

Outlook for the Global Economy and CAREC Countries

Juha Kähkönen
International Monetary Fund
October 2012



The world economy

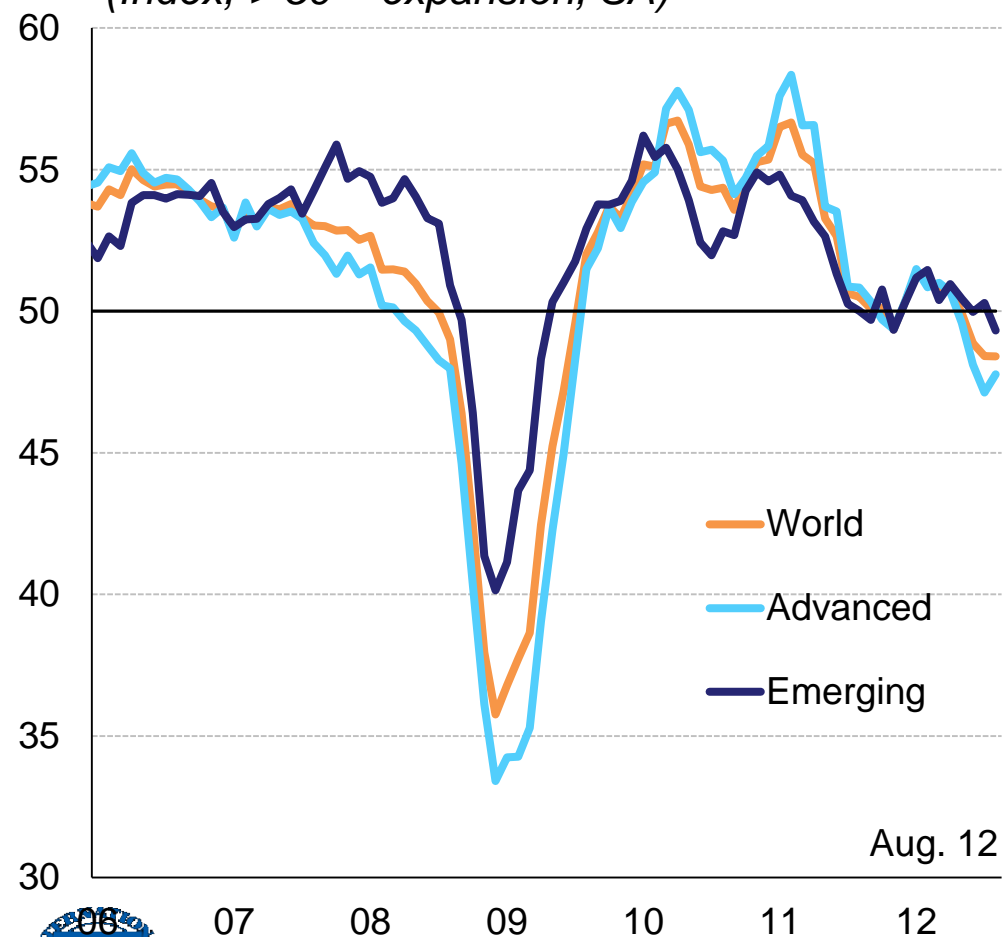
Global recovery remains at risk



The global recovery has weakened

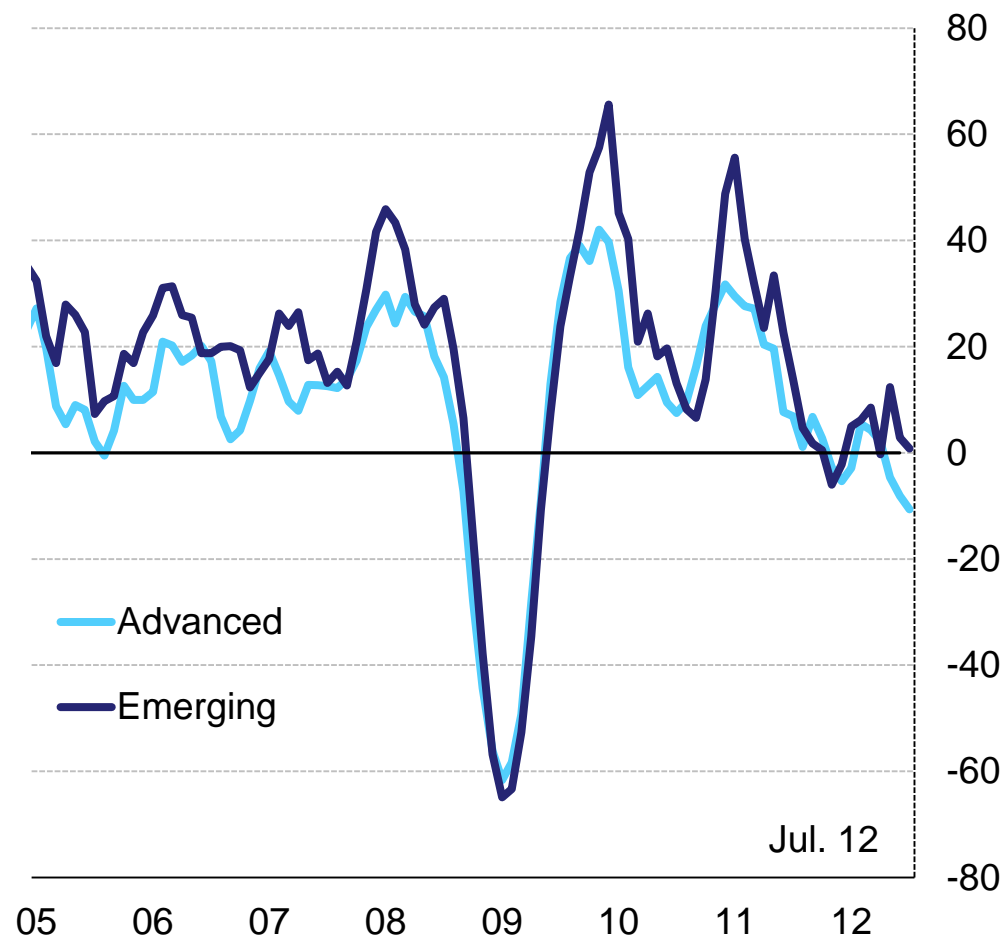
Global Manufacturing PMI

(Index; > 50 = expansion; SA)



Merchandise Exports

(Percent; 3mma annualized)

