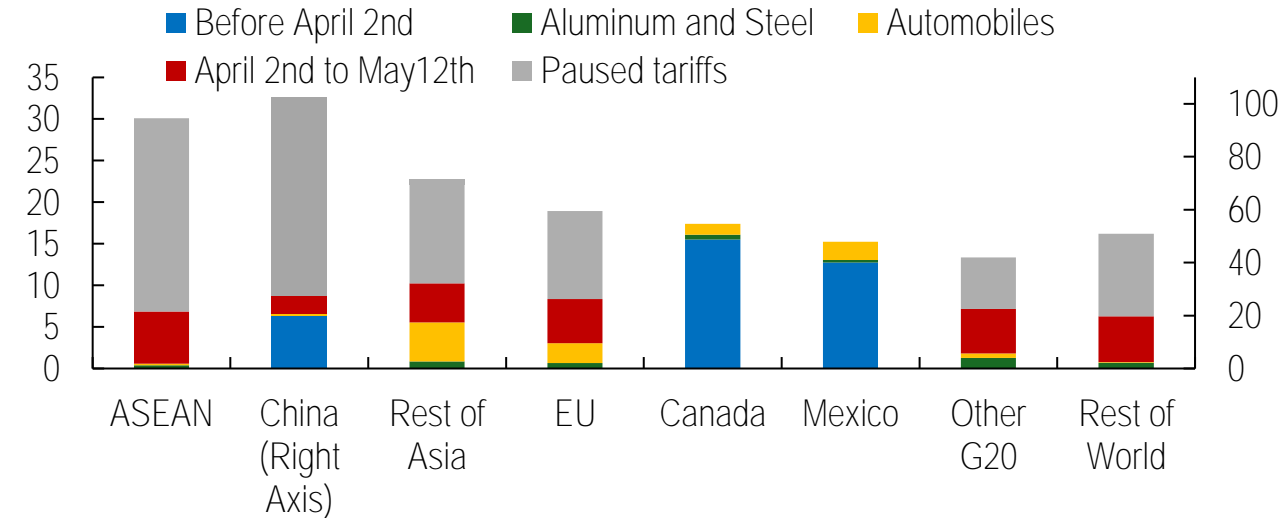
Global Trade Policy Uncertainty
(15d MA)



Source: Caldara and others (2020). Data as of May 27, 2025.

... reflecting the continued trade tension, and uncertainty about the pause.

Increase in US Effective Tariff by Region since Jan 20, 2025 (percentage points)



Source: WTO and IMF staff calculations.

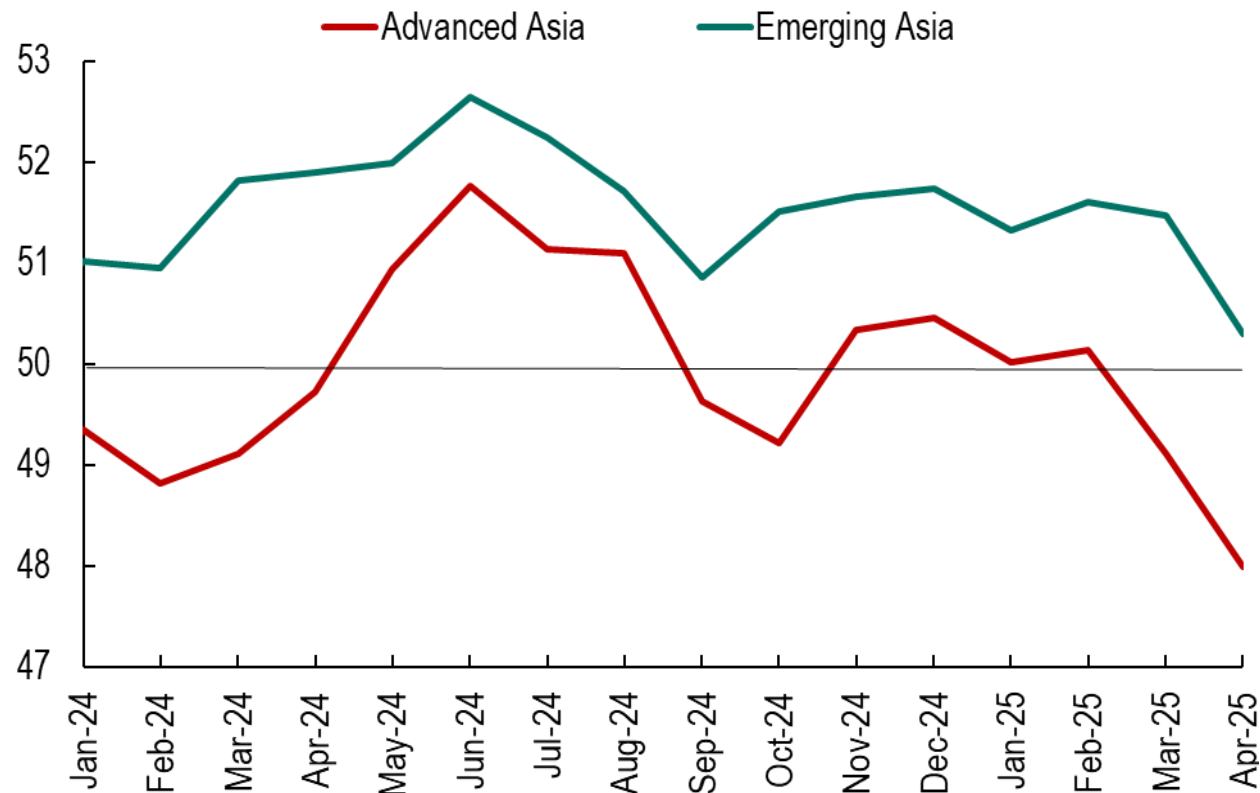
Note: Steel and aluminum tariffs are assumed to increase up to 25%. Additional tariffs on autos and country-specific measures are applied on top of existing rates. Auto, steel, aluminum and certain electronic products are excluded from the April 2nd and 10th tariffs. **Canada's** lower energy tariffs are not incorporated. Tariffs are assumed to cover 62% of Canada–U.S. trade and 51% of Mexico–U.S. trade. For auto parts, coverage is 50% for Canada and Mexico. Tariff-exempt products are assumed to remain unaffected by the announced increases. May 12th assumes an increase of 10pp in CHN tariffs. Automobiles, steel and aluminum are assumed to have 0 tariff as per USA-UK agreement.

Leading Indicators Point To Softer Outlook In Asia

Asian manufacturing PMI eased especially in AEs

Manufacturing PMI

(Diffusion index, 50 = no change, simple average)

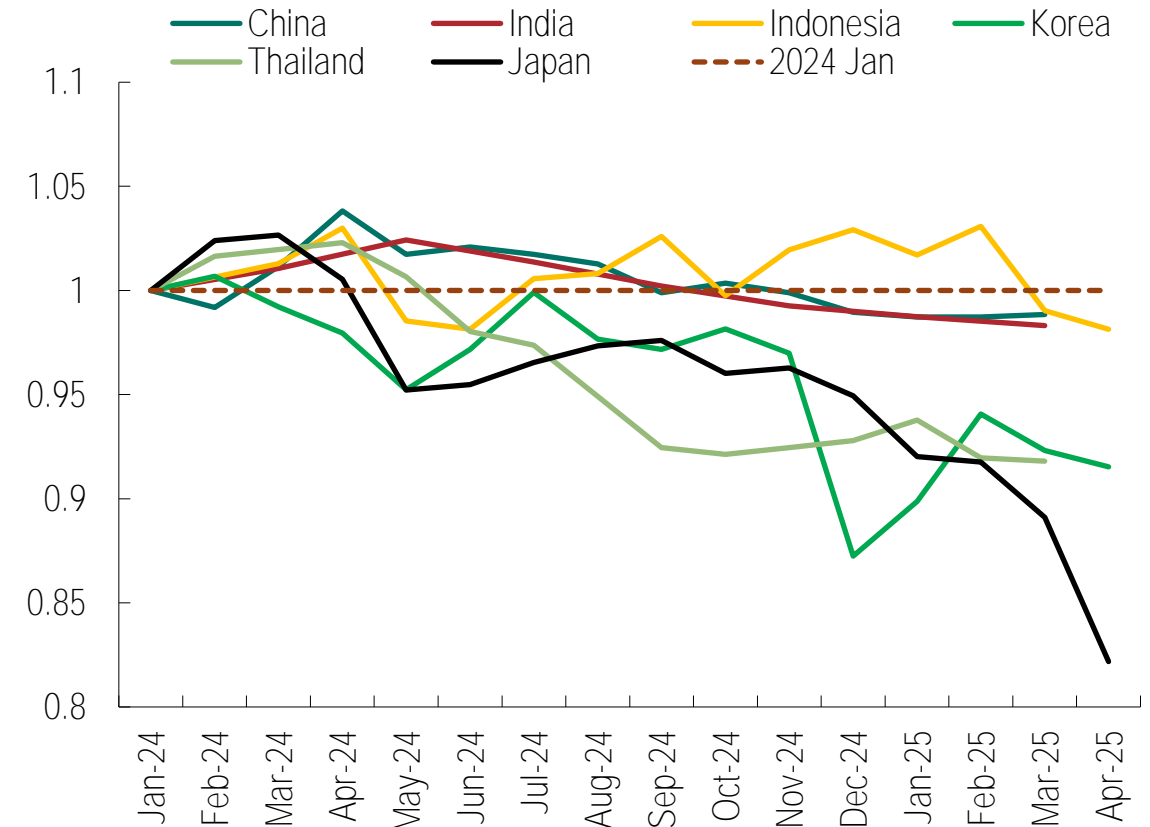


Sources: Haver Analytics; and IMF staff calculations.

...consumer confidence dented in most countries.

Consumer Confidence

(Index SA, 2024 Jan=1)



Sources: Haver Analytics.

Note: India's data is available on a bimonthly basis. Missing monthly values are imputed as the average of the preceding and following months.

