

Recent Global Developments and Post-Crisis Challenges in CAREC Countries

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Outline

- **Recent Global Developments**
- **CAREC: Economic Situation and Outlook**
- **Policy Challenges**



Recent Global Developments



The global economy is growing again, driven by emerging and developing economies

Real GDP growth (annual percentage change)

	2008	2009	2010 January WEO
World	3.0	-0.6	3.9
Advanced economies	0.5	-3.1	2.1
United States	0.4	-2.4	2.7
Euro area	0.6	-4.0	1.0
Japan	-1.2	-5.0	1.7
Emerging and developing economies	6.1	2.3	6.0
China	9.6	8.7	10.0
India	7.3	5.6	7.7
Russia	5.6	-7.9	3.6

Source: World Economic Outlook, IMF.



Global developments and prospects

- Global recovery is evolving better than expected
- Recovery is proceeding at different speeds across the various regions
- Activity still dependent on accommodative macroeconomic policies
- Financial conditions are easing but far from normal
- Cross-border financial flows have picked up
- Inflation pressures generally subdued
- Multispeed recovery will continue in 2010-11



Policy challenges: sustaining recovery and preparing for exit

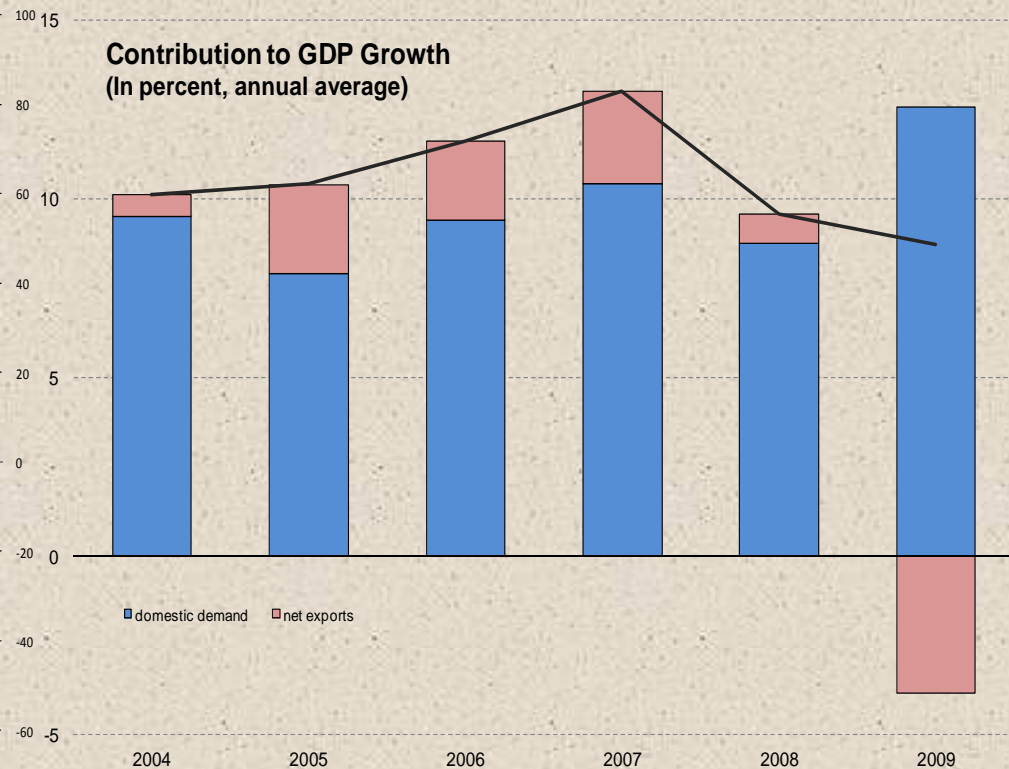
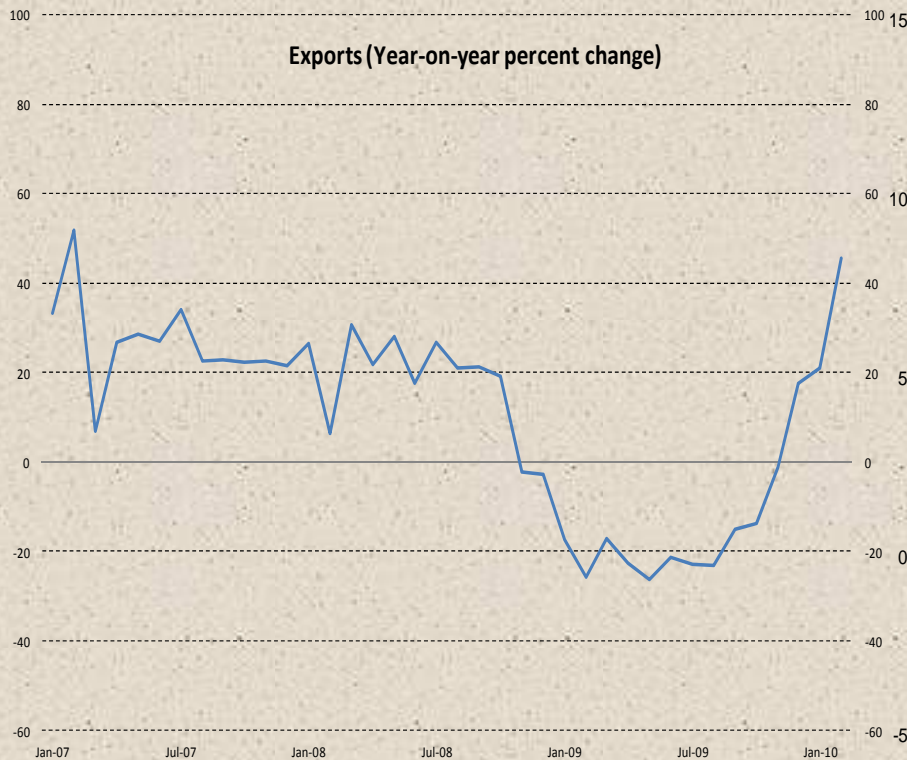
- Policy support was essential to lay the foundation for recovery
- Policy tightening should await signs of economic recovery
 - Monetary policy can generally remain accommodative for now
 - In some countries, fiscal consolidation is a top priority because of the high level of public debt
- More progress is needed with financial sector repair and reform
- High unemployment poses major social problems in many countries



