

Impact of the Global Financial Crisis on CAREC Countries

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Outline

- **World Economic Outlook**
- **Impact on CAREC Countries**
- **Policy Challenges and Messages**



The global economy is beginning to grow again, but recovery is likely to be sluggish

Real GDP Growth (Percentage change)

	2009	2010
World	-1.1	3.1
Advanced Economies	-3.4	1.3
United States	-2.7	1.5
Euro Area	-4.2	0.3
Japan	-5.4	1.7
Emerging and Developing Economies	1.7	5.1
China	8.5	9.0
India	5.4	6.4
Russia	-7.5	1.5

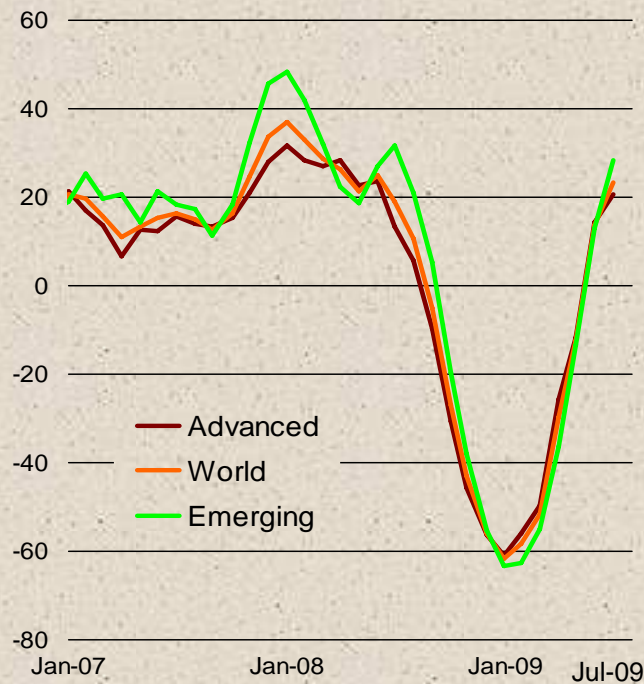
Source: World Economic Outlook, IMF.



Exports and Manufacturing Helped by a Turn in the Inventory Cycle

Merchandise Exports

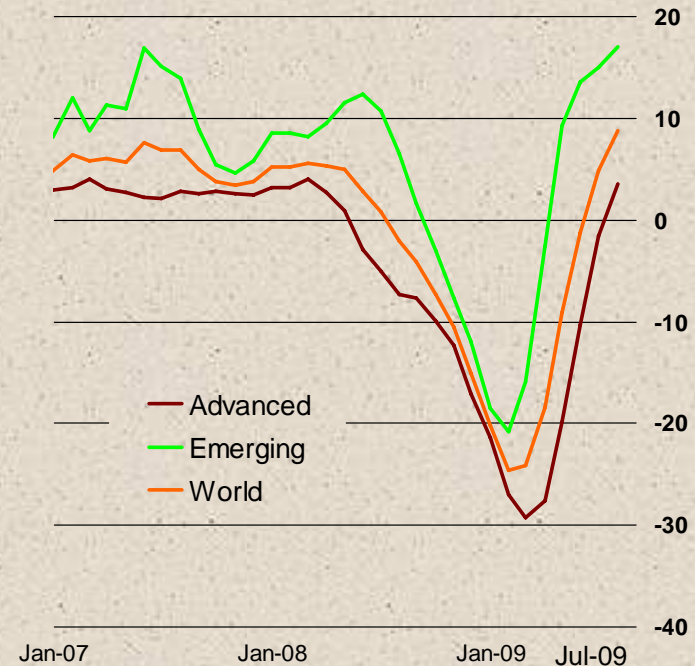
(Percent change; 3 month avg.; annualized)



Source: World Economic Outlook, IMF.

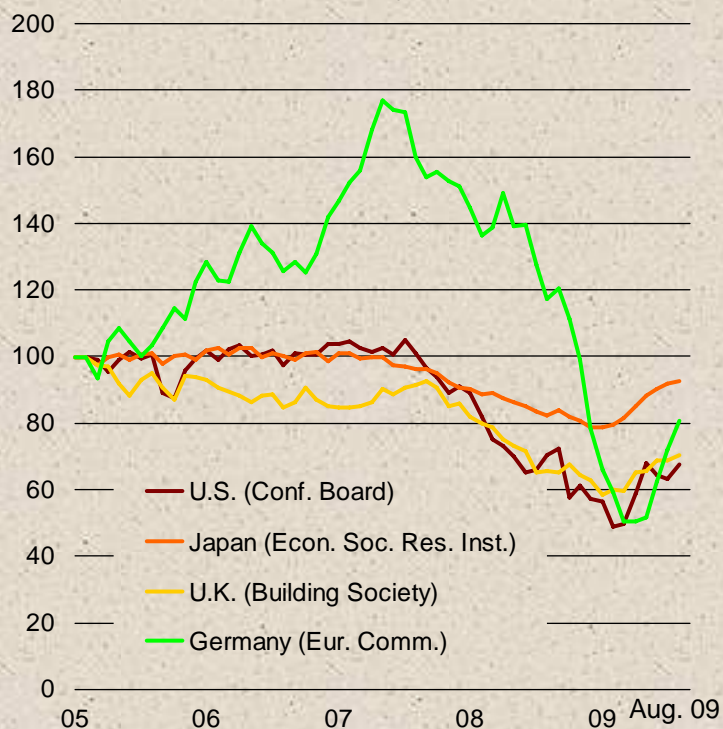
Industrial Production

(Percent change; 3 month avg.; annualized)



