

# **Outlook: Global Economy & Global Financial Stability**

**International Forum of Sovereign Wealth Funds**

*José Viñals  
Financial Counsellor  
International Monetary Fund*

Beijing  
May 12, 2011



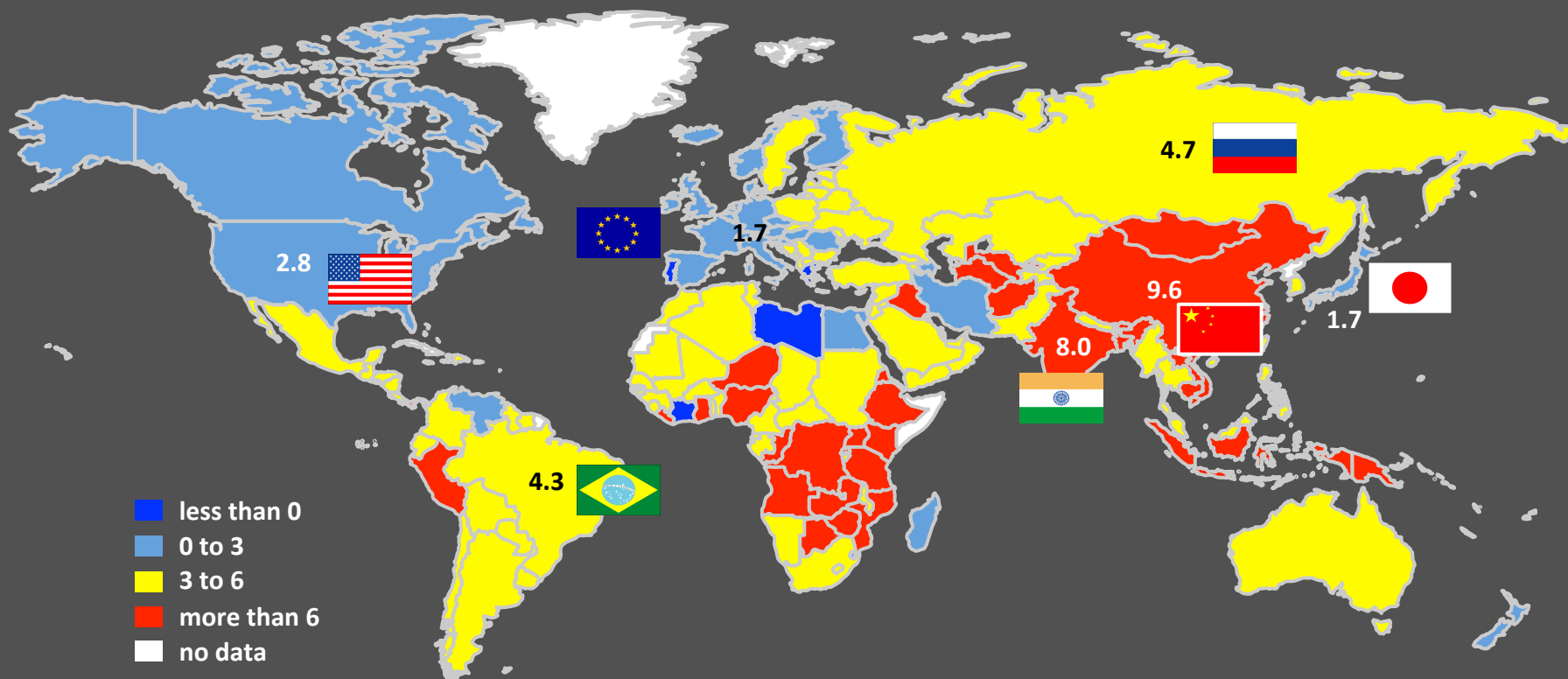
**Global**

**Advanced**

**Emerging**

# DIFFERENCES IN GROWTH RATES

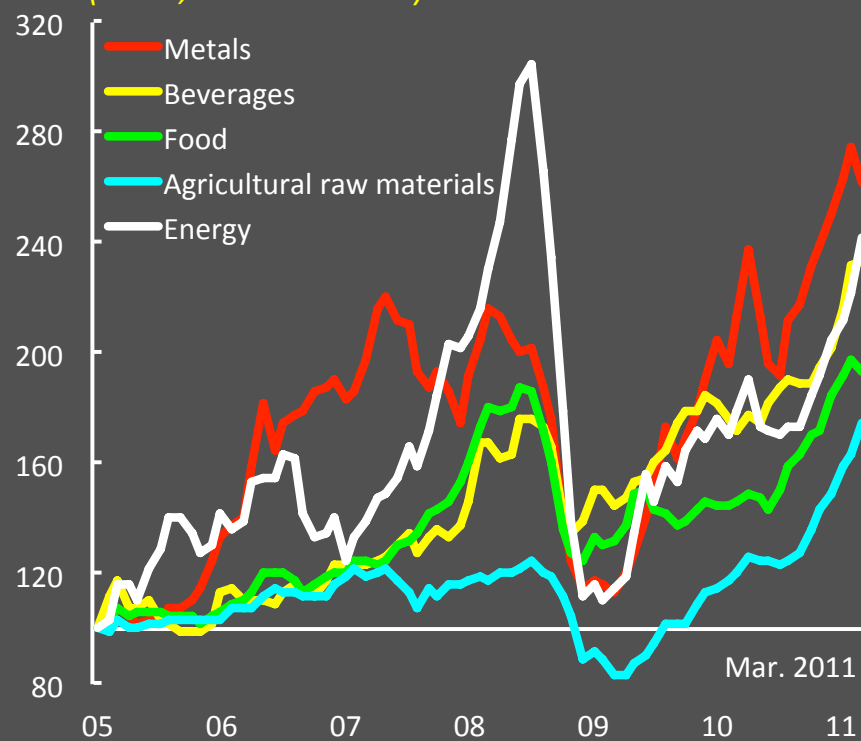
Average Projected Real GDP Growth during 2011-2012  
(percent)



