

G R O U P O F T W E N T Y



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**Global Economic Prospects and Policy Challenges
Prepared by Staff of the International Monetary Fund**



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SUMMARY

The multi-speed recovery continues.

- Growth in the first quarter of 2011 was broadly in line with Staff expectations. Activity in most advanced economies has slowed in the second quarter, but the slowdown is expected to be temporary.
- Overall, the outlook for global growth in 2011–12 remains broadly unchanged compared with the April 2011 *World Economic Outlook*, although with considerable differences among economies.
- Growth is expected to remain sluggish in advanced economies faced with household, fiscal, and financial sector balance sheet problems, but strong in many emerging and developing economies.

Downside risks have risen.

- Concern about debt sustainability and support for adjustment efforts in Europe's periphery is leading to increased market worries about potential contagion. Risks from the lack of credible medium-term fiscal plans are also elevated in other advanced countries, notably the United States, in which a deadline for raising the debt ceiling looms large, and Japan.
- By contrast, overheating pressures in many emerging and developing economies are intensifying, as exhibited by rising inflation and rapid credit growth.
- Low interest rates in major advanced economies continue to push investors into riskier assets in a search for higher yield, potentially generating financial imbalances, particularly in some emerging markets.

Policy initiatives are needed to increase robustness and secure the recovery.

- The risks of not resolving the Greek crisis are severe. A greater sense of urgency is needed to address the crisis and reduce the risks of contagion.
- Progress on financial sector repair and reform has been too slow, and policy initiatives are urgently needed to make financial systems resilient to new systemic shocks.
- Advanced G-20 economies need to put in place credible medium-term fiscal consolidation that balances short-run growth fragility with fiscal sustainability. Monetary policy should support fiscal adjustment and stay accommodative where there is economic slack.
- In emerging G-20 economies, more rapid macroeconomic policy tightening and demand rebalancing is needed in some cases. Pragmatic use of macroprudential tools may be needed to manage large capital inflows.

Global Outlook and Policy Challenges

Following a solid outturn in the first quarter, there are signs that activity is slowing in the context of rising downside risks. If there are no major disruptions, growth is expected to continue: weakly for major advanced economies, and more robustly for a number of emerging economies. But the vulnerability of the global economy has increased.

RECENT DEVELOPMENTS AND THE OUTLOOK

The Global Conjuncture—a Solid Start to 2011, but Signs of a Slowdown

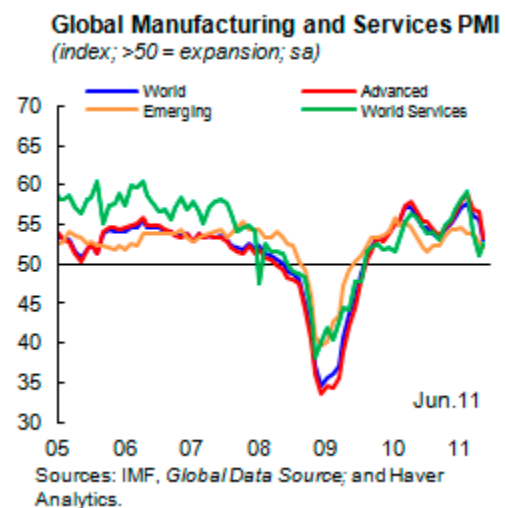
1. *Activity in the first quarter was solid overall, but with surprises.* As projected in the April 2011 *World Economic Outlook*, global growth reached an annualized rate of 4.3 percent, with a recovery in private demand in advanced economies still recovering from the damage owing to the financial crisis. Growth in emerging market and developing economies evolved as expected, albeit with considerable variation across regions. Global employment continued to pick up, including in many advanced economies. There were, however, significant surprises for advanced economies:

- The effect of the earthquake and tsunami on the Japanese economy was worse than initially expected, because of disruptions to industrial production and lower consumer confidence and spending. Production was affected directly because of damage from the earthquake and tsunami; cuts to electricity delivery; and shortages in key components, mainly to the electronics and auto industries.
- Growth was also below expectations in the United States, due to weaker

demand and net exports, after strong finishes in 2010.

- In contrast, growth surprised on the upside in the euro area, powered by stronger-than-anticipated investment in Germany and France.
2. *Signs of a slowdown in the second quarter.* Forward-looking indicators such as purchasing manager indices (PMIs) and surveys of consumer confidence suggest that activity has softened in the second quarter of 2011, especially for many advanced economies.

Expansion, but at a Slower Rate



3. *New shocks on top of old problems.* Notwithstanding progress toward recovery from the financial crisis—in particular,

households in major advanced economies have been steadily reducing debt levels and credit standards are no longer tightening—the global economy has been hit with new shocks:

- Across the world, higher energy and food prices have affected disposable income and inflation expectations are picking up. Food prices are not high in real terms; in fact, prices have been at historically-low levels in recent years, but the increase of late is still significant. By contrast, energy prices are high in real terms and the increase in final prices has been substantial. Because these are items that are difficult to do without, the direct effect is less available income to support other types of consumption.
- On the supply side, margins have been squeezed by rising fuel costs. In addition, some firms (mainly in automobile and electronics sectors) have been hit by uncertainty about supply disruptions from the Japanese earthquake. These negative shocks are in addition to the “old news” of depressed demand in advanced economies and, in some cases, uncertainty about policies, which anecdotal evidence suggests has been holding back employment and some types of capital investment (notably structures).

Financial Markets Remain Volatile

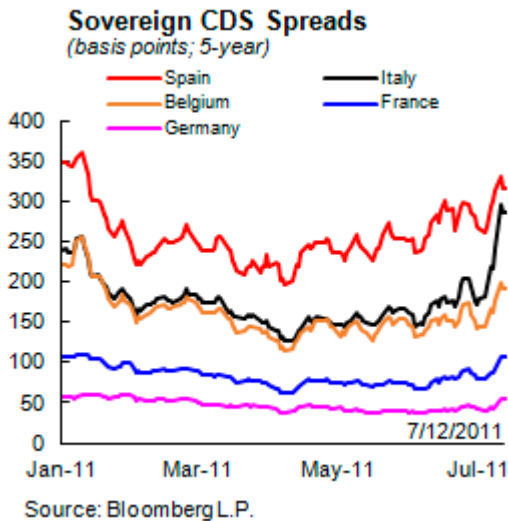
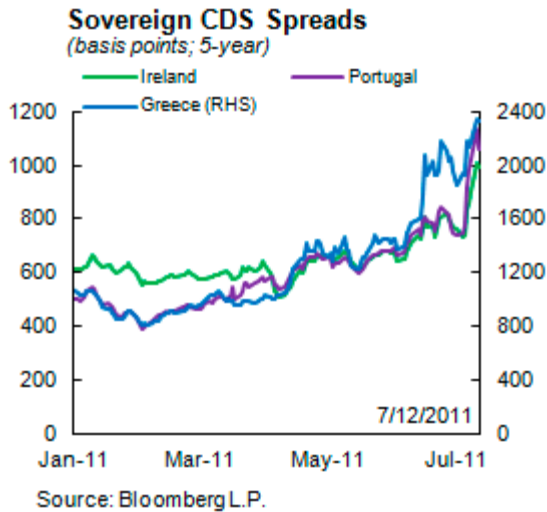
4. *Increased financial market volatility.* Global financial conditions have become more volatile since late May, after easing during the previous months of 2011. Markets are clearly being rattled by developments in Greece and possible spillover effects.

