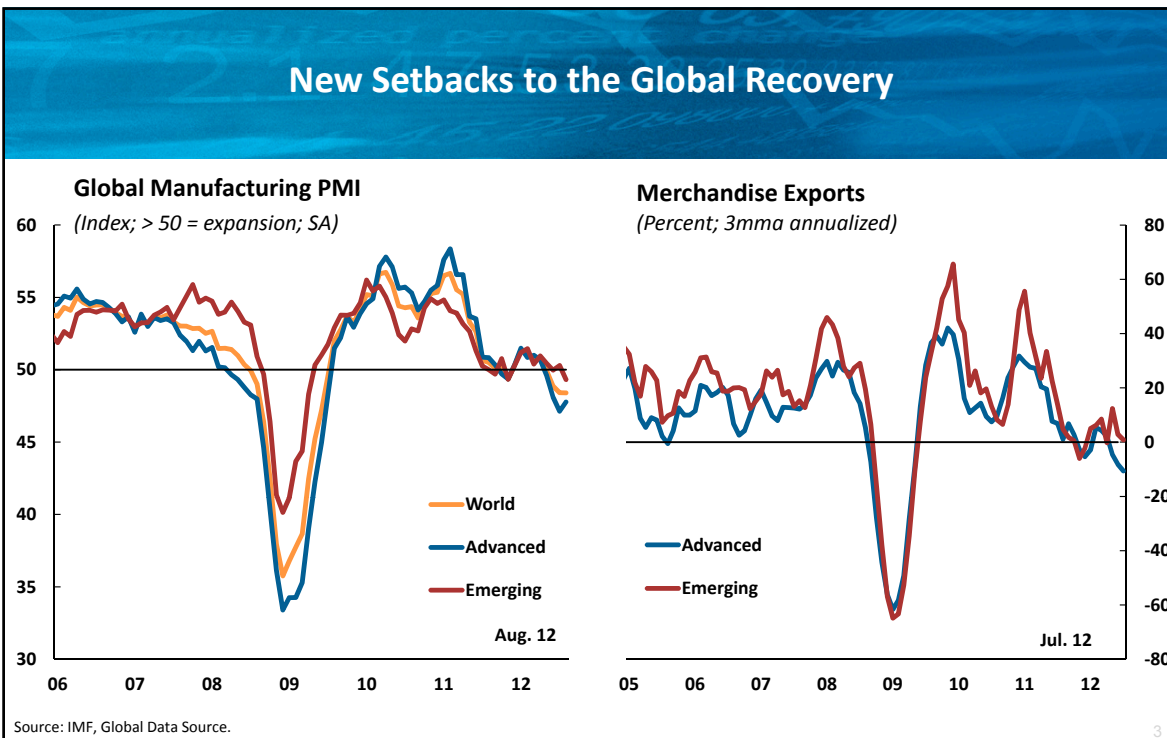




**Main Message: Action Needed to Put Recovery Back on Track**

- **The global economy has suffered new setbacks**
- **The forecasts are down**
- **Risks are up sharply**
- **AE: policies have progressed but much stronger actions are needed**
- **EM: complex setting—rebuilding policy room for maneuver versus supporting growth**

