

# REGIONAL ECONOMIC OUTLOOK

ASIA AND PACIFIC



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DEPARTMENT**

## **Regional and Vietnam Economic Outlook**

**FRANCOIS PAINCHAUD**

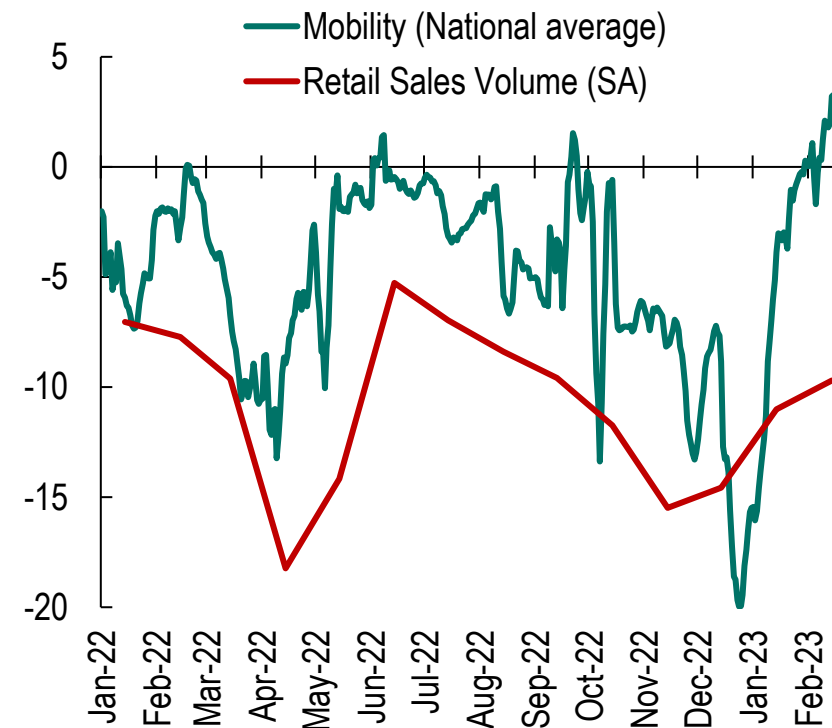
# Factors shaping the outlook

# China's reopening is a boost to growth

Mobility and retail sales have been recovering since the end of December

## China: Mobility and Retail Sales

(Mobility 7-day MA, % deviation from 2017-2019 average in Lunar Calendar; Retail Sales volume, % deviation from 2017-2019 trend)

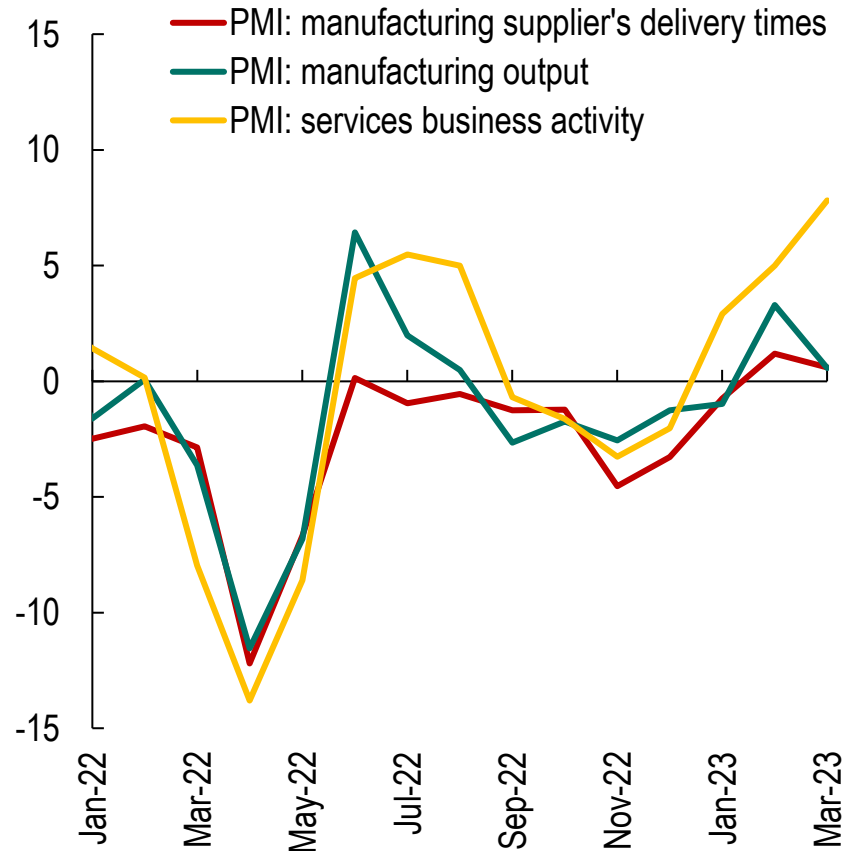


Source: Wind, China NBS, and IMF staff calculation.  
Note: Mobility data as of February 21, 2023; retail sales data as of February 2022.

Manufacturing and services also picked up...

## China: Manufacturing and Services

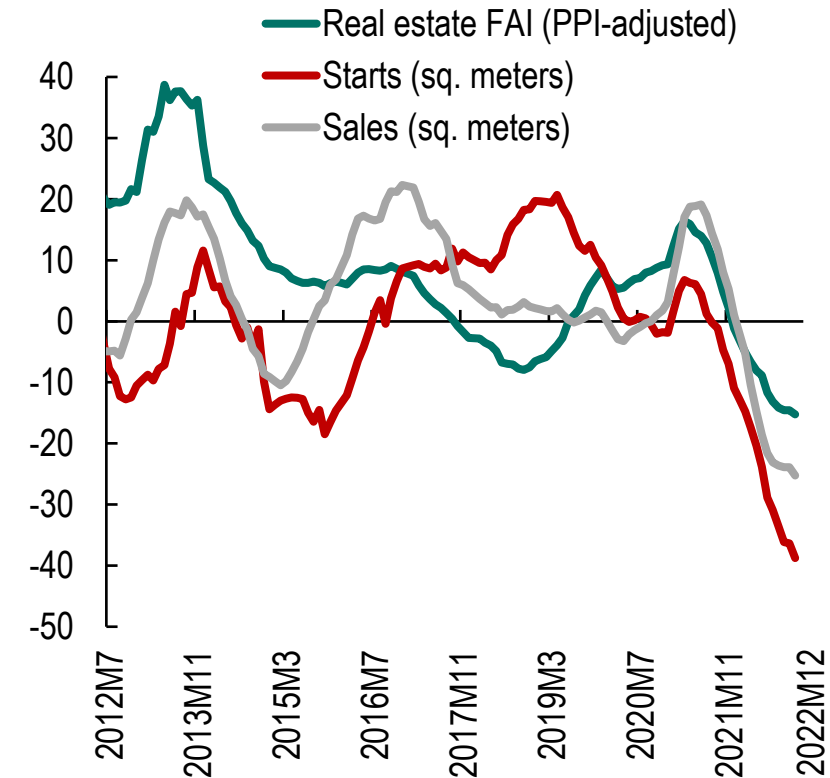
Indexes (PMI Indexes subtracted by 50)



...though property sector slump continued

## Real Estate Indicators

(In percent, 12M moving sum, year-on-year change)



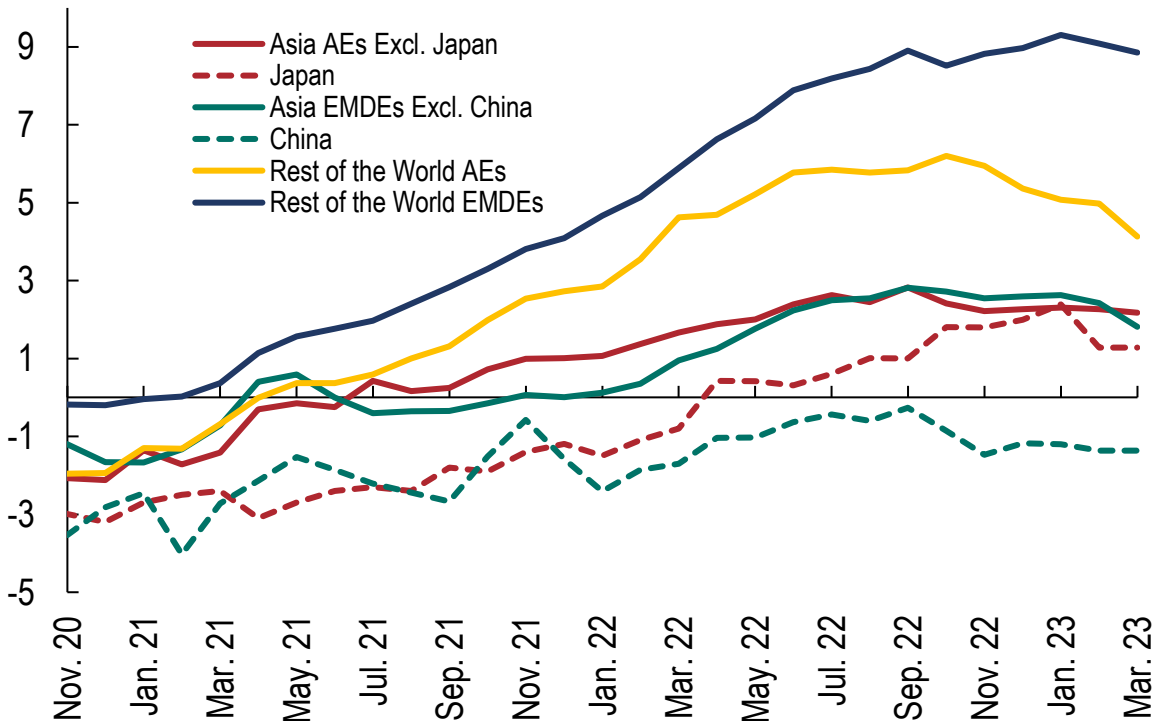
Sources: CEIC Data Company Limited; and IMF staff calculations.

# Inflation may have reached a turning point

Headline inflation has stabilized across the region, driven by a decline in commodity prices and shipping costs...

