



## Global Economic Outlook and Policy Challenges

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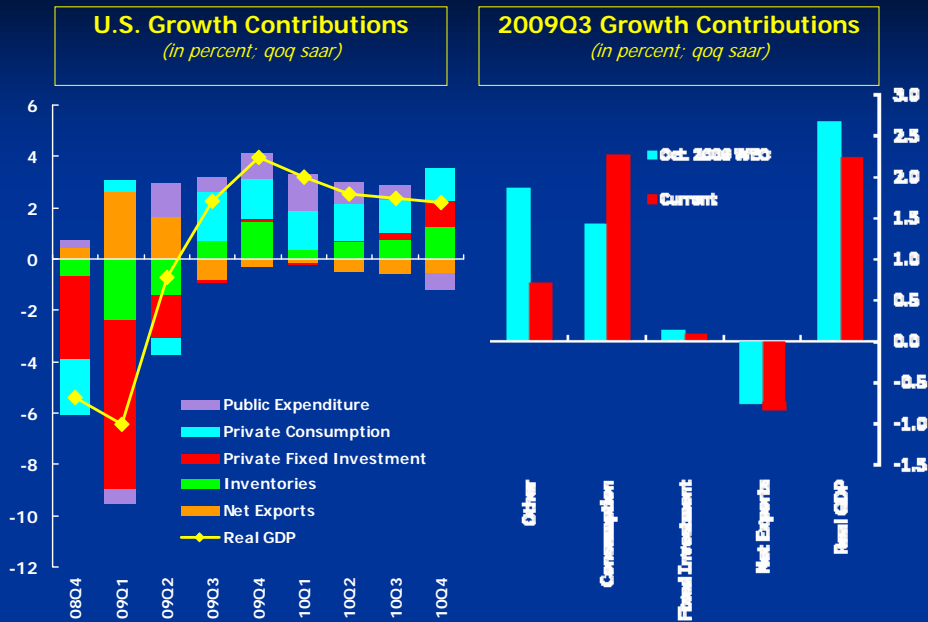
### Global Economic Outlook and Major Policy Challenges

- Perspectives on the global recovery
- Can Asia's recovery be sustained?
  - How important is China?
- Major policy challenges for advanced countries
  - Exit strategies: Public debt
  - Health of Financial institutions

# The Global Recovery

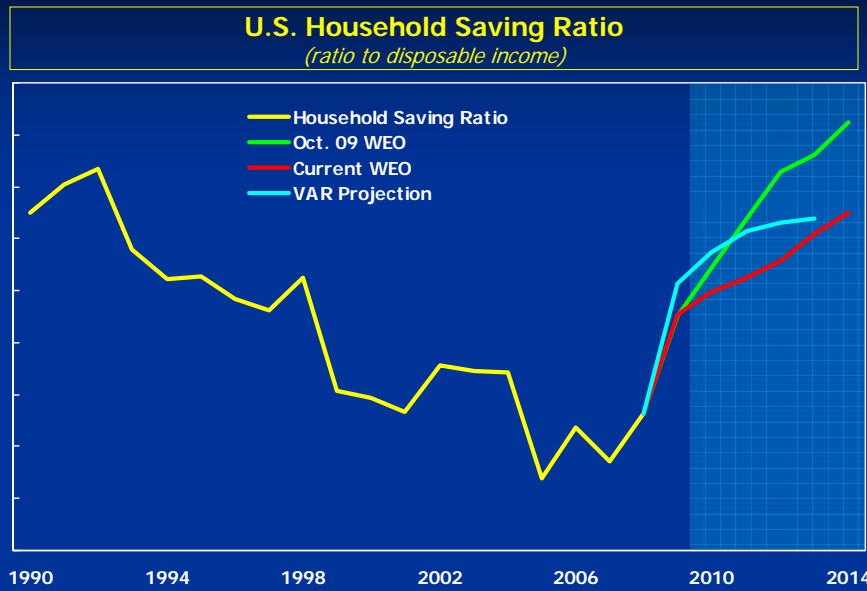
- Major advanced countries – still looking for sustained private demand

