



Global Economic Prospects

Assuring
growth over
the medium term



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World Bank
March 2013



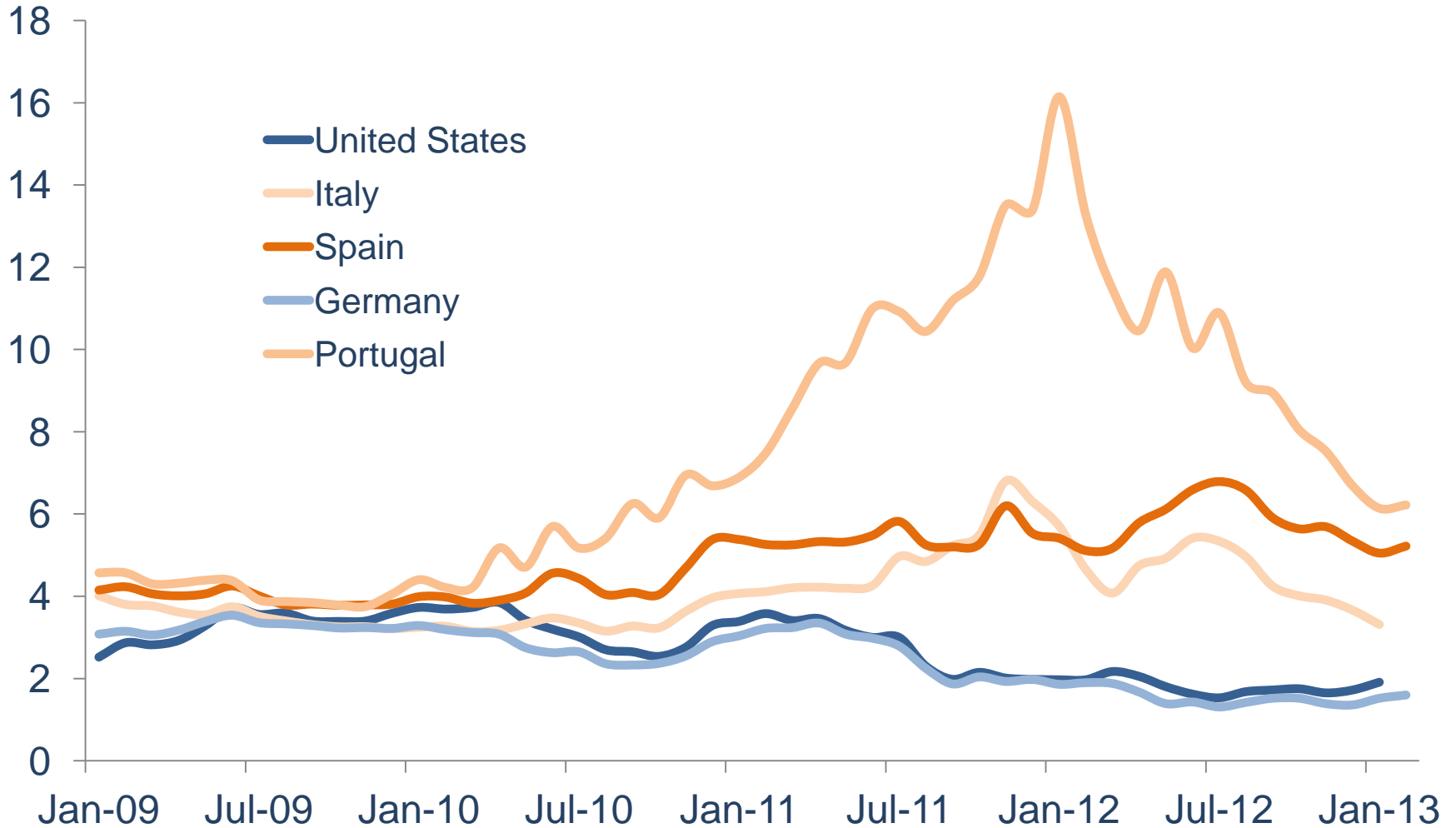
Despite better financial conditions, stronger growth remains elusive

- More than 4 years after financial crisis hit, high-income countries continue to suffer from volatility and slow growth
- Developing country prospects solid, but need to focus on productivity enhancing domestic policies if they are to regain pre-crisis growth rates
- Risks have declined but remain and countries are vulnerable to commodity price shocks, high-income volatility, and a freezing of capital flows
- A steady hand is required to avoid pro-cyclical policy and in order to rebuild macroeconomic buffers so that authorities can react in case of new external (or domestic) shocks



Financial market jitters have eased significantly

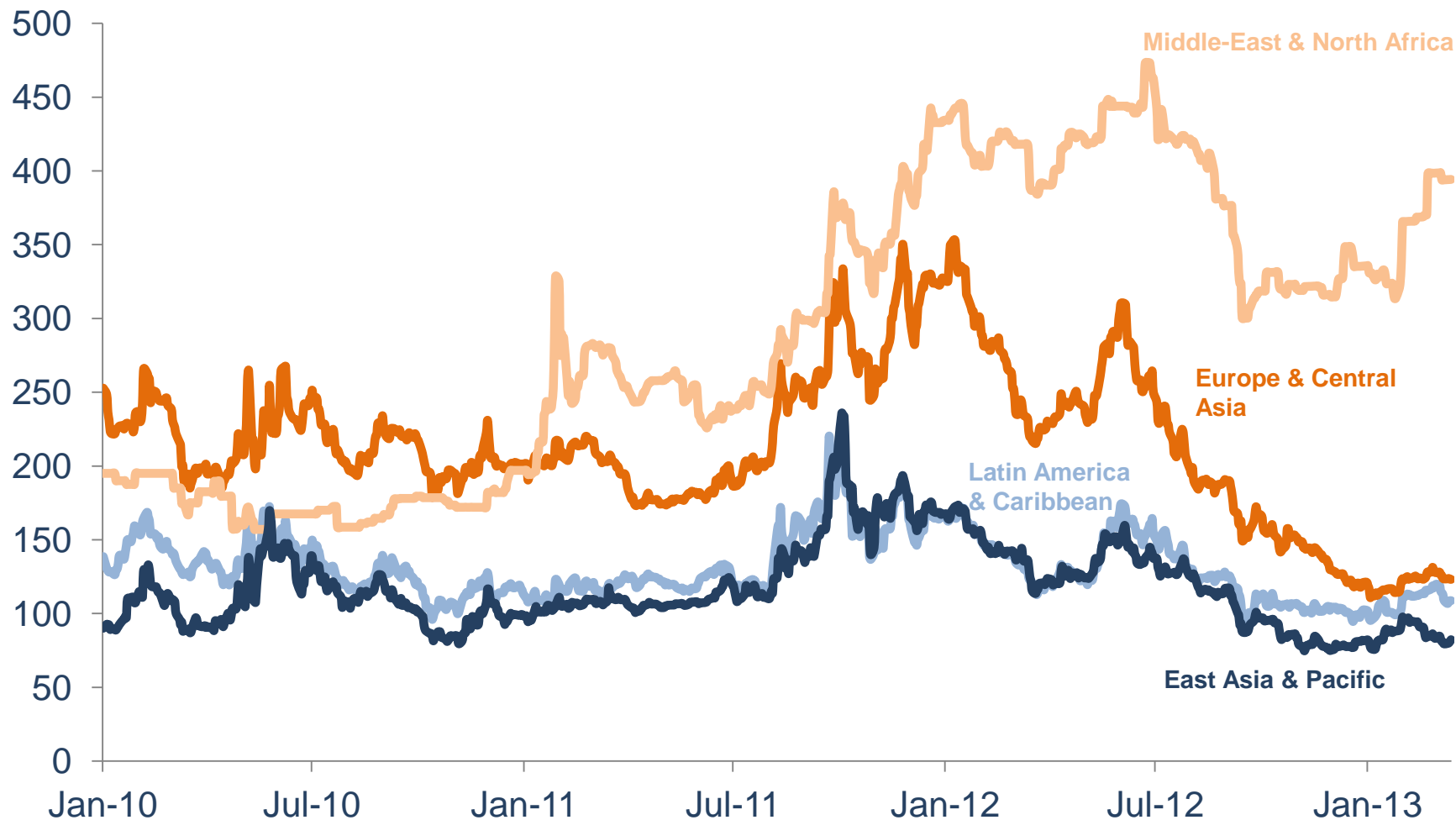
Yield on 10 year sovereign debt, percent