## Headline Inflation: Deviation from target

(Percentage; year-on-year change)



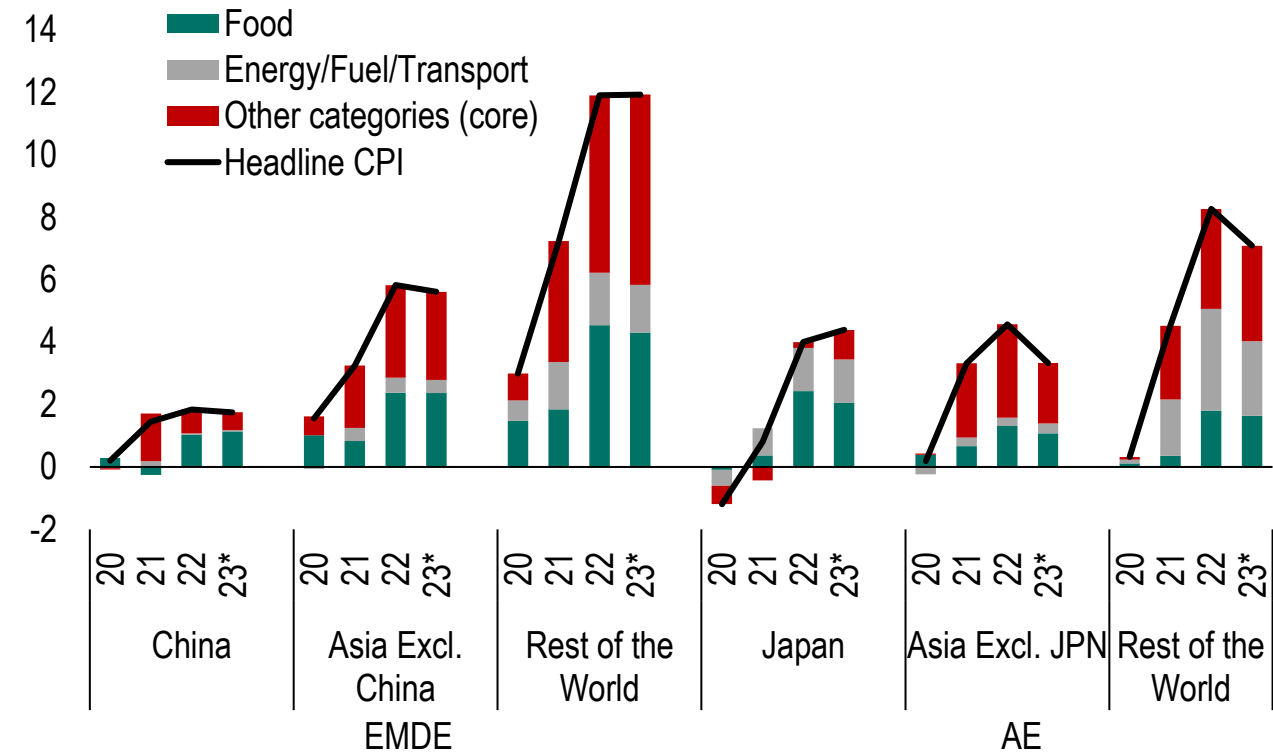
Sources: Haver Analytics; and IMF staff calculations.

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.

...but core inflation remains high and is increasingly becoming the main driver of inflation

## Contributions to Headline Inflation

(Percent)



Source: Haver Analytics; and IMF staff calculations.

Note: Core refers to CPI basket excluding food and energy, fuel, and transport. The exact categories used in the decomposition of these categories varies across countries. AE Asia includes AUS, HKG, KOR, MAC, NZL, SGP, TWN. EMDE Asia includes IND, IDN, MYS, PHL, THA. Other AE include BEL, CAN, CHE, DEU, FRA, GBR, ITA, NLD, SWE, USA. Other EMDE include BRA, CHL, COL, HUN, MEX, ZAF.

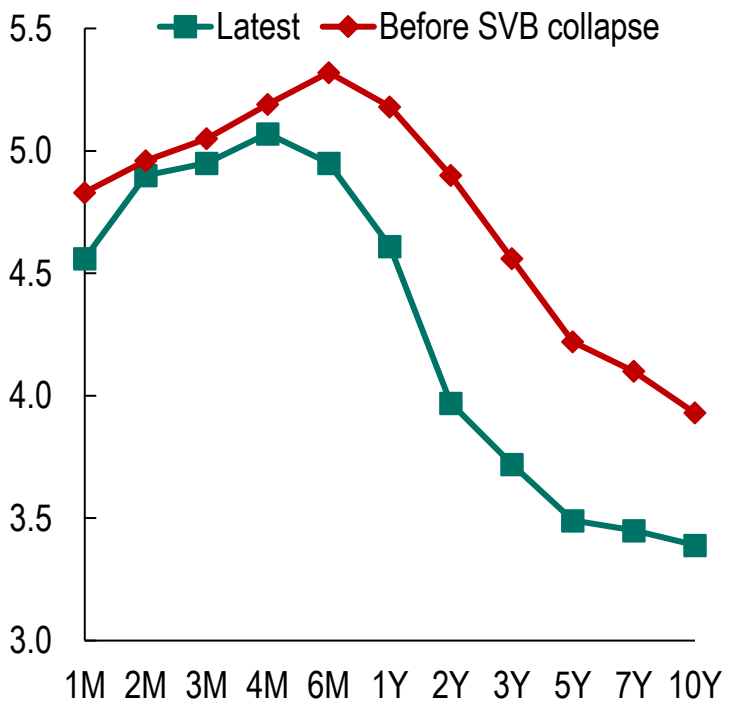
# US monetary and financial shocks have driven Asian financial markets...

Markets are expecting a less hawkish Fed after the SVB collapse...

...leading to a decline of sovereign bond yields across Asia...

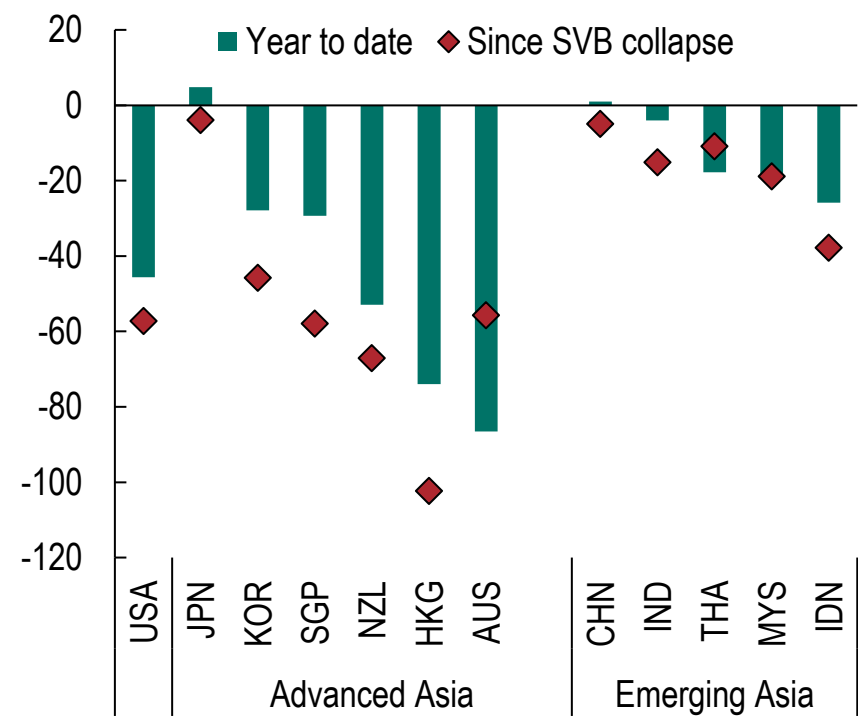
...and an appreciation of Asian currencies against USD.

**US Treasury yield curve**  
(In percent)



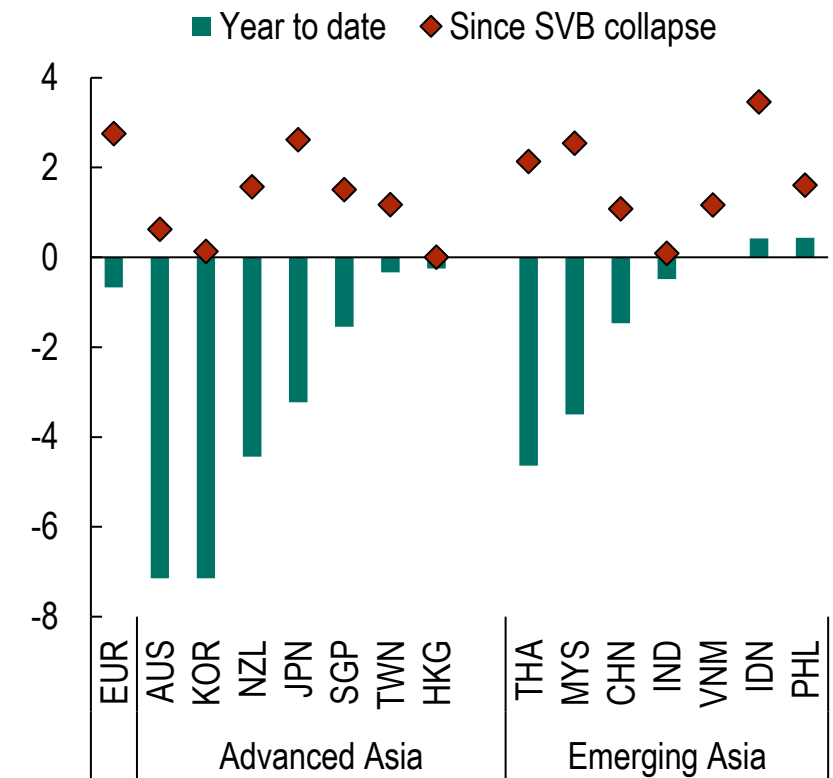
Source: US Department of the Treasury.  
Note: Data as of April 7, 2023.

**Change in 10-year sovereign yields**  
(local currency bonds; basis points)



Sources: Bloomberg Finance L.P. and IMF staff calculations.  
Note: Data as of April 10, 2023.

**Change in exchange rates against USD**  
(In percent)

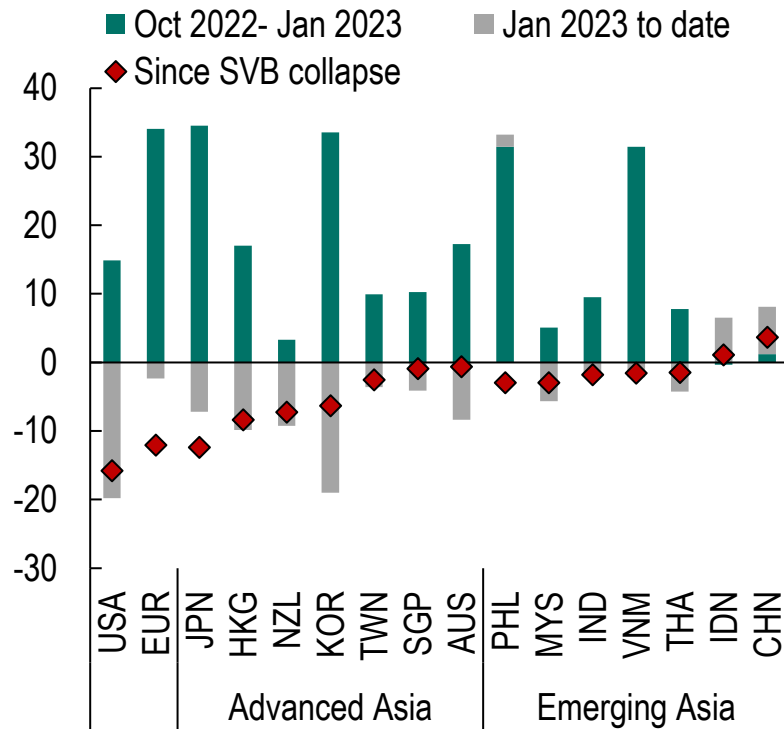


Source: Bloomberg Finance L.P. and IMF staff calculations  
Note: Data as of April 10, 2023.

