GROUP OF TWENTY

# GLOBAL PROSPECTS AND POLICY CHALLENGES

Meetings of G-20 Finance Ministers and Central Bank Governors
April 18–19, 2013
Washington, DC

Prepared by Staff of the

INTERNATIONAL MONETARY FUND*

*Does not necessarily reflect the views of the IMF Executive Board.

# EXECUTIVE SUMMARY


**Policy actions have reduced tail risks and financial conditions have improved**. Decisive actions in the euro area and steps to avert the "fiscal cliff" in the United States have contained the immediate threats to the global economy. Markets have rallied and activity has stabilized. Monetary policy continues to support demand in advanced economies, helping to offset the drag from fiscal consolidation. In many emerging economies, credit and activity are propelling each other, reflecting past policy easing and a resurgence of capital inflows.

**Global activity is moving at "three speeds"**. Global growth prospects are little changed—weak for some, improving or strong for others. Among advanced economies, the euro area remains stuck in low gear given the serious challenges facing EMU; and, in Japan, looking past the stimulus-driven rebound, private demand and growth are also expected to remain sluggish. In contrast, private demand and growth prospects in the United States are strengthening as public and private sector balance sheets mend. Meanwhile, growth in emerging economies is expected to be relatively strong.

**While downside risks have receded some, medium-term concerns and challenges remain elevated**. A stagnant euro area still faces downside risks to the short-run outlook, including reemergence of stresses if policy momentum is not sustained. In the United States, underlying momentum is being masked by fiscal consolidation; and budget sequestration, if not modified, would lower headline growth beyond this year. In the medium term, several threats loom—including more protracted economic weakness and financial fragmentation, adjustment fatigue, and stalled policy implementation in the euro area; lack of credible fiscal roadmaps in the United States and Japan; possible side effects (including spillovers) related to an extended period of monetary easing; and negative growth surprises in emerging economies.

**Policymakers face a difficult balancing act in moving from stabilization to growth, but should build on recent gains to get ahead of the curve**:

- *Fiscal tightening must continue at a pace that the recovery can handle*. Short-term adjustment must be calibrated carefully, anchored by credible and strong medium-term consolidation plans.
- *Monetary policy should remain accommodative but mindful of new risks*. Unconventional policies continue to provide essential support to demand and have lessened bank vulnerabilities in advanced economies. But vigilance is needed to ensure that a prolonged period of low interest rates and expanding central bank balance sheets does not give rise to fresh financial excesses. Targeted macro- and micro-prudential tools may be needed.
- *Financial reform should be reinvigorated and support growth*. The process remains incomplete but its pace and direction should avoid making it harder for banks to lend as the economy regains strength. Improved financial policies can also help the transmission of monetary policy.
- *Emerging economies should rebuild buffers and may need to recalibrate policies*. Stronger growth allows policy buffers to be gradually rebuilt over time. Policymakers must also remain alert to rising domestic financial vulnerabilities. Capital inflows may require adjustment to the policy mix.


---

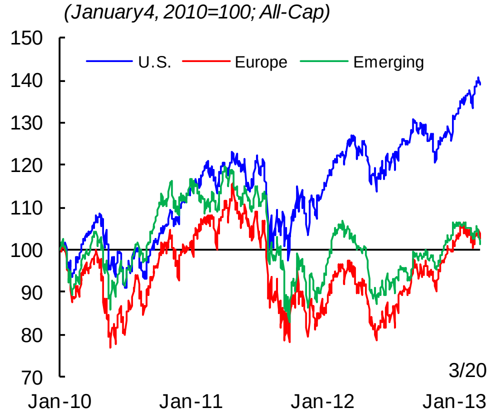

Prepared by a team from the IMF's Research Department, led by Hamid Faruqee and Emil Stavrev and including Troy Matheson, Joong Shik Kang, Eric Bang, Shuda Li, Shanti Karunaratne, Anne Lalramnghakhleli Moses, and Gabi Ionescu.