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

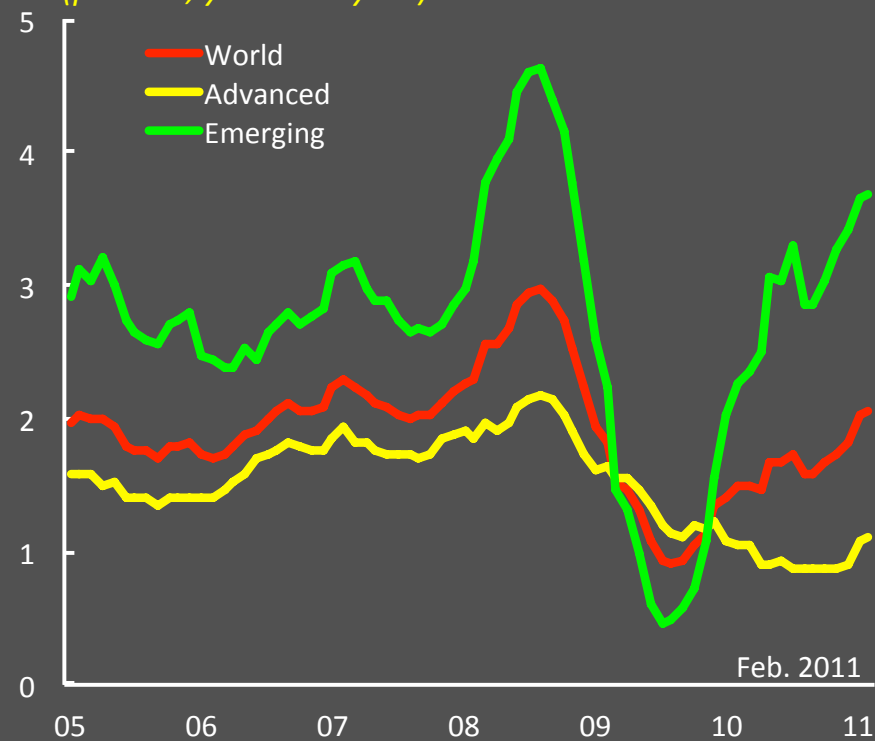
# COMMODITY PRICES AND INFLATION

**Commodity Prices**  
(index; Jan. 2005=100)



Source: IMF, Global Data Source.

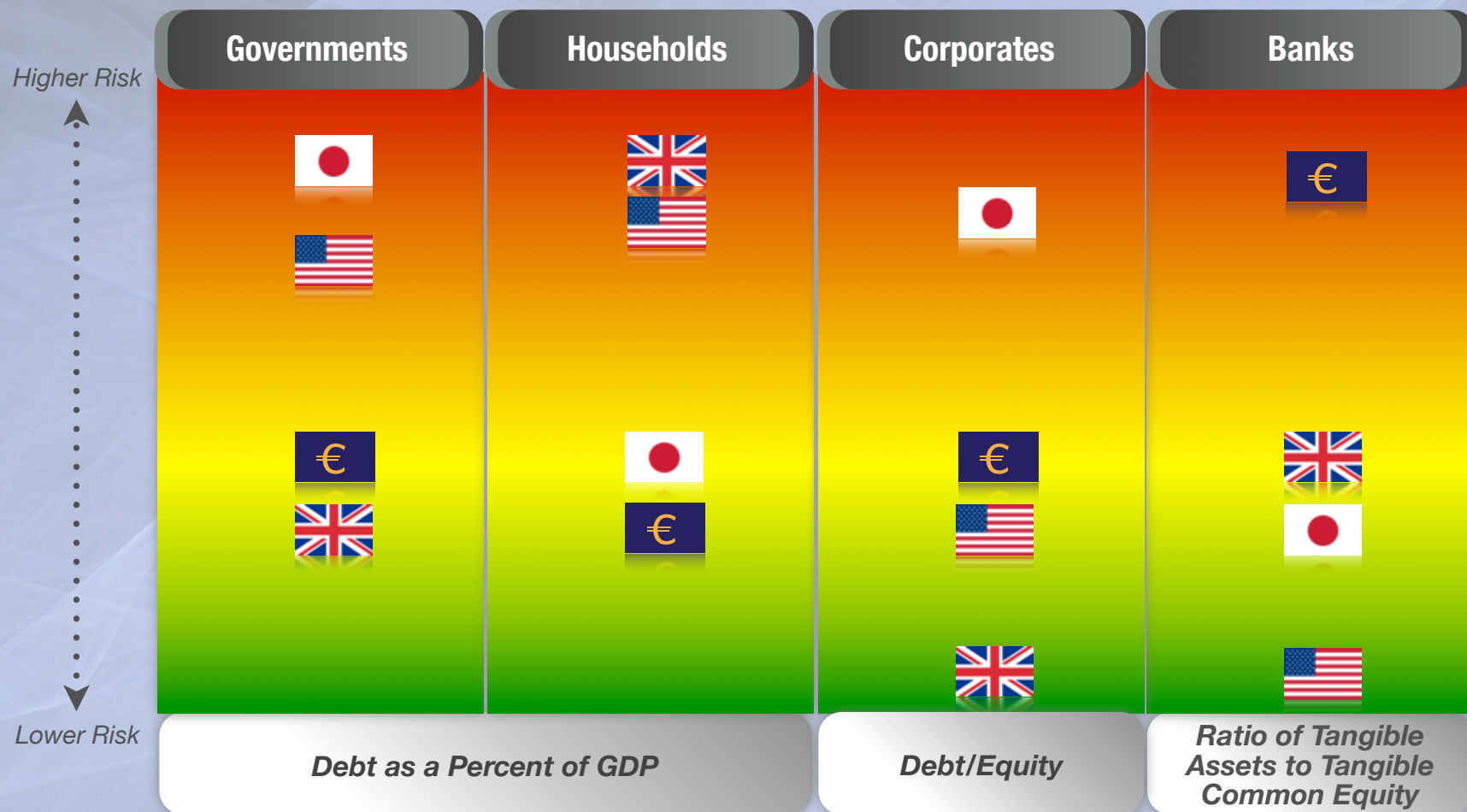
**Core CPI Inflation**  
(percent; year over year)



