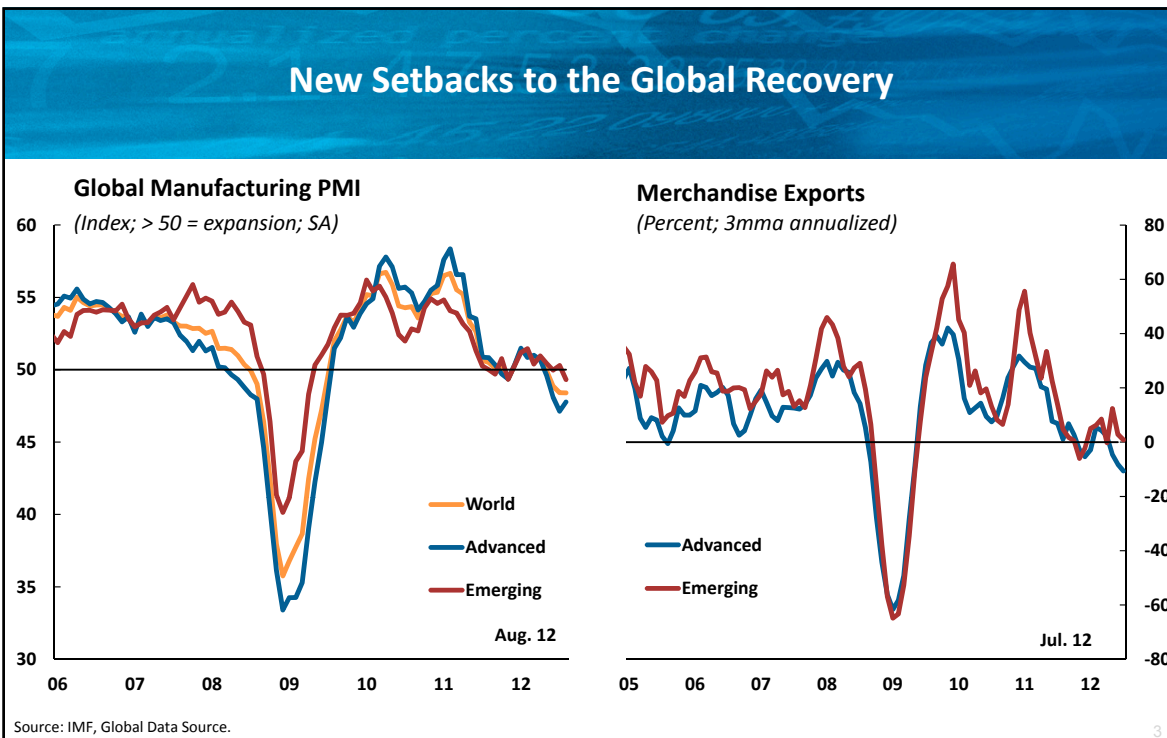




Main Message: Action Needed to Put Recovery Back on Track

- **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**

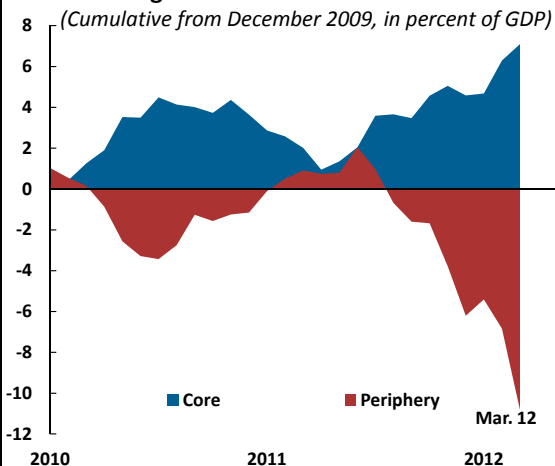


What Went Wrong?