# I. DEVELOPMENTS & OUTLOOK

*Financial conditions have improved as policy actions have reduced short-term risks to financial stability. However, the recovery remains unbalanced—unusually weak in the euro area with downside risks while gradually strengthening in the United States, and relatively strong in emerging and developing economies—highlighting key factors still weighing on underlying growth prospects. In advanced economies, low policy interest rates will likely translate only slowly into more dynamic bank lending and private spending as balance sheets mend, while fiscal positions consolidate. At the same time, in many emerging economies, credit and activity are propelling each other, while policies try to manage some resurgence in volatile capital inflows.*

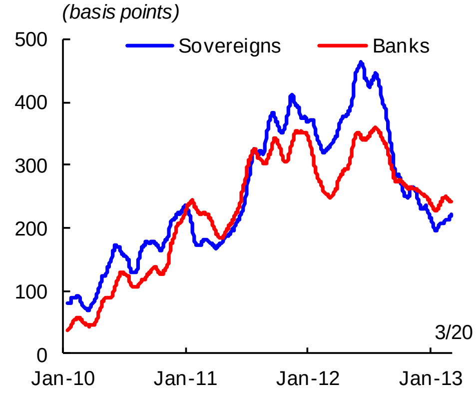
1. **Financial markets have rallied as policies have mitigated tail risks**. Global financial stability has improved since last year following key actions and risk appetite has increased—fueling a rally in asset prices.[1] Equity prices in both advanced and emerging economies have posted strong gains since mid-2012. On the heels of strengthened policy action and commitments to ease concerns about the integrity of the euro area and a last-minute deal to avoid the worst of the U.S. fiscal cliff, market volatility has fallen to pre-crisis levels. Elevated spreads in the euro area periphery have narrowed appreciably and some have successfully placed large volumes of syndicated bonds. Nevertheless, confidence remains fragile. Renewed volatility emerged in response to political uncertainty in Italy and terms of the financial support package for Cyprus. Market contagion from the latter appears limited (mainly to Greece and Russia) but has renewed concerns about policies and the credibility of the crisis response in Europe.

**FTSE Global Equity Index**
*(January 4, 2010=100; All-Cap)*




Source: Haver Analytics.

**Periphery Minus Core Credit Default Swap Spreads**
*(basis points)*




Sources: Bloomberg, L.P.; and IMF staff estimates.
Note: Sovereign index is weighted by GDP, and the bank index is weighted by assets.

---

[1] See *Global Financial Stability Report* (April 2013).

2. **Global growth, however, is moving at "three speeds**." Notwithstanding improved financial conditions, economic activity at the end of 2012 was subdued and had a sluggish start in 2013. Financial conditions are not translating into growth evenly and other factors are acting as brakes. Europe remains stuck in low gear given challenges facing EMU and, following recession, Japan will see a stimulus-driven rebound; while private demand has shown some strength in the United States as underlying momentum picks up. Many emerging and developing economies enjoy high growth, even if this is somewhat lower than before the crisis.

3. **The unbalanced nature of the recovery in advanced economies reflects key brakes and policy challenges**. Fiscal consolidation and weak balance sheets continue to weigh on demand, alongside financial fragmentation in the case of the euro area. But important differences in growth momentum have emerged. Specifically:

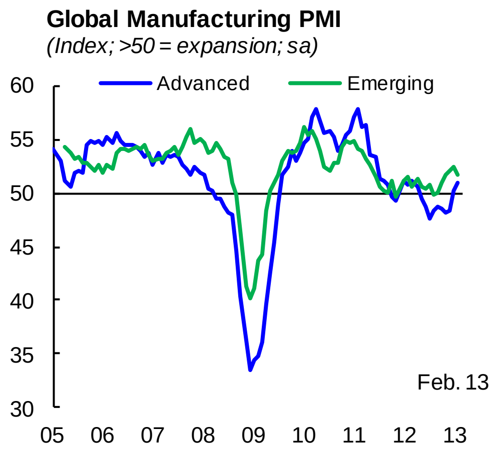
- *Activity was surprisingly weak in the euro area, including in parts of the core*. Recent indicators have not shown as much evidence of stabilization as hoped, despite improvements in market sentiment. Weakness has spread from the periphery to the core. Credit conditions remain tight, and transmission of low policy rates to the real economy is weak as high financial fragmentation persists. Periphery banks are still hobbled by poor profitability and low capital. Corporations in the periphery, meanwhile, are being directly affected by bank balance sheet weakness, cyclical pressures, and, in many cases, sizeable debt overhangs.

