

Global Economic Prospects

Assuring
growth over
the medium term



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World Bank
March 2013

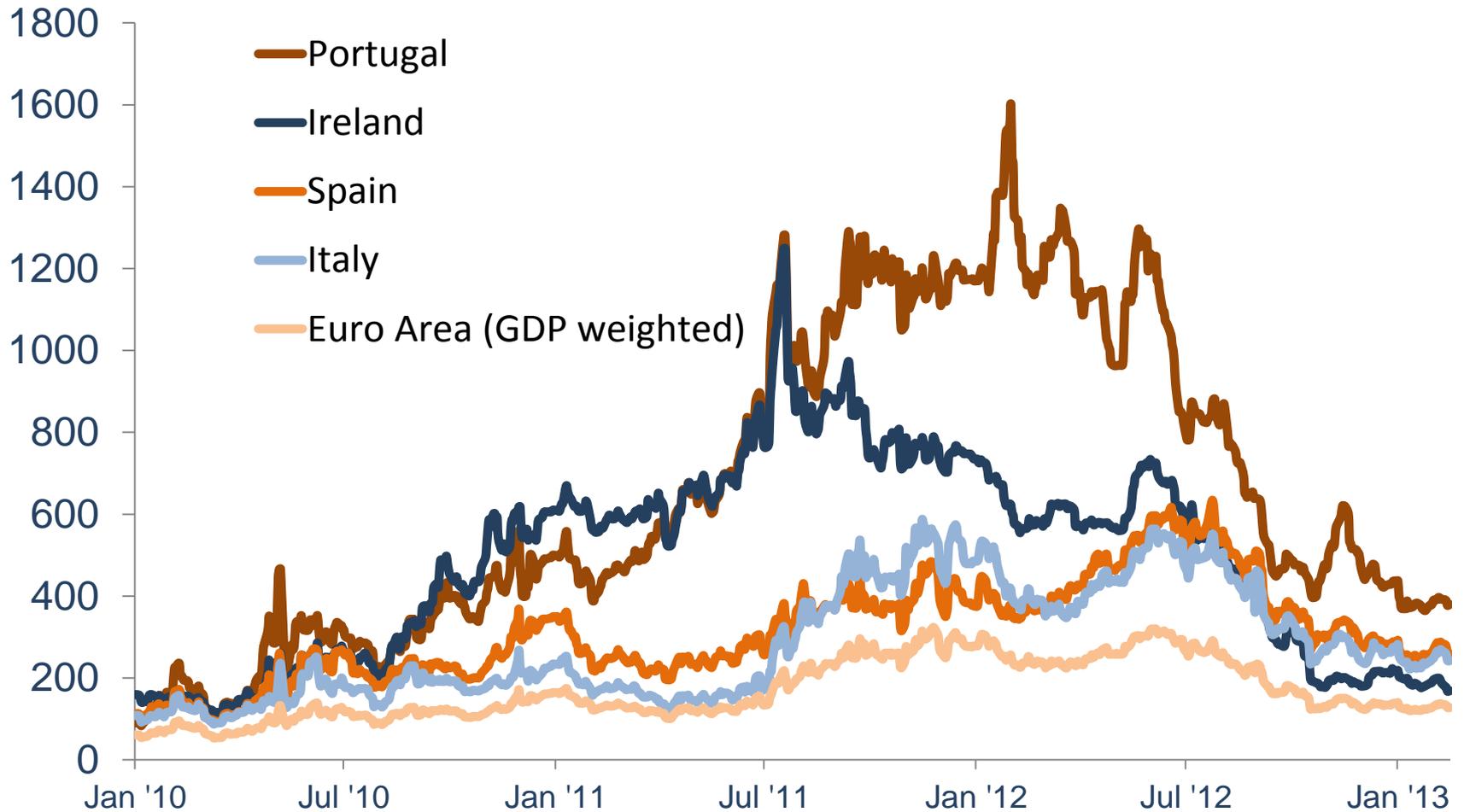


Despite better financial conditions, stronger growth remains elusive

- 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

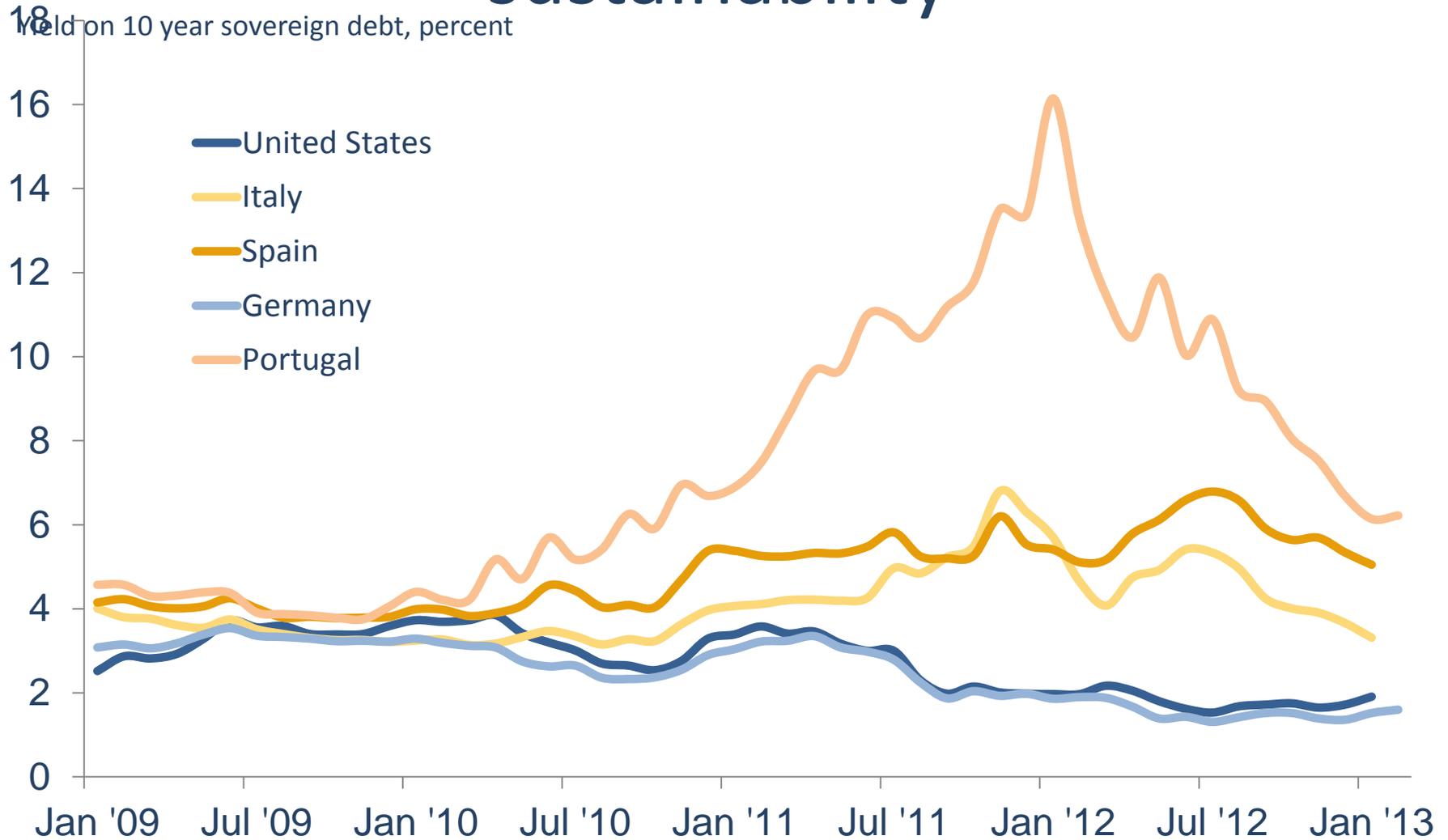
Financial market jitters have eased significantly

Credit default swap rates, basis points



Source: World Bank, Datastream.

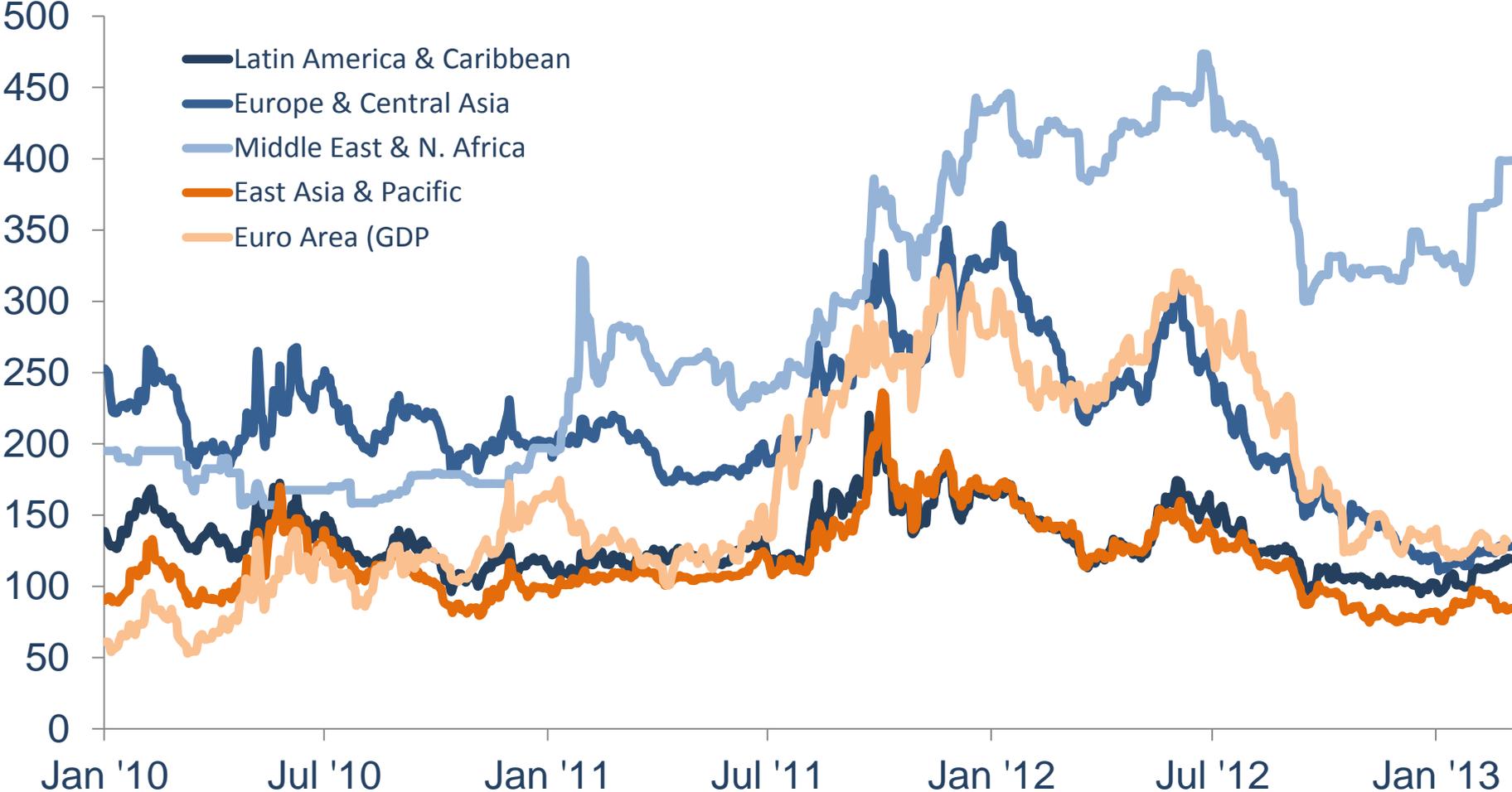
Reduced cost of borrowing helps fiscal sustainability



