



The AMRO Inaugural Flagship Report: ASEAN+3 Regional Economic Outlook 2017

4 May 2017, Yokohama, Japan

Mandate

- Conduct macroeconomic and financial surveillance of global and regional economies
- Contributes to early detection of risks, policy recommendations for remedial actions and effective decision-making of the CMIM

Core Functions

Surveillance

- Conducting macroeconomic surveillance (regional, member countries, functional/sectoral) and conducting thematic studies/research

CMIM Support

- Providing support to the members to ensure that the CMIM is operationally ready

Technical Assistance (TA)

- Providing TA to the members to enhance their human and institutional capacities for macroeconomic surveillance and implementation of CMIM

Chapters

I

ASEAN+3 Macroeconomic Prospects and Challenges

II

Thematic Chapter: ASEAN+3 Region 20 Years after the Asian Financial Crisis

Chapters

I

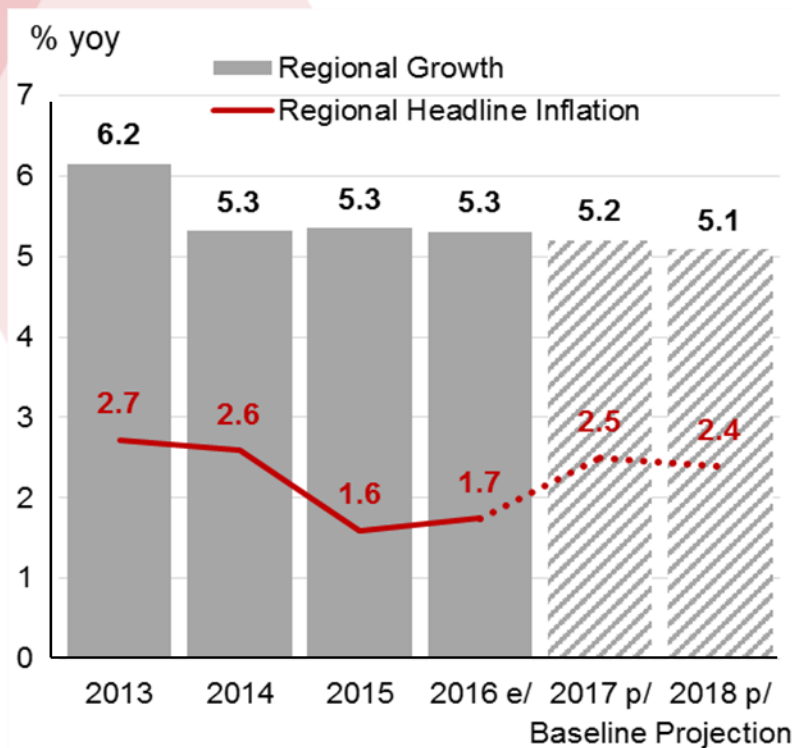
ASEAN+3 Macroeconomic Prospects and Challenges

II

Thematic Chapter: ASEAN+3 Region 20 Years after the Asian Financial Crisis

Amid the external uncertainties, regional growth will continue to be driven by domestic demand. Growth is anticipated to moderate slightly, but sustained around 5 percent in 2017-18

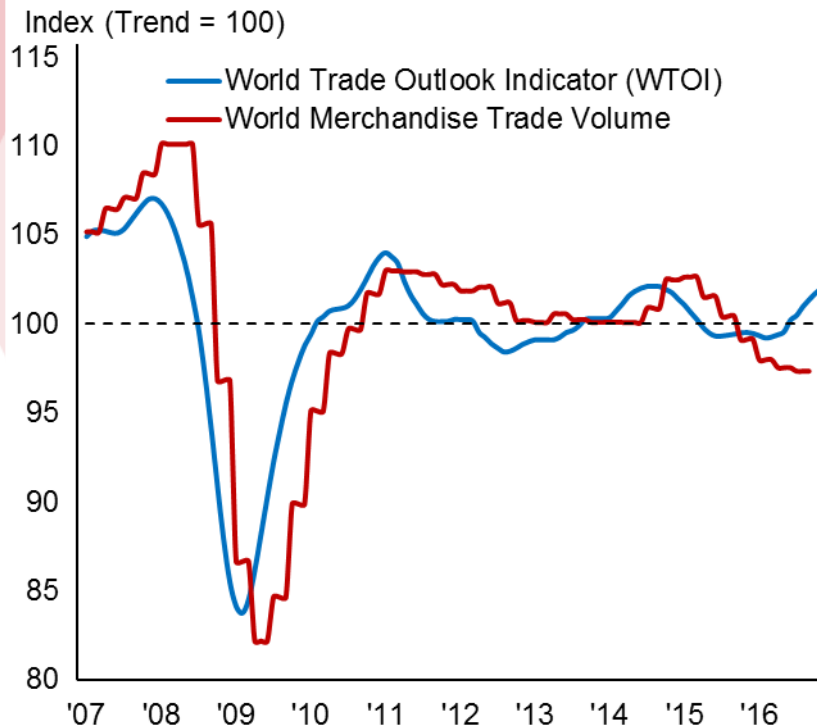
AMRO's Baseline Growth and Inflation Projections



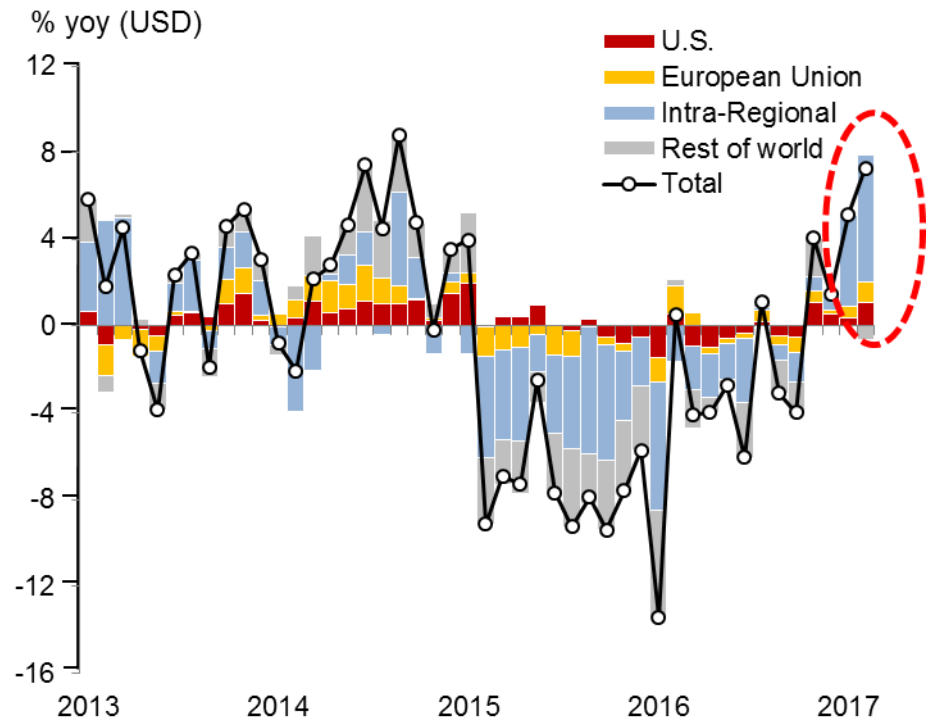
	'16	'17 p/	'18 p/
China	6.7	6.5	6.3
Japan (FY)	1.4	1.3	1.1
Korea	2.8	2.5	2.6
ASEAN-4 & VN	5.0	5.1	5.2
BCLM	5.6	6.5	6.8
HK & SG	2.0	2.1	2.3
ASEAN+3	5.3	5.2	5.1

