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Coping with policy normalization in high-income countries

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Acronyms

ASEAN	Association of South East Asian Nations
BRICS	Brazil, Russian Federation, India, China, and South Africa
CDS	Credit Default Swap
ECB	European Central Bank
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OMT	Outright Monetary Transactions
OPEC	Organization of Petroleum Exporting Countries
PMI	Purchasing Manager's Index
QE	Quantitative Easing
SAAR	Seasonally adjusted annualized rate
TFP	Total Factor Productivity

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Foreword

This edition of the Global Economic Prospects, a World Bank Group Flagship Report, describes the forces acting on the global economy and its implications on developing countries using evidence based analysis. The report includes forecasts for individual developing regions and countries, as well as a research focused chapter examining capital flows and risks to developing countries.

The report describes a global economy that is at a turning point. For the first time in five years, there are indications that a self-sustaining recovery has begun among high-income countries – suggesting that they may now join developing countries as a second engine of growth in the global economy.

The stronger growth in high-income countries reflects progress in both private- and public-sector healing in the wake of the financial crisis. In particular, the drag from fiscal consolidation and policy uncertainty is expected to ease sharply in the United States and in high-income Europe. The stronger growth in rich countries is expected to boost demand for the exports of developing countries and contribute to a modest acceleration in their growth. Overall, global trade growth which has been particularly weak is expected to strengthen over next few years reaching about 5.1 percent by 2016.

The counterpart to the strengthening and normalization of output in high-income countries will be a normalization of policy – including a gradual withdrawal of quantitative easing policies. Despite the turmoil that was associated with the speculation about the beginning of the taper during the spring and summer of 2013, the impact thus far of the actual announcement and initial implementation of the taper has been very smooth. The Global Economic Prospects describes a baseline scenario where this gradual process is assumed to continue, resulting in a modest reduction in capital flows to developing countries from 4.6 percent of their GDP in 2013 to around 4.0 percent in 2016. Whatever drag this implies for developing country growth is more than offset by the additional export demand due to stronger high-income country growth.

While the smooth adjustment process is the most likely scenario, the novelty of the unwinding process has only begun and the rapid spike in long-term interest rates during the summer of 2013 suggests that a much more abrupt rise in long-term interest rates is also a possibility, if less likely. In such a disorderly adjustment scenario, capital flows to developing countries could decline temporarily by 50 percent or more for a period of several months – potentially pushing one or more countries into crisis. Evidence suggests that countries with large current account deficits or those that have had a rapid accumulation of credit in recent years could be most vulnerable to a precipitous tightening of international financial conditions.

Other risks, such as those deriving from uncertainty over US debt-ceiling discussions, crisis in the Euro Area and high borrowing and investment rates in China have become less likely but remain.

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Chapter I

GLOBAL OUTLOOK

Overview and main messages

After several years of extreme weakness, high-income economies appear to be finally turning the corner, contributing to a projected acceleration in global growth from 2.4 percent in 2013 to 3.2 percent this year, 3.4 percent in 2015, and 3.5 percent in 2016 (table 1.1).

Most of the acceleration is expected to come from high-income countries, as the drag on growth from fiscal consolidation and policy uncertainty eases and private sector recoveries gain firmer footing. High-income growth is projected to strengthen from only 1.3 percent in 2013 to 2.2 percent this year and 2.4 percent in each of 2015 and 2016. This strengthening of output among high-income countries marks a significant shift from recent years when developing countries alone pulled the global economy forward. In addition to providing a second basis for global growth, stronger high-income growth and import demand will be an important tailwind for developing countries' exports. This should help compensate for the inevitable tightening of global financial conditions that will arise as monetary policy in high-income economies is normalized.

Activity and sentiment in developing countries has turned up since mid-2013, bolstered by strengthening high-income demand and a policy-induced rebound in China. These positive developments were partly offset by tighter financial conditions and reduced capital flows as long-term interest rates in the United States ticked up in response to expectations of the gradual withdrawal of quantitative easing. Other major headwinds included declining commodity prices for commodity exporters.

Overall, growth in developing countries is projected to pick up modestly from 4.8 percent in 2013 to 5.3 percent this year, 5.5 percent in 2015, and 5.7 percent in 2016. Developing-country GDP growth will be about 2.2 percentage points weaker than it was during the pre-crisis boom period. The slower growth is not cause for concern, however. More than two-thirds of the slowdown reflects a decline in the cyclical component of growth and less than one-third is due to slower potential growth.

Growth accelerations are projected to be particularly muted in East Asia and the Pacific and Latin America and the Caribbean, as economies in both these regions have already recovered from the crisis and are growing at close to potential. In the East Asia and Pacific region, GDP growth is projected to remain flat at about 7.1–7.2 percent over the projection horizon, partly reflecting a trend slowing of growth in China as it rebalances its economy.

Growth in the Latin America and the Caribbean region remained broadly flat at 2.5 percent in 2013. Supported by a strong rebound in Mexico coupled with more modest firming of growth elsewhere, regional GDP is expected to pick up to around 2.9 and 3.2 percent in 2014 and 2015 before strengthening to about 3.7 percent in 2016.

Positive spillovers from a gradual upturn in high-income Europe and a reduced pace of household, fiscal, and banking sector consolidation are expected to slowly boost GDP growth in developing Europe and Central Asia from 3.4 percent in 2013 to 3.5 percent in 2014, rising further to 3.8 percent in 2016. In the Sub-Saharan Africa region, relatively robust domestic demand, notably resource-sector and infrastructure investments, should help support regional growth of about 5.4–5.5 percent in 2015 and 2016. In South Asia, weaker growth in India—following several years of rising inflation and current account deficits—has opened up a large negative output gap, which is projected to gradually close as the economy slowly recovers. Better Indian performance will be heavily reflected in the region's growth, which is expected to strengthen from 4.6 percent in 2013 to 5.7 percent in 2014 to about 6.7 percent in 2016.

Many of the economies of the Middle East and North Africa region remain in turmoil nearly three years after the Arab Spring uprisings first began. Nascent recoveries have repeatedly faltered as political and social tensions periodically flare up. These tensions and their economic consequences are assumed to persist in the baseline forecast—holding back a more vigorous rebound. Regional GDP, estimated to have remained flat in 2013, is projected to expand by 2.8 percent in 2014 before rising to 3.6 percent in 2016. Of course, should tensions ease more quickly than anticipated (or deteriorate) outcomes could be substantially better (worse).

Prospects will be sensitive to the pace at which extraordinary monetary support measures in high-income countries are withdrawn

Strengthening growth in the United States has prompted the Federal Reserve to begin reducing the support it provides to the economy in January 2014. The gradual normalization of U.S. monetary policy is welcome as it reflects increasingly convincing signs that a self-sustaining recovery is now underway.

In the baseline, the withdrawal of quantitative easing (and its effect on the long end of U.S. interest rates) is assumed to follow a relatively slow orderly trajectory as the economy improves. The corresponding increase in global interest rates is expected to weigh only modestly on investment and growth in developing countries as capital costs rise

Table 1.1 **The global outlook in summary**
(percentage change from previous year, except interest rates and oil price)

	2012	2013e	2014f	2015f	2016f
GLOBAL CONDITIONS					
World trade volume (GNFS)	2.4	3.1	4.6	5.1	5.1
Consumer prices					
G-7 Countries[1,2]	1.8	1.3	1.8	1.9	2.0
United States	2.1	1.5	1.7	2.0	2.2
Commodity prices (USD terms)					
Non-oil commodities	-8.6	-7.2	-2.6	-0.2	0.1
Oil price (US$ per barrel)[3]	105.0	104.1	103.5	99.8	98.6
Oil price (percent change)	1.0	-0.9	-0.6	-3.5	-1.2
Manufactures unit export value[4]	-1.2	-1.4	1.6	1.1	1.4
Interest rates					
$, 6-month (percent)	0.7	0.4	0.4	0.7	1.3
€, 6-month (percent)	0.8	0.3	0.3	0.5	0.8
International capital flows to developing countries (% of GDP)					
Developing countries					
Net private and official inflows	5.1	4.7	4.3	4.3	4.2
Net private inflows (equity + debt)	5.0	4.6	4.2	4.2	4.1
East Asia and Pacific	4.7	4.4	4.0	3.9	3.7
Europe and Central Asia	7.8	6.6	6.0	6.2	6.3
Latin America and Caribbean	5.7	5.3	5.0	5.1	4.9
Middle East and North Africa	2.1	1.5	1.1	1.6	1.7
South Asia	4.1	3.7	3.6	3.7	3.9
Sub-Saharan Africa	4.8	5.3	4.3	4.2	4.1
REAL GDP GROWTH[5]					
World	**2.5**	**2.4**	**3.2**	**3.4**	**3.5**
Memo item: World (2010 PPP weights)	2.9	2.9	3.7	3.9	4.0
High income	**1.5**	**1.3**	**2.2**	**2.4**	**2.4**
OECD countries	1.4	1.2	2.1	2.2	2.3
Euro Area	-0.6	-0.4	1.1	1.4	1.5
Japan	1.9	1.7	1.4	1.2	1.3
United States	2.7	1.8	2.8	2.9	3.0
Non-OECD countries	3.5	2.5	3.3	3.7	3.8
Developing countries	**4.8**	**4.8**	**5.3**	**5.5**	**5.7**
East Asia and Pacific	7.4	7.2	7.2	7.1	7.1
China	7.7	7.7	7.7	7.5	7.5
Indonesia	6.2	5.6	5.3	5.5	5.5
Thailand	6.5	3.2	4.5	5.0	5.2
Europe and Central Asia	2.0	3.4	3.5	3.7	3.8
Kazakhstan	5.0	6.0	5.8	5.9	5.9
Turkey	2.2	4.3	3.5	3.9	4.2
Romania	0.7	2.5	2.5	2.7	2.7
Latin America and Caribbean	2.6	2.5	2.9	3.2	3.7
Brazil	0.9	2.2	2.4	2.7	3.7
Mexico	3.8	1.4	3.4	3.8	4.2
Argentina	1.9	5.0	2.8	2.5	2.5
Middle East and North Africa	1.5	-0.1	2.8	3.3	3.6
Egypt[6]	2.3	2.0	2.2	3.1	3.3
Iran	-2.9	-1.5	1.0	1.8	2.0
Algeria	3.3	2.8	3.3	3.5	3.5
South Asia	4.2	4.6	5.7	6.3	6.7
India[6,7]	5.0	4.8	6.2	6.6	7.1
Pakistan[6,7]	4.4	3.6	3.4	4.1	4.5
Bangladesh[6]	6.2	6.0	5.7	6.1	6.0
Sub-Saharan Africa	3.5	4.7	5.3	5.4	5.5
South Africa	2.5	1.9	2.7	3.4	3.5
Nigeria	6.6	6.7	6.7	6.8	6.8
Angola	5.2	5.1	8.0	7.3	7.0
MEMORANDUM ITEMS					
Developing countries					
excluding transition countries	4.8	5.0	5.4	5.6	5.8
excluding China and India	2.9	3.2	3.6	4.0	4.2

Source: World Bank.
Notes: PPP = purchasing power parity; e = estimate; f = forecast.
1. Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
2. In local currency, aggregated using 2010 GDP weights.
3. Simple average of Dubai, Brent, and West Texas Intermediate.
4. Unit value index of manufactured exports from major economies, expressed in USD.
5. Aggregate growth rates calculated using constant 2010 dollars GDP weights.
6. In keeping with national practice, data for Bangladesh, Egypt, India, and Pakistan are reported on a fiscal year basis in table 1.1. Aggregates that depend on these countries are calculated using data compiled on a calendar year basis.
7. Real GDP at factor cost, consistent with reporting practice in Pakistan and India.

and capital flows moderate in line with a global portfolio rebalancing. In an orderly adjustment scenario, tailwinds from strengthening global trade should offset headwinds from tighter global financial conditions.

So far, market reactions to the Fed announcement are in line with such an orderly scenario. If, however, the taper is met with an abrupt market adjustment, capital inflows could weaken sharply—placing renewed stress on vulnerable developing economies. In a scenario where long-term interest rates rise rapidly by 100 basis points, capital inflows could decline by as much as 50 percent for several quarters (80 percent in the less likely but more acute scenario of a sudden 200 basis point increase). Impacts on developing countries under such scenarios are likely to be concentrated among middle-income countries with deeper financial markets and domestic imbalances.

Especially in the scenarios where interest rates adjust rapidly and capital flows weaken, financial conditions in many developing countries could tighten sharply. The ability to withstand such shocks will depend crucially on domestic vulnerabilities and policy buffers, with some countries better placed to navigate these headwinds.

Risks will be most pronounced among developing economies where short-term or foreign debt (or both) represents a large proportion of overall debt, or where credit has been expanding rapidly in recent years. Policy makers in these economies should be taking steps now to restructure debt holdings toward longer-term issues and requiring banks to stress-test their loan books and begin provisioning now (before they go bad) those loans that might be at risk.

Rebalancing, retrenchment and reforms will prove much harder to deliver than stimulus

Developing countries responded to the 2007–08 global financial crisis by deploying fiscal and monetary stimulus. However, with fiscal and current account deficits some 3 percent or more of GDP higher in most countries than before the crisis, the scope for such reactions has declined greatly.

More to the point, for most developing countries improved growth will have to come from supply-side reforms that increase underlying growth potential.

Given the risks that developing countries are facing, policy makers need to give thought now to how they would respond to a sharp deterioration in external conditions. Appropriate policy responses will vary from country to country but may include a tightening of monetary policy to reduce vulnerabilities and attract capital, controlled depreciations (particularly for economies with flexible exchange regimes and overvalued exchange rates), and the prudent use of capital controls and macro-prudential regulations. These measures may need to be supplemented by policy reforms—for example, as being done in Mexico and China. By improving the longer-term growth outlook, credible reform agendas can go a long way toward boosting investor and market confidence and potentially set in motion a virtuous cycle of stronger investment, including foreign investment, and output growth over the medium term.

Although major tail-risks have subsided, they have not been eliminated and include fiscal policy uncertainty in the United States, protracted recovery in the Euro Area, and possible set-backs in China's restructuring.

In the United States the general government deficit has come down significantly, mainly due to heavy spending cuts imposed by the sequester and rising tax revenues as the economy recovers. Little progress has been made to agree to a medium-term plan for bringing the debt-to-GDP ratio under control, and the risk of additional brinksmanship and an excessive and disruptive tightening of policy remains. If upcoming debt ceiling debates in the United States prove as tense as they were in October 2013, they could hobble the recovery currently under way through negative confidence and spending impacts; at worst, a debt default could spark an acute global crisis.

In the Euro Area much has been achieved, and banks have gone a long way toward restructuring themselves. Nevertheless the banking sector is still weak and details on a fully fledged banking union are still being worked out, and the currency bloc remains susceptible to shocks. The remaining formidable challenges, including pervasive youth and long-term unemployment are raising concerns about a permanent deterioration in the job skills and employability of the jobless, which could be weakening prospects for a more solid recovery.

In China, high levels of investment and associated lending have generated significant vulnerabilities, which represent risks to the banking sector. Recognition of such risks prompted authorities to adopt a program designed to restructure the sources of demand and growth away from investment and toward consumer demand and the service sector. Successfully engineering such a restructuring of the Chinese economy represents a formidable challenge. Although a tail risk, an involuntary abrupt decline in investment rates could have significant impacts on Chinese GDP, and important knock-on effects in the region and among economies with close trading linkages (including commodity producers in Sub-Saharan Africa and Latin America).

Recent developments

High income economies are finally emerging from the crisis

After years of feeble growth or outright recession, recovery appears to be taking hold in high-income economies (figure 1.1). Among the three major high-income economies (the United States, the Euro Area, and Japan), the recovery is the most advanced in the United States. GDP there has grown for 10 consecutive quarters (as of Q3, 2013) and is now 5.6 percent higher than it was in the pre-crisis period (although only 1 percent higher in per capita terms) (figure 1.2).

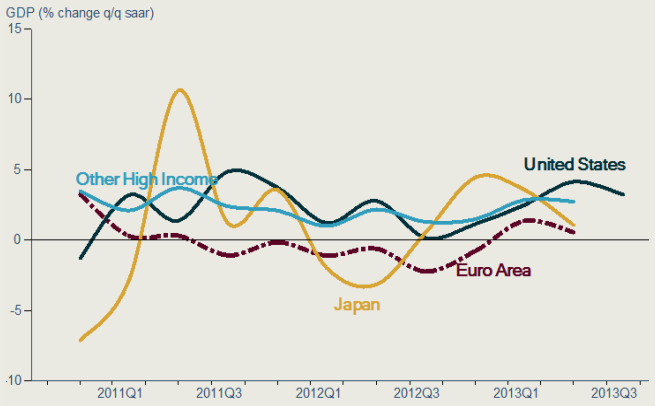
In the United States, headwinds from higher long-term interest rates, fiscal uncertainty, and the government shutdown have delayed but not derailed the recovery. A rebound in consumer and business sentiment in the fourth quarter, reflected in rising household spending, industrial output, and employment gains, indicates continued firming in growth after a strong acceleration in the third quarter. Meanwhile a recent budget compromise that puts an end to protracted budget negotiations and eases "sequester" cuts that have weighed on activity in recent years should boost confidence and help unleash pent-up household and business demand over the medium term. Partly as a result, the Federal Reserve has announced that it will begin withdrawing quantitative easing stimulus beginning in January 2014.