Source: World Bank, Datastream

Developing-country CDS rates also moderated

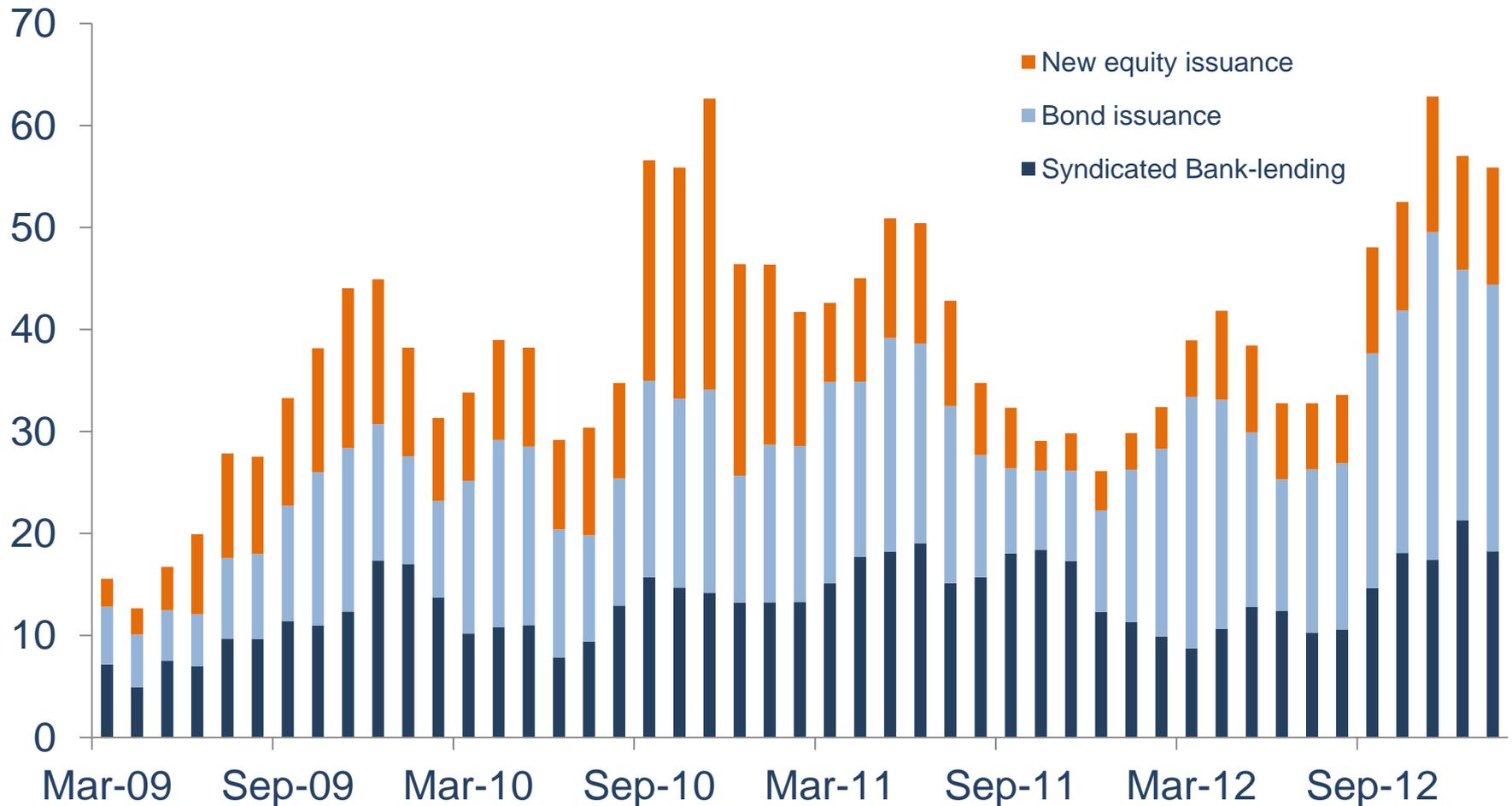
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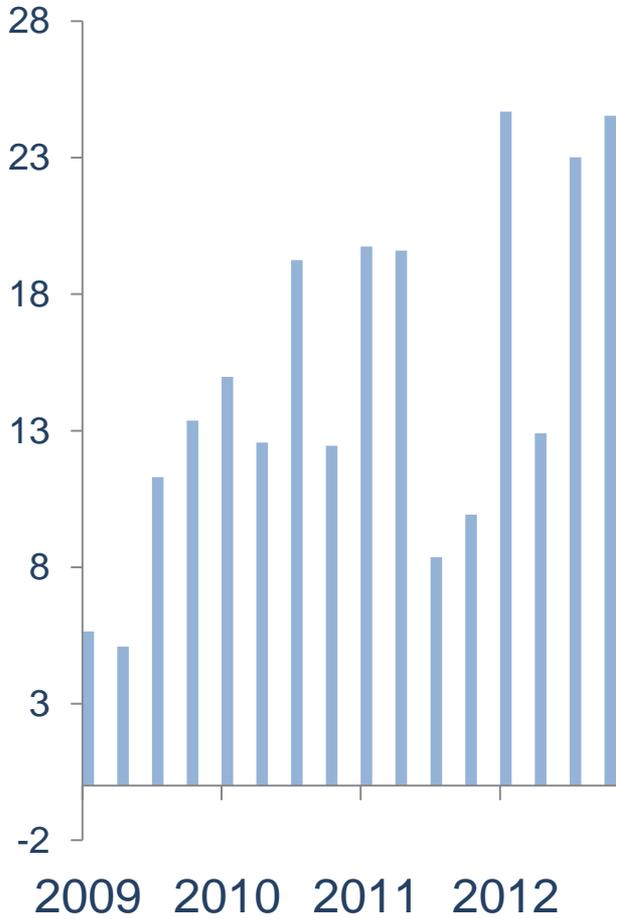
After declining in May/June, capital flows to developing countries have rebounded

