



International Monetary Fund

World Economic Outlook and the Asia Pacific Region —Global Prospects and Policies: Policy Pivot, Rising Threats—

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

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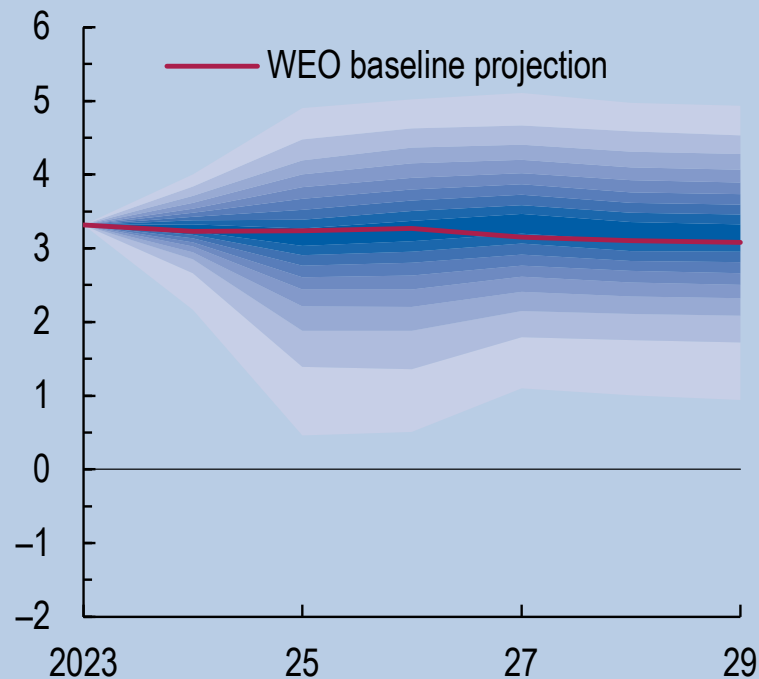
***Seminar at Research Institute of Economy, Trade and Industry (RIETI)
November 29, 2024***

Overview

Global Economy: Stable but Low Growth & Continuing Disinflation Elevated Uncertainty

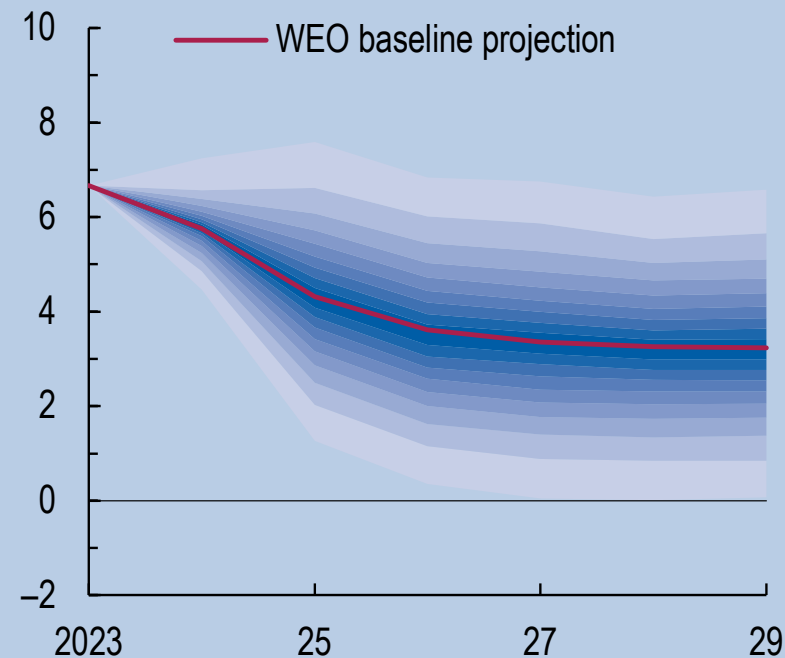
Global real GDP growth

(percent; y/y)



Global inflation

(percent; y/y)



Source: IMF staff calculations.

Note: Each shade of blue represents a 5-percentage point probability interval. WEO = *World Economic Outlook*.

Recent Developments

- Steady disinflation but sticky services
- Tight monetary, loose fiscal policies
- Rising debt burden

Outlook

Risks & Policies

Risks: tilted to the downside

- Larger-than-expected monetary policy impact
- Financial markets repricing
- Sovereign debt distress
- China's property downturn
- Renewed commodity price spikes
- Rising protectionist policies
- Social unrest

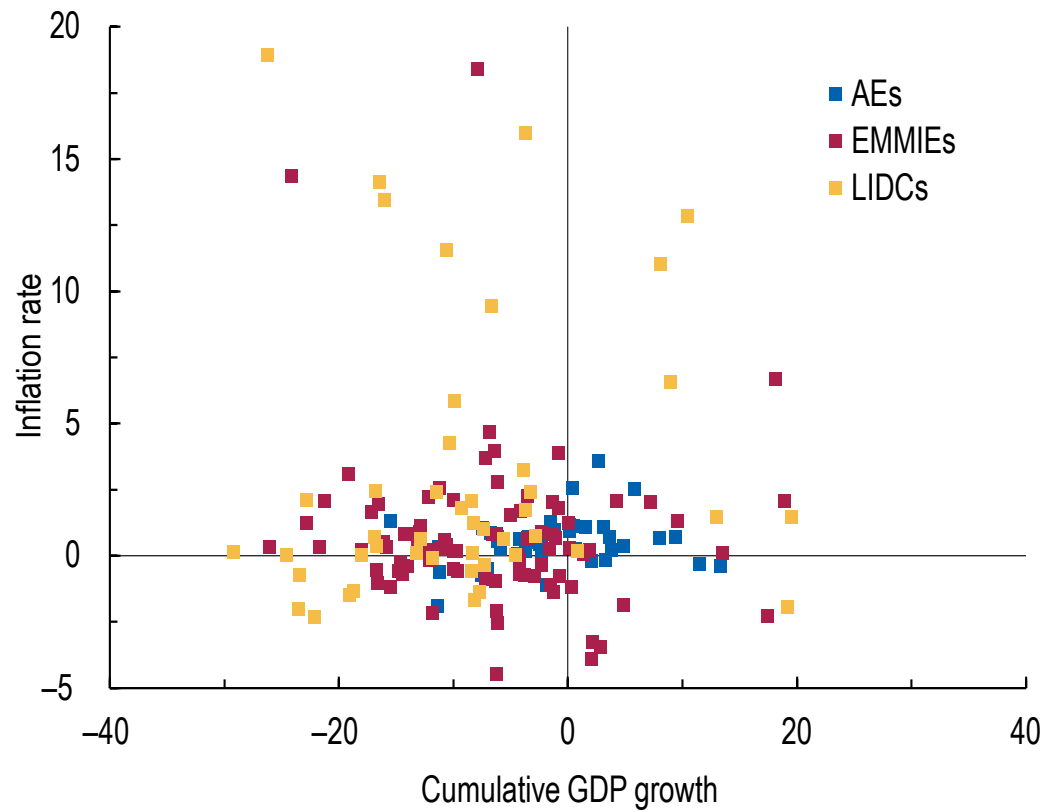
Policies:

- Restoring price stability
- Rebuilding buffers
- Fostering medium-term growth
- Combating climate change

Past Four Years – Uneven Performance across Countries

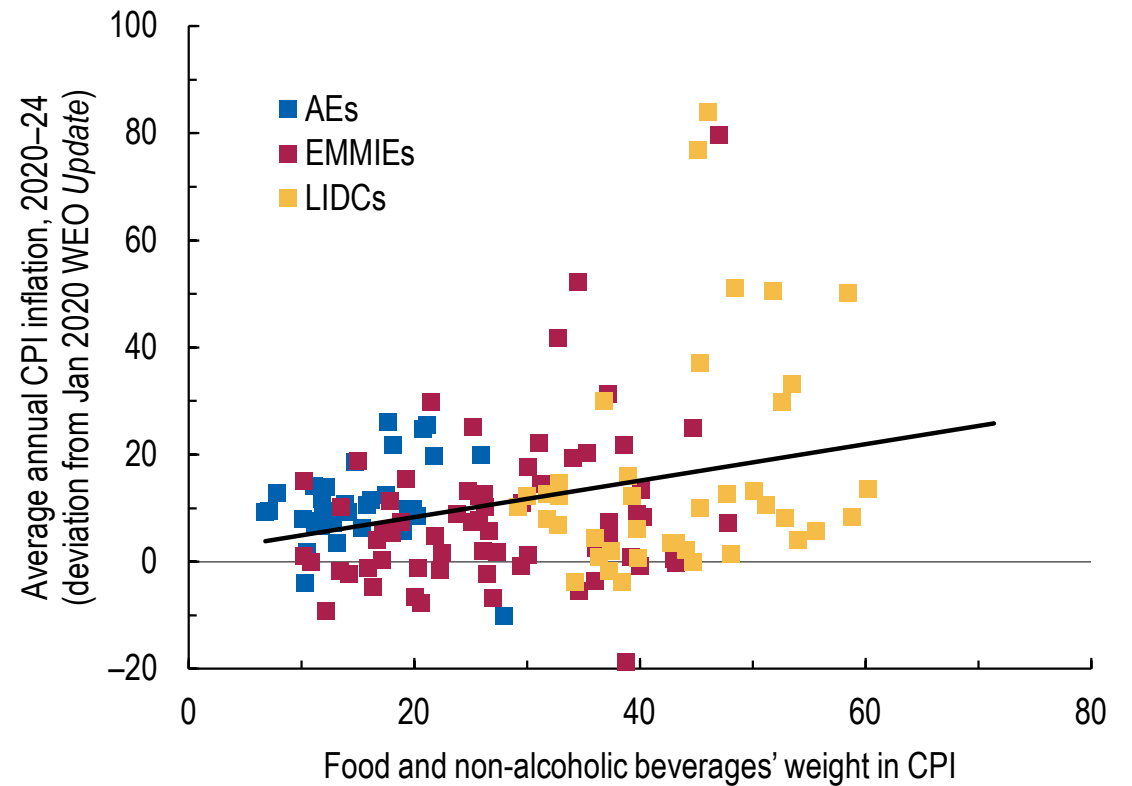
Growth and Inflation Revisions

(Percentage points; relative to January 2020 WEO Update)



Inflation Surprises and Importance of Food in CPI

(Percent)

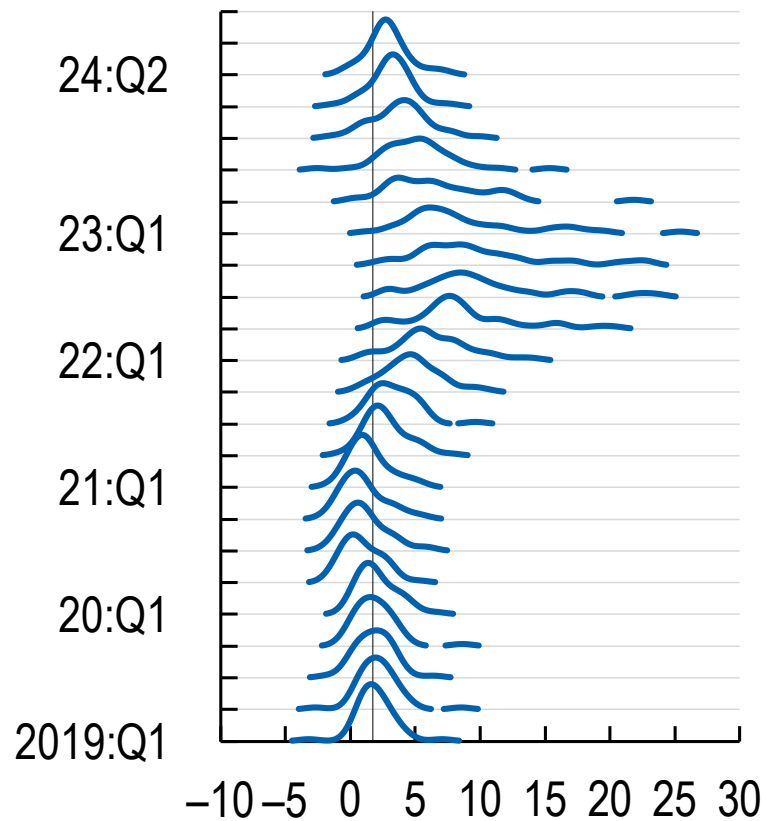


Recent developments

Inflation Declining and Converging across Countries ...

