



# Global Economic Prospects

Uncertainties and  
Vulnerabilities

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World Bank  
January 2012

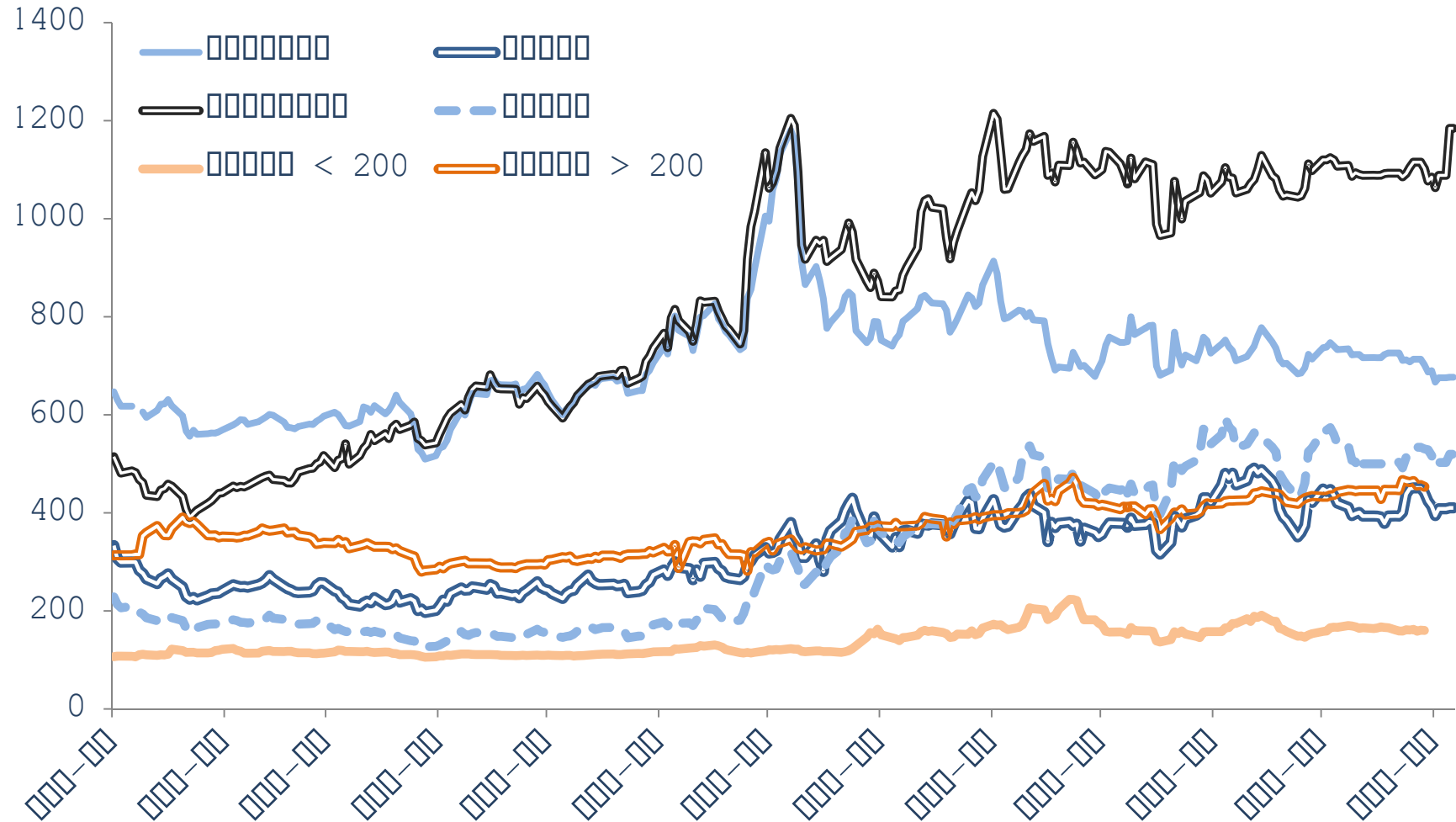


# Global environment has become much more precarious

- Turmoil since August has affected financial conditions in developing countries and economic activity worldwide
- Slow growth in large-middle-income countries and high-income Europe makes recovery fragile
- Developing countries to grow in 2012 by 5.4 %, high-income countries by 1.4% (vs June forecast of 6.2 and 2.7%)
- Baseline assumes no serious deterioration of conditions, should this materialize impacts for developing countries could be much worse
- Developing countries are vulnerable because of:
  - Reduced fiscal space
  - Maturing short-term and long-term debt
  - Potential deleveraging by banks in high-income world
  - Weaker export demand and remittances flows
  - Commodity prices

# Limited market relief for high-spread European and high-spread developing countries

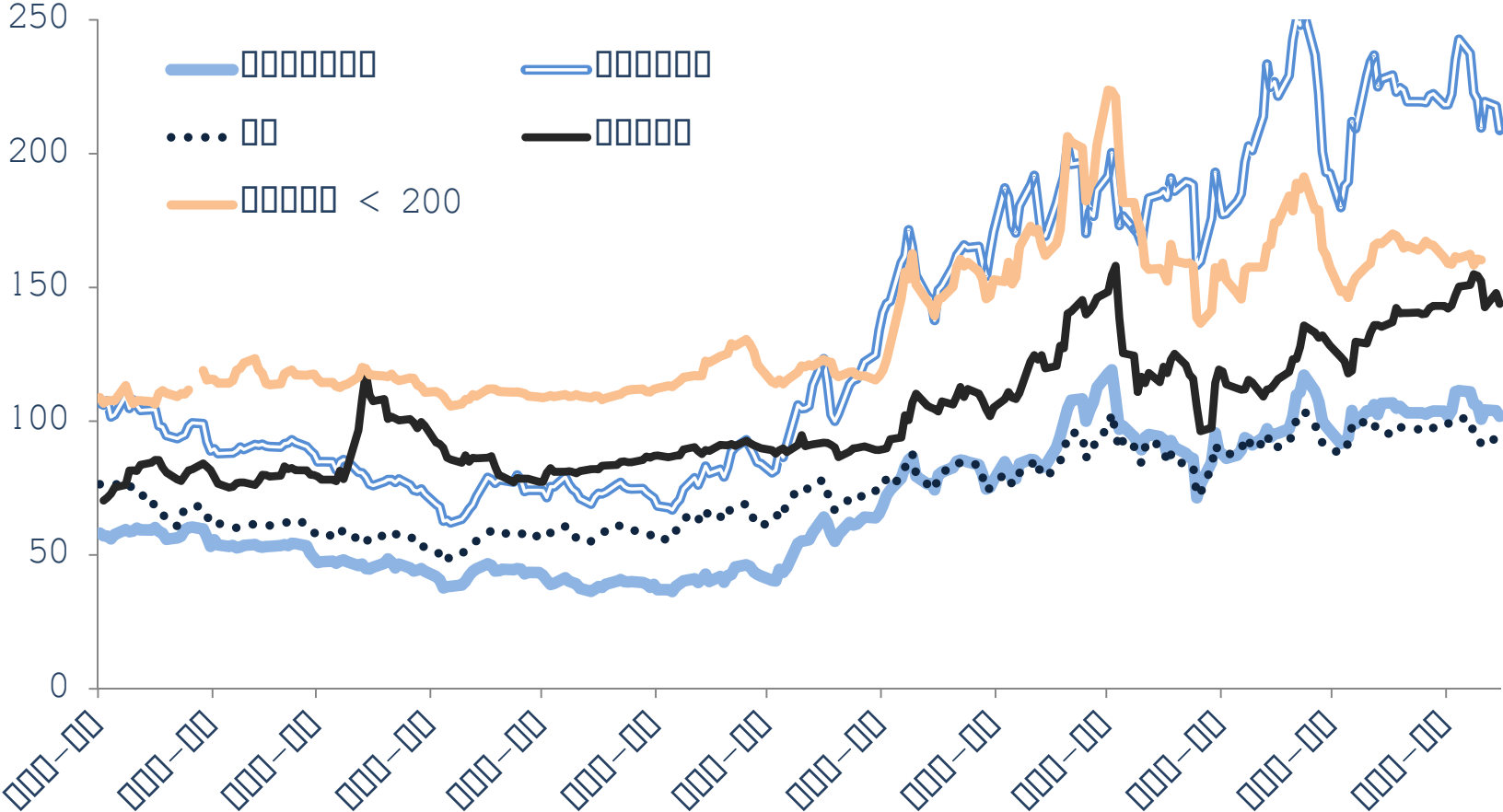
5-yr sovereign credit-default swap rates, basis points, Jan 2011-Jan 2012



Source: World Bank, Global Economic Prospects, 2012A.

# Contagion effects have diminished only somewhat

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Source: World Bank, Global Economic Prospects, 2012A.

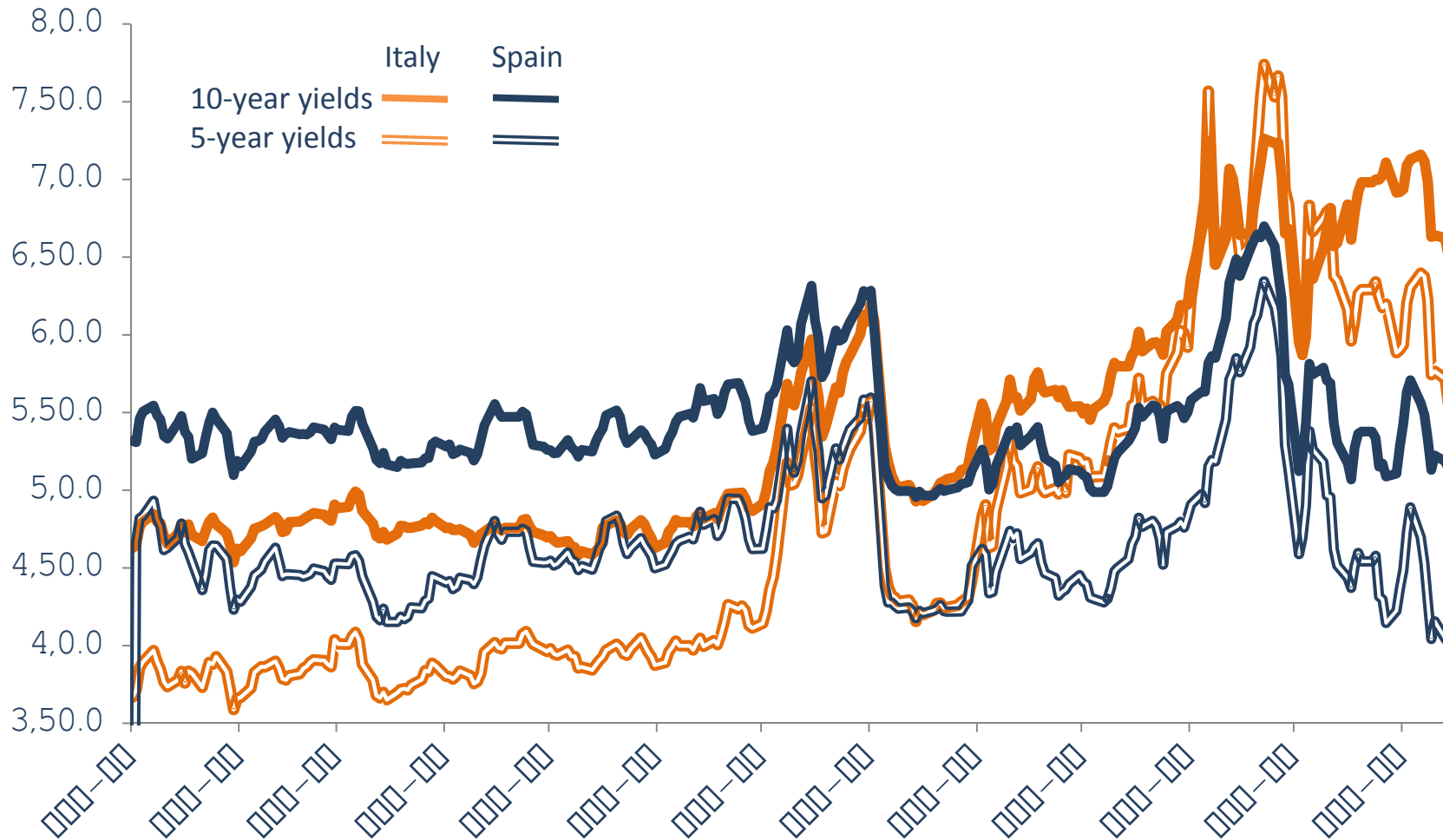
# Largest increase in the risk premia was in Eastern European and Central Asia

