



**International Monetary Fund**

# **World Economic Outlook and the Asia Pacific Region —Steady but Slow: Resilience amid Divergence—**

**(based on Chap. 1 of IMF World Economic Outlook (WEO) April 2024)**

**Akihiko Yoshida**

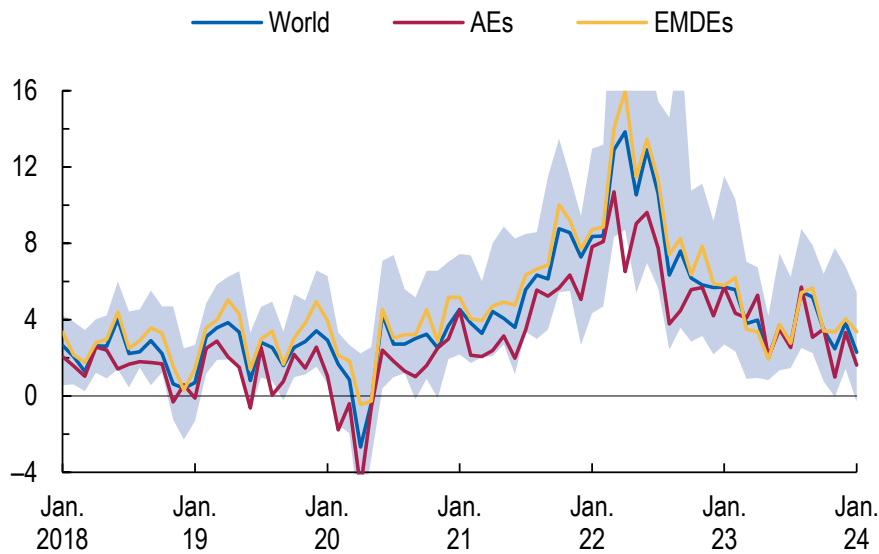
**Director, the IMF Regional Office for Asia and the Pacific (OAP)**

***Seminar at Research Institute of Economy, Trade and Industry (RIETI)  
May 16, 2024***

# Disinflation amid Economic Resilience

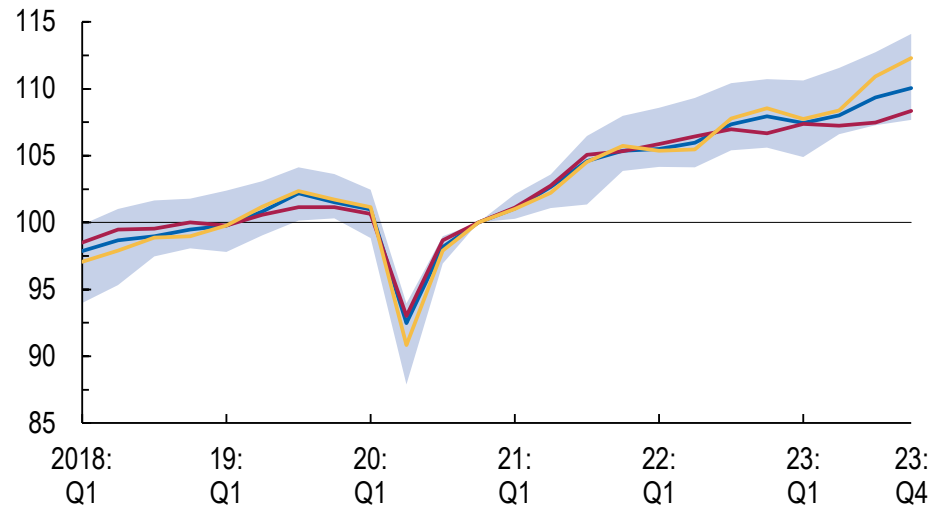
## Headline Inflation

(percent; month-over-month, SAAR)



## Real GDP

(Index, 2020:Q4=100)



## Overview

- Global economic activity has been surprisingly resilient during disinflation
- Global growth, estimated at 3.2 percent in 2023, is projected to continue at the same pace in 2024 and 2025
- Risks to the global outlook are now broadly balanced
- Near-term priority is to ensure that inflation touches down smoothly and that fiscal buffers are rebuilt.

Sources: IMF, *World Economic Outlook*; Haver Analytics; and IMF staff calculations.

Notes: Left panel plots the median of a sample of 57 economies that accounts for 78 percent of *World Economic Outlook* world GDP (in weighted purchasing-power-parity terms) in 2023. Vertical axes are cut off at -4 percent and 16 percent. Right panel plots the median of a sample of 44 economies. The bands depict the 25th to 75th percentiles of data across economies.

AEs = advanced economies; EMDEs = emerging market and developing economies; SAAR = seasonally adjusted annual rate.

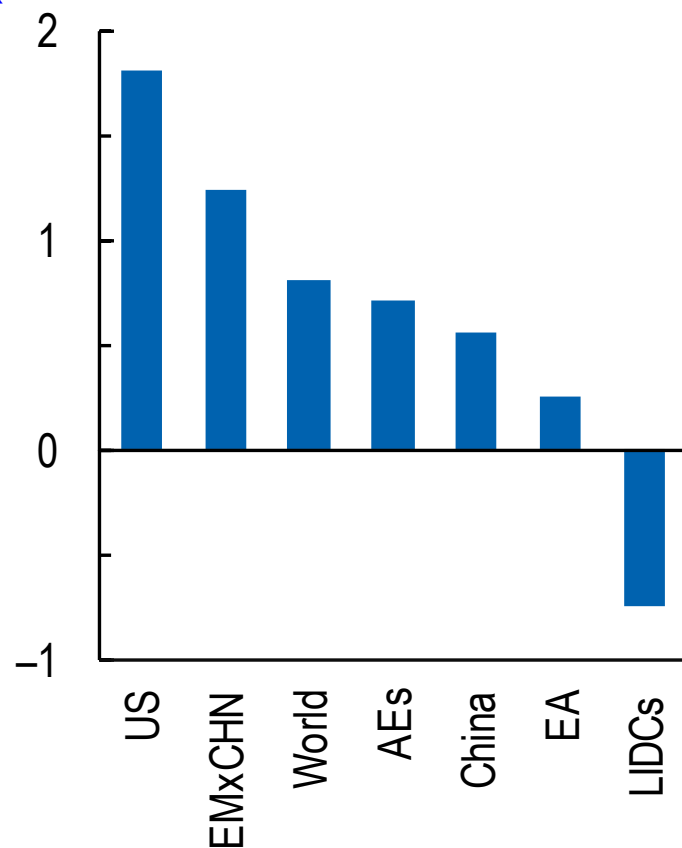
# Recent developments

# Resilience Amid Divergence

## *Performance in 2022-23 Compared with Projections at Time of Cost-of-Living Crisis*

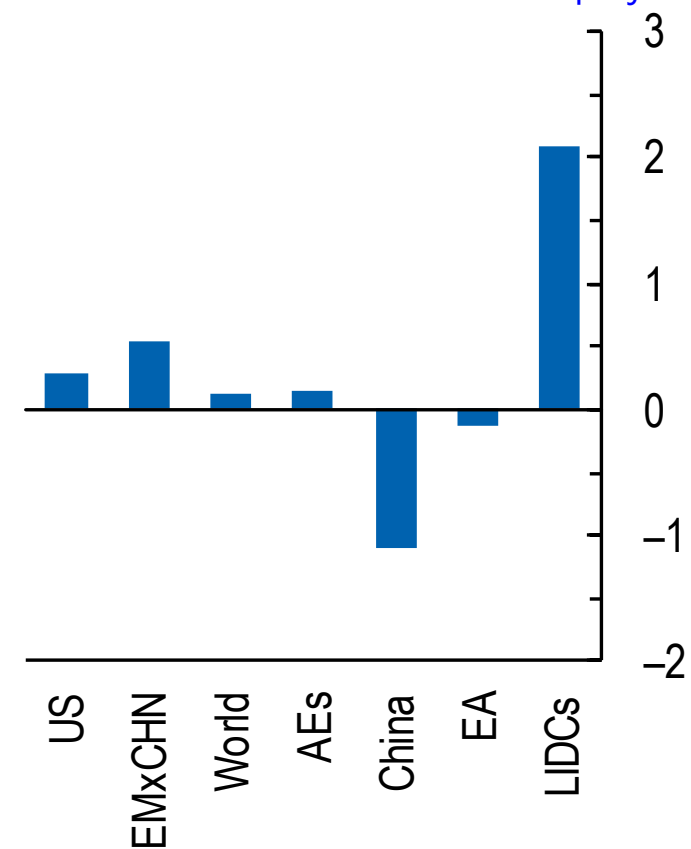
### Cumulative GDP Growth

(Percent deviation from October 2022 WEO projection)



### Inflation Rate

(Percent deviation from October 2022 WEO projection)



Sources: IMF, *World Economic Outlook*; and IMF staff estimates.  
Note: Figure reports the latest estimates for cumulative growth in 2022 and 2023 in deviation from October 2022 WEO forecast

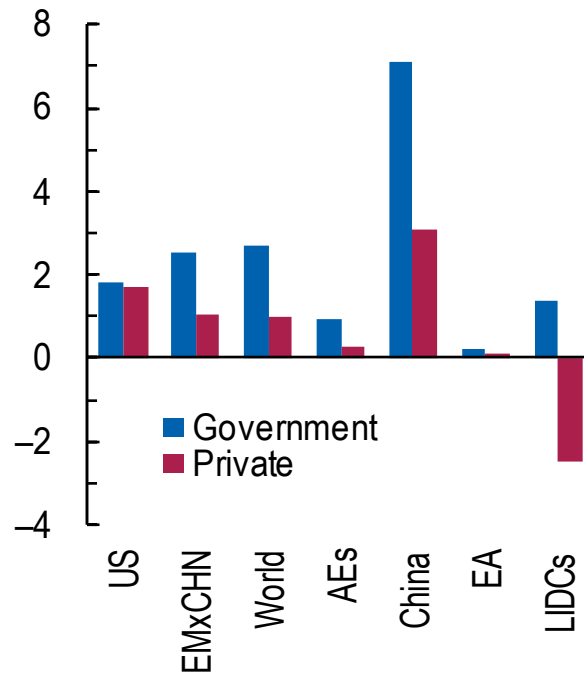
Note: Figure reports the difference between average inflation in 2022 and 2023 and the corresponding October 2022 WEO forecasts

# Favorable Developments – Demand

*Particularly Strong Private and Public Consumption*

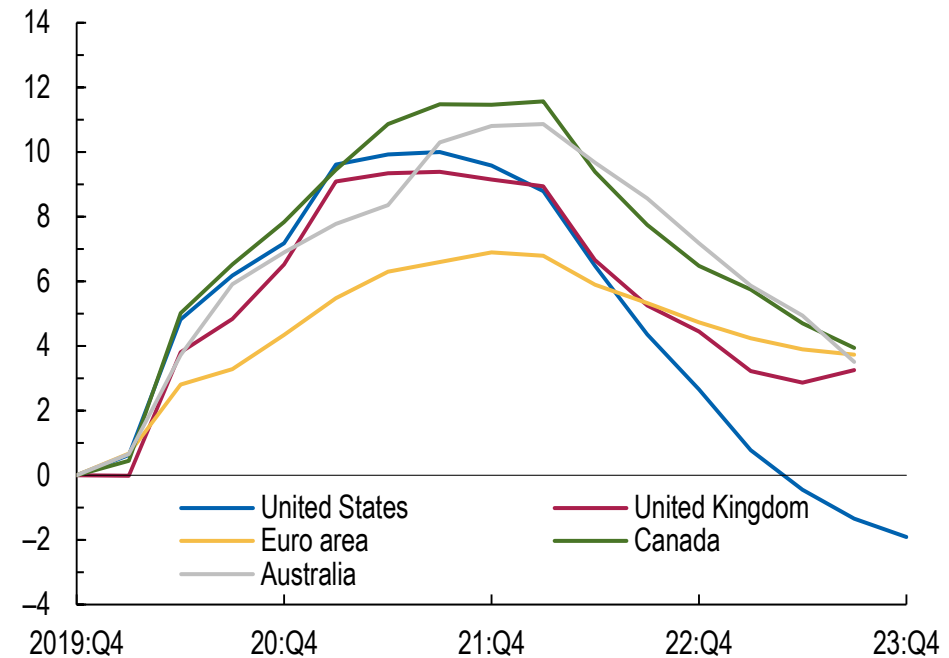
## Cumulative Government and Private Consumption Growth

(Percent deviation from October 2022 WEO projection)



## Accumulated Savings from the Pandemic

(Percent of GDP)



Sources: IMF, *World Economic Outlook*; and IMF staff estimates.

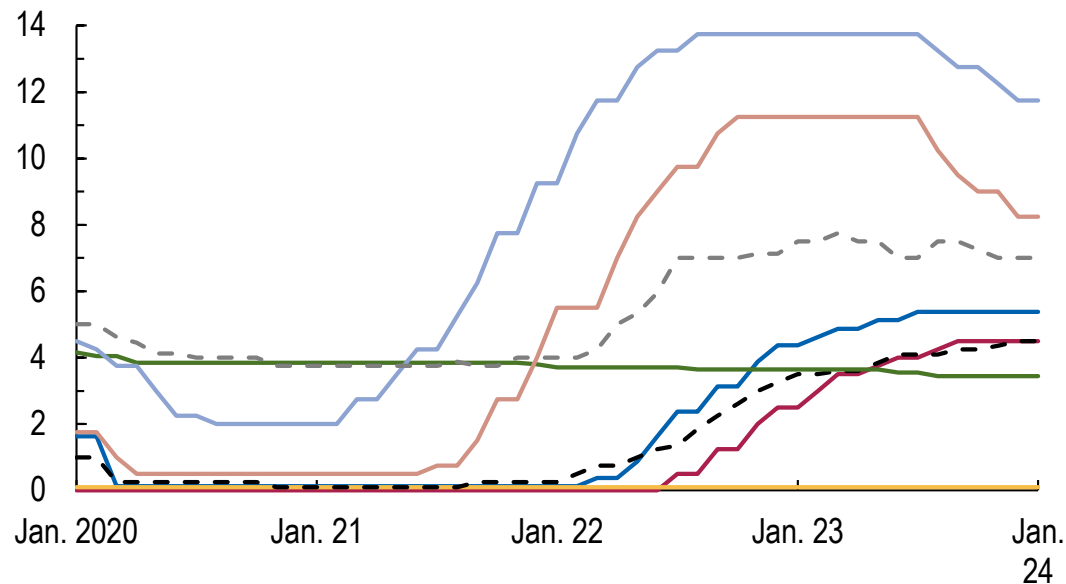
Sources: de Soyres, Moore, and Ortiz 2023; and IMF staff calculations.

