



# Prospects for the Global and Regional Economy

*Presentation to the American Chamber of Commerce*

*February 9, 2010*

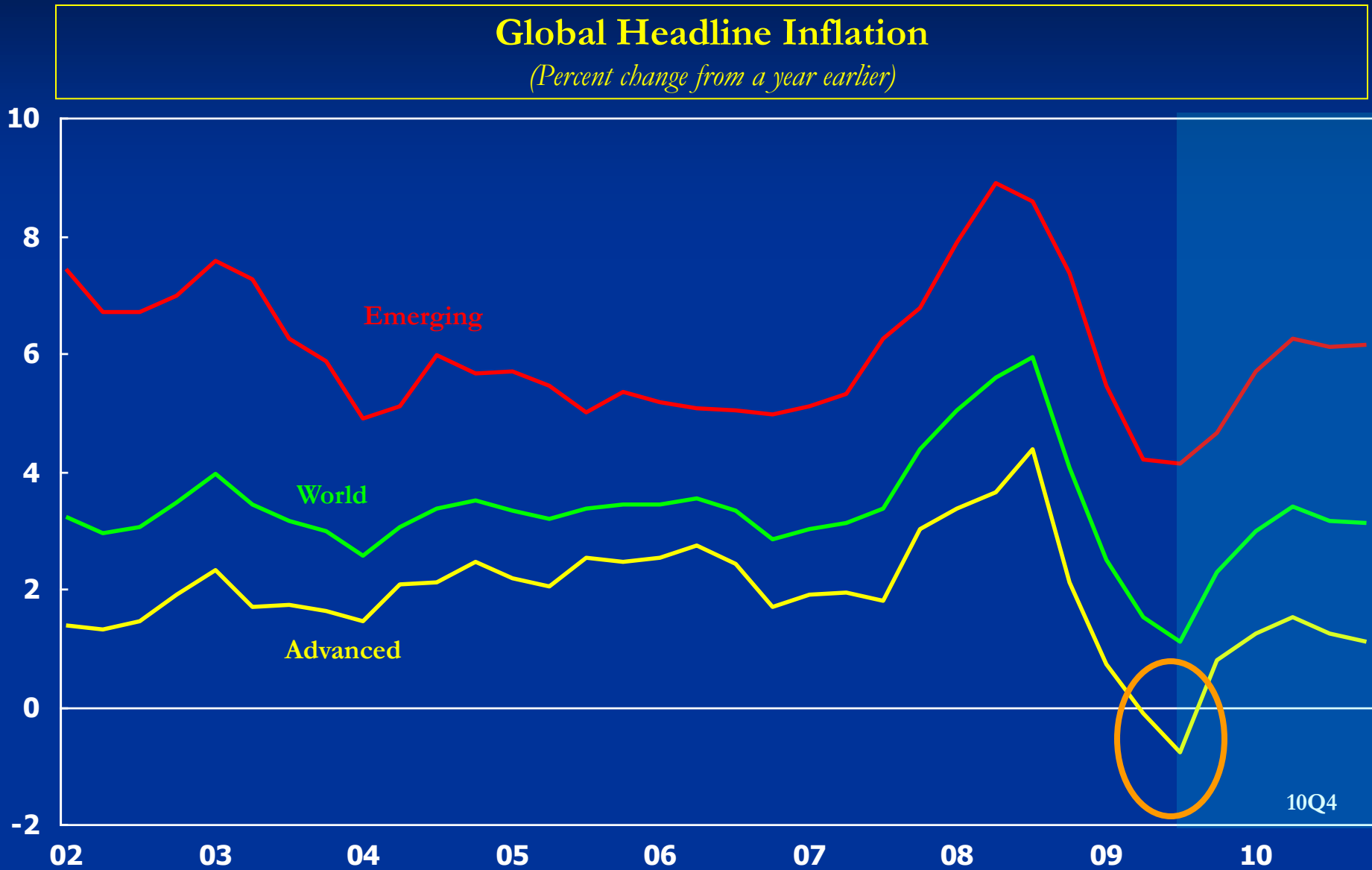
# Key Messages

- Global recovery is off to a stronger start than anticipated earlier, but there is differentiation across regions and countries.
- Relative to past standards, the recovery is expected to remain sluggish in the major advanced economies, although activity is expected to remain relatively vigorous in many emerging and developing economies, led largely by buoyant internal demand.
- Policy stimulus will need to be maintained through 2010, notably in major advanced economies, where recovery is slow and there are no signs as yet of a pick up in private demand.
- Armenia and many countries in the region were hit by a sharp drop in inflows in 2009. Growth is expected to recover in 2010, but slowly.

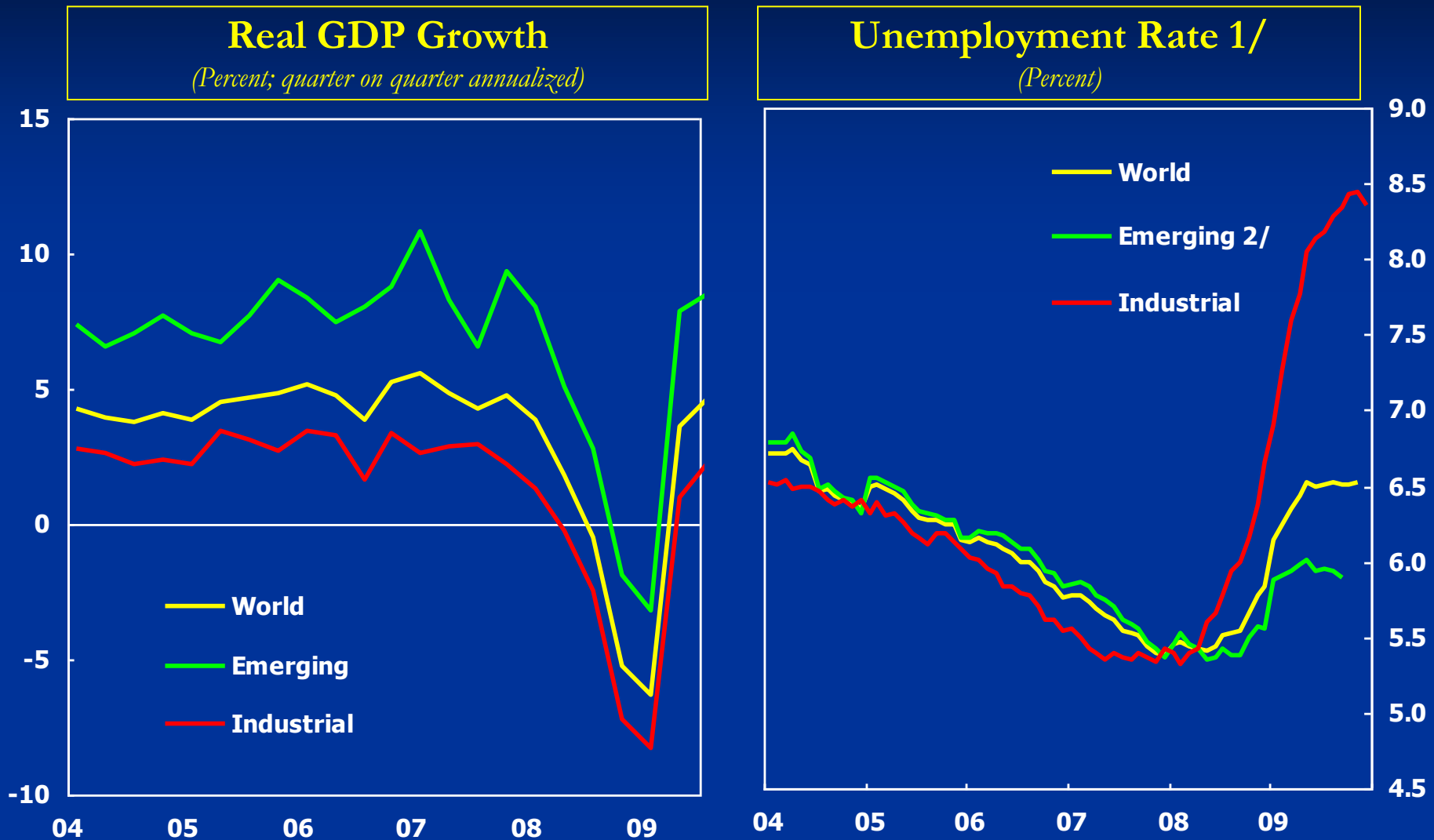
# WEO: the Global Economy is Set to Expand ...