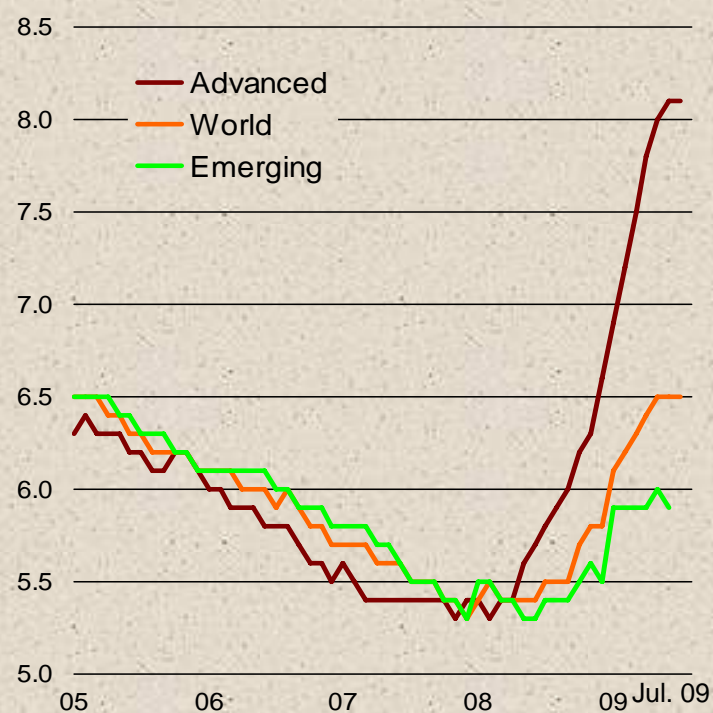
Consumer Confidence Slowly Recovering, but Unemployment Still Rising

Consumer Confidence
(Index; January 2005=100)



Source: World Economic Outlook, IMF.

Unemployment
(In percent; weighted by labor force)



World Economic Outlook: What is next...

- Expansionary monetary and fiscal policy will continue to underpin the global recovery.
- Credible exit strategies will be needed to safeguard price and financial stability and the soundness of public finances.
- Key factors shaping the medium-term perspectives will involve rebalancing across two dimensions:
 - Private demand replacing public demand; and
 - Demand in external surplus economies rising to make up for shrinking demand in external deficit economies.



Impact of the Crisis on CAREC Countries

- China
- CAREC 7



China has been affected by the global downturn...

China: Real GDP (Year-on-year percentage change)



China: Imports and Exports (Year-on-year percentage change)



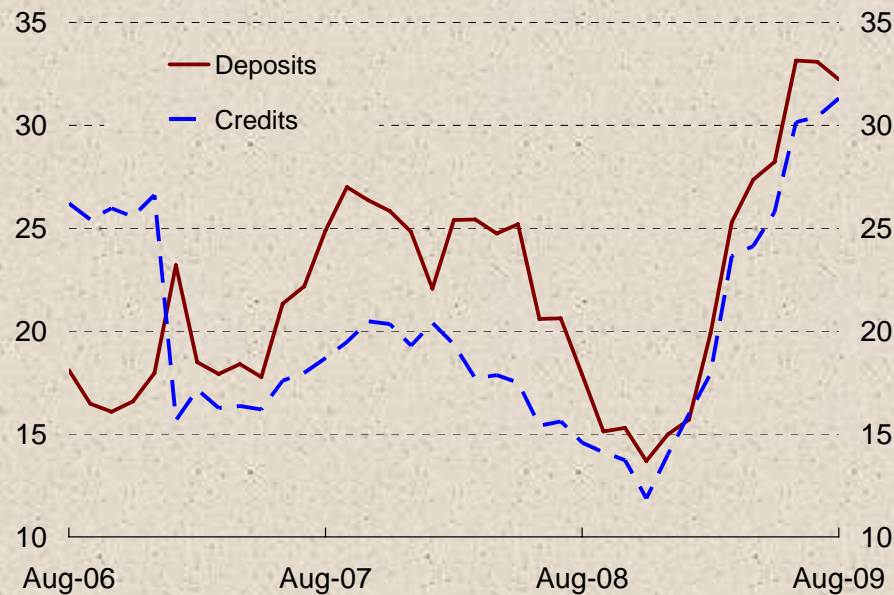
Source: National Bureau of Statistics of China.



...but there are indications of a turnaround

China: Credits and Deposits

(Year-on-year percentage change)



China: Equity Share Prices

(Index; Sep 06=100)



Source: International Financial Statistics, IMF.