Feb. 2011

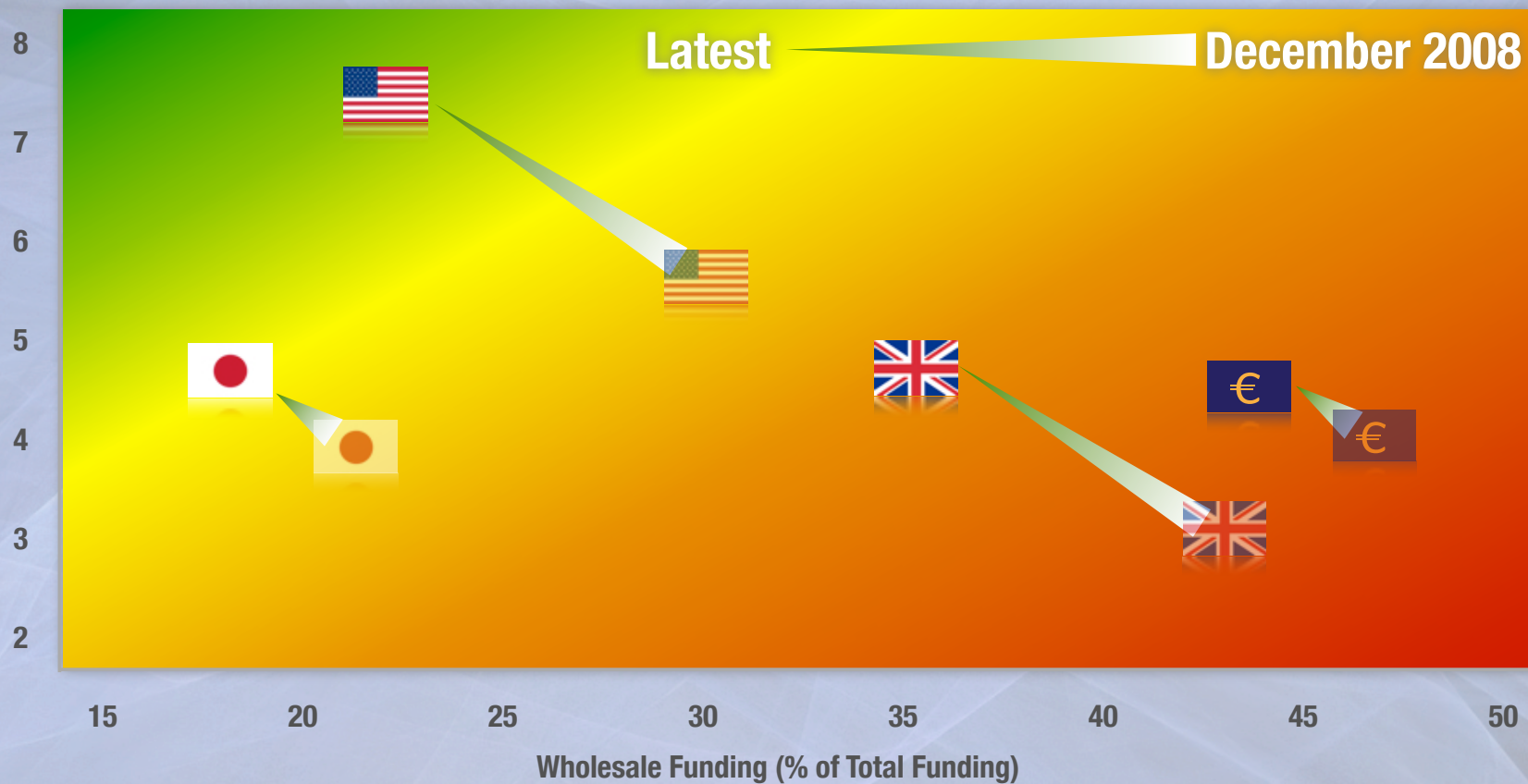


# LIVING DANGEROUSLY – THE LEGACY OF HIGH DEBT & LEVERAGE



# BANK SOLVENCY AND FUNDING IMPROVING, BUT UNEVEN

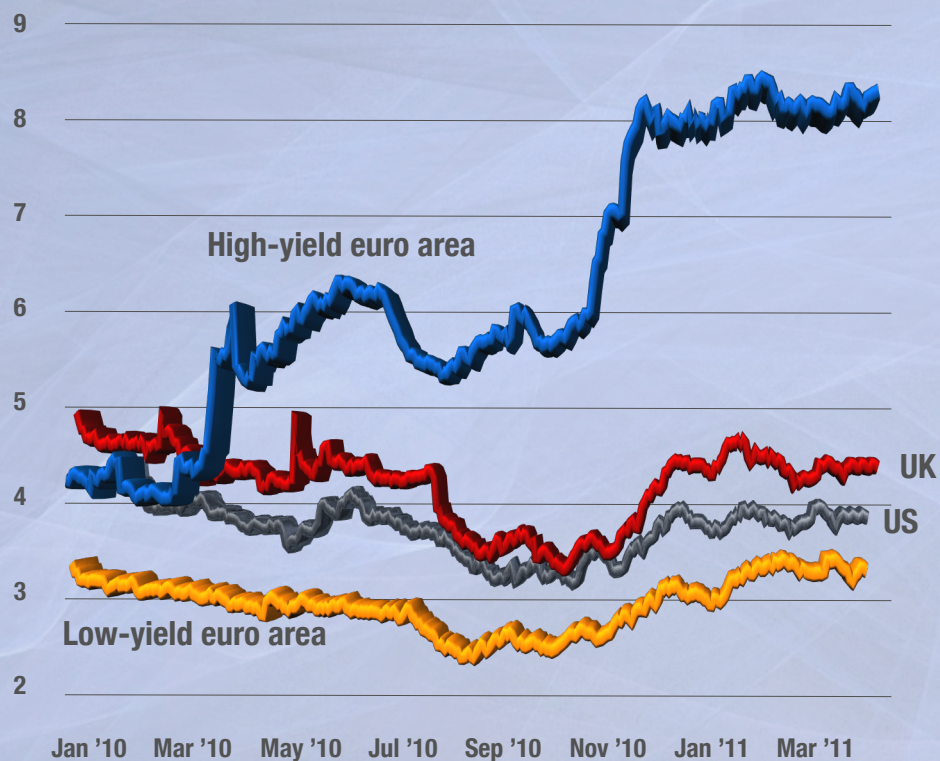
Tangible Common  
Equity/Tangible  
Assets (%)