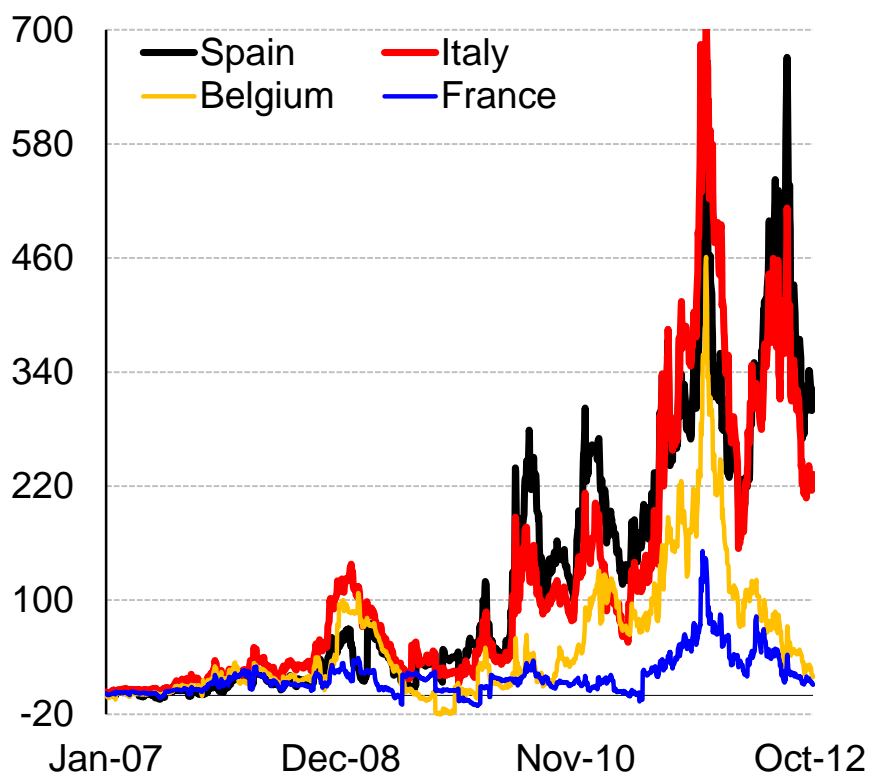


Source: IMF, Global Data Source.

European financial conditions remain fragile

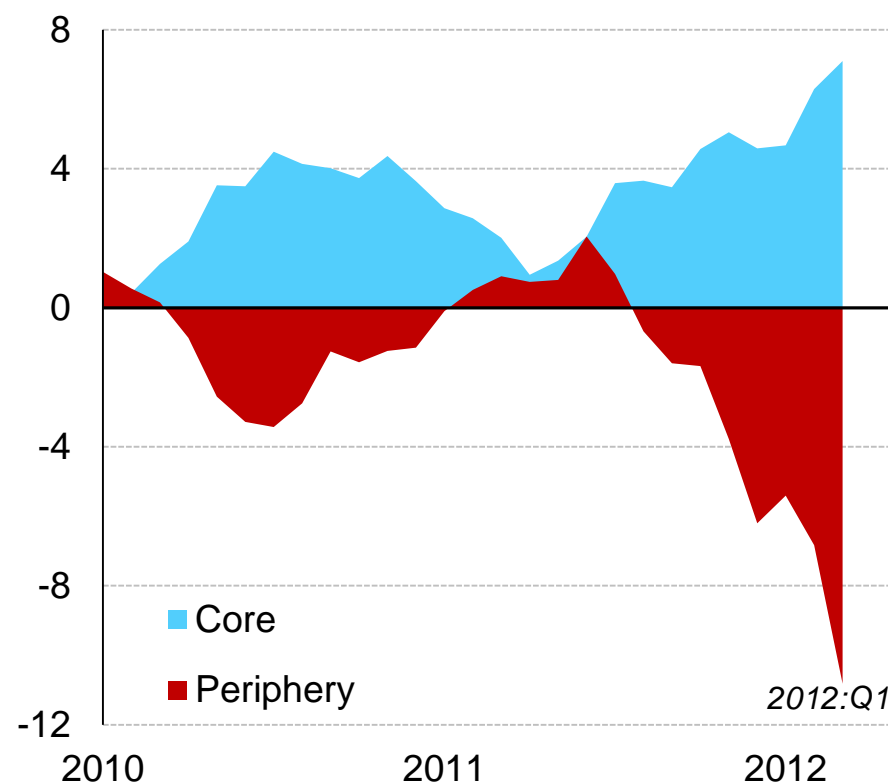
Government Bond Spreads

(two-year yield spreads over German bunds; basis points)



Portfolio and Other Investment Capital Flows, Excluding Central Banks

(Cumulative from December 2009, in percent of GDP)

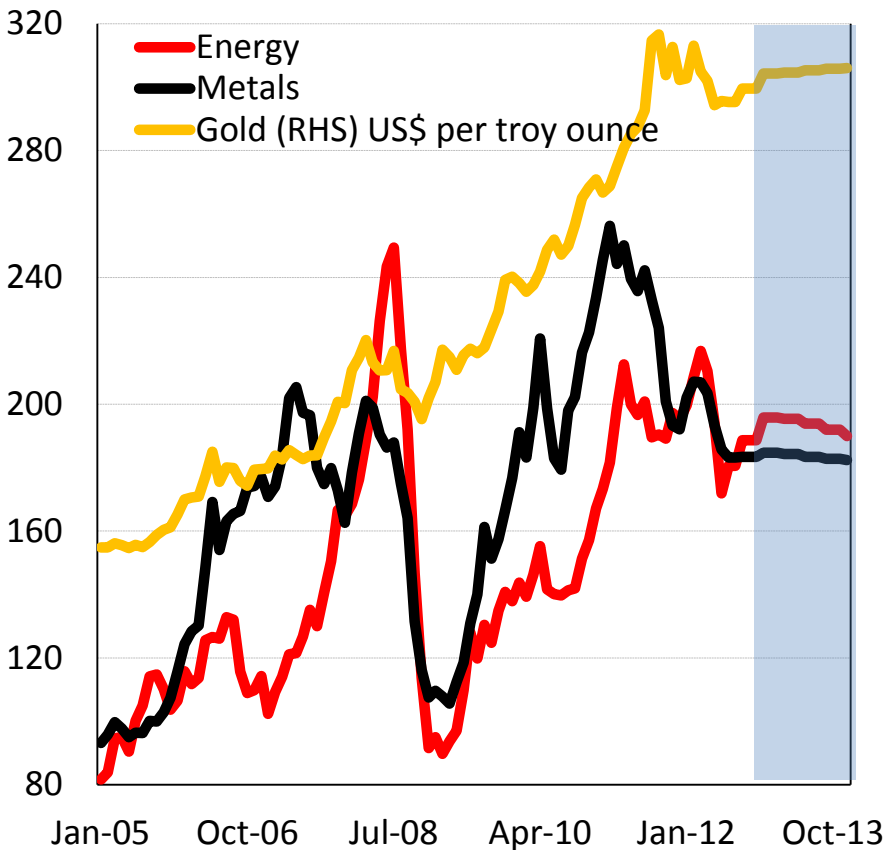


Sources: IMF, *World Economic Outlook*; and Bloomberg.
1/ One-year yield spreads over German bunds.