Note: Excess savings are calculated as the deviation from the predicted saving rate using a Hamilton trend. Accumulation starts in the first quarter of 2020. Euro area comprises France, Germany, Italy, and Spain.

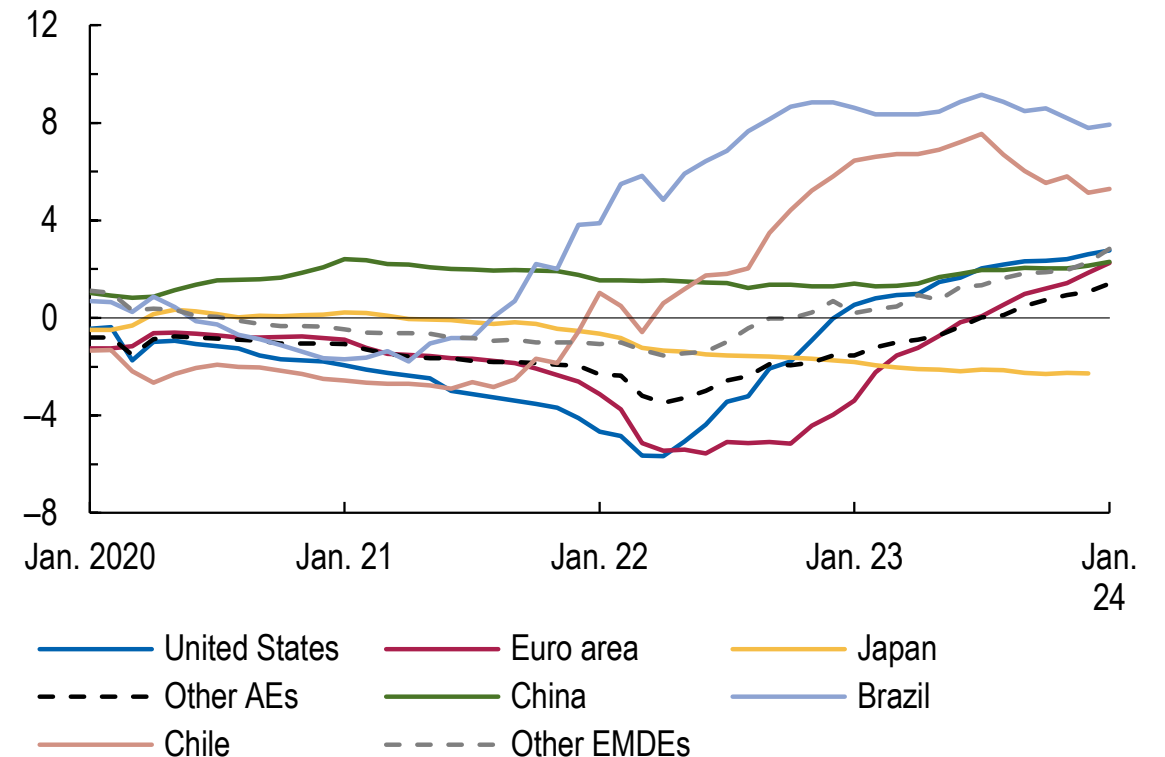
# Favorable Developments – Demand

## *Monetary Policy Initially Supported Economic Activity*

**Nominal Policy rates**  
(Percent)



**Real Policy Rates**  
(Percent)



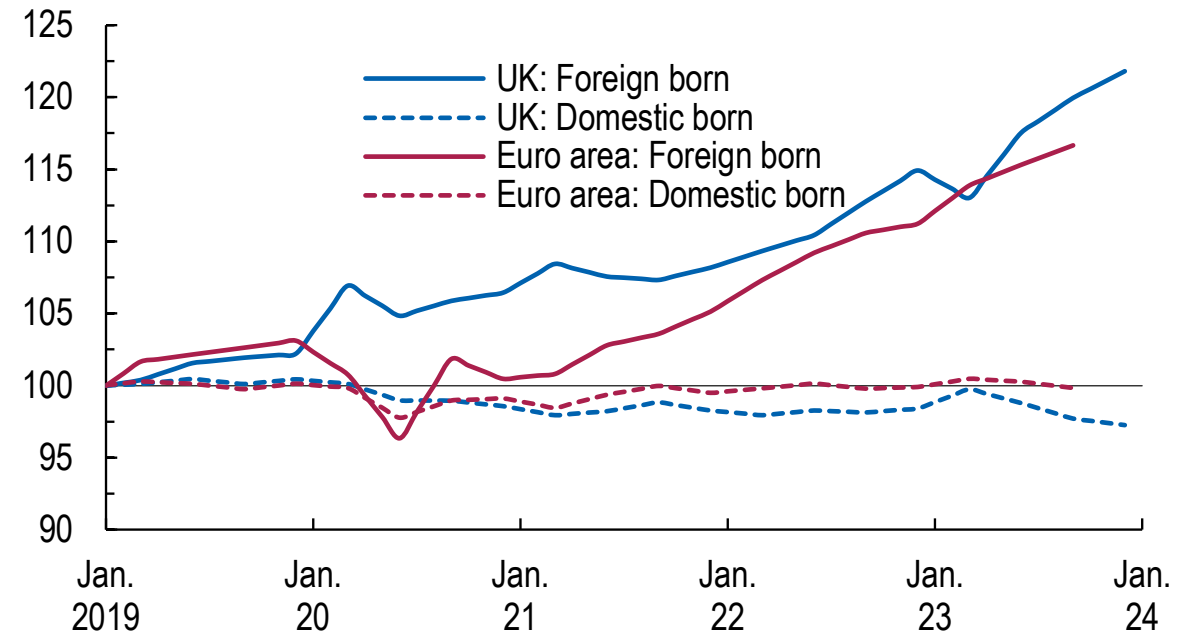
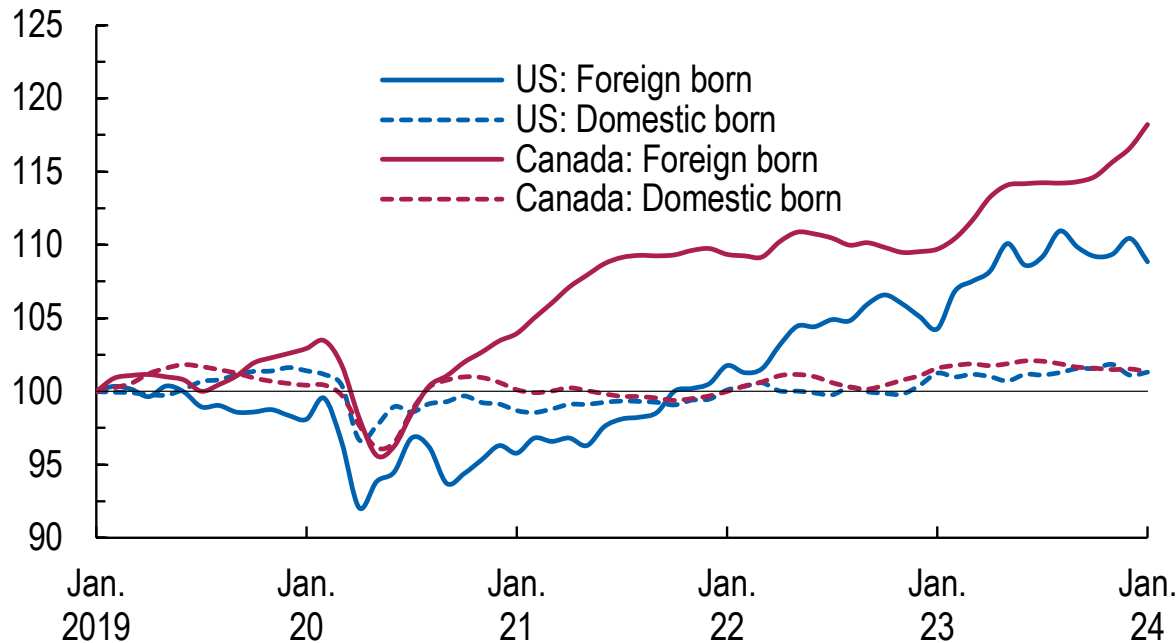
— United States — Euro area — Japan  
- - - Other AEs — China — Brazil  
— Chile - - - Other EMDEs

# Favorable Developments – Supply

*Greater-than-expected Rise in the Labor Force Due to Immigration*

## Domestic and Foreign Born in the Labor Force

(Index, January 2019=100)

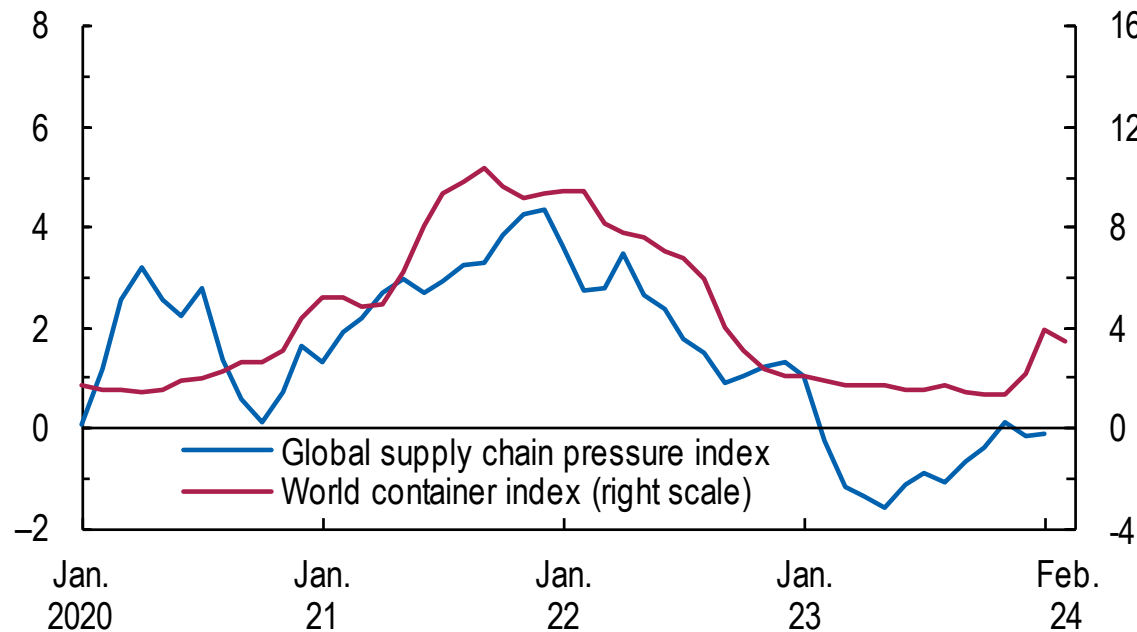


# Favorable Developments – Supply

## *Easing of Supply Chain Pressures*

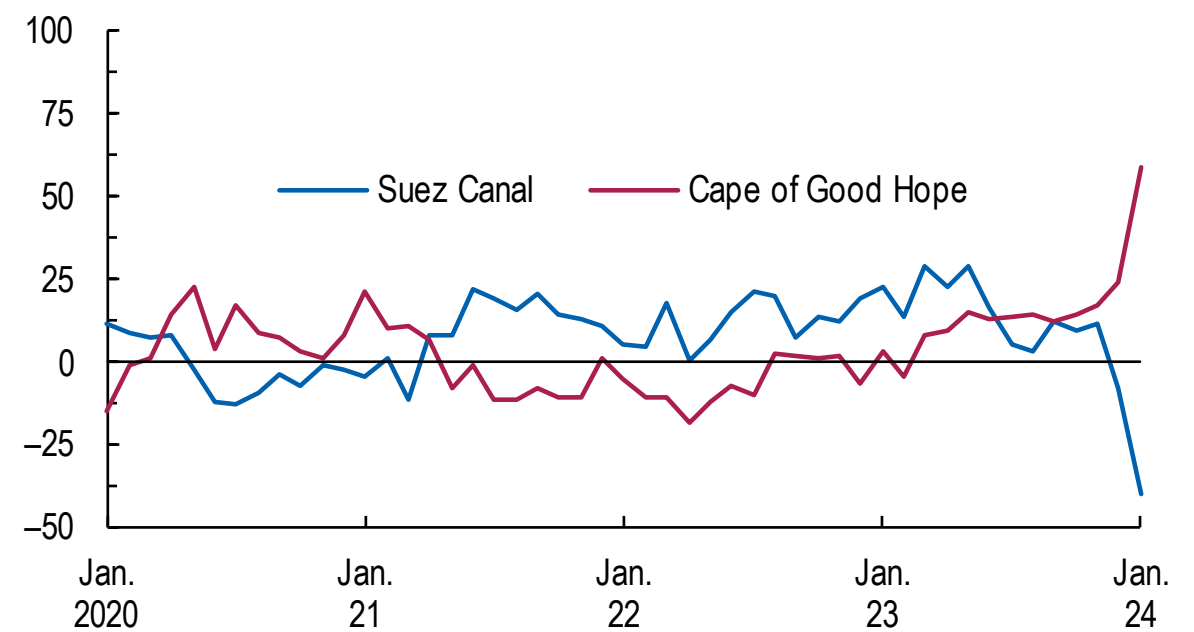
### Supply Chain Pressures and Shipping Costs

(Std deviation from average value; thousands of USD per 40-foot container, rhs)



### Transit Trade Volume

(Percent year-on-year change using monthly averages)