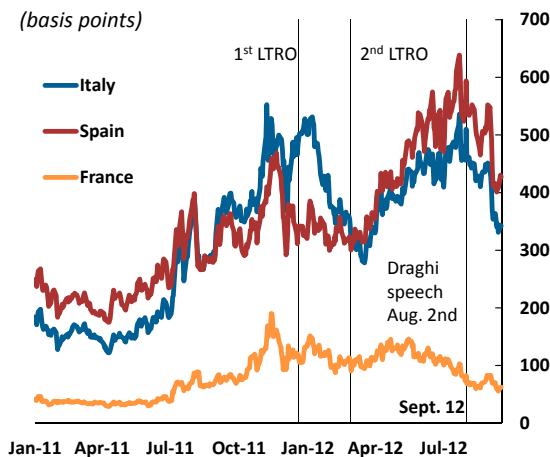
- Increasing strains in the euro area
- End of the emerging markets boom
- Large growth impact of fiscal adjustment amid tight financial conditions

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)

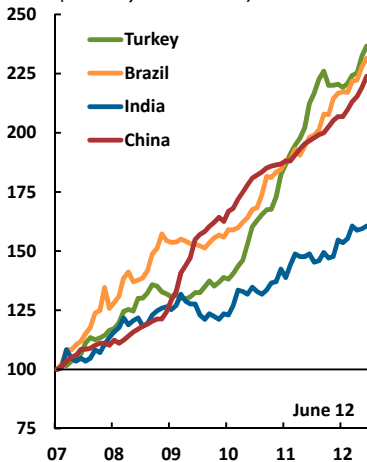


Sources: Haver Analytics; and IMF staff estimates.

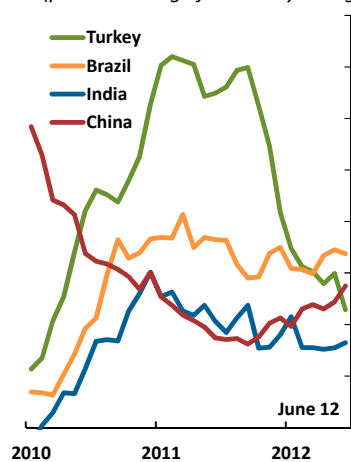
5

Emerging Markets: End of a boom?

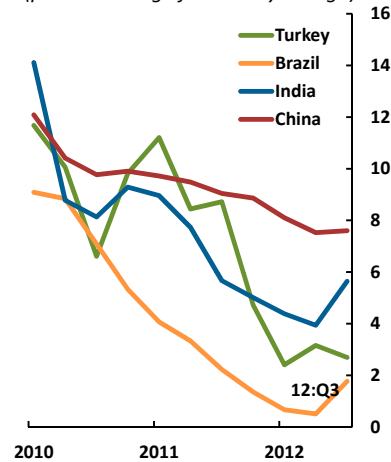
Real Credit Level
(January 2007 = 100)



Real Credit Growth
(percent change from one year ago)



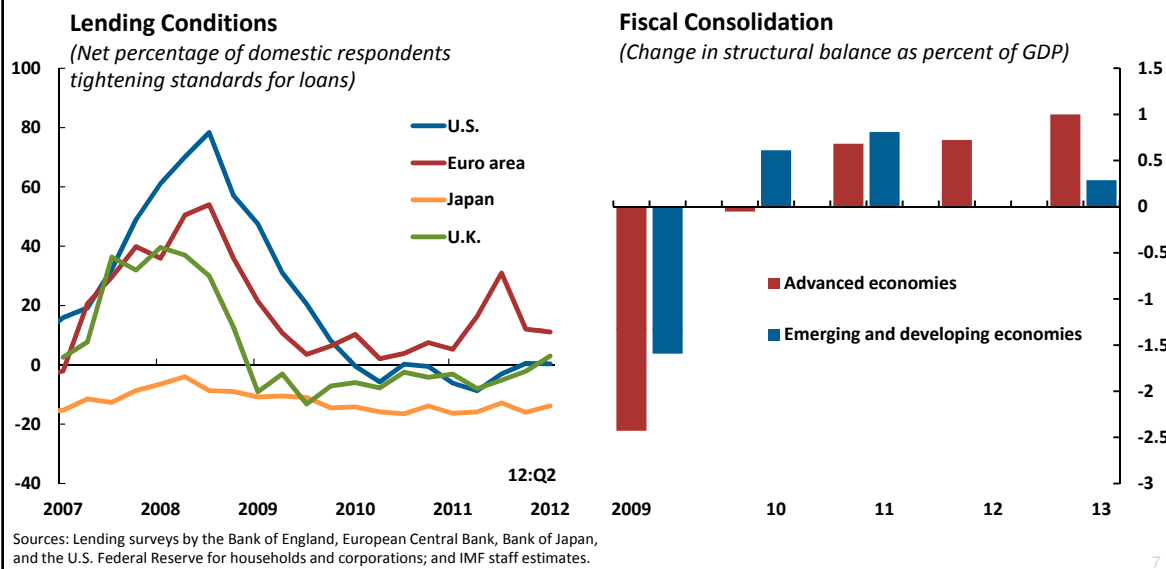
Real GDP Growth
(percent change from one year ago)