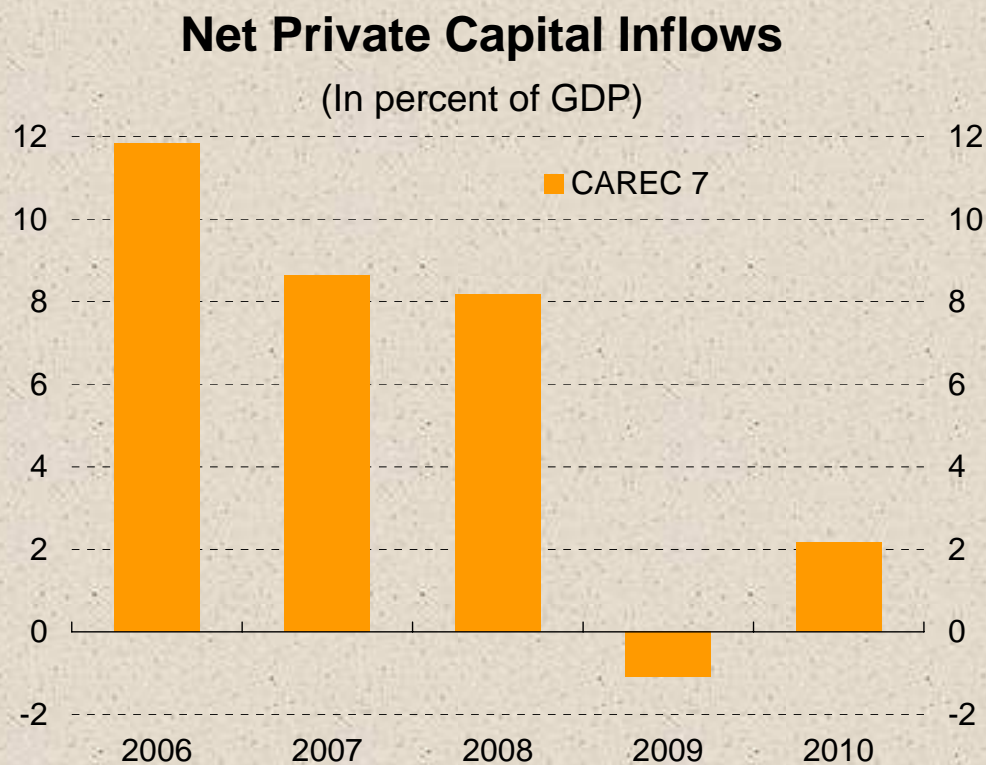


CAREC 7: Transmission Mechanisms

- Capital inflows have reversed, putting pressure on credit, growth, and the external accounts.
- Trade has been affected: commodity exporters have been hit hard by declining demand and prices.
- The contraction in Russia is negatively affecting the region largely through financial and remittance channels.



Capital inflows have reversed, but are expected to recover next year.

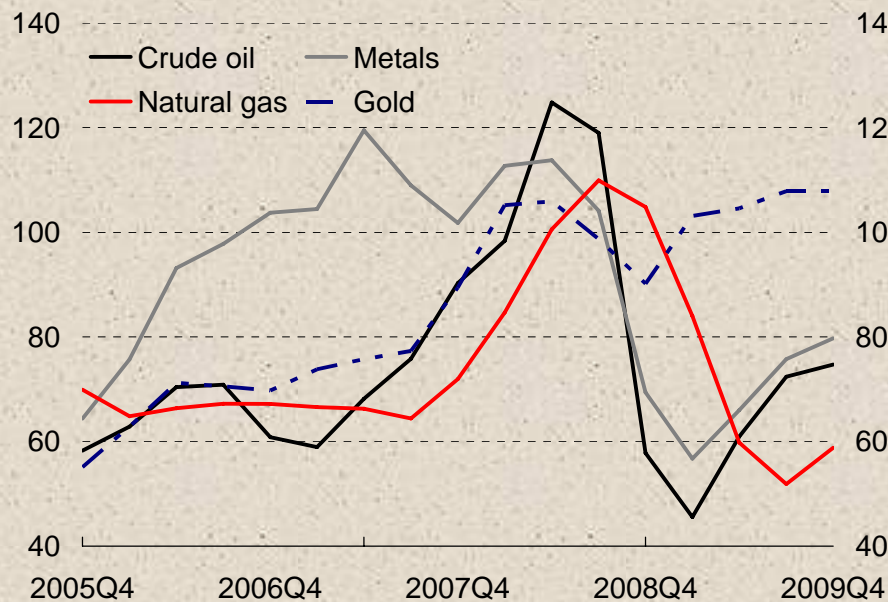


Source: World Economic Outlook; and staff calculations and projections.

