



# **Sailing into the headwinds**

**Francois Painchaud  
IMF Resident Representative for  
Viet Nam and Lao P.D.R.**

**NOVEMBER 2022**



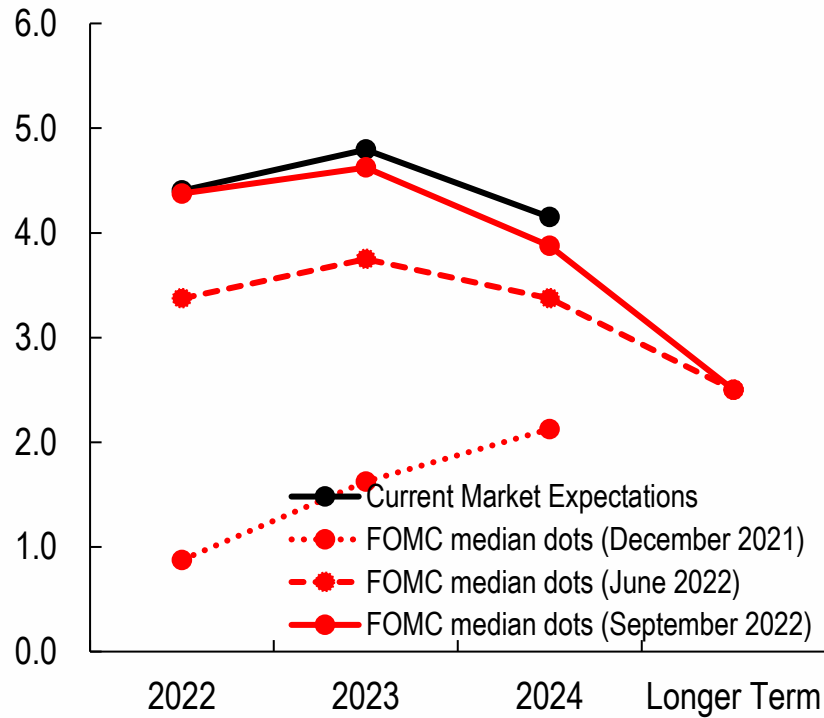
# Global Headwinds



# Global Financial Tightening

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

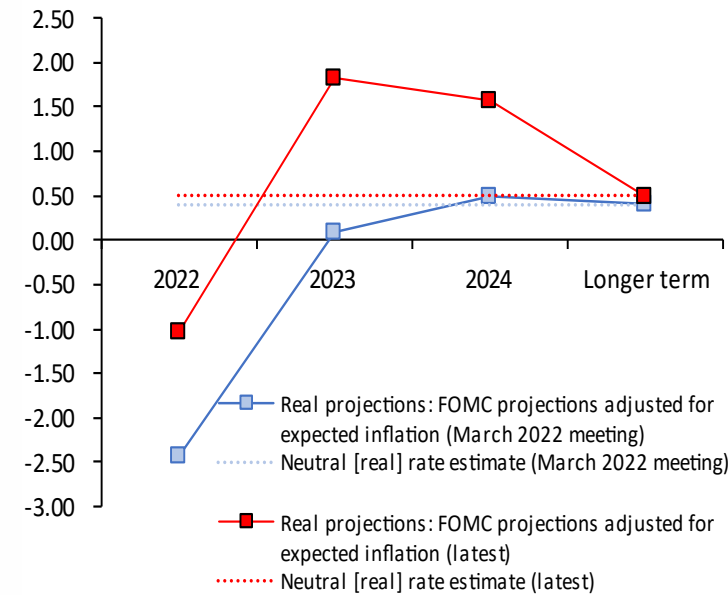
**Federal Funds Rate**  
(In percent; y-o-y)



Sources: Bloomberg Finance L.P.; and IMF staff calculations. Market expectations as of October 14, 2022.

...with US real rates now expected to remain high for most of 2023

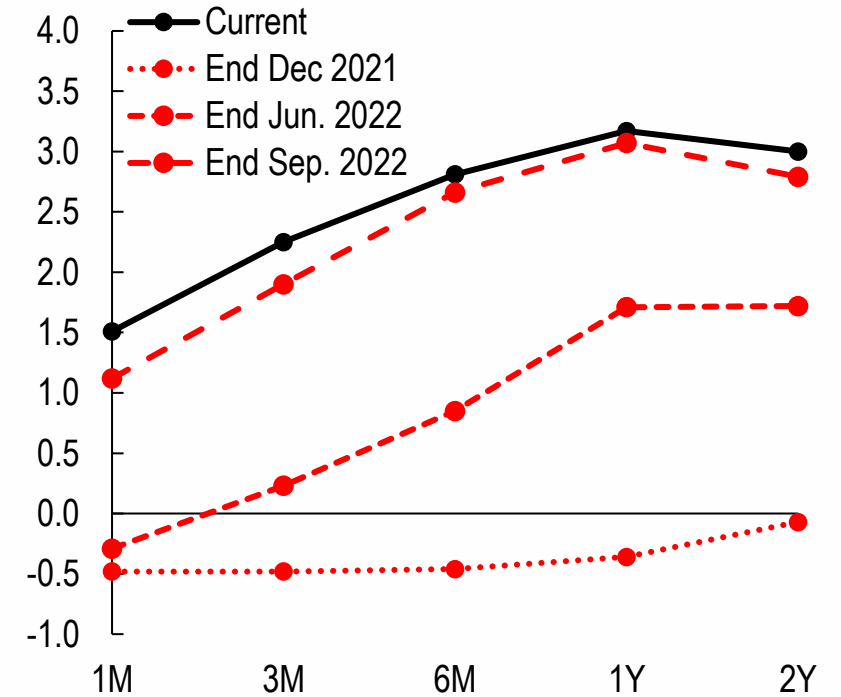
**Real Federal Funds Rate**  
(In percent; y-o-y)



Source: Bloomberg Finance L.P. and IMF staff calculations. Data through October 12.

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

**Implied policy rate - Eurozone**  
(In percent)



Sources: Bloomberg Finance L.P.; and IMF staff calculations. Market expectations as of October 14, 2022.

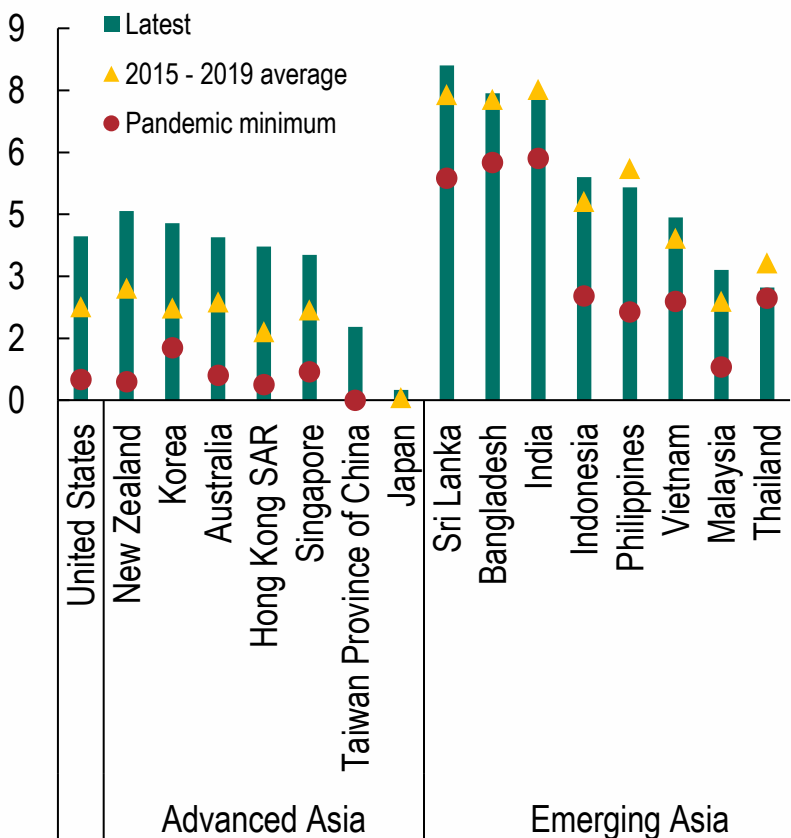


# Financial tightening

Yields have risen across Asia, but remain around historical averages in EMs...

## Local Currency Sovereign Yields

(Percent, 10-year sovereign yields)

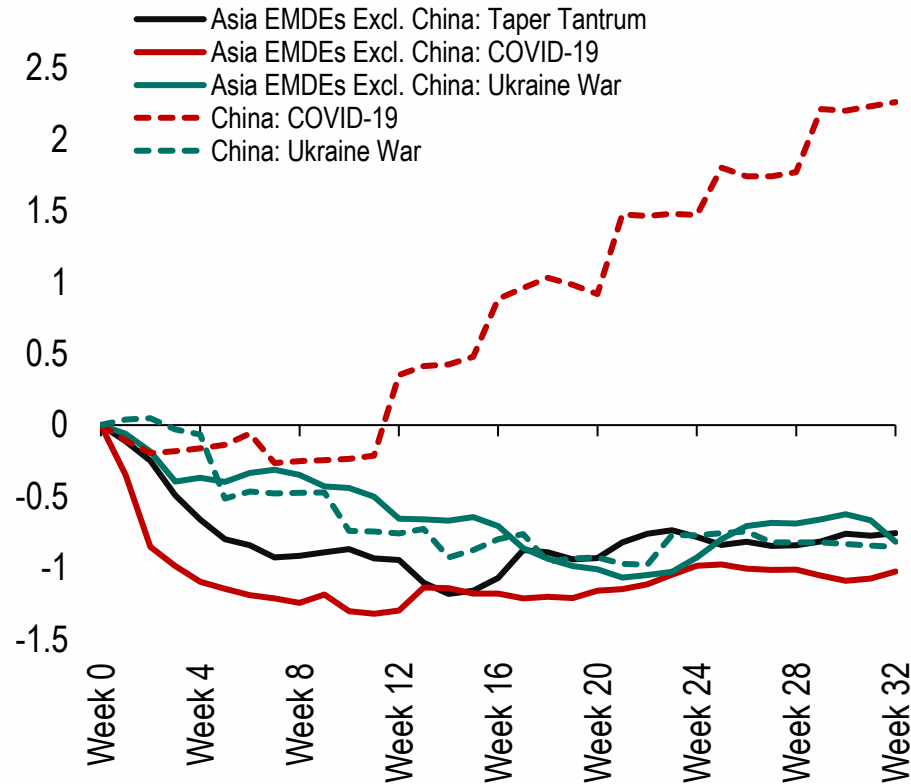


Source: Bloomberg Finance L.P. and IMF staff calculations. Data through October 12.

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

## Cumulative Portfolio Flows

(Percent of IIP liabilities)

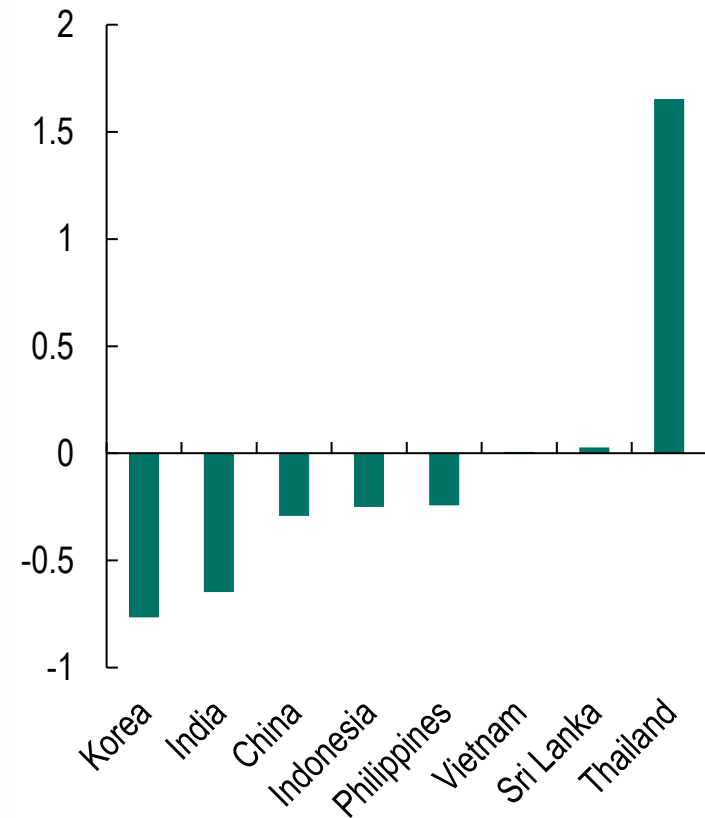


Source: Institute of International Finance; Haver Analytics; International Financial Statistics; and IMF staff calculations.  
Notes: EM Asia includes India, Indonesia, the Philippines, Sri Lanka, and Thailand. Data through end-September.

