

The 2nd Annual Conference of PECC Finance Forum

Issues and Challenges for Regional Financial Cooperation in the Asia-Pacific

Hilton Hua Hin Resort & Spa, Hua Hin, Thailand

July 8-9, 2003

Session I : The Outlook for Financial and Monetary Stability in the Asia-Pacific Region:

Risks and Challenges

**The Outlook of Financial and Monetary Stability
in the Asia-Pacific Region**

Charles Adams

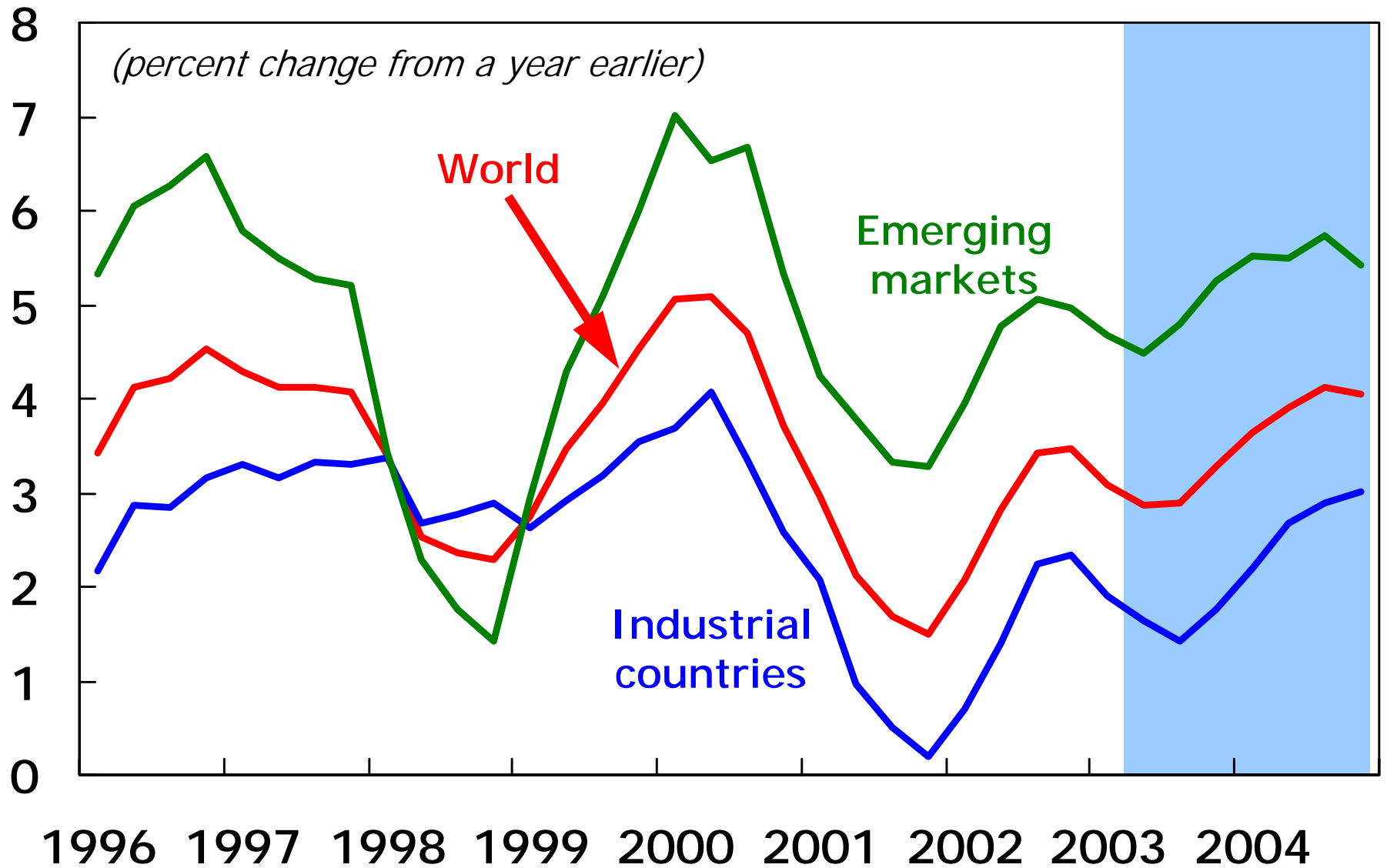
Assistant Director
Regional Office for Asia and the Pacific
International Monetary Fund



World Economic Outlook

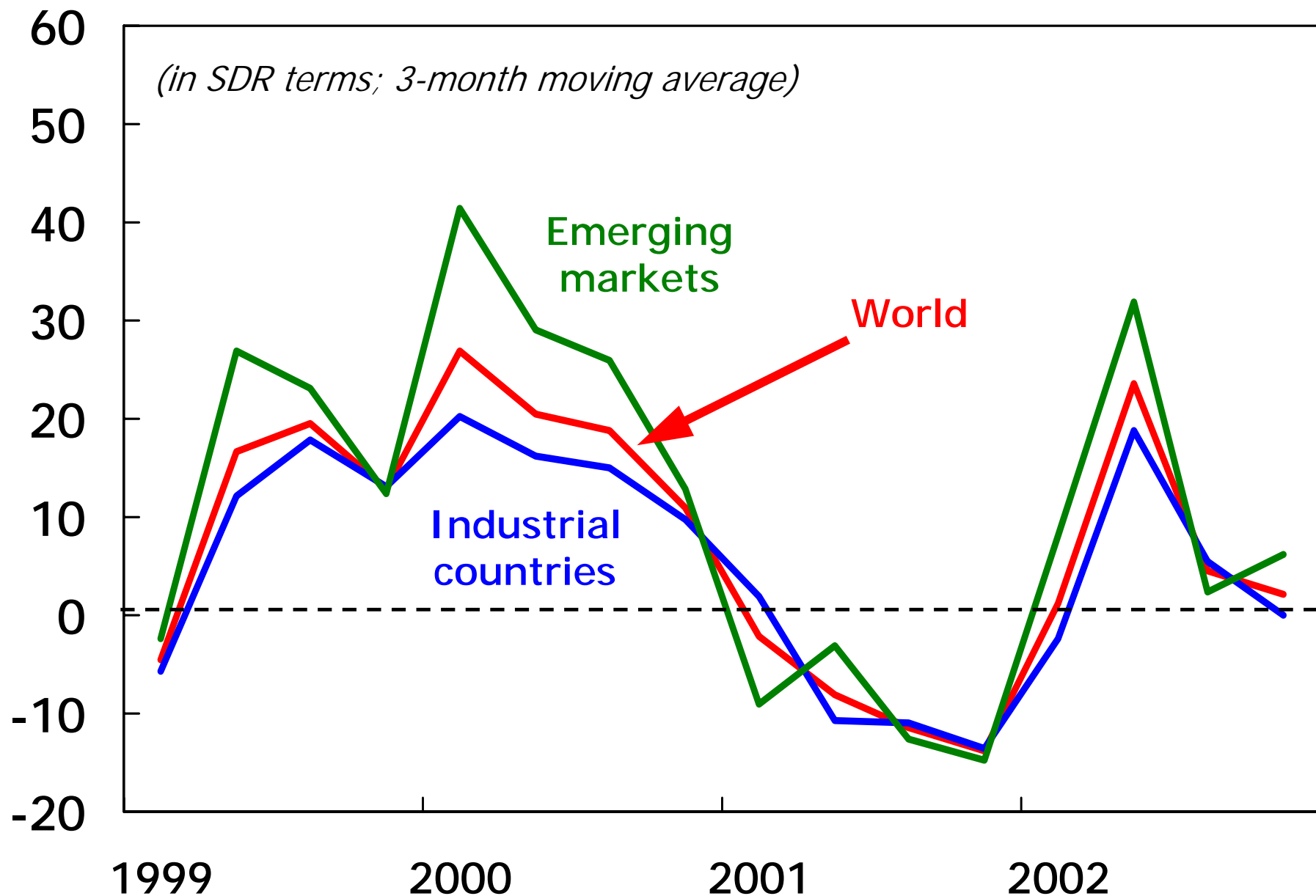
May 2003

The Global Recovery

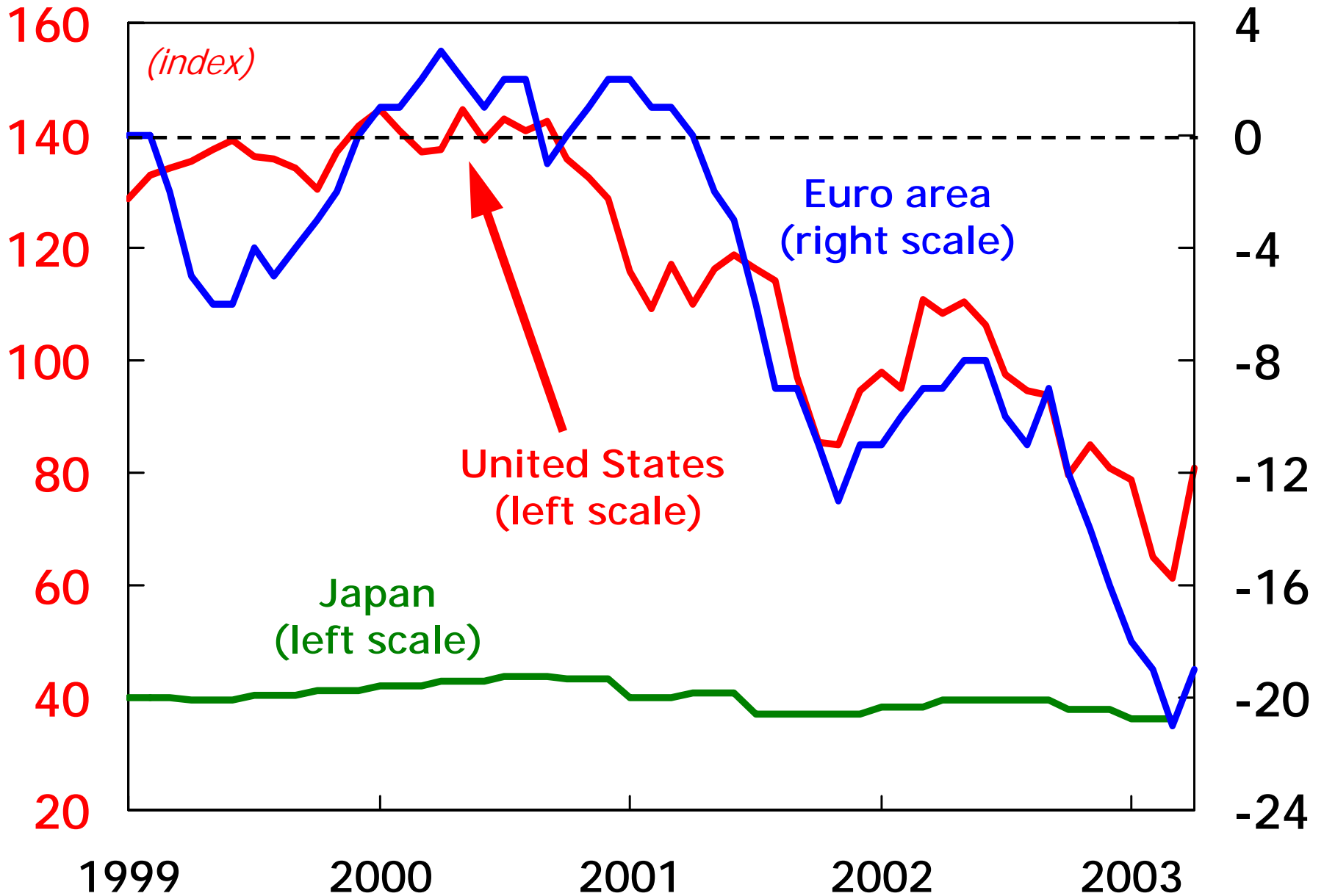


Global Trade

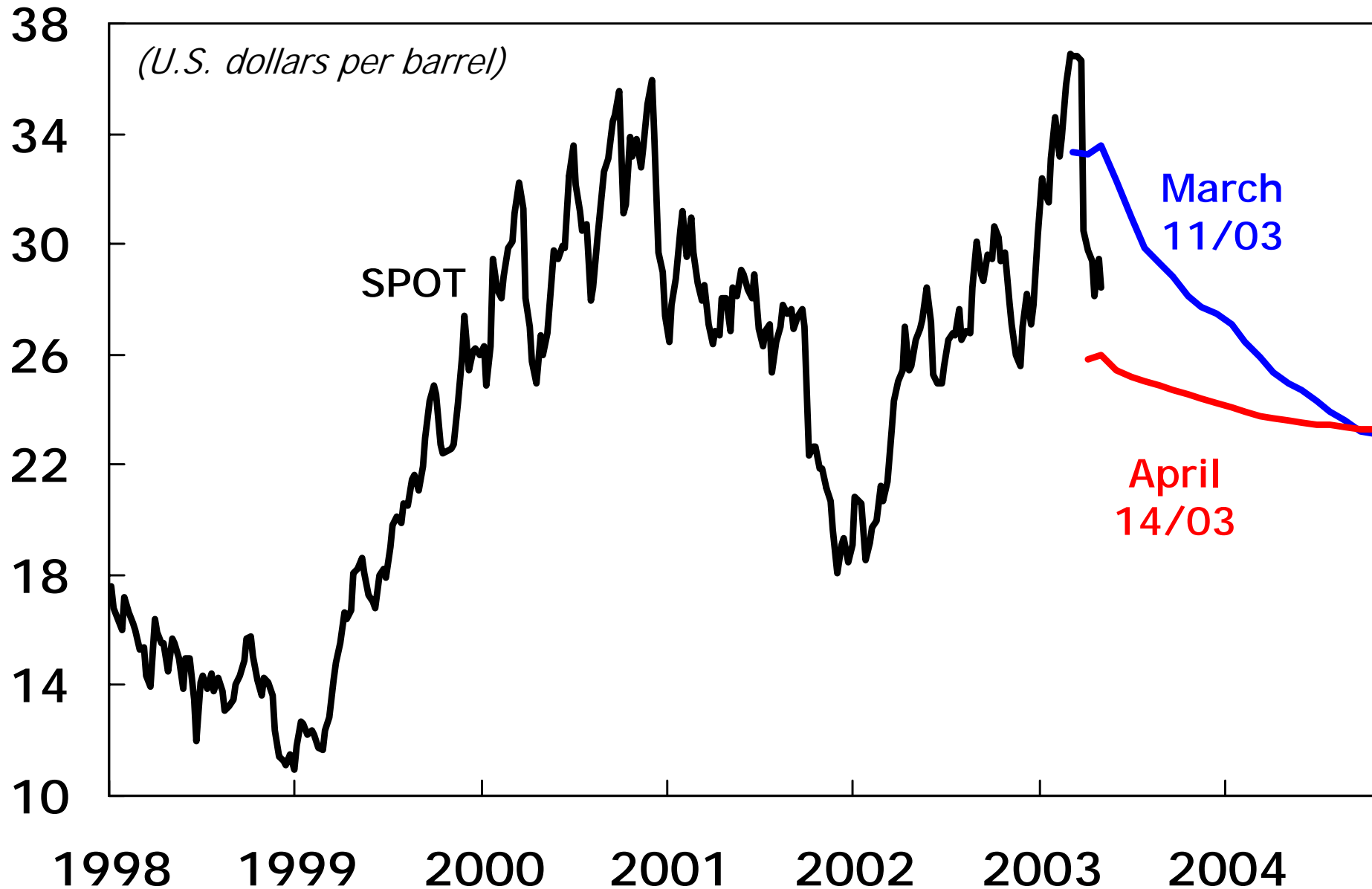
(in SDR terms; 3-month moving average)