## The U.S.: Still Looking for Sustained Private Demand



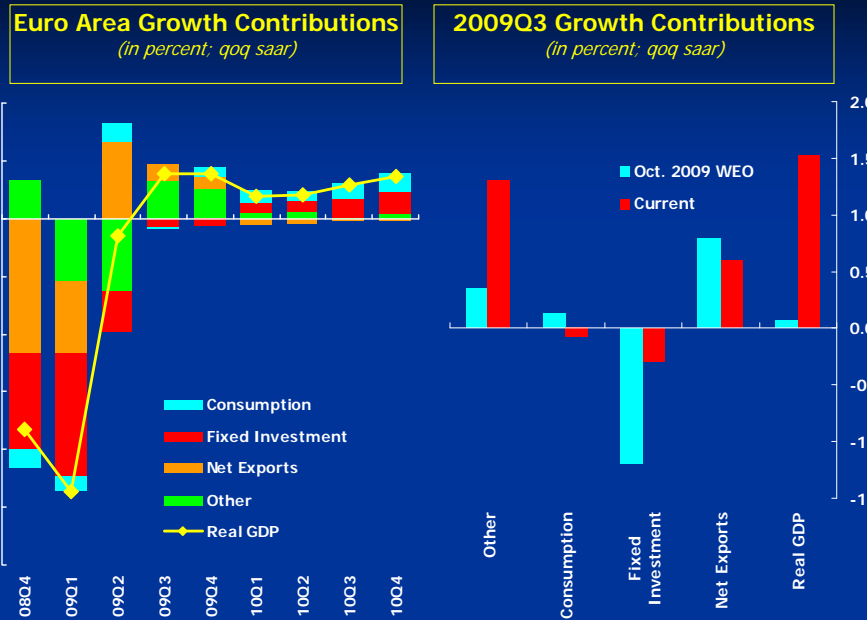
## U.S. Consumers Will Likely Save More

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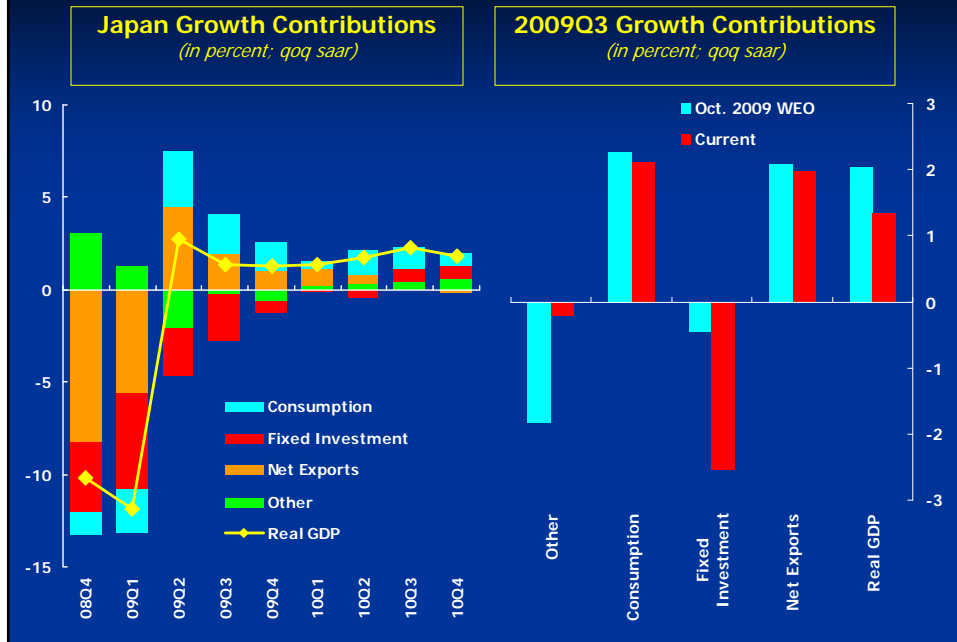
## The Euro area: Weak Private Demand

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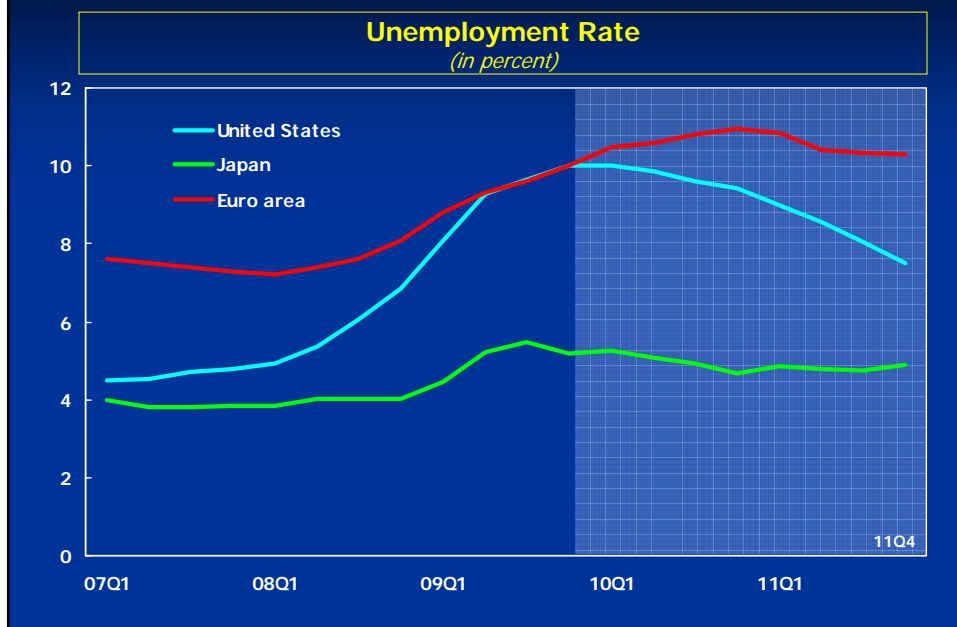
## And a similar story holds for Japan

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## Too Weak a Recovery to Reduce Unemployment Much

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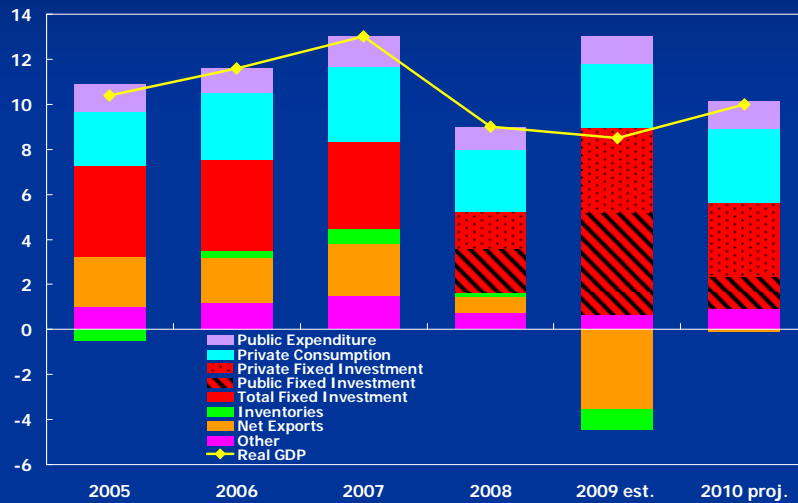


