

A blue background featuring a white dotted world map. The map is centered and spans the entire width of the page. A horizontal teal band with a subtle wave pattern runs across the middle, containing the title text.

World Economic Outlook

March 2013

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Research Department, IMF

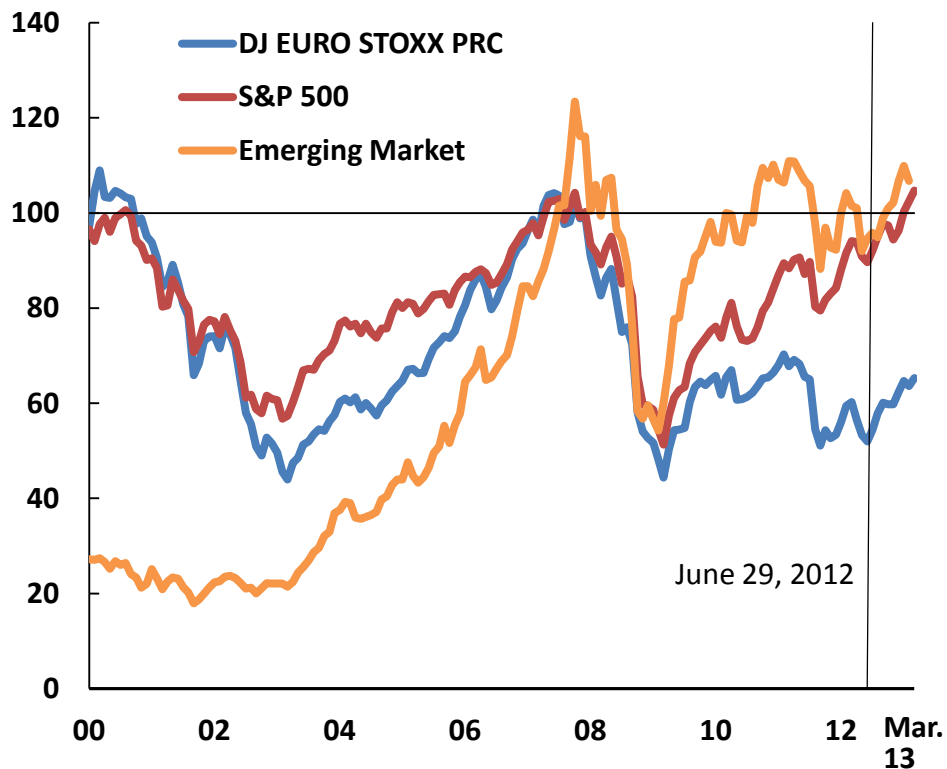
Main message: Policymakers cannot afford to relax their efforts

- **Policy action has reduced tail risks and financial markets have rallied, but important brakes remain in place.**
- **WEO global growth forecast only slightly better for 2013**
- **Short-term risk picture has improved, but important medium-term downside risks remain present.**
- **AE: policies have progressed but more actions are needed.**
- **EM: complex setting—some tightening of policies over the medium term.**

Financial and monetary conditions have eased globally while many risk spreads are close to or at pre-crisis levels

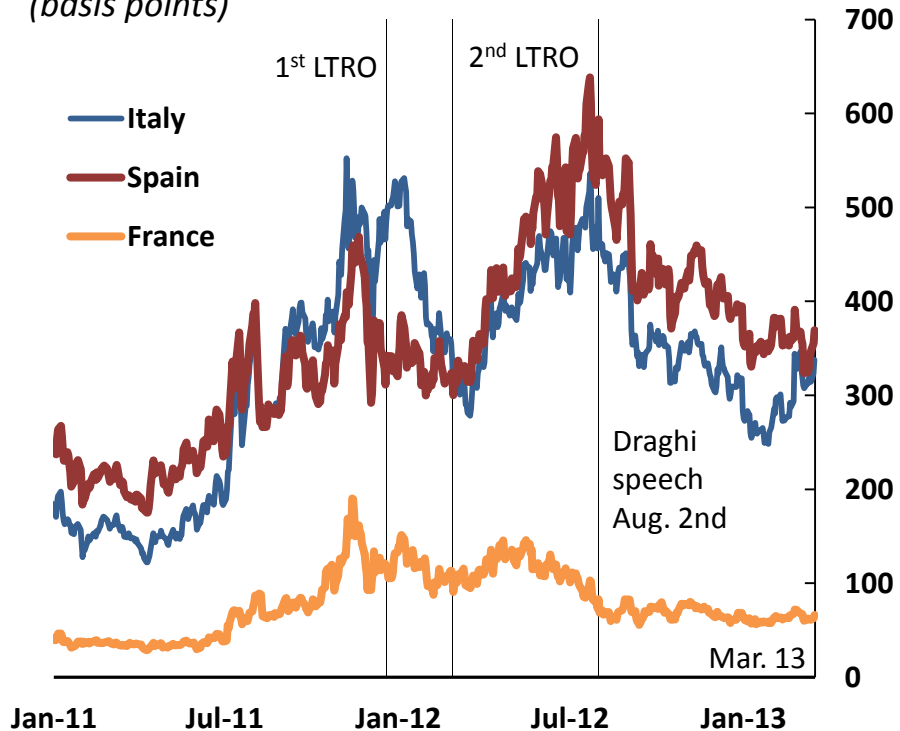
Equity Markets

(2007 = 100; national currency)



10-Year Government Bond Spreads over German Bunds

(basis points)

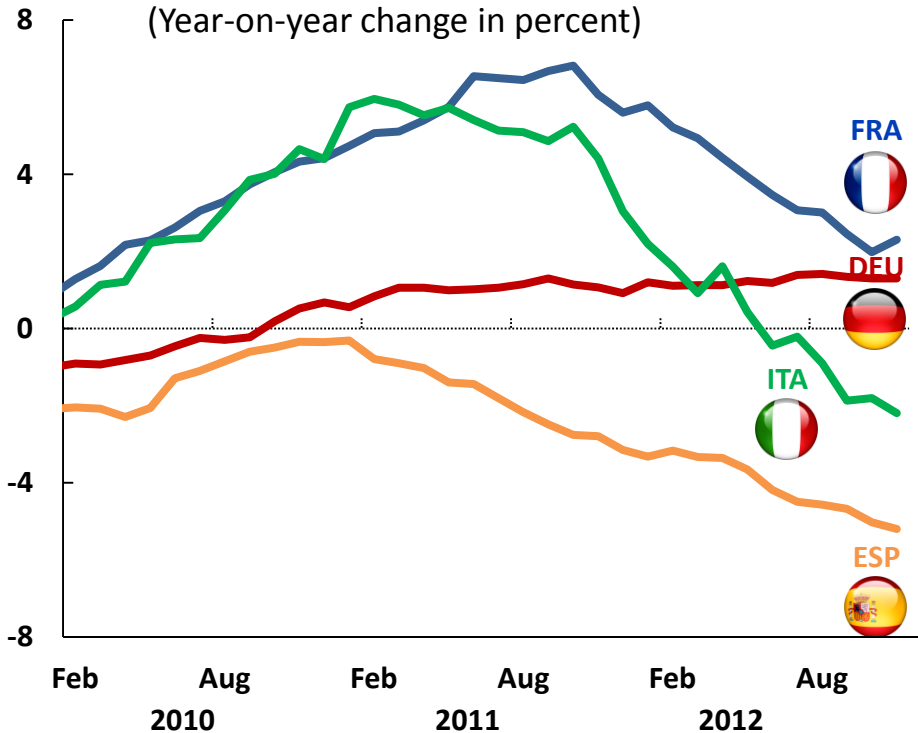


Sources: Bloomberg, L.P.; and Haver Analytics.