# ...and affected wider financial conditions

Asian bank stocks sold off somewhat after the SVB event...

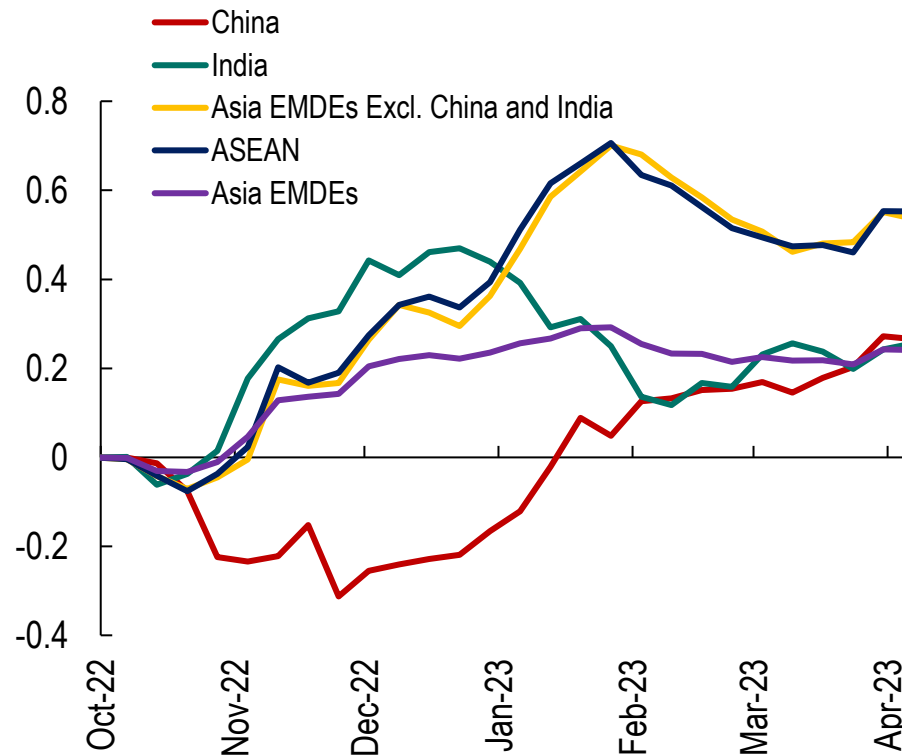
**Change in bank equity prices**  
(In percent)



Source: Bloomberg Finance L.P and IMF staff calculations.  
Note: Data as of April 10, 2023.

...portfolio flows have remained resilient so far...

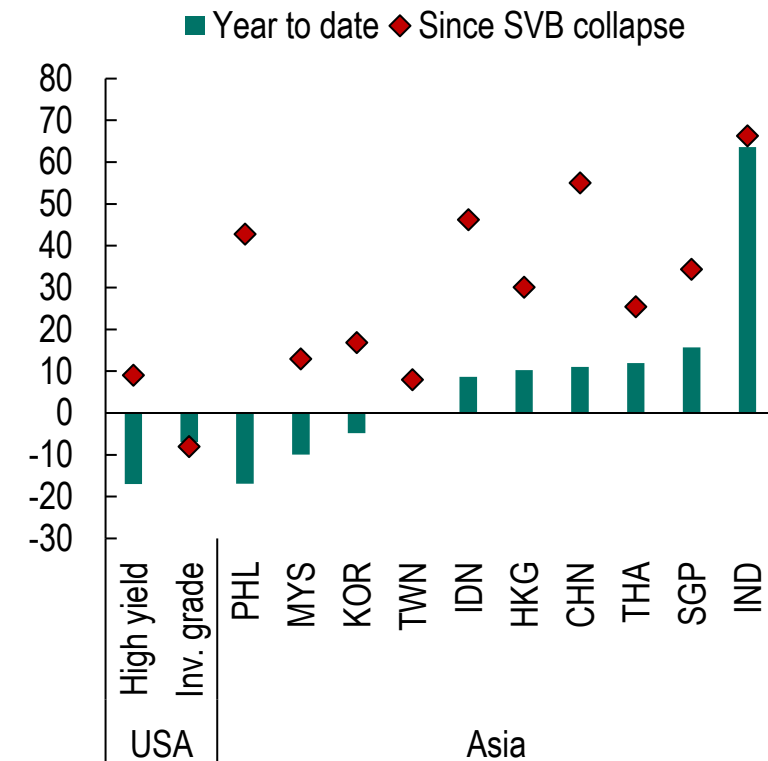
**Cumulative Portfolio Flows: Select EM Asia Economies**  
(Net portfolio flows to Asia; in percent of IIP liabilities)



Source: Institute of International Finance and IMF staff calculations.  
Note: Asia EMDEs excl. China includes IND, PHL, LKA and THA. ASEAN include IDN, PHL and THA.  
Latest data through April 6, 2023.

...but there has been some widening of corporate spreads.

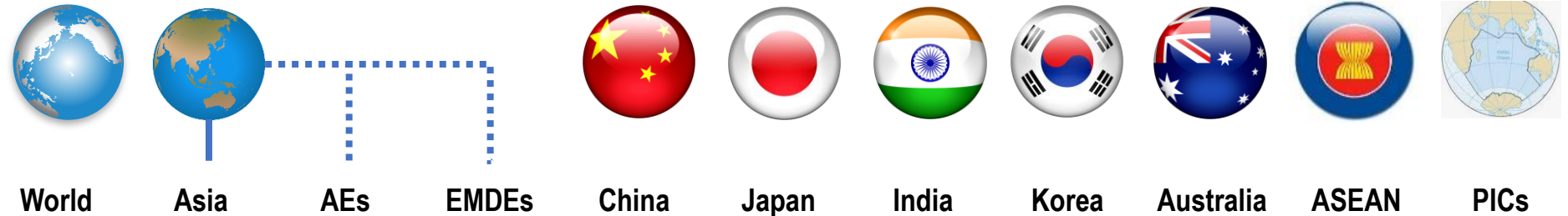
**Change in spreads on USD corporate bonds**  
(In basis points)



Source: Bloomberg Finance L.P; and IMF staff calculations.  
Note: JP Morgan Corporate-EMBI. Data as of April 3, 2023.

# Outlook

# GDP growth forecasts



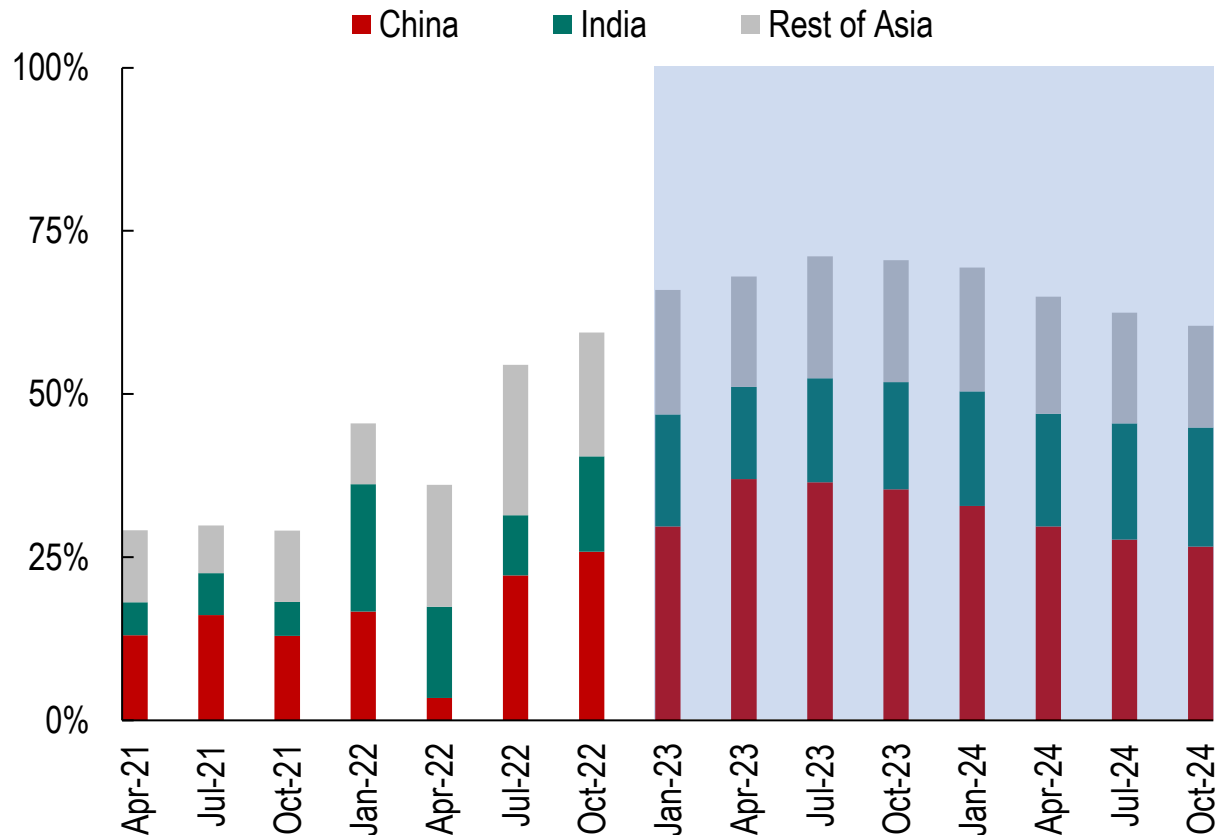
	World	Asia	AEs	EMDEs	China	Japan	India	Korea	Australia	ASEAN	PICs
2022	3.4	3.8	1.8	4.4	3.0	1.1	6.8	2.6	3.7	5.7	1.0
2023	2.8	4.6	1.6	5.3	5.2	1.3	5.9	1.5	1.6	4.6	3.9
Revisions since Oct. 2022 WEO	0.1	0.3	-0.4	0.4	0.8	-0.3	-0.2	-0.5	-0.3	-0.1	-0.4
2024	3.0	4.4	1.7	5.0	4.5	1.0	6.3	2.4	1.7	4.9	3.6
Revisions since Oct. 2022 WEO	-0.2	-0.2	-0.2	-0.2	0.0	-0.3	-0.5	-0.3	-0.1	-0.2	-0.1



# Asia remains the largest contributor to global growth

The largest contributions to global growth are from China and India.

