



Global Economic Outlook

The Institute of Strategic and International Studies
Kuala Lumpur, November 2012

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Action Needed to Put Recovery Back on Track

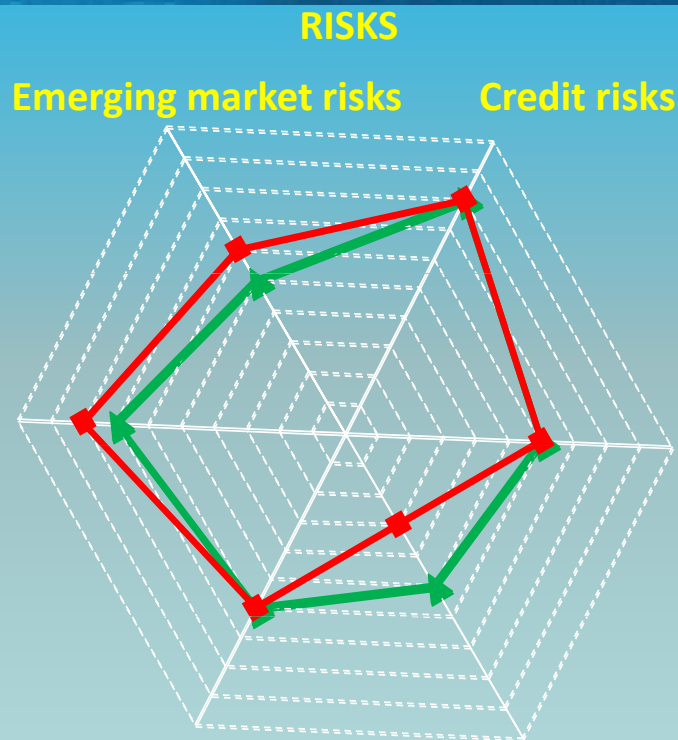
- **The global economy has suffered new setbacks**
- **The forecasts have been revised downward**
- **Risks are up and confidence is fragile**
- **AE: policies have progressed but much stronger actions are needed**
- **EM: complex setting—rebuilding policy room for maneuver versus supporting growth**

Confidence has Faltered and Risks have Increased

October GFSR

April GFSR

Macroeconomic risks



Market and liquidity risks

Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite

Monetary and financial conditions

Risk appetite

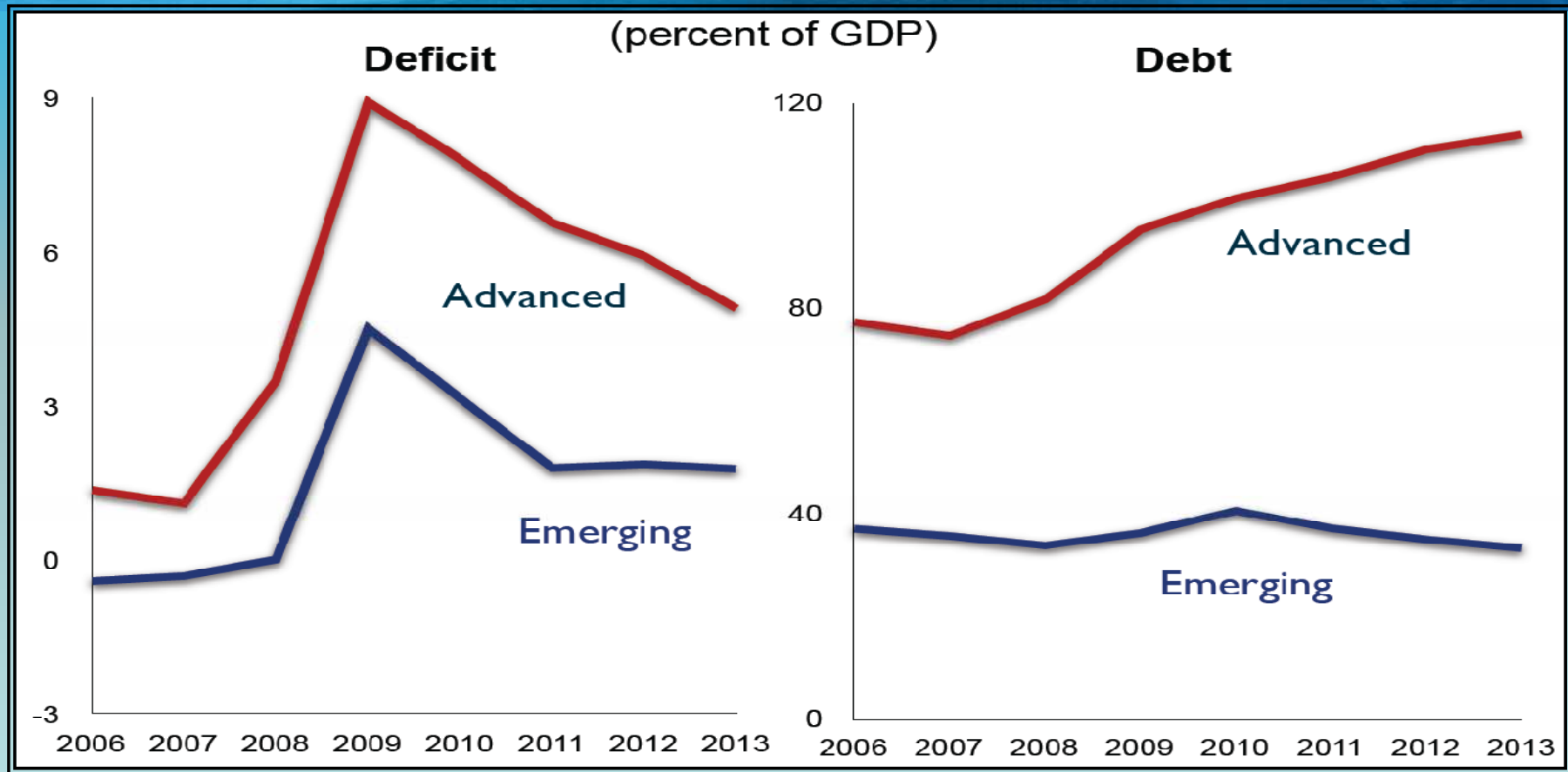
What Went Wrong?