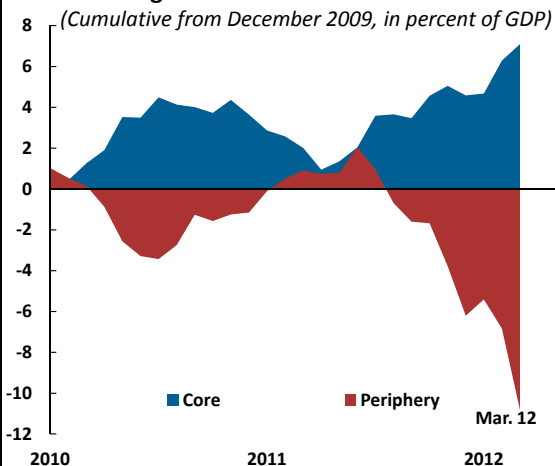


### What Went Wrong?

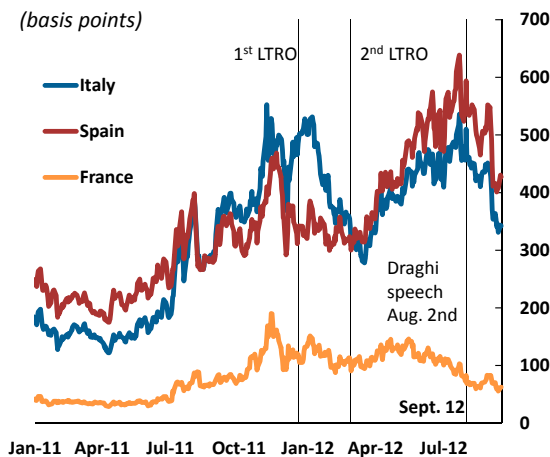
- Increasing strains in the euro area
- End of the emerging markets boom
- Large growth impact of fiscal adjustment amid tight financial conditions

## Euro Area: Growing fragmentation, despite policy responses

**Portfolio and Other Investment Capital Flows, Excluding Central Banks**  
(Cumulative from December 2009, in percent of GDP)



**10-Year Government Bond Spreads over German Bunds**  
(basis points)

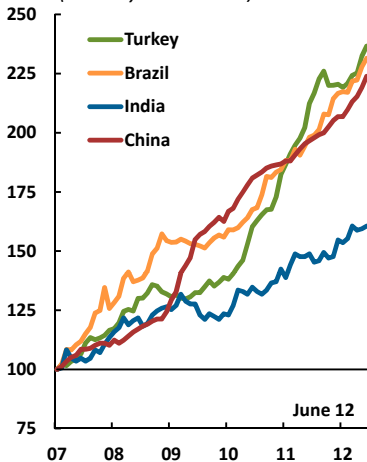


Sources: Haver Analytics; and IMF staff estimates.

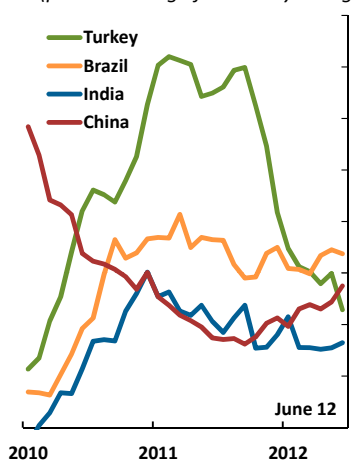
5

## Emerging Markets: End of a boom?

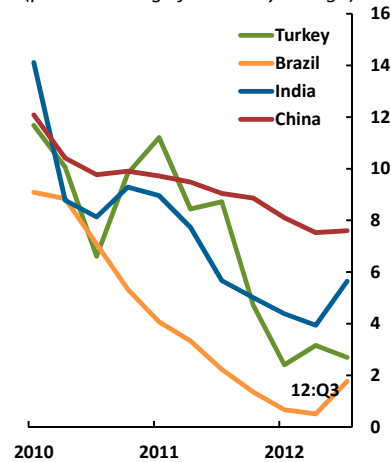
**Real Credit Level**  
(January 2007 = 100)