In Japan, the economy has responded to strong fiscal and monetary stimulus with robust growth, rising inflation, and a substantial depreciation of the currency that has boosted exports. Partly as a result, output is nearly at par with its pre-crisis peak. Although growth more than halved in the third quarter, indications are that activity has rebounded, with momentum gaining additional strength in the fourth quarter as consumers frontload spending ahead of the upcoming consumption tax increase in April 2014.

Finally in the Euro Area, growth turned positive in the second quarter of 2013 led by stronger growth in Germany. In addition, output in the troubled Southern European periphery economies has also strengthened. Three of the five high-spread economies (Ireland, Portugal and Spain) exited recession during 2013, helped by strong export growth, while the recession is easing in the other two (Italy and Greece). Nevertheless, Euro Area output remains well below pre-crisis levels and 10 or more percent below pre-crisis levels in some of the hardest-hit countries of the area.

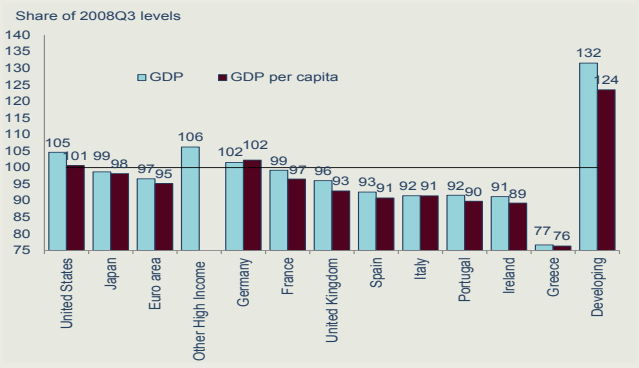
Surveys in all three major high-income economic regions are pointing to further firming in business activity and to an upturn in investment spending during the course of 2014. December manufacturing Purchasing Managers Indices (PMIs) in the United States continued to show solid improvements in business conditions with the pace of expansion remaining close to the November 20-month peak as drags from the October government shutdown faded. Japan's PMIs showed manufacturing activity expanding at the fastest pace in more than seven years, while Euro Area PMIs indicated a sixth consecutive month of expansion, signaling the durability of the ongoing

Figure 1.1 Growth is slowly improving in high-income economies



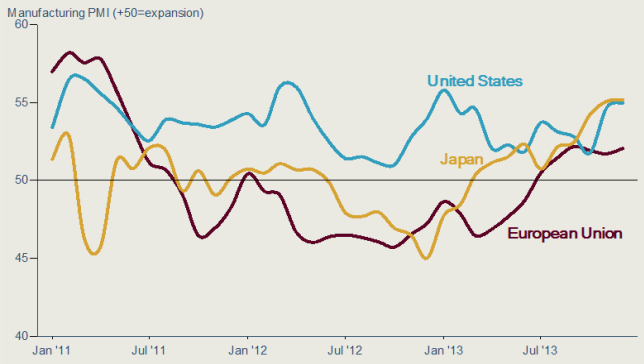
Source: Bloomberg, World Bank.

Figure 1.2 GDP in most high-income economies remains below pre-crisis levels



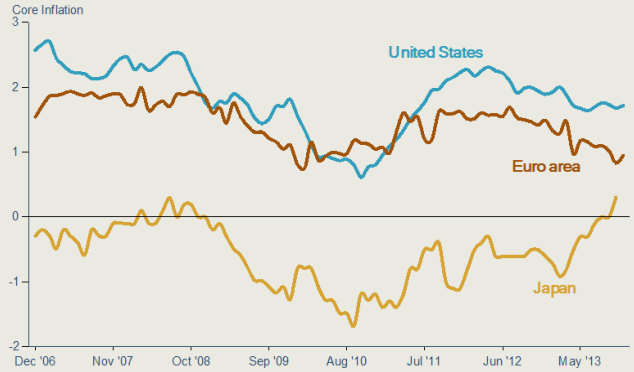
Source: Bloomberg, World Bank.

Figure 1.3 Manufacturing surveys point to expanding output levels



Source: Markit Economics, World Bank.

Figure 1.4 Sliding core inflation in the Euro Area reflects significant spare capacity



Source: Haver, World Bank.

recovery (figure 1.3). PMIs for the service sector—which accounts for nearly two-thirds of total output—have also strengthened in the United States and Germany, indicating a broadening of the recovery.

While the outlook is brightening, significant challenges remain in all three economies: the weak levels of activity compared with pre-crisis years, burdensome debt levels, and risks that crisis fatigue and improving economic conditions slow the pace of reforms. In Japan, structural reforms unveiled by the government—arguably the most important of the "three arrows" of "Abenomics"—have disappointed thus far, raising doubts about whether the improvement in economic performance can be sustained over the medium to longer term.

In Europe, a return to growth is not yet a signal of a return to health. Although labor markets are showing signs of stabilizing, long-term and youth unemployment remain endemic, spreading concerns about the potentially permanent employability effects of extended joblessness. At the same time, significant spare capacity has opened up, contributing to a sharp slide in core inflation (figure 1.4) and fears that a pernicious debt-deflation cycle could begin. Banks are holding a rising share of sovereign debt in the troubled economies and continue to face deleveraging pressures ahead of asset quality reviews due in 2014. Any delays in the development of a credible banking union also carry the potential for a renewed bout of financial market turmoil or further deleveraging pressures if adequate backstops for the banking sector are not found.

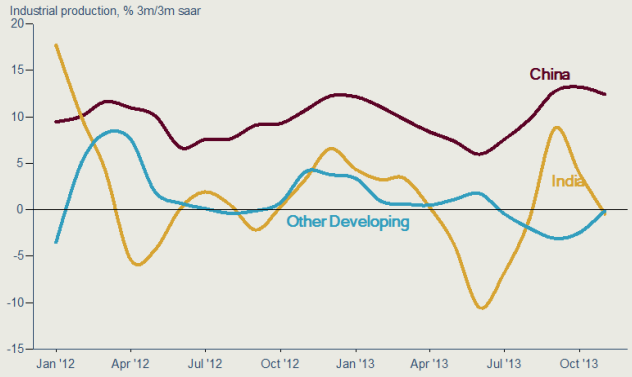
In the United States, any missteps as the Federal Reserve gradually exits from extraordinary monetary support measures could undermine the recovery, as could politically charged negotiations in February over raising the debt ceiling. Furthermore, although unemployment at 7 percent of the labor force is at its lowest level since 2008, employment rates remain well below pre-crisis levels—partly because of withdrawal from the labor force of retirees, but also because of large numbers of part-time workers.

Activity has strengthened in developing countries after a weak start to 2013...

Growth in the developing world began to strengthen in the second and third quarters of 2013, despite financial market tensions and slightly weaker momentum in high-income countries. This strengthening followed a period of weakness that set in toward the end of 2012. The recovery has been uneven, however, with GDP growth accelerations in China, India, Malaysia, Thailand and Mexico in the third quarter offsetting softness in South Africa, Turkey, Indonesia and contraction in Brazil. Overall, developing-country industrial production grew at a 13.8 percent annualized pace during the three months ending October 2013 (figure 1.5). Excluding China, activity was much more subdued (0.4 percent). However, more timely manufacturing PMI data for developing countries, which moved into the above 50-zone in August, has continued to show sustained expansion in four of five regions where data are available (figure 1.6).

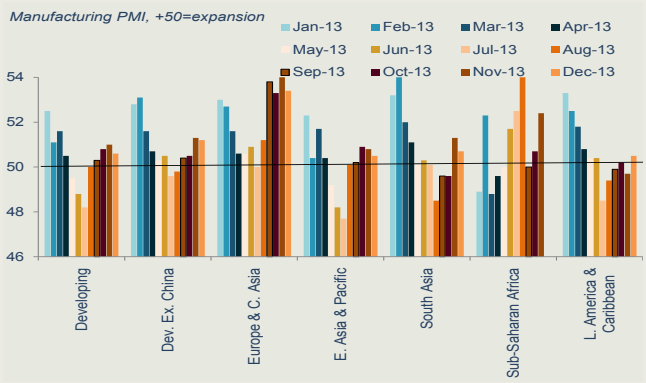
The improvement partly reflects strengthening high-income economies and rising demand in China, where growth accelerated to a 9.3 percent annualized pace in

Figure 1.5 Industrial output growth has rebounded in China



Source: Thomson Datastream, World Bank.

Figure 1.6 PMI's are rising in all regions where data are available



Source: Markit Economics, World Bank.

the third quarter from 6.9 percent in the first, helped by a "mini-fiscal stimulus" earlier in the year. As a result (and boosted by currency depreciations in some countries during the summer), developing-country exports (excluding China) grew at a 11.2 percent pace during the three months ending October 2013, the fastest in seven months.

At the regional level, strengthening was most visible in East Asia, notably China but also Thailand and Malaysia where GDP growth accelerated in Q3. In other regions, a recession in Ukraine and a growth slowdown in Turkey has tempered a broader improvement in industrial activity in the developing Europe and Central Asia region. In Latin America and the Caribbean, activity is recovering in Mexico, following a sharp slowdown earlier in the year, but has weakened in Brazil. Activity in the Middle East and North Africa is weak, reflecting unsettled political conditions among oil importers in the region and production setbacks among its oil exporters (Box 1.1).

Slower growth in recent years mainly reflects an easing in the cyclical component of growth

Cyclical factors have played a large role in developing countries' GDP growth during both the pre-crisis and post-crisis periods. A decomposition of the sources of developing countries' growth suggests that most of the slowdown between the pre-crisis (2003–07) and post-crisis (2010–13) periods is attributable to cyclical factors rather than to any significant slowing in potential growth (table 1.2).

Overall, developing-country growth has slowed by 2.4 percentage points, with cyclical factors accounting for 2.0 percentage points of the total (table 1.2). Slower potential growth accounted for the remainder (0.4 percentage points), with almost all of the slowing reflecting weaker productivity growth (a slight increase in the contribution from capital accumulation was offset by an equally modest decrease in the contribution from increased labor supply).

These trends are broadly visible across most developing regions. Indeed in the majority of developing countries actual growth remains broadly in line with potential. Although the slower growth of the past year or so in these countries has served to unwind some of the overheating pressures that had built up earlier (notably in East Asia), negative output gaps in most of these economies are small—despite growth rates below potential. The exceptions are Europe and Central Asia where potential growth slowed to a larger extent (accounting for half of the 3.4 percentage point growth deceleration and reflecting steep contractions in investment during the crisis) and the Middle East and North Africa, where severe political turmoil has slowed productivity growth sharply.

In many middle-income economies, spare capacity has remained limited. For Brazil and Turkey, output gaps remain either positive or only slightly negative, suggesting that the recent slowdown has been helping to alleviate some of the excess demand pressures that have contributed to a buildup of imbalances and vulnerabilities in these countries (box 1.2). The main exception is India where the sharp slowdown in the first half of 2013 opened up a relatively larger negative output gap, but this has begun to narrow as growth rebounded in the third quarter.

Box 1.1 Recent Regional Economic Developments

(The regional annexes to this volume contain more detail on recent economic developments and outlook, including country-specific forecasts)

2013 marked another year of easing growth in **East Asia and the Pacific** region. Regional growth moderated from 7.4 percent in 2012 to 7.2 percent in 2013 reflecting slower growth in Indonesia, Malaysia and Thailand, where weak revenues from declining commodity prices, combined with policy tightening to address domestic and external imbalances cut into activity in the first quarter of 2013 when global demand was still subdued. Despite a weak Q1 and mid-year financial turbulence, regional output growth firmed to an 8.5 percent annualized rate in Q3 buoyed by strengthening high-income country demand and policy stimulus in China. Quarterly output growth in the region excluding China also picked up to 5.2 percent in Q3 benefitting from better net-exports. Pressures on regional assets and currencies have considerably lessened from the May-September tightening episode, but remain present, particularly in Indonesia reflecting ongoing adjustment and in Thailand due to rising political uncertainty.

Growth in the developing **Europe and Central Asia** region has strengthened from 2.0 percent in 2012 to 3.4 percent in 2013. The improvement has been led by Central and Eastern European countries whose exports have been lifted by strengthening Euro Area demand and by continued strengths in Turkey and energy-exporting Central Asian countries. In Turkey, growth accelerated to 4.3 percent in 2013 from 2.2 percent in 2012 helped by buoyant domestic demand in the first half and depreciation and stronger external demand in the second half of the year. The global financial market volatility during the summer hit hard several countries in the region, with Hungary, Serbia, Turkey, and Ukraine among the most affected. Commonwealth of Independent States countries are exposed to fluctuations in commodity prices and the slowdown in Russia, although remittances to the region have held up so far. Non-energy commodity exporters have suffered a negative terms of trade shock reflecting sharp declines in metal and agricultural commodity prices. Belarus, Kyrgyz Republic, and Ukraine experienced the most negative terms of trade impacts, with lower export prices and higher energy import prices.

Subdued global trade followed by tighter financing conditions and less supportive commodity markets in 2013 have left many countries in the **Latin America and Caribbean** region struggling with relatively weak and volatile growth patterns. Regional merchandise exports from January to November grew by 4.1 percent compared with the 7.6 percent expansion over the same period in 2012. Domestic demand growth is also moderating from cyclical highs and there are only modest signs of improvement in Q4, notably in Brazil where industrial activity has been particularly volatile, in part reflecting monetary tightening along with foreign exchange rate interventions during the summer that successfully stemmed currency pressures. Activity is starting to recover in Mexico, after flagging earlier due to a slump in exports to the U.S. weakness in construction and a drop in government investment spending. Bumper harvests in Argentina have supported growth and export revenues in the face of headwinds from weak growth in Brazil, a continued lack of access to international debt markets and restrictive currency, capital and price controls. Exports are rebounding in Central American economies, partly supported by the expansion of the Panama Canal.

Three years after the Arab Spring, the economies of the **Middle East and North Africa** region remain depressed. Political turmoil in Egypt, stalemate in Tunisia and an escalation of the civil war in Syria with spillovers to neighboring Lebanon and Jordan have weakened activity in the developing oil-importing countries. Meanwhile, security setbacks, strikes, infrastructure problems, and in the case of Islamic Republic of Iran, international sanctions, have negatively affected developing oil exporting countries. Growth for the region contracted by 0.1 percent in 2013—down from already weak growth of 1.5 percent in 2012, largely as a result of setback in oil-exporters relative to 2012. If Syria is removed from the regional aggregate, the growth slowed to 0.8 percent, down from 2.7 percent in 2012. In addition, fiscal and external balances have worsened and macroeconomic vulnerabilities have deepened. Meanwhile, the persistent structural problems of high youth unemployment and poor service delivery remain unaddressed.

South Asia's GDP rose an estimated 4.6 percent in 2013 on a market price-calendar year basis vs. 4.2 percent in 2012. Growth was, however, subdued compared to average growth over the past decade, reflecting a combination of domestic imbalances and weak external environment. Regional exports and industrial activity experienced a cyclical recovery in Q3, reflecting both strengthening external demand and currency depreciation in India (the latter resulting from a sharp withdrawal of capital flows during mid-year on apprehensions of tapering of U.S quantitative easing). Despite the cyclical rebound, regional industrial activity for the full year was very weak, growing an estimated 1.5 percent (y/y). Lower international commodity prices helped ease inflation in Sri Lanka, but inflation remains stubbornly high in India and has recently increased in Bangladesh. Despite a moderation in Q1, remittances rose an estimated 6.8 percent in 2013—while India was the largest recipient by size, flows were more important for Bangladesh, Nepal, Pakistan, and Sri Lanka as a share of their GDP.

Economic growth picked up in **Sub-Saharan Africa** in 2013, supported by strong domestic demand, notably resource-based investments. Real GDP growth strengthened to an estimated 4.7 percent for the region, up from 3.5 percent in 2012; excluding South Africa, its largest economy, average GDP growth accelerated to 6.0 percent from 4.0 percent. The recovery during the first half of 2013 remained weak among oil exporters (Angola, Gabon, and Nigeria), partly because of domestic challenges in Nigeria. Industrial output in South Africa contracted at an 8 percent annualized pace in Q3 partly reflecting the impacts of labor strikes. Overall in the region, strong investment spending– notably large public infrastructure programs - have exacerbated current account deficits, which widened further in 2013. However, these were financed to a large extent with official transfers and FDI flows which rose to an estimated US$43 billion in 2013 from US$37 billion in 2012, flowing into both mining and non-mining sectors. Lower food prices and prudent monetary policies helped push inflation lower in many countries, which combined with a 6.2 percent increase in remittances has helped to support private consumption. However fiscal balances deteriorated further in 2013, especially among oil exporters in part reflecting weak commodity revenues.