Gross international capital flows to developing countries, billions USD

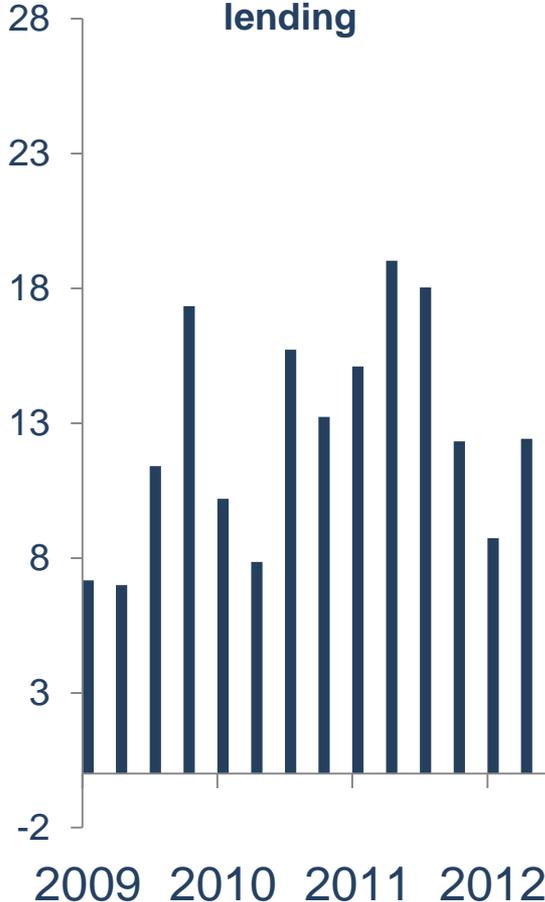


A secular recovery in equity and bank lending, more volatile bond flows

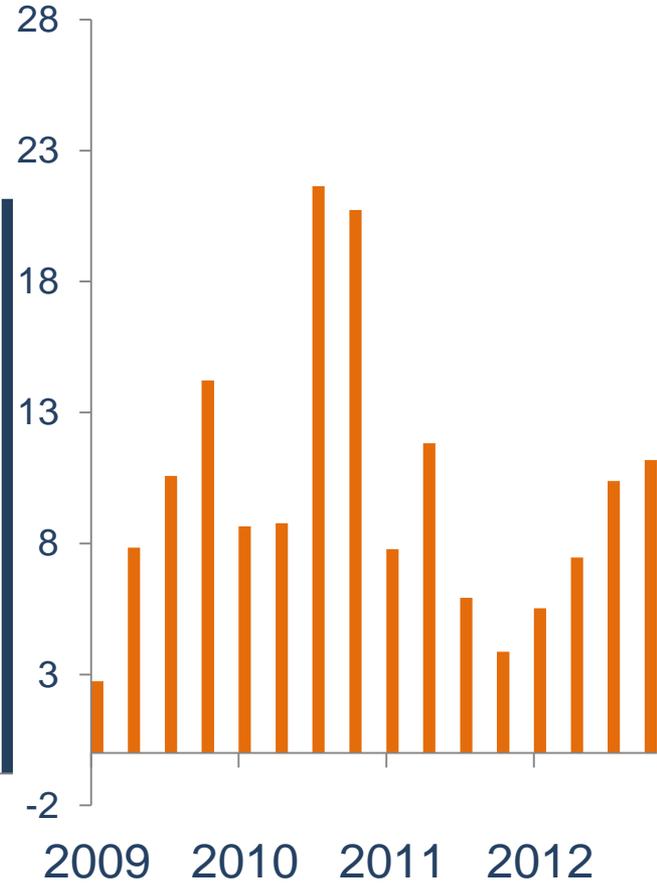
Gross international bond issues



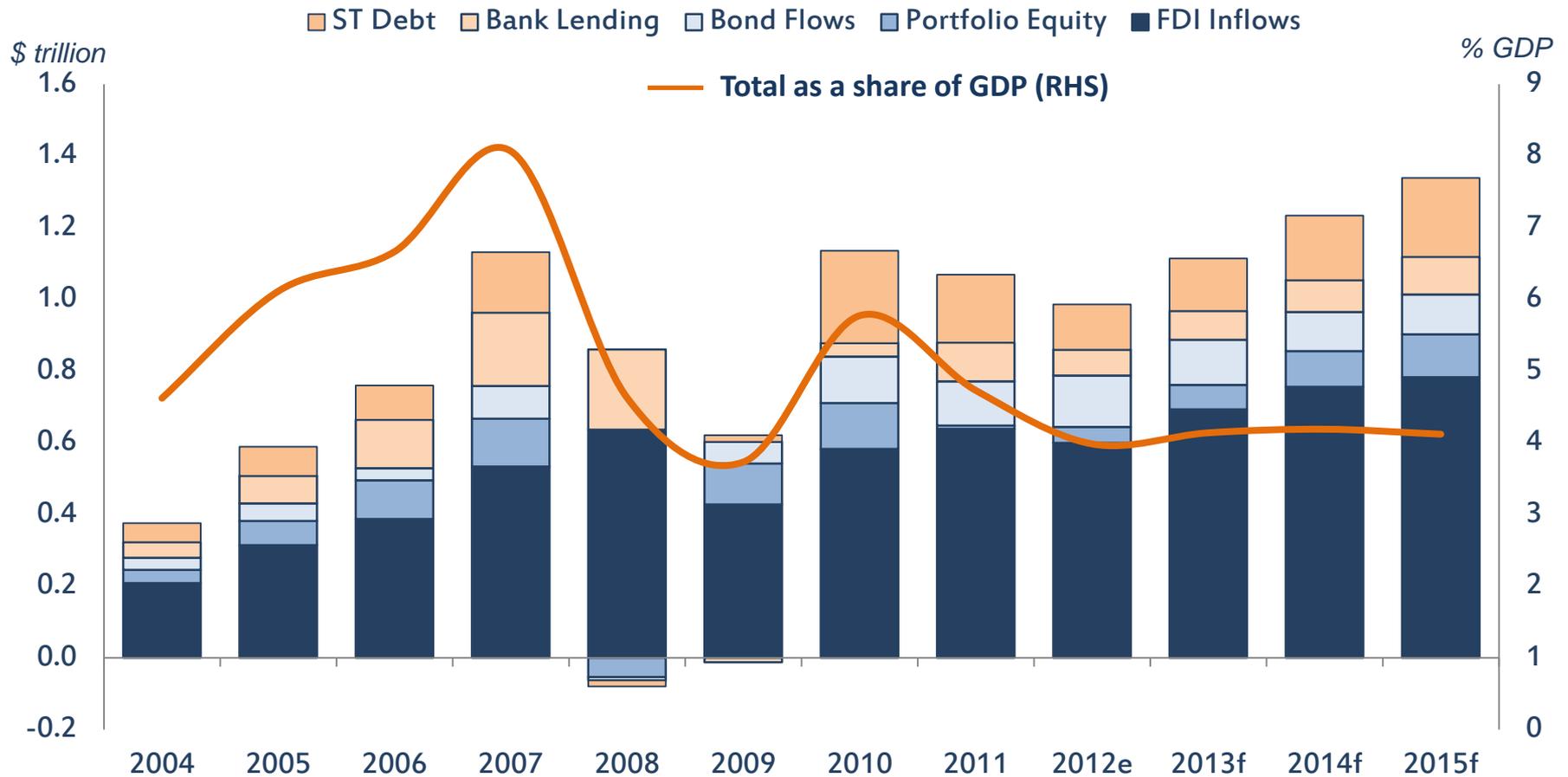
Gross syndicated bank lending