	2009	2010	2011
World	-0.8	3.9	4.3
Advanced Economies	-3.2	2.1	2.4
United States	-2.5	2.7	2.4
Euro area	-3.9	1.0	1.6
Japan	-5.3	1.7	2.2
Emerging and Developing Economies	2.1	6.0	6.3
China	8.7	10.0	9.7
India	5.6	7.7	7.8
Brazil	-0.4	4.7	3.7
Russia	-9.0	3.6	3.4

# Sluggish Demand Recovery and Commodity Prices Should Keep Inflation in Check



# Across the Globe, Growth is Returning and Unemployment Has Stopped Rising...



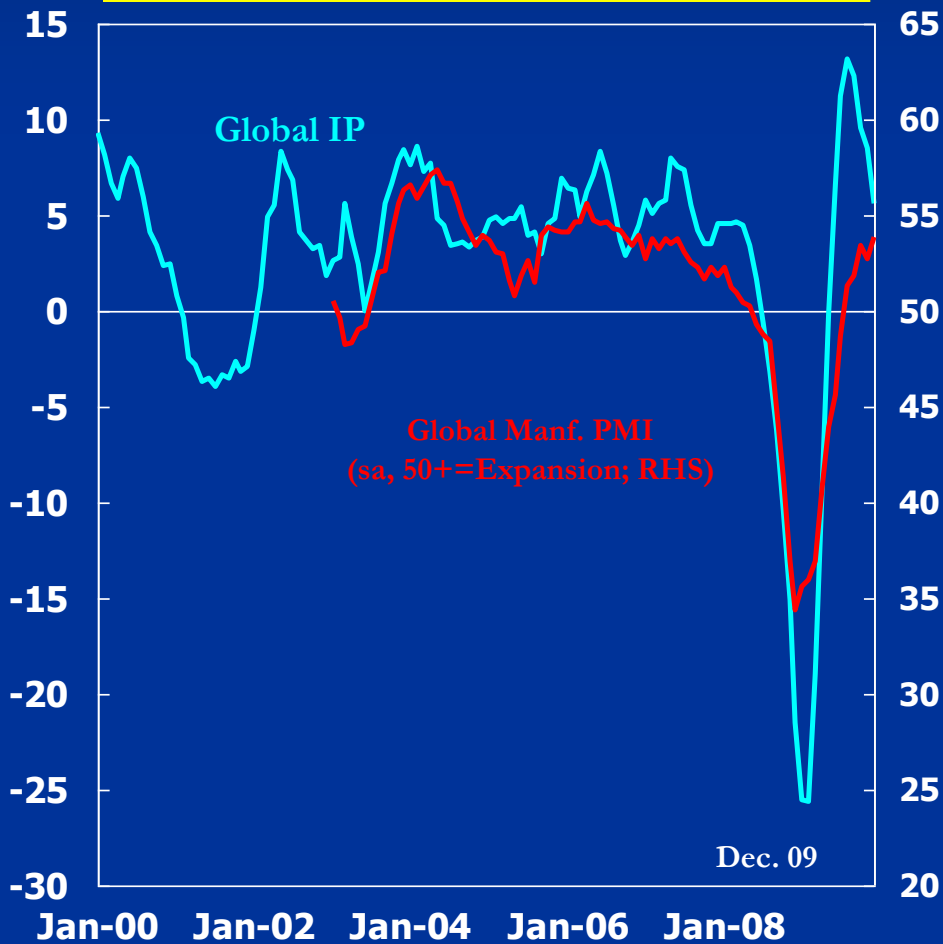
Source: IMF, Global Data Source and staff calculations.

1/ Unemployment data series were aggregated using total labor force as weights.

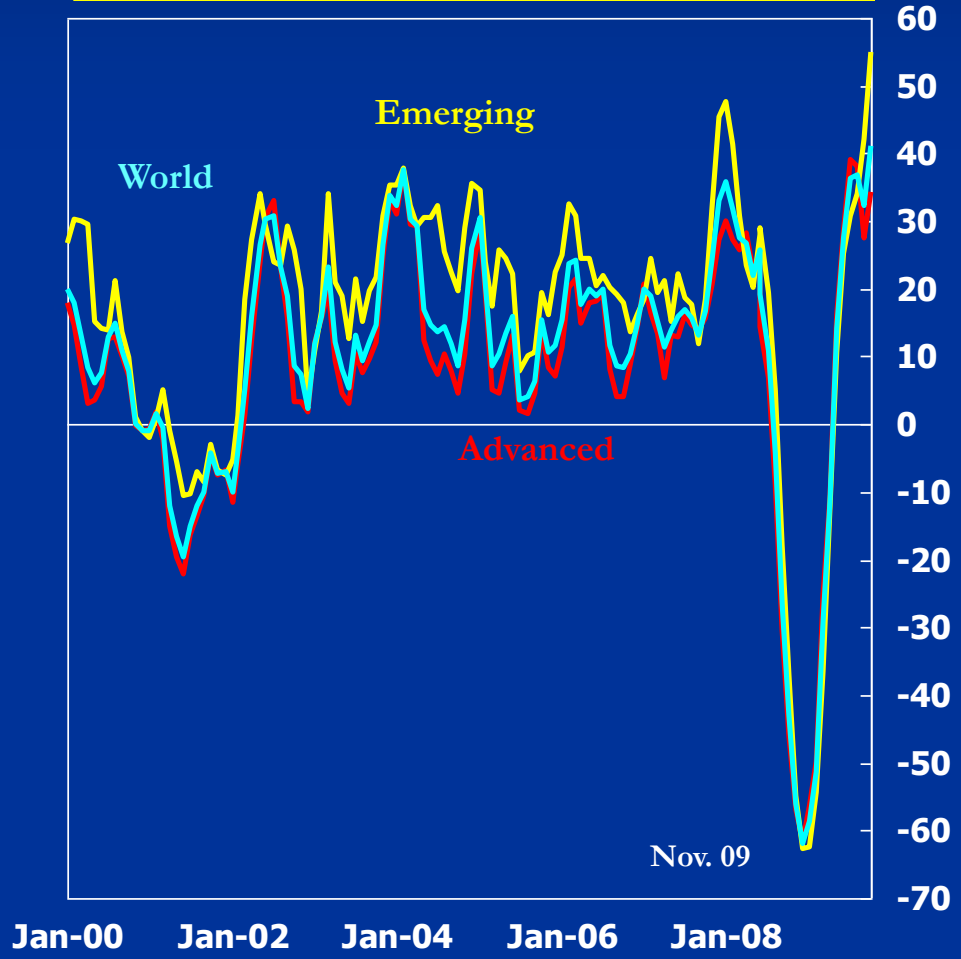
2/ Excludes China, India, Indonesia, Hungary, and Pakistan.

# ...With Production and Trade Seeing a Recovery Since Bottoming Out in Late 2009

**Industrial Production**  
*(Annualized percent change of 3mma over previous 3mma)*



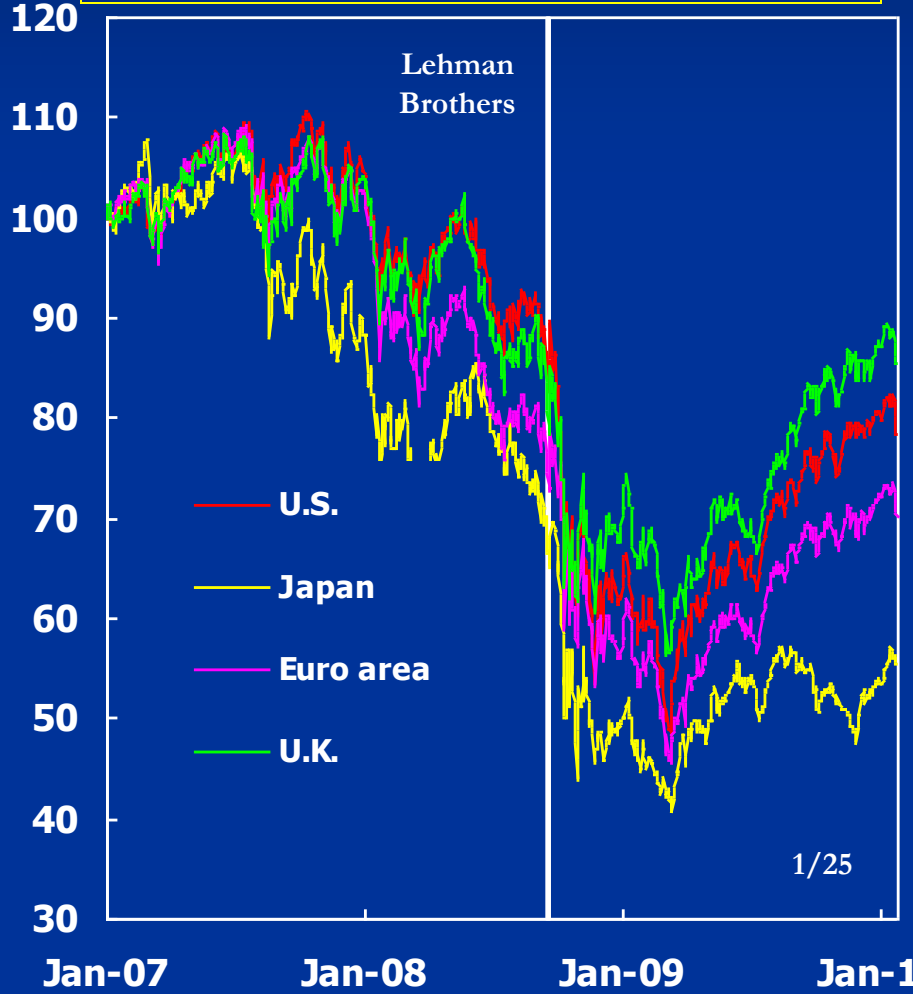
**Merchandise Exports**  
*(Annualized percent change of 3mma over previous 3mma)*



