



US & Europe: what to expect next?

29 | 06 | 2010

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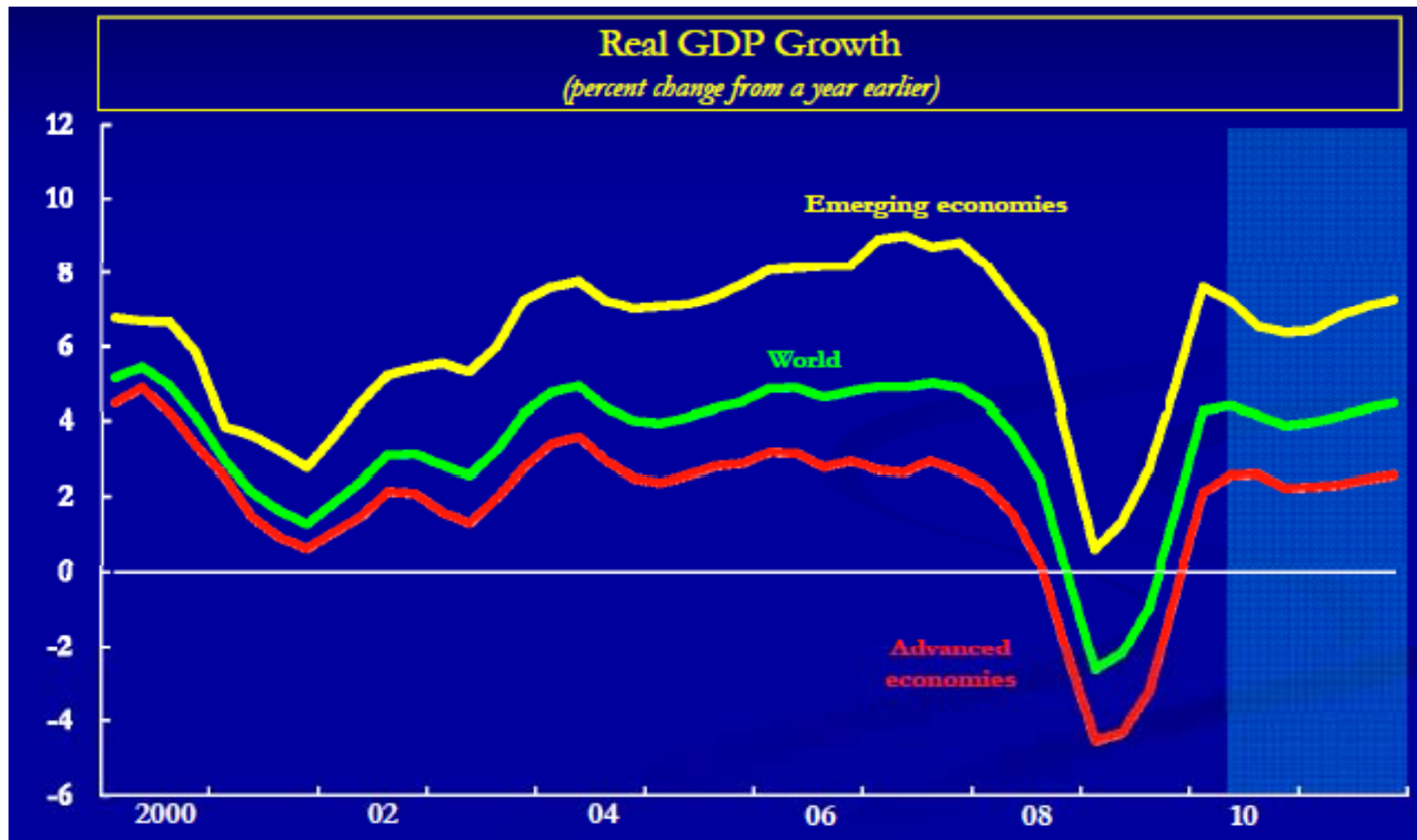
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Key Messages

- The recovery so far—proceeding at varying speeds. Steep falls in activity not followed by quick rebounds.
- The recovery ahead—growth prospects are subdued for many advanced economies but solid for many emerging economies.
- Policy challenges: fiscal path in AEs, financial sector repair, dealing with capital inflows in EMs.

The world economy is set for a further recovery at varying speeds

Declining impact of fiscal stimulus and inventories will hold back growth later in 2010 and 2011.



The multi-speed recovery will continue in 2010 and 2011...

