GROUP of TWENTY

Meeting of G-20 Finance Ministers and Central Bank Governors
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Washington, D.C.

Global Economic Prospects and Policy Challenges

Prepared by Staff of the International Monetary Fund

INTERNATIONAL MONETARY FUND

EXECUTIVE SUMMARY

The recovery is gaining strength, but output gaps and unemployment remain high in *advanced economies*, while new macroeconomic risks are building in *emerging economies*.

- In G-20 *advanced economies*, the recovery is becoming more self-sustained. Growth will, however, remain too low to substantially reduce output gaps and still-high unemployment, reflecting the continuing impact of pre-crisis imbalances (e.g., housing) and crisis-related damage (e.g., financial systems and fiscal positions).
- In G-20 *emerging economies*, growth is expected to remain robust, in part reflecting limited damage from the crisis. However, inflationary pressures are building, and there are signs of overheating and nascent credit booms in a number of economies.
- All countries face a new challenge of higher commodity prices, which have increased due to strong demand and supply uncertainties. This is leading to higher headline inflation.

Financial risks have eased, but new risks have emerged.

- Slow growth and inadequate policy responses in *advanced economies* will keep fiscal positions and financial systems vulnerable to shocks, especially in peripheral Europe, but also elsewhere.
- In some *emerging economies*, credit booms and overheating threaten eventual hard landings.
- Oil and food prices remain subject to supply uncertainty and upside price risks.

Key policy challenges are to strengthen growth in *advanced economies*, moderate growth in *emerging economies*, and reduce risks.

- In *advanced economies*, financial sector repair and reform, notably in the euro area, should proceed expeditiously. Articulation of clear and credible medium-term fiscal consolidation plans remains an urgent priority, particularly in the *United States*. Monetary policy should remain accommodative—including to absorb the first-round inflation effects of higher commodity prices—but nimble to respond quickly if the risks of second-round effects rise.
- In *emerging economies*, the challenge is to avoid overheating in the face of closing output gaps and higher capital flows. The policy response should be twofold. First, to rely on a combination of fiscal consolidation and higher interest rates to maintain output at potential. Second, to use macro-prudential tools, including, where appropriate, capital controls, to avoid increases in systemic risk stemming from inflows. The exchange rate appreciation that may result is part of the desirable adjustment, increases real income, and should not be resisted.
- *The global macro policy agenda for the world remains the same, but with the passage of time, more urgent.* For the recovery to be sustained, advanced countries must achieve fiscal consolidation. To do so and maintain growth, they need to rely more on external demand. Symmetrically, emerging economies must rely less on external demand and more on domestic demand. Appreciation of emerging economies' currencies relative to advanced economies' currencies is an important part of this adjustment.

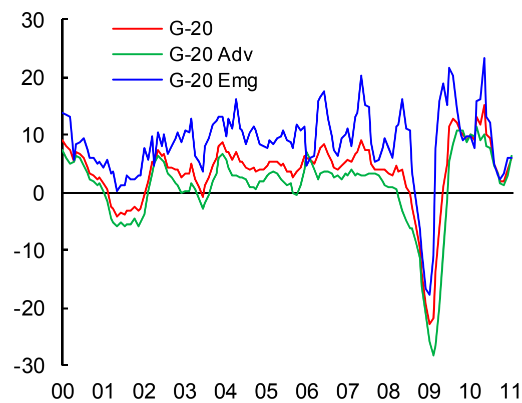
I. A Broader But Still Multispeed Recovery[1]

The recovery is broadening as accommodative macroeconomic policies, improving financial conditions, and building confidence support private demand and offset the waning effects of the inventory cycle. Divergence in economic performance remains wide, however. In advanced economies, growth is gaining some momentum but remains too low to substantially reduce output gaps and unemployment. In emerging economies, growth is robust and there are signs of overheating in some countries. Financial conditions have eased, but stress remains elevated in the euro area. Oil and food prices have risen sharply, due to strong structural and cyclical demand and supply uncertainties.

A. Activity to strengthen at varying speeds

1. **The recovery is developing as anticipated and broadening**. World growth decelerated to about 3¾ percent during the second half of 2010, from about 5¼ percent during the first half, while risks of a "double-dip" recession in advanced economies receded. The recovery has broadened as the inventory cycle has moderated, with accommodative policies, improving financial conditions, and building confidence supporting investment and consumption activity. Recently, leading activity indicators have recovered from the soft patch in the fall and global trade growth has picked up strongly.

Industrial Production 1/
(Percent; 3mma/3mma annualized)



Source: IMF, *Global Data Source.*
1/ G-20 Adv consists of Australia, Canada, Japan, Korea, U.K., U.S., and Euro area.
2/ G-20 Emg consists of Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa, and Turkey.

2. **In *advanced economies* the recovery is proceeding too slowly.** Output gaps remain wide, although economic slack in some economies—including *Australia* and *Germany*—is disappearing more rapidly.

- The *United States* continues to recover gradually, supported by easing financial conditions, increased traction in private demand, and a stronger contribution from net exports. But improvement in the housing and labor markets has been slow and without a further rebalancing from domestic to external demand, growth will remain subdued and the large output gap will persist for some time.

[1] Prepared by the Research Department under the guidance of Krishna Srinivasan by a team led by Shaun Roache and comprised of Eric Bang, Marina Rousset, and Anne Lalramnghakhleli Moses with input from the Monetary and Capital Markets and Fiscal Affairs Departments.

- In *Japan*, recovery has been set back by the recent tragic earthquake. It is difficult to assess its economic impact at this time, but assuming that power shortages and the nuclear issue are resolved within a few months, and government programs to repair damage are deployed rapidly, growth could slow during 2011 to 1.4 percent, about 0.2 percentage points below previous projections. However, uncertainties remain large and risks are tilted to the downside. The key spillover is through Japan's role in the global supply chain in some sectors, especially in automobiles and electronics.

- In the *euro area*, despite lingering financial tensions, growth has strengthened and become increasingly underpinned by private demand. Unemployment remains high, however, and there is substantial variation in growth across countries. In particular, while there is a substantial degree of slack in the periphery, the output gap is closing more rapidly in the core economies, especially in *Germany*.

3. **In *emerging economies*, expansion is underway as output gaps in many economies have closed, but the policy response is lagging**.

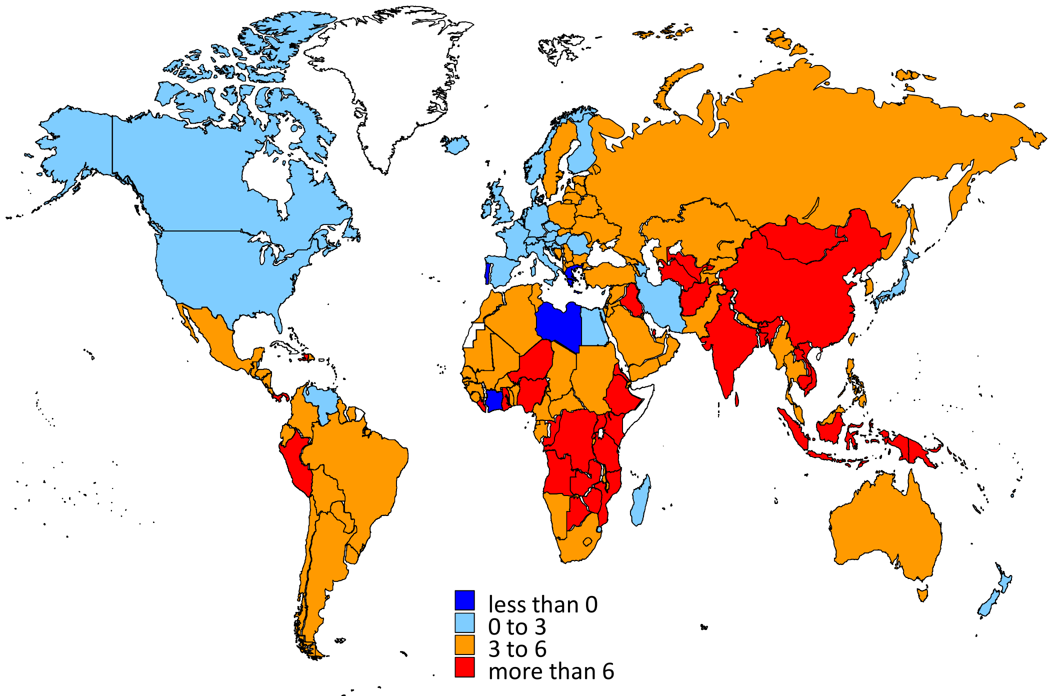
- Broad-based recovery is continuing in *emerging Asian economies*, supported by strong export performance, buoyant private domestic demand, and rapid credit growth. Growth has moderated from cyclical highs but remains rapid and emerging Asia continues to outpace other regions. Output gaps have mostly closed.

- *Other emerging G-20 economies*, including those in Latin America, continue to recover strongly and must now contend with the policy challenges of managing high commodity prices and strong capital inflows, notwithstanding their recent moderation In some cases, including *Brazil*, overheating is a risk. In other, slower-growing countries that did not emerge as rapidly from the global recession, including *Mexico* and *South Africa*, there are signs that output is moving closer to potential.

- *The policy response to overheating risks remains inadequate*, with real policy rates remaining negative across many emerging economies and fiscal balances appreciably below precrisis levels.

