

The World Economic Outlook and its Impact on CAREC Countries

Ana Lucía Coronel
Middle East and Central Asia Department

International Monetary Fund

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Outline

- **World Economic Outlook**

Key messages

Risks

- **Outlook for CAREC countries**

Main messages

China

Other CAREC countries

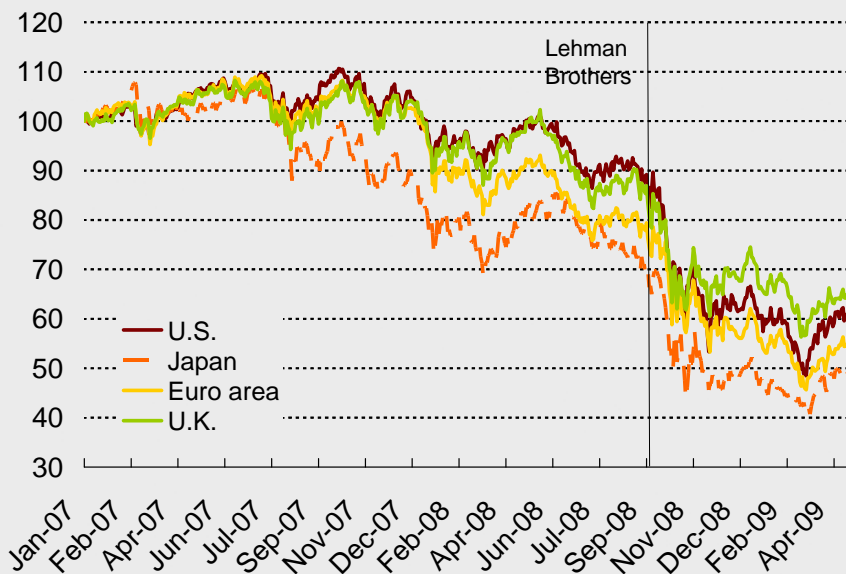
World Economic Outlook: Key Messages

- Financial markets remain highly stressed. Total write-downs on global assets are estimated at \$4 trillion.
- The world economy will contract in 2009 by around 1¼ percent before recovering gradually in 2010. Deepest post WWII recession.
- Emerging economies face dramatic drops in capital inflows, demand for their exports, and remittances.
- A third wave of the global crisis is hitting the world's poorest.
- Turning around global growth calls for concerted policy actions to stabilize financial conditions and bolster demand.

Recent data show contraction may be moderating.

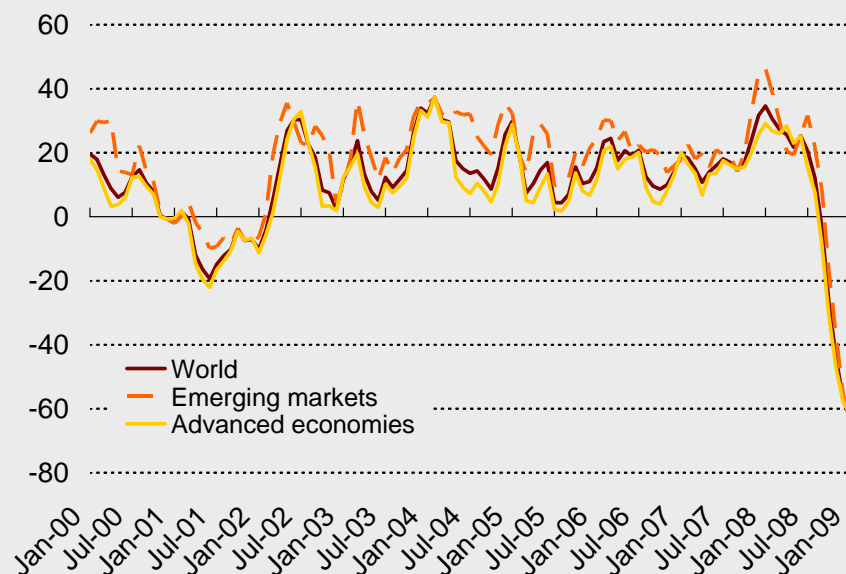
Equities

(1/1/2007=100; FTSE)



Merchandise Exports

(Annualized percent change) 1/

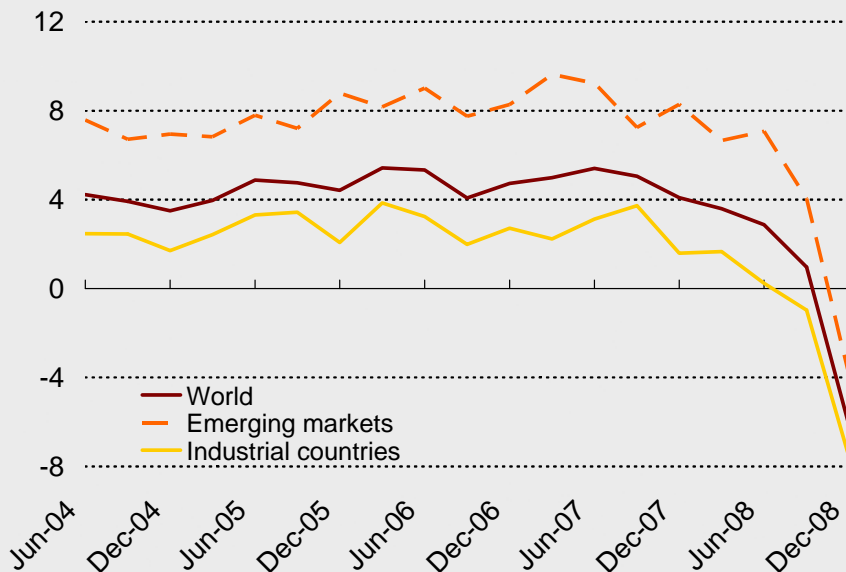


1/ Three-month moving average.