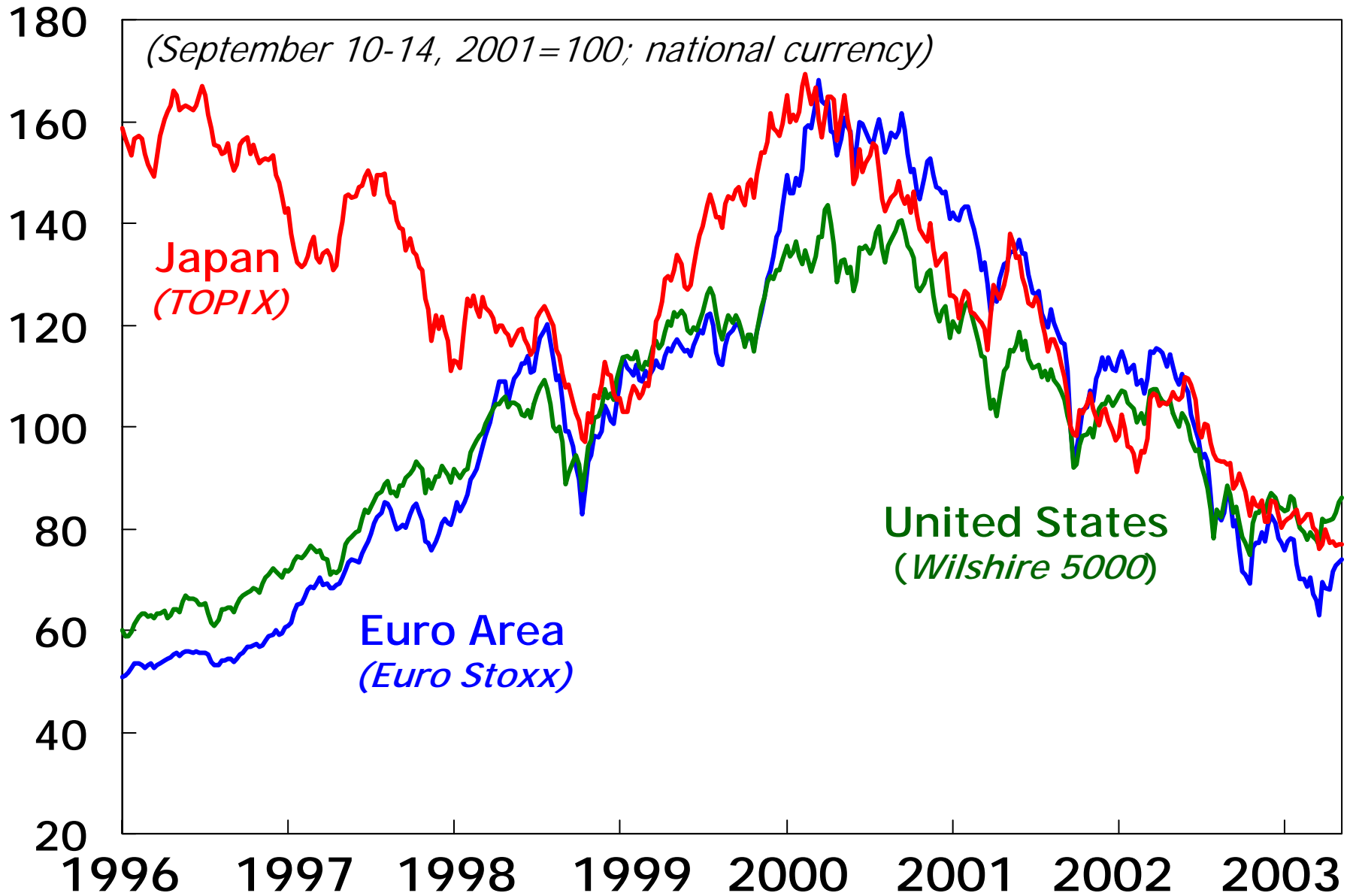
Consumer Confidence



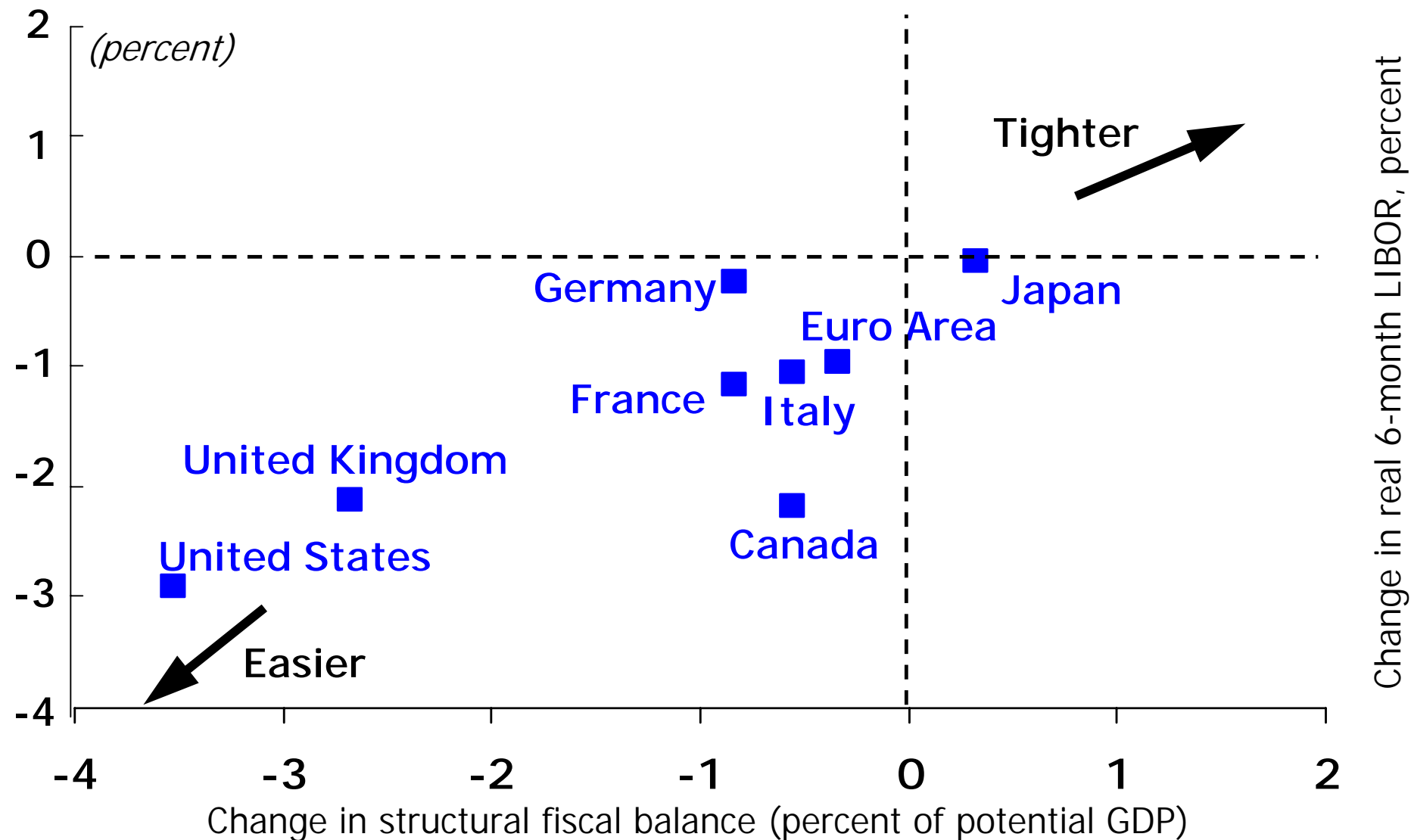
Crude Oil Price: Spot and Futures



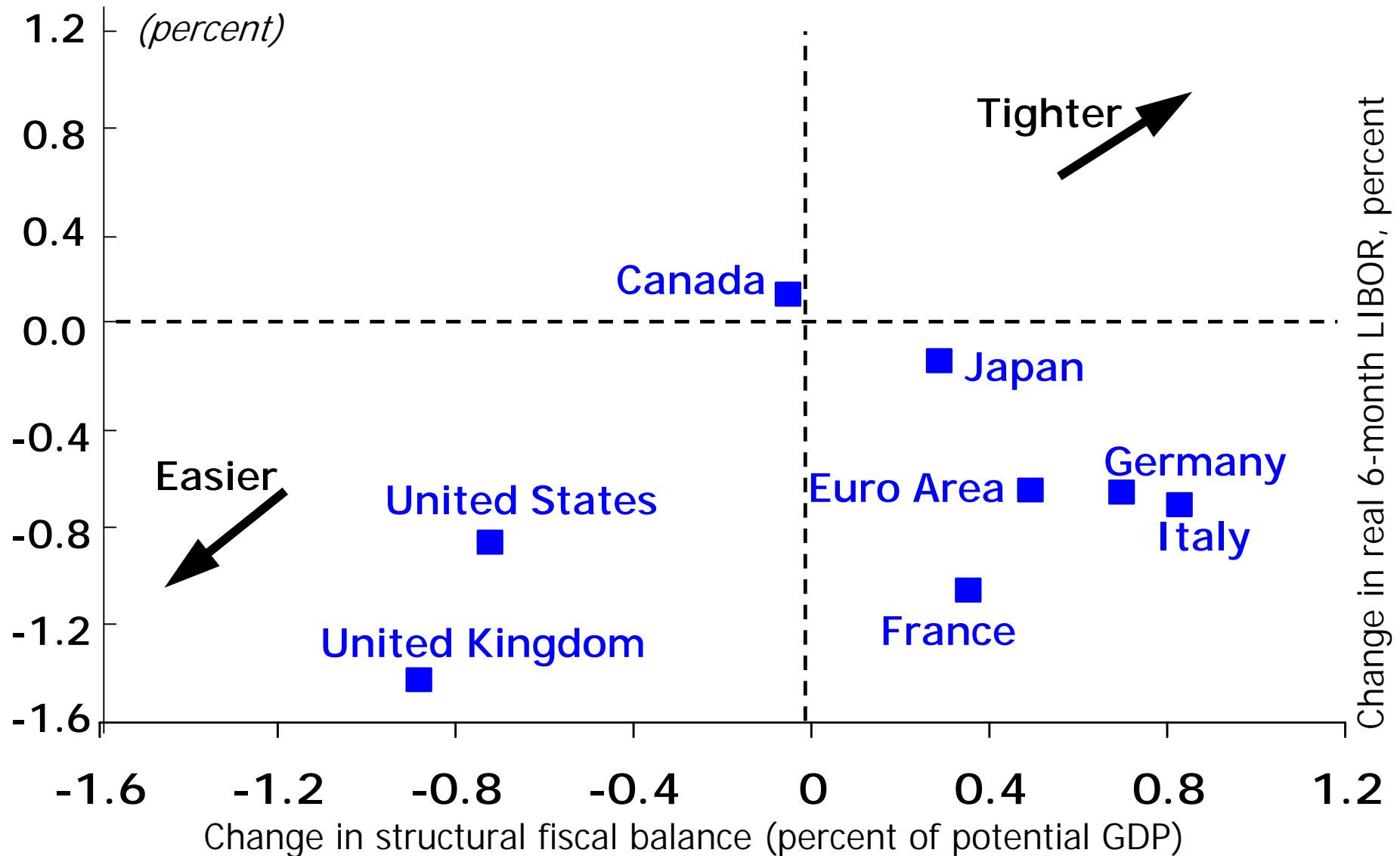
Major Equity Markets



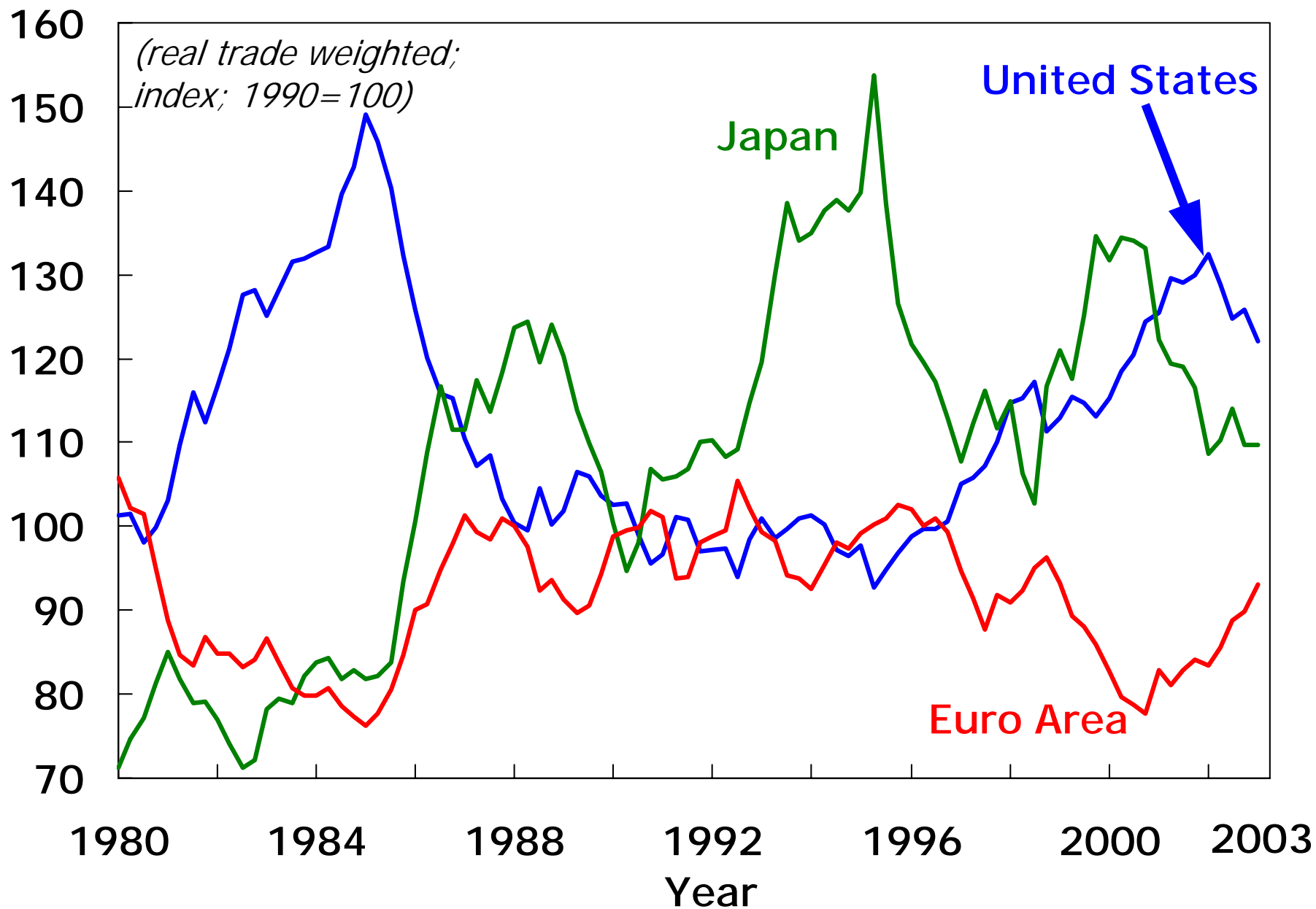
Fiscal and Monetary Easing in the Major Advanced Countries: Policy Changes, 2000-02