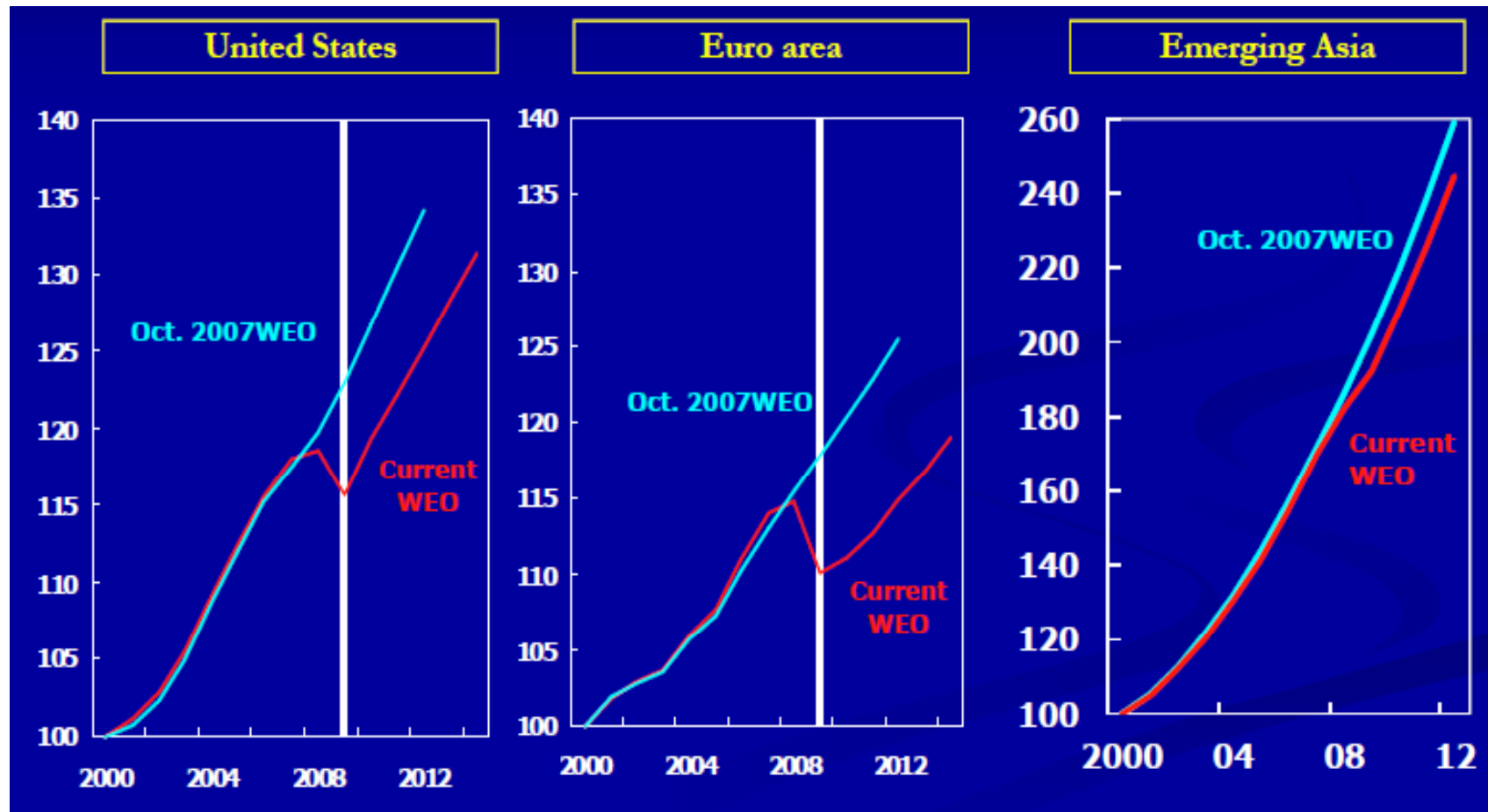
	2010		2011	
	World Economic Outlook	Consensus Forecasts 1/	World Economic Outlook	Consensus Forecasts 1/
World	4.2	4.2	4.3	4.2
Advanced Economies	2.3	...	2.4	...
United States	3.1	3.2	2.6	3.1
Euro area	1.0	1.2	1.5	1.5
Japan	1.9	2.2	2.0	1.6
Emerging and Developing Economies	6.3	...	6.5	...
China	10.0	9.9	9.9	9.0
India	8.8	8.2	8.4	8.4
Brazil	5.5	5.5	4.1	4.4
Russia	4.0	4.5	3.3	4.6

1/ Consensus forecasts, Asia Pacific consensus forecasts (Apr. 12, 2010). India consensus forecast on fiscal year basis.

Coface Country Risk Conference 2010 (29 June, Singapore)

But the global financial crisis is leaving lasting scars on output levels

Real GDP (levels, 2000=100)



The outlook remains unusually uncertain, with risks generally to the downside

- Downside Risks:

- Sovereign risks in advanced economies could undermine financial stability and extend the crisis.
- Limited policy space to respond to new adverse shocks
- Slow progress on banking sector restructuring that could unduly restrain the financial sector's ability to support the recovery by providing credit.

