

# Developing Asia's Short-Run Economic Outlook and Main Risks

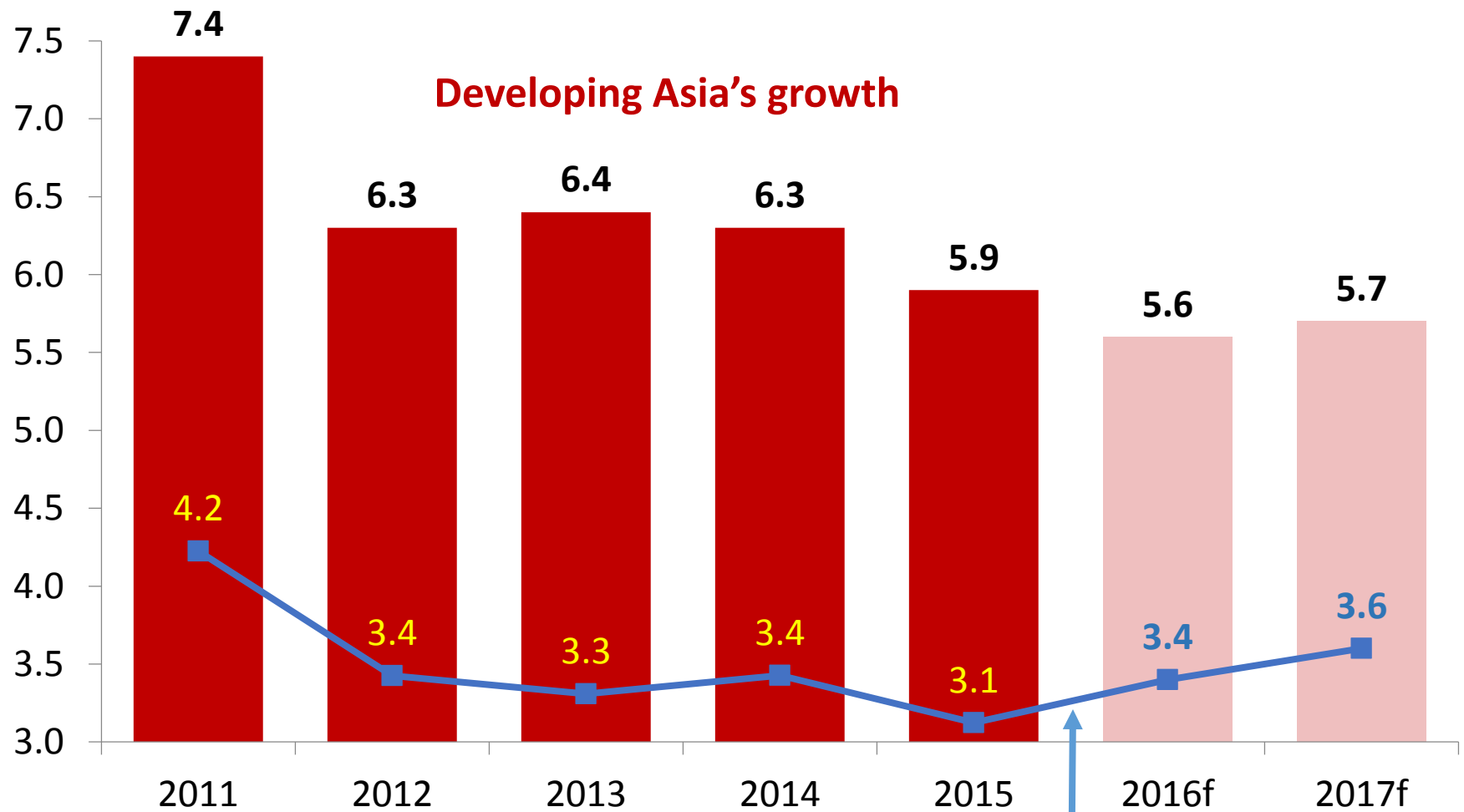
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# Key messages

- Growth in developing Asia softens to 5.6% in 2016 and 5.7% in 2017, from 5.9% in 2015
  - PRC growth moderating to 6.5% in 2016 and 6.3% in 2017 underscores the importance of supply-side reforms, from 6.9% in 2015
  - India growth projected at 7.4% in 2016 and 7.8% in 2017, from 7.6% in 2015
- While CPI inflation remains subdued, many economies face possibly harmful PPI deflation

# Asia's growth continues to moderate



f: forecast

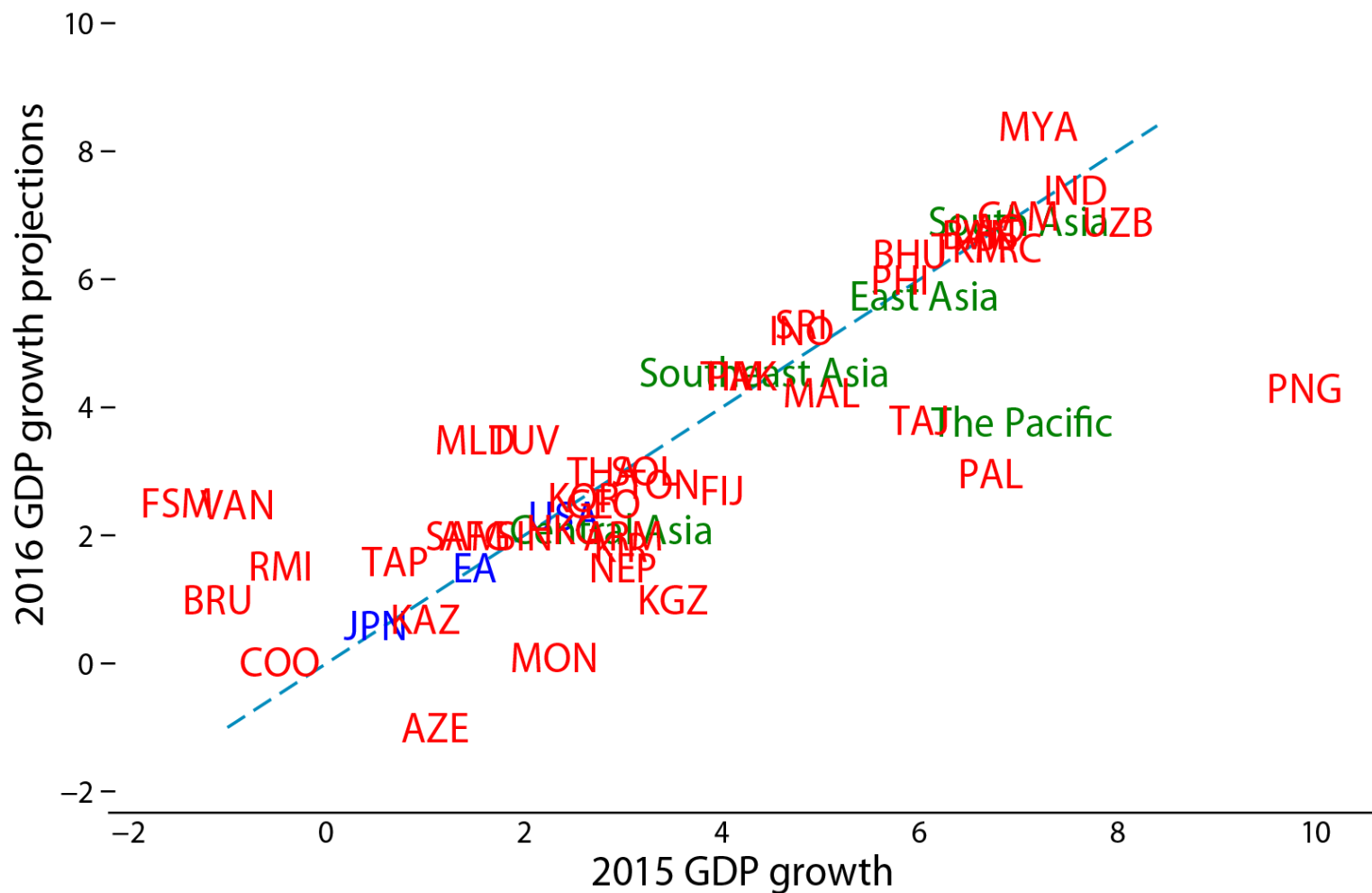
# Uneven recovery in industrial economies