Important brakes remain in place

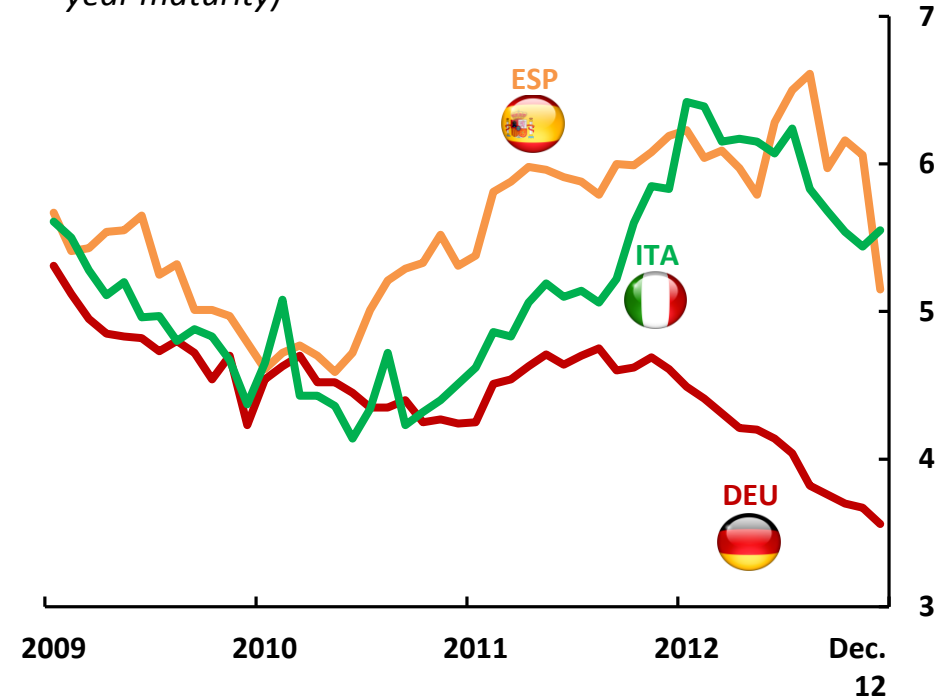
Bank lending to the non-financial private sector

(Year-on-year change in percent)



Euro Area Lending Rates

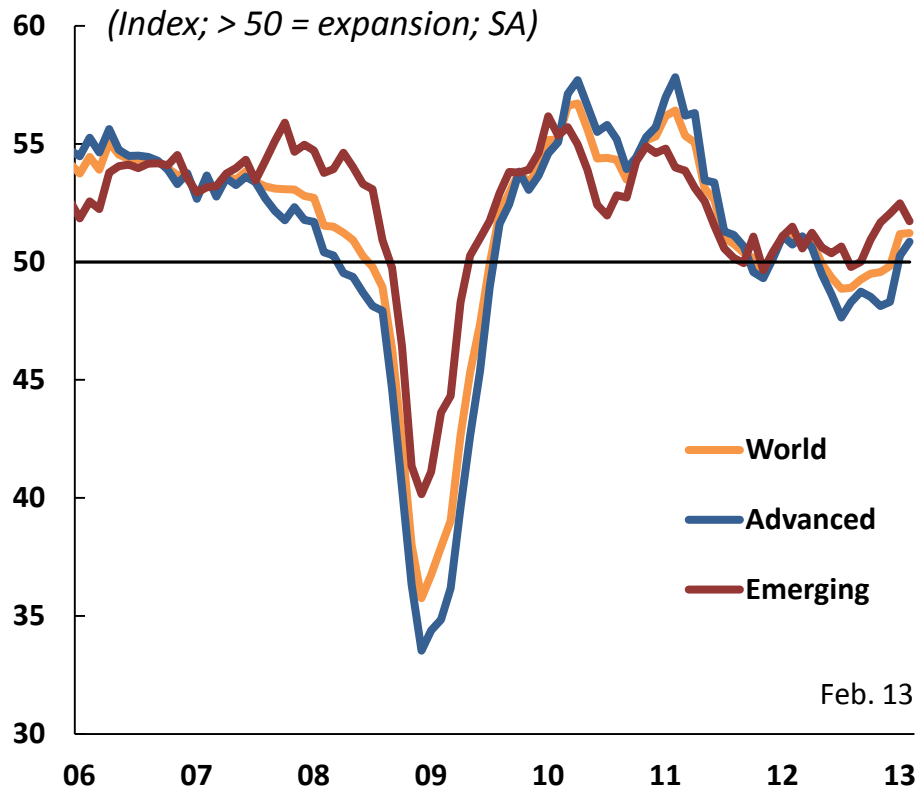
(Percent, loans less than 1 million Euros, 1- 5 year maturity)



Weak ending to 2012, but indicators signal strengthening recovery

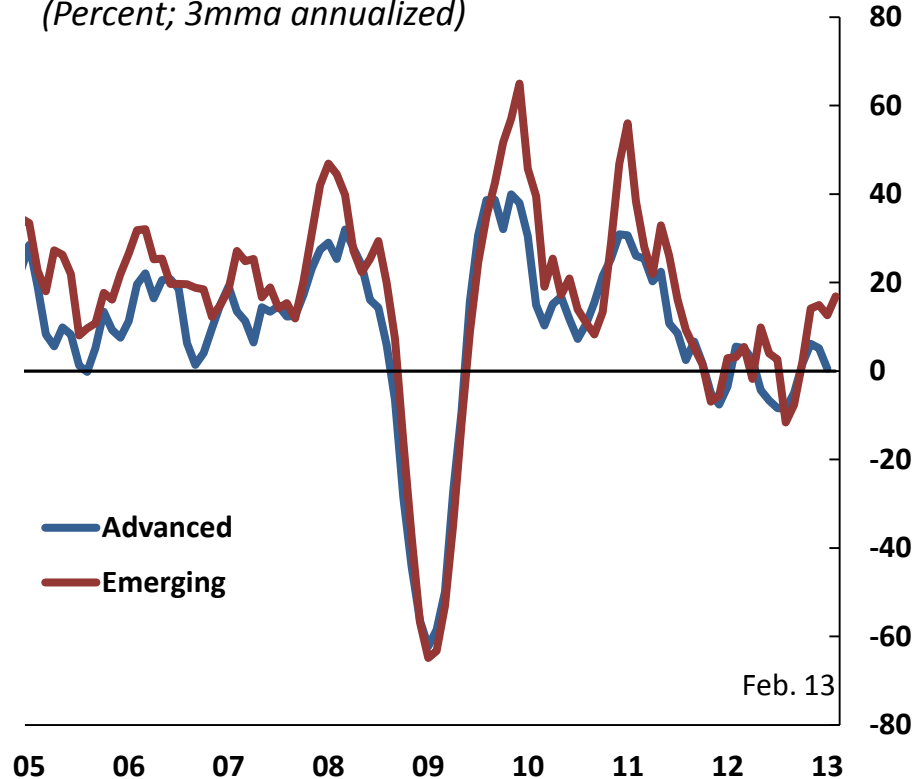
Global Manufacturing PMI

(Index; > 50 = expansion; SA)