Increasing strains in the euro area

End of the emerging markets boom

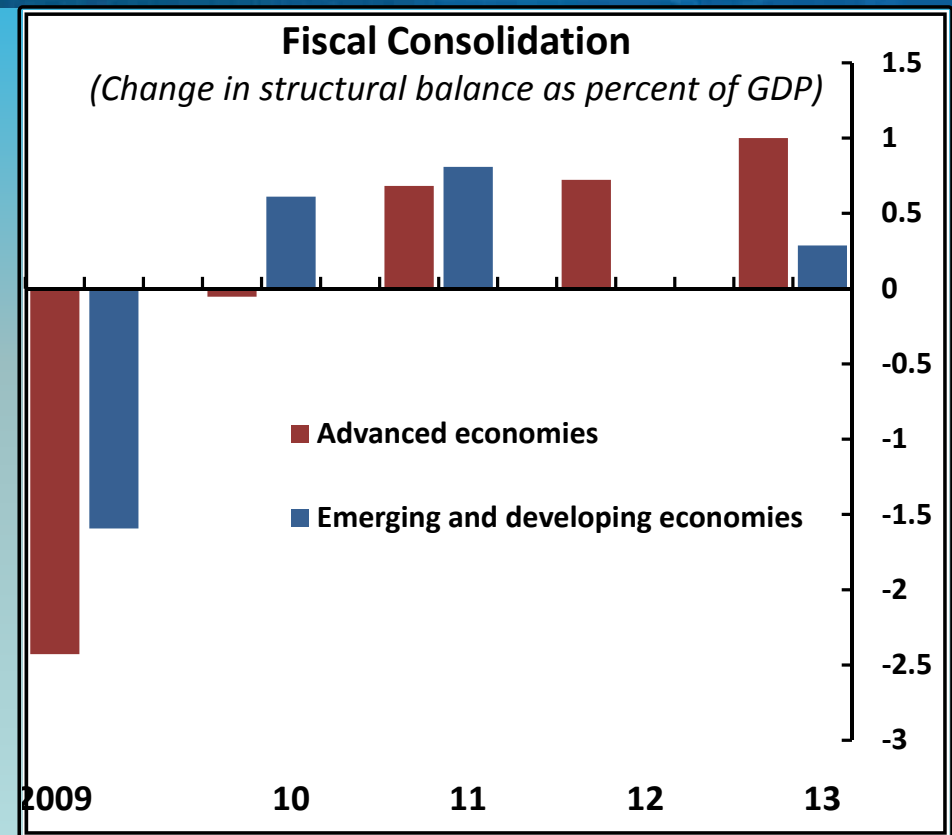
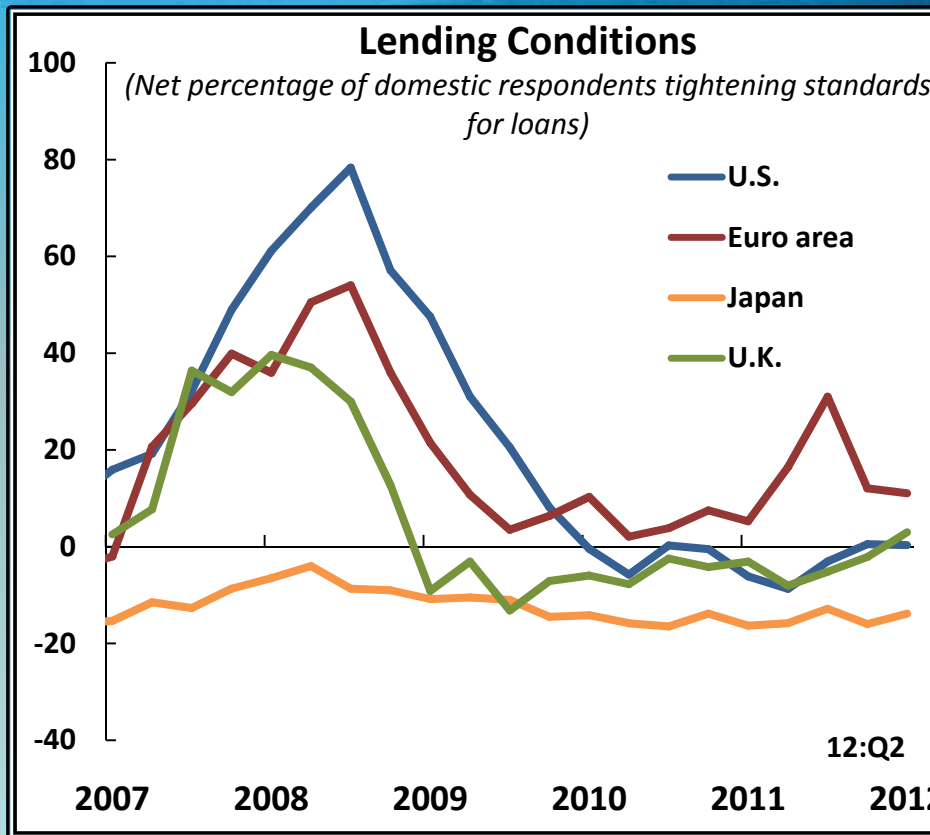
Large growth impact of fiscal adjustment amid tight financial conditions

