

# The Economic Outlook

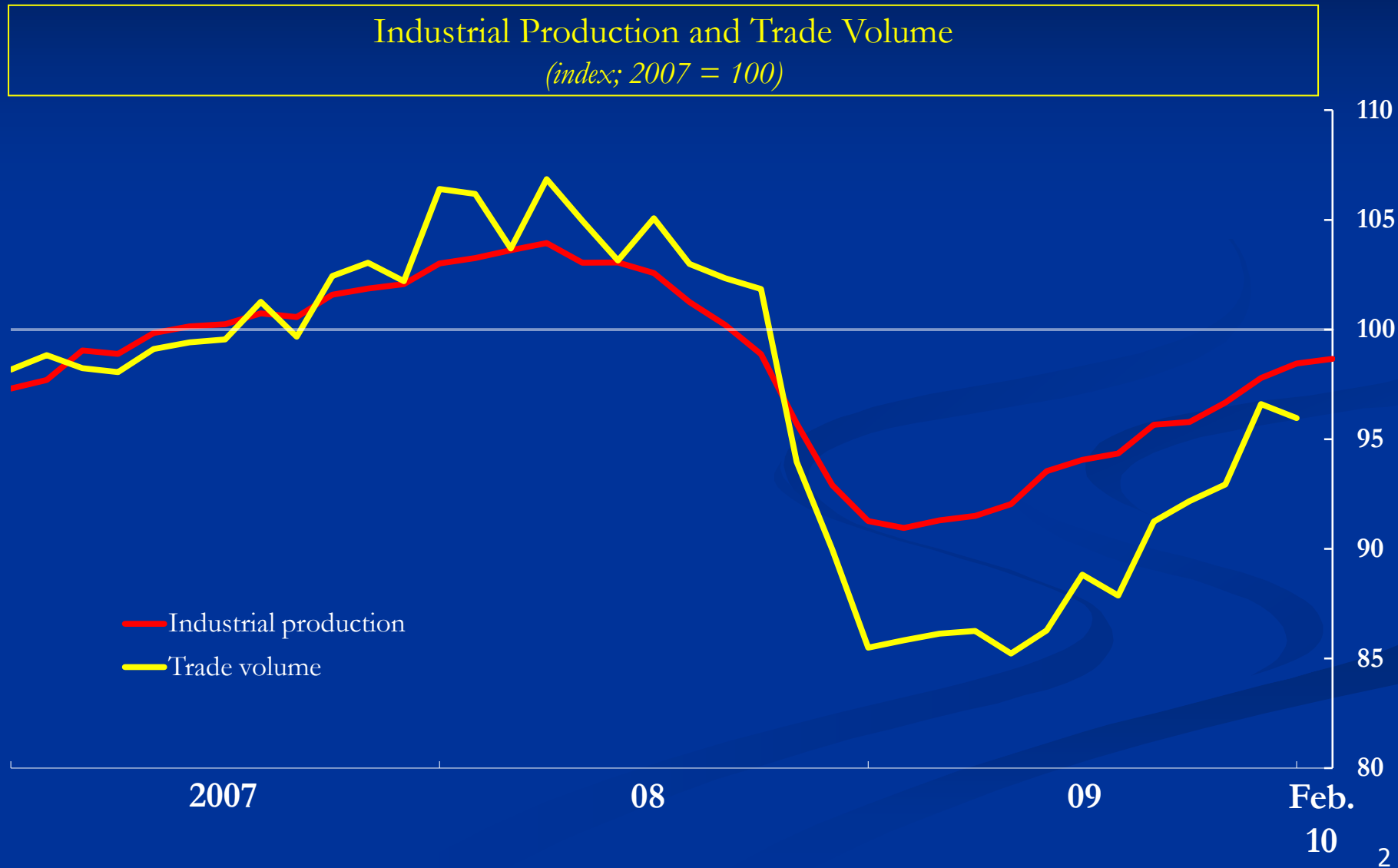
*IMF Presentation to the  
Financial Banking  
College Foundation*

*May 13, 2010*

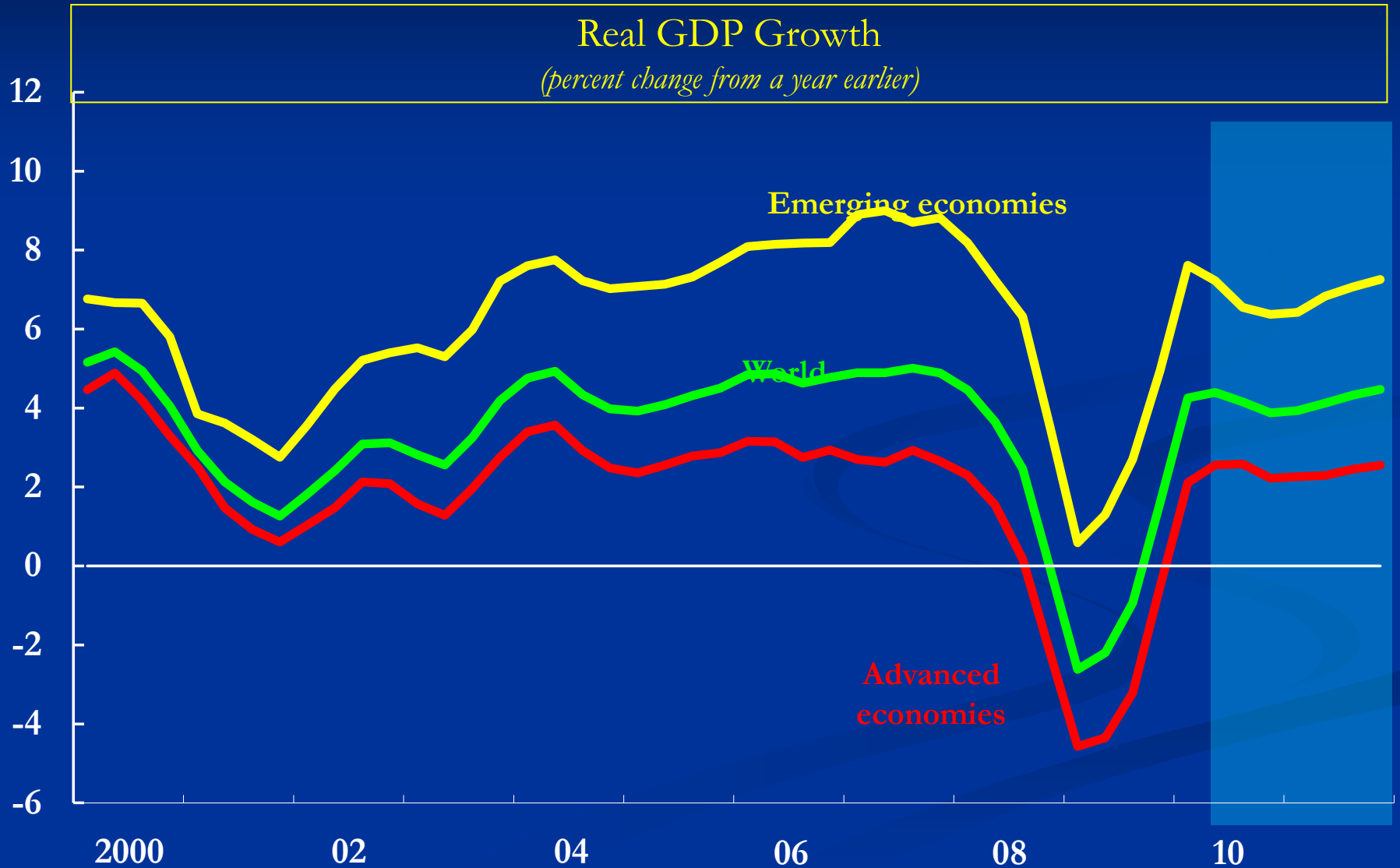
# Global developments and prospects

- The recovery has been proceeding at varying speeds. Steep falls in activity not followed by quick rebounds.
  - For advanced economies, growth likely to be low, with important risks related to government debt.
  - For many emerging economies, growth prospects remain good despite risks to the external outlook.
- Financial conditions have improved, and capital flows have increased, but conditions are still not normal

# A global recovery is underway but world production and trade are still below pre-crisis levels.



The world economy should recover, at varying speeds. Declining impact of fiscal stimulus and inventories will slow growth later in 2010 and 2011.



# Emerging and developing economies will be the largest contributors to global growth

## Real GDP growth (annual percentage change)

	2008	2009	2010 April WEO
<b>World</b>	<b>3.0</b>	<b>-0.6</b>	<b>4.2</b>
<b>Advanced economies</b>	<b>0.5</b>	<b>-3.2</b>	<b>2.3</b>
United States	0.4	-2.4	3.1
Euro area	0.6	-4.1	1.0
Japan	-1.2	-5.2	1.9
<b>Emerging and developing economies</b>	<b>6.1</b>	<b>2.4</b>	<b>6.3</b>
China	9.6	8.7	10.0
India	7.3	5.7	8.8
Russia	5.6	-7.9	4.0

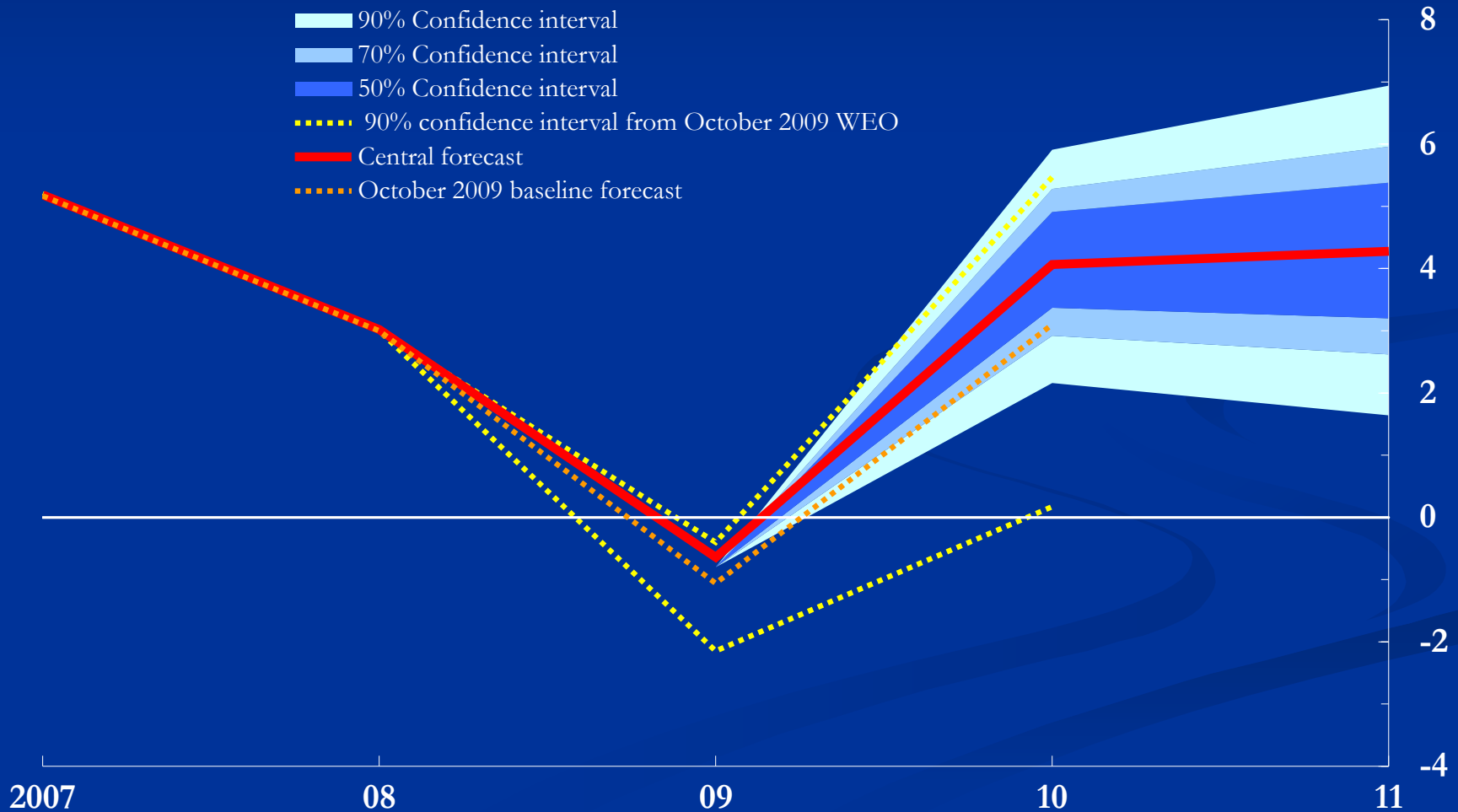
Source: World Economic Outlook, IMF.