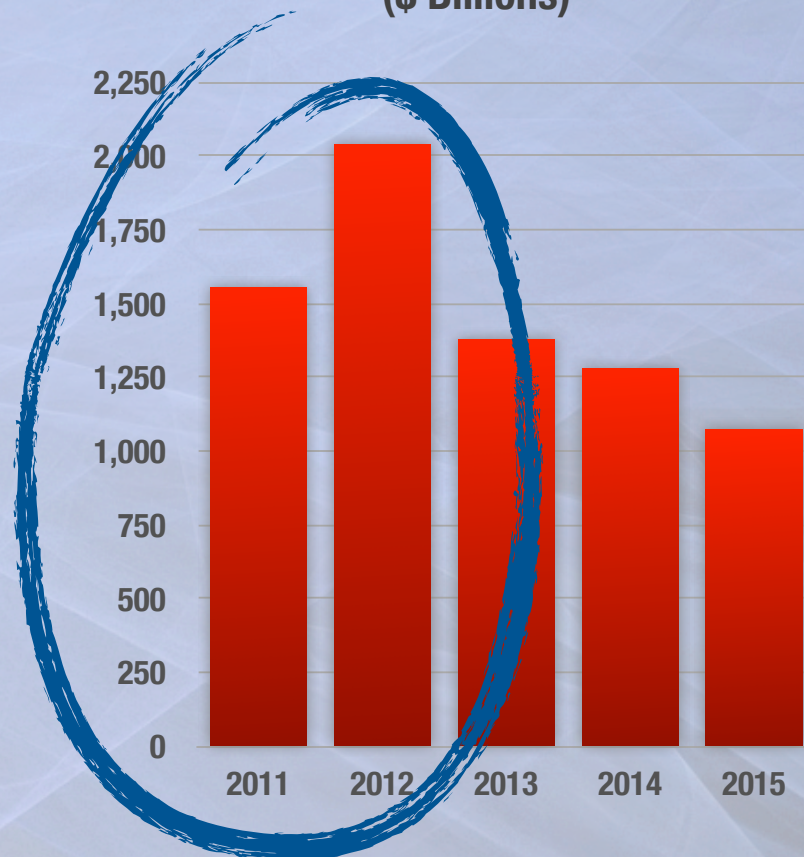


# BANK FUNDING PRESSURES PERSIST ...

Bank Debt Yields (%)

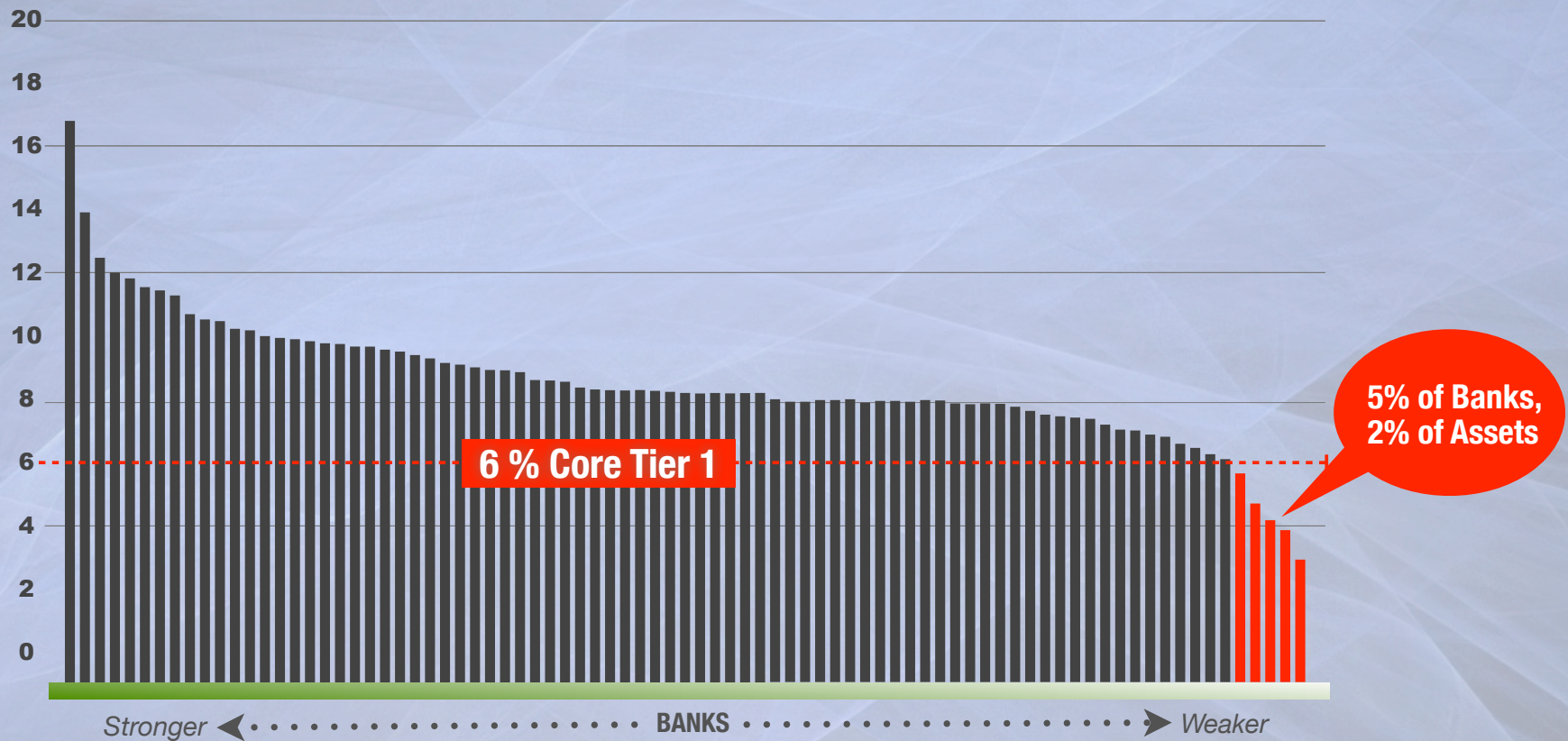


Global Bank Debt Maturity Profile (\$ Billions)