Across the globe, GDP is falling and unemployment is rising.

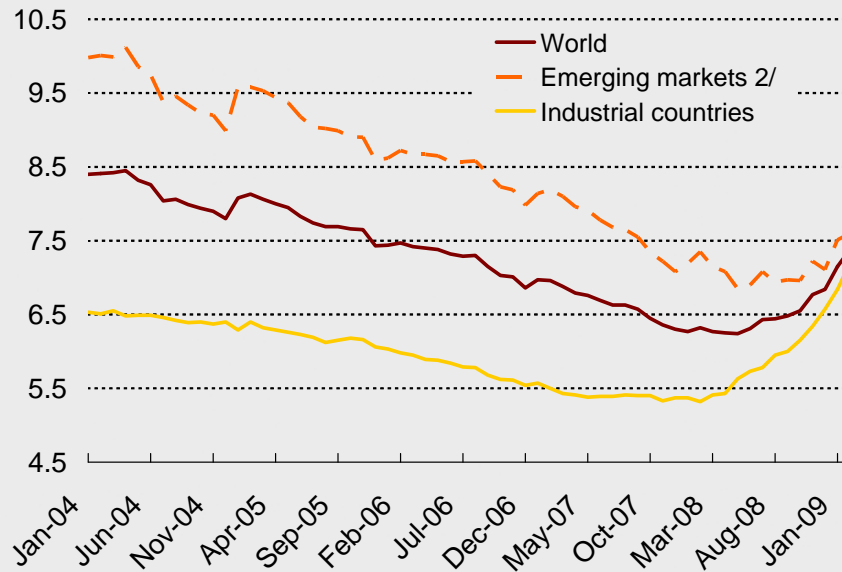
Real GDP Growth

(In percent; quarter on quarter annualized)



Unemployment Rate 1/

(In percent)



1/ Aggregated using total labor force as weights.

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

The global economy is set to decline in 2009 and recover only gradually in 2010.



Real GDP Growth (In percent)

| | 2009 | 2010 |
|--|-------------|------------|
| World | -1.3 | 1.9 |
| Advanced Economies | -3.8 | 0.0 |
| United States | -2.8 | 0.0 |
| Euro Area | -4.2 | -0.4 |
| Japan | -6.2 | 0.8 |
| Emerging and Developing Economies | 1.6 | 4.0 |
| China | 6.5 | 7.5 |
| India | 4.5 | 5.6 |
| Russia | -6.0 | 0.5 |

There are downside risks to the world economic outlook.

- Further delays in implementing policies to stabilize financial conditions.
- Deflation risks could reinforce a deeper and longer downturn.
- Rising threat of corporate defaults in emerging economies.
- Risks of trade and financial protectionism.
- Sovereign fiscal sustainability concerns.
- **But, there is upside potential, hinging on bold implementation of policies.**