# The global crisis has affected GDP growth



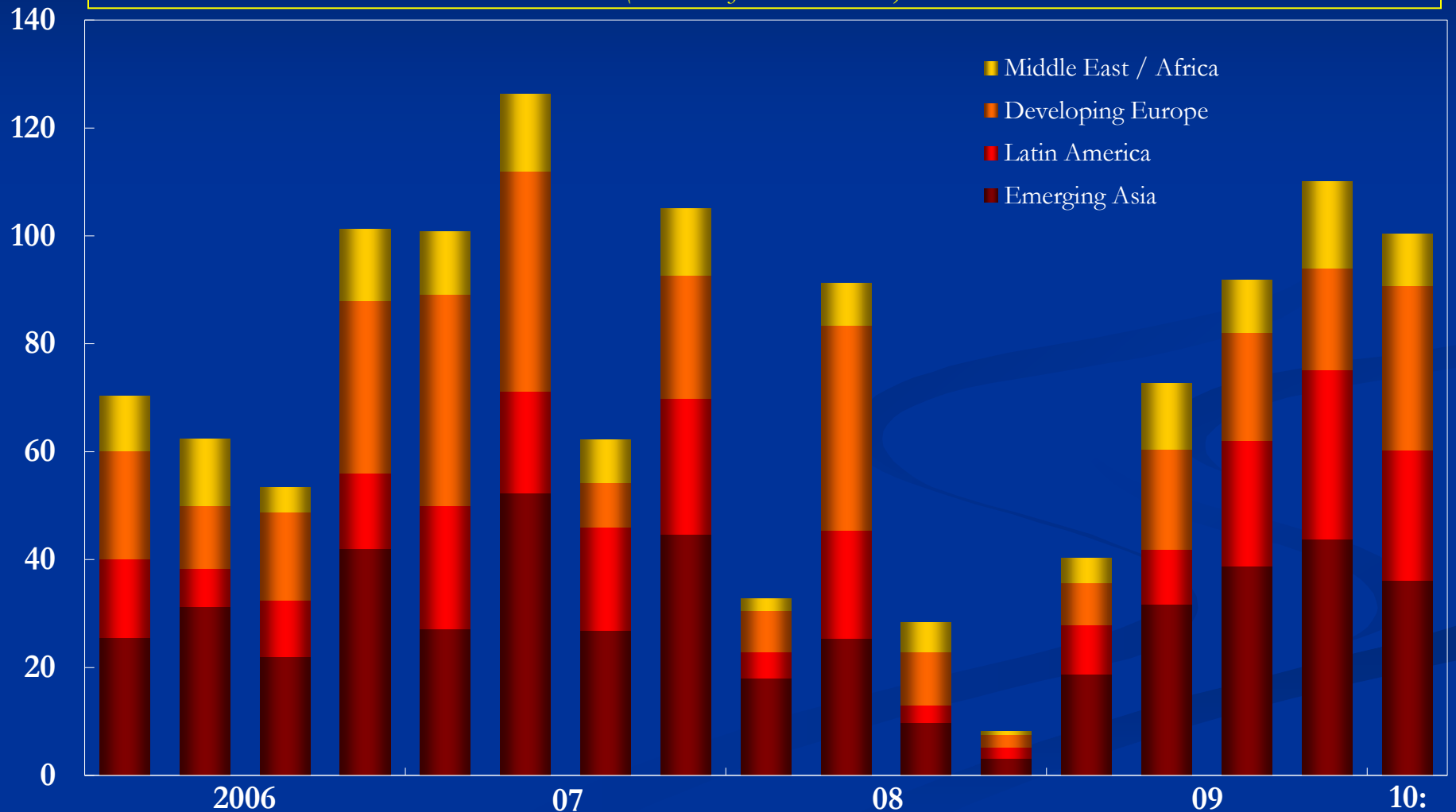
# Risks to the outlook remain a concern

Prospects for World GDP Growth  
(percent change)



# Capital flows have returned to emerging markets after falling significantly.

Emerging Market External Bond and Equity Issuance  
(billions of U.S. dollars)



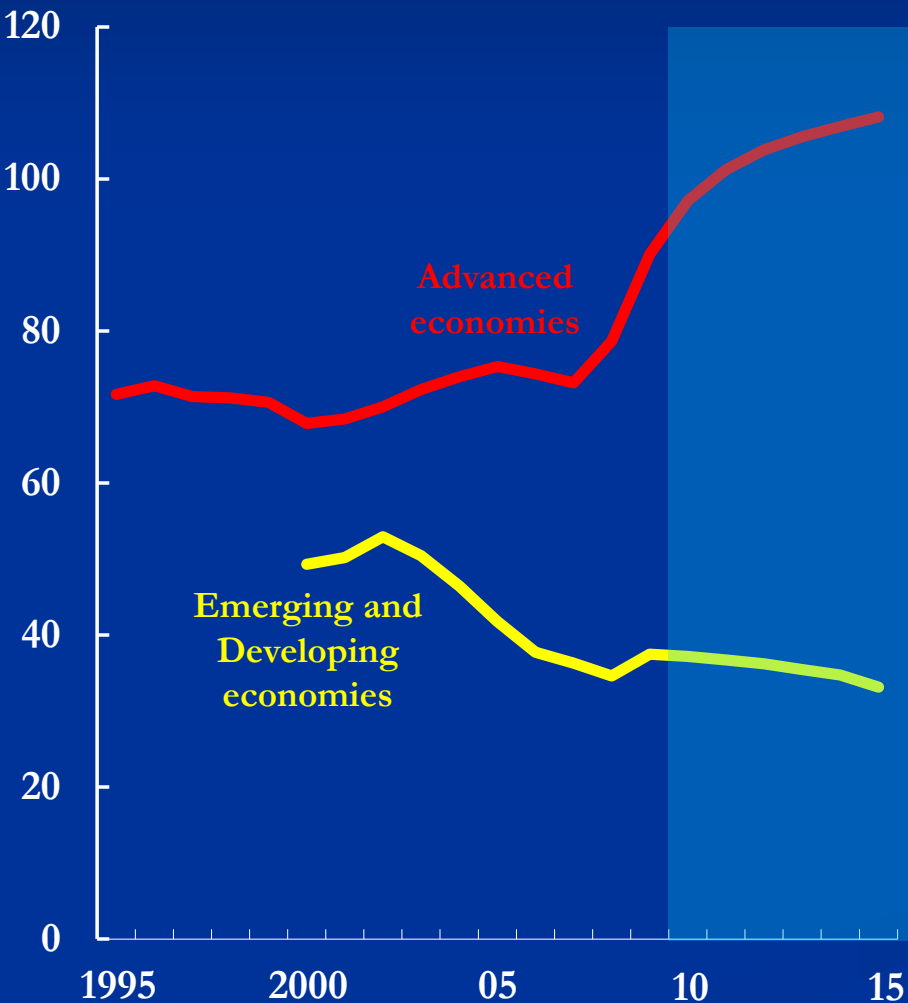


# Policy Challenges

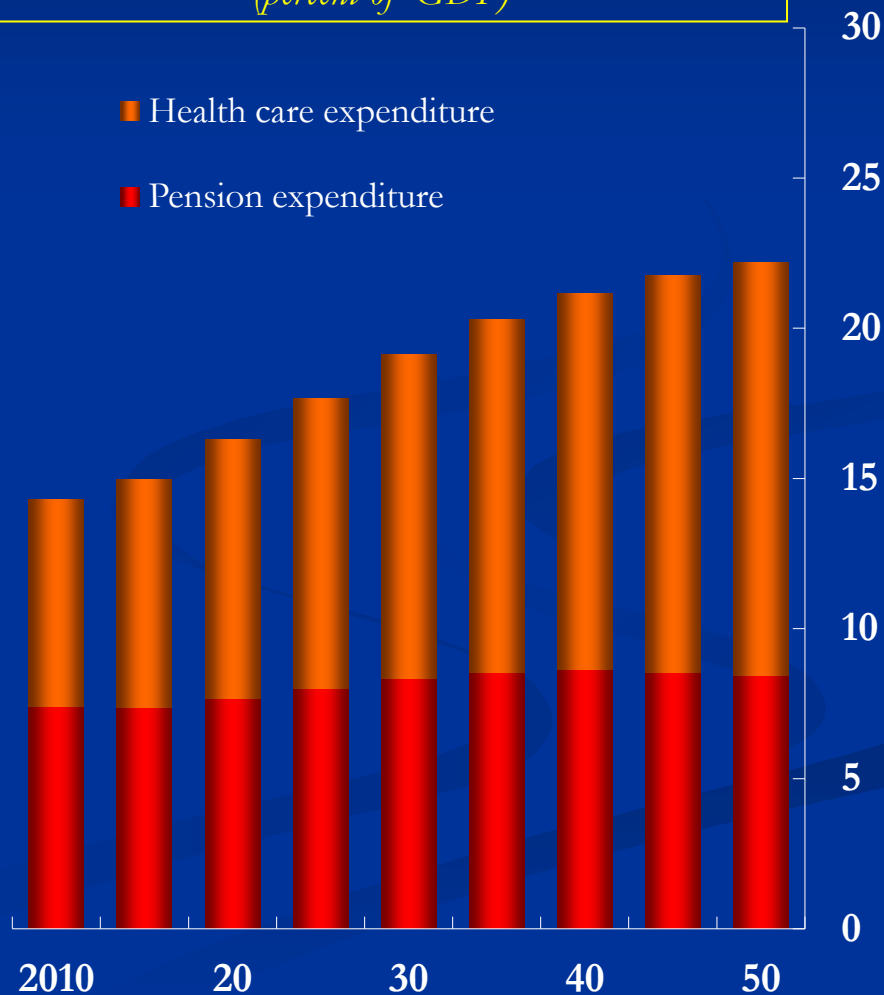
- Implement fiscal consolidation plans.
- Repair and reform financial systems.
- Combat unemployment.
- Manage capital flows (in emerging markets).
- Rebalance global demand.

# Advanced economies face daunting fiscal challenges. Many countries urgently need medium-term plans.

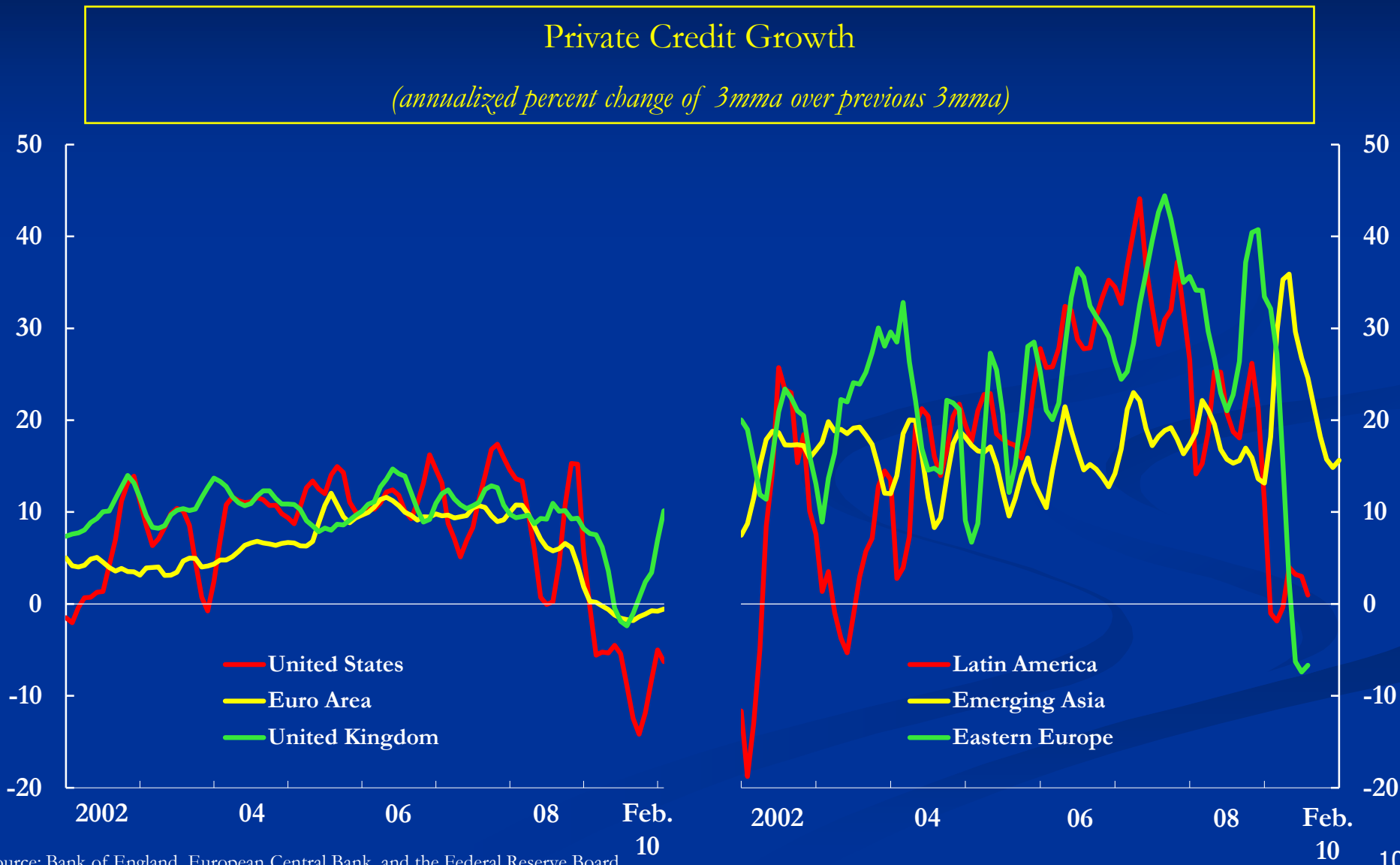
Public Debt  
(percent of GDP)



Aging-Related Spending in G20 Advanced Economies  
(percent of GDP)

