



The World Economy and Global Financial Market: Outlook and Challenges

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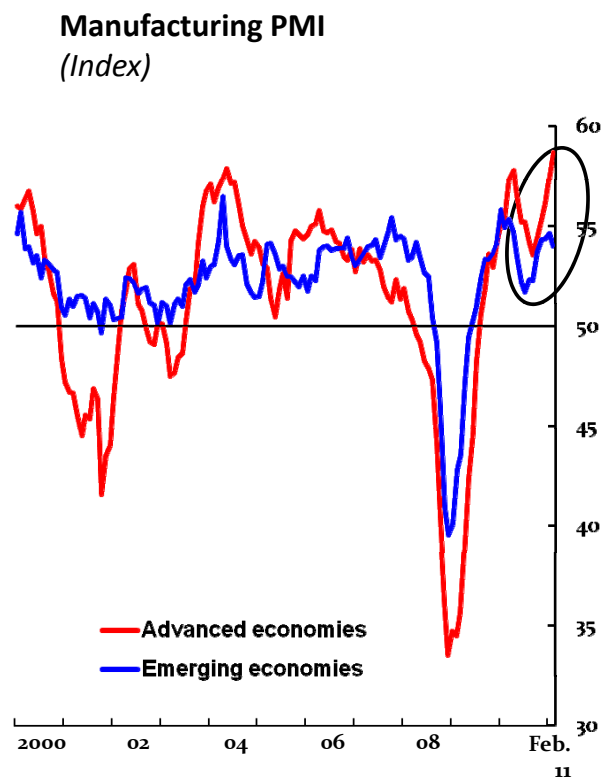
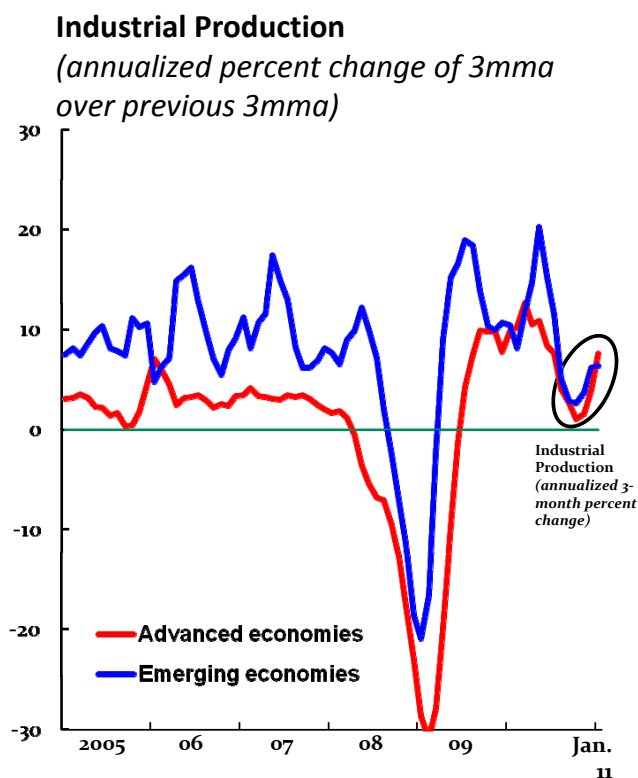
Presentation Outline

- Recent Economic and Financial Developments
- Outlook and Risks
- Policy Challenges

Recent Economic and Financial Developments

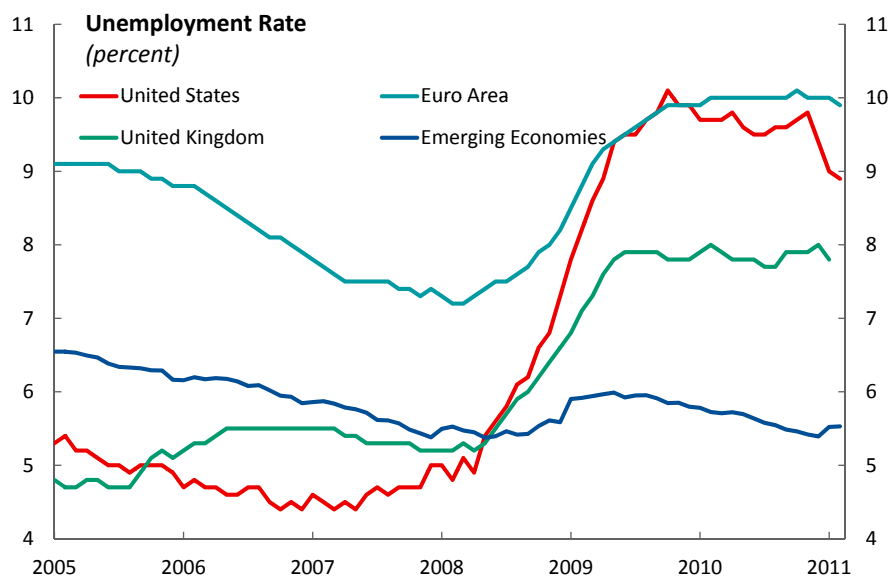
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After an inventory acceleration-slowdown cycle, activity seems poised to reaccelerate in 2011.



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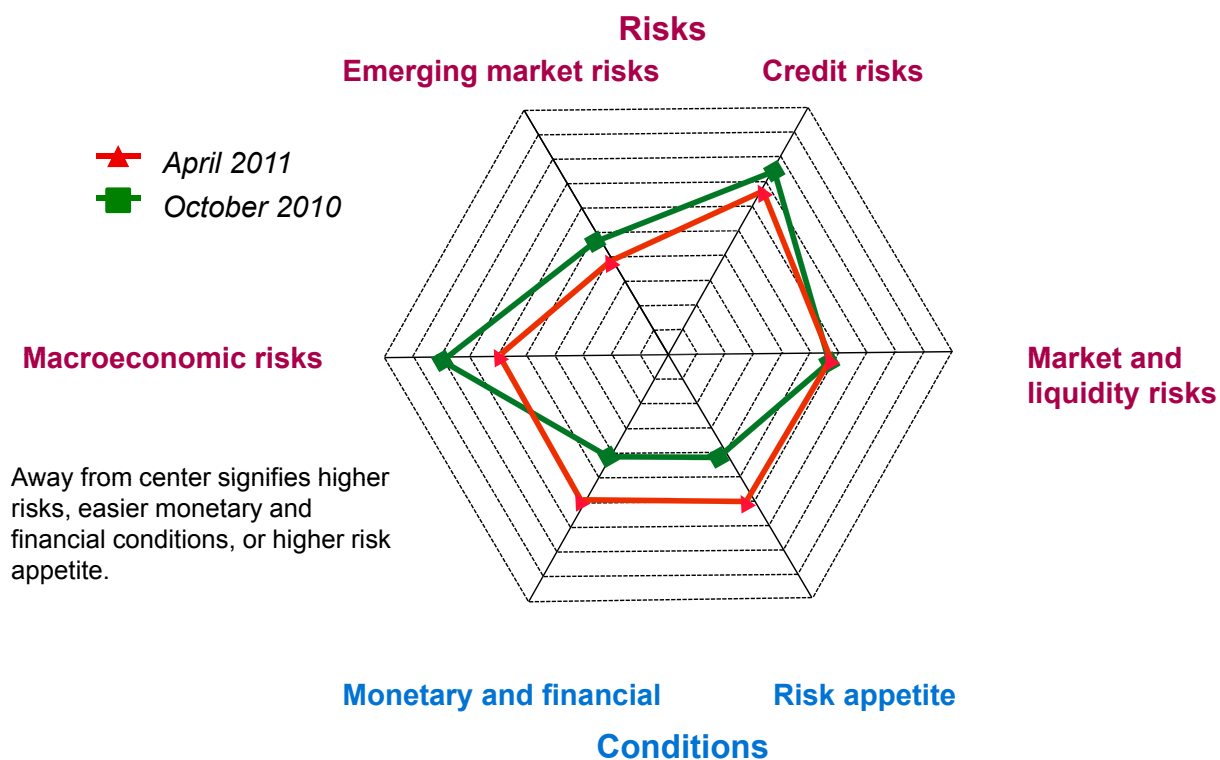
However, labor markets are recovering at different speeds.