**Real Credit Growth**  
(percent change from one year ago)



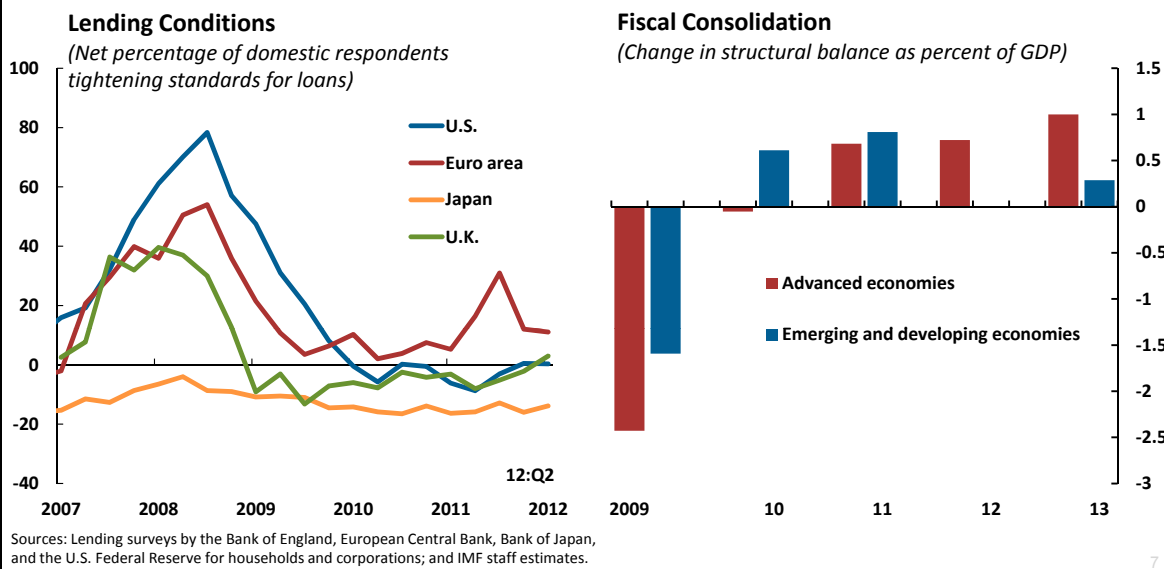
**Real GDP Growth**  
(percent change from one year ago)



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

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## Tight financial conditions and fiscal policies in AE






## Outlook: Weak and Uncertain

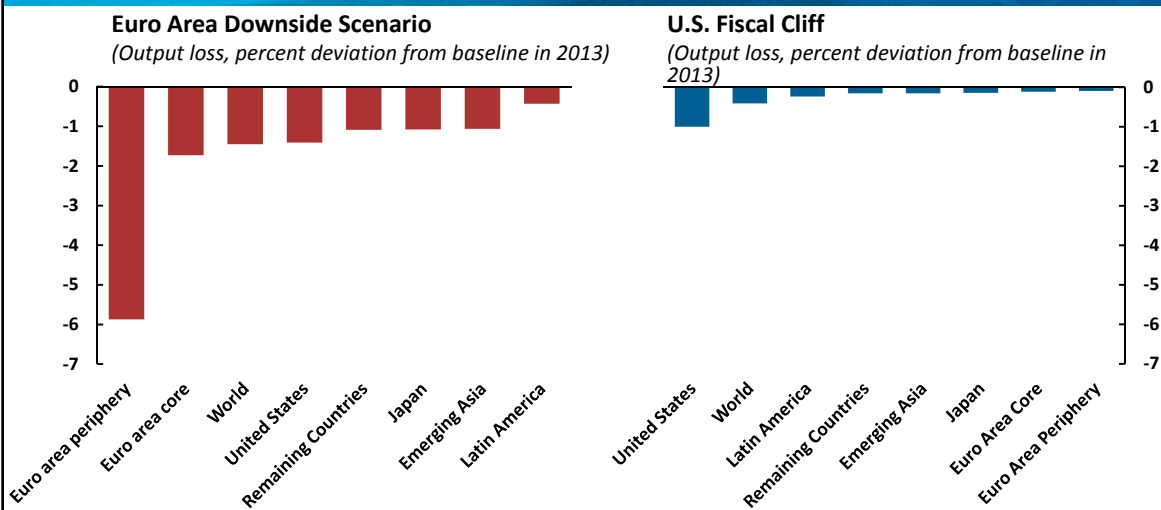
<b>Key Assumptions</b>	<ul style="list-style-type: none"> <li>• Strong euro-area policies improve financial conditions in 2013H2</li> <li>• US policymakers avoid fiscal cliff, raise debt ceiling</li> </ul>
<b>Outlook</b>	<ul style="list-style-type: none"> <li>• Recovery gradually strengthens</li> <li>• Downside risks are large</li> </ul>