Merchandise Exports

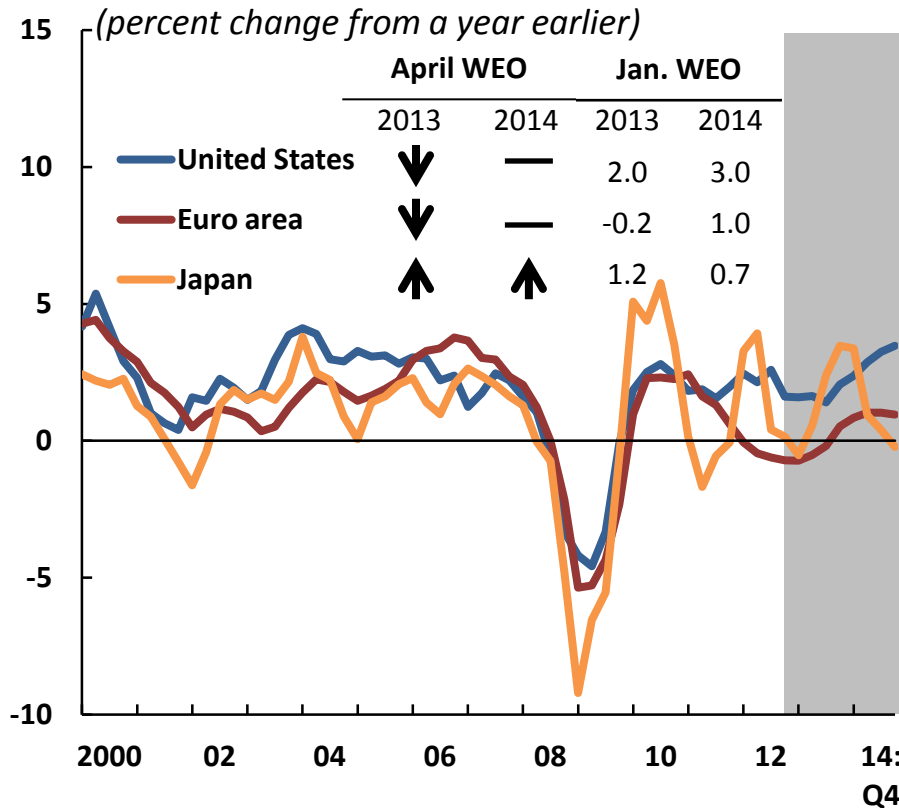
(Percent; 3mma annualized)



Outlook: Gradual rise in global growth

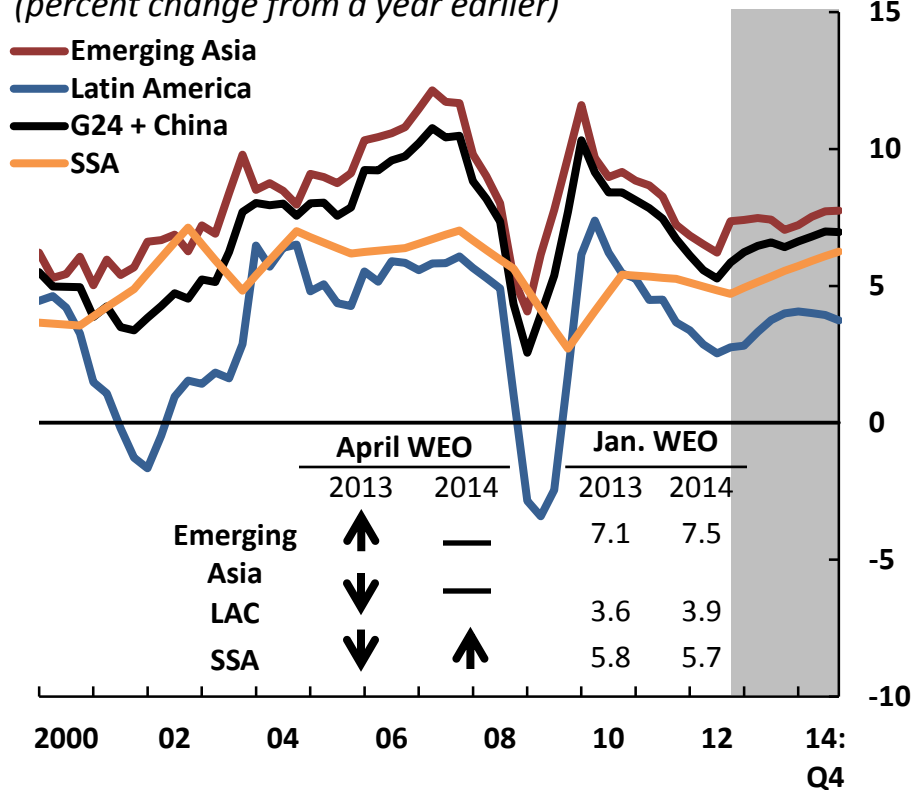
Advanced Economies

(percent change from a year earlier)