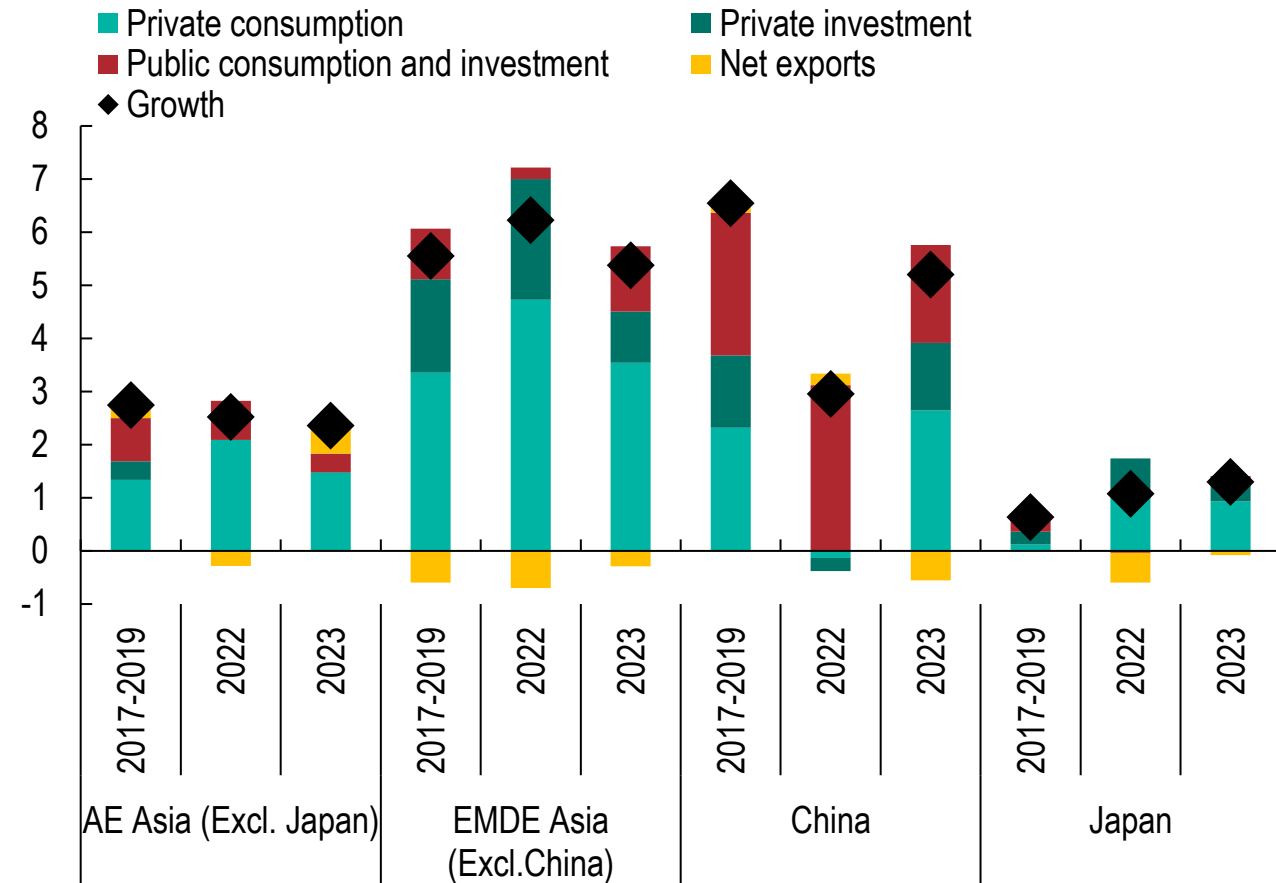
**Global Growth Contributions**  
(in percent; quarterly y-o-y growth)



Source: IMF World Economic Outlook and IMF staff calculations.

Domestic demand, consumption in particular, is the main driver of growth in near term.

**Contributions to GDP Growth**  
(Percentage points, year-over-year)

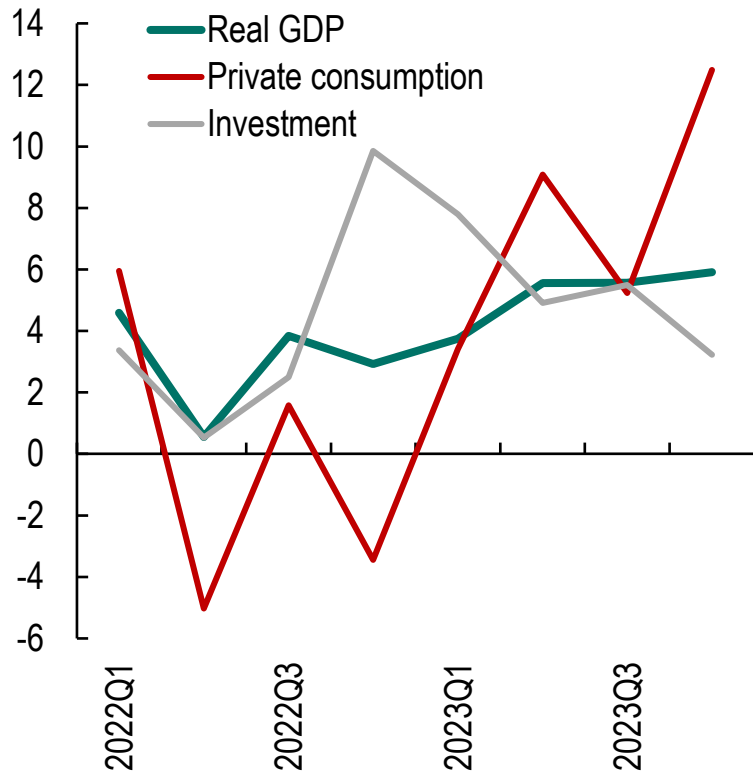


Source: IMF World Economic Outlook and IMF staff calculations.

# China's reopening provides momentum for near-term growth

Chinese growth in 2023 is projected to be 0.8 percent higher than in October WEO...

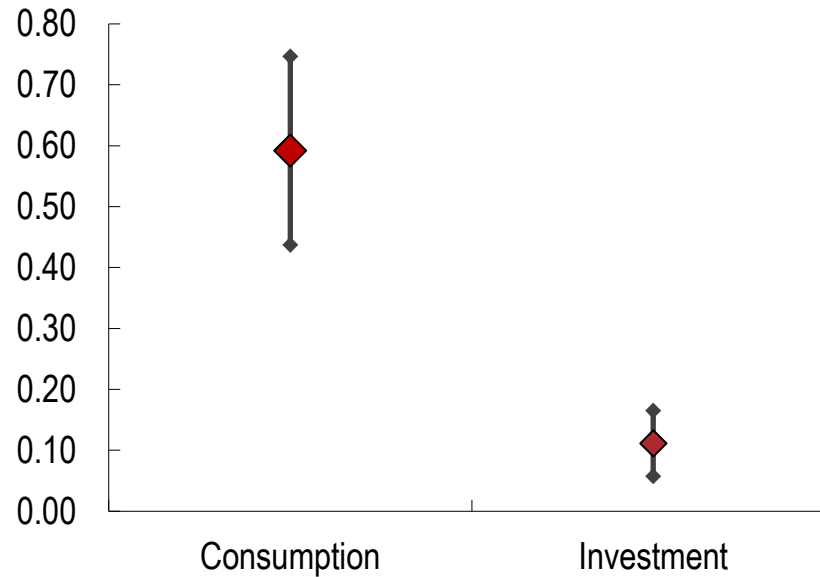
**Growth and Private Consumption**  
(Real growth in percent, year-on-year)



Source: CEIC Data Company Limited and IMF staff calculations.

China's rebound will have positive spillovers to the region ...

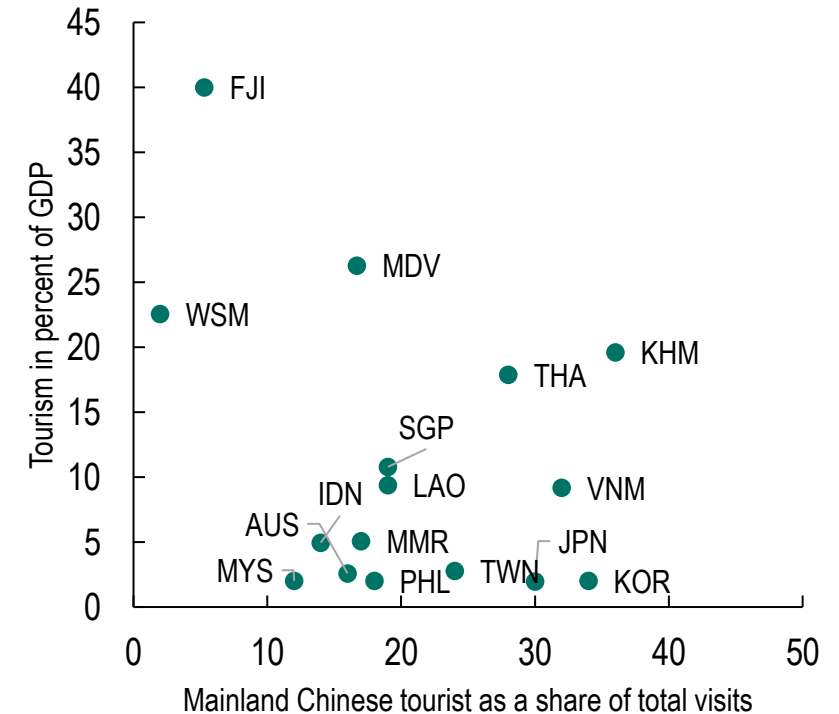
**China Activity Spillovers**  
(Change in Asia-Pacific growth, percentage points)



Sources: World Economic Outlook, Asia-Pacific Regional Economic Outlook October 2022 and IMF staff calculations.  
Note: Diamonds represent mean response in Asia-Pacific countries (excluding China), lines are 68 percent confidence intervals. Shocks are scaled to be equivalent to China private investment (1 pp) and consumption (1.5 pp) growth forecast revision from October 2022 World Economic Outlook to April 2023 World Economic Outlook.

...with tourism-exporting neighbors being the main beneficiaries.

**Mainland China Tourism in Asia 2019**  
(In percent)



Sources: OECD, Statista and the Economist.