...but remain limited from a few economies

## Cumulative Net Portfolio Flows

(Year-to-date for 2022, percent of GDP)



Sources: Haver Analytics; International Financial Statistics; and IMF staff calculations. Data through end-September.



# The conflict between Russia and Ukraine

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

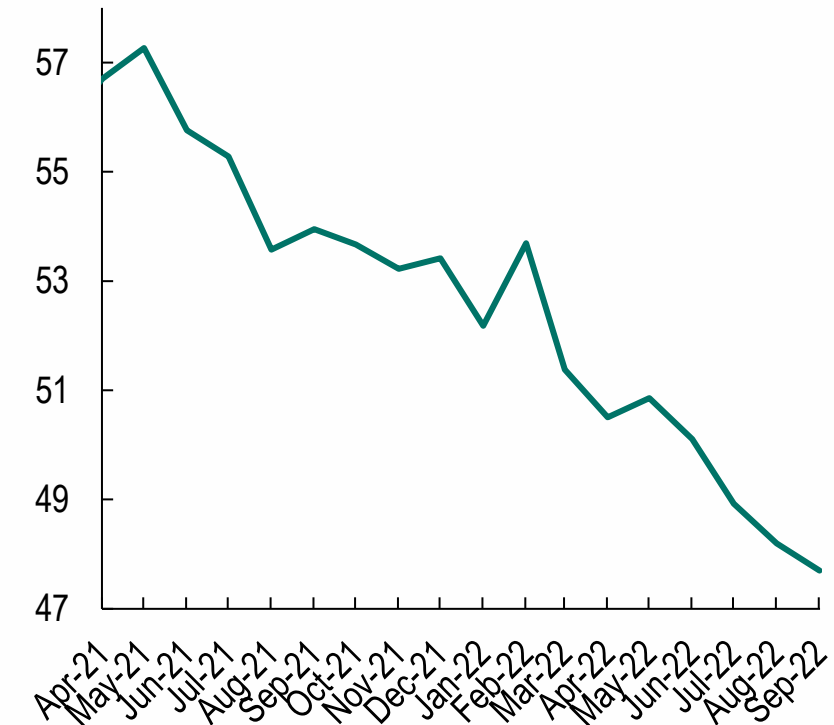
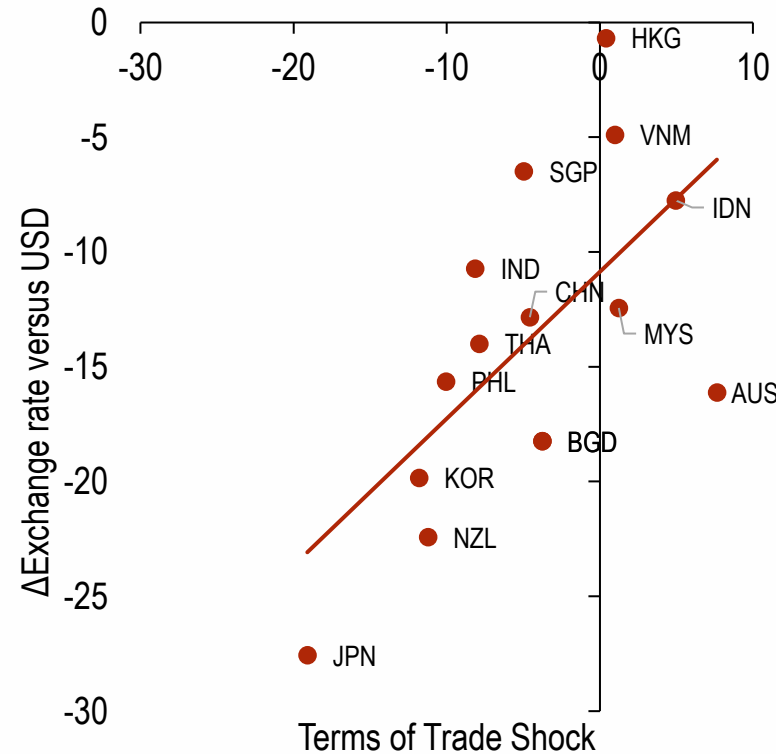
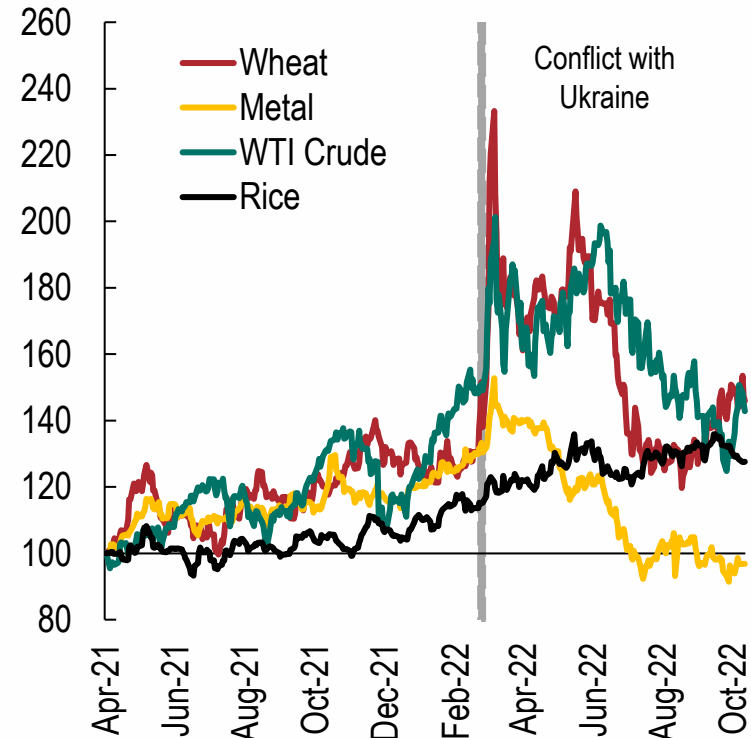
...with the terms of trade explaining relative currency movements...

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

**Commodity Prices**  
(Index = 100 April 2021)

**Exchange Rate and Commodity Terms of Trade**  
(In percent)

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



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%).

Sources: Bloomberg Finance L.P.; Gruss and Kebhaj (2019), and IMF staff calculations. Data through October 12.

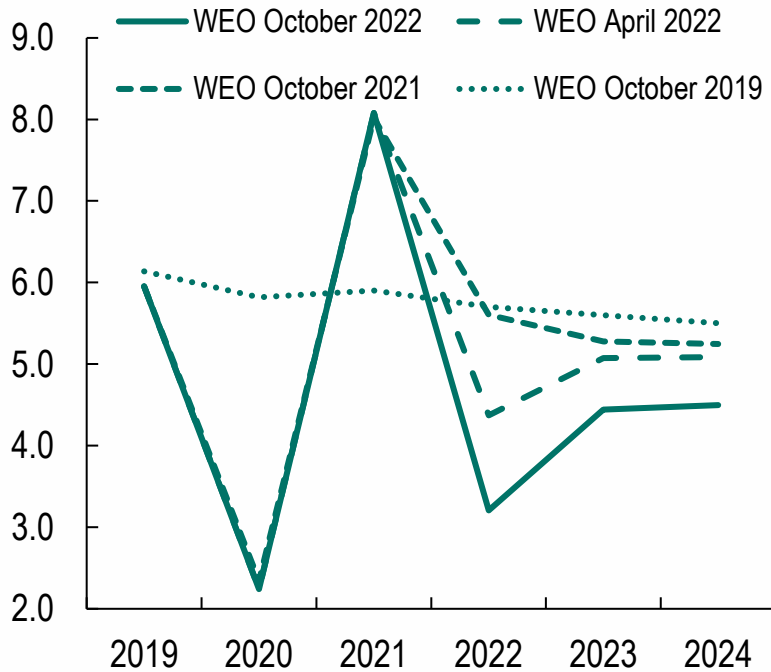
Sources: Haver Analytics; and IMF staff calculations.



# Sharp and uncharacteristic slowdown in China

Chinese growth has been marked down significantly...

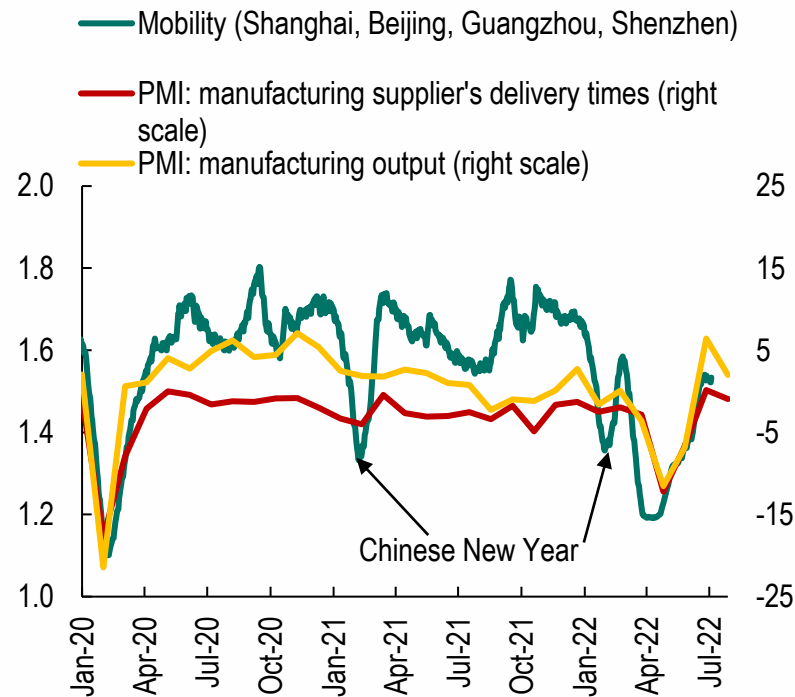
Revisions to China's Growth (Percent)



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...

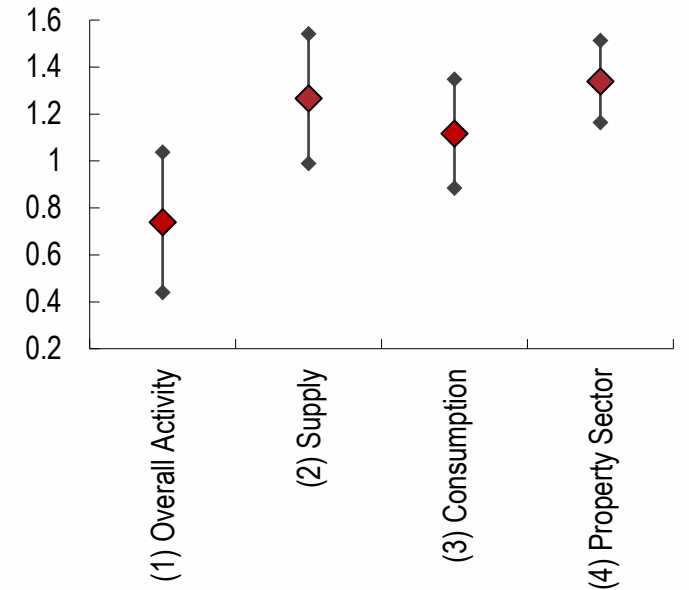
China: Mobility and Supply Chain Disruptions (Mobility 14-day MA; PMI Indexes subtracted by 50)



Source: WIND; and IMF staff calculations.

