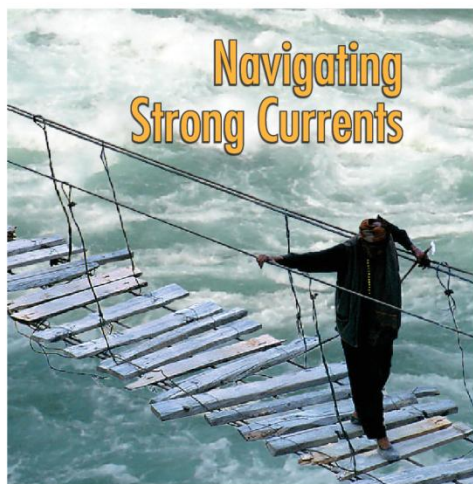




# Global Economic Prospects: Navigating strong currents

## Global Economic Prospects

Volume 2 | January 2011



 THE WORLD BANK

Andrew Burns  
World Bank  
January 21, 2011

<http://www.worldbank.org/GlobalOutlook>





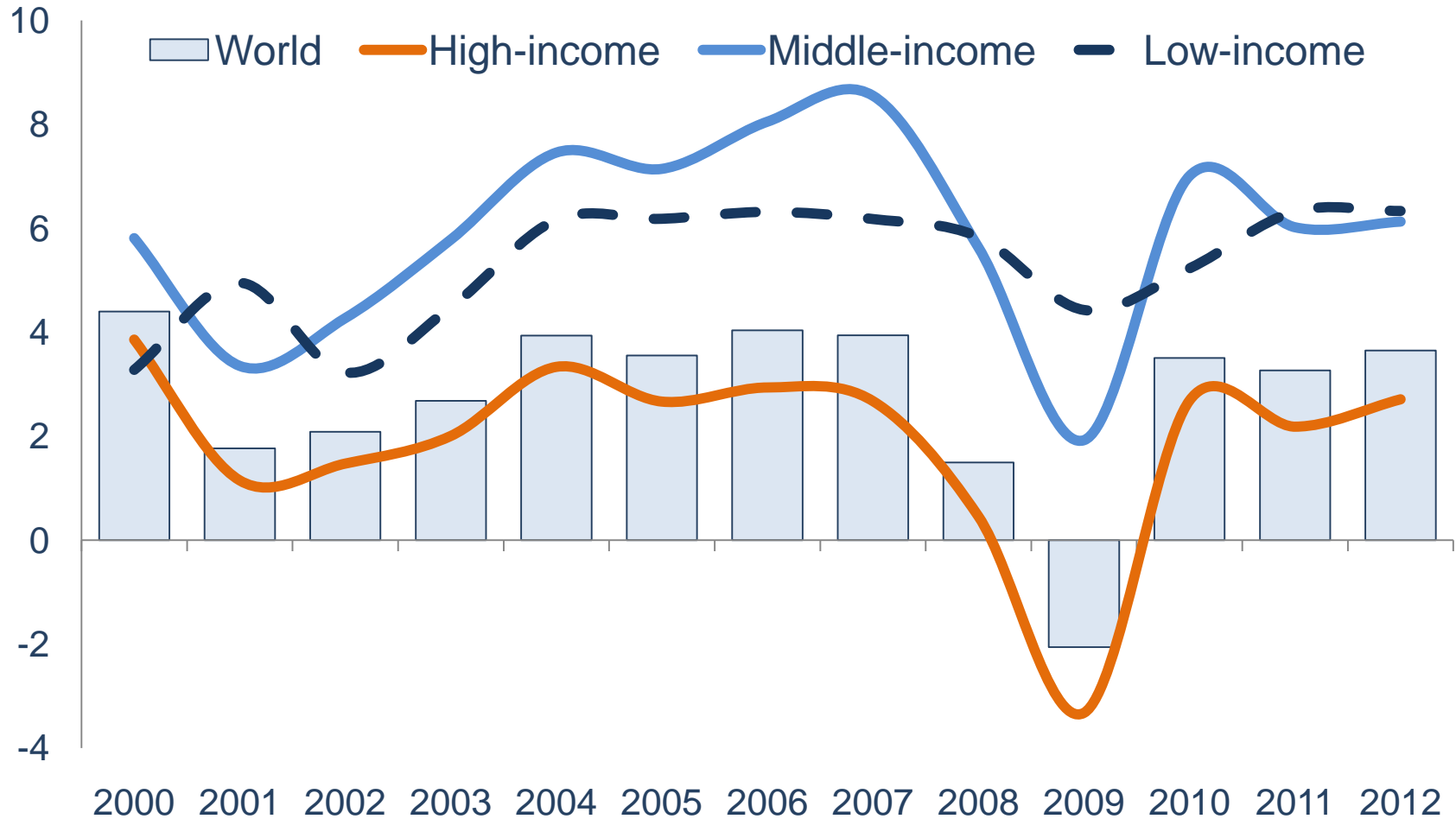
## Main messages

- Most developing countries have passed with flying colors the stress test of the financial crisis.
- Remarkable confirmation of pre-crisis economic strength, done while high-income countries remained weak
- Regional and global challenges include:
  - Sharply tighter financial conditions
  - Further fallout from financial sector uncertainty
  - Impact of excessive exchange rate pressure
  - Potential poverty impacts of rising food prices



