Global Economic Prospects

Assuring growth over the medium term

Hans Timmer
DEC Prospects Group
January 2013
Outlook remains precarious

- Despite better financial conditions, stronger growth remains elusive in high-income countries.

- So far developing countries have weathered great recession relatively well, but they need to focus on productivity enhancing domestic policies if they are to regain pre-crisis growth rates.

- Risks have declined and have become more balanced, but they remain and a steady hand is required in order to rebuild macroeconomic buffers.
Financial market jitters have eased significantly

Credit default swap rates, basis points

Bond spreads have declined

Sovereign bond spreads, basis points over US Treasuries
After declining in May/June, capital flows to developing countries have rebounded

Gross international capital flows to developing countries, billions USD

Source: World Bank, Dealogic.
Capital flows expected to strengthen but remain stable as % of GDP

Weakness in high-income countries is sapping growth elsewhere

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

Source: World Bank, Datasteam.
Projections have been downgraded in both 2012 and 2013.

Modest growth expected in Europe & Central Asia

Annual GDP growth, %

- Europe & Central Asia
- Turkey
Prospects are vulnerable to a range of external risks

Change in level of real GDP from baseline, percent

-0.2 -0.4 -0.6 -0.8 -1 -1.4

Prolonged fiscal paralysis

Change in level of real GDP from baseline, percent

-0.2 -0.4 -0.6 -0.8 -1 -1.2 -1.4

Contained Euro crisis

Abrupt decline in Chinese investment

Many developing countries need to continue growing fiscal space

2007
- 25% had a deficit greater than 3% of GDP
- 49% were in balance or running a surplus

2012
- 52% have a deficit in excess of 3% of GDP
- 23% are in balance or running a surplus

Concluding remarks

• May-June Euro Area pessimism has had larger than expected real-side effects, reducing growth prospects

• Financial conditions have improved and risks are more balanced

• 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
Global Economic Prospects
Assuring growth over the medium term

Hans Timmer
DEC Prospects Group
January 2013