Price of risk for most developing regions has fallen below 2010 levels

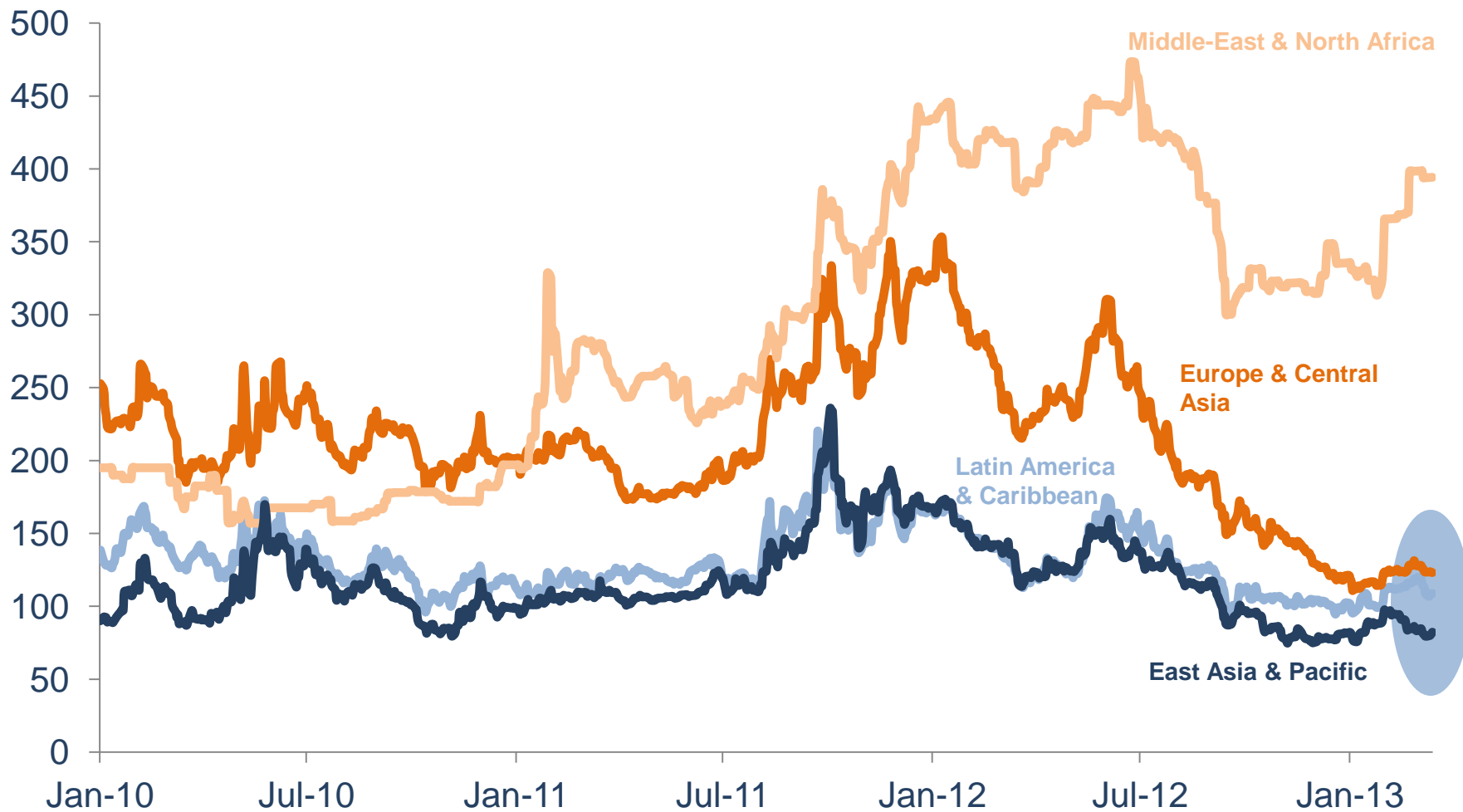
Credit Default Swap rates, basis points





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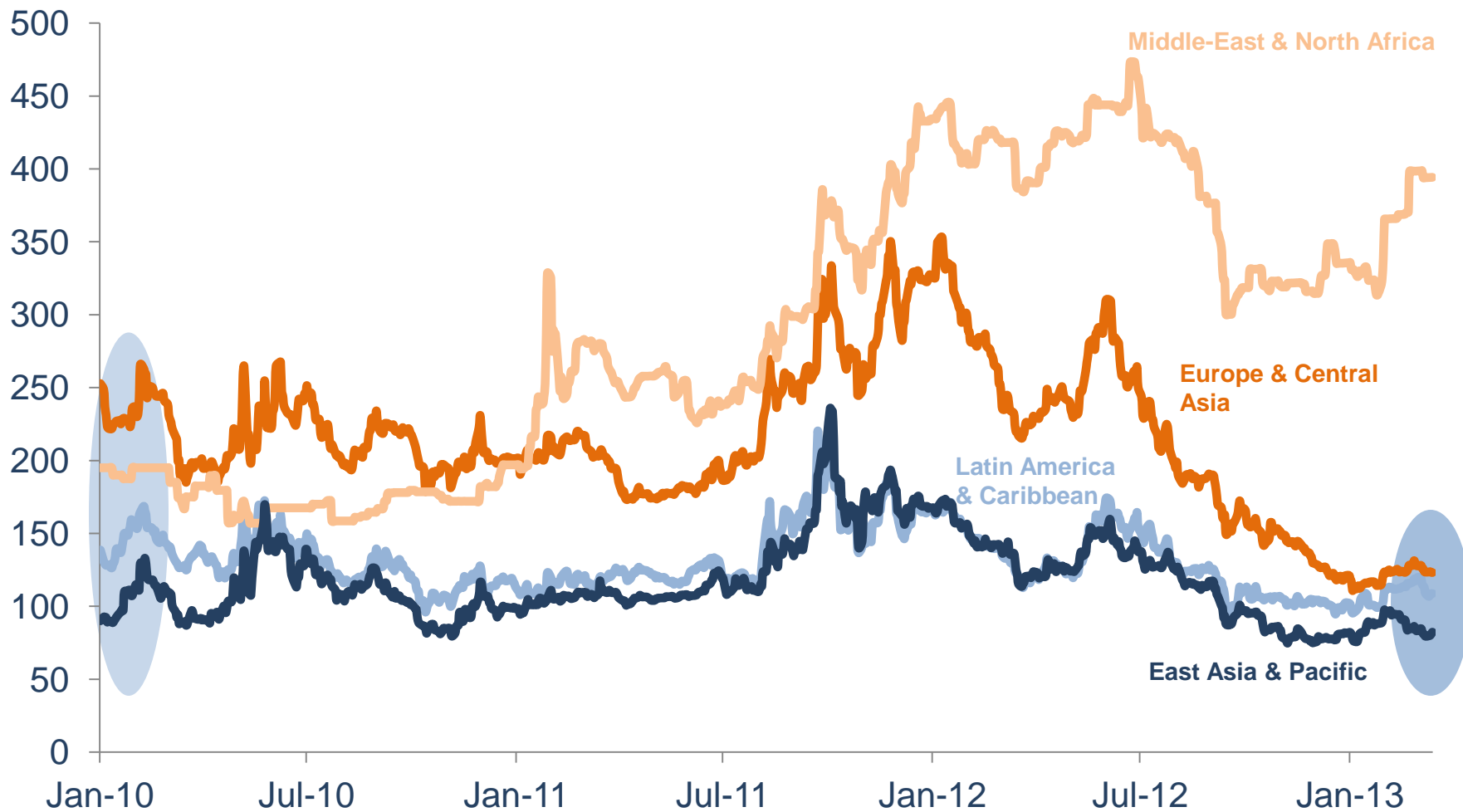
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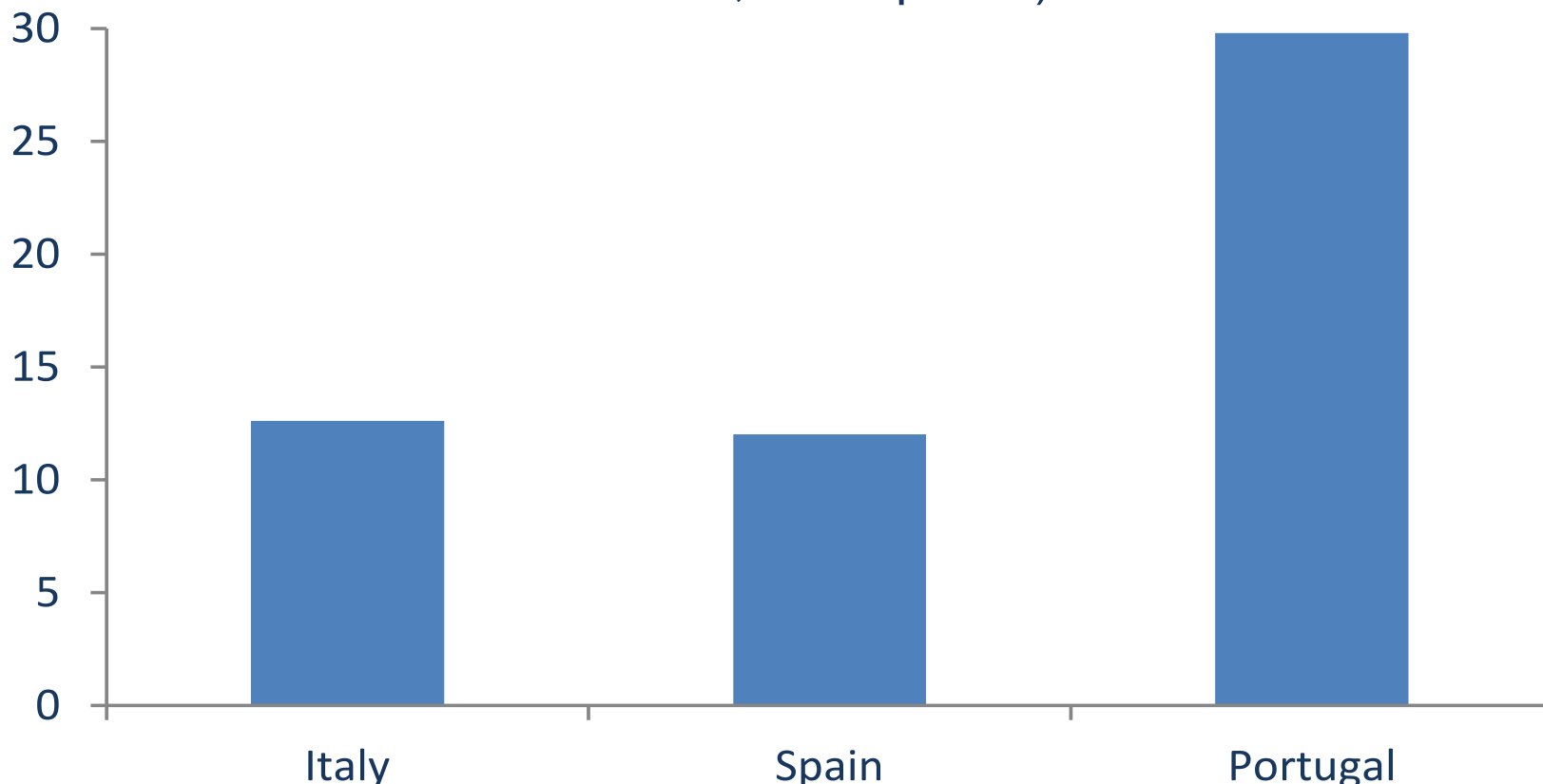
Credit Default Swap rates, basis points