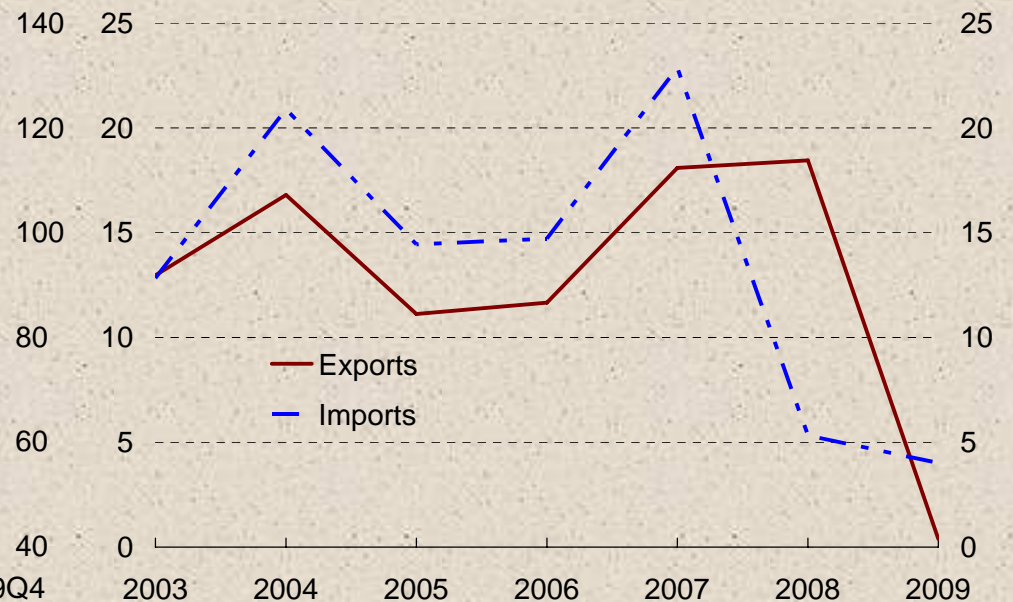


Commodity prices and trade growth have dropped...

Commodity Prices
(Index 2008 = 100)



CAREC 7: Trade Volumes
(Percent change; year-on-year)



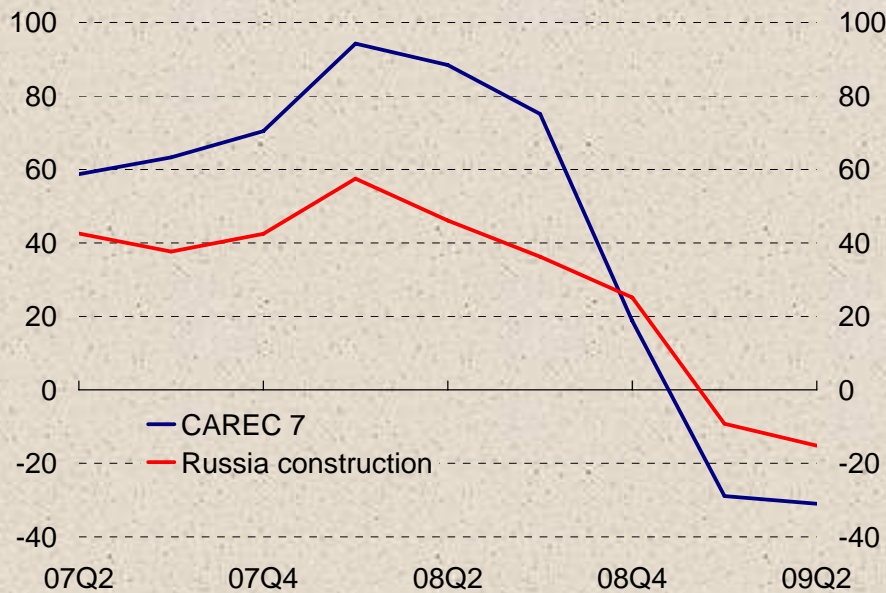
Sources: Direction of Trade Database; World Economic Outlook, IMF



...while remittances from Russia have fallen sharply

Russia: Remittances Outflow to CAREC 7 and Volume of Construction

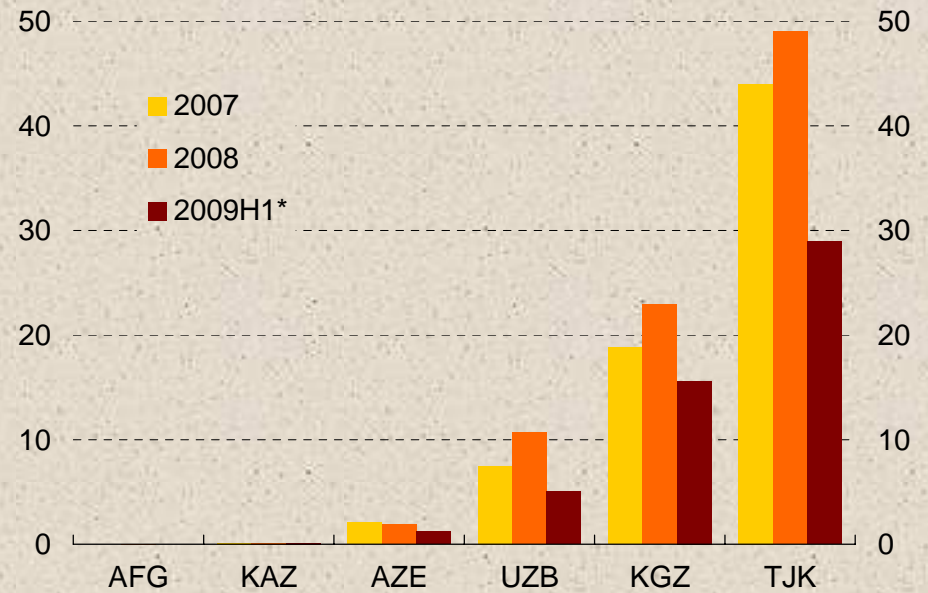
(Percent change; year-on-year)



Sources: Central Bank of Russia; and fund staff calculations.