...with important spillovers to the rest of Asia

Spillovers from Chinese Growth; by Driver (Peak cumulative decline in GDP, percent)

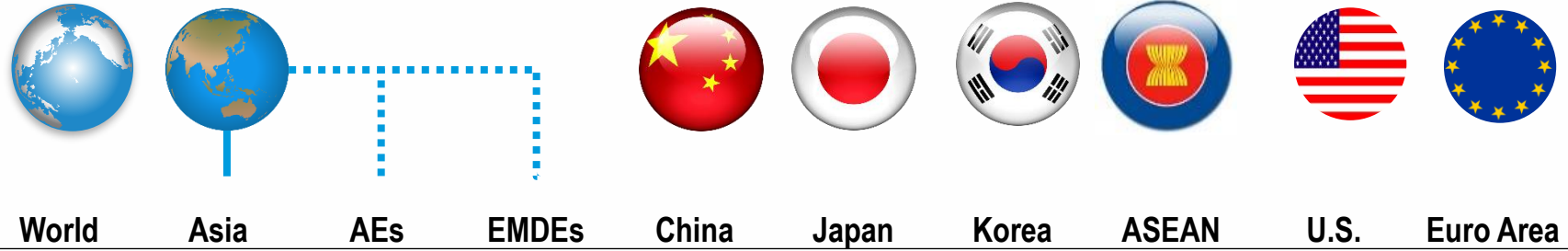


Sources: IMF staff calculations based on Fernald and others (2021).  
Note: Peak response to the overall activity measure from Fernald and others (2021) (1), the supply component from a structural VAR decomposition (2), a shock to private final consumption (3), and value added in the property sector. Triangles represent mean response in a panel of 50 countries (excluding China), lines are 68 percent confidence intervals. Shocks are one standard deviation.





# GDP Growth forecasts



2021	6.0	6.5	3.7	7.2	8.1	1.7	4.1	3.1	5.7	5.2
2022	3.2	4.0	2.3	4.4	3.2	1.7	2.6	5.0	1.6	3.1
Revisions since Apr. 2022 WEO	-0.4	-0.9	-0.4	-1.0	-1.2	-0.7	0.1	-0.1	-2.1	0.3
2023	2.7	4.3	2.0	4.9	4.4	1.6	2.0	4.7	1.0	0.5
Revisions since Apr. 2022 WEO	-0.9	-0.8	-0.7	-0.7	-0.7	-0.7	-0.9	-0.9	-1.3	-1.8

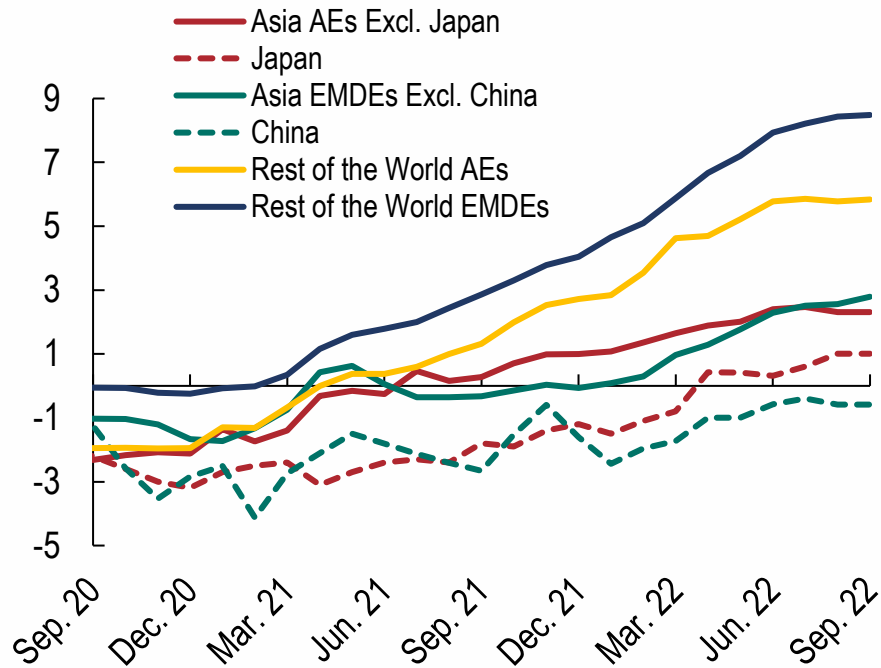
Source: IMF October 2022 *World Economic Outlook*.



# Inflation expected to rise further

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

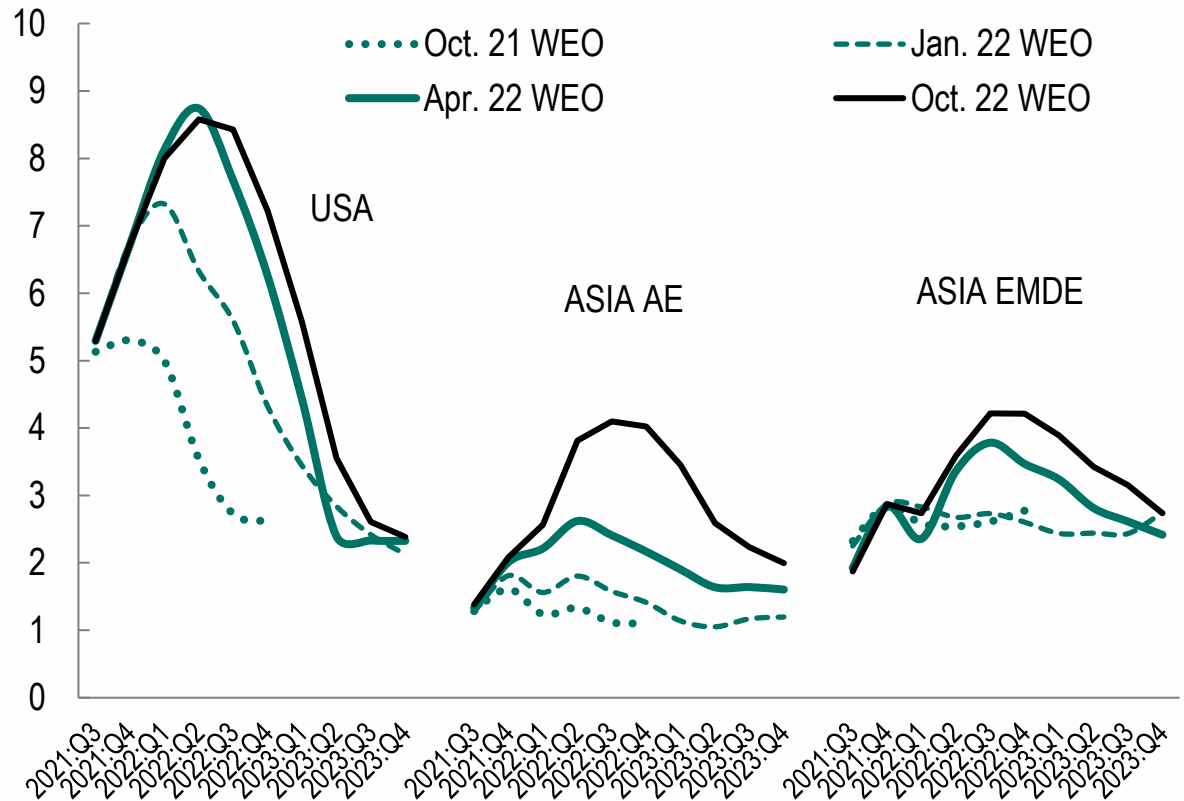
Headline Inflation: Deviation from target  
(Percentage)



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.





# Risks to the outlook

**Downside scenario in collaboration with RES:**

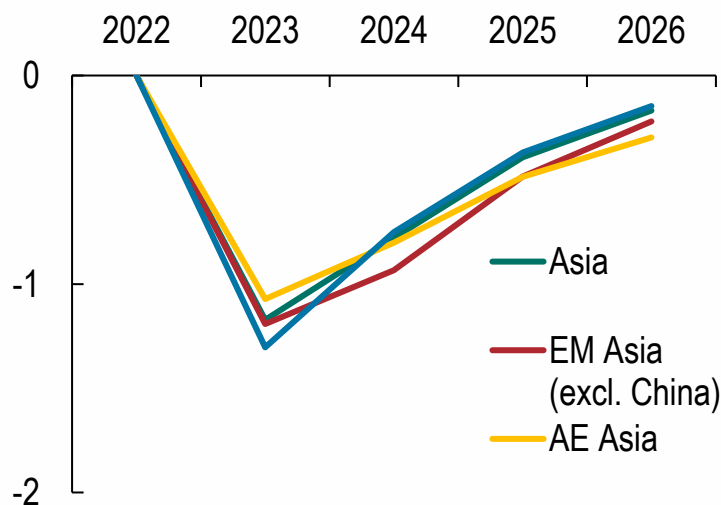
- **Deeper slowdown in China.**  
*A shock to investment and consumption reduce growth by a further 1 percent.*
- **Global recession**  
*A shock to US and EA demand reduces their growth by 1 percent in 2023.*
- **Tighter financial conditions**  
*Term premium in the US returns to historical average;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

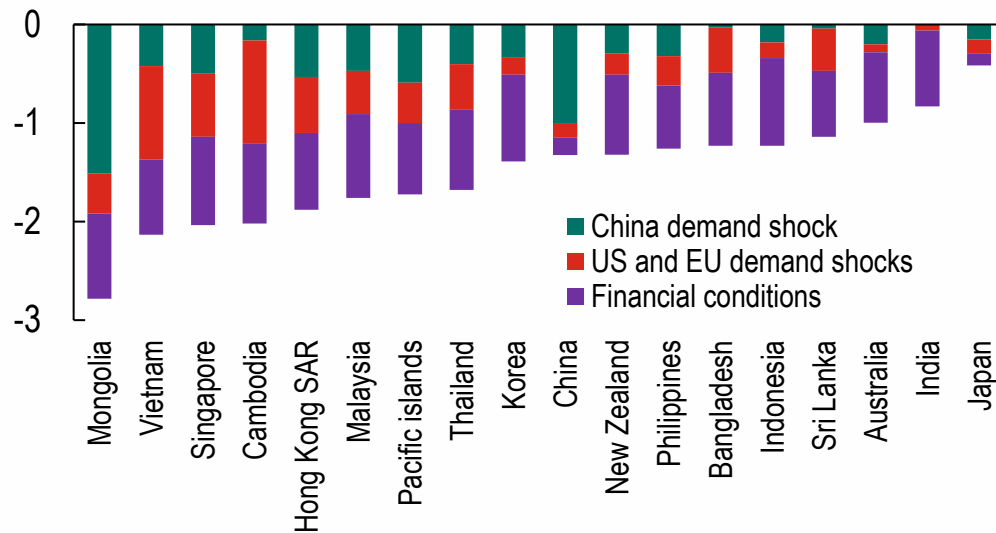
## Impact on Real Growth

(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.