The recent recovery in global trade, if sustained, could provide some upsides to regional exports and growth

Global Trade Outlook

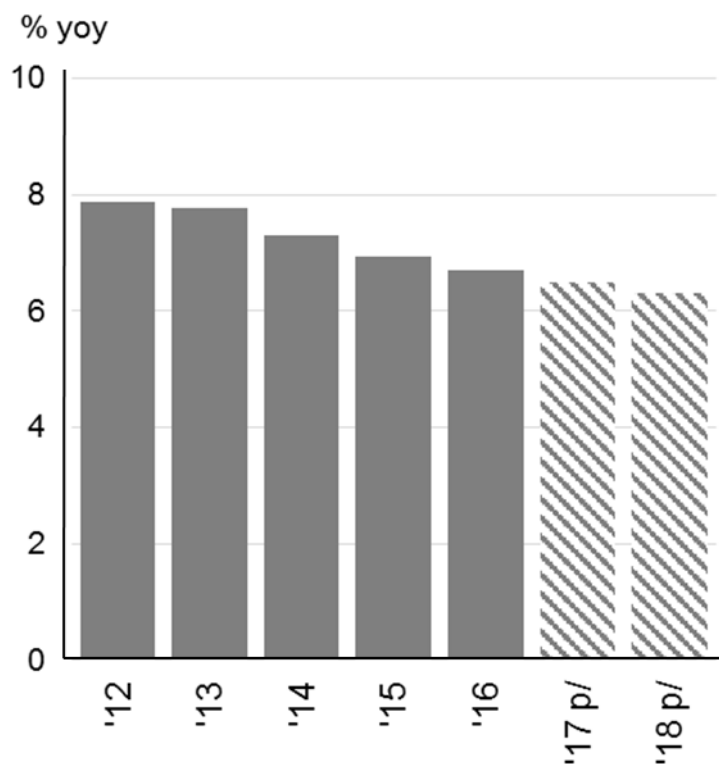


Regional Exports by Major Destinations

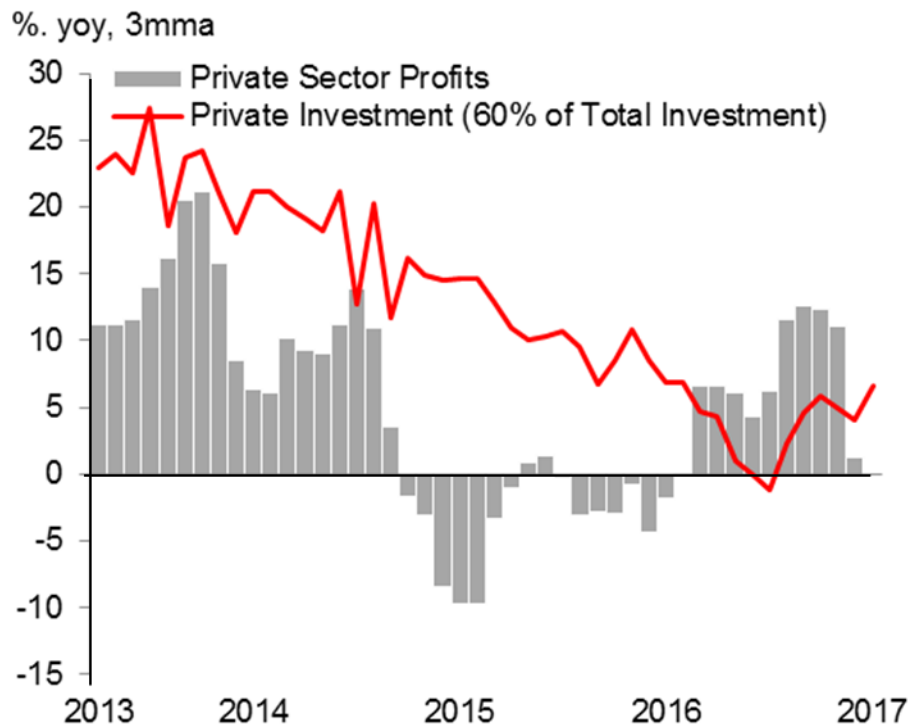


In China, growth continues along a moderating trend, while the rebound in producer prices supported the recent improvement in private sector profits and investment