## Is China's Rebound Sustainable?

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### Growth Contributions

(in percent; yoy)



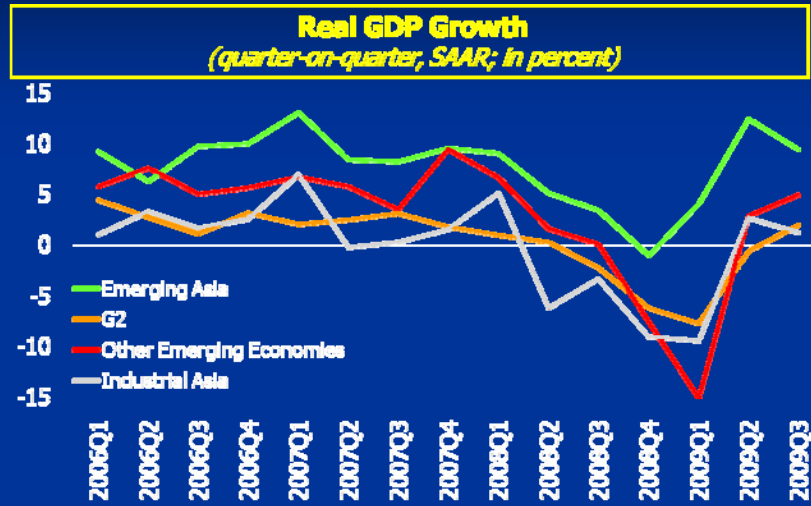
Source: IMF, World Economic Outlook.

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- Perspectives on the global recovery
- Can Asia's recovery be sustained?
- Major policy challenges for advanced countries
  - Exit strategies: Public debt
  - Health of financial Institution

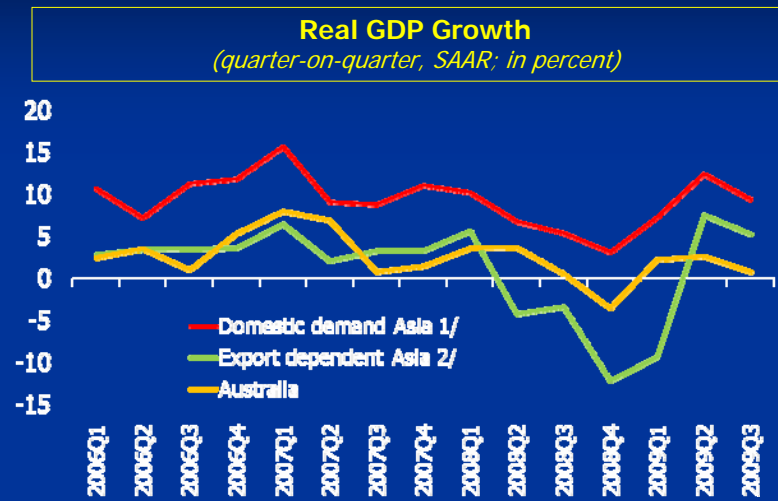
## Emerging Asia is leading the global recovery

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## Domestic demand-driven economies have escaped the recession...

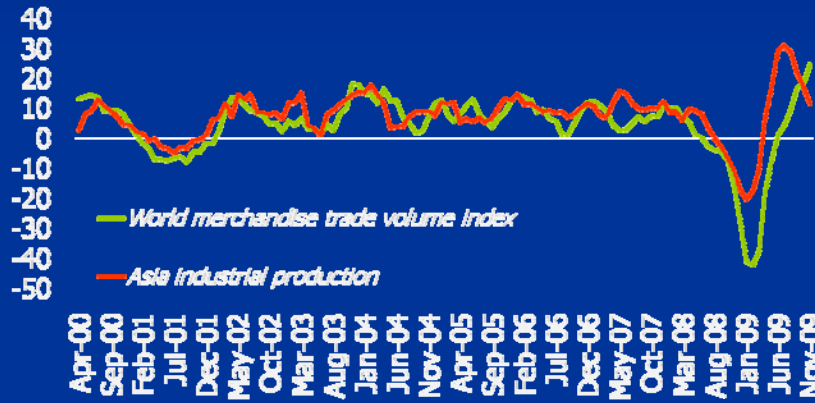
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1/ China, India and Indonesia.; 2/ Other Emerging Asia plus Japan

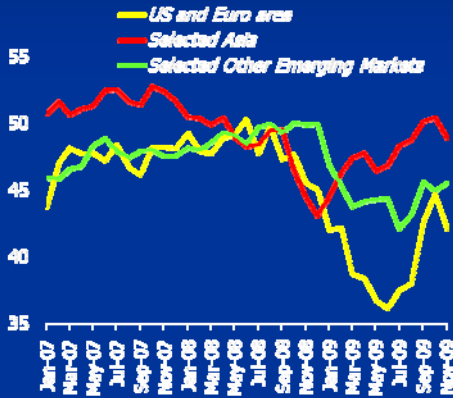
But the rebound of economic activity has coincided with the rebound in world trade...