CAREC Countries

-  Oil and gas exporters
-  Oil and gas importers

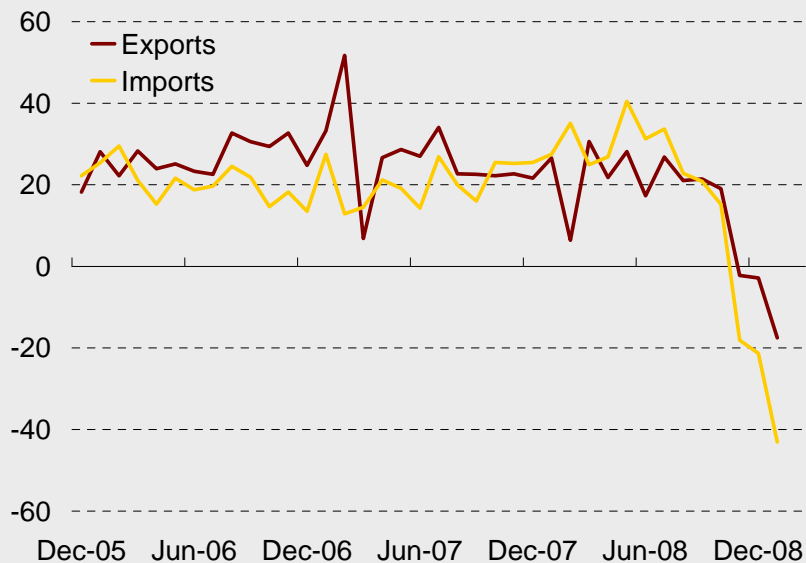


CAREC Economic Outlook: Key Messages

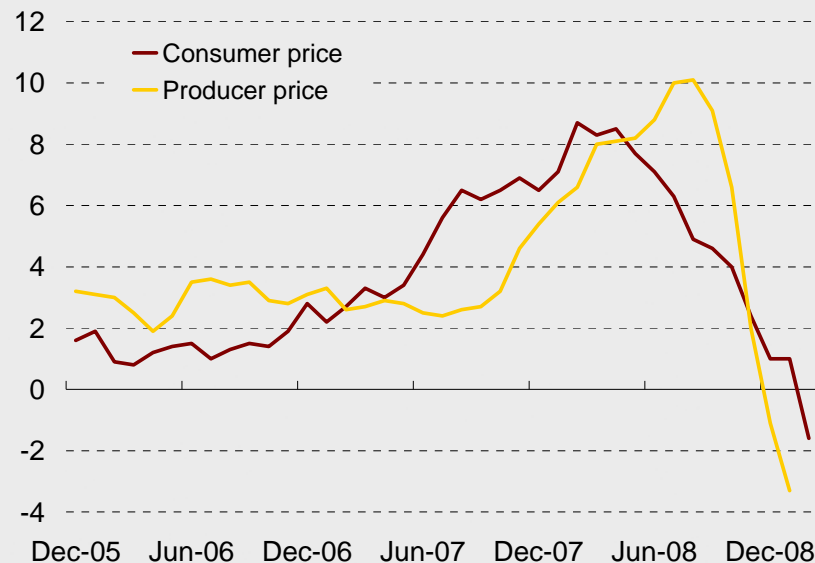
- The region is being hit by external shocks.
 - Contraction in world economy, especially Russia
 - Declining commodity prices
 - Drying-up of capital inflows
- Current account positions have weakened.
- Fiscal balances are worsening, and public debt is rising.
- Growth will drop sharply in 2009 and recover gradually in 2010.
- Inflation is falling.
- China

China has been hit hard by the global downturn...

China: External Trade
(Year-on-year growth, in percent)

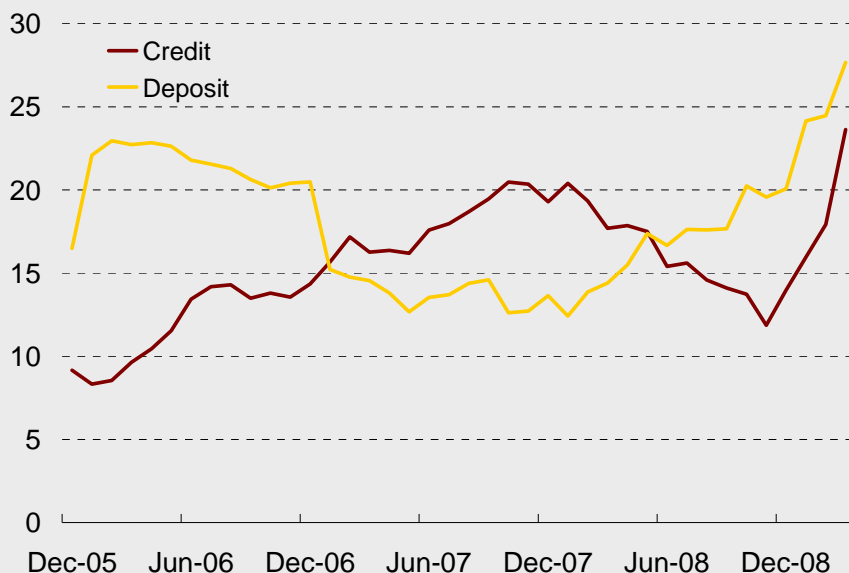


China: Inflation
(In percent)

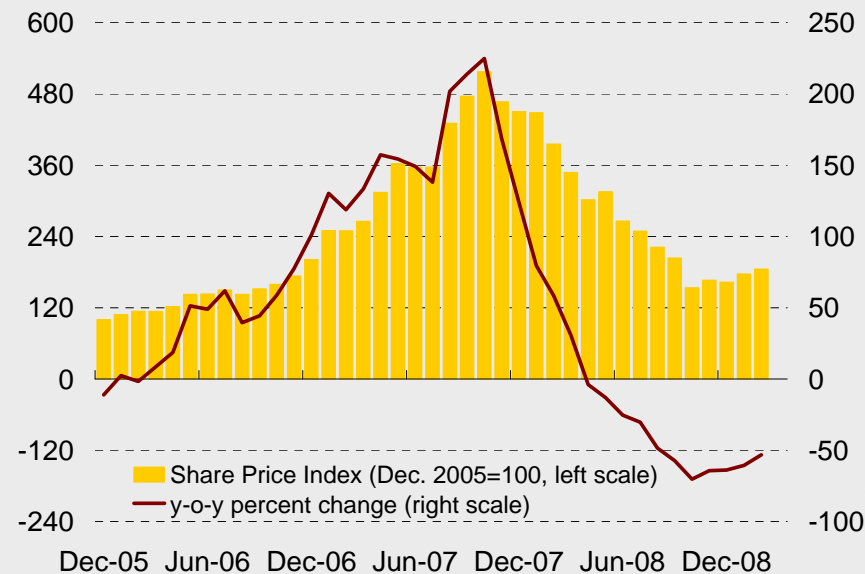


...but there are indications of a turnaround.

