Appendix
Regional Economic Prospects

East Asia and the Pacific

Recent developments

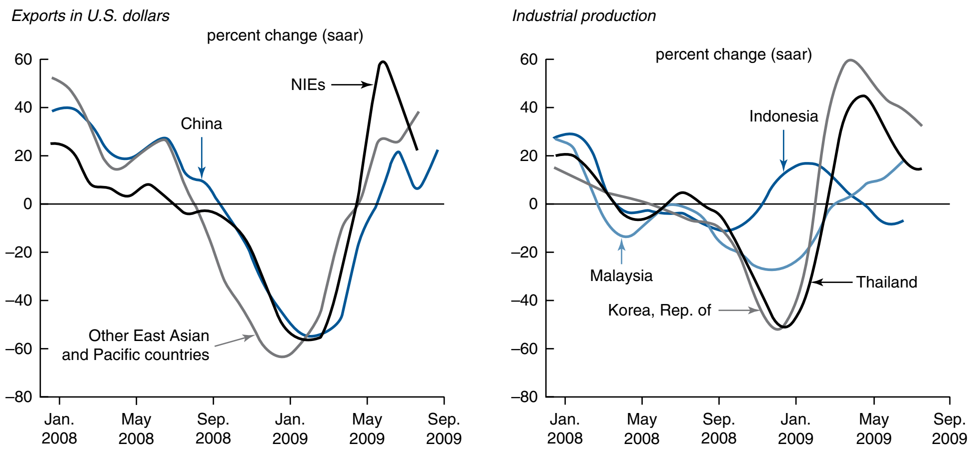
As chapter 1 outlined, economies in the East Asia and Pacific region were particularly hard hit by the collapse of global business investment in the fall of 2008. The crisis curtailed financing flows to private firms worldwide, and together with depressed growth expectations, investment plans were marked down sharply. Household wealth, incomes, and demand for consumer durables were affected just as adversely. Outside of China, investment in the East Asia region was hit exceptionally hard. Local equity markets fell by almost 60 percent from January to October 2008; currencies tumbled between 5 and 25 percent against the dollar through the first quarter of 2009. And bond spreads increased by 515 basis points from January 2007 to reach 645 points by November 2008.[1]

As one of the key producing regions for durable and capital goods—highly integrated into global production networks—East Asian economies experienced dramatic declines in trade and production between September 2008 and March 2009. Dollar-based exports dropped 25 percent, while production (excluding China) plummeted 15–30 percent over the period. High-income economies within the region—including Japan; Republic of Korea; Singapore; Taiwan, China; and Hong Kong, China—were equally or more severely hit by these developments (figure A1).[2]

East Asia's rebound from the global downturn over the course of 2009 was quicker and more robust than in other parts of the world. China led the global recovery in industrial production, with contributions to growth from the high-income OECD countries emerging only later in the year. The recovery in East Asia was underpinned by domestic stimulus programs put in place by a number of economies, most notably by China; a shift from large inventory reduction to restocking by firms; and a return to positive growth in exports and production by the second quarter of 2009.[3] Against this background, GDP losses for East Asia were limited in 2009, with current growth estimates placed at 6.8 percent, down from 8 percent in 2008. China grew by an estimated 8.4 percent during the year, while performance in Indonesia (4.5 percent) and Vietnam (5.5 percent) was strong. Output contractions were limited to Cambodia (−2.2 percent), Malaysia (−2.3 percent), Thailand (−2.7 percent), and several Pacific islands. However, when China is excluded from the 2009 growth estimates, GDP numbers for the remainder of the region offer a better reflection of the crisis, with an advance of just 1.3 percent following 4.8 percent growth in 2008 (table A1).

As the global downturn took hold across East Asia in late 2008, many developing countries, together with major developed economies, began to implement large-scale fiscal and monetary stimulus measures to support domestic demand and to counter the drag from the

Figure A1 East Asian exports and production hard hit by downturn in capital goods demand



Sources: Haver Analytics and World Bank.

Table A1 East Asia and Pacific forecast summary
(annual percent change unless indicated otherwise)

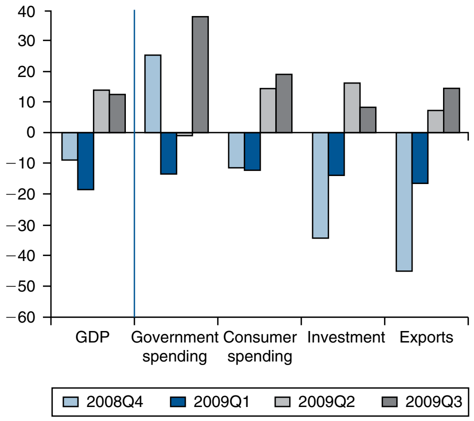
	1995–2005[a]	2006	2007	2008	2009[e]	2010[f]	2011[f]
GDP at market prices (2005 US$)[b]	7.4	10.1	11.4	8.0	6.8	8.1	8.2
GDP per capita (units in US$)	6.3	9.2	10.5	7.2	6.0	7.2	7.3
PPP GDP[c]	7.3	10.1	11.3	8.0	6.8	8.0	8.2
Private consumption	5.7	8.1	8.7	6.7	5.9	7.3	7.5
Public consumption	8.1	8.2	9.8	7.8	11.1	8.4	7.3
Fixed investment	8.1	12.4	8.7	5.3	14.3	9.3	9.3
Exports, GNFS[d]	12.5	18.8	15.4	7.4	−13.5	6.6	8.8
Imports, GNFS[d]	9.7	12.7	11.0	4.9	−12.1	6.2	8.5
Net exports, contribution to growth	0.7	3.4	3.0	1.7	−2.0	0.7	0.8
Current account balance/GDP (%)	2.2	8.4	9.9	8.8	7.1	6.5	6.4
GDP deflator (median, LCU)	5.9	4.4	3.5	4.3	3.2	3.3	3.4
Fiscal balance/GDP (%)	−1.8	−0.7	0.0	−0.6	−3.3	−3.7	−3.1
Memo items: GDP							
East Asia excluding China	3.5	5.7	6.2	4.8	1.3	4.7	5.1
China	9.1	11.6	13.0	9.0	8.4	9.0	9.0
Indonesia	2.7	5.5	6.3	6.1	4.5	5.6	5.8
Thailand	2.7	5.3	4.9	2.6	−2.7	3.5	4.0

Source: World Bank.
a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services (GNFS).
e. Estimate.
f. Forecast.

collapse of export markets. The Chinese stimulus package is of special note; it entails some $575 billion to be spread proportionately over time from late 2008 through 2010, financed in part by a surge in credit expansion, with total new lending equivalent to 30 percent of GDP in 2009. Elsewhere in the region, government deficits (as a share of GDP) increased

Figure A2 Malaysia: A profile of recovery

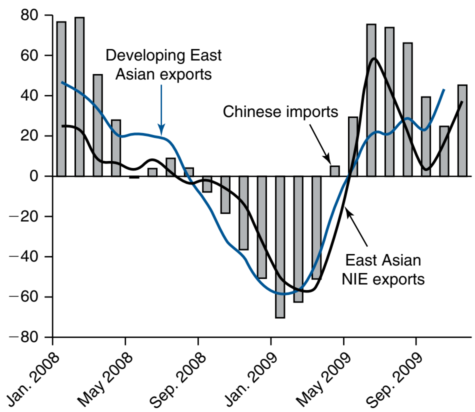
Percentage change (saar) in real GDP and components



Sources: Haver Analytics and World Bank.

Figure A3 China's stimulus program supports exports from regional partners

Export values, US$, seasonally adjusted annual percentage change



Sources: Haver Analytics and World Bank.

significantly, reflecting both automatic stabilizers and countercyclical measures.

Over the course of 2009, East Asia's stimulus measures began to bear fruit, supporting incomes and helping to boost household spending, underpinning infrastructure development though public investment outlays, and providing support for the financial sector (figure A2 shows the recovery for Malaysia). China's stimulus had regionwide impacts, by boosting demand for East Asian exports. China's infrastructure outlays also underpinned demand for regional commodities and raw materials used in construction, from countries such as Indonesia, Papua New Guinea, and Lao People's Democratic Republic (as well as Australia). As replenishment of inventories got under way, firms in China began to restock parts and components from regional suppliers, notably electronic goods from countries such as Malaysia and Thailand (as well as NIEs). Also, rising Chinese consumer expenditure stimulated demand for a variety of consumer durable goods across the region (figure A3).

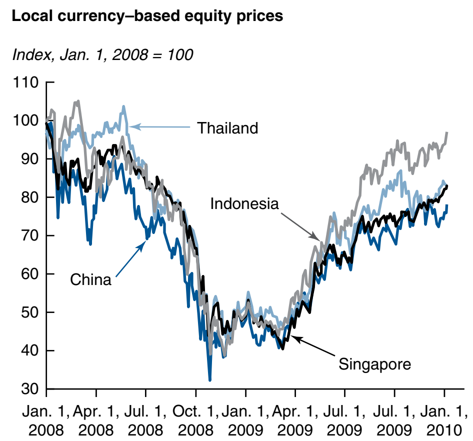
In Malaysia, fixed investment declined by 35 percent during the fourth quarter of 2008 (saar) as an indirect result of the surge in international capital costs, combined (more importantly) with existing excess capacity, and expectations among Malaysian business that conditions in the main developed markets for electronics and other equipment would be in decline for an extended period (see figure A2). Exports fell abruptly, by 45 percent (saar), as the synchronous global shutdown of demand for capital and related goods took hold. GDP declined by a sharp 9.1 percent during the quarter. However, fiscal stimulus measures were implemented that helped to shore up confidence and provide direct support to the construction sector. The overall impact on the economy during the first two quarters of 2009 was limited, as decision and implementation lags affected the speed and rate of disbursement. While the steep decline in exports deeply affected the manufacturing sector, the impact on the economy as a whole was mitigated by the compression in processing imports.

Still, GDP declined by 18.3 percent (saar) in the first quarter of 2009, as exports continued in sharp decline, even though the falloff in investment was mitigated by a second fiscal measure (RM15 billion, or 2.3 percent of GDP). By the second and third quarters, Malaysia had emerged to recovery, after additional government spending and effects of earlier stimulus helped to turn around investment and consumer spending, while exports rebounded sharply (in part because of Chinese demand). The annualized pace of GDP growth rebounded strongly to 14.0 and 12.2 percent, respectively, in the second and third quarters.

Capital flows are returning to East Asia, with a notable pickup during the fall of 2009. East Asian bond and initial public offerings (IPO) increased as conditions in international markets became more hospitable, with spreads much reduced from crisis levels and underlying demand conditions firming. Some $12.8 billion in bonds were issued in the year to October, representing a doubling of issuance from the like period of 2008. IPO issuance increased to $38 billion, largely from China, but also from Malaysia and Indonesia, up 65 percent from the same period in 2008. But cross-border bank lending disappointed, largely reflecting risk aversion on the part of international commercial banks, where deleveraging continues to be the order of the day. Syndicated loans to East Asian entities amounted to $12.8 billion during the year through October, down substantially from the $37 billion raised in the same period of 2008. Total gross flows to developing East Asia amounted to $63 billion over the year through October—a 4.5 percent decline from the $66 billion accrued in the same period of 2008.

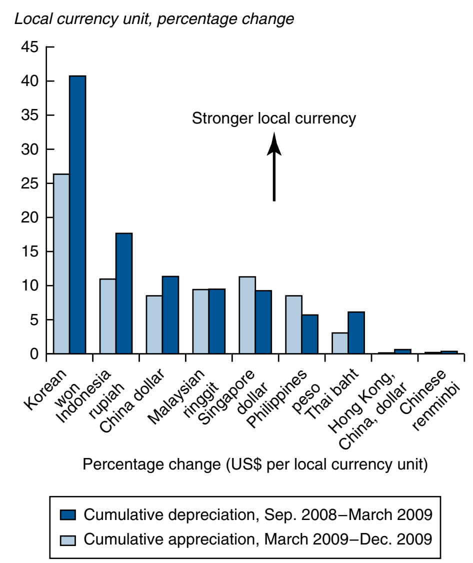
Local financial market developments have provided further impetus to the recovery. A return of capital from the United States, where funds had earlier fled to safe-haven securities has underpinned a rapid rebound in regional equity markets following steep declines in 2008 and early 2009 (figure A4). Bourses in Indonesia and Thailand are close to regaining levels that prevailed in January 2008, while Indonesia's market has more than doubled from October 2008 troughs, as have equity markets in Thailand and Singapore. The rebound in equity markets and falling interest rate spreads have helped reduce the cost of capital for firms, restore a significant portion of earlier wealth losses, and lift overall confidence. The return of foreign capital also helped to reverse some of the earlier sharp declines in local currencies (figure A5). Under

Figure A4 Equity markets have nearly recovered from earlier declines



Sources: Morgan-Stanley through Thomson/Datastream.

Figure A5 East Asian currencies continue to recoup against U.S. dollar



Source: Thomson/Datastream.

these circumstances the potential formation of a "new" financial market bubble in the region is an increasing cause for concern.

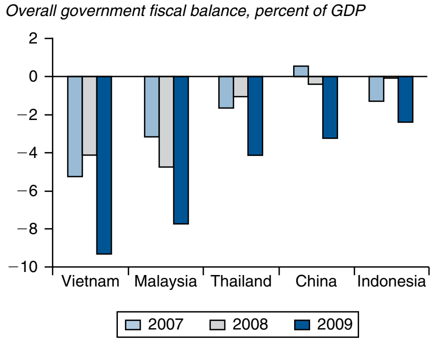
Inflation has eased broadly in East Asia, given the slowing in activity and lower food and fuel prices, although conditions vary widely across countries. Increases in the consumer price index for 2009 range between highs of 20 and 12 percent in Cambodia and Vietnam, to 3 and zero percent (or slightly negative) in China, the Philippines, and Thailand.

In step with the cyclical downturn (a sharp drop in government revenues) and with large discretionary stimulus packages, fiscal deficits have widened across both middle- and low-income countries in the region—this even as fiscal space for the latter countries such as Cambodia and Lao PDR appears limited. The World Bank's East Asia and Pacific Department in a recent "East Asia Update" (November 2009) estimates that fiscal stimulus in the regions' middle-income countries amounted to 2.1 percent of GDP in 2009, up from an earlier estimate of 1.7 percent. China's fiscal shortfall is projected to have reached a record 3.3 percent of GDP during 2009, but a number of countries exceeded this deficit when the deficit is expressed as a proportion of GDP (figure A6). Examples include Vietnam at 9.4 percent of GDP, Malaysia at 7.8 percent, Thailand (4.2 percent) and the Philippines (3.8 percent). The unwinding of these fiscal support measures will play an important role in shaping the economic recovery over the forecast period.

Although trade conditions have improved over the course of 2009 as Chinese imports recovered, regional export volumes (goods and services) dropped 13.5 percent during the year, while imports fell 12.1 percent, leading to a narrowing of the aggregate current account position from a surplus of 8.8 percent of GDP in 2008 to 7.1 percent for 2009. This was aided in particular by a sharp decline in China's current account surplus, which fell from 9.8 percent of GDP in 2008 to 6.4 percent of GDP during the first six months of 2009.

Figure A6 Stimulus measures yield widening fiscal shortfalls across the region

Overall government fiscal balance, percent of GDP



Sources: National authorities and Bank staff projections.

Medium-term outlook

Momentum underlying economic activity in the region should be sustained, as a gradual decline in the effects of domestic stimulus measures is countered over the course of 2010 by the return to growth (albeit moderate) in East Asia's main OECD export markets. But contrasted with earlier episodes of global downturns (for example the 2001–03 "dot-com" bust), the rebound and recovery path of GDP in East Asia is expected to be more muted, reflecting weaker global demand and less buoyant financial conditions. Continued strong advances in China's domestic demand, and associated imports, should play an important role in underpinning a second export-led revival phase for the remainder of the region. At the same time, world trade growth is anticipated to revive from the estimated 14.4 percent decline in 2009 to a gain of 6.2 percent by 2011.

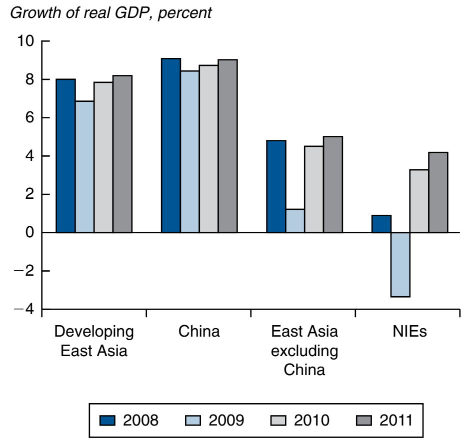
Against this background, East Asian export volumes are forecast to advance by 6.6 percent in 2010 and 8.8 percent in 2011, picking up additional market share. The regional current account surplus position is anticipated to moderate from 7.1 percent of GDP in 2009 to

6.4 percent by 2011 (see table A1), reflecting an increased contribution to overall growth from domestic demand.

The recovery in business investment is expected to be gradual (by historic standards), as excess capacity will first have to be worked down. Growth of public sector outlays should ease from 2009 peaks of 11.1 percent to 7.3 percent by 2011. Recognizing that prospects for an export-led recovery are less favorable than in the past, policy is likely to shift further toward fostering growth in household demand, helping, in turn, to offset the profile of weaker government spending.

On balance, regional GDP growth is expected to increase to 8.2 percent by 2011 from the 6.8 percent registered in 2009. This is a modest recovery by historic standards, but, at the end of the first year of financial crisis, the regional downturn has been equally moderate, compared, for example, with the East Asian crisis of the late 1990s. Domestic demand will be the key growth driver, with more modest net trade contributions. China will lead the regional advance with GDP growth of 9 percent by 2010 (figure A7; table A2). Growth excluding China is anticipated to pick up to 5.1 percent by 2011, from an estimated 1.3 percent in 2009. In particular, shifts from negative to positive growth in Malaysia and Thailand and a solid acceleration in activity in Indonesia and Vietnam should underpin the turnaround.

Figure A7 East Asia will enjoy a moderate rebound in 2010–11



Source: World Bank.

Risks

Downside risks facing the region have diminished owing to improvements in the global financial environment and positive growth developments within East Asia and the Pacific. The possibility of a "double-dip" global recession remains, particularly as mature economies will be unwinding both monetary and fiscal stimulus. Also within the region, the Chinese stimulus program, and in particular the surge in liquidity over the course of 2009, raises uncertainties regarding the future growth path. Prospects for low-income countries (Cambodia, Lao PDR, and Vietnam) will depend heavily on improvements in the international environment for bank lending. Recent developments in Dubai and credit rating downgrades for Greece are indicative of continued uncertainties, which, should they become widespread, may have serious implications for bank lending and growth around the globe, particularly in developing countries. Consequently, banking flows may remain sluggish for an extended period of time as commercial banks remain cautious and rebuild balance sheets. Furthermore, for middle-income countries currently benefiting from the return of large-scale inflows, driven by international investors' search for yields above those available in mature markets, there is a risk of yet another round of "asset bubbles," this time in emerging markets, the bursting of which could carry adverse effects over the short to medium term.