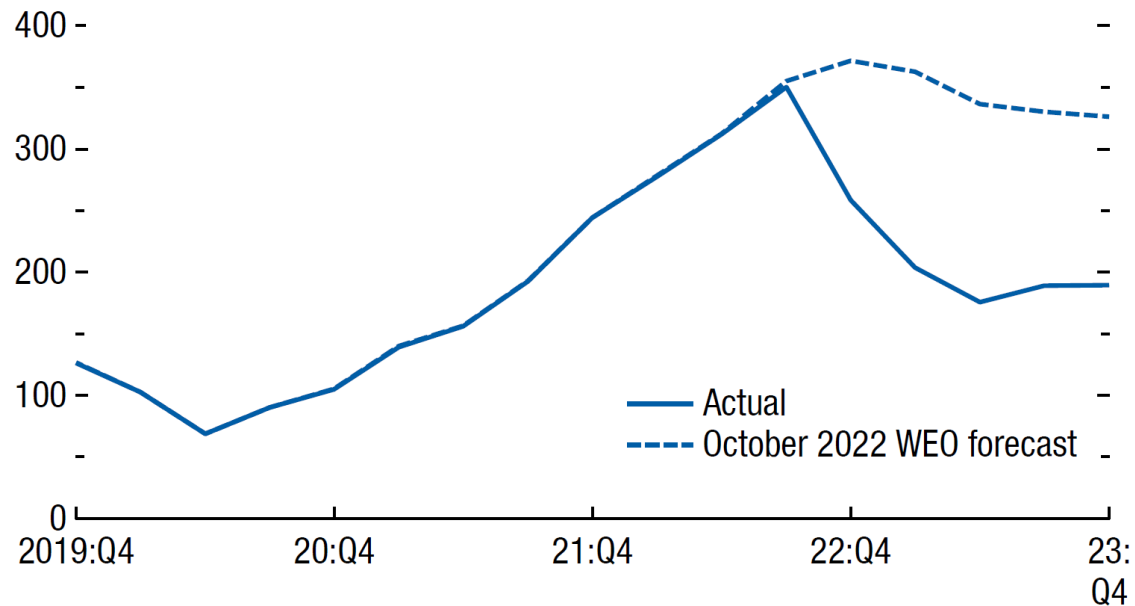




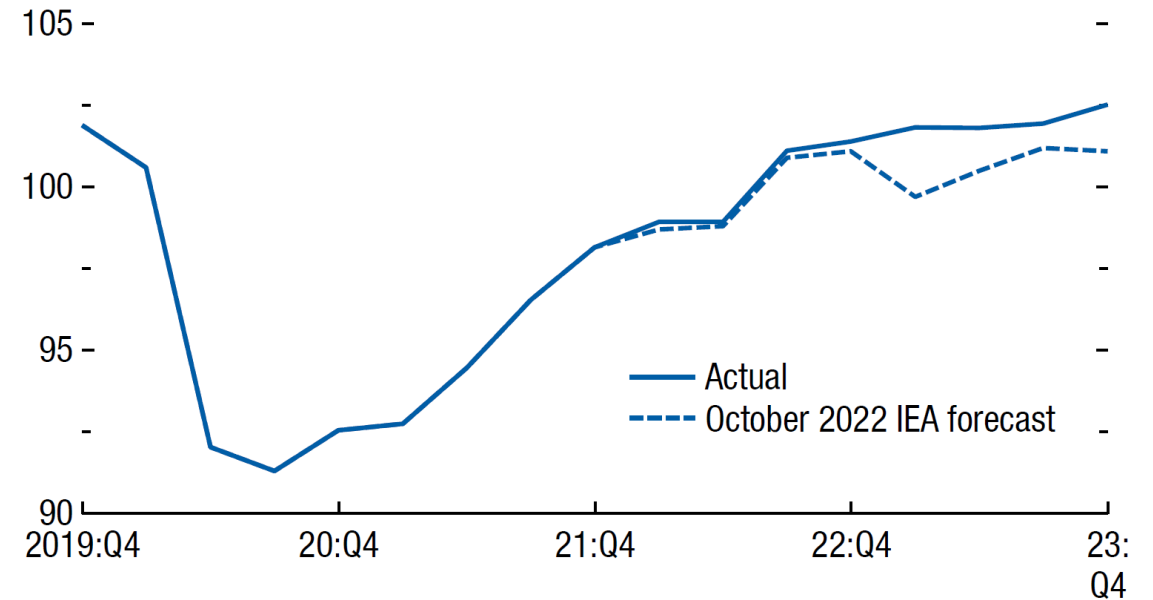
# Favorable Developments – Supply

*Energy Prices Declined Faster than Expected*

**Energy Price**  
(Index, 2016=100)



**World Oil Supply**  
(Million barrels a day)



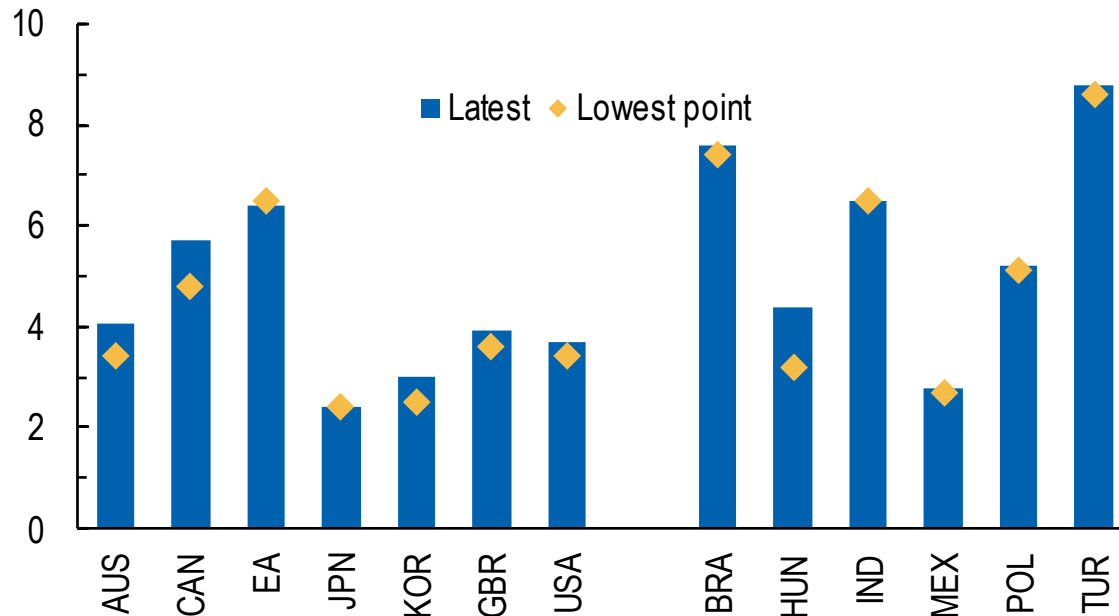
Sources: International Energy Agency (IEA); and IMF staff calculations.

Note: Forecasts for the energy price index and oil supply come from the October 2022 World Economic Outlook (WEO) and October 2022 IEA Oil Market Report, respectively.

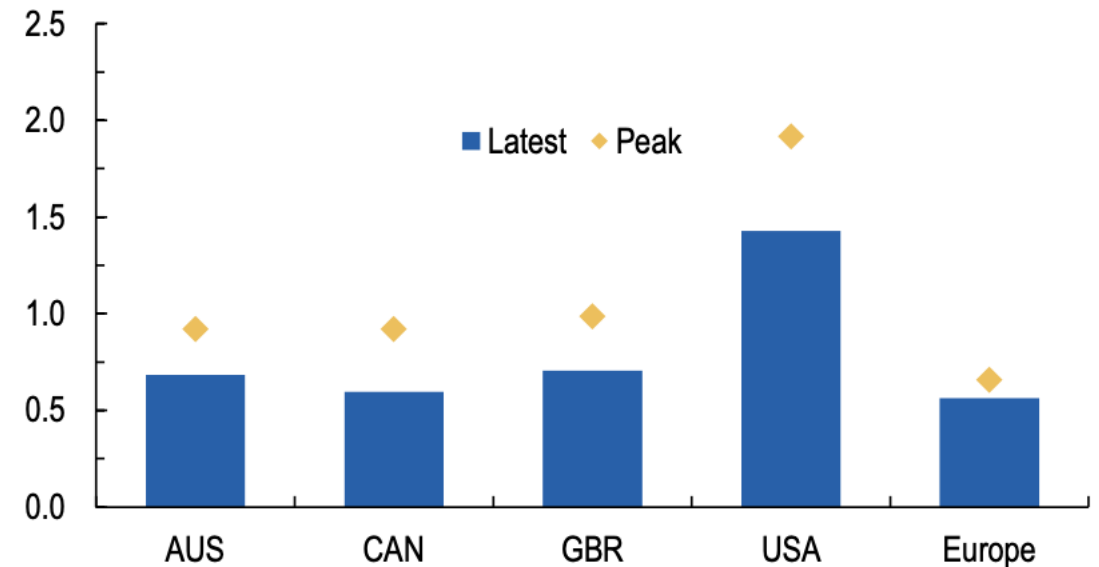
# Labor Market Tightness

*Drops in Vacancy-to-Unemployment Ratios Suggest Easing Across Several Economies*

**Unemployment Rates**  
(Percent)



**Vacancy-to-Unemployment Ratios**  
(Percent)



Sources: Haver Analytics; International Labour Organization; Organisation for Economic Co-operation and Development; US Bureau of Economic Analysis; US Bureau of Labor Statistics; and IMF staff calculations.

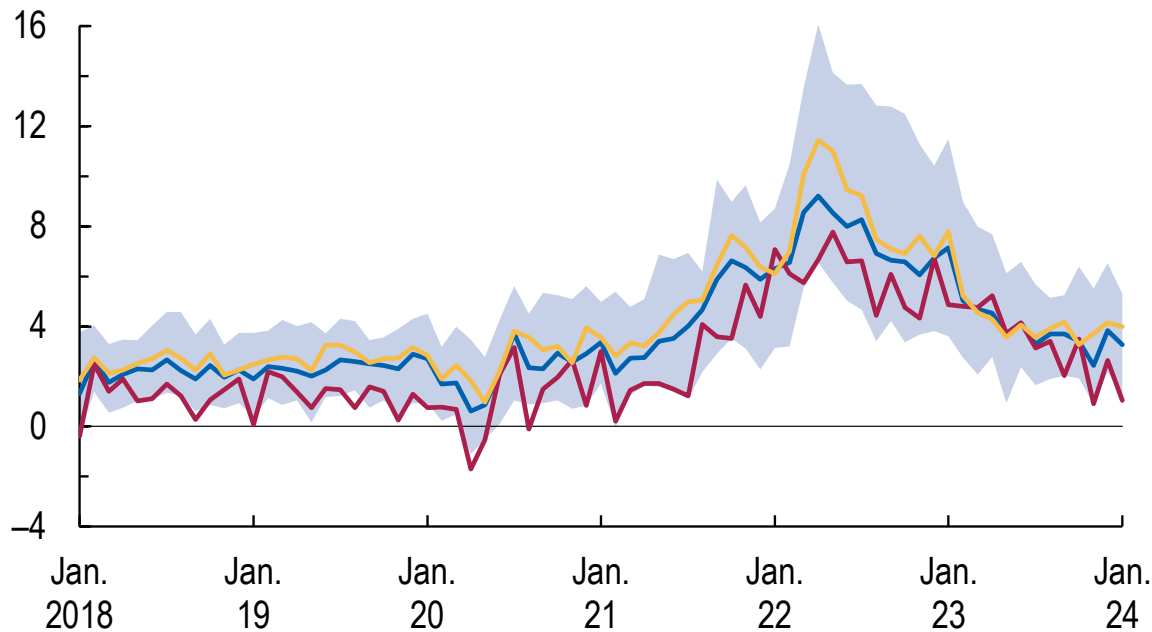
Notes: Europe includes Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, and Sweden.

# Core Inflation and Inflation Expectations in Decline

## *Near-Term Inflation Expectations Falling Back to Long-Term Average*

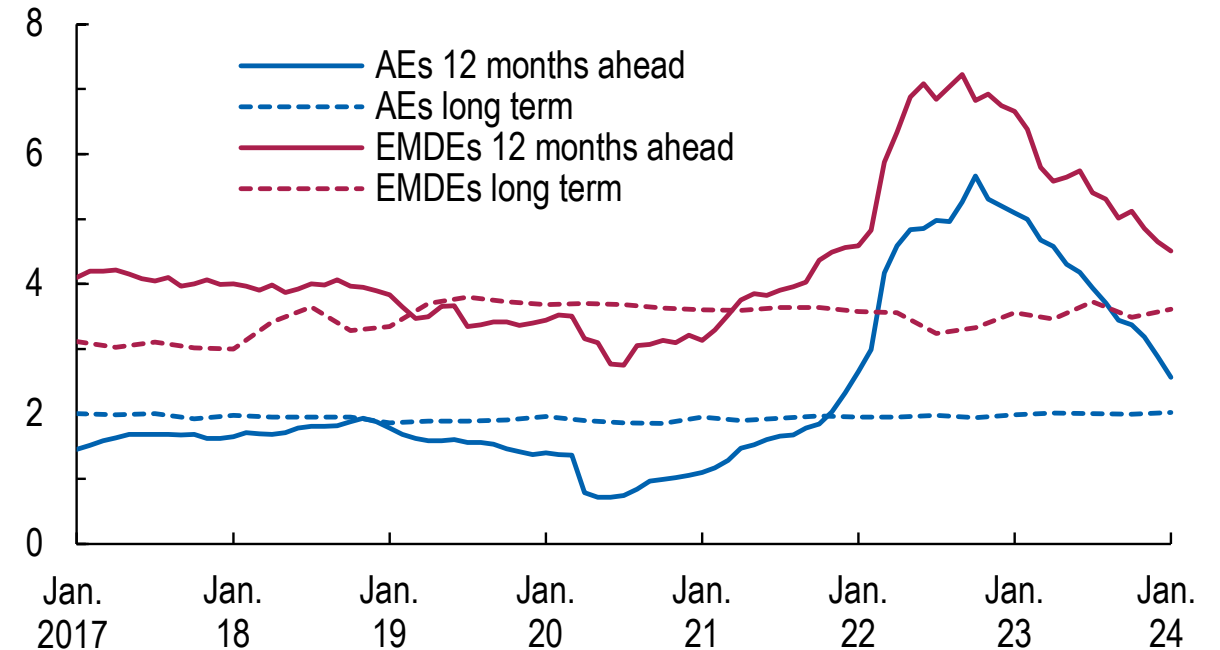
### Core Inflation

(Percent, three-month moving average; SAAR)



### Near-Term Inflation Expectations

(Percent)



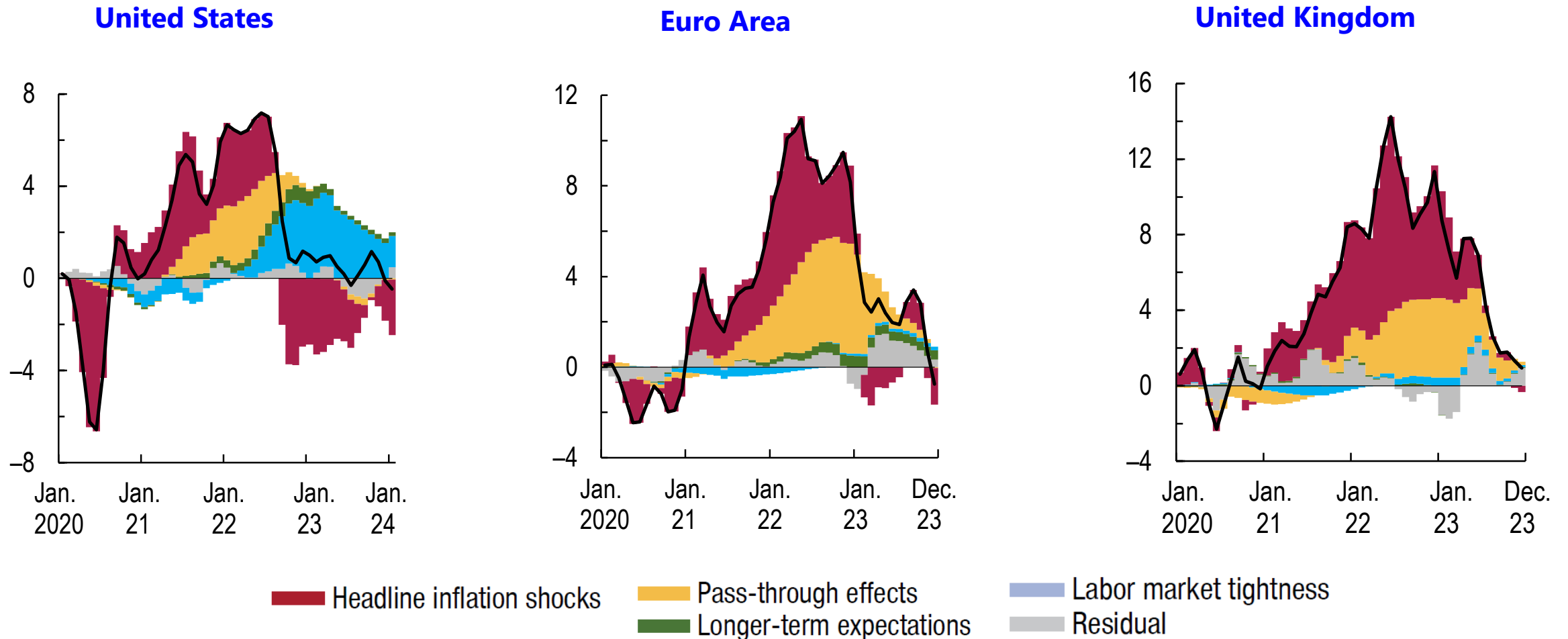
Sources: Consensus Economics; and IMF staff calculations.