# ...AND MORE CAPITAL IS NEEDED.

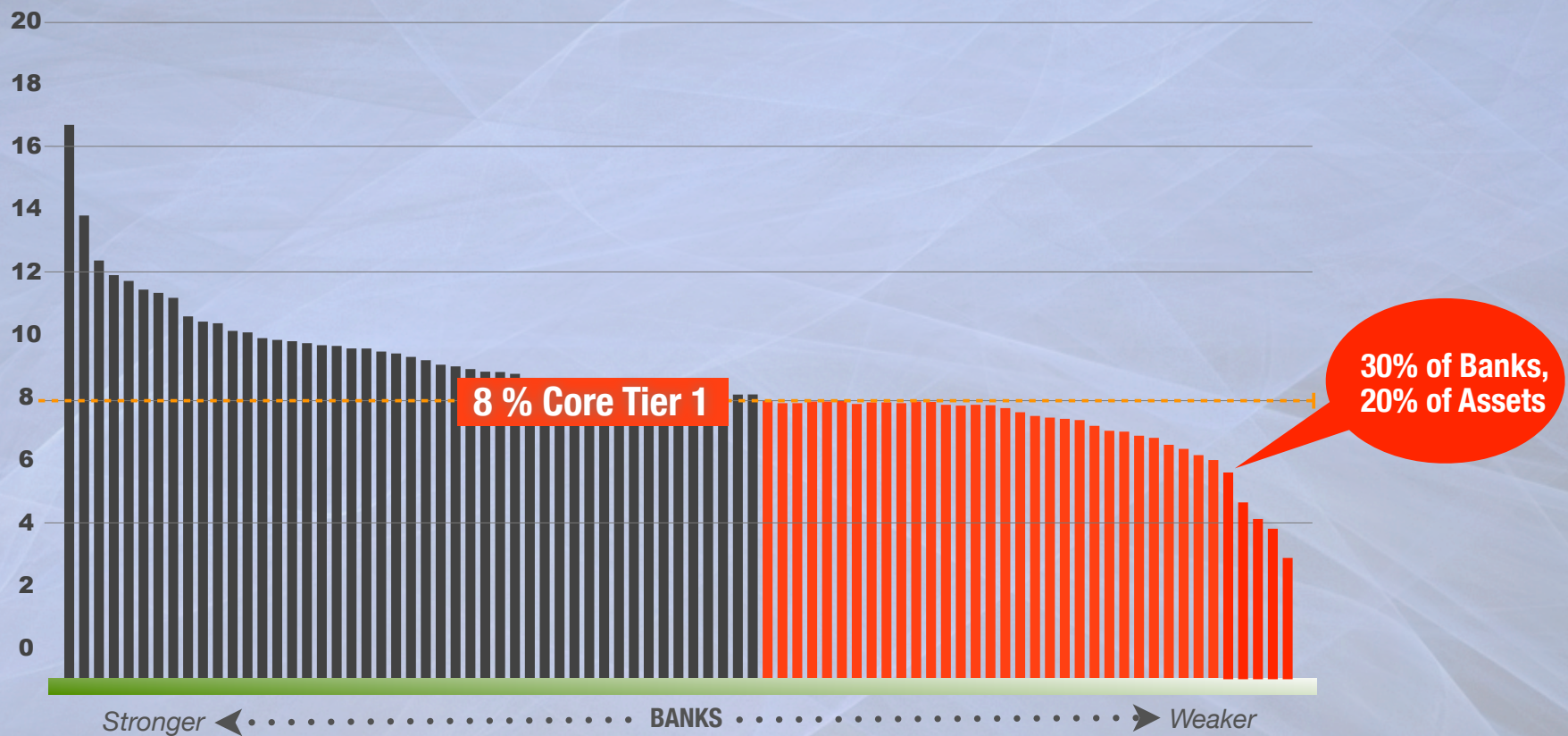
EU Bank Core Tier 1 Ratios, 2010  
(Percent of Risk-Weighted Assets)



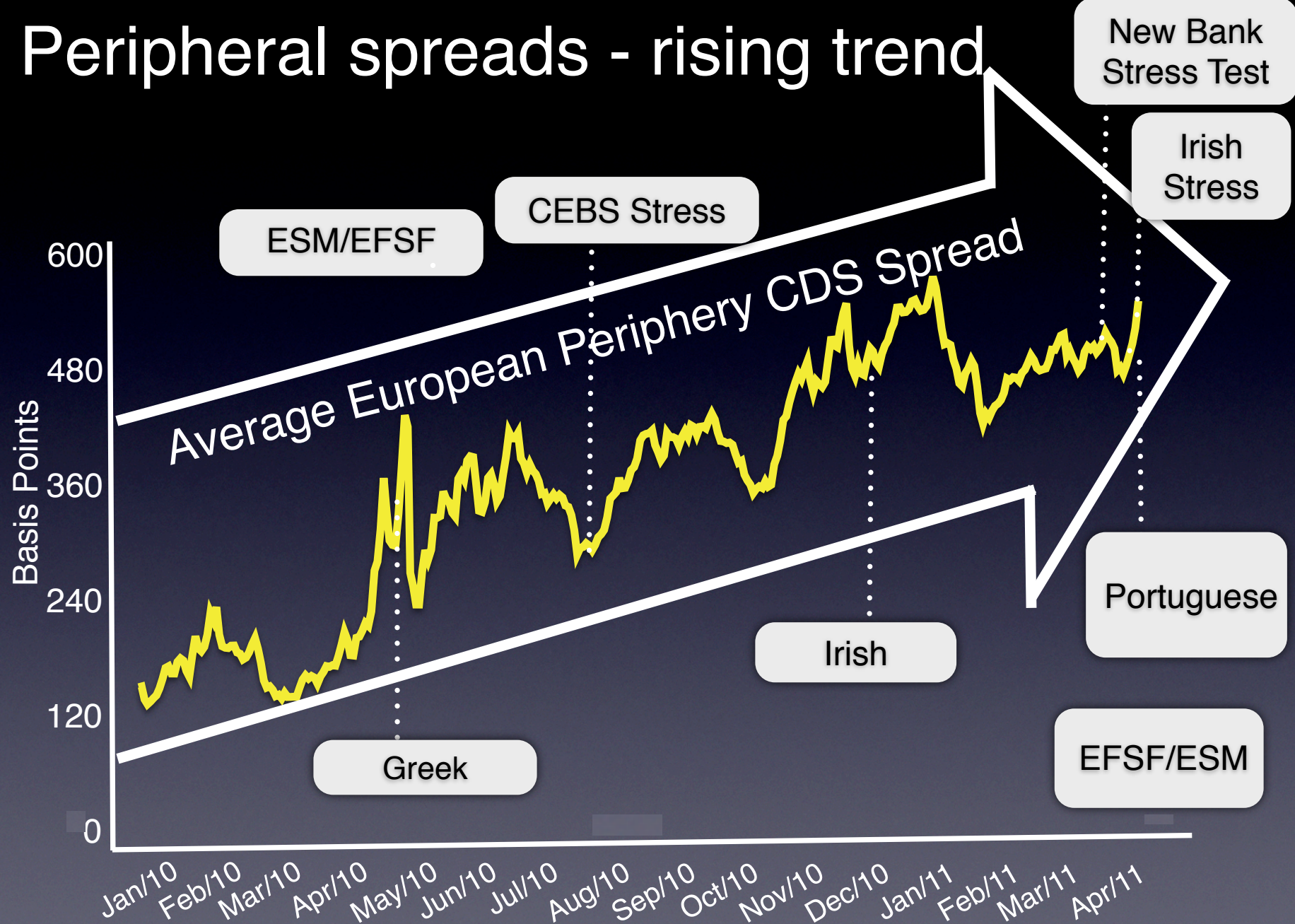


# ...AND MORE CAPITAL IS NEEDED.

EU Bank Core Tier 1 Ratios, 2010  
(Percent of Risk-Weighted Assets)