Table A2 East Asia and Pacific country forecasts
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Cambodia							
GDP at market prices (2005 US$)[b]	8.3	10.8	10.2	6.7	−2.2	4.2	6.0
Current account balance/GDP (%)	−4.4	−3.6	−6.3	−10.2	−3.5	−4.0	−4.0
China							
GDP at market prices (2005 US$)[b]	9.1	11.6	13.0	9.0	8.4	9.0	9.0
Current account balance/GDP (%)	2.6	9.7	11.0	9.8	5.6	4.1	4.0
Fiji							
GDP at market prices (2005 US$)[b]	2.3	3.6	−6.6	0.2	−0.3	1.8	2.2
Current account balance/GDP (%)	−4.8	−22.5	−14.4	−19.6	−25.4	−24.8	−27.7
Indonesia							
GDP at market prices (2005 US$)[b]	2.7	5.5	6.3	6.1	4.5	5.6	5.8
Current account balance/GDP (%)	1.5	3.0	2.4	0.1	1.4	0.5	0.3
Lao PDR							
GDP at market prices (2005 US$)[b]	6.2	8.4	7.6	7.3	6.4	7.5	7.3
Current account balance/GDP (%)	−9.8	1.4	2.5	−12.5	−8.1	−6.0	−7.0
Malaysia							
GDP at market prices (2005 US$)[b]	4.8	5.8	6.2	4.6	−2.3	4.1	4.8
Current account balance/GDP (%)	6.5	16.3	15.5	17.5	15.3	15.5	15.0
Papua New Guinea							
GDP at market prices (2005 US$)[b]	0.7	2.6	6.5	6.6	3.9	3.7	3.3
Current account balance/GDP (%)	3.0	2.2	1.8	2.8	−6.7	−4.7	−4.3
Philippines							
GDP at market prices (2005 US$)[b]	4.2	5.3	7.1	3.8	1.0	3.5	3.8
Current account balance/GDP (%)	−1.4	4.5	4.9	2.5	3.4	2.8	2.3
Thailand							
GDP at market prices (2005 US$)[b]	2.7	5.3	4.9	2.6	−2.7	3.5	4.0
Current account balance/GDP (%)	1.9	1.1	5.7	−0.1	5.5	3.5	3.0
Vanuatu							
GDP at market prices (2005 US$)[b]	1.5	7.4	6.8	6.6	4.2	4.5	5.5
Current account balance/GDP (%)	−9.8	−4.1	−5.3	−5.9	−4.7	−4.4	−3.4
Vietnam							
GDP at market prices (2005 US$)[b]	7.2	8.2	8.5	6.2	5.5	6.5	7.0
Current account balance/GDP (%)	−2.5	−0.3	−9.8	−11.9	−5.1	−4.5	−4.4

Source: World Bank.

Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

American Samoa; Micronesia, Fed. Sts.; Kiribati; Marshall Islands; Myanmar; Mongolia; N. Mariana Islands; Palau; Korea, Dem. Rep.; Solomon Islands; Timor-Leste; and Tonga are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. Estimate.
d. Forecast.

Europe and Central Asia

Recent developments

Among developing regions, the Europe and Central Asia region[4] has been the most negatively affected by the global financial crisis, albeit with large variations across the region in the degree of impact. Aggregate GDP is estimated to have contracted 6.2 percent in 2009, nearly twice as much as the 3.3 percent estimated decline in high-income countries, and sharply more negative than the (2.2 percent) contraction for the remaining developing countries excluding China and India (table A3).

Table A3 Europe and Central Asia forecast summary
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[e]	2010[f]	2011[f]
GDP at market prices (2005 US$)[b]	4.1	7.6	7.1	4.2	−6.2	2.7	3.6
GDP per capita (units in US$)	4.0	7.5	7.1	4.2	−6.2	2.6	3.5
PPP GDP[c]	4.0	7.7	7.4	4.5	−6.5	2.7	3.6
Private consumption	4.8	7.5	9.2	6.4	−4.6	2.2	3.3
Public consumption	2.0	6.0	5.2	4.1	2.3	2.1	2.6
Fixed investment	4.7	16.5	14.2	8.7	−16.5	4.1	4.7
Exports, GNFS[d]	7.9	8.1	7.1	3.9	−13.2	4.3	6.6
Imports, GNFS[d]	8.7	13.9	17.9	9.0	−12.9	3.7	6.0
Net exports, contribution to growth	0.1	−1.5	−3.4	−1.9	0.3	0.1	0.0
Current account balance/GDP (%)	0.9	1.1	−0.6	−0.3	0.5	0.4	−0.2
GDP deflator (median, LCU)	18.8	9.3	7.7	9.5	3.5	6.7	4.0
Fiscal balance/GDP (%)	−5.5	3.0	2.4	0.7	−6.2	−4.5	−3.4
Memo items: GDP							
Transition countries	4.0	6.9	5.7	3.0	−4.1	2.2	3.8
Central and Eastern Europe	3.8	6.8	6.8	5.0	−2.5	1.3	3.5
Commonwealth of Independent States	4.1	8.3	8.4	5.4	−8.1	3.1	3.3
Russian Federation	3.9	7.7	8.1	5.6	−8.7	3.2	3.0
Turkey	4.3	6.9	4.7	0.9	−5.8	3.3	4.2
Poland	4.3	6.2	6.7	4.9	1.6	2.2	3.4

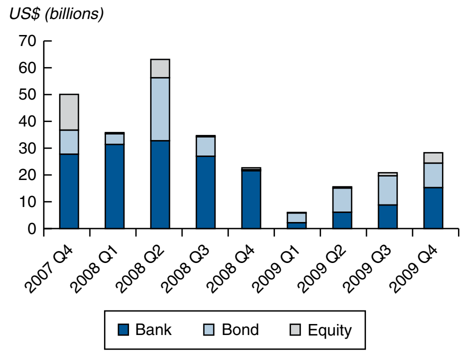
Source: World Bank.
a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and nonfactor services.
e. Estimate.
f. Forecast.

The severity of the impact of the crisis in the region reflects significant preexisting vulnerabilities in many countries. Many economies were heavily reliant on foreign finance (a result of excessive credit expansion that had been enabled by foreign banks, large current account deficits, elevated external debt levels, and considerable currency mismatches in both corporate and household debt). As a result, this region was particularly vulnerable to the reversal in capital flows that accompanied the initial phases of the financial crisis.

Sharply reduced external demand for exports, a halving of foreign direct investment inflows, and falling remittances exacerbated the collapse in investor confidence and credit tightening, forcing a sharp contraction of 4.6 percent in regional private consumption, and a decline in gross fixed investment of 16.5 percent in 2009—down from expansions of 6.4 percent and 8.7 percent, respectively, in 2008. The impact of the crisis was most negative in countries where households and corporations held large foreign currency obligations (Armenia, Bulgaria, Croatia, Latvia, Lithuania, Romania, Turkey, and Ukraine), and where pre-crisis growth relied heavily on foreign capital inflows (Bulgaria, Georgia, Latvia, Lithuania, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, and Romania are among the largest, with current account deficits equivalent to 10 percent or more of GDP in 2008). At the same time, petroleum exporters (Kazakhstan, the Russian Federation) were also hit hard by the plunge in international commodity prices.

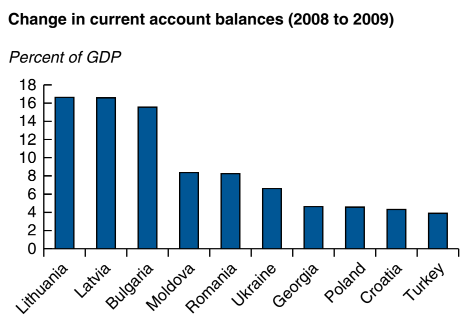
Sharp declines in international financing have forced large adjustments in domestic demand. Gross capital inflows to the region fell 54 percent during 2009, versus the 19 percent increase posted by other developing countries (figure A8). This decline in inflows primarily reflects the drying up of syndicated bank lending, which represented 60 percent of total flows to the region in 2007, before the crisis. Partly

Figure A8 Gross capital flows to Europe and Central Asia picked up in mid-2009



Sources: Dealogic: Bondware, Loanware and World Bank.

Figure A9 Many European and Central Asian economies post sharp current account adjustments



Source: World Bank.

reflecting substantial support from international financial institutions, bond and equity flows to countries in the region began recovering in the third quarter of 2009, although bank lending remains very weak.

Reflecting the cut in capital inflows (and the associated cuts in domestic demand), regional current account deficits have narrowed, with Bulgaria, Latvia, and Lithuania posting double-digit improvements in current account positions measured as a share of GDP (figure A9). As a result of the cuts in spending, the region's ex post financing needs declined, while at the same time external assistance and moral suasion helped prevent access to external finance from declining as sharply as had been initially expected.

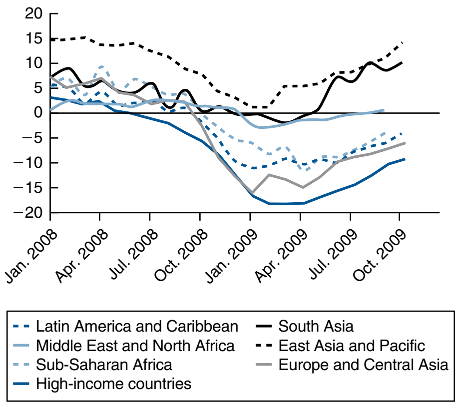
Reflecting these developments, financing conditions have improved. Spreads on sovereign debt, which rose sharply in the third quarter of 2008 and into the first quarter of 2009, have since narrowed. In the case of Ukraine, for example, spreads over U.S. Treasuries jumped by as much as 3,100–3,660 basis points in March 2009 but have since reversed to a spread of 768 points, as of early January. These improved market conditions have also been supported by an easing of inflationary pressures, which has enabled monetary policies to focus on cushioning the downturn. Many governments also implemented countercyclical fiscal policies to support domestic demand. Reflecting these measures, as well as the depth of the recession and much weaker commodity prices, government deficits have increased by about 7 percent of GDP, moving from a surplus of 0.7 percent in 2008 to a 6.2 percent of GDP deficit in 2009.

Although economic activity in Europe and Central Asia remains depressed, the pace of contraction is moderating. Thus, although industrial production in the region began expanding at a 4.8 percent annualized pace in the second quarter of 2009, output in October 2009 remained 6.0 percent below its pre-crisis level in October 2008 (figure A10).

In Russia, the 2009 recession is estimated to have been much sharper than was the one following the 1998 crisis. During the 2009 recession, GDP is estimated to have fallen 8.7 percent, compared with 5.3 percent in the 1998 crisis, and represents the largest decline in growth since the breakup of the Soviet Union.[5] The contraction reflects both external factors (import demand among Russia's main trading partners decreased by an estimated 15 percent in 2009) and domestic factors (an 18 percent decline in investment and a 4.7 percent contraction in private consumption). Reflecting widespread economic slack, inflation

Figure A10 Pace of contraction in industrial production moderates in Europe and Central Asia

Annual percentage change



Sources: IMF and World Bank.

has fallen below the 10 percent level, and the Russian central bank has repeatedly lowered its refinancing rate, so that it is nearly zero in real terms. The government has also put in place a large fiscal stimulus program, and as a result the fiscal budget is projected to move from a surplus of 4.3 percent of GDP in 2008 to a deficit equivalent to 7 percent of GDP in 2009.

Turkey's economy is projected to have contracted by 5.8 percent in 2009, nearly on par with the 5.7 percent decline posted during the 2001 economic crisis and its largest contraction on record since 1969. The economy has been hit by an investor pullback and sharp decline in demand from export markets, notably from western and eastern Europe, where economies have posted some of the sharpest slowdowns globally. The pace of contraction in growth hit the trough in the first quarter of 2009, at 14.7 percent compared with the previous year, but has eased significantly to a 3.3 percent rate of contraction in the third quarter—a relatively rapid turnaround. Unemployment has surged, contributing to the marked decline in private consumption and fixed investment. With import volumes contracting even faster than export volumes, the current account deficit improved to 1.9 percent of GDP in 2009 from an estimated 5.8 percent of GDP in 2008. To support domestic demand, the Central Bank of Turkey has more than halved its key policy interest rate, cutting it by a cumulative 1,025 basis points from 16.75 percent in October 2008 to 6.5 percent as of January 2010.

Economic conditions remained difficult over the first three quarters of 2009 for the five new members of the European Union that are developing countries, although the pace of contraction in real output moderated from 12.6 percent year-over-year in the first quarter to 4.4 in the third quarter. Partly in response to strengthening demand in high-income Europe, industrial production grew at a 6.5 percent annualized rate in the three months ending in October.

Among the five European Union accession members that are developing countries,[6] Poland has best weathered the economic storm and is one of a handful of the 24 developing countries in Europe and Central Asia not to witness a contraction in output. Poland's good performance reflects comparatively resilient service and agricultural sectors, compared with industrial output, which fell by 9 percent in the first half of 2009 over the first half of 2008. Exports were also relatively resilient, and as a result, net exports contributed positively to growth.

Outside of Poland, the other four developing European Union accession economies posted marked contractions in output during 2009, given the bursting of the credit boom and contraction in demand from Western Europe. The economies of Latvia and Lithuania were under significant stress before the onset of the acute phase of the crisis—a situation that was exacerbated by heightened international risk aversion (and concerns about the sustainability of their pegs to the euro given huge accumulated imbalances). GDP in both countries is estimated to have declined by well over 10 percent in 2009. All four countries entered the crisis with very large current account deficits. While the collapse in domestic demand has improved their external positions, substantial external debt obligations remain, further undermining the business and investment environment.

Among the Commonwealth of Independent States, Ukraine is projected to post the deepest contraction in GDP of 15 percent in 2009—indeed one of the sharpest contractions in the world. The plunge in metal prices in 2008 took a toll on the economy, where nonprecious metals represent over 40 percent of goods exports. Further, political strains in the lead-up to the January 2010 presidential elections have delayed the government from meeting the full set of IMF policy measures (such as raising household gas prices) under its $11 billion November 2008 stand-by facility. Thus, while the government has made some progress in meeting its commitments to the IMF, it appears that the release of the latest $3.7 billion tranche will be postponed until after the elections. This uncertainty—along with ongoing political instability—has undermined confidence and contributed to the depreciation and heightened volatility in the hryvnya, which depreciated by 50 percent against the U.S. dollar in 2009.

Economic growth in the five Central Asian countries has been relatively more robust than in the rest of the region.[7] However, this aggregate picture masks wide differences in economic performances at the country level. Turkmenistan and Uzbekistan—among the least open economies in the Commonwealth of Independent States and exporters of natural gas—were only modestly affected by the global crisis. In addition, these economies benefited from the implementation of fiscal stimulus measures and are estimated to have posted the strongest GDP growth outcomes in the Europe and Central Asia region, with 8 percent and 5.5 percent, respectively, in 2009. Growth in Tajikistan and Kyrgyz Republic was buoyed by an upswing in agricultural output stemming from good harvests. In contrast, GDP in Kazakhstan is estimated to have contracted, led by the negative fiscal effects from the collapse in oil prices.

Among the three Caucasus countries,[8] the global crisis has had a particularly pronounced impact on Armenia and to a lesser extent Georgia—with economic conditions in the latter also negatively affected by the conflict with Russia in 2008. In most of the other Central Asian and Caucasus countries, weaker economic conditions—notably a sharp reduction in trade demand from Russia, lower oil and commodity prices, and significant reductions in investment and remittance flows—have been partially offset by sustained economic assistance from Russia.

Overall, the number of poor or vulnerable people in the Europe and Central Asia region is estimated to have increased by some 10 million in 2009—compared with what might have been had the crisis not arisen (based on a $5-a-day poverty line). The contraction in economic activity has led to a 2.5 percentage point jump in the median unemployment rate of the 10 countries reporting data (compared with August 2008). Unemployment is expected to remain high for some time, curtailing household expenditures and contributing to higher poverty rates. Partly as a result of higher unemployment in destination countries (notably the European Union and Russia) for migrants, remittances are projected to decline by 15 percent in 2009—placing additional pressure on poor households. The macroeconomic impact from the decline in remittances will be largest in countries such as Albania, Armenia, Moldova, and Tajikistan, where remittances represent between 9 percent of GDP (Armenia) and as much as 50 percent of GDP (Tajikistan). In Tajikistan an estimated 30 percent contraction in remittances may cause an additional 5 percent of the population to move into poverty.[9]

Medium-term outlook

The recovery in economic growth in the region is expected to be slow and marked by a rise in poverty. GDP is projected to rise a modest 2.7 percent and 3.6 percent in 2010 and 2011, respectively. This growth path contrasts sharply with the average growth rate for the region of 7 percent from 2003 through 2007, and with the aggregate growth of 5.6 percent and 6.1 percent projected for other developing countries in 2010 and 2011, respectively. While resurgent demand in parts of Europe and Asia—combined with stable and/or modestly rising commodity prices—should support a turnaround in the region's exports, the projected weak recovery for developed Europe will result in relatively muted overall export growth. Similarly, foreign direct investment—which correlates strongly with trade activity—and credit inflows are expected to remain significantly lower than the levels observed before the crisis.

Given the region's overleveraged private sector, weakness in the banking sector, and household indebtedness, the recovery in domestic demand is expected to be muted. Higher tax rates, cuts in public spending, higher unemployment, and lower wages will curb private consumption, which is projected to firm to 2.2 percent in 2010 and 3.3 percent in 2011—half the unsustainable 8.4 percent pace recorded in 2006–07. Excess capacity and crowding-out from increased government borrowing will constrain investment, which is projected to grow by 4.1 percent in 2010 and by 4.7 percent in 2011—well below the double-digit growth rates recorded in the pre-crisis years.

Because of weak domestic demand and relatively tight financial conditions, the regional current account balance is forecast to remain close to zero over the forecast horizon. Across the region, however, there is greater variety (table A4). For instance, hydrocarbon exporting economies are expected to record rising surpluses or reductions in deficits resulting from somewhat higher petroleum prices and increased production (Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Uzbekistan). This improvement is projected to be offset by an expansion in the current account deficits—given a more rapid recovery in domestic demand leading to import volumes that exceed exports—in Moldova, Poland, Romania, Ukraine, and Turkey. For developing European countries with important automotive industries, sales are expected to decelerate as cash-for-clunkers programs in high-income European countries unwind.

Most countries have little room for further fiscal expansion. Indeed, government spending is projected to moderate as a result of planned structural fiscal consolidation. Combined with a projected firming of growth, which should support stronger revenues, fiscal consolidation is projected to progressively reduce the regional fiscal deficit from 6.2 percent of GDP in 2009 to 4.5 percent in 2010 and to 3.4 percent in 2011. However, the adjustment in an environment characterized by large negative output gaps and low growth will be difficult, particularly as the recovery in tax revenues may initially underperform, and that recovery will be exacerbated by additional pressure in the medium term emanating from extensive social assistance and pension regimes to support the aging population.