## The baseline forecast has deteriorated since the July 2012 WEO Update

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

	 World	 U.S.	 Euro Area	Emerging and Developing Economies	Developing Asia	Latin America and the Caribbean	MENA	Sub-Saharan Africa
<b>2012 (Jul. 2012 WEO Update)</b>	3.5	2.0	-0.3	5.6	7.1	3.4	5.5	5.4
2012 (revisions from Apr. 2012 WEO)	-0.1	-0.1	0.0	-0.1	-0.3	-0.3	1.3	-0.1
<b>2013 (Jul. 2012 WEO Update)</b>	3.9	2.3	0.7	5.9	7.5	4.2	3.7	5.3
(revisions from Apr. 2012 WEO)	-0.2	-0.1	-0.2	-0.2	-0.4	0.1	0.0	0.0

## Key Risks: Escalating euro crisis and U.S. fiscal cliff

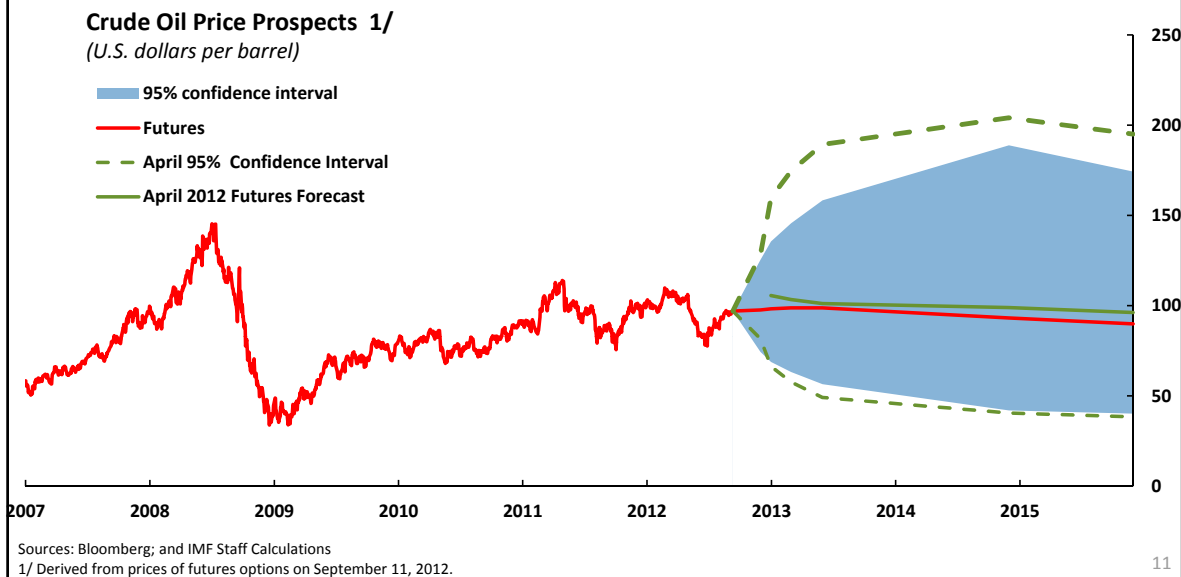


Source: IMF staff estimates

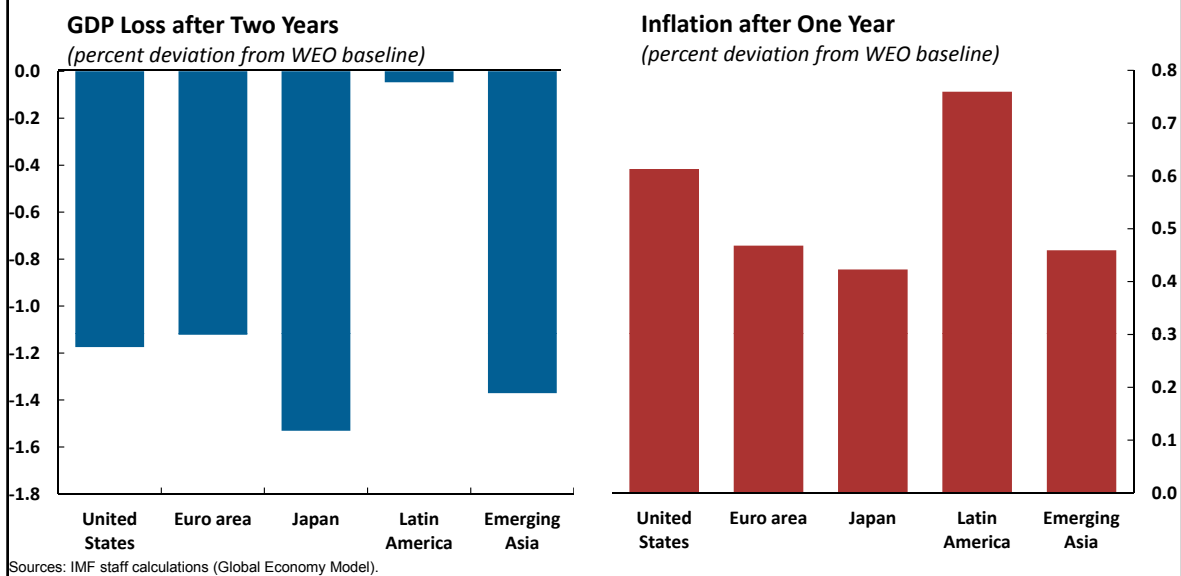
Note: This scenario assumes that sovereign and corporate spreads rise, credit contracts, and periphery governments are forced to front-load fiscal consolidation.

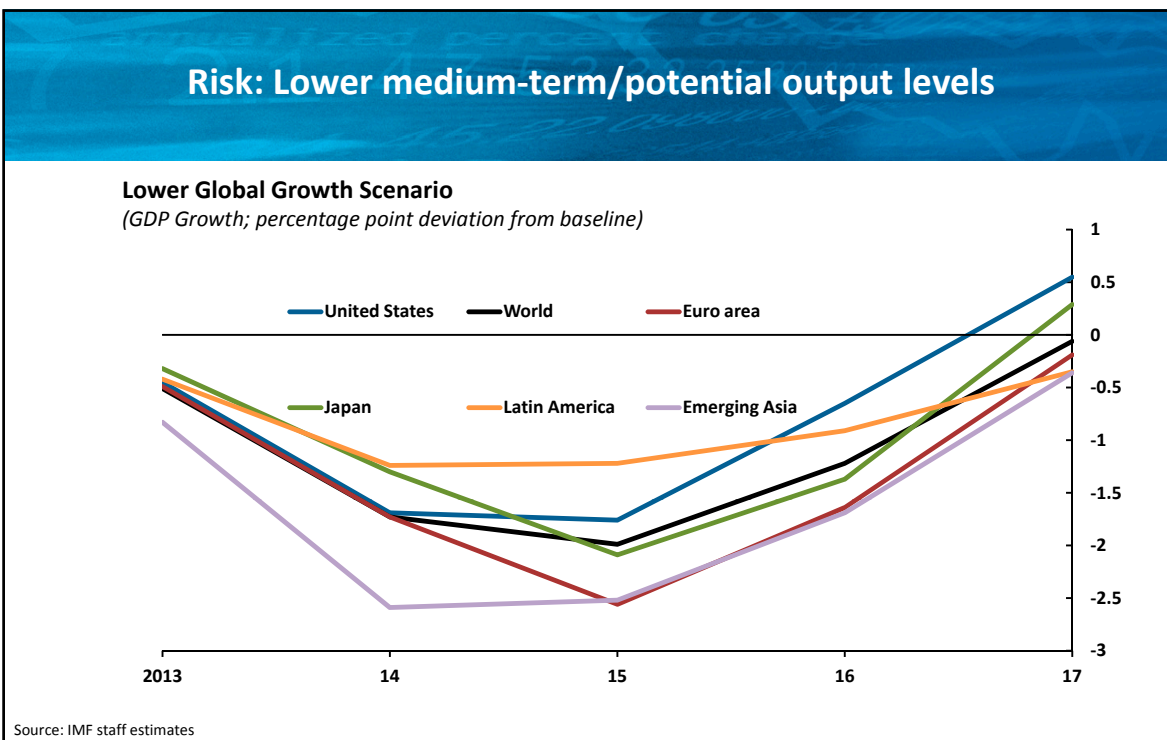
Note: Estimated output losses from fiscal consolidation, with confidence effects and without monetary adjustment.