Russia: Remittances Outflow to Selected CAREC Countries

(In percent of recipient country's GDP)



* Annualized.

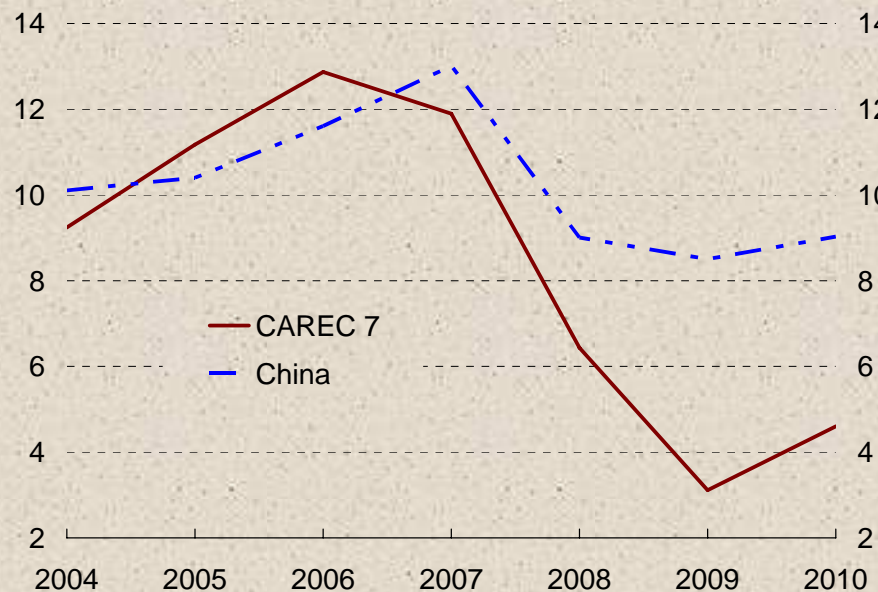


Economic Situation and Outlook

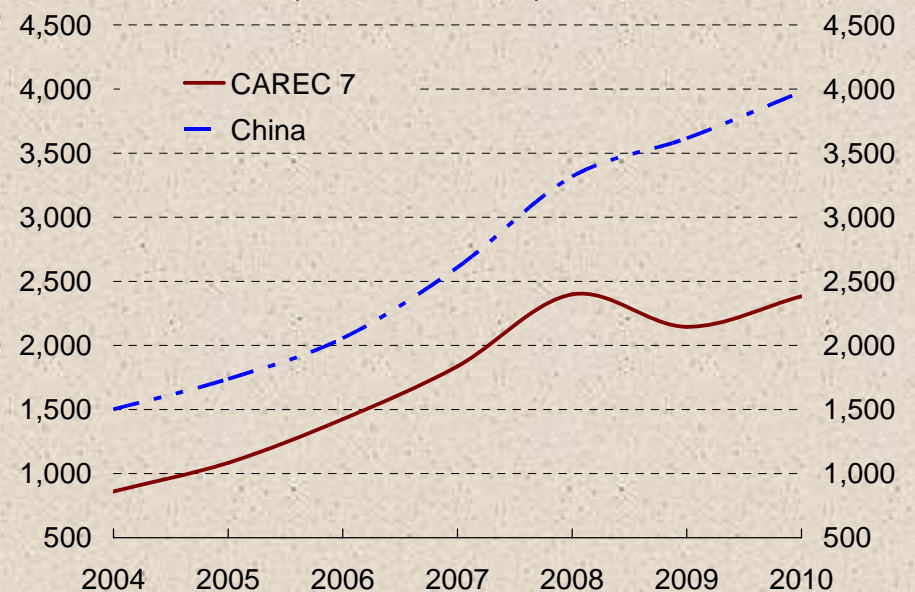


CAREC 7: Growth and income down sharply; set for moderate recovery in 2010

Real GDP Growth
(Annual change; in percent)



Gross National Disposable Income per Capita^{1/}
(In U.S. dollars)