Gross new equity issues

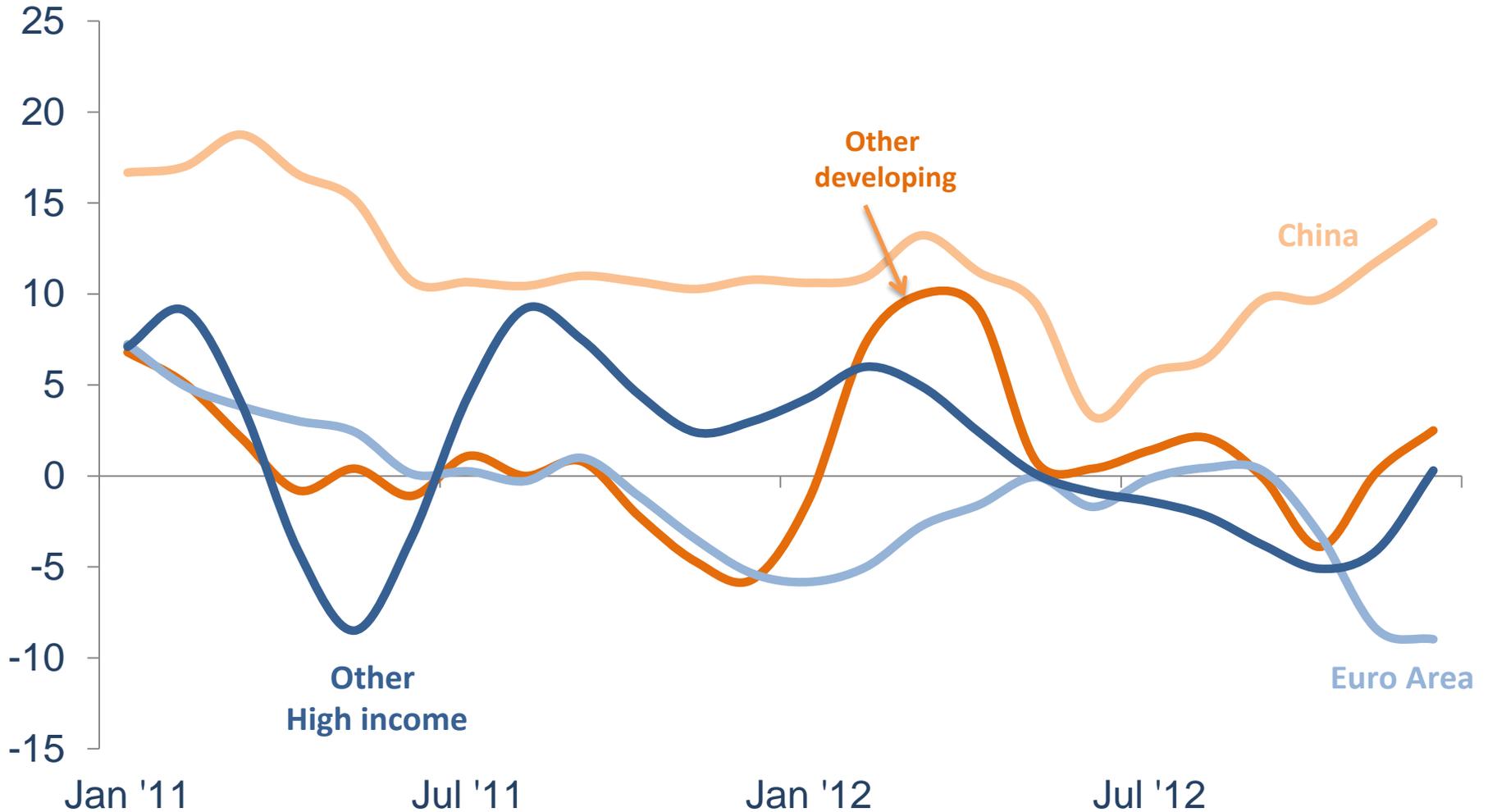


Capital flows expected to strengthen but remain stable as % of GDP

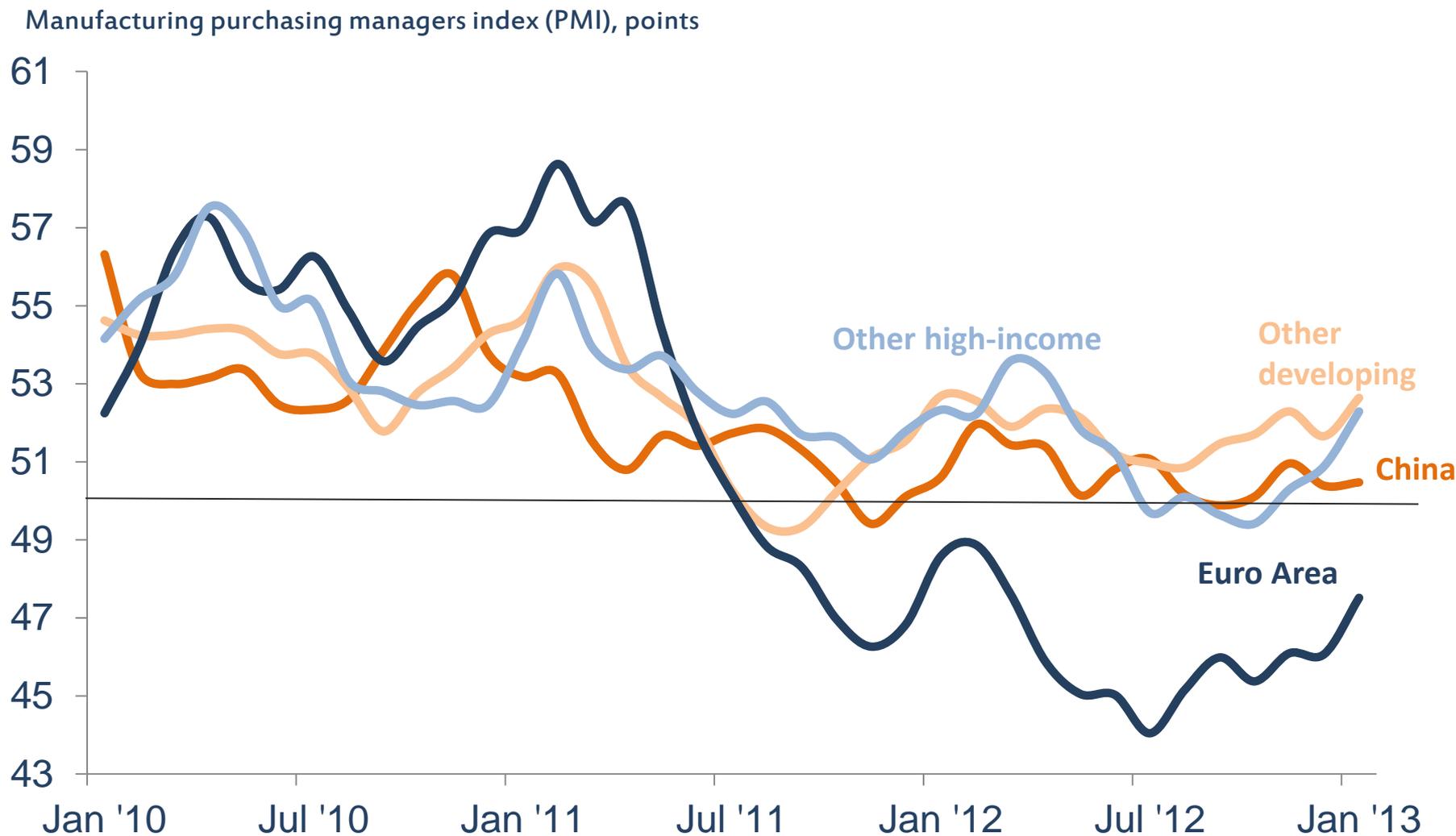


Developing countries may be escaping from high-income weakness

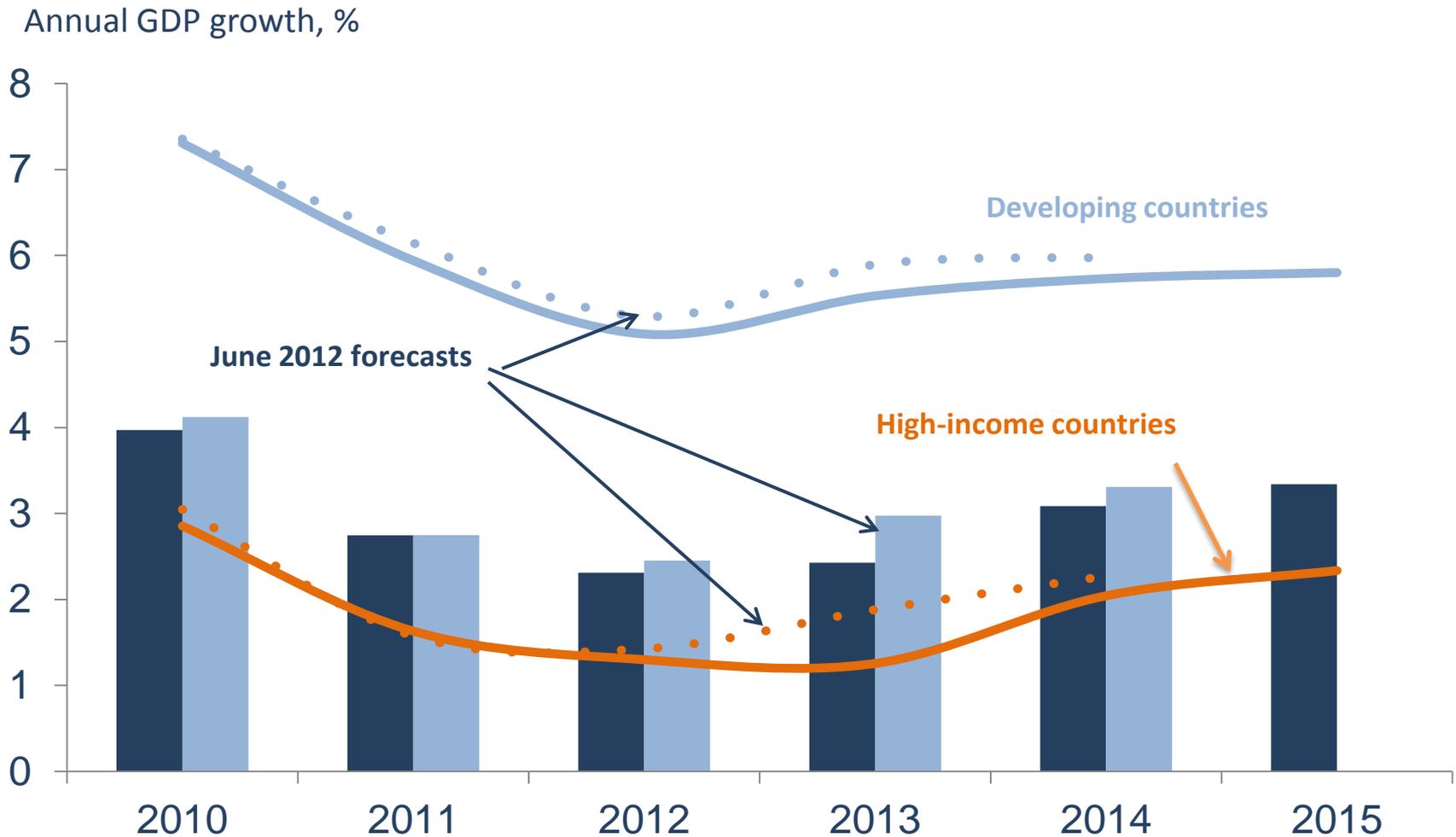
Industrial production, percent growth, 3m/3m saar