Note: The figure shows median inflation expectations, computed based on Consensus Forecast surveys of professional forecasters, for respective groups of economies. "Long term" denotes 10-year-ahead expectations. AEs = advanced economies; EMDEs = emerging market and developing economies.

# Different Drivers of Inflation

## Headline Inflation

(Percentage points, three-month SAAR; deviations from December 2019)



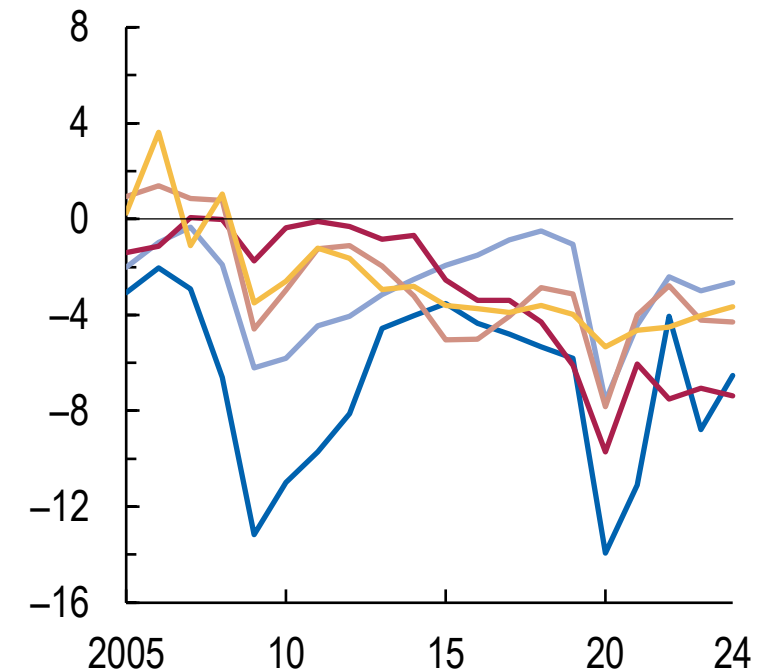
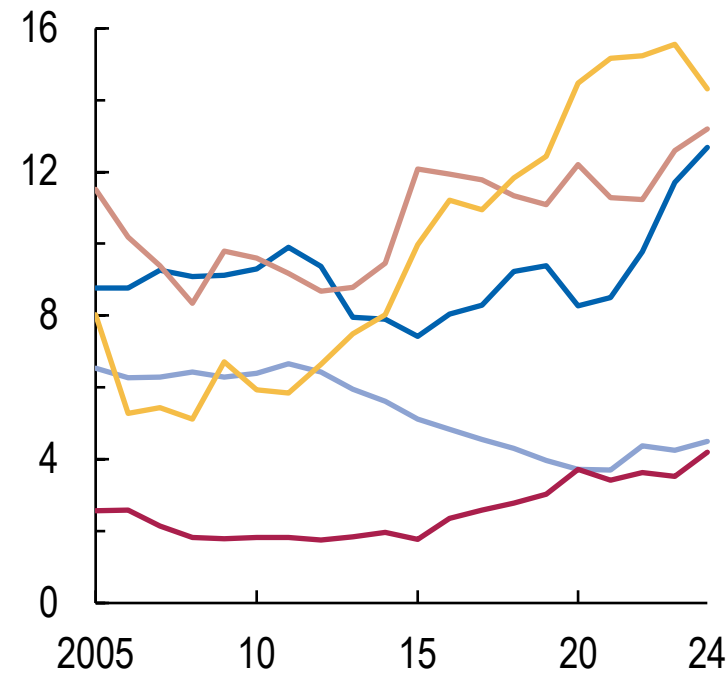
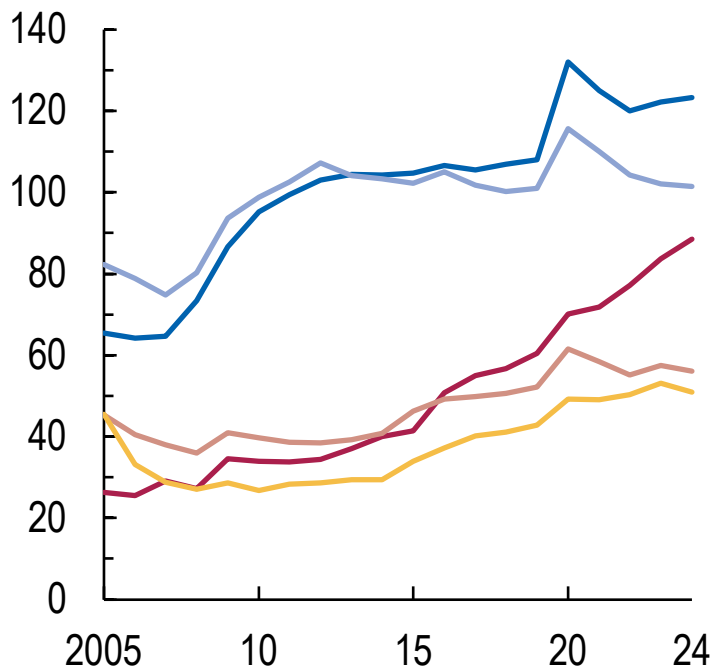
Note: IMF staff estimates. Methodology as in Ball, Leigh and Mishra (2022) and Dao and others (2023).

# Elevated Debt Burdens

**General Government Debt**  
(Percent of GDP)

**General Government Interest Payment**  
(Percent of general government revenue)

**General Government Fiscal Balance**  
(Percent of GDP)



US AEs excl. US China  
EMMIEs excl. China LIDCs

Source: IMF staff calculations.

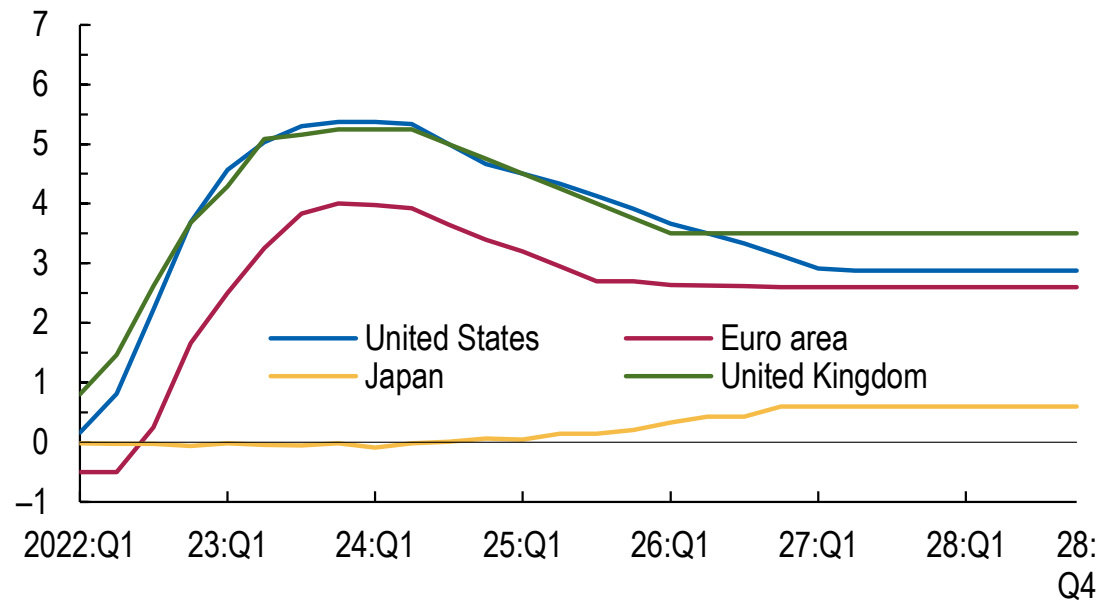
Note: AEs = advanced economies; EMMIEs = emerging market and middle income economies; excl. = excluding; LIDCs = low-income developing countries. IMF staff calculations.

# The outlook

# Assumptions for the Baseline Forecast

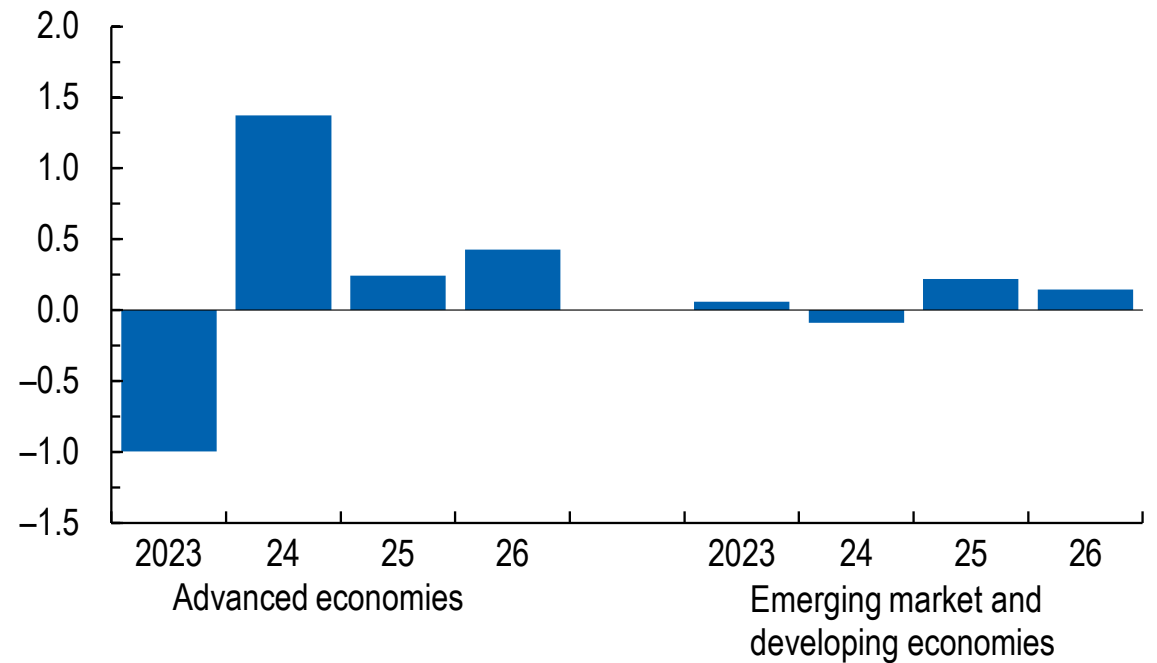
## Policy Rates in Selected Advanced Economies

(Percent, quarterly average)



## Change in Structural Primary Fiscal Balance, 2023-26

(Percent of potential GDP)



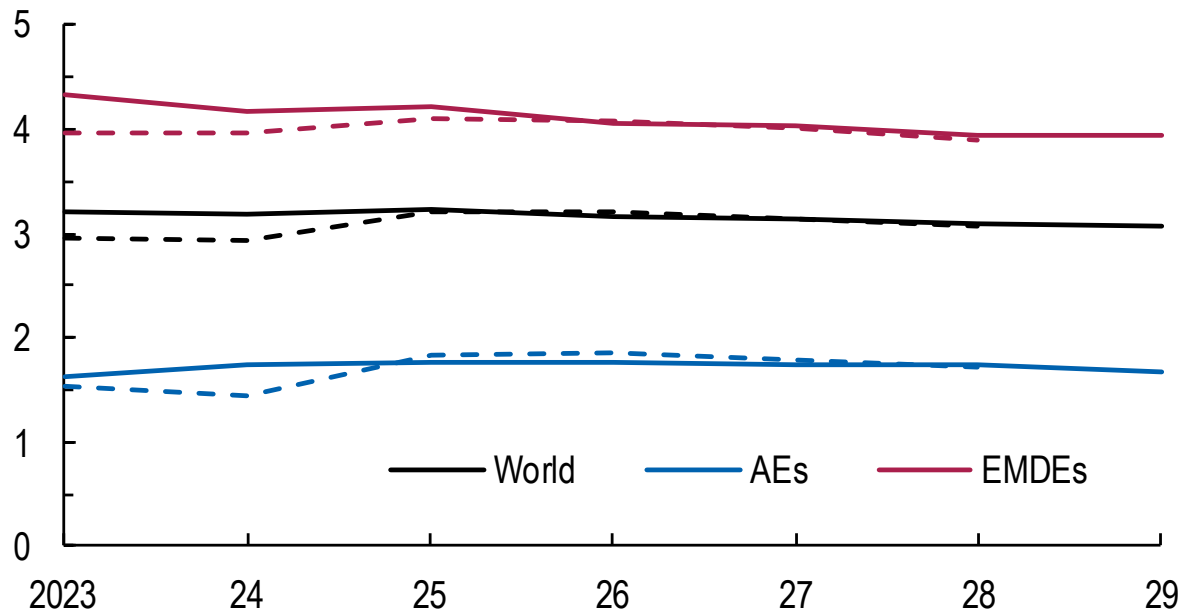
Source: IMF staff calculations.