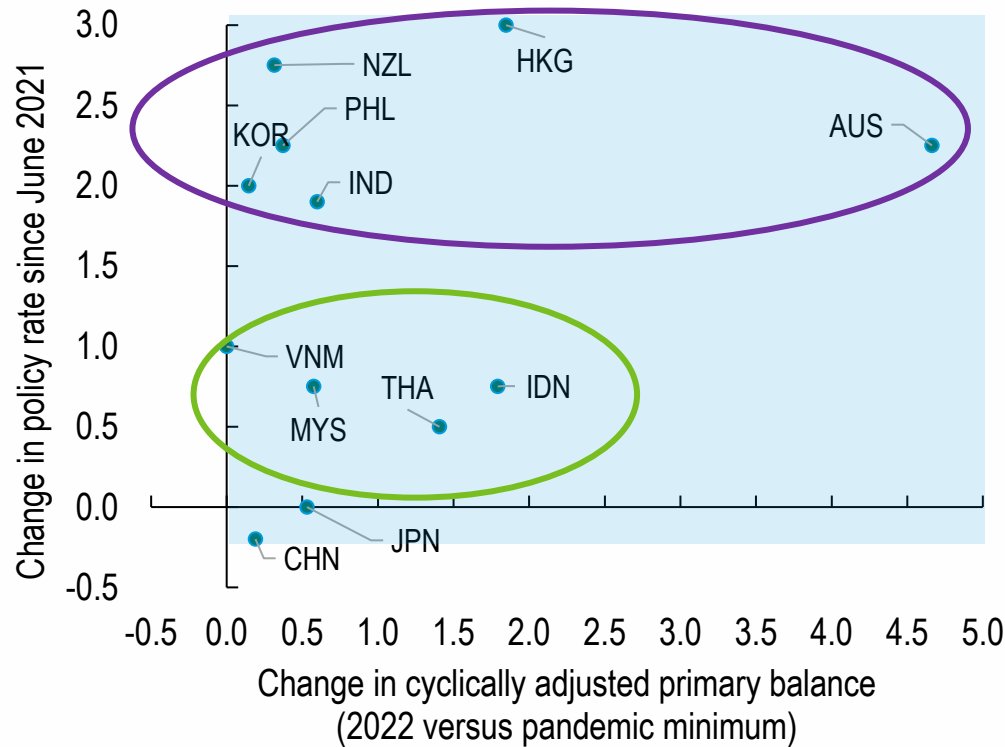
# Regional Policies



# Fiscal and monetary policy mix varies

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

Fiscal and Monetary Policy in Asia  
(Percent)

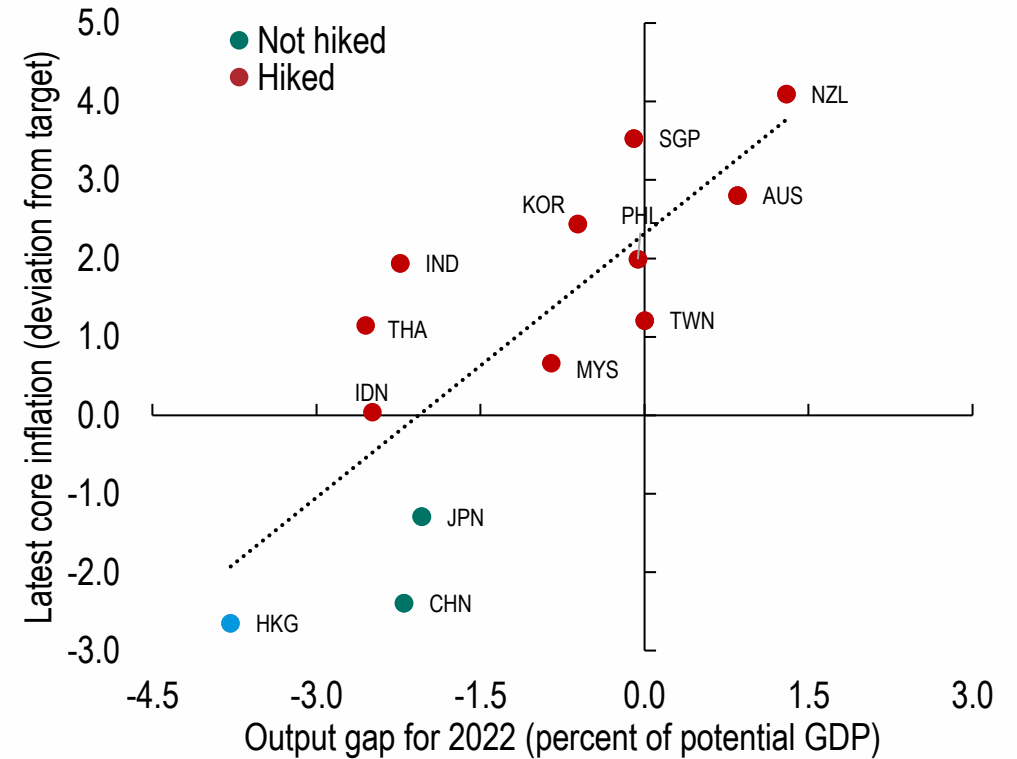


Source: Haver Analytics; and WEO database.

Note: Country abbreviations are International Organization for Standardization country codes. WEO = World Economic Outlook. Data through October 3.

...in large part according to remaining slack and pressure on core inflation

Core Inflation and Output Gaps  
(Percent)



Source: Haver Analytics, World Economic Outlook, and IMF staff calculations.

Note: For inflation targeting economies, deviation from target or midpoint of the inflation target range is used. For economies without an inflation target (Hong Kong SAR, Malaysia, Taiwan Province of China, and Singapore), deviations are taken from the long-term average over 2010 -- 19.

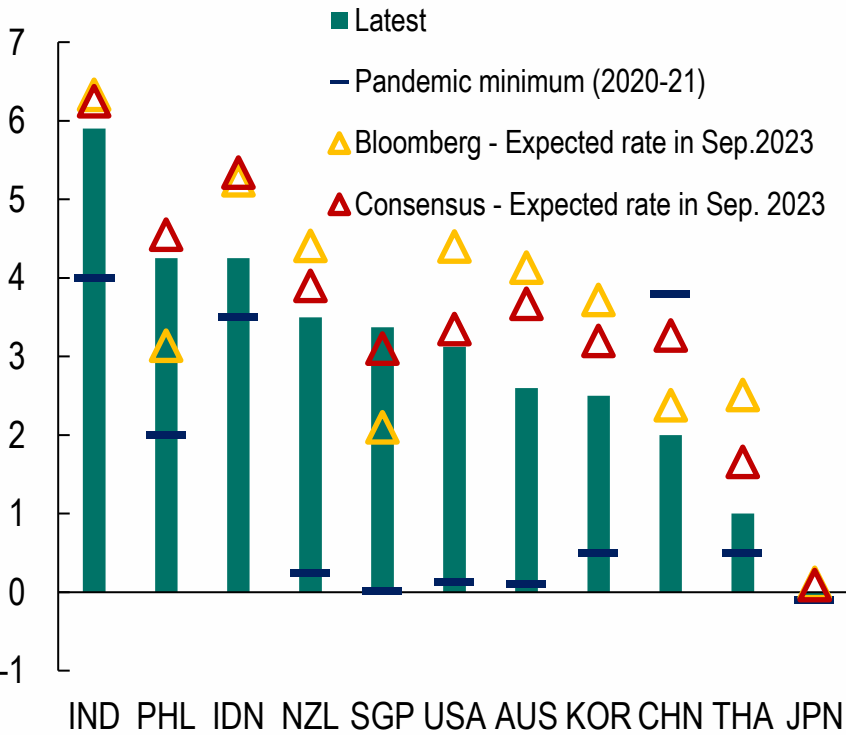
Dotted line is from fitted linear regression. Economies abbreviations are International Organization for Standardization codes.



# Monetary policy is tightening, but shallow cycle expected

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

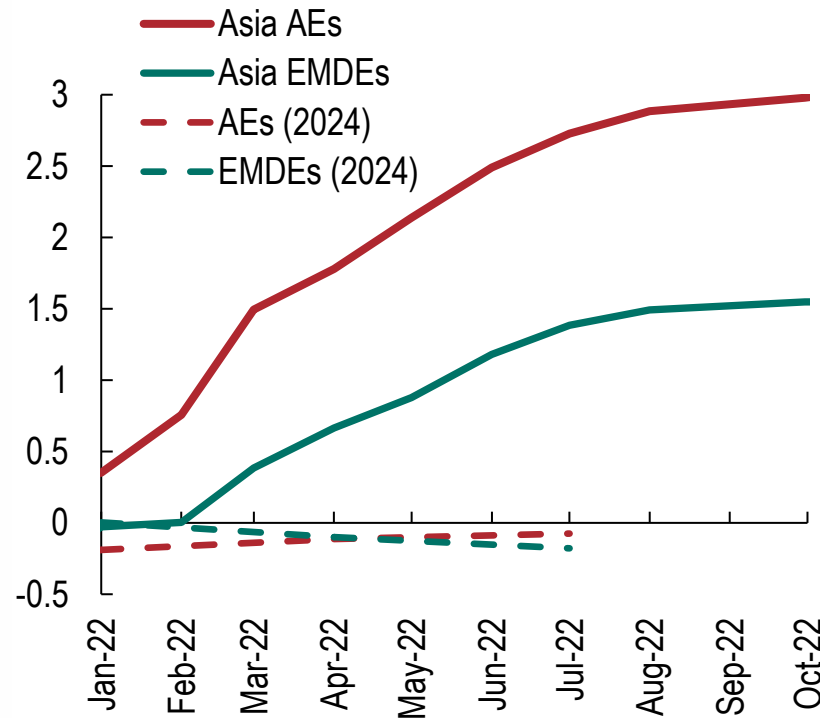
**Short-Term Interest Rates**  
(In percent; end of period)



Source: Bloomberg L.P.; Haver Analytics; Consensus Forecasts; and IMF staff calculations.  
Note: Data through October 12.

...with inflation expected to return to target by 2024...

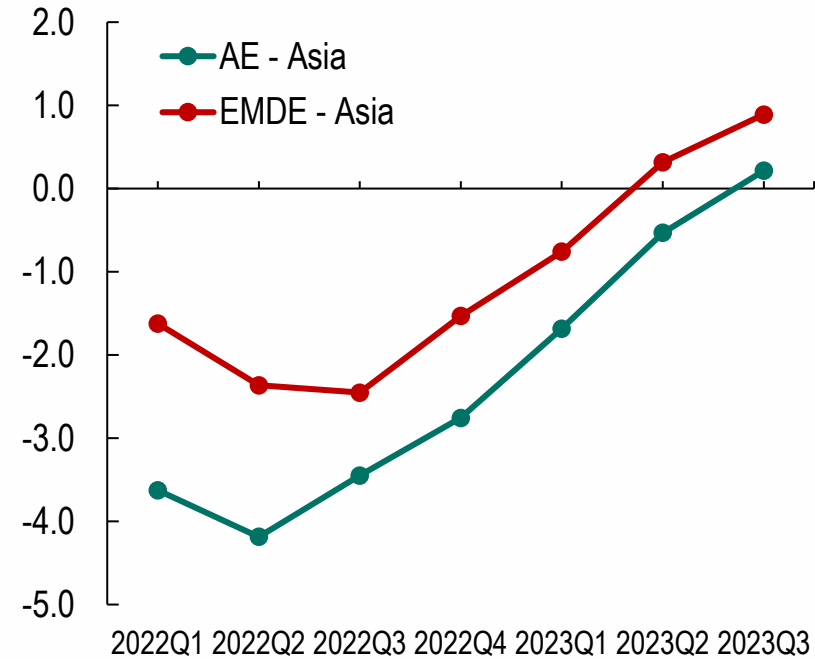
**Asia: Professional Forecasts of Inflation**  
(Deviation from target, year-on-year)



Source: Consensus Economics and IMF staff calculations.  
Note: Asia AE includes Australia, Japan, Korea, New Zealand, Singapore, and Taiwan Province of China. Asia EMDE includes China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

...despite market-implied real policy rates remaining negative

**Ex-post Real Interest Rates**  
(In percent)



Source: Bloomberg Finance L.P.; Haver Analytics; World Economic Outlook October 2022 and IMF staff calculations.  
Note: Ex-post real interest rate as the difference between the implied policy rate at 3M, 6M and 1Y and the period average, year-on-year percent change inflation projected.  
AE-Asia includes: Australia, New Zealand, Japan and Korea. EMDE- Asia includes: China, India, Malaysia, Philippines and Thailand. AE = advanced economy; EMDE = emerging market economy.