Emerging Economies

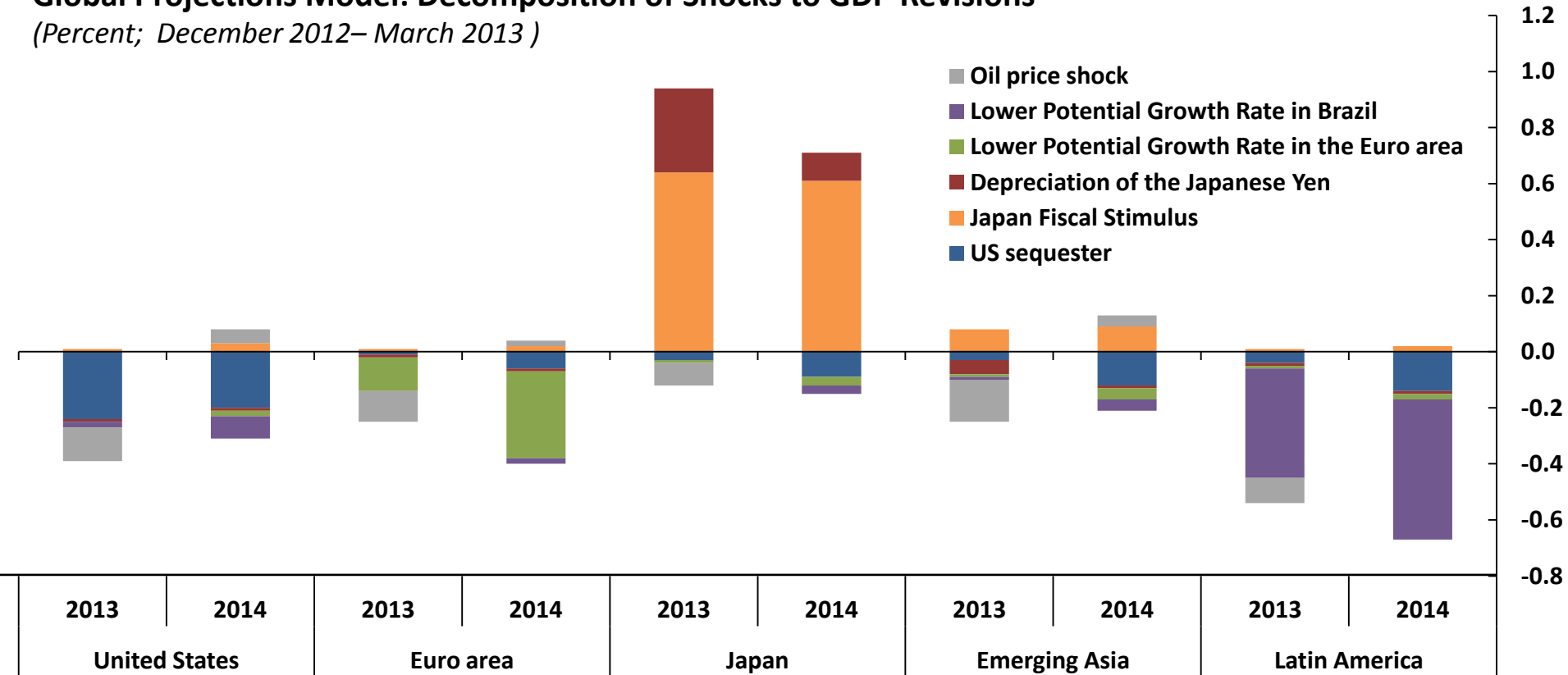
(percent change from a year earlier)



Explaining changes since January

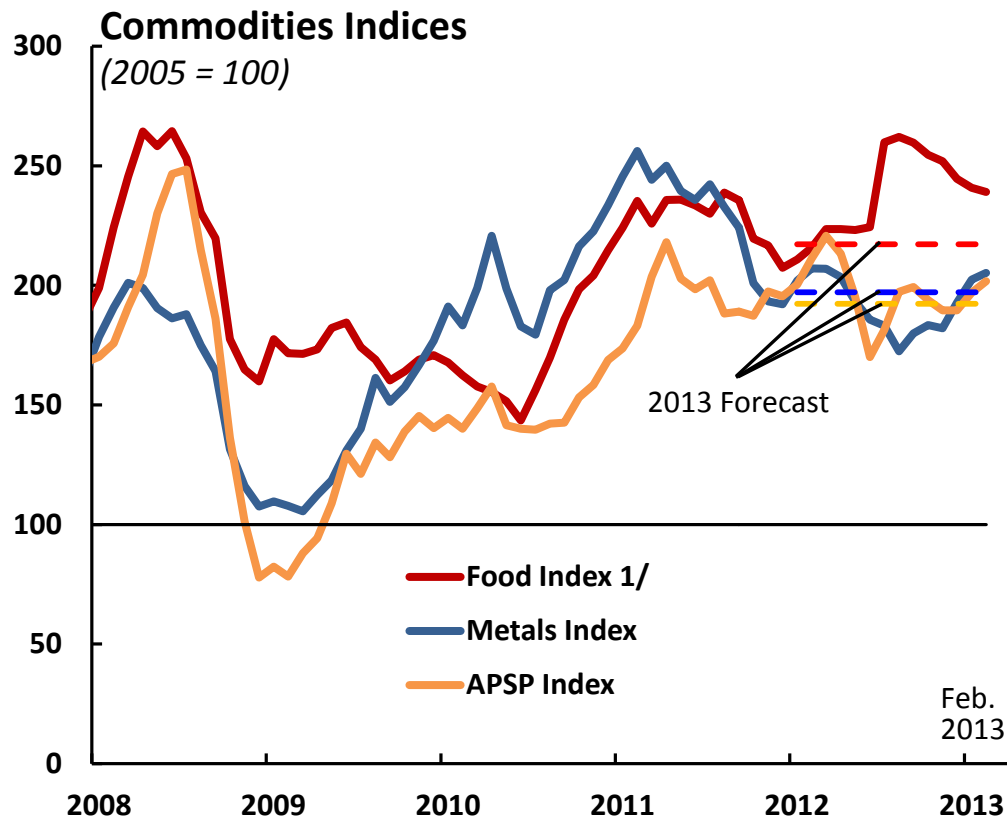
Global Projections Model: Decomposition of Shocks to GDP Revisions

(Percent; December 2012– March 2013)



Source: IMF Global Projection Model.