Table 1.2 **Contributions to GDP growth in developing countries (percentage points)**

	2003-07	2007-10	2010-13	2013-16
All Developing Countries				
GDP growth	7.7	5.5	5.3	5.5
Contribution from cyclical component	1.5	-0.6	-0.5	0.0
Contribution from potential growth	6.2	6.2	5.8	5.6
--of which TFP	2.6	2.5	2.2	2.1
--of which capital	2.2	2.5	2.4	2.2
--of which labor	1.3	1.2	1.1	1.2
East Asia and the Pacific				
GDP growth	10.2	8.5	7.6	7.2
Contribution from cyclical component	1.3	-0.2	-0.6	-0.4
Contribution from potential growth	8.9	8.7	8.2	7.6
--of which TFP	4.7	4.5	4.0	3.8
--of which capital	3.0	3.4	3.3	2.8
--of which labor	1.0	0.8	0.8	0.8
Europe and Central Asia				
GDP growth	7.3	1.3	3.9	4.1
Contribution from cyclical component	2.0	-2.6	0.3	0.3
Contribution from potential growth	5.3	3.9	3.6	3.8
--of which TFP	2.0	1.3	1.3	1.4
--of which capital	2.5	1.8	1.7	1.7
--of which labor	0.7	0.7	0.6	0.7
Latin America and Caribbean				
GDP growth	5.4	2.9	3.0	3.3
Contribution from cyclical component	1.9	-0.8	-0.3	0.2
Contribution from potential growth	3.5	3.7	3.4	3.0
--of which TFP	1.3	1.2	0.9	0.6
--of which capital	1.0	1.3	1.4	1.4
--of which labor	1.2	1.1	1.0	1.0
Middle East and North Africa				
GDP growth	5.4	4.0	0.8	2.5
Contribution from cyclical component	0.9	0.4	-2.0	0.1
Contribution from potential growth	4.5	3.6	2.8	2.4
--of which TFP	1.1	0.4	-0.1	0.0
--of which capital	1.5	1.8	1.4	1.0
--of which labor	1.9	1.4	1.5	1.5
South Asia				
GDP growth	8.4	6.9	5.2	6.3
Contribution from cyclical component	1.3	-0.1	-1.0	0.4
Contribution from potential growth	7.1	7.0	6.3	5.9
--of which TFP	2.9	2.7	2.4	2.3
--of which capital	2.7	2.8	2.5	2.2
--of which labor	1.5	1.4	1.3	1.3
Sub-Saharan Africa				
GDP growth	7.2	5.3	5.1	6.3
Contribution from cyclical component	1.5	-0.8	-0.7	0.3
Contribution from potential growth	5.7	6.1	5.8	6.0
--of which TFP	2.1	1.8	1.6	1.6
--of which capital	1.6	2.3	2.3	2.4
--of which labor	2.0	2.0	1.8	1.9

Source: World Bank.

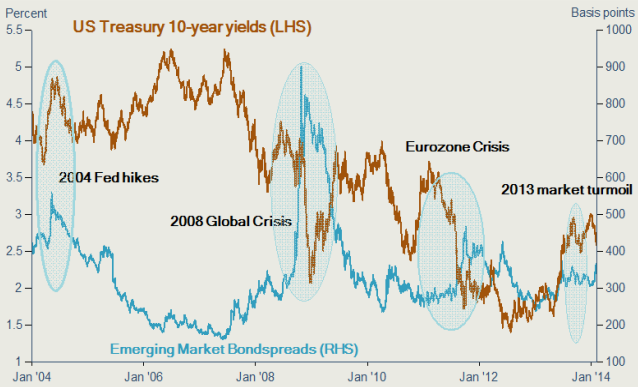
Tighter international financial conditions pose a headwind for developing countries

Financial conditions in developing countries were roiled in mid-2013 by a portfolio adjustment that was set into motion by speculation over when the U.S. Federal Reserve would begin to withdraw some of the extraordinary measures that it had put in place to support growth during the post-crisis period. Although the Federal Reserve merely indicated in May 2013 that it might begin tapering its long-term interventions toward the end of the calendar year, financial markets rapidly priced in a significant increase in long-term yields. The yield on 10-year U.S. Treasury bills rose by 100 basis points, increasing U.S. mortgage rates by 1.2 percentage points and causing spreads on developing-country sovereign bonds to rise by some 80 basis points between early May and the end of August (figure 1.7).

The increase in long-term U.S. yields sparked a significant portfolio readjustment. Previously, unprecedentedly low interest rates on U.S. Treasury bills had induced investors to place their money into riskier higher-yielding assets — including developing-country bonds and equities. Partly as a result, over the past five years the share of developing country bond markets (net of Brady bonds[1]) in global allocations increased from a broadly stable 7 percent share in the last decade to more than 10 percent in the first half of 2013, the highest level observed over the last two decades (figure 1.8).

1. Brady bonds were dollar-denominated bonds, issued mostly by Latin American countries beginning in 1980 as a debt-reduction and restructuring agreement to convert bank loans into a variety, or "menu", of new bonds after many of those countries defaulted on their debt in the 1980s.

Figure 1.7 **U.S. treasury yields and emerging market spreads rose rapidly during the summer**



Source: Bloomberg, JP Morgan Chase, World Bank.

Box 1.2 **Slower growth in major middle-income countries reflects a closing of output gaps from above**

Growth dynamics in developing countries over the past several years have been heavily influenced by capacity constraints. Among several large middle-income countries, capacity constraints appear to have stymied efforts of policy makers to boost GDP growth through fiscal and monetary policy stimulus -- yielding increased fiscal deficits, larger current account deficits and higher inflation rather than faster growth.

Several of these economies entered the great recession with demand levels well above capacity following several years of unusual fast growth during the boom period 2003-07. While the crisis caused output in these economies to slow (as elsewhere in the world), the slowing occurred from positions of significant excess demand or strongly positive output gaps (the difference between the level of actual demand and supply capacity/potential output expressed as a percent of potential output, (box table 1.2.1). Initially growth in these economies bounced back from the crisis very quickly – in part because of fiscal and monetary stimulus. As a result, by 2010 they had regenerated positive output gaps (Brazil and India) or closed them significantly (Turkey).

Box table 1.2.1 **Real GDP growth and output gaps in select economies**

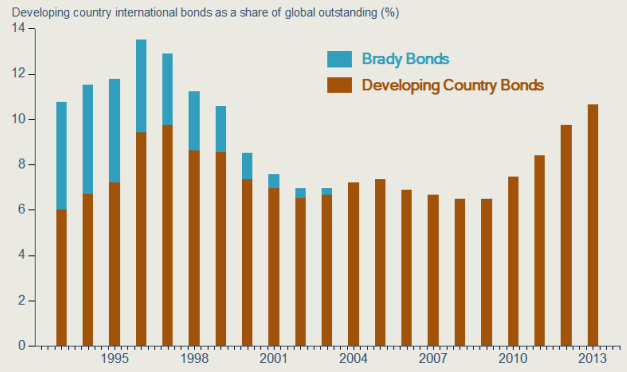
	Average growth				Output gap				Growth in 2013		
	1995-99	1999-03	2003-07	2010-12	2007	2010	2012	2013	Actual	Latest Q (saar)	Potential
Brazil	1.4	2.3	4.7	1.8	1.8	2.8	-0.2	-1.0	2.2	-1.9	3.0
India	6.1	5.2	9.0	5.8	2.6	2.2	0.1	-1.7	4.4	4.8	6.4
Turkey	3.4	3.0	7.3	5.5	4.4	-2.3	0	0.3	4.3	3.5	4.0
South Africa	2.4	3.4	5.2	3.0	4.4	-1.0	-1.0	-1.9	1.9	0.7	2.9

Source: World Bank.
Note: Growth rates are on a calendar year and market price basis for all countries, except the latest quarterly data for India, which is on a factor cost basis.

However, growth during 2010-12, was held back by supply constraints and slowed significantly (relative to 2003-07) despite further fiscal and monetary stimulus. In the case of Brazil, India and South Africa GDP grew much less quickly than potential output growth. As a result, by 2012 the large positive output gaps of 2010 had been closed. For Russia and Turkey, growth was also much slower than during the boom years, but was still stronger than potential output growth so in these countries output gaps closed from below by 2012. For 2013 as a whole, GDP growth for these countries is below potential, with large negative output gaps having been opened up in four of the five countries under consideration.

As yields on 10-year U.S. Treasury bills nearly doubled during the summer of 2013, investors quite naturally decided to increase the share of now higher-yielding US bonds in their overall portfolios. This portfolio adjustment caused a temporary but significant reversal in capital flows from developing countries to the United States. On a cumulative basis, investors withdrew a net total of $64 billion from developing-country mutual funds between June and August. Gross capital flows to developing countries fell by half, and the currencies and stock markets of several major developing economies declined by as much as 15 percent.

Figure 1.8 **The share of developing country bonds* in global allocations is at a record high**



Source: World Bank.
Note: * Net of Brady Bonds.

Markets are increasingly differentiating between countries on the basis of macroeconomic risks

Financial market pressure was much more focused on a few developing countries than is broadly recognized. Rather than depreciating, the currencies of nearly two-thirds (62 percent) of developing countries were stable or appreciated during the May through September period (Figure 1.9).

The impact of the portfolio adjustment on developing-country financial assets and currencies was most pronounced among middle-income economies, notably Brazil, India, Indonesia, Malaysia, Turkey, and South Africa. In part, these economies were hit because they have relatively deep financial markets, and therefore the investors seeking to rebalance their

Box 1.3 **Why some middle-income countries fared better than others during the mid-summer sell-off**

International financial market developments during the summer of 2013 are a stark reminder of the vulnerability of developing economies to rapid changes in global financial conditions. Currency and equity market declines that followed after expectations of a tapering of US monetary policy began to build in May were concentrated mostly in middle-income economies with relatively deep capital markets. But even among these there were clear differences, with some experiencing sharper declines than others.

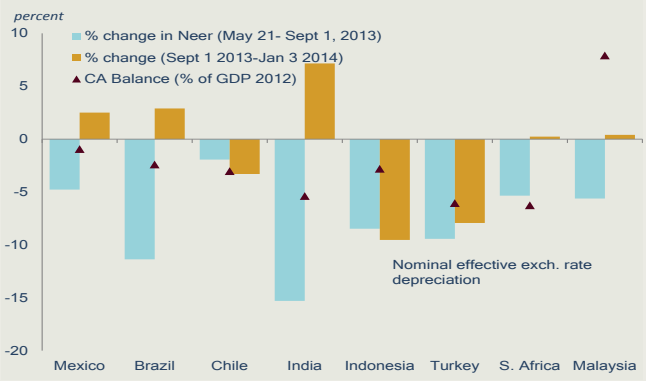
Despite policy action from local central banks working mostly through foreign exchange interventions and domestic monetary tightening, the currencies of Brazil, India, Indonesia and Turkey fell by 10 percent or more between late May and September in trade weighted terms. In contrast, currency declines were significantly smaller in Mexico, Malaysia and South Africa (about 7 percent), and Chile (about 3 percent).

The degree to which countries were hit reflected a combination of three factors: namely degree of market liquidity, domestic vulnerabilities and growth prospects. In part the stress reflected an unwinding of sizable carry trades that had built up in recent years. As investors started to rethink prospects for US interest rates, funding for carry trade flows into large middle-income economies also fell back. However market reassessments of their growth prospects and the size of domestic and external imbalances also likely played a role. For example, despite news that growth contracted in Mexico by 2.2 percent (saar) in Q2 compared to an acceleration to 6 percent in Brazil, currency declines were smaller in Mexico likely reflecting greater market confidence in light of strong progress on an ambitious structural reforms in energy and labor markets and fiscal retrenchment which has helped to contain fiscal deficits.

Chile meanwhile has benefited from decades of prudent macroeconomic management: despite strong domestic demand, capital inflows, and ample liquidity, there are no signs of generalized asset or credit bubbles, inflation remains below target and growth robust with ample fiscal space to boost the economy in case of adverse external shocks. Malaysia meanwhile has continued to run large current account surpluses (to the order of 7 percent of GDP) which has contributed to currency stability.

In Brazil in contrast, investor and consumer confidence has weakened on poor macroeconomic management and interventionist government policies at the same time as terms of trade have deteriorated in line with declining agricultural and metal prices since 2012. In India, currency and equity pressures only began to subside on indications of an improving trade balance in August and a strengthening of its central bank's inflation credibility and regulatory changes to encourage the repatriation of capital. Indonesia's currency has however fallen by a further 9.5 percent since early September, reflecting ongoing adjustments to external balance pressures.

Figure B1.3.1 **Nominal effective exchange rates and current account balances, selected economies**



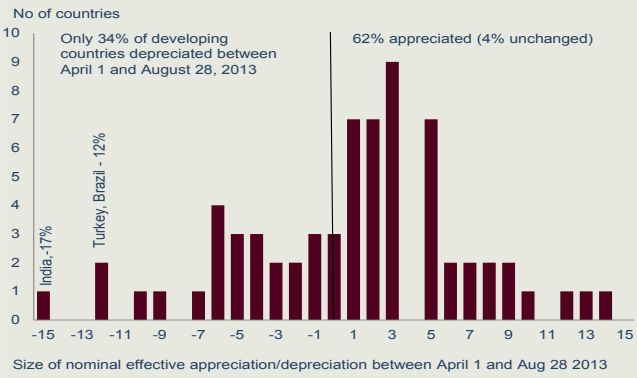
Source: World Bank.

portfolios actually had money in these economies to withdraw. But other economies, like Peru, Mexico, and China, have also received large inflows but were much less affected by the adjustment. What distinguishes these two sets of economies from each other is the extent to which they had been characterized by growing external and domestic imbalances (including current account deficits, government deficits, and rising inflation). With markets repricing risk, those economies with relatively poorer macroeconomic fundamentals and growth prospects came under more pressure than others (box 1.3).

Capital flows are stabilizing but conditions remain sensitive to developments in high income economies

Financial market conditions began to improve in mid-August, likely reflecting an end to the portfolio adjustment in

Figure 1.9 **Currency depreciations were concentrated in a few middle-income economies**



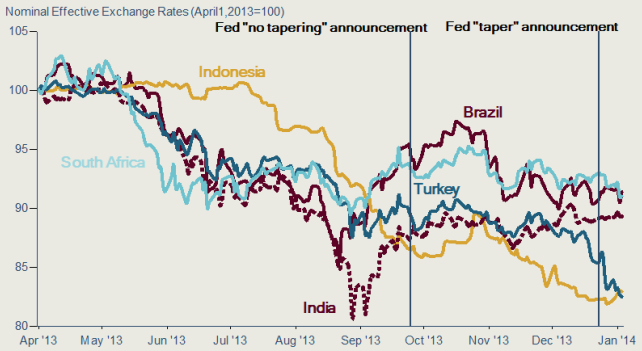
Source: World Bank.

asset markets. Negative pressures eased on currencies in the middle-income economies that had been hit hardest by the capital outflows during the summer (figure 1.10). This was accompanied by a recovery in stock market valuations and some narrowing in developing-country bond spreads. This recovery in equity and currency levels was bolstered further in late September when the Federal Reserve announced that it would delay the beginning of its tapering operations.

Initial financial market reactions have also remained muted following the December 18th announcement that the Federal Reserve would curtail its $85 billion a month bond purchasing program by about $10 billion, and which started in January 2014. Meanwhile, developing country capital flows which had dropped off after rebounding in September appear to be stabilizing at about two-thirds their levels in May 2013 (figure 1.11), prior to when speculation about tapering first began to build. As a result aggregate net flows in 2013 remained broadly at par with net flows in 2012 (table 1.3).

However conditions in developing countries remain sensitive to high-income country developments. There are indications that bond market access for high-risk corporate borrowers has become more constrained in recent months.

Figure 1.10 **Downward pressure on currencies began to ease in mid-August as portfolio adjustments drew to a close**



Source: World Bank.

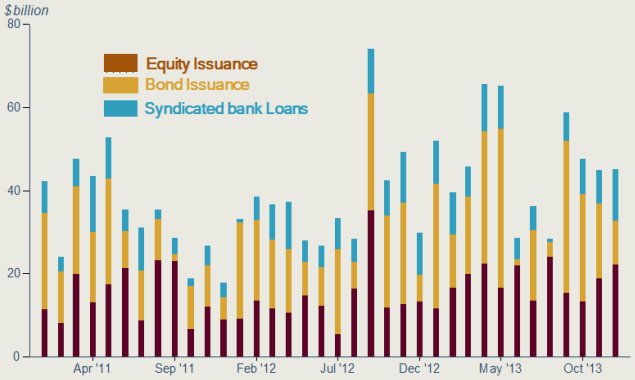
Meanwhile several non-investment grade sovereign borrowers (Hungary, Gabon, Macedonia, Ukraine, Honduras, and Laos) have increased debt issuance in November and December in an attempt to lock in external funding before any spikes in borrowing costs (figure 1.12). Bond issuance by investment grade sovereigns and

Table 1.3 **Net financial flows to developing countries ($billions)**

	2008	2009	2010	2011	2012	2013e	2014f	2015f	2016f
Current account balance	315.2	167.4	112.0	-16.3	-93.4	-173.5	-180.9	-178.2	-154.6
Capital Inflows	831.3	698.1	1,116.1	1,109.2	1,121.5	1,116.8	1,088.8	1,176.4	1,249.7
Private inflows, net	788.4	604.2	1,035.9	1,077.3	1,093.6	1,078.4	1,065.2	1,149.6	1,226.0
Equity Inflows, net	582.8	491.3	634.9	657.4	709.7	681.1	686.2	742.7	794.6
Net FDI inflows	623.4	380.3	511.6	654.7	612.2	623.5	610.4	644.7	679.7
Net portfolio equity inflows	-40.6	110.9	123.4	2.7	97.6	57.6	75.8	98.0	114.9
Private creditors. Net	205.6	112.9	401.0	419.9	383.9	397.3	379.0	406.9	431.4
Bonds	7.8	49.9	115.5	120.6	178.7	176.7	144.8	132.9	132.0
Banks	200.0	16.4	28.1	129.9	95.5	100.9	90.5	117.8	126.1
Other private	-5.1	-0.8	1.8	-5.7	6.3	3.8	3.3	3.1	5.4
Short-term debt flows	2.9	47.4	255.6	175.1	103.4	115.9	140.4	153.1	167.9
Official inflows, net	42.8	93.8	80.1	32.0	27.9	38.4	23.6	26.8	23.7
World Bank	7.8	18.3	23.0	7.0	12.1	10.3	..	..	..
IMF	16.6	31.8	13.4	0.5	-13.3	-2.8	..	..	..
Other official	18.4	43.8	43.7	24.5	29.2	30.9	..	..	..