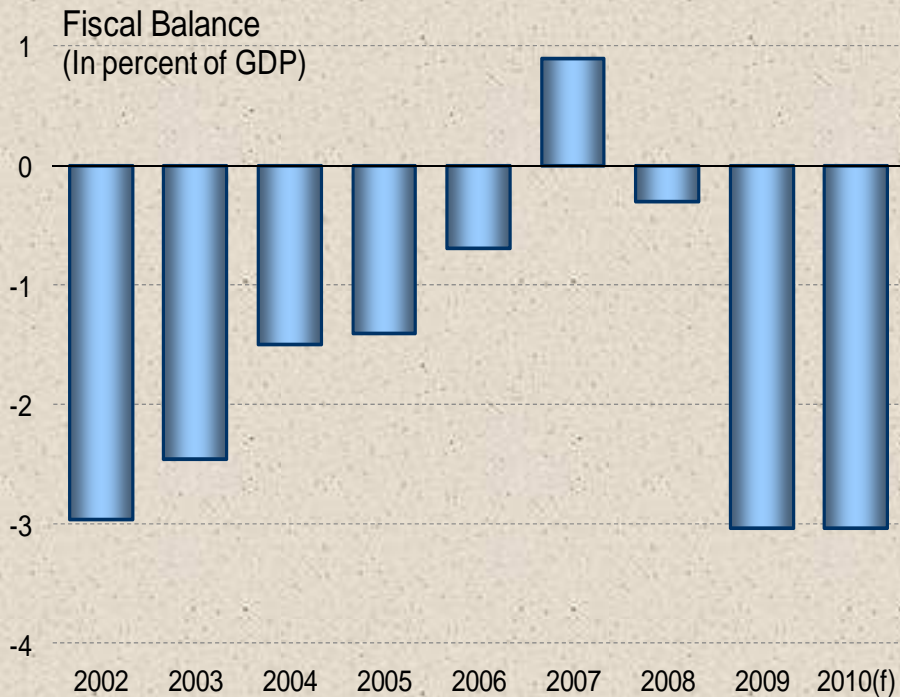
CAREC Countries: Economic Situation and Outlook



China has weathered the global economic crisis well...



