

Global Economic Prospects

Managing growth
in a volatile
world.



Andrew Burns
World Bank Prospects Group
June 26, 2012

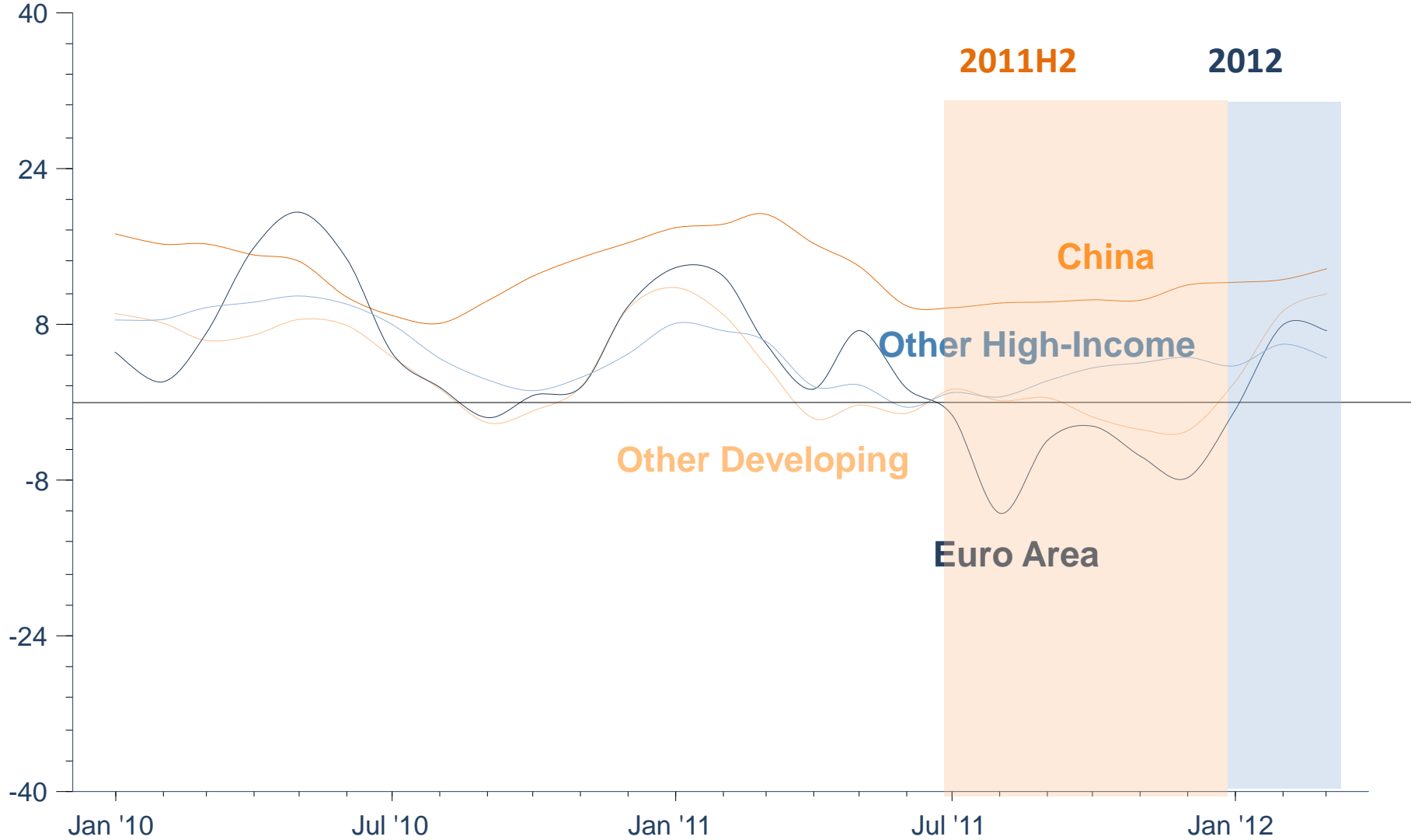


Renewed financial turmoil adds to headwinds and challenges facing developing countries

- Economic activity strengthened throughout the first 4 ½ months of 2012
- Renewed financial turmoil in May adds to pre-existing headwinds
- In volatile environment developing countries must keep focus on medium-term
- Risk of a crisis persists, with potentially serious consequences for developing countries

Industrial world wide picked up in 2012Q1

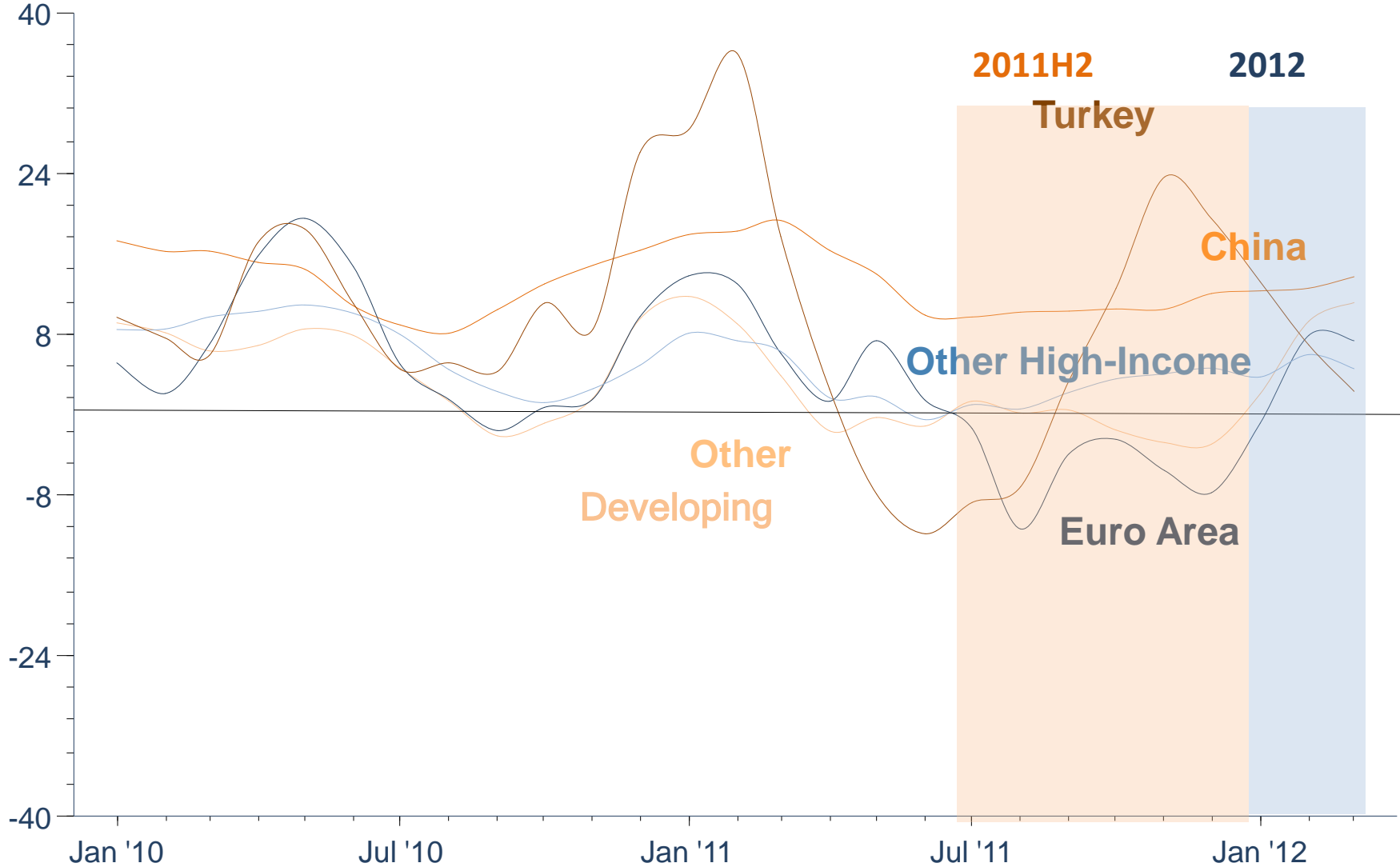
Industrial production, percent growth, 3m/3m saar



Source: World Bank Prospects Group.