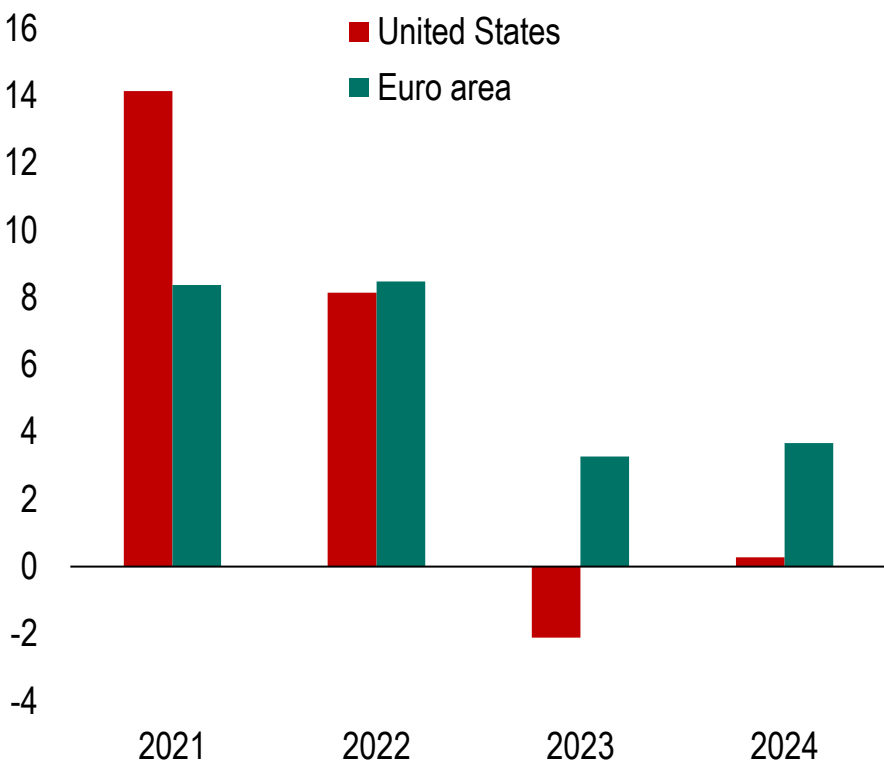
# But weakening external demand and tech cycle will weigh on activity

Weaker demand from US and Europe will put pressure on Asia's export performance.

Prices for technology exports from Asia, e.g. semiconductors, are off peaks.

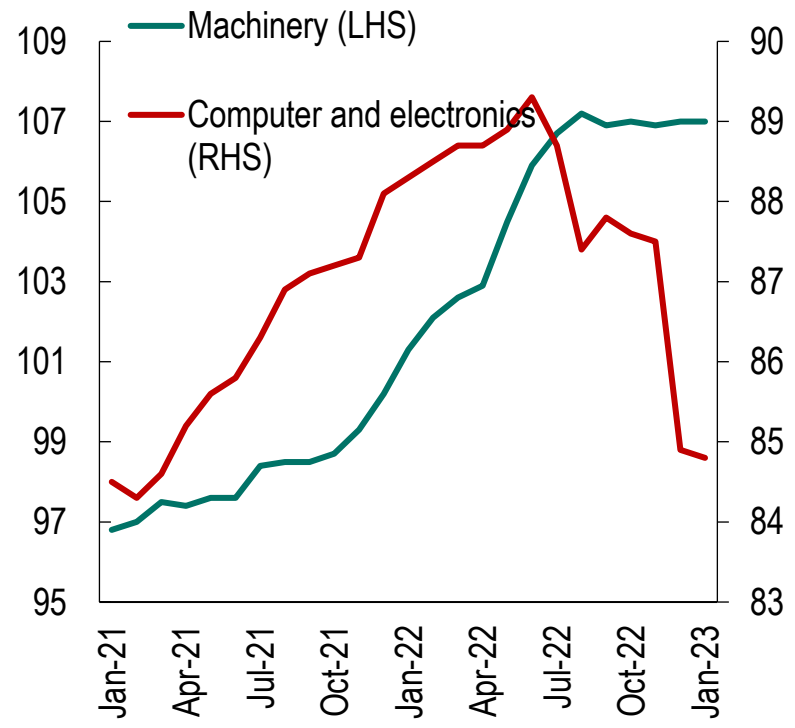
US semiconductor industry data also show forward demand lagging.

**Imports of Good and Services Growth**  
(in percent)



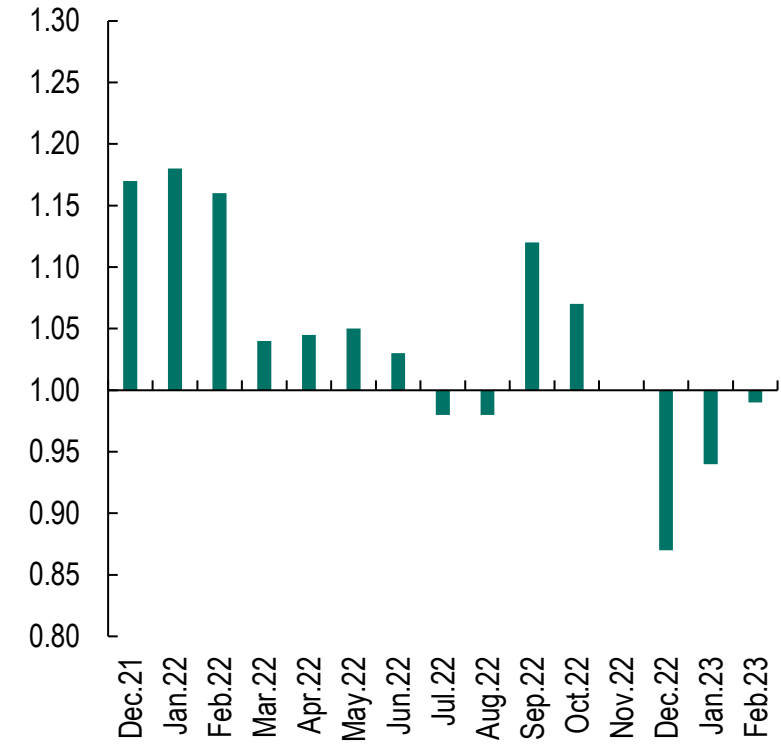
Sources: World Economic Outlook and IMF staff calculations.

**Price index of US manufacturing imports from Asia**



Sources: FRED; and IMF staff calculations.

**Trend in North American PCB Book-to-Bill Ratio**

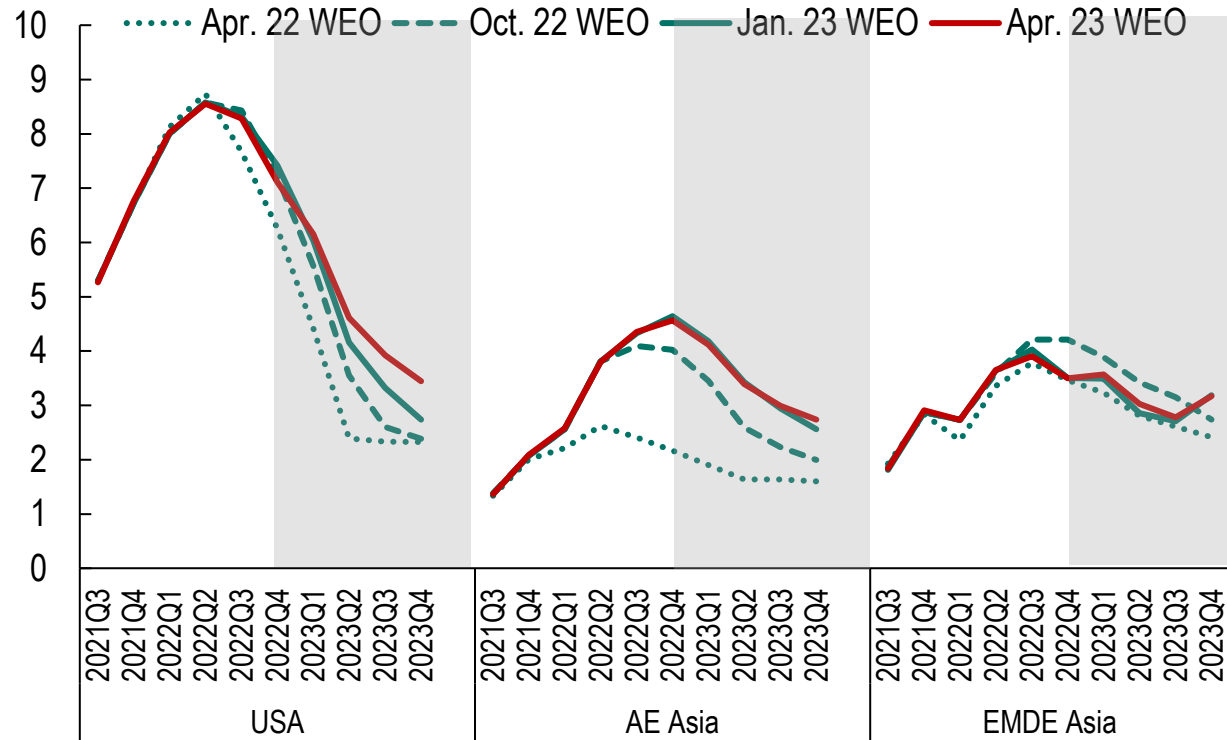


# Inflation is projected to come down

Headline inflation is projected to decline further but core inflation could be sticky...

## Projected Inflation Paths

(Percent; year over year)



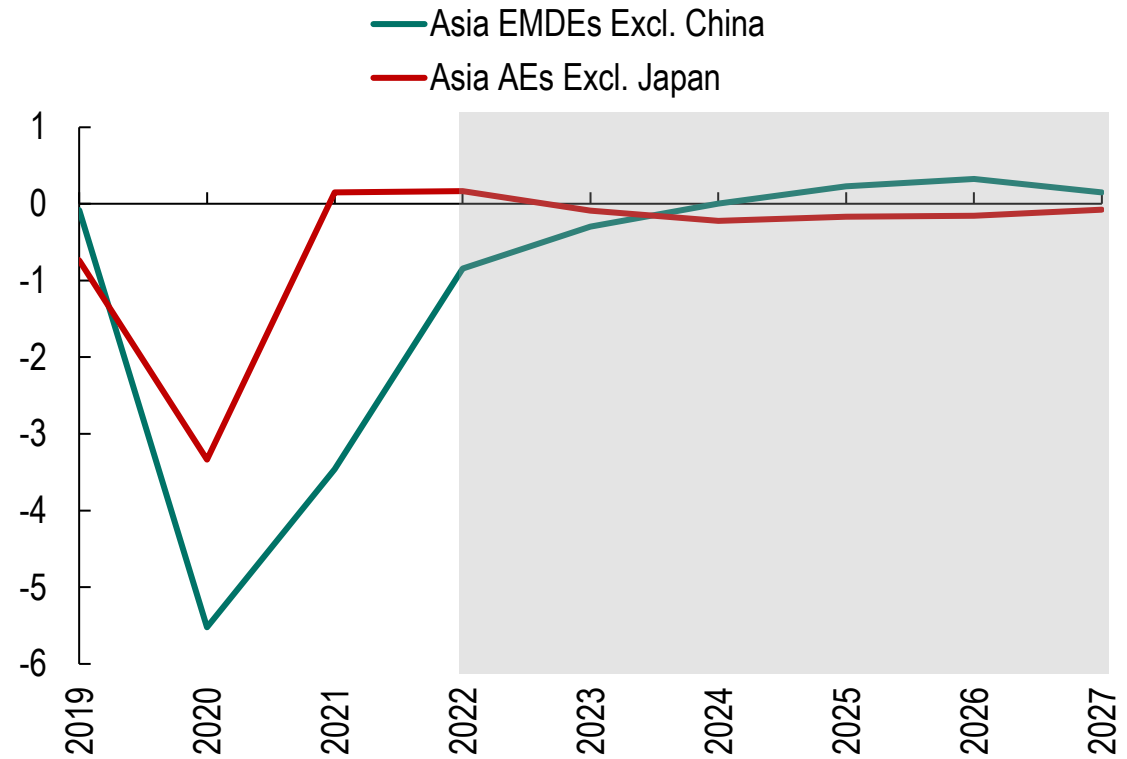
Sources: IMF World Economic Outlook.