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

6

Tight financial conditions and fiscal policies in AE






Outlook: Weak and Uncertain

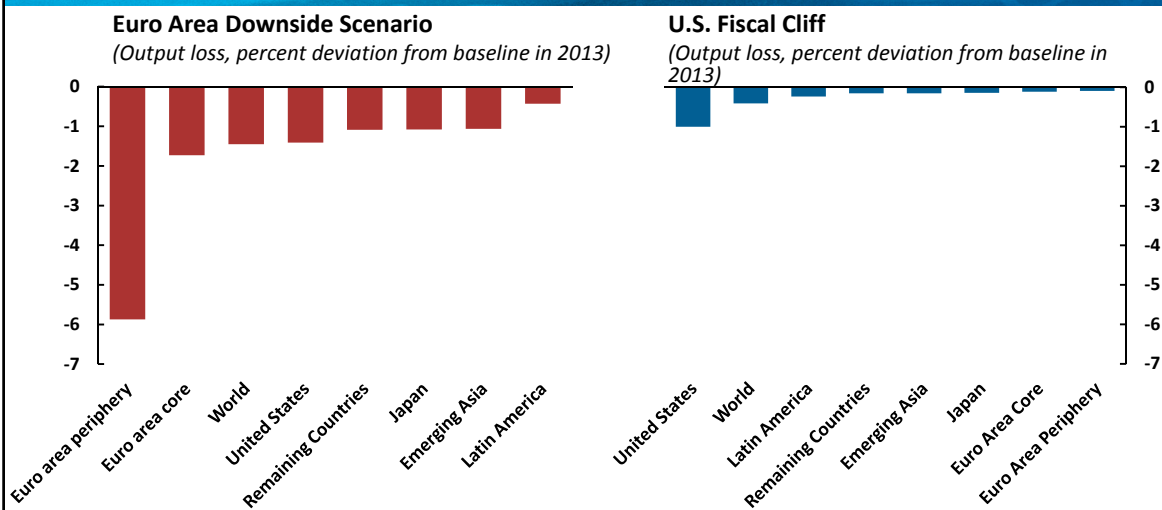
Key Assumptions	<ul style="list-style-type: none"> • Strong euro-area policies improve financial conditions in 2013H2 • US policymakers avoid fiscal cliff, raise debt ceiling
Outlook	<ul style="list-style-type: none"> • Recovery gradually strengthens • Downside risks are large

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
2012 (Jul. 2012 WEO Update)	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
2013 (Jul. 2012 WEO Update)	3.9	2.3	0.7	5.9	7.5	4.2	3.7	5.3
2013 (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