GDP growth (%)	2015	2016f	2017f
<b>Major industrial economies</b>	1.8	1.5	1.7
United States	2.4	1.9	2.5
Euro area	1.5	1.3	1.1
Japan	0.5	0.5	0.8

f= forecast

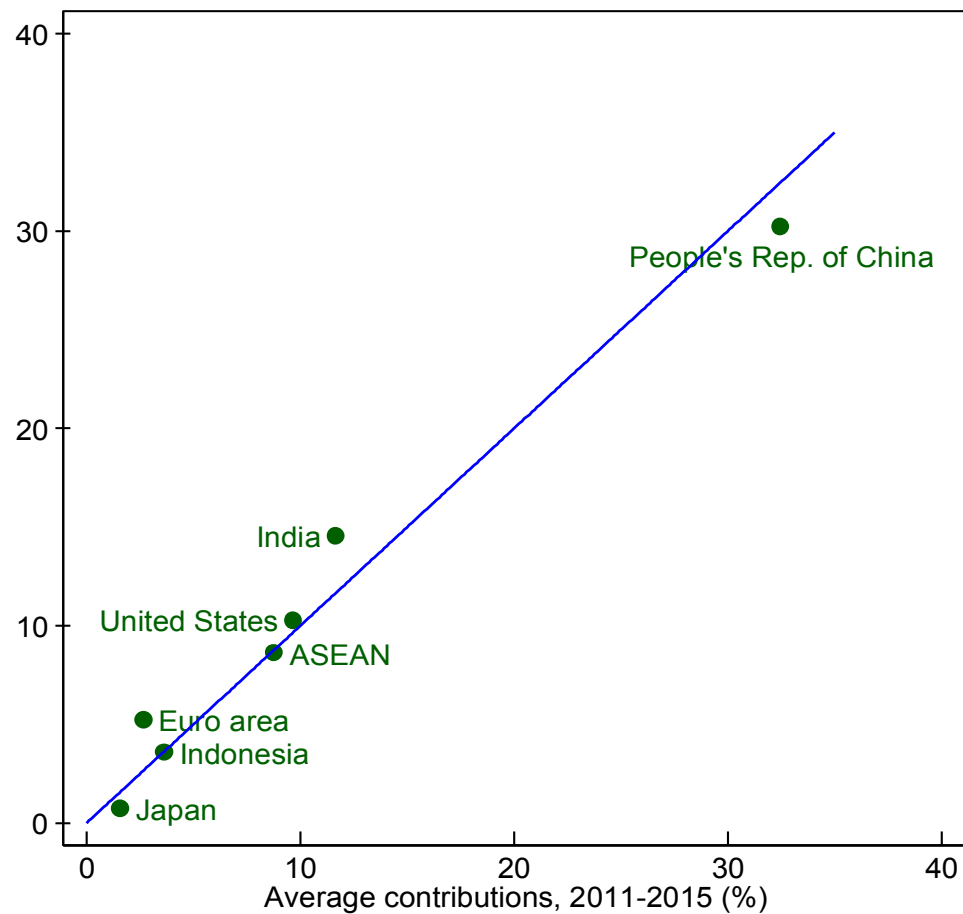
# Divergence across subregions and economies...

2016 growth projections VS 2015 growth (%)



# Asia still accounts for 60% of global growth in PPP terms...

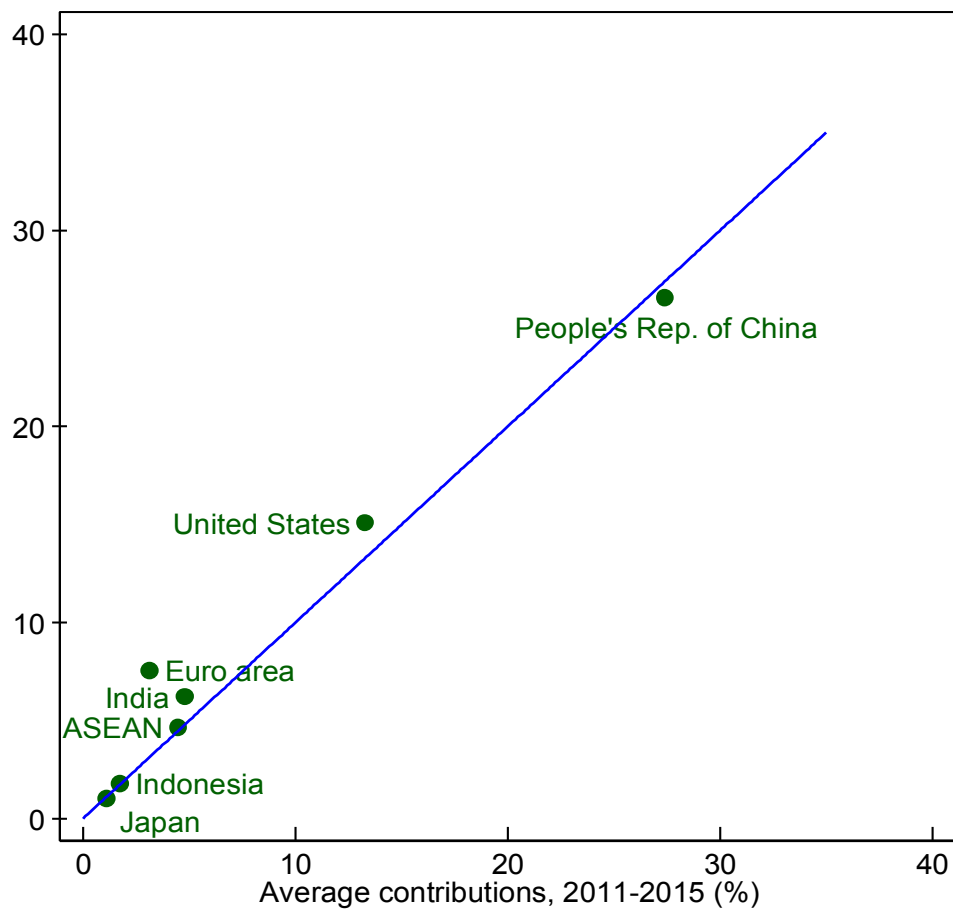
Contributions to world growth (%), 2016 vs. 2011–2015



Note: Uses PPP-adjusted weights

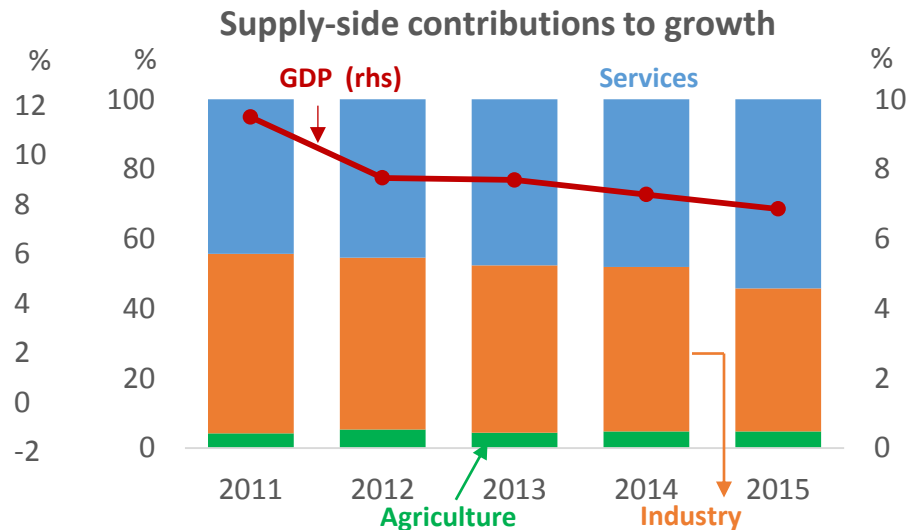
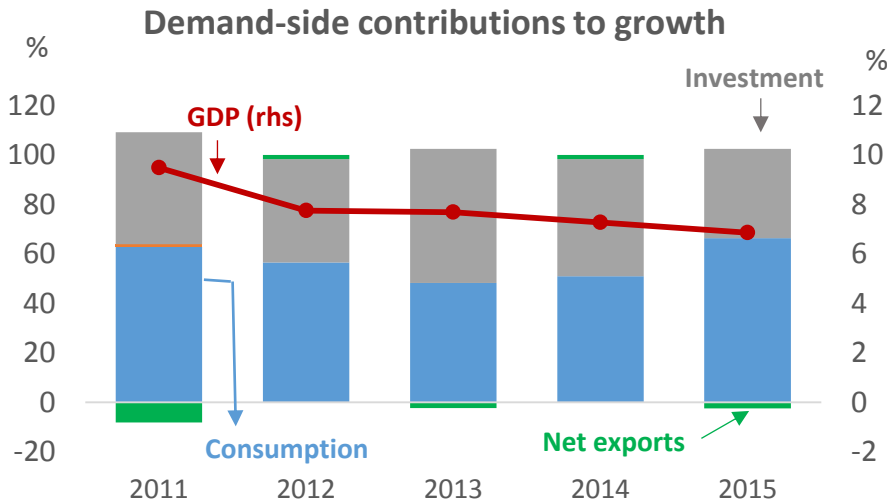
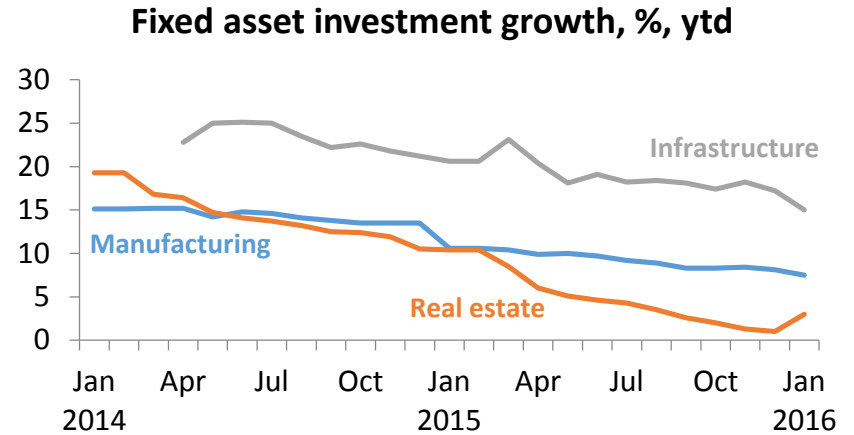
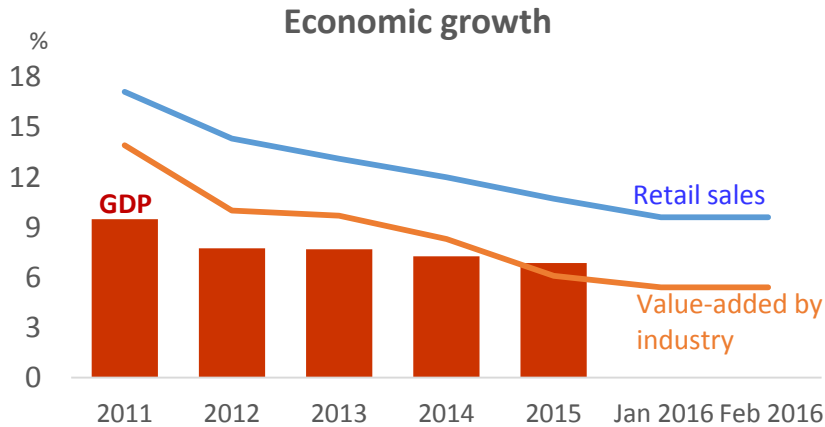
## ...or 40% in market exchange rate terms