- Upside Risks:

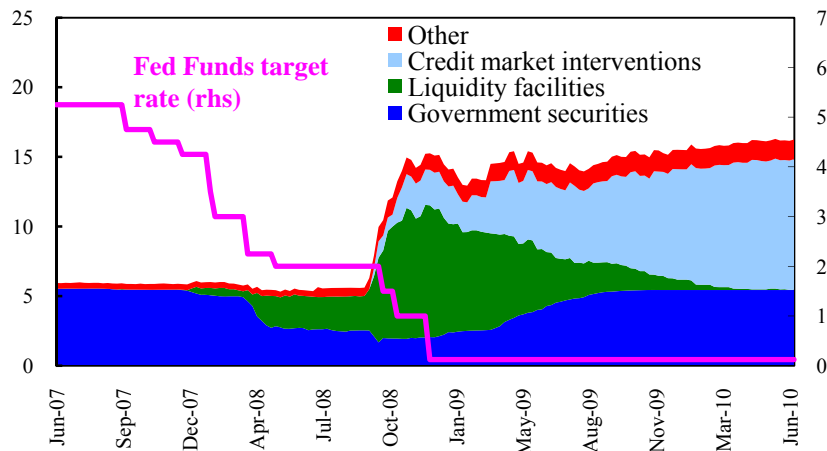
- Stronger-than-expected improvement in financial market sentiment prompting a surge in capital flows, trade, and private demand.

Policy Challenges

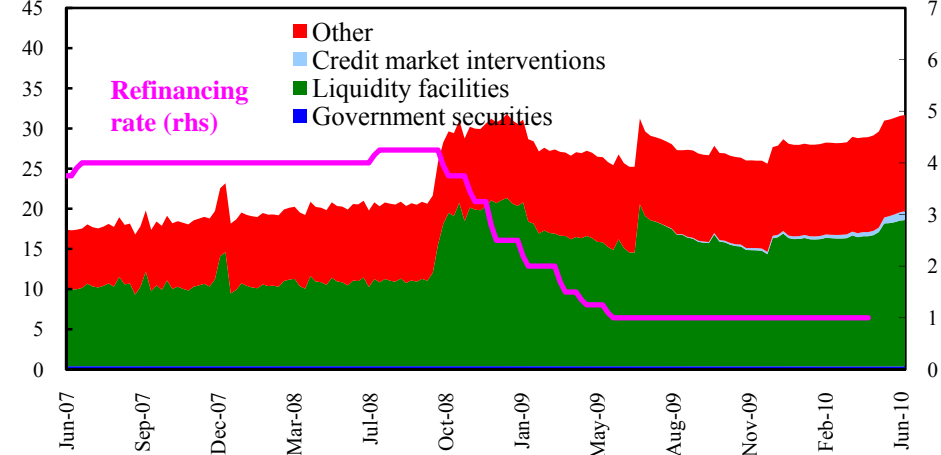
- Devise credible exit strategies—medium-term fiscal consolidation plans urgently needed.
- Repair and reform financial systems.
- Combat unemployment.
- Manage capital flows.
- Rebalance global demand.

Central Bank Assets and Policy Rates

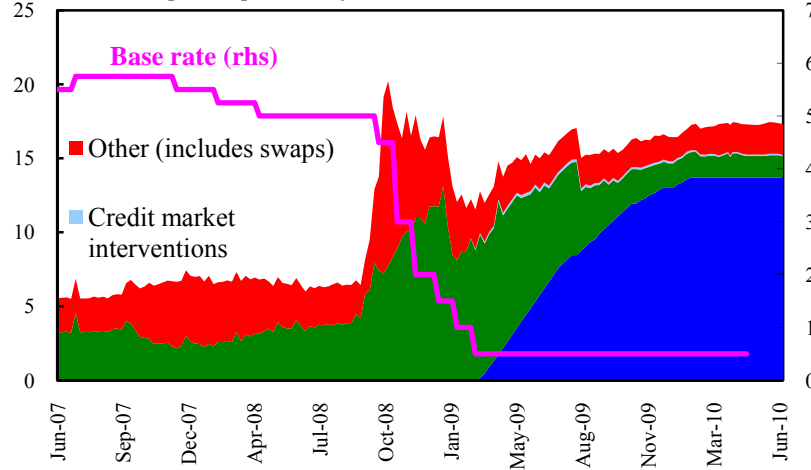
U.S. Federal Reserve (percent of 2008 GDP)



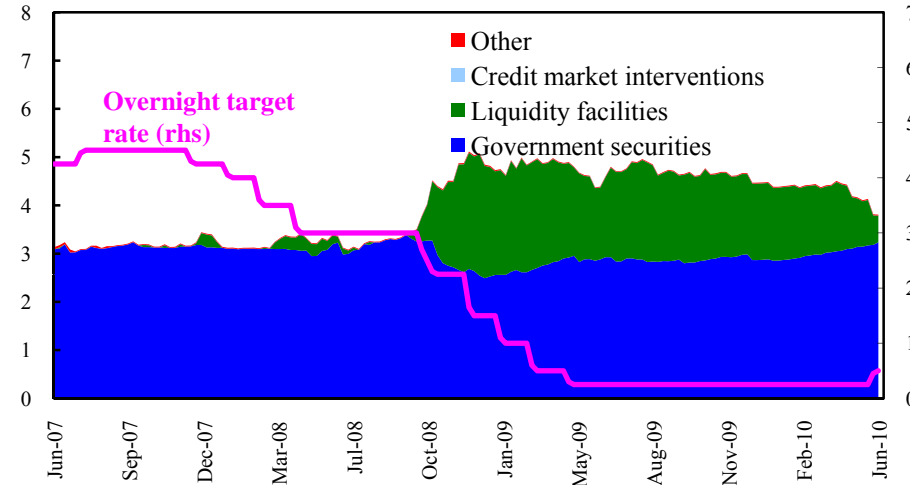
European Central Bank (percent of 2008 GDP)