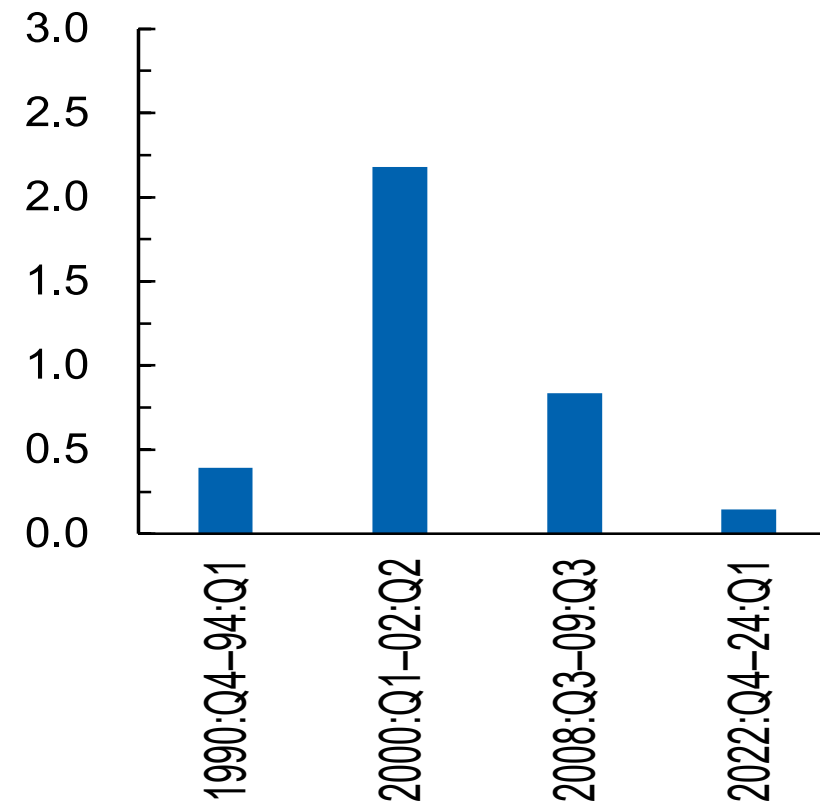
Headline Inflation Distribution

(Percent, year over year)



Sacrifice Ratio for Inflation

(Change in output gap for a change in inflation)



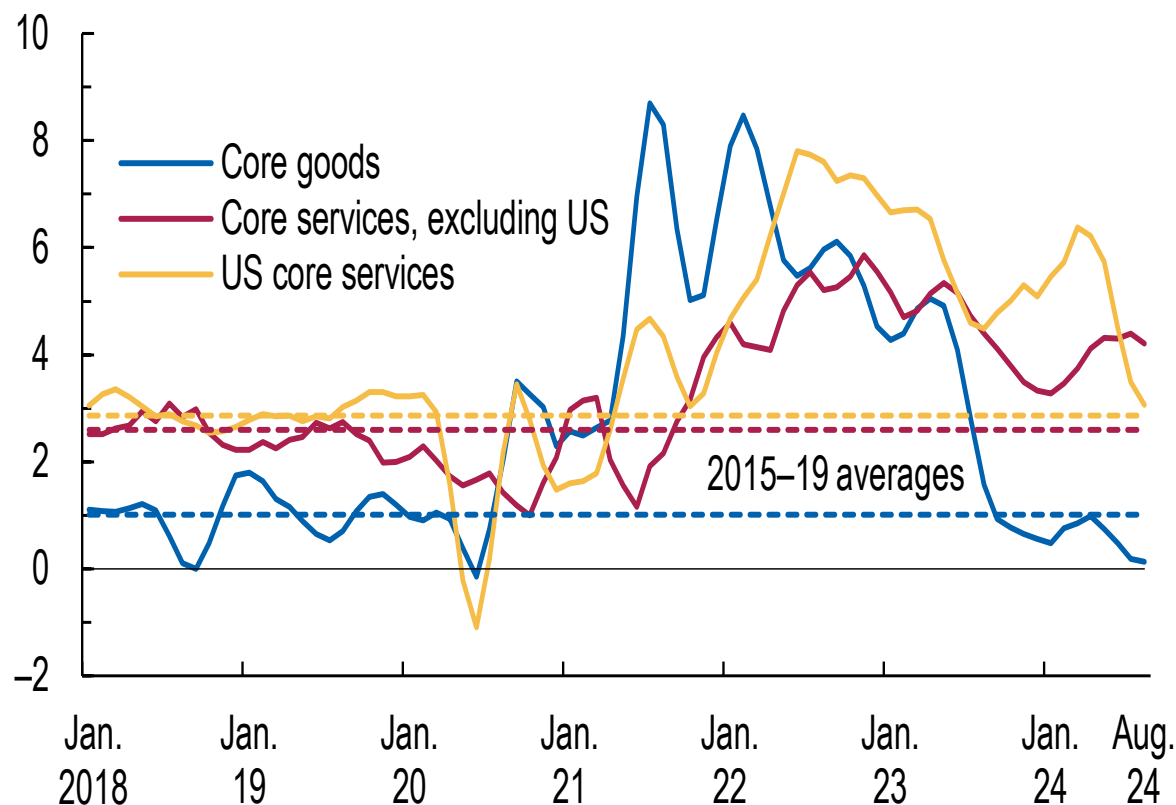
Sources: OECD and IMF staff calculations.

Note: The sample for the headline inflation distribution includes 32 advanced economies and 13 emerging market and developing economies. The sample for estimating the sacrifice ratio includes 37 advanced economies.

... But Services Inflation Still High So Bumps in the Road Still Possible

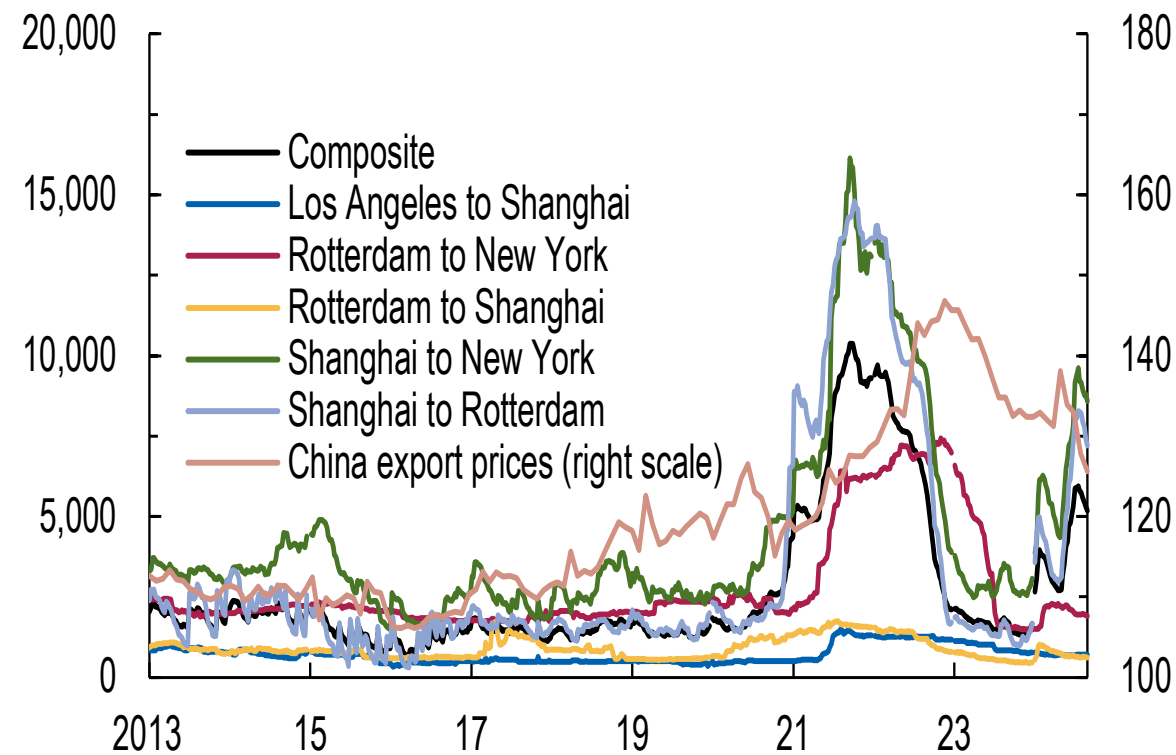
Core Services and Goods Inflation

(Percent, three month over three month, annualized)



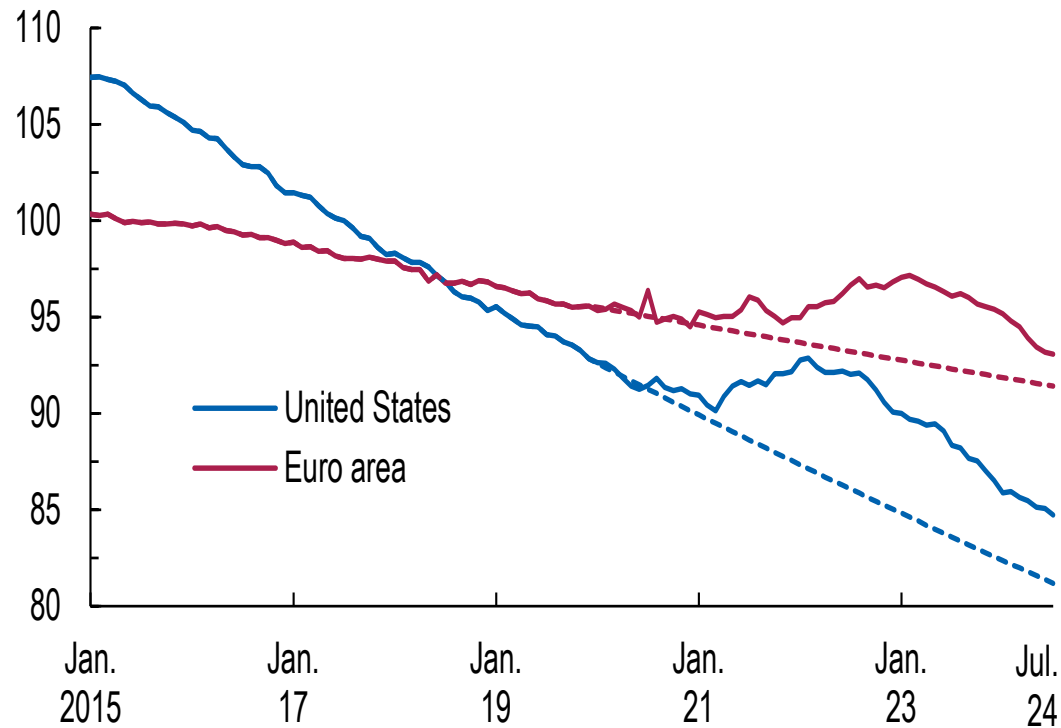
Rising Shipping Costs

(USD per 40 ft. container; index, 2010 = 100, right scale)

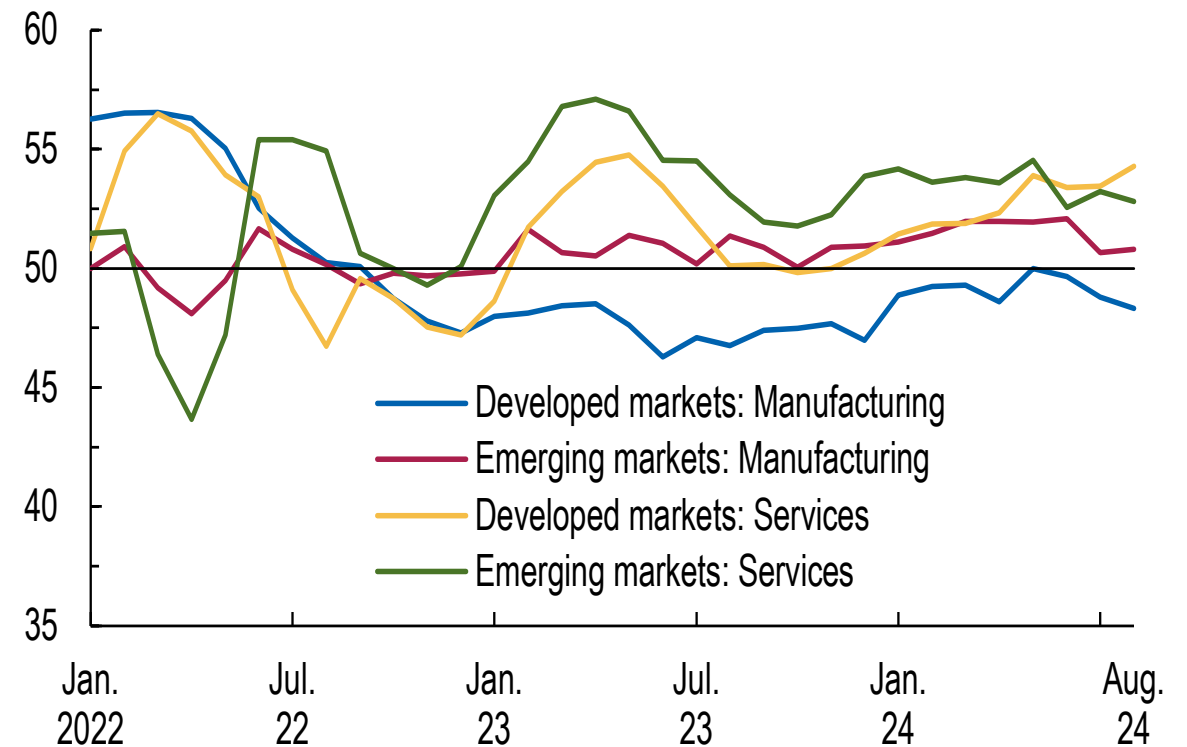


Continued Activity Rotation to Services

Relative Price of Core Goods versus Core Services
(Core-goods-to-services ratio)

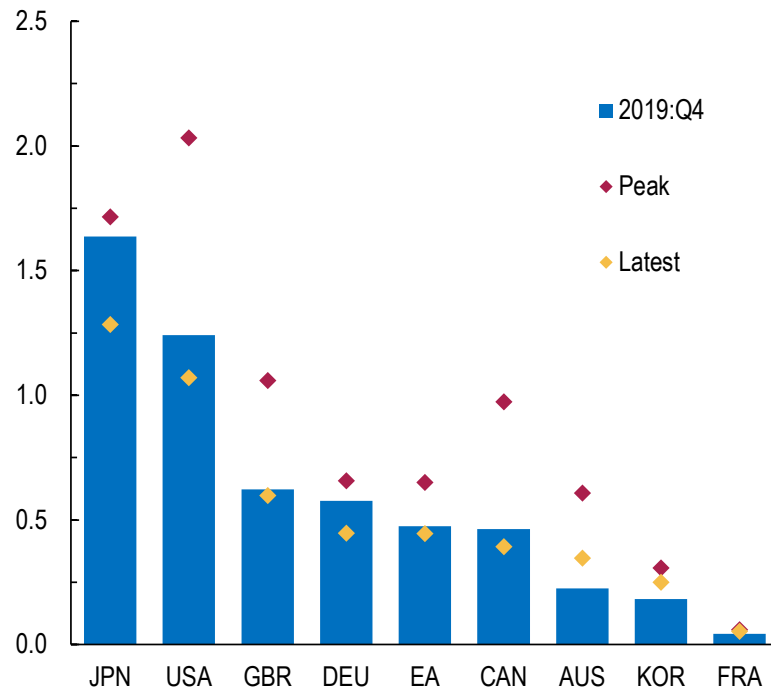


Recent PMI Trends
(Index, 50+ = expansion)

