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## **IMF's April 2007 Asia and Pacific Regional Outlook Sees Continued Strong Growth in the Region, and Examines Capital Flows, Housing Prices and Commodity Price Booms**

The Asia and Pacific Department of the IMF today released its April 2007 Asia and Pacific Regional Economic Outlook. David Burton, Director of the Department, highlighted the report's key findings:

“2006 was another year of strong growth in Asia. The outlook is for continued solid economic performance in 2007, with only a slight moderation in Asia's overall growth to just over 7 percent. This forecast reflects an easing of external demand, particularly from the U.S., and also assumes an effective tightening of policies in China and India. With the expected moderation in export growth, the regional current account surplus is expected to stabilize at around 4¼ percent of GDP. A further rebalancing of growth away from exports and toward a greater reliance on domestic demand will be important over the medium term to put growth on a more sustainable footing.

“Inflation pressures are contained throughout much—though not all—of Asia. In most of the ASEAN countries and the Newly Industrialized Economies, relatively soft domestic demand growth, some appreciation of exchange rates and, to a lesser extent, lower oil prices, have all contributed to reduced price pressures. These factors have been supported by gradually rising real policy interest rates over the past two years. In a few countries, high credit growth and, in some cases, asset price rises are causes of concern and the authorities will need to remain vigilant and ready to further tighten monetary conditions as needed.

“Asian financial markets demonstrated their resilience in the bouts of global market turbulence seen in mid-2006 and again in February-March of this year, generally faring better than emerging markets in other regions. Looking ahead, Asia's good economic prospects point to continued strong investor interest in the region.

“The risks to this positive outlook are broadly the same as those for the global economy. These risks include a larger than currently envisaged slowdown in the U.S. and also the possibility of an upward spike in oil prices. The region could as well be buffeted by further bouts of financial turbulence, especially if either of the first two risks materialize. An upside

risk to the near-term growth outlook is higher growth in India and China if measures to cool those economies fail to gain traction.

“While economic prospects for the region remain strong, policy makers nevertheless face a range of challenges, including relating to financial integration and deepening, and developments in the global terms of trade. With this in mind, the latest Asia and Pacific Regional Economic Outlook also examines: (i) the evolution of capital flows in Asia; (ii) housing price developments, and (iii) the effects of commodity price booms in lower-income countries.

“Net capital flows to the Asia region remain close to their long-term average of about 2 percent of GDP and have, in fact, declined from their recent peak in 2004. And while Asian currencies have seen upward pressure and reserves have continued to accumulate in the region, current account surpluses rather than capital inflows have been the major cause. At the same time, gross inflows and outflows have risen sharply and are at or close to historic highs. In particular, capital outflows have increased nearly fivefold over the last decade. This reflects ongoing portfolio diversification supported in some cases by the removal of restrictions. Also, the volatility of gross flows has risen markedly, with surges in inflows at times associated with strong pressures on exchange rates or asset prices. The increase in the size and volatility of gross capital flows points, in particular, to the need to enhance the development and resilience of financial systems, including in the context of regional financial integration. Further gradual liberalization of capital accounts should go hand in hand with this process.

“Housing prices have risen somewhat faster than inflation in recent years, and there are pockets of rapidly rising prices in Asia. However, on the whole, there has not been a marked deterioration of affordability, excepting Australia and New Zealand, as real incomes have tended to outpace real housing price increases. On the whole, although judgments in this area are difficult, there is no clear evidence that housing prices are significantly out of line in the region as a whole.

“The global commodity price boom has amounted to a positive “fiscal shock” for a number of lower-income countries in Asia that has the potential to improve living standards and reduce poverty. Our advice to governments in these countries has been to formulate a transparent, forward-looking strategy to manage—and spend—resource revenues in a way that ensures intergenerational equity and long-term economic development.

The full text of the April 2007 Asia and Pacific Regional Economic Outlook can be found on the IMF’s website, <http://www.imf.org/external/pubs/ft/reo/2007/apd/eng/areo0407.htm>