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WB projects global slowdown, with developing countries impacted

Beijing, January 18, 2012 – Developing countries should prepare for further downside risks, as Euro Area debt problems and weakening growth in several big emerging economies are dimming global growth prospects, says the World Bank in the newly-released *Global Economic Prospects* (GEP) 2012.

The Bank has lowered its growth forecast for 2012 to 5.4 percent for developing countries and 1.4 percent for high-income countries (-0.3 percent for the Euro Area), down from its June estimates of 6.2 and 2.7 percent (1.8 percent for the Euro Area), respectively. Global growth is now projected at 2.5 and 3.1[1] percent for 2012 and 2013, respectively.

Slower growth is already visible in weakening global trade and commodity prices. Global exports of goods and services expanded an estimated 6.6 percent in 2011 (down from 12.4 percent in 2010), and are projected to rise by only 4.7 percent in 2012. Meanwhile, global prices of energy, metals and minerals, and agricultural products are down 10, 25 and 19 percent respectively since peaks in early 2011. Declining commodity prices have contributed to an easing of headline inflation in most developing countries. Although international food prices eased in recent months, down 14 percent from their peak in February 2011, food security for the poorest, including in the Horn of Africa, remains a central concern.

*"Developing countries need to evaluate their vulnerabilities and prepare for further shocks, while there is still time," said **Justin Yifu Lin**, the World Bank's Chief Economist and Senior Vice President for Development Economics.*

Developing countries have less fiscal and monetary space for remedial measures than they did in 2008/09. As a result, their ability to respond may be constrained if international finance dries up and global conditions deteriorate sharply.

To prepare for that possibility, ***Hans Timmer**, Director of Development Prospects at the World Bank, said: "Developing countries should pre-finance budget deficits, prioritize spending on social safety nets and infrastructure, and stress-test domestic banks."*

While prospects in most low-and middle-income countries remain favorable, the ripple effects of the crisis in high-income countries are being felt worldwide. Already, developing country sovereign spreads have increased 45 basis points on average and gross capital flows to developing countries plunged to $170 billion in the second half of 2011, compared with $309 billion received during the same period in 2010.

*"An escalation of the crisis would spare no-one. Developed- and developing-country growth rates could fall by as much or more than in 2008/09" said **Andrew Burns**, Manager of Global Macroeconomics and lead author of the report. "The importance of contingency planning cannot be stressed enough."*

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

[1] Using purchasing power parity weights, global growth would be 3.4 and 4.0 percent for 2012 and 2013, respectively.

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Regional Highlights

Growth outlooks for each country are available in the full report at: www.worldbank.org/globaloutlook

While the **East Asia and Pacific** region recovered quickly from the March 2011 Tohoku disaster in Japan, flooding in Thailand and the turmoil in Europe, have started to affect regional growth. After expanding by 9.7 percent in 2010, regional GDP grew an estimated 8.2 percent in 2011, but growth is projected to ease to 7.8 percent for both 2012 and 2013. In China, which accounts for about 80 percent of regional GDP, growth eased from 10.4 percent in 2010 to an estimated 9.1 percent in 2011 and is expected to dip to 8.4 percent in 2012 as authorities continue to dampen "overly-fast" growth in particular segments of the economy.

GDP growth in **Europe and Central Asia** increased marginally from 2010 outturns to 5.3 percent in 2011, despite the global financial turmoil since August 2011 and weakening external demand, especially from the Euro Area. However, the expected slowdown in high-income Europe, still troublesome inflationary pressures in the region, and reduced capital flows due to the Euro Area crisis may slow regional growth to 3.2 percent in 2012, before firming to 4.0 percent by 2013. Close trade and financial ties to high-income Europe will make regional outturns particularly sensitive to developments in the Euro Area.

Latin America and Caribbean grew by an estimated 4.2 percent in 2011, but this is expected to ease to 3.6 percent growth in 2012, before picking up to 4.2 percent in 2013. Weaker global growth, uncertainty arising from the Euro Area debt crisis, slower growth in China, and a policy-induced deceleration in domestic demand are weighing on growth prospects. Brazil's economic growth came to a halt in the third quarter and growth is forecast to be 3.4 percent in 2012, up slightly on 2011 but well below the 2010 growth of 7.5 percent. Several countries in the region could be hard hit, if international commodity prices were to weaken sharply.

Dramatic political changes in the **Middle East and North Africa** have disrupted economic activity substantially, but selectively, across the region, while a deteriorating external environment is beginning to amplify adverse effects on trade, commodity prices, tourism and other revenues. Developing oil exporters and the high-income GCC economies benefitted substantially from the rise in oil prices but they remain vulnerable to a sudden fall in these prices. GDP for the developing countries of the region grew by an estimated 1.7 percent in 2011 and is expected to remain subdued in 2012 (2.3 percent), rising to an expected 3.2 percent gain by 2013.

GDP in **South Asia** slowed to an estimated 6.6 percent in calendar year 2011, from 9.1 percent in 2010, reflecting a sharp slowdown in the second half of the year in India as well as external headwinds. Exports are negatively affected by weaker foreign demand and remittances have grown only modestly. Domestic demand is down sharply due to rising borrowing costs, high input prices, worries over the global slump, and delay in reforms. The region's GDP growth is projected to ease further to 5.8 percent in 2012, before strengthening to 7.1 percent in 2013. High inflation and fiscal deficits remain concerns going forward.

Growth in **Sub-Saharan Africa** remained robust in 2011 at 4.9 percent. Excluding South Africa, which accounts for over a third of the region's GDP, growth in the rest of the region was even stronger at 5.9 percent in 2011, making it one of the fastest growing developing regions. Increased investment flows, rising consumer spending, and the coming on stream of new mineral exports in a number of countries should accelerate Sub-Saharan Africa's growth to 5.3 percent in 2012 and 5.6 percent in 2013. Nonetheless, merchandise exports, tourism receipts, commodity prices, foreign direct investment and remittances are all susceptible to a Euro Area recession.