# Equity Markets Have Rallied and Consumer Confidence Has Improved, But Remains Low

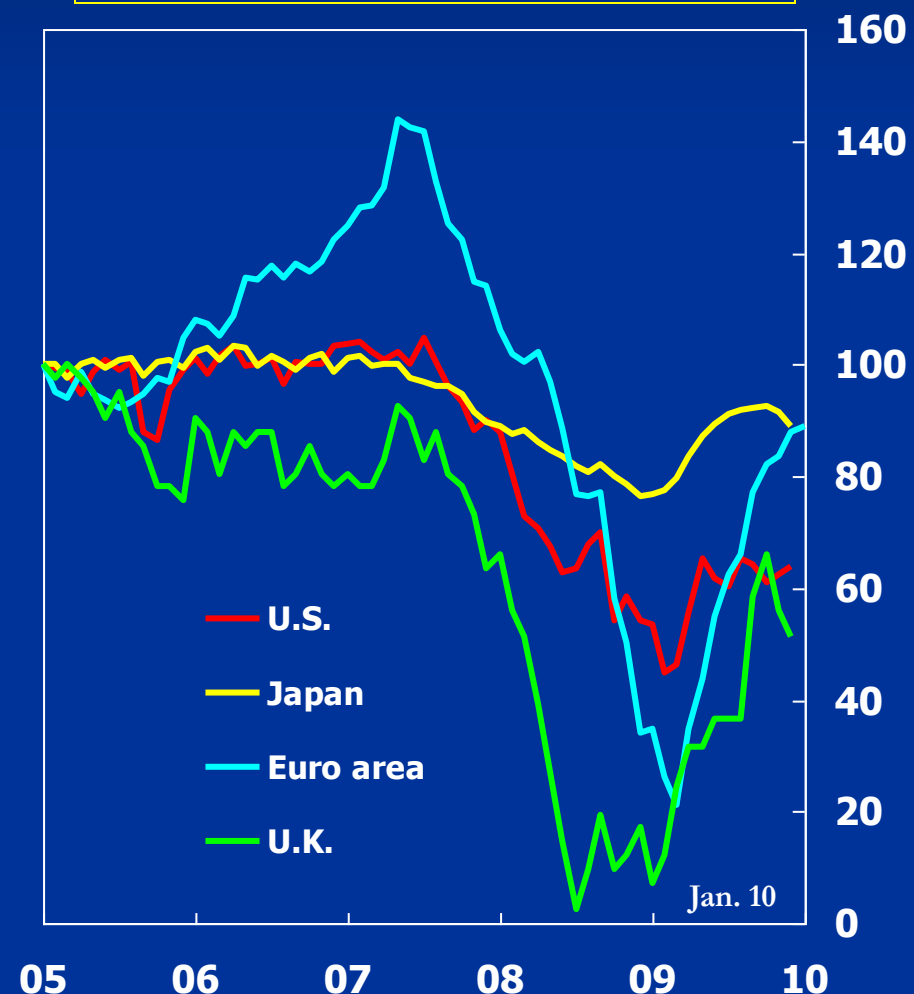
## Equities

(1/1/2007=100; FTSE)



## Consumer Confidence

(Jan. 2005=100)



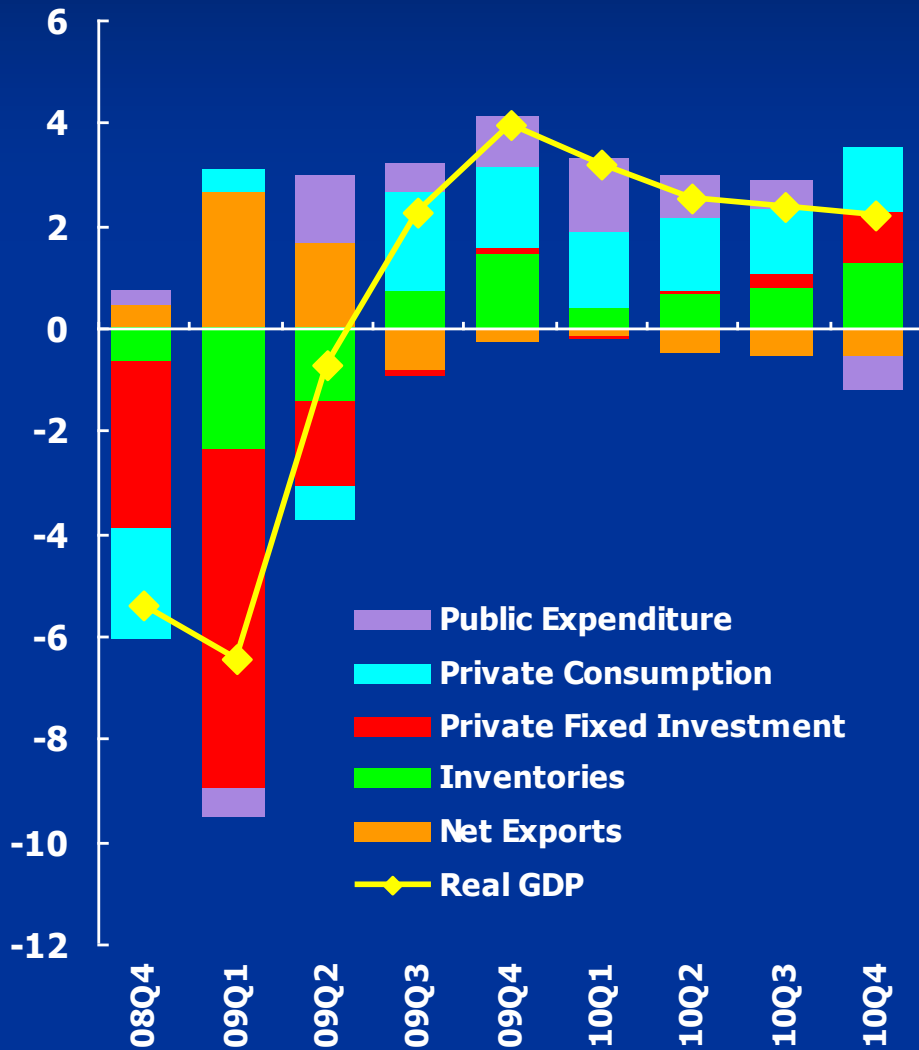
# **Advanced Economies**



# The U.S.: Still Looking for Sustained Private Demand

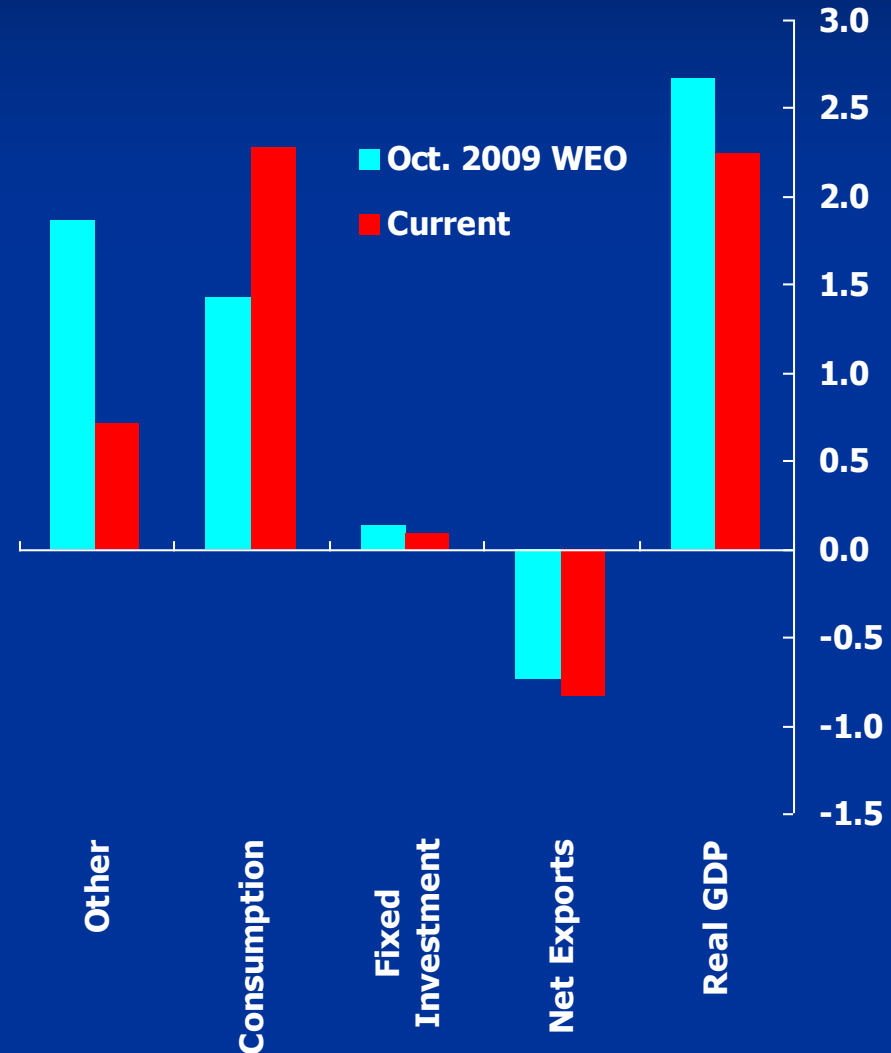
## U.S. Growth Contributions

(in percent; qoq saar)