...thanks to a substantial proactive policy response



CAREC 7 Overview: Impact of the Crisis

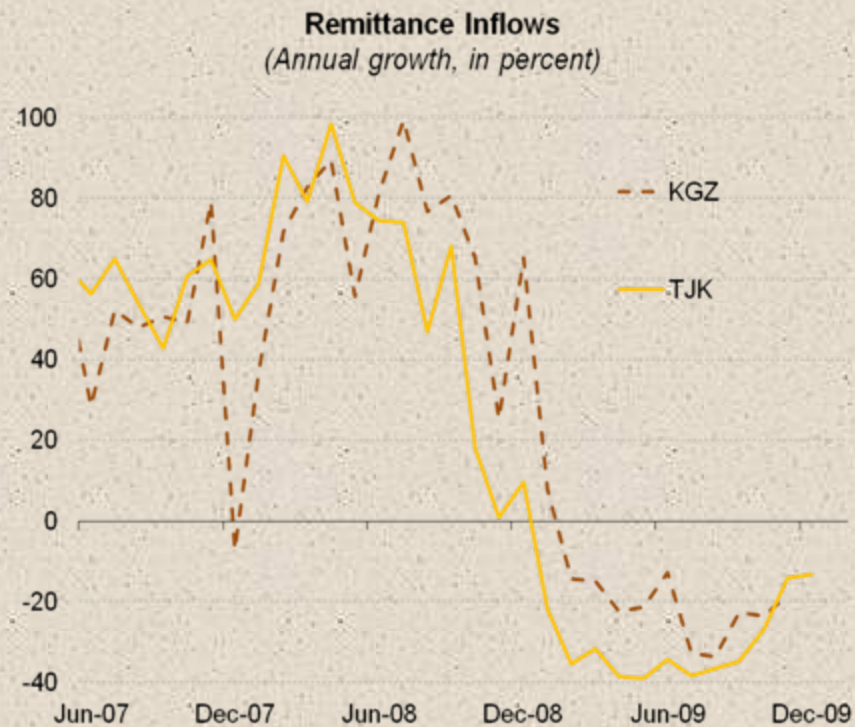
- Large external shocks hit the region in 2008/9
- Their impact on growth was substantial, even though cushioned by the policy response
- For 2010, a recovery is projected as the global economy picks up speed



External Shock 1: Remittances declined



Source: Central Bank of Russia.

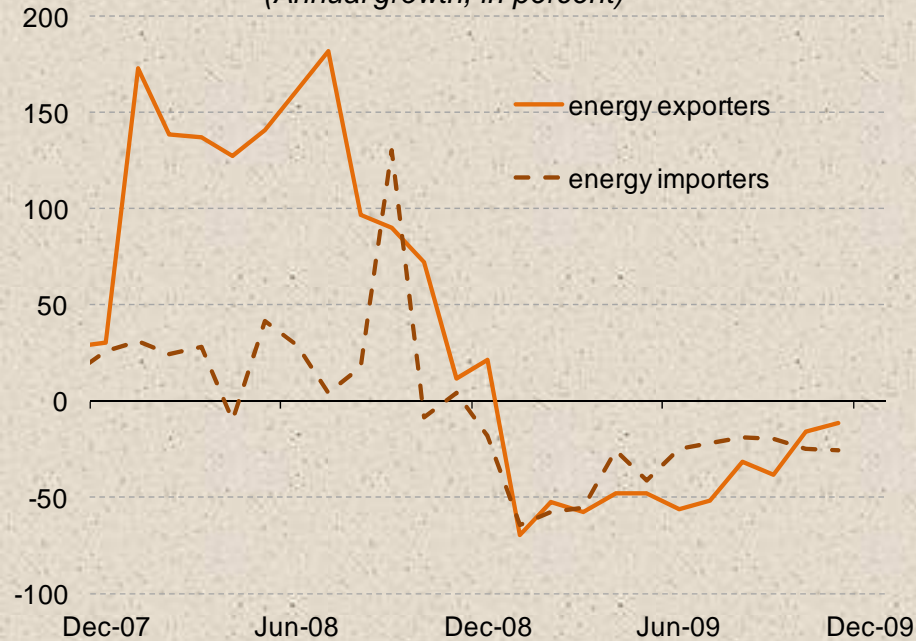


Source: National authorities.

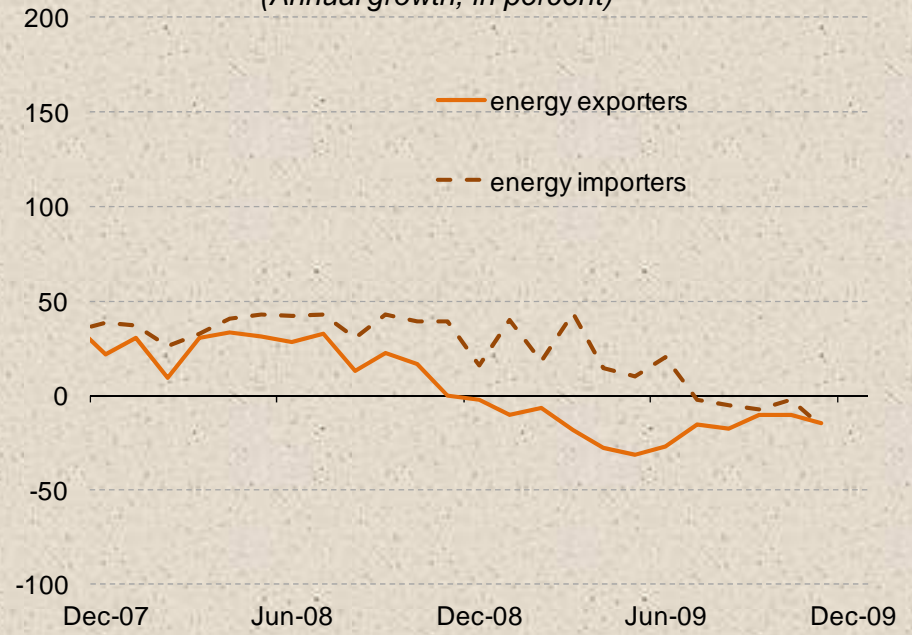


External Shock 2: Trade contracted sharply

Exports of Goods in U.S. Dollars
(Annual growth, in percent)