Bank of England (percent of 2008 GDP)



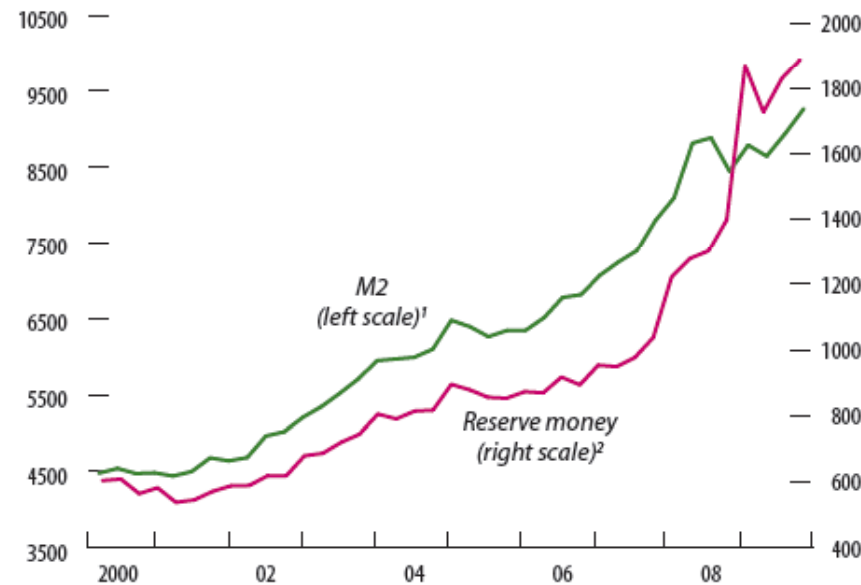
Bank of Canada (percent of 2008 GDP)



Global liquidity conditions and Central Bank policy rates

Global liquidity

(In billions of U.S. dollars; GDP-weighted; quarterly data)



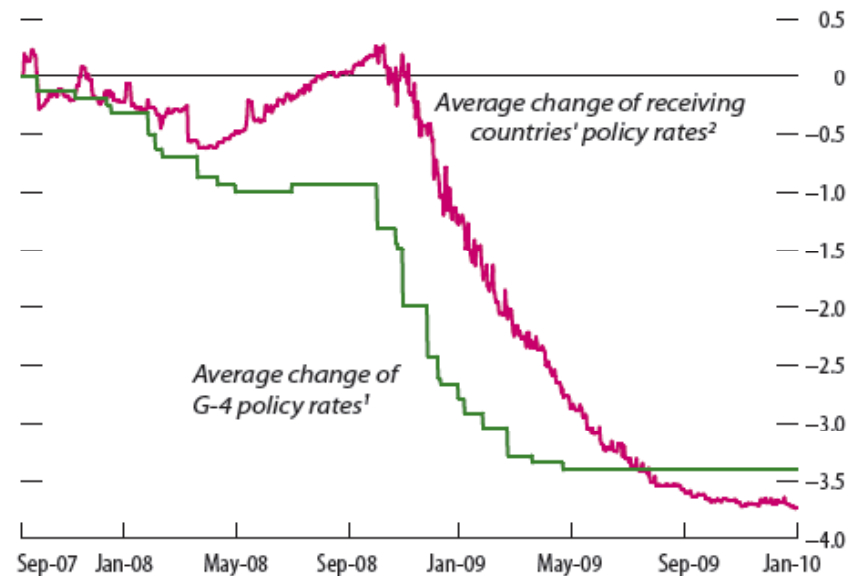
Sources: Datastream; IMF, International Financial Statistics database; and IMF staff estimates.

¹Sum of GDP-weighted M2 for the euro area, Japan, the United Kingdom, and the United States.

²Sum of GDP-weighted reserve money for the euro area, Japan, the United Kingdom, and the United States.

Change of Central Bank Policy Rates

(In percentage points; September 1, 2007 = 0)