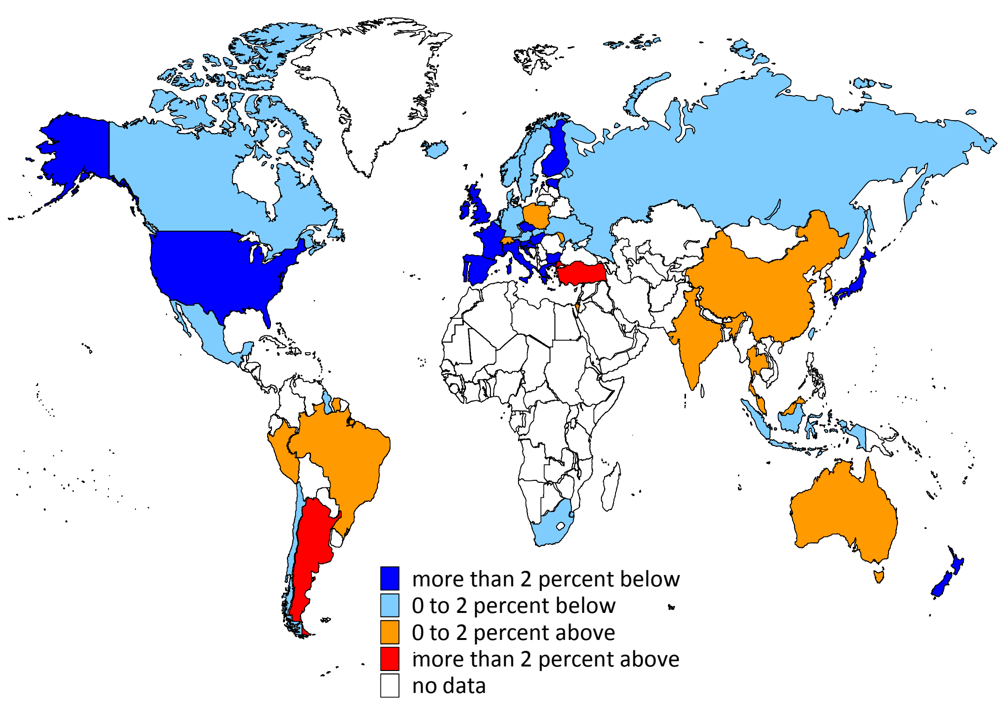
Average Projected Real GDP Growth during 2011–12

(Percent)



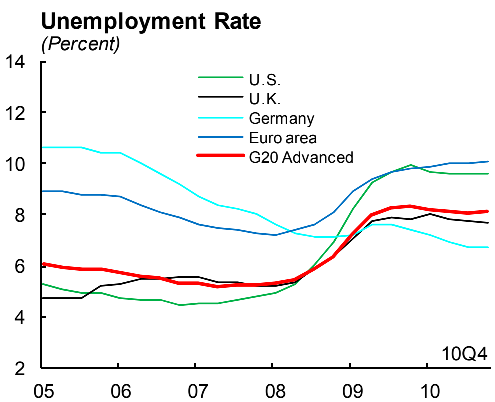
Average Projected Output Gap during 2011–12

(Percent of potential GDP)

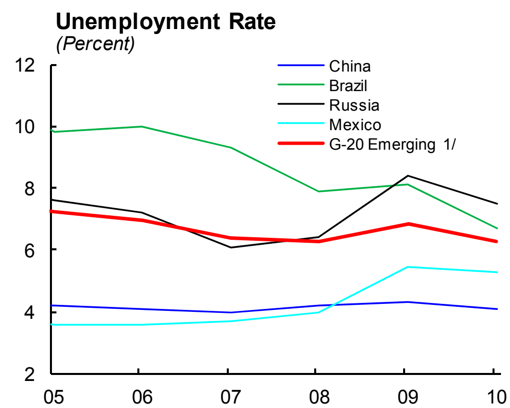


Source: IMF, World Economic Outlook, and IMF staff calculations.

4. **Labor market conditions contrast sharply, reflecting the divergence in economic growth performance**. In some *advanced economies*, especially in the *United States* and large parts of the *euro area*, unemployment remains well above pre-crisis levels and is declining only gradually. *Germany* is an exception as the unemployment rate has recently fallen to its lowest level in almost two decades. In many of the major *emerging economies* outside central and Eastern Europe and the CIS, unemployment rates are below precrisis levels. Notwithstanding buoyant labor market conditions, high youth unemployment remains a broad concern across many economies.



Sources: IMF, *World Economic Outlook* and Haver Analytics.

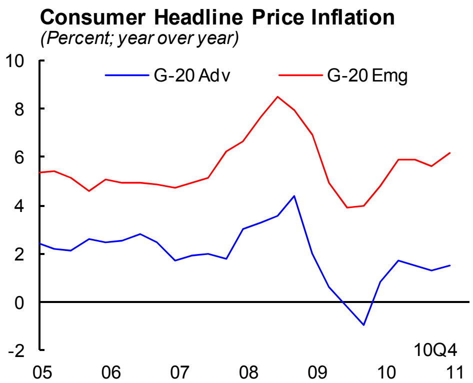


Source: IMF, *World Economic Outlook*.
1/ Excludes India due to data unavailability.

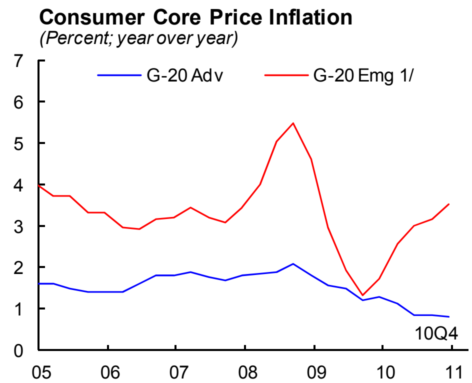
5. **Inflation pressures are broadening in *emerging economies* but remain checked in *advanced economies*.**

- Headline inflation in *emerging economies* is now running at over 6 percent, up from 4¾ percent in late 2009. Over the same period, core inflation increased to 3½ percent, up from 1¾ percent, suggesting that inflation pressures are broad and reflect tightening capacity constraints, and not just higher commodity prices. In a number of the larger economies, headline inflation is running close to or above central bank targets.

- In some *advanced economies* in Europe, headline inflation has increased sharply although core inflation has remained subdued, financial markets have moved to price-in interest rate hikes by the middle of 2011.



Sources: IMF, *Global Data Source* and staff estimates.



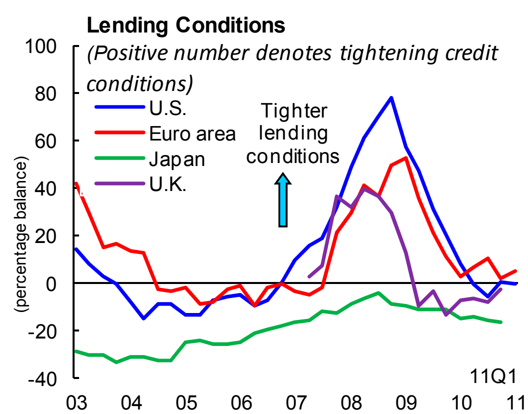
Sources: IMF, *Global Data Source* and staff estimates.
1/ Excludes Saudi Arabia due to data unavailability.

B. Financial conditions ease, but stress persists

6. **Financial conditions eased during late 2010 and indicators of uncertainty remain well below mid-2010 levels, despite some increase in response to the Japanese earthquake and oil market developments**. However, progress in financial system repair and reform are lagging behind improvements in the economy, while accommodative monetary conditions and rising risk appetite may be masking underlying vulnerabilities.

- *Conditions eased during the second half of 2010 and into early 2011*, as advanced economy equity prices gained and credit spreads tightened in response to the broad pick-up in economic indicators and improving corporate earnings. Some *euro area* markets were exceptions to this broad easing, with sovereign periphery (and some core) and bank CDS spreads either remaining wide or widening further, underscoring the extent to which sovereign and banks risks remain intertwined.

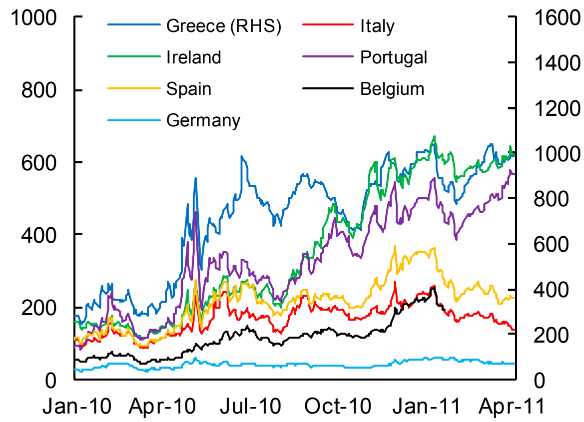
- *Bank lending conditions are easing gradually* in *advanced economies*, but still remain tight, likely reflecting capital rebuilding and tighter supervision and regulation. This is contributing to weak private credit growth. In contrast, credit growth in many *emerging economies* is rising rapidly and reaching levels that, in the past, have foreshadowed the build-up of financial imbalances and vulnerabilities. Corporate leverage is rising and less creditworthy borrowers have been issuing debt in some of these economies.



Sources: Lending surveys by the Bank of England, European Central Bank, Bank of Japan, and the U.S. Federal Reserve for households and corporates; and IMF staff estimates.

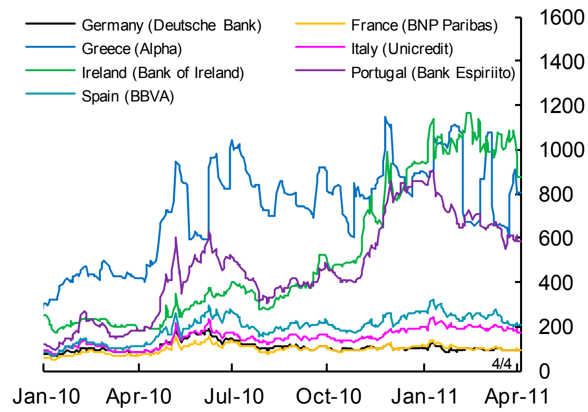
- *Volatility increased modestly across a broad range of asset classes* due to higher uncertainty stemming from the developments in Japan and the MENA region. More recently, indicators of financial market uncertainty, such as the VIX, have resumed their decline and remain well below crisis peaks and levels reached during mid-2010.