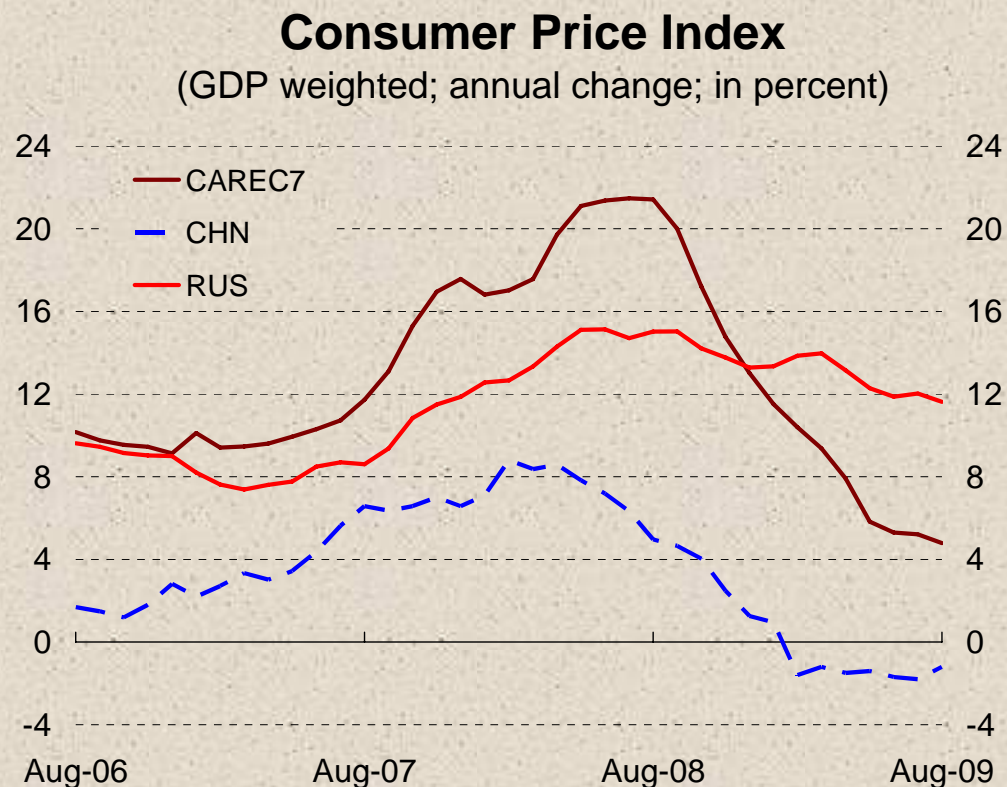


Sources: National authorities; and staff calculations and projections.

^{1/} GNDI is defined as GDP + non-factor income + transfers.



Inflation is down, but pressures may return in 2010



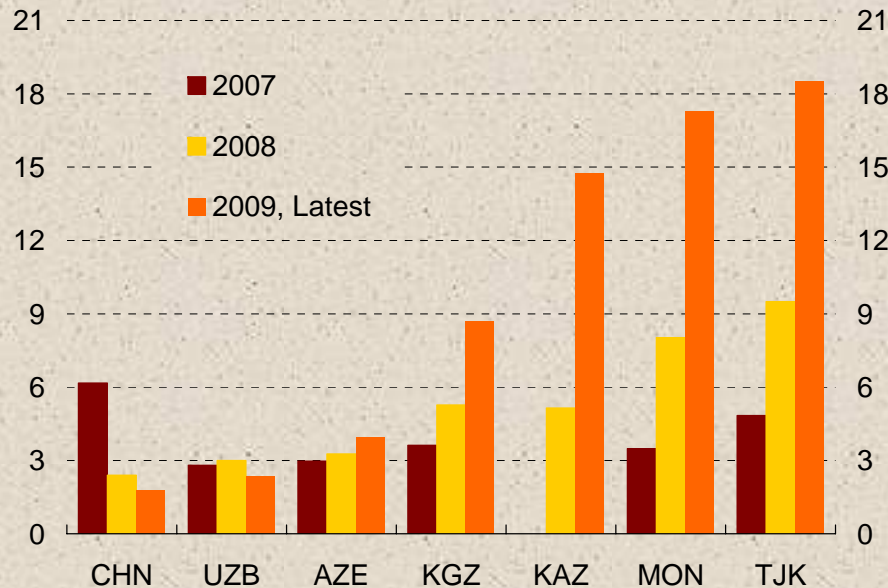
Sources: National authorities; and staff calculations.



Financial sectors are under stress, with NPLs set to rise further

Nonperforming Loans

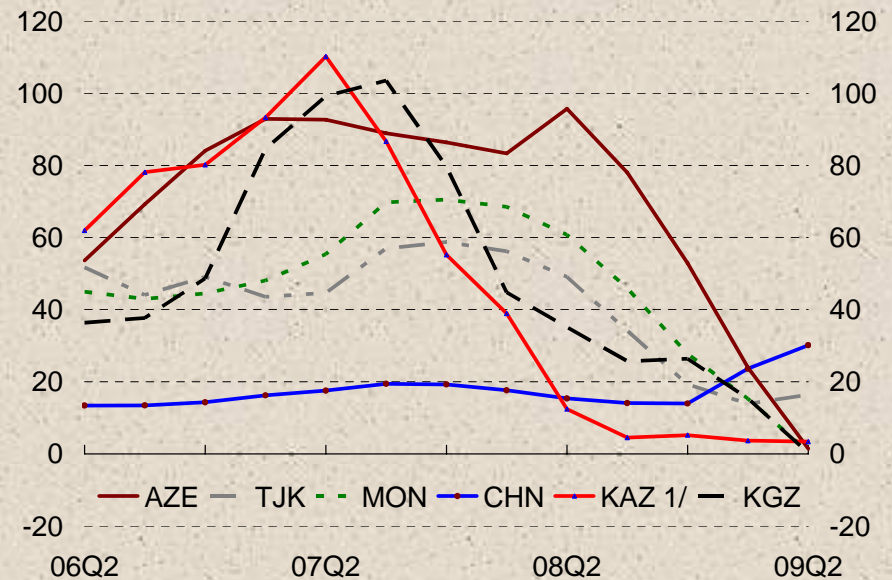
(In percent of total loans)



Sources: National authorities; and staff calculations.

