Outlook:
Global Economy &
Global Financial Stability

International Forum of Sovereign Wealth Funds

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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)*

- Metals
- Beverages
- Food
- Agricultural raw materials
- Energy

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

- World
- Advanced
- Emerging

Source: IMF, Global Data Source.
LIVING DANGEROUSLY – THE LEGACY OF HIGH DEBT & LEVERAGE

Debt as a Percent of GDP

Higher Risk

Lower Risk

Debt/Equity

Ratio of Tangible Assets to Tangible Common Equity
BANK SOLVENCY AND FUNDING
IMPROVING, BUT UNEVEN

Wholesale Funding (% of Total Funding)

Tangible Common Equity/Tangible Assets (%)

Latest

December 2008
BANK FUNDING PRESSURES PERSIST ...

**Bank Debt Yields (%)**

- High-yield euro area
- Low-yield euro area
- UK
- US

**Global Bank Debt Maturity Profile**

($ Billions)

- 2011
- 2012
- 2013
- 2014
- 2015
…AND MORE CAPITAL IS NEEDED.

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

5% of Banks, 2% of Assets

6% Core Tier 1
...AND MORE CAPITAL IS NEEDED.

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

8 % Core Tier 1

30% of Banks, 20% of Assets
Peripheral spreads - rising trend

Average European Periphery CDS Spread

ESM/EFSF
CEBS Stress
Greek
Irish
Portuguese
EFSF/ESM

New Bank Stress Test
Irish Stress

Basis Points
SIZE OF FISCAL CONSOLIDATION NEEDED

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

- Projected adjustment (2010-15)
- Remaining adjustment needed until 2020 to stabilize debt 1/

Japan
Ireland
United States
Greece
United Kingdom
Spain
France
Portugal
Canada
Italy
Germany

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

Gross Capital Inflows ($ Billion)

Nominal Credit Growth (yoy % change)


Asia Crisis
Russia Crisis
Start of Global Financial Crisis
Lehman Collapse

Credit
Capital Flows

15 20 25 30 35

0 5 10 15 20 25 30 35
EMs: FALLING “BEHIND THE INFLATION CURVE”?

Emerging Economies
(percent of potential GDP)

2011 projected output gap

Country flags represent the real policy rate 1/

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)

- China
- Turkey
- Poland
- Brazil
- Indonesia
- India
- Malaysia
- Chile
- Russia
- Colombia
- Thailand
- Mexico
- Korea

Bank Assets
GDP

2005
2010

0 0.5 1.0 1.5 2.0
0 5 10 15 20 %
Emerging Markets

Advanced Economies

More Structural Solutions Needed

Emerging Markets

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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