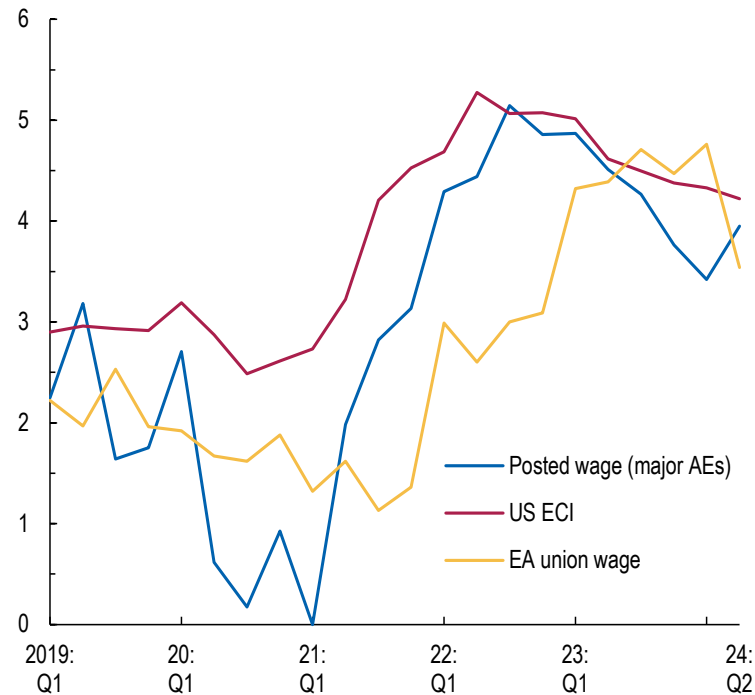


Labor Market Pressure Easing amid Higher Wage Growth

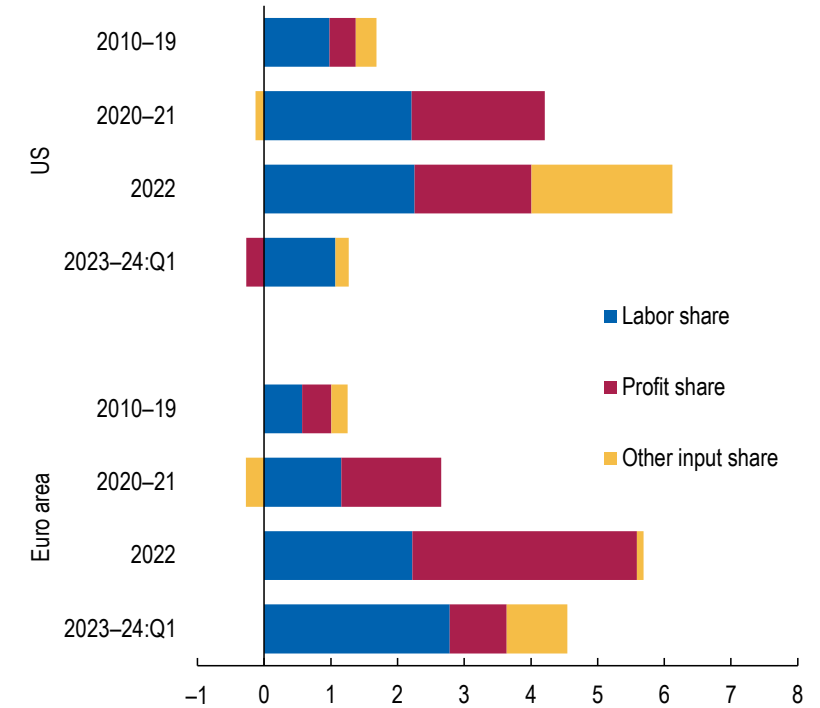
Vacancy-to-Unemployment Ratio
(Ratio)



Wage Growth
(Percent, year over year)

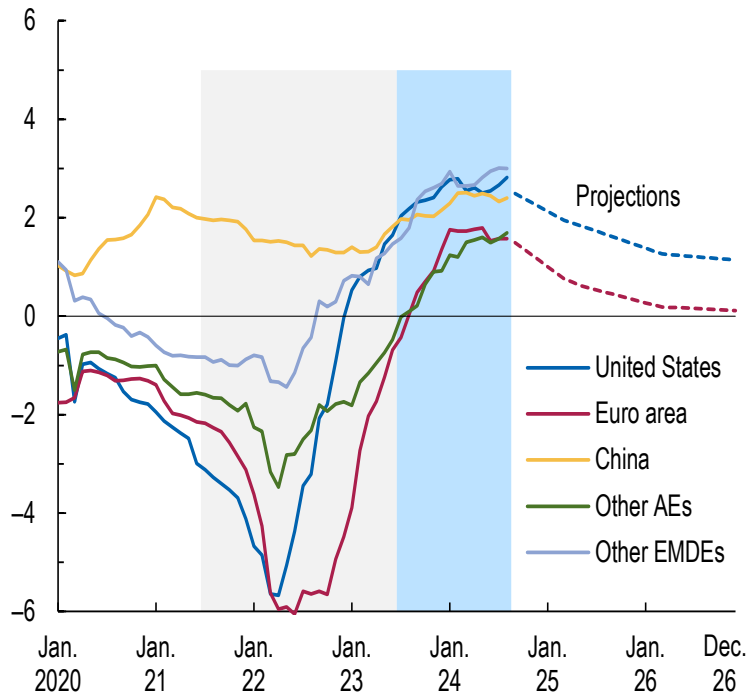


Contributions to Inflation
(Percent, annualized)

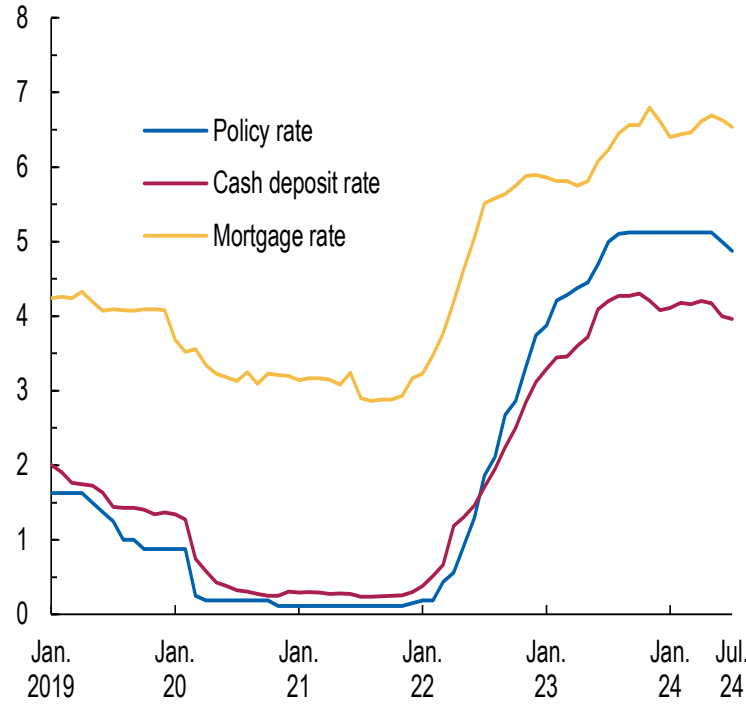


Policy Mix: Tight Monetary, ...

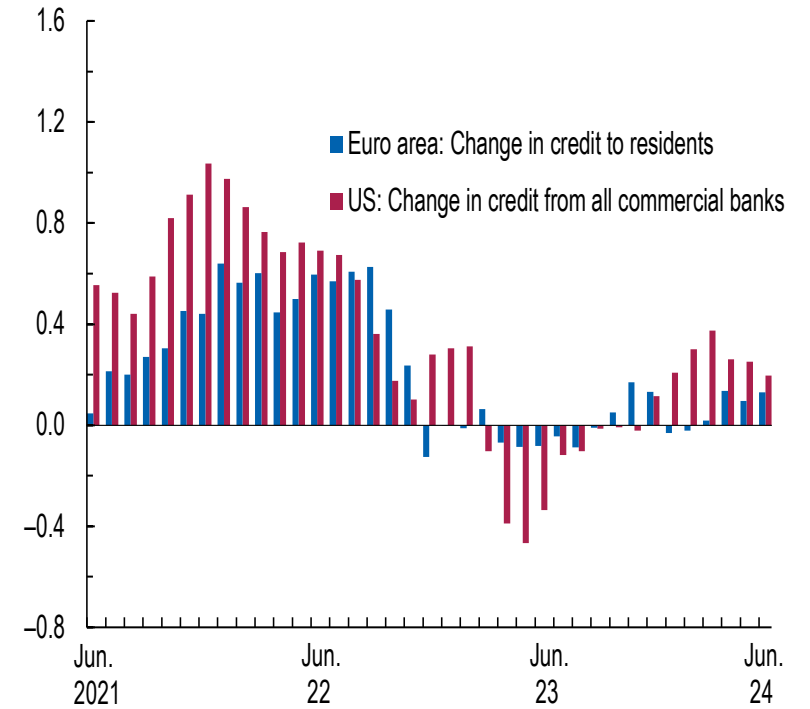
Real Policy Rate Paths in Major Economies
(Percent)



Median Bank Lending and Deposit Rates across AEs
(Percent)



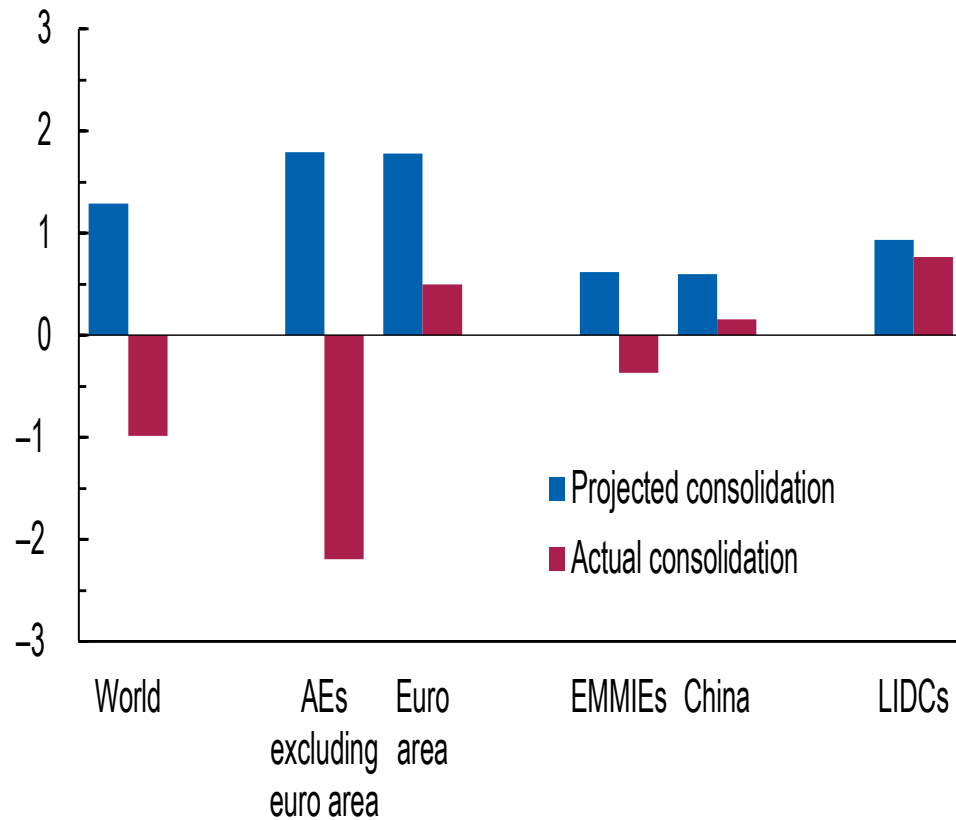
Real Credit Growth
(Percent change, month over month)



... Combined with Loose Fiscal

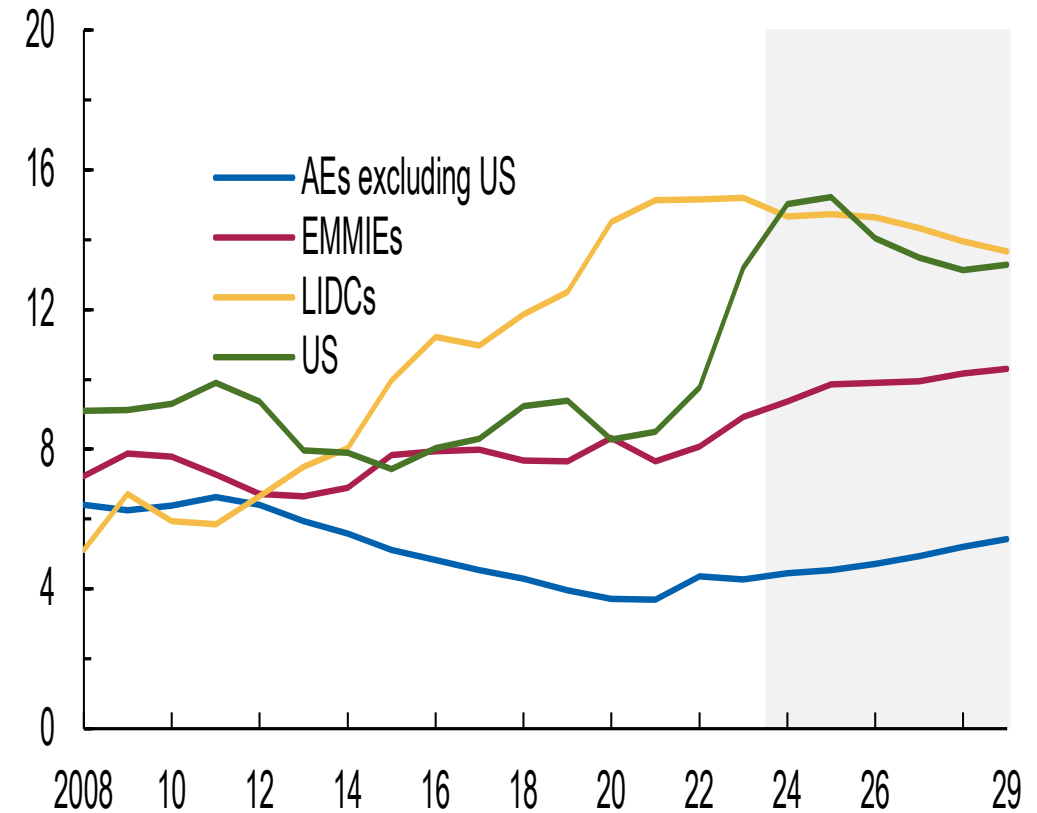
Fiscal slippage

(Percentage points; 2024 minus 2022 primary balance)