Note: The structural primary fiscal balance is the cyclically adjusted primary balance corrected for a broader range of noncyclical factors, such as changes in asset and commodity prices.

# Growth Outlook: Stable but Slow

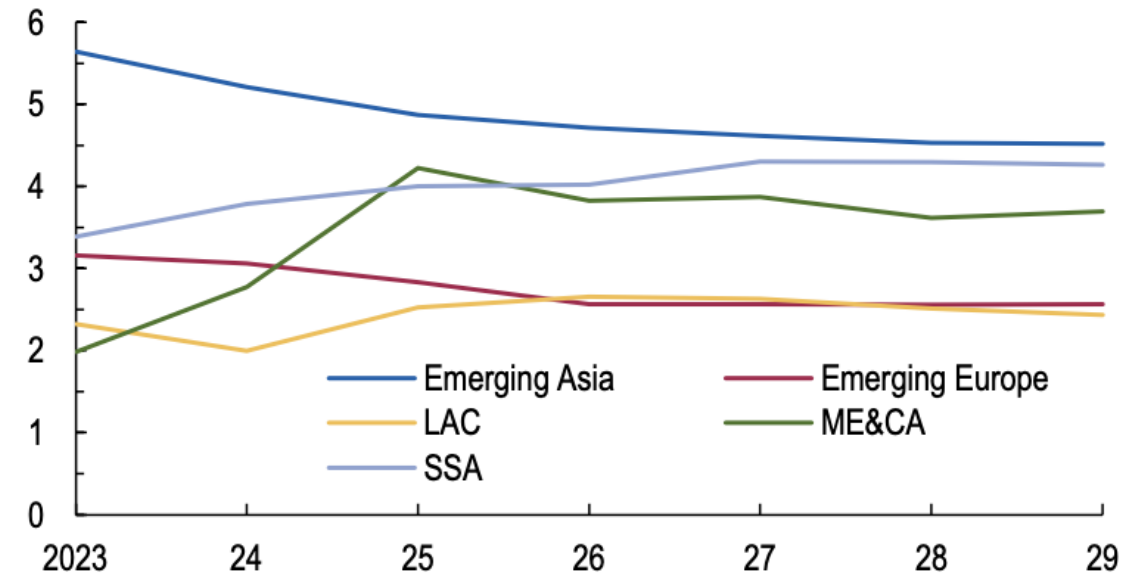
## GDP Growth Outlook

(Percent; solid = April 2024 WEO, dashes = October 2023 WEO)



## Growth by EMDEs Regions

(Percent)



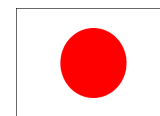
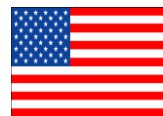
Source: IMF staff calculations.

Note: AE = advanced economy; EMDE = emerging market and developing economy; LAC = Latin America and the Caribbean; ME&CA = Middle East and Central Asia; SSA = sub-Saharan Africa; WEO = *World Economic Outlook*.



# Growth Projections: Advanced Economies

(percent change from a year earlier)



World

Advanced  
Economies

U.S.

Euro Area

Japan

U.K.

Canada

Other  
Advanced Asia

**2023**

3.2

1.6

2.5

0.4

1.9

0.1

1.1

1.6

Revision from  
January 2024

0.1

0.0

0.0

-0.1

0.0

-0.4

0.0

0.1

**2024**

3.2

1.7

2.7

0.8

0.9

0.5

1.2

2.3

Revision from  
January 2024

0.1

0.2

0.6

-0.1

0.0

-0.1

-0.2

0.1

**2025**

3.2

1.8

1.9

1.5

1.0

1.5

2.3

2.4

Revision from  
January 2024

0.0

0.0

0.2

-0.2

0.2

-0.1









0.0

0.0

Source: IMF, April 2024 *World Economic Outlook*.

# Growth Projections: Emerging Markets and LIDCs

(percent change from a year earlier)

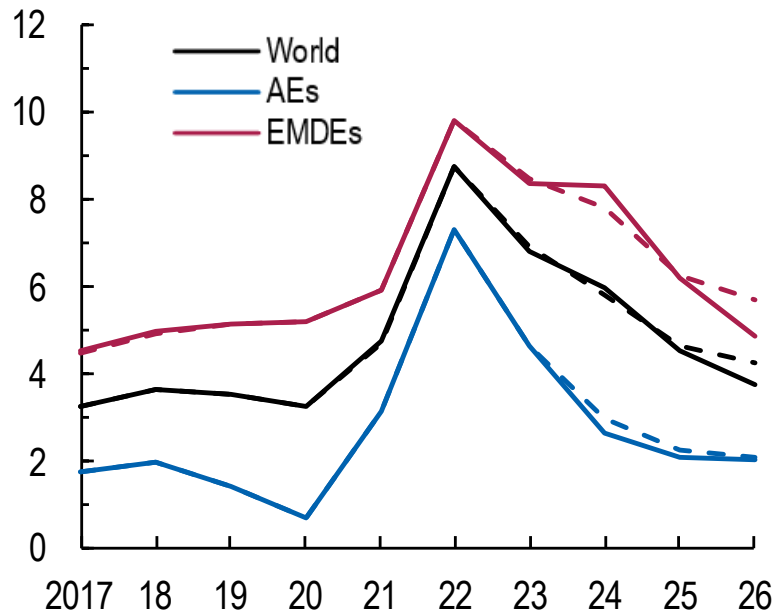
								
	World	Emerging Market and Developing Economies	China	India	Brazil	Russia	Commodity Exporting Economies	Low Income Developing Countries
<b>2023</b>	3.2	4.3	5.2	7.8	2.9	3.6	2.8	4.0
Revision from January 2024	0.1	0.2	0.0	1.1	-0.2	0.6	-0.1	0.2
<b>2024</b>	3.2	4.2	4.6	6.8	2.2	3.2	3.0	4.7
Revision from January 2024	0.1	0.1	0.0	0.3	0.5	0.6	0.1	-0.2
<b>2025</b>	3.2	4.2	4.1	6.5	2.1	1.8	3.5	5.2
Revision from January 2024	0.0	0.0	0.0	0.0	0.2	0.7	0.1	-0.1

Source: IMF, April 2024 *World Economic Outlook*.

# Inflation Outlook: Declining at Different Speeds

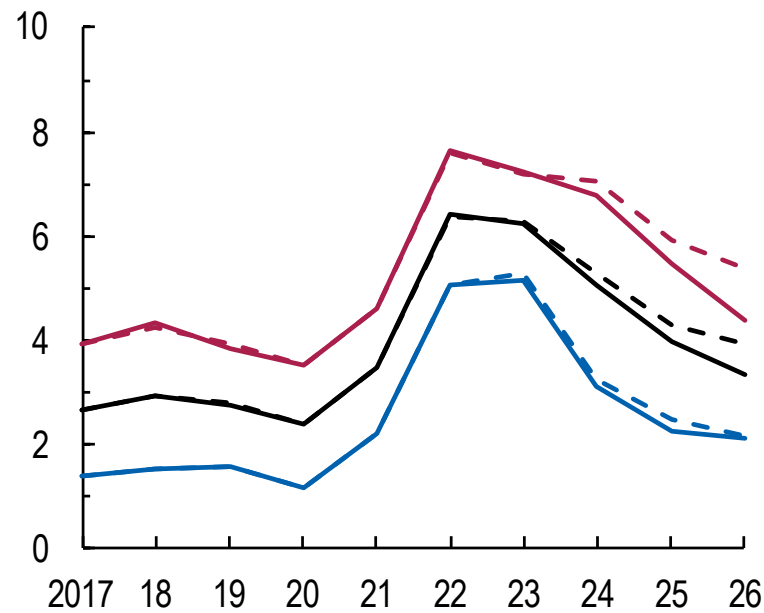
## Headline Inflation

(Percent; solid = April 2024 WEO, dashes = October 2023 WEO)



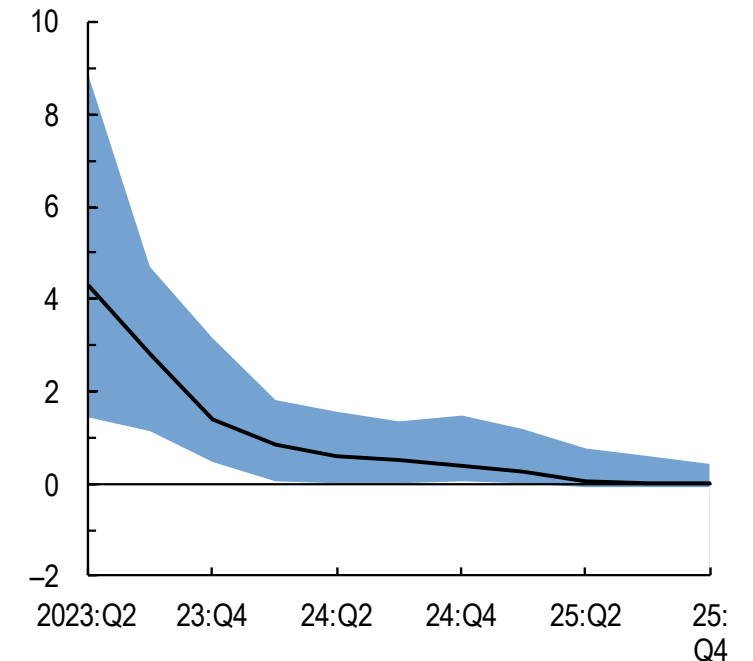
## Core Inflation

(Percent; solid = April 2024 WEO, dashes = October 2023 WEO)



## Distribution of Deviation from Inflation Target

(Percentage points)



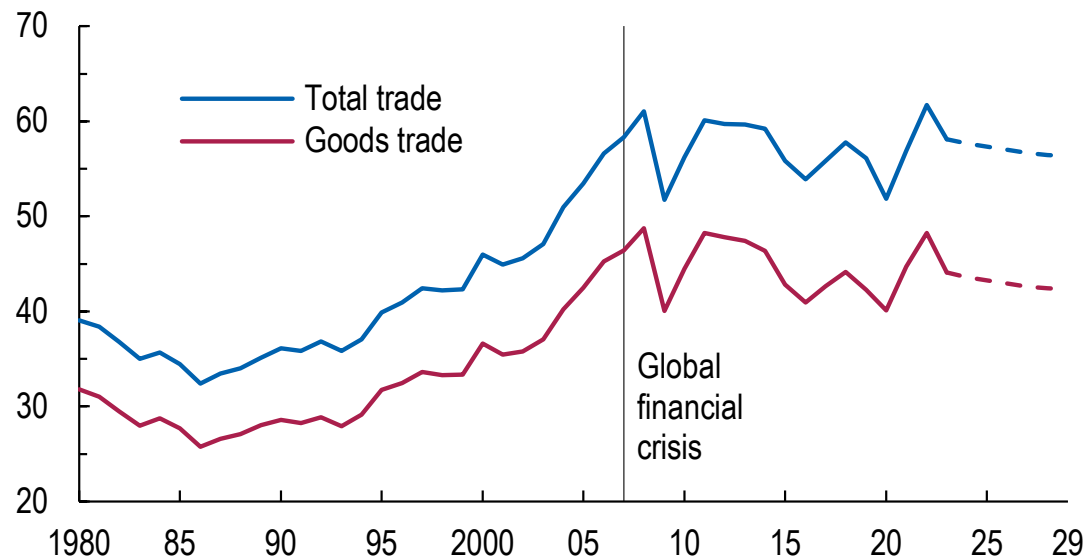
Source: Central bank websites; Haver Analytics, IMF staff calculations.

Note: Core inflation excludes volatile food and energy prices. AEs = advanced economies; EMDEs = emerging market and developing economies; LAC = Latin America and Caribbean; ME&CA = Middle East and Central Asia; SSA = sub-Saharan Africa; WEO = *World Economic Outlook*.

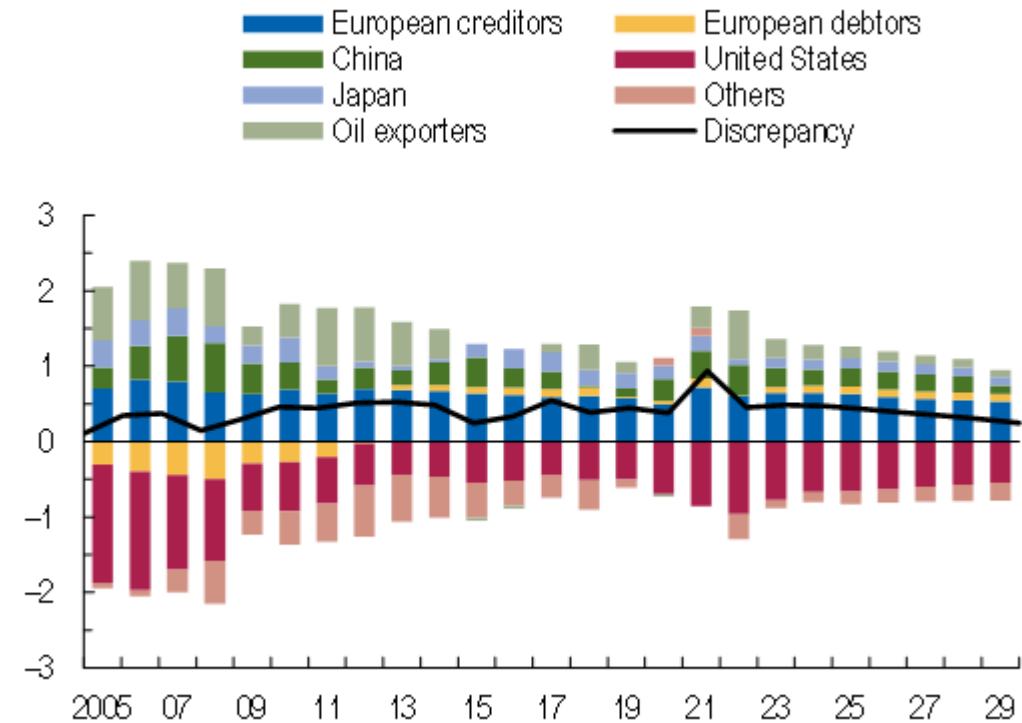
The right panel shows the distribution of the deviations of year-over-year inflation from the inflation target or the inflation target midpoint for 61 economies. The line shows the median, and the shaded area indicates the interquartile range.