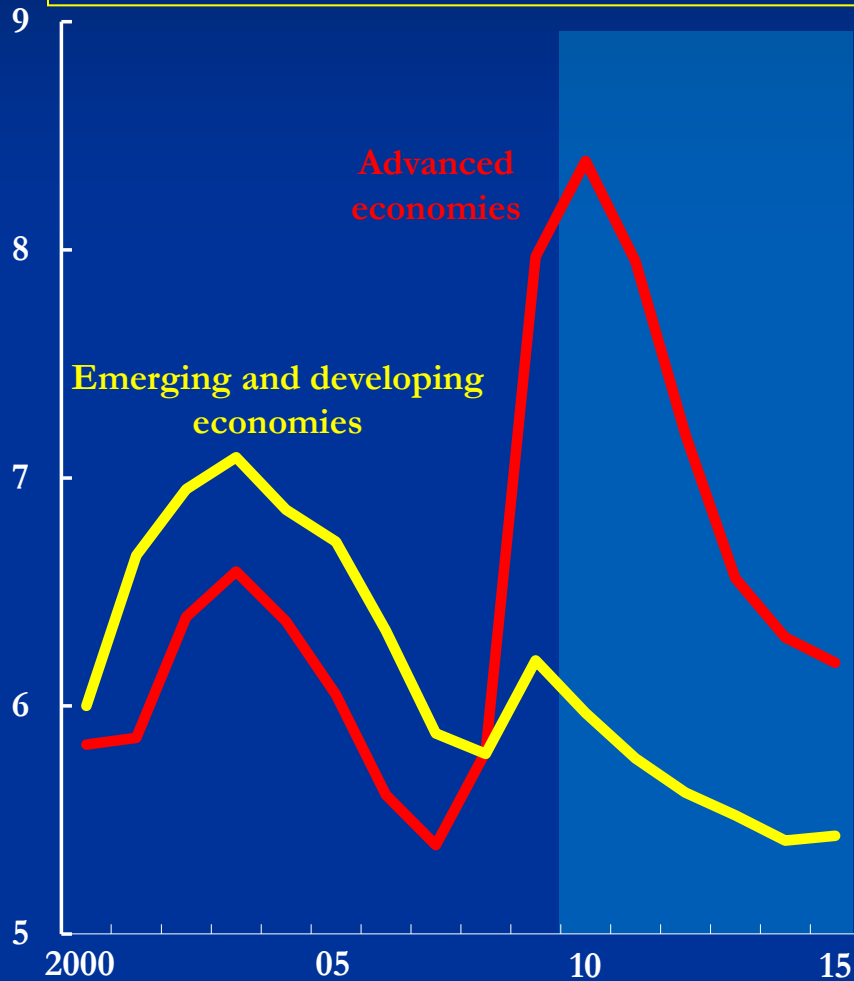


# Bank credit will remain hard to come by in many countries—banks need to rebuild capital.

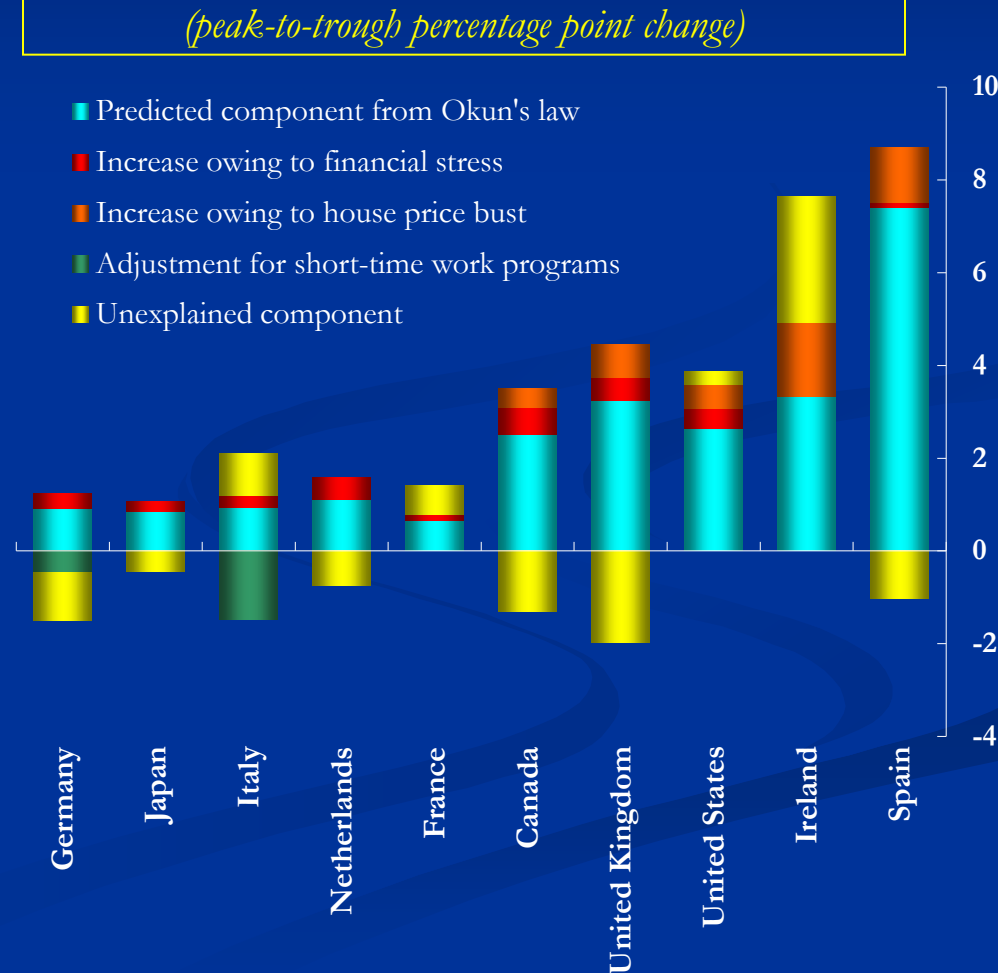


# High unemployment poses another policy challenge, especially for advanced economies.

Unemployment Rate  
(percent)



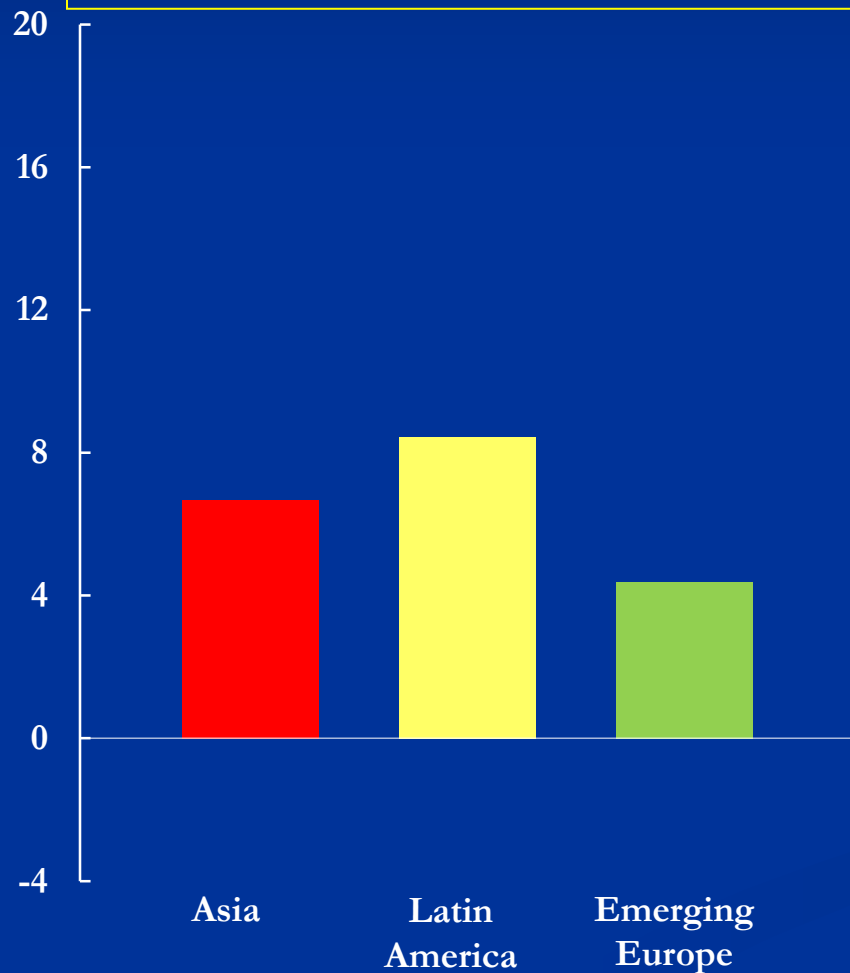
Decomposition of the Cumulative Change in the Unemployment Rate during the Great Recession  
(peak-to-trough percentage point change)



# Renewed capital inflows are also posing challenges: global demand rebalancing versus reserve accumulation.

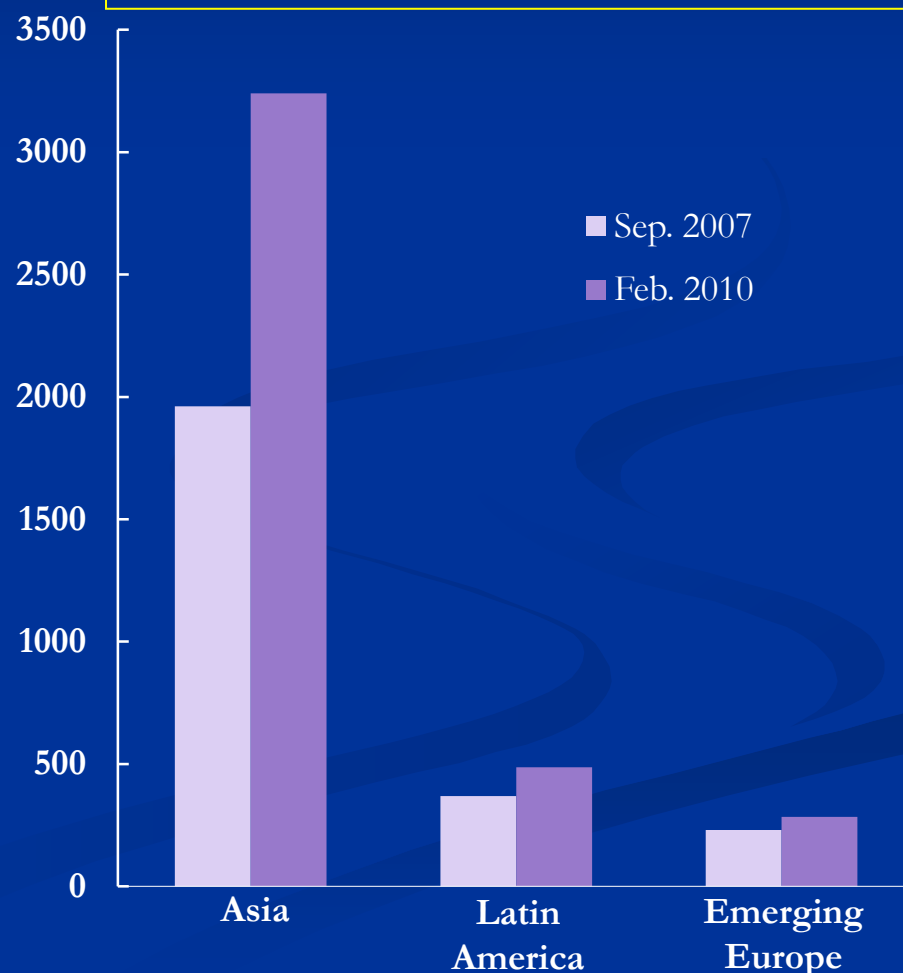
## REER Change

(Percent; March 2010 from September 2007; GDP weighted)



## Reserve Accumulation

(billions of US dollars; September 2007 - February 2010)

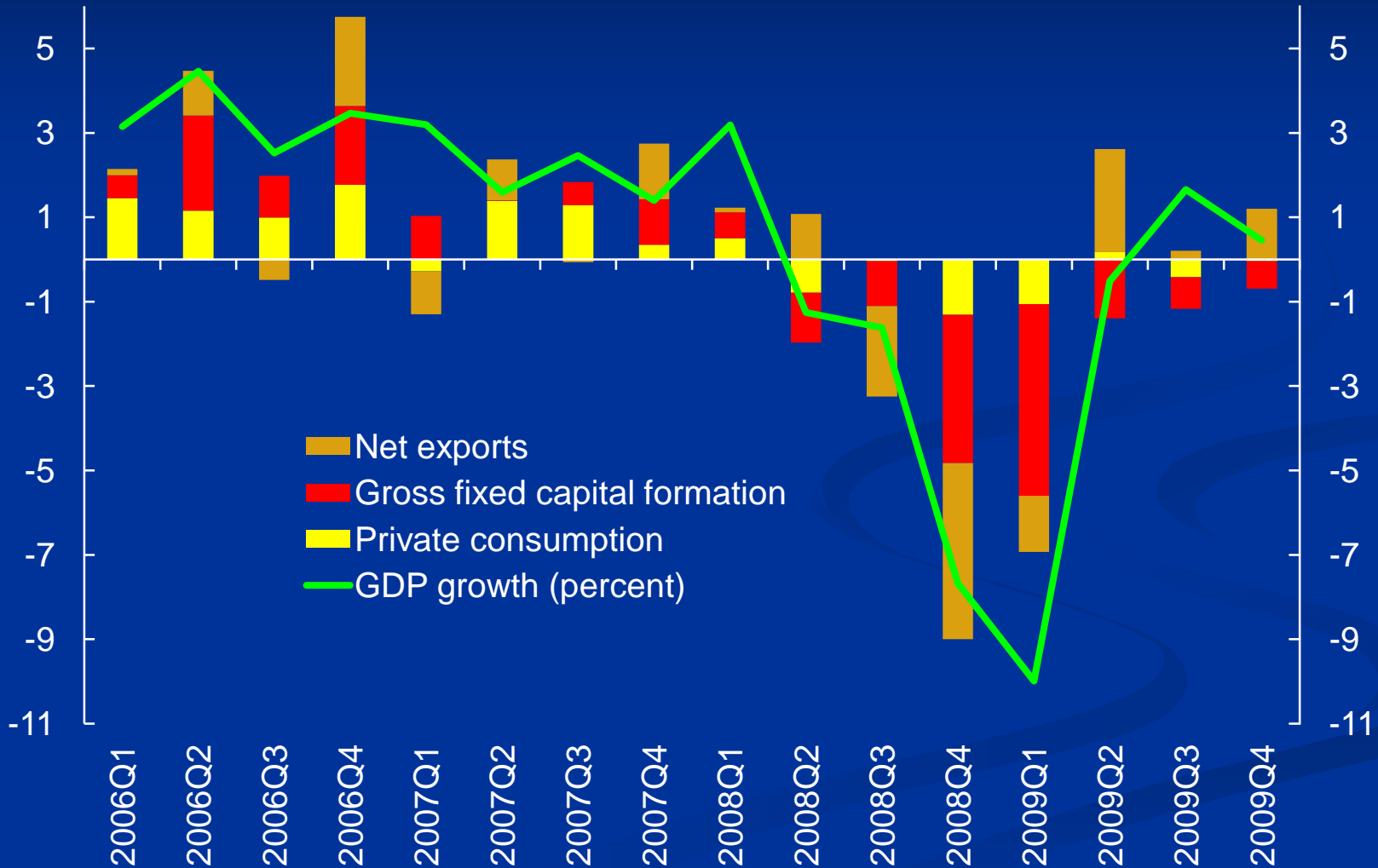


**EUROPE**

# Recovery confirmed...

## Euro Area: Contribution to Growth, 2006–09

(Quarter-on-quarter annualized growth rate, percentage points)