Note: Weighted average purchasing power parity adjusted.

...and output gaps are either already positive or turning positive, which could slow down disinflation in core

## Deviation of Real Output from Potential

(in percent)



Sources: IMF World Economic Outlook.

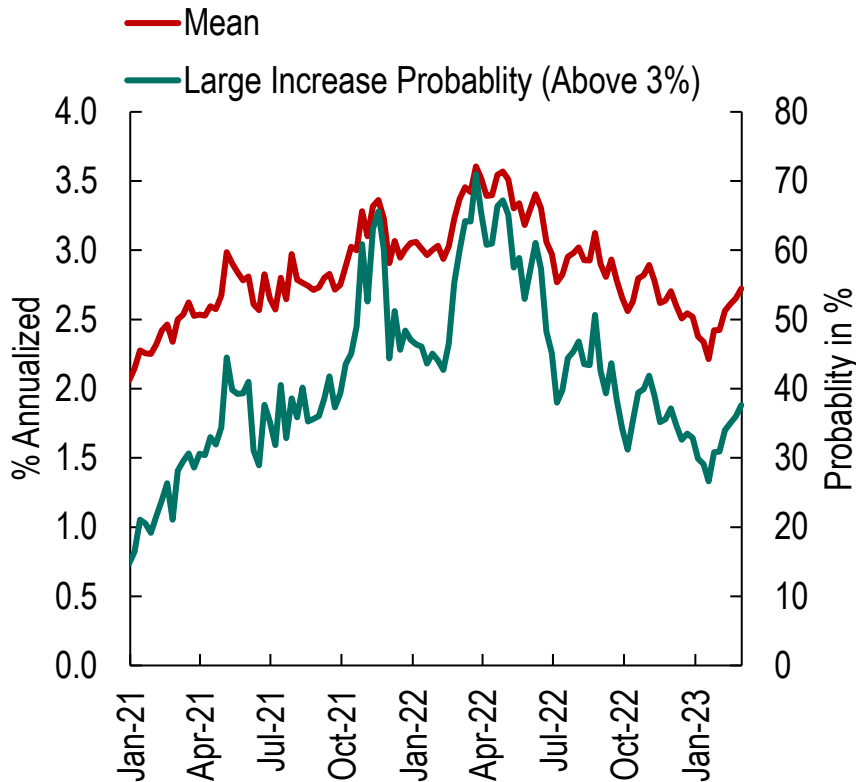
Note: Asia AE include Australia, Hong Kong SAR, Japan, Korea, New Zealand, Singapore and Taiwan POC. Asia EMDE include China, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

# Risks to the outlook

# Inflation could be more persistent than expected...

Inflation expectations in the US have stopped declining and remain above target...

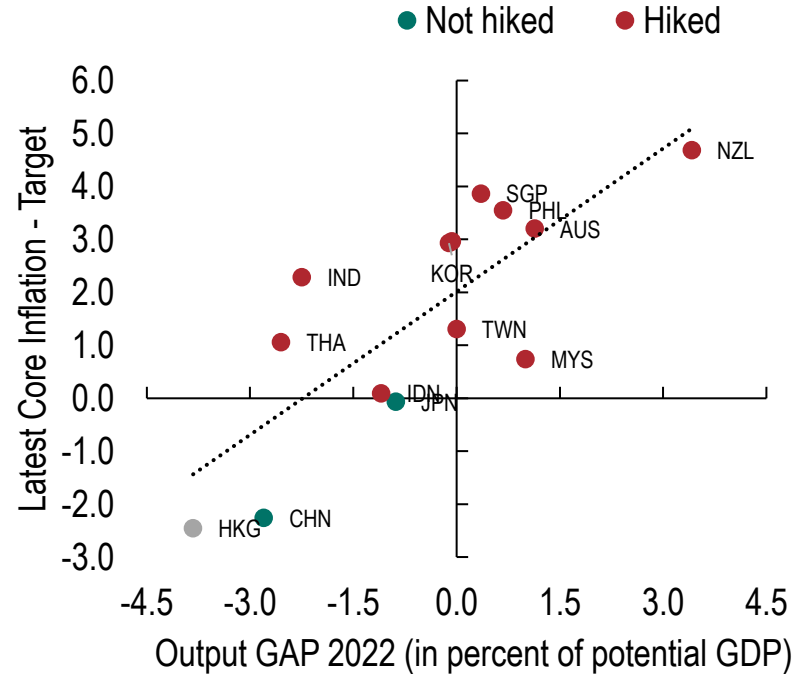
**CPI over 5 Years: Market Based Probabilities**  
(Percent)



Source: Federal Reserve Bank of Minneapolis and IMF Staff calculations.

...and core inflation in Asia remains above target and could persist.

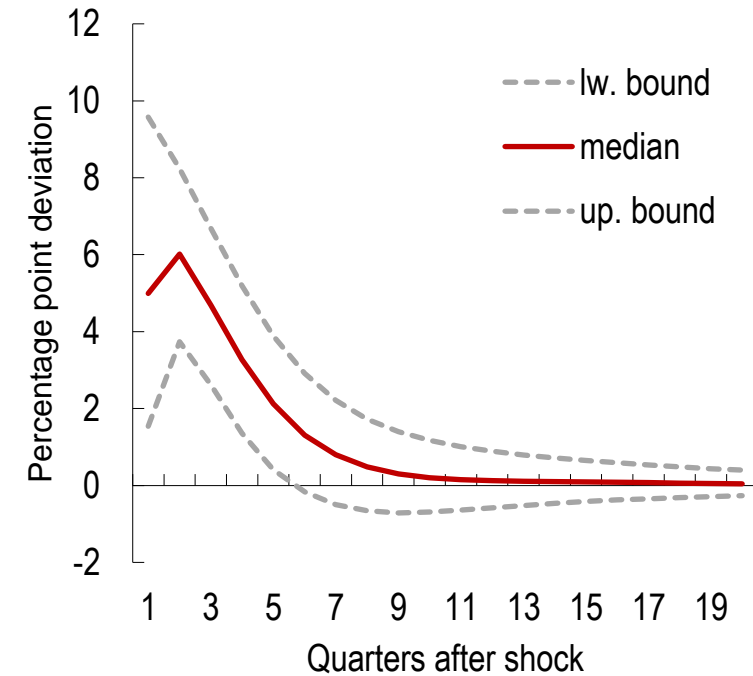
**Core Inflation - Deviation from Target and Output Gap**  
(In percent)



Sources: Haver Analytics; World Economic Outlook and IMF staff calculations. Note: For inflation targeting countries, deviation from target or midpoint of the inflation target range is used. For countries without an inflation target (Hong Kong SAR, Malaysia, Taiwan Province of China and Singapore) an implicit target is calculated using the long-term average inflation between 2010-19. Dotted line as linear regression line. Latest core inflation data as of March 2nd 2023.

China's reopening could make it hard for commodity prices to decline further

**Response of Brent Oil price to 1 pp Chinese Demand Shock**  
(Percentage point deviation)



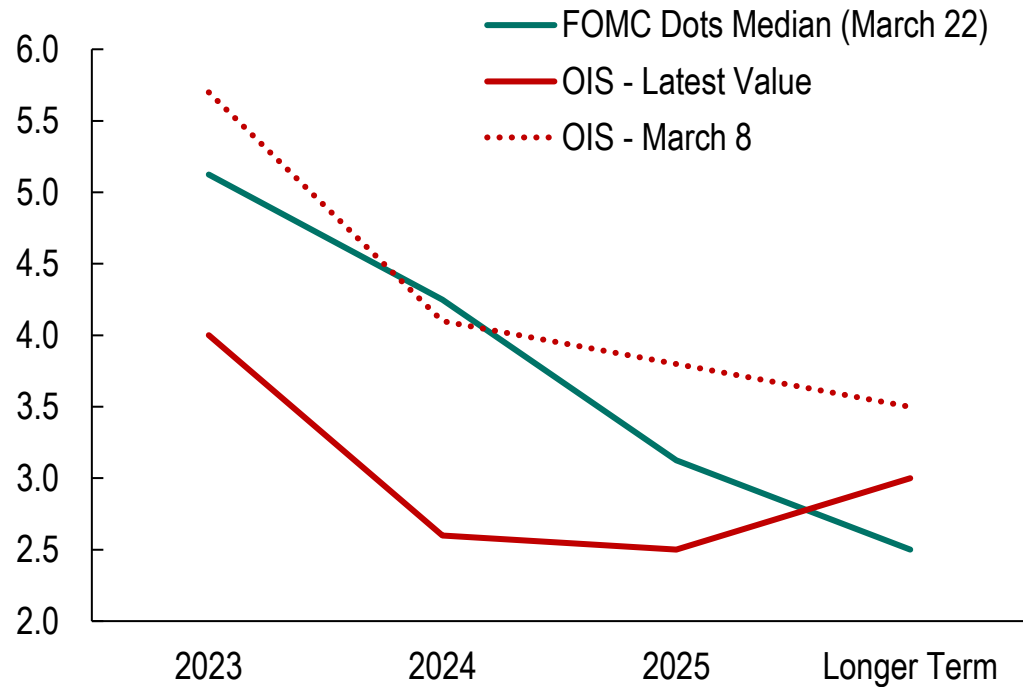
Source: IMF staff calculations.

# ...and the future path of US monetary policy is highly uncertain

Expected Fed Funds rates have become highly volatile.