China: Credit and Deposit Growth
(In percent)

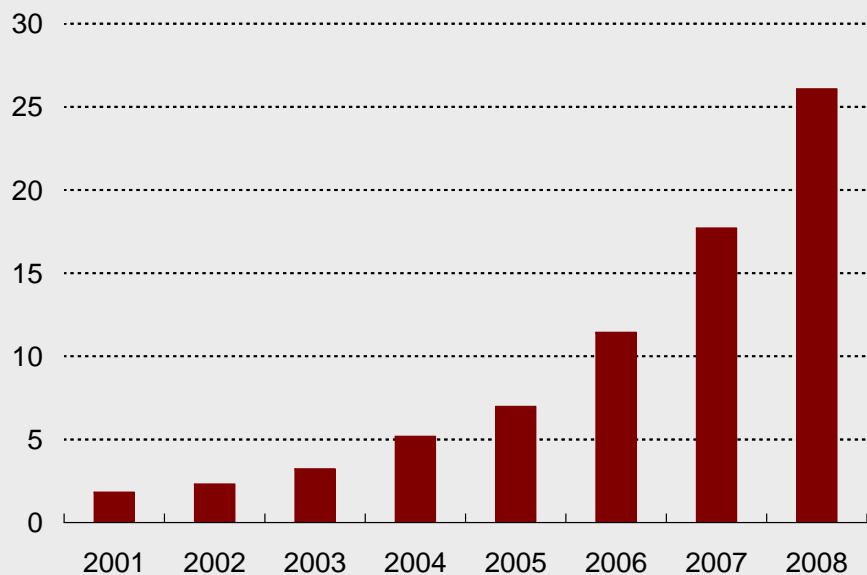


China: Equity Market Developments

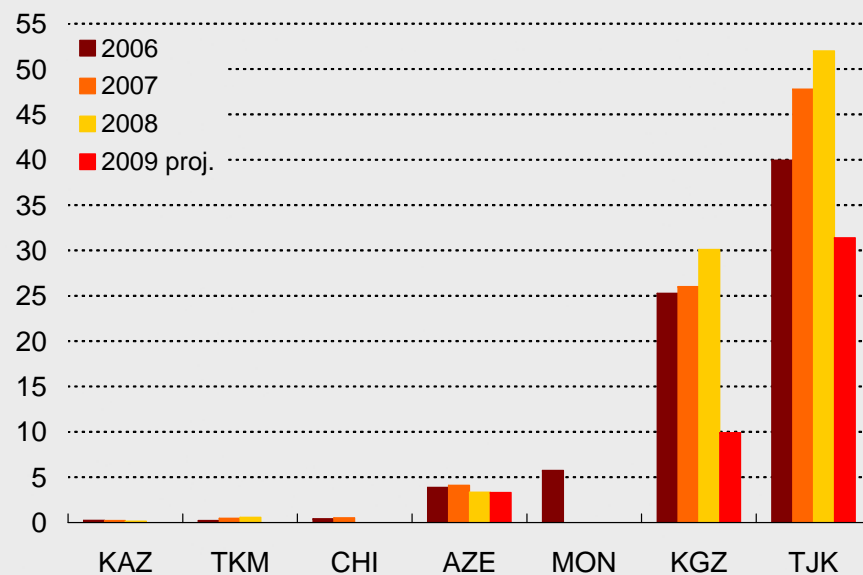


Remittances from Russia are large, but are falling in 2009.

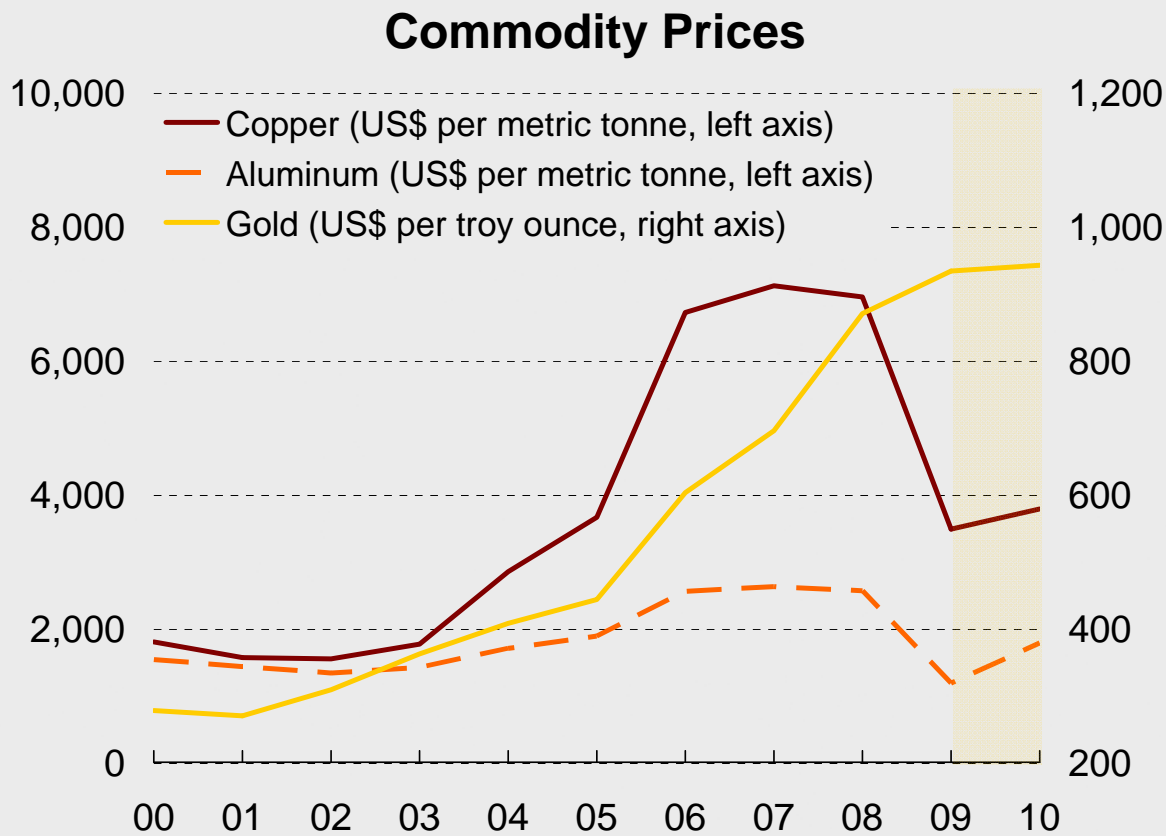
Remittances Outflow from Russia
(In billions of U.S. dollars)