# Annual growth to slow somewhat in 2011

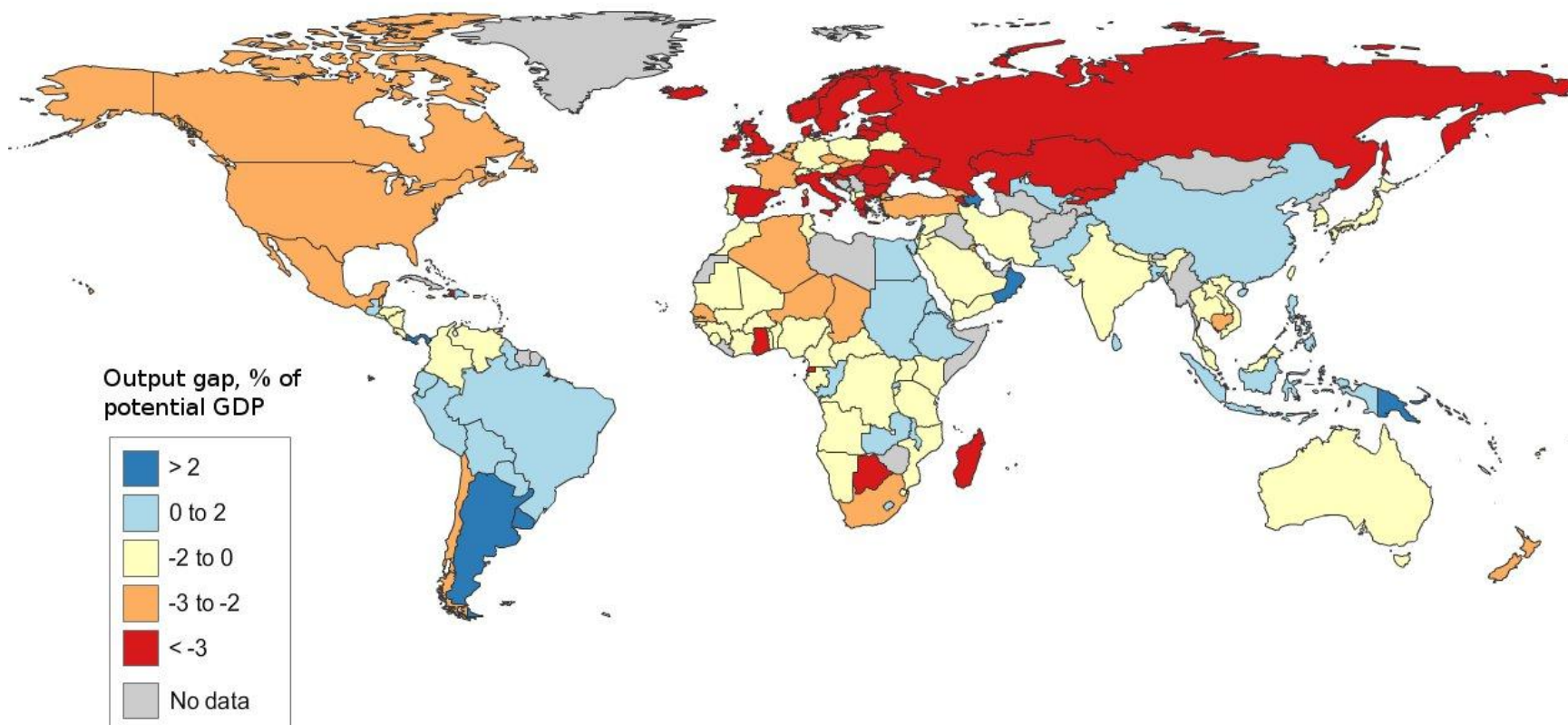
Real GDP growth rates in percent





# Outside Europe & Central Asia, most developing countries are close to having fully recovered from the crisis

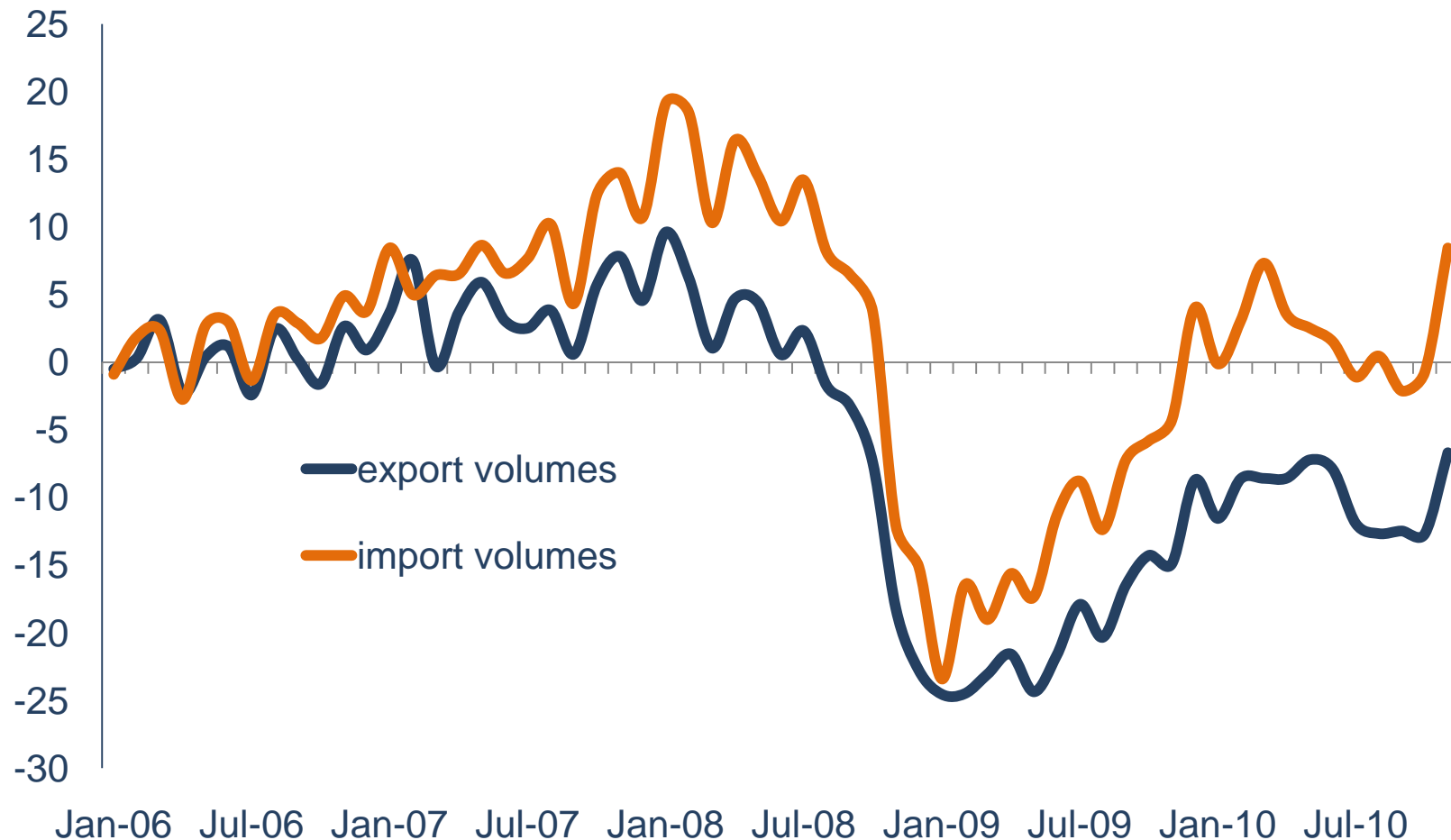
Output gaps, in 2010





# Recovery achieved despite persistent weakness in high-income countries

Trade volumes relative to trend (% deviation; trend based on 1990-2005)





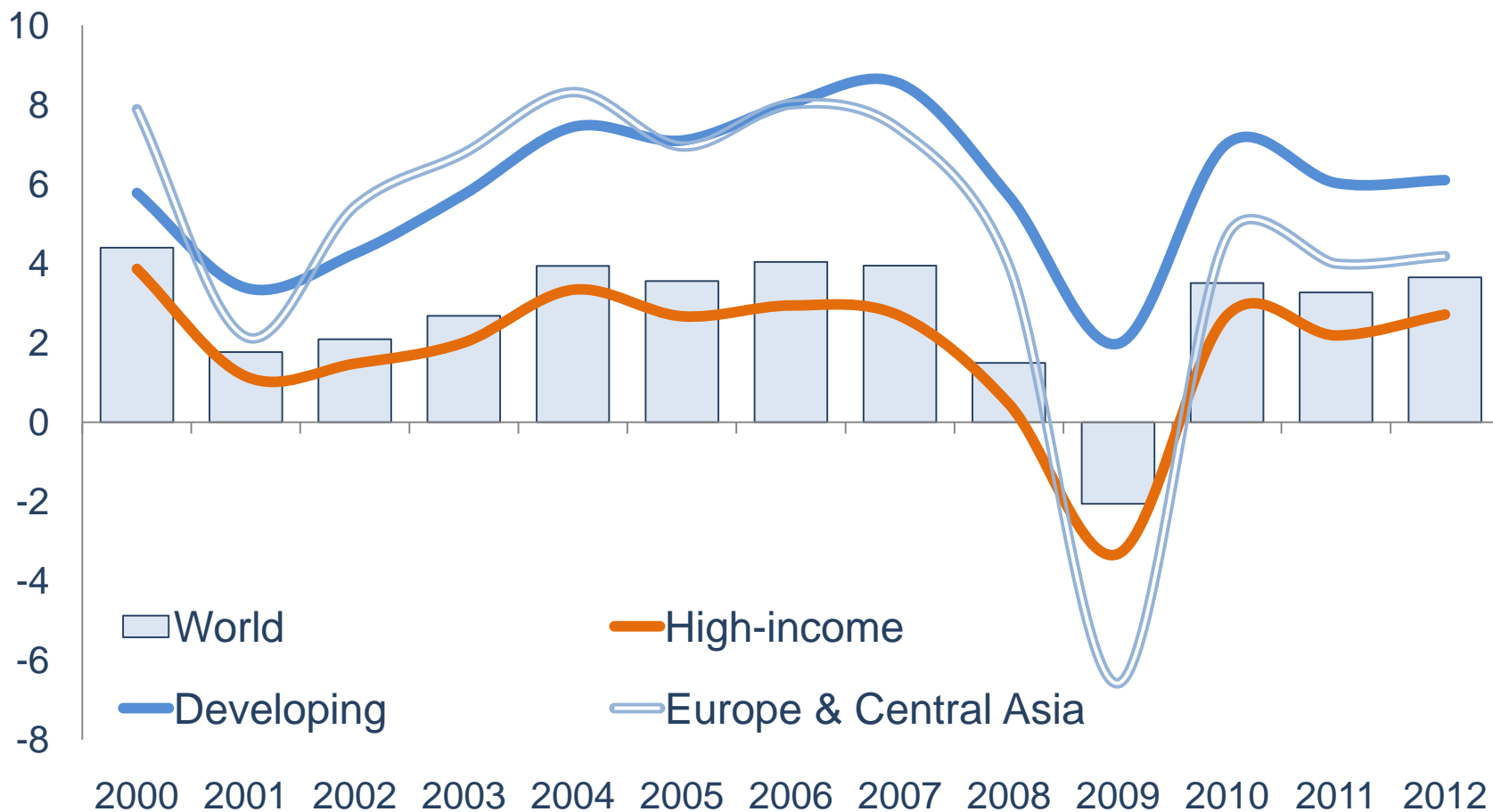
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# Crisis in Europe and Central Asia was deeper and rebound less strong