**World Trade and Asia Industrial Production**  
(3-month percent change of 3-month moving average, SAAR)



...and an early turn in the inventory cycle—especially for IT products

**PMI-Inventories**



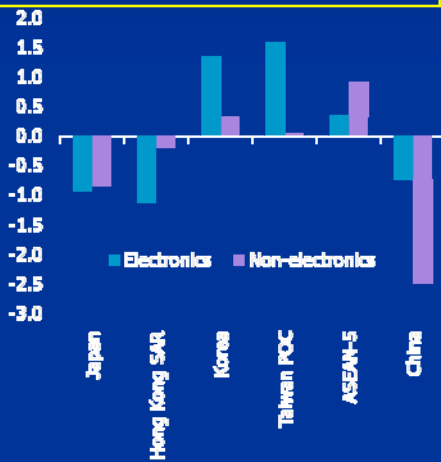
Note: Selected Asia includes Australia, New Zealand, Singapore, Korea, Taiwan Province of China, China and

**U.S. Retail IT Inventories and Asian Electronics Exports**  
(3mm percent change, SAAR)

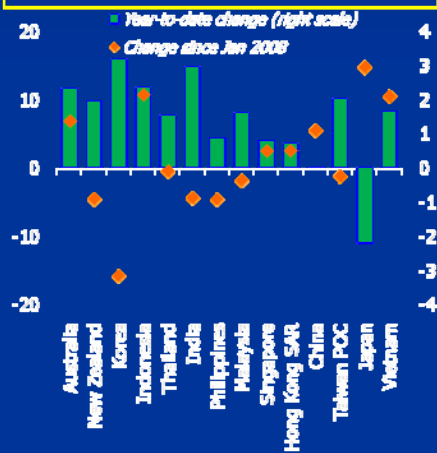


Where exchange rates have weakened, the rebound in exports was supported by gains in market shares

**Selected Asia: Change in Export Market Share (since Dec 2008; in percent)**

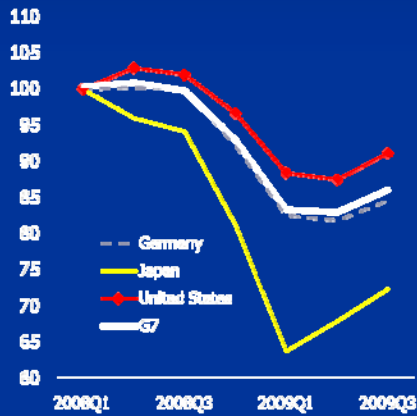


**Asia: Real Effective Exchange Rates (percent change)**

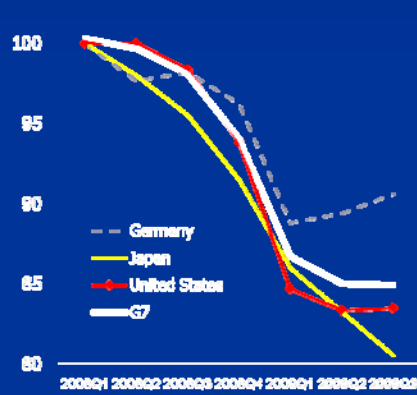


In Japan, however, the rebound in exports has not spilled over to domestic demand

**Real Exports (2008q1=100)**



**Real Investment post crisis (2008q1=100)**



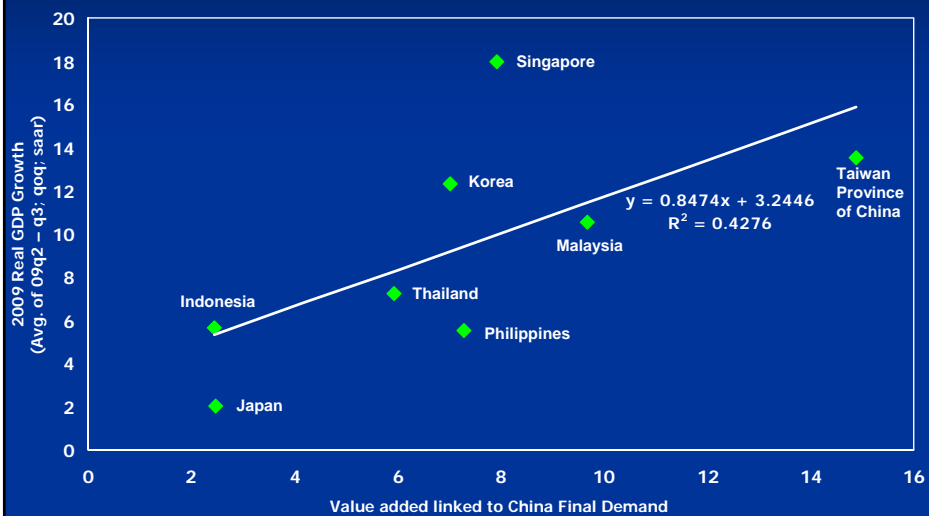


## Asia's recovery

- How important is China?