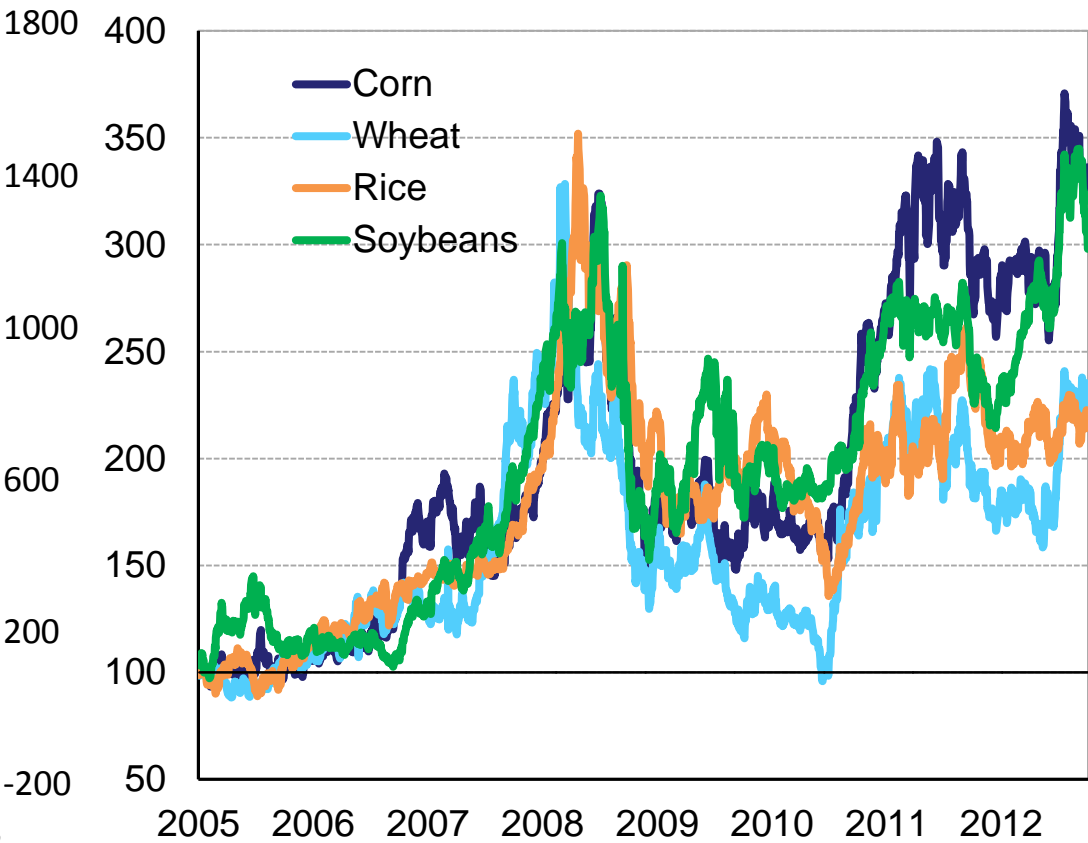


Commodity prices are still elevated

Commodity Prices
(index; 2005=100)



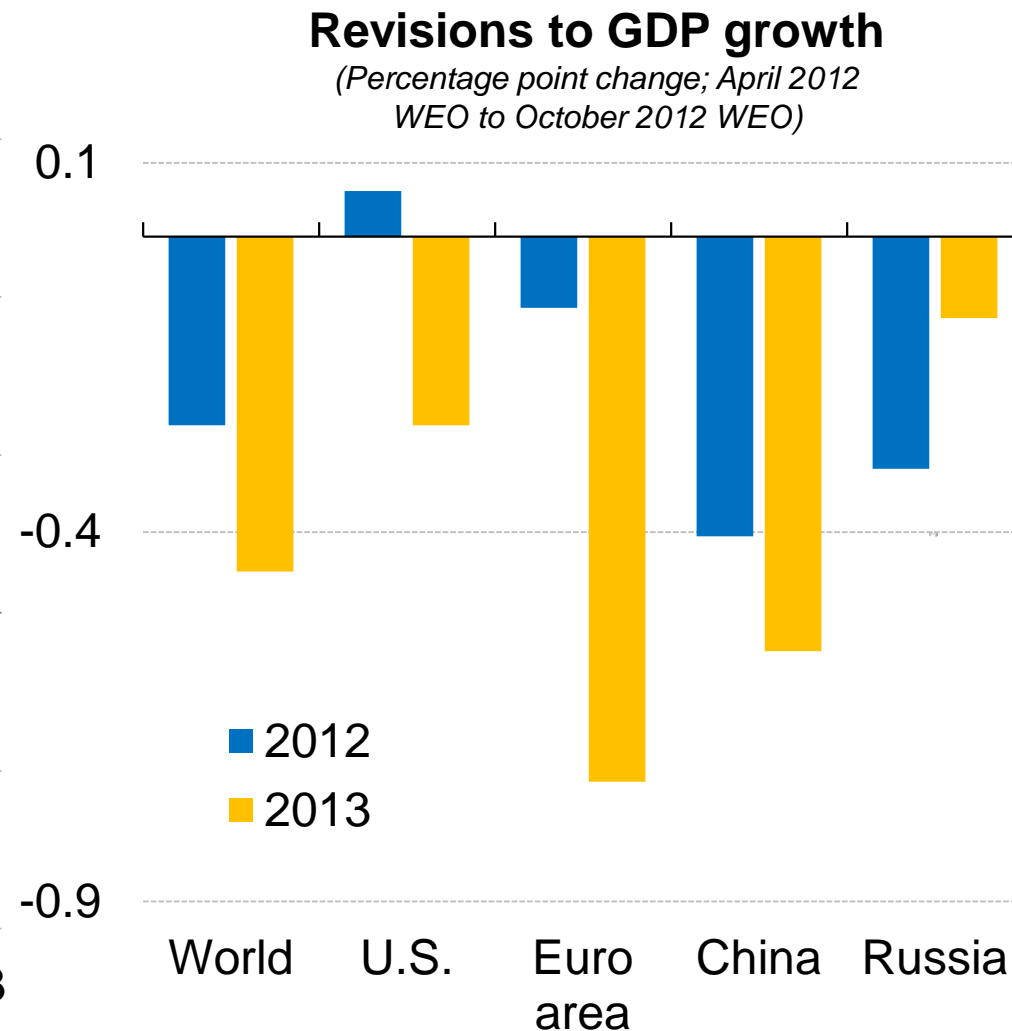
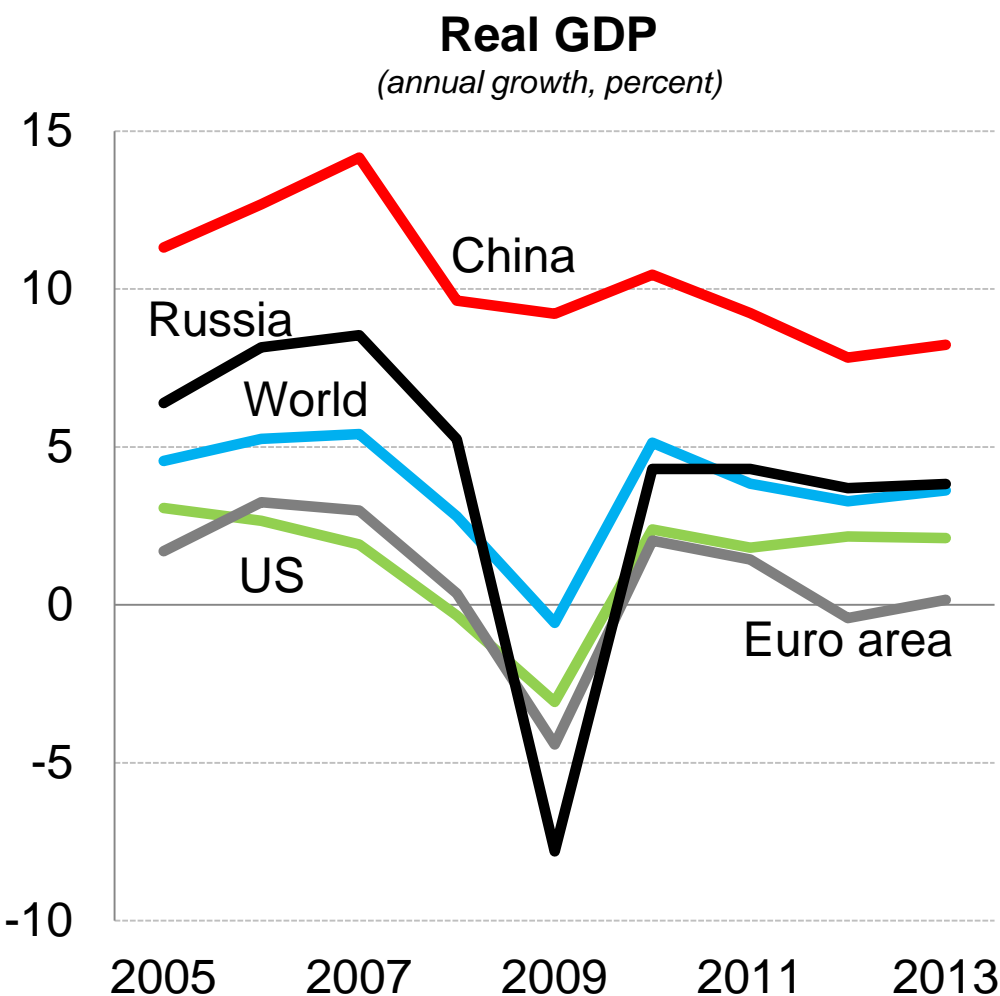
Spot Prices of Major Crops
(1/3/2005 = 100)