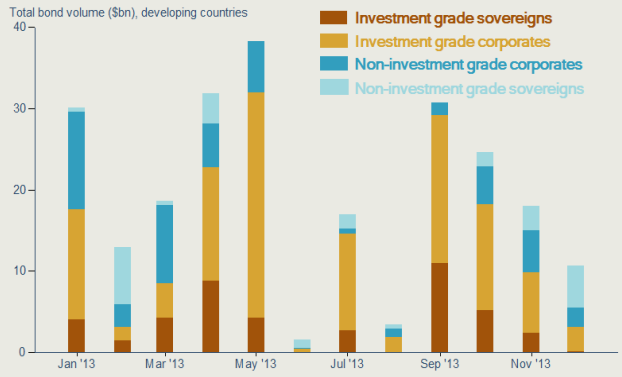
Source: World Bank.
Note: e = estimate, f = forecast.

Figure 1.11 Developing country gross capital flows have recovered, although bond flows are down



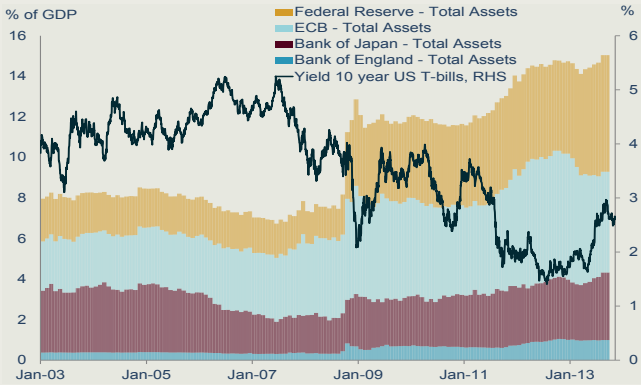
Source: Dealogic, World Bank.

Figure 1.12 Non-rated sovereigns have increased bond issuance to lock in low interest rates



Source: Dealogic, World Bank.

Figure 1.13 Rising long term rates over the summer unwound about half of the effects of QE



Source: U.S. Federal Reserve, European Central Bank, Bank of Japan, Bank of England, Turner 2013, World Bank.

corporates appears to have recovered to the levels of the first half of the year.

Moreover, domestic factors have meant that in some economies the slide in asset values that started in May 2013 has since continued. This is particularly the case for Indonesia, but also Thailand and Turkey. In the latter two, rising political uncertainty has coincided with the start of tapering contributing to a sharp drop in equities (down 8.7 and 13.1 percent respectively between December 18th and the first week of January) and currencies. This reinforces the view that as long as their domestic growth challenges and vulnerabilities remain unaddressed they will remain susceptible to changes in global financial conditions.

The bulk of adjustment to the normalization of monetary policy in high income economies lies ahead

With the tapering of monetary support beginning in January 2014, easing intervention at the long end of the yield curve should cause a further increase in yields on 10-year U.S. Treasuries that should reduce capital flows to developing countries. When that occurs there is likely to be a further tightening of global financial conditions and additional portfolio adjustment.

Although some financial adjustment has taken place, based on pre-crisis levels, U.S. yields could rise significantly further over the medium-term (figure 1.13), especially if markets demand an additional return given the increase in the U.S. debt-to-GDP ratio (from 64 percent in the pre-crisis period to an estimated 107 percent of GDP in 2014). Yields are likely to rise even more in developing countries as spreads over U.S. benchmark yields increase in line with rising risk premia (Kennedy 2013). In World Bank baseline assumptions, global interest rates are projected to adjust very gradually to a new equilibrium, with U.S. and global 10-year bond yields increasing respectively to 3.8 and 3.6 percent by mid-2016. These assumptions are consistent with implied market forward rate expectations, but are subject to significant upward risks, as heightened market volatility and medium-term pressures could result much sharper increases.

Internationally traded food and metal commodity prices have weakened over the past 18 months

The real price of internationally traded food and metal commodities, denominated in U.S. dollars, has declined by 13 and 30 percent, respectively, between their peaks in early 2011 (figure 1.14) and November 2013, boosting incomes in commodity importers, but hurting exporters.

Energy prices are down 9 percent in real terms over the same period, and oil prices have eased most recently thanks to growing supply in the United States and the easing of tensions surrounding Iran.

The decline in metals prices has been steady throughout this period, reflecting both moderate demand growth in China and a strong supply response to earlier price increases that have attracted a fivefold increase in long-term investments in new mines over the past few years.

In contrast to metals prices, much of the decline in food prices has occurred more recently. Good supply prospects along with the release of Thai rice stocks led to a 14 percent drop in rice prices, while improved harvests led maize prices to fall 34 percent since June of 2013. Still, prices rice and maize remain 57 and 105 percent higher than their January 2005 levels. Wheat prices have not eased nearly as much, and risks remain to the upside because of relatively low stocks.

Price risks remain generally weighted to the downside in commodity markets. In metal markets, prospects hinge on China, which accounts for 45 percent of global metal consumption. If robust supply trends continue and Chinese demand remains weaker than in recent years, the sharp price falls over the past two years could extend further. In agricultural markets, weather-related supply disruptions could push prices higher (especially for wheat where stocks remain relatively low), but upside risks are limited by rising production and adequate stocks, notably for rice.

In energy markets, downside risks include weak oil demand if growth prospects deteriorate in emerging economies (where most of the demand growth is taking place). However, changing supply patterns also mark a structural shift. Surging U.S. production led by advancements in shale extractive technologies has allowed the United States to surpass Russia as the largest non-OPEC producer of liquid hydrocarbons.[2] (figure 1.15) As a result, U.S. oil import demand is falling, putting downward pressure on global markets. The United States has also increased its potential to become a major energy exporter for natural gas—which is also putting downward pressure on global natural gas prices, notably in Europe. Over the long term, oil demand is likely to be dampened further as substitution between crude oil and natural gas intensifies (a slow and expensive process resulting from a lack of infrastructure to support wider use of natural gas in vehicle transport).

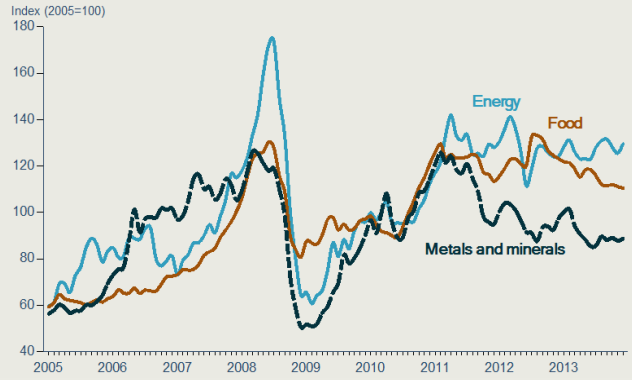
... generating a large negative terms of trade shock for food and metals producers

The sharp fall in global food and metal prices has led to a steady worsening in the terms of trade of commodity producers, hurting export and fiscal revenues. In addition to affecting outturns in 2013, continued price declines in the second half of 2013 should weigh on growth in 2014.

A comparison of average prices in 2013 with average prices in 2012 suggests that since 2012 agricultural and metal commodity producers in Sub-Saharan Africa and Latin America and the Caribbean have suffered on average terms-of-trade losses of over 1 percent of GDP and over 2.5 percent in some cases. Income declines in major

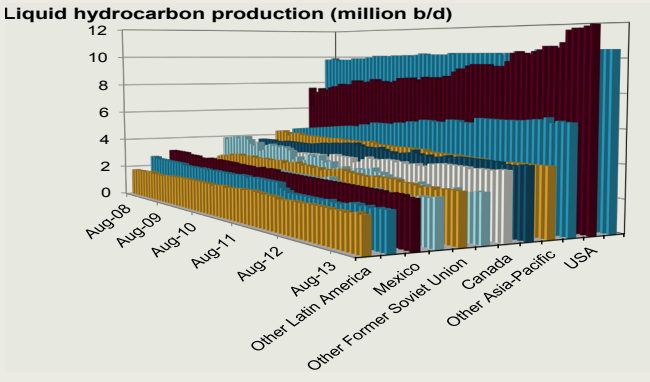
2. Crude oil, condensate, biofuels, and liquid natural gas.

Figure 1.14 **Food and metal commodity prices have fallen sharply since 2011**



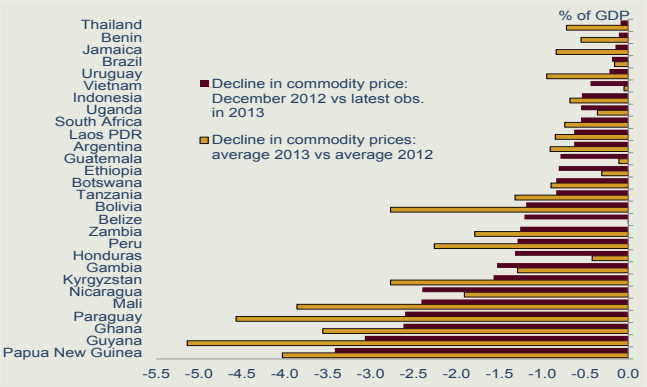
Source: World Bank.

Figure 1.15 **The U.S. is now the largest non-OPEC producer of liquid hydrocarbons***



Source: KBC Advanced Technologies, World Bank.
* includes crude oil condensate, natural gas liquids (NGLs) and ethanol. OPEC data includes NGLs which are not subject to quota.

Figure 1.16 **Commodity exporters have suffered large terms of trade shocks as commodity prices have fallen**



Source: World Bank.

middle-income commodity producers are smaller but not insignificant, tallying about 0.4–0.6 percent of GDP in Indonesia, South Africa, and Vietnam and nearly 0.2 percent in Brazil (figure 1.16).

Estimates of the year-to-date fall in commodity prices show much larger impacts for agricultural commodity producers (reflecting the sharper declines in prices in the second half of the year), amounting to 0.7 percent of GDP for major producers such as Thailand and Indonesia and 3.5 percent or more of GDP in smaller economies, which should weigh on growth during 2014.

Improvements in global trade should provide an important tailwind to developing countries

Global trade growth weakened markedly in the post-crisis period. During the period 1990–2007, global trade tended to grow twice as quickly as global GDP, with the share of trade in developing- country GDP steadily rising as developing countries increased their share in both final- and intermediate-goods markets.

However, in the post-crisis period global trade has grown at about the same speed as the global economy—sparking speculation about whether the period of rapid trade deepening by developing countries may have come to an end, and with it whatever contributions it may have made to growth.

Detailed trade data suggests that part of the decline in the elasticity of trade relative to GDP (the ratio of the trade growth rate to the GDP growth rate) reflects a change in the composition of global demand away from goods and services with heavy import content and toward products with a higher domestic component in value added (and therefore less gross trade per unit of final demand). Indeed, the import content of private demand is much higher than the import content of government consumption (and that it is highest for private investment) (table 1.4). These results hold for both developing and high-income economies, although on aggregate import intensities are higher for the latter. The financial crisis has cut sharply into activity and growth in high-income countries, and weak private demand has translated into weakness in import demand.

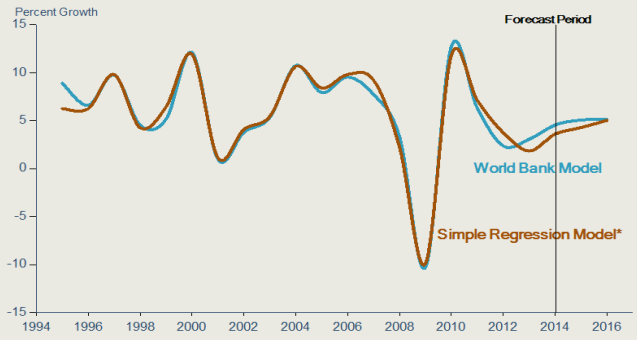
Looked at from the perspective of value chains, the compositional shift in demand is equivalent to saying that during the post-crisis period the average amount of gross trade to value added trade has declined because of a shift away from products that involve many intermediate steps toward those that involve fewer steps. An analysis of the Trade in Value Added (TiVA) database, produced by the Organisation for Economic Cooperation and Development (OECD) is consistent with this hypothesis. It finds that the share of goods like automobiles, which tend to have long value chains and a low share of final exporter value added compared with the total value added, has declined while that of goods with short product chains and high final-exporter value added ratios has increased.

Table 1.4 **Import intensities* by component of aggregate demand in high-income and developing countries**

	Government Consumption	Private Consumption	Exports	Investment
Developing	0.12	0.22	0.24	0.34
High-income	0.14	0.33	0.33	0.38
Average	0.14	0.31	0.31	0.37

Source: World Bank, World Input-Output Database Project.
Note: * These indicate the increase in imports for a unit increase in aggregate demand component.

Figure 1.17 **Growth in global trade should accelerate as the global economy recovers**



Source: World Bank.
Note: * Regression model projections are derived from a regression of the % annual growth in global export volumes on aggregate GDP growth in high-income economies and GDP growth each of the six developing regions.

As growth normalizes and the pattern of demand in high income economies shifts back towards import sensitive private investment and consumption, trade is likely to accelerate more rapidly than global GDP growth. Projections from the World Bank multi-country econometric model suggest that growth in global trade volumes will accelerate from 3.1 percent in 2013 to 5.1 percent by 2015, which correlates closely with forecast estimates from a simple regression model of global trade and growth across high-income and developing countries (figure 1.17). In both of these models the average trade elasticity will rise to around 1.5—partly recovering the declines observed to date.

Prospects are for a slow acceleration in global economic growth driven by high-income economies

Global GDP growth is projected to accelerate gradually from 2.4 percent in 2013 to 3.5 percent by 2016, mainly reflecting a slow but steady improvement in outturns among high-income economies and the developing countries of Europe and Central Asia.

Growth in high-income economies is expected to rise to 2.2 percent in 2014 from 1.3 percent in 2013, increasing to about 2.4 percent by 2016. The recovery in Europe and the United States is expected to be supported by still very loose monetary policy; a diminished drag on growth from government and household budget consolidation efforts; and pent-up demand for consumer durables and investment goods. The baseline projection assumes a timely resolution to the debt ceiling debate in the United States, steady progress in economic rebalancing in the Euro Area, and some additional fiscal stimulus in Japan that helps offset a drag from higher consumption taxes in 2014.

The pace of recovery in Europe is projected to be slow, reflecting the long and deep adjustments in the private sector balance sheet. As balance sheets improve, however, the drag from these adjustments is expected to ease over time. In particular the drag from fiscal consolidation is expected to ease from about 0.8 percentage points of GDP in 2013 to 0.4 percentage points in 2014. This gradual healing process is expected to allow growth to improve to around 1.5 percent by 2016.

In the United States, overall growth for 2014 is projected to accelerate sharply to 2.8 percent from a relatively subdued 1.8 percent in 2013. A main driver of this improvement is a reduction in the drag on growth from fiscal consolidation, which in 2013 amounted to 1.8 percent of GDP and is projected to decline to less than 0.5 percent of GDP in 2014. The pickup in growth will also reflect an acceleration in residential investment, which as a percent of GDP remains nearly 2 percentage points lower than its long-term average (business investment rates are closer to their long-term average).

In Japan, aggressive fiscal and monetary easing have sparked a strong cyclical recovery, but this recovery is unlikely to be sustained in the absence of structural reforms that boost productivity growth and wages, particularly in the relatively low-productivity domestic service sector. In addition, in contrast to other high-income economies, fiscal tightening is expected to weigh on growth in 2014. However the economy should continue to be supported by loose monetary policy which should further contribute to yen weakness at a time when the US Federal Reserve will be tightening. Accordingly, the economy is projected to grow broadly in line with potential growth, expanding by 1.7 percent in 2014, and slowing to about 1.3 percent in 2016.