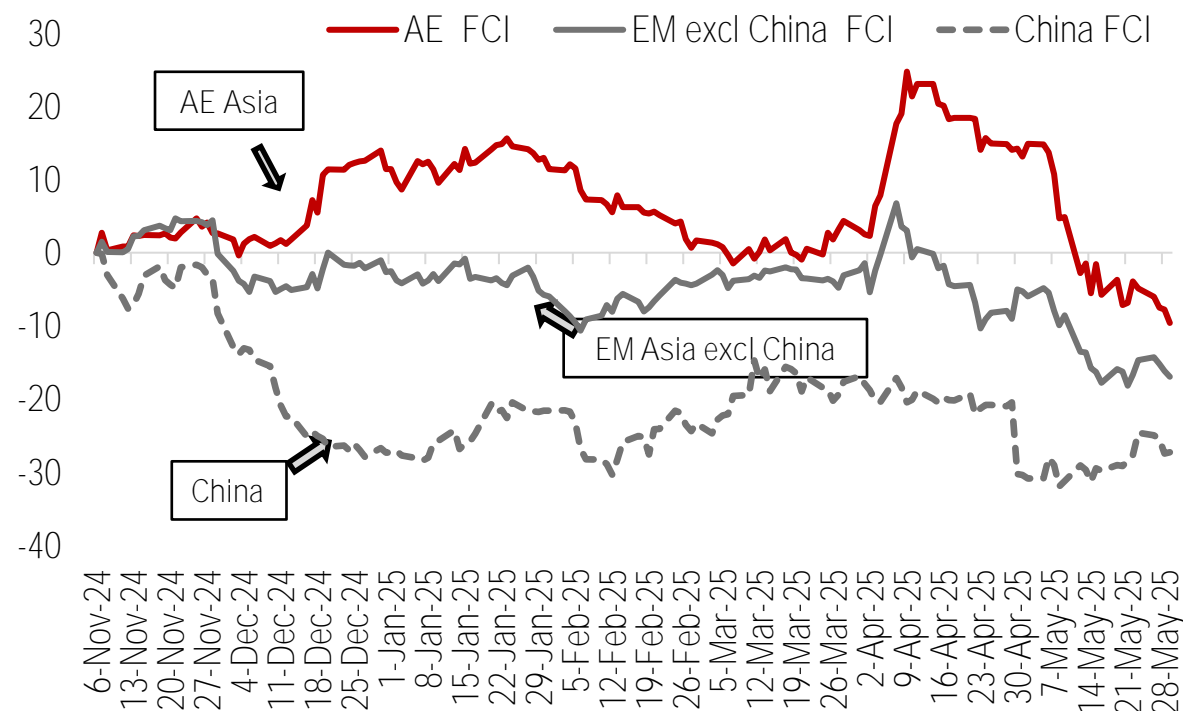
Financial Condition Improved After the “Pause”

Financial condition has eased since the “90-day pause”

... primarily driven by lower sovereign yield and higher equity prices

Financial Conditions Index (FCI) - Asia

(+: Tighter financial conditions; -: Looser financial conditions)

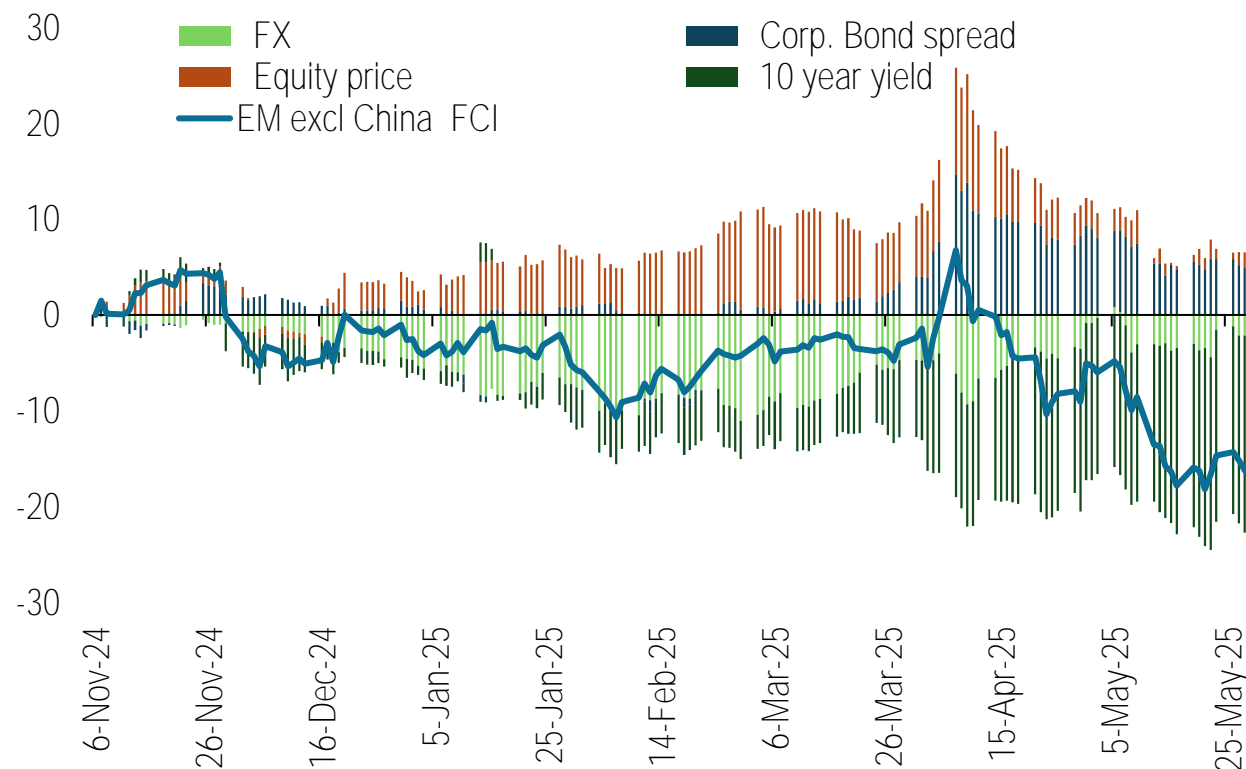


Source: Bloomberg L.P. and IMF staff calculations.

Note: We construct individual country-level cumulative changes in FCIs taking stock market capitalization as weights. A currency appreciation, an increase in 10-year yields and spreads and lower equity prices contribute to tighter financial conditions.

FCI - EM Asia excl China and Decomposition

(+: Tighter financial conditions; -: Looser financial conditions)



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

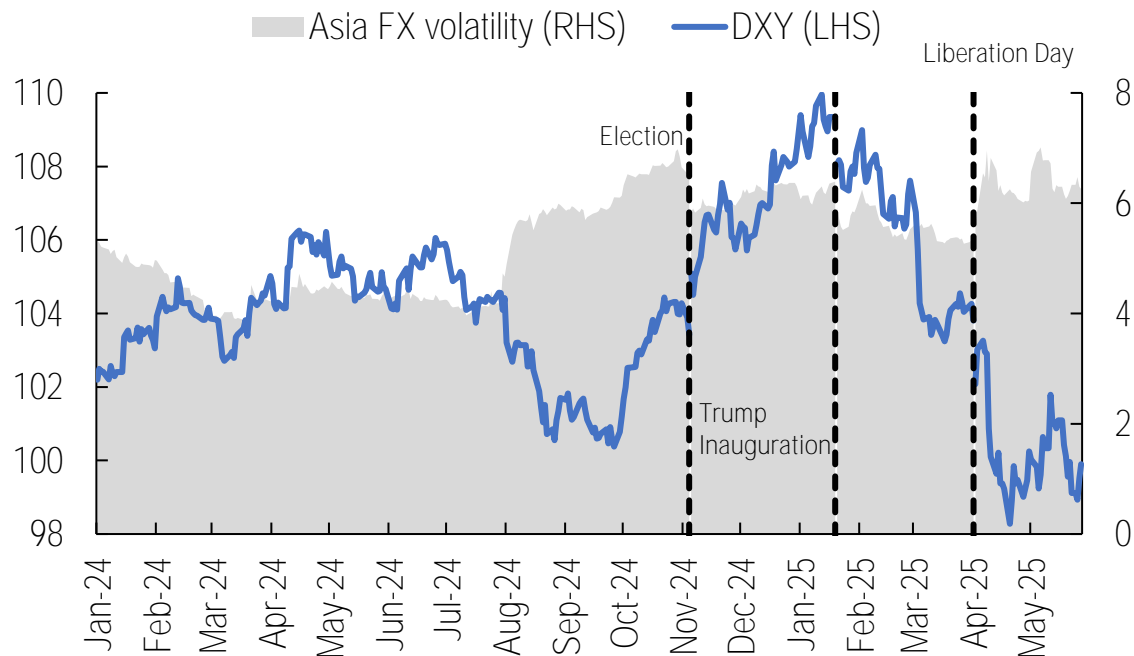
Note: We show the FCI decomposition for EM Asia excl China. Latest data is May 29, 2025.

Asian Currencies Appreciated Since April 2nd

USD has depreciated since the Liberation Day ...

... while most Asian currencies appreciated against USD

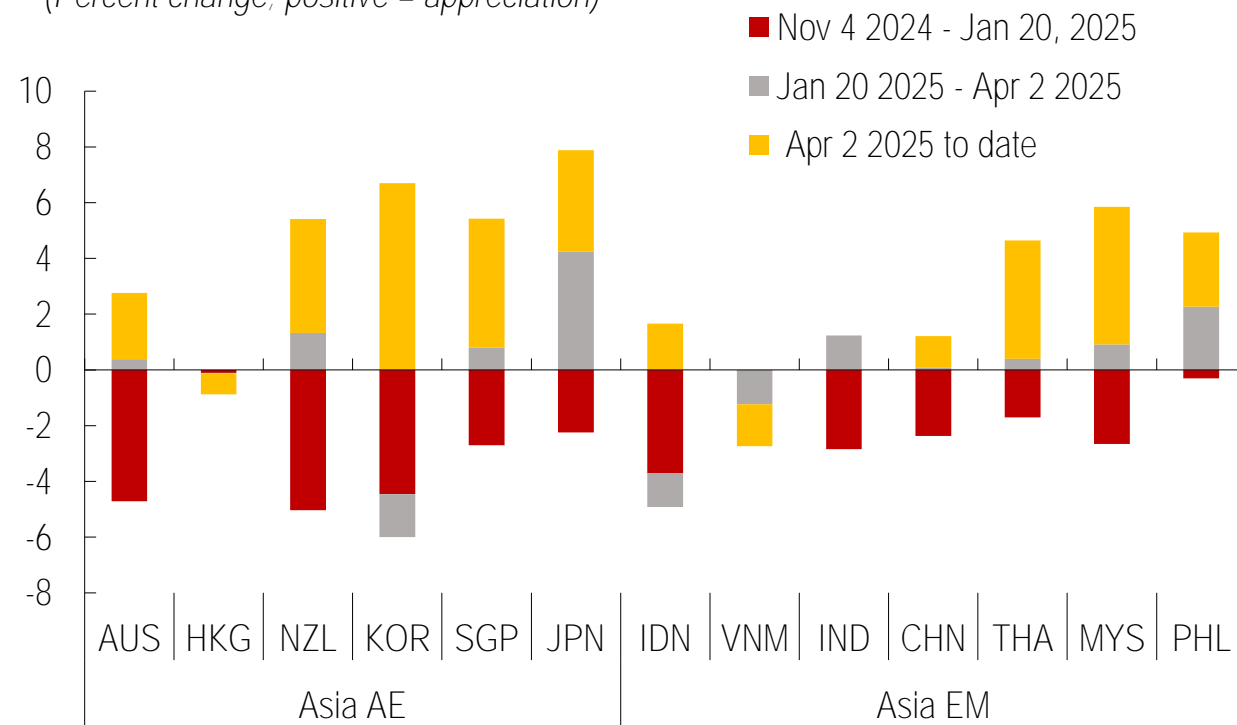
Dollar Index (DXY) and Asia Implied FX Volatility
(index)



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

Note: DXY captures the strength of the dollar. Base year = 1973. The Asia Implied FX volatility index is a 3-month currency volatility index and is a measure of the market expected future volatility of a currency exchange rate from now until the maturity date. Implied volatility remains high suggesting that there is a lot of uncertainties or concerns about potential risks. Latest as of May 28th, 2025.