High-Spread EA yields up, following Cyprus deal, but not by enough to undo earlier gains

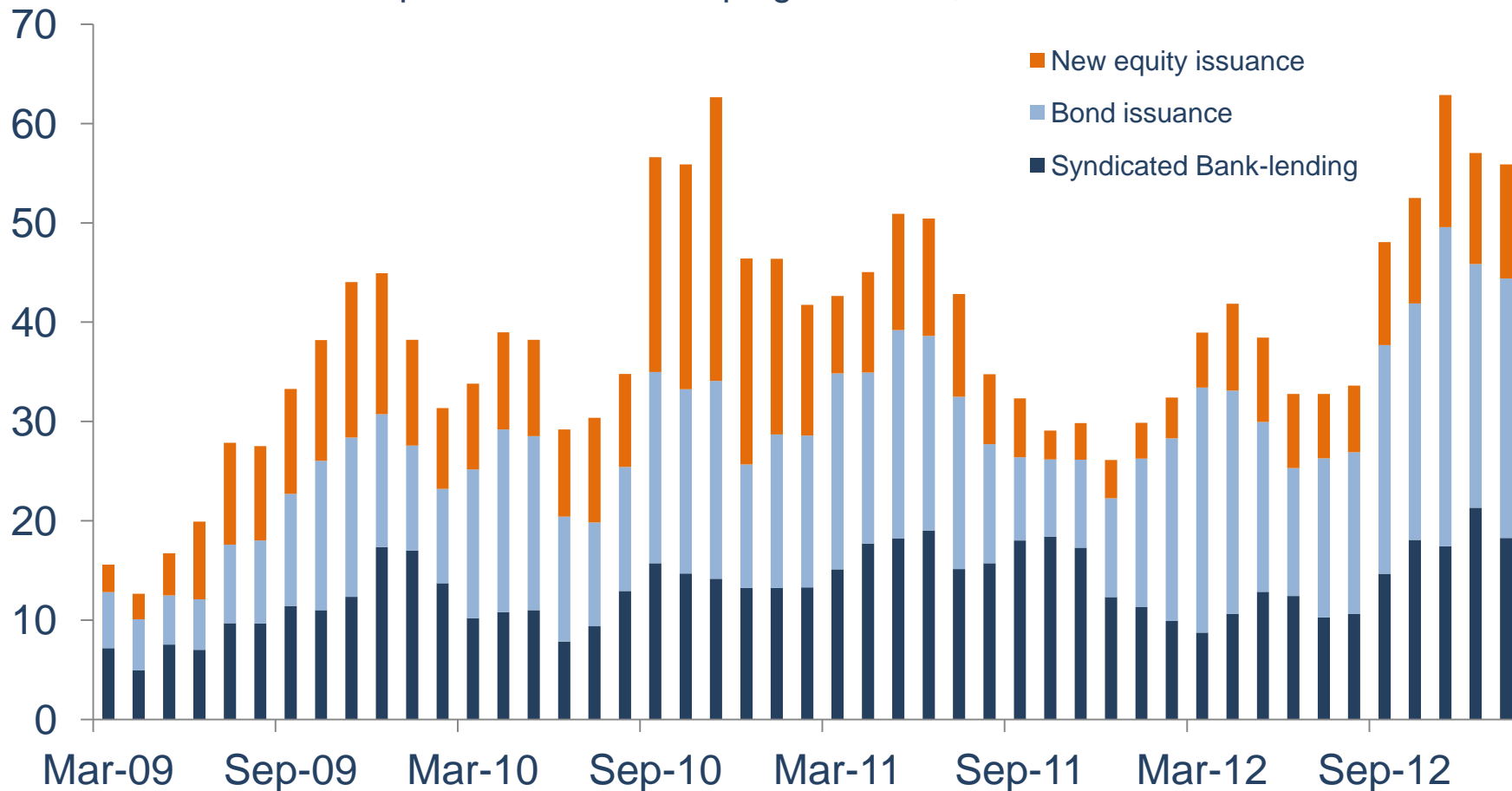
(change in 10-year bond yields since the Cyprus announcement, basis points)





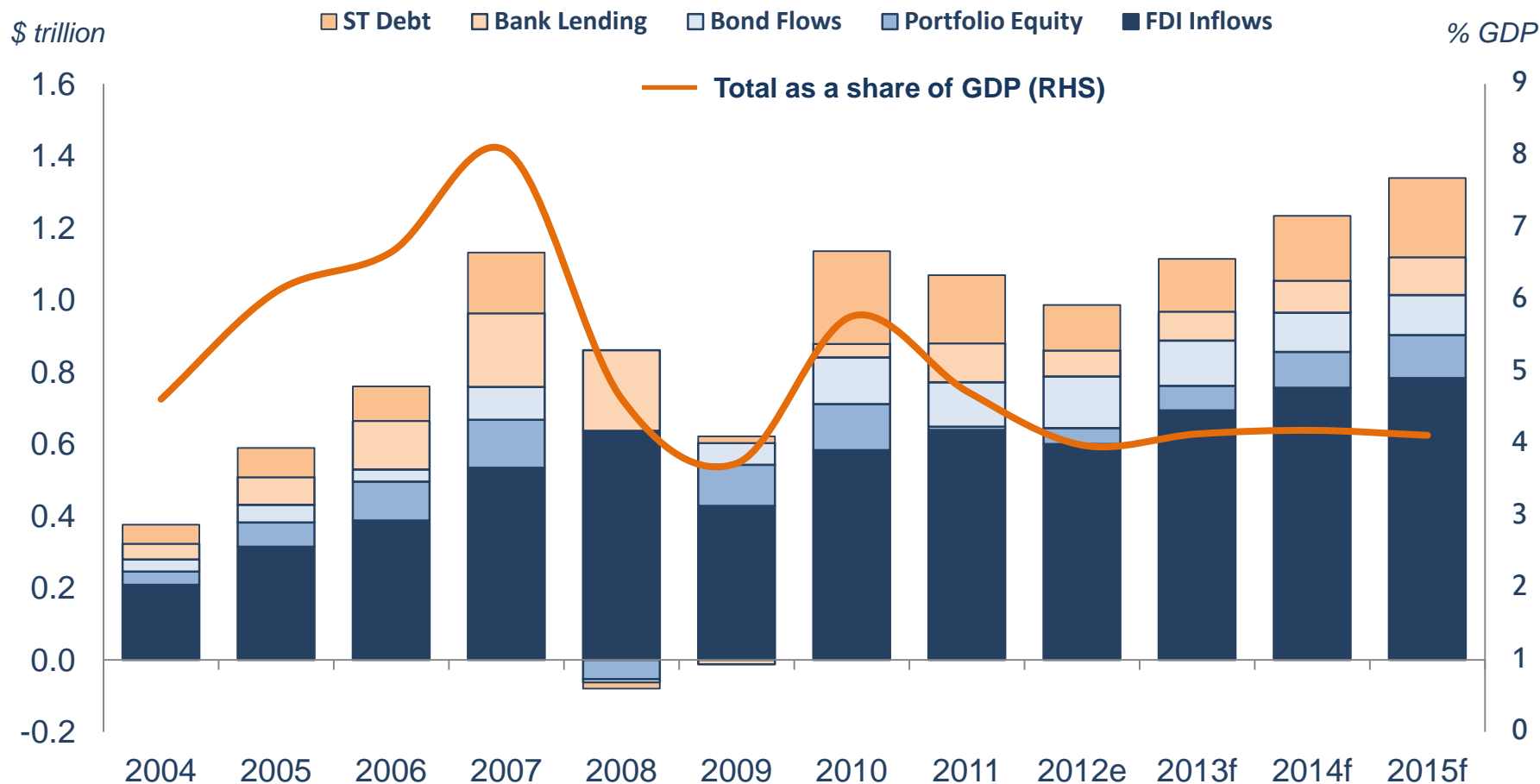
After declining in May/June, capital flows to developing countries have rebounded