Industrial world wide picked up in 2012Q1

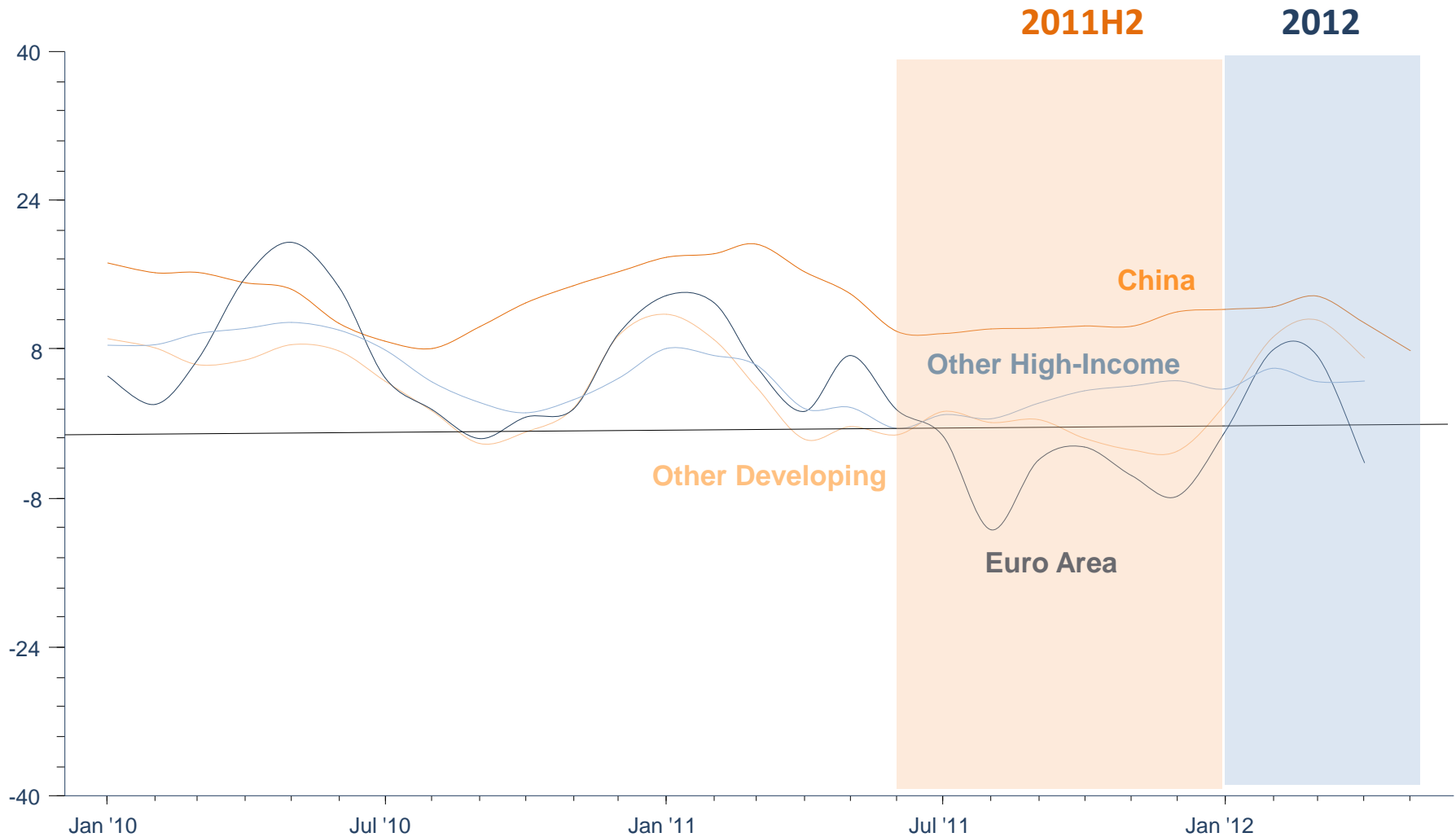
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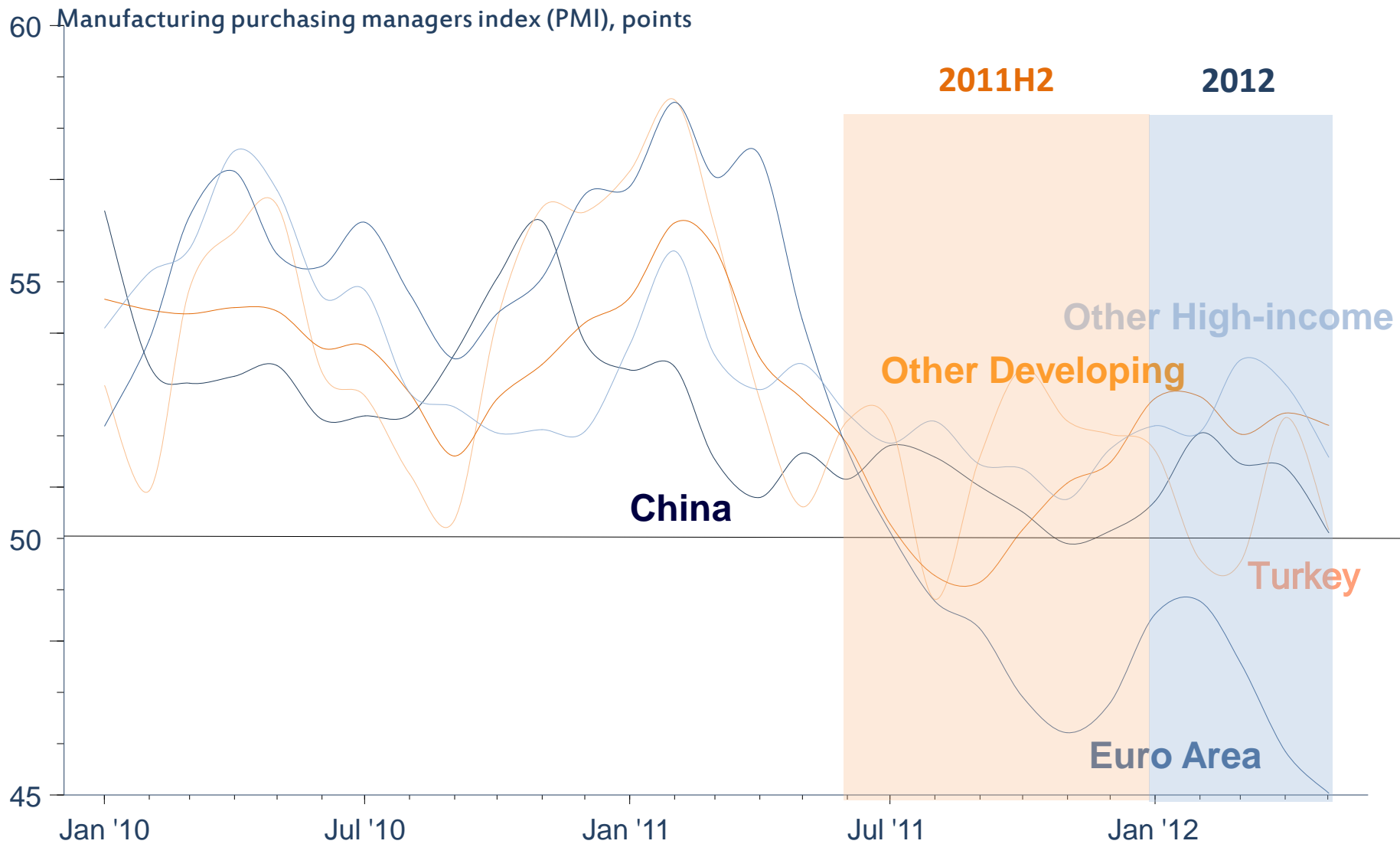
But growth has weakened in the second quarter

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



Source: World Bank Prospects Group.

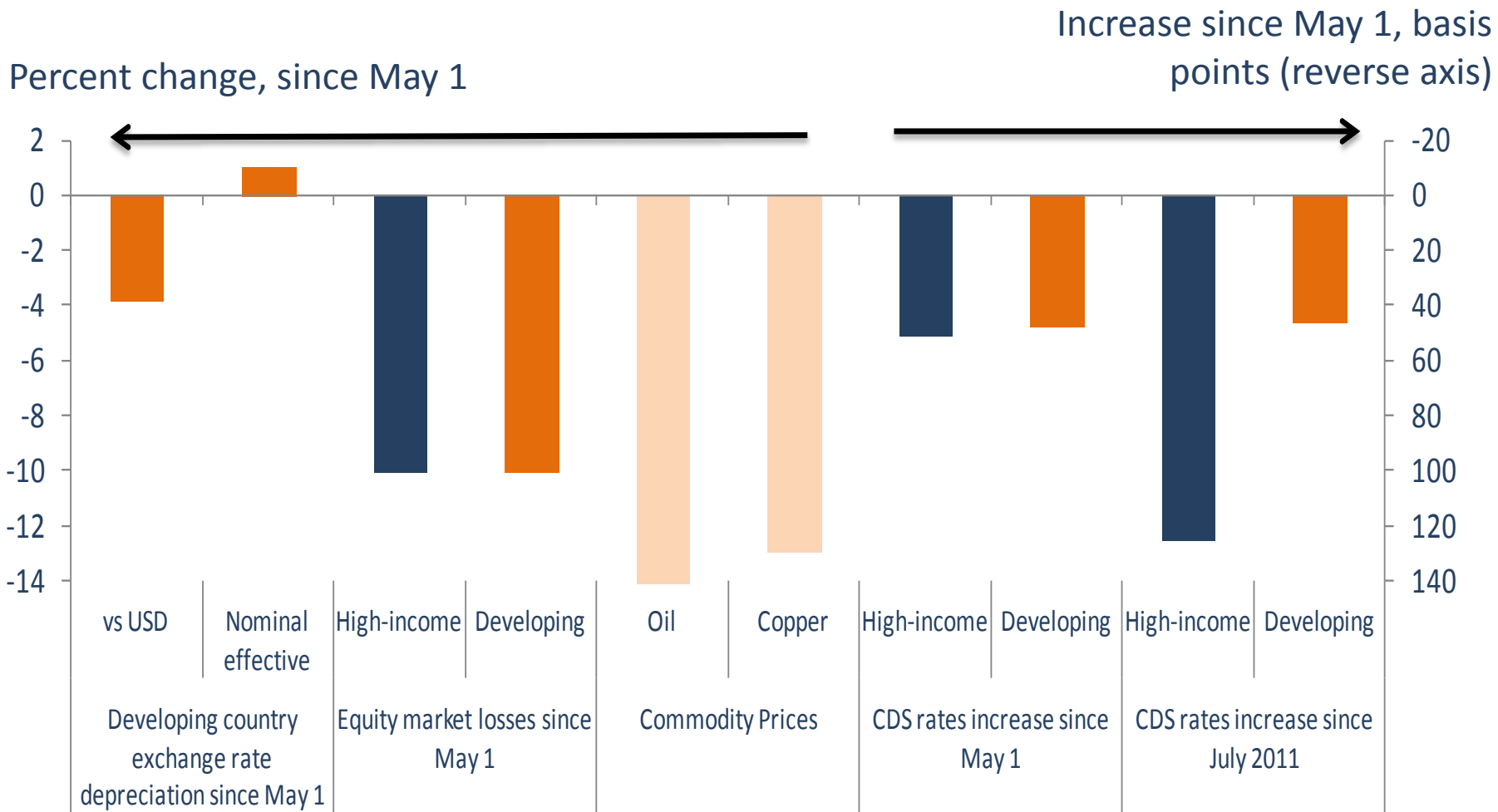
And business sentiment is weakening



Source: World Bank, Markit/Haver Analytics.

