International Monetary Fund

World Economic Outlook

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IMF Presentation
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The recovery is solidifying but it will take some time before it significantly lowers unemployment.

Old policy challenges remain unaddressed:

insufficient **fiscal adjustment** and **financial repair** in advanced economies;

insufficient **rebalancing** of demand in key Asian surplus economies.

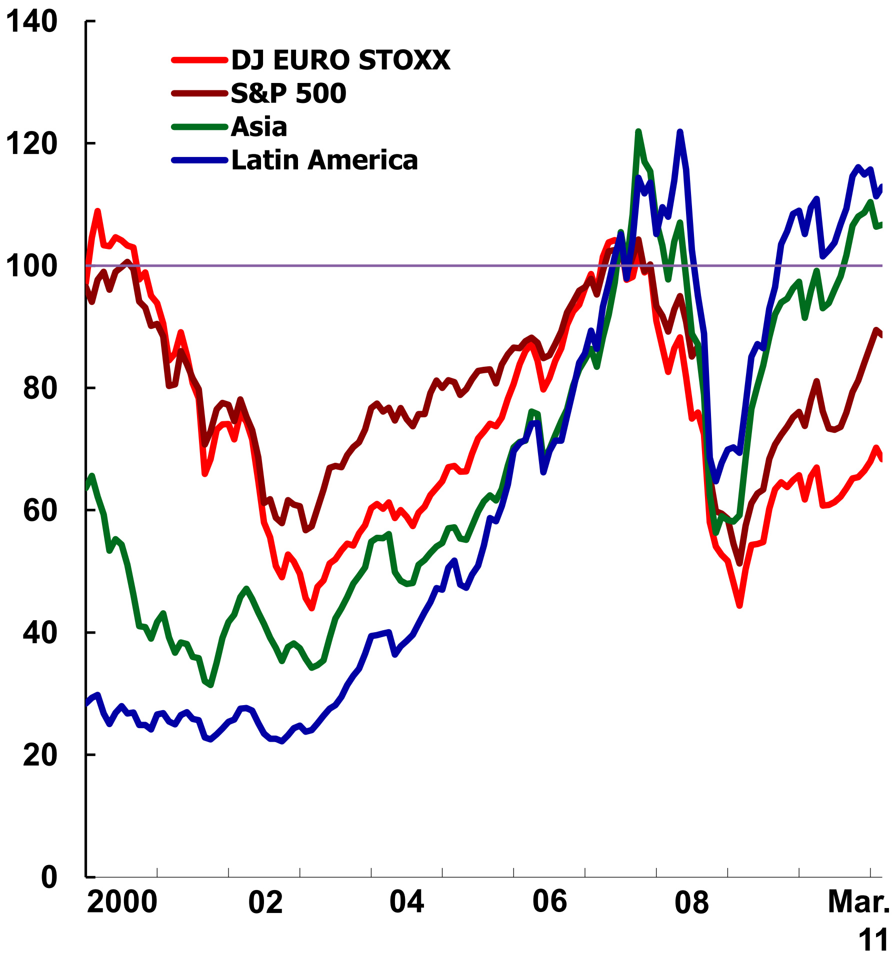
New policy challenges are arising:

overheating in EM;

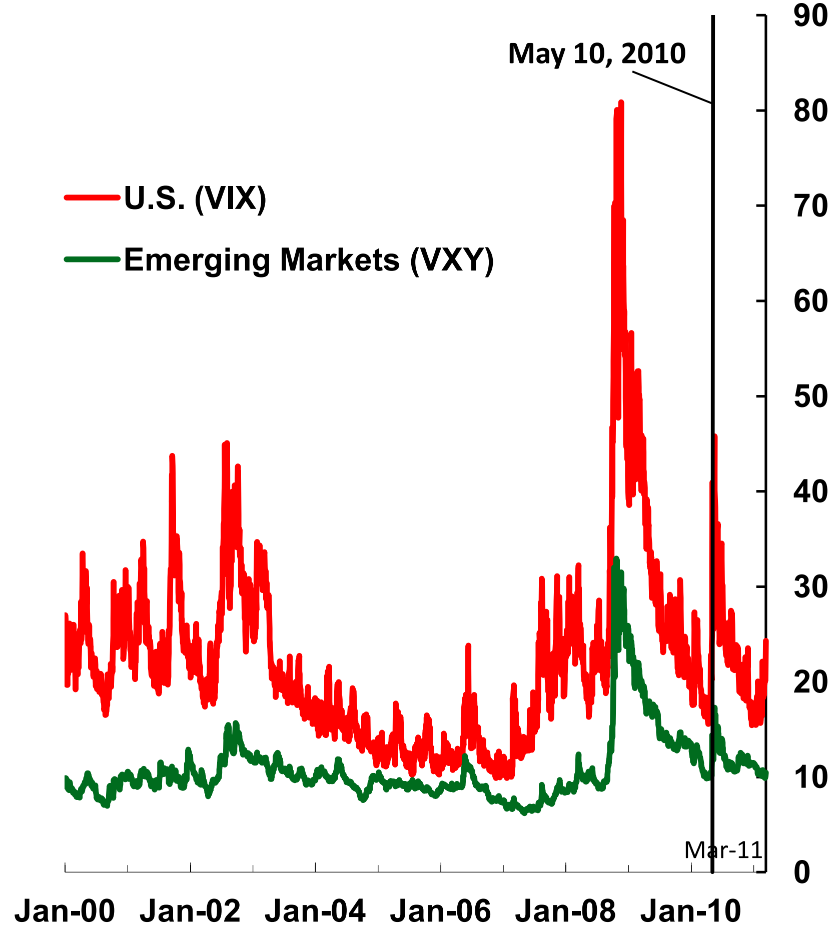
high **commodity** prices.

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

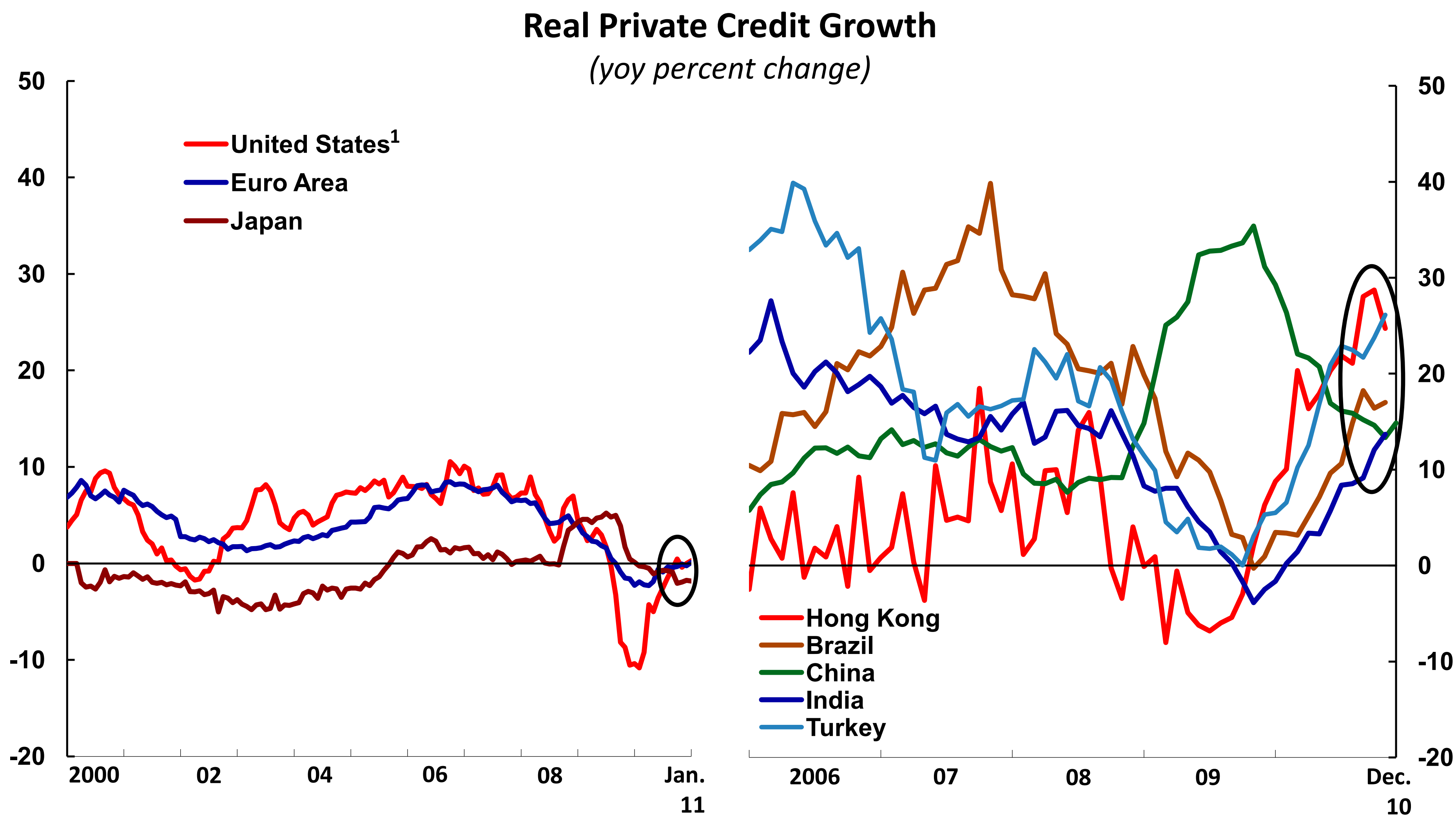
Equity Markets
(index; 2007=100; national currency)



Implied Volatility
(percent)



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

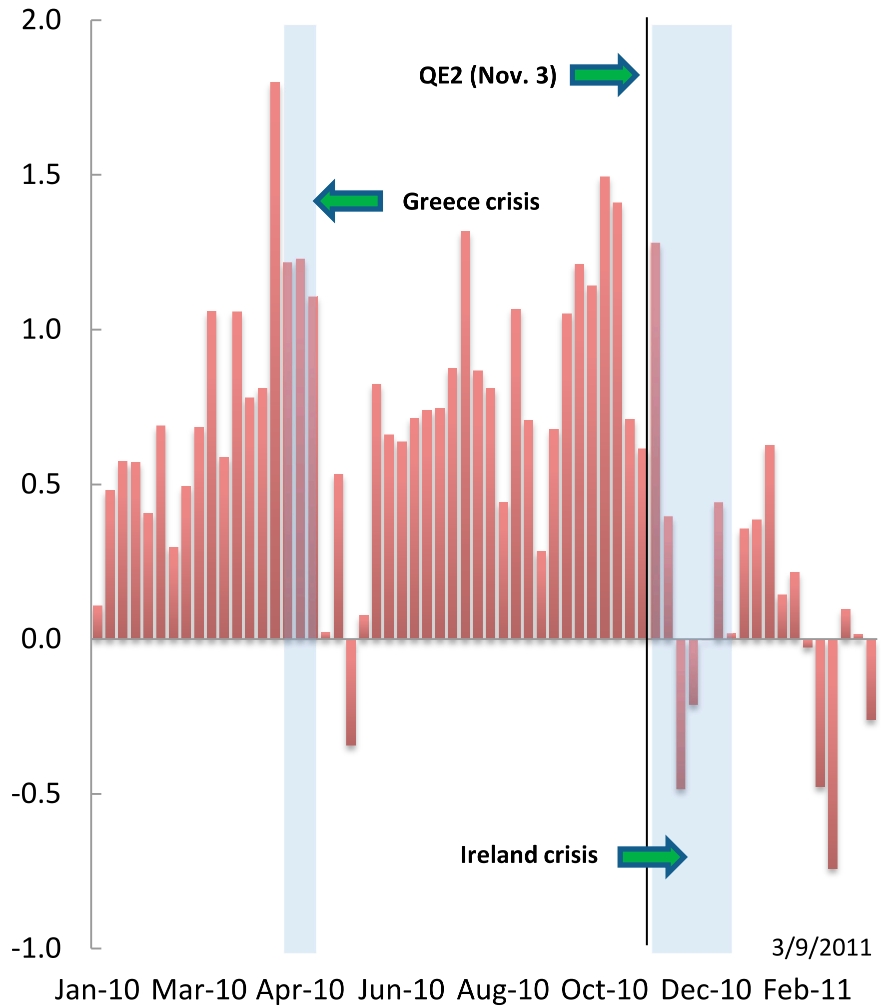


Source: Bank of Japan, European Central Bank, and the Federal Reserve Board.