Imports of Goods in U.S. Dollars
(Annual growth, in percent)

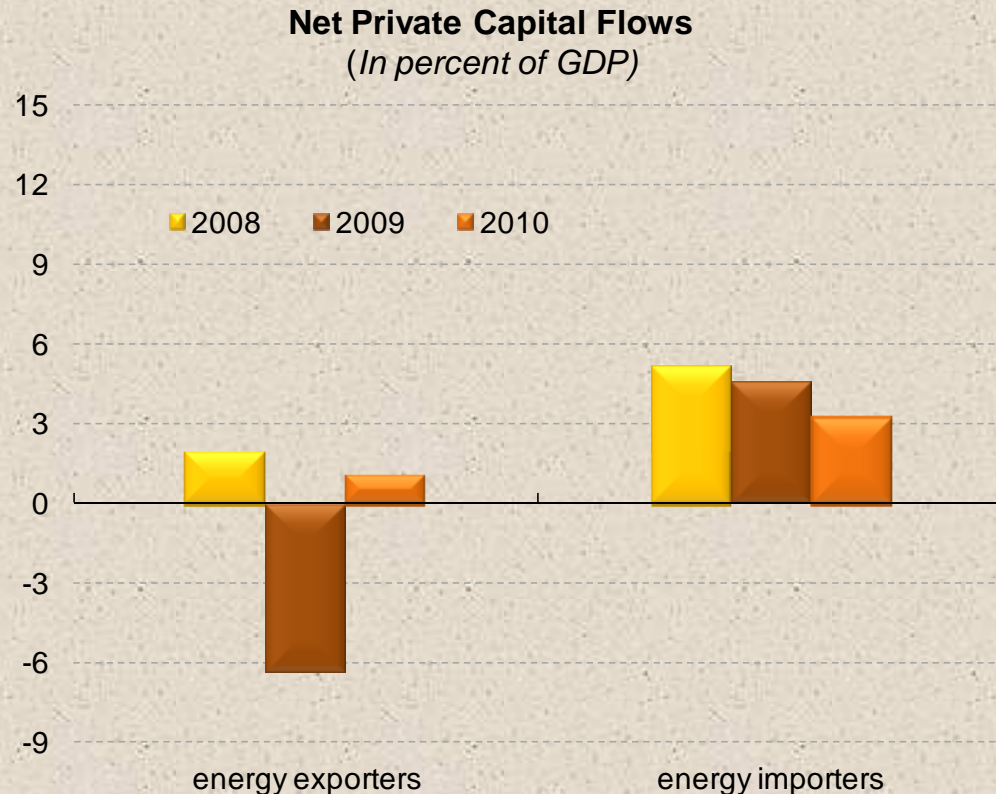


Source: International Financial Statistics, IMF.

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External Shock 3: Private capital inflows generally slowed or reversed

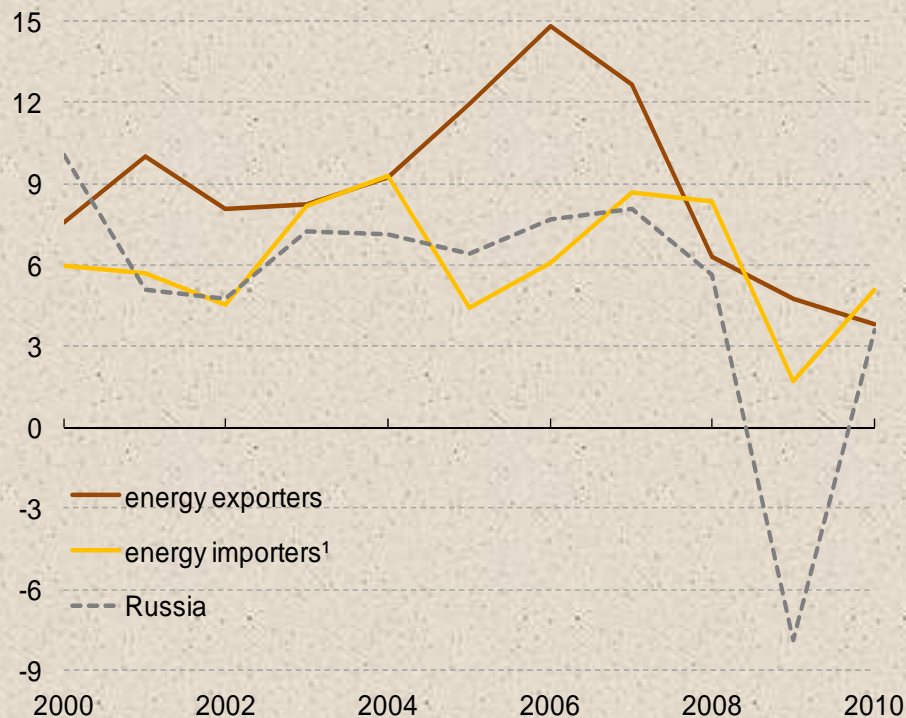


Source: National authorities; and staff projections.