### Contributions to world growth (%), 2016 vs. 2011–2015



Note: Uses market exchange rates

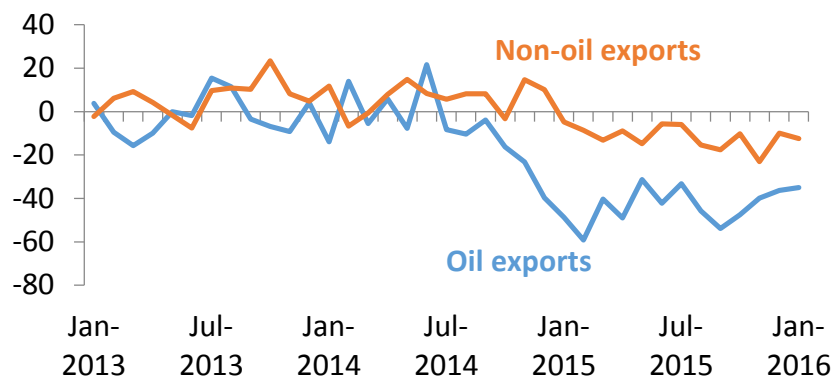
# PRC growth still decelerating; projected at 6.5% in 2016



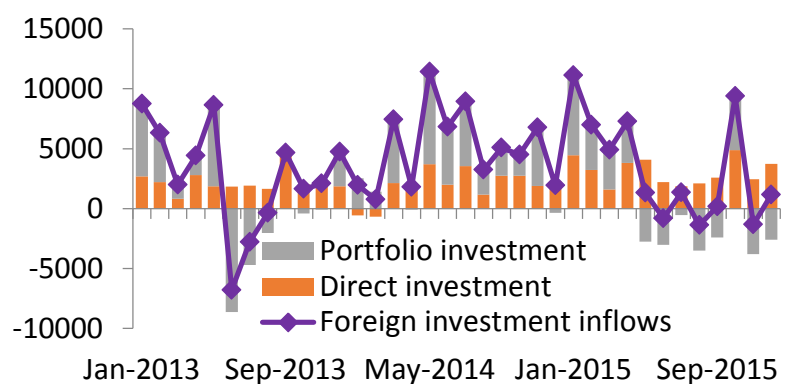


# India's growth slowing slightly to 7.4% in 2016 before picking up

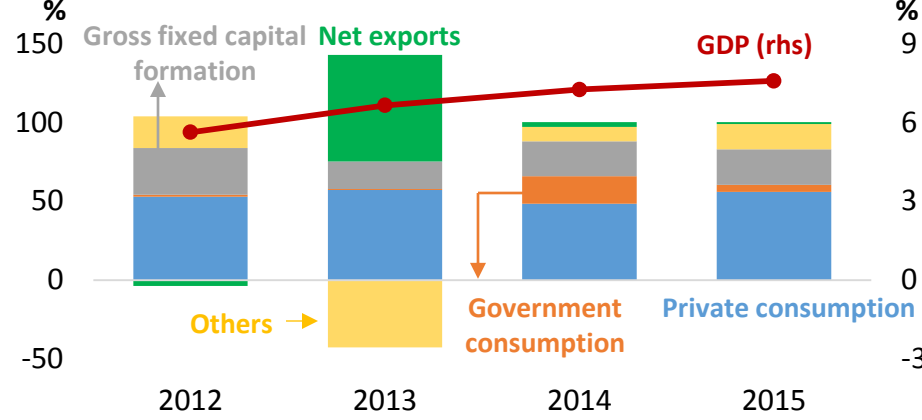
Export growth, USD, %, year-on-year



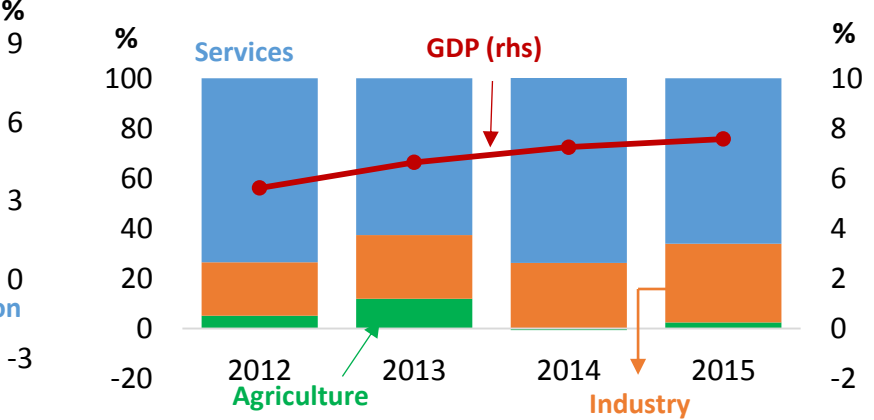
Foreign investment inflows, USD million



Demand-side contributions to growth



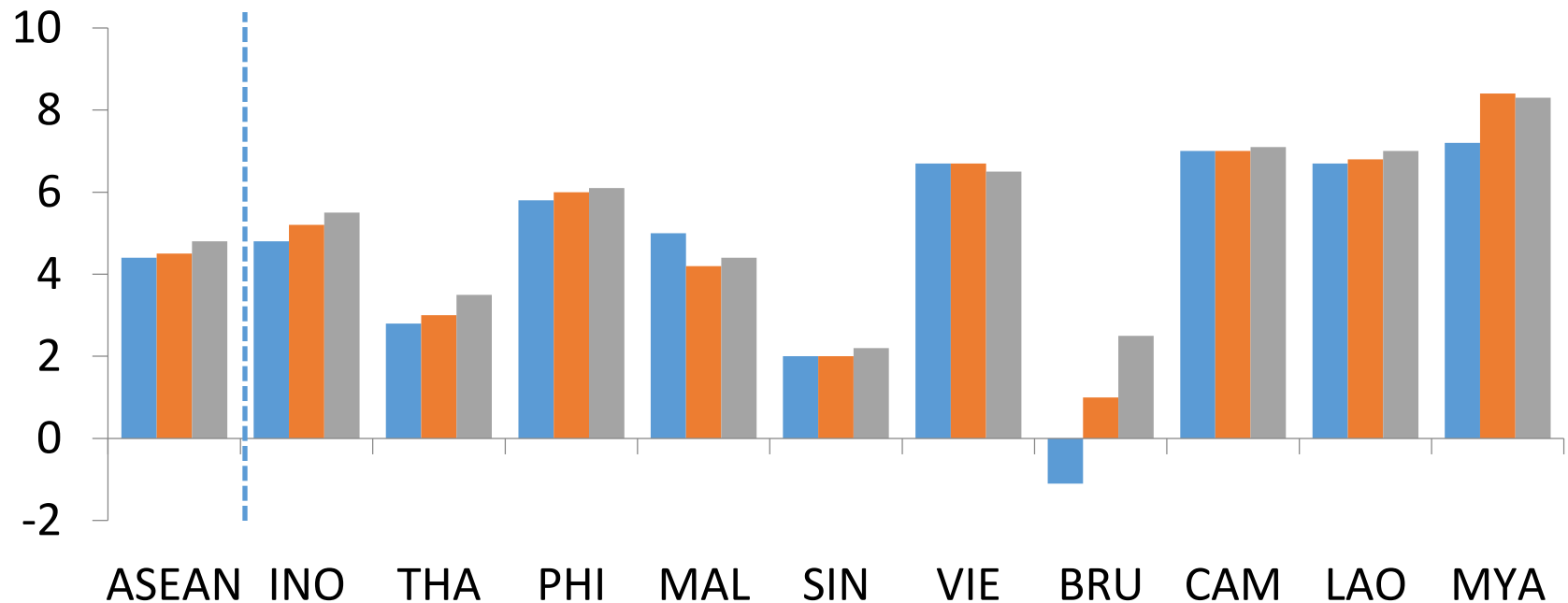
