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NEWS RELEASE

World Bank says developing countries need to shift from crisis-fighting to policies that will sustain growth

WASHINGTON, June 7, 2011 – As they put the financial crisis behind them, developing countries need to focus on tackling country-specific challenges such as achieving balanced growth through structural reforms, coping with inflationary pressures, and dealing with high commodity prices, the World Bank says in its June 2011 edition of *Global Economic Prospects*.

In contrast, prospects for high-income countries and many of Europe's developing countries remain clouded by crisis-related problems such as high unemployment, household and banking-sector budget consolidation, and concerns over fiscal sustainability among other factors.

The World Bank projects that as developing countries reach full capacity, growth will slow from 7.3 percent in 2010 to around 6.3 percent each year from 2011-2013. High-income countries will see growth slow from 2.7 percent in 2010 to 2.2 percent in 2011 before picking up to 2.7 percent and 2.6 percent in 2012 and 2013 respectively.

"Globally, GDP[1] is expected to grow 3.2 percent in 2011 before edging up to 3.6 percent in 2012," said **Justin Yifu Lin, the World Bank's Chief Economist and Senior Vice President for Development Economics**. *"But further increases in already high oil and food prices could significantly curb economic growth and hurt the poor."*

Recent events in Japan and the political turmoil in the Middle East and North Africa have cut sharply into domestic growth, but spillover effects to other economies are expected to be modest. GDP growth in 2011 will likely be flat in Japan. Among developing Middle-East and North African countries, GDP growth in 2011 will be weakest in Egypt (1 percent), Tunisia (1.5 percent), and Libya[2]. While uncertain, growth in both Egypt and Tunisia is projected to pick up in 2012, reaching close to 5 percent by 2013.

Strong growth in most developing economies has contributed to a new set of global challenges, including higher commodity prices, rising inflation, and the possible return of destabilizing capital inflows as monetary policies tighten and interest rates rise.

"*Developing countries have been resilient despite remaining tensions in high-income countries*," said **Hans Timmer, director of Development Prospects at the World Bank**. "*But many developing economies are operating above capacity and at risk of overheating, most notably in Asia and Latin America. Monetary policy has responded, but fiscal and exchange rate policy may need to play a bigger role to keep inflation in check*."

Inflation in developing countries reached almost 7 percent year-over-year in March 2011, more than 3 percentage points higher than the low point in July 2009. Inflation in high-income countries has also picked up reaching 2.8 percent in April 2011. The biggest increases in inflation have been in the East Asian and Middle-East and North African regions, reflecting capacity constraints in the former and food prices in the latter.

High oil prices and production shortfalls due to bad weather have contributed to higher food prices, which has negative consequences for the poor who spend a high proportion of their income on food. Although domestic food prices in most developing countries rose much less than international prices during the 2010/11 spike (7.9 percent since June 2010 versus 40 percent for international prices), local prices may rise

[1] Measured at 2005 market prices and exchange rates (or 4.8 percent in 2010, 4.3 percent in 2011, 4.4 percent in 2012, and 4.5 percent in 2013 when aggregated using Purchasing Power Parity weights).
[2] Reliable GDP data for Libya are unavailable and therefore not projected.

further as international price changes slowly pass through into domestic markets. In addition, if the 2011/12 crop year disappoints, food prices may rise further, placing additional pressures on the incomes, nutrition, and health of poor families.

"*The financial crisis for most developing countries is over*," said **Andrew Burns, manager of Global Macroeconomics and lead author of the report**. *"Efforts must now focus on returning monetary policy to a more neutral stance and rebuilding the fiscal cushions that allowed developing countries to respond to the crisis with counter-cyclical policies. Increasingly, medium-term prospects will depend on the kind of slow-acting social, regulatory and infrastructural reforms that generate improved productivity and sustainable growth*."

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

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Regional Highlights

Growth outlook for each country is available in the full report at www.worldbank.org/globaloutlook.