Developing country growth should remain weaker than in pre-crisis years, but in line with potential

Developing country GDP is estimated to have grown about 4.8 percent in 2013, roughly the same pace as in 2012, reflecting weakness at the start of the year. However, as discussed earlier, growth accelerated in the second half of 2013 and has generated a positive carry over for 2014,

with GDP expected to expand by 5.3 percent, broadly in line with potential (figure 1.18).

Going forward, developing countries face significant headwinds as monetary policy returns to "normal" in high-income economies. U.S. long-term rates are expected to rise by a 100 basis points by 2016 in line with forward market expectations, with short rates expected to start rising in 2015 and to increase by 150 basis points by the end of 2016. These higher interest rates can be expected to boost the cost of capital. Capital flows to developing countries are meanwhile projected to decline by about 0.6 percent of developing-country GDP by 2016, as global asset portfolios are rebalanced toward high-income economies (see Chapter 3 for more). For commodity producers, slower demand for their products from China as it rebalances its economy are also expected to weigh on export and fiscal revenues.

However, the baseline also projects significant tailwinds from strengthening of growth in high-income economies. As discussed earlier, over the past several years, global trade has been subdued – both because of weak overall demand in high-income countries, but also because of changes in the composition of demand away from import sensitive categories of demand like investment goods and toward less trade creating government spending. As high-income import demand recovers (it is projected to rise from 2.4 percent in 2013 to 4.2 percent) by 2016 global trade is expected to accelerate, rising from 3.1 percent in 2013 to 4.6 percent in 2014 and to 5.1 in 2015 and 2016.[3] This should help offset negative impacts from higher interest rates and weaker capital flows to developing countries.

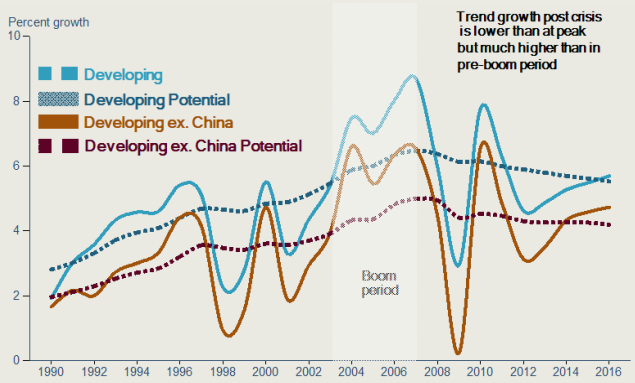
In addition, a weakening of developing-country currencies as capital flows to developing countries ease will be an essential part of the rebalancing in these economies. As figure 1.19 shows, this process has already begun—although it has yet to fully unwind the significant currency appreciations since 2003 in major middle-income economies that reflected strong capital inflows and elevated commodity prices for commodity exporters. Further depreciations should help improve the competitiveness of the traded sectors and for commodity exporters, help reverse some of the Dutch Disease impacts associated with elevated commodity prices over the past decade.

Accordingly, aggregate developing country growth is expected to accelerate modestly to about 5.7 percent in 2016. Although broadly in line with potential, this would be nearly 2 percentage points lower than average growth of 7.3 percent during the pre-crisis boom years.

Supply side constraints and alleviating domestic imbalances generated during the years of overheating remain dominant policy challenges in the East Asia and Pacific and Latin America and Caribbean regions (figure 1.20 and Box 1.4). Growth for manufacturing-intensive economies in both regions should benefit from stronger demand in high income economies, but growth in commodity exporters should suffer (especially in 2014) as a result of the decline in commodity prices over the past year (see earlier discussion of terms-of-trade effects).

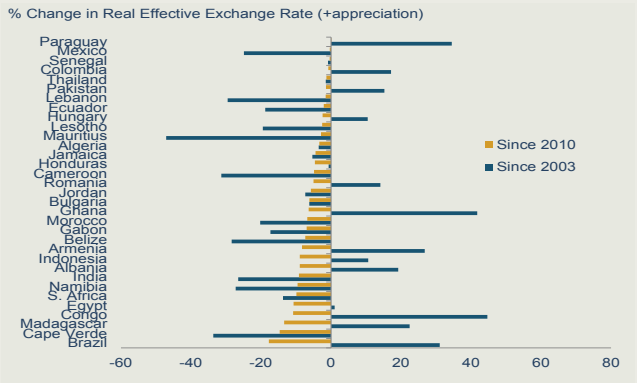
3. Despite the firming, global trade growth rates are not expected to regain pre-crisis levels largely because global growth, though strengthening, will be almost 2 percentage points slower than it was during the pre-crisis boom period.

Figure 1.18 **Developing countries are expected to grow in line with potential**



Source: World Bank.

Figure 1.19 **Strong real currency appreciations over the past decade in developing countries have begun to unwind**



Source: World Bank.

Barring structural reforms that boost supply capacity and productivity, growth in East Asia and the Pacific (excluding China)—which is broadly in line with potential—is unlikely to accelerate much further without hitting capacity constraints and generating overheating pressures. Overall growth in the region excluding China is projected to rise mildly from about 5.2-5.3 percent in 2013 and 2014 to about 5.5 percent in 2016, as external demand solidifies and adjustment comes to completion with output gaps projected to turn positive by 2015. A temporary acceleration of regional growth in 2015 (to 5.7 percent) partly reflects the reconstruction efforts in the Philippines. Growth in the Latin America and the Caribbean region is expected to reach about 3.7 percent in 2016, up from 2.5 percent in 2013. China's GDP is expected to grow about 7.5 percent annually over the projection horizon (in line with potential) as the economy shifts to slower but more sustainable consumption-led growth.

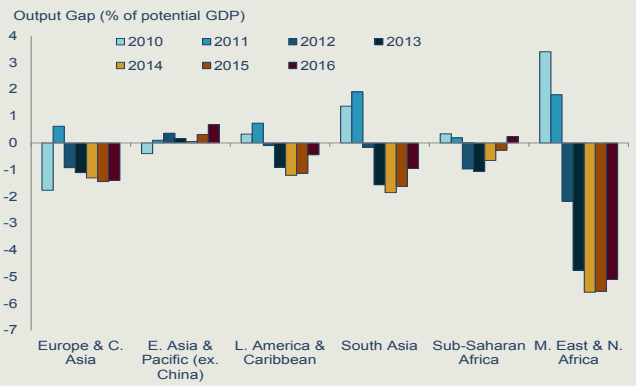
In developing Sub-Saharan Africa, continued robust investment is projected to lift growth from about 4.7 percent in 2013 to about 5.4 percent in 2014-2016 despite the negative income effects of lower commodity prices. With its close trade and financial ties to the Euro Area, growth in developing Europe is expected to benefit from the recovery in high-income Europe, which will transition from being a serious negative factor for growth in the region to a small positive one. For many regional economies, 2013 is expected to mark only the beginning of a lengthy recovery process toward regaining the pre-crisis output levels.

The ongoing slowdown in Russia (now classified as a high-income country) creates new uncertainties for developing Europe and Central Asia, for which the former is a important trading partner and main source of remittances for many countries. In addition, debt overhang from the 2008–09 crisis will impede a strong pickup in growth, which for Europe and Central Asia as a whole is projected to accelerate from 3.4 percent in 2013 to about 3.8 percent by 2016. In addition, growth in Belarus and Ukraine is expected to remain elusive and fragile due to considerable structural issues and reform deadlocks. Growth in Turkey is estimated to decelerate in 2014 as a result of lower confidence due to the recent political uncertainty as well as tighter financing conditions.

Growth in South Asia is estimated to have been a very weak 4.6 percent in 2013, mainly reflecting weakness in India following several years of rising inflation and current account deficits, and high government deficits. Growth appeared to be recovering toward the end of 2013, and regional GDP on a calendar-year basis is projected to slowly accelerate to about 6.7 percent in 2016, mainly reflecting stronger growth in India, and a cyclical recovery in investment and external demand.

Prospects for developing countries in the Middle East remain extremely unfavorable, reflecting continued social and political tensions that have sapped macroeconomic strength and have exacerbated the severe structural challenges inherited from the period before the Arab Spring. Growth in the baseline is expected to rise to 3.6 percent by 2016, up from –0.1 percent in 2013, worse than average growth in the pre–Arab Spring period. Under the baseline scenario, marked improvement in the political uncertainty that has plagued the region is not expected. In the absence of a political consensus necessary to lift confidence and activity, and create the room for necessary reforms, the balance of risks remains weighed to the downside.

Figure 1.20 **Output is expected to remain supply constrained in several developing regions**



Source: World Bank.

The outlook is subject to significant uncertainties

While the baseline forecast remains the most likely outcome, the outlook is subject to significant uncertainties. While the main tail-risks that have preoccupied the world economy over the past five years have subsided, the underlying challenges, though less acute, remain.

- *In the Euro Area* much has been achieved, and banks have gone a long way toward restructuring themselves, but there is still a long road ahead before all of the problems

Box 1.4 Regional Economic Outlook

(The regional annexes to this volume contain more detail on recent economic developments and outlook, including country-specific forecasts)

The outlook for the **East Asia and the Pacific** region reflects several counterbalancing factors, including the impact of normalization of long-term interest rates in high income economies, and a recovery in global demand for exports. Overall growth in the region is expected to stay flat at around 7.2 percent in 2014 and ease insignificantly to 7.1 percent in 2015 and 2016. This is about 2 percentage points slower than during the pre-crisis boom years but broadly in line with potential. Growth for China is expected to remain at around 7.7 percent in 2014, but slow thereafter to 7.5 percent, with less reliance on policy induced investment-led growth. Regional output growth (excluding China) is estimated to settle around 5.5 percent by 2016 as external demand solidifies and adjustment comes to completion. A temporary acceleration of regional growth (excluding China) in 2015 to 5.7 percent partly reflects reconstruction efforts in the Philippines. The region is vulnerable to risks of abrupt tightening in global financing conditions possible set-backs in China's restructuring and a weaker contribution from net-exports than assumed under the baseline. Potential escalation of regional political tensions presents additional risk to the regional outlook.

The overall outlook for the **Europe and Central Asia** region remains positive, with GDP growth projected to steadily rise from 3.5 percent in 2014 to 3.8 percent by 2016. With stronger trade links with the Euro Area, the Central and Eastern European economies will benefit from pickup in external demand, but the growth impetus will be partly offset by weaker domestic demand due to ongoing banking-sector restructuring, tighter international financial conditions, and ongoing or planned fiscal consolidation in several countries (Albania, Macedonia, Serbia). As the significant beneficiary of capital flows in recent years, Turkey will be affected by tighter global financial conditions. The region continues to face considerable risks, including prolonged weakness in the Euro Area and Russia (although by the same token, stronger than expected growth would be an upside), a disorderly adjustment to higher global interest rates, and further sharp declines in commodity prices.

With global economic conditions expected to improve in 2014 and beyond, the economic outlook in the **Latin America and the Caribbean** region in the medium term is positive, with regional growth picking up from 2.5 percent in 2013, to 2.9 percent in 2014 rising steadily to 3.7 percent in 2016. Strong export growth along with a steady consumption growth is expected to nudge Brazil's growth higher from 2.4 percent in 2014 to 3.7 percent in 2016. Argentina and Paraguay will be moderating from their bumper harvest booms in 2013 to grow at average rate of 2.6 percent and 3.6 percent, respectively, for the remainder of the forecasting period. Hinging on the pickup in the United States, Mexico is expected to see a growth rate of 3.4 percent in 2014, accelerating to 4.2 percent in 2016. The outlook for the Central American economies is generally positive with growth accelerating in Belize, El Salvador, and Honduras. Downside risks for the region include a disorderly jump in global interest rates due monetary tightening, which would increase financing costs and threaten investment, and a prolonged and deeper slump in commodity prices which could further substantially cut export revenues.

Growth in the **Middle East and North Africa** region is expected to remain weak during the forecast period. Under the baseline scenario, marked improvement in the political uncertainty that has plagued the region is not expected. Consequently, aggregate growth for the region will slowly pick up to about 3.6 percent in 2016—but remain well below—it's potential growth. In developing oil importing countries, consumption will be underpinned by large public outlays on wages and subsidies, while public investment will likely be constrained in the forecast period by large fiscal deficits, while growth in developing oil exporters will strengthen as the oil prices remain relatively high and infrastructure problems and security setbacks are resolved and mitigated.

GDP growth in **South Asia** is projected to improve to 5.7 percent in 2014, rising gradually to 6.7 percent in 2016, led mainly by recovering high income import demand and regional investment. The projected pickup in regional investment and GDP growth, however, will depend critically on macroeconomic stability, sustained policy reforms, and progress in reducing supply-side constraints (particularly in energy and infrastructure). India's growth is projected to rise to just over 6 percent in FY2014-15, and to increase to 6.6 percent in FY2015-16 and 7.1 percent in FY2016-17. Pakistan's growth is expected to moderate slightly to 3.4 percent in FY2013-14, reflecting necessary fiscal tightening, and then rise to 4.5 percent in the medium term. Relatively stable or declining international commodity prices will help reduce inflation and current account pressures, and - together with normal harvests and sustained remittance flows -- support consumption demand in the region. The main risks to the outlook are fiscal and policy reforms going off-track; uncertainties related to national elections in Afghanistan, Bangladesh and India; entrenchment of inflation expectations; and a disorderly adjustment of portfolio capital flows to tapering of U.S quantitative easing.

Robust domestic demand, relatively resilient FDI flows and slower pace of inflation that boosts real income are expected to continue to support growth in **Sub-Saharan Africa** in the medium term, despite tighter global financial conditions to which countries in the region are relatively insensitive. A modest fiscal consolidation is expected to start in 2014 and current account deficits are expected to narrow in 2016 as export capacity rises and import growth slows. Significant external risks relate to sharper than projected declines in commodity prices, and spillovers from U.S. monetary tapering to South Africa where rising domestic and external imbalances render it vulnerable to rapid capital flow movements. For frontier countries that have been raising funds in international bond markets, currency depreciations could raise repayment costs. Domestic risks relate to weather shocks to local harvests and food prices, political unrest which could deter investment, and pirate attacks along the gulf of Guinea, which could raise shipment costs and disrupt regional trade.

that the global financial crisis laid bare are fully resolved. In order to close the large output gaps that have opened, a strong acceleration in growth will be necessary, and the drivers of such growth remain unclear. Moreover with the banking sector still weak and details on a fully fledged banking union still being worked out, the currency bloc remains susceptible to shocks, including a tightening of policy in the United States.

Meanwhile significant amounts of spare capacity have opened up. On the one hand, pervasive youth and long-term unemployment are raising concerns about a permanent deterioration in job skills and employability of the jobless. At the same time, continued sharp credit contractions raise the specter of deflation, which could exacerbate debt overhang problems and result in a much more muted recovery than considered in the baseline.

- *In the United States* the general government deficit has also come down significantly, mainly through heavy spending cuts imposed by the sequester and rising tax revenues as the economy recovers. Nevertheless, little progress has been made to agree to a medium-term plan for bringing the debt-to-GDP ratio under control, and the risk of additional brinksmanship and an excessive and disruptive tightening of policy remains.

- *In China* concerns persist over the scale of investments being made, their medium-term profitability, and the viability of the loans taken out to finance them. Recognizing the challenge the authorities have made restructuring the economy toward greater reliance on consumer demand and services for growth. While now a core objective of Chinese policy, the challenge remains formidable. Even though it remains a tail risk, an abrupt unwinding of investment in China there remains a possibility, which if realized could sharply reduce GDP by 3 percent or more (see World Bank, Global Economic Prospects 2013a for more) with significant knock on effects in the region and other economies with close trading linkages (including commodity producer).

While disappointments along any of these fronts could slow growth, there are also potential upside risks. A forceful reinforcement of the structural component of Japanese policy, a multiyear agreement on fiscal policy in the United States and additional progress toward a banking union and recapitalization of European banks would all likely boost confidence and clear the way for a more forceful recovery in high-income countries.

On the upside, a stronger-than-expected recovery in high-income economies could provide considerable support to external demand in developing countries, helping offset downward adjustments in domestic demand triggered by rising global interest rates. Finally, lower food prices should also reduce inflation pressures and contain food import costs, although they are a negative for food exporters.

In the near term, the transition to higher global interest rates could prove bumpy

Over the medium term, the gradual return of long-term interest rates in both high–income and developing countries to more normal levels should help reduce the excesses and vulnerabilities associated with a persistently low interest rate environment from building up further. The higher cost of capital implied by a gradual normalization and its negative impacts on investment and growth are incorporated into the baseline.[4]

Private capital flows to developing countries are also expected to recede in the baseline as asset portfolios are rebalanced (see the extensive discussion in chapter 3), with flows expected to taper off by 0.6 percent of developing-country GDP to about 4.0 percent of GDP by 2016 (about 10 percent relative to current levels).

However, should market reactions to the withdrawal of extraordinary monetary measures in high-income countries be less orderly than assumed in the baseline, then a much more disruptive path toward the new equilibrium can be envisaged, where long-term interest rates in "G-4" economies (USA, Japan, UK and Euro Area) rise rapidly by 200 basis points (figure 1.21).