## 2009Q3 Growth Contributions

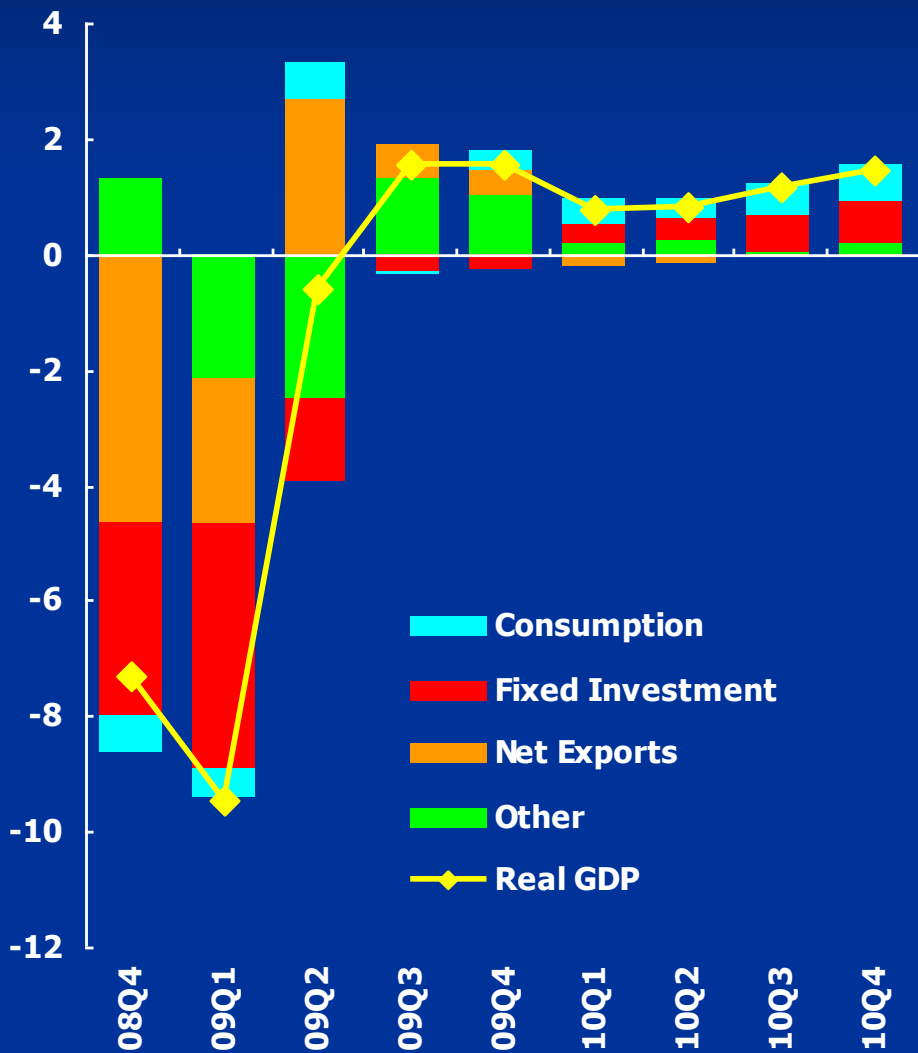
(in percent; qoq saar)



# The Euro area: Weak Private Demand

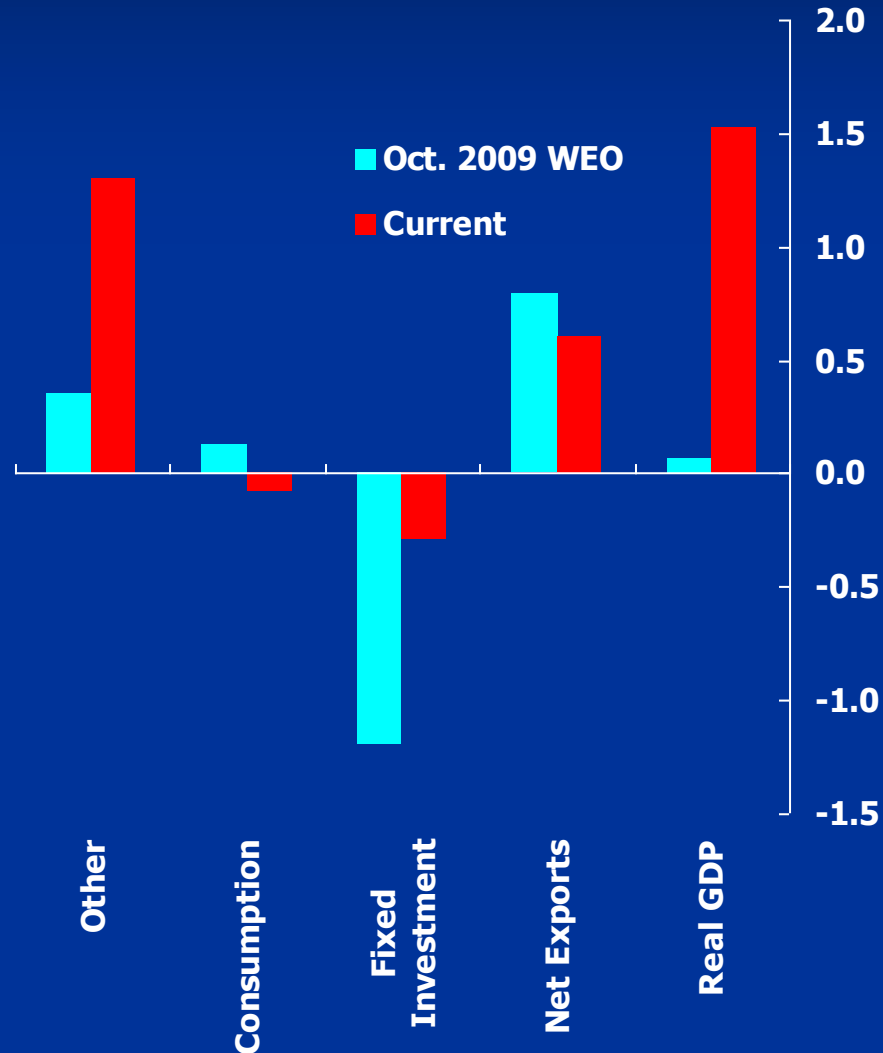
## Euro area Growth Contributions

(in percent; qoq saar)



## 2009Q3 Growth Contributions

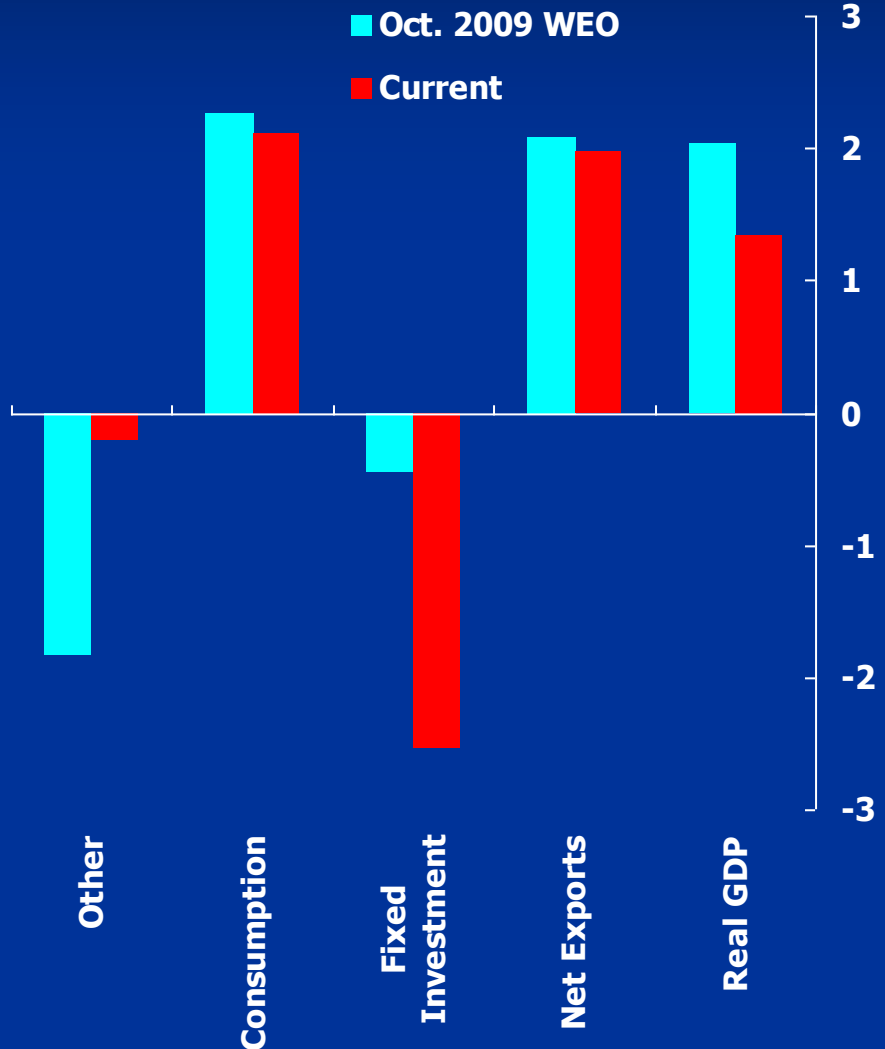
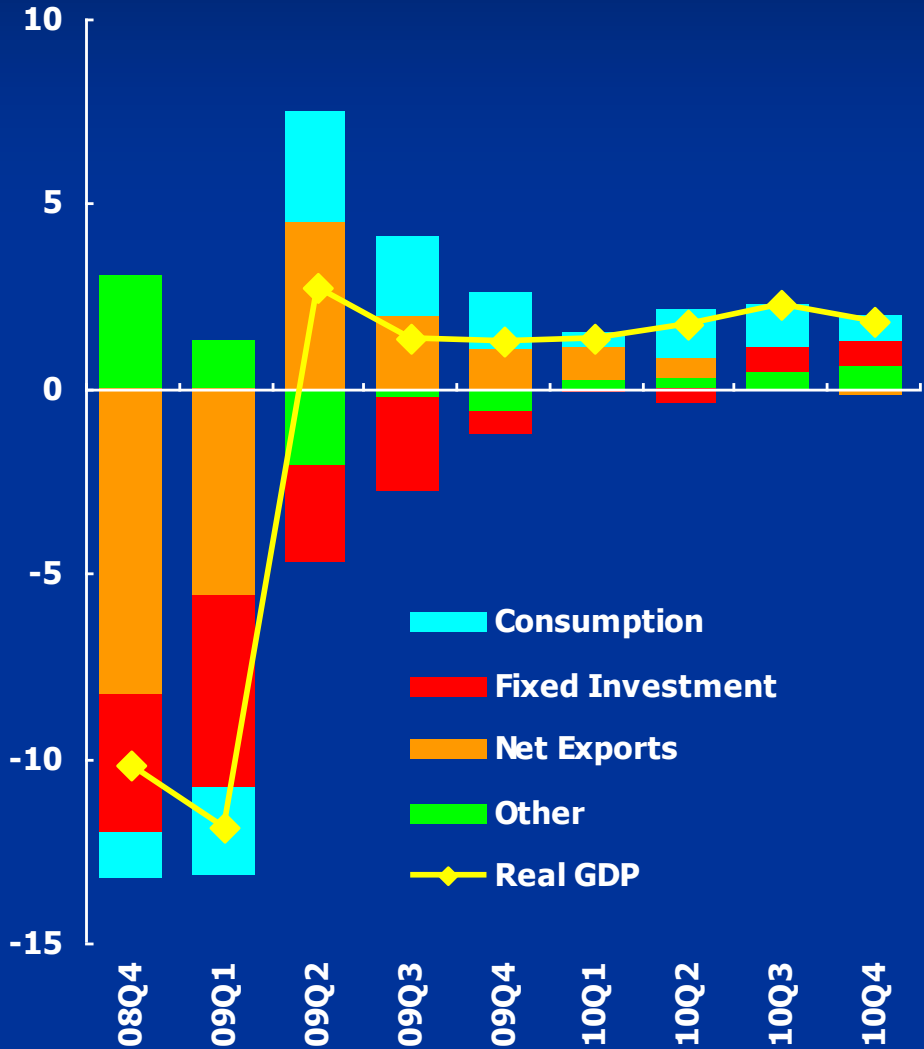
(in percent; qoq saar)



