



Medium-term Growth Scenarios for Asian Countries: SAEO 2010

The **Southeast Asian Economic Outlook (SAEO)** is the OECD's annual reference on the region's economic growth, development and integration process. The Outlook provides an annual update of regional economic trends and challenges. In parallel with providing short-term trends by the **OECD Asian Business Cycles Indicators (OECD ABCIs)**, the OECD Development Centre presents medium-term growth and development scenarios based on **the Asian Medium-term Growth Models (AMG Models)** which are tailored to each Asian country covered.

Why do we focus on *medium-term* perspectives now?

- ✓ **Medium-term framework:** The recent economic crisis has provided an opportunity to rethink many ignored aspects of traditional export-led growth strategies. As a result of much greater damage inflicted on those countries heavily dependent on exports, many Asian countries are now considering ways to rebalance growth towards domestic demand. It is thus useful to have a tool which allows analyses over a longer time period (for instance, 5 years).
- ✓ **Coverage:** ASEAN countries, China and India.
- ✓ **Policy discussions:** The growth chapter of the SAEO presents medium-term projections and policy recommendations towards rebalancing growth, which include social, financial, labour and environmental policies. It will provide a bridge to the thematic part of the SAEO - the main topic of which will change in each volume.

Rethinking Asian Growth Strategies

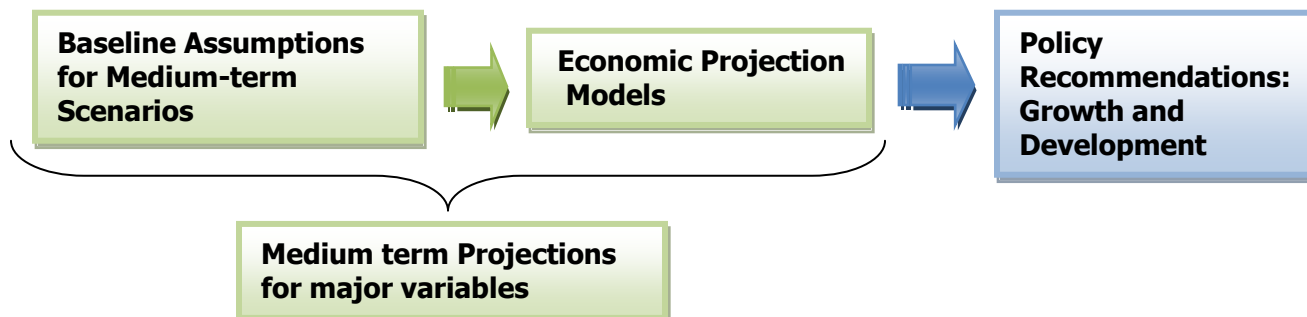
- "Rebalancing" growth is a *broad concept* – it addresses the need of boosting *domestic demand* and involves *structural reforms* in several areas including a wider *social safety net* to help reduce precautionary saving; increasing *employment*; enhancing the effectiveness of *financial systems*; and more incentives to adopt *green policies*.
- Sound and sustainable *public finances*, including robust fiscal management frameworks, are the backbone for such rebalancing.
- *Regional integration* in Asia creates a new dimension of both *domestic* and *external demand*.

A Tool for Policy Dialogue and Co-operation

The OECD Development Centre constructs the Asian Medium-term Growth Models (AMG Models) which provide medium-term perspectives on growth and development in Asian countries. Initial focus is given to selected ASEAN countries

as well as China and India. Country coverage will be expanded to other ASEAN countries in following editions in co-operation with the countries.

How do the Medium-term Growth Scenarios work? -SAEO 2010



AMG Models are based on 2 components: i) *Baseline assumptions* for medium-term scenarios and ii) *Economic projection models* - which will be country specific.

- ✓ The basic approach for medium-term projections is an extension of short-term economic projection models applying several medium-term assumptions. One of the key assumptions for the medium term scenarios is related to potential output, which will be measured by the DSGE (dynamic stochastic general equilibrium) approach (see below).

Contact

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Measurement of Potential Output for Medium-term Scenarios

The concept of potential output and output gaps - the gap between actual and potential activity- is vital for macroeconomic monitoring and policy discussion. Potential activity is, however, unobservable and needs to be measured. Conventionally, potential output is measured by either a filtering approach, such as the Hodrick Prescott filter or a production function approach.

Owing to theoretical developments, recently there have been some initial attempts to measure potential output by applying the DSGE approach. The properties of potential output and output gap fluctuations derived from the DSGE approach can be different from those derived from the filtering or production function approaches. DSGE measures output gap as the deviation of actual output from its flexible-price equilibrium output which would prevail in the absence of cost shocks.

A clear advantage of this approach is that it has strong theoretical foundations which can explicitly reflect microeconomic optimization problems. Furthermore, this approach can take account of different types of shocks from both the supply and the demand side.

The SAEO, whose first edition will be released in November 2010, will provide medium-term growth scenarios by applying the DSGE approach. (www.oecd.org/dev/asiapacific)