Additionally, concerns have been accentuated by disappointing economic outcomes elsewhere, leading to asset price declines:

- Results for consumer confidence (U.S., Japan, U.K.), employment growth (U.S.), and housing markets (U.S.) have led to downward revisions of expectations of demand growth.¹ Emerging market equity prices have also been hit by revised expectations of future policy tightening, following inflation data.
- Risk pricing has increased. In particular, markets perceive that the prospects of putting public finances in order in some advanced economies are worsening. The lack of progress on banking system repair, notably in Europe, is a closely-related concern. Symptoms include rising sovereign credit default swap spreads in peripheral euro-area economies, credit rating downgrades, and retreating global equity prices (especially of banks). Government bond yields have been driven down by concerns over low growth, and remain low in Japan and the U.S. despite concerns over their fiscal situations.

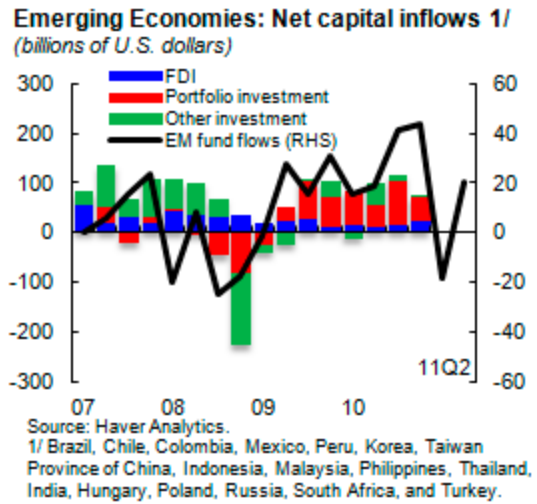
¹ Many commercial institutions have revised down global growth forecasts for 2011. Staff forecasts were already lower, but there have been downward revisions to projections for the U.S. and Japan in 2011.

Periphery Debt Concerns Rising



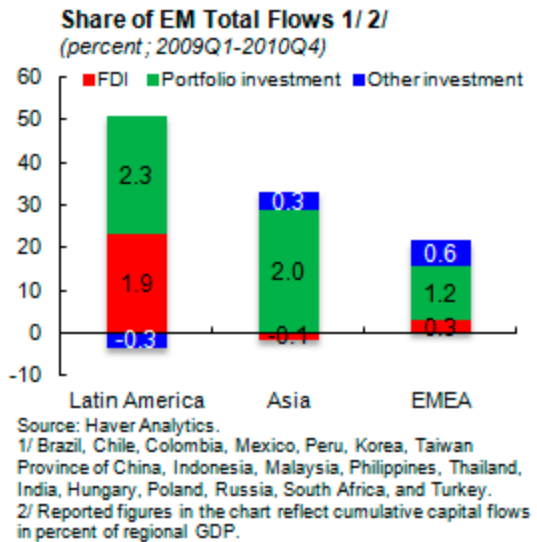
5. *Capital inflows to emerging economies remain volatile.* Net outflows were seen in March, associated with elevated global risk aversion and increased concerns about inflation in emerging economies and raised expectations of policy tightening. However, higher-frequency data suggest that inflows have resumed.

Capital Inflows Volatile, but Rebounding



Capital inflows to Latin American economies (relative to GDP) continue to be larger than in emerging Asia and Europe. Across all emerging economies, the resurgence in capital inflows since the depths of the recession is notable for the high share of portfolio flows, which are generally less susceptible to world interest rate fluctuations than bank lending, but less stable than FDI.

Portfolio Inflows Dominant



6. Progress toward rebalancing global demand remains limited, with most of the

distortions underlying the large pre-crisis imbalances remaining in place. In particular, despite some gyrations, bilateral exchange rates have not moved much in real effective terms since the April 2011 *WEO*, and exchange rates in key emerging surplus economies remain undervalued.

Commodity Prices Ease, but Demand Pressures Likely to Resume

7. *Commodity prices have declined recently after substantial rises.* This is consistent with signs of softening global economic activity and renewed concerns over macroeconomic and financial risks. Declines were initially amplified by the unwinding of non-commercial positions, in tandem with increased financial volatility, but the impact of financial investors on commodity price dynamics has been temporary.

8. *Rising demand will likely put pressures on commodity prices again.* Despite its recent decline, the IMF commodity price index (which includes oil and foods) has risen by approximately 40 percent since the middle of 2010, with large increases across all major commodity groups. Moreover, demand pressures on commodity prices are expected to reemerge as global activity increases more rapidly in the second half of the year. The outlook for commodity prices is therefore heavily contingent on growth in economies that are heavy importers of commodities (such as in east Asia). Based on *WEO* projections, the IMF commodity price index is projected to rise by nearly 30 percent in 2011, largely due to base effects from the price surges in late 2010.

- Better weather conditions have improved the outlook for food supply,

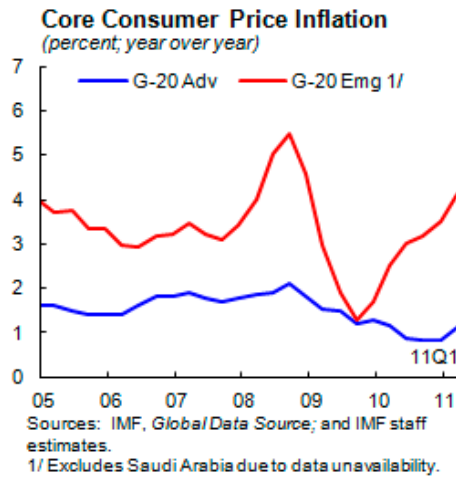
but low global inventory levels for many crops would amplify the price effects of harvest shortfalls.