General Government Deficit and Debt



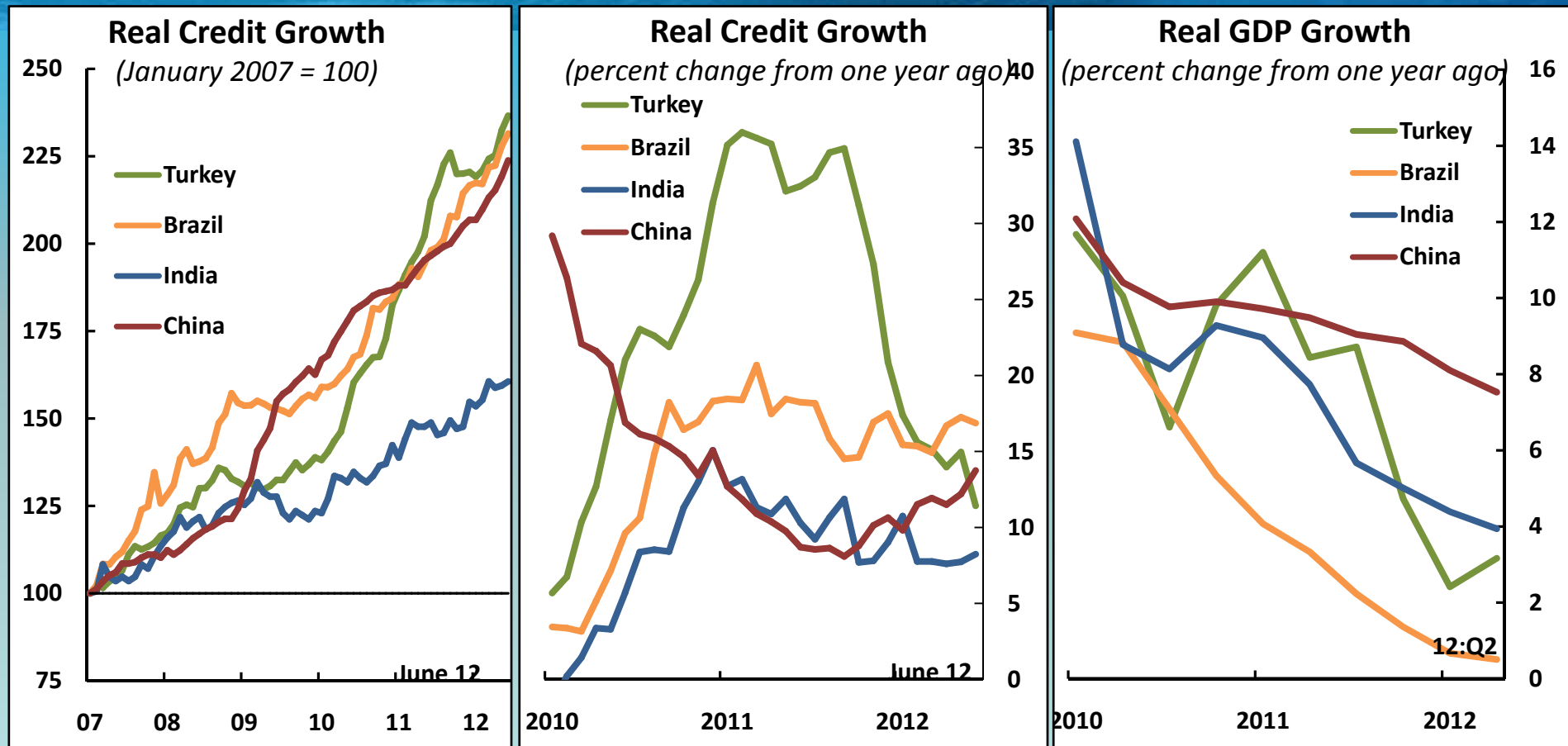
Source: IMF staff estimates.

Tight financial conditions and fiscal policies in AE



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

Emerging Markets: End of a boom



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

Outlook: Weak and Uncertain

Key Assumptions

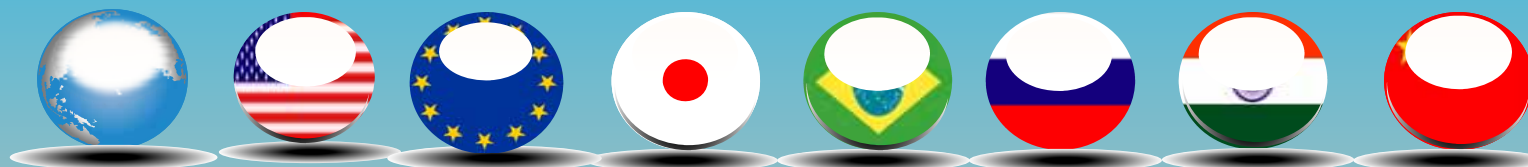
- Strong euro-area policies improve financial conditions in 2013H2
- US policymakers avoid fiscal cliff, raise debt ceiling

Outlook

- Recovery gradually strengthens but is weaker than in July 2012 World Economic Outlook and there are large downside risks

Growth prospects are projected to be weaker now for most major economies relative to before