Sovereign 5yr CDS Spreads
(Basis points)



Source: Bloomberg, L.P.

Banks: 5yr CDS Spreads



Source: Bloomberg, L.P.

7. **The *euro area* took important steps to strengthen crisis management, policies, and governance.** Specifically:

- *Crisis management*. Policy makers are committed to increasing the effective lending capacity of the EFSF to €440 bn and the ESM to €500 bn, through a range of funding mechanisms, including guarantees. ESM loans will now follow IMF pricing principles. Loan conditions for Greece were relaxed, but left unchanged for Ireland. Decisions to provide financing under the ESM will be taken by unanimity in the Eurogroup, after a debt sustainability assessment which will involve the IMF.[2] All countries restated their commitment to a set of credible bank stress tests coupled with follow-up plans to deal with vulnerabilities.

- *Economic Coordination and governance*. Euro area leaders agreed to go beyond existing surveillance arrangements with concrete annual commitments in the areas of collective bargaining, labor taxes, business environment, pension and health care, fiscal frameworks and financial regulation. European leaders also endorsed legislative proposals to strengthen the Stability and Growth Pact, enhance coordination through the European Semester, and introduce macroeconomic surveillance.

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[2] Other notable features include: private sector involvement in the context of ESM loans, which will remain an action of last resort, decided on a case-by-case basis consistent with IMF policies; the introduction of collective actions clauses starting in June 2013; and the granting of preferred creditor status to ESM loans.

Box 1. Credit Boom Risks in Emerging Economies

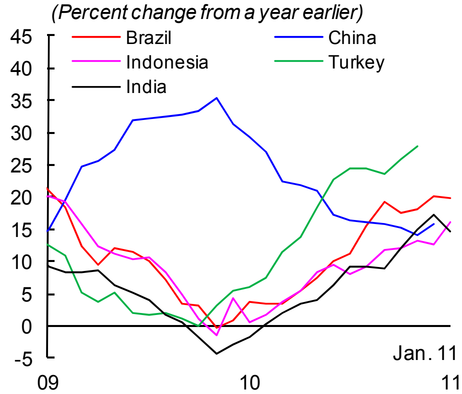
Signs of nascent credit booms in some emerging G-20 economies—if not addressed by appropriate policy responses—may portend risks of eventual financial crises and hard landings for economic growth. Credit booms have been linked to recent banking crises, including Asia in the late 1990s, and emerging Europe and the U.S. subprime market during 2007-08. It is difficult, ex-ante, to identify whether a credit boom is "good" (reflecting needed financial deepening) or "bad" (driven by excesses), but history provides some guidance. In particular, "bad" booms tend to be: larger and longer; associated with higher inflation and/ or rapid property price increases; and accompanied by widening current account deficits. **Notable current examples of especially rapid credit growth, interrupted only briefly by the financial crisis, include Brazil, China (and Hong Kong SAR), and Turkey**.

In Brazil, easy external financing conditions and rapid credit growth are contributing to overheating pressures. The current account deficit is widening despite terms of trade gains for commodity exporters and inflation is picking up. There is scope to continue with the monetary policy tightening cycle, while the substantial recent fiscal consolidation measures should gradually take hold. Brazil has been active in adopting macro-prudential instruments, including by increasing reserve requirements and tightening FX borrowing limits.

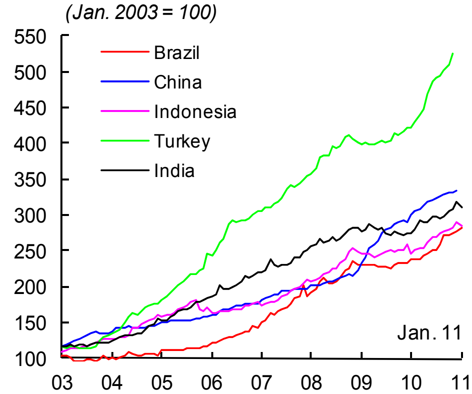
In China, tighter policies have begun to slow credit growth after a rapid expansion in 2009-10. Vulnerabilities and imbalances may build if credit growth picks up again, including an eventual deterioration in credit quality, an increased risk of a property bubble, and an expansion of inflationary pressures. To restrain credit growth, there should be less reliance on quantitative limits and reserve requirements and a greater burden placed on higher interest rates.

In Turkey, booming credit is being accompanied by evidence of building vulnerabilities, including a large rise in short-term external debt flows and a widening current account deficit. Measures to rein in credit growth have included raising reserve requirements, reducing carry trade incentives by lowering the policy rate, prudential measures (e.g., LTV ceilings) and higher taxes on non-residential loans. The impact of these measures has been somewhat muted because, among other reasons, higher reserve requirements have been largely neutralized by the lower policy rate.

Real Credit Growth
(Percent change from a year earlier)



Real Credit
(Jan. 2003 = 100)



Source: IMF staff calculations.

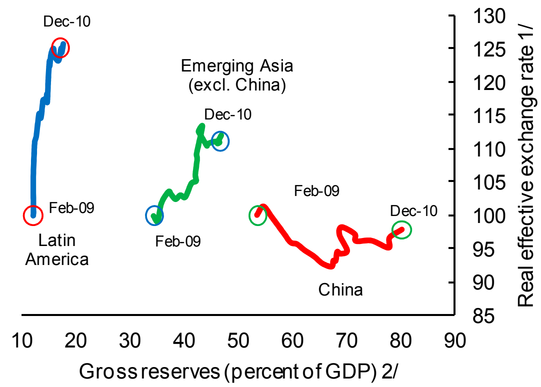
8. **After rising rapidly, capital flows to *emerging economies* have moderated but remain relatively high and volatile.**

- In recent months, capital inflows have moderated and even reversed in some cases. This could reflect a confluence of factors, including increasing inflation concerns, with local currency yield curve steepening observed in some key markets, and renewed investor interest in advanced markets after a run of emerging market outperformance that pushed equity and bond valuations to relatively high levels.

- Emerging economies have addressed capital inflows, to varying degrees, with a combination of macroeconomic policies as well as prudential and capital control measures. However, policymakers in a number of emerging economies are relying more on prudential and control measures, while delaying the needed macroeconomic policy response.

9. **Some major *Asian economies* have continued to accumulate reserves in response to capital flows, while other *emerging economies* have experienced substantial exchange rate appreciation.** Specifically:

Emerging Asia and Latin America: Real Exchange Rates and Reserves
(Feb. 2009=100)



1/ Index Feb. 2009=100. Weighted average using market GDP.
2/ Gross international reserves as a share of 2006–08 average GDP. Weighted average using market GDP.

- *Reserve accumulation in some parts of Asia is contributing to persistent and significant exchange rate misalignments* relative to fundamentals, and hampering progress towards global rebalancing. For instance, the Chinese renminbi continues to remain substantially undervalued in real effective terms. Countries in emerging Asia generally compete more directly with China in third markets than Latin American countries, and the fear of being ‘priced out’ of these markets in Asia is likely providing an incentive to limit appreciation against the Chinese renminbi.

- *In contrast, some commodity exporters with floating exchange rates, such as Brazil and South Africa, have seen their currencies appreciate substantially in nominal effective terms since early 2009,* boosting real exchange rates to levels that look overvalued from a medium-term perspective. The effect of this real appreciation on external accounts has been offset, in part, by strong gains in commodity prices over the past year that have supported export incomes.

- The real effective values of the euro and the Japanese yen are broadly in line with medium-term fundamentals, while the U.S. dollar remains on the strong side of fundamentals. Some further real effective depreciation of the U.S. dollar against undervalued currencies would help ensure a sustained decline of the U.S. current account deficit towards a level more consistent with medium-term fundamentals, helping to support more balanced growth.

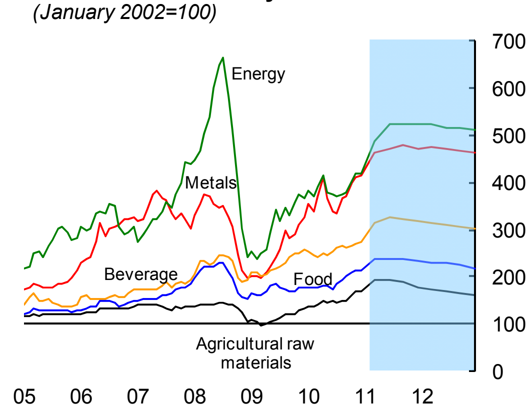
C. Oil and food prices are higher as supply uncertainties increase

10. **Unanticipated supply setbacks in oil and food commodity markets have added to upward price pressures from strong cyclical forces and long-term structural changes**. Commodity markets have recovered more rapidly since early 2009 than during previous cyclical recoveries and prices remain high in real terms.

- *Long-term structural change partly explains rising prices,* with rapid commodity-intensive growth and a rising middle class in emerging economies boosting demand for a broad range of commodities. Cyclical demand has also been unexpectedly strong for oil and other commodities since mid-2010.

- *Supply responses have been sluggish*, reflecting the typical long lags in investment (sometimes referred to as the "super cycle"). In some cases, including oil, trend increases in prices point to rising marginal production costs and scarcity.