Supply-side contributions to growth



# ASEAN growth to edge up this year and next

## GDP growth, Southeast Asia (%)

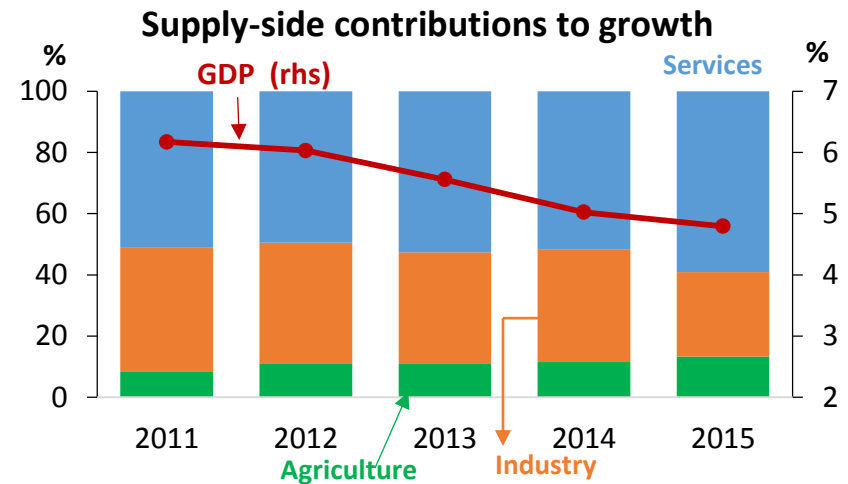
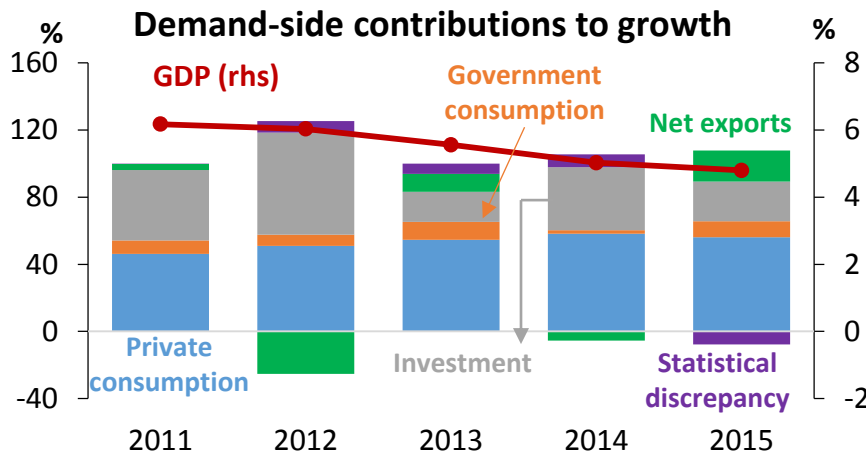
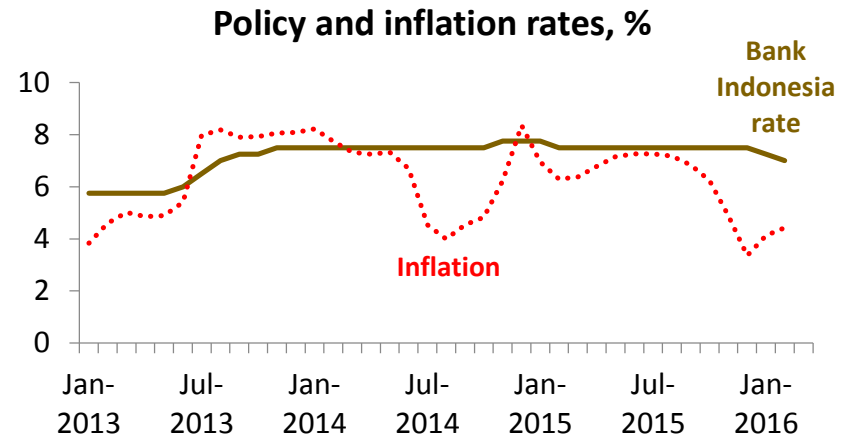
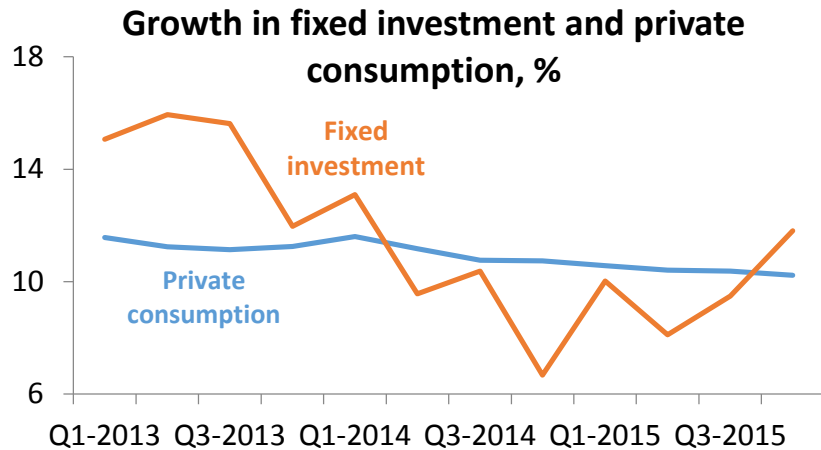
■ 2015 ■ 2016f ■ 2017f



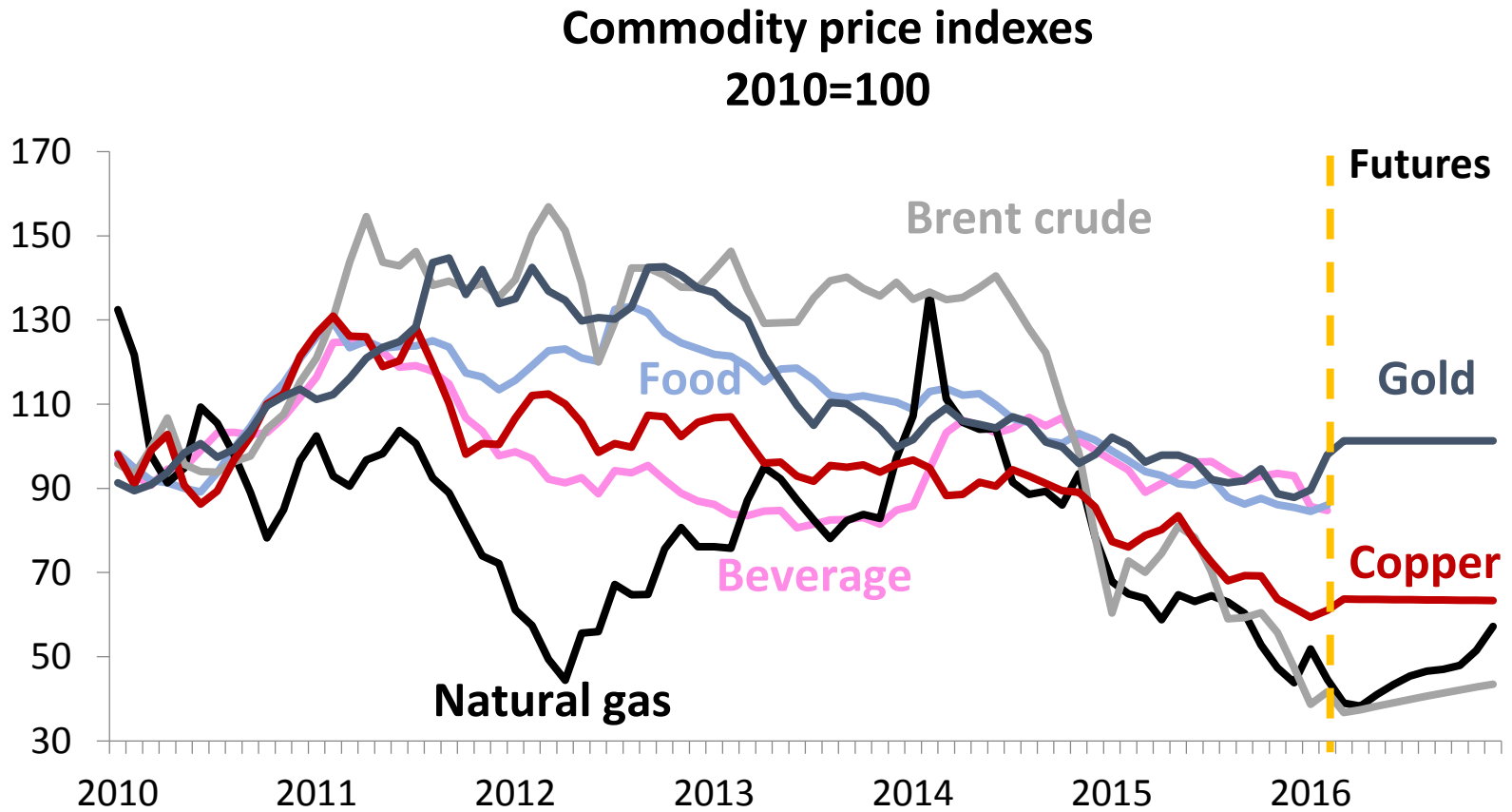
f: forecast

ASEAN=Association of Southeast Asian Nations; BRU=Brunei Darussalam; CAM=Cambodia; INO=Indonesia; LAO=Lao PDR; MAL=Malaysia; MYA=Myanmar; PHI=Philippines; SIN=Singapore; THA=Thailand; VIE=Viet Nam