- *In Japan, the economy will see a fiscal and monetary stimulus-driven rebound this year*. Real GDP growth is expected to reach 1.6 percent in 2013, following negative growth in the second half of 2012, given expansionary policies this year. However, this raises the challenge to restore long-term soundness to public finances, meanwhile prospects for private demand growth remain subdued.

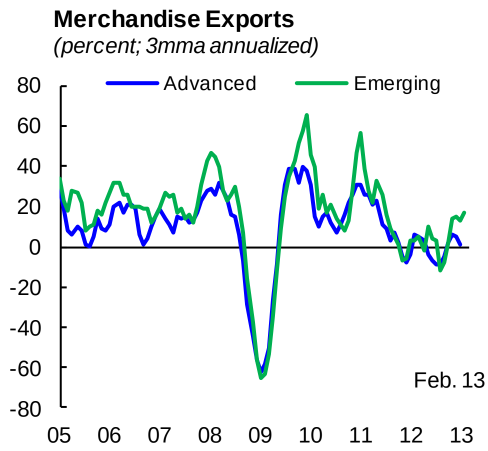
- *In contrast, underlying U.S. economic prospects are steadily improving*. U.S. private demand has been showing some strength, as credit and housing markets are healing, though larger-than-expected fiscal adjustment is projected to keep U.S. real GDP growth at about 2 percent in 2013. Household and bank balance sheets—as house prices begin to rise again and stock markets move higher—are healthier now.

4. **Reaccelerating activity in emerging economies has been encouraging**. In Asia, growth has already returned to a healthy pace in China, and in India external demand, solid consumption, and policy improvements are expected to lift activity. Growth in Latin America will strengthen this year, with activity in Brazil expected to recover in response to the large policy rate cuts deployed during the past year as well as to measures targeted at boosting private investment. Risks of a hard landing in key emerging economies have receded, in

part due to policy action following a noticeable albeit temporary slowdown last year, though estimates of potential growth have been marked down in recent years for some large economies. With consumer demand resilient, macroeconomic policy on hold, and exports reviving, many economies are now seeing higher growth. Capital flows have picked up again.




Source: IMF, *Global Data Source.*




Source: IMF, *Global Data Source.*

5. **Fiscal deficits in advanced economies continue to narrow steadily overall**. Deficits in advanced economies narrowed last year by ¾ percent of GDP, with a slightly faster pace expected in 2013.[2] U.S. fiscal policy is expected to tighten even more than in 2012 as budget sequestration has now begun. Fiscal tightening is becoming excessive from a cyclical standpoint, leaving a high burden on monetary policy to support demand. In the euro area, the pace of consolidation is expected to decline somewhat in 2013, reflecting a slowing in Germany and Italy. In Japan, with new stimulus, the fiscal stance will ease moderately this year, but is expected to tighten markedly in 2014 as stimulus and reconstruction spending unwind and the consumption tax increases (from 5 to 8 percent). In the United Kingdom, the pace of structural fiscal consolidation is 1 percent of GDP in FY 13/14 and slower than previously planned. However, given weak nominal growth, the debt outlook has worsened, and the authorities have appropriately allowed meeting the Supplementary Debt Target by two years later than envisaged in 2010.

6. **In emerging economies, fiscal policy is projected to remain close to neutral**. Elevated growth will push debt ratios farther down, to 26 percent of GDP by 2018. However, some countries continue to face significant fiscal challenges—for example, Middle Eastern oil importers, several emerging EU economies, and India.

---

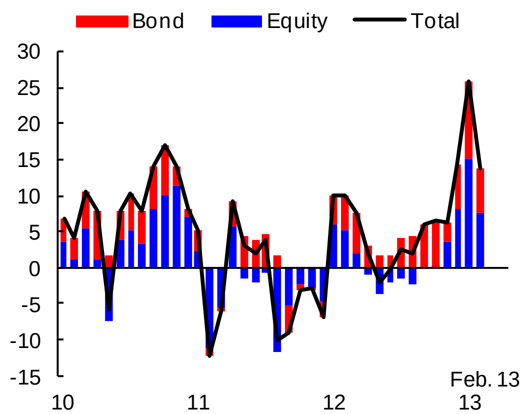
[2] See *Fiscal Monitor* (April 2013).