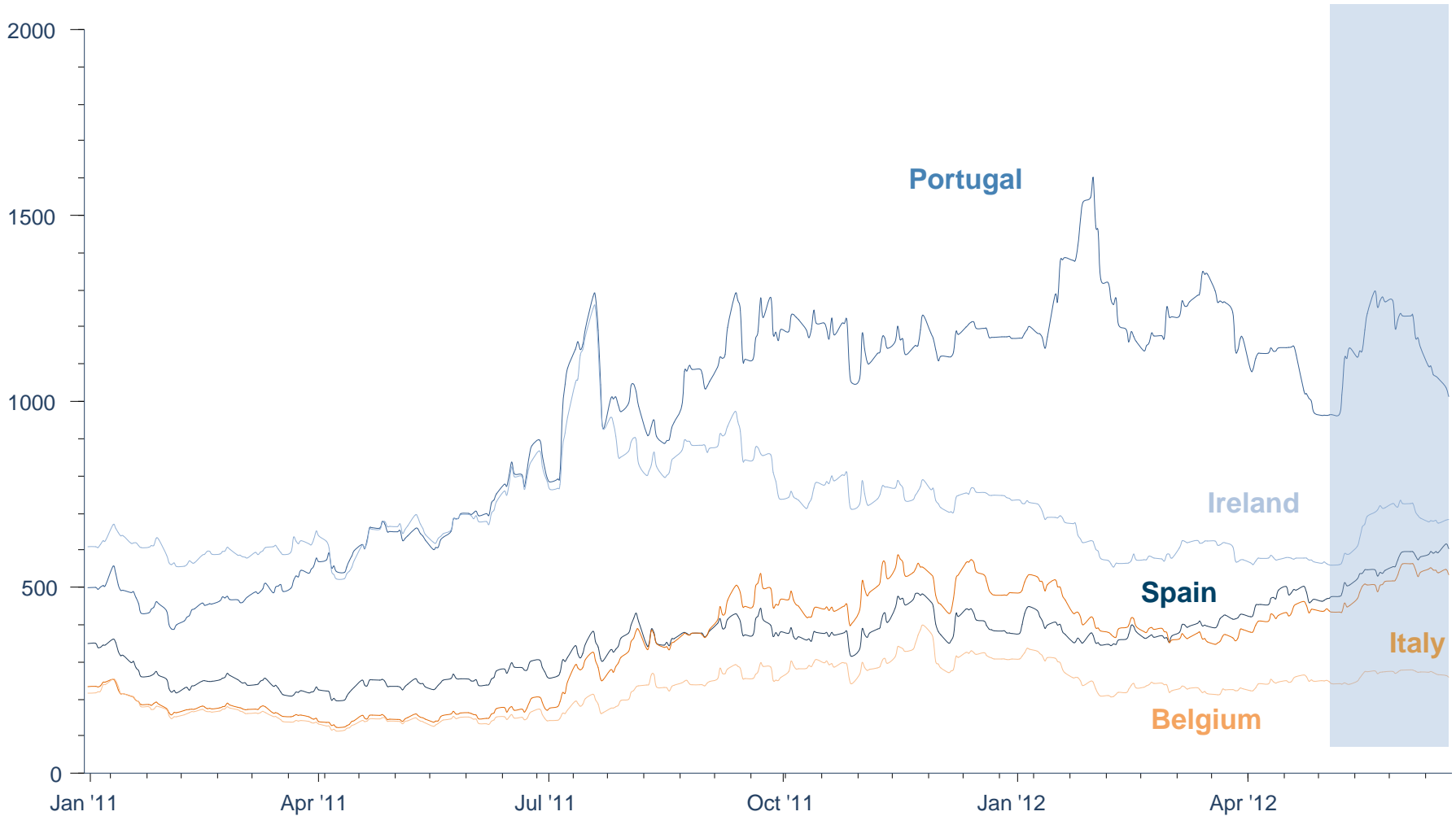
Renewed financial market turmoil
adds to headwinds

Renewed turmoil hit wide-range of indicators in May



Following significant declines, CDS rates have rise again

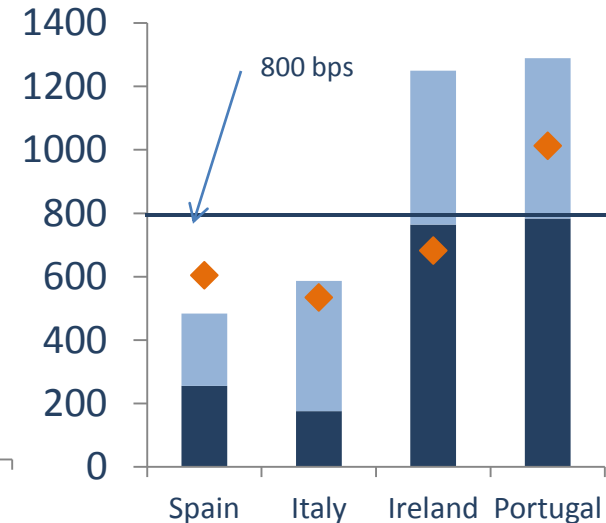
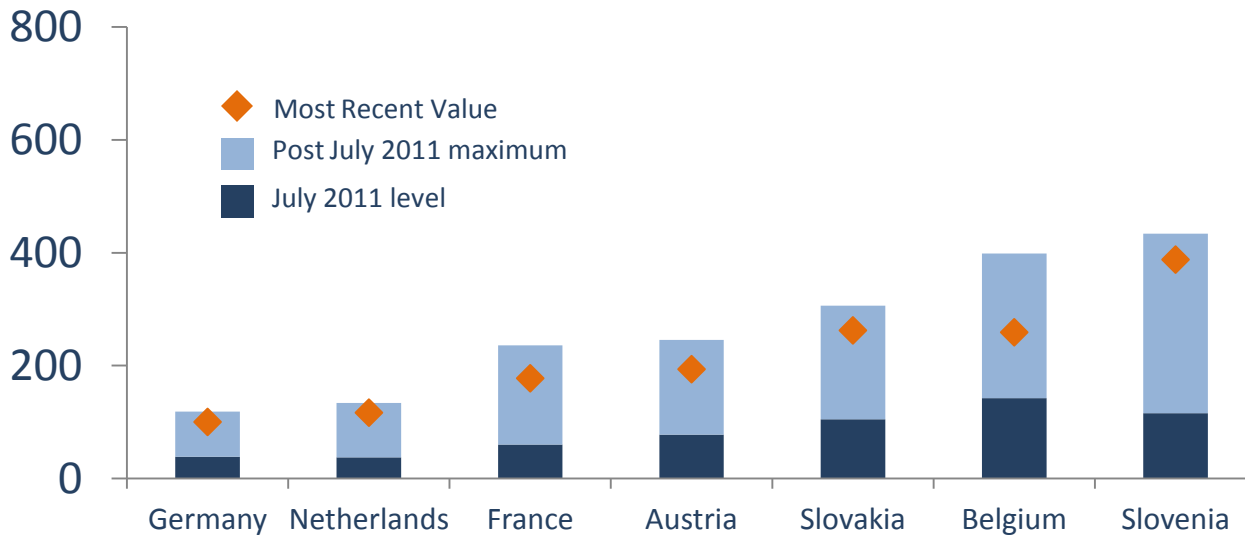
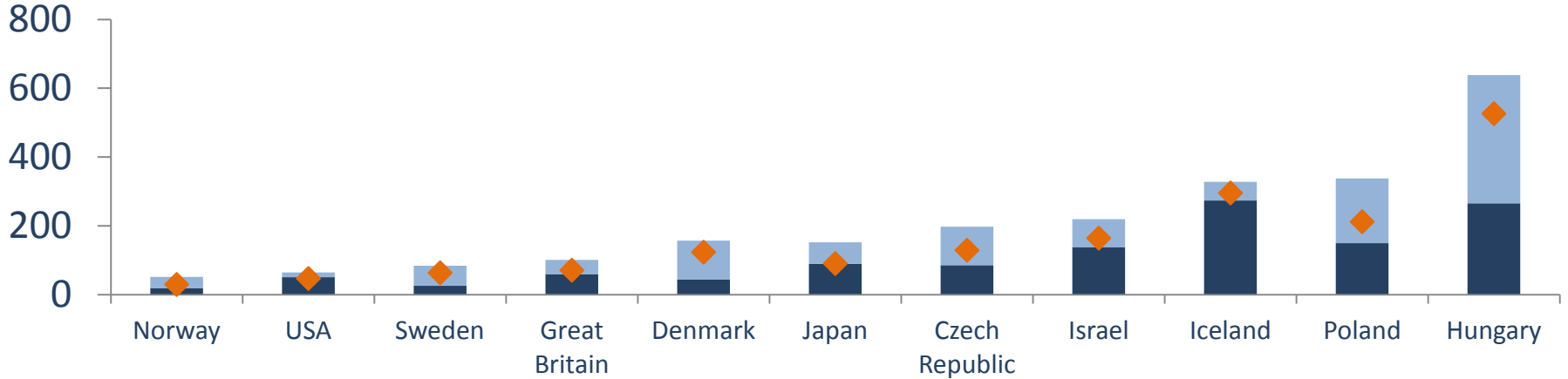
5-yr sovereign credit-default swap, basis points, Jan 2010- May 27. 2012



Source: Datastream and World Bank Prospects Group.

Credit default swaps in most high-income countries are close to recent highs

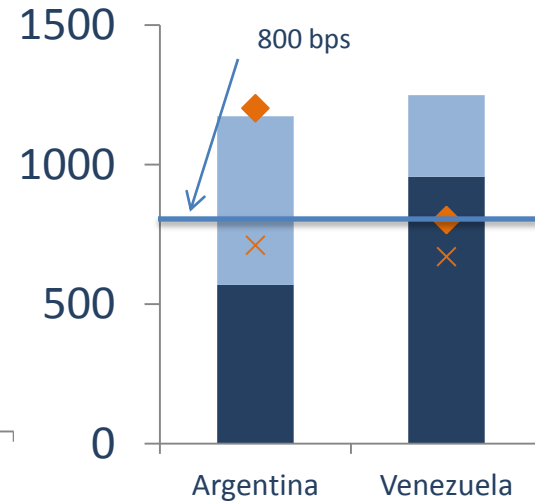
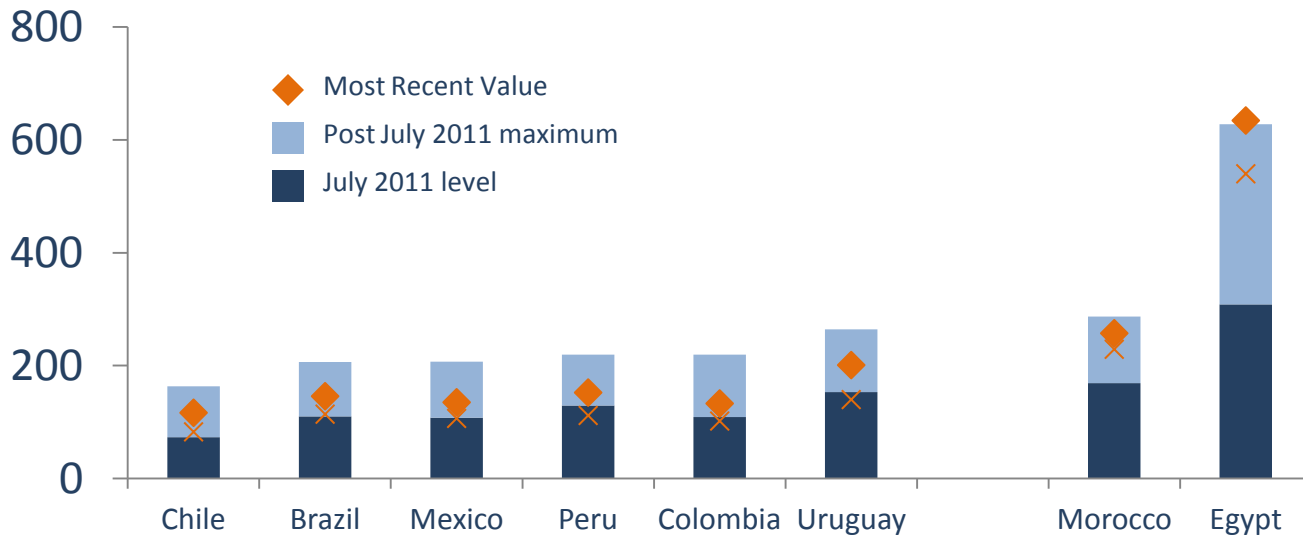
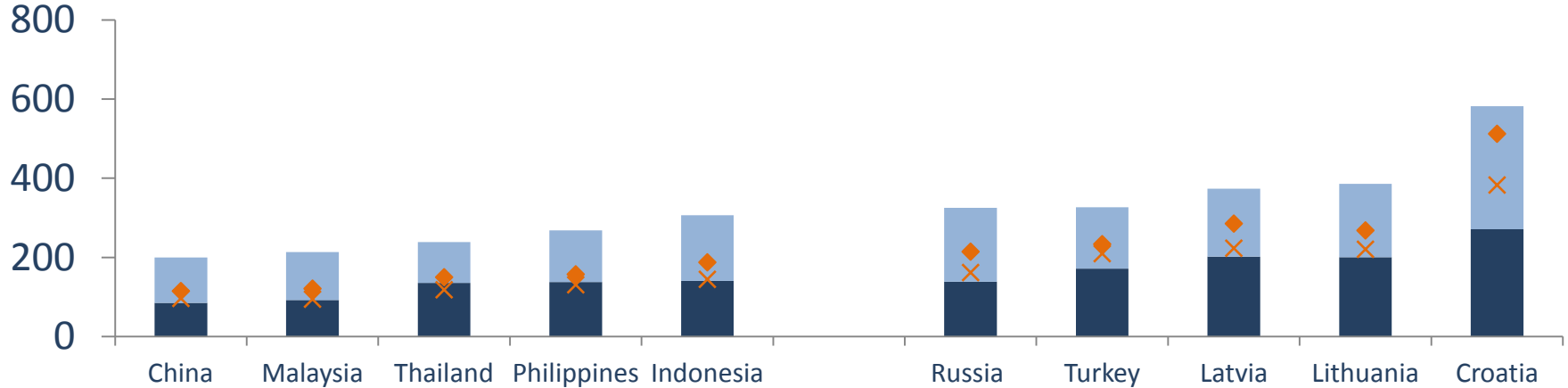
Credit default swap rates, bps