Exchange rate movement
(Percent change; positive = appreciation)



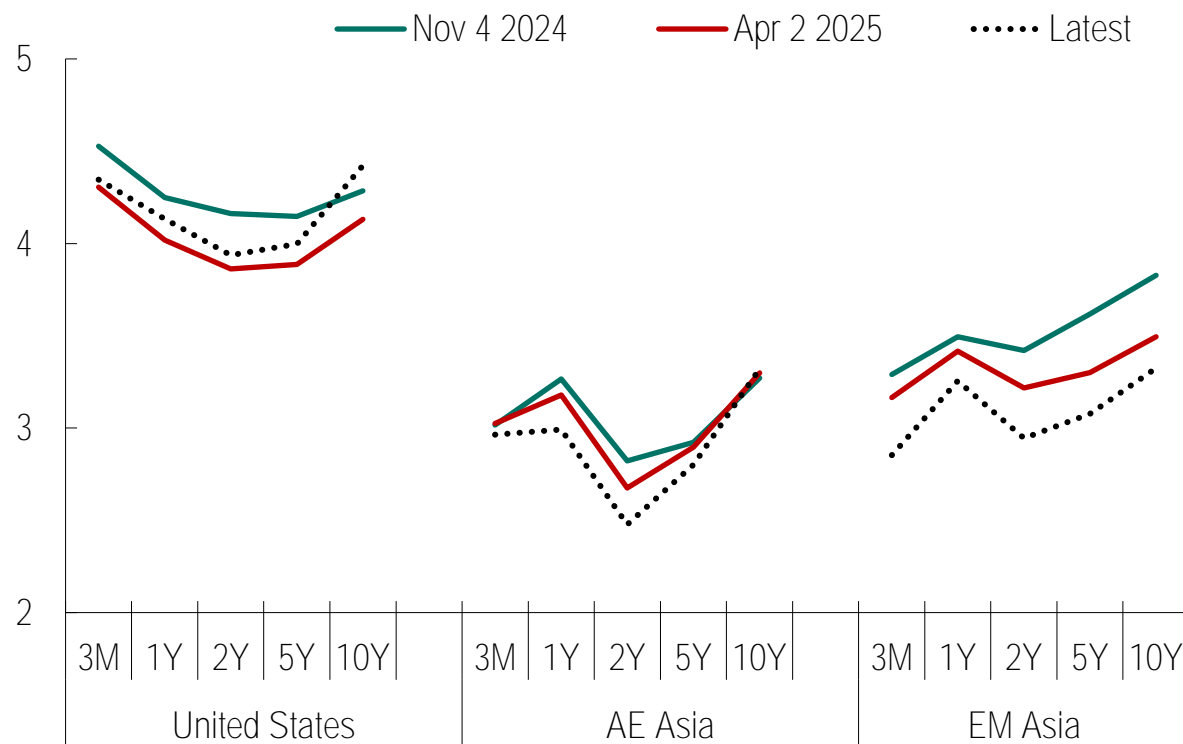
Source: Bloomberg Finance L.P.

Data as of May 29, 2025.

Sovereign Yields Lower While Corporate Spreads Widened

EM Asia's sovereign yields declined since April 2nd...

Government Bond Yields
(Actuals)



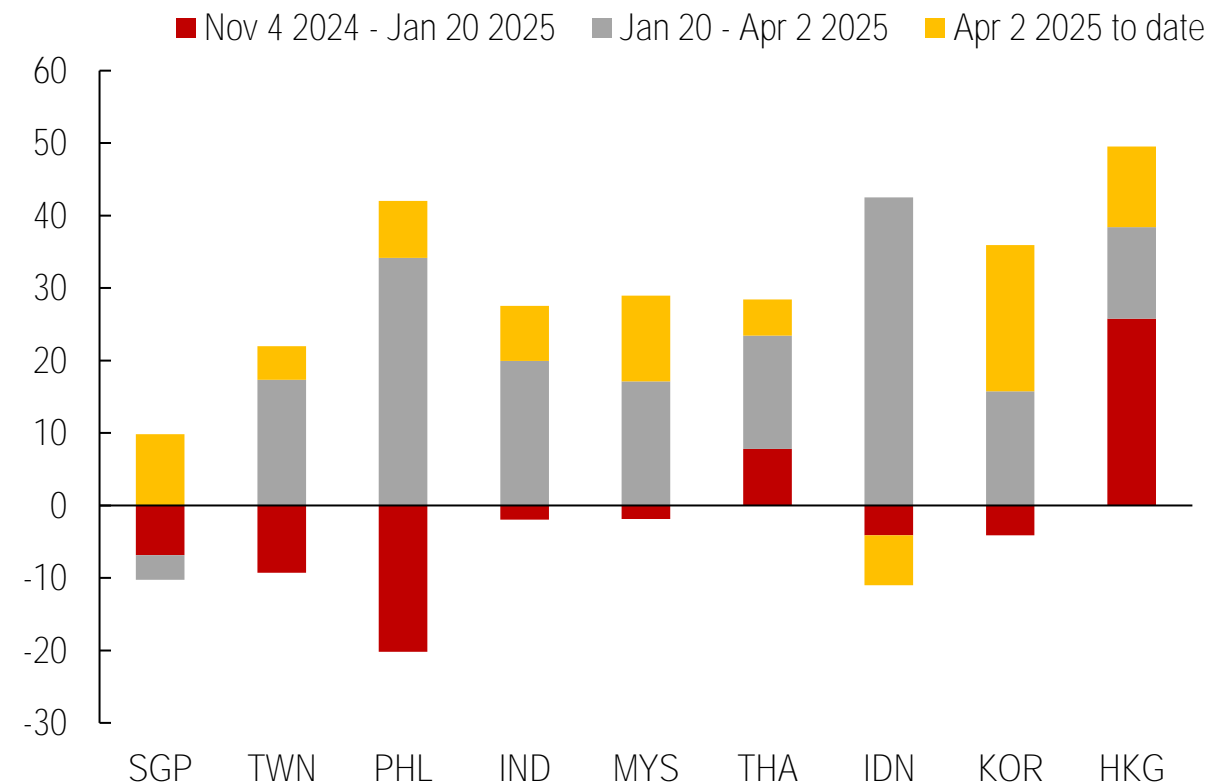
Source: Bloomberg Finance L.P.; and IMF staff calculations.

Note: AE Asia includes AUS, JPN, KOR and NZL. EM Asia includes CHN, IND, MYS and THA.

Data available till May 29, 2025.

Spreads on corporate bonds largely widened ...

Spreads on corporate bonds
(In basis points)




Source: Bloomberg Finance L.P.

Data as of May 29, 2025.

Outlook and Challenges

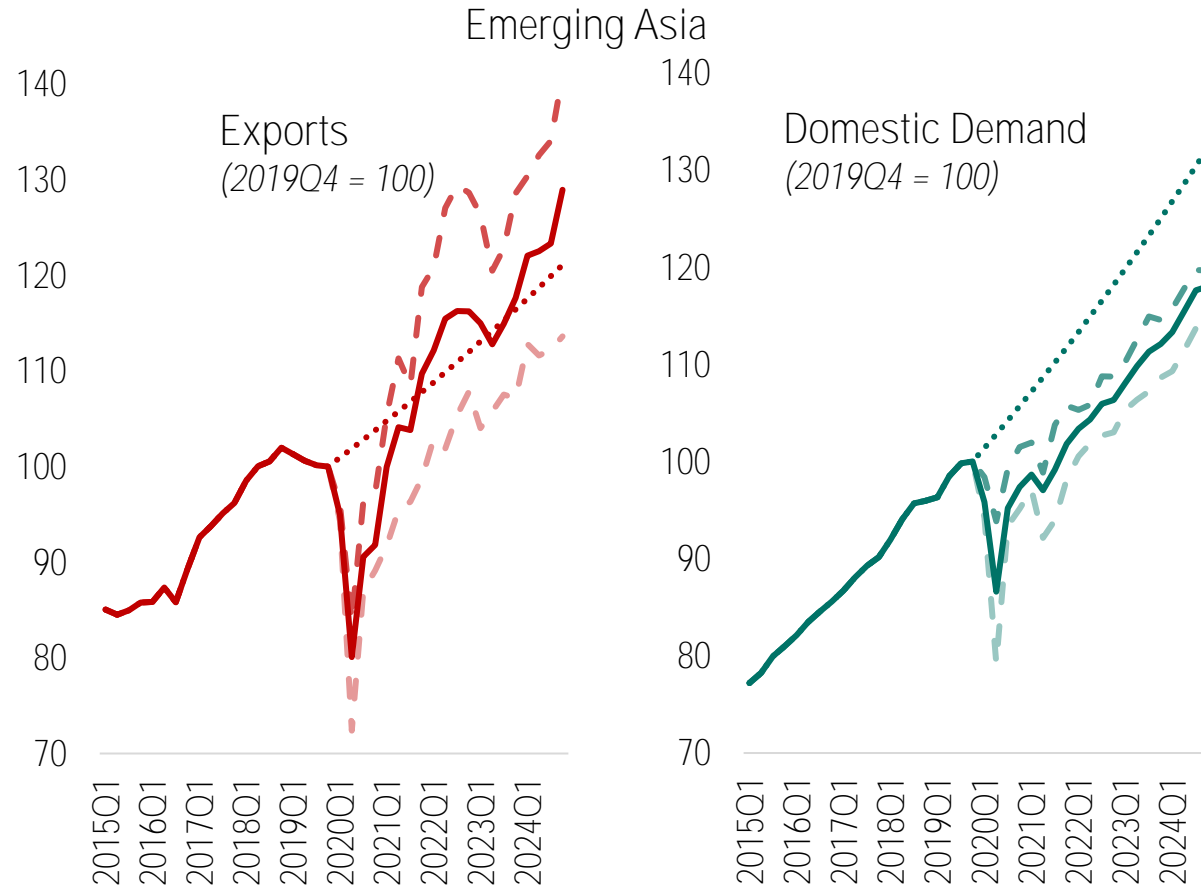
Growth Forecasts

| |  |  |  | |  |  |  |  |  |  |
|---|---|---|--|-------|---|---|---|---|---|---|
| | World | Asia | AEs | EMDEs | China | Japan | India | Korea | Australia | PICs |
| 2024 | 3.3 | 4.6 | 1.5 | 5.3 | 5.0 | 0.1 | 6.5 | 2.0 | 1.0 | 3.6 |
| 2025 | 2.8 | 3.9 | 1.2 | 4.5 | 4.0 | 0.6 | 6.2 | 1.0 | 1.6 | 3.1 |
| Revisions since October 2024 WEO | -0.4 | -0.5 | -0.7 | -0.5 | -0.5 | -0.5 | -0.3 | -1.2 | -0.5 | -0.2 |
| 2026 | 3.0 | 4.0 | 1.4 | 4.6 | 4.0 | 0.6 | 6.3 | 1.4 | 2.1 | 2.7 |
| Revisions since October 2024 WEO | -0.3 | -0.3 | -0.3 | -0.3 | -0.1 | -0.2 | -0.2 | -0.8 | -0.1 | -0.1 |

Source: World Economic Outlook, April 2025.

Post-Pandemic Recovery in Asia Has Been More Reliant on Exports...