Despite policy response, growth impact was substantial

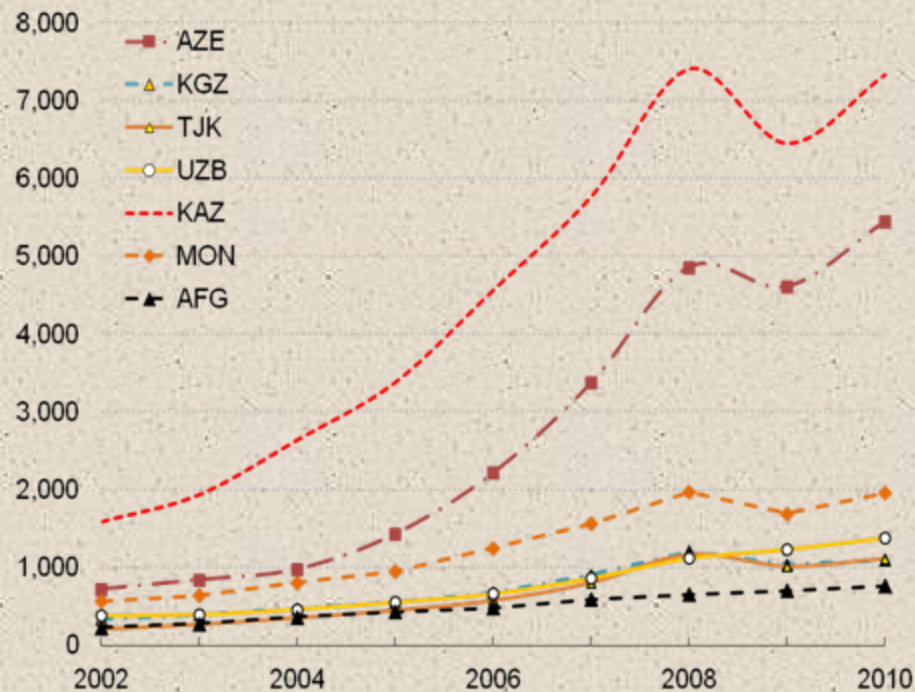
Real GDP Growth
(in percent)



Source: IMF, WEO database; national authorities, and staff projections.

¹Excludes Afghanistan.

Gross National Disposable Income Per Capita'
(In U.S. dollars)



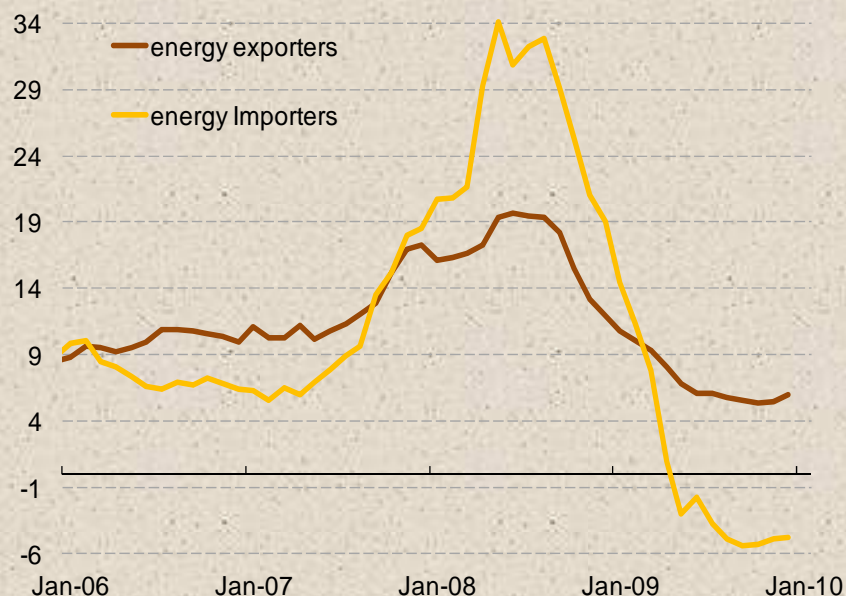
Source: National authorities; and staff projections.