- Oil price pressures have broadly eased in recent weeks, including after the recent announcement by the International Energy Agency of releases from strategic oil reserves. Current futures prices for 2011 and 2012 are close to the oil price baseline (which is based on futures prices) of \$106.30/bbl and \$105.25 in 2011 and 2012, respectively. However, oil inventories and spare capacity have declined, and geopolitical risks in the Middle East and North Africa are only slowly unwinding. For oil prices to be stable, higher production by OPEC in 2011–12 will be required. Authorities in Saudi Arabia have committed to increasing production as needed.

Rising Inflation

9. Global headline inflation has picked up from 3½ percent in the last quarter of 2010 to 4 percent in the first quarter of 2011, more than expected. Emerging economies have seen larger pass-through from commodity prices to headline and core inflation, presumably because of higher shares of food and fuel in consumption. Higher frequency data indicate that in some advanced economies, core inflation, although low, has crept up. However, across advanced economies, increases in GDP deflators (which strip out the effects imported goods prices) thus far remain low, wage inflation is near zero, and there are few signs that inflation expectations are unanchored.

Core Inflation Still Rising in Emerging Economies

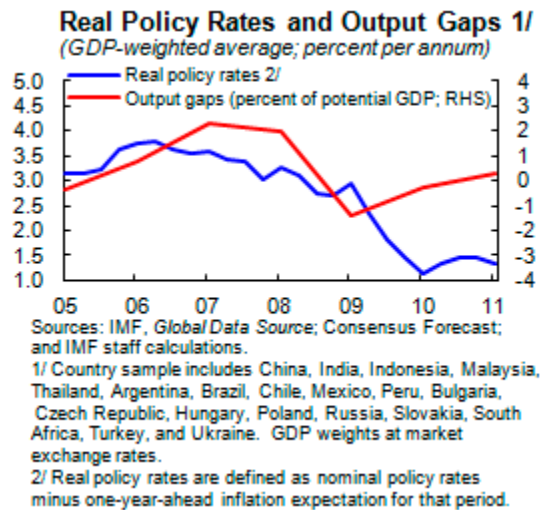


Policies: Still Accommodative Overall

10. The ECB has raised policy rates, but monetary policy rates remain close to the zero bound in the U.S., U.K., and Japan. In the U.S., the second round of quantitative easing measures was completed as scheduled in June. Unconventional monetary policy initiatives in the U.K. are expected to expire during the middle of the year. The ECB has extended the full allotment regime of its refinancing operations until at least October 2011.

11. Across emerging market and developing economies, the financial environment remains quite accommodative, albeit with greater variation across countries. Policy rates have generally been rising, but, with some exceptions (e.g. Brazil), from low levels. On average, real rates are still very low—in many cases, negative.

Low Real Policy Rates in Emerging Economies



12. In many advanced economies, notably in Europe and Canada, fiscal adjustment is well underway. In the United States, the 2011 deficit will be lower than previously forecast and similar to 2010 in cyclically adjusted terms, thereby making the planned fiscal adjustment in 2012 less abrupt. In Japan, projected deficit/GDP ratios are higher for both 2011 and 2012, owing to weaker output growth and revenues this year and greater reconstruction costs.

13. In emerging and low-income economies, fiscal deficits and debts are being reduced gradually. However, cyclically-adjusted balances are still negative in a number of economies (e.g. Brazil, India, and Turkey), even though demand is at or above capacity.

Outlook: Weak Growth in Most Advanced Economies, Strong in Most Emerging Economies

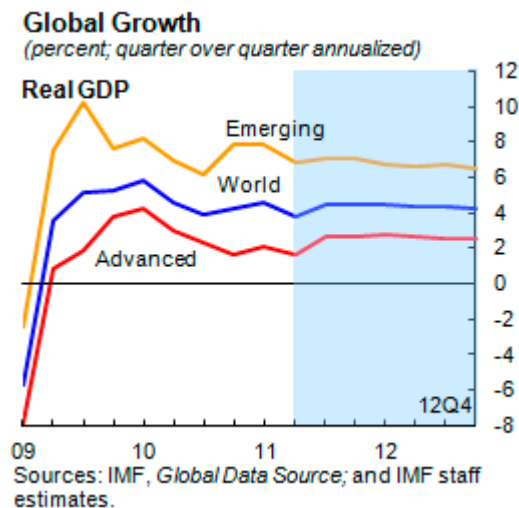
14. All in all, the current slowdown is likely to be temporary, but growth will remain slow in advanced economies. Global activity is

expected to slow in the second quarter of 2011 but projected to reaccelerate thereafter.

15. Baseline projections on global growth and inflation remain broadly unchanged compared with the April 2011 *World Economic Outlook* (Tables 1 and 2).

- In advanced economies, growth is projected to average 2½ percent during 2011–12, decelerating from an average of about 3 percent in 2010. Growth is expected to be slightly stronger in the second half of 2011 than the first half.
- Output growth in emerging market and developing economies is expected at close to 6½ percent during 2011–12, compared with about 7½ percent in 2010.

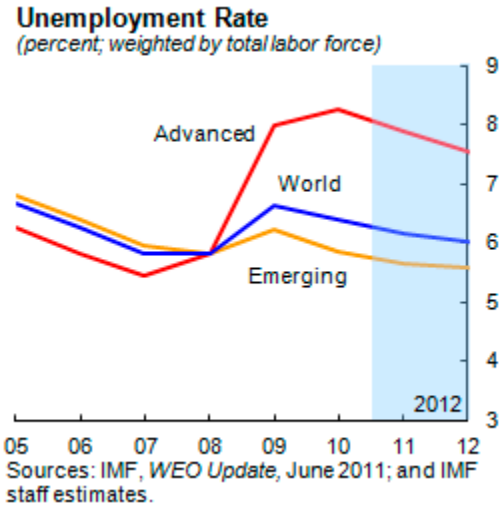
Continued Multi-speed Growth



- Several advanced economies have seen a severe increase in unemployment as a result of the crisis, despite lower labor participation rates. Current growth rates are insufficiently large to make a major dent in unemployment, and the rise in long-term unemployment is particularly worrisome. A notable concern for

emerging and developing economies is the high level of youth unemployment.