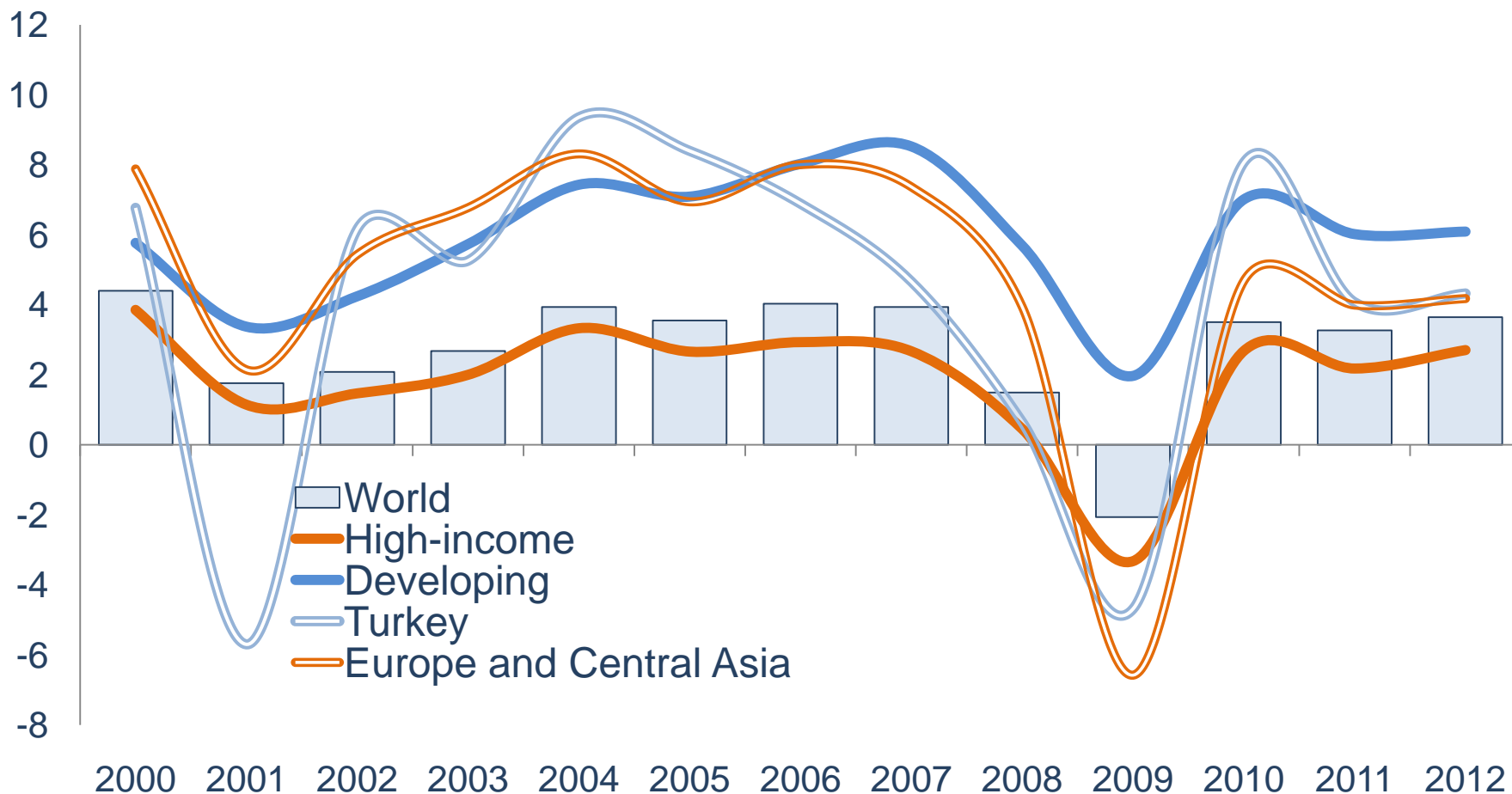
Real GDP growth rates in percent





# Policy normalization and end of rebound effects to slow growth in 2011-12012

Real GDP growth rates in percent







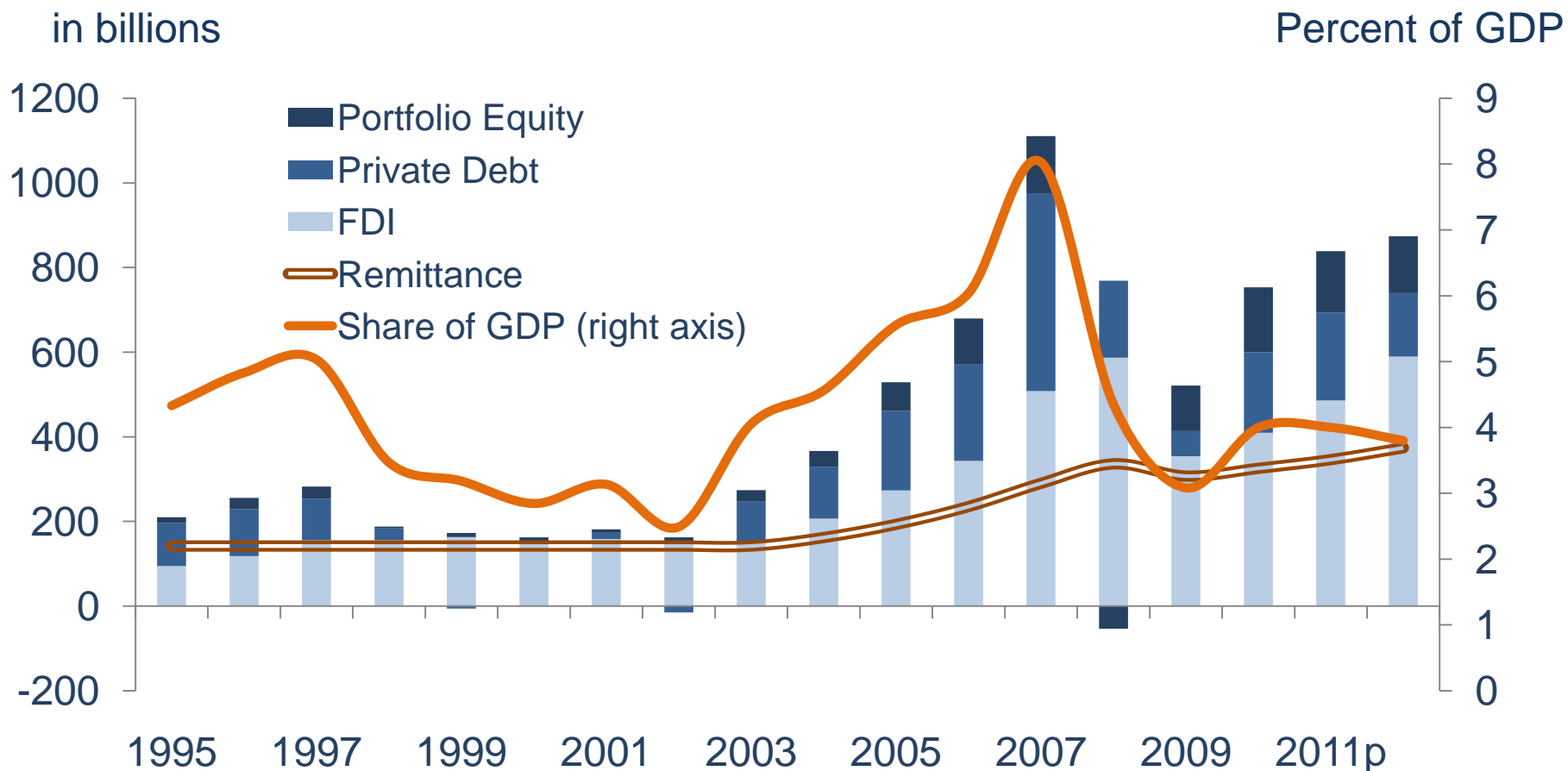
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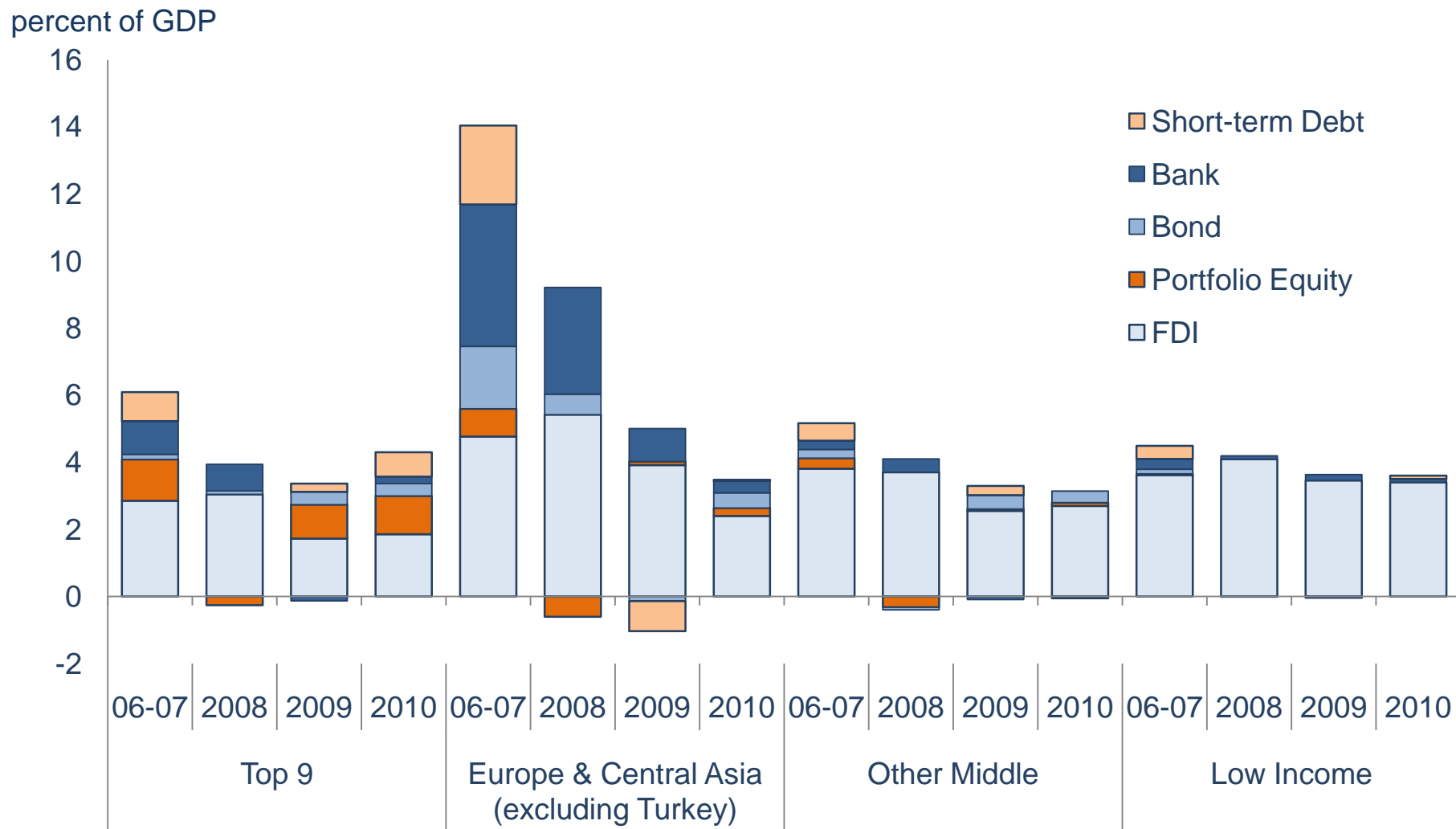
# Weak bank-lending implies private capital flows will not recover to pre-crisis levels for some time

Net private capital flows to developing countries, \$ billion





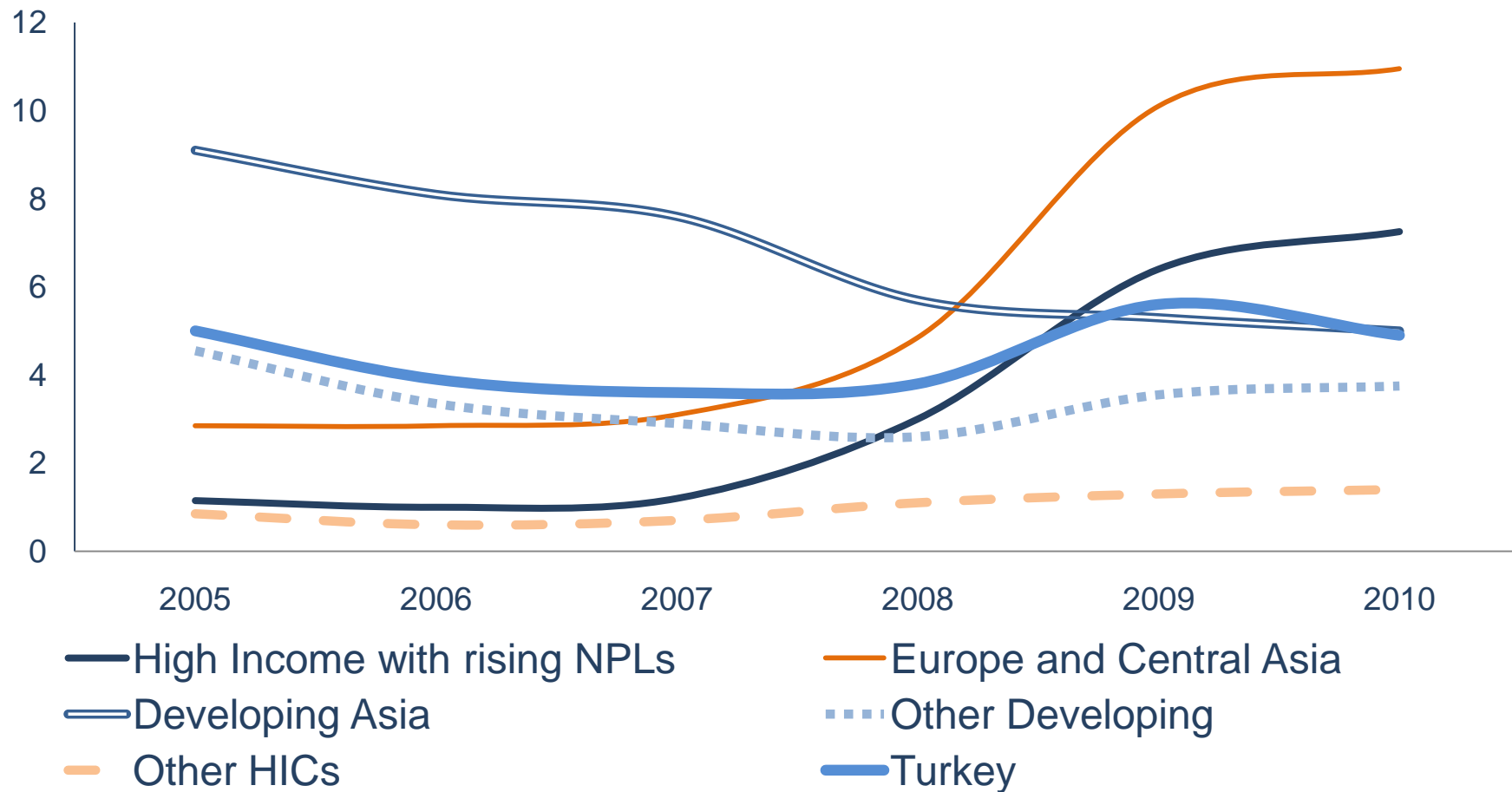
# Decline and recovery in capital flows was very concentrated