Developing countries: Relief on the food price front expected

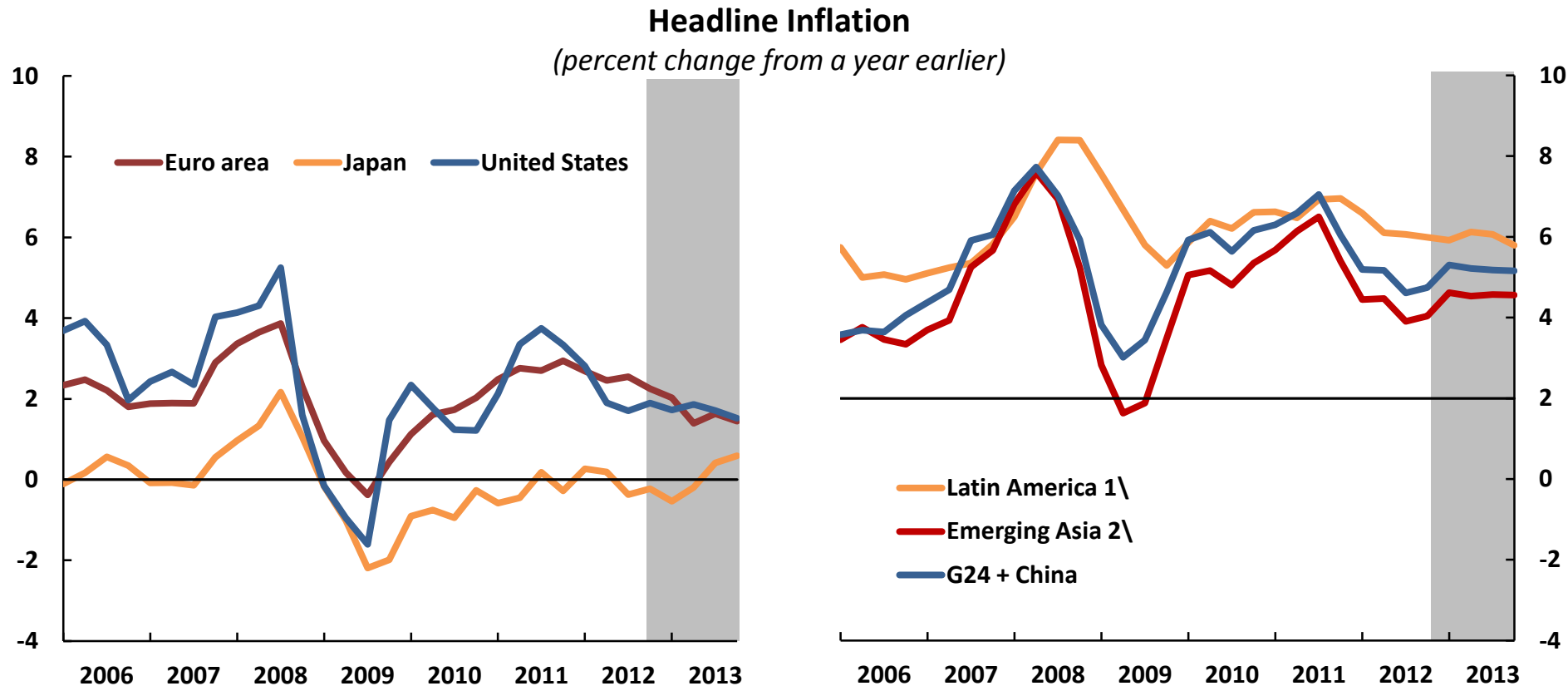


- Food: problems not as bad as in 2008
- Support poor through transfers, not subsidies
- Tighten monetary policy only if second-round effects arise
- Avoid export bans

1/ Food Index derived from average price of corn, wheat, rice and soybeans.

Source: IMF, Primary Commodity Price System; IMF staff calculations

Inflation has declined and expected to remain stable



Source: IMF Staff Estimates.

1\ Latin America Countries: Brazil, Chile, Colombia, Mexico and Peru.

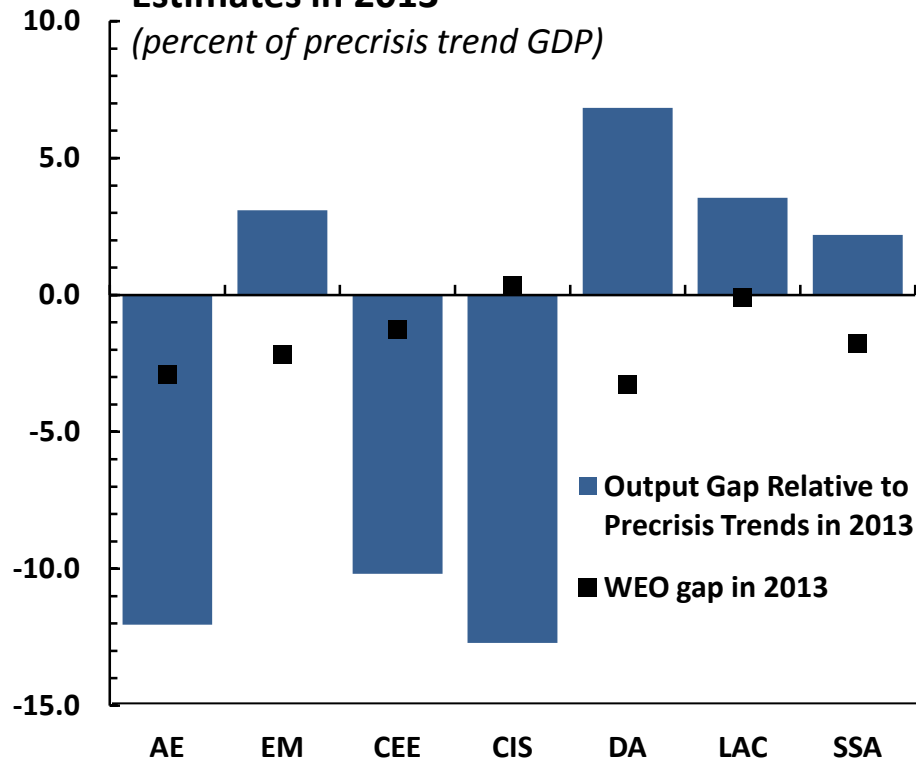
2\ Emerging Asia Countries: China, India, Indonesia, Malaysia, Philippines and Thailand.

Prospects for potential output growth in EMs have been downgraded

Output Relative to Precrisis Trends in WEO

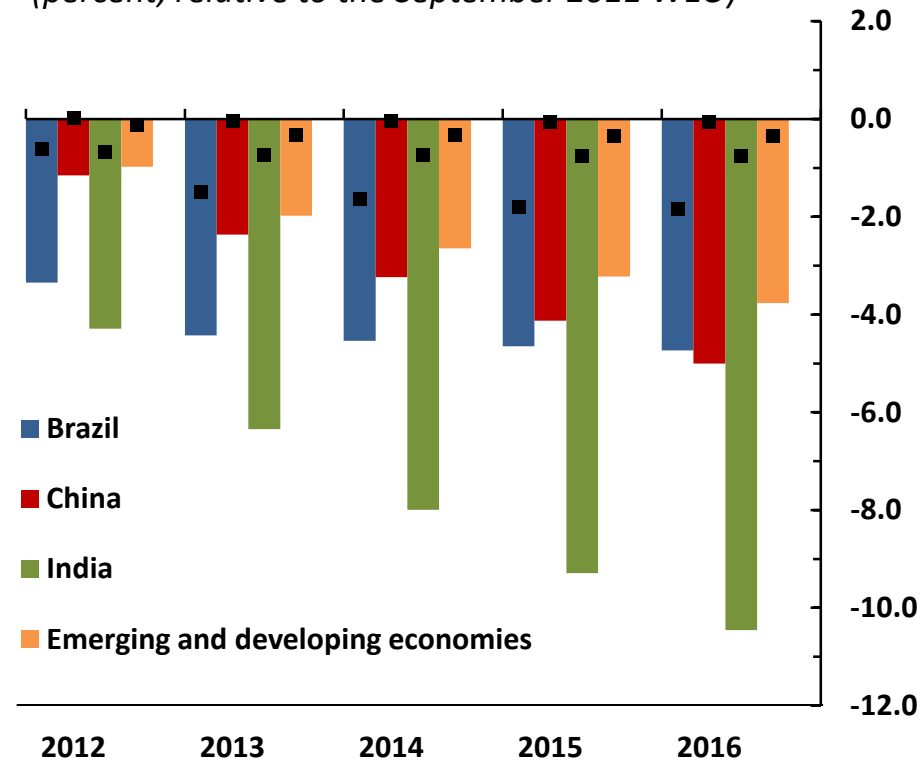
Estimates in 2013

(percent of precrisis trend GDP)



Reductions in Medium-Term Output

(percent; relative to the September 2011 WEO)



Source: IMF staff estimates.