Source: IMF, Global Data Source.

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Global financial stability: Better, but still fragile



5

Equity markets have recovered to a large extent and volatility is close to “normal”.

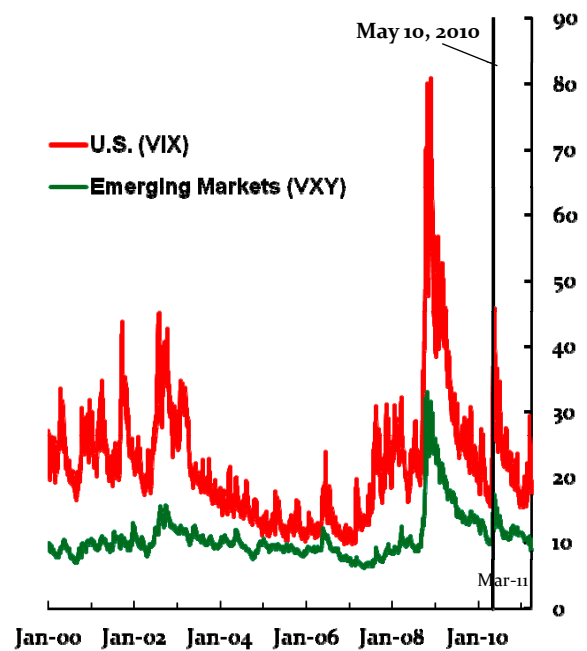
Equity Markets

(index; 2007=100; national currency)



Implied Volatility

(percent)

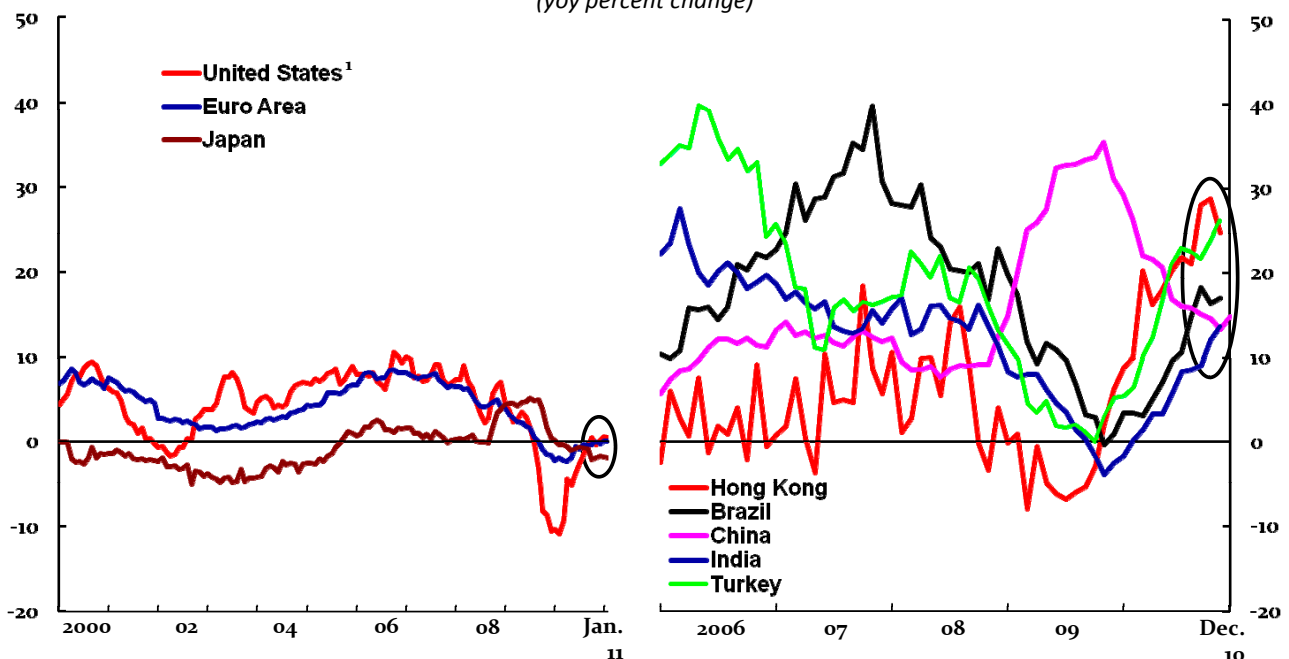


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Still, credit growth is low in advanced economies. But, credit is buoyant in many emerging economies

Real Private Credit Growth

(yoy percent change)



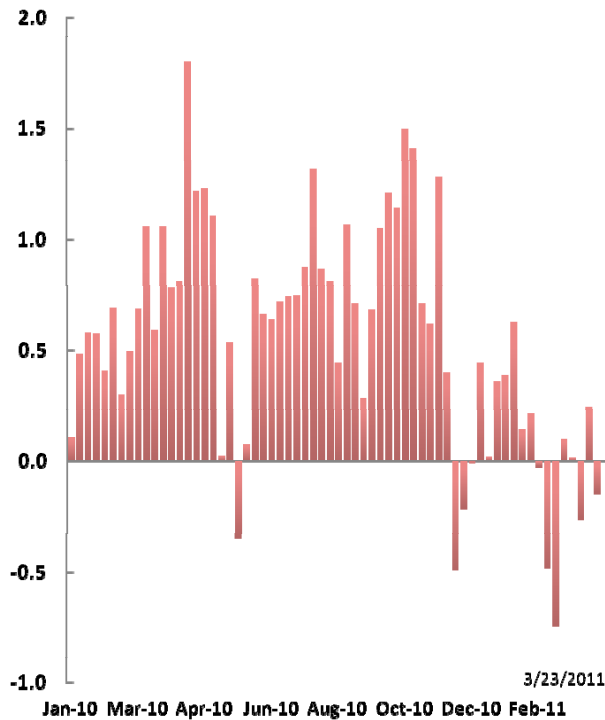
Source: Bank of Japan, European Central Bank, and the Federal Reserve Board.

¹ Spike in late 2010 due to securitized credit card assets that banks owned and that were brought onto their balance sheets in

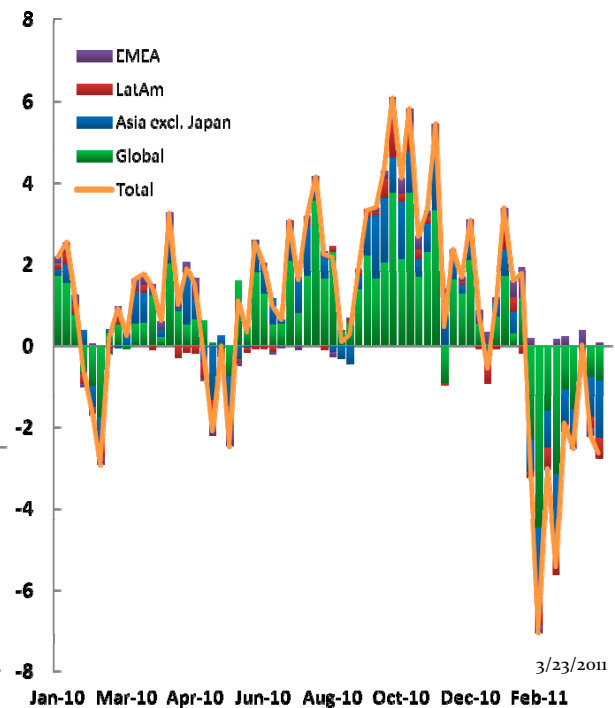
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Capital inflows to emerging markets have slowed since fall 2010

Emerging Bond Funds
(billions of U.S. dollars, weekly flows)



Emerging Equity Funds
(billions of U.S. dollars, weekly flows)

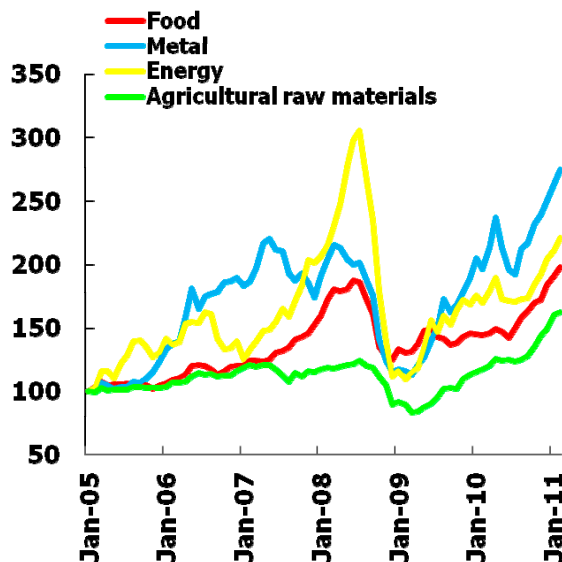


Source: EPFR Global.