Gross international capital flows to developing countries, billions USD





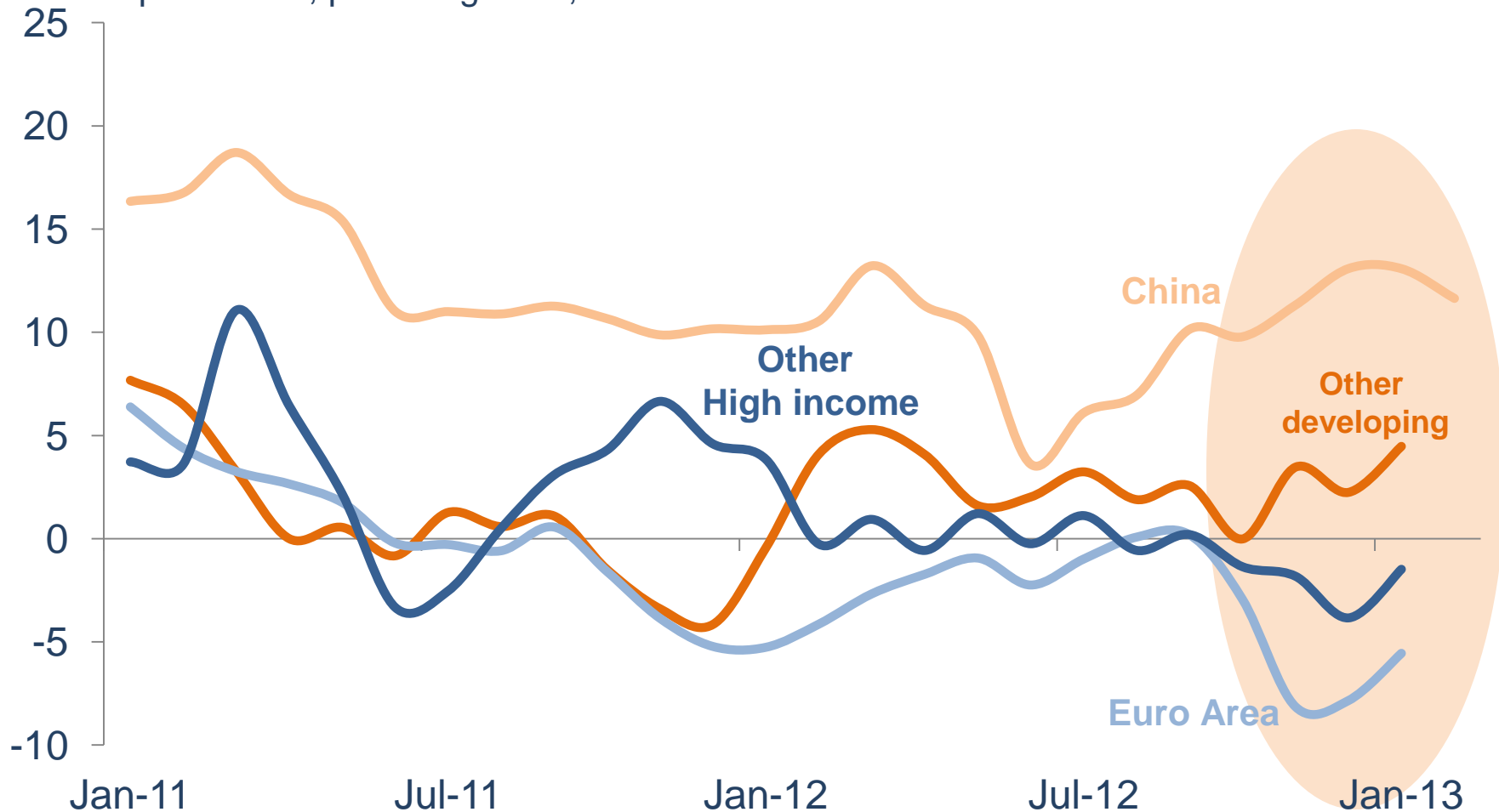
Capital flows expected to strengthen but remain stable as % of GDP





Developing countries appear to be escaping from high-income weakness

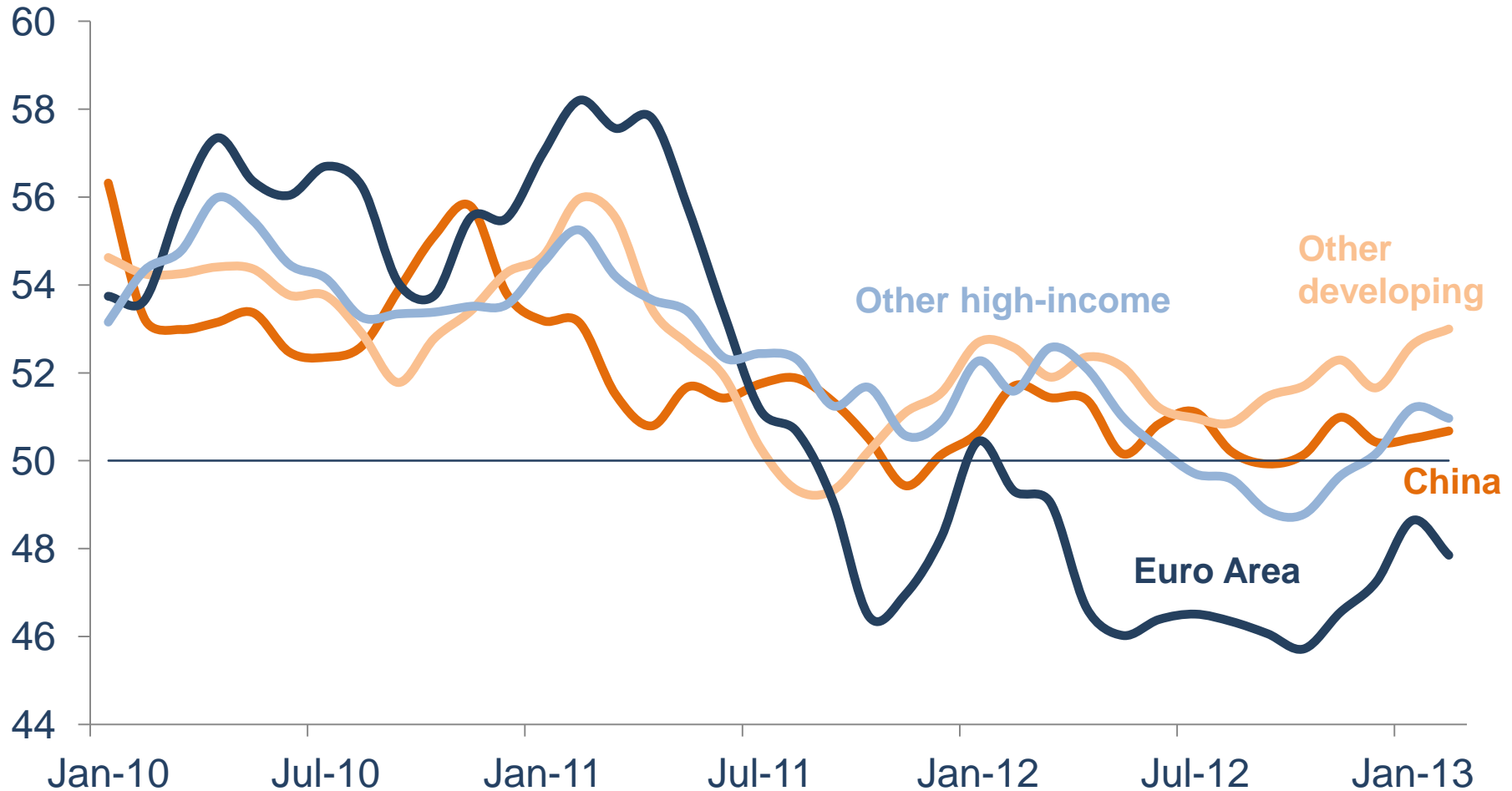
Industrial production, percent growth, 3m/3m saar





Purchasing manager's indexes: Better, but still weak

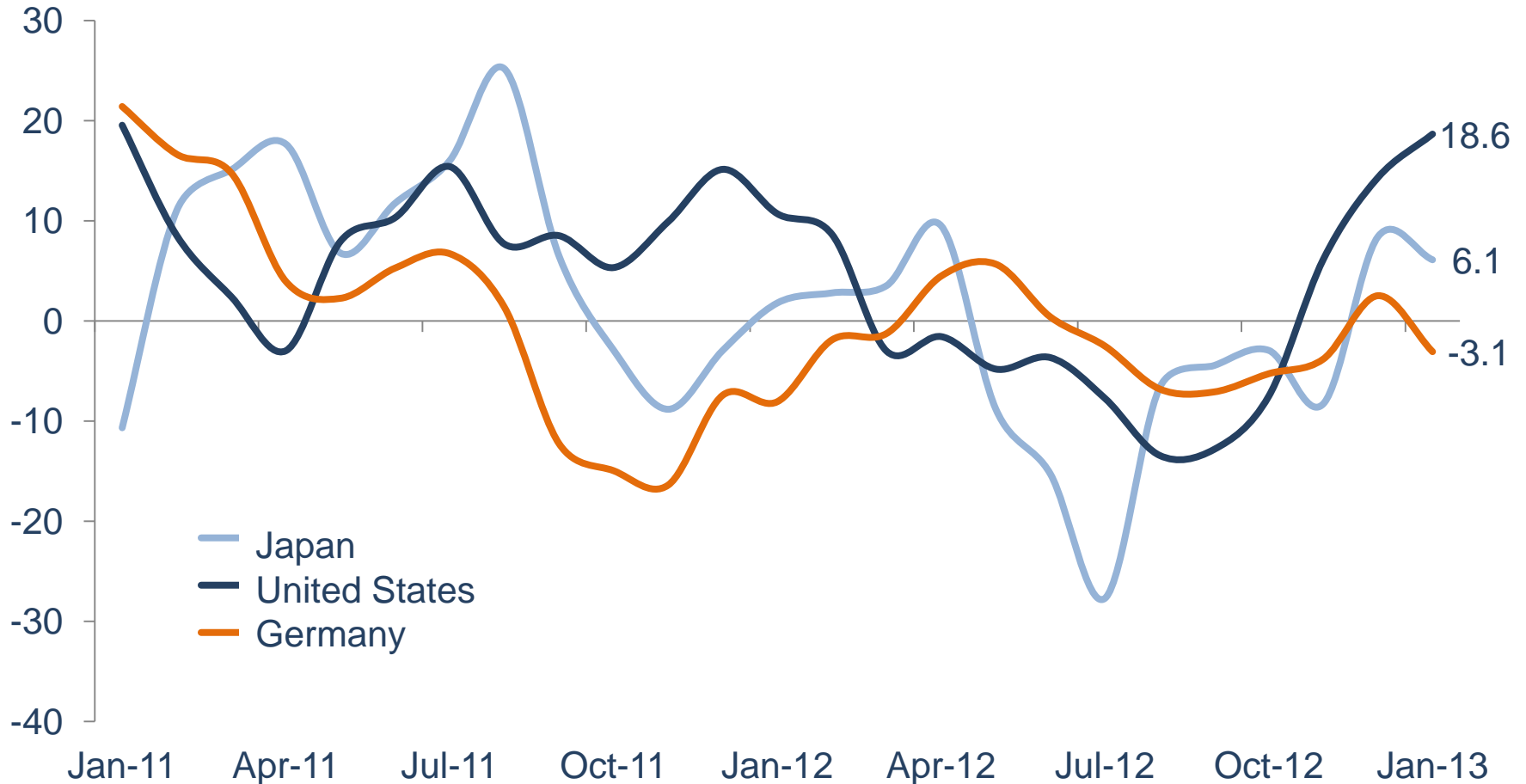
Manufacturing purchasing managers index (PMI), balance of respondents