# And a similar story holds for Japan

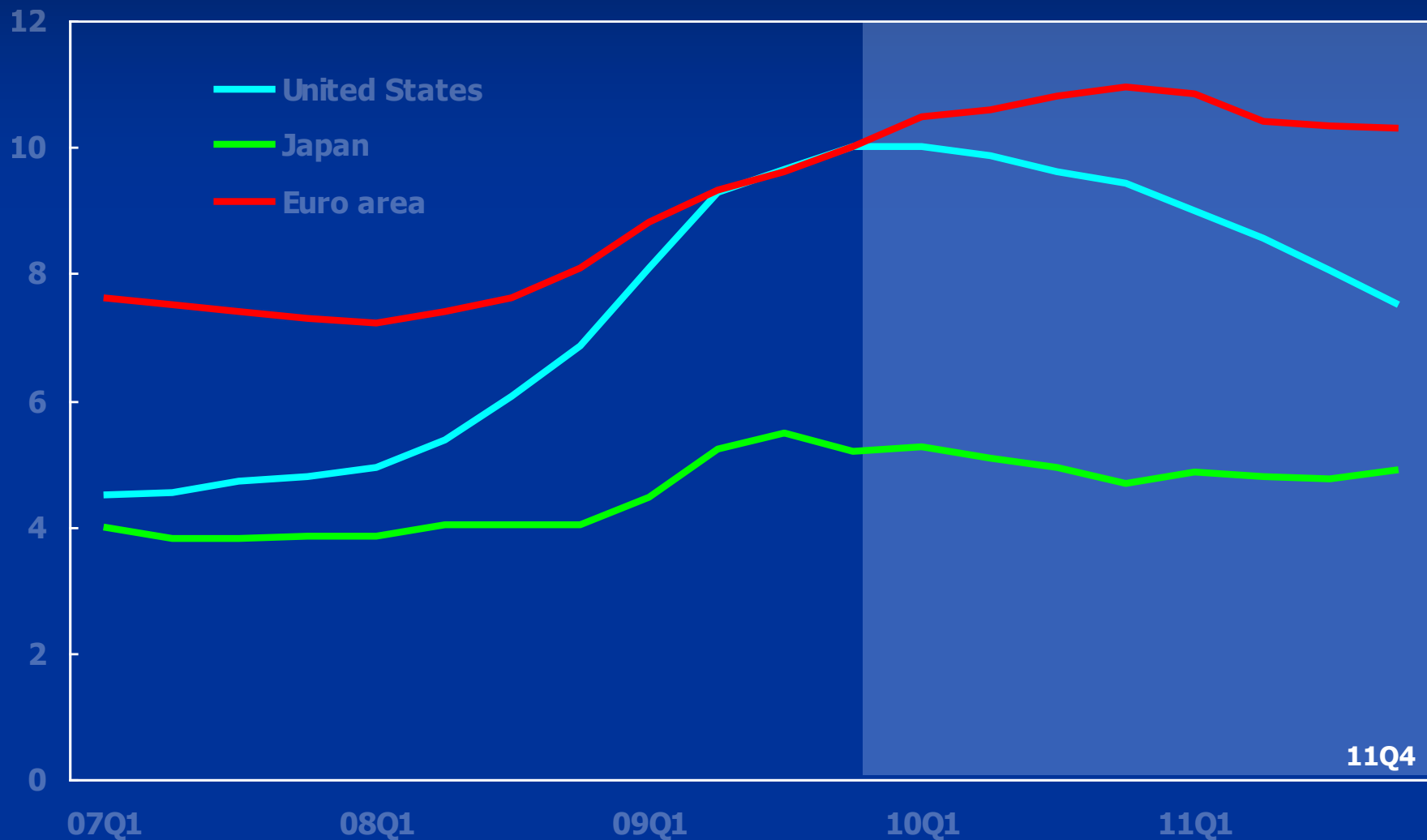
**Japan Growth Contributions**  
*(in percent; qoq saar)*

**2009Q3 Growth Contributions**  
*(in percent; qoq saar)*



# Too Weak a Recovery to Reduce Unemployment Much

## Unemployment Rate (in percent)

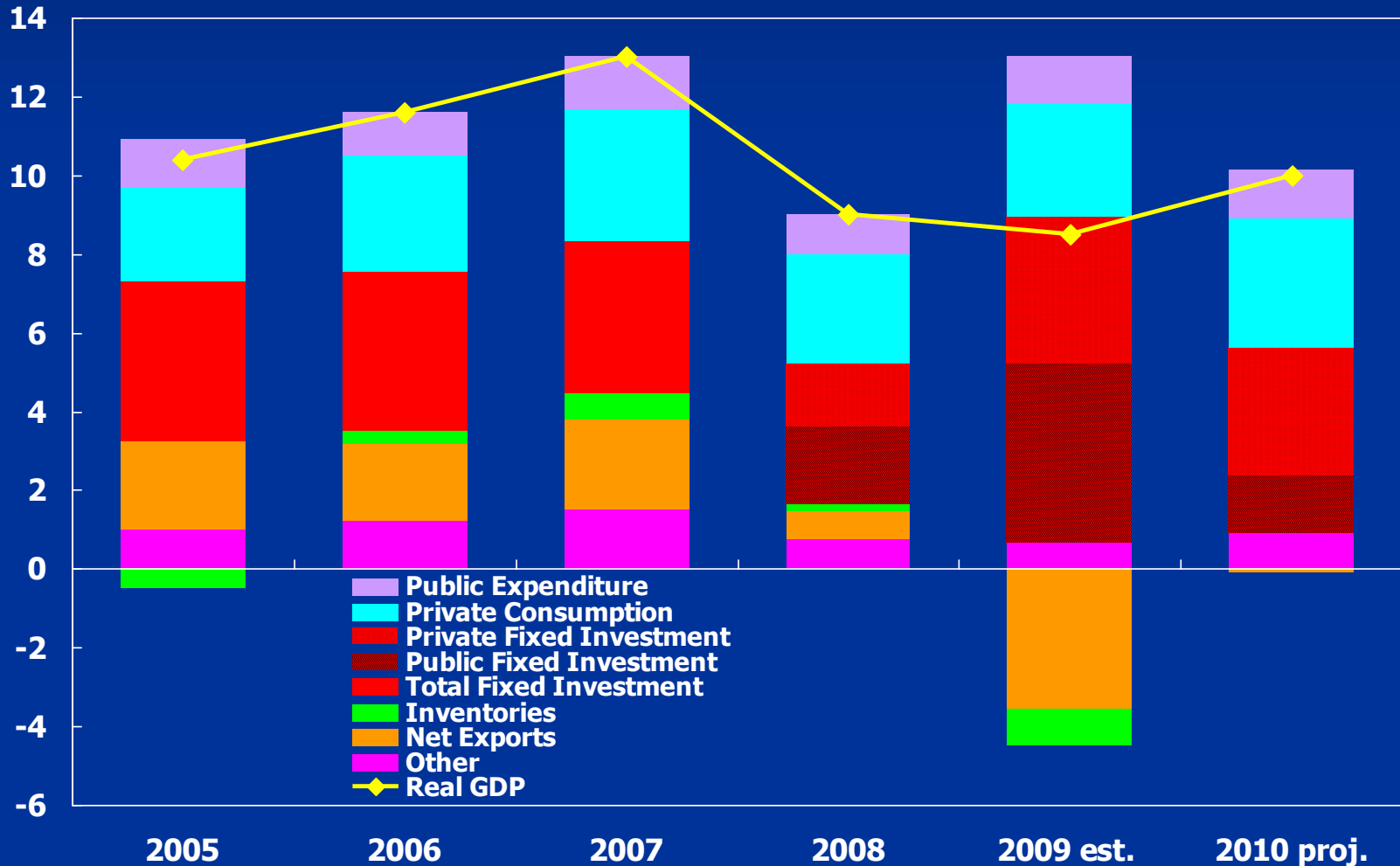


# Asia

# Is China's Rebound Sustainable?

## Growth Contributions

(in percent; yoy)