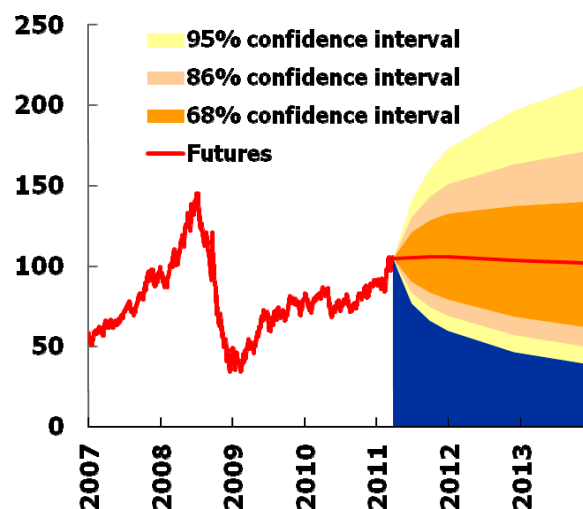
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However, a sharp increase in commodity prices has become a new challenge

Global Commodity Prices
(Jan 2005 = 100)



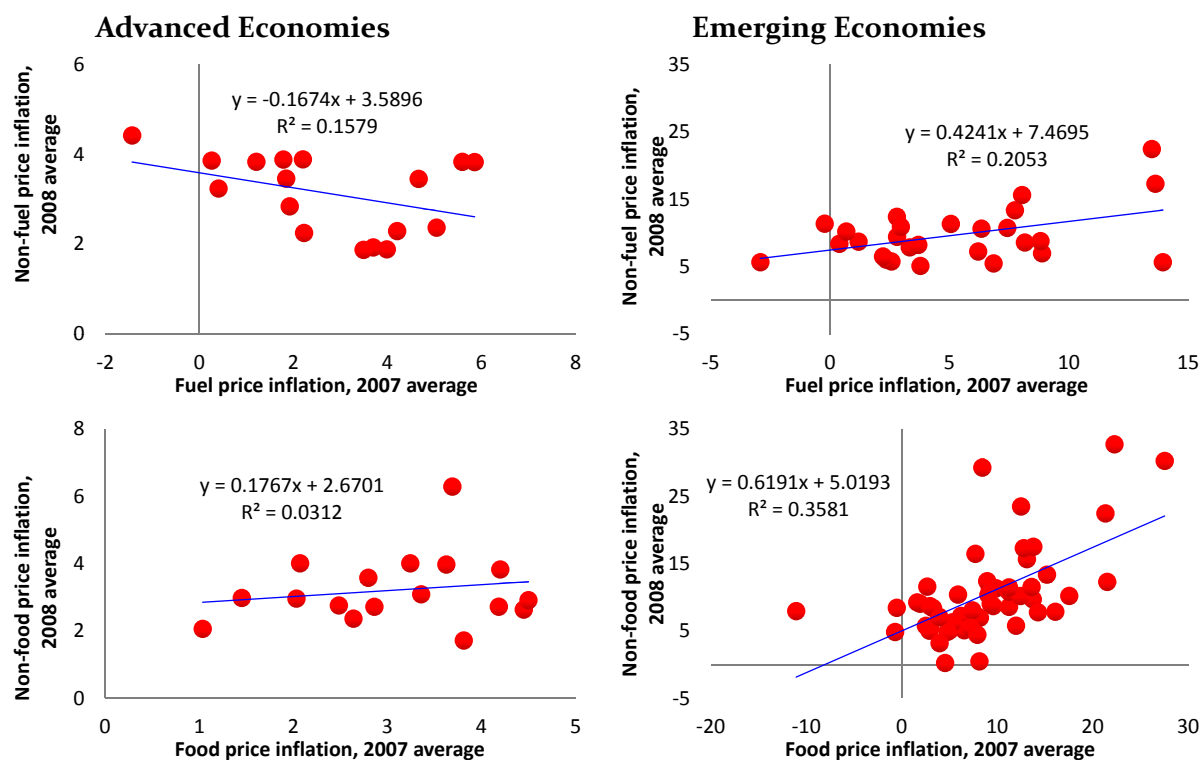
Oil Price Prospects
(In U.S. dollars per barrel)



Note: West Texas Intermediate (WTI) oil price futures information used.

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Energy and food prices are spilling over into core inflation



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

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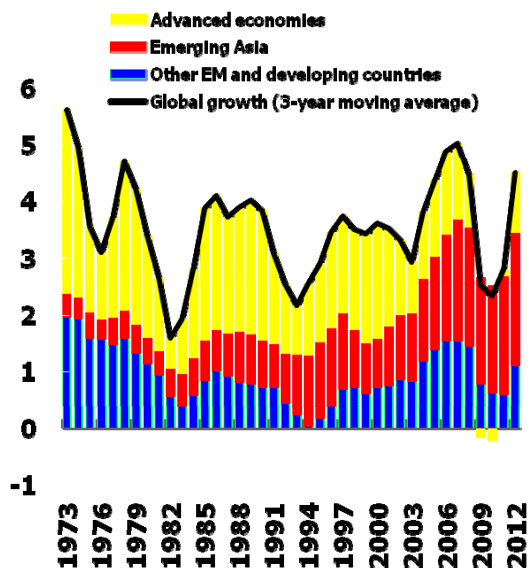
Outlook and Risks

The global economy will continue to recover,

Global GDP Growth Prospect
(annualized percent change)

	2010	2011	2012
World	5.0	4.4	4.5
Advanced economies	3.0	2.4	2.6
Emerging and Developing economies	7.1	6.5	6.5
Emerging Asia	9.5	8.4	8.4

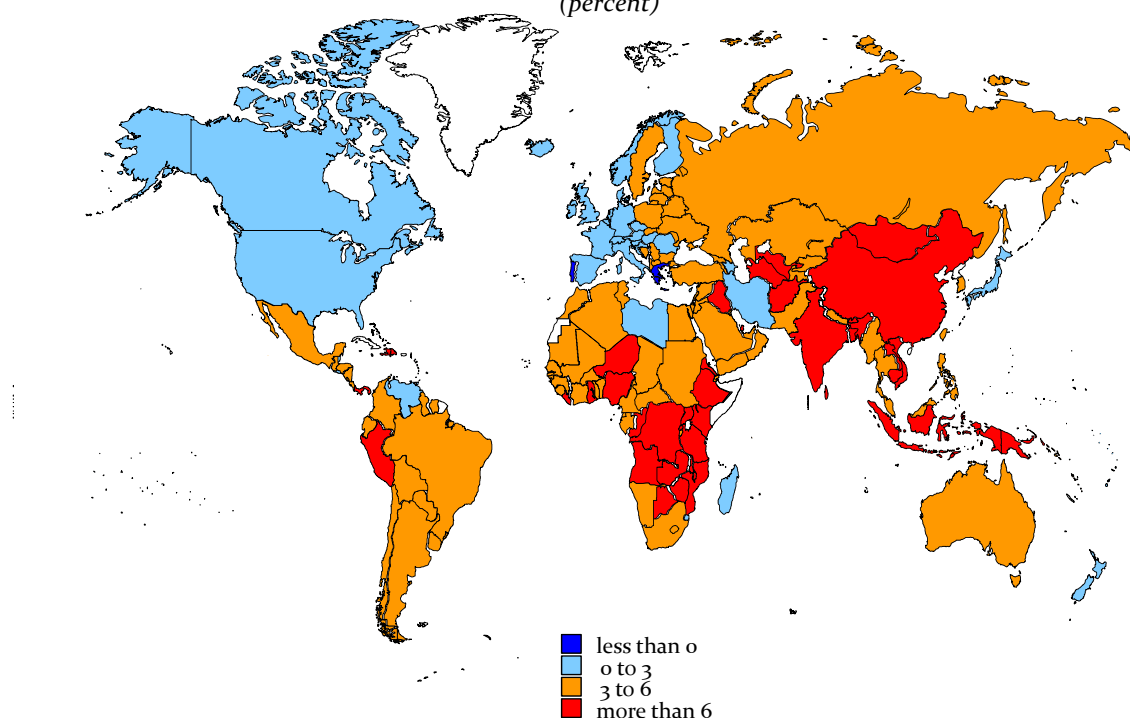
Contribution to Global Annual Growth
(In percent)



