



**ASIA AND PACIFIC
DEPARTMENT**

MACROECONOMIC HEADWINDS AND THE FISCAL AND DEBT OUTLOOK IN ASIA

R Sean Craig

Macroeconomic Advisor

Capacity Development Office in Thailand

IMF Asian and Pacific Department

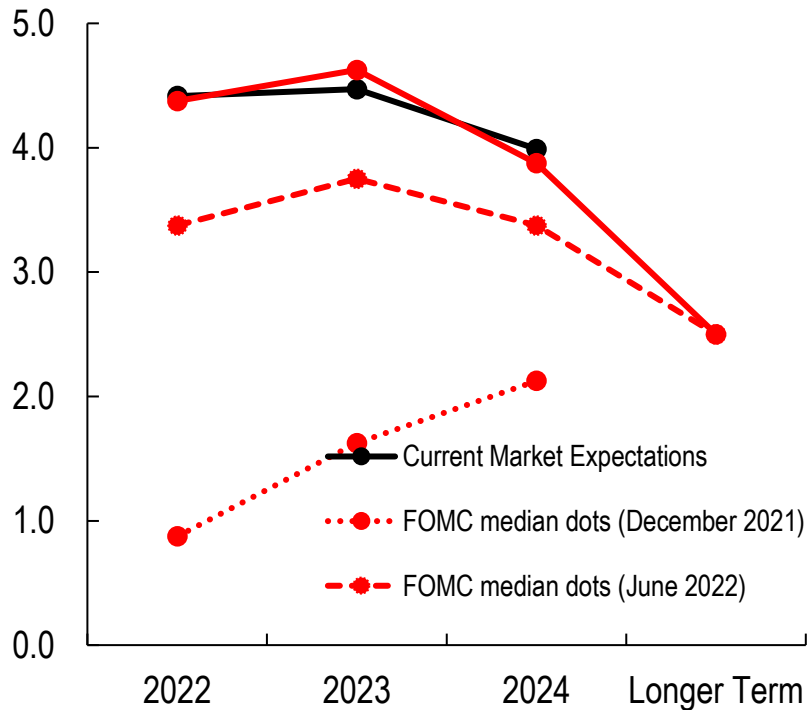
November 29, 2022

Three headwinds are shaping the growth and fiscal outlooks in Asia

1. Financial tightening

**Federal Reserve becoming more aggressive
as US inflation remains high...**

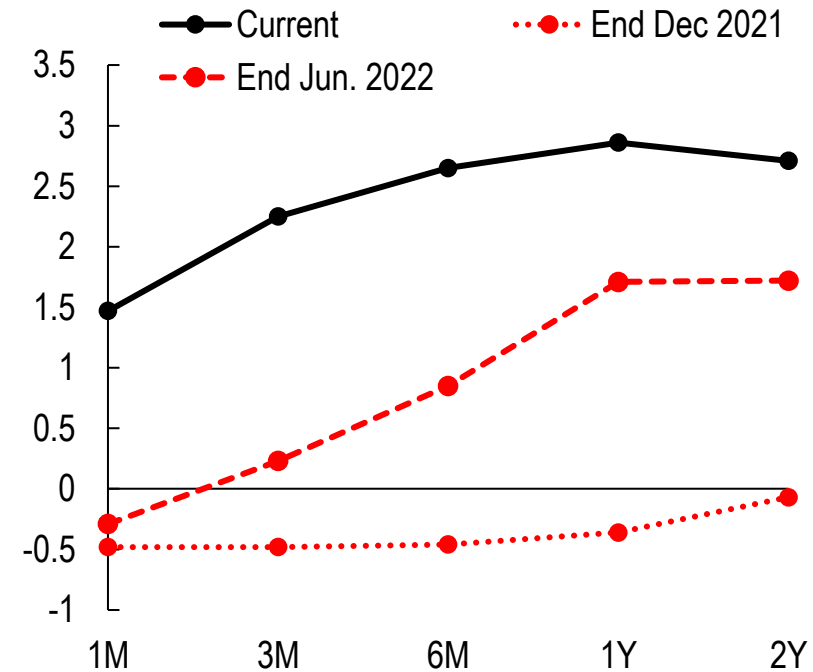
Federal Funds Rate
(In percent; y-o-y)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Data through October 26, 2022.

**... and ECB also tightening more than
previously expected...**

Implied policy rate - Eurozone
(In percent)



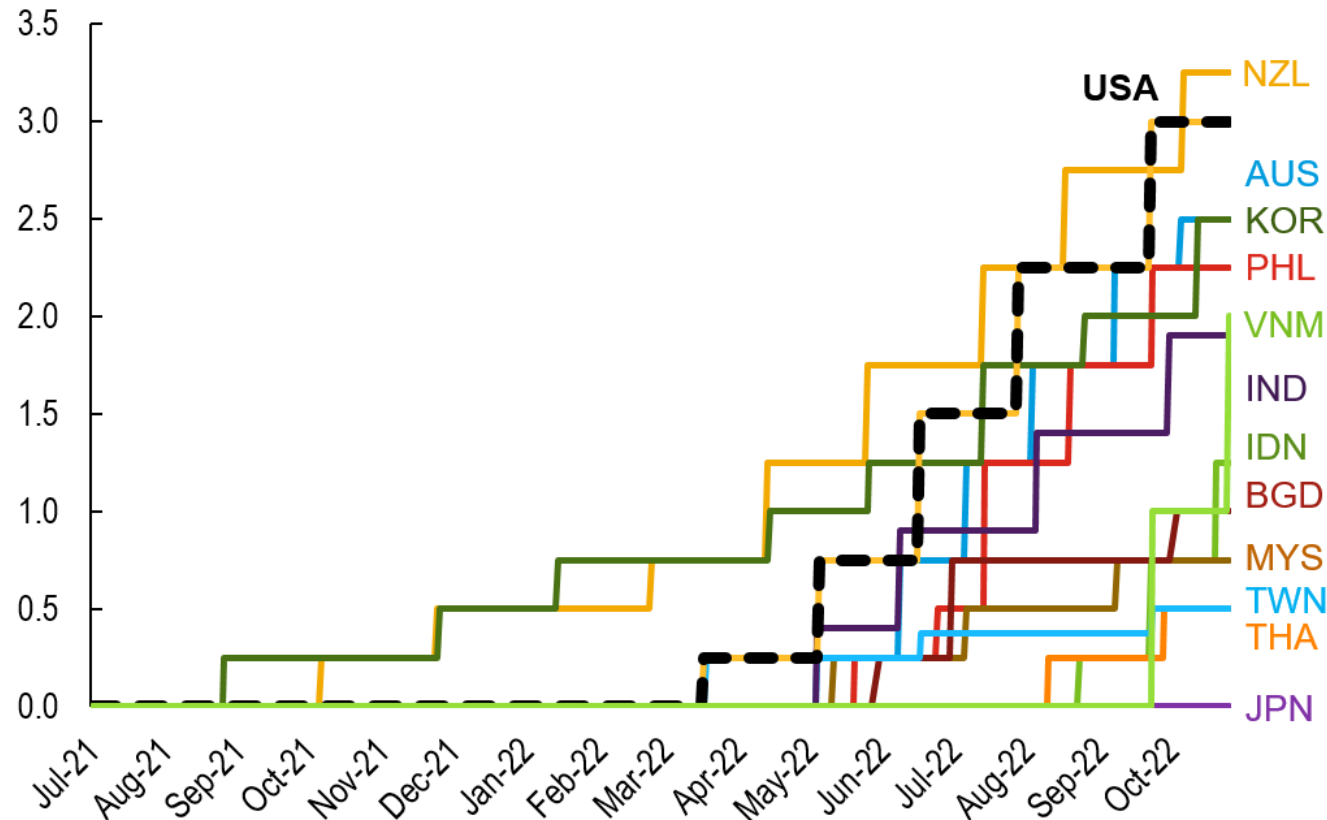
Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Data through October 26, 2022.

