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NEWS RELEASE

WB expects muted global growth, led by developing world

WASHINGTON, June 12, 2013 – Risks from advanced economies have eased and growth is firming, despite ongoing contraction in the Euro Area. However, the pick-up in developing countries will be modest because of capacity constraints in several middle income countries, says the World Bank in the newly-released *Global Economic Prospects* (GEP) report.

Global GDP is expected to expand about 2.2 percent this year and strengthen to 3.0 percent and 3.3 percent in 2014 and 2015[1].

Developing-country GDP is now projected to be around 5.1 percent in 2013, strengthening to 5.6 percent and 5.7 percent in 2014 and 2015, respectively. Growth in Brazil, India, Russia, South Africa and Turkey has been held back by supply bottlenecks. While external risks have eased, growth in these countries is unlikely to reach pre-crisis rates unless supply-side reforms are completed. In China also, growth has slowed as authorities seek to rebalance the economy. Looking at broader region-wide trends, the East Asia & Pacific region is expected to grow by 7.3 percent this year; Europe & Central Asia by 2.8 percent; Latin America & the Caribbean by 3.3 percent; Middle East & North Africa by 2.5 percent; South Asia by 5.2 percent; and Sub-Saharan Africa by 4.9 percent.

For high-income countries, fiscal consolidation, high unemployment and still weak consumer and business confidence will keep growth this year to a modest 1.2 percent, firming to 2.0 percent in 2014 and 2.3 percent by 2015. Economic contraction in the Euro Area is projected to be 0.6 percent for 2013, compared with the previous projection of 0.1 percent. Euro Area growth is expected to be a modest 0.9 percent in 2014 and 1.5 percent in 2015.

"While there are markers of hope in the financial sector, the slowdown in the real economy is turning out to be unusually protracted," **Kaushik Basu, Senior Vice President and Chief Economist at the World Bank**. *"This is reflected in the stubbornly high unemployment in industrialized nations, with unemployment in the Eurozone actually rising, and in the slowing growth in emerging economies, with India's annual growth having dropped below 6 percent for the first time in 10 years. Also, there is heightened speculation that the US may withdraw QE and widespread concern about its consequences. By going into these topical matters, the World Bank's latest Global Economic Prospects alerts us to both the hopes and the risks in the global economy, and also gives valuable instructions on policy."*

Global trade, after contracting for several months, is expanding once again, but trade is expected to expand only 4.0 percent in 2013, well off the pre-crisis pace of 7.3 percent. Not only will the volume of trade grow less quickly than in the past, the value of trade will grow even less quickly as commodity prices begin to ease in response to rapidly increasing supply. The prices of metals and minerals are already down by 30 percent and that of energy by 14 percent since their peaks in early 2011.

"The coming on stream of new mines and energy sources is putting downward pressure on most industrial commodity prices. If commodity prices were to decline even faster than expected, commodity exporting developing countries could experience serious fiscal setbacks and weaker growth," said **Hans Timmer**, Director, Development Prospects Group.

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[1] Using 2005 purchasing power parity weights, global growth would be 3.1, 3.8 and 4.1 percent in 2013. 2014 and 2015, respectively.

Part of the resilience of global trade, despite the weakness in high-income economies, has been due to rapid expansion in South-South trade. More than 50 percent of developing country exports now go to other developing countries. Even when China is excluded, South-South trade has been growing at an average rate of 17.5 percent a year over the past decade, with manufacturing trade expanding as rapidly as commodities trade.

Gross capital flows to developing countries, which were relatively weak for most of the post-crisis period, have reached record levels. International bond issuance by developing countries is also at record levels, while bank lending and equity issuance for developing countries is up by almost 70 percent as compared with first 5 months of 2012. The rebound in bank-lending suggests that for developing countries the most acute effects of high-income banking-sector deleveraging have passed. Despite the uptick, as a percent of developing-country GDP, capital flows remain well below pre-crisis levels.

Prospects for developing countries are varied. In several developing countries, notably in East Asia & the Pacific, demand appears to be expanding faster than supply, resulting in growing imbalances, such as inflation, asset-price bubbles, rising debt levels and deteriorating current account balances. Most countries in Sub-Saharan Africa are also running at or close to full capacity, risking a build-up of inflationary pressures. In developing Europe, although activity has picked up, growth has not been fast enough to quickly reduce post-crisis output gaps and unemployment. Finally, in the Middle East & North Africa, GDP growth has been disrupted by political and social tensions. Unemployment and slow productivity remain central policy challenges.