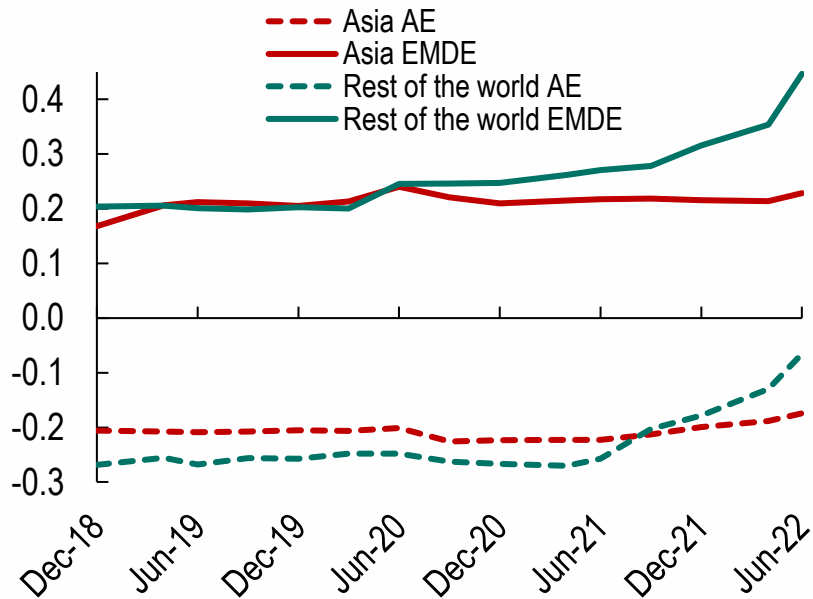


# But what if core inflation is more persistent?

Historically, Asian inflation has tended to be quite persistent...

## Persistence of Inflation

(Coefficient on autoregressive term in Phillips Curve; deviation from global mean)



Source: IMF staff calculations.

Note: Asia AE include AUS, JPN, KOR, HKG, NZL, SGP and TWN.

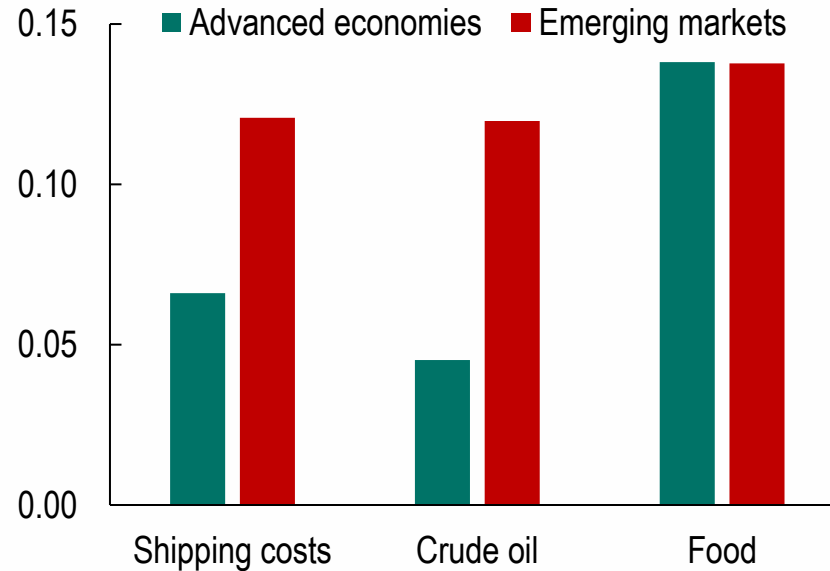
Asia EMDE include CHN, IDN, IND, MYS, PHL and THA.

Rest of the world AE include CAN, GBR, DEU, FRA, CHE, USA. Rest of the world EMDE include BRA, COL, CHL, CZE, PER, MEX, HUN, POL and ZAF.

...with core inflation responding strongly to external shocks, suggesting second-round effects

## Response of Asian core inflation to global shocks

(Percentage points)



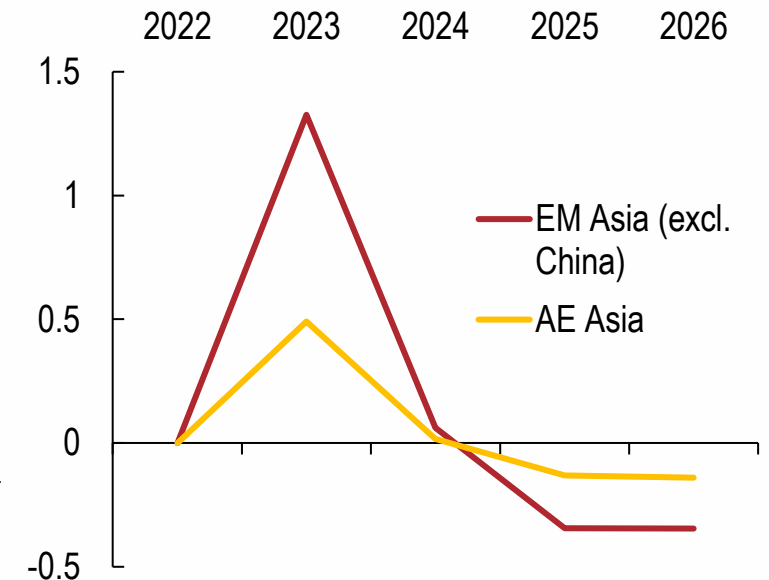
Source: IMF staff calculations; Haver Analytics.

Note: Estimations documented in Carrière-Swallow and others (2022). Bars show the maximum response of core inflation (year-on-year) following a 1-standard-deviation increase in each global variable.

In a scenario where inflation expectations rise, monetary policy would need to tighten further...

## Impact on Policy Interest Rate

(Percentage points)



Source: IMF staff calculations.

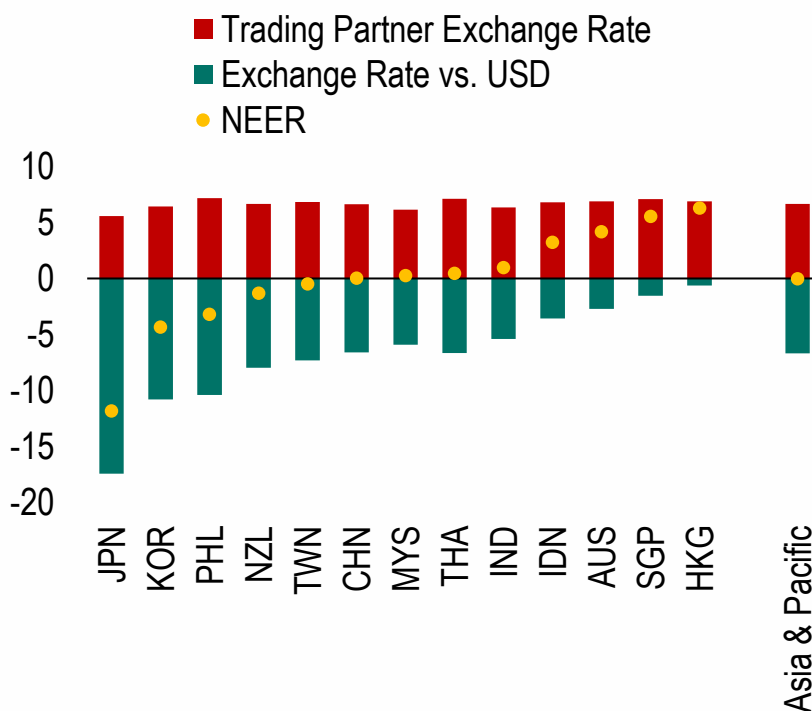
Note: EM = emerging market economies; AE = advanced economies.



# Pressure on Asian exchange rates poses a risk to inflation

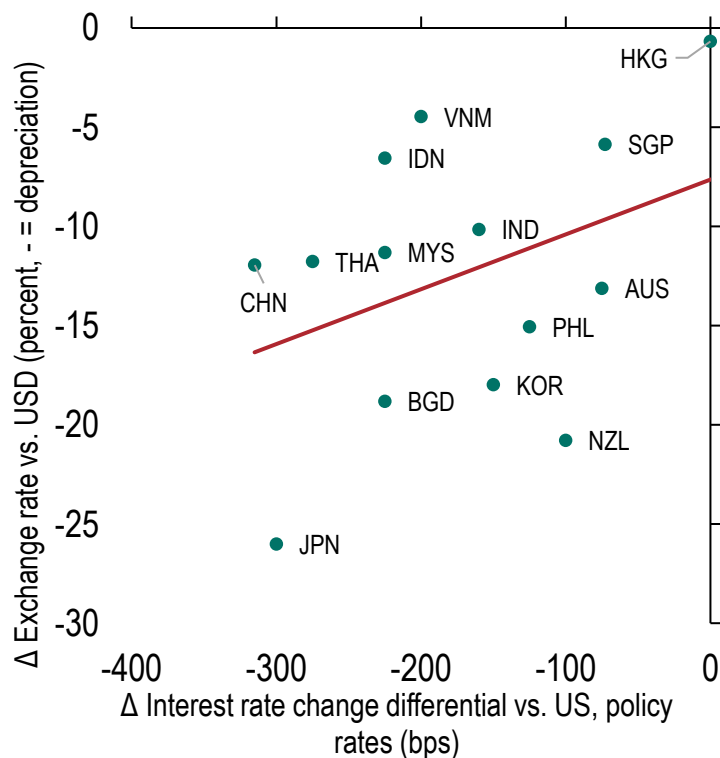
Asian currencies depreciating sharply against the dollar...

Contributions to Nominal Effective Exchange Rate Changes in 2022  
(Percent)



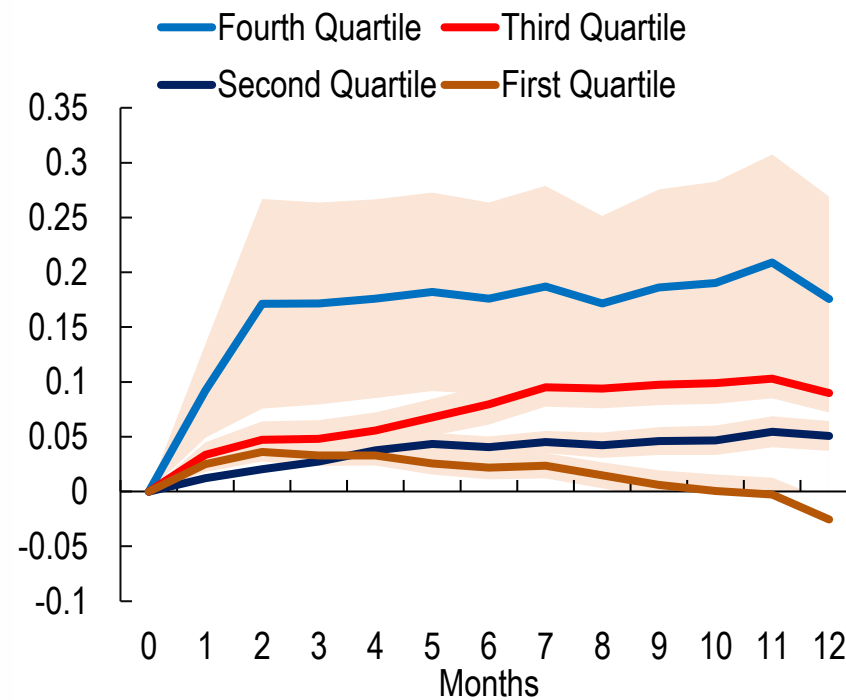
...with depreciation proportional to interest rate differentials

Depreciation vs. interest rate differential  
(Percent change, year to date)



... but pass-through could rise as the level of inflation increases

Exchange Rate Pass-Through by Level of Inflation  
(Percent)



Sources: IMF staff calculations.  
Note: Estimates show the response of headline CPI following a one standard deviation increase (depreciation) in local currency/USD in each quartile of the inflation distribution. Error bars denote the confidence intervals at 90% significance. Standard errors are clustered at country level.