1. Financial tightening

Rate hikes have begun across the region...

Policy Rates

(Change since June 2021, percentage points)



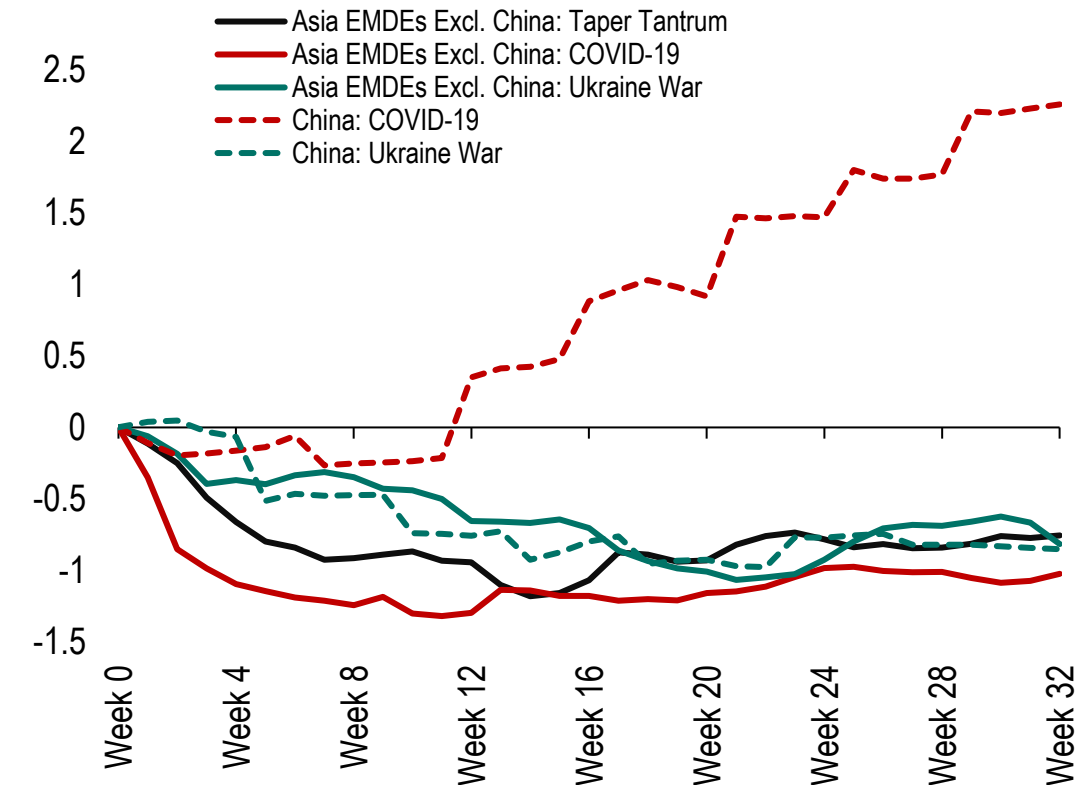
Source: Bloomberg L.P.; Haver Analytics; Consensus Forecasts; and IMF staff calculations.

Note: Data through October 26, 2022.

Portfolio outflows have been as large as in recent historical stress episodes...

Cumulative Portfolio Flows

(Percent of IIP liabilities)



Source: Institute of International Finance; Haver Analytics;

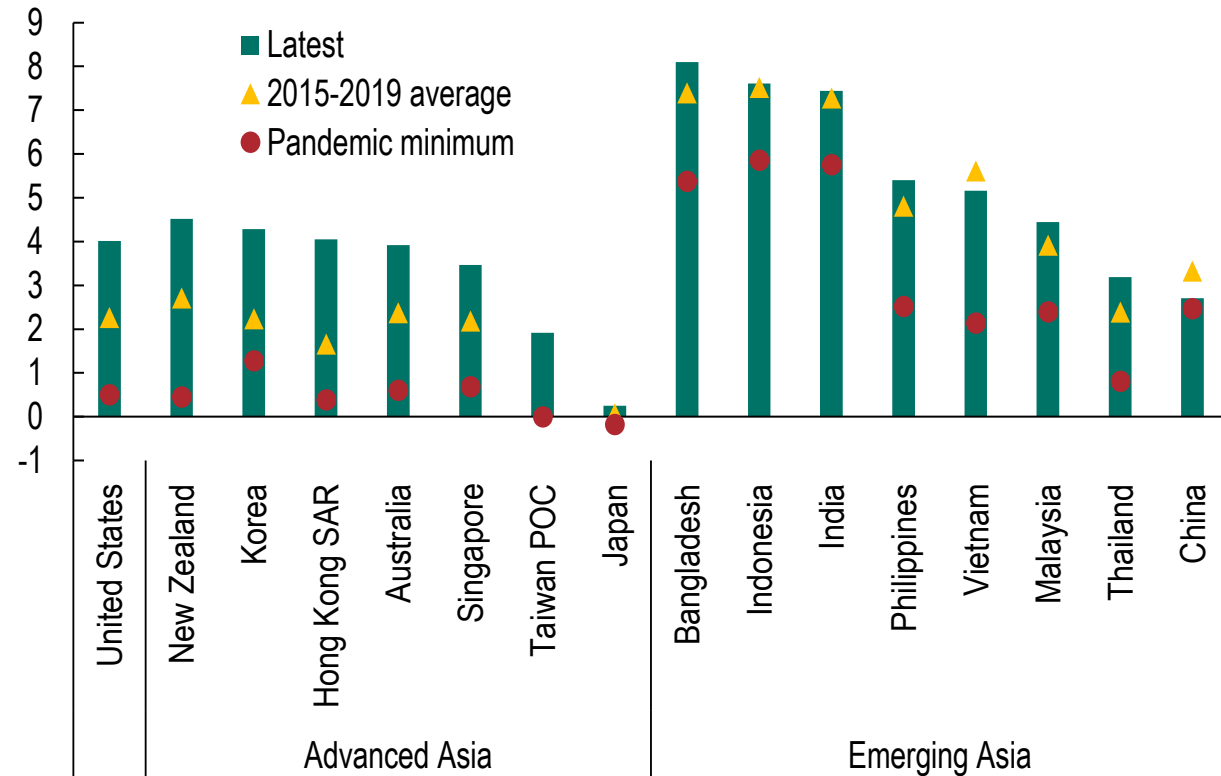
International Financial Statistics; and IMF staff calculations.

Notes: EM Asia includes India, Indonesia, the Philippines, Sri Lanka, and Thailand. Data through end-September.