Remittances Inflow
(In percent of GDP)

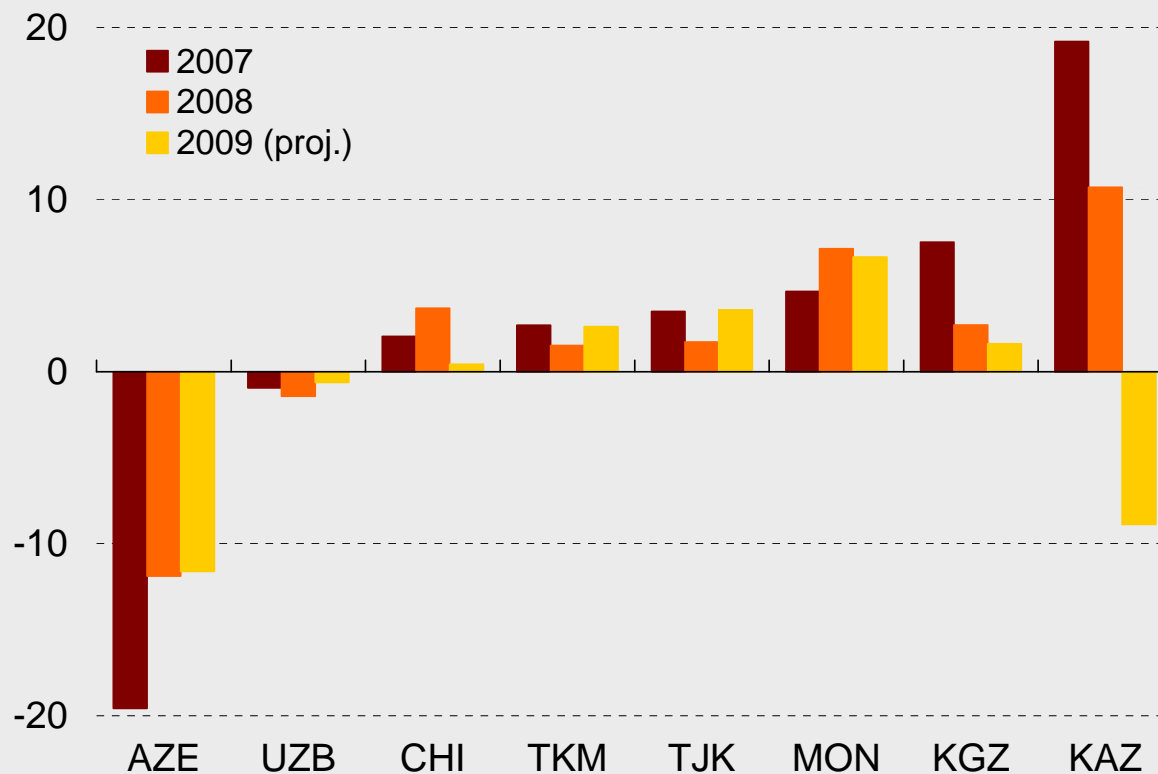


Commodity prices have dropped.