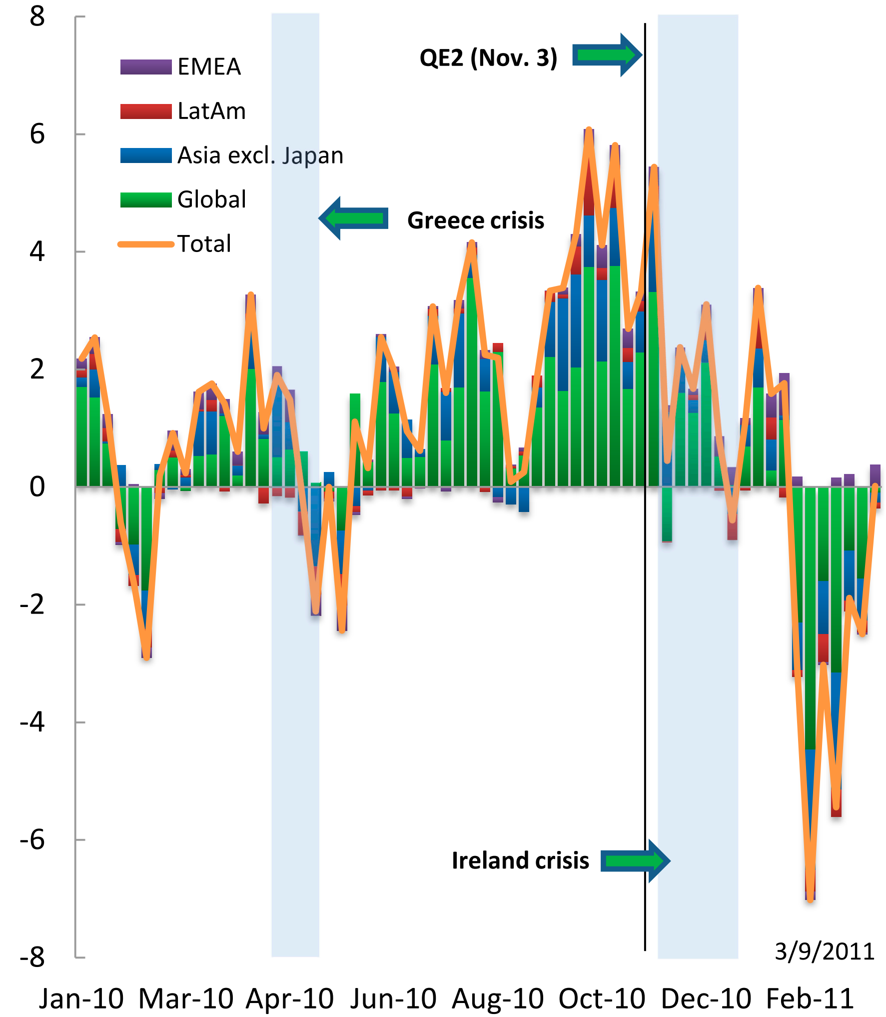
[1] Spike in late 2010 due to securitized credit card assets that banks owned and that were brought onto their balance sheets in 2010.

Capital flows to EM recovered quickly after the crisis. But they have slowed since fall 2010.

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



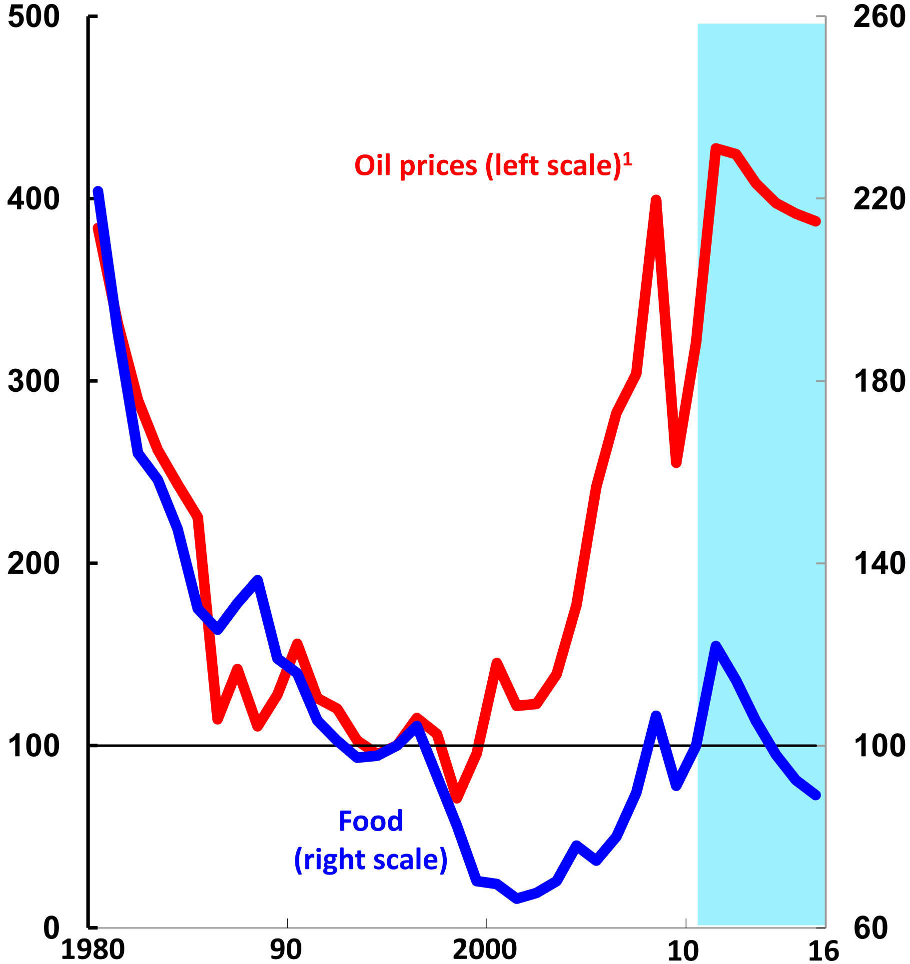
Emerging Equity Funds
(billions of U.S. dollars, weekly flows)



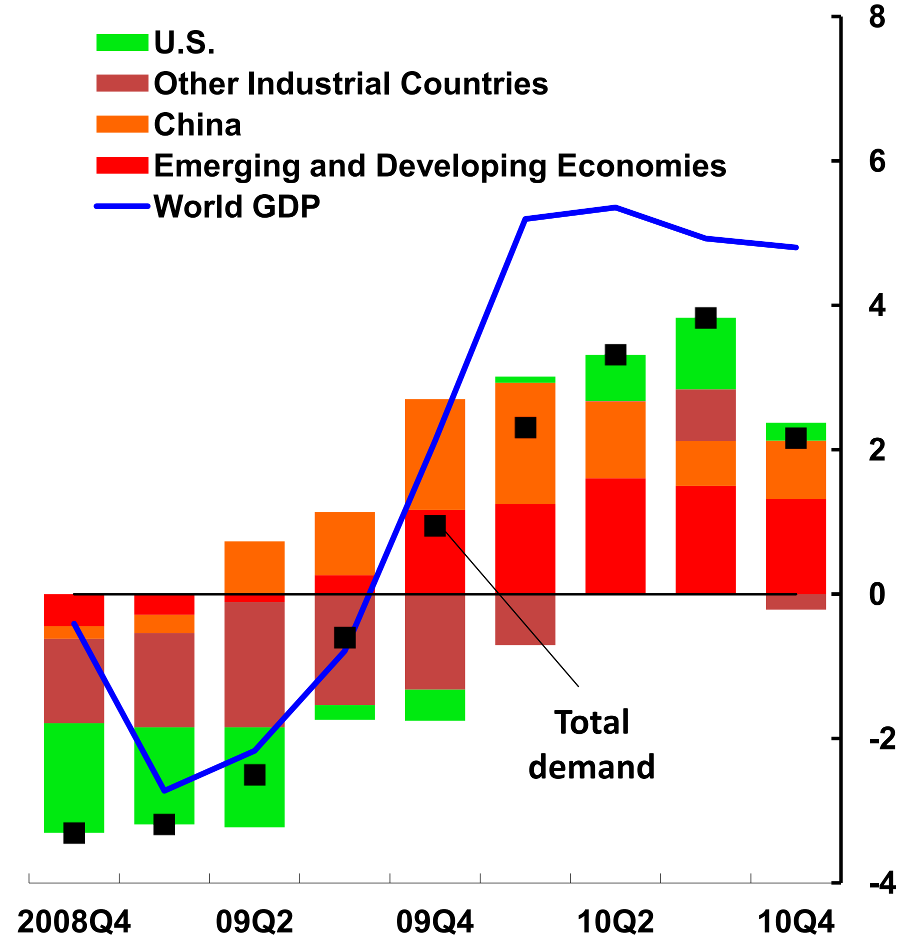
Source: EPFR Global.

Commodity prices have been boosted by structural, cyclical, and special factors.