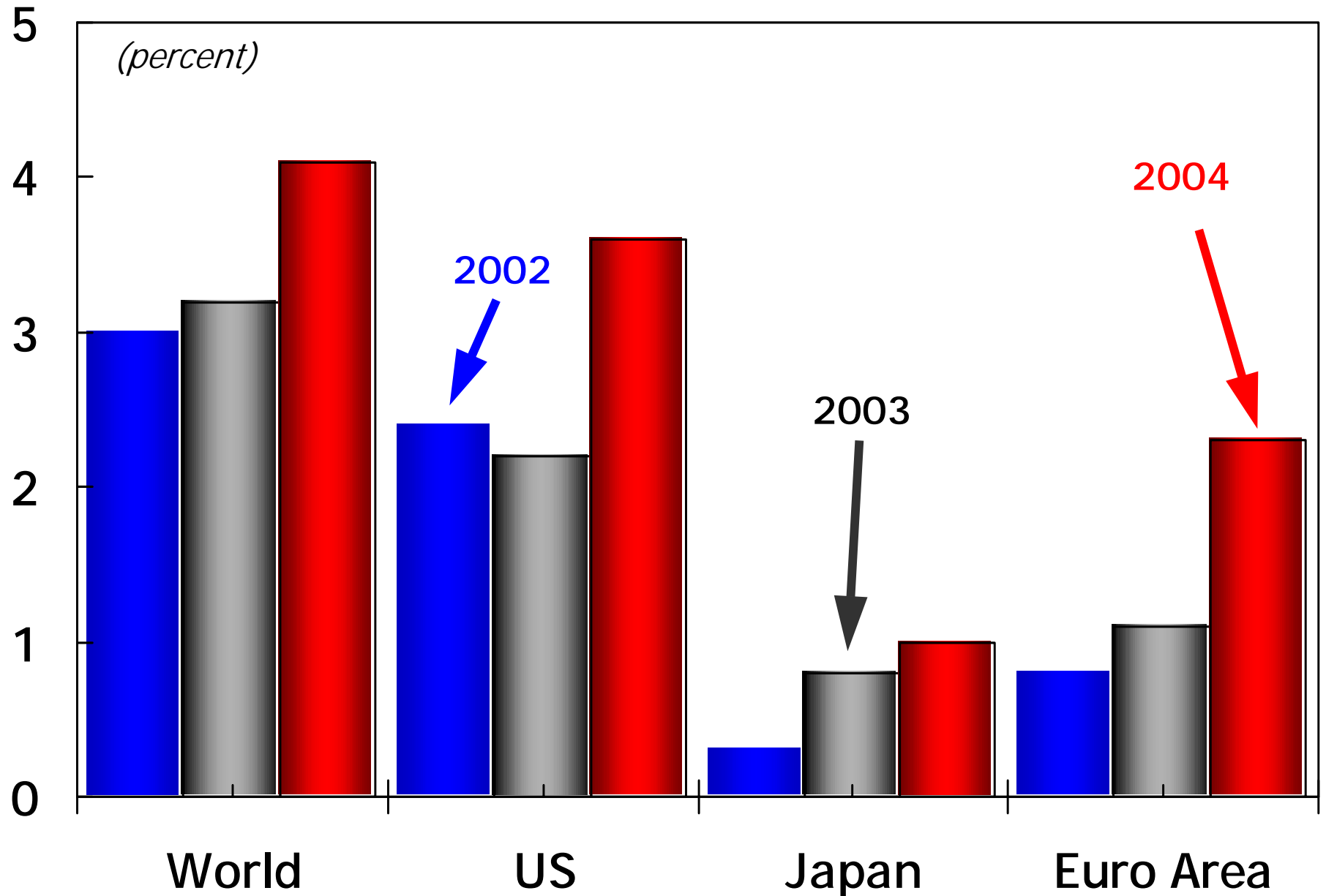
Fiscal and Monetary Easing in the Major Advanced Countries: Expected Policy Changes, 2002-03



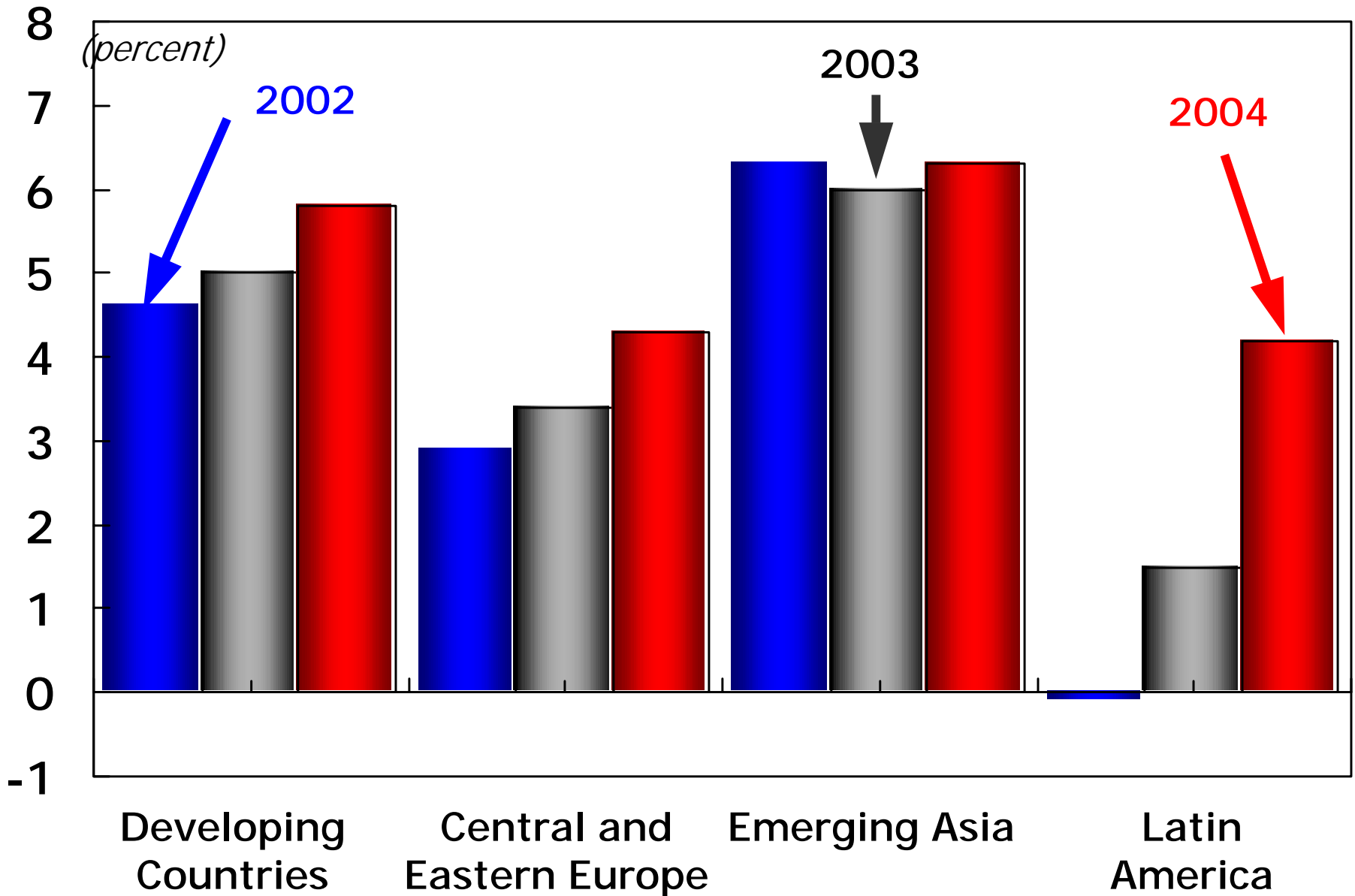
G3 Exchange Rates



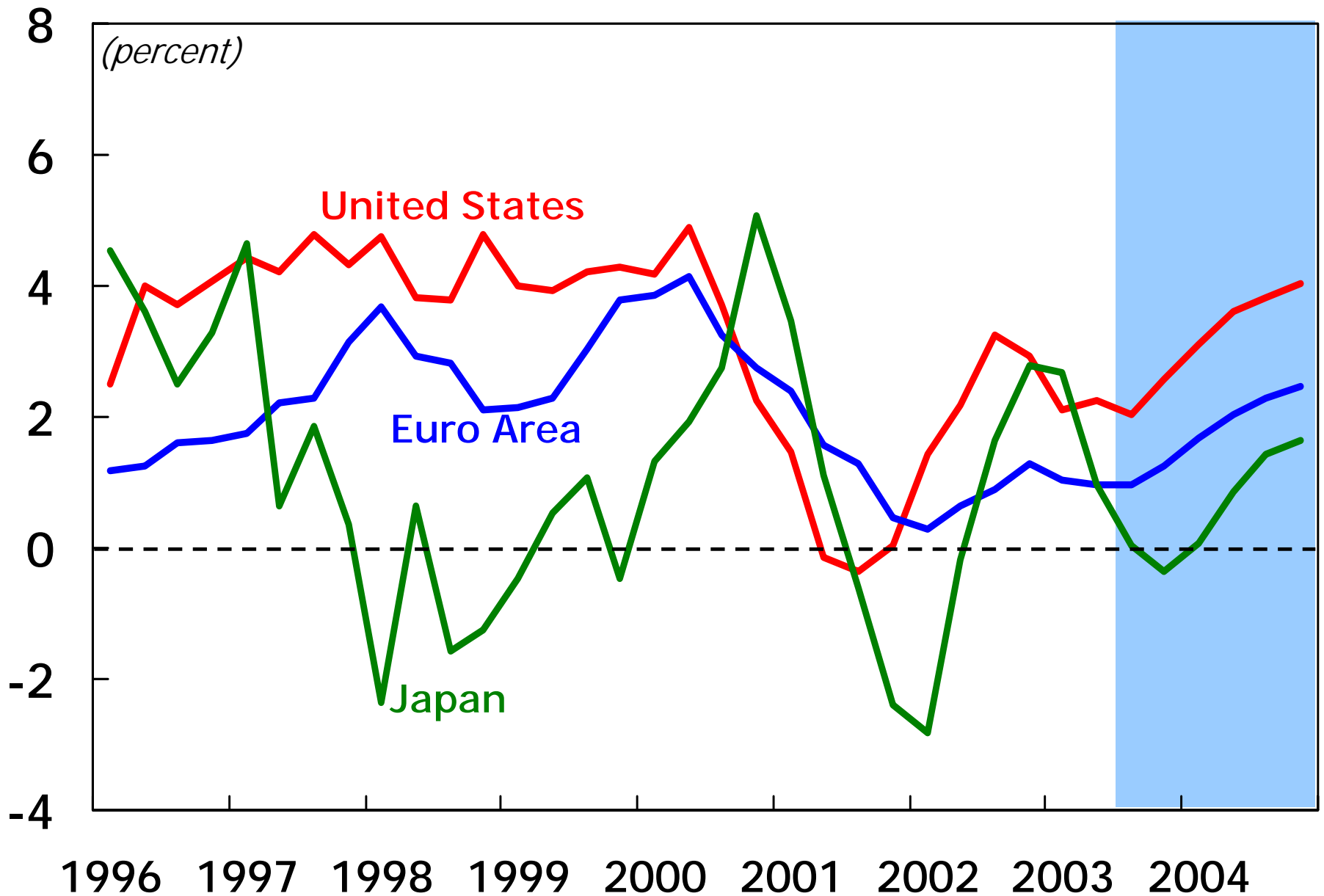
Global GDP Growth



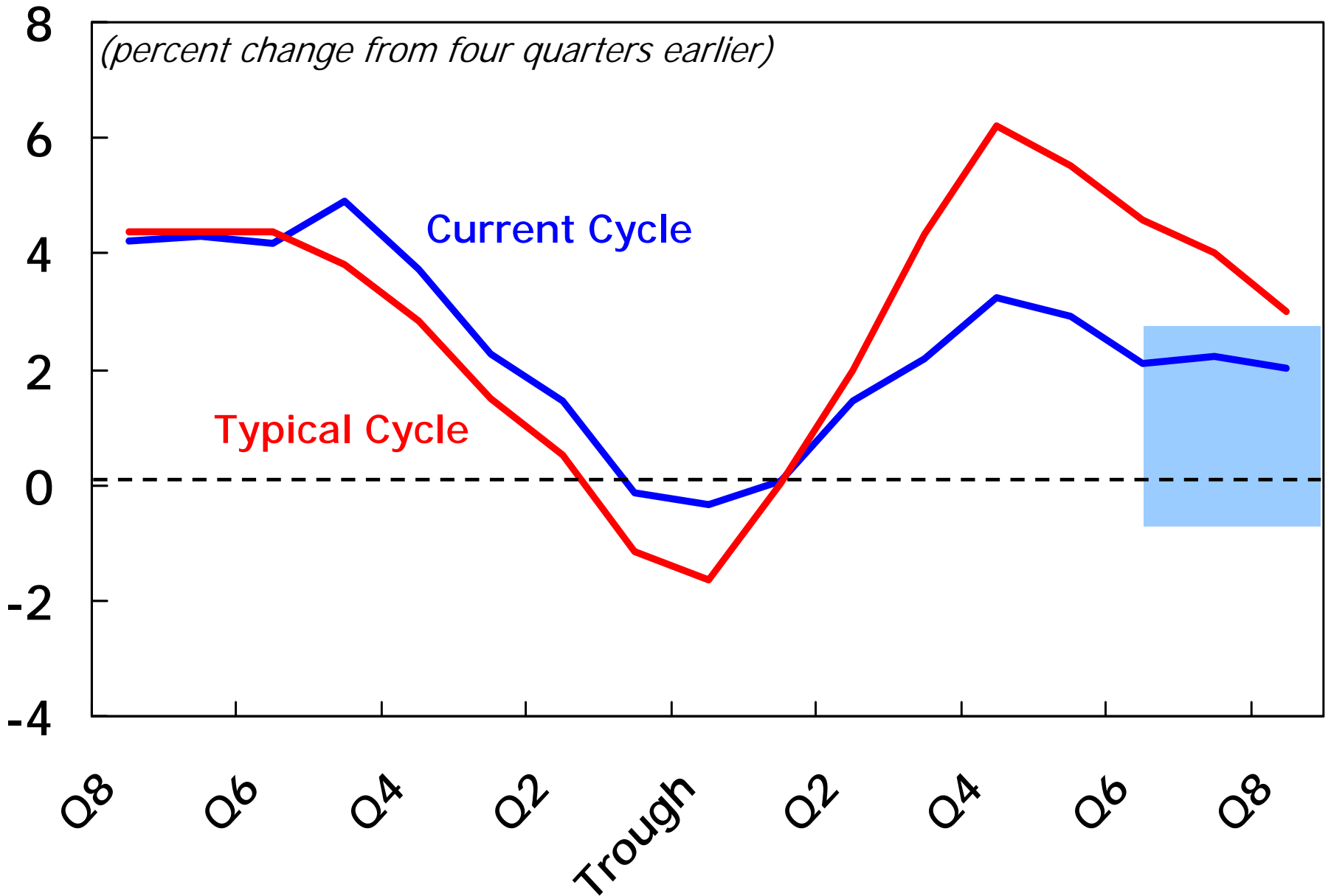
Developing Country GDP Growth



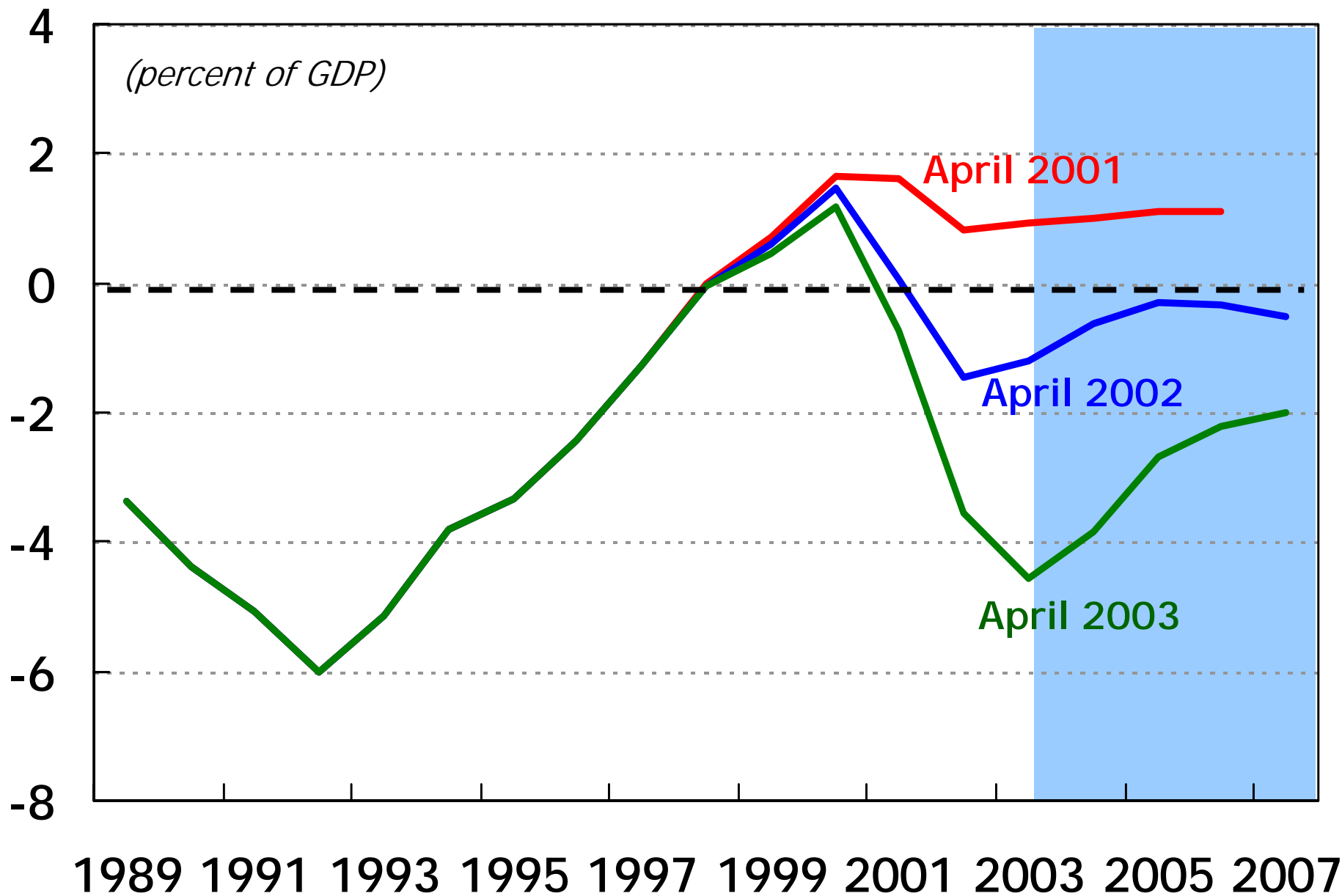
GDP Growth in the Three Major Currency Areas