1. Financial tightening

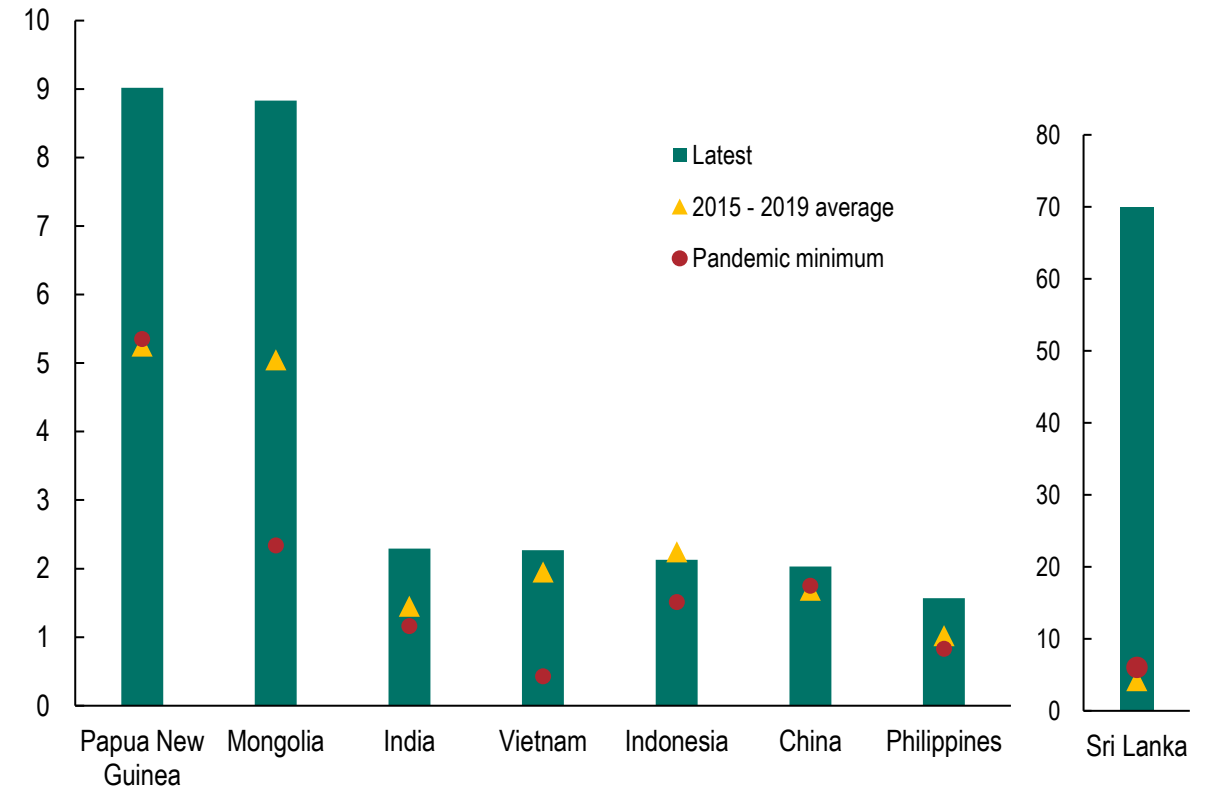
Local currency yields have risen across Asia, but remain around historical averages in EMs...

Local Currency Sovereign Yields
(Percent, 10-year sovereign yields)



... while spreads on dollar-denominated debt remain compressed

Spreads on USD-denominated bonds
(Percent)



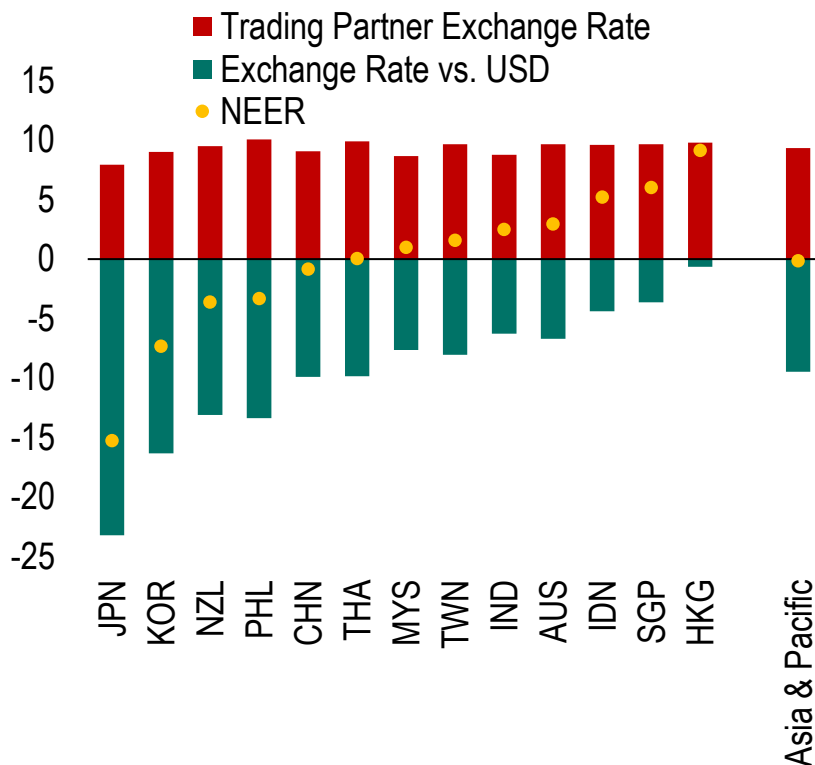
Source: Bloomberg Finance L.P. and IMF staff calculations. Data through October 26, 2022.

Impact on exchange rates and FX reserves

Asian currencies depreciating sharply against the dollar, but not in effective terms...

Contributions to Nominal Effective Exchange Rate Changes in 2022

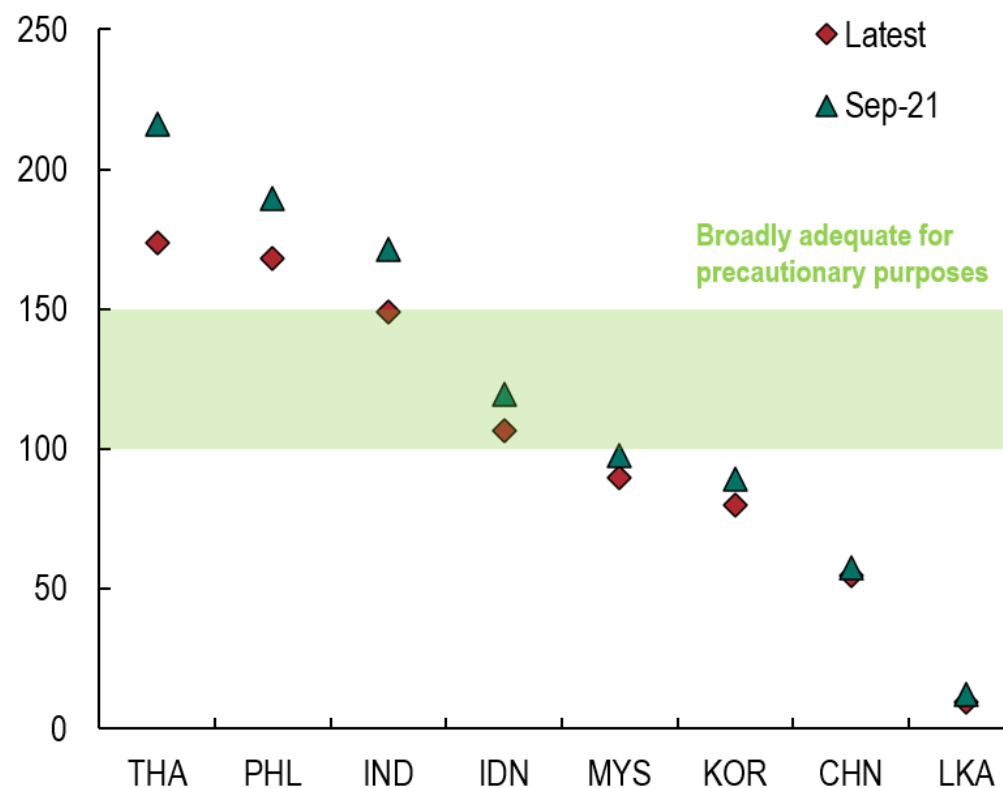
(Percent)



Sources: Information Notice System and IMF staff calculations.
Note: Year-to-date percent change. Monthly average through September.