Selected Commodity Price Indices
(January 2002=100)



Source: IMF, *Commodity Price System.*

11. **Oil prices have more recently risen due to some supply disruptions and increased supply risks**. Unrest in some Middle East and North African (MENA) oil producing countries is affecting oil exports and raising concern about possible spillovers to other major exporters.

- *Libyan production declines equivalent to 1½ percent of global supply have been broadly offset by higher production in other OPEC members, notably Saudi Arabia.* The Libyan supply setback is comparable to developments around the time of the Iraq war of 2003, but considerably below earlier supply shocks.

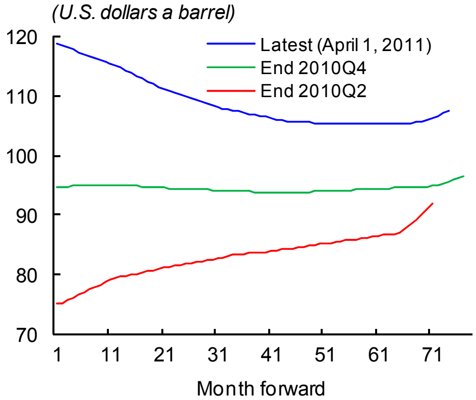
- *World oil prices have risen by about 20 percent since mid-February.* The Average Petroleum Spot Price (APSP) has reached about $119 per barrel, compared to the average of $79 for 2010. Compared to previous supply shocks of similar magnitude, the price response is so far modest.

12. **Global food commodity prices have risen sharply over recent months and are now trading close to their 2008 peaks.** Price increases have been broad-based and led by grains prices. The catalyst has been a series of weather-related supply shocks in key crops which hit food markets when the process of rebuilding inventory levels—run down during the 2002–08 period—had only just begun. Food demand has also continued to grow robustly, with emerging economies, including China, accounting for 70–80 percent of demand growth during the 2008–10 period.

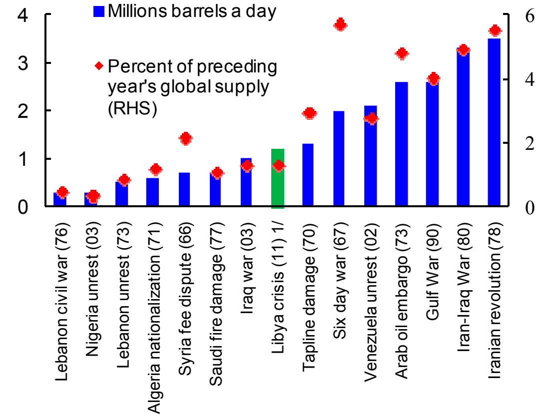
13. **Trade and bio-fuel policies have contributed to recent food price volatility**. In response to supply shortfalls in 2010, *Russia* and other CIS countries restricted grain exports to stabilize domestic markets, likely amplifying the world price response. Policy support for bio-fuel production and consumption remains important in some economies, including the *United States*, the *European Union*, *Brazil*, and to some extent in *India*. Some efforts have been made to minimize the effects on food production, but land and crop usage for feedstock is increasing—for instance, the share of the global corn crop used as ethanol feedstock tripled to 15 percent between 2005–10.

Recent Oil and Commodity Market Developments

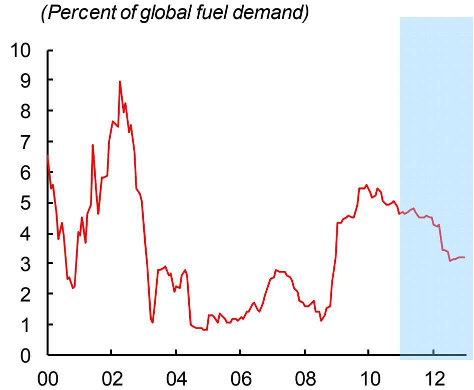
Brent Crude Oil Futures Curves
(U.S. dollars a barrel)



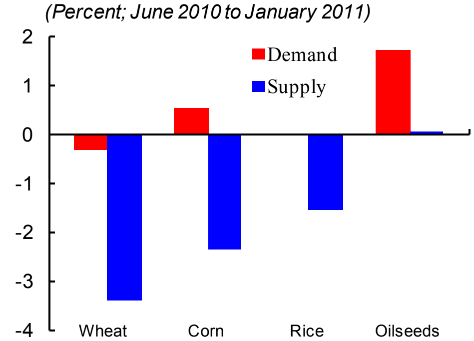
Average Gross Supply Shortfalls



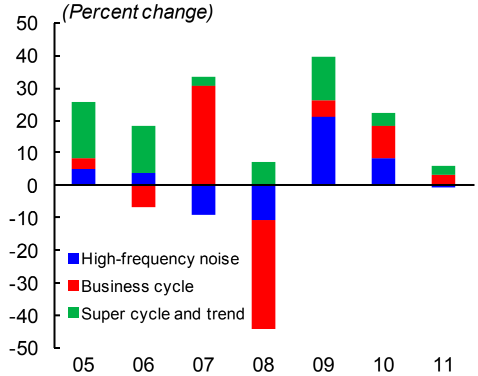
OPEC Spare Crude Oil Production Capacity
(Percent of global fuel demand)



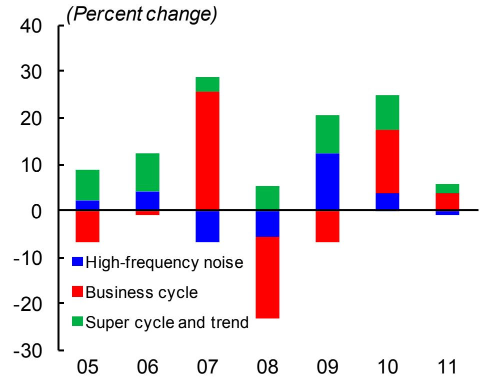
Change in Global Supply and Demand Estimates
(Percent; June 2010 to January 2011)



IMF Commodity Price Index 2/
(Percent change)



IMF Food Price Index 2/
(Percent change)



Sources: U.S. Department of agriculture World supply and demand estimates; BP Statistical Review June 2010; International Energy Agency; U.S. Energy Information Administration; and IMF staff estimates.
1/ Using IEA estimates for 2010 supply; BP data used for all other episodes.
2/ The business cycle component includes periods from 2 to 8 years and the super cycle and trend component includes all periods greater than 8 years.

II. Improved Prospects But New Risks Emerge

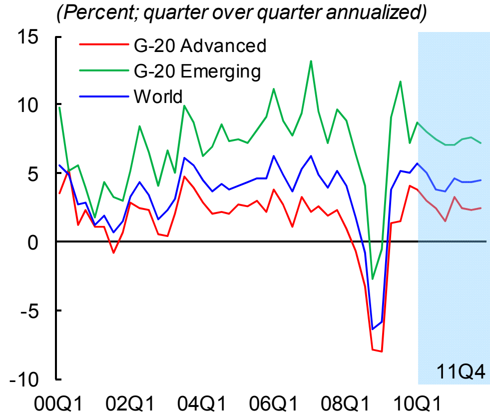
Prospects for the recovery through 2011–12 have improved, but progress in global rebalancing, key for a sustained, healthy recovery, will be limited. Some risks have eased, but elevated financial stress in the euro area periphery and higher oil and food prices represent near-term threats to stability and growth. The potential for eventual hard landings in emerging economies has also increased. Weak sovereign balance sheets in advanced economies continue to threaten prospects for sustainable growth.

Prospects have improved for 2011–12, but demand rebalancing will be limited.

14. **Improving financial conditions, ongoing growth momentum in emerging economies, and building confidence in *advanced economies* should underpin the global recovery**. Global growth is projected to moderate somewhat to about 4½ percent in 2011 from about 5 percent in 2010, with advanced economies expanding by about 2½ percent. The driving forces of ongoing recovery in advanced economies are anticipated to continue shifting from restocking and policy stimulus to private demand, including investment—supported by diminishing excess capacity, easing financial conditions, healthy nonfinancial corporate balance sheets and cashflow—and consumption as employment and confidence gradually recover.

15. **Growth in *emerging economies* is expected to moderate but remain sufficiently strong to keep output at or above potential on average**. Real GDP is expected to expand by about 6½ percent in 2011 compared to 7¼ percent in 2010. Recovery momentum is being boosted by a range of factors, including rising exports, accommodative macroeconomic policies, capital flows and higher commodity prices. Rapid credit growth, despite some efforts to tighten policies, and strong labor market conditions are also expected to underpin domestic demand.

Global Growth
(Percent; quarter over quarter annualized)



Sources: IMF, Global Data Source; and IMF staff estimates.

16. **Notwithstanding divergences in growth and output gaps that call for differentiated policy settings, macroeconomic policies are anticipated to remain broadly accommodative across advanced and emerging economies.**

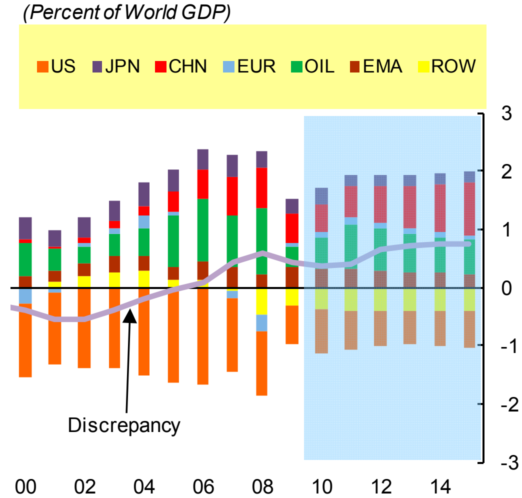
- In *advanced economies*, the scale of monetary tightening is generally expected to be modest. The Federal Reserve and Bank of Japan are forecast to keep their interest rates very low during 2011, due to subdued wage claims and large output gaps. The ECB increased its rates for the first time since the crisis in April, as it sees growing upside risks to price stability, but it has prolonged unconventional support in recognition of still high financial risks. Economic conditions and underlying price pressures will be somewhat stronger in various other advanced economies—including *Australia* and *Korea*—and they will have to do more as domestic demand rises and food and energy prices put pressure on wages. In the *United States*, the extent of near-term fiscal adjustment remains unclear, while in *Europe* fiscal policy is tightening. In *Japan*, the immediate fiscal priority will be to facilitate needed reconstruction spending to restore growth.