¹ GNDI is defined as GDP + non-factor income + transfers



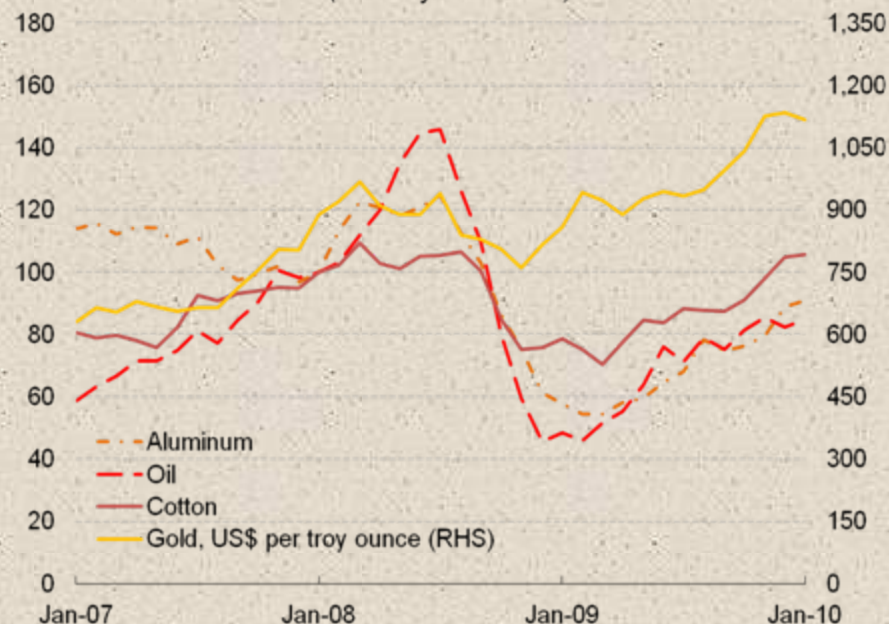
Inflation is down, while commodity prices are recovering

Consumer Price Index
(Period average; annual growth, in percent)



Source: IMF, WEO database; and national authorities.

Commodity Price Indices
(January 2008=100)



Source: IMF, WEO database; and national authorities.



Growth projected to recover, particularly in energy importing countries

Real GDP growth
(annual percentage change)

	2008	2009	Projection 2010
China	9.0	8.5	9.0
Energy Exporters	6.3	4.8	3.8
Azerbaijan	10.8	9.3	2.7
Kazakhstan	3.2	1.2	2.4
Uzbekistan	9.0	8.1	8.0
Energy Importers	5.3	7.5	6.2
Kyrgyz Republic	3.2	1.2	2.4
Tajikistan	7.9	3.4	4.0
Mongolia	8.9	-1.6	7.3
Afghanistan	3.4	15.7	8.6

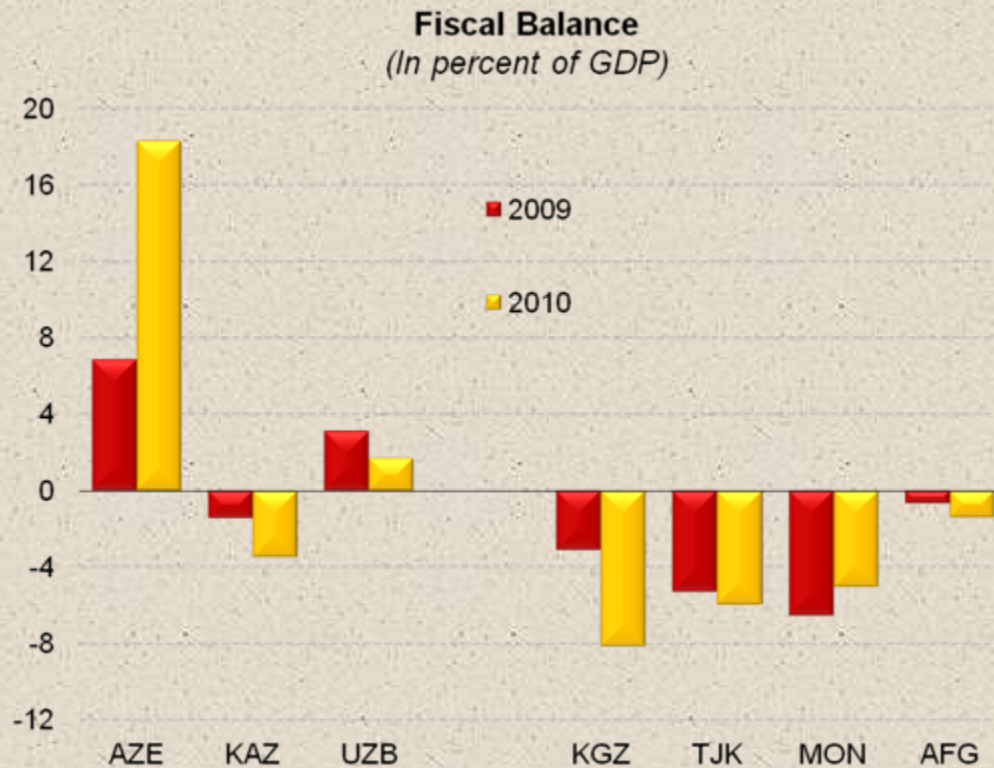
Source: World Economic Outlook, IMF.