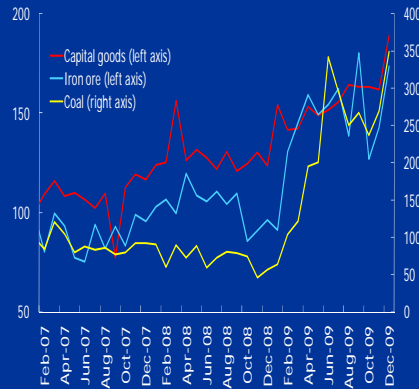
## Asia's Recovery and Links to China

### GDP Growth and Value Added Linked to China (GDP growth average of 2009Q2-Q3; selected Asia)

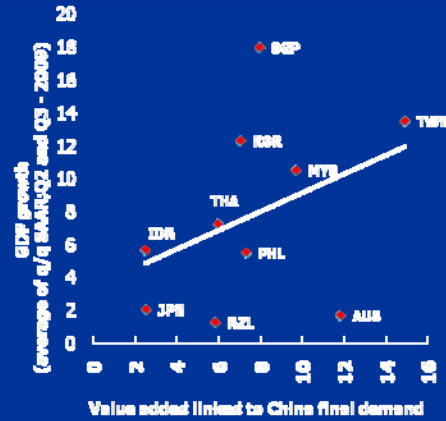


## Economies with closer links to China's final domestic demand have grown more

**China: Import Volumes**  
(January 2007=100)



**Selected Asia: GDP Growth and Value Added Linked to China Final Demand**  
(percent)



## Can Asia's recovery be sustained?

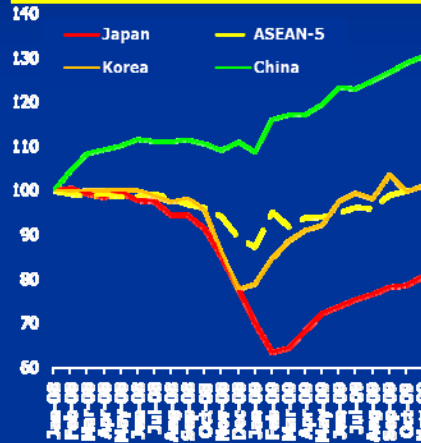
- The outlook

## Exports and IP are still below trend in a number of Asian economies

**Selected Asia: Export Volume**  
(Jan 2008 = 100; SA)

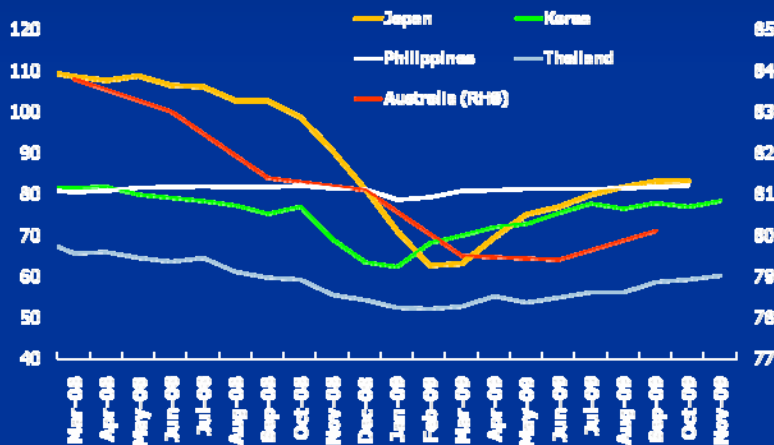


**Selected Asia: Industrial Production**  
(January 2008=100, seasonally adjusted)



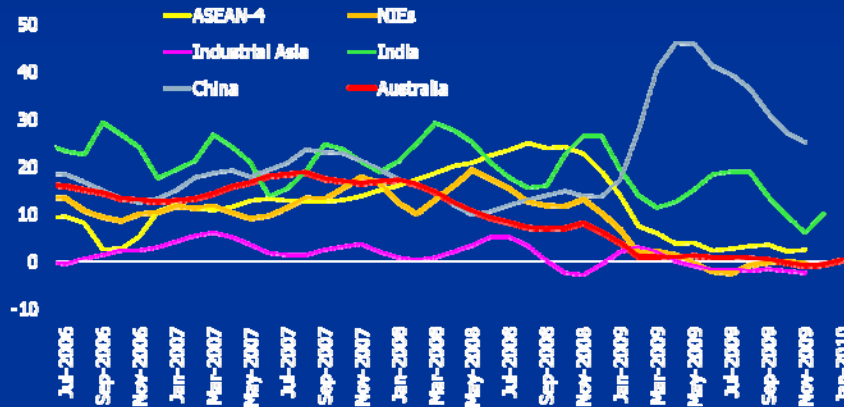
## ... and capacity utilization remains below normal in many economies

**Capacity Utilization in Manufacturing Sector**  
(In percent)



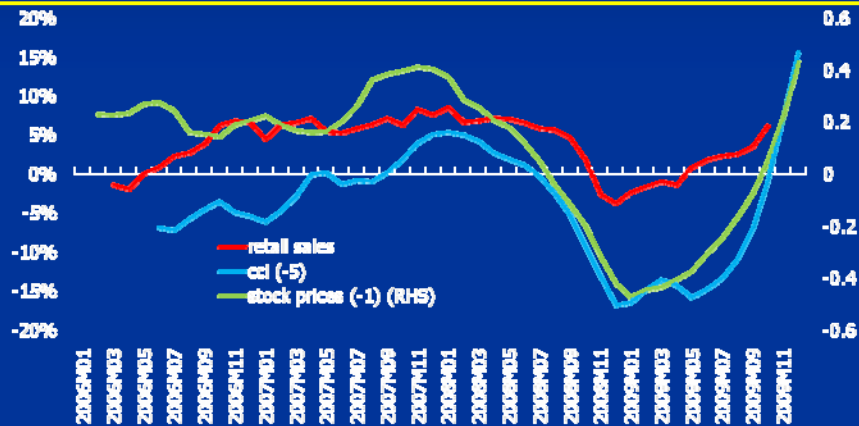
## ...and the credit cycle has still to turn

**Bank credit to the private sector**  
*(Growth rate, 3-month percent change of 3-mma; SAAR)*



## However, leading indicators of consumption continue to point upward

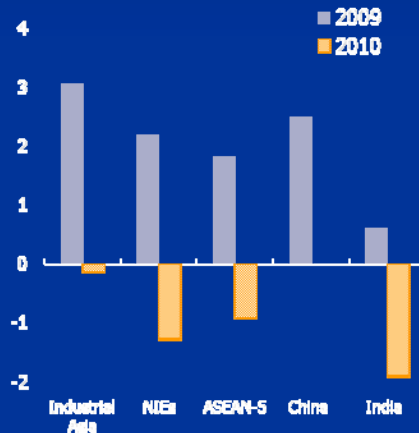
**Selected Asia <sup>1/</sup>: Stock prices, Consumer Confidence Index and Retail Sales**  
*(year-on-year percentage change)*