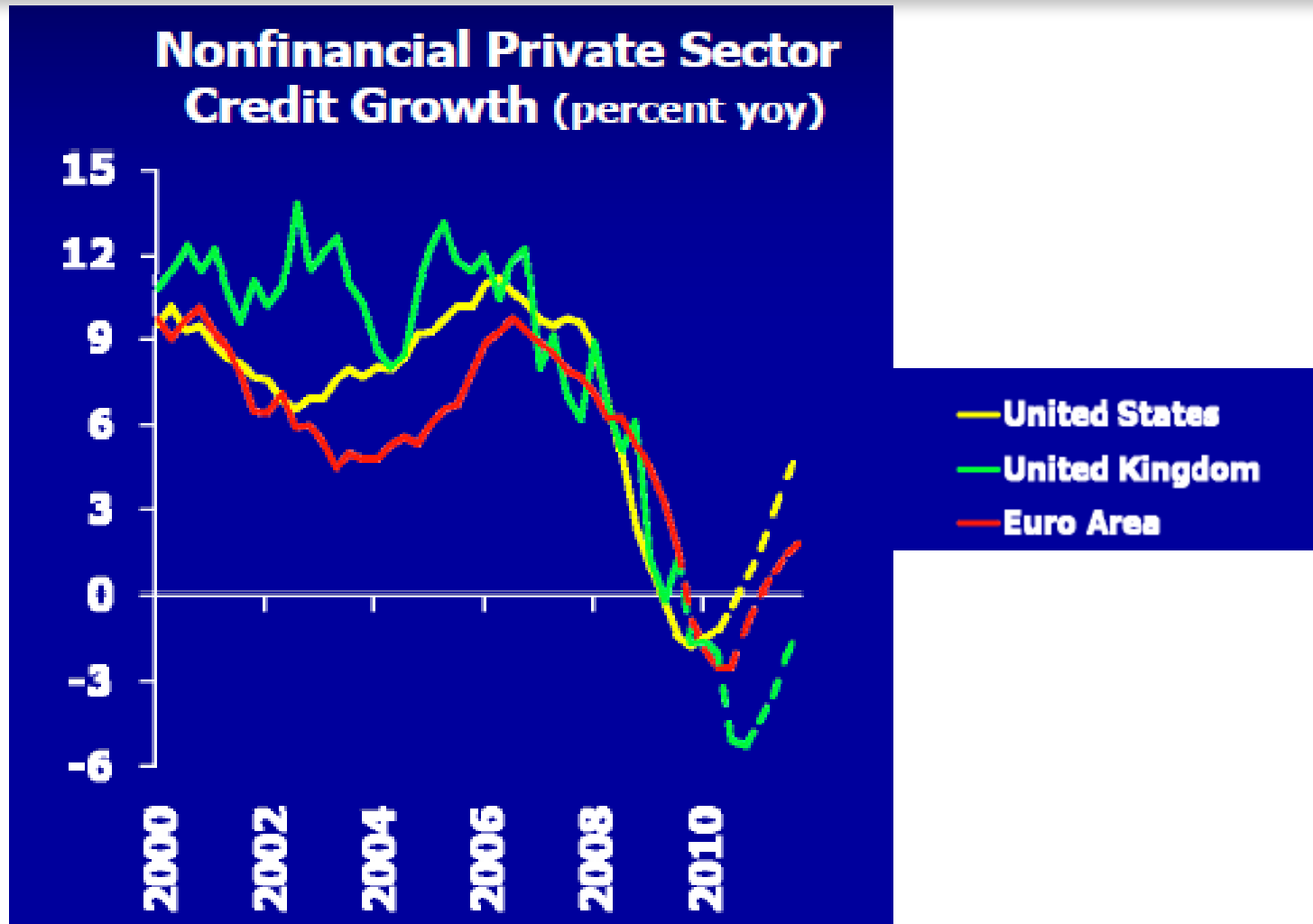


Sources: Bloomberg L.P.; and IMF staff estimates.

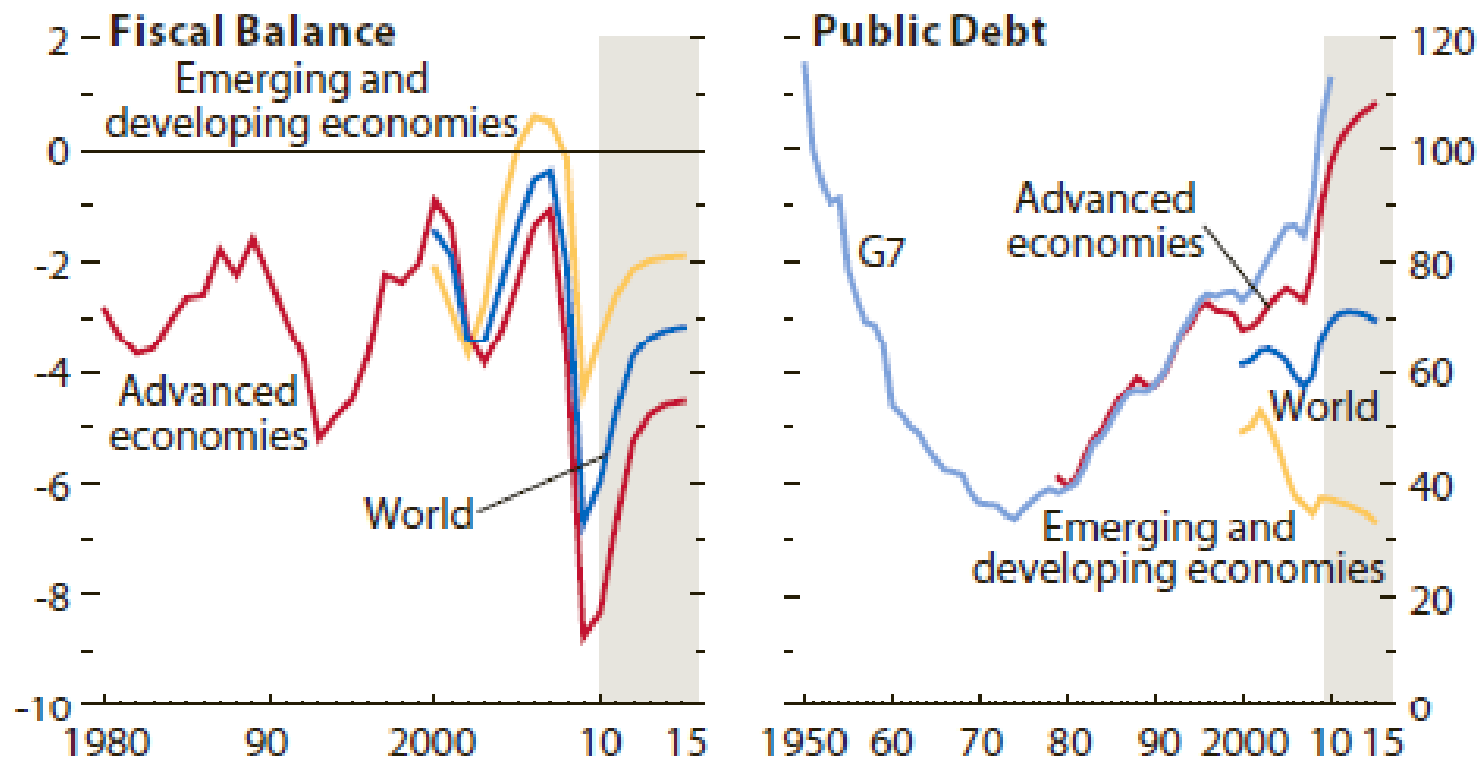
¹G-4 includes the euro area, Japan, the United Kingdom, and the United States.