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but at different speeds

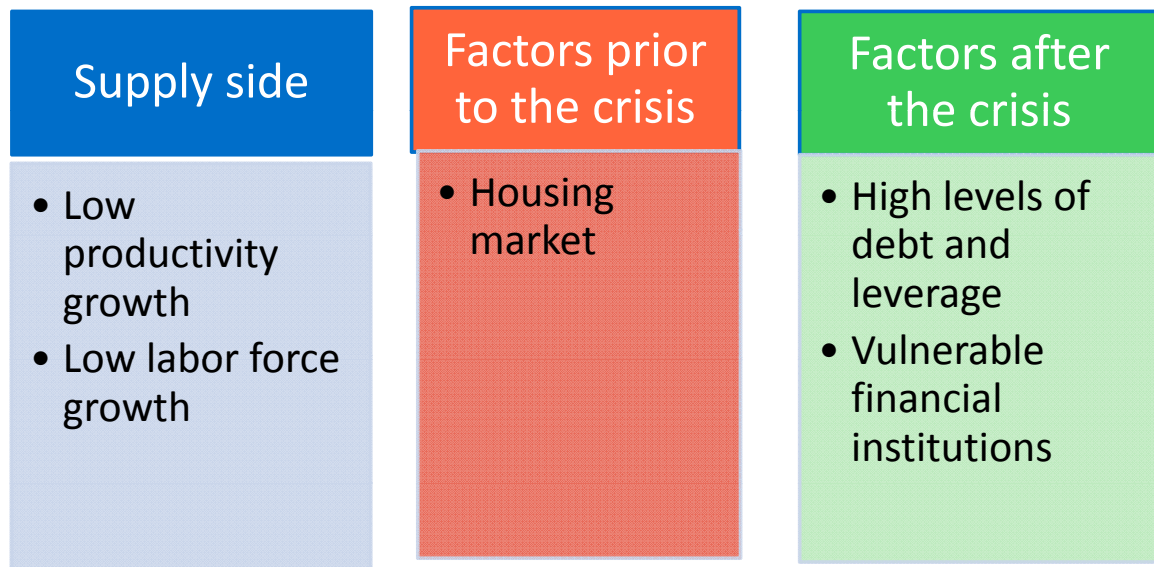
Average projected real GDP growth during 2011-2012
(percent)



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

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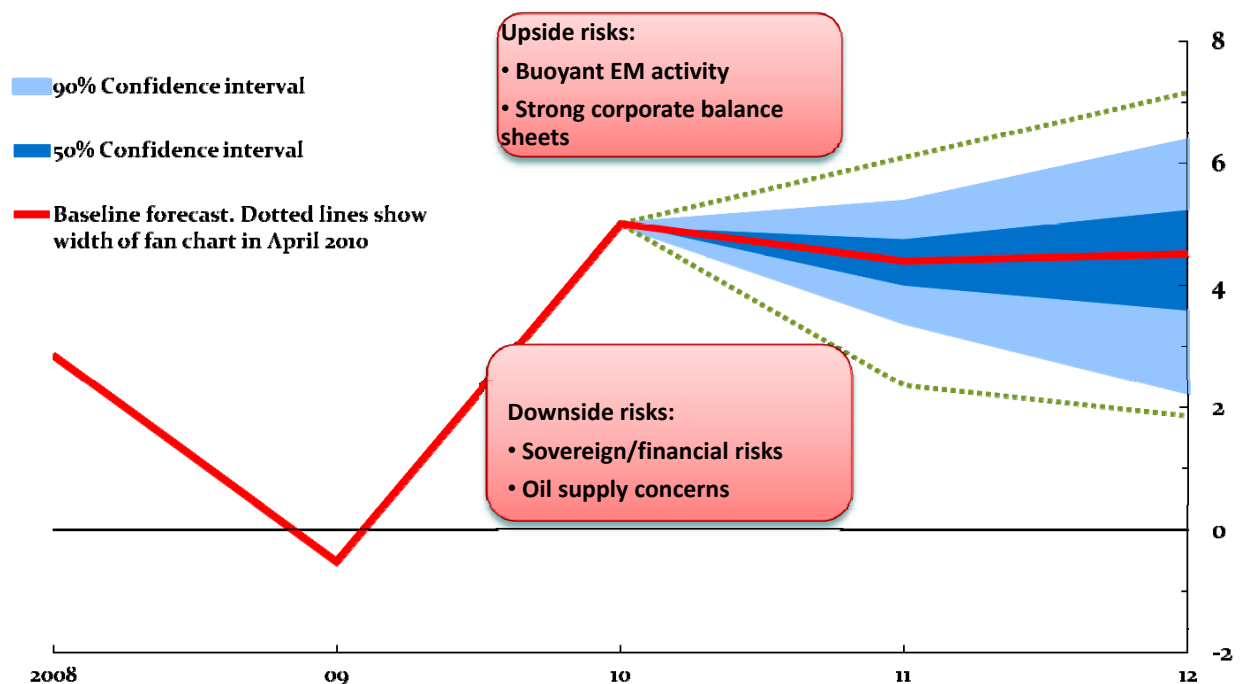
Causes of the slow recovery in advanced economies



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Downside risks have diminished but continue to dominate.

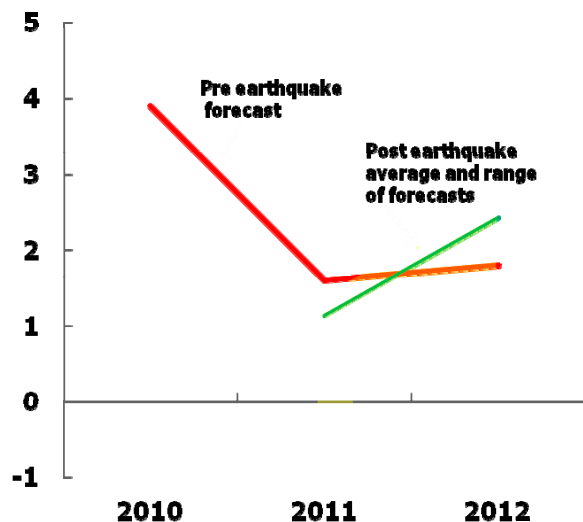
Prospects for World GDP Growth
(percent change)



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In Japan, a sharp slowdown is expected, followed by a rapid recovery beginning in the second half of 2011

Japan: Growth Rate - Range of Private Estimates
(Year-on-year; in percent)



Source: IMF staff estimates as of March 30, 2011.