Order books in USA and Japan are strengthening

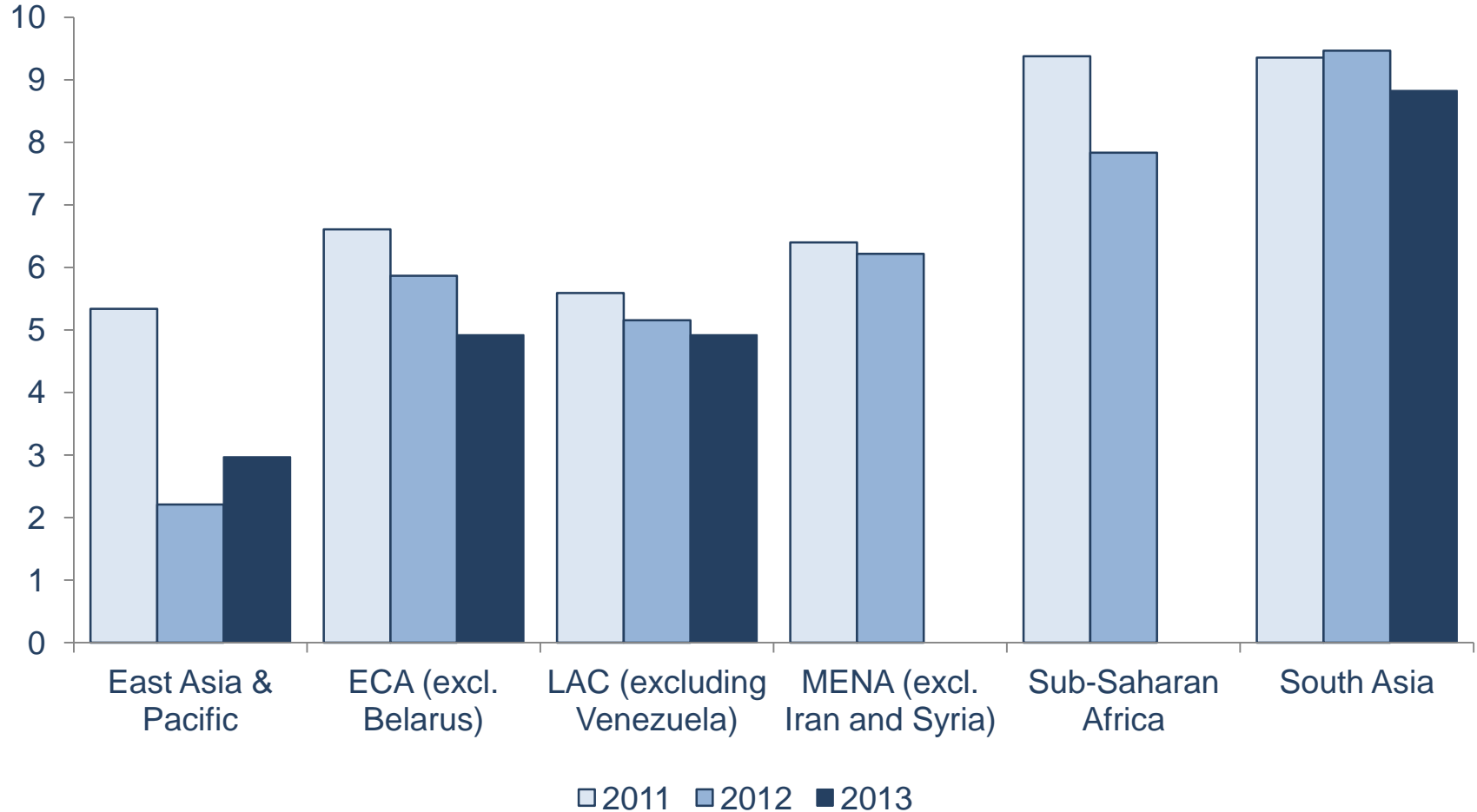
New orders, 3m/3m annualized growth rate





Inflation remains in check across the developing regions

Annual percent increase in CPI, (2013 most recent value y/y)





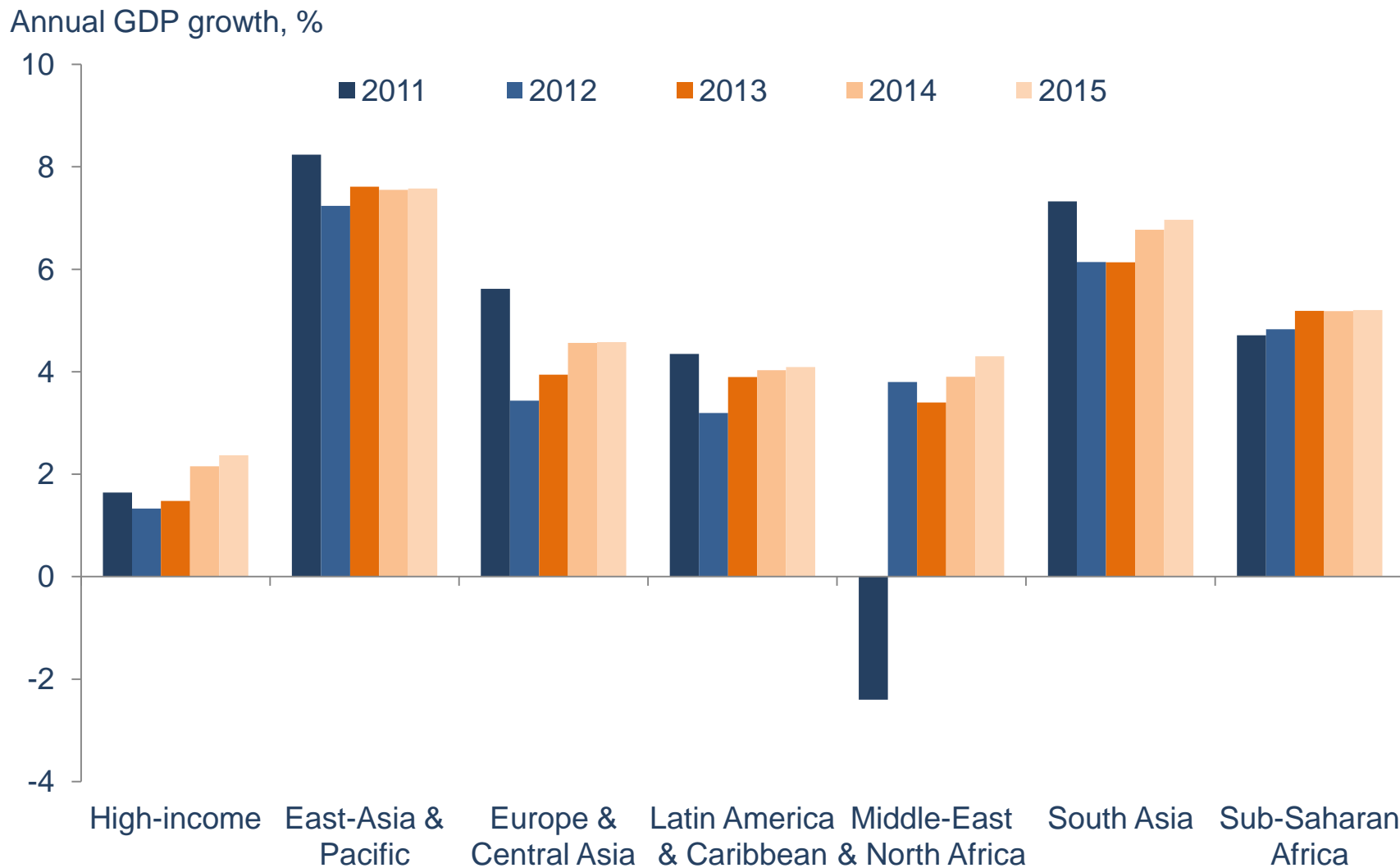
Growth to pick up but remain 1-2 percentage points slower than pre-crisis rates

Annual GDP growth, %





Growth to be constrained by capacity in many developing regions





Outlook remains precarious

- Risks have declined and are more balanced, but remain:
 - Persistent fiscal uncertainty in the U.S.
 - Euro Area risks
 - A sharp drop of investment in China
 - Oil or food supply shock