Growth in the **East Asia and Pacific** region is projected to slow but remain strong, with GDP gains easing from 9.6 percent in 2010 to 8.5 percent in 2011 and around 8.2 percent in 2012-13. Rising domestic goods and asset prices are a medium-term policy challenge, with inflation in the region having reached 5.3 percent in April 2011. The ongoing tightening of monetary and fiscal policies is projected to contribute to the projected slowing in growth toward more sustainable growth rates. A successful reorienting of demand toward domestic sources is reflected in the decline in the region's current account surplus from some 9.3 percent of GDP in 2007 to a projected 3.6 percent in 2011, an improvement that is expected to be durable.

GDP growth in **developing Europe and Central Asia** rebounded to an estimated 5.2 percent in 2010, following a 6.5 percent contraction in 2009. Limited credit growth, the deleveraging of household-sector balance sheets, and continued industrial sector restructuring (following the easy-credit fueled excesses of the boom period) are projected to continue weighing on GDP, which is expected to increase by a relatively subdued 4.7 percent in 2011 and 4.5 percent in both 2012 and 2013. These aggregate figures hide significant variation across countries within the region, with outturns in those countries that were most caught up in the boom period performing least well. High commodity prices will boost incomes of resource-rich economies in the region, contributing to strong import demand and remittance flows, which will benefit other countries in the region with the closest trade and migration ties with them.

The **Latin America and the Caribbean** region rebounded from the crisis, growing at a 3-decade high rate of 6 percent in 2010. GDP growth is expected to ease to a more sustainable 4.5 percent pace in 2011 before slowing toward 4 percent by 2013, a rate of growth that is consistent with underlying potential. The slowdown will be more pronounced in those economies that enjoyed the strongest rebound from the crisis (for example, Argentina and Brazil), as policy tightening contributes to cooling domestic demand. Growth in the Caribbean will accelerate marginally to 4.1 percent in 2011, reflecting continued strong growth in the Dominican Republic and the reconstruction-led expansion in Haiti. Growth in other Caribbean countries will be held back by the projected modest expansion in the tourism sector and in remittances. Growth in Central America (excluding Mexico) is projected to accelerate to 4 percent, as labor markets in high-income countries improve only gradually, keeping remittances and tourism growth to a moderate pace.

The political upheaval in the **Middle East and North Africa** has dominated recent economic developments in the region. Industrial production in both Egypt and Tunisia fell by more than 15 percent during the first few months of 2011, while first-quarter 2011 international tourist arrivals to these economies were off by 45 percent and by 9 percent for the region as a whole (year-on-year). Although subject to significant uncertainty, GDP is projected to expand by only 1 percent in Egypt and 1.5 percent in Tunisia in 2011, before both economies recover to almost 5 percent growth in 2013. The impact for the region as a whole is less marked, with growth of 1.9 percent in 2011, recovering to around 4 percent in 2013 as capital flows and investor confidence reestablish.

After growing 9.3 percent during calendar year 2010, activity in the **South Asia Region** moderated in the first quarter of 2011, pointing to a projected slowdown in aggregate regional growth to a still buoyant 7.5 percent in 2011. The slowdown partly reflects macroeconomic policy tightening aimed at curbing stubbornly high inflation and reducing large fiscal deficits. Tighter financing conditions and rising food and fuel prices have contributed to a weakening in consumption and investment growth, factors that have been partially offset by strong export growth and resilient remittances. Growth is projected to pick up in 2012-13, reaching 7.9 percent in 2013, led by robust investment expenditures in India, Sri Lanka, and Bangladesh. Pakistan and Nepal are projected to lag, given continued political challenges and associated difficulties with macro-policy implementation.

Growth in **Sub-Saharan Africa** registered 4.8 percent in 2010, up from the 2 percent advance of 2009 and just shy of the region's 5 percent pre-crisis average growth. The strong performance reflected both the global economic recovery and developments on the domestic front. Excluding South Africa, Sub-Saharan Africa is one of the fastest growing developing regions, supported by the global recovery, a growing domestic middle-income class with discretionary income to spend, and rapidly rising business confidence. GDP in the region is expected to remain strong over the medium term, expanding by 5 percent in 2011 and about 5.7 percent in both 2012 and 2013. Rising food prices, however, represent a downside risk. Local food prices, which rose 7.3 percent in the 12 months ending February 2011, are accelerating and expected to rise further in 2011—even as international prices stabilize—as the dampening effects on local food prices of good regional harvests in 2010 dissipate.

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