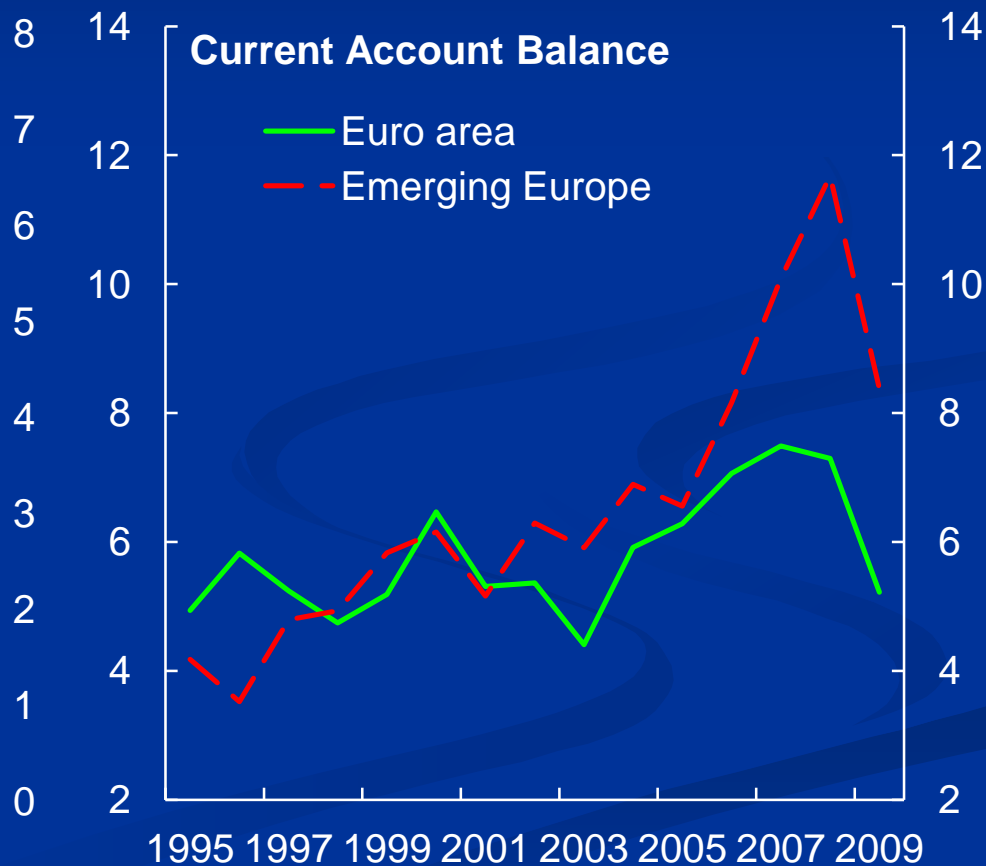
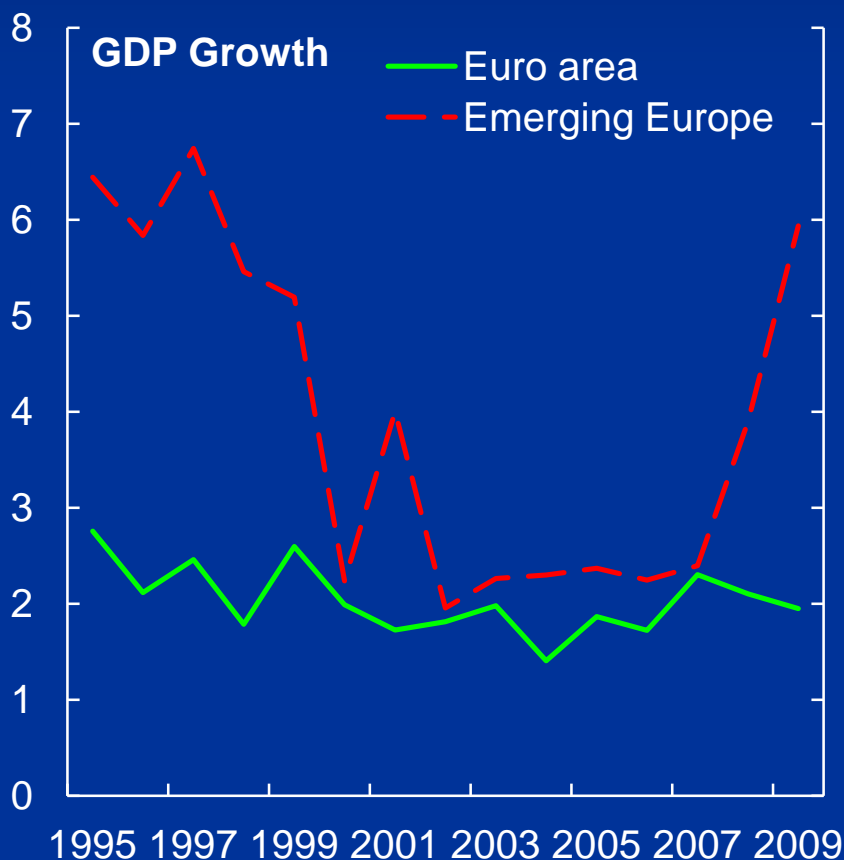


Source: Eurostat; and IMF staff calculations.

# ... but growth is uneven

## European Economies: Cross-Country Standard Deviation of GDP Growth and Current Account Balance, 1995–09

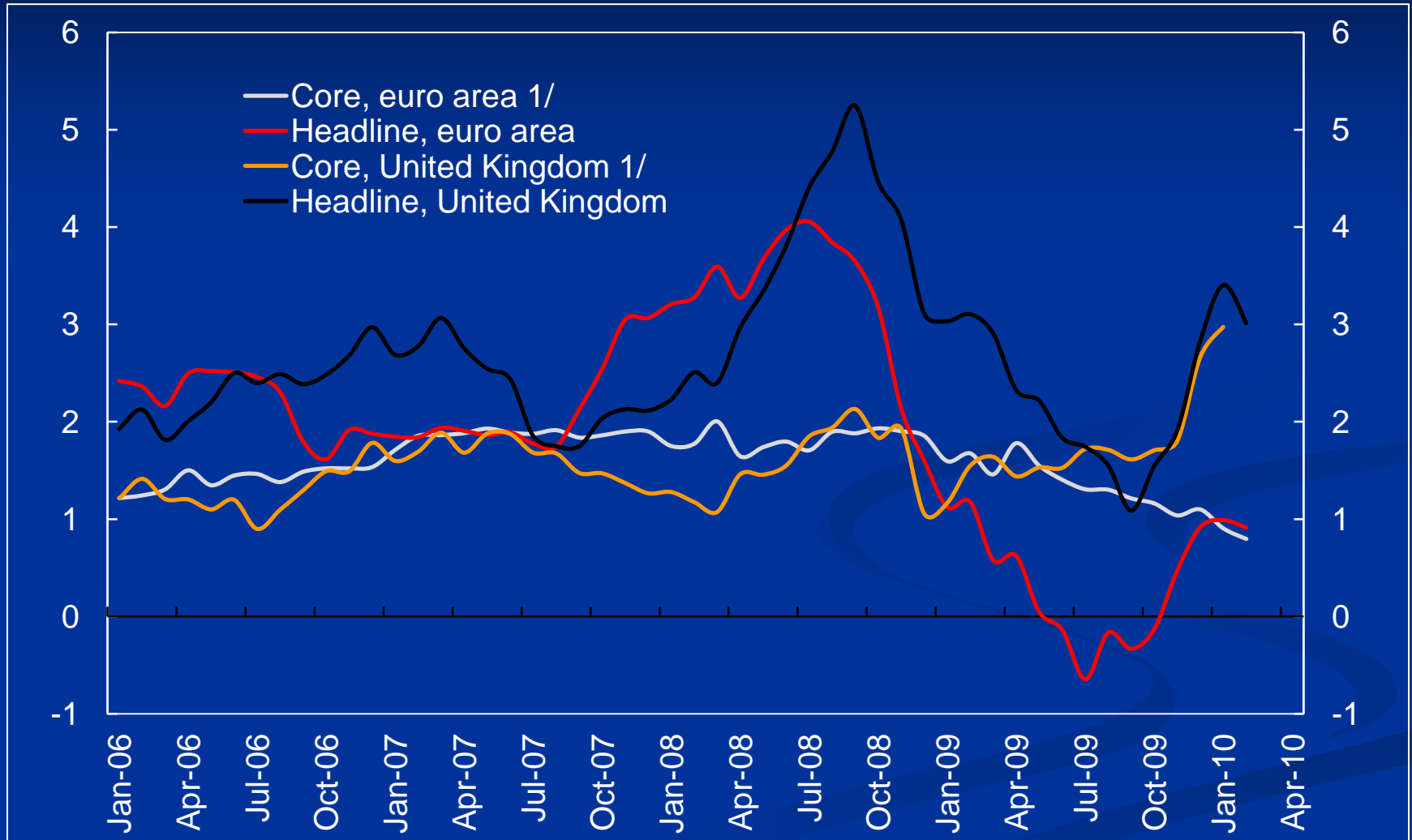
(Percent)



Sources: IMF, World Economic Outlook; and IMF staff calculations.



# Inflation under control



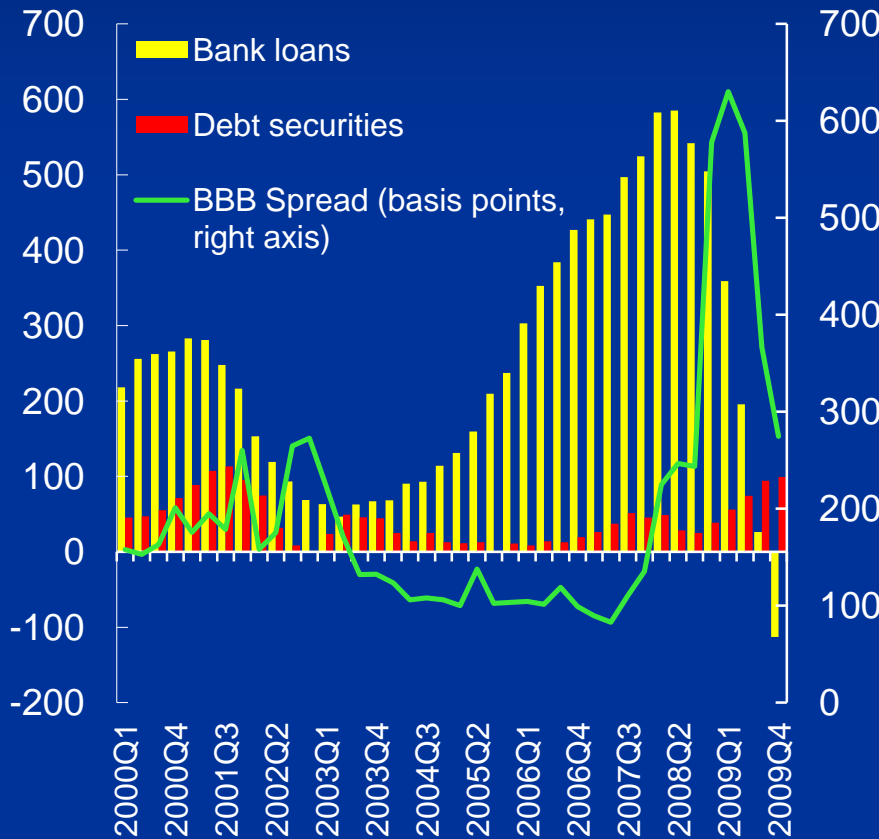
Source: Eurostat; Haver Analytics; national authorities; and IMF staff calculations.

1/ Harmonized index of consumer price inflation (excl. energy, food, alcohol, and tobacco).

# Weak credit and employment...

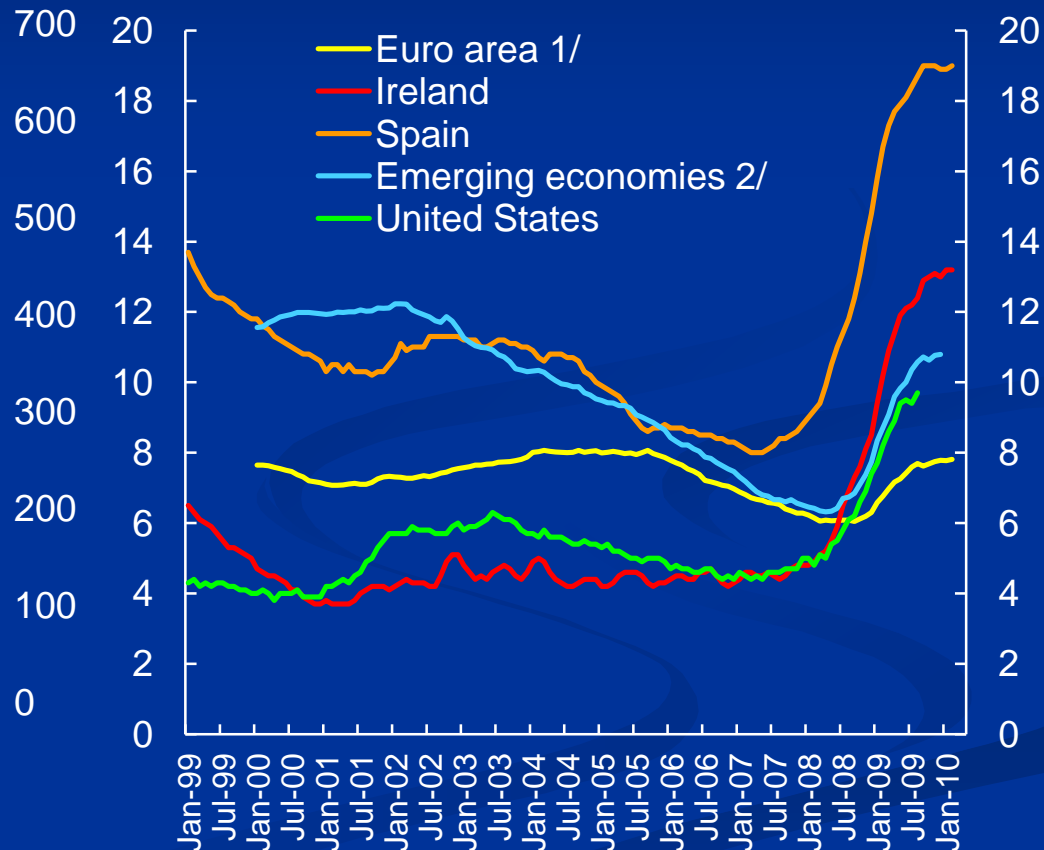
## Euro Area: Bank Loans and Bond Issuance, 2000:Q1–2009:Q4 1/

(Billions of euro; annual differences unless indicated otherwise)



## Selected European Countries and the United States: Unemployment, February 1999–January 2010

(Percent)



Sources: Eurostat; European Central Bank; Haver Analytics; IMF, *International Financial Statistics*; and IMF staff calculations.