7. **Monetary policy continues to support domestic demand while public finances consolidate**. Advanced economies continue to rely heavily on highly accommodative and unconventional monetary policy to provide essential support to aggregate demand, helping offset fiscal drag. Financial conditions in the euro area have improved following the ECB announcement of OMT but pass through to bank credit and lending rates, particularly in the periphery, remains muted. The Fed enhanced its forward policy guidance and renewed purchases of longer-term Treasuries; and the Bank of Japan strengthened its resolve to exit deflation by announcing a bolder monetary framework in an effort to achieve its higher inflation target of 2 percent within 2 years. Net benefits from unconventional policies remain favorable, but side effects—including future risks to financial stability—should be closely watched and managed.[3]

8. **Lagging recovery and strong monetary stimulus in advanced economies has placed pressure on currencies and capital flows**. Capital flows have been volatile throughout the course of the global recovery reflecting inter alia changing risk perceptions and low policy rates in advanced economies. With short-term financial risks abating, bond and equity flows to emerging economies have surged recently, increasing upward pressure on their exchange rates and, raising concerns among some emerging economies of "competitive devaluation." Concerns resurfaced once again recently, when plans for looser monetary policy in Japan prompted a large depreciation of the yen. However, there currently appears to be no major deviations of main currencies from medium-term fundamentals (see Box). Neverthless, attendant risks related to the financial sector bear wathching. In some emerging economies, capital flows over the last few years have also been associated with higher corporate leverage and foreign currency denominated debt; and sharply rising non-residents' holdings of local currency sovereign bonds. A continuation of these trends would increase financial stability risks.[4]

**Total Flows**

*(billions of U.S. dollars; mutual funds)*




Source: Haver Analytics.

[3] See "Do Central Bank Policies Since the Crisis Carry Risks to Financial Stability," Chapter 3, *GFSR* (April 2013).

[4] See Chapter 2, GFSR (April 2013).

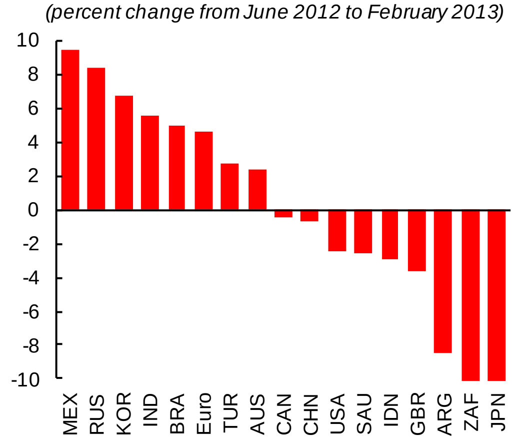
## Capital Flows, Exchange Rates, and Policy Spillovers

*Alongside the unbalanced nature of the recovery, interest rates have remained exceptionally low in advanced economies for an extended period. Thus, unsurprisingly, when risk perceptions have improved through the course of the recovery, capital has relocated from advanced to emerging economies and affected exchange rates. Some economies remain concerned about spillovers from easy monetary policy and depreciating currencies in advanced economies. To defuse tensions, the way forward is to focus on collective policies that foster external and internal balance.*

**While capital flows have been volatile alongside changing risk perceptions, flows also reflect better long-term prospects in many emerging markets**. With higher potential growth and lower debt, many emerging markets today look like good locations for investment given the outlook for advanced economies. This leads to structural capital inflows with significant economic benefits for recipients. Capital flows are also justified by the weaker cyclical position of advanced countries, which is consistent with temporary exchange rates weakness. This is part of how they can recover. Loose monetary policy (including unconventional policies) in many advanced countries has been targeted at sustaining internal demand and to support banks and near-term financial stability, which benefits the health of the global economy. In some cases, it can restore confidence and lead to domestic currency appreciation as was seen in the case of the euro following introduction of OMT.

**Complaints about "competitive devaluation" appear overstated**. Since 2007, adjustment in real exchange rates has facilitated a narrowing of global imbalances. Currencies appreciated in surplus economies and depreciated in deficit economies. There appears to be no major deviations of the main currencies from medium-term fundamentals. The IMF assessment in the July 2012 Pilot External Sector Report and developments in exchange rates and WEO current account projections since then indicate that the real effective exchange rates of the euro area and the U.S. are modestly stronger relative to medium-term fundamentals. Evidence on the valuation of Japan's real effective exchange rate is more mixed. As for surplus economies, including China and Korea, in most cases, currencies remain moderately weaker than desirable, despite welcome adjustments (most notably less accumulation of reserves).