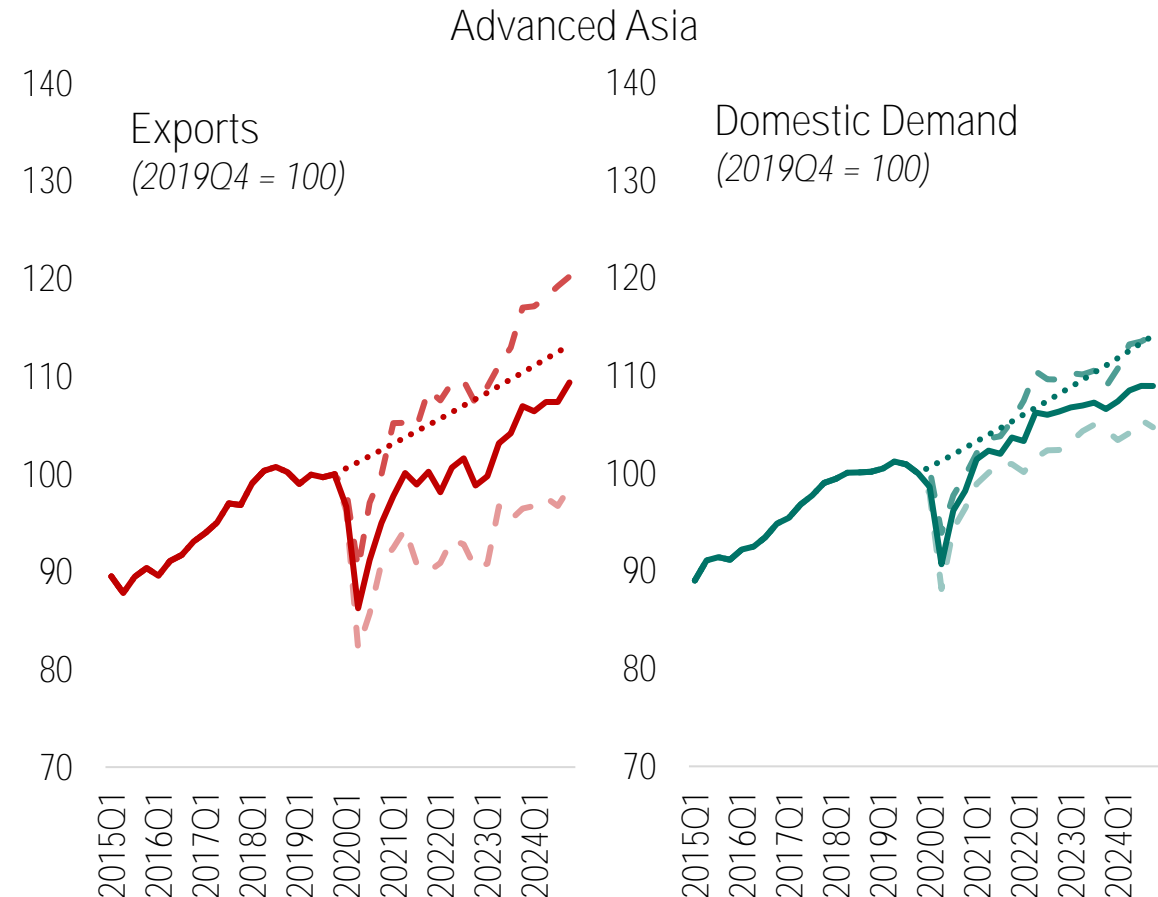
Domestic demand in EMs has not fully recovered from the pandemic scarring, while exports caught up quickly.



Source: Haver Analytics and IMF staff calculations.

Note: Emerging Asia = CHN, IND, IDN, PHL, THA and MYS. Dotted lines represent 5-year pre-pandemic trend. Dashed lines represent the first and third quantiles.

AEs has made up most pandemic damage, before the recent slack set in.



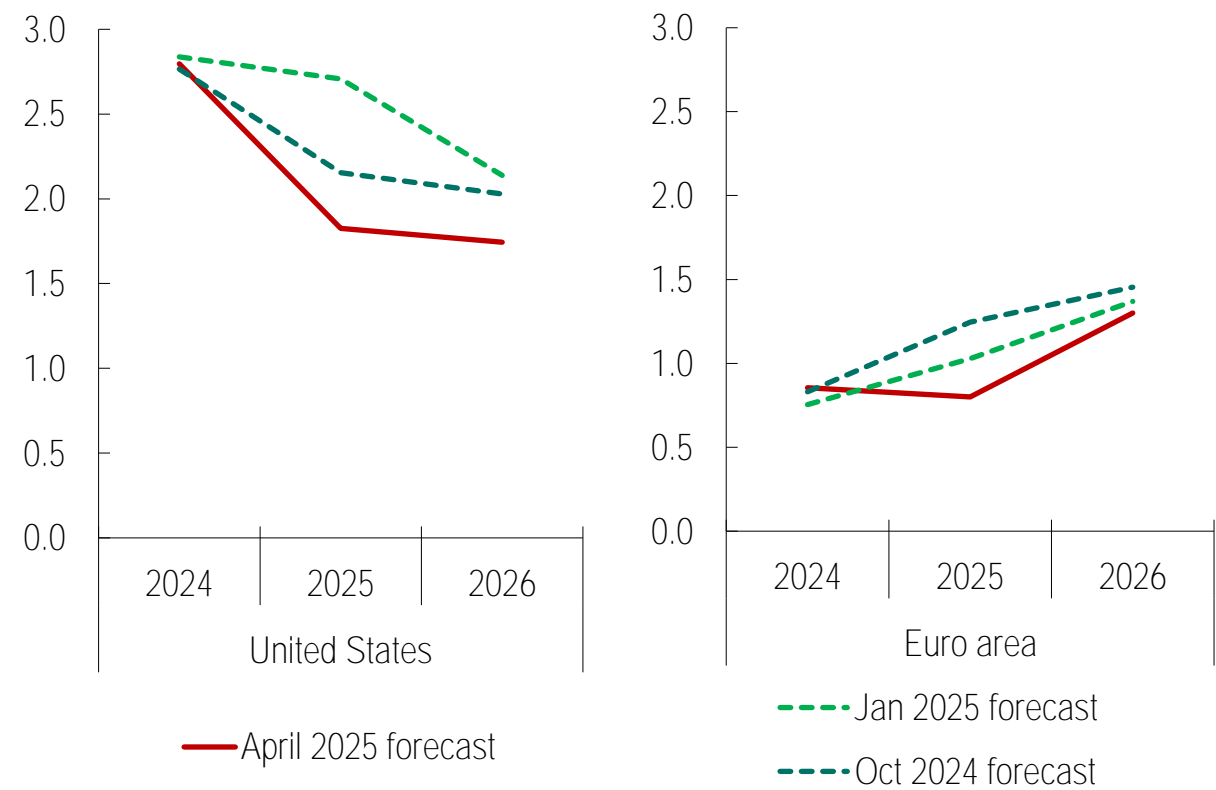
Source: Haver Analytics and IMF staff calculations.

Note: Advanced Asia = AUS, NZL, JPN, KOR, HKG and SGP. Dotted lines represent 5-year pre-pandemic trend. Dashed lines represent the first and third quantiles.

...Making It More Vulnerable to Slowing External Demand and Rising Trade policy Uncertainties

Global growth prospects were weaker than envisaged in January update...

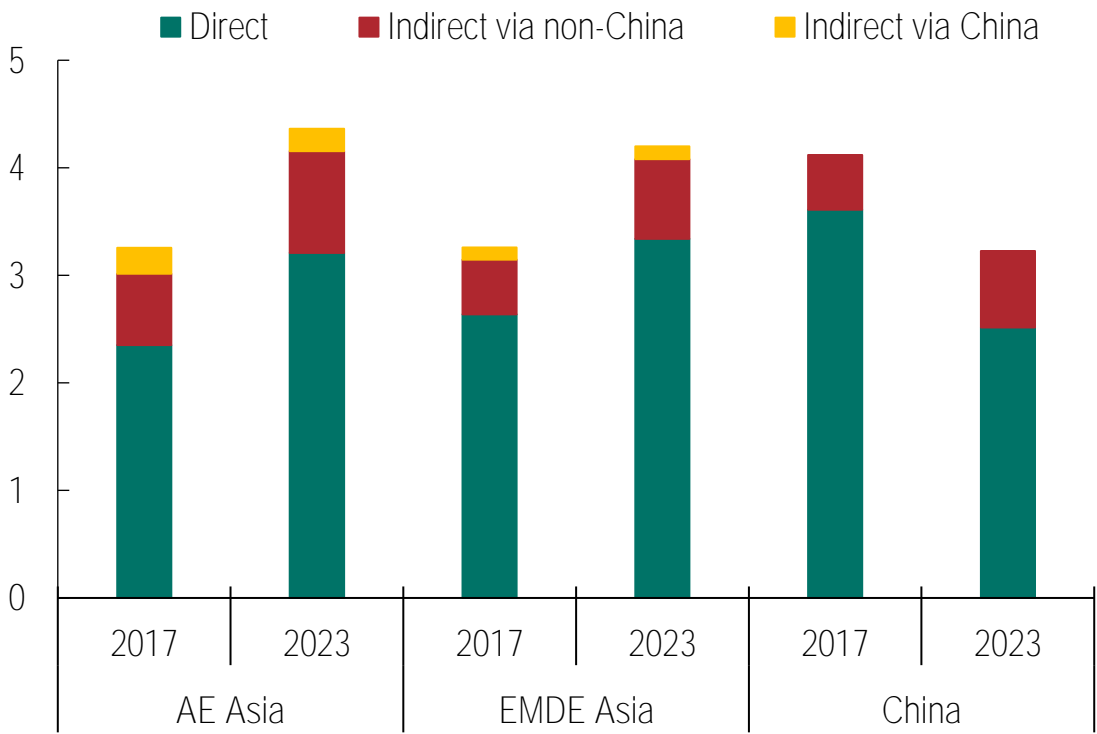
Real GDP Growth in 2025 and 2026
(In percent)



Source: IMF World Economic Outlook.

Asia is becoming more connected to the US both directly and indirectly through global supply chains

Value Added in Export to the US, 2017 vs 2023
(Percent of the group's total value added)

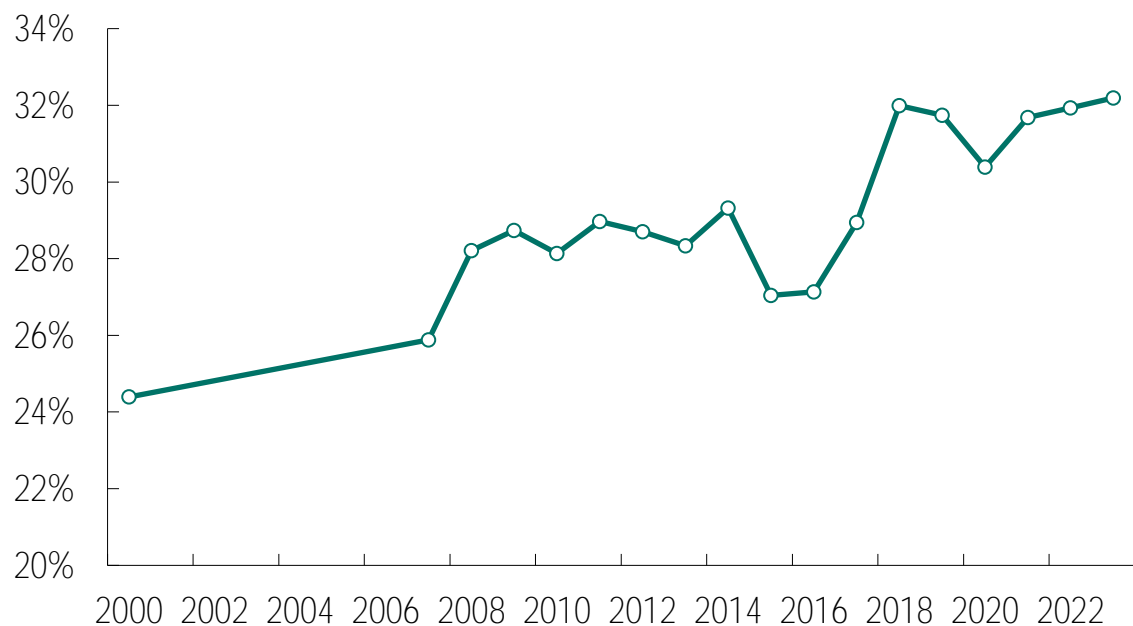


Source: ADB multiregional input-output database and IMF staff calculations.