# World Trade Outlook: Stable but Slow

**Trade-to-GDP ratios**  
(Percent of Global GDP)



**Global Current Account Balance**  
(Percent of Global GDP)



Source: IMF staff calculations.

Note: Trade is defined as sum of exports and imports. Global trade and GDP for ratio calculation are in current dollars. Dashes indicate April 2024 *World Economic Outlook* forecasts.

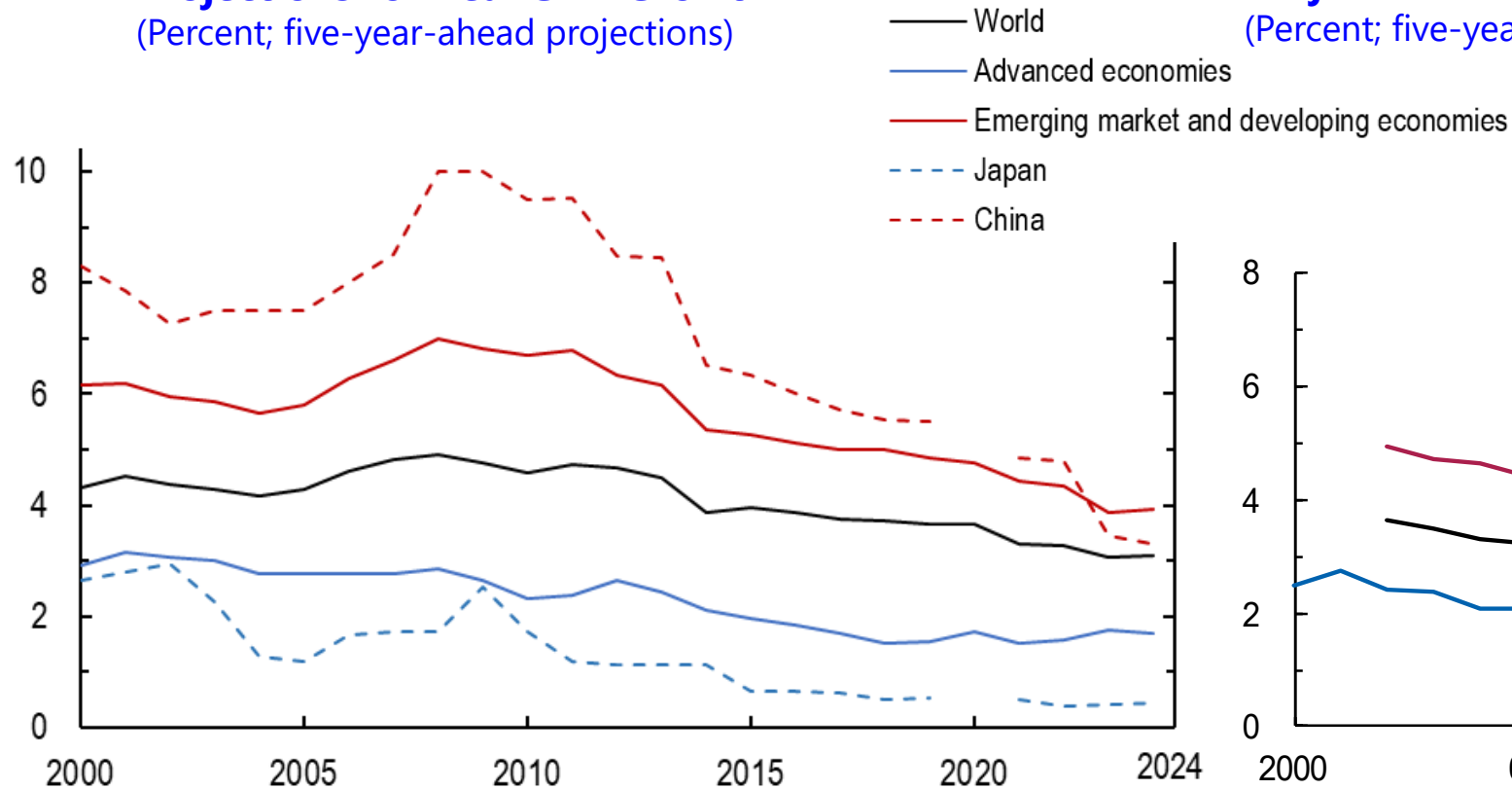
Note: European creditors are Austria, Belgium, Denmark, Finland, Germany, Luxembourg, The Netherlands, Norway, Sweden, and Switzerland; European debtors are Cyprus, Greece, Ireland, Italy, Portugal, Slovenia, and Spain; oil exporters are Algeria, Azerbaijan, Iran, Kazakhstan, Kuwait, Nigeria, Oman, Qatar, the Russian Federation, Saudi Arabia, the United Arab Emirates, and Venezuela.

# Medium-Term Outlook: Low By Historical Standards

*Medium term forecasts are the lowest in decades, with the largest downshift in Asia*

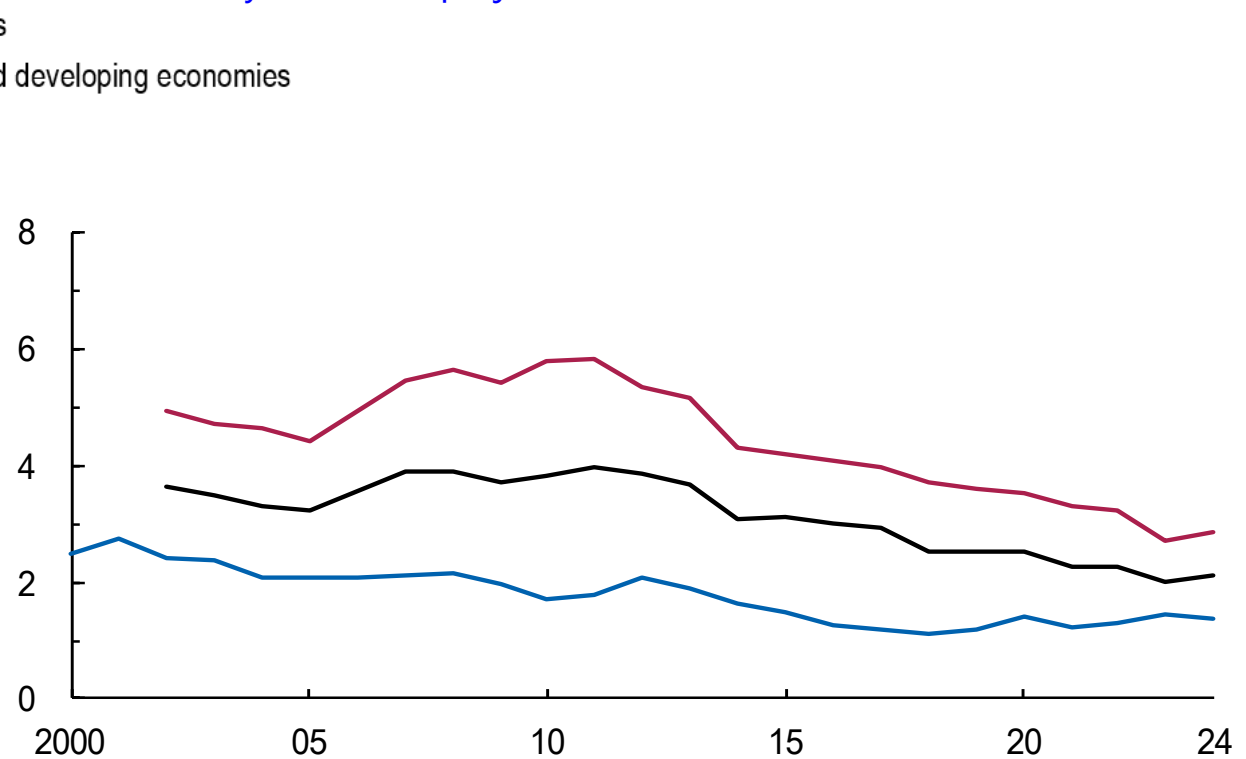
## Projections for Real GDP Growth

(Percent; five-year-ahead projections)



## Projections for Real GDP per Capita Growth

(Percent; five-year-ahead projections)



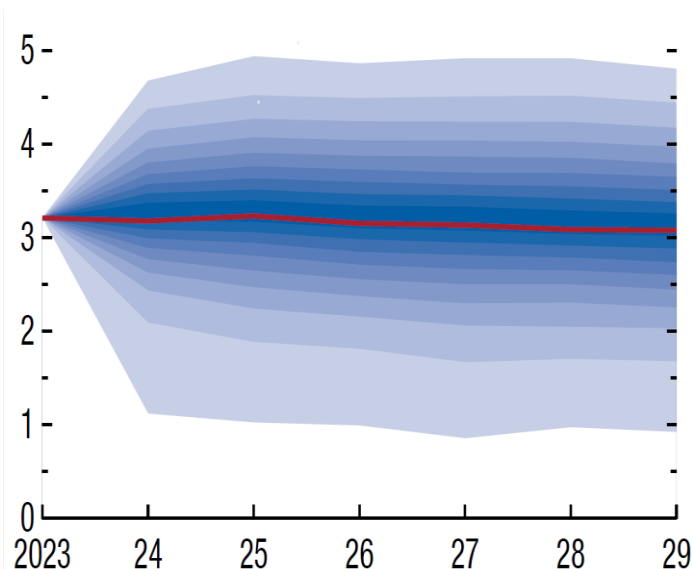
Source: IMF staff calculations.

Note: Horizontal axis refers to the year in which the five-year-ahead forecasts are made. Each forecast is from the *World Economic Outlook* published in April of the corresponding year.

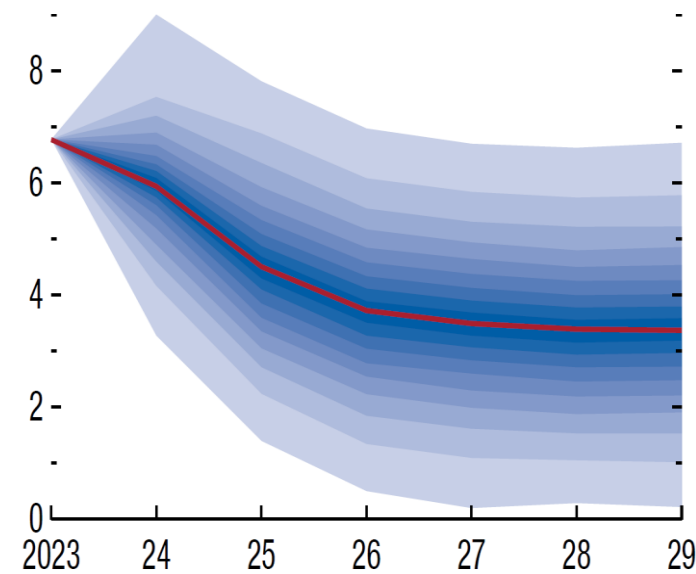
# Risks

# Risks to the Outlook: Broadly Balanced

**Global Real GDP Growth**  
(Percent)



**World Headline Inflation**  
(Percent)



Source: IMF staff calculations.

Note: The figure shows the distribution of forecast uncertainty around the baseline projection as a fan. Each shade of blue represents a 5 percentage point probability interval. Red line is WEO baseline projection.

## On the Downside

- New commodity price spikes
- Financial stress due to persistent inflation
- China recovery faltering
- Disruptive fiscal adjustment
- Distrust of government eroding reform momentum
- Geoeconomic fragmentation

## On the Upside

- Short-term fiscal boost in the context of elections
- Further supply surprises
- Spurs to productivity from AI
- Structural reform momentum gathering

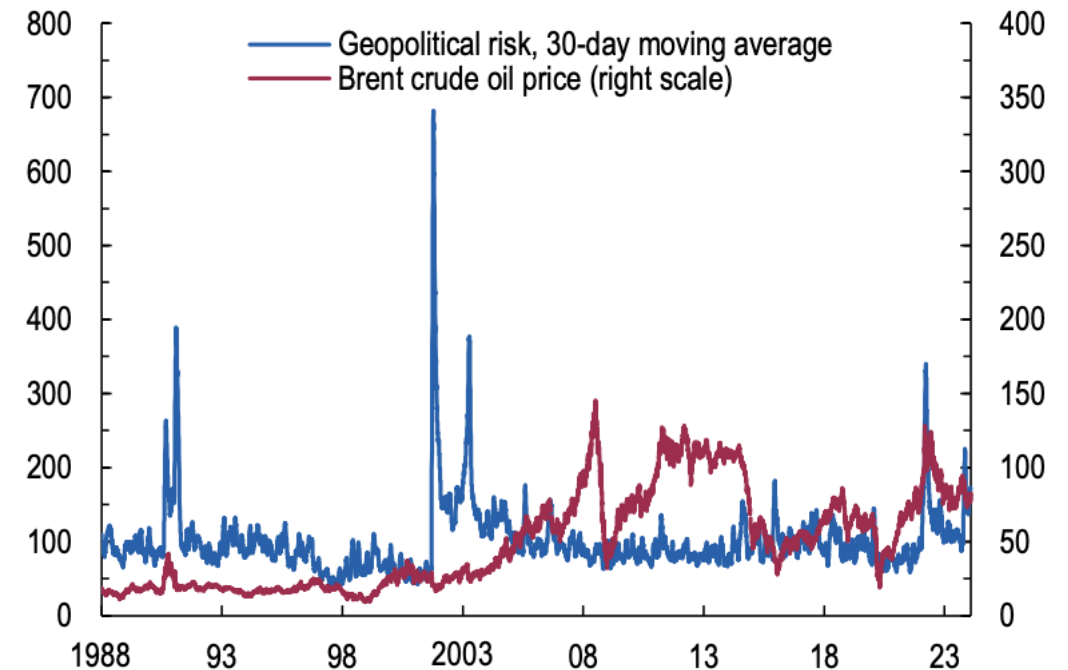
# Downside Risks

## *New Commodity Price Spikes amid Regional Conflicts*

- Escalation of the conflict in Gaza and Israel
- Continued attacks in the Red Sea and the war in Ukraine generating additional supply shocks
- Further geopolitical tensions could constrain cross-border flows of commodities

### Geopolitical Risk and Oil Prices

(Index, 1985-2019=100; US dollars a barrel, rhs)



Sources: Caldara and Iacoviello 2022; and Haver Analytics.

Note: The Geopolitical Risk Index is constructed by Caldara and Iacoviello 2022 to measure adverse geopolitical events and associated risks based on automated text search results of the electronic archives of several newspapers covering geopolitical tensions.