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

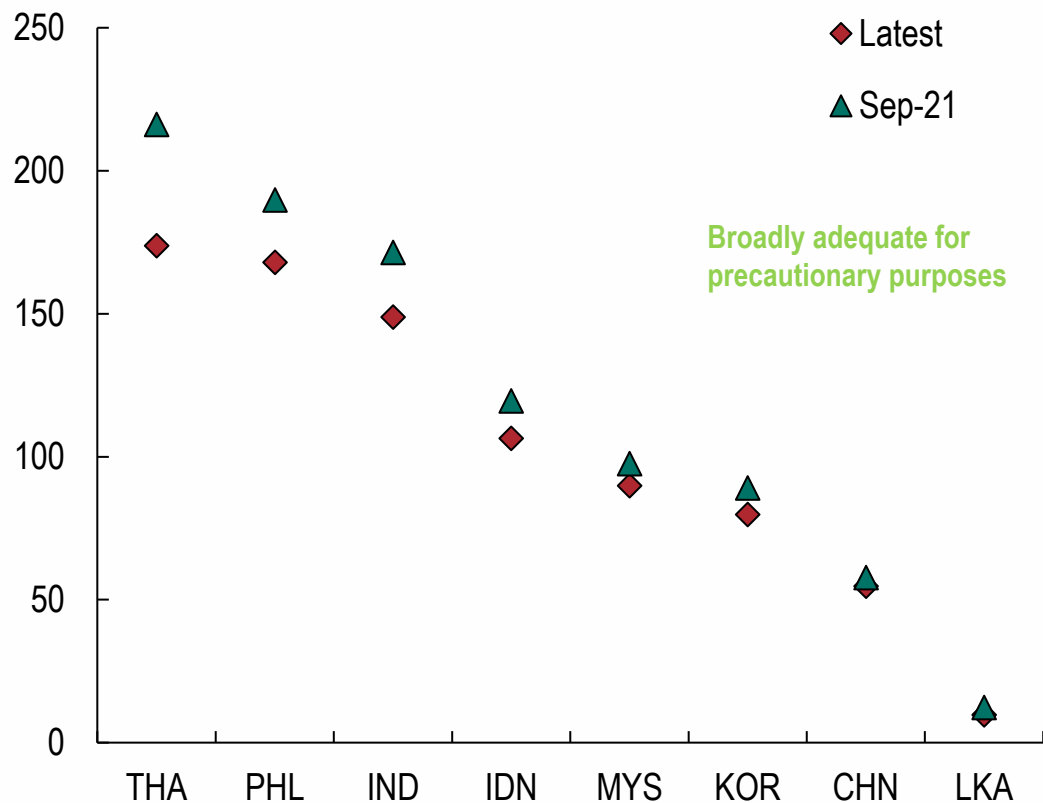




# Central banks are using their reserve buffers

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

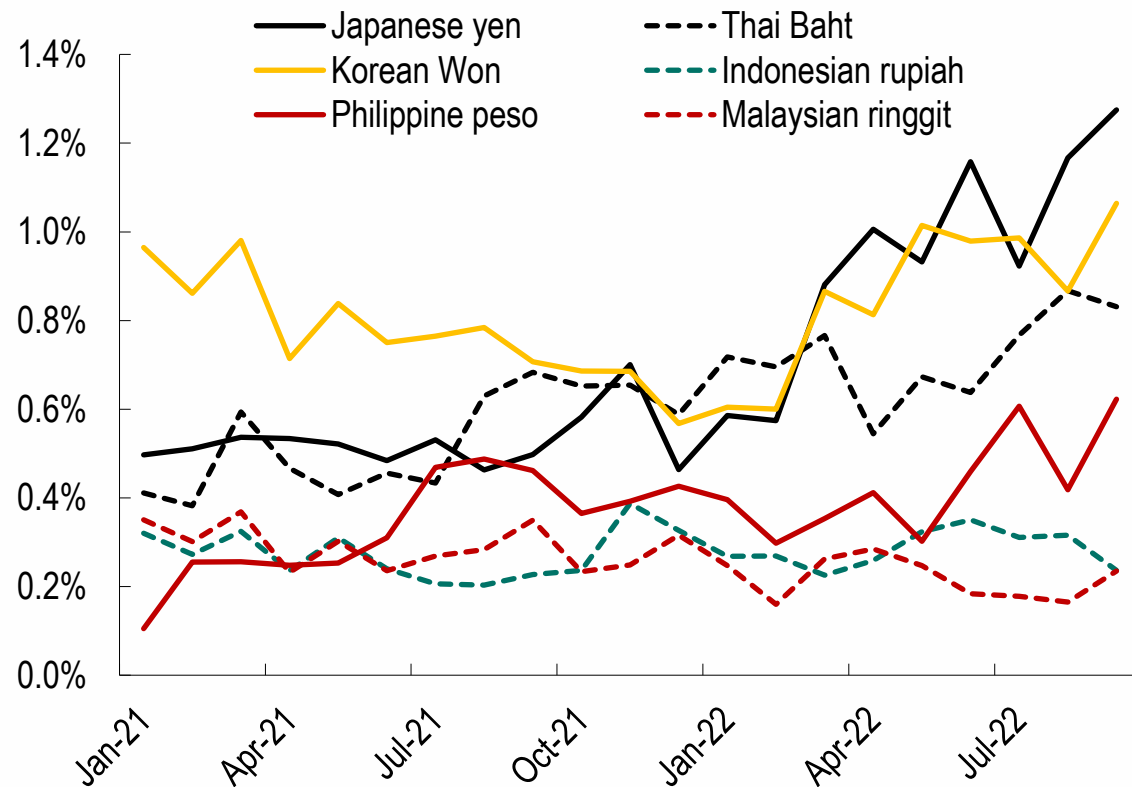
Gross international reserves  
(Percent of 2022 ARA metric)



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

While there has been increased volatility, it has not been widespread

Rising volatility in FX markets  
(Monthly average of maximum daily exchange rate volatility vs. USD)



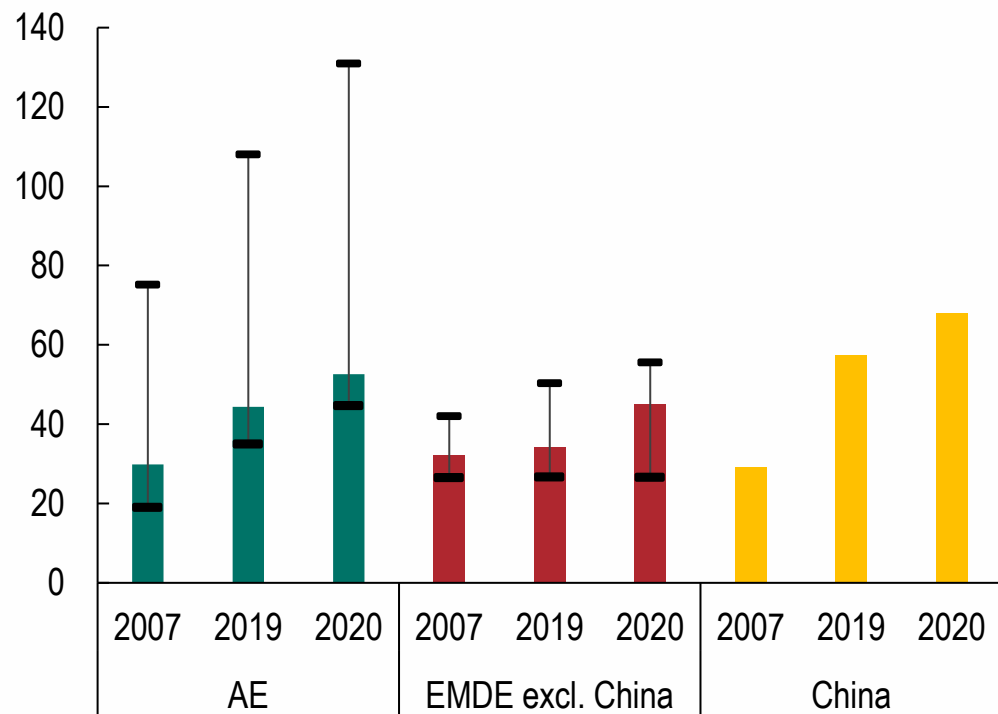
Source: Bloomberg and IMF staff calculations.



# Fiscal policy space is limited by high debt levels

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

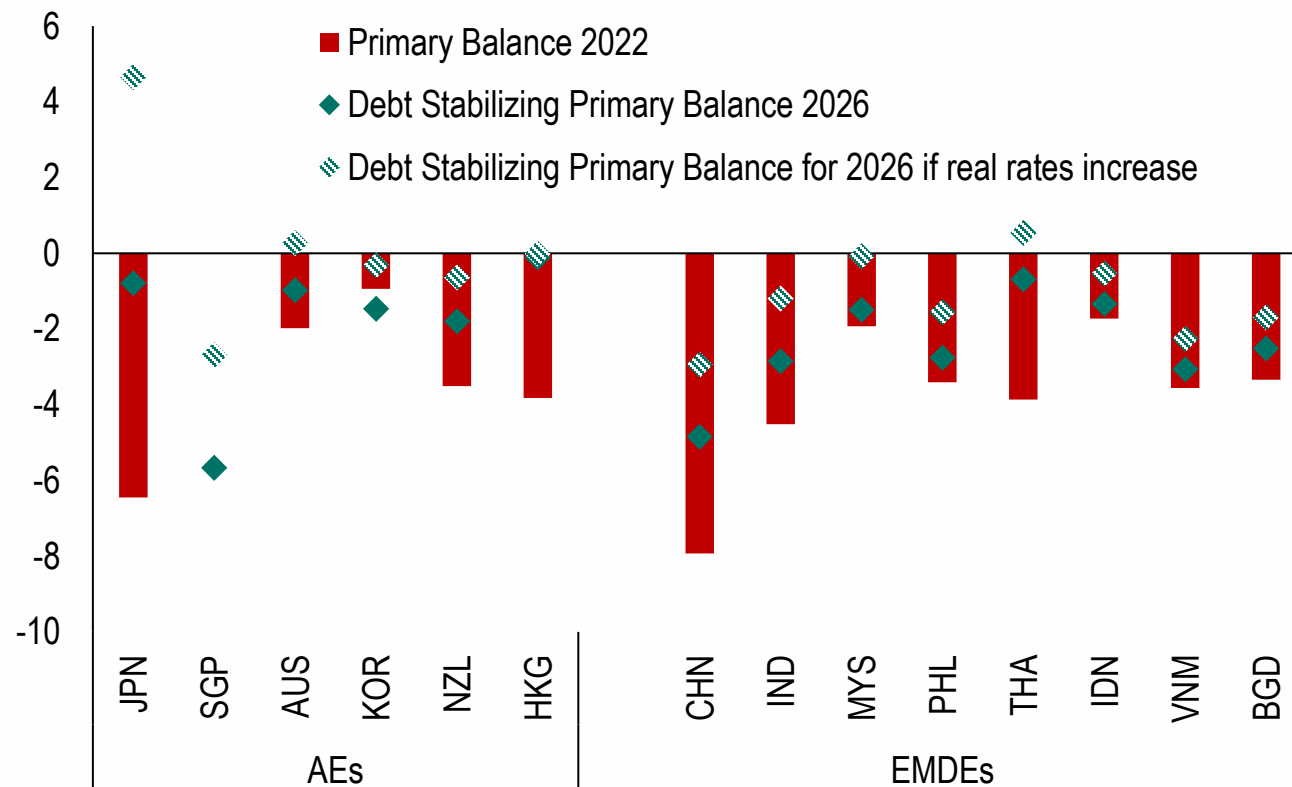
Asia: General Government Debt (Percent of GDP)



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

Note: Bars represent the median across countries. AE= advanced economy; EMDE = emerging market developing economy.

Consolidation is required to stabilize debt, and more fiscal effort will be needed if interest rates keep rising



Sources: World Economic Outlook and IMF Staff calculations.