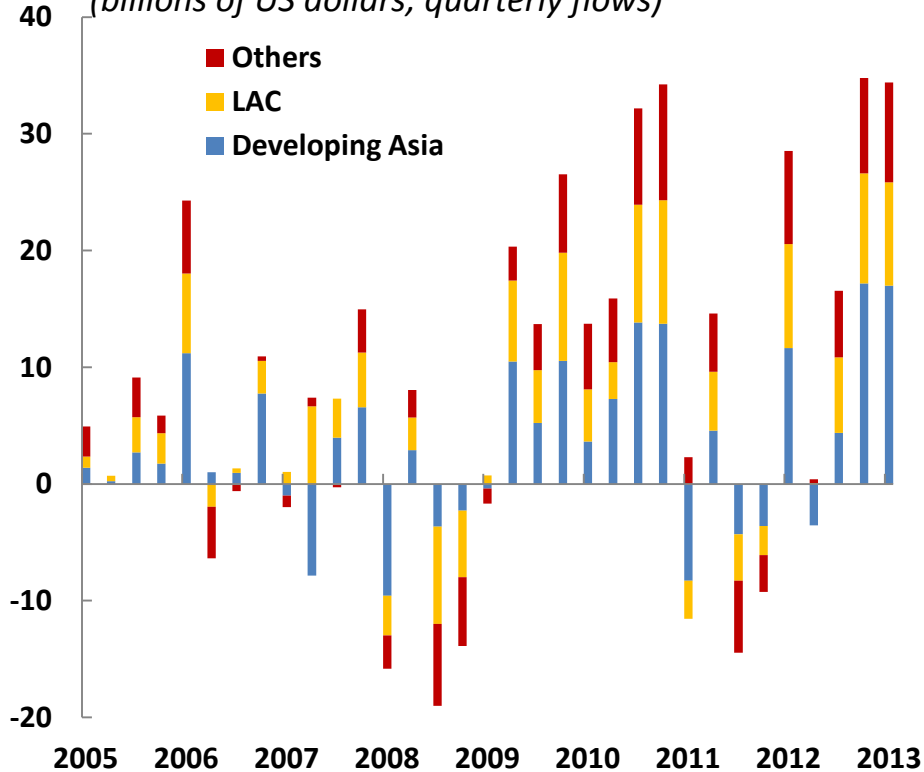
Note: AE= advanced economies; EM = emerging market and developing economies; CEE = central and eastern Europe; CIS = Commonwealth of Independent States;

DA = developing Asia; LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa

Capital flows to EMs have accelerated amid rapid credit growth

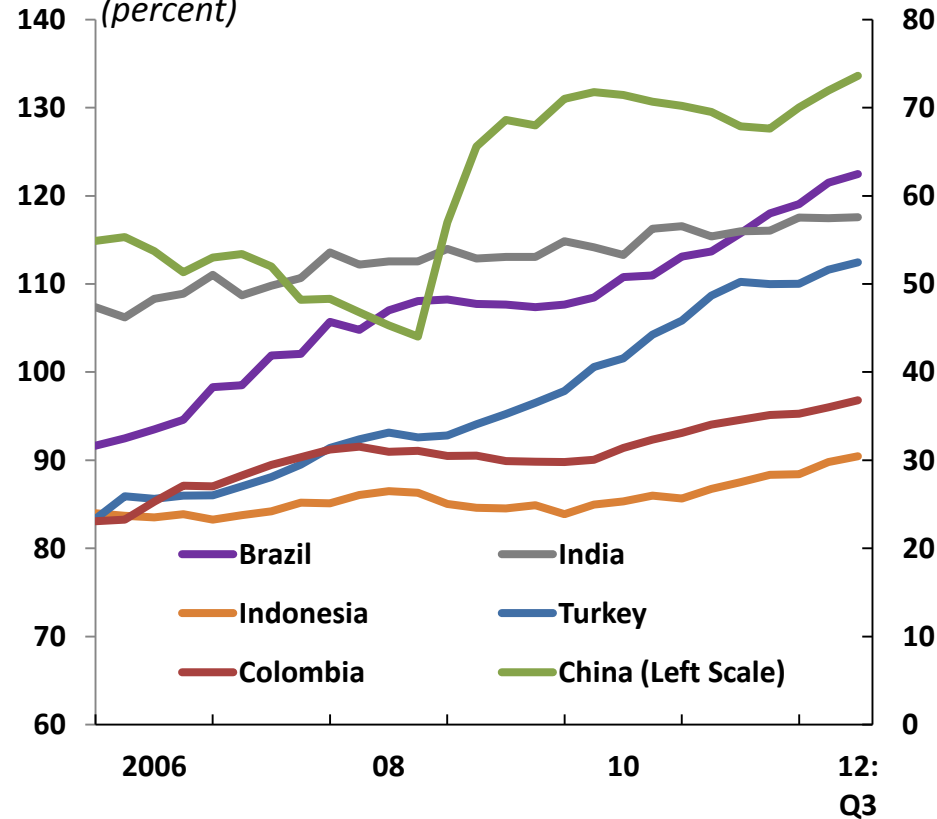
Net Portfolio Capital Flows

(billions of US dollars; quarterly flows)



