International Monetary Fund

World Economy: Outlook and Risks

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ROADMAP

- Global Outlook and Risks
- Frontier Markets: Opportunities and Vulnerabilities
- Policy Priorities
Global Outlook and Risks
Global Growth is Still in a Slow Gear

Average growth rates (in percent, y/y change)

Source: Haver and IMF staff calculations.
Euro Area: Financial Fragmentation...

Bank Lending to the Nonfinancial Private Sector
(In percent, year-on-year)

France

Italy

Euro area

Germany

Spain

Program countries

Banks: Uneven Balance Sheet Repair…

**Impaired Assets**
Annual change in impaired loan ratio in 2012:Q3
(Percentage points)

**Funding**
Loan to deposit ratio
(In percent, reverse scale)

**Loss Absorption Capacity**
Bank buffers (ratio)

**Profitability**
Return on assets (in percent, reverse scale)
Corporate Debt Overhang: The Weak Tail of Corporates

Corporate Debt
(4Q moving average, Q1 2002 = 100)

Share of Business with Both High Leverage and Negative Net Free Cash Flow
(In percent of assets of all sample firms; baseline projections: 2013-18 averages)
Emerging Market Releveraging

Emerging market nonfinancial corporate leverage
(percent, debt-to-equity)

Corporate leverage in Asia (ex-Japan)
(percent, debt-to-equity)
Bank-Corporate Loop Adding to Bank-Sovereign Loop

- NPLs and evergreening
- Banks absorb losses
- Constrained lending
- High lending costs
Changing U.S. Rate Expectations

Implied Fed Fund rates from Eurodollar Interest Rate Futures (percent)

US 10-year Treasury Yield (percent)

May 21

90th percentile

50th percentile

10th percentile
Recent Market Turbulence: Fears Have Receded…

**Bond Yield**
- Japan: -11 (basis point)
- Europe: -8 (basis point)
- EM: -4 (basis point)
- US: 0 (basis point)

**Equity**
- EM: -11 (percent)
- EM: -8 (percent)
- US: -4 (percent)

**Currency**
- Appreciation: €, ¥, £
- Depreciation: ¥

**Volatility**
- US Equity: 150 (percent)
- Europe Equity: 130 (percent)
- Japan Equity: 110 (percent)
- US Bond: 90 (percent)
- Turkey FX: 70 (percent)
- Brazil FX: 50 (percent)

Red bars indicate change since May 21, 2013 to current; yellow diamonds indicate change since May 21, 2013 to peak.
Recent Market Turbulence: But Fundamentals Still Matter…

Exchange rate change May 22 - Sep 11 (percent)

CPI inflation rate (yoy, percent, May-July average)

**Regression Equations:**
- \( y = -1.4567x + 2.2105 \)
  - \( R^2 = 0.5608 \)
- \( y = 0.2759x - 3.2126 \)
  - \( R^2 = 0.1065 \)

Current account balance (percent of GDP, most recent four quarters)
Emerging Markets: Shifting Towards Fixed Income

Selected EM Bond, Equity and Loan Issuance
(U.S. dollar, bn)

- Equities
- Loans
- Bonds

Foreign Holders of Sovereign Debt
(In percent of total debt)

2008Q3
Local Currency Debt Sensitive to External Factors

Nonresident holdings of local currency government debt
(share of total; in percent)

Local currency yield compression (2008-2012)
(basis point)
Frontier Markets: Opportunities and Risks
First-time Issuers and Short-term Risks...

Timeline of International Bond Issuance
(in millions of US dollars)

- Africa
- Eastern Europe
- Latin America
- Middle East
- Asia

Source: Dealogic and IMF staff calculations.

Portfolio Indicators
(in percent)

- Debt to GDP ratio
- FX debt/total debt (%)
- Debt maturing in next 12 months (%)
- Variable-rate debt/total debt (%)

Bolivia, Honduras, Mongolia, Namibia, Paraguay, Rwanda

Source: MTDS reports (IMF)
...And Longer Term Risks Too

Rollover risk (in percent of GDP)

Maturity profile without new bond (period average)

First-time bonds falling due (period average)

average = 0.6

average = 1.0

average = 0.7

Country sample includes Bolivia, Honduras, Mongolia, Namibia, Rwanda, Tanzania and Zambia.

Growth gap (in percent)

Baseline (current debt strategy)

100% External Debt

Baseline+15% FX depreciation

100% External+15% FX depreciation

Note: Growth gap is the difference between the average expected growth rate and the required (implied) growth rate that makes the debt stock remains constant at current level, over the projection period.
Policy Priorities
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<th>Region</th>
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<td>U.S.</td>
<td>• Monetary policy exit: Communicate clearly and execute skilfully</td>
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<td></td>
<td>• Fiscal policy: ...</td>
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<td>Japan</td>
<td>• From one to three arrows</td>
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<td>Euro Area</td>
<td>• Complete the repair of banks</td>
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<td>• Address corporate debt overhang</td>
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<td>• Progress toward strong Banking Union</td>
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<td>EMs and LICs</td>
<td>• Improve macro-financial fundamentals</td>
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<td>• Prepare contingencies in the case of market turbulence</td>
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International Priority: Financial Regulatory Reforms

Regulation

- Consistent adherence to capital and liquidity standards
- Robust disclosure requirements
- Effective resolution regimes, nationally and internationally

Supervision

- Independent and well-resourced supervisors