Simulations based on econometric work, discussed in more detail in Chapter 3, suggest that a more precipitous adjustment of interest rates and investor portfolios could inflict significant damage on developing economies, raising domestic and external costs of debt servicing. Those most at risk would include those that are more integrated into the global financial system and those that have large external imbalances. In addition, countries with large amounts of external debt and those that have experienced large credit expansions in recent years could also be at risk.

In a disorderly adjustment scenario, financial inflows to developing countries could decline by as much as 80 percent for several months, falling to about 0.6 percent of developing-country GDP (figure 1.22). In the event,

4. Annual impacts have been estimated to be as high as 0.6 percentage points in the medium term (Chapter 3), although this estimate does not take into account potential productivity gains that could come from using capital more efficiently.

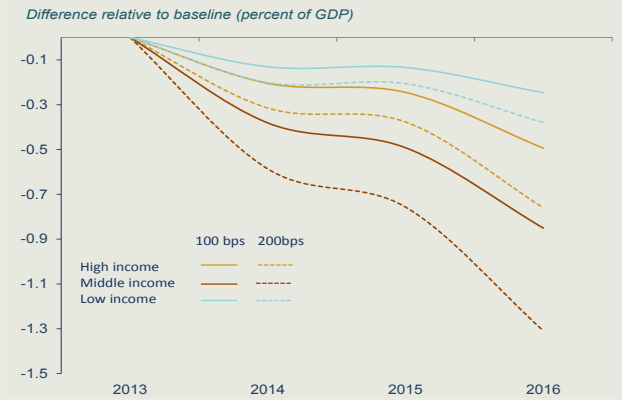
Box 1.5 **Potential impacts from a disorderly unwinding of capital flows and rapid increase in global interest rates associated with an unwinding of quantitative easing policies in high income economies**

As the recovery in high-income countries proceeds amid a withdrawal of extra-ordinary monetary policies, developing countries might be affected by the resultant tightening of global financing conditions. A benign scenario where global interest rates and risk premia adjust gradually to a new equilibrium, the risk of a significant decline in capital inflows to developing countries remains modest. However, World Bank simulations show that in the face of abrupt market adjustments, with 10-year U.S. Treasury yields increasing suddenly by 100 to 200 basis points within a couple of quarters, financial inflows to developing countries could weaken sharply, declining by between 50 and 80 percent for several months (figure 1.21).

Results derived from VAR simulations integrated into the World Bank's multi-country econometric model show that in such a scenario, growth in medium income countries would be most affected, with rapid increases in global interest rates and temporary capital pull-backs subtracting a cumulative 0.8 to 1.2 percentage points from GDP levels over the forecast period (see Box Figure B1.5.1) compared to the baseline. The impact of a rapid tightening of global financing conditions on high income countries would be around half the effect estimated for medium income countries, as rising long-term interest rates would itself reflect signs of a sustained recovery in high income countries while a reversal of capital flows would support their resilience.

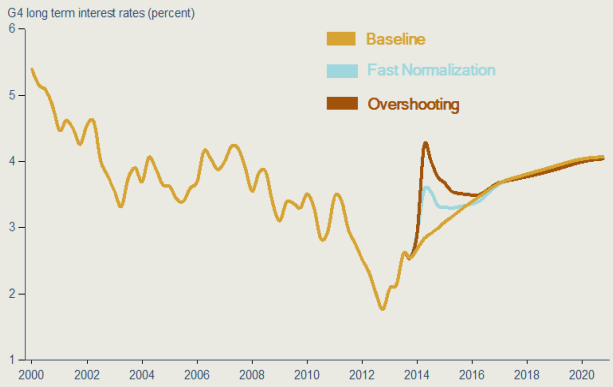
Low income countries that are less dependent on international capital flows or less integrated in global financial markets, are mainly affected through trade channels (as weaker import demand from medium and high income countries sap export growth and activity). Simulations indicate that a rapid tightening of global financial conditions in medium and high income countries would lower real GDP levels in low income countries by between 0.2 to 0.4 percent compared to the baseline forecast. This should be considered as a lower bound impact, as the multi-country model does not cover financial market spill-overs that could impact financing costs for many low income economies that had begun to enter international debt markets in recent years.

Figure B1.5.1 **Impact on real GDP of a more rapid increase in global interest rates than assumed in the baseline**



Source: World Bank.

Figure 1.21 **Long term interest rates in G4 countries under different normalization scenarios**



Source: World Bank.

nearly a quarter of developing countries could experience sudden stops in their access to global capital, substantially increasing the probability of economic and financial instability. World Bank simulations suggest that in such a scenario, GDP could fall by a cumulative 1.2 percent by 2016, relative to the baseline, in middle-income countries, and by roughly 0.4 percent in low-income economies, reflecting the different degrees of global financial and trade integration of these economies (box 1.5).

For some countries, the effects of a rapid adjustment in global interest rates and a pullback in capital flows could trigger a balance of payments or domestic financial crisis. As research in Chapter 3 shows, more than a third of past crises (over the last 20 years) were either preceded by a sharp surge or accompanied by a sharp stop. Global and domestic factors seem equally important triggers, with the probability of crisis rising significantly after periods of

low global interest rates, low risk aversion, high commodity prices, and rapid domestic credit growth.

…and comes at a time when policy space has been significantly eroded and macroeconomic imbalances have deteriorated

While the resilience that developing countries displayed in the face of the great recession is comforting, and symptomatic of their much improved fundamentals and macroeconomic management, they are much more vulnerable now than they were then. Currently, fiscal deficits are more than 4 percentage points of GDP higher than they were in 2007 in nearly half of developing countries (figure 1.23). The deterioration has been particularly marked in the Middle East, but is also evident among commodity producers in Sub-Saharan Africa and East Asia, and in South Asia and the smaller economies in Latin America.

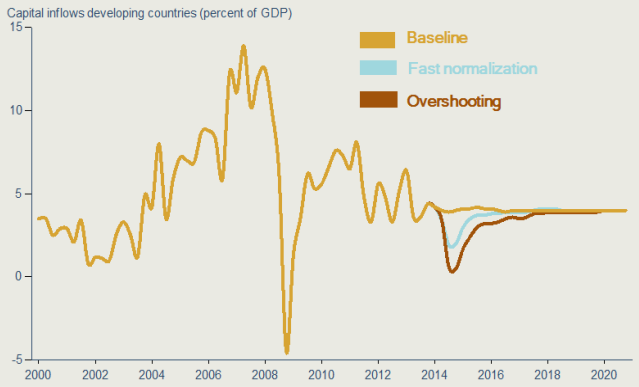
Monetary policy is also loose in most developing countries, leaving little room for additional stimulus were it to be required (figure 1.24). Since November 2011, the number of rate cuts has outnumbered rate increases by a ratio of 4.[5] Loose policy has translated into rising or persistently high inflation in many countries. Developing-country inflation has continued to accelerate over the past year despite sharp declines in food commodity prices in recent months, suggesting that wage pressures and limited spare capacity (along with currency depreciations and other factors) are sustaining higher prices (figure 1.25).

With demand stimulus keeping import demand relatively strong despite a sharp easing in exports, the aggregate developing-countries current account balance has swung from a surplus of nearly 3 percent of developing-country GDP in pre-crisis years to a small but growing deficit since 2011 (figure 1.26).

As a result, developing countries will be more vulnerable to a deterioration in external financing conditions like that expected. For commodity exporters, whose current account surpluses have mostly been wiped out (compared with surpluses approaching 10 percent of GDP in 2006), financing pressures could be further exacerbated if commodity prices fall sharply more than projected in the baseline during this period.

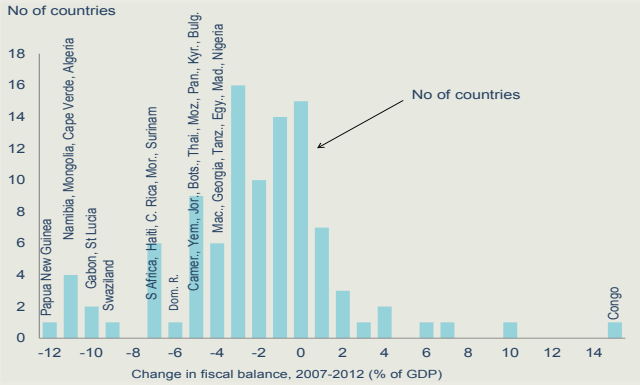
5. Since November 2011, there have been some 200 policy rate cuts by central banks in developing countries, compared to fewer than 60 rate increases.

Figure 1.22 **Private capital inflows to developing countries under different scenarios**



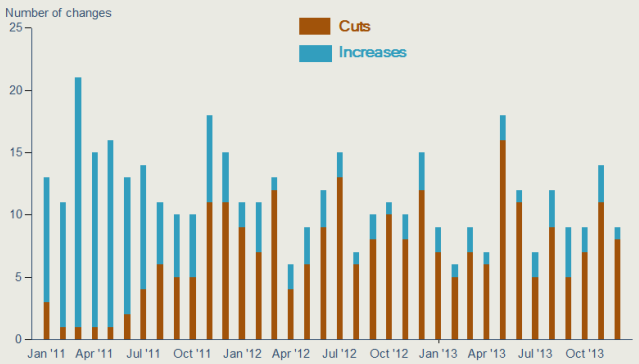
Source: World Bank.

Figure 1.23 **Fiscal balances have deteriorated in most developing countries**



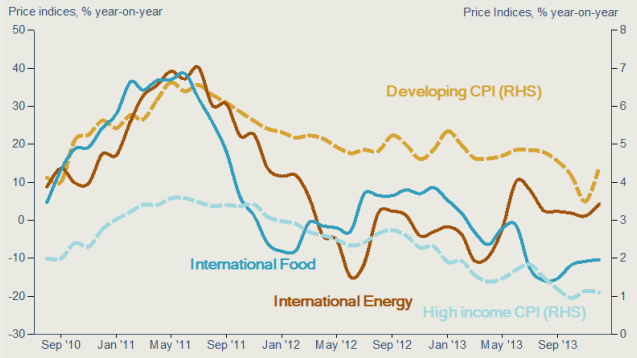
Source: World Bank.

Figure 1.24 **Central banks have yet to unwind monetary easing implemented in recent years**



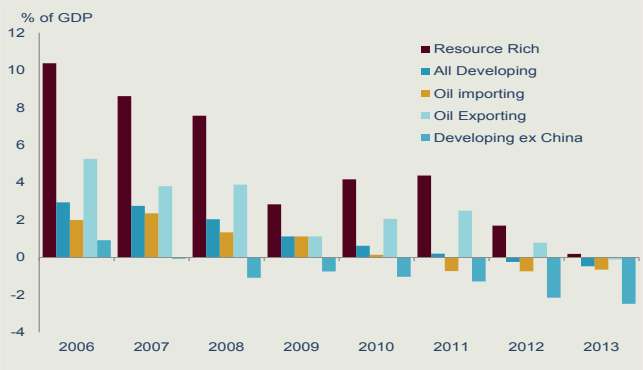
Source: World Bank.

Figure 1.25 **Developing country inflation has remianed high despite a sharp declines in international food prices**



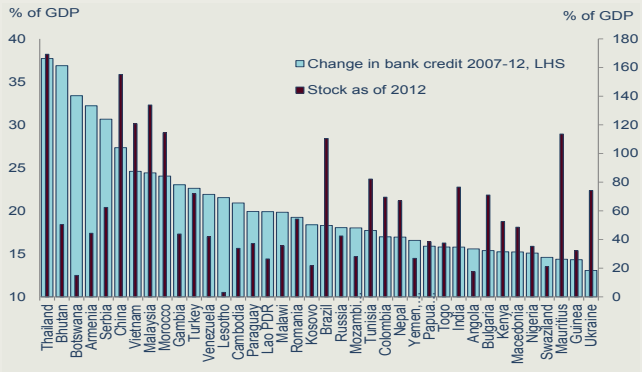
Source: World Bank.

Figure 1.26 **Current account balances have deteriorated for most developing countries**



Source: World Bank.

Figure 1.27 **Domestic credit has expanded strongly in recent years**



Source: World Bank.

Financial sector risks have increased across developing countries, but are most pronounced in East Asia

The stock of credit as a share of GDP in several developing countries has increased very rapidly over the past five years (figure 1.27), reflecting policy stimulus at home and spillovers from loose global financial conditions. This indicates the potential for debt servicing difficulties among untested or first-time borrowers and a possibly significant increase in the exposure of existing borrowers, with risks to financial stability if economic cycles worsen. Among major middle-income economies, the stock of credit has increased by 20 percent of GDP or more since 2007 in Brazil, Turkey, Malaysia, Vietnam, Thailand, Indonesia, and China. In China, credit stock has increased more than 60 percentage points since 2007 to 210 percent of GDP in Q4 2013 (if credit that has originated from the under-regulated shadow banking sector is included).

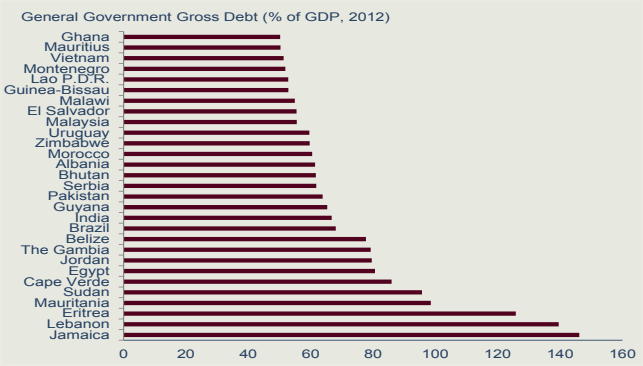
Public sector indebtedness is also high, in excess of 60 percent of GDP in many developing economies (figure 1.28). Moreover, given implicit guarantees to banking sectors in many developing economies and the use of state-owned banks to stimulate domestic credit growth (Brazil, China, India), public debt levels or fiscal burdens could rise rapidly in case deteriorating banking asset books require state support or capital injections.

Among developing regions, private sector external debt levels are particularly high in developing Europe (figure 1.29) increasing susceptibility to changes in external financing conditions and currency mismatch risks. Added to this, banking sectors remain weak due to the legacy of high levels of non-performing loans from the previous crisis in several economies. Ukraine is the most vulnerable on account of a de-facto peg which has come under pressure over the past year due to a severe recession. Risks in Turkey reflect rising leverage in the corporate sector with large amounts of foreign exchange liabilities (intermediated through the banking sector), relatively lower reserve coverage of short term external debt (compared to other major middle-income economies), and a reliance on short term capital inflows to cover its current account deficits.

Business-as-usual is no longer a policy option for developing countries

With developing countries entering a potentially disruptive period of global financial tightening, maintaining a business-as-usual policy stance is no longer an option. Policy complacency risks a further accumulation of domestic

Figure 1.28 **Public debt levels are in excess of 60% of GDP in many developing economies**



Source: IMF, World Bank.

Figure 1.29 **Private sector external debt ratios are particularly high in Europe and Central Asia**

Source: World Bank.

vulnerabilities likely requiring larger adjustments down the road, and at greater economic cost given the closer scrutiny of domestic risks by financial markets.

However, the already daunting political challenge represented by implementing necessary measures—both short term to boost macroeconomic stability during the transition to higher global interest rates and longer term to raise growth potential—may be made even more difficult given upcoming elections in several of those countries that were most tested during the summer, including South Africa, Thailand, Turkey, Indonesia, Brazil and India.

Furthermore, indications of policy complacency also appeared once financial market pressure subsided after the summer sell-off. Although there have been positive developments, credit continues to expand too quickly in several of the countries hardest hit by markets during the summer, a factor that may be adding to vulnerabilities. For example, despite rate hikes in Brazil, lending by state-owned banks and quasi-sovereign institutions continues to remain strong and may be adding to vulnerabilities.

Similarly, although inflation expectations remain entrenched, the Indian central bank is only gradually tightening policy—raising its main policy rate by a cumulative 50 basis points to 7.75 percent since September—so that real rates remain firmly in the red at 2.1 percent currently. Meanwhile, the ratio of restructured advances to gross advances plus the nonperforming asset ratio reached 10.2 percent of loans in September 2013, prompting the Reserve Bank of India to warn recently of the stress on banks' asset books. In particular, the bank warned of lending to the iron and steel, and infrastructure sectors, which have the highest levels of stressed assets. The authorities' recent decision to allow increased foreign participation and private-sector competition in the banking sector is a good initial step in the right direction.

In Turkey, although credit is growing at an annual rate of nearly 30 percent, overall monetary policy continues to be stimulative with the central bank missing its inflation target for the third consecutive year in 2013. Mexico has eased policy, cutting rates (by 100 basis points in total during 2013 with the most recent cuts in September and October) recently, but this step is easier to justify in light of reforms that have already begun to address some of the structural issues in that economy.

1) Developing countries need to stand ready to respond to financial market pressures

With tapering now underway, policy makers need to stand ready to respond to financial market pressures including through tighter monetary policy and exchange rate adjustment supported by central banks' reserve management policies, macro-prudential policies, and capital controls (see chapter 3 for more discussion). These measures helped limit spillovers to domestic activity during the summer sell-off and remain relevant in the current environment for reducing external financing dependencies, bringing down domestic imbalances, and ensuring the viability of existing loans in the event of a hike in interest rates.