Real Commodity Prices
(index; 1995=100)

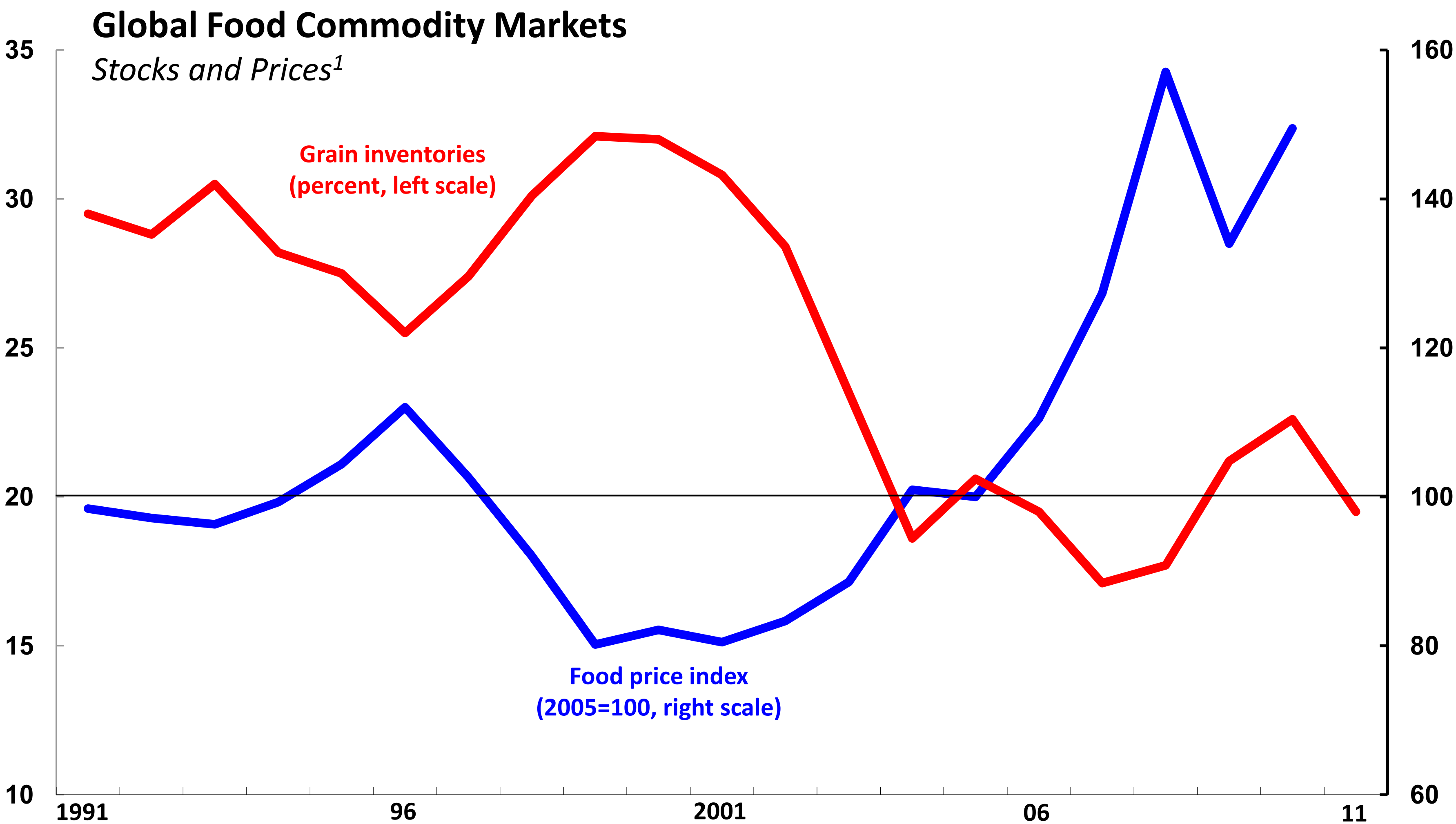


Contribution to Global Annual Growth of Oil Demand
(percent)



[1]Simple average of spot prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil.

Low inventories and bad harvests have caused large food price increases. Prices are expected to recede amid better harvests but pose social challenges.

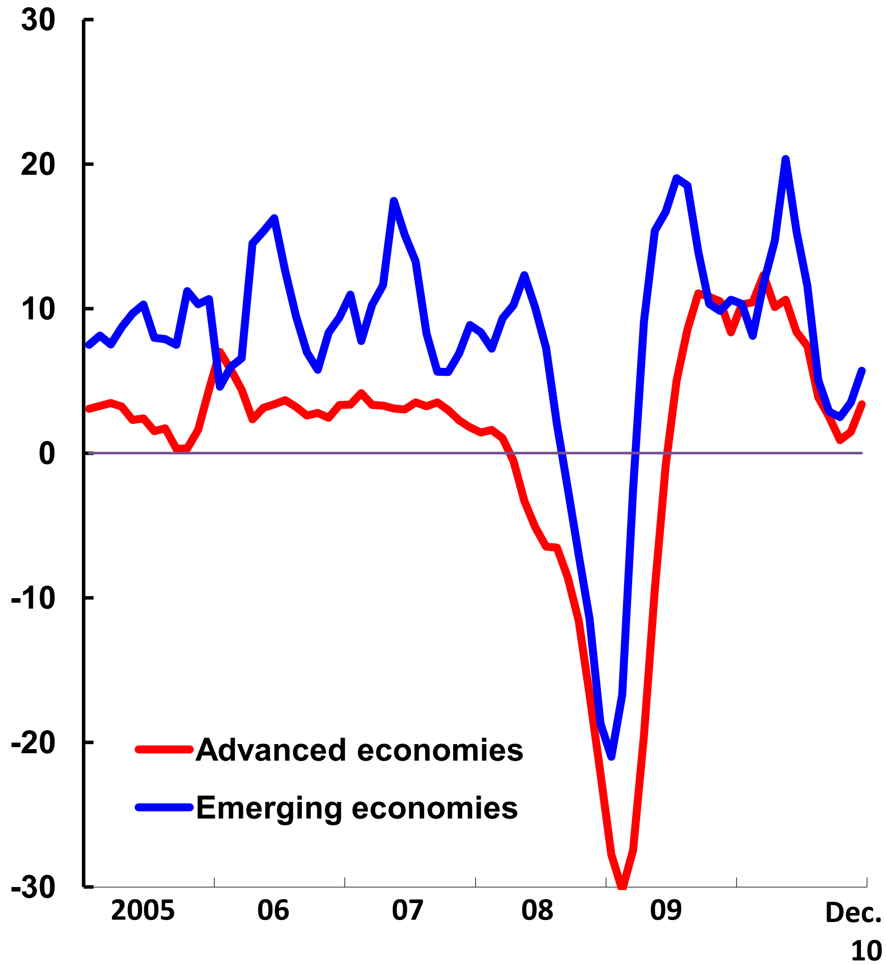


[1]Global end-year inventories as percent of consumption with USDA projections for 2011.

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

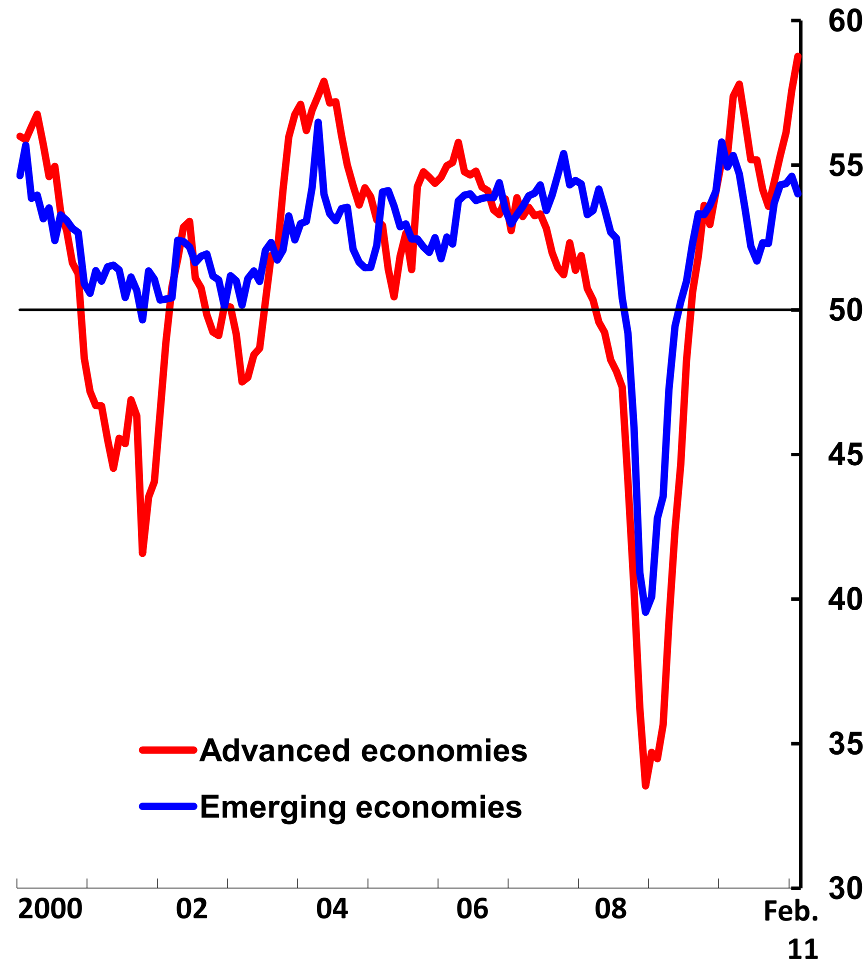
Industrial Production

(annualized percent change of 3mma over previous 3mma)