## Policy Rate Expectations vs Feds Dots

(Percent)

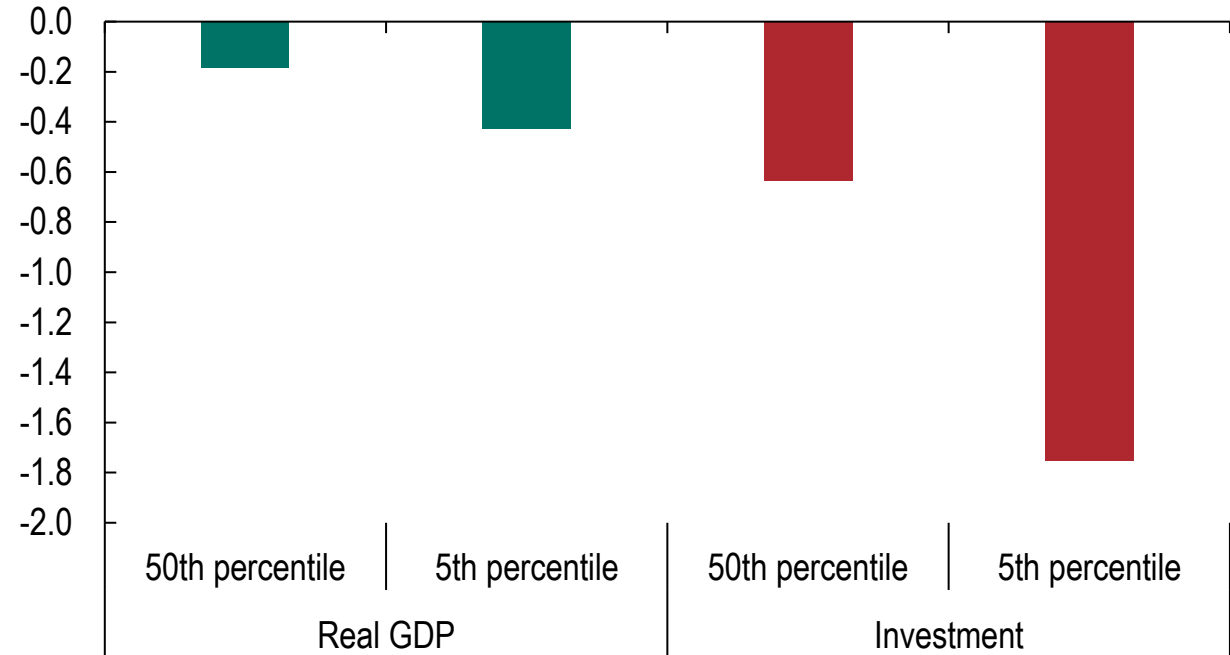


Sources: Bloomberg Finance LP.  
Note: Data as of April 10, 2023.

Larger and more persistent US monetary tightening could have significant spillovers to Asia.

## Response of Real GDP and Investment on US monetary policy shock

(Impulse responses at 4 quarters - percentage change)



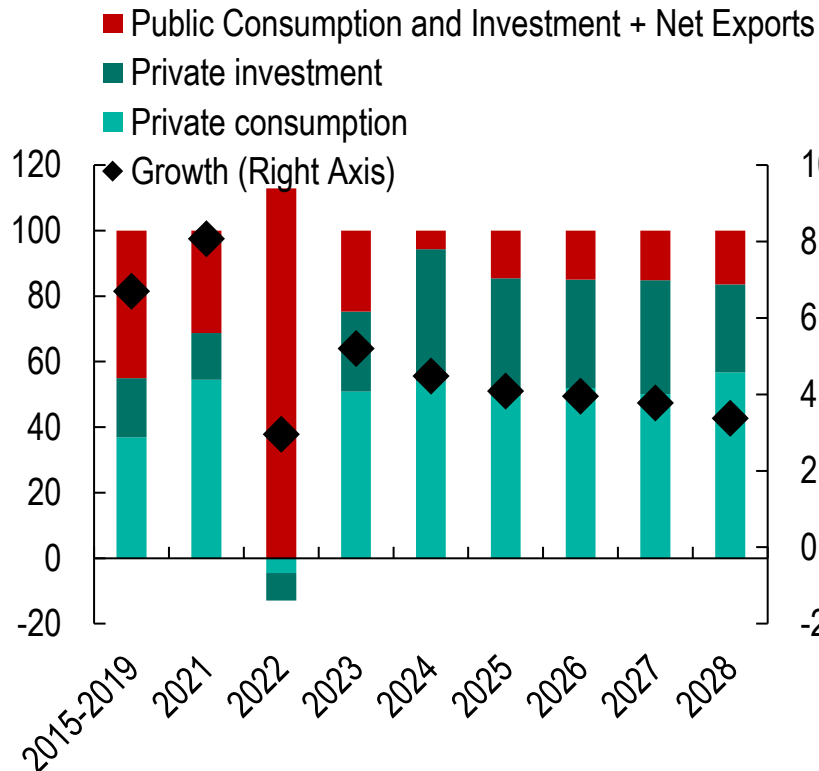
Sources: Arbatli-Saxegaard et al. (2022)

Note: Estimations are based on panel quantile regressions and show the impact of a 100 basis points exogenous US monetary policy shock. Standard errors are bootstrapped using blocks of 4 quarters.

# China's structural growth deceleration and geopolitical fragmentation could affect Asia

China's projected growth slowdown and shift from investment to consumption...

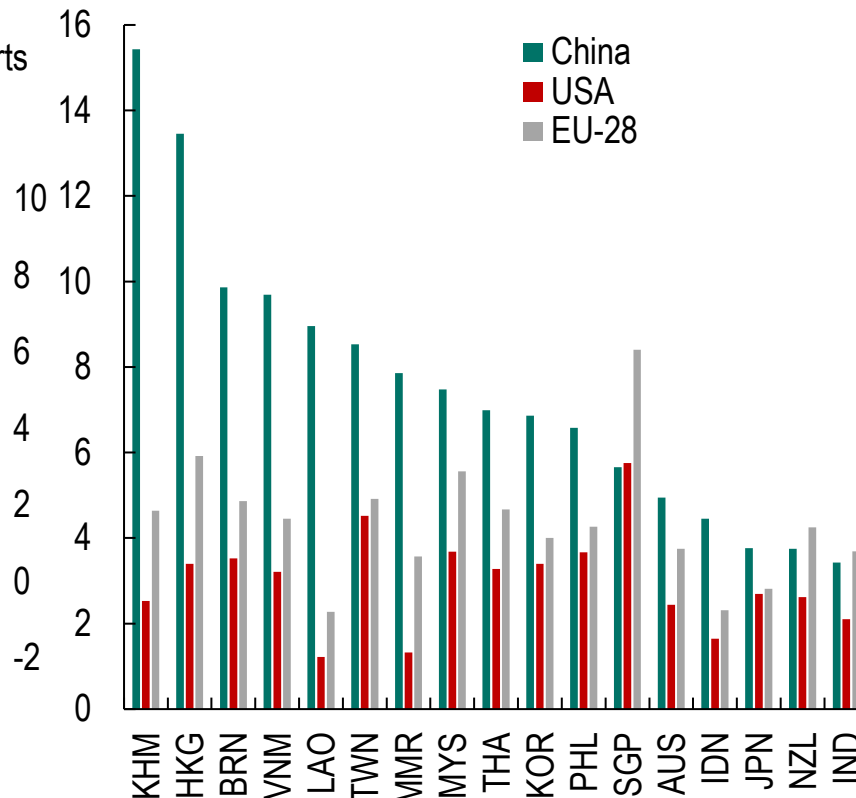
**China: Contributions to GDP Growth**  
(Percent of total growth, year-over-year)



Source: World Economic Outlook and IMF Staff Calculations.

...could affect growth in neighboring countries, as it's the largest export partner of many Asian economies.

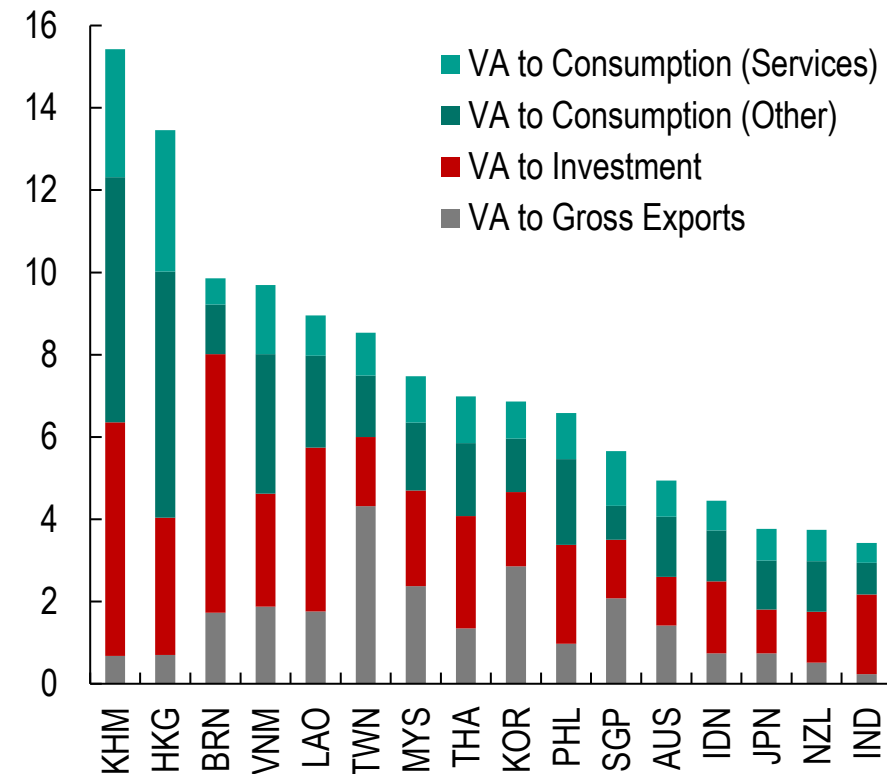
**Exported VA by destination**  
(Percent of origin country GDP)



Source: Trade in Value Added (TiVA) and IMF Staff Calculations.

The impact could be through both domestic demand and global-value-chain channels.