Reserves are falling, and while buffers remain adequate for most Asian EMDEs, pressure is likely to continue

Gross international reserves (Percent of 2022 ARA metric)

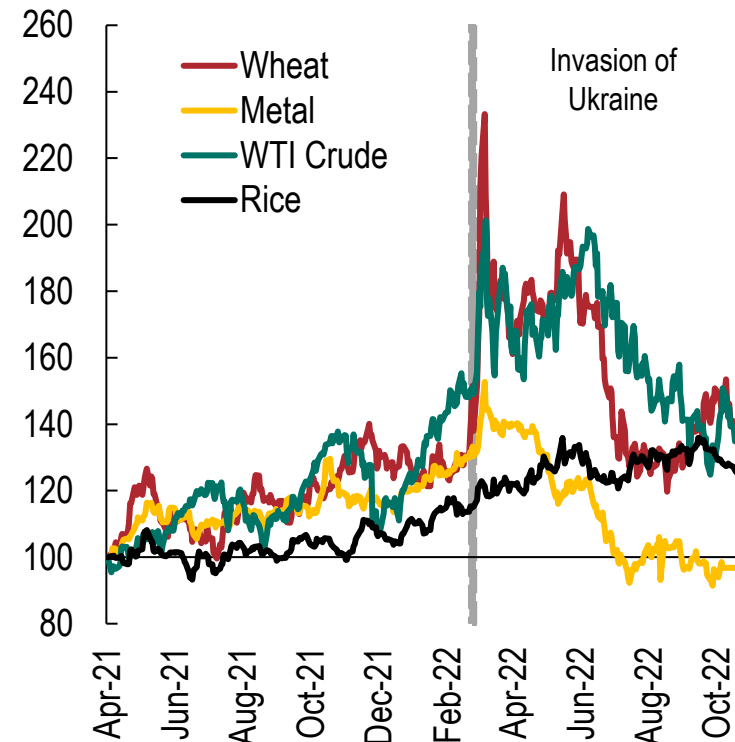


Source: CEIC, Assessing Reserve Adequacy April 2022 and IMF Staff calculations.

2. The war in Ukraine

Commodity prices spiked following invasion, and most have reverted...

Commodity Prices
(Index = 100 April 2021)

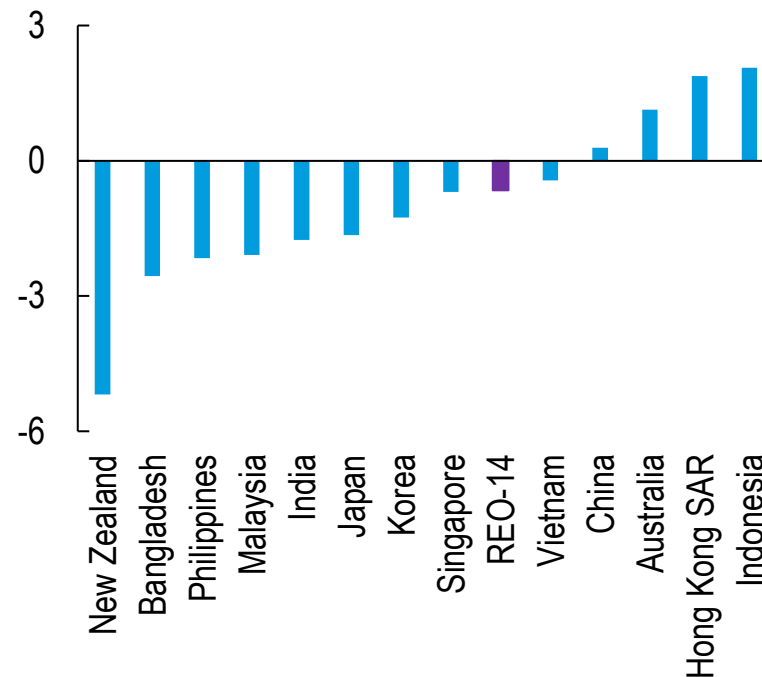


Source: Bloomberg Finance L.P. and IMF staff calculations.

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%).

...provoking large swings in current accounts...

Revision to Current Account Balance for 2022
(Percent of GDP)

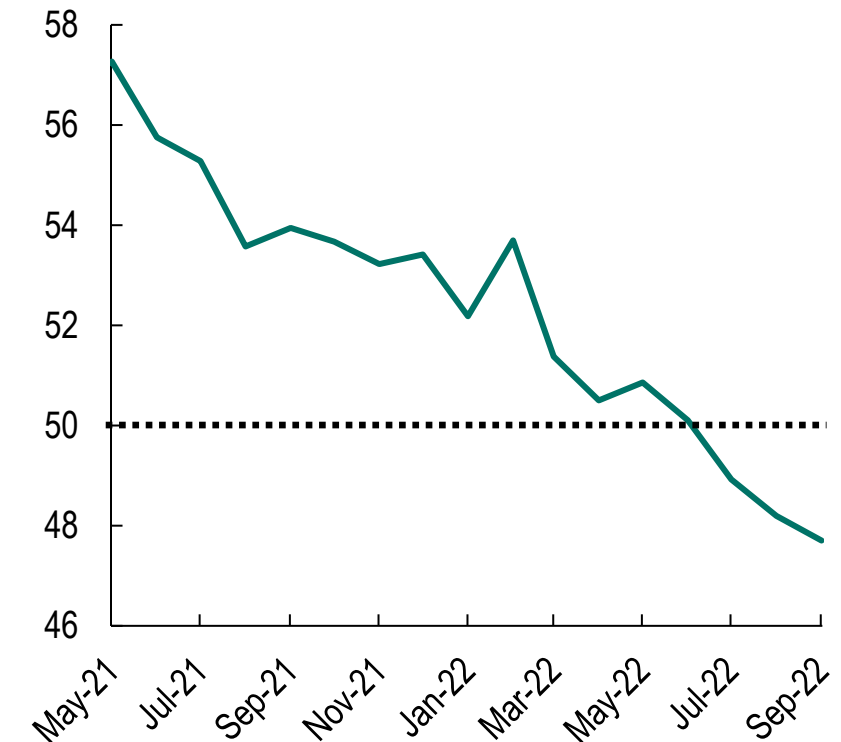


Sources: IMF, World Economic Outlook Database; and IMF staff calculation.

Note: Revision from January 2022 WEO Update to October 2022 WEO.

...and global export orders have started falling as the war drags on and recession risks rise in the US and Europe

Global Manufacturing PMI: New Export Orders
(PMI No Change = 50)

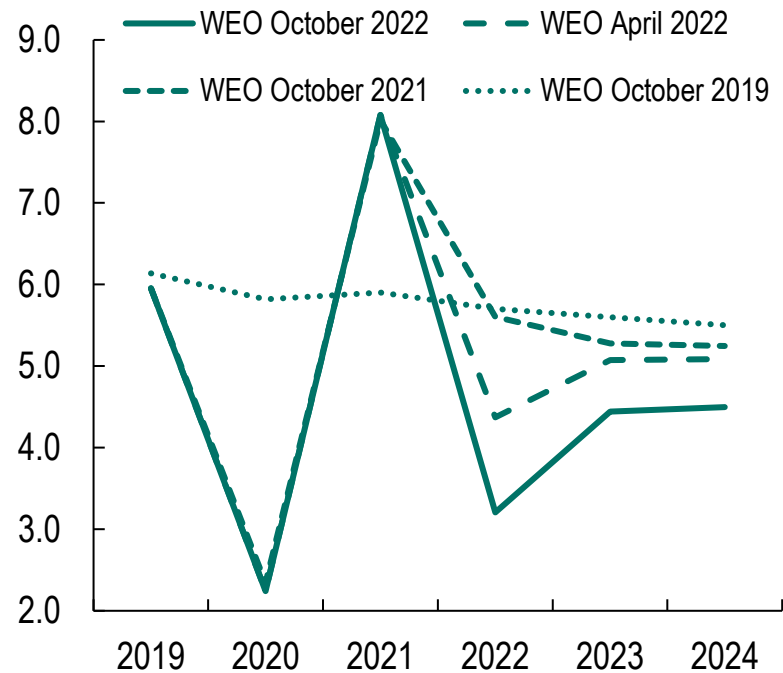


Sources: Haver Analytics; and IMF staff calculations.

3. Slowdown in China

Chinese growth has been marked down significantly...

Revisions to China's Growth
(Percent)



Source: IMF World Economic Outlook.
Note: WEO = World Economic Outlook.












... reflecting the impact of the zero-COVID lockdowns on mobility and the crisis in the real estate sector...

China: Mobility and Supply Chain Disruptions
(Mobility 14-day MA; PMI Indexes subtracted by 50)



Source: WIND; and IMF staff calculations.