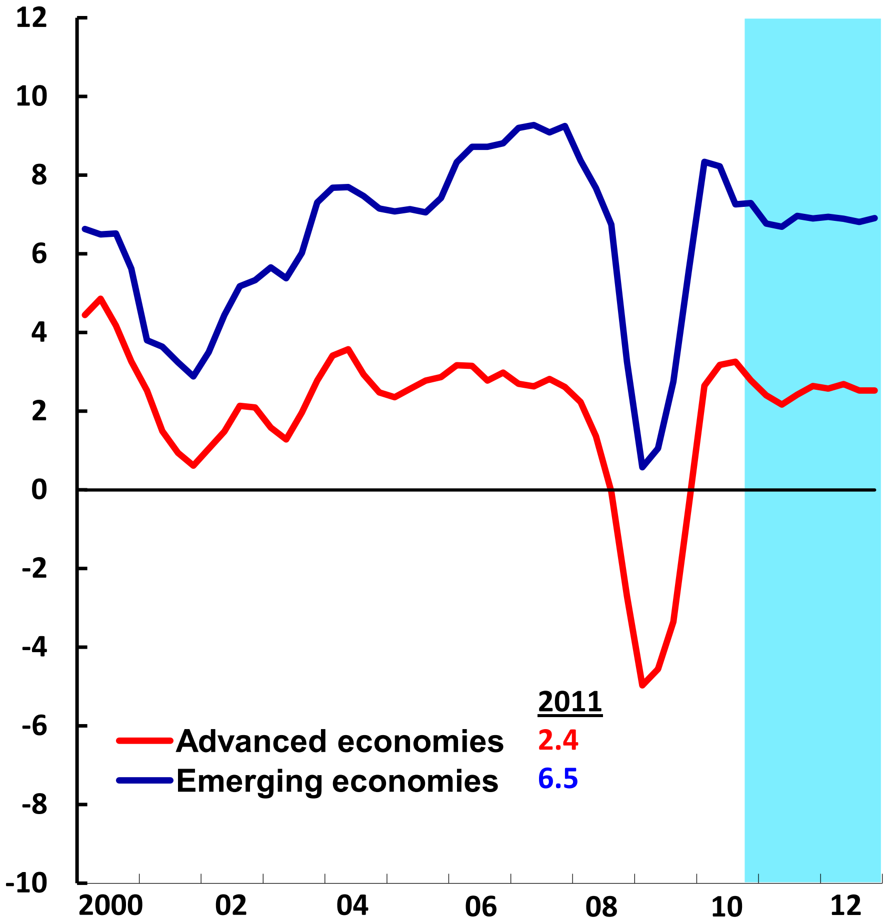
Manufacturing PMI

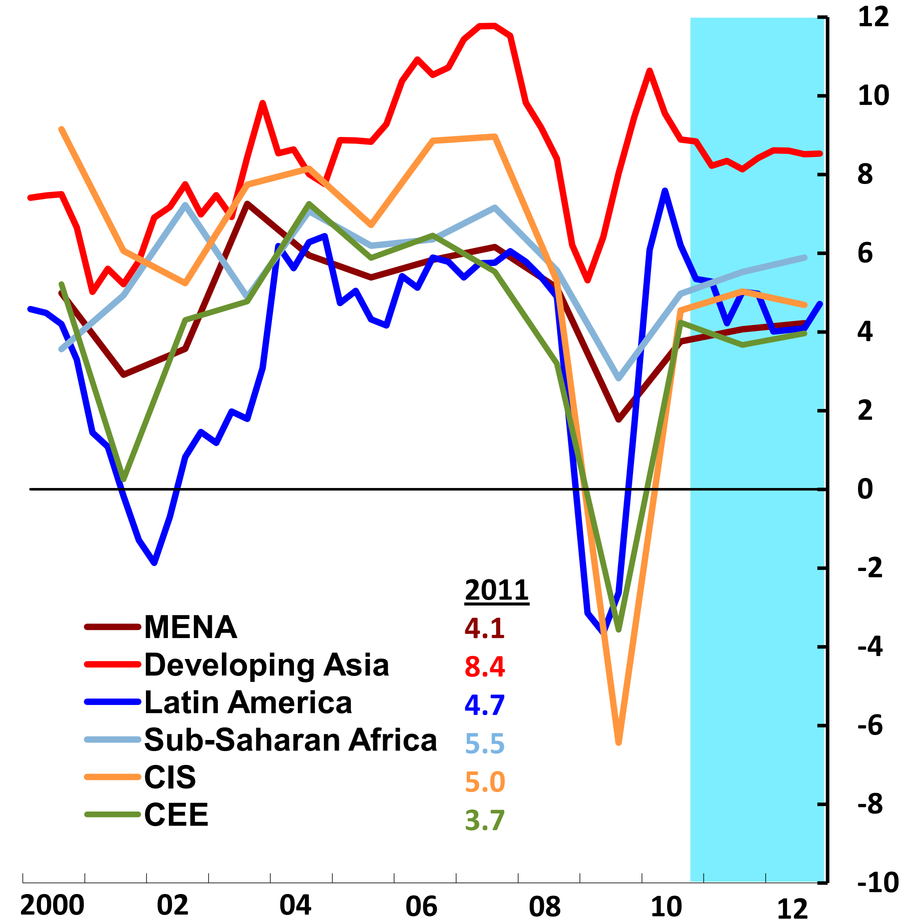
(index)



Multispeed recovery: 6½ percent growth in EM
2½ percent growth in AE
= 4½ percent global growth.

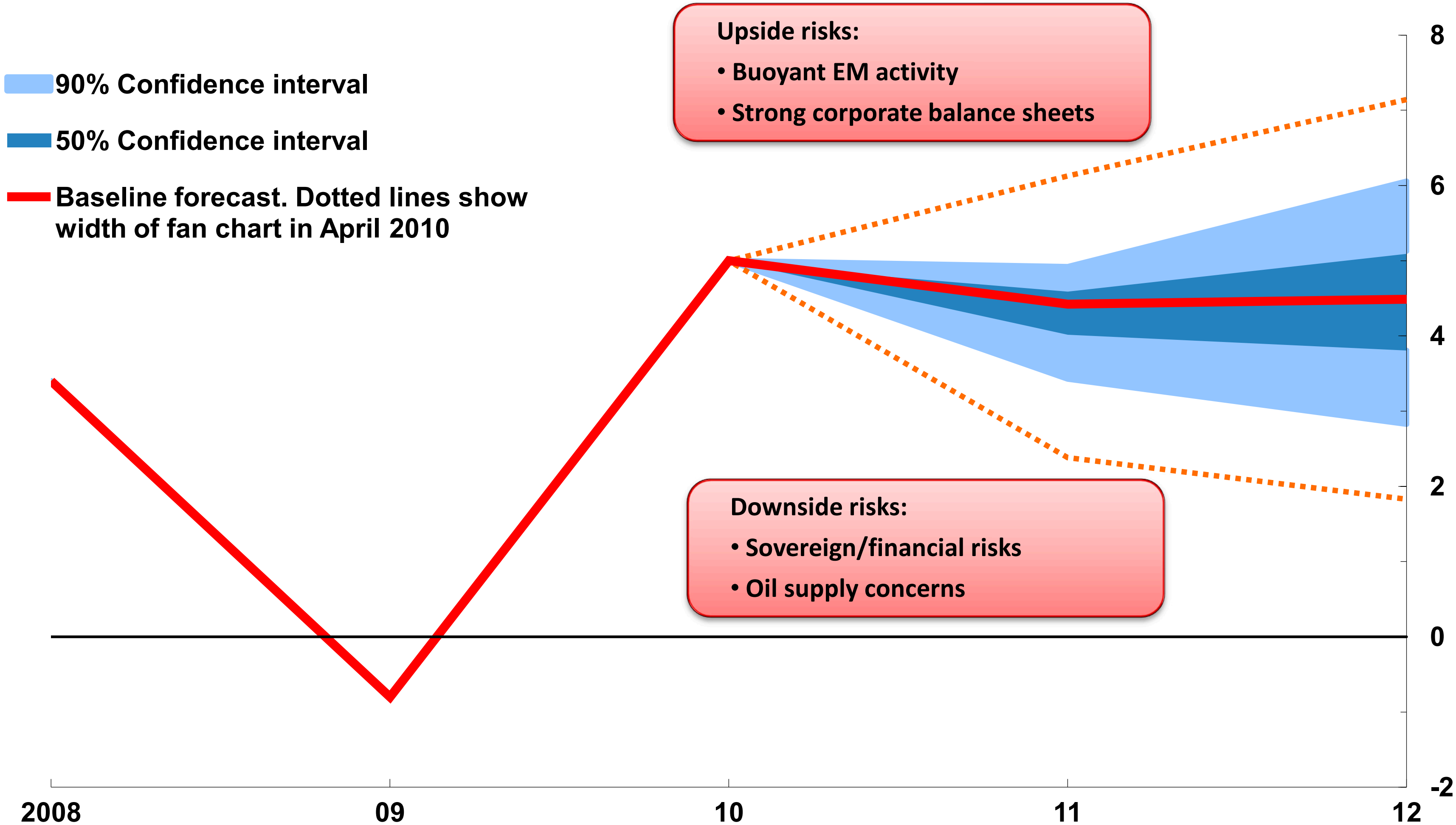
Real GDP Growth
(percent change from a year earlier)





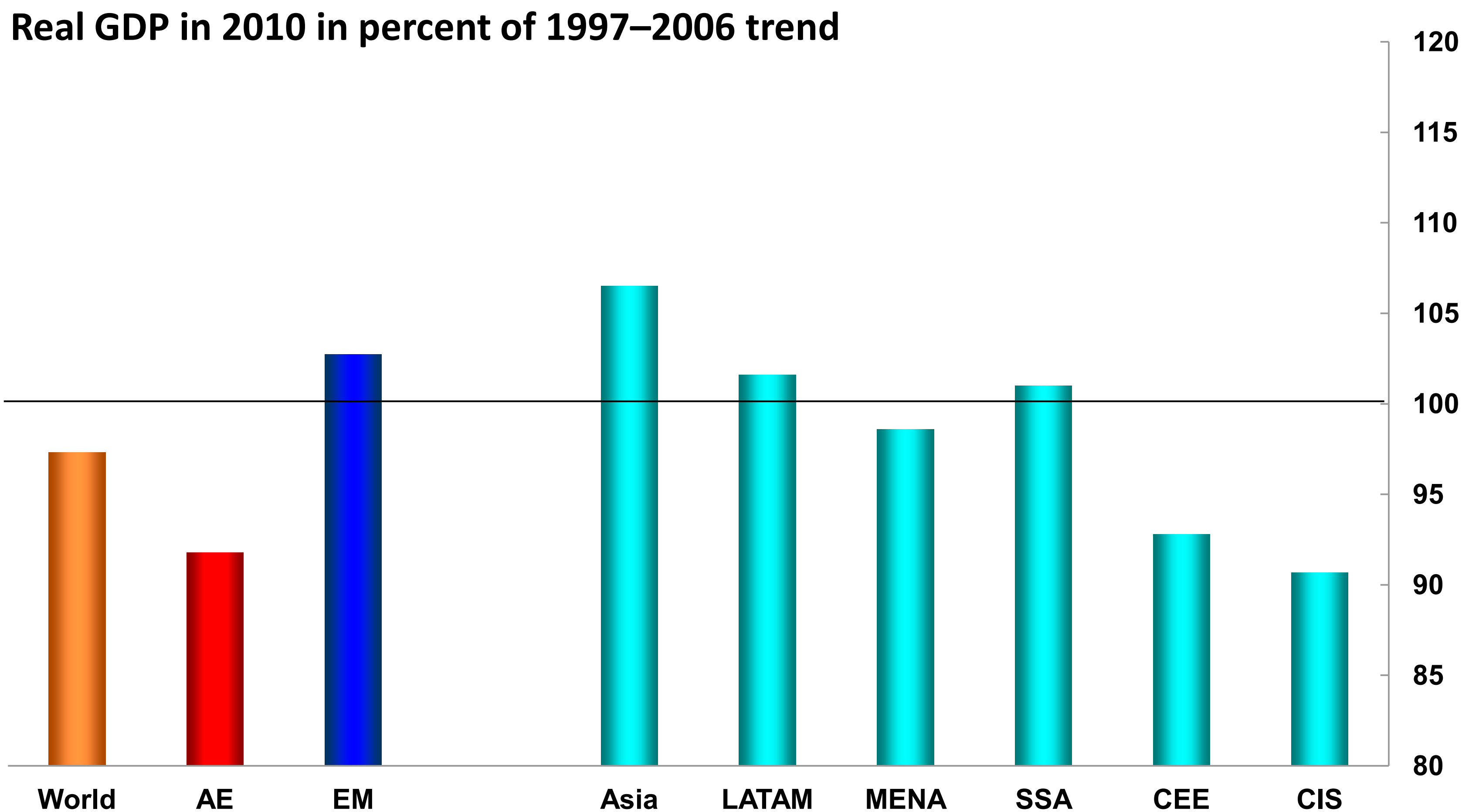
Downside risks have diminished but continue to dominate.