- In *emerging economies*, despite tightening capacity constraints, rapid credit growth and rising core inflation, monetary policy tightening, particularly rate hikes, is anticipated to be limited. Fiscal consolidation is expected to accelerate in 2011. The average headline deficit is projected to fall by more than 1¼ percent of GDP (about 1 percent of GDP in cyclically adjusted terms). The pace of consolidation appears to fall short of what would be warranted by cyclical developments, with cyclically adjusted primary balances often projected to be substantially weaker than before the outset of the crisis

17. **Progress in rebalancing the global economy will be modest**. Policymakers have yet to put in place credible plans to achieve rebalancing.

- Many of the distortions underlying the large pre-crisis imbalances remain—including undervalued exchange rates in key emerging surplus economies and insufficient domestic saving in advanced deficit economies. This will contribute to a broad deterioration in existing external imbalances across the G-20 and these trends, if left unchecked, present a medium-term threat to global growth prospects.

Global Imbalances
(Percent of World GDP)



Source: IMF staff estimates.

- Fund staff analysis suggests that growth in the *United States* may remain sluggish unless net exports can provide a larger contribution to activity. The table below shows an illustrative scenario in which, for consumption alone to offset faster fiscal consolidation and increase output so that the output gap closes in 2014, annual consumption growth would need to average 1.3 percentage points higher than the current WEO projection over 2011–14, implying that the saving rate would fall to an unsustainable level by 2014. Likewise, if the additional output required were to come from investment alone, annual private investment growth would need to average 5.6 percent higher than the WEO projection over 2011–14.

- Attention of the G-20 is, however, being focused on the issues of imbalances, including notably in the context of the Mutual Assessment Process (MAP) and the ongoing work on indicative guidelines.

Can the U.S. Return to Potential Output and Fiscally Consolidate?
(Percent)

		Real GDP Growth	Output Gap (2014)	Private Consumption Growth	Saving Rate (2014)	Private Investment Growth	Export Growth
WEO average (2011-14)		2.8	-1.4	2.5	5.1	9.4	6.0
		Change in annual growth required over 2011-14 *(Percentage points)*					
	Fiscal Drag						
Offset faster fiscal consolidation 1/	0.4	0.0	-1.4	0.7	2.6	3.0	3.3
And close output gap in 2014	0.4	0.4	0.0	1.3	2.5	5.6	6.1

Sources: IMF, World Economic Outlook; and IMF staff calculations.
1/ Overall balance improves further by 1.5 percent of GDP over 2012-14.

Previously highlighted risks have eased, but new risks have emerged

18. **Financial risks have declined, but slow growth in *advanced economies* will keep financial systems and fiscal positions vulnerable to shocks.** Near-term risks are greatest in Europe, where the threat of spillovers from the *euro area* periphery to core European economies remains significant. Broadening economic recovery and accommodative macroeconomic and financial policies are easing balance sheet risks and boosting risk appetite in the euro area, but vulnerabilities remain broad and deep. Markets remain uncertain about the exact mechanisms to resolve funding stress quickly without spillovers. Risks are exacerbated by continuing weakness among many financial institutions in Europe, lack of clarity on their exposures, and weak sovereign balance sheets.

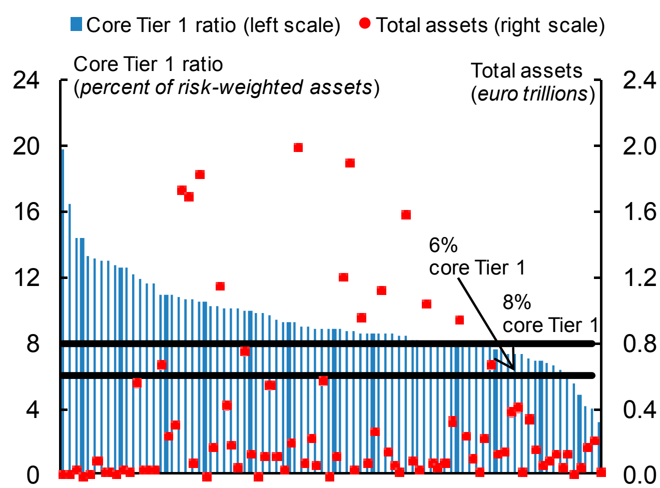
Box 2. Low Capital Buffers and Vulnerabilities in European Banks

Markets are concerned that some banks are too highly leveraged given the uncertainty about the quality of assets that they hold. For example, staff calculations indicate that over 5 percent of banks, representing 2 percent of bank assets, in a sample of more than 80 EU institutions, had Core Tier 1 ratios below 6 percent at end-2010. This figure rises to over 30 percent of banks and almost 20 percent of assets against an 8 percent Core Tier 1 ratio. Some weakly capitalized banks have found it difficult to finance themselves in the market and have turned in varying degrees to central banks for liquidity support. This weak tail of banks has created overcapacity in some banking systems, raising funding costs for all banks in the system, reducing profitability, and adversely affecting capital generation.

To restore investor confidence and sustain cost effective access to funding markets, banks need to raise the quantity and quality of their capital buffers. At the same time, further policy action is needed to restructure and, where necessary, resolve this weak tail of undercapitalized banks and to restore overall banking system health. Banks should also take measures to address uncertainty about asset quality. One way is to increase transparency by enhancing the frequency and quality of EU bank reporting, for example through all institutions reporting a common template that is publically disclosed on a quarterly basis. The publication of stress-test results can also make an important contribution to greater transparency.

There is an opportunity to improve on the 2010 stress tests run by the Committee of European Banking Supervisors when new stress tests are conducted by the European Banking Authority later in 2011. These new stress tests should: be embedded in a broader crisis management strategy, including the clarification of support for sovereigns and backstops for banks; ensure the broadest possible coverage of banks in each country; incorporate funding costs and liquidity strains; have a more stringent capital hurdle, especially for banks that rely on wholesale funding markets; include ex ante verification of weak assets—particularly real estate—by private consultants for loan books in economies with property overhangs; have stronger supervisory scrutiny to ensure consistency across economies; and require upfront and higher quality capitalization for weaker banks.

EU Bank Core Tier 1 Ratios, 2010

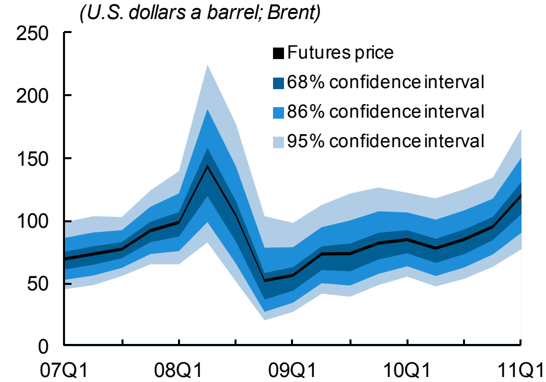


Source: SNL Financial.

19. **In *emerging economies*, tightening capacity constraints and overheating threaten an eventual hard landing.** Inflation pressures are broadening in emerging economies due to tight capacity constraints and could become ingrained in inflation expectations. At the same time, risks of overheating are rising, due to credit booms, rising corporate leverage, and capital inflows. Policy responses, so far, have been insufficient to address these rising pressures, portending risks of a hard landing.

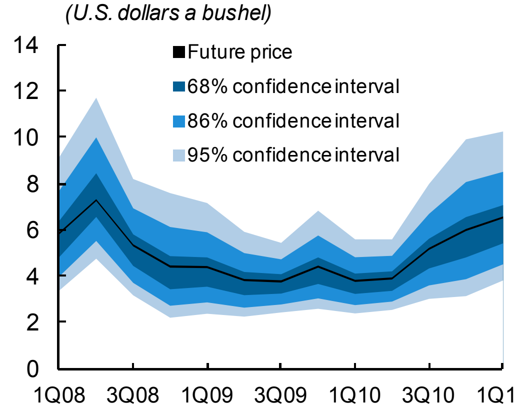
20. **The risk of a near-term spike in oil prices back to 2008 peaks has increased materially.** Oil demand growth is expected to moderate from the strong expansion in 2010, but remain robust. Prices will also depend importantly on OPEC production. The call on OPEC (global demand minus non-OPEC supply) will likely increase markedly in 2011. At the same time, the earthquake in Japan may increase oil demand gradually, due to reconstruction and substitution away from nuclear power generation. Futures markets anticipate a very gradual reduction in oil supply uncertainty, through 2011, with the implied probability of prices reaching the 2008 high of about $145 per barrel increasing since the start of 2011, in part reflecting unrest in MENA and the threat of spillovers to other oil exporters, but also possible supply disruptions related to upcoming elections in Nigeria.[3]

Crude Oil: Risk-Neutral 9-Month Price Density Function
(U.S. dollars a barrel; Brent)



Source: IMF staff estimates.

Corn: Risk-Neutral 9-Month Price Density Function
(U.S. dollars a bushel)



Source: IMF staff estimates.