# Downside Risks

## *Persistent Inflation and Financial Stress*

- Persistent inflation and a rise in interest rate expectations could
  - Increase defaults in many sectors, notably including commercial real estate and firms
  - Raise risks to financial stability
  - Trigger flight-to-safety capital flows

## *China Recovery Faltering*

- A larger and prolonged drop in real estate investments could
  - Affect household confidence and spending, moving global growth
- Unintended fiscal tightening could amplify the impact

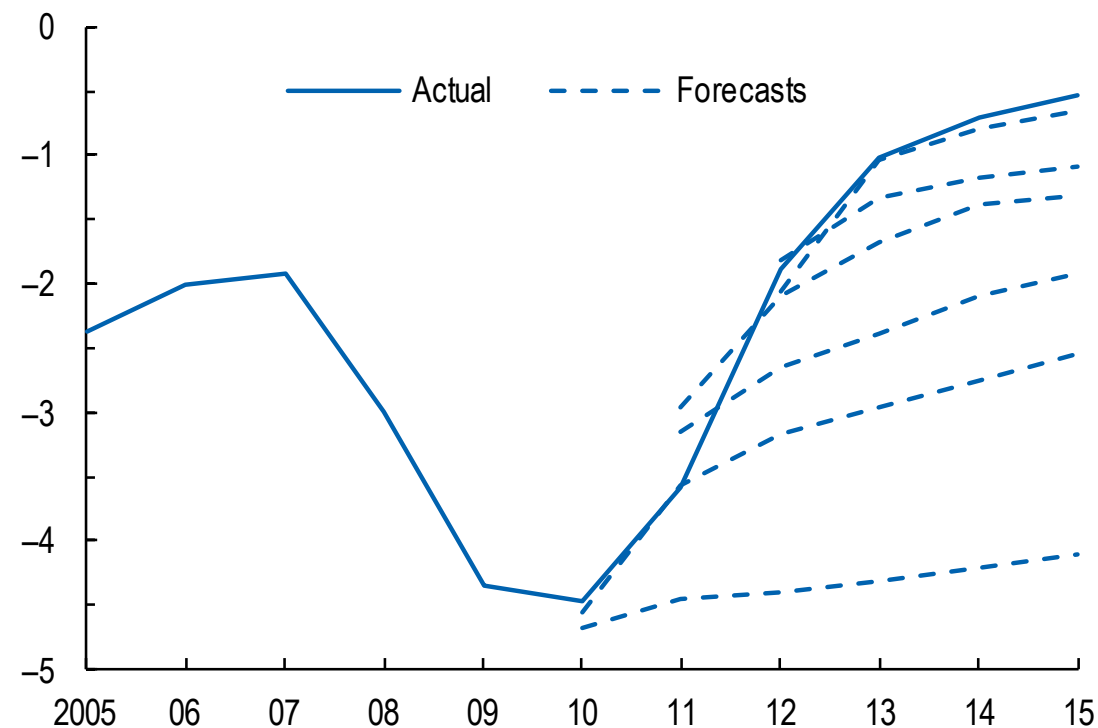
# Downside Risks

## *Risk of Disruptive Fiscal Adjustment*

- Fiscal consolidation is necessary in many AEs and EMDEs
- Countries that lack a credible medium-term consolidation plan could face adverse market reactions
- Concerns about debt sustainability can cause cuts to budget deficits that exceed initial projections

### **Sharper-than-Expected Fiscal Adjustment in the Euro Area**

(Structural balance; percent of potential GDP)



Source: IMF staff calculations.

Note: Solid line denotes structural balance from April 2024 WEO, and dashed lines denote structural balance forecasts from April and October 2010, 2011 and 2012 WEOs. WEO = *World Economic Outlook*.

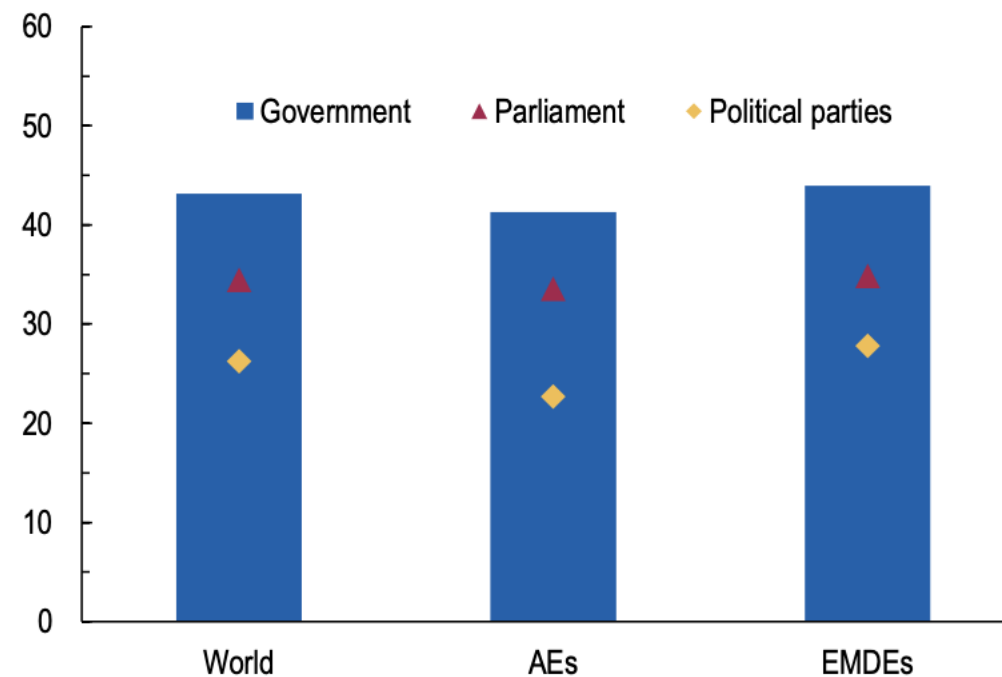
# Downside Risks

## *Distrust of Government Eroding Reform Momentum*

- Confidence in government, legislative bodies, and political parties is below 50 percent
- Low confidence could
  - sap support for structural reforms
  - complicate the adoption of and adaptation to technological advances
  - create resistance to raising revenue needed to finance investments
  - increase the risk of social unrest

### **Confidence in Government, Parliament, and Political Parties**

(Percentage of survey respondents reporting having confidence)



Sources: Joint European Value Study and World Value Survey, 2017–22; and IMF staff calculations.

Note: Bar height and different markers report share of respondents who say they have “quite a lot” or “a great deal” of confidence in their governments, parliaments, or political parties. AEs = advanced economies; EMDEs = emerging market and developing economies.

# Upside Risks

## *Short-term fiscal boost*

- 2024 Great Election Year
  - Policymakers may postpone fiscal adjustment
- Fiscal deficits rise during elections and governments do not tend to unwind thereafter
- However, such expansions could add to inflationary pressures and lead to disruptive adjustments down the road

## *Further supply-side surprises*

- Fading pass-through effects of past relative price shocks and the easing of global supply constraints
- A faster-than-envisaged compression of profit margins
- Such developments could allow central banks to bring forward their policy-easing plans

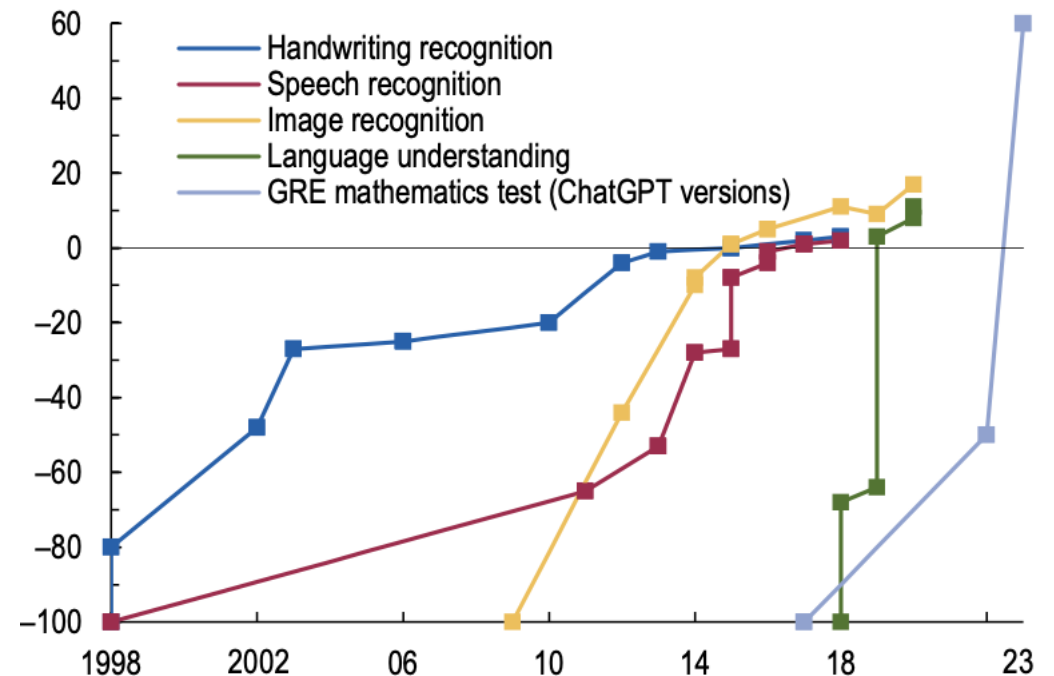
# Upside Risks

## *Spurs to Productivity from AI*

- The ability of technology outperforms humans in several cognitive areas
- However, the impact on economic outcomes highly uncertain
- In the near term, the AI developments could
  - boost investment in innovative tools
  - refine production processes

### AI Performance on Human Tasks

(Human benchmark=0; initial AI performance= -100)



Sources: Kiela and others 2021; OpenAI; and IMF staff calculations

Note: Figure is based on a number of tests in which human and AI performance were evaluated in five different domains, from handwriting recognition to language understanding. For the GRE mathematics test, the human benchmark is set at the median percentile, with -100 in 2017 reflecting the publication of the seminal paper on GPTs. AI = artificial intelligence; GRE = Graduate Record Examination; GPTs = generative pretrained transformers.

**Policy priorities:  
From Fighting Inflation to Restocking Fiscal Arsenals**

# Policies

- Delivering a Smooth Landing
- Rebuilding Room for Budgetary Maneuver and Ensuring Debt Sustainability
- Fostering Faster Productivity Growth
- Speeding the Green Transition and Building Climate Resilience
- Strengthening Cross-Border Cooperation

# Delivering Smooth Landing

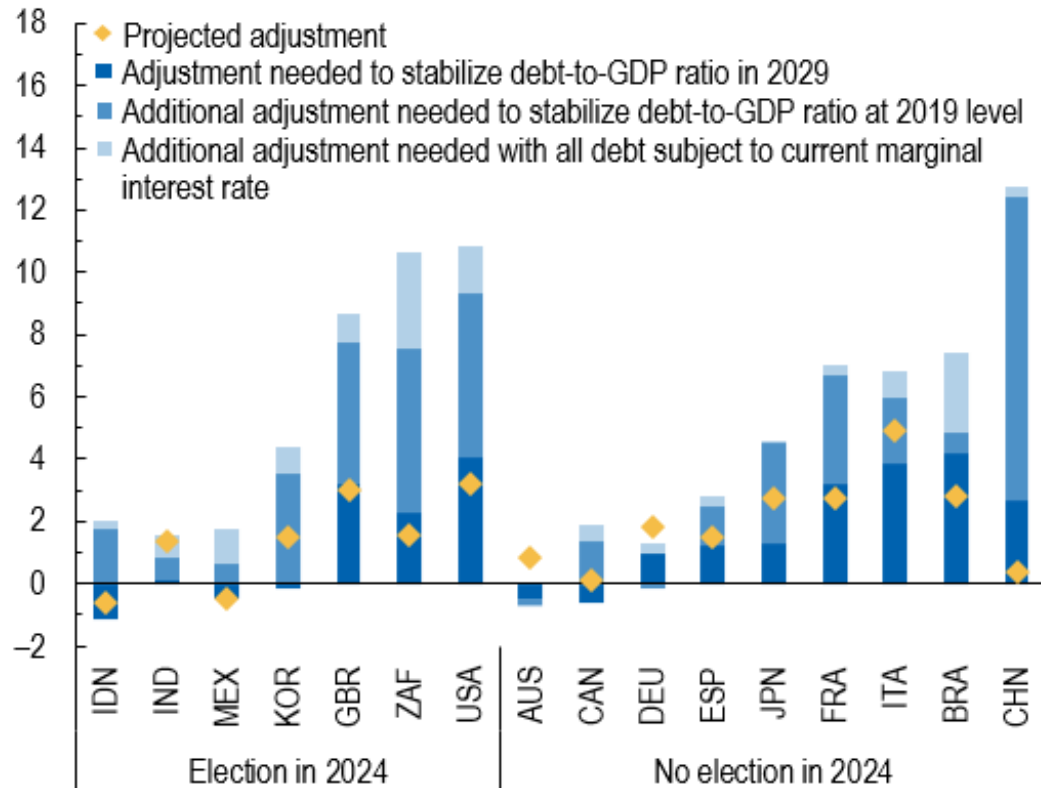
- The near-term priority for central banks is to ensure that inflation comes down smoothly
  - Neither ease policies prematurely nor delay too long and risk causing undershoots
  - Policy should be guided by incoming data on inflation expectations, currency movements, and wage and price pressures
- As central bank policies become less synchronous, divergence in rates may spur capital flow movements
  - A renewed strength for US dollar
  - Financial sector pressures
- IMF's Integrated Policy Framework provides guidance



# Rebuilding Room for Budgetary Maneuver and Debt Sustainability

## Medium-Term Fiscal Adjustment

(Percentage points; cumulative rise in primary-fiscal-balance-GDP ratio between 2023-29)



- The size of fiscal adjustment is large in numerous cases
- Needed adjustments are more challenging when assessed at the interest rates that apply to newly issued debt
- Ensure that any new tax cuts or spending increases are funded

Sources: IMF staff calculations

Note: Unless noted otherwise, the adjustments needed to stabilize debt-to-GDP ratios are computed using the effective rate, which measures the government's average interest rate on its total current debt stock. The marginal interest rate denotes the real interest rate based on the currently prevailing rate at the 10-year bond maturity. Data labels in the figure use International Organization for Standardization (ISO) country codes.