Persistently High Unemployment



16. Prospects vary considerably across regions:

- For 2011, growth is expected to be weaker than previously projected in the United States and Japan. Both economies are expected to grow more strongly in 2012.
- In the euro area, a relatively stronger core is pulling ahead of a periphery that faces daunting challenges, with very high debt levels, severe competitiveness problems, and fragile banking systems. Overall growth in 2011 is expected to be stronger than previously projected, although still low. Growth in emerging Europe is now projected to be higher than previously expected in 2011, followed by a softening in 2012, driven by a sharp domestic demand cycle in Turkey.
- Growth in emerging Asia is expected to decelerate only slightly from the very high levels of last year. Exports have

slowed as growth in advanced economies and China has decelerated. Through April, estimates of disruptions to regional production networks due to supply constraints from Japan were increased substantially, particularly for the electronics and auto sectors. However, there are now signs that

production could be back to normal levels earlier than had been forecast a month ago.

- Latin America will be bolstered by commodity exports and accommodative financial conditions, but the pace will ease in some economies where policies have been tightening more aggressively.

RISKS

Downside risks have increased again. The fiscal situation in Greece threatens market disorder that would affect funding rates for other vulnerable sovereigns and could have severe implications for financial institutions. Political risks are also raising questions about medium term fiscal adjustment in some advanced G-20 countries, notably the United States and Japan. Fiscal challenges create severe financial sector risks. The search for yield in a low interest rate environment is intensifying, and many emerging economies face risks of overheating.

Financial Systems Still Vulnerable

17. Markets are heavily concerned about developments in and prospects for Greece. This has serious implications for the strength of financial systems globally. In particular, financial systems remain vulnerable for three key reasons:

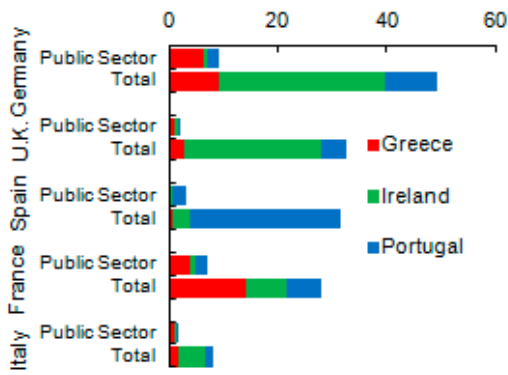
- In Europe, the total exposure of banking systems in key economies to Greece, Ireland and Portugal remains large. At the same time, despite some efforts to raise capital (ahead of the new round of stress tests) capitalization of banks in Europe remains relatively low, compared with U.S. banks, as measured by core tier 1 capital ratios.
- Some banks in peripheral European countries remain heavily dependent on the European Central Bank (ECB)

for liquidity support, reflected in high and rising bond yields.

- Banks across the euro area and elsewhere are lagging behind in securing funding for 2011. This is making them vulnerable to a further tightening in funding conditions, underscoring the importance for stepping up the pace at which they roll over maturing funding, since rollover needs remain substantial despite the ongoing deleveraging.

Large European Bank Exposures

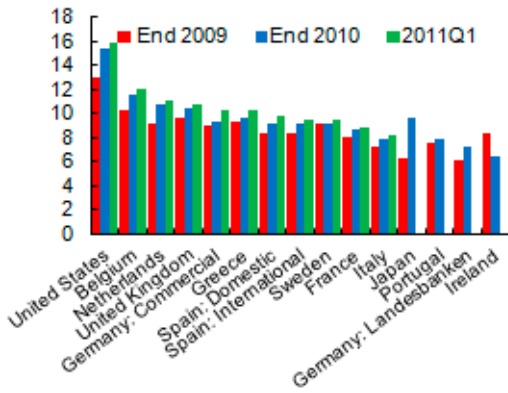
European Banking System Cross-Border Exposures to Selected Economies, 2010Q4
(percent of banking system equity)



Sources: BIS; ECB; and IMF staff estimates.

Relatively Low Capitalization

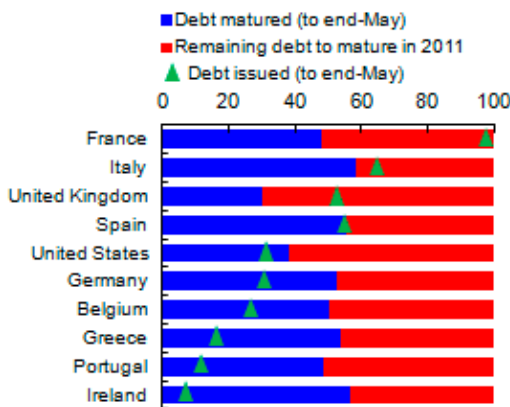
Selected Bank Core Tier 1 Capital Ratios
(percent)



Sources: Bankscope, SNL Financial; and IMF staff estimates.

Bank Funding is Lagging in Many Cases

Bank Debt Issuance, 2011
(percent of total debt maturing)



Sources: Dealogic; and IMF staff calculations.

18. Further shocks could therefore have significant repercussions. Delays to implement measures to ensure that Greece is securely funded would likely cause market disruption. In the event of a disorderly sovereign default in the euro area, risk appetite would likely decrease sharply, causing unwinding of positions and elevated funding rates for banks and vulnerable sovereigns in similar positions within the euro area, with possible spillovers for banks and sovereigns in the rest of the world. Disruptions in wholesale markets could cause lending standards to tighten again. Emerging economies could be vulnerable to sudden reversals in capital flows. Likewise, an increase in U.S. Treasury rates could have severe repercussions for international portfolio allocations and liquidity in funding markets.

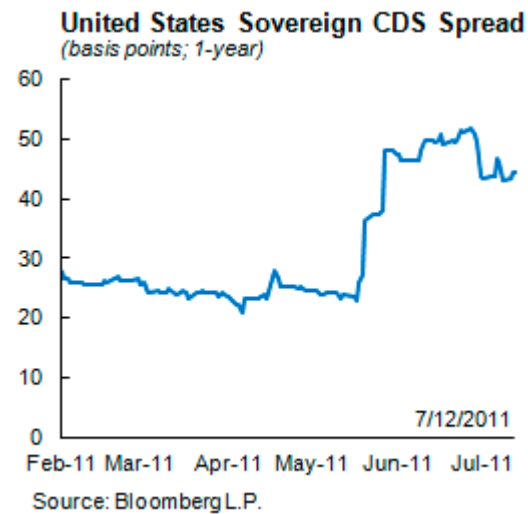
Fiscal Risks Paramount

19. *Fiscal challenges pose significant risks to the recovery.* Fiscal consolidation is underway in core euro area countries, and fiscal and structural adjustment programs in Portugal and Ireland are on track. However, doubts about the ability to successfully adjust fiscal policy in Greece are causing increasingly high spreads to be demanded by buyers of its sovereign debt.