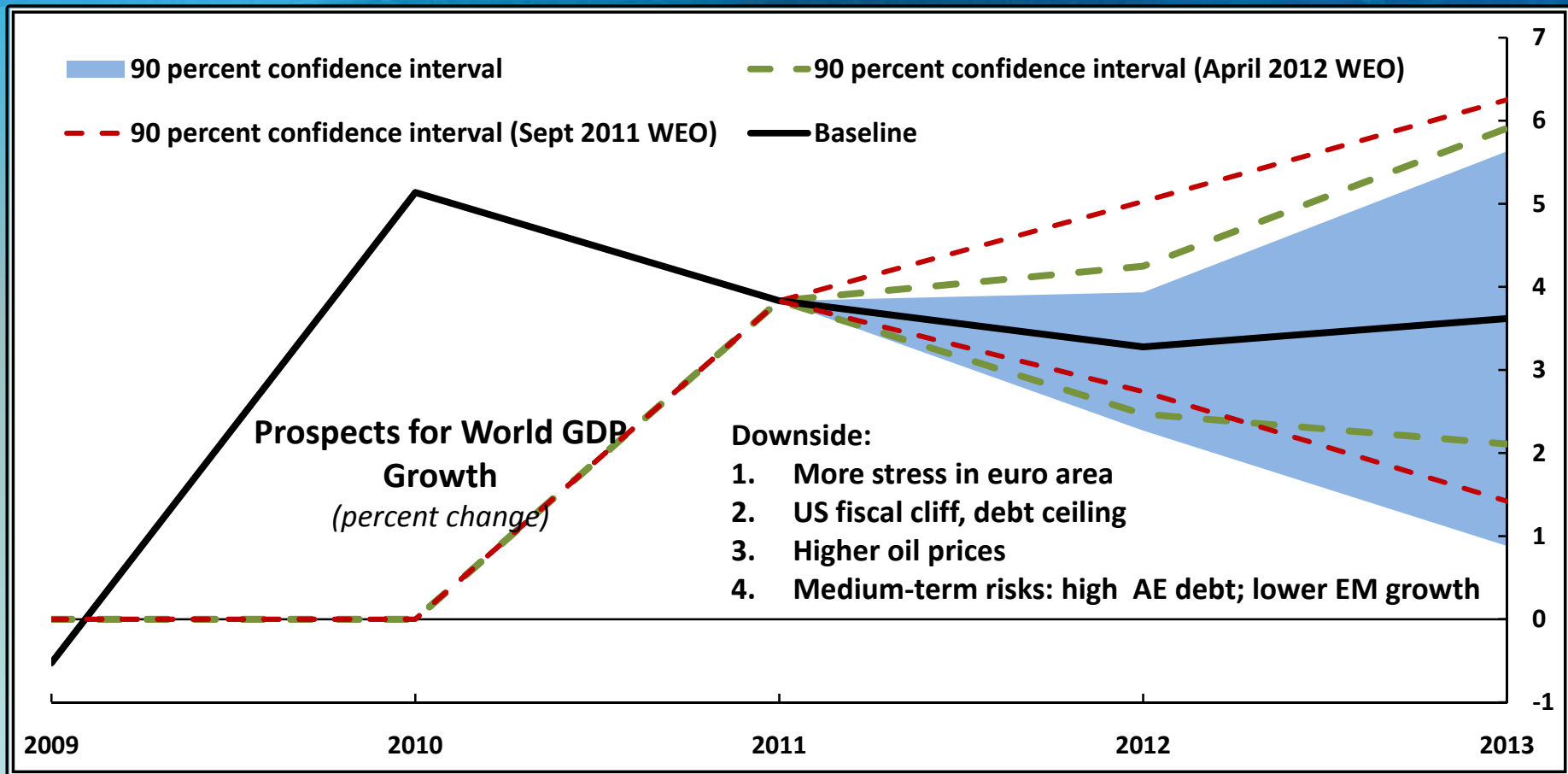
WEO Real GDP Growth Projections
(percent change from a year earlier)



	World	U.S.	Euro Area	Japan	Brazil	Russia	India	China
2012								
(Oct 2012)	3.3	2.2	-0.4	2.2	1.5	3.7	4.9	7.8
(Jul 2012)	3.5	2.0	-0.3	2.4	2.5	4.0	6.1	8.0
(April 2012)	3.5	2.1	-0.3	2.0	3.0	4.0	6.9	8.2
2013								
(Oct 2012)	3.6	2.1	0.2	1.2	4.0	3.8	6.0	8.2
(Jul 2012)	3.9	2.3	0.7	1.5	4.6	3.9	6.5	8.5
(April 2012)	4.1	2.4	0.9	1.7	4.1	3.9	7.3	8.8

Source: IMF, World Economic Outlook.

Downside risks are large: 1 in 6 chance of serious global slowdown (global growth < 2 percent)



What Is To Be Done?

- **Removing immediate risks**

- **Euro Area: Restoring confidence**
- **United States: Avoiding the fiscal cliff, raise debt ceiling**