Source: IMF, Global Data Source.



Against this backdrop, the global outlook has deteriorated

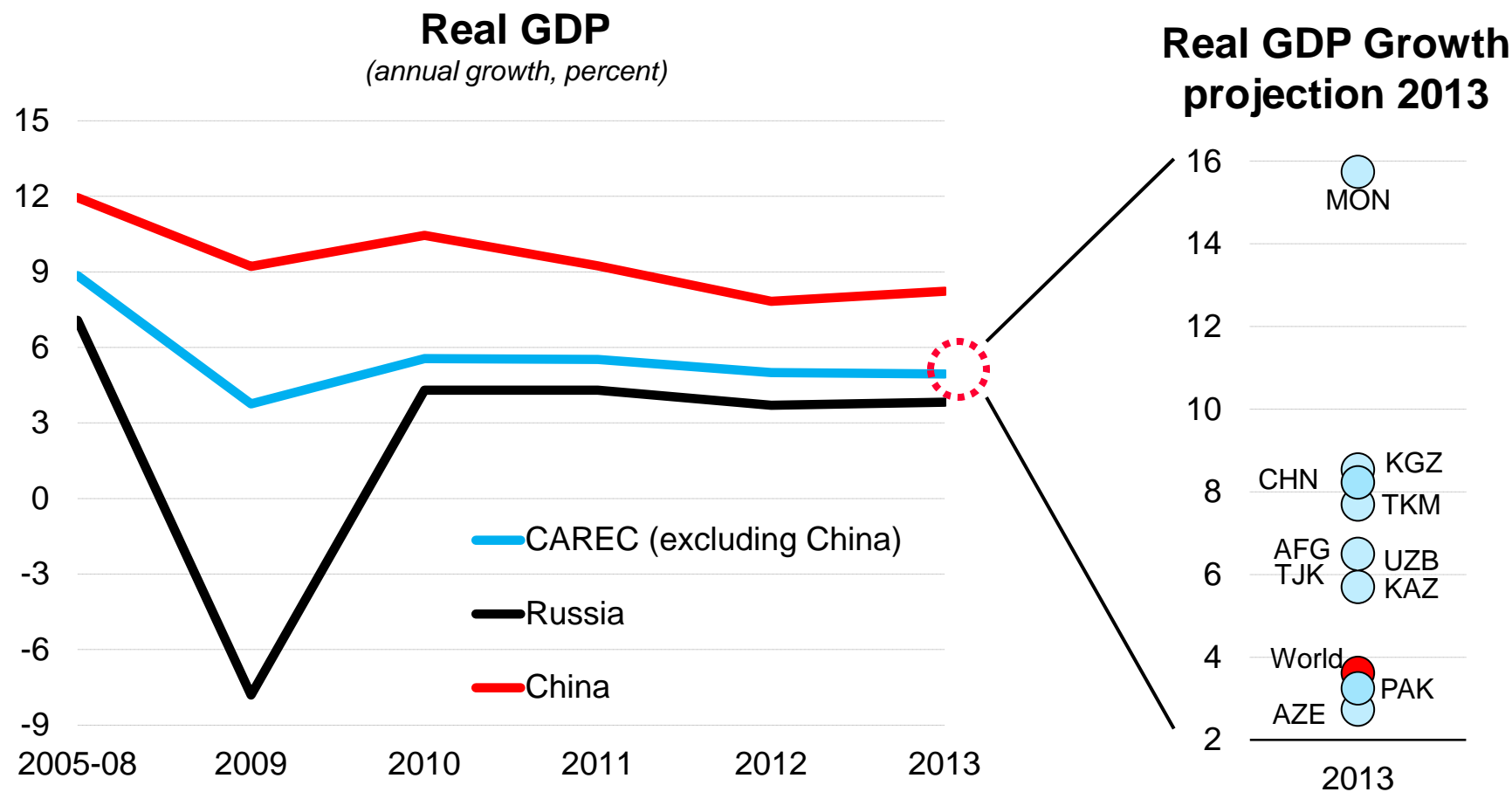


Source: International Monetary Fund, *World Economic Outlook*.

CAREC

**Outlook for growth is positive,
but policy challenges remain**

Growth outlook is broadly positive...