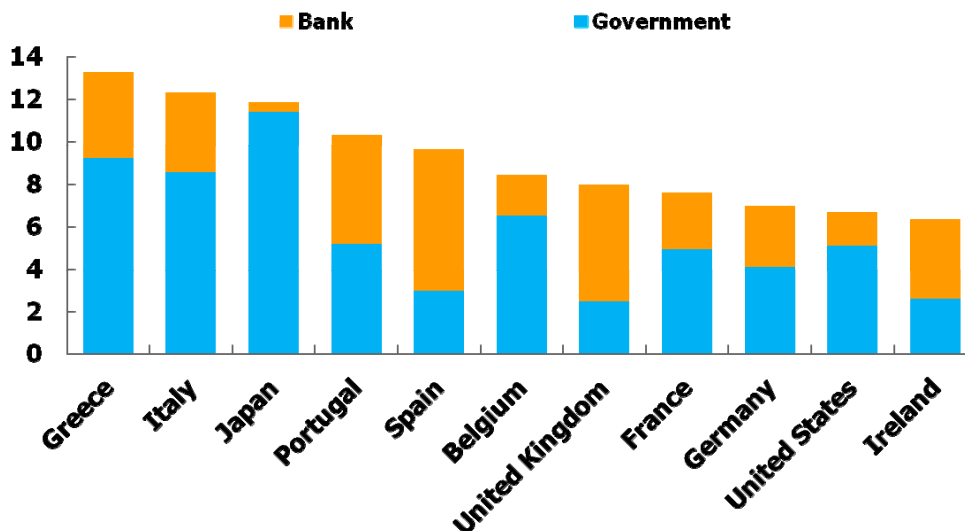
Key factors affecting the recovery:

- Power shortages and supply chain disruptions
- Fukushima nuclear power plant
- Consumer and investor confidence
- Fiscal and monetary policy

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There are large funding needs in many advanced economies in 2011.

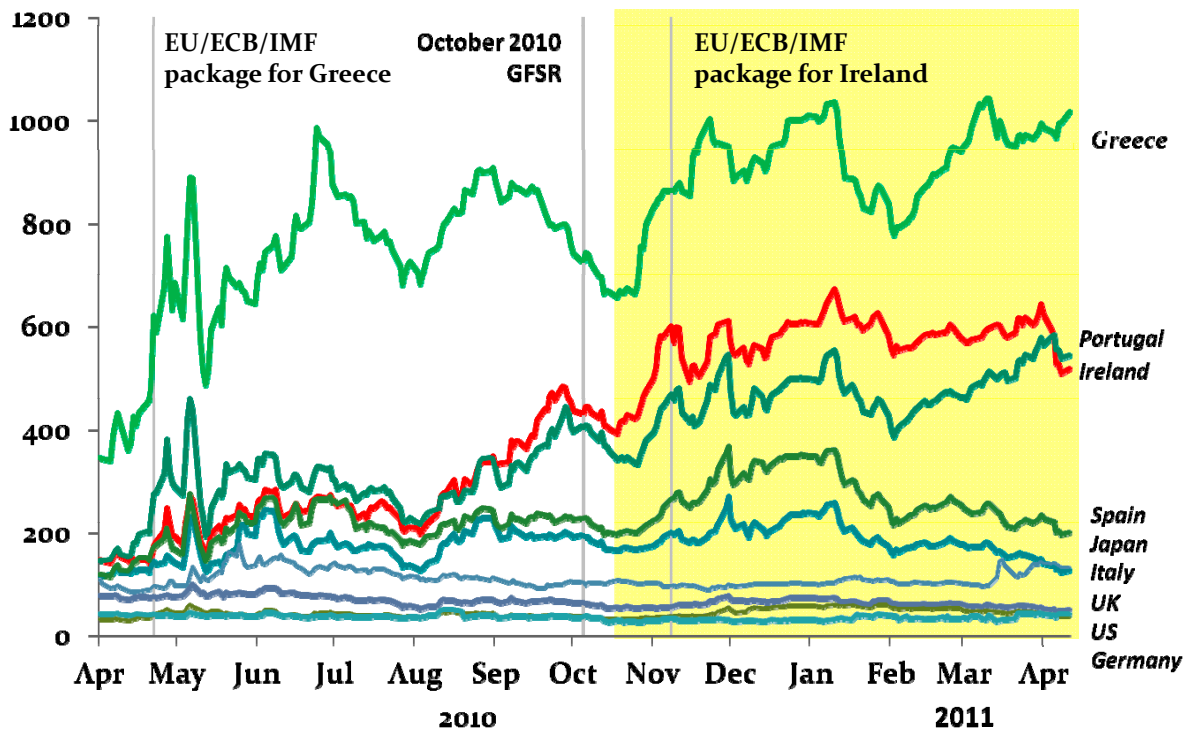
Selected Advanced Economies: Government and Bank Bonds Due in 2011
(In percent of GDP)



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Sovereign balance sheets remain under strain in some advanced economies.

Sovereign CDS Spreads
(5-year tenor, in basis points)



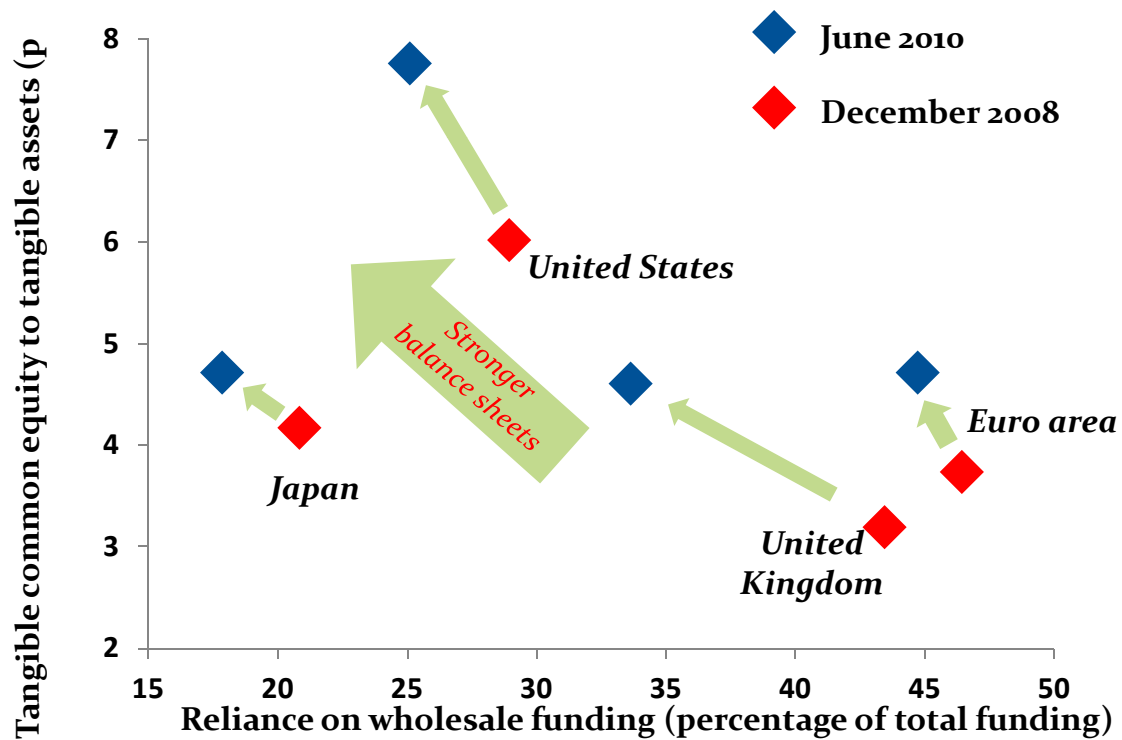
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Banking systems remain vulnerable.