# Bank NPLs remain elevated in Europe and Central Asia, rose less sharply in Turkey

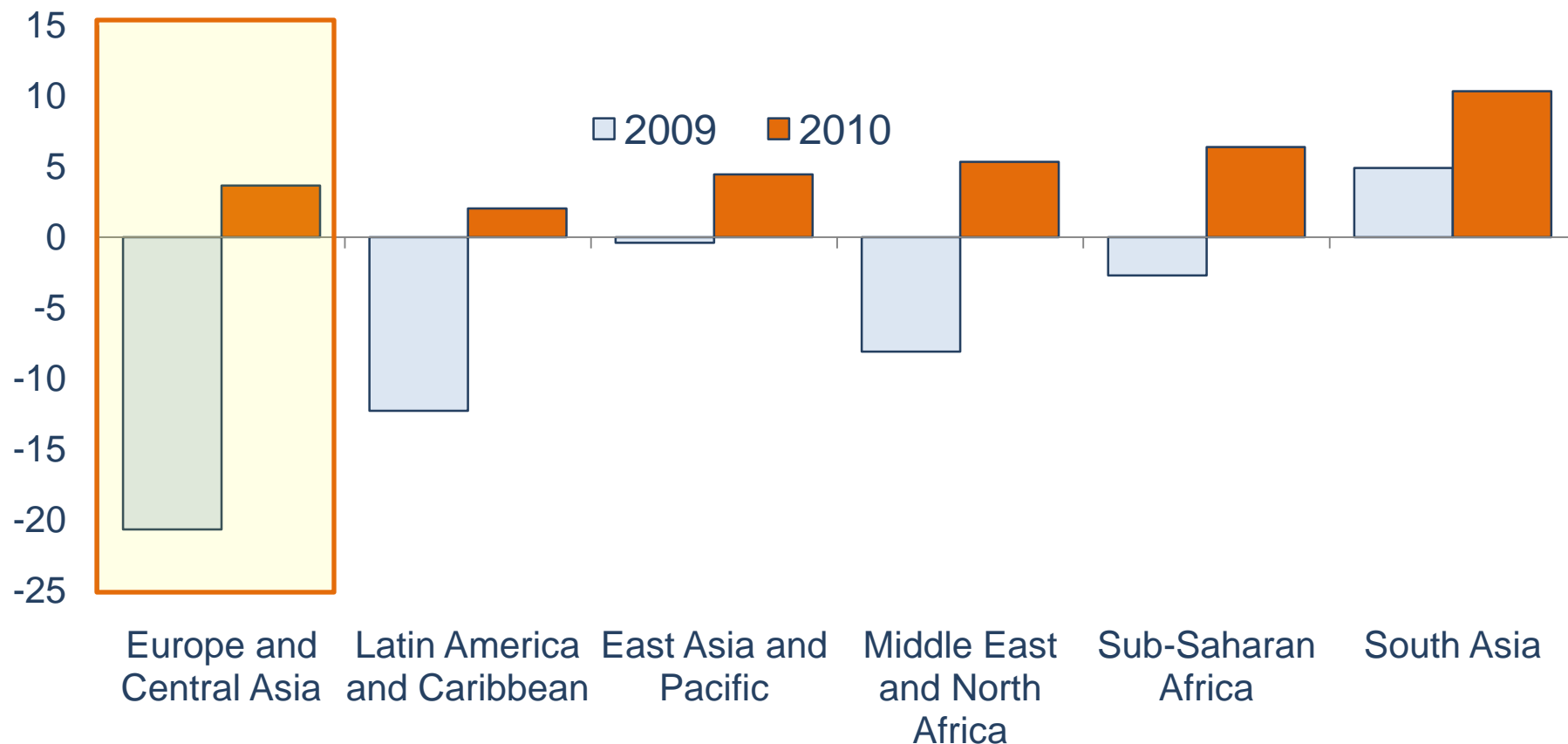
Median %-share of non-performing loans (NPLs) to total





# Remittances fall most in Europe and Central Asia, tepid recovery tied to slow E.U. job-growth

Official remittances inflows, annual percent change





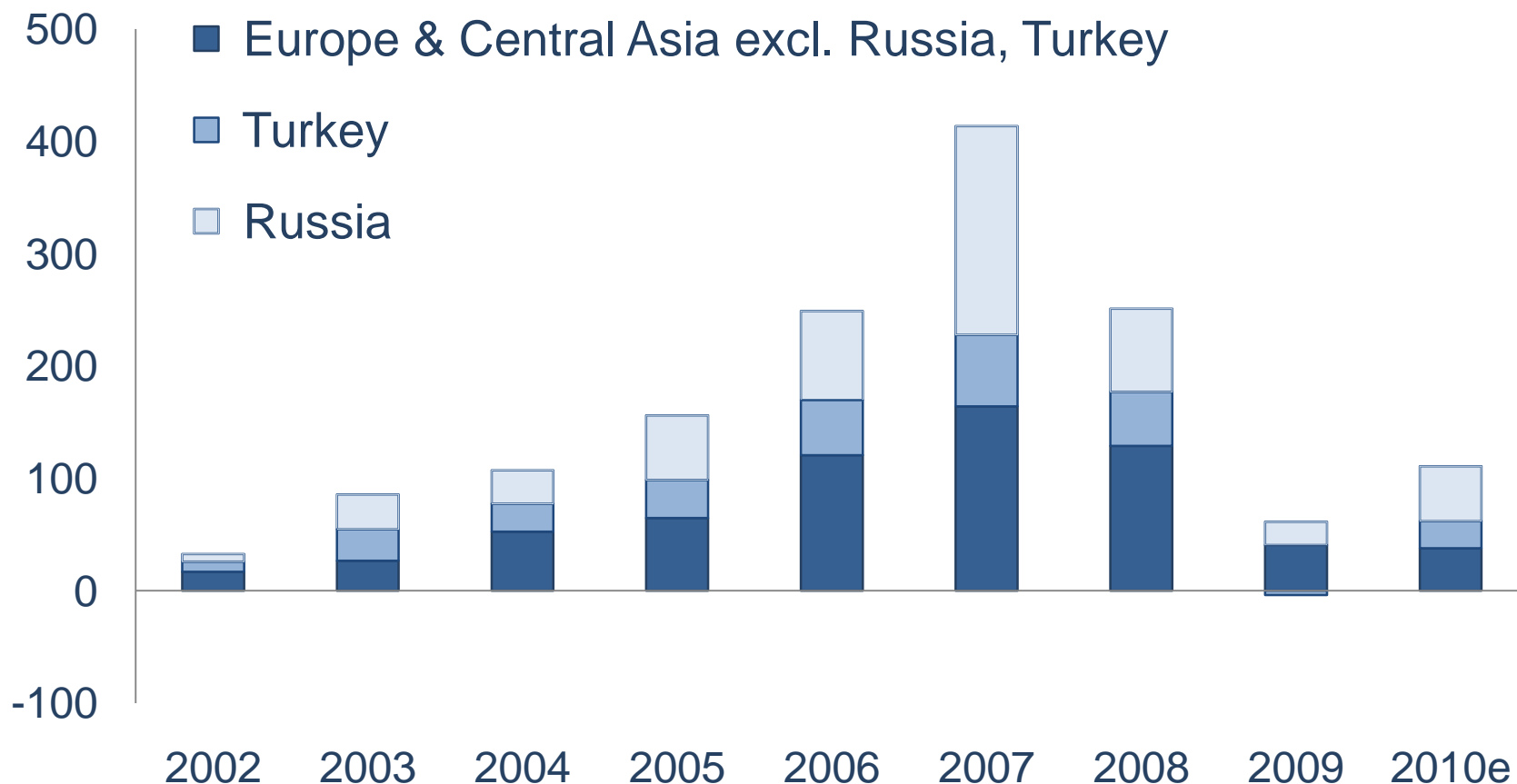
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# Capital flows firmed in 2010 (\$-terms), but concentrated in Russia and Turkey