## Despite weakening, oil price spikes remain a concern given geopolitical risks and limited buffers



## Risk: Disruption in the global oil supply





### What Is To Be Done?

<ul style="list-style-type: none"> <li>• Removing immediate risks</li> </ul>	<ul style="list-style-type: none"> <li>• Euro Area: Restoring confidence</li> <li>• United States: Avoiding the fiscal cliff, raise debt ceiling</li> </ul>
<ul style="list-style-type: none"> <li>• Adjusting policies</li> </ul>	<ul style="list-style-type: none"> <li>• AE: Managing medium-term fiscal adjustment</li> <li>• EM&amp;DC: Managing risks vs rebuilding policy space</li> <li>• Developing Countries: Dealing with commodity price shock</li> </ul>

## Restoring Confidence in the Euro Area

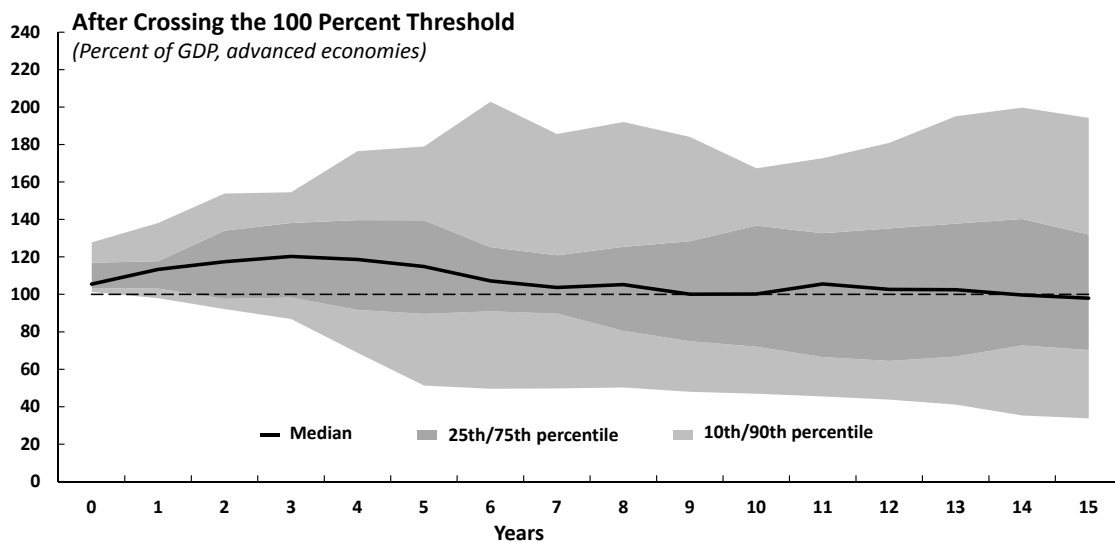
Periphery	<ul style="list-style-type: none"> <li>• Fiscal adjustment</li> <li>• Bank recapitalization/resolution</li> <li>• Structural reforms</li> </ul>
EA partners	<ul style="list-style-type: none"> <li>• Support adjustment through EFSF/ESM</li> <li>• Help recapitalize banks</li> <li>• Advance euro area fiscal and banking union</li> </ul>
ECB	<ul style="list-style-type: none"> <li>• Help ease financial conditions in periphery—latest action fully delivers on this front; ball is now in other courts</li> </ul>