Figure 1. Risk premia for emerging market debt, 2000-2011 (percentage points)



# Borrowing costs are falling for Italy and Spain following solid bond auctions

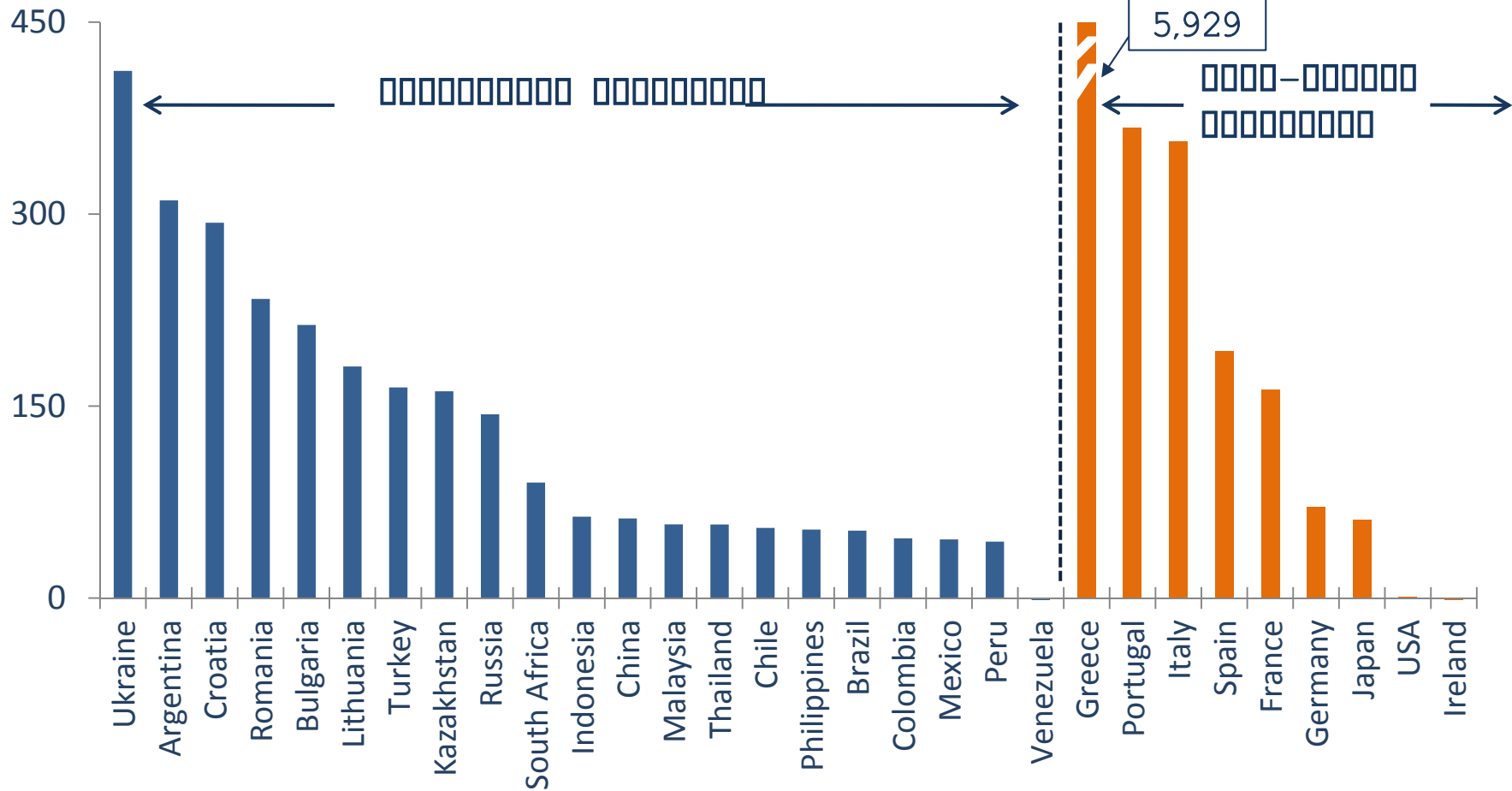
Yield (%)



Source: World Bank, Global Economic Prospects, 2012A.

# Contagion has increased sovereign credit default swap rates worldwide

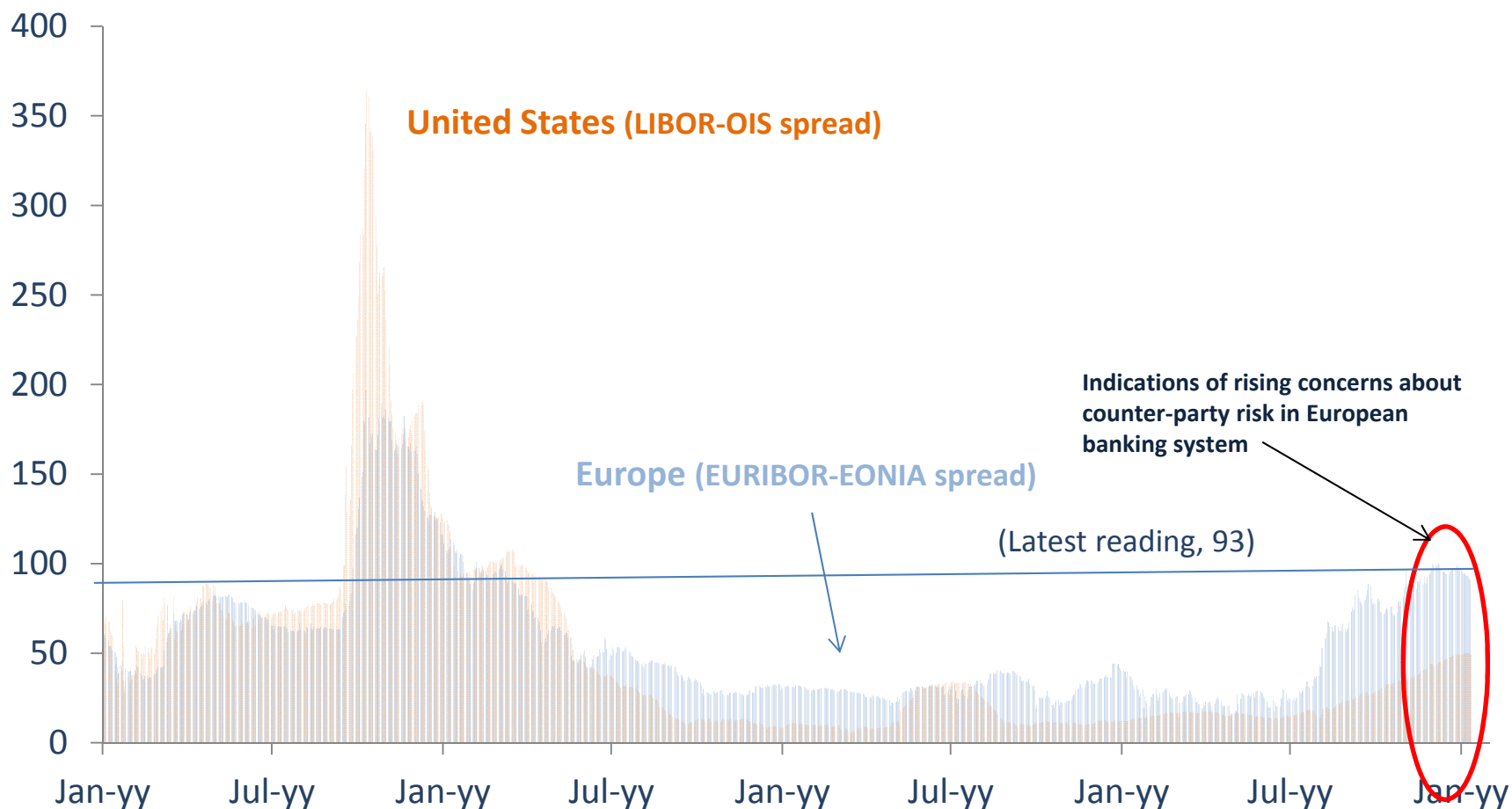
Bar chart showing sovereign credit default swap rates (in basis points) for various countries as of June 6, 2012. The chart is divided into two groups: a group of 20 countries with rates below 450 basis points (dark blue bars) and a group of 8 countries with rates above 450 basis points (orange bars). A vertical dashed line separates the two groups. The value 5,929 is highlighted for Greece.



\* Data source: Bloomberg and World Bank DEC Prospects Group.