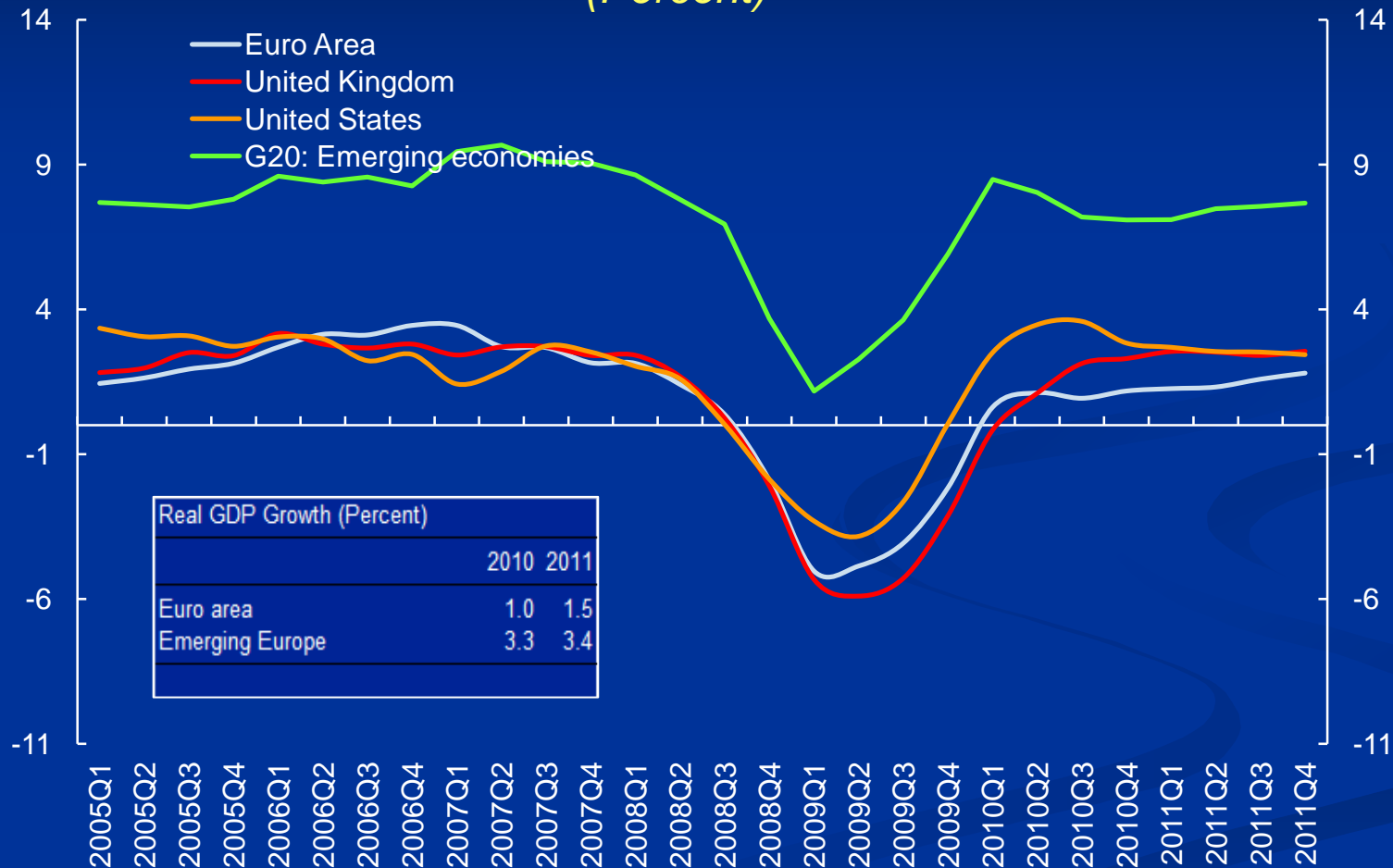
1/ Unweighted averages of annual growth rates.

Sources: Eurostat; Haver Analytics; and IMF staff calculations. 1/ Excluding Ireland and Spain.

2/ Bulgaria, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Turkey, and Ukraine.

# ...make for a moderate outlook...

Euro Area, United Kingdom, United States, and G20 Emerging Economies 1/: Real Quarterly GDP Growth, 2005:Q1-2011:Q4  
(Percent)

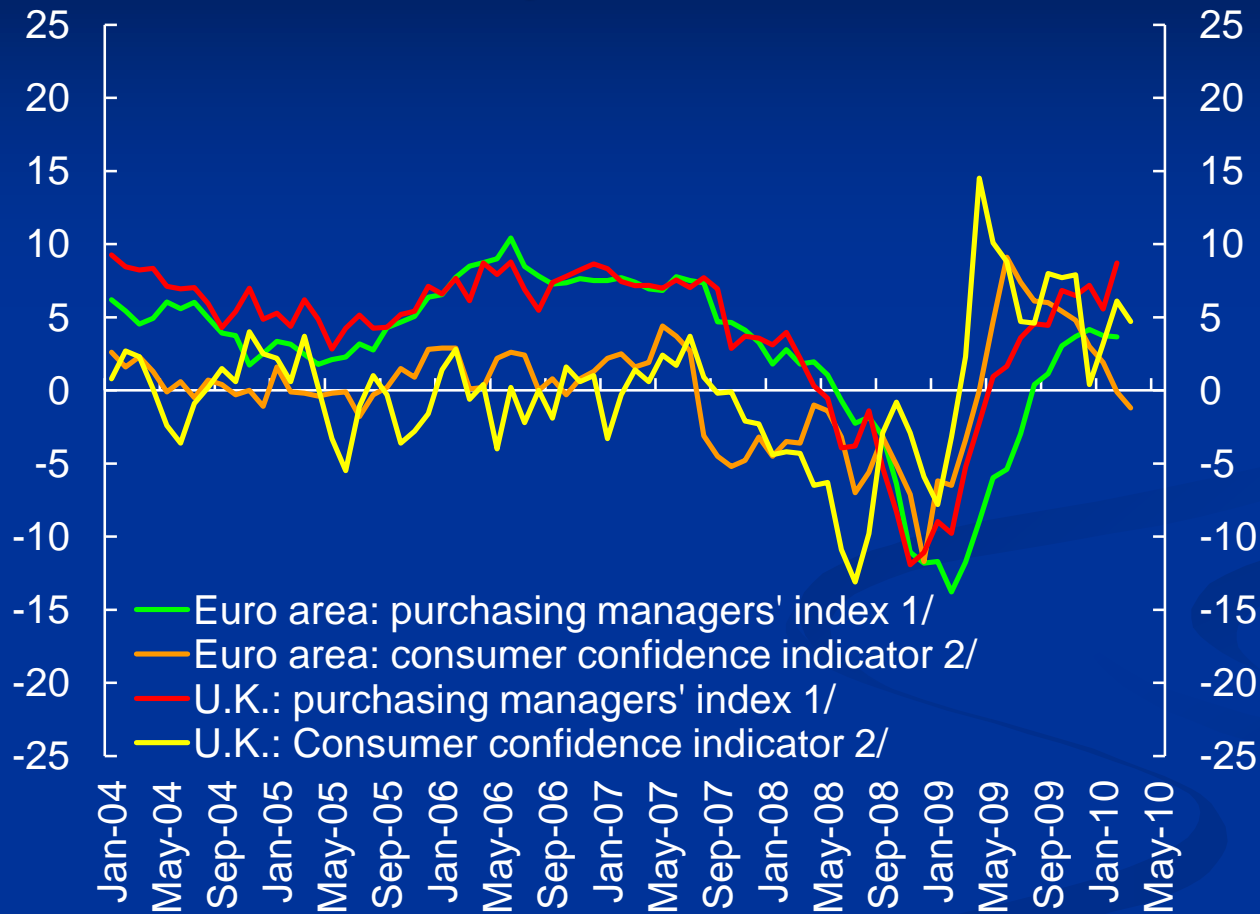


Source:IMF, World Economic Outlook.

1/ Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa, and Turkey. Saudi Arabia excluded due to data availability.

# Upside risks...

## Purchasing Managers' Index and Confidence Indicators, January 2004–March 2010



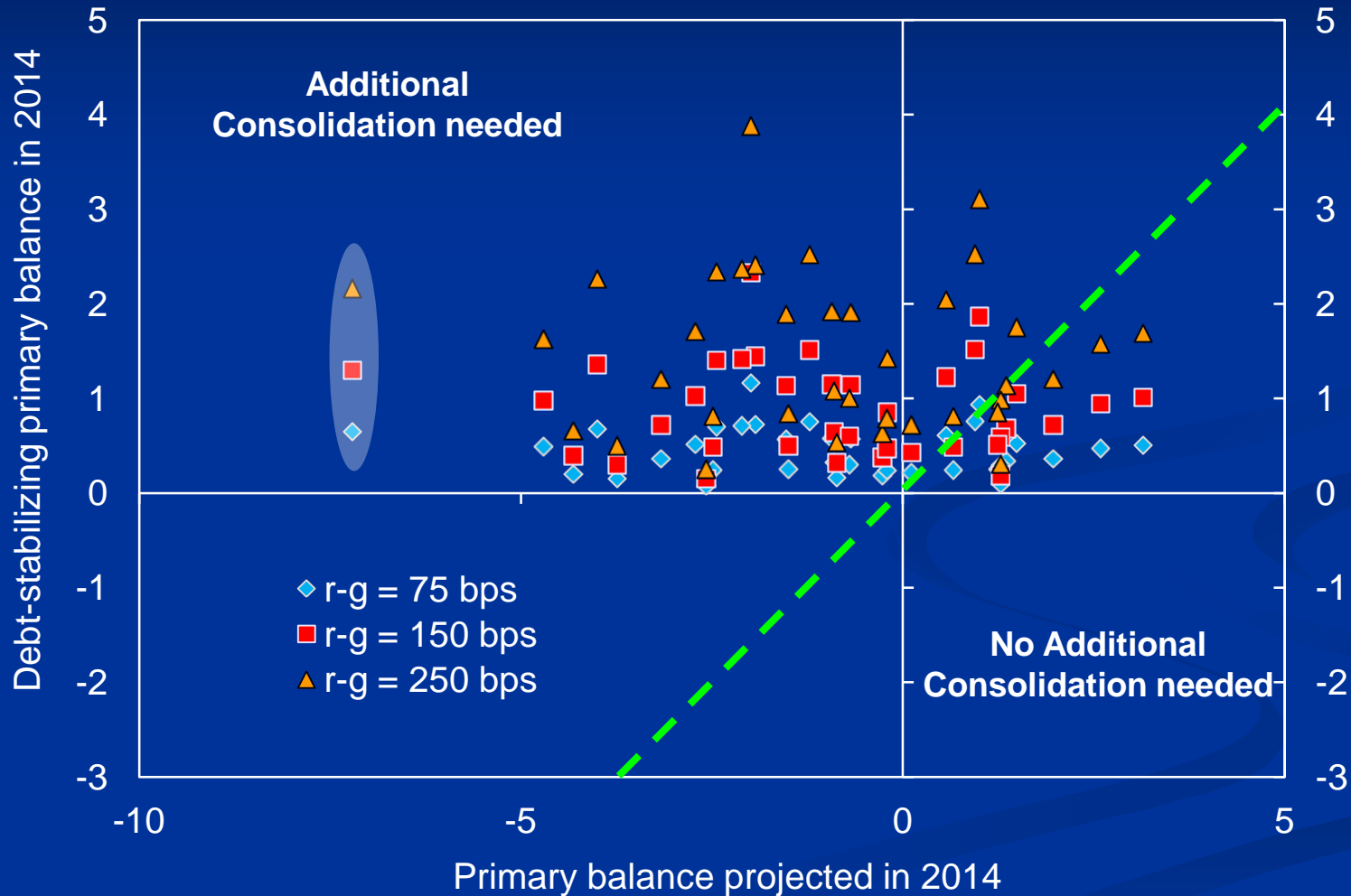
Sources: Eurostat, European Commission Business and Consumer Surveys; Haver Analytics; and IMF staff calculations.

1/ Seasonally adjusted; deviations from an index value of 50.

2/ Percentage balance; difference from the value three months earlier.

# ...and downside risks

## European Economies: Stabilizing Public Debts (Percent)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

# Challenge 1: Debt stabilization policies

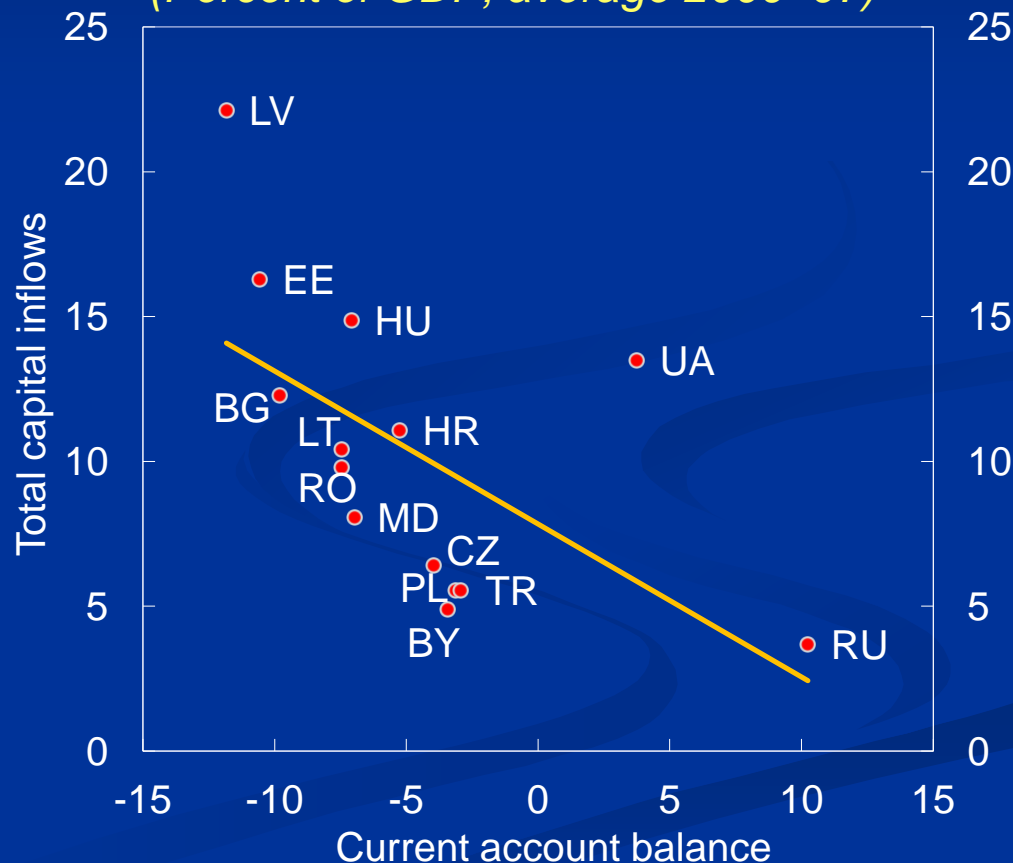
- **Policy stabilization**, taking into account sovereign and financial stability risks, should be based on:
  - Credible commitment to **fiscal consolidation**, accelerated where necessary
  - Gradual phasing out of **extraordinary monetary** measures
  - Withdrawing financial sector **blanket measures** after dealing with still weak institutions

# Challenge 2: Managing capital inflows

- **Imbalances and the associated capital inflows are key policy challenges**
- **How to manage capital inflows?**

## Total Capital Inflows and Current Account Balances

(Percent of GDP; average 2000–07)



Source: IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; and IMF staff calculations.

# Lessons for managing capital inflows

- For **countries needing to re-attract inflows**: reforms to allow growth in the production of exports
- For **countries already seeing inflows**:
  - Exchange rate flexibility where possible
  - Tight fiscal policies, in particular under pegs
  - Prudential tools (e.g., capital requirements on foreign borrowing or higher risk weights) to curb excessive risk-taking by banks
  - Temporary capital controls
- Across the region: strengthening the financial stability framework



## Orderly exiting of crisis policies

- **Coordination** of financial supervision to strengthen cross-border crisis management.
- Timely withdrawal of the **systemic support** measures to banks.
- Given high public debt, **fiscal consolidation** is crucial.
- Monetary policy could remain **fully accommodative** as long as inflationary pressures remain under control.
- Coordination among EU members through explicit commitments by member states.