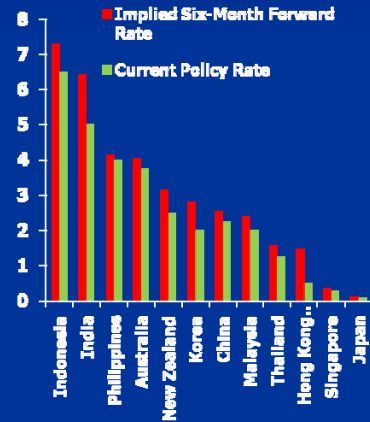
<sup>1/</sup> Includes Australia, Hong Kong SAR, Indonesia, Korea, Thailand and Taiwan Province of China

## Less policy accommodation in 2010 in many regional economies will weaken domestic demand

### Asia: Fiscal Impulse (percent of GDP)



### Selected Asia: Market Rate Expectations (percent)



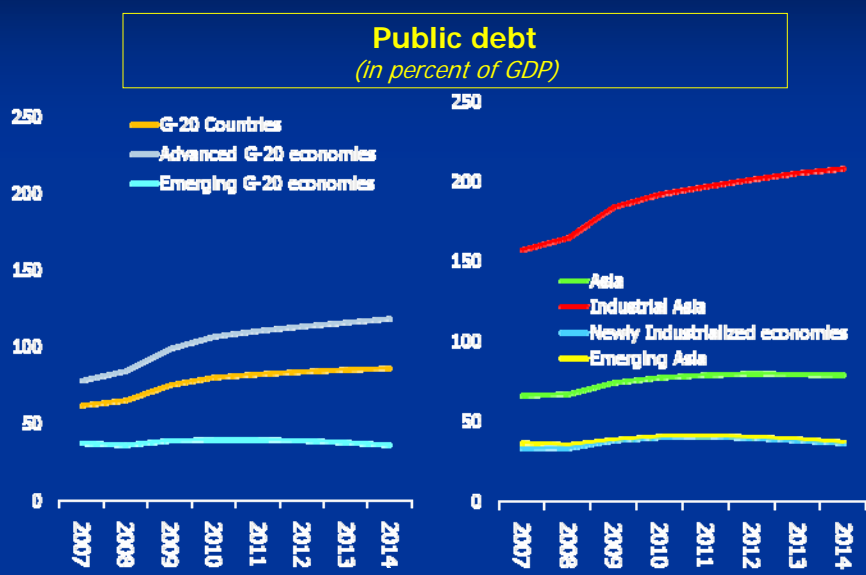
## Overall, GDP forecasts for Asia have been generally revised upward-Japan is a key exception

### Asia: Real GDP Growth (year-on-year percent change)

	2008	2009	2010	2011	2009 Diff. from Oct WEO	2010 Diff. from Oct WEO
Latest projections						
<b>Industrial Asia</b>	<b>-0.6</b>	<b>-4.3</b>	<b>1.8</b>	<b>2.3</b>	<b>0.1</b>	<b>0.1</b>
Japan	-1.2	-5.3	1.7	2.2	0.0	0.0
Australia	2.2	0.8	2.5	3.0	0.0	0.5
New Zealand	-0.1	-1.5	2.6	3.0	0.7	0.4
<b>Emerging Asia</b>	<b>7.1</b>	<b>5.6</b>	<b>8.1</b>	<b>8.0</b>	<b>0.5</b>	<b>1.1</b>
<b>NIEs</b>	<b>1.7</b>	<b>-1.2</b>	<b>4.8</b>	<b>4.7</b>	<b>1.1</b>	<b>1.2</b>
Hong Kong SAR	2.4	-3.0	5.0	4.4	0.6	1.5
Korea	2.2	0.2	4.5	5.0	1.2	0.9
Singapore	1.1	-2.3	4.1	4.4	-0.6	-0.2
Taiwan Province of China	0.7	-2.9	5.7	4.5	1.2	2.0
China	9.6	8.7	10.0	9.7	0.2	1.0
India	7.3	5.6	7.7	7.8	0.3	1.3
<b>ASEAN-5</b>	<b>4.7</b>	<b>1.3</b>	<b>4.7</b>	<b>5.3</b>	<b>0.6</b>	<b>0.7</b>
Indonesia	6.1	4.3	5.5	6.0	0.3	0.7
Malaysia	4.6	-2.3	3.5	4.1	1.3	1.0
Philippines	3.8	0.8	3.2	3.8	-0.2	0.0
Thailand	2.5	-3.0	4.5	5.2	0.5	0.7
Vietnam	6.2	5.3	6.0	6.5	0.7	0.7
Emerging Asia excl. China	4.8	2.3	6.0	6.2	0.7	1.1
Emerging Asia excl. China and India	3.2	0.0	4.8	5.0	0.8	0.9
Asia	5.2	3.3	6.7	6.8	0.5	0.9

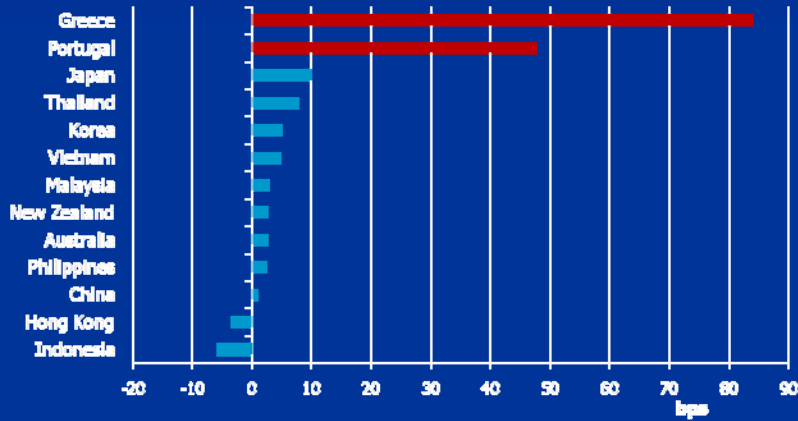
- Major Policy Challenges for advanced countries
  - Public Debt
  - Financial Sector