General Government Interest Payments

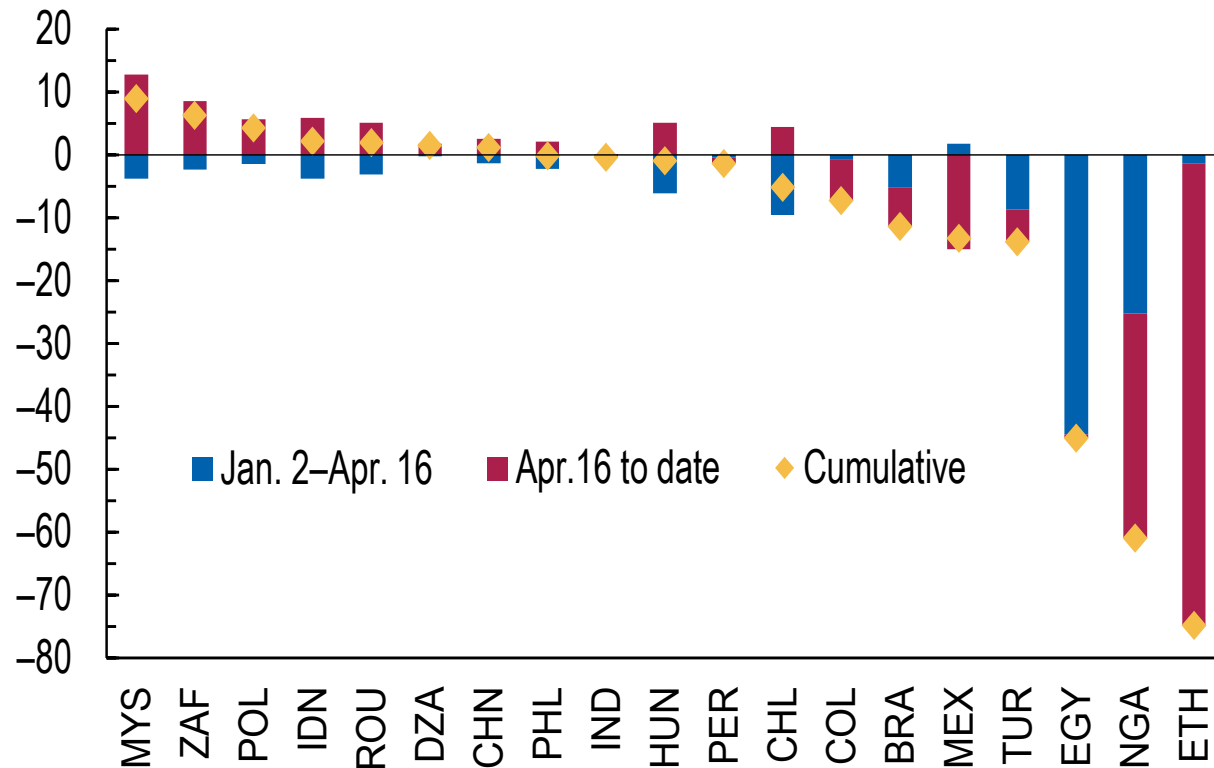
(Percent of general government revenues)



Pressure on Emerging Markets Remains High

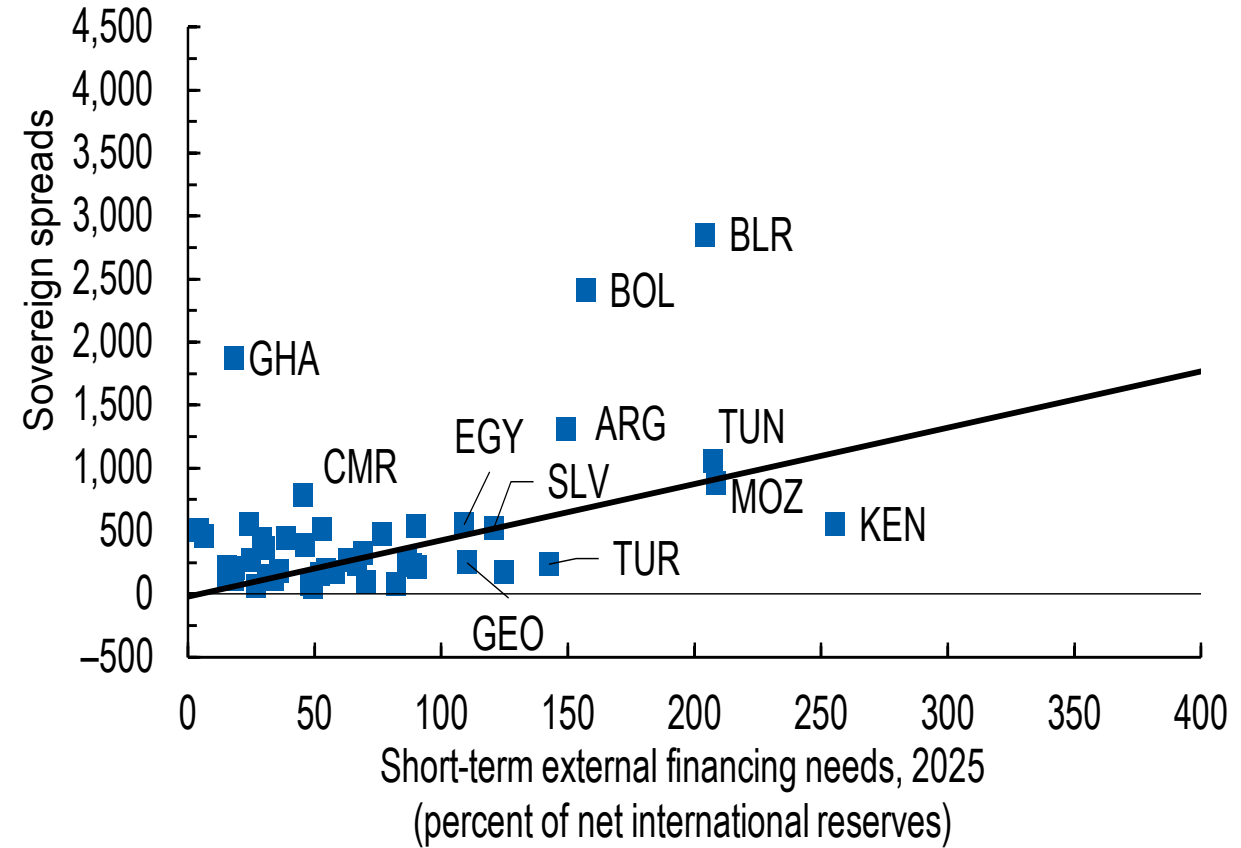
Exchange Rate Depreciation v.s. US Dollar

(Percent appreciation from January to September 20, 2024)



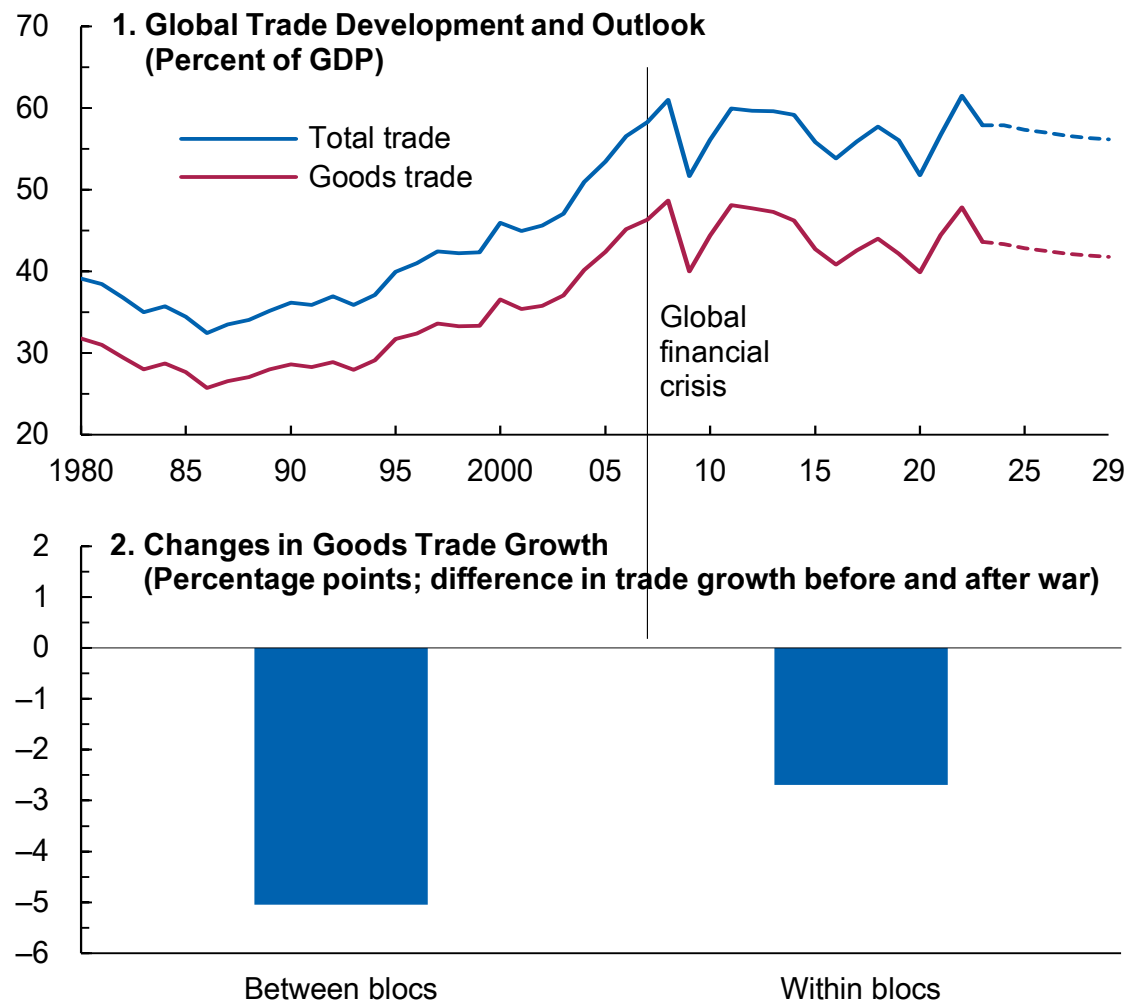
Short-Term External Financing Needs and Sovereign Spreads

(Basis points)

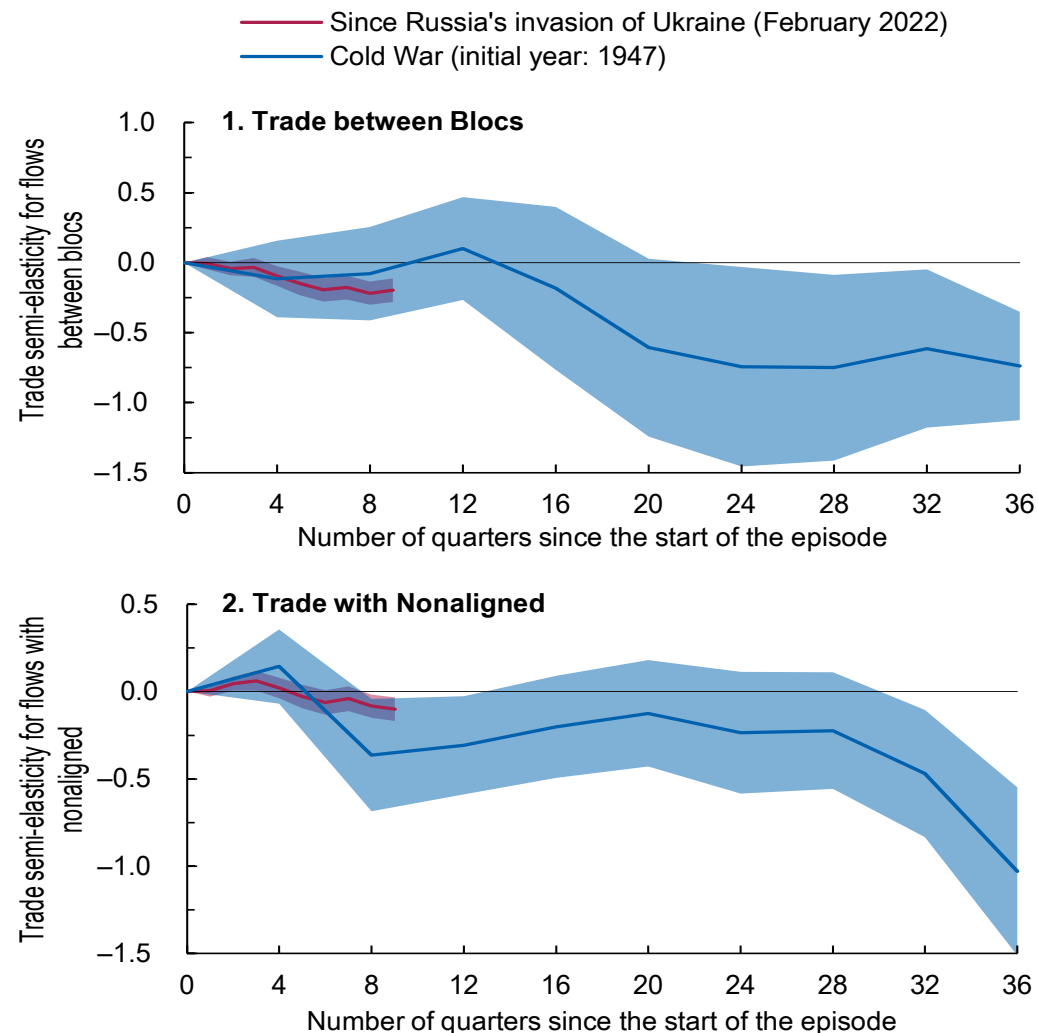


Global Trade Stable, Fragmentation Starting to Emerge

Globalization and Trade Fragmentation



Trade Fragmentation: Cold War and Now



Sources: Gopinath, Gourinchas, Presbitero, and Topalova (2024); and IMF staff calculations.