Monetary policy is expected to remain accommodative in most regional economies over much of the forecast horizon. Inflationary pressures should remain subdued, given large excess capacity, weak domestic demand, and a relatively open economy. In countries facing continued adjustment in demand to reduce external and internal imbalances, monetary policy is expected to remain relatively restrictive to help dampen activity. Monetary policy in countries with IMF programs will be guided by the framework defined by the ongoing Stand-by Arrangements. For those economies that are moving toward adoption of the euro, or whose currencies are pegged to the euro (Bosnia and Herzegovina, Bulgaria, Latvia, and Lithuania), monetary policy will be influenced by the European Central Bank's policy stance—which is expected to remain supportive of growth over the forecast horizon, but incrementally withdraw stimulus measures (including reversal of policy interest rate cuts) as demand conditions permit. A moderate uptick in median regional headline inflation is projected for 2010, as the downward pressure from the fall in oil prices in the second half of 2008 ceases and the recent uptick in commodity prices starts to work through the system. These pressures should be partly neutralized by the strong appreciation in currencies since March 2009 (particularly the Russian ruble and the Turkish lira), which will help to reduce import costs. However, core inflation will continue to be subject to disinflationary

Table A4 Europe and Central Asia country forecasts
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Albania							
GDP at market prices (2005 US$)[b]	5.4	5.0	6.0	6.5	2.2	3.0	4.5
Current account balance/GDP (%)	−5.5	−5.9	−8.6	−13.4	−12.8	−7.6	−6.7
Armenia							
GDP at market prices (2005 US$)[b]	8.6	13.2	13.8	6.8	−13.0	1.5	3.5
Current account balance/GDP (%)	−11.7	−1.8	−2.6	−4.9	−2.8	−0.6	3.7
Azerbaijan							
GDP at market prices (2005 US$)[b]	10.2	34.5	25.0	10.8	3.1	5.2	8.5
Current account balance/GDP (%)	−16.6	17.7	28.5	37.6	19.5	27.2	26.2
Belarus							
GDP at market prices (2005 US$)[b]	6.9	10.0	8.6	10.0	−1.0	2.0	4.0
Current account balance/GDP (%)	−3.2	−4.0	−6.8	−8.4	−9.2	−6.3	−5.1
Bulgaria							
GDP at market prices (2005 US$)[b]	2.2	6.7	6.2	6.0	−6.5	−2.0	3.6
Current account balance/GDP (%)	−3.6	−18.4	−25.2	−25.4	−9.8	−5.2	−4.9
Georgia							
GDP at market prices (2005 US$)[b]	6.6	9.4	12.3	2.2	−4.0	2.0	3.5
Current account balance/GDP (%)	−10.0	−16.2	−16.9	−22.8	−18.2	−15.8	−16.7
Kazakhstan							
GDP at market prices (2005 US$)[b]	6.4	10.7	8.2	3.0	−1.9	1.8	3.5
Current account balance/GDP (%)	−2.3	−2.5	−7.0	9.5	−1.3	2.2	1.4
Kyrgyz Republic							
GDP at market prices (2005 US$)[b]	4.7	3.1	8.5	7.6	0.6	2.4	2.8
Current account balance/GDP (%)	−10.2	−10.6	0.6	4.6	5.2	2.4	4.9
Latvia							
GDP at market prices (2005 US$)[b]	6.9	12.2	10.3	−4.6	−17.5	−3.9	2.4
Current account balance/GDP (%)	−7.5	−22.7	−21.5	−11.3	5.3	6.0	7.0
Lithuania							
GDP at market prices (2005 US$)[b]	6.0	7.8	8.9	3.0	−17.5	−3.5	2.2
Current account balance/GDP (%)	−7.9	−10.7	−14.6	−16.1	0.5	0.3	−0.5
Macedonia, FYR							
GDP at market prices (2005 US$)[b]	2.2	4.0	5.9	5.0	−1.3	1.9	3.8
Current account balance/GDP (%)	−5.9	−0.5	−4.4	−12.5	−9.4	−8.3	−7.3
Moldova							
GDP at market prices (2005 US$)[b]	2.3	4.8	3.0	7.2	−9.0	1.4	2.8
Current account balance/GDP (%)	−7.9	−11.3	−16.5	−17.4	−9.0	−10.2	−11.1
Poland							
GDP at market prices (2005 US$)[b]	4.3	6.2	6.7	4.9	1.6	2.2	3.4
Current account balance/GDP (%)	−3.3	−2.7	−4.7	−5.5	−0.9	−2.6	−2.5
Romania							
GDP at market prices (2005 US$)[b]	2.2	7.9	6.2	7.1	−7.8	0.5	4.2
Current account balance/GDP (%)	−5.8	−10.4	−13.5	−12.4	−4.2	−4.9	−5.5
Russian Federation							
GDP at market prices (2005 US$)[b]	3.9	7.7	8.1	5.6	−8.7	3.2	3.0
Current account balance/GDP (%)	7.6	9.6	5.9	6.2	3.1	2.5	1.7
Tajikistan							
GDP at market prices (2005 US$)[b]	4.6	7.0	7.8	7.9	2.0	5.0	5.0
Current account balance/GDP (%)	−4.5	−2.8	−8.6	−7.9	−10.9	−11.1	−10.2
Turkey							
GDP at market prices (2005 US$)[b]	4.3	6.9	4.7	0.9	−5.8	3.3	4.2
Current account balance/GDP (%)	−1.5	−6.0	−6.1	−5.8	−1.9	−2.5	−2.8
Ukraine							
GDP at market prices (2005 US$)[b]	2.7	7.3	7.9	2.1	−15.0	2.2	3.0
Current account balance/GDP (%)	2.7	−1.5	−3.7	−7.2	−0.6	0.1	−2.1
Uzbekistan							
GDP at market prices (2005 US$)[b]	4.6	7.3	9.5	9.0	5.5	6.5	6.5
Current account balance/GDP (%)	3.3	14.4	19.5	26.3	16.9	20.4	19.2

Source: World Bank.

Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Bosnia and Herzegovina, Turkmenistan, and Yugoslavia, FR (Serbia/Montenegro) are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. Estimate.
d. Forecast.

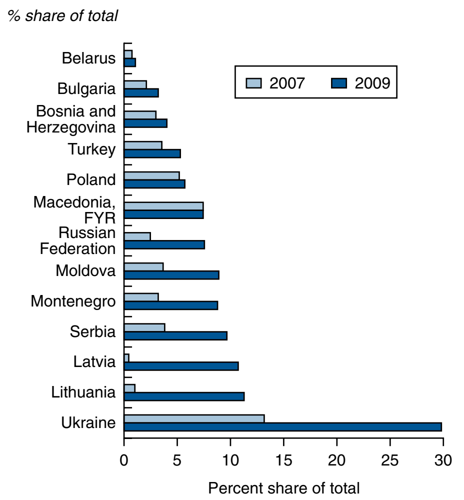
tendencies and headline inflation is expected to ease into 2011.

Risks

Despite the weak baseline forecasts for the region, risks remain tilted toward the downside, a result of financing constraints, the limited scope for supportive fiscal policy, large and rising banking sector vulnerabilities, and a lack of economic diversification. If the domestic recovery is slow and subdued with continued high interest rates stifling investment growth, potential output could suffer—leading to a rise in structural unemployment. A more protracted and deeper-than-projected recession could place further pressure on banking systems and on currencies in those countries with relatively inflexible exchange rate regimes. Balance-sheet consolidation by parent banks of foreign subsidiaries may manifest as further cuts in financial flows to the region in the months ahead. Rising domestic nonperforming loans and inadequate provisioning thereof pose significant risks to regional growth by restricting capital availability or, in a worst case scenario, leading to a freezing of banking systems (figure A11). This already somber scenario may be further darkened if it coincides with a global double-dip scenario, particularly if the region's major export markets (such as Germany) are severely affected.

A related and enduring risk for the region derives from the high level of household and corporate foreign-currency-denominated debt. Exposure to foreign exchange loans exceeds 50 percent of total lending in Hungary, Kazakhstan, Latvia, Lithuania, Romania, and Ukraine for both corporate and household borrowers. For households in particular, high levels of foreign exchange debt post significant risks, because unlike corporations, households are unlikely to have hedged against exchange rate movement.[10] For countries with relatively inflexible exchange rate regimes, outturns could find these regimes under assault, which in turn would limit the ability of regional central banks to conduct accommodative monetary policy.

Figure A11 Nonperforming loans rise across much of developing Europe and Central Asia



Sources: IMF Global Stability Report, October 2009; World Bank.

Note: Ranked by 2009 median for all reporting countries. Median was 2.7 percent for 2007; 4.4 percent for 2009.

Reinvigorating the reform programs that have stalled with the global crisis could help deliver stronger growth outturns than projected.[11] Regional governments have space to introduce institutional reforms to improve the regulatory framework and reduce red tape, tighten legal standards and further adopt international contract and property rights norms, and clamp down on corruption to improve competition and efficiency, among other reforms. Failure to reform the pension systems poses a long-term threat to growth, given high social security financing burdens. Successful implementation of these reforms may lower precautionary savings, with positive spin-offs for private consumption and growth. Higher private consumption in the region is indeed identified as a possible upside risk and incorporated in the global "more buoyant private-sector reaction" scenario (see chapter 1).

Finally, given the degree of dislocation engendered by the crisis, black market activity is expected to rise, posing challenges for policy makers and undermining greater fiscal consolidation. In the Commonwealth of Independent States, a lack of economic diversification outside of mineral-export-led activities is a common structural weakness and remains a key vulnerability.

Latin America and the Caribbean

Recent developments

Thanks to sound macroeconomic fundamentals in place before the onset of the crisis, the Latin America and Caribbean region has been able to weather the global financial crisis much better than previous external shocks. Nevertheless, economic activity in the region decelerated sharply in the aftermath of the crisis. For the 2009 calendar year, GDP is estimated to have fallen 2.6 percent, following an expansion of 3.9 percent in 2008 (table A5). This aggregate result masks a high degree of heterogeneity among countries in the region with respect to the timing and magnitude of the contraction in domestic output. Central American economies (including Mexico) were the worst affected, with output contracting a sharp 6.4 percent, while growth in the Caribbean economies stagnated.

In the immediate aftermath of the crisis, the region was hit by a sharp slowdown in private capital inflows, while increased uncertainty and credit tightening led to a marked contraction in private consumption and private investment. The capital outflows induced a sharp depreciation of currencies in the region, a decline in equity markets, and much higher borrowing costs. Nevertheless, the region managed to avoid falling into a balance of payments and/or financial crisis.

Private consumption contracted by nearly 2 percent, while fixed investment declined sharply by 13.6 percent, after growing at double-digit rates in the previous years. The region was also affected by the collapse in external demand for commodity exports, falling

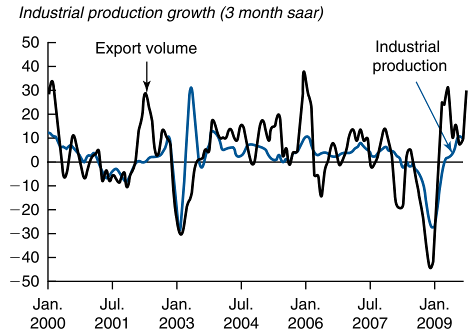
Table A5 Latin America and the Caribbean forecast summary
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[e]	2010[f]	2011[f]
GDP at market prices (2005 US$)[b]	2.9	5.4	5.5	3.9	−2.6	3.1	3.6
GDP per capita (units in US$)	1.4	4.0	4.1	2.6	−3.8	1.8	2.3
PPP GDP[c]	2.9	5.5	5.7	4.2	−2.3	3.0	3.5
Private consumption	3.4	6.1	3.5	4.2	−1.9	3.2	3.4
Public consumption	2.2	2.8	2.9	4.1	2.9	2.8	2.6
Fixed investment	3.3	13.4	20.7	11.7	−13.6	6.1	5.8
Exports, GNFS[d]	6.0	6.7	4.9	1.6	−11.2	7.8	5.0
Imports, GNFS[d]	6.2	14.0	11.9	9.2	−15.8	10.3	5.6
Net exports, contribution to growth	0.2	−1.5	−1.7	−2.0	1.6	−0.7	−0.3
Current account balance/GDP (%)	−1.6	1.4	0.4	−0.6	−0.9	−1.0	−1.0
GDP deflator (median, LCU)	7.1	7.2	5.4	8.4	7.2	3.0	4.0
Fiscal balance/GDP (%)	−3.5	−1.1	−1.1	−0.9	−3.3	−2.8	−2.5
Memo items: GDP							
Latin America excluding Argentina	3.0	5.2	5.2	3.7	−2.6	3.2	3.7
Central America	3.6	5.0	3.7	1.7	−6.4	3.3	3.6
Caribbean	4.2	9.0	6.1	3.6	−0.1	2.3	3.3
Brazil	2.4	4.0	5.7	5.1	0.1	3.6	3.9
Mexico	3.6	4.8	3.3	1.4	−7.1	3.5	3.6
Argentina	2.3	8.5	8.7	6.8	−2.2	2.3	2.4

Source: World Bank.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and nonfactor services.
e. Estimate.
f. Forecast.

Figure A12 Industrial production and trade volumes are gaining momentum in Latin America and the Caribbean



Source: World Bank.

commodity prices, lower remittance inflows, and declining tourism activity. The decline in domestic demand translated into a sharp 15.8 percent contraction in import volumes. As a result, and despite an 11.2 percent contraction in export volumes, net trade contributed 1.6 percent to growth. Reflecting these developments industrial activity fell rapidly, plunging at a 20 percent saar rate in the last quarter of 2008 and at 16 percent in the first quarter of 2009 (figure A12).

Countries that rely heavily on trade with the United States were especially hard hit by the crisis. Mexico's economy suffered the steepest contraction in the region (7.1 percent) and its worst economic performance in seven and a half decades, both because of its close economic ties with the United States in the sectors most affected by the crisis (construction, automotive, and electrical appliances) and because of the AH1N1 flu outbreak in the second quarter of 2009. The flu outbreak hit the tourism sector especially hard and is estimated to have reduced overall GDP by 0.5 percent. Furthermore Mexican firms suffered foreign derivatives losses in December 2008 after the global crisis drove the peso to record lows. Exports collapsed in the first half of the year, dragging output down 7 percentage points, while the collapse in import volumes boosted growth by close to 9 percentage points. In 2009 private consumption is estimated to have contracted by 6.9 percent, as the labor market was severely affected by the economic slowdown, with formal unemployment almost doubling to 6.4 percent by September, and as remittances fell 13.4 percent in the first nine months of the year.

In Argentina, the global recession in conjunction with policy-related uncertainty took a toll on investment and trade. Collapsing imports and declining fiscal revenues point to weak domestic demand and relatively poor output performance in the first half of 2009, while a severe drought added to the economy's weak performance.

In República Bolivariana de Venezuela, GDP is estimated to have declined 2.4 percent as a result of the collapse in external demand, weak private consumption, and lower investment spending. Manufacturing and retail sales plunged owing to weak domestic demand, and output fell at a 4.5 percent annualized pace in the third quarter of 2009. The oil sector is becoming increasingly dominant in the economy. Supply bottlenecks, a difficult business environment, and a lack of private investor confidence are undermining new investment, impairing much-needed economic diversification.

Strong retrenchment in private investment spending and a steep drawdown in stocks (close to 1 percent of GDP) caused Chile's output to decline 4.7 percent year-on-year in the second quarter of 2009. Marked weakness in domestic demand resulted in a sharp contraction in imports that exceeded the plunge in exports.

Peru's economic growth decelerated from a double-digit pace in the first half of 2008 to a standstill in the first half of 2009, with the sharp contraction in investment spending leading to a 5.4 percent contraction in domestic demand. Weak external demand resulted in a 6.3 percent decline in exports, although imports contracted more sharply on account of weak domestic demand.

Countries in Central America and the Caribbean were afflicted by the recession in the United States and major economic partners in the European Union, particularly Spain, which has resulted in a contraction in trade, tourism, FDI, and remittances. The Caribbean economies contracted only 0.1 percent in 2009, down from the 3.6 percent growth recorded in 2008. Jamaica recorded one of the sharpest declines in GDP in the subregion, attributable to its heavy dependence on the U.S. economy (remittances declined 17 percent in the first half of 2009), and to sharp cuts in mining production. In the Dominican Republic, economic performance deteriorated sharply, with output down by 0.1 percent after 5 percent growth in 2008, reflecting developments in the U.S. economy that affected remittances, FDI, and tourism. The improvement in the terms of trade, as the oil price declined, has had a positive impact on economic performance, however. Caribbean economies benefited somewhat from the AH1N1 outbreak in Mexico as visitors shifted holiday destinations from Mexico to the Caribbean islands, and consequently in the early stages of the crisis, tourism and offshore financial services proved somewhat resilient.

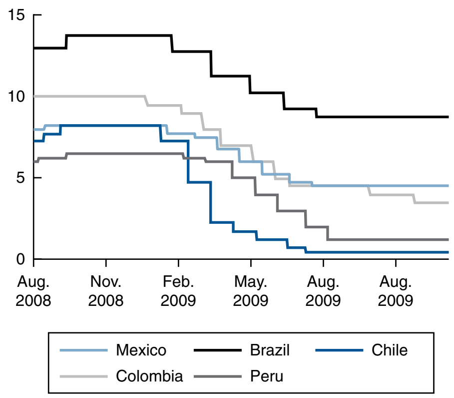
The Central American economies, excluding Mexico, contracted by 1.0 percent in 2009. External demand for their exports was hit by the global economic crisis, while remittances and tourism revenues also declined. Costa Rica's economy was afflicted by a 10.3 percent decline in U.S. tourist arrivals in the first nine months of 2009, but investment in the services sector continued and back-office services were resilient. The decline in tourist arrivals has prompted large price cuts for tourism packages as countries competed for a declining number of tourists. Remittances have also suffered because of weak labor markets in high-income countries. Compared with a year earlier, remittances to Guatemala and El Salvador were down by 9.5 and 10.3 percent, respectively, during the first half of 2009. In the first quarter of 2009, FDI inflows to Costa Rica fell by 19 percent (year-on-year), and by 41 percent to the Dominican Republic.

In response to the crisis, many governments in the region implemented countercyclical macroeconomic policies in an effort to support domestic demand, with government spending being the only demand component that registered growth during 2009. The aggressiveness of the fiscal policies implemented depended on the fiscal space available in each country and the extent to which they had access to financial markets. That said, the region entered the crisis much better prepared with respect to both the fiscal and external accounts. In Mexico, the declining oil revenues constrained the countercyclical response. In Chile, fiscal stimulus has helped limit the output contraction, and the government also provided credit support to SMEs through the development bank Banco Estado. The implementation of the fiscal stimulus in Peru was to some extent hindered as budget appropriation and distribution rules limited the increase in government spending, even as procurement rules have become more lax. Furthermore the government provided credit support to SMEs through the development bank Banco de la Nacion to help ease the impact of the credit crunch.

To support domestic demand at the time that external demand was collapsing, countries more integrated in the global economy lowered interest rates aggressively and allowed real exchange rates to depreciate (figure A13, figure A14). During the monetary-easing cycle, the central bank of Colombia cut rates by a cumulative 6.5 percentage points. Chile cut rates by 7.75 percentage points since the beginning of 2009, while Peru also eased monetary policy substantially. Brazil cut the SELIC[12] rate by an unprecedented 500 basis points to 8.75 percent.

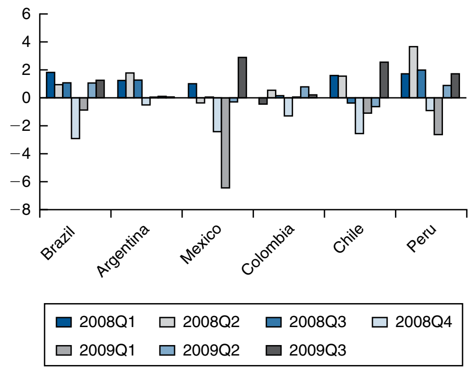
As elsewhere, many economies in the region showed signs that the recession bottomed out in the second half of 2009, with external demand rebounding faster and more strongly than initially anticipated (figure A15).

Figure A13 Central banks across Latin America eased monetary policy aggressively



Sources: Central banks; Datastream; Thomson Financial.

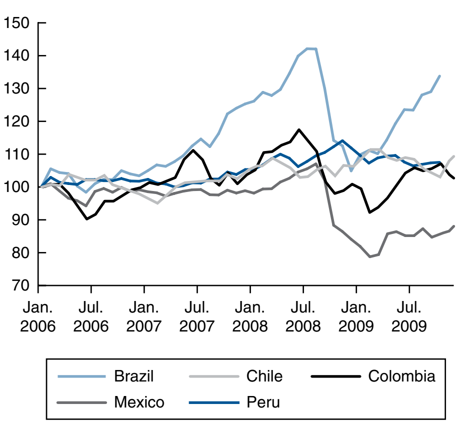
Figure A15 Quarterly GDP points to output stabilization in Latin America



Source: Haver Analytics.

Note: Data represent the seasonally adjusted change quarter over quarter except for Mexico, which are seasonally adjusted annual rates.

Figure A14 Real effective exchange rates depreciated in more integrated economies



Source: JPMorgan.

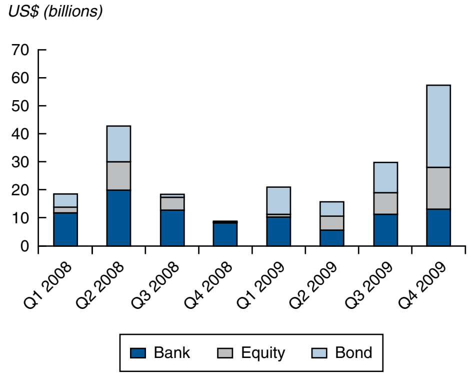
In Brazil, a swift rebound in domestic demand was boosted by expansionary monetary policy and countercyclical fiscal policy. These steps pulled the economy out of recession in the second quarter of 2009. Brazil's economy is also benefiting from the shift in the inventory cycle. This in conjunction with the stimulus for the automotive sector has set the stage for a sharp recovery in industrial production, which increased by an annualized 17.6 percent in the second quarter and by 20.5 percent in the third quarter. However, because of base effects and a rather moderate recovery in external demand, as Chinese restocking tailed off, output is estimated to have remained relatively flat in 2009, implying the worst economic performance since the early 1990s.