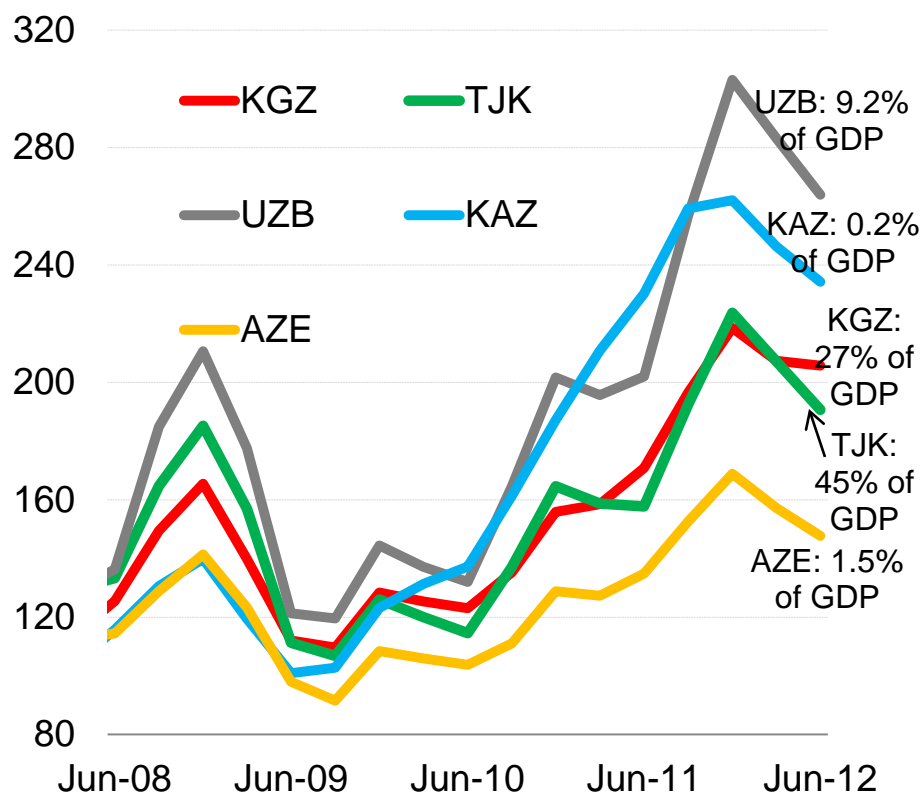


Sources: National authorities; IMF, *World Economic Outlook*; and IMF staff calculations and projections.

Remittances and supportive commodity prices have benefited many CAREC countries

Remittances from Russia to selected CAREC Countries¹

(Three month moving average, 2008:Q1=100)

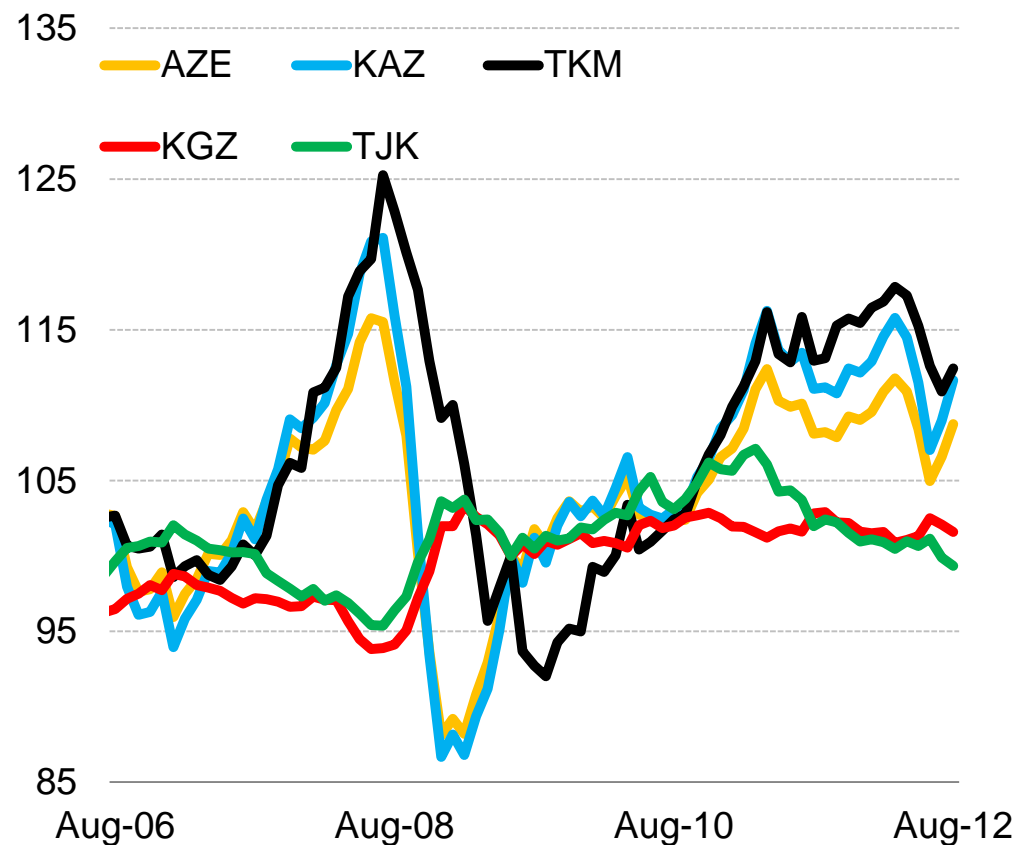


Source: Central Bank of Russia.

¹Boxes show the latest data available (2012:Q2).