Fiscal sustainability generally less of a problem for Asia relative to advanced economies 28



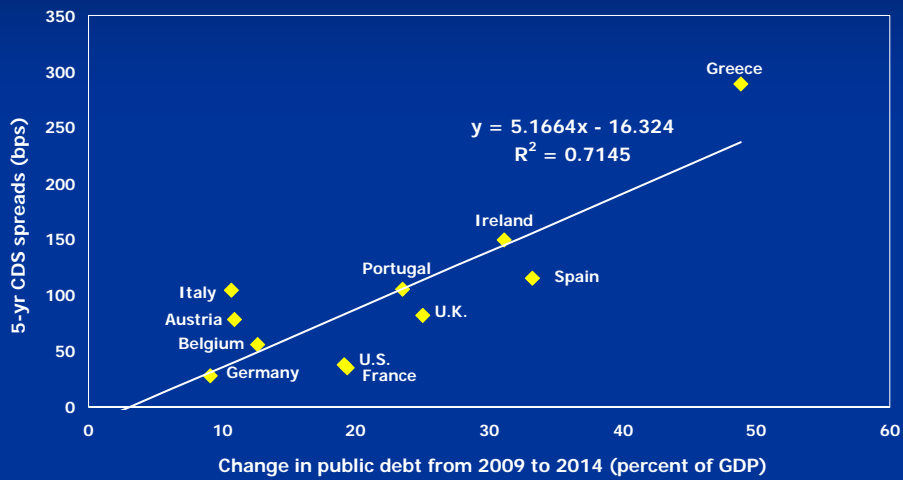
## But there are risks of spillovers from fiscal crisis in advanced economies

**Sovereign CDS Spread**  
(difference between February 9, 2010 and average Dec. 2009; bps)



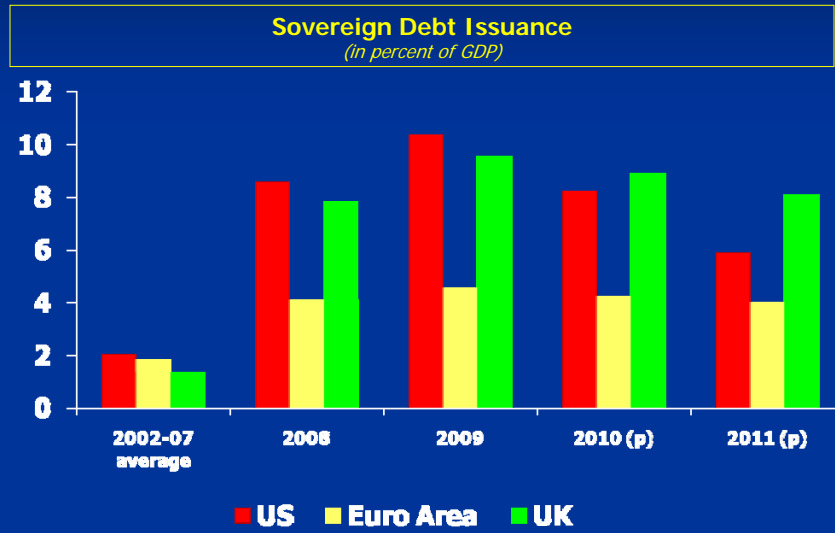
## Fiscal Risk Premia and Public Debt Outlook

**5-yr CDS Spreads vs. Public Debt Projections 1/**

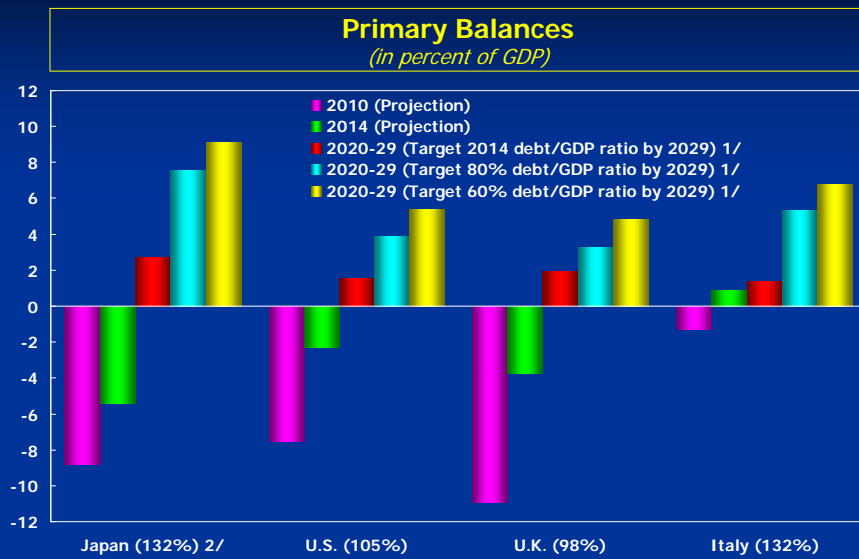


1/ Average CDS spreads year-to-date.

## Sovereign Debt Supply Will Remain High



## Huge Fiscal Adjustment will be Needed



1/ Primary balance in 2020-29 required to reduce general government debt/GDP ratio to target level by 2029.  
2/ General government debt/GDP ratio in 2014; net debt for Japan and gross debt for all others.