Policy Challenges



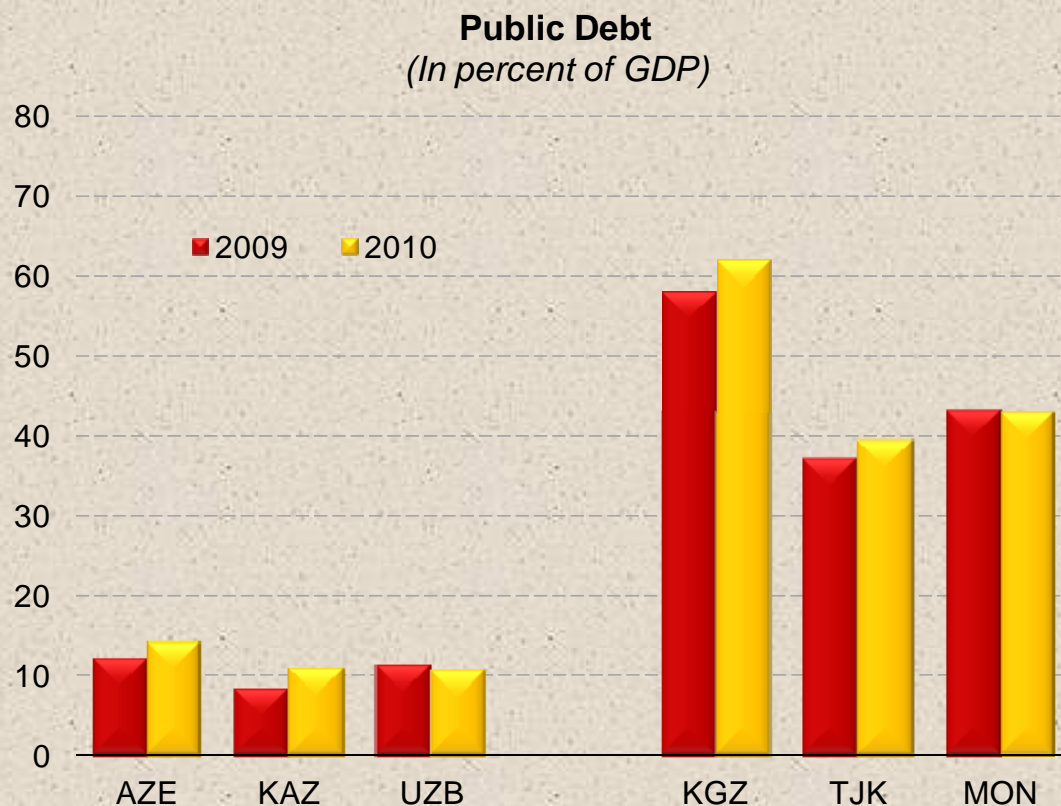
Fiscal deficits of energy importers remain large



Source: National authorities; and staff projections.