21. **Food price risks are also on the upside**. Markets anticipate that improving supply should allow prices to retreat modestly from their recent highs through 2011, but it will take time for global food inventories to rise to more normal levels, which will leave food prices sensitive to shocks

[3] The 2008 high refers to the peak on July 3. The futures curve is slightly backwardated, but prices remain above $100 per barrel for the 2011–12 period. Market perceptions of oil price tail risks embedded in options markets increased in February but have subsequently moderated and remain broadly similar to those that prevailed in late 2010. However, the upward shift in oil prices since the start of 2011 means that the implied probability reaching their 2008 peaks has increased.

that tighten physical markets. Prominent risks include: poor weather; persistently higher energy prices given the role of fossil fuels in the production process and bio-fuel demand linkages; and trade restrictions.

22. **Weak sovereign balance sheets in *advanced economies* present a risk beyond the near term.** The absence of well-specified medium-term plans to restore fiscal sustainability in several economies raises serious concerns, particularly about the *United States* and *Japan*. As activity continues to pick up, large sovereign funding requirements will put upward pressure on interest rates, slowing the recovery of the private sector and lowering potential output. This could leave the United States vulnerable to abrupt increases in interest rates (especially from low levels) that could destabilize global bond markets, with particularly deleterious effects on emerging market economies. Gradual increases would slow investment and potential growth in advanced as well as emerging and developing economies, making fundamental reform of entitlement programs—indispensable to attaining sustainable public finances—even harder to achieve.

Medium-term Fiscal Balance Projections
(Percent of GDP)

	2000-07	2007	2016
Overall balance			
Advanced economies	-2.0	-1.1	-3.5
Emerging economies	-2.1	-0.1	-1.3
Cyclically adjusted balance			
Advanced economies	-2.1	-1.6	-3.3
Emerging economies	-2.2	-1.1	-2.1
Cyclically adjusted primary balance			
Advanced economies	-0.2	0.2	-0.4
Emerging economies	0.5	1.2	-0.6
Gross general government debt			
Advanced economies	71.0	73.1	107.4
Emerging economies	43.1	36.0	30.8

Sources: April 2011 WEO and IMF staff calculations.

III. POLICY CHALLENGES

Policies to rebalance growth and reduce vulnerabilities are needed to sustain the global recovery. In the advanced economies, the most pressing tasks are to alleviate financial stresses, notably in some euro area countries, and accelerate financial reforms. Credible medium-term fiscal consolidation plans are also required, particularly in the United States and Japan. The key policy challenge in emerging economies is to address overheating and rising inflation, and prevent the build-up of financial imbalances. In key surplus economies, currency appreciation can contribute to reduced overheating, facilitating a healthy rebalancing from external to internal demand.

23. **Clearer parameters for the crisis management mechanisms in the euro area are certainly welcome but challenges now lie in their implementation.**

- *The funding mechanism for the larger effective EFSF should be clarified as soon as possible.* A decision on adapting the interest rate charged on EFSF loans is also urgently needed to help support fiscal sustainability.

- *The interdependence of national banking systems and sovereigns remain unaddressed*, and the onus of dealing with financial sector issues is squarely left on the national authorities, despite the high potential for cross-border contagion.

- *Added flexibility on the instruments of the proposed permanent facility beyond 2013 would help broaden the avenues of support and bolster the emphasis on prevention and early action*. This would strengthen the extent to which the new facility provides a robust and orderly framework to assist euro area members, with strict conditionality to support discipline

24. **In *advanced economies*, financial repair and reform need to move forward to sustain the recent improvement in financial conditions**. There has not been enough emphasis on structural measures that more directly facilitate a sustained normalization of financial conditions.

- *Bank capital buffers still remain too low, notably in the euro area banks, and policymakers need to facilitate reduced uncertainty about bank balance sheets*. This will require greater disclosure about asset quality and exposures and rigorous, credible, and timely stress tests that assess solvency and funding risks, backed by capital support or followed by resolution, if necessary. Implementation of the new Basel III accord should be accelerated.

- *The post-crisis supervisory and regulatory architecture is still a work in progress*. The shadow banking system and institutions that are too large, or too complex, to fail pose problems that has not yet been fully addressed. Stronger supervision and resolution frameworks are needed for cross-border financial institutions. This will require significantly enhanced international cooperation, including in day-to-day supervision. System-wide macroprudential policy frameworks also require development and implementation.

- *Restarting private securitization is critical to repairing credit intermediation*. In the *United States*, a return to robust mortgage securitization would depend on greater clarity about forthcoming changes in the housing financing system. These would include clarifying the role of government sponsored enterprises, reforms of rating agencies, and better incentives to safe securitization.

25. ***Emerging economies* need to address overheating and credit boom risks**. To mitigate the risks of an eventual hard landing, policymakers in some countries have relied too much on prudential and control measures, delaying the macroeconomic policy response, and threatening inflation and financial stability and policy credibility. There remains a need to:

- *Tighten monetary policy and, notably in key surplus economies, allow for greater exchange rate flexibility*. Notwithstanding recent rate hikes in some emerging economies, real interest rates remain far below precrisis levels and hence too low. Greater exchange rate appreciation would dampen inflationary pressures, including from world commodity prices, introduce more two-way risk for capital inflows, and facilitate external rebalancing in surplus economies.

- *Accelerate fiscal consolidation*. Current projections are for a limited decline in budget deficits of emerging economies in 2011 and 2012, even though output growth and capacity utilization would continue to be above pre-crisis trend. In external deficit economies, fiscal tightening would take some of the adjustment burden from monetary policy and the exchange rate, and allow for lower interest rates, all else equal, which could rebuild policy space, restrain widening current account deficits, and reduce net capital inflow pressures.

- *Manage capital flows by fully utilizing macroeconomic and prudential tools, tailored to country-specific circumstances*. If inflows raise macro- and financial-stability concerns, macroeconomic policies (e.g., adjusting the fiscal-monetary policy mix, exchange rate appreciation, and some reserve accumulation) should be complemented with strengthened prudential measures (e.g., loan to value ratios, funding composition restrictions). Capital controls can be used in some cases, but they should not substitute for necessary macroeconomic and prudential policies.

26. **Central banks should accommodate higher food and energy prices so long as it does not threaten policy credibility and underlying inflation.**

- In *advanced economies*, the scope for accommodation is greater due to a relatively small share of food and energy in the consumer basket, well-anchored inflation expectations, and excess capacity that will exert downward pressure on wages. However, even economies with well-established inflation targeting regimes may need to gradually normalize policy rates from very low levels to guard against the possible second round effects of persistent commodity price shocks, particularly as excess capacity gradually disappears.

- In *emerging economies,* monetary policy may need to respond more sensitively to first-round inflation shocks from higher commodity prices due to higher pass-through (mainly for food prices, less so for energy), less well-anchored inflation expectations, and economies that are operating closer to, or above, capacity.

27. **The rapid increase in food prices may incur fiscal and social costs, particularly in emerging and low income countries (LICs)**. To minimize these costs, policymakers would need to:

- *Avoid distortionary policies*, such as trade restrictions, excessive hoarding of food inventories by state-owned reserve managers, price controls, and poorly targeted subsidy programs that seek to insulate domestic markets, as such actions can increase world food price volatility and dampen the domestic supply response;

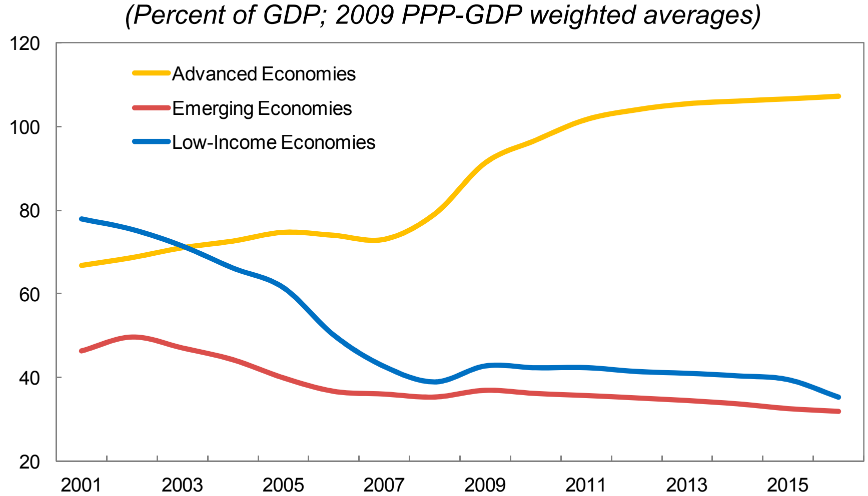
- *Ensure that the poor are protected, ideally through targeted and cost-effective soci*al safety net programs. The IMF also stands ready to boost its financial support to LICs and other member countries to help them *stem the adverse effects of rapid* food price increases.

28. **Substantial fiscal consolidation in many *advanced economies* is in the pipeline, but clear and credible medium-term fiscal consolidation frameworks need to be in place as soon as possible, particularly in the *United States* where the crisis has worsened debt dynamics on top of long-term pressures from entitlement spending. Medium-term fiscal adjustment needs in *emerging economies* are generally smaller.**

- *Deficits in most advanced economies remain well above the levels that would stabilize or reduce debt ratios*. In particular, to reduce debt ratios to the precrisis median of 60 percent of GDP (net debt of 80 percent for Japan), the average projected adjustment of 3¾ percent of GDP between 2010 and 2016 amounts to less than half that needed through 2020.

- *Adjustment needs in emerging economies average about 2 percent of GDP* (one quarter the average for *advanced economies*), based on an illustrative scenario that would reduce the debt ratio gradually to 40 percent of GDP or stabilize it at the projected 2012 level, if below 40 percent of GDP.[4]

General Government Gross Debt Ratios
(Percent of GDP; 2009 PPP-GDP weighted averages)



Source: I*MF staff* estimates based on April 2011 WEO projections.