Source: Datastream and World Bank Prospects Group.

Financial markets appear much less concerned about developing countries -- so far

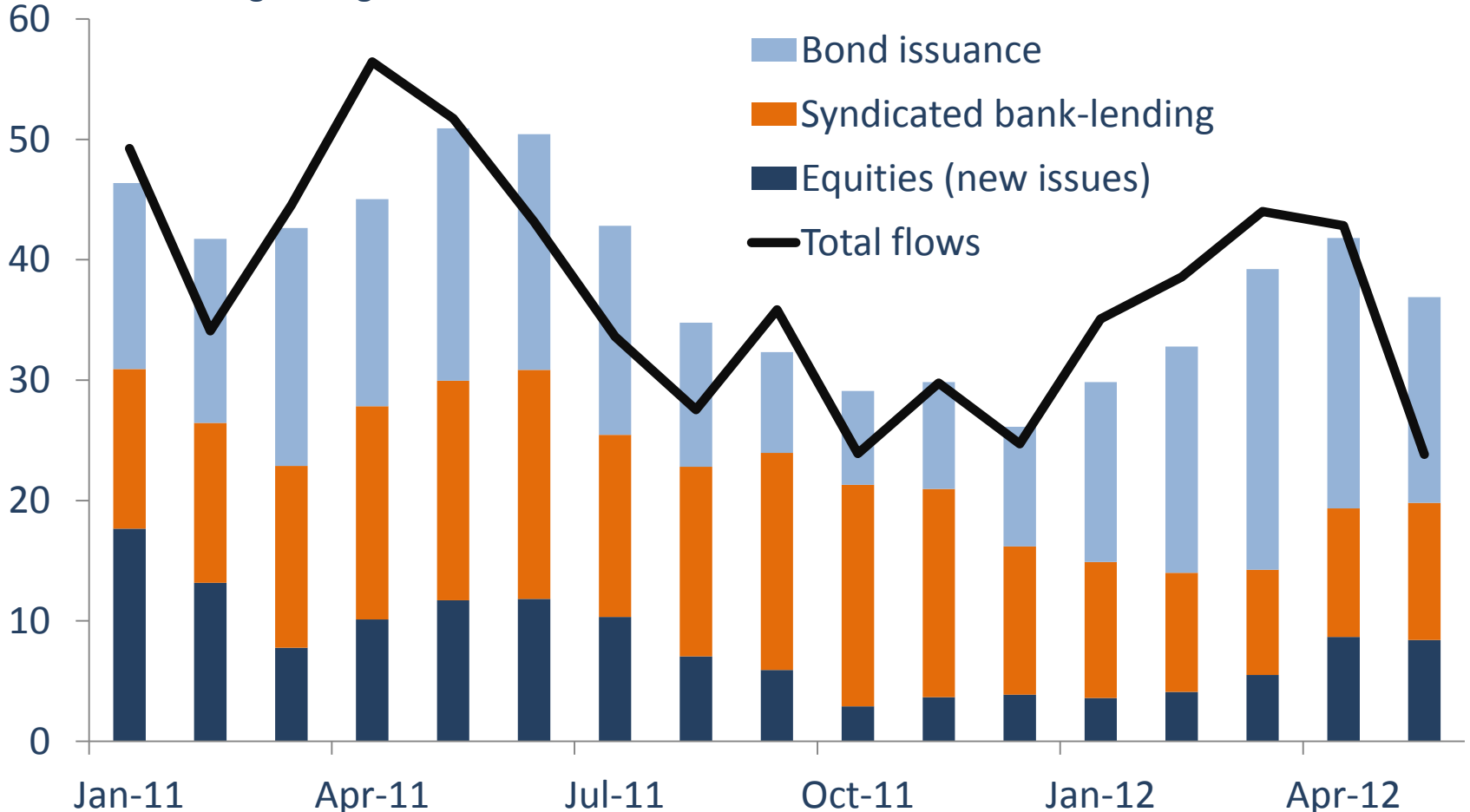
Credit default swap rates, bps



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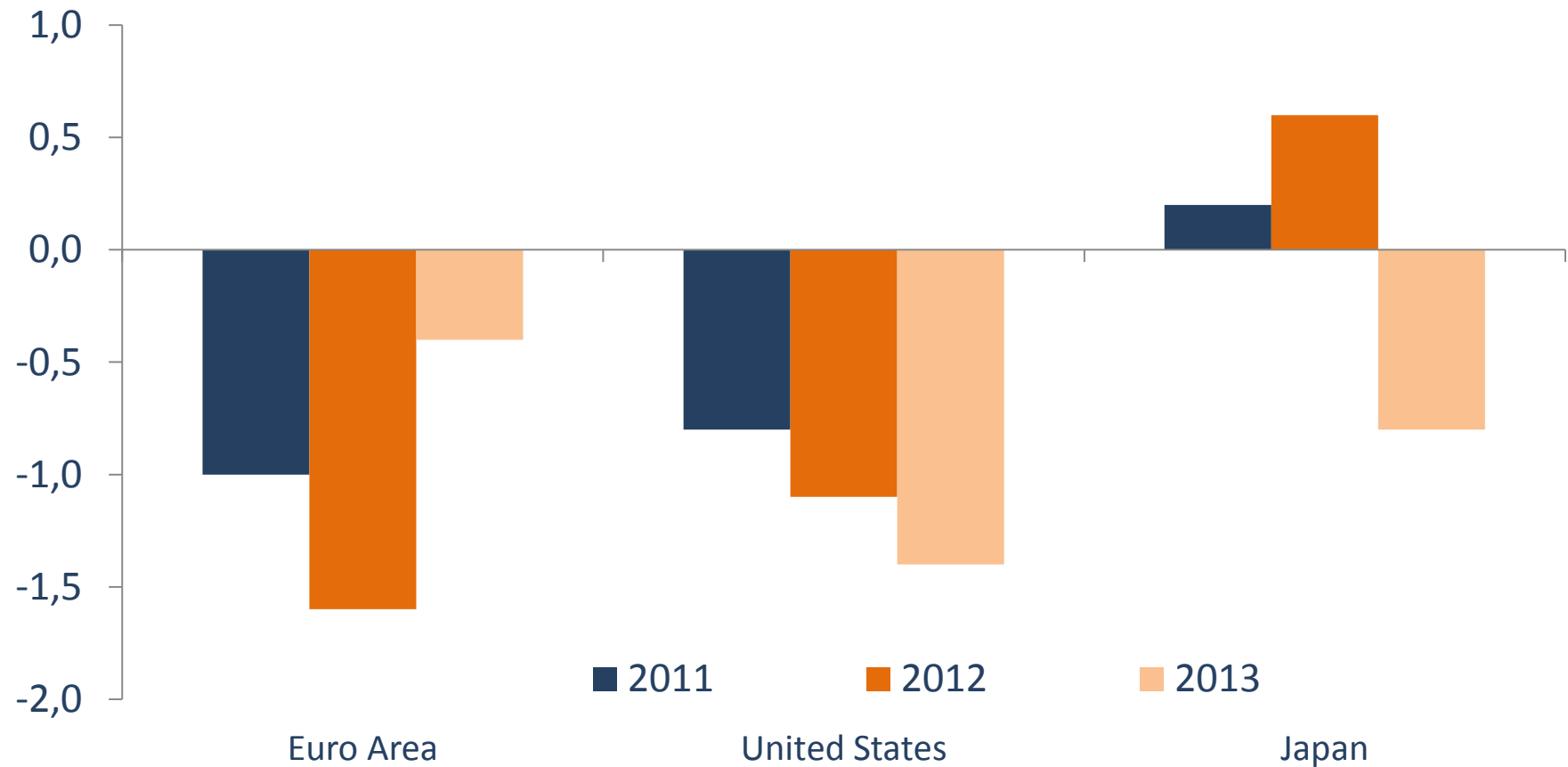
Capital flows to developing countries eased sharply – now backed to depressed 2012H2 levels

Gross capital flows to developing countries,
3 month moving average, billions USD