In Mexico, the rate of contraction moderated in the second and third quarters, supported by less dramatic output declines in the manufacturing and service industries. In Argentina, an improved external environment has ignited a modest recovery and led to improvements in external balances, as commodity prices firmed and demand for exports increased, in particular from its main trading partner Brazil. In Chile significant fiscal and monetary stimulus contributed to the moderation in output contraction to 1.7 percent year-on-year in the third quarter, bringing the decline in GDP over the first three quarters of the year to 2.7 percent. In Colombia the improved external environment and the lagged effect of aggressive monetary easing helped the economy recover in early 2009. Output growth in the first two quarters of 2009 was also boosted by strong growth in public investment spending, even though private consumption and investment remained weak. In Peru a significant rebuilding of inadequate stocks is projected to contribute to growth in the second half of 2009. Uruguay's economy expanded by 0.5 percent in the second quarter of 2009 relative to the previous quarter, bolstered by growth in construction and transportation, reflecting the impact of several megaprojects, which offset output declines elsewhere, particularly in energy, agriculture, and manufacturing.

Corporate and sovereign spreads have retreated to pre-crisis levels in countries more integrated into the global financial system—demonstrative of a return of investors' confidence, while access to the international debt market has also improved. Lower-rated countries in the region continue to be perceived as risky by investors and this is reflected in spreads remaining above pre-crisis levels.

Overall, capital inflows to the region have returned, especially in economies that proved resilient to the crisis, such as Brazil, with total capital inflows rising to $57.4 billion in the fourth quarter of 2009, up from $15.7 billion in the second quarter. Bond issuance increased almost sixfold, nearing $30 billion, while equity inflows more than tripled to $14.8 billion. Bank lending recovered modestly, totaling $13.2 billion, down 33 percent compared with the second quarter of 2008 (figure A16).

Figure A16 Capital flows return to Latin America



Sources: Haver Analytics; World Bank.

Medium-term outlook

Fiscal stimulus, lagged impacts of accommodative monetary policy, the shift in the inventory cycle, improvements in the terms of trade, rising consumer and business confidence, stronger demand from high-income countries, and an easing of external financing conditions are all expected to support growth in the region over the next few quarters. GDP growth in the region is projected to accelerate to 3.1 percent in 2010, following an estimated 2.6 percent contraction in 2009, but growth will not regain the growth rates recorded during the boom years, in part because of weaker investment growth. The shape of the recovery will, to a large extent, be determined by the growth path of the United States and other major economic partners of the region. Growth is expected to remain strong for the next couple of quarters but to weaken in the second half of 2010, as the impact of stimulus measures and the rebuilding of depleted inventories cease to bolster growth. A double dip or a more buoyant growth scenario is also possible as a result of close linkages with high-income countries.

Economies more integrated through trade and financial linkages with the global economy, which have been the worst affected by the global downturn are expected to benefit most from the global economic recovery. The region's exports are projected to rebound strongly, expanding by 7.8 percent in 2010 as demand from major trading partners recovers. Higher commodity prices will also benefit commodity exporters in the region, easing pressures on external balances and in some cases fiscal balances. A weakening of growth momentum or even a double dip in high-income countries (see chapter 1) could lead to a deceleration in export growth in the second half of 2010 and into 2011.

Private consumption in the region is projected to bounce back strongly, rising 3.2 percent in 2010, partly because of a low base effect (it contracted by an estimated 1.9 percent in 2009) but also owing to improvements in labor markets throughout the region and in migrant-destination countries. Domestic demand growth may be supported by a pronounced bounce back in fixed investment as confidence returns and financing constraints ease (see chapter 1 regarding a more buoyant private sector reaction scenario). Less restrictive financing conditions compared with the crisis period and a return of investor confidence together with resumptions in delayed investment, are projected to boost fixed investment by 6.1 percent in 2010. However, investment growth will remain below the double-digit pace recorded in the boom years, as excess capacity lingers. Large output gaps, weak international financing conditions, and weak public sector investment will all weigh on prospects. The lagged impact of the substantial monetary easing in some countries, along with stronger fiscal stimulus, and a one-off benefit from inventories accumulation will bolster growth into 2010. In other countries, such as Chile, there will be fiscal consolidation in 2010, which will moderate the contribution of government spending to growth.

The tourism sectors in many countries in the region are expected to stage a recovery after a sharp decline in tourist arrivals in 2009, although a recovery in Mexico's tourism sector may weaken the recovery in some of the Caribbean countries that had seen a lower-than-expected decline in tourist arrivals in 2009, as they managed to attract tourists by offering discounted packages.

Remittances are expected to recover only modestly in the 2010–11 period, undermined by weak labor market conditions in the United States and other high-income countries, although the bottoming out of the housing sector in the United States bodes well for countries receiving remittances from the construction sector. The weak recovery in remittances will limit the strength of the recovery in private consumption in many countries in the Caribbean and Central America.

The recovery in the United States will help Mexico exit the deep recession it entered following the collapse in U.S. demand. Mexico's economy is forecast to expand by 3.5 percent in 2010 and growth will accelerate marginally to 3.6 percent in 2011 (table A6). Government spending is not expected to grow as it implements fiscal adjustments to compensate for lower oil revenues associated with declining oil production. Both exports and imports are projected to rebound strongly in 2010, as external and domestic demand strengthen, but net trade will be a drag to growth, as the acceleration in imports due to stronger domestic demand will outpace export growth. A strong rebound in the service sector is projected, after a subdued performance in 2009 on account of the negative impact of the AH1N1 flu. Mexico's growth outlook is clouded, however, by concerns about the long-term sustainability of fiscal accounts. The fiscal shortfall over the 2009–10 period is estimated at a cumulative 6.6 percent of GDP, with almost half of the deterioration related to lower oil prices and production. The expected fiscal reform should reduce government discretionary spending, which may have a negative impact on growth over the short(er) term.

Domestic demand in Brazil should benefit from strong fiscal and monetary stimuli, while exports are projected to rise in response to strong external demand from China. Overall, the economy is projected to stage a comeback in 2010, with growth accelerating to 3.6 percent. Economic growth will be largely driven by the recovery in private consumption and investment, as well as stronger external demand.

Recovery in external demand will help Argentina's economic recovery strengthen into 2010 as job creation in export-oriented industries will underpin a mild recovery in private consumption. The expected recovery in the agriculture sector will boost economic activity, as will less restrictive external financing conditions. The recovery will be fragile, however, with investment remaining a drag on growth

Table A6 Latin America and the Caribbean country forecasts
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Argentina							
GDP at market prices (2005 US$)[b]	2.3	8.5	8.7	6.8	−2.2	2.3	2.4
Current account balance/GDP (%)	−0.2	3.6	2.8	2.2	2.3	2.2	2.2
Belize							
GDP at market prices (2005 US$)[b]	5.6	4.7	1.2	3.8	−0.1	1.7	2.3
Current account balance/GDP (%)	−12.1	−2.1	−4.0	−10.8	−7.7	−7.7	−7.6
Bolivia							
GDP at market prices (2005 US$)[b]	3.8	4.6	4.6	6.1	2.6	3.2	3.8
Current account balance/GDP (%)	−3.0	11.5	12.5	12.0	2.6	1.8	2.9
Brazil							
GDP at market prices (2005 US$)[b]	2.4	4.0	5.7	5.1	0.1	3.6	3.9
Current account balance/GDP (%)	−2.0	1.3	0.1	−1.7	−1.1	−1.6	−1.8
Chile							
GDP at market prices (2005 US$)[b]	4.2	4.6	4.7	3.2	−1.8	4.7	4.5
Current account balance/GDP (%)	−1.5	4.9	4.4	−2.0	1.5	1.1	1.4
Colombia							
GDP at market prices (2005 US$)[b]	2.4	6.9	7.5	2.5	−0.1	2.6	3.9
Current account balance/GDP (%)	−2.2	−1.8	−2.9	−2.7	−2.9	−2.6	−2.3
Costa Rica							
GDP at market prices (2005 US$)[b]	4.5	8.8	7.8	2.6	−1.8	2.1	2.9
Current account balance/GDP (%)	−4.0	−4.5	−6.3	−9.2	−4.2	−5.1	−6.3
Dominica							
GDP at market prices (2005 US$)[b]	1.4	3.2	0.9	3.1	−1.7	1.4	3.0
Current account balance/GDP (%)	−19.8	−17.3	−28.5	−36.5	−24.2	−24.1	−23.8
Dominican Republic							
GDP at market prices (2005 US$)[b]	5.2	10.7	8.5	5.0	−0.1	2.4	2.6
Current account balance/GDP (%)	−0.8	−3.6	−5.1	−10.1	−6.8	−7.2	−6.7
Ecuador							
GDP at market prices (2005 US$)[b]	3.2	3.9	2.5	6.5	−2.2	1.7	3.0
Current account balance/GDP (%)	−1.4	3.9	3.6	2.2	−3.0	−3.3	−3.4
El Salvador							
GDP at market prices (2005 US$)[b]	2.7	4.2	4.7	2.5	−2.1	0.8	2.3
Current account balance/GDP (%)	−2.5	−3.6	−5.4	−7.2	−2.6	−3.5	−4.7
Guatemala							
GDP at market prices (2005 US$)[b]	3.5	5.4	6.3	3.8	−0.4	1.6	3.0
Current account balance/GDP (%)	−4.9	−5.2	−5.4	−4.8	−2.8	−4.1	−4.4
Guyana							
GDP at market prices (2005 US$)[b]	1.7	−2.4	5.4	3.2	1.1	2.5	3.0
Current account balance/GDP (%)	−9.4	−19.8	−17.8	−20.2	−12.6	−18.1	−18.2
Haiti							
GDP at market prices (2005 US$)[b]	0.9	2.3	3.2	1.4	−0.3	1.9	2.1
Current account balance/GDP (%)	−4.0	−9.0	−5.7	−8.2	−7.9	−9.1	−10.6
Honduras							
GDP at market prices (2005 US$)[b]	3.8	6.3	6.3	4.0	−2.5	1.8	2.8
Current account balance/GDP (%)	−6.7	−4.7	−9.8	−14.3	−8.7	−10.9	−9.3
Jamaica							
GDP at market prices (2005 US$)[b]	0.8	2.7	1.5	−1.0	−3.7	0.3	2.2
Current account balance/GDP (%)	−5.5	−9.9	−15.3	−19.8	−14.3	−12.6	−9.9
Mexico							
GDP at market prices (2005 US$)[b]	3.6	4.8	3.3	1.4	−7.1	3.5	3.6
Current account balance/GDP (%)	−1.9	−0.5	−0.8	−1.5	−1.4	−1.7	−1.9

(*continued*)

Table A6 (*continued*)
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Nicaragua							
GDP at market prices (2005 US$)[b]	4.1	3.7	3.2	3.2	−2.5	1.7	1.7
Current account balance/GDP (%)	−20.2	−13.4	−17.6	−23.8	−15.2	−19.8	−21.7
Panama							
GDP at market prices (2005 US$)[b]	4.5	8.5	11.5	9.2	1.2	2.7	3.8
Current account balance/GDP (%)	−5.3	−3.1	−7.3	−12.3	−7.4	−10.1	−10.0
Paraguay							
GDP at market prices (2005 US$)[b]	1.2	4.3	6.8	5.8	−3.8	2.6	3.7
Current account balance/GDP (%)	−1.5	1.4	0.8	−2.1	−0.3	−1.5	−1.9
Peru							
GDP at market prices (2005 US$)[b]	3.3	7.7	9.0	9.8	1.2	3.9	5.2
Current account balance/GDP (%)	−3.3	3.0	1.6	−3.4	−2.4	−2.5	−2.3
St. Lucia							
GDP at market prices (2005 US$)[b]	2.9	2.2	1.7	0.7	−1.4	1.5	2.7
Current account balance/GDP (%)	−13.8	−33.1	−32.6	−33.6	−26.5	−27.9	−29.0
St. Vincent and the Grenadines							
GDP at market prices (2005 US$)[b]	4.2	10.8	6.7	2.3	−1.0	1.2	1.8
Current account balance/GDP (%)	−18.3	−24.1	−26.3	−27.8	−20.1	−21.4	−21.8
Uruguay							
GDP at market prices (2005 US$)[b]	1.5	4.6	7.6	8.9	1.3	3.2	3.4
Current account balance/GDP (%)	−0.9	−2.0	−0.9	−3.8	−1.4	−2.4	−2.5
Venezuela, R. B. de							
GDP at market prices (2005 US$)[b]	1.6	10.3	8.4	4.8	−2.4	−0.2	1.4
Current account balance/GDP (%)	7.5	14.3	8.7	12.4	2.2	3.5	2.5

Source: World Bank.

Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Barbados, Cuba, Grenada, and Suriname are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Estimate.
d. Forecast.

owing to policy uncertainty. Furthermore, the unsustainable fiscal stimulus implemented ahead of the presidential elections will likely fade in the second half of the year, weakening one of the growth engines.

República Bolivariana de Venezuela is expected to buck the regional trend of economic recovery and is likely to continue to contract for a second consecutive year in 2010, as private consumption, investment, and exports continue to shrink. Macroeconomic imbalances—the result of inadequate macroeconomic policies and high inflation (notwithstanding economic contraction)—will undermine investment. Also, the strong growth of government spending, funded by an increasing public debt issuance as well as price and exchange controls, is undermining growth. Inflationary pressures are likely to continue to be fueled by currency mismanagement as well as rising import costs, partly stemming from the government's decision to import through Argentina instead of Colombia. Furthermore, inadequate investments will exacerbate domestic shortages, thereby exerting further upward pressure on prices.

Small open economies like Chile are likely to benefit most from the global economic recovery as their business cycles are highly correlated with the global economy. Chile's recovery will also be supported by domestic factors because aggressive and front-loaded countercyclical policies are boosting domestic demand. Improved terms of trade as well as rising consumer and business confidence should also bolster the recovery, bringing growth closer to potential.

Peru's recovery will benefit from stronger demand for commodity exports, particularly from Asia. Furthermore, the Free Trade Agreement with China, which comes into operation in January 2010, will further boost exports, in particular those of fishmeal and minerals. Government consumption and investment should be firm in 2010 as the government maintains efforts to support economic growth through new spending on public works and social programs, and it should remain a high priority ahead of the April 2011 presidential and congressional elections.

Growth in Central America is expected to bounce back in 2010 in line with developments in the United States and other major economic partners. Recovery in the region is highly dependent on workers' remittances from the United States and Europe (El Salvador, Guatemala, Honduras, and Nicaragua), and is projected to be more gradual, as the expected jobless recovery in high-income countries will put pressure on remittances, thereby delaying the recovery in private consumption in these countries. Similarly, tourism in the region (of particular importance for the Caribbean) is expected to recover only moderately as labor markets in client countries recover only gradually. FDI, which was a major source of growth over the 2003–08 period, is unlikely to return to pre-crisis levels while excess capacity lingers. The recovery in most countries in Central America will thus be anemic at best. In Jamaica, low alumina and bauxite production and export prices will constrain the recovery. Growth in these regions will continue to be undermined further by crime, corruption, weak democratic institutions, and a lack of competitiveness.

Risks

In countries where domestic demand is strengthening rapidly, delays in withdrawing policy stimulus represent an upside risk to growth and inflation. In such cases, output gaps could close faster than anticipated, leading to an inflationary environment. In particular, the risks for Brazil have shifted to the upside as domestic demand is rebounding strongly, while the effects of already enacted monetary loosening and countercyclical fiscal policy easing have not yet run their course. Another upside risk emanates from commodity prices, should the world economy (particularly in resource-intensive economies such as China) stage a stronger-than-expected rebound.

The recent run-up in equity markets and stronger capital inflows in general, stemming in part from still large interest rate differentials, have put upward pressure on real effective exchange rates in some countries. The surge in capital inflows to the region, which reached \$87.2 billion in the second half of 2009 (of which \$34.3 billion came in December), compared with \$36.8 billion in the first half of the year, has prompted the Brazilian government to impose a 2 percent financial transaction tax on foreign portfolio inflows. However, this measure has been ineffective in preventing capital inflows and real currency appreciation. Should such flows persist, this may lead to renewed asset price bubbles. Also, some economies may lose external competitiveness because of real currency appreciation at a time when external demand recovery remains fragile.

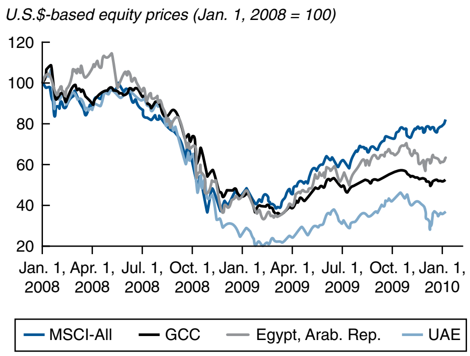
Middle East and North Africa

Recent developments

The impact of the global financial crisis for the developing economies of the Middle East and North Africa region varied across oil exporters and importers of the region.[13] Initially, the decline in regional equity markets was sharper than the average for emerging markets (figure A17). Since then, recovery in these markets has been hesitant owing to the unfolding of the Dubai World debt problems in the United Arab Emirates as well as concerns regarding growth prospects for the broader region.

Conditions at the outset of the financial crisis were less than propitious for the Middle East and North Africa. The "food-fuel" crisis

Figure A17 Equity markets in the Middle East dropped quickly, and GCC recovery has been muted



Source: Morgan-Stanley through Thomson/Datastream.

Note: MSCI-AII is all emerging markets; GCC is Gulf Cooperation Council; UAE is United Arab Emirates.

of 2007–08 was a challenge for the region, the largest net exporter of oil and the largest net importer of food. Oil exporters were less adversely affected, but food import bills rose sharply. Hardest hit were countries in the Maghreb, as well as Jordan and Lebanon, which are large importers of both food and fuel; and the Arab Republic of Egypt (high food-import dependence). The policy environment had to shift quickly from mitigating the effects of higher commodity prices to shoring up banking systems and applying fiscal stimulus to bolster domestic demand.

Over the course of 2009, net terms-of-trade movements for the developing oil exporters (Algeria, Islamic Republic of Iran, Syrian Arab Republic, and Republic of Yemen) and the Gulf Cooperation Council (GCC) were favorable, as oil prices increased and food prices declined. But high oil prices have been maintained at the expense of much reduced output. Because of falling oil production, key GCC oil exporters suffered modest GDP declines during the year, only partially offset by fiscal stimulus programs and more buoyant non-oil sectors. Developing oil exporters in contrast saw a marked downturn in oil sectors of their economies, but stimulus measures and stronger non-oil developments helped to maintain positive overall growth. For the more diversified economies (Egypt, Jordan, Lebanon, Morocco, and Tunisia) steep declines in external demand (notably from the dominant Euro Area) had a negative effect on merchandise exports, compounded by falling tourism volumes, lower worker remittances, and declining FDI inflows, notably those from the GCC economies. The decline in FDI was at first linked to falling oil revenues among the GCC and softer conditions in host markets. This came to be further clouded by the question of sovereign debt sustainability on the part of Dubai, owing to past overinvestment in real estate and tourism ventures within the United Arab Emirates.

Against this background, GDP growth in 2009 for the *developing countries* of the region is estimated to have eased to 2.9 percent, from 4.3 percent in 2008. For developing oil exporters, growth almost halved, to 1.6 percent from 2.9 percent in 2008. GDP gains for the oil importers (diversified economies) faltered by almost 2 percentage points in the year, from a strong 6.6 percent outturn in 2008 (powered by growth of more than 7 percent in Egypt) to 4.7 percent in 2009. And for the *high-income* GCC economies covered in this report, GDP is estimated to have contracted by 0.6 percent in 2009 following a firm 4.6 percent growth in the preceding year, as the sharp slide in oil production and revenues dampened output (table A7).