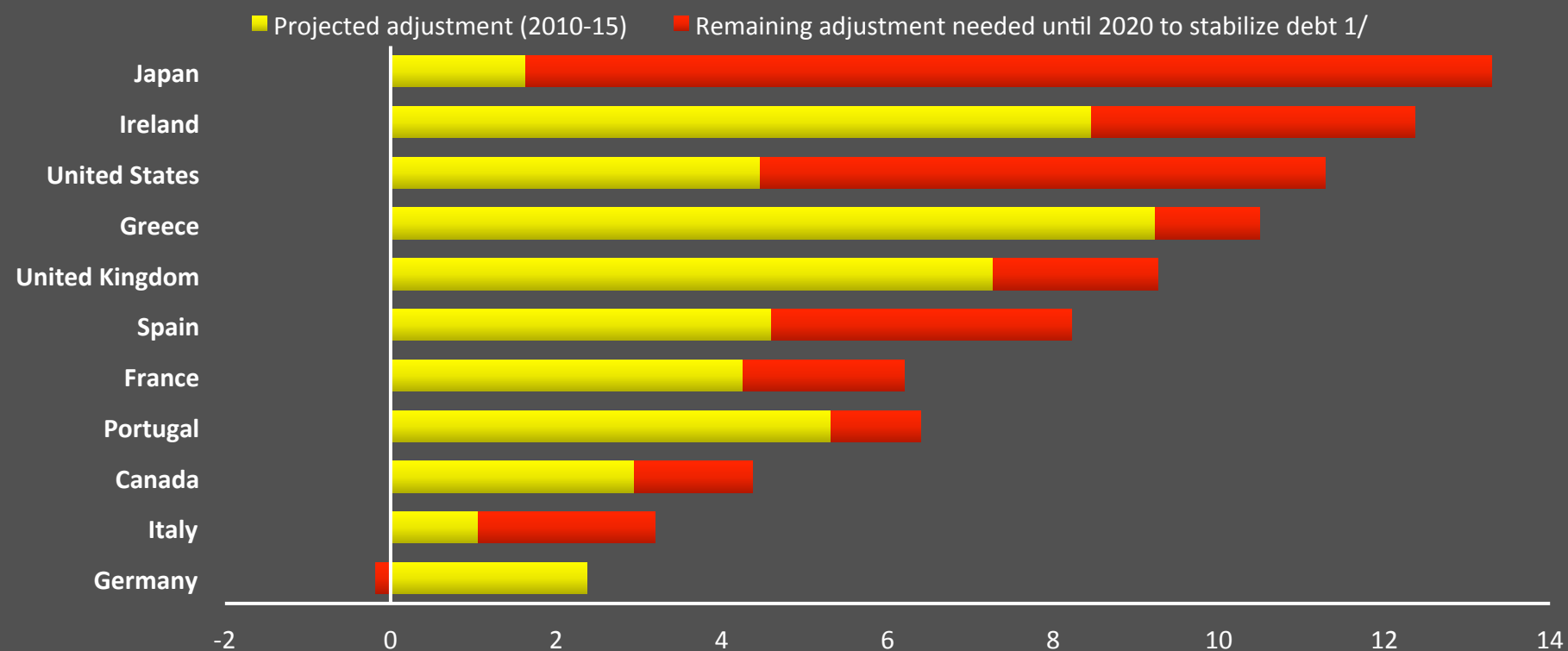
# Peripheral spreads - rising trend





# SIZE OF FISCAL CONSOLIDATION NEEDED

## Change in Cyclically-Adjusted Primary Balances (percent of GDP)

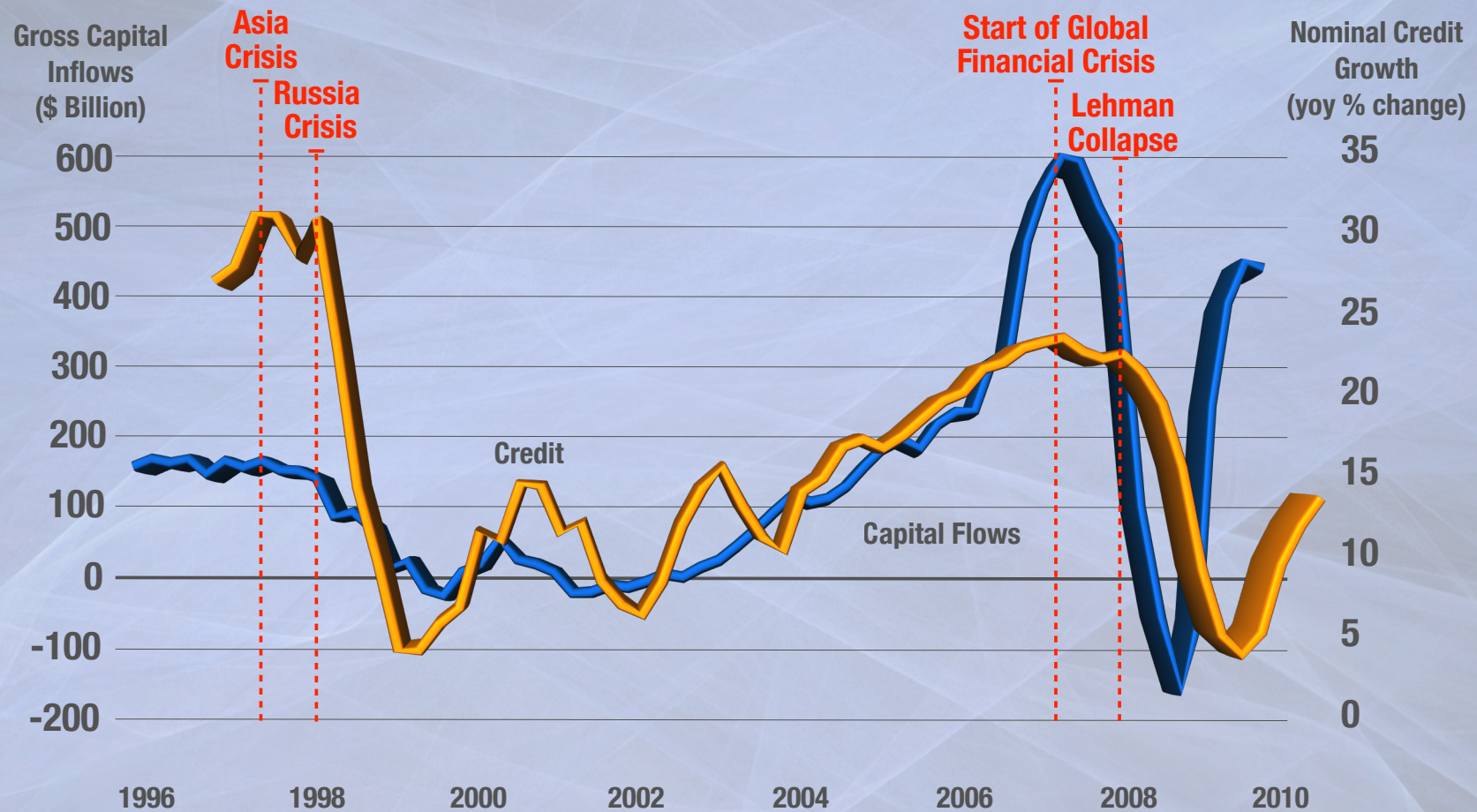


Source: IMF, FAD staff calculations.