Advanced Economies: Managing fiscal consolidation

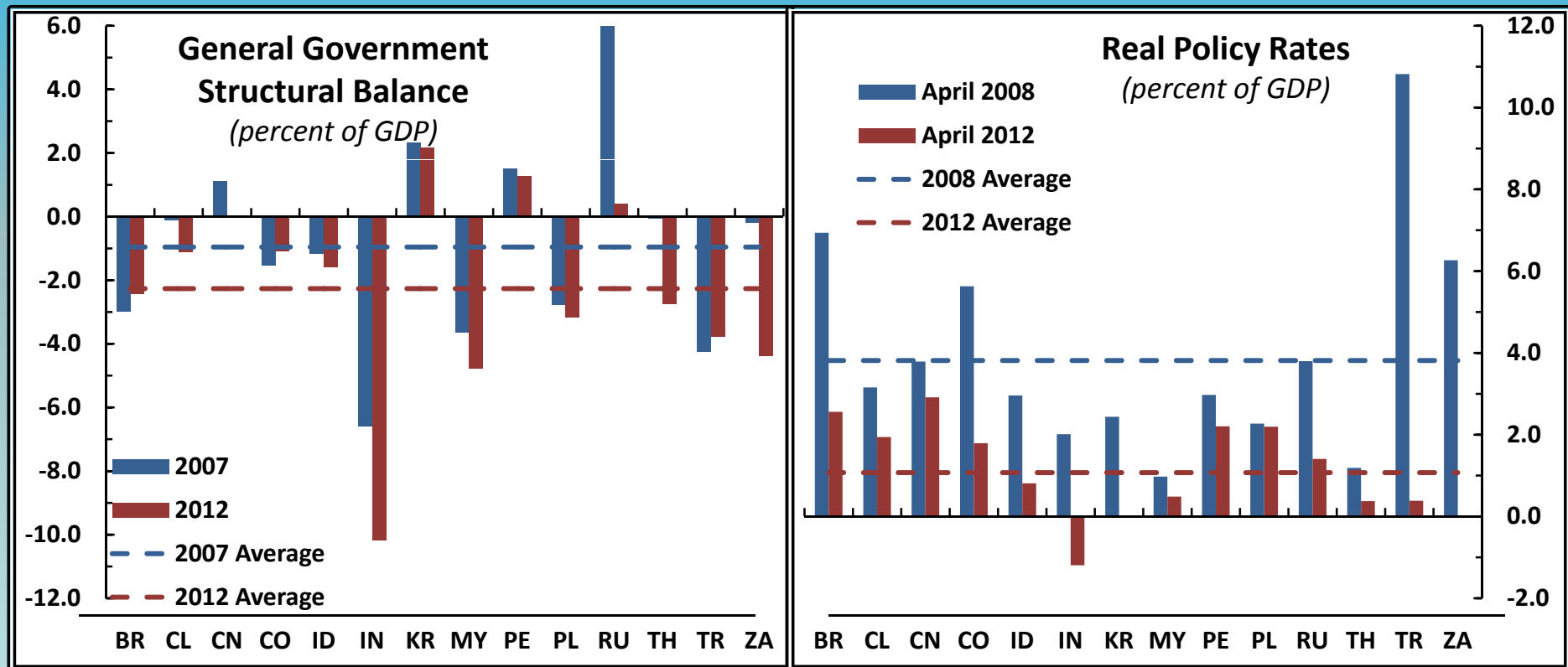
Fiscal

- Gradual and sustained fiscal consolidation anchored by detailed medium-term plan—key for U.S and Japan
- Growth contingency:
 - cyclically-adjusted targets to let automatic stabilizers operate
 - where room, smooth medium-term adjustment

Monetary

- Maintain an accommodative stance

Many EM&DC need to rebuild fiscal and monetary policy room for maneuver over the medium term



BR: Brazil; CL: Chile; CN: China; CO: Colombia; ID: Indonesia; IN: India; KR: Korea; MX: Mexico; MY: Malaysia; PE: Peru; PH: Philippines; PL: Poland; RU: Russia; TH: Thailand; TR: Turkey; ZA: South Africa.

EM & DC: Complex setting—need to calibrate macro stance given potential for real and financial vulnerabilities

Baseline scenario

- Pause monetary policy tightening or modestly ease
- Continue to rebuild fiscal position

Downside risks

- Ease monetary policy further, strengthen macro-prudential measures
- Allow fiscal stabilizers to work
- If needed and consistent with stronger medium-term growth, deploy fiscal stimulus (e.g. China)

Key Messages

Assessment

Policy

Euro Area

Financial deintegration forces leading to higher costs

Reintegration requires a leap to complete policies (euro area + national)

U.S./Japan

Waiting for market signals could lead to unintended financial risks and harsher economic outcomes

Avoid complacency and tackle medium-term fiscal adjustment without delay

Emerging Markets

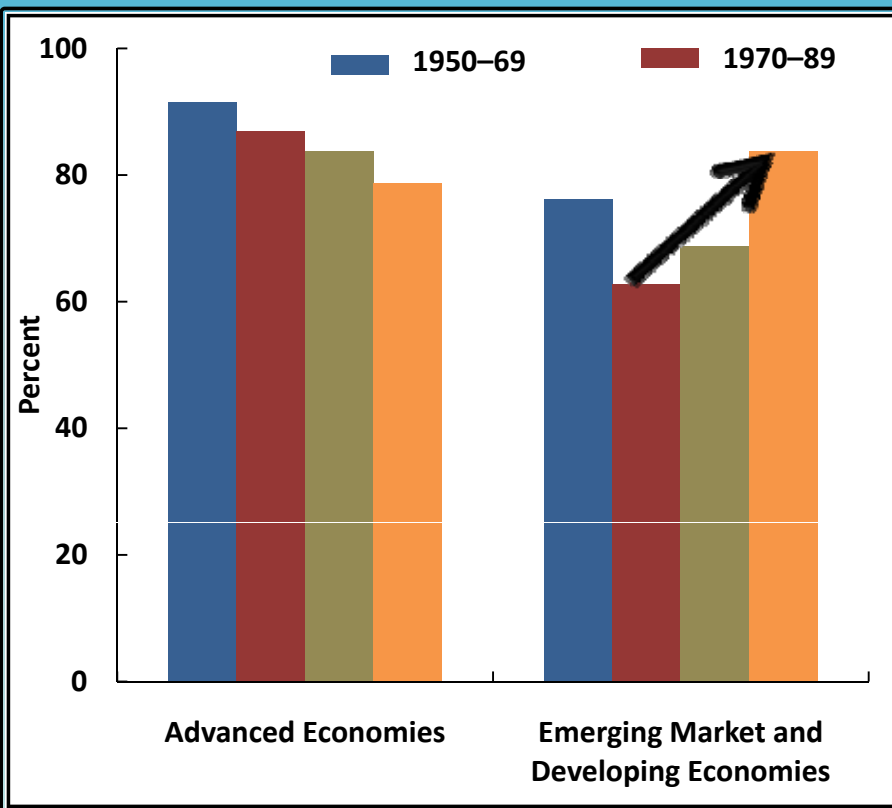
Rising domestic and external vulnerabilities