Note: The right figure plots the change in global trade between blocs (panel 1) and with nonaligned countries (panel 2) during the Cold War (blue line, with $t_0 = 1947$) and since Russia's invasion of Ukraine (red line, with $t_0 = 2021:Q4$).

The outlook

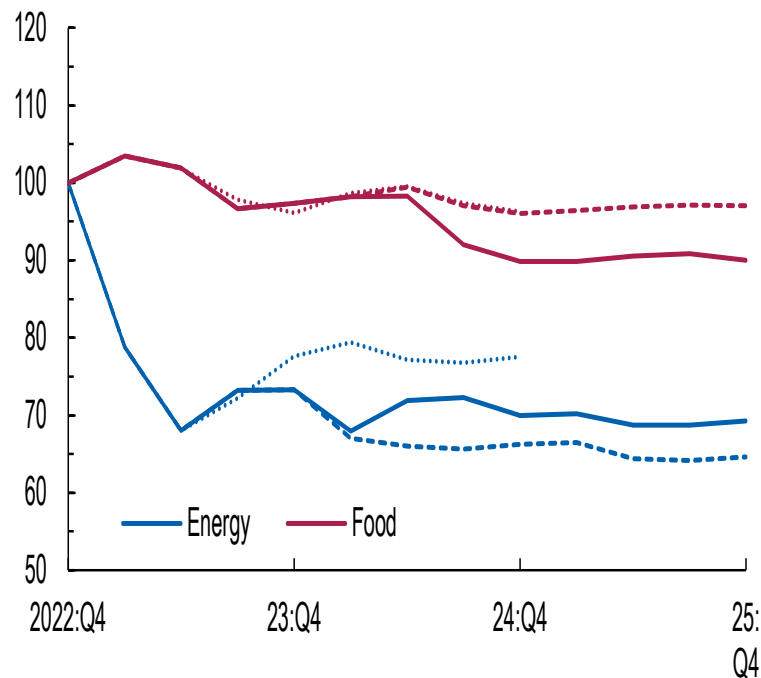
Assumptions for the Baseline Forecast

Commodity: Slower normalization of energy prices

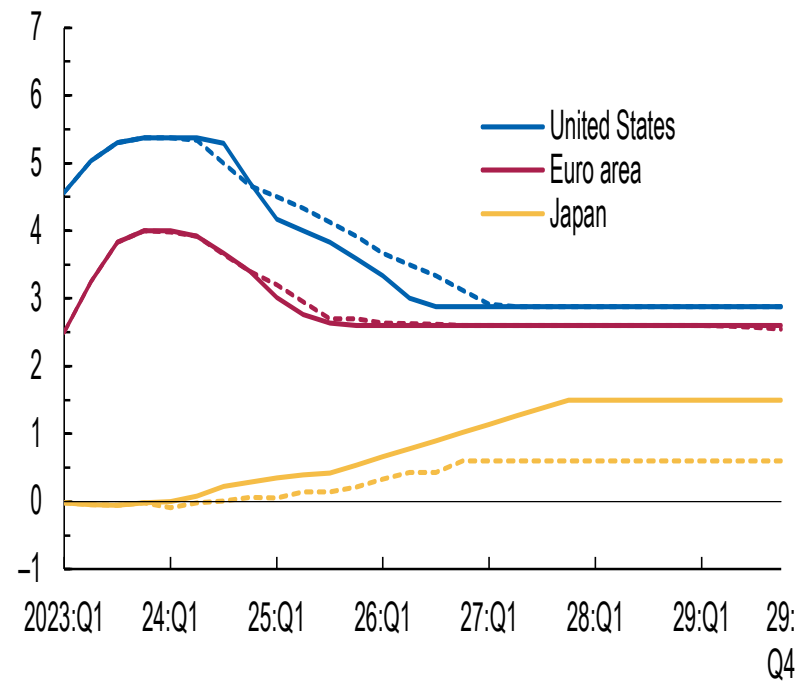
Monetary policy: Faster convergence among AEs

Fiscal policy: Consolidation expected in 2025-26

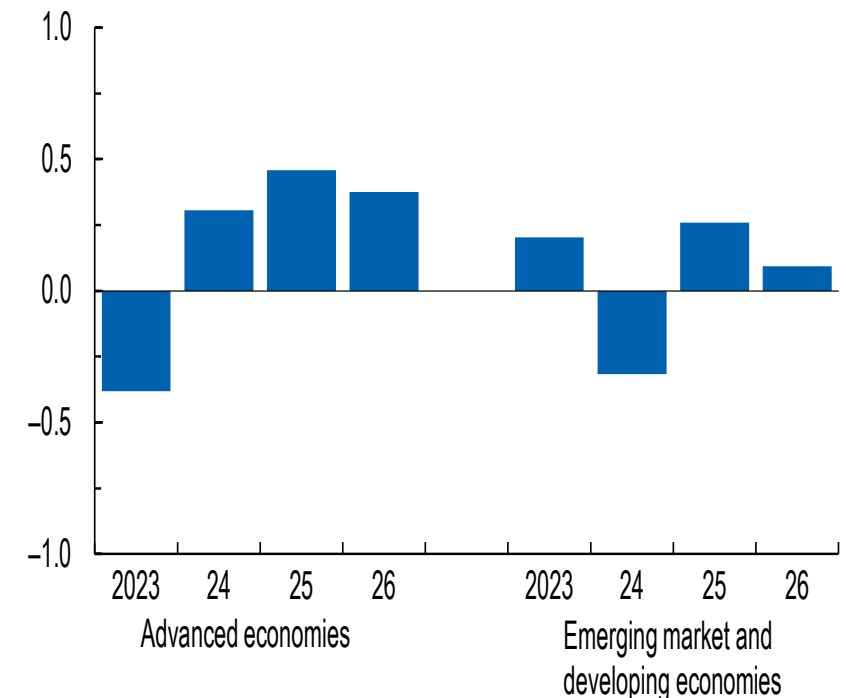
Energy and Food Prices
(Index, 2022: Q4 = 100)



Monetary Policy Projections
(Percent, quarterly average)



Fiscal Policy Projections
(Percentage points; change in fiscal balance)



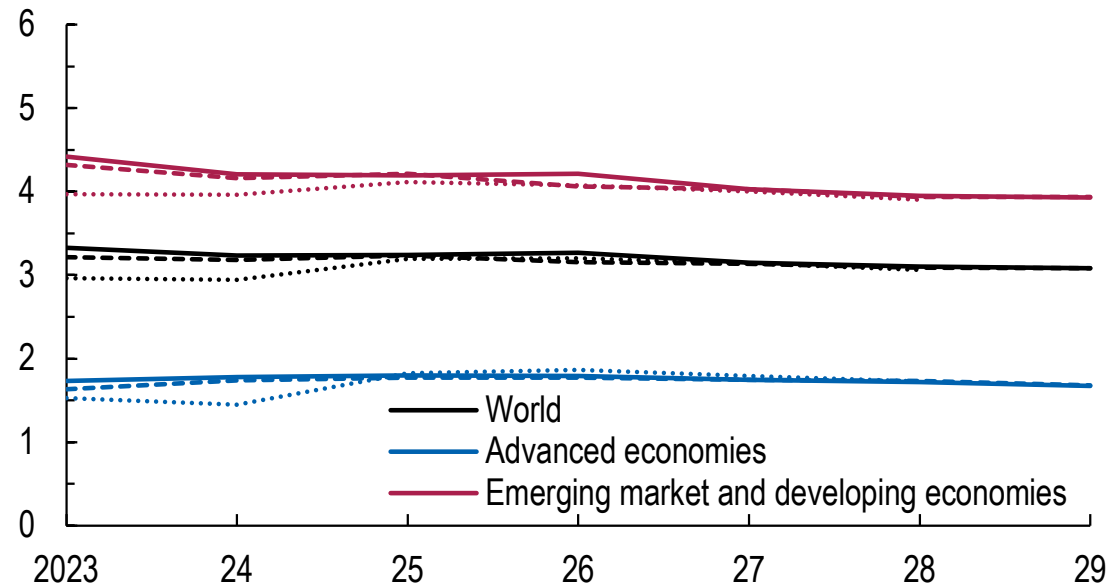
Source: IMF staff calculations.

Note: In the left and middle panels, solid lines denote projections from the October 2024 *World Economic Outlook* and dashed lines from the April 2024 *World Economic Outlook*. Also, the dotted line in panel 1 denotes projections from October 2023 *World Economic Outlook*.

Global Outlook: Stable Growth and Closing Output Gaps

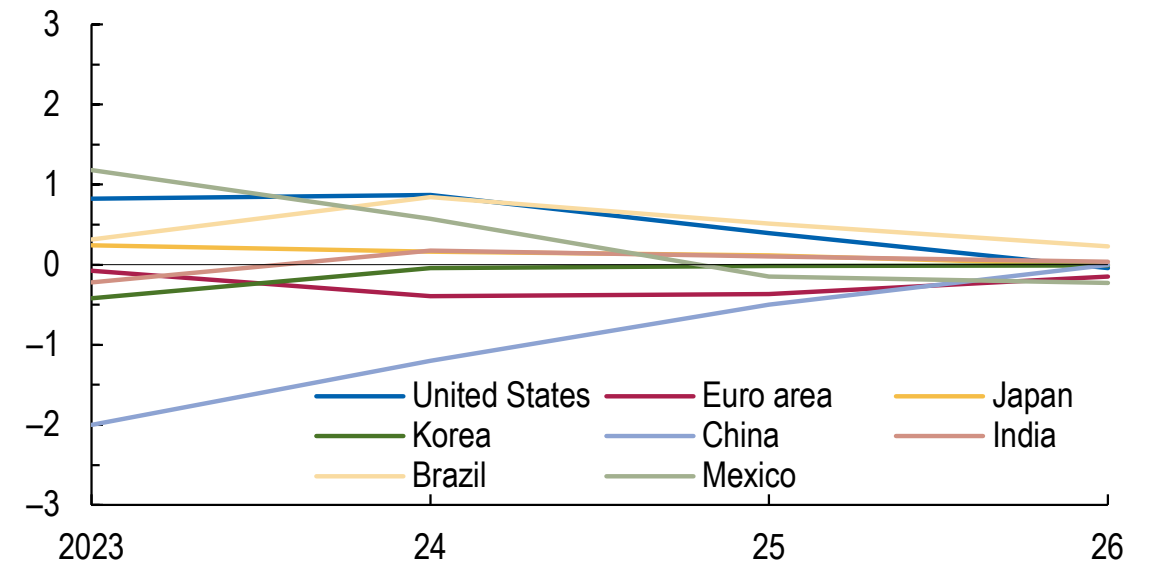
Growth Outlook

(Percent; dashes = April 2024; dots = October 2023)



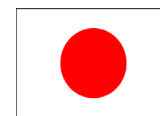
Cyclical Forces Waning and Output Gaps Closing

(Percent)



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

3.3

1.7

2.9

0.4

1.7

0.3

1.2

1.6

Revision from
Jul. 2024

0.0

0.1

0.4

-0.1

-0.2

0.2

0.0

0.0

2024

3.2

1.8

2.8

0.8

0.3

1.1

1.3

2.5

Revision from
Jul. 2024

0.0

0.1

0.2

-0.1

-0.4

0.4

0.0

0.2

2025

3.2

1.8

2.2

1.2

1.1

1.5

2.4

2.3

Revision from
Jul. 2024

-0.1

0.0

0.3

-0.3

0.1

0.0









0.0

0.0

Source: IMF, October 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
2023	3.3	4.4	5.2	8.2	2.9	3.6	2.9	4.1
Revision from Jul. 2024	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
2024	3.2	4.2	4.8	7.0	3.0	3.6	3.1	4.0
Revision from Jul. 2024	0.0	0.0	-0.2	0.0	0.9	0.4	0.3	-0.2
2025	3.2	4.2	4.5	6.5	2.2	1.3	3.3	4.7
Revision from Jul. 2024	-0.1	-0.1	0.0	0.0	-0.2	-0.2	0.0	-0.4

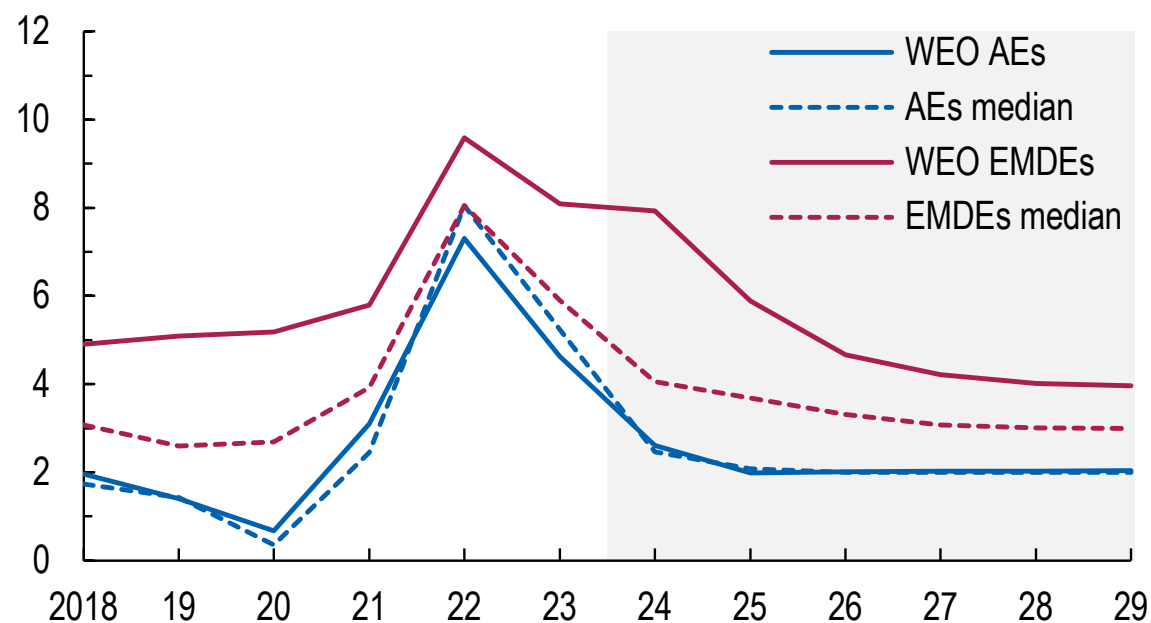
Source: IMF, October 2024 *World Economic Outlook*.