GDP growth forecasts

											
	World	Asia	AEs	EMDEs	Australia	China	Japan	Korea	India	ASEAN	PICs
2021	6.0	6.5	3.7	7.2	4.9	8.1	1.7	4.1	8.7	3.1	-1.9
2022	3.2	4.0	2.3	4.4	3.8	3.2	1.7	2.6	6.8	5.0	0.8
Revisions since Apr. 2022 WEO	-0.4	-0.9	-0.4	-1.0	-0.4	-1.2	-0.7	0.1	-1.4	-0.1	-1.1
2023	2.7	4.3	2.0	4.9	1.9	4.4	1.6	2.0	6.1	4.7	4.2
Revisions since Apr. 2022 WEO	-0.9	-0.8	-0.7	-0.7	-0.6	-0.7	-0.7	-0.9	-0.8	-0.9	-0.7

Source: IMF October 2022 *World Economic Outlook*.

GDP growth forecasts: EMDEs



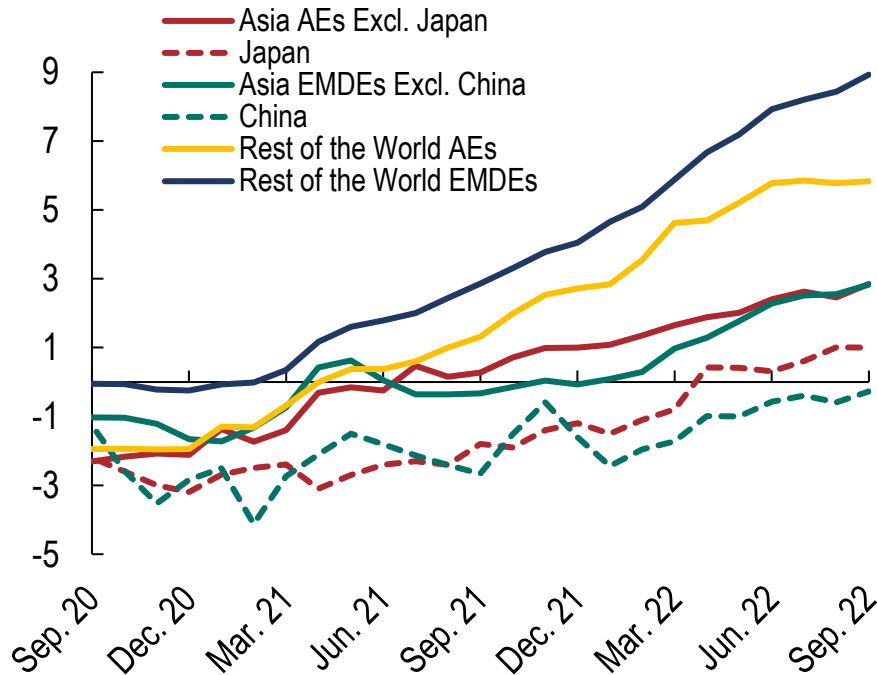
	Bangladesh	Cambodia	China	India	Indonesia	Malaysia	Mongolia	Philippines	Sri Lanka	Thailand	Vietnam
2021	6.9	3.0	8.1	8.7	3.7	3.1	1.6	5.7	3.3	1.5	2.6
2022	7.2	5.1	3.2	6.8	5.3	5.4	2.5	6.5	-8.7	2.8	7.0
Revisions since Jul. 2022 WEO Update	0.8	0.0	-0.1	-0.6	0.0	0.3	0.5	-0.2	-11.3	0.0	0.0
2023	6.0	6.2	4.4	6.1	5.0	4.4	5.0	5.0	-3.0	3.7	6.2
Revisions since Jul. 2022 WEO Update	-0.7	0.0	-0.2	0.0	-0.2	-0.3	-2.0	0.0	-5.7	-0.3	-0.5

Source: IMF October 2022 *World Economic Outlook*.

Inflation expected to rise further

Inflation is rising across Asia, but not as much as elsewhere...

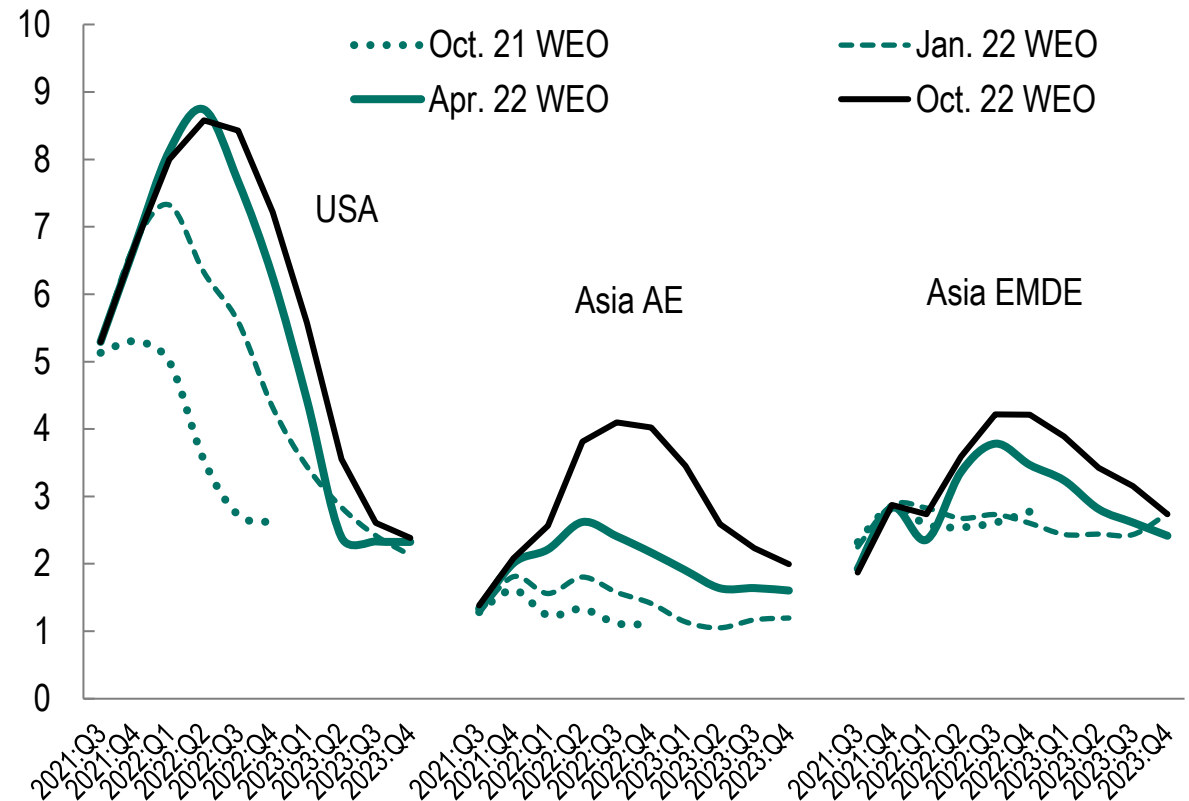
Headline Inflation: Deviation from target
(Percentage)



Sources: Haver Analytics; and IMF staff calculations.

Note: 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.