# European banking-sector counterparty-risk concerns persist despite pledge to recapitalize

Interbank overnight spreads, basis points

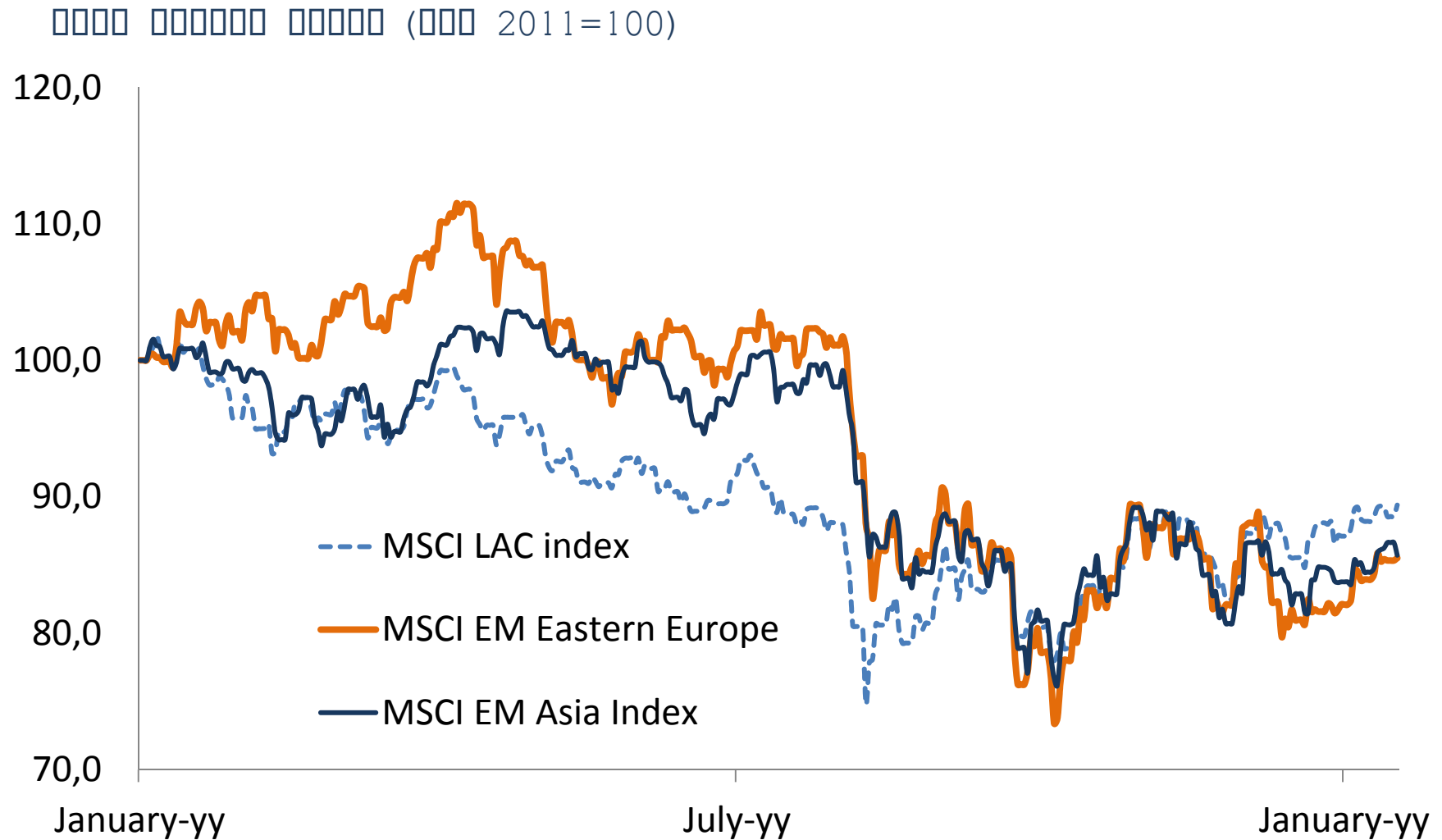




## Market jitters translated into large-scale reduction in capital flows to developing countries in 2011H2

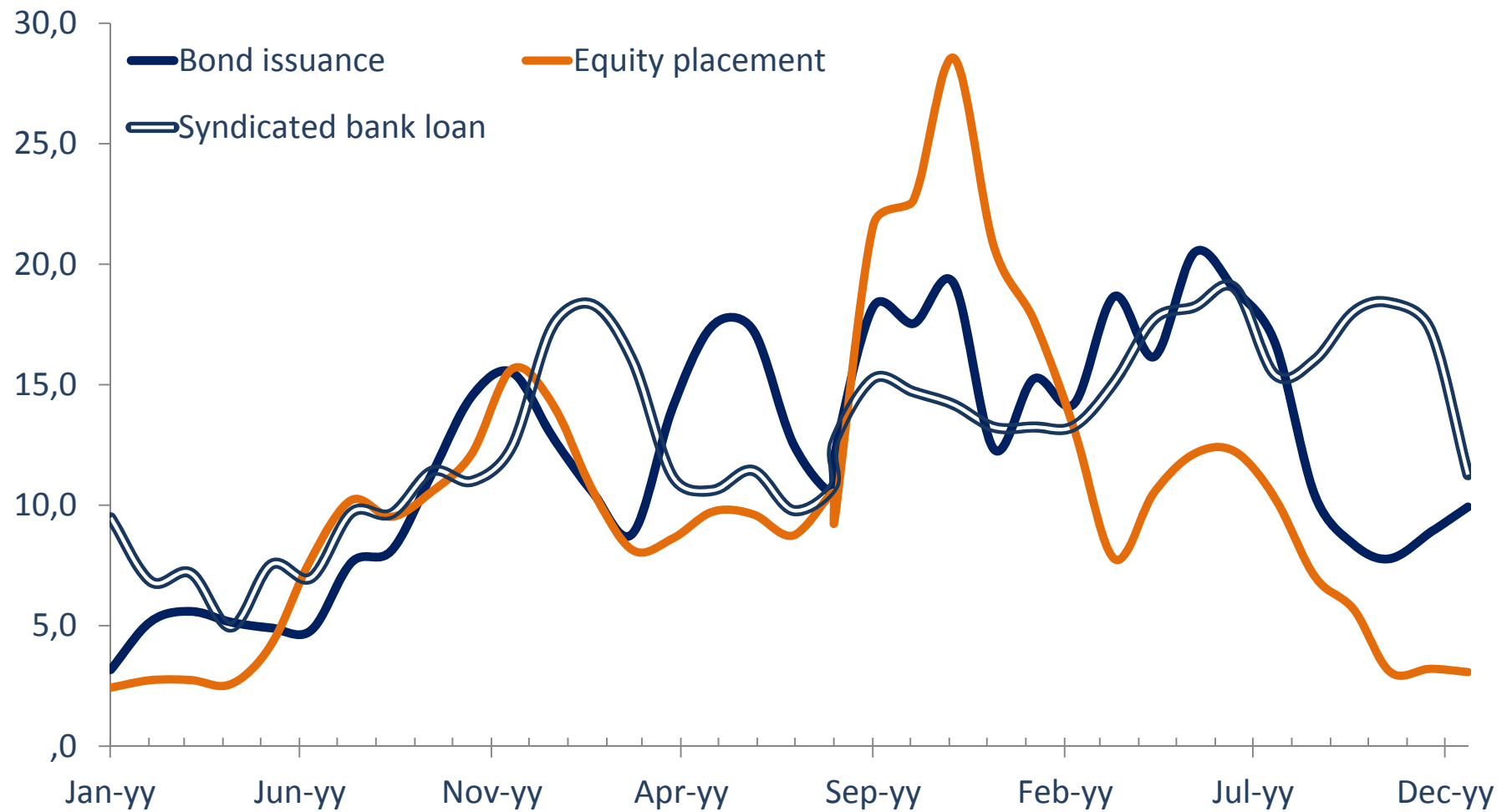
- Since July 31, 2011
  - Developing equity markets are off 8.5%
  - High-income markets off 4.2%
  - Total decline, c. \$6.5 trillion (9.5% of global GDP)
- Emerging-market equity mutual funds posted net **outflows** of about \$48 billion in 2011, versus a \$97 billion **inflow** in 2010.
- Gross capital flows to developing countries down 50% and 45% in the second half from the like periods of 2009 and 2010, respectively

# Steepest stock market declines were in Eastern European and Central Asia



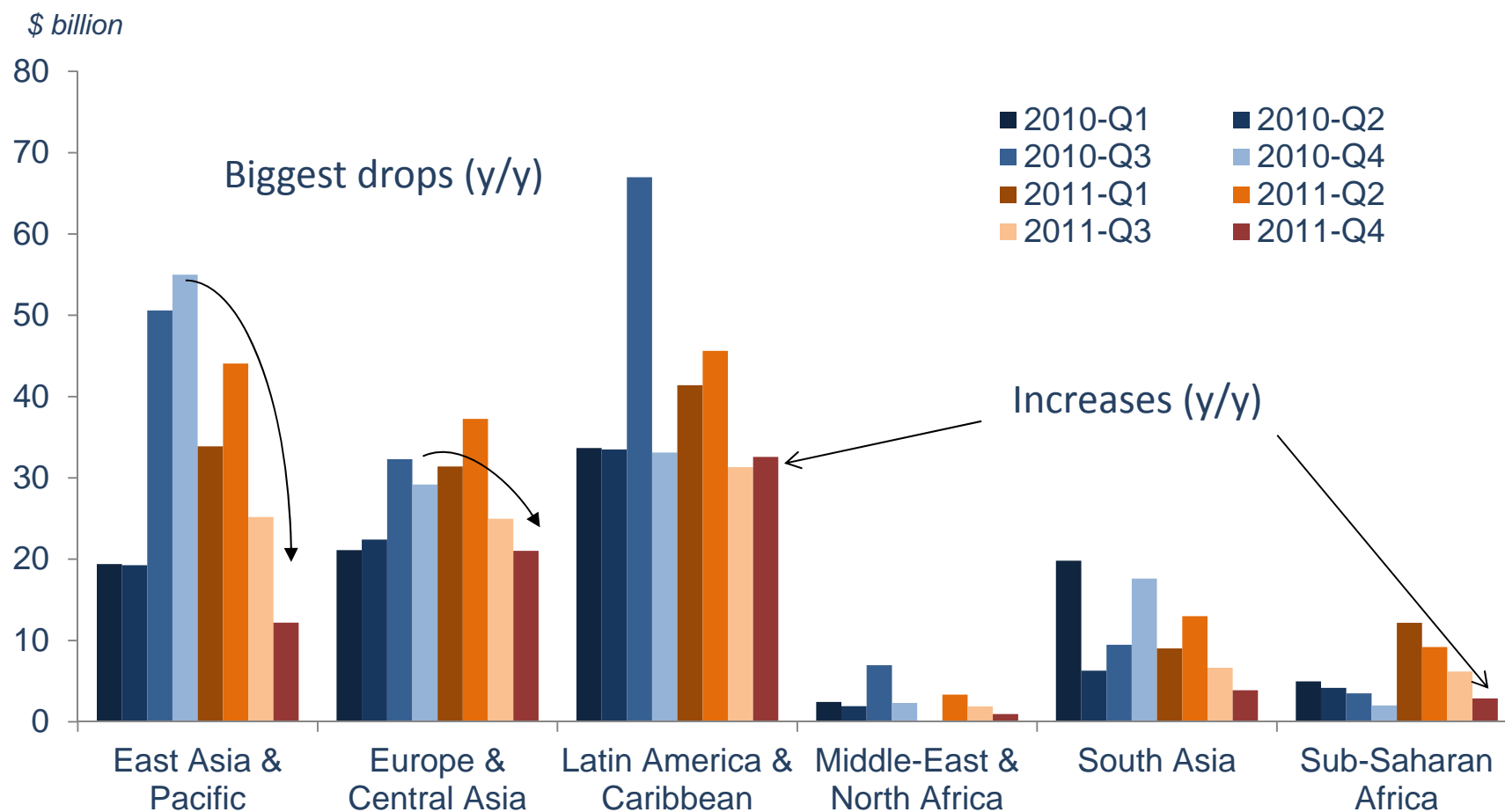
# Gross capital flows to developing countries down 50 percent in second half of 2011

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Source: World Bank, Global Economic Prospects, 2012A.

# Capital flows to developing countries down 50 percent from 2010 levels



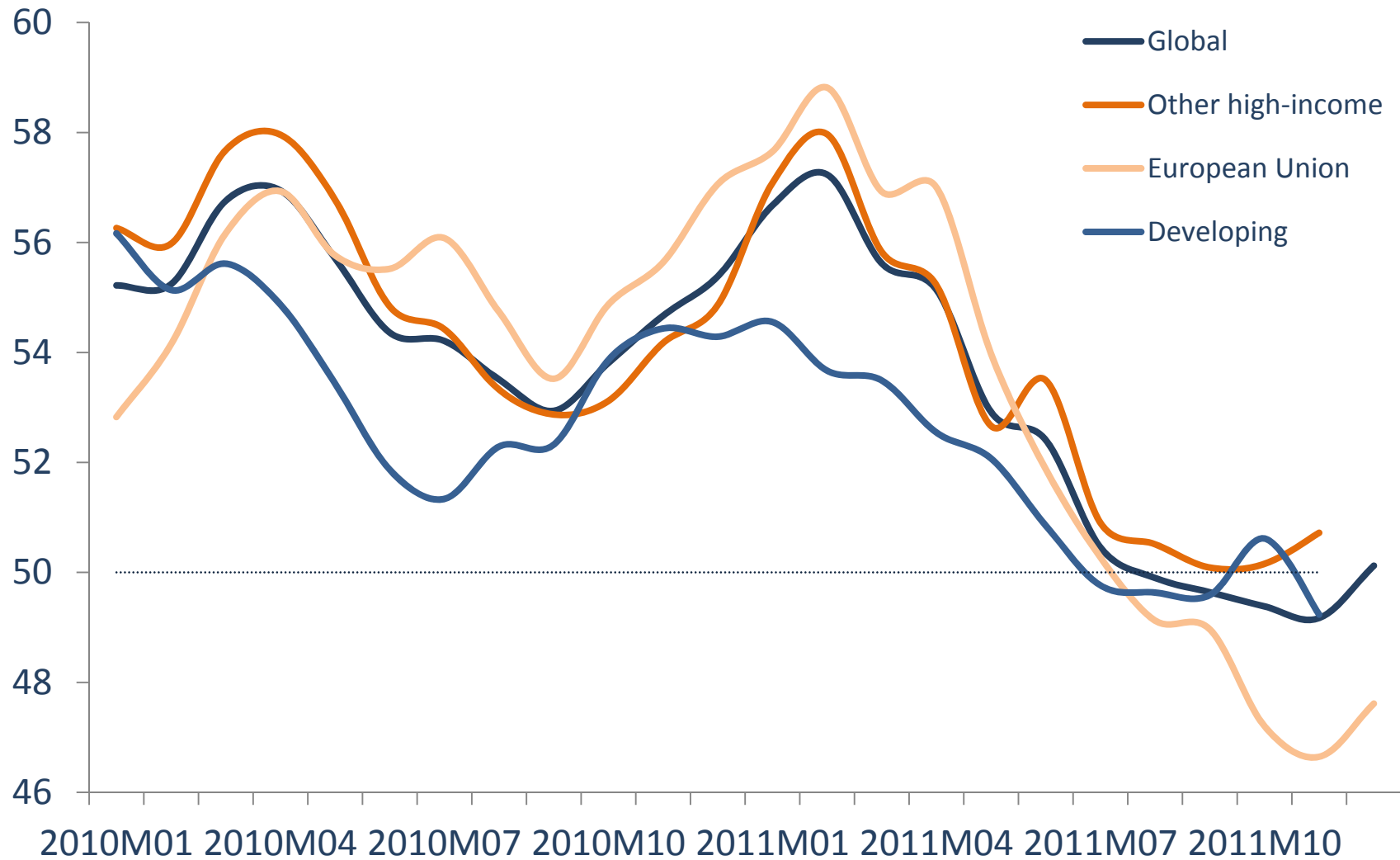
Source: World Bank.