**Real Effective Exchange Rate**
*(percent change from June 2012 to February 2013)*




Source: IMF, *Global Data Source.*

**The best way to address "currency worries" is for all to pursue policies that foster internal and external balance.** In the advanced economies, this requires more progress with medium- and long-term fiscal adjustment plans, entitlement reform, and balance sheet repair. Short-term fiscal policies could then be less restrictive, which, together with better balance sheets, would relieve pressure from overburdening monetary policy. Emerging market economies, in turn, face different challenges. China should allow its exchange rate to be more market determined and should implement structural policies to rebalance the economy toward consumption-driven growth. Other economies need to deploy structural policies to foster the healthy absorption of capital inflows. If inflows pose macroeconomic or financial stability risks, countries can respond with macroeconomic and financial policies, accompanied, in some circumstances, by capital-flow-management measures.

9. **Looking ahead, global growth should firm gradually as financial conditions and confidence continue to improve**. Global growth forecasts remain broadly unchanged from January.[5] Real GDP growth is forecast to reach 3¼ percent on an annual average basis in 2013 and 4 percent in 2014. In advanced economies, easier financial conditions, accommodative monetary policies, and recovering confidence will support a gradual reacceleration of activity, notwithstanding tight fiscal policy. In emerging and developing economies, the expansion of output is expected to become broad based, accelerating steadily from about 5 percent in the first half of 2012 to around 6 percent in 2013–14, driven by easy macroeconomic conditions and recovering demand from the advanced economies.

10. **In advanced economies, maintained low policy rates will likely translate only slowly into more dynamic bank lending, particularly in the euro area**. In the United States, the rate of credit growth has been picking up gradually, and bank-lending conditions have been relaxing slowly from very tight levels. However, in the euro area, credit continues to contract and lending conditions continue to tighten, albeit at a slower pace, largely reflecting the situation in the periphery economies but also the poor macroeconomic outlook for the region as a whole.

11. **In many emerging economies, credit and activity are propelling alongside a resurgence in capital inflows**. With a few exceptions, central banks have held policy rates constant or cut them modestly in response to the 2012 slowdown. Real policy rates thus remain well below pre-2008 levels. At the same time, however, economic activity and capital inflows are reaccelerating, which may boost bank funding and ease credit conditions further. These factors have broadened the access of emerging market sovereigns and corporate to debt financing, and may reinforce economic growth. However, monetary and regulatory authorities should proactively manage attendant vulnerabilities—rising leverage, increased exposure to foreign currency liabilities, and potentially greater sensitivity of local government bond markets to outflows.

## II. KEY RISKS

*Policy actions have reduced short-term tail risks and upside risks have emerged, but medium-term challenges remain significant.*

12. **Short-term downside risks have been alleviated**. Acute risks to near-term financial stability have been reduced significantly, though gains need to be entrenched by additional action. In the euro area, financial market confidence gains remain fragile, with markets vulnerable to shifts in sentiment given financial fragmentation. Downside risks to the outlook

[5] See *World Economic Outlook* (April 2013).

include stagnation and the reemergence of stresses if policy momentum is not sustained, or events in Cyprus may renew concerns about banks and the adequacy of the policy framework in place. Steady fiscal consolidation in advanced economies has helped lower short-term fiscal risks, but uncertainties remain here too. In the United States, budget sequestration and a failure to smoothly raise the debt ceiling could restrain economic activity, as some federal operations could be seriously affected until funding is restored. The drag on growth could be much greater if confidence in policymakers begins to erode; and a possible failure to smoothly raise the debt ceiling later this year could be very damaging to the global economy. However, some upside risks have begun to appear. U.S. growth could be higher than projected, if financial market strength reinvigorates business and consumer confidence more robustly, boosting investment and durables consumption.

13. **Medium-term downside risks remain elevated**. These stem from:

- *In the euro area, financial system strain and very low growth or stagnation*. In the periphery, amid high taxes, tight lending conditions, corporate debt overhang, and weak domestic demand, investment may fail to gain momentum, and thus, growth may disappoint. As long as periphery sovereigns maintain market access, the damage to growth may be contained, but growth could be much worse if persistent stagnation entrenches pessimism, stalls policy implementation, and rekindles doubts about the monetary union.