20. At the same time, concerns over medium-term fiscal sustainability are rising because of the absence of a credible consolidation and reform plan in the United States, while in Japan such plans are not sufficiently ambitious or concrete.

- In the United States, current debt dynamics with unchanged policies are unsustainable. The imperative at the current conjuncture is to raise the debt ceiling. Although markets do not appear overly concerned at this point, a loss of fiscal credibility would be extremely damaging, not only for the U.S., but for the rest of the world, given the role of the U.S. in world capital markets. Fiscal adjustment is now a concern for both political parties and the administration; this is *per se* a positive development. However, little progress has yet been seen in breaking the political stalemate over how to carry out the needed fiscal consolidation.

Rising Concern over U.S. Debt Ceiling



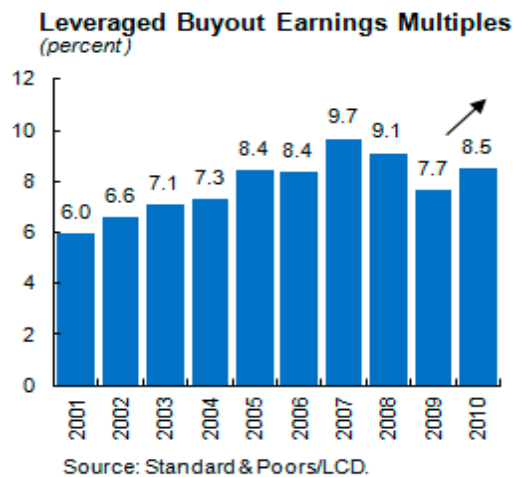
- In Japan, the fiscal response to the earthquake has added to challenges to attain medium-term fiscal sustainability. Current medium-term consolidation plans are not sufficiently ambitious. Some credit rating agencies have already put U.S.

and Japanese sovereign credit ratings on negative watch.

Search For Yield

21. Low interest rates in advanced economies are generating a “search for yield”, leading investors to buy riskier assets and search for new ways of achieving higher yields. In particular, there are signs that financial institutions are again using leverage to generate sufficiently attractive returns on equity. Both new and re-financed private equity transactions suggest that related corporate balance sheets are quickly approaching pre-crisis leverage multiples. Though the aggregate amount of financial leverage provided remains far less than before the crisis, high-yield corporate bond and leveraged loan investors have recently been borrowing at higher earnings multiples, not much below 2007 levels. Flows into mutual funds for emerging market debt have been strong and EM corporate bond issuance is the highest in three years.

Leverage Returns

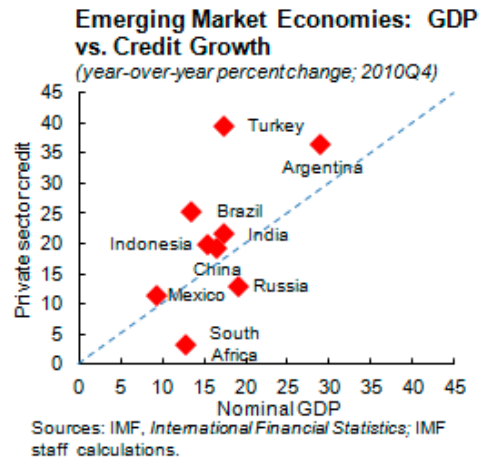


Emerging Economies: Risks of Overheating and Hard Landings

22. Indications of overheating in emerging market economies have increased. Symptoms include output running above long-term trends, rising inflation rates and wage increases, booming asset prices, high rates of growth in private sector credit, and increasing current account deficits.

23. Domestic pressures are associated in some cases with rapid growth in short-term capital inflows, notably debt markets. Although capital deepening is good for growth, the risk is that too much capital may be moving too quickly to emerging markets, with credit standards relaxed, leading to mispricing of credit and/or sudden reversals.

Excessive Credit Growth in some Emerging Economies



24. Policy makers in some economies have tightened the monetary stance, but others have fallen behind the curve. The longer that policy tightening is delayed, the greater the risk of a hard landing in the future.

POLICY CHALLENGES

Policy makers in advanced economies have few options left to buffer the effects of further negative shocks. Urgent policy action is therefore needed to ensure fiscal sustainability, make financial systems more resilient to shocks, and put economies on the right path to balanced and sustainable growth. Emerging economies facing large capital inflows and rapid credit and demand growth must take their own actions to avoid overheating, asset price busts, or sudden stops—including more flexible exchange rates and use of macro-prudential measures. To ensure strong, sustainable and balanced growth, greater progress must be made toward a rebalancing of global demand

25. Securing the transition from recovery to sustained expansion requires immediate and concerted policy measures. Most importantly, this should include providing clarity on euro area-wide solutions to strains in the periphery, but it also includes resolving fiscal policy

uncertainty in the U.S. and Japan, resolving weak banking systems in Europe, and measures to guard against crashes and capital flight in emerging economies.

Financial Sector Policy: Make the Financial System robust

26. There is a need to put the global financial system on a more resilient footing. The matter is more pressing in Europe due to sovereign contagion risks. Though there has been progress on banking system repair, the pace is too slow. The pace of recapitalization needs to be accelerated in order to provide cushions against asset losses or shocks to liquidity. Vulnerabilities are currently masked by unusually accommodative monetary conditions, but the window of opportunity to prepare the financial system against potential systemic shocks could close unexpectedly.

27. The forthcoming stress tests from the European Banking Authority will represent an important opportunity for updating the assessment of risks in the European banking system and for addressing the weak tail of banks flagged in the April *Global Financial Stability Report*. But it is critically important to put in place and immediately publicize credible plans to deal with distressed or non-viable banks, and then be seen to implement them quickly in the event that institutions fail the tests or are perceived to be vulnerable after the tests.

28. Globally, progress on financial sector regulation has been insufficient, and existing proposals have been weakened. In many cases, financial institutions have already become bigger and more complex following the crisis. In addition to larger capital buffers, more intensive supervision, enhanced

transparency and disclosure requirements, and effective resolution regimes at the national and global level (including tools that lead creditors to share losses) are needed.