Inflation: Gradual Decline to Target

Faster Disinflation Expected in AEs

Inflation in AEs and EMDEs

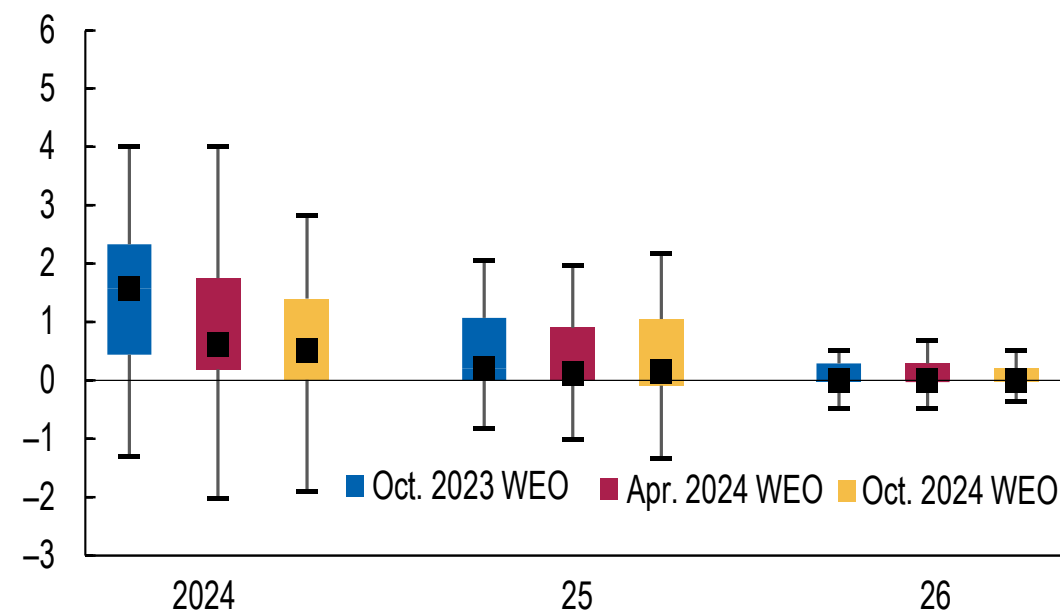
(Percent)



Steady Convergence to Target

Inflation Outlook

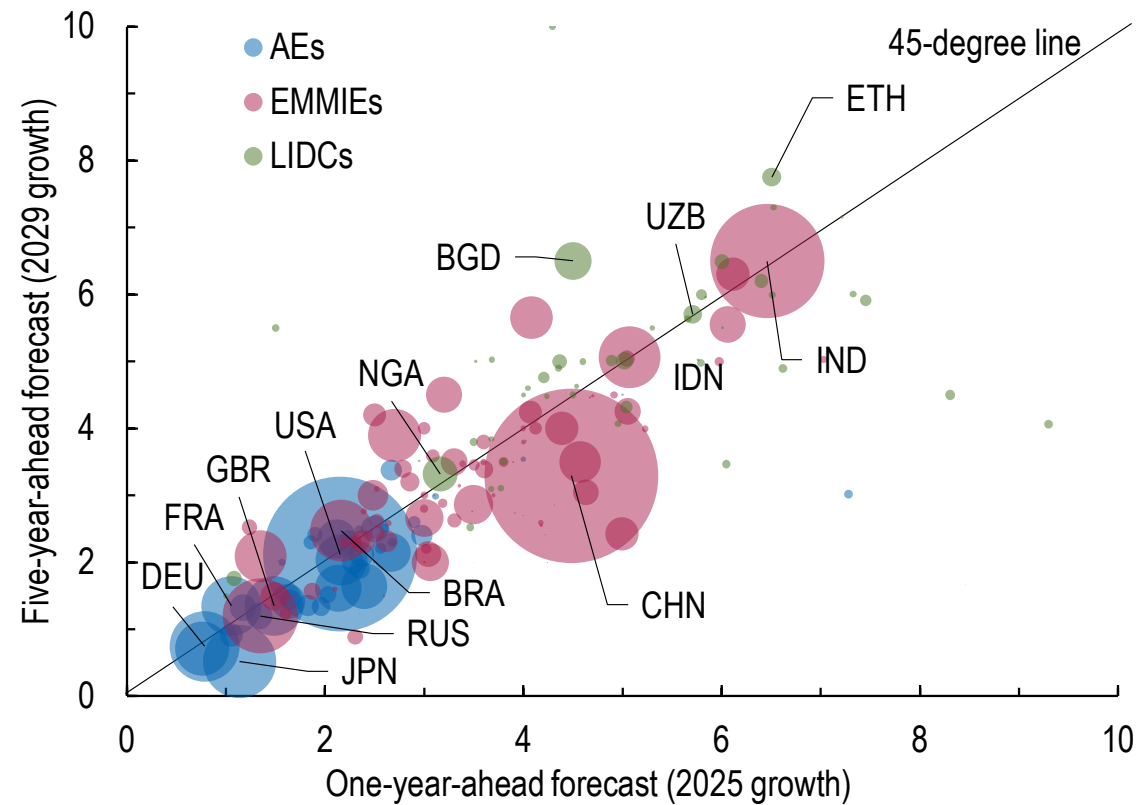
(Percentage points; deviation from inflation target)



Medium-Term Outlook

Persistent headwinds to growth over the medium-term

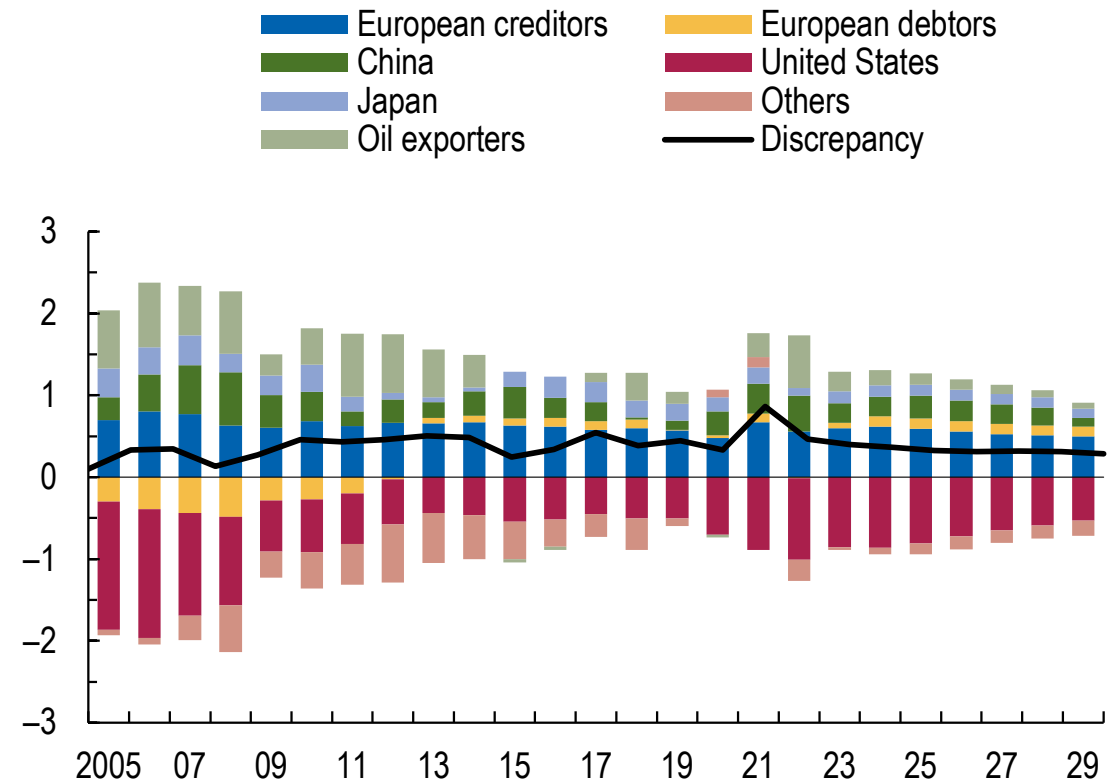
Medium-Term Growth Outlook (Percent)



Trade Growth in Line with Output Growth, Narrowing Balances

Global current account balances are expected to continue to decline from 2022 peaks.

Global Current Account Balance (Percent of global GDP)

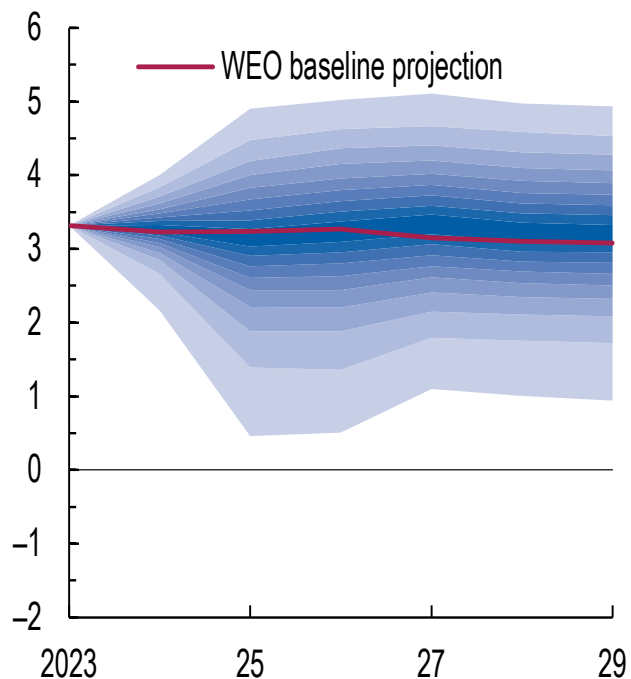


Risks

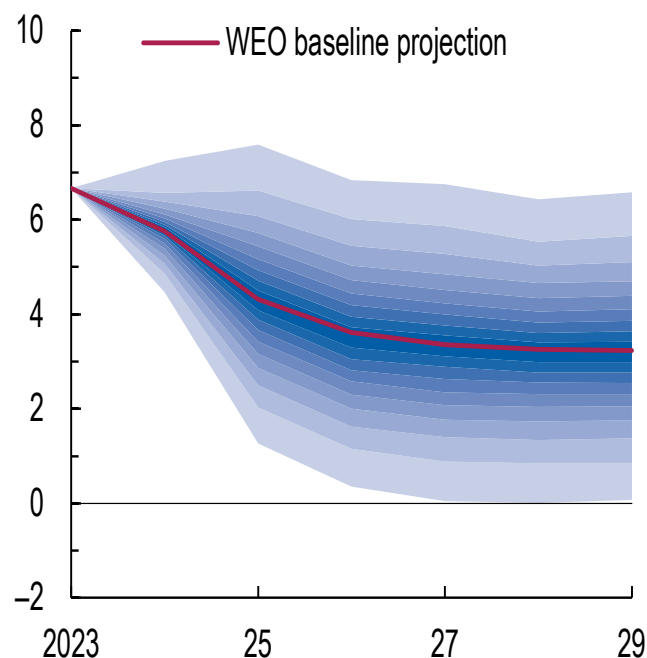
Downside Risks to Growth Dominates

Risks to growth are tilted to the downside, with elevated uncertainty around the growth and inflation outlook

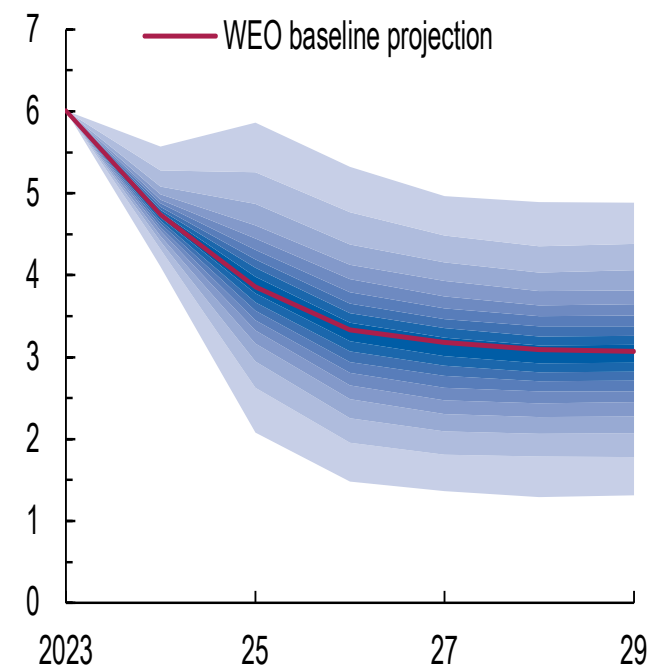
World Growth
(Percent)



World Headline Inflation
(Percent)



World Core Inflation
(Percent)



Source: IMF staff calculations.

Note: Each shade of blue represents a 5-percentage point probability interval.