1/ To reduce the gross debt ratio to 60 percent by 2030 (net debt target of 80 percent for Japan) or stabilize the debt ratio at end-2012 levels if the ratio is below 60 percent. After 2020, the primary balance must be maintained at its prevailing level until 2030 to ensure that public debt reaches its target ratio by 2030.



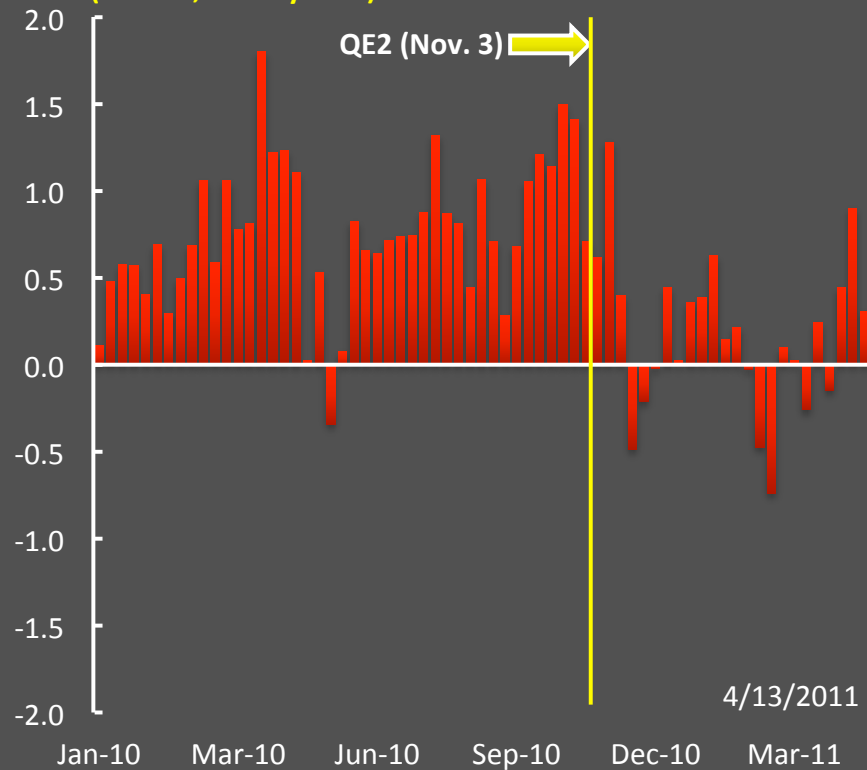
# EM RISKS: OVERHEATING AND FINANCIAL IMBALANCES



# CAPITAL FLOWS: FROM RHETORIC TO REALITY

## Bond Funds

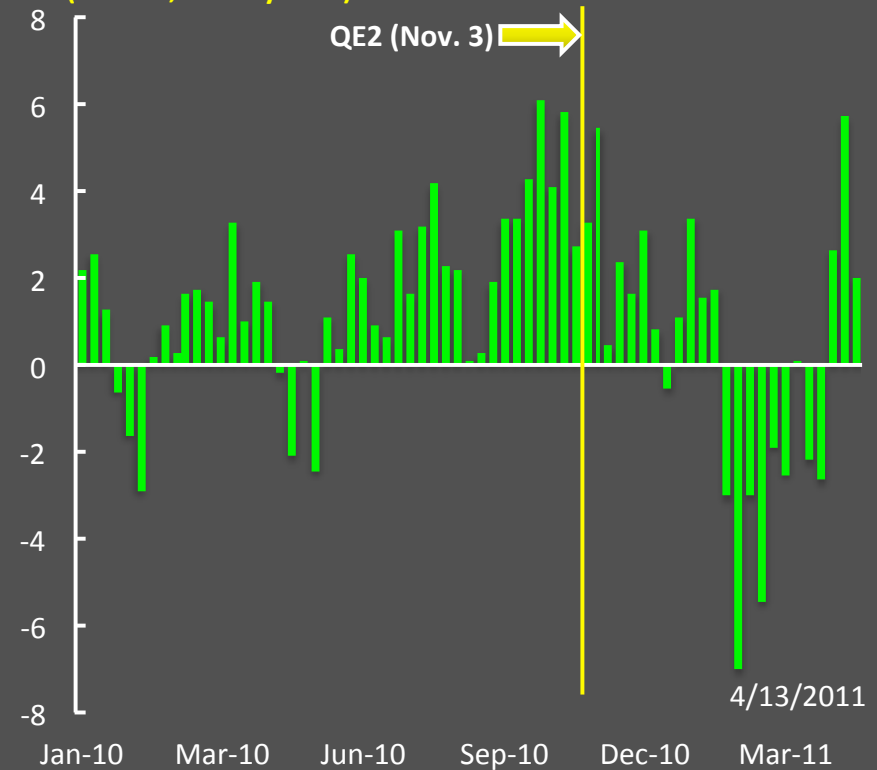
(U.S. bn, weekly flow)