... and while we are revising up our forecast substantially, we expect inflation to peak in late 2022
(Percent, year over year)



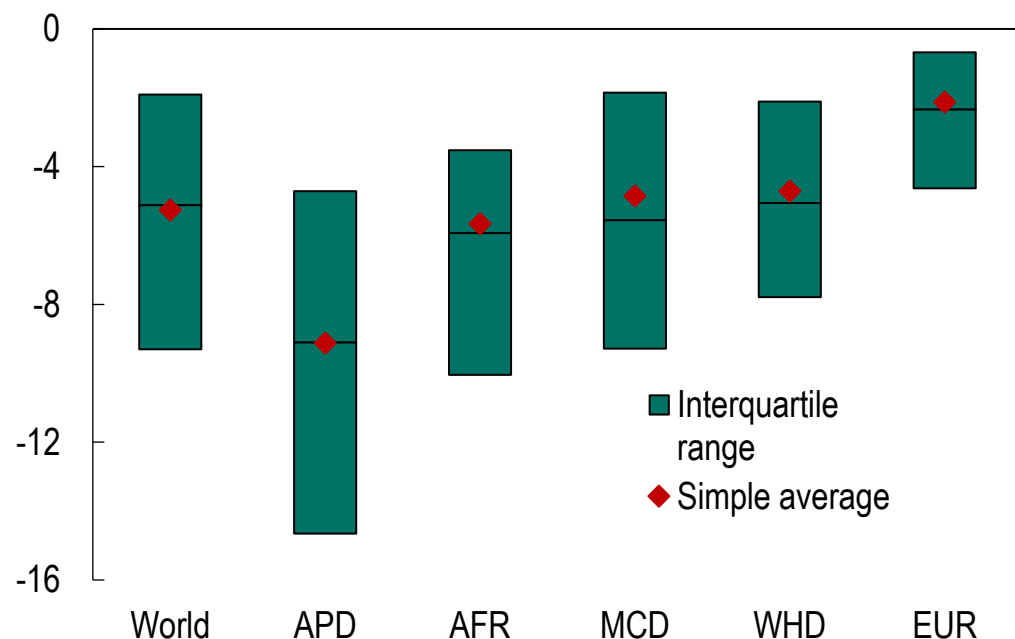
Note: Weighted average. Asia advanced economies includes Australia, New Zealand, Japan, Hong Kong SAR, Korea, Taiwan Province of China, and Singapore. Asia emerging market and developing economies includes China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam. WEO = World Economic Outlook; AE = advanced economies; EMDE = emerging market and developing economies.

Medium-term forecasts imply significant pandemic scarring

Asia expected to suffer the most pandemic scarring ...

Output Losses, by Region

(Percent, deviation of 2024 GDP from pre-pandemic projections)

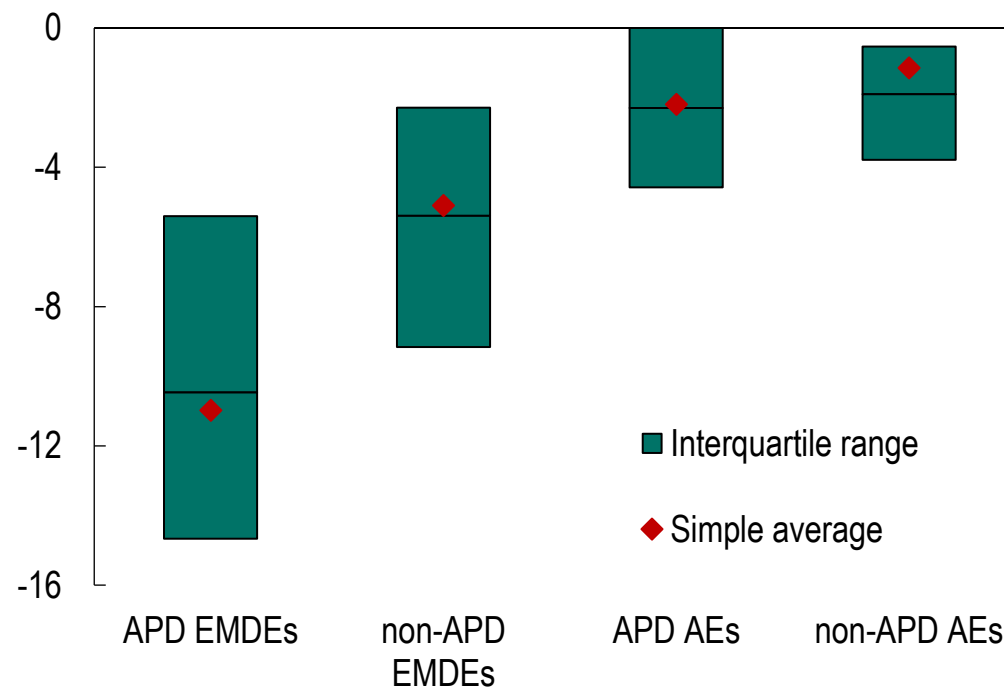


Source: World Economic Outlook and IMF staff calculations.

... which is particularly pronounced among emerging market and developing economies

Output Losses, by Income Group

(Percent, deviation of 2024 GDP from pre-pandemic projections)



Source: World Economic Outlook and IMF staff calculations.

Risk of intensification of the three headwinds

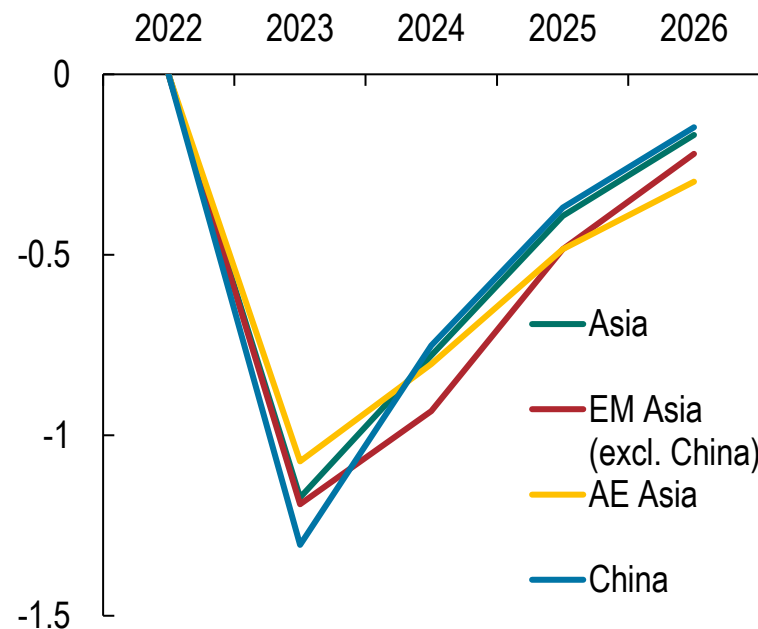
Downside scenario:

- **Deeper slowdown in China.**
A shock to investment and consumption reduce growth by a further 1 percent.
- **Global recession**
A shock to US and EA demand reduces their growth by 1 percent in 2023.
- **Tighter financial conditions**
Term premium in the US returns to historical average; sovereign and corporate spreads rise by 150 bps.

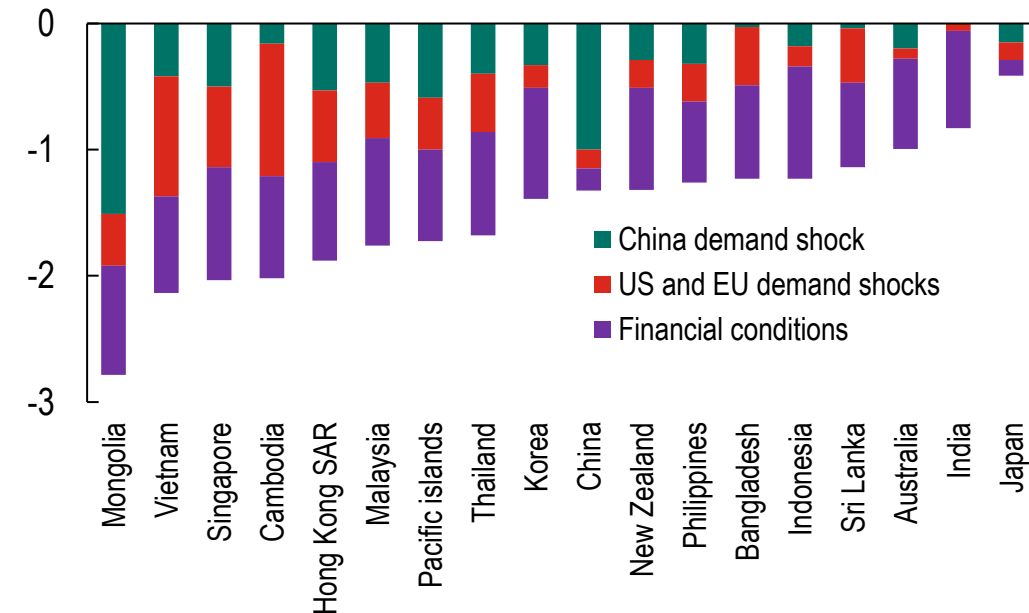
Growth would fall by about 1 percentage point in Asia, but remain positive...