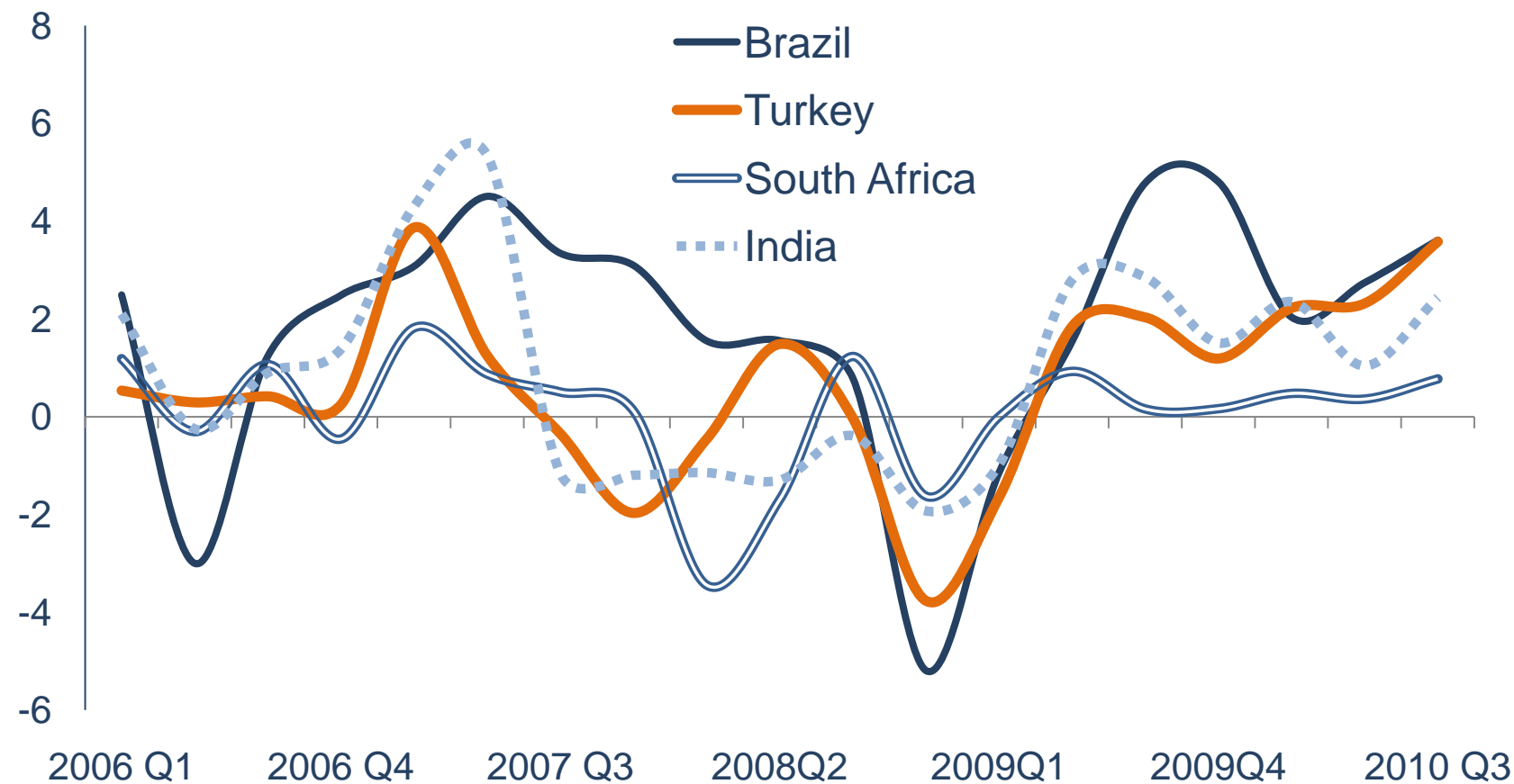
billion US-dollars





# Large inflows to stock markets and local debt securities

Foreign portfolio investment flows, % of GDP

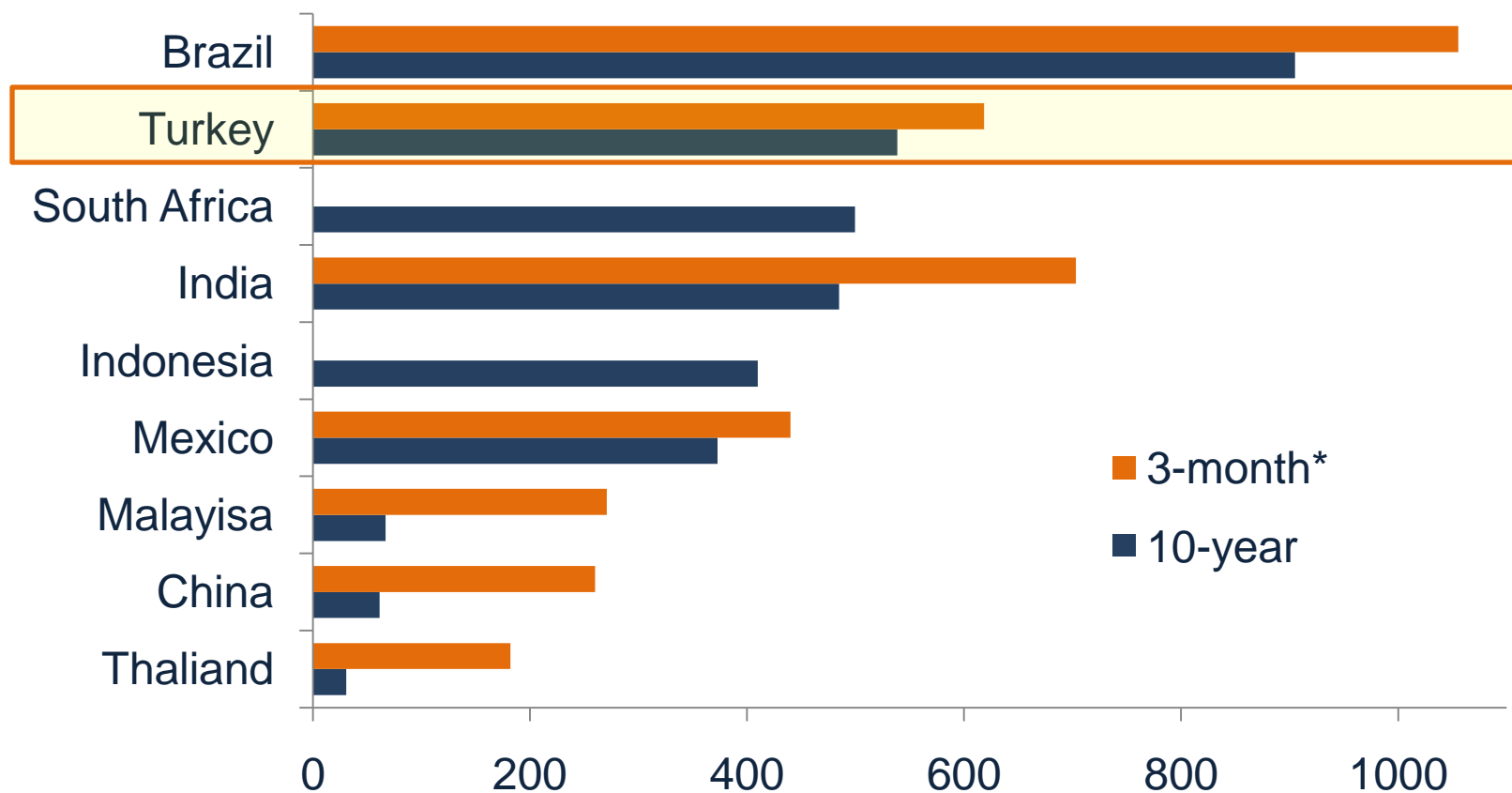






# Large interest rate differentials with high-income countries contribute to capital inflows

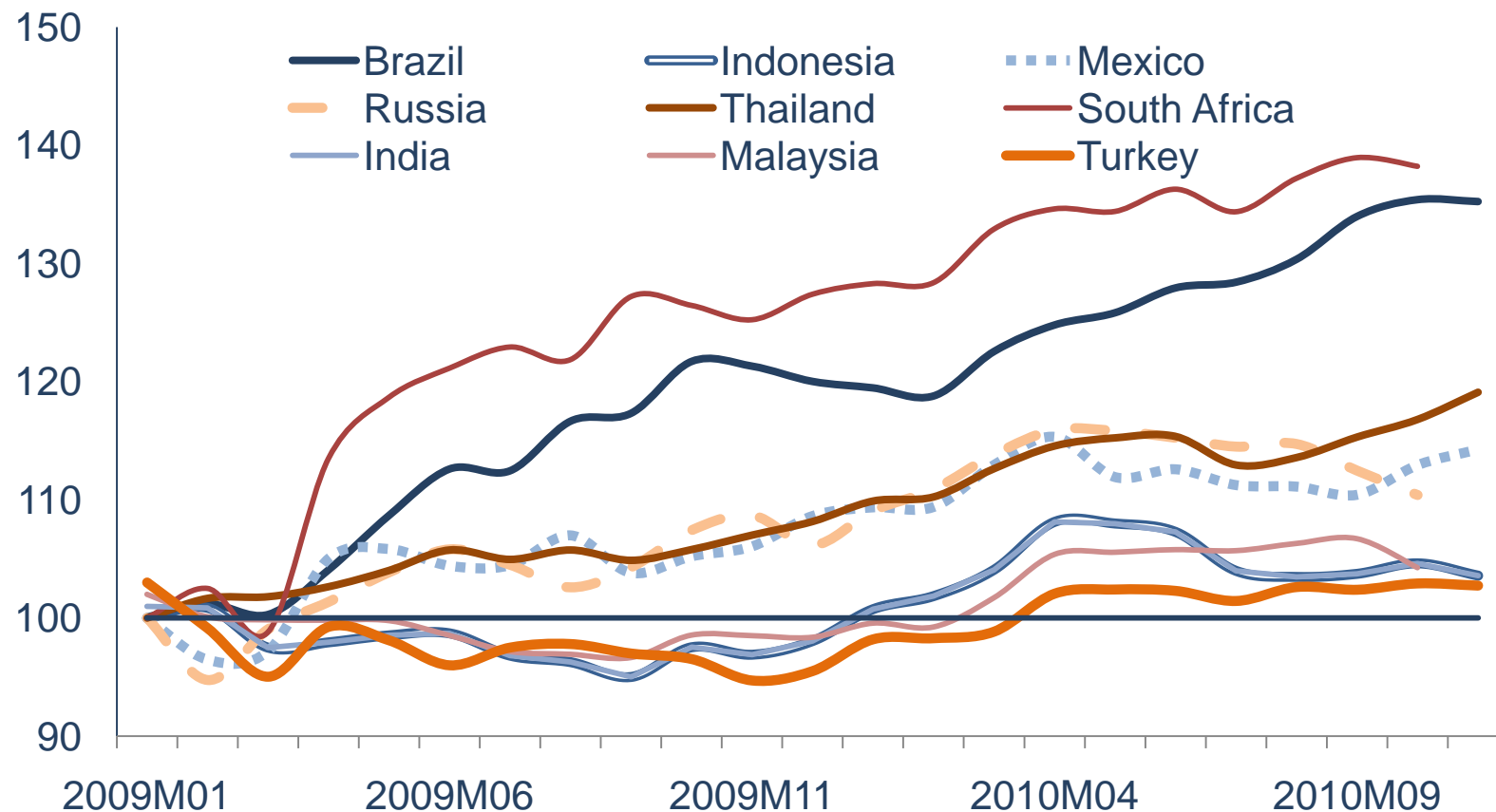
3-month & 10-year local bond yield spreads over U.S. Treasuries (bps)