Tariff Impact Depends on GVC Linkages and Competition

Intra-regional supply chains continue to grow.

Asia: Share of Intra-region Exports of Intermediates
(Percent of total exports)

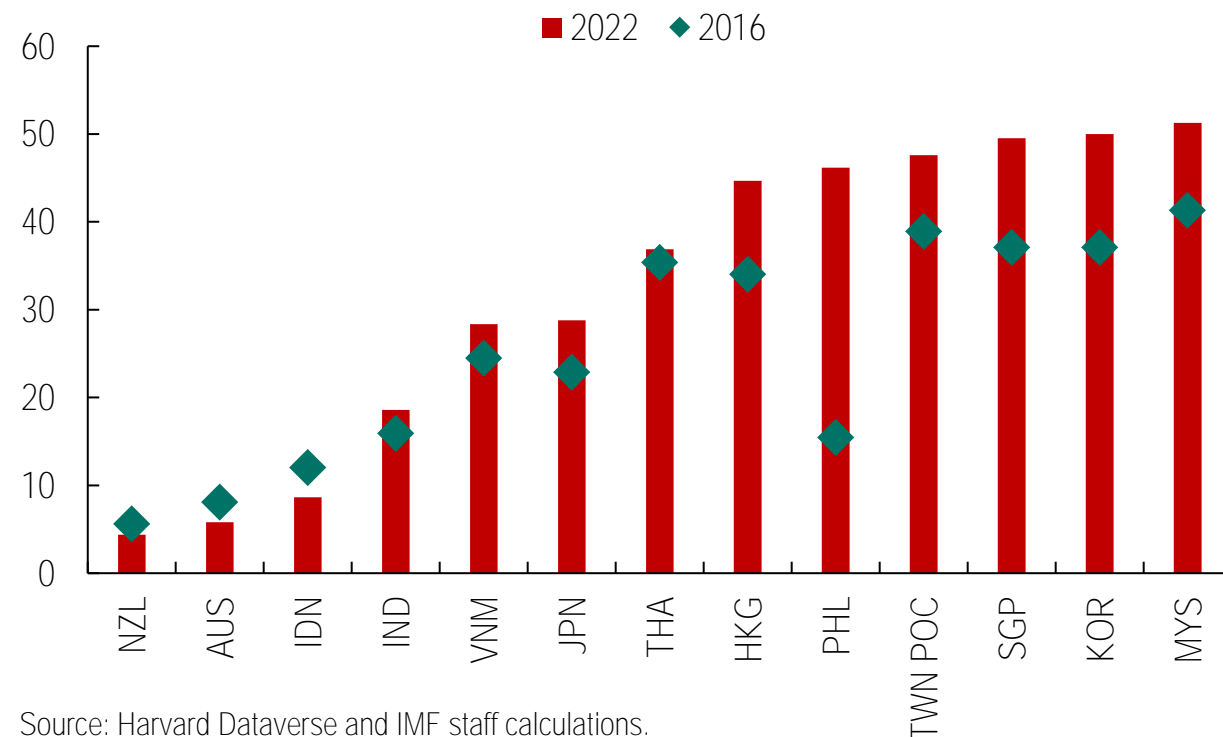


Source: ADB MRIO and IMF staff calculations.

Note: The share of intra-region exports of intermediates is the amount of Asia to Asia exports in intermediates divided by the amount of Asia to World total exports.

Export similarity has increased within the region, pointing to stronger competition.

REO-14: Avg. Export Similarity to REO-14 Economies
(Index)



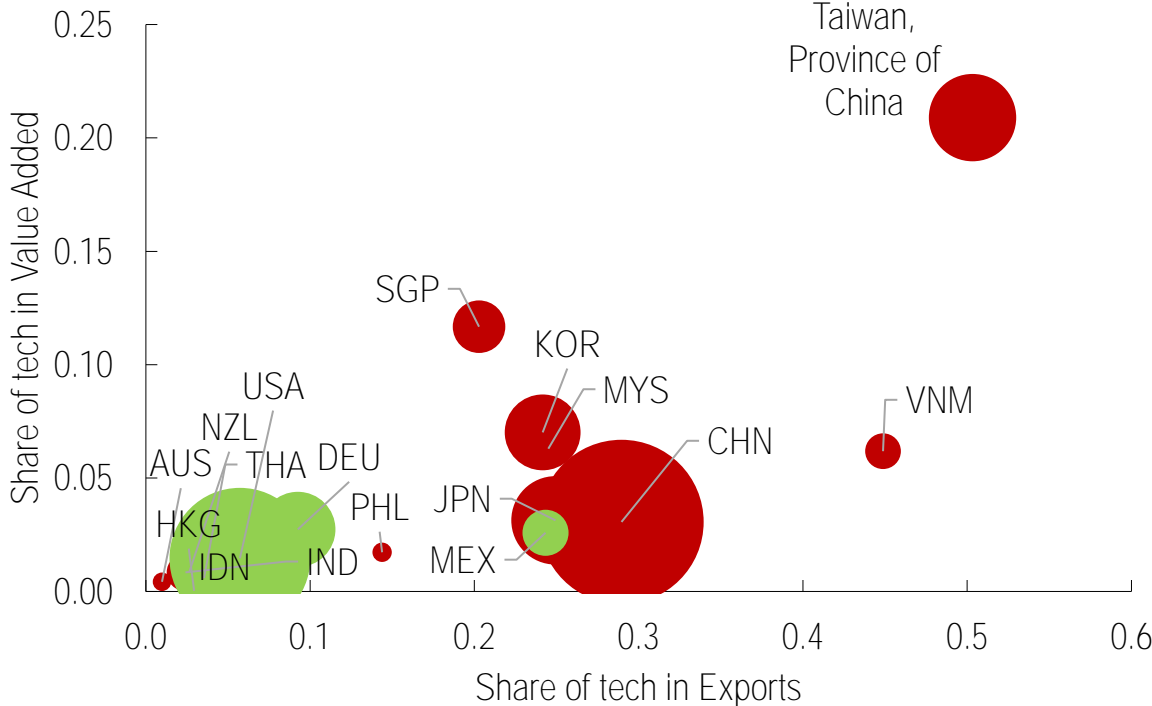
Source: Harvard Dataverse and IMF staff calculations.

Note: Export similarity indexes are calculated as $100 \times \frac{\sum s(i,j_1)s(i,j_2)}{\sqrt{\sum s(i,j_1)^2} \times \sqrt{\sum s(i,j_2)^2}}$, where $s(i,j)$ represents the share of good i in country j 's exports. Export data used is 6-digit product level.

Prospects in the Tech Industry Important for Growth Outlook

The region's reliance on the tech industry for economic activity highlights growth potential ...

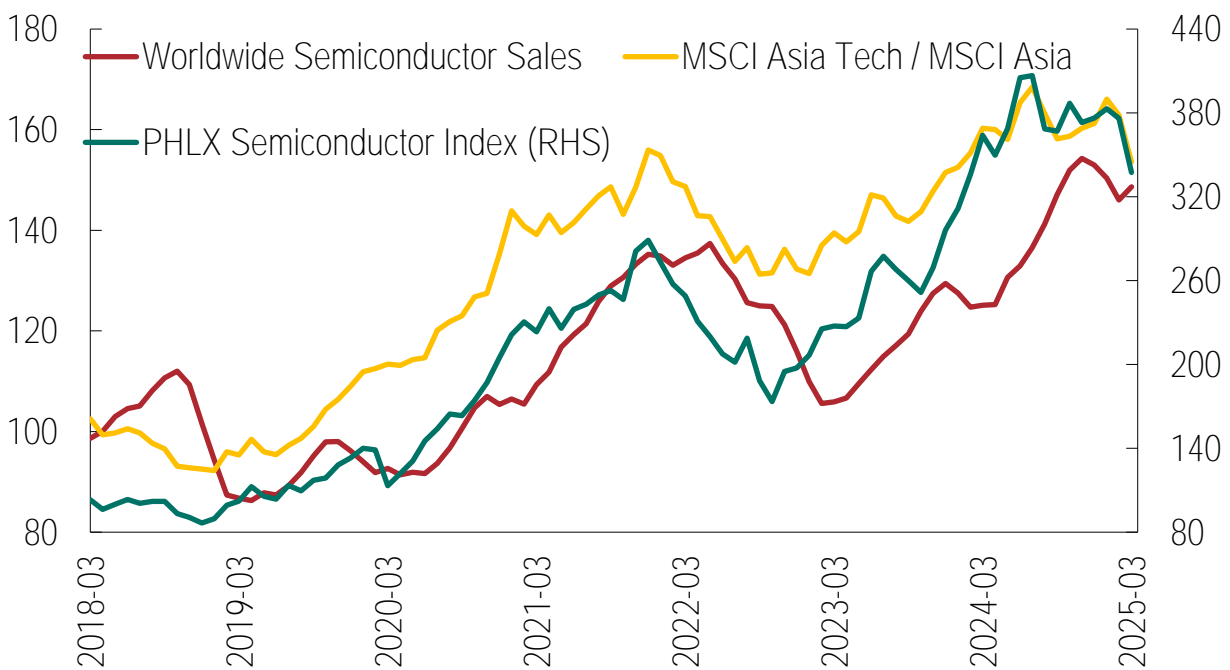
The share of tech in real economic activity in 2023
(Size of bubble = share of tech VA in world tech VA)



Source: ADB Multiregional input-Output Database and IMF staff calculations
Note: The tech sector is defined as the “Electrical and optical equipment” sector. USA, DEU and MEX have the largest share of tech VA in world tech VA excluding Asia. Economies within the Asia Pacific region are denoted in red while those outside the region are denoted in green.

... despite signs of a near-term peaking in tech cycle.