Prospects for World GDP Growth
(percent change)



EM in Asia and Latin America are operating above strong pre-crisis trends. In AE, CEE, CIS activity is lagging.

1



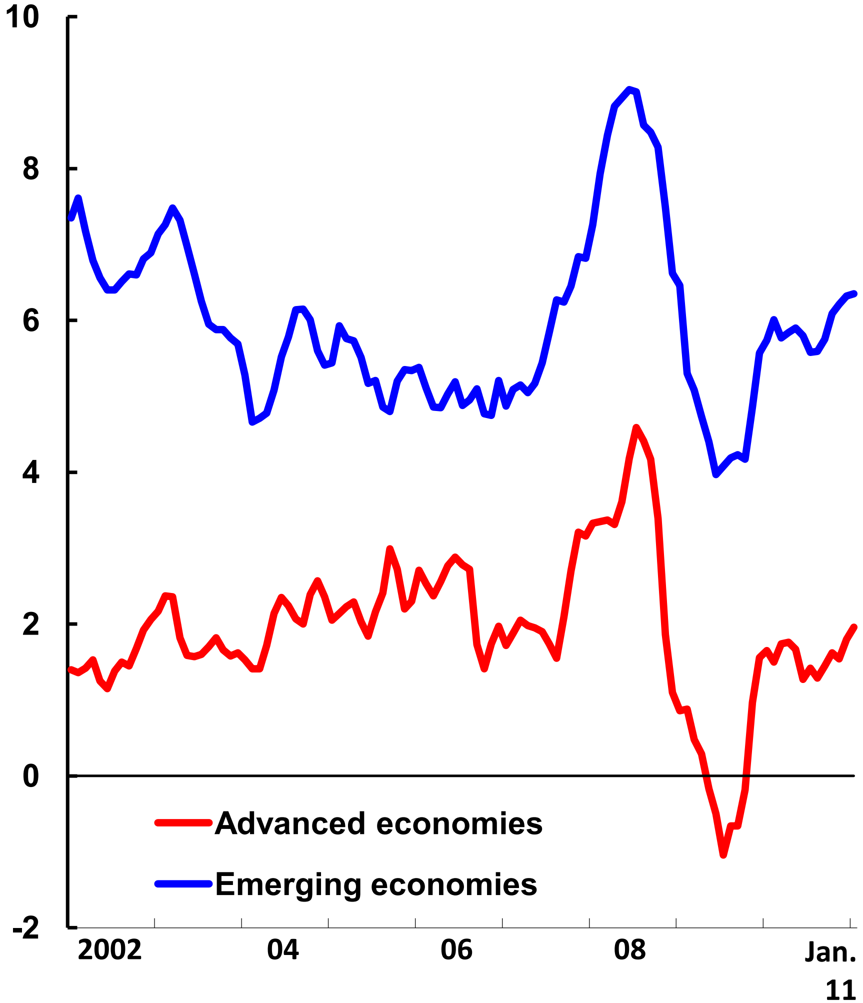
Source: IMF staff calculations.

[1] Pre-crisis trend obtained by extrapolating 1996–2006 real GDP growth. AE: Advanced economies, EM: Emerging economies, CEE: Central and eastern Europe, CIS: Commonwealth of Independent States, Asia: Developing Asia, LATAM: Latin America and the Caribbean, MENA: Middle East and North Africa, SSA: Sub-Saharan Africa.

Inflation has picked up. However, in AE this is mostly due to commodities. In EM, inflation pressures are broadening amid strong activity.

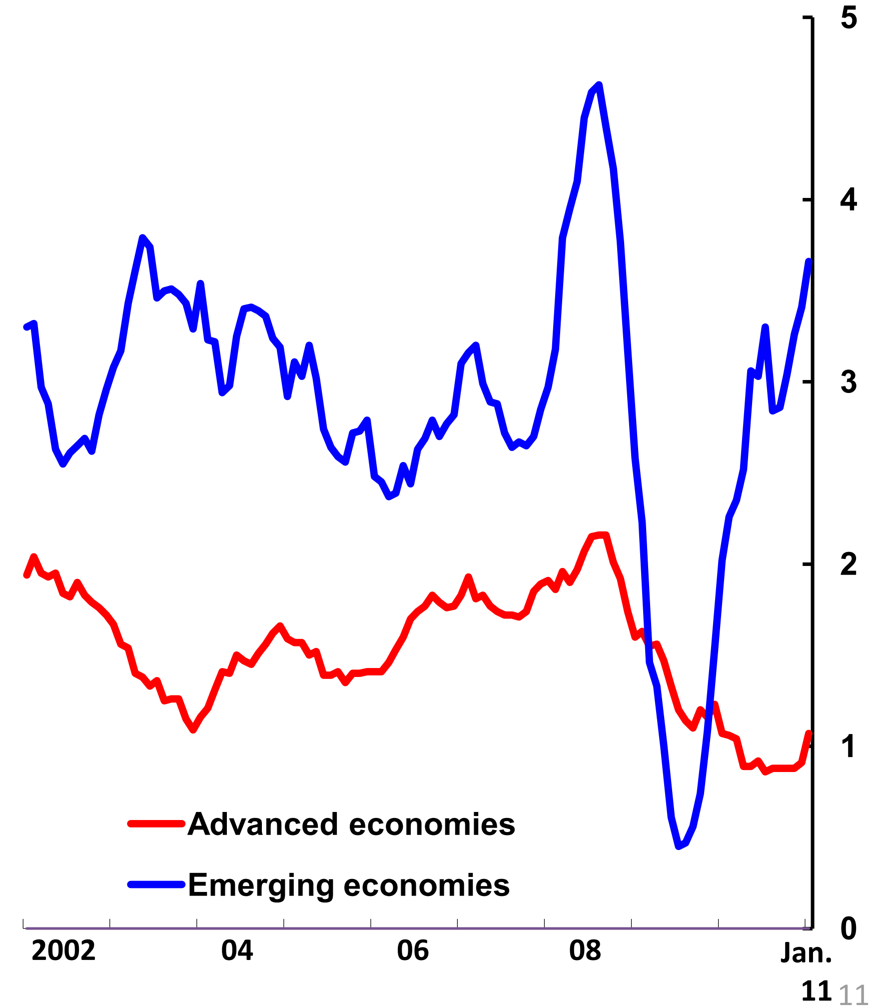
Headline Inflation

(Twelve-month change)



Core Inflation

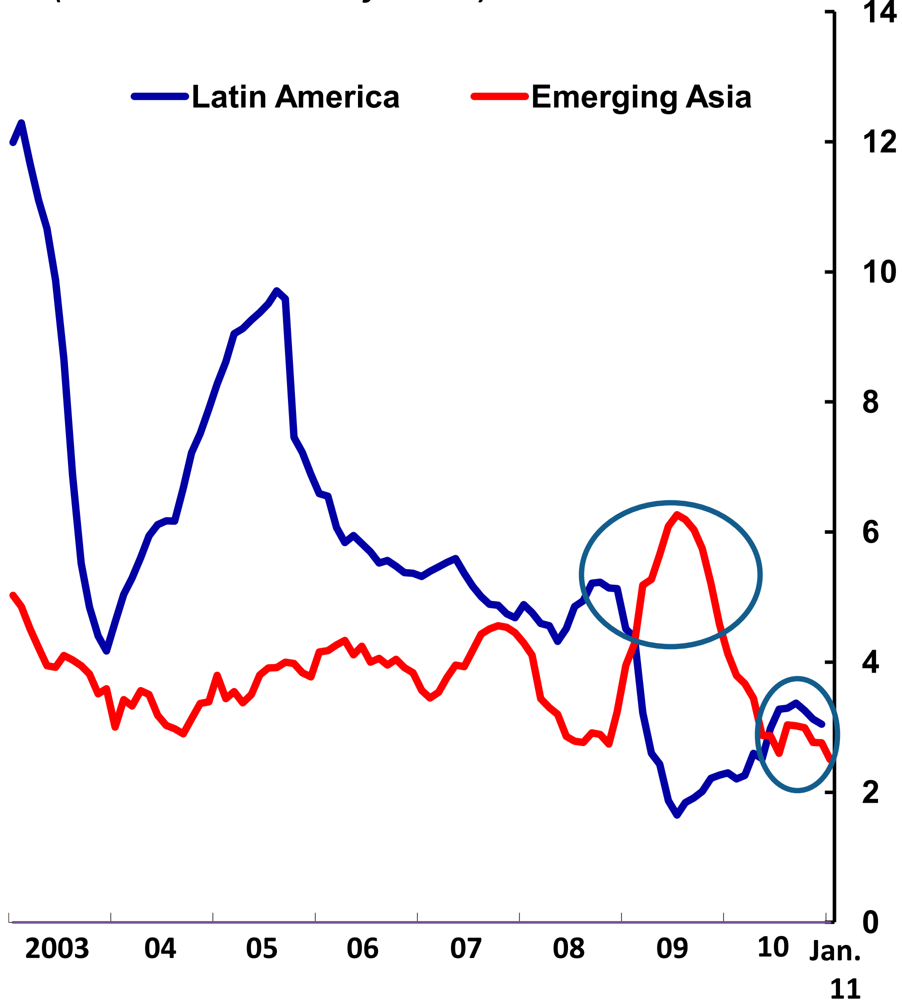
(Twelve-month change)



In many EM, real policy rates and fiscal balances are well below pre-crisis levels, although output is above pre-crisis trends and inflation broadening.