China: Real GDP Growth

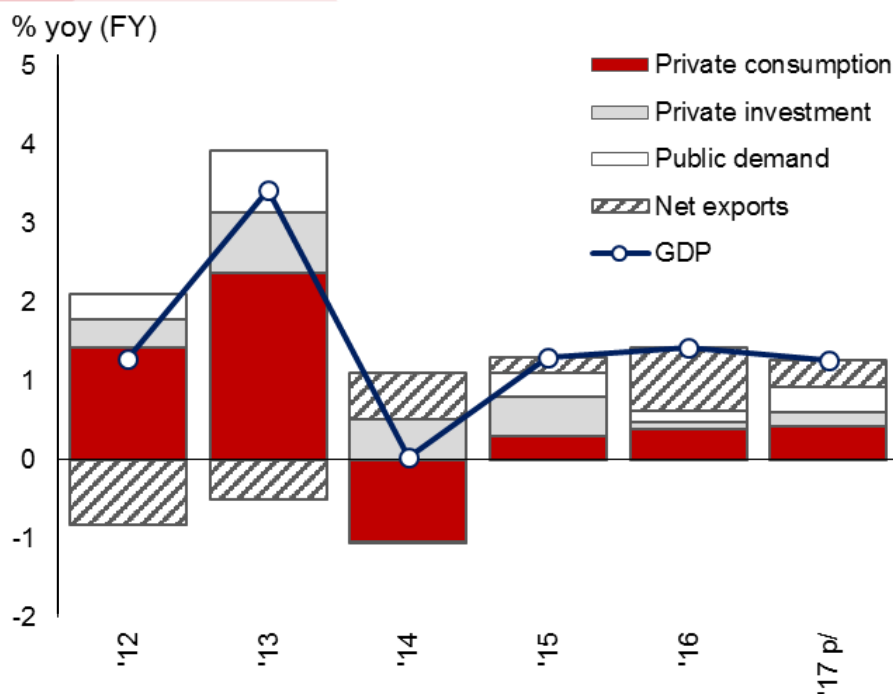


China: Private Sector Profits and Investment

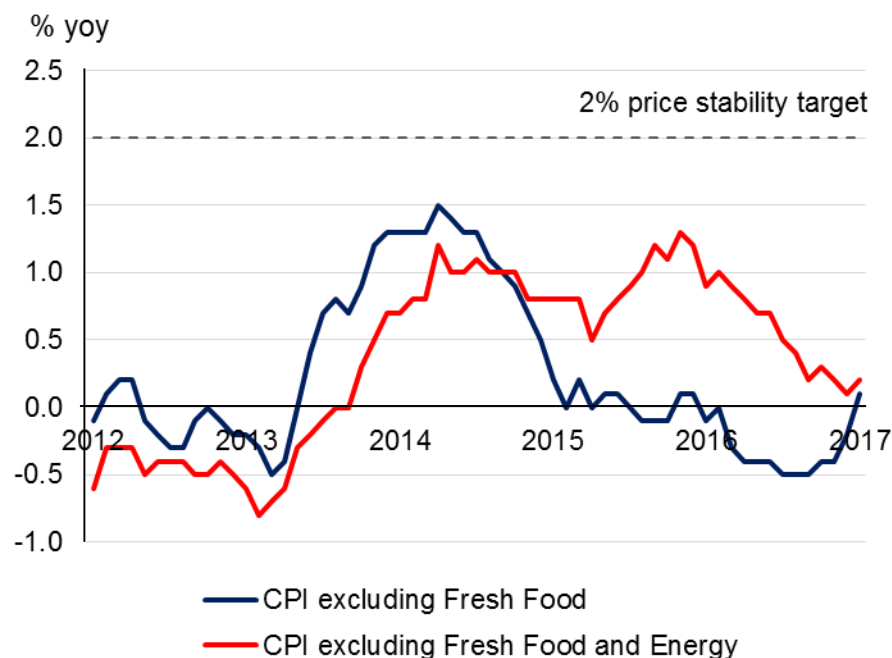


In Japan, growth is expected to remain strong in 2017, higher than the potential growth rate, while achieving the price stability target of 2.0 percent remains challenging

Japan: Real GDP Growth



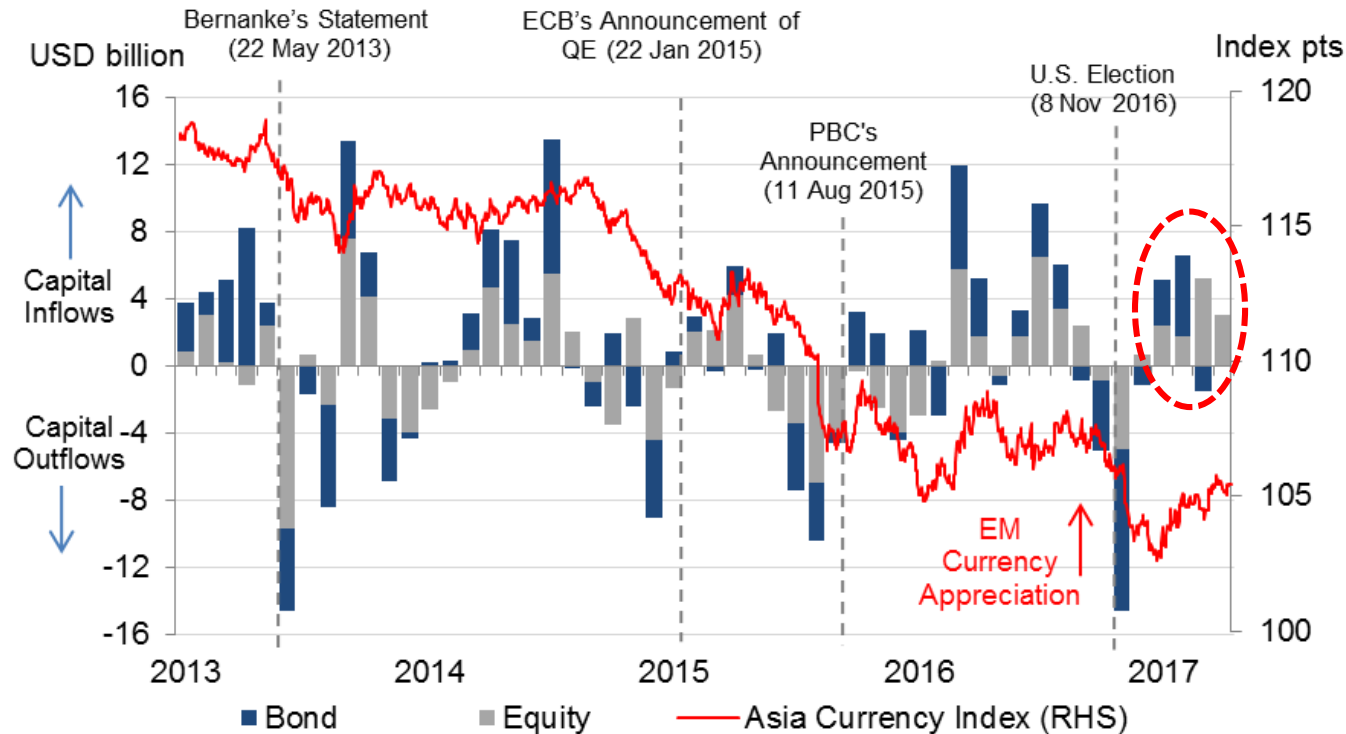
Japan: Inflation and Price Stability Target



Risks: Capital Flows

Financial markets have been largely stable, with the resumption of capital inflows, although risks remains tilted to the downside, mainly from global policy uncertainties