Purchasing manager's indexes better but still weak

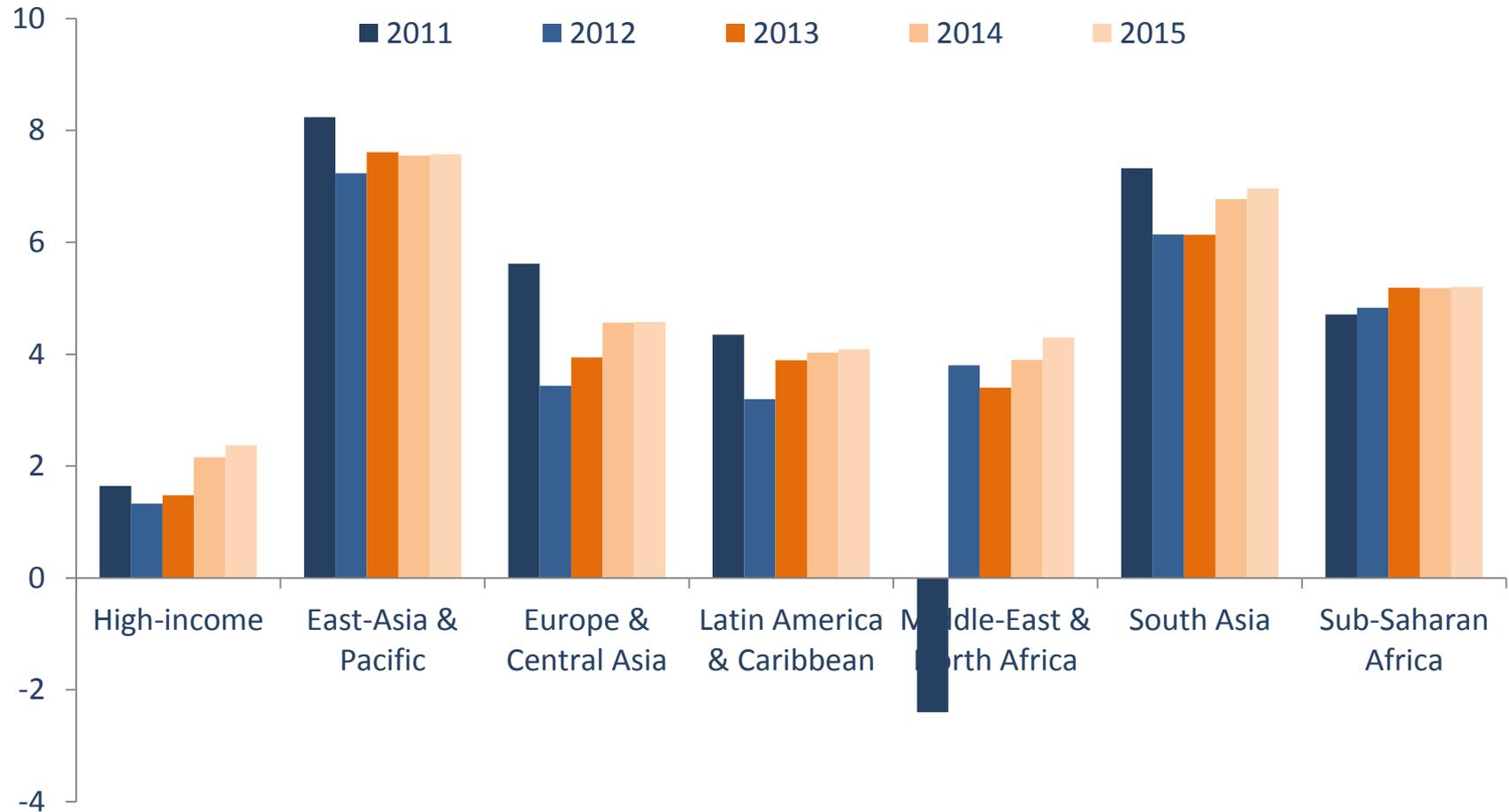


Projections have been downgraded in both 2012 and 2013



Modest regional growth through 2015

Annual GDP growth, %

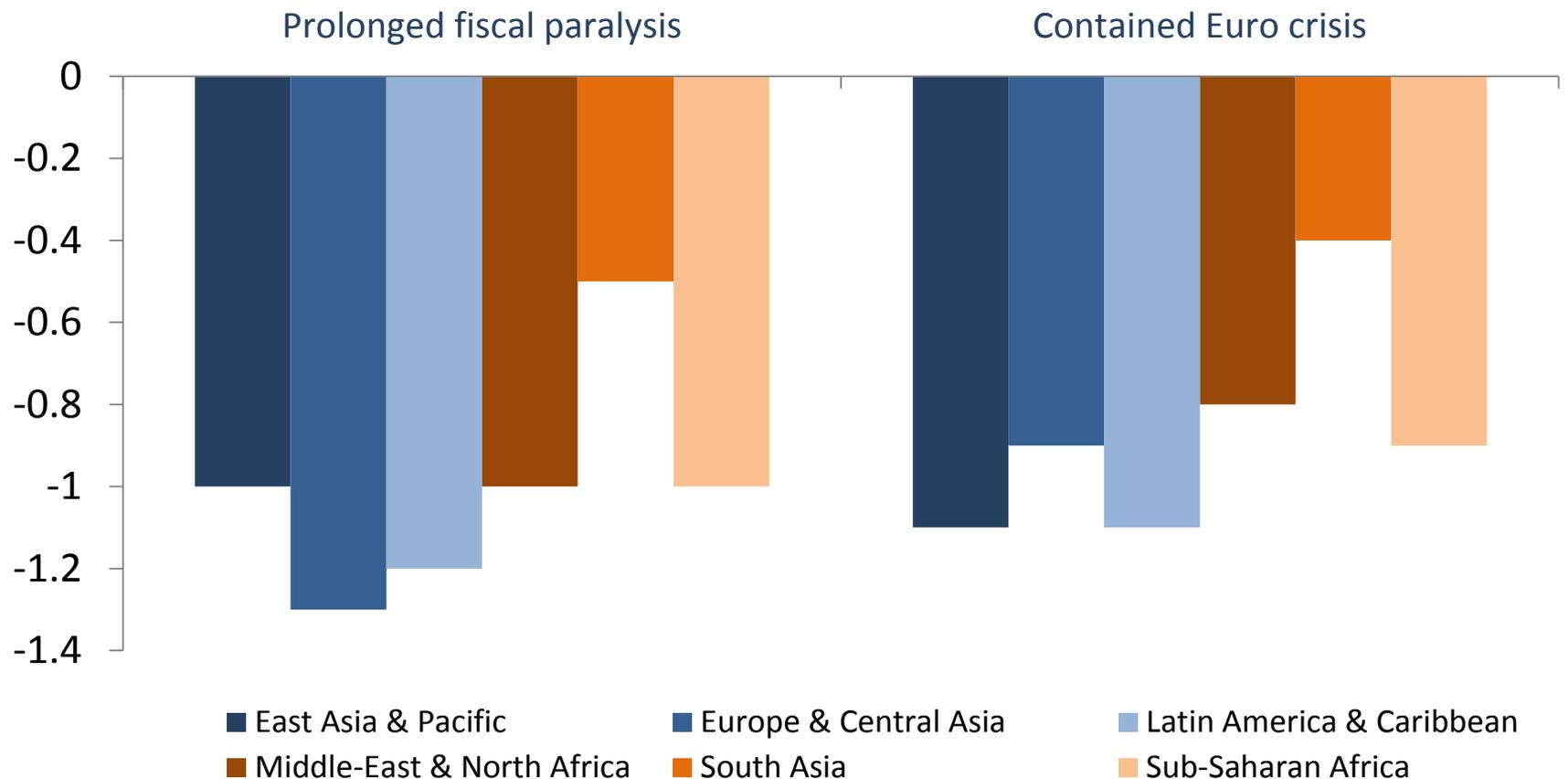


Outlook remains precarious

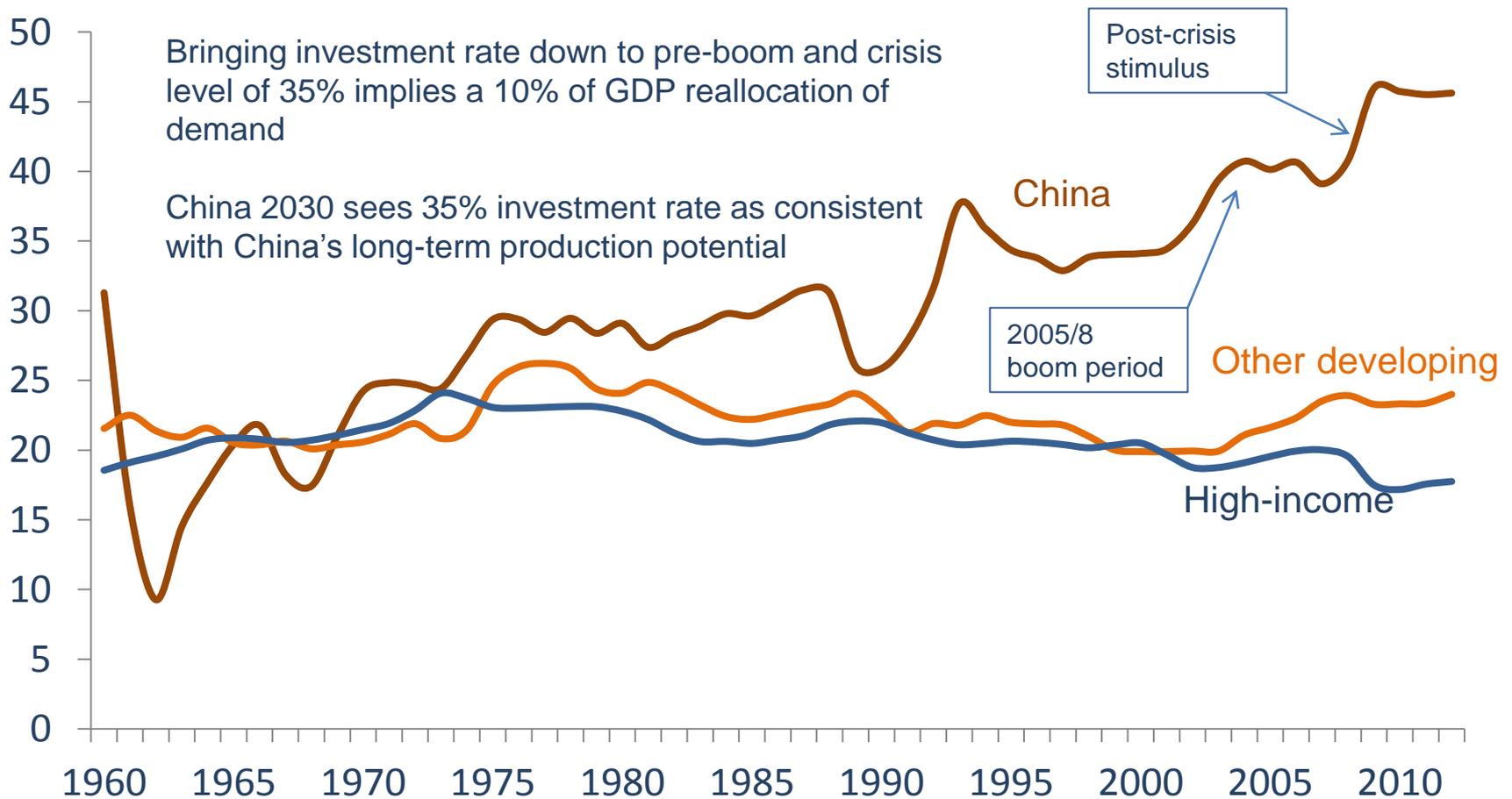
- Continued strong growth is not guaranteed and requires renewed focus on structural policies
- Risks have declined and are more balanced, but remain:
 - Persistent fiscal uncertainty in the U.S.
 - Euro Area risks
 - A sharp drop of investment in China
 - Oil or food supply shock