- *In the United States and Japan, continued absence of credible medium-term plans to address unsustainable public finances*. Political gridlock in the United States has prevented comprehensive reform" so far; and the medium-term fiscal situation in Japan has worsened with a new bout of fiscal stimulus. Thus, a longer-term risk is that market perceptions doubt these economies' political systems ability to deliver the required adjustments in a timely fashion, thereby increasing risk premiums with potentially large effects on the global economy. More generally, public debt remains too high in light of likely higher financing costs when monetary policy normalizes, concerns about future growth, and aging pressures.

- *Ultra accommodative monetary policy in advanced economies*. If excess supply is less than estimated, actual and expected inflation may increase more than anticipated. Also, unexpected side effects (including cross-border spillovers) from an extended period of very low policy rates may lead to heightened sensitivity to interest rate hikes later and associated financial vulnerabilities (such as risky lending, balance sheet mismatches, liquidity risks, delayed restructuring, and high leverage). Finally, large central bank balance sheets may be hard to unwind when exit conditions are met, creating tensions between price and financial stability objectives.

- *In emerging economies, even weaker potential growth*. While cyclical factors have played a role for the weaker-than-expected activity in key economies over the past couple of years, so too have shocks that are more permanent. Serial disappointments in forecasts may be symptomatic of deeper, structural problems heralding lower investment and lower growth. Meanwhile, credit booms during the period of rapid growth in the past may leave domestic financial systems vulnerable to weaker growth outlooks going forward. Exceptionally accommodative monetary policy in advanced economies can have adverse side effects, including excessively high asset prices and more foreign currency borrowing in emerging economies and associated misallocation of resources and risks that should be monitored. This also includes risks from capital flow reversals or "sudden stops."

# III. POLICY IMPERATIVES

*Notwithstanding recent improvements, policymakers can ill afford to become complacent and should take advantage of recent gains to get ahead of the curve. Beyond securing the recent gains to financial stability, they face difficult challenges to move from durable financial stabilization to robust real growth—which has remained elusive so far. The imperatives remain broadly the same.*

14. **Policymakers face a difficult balancing act given challenging tradeoffs**. Advanced economies need to further repair public and private balance sheets while supporting demand and strengthening growth. Restoring the soundness of public finances requires tangible progress on consolidation, but care is needed to avoid harming the recovery where private demand remains weak. Advancing financial reform to safeguard stability is also imperative but too fast and/or uneven actions across countries can be counterproductive. At the same time, restructuring private sector debt will have consequences for lenders. Thus, a comprehensive approach on all fronts, that manages well the underlying tradeoffs, seems a requisite to achieve a lasting and robust recovery.

15. **Fiscal tightening must continue at a pace that preserves the recovery**. Policy makers must aim to nurture short-term recovery and have credible medium-term adjustment plans to help anchor expectations and gain flexibility.

- *Short-term adjustment must be calibrated appropriately*. However, some advanced economies where private demand has been chronically disappointing should consider smoothing the pace of consolidation, if they have the room for maneuver. In the United Kingdom, for example, greater flexibility in the pace of near-term fiscal consolidation should be considered given the weak recovery owing to lackluster demand. More generally, if growth surprises on the upside policymakers should reduce headline deficits faster, aiming for fiscal balances in cyclically-adjusted or structural terms.

- *Comprehensive and ambitious consolidation plans and entitlement reform are instrumental given tradeoffs facing fiscal policy*. In the United States, agreement on a credible fiscal roadmap could help create some short-term policy space, mitigate risks of excessive near-term consolidation, and ease the burden currently placed on monetary policy. In Japan, the recent fiscal stimulus makes developing a credible fiscal plan that stabilizes and reduces debt even more urgent. Progress on medium-term fiscal reform would also help quell concerns about political pressure on central banks to keep interest rates too low longer than warranted, given the massive purchases by various central banks of government paper since 2008. It will create greater scope to pursue supportive monetary policy without triggering concern about central bank independence or a resurgence of inflation.