Commodity Terms of Trade

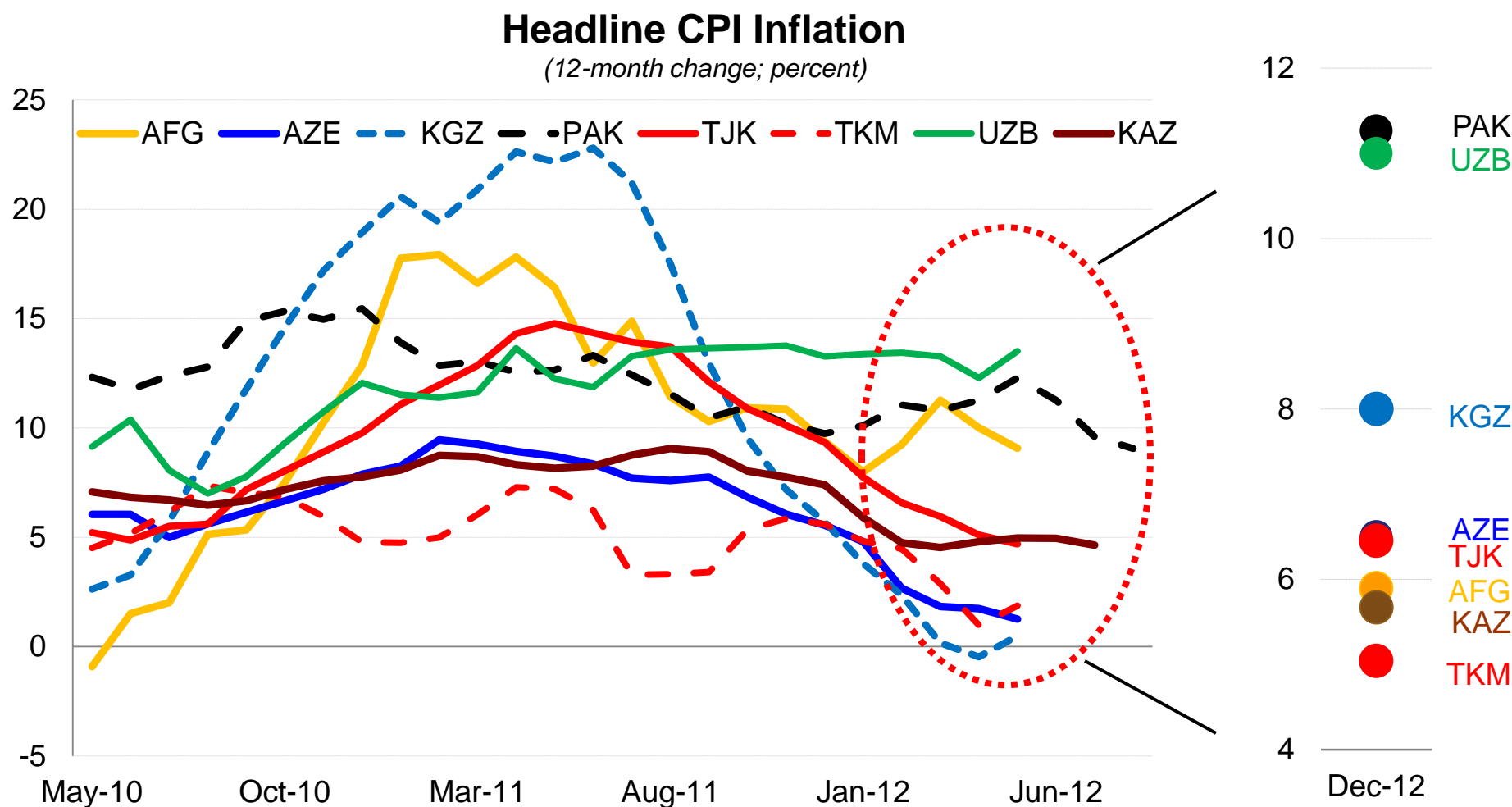
(Index; June 2009=100)



Sources: National authorities; and IMF staff estimates.



Inflationary pressures have been generally receding

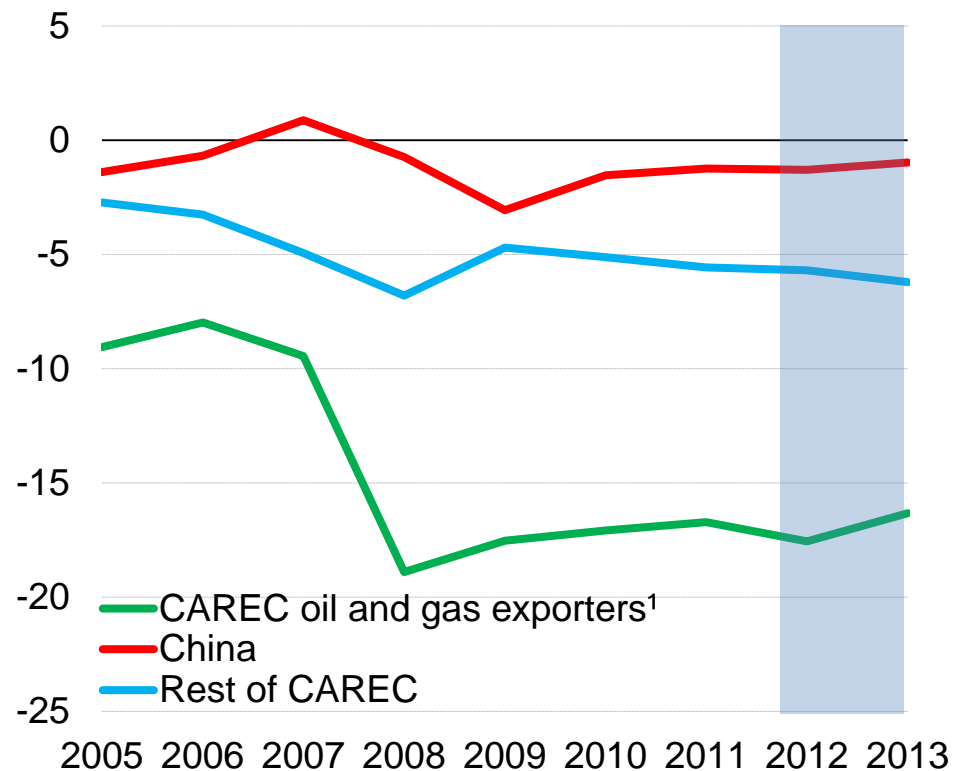


Sources: National authorities; and IMF staff calculations and projections.

Challenge 1: Fiscal consolidation is needed in many CAREC countries

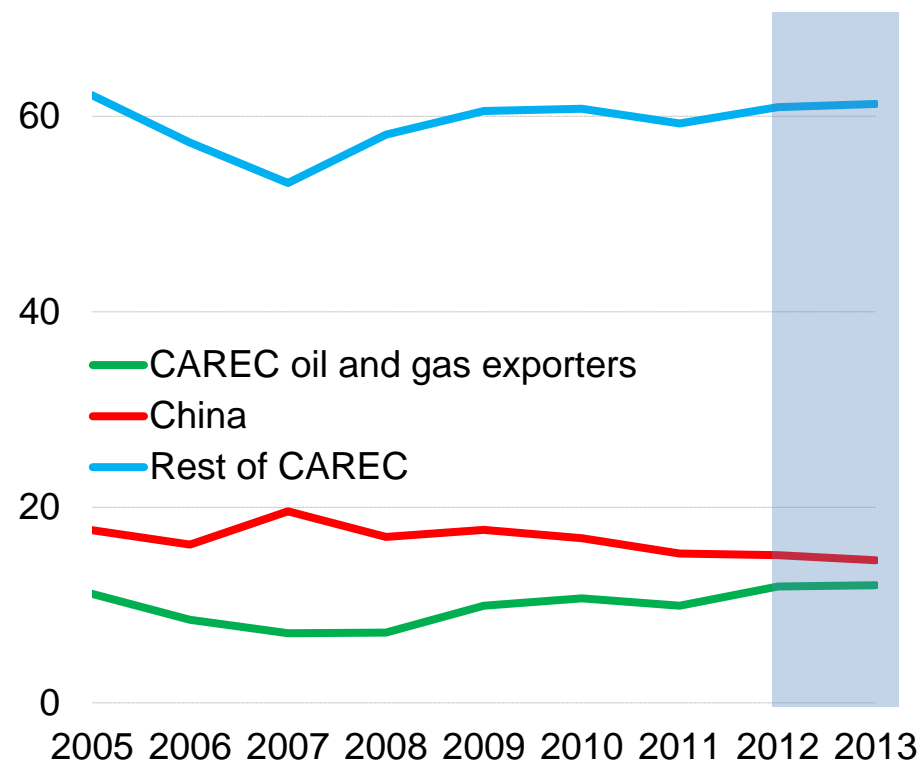
Fiscal Balances

(percent of GDP)



Public Debt*

(percent of GDP)



Sources: National Authorities; and IMF staff calculations.