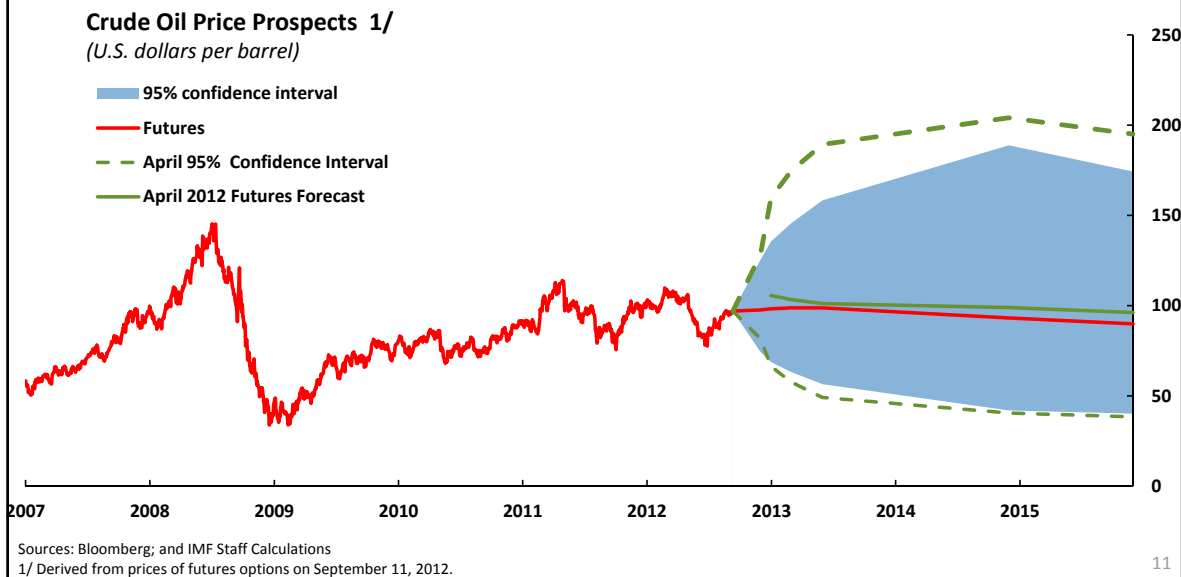


Source: IMF staff estimates

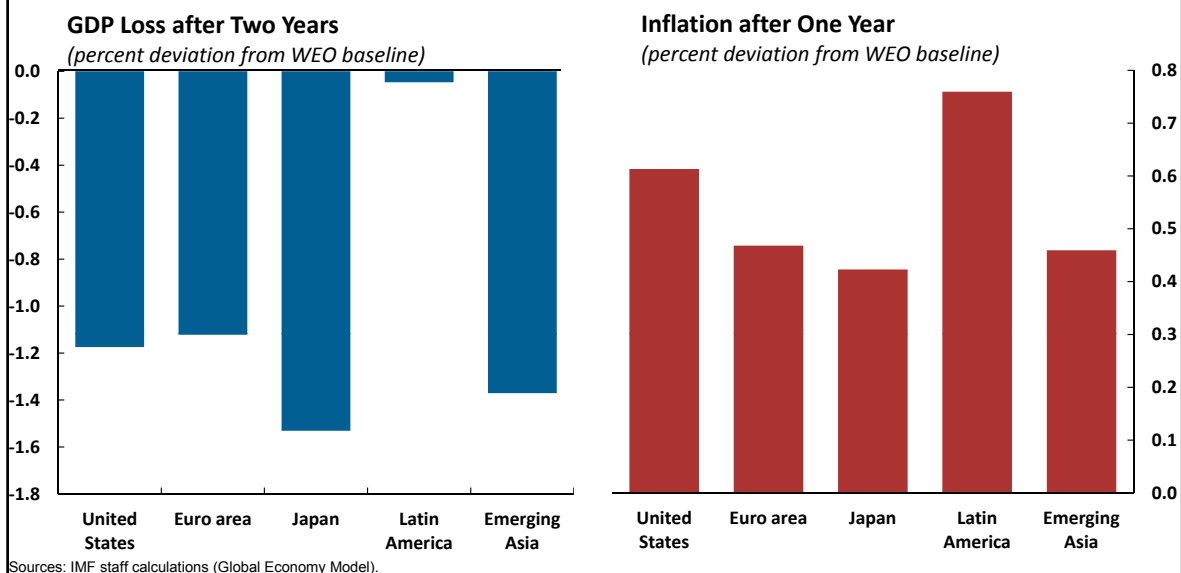
Note: This scenario assumes that sovereign and corporate spreads rise, credit contracts, and periphery governments are forced to front-load fiscal consolidation.