Global Tech Cycle Figures
(Jan 2018 = 100)

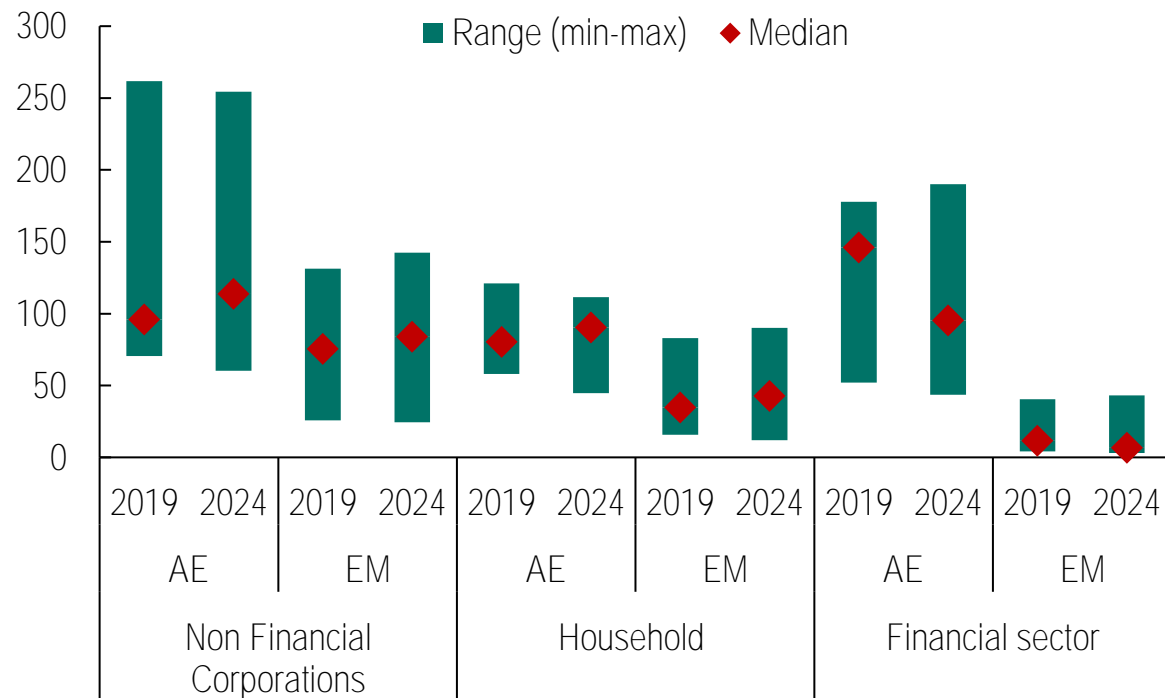


Source: Haver Analytics, Bloomberg Finance L.P., and IMF staff calculations.
Note: The shipment to inventory ratio shows the trend component of the average shipment to inventory ratio of Korea and Japan for the manufacturing of semi-conductors and integrated circuits sectors respectively derived using an HP filter. Latest as of March 2025.

Pockets of Vulnerability on Private Sector Balance Sheets

Private sector debt levels are broadly unchanged...

Asia: Debt
(Percent of GDP)

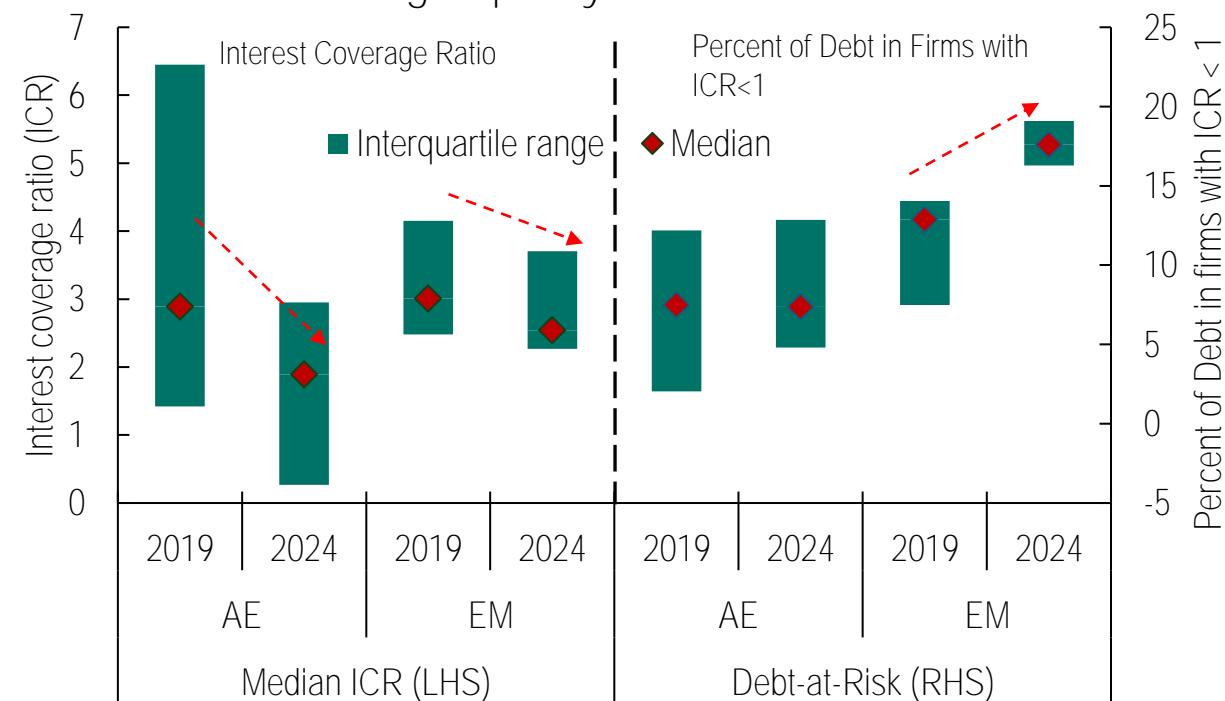


Source: IIF and IMF staff calculations.

Note: AE Asia include: AUS, KOR and NZL. EM Asia include: CHN, IDN, IND, MYS, PHL, THA and VNM.

...but debt servicing capacity declined somewhat following the previous tightening cycle

Asia: Debt Servicing Capacity



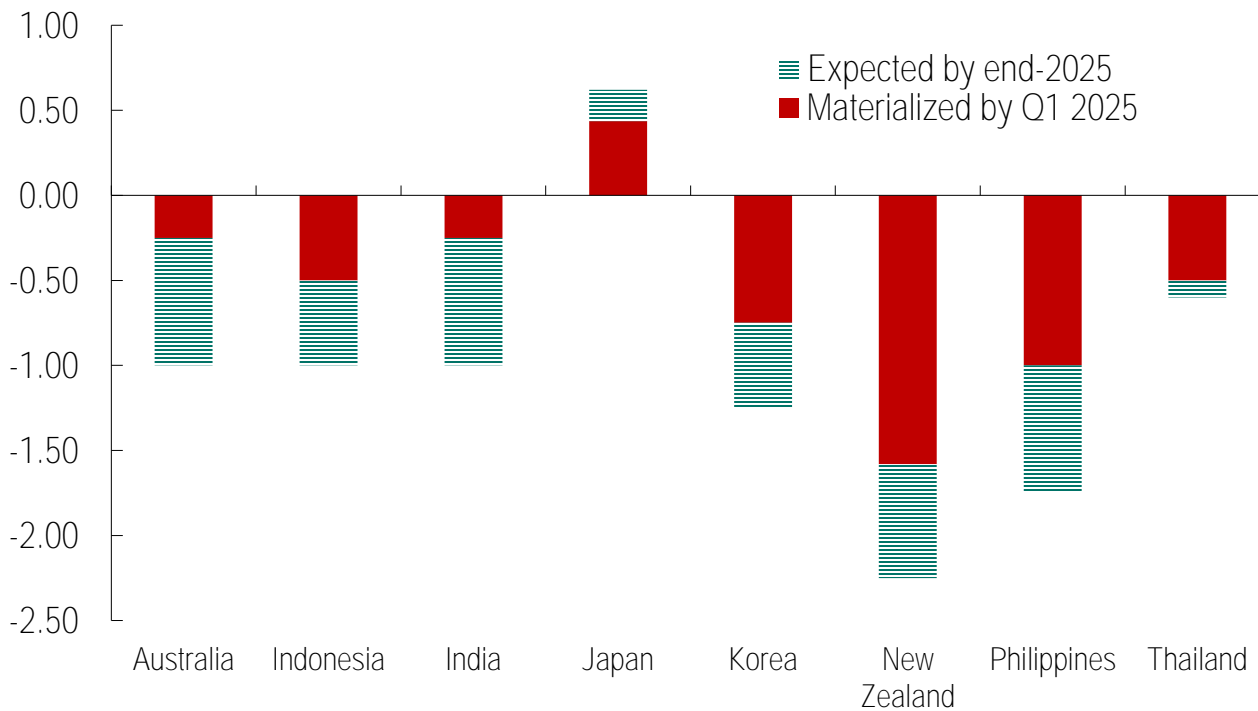
Source: S&P Capital IQ and IMF staff calculations.

Debt-at-Risk shows the share of total debt held by firms with an Interest Coverage Ratio (ICR) below 1. Median ICR represents the distribution of median value across countries. Firm-level ICR is calculated using the 4-quarter average. Underlying variables and calculated ICR are winsorized at 5%. Financial sector excluded; real estate sector included.

Accommodative Monetary Stance; Yields Contained

Most Asian countries are expected to reduce policy rates further

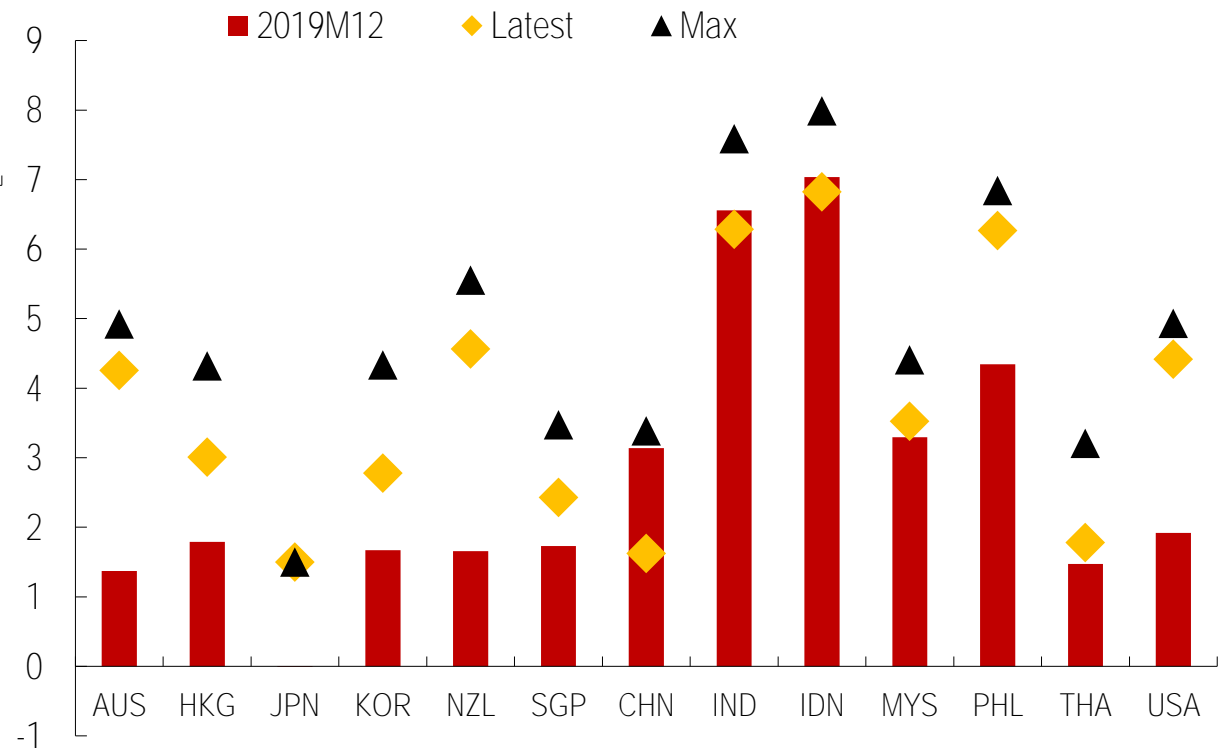
Cumulative Policy Rate Changes since Peak
(Percentage points, quarterly average)



Source: Bloomberg Finance L.P., Haver Analytics; and IMF staff calculations.
Note: 2025 data are IMF staff projections, except for Thailand with data from Bloomberg Finance L.P. Japan data shows the cumulative policy rate changes since trough. Data as of April 17, 2025.