Risks to the Outlook

Downside

- **Monetary policy tightening bites more than intended**
- **Financial markets reprice because of monetary policy reassessments**
- **Sovereign debt stress intensifies in EMDEs**
- **China's property sector contracts more deeply than expected**
- **Renewed spikes in commodity prices**
- **Countries ratchet up protectionist policies**
- **Social unrest resumes**

Upside

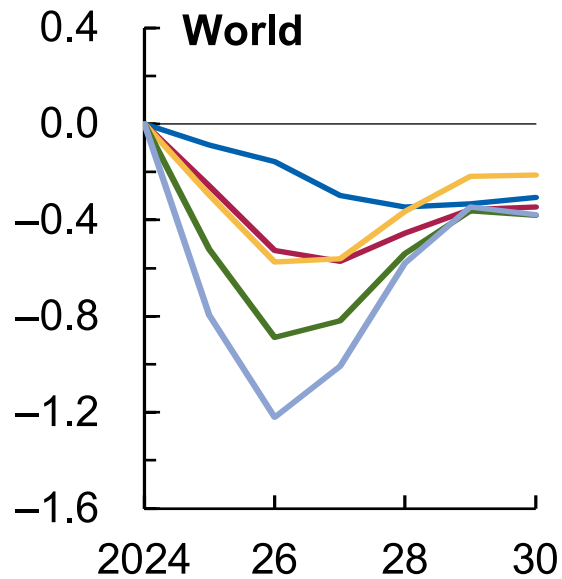
- **Stronger recovery in investment in advanced economies**
- **A stronger momentum of structural reforms**

Risks Scenarios A: A Downside Alternative

Impact on GDP level

(percent deviation from baseline)

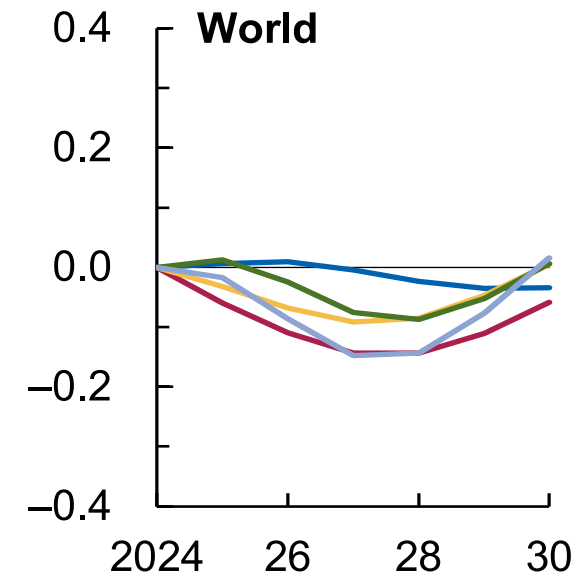
- Add global financial conditions
- Add lower migration
- Add renewal of US TCJA
- Add trade policy uncertainty
- Tariffs



Impact on headline inflation

(percentage point deviation from baseline)

- Add global financial conditions
- Add lower migration
- Add renewal of US TCJA
- Add trade policy uncertainty
- Tariffs



Source: IMF staff calculations.

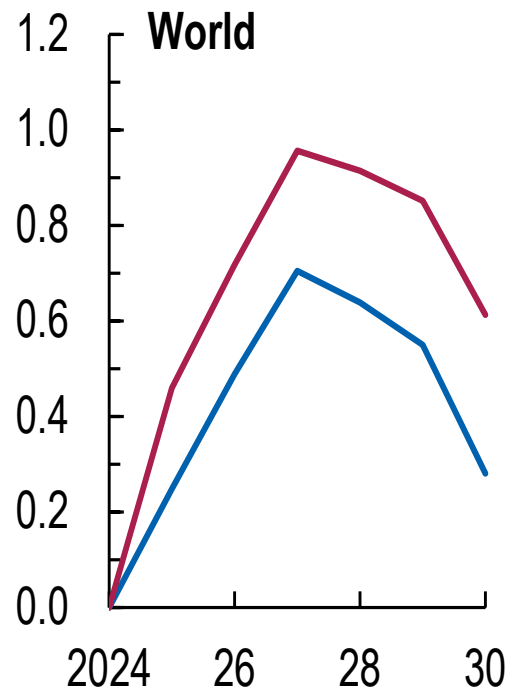
Note: Results are shown as deviations from baseline projections. TCJA = Tax Cuts and Job Act.

Risks Scenarios B: Policies to Address Existing Imbalances

Impact on GDP level

(percent deviation from baseline)

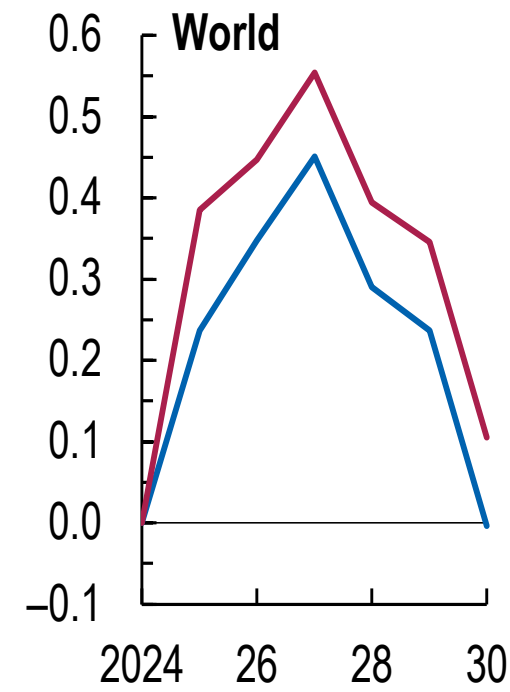
- Add public investment in Europe
- China rebalancing



Impact on headline inflation

(percentage point deviation from baseline)

- Add public investment in Europe
- China rebalancing



Source: IMF staff calculations.

Note: Results are shown as deviations from baseline projections.

Policy Priorities: From Restoring Price Stability to Rebuilding Buffers

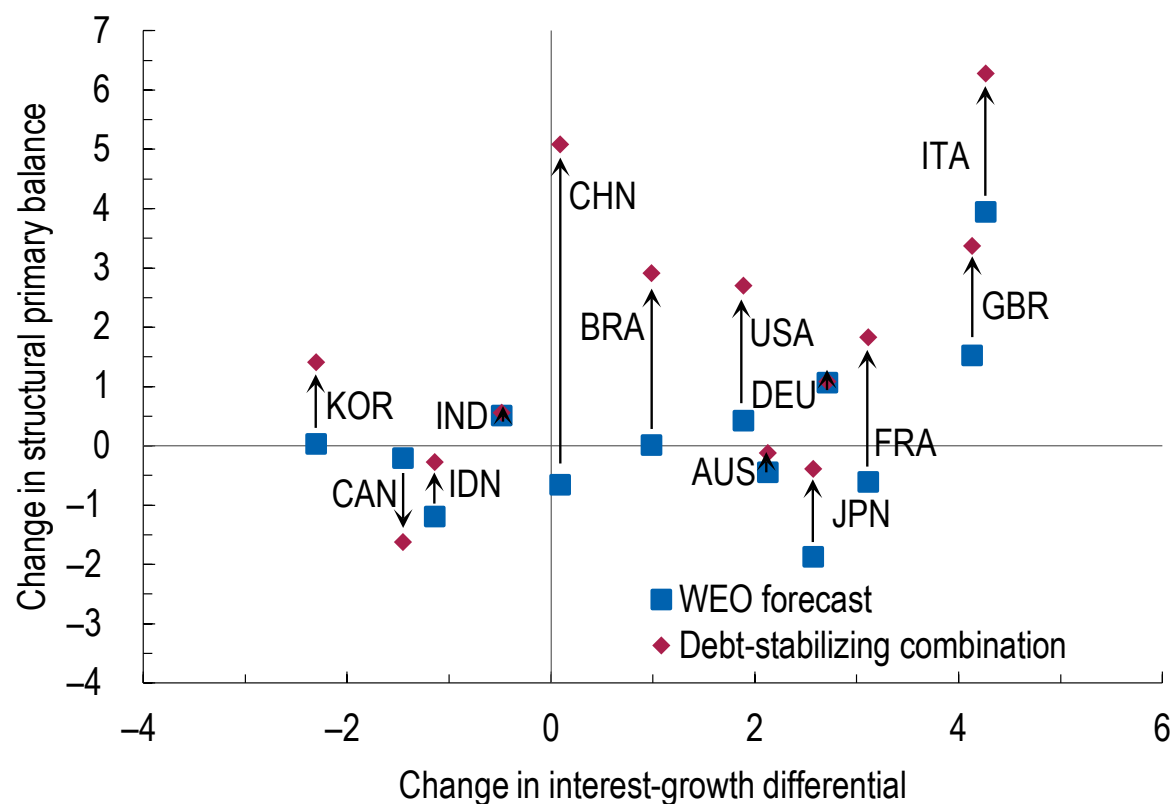
Monetary and Financial Policies: Smooth Landing and Financial Stability

- **Anchor short- and long-term inflation expectations**
 - If inflation elevated and persistent: $r > r^*$; if inflation consistently cooling and in sync with expectations, gradually move r to r^* may be warranted; if inflation is consistently below target: $r < r^*$
 - Important to communicate consistently a commitment to price stability
 - Restoring price stability while supporting growth and employment
- **Mitigate disruptive foreign exchange volatility**
 - Less synchronized central bank policies can lead to increased capital flows
 - The IMF's Integrated Policy Framework provides guidance on appropriate policy responses
 - Deep FX market and low FX debt: adjust policy rates and allow exchange rate flexibility, provide rapid liquidity support when market stress arises
 - Shallow FX market or high FX debt: temporary FX interventions or capital flow management can be appropriate provided suitable monetary and fiscal policies are maintained
 - Global financial safety nets can provide support to countries vulnerable to external shocks
- **Restore macroprudential buffers and ensure financial stability**
 - Monitor financial risks in banks, NBFIs and real estate sector, strengthen supervision
 - Gradually rebuild macroprudential buffers deployed during the pandemic
 - Be prepared to deploy necessary financial stability tools when needed

Fiscal Policy: Rebuilding Fiscal Buffers ...

Required Fiscal Consolidation

(Percentage points)

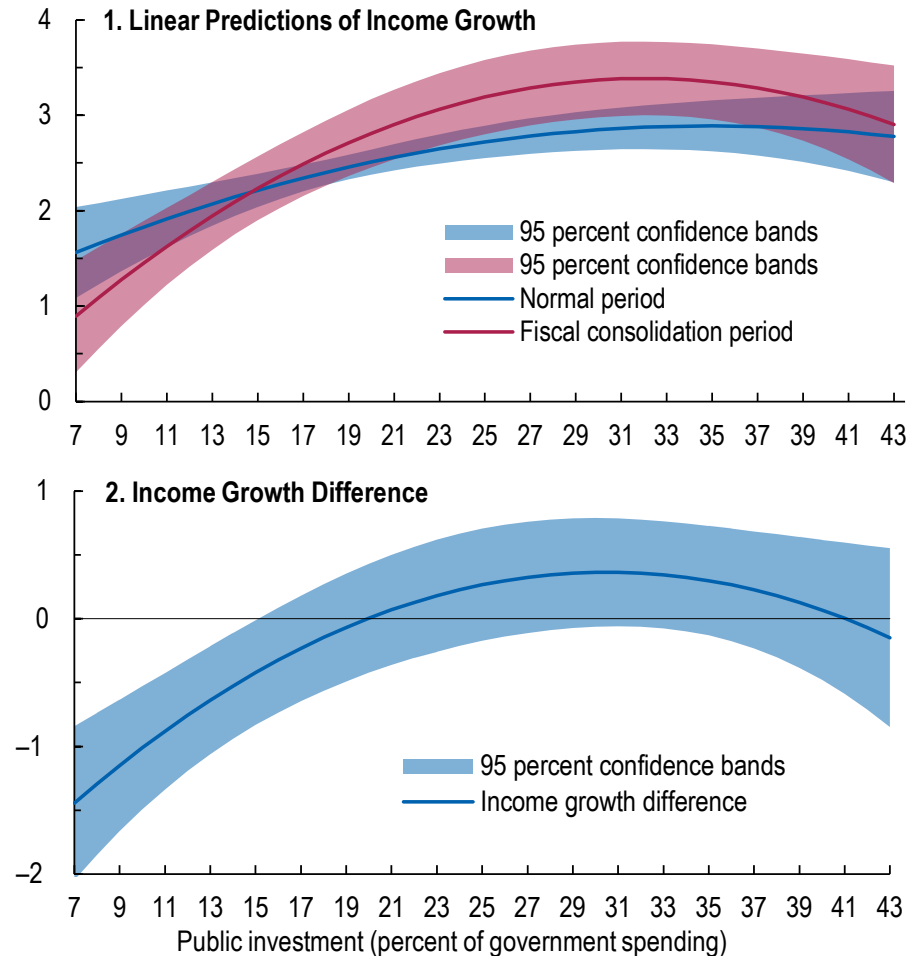


- **Urgently plan fiscal consolidation**
 - Many countries should start tightening to ensure debt sustainability and long-term budgetary flexibility
 - The pace of consolidation should be gradual and well communicated
 - Front-loaded fiscal adjustments may be needed to alleviate sovereign debt distress
 - A credible medium-term plan is essential to achieve lasting consolidation
- **A strong institutional framework could support the credibility of medium-term consolidation plans**

... While Safeguarding Growth, Reducing Inequality, and Ensuring Debt Sustainability

Government Spending Composition and Future Income Growth

(Percentage points)



Source: Kass-Hanna, Kpodar, and Tessema (2020).