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[4] See *IMF Fiscal Monitor*, April 2011, for a full description of the illustrative scenario.

29. **The key principles underlying fiscal consolidation plans, which may vary by country, should include:**

- *Flexible responses to macroeconomic conditions*. In all *advanced economies*, additional revenues from faster-than-anticipated growth should be saved. *Emerging economies* should use revenue buoyancy related to high asset and commodity prices and favorable economic conditions to rebuild fiscal buffers rather than increase spending in the near term.

- *Deep entitlement reforms in advanced economies*, particularly in health care, where policymakers will have to balance the need to ensure access with the requirement of maintaining sustainability of public finances. In *emerging economies*, the challenge will be to improve the coverage of health safety nets while preserving long-term fiscal sustainability, as health indicators are substantially lower than in advanced countries.

- *Revenue measures in economies where adjustment needs are large and/ or revenue ratios are low.* Raising revenue by widening tax bases and removing distortions, rather than by raising tax rates, should be part of the adjustment package in some economies. In many countries, the elimination of tax expenditures can contribute to this objective.

- *Developing good fiscal institutions* that can provide accurate and timely monitoring of fiscal outturns, better coordination across levels of government, and more medium-term orientation of fiscal policy making, including by establishing and strengthening fiscal rules.

Table 1. Real GDP Growth

(Percent change)

	Year over Year				Q4 over Q4 1/	
		Est.	Projections		Projections	
	2009	2010	2011	2012	2011	2012
World 1/	**-0.5**	**5.0**	**4.4**	**4.5**	**4.5**	**4.4**
Advanced economies	-3.4	3.0	2.4	2.6	2.6	2.5
Euro area	-4.1	1.7	1.6	1.8	1.5	2.1
Emerging and developing economies 2/	2.7	7.3	6.5	6.5	6.9	6.9
Advanced G-20	-3.4	2.9	2.4	2.6	2.7	2.4
Emerging G-20	3.7	8.5	7.5	7.3	7.3	7.2
G-20 3/	-0.4	5.3	4.7	4.7	4.7	4.6
Argentina	0.8	9.2	6.0	4.6	4.3	5.3
Australia	1.3	2.7	3.0	3.5	3.5	3.2
Brazil	-0.6	7.5	4.5	4.1	5.0	4.0
Canada	-2.5	3.1	2.8	2.6	2.8	2.5
China	9.2	10.3	9.6	9.5	9.4	9.4
France	-2.5	1.5	1.6	1.8	1.7	2.0
Germany	-4.7	3.5	2.5	2.1	1.9	2.5
India	6.8	10.4	8.2	7.8	7.8	8.0
Indonesia	4.6	6.1	6.2	6.5	6.0	5.7
Italy	-5.2	1.3	1.1	1.3	1.3	1.2
Japan	-6.3	3.9	1.4	2.1	2.5	1.3
Korea	0.2	6.1	4.5	4.2	4.6	4.2
Mexico	-6.1	5.5	4.6	4.0	4.4	3.7
Russia	-7.8	4.0	4.8	4.5	4.3	3.5
Saudi Arabia	0.6	3.7	7.5	3.0	…	…
South Africa	-1.7	2.8	3.5	3.8	3.4	4.1
Turkey	-4.7	8.2	4.6	4.5	4.2	4.6
United Kingdom	-4.9	1.3	1.7	2.3	2.2	2.4
United States	-2.6	2.8	2.8	2.9	3.0	2.7
European Union	-4.1	1.8	1.8	2.1	1.8	2.4

Source: IMF, *World Economic Outlook* April 2011.

1/ The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.

2/ The quarterly estimates and projections account for approximately 77 percent of the emerging and developing economies.

3/ G-20 aggregations exclude European Union and quarterly projections exclude Saudi Arabia and European Union.

Table 2. Inflation
(Percent)

	Year over Year			
		Est.	Projections	
	2009	2010	2011	2012
World	**2.5**	**3.7**	**4.5**	**3.4**
Advanced economies	0.1	1.6	2.2	1.7
Euro area	0.3	1.6	2.3	1.7
Emerging and developing economies	5.2	6.2	6.9	5.3
Advanced G-20	0.1	1.5	2.2	1.6
Emerging G-20	4.4	6.1	6.1	4.6
G-20 1/	1.9	3.5	3.9	3.0
Argentina	6.3	10.5	10.2	11.5
Australia	1.8	2.8	3.0	3.0
Brazil	4.9	5.0	6.3	4.8
Canada	0.3	1.8	2.2	1.9
China	-0.7	3.3	5.0	2.5
France	0.1	1.7	2.1	1.7
Germany	0.2	1.2	2.2	1.5
India	10.9	13.2	7.5	6.9
Indonesia	4.8	5.1	7.1	5.9
Italy	0.8	1.6	2.0	2.1
Japan	-1.4	-0.7	0.2	0.2
Korea	2.8	3.0	4.5	3.0
Mexico	5.3	4.2	3.6	3.1
Russia	11.7	6.9	9.3	8.0
Saudi Arabia	5.1	5.4	6.0	5.5
South Africa	7.1	4.3	4.9	5.8
Turkey	6.3	8.6	8.6	6.0
United Kingdom	2.1	3.3	4.2	2.0
United States	-0.3	1.6	2.2	1.6
European Union	0.9	2.0	2.7	1.9

Source: IMF, *World Economic Outlook* April 2011.
1/ G-20 aggregations exclude European Union.

Table 3. Fiscal Balance

(Percent of GDP; general government net lending/borrowing; excludes policy lending)

		Est.	Projections	
	2009	2010	2011	2012
World	**-7.3**	**-6.0**	**-5.0**	**-3.6**
Advanced economies	-8.6	-7.6	-6.9	-5.1
Euro area	-6.3	-6.1	-4.4	-3.6
Emerging and developing economies	-4.2	-2.9	-1.5	-1.1
Advanced G-20	-9.4	-8.3	-7.9	-5.8
Emerging G-20	-4.4	-3.2	-2.0	-1.7
G-20 1/	-8.0	-6.7	-6.0	-4.5
Argentina	-3.8	-1.7	-3.1	-3.1
Australia	-4.1	-4.6	-2.5	-0.6
Brazil	-3.1	-2.9	-2.4	-2.6
Canada	-5.5	-5.5	-4.6	-2.8
China	-3.1	-2.6	-1.6	-0.9
France	-7.5	-7.0	-5.8	-4.9
Germany	-3.0	-3.3	-2.3	-1.5
India	-10.0	-9.4	-8.3	-7.5
Indonesia	-1.8	-0.6	-1.5	-1.4
Italy	-5.3	-4.6	-4.3	-3.5
Japan	-10.3	-9.5	-10.0	-8.4
Korea	0.0	2.4	2.5	2.8
Mexico	-4.8	-4.1	-1.8	-2.4
Russia	-6.3	-3.6	-1.6	-1.7
Saudi Arabia	-4.7	7.7	12.8	14.1
South Africa	-5.2	-5.8	-5.7	-5.0
Turkey	-5.6	-2.6	-1.7	-1.5
United Kingdom	-10.3	-10.4	-8.6	-6.9
United States	-12.7	-10.6	-10.8	-7.5
European Union	-6.6	-6.5	-4.8	-4.0

Source: IMF, *World Economic Outlook* April 2011.
1/ G-20 aggregations exclude European Union.

Table 4. Current Account Balance

(Individual countries in percent of country GDP and aggregates in percent of world GDP)

						Est.	Projections			
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
G-20 1/	-0.7	-0.7	-0.3	-0.5	-0.1	-0.3	-0.1	0.0	0.0	0.0
Thematic Grouping 2/										
G-20 Advanced Surplus	0.5	0.4	0.5	0.0	0.1	0.2	0.2	0.2	0.2	0.2
Canada	1.9	1.4	0.8	0.4	-2.8	-3.1	-2.8	-2.6	-2.4	-2.0
Euro area	0.1	-0.1	0.1	-1.4	-0.6	-0.6	0.0	0.0	0.1	0.2
Japan	3.6	3.9	4.8	3.2	2.8	3.6	2.3	2.3	2.2	2.1
Korea	2.2	1.5	2.1	0.3	3.9	2.8	1.1	1.0	0.9	0.8
G-20 Emerging Surplus	0.4	0.6	0.7	0.7	0.5	0.5	0.6	0.7	0.7	0.8
Argentina	2.6	3.2	2.3	1.3	1.8	0.9	0.1	-0.5	-0.8	-0.9
China	7.1	9.3	10.6	9.6	6.0	5.2	5.7	6.3	6.8	7.2
Indonesia	0.1	3.0	2.4	0.0	2.6	0.9	0.9	0.4	-0.1	-0.5
G-20 Advanced Deficit	-1.9	-1.9	-1.5	-1.2	-0.8	-0.9	-0.9	-0.8	-0.7	-0.8
Australia	-5.7	-5.3	-6.2	-4.5	-4.2	-2.6	-0.4	-2.1	-3.5	-4.8
United Kingdom	-2.6	-3.4	-2.6	-1.6	-1.7	-2.5	-2.4	-1.9	-1.5	-1.3
United States	-5.9	-6.0	-5.1	-4.7	-2.7	-3.2	-3.2	-2.8	-2.7	-2.8
G-20 Emerging Deficit	-0.1	-0.1	-0.2	-0.3	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3
Brazil	1.6	1.2	0.1	-1.7	-1.5	-2.3	-2.6	-3.0	-3.4	-3.6
India	-1.3	-1.0	-0.7	-2.0	-2.8	-3.2	-3.7	-3.8	-2.7	-2.2
Mexico	-0.6	-0.5	-0.9	-1.5	-0.7	-0.5	-0.9	-1.1	-1.3	-1.3
South Africa	-3.5	-5.3	-7.0	-7.1	-4.1	-2.8	-4.4	-5.1	-5.2	-5.5
Turkey	-4.6	-6.1	-5.9	-5.7	-2.3	-6.5	-8.0	-8.2	-8.2	-8.3
EU (other)	0.4	-0.5	-2.2	-1.8	1.2	1.2	0.9	0.7	0.3	0.1
G-20 Large Oil Exporters	0.4	0.4	0.3	0.4	0.1	0.2	0.3	0.2	0.1	0.1
Russia	11.1	9.5	5.9	6.2	4.1	4.9	5.6	3.9	2.4	1.7
Saudi Arabia	28.5	27.8	24.3	27.8	6.1	8.7	19.8	13.8	8.5	7.7