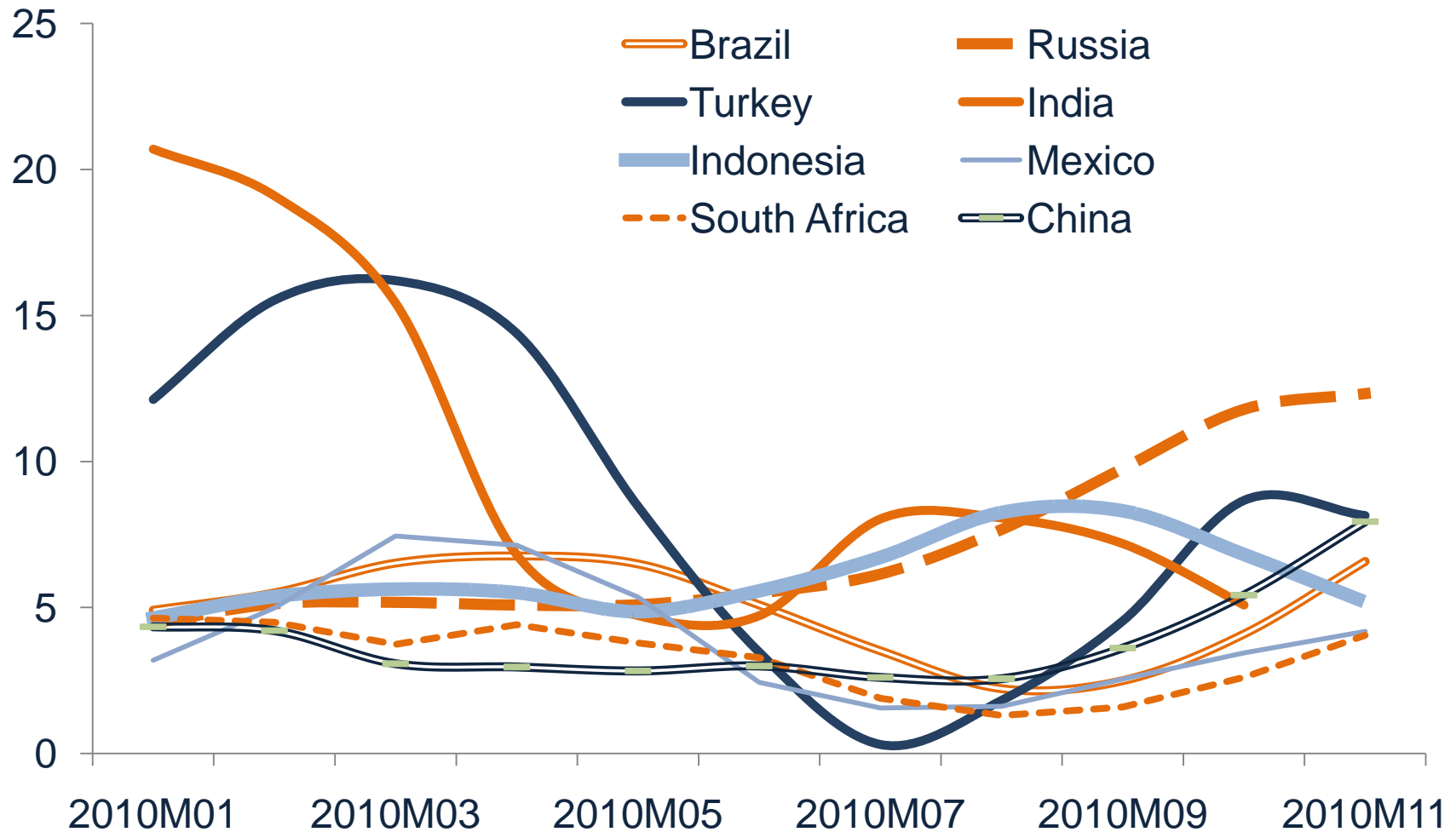
# Capital flows put upward pressure on many currencies

Real-effective exchange rate, January 2009=100





# Inflationary pressures are building





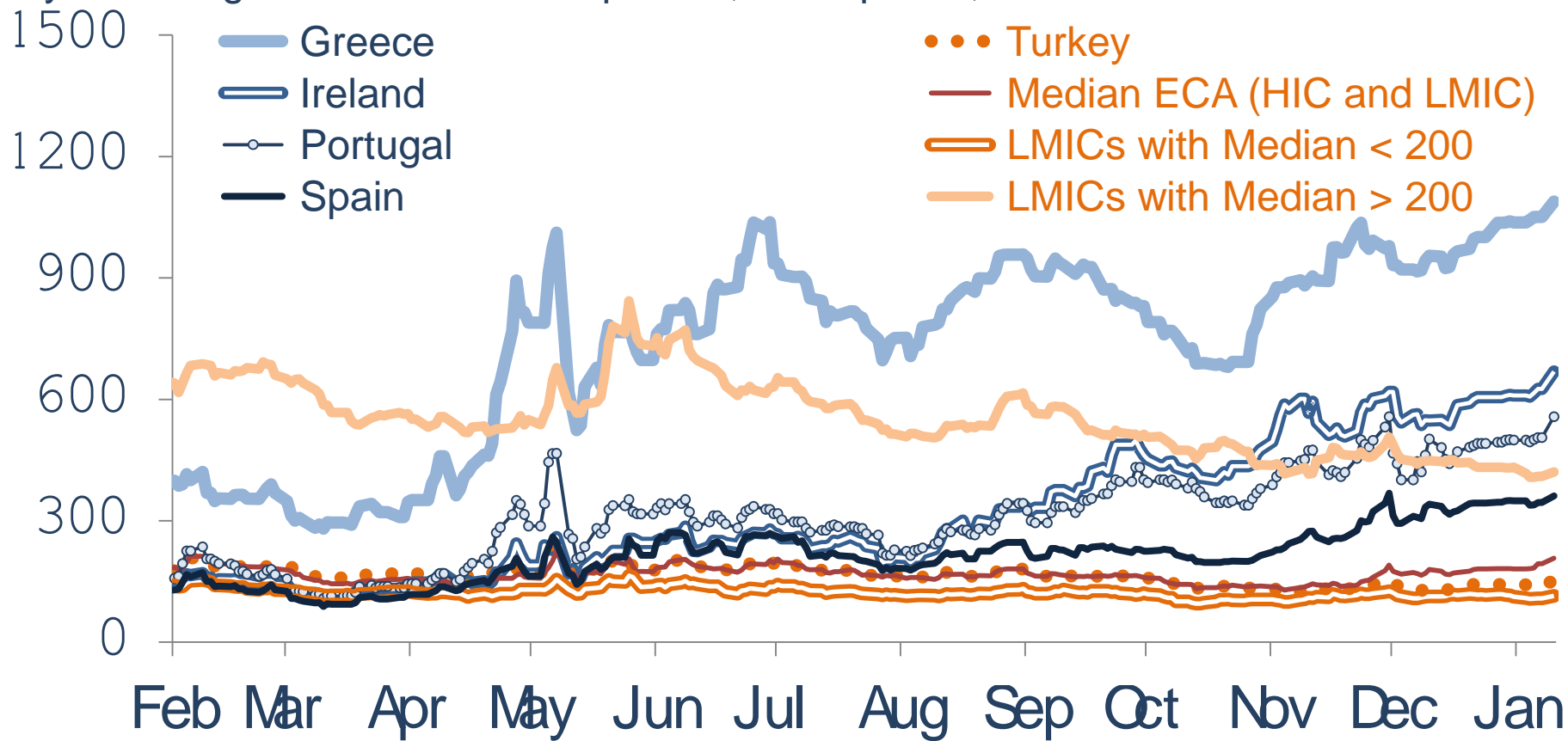
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# Market jitters over sovereign debt have not spread to developing countries, incl. Turkey

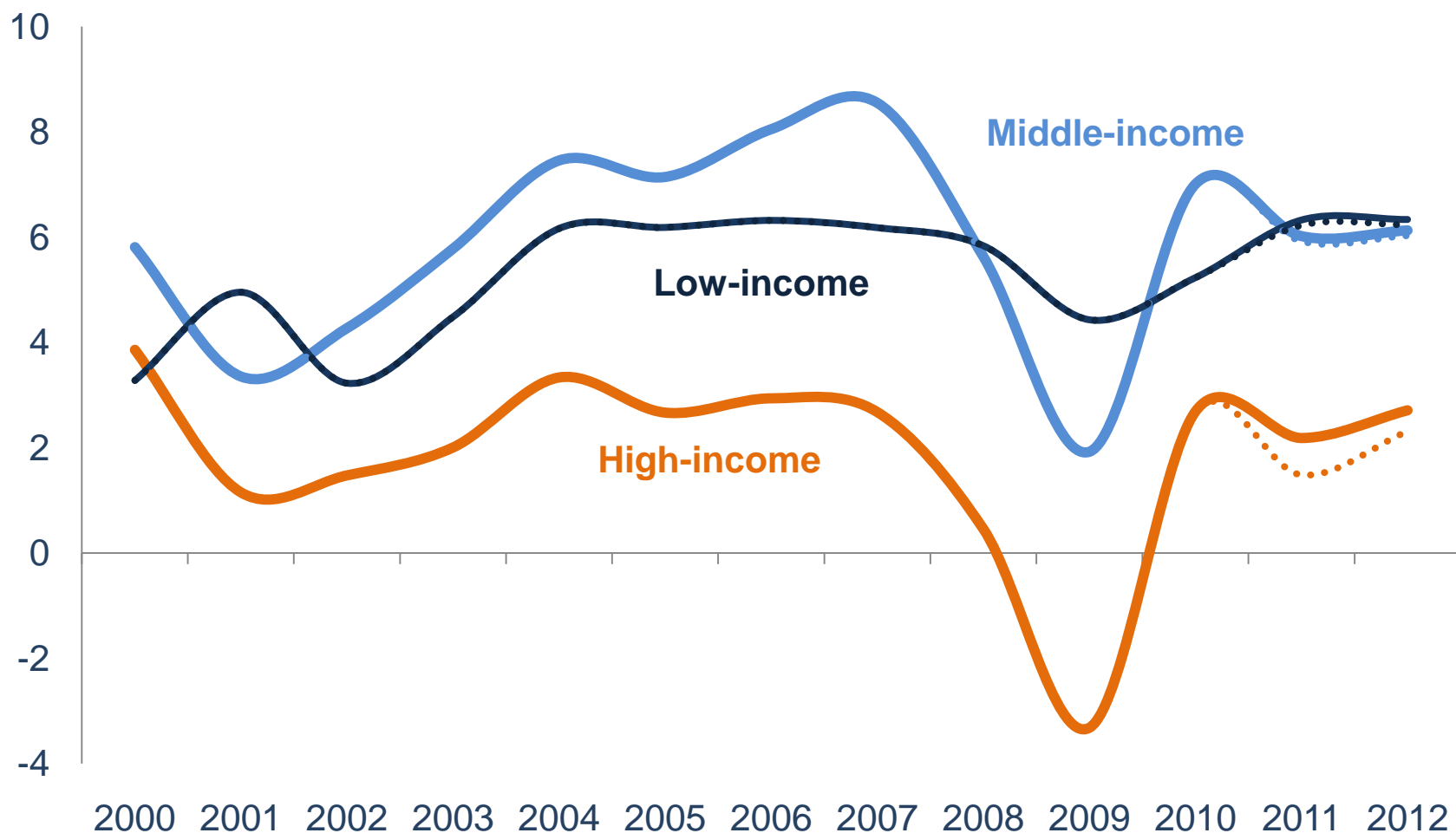
5-yr sovereign credit-default swap rates, basis points, Feb. 2010-Jan. 2011