Even during May-September episode, however, policy actions were complicated by domestic vulnerabilities and imbalances. Notably the usefulness of exchange rates as a "first line of defense" or "shock absorber" was constrained

by the risk that rising import costs would add to cost-push inflation (Brazil, India, and Indonesia) or that budgetary pressures would rise in countries with large (imported) fuel subsidies (India and Indonesia). In addition, some policy measures, notably trade restrictions may prove counterproductive over the long term while having a relatively limited impact in the short term.

2)… and to supplement these efforts by rebuilding policy buffers and implementing structural reforms

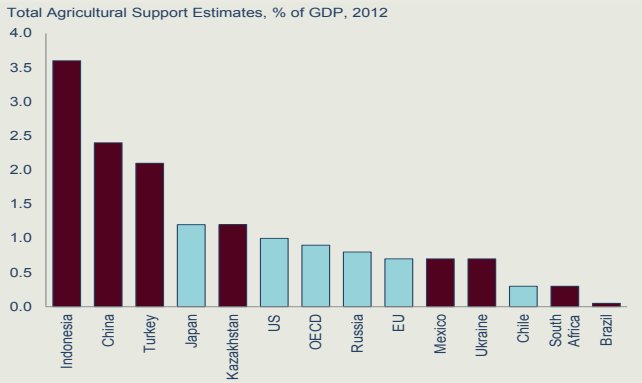
The resilience of developing countries to the 2008-09 global financial crisis was underpinned by both strong macroeconomic fundamentals and strong growth potential. As discussed earlier, however, buffers have eroded considerably since then as growth eased and stimulus was deployed. The experience of high-income countries, where fiscal sustainability unraveled and monetary buffers were quickly exhausted (even among countries that started from a position of relative strength) demonstrates the importance of possessing sufficient policy room to absorb the impact of financial and economic stress.

Meanwhile, for most developing countries, a further acceleration of growth (or even sustaining current growth levels that are broadly in line with potential) cannot be assured without constant efforts to expand capacity and increase productivity. In middle-income economies, structural reforms are needed if they are to escape the so-called "middle-income trap" and further boost per capita incomes. As productivity gains associated with shifting workers out of low-productivity agriculture toward manufacturing diminish, rising productivity and innovation within manufacturing and services will increasingly have to drive growth.

Policy actions that address the rebuilding of policy buffers and boost supply capacity and productivity growth are intertwined, with some measures yielding payoffs both in the near term and over a longer horizon. In fiscal policy, relatively easy short-term "wins" include subsidy cuts. Although precise numbers are hard to obtain, the cost of food and fuel subsidies can be disproportionate in developing countries compared with other public spending priorities. For instance, agricultural subsidies are estimated at close to or over 2 percent of GDP in China, Indonesia, and Turkey (OECD 2013, figure 1.30). Fuel subsidies alone in several economies in the Middle East and North Africa region amount to more than 6 percent of GDP (IMF 2012).

Scaling back such subsidies would also potentially yield medium-term benefits to the current account through the rationalization of (imported goods) prices, and longer-term benefits to fiscal sustainability and potential growth if they create room to raise spending on priority areas such as infrastructure, health, and education that relieve supply side constraints. Explicitly combining a reduction in subsidies with targeted social assistance of the very poor can make such reforms more acceptable, minimize the negative poverty effects, and improve the functioning of automatic fiscal stabilizers.

Figure 1.30 **Agricultural subsidies, as a share of GDP, in some developing countries are substantial**

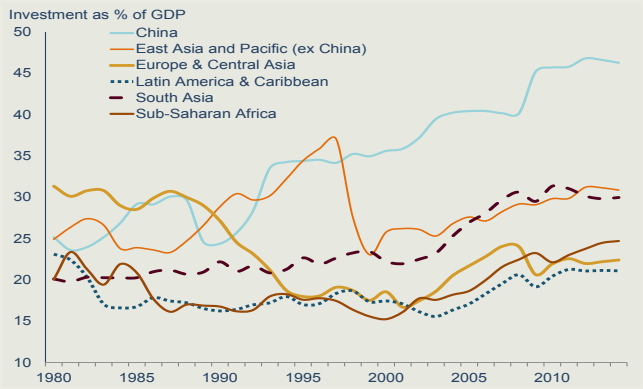


Source: World Bank , OECD (2013).

Policy steps that would stimulate the supply side include addressing energy bottlenecks that are particularly prominent across the South Asia region, and infrastructure bottlenecks that are significant for all developing regions but that are a particularly binding constraint in Sub-Saharan Africa and the Middle East and North Africa. Solutions for boosting infrastructure are complex, however, and a microeconomic, rather than a macroeconomic, problem, for most developing countries, with policy makers needing to pay close attention to improving the quality of investment and infrastructure spending. Arguably levels of investment are already quite high in countries such as China and India and are at historically high levels in most of Sub-Saharan Africa (figure 1.31) where public investment in recent years has (rightly) been geared toward the provision of basic infrastructure, particularly power generation and roads and port facilities (World Bank 2013b).

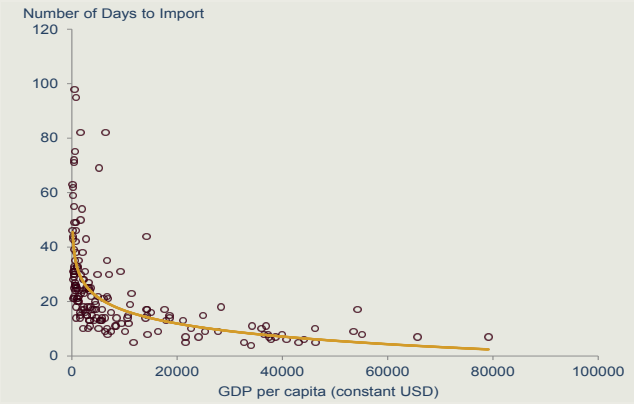
Other policies that could help boost longer-term productivity growth include reducing regulatory impediments to business and trade, which are particularly severe in Sub-Saharan Africa and to a lesser extent in the Middle East and North Africa and South Asia regions (World Bank 2013c). Although local conditions and therefore recommendations differ, such policies are likely to generate the largest dividends and are more likely also to attract long-term stable flows of foreign direct investment.

Figure 1.31 Investment levels are at historical highs in China, India and Sub-Saharan Africa



Source: World Bank.

Figure 1.32 Custom clearances can be particularly cumbersome in developing countries



Source: World Bank.

Trade facilitation reforms represent particularly low-hanging fruit that could yield substantial benefits for developing countries. It takes about thrice as much time and twice as much documentation and cost to import goods in developing countries compared with high-income OECD countries (World Bank 2013c, figure 1.32). Reducing these costs could yield annual gains of nearly $120 billion in additional global GDP, most of which should accrue to developing countries (Hufbauer et al 2013). In this context, the recently negotiated Agreement on Trade Facilitation (as part of the Doha Development Agenda) is an important step in facilitating greater merchandise trade, although negotiations on the further liberalization of trade in services and agricultural goods continues to be a thorny issue.

In many developing economies, financial sectors tend to be bank-centric and heavily dominated by the state; local debt markets are relatively underdeveloped. This is also true in middle-income economies despite significant capital market deepening efforts in recent years. For instance, in Malaysia, government-controlled or -influenced investment entities hold nearly a third of market capitalization in listed companies, while in Indonesia, the largest three state-owned commercial banks account for a third of the banking sector asset and deposit base (IMF 2010). Meanwhile, both the ownership and the client base of the banking sector in China are dominated by the state, which provides implicit guarantees in the absence of an explicit deposit insurance system and resolution frameworks.

In India, pervasive government regulations mandate that a substantial portion of bank lending be directed toward priority sectors such as agriculture. Meanwhile state-owned banks account for 73 percent of total assets in the Indian banking sector. In Brazil state-owned banks accounted for 50 percent of all outstanding credit in mid-2013, up from 33 percent in 2008—the first time they passed the halfway mark since a wave of bank privatizations in 1999.

Accordingly, further progress on financial reforms is needed to fully mobilize domestic savings and push them toward their most productive use. The heavy involvement of the state needs to be rolled back to increase exposure to market discipline and to improve governance, the efficiency of capital allocation. and risk management.

Among major middle-income economies, China and Mexico stand out as having the most ambitious and advanced reform agendas. However, progress on the credible implementation of reform measures is critical not only for reinvigorating growth over the medium to longer term, but for helping to limit the vulnerability of domestic economies to tighter, or more volatile, global financing conditions in the short term. In this context, by boosting investor confidence, putting credible reforms in place can also help to support a sustainable virtuous cycle of strong investment, including foreign investment, and output growth over the medium term.

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Chapter II

REGIONAL OUTLOOKS

EAST ASIA and the PACIFIC

GLOBAL ECONOMIC PROSPECTS

January 2014

Chapter 2

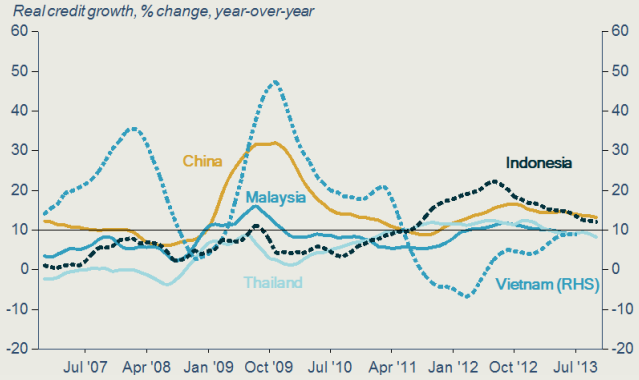
Despite a weak start and mid-year turbulence, growth in the region firmed up in 2013H2 supported by better net exports and a stimulus in China. Regional output is projected to stay at around 7.1 percent over the forecast period reflecting counterbalancing effects of growth moderation in China and pick up in the rest of the region. Although of a relatively low probability, the regional outlook would be sensitive to the risks of either an abrupt tightening of global financing conditions, or a rapid decline in China's investment rates.

Recent developments

2013 marked another year of weakening growth in the East Asia and Pacific region. Growth moderated to 7.2 percent in 2013 from 7.4 percent in 2012. Growth in China was unchanged from the 7.7 percent recorded in 2012.[1] A one percentage point slowdown in growth in the rest of the region reflects a moderation of economic activity in Indonesia, Malaysia, and Thailand, and a sharp slowdown in Papua New Guinea that resulted from completion of construction of a major liquid gas facility. Despite the damage caused by the natural disasters, output in the Philippines is estimated to expand at a 6.9 percent rate in 2013, reflecting an ongoing construction boom.

Weakening of regional growth reflects unwinding of imbalances accumulated during the years of above-potential growth. Because output in the region was capacity-constrained at the onset of the 2008–09 crisis, domestic policy induced a quick rebound from the economic slowdown in 2009, leaving output in the region close to or above capacity. Continued fiscal and monetary stimulus in the post-crisis period combined with the strong foreign inflows exacerbated imbalances, leading to a rapid expansion of credit, deteriorating current account positions, and growing asset price pressures, in several countries between 2007 and 2012 (figure 2.1). Domestic credit expanded by more than 20 percentage

Figure 2.1 **Loose policies domestically and globally helped sustain a period of rapid credit growth**



Source: World Bank, IMF IFS.

1. Regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.

points of GDP in Cambodia, China, Lao People's Democratic Republic, Malaysia, Thailand, and Vietnam during this period. In several countries, including Lao PDR, Mongolia, Papua New Guinea, and Vietnam, a large part of the debt was foreign financed.

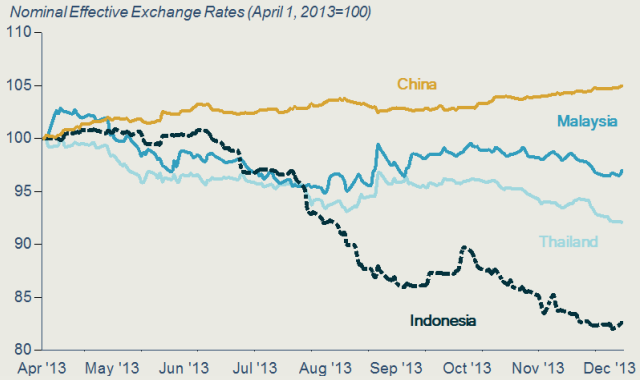
Toward the end of 2012, authorities in the region began to tighten policies to unwind imbalances, contributing to sharp declines in economic activity in the first quarter of 2013. Policy tightening along with still weak external demand contributed to the sharp decline in real economic activity in the first part of 2013, when regional quarterly GDP growth fell from an 8.3 percent annualized rate in 2012Q4 to 5.3 percent in 2013Q1 (8.2 percent to 2.7 percent for the region excluding China). Significant measures taken to tighten fiscal policy included a reduction of domestic stimulus in China and a 33 percent increase in fuel prices in Indonesia. Monetary policy put on hold and then tightened was a major contributing factor in Indonesia, but also played a role in Malaysia and China (broadly unchanged since July of 2012) and in the Philippines (on hold since October of 2012)—although China has sought to actively guide credit flow within the economy. Only Thailand, where the decline in economic activity was most marked, continued to ease policy throughout 2013, including a rate cut implemented in November.

Declining commodity prices have cut into fiscal revenues among commodity-exporting countries, complicating the process of adjustment. World metal and mineral prices have declined nearly 30 percent, food prices have eased by over 14 percent, and raw materials have weakened by almost 30 percent from their post-crisis high in February 2011, hurting the regional food, metal, and raw material exporters. Deteriorating terms of trade are estimated to have reduced incomes by as much as 3.4 percent of GDP in Papua New Guinea, 2.5 percent of GDP in Mongolia, and 0.5– 0.6 percent of GDP in Indonesia, Lao PDR, and Vietnam.

The impact of domestic adjustment was also exacerbated by a tightening of international financial conditions in the second quarter of 2013. Speculation about the timing of tapering in the United States, provoked a global portfolio adjustment toward U.S. assets, whose yields had nearly doubled, and cut sharply into regional financial flows and asset prices. Net capital flows to the region declined by 20 percent between May and September 2013. Hardest hit were those economies where prolonged expansionary policies had increased domestic vulnerabilities (current account deficits, high debt). Sovereign spreads increased by 200 basis points in Indonesia and 130 basis points in Vietnam, compared with a developing-country average of around 100 basis points. Despite interest rate hikes, Indonesia's currency declined by about 9 percent in nominal trade-weighted terms, reflecting a deteriorating current account and rising inflation; Thailand's currency dropped by about 7 percent (figure 2.2). Stock markets fell by between 20 (Thailand and the Philippines) and 35 percent (Indonesia) versus a 12 percent decline on average for developing countries.

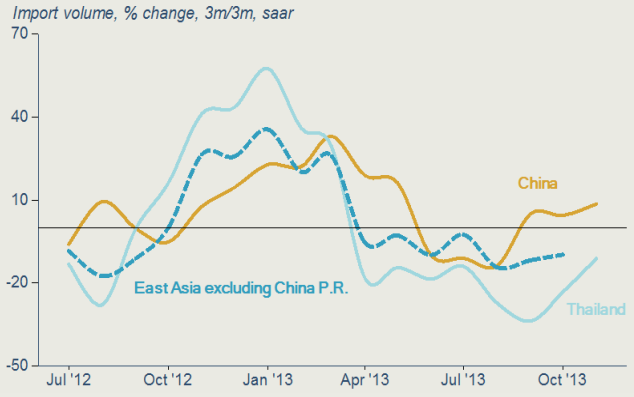
Despite the mid-year financial turbulence, growth in the region has been strengthening since 2013Q1, supported by improved external demand, lower imports, and policy stimulus in some countries. The weaker-than-expected growth in China in 2013Q1 (5.9 percent saar) prompted authorities to deploy a relatively modest stimulus package. This, in combination with recovering import demand from high-income countries, pulled Chinese quarterly GDP

Figure 2.2 **Downward pressure on currencies began to ease in mid-August, except for Indonesia and Thailand**



Source: World Bank, IMF IFS, Datastream.

Figure 2.3 **Outside China imports contunue to contract but at a slower pace**



Source: World Bank, Datastream.

growth up to a 9.3 percent annualized rate in the third quarter. Quarterly GDP growth in the rest of the region also accelerated to an annualized rate of 5.2 percent in Q3, mainly because of better net exports resulting from lower imports (figure 2.3). Quarterly GDP growth in Thailand accelerated to a 5.2 percent annualized rate in Q3 following two quarters of disappointing outcomes. In Indonesia, growth remained robust, but quarterly GDP growth eased to 4.9 percent in Q3 relative to its recent trend. In Malaysia, output coped relatively well, recovering from contraction in the first quarter to a strong 6.8 percent annualized rate expansion in Q3. In the Philippines, typhoon Haiyan, had a large humanitarian impact and has cut deeply into activity in the central islands, but its impact on the country's overall economic growth is likely to be limited, and growth is estimated to be 6.9 in 2013. This reflects about a 0.9 percent decline in growth in 2013Q4, leading to a marginal 0.2 percentage point fall in annual growth rate in the 2013 compared with pre-crisis projections).