## Real economy has slowed and recovery looks fragile

- Diverging trends: Strength in US and Japan; policy induced slowdown in large MIC; Europe entering recession; modest growth elsewhere
- Global trade has sharply weakened; driven by falling European imports
- Slow growth in Europe and several middle-income countries could be self-reinforcing

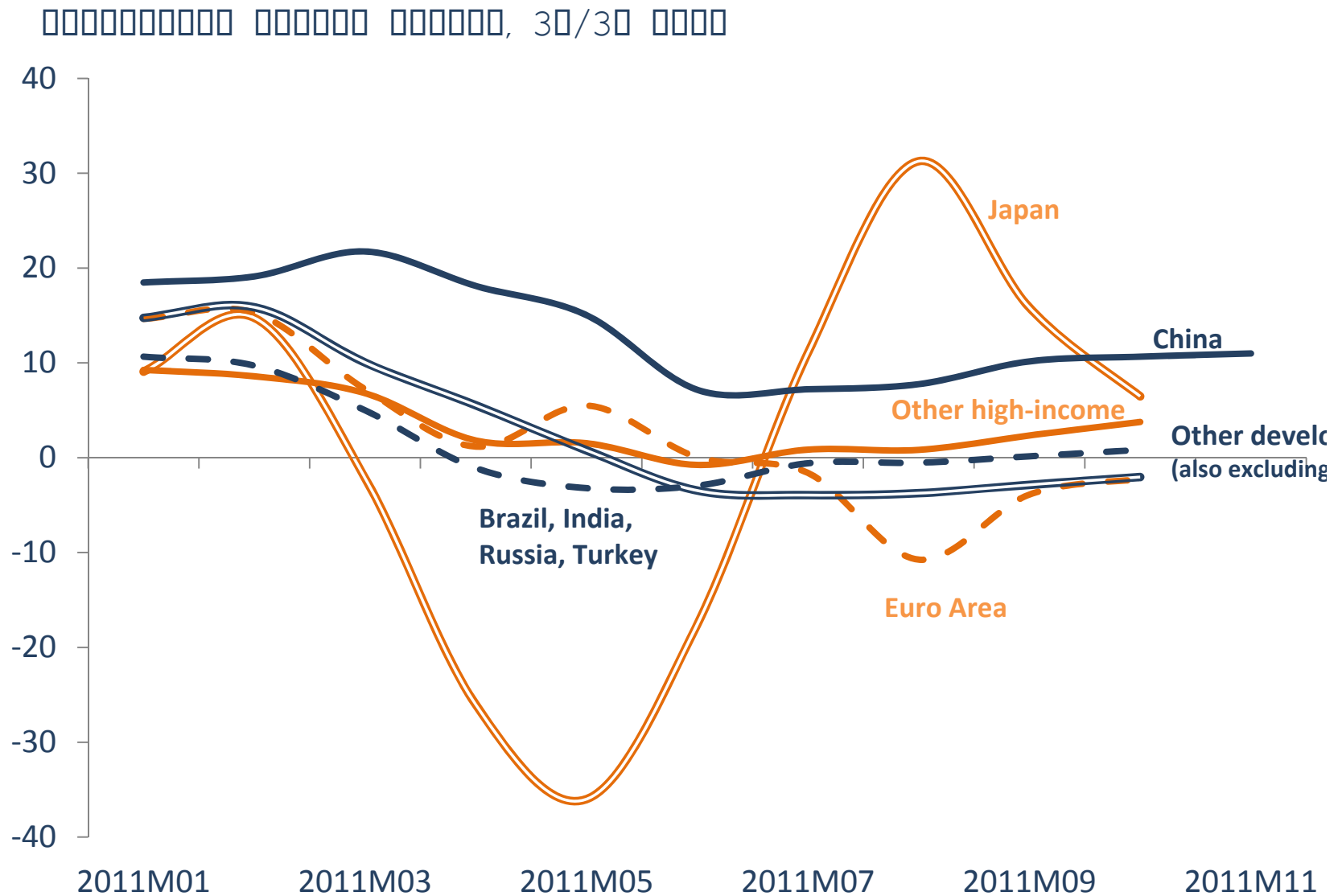
# Business outlook improving but weak

Business Outlook Survey (BOS) (Q1), Q1 2010



Source: World Bank, Global Economic Prospects, 2012A.

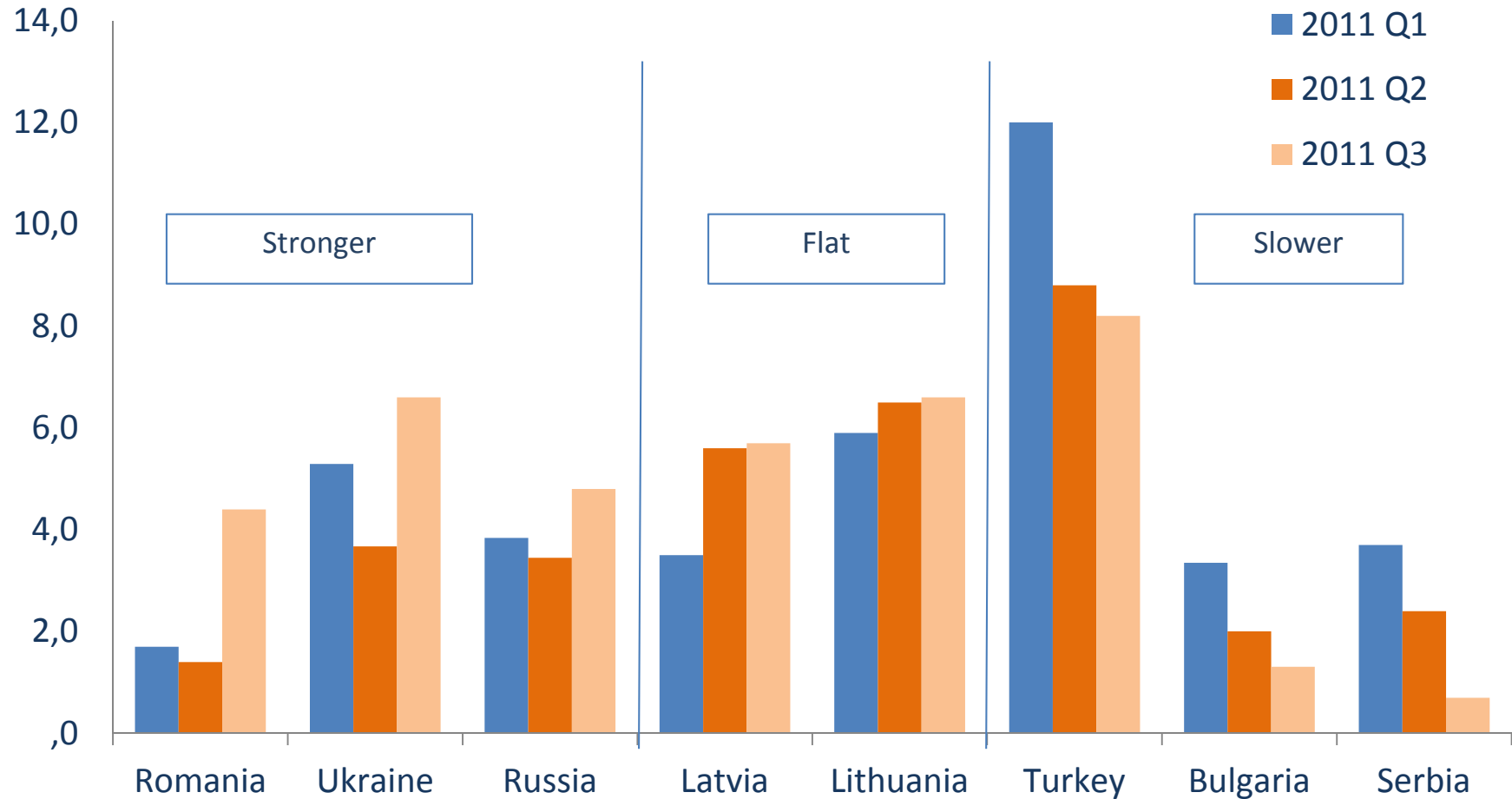
# Domestically rooted slow growth in large developing countries and European downturn create challenging environment



Source: World Bank, Global Economic Prospects, 2012A.

# Mixed economic performance in the third quarter

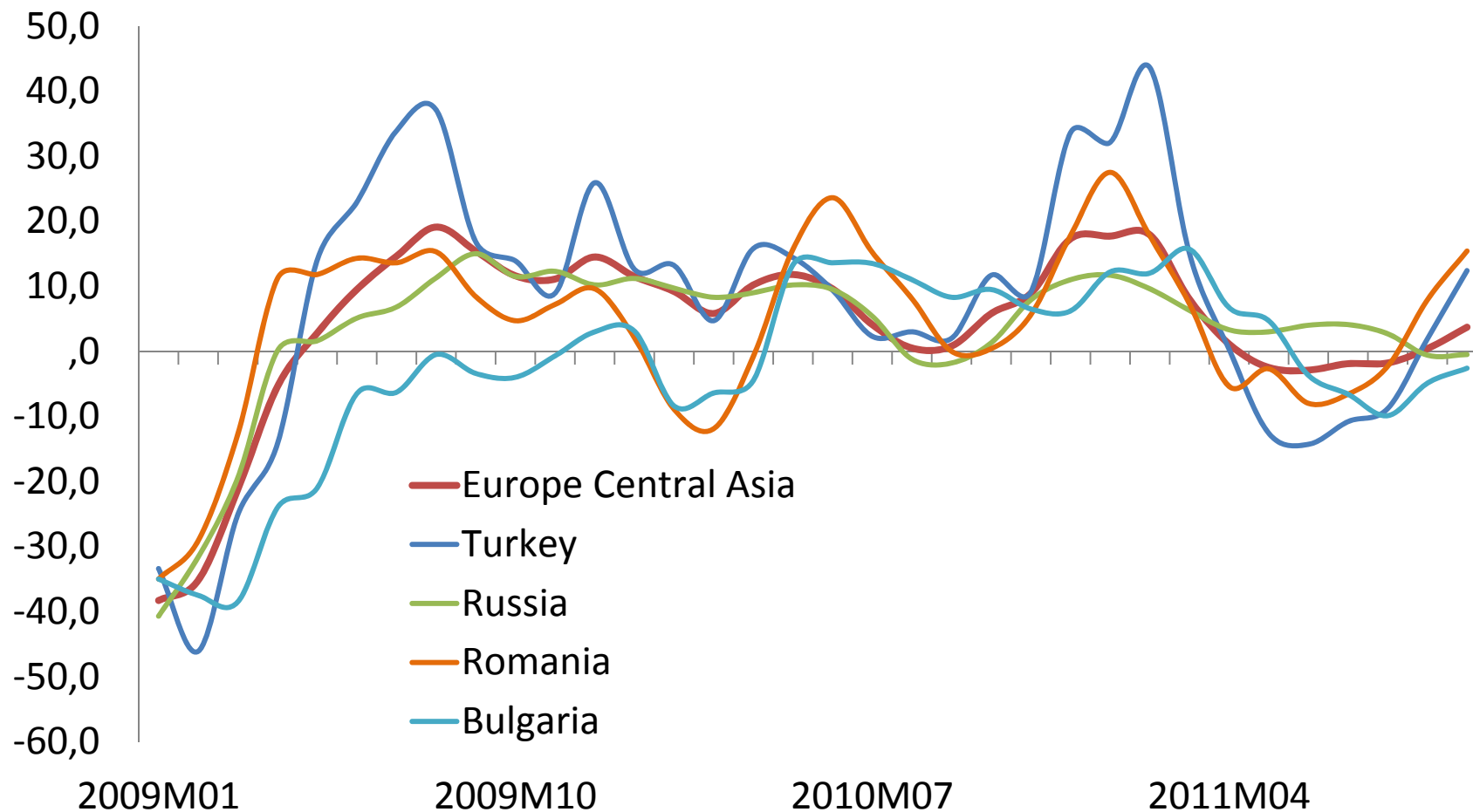
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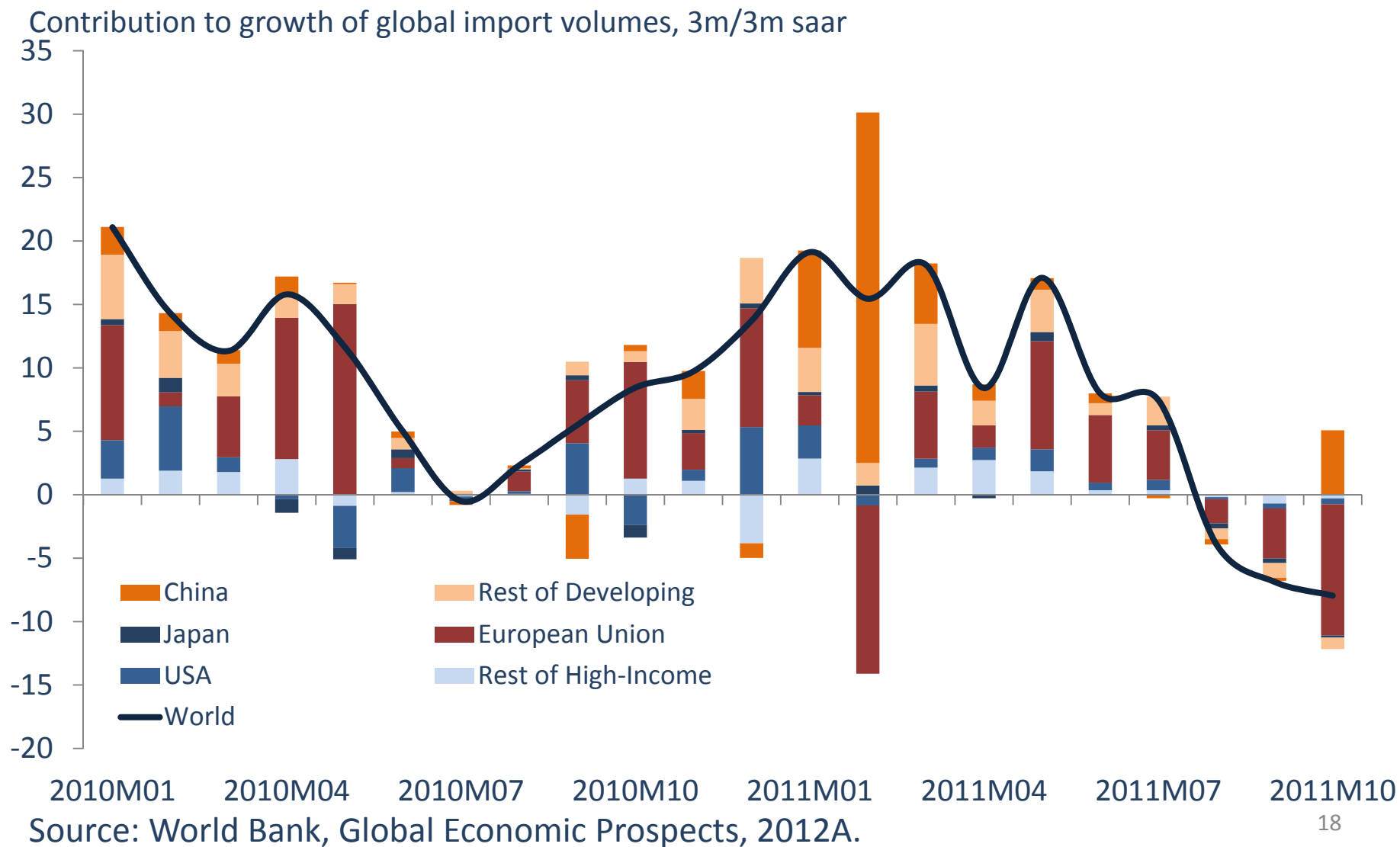