# Slow growth due to Euro uncertainty scenario

Real GDP growth rates in percent





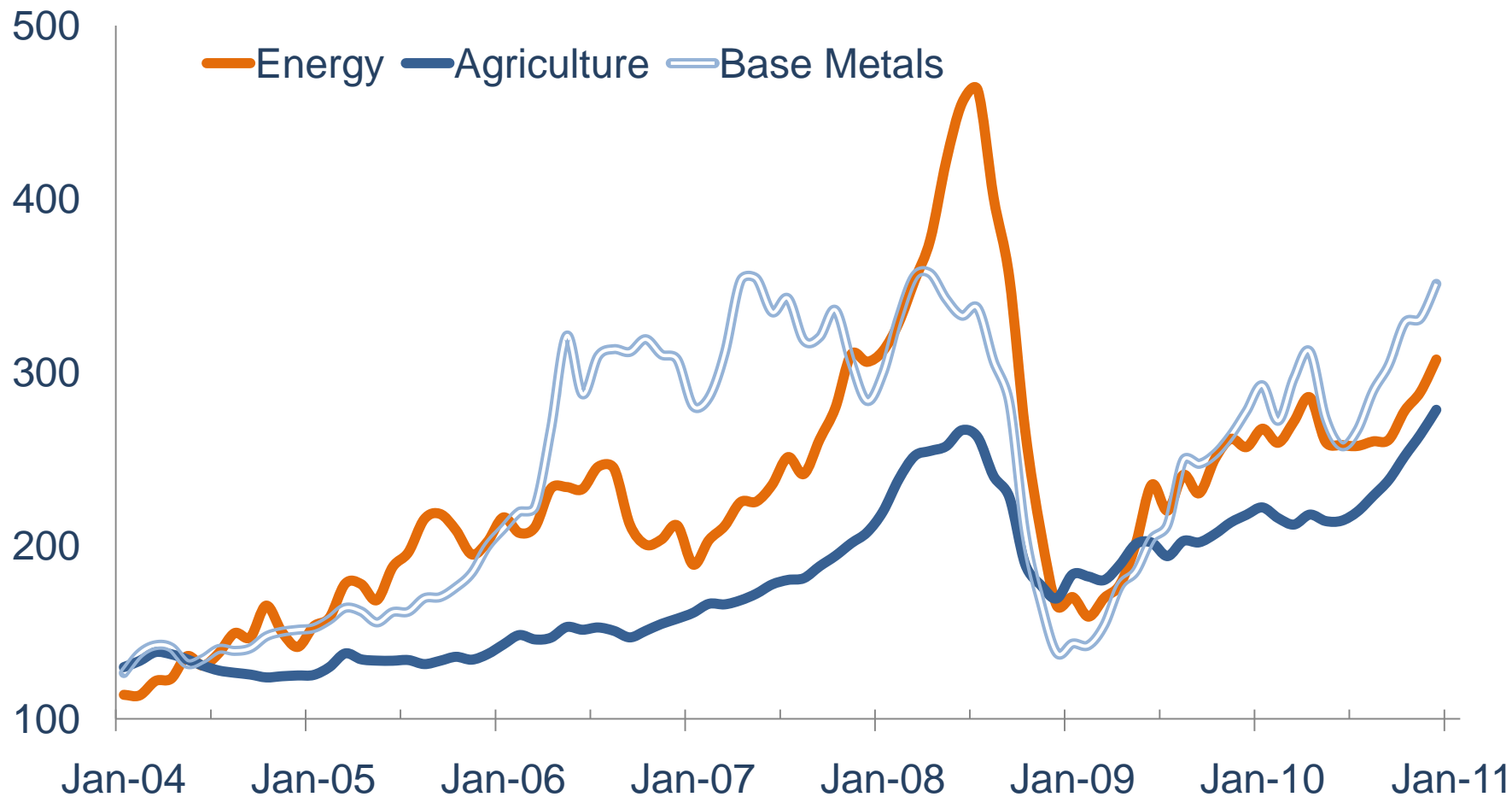
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  - Need to recreate fiscal space used in crisis response



# Dollar denominated commodity price began rising rapidly toward year end

Index, 2000=100

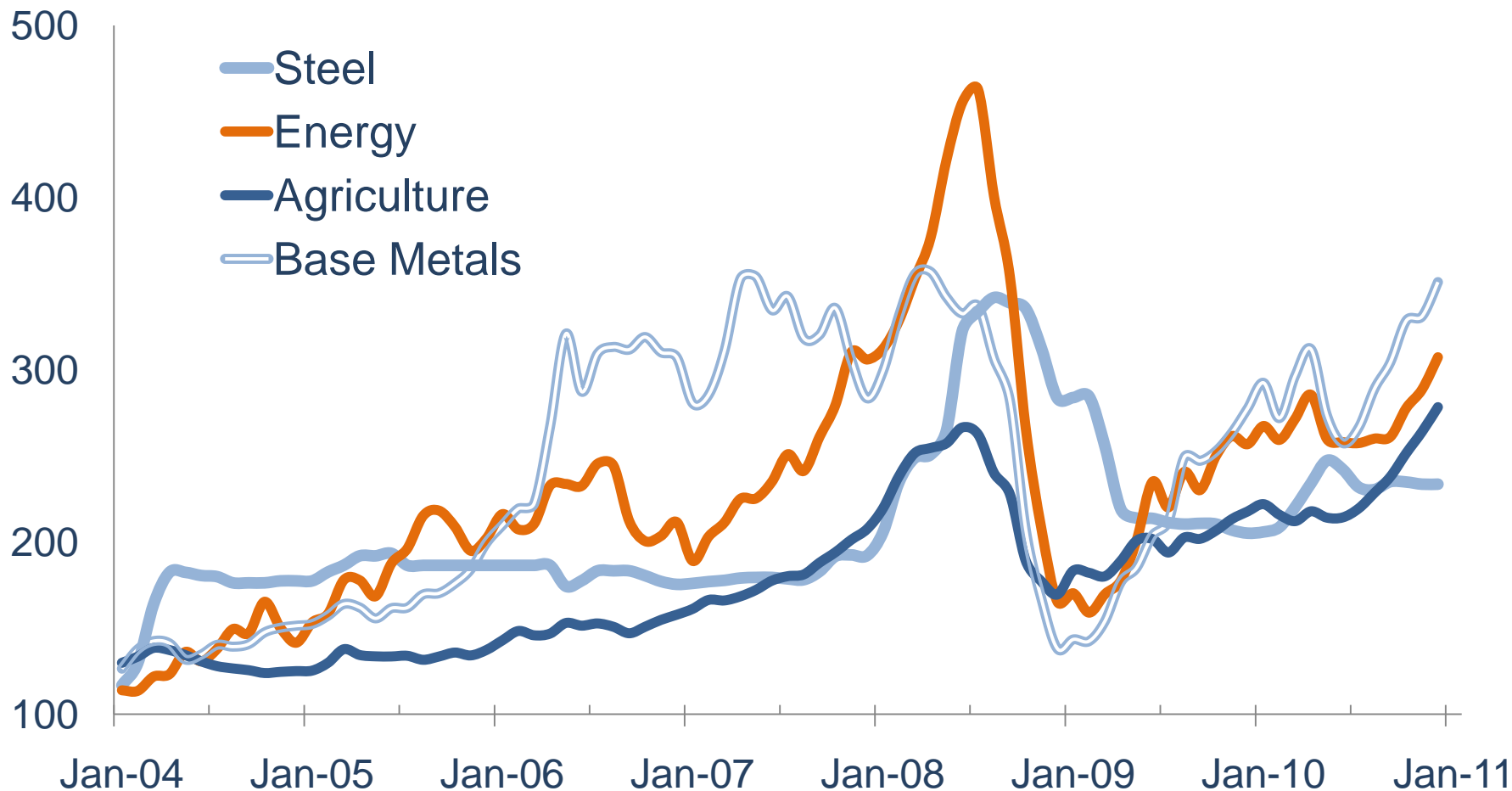






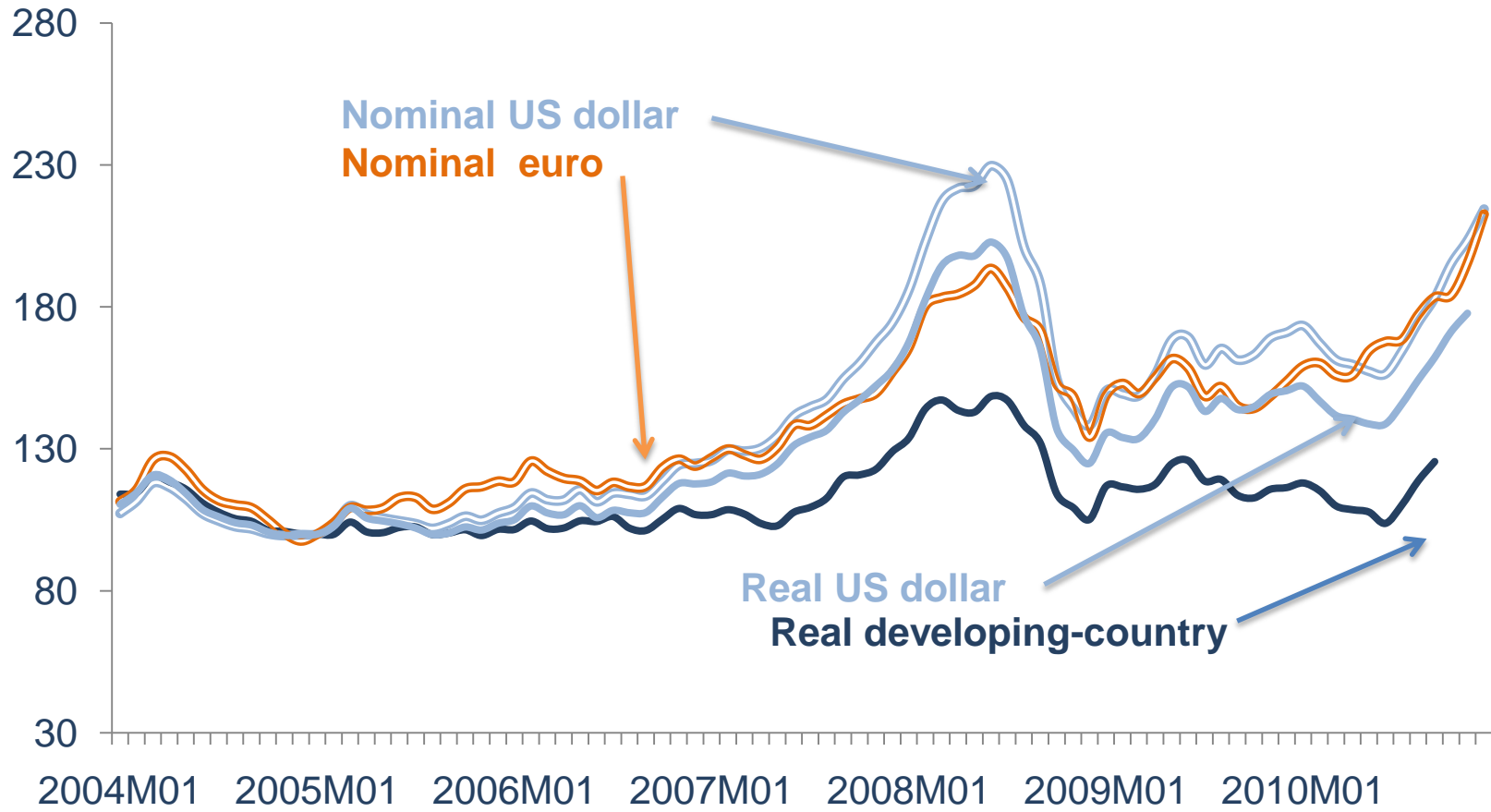
# Steel prices rise 14% y/y (as of Dec-2010), providing boost to Ukraine's export revenues

Index, 2000=100, US-dollar terms





# Real local currency food prices have been relatively stable



Source: WorldBank, Global Economic Prospects, 2011.