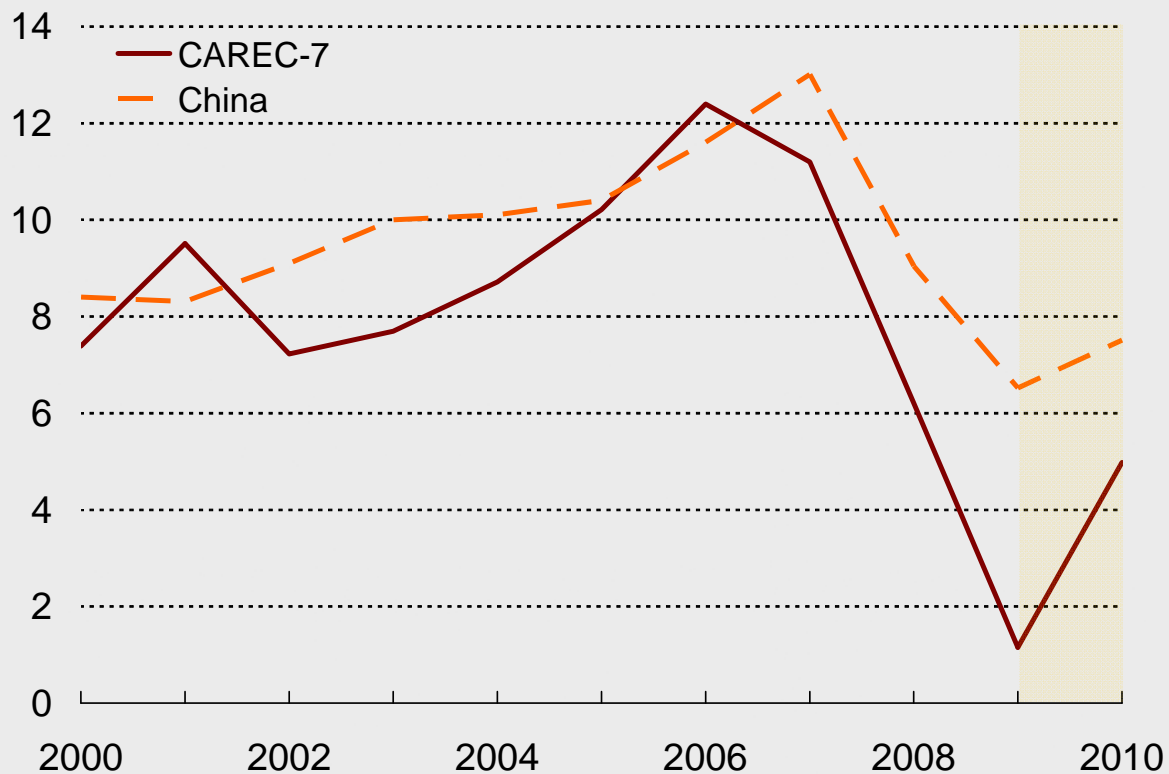
Capital inflows are drying up.

Private Capital Flows, Net
(In percent of GDP)

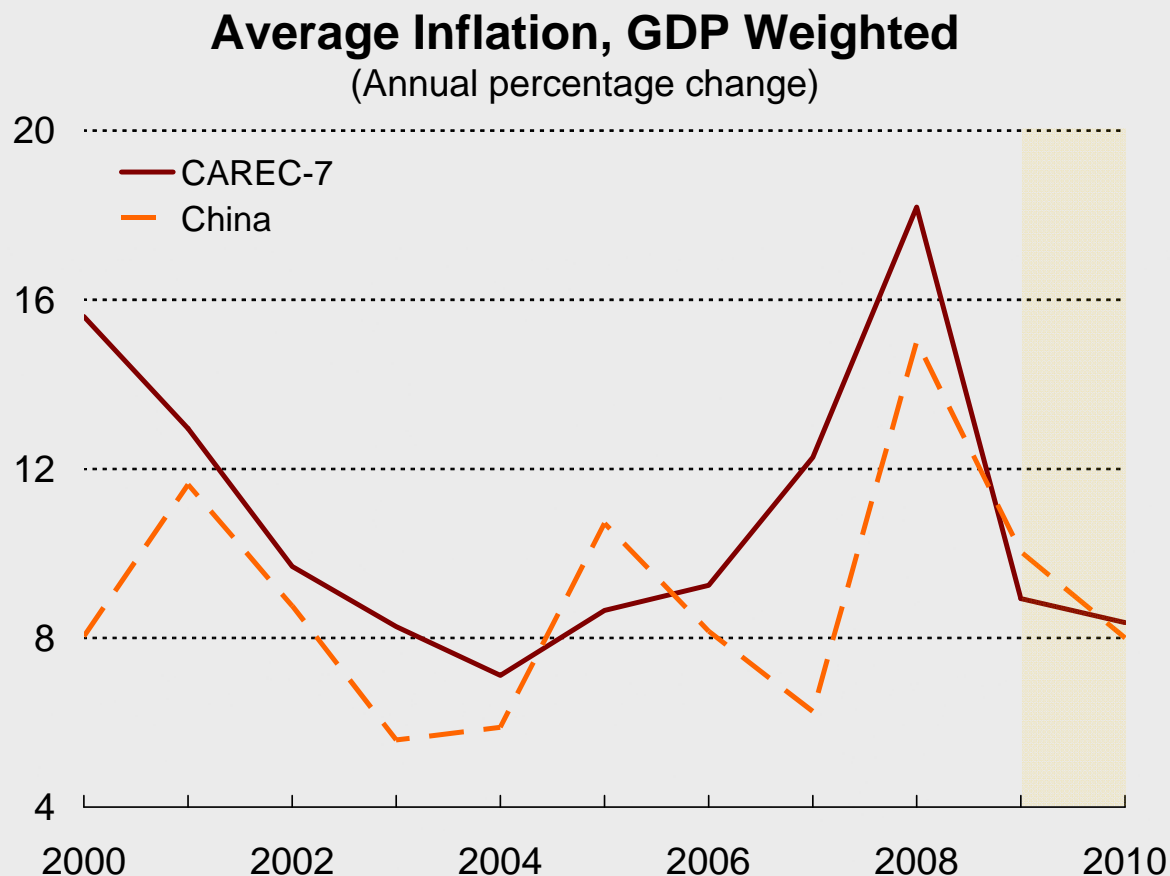


Growth in the region is slowing sharply . . .