Credit to the Private Sector

(Percent change; year-on-year)



1/ Adjusted for exchange rate devaluation.

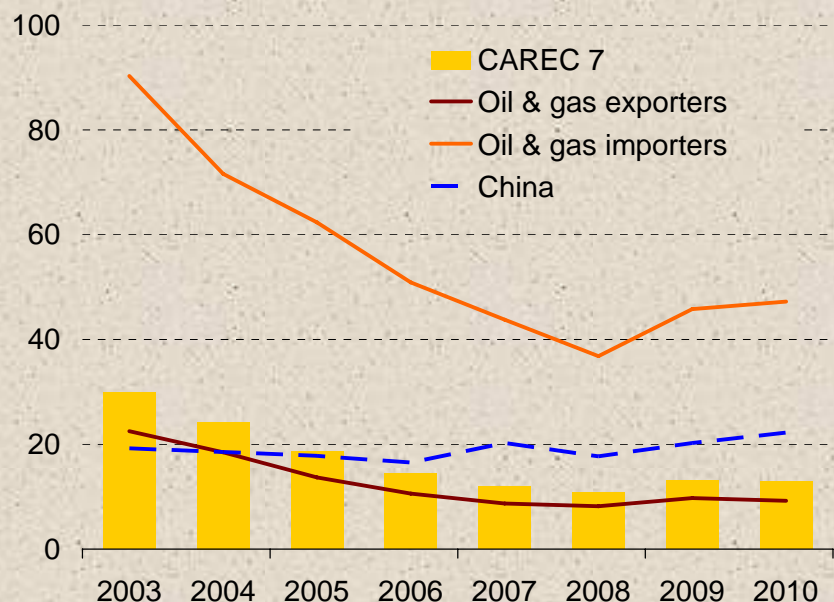


How are policymakers responding?

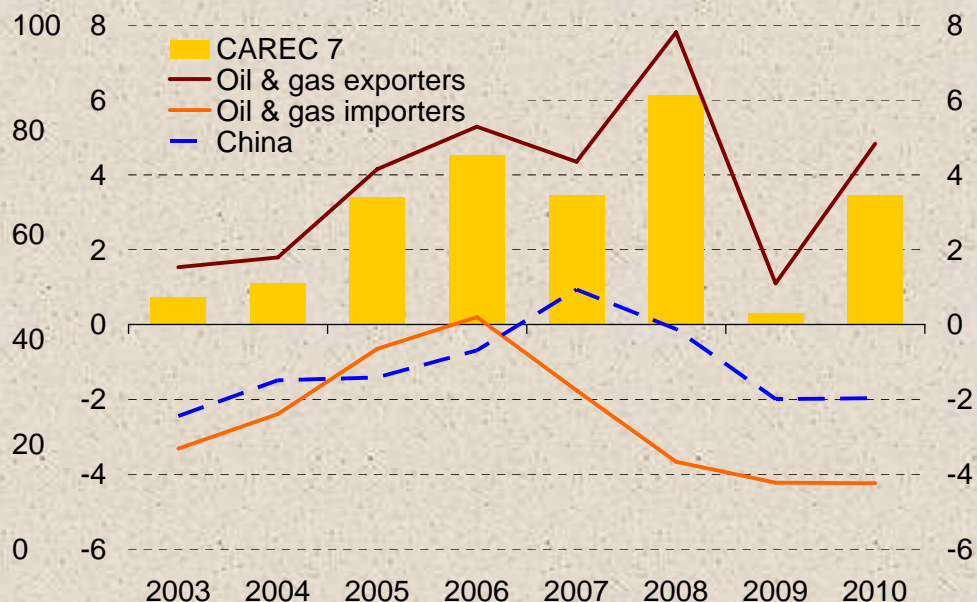


Where debt levels were already high, donor support has helped finance fiscal stimulus

Government Debt (In percent of GDP)