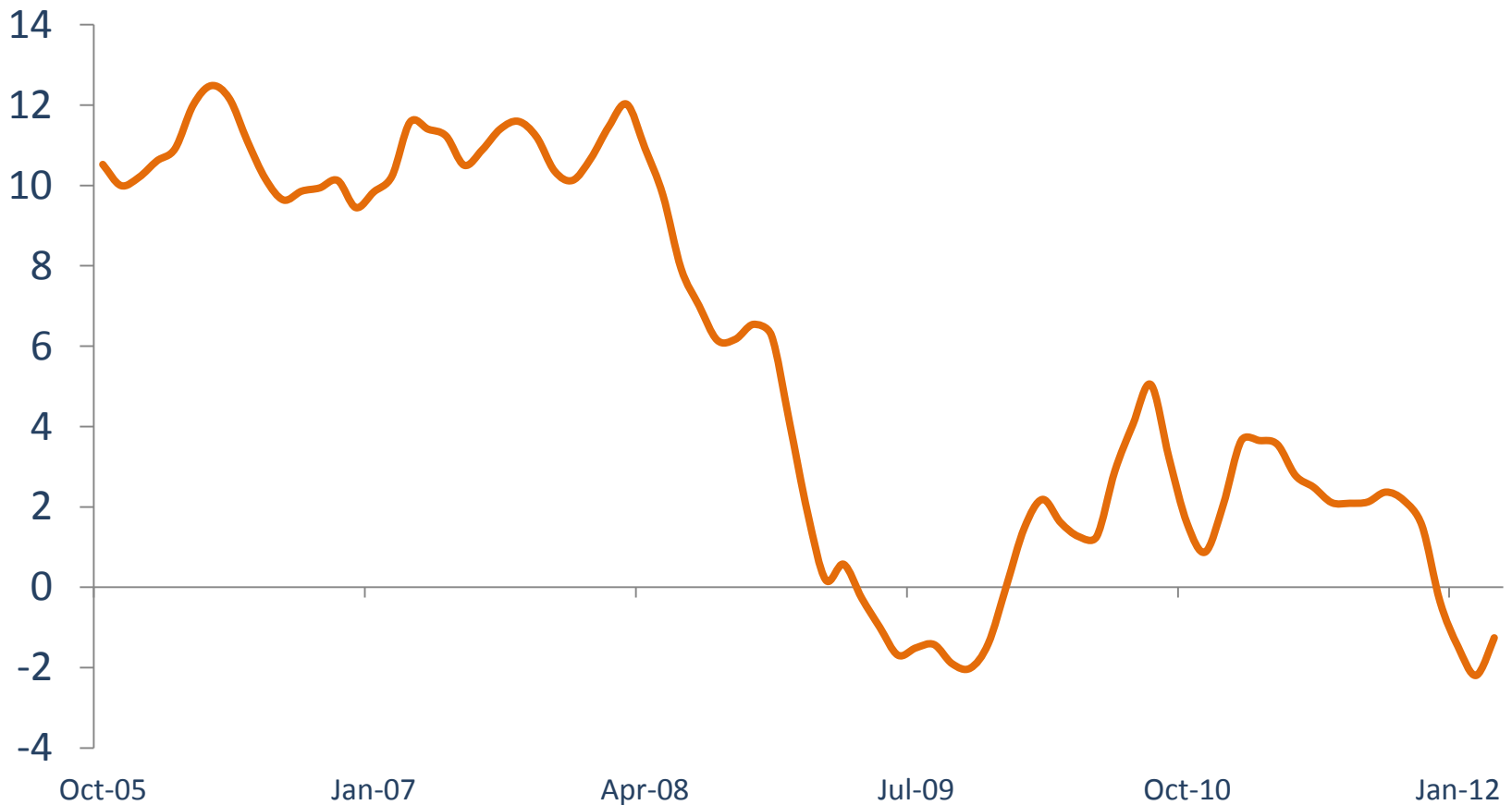
Fiscal consolidation will continue to hold back high-income growth

Estimated and expected change in structural deficit, percent of GDP



Euro Area deleveraging is a further constraint on growth

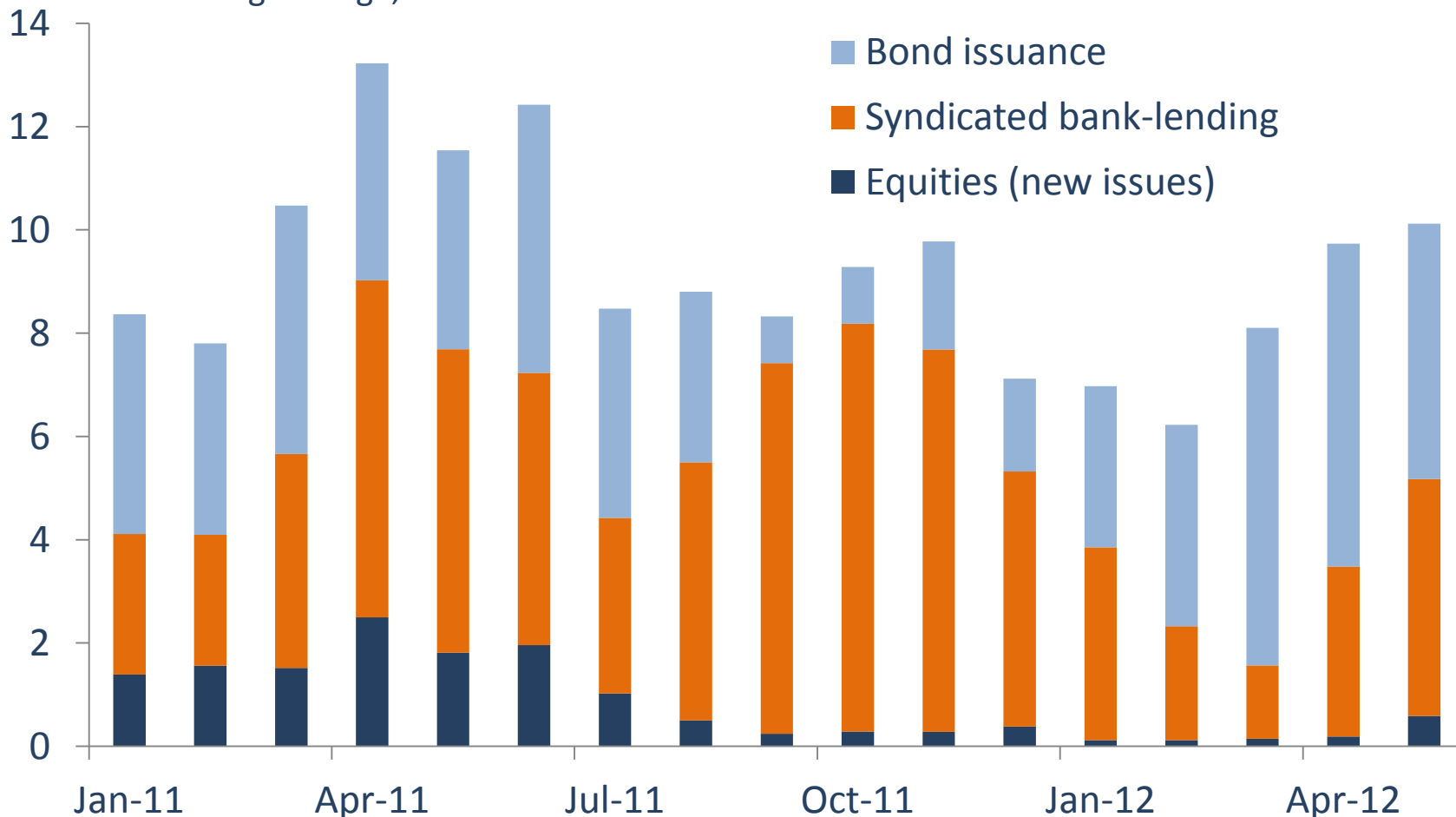
Annualized increase in lending, Euro Area 3m/3m saar



Source: European Central Bank, Datastream.

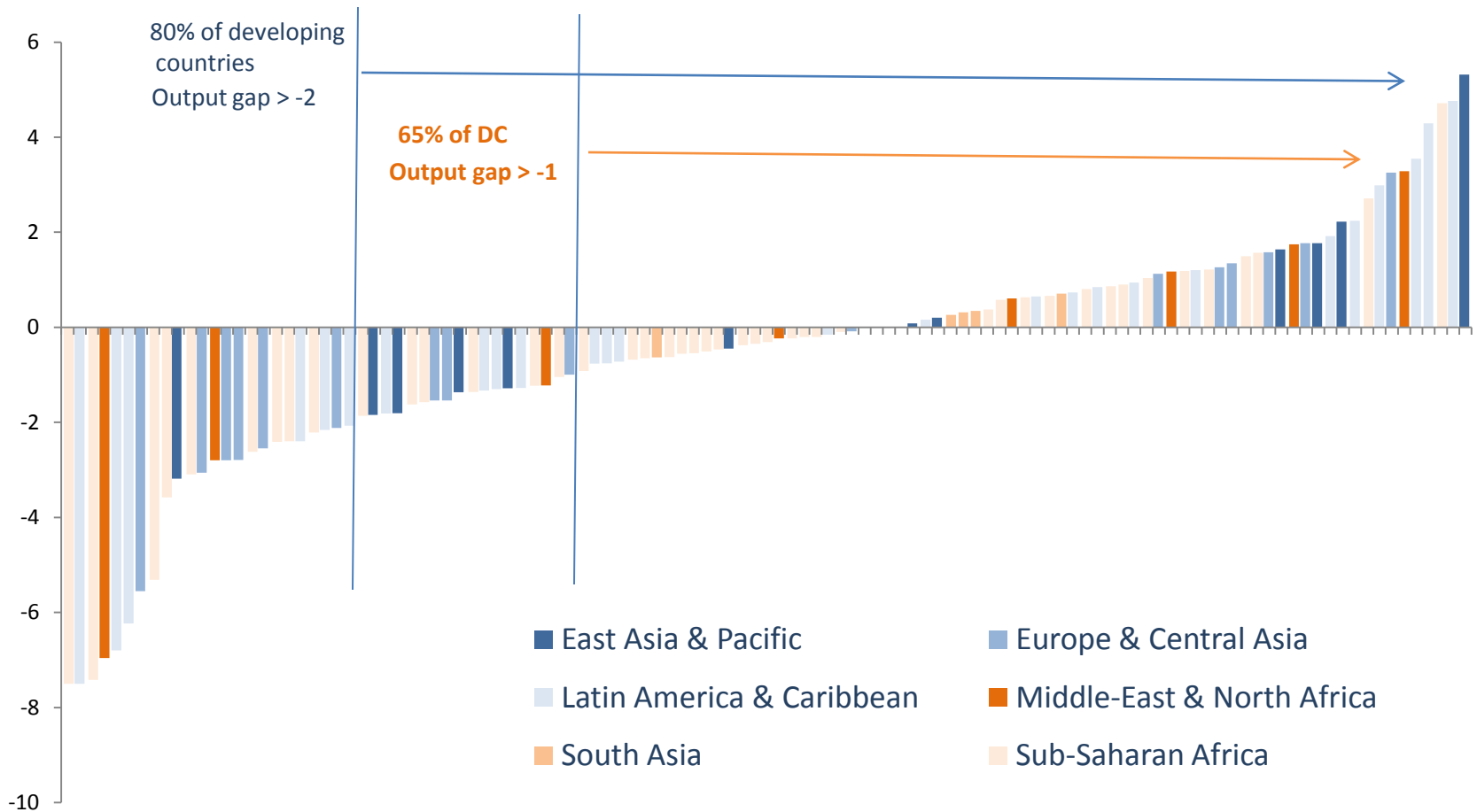
Deleveraging cut into bank-flows to developing Europe & Central Asia, but some rebound recently