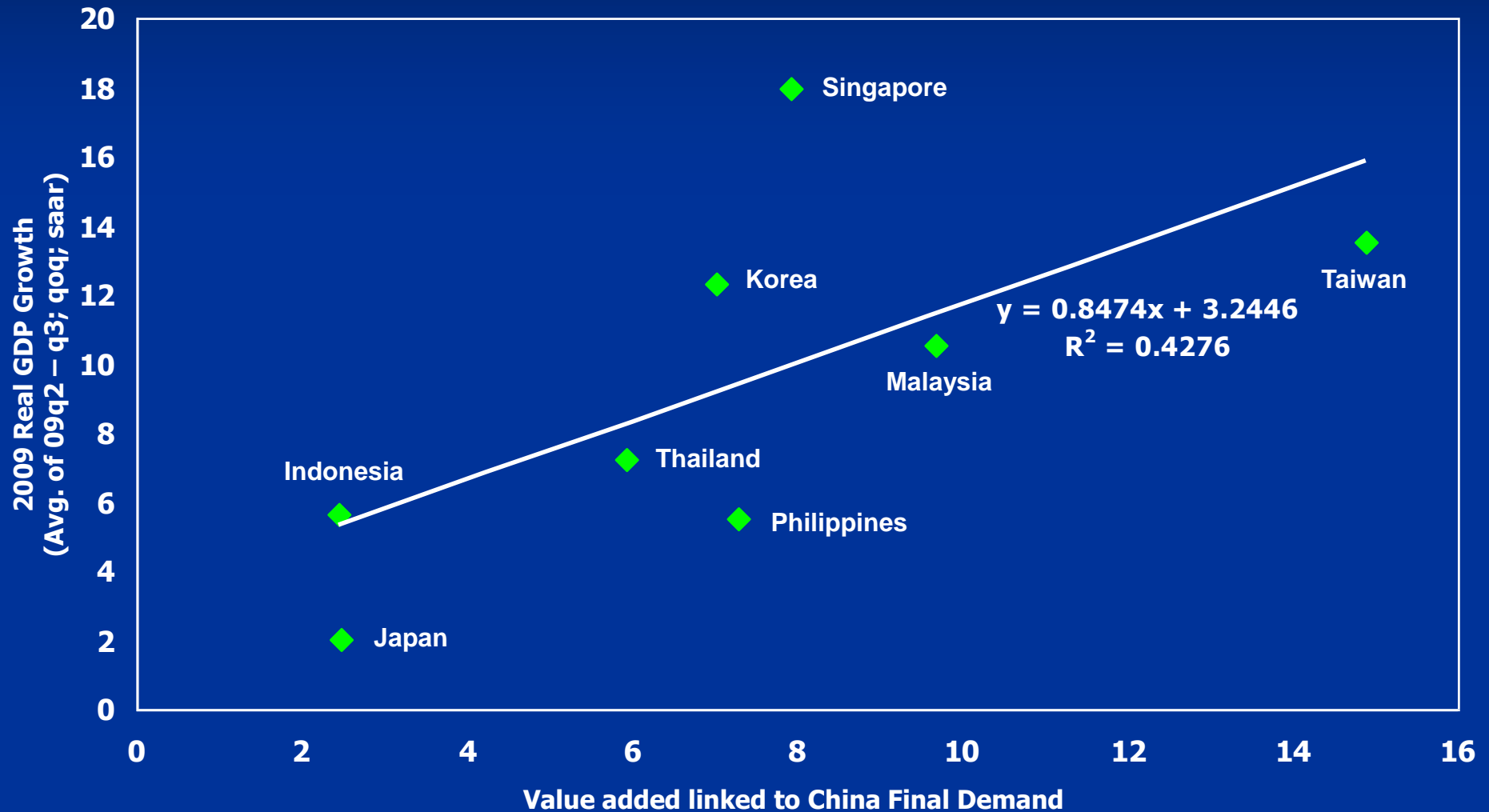


Source: IMF, World Economic Outlook.

# Asia's Recovery and Links to China

## GDP Growth and Value Added Linked to China

*(GDP growth average of 2009Q2-Q3; selected Asia)*



# Eastern Europe



# Growth Projections Remain Weak in Economies that have Already Suffered Large GDP Declines

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

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	Bulgaria	Hungary	Latvia	Lithuania	Estonia	Greece	Ireland	Spain
2009 Current	-5.0	-6.7	-18.0	-18.5	-14.8	-1.3	-7.5	-3.6
2010 Current	0.0	-0.6	-4.0	-4.0	-1.5	-0.7	-1.5	-0.6

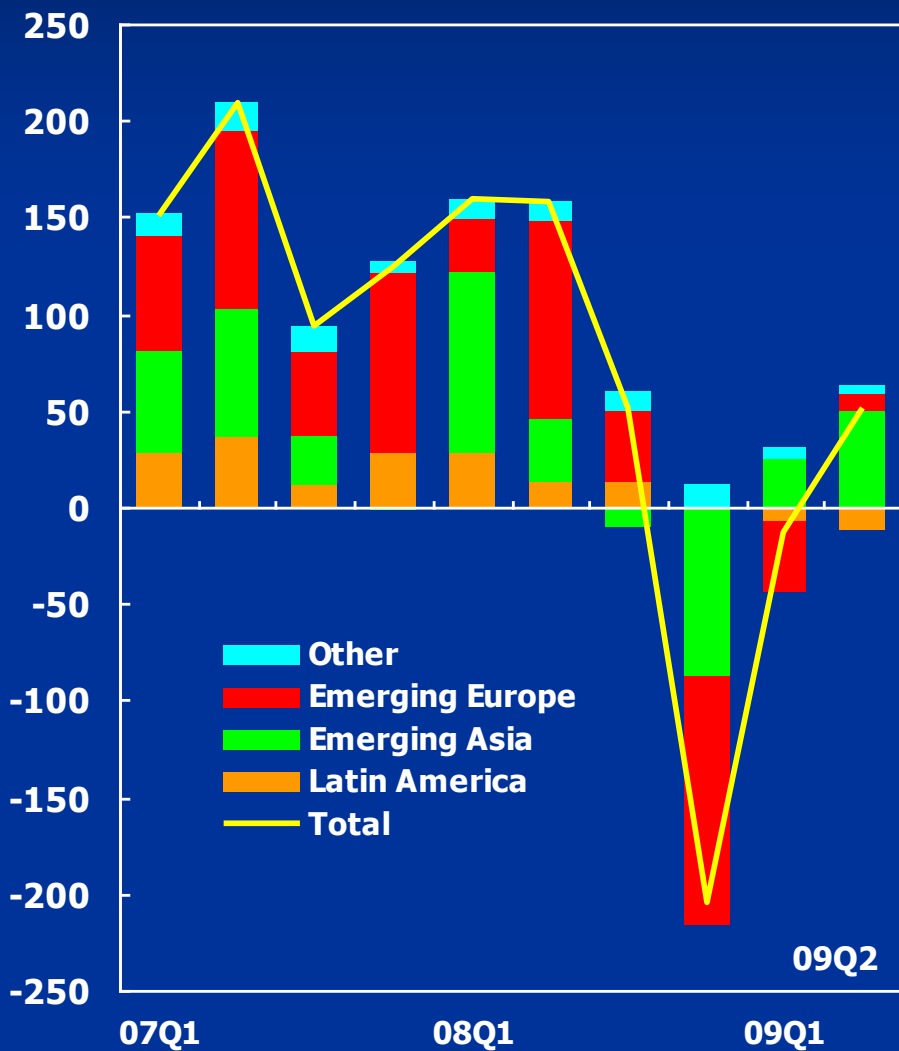
**Source: IMF, World Economic Outlook.**

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# Capital and Bank Flows to Emerging Markets

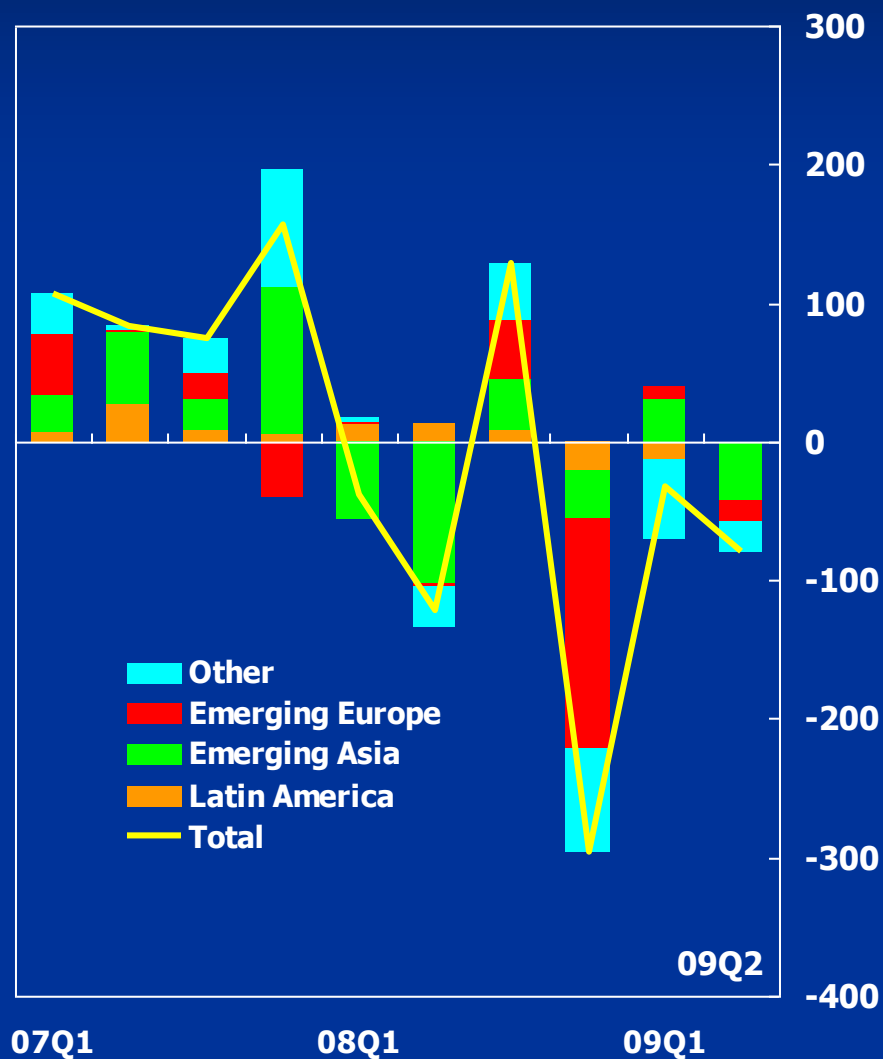
## Net Flows to Emerging Market Economies