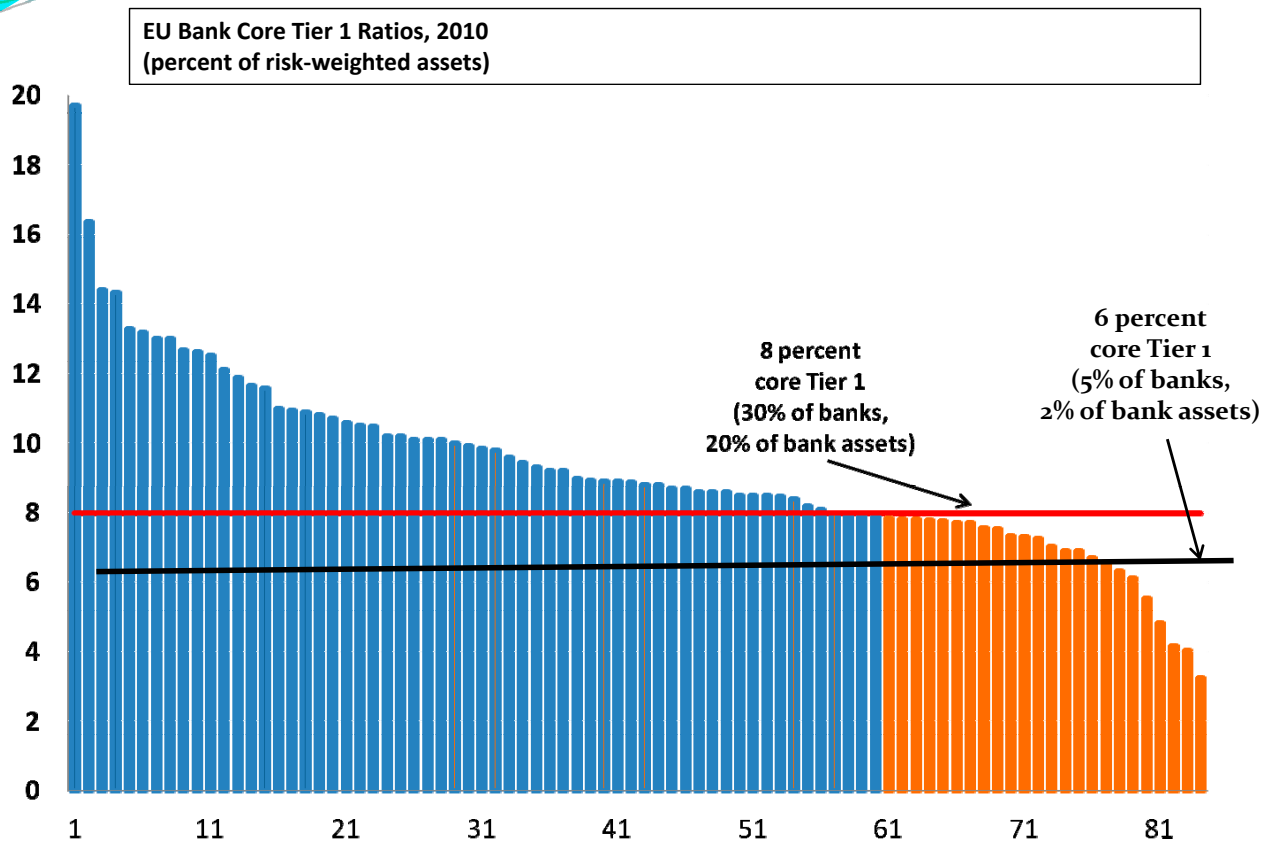


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Solvency and funding improving, but uneven...

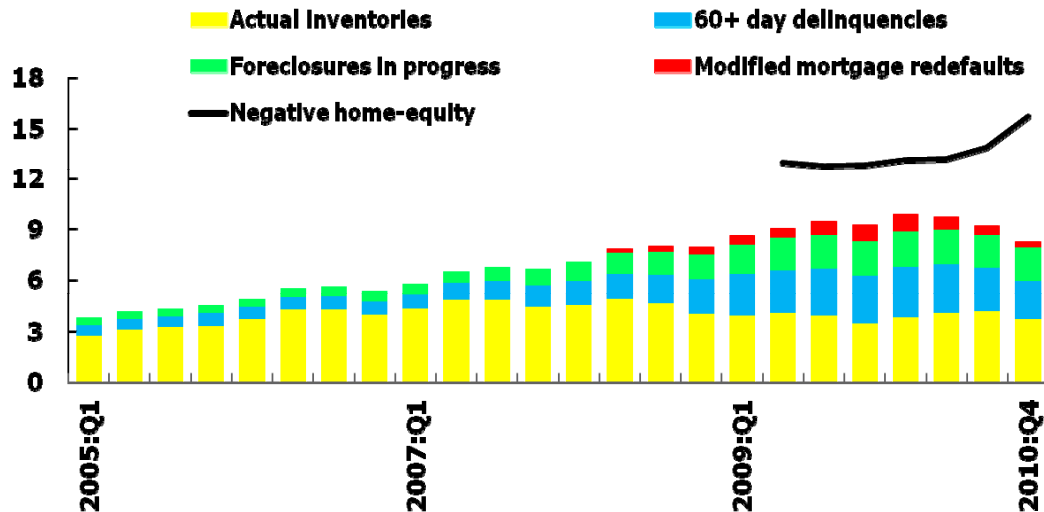


...and more capital is needed.



The housing sector remains a main weakness in the U.S.

U.S. Inventory of Houses and Foreclosures
(millions)

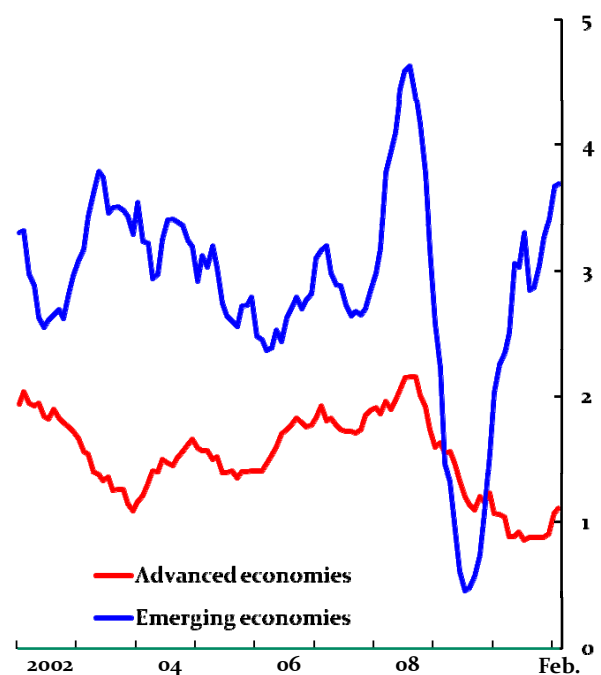
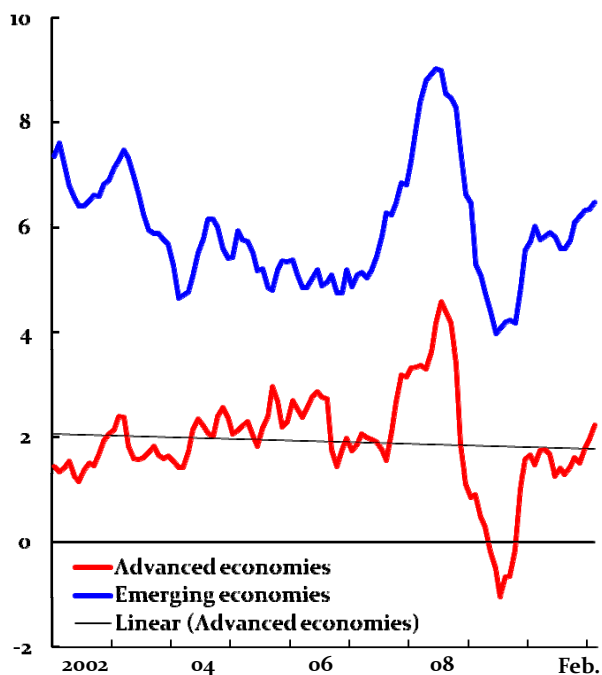


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In emerging economies, inflation has picked up amid strong economic activity

Headline Inflation
(Twelve-month change)

Core Inflation
(Twelve-month change)