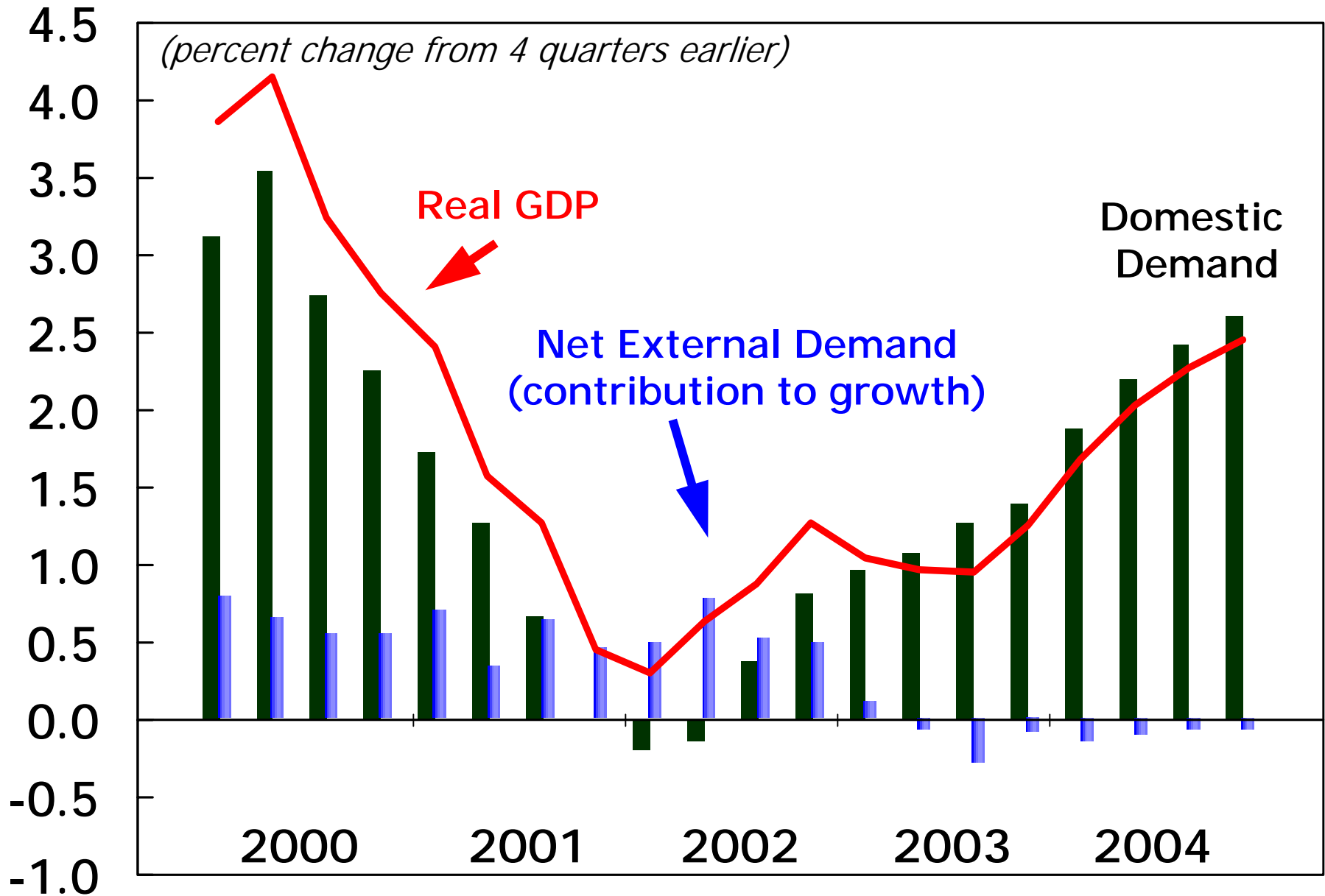
United States: GDP Growth



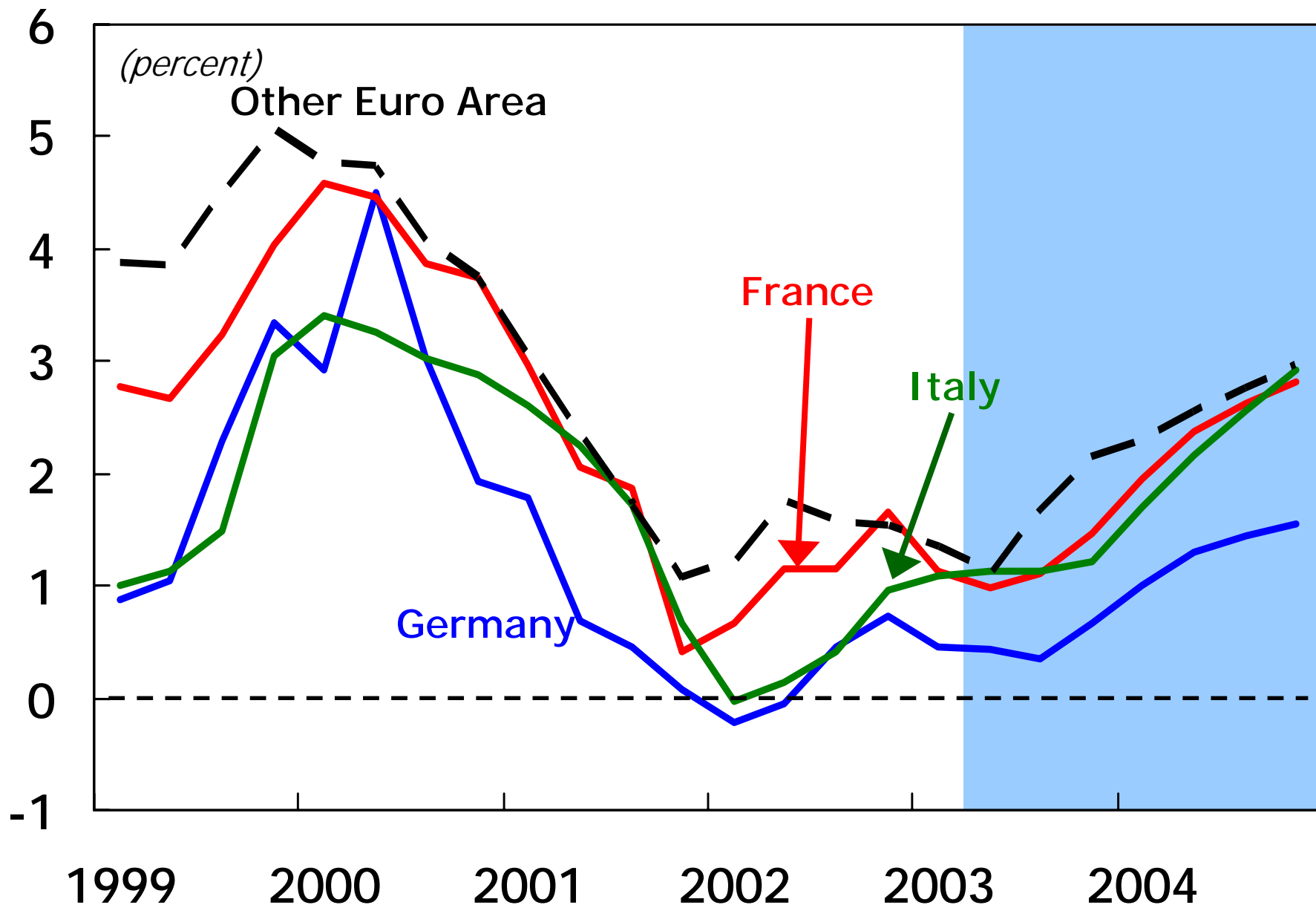
United States: The Fiscal Outlook



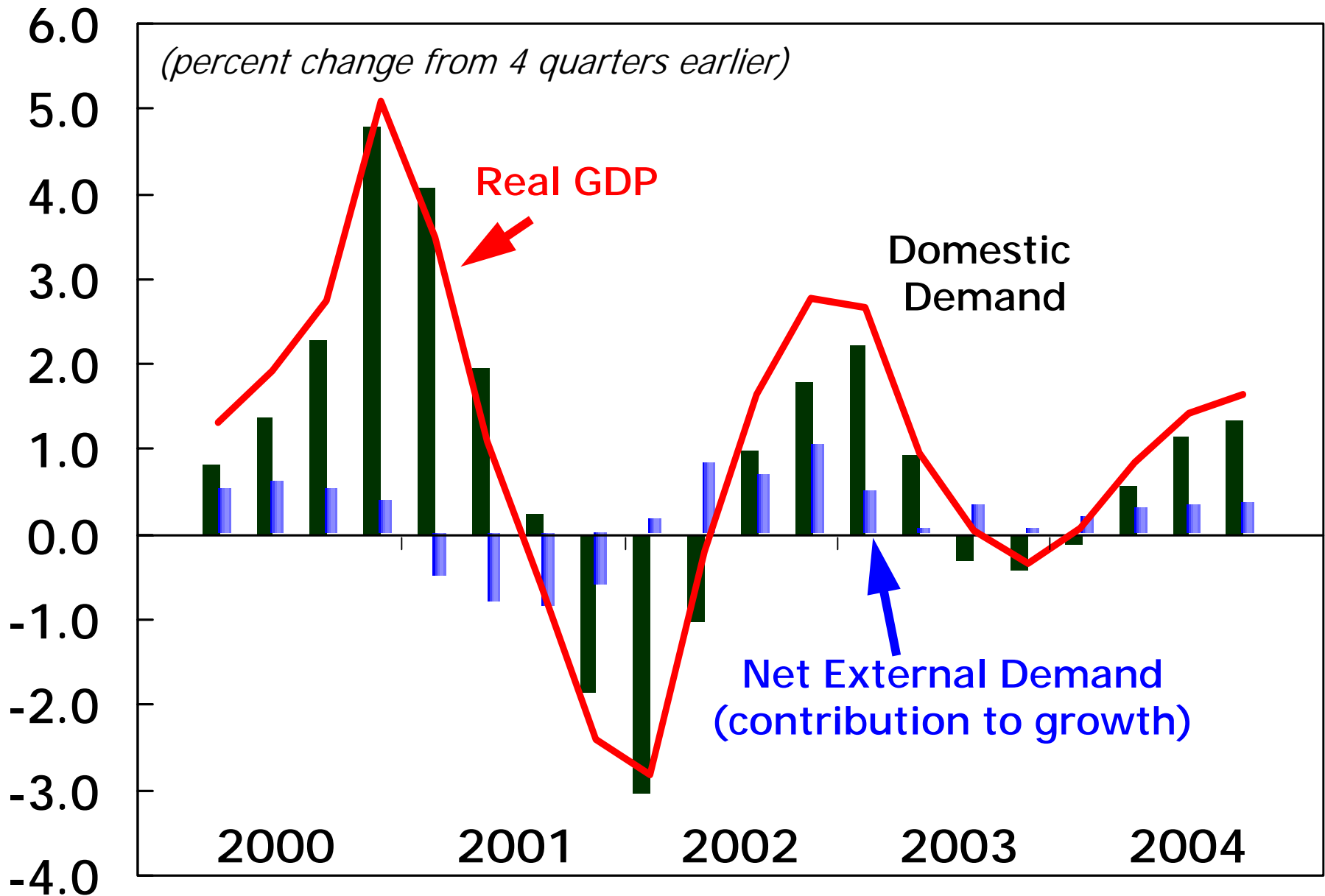
Euro Area: Is Domestic Demand Starting to Pick Up?