16. **Monetary policy should remain accommodative but mindful of new and evolving risks**. Minimal room remains to lower policy rates in key advanced economies, except the euro area, and monetary transmission may be hindered by the state of the financial sector. Better central bank communications may help bring down real interest rates and provide added support to demand, including by reassuring markets against premature tightening. Japan's newly announced easing measures to achieve a new 2 percent inflation target within 2 years are welcome but they need to be accompanied by ambitious growth and fiscal strategies to reduce risks and ensure sustained recovery that benefits Japan and other economies. Central bank purchases of assets, long-term refinancing operations, and other interventions in financial markets are helping to reduce funding costs and strengthen confidence, but there may be worsening tradeoffs, including credit misallocation. Policymakers should employ appropriate macro- and micro-prudential tools to mitigate such outcomes. Central banks must decide what more, if anything, to do and prepare for an eventual exit from unconventional monetary policies.

17. **Financial policies need to secure stability and support recovery**. The reform agenda is unfinished and needs to be reinvigorated to strengthen the global financial system. Further action is needed to recapitalize, restructure, or resolve weak banks and improve the flow of credit to the economy, particularly in Europe. This would help pass-through of monetary accommodation. Like fiscal policy, the pace of financial reform to safeguard stability—such as higher capital and liquidity buffers—should be carefully calibrated to support bank lending and real growth, while avoiding unnecessary delays that can be a source of regulatory uncertainty that can deter the willingness to lend. Consistent implementation and international cooperation is also critical for a level playing field and reducing fragmentation.

- *Reversing financial fragmentation in the euro area, in particular, is critical for supporting growth*. The priorities are bank balance sheet repair and further steps toward a stronger EU financial oversight framework. Scope for direct bank recapitalization through the

European Stability Mechanism (ESM) is needed. Legislative agreements should be adopted expeditiously to ensure timely and effective implementation of the Single Supervisory Mechanism (SSM); the Single Resolution Mechanism (SRM) should become operational at around the same time; and tangible progress should be made toward a common deposit insurance guarantee scheme. Greater fiscal integration, with a common fiscal backstop for a credible banking union, remains a priority. At the national level, countries should press on with needed repair of bank, household, and corporate balance sheets.

18. **Structural policies should tackle high unemployment and rebuild competitiveness**. Rebuilding competitiveness is a particular challenge for periphery economies in the euro area. Large external imbalances in these economies were rooted, in varying degrees, in strong import growth, changes in external funding (from transfers to debt), and deteriorating income balances. Export market shares, by contrast, held up relatively well. The challenge for these economies is to engineer a recovery amid tighter external funding constraints. This will require policies to boost productivity and foster job-friendly wage setting to achieve sustained gains in export market shares.

19. **The challenge for emerging economies is to recalibrate policy settings and rebuild policy buffers**. With global prospects improving, the policy stance in many of these economies is still very accommodative, supporting domestic amid weak external demand from advanced economies. However, the appropriate policy mix varies considerably across countries. In general:

- *Policy buffers should be gradually rebuilt.* Although public debt ratios in most emerging economies are lower than in advanced economies, there is a risk that debt dynamics could become less benign. Where supply factors (e.g., infrastructure or labor market bottlenecks) and domestic policy factors (policy uncertainty and regulatory obstacles) have contributed to the recent stalling of investment (e.g., Brazil, India, and Russia) there are downside risks to growth potential. Combined with upside risks to bond yields, interest-growth differentials could become less favorable. Therefore, the need for fiscal consolidation may be more urgent where debt ratios are already high, or fiscal deficits are large.

- *Capital inflows may require adjustments to the policy mix.* Policymakers must remain alert to overheating risks as well as rising domestic financial vulnerabilities. Monetary policy tightening may encourage these flows, which will boost credit and thus reduce its effectiveness. Economies with external surpluses should provide room for monetary tightening by allowing currencies to appreciate, while economies with external deficits may need to consider tightening macroprudential measures or using capital flow management measures in conjunction with monetary tightening. These economies should also consider greater emphasis on fiscal tightening.