Prospects are vulnerable to a range of external risks

Change in level of real GDP from baseline, percent



Recent upswings in Chinese investment rate pose serious challenges going forward

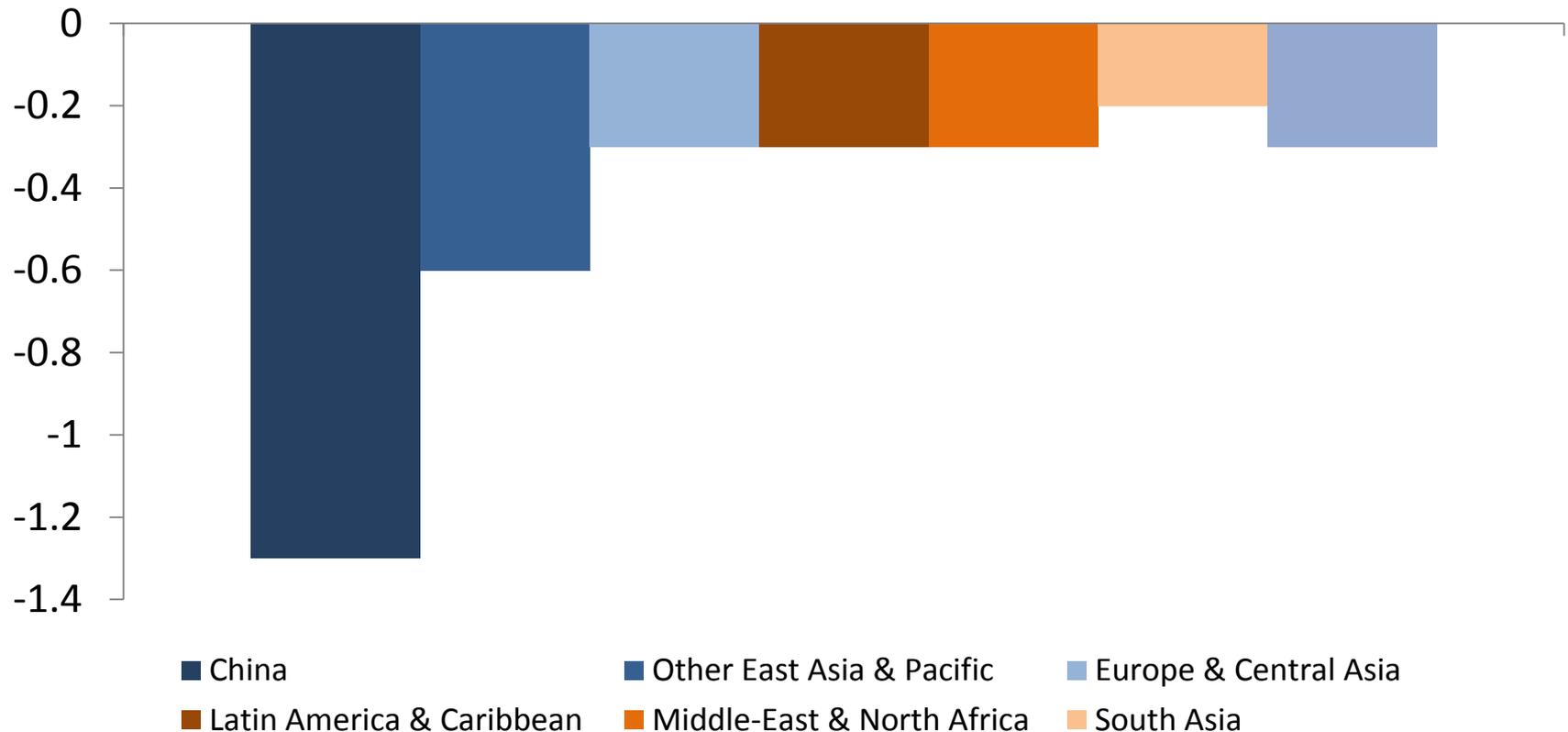


Source: Global Economic Prospects 2013A.

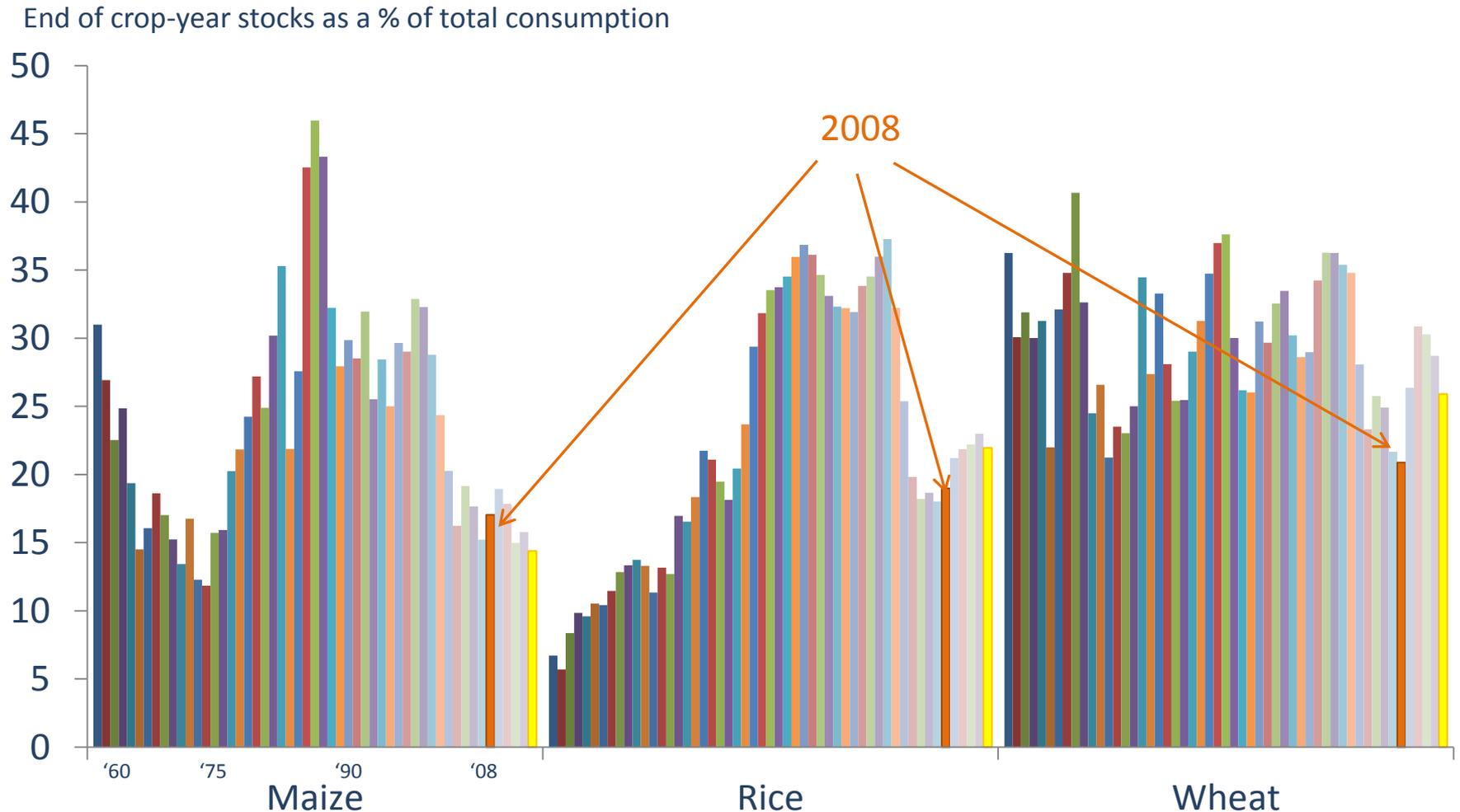
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Abrupt decline in Chinese investment

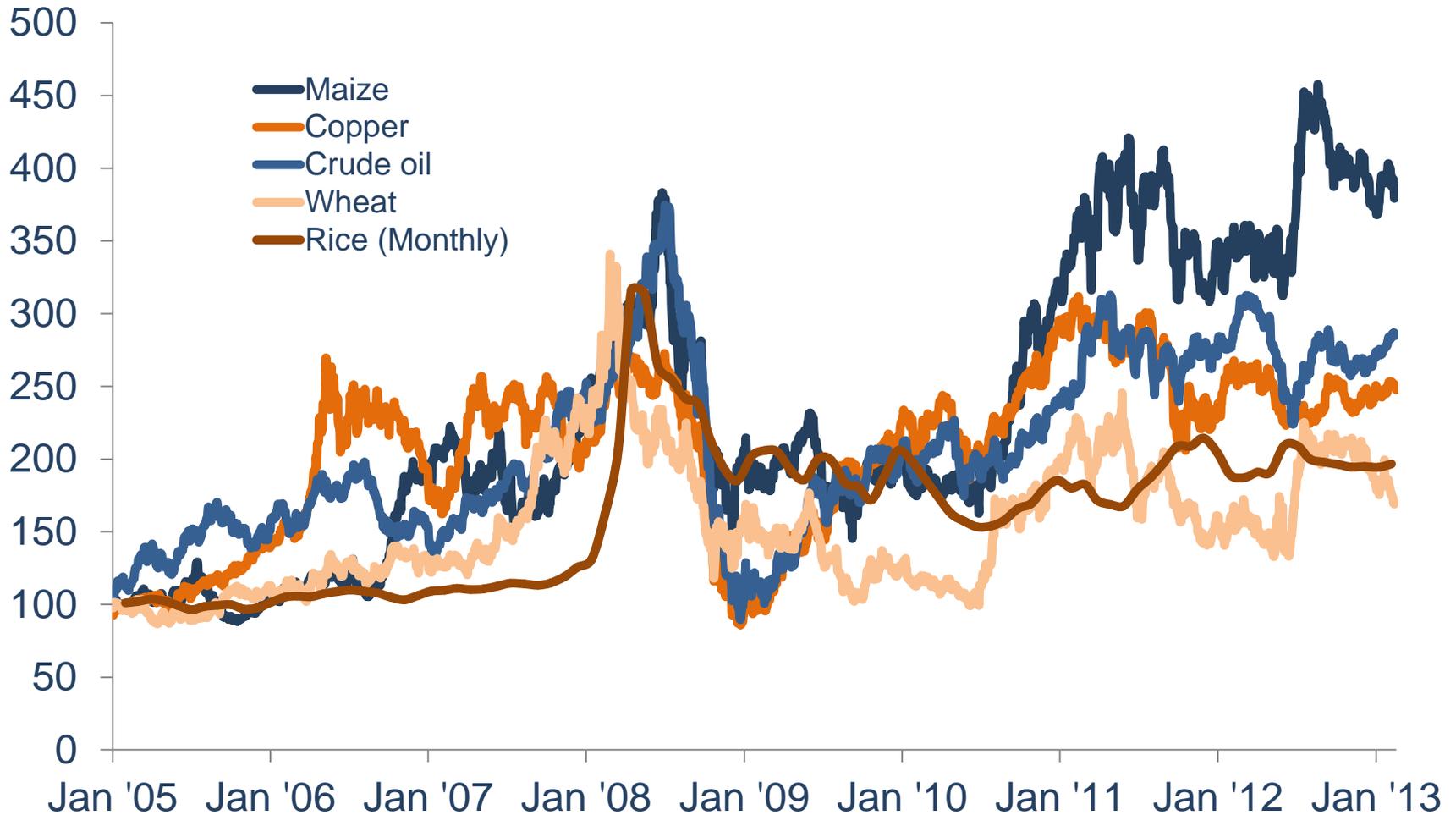


Near record low stocks of maize, but wheat and rice markets are relatively well supplied