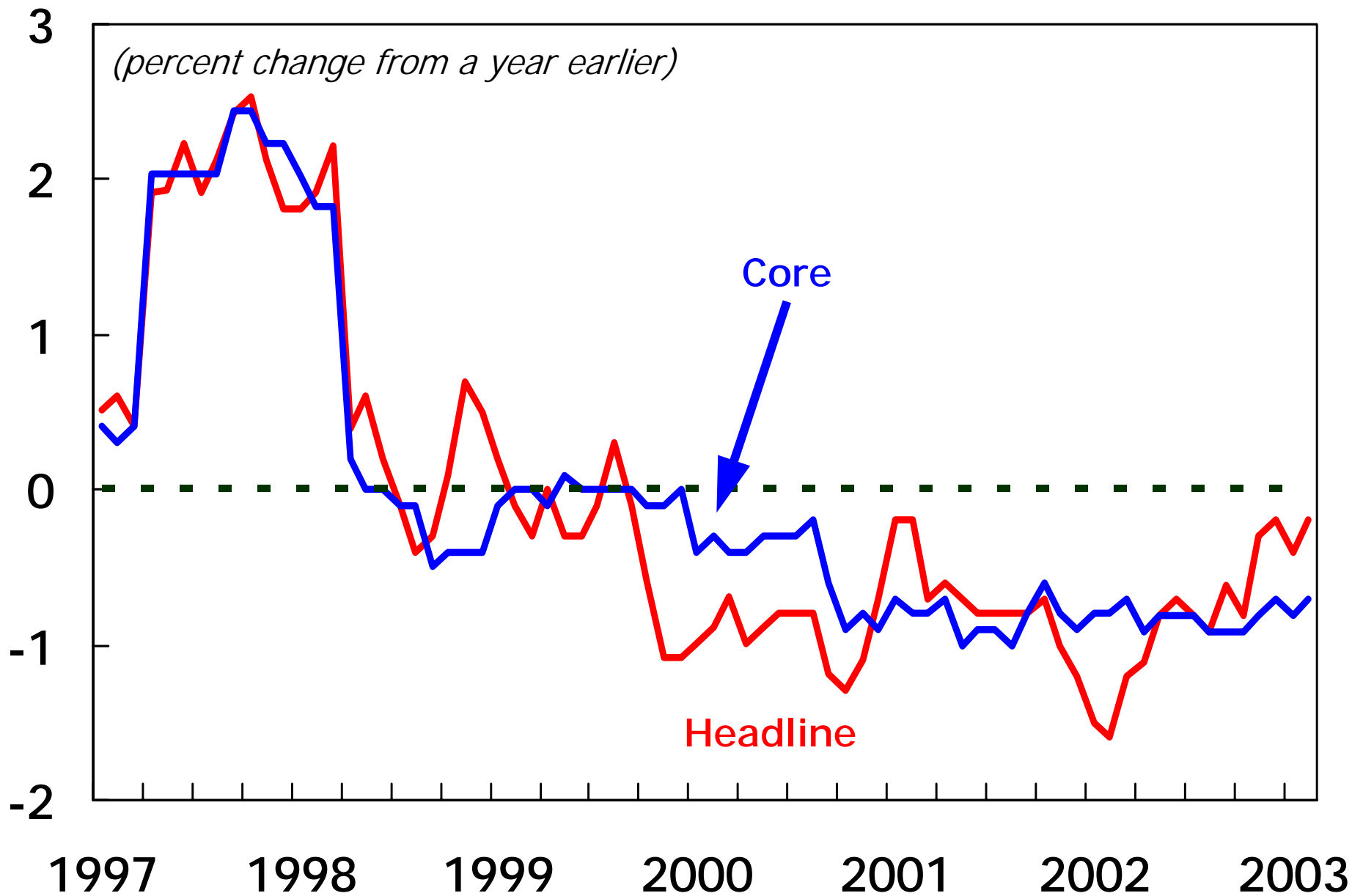
Euro Area: GDP Growth



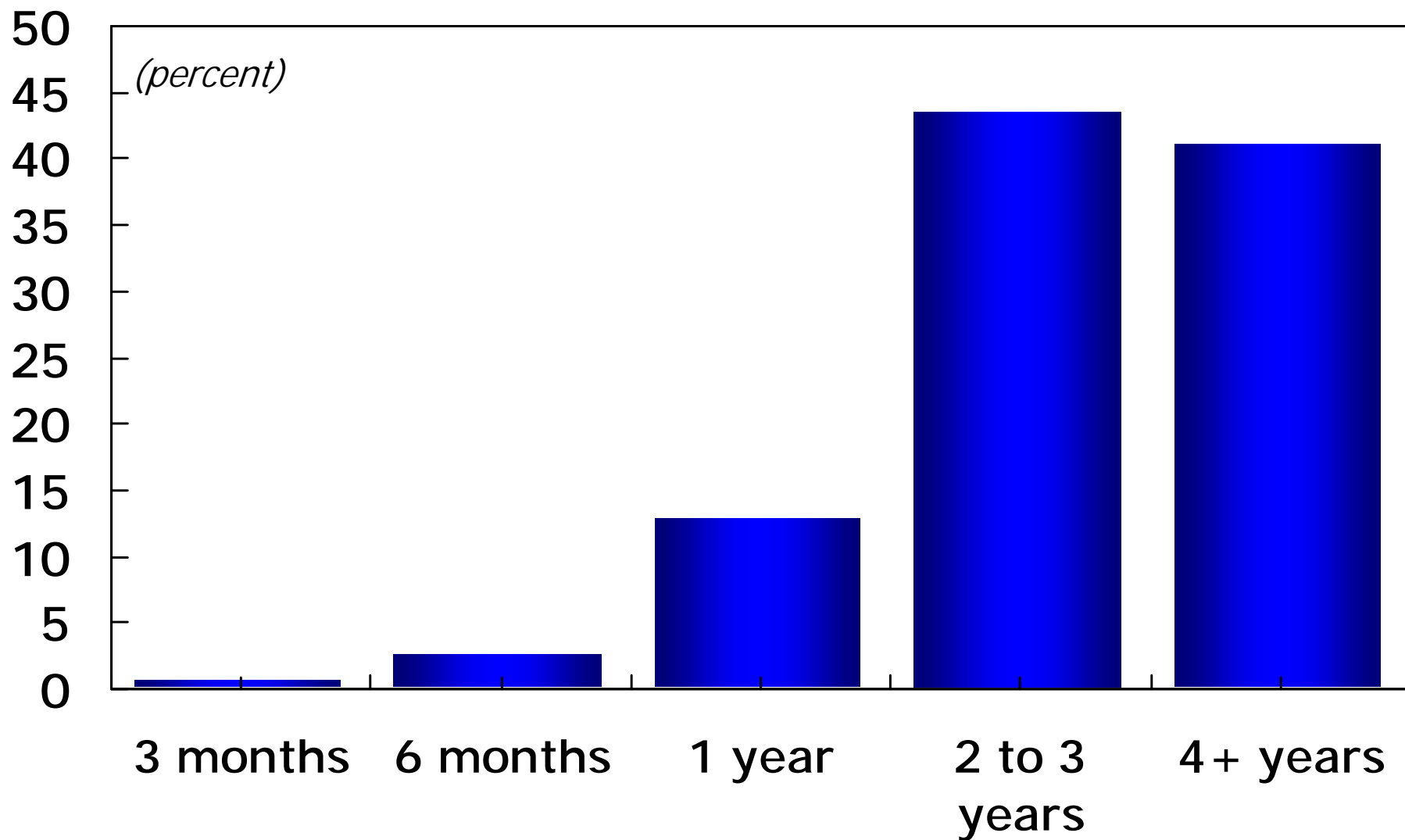
Japan: Is Domestic Demand Starting to Pick Up?



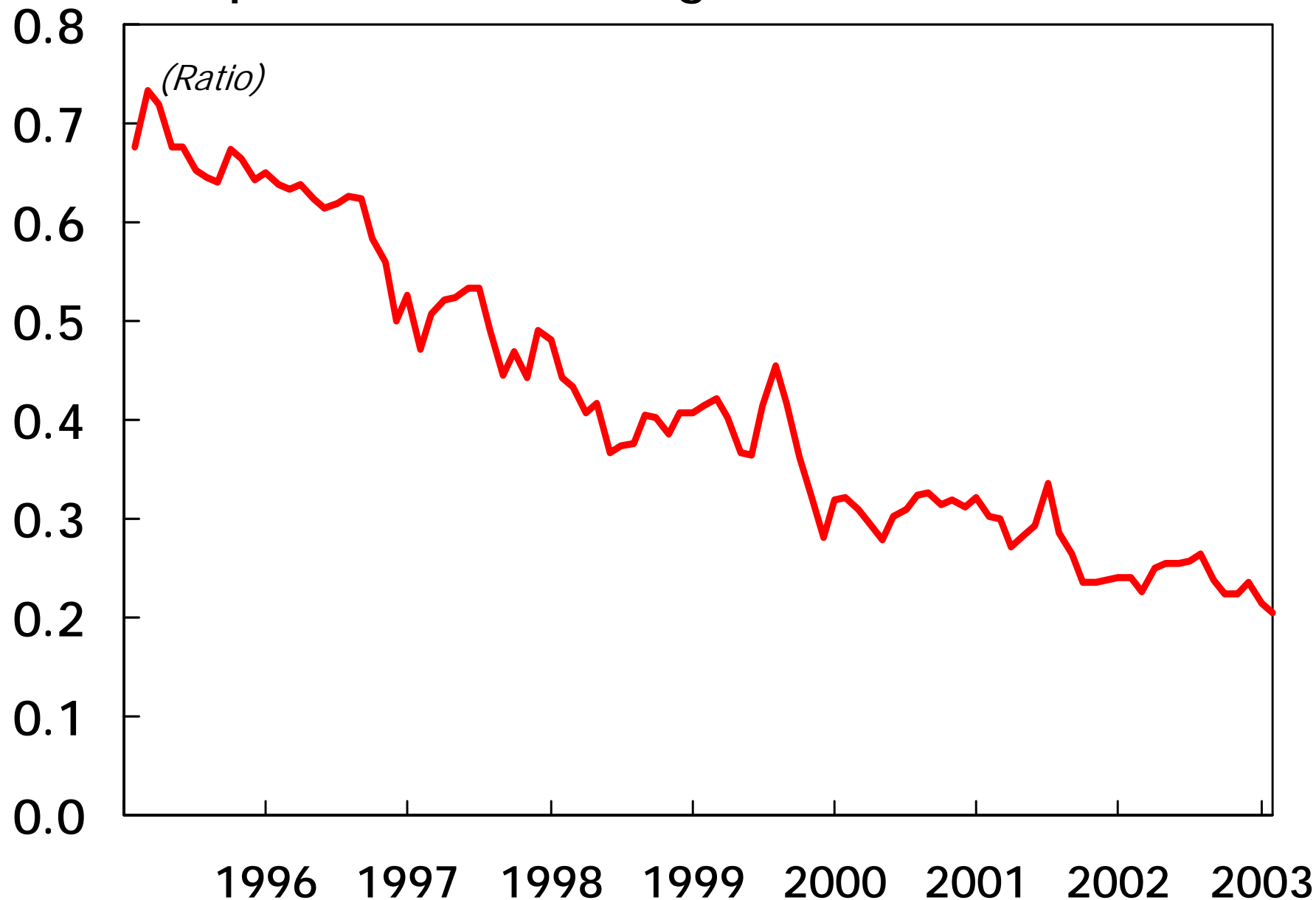
Japan: Consumer Prices



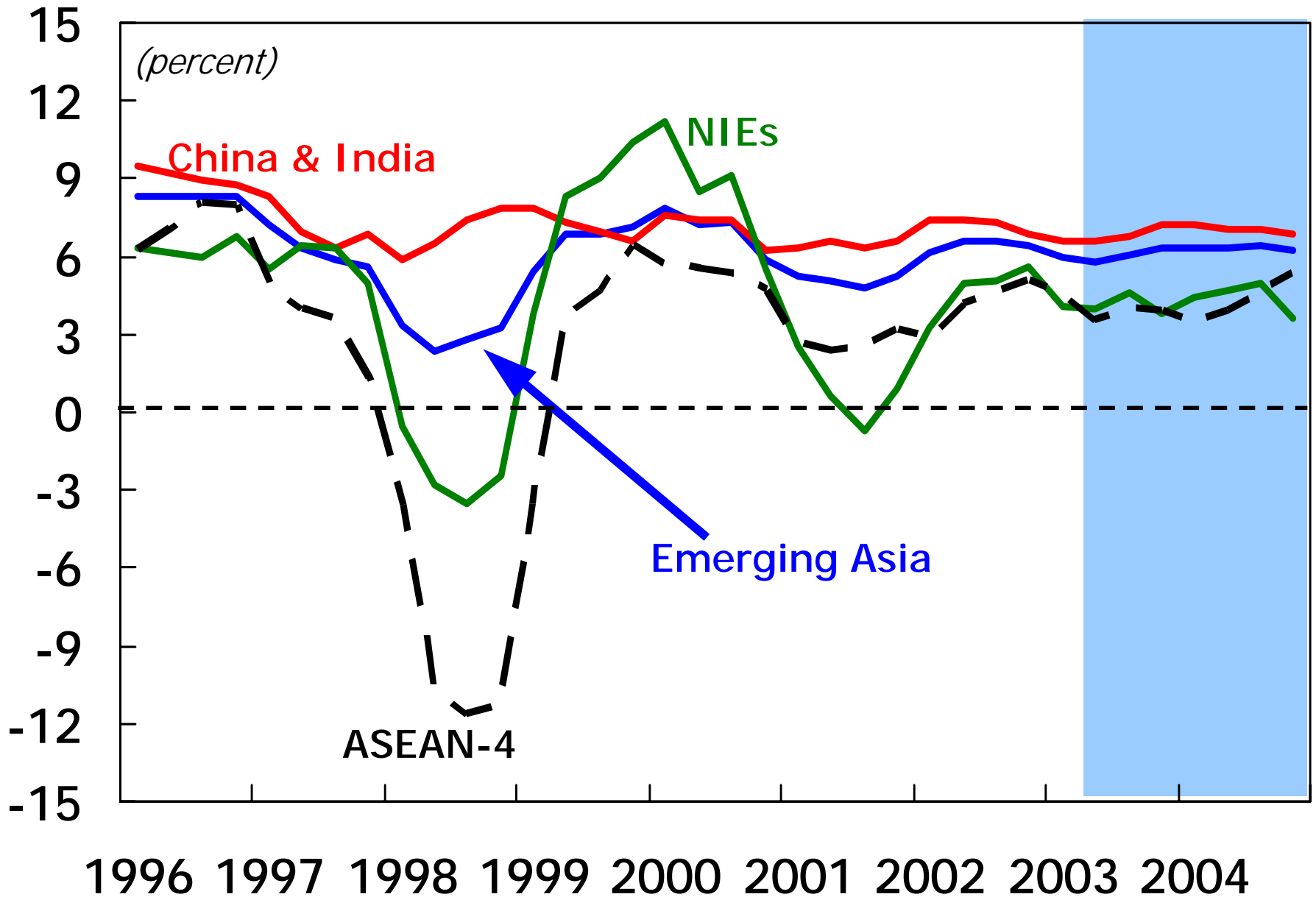
Japan: How Long Do You Think Deflation Will Last?



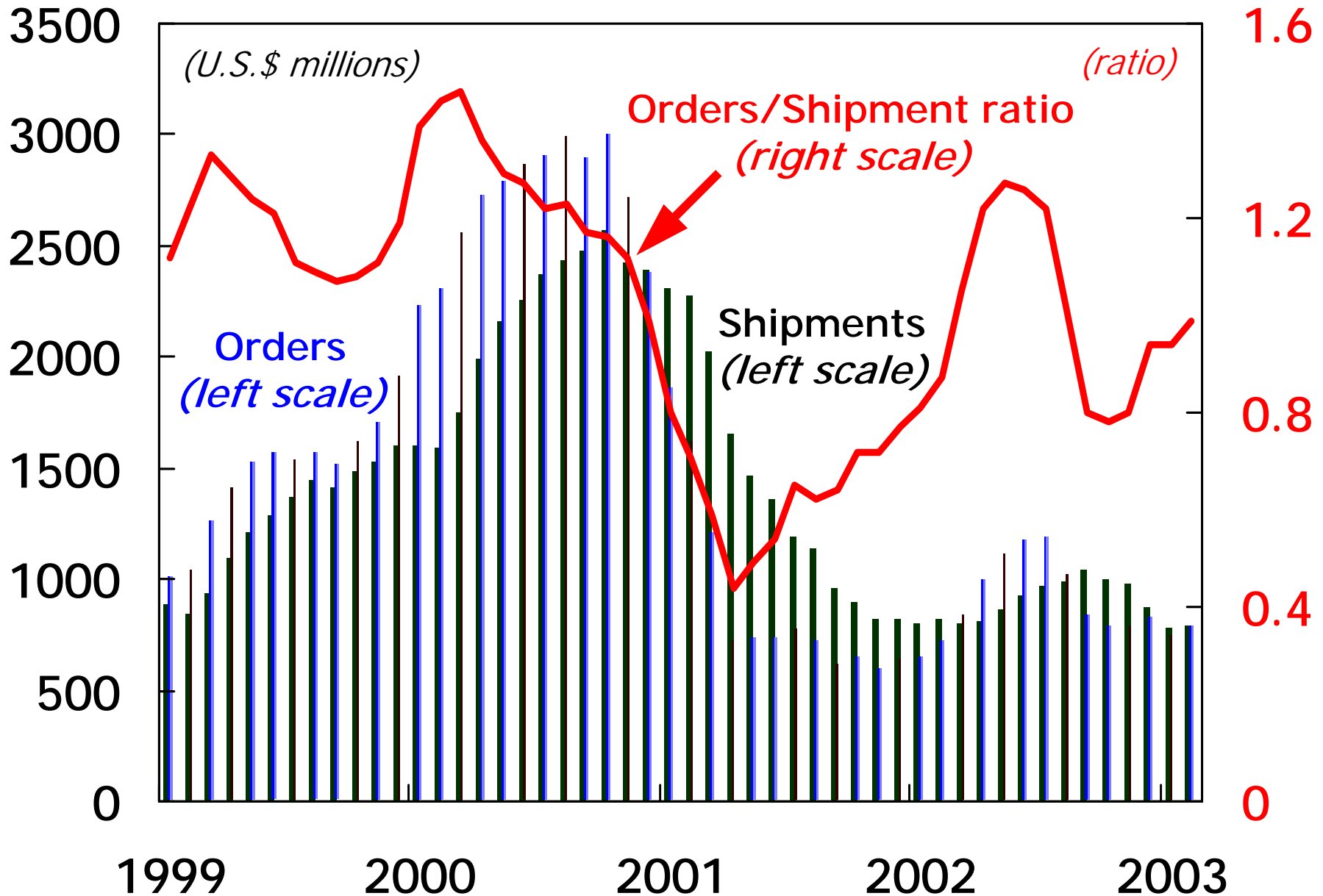
Japan: TOPIX Banking Sector to TOPIX 500