²Receiving countries are Argentina, Australia, Brazil, Canada, China, India, Indonesia, Korea, Mexico, Norway, Russia, Saudi Arabia, South Africa, Sweden, Switzerland, and Turkey.

Credit growth in advanced economies remains weak



General Government Fiscal Balances and Public Debt (*Percent of GDP*)



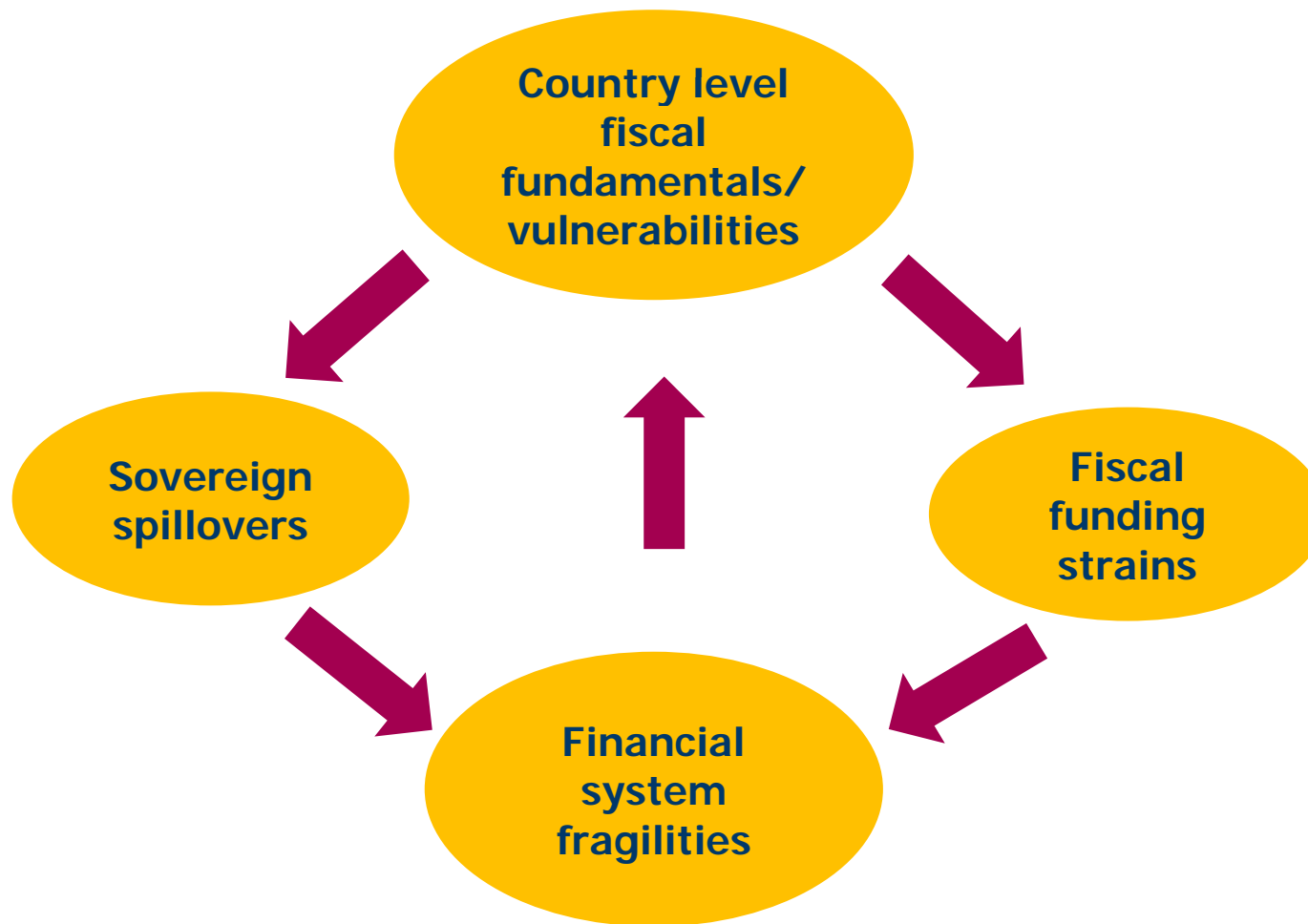
Crisis Legacy

- Huge rise in fiscal deficits, particularly in advanced economies.
- Unprecedented public debt levels.
- Although vulnerability remains high, the situation has been alleviated by low interest rates.
- Fiscal dominance may undermine monetary policy implementation