Gross capital flows to developing Europe & Central Asia,
3 month moving average, billions USD

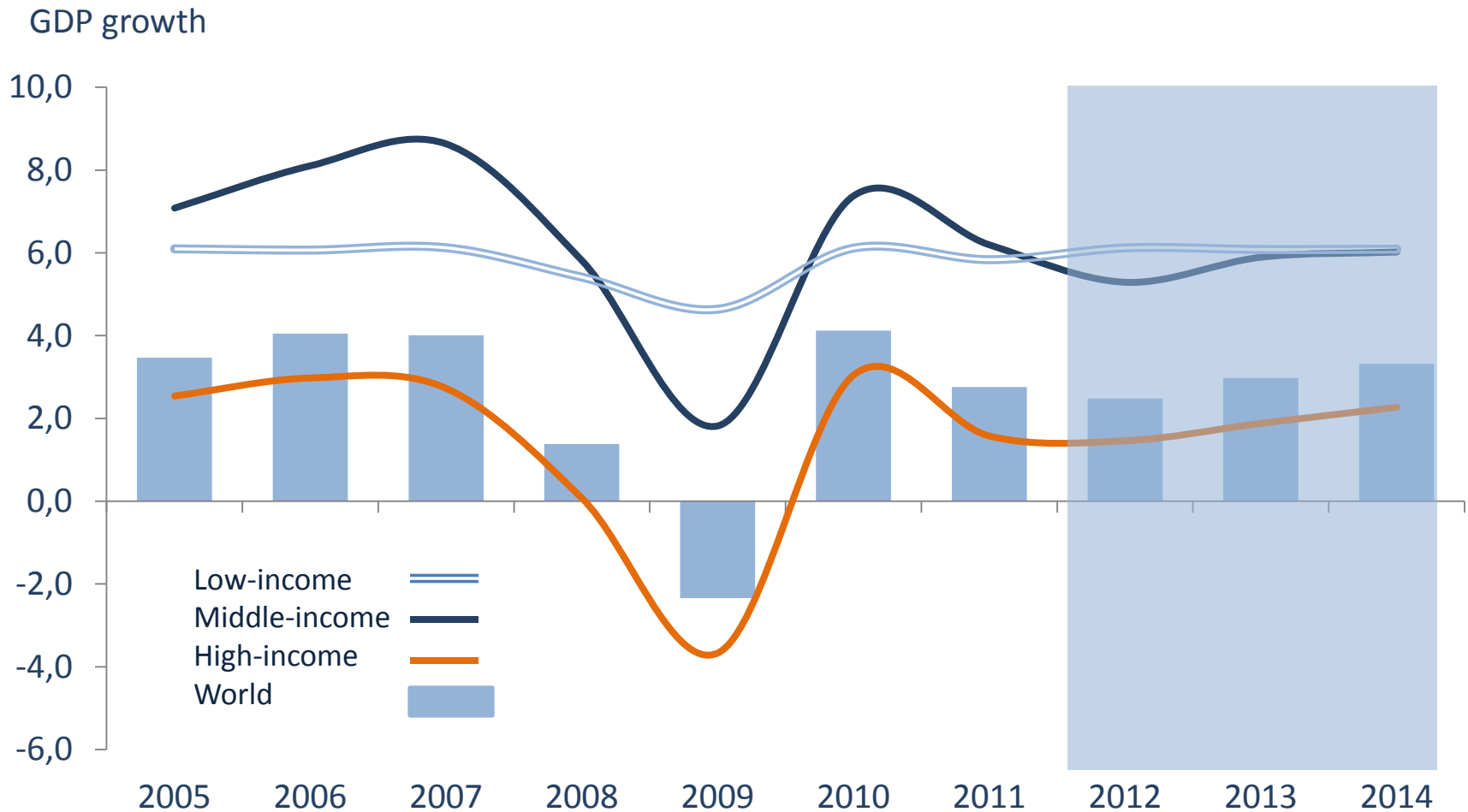


Majority of developing countries have or are close to regaining full capacity

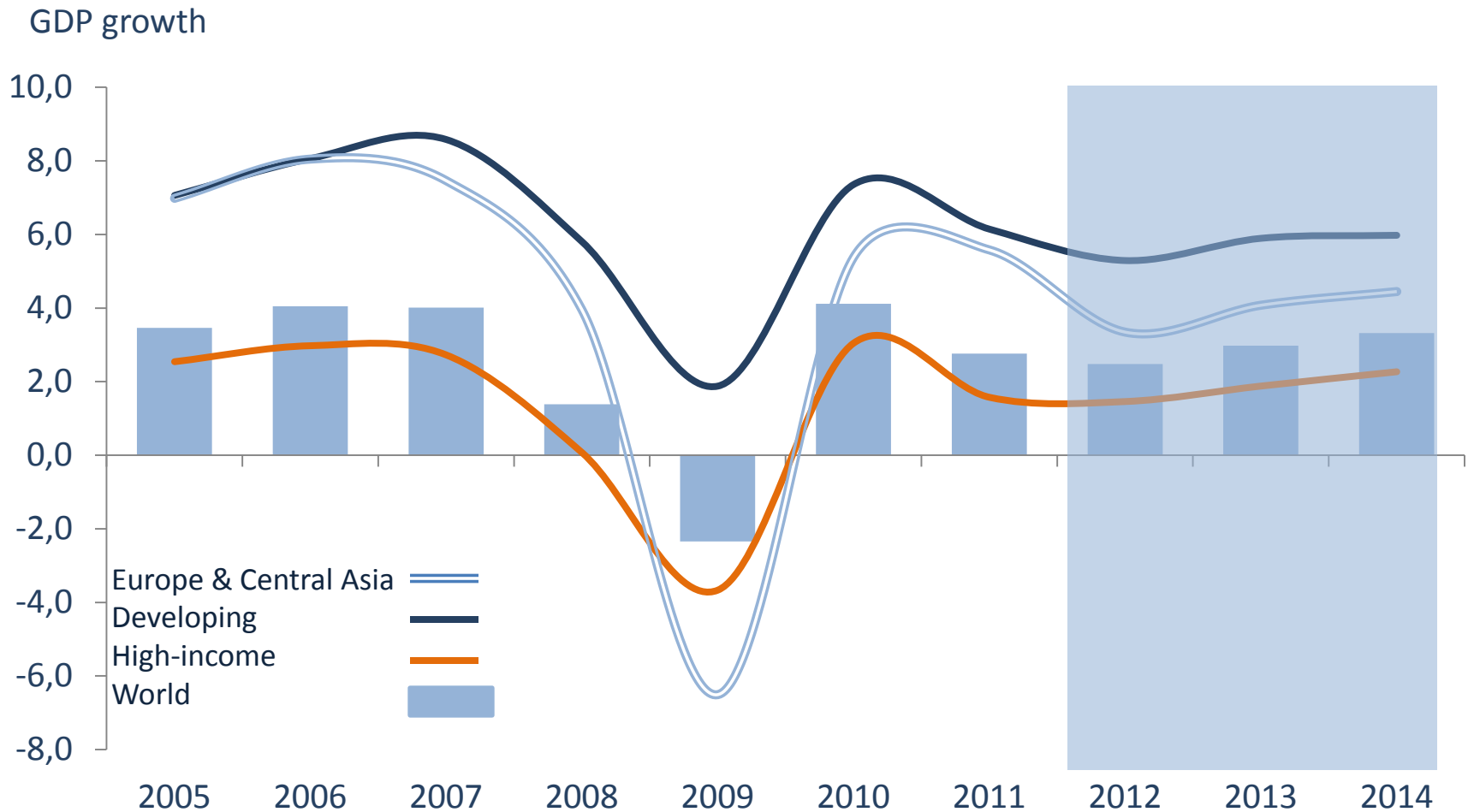
Output gap, percent of potential GDP



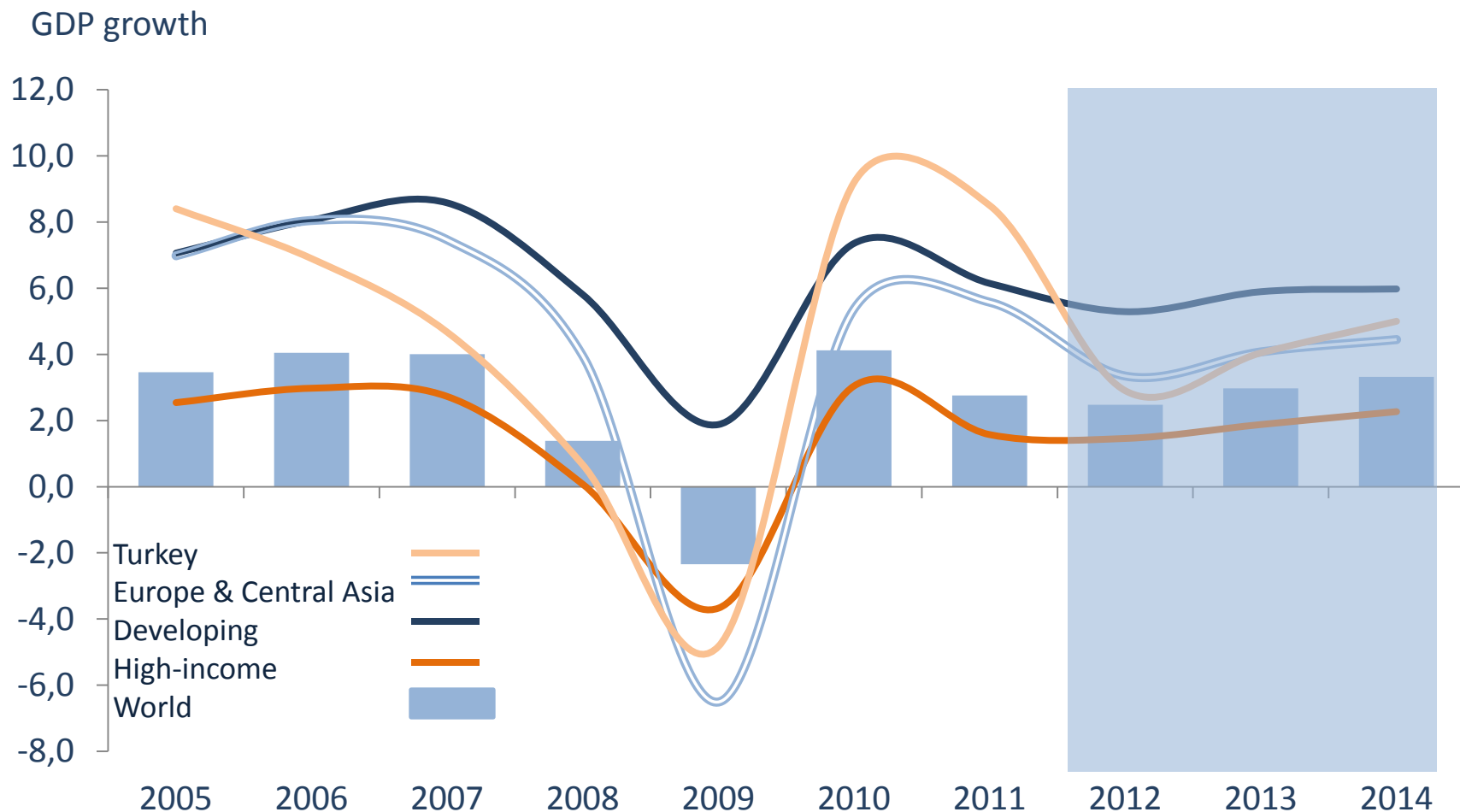
Despite strengthening of activity, annual growth in 2012 will remain weak