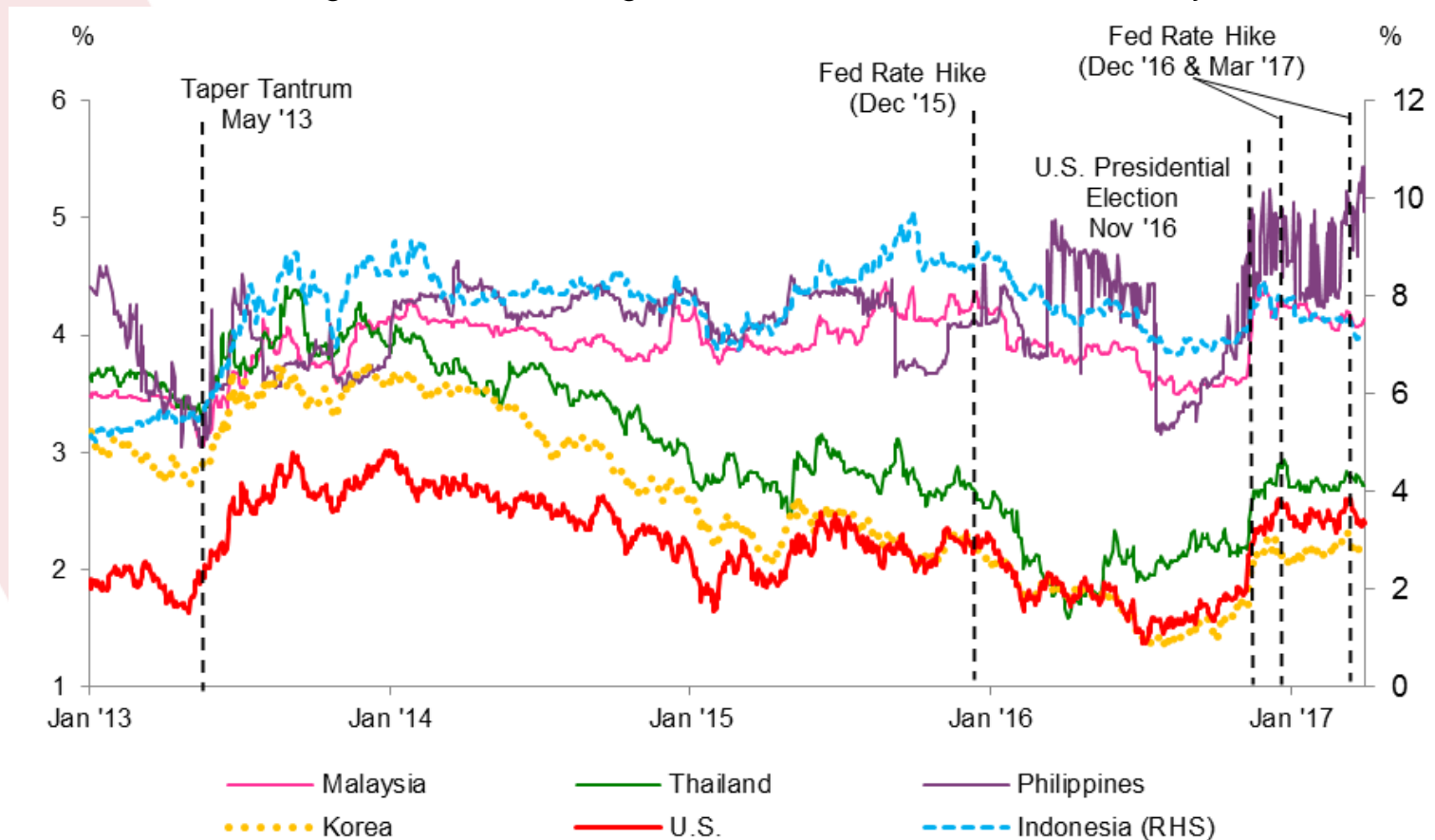
Non-Resident Net Capital Flows (ASEAN-4 and Korea)



Risks: Cost of Borrowing

So far, talks about U.S. fiscal stimulus and concerns about foreign capital flowing back to the U.S. have not translated into sustained increase in local currency sovereign bond yields

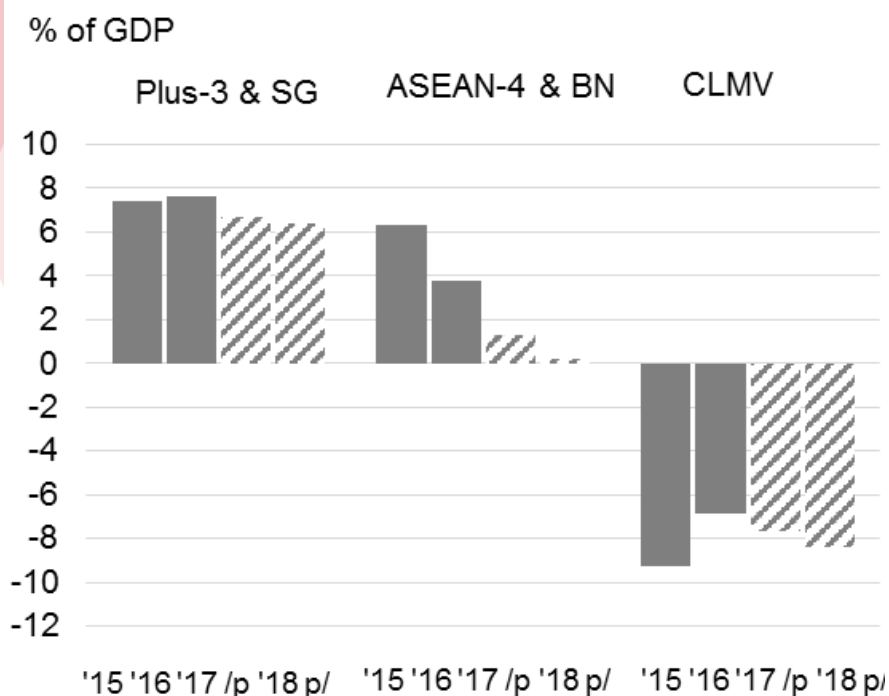
Selected Regional 10Y Sovereign Bond Yields vs. 10Y U.S. Treasury Yields