Real GDP Growth
(In percent)

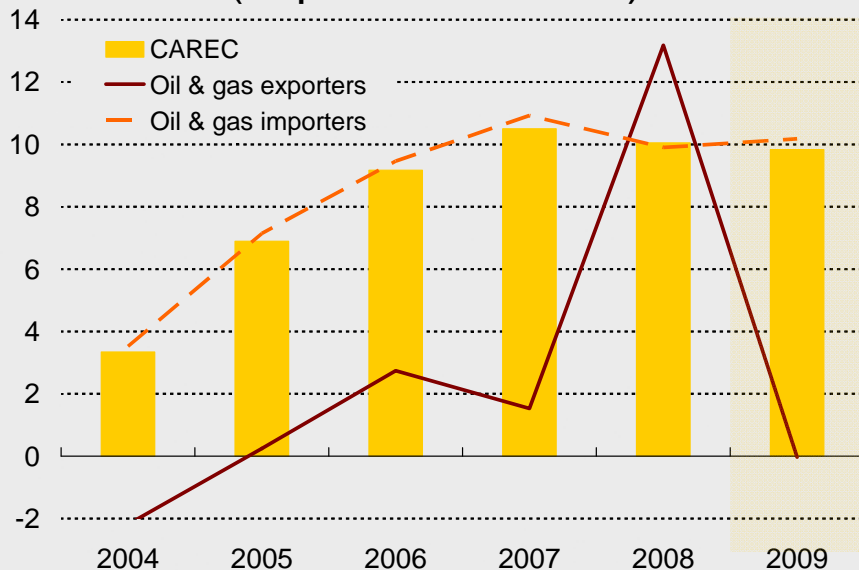


Inflationary pressures are subsiding, but food prices remain high.

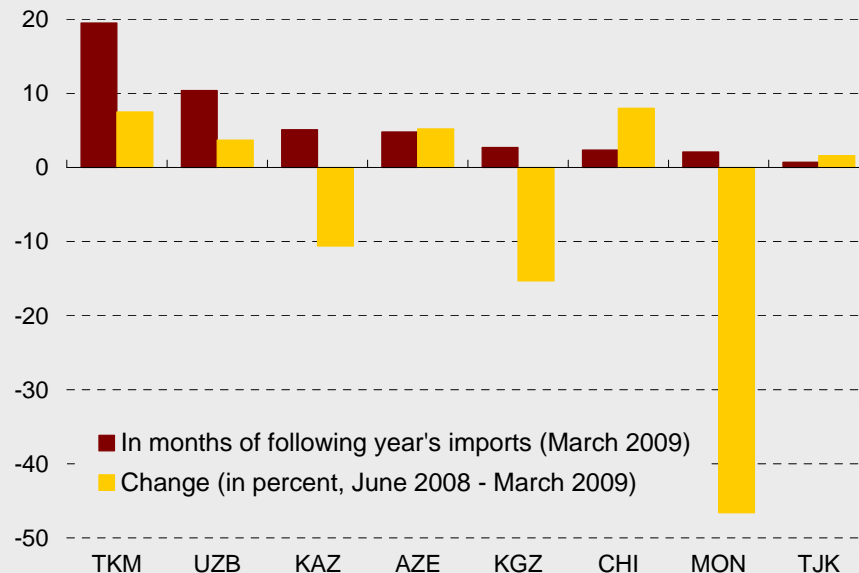


Current account positions have weakened.

Current Account Balance
(In percent of GDP)