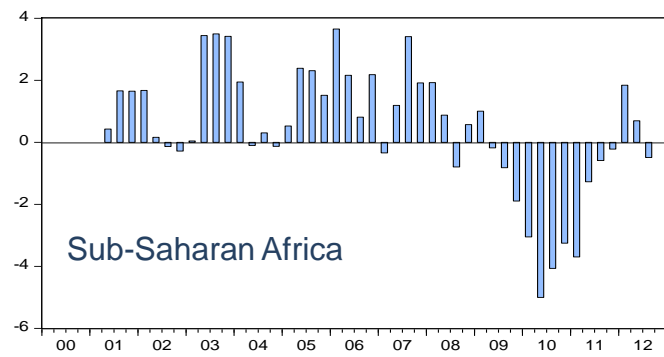
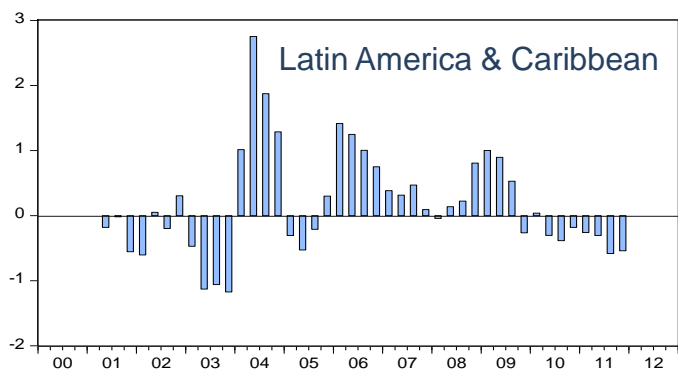
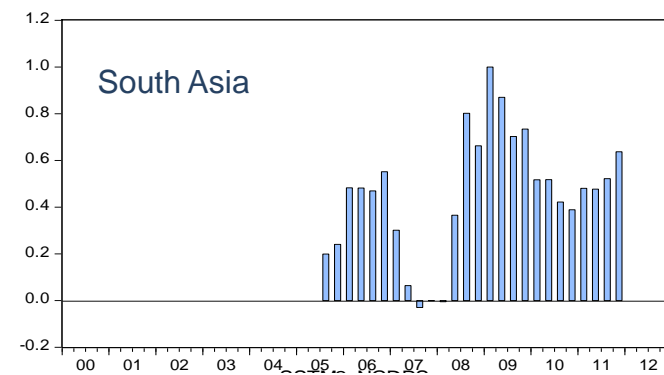
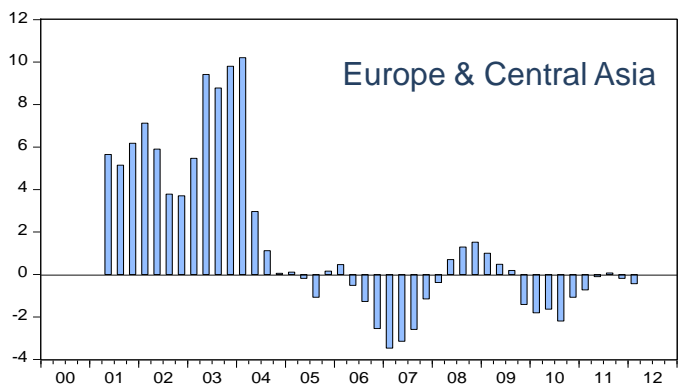
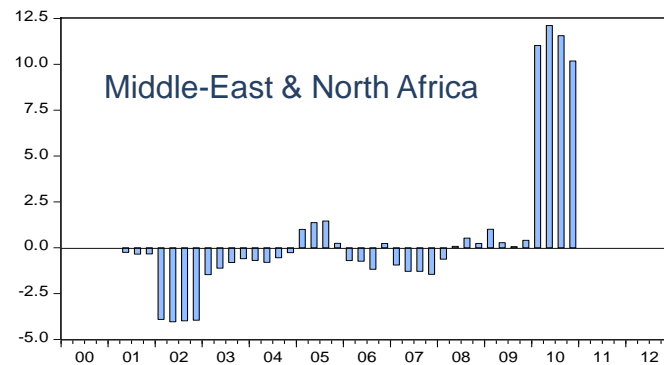
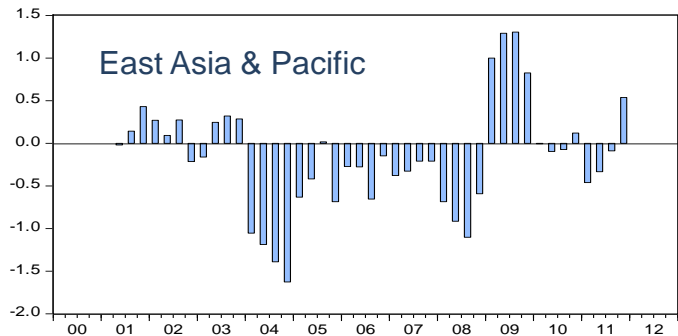
Developing countries need to focus on domestic issues

- Overall aggregates hide vulnerabilities at the country level
- Current account deficits in oil-importing countries have deteriorated 3.2 percentage points since 2007
- Fiscal deficits of all developing countries have deteriorated by 2.9 pp.
- Rising debt (public and private increases vulnerabilities)



Monetary conditions have eased in most regions

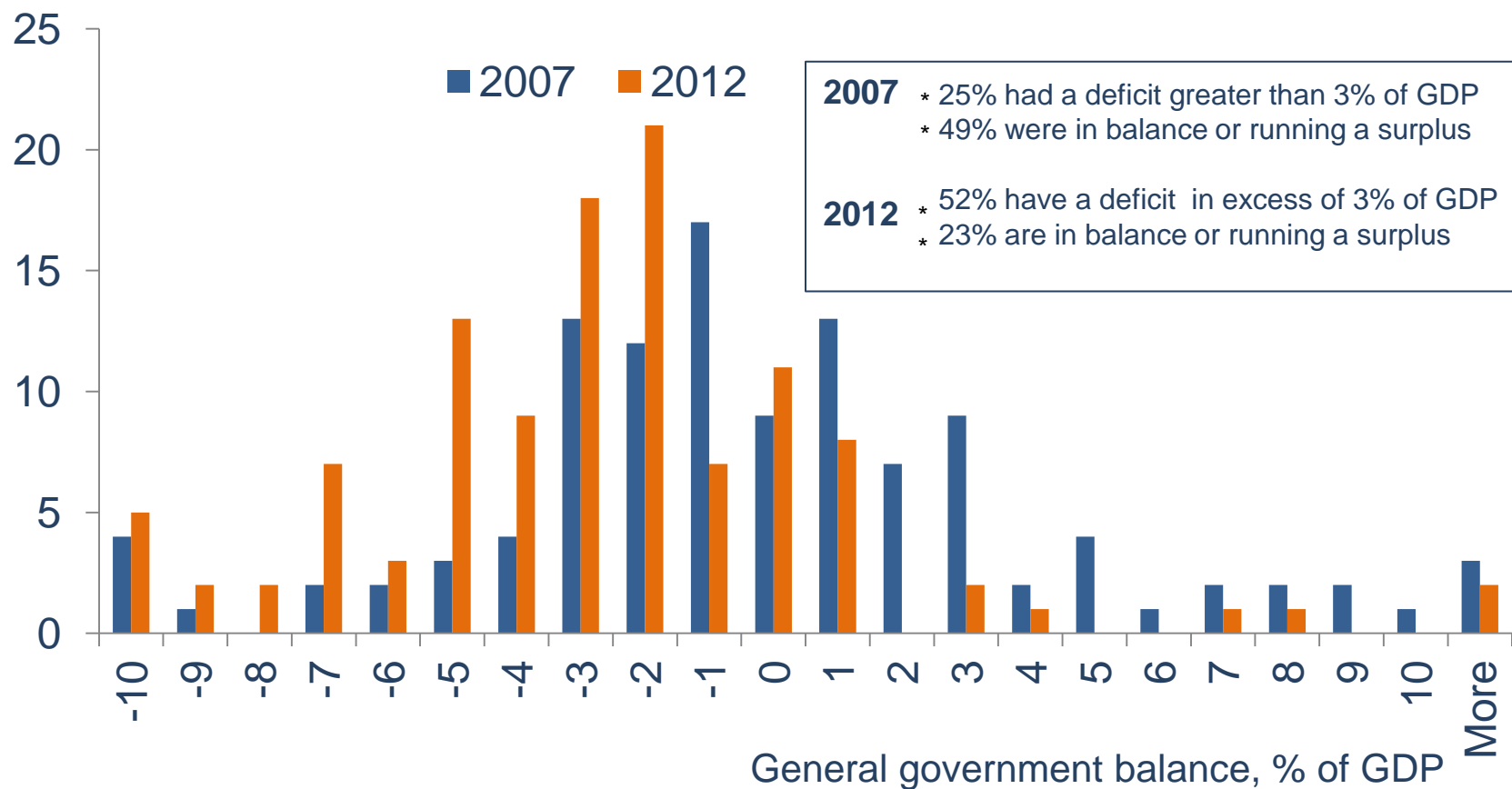
Difference between rate of growth of money supply and potential output