# Rebuilding Room for Budgetary Maneuver and Debt Sustainability

- Building credibility with well-specified plans and a strong institutional framework
  - Avoid policy uncertainty: Commit to measures based on realistic assumptions about the short-term growth effects
- Fiscal adjustment should be gradual and sustained
  - To avert the risk of a growth slowdown making fiscal adjustment more costly
  - Front-loaded adjustment may be necessary in certain cases to reduce the likelihood of a debt crisis
- For countries in debt distress, debt restructuring, conducted in an orderly manner, may be necessary

# Policy Priorities with Medium–Term Payoffs

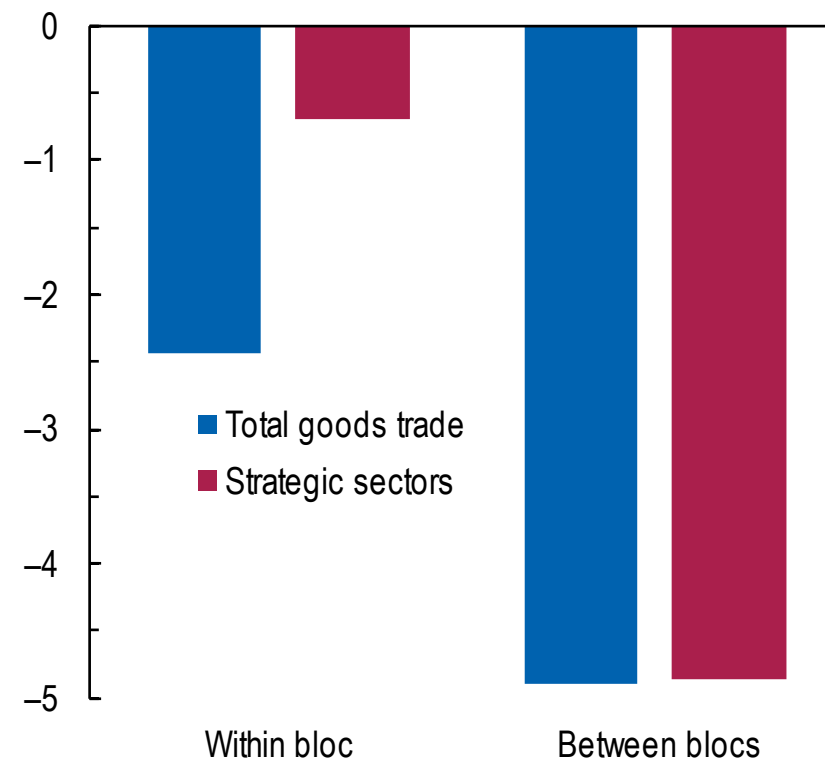
- Structural reforms can support productivity growth and reverse declining medium-term prospects
- To achieve emissions reduction targets, countries need a holistic set of mitigation instruments
  - Carbon pricing, public infrastructure investment in clean energy sources, sectoral policies, regulations, and reductions in fossil-fuel subsidies
- Multilateral cooperation is necessary to mitigate fragmentation and strengthen the resilience of the international monetary system

# Risk of Intensification of Geoeconomic Fragmentation

- The separation of the world economy into blocs could result in large output losses
- Data on bilateral goods trade before and after Russia's invasion of Ukraine confirm fragmentation is underway
- Especially for strategic sectors (e.g., chemical and machinery)

## Fragmentation Affecting Trade

(Percentage points difference in trade growth before and after war in Ukraine)



Note: the analysis assigns countries to a hypothetical bloc including Australia, Canada, the European Union, New Zealand, and the United States or a hypothetical bloc comprising China, Russia, and countries that sided with Russia during the March 2, 2022, UN General Assembly vote on Ukraine, with all other countries considered nonaligned. Conclusions robust to other definitions of blocs

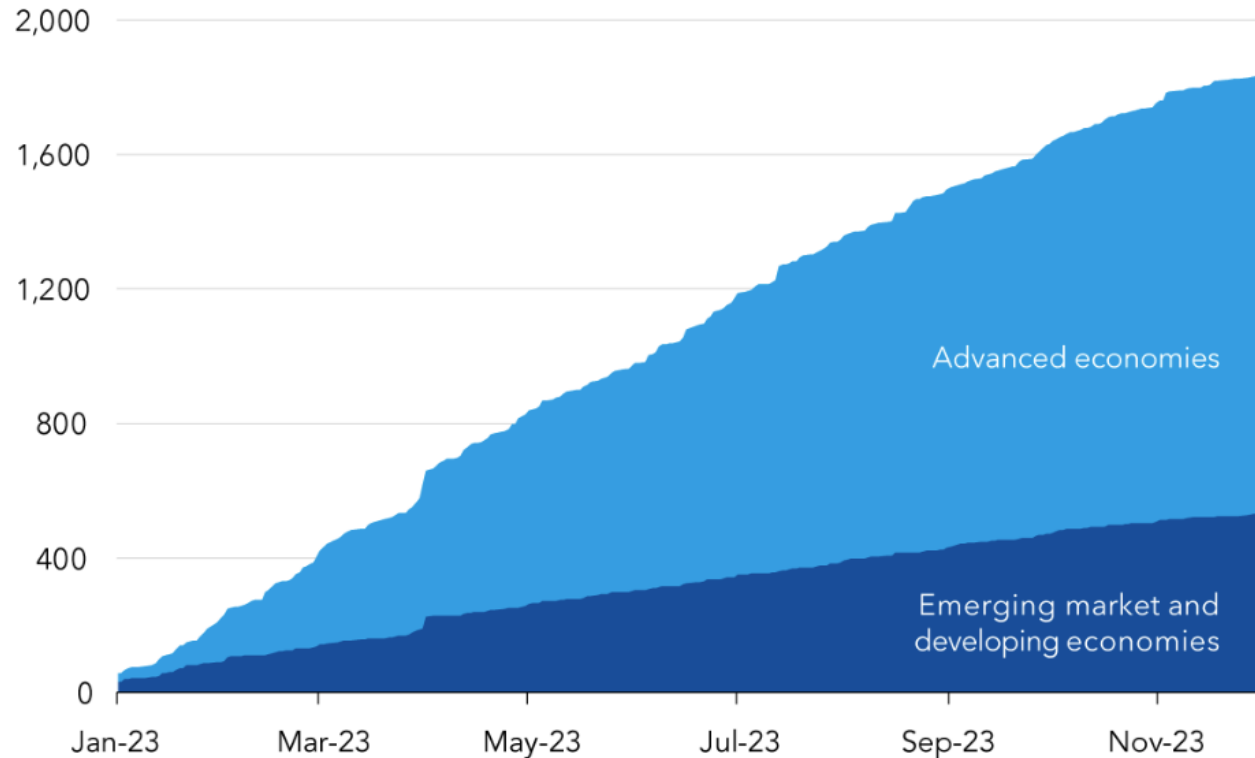
## Extra Slides:

Industrial Policy is Back But the Bar to Get it Right Is High

(based on the IMF's blog posted on April 12, 2024)

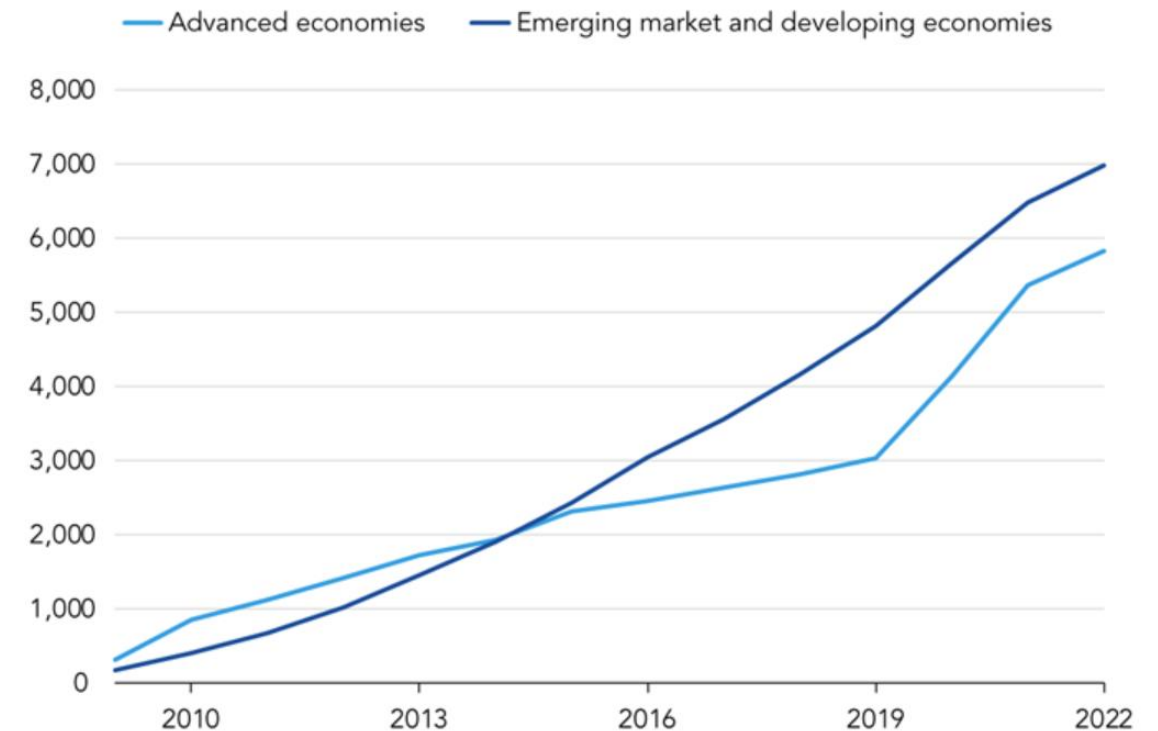
# The New Wave

**New Measures** : Advanced economies have been more active users of industrial policies in 2023  
(Number of industrial policy measures implemented in 2023)



Source: Evenett and others (2024); IMF staff calculations.  
Note: Cumulative number of industrial policy measures starting from January 1, 2023.  
It is possible that the gap between AEs and EMDEs in resort to subsidy interventions will narrow over time as reports from the latter tend to be published with a lag.

**Rising Subsidies** : Between 2009 and 2022, subsidies were more prevalent in emerging and developing economies  
(Number of subsidy policies in force)

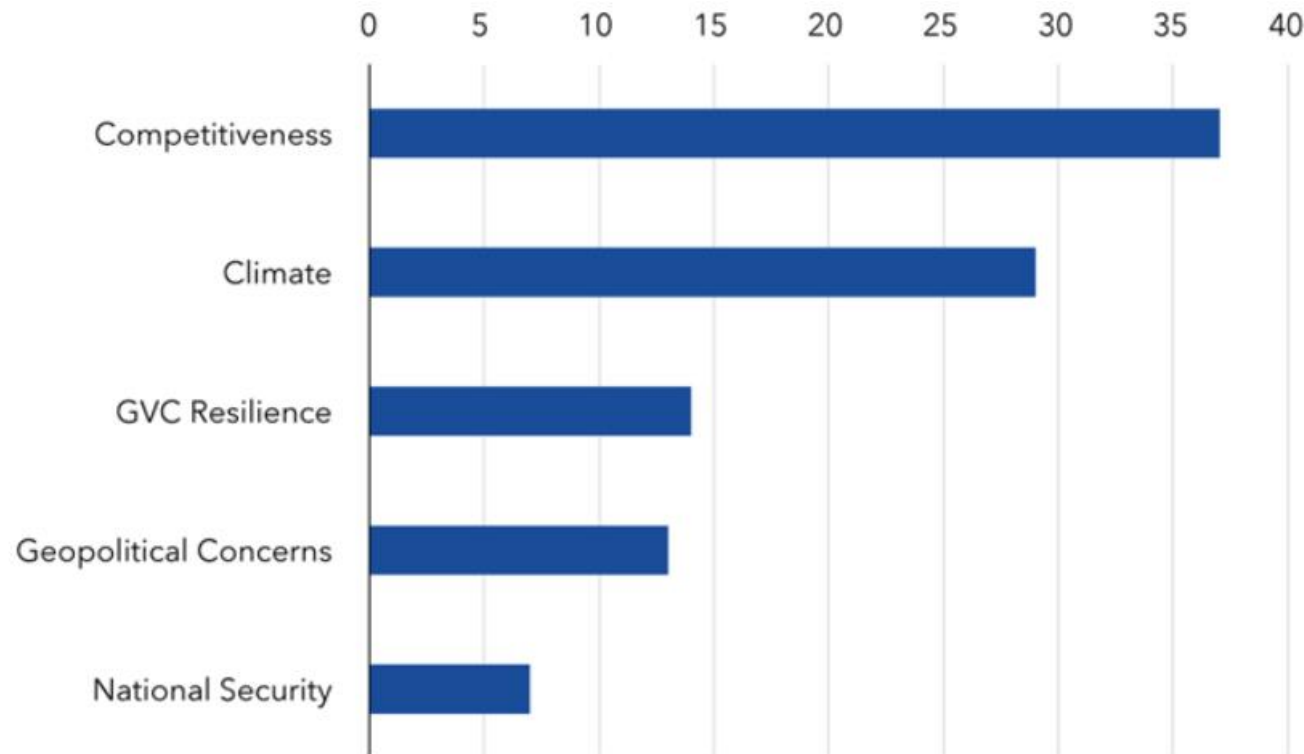


Source: Global Trade Alert; IMF staff calculations.  
Note: Cumulative number of subsidy policies starting from January 1, 2009.

# ...With Certain Policy Drivers

## Distortive industrial policy drivers

(Share of distortionary industrial policy measures by motive (%))



- New industrial policy measures are increasingly driven by;
  - Green transition and climate mitigation
  - Supply chain resilience
  - Economic securitybut focus less on competitiveness

Source: Evenett and others (2024); IMF staff calculations.

Note: Cumulative stock of measures for 2023. For measures with multiple motives, each motive is given equal weight.

## ...But Caution Needed

- **Misallocating resources and potentially fiscal cost**

Well-designed policies aimed at improving the general business environment could be more appropriate than targeted government interventions.

- **A tit-for-tat dynamic**

Targeted government intervention often create cross-border spillovers that may induce other trading partners to react in a similar way.

- **Industrial policy can be captured by special interests**

Governments may favor established companies. High correlation between the number of measures and political economy variables such as an upcoming election and the importance of certain products in the export basket.



# The IMF's Role

- Increased focus on **collecting data and providing analysis of industrial policies** to increase awareness and inform policy discussions.
- **Focus in bilateral surveillance on assessing industrial policy measures** that can significantly affect the country's domestic or external stability or have the potential to generate significant cross-border spillovers.
- **Collaboration with the WTO to promote a multilateral dialogue** on trade and industrial policy.

**Thank you very much!**