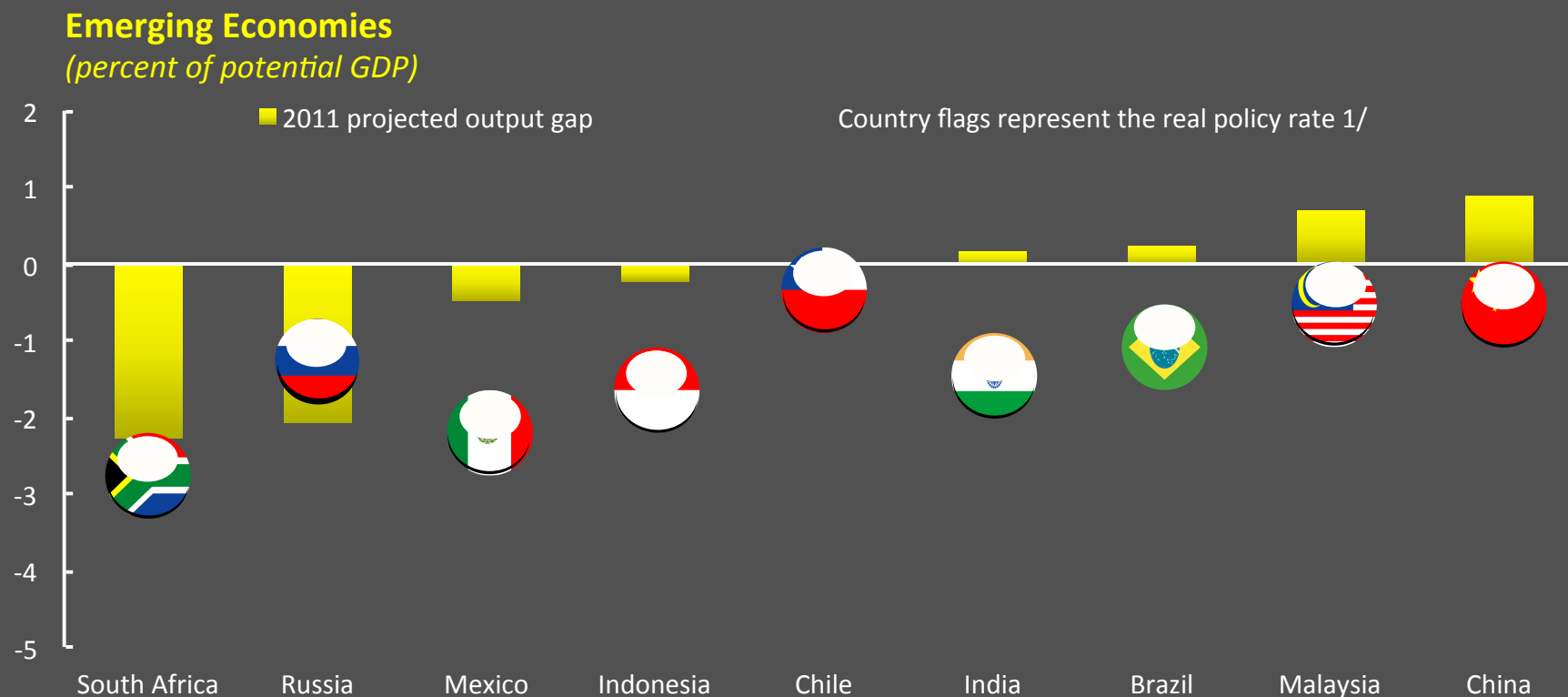
Source: EPFR Global.

## Equity Funds

(U.S. bn, weekly flow)



# EMs: FALLING “BEHIND THE INFLATION CURVE”?



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

1/ Real policy rate is defined as current policy rate (Apr. 2011) minus 1-year ahead consensus inflation expectation normalized by its 5-year average (2005-10); percentage points.

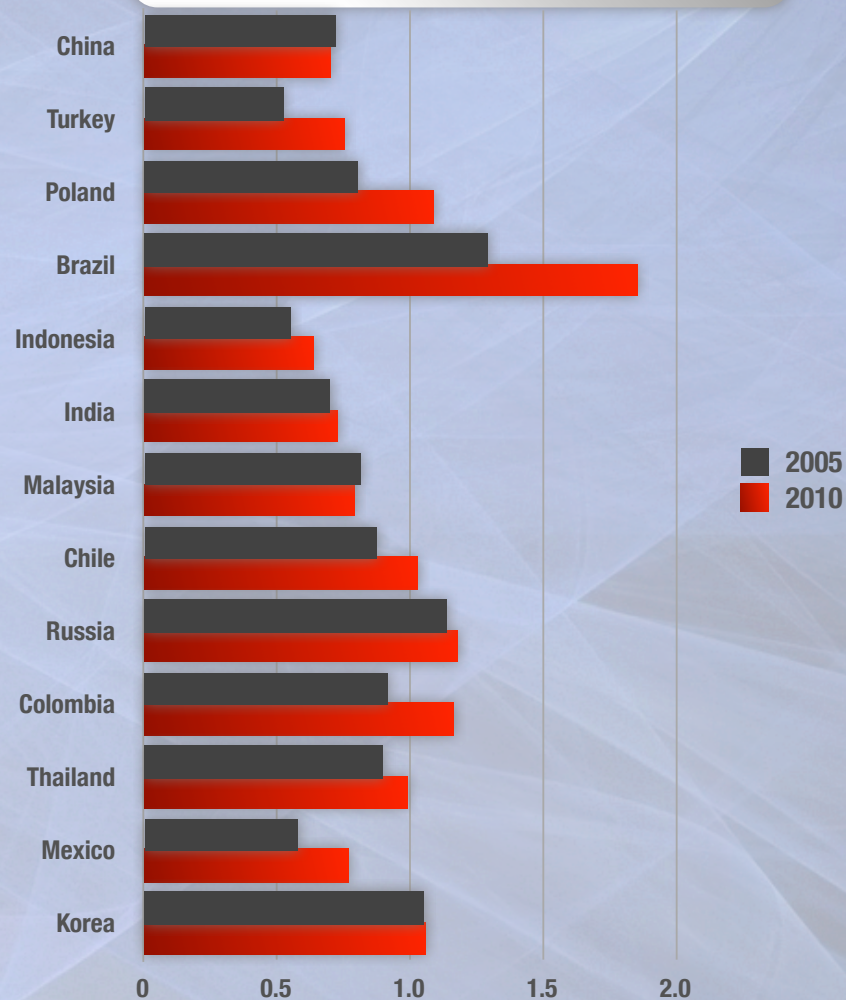


# EM BANKS RELEVERAGING

**Growth in Bank Assets and GDP  
(Average 2008-10)**



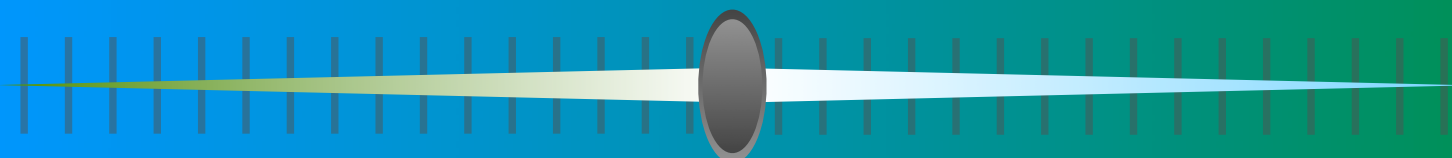
**Loan-to-Deposit Ratios  
(2005-2010)**



# REBALANCING THE POLICY MIX

**Advanced Economies**

**Emerging Markets**



*More Structural  
Solutions Needed*

*More Macroeconomic  
Policies Needed*

- Enhance Growth
- Banks
- Sovereigns

- Prevent Inflation/Overheating
- Limit Buildup of Financial Risks
- Macroprudential Policies

**Regulation: Much Work Ahead**

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