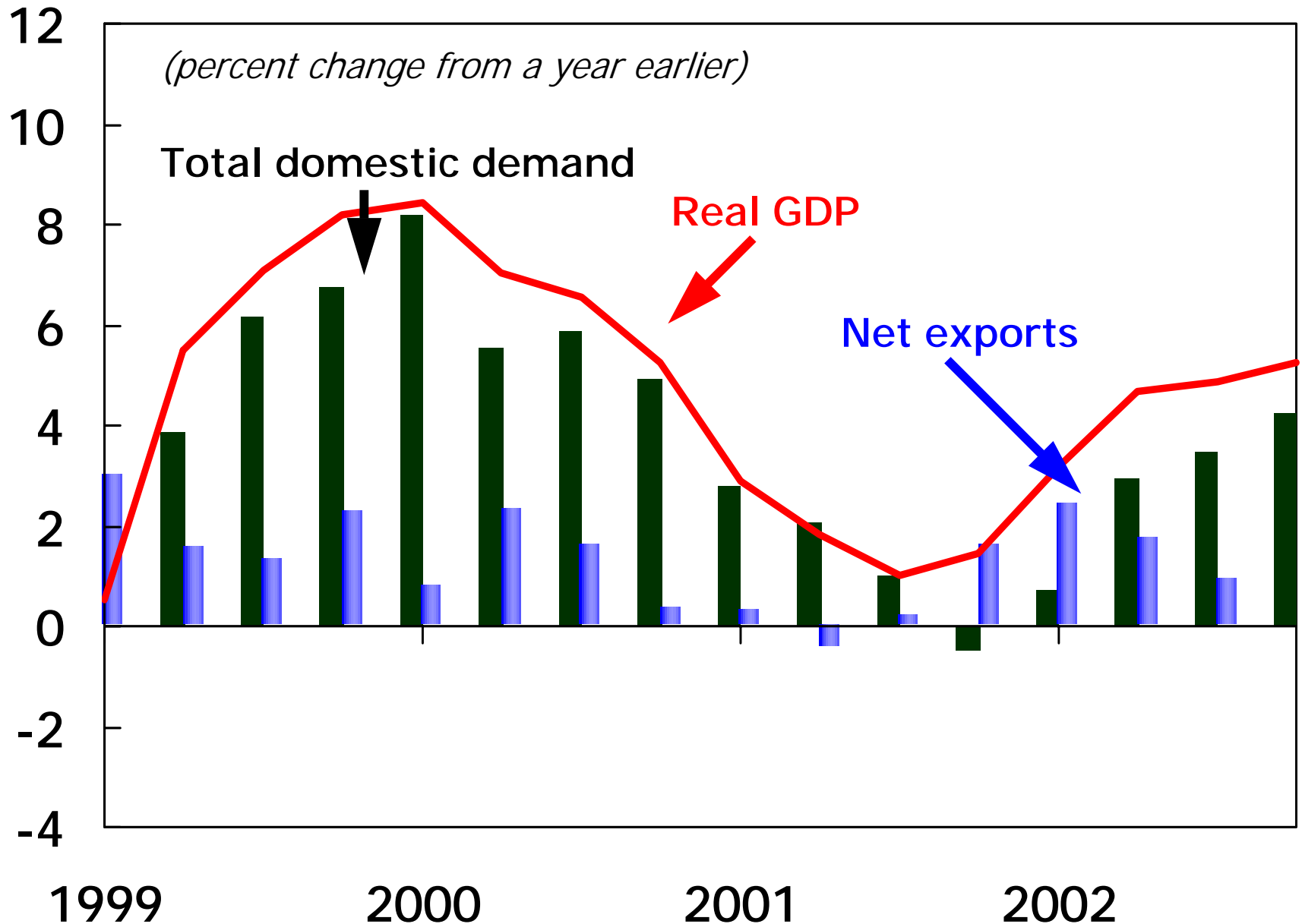
Emerging Asia: GDP Growth



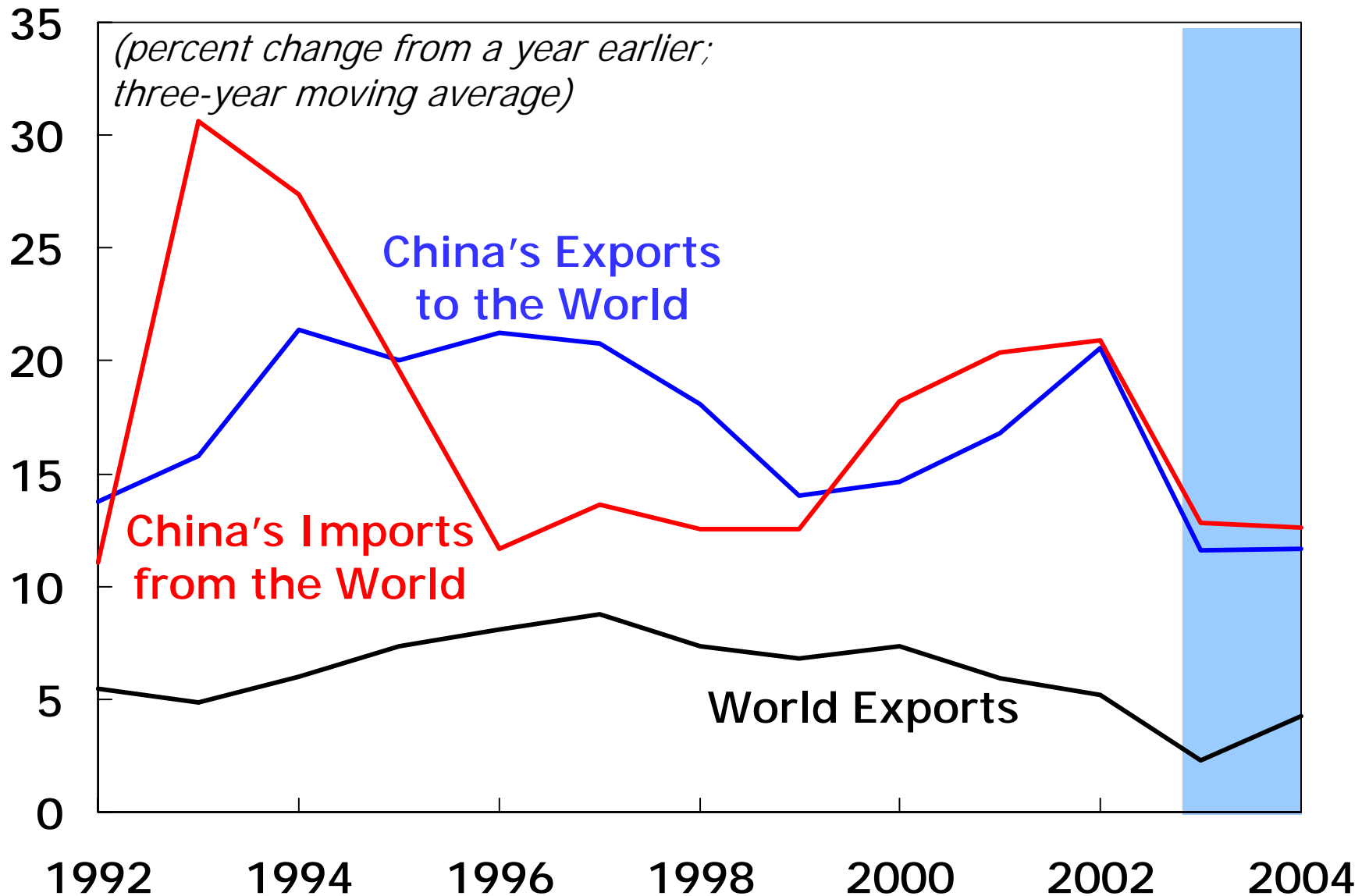
US: Semiconductor Equipment: Orders & Shipments



NIEs and ASEAN-4: Contribution to Real GDP Growth



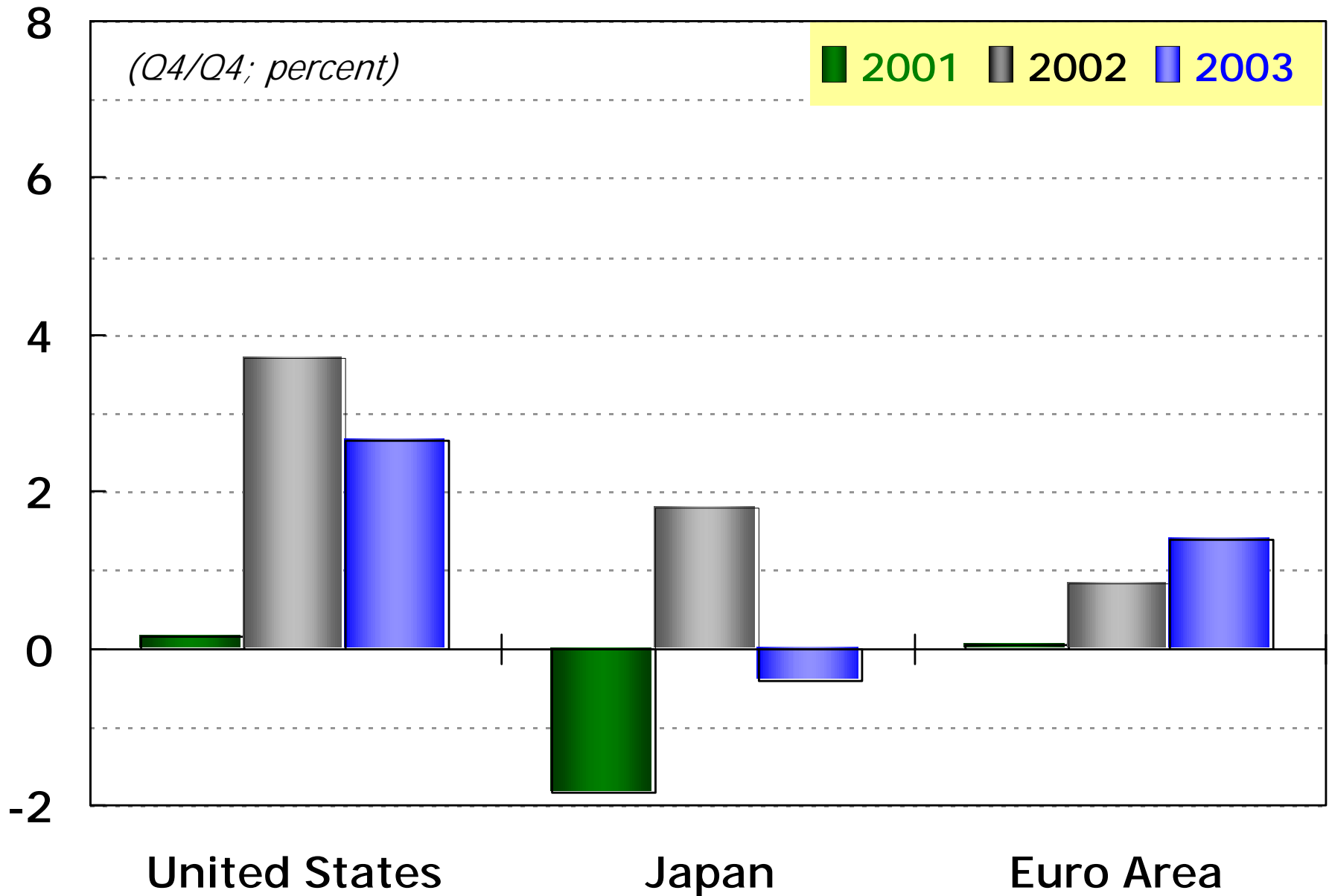
China: Strong Exports and Imports



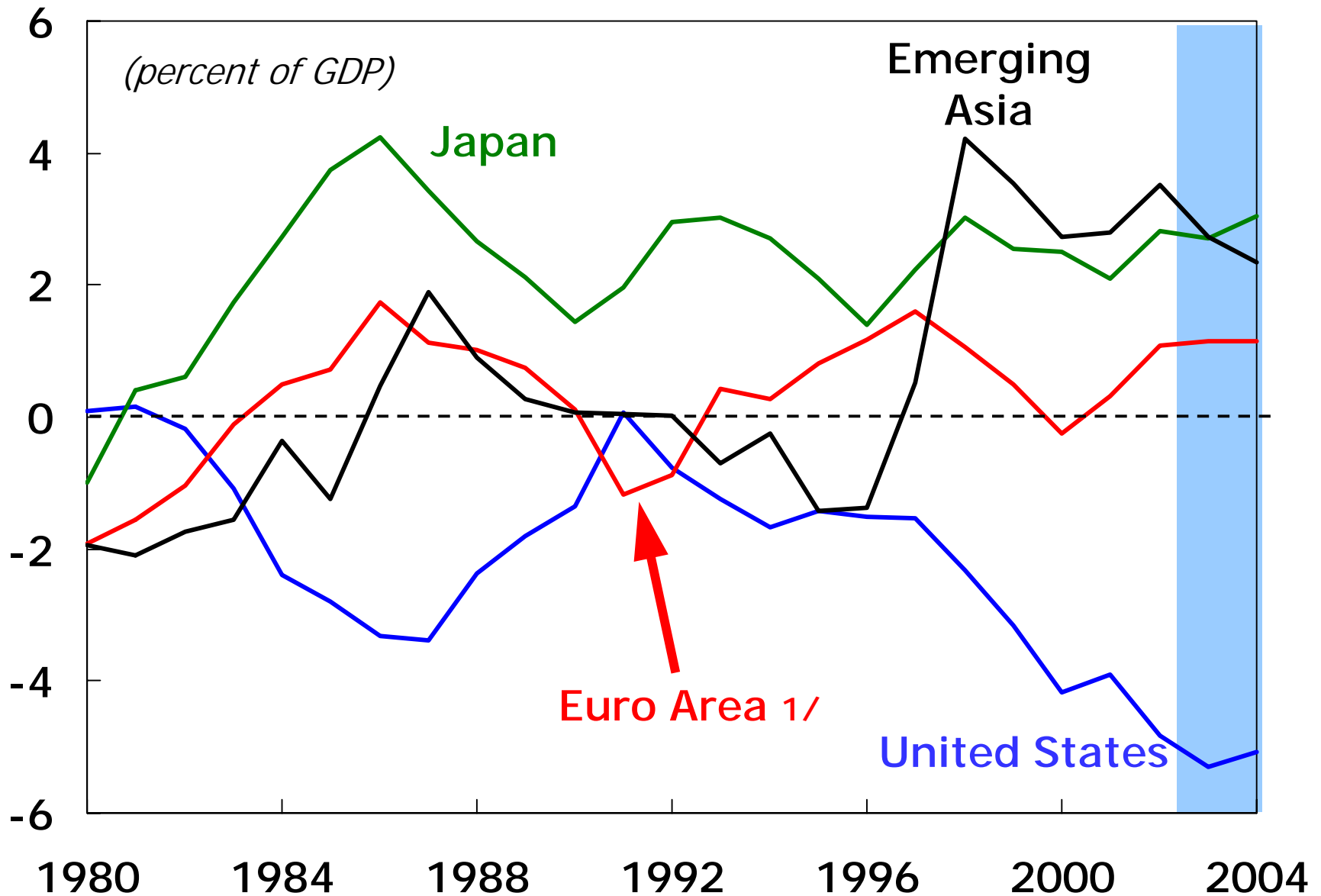
The Impact of a \$5 per Barrel: Permanent Reduction in Oil Prices After a Year