Many developing countries need to continue growing fiscal space

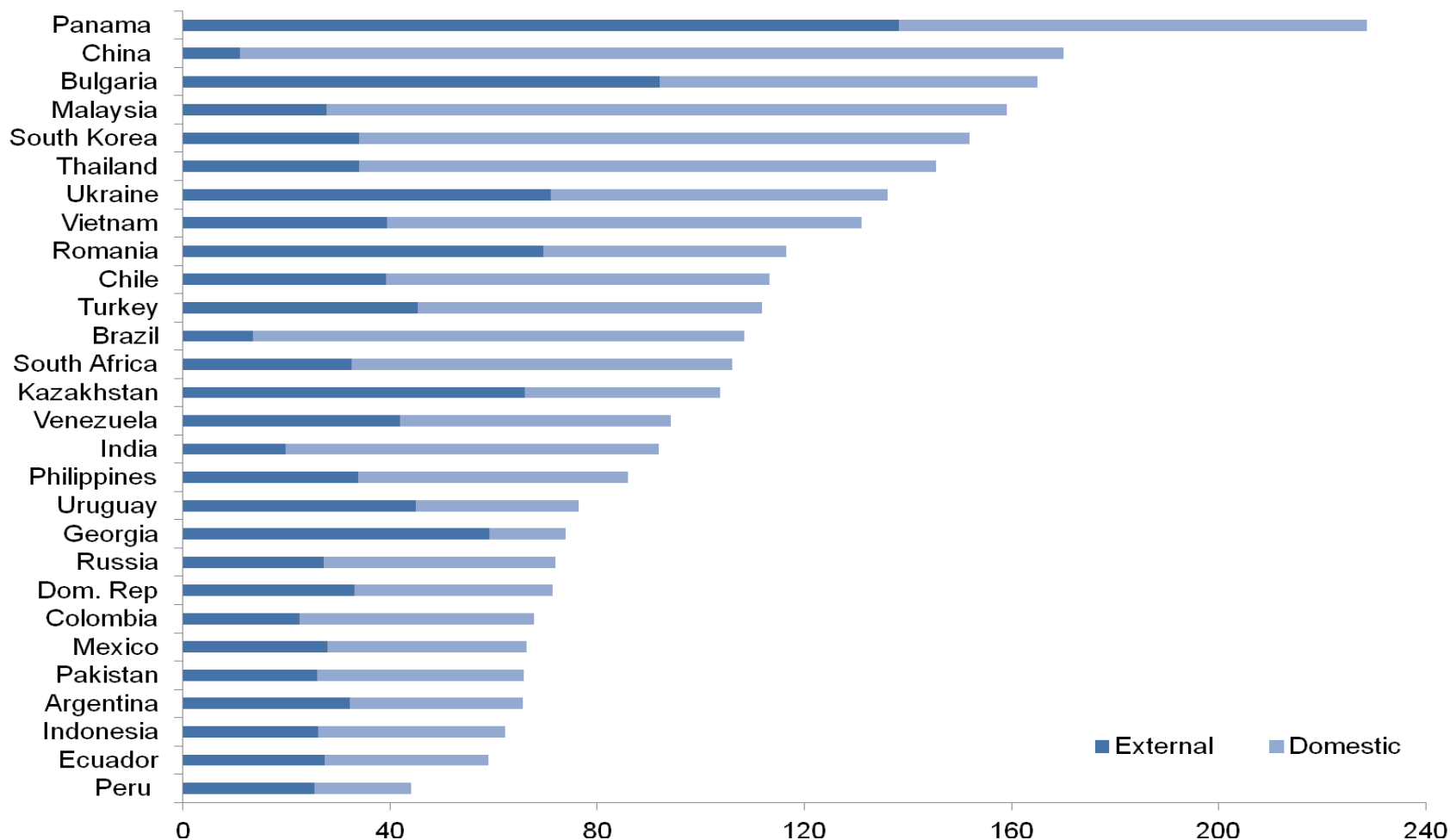
of developing economies





Estimated total debt for exceeds 50% of GDP in many developing countries

Share of GDP





Near record low stocks of maize, but wheat and rice markets are relatively well supplied

End of crop-year stocks as a % of total consumption





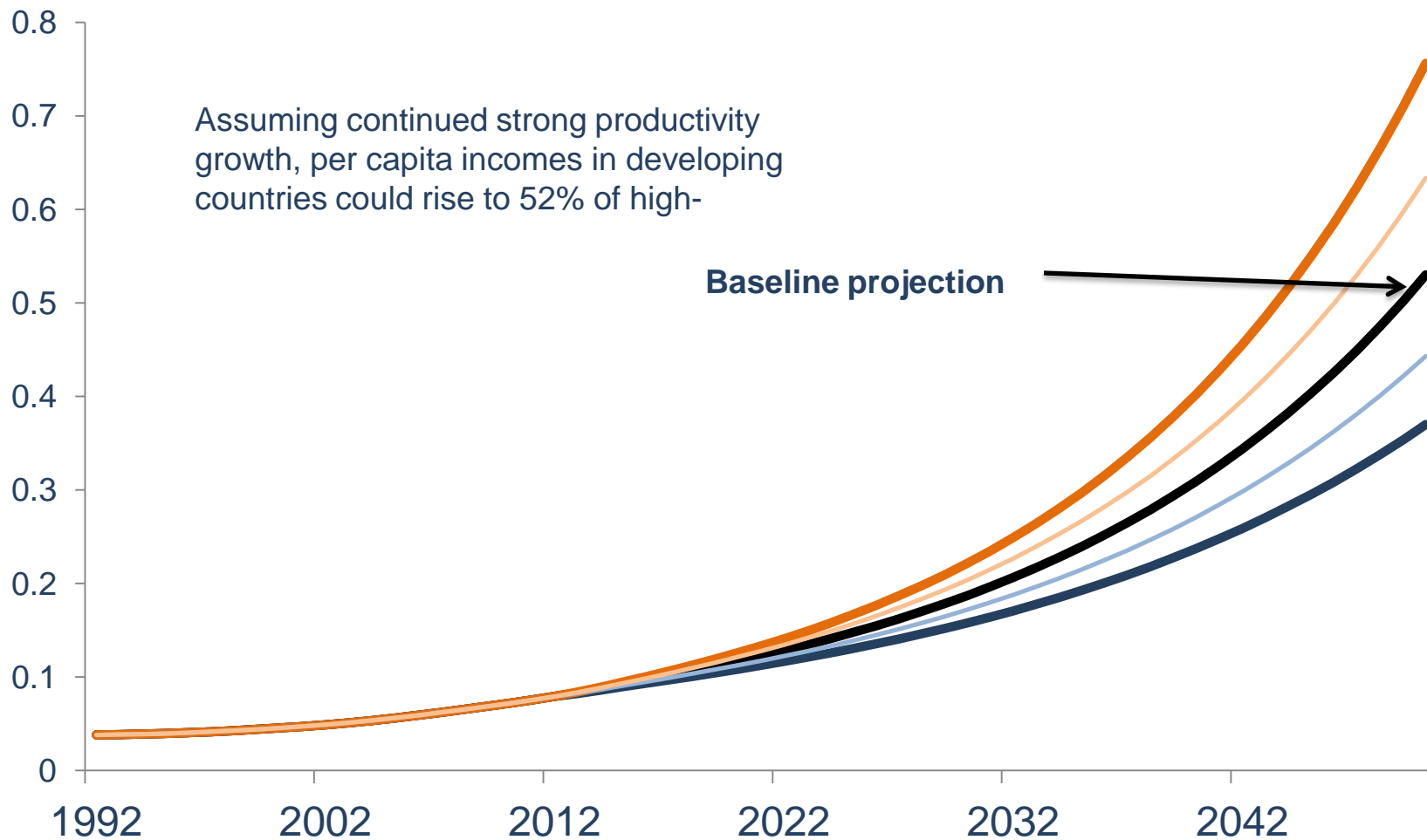
Strong growth is not guaranteed

- Short-term fluctuations feel urgent, but durable depends on the sustainability of growth
- Requires renewed focus on structural policies
 - Infrastructure investments
 - Education (quality and quantity)
 - Regulatory environment
 - Macroeconomic stability



Small improvements in potential growth result in substantial long run gains

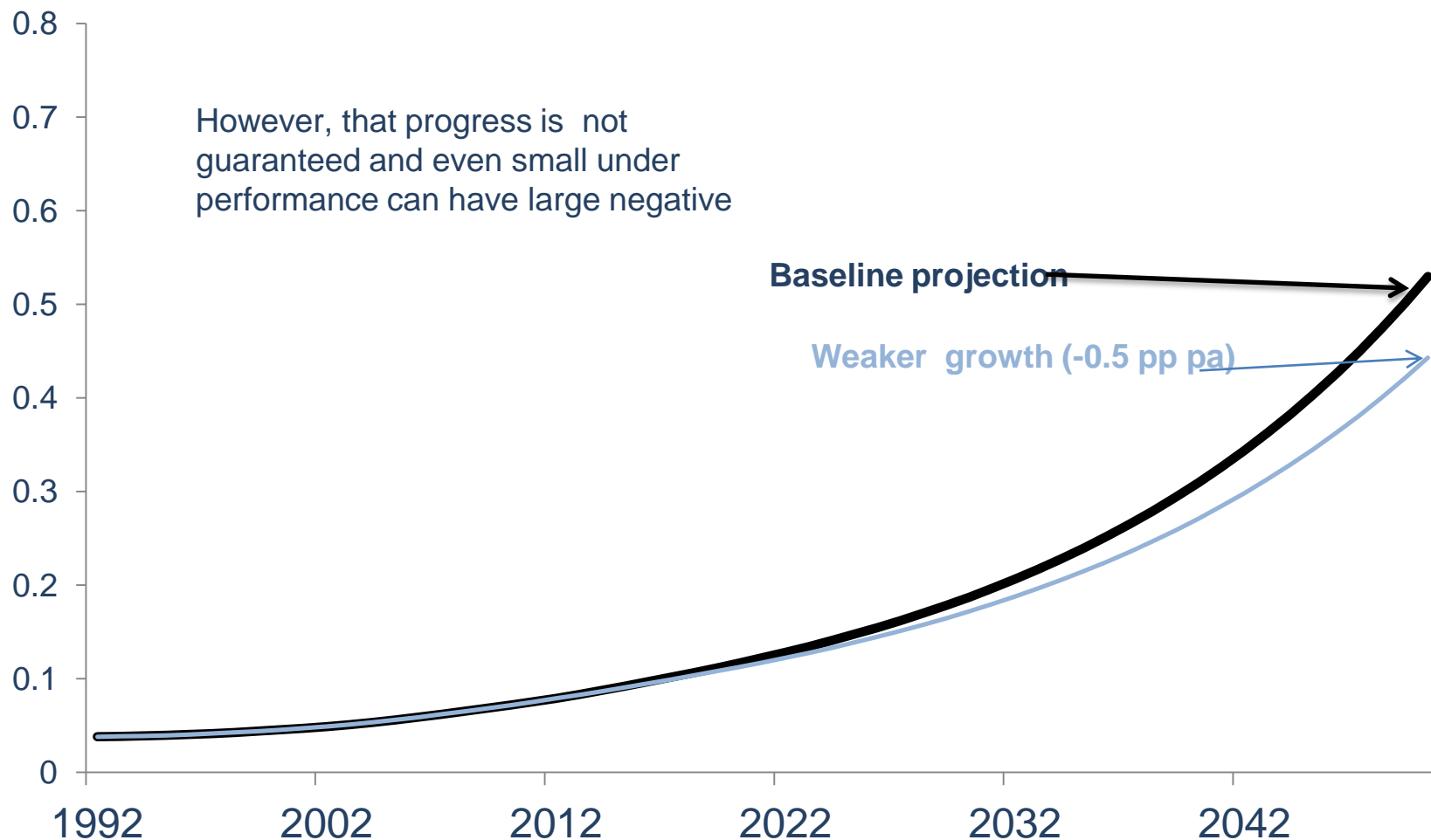
Developing country, per capita income, % of 2010 high-income level