Source: IMF, *World Economic Outlook* April 2011.
1/ G-20 consists of Argentina, Australia, Brazil, Canada, China, euro area, EU other, India, Indonesia, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, and United States; EU other consists of European Union countries excluding euro area and U.K.
2/ For the analysis of global imbalances, the euro area is treated as a whole given its common monetary and exchange rate policies. Accordingly, the advanced surplus economies in that case comprise Canada, euro area, Japan, and Korea, and advanced deficit economies include Australia, the United Kingdom, and the United States. Emerging surplus countries consists of Argentina, China, and Indonesia, major oil exporters includes Russia and Saudi Arabia, and emerging deficit countries comprises Brazil, India, Mexico, South Africa, Turkey, and other EU.

Table 5. Contributions to Real GDP Growth 1/

(Percent)

	Average		Average				Est.		Projections							
	2002-05		2006-08		2009		2010		2011		2012		2013		2014	
	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/
G-20																
Argentina	0.8	3.2	-1.1	9.1	1.8	-1.0	-1.9	11.1	-1.3	7.3	-1.8	6.4	-0.6	4.8	-0.7	4.7
Australia	-1.5	5.1	-1.4	4.7	2.8	-1.4	-1.6	4.4	-0.4	3.4	-0.8	4.3	-0.6	4.2	-0.3	3.6
Brazil	0.9	2.3	-1.1	6.1	0.1	-0.7	-2.2	9.7	-1.4	5.9	-0.2	4.3	0.0	4.1	0.3	3.8
Canada	-1.2	3.9	-1.6	3.4	0.2	-2.7	-2.2	5.3	-0.2	3.0	0.0	2.6	0.1	2.4	0.2	1.9
China	1.0	9.1	1.8	10.4	-3.7	12.9	0.8	9.5	1.5	8.1	1.1	8.4	1.2	8.3	1.3	8.2
France	-0.6	2.2	-0.6	2.2	-0.2	-2.4	0.4	1.1	0.1	1.5	0.0	1.8	0.0	2.0	0.0	2.1
Germany	0.8	-0.4	0.9	1.5	-3.2	-1.5	1.2	2.3	1.3	1.2	0.6	1.5	0.5	1.4	0.4	1.3
India	-0.7	7.8	-1.9	10.4	0.4	6.3	2.1	8.3	-4.5	12.8	-0.3	8.2	-0.4	8.6	-0.6	8.7
Indonesia	0.4	4.6	0.8	5.1	1.2	3.4	0.8	5.3	0.3	5.9	0.3	6.2	0.1	6.6	0.1	6.9
Italy	-0.4	1.1	0.1	0.6	-1.3	-4.0	-0.5	1.8	-0.2	1.3	0.4	0.9	0.1	1.3	0.1	1.3
Japan	0.6	1.0	0.7	0.4	-1.5	-4.8	1.8	2.1	-0.3	1.7	0.2	1.9	0.4	1.3	0.3	1.2
Korea	0.8	3.9	0.7	3.5	3.1	-2.9	-0.1	6.2	0.6	3.9	0.5	3.7	0.4	3.8	0.2	3.9
Mexico	-0.1	2.2	-0.7	4.0	2.3	-8.4	0.2	5.3	0.5	4.1	-0.6	4.6	-0.1	3.4	-0.2	3.4
Russia	-0.5	6.9	-2.8	10.1	5.3	-13.1	-1.1	5.0	-3.5	8.3	-1.2	5.7	-0.9	5.3	-0.8	5.0
Saudi Arabia	-1.4	6.1	-7.1	10.2	-1.9	2.5	-5.7	9.4	-3.0	10.5	-6.8	9.8	-6.0	9.4	-3.6	8.2
South Africa	-1.6	5.7	-1.3	6.3	0.1	-1.8	2.9	-0.1	-1.8	5.3	-0.3	4.1	-0.1	4.2	-0.1	4.5
Turkey	-2.3	9.6	0.1	3.9	2.7	-7.4	-4.0	12.2	-0.9	5.5	-0.8	5.3	-0.9	5.0	-0.8	4.9
United Kingdom	-0.5	3.0	0.1	1.7	0.9	-5.7	-1.0	2.3	0.6	1.1	0.7	1.7	0.5	2.0	0.4	2.0
United States	-0.5	3.2	0.6	1.0	1.3	-3.9	-0.4	3.3	0.3	2.5	0.0	2.8	-0.2	2.9	-0.3	3.1
European Union	0.0	1.4	0.2	2.0	-0.7	-3.4	0.8	0.9	0.8	0.8	0.4	1.3	0.3	1.5	0.3	1.6

Source: IMF, *World Economic Outlook* April 2011.

1/ Net Exports plus Other equals annual Real GDP growth.

2/ Sum of private consumption, investment, government consumption and residual.

Table 6. Shares of Real GDP 1/

(Percent)

	Average 2002-05		Average 2006-08		2009		Est. 2010		Projections 2011		2012		2013		2014	
	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/	Net Exports	Other 2/
G-20																
Argentina	4.9	95.1	0.6	99.4	1.0	99.0	-1.0	101.0	-2.3	102.3	-4.0	104.0	-4.4	104.4	-5.0	105.0
Australia	5.4	94.6	0.5	99.5	1.6	98.4	0.0	100.0	-0.4	100.4	-1.2	101.2	-1.7	101.7	-2.0	102.0
Brazil	3.2	96.8	1.8	98.2	0.6	99.4	-1.6	101.6	-2.9	102.9	-2.9	102.9	-2.8	102.8	-2.3	102.3
Canada	1.5	98.5	-5.0	105.0	-6.4	106.4	-9.2	109.2	-9.7	109.7	-9.9	109.9	-9.9	109.9	-9.8	109.8
China	5.7	94.3	8.8	91.2	5.0	95.0	5.2	94.8	6.1	93.9	6.6	93.4	7.1	92.9	7.7	92.3
France	-0.2	100.2	-2.4	102.4	-3.2	103.2	-2.8	102.8	-2.6	102.6	-2.6	102.6	-2.5	102.5	-2.5	102.5
Germany	4.2	95.8	7.0	93.0	4.3	95.7	5.4	94.6	6.5	93.5	7.0	93.0	7.4	92.6	7.7	92.3
India	-1.1	101.1	-4.8	104.8	-6.5	106.5	-4.0	104.0	-7.9	107.9	-7.7	107.7	-7.5	107.5	-7.4	107.4
Indonesia	9.4	90.6	9.5	90.5	10.3	89.7	10.4	89.6	10.1	89.9	9.8	90.2	9.2	90.8	8.7	91.3
Italy	-0.3	100.3	-0.4	100.4	-1.7	101.7	-2.1	102.1	-2.3	102.3	-1.9	101.9	-1.8	101.8	-1.7	101.7
Japan	2.2	97.8	4.4	95.6	3.0	97.0	4.9	95.1	4.5	95.5	4.6	95.4	4.9	95.1	5.2	94.8
Korea	1.1	98.9	3.6	96.4	7.5	92.5	7.0	93.0	7.2	92.8	7.4	92.6	7.4	92.6	7.3	92.7
Mexico	-1.7	101.7	-3.0	103.0	-1.5	101.5	-1.3	101.3	-0.7	100.7	-1.2	101.2	-1.3	101.3	-1.4	101.4
Russia	19.3	80.7	12.6	87.4	15.7	84.3	14.1	85.9	10.6	89.4	9.0	91.0	7.7	92.3	6.6	93.4
Saudi Arabia	4.8	95.2	-14.5	114.5	-22.6	122.6	-27.2	127.2	-28.1	128.1	-33.9	133.9	-38.5	138.5	-40.3	140.3
South Africa	1.9	98.1	-3.8	103.8	-3.9	103.9	-1.0	101.0	-2.7	102.7	-2.8	102.8	-2.8	102.8	-2.8	102.8
Turkey	-0.8	100.8	-3.6	103.6	0.0	100.0	-3.7	103.7	-4.4	104.4	-5.0	105.0	-5.7	105.7	-6.2	106.2
United Kingdom	-3.1	103.1	-3.2	103.2	-2.1	102.1	-3.1	103.1	-2.5	102.5	-1.8	101.8	-1.3	101.3	-0.8	100.8
United States	-5.3	105.3	-4.8	104.8	-2.8	102.8	-3.2	103.2	-2.8	102.8	-2.7	102.7	-2.7	102.7	-2.9	102.9
European Union	1.3	98.7	1.3	98.7	0.7	99.3	1.6	98.4	2.4	97.6	2.9	97.1	3.3	96.7	3.5	96.5

Source: IMF, *World Economic Outlook* April 2011.

1/ Net Exports plus Other equals 100.

2/ Sum of private consumption, investment, government consumption and residual.