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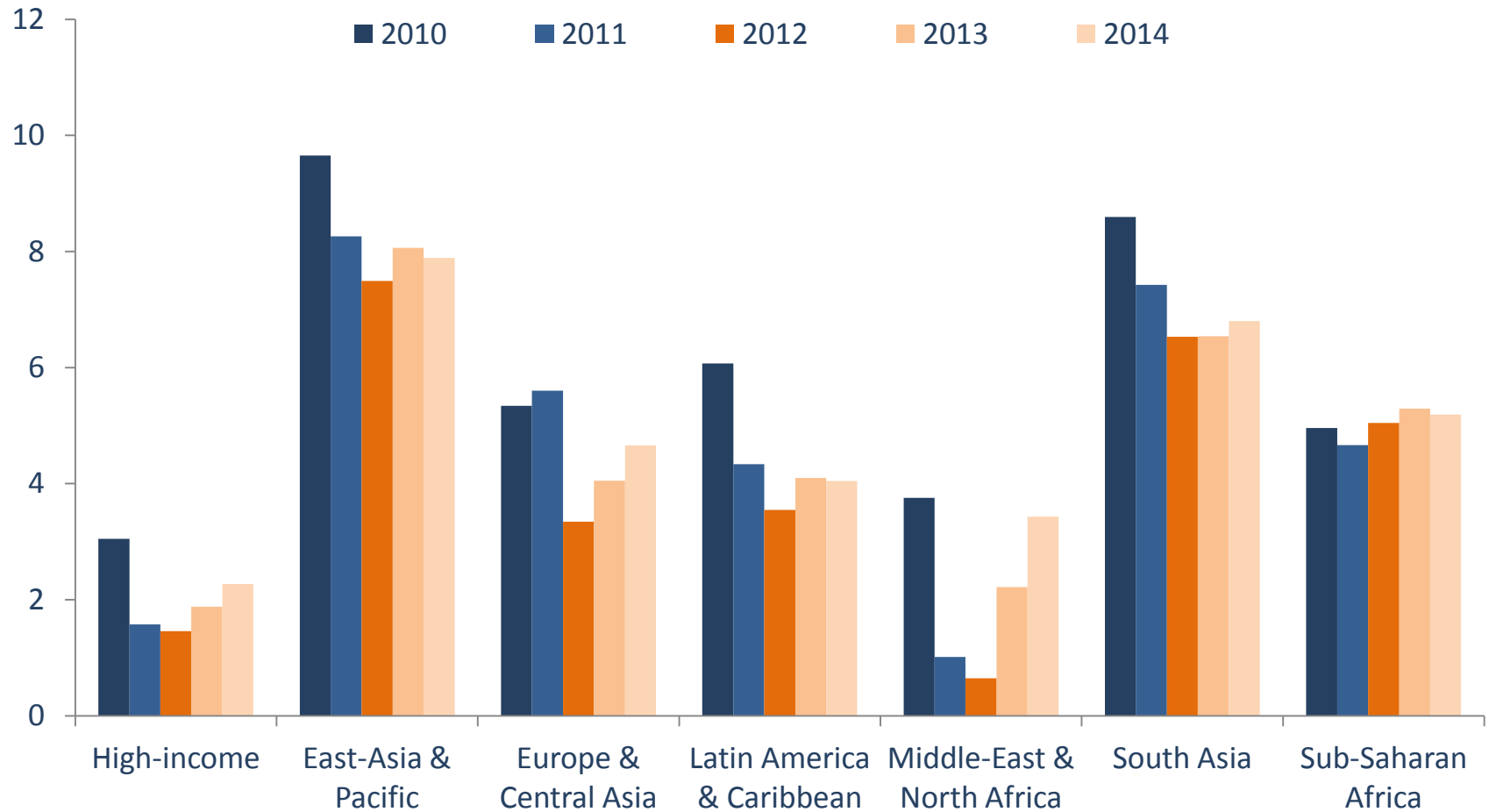


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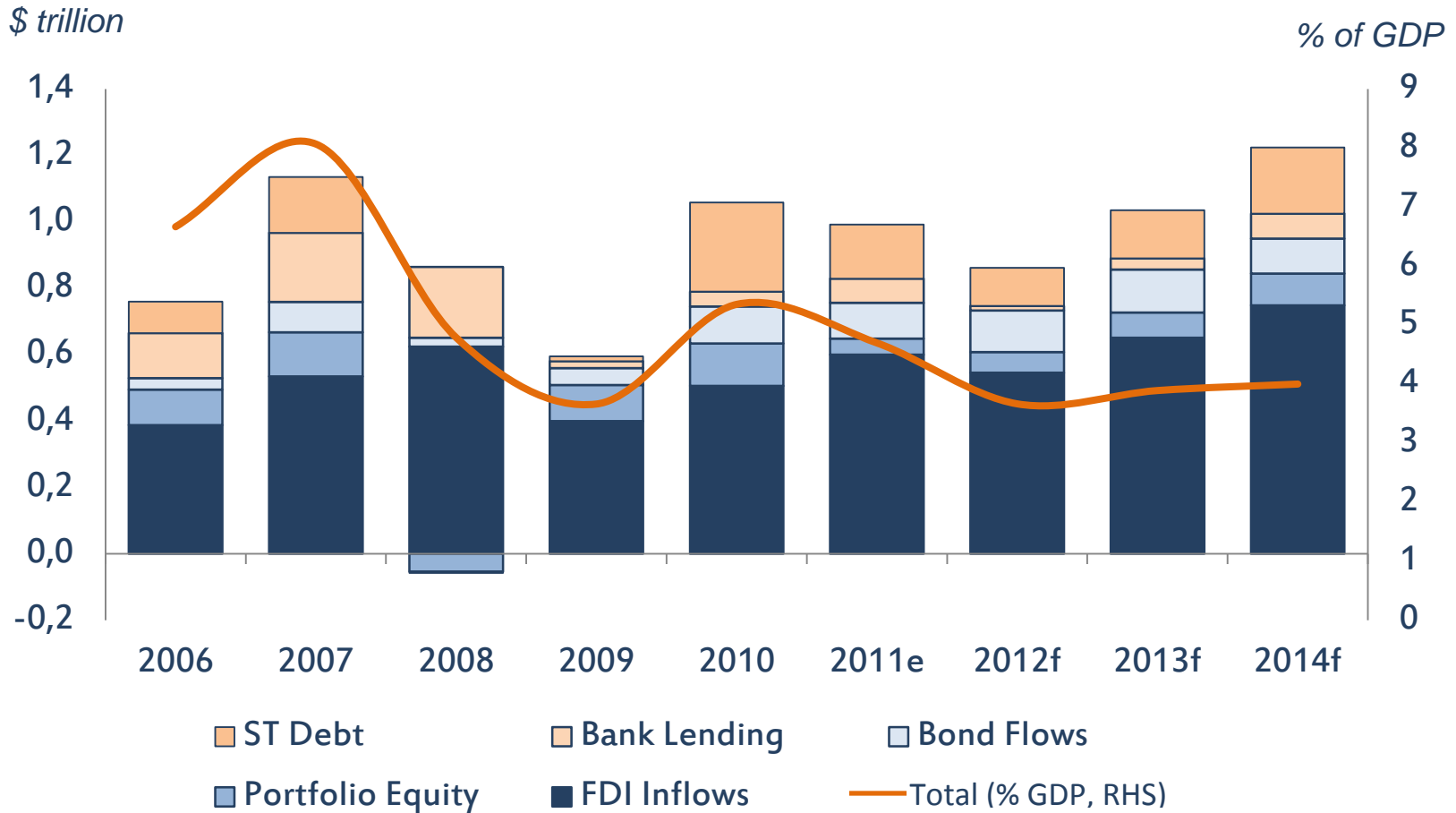