**CAUCASUS  
& CENTRAL ASIA (CCA)**

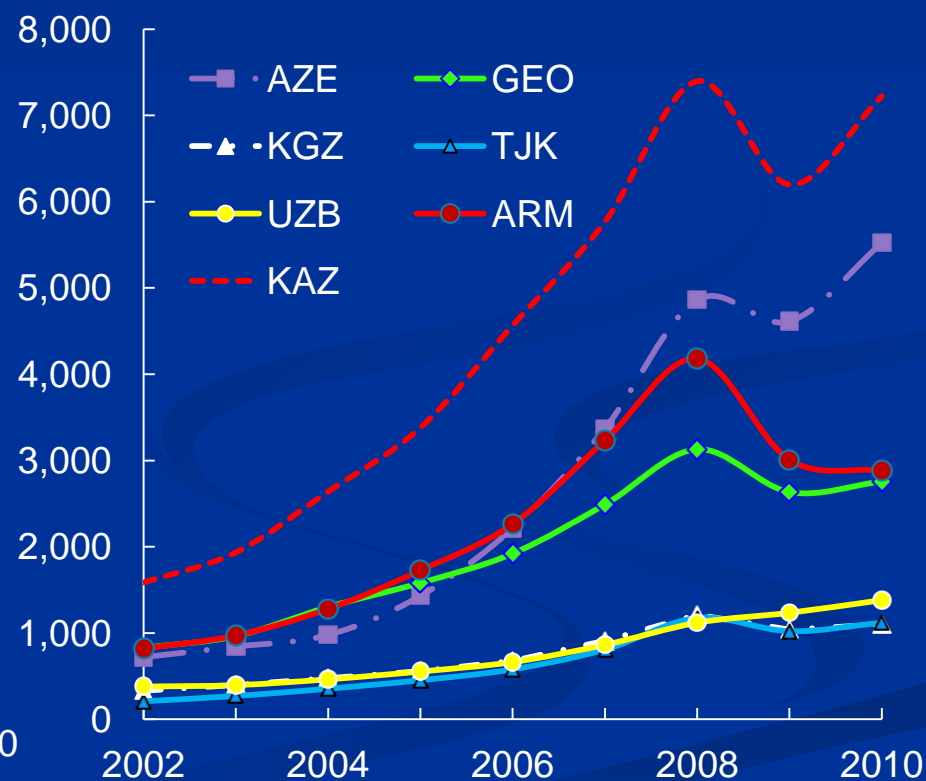
# Growth is starting to recover, but is uneven across different countries

Real GDP Growth  
(Annual change; in percent)



Source: IMF, WEO database; national authorities, and staff projections.

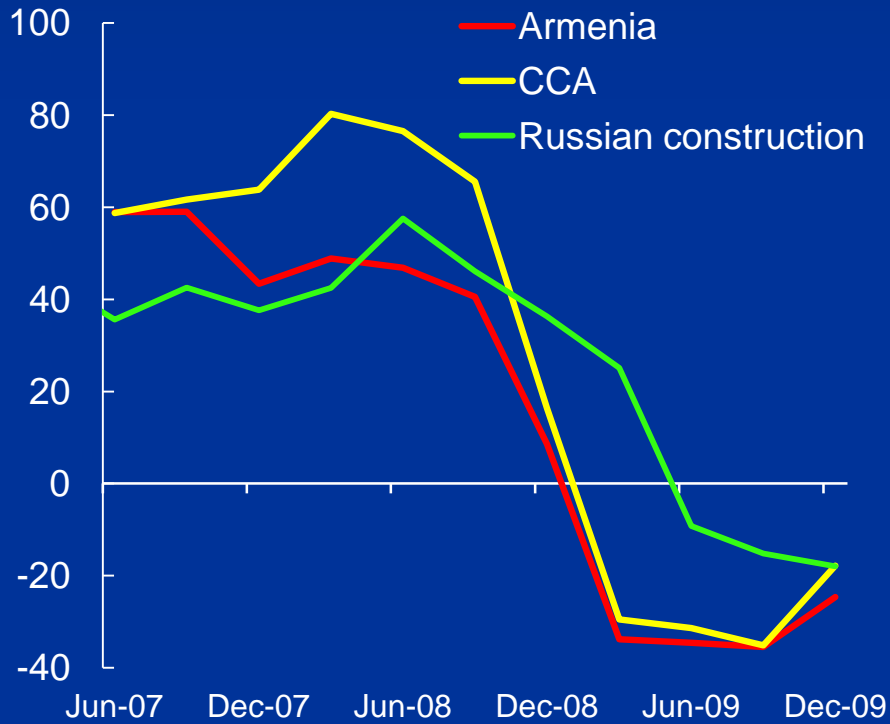
Gross National Disposable Income Per Capita<sup>1</sup>  
(In U.S. dollars)



Source: National authorities; and staff projections.  
<sup>1</sup> GNDI is defined as GDP + non-factor income + transfers

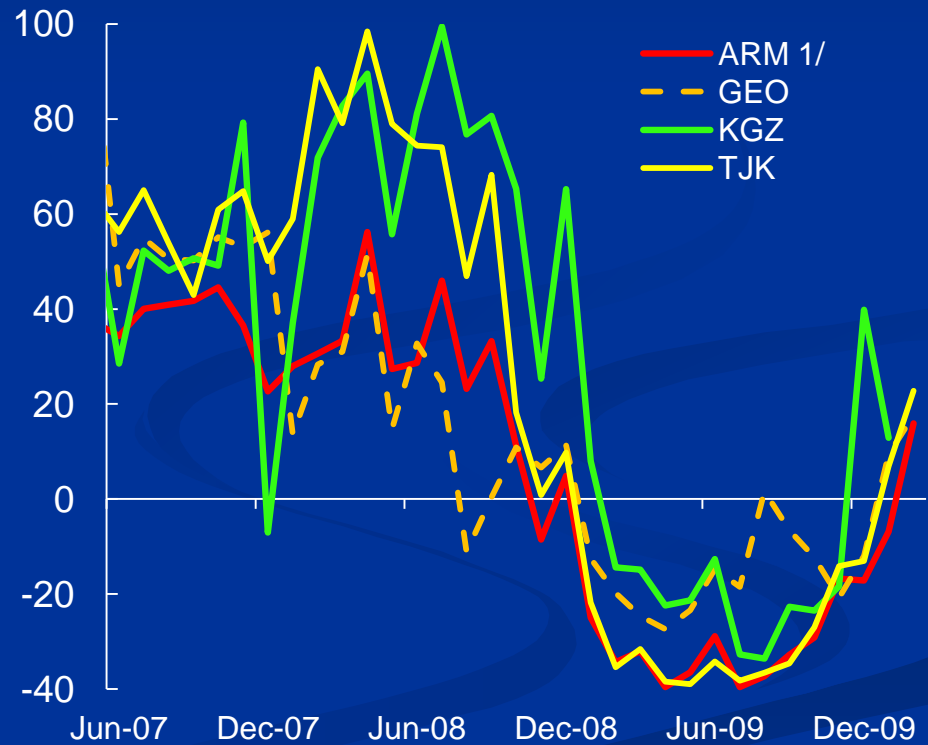
# Remittances are recovering

Remittance Outflows from Russia to CCA ,  
Remittance inflows to Armenia,  
Construction Growth in Russia  
(Annual growth, in percent)



Source: Central Bank of Russia.

Remittance Inflows  
(Annual growth, in percent)

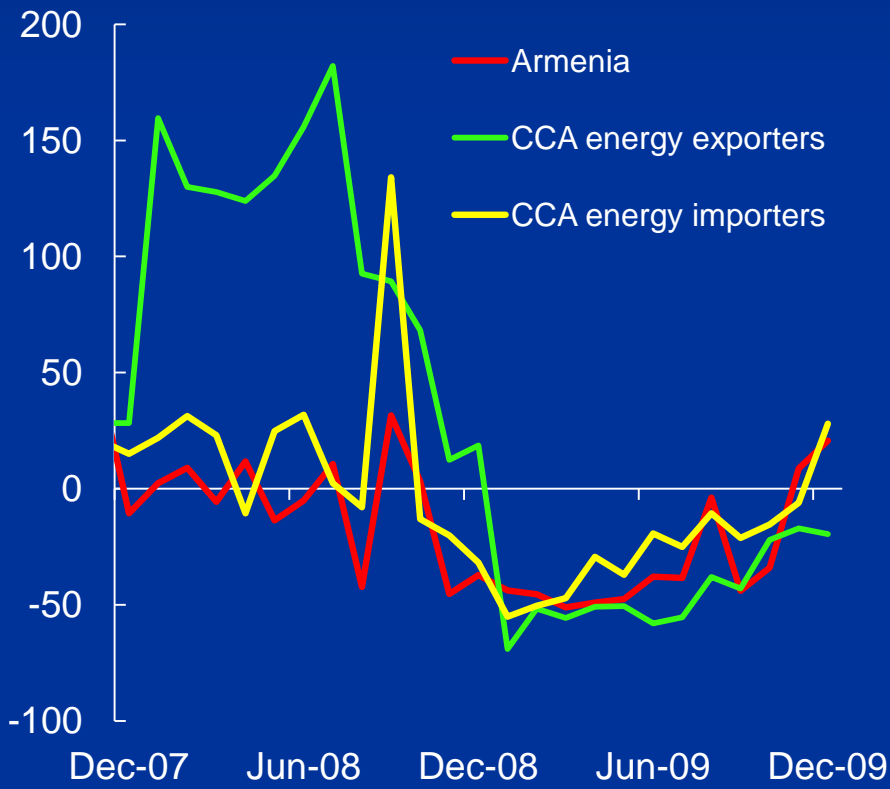


Source: National authorities.

1/ Remittances are proxied by non-commercial money transfers. They include non-repayable transfers of individuals used for current needs and salary sent to and received from abroad.

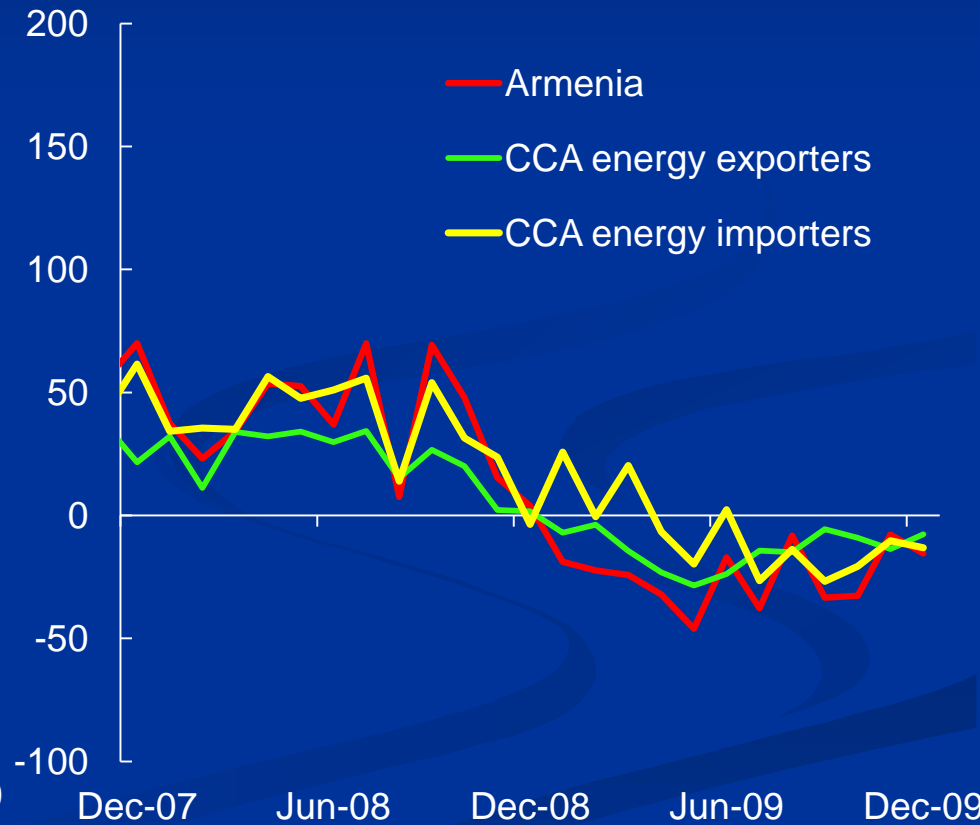
# Trade is stabilizing

Exports of Goods in U.S. Dollars  
(Annual growth, in percent)



Source: International Financial Statistics, IMF.