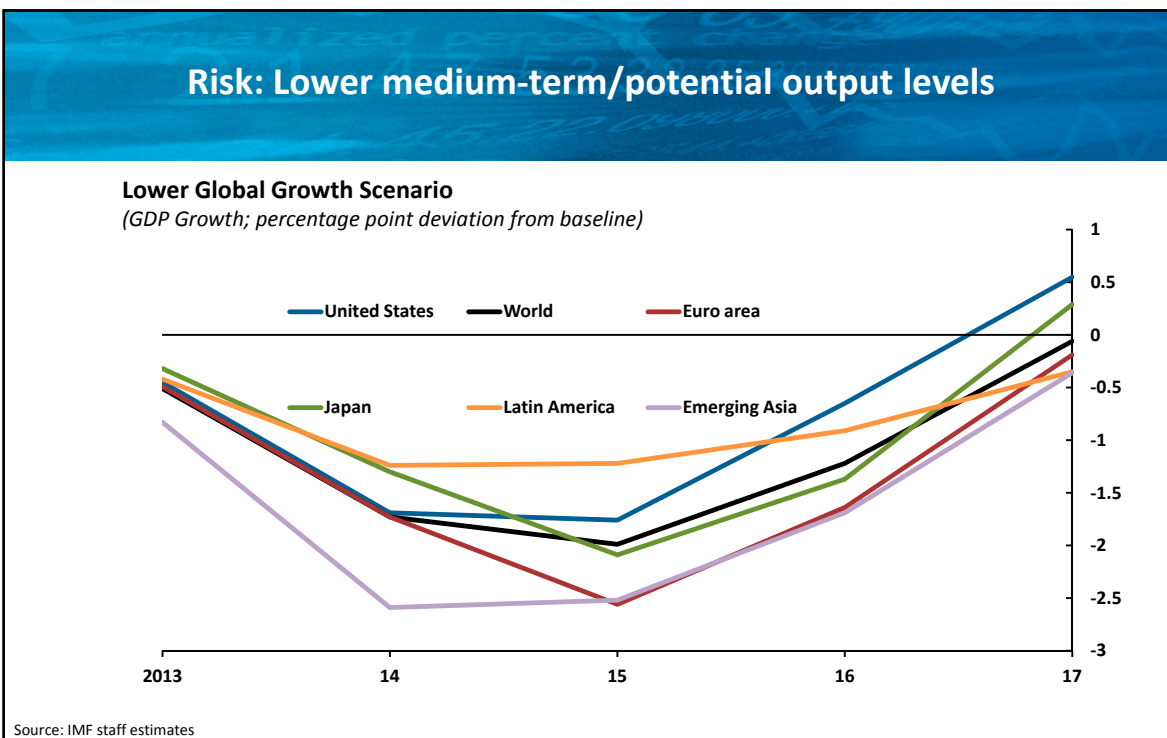
Note: Estimated output losses from fiscal consolidation, with confidence effects and without monetary adjustment.

