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ECONOMY

IMF trims 2020 forecast for Asia-Pacific region

Amanda Lee

amanda.lee@scmp.com

The economic recovery from the Covid-19 pandemic is likely to be sluggish in the Asia-Pacific region this year amid a possible resurgence of the disease and escalating US-China frictions, the International Monetary Fund (IMF) yesterday said.

The IMF estimated the region's economy would contract 2.2 per cent in 2020, a downward revision of 0.6 percentage point from its forecast in June, driven by "sharper than expected" downturns in India, the Philippines and Malaysia, according to its October regional outlook report.

The Washington-based body upgraded China's growth forecast to 1.9 per cent for 2020, because of a faster-than-expected recovery in the second quarter.

That rebound, which gathered pace in the third quarter, has been

supported by increased investment in infrastructure and property, as well as a surge in exports, mainly of medical and protective equipment and work-from-home-related electronics.

China bucked the second quarter trend for emerging Asia, with India and the Philippines suffering sharp drops in economic activity as new infections climbed and lockdowns were extended to contain the virus.

The Asia-Pacific economy is projected to post growth of 6.9 per cent in 2021, a 0.3 percentage point increase on the IMF's June estimate, though it was still below pre-pandemic forecasts.

"Generally speaking, our projections assume that domestic demand remains subdued given continued social distancing and containment measures, weak tourism, and a rather lacklustre recovery by historical standards in global trade," said Jonathan Ostry, IMF Asia and Pacific

department acting director. "Economic scarring seems a near-certainty at this point. Our projections suggest that potential output by the middle of this decade could be some 5 per cent lower than before the pandemic—due to the fall in labour force participation, and weak confidence that dims private investment."

The IMF said economic activity would begin to normalise in badly hit emerging market economies next year, although overall regional output would remain

below pre-pandemic levels in the medium term. International borders are likely to remain closed for a considerable period, slowing recovery in South Asia, the Pacific islands and countries that are highly dependent on tourism and services that require in-person contact, the IMF said.

Furthermore, growing tensions between China and the US "spanning trade, financial flows, technology and geopolitics could pose major economic risks" to the region's trade-led growth given

Asia's major role in global value chains, it said.

The report also found labour market indicators across the Asia-Pacific region were deteriorating much more than during the global financial crisis.

"Aggregate hours worked have declined as both employment rates and hours worked per employee have collapsed," the IMF said. "Unemployment has surged and labour force participation has plunged, particularly for women and younger workers."

The resurgence of Covid-19, which has infected more than 40 million people worldwide, cannot be ruled out, the report said, and a new wave of infections could put more lives at risk, leading to lockdowns and further damage to economies. Some economies such as China's might consider dialling back fiscal measures used to respond to the crisis, given elevated credit risk and debt overhang, the IMF said.