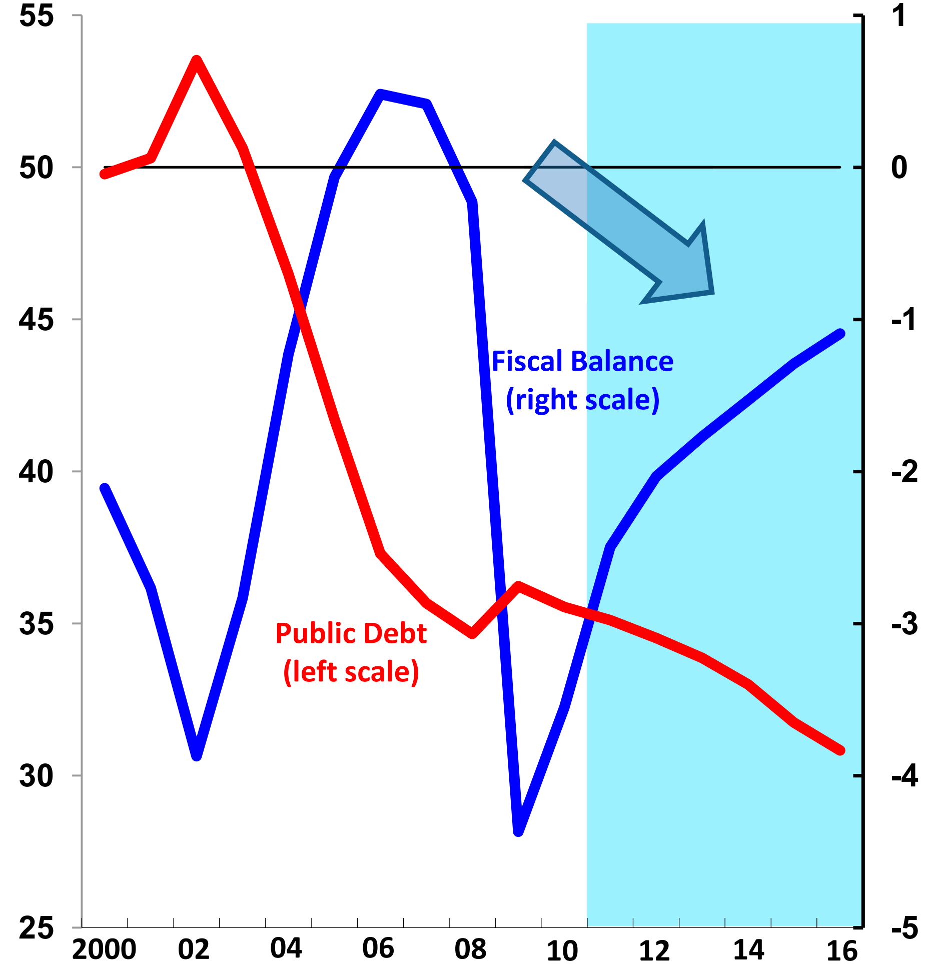
Real Policy Rates

(relative to core inflation)

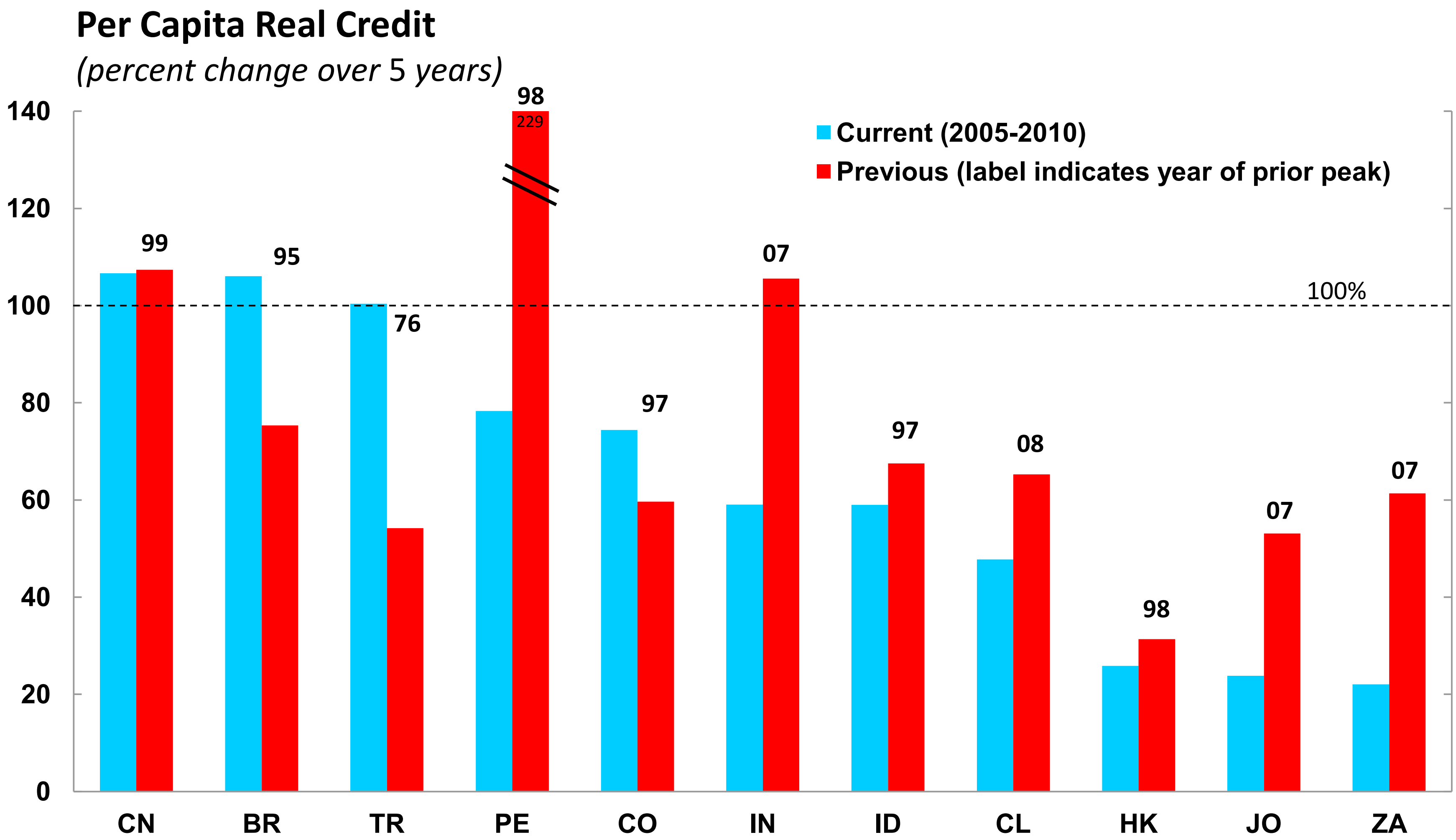


Fiscal Balance and Public Debt

(percent of GDP)



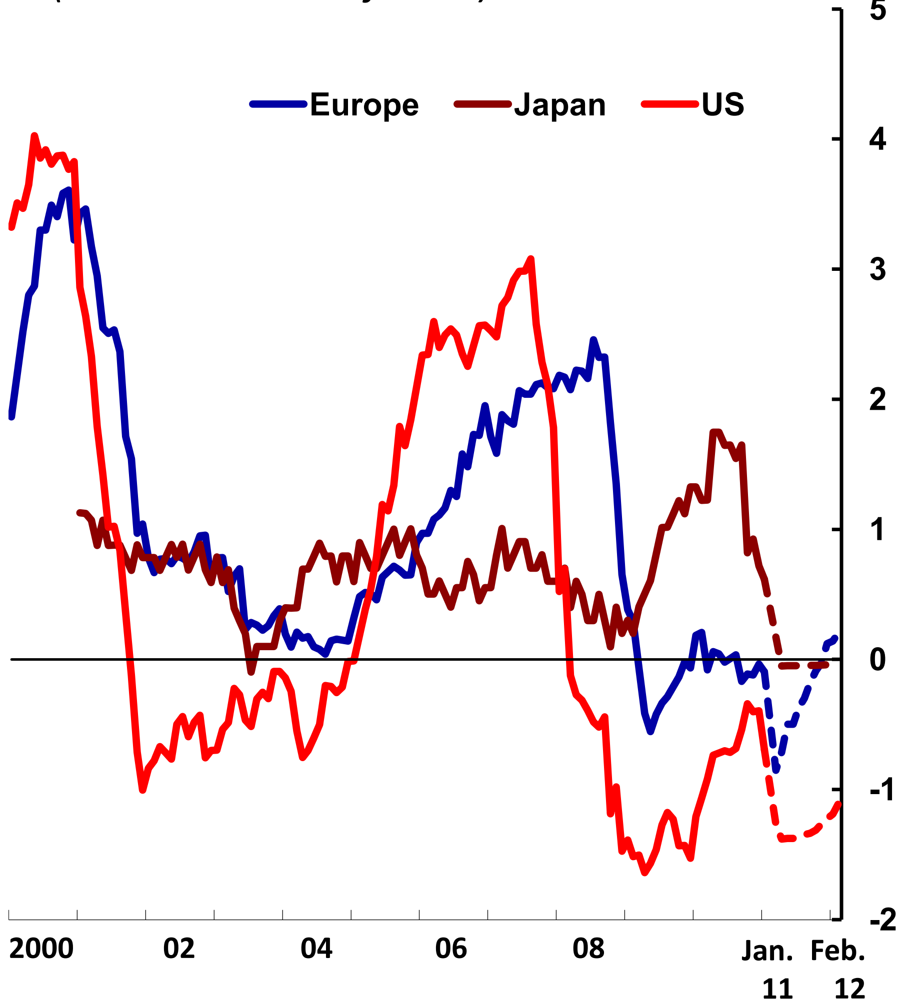
In various EM, credit over the past 5 years has been booming. Macroeconomic and prudential tightening appear essential to avoid boom-bust cycles.



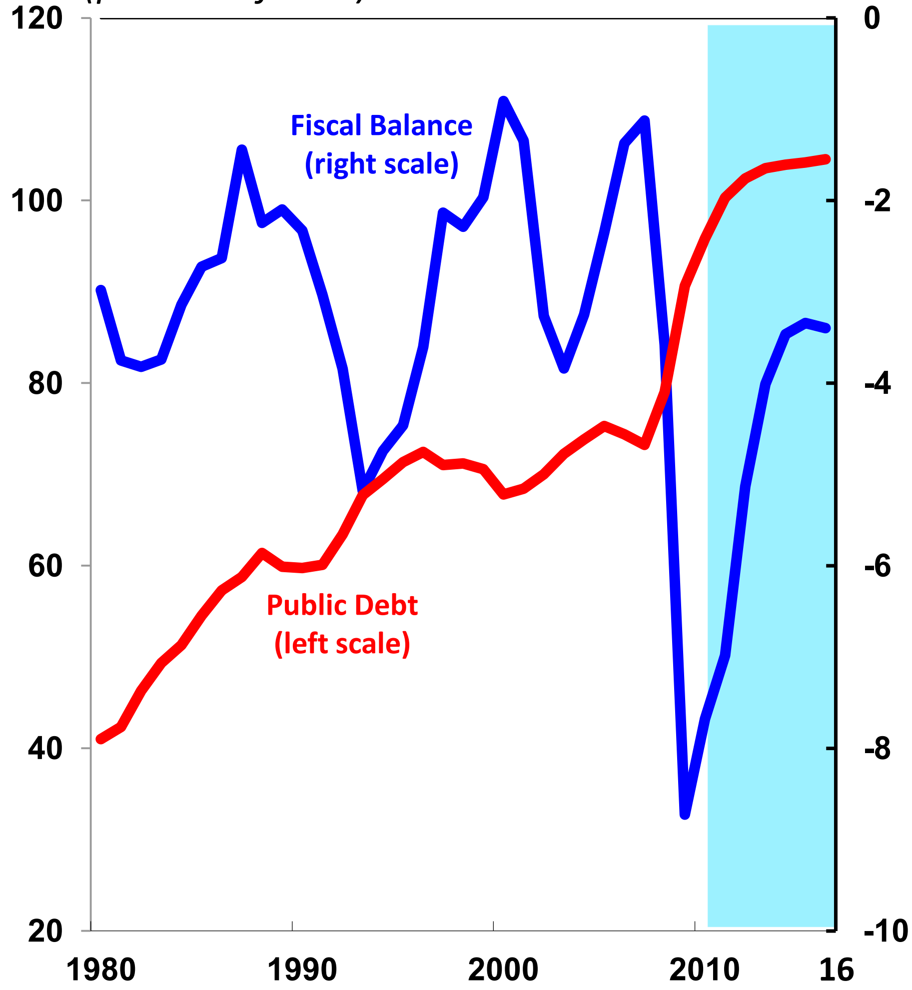
BR: Brazil, CL: Chile, CN: China, CO: Colombia, HK: Hong Kong SAR, IN: India, ID: Indonesia, JO: Jordan, PE: Peru, ZA: South Africa, TR: Turkey.