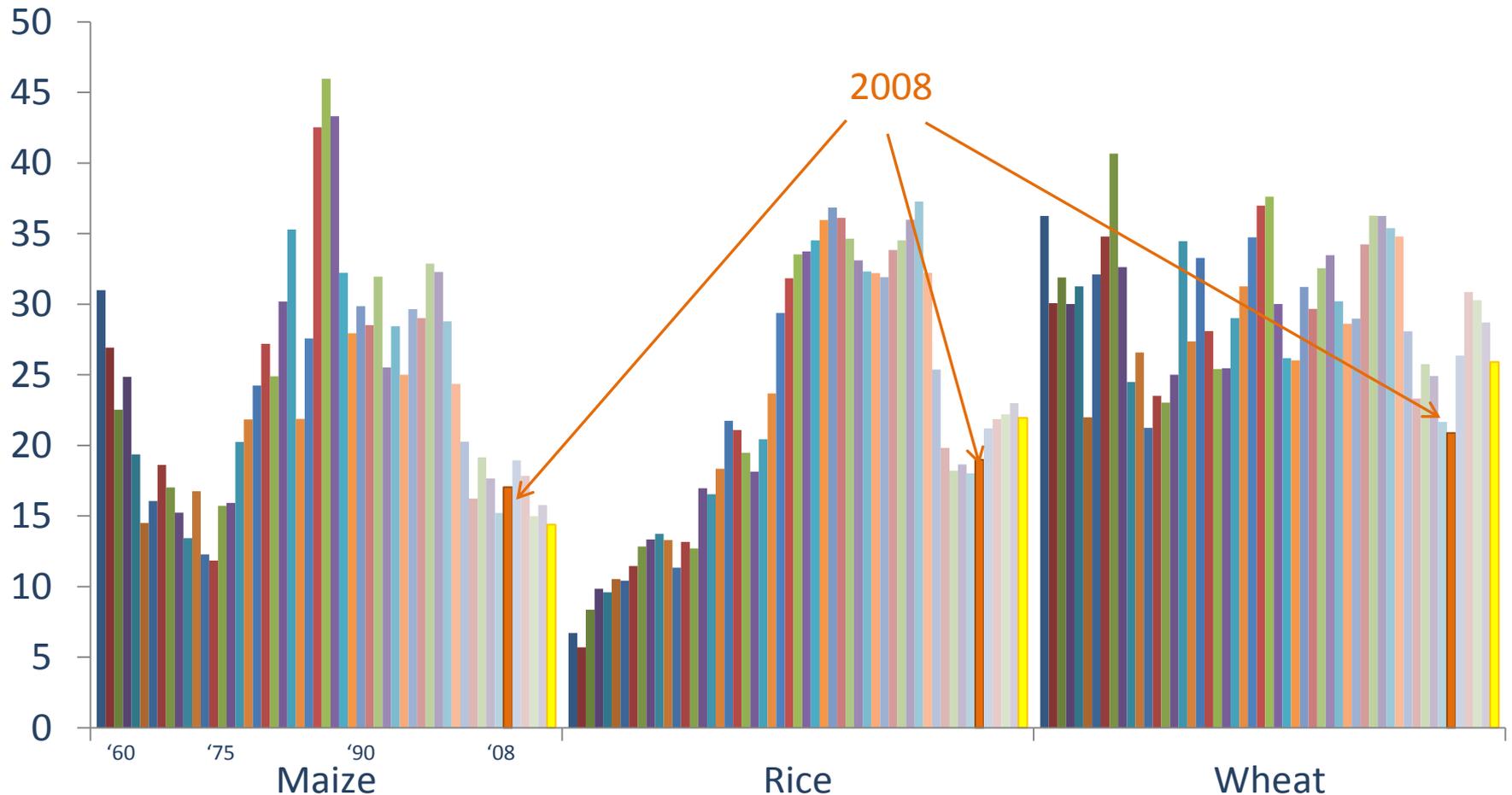
Commodity prices display no clear trend since 2011

US dollar price of selected commodities, Jan. 2005=100



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



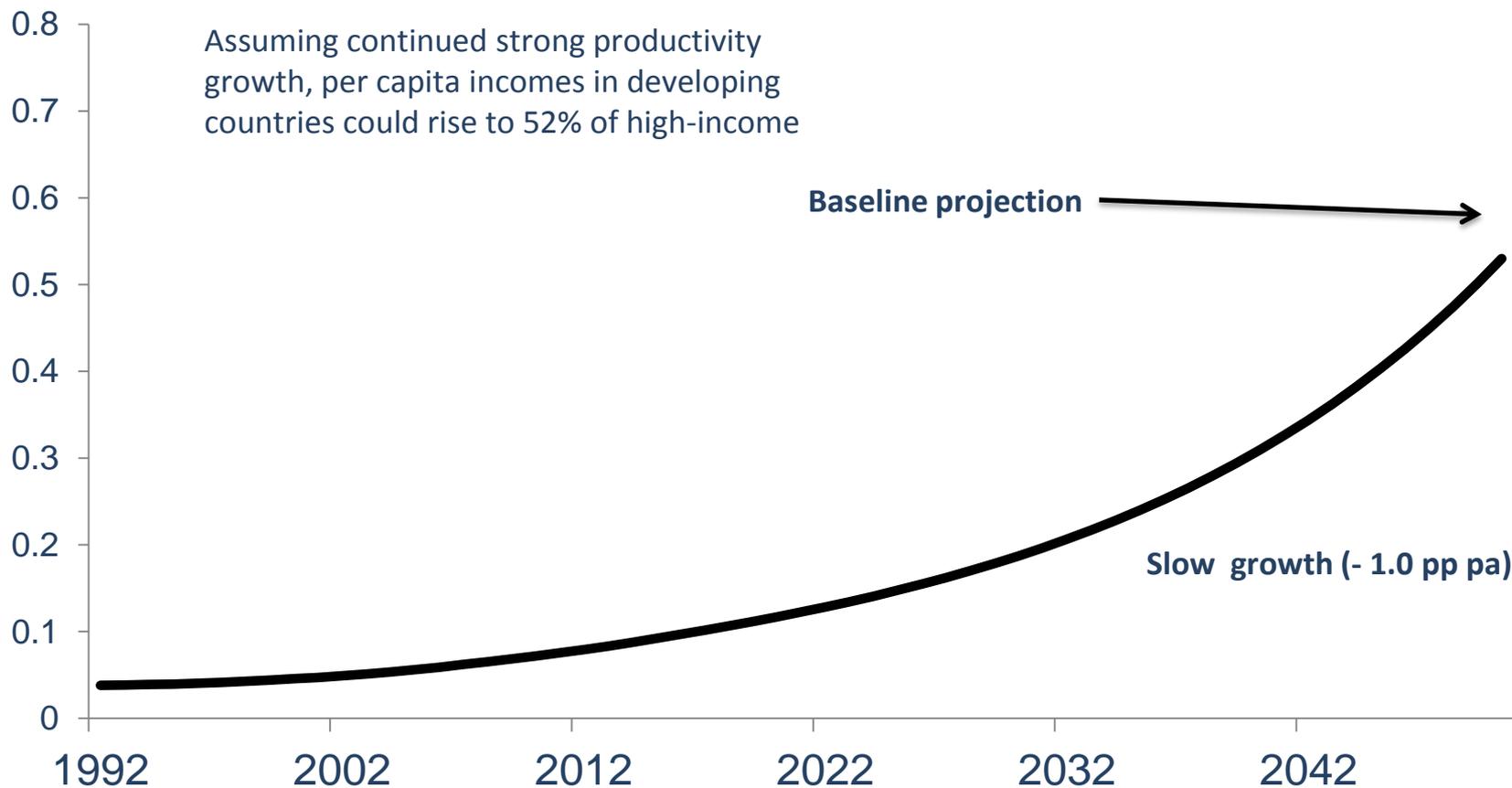
Developing countries should focus on supply side and buffers

- 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.
- Buffers may reduce vulnerability to external shocks by as much as 33 percent