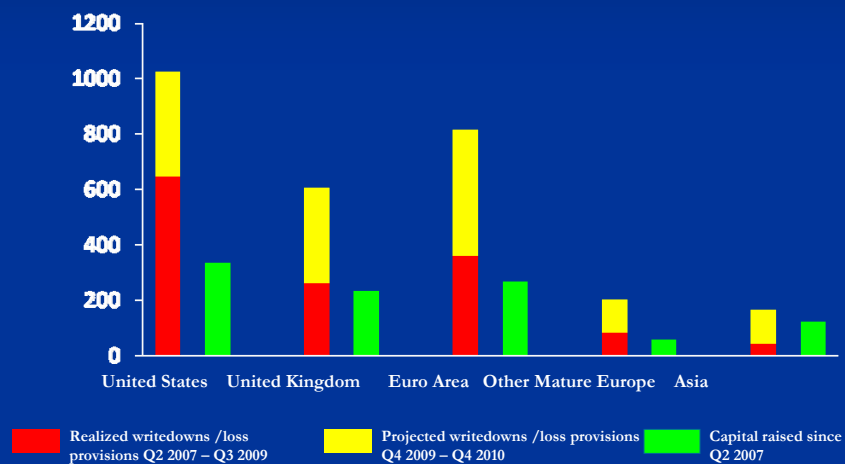


## ■ Major Policy Challenges in advanced countries

- Public Debt
- Financial Sector

## Capital Raising is Continuing, But More is Needed

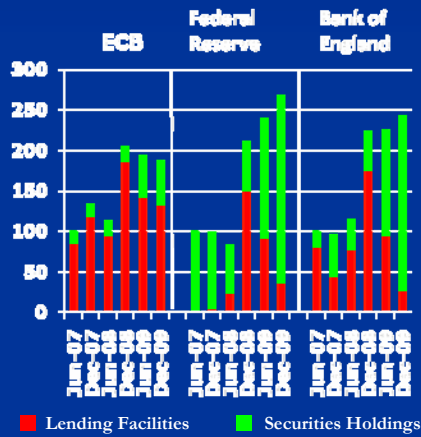
### Bank Writedowns and Capital Infusions (billions of U.S. dollars)



## Bank Funding Challenges

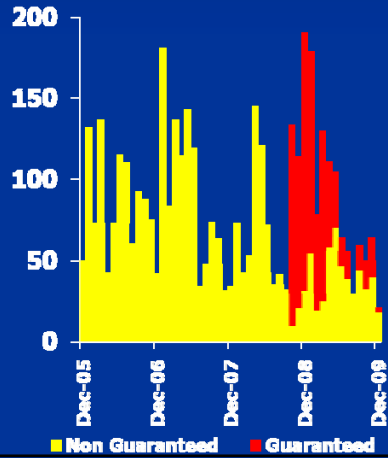
### Central Bank Support

(total June 2007 = 100)



### Mature Market Banks: Gross Bond Issuance

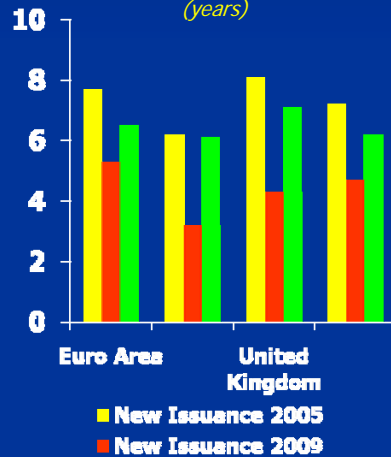
(billions of U.S. dollars)



## Funding Maturities Shorter and Rollover Challenges Higher

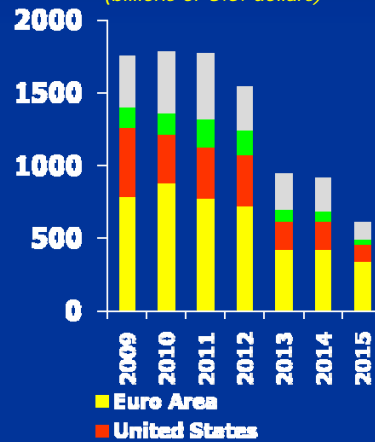
### Wholesale Funding Average Maturity

(years)



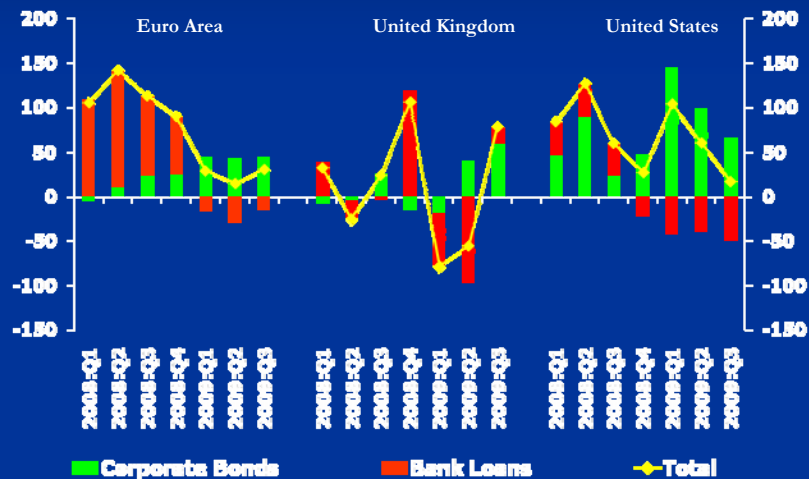
### Bank Debt Rollover by Maturities

(billions of U.S. dollars)



## Decline in Bank Credit not Fully Offset by Nonbank Sources

### Net Borrowing of Nonfinancial Corporations in Bonds and Loans (billions of local currency units)



## What are the Implications for Asia?

- One source of external demand (public) will be much weaker going forward.
- Private external demand may grow very slowly.
- Economies with large external surpluses will need to rely more on domestic demand to drive growth over the medium-term.
- This is consistent with exchange rate appreciation (in some cases) and global rebalancing.