Sequencing of Exits

- In major advanced economies, ensuring fiscal sustainability is a key priority
 - Given a path for fiscal policies, monetary policy can be set to achieve a desired level of overall stimulus, tightening as needed to counter inflationary risks and maintain price stability
- In major emerging (and some advanced) economies experiencing faster recoveries, monetary tightening may have to lead fiscal tightening

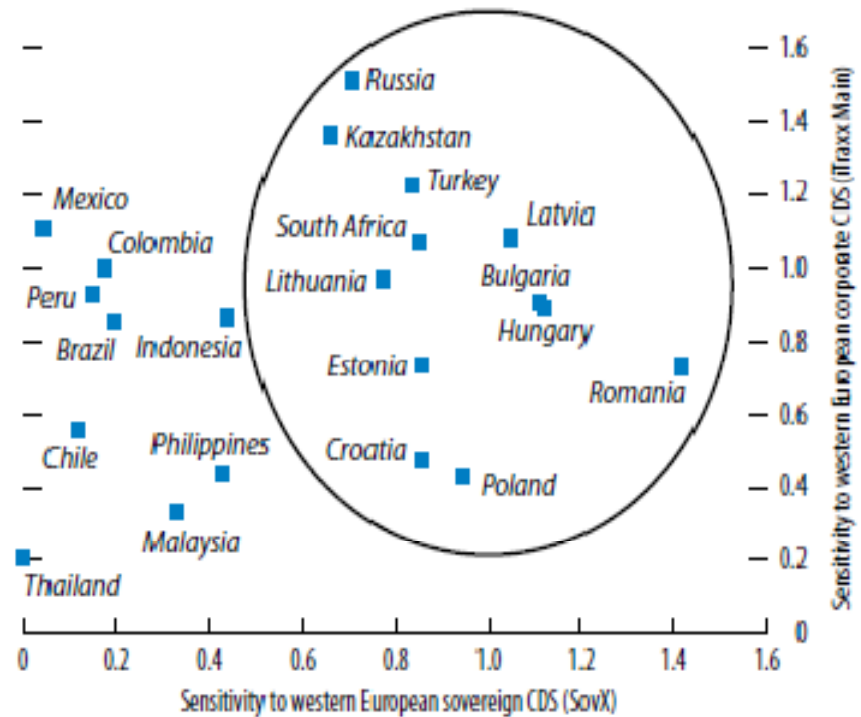
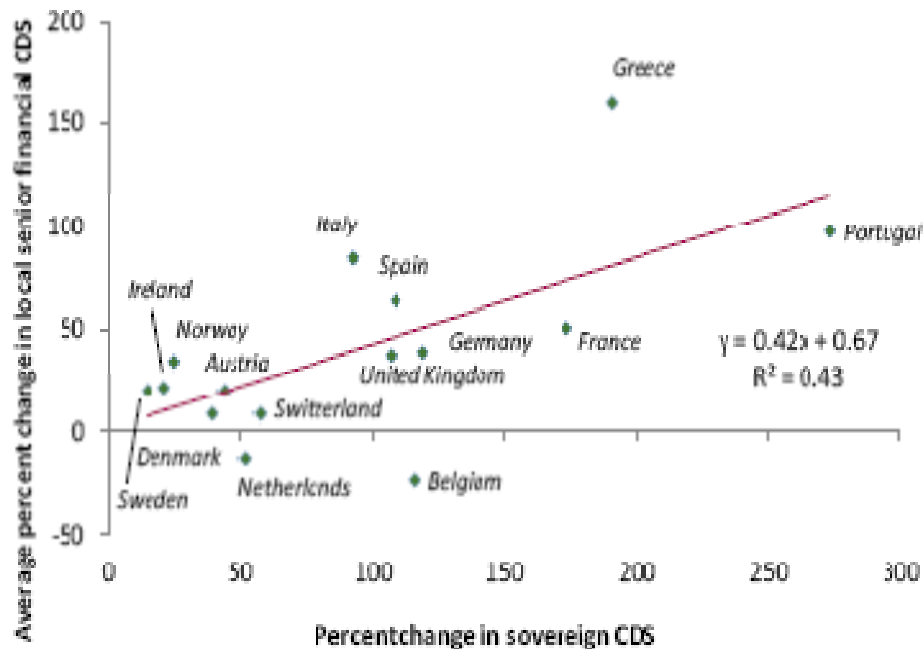
Sovereign Risk Spillovers Have Emerged as the Biggest Threat to Financial Stability