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Policy Challenges

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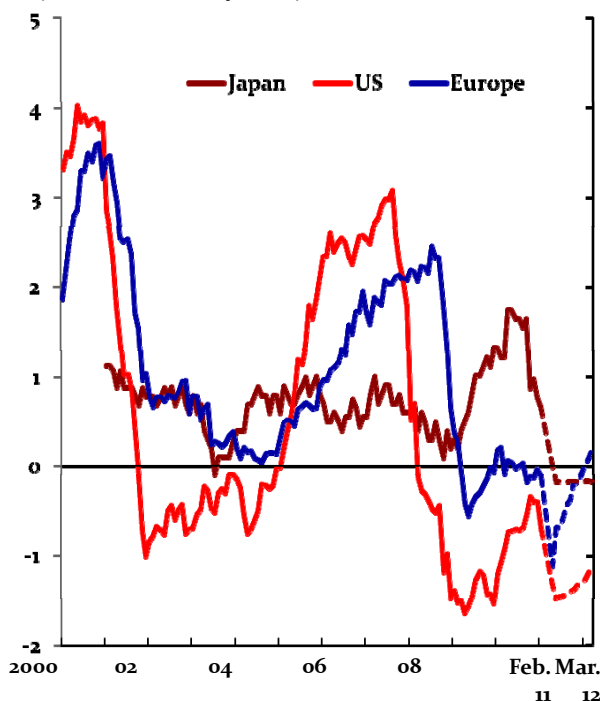
Major challenges

Advanced Economies	Emerging Economies
<i>Shift to Structural Policies</i>	<i>Focus on Macroeconomic Policies</i>
<ul style="list-style-type: none">• Sovereign :<ul style="list-style-type: none">• Fiscal consolidation• Banking Sector :<ul style="list-style-type: none">• Strengthen the quality and level of capital• Resolution or liquidation of weak banks• Improve asset quality• Household Sector:<ul style="list-style-type: none">• Restructure and reduce debts	<ul style="list-style-type: none">• Contain overheating risks and financial sector vulnerabilities:<ul style="list-style-type: none">• Tighten macroeconomic policies• Adopt macro-prudential policies• Enhance capacity to absorb capital inflows:<ul style="list-style-type: none">• Deepen domestic capital markets

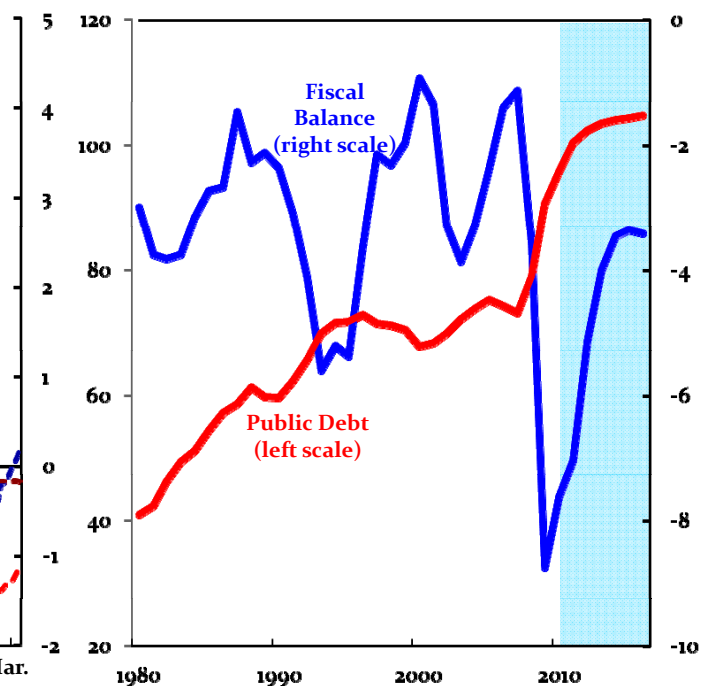
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In many advanced economies, the key policy challenge is fiscal consolidation.

Real Policy Rates
(relative to core inflation)



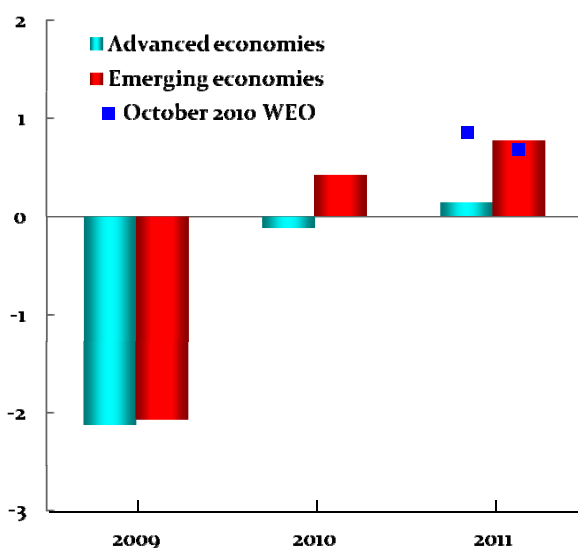
Fiscal Balance and Public Debt
(percent of GDP)



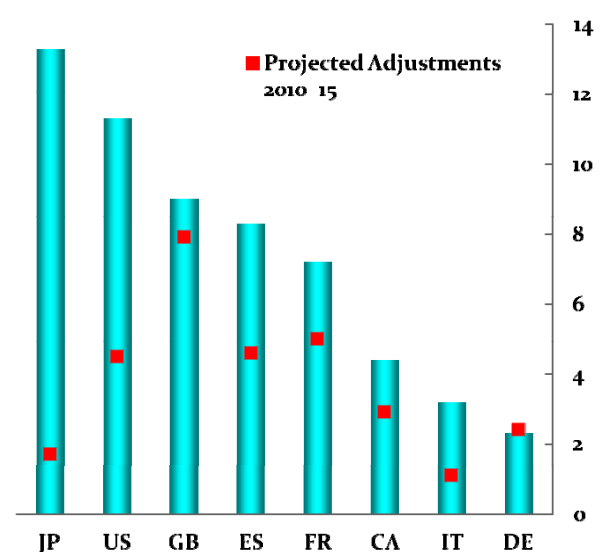
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Much more adjustment is needed to achieve sound public finances.

Change in Structural Balance
(percent of GDP)



Required Adjustment^{1,2}
(percent of GDP)



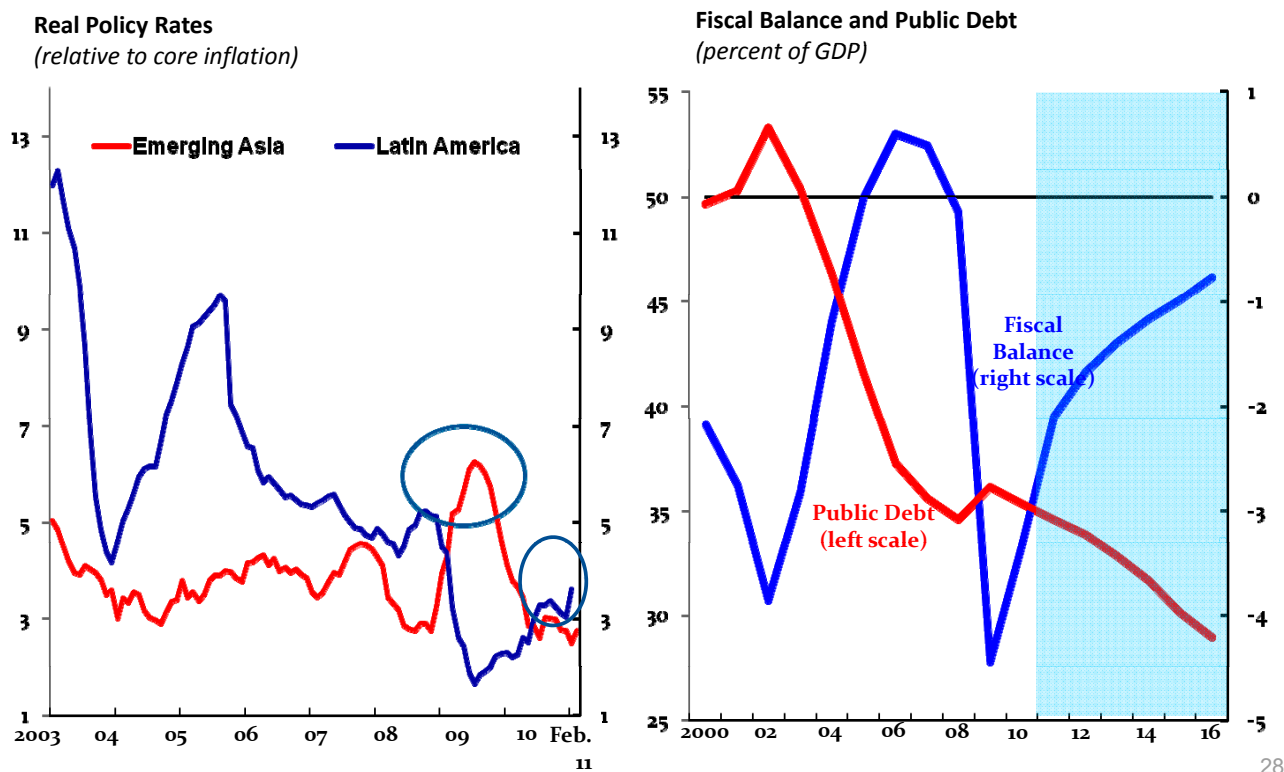
Sources: IMF, *Fiscal Monitor*; and IMF staff calculations.