# Indonesia's growth to slightly rise to 5.2% in 2016

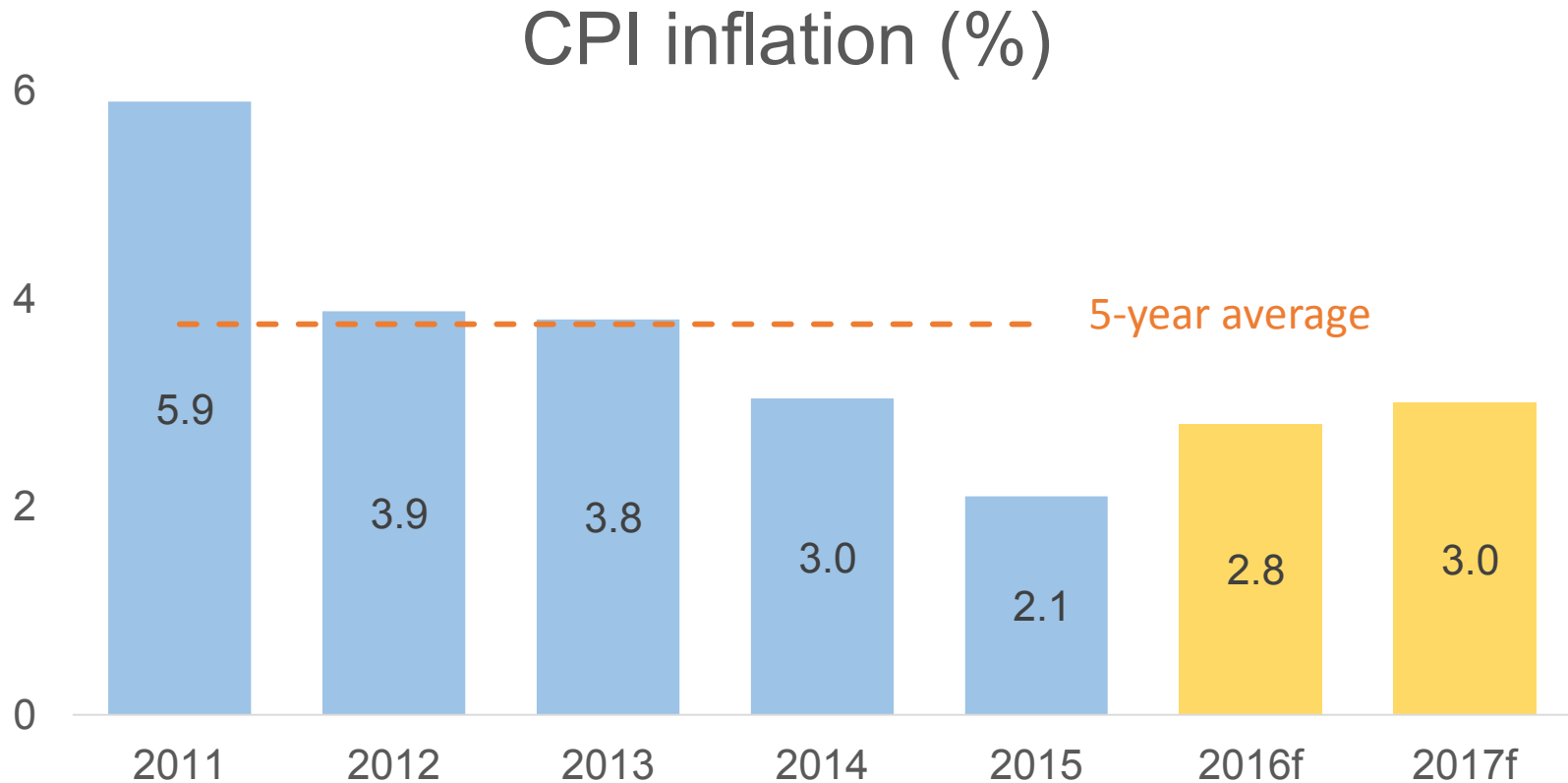


# Slow recovery in global commodity prices...



Sources: World Bank Pinksheets; Bloomberg

# ...will keep CPI inflation low



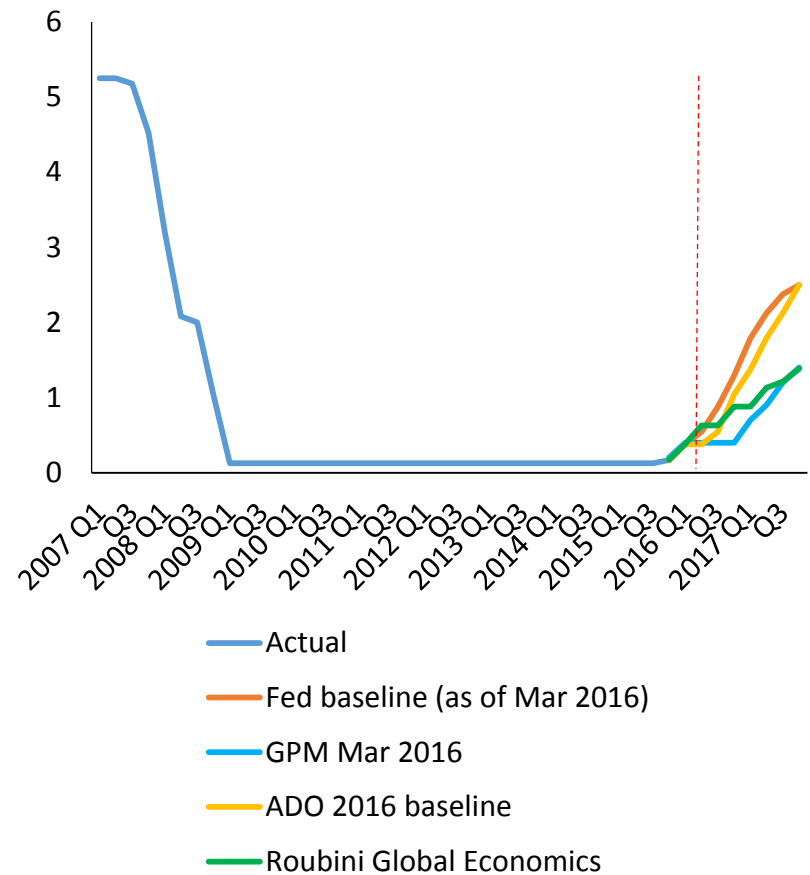
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# But there are risks