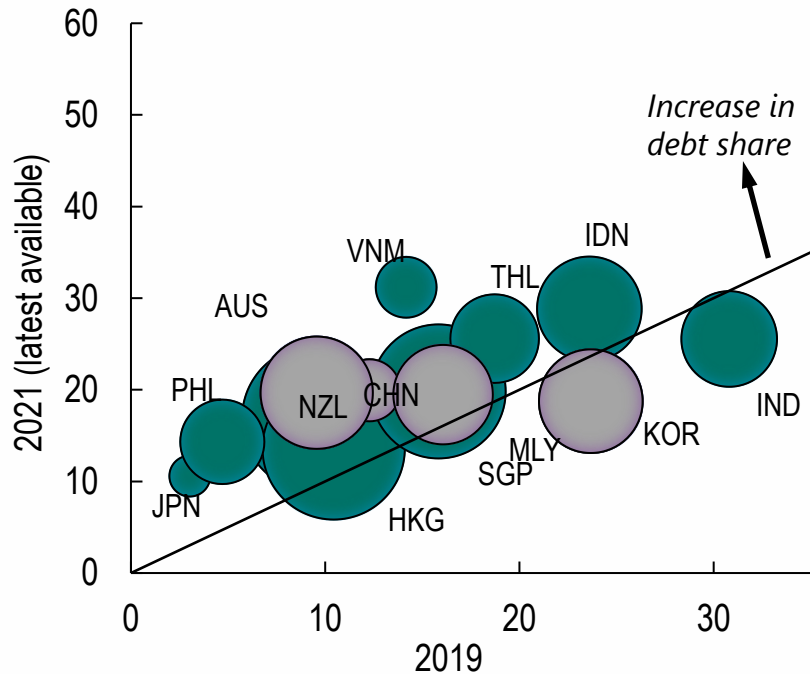
Note: Shows impact on long-term debt stabilizing primary balance assuming a level shift in the yield curve of 210 basis points (difference between US 10-year real rates during the pandemic and the long-term average between 1998 and 2019). Assumes the entire debt stock is refinanced at higher yields—to the extent that maturity structure differs across countries, the impact on debt stabilizing primary balance may occur over different time horizons.



# Financial vulnerabilities have grown

There is an increasing share of corporate debt in vulnerable firms...

**Share of NFC Debt in Vulnerable Firms**  
(Percent of total debt in NFCs with ICR less than 1)

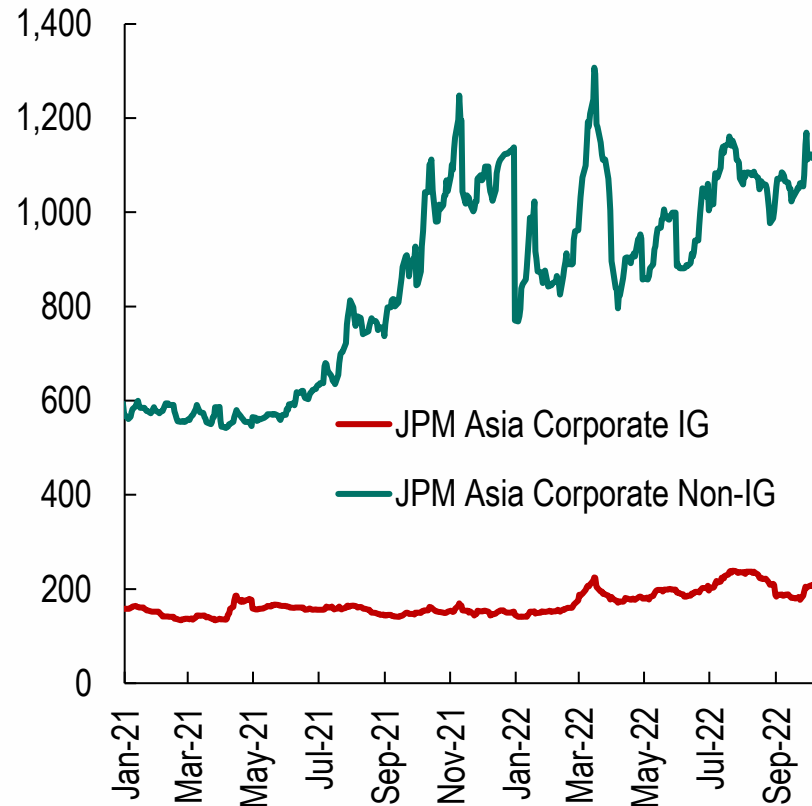


Source: IMF staff calculations.

Note: Includes publicly traded nonfinancial corporations (NFCs) in operation. Size of bubbles represents share of NFCs with ICR less than 1 in total number of NFCs in the sample. Based on latest available quarterly data. Country abbreviations are International Organization for Standardization country codes. ICR = Interest Coverage Ratio; NFC = nonfinancial corporation.

... and high-yield corporate spreads have risen substantially.

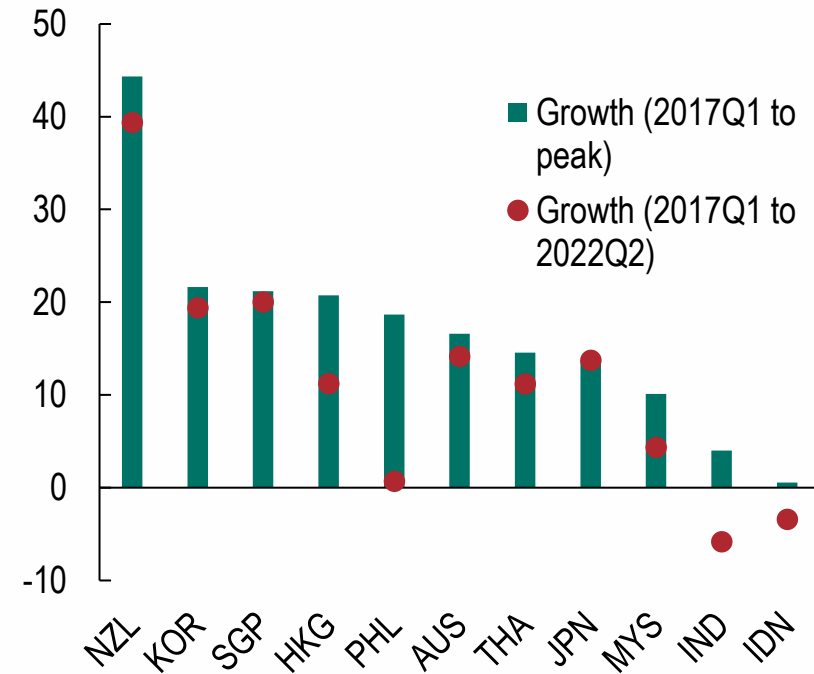
**JPM JACI Corporate Z-Spreads**  
(In basis points)



Source: Thomson Reuters Datastream.

Real estate markets in advanced economies are showing signs of cooling

**Real Residential Property Prices**  
(Inflation deflated; Percent)



Source: Bank for International Settlements and IMF staff calculations.

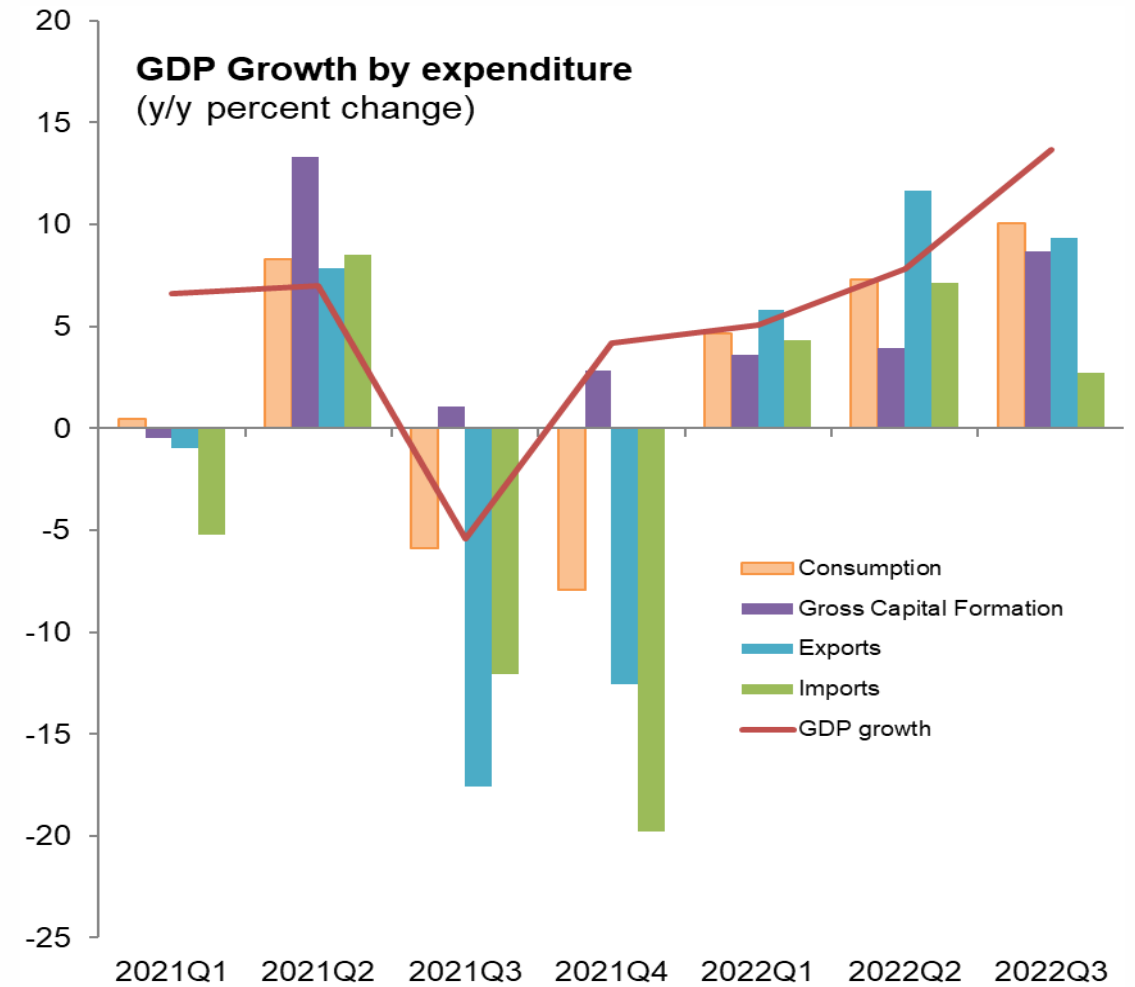
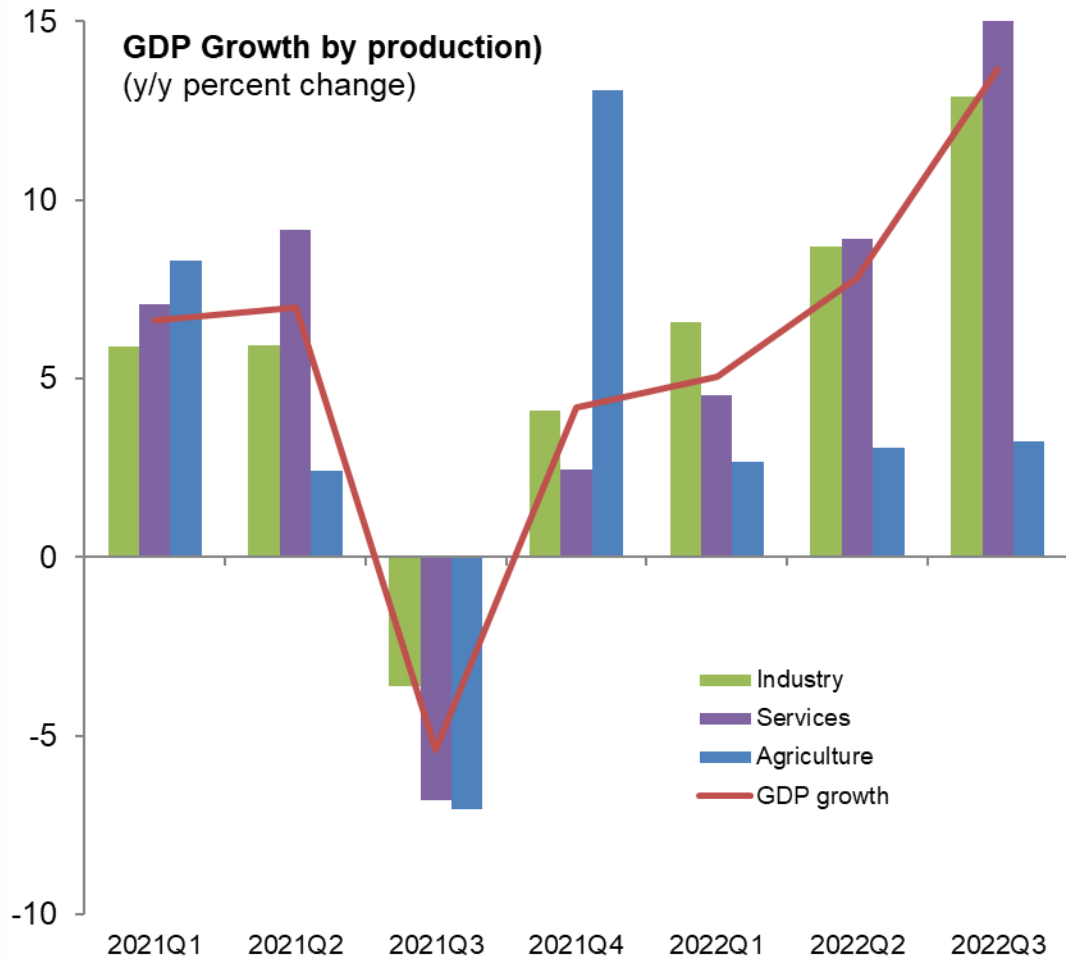
Note: Country abbreviations are International Organization for Standardization country codes.