Developments among regional oil exporters. The global economic crisis ended the oil boom that saw oil prices peak at more than $150 a barrel on an intra-day basis in mid-2008 (figure A18), and prices have settled into a range of $65–$80 a barrel, supported by OPEC (Organization of Petroleum-Exporting Countries) production cuts. As part of this effort, regional oil exporters scaled back production by nearly 10 percent (11 percent among high-income producers and 7.3 percent among the developing exporters of the region). The combination of much lower prices and reduced output caused oil and gas

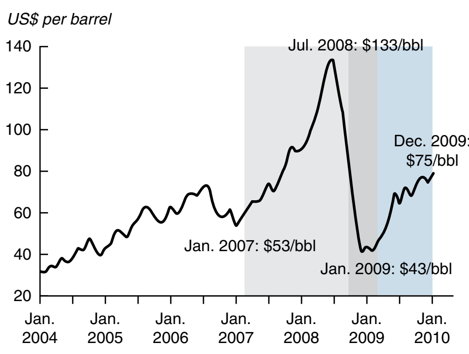
Table A7 Middle East and North Africa forecast summary
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[g]	2010[h]	2011[h]
GDP at market prices (2005 US$)[b]	4.4	5.2	5.9	4.3	2.9	3.7	4.4
GDP per capita (units in US$)	2.7	3.5	4.1	2.6	1.2	2.0	2.8
PPP GDP[c]	4.5	5.4	6.2	4.3	2.7	3.6	4.4
Private consumption	4.2	4.8	6.3	1.2	4.6	4.5	5.1
Public consumption	3.3	5.7	2.2	11.3	10.6	7.5	6.4
Fixed investment	6.5	5.9	18.7	19.4	8.0	4.0	4.6
Exports, GNFS[d]	4.9	5.9	6.5	0.2	−8.8	2.3	5.2
Imports, GNFS[d]	5.7	7.0	12.4	9.0	1.1	5.2	6.7
Net exports, contribution to growth	−0.2	−0.1	−1.6	−3.0	−3.5	−1.1	−0.8
Current account balance/GDP (%)	2.9	11.6	10.1	10.5	−0.1	1.5	1.0
GDP deflator (median, LCU)	5.2	8.3	6.1	16.0	6.7	6.2	3.9
Fiscal balance/GDP (%)	−2.2	−0.9	0.4	1.9	−6.1	−4.1	−3.7
Memo items: GDP							
Middle East and North Africa geographic region[e]	4.0	4.6	4.9	4.4	1.4	3.5	4.3
Selected GCC Countries[f]	3.6	3.8	3.6	4.6	−0.6	3.2	4.1
Egypt, Arab Rep.	4.4	6.8	7.1	7.2	4.7	5.2	6.0
Iran, Islamic Rep. of	4.8	5.9	7.8	2.5	1.0	2.2	3.2
Algeria	4.0	2.0	3.0	3.0	2.1	3.9	4.0

Source: World Bank.

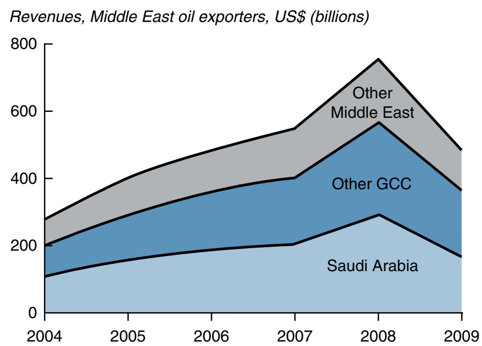
a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services.
e. Geographic region includes high-income countries: Bahrain, Kuwait, Oman, and Saudi Arabia.
f. Selected GCC countries: Bahrain, Kuwait, Oman and Saudi Arabia.
g. Estimate.
h. Forecast.

Figure A18 Oil prices, 2004–09



Sources: IEA and DECPG Commodities Group.

Figure A19 Lower oil prices and lower Middle Eastern output yield sharp decline in oil revenues in 2009

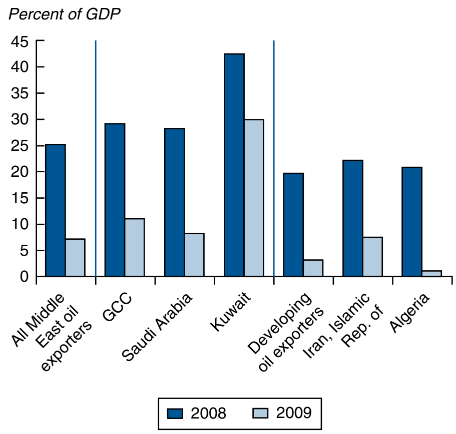


Sources: World Bank and International Energy Agency.

revenues for all exporters to drop from $755 billion in 2008 to $485 billion in 2009—a decline equivalent to 30 percent of the group's GDP (figure A19). For the developing exporters, the decline in revenues was less severe, but nonetheless a substantial 12.5 percent of GDP. Current account surplus positions fell sharply across the region for all oil exporters, from

Figure A20 Reduced oil revenues cut current account surplus positions in 2009

Current account balance for Middle East oil exporters



Sources: Word Bank data and estimates.

25 percent to 7.3 percent of GDP between 2008 and 2009, and from 19.7 percent to 3.3 percent for developing oil exporters (figure A20). With public expenditure growing at a rapid pace, fiscal deficits for developing exporters increased sharply during 2009, to 11 percent of GDP in Algeria (though well covered by reserves of some $150 billion), 5.5 percent in Syria, 3.8 percent in the Islamic Republic of Iran, and 2 percent in the Republic of Yemen.

GDP growth in Algeria slowed to 2.1 percent in 2009 from 3 percent in 2008. A 2 percent decline in the oil sector was partly offset by non-oil activity, which increased by 5.7 percent, supported by construction and services tied to a long-running infrastructure development plan (PIP). The program has continued to be implemented in part as a stimulus measure, and in early 2009 the government announced it would put about $60 billion from its oil-linked fiscal surplus toward the investment program. Even though partial national accounts data for 2009 are not available for the Islamic Republic of Iran, growth is estimated to have slowed to 1 percent in 2009, from 2.5 percent during 2008, as crude oil production contracted 7.3 percent and oil and gas export revenues plummeted 40 percent. This placed substantial pressures on budget revenues, which normally support domestic demand. Inflation continues at rates near 20 percent, and the current account surplus fell from 22 percent of GDP in 2008 to 7.5 percent in 2009.

Iraq is facing a major short-term financing gap in the year ahead owing to the global slowdown, with a fiscal deficit of 26 percent of GDP accrued in 2009 and a current account that moved from substantial surplus in 2008 (13.3 percent of GDP) to major deficit in 2009 (31 percent).

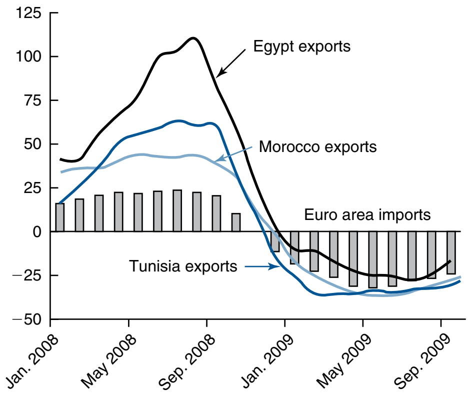
The diversified economies. The Euro Area is the destination for more than 70 percent of export goods from the diversified economies of the Middle East and North Africa region. Moreover, the Euro Area is also the host for overseas workers from the Maghreb and Mashreq and an important source of remittance flows and tourism arrivals to the developing region. As investment and trade plummeted in key Euro Area economies, GDP for the zone declined to 0.5 percent growth in 2008, and it is anticipated to contract by a sharp 3.9 percent in 2009, the deepest recession since WWII.

The effects of the European downturn on exports from the region have been dramatic, with Egypt's merchandise exports declining from growth of 33 percent in 2008 to minus 15 percent by July 2009 (year-on-year). Similar patterns of export decline were registered in Jordan, Morocco, and Tunisia (figure A21). Together with only modest declines in imports (supported by stimulus measures), the current account position for the group deteriorated from a deficit of 2.1 percent of GDP in 2007 to 5.2 percent by 2009. Deficits during 2009 varied between 2.5 percent of GDP in Egypt and Tunisia, 5.8 percent in Morocco, and 7.0 percent in Jordan.

Slackening economic activity and worsening labor conditions in Europe, as well as across the GCC economies over the course of 2009 caused worker remittances flows into the developing region to decline by 6.3 percent for the year—in contrast to the strong gains of 23.0 and 11.3 percent in 2007 and 2008,

Figure A21 Middle Eastern exports declined sharply as European demand fell

Import, export values (US$), percentage change, three-month average, year over year

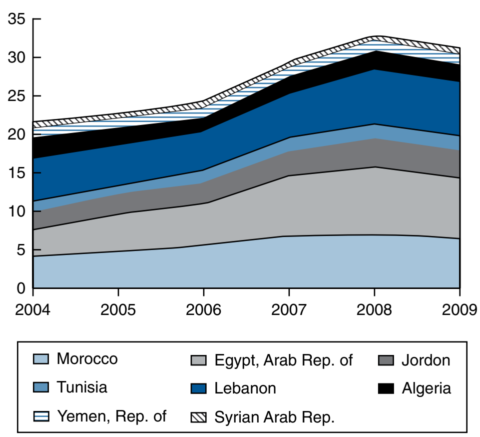


Sources: Haver Analytics; World Bank.

respectively (figure A22). Among the larger recipient countries, Egypt appears to have been most adversely affected, with flows declining 9 percent, while Morocco experienced an 8 percent drop in receipts. Jordan, Lebanon, and Tunisia experienced lesser declines, varying between 1 and 3 percent.

Figure A22 Worker remittances fell by a moderate 6.3 percent in 2009

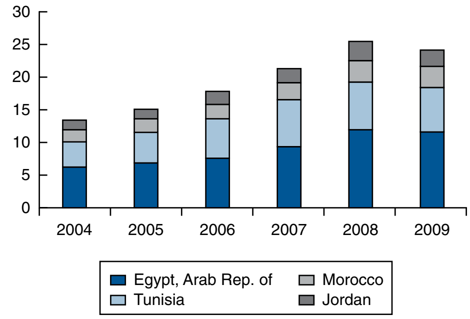
Workers' remittance receipts, US$ (billions)



Source: World Bank; IMF; national agencies.

Figure A23 Tourism receipts fall from record 2008 performance, but modest recovery likely

Tourism receipts, US$ (billions)



Sources: World Bank, IMF, World Tourism Organization.

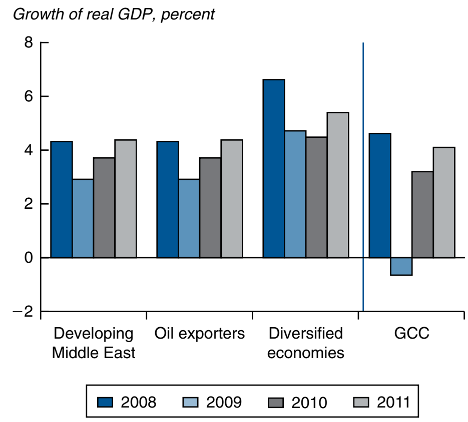
Tourism receipts are a key source of foreign currency (equivalent to 14 percent of GDP for the diversified economies of the region). With Europe suffering increasing unemployment rates, faltering wage growth, and efforts by households to repair balance sheets badly damaged by the financial market meltdown of 2008, tourism receipts are estimated to have declined by 5 percent during 2009, following strong gains in the 20 percent range since 2006 (figure A23). Tunisia appears to have bucked the downtrend with a gain of 4 percent. But declines elsewhere range from 8 percent in Morocco to 3 percent in Egypt.

Foreign direct investment (FDI) inflows to the diversified group, which is increasingly sourced from the GCC economies, fell to 4.3 percent of GDP in FY09 from 8.1 percent a year earlier. Morocco and Tunisia registered a 35 percent decline in inflows during calendar year 2009, while FDI in Jordan dropped by 80 percent during the first quarter of 2009. These declines reflect the substantial deterioration of financial conditions in the wake of the Dubai World debt-payment standstill, inducing GCC economies to scale back on current investment projects and putting earlier planned FDI endeavors on hold.

In addition to pressures on FDI, the Dubai financial crisis may have adverse consequences for the countries of the Mashreq (Jordan, Lebanon, and Syria), which hold particularly close ties to the GCC. Lower investment within the GCC portends fewer job opportunities for workers from these countries, lower remittances, and consumption in home markets.

Growth in *Egypt* slowed to 4.7 percent in FY09, from 7 percent during the three previous years. The slowdown was driven by lower external demand with exports of goods and services declining by 25 percent; growth was negative in economic sectors with a strong exposure to external markets such as the Suez Canal (down by 7.2 percent, compared with 18 percent growth in FY08) and hotels, restaurants, and related activities linked to tourism (down by 1.3 percent in real terms compared with 30 percent growth). Declining fixed investment (down 10 percent compared with 14.8 percent growth a year ago) has moved in tandem with increases in unemployment, which rose to 9.4 percent from 8.4 percent a year earlier. In response, the government implemented a crisis stimulus plan featuring fiscal, monetary, and direct support measures in the form of LE 15 billion in additional spending, including higher subsidies and social benefits. On the monetary side, the Central Bank of Egypt cut policy rates six times between February and September 2009, reducing overnight deposit and lending policy rates by 325 and 275 basis points, respectively.

Figure A24 Oil price and export revival hold key to recovery in the Middle East and North Africa



Source: World Bank.

Medium-term outlook

Following the tortuous conditions of 2009, prospects for both the developing and high-income economies of the Middle East and North Africa should improve through 2011. Growth is projected to increase to 4.4 percent by that year, the same pace registered on average between 1995 and 2005. Though domestic absorption will be a continuing source of strength, the forecast for regional recovery is premised on a revival in global oil demand and a rebound in key export markets. Despite the gradual withdrawal of fiscal stimulus measures, moderate advances in consumer and capital spending are expected to underpin the strengthening of growth (see table A7). But the regional profile masks both the diversity of performance across countries and the driving forces for growth.

Oil prices are expected to remain broadly stable over the forecast period, at around $75 a barrel. Stronger global activity should allow for crude oil and gas production to return to positive growth, implying moderate revenue gains. As a result, current account positions for developing oil exporters are projected to stabilize near 5 percent of GDP by 2011. GDP growth for developing oil exporters should reach 3.1 and 3.7 percent, respectively, in 2010 and 2011 (figure A24). By 2011 growth will vary from 3 percent in the Islamic Republic of Iran to 5.5 percent in Syria, grounded in developments in non-oil sectors and in investment in hydrocarbons capacity (table A8).

GDP for the high-income GCC economies is anticipated to increase by 3.2 percent in 2010 and 4.1 percent in 2011, as oil production firms and a higher average oil price help to restore revenues, albeit in more moderate increments. Current account surplus positions for the group are expected to rebound from 11 percent of GDP in 2009 to 14.5 percent by 2011, providing a means to support

Table A8 Middle East and North Africa country forecasts
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Algeria							
GDP at market prices (2005 US$)[b]	4.0	2.0	3.0	3.0	2.1	3.9	4.0
Current account balance/GDP (%)	8.2	25.0	22.4	20.8	−3.4	2.7	5.6
Egypt, Arab Rep. of							
GDP at market prices (2005 US$)[b]	4.4	6.8	7.1	7.2	4.7	5.2	6.0
Current account balance/GDP (%)	0.4	2.4	0.3	−0.9	−3.2	−3.5	−3.2
Iran, Islamic Rep. of							
GDP at market prices (2005 US$)[b]	4.8	5.9	7.8	2.5	1.0	2.2	3.2
Current account balance/GDP (%)	7.3	9.2	12.0	22.2	7.5	3.6	3.2
Jordan							
GDP at market prices (2005 US$)[b]	4.7	8.0	8.9	7.9	3.2	3.9	4.5
Current account balance/GDP (%)	0.0	−10.8	−16.7	−11.4	−10.1	−9.7	−9.2
Lebanon							
GDP at market prices (2005 US$)[b]	3.2	0.6	7.5	8.5	7.0	7.0	7.0
Current account balance/GDP (%)	−20.0	−11.3	−11.1	−20.5	−14.5	−15.2	−14.2
Morocco							
GDP at market prices (2005 US$)[b]	4.4	7.8	2.7	5.6	5.0	3.0	4.4
Current account balance/GDP (%)	0.7	2.0	−0.3	−5.4	−5.9	−5.7	−5.2
Syrian Arab Republic							
GDP at market prices (2005 US$)[b]	3.2	5.1	4.2	5.2	3.0	4.0	5.5
Current account balance/GDP (%)	2.9	−2.8	−3.3	−4.0	−3.2	−4.3	−4.0
Tunisia							
GDP at market prices (2005 US$)[b]	5.0	5.7	6.3	4.5	3.3	3.8	5.0
Current account balance/GDP (%)	−3.0	−2.0	−2.6	−4.2	−3.5	−2.6	−2.0
Yemen, Rep. of							
GDP at market prices (2005 US$)[b]	4.9	3.2	3.3	3.6	4.2	7.3	4.5
Current account balance/GDP (%)	3.1	1.1	−7.0	−5.6	−5.2	−2.3	−2.5

Source: World Bank.

Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Djibouti, Iraq, Libya, and West Bank and Gaza are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. Estimate.
d. Forecast.

domestic growth while once more accumulating international reserves. A rekindling of interest in regional FDI may emerge as financial and economic conditions begin to normalize.

Economic recovery in Europe and among the GCC countries will be supportive of a revival for the diversified economies, suggesting a resumption of export growth, a rebound in remittances and various services receipts, and improvement in business expectations, leading to a revival in capital spending. GDP gains in Jordan, Morocco, and Tunisia are likely to be driven by domestic demand, with the help of fiscal and monetary stimulus measures, as external contributions fade. The anticipated normalization of agriculture in Morocco (following the post-drought boom of 2009) will be a drag on growth in 2010, and gains for the diversified group are projected to pick up to 4.5 percent in 2010 and 5.4 percent in 2011, respectively.

Risks

The broadly favorable outlook for the Middle East and North Africa over 2010–11 remains subject to substantial downside risks, which would pose additional challenges to policy makers already grappling with the current crisis. A deeper and more protracted global recession (the deeper growth recession discussed in chapter 1) cannot be ruled out. Within the region, political tensions remain a constant, tending to restrain international capital flows that might otherwise contribute to a deepening of capital markets and private investment. Further, needed reform efforts, some initiated during the crisis period, could receive less attention and commitment once economic conditions start to normalize.

The recent difficulties of Dubai World holding company—an entity of the Government of Dubai, United Arab Emirates—in asking its creditors for a six-month standstill on all scheduled debt payments, indicates that financial institutions in the region were not entirely unaffected by the global financial crisis. Given the very high investment levels of the past several years, as well as asset inflation (property prices increased particularly sharply in Egypt and Morocco), there may be additional large-scale financial losses that have yet to be realized. Though a systemic crisis in Dubai will likely be averted thanks to the diversified holdings of the Dubai government and emergency support from the emirate of Abu Dhabi (both bilaterally and through the federal authorities), it may have an adverse impact on the balance sheets of local and regional banks holding Dubai World debt. The financial problems facing Dubai, along with previous defaults by two large Saudi private companies, will continue to raise concern amidst the need for comprehensive corporate governance and debt restructuring reforms in the region.

South Asia

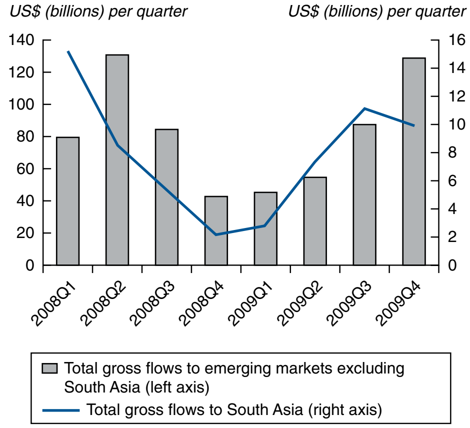
Recent developments

The global financial crisis contributed to a marked deceleration in real GDP growth in South Asia, from 8.7 percent in 2007 to 6.0 percent in 2009, which was largely driven by a pronounced decline in investment growth and, to a lesser extent, private consumption. While exports contracted sharply with external demand, the decline in imports was steeper, and net trade actually supported growth on the regional level. As the crisis took hold, equity markets and exchange rates plunged in most countries in the region. Sovereign bond spreads spiked with the contraction in capital flows, as both domestic and international investors sought safe-haven assets outside the region.

Although the global financial crisis had a sharp negative impact on South Asia, the slowdown in regional GDP growth was the least pronounced among all developing regions. This partly reflects the relatively closed nature of the region's economies. Private capital inflows—a key transmission channel of the crisis—are less significant as a share of South Asia's GDP (particularly foreign direct investment), compared with most other regions. Economic activity in South Asia is also less specialized in manufacturing and natural resources—sectors that have been particularly negatively affected by the crisis. Correspondingly, the region's greater reliance on services trade—roughly double the 7.7 percent average share of GDP for developing countries in 2008—also provided a buffer to the crisis, as services tend to be more resilient during downturns (although smaller countries with important tourism sectors, such as the Maldives, were hit hard). Domestic demand in the region was relatively resilient, having been cushioned by countercyclical macroeconomic policies. Interest rates were rapidly cut across most economies. Although fiscal space in most economies was limited, substantial fiscal stimulus measures were introduced in India (including pre-election spending), Bangladesh and Sri Lanka (in the form of incentives and safety net expenditures). Relatively robust, albeit moderating, regional remittance inflows have been supportive, particularly in Bangladesh, Nepal, and Sri Lanka, where they continue to represent over 5 percent of GDP. Real incomes were also boosted by the collapse in global commodity prices—particularly for food and fuel, which represent a large share of regional household outlays.