	Real GDP	Trade Balance
World GDP	0.3	--
Industrial Countries	0.3	0.2
United States	0.4	0.1
Euro area	0.4	0.1
Japan	0.2	0.2
Other	0.2	-0.2
Developing countries	0.2	-0.2
Of which:		
Latin America	0.1	--
Asia	0.4	0.5
Emerging Europe and Africa	-0.1	-0.2

Industrial Countries: Domestic Demand Growth

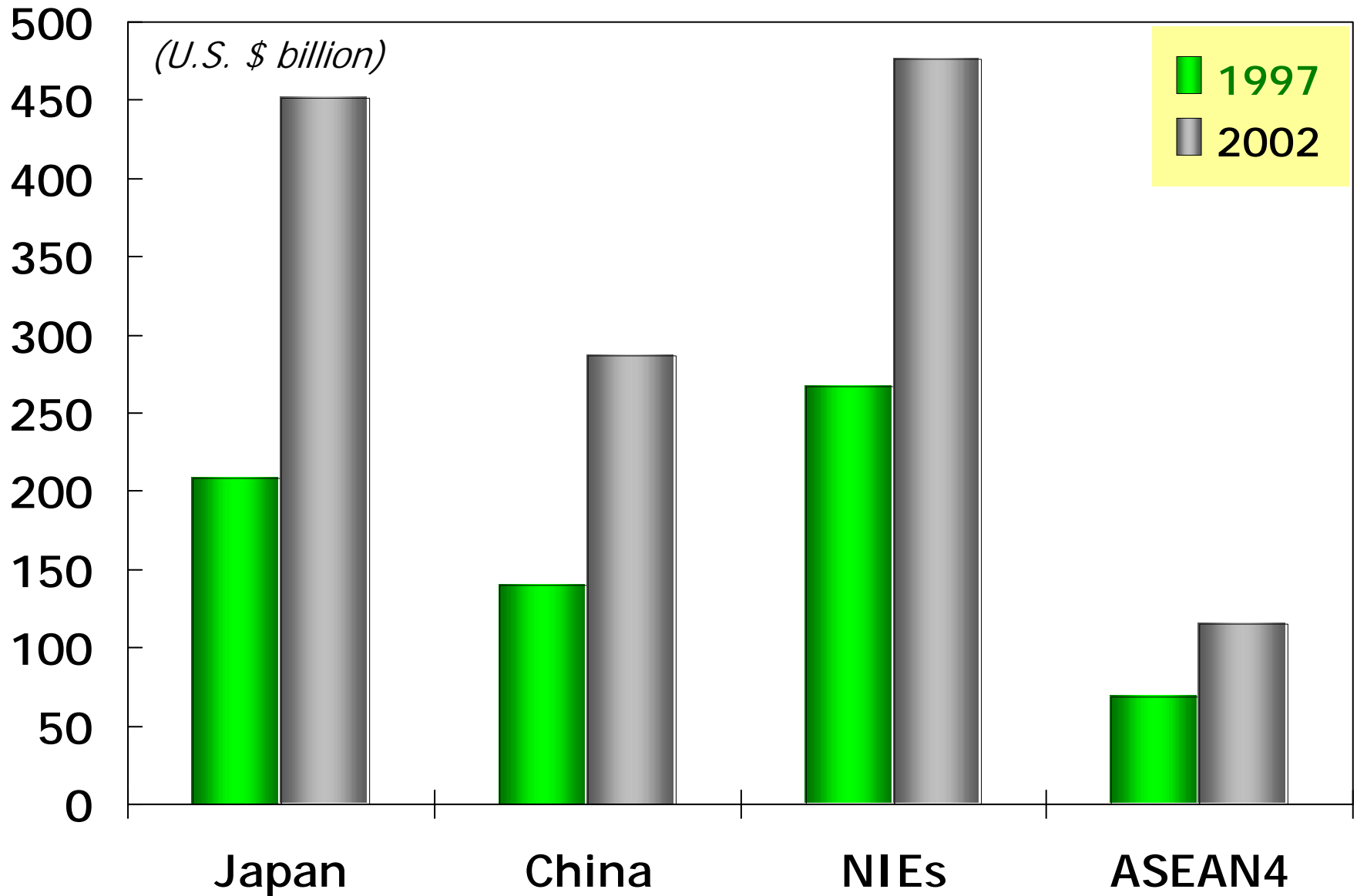


Current Account Balances

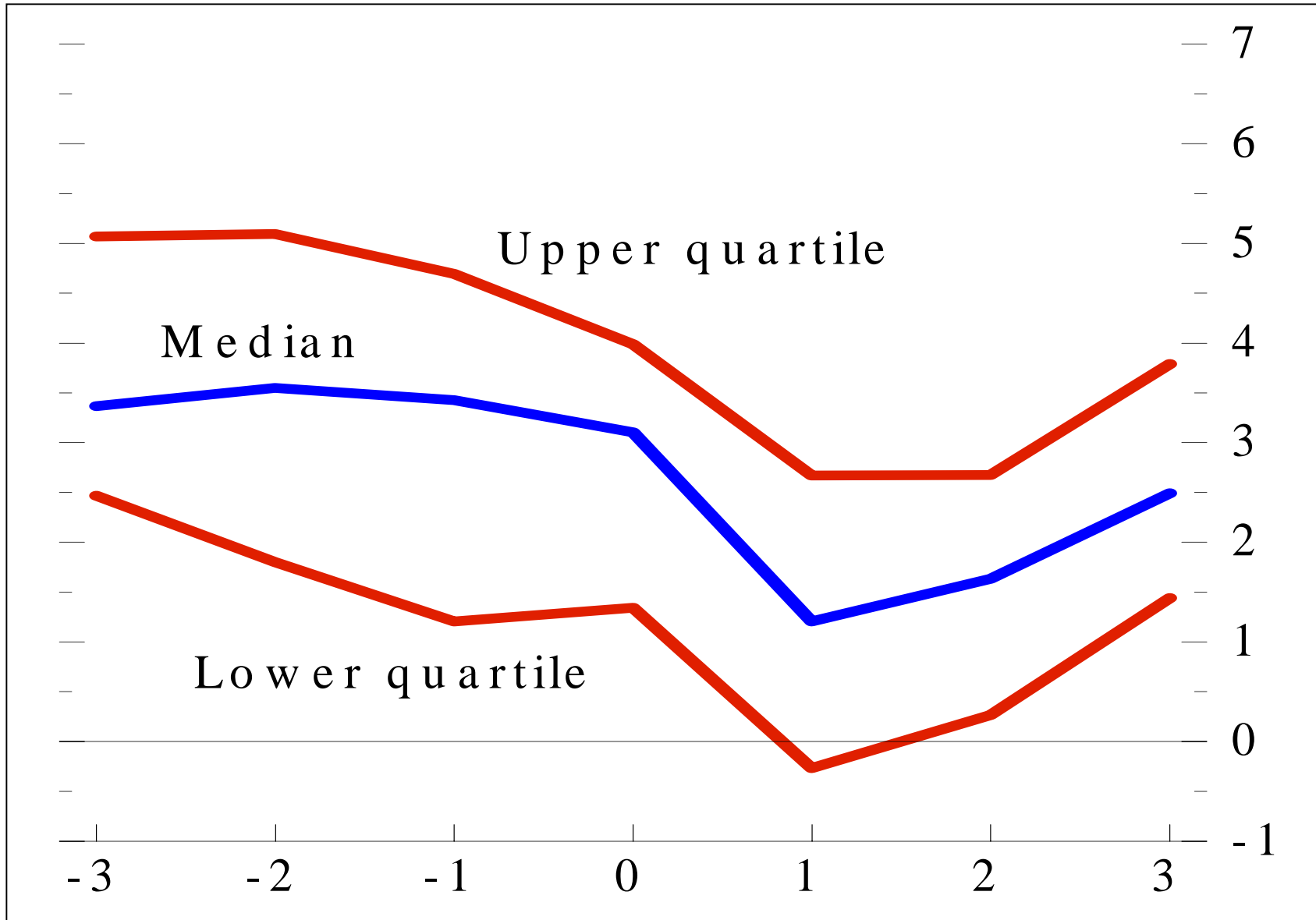


1/ Calculated as the sum of the balance of individual euro area countries.

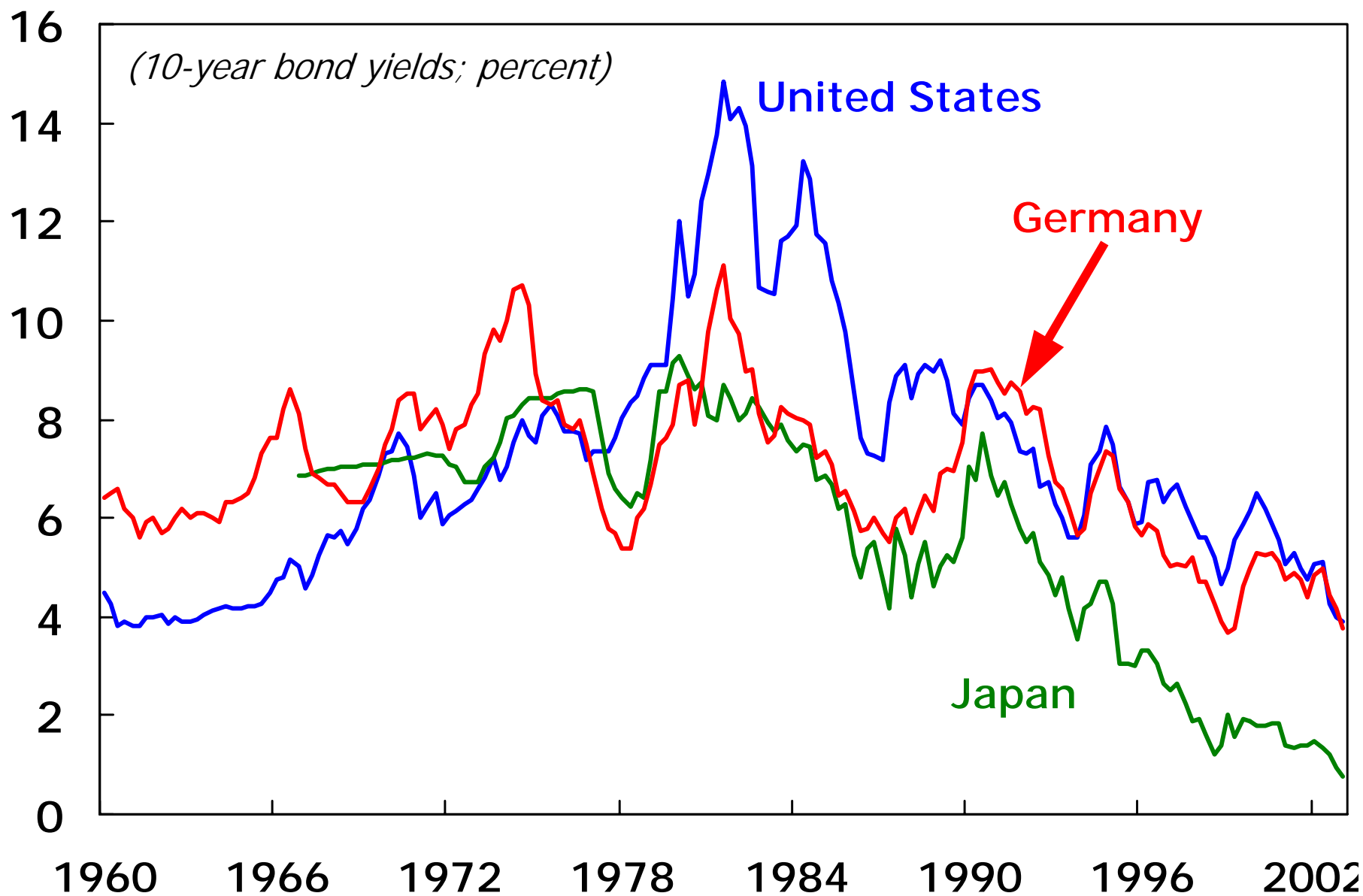
Foreign Exchange Reserves



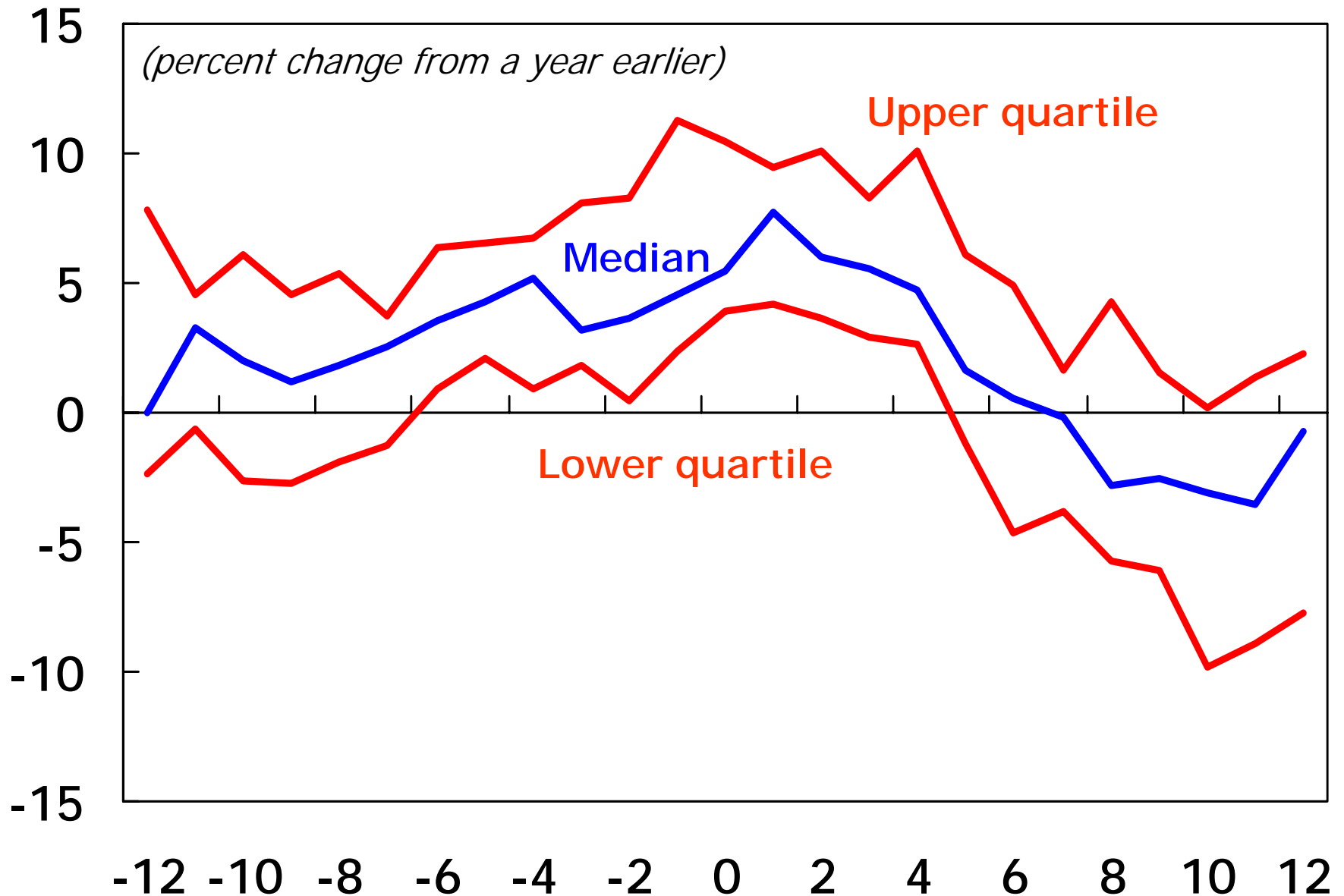
GDP Growth during Current Account Reversals



Interest Rates At Record Lows



Housing Prices in Equity Market Busts



Nurture the Recovery

- Macroeconomic policies in advanced countries need to remain accommodative.
- There is room to ease monetary policy further if needed, and automatic fiscal stabilizers should be allowed to work.
- Aggressive measures are required to end deflation in Japan.