Rising public debt is limiting room for further fiscal stimulus

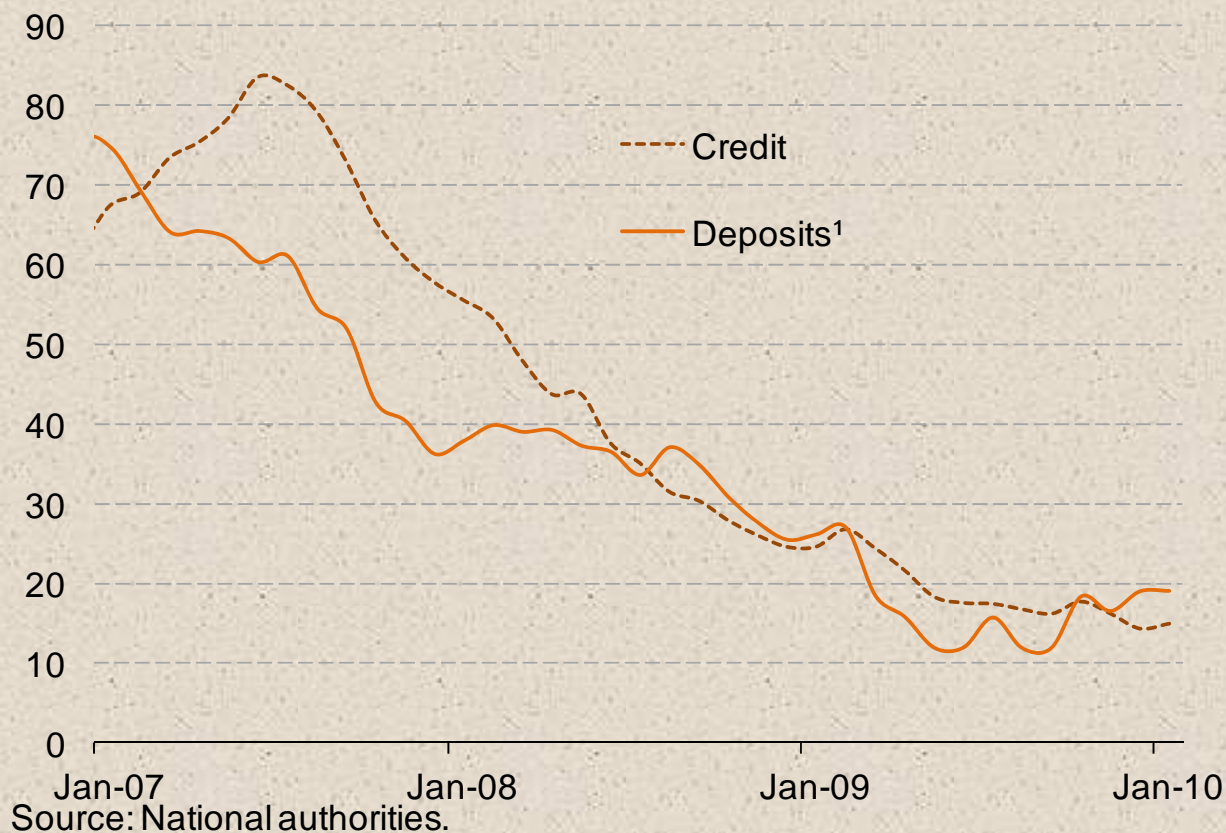


Source: National authorities; and staff projections.



Financial sectors remain under stress...

Credit To Private Sector and Deposits
(PPP GDP weighted; annual percentage change)

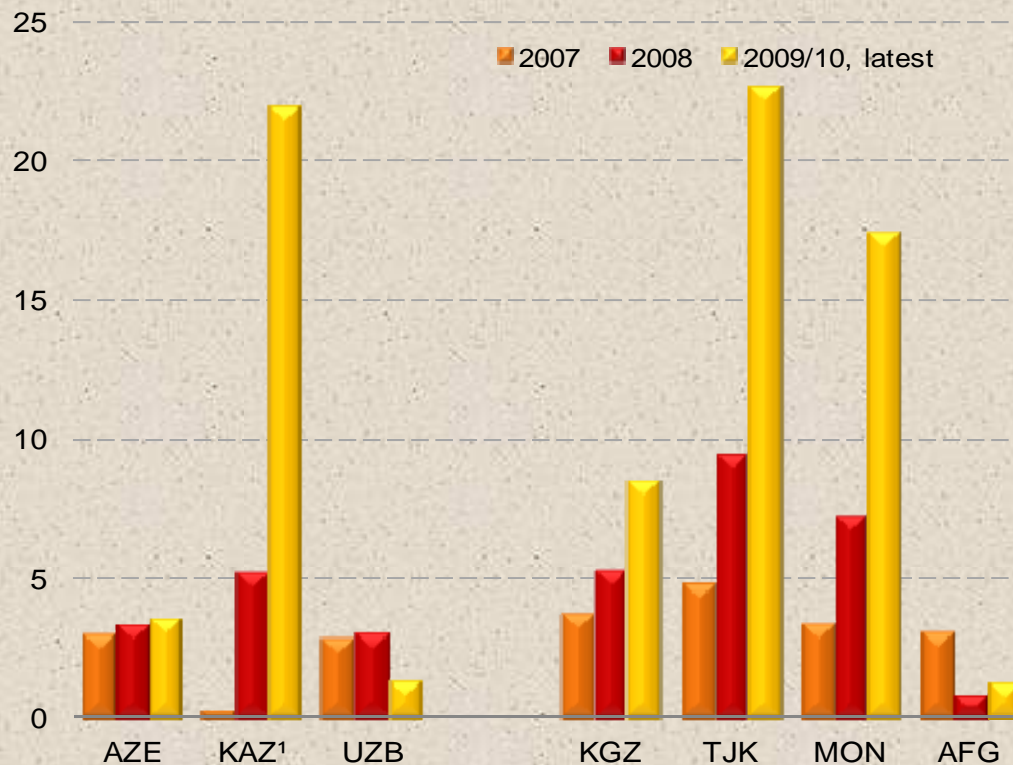


¹ Excludes Uzbekistan



...with NPLs rising sharply

Nonperforming Loans
(In percent of total loans)



Source: National authorities.

¹ On a 90-day basis.



Policy priorities

- Continued policy support appropriate until recovery clearly established
- Exit strategies depend on specific country circumstances: extent of fiscal space, and pace of growth and inflationary pressures
- Where fiscal policy is constrained by rising debt, additional concessional donor support would help
- Financial sector stress weighs on the outlook in some countries—repairing bank balance sheets is higher priority than reviving credit
- Over the medium term, energy exporters should focus on diversification and employment, while energy importers will need to rein in large external deficits