Modest regional growth through 2014

GDP growth



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

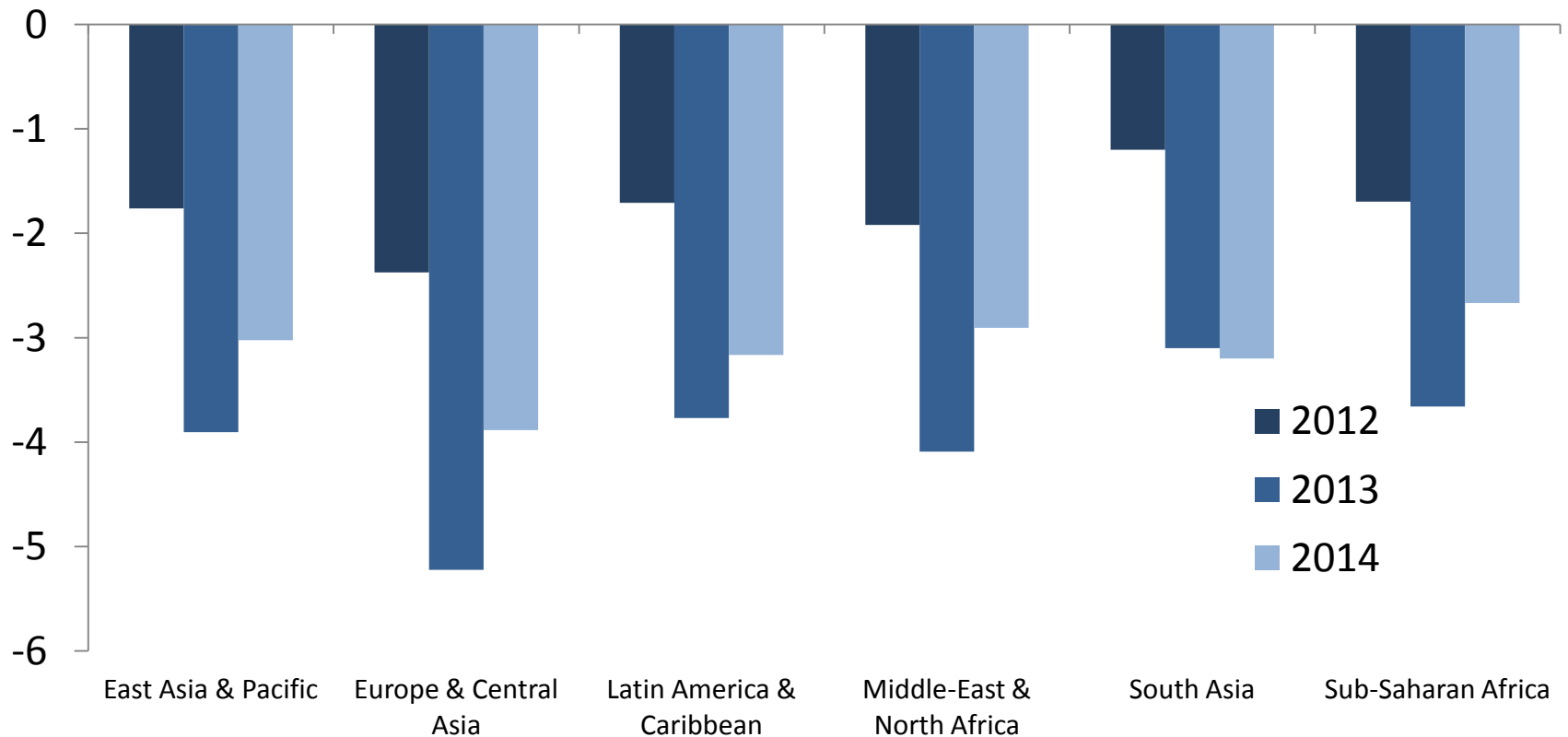


A sharp deterioration of conditions in High-income Europe remains a risk

- Sharp downturn would threaten developing countries:
 - with high-levels of short-term debt
 - that are heavily dependent on remittances or tourism
 - Commodity exporters could see sharp downturn in incomes and government revenues

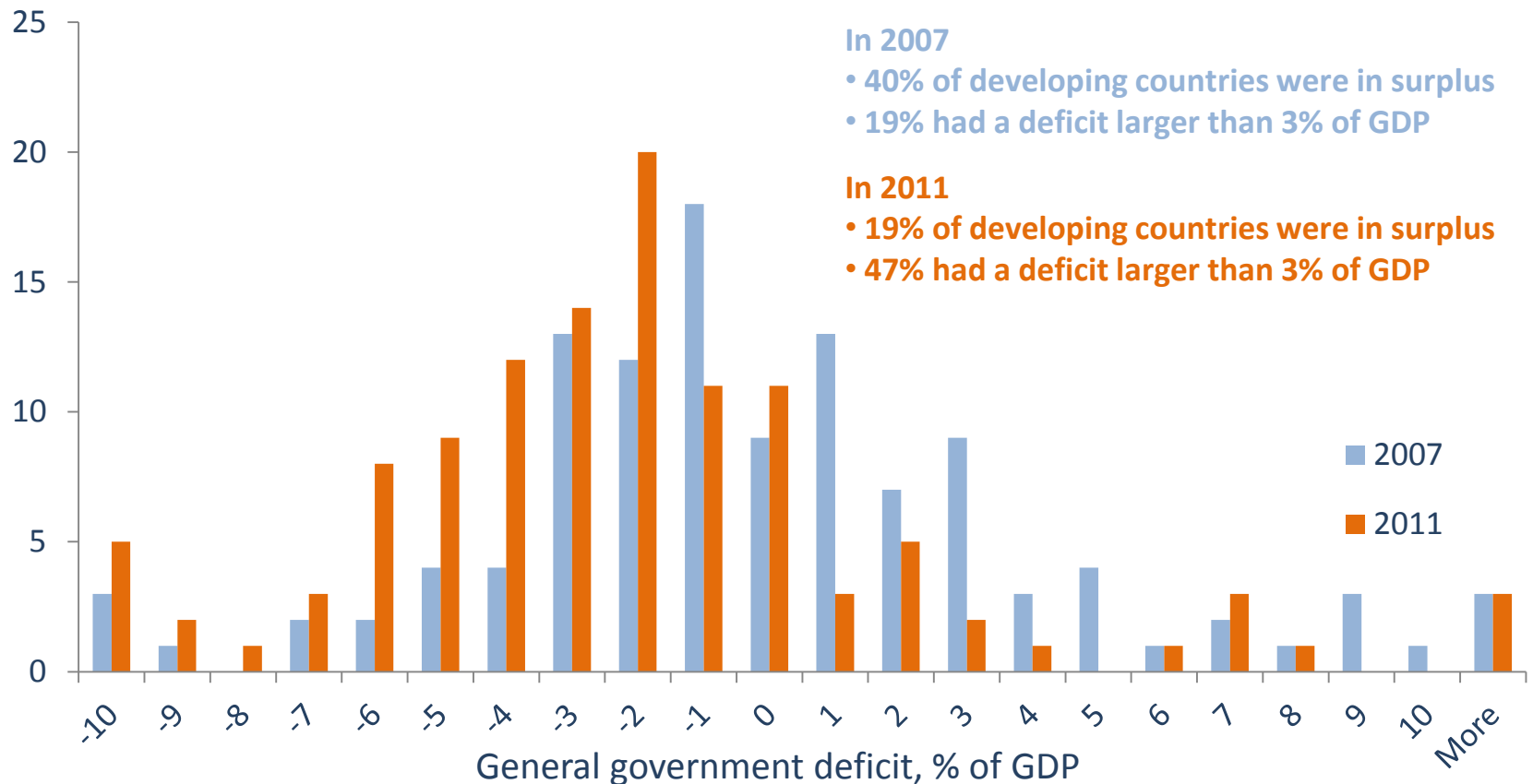
Developing countries remain vulnerable to a large crisis

Change in level of real GDP from baseline, percent



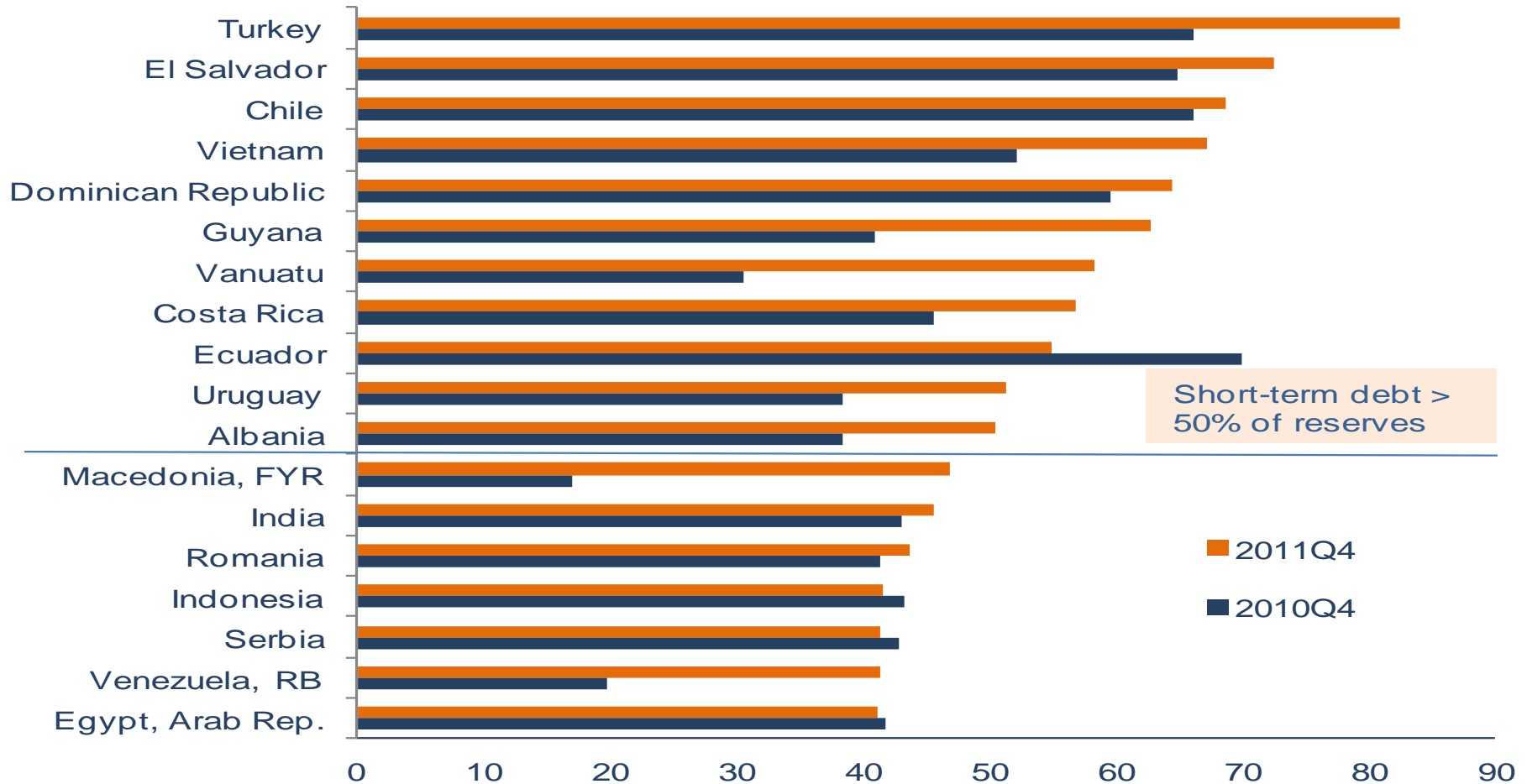
Developing countries have much less fiscal space than in 2007

of developing economies



High short-term debt levels pose a risk if financing freezes up

Short-term debt as share of international reserves, Percent



Concluding remarks

- The financial and fiscal challenges in high-income countries that are generating big fluctuations in sentiment are likely to persist for some time
- A more neutral policy stance will both help rebuild buffers and preclude running into medium-term inflationary pressures
- A significant downturn in the high-income world remains a possibility, developing countries need to reduce their vulnerabilities to such a downturn

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