1. Rise in US interest rate and market volatility
2. PRC's growth moderation
3. Producer price deflation

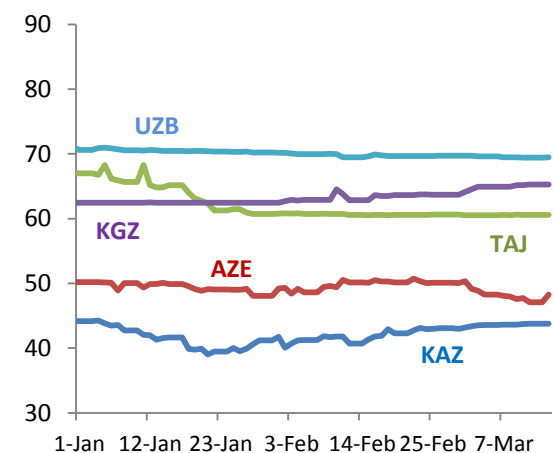
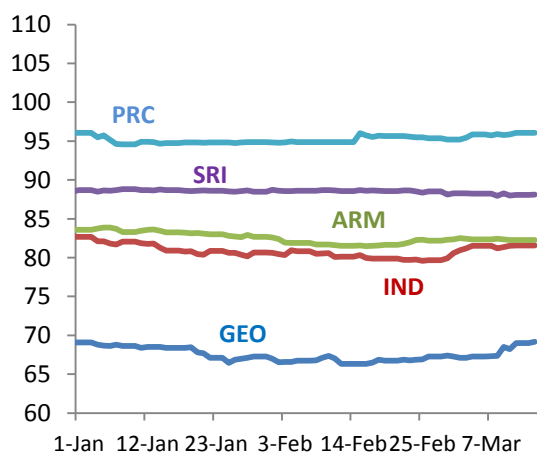
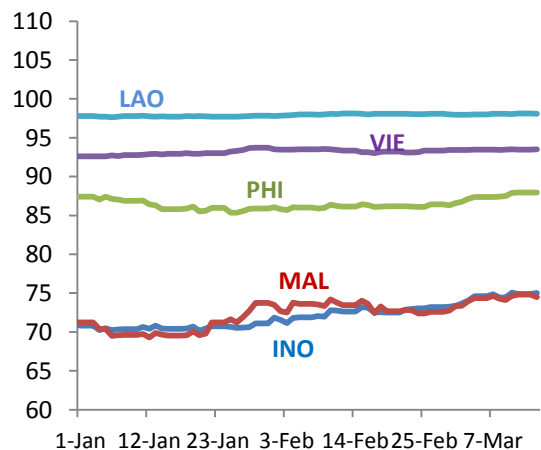
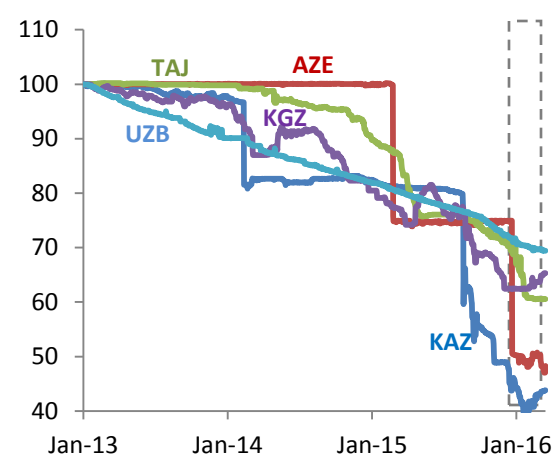
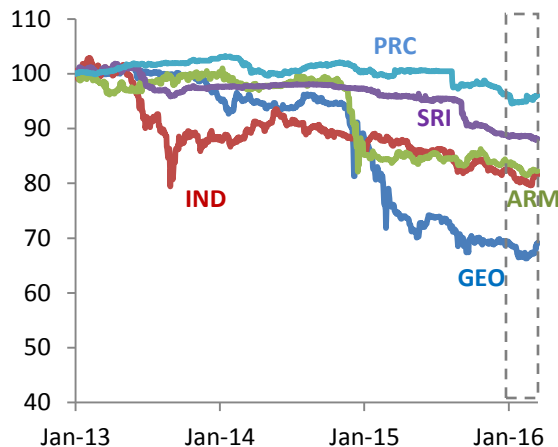
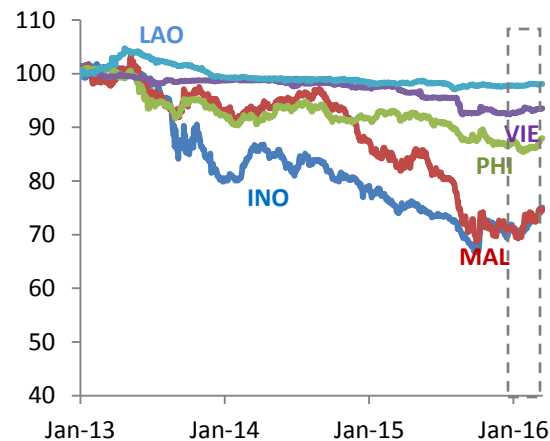
# 1. Future path of US interest rate and market volatility

- The Fed raised interest rates in December 2015
- The Fed sees further gradual tightening going forward
- The Fed indicated that first stirrings of rising US inflation is present
- Changes to US monetary policy have implications on
  - Trade
  - Capital flows
  - Foreign debt burden



# Strong dollar raises foreign debt burden

US dollar per Asian currency, 1 Jan 2013=100

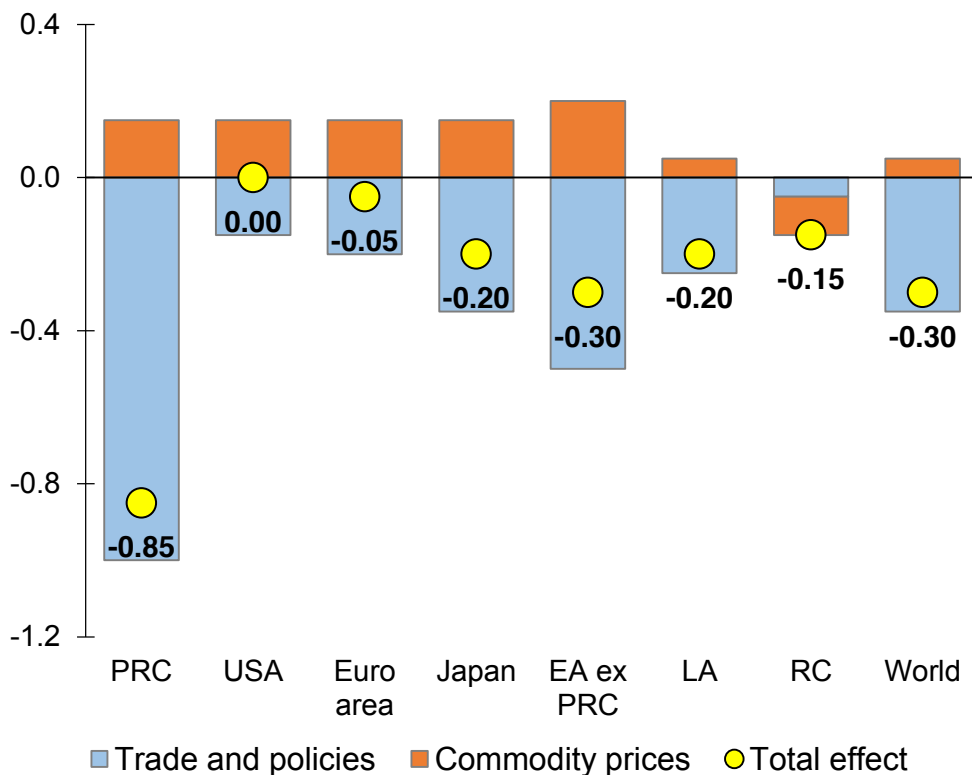


- \$ appreciation tends to increase domestic currency value of debt, posing a threat to economies with large foreign liabilities
- Lower index indicates depreciation of local currency



## 2. PRC's growth moderation has had global impact

Global Projection Model:  
PRC growth moderation scenario

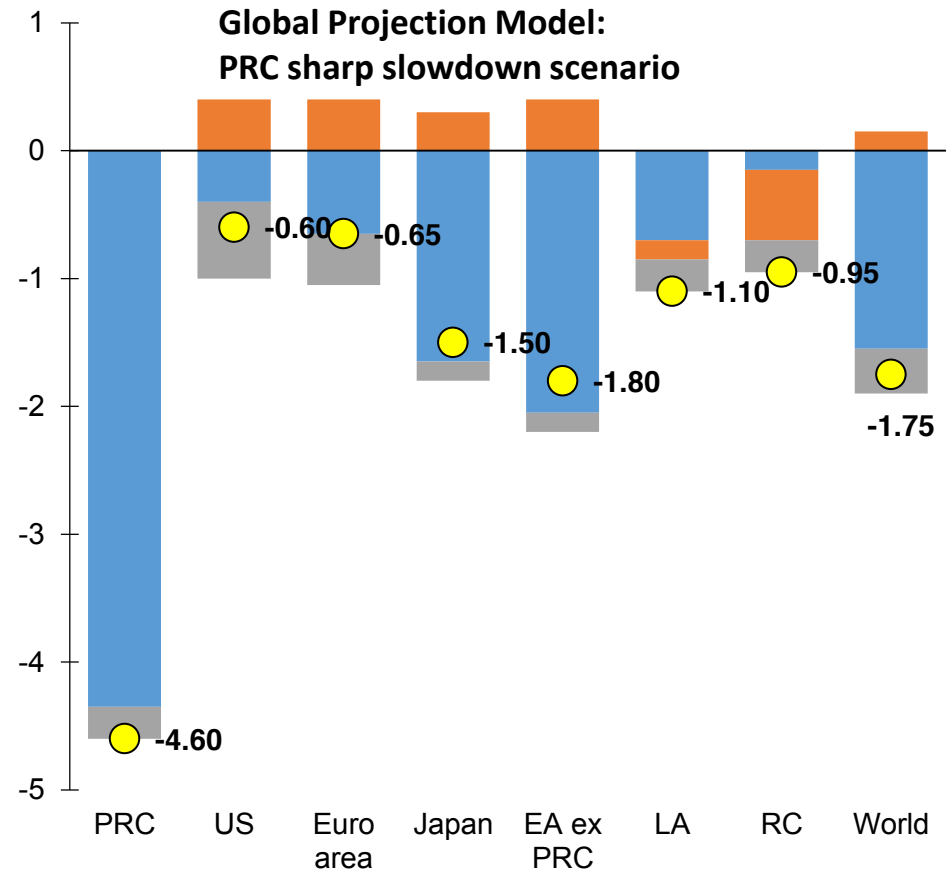


- Assume PRC growth weaker by 0.85pp
- Then ...
  - Rest of developing Asia's growth falls by 0.3pp
  - Japan's growth drops by 0.2pp

EA = Emerging Asia; LA = Latin America; PRC = People's Rep. of China; RC = remaining countries.