Fiscal Policy: Resolve the Sovereign Crisis and Adopt Credible Medium-term Frameworks

29. A long-term solution to problems in peripheral euro area economies requires a range of measures. In addition to structural policies and temporary financial assistance, front-loaded fiscal adjustment is needed to restore market confidence and ease the pressure on sovereign and bank spreads. The weak growth outlook in Greece and Portugal imply, notably in the presence of financing constraints, the need for fiscal adjustment measures, as agreed in the EC-IMF programs for these economies.

30. For Europe as a whole, further policy measures are needed to address weaknesses in national budgetary institutions and procedures that have undermined past efforts to enforce the Stability and Growth Pact, such as a lack of transparency and medium-term orientation, as well as an optimistic bias in some national official forecasts. Some reforms to overhaul EU governance have been proposed. They need to be legislated and implemented expeditiously.

31. Addressing the fiscal situation in U.S. and Japan requires balancing short-run growth fragility with long-term sustainability concerns. But authorities should implement credible medium-term

fiscal adjustment plans that include entitlement and revenue-raising tax reforms. For the United States, it is critical to immediately raise the debt ceiling.

32. In some emerging markets, the task is to avoid overheating and prevent the build-up of financial imbalances. In such economies—which include Brazil, India and Turkey—there is room for further consolidation. This will take pressure off monetary and prudential policies and create fiscal space to respond to future shocks. It would also be beneficial to reorient spending—notably, to protect vulnerable sections of society against commodity price increases. Authorities should aim to protect the poor and vulnerable groups through targeted social safety nets, but avoid policies that seek to insulate domestic markets from high world prices (e.g., export bans or subsidies), which dampens the supply response and amplifies global price volatility.

Monetary Policy: Accommodative in Advanced Economies; More Tightening in Emerging Economies

33. In most advanced economies, monetary policy should stay accommodative. Given excess capacity, recent signs that growth has slowed, and planned fiscal consolidation, current monetary policy accommodation should remain as long as medium-term inflation expectations remain well-anchored.

34. A number of emerging market economies are already operating at or above capacity. Their monetary policy

tightening is needed, along with greater exchange rate flexibility and the use of macroprudential tools. While many emerging market and developing economies are already raising policy rates, real rates still remain low or even negative. Thus, policy tightening will have to continue.

- Dealing with commodity price rises poses a particular challenge. Monetary authorities need to prevent such rises from generating successive wage-price increases. Authorities can afford to be more accommodative in those economies where the credibility of monetary policy is high. However, where shares of food and energy in consumption are high and policy credibility is low, as is more common, authorities will have to react faster and more strongly.
- In an environment of low interest rates in advanced economies, raising domestic interest rates might attract capital inflows. The correct policy response is not to avoid raising rates, but to implement sound macroeconomic policies, which includes allowing the exchange rate to appreciate when it is not overvalued, and to flexibly employ macroprudential and regulatory policy tools to deter hot flows and guard against misallocation of capital.

Structural Policies and Supervision: Lay the Foundations for Stable Growth

35. Structural reform measures are needed in many advanced and emerging economies—including economies in Europe, the United States, Japan, and China—to anchor strong, sustainable and balanced growth.

36. In the euro area periphery, there is no way around ambitious structural reforms to boost competitiveness and revive employment growth. Such reforms should address labor markets (such as education, to reduce mismatches) and low productivity (through infrastructure and research). Privatization will contribute to these objectives beyond helping to establish debt sustainability.

37. More economic and financial integration is essential for a dynamic and stable EMU. The integration of labor, goods, and services markets must continue, and obstacles the free flow of equity capital must be eliminated. This

should be complemented with progress toward a unified European financial supervisory and stability framework.

Collective Action is Needed to Reduce Global Imbalances.

38. Greater progress in advancing global demand rebalancing is essential to put the recovery on a stronger footing and ensure strong, sustainable and balanced growth.

- Many of the distortions underlying the large pre-crisis imbalances remain in place, including high saving and undervalued exchange rates in key surplus economies and insufficient saving in advanced deficit economies.
- The broad contours of policy actions aimed at reducing global imbalances were well received at the G20 meeting in Seoul in November 2010, but implementation has been slow.
- Collective action aimed at eliminating policy distortions remains essential for anchoring G-20 growth objectives.

Table 1. Real GDP Growth
(Percent change)

	Year over Year Averages				Q4 over Q4 1/	
	2009	2010	Projections		Projections	
			2011	2012	2011	2012
World 1/	-0.5	5.1	4.3	4.5	4.3	4.4
Advanced economies	-3.4	3.0	2.2	2.6	2.3	2.6
Euro area	-4.1	1.8	2.0	1.7	1.8	2.0
Emerging and developing economies 2/	2.8	7.4	6.6	6.4	6.9	6.6
Advanced G-20	-3.4	2.9	2.1	2.6	2.3	2.5
Emerging G-20	3.7	8.6	7.6	7.2	7.4	7.1
G-20 3/	-0.4	5.4	4.5	4.7	4.6	4.5
Argentina 4/	0.8	9.2	6.0	4.6	4.1	5.5
Australia	1.3	2.7	3.0	3.5	3.5	3.2
Brazil	-0.6	7.5	4.1	3.6	4.3	3.7
Canada	-2.8	3.2	2.9	2.6	2.7	2.7
China	9.2	10.3	9.6	9.5	9.3	9.5
France	-2.6	1.4	2.1	1.9	2.0	2.1
Germany	-4.7	3.5	3.2	2.0	2.6	2.4
India	6.8	10.4	8.2	7.8	7.8	8.0
Indonesia	4.6	6.1	6.2	6.5	6.0	6.4
Italy	-5.2	1.3	1.0	1.3	1.3	1.2
Japan	-6.3	4.0	-0.7	2.9	0.8	2.2
Korea	0.3	6.2	4.5	4.2	4.7	4.4
Mexico	-6.1	5.5	4.7	4.0	4.4	3.7
Russia	-7.8	4.0	4.8	4.5	5.3	3.4
Saudi Arabia	0.1	4.1	6.5	3.6
South Africa	-1.7	2.8	3.5	3.8	3.4	4.1
Turkey	-4.8	8.9	8.7	2.5	7.8	-0.5
United Kingdom	-4.9	1.3	1.5	2.3	2.0	2.4
United States	-2.6	2.9	2.5	2.7	2.6	2.5
European Union	-4.1	1.8	2.0	2.1	1.9	2.3

Source: IMF, *WEO Update*, June 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.

4/ Private analysts are of the view that real GDP growth was significantly lower than the official estimates in 2008 and 2009, although the discrepancy between private and official estimates of real GDP growth narrowed in 2010.