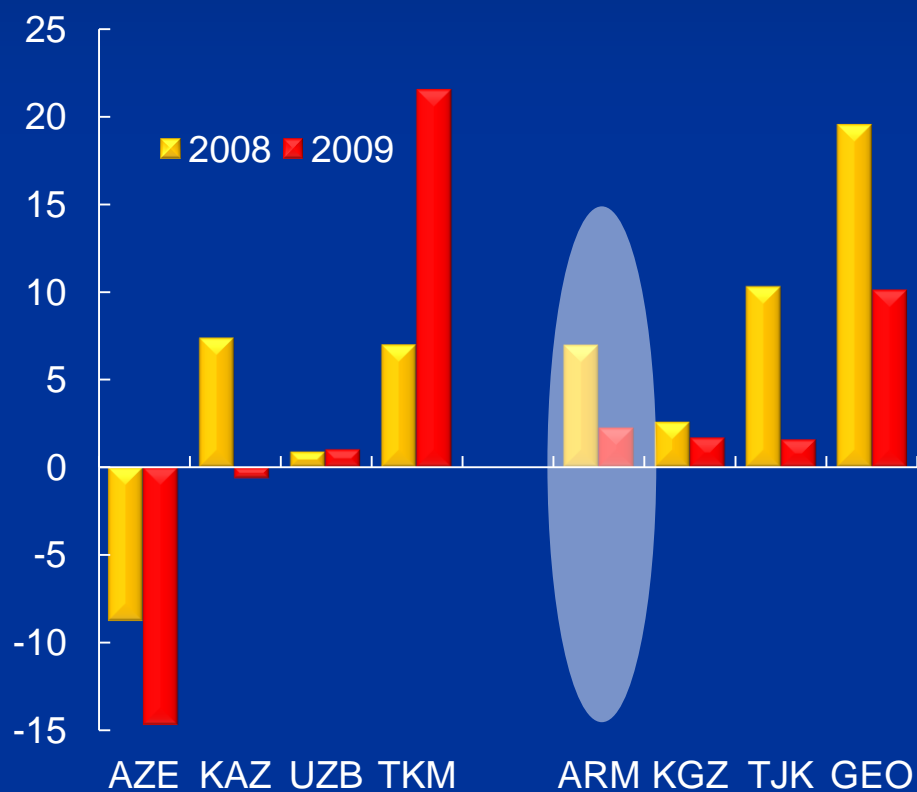
Imports of Goods in U.S. Dollars  
(Annual growth, in percent)



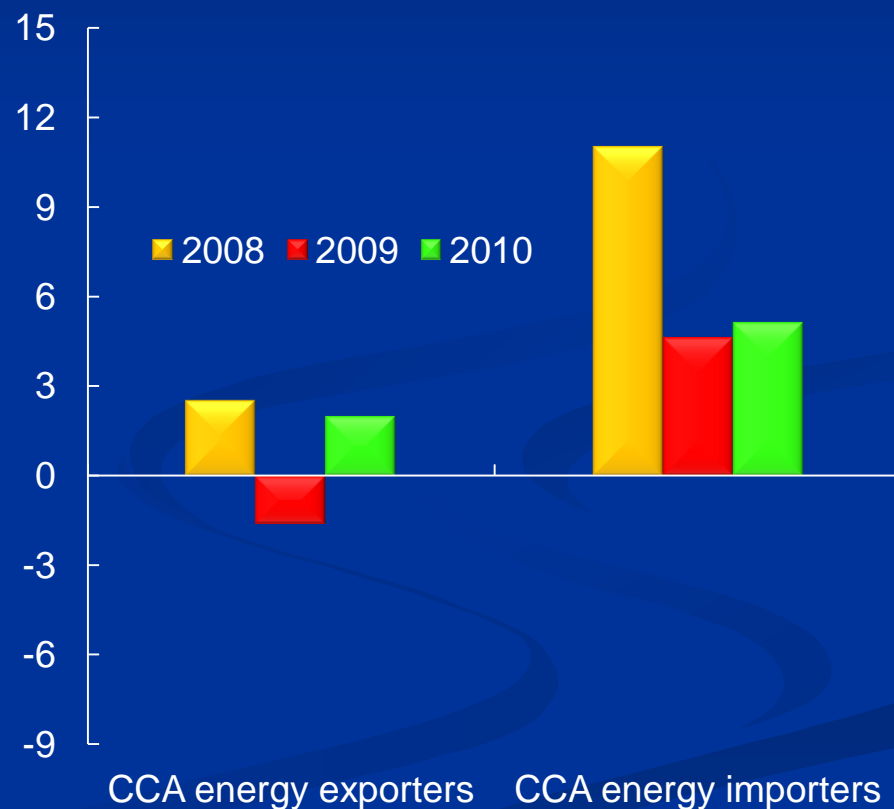
Source: International Financial Statistics, IMF.

# Private capital inflows remain uncertain

Net Private Capital Flows  
(In percent of GDP)



Net Private Capital Flows  
(In percent of GDP)

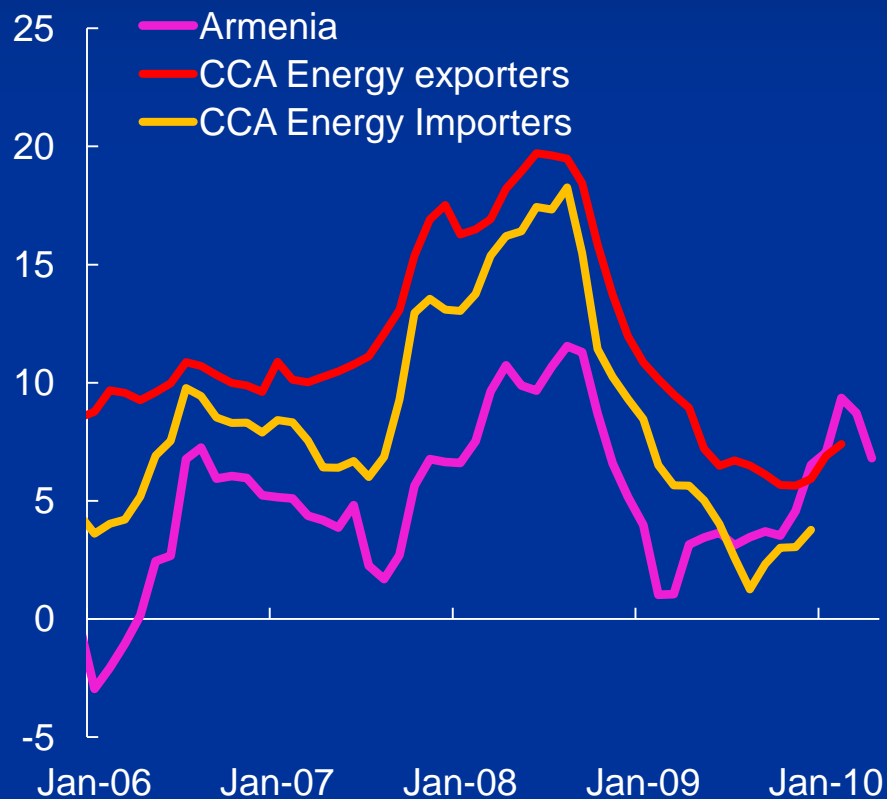


Source: National authorities; and staff projections.

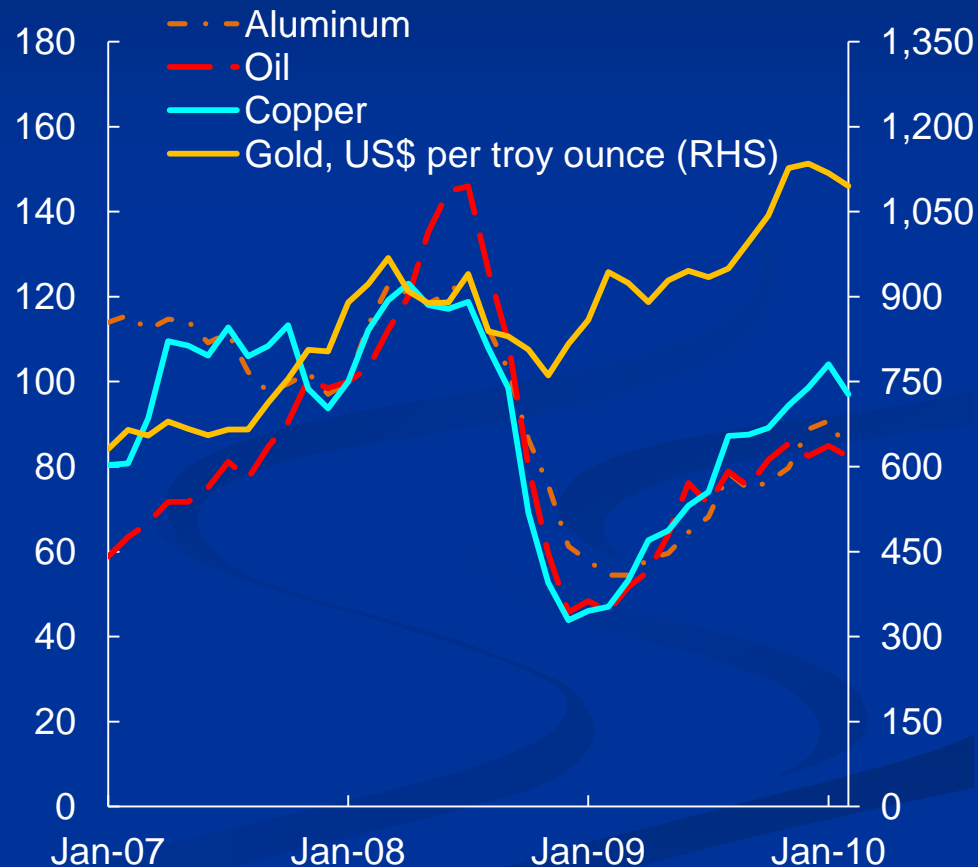
Source: National authorities; and staff projections.

# Inflation is picking up, commodity prices are recovering

**Consumer Price Index**  
(Period average; annual growth, in percent)

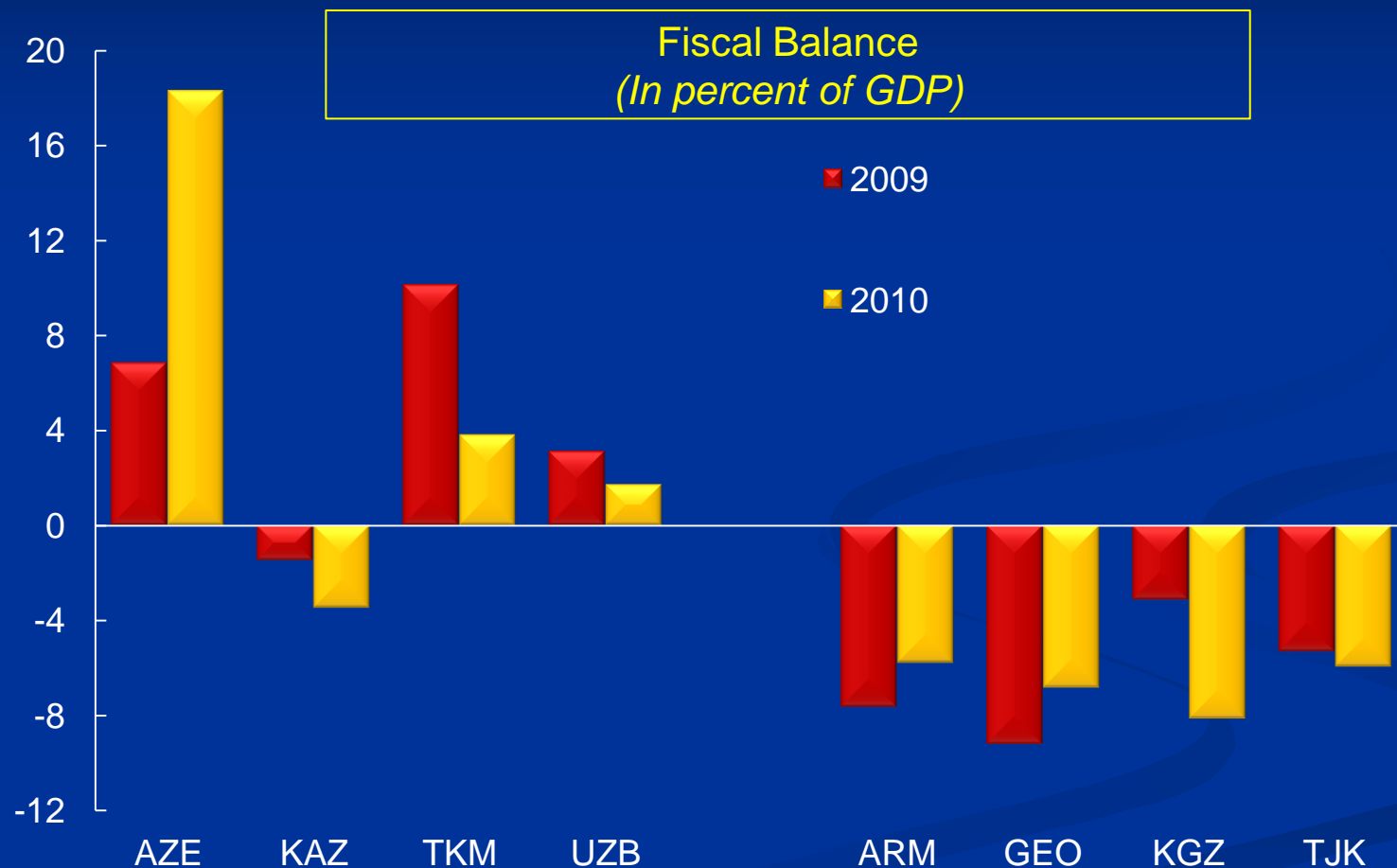


**Commodity Price Indices**  
(January 2008=100)



Sources: IMF, WEO database; and national authorities.

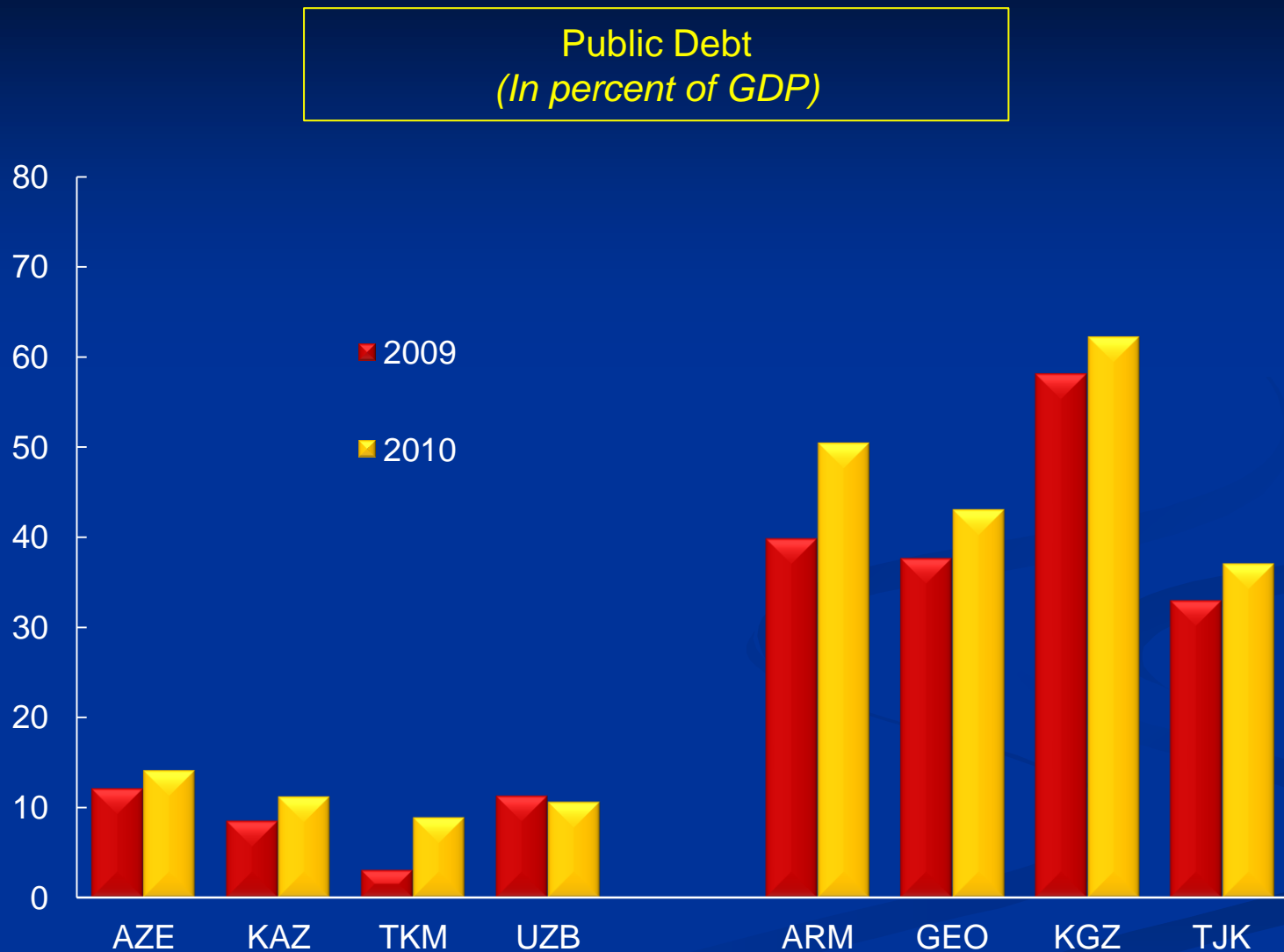
# Fiscal deficits of energy importers remain large



Source: National authorities; and staff projections.