... with impacts that vary according to trade and financial links

Impact on Real Growth
(Percentage points)



Country-level Impact on Real GDP Growth
(Percentage points)



Source: IMF staff calculations using G20MOD.

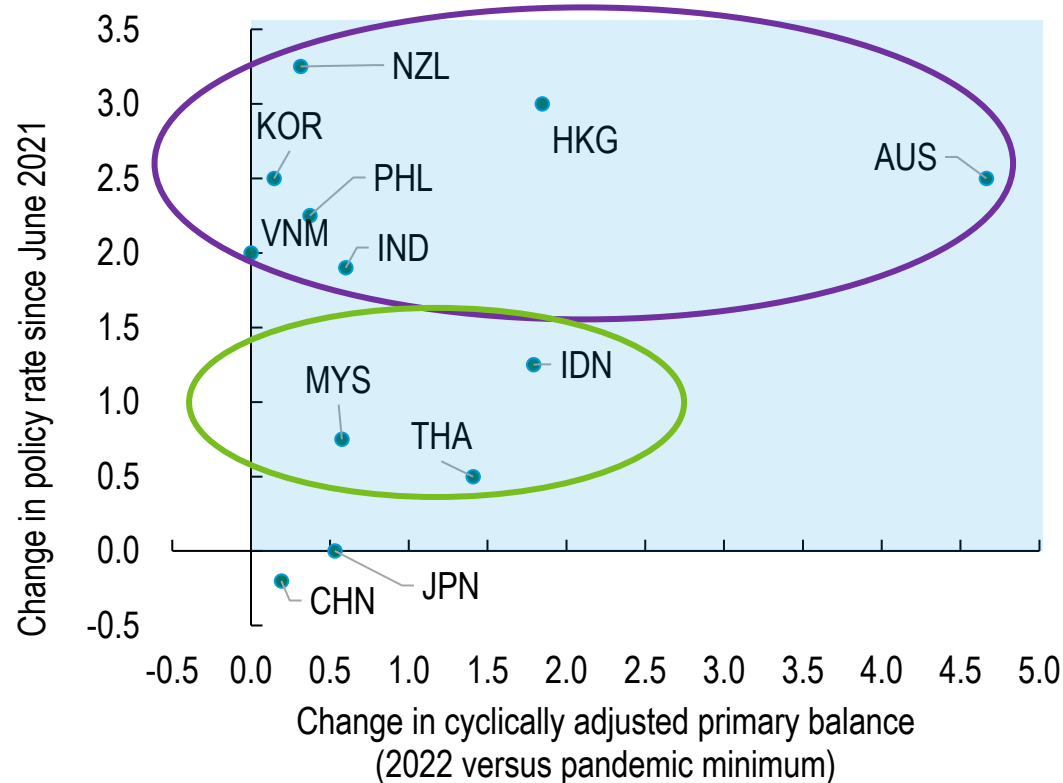
Note: EM = emerging market economies; AE = advanced economies.

Implications for fiscal policy and debt

Fiscal and monetary policy tighten across the region

Monetary and fiscal policies are normalizing together in most countries...

Fiscal and Monetary Policy in Asia
(Percent)

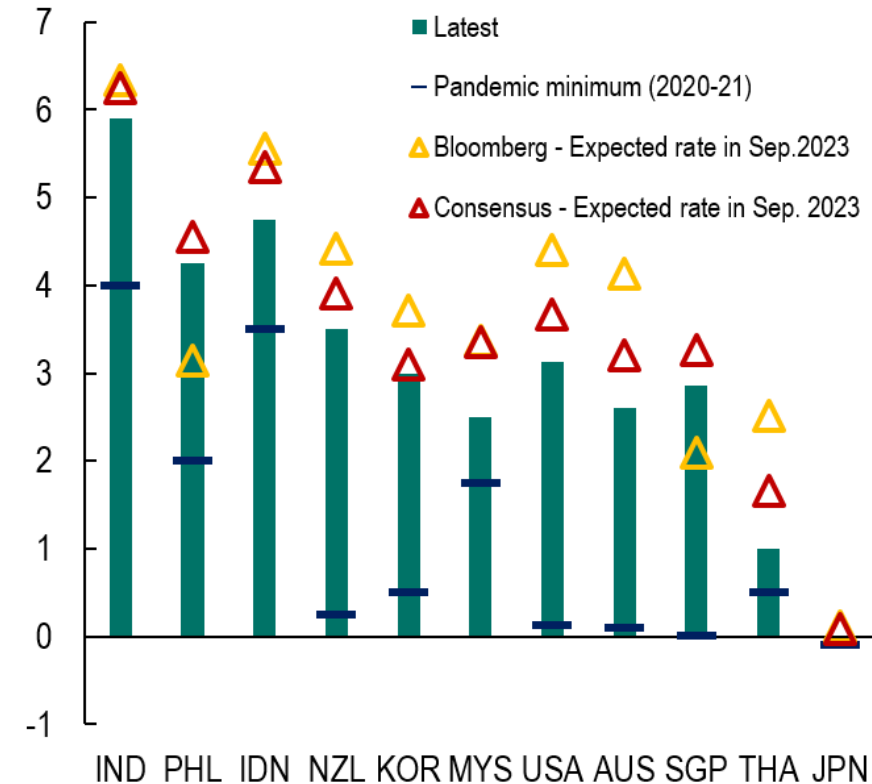


Source: Haver Analytics; and WEO database.

Note: Country abbreviations are International Organization for Standardization country codes. WEO = World Economic Outlook. Data through October 26, 2022.

Rate hikes have begun across the region and are expected to rise further...

Short-Term Interest Rates
(In percent; end of period)



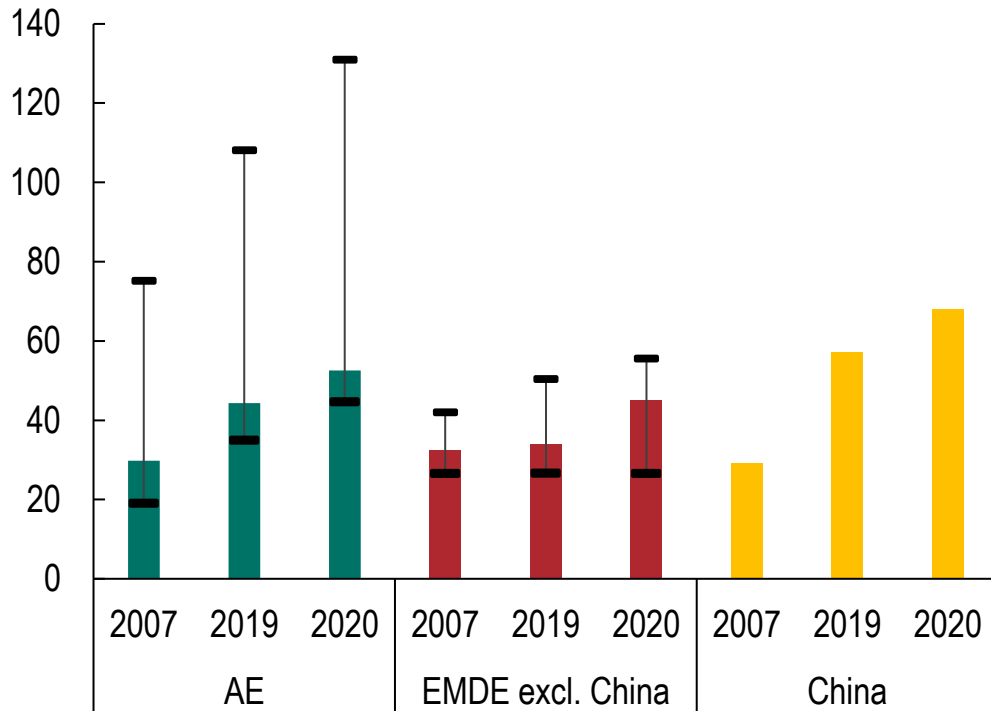
Source: Bloomberg L.P; Haver Analytics; Consensus Forecasts; and IMF staff calculations.