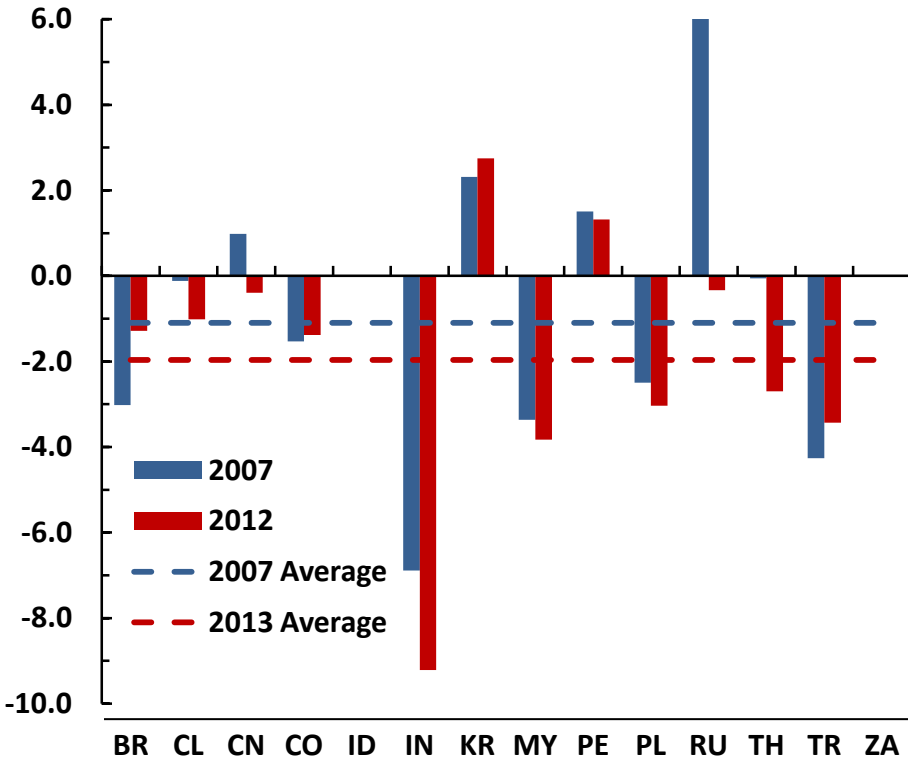
Credit to GDP

(percent)

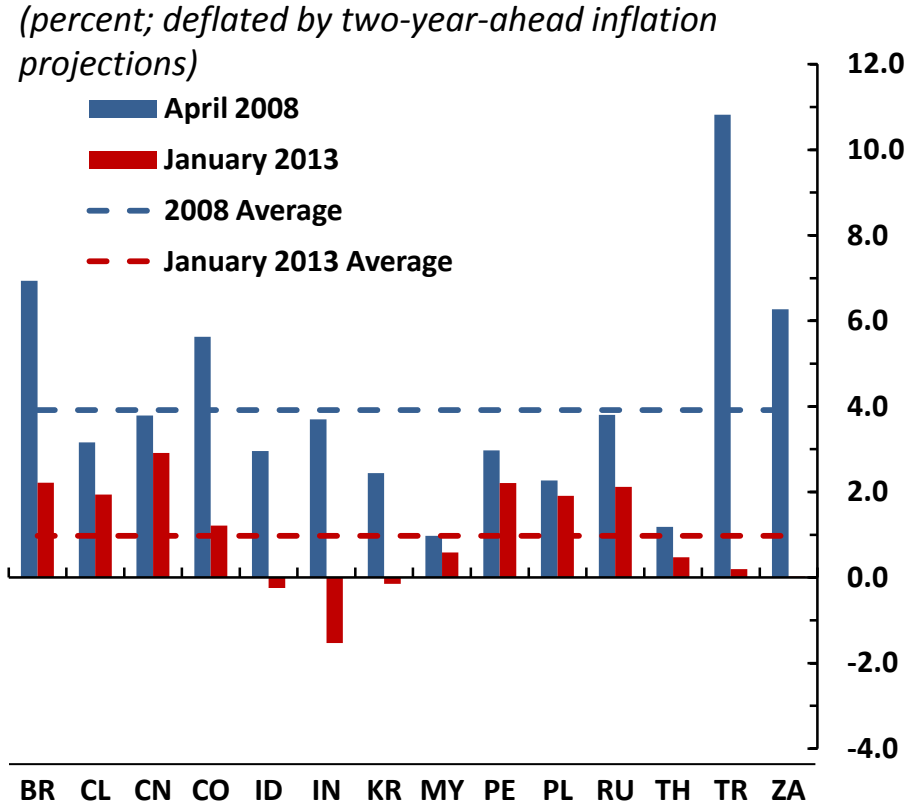


Many EM&DC need to rebuild fiscal and monetary policy room for maneuver over the medium term

General Government Structural Balance
(percent of GDP)



Real Policy Rates



Source: IMF staff calculations; Haver Analytics.

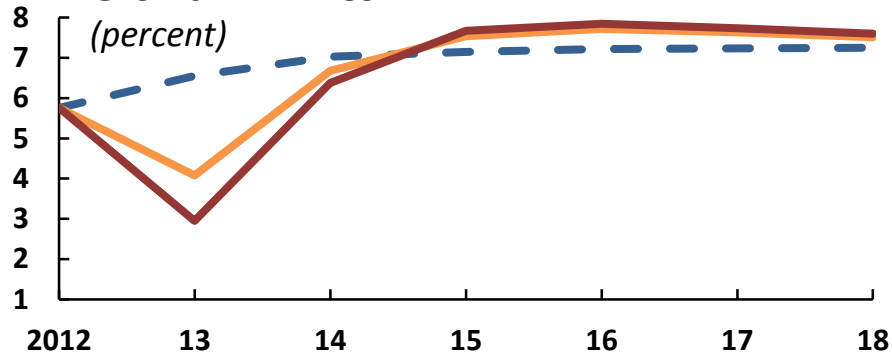
Note: BR: Brazil; CL: Chile; CN: China; CO: Colombia; ID: Indonesia; IN: India; KR: Korea; MX: Mexico; MY: Malaysia; PE: Peru; PH: Philippines; PL: Poland; RU: Russia; TH: Thailand; TR: Turkey; ZA: South Africa.

Emerging market downside scenarios

- WEO baseline
- Weaker Investment in BRICS
- Plus capital outflows from emerging markets

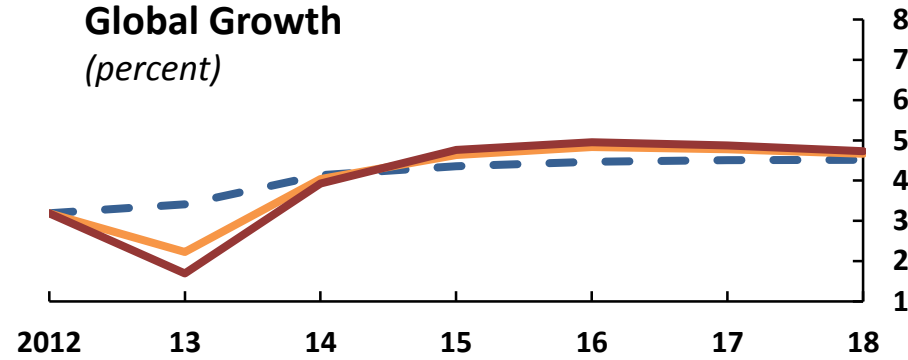
Growth in BRICS

(percent)



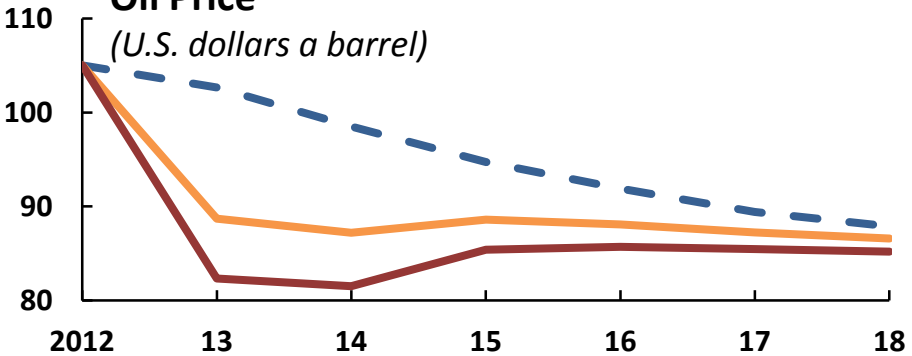
Global Growth

(percent)