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

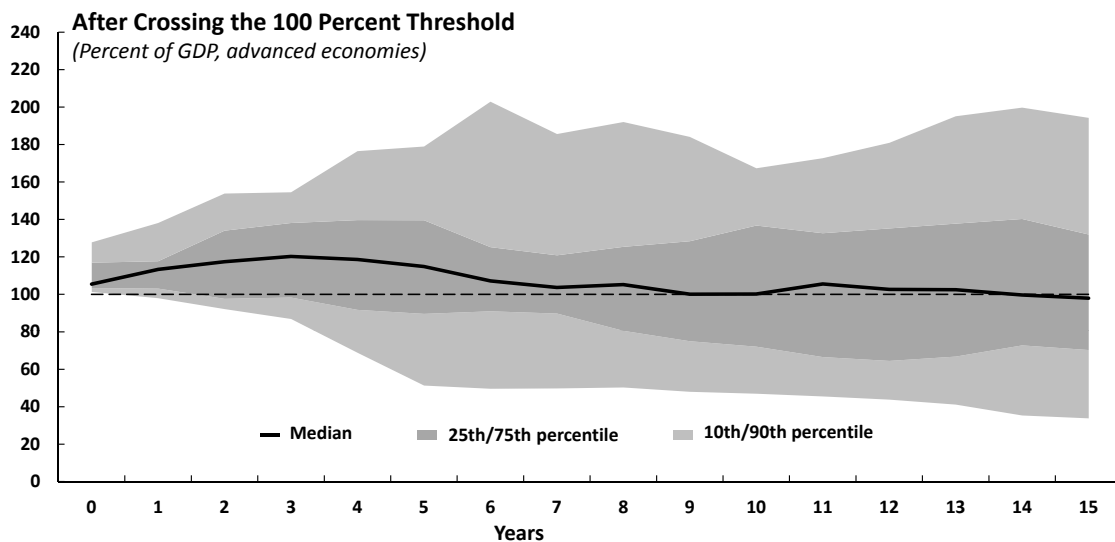
Restoring Confidence in the Euro Area

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

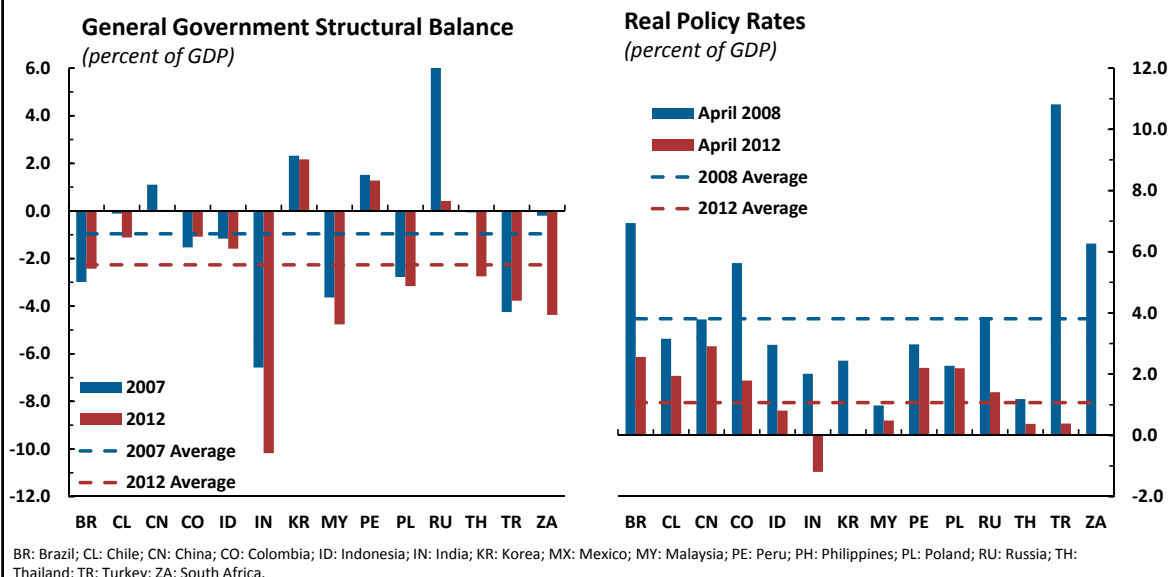
Advanced Economies: Managing fiscal consolidation