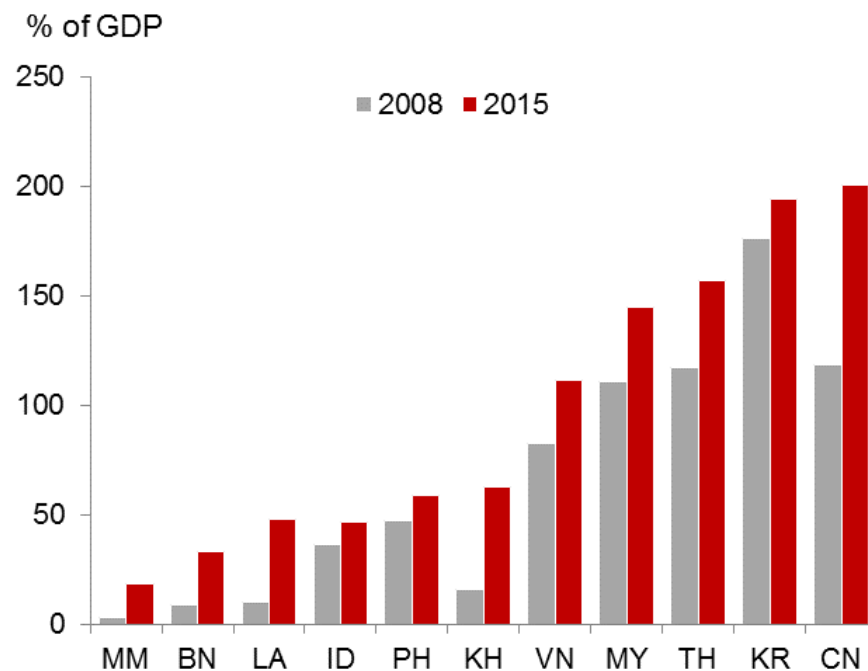
Risks: Financing and Turning of the Credit Cycle

Potential escalation of global uncertainties could amplify the financial stability risks of regional economies with large external financing needs, and where vulnerabilities have built up from sustained high private sector credit growth

Baseline Current Account Projections



Private Sector Credit-to-GDP Ratio (Selected Economies)



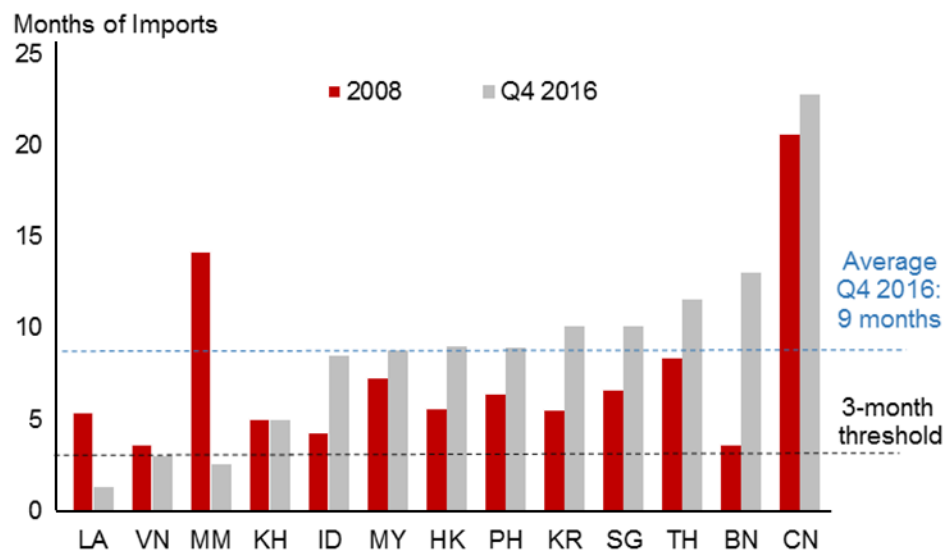
p/ Projection

Private sector credit refers to loans and advances extended by the banking system to financial and non-financial companies, and households.

Source: National Authorities, World Bank, AMRO

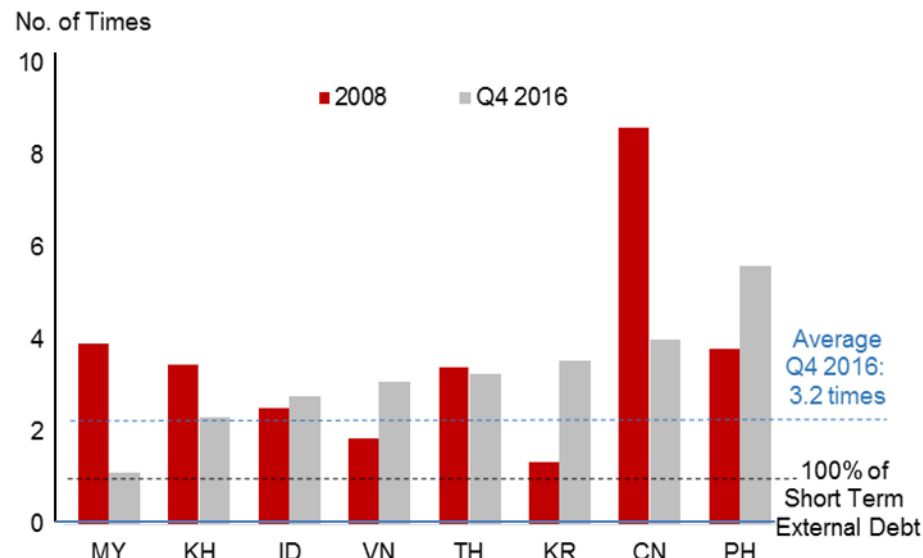
The region's FX buffer remains adequate by conventional metrics, policy room has generally narrowed across the region

FX Reserves (in Months of Imports)



Note: Latest data refers to 2012 (for Vietnam), 2014 (for Cambodia), 2015 (for Brunei), Q3 2016 (for Myanmar). For Myanmar and Lao PDR, data reflect imports of both goods and services. based on AMRO staff calculations