The extent of the downturn in the individual economies has been mixed and reflects initial conditions. Growth has been weakest in countries that entered the crisis with large internal and external imbalances and that were forced to severely constrain domestic demand, such as the Maldives, Pakistan, and Sri Lanka. Countries that entered the crisis with stronger fundamentals, such as Bangladesh Bhutan, and India, weathered the crisis better. A number of regional economies also faced ongoing internal conflicts that continued to disrupt economic activity, notably Afghanistan, Pakistan, Sri Lanka (which ended a decades-old civil war in mid-2009), and to a lesser extent Nepal (where warring factions reached a peace accord in late 2006, but are still vying for political control).

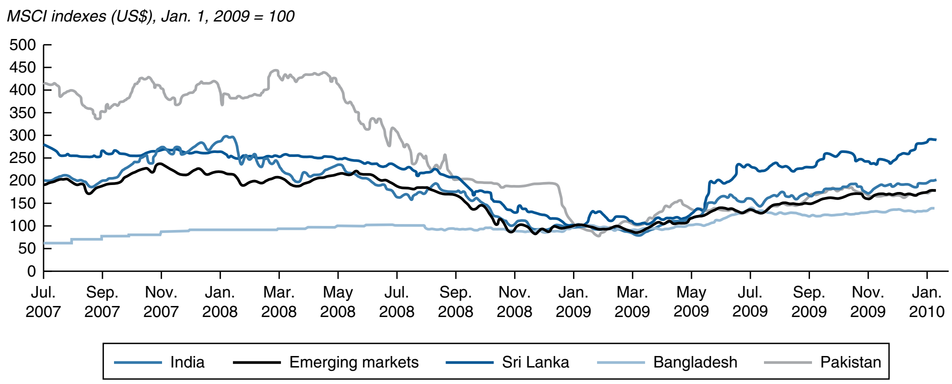
Figure A25 Gross capital inflows to South Asia are recovering but remain below pre-crisis levels



Sources: Dealogic and World Bank.

The stabilization and progressive thawing of global financial markets in early 2009 and the rebound of world trade and output growth beginning in the second half of 2009 have contributed to improving conditions in South Asia. Since the second quarter of 2009, local equity markets and capital inflows to the region began to recover—largely in line with trends across developing countries (figures A25 and A26). This process has been supported by improved investor sentiment on comparatively strong growth outturns (India and Bangladesh), ongoing or new International Monetary Fund (IMF) stabilization programs (Pakistan, Sri Lanka, and most recently the Maldives), steep reductions in interest rates,

Figure A26 Local equity markets have generally returned to pre-crisis levels



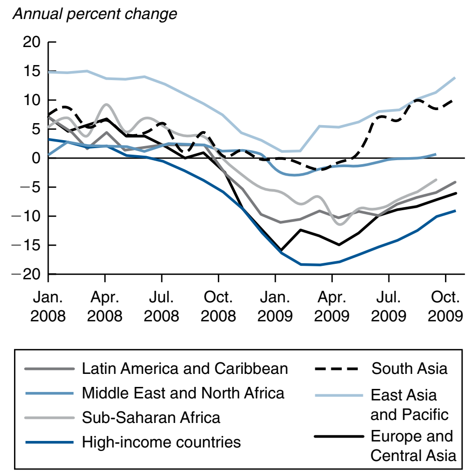
Sources: Bloomberg and World Bank.

Note: MSCI = Morgan Stanley Capital International.

and improved political stability. While the region experienced a sharp decline in gross capital inflows during the first half of 2009, portfolio inflows surged in the fourth quarter and bond issuance and syndicated bank lending jumped in the fourth quarter, such that total gross inflows firmed in 2009 to an estimated $31 billion. As inflows to other regions shrank (particularly in Europe and Central Asia), South Asia's share of total capital inflows to developing countries rose to 8.9 percent in 2009 from 6.7 percent in 2008. While most local stock exchanges have recovered to pre-crisis levels, the majority remain well below peak levels posted in late 2007 and early 2008 (in both local currency and U.S. dollar terms). In Bangladesh, where capitalization of listed companies (relative to GDP) is lower than in its neighbors and where foreign participation is limited, the equity market remained stable during the crisis and posted strong growth in recent months. Sri Lanka's equity market is also an exception, with a recovery to pre-crisis highs of 2007 supported by the improvement in sentiment following the end of the civil war and the formal standby arrangement reached with the IMF in mid-2009.

Regional industrial activity, which did not contract as much as in most other developing regions, has shifted into positive growth, led by India, Bangladesh, and more recently Pakistan. Fiscal stimulus measures have supported the rebound in output by helping to revive consumer demand. Further, continued robust remittance inflows boosted construction activity, especially in Bangladesh and Nepal. The recovery in regional output is ahead of most other developing regions—with the exception of East Asia and the Pacific—and of high-income countries (figure A27). Regional agricultural output was buoyed by a good monsoon in 2008 that contributed to a good harvest in 2009 across much of the region. One exception is Afghanistan, where agricultural output contracted sharply (16.5 percent in FY2008/09). In Sri Lanka the agricultural sector benefited from the end of fighting and from acreage brought back into production.

Figure A27 Recovery in industrial production has taken hold in South Asia ahead of most other regions



Sources: Thomson Datastream, IMF and World Bank.

However, a poor monsoon season in India in 2009 suggests that agricultural growth will be modest in the current 2009–10 crop year (which began in late 2009). Regional services activity decelerated with the decline in global tourism, hitting the Maldives, Nepal, and Sri Lanka, in particular, where tourism is a key sector. In contrast, in India, services activity was supported by resilient outsourcing.

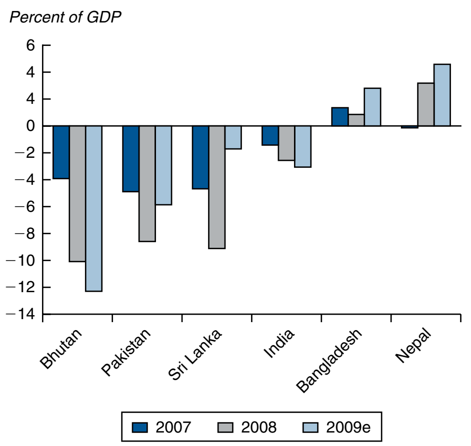
Merchandise trade growth remains below previous-year levels for the region, with imports down much more sharply than exports, given the sharp compression of demand in Maldives, Pakistan, and Sri Lanka in particular. Indeed, the 32 percent decline in South Asia's import volumes through July 2009 compared with the previous year is the second steepest among developing regions after that of Europe and Central Asia (39 percent). In contrast, the decline in the region's merchandise export volumes was less severe than in most other developing regions, with the exceptions of East Asia and the Pacific and Latin America and the Caribbean. This partly reflects the low manufacturing and commodity content (sectors particularly hard hit by the recession) of the region's exports. Some sectors also demonstrated marked resilience during the crisis, such as ready-made garments in Bangladesh, where competitive pricing has enabled producers to build market shares (i.e., the "Wal-Mart effect") and in Sri Lanka, where long-term strategic partnerships with mid- to high-end retailers in the United States and the European Union, (such as Victoria's Secret, Diesel, and Nike) created a buffer, and in India, where information technology software also proved relatively resilient.

Overall, the combination of a sharp fall in the value of imports, a somewhat less steep decline in exports (both reflecting favorable terms-of-trade developments), and resilient remittance inflows meant that current account balances generally improved in 2009 (figure A28). Regional external positions had come increasingly under strain from the multiyear boom in food and fuel prices before mid-2008. During 2009, the Maldives, Pakistan, and Sri Lanka posted the largest adjustments in their current account deficits. Domestic demand was sharply compressed in the three economies, where large fiscal deficits had contributed to the buildup of considerable external imbalances before the crisis. The Maldives is an extreme case, where a massive upswing in government outlays and a surge in imports for resort-related construction materials contributed to the sharp deterioration in the current account balance.

While the adjustment was less stark, India also posted a shrinking current account deficit in 2009, as imports fell faster than exports. Bangladesh and Nepal recorded rising current account surpluses, as the moderation of export growth was less pronounced than the decline in imports, supported by continued firm remittances inflows. In contrast, Bhutan's current account deficit is estimated to have grown from 10 percent of GDP in 2008 to 12.3 percent in 2009, partly reflecting the start of interest payments for the Tala hydropower scheme (figure A28). Afghanistan's current account deficit, including official transfers (equivalent to some 50 percent of official GDP) is estimated to have shifted from a surplus of 0.9 percent of GDP in 2008 to a deficit of 1.6 percent in 2009.

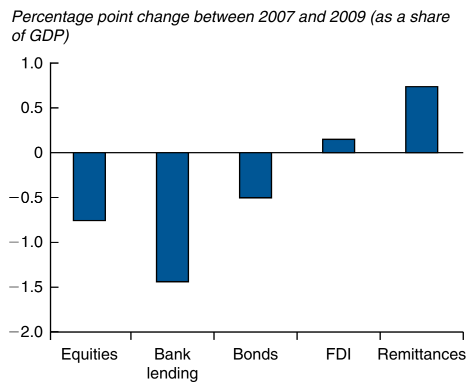
Remittance inflows—a key source of foreign exchange for the region—declined in 2009, pushed down by the decline in economic activity and the rise in unemployment in migrant-host countries. However, remittance inflows remained relatively strong compared with other sources of foreign exchange, and indeed are above their 2007 levels (figure A29). Remittance inflows to South Asia contracted by a modest

Figure A28 Current account balances improve across much of South Asia in 2009



Source: World Bank.

Figure A29 International flows to South Asia



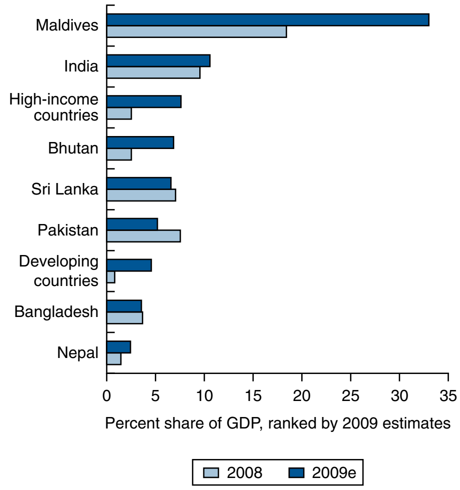
Source: World Bank.

1.8 percent in 2009, compared with a 7.5 percent decline for developing countries excluding South Asia (World Bank 2009). Growth in the Arabian Gulf and East Asian economies, which host a significant share of South Asia's migrant workers, has not been as adversely affected as growth in other key host economies, such as the United States, the European Union, and Russia. Among South Asia's economies, India—the largest recipient of remittances in the world in dollar terms—posted a contraction in remittance inflows in 2009, while Bangladesh, Nepal, Pakistan, and Sri Lanka, experienced a slower pace of growth of remittances inflows.

With the moderation in demand and collapse in energy prices, inflationary pressures across the region subsided following the onset of the crisis, particularly in the first half of 2009. This helped reverse the buildup of inflationary pressures that became increasingly evident in 2007 and 2008, as fuel and food prices spiked—despite efforts by authorities to contain the price increases. Lower oil prices have eased pressures on fiscal deficits stemming from fuel price subsidies. The moderation in inflationary pressures and falling international commodity prices also provided scope for regional central banks to introduce expansionary measures to support domestic demand in response to the crisis. Bangladesh, India, Pakistan, and Sri Lanka cut policy interest rates. Activity in Bhutan and Nepal, where the currencies are tied to the Indian rupee, was supported by India's expansionary monetary policy stance.

Regional fiscal positions deteriorated in 2009 in response to a combination of reduced tax receipts resulting from the decline in economic activity and higher outlays. Corresponding to the introduction of more accommodative monetary policies, expansionary fiscal policy measures were introduced in Bangladesh, India, and Sri Lanka to support domestic demand through various expenditure and incentive programs. Pakistan also sought to stimulate its economy through an increase in its public sector development program. While these stimulus measures helped offset the negative effects of the global crisis, they also led to higher fiscal deficits in nearly all of the regional economies. Even before the crisis, sizable fiscal deficits were already a problem for many South Asian economies, where weak tax administration and structure resulted in low domestic resource mobilization (figure A30).

Figure A30 Budget deficits in most South Asian countries outstrip developing-country average



Source: World Bank.

Medium-term outlook

South Asia's GDP growth is projected to firm from an estimated 6 percent in 2009 to 7.0 percent in 2010 and 7.4 percent in 2011. External demand for goods and services is anticipated to recover, while improving consumer and business confidence, combined with the lagged effects of expansionary monetary and fiscal policy measures and a positive turn in the inventory cycle, should contribute to strengthening domestic demand. A projected firming of capital inflows will also support regional economic activity. The regional current account deficit is projected to rise modestly, from 1.2 percent in 2009 to 2.2 percent in 2010 and 2.4 percent in 2011, a result of firming domestic demand that is expected to drive import growth ahead of export growth.

Table A9 South Asia forecast summary
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[g]	2010[h]	2011[h]
GDP at market prices (2005 US$)[b,f]	6.0	9.0	8.5	5.7	5.7	6.9	7.4
GDP in calendar year basis[c]	6.1	9.3	8.7	6.9	6.0	7.0	7.4
GDP per capita (units in US$)	4.1	7.3	6.8	4.2	4.3	5.5	6.1
PPP GDP[d]	6.0	9.0	8.5	5.7	5.7	6.9	7.4
Private consumption	4.7	6.0	7.0	2.7	4.2	6.0	6.7
Public consumption	5.0	9.9	5.6	21.1	7.1	7.3	7.2
Fixed investment	8.0	14.6	13.6	7.6	4.1	9.7	10.2
Exports, GNFS[e]	11.3	17.7	3.5	10.5	−4.6	10.3	12.1
Imports, GNFS[e]	10.6	22.7	6.8	14.9	−6.9	10.6	12.3
Net exports, contribution to growth	−0.2	−1.7	−1.0	−1.7	0.9	−0.6	−0.7
Current account balance/GDP (%)	−0.6	−1.5	−1.3	−3.3	−2.3	−3.2	−3.4
GDP deflator (median, LCU)	5.9	5.2	7.4	7.2	13.8	6.9	6.5
Fiscal balance/GDP (%)	−8.1	−5.1	−5.7	−8.9	−9.5	−8.6	−7.8
Memo items: GDP[f]							
South Asia excluding India	4.5	6.4	6.0	3.9	4.4	4.1	4.8
India	6.4	9.7	9.1	6.1	6.0	7.5	8.0
Pakistan	4.1	6.2	5.7	2.0	3.7	3.0	4.0
Bangladesh	5.3	6.6	6.4	6.2	5.9	5.5	5.8

Source: World Bank.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. GDP figures are presented in calendar years (CY) based on quarterly history for India. For Bangladesh, Nepal, and Pakistan, CY data is calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity.
d. GDP measured at PPP exchange rates.
e. Exports and imports of goods and nonfactor services.
f. National income and product account data refer to fiscal years (FY) for the South Asian countries with the exception of Sri Lanka, which reports in calendar year (CY). The fiscal year runs from July 1 through June 30 in Bangladesh and Pakistan, from July 16 through July 15 in Nepal, and from April 1 through March 31 in India. Because of reporting practices, Bangladesh, Nepal, and Pakistan report FY2007/08 data in CY2008, while India reports FY2007/08 in CY2007.
g. Estimate.
h. Forecast.

Although regional GDP growth is projected to accelerate, a return to boom-period growth rates is not anticipated over the forecast horizon, as investment growth is expected to continue to be constrained by supply bottlenecks and higher capital costs in the wake of the crisis. (table A9). External demand is expected to firm, but it too will expand less quickly than during the boom years. The regional fiscal deficit is projected to narrow on planned structural fiscal consolidation and cyclical factors, as well as a reversal of stimulus measures introduced to support demand during the crisis. Nevertheless, the aggregate regional fiscal deficit is projected to continue to exceed its pre-crisis 2007 deficit of 5.7 percent.

Expected progressive tightening of monetary conditions over the forecast horizon will contribute to an easing of inflationary pressures by 2011 across the region. Further, given strong aversion to food price inflation within the region, monetary authorities are particularly responsive to signs of inflationary pressures building.

The recovery path for the individual economies will vary substantially (table A10). India, Bangladesh, and Bhutan are expected to emerge from the global crisis with stronger growth performances, backed by generally sound economic policies and greater resilience of trade, investment, and remittances. Sri Lanka is also forecast to post a relatively firm recovery, supported by the recent surge in capital inflows and improvement in investor confidence following the cessation of fighting after nearly three decades of civil war. Elsewhere in the region, conflict-affected

Table A10 South Asia country forecasts
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Calendar year basis							
Bangladesh							
GDP at market prices (2005 USD)[b]	5.0	6.3	6.5	6.3	6.1	5.7	5.7
Current account balance/GDP (%)	−0.6	2.0	1.3	1.4	3.1	1.8	1.5
India							
GDP at market prices (2005 USD)[b]	6.7	9.9	9.3	7.3	6.4	7.6	8.0
Current account balance/GDP (%)	−0.4	−1.1	−0.7	−2.6	−2.4	−3.5	−3.6
Nepal							
GDP at market prices (2005 USD)[b]	3.9	3.4	3.5	4.3	5.0	4.3	4.3
Current account balance/GDP (%)	−3.1	−0.1	−1.5	3.7	4.4	1.0	1.4
Pakistan							
GDP at market prices (2005 USD)[b]	3.7	6.9	5.9	3.8	2.9	3.3	3.5
Current account balance/GDP (%)	−1.0	−5.7	−6.3	−10.2	−5.2	−4.1	−4.6
Sri Lanka							
GDP at market prices (2005 USD)[b]	4.5	7.7	6.8	6.0	3.6	5.0	6.0
Current account balance/GDP (%)	−3.2	−5.8	−4.7	−9.1	−1.7	−2.7	−2.9
Fiscal year basis							
Bangladesh							
Real GDP at market prices	5.3	6.6	6.4	6.2	5.9	5.5	5.8
Current account balance/GDP (%)	−0.8	1.3	1.4	0.9	2.8	2.2	1.5
India							
Real GDP at market prices	6.4	9.7	9.1	6.1	6.0	7.5	8.0
Current account balance/GDP (%)	−0.2	−1.2	−1.0	−1.4	−2.6	−3.1	−3.3
Nepal							
Real GDP at market prices	4.1	3.7	3.3	5.3	4.7	4.0	4.5
Current account balance/GDP (%)	0.2	2.3	−0.1	3.2	4.6	2.4	1.1
Pakistan							
Real GDP at market prices	4.1	6.2	5.7	2.0	3.7	3.0	4.0
Current account balance/GDP (%)	−0.8	−4.0	−4.9	−8.6	−5.9	−4.5	−4.1

Source: World Bank.

Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

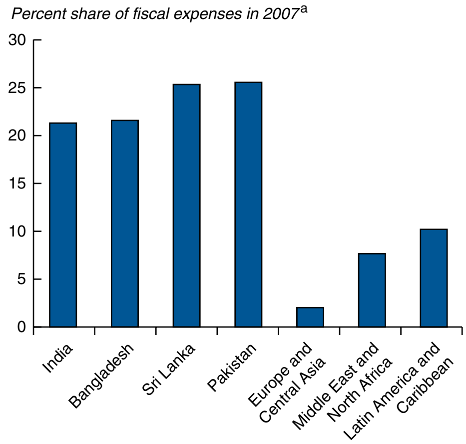
Afghanistan, Bhutan, and the Maldives are not forecast owing to data limitations. National income and product account data refer to fiscal years (FY) for the South Asian countries with the exception of Sri Lanka, which reports in calendar year (CY). The fiscal year runs from July 1 through June 30 in Bangladesh and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Because of reporting practices, Bangladesh, Nepal, and Pakistan report FY2007/08 data in CY2008, while India reports FY2007/08 in CY2007. GDP figures are presented in calendar years (CY) based on quarterly history for India. For Bangladesh, Nepal, and Pakistan, CY data is calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflators are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Estimate.
d. Forecast.

countries—Afghanistan, Pakistan, and to a lesser extent, Nepal—are expected to face more moderate growth outturns, as political uncertainty and fighting continue to disrupt economic activity.