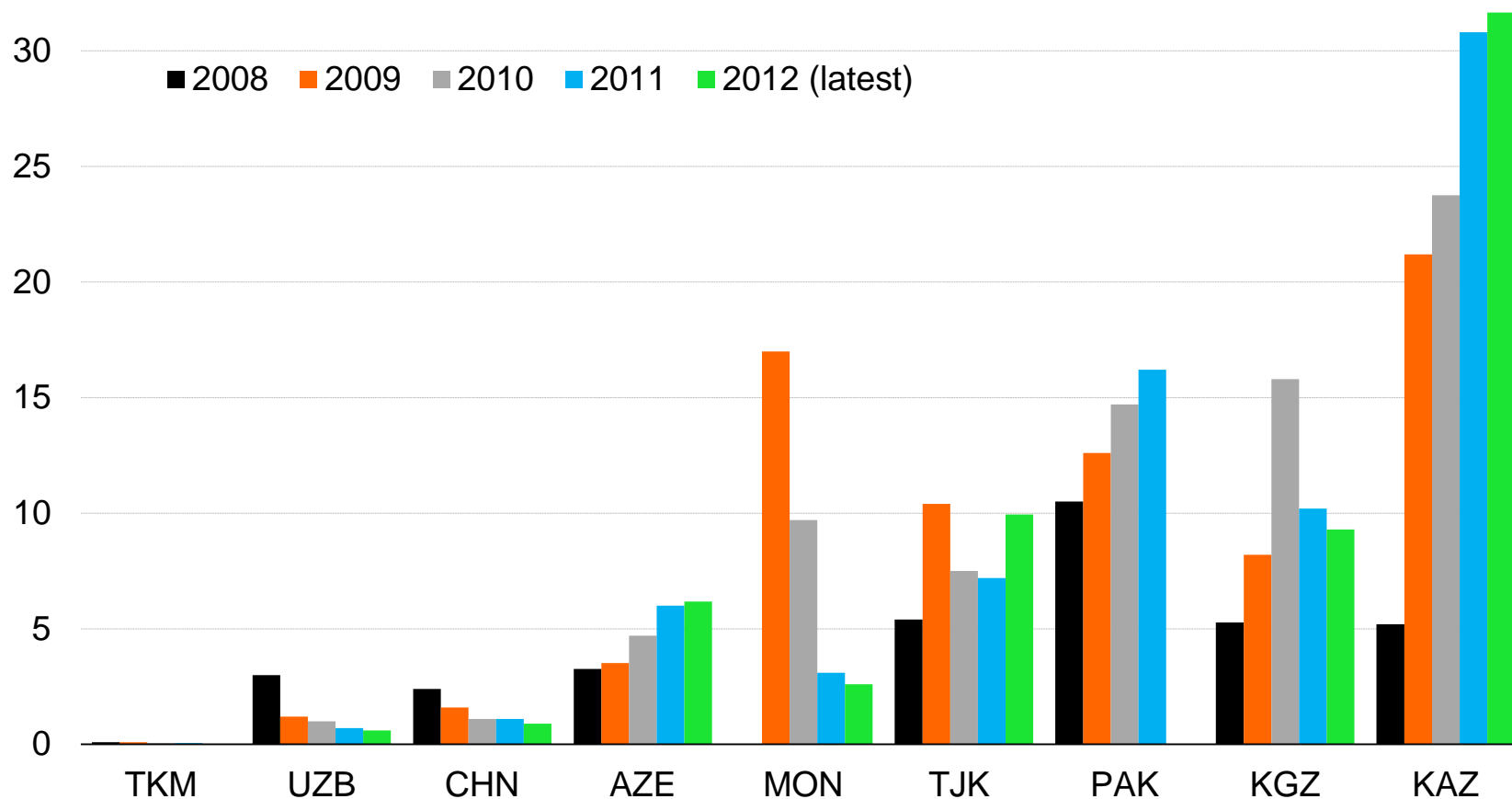
¹ Non-oil and gas fiscal balance over non-oil and gas GDP is used.

*Rest of CAREC excludes Afghanistan and Mongolia due to lack of data.

Challenge 2: Further efforts are needed to strengthen bank balance sheets

Nonperforming Loans

(on a 90-day basis; percent of total loans)

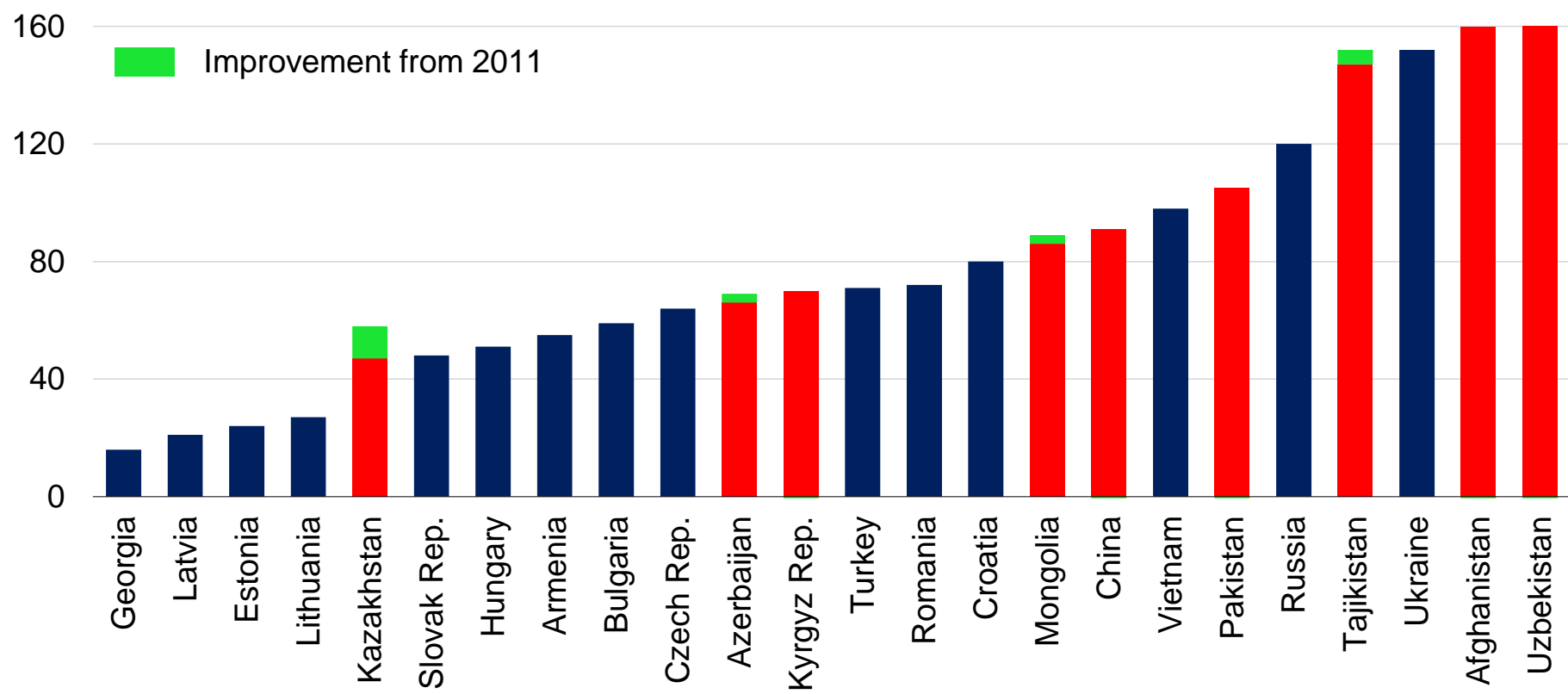


Sources: National authorities; GFSR.