# Industrial production growth in ECA had a rebound in October

Industrial production growth in ECA had a rebound in October (30/30 0000. 00000000)



# Import volumes appear to have declined sharply in August

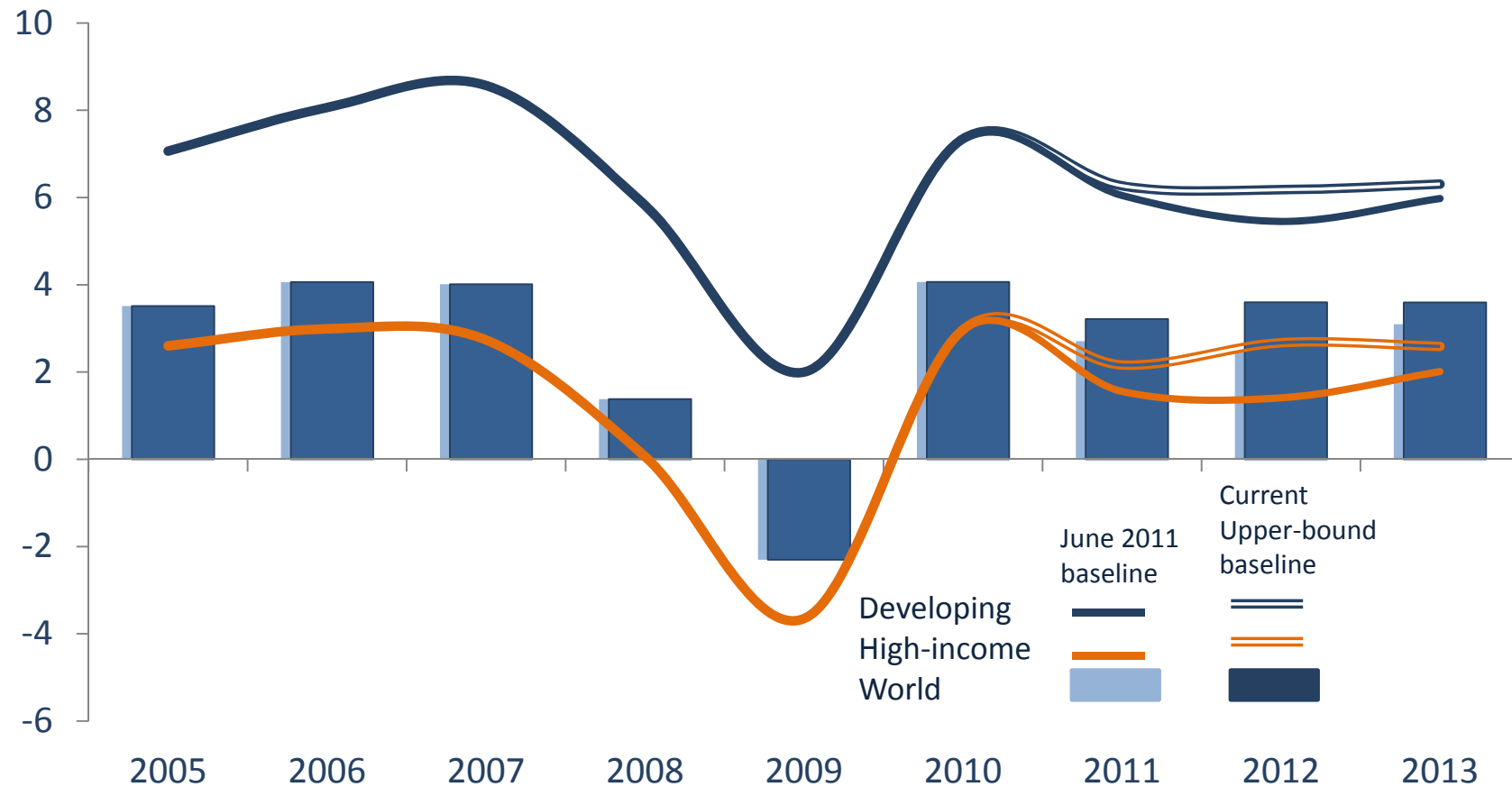


# Developing countries at risk from a deterioration of conditions in high-income countries

- Baseline shows significant markdown since June, assuming limited confidence effects outside Europe
- Much more serious consequences could be envisaged, if financial-sector solvency is affected or a market-induced credit event occurs.
- Downside scenarios necessarily speculative, but potentially as significant as 2008/09

# Growth forecasts have been downgraded further since September

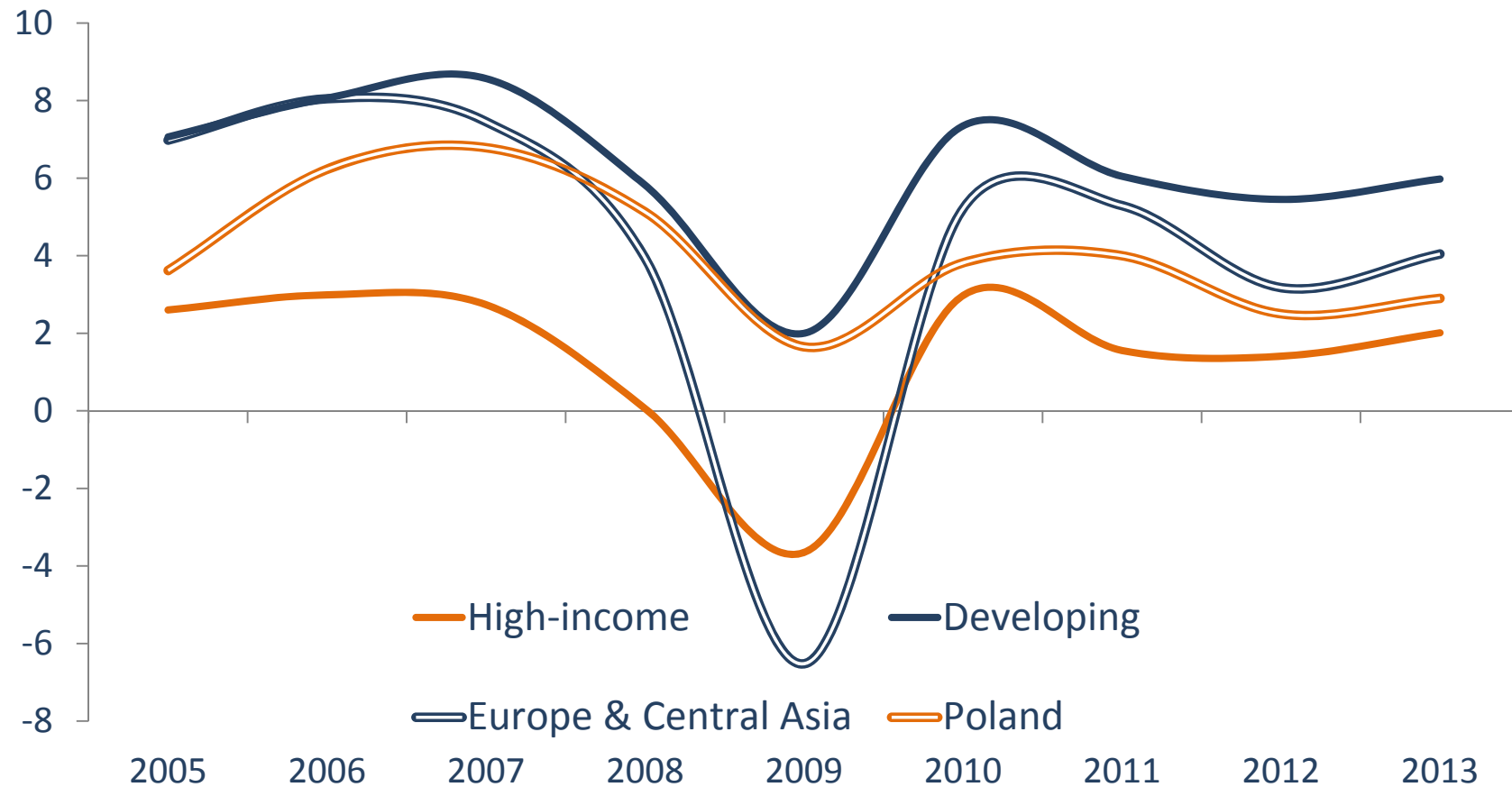
Projected growth



Source: World Bank, Global Economic Prospects, 2012A.