# Sharper fall is unlikely, but if it happens, it could generate a bigger impact

- Assume 4.6pp fall in PRC growth
- Then ...
  - Global growth to decline by 1.75pp
  - Japan's growth to drop by 1.5pp
  - Rest of developing Asia's growth to tumble by 1.8pp

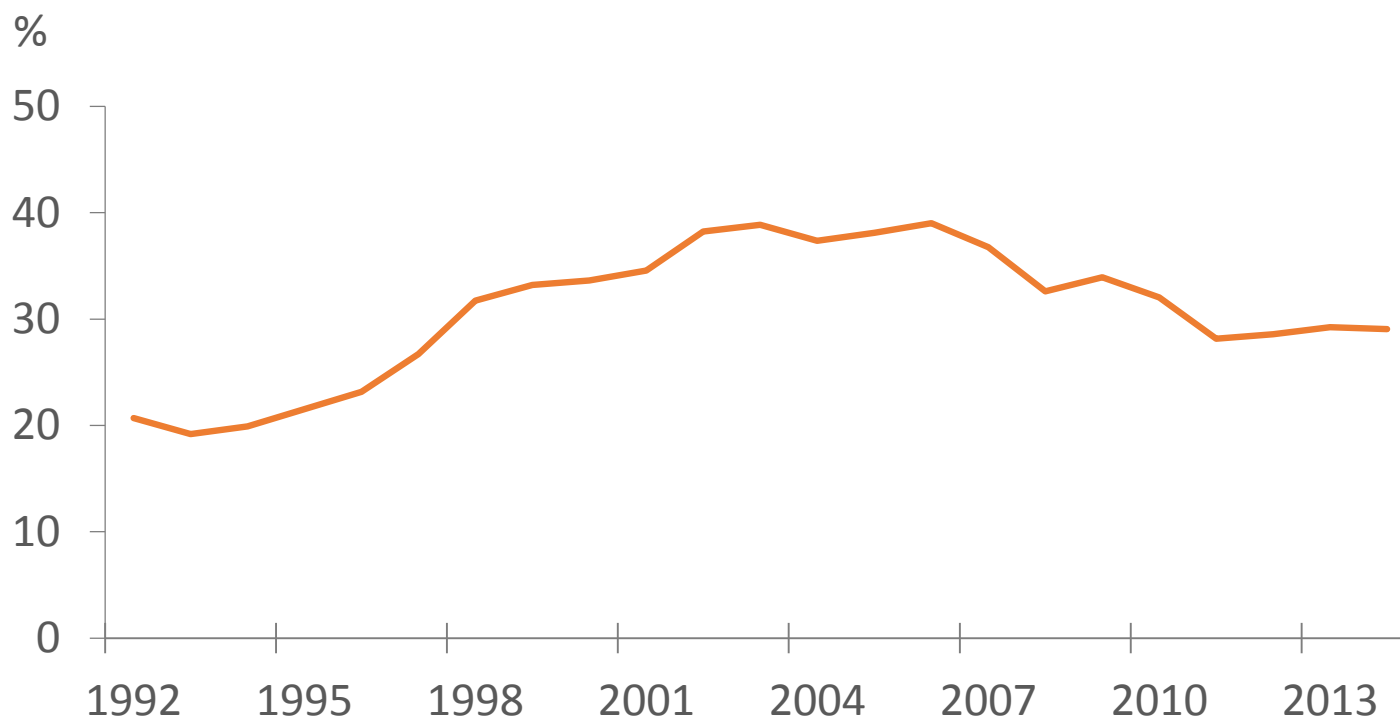


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■ Trade and policies      ■ Commodity prices  
■ Global financial shock      ● Total effect

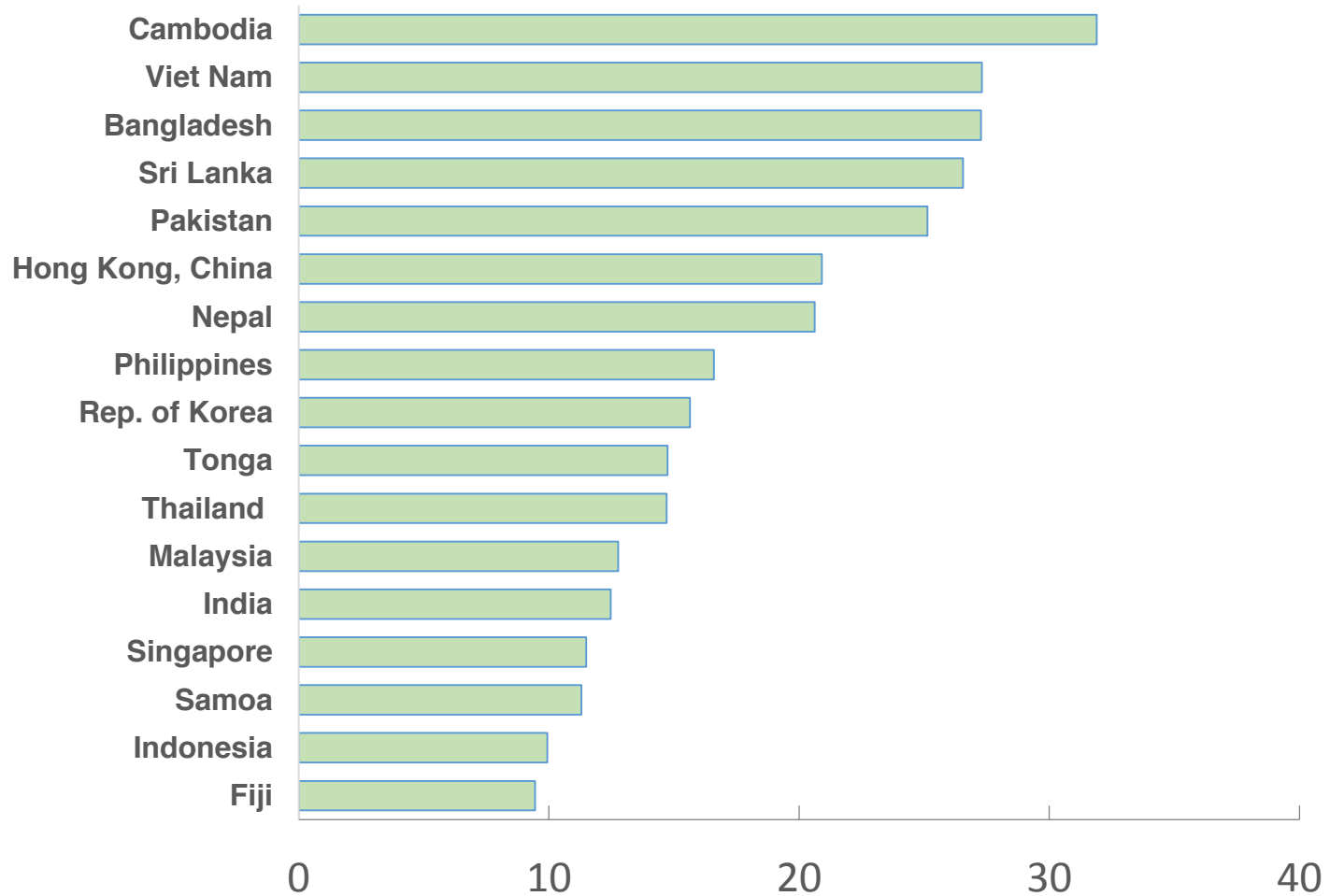
# PRC's structural change is transforming the structure of its imports...