Regional economies are projected to benefit from stronger remittance inflows over the forecast horizon, which in turn should boost private consumption and support growth—particularly in Bangladesh, Nepal, Pakistan, and Sri Lanka. However, the recovery in remittance growth is anticipated not to take hold immediately as job growth typically lags output growth in high-income markets—a lag that could be more extended than usual given the synchronicity of the global downturn. However, the slowdown in growth in the Arabian Gulf and East Asia—South Asia's key migrant destination countries—was generally less pronounced than in other labor-importing countries, which is expected to allow a relatively rapid recovery in remittances inflows to South Asia.

Figure A31 Interest payments represent a significant burden in South Asian economies



Source: World Bank.

a. Pakistan data are from 2008.

Risks

As the global economic recovery begins to take hold in the second half of 2009, risks to the GDP growth forecast for South Asia have lessened. Nevertheless, downside risks remain and center on the extent of the upswing and durability of the global recovery.

Downside risks to the forecast are represented by the region's large fiscal imbalances and its relatively high reliance on trade taxes. An extended period of weak external demand would likely erode these revenues and increase pressures on government coffers. The region's large fiscal imbalances also represent a potential drag on long-term growth by crowding out private investment through the public sector's large financing requirement and higher interest rates. Interest payments in South Asia represented 21.7 percent of central government expenditures in 2007, more than double the share represented in other developing regions (figure A31). By reducing the large fiscal deficits and payment obligations, regional governments could free up resources to devote to development spending. The region has a very low tax base compared with other developing regions, so improving tax collection would help alleviate fiscal pressures. Similarly, revamping the tax structure (including introduction of value-added taxes in some countries) could help boost revenue mobilization.

Remittances inflows—which provided a cushion for the region—could fail to recover in the event of a prolonged global recession or a jobless economic recovery (potentially coupled with tighter immigration controls). The debt payment problems of Dubai World in the United Arab Emirates that erupted in late-November 2009 suggest that economic activity in the Arabian Gulf economies could surprise to the downside, pointing to downside risks for South Asian migrants working in the Gulf and reduced remittances flows to their home countries. Correspondingly, should a significant portion of the stock of expatriate workers return home with accumulated savings due to the downturn in the Gulf, near-term remittances inflows might rise.

Overheating is also a risk. Should the recent surge in capital inflows to developing countries (see chapter 1) be sustained, they could lead to ballooning asset markets and appreciation of currencies (with the latter hindering export prospects), creating challenges for monetary authorities. Failure to mop up excess liquidity in banking systems or to bring down the region's large fiscal deficits could lead to higher inflationary pressures. Separately, while global rice markets appear well-supplied, and stock-to-use ratios have returned to more normal levels (along with maize and wheat stocks), a serious weather event or policy action could also cause prices to rise significantly, as only seven percent of global rice production is traded.

Table A11 Sub-Saharan Africa forecast summary
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[e]	2010[f]	2011[f]
GDP at market prices (2005 US$)[b]	4.0	6.4	6.5	5.1	1.1	3.8	4.6
GDP per capita (units in US$)	1.4	3.9	4.0	3.1	−0.8	1.9	2.7
PPP GDP[c]	4.0	6.4	6.5	5.2	1.6	4.1	4.9
Private consumption	2.0	7.0	8.1	3.5	0.4	3.2	4.5
Public consumption	5.2	5.8	5.8	5.6	5.6	5.2	5.2
Fixed investment	6.5	16.9	19.5	12.2	0.3	6.3	5.7
Exports, GNFS[d]	4.9	4.8	3.8	4.6	−5.2	6.6	5.9
Imports, GNFS[d]	6.1	13.2	11.8	6.7	−5.2	7.5	6.6
Net exports, contribution to growth	−0.1	−2.7	−2.9	−0.9	0.2	−0.6	−0.5
Current account balance/GDP (%)	−1.7	0.7	−0.1	0.1	−3.4	−2.5	−2.4
GDP deflator (median, LCU)	7.3	7.3	7.6	9.7	6.2	6.1	4.1
Fiscal balance/GDP (%)	−2.3	4.3	0.4	0.9	−4.2	−2.1	−1.7
Memo items: GDP							
Sub-Saharan Africa excluding South Africa	4.5	6.9	7.1	5.9	2.8	4.8	5.6
Oil exporters	4.6	7.5	7.9	6.3	2.8	4.9	5.3
CFA countries	4.4	2.7	4.5	4.0	1.6	3.4	3.8
South Africa	3.3	5.6	5.5	3.7	−1.8	2.0	2.7
Nigeria	4.6	6.2	6.3	5.3	4.3	4.8	5.1
Kenya	2.9	6.4	7.1	1.7	2.8	3.7	4.8

Source: World Bank.

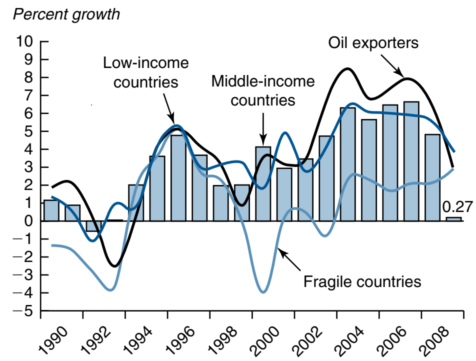
a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c GDP measured at PPP exchange rates.
d. Exports and imports of goods and nonfactor services.
e. Estimate.
f. Forecast.

Sub-Saharan Africa

Recent developments

The global financial crisis has had a marked, negative impact on economic performance in Sub-Saharan Africa, affecting trade, foreign direct investment, tourism, remittances, and official assistance. GDP is estimated to have grown only 1.1 percent for the region as a whole in 2009 (table A11). Notwithstanding the severity of the shock, the improved macroeconomic fundamentals in place in many countries of the region as they entered the crisis meant that the impact was less pronounced than in other regions and relative to previous external shocks. The growth slowdown has varied across countries in Sub-Saharan Africa, with oil exporters and middle-income countries affected more severely, at least initially, than low-income, fragile, and less globally integrated countries (figure A32). Per capita GDP has declined by an estimated 0.8 percent in 2009, the first decline in a decade. This is

Figure A32 Middle-income and oil-exporting countries of Sub-Saharan Africa hit hardest by global crisis



Source: World Bank.

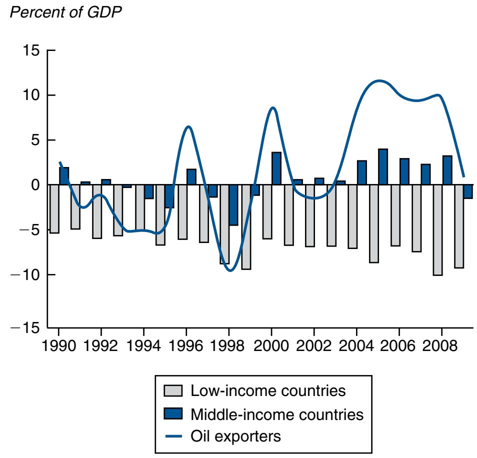
likely to have long-term consequences for Sub-Saharan African countries, as more people fall into poverty in the region, according to Chen and Ravallion (2009); 30,000 to 50,000 more infants are likely to die of malnutrition in 2009, with a larger impact among infant girls (Friedman and Schady 2009).

As Sub-Saharan Africa is a major commodity exporting region, lower commodity prices, declining export volumes, as well as lower tourism revenues, and declining remittances have all undermined income and private consumption, which decelerated to 0.4 percent growth in 2009, down from 3.5 percent the previous year. Weak external demand for commodities, excess capacity, scarce credit, and tight liquidity all led to delays and scaling back of investment spending. Although FDI declined by 19 percent in 2009 the decline was more muted than in other regions except South Asia, mainly because of sustained investment in the extractive sectors. Weak private consumption and investment resulted in lower imports, partially offsetting the negative growth impact emanating from the sharp contraction in export volumes (figure A33).

As expected, the contraction in both export and import volumes was more severe in middle-income countries, which are more integrated into the global economy. Because of the marked declines in oil prices, the deterioration in current account balances was most pronounced in oil-exporting countries, where it fell from 9.7 to 1.4 percent of GDP (figure A34). Meanwhile lower tourism revenues, remittances, and private current net transfers brought the current account balances in middle-income countries to a deficit of 1.2 percent of GDP—down from a surplus of 3.3 percent of GDP in 2008. Low-income countries remain dependent on foreign assistance to finance deficits of nearly 10 percent of GDP. For most of these countries the terms-of-trade boost from lower oil prices was offset by lower export prices or volumes (primarily metals and minerals, agricultural products), or both. Indeed, the marked decline in oil imports merely offset the decline in current account inflows, with current account balances improving by less than 1 percent of GDP.

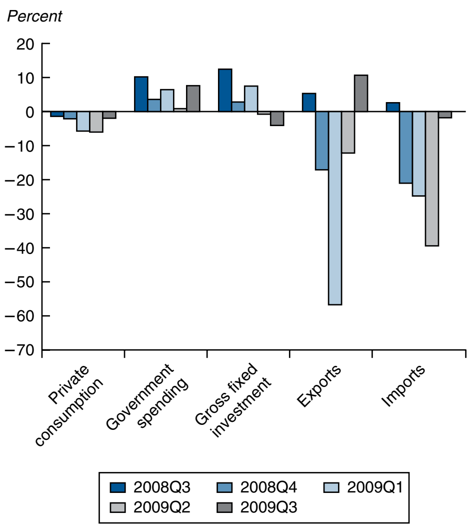
Sovereign spreads rose sharply in the wake of the financial crisis but have declined significantly since the first quarter of 2009. In many cases, however, these spreads remain above the pre-crisis level (figure A35).

Figure A34 Current account balances of middle-income and oil-exporting countries deteriorated the most, while low-income countries remained aid-dependent



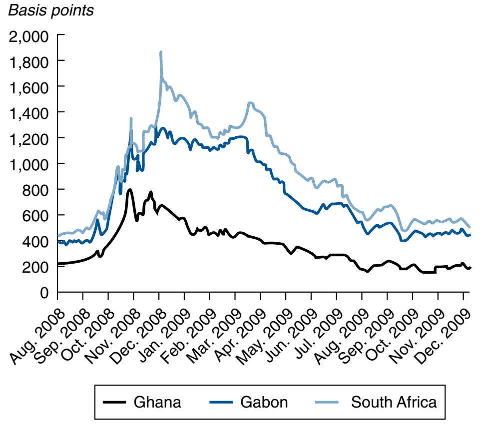
Source: World Bank.

Figure A33 Private consumption and trade contracted markedly in South Africa



Source: South African Reserve Bank.

Figure A35 EMBI-stripped spreads retreat as investor confidence returns



Source: JPMorgan.

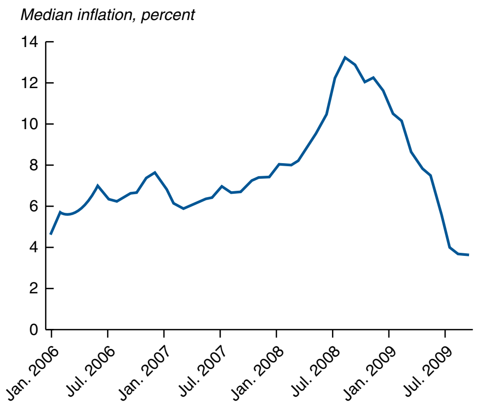
Most countries in the region have been spared from the most abrupt financial turbulences experienced by other regions, but in countries that enjoyed rapid credit expansion in the boom years (like Cape Verde, the Democratic Republic of Congo, Ethiopia, Nigeria, Rwanda, Tanzania, Uganda, and Zambia), nonperforming loans will mount in the quarters ahead, putting strains on the shallow financial systems.

Expectations about an imminent recovery in the global economy triggered a return of investors to stock markets across the world, boosting share prices. In South Africa share prices rose by 56 percent in dollar terms since January 2009. The capital inflows have also supported the rand, which gained 28.1 percent against the U.S. dollar during the course of 2009. Furthermore, a more positive investor attitude toward risk taking in emerging-market economies boosted inflows of direct and portfolio investment during the second quarter.

On the policy front many countries in the region had only limited space for countercyclical measures, notwithstanding more prudent fiscal stances during the boom period. Automatic stabilizers worked in South Africa and the Seychelles, which were among the small number of countries that were able to implement significant countercyclical fiscal policies. A large part of the deterioration in fiscal balances in commodity exporters is linked to both lower volumes and lower export prices for commodities. For the region as a whole, the fiscal balance deteriorated from a surplus of 0.9 percent of GDP in 2008 to a deficit of 4.2 percent of GDP in 2009. Furthermore, monetary policy remains ineffective in bolstering domestic demand in many countries owing to a lack of depth in the financial systems and weak transmission mechanisms.

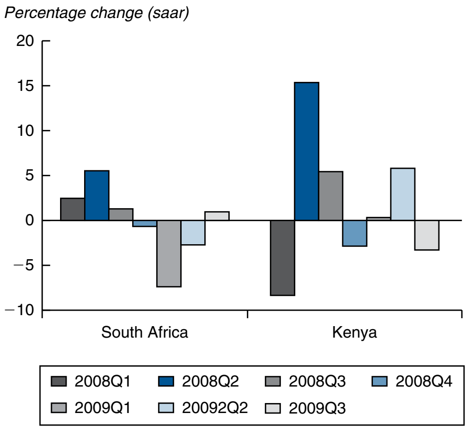
Lower food and oil prices since mid-2008 contributed to a sharp decline in headline inflation, which has eased to low single-digit levels in many countries (figure A36). By September 2009 several countries in the region were reporting falling headline prices. However, in East Africa, as a result of high food inflation related to recurrent droughts, inflation has remained stubbornly high. Subdued inflation in many countries in the Sub-Saharan Africa region has created room for lowering interest rates. Moreover, lower food and energy prices have relieved some of the pressure on fiscal balances, although sharply lower trade volumes and lower export

Figure A36 Inflation in Sub-Saharan Africa down to low single digits on lower food prices



Source: World Bank.

Figure A37 Quarterly GDP readings point to output stabilization in Sub-Saharan Africa



Source: Haver Analytics.

and import prices have slashed trade-related government revenues, which has been particularly acute in the Southern Africa Customs Union countries.

In South Africa output contracted for three consecutive quarters, starting with the final quarter of 2008, then posted 0.9 percent growth (saar) in the third quarter of 2009, thereby ending the recession (Figure A37). Domestic demand remains weak, undermined by declining disposable income, higher unemployment, and high levels of debt. Growth in both government consumption and fixed investment deteriorated in the second quarter, the latter partly attributable to more conservative lending practices. Weaker domestic demand, in particular postponements of capital expenditure by the private sector, led to a sharp contraction in imports during the first half of 2009. This in conjunction with less rapidly falling exports brought the second quarter trade balance into surplus, and helped bring the current account deficit down to 3.2 percent of GDP in the third quarter from 7 percent of GDP in the first quarter.

Nigeria's economy, the second largest in the region, seems to have weathered the crisis well. Notwithstanding lower oil prices and disruptions in oil production, GDP expanded 4.5 percent and 7.2 percent in the first two quarters of the year, and growth remained strong in the third quarter, largely on account of the non-oil sectors. Agriculture and wholesale and retail trade made positive contributions, suggesting continued strength in domestic demand. However poor performance in the manufacturing, mining, and electricity-generation sectors led to a decline in industrial output. The central bank's recent bailouts of Nigeria's top five commercial banks underscore the weakness of Nigeria's financial system. Together these banks account for 40 percent of all loans, 30 percent of deposits, and 31.5 percent of total assets. These banks had a very large exposure to capital markets and the gas and oil sectors, as well as a high level of nonperforming loans, thanks to poor corporate governance practices, lax credit administration, and nonadherence to the banks' credit risk management practices. The stock market has been severely battered since the onset of the global crisis, with share prices down 57.6 percent and market capitalization down 50.7 percent in the first nine months of 2009.

Kenya's economic growth has been constrained by recurrent drought and ensuing electricity shortages while also suffering the effects of the global economic crisis. When compared with a year earlier, growth decelerated from 4.3 percent in the first quarter, to 2.1 percent in the second quarter, to −0.1 percent in the third quarter, in contrast with growth rates of above 6 percent in 2007, before the election-related tensions. The drought-generated general crop failure affected food security, leading to higher imports of basic foods. Major export crops fell, with tea output down 11.6 percent and horticulture output down 7.4 percent in the first eight months of 2009. Power shortages, higher power costs, and weak global demand caused mining and quarrying, manufacturing, construction, and wholesale and retail trade to contract in the second quarter. On the bright side, transport and communications, as well as the hotel and restaurant sector rebounded as the effects of the postelection violence in early

2008 dissipated. Tourist arrivals rose 42 percent in the first eight months of 2009.

In Ethiopia economic activity has been supported by growth in the agricultural sector, underpinned by an expansion of roads and better market access that have enabled subsistence farmers to enter the commercial sector. The economy was faced with significant external shocks, however. The global recession caused remittances to fall by 6 percent in the first half of 2009 relative to a year earlier, while merchandise exports fell 11 percent. In manufacturing, capacity utilization has been affected by weak demand, shortages of water and electricity, insufficient raw materials and other inputs, and a shortage of capital. Foreign direct investment has also been affected, making it more difficult to finance the large current account deficit. Economic growth is estimated to have decelerated to 7.2 percent in 2009, as remittances, investment, and export growth weaken. Two new hydroelectric dams, one commissioned in November 2009 and the other to become operational in the next few months, will help ease power shortages and remove some of the growth constraints.

Lower demand for minerals is estimated to have weakened performance in southern Africa, and the region was also negatively affected by the recession in South Africa, with which it has close trade, investment, and financial links. Angola's economy also performed poorly: oil output declined to below 1.8 million barrels a day, while falling oil revenues forced the government to cut back on investment spending, and private consumer spending contracted. Lower demand for mining and hydrocarbon products pushed the Democratic Republic of Congo into recession in the last quarter of 2008, and this contraction was extended into the first half of 2009, when output dropped a cumulative 5.8 percent. Strong growth in the agriculture sector helped Mozambique's economic growth to stay at 5.9 percent in the first quarter of 2009 notwithstanding a deceleration in growth in the services sector. Subsequently, growth accelerated to above 6 percent in the second and third quarters.

Growth performance has been stronger in West and Eastern Africa: major economies in the regions have recovered and reform-oriented economies such as Burkina Faso, Mali, Senegal, and Tanzania have turned in relatively strong performances. In Côte d'Ivoire, which has been enjoying a peace dividend following the easing of political tensions, growth accelerated to above 3 percent in 2009, as agricultural, mining, and hydrocarbon output increased. In Central Africa, growth remained plagued by weak performances in the oil sectors of Cameroon and Gabon.

Medium-term outlook

The recovery in growth is projected to be modest and fragile, with output in Sub-Saharan Africa expected to accelerate to below-trend growth rates of 3.8 percent in 2010 and 4.6 percent in 2011. The growth pace will be well below the 6 percent growth rate recorded during the boom years, as a result of lower real commodity prices and slower global growth. Excluding South Africa, the region is projected to enjoy a modest acceleration in growth, from 2.8 percent in 2009 to 4.8 and 5.6 percent in 2010 and 2011, respectively, as global growth recovers; however, this is still below the average 6.6 percent experienced during the boom years. The South African economy is expected to recover modestly in 2010, growing by 2.0 percent, before accelerating further to 2.7 percent in 2011. In per capita terms, GDP in Sub-Saharan Africa is projected to grow 1.9 percent in 2010 and 2.7 percent in 2011.