Note: Data through October 26, 2022.

Fiscal policy space is limited by high debt levels

Public debt has been on the rise across Asia, spiking further during pandemic...

Asia: General Government Debt
(Percent of GDP)

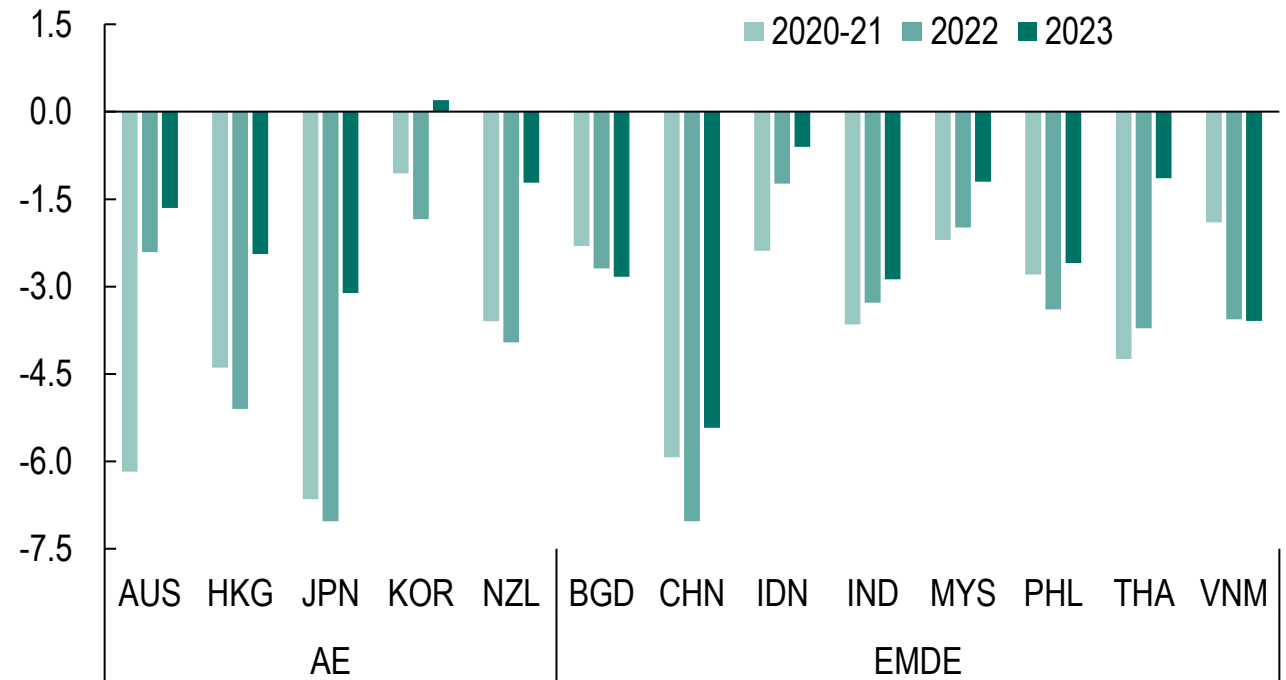


Source: IMF Global Debt Database; and IMF staff calculations.

Note: Upper (lower) horizontal lines represent the 75th (25th) percentiles of the distribution. Bars represent the 50th percentile. AE= advanced economy; EMDE = emerging market developing economy.

...limiting the fiscal space available to respond to the food and energy shock, and prompting most countries to consolidate

Cyclically Adjusted Primary Balance
(Percent of Potential GDP)

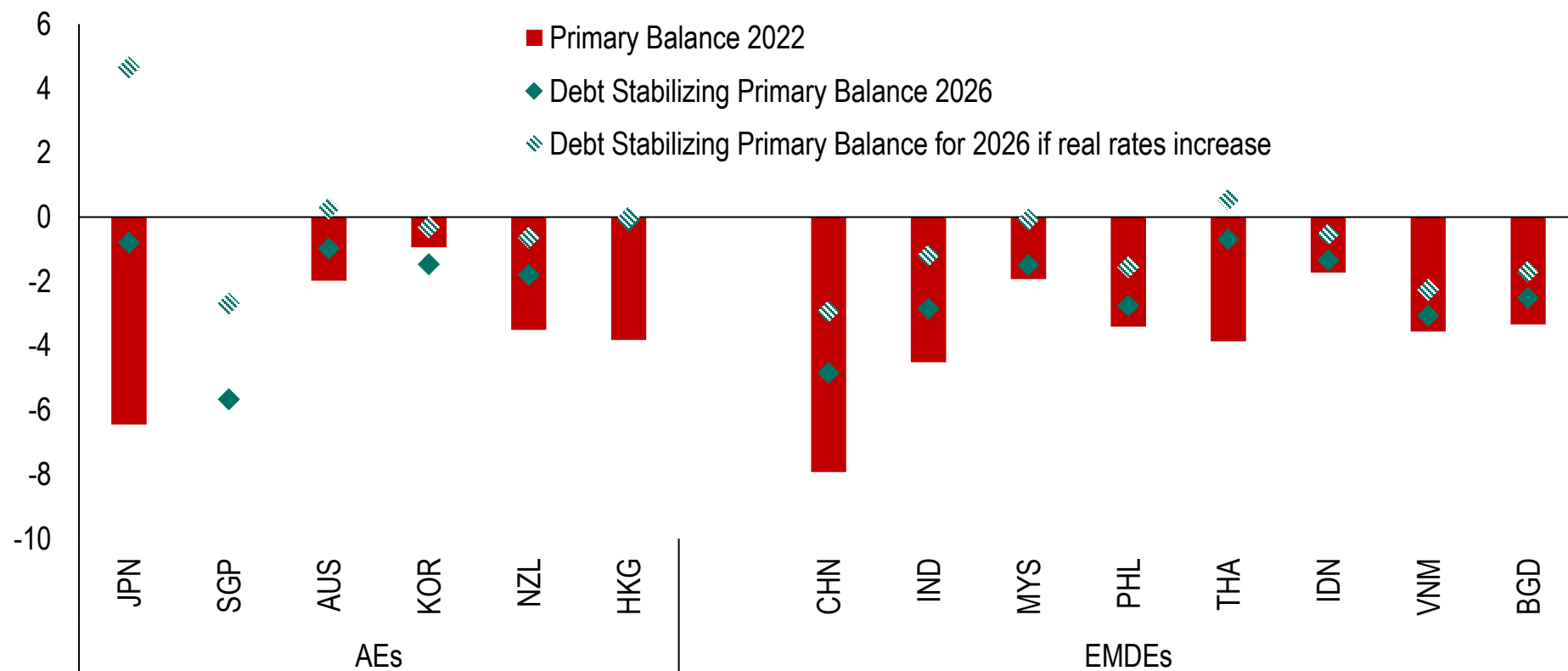


Source: IMF World Economic Outlook.

Note: Bangladesh and Vietnam use Primary Adjusted Balance. Country abbreviations are International Organization for Standardization of country codes. 2020-21 simple average.

Fiscal tightening needed to stabilize debt at higher levels

More fiscal effort will be needed if interest rates keep rising



Sources: 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.