Keep guard up and use policy space wisely

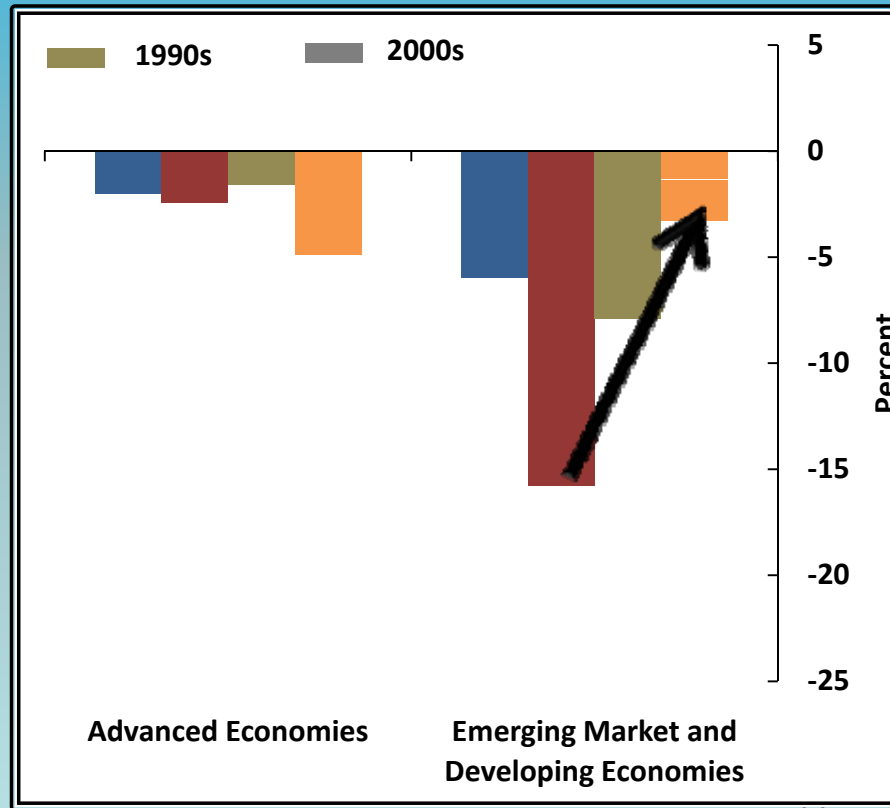
Additional Slides

In the 2000s, EMDEs spent more time in expansion—and had smaller downturns—than AEs

Time Spent in Expansion



Median Downturn (Peak-to-Trough Amplitude)



Source: IMF staff calculations.

Further Action Needed for Global Rebalancing

External Deficit Economies

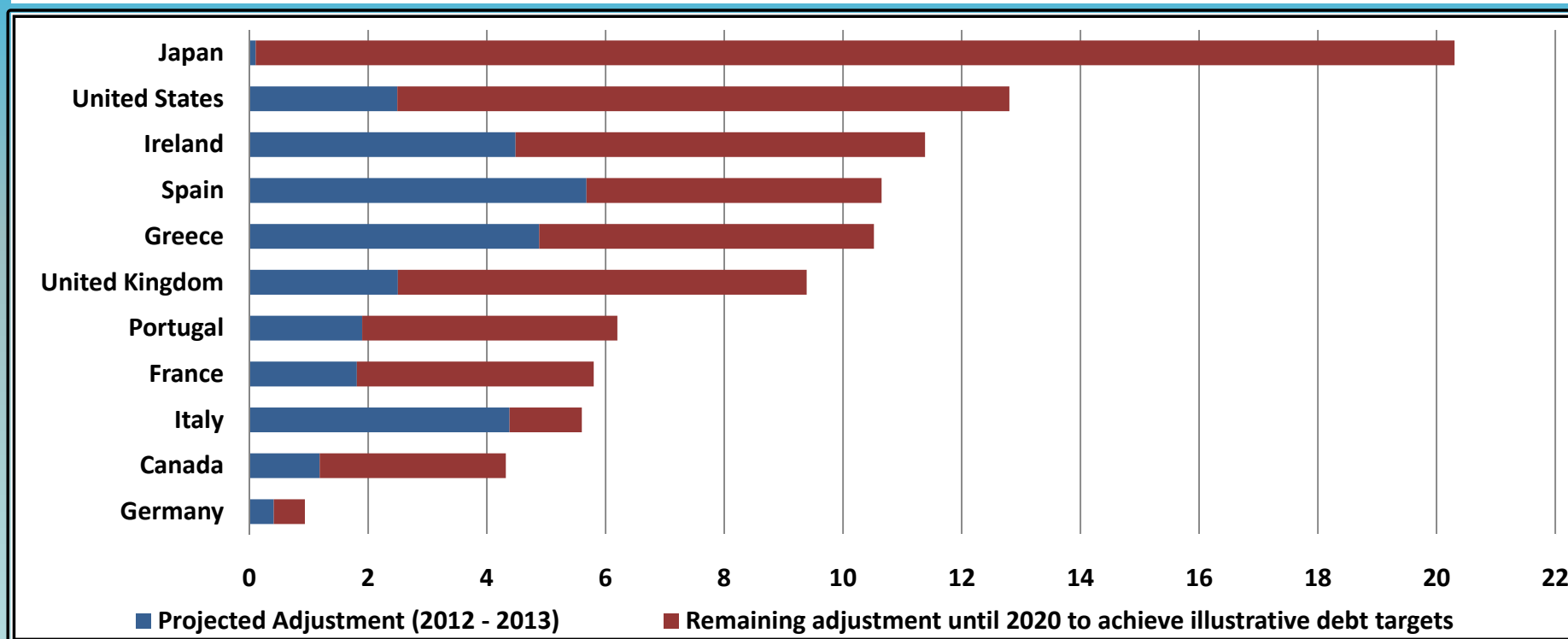
- **Fiscal Consolidation**
- **Structural reforms to boost productivity and saving**

External Surplus Economies

- **Boost consumption**
- **Reduce accumulation of foreign exchange reserves**
- **Adopt more market-determined exchange systems**

Fiscal Adjustment: Progress but a long way to go in key economies

Change in Cyclically-Adjusted Primary Balances
(percent of potential GDP)



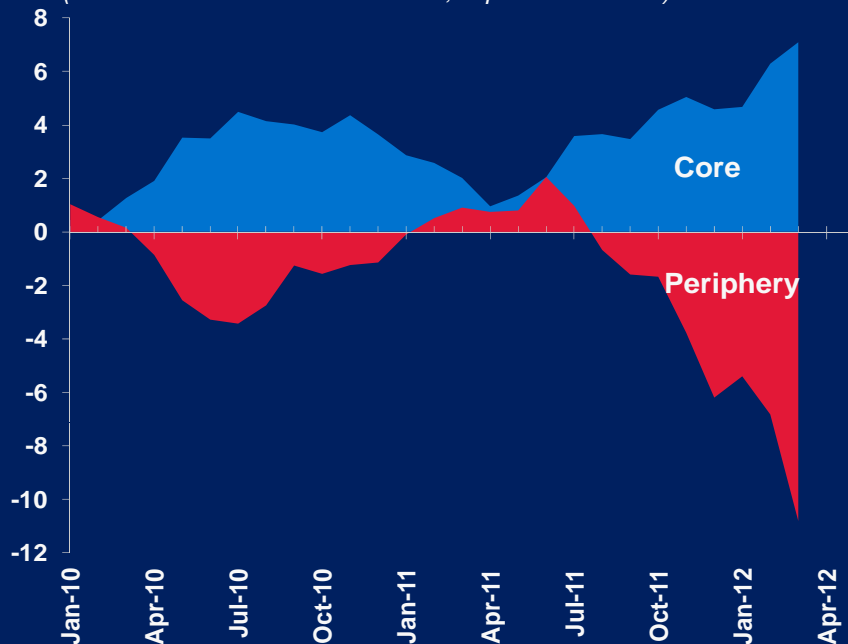
Source: IMF staff estimates.