FX Reserves / Short-Term External Debt Ratio

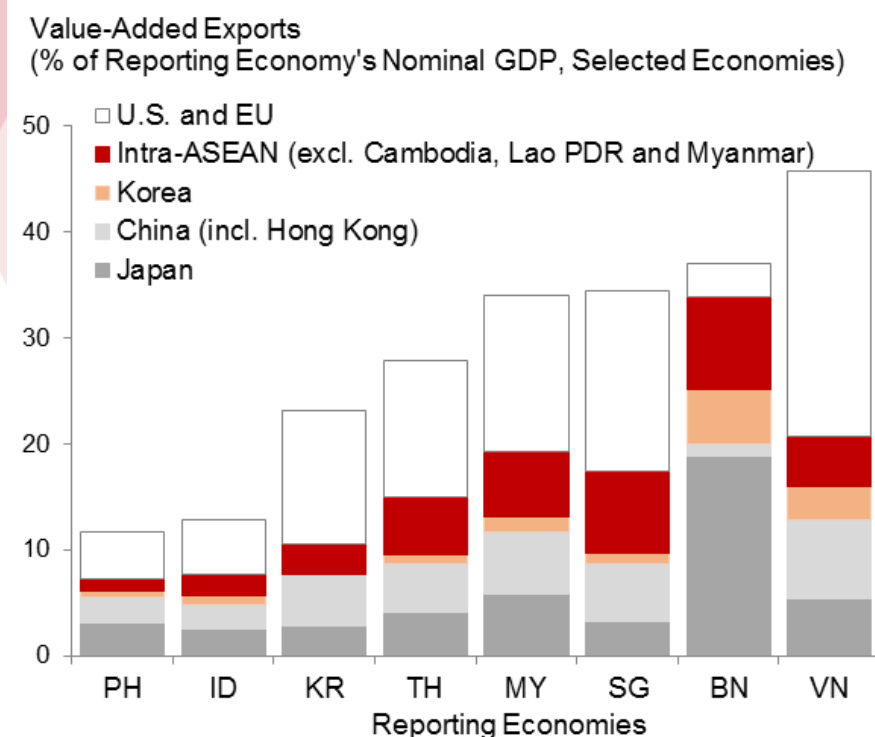


Note: Latest data refers to 2012 (for Cambodia), Q3 2016 (for China), and 2014 and 2016, respectively (for Vietnam). Some member economies have adopted the latest BPM6 (such as Malaysia), which includes local currency-denominated debt held by non-residents in their short term external debt data.

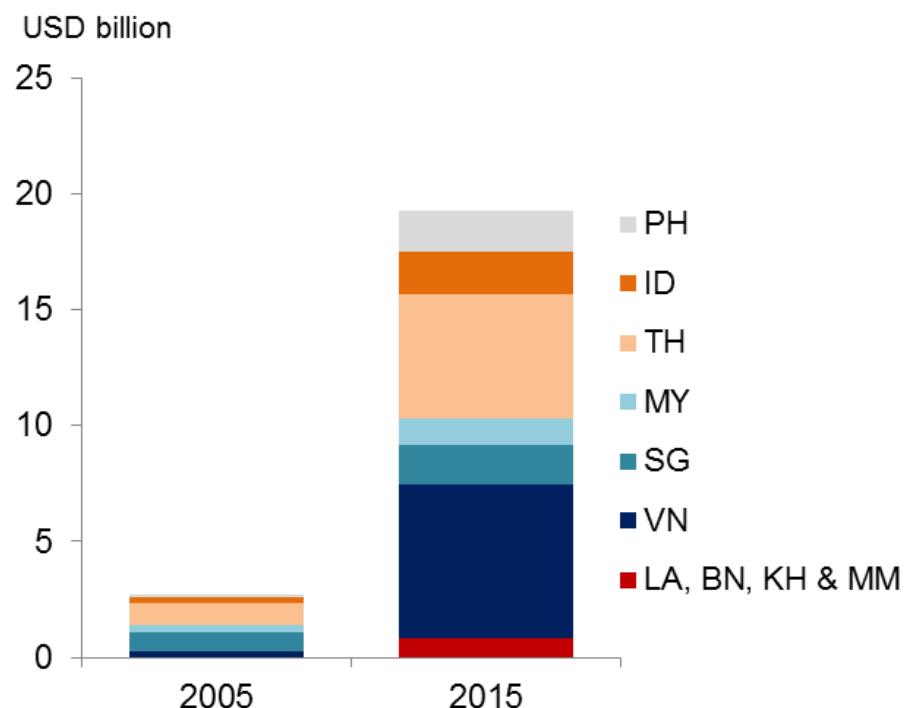
Leveraging Regional Integration

On a positive note, the region has become an important source of final demand, benefiting from the growing regional integration, as well as the rising middle class in China, which can cushion the impact of potential protectionist threats

Share of Exports Destined for Final Demand in the Region
(2015 Estimates)

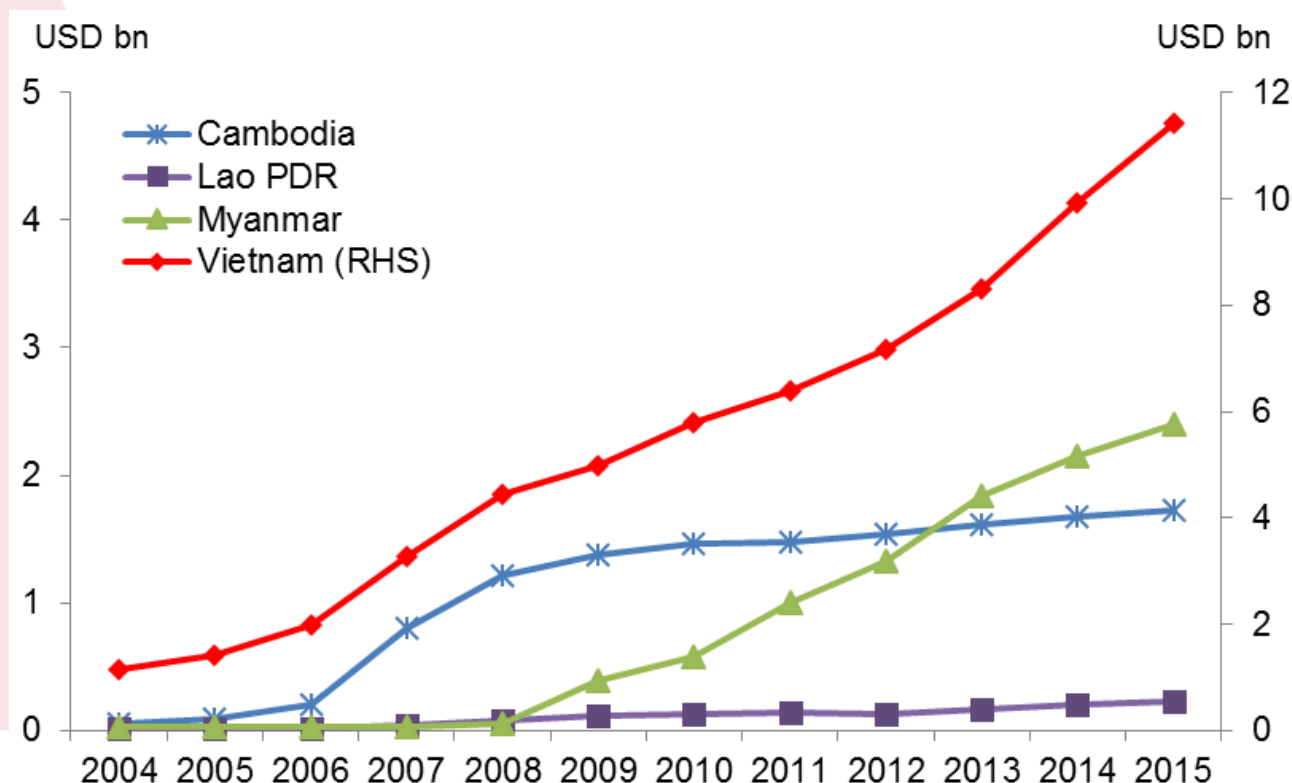


China's Imports of Consumption Goods from ASEAN



Developing ASEAN economies have also benefited from the deepening of intra-regional investment, reflecting the recycling of domestic savings to productive investment in the region

Inward FDI Flows into CLMV Economies (e.g. Case of Korean FDI)



Despite better fundamentals, some regional policymakers will face a sharper trade-off between growth and financial stability objectives, at a time when policy space is narrowing, or constrained

Monetary Policy / Macroprudential Policy

- Tightening global monetary conditions in 2017 and rising inflation will constrain regional economies' use of monetary policy to support growth.
- Constraints most apparent in economies where financial vulnerabilities have built up.
- Targeted macroprudential policy measures can help to safeguard financial stability.