Longer-term yields have declined since its peak but higher than pre-pandemic

10-Year Government Bond Yields
(Actuals)

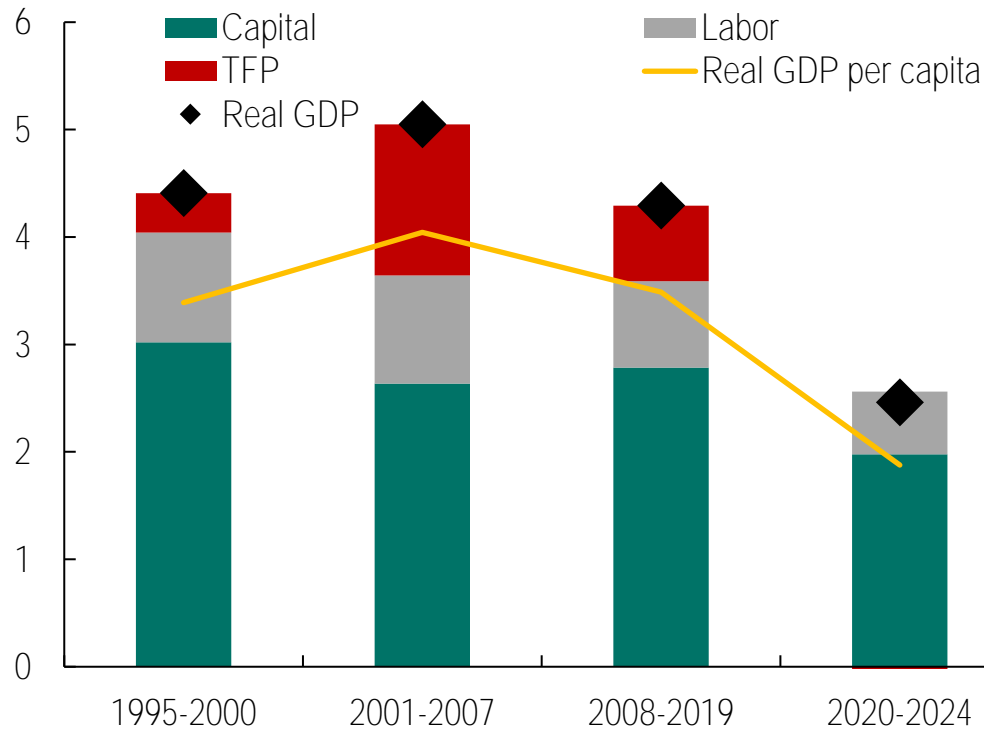


Source: Bloomberg Finance L.P. and; IMF staff calculations.
Note: Monthly data, end of period basis, latest is May 2025, except for China as latest is April 2025. The maximum value is taken from the time range – 2019M1 till 2025M5.

Revive Productivity Gains and Enhance Regional Integration Critical for MT Growth

Productivity growth slowed and remained sluggish.

Real GDP Growth Drivers
(in Percent)

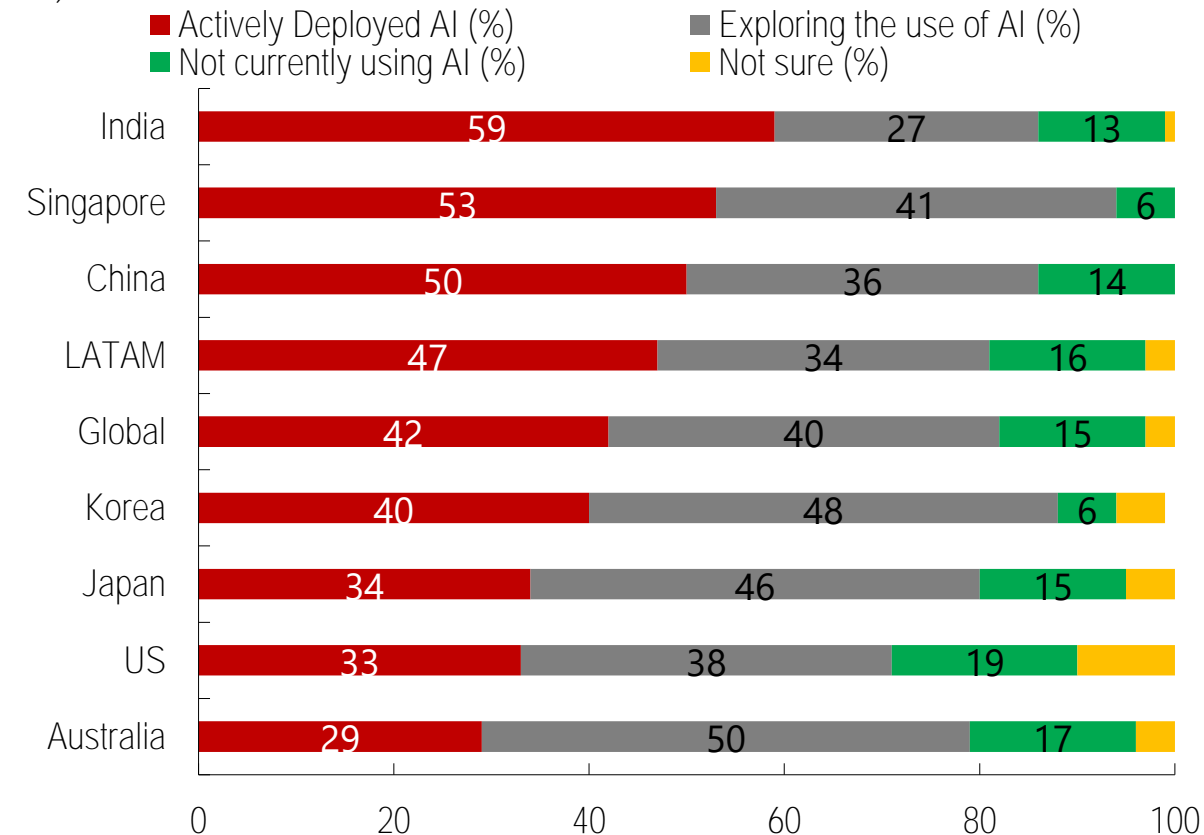


Source: Penn Table.

Note: AE = advanced economies; EMDE = emerging market and developing economies.

AI adoption provides opportunity to boost productivity gains and the region's growth potential.

AI Adoption In Large Enterprises by Country
(In percent)



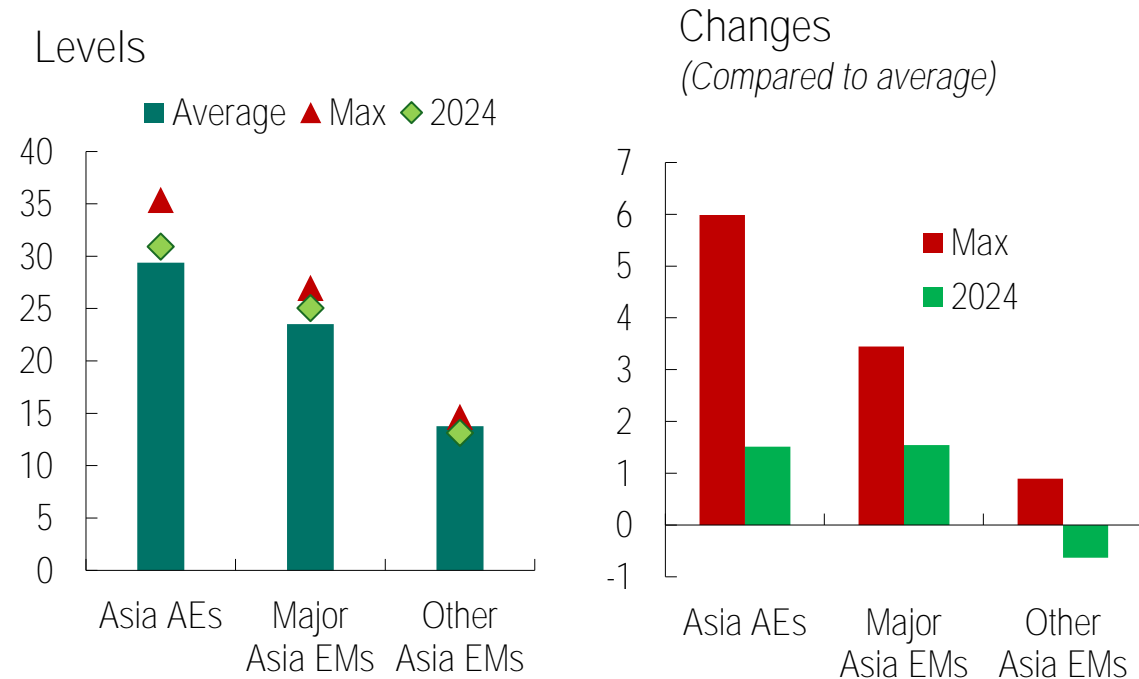
Source: IBM Global AI Adoption Index 2023.

Fiscal outlook and challenges

Pandemic Brought Large Impact on Government Expenditure and Deficit

Government expenditure rose during the pandemic . The increase is not yet fully reversed everywhere.

General Government Expenditure
(In percent of GDP)

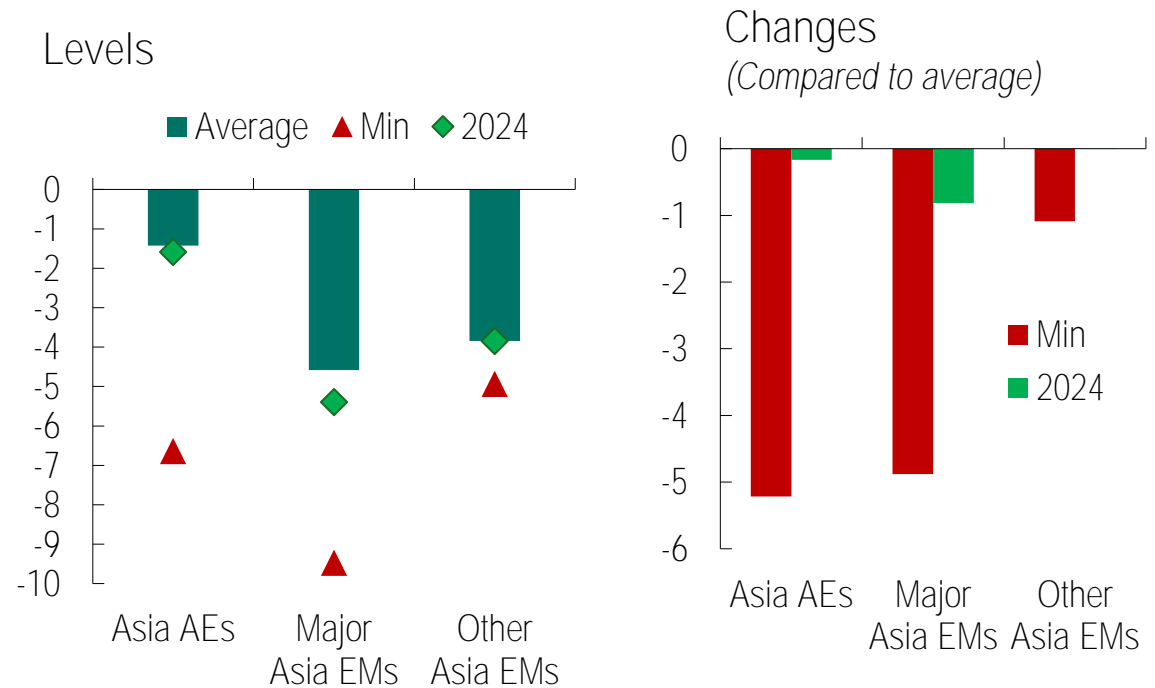


Source: IMF, World Economic Outlook database.