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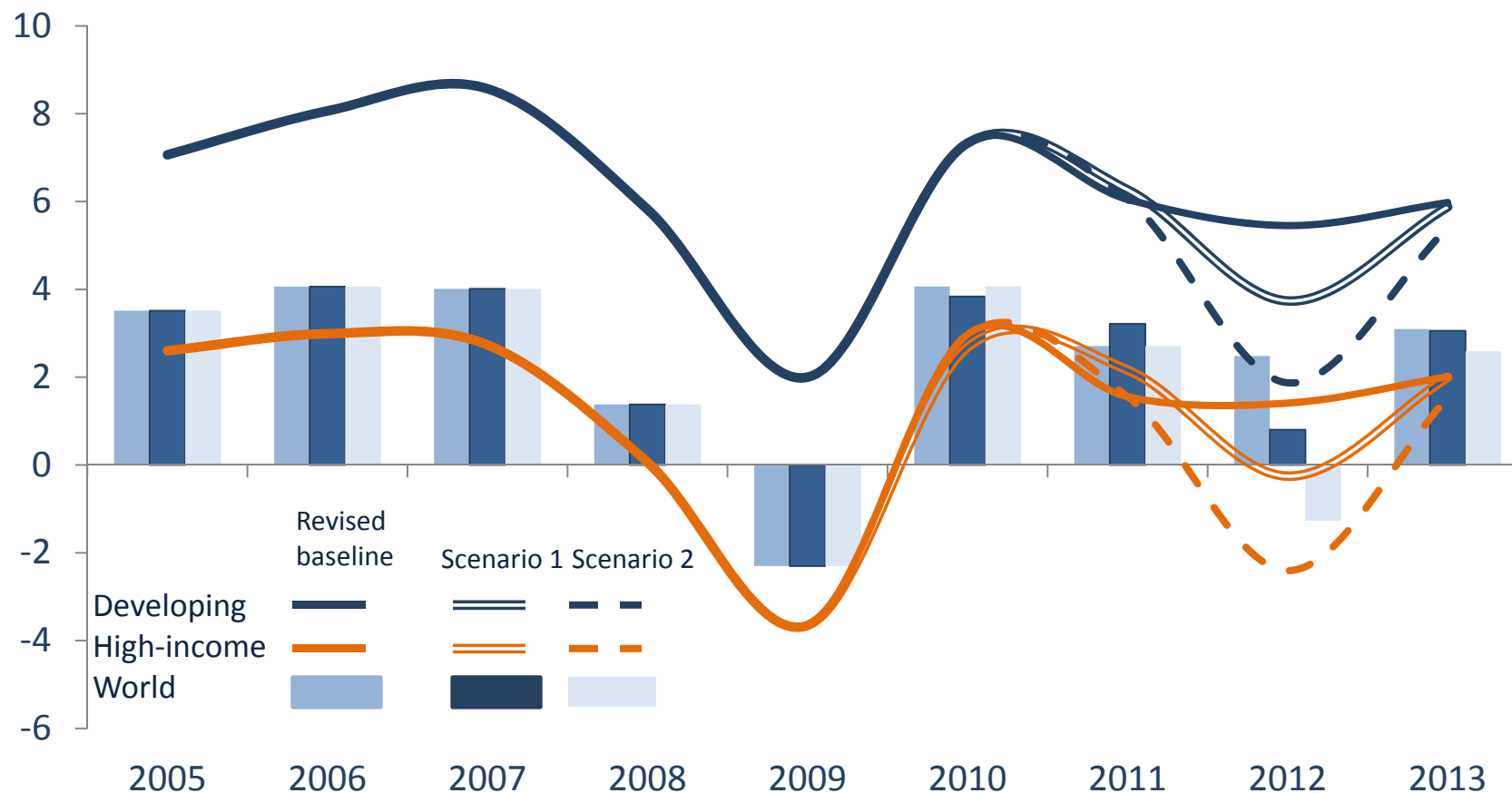
Projected growth



Source: World Bank, Global Economic Prospects, 2012A.

# Combination of weak middle-income growth and fiscal crisis in Europe pose downside risks

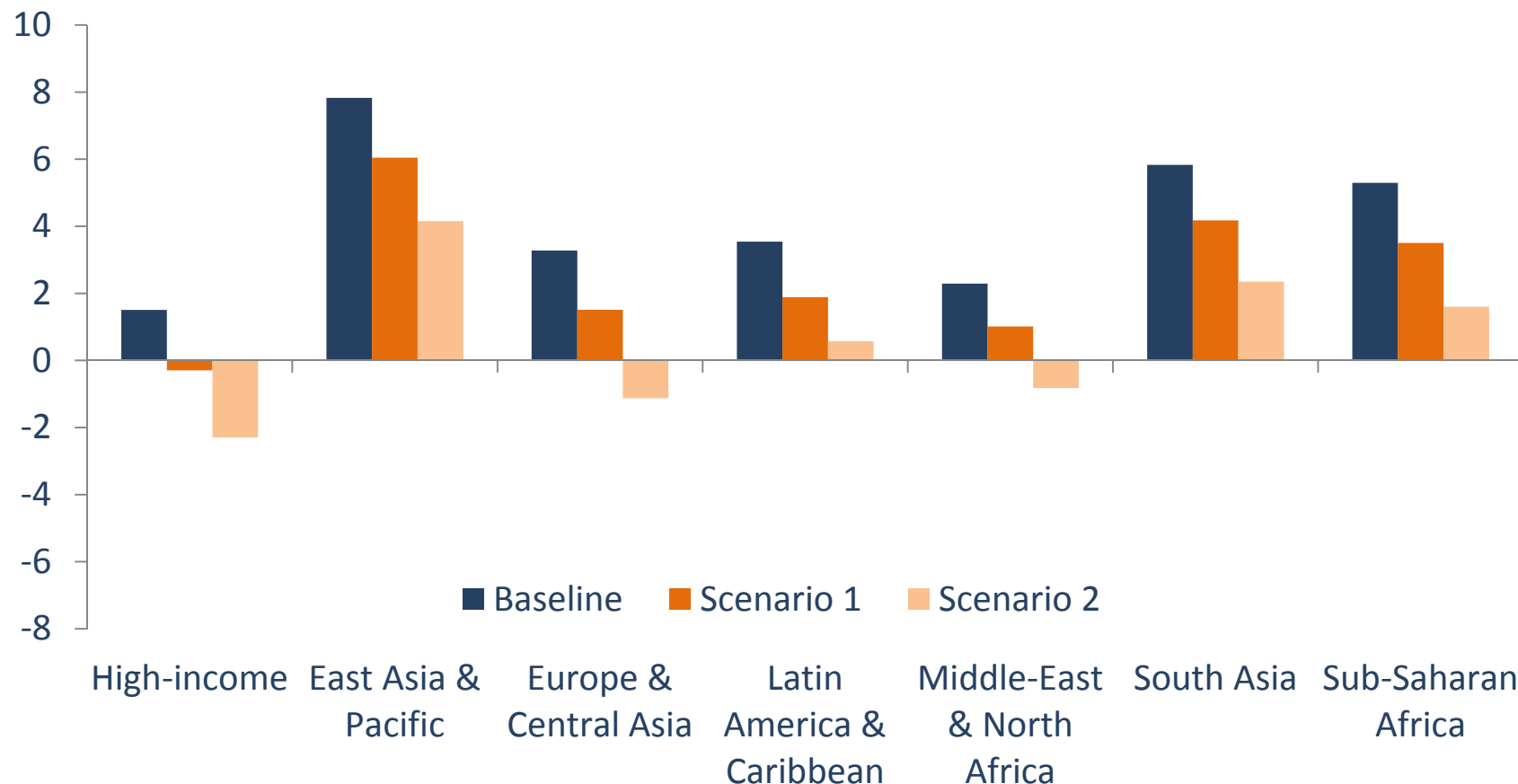
Projected and Simulated GDP growth



Source: World Bank, Global Economic Prospects, 2012A.

# A deterioration in conditions could have serious consequences for developing countries

GDP growth, 2012 various scenarios



**Notes:** Baseline assumes muddling through; scenario 1 assumes an additional freezing out from capital markets of two small Euro Area economies equal to around 3-4 percent of Euro Area GDP; Scenario 2 assumes crisis spreads to 1-2 larger European countries whose total weight equals around 30 percent of Euro Area GDP.

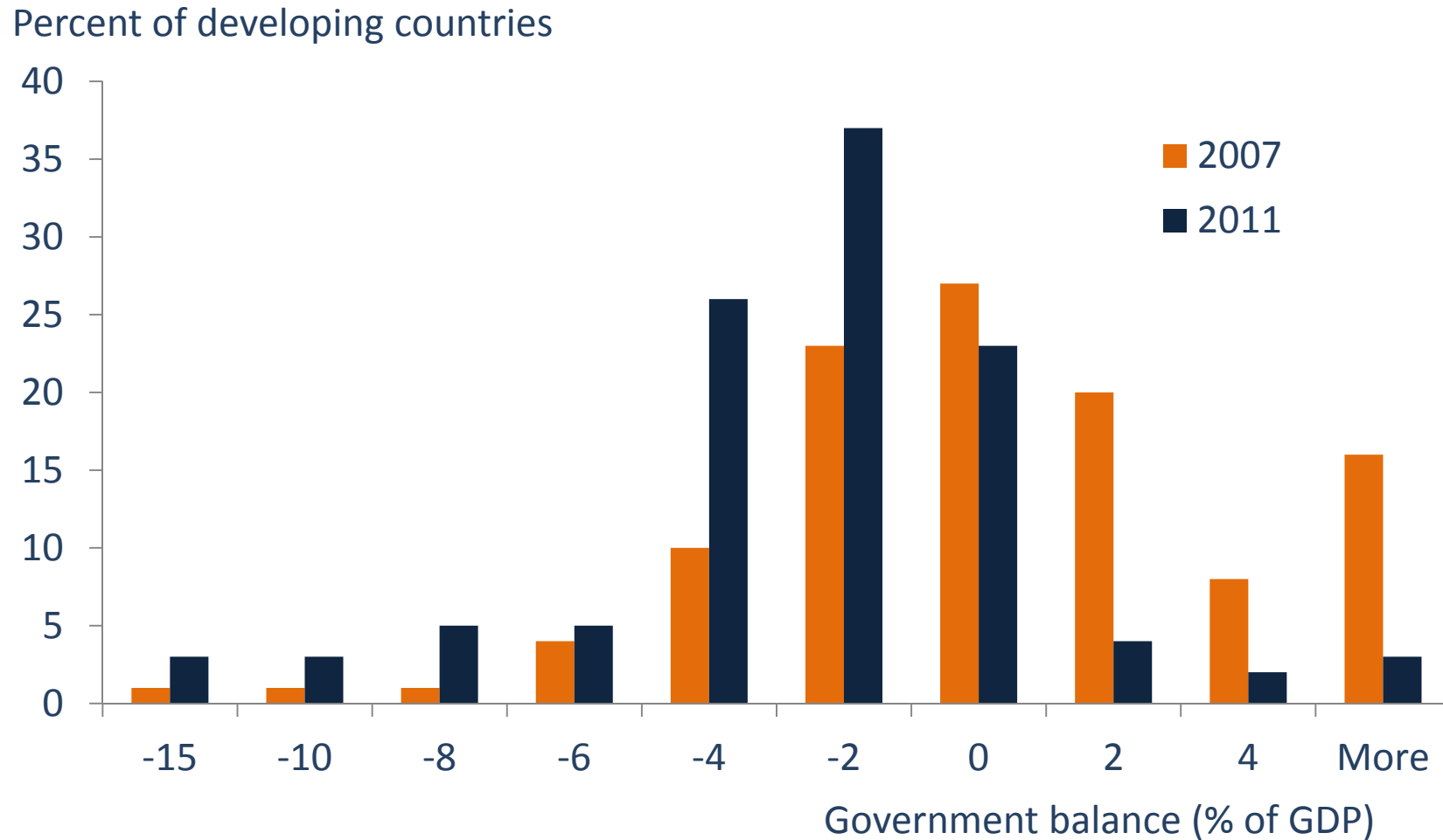
Source: World Bank, Global Economic Prospects, 2012A.