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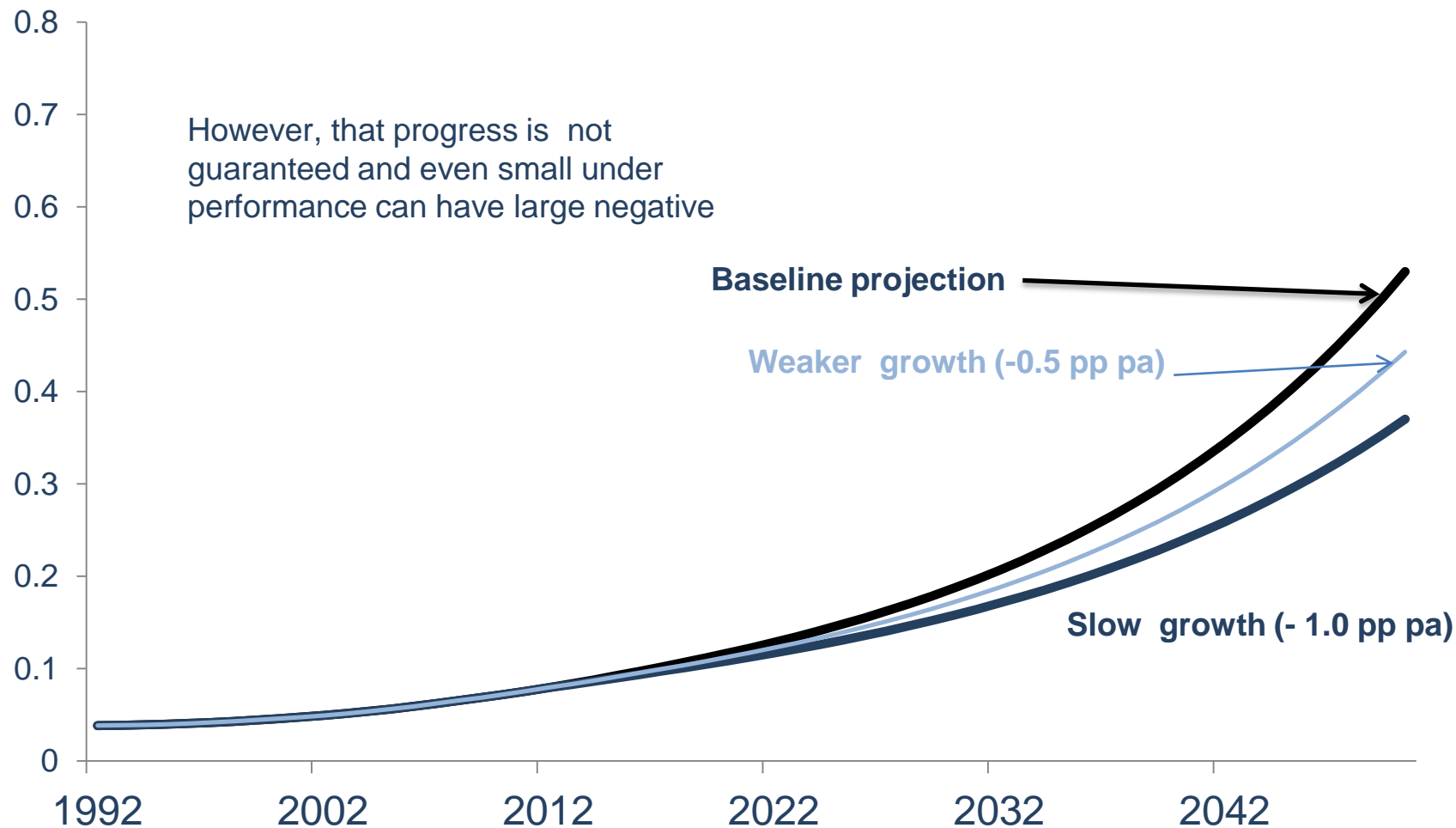
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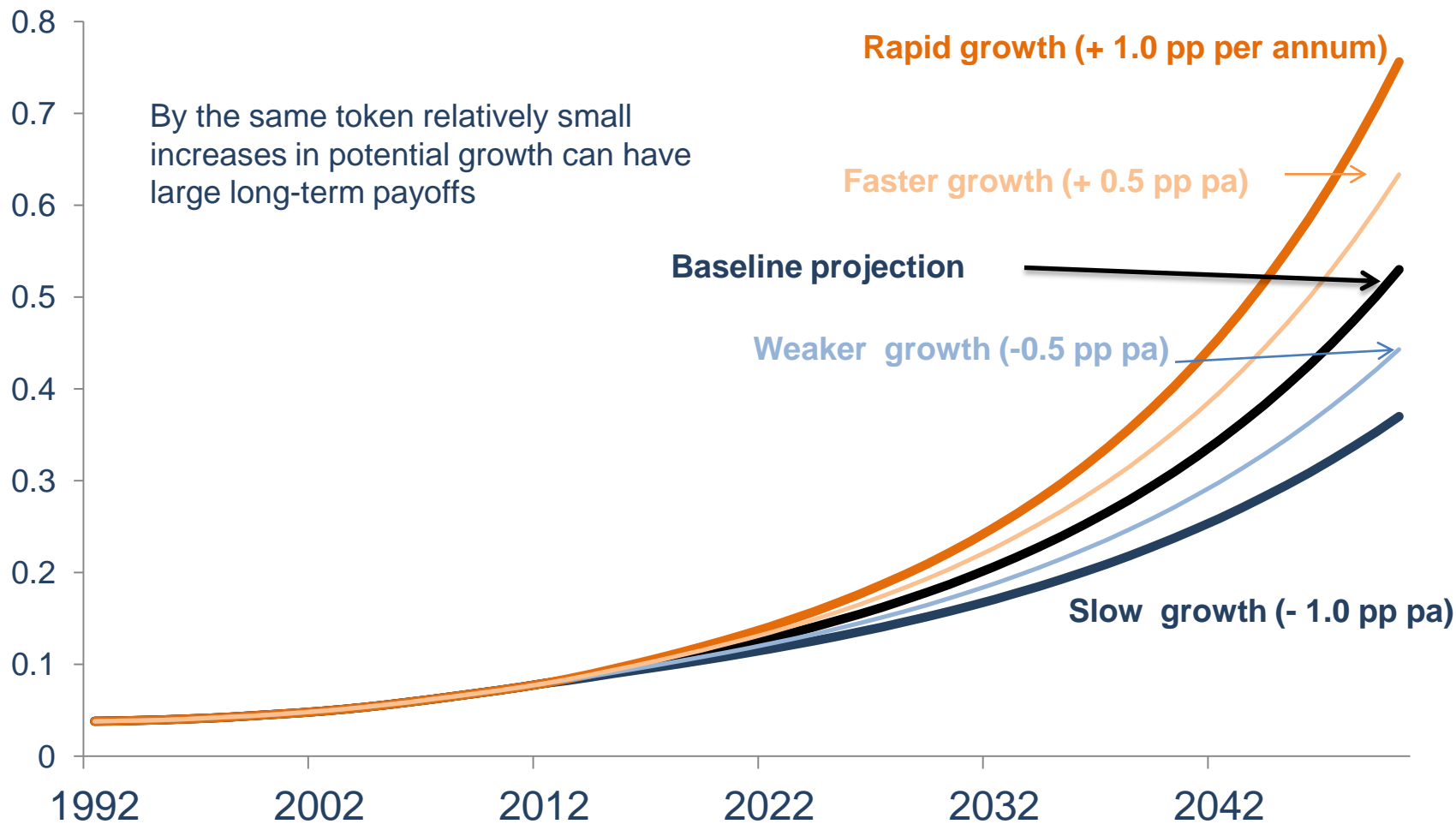
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Developing country, per capita income, % of 2010 high-income level





Concluding remarks

- May-June Euro Area pessimism has had larger than expected real-side effects, global economy is much weaker
- Financial conditions have improved but weak growth in high-income countries remains a factor for developing countries
- Developing countries need to focus on domestic policy needs and vulnerabilities
- Sustained strong growth in developing countries will depend on productivity enhancements, investments in infrastructure, human capital and governance



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