## Advanced Economies: Managing fiscal consolidation

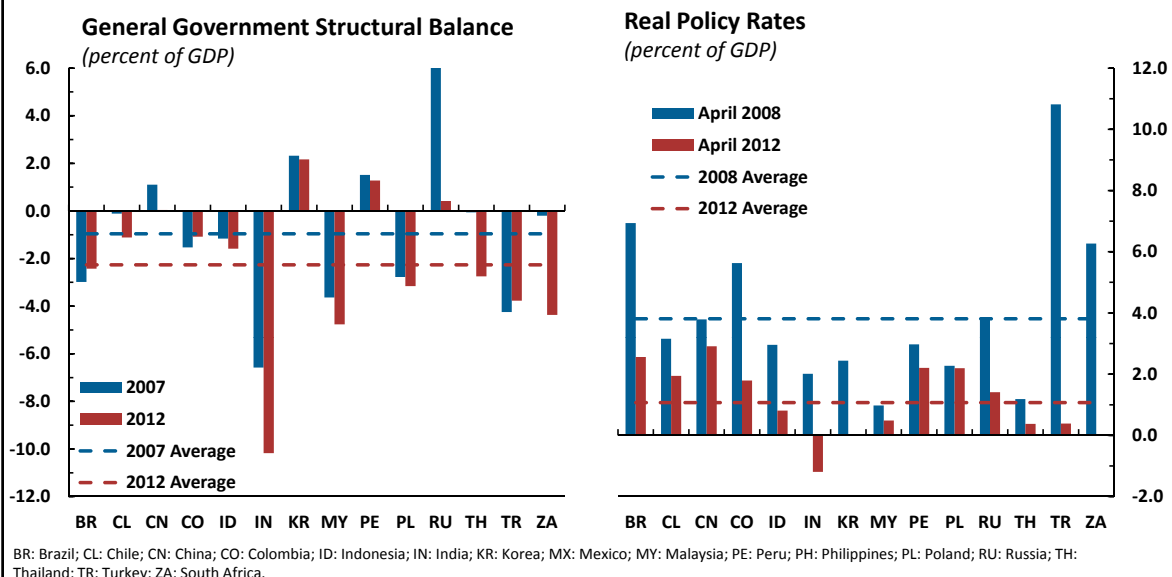
Fiscal	<ul style="list-style-type: none"> <li>• Gradual and sustained fiscal consolidation anchored by detailed medium-term plan—key for U.S and Japan</li> <li>• Growth contingency:             <ul style="list-style-type: none"> <li>– cyclically-adjusted targets to let automatic stabilizers operate</li> <li>– where room, smooth medium-term adjustment</li> </ul> </li> </ul>
Monetary	<ul style="list-style-type: none"> <li>• Maintain an accommodative stance</li> </ul>