## Share of parts and components in PRC's imports



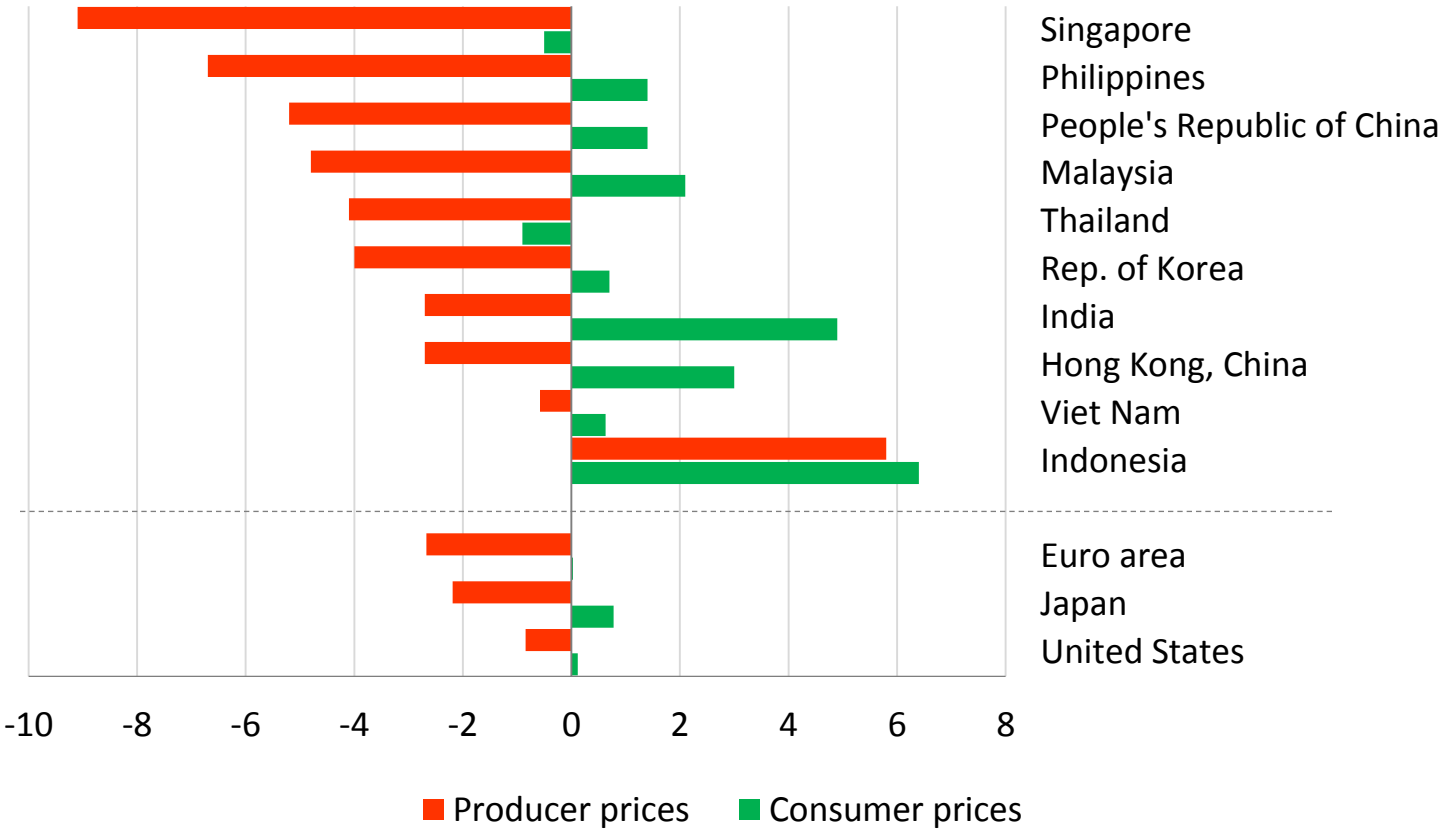
# ...but some countries could grow faster

Index of Competition with PRC, 2014



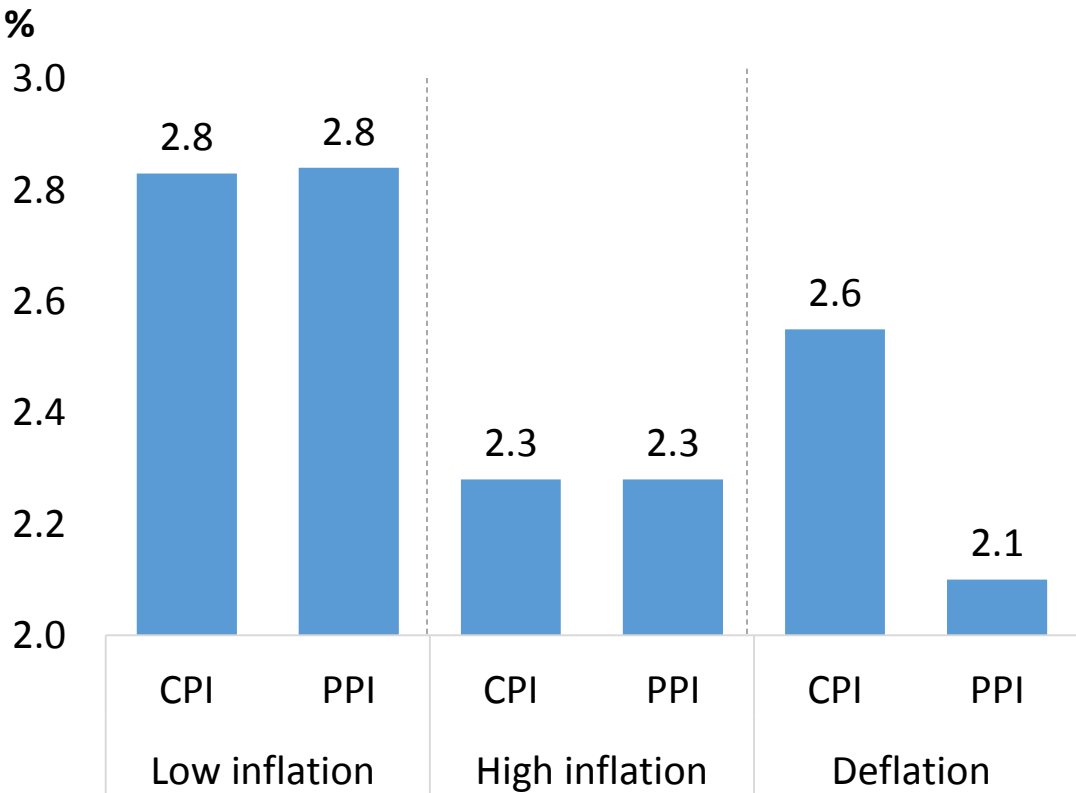
# 3. Many Asian economies experiencing producer price deflation

Consumer and producer prices, 2015 (% change)



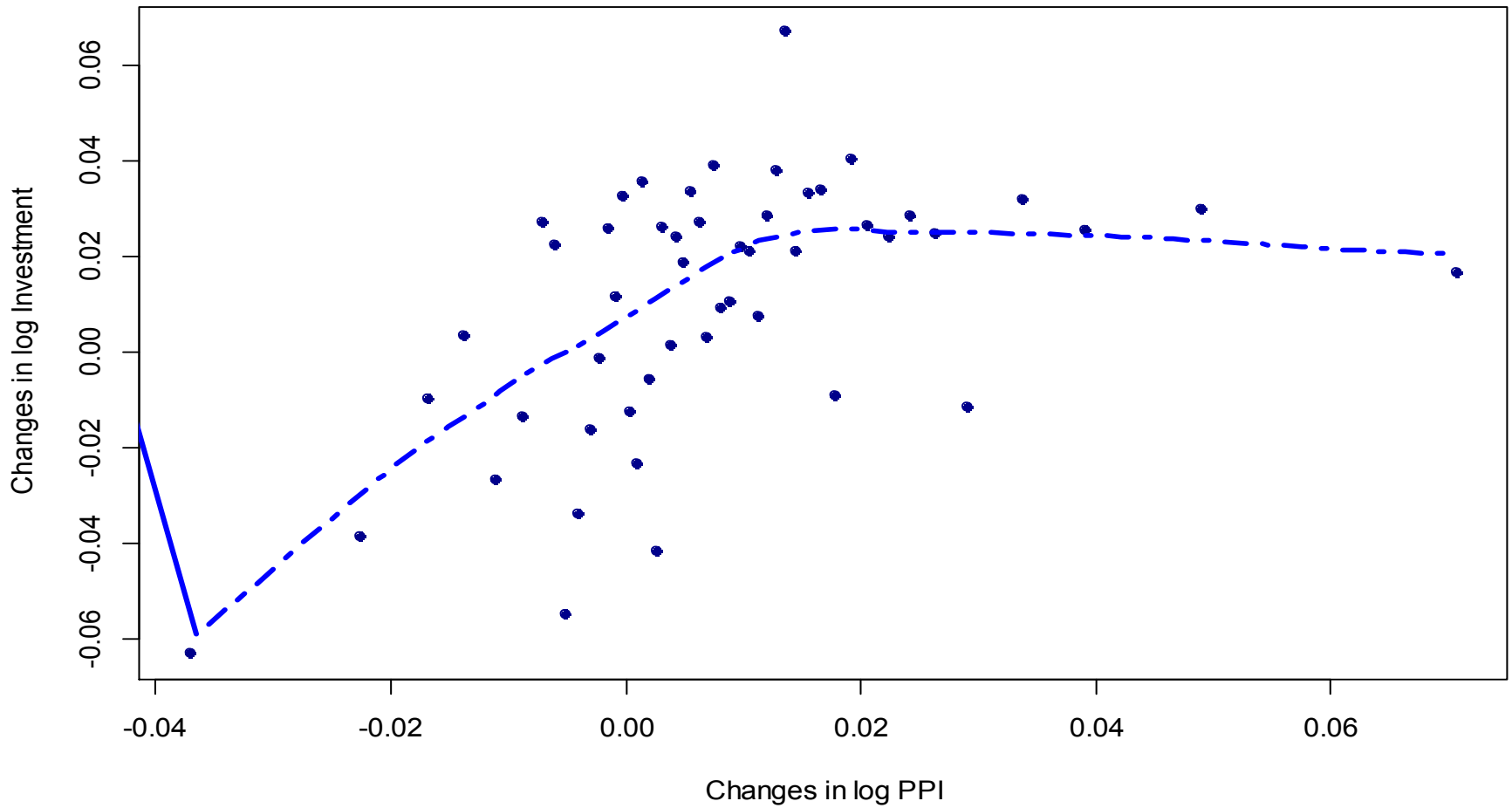
# Strong inverse association between PPI deflation and growth.....

Average per capita GDP growth rate in low, high, and negative inflation



- In the postwar era, per capita real GDP growth is visibly lower during PPI deflations than during CPI deflations

# adverse effect of lower producer prices on investment



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- While CPI inflation remains subdued, many economies face possibly harmful PPI deflation