20. **Global imbalances have narrowed considerably, but old policy challenges remain unaddressed**. Most of the adjustment took place during the initial phase of the crisis, alongside global recession. Adjustment in real exchange rates since then has broadly gone in the right direction—with currencies appreciating in surplus economies and depreciating in deficit economies. Nevertheless, narrower imbalances largely reflect demand compression from correcting financial excesses, not desirable fiscal and structural adjustments. Accordingly, China needs to continue to promote greater consumption-driven growth and allow markets to play a stronger role in determining the exchange rate; and Germany needs reforms to boost domestic demand, notably investment. The United States should raise saving, by proceeding with medium-term fiscal consolidation, and further improve its current account position. Likewise, other deficit economies need further fiscal adjustment and structural reforms to boost competitiveness, particularly in the euro area periphery.

**Table 1. Real GDP Growth**

*(Percent change)*

| | Year over Year Averages | | | | Q4 over Q4 | |
|---|---|---|---|---|---|---|
| | | | Projections | | Projections | |
| | 2011 | 2012 | 2013 | 2014 | 2013 | 2014 |
| **World 1/** | **4.0** | **3.2** | **3.3** | **4.0** | **3.6** | **4.0** |
| Advanced economies | 1.6 | 1.2 | 1.2 | 2.2 | 2.0 | 2.3 |
| Euro area | 1.4 | -0.6 | -0.3 | 1.1 | 0.6 | 1.1 |
| Emerging market and developing countries 2/ | 6.4 | 5.1 | 5.3 | 5.7 | 5.7 | 5.9 |
| Advanced G-20 | 1.6 | 1.5 | 1.4 | 2.3 | 2.1 | 2.2 |
| Emerging G-20 | 7.4 | 5.4 | 5.9 | 6.3 | 6.2 | 6.3 |
| G-20 3/ | 4.2 | 3.3 | 3.5 | 4.2 | 4.0 | 4.1 |
| Argentina 4/ | 8.9 | 1.9 | 2.8 | 3.5 | 3.6 | 3.1 |
| Australia | 2.4 | 3.6 | 3.0 | 3.3 | 3.4 | 3.2 |
| Brazil | 2.7 | 0.9 | 3.0 | 4.0 | 3.8 | 4.1 |
| Canada | 2.6 | 1.8 | 1.5 | 2.4 | 2.0 | 2.5 |
| China | 9.3 | 7.8 | 8.0 | 8.2 | 7.8 | 8.3 |
| France | 1.7 | 0.0 | -0.1 | 0.9 | 0.4 | 1.0 |
| Germany | 3.1 | 0.9 | 0.6 | 1.5 | 1.5 | 1.1 |
| India | 7.7 | 4.0 | 5.7 | 6.2 | 5.8 | 6.2 |
| Indonesia | 6.5 | 6.2 | 6.3 | 6.4 | 6.5 | 6.5 |
| Italy | 0.4 | -2.4 | -1.5 | 0.5 | -0.4 | 0.6 |
| Japan | -0.6 | 2.0 | 1.6 | 1.4 | 3.8 | -0.1 |
| Korea | 3.6 | 2.0 | 2.8 | 3.9 | 4.2 | 3.1 |
| Mexico | 3.9 | 3.9 | 3.4 | 3.4 | 4.0 | 3.0 |
| Russia | 4.3 | 3.4 | 3.4 | 3.8 | 4.8 | 2.9 |
| Saudi Arabia | 8.5 | 6.8 | 4.4 | 4.2 | … | … |
| South Africa | 3.5 | 2.5 | 2.8 | 3.3 | 3.4 | 3.2 |
| Turkey | 8.5 | 2.6 | 3.4 | 3.7 | 3.7 | 4.0 |
| United Kingdom | 0.9 | 0.2 | 0.7 | 1.5 | 1.1 | 1.5 |
| United States | 1.8 | 2.2 | 1.9 | 3.0 | 2.2 | 3.4 |
| European Union | 1.6 | -0.2 | 0.0 | 1.3 | 0.9 | 1.2 |

Source: IMF, *World Economic Outlook* April 2013.

1/ The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.

2/ The quarterly estimates and projections account for approximately 80 percent of the emerging market and developing countries.

3/ G-20 aggregations exclude European Union.

4/ The data for Argentina are officially reported data. The IMF has, however, issued a declaration of censure and called on Argentina to adopt remedial measures to address the quality of the official GDP data. Alternative data sources have shown significantly lower real growth than the official data since 2008. In this context, the IMF is also using alternative estimates of GDP growth for the surveillance of macroeconomic developments in Argentina.