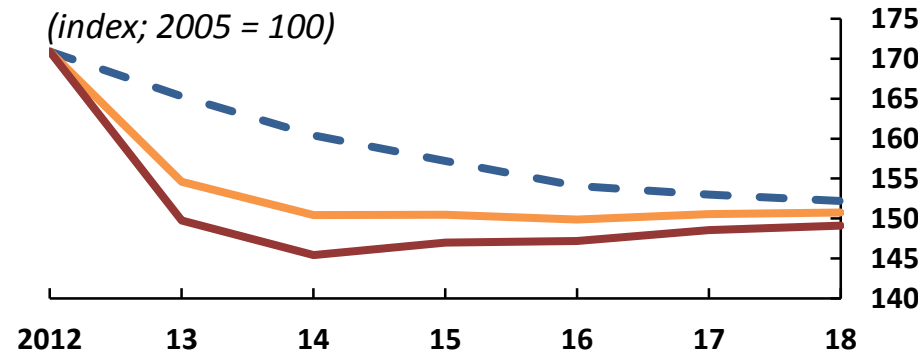
Oil Price

(U.S. dollars a barrel)



Non-Oil Commodity Price

(index; 2005 = 100)



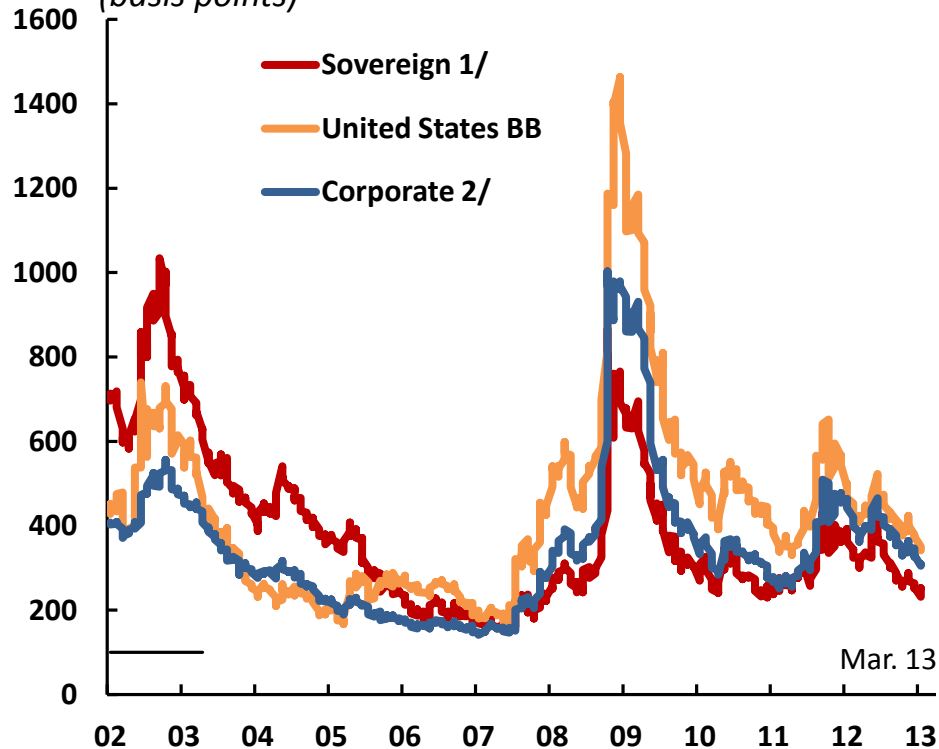
What is to be done?

Euro area	<ul style="list-style-type: none">• Fiscal adjustment—gradual and sustained• Bank recapitalization/resolution• Advance euro area fiscal and banking union• Structural reforms to support competitiveness
AEs	<ul style="list-style-type: none">• Fiscal adjustment—gradual but sustained• Monetary policy should remain accommodative
EM&DEs	<ul style="list-style-type: none">• Monetary policy normalization, supported by tightening prudential measures when needed• Rebuild fiscal policy buffers• Support rebalancing to domestic demand where appropriate• Structural reforms

...and many risk spreads are close to pre-crisis levels

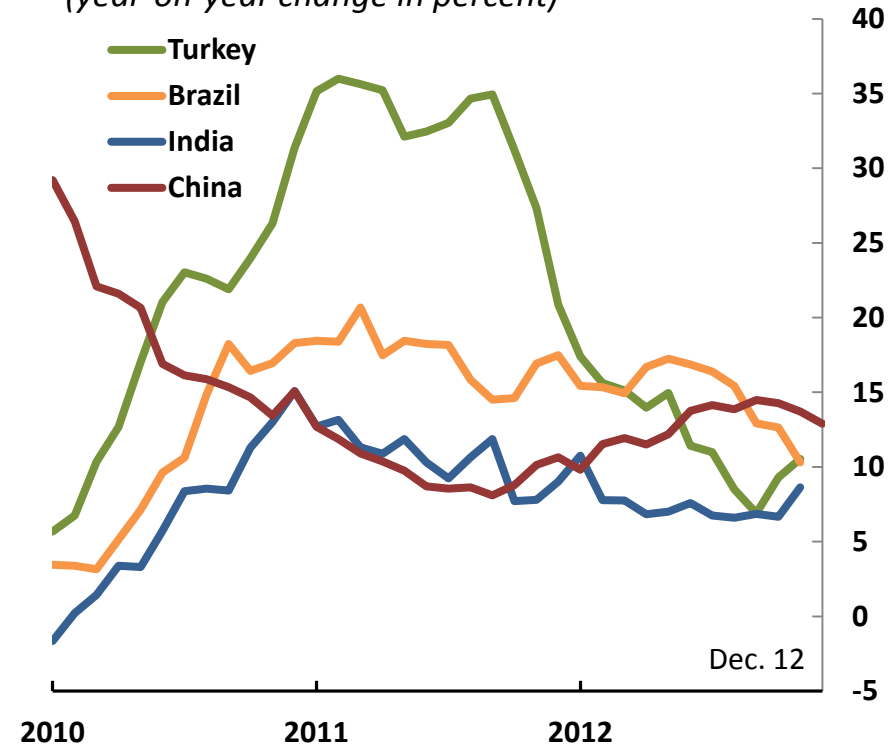
Interest Rate Spreads

(basis points)



Real Credit Growth

(year-on-year change in percent)



Sources: Bloomberg, L.P.; Haver Analytics; IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; and IMF staff calculations.

1/ JPMorgan EMBI Global Index spread.

2/ JPMorgan CEMBI Broad Index spread.