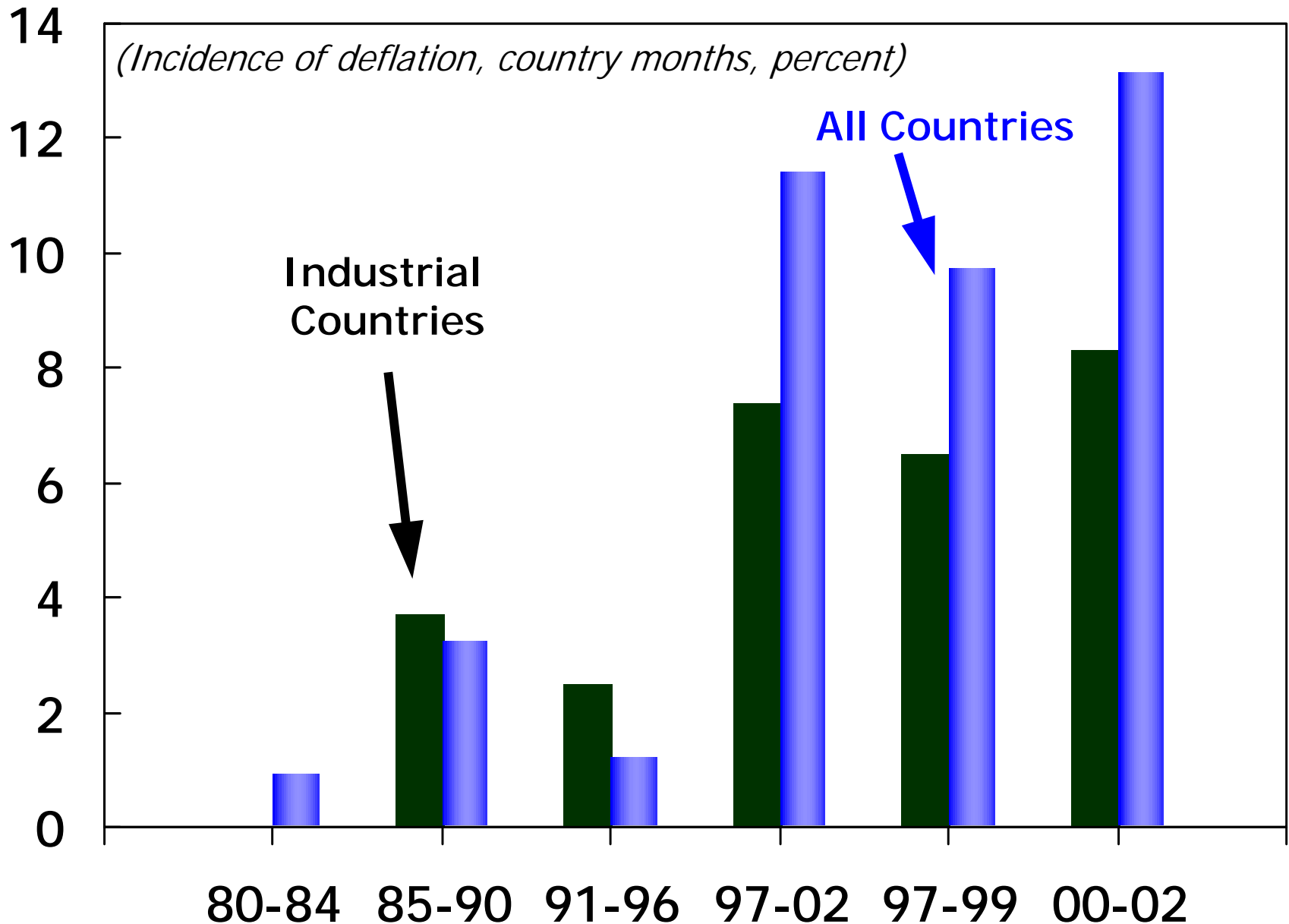
Reduce Global Dependence on the United States

- Accelerate labor and product market reforms in Europe
- Aggressive financial and corporate sector reform in Japan
- Restore medium term fiscal balance in the United States

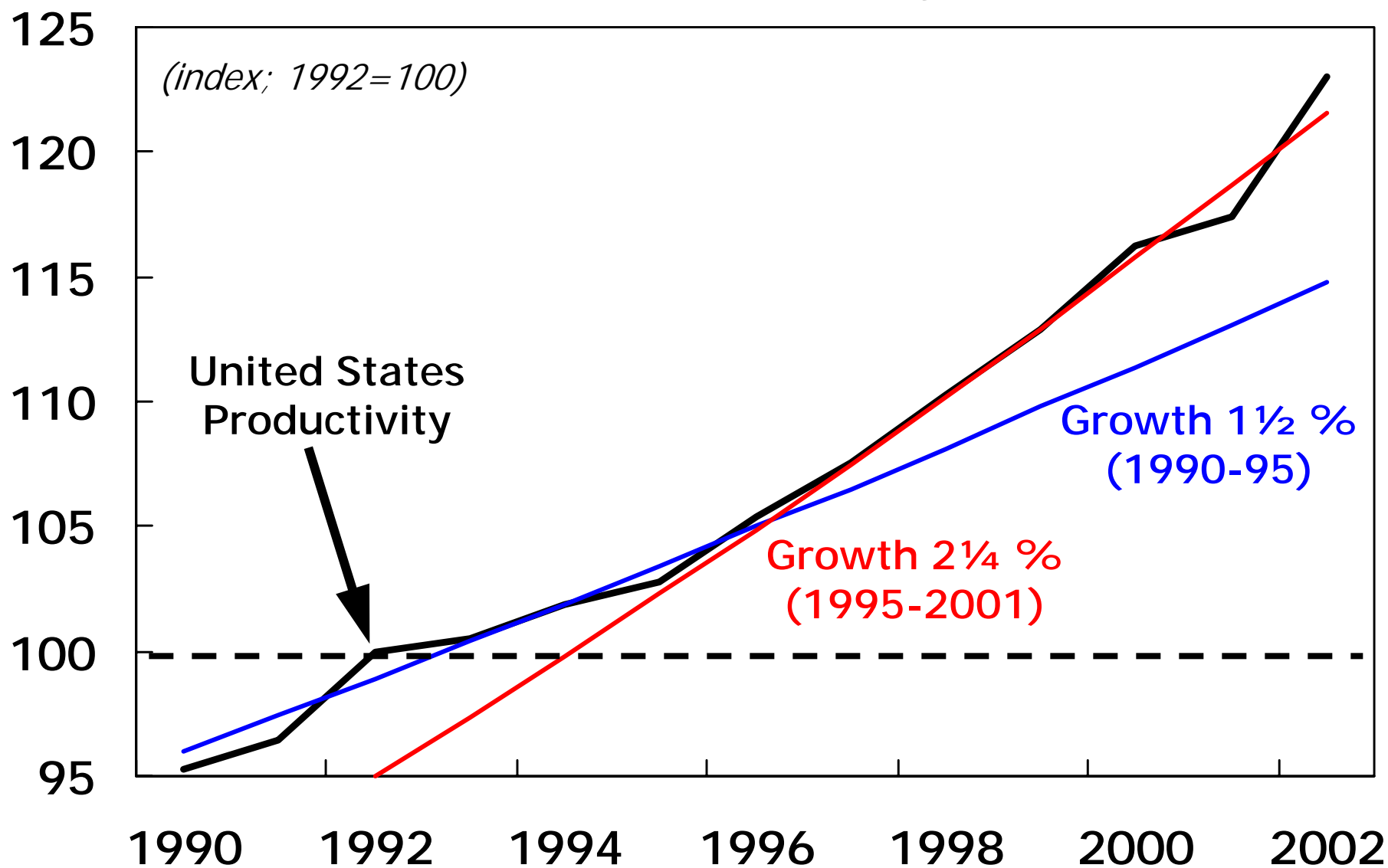
Don't Forget the Fundamentals

- Manage demographic pressures--aging in industrial countries, rising labor force pressures in many developing countries
- Strengthen medium term fiscal positions, in developed and developing countries alike
- Build institutions--a sure way to boost growth and improve economic resilience

Could Deflation Become a Global Problem?



Whither Productivity?

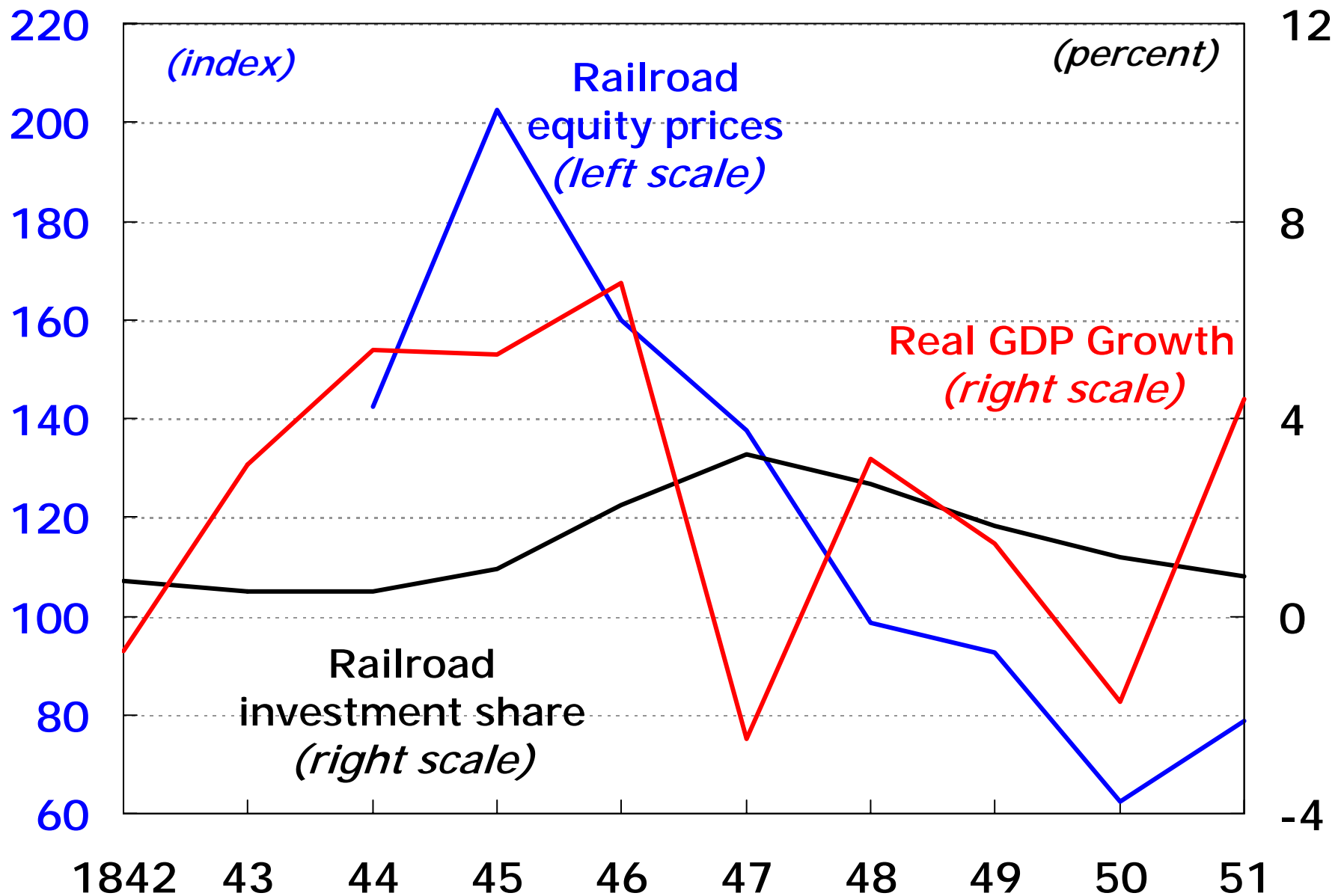


Is the New Economy Dead?

“Rest in peace, New Economy. It was fun while it lasted.”

Goldman Sachs, August 14, 2002.

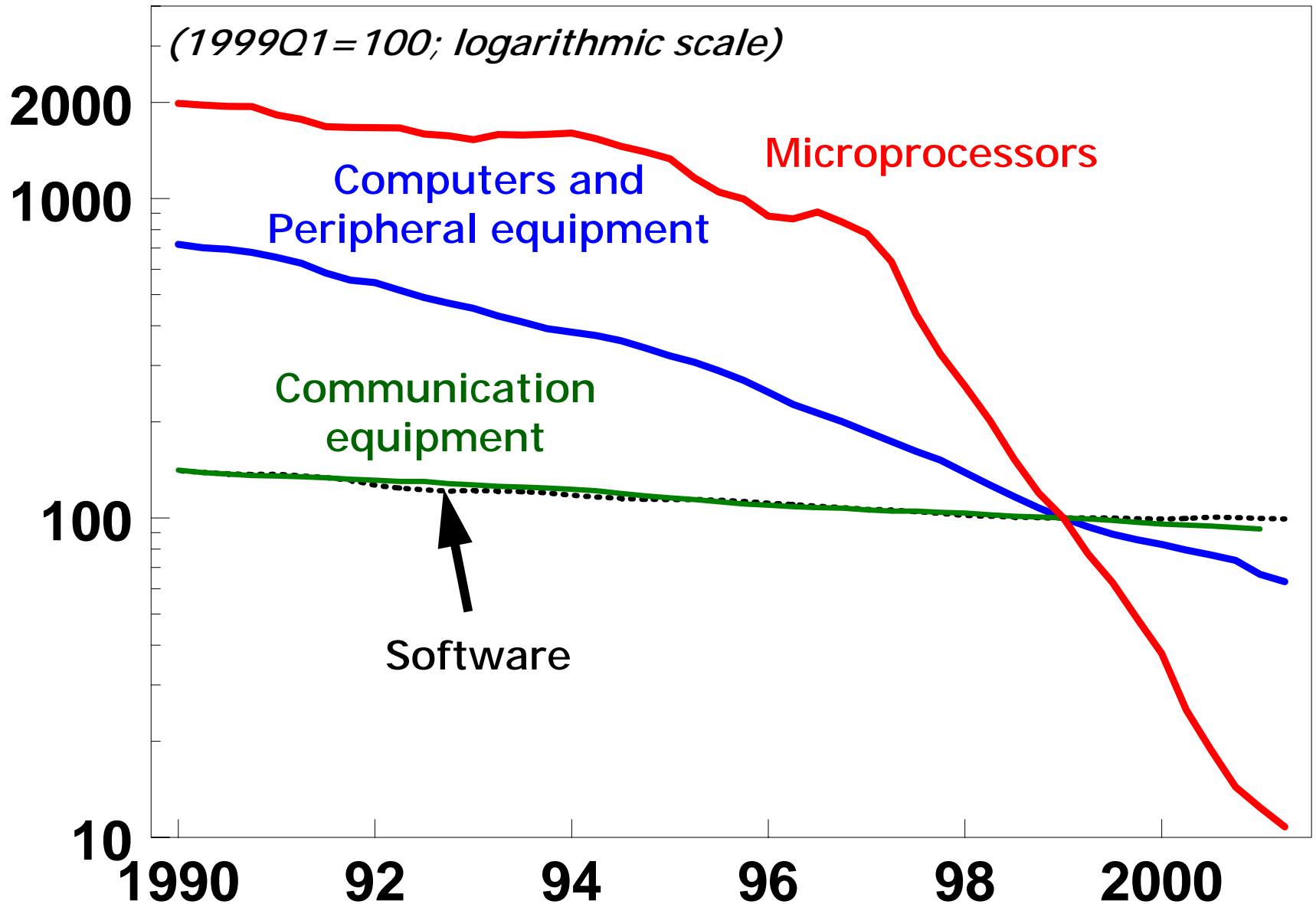
Railroad Boom in the United Kingdom



What will determine the fate of the New Economy?

- Will semiconductor prices continue to decline rapidly?
- Will greater and cheaper supply continue to create demand?
- Will the gains from using IT spread to other sectors, as they did in past revolutions?

U.S.: Relative Prices of Information Technology Goods





World Economic Outlook

May 2003