Small improvements in potential growth result in substantial long run gains

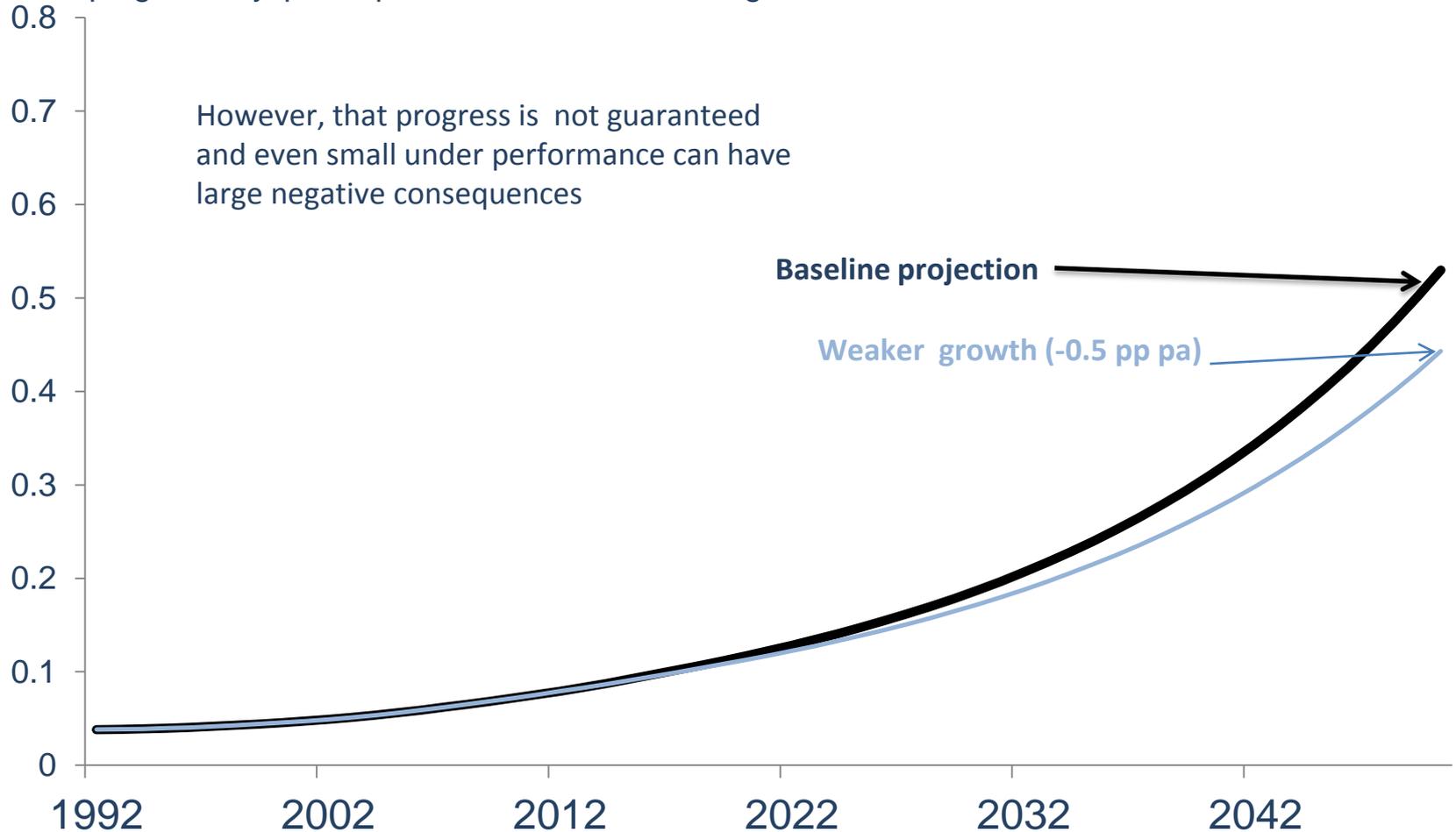
Developing country, per capita income, % of 2010 high-income level

Baseline forecast



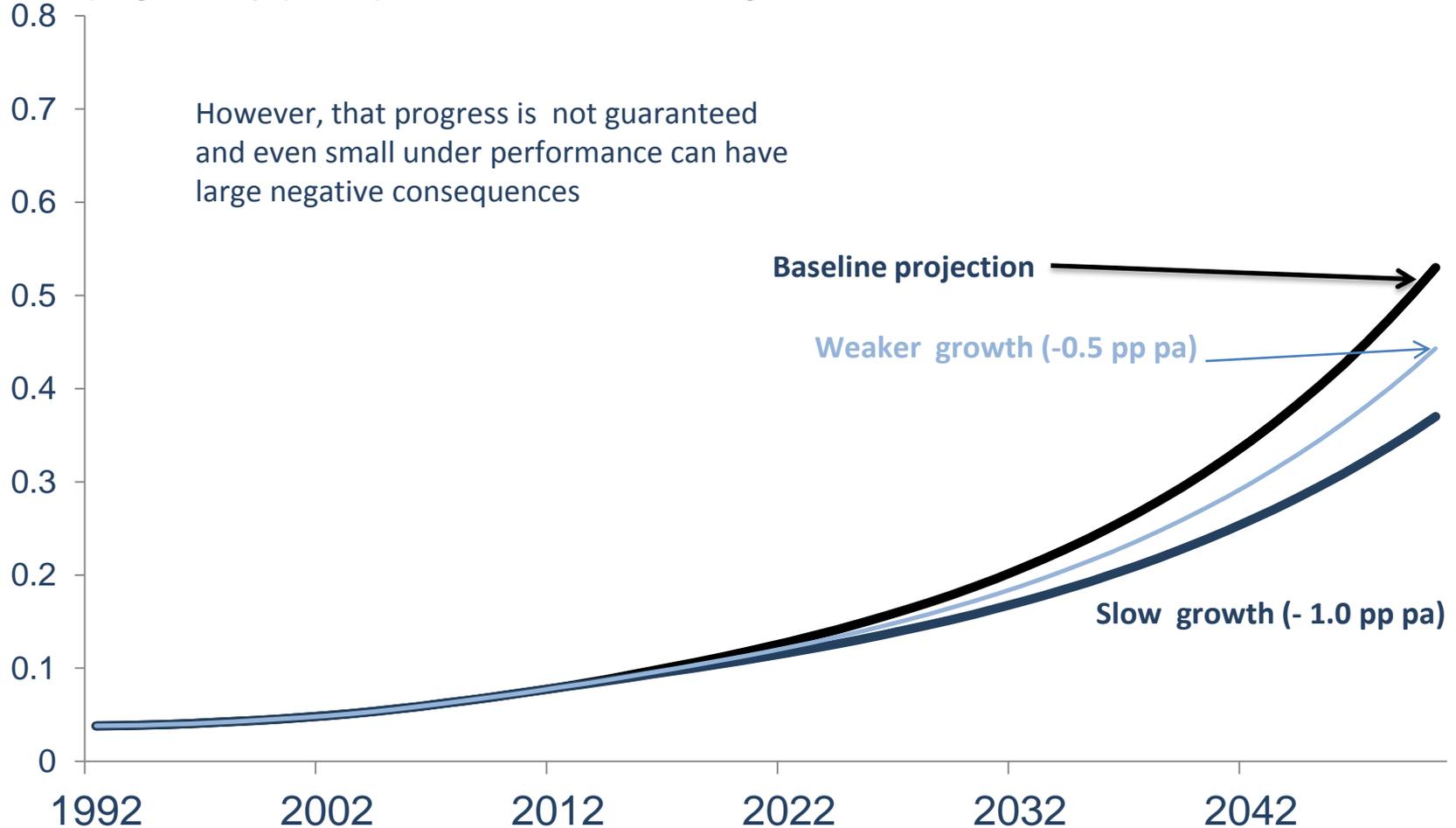
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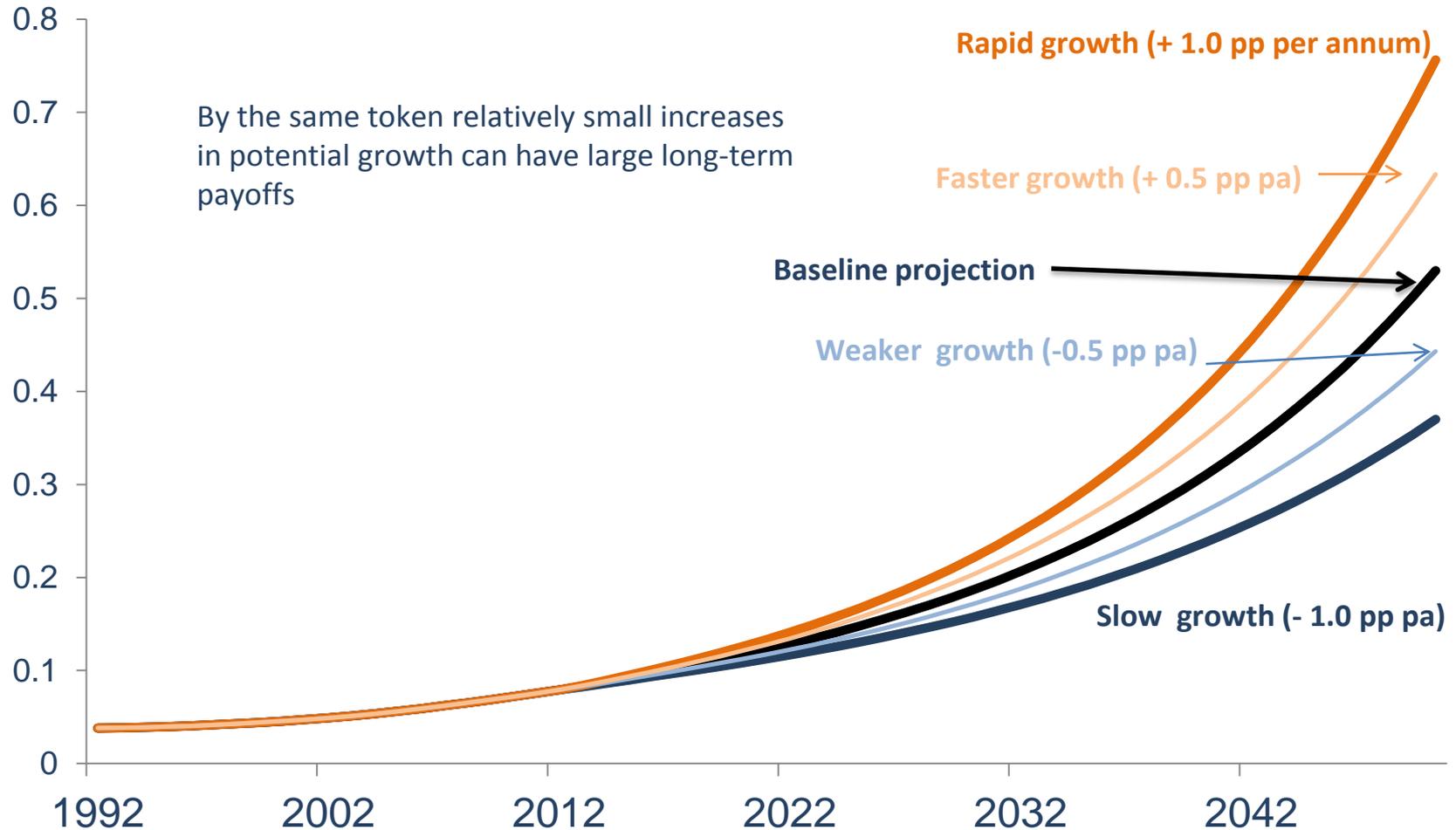
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Developing country, per capita income, % of 2010 high-income level



Small improvements in potential growth result in substantial long run gains

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 developing country growth is being sapped by high-income weakness
- In a slow and volatile external environment, sustained strong growth in developing countries will depend on productivity enhancements, investments in infrastructure, human capital and governance
- Developing countries need to focus on domestic policy needs, including a rebuilding of buffers in many cases

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