## Developing countries are more vulnerable to a renewed crisis than in 2008

- Policy response constrained by reduced fiscal space
- Countries with large amounts of ST and maturing LT debt should seek to refinance early to limit effects of a potential freezing of capital markets.
- Countries should stress-test their banking systems, especially if credit has grown rapidly in recent years or they are heavily reliant on wholesale financing.
- Commodity exporters could be hurt by collapse in commodity prices
- Remittance dependent countries may also be vulnerable

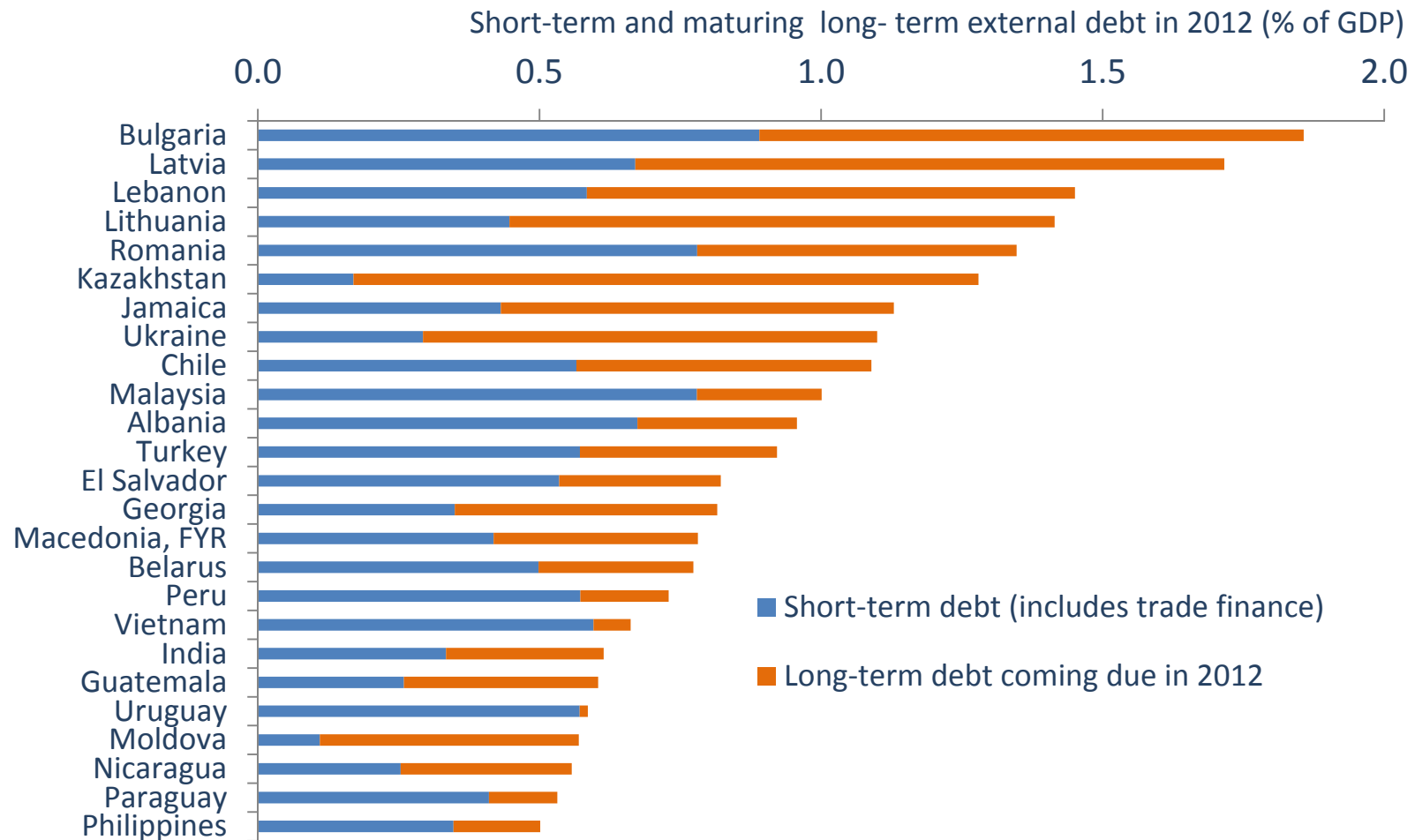


# 38% of developing countries had a government deficit greater than 4% of GDP in 2011 (18% in 2007)



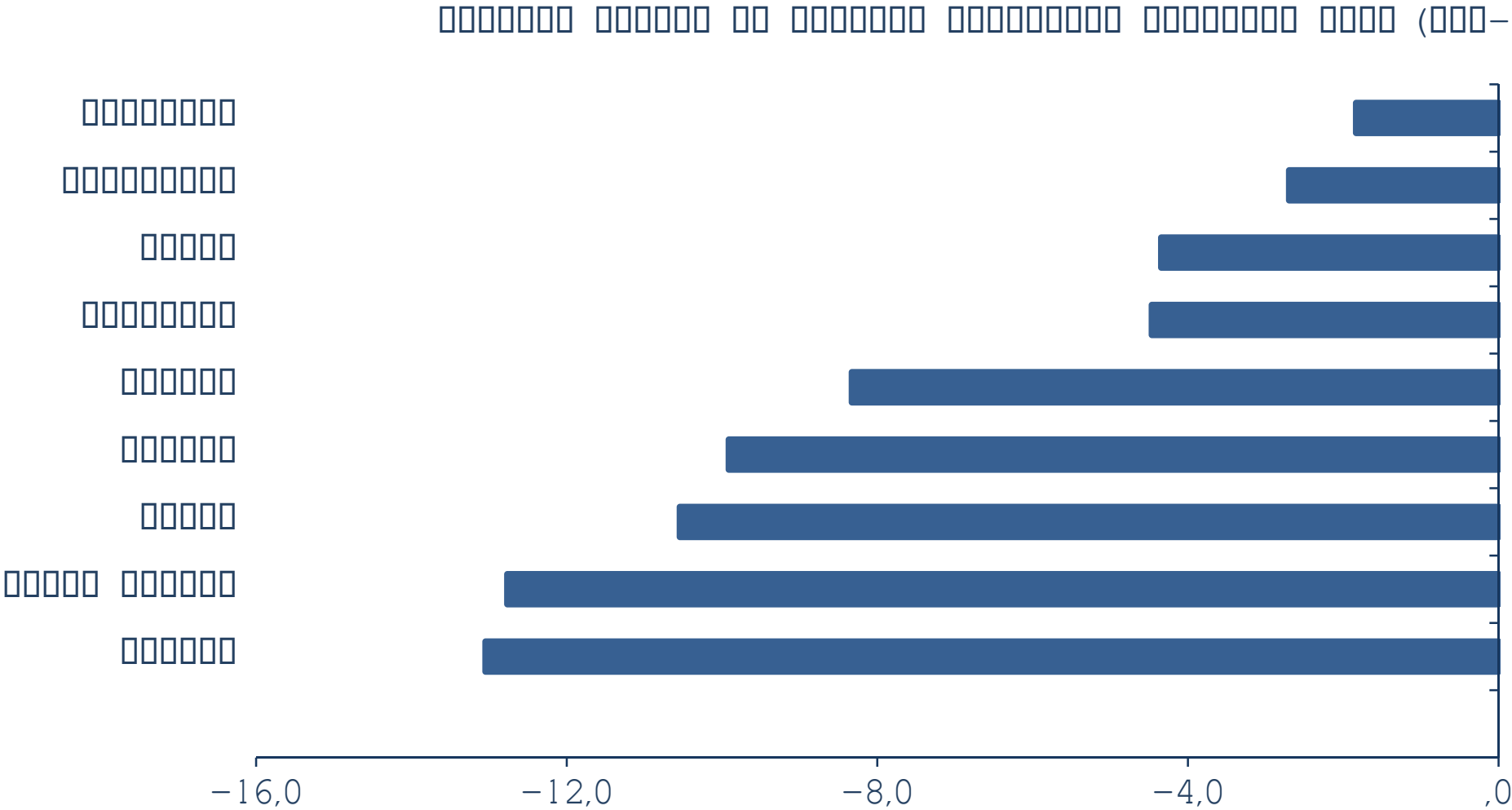
Source: World Bank, Global Economic Prospects, 2012A.

# High levels of external short- or maturing long-term debt place countries at risk



Source: World Bank calculations using Debt Reporting System and BIS.

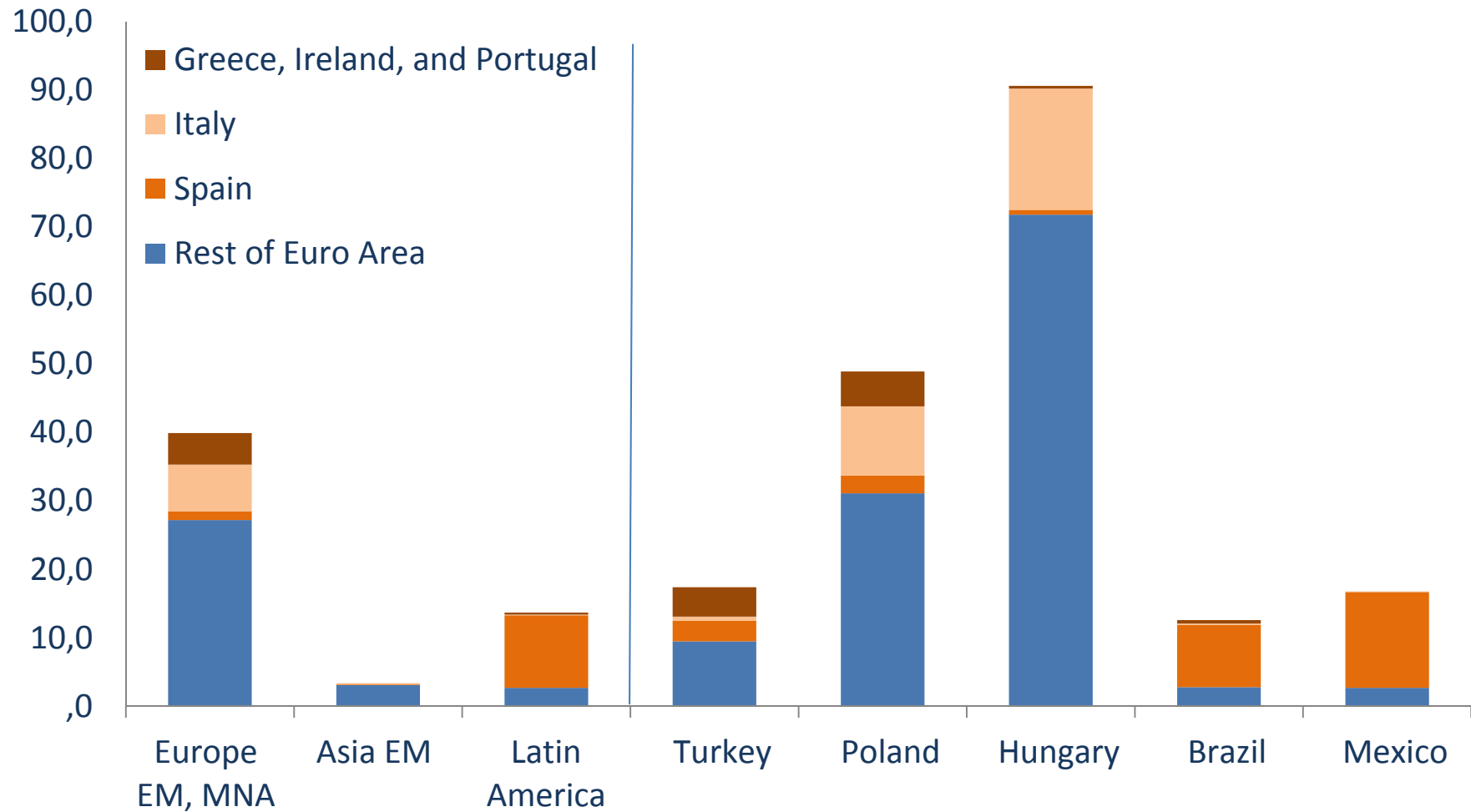
# Capital outflows caused currency depreciations in many countries