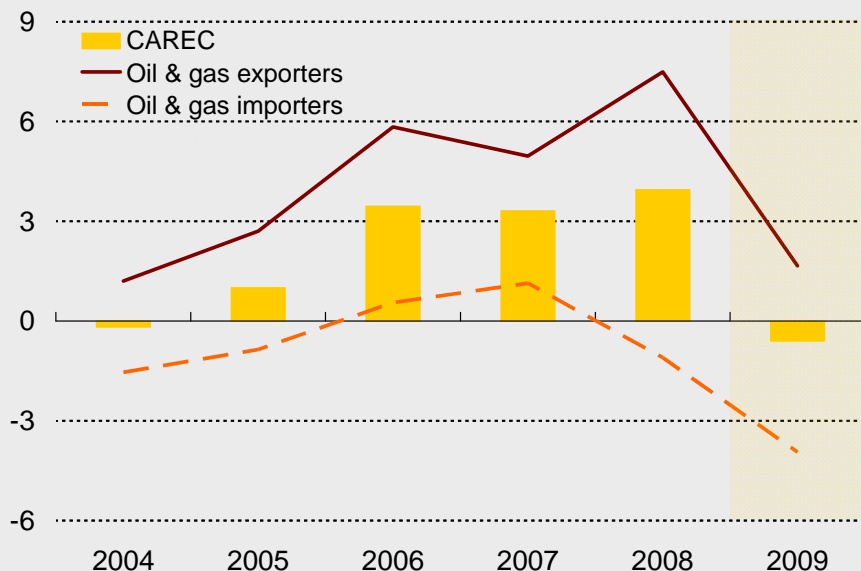


Gross International Reserves

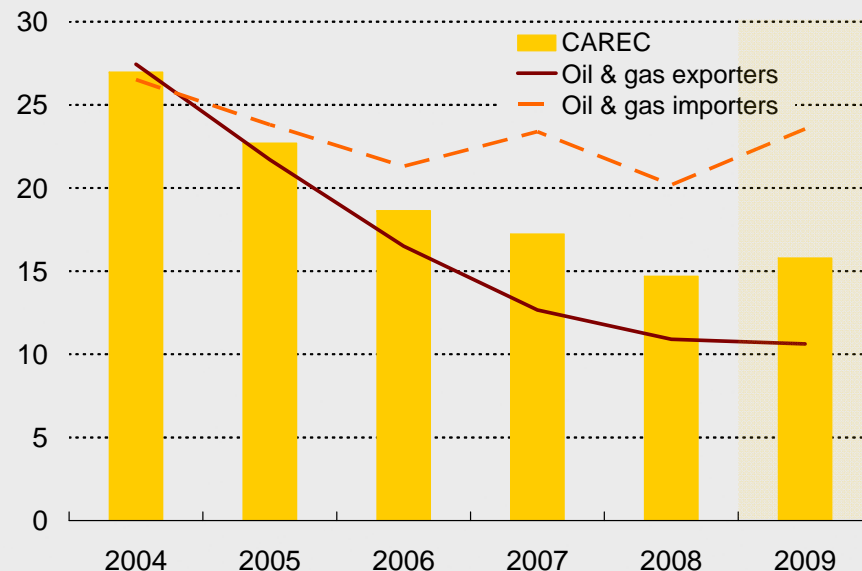


Fiscal balances are worsening, and public debt is low, but rising again.

Fiscal Balance
(In percent of GDP)



Government Debt 1/
(In percent of GDP)



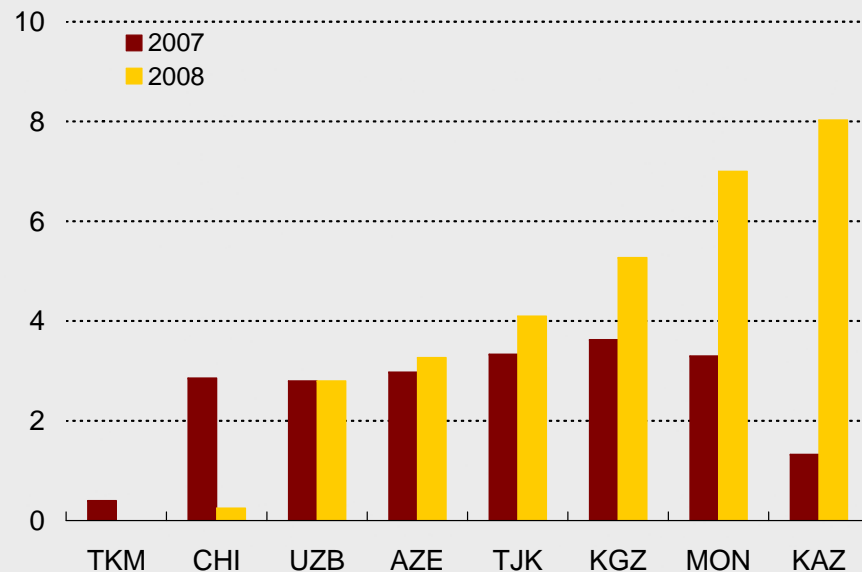
1/ Excludes Afghanistan.

Credit growth is slowing down, and nonperforming loans are rising.

Credit Growth 1/
(In percent, annual growth)



Nonperforming Loans
(In percent of total loans)



1/ Excludes Afghanistan, China, and Mongolia.

Measures Taken Thus Far

| Country | Fiscal stimulus | Exchange rate depreciation | Monetary easing | Liquidity support | Increased provisioning | Capital injections | Deposit guarantees |
|-----------------|-----------------|----------------------------|-----------------|-------------------|------------------------|--------------------|--------------------|
| Azerbaijan | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| China | ✓ | | ✓ | | | | |
| Kazakhstan | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | Enhanced |
| Kyrgyz Republic | ✓ | ✓ | | | | | ✓ |
| Mongolia | | ✓ | | ✓ | | | ✓ |
| Tajikistan | ✓ | ✓ | ✓ | ✓ | | | |
| Turkmenistan | | | | | | | |
| Uzbekistan | ✓ | ✓ | | | | ✓ | ✓ |

Risks to the Outlook

- **Prolonged global recession and stress in global financial markets**
- **Rising external debt and rollover risks**
- **Further exchange rate pressures**
- **Credit constraints and rising nonperforming loans**

Policy Priorities

- Ensure external stability.
- Identify and deal with financial sector risks early on.
- Exploit opportunities for fiscal stimulus.
- Prepare contingency plans to deal with potential crisis.