International Monetary Fund
March 7, 2013

State of the Global Economy

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Research Department
<table>
<thead>
<tr>
<th>Country</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.2</td>
<td>3.5</td>
<td>4.1</td>
</tr>
<tr>
<td>U.S.</td>
<td>2.3</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Euro area</td>
<td>-0.4</td>
<td>-0.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Japan</td>
<td>2.0</td>
<td>1.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.0</td>
<td>3.5</td>
<td>4.0</td>
</tr>
<tr>
<td>India</td>
<td>4.5</td>
<td>5.9</td>
<td>6.4</td>
</tr>
<tr>
<td>China</td>
<td>7.8</td>
<td>8.2</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook.
Looking Within the Euro Area  
*percent change*

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<th>Country</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>-6.0</td>
<td>-4.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Italy</td>
<td>-2.1</td>
<td>-1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.4</td>
<td>1.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>-3.0</td>
<td>-1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Spain</td>
<td>-1.4</td>
<td>-1.5</td>
<td>0.8</td>
</tr>
<tr>
<td>France</td>
<td>0.2</td>
<td>0.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Germany</td>
<td>0.9</td>
<td>0.6</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: IMF, *World Economic Outlook*. 
Slow Growth in Advanced Economies
Financial Crises Have Long Employment Tails

Employment during Financial Crises 1/
(percent change from pre-crisis peak; years from peak on x-axis)

Sources: SNL Financial; and IMF staff estimates.
1/ 1977 (Spain), 1991 (Finland, Norway, and Sweden), and 1997 (Japan).
A Warning from the Past: UK after World War I

Sources: Abbas and others (2010); Feinstein (1972); Mitchell (1998); and IMF, World Economic Outlook (Chapter 3).
One Accelerator

EM Slowdown

Three Brakes

Policies
Acceleraor: Monetary Policies

Central Bank Policy Rates
(basis points)

- Federal Reserve
- Bank of Japan

Central Bank Balance Sheet Expansion
(percentage of 2008 GDP)

- Fed QE1
- Fed QE2
- European Central Bank
- Bank of England
- Operation Twist
- LTRO 1
- LTRO 2

Sources: Bloomberg, L.P.; Haver Analytics; and IMF staff calculations.
Brake 1. Fiscal Consolidation: A Long Road

Change in Cyclically-Adjusted Primary Balances
(percentage points of potential GDP)

Source: October 2012 Fiscal Monitor, and IMF staff estimates.

Note: Total required adjustment to reduce the gross debt ratio to 60 percent by 2030 (net debt target of 80 percent for Japan). After 2020, primary balance constant until 2030. Assumed real interest rate–growth gap is based on the WEO forecast up to 2018 and is 1 percent after thereafter.
Large Multipliers

Europe: Growth Forecast Error vs. Fiscal Consolidation Forecast 1/

Growth Forecast Error = -0.7 Fiscal Consolidation Forecast + \lambda_t; R^2 = 0.41

Source: IMF staff calculations.

1/ On vertical axis, figure reports cumulative growth of real GDP during t, t+1, in percent, minus forecast made in spring of t. On horizontal axis, figure reports forecast of the cumulative change in the structural fiscal balance in t, t+1 in percentage points of potential GDP, made in spring of t. Regression includes time–fixed effects (\lambda_t), standard errors corrected for MA(1) serial correlation.
Bank Lending Conditions

(Net percentage of respondents tightening loan standards)

Sources: Lending surveys by the Bank of England, European Central Bank, and the U.S. Federal Reserve for households and corporates; and IMF staff estimates.
Lending Rates

Euro Area Official and Bank Corporate Lending Rates
(percent; three-month moving average)

Sources: Haver Analytics; and IMF staff calculations.
Brake 3. Uncertainty?

**Euro Area**
(index: January 2008 = 1)

- Lehman
- Greek IMF program request, rating cuts
- Papandreou call for referendum

**United States**
(index: January 2008 = 1)

- Policy Uncertainty
- Implied Volatility 1/

Sources: Bloomberg, L.P.; Economic Policy Uncertainty; and IMF staff calculations.

1/ VIX for the United States and VSTOXX for the euro area.
The EM Slowdown: Spillovers from AEs and More

Note: Unexpected growth denotes real GDP growth in 2012 (October 2012 WEO) minus the forecast (September 2011 WEO). Unexpected AE partner growth denotes export-weighted average of growth of advanced-economy trading partners in 2012 minus the forecast for the same period, multiplied by the economy’s 2011 share of exports in real GDP. Each data point indicates an economy in the WEO group of EMDEs.

Sources: IMF, World Economic Outlook; and IMF staff calculations.
Capital Flows to EMs

Net Equity and Bond Flows
(billions of U.S. dollars; weekly flows)

Equity
Bond

Source: EPFR.

ECB
announcement
Fed
announcement
BoJ
announcement

2/20/13
Risks
Vicious Cycles

Lower growth

Fiscal consolidation

Weaker banks

Automatic stabilizers held back

Lower fiscal balance Lower bank asset quality

Doubts Rollover risks

Higher implicit guarantees

Perceived sovereign risks

Doubts Rollover risks

Less bank lending

Perceived sovereign risks increase

Lower growth
Accelerator: Accommodative monetary policy; manage risks from low rates.

Brake 1. Continue medium term, credible, fiscal consolidation. Structural targets.

Brake 2. Continue to repair the financial system.


Emerging Market and Developing Economies

Be ready.... Lame, but circumstances vary, both domestically and externally.
Policies: Dealing with Vicious Cycles

- Weaker banks
- Fiscal consolidation
- Weaker banks

Lower growth

Lower fiscal balance
Lower bank asset quality

Less bank lending

Fiscal union
Direct bank recap

Higher implicit guarantees
Perceived sovereign risks

OMT
ESM

Doubts Rollover risks

Doubts Rollover risks

Shift to structural targets
Automatic stabilizers held back

Rollover risks
Rollover risks

OMT
ESM

LTRO