¹ CA: Canada, FR: France, DE: Germany, IT: Italy, JP: Japan, ES: Spain, GB: United Kingdom, US: United States.

² Cyclically adjusted primary balance adjustment needed to the debt ratio to 60 percent in 2030, except for Japan (200 percent in 2030).

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In many emerging economies, macroeconomic policies need to be tightened.



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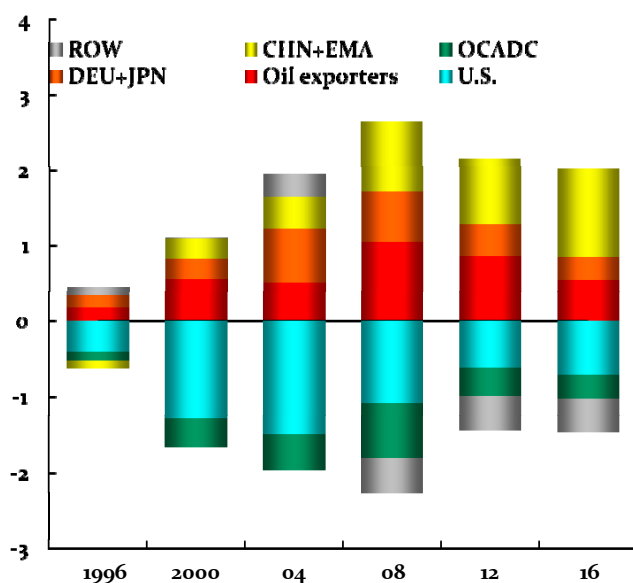
Challenges and resolution in banking systems

Challenge	Solution
Asset quality uncertainty	Comprehensive, tough, and transparent stress tests
High levels of leverage	Improve capital base
Remaining weak banks	Restructure or rehabilitate
Investor concern about bank debt	Clarify investors burden in the restructuring
Bank funding pressures	Reduce short-term wholesale funding
Sovereign risks	Fiscal consolidation

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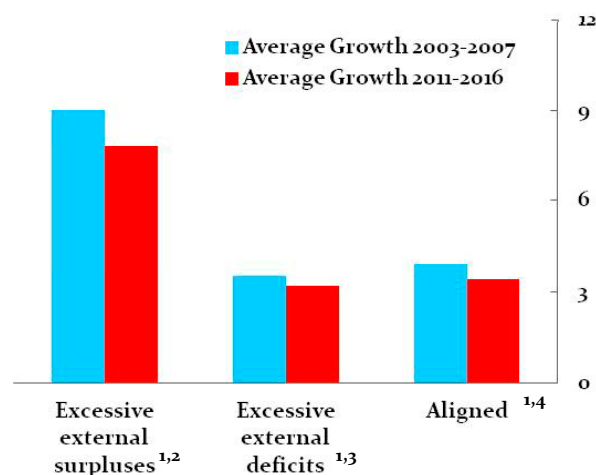
Global demand rebalancing is needed.

Global Imbalances¹
(percent of world GDP)



¹ CHN+EMA: China, Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, and Thailand; DEU+JPN: Germany and Japan; OCADC: Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, and United Kingdom; ROW: rest of the world; US: United States.

Total Domestic Demand
(percent)



Sources: Federal Reserve Board; and IMF staff calculations.

¹ Based on the IMF staff's Consultative Group on Exchange Rate Issues (CGER).

² These economies account for 18.5 percent of global GDP.

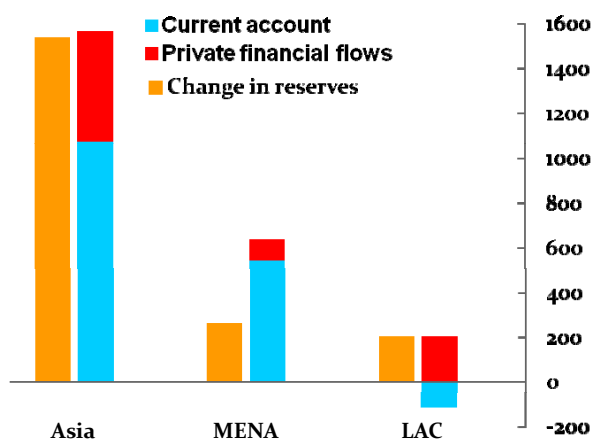
³ These economies account for 27.4 percent of global GDP.

⁴ These economies account for 39.2 percent of global GDP.

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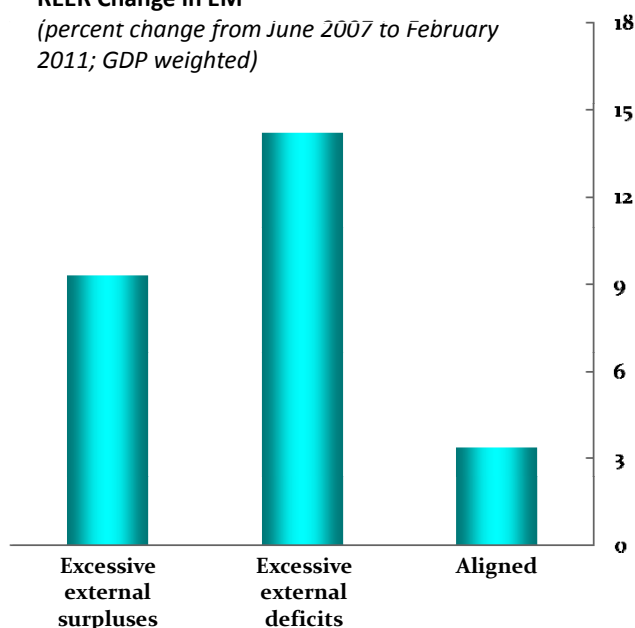
Global demand rebalancing and exchange rate policy

Net Financial Flows, 2008–10
(billions of U.S. dollars)



¹ Asia: Developing Asia, MENA: Middle East and North Africa, LAC: Latin America and the Caribbean.

REER Change in EM
(percent change from June 2007 to February 2011; GDP weighted)



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Summary

Economic activity continues to recover in 2011, but downside risks dominate. Sharply rising commodity prices are a new risk. Rebalancing is proceeding slowly.

The global recovery is continuing broadly as anticipated, but at different speeds.

Global financial stability is improving, but remains fragile, especially in Europe.

Challenges

- **Advanced economies: fiscal consolidation, strengthening of the banking sector, and improve household balance sheets**
- **Emerging economies: maintaining macroeconomic and financial stability**
- **Rebalancing global demand**