In many AE, policy rates can stay low because activity and inflation are still subdued. Key policy challenge: fiscal consolidation.

Real Policy Rates
(relative to core inflation)

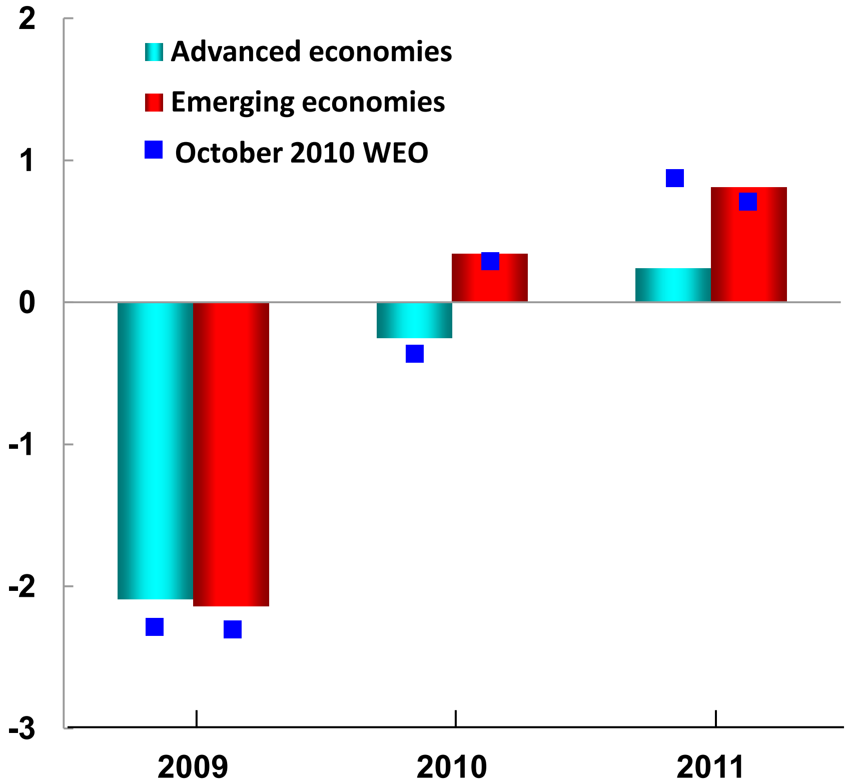


Fiscal Balance and Public Debt
(percent of GDP)

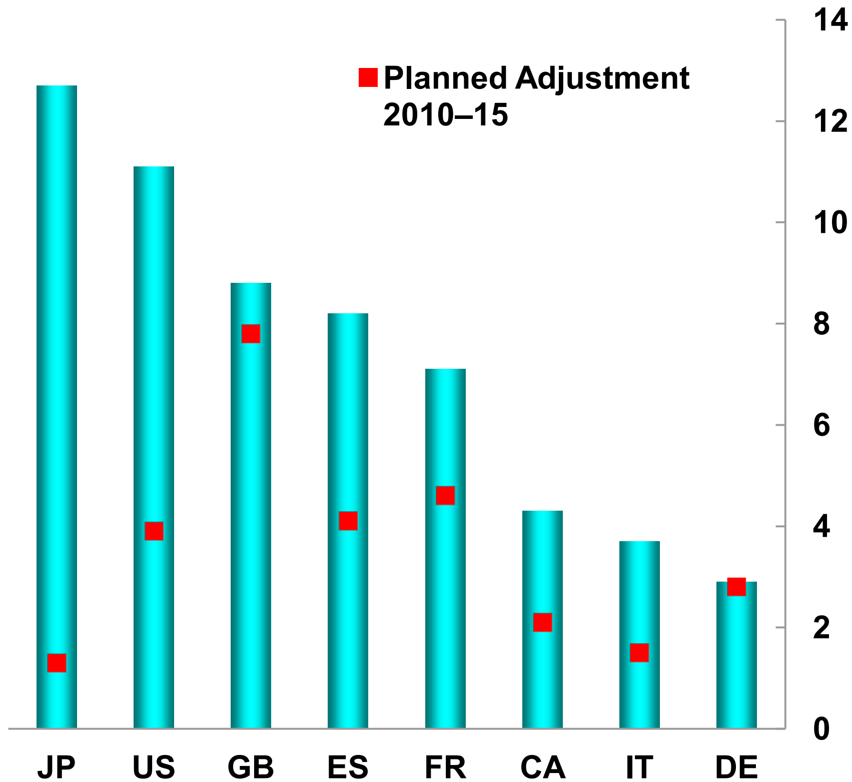


For 2011, withdrawal of fiscal stimulus will be limited. In many advanced economies, much more adjustment is needed to achieve sound public finances.

Fiscal Impulse
(percent of GDP)



Required Adjustment[1,2]
(percent of GDP)

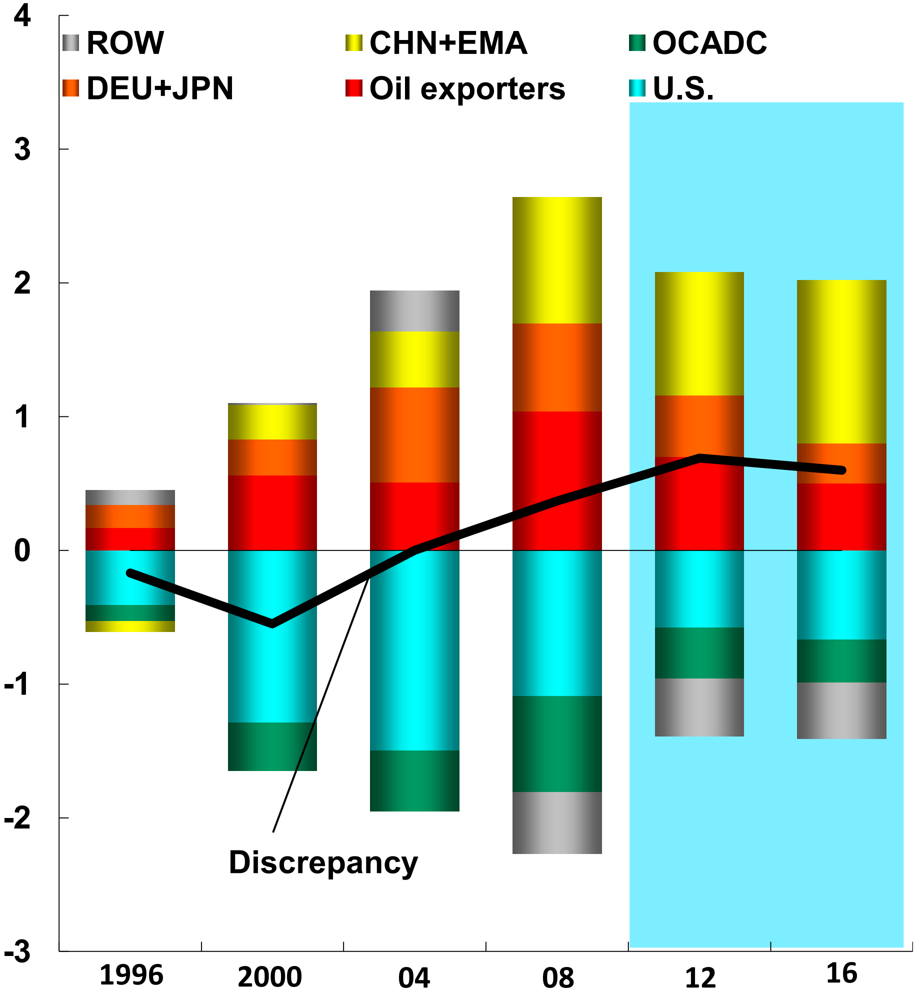


Sources: IMF, *Fiscal Monitor*; and IMF staff calculations.
[1] CA: Canada, FR: France, DE: Germany, IT: Italy, JP: Japan, ES: Spain, GB: United Kingdom, US: United States.
[2] Cyclically adjusted primary balance adjustment needed to the debt ratio to 60 percent in 2030, except for Japan.

Global demand rebalancing is incomplete and has mostly been driven by "negative" structural forces.

Global Imbalances[1]

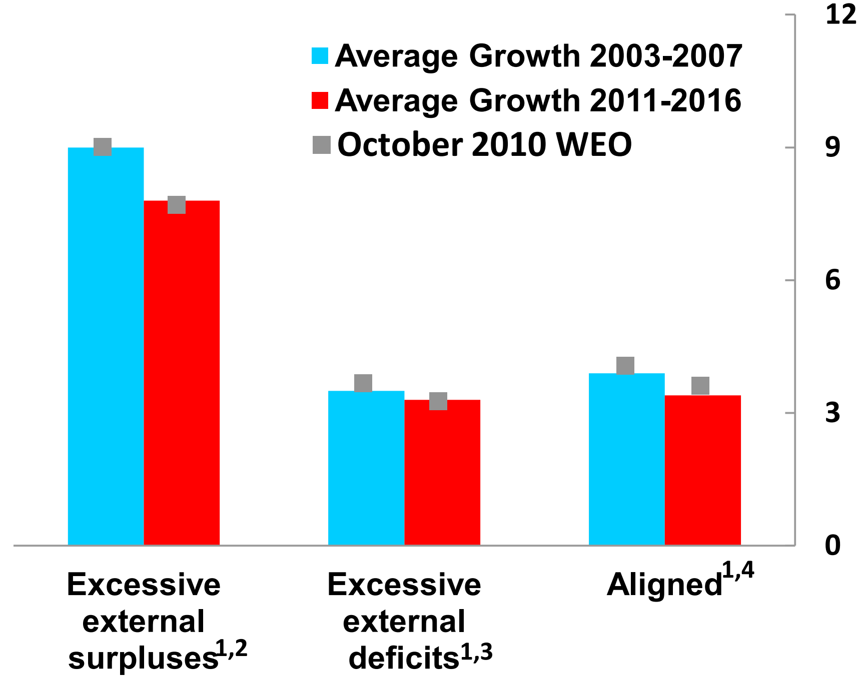
(percent of world GDP)



[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). CGER countries include Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, euro area, Hungary, India, Indonesia, Israel, Japan, Korea, Malaysia, Mexico, Pakistan, Poland, Russia, South Africa, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. For a detailed discussion of the methodology for the calculation of exchange rates' over- or undervaluation, see Lee and others (2008).