## Reducing public debt is a marathon, not a sprint



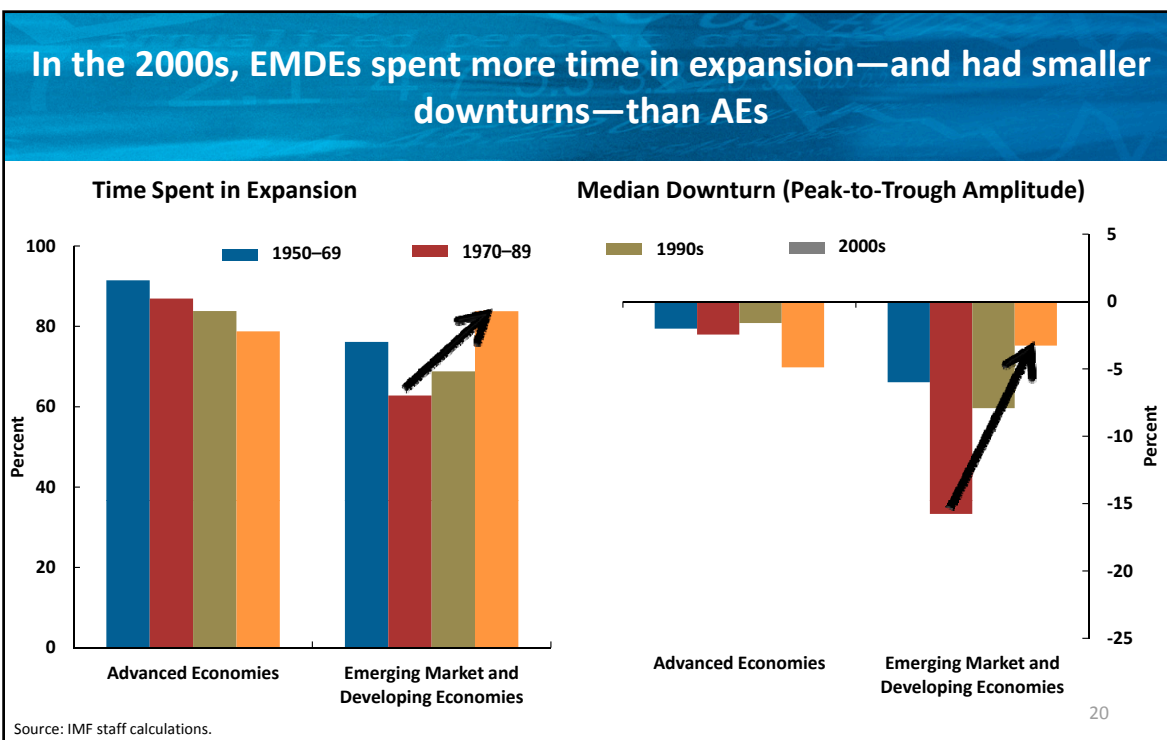
## Many EMDEs need to rebuild fiscal and monetary policy space over the medium term



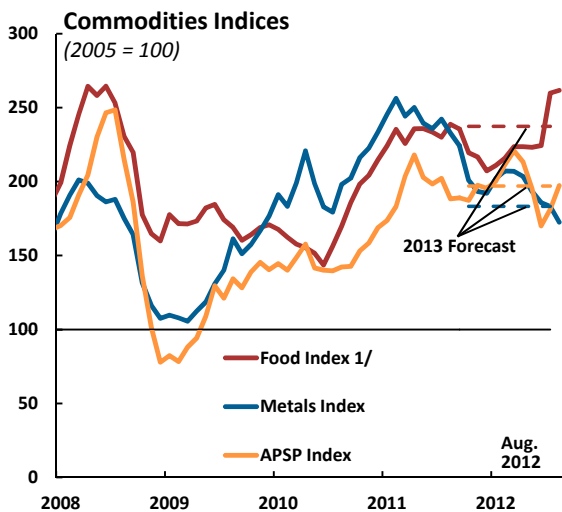
### EMDEs: Complex setting—need to calibrate macro stance given potential for real and financial vulnerabilities

<b>Baseline scenario</b>	<ul style="list-style-type: none"> <li>• Pause monetary policy tightening or modestly ease</li> <li>• Continue to rebuild fiscal position, especially India, Russia and Turkey</li> </ul>
<b>Downside risks</b>	<ul style="list-style-type: none"> <li>• Ease monetary policy further, strengthen macro-prudential measures</li> <li>• Allow fiscal stabilizers to work</li> <li>• If needed and consistent with stronger medium-term growth, deploy fiscal stimulus (e.g. China)</li> </ul>

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## Developing Countries: Dealing with High Food Prices



- 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

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## World Economic Outlook

October 2012