Note: Total required adjustment to reduce the gross debt ratio to 60 percent by 2030 (net debt target of 80 percent for Japan). After 2020, the primary balance must be maintained constant at the prevailing level until 2030.

Cross-Border Private Funding is being Replaced by Public

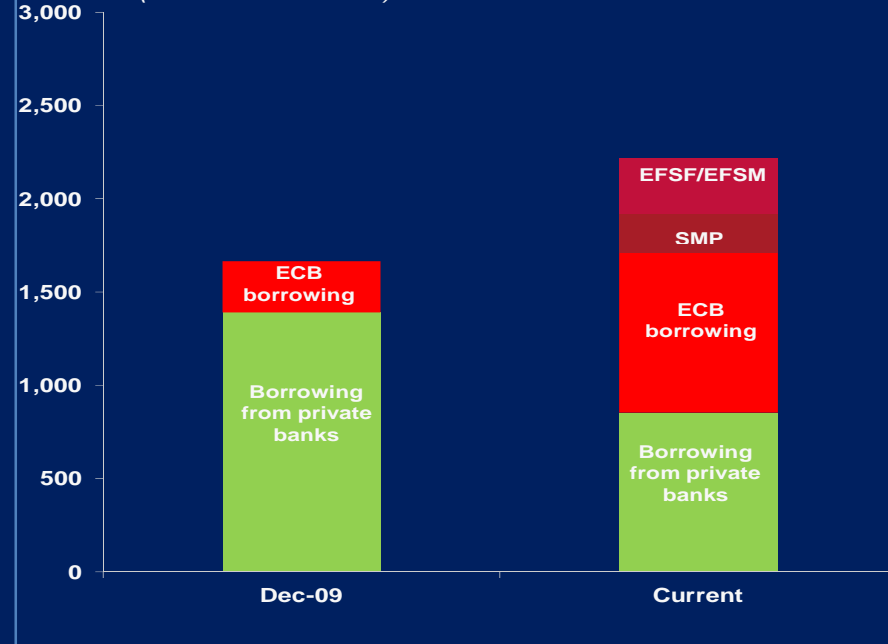
Portfolio and Other Investment Capital Flows Excluding Central Banks

(Cumulative from December 2009, in percent of GDP)