# Energy, food and agricultural price rise much less strong in real terms

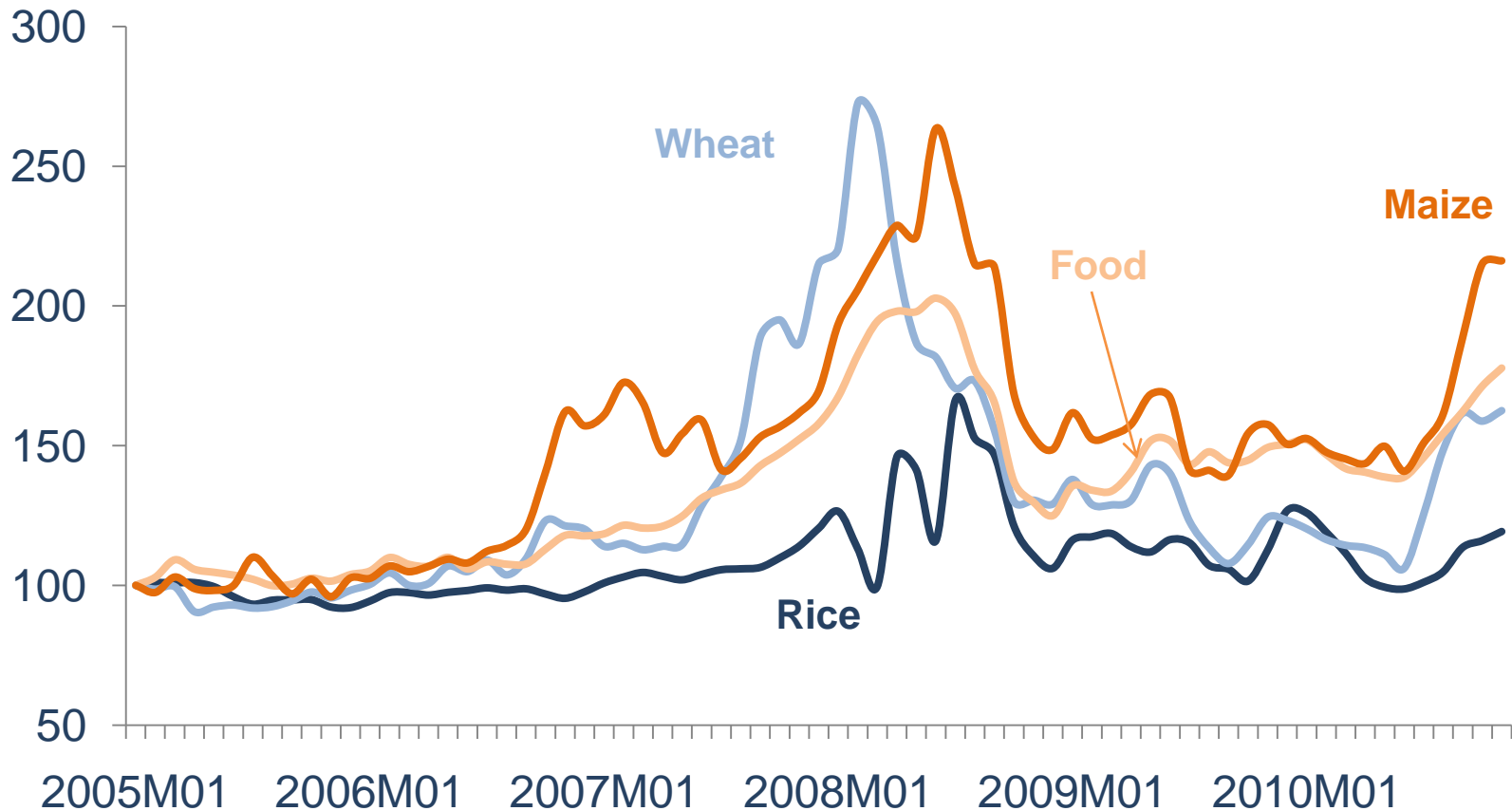
September 2010 price relative to January 2005

	Nominal USD	Nominal euros	Real USD	Real developing country
Energy	70	71	50	22
Metals and minerals	132	133	105	76
Agriculture	90	90	67	26
Food	84	84	62	25



# Staple grain prices remain well below 2008 peaks

Indexes, real international dollar prices deflated by US CPI, Jan. 2005=100





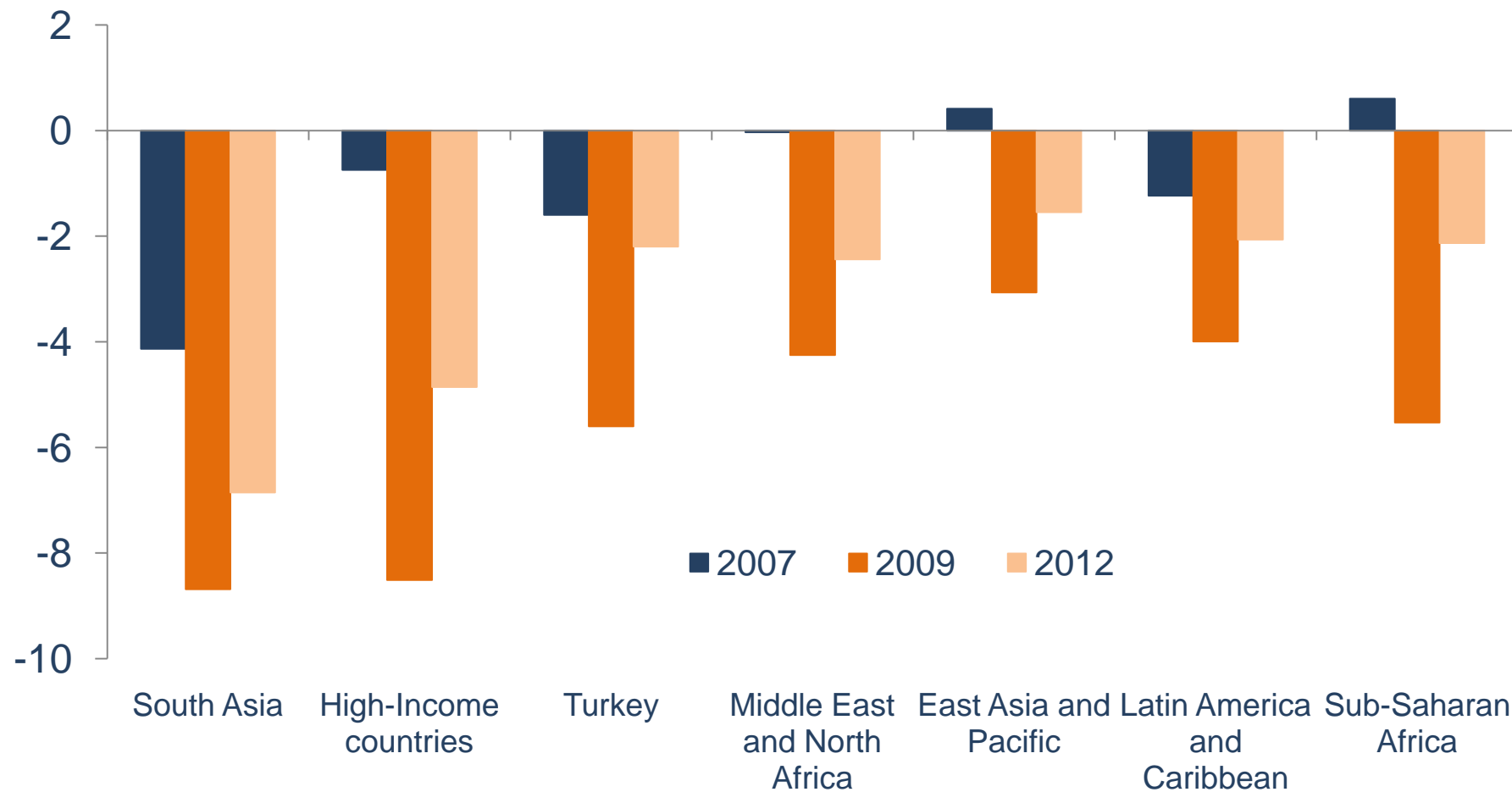
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# Fiscal deficits in South Asia, high-income countries and Turkey a medium-term priority

General government deficit, % of GDP





## Concluding remarks

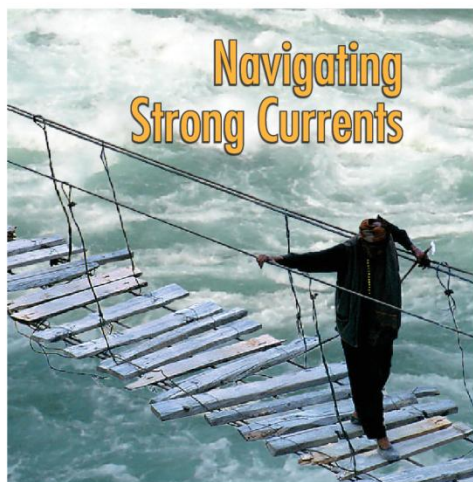
- Most developing countries have passed with flying colors the stress test of the financial crisis.
- Remarkable confirmation of pre-crisis economic strength, done while high-income countries remained weak
- The path forward is not without obstacles. Challenge will be to maintain momentum even as urgency of situation fades.



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