**Export Value Added to China**  
(Percent of GDP)



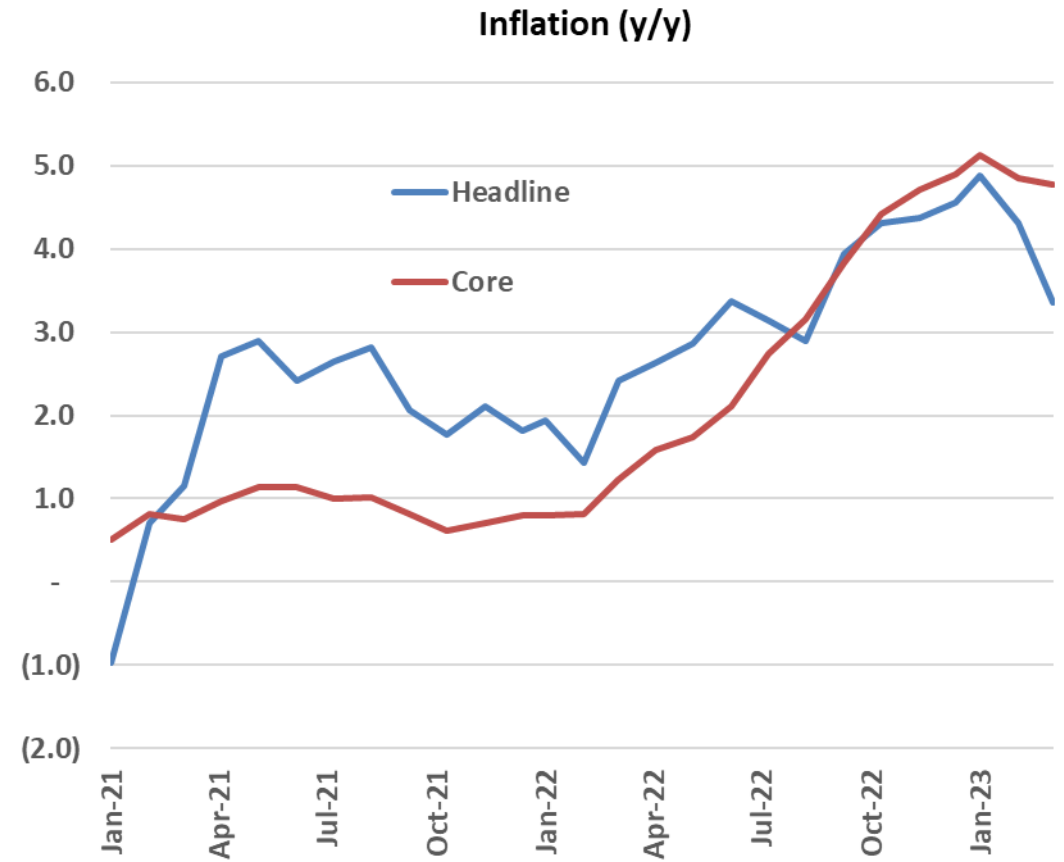
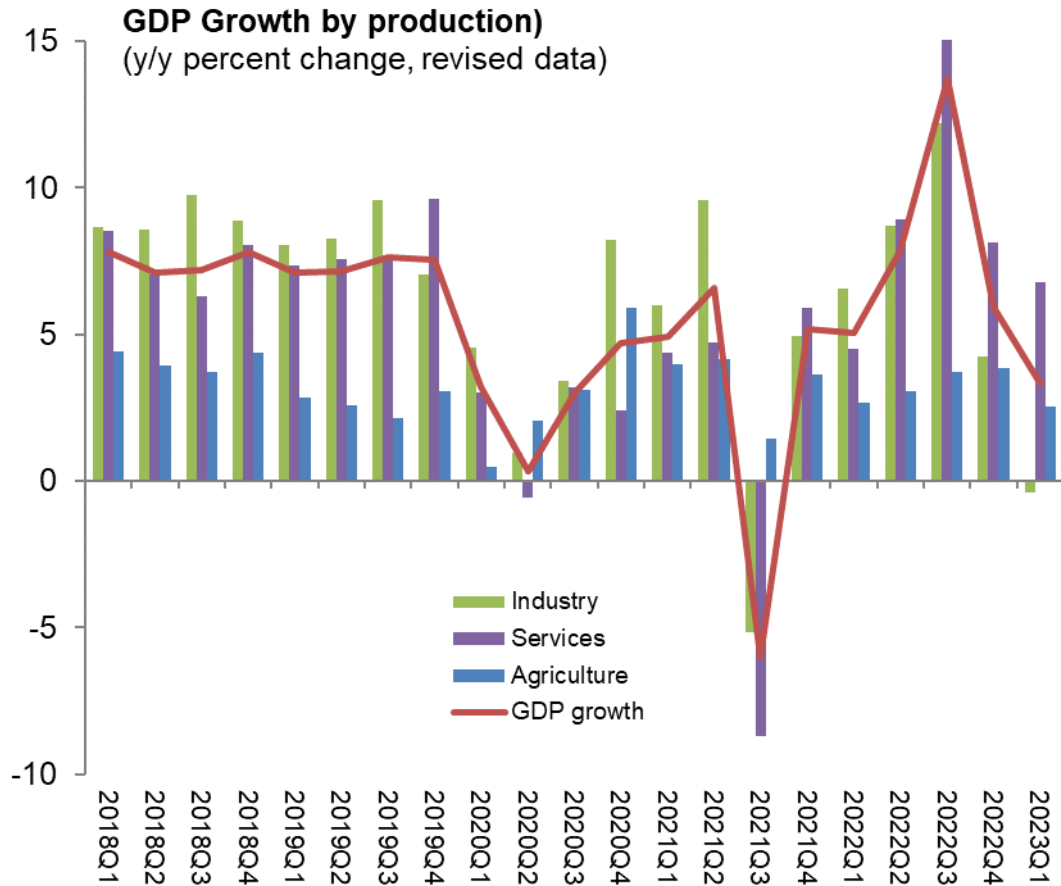
Source: Trade in Value Added (TiVA) and IMF Staff Calculations.



# **Vietnam Outlook and Policy Recommendations**



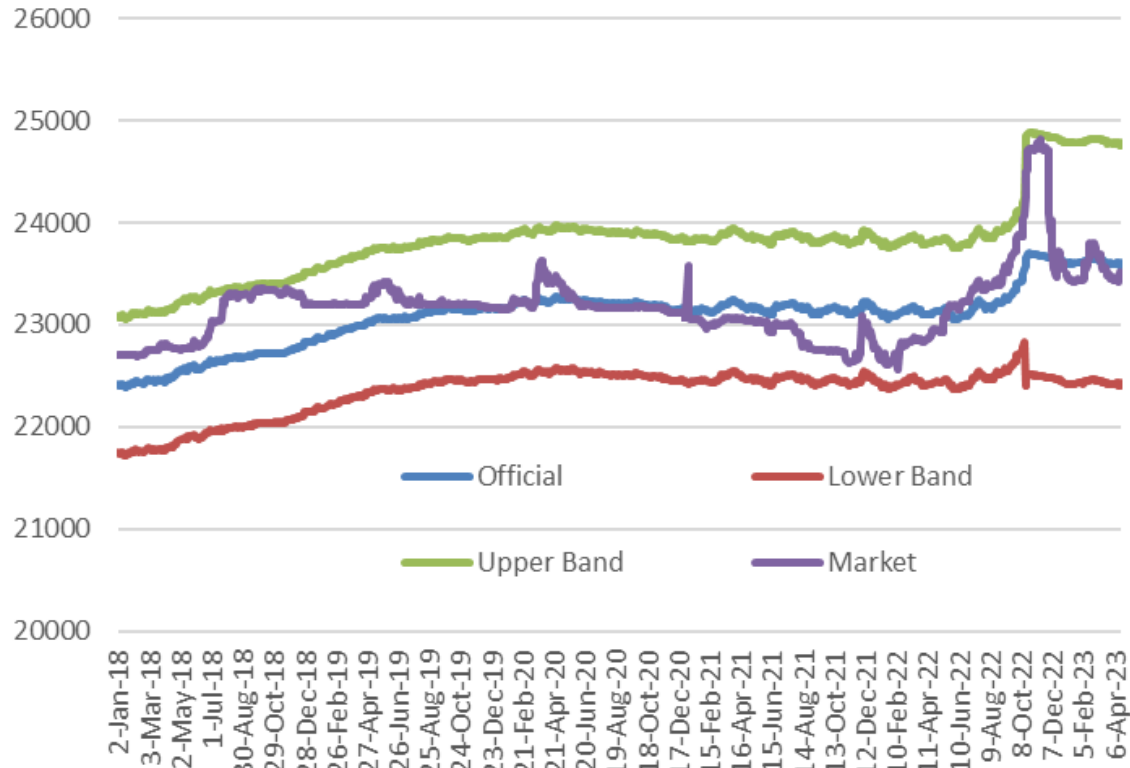
# Growth softening in 2023Q1, while core inflation remains elevated



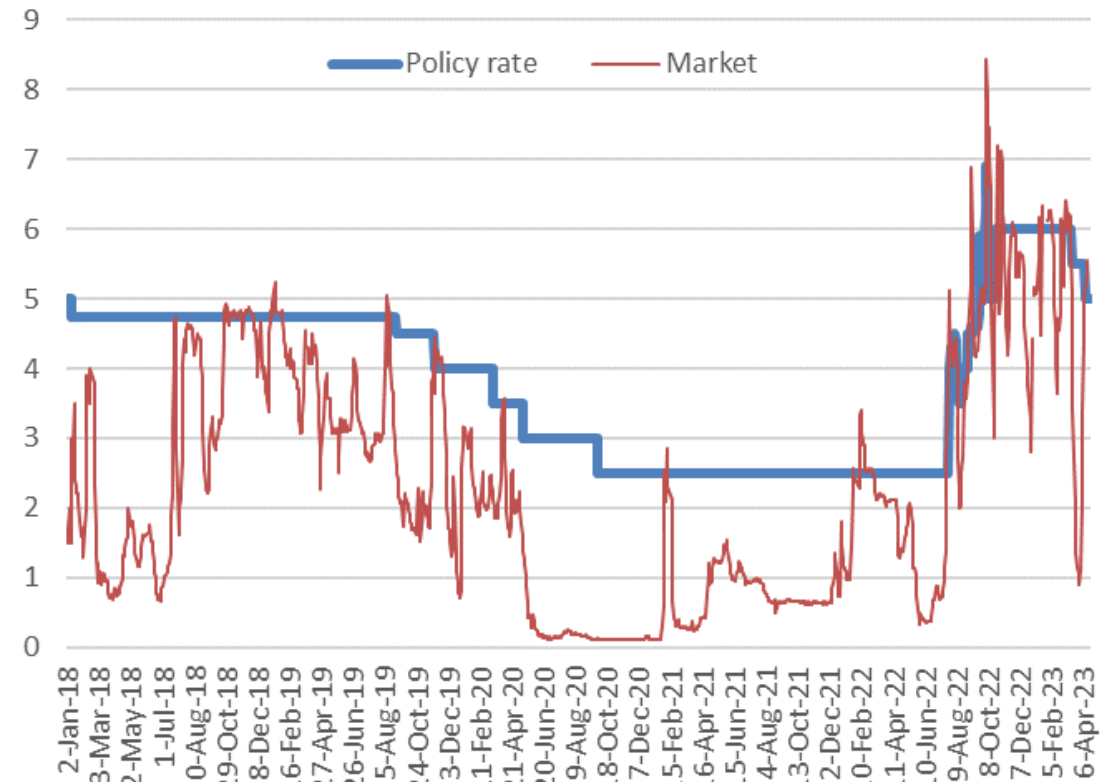


# Exchange rate pressures have eased, and monetary policy has been eased

### Exchange Rate (VND/USD)



### Interest Rate





## Outlook and risks

- Growth: 2023 (5.8%) and 2024 (6.9%)
- Core inflation may be sticky, before gradual return below 4%
- Risks to growth are to the downside
  - (-) external demand; global financial conditions; domestic real estate/corporate bond market
  - (+) China reopening



# Policy recommendations

- Carefully calibrated, coordinated and communicated
- SBV should rely on policy rates to contain inflation and avoid ER pressures
- Safeguard financial stability while addressing the bottleneck of corporate bond market and real estate sector
- Fiscal policy should be agile and targeted
- Structural reforms

**Thank you.**