(US\$ billion; exclude reserves and IMF lending)



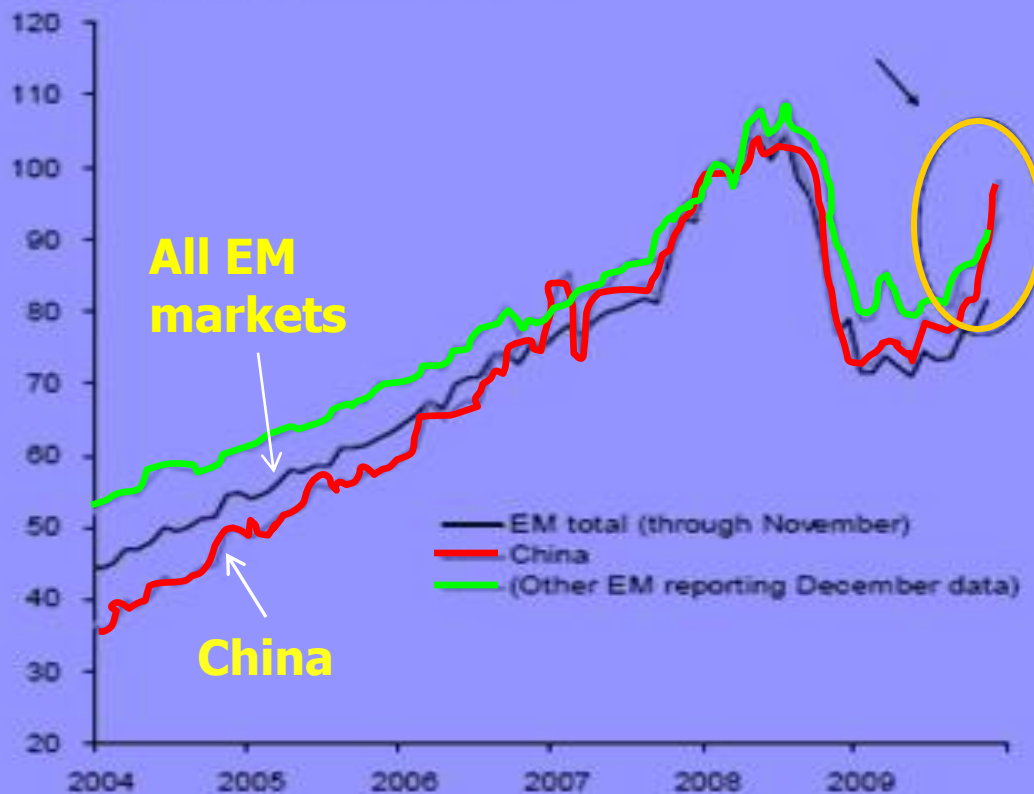
## Cross-Border Bank Liabilities

(US\$ billion; exchange rate adjusted changes)



# Most recent monthly developments point to a strong rebound in emerging markets exports

US dollar trade value (Jan 2008=100, sa)



Source: CEIC, Haver, IMF, UBS estimates. Note: other countries reporting December data include Brazil, Chile, Colombia, Israel, Korea, Pakistan, Taiwan and Vietnam.

# Prospects for the Region

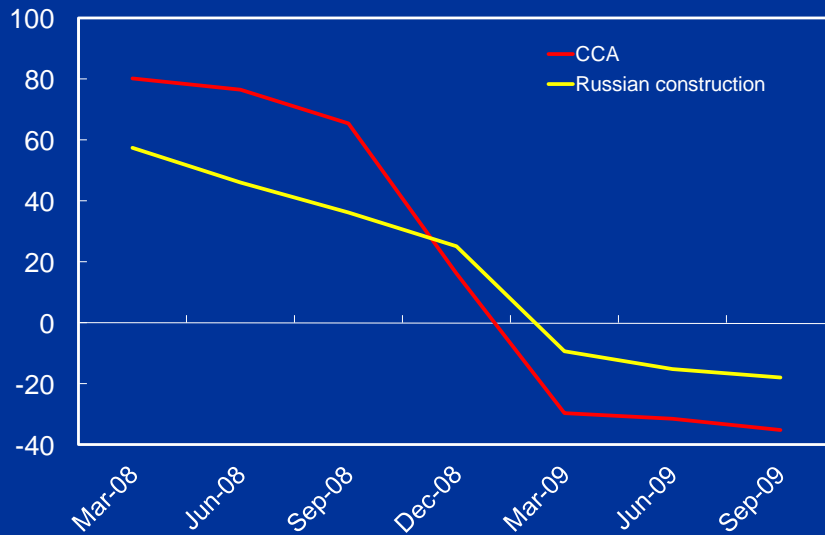
# Shock 1: Remittances declined

**Many migrants work in the Russian construction sector**

**The collapse in remittances affects household incomes and domestic demand**

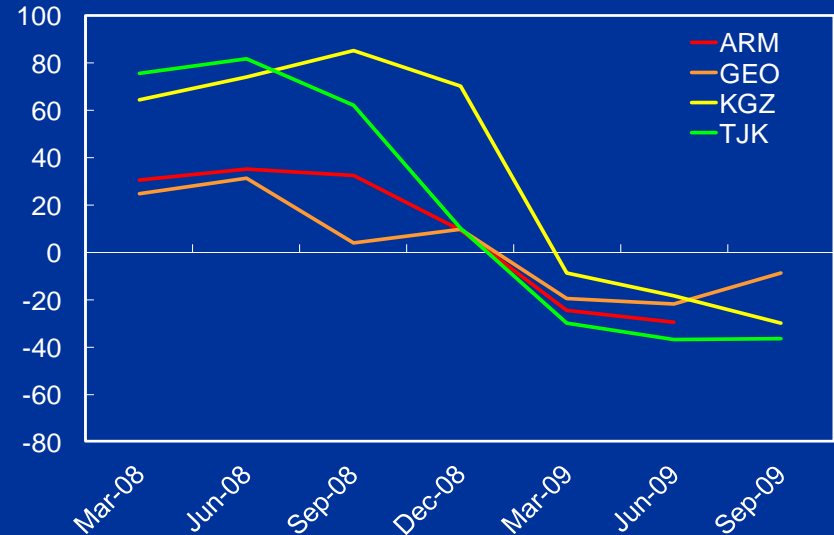
Remittance Outflows from Russia to the CCA<sup>1</sup>

(Percent change; year-on-year)



Remittance Inflows

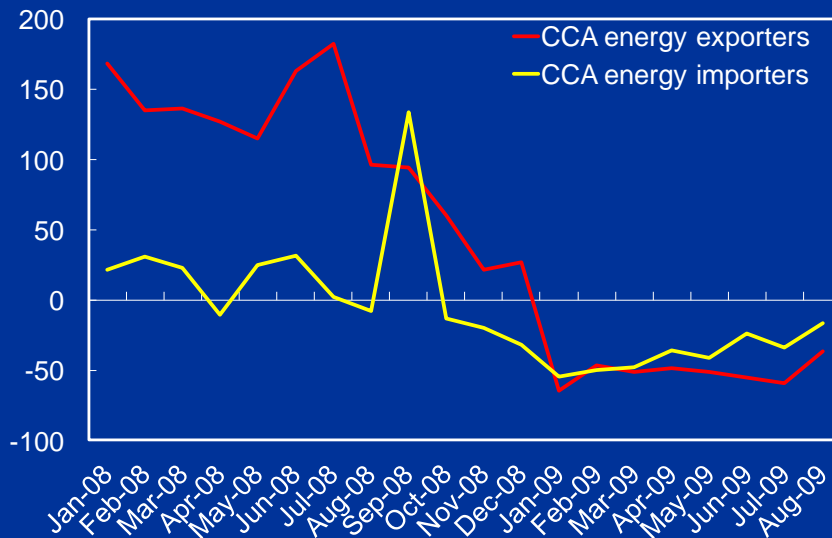
(Percent change; year-on-year)



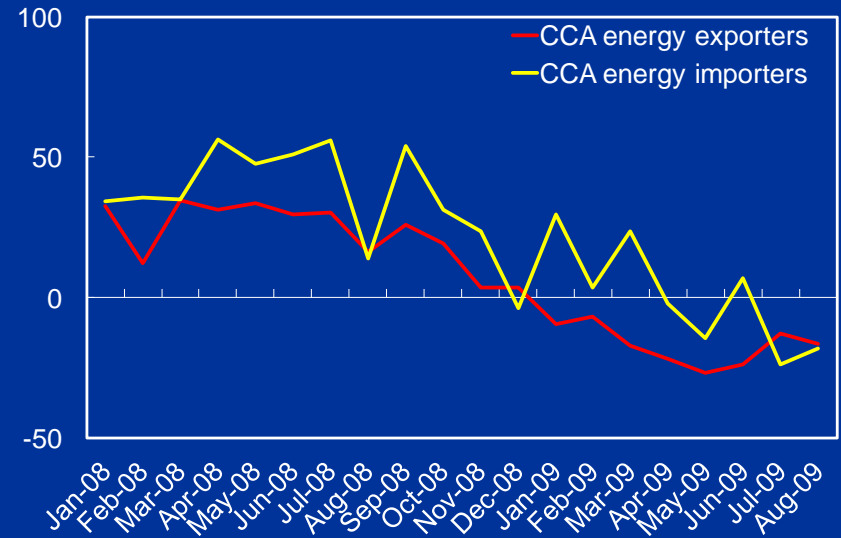
1/ Includes compensation of employees and migrants capital transfer.