Note: Asia AEs , major Asia EMs and other Asia EMs are calculated by PPPGDP weighted average of countries. Average is 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. Asia AEs excludes Macao SAR. Major Asia EMs or other Asia EMs do not include China.

Budget deficits are also larger than pre-pandemic averages.

General Government Budget Balance
(In percent of GDP)



Source: IMF, World Economic Outlook database.

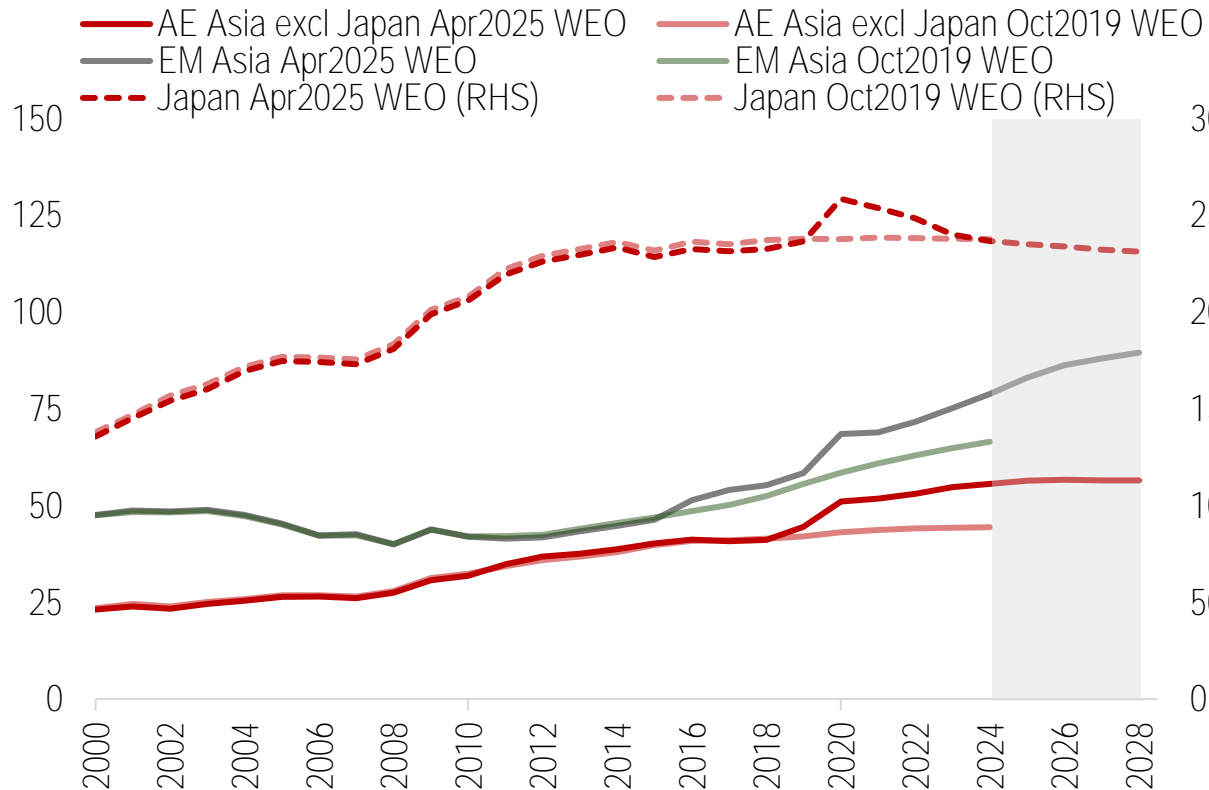
Note: Asia AEs , major Asia EMs and other Asia EMs are calculated by PPPGDP weighted average of countries. Average is for 2015-19. Min is the largest annual budget deficit in 2020-22. The 2023 values are IMF staff estimates. Changes show the difference relative to the 2015-19 average in percentage points. Asia AEs excludes Macao SAR. Major Asia EMs or other Asia EMs do not include China.

Fiscal Policies Should Balance Consolidation Needs with Cyclical Support

Fiscal space narrowed while consolidation faces challenges .. Interest expenditure is expected to rise

Asian General Government Gross Debt

(In percent of fiscal year GDP; PPPGDP weighted average)



Source: World Economic Outlook.

Note: AE = advanced economies; EMs = emerging market, LICs= low -income countries; PICs= pacific island countries.

Interest Expenditure

(Percent of total government expenditure, PPPGDP weighed average)

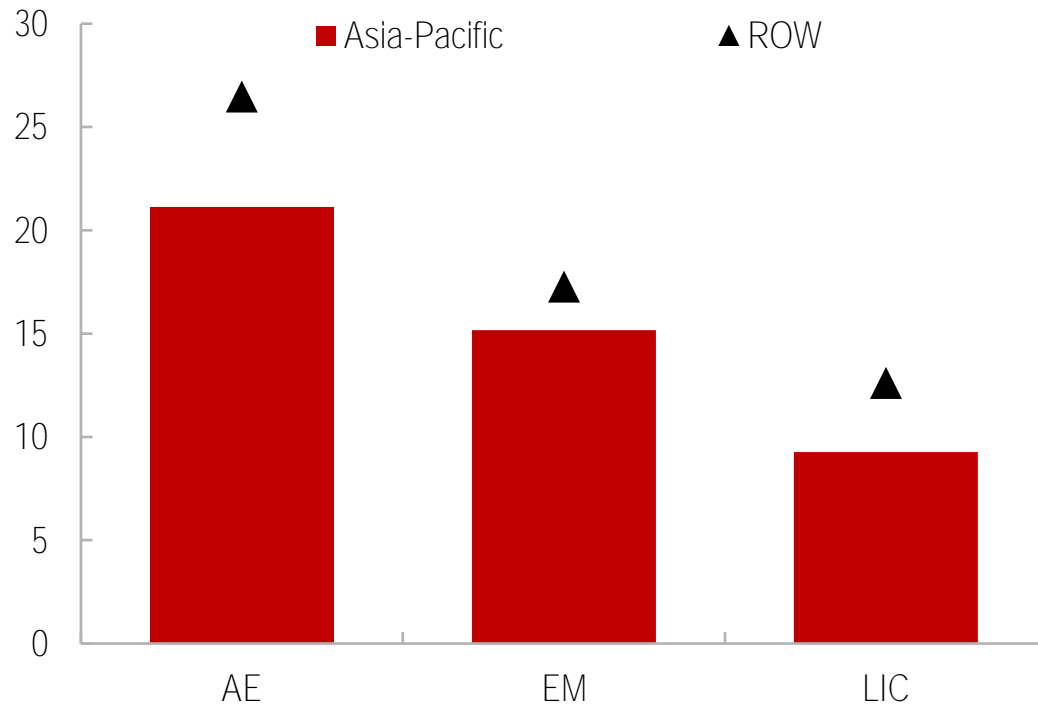


Source: World Economic Outlook.

Consolidation Should Prioritize Revenue Mobilization While Protecting Social Benefits

Enhancing revenue mobilization is needed

Tax revenues
(Percent of GDP, mean of respective group during 1995-2023)

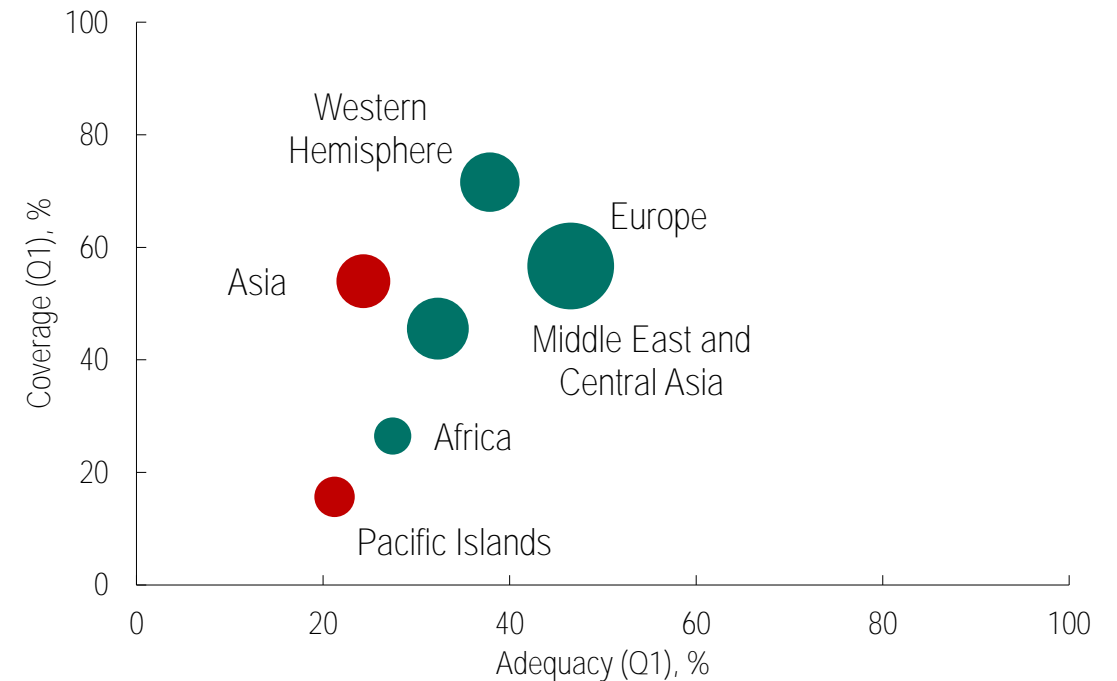


Sources: IMF, World Economic Outlook database; and authors' calculations.

Note: ROW = Rest of World; AE = advanced economies; EM = emerging markets; LIC = low-income countries.

... as safeguarding adequate social safety nets.

Social safety nets
(Bubble size represents poverty reduction size)



Sources: World Bank, ASPIRE database; and authors' calculations.

Note: Simple averages of a sample of 94 countries. Data refers to the most recent year available. Adequacy for the first quintile is the size of transfer amount received by those in the bottom quintile as a share of the pretransfer total income/expenditure of all beneficiaries. Coverage is the share of the bottom quintile that receives a social assistant benefit as a fraction of all individuals in the first quintile. Poverty reduction size is defined as the difference between poverty headcount after transfers divided by poverty headcount before transfers.

The background of the slide is a teal color with a white grid pattern that creates a wavy, 3D effect. The grid lines are thin and intersect to form a mesh. The overall shape of the grid is undulating, giving it a sense of depth and movement.

Thank You