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

Reducing public debt is a marathon, not a sprint



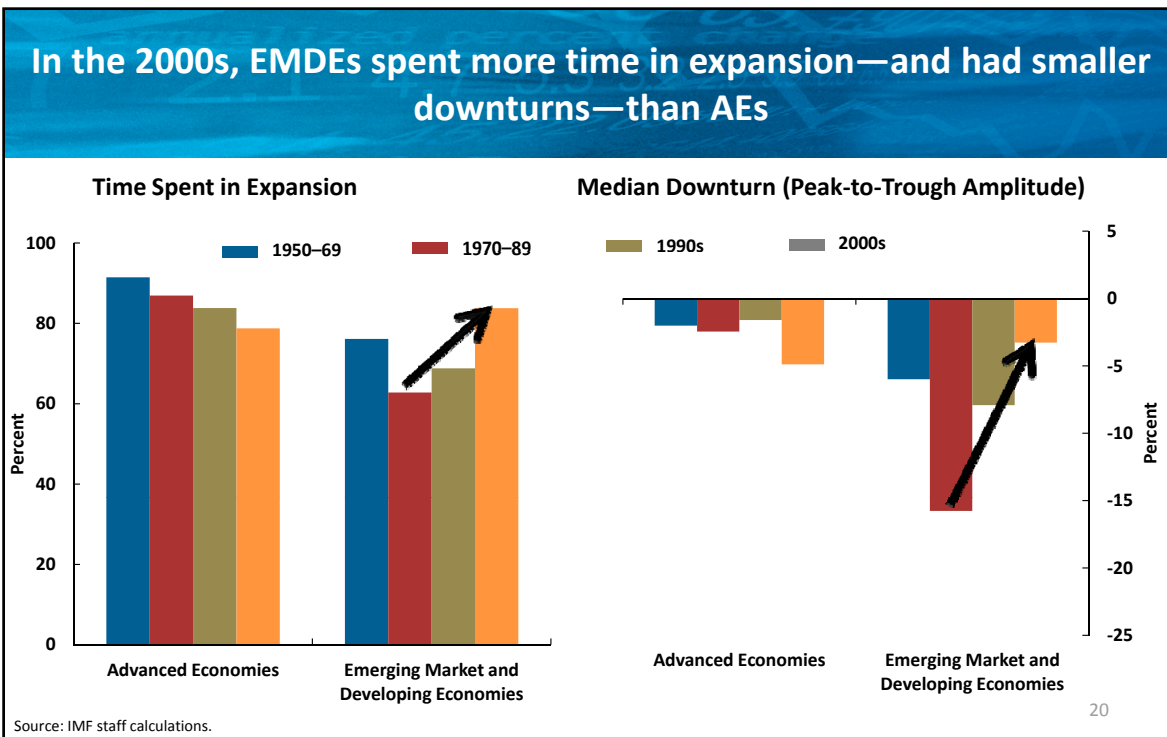
Many EMDEs need to rebuild fiscal and monetary policy space over the medium term



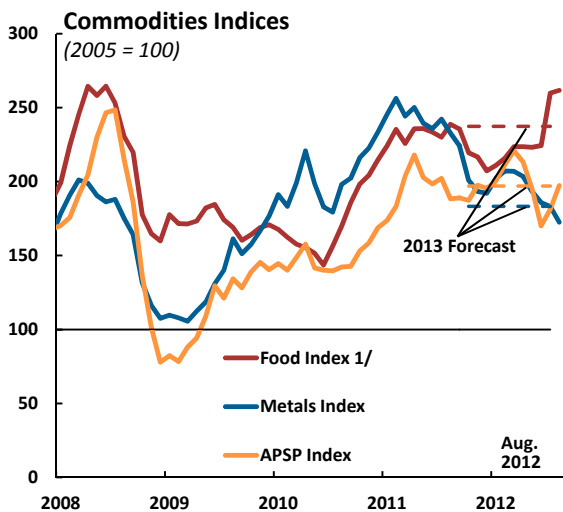
EMDEs: Complex setting—need to calibrate macro stance given potential for real and financial vulnerabilities

Baseline scenario	<ul style="list-style-type: none"> • Pause monetary policy tightening or modestly ease • Continue to rebuild fiscal position, especially India, Russia and Turkey
Downside risks	<ul style="list-style-type: none"> • 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)

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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