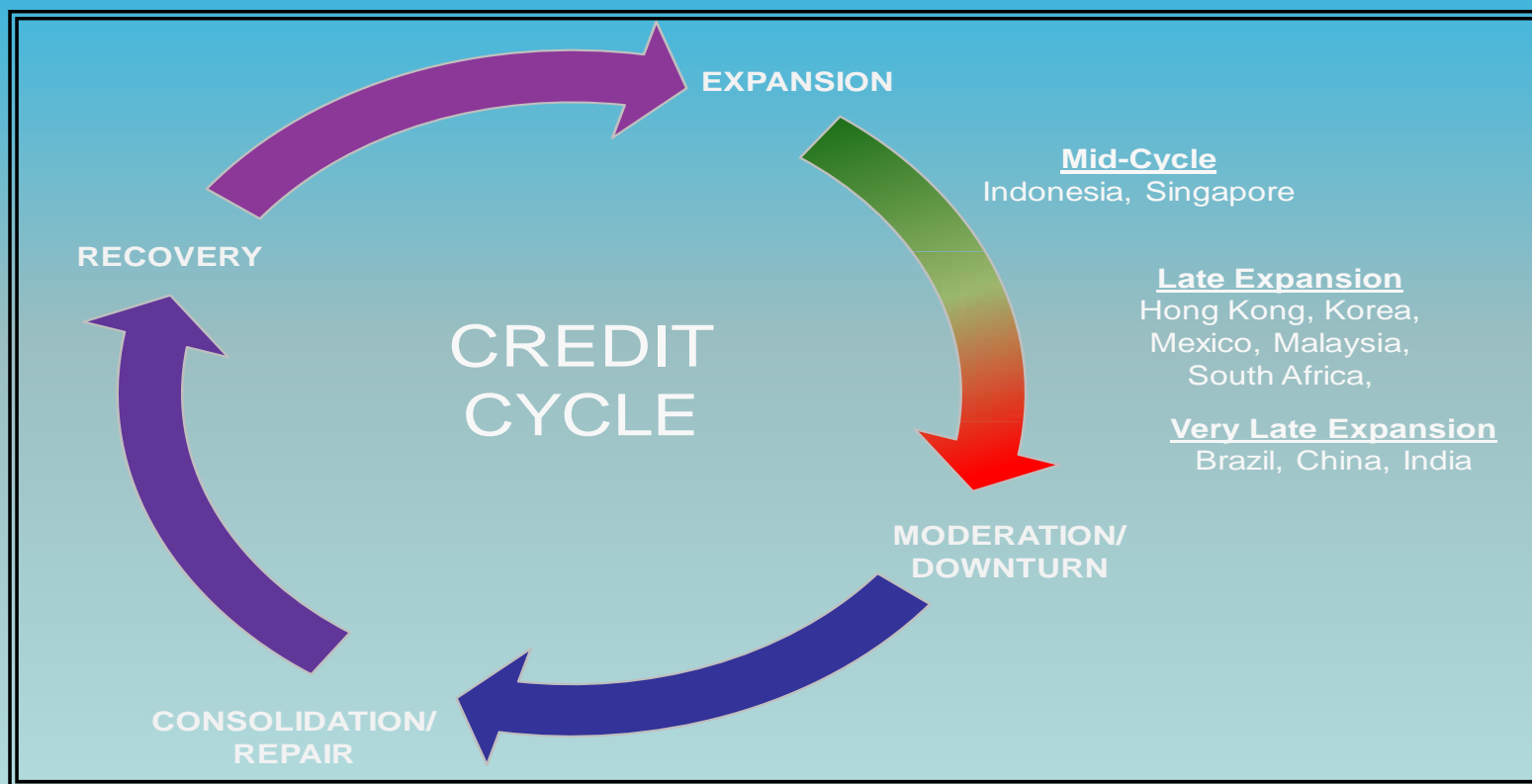


Euro Area Exposures to Greece, Ireland, Italy, Portugal, and Spain

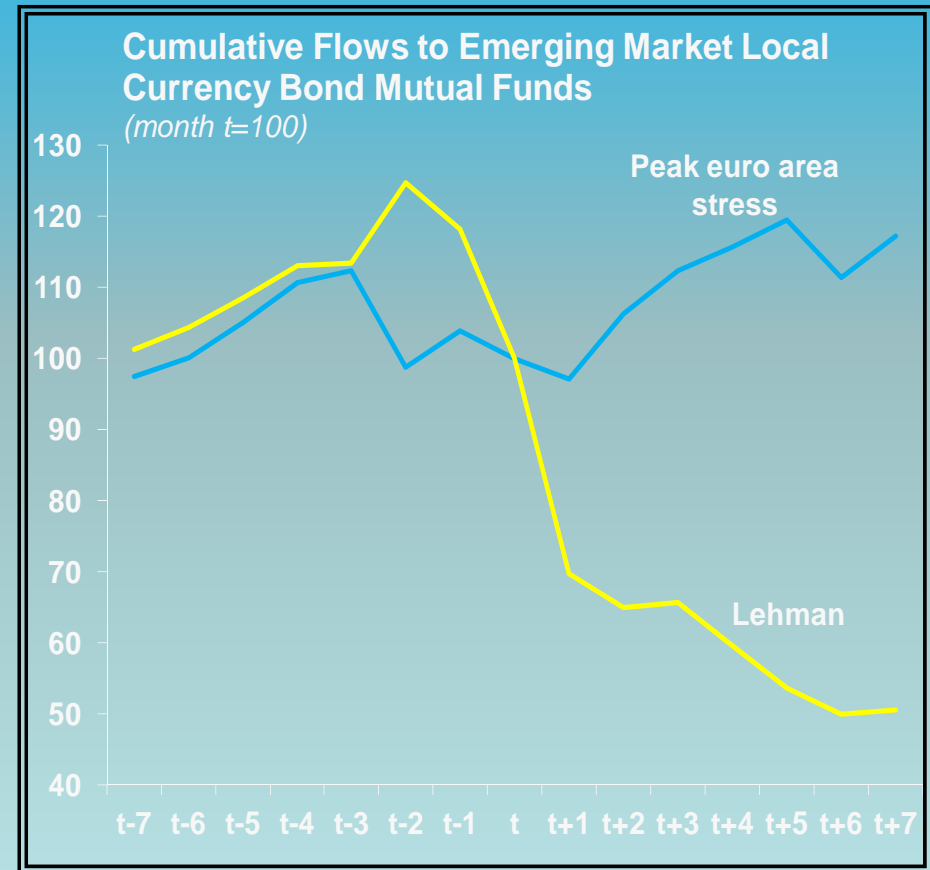
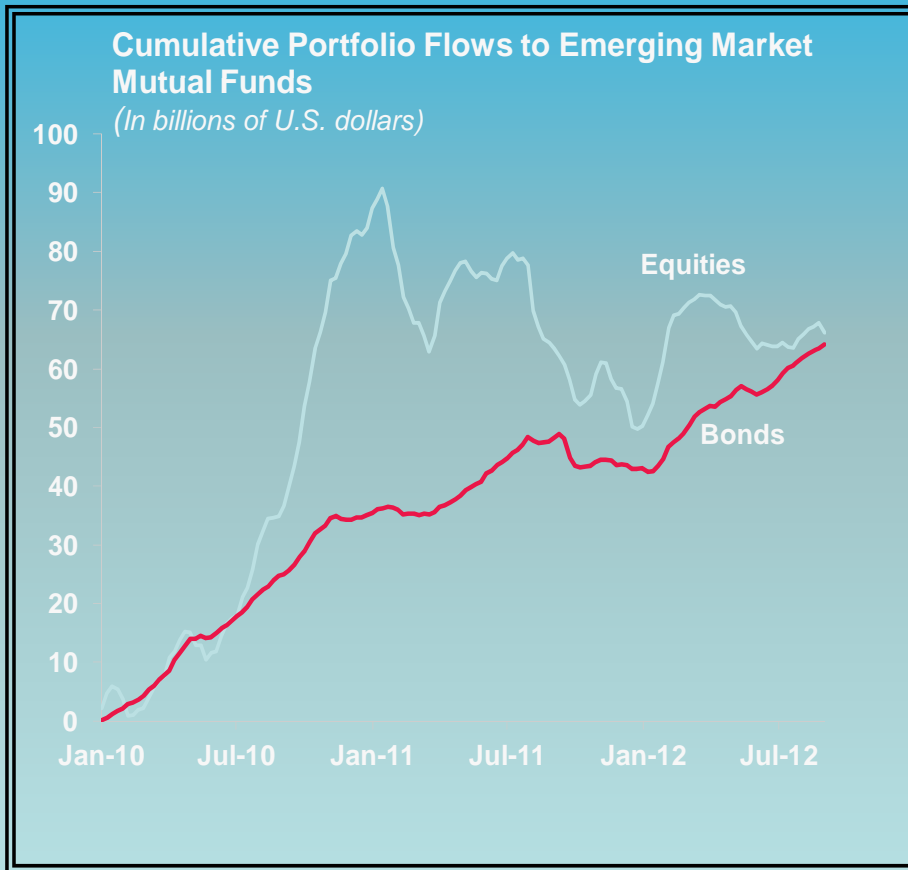
(In billions of euros)



Credit Cycle Challenges



Capital Flows to Remain Strong?



Source: IMF staff calculations.