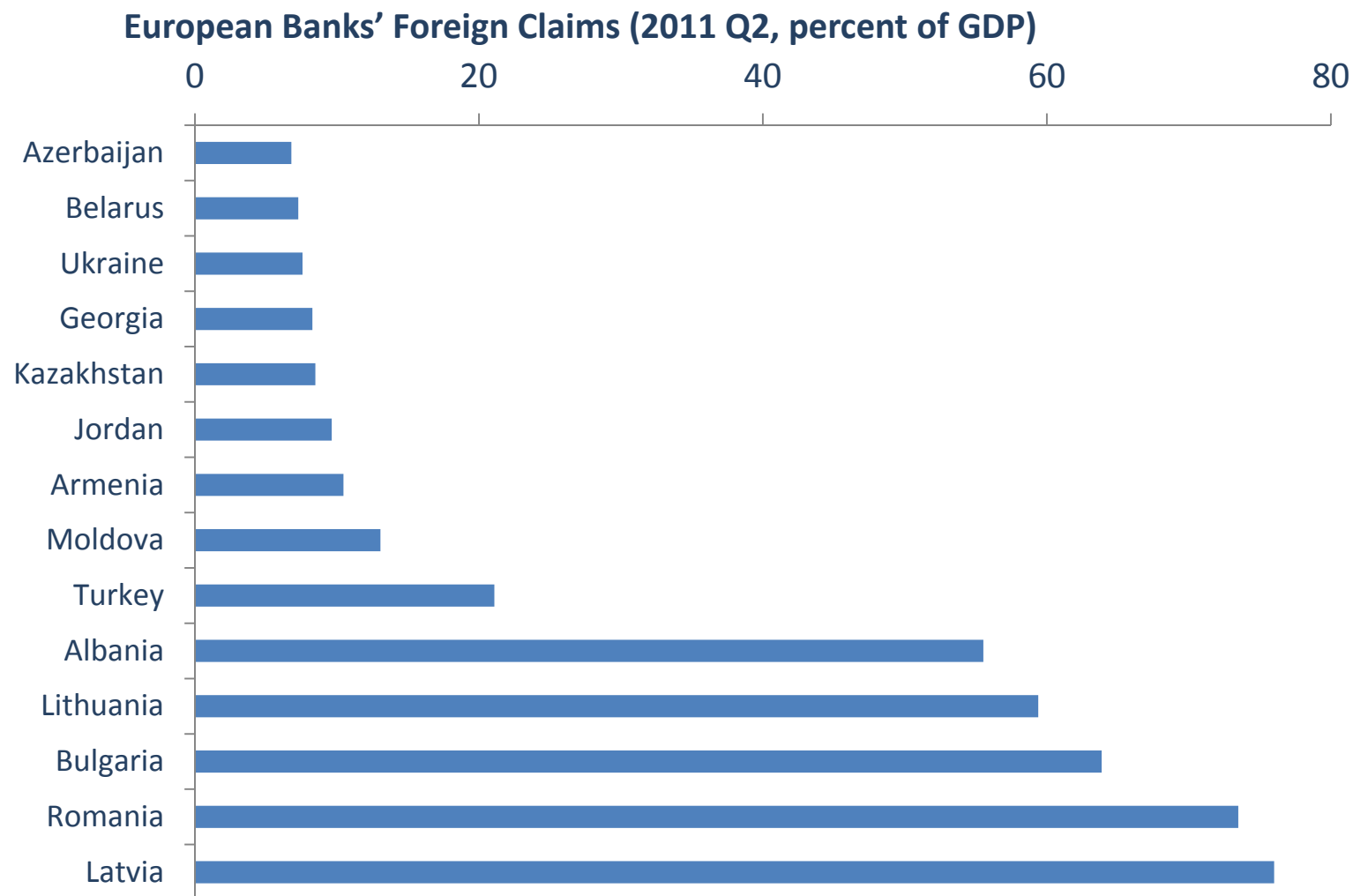
Source: World Bank, Global Economic Prospects, 2012A.

# Deleveraging effects could be strongest among countries with close ties to Euro area banks

Stacked bar chart showing the percentage of debt held by Euro area banks across various regions and countries.



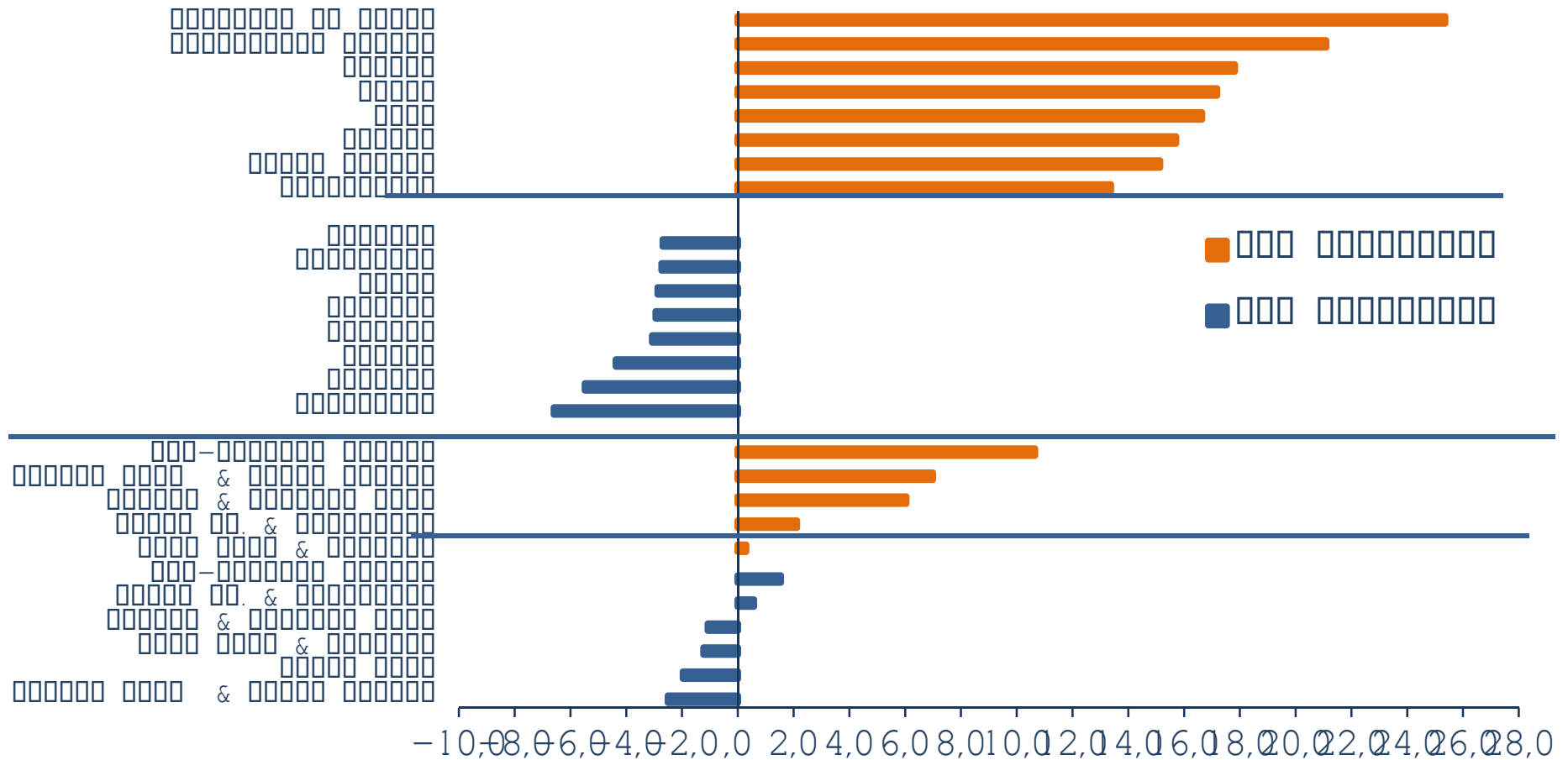
# Strong banking linkages to high-income European countries



Source: World Bank calculations using BIS.

# Falling commodity prices can have large income effects

2011 年 1 月 2010 年, 商品价格指数 下降。 商品价格 下降, % - 2010 年 1 月 2010 年



Source: World Bank, Global Economic Prospects, 2012A.

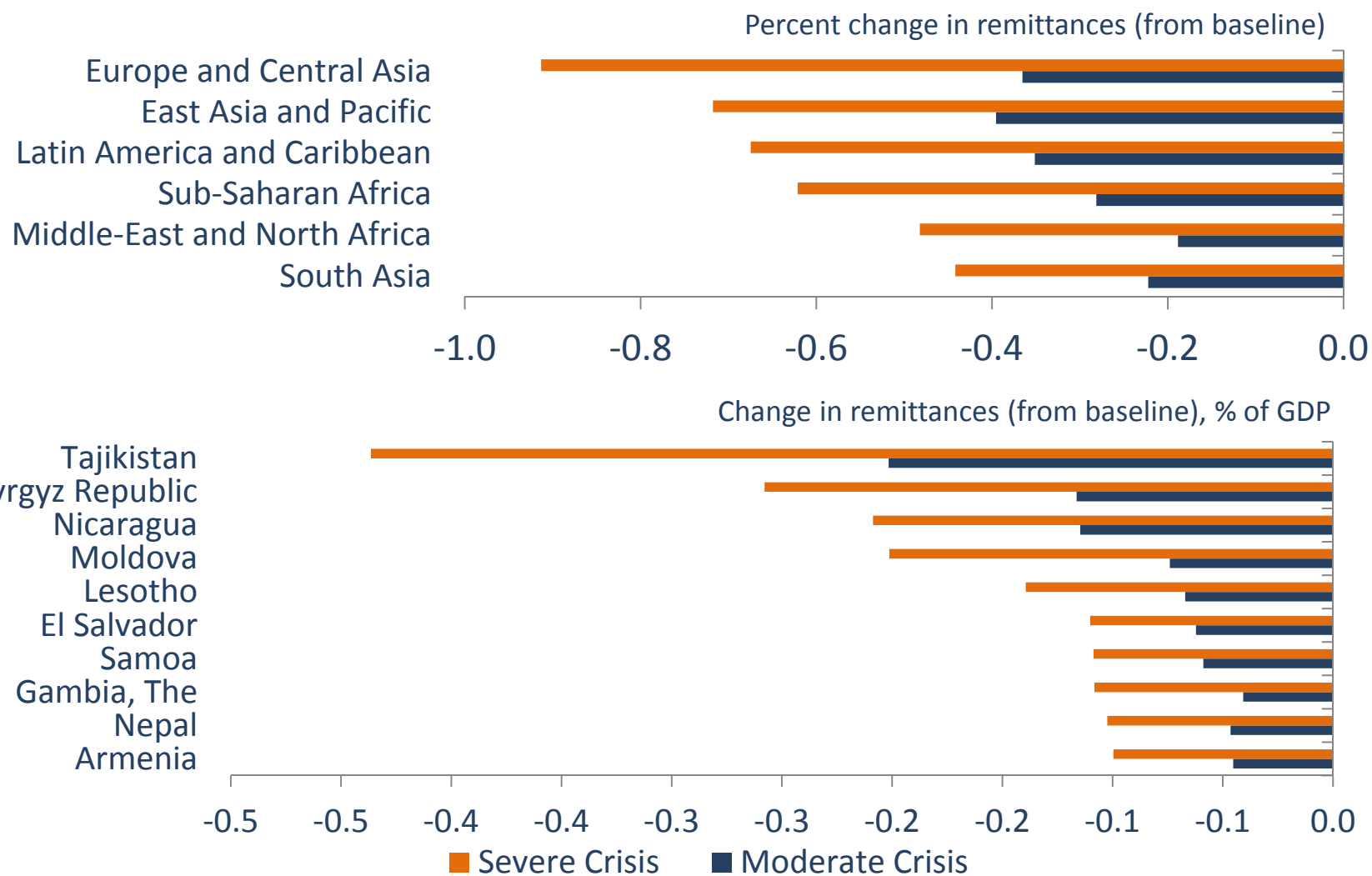
# A drop in commodity prices could yield binding cuts in government revenues

Fiscal impact of a drop in commodity prices similar to that observed in 2008/09.

Change in fiscal balance (% of GDP)

<b>World</b>	<b>-0.1</b>
High income countries	0.4
Developing countries	-1.0
Oil exporting	-4.3
Oil importing	0.4
East Asia and Pacific	0.7
Europe and Central Asia	-2.9
Latin America and Caribbean	-2.4
Middle East and North Africa	-4.8
South Asia	0.3
Sub-Saharan Africa	-4.0

# Remittances could fall by more than 6 percent in a severe crisis scenario



Source: World Bank, Global Economic Prospects, 2012A.



## Developing countries should prepare for the possibility of a serious downturn

- Engage in contingency planning and prioritize spending programs in case financing freezes up
- Stress-test domestic banking sector
- Avoid trade disputes and allow commodity prices to decline with weaker activity
- Longer-term need to identify new drivers for growth

# Concluding remarks

- The global recovery is at a difficult juncture with significant downside risks.
- Slow growth in large middle-income countries and financial turmoil in Europe are generating headwinds.
- A sharp deterioration in conditions could imply a cycle as large as the 2008/09 crisis – potentially longer lasting because of reduced policy space.
- Developing countries activity will be vulnerable to varying degrees to:
  - A further decline in international capital flows;
  - Reduced exports; falling commodity prices or remittance levels;
  - A reduction in international aid



# Global Economic Prospects

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<http://globaloutlook.worldbank.org> (GEP interactive web-site)  
<http://prospects.worldbank.org> (high-frequency data)  
<http://blogs.worldbank.org/prospects/> (daily commentary)

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