- **Safeguard growth-enhancing measures while reducing inequality**
 - Continue public investments, particularly in areas that boost productivity and competitiveness, can support growth
 - Structural reforms to reduce market inefficiencies can enhance the benefits of public investments
 - A well-designed consolidation plan will vary across countries
 - Protect the vulnerable through targeted support
- **Debt restructuring may be needed for countries at high risk of debt distress**

Policy Priorities with Medium–Term Payoffs

- **Advancing macrostructural reforms to revive productivity growth (Chapter 3)**
 - Identify the largest gaps and prioritize reforms that alleviate the largest impediment to economic activity – such as health and education, labor market, governance, business regulations, digitalization, and external sector
 - Engage in active and effective communication to build consensus
 - Design measures thoughtfully and engage key stakeholders early
 - Strengthen institutional framework to build trust
- **Accelerating the green transition and addressing climate change**
 - Carbon pricing, subsidies for low-carbon investment, and carbon border adjustment mechanism can support the green transition, if compatible with WTO
 - Green industrial policies have large potential; only if compatible with WTO
 - Investing in climate adaptation and infrastructure
 - Improve climate risk monitoring system and risks management; strengthen safety nets and insurance
 - Mobilize climate finance

Policy Priorities with Medium–Term Payoffs

- **Strengthening multilateral cooperation**

- Can prevent fragmentation, sustain economic growth and stability, and address climate change
- Trade policies should be clear and transparent
- Establish a “green corridor” to safeguard international flow of critical mineral
- Industrial policies could be envisaged for addressing well-established negative externalities, but should avoid protectionist measures and remain WTO compliant

REGIONAL ECONOMIC OUTLOOK

ASIA AND PACIFIC



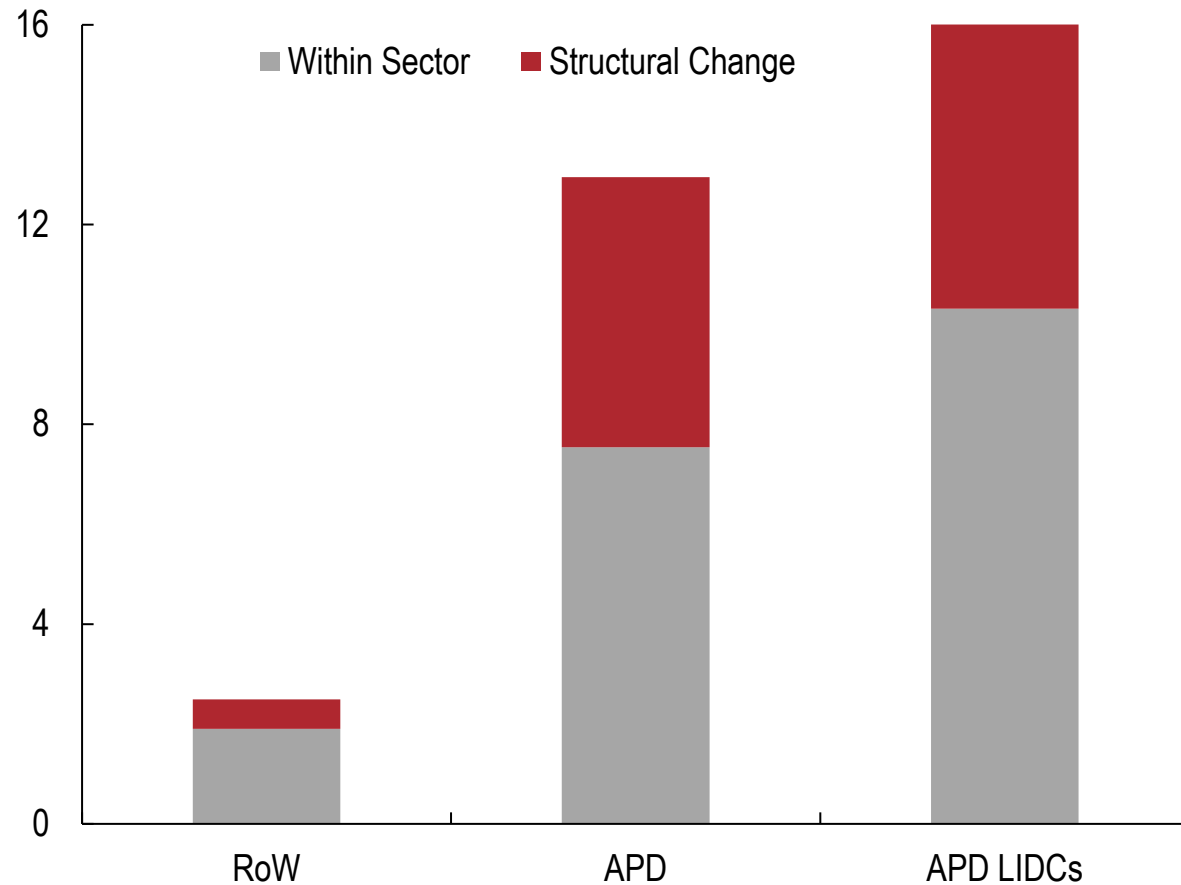
**ASIA AND PACIFIC
DEPARTMENT**

ANALYTICA CHAPTER

ASIA-PACIFIC'S STRUCTURAL TRANSFORMATION: THE PAST AND PROSPECTS

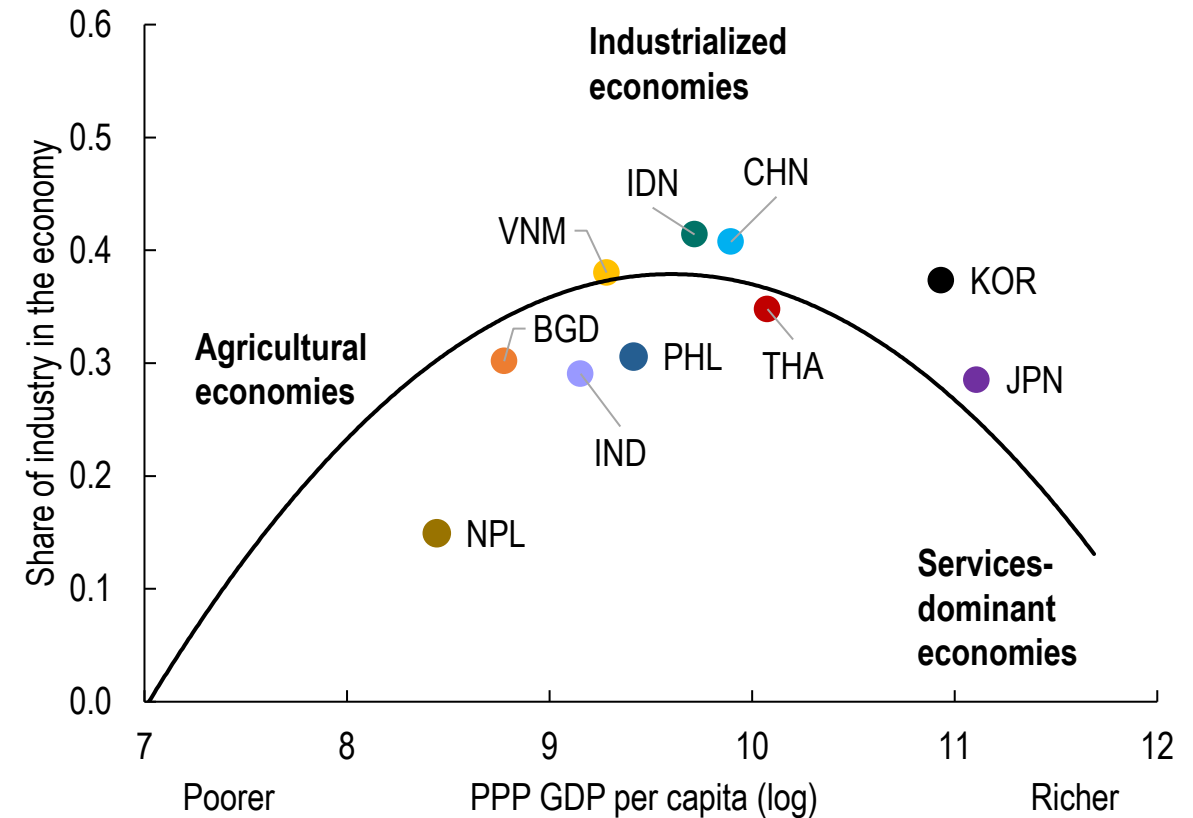
Structural Transformation

Labor Productivity Growth Decomposition, 1990-2018
(Change during the period relative to initial year)



Source: GGDC Economic Transformation Database and IMF Staff calculations.

Industry Share in Value Added versus Income

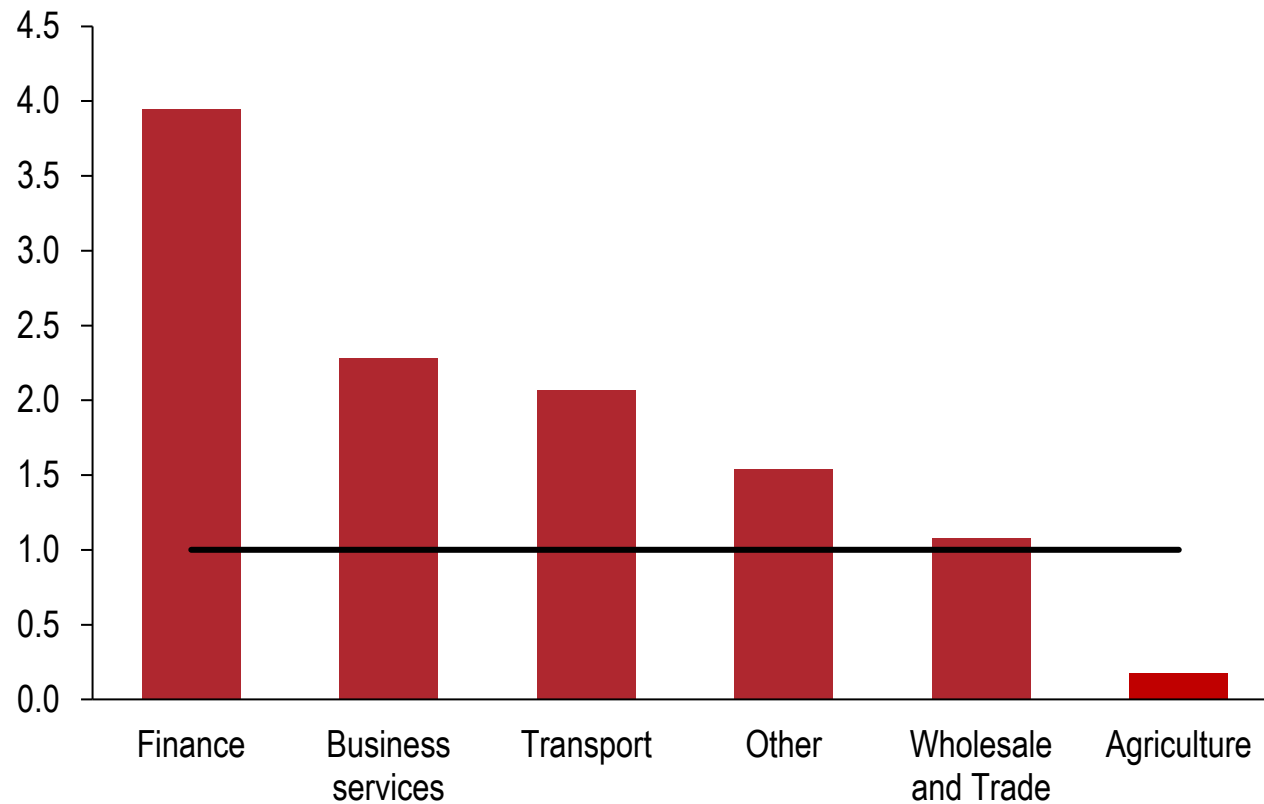


Source: GGDC Economic Transformation Database and IMF Staff calculations.

Are Services the Future?

Labor Productivity Relative to Manufacturing - Asia, 2018

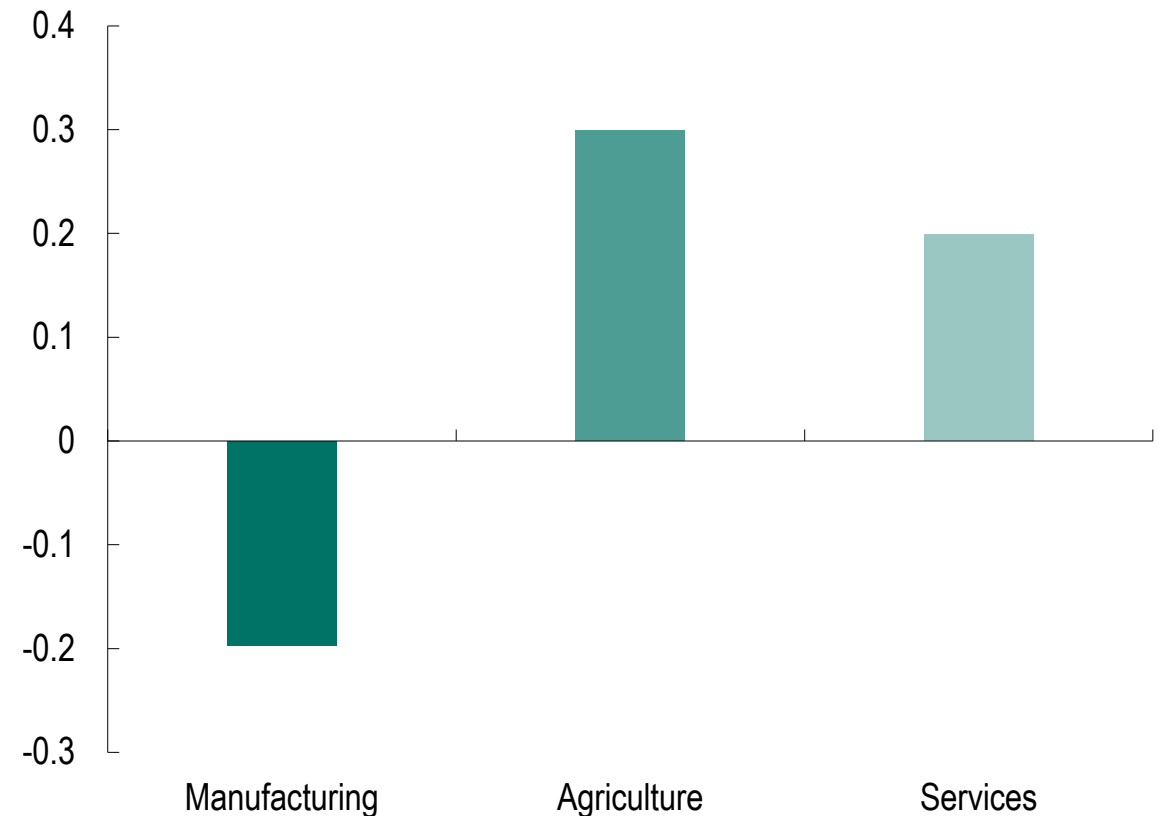
Median (across countries) productivity relative to manufacturing (manufacturing = 1))



Source: GGDC/UNU-WIDER Economic Transformation Database (ETD), PWT, and IMF staff calculations.

Trade restrictiveness in Asia and Pacific

(Z-score: standard deviations from the global average)



Source: WITS, WB-WTO, and IMF staff calculations.

Note: The figure shows z-scores (difference from the global average in terms of standard deviation) of simple averages in Asia and Pacific. Manufacturing and agriculture restrictiveness is based on import tariffs, and service trade restrictiveness is based on WB-WTO service trade

Conclusion

- Demographic pressures will slow growth in Asia and the Pacific without productivity gains
- Agricultural productivity needs to improve to facilitate structural transformation.
- Reallocations toward more productive services can enhance productivity and growth
- ... but requires favorable policies.

Thank You