# Shock 2: Exports contracted sharply

**Exports of Goods in U.S. Dollars  
(Percent; year-on-year)**

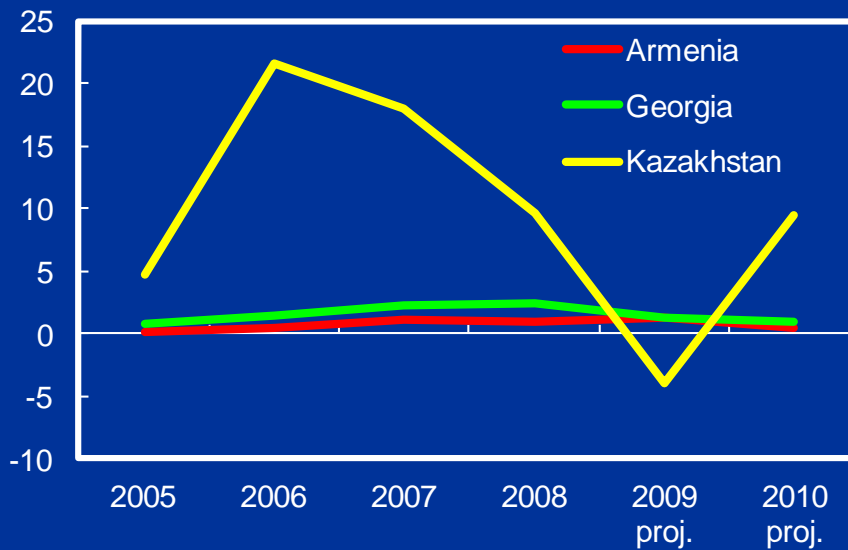


**Imports of Goods in U.S. Dollars  
(Percent; year-on-year)**

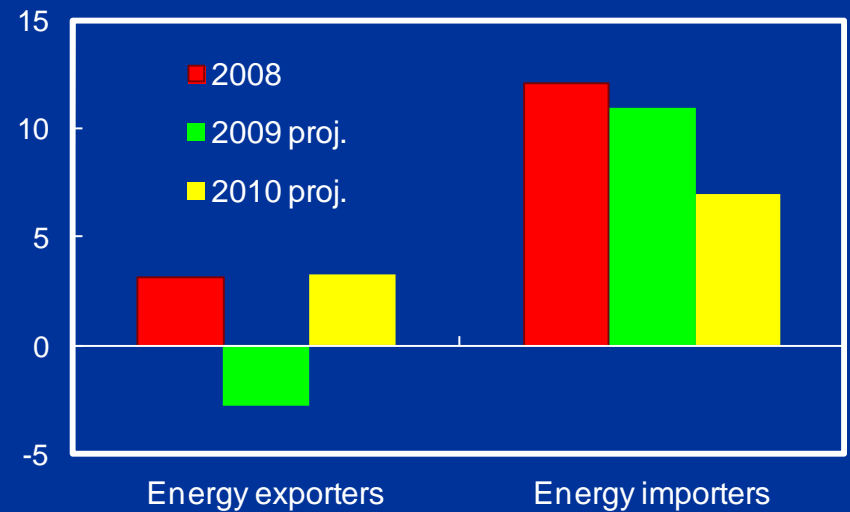


# Shock 3: Private capital inflows slowed or reversed

## Net Private Financial Flows (Billions of U.S. dollars)



## Net Private Financial Flows (Percent of GDP)



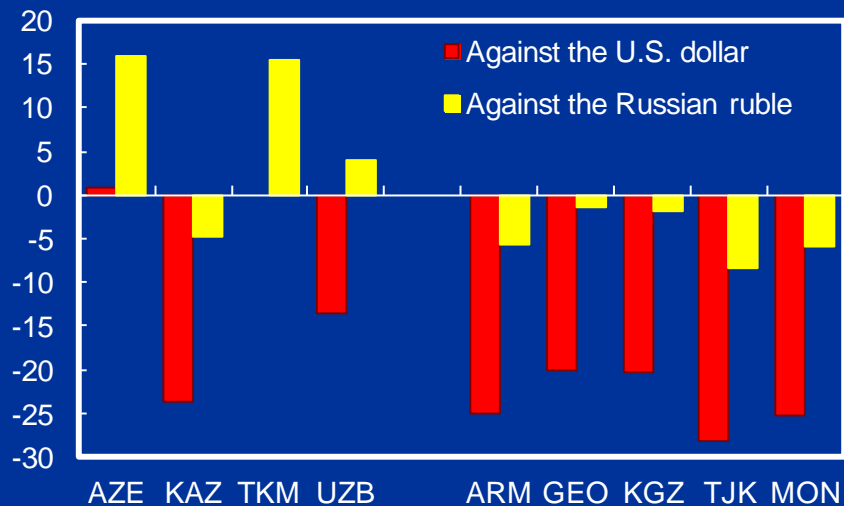
# Currencies have depreciated during the crisis

.... against the U.S. dollar, and energy importers' currencies have caught up with weaker ruble ...

... helping reverse competitiveness losses suffered in 2008

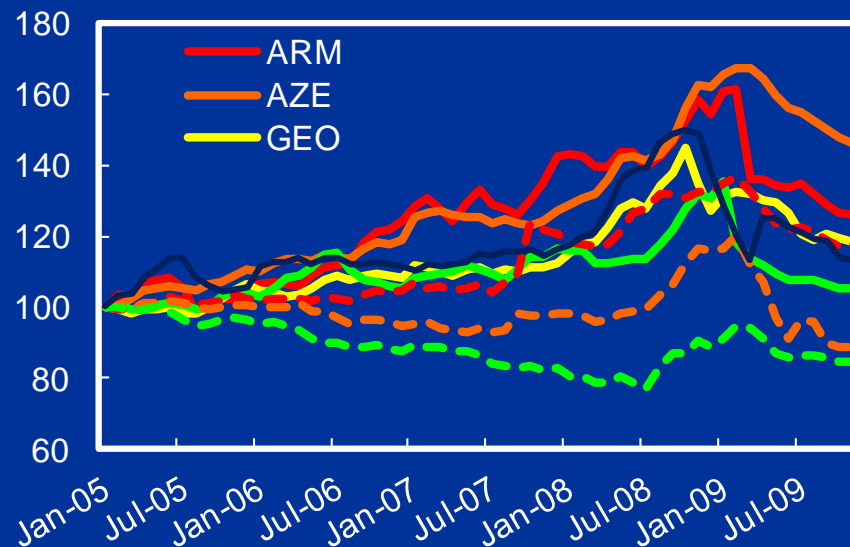
## Local Currencies Against the U.S. Dollar and Russian Ruble

(Sept 30, 2008 – Dec 30, 2009; increase indicates appreciation)



## Real Effective Exchange Rate

(Index Jan 2005 = 100; increase indicates appreciation)





# Some growth recovery in 2010

## Real GDP Growth (in percent)

	Est. 2009	Proj. 2010
<b>CCA</b>	<b>2.3</b>	<b>4.7</b>
<b>CCA energy exporters</b>	<b>3.3</b>	<b>5.1</b>
Azerbaijan	9.3	3.6
Kazakhstan	-2.0	2.0
Turkmenistan	4.1	16.7
Uzbekistan	8.1	8.0
<b>CCA energy importers</b>	<b>-3.5</b>	<b>2.9</b>
Armenia	-14.4	1.2
Georgia	-4.0	2.0
Kyrgyz Republic	2.5	4.1
Tajikistan	3.5	5.0
<b>CIS</b>	<b>-7.5</b>	<b>3.8</b>
<b>Russia</b>	<b>-9.0</b>	<b>3.6</b>
<b>China</b>	<b>8.5</b>	<b>10.0</b>

Sources: Country authorities; and IMF staff estimates and projections.

# Outlook Subject to Risks in Both Directions

## Upside Risks:

- Stronger-than-expected improvement in financial market sentiment prompting a surge in capital flows, trade, and private demand.
- New policy initiatives and additional stimulus aimed at reducing unemployment.

CCA: stronger exports and remittance inflows resulting in faster recovery.

# Outlook Subject to Risks in Both Directions (continued)

## Downside Risks:

- Premature and incoherent exit from supportive policies and a lack of progress in bank restructuring and recapitalization.
- Weak household spending due to impaired financial systems, weak housing markets, and rising unemployment.
- Rising fiscal sustainability concerns unsettle financial markets and raise borrowing costs.

CCA: weaker external demand, sluggish credit, rise in borrowing costs and debt, resulting in a more uncertain growth outlook.

***Thank You***