Table 2. Inflation
(Percent)

	Year over Year Averages			
	2009	2010	Projections	
			2011	2012
World	2.5	3.7	4.7	3.6
Advanced economies	0.1	1.6	2.6	1.7
Euro area	0.3	1.6	2.6	1.8
Emerging and developing economies	5.2	6.1	6.9	5.6
Advanced G-20	0.1	1.5	2.6	1.6
Emerging G-20	4.4	5.9	6.2	5.1
G-20 1/	1.9	3.4	4.2	3.2
Argentina 2/	6.3	10.5	10.0	11.7
Australia	1.8	2.8	3.3	3.0
Brazil	4.9	5.0	6.6	4.8
Canada	0.3	1.8	2.9	2.2
China	-0.7	3.3	4.7	3.3
France	0.1	1.7	2.2	1.7
Germany	0.2	1.2	2.5	1.6
India	10.9	12.0	8.7	7.2
Indonesia	4.8	5.1	6.7	5.8
Italy	0.8	1.6	2.5	2.2
Japan	-1.4	-0.7	0.1	0.0
Korea	2.8	3.0	4.5	3.2
Mexico	5.3	4.2	3.6	3.1
Russia	11.7	6.9	9.2	8.1
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	5.5	6.4
United Kingdom	2.1	3.3	4.2	2.0
United States	-0.3	1.6	2.8	1.6
European Union	0.9	2.0	3.0	2.0

Source: IMF, *WEO Update*, June 2011.

1/ G-20 aggregations exclude European Union.

2/ Private analysts estimate that consumer price inflation has been considerably higher than the official estimates from 2007 onwards.

Table 3. Fiscal Balance*(Percent of GDP; general government net lending/borrowing; excludes policy lending)*

	2009	2010	Projections	
			2011	2012
World	-7.2	-5.9	-4.8	-3.7
Advanced economies	-8.6	-7.5	-6.6	-5.1
Euro area	-6.3	-5.9	-4.2	-3.3
Emerging and developing economies	-4.1	-2.8	-1.7	-1.3
Advanced G-20	-9.3	-8.1	-7.5	-5.9
Emerging G-20	-4.4	-3.2	-2.2	-1.9
G-20 1/	-8.0	-6.6	-5.8	-4.6
Argentina 2/	-3.8	-1.7	-2.9	-3.0
Australia	-4.1	-4.9	-3.5	-1.3
Brazil	-3.1	-2.9	-2.8	-2.9
Canada	-4.9	-5.6	-3.9	-2.6
China	-3.1	-2.6	-1.6	-0.7
France	-7.6	-7.1	-5.8	-4.9
Germany	-3.0	-3.3	-1.9	-1.1
India	-9.7	-9.2	-8.5	-8.1
Indonesia	-1.8	-0.6	-1.6	-1.5
Italy	-5.3	-4.5	-4.1	-3.2
Japan	-10.3	-9.6	-10.5	-9.1
Korea	0.0	2.4	2.7	2.7
Mexico	-4.8	-4.1	-2.7	-2.6
Russia	-6.3	-3.5	-1.4	-1.6
Saudi Arabia	-4.6	6.5	10.3	9.7
South Africa	-5.2	-5.8	-5.7	-5.0
Turkey	-5.6	-3.2	-1.9	-1.6
United Kingdom	-10.3	-10.2	-8.5	-7.0
United States	-12.7	-10.3	-9.9	-7.8
European Union	-6.6	-6.4	-4.6	-3.6

Source: IMF, *WEO Update*, June 2011.

1/ G-20 aggregations exclude European Union.

2/ Consolidated public sector on an accrual basis.

Table 4. Current Account Balance*(Individual countries in percent of country GDP and aggregates in percent of world GDP)*

	2005	2006	2007	2008	2009	2010	Projections			
							2011	2012	2013	2014
G-20 1/	-0.8	-0.7	-0.3	-0.5	-0.1	-0.2	-0.1	0.1	0.2	0.2
Thematic Grouping 2/										
G-20 Advanced Surplus	0.5	0.4	0.5	-0.1	0.2	0.2	0.2	0.2	0.3	0.3
Canada	1.9	1.4	0.8	0.3	-3.0	-3.1	-2.4	-2.6	-2.2	-2.0
Euro area	0.1	-0.1	0.1	-1.5	-0.3	-0.4	0.1	0.3	0.4	0.4
Japan	3.6	3.9	4.8	3.2	2.8	3.6	2.5	2.9	2.8	2.7
Korea	2.2	1.5	2.1	0.3	3.9	2.8	1.1	1.0	1.0	0.9
G-20 Emerging Surplus	0.3	0.5	0.7	0.7	0.5	0.5	0.6	0.6	0.7	0.8
Argentina	2.6	3.2	2.3	1.3	1.8	0.9	-0.1	-0.5	-0.5	-0.8
China	5.9	8.6	10.1	9.1	5.2	5.2	5.5	6.0	6.5	6.9
Indonesia	0.1	3.0	2.4	0.0	2.6	0.9	0.3	-0.3	-0.5	-0.7
G-20 Advanced Deficit	-1.9	-1.9	-1.5	-1.2	-0.8	-0.9	-0.8	-0.7	-0.6	-0.6
Australia	-5.7	-5.3	-6.2	-4.5	-4.2	-2.6	-0.8	-2.4	-3.7	-4.3
United Kingdom	-2.6	-3.4	-2.6	-1.6	-1.7	-2.5	-2.3	-1.6	-1.3	-0.9
United States	-5.9	-6.0	-5.1	-4.7	-2.7	-3.2	-3.2	-2.6	-2.3	-2.4
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	-2.5	-2.7	-3.1	-3.4
India	-1.3	-1.0	-0.7	-2.0	-2.8	-2.9	-3.2	-3.3	-2.3	-1.7
Mexico	-0.6	-0.5	-0.9	-1.5	-0.7	-0.5	-0.9	-1.0	-1.1	-1.3
South Africa	-3.5	-5.3	-7.0	-7.1	-4.1	-2.8	-4.3	-5.0	-5.1	-5.5
Turkey	-4.6	-6.1	-5.9	-5.7	-2.3	-6.6	-10.5	-9.8	-9.9	-10.0
EU (other)	0.4	-0.5	-2.2	-1.8	1.2	1.2	1.3	1.1	0.7	0.5
G-20 Large Oil Exporters	0.4	0.4	0.3	0.4	0.1	0.2	0.3	0.2	0.2	0.1
Russia	11.1	9.5	5.9	6.2	4.1	4.8	5.5	3.8	2.4	1.1
Saudi Arabia	28.5	27.8	24.3	27.8	5.6	14.9	20.1	14.7	11.9	10.8