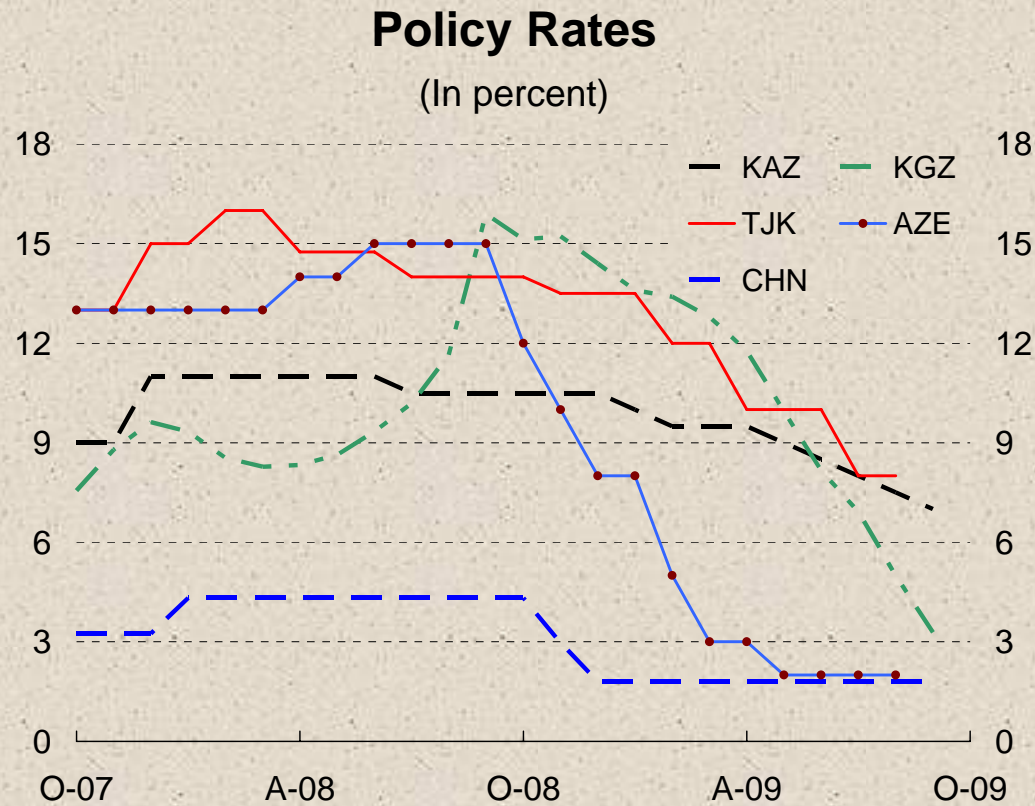
Fiscal Balance (In percent of GDP)



Sources: National authorities; and staff calculations and projections.



Central banks are providing support ...



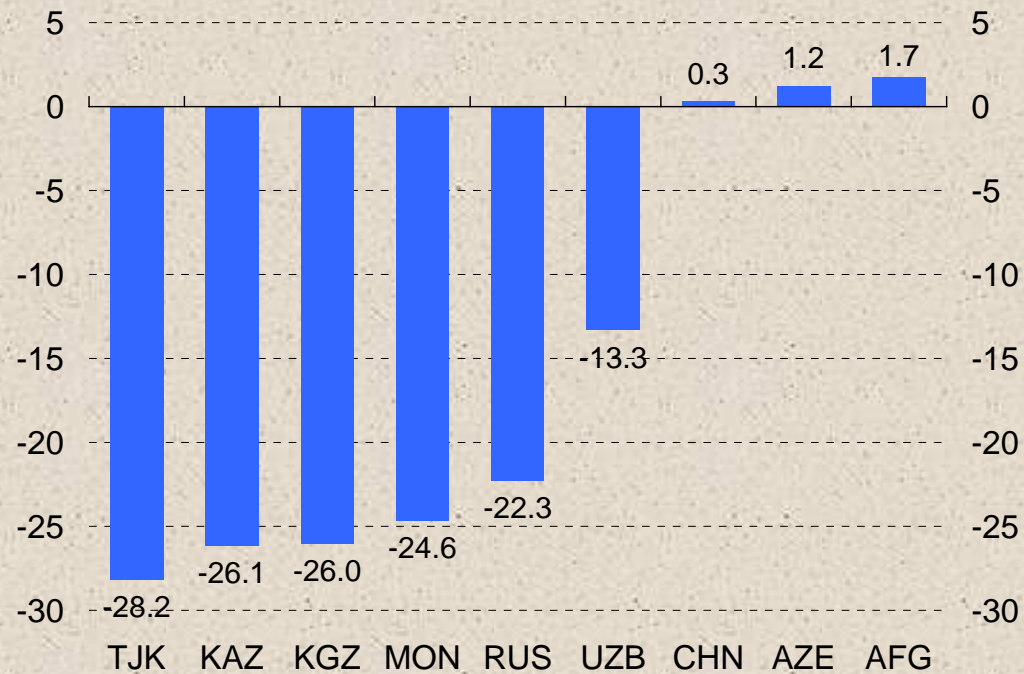
Sources: National authorities; and staff calculations and projections.



Currencies have depreciated

Local Currencies Against the U.S. Dollar

(Aug 31, 2008 – Sep 30, 2009, increase indicates appreciation)



Sources: National authorities; and staff calculations.



Policy Challenges: Facing uncertainty about recovery

- Outlook for the global economy and the region is uncertain:
 - Prolonged global recession and stress in global financial markets
 - Rising external and public sector debt and rollover risks
 - Credit constraints and rising nonperforming loans
- ***Macroeconomic policies need to stay supportive, while preparing the ground for an orderly unwinding of extraordinary levels of public intervention***



Policy messages

- Monetary and fiscal policy should remain supportive until growth resumes, provided there is policy space.
 - Policies on the financial sector:
 - Conduct credible stress tests.
 - Continue efforts to fully address impaired assets on banks' balance sheets.
 - Recapitalize viable, but undercapitalized, banks.
- ***Not too early to design exit policies so as to be ready to use them when the time comes.***
- ***Price stability, a sound financial system and fiscal sustainability should be the foundation of these strategies.***