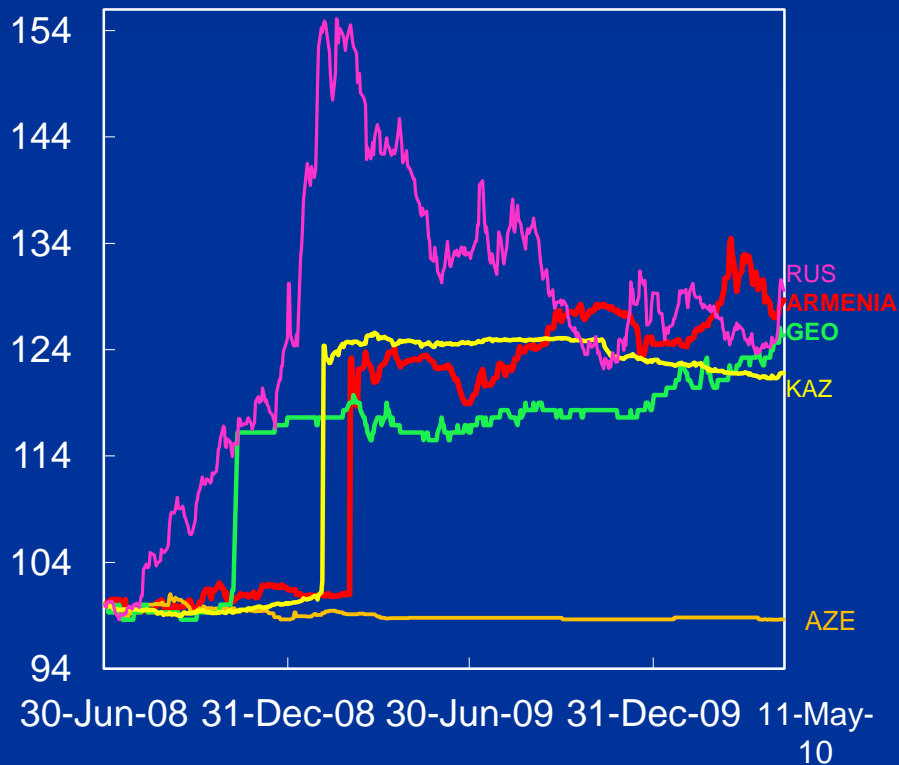
# Rising public debt limits room for further fiscal stimulus



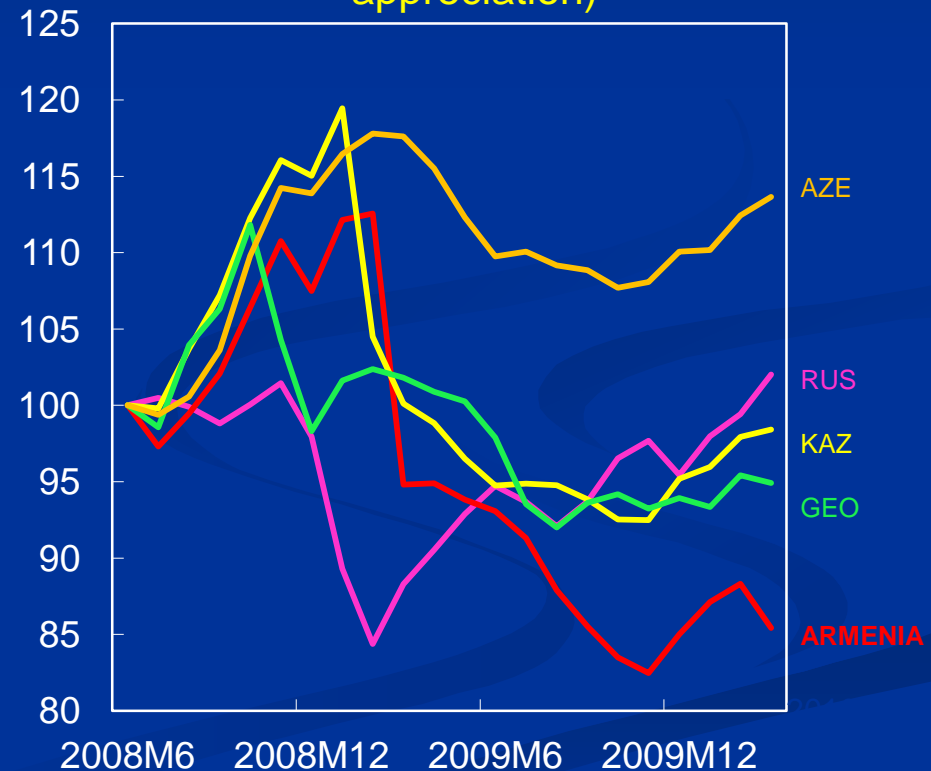
Source: National authorities; and staff projections.

# Exchange rate depreciated ...

**CCA Exchange Rates: May 11, 2010**  
(National currency in US\$, June 2008 = 100)



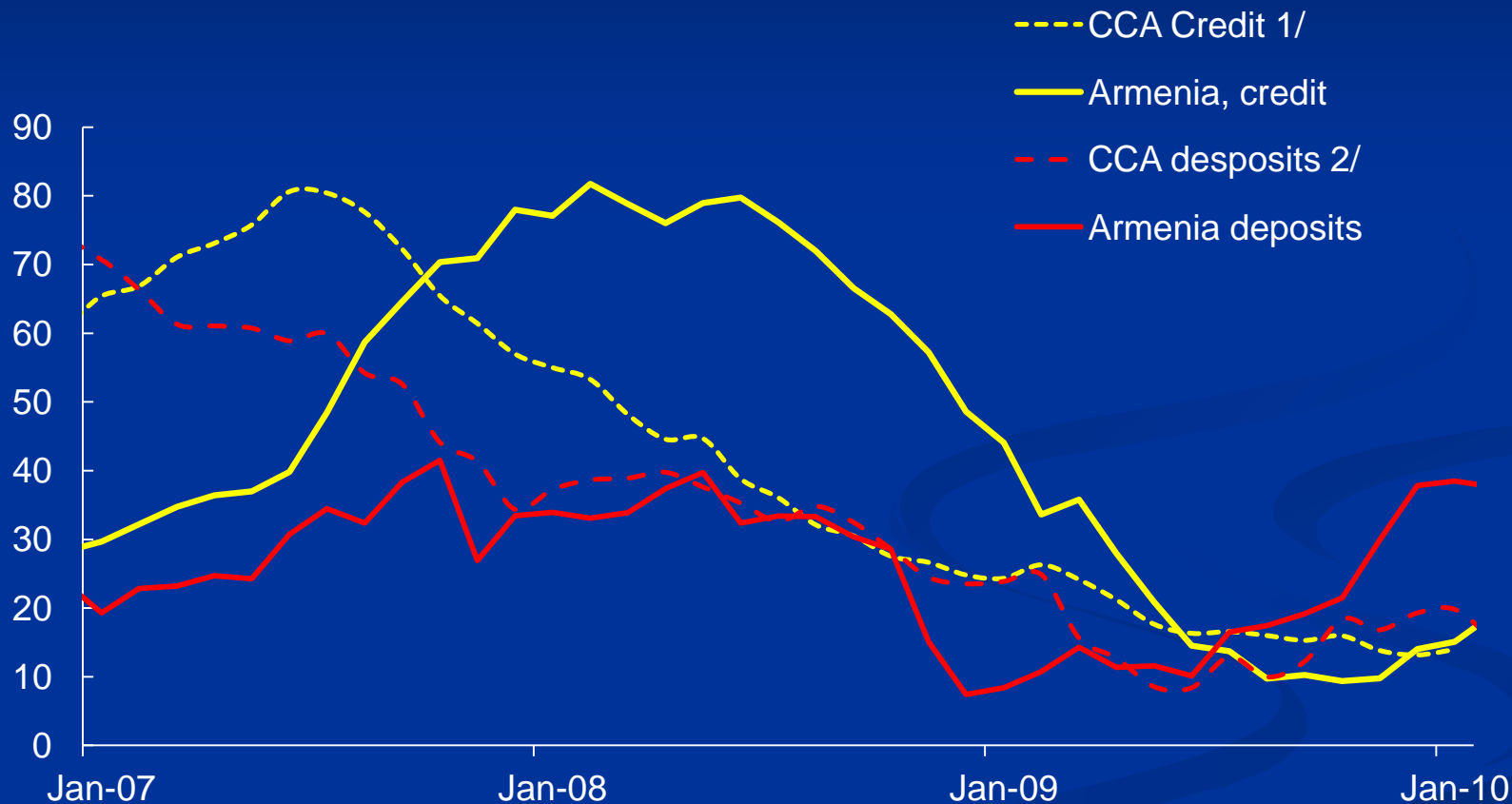
**Real Effective Exchange Rates**  
(Index, June 2008=100; increase indicates appreciation)



Sources: IMF, Datastream. INS database.

# Financial sectors stabilized, but credit is weak...

Credit To Private Sector and Deposits  
(PPPGDP weighted; annual percentage change)



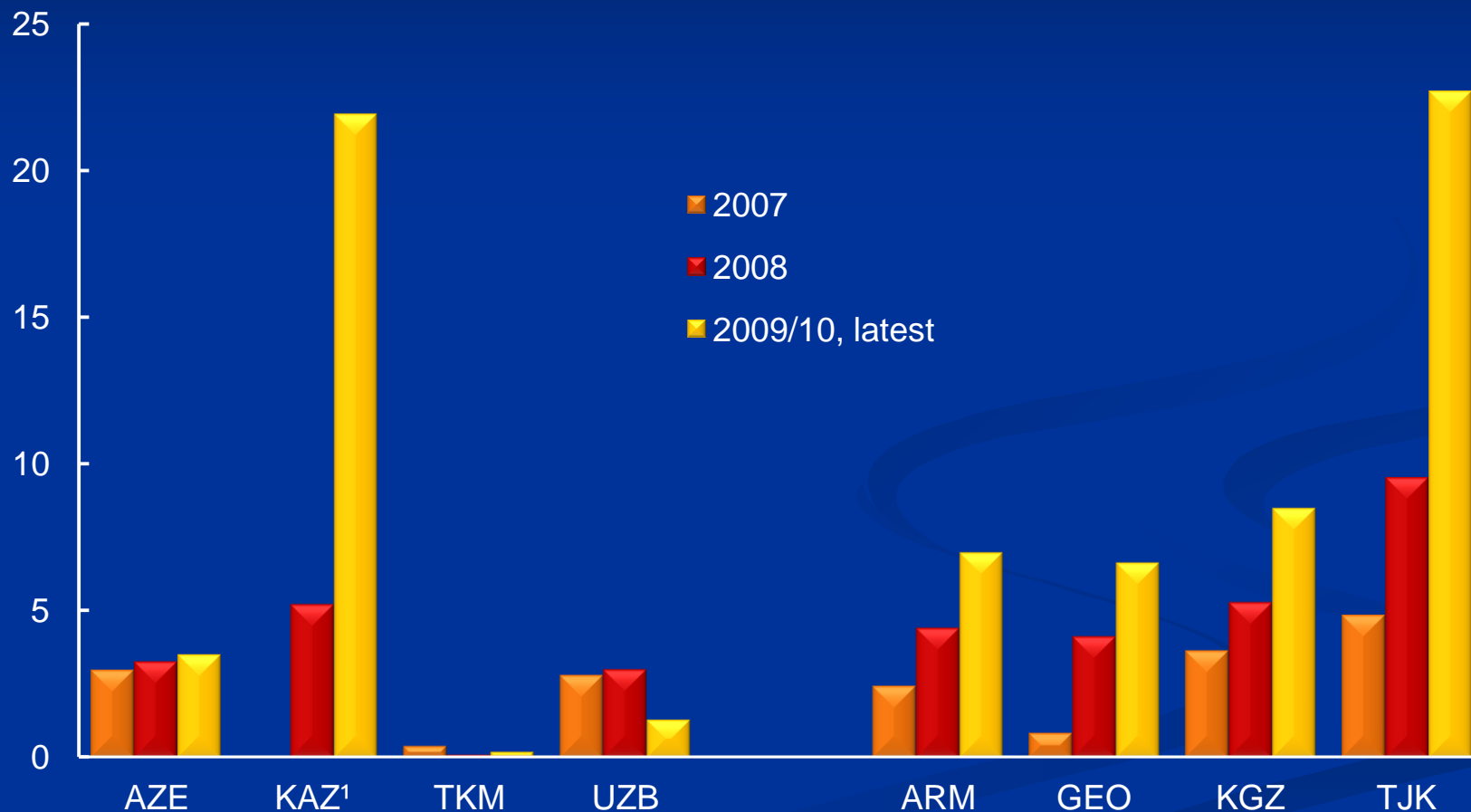
Source: National authorities.

1/ Excludes Turkmenistan.

2/ Excludes Turkmenistan and Uzbekistan.

## ...and non-performing loans have risen sharply

Nonperforming Loans  
(In percent of total loans)



Source: National authorities.

<sup>1</sup> On a 90-day basis.

# Policy Priorities

- Post-crisis strategies depend on specific country circumstances: level of debt, and pace of growth and inflationary pressures
- Where fiscal policy is limited by rising debt, and recovery has begun, some fiscal tightening is warranted
- Financial sector reforms—strengthening balance sheets, and reviving credit are needed
- Over the medium term, energy importers need to address large external deficits; energy exporters should focus on diversification and employment

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Thank you