Source: IMF, *WEO Update*, June 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		2009		2010		Projections								
	2002-05		2006-08						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	-1.7	7.7	-1.3	5.9	-0.9	5.2	-0.9	4.9	
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	5.6	-0.2	3.8	0.0	4.1	0.4	3.8	
Canada	-1.2	3.9	-1.6	3.5	0.2	-3.0	-2.2	5.5	0.2	2.7	0.1	2.5	0.3	2.2	0.1	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	-0.4	1.9	-0.4	2.0	-0.2	-2.4	0.1	1.3	-0.1	2.3	0.1	1.7	0.0	2.0	0.0	2.1	
Germany	0.8	-0.4	0.9	1.5	-3.2	-1.5	1.3	2.2	1.2	2.0	0.6	1.4	0.5	1.3	0.4	1.2	
India	-0.6	7.8	-1.9	10.4	0.2	6.5	0.3	10.0	-2.3	10.5	-0.4	8.2	-0.4	8.6	-0.5	8.7	
Indonesia	0.4	4.6	0.8	5.1	1.2	3.4	0.8	5.3	0.4	5.8	0.4	6.1	0.1	6.6	0.3	6.7	
Italy	-0.4	1.1	0.1	0.6	-1.3	-4.0	-0.5	1.8	-0.2	1.2	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	2.2	-0.7	0.0	0.4	2.5	0.6	1.5	0.5	1.5	
Korea	0.8	3.9	0.7	3.5	2.8	-2.5	0.1	6.0	0.7	3.9	0.5	3.7	0.4	3.8	0.2	3.8	
Mexico	-0.1	2.2	-0.7	4.0	2.3	-8.4	0.2	5.3	0.3	4.4	-0.5	4.4	0.0	3.4	-0.1	3.4	
Russia	-0.5	6.9	-2.8	10.1	5.3	-13.1	-3.3	7.3	-3.2	8.0	-1.0	5.5	-0.8	5.1	-0.7	4.8	
Saudi Arabia	-1.5	6.1	-7.1	10.2	-1.9	2.0	0.4	3.7	-4.4	10.9	-5.7	9.3	-5.2	9.6	-2.5	7.1	
South Africa	-1.6	5.7	-1.3	6.3	0.1	-1.8	-0.1	2.9	-1.6	5.1	-0.4	4.2	-0.2	4.4	-0.3	4.7	
Turkey	-2.3	9.6	0.1	3.9	2.7	-7.6	-4.4	13.3	-3.1	11.8	-0.3	2.8	-0.7	4.3	-0.9	4.9	
United Kingdom	-0.5	3.0	0.1	1.7	0.9	-5.7	-1.0	2.3	0.7	0.9	0.7	1.6	0.5	2.0	0.6	1.9	
United States	-0.5	3.2	0.6	1.0	1.3	-3.9	-0.4	3.3	0.4	2.1	0.3	2.3	0.1	2.6	-0.2	3.1	
European Union	0.0	1.4	0.2	2.0	-0.7	-3.5	0.8	1.0	0.7	1.2	0.5	1.3	0.3	1.5	0.3	1.6	

Source: IMF, *WEO Update*, June 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		Average		2009		2010		Projections								
	2002-05		2006-08						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	-2.7	102.7	-3.9	103.9	-4.6	104.6	-5.3	105.3	
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	-3.0	103.0	-2.8	102.8	-2.4	102.4	
Canada	1.5	98.5	-5.0	105.0	-6.4	106.4	-9.2	109.2	-9.2	109.2	-9.4	109.4	-9.2	109.2	-9.2	109.2	
China	5.7	94.3	8.8	91.2	5.0	95.0	5.2	94.8	6.1	93.9	6.7	93.3	7.2	92.8	7.7	92.3	
France	0.2	99.8	-1.3	101.3	-2.1	102.1	-2.0	102.0	-2.1	102.1	-2.0	102.0	-2.0	102.0	-2.0	102.0	
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	7.3	92.7	7.6	92.4	
India	-1.1	101.1	-4.8	104.8	-6.5	106.5	-4.0	104.0	-7.5	107.5	-7.3	107.3	-7.2	107.2	-7.1	107.1	
Indonesia	9.4	90.6	9.5	90.5	10.3	89.7	10.4	89.6	10.2	89.8	10.0	90.0	9.5	90.5	9.1	90.9	
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	4.3	95.7	4.6	95.4	5.1	94.9	5.5	94.5	
Korea	1.1	98.9	3.6	96.4	7.2	92.8	6.9	93.1	7.3	92.7	7.5	92.5	7.5	92.5	7.4	92.6	
Mexico	-1.7	101.7	-3.0	103.0	-1.5	101.5	-1.3	101.3	-0.9	100.9	-1.3	101.3	-1.2	101.2	-1.3	101.3	
Russia	19.3	80.7	12.6	87.4	15.7	84.3	13.2	86.8	9.9	90.1	8.6	91.4	7.4	92.6	6.3	93.7	
Saudi Arabia	4.7	95.3	-14.7	114.7	-22.9	122.9	-21.5	121.5	-24.3	124.3	-29.0	129.0	-32.7	132.7	-33.7	133.7	
South Africa	1.9	98.1	-3.8	103.8	-3.9	103.9	-3.9	103.9	-5.2	105.2	-5.4	105.4	-5.4	105.4	-5.5	105.5	
Turkey	-0.8	100.8	-3.6	103.6	0.1	99.9	-3.9	103.9	-6.5	106.5	-6.6	106.6	-7.0	107.0	-7.6	107.6	
United Kingdom	-3.1	103.1	-3.2	103.2	-2.1	102.1	-3.1	103.1	-2.4	102.4	-1.6	101.6	-1.1	101.1	-0.5	100.5	
United States	-5.3	105.3	-4.8	104.8	-2.8	102.8	-3.2	103.2	-2.7	102.7	-2.3	102.3	-2.2	102.2	-2.2	102.2	
European Union	1.3	98.7	1.3	98.7	0.7	99.3	1.5	98.5	2.3	97.7	2.8	97.2	3.1	96.9	3.4	96.6	

Source: IMF, *WEO Update*, June 2011.

1/ Net Exports plus Other equals 100.

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