Challenge 3: Improve the business environment and level the business playing field

The Ease of Doing Business Rankings 1/



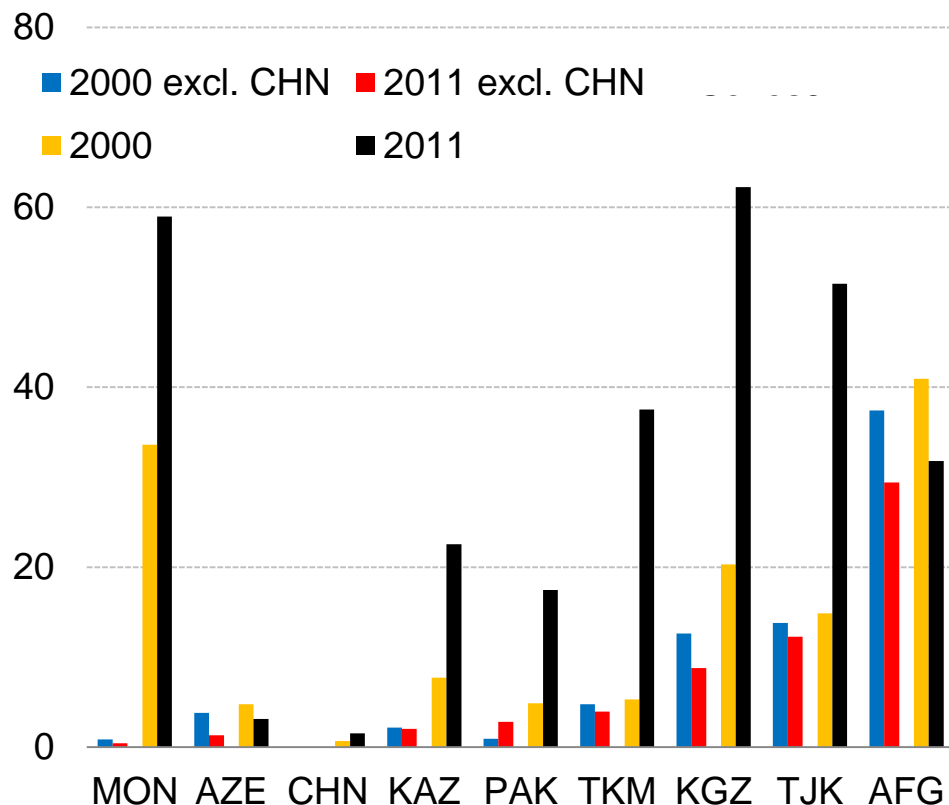
Source: Ease of Doing Business 2012. No data published for Turkmenistan.
1/ Higher bars imply lower ranking.



Challenge 4: Remove hurdles to trade

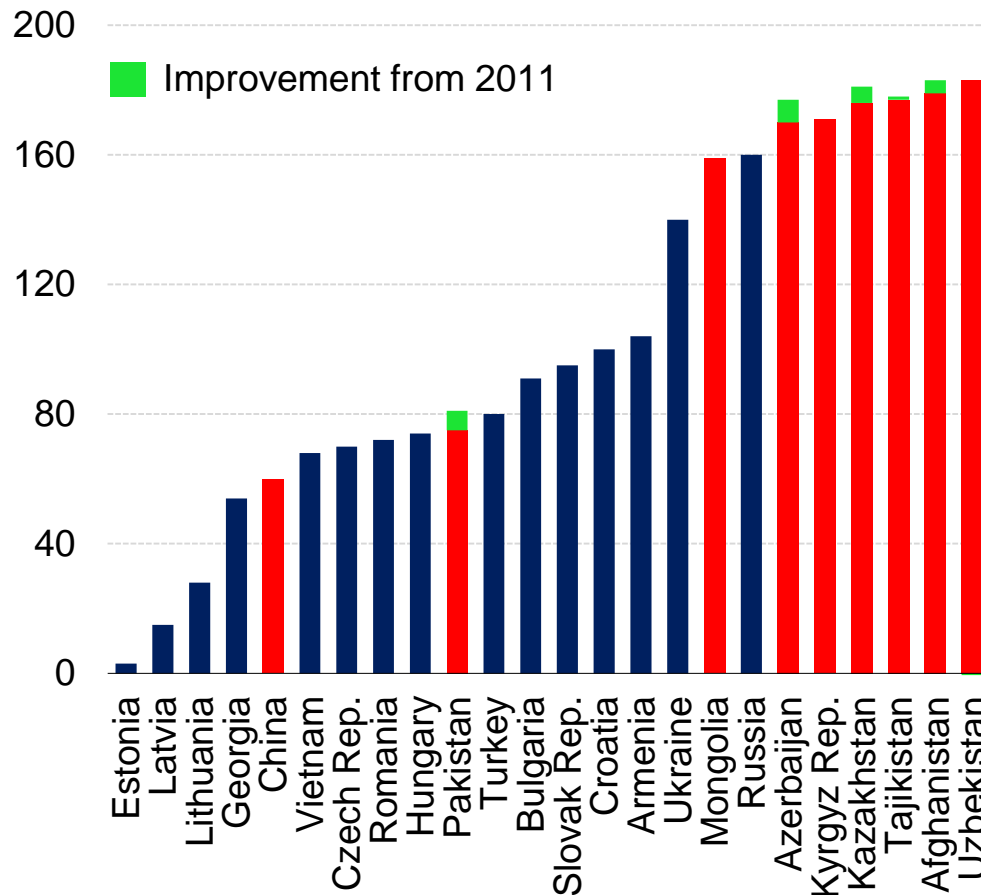
Trade with CAREC

(percent of total trade 1/)



Source: IMF Direction of Trade Statistics. No data available for Uzbekistan.
1/ Country (i) trade with CAREC / Country (i) trade with world

The Ease of Trading Across Borders Ranking 1/



Source: Ease of Doing Business 2012. No data published for Turkmenistan.
1/Higher bars imply lower ranking.

Key conclusions:

➤ **The global recovery has weakened**

Lingering uncertainty and downside risks require:

- Policy progress in Europe
- Avoidance of U.S. fiscal cliff

➤ **CAREC**

The macroeconomic outlook is positive, but policy challenges require:

- rebuilding of fiscal and financial buffers
- bolstering economic integration.