Sovereign crises can widen and cross borders as they spread to the banking system

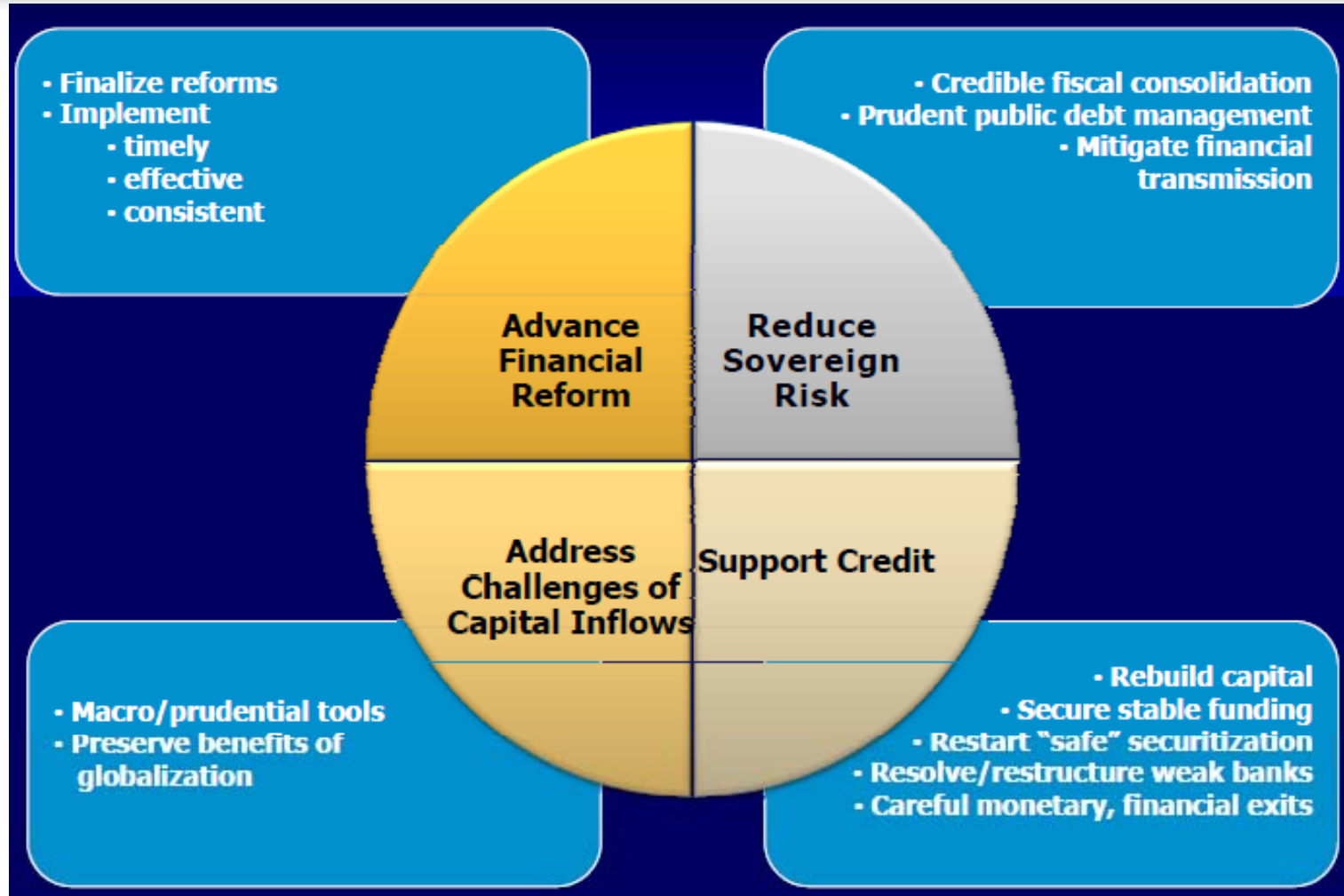
Sovereign risk spilling over to local financial credit swaps, Oct-2009 to Feb-2010

Regional spillovers from Western Europe to Emerging market sovereign credit default swaps



Sources: Bloomberg L.P.; and IMF staff estimates.

Secure Financial Stability



We are at a critical juncture

- **Global financial stability improved but not assured**
- **Address the legacy of the present crisis, otherwise**
 - **Recovery undermined**
 - **Crisis extended**