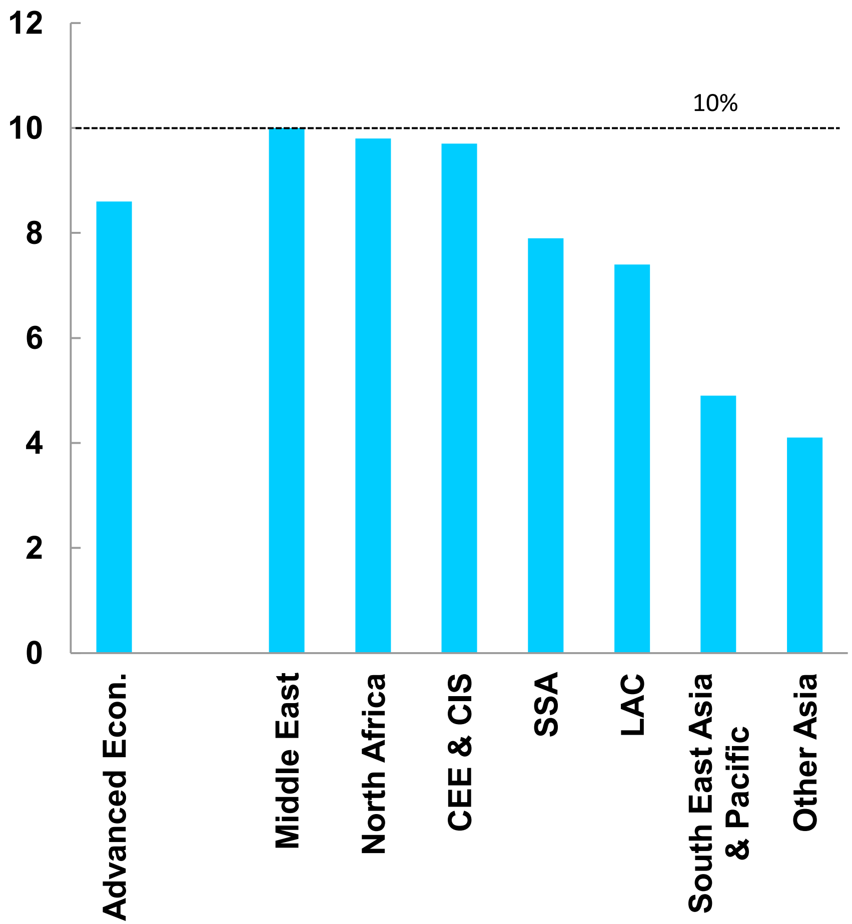
[2]These economies account for 18.5 percent of global GDP.

[3]These economies account for 27.4 percent of global GDP.

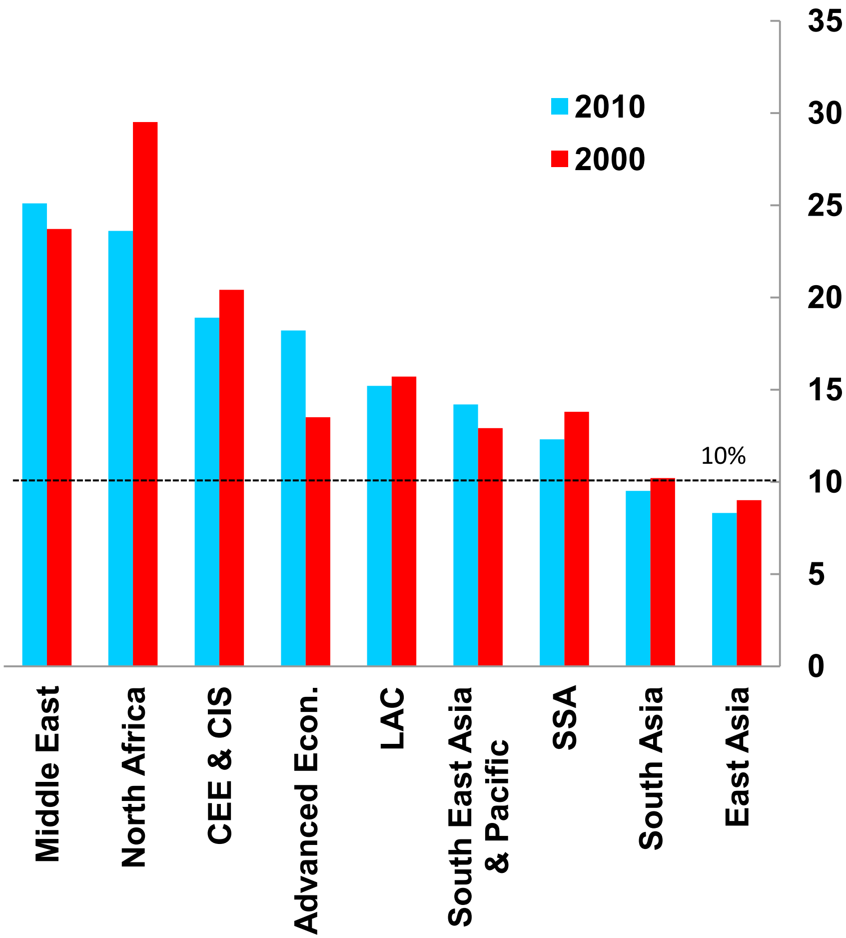
[4]These economies account for 39.2 percent of global GDP.

Growth and policies are not strong enough to significantly lower high unemployment, especially of the young.

Projected Unemployment Rate by Regions, 2011 [1]
(percent)



Youth Unemployment in Major Regions [1]
(percent)



Sources: Haver Analytics; International Labor Organization; and IMF staff calculations.
[1] CEE&CIS: Central and South-Eastern Europe (non-EU) and Commonwealth of Independent States, LAC: Latin America and the Caribbean, SSA: Sub-Saharan Africa.

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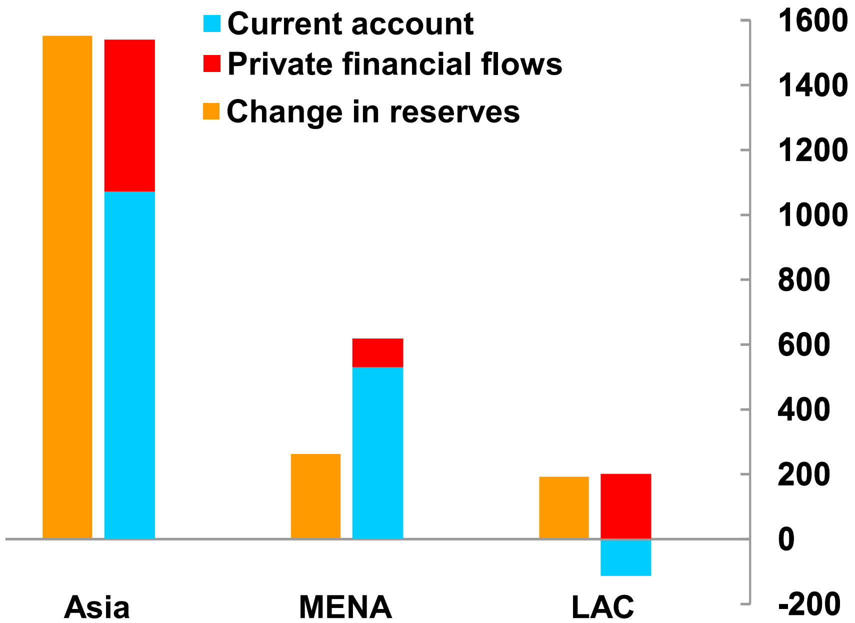
IMF Internal Presentation

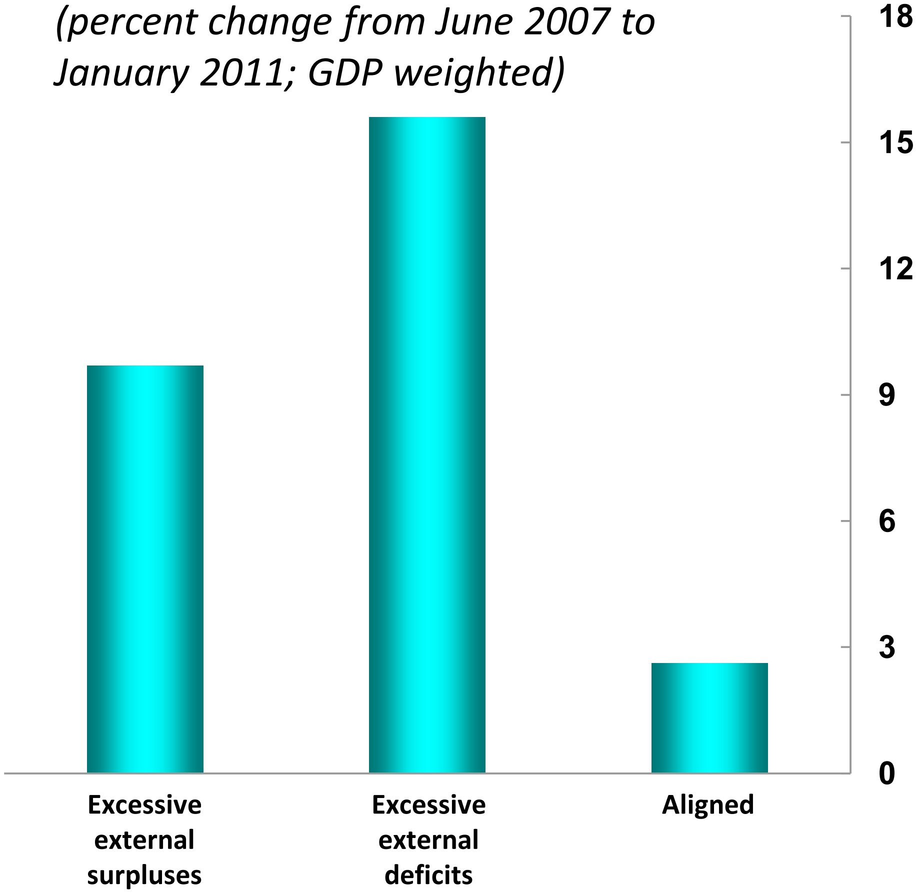
March 17, 2011

Domestic demand in EM Asia is not projected to accelerate much—reserve buildup fuels inflation & credit, hampers RER appreciation & rebalancing.

Net Financial Flows, 2008–10[1]
(billions of U.S. dollars)



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



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