# **Vietnam: recent developments and outlook**



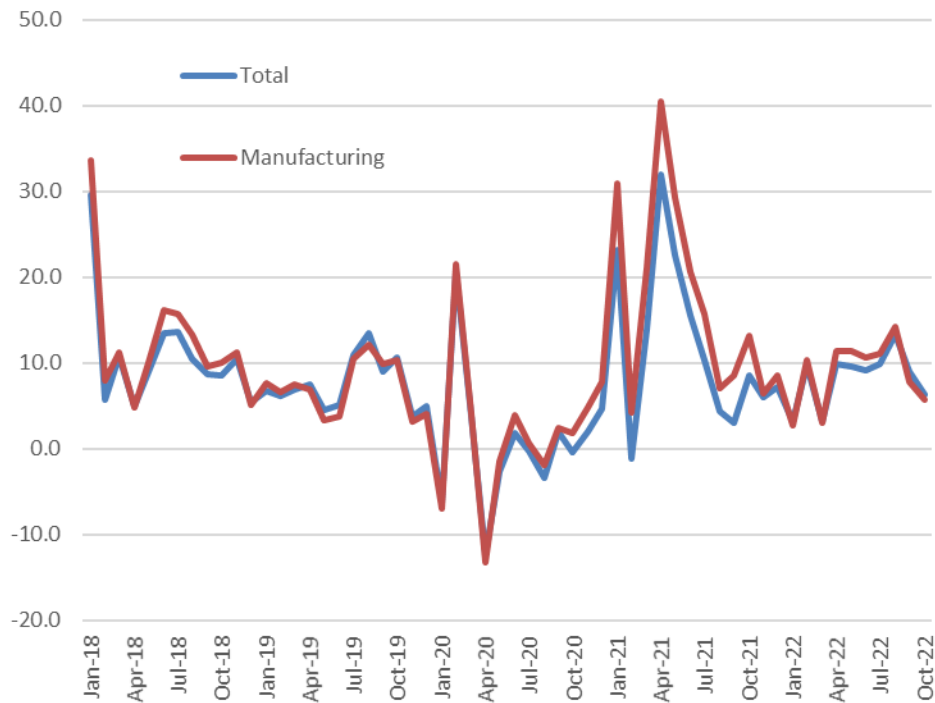
# Robust growth in early 2022...



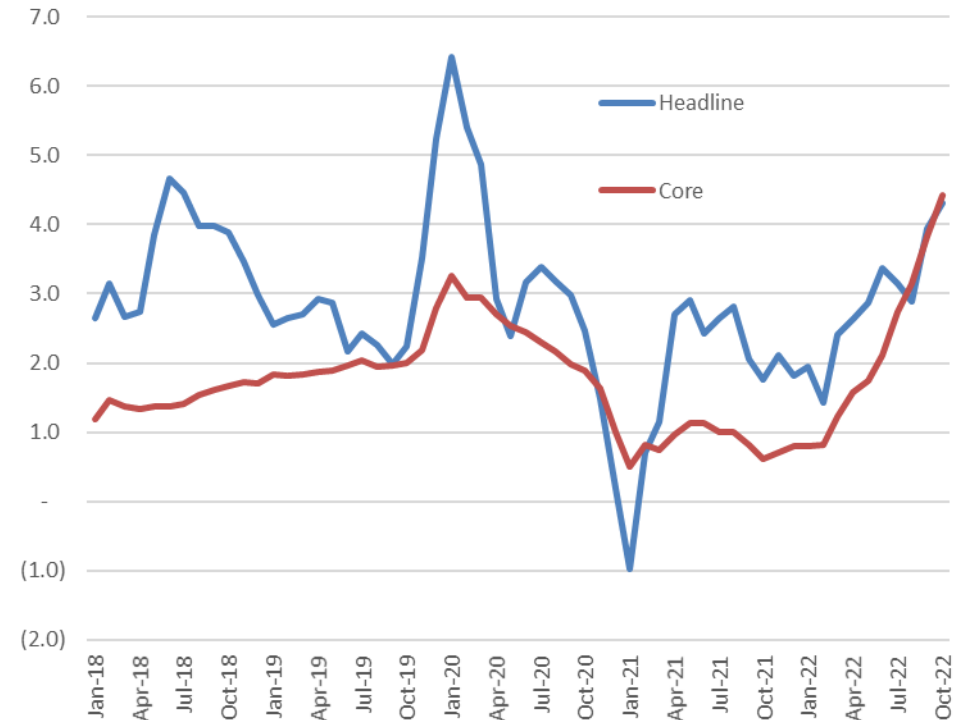


# More recently, tentative signs of slowdown and inflation is picking up fast...

Industrial Production (y/y)



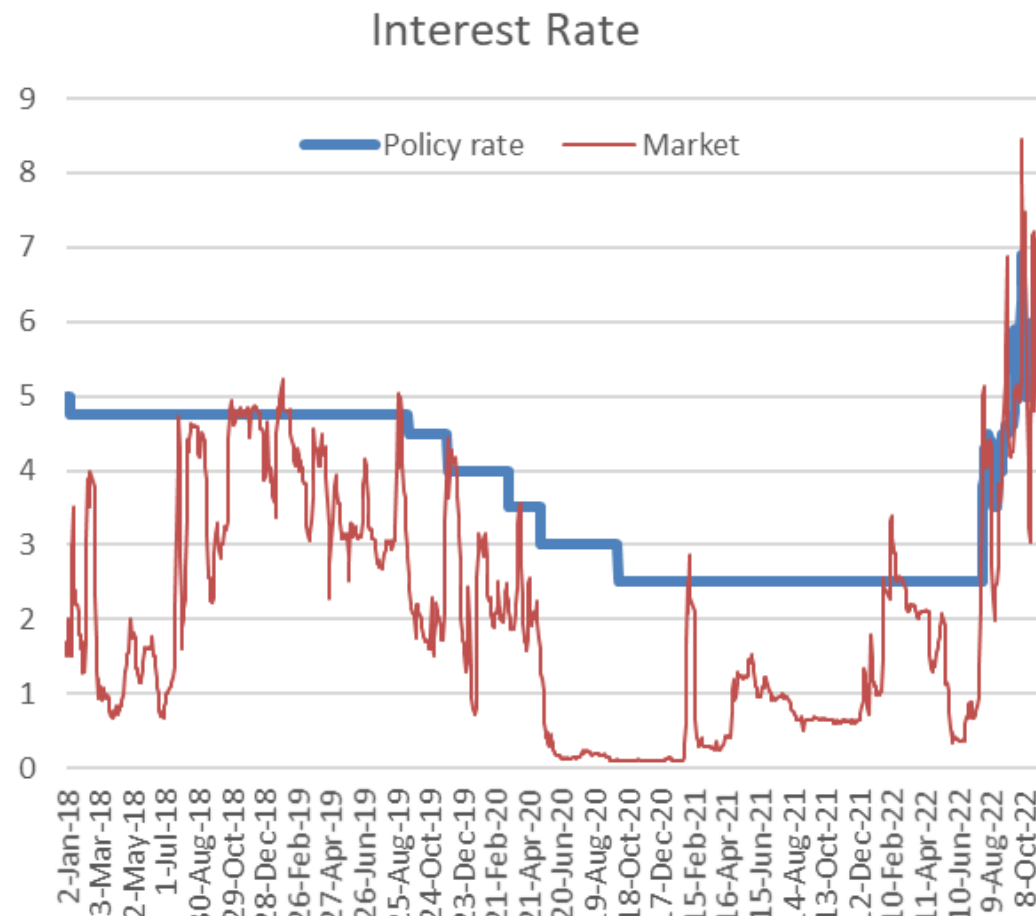
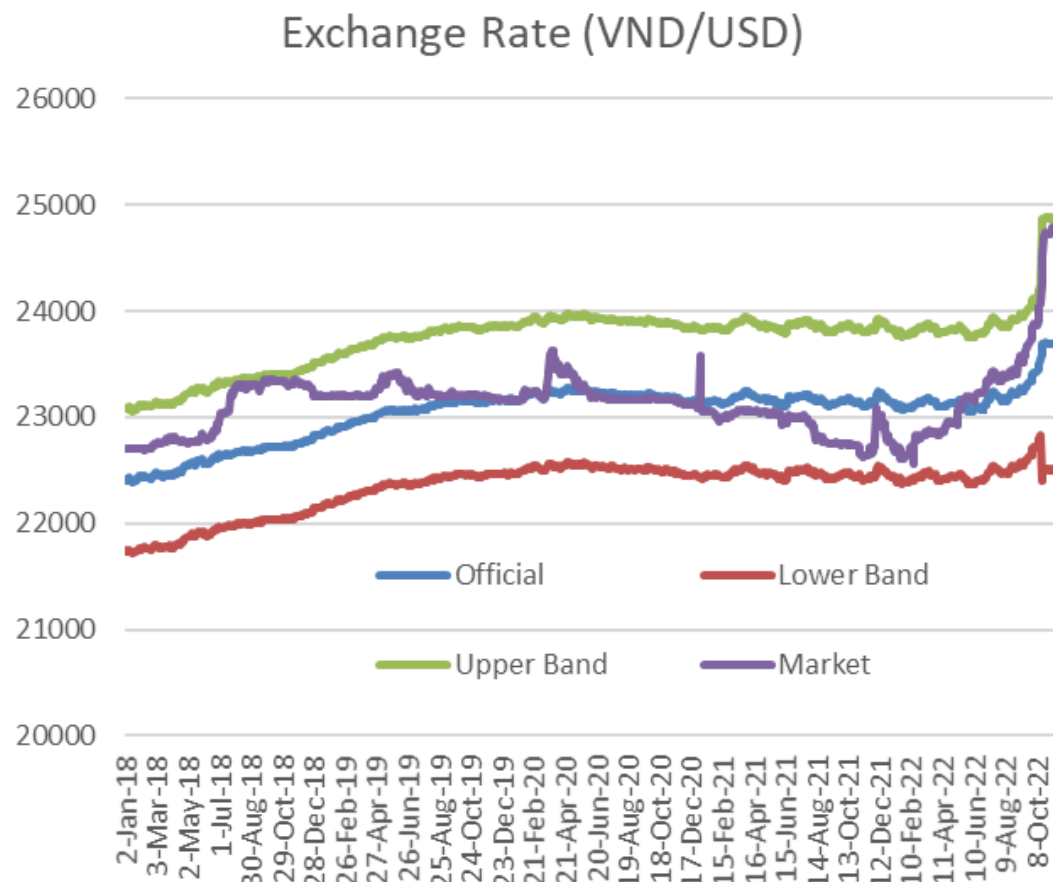
Inflation (y/y)







# ... the VND came under pressure and interest rate increased





## **Outlook and risks**

- **Growth: 2022 (7.0% ++ ) and 2023 (5.8%)**
- **Inflation to edge up, before gradually returning below 4%**
- **Risks to growth are to the downside, and risks to inflation are to the upside**



# **Policy recommendations**

- **Carefully calibrated, coordinated and communicated**
- **SBV should focus squarely on inflation**
- **Safeguard financial stability**
- **Flexible fiscal policy; more targeted if inflation builds up**
- **Structural reform**

**Thank You!**