Fiscal Policy

- Fiscal policy may have to play a greater role to support the economy, although policy space has generally narrowed, and in some economies, is constrained by fiscal rules.
- In economies with weaker fiscal position, reprioritizing and rebalancing existing expenditure programs should be the first steps pursued.

Chapters

I

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Thematic Chapter: ASEAN+3 Region 20 Years after the Asian Financial Crisis

2017 marks twenty years after the Asian Financial Crisis (AFC), a landmark event in the ASEAN+3 region.

20 Years post-AFC

Shaped the subsequent foundations and trajectory of economic growth and regional integration

Shaped policymakers' perspectives on crisis management and resolution

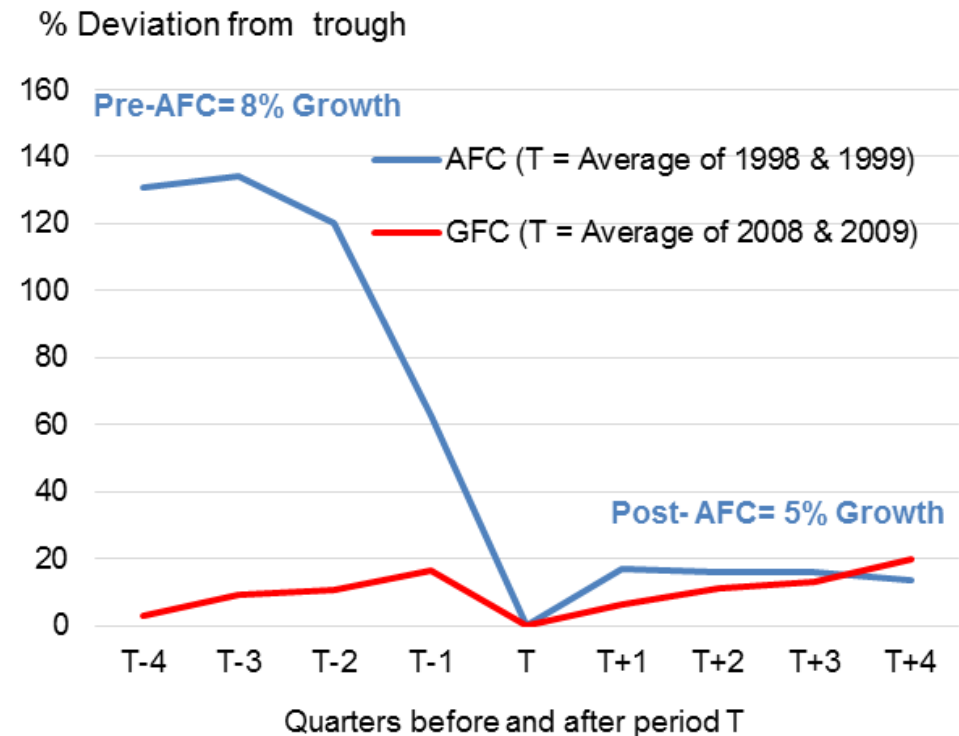
- Highlighted the urgent need for regional financial cooperation
 - ➔ CMI (2000-09), CMIM (2010 onwards)
 - ➔ Establishment of AMRO as independent macroeconomic surveillance unit supporting the CMIM (2011)

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First Decade Post-AFC: Rebuilding Foundations

- Period of economic consolidation after a sharp negative shock
- Painful policy adjustments in exchange rate regimes, corporate and financial sector reforms, fiscal consolidation, and reforms in prudential regulation
- Policy adjustments enabled the affected economies to rebuild the foundations for economic growth, with exports leading the recovery

Real GDP: ASEAN-4 and Korea



Theme: 20 Years after the Asian Financial Crisis (AFC)

Different Crisis, Different Responses

	After AFC	After GFC
What led the recovery?	Exports	Domestic demand
Level of Investment	Fell and remained below trend	Remained largely unchanged
Capital flows	Did not return immediately	Returned immediately
China	Led the surge in intra-regional exports	Rebalancing towards more domestic consumption
Japan	Retrenchment of Japanese banking flows from Asia	Increase in Japanese bank flows to Asia
Share of China, Korea and Japan in ASEAN's total trade	Accounts for around 18% of ASEAN trade in 1999	Share increased to 31%
Productivity growth	Healthy growth via technology	Moderated

2007 – 2016: Rebalancing and Leveraging Regional Integration

- Openness to trade, FDI and capital flows post-AFC enabled the region (esp. CLMV economies) to reap the benefits from growing regional integration and the emergence of China
- Increased intra-regional financial flows have eased the ASEAN+3 region's rebalancing from export-led to domestic-led demand.

Plus-3 and ASEAN shares of FDI inflows to CLMV

Host	Source	2013	2014	2015
Cambodia	China	22.5	32.1	31.6
	Japan	3.0	4.9	3.1
	Korea	14.0	6.2	4.2
	ASEAN-4 & SG	19.1	11.2	14.9
Lao PDR	China	35.1	67.3	61.6
	Japan	0.4	0.2	7.0
	Korea	2.5	1.4	4.2
	ASEAN-4 & SG	4.7	11.8	7.6
Myanmar	China	30.2	7.5	1.9
	Japan	1.4	4.0	3.4
	Korea	0.0	1.2	1.3
	ASEAN-4 & SG	44.6	69.8	74.5
Vietnam	China	10.7	2.3	3.2
	Japan	26.6	10.5	8.1
	Korea	19.9	35.3	29.6
	ASEAN-4 & SG	23.0	16.4	17.6