"Given capacity constraints, to achieve higher growth on a sustained basis, most developing countries need to once again prioritize structural reforms like easing the cost of doing business, opening up to international trade flows and foreign investment, and investing in infrastructure and human capital. These measures underpinned strong developing country growth over the past 20 years and are worth sticking with," said **Andrew Burns**, Manager of Global Macroeconomics and lead author of the report.

The full report and accompanying datasets are available at www.worldbank.org/globaloutlook

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Regional Highlights
Growth outlooks, including forecasts for each country, are available in the full report at: www.worldbank.org/globaloutlook

Growth in the **East Asia & the Pacific** region was robust in the first quarter of 2013, but slower than last year. Overall, the regional economy is projected to expand by around 7.3 percent in 2013, before accelerating to 7.5 percent in 2014 and 2015. The weakness in 2013 partly reflects weak 7.7 percent growth in China, which is expected to strengthen to 8.0 and 7.9 percent in 2014 and 2015 respectively. Regional growth, excluding China, will slow in 2013 to 5.7 percent, partly due to fiscal policy tightening, but then firm on solid growth in Indonesia, Malaysia, Philippines and Thailand. Risks to the region include those surrounding the gradual reduction in Chinese investment, Japanese quantitative easing, rapidly expanding credit, and rising asset prices.

After slowing sharply in 2012, GDP growth in **Europe & Central Asia** in 2013 will be supported by improved agricultural performance, reduced deleveraging pressures, and strengthening external demand. The rebound will, nevertheless, be constrained by weak carry-over growth due to slow growth in the last quarter of 2012, ongoing fiscal adjustments by the region's economies, high unemployment, and still weak export demand. The region's growth is expected to reach 2.8 percent in 2013 and 4.2 percent by 2015. Medium-term prospects for the region will critically depend on progress in addressing structural bottlenecks to economic growth, including capacity constraints, high unemployment and lack of competitiveness.

Growth in **Latin America & the Caribbean** is expected to strengthen marginally to 3.3 percent in 2013, from 3.0 percent in 2012, as lower commodity prices and subdued global activity will weigh on growth. Growth will firm somewhat in Argentina and Brazil from a very weak pace, while slowing down in most commodity exporters. In Venezuela, the reversal of highly expansionary policies will cause a sharp deceleration in GDP growth to 1.4 percent in 2013. Improvements in terms of trade will support growth in Central America, while growth in the Caribbean will be held back by financing constraints and necessary fiscal adjustments. Over the medium term, the regional economy is expected to grow just under 4 percent annually, supported by stronger capital flows (notably FDI), recovering external demand and structural reforms.

Growth in the **Middle East & North Africa** region is projected to slow to 2.5 percent in 2013, from 3.5 percent in 2012, reflecting a second year of recession in Iran, subdued growth in Egypt and a modest pickup in Algeria. Political tensions remain high on account of upcoming elections and referendums, and security risks are dragging down activity and investment. Rising fiscal and external account imbalances among oil importers are exacerbating funding pressures in the face of sharply lower private capital inflows since 2010. Medium-term prospects for the region hinge on the resolution of political tensions and security risks; and on the implementation of reforms to place the region's economies on a more sustainable footing and to boost investment, jobs and growth. Regional GDP growth is projected at 3.5 percent in 2014 and 4.2 percent in 2015, as tensions ease and reforms are undertaken.

GDP growth in **South Asia** slipped to 4.8 percent in 2012, mainly reflecting a continued deceleration in India, slower growth in Sri Lanka and Bangladesh, and sluggish growth in Pakistan and Nepal. Regional GDP growth is projected to pick up to 5.2 percent in 2013, before accelerating to 6.0 percent and 6.4 percent in 2014 and 2015, in line with strengthening external demand, normal monsoons, and a gradual pickup in investment spending. Growth in India is projected to rise to 5.7 percent in the 2013 fiscal year, and firm to 6.5 percent and 6.7 percent in FY2014 and FY2015, respectively. Continued progress in fiscal consolidation and in reducing structural constraints will determine the pace of recovery. Domestic risks dominate, including a possible derailing of reforms, and weaker than expected monsoon rains.

Growth in **Sub-Saharan Africa** has remained robust due to resilient domestic demand and still relatively high commodity prices. These factors, along with projected strengthening of external demand, are expected to underpin a pick-up of growth over the 2013-2015 period to about 5.2 percent (excluding, South Africa, growth in the region will average some 6.2 percent). Nonetheless, a weaker than expected recovery in high-income countries or a sharper than expected decline in commodity prices could derail the region's robust growth prospects and cause fiscal and current account balances to deteriorate. Domestic risks for some countries in the region include overheating in economies operating close to capacity; adverse weather conditions; and political unrest.