The rebound in economic activity will primarily be fueled by a recovery in private demand, exports, and investment, with the largest contribution expected to come from exports. However, the overall strength of the recovery will depend on the growth performance in key export markets and investment partners, particularly the United States, the European Union, and China. The projected rebound in growth in these economies, fueled by the inventory cycle and impressive countercyclical policies, is expected to result in stronger external demand for Sub-Saharan African exports and should trigger a modest recovery in investment flows. However growth in external demand is expected to wane in the second half of 2010, as the growth impact of the inventory restocking cycle and fiscal stimulus wanes. Stronger domestic demand will cause import growth to accelerate, with net exports contributing negatively (−0.6 percent) to overall growth. Furthermore, given that recovery in global labor markets will lag, the recovery in tourism revenues and remittances is expected to be modest in 2010. Many countries in Sub-Saharan Africa have very limited social safety nets, which means that recovery of private consumption will be weaker than in other regions. Indeed private demand is projected to grow by 3.2 percent, partly fueled by higher incomes in export-oriented sectors that benefit from stronger external demand.

Middle-income countries such as Botswana, Seychelles, South Africa, and oil-exporting countries like Angola are likely to register the most dramatic turnaround from low bases owing to weak performance in 2009 (table A12; figure A38). Growth in middle-income countries

Table A12 Sub-Saharan Africa country forecasts
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Angola							
GDP at market prices (2005 US$)[b]	8.3	18.6	20.3	13.2	−0.9	6.5	8.0
Current account balance/GDP (%)	−2.2	25.1	15.6	8.5	−4.2	5.9	6.2
Benin							
GDP at market prices (2005 US$)[b]	4.6	3.8	4.6	5.0	3.1	3.3	4.8
Current account balance/GDP (%)	−7.2	−7.1	−12.1	−8.7	−8.5	−7.4	−7.3
Botswana							
GDP at market prices (2005 US$)[b]	6.8	3.0	4.4	2.9	−8.3	4.8	5.6
Current account balance/GDP (%)	8.1	17.6	15.6	7.8	−7.3	−7.2	−7.7
Burkina Faso							
GDP at market prices (2005 US$)[b]	6.4	5.5	3.6	4.9	3.6	4.6	5.2
Current account balance/GDP (%)	−10.1	−11.5	−8.7	−10.4	−9.8	−9.5	−10.2
Burundi							
GDP at market prices (2005 US$)[b]	0.4	5.1	3.6	4.4	2.6	3.7	5.1
Current account balance/GDP (%)	−13.7	−35.3	−26.7	−28.4	−23.2	−21.8	−21.8
Cameroon							
GDP at market prices (2005 US$)[b]	4.2	3.2	3.3	3.1	1.4	2.6	3.2
Current account balance/GDP (%)	−3.5	−0.8	−2.7	−1.0	−6.0	−5.0	−5.5
Cape Verde							
GDP at market prices (2005 US$)[b]	5.2	10.8	7.8	5.9	3.3	4.4	5.4
Current account balance/GDP (%)	−10.1	−6.9	−13.5	−18.3	−23.1	−22.3	−19.9
Central African Republic							
GDP at market prices (2005 US$)[b]	0.7	4.0	3.7	2.2	2.4	2.8	2.7
Current account balance/GDP (%)	−4.4	−7.6	−5.9	−8.5	−7.2	−7.3	−7.6
Chad							
GDP at market prices (2005 US$)[b]	8.6	0.2	0.2	0.2	0.8	2.7	3.0
Current account balance/GDP (%)	−24.2	−7.5	−10.7	−12.2	−20.7	−14.8	−14.3
Comoros							
GDP at market prices (2005 US$)[b]	2.1	1.2	−1.0	0.6	0.5	1.7	2.3
Current account balance/GDP (%)	−6.3	−5.5	−6.8	−11.8	−8.2	−8.2	−8.5
Congo, Dem. Rep. of							
GDP at market prices (2005 US$)[b]	0.1	5.6	6.3	7.1	3.0	5.2	6.9
Current account balance/GDP (%)	−1.7	−4.0	−2.7	−14.5	−13.6	−12.8	−12.0

(continued)

Table A12 (*continued*)
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Congo, Rep. of							
GDP at market prices (2005 US$)[b]	3.4	6.2	−1.6	5.8	6.8	11.0	2.9
Current account balance/GDP (%)	−2.2	1.6	−9.3	−2.6	−9.3	3.2	0.9
Côte d'Ivoire							
GDP at market prices (2005 US$)[b]	1.6	0.7	1.6	2.3	3.2	4.0	4.1
Current account balance/GDP (%)	−0.2	2.8	−0.7	2.6	23.6	2.6	0.8
Eritrea							
GDP at market prices (2005 US$)[b]	1.7	−1.0	1.3	1.2	1.5	4.2	4.3
Current account balance/GDP (%)	−15.3	−20.8	−15.7	−16.3	−8.7	−9.3	−10.1
Ethiopia							
GDP at market prices (2005 US$)[b]	5.5	11.5	11.5	11.6	7.2	7.0	7.5
Current account balance/GDP (%)	−3.3	−9.2	−4.5	−5.6	−5.8	−8.1	−6.5
Gabon							
GDP at market prices (2005 US$)[b]	1.0	1.2	5.6	2.3	−1.2	2.3	3.4
Current account balance/GDP (%)	10.6	15.7	13.6	17.1	1.7	6.7	7.8
Gambia, The							
GDP at market prices (2005 US$)[b]	4.4	6.6	6.3	6.1	4.6	5.0	5.1
Current account balance/GDP (%)	−5.3	−13.9	−13.1	−15.6	−18.3	−16.8	−16.3
Ghana							
GDP at market prices (2005 US$)[b]	4.7	6.4	5.7	7.3	4.1	4.6	17.5
Current account balance/GDP (%)	−5.4	−8.2	−12.9	−18.2	−12.6	−15.5	−12.7
Guinea							
GDP at market prices (2005 US$)[b]	3.7	2.2	1.8	3.0	2.0	2.6	4.1
Current account balance/GDP (%)	−5.2	−11.4	−10.5	−15.6	−11.5	−11.1	−11.6
Guinea-Bissau							
GDP at m arket prices (2005 US$)[b]	−1.4	3.5	2.7	2.9	2.1	3.4	3.4
Current account balance/GDP (%)	−13.5	−18.5	−9.7	−12.5	−16.4	−15.4	−15.3
Kenya							
GDP at market prices (2005 US$)[b]	2.9	6.4	7.1	1.7	2.8	3.7	4.8
Current account balance/GDP (%)	−7.5	−2.3	−3.5	−6.9	−8.3	−7.6	−6.9
Lesotho							
GDP at market prices (2005 US$)[b]	2.8	6.5	2.4	4.5	0.6	2.3	2.8
Current account balance/GDP (%)	−22.0	4.4	13.7	9.8	−3.1	−18.5	−19.6
Madagascar							
GDP at market prices (2005 US$)[b]	3.1	5.0	6.2	6.9	0.9	3.1	3.6
Current account balance/GDP (%)	−8.6	−9.5	−14.7	−21.6	−17.1	−15.8	−15.2
Malawi							
GDP at market prices (2005 US$)[b]	2.4	8.2	8.6	9.7	6.5	5.4	4.6
Current account balance/GDP (%)	−5.7	−4.2	−1.6	−6.3	−3.4	−4.8	−4.6
Mali							
GDP at market prices (2005 US$)[b]	5.8	5.3	4.3	5.1	3.9	4.7	4.8
Current account balance/GDP (%)	−8.7	−3.9	−7.4	−8.5	−6.8	−7.9	−8.5
Mauritania							
GDP at market prices (2005 US$)[b]	3.3	11.7	1.9	2.2	2.5	4.1	5.0
Current account balance/GDP (%)	−3.2	−3.4	−10.9	−16.4	−15.0	−16.3	−17.6
Mauritius							
GDP at market prices (2005 US$)[b]	4.8	3.6	5.5	4.5	1.9	3.5	4.4
Current account balance/GDP (%)	0.1	−9.4	−6.4	−9.0	−8.2	−8.1	−8.8
Mozambique							
GDP at market prices (2005 US$)[b]	8.0	8.7	7.0	6.8	5.0	5.5	5.7
Current account balance/GDP (%)	−15.1	−10.9	−12.9	−11.5	−10.6	−10.1	−9.1

(continued)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Namibia							
GDP at market prices (2005 US$)[b]	4.2	7.1	5.5	2.9	−1.9	3.0	3.3
Current account balance/GDP (%)	3.0	12.7	9.1	1.9	−1.3	−2.0	−1.2
Niger							
GDP at market prices (2005 US$)[b]	3.5	5.8	3.3	9.4	1.6	4.9	5.3
Current account balance/GDP (%)	−7.1	−8.6	−7.8	−12.8	−17.9	−16.3	−17.7
Nigeria							
GDP at market prices (2005 US$)[b]	4.6	6.2	6.3	5.3	4.3	4.8	5.1
Current account balance/GDP (%)	5.4	15.7	17.7	19.1	8.0	10.6	10.3
Rwanda							
GDP at market prices (2005 US$)[b]	8.3	7.3	7.9	11.2	5.1	5.5	5.8
Current account balance/GDP (%)	−4.6	−6.4	−3.8	−7.0	−6.9	−7.0	−7.1
Senegal							
GDP at market prices (2005 US$)[b]	4.4	2.4	4.7	2.5	2.1	3.4	4.2
Current account balance/GDP (%)	−5.7	−9.2	−11.2	−12.4	−11.4	−10.5	−10.6
Seychelles							
GDP at market prices (2005 US$)[b]	2.8	8.3	7.3	0.1	−10.1	2.7	3.7
Current account balance/GDP (%)	−13.4	−15.0	−29.9	−47.5	−8.8	−16.0	−17.5
Sierra Leone							
GDP at market prices (2005 US$)[b]	4.6	7.3	6.4	5.3	4.0	4.7	6.5
Current account balance/GDP (%)	−12.4	−9.5	−14.3	−16.1	−17.0	−16.6	−16.6
South Africa							
GDP at market prices (2005 US$)[b]	3.3	5.6	5.5	3.7	−1.8	2.0	2.7
Current account balance/GDP (%)	−1.3	−6.2	−7.3	−7.4	−5.0	−5.7	−6.0
Sudan							
GDP at market prices (2005 US$)[b]	6.2	11.3	10.2	6.8	3.8	4.9	5.1
Current account balance/GDP (%)	−6.3	−15.2	−12.5	−9.1	−11.5	−9.6	−8.8
Swaziland							
GDP at market prices (2005 US$)[b]	3.5	2.9	3.5	2.4	0.2	1.1	2.4
Current account balance/GDP (%)	−0.8	−7.3	0.8	−4.3	−8.6	−10.5	−11.5
Tanzania							
GDP at market prices (2005 US$)[b]	5.4	6.7	7.1	7.5	4.6	5.5	6.2
Current account balance/GDP (%)	−6.3	−8.0	−9.4	−9.9	−7.9	−8.5	−8.4
Togo							
GDP at market prices (2005 USS)[b]	3.2	3.9	1.9	1.0	1.7	2.0	3.2
Current account balance/GDP (%)	−9.6	−7.8	−7.7	−11.2	−7.0	−7.6	−7.6
Uganda							
GDP at market prices (2005 US$)[b]	6.4	10.8	8.4	9.0	5.1	5.6	5.9
Current account balance/GDP (%)	−7.1	−4.4	−3.7	−3.5	−4.8	−6.0	−6.4
Zambia							
GDP at market prices (2005 US$)[b]	3.8	6.2	6.2	5.7	5.2	5.4	5.9
Current account balance/GDP (%)	−11.8	1.2	−6.1	−7.6	−4.2	−4.3	−4.4
Zimbabwe							
GDP at market prices (2005 US$)[b]	−2.4	−6.3	−6.9	−14.1	4.7	7.1	6.3
Current account balance/GDP (%)	−11.5	−16.6	−10.3	−26.6	−20.8	−23.6	−21.3

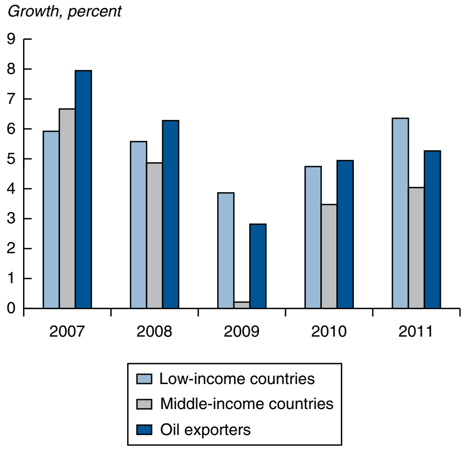
Source: World Bank.

Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Liberia, Somalia, and, São Tomé and Principe are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Estimate.
d. Forecast.

Figure A38 Growth in middle-income and oil-exporting countries in Sub-Saharan Africa will accelerate faster



Source: World Bank.

is projected to accelerate from 0.3 percent in 2009 to 3.5 percent in 2010 and to accelerate further to 4 percent in 2011, boosted by stronger external demand and a moderate recovery in tourism and remittances. Meanwhile growth in oil-exporting countries will almost double, reaching 4.9 percent in 2010, and accelerate marginally, to 5.3 percent in 2011, helped by stronger demand for energy. For low-income countries, a more moderate acceleration in growth of slightly less than 1 percentage point is forecast, as remittances, tourism, and private capital flows recover more slowly. Indeed, remittances to Sub-Saharan African are projected to rise only modestly, by 1.8 percent in 2010, after having declined by 2.9 percent in 2009, as weak labor markets in destination countries undermine migrants' incomes. In contrast, remittances grew 40 percent over the 2006–2008 period (World Bank Group 2009). Growth in fragile states will accelerate by slightly more than 1 percentage point to above 4.2 percent having weathered the global crisis remarkably, benefiting in some cases from the peace dividend.

Current account balances in middle-income countries will improve only marginally in the next couple of years, as recovery in domestic demand, and in particular investment (with high import content), will boost import demand, causing imports to grow faster than exports. Furthermore the recovery in tourism revenues and remittances will also be moderate because of a weak (even jobless) recovery in high-income labor markets during the forecast period. Current account balances in these middle-income countries are projected to improve by less than 1.5 percent of GDP between 2009 and 2011. Current account balances in oil-exporting countries should improve by 2.7 percent of GDP, with stronger oil revenues partially offset by stronger import demand and higher profit repatriations.

Higher commodity prices and increased trade volumes, along with more robust levels of domestic economic activity, should reduce fiscal deficits in the region. After fiscal balances deteriorated to −4.2 percent of GDP in 2009, fiscal balances are expected to ameliorate in 2010, narrowing to −2.1 percent of GDP, before improving further to −1.7 percent of GDP by 2011 as accelerating output growth raises tax revenues. However, most low-income countries will continue to experience fiscal gaps in excess of 3 percent of GDP. Fiscal balances in oil-exporting countries are expected to improve from a deficit of 5.2 percent of GDP to marginal surpluses over the forecast horizon.

Risks

The major risk facing the Sub-Saharan economies is that the world economy could experience a double dip or economic stagnation. This would undermine the recovery in external demand for the Sub-Saharan economies and would put pressure on commodity prices, undermining government revenues and possibly pushing debt to unsustainable levels. This could in turn force governments to implement procyclical fiscal cuts, increase taxation, or both, with adverse implications for poverty, health, education, and long-term growth prospects. Tourism, remittances, and private capital flows may also decline further, thereby negatively affecting growth and incomes and ultimately causing more people to fall into poverty. Furthermore, safety nets in many countries in the region are very limited, which means that the impact on the poor cannot be cushioned. A jobless recovery in high-income countries would have similar negative consequences for tourism and remittances to Sub-Saharan African countries, some of which depend heavily on these revenues.

The Sub-Saharan Africa region will face a large external financing burden in 2010, equivalent to close to 12 percent of GDP, and growth could fall short of the baseline forecast if unmet financing requirements lead to lower investment and growth prospects. For countries with external financing needs, maturing foreign debt will amount to close to 6.5 percent of GDP in 2010, while the current account deficit including grants is forecast at 5.2 percent of GDP. There is thus a risk in many Sub-Saharan economies, and in particular in low-income countries, that concessional lending will fall short of the need to finance a swift return to growth. In some cases, this shortfall may be exacerbated by institutional capacity constraints, which also limit effectiveness. Given the role that foreign investment flows play in the region, a reversal in these flows not only would directly affect external financing needs, but also would have a severe impact on investment and growth. Given the increased global growth uncertainties, investment flows to the region may be adversely affected.

The fiscal position in some of the smaller members of the Southern Africa Customs Union (particularly Lesotho and Swaziland) may come under severe pressure over the next two to three years, because one of the major revenue sources of the union's revenue pool is related to taxes on South African imports, which have deteriorated rapidly in the aftermath of the global financial crisis.

In countries that experienced rapid credit growth during the boom years, there is a marked risk that nonperforming loans will rise sharply during the economic downturn affecting the financial sector, which in turn would have an adverse impact on the real sector. Countries like Cape Verde, the Democratic Republic of Congo, Ethiopia, Nigeria, Rwanda, Tanzania, Uganda, and Zambia have registered rapid increases in nonfinancial private sector claims (as a share of broad money) and therefore run larger risks. For countries with low capital adequacy, the effect of deteriorating balance sheets on performance will be even more severe.

Notes

1. Fixed investment plummeted across most developing and high-income countries of the East Asia region from the final quarter of 2008 through the second quarter of 2009. For example, investment in Thailand tumbled 40 percent in the first quarter of 2009 (saar), Malaysia experienced sequential falloffs of 35 and 14 percent over the final quarter of 2008 and the first of 2009, while several newly industrialized economies (NIEs) were much more severely affected, with Taiwan, China, suffering four successive quarterly declines, two of which were in excess of 40 percent.

2. The developing East Asia region as referenced in this report comprises the larger countries of China, Indonesia, Malaysia, the Philippines, and Thailand, as well as Fiji, Cambodia, Lao People's Democratic Republic, Papua New Guinea, Vanuatu, and Vietnam. Smaller Pacific island nations generally carry insufficient economic and financial data for inclusion in the database and projections. The importance of high-income East Asian countries—those noted in the text—as well as Australia, should be underscored in the current context of crisis and recovery, because the strong trade relationships among all countries in East Asia tend to amplify the down-phase of recession, but should come to support the rebound and recovery in a similar fashion as recovery evolves over coming months and years.

3. Dollar-based exports picked up to growth of 52 percent for China by November 2009 (saar) from declines of 54 percent in March; to 41 percent for the remainder of the developing region by October, and to 17 percent for the NIEs, also by October of the year. At the same time industrial production for most economies rebounded sharply, for example, to 25 percent for Thailand in September (saar) from trough declines of 48 percent in December 2008.

4. The countries covered in the Europe and Central Asia section of the appendix are those that fall into the World Bank's definition of low- and middle-income

classifications (with 2008 per capita Gross National Income equal to or below $3,855). These 24 countries are Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, Latvia, Lithuania, Former Yugoslav Republic of Macedonia, Montenegro, Poland, Romania, and Serbia (in the Central European subregion); Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan (in the Commonwealth of Independent States subregion); and Turkey. Transition countries include all 24 countries, with the exception of Turkey. Among these developing countries, Bulgaria, Latvia, Lithuania, Poland, and Romania are new European Union members. Owing to data limitations, forecasts are not available for Bosnia and Herzegovina, Kosovo, Montenegro, Serbia, Tajikistan, and Turkmenistan.

5. See World Bank (2009b).

6. Bulgaria, Latvia, Lithuania, Poland, and Romania. See World Bank, 2009a.

7. Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

8. Armenia, Azerbaijan, and Georgia.

9. World Bank Group (2009).

10. World Bank (2010a).

11. World Bank (2010b).

12. SELIC stands for Sistema Especial de Liquidação e Custodia, or Special System of Clearance and Custody, which is Banco Central do Brasil's overnight lending rate.

13. The low- and middle income countries of the Middle East and North Africa region as presented in this report include Algeria, the Arab Republic of Egypt, the Islamic Republic of Iran, Jordan, Lebanon, Morocco, the Syrian Arab Republic, Tunisia, and the Republic of Yemen. Several developing economies are not covered owing to data insufficiencies, including Djibouti, Iraq, Libya, and the West Bank and Gaza. High-income economies of the broader geographic region, including Gulf Cooperation Council (GCC) members Bahrain, Kuwait, Oman and Saudi Arabia are covered in this report under the category of "other high-income countries." But as this group has become increasingly more integrated with the developing economies of the region, discussion of economic and financial developments for the group is a feature of this appendix. Among the GCC, insufficient data exists for inclusion of Qatar and the United Arab Emirates.

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