Capital Inflows Post-GFC

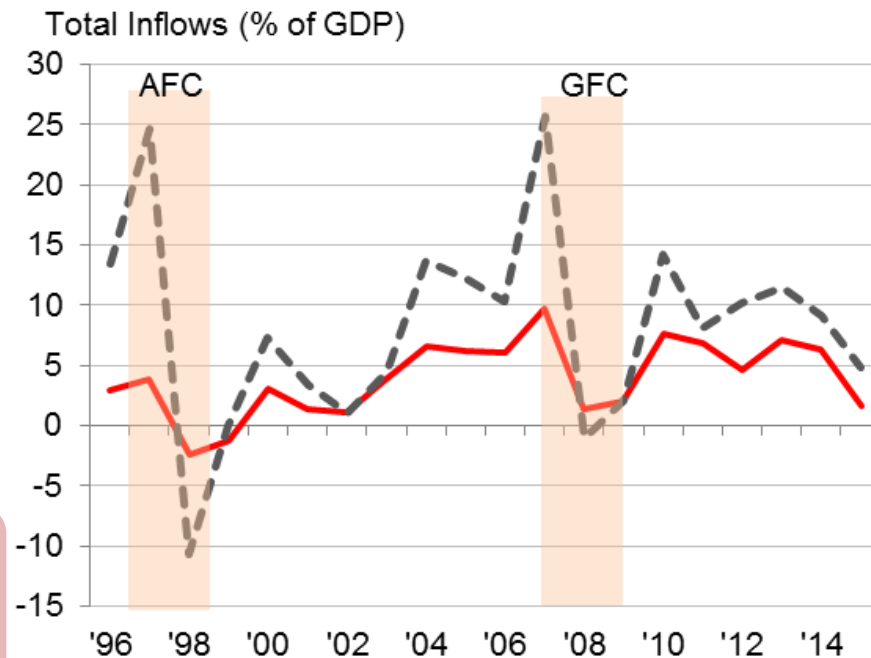
Eased rebalancing towards domestic demand, but posed risks to financial stability

- Financial vulnerabilities: credit growth, asset price inflation, leverage
- Amplifies pro-cyclicality of financial cycle and volatility, especially with lack of depth in financial markets in EMs

Policy response

- Pragmatic and robust use of policy tools, including macroprudential measures
 - Macroprudential policies
 - Capital flow management measures
 - FX interventions + greater flexibility in exchange rates

Capital Inflows (ASEAN-4, SG & Plus-3)



Lessons from the AFC

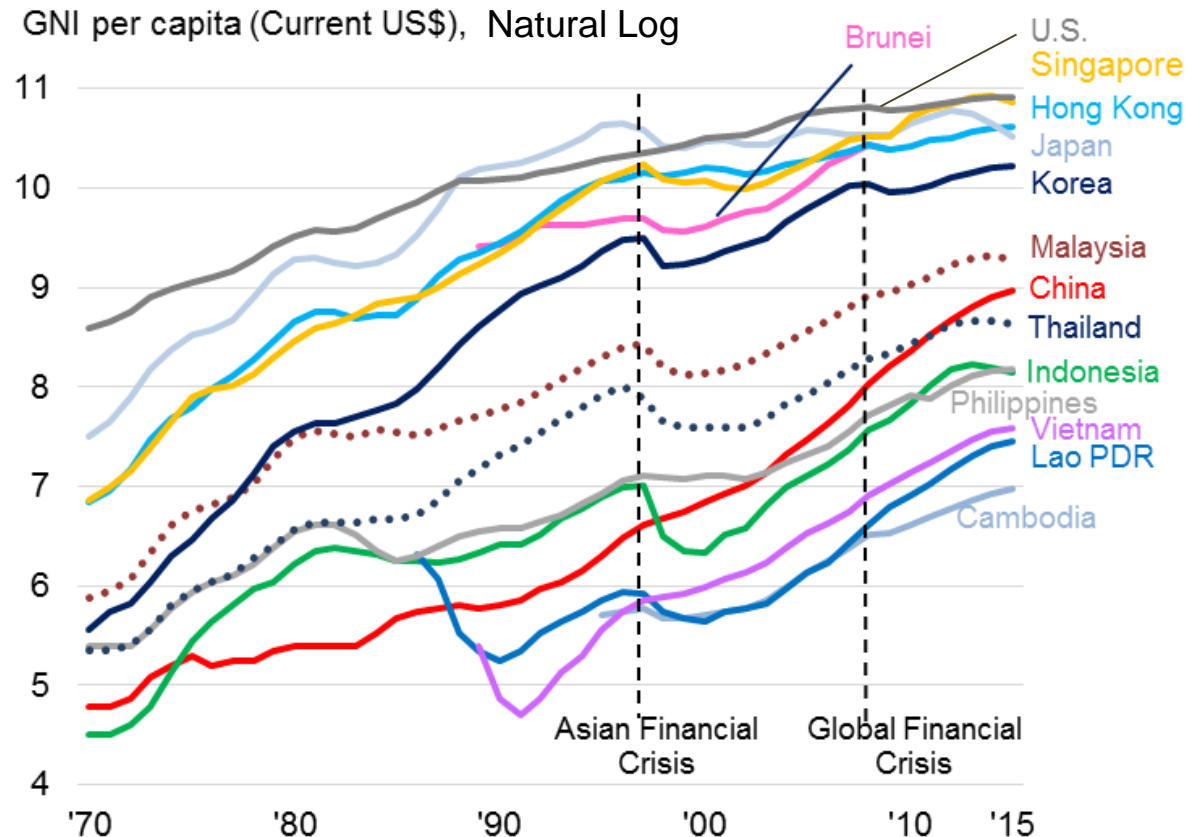
- In the current uncertain global environment, the AFC continues to offer valuable lessons to policymakers.

- I Focus on risks arising from financial markets and capital outflows (inter-connectedness and contagion risks)
- II Flexible and responsive policy framework, and strengthening of buffers
- III Greater financial cooperation within the region to deal with external shocks.

Looking Ahead: Challenges

- Short term macroeconomic & risks management
- Strengthening regional financial safety net
- Accelerating structural reforms (e.g. raising TFP to avoid growth from reaching stalling speeds)

Income Convergence and Catch-up



1. Growth to be sustained in 2017-18 (about 5%), with upside from exports.
2. Outlook clouded by tightening global financial conditions, trade protectionism and policy uncertainties.
3. Policy priorities – Maintaining short term macroeconomic stability, while supporting longer term reforms.
4. AFC shaped policymakers' perspectives on crisis management and resolution – AMRO and CMIM established.
5. Post-AFC, policy attention shifted to capital flows and contagion risks – the need for flexible policy framework.
6. Openness to trade and FDI enabled the region to reap the benefits from the growing regional trade integration, and the rise of China.
7. Enhanced financial cooperation in ASEAN+3 will improve the resilience against shocks, allowing the region to sustain relatively strong growth.

Thank You

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