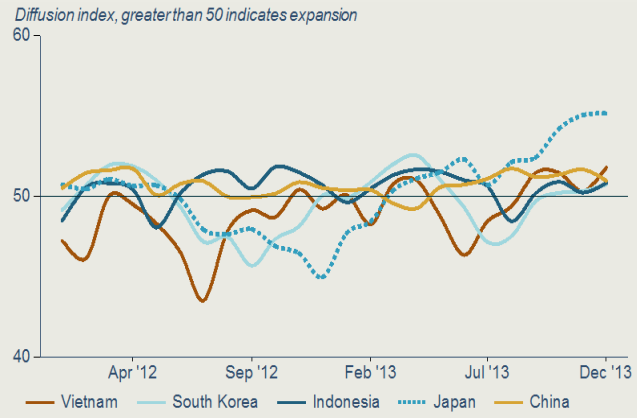
Since August 2013, capital inflows to the region have rebounded, leading to a decline in bond yields, which nevertheless remain elevated; a partial recovery of asset prices; and eased pressures on local currencies.

Pressures on current accounts have considerably lessened from the May-September tightening episode, but remained present, particularly in Indonesia reflecting ongoing adjustment to external balance pressures and in Thailand most recently due to on-going political tensions. Despite earlier losses, regional reserve positions have remained stable, in excess of five months of import coverage in most countries, with the notable exception of Cambodia, Lao PDR, Vietnam and some Pacific Islands. Increased revenue from tourism and remittances, fueled by recovering economic activity in high-income countries, played some role in easing pressures on regional current accounts. Remittances to the region grew an estimated 7.4 percent in 2013 (to $115.3 billion). In the Philippines, remittances expanded by an estimated 5.8 percent in 2013 and will likely accelerate in the wake of typhoon. Buoyant revenue from tourism has benefited Thailand and smaller economies of the region including the Pacific Islands.

Sentiment has turned up and both industrial production and exports have started to firm, but performance remains uneven across the region.

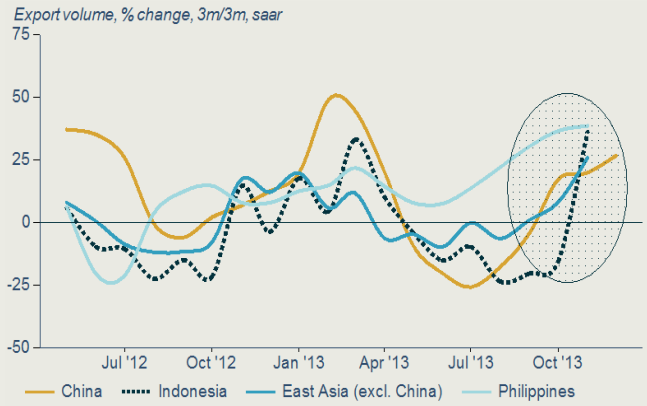
Sentiment has turned up, helped by strengthening high-income demand and the growth rebound in China. Business surveys in the region, which dropped below the 50 growth/no growth line in May, have improved most recently and the divergence within the region has also narrowed (figure 2.4). Quarterly exports rebounded at double digit rates in China (in October) and in Indonesia (in November) following a six month period of contraction. Export recovery in Thailand was more modest (about 3.3 percent annualized rate growth during October-November period) (figure 2.5). Industrial production firmed up in China (about 12 percent quarterly growth since September), Indonesia, and the Philippines but continues to contract in Thailand and showed some signs of weakening in Malaysia most recently.

Figure 2.4 **Business sentiment is improving**



Source: World Bank, Datastream.

Figure 2.5 **Regional exports excluding China and the Philippines continue to be weak**



Source: World Bank, Markit Economics, Datastream.

Table 2.1 Net capital flows to East Asia and the Pacific ($ billions)

	2008	2009	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Capital Inflows	208.2	259	529.6	546.4	485.8	495.7	505.9	536.1	560.6
Private inflows, net	208.6	255.1	525.6	546.8	482.5	495.3	506	537.4	562.5
Equity Inflows, net	203.6	184.7	331.5	346.6	351.6	335.3	350.8	369.1	386.5
Net FDI inflows	211.2	154.5	291.1	339.9	313.7	320	326	337	348
Net portfolio equity inflows	-7.6	30.2	40.3	6.7	37.9	15.3	24.8	32.1	38.5
Private creditors. Net	5	70.4	194.1	200.2	130.9	160	155.2	168.3	176
Bonds	2.7	9.5	28.1	30.6	45.7	56	41.3	38.1	39.5
Banks	17.8	-4.2	16	28.9	31.9	41	38.2	41.3	43.3
Other private	-2.3	0.1	1.1	-4.5	-3.3	0.2	0.4	0.6	1.0
Short-term debt flows	-13.3	65	148.9	145.1	56.7	62.8	75.3	88.3	92.2
Official inflows, net	-0.4	3.9	4	-0.4	3.3	0.4	-0.1	-1.3	-1.9
World Bank	1.2	2.2	2.7	0.9	1	0.2	..	..	..
IMF	0	0.1	0	0	-0.1	-0.3	..	..	..
Other official	-1.5	1.6	1.3	-1.3	2.3	0.5	..	..	..

Notes: e = estimate, f = forecast
Source: World Bank

Outlook

Economic prospects for the region reflect several counterbalancing factors, including the impact of normalization of long-term interest rates, which is projected to weigh on prospects for several middle-income countries (Indonesia, Malaysia, and Thailand).

Higher interest rates will impact ability to access external financing (see chapter 3 for more detail), especially in the economies where portfolio flows represent a large share of total capital flows (53 percent in the region excluding China compared with the developing-country average of about 10 percent). Bond issuance in the region will be disproportionately affected and is estimated to decline by about 30 percent over the forecast period from its current record-high level (about $56 billion in 2013)(table 2.1). Higher borrowing costs and reduced capital inflows (projected to decline from estimated 4.7 to 3.7 percent of regional GDP between 2013 and 2016) are expected to weigh on investment.

At the same time, the recovery in import demand from high-income countries should spur an acceleration in global trade and regional exports. Global GDP growth is expected to gradually firm from 2.4 percent to 3.5 percent in 2016. Global trade flows are also projected to recover from their current low levels of 3.1 percent to 5.1 percent by 2016. Increased trade will particularly benefit exporters of manufacturing products and services (China, Malaysia, Pacific Islands, the Philippines, Thailand), and economies with relatively low unit labor costs and competitive exchange rates (Cambodia, Lao PDR, Myanmar, Vietnam). Declining commodity prices are, however, projected to weigh on outturn for commodity exporters (Indonesia, Malaysia, Mongolia, and Papua New Guinea).

Overall growth in the region is expected to stay flat at around 7.2 percent in 2014 and ease marginally to 7.1 percent in 2015 and 2016. This is about 2 percentage points slower than during the pre-crisis boom years but broadly in line with potential. Full-year growth for China is expected to remain at around 7.7 percent in 2014, but the quarterly pace should slow somewhat toward the second half of the year, with growth projected to stabilize at around 7.5 percent in 2015 and 2016. Growth in the rest of the region should also be broadly stable in 2014 but is projected to pick up in 2015 to 5.7 percent reflecting modest acceleration in Indonesia and Thailand, reconstruction efforts in the Philippines, and the start of production of Papua New Guinea Liquefied Gas before settling at 5.5 percent in 2016 (table 2.2).

Table 2.2 **East Asia and the Pacific forecast summary***
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
GDP at market prices[b]	8.0	9.6	8.3	7.4	7.2	7.2	7.1	7.1
				(Sub-region totals -- countries with full NIA + BOP data)[c]				
GDP at market prices[c]	8.0	9.6	8.3	7.4	7.2	7.2	7.1	7.1
GDP per capita (units in US$)	7.3	8.9	7.6	6.7	6.5	6.6	6.5	6.5
PPP GDP	8.1	9.6	8.3	7.4	7.2	7.2	7.1	7.1
Private consumption	6.0	7.4	7.9	7.3	7.3	7.7	7.7	7.8
Public consumption	7.4	9.6	8.9	8.4	8.5	8.5	8.0	7.7
Fixed investment	10.7	11.4	8.9	10.3	7.0	6.7	6.5	6.1
Exports, GNFS[d]	10.0	23.3	8.6	3.0	5.3	7.2	8.0	8.2
Imports, GNFS[d]	9.6	19.4	6.2	4.7	5.5	7.2	8.1	8.2
Net exports, contribution to growth	0.4	1.7	1.1	-0.4	0.2	0.3	0.3	0.3
Current account bal/GDP (%)	4.6	3.8	1.9	1.9	1.9	1.9	1.9	1.9
GDP deflator (median, LCU)	5.4	6.2	5.1	2.1	2.9	5.1	3.9	4.0
Fiscal balance/GDP (%)	-1.8	-1.6	-1.7	-1.8	-1.9	-1.9	-1.9	-1.9
Memo items: GDP								
East Asia excluding China	4.4	6.9	4.7	6.2	5.2	5.3	5.7	5.5
China	9.4	10.4	9.3	7.7	7.7	7.7	7.5	7.5
Indonesia	4.6	6.2	6.5	6.2	5.6	5.3	5.5	5.5
Thailand	3.5	7.8	0.1	6.5	3.2	4.5	5.0	5.2

Source: World Bank
Notes: e = estimate, f = forecast
*Unless otherwise indicated, regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b.GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. Sub-region aggregate excludes Fiji, Myanmar and Timor-Leste, for which data limitations prevent the forecasting of GDP components or Balance of Payments details.
d. Exports and imports of goods and non-factor services (GNFS).

Aligning growth with the potential growth rate in several major middle-income economies in 2014 will help alleviate domestic vulnerabilities generated during the years of expansionary policies. In Indonesia, the current slowdown is projected to run its course during 2014, allowing overheating pressures to ease and the economy to adjust to a lower commodity price environment and permitting a modest acceleration in 2015. Outturns for Malaysia, Thailand, and Vietnam will depend on the ability of the authorities to effectively implement policy tightening to contain further domestic debt increases, and potential price pressures and to boost international competitiveness by taking full advantage of recovering global trade flows. In Thailand, the weak growth of the past year is projected to give way to acceleration on the back of recovering external demand. Political conditions, however, could see outturns disappoint if investors take a wait-and-see attitude.

Outturns for Cambodia, Lao PDR, Myanmar, and the Philippines will depend on the effective balance of competing needs. The strong credit and construction boom presents elements of an asset-price bubble in the four countries that could unwind in a disorderly fashion if not managed prudently. The sustained increase in remittances and FDI flows also continues to put upward pressure on the currencies of the region ,especially in the Philippines, which is likely to hurt competitiveness. In the Philippines, there is increasing need to undertake structural reforms and rebalance the economy from its excessive dependence on consumption, while at the same time prioritizing investment, to rebuild

the typhoon –stricken portions of the economy. Careful management of fiscal levers may be requested to direct spending toward the affected areas and away from overheating sectors elsewhere.

The growth outlook is favorable for Mongolia, Papua New Guinea, and Timor-Leste, but all three countries are facing the formidable challenge related to effective management of a resource boom in the environment of declining commodity prices. Mongolia's economy is expected to continue to register double-digit growth rates in 2014 and 2015, with growth rate easing to 7.7 percent in 2016 with completion of new production facilities. The start of liquid gas exports will significantly raise the level of GDP in Papua New Guinea in 2015, but output growth is estimated to decline to a 5 percent rate in 2016. Timor-Leste's growth outlook, while favorable, has moderated in line with lower planned growth in public spending (table 2.3).

Risks

The outlook is subject to significant domestic and external risk. An abrupt tightening of international financing conditions could reduce capital flows, exerting financing pressures in the region. The baseline assumes a gradual adjustment of global financial conditions, but a more disorderly reaction of financial markets to a normalization of conditions in the United States and elsewhere cannot be excluded (see discussions in chapters 1 and 3). In such a scenario, capital flows could decline briskly by as much as 80 percent for a period of several months, placing extreme pressure on countries with large current account deficits (Cambodia, Lao, PDR, Indonesia, Malaysia, and Mongolia), overvalued real effective exchange rate (Mongolia), large short-term debt exposures (China, Indonesia, Malaysia, Thailand) and/or limited reserves (Cambodia, Fiji, Lao PDR, Mongolia, Papua New Guinea, and Vietnam).

Countries where years of expansionary policies have contributed to domestic vulnerabilities are particularly at risk. In such scenarios, those countries that had a significant credit expansion in 2007–2012 (China, Malaysia, Mongolia, Thailand, Vietnam) would experience a spike in debt servicing costs, a sharp rise in non-performing loans, and pressure on the balance sheets of banks, all of which would quickly transmit to lending and investment activity—and in extreme cases could undermine financial stability and lead to a banking crisis (see chapter 3). Although public sector indebtedness is relatively low in most economies in the region, if economic cycles turn, public debt could rise rapidly, given implicit guarantees to banking sectors in countries and reliance on state-owned banks to stimulate domestic credit growth (China, Vietnam).

Although major tail-risks have subsided, they have not been eliminated and include rebalancing in China, protracted recovery in the Euro Area and fiscal policy uncertainty in the United States. In China, past high levels of investment have generated significant vulnerabilities, which represent risks to banking sector and requires a gradual reform and modernization of the economy away from a policy induced investment-led model. Recognition of such risks prompted authorities to adopt a comprehensive restructuring plan with reforms across the range of sectors, including land ownership and use, state-owned enterprise, and financial sector, including "shadow banking". The successful implementation of this agenda will lead to more balanced growth in the medium term, but the risks in case of a falloff remain formidable. Possible set-backs in China's restructuring may lead to abrupt unwinding of investment and sharp deleveraging which could reduce output, with significant knock-on effects in the region and other economies with close trading linkages. In the Euro Area much has been achieved, but the remaining formidable challenges weakening the possibility of a more solid recovery. Setbacks in sustainable resolution of debt and fiscal issues in the United States could spark an acute global crisis in case of a debt default. In addition, although currently contained, an escalation of country-level (Thailand, for example) as well as bilateral and geo-political tensions may undermine regional growth prospects.

Table 2.3 East Asia and the Pacific country forecasts*

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Cambodia								
GDP at market prices (% annual growth)[b]	7.4	6.0	7.1	7.3	7.0	7.0	7.0	7.0
Current account bal/GDP (%)	-4.5	-6.9	-7.9	-10.1	-9.6	-12.0	-11.8	-10.0
China								
GDP at market prices (% annual growth)[b]	9.4	10.4	9.3	7.7	7.7	7.7	7.5	7.5
Current account bal/GDP (%)	5.0	4.0	1.8	2.3	2.4	2.4	2.3	2.3
Fiji								
GDP at market prices (% annual growth)[b]	1.3	0.1	1.9	2.3	2.4	2.1	2.2	2.3
Current account bal/GDP (%)	-7.7	-4.4	-5.5	-1.4	-17.4	-5.5	-6.3	-7.8
Indonesia								
GDP at market prices (% annual growth)[b]	4.6	6.2	6.5	6.2	5.6	5.3	5.5	5.5
Current account bal/GDP (%)	2.5	0.7	0.2	-2.8	-3.5	-2.6	-2.3	-2.1
Lao PDR								
GDP at market prices (% annual growth)[b]	5.5	8.5	8.0	8.2	8.0	7.7	8.1	8.1
Current account bal/GDP (%)	-2.6	-10.0	-10.3	-15.3	-20.8	-20.0	-18.9	-17.0
Malaysia								
GDP at market prices (% annual growth)[b]	3.9	7.2	5.1	5.6	4.5	4.8	4.9	4.9
Current account bal/GDP (%)	12.6	11.1	11.0	6.1	4.3	4.3	4.1	4.0
Mongolia								
GDP at market prices (% annual growth)[b]	5.8	6.4	17.5	12.4	12.5	10.3	10.0	7.7
Current account bal/GDP (%)	-6.3	-14.3	-31.5	-32.7	-25.6	-16.8	-10.7	-9.2
Myanmar								
GDP at market prices (% annual growth)[b]	9.7	5.3	5.9	6.5	6.8	6.9	6.9	6.9
Current account bal/GDP (%)	-0.7	-1.3	-2.6	-4.1	-4.2	-4.8	-5.1	-5.1
Papua New Guinea[c]								
GDP at market prices (% annual growth)[b]	3.0	7.7	10.7	8.1	4.0	8.5	20.0	5.0
Current account bal/GDP (%)	2.4	-21.4	-23.5	-51.0	-27.0	-2.0	12.3	9.3
Philippines								
GDP at market prices (% annual growth)[b]	4.0	7.6	3.6	6.8	6.9	6.5	7.1	6.5
Current account bal/GDP (%)	1.5	4.5	3.2	2.9	2.0	0.6	0.7	1.0
Solomon Islands								
GDP at market prices (% annual growth)[b]	2.8	7.0	10.7	4.8	4.0	3.5	3.7	4.0
Current account bal/GDP (%)	-20.5	-30.8	-6.7	-0.1	-2.0	-6.5	-5.3	-7.6
Thailand								
GDP at market prices (% annual growth)[b]	3.5	7.8	0.1	6.5	3.2	4.5	5.0	5.2
Current account bal/GDP (%)	3.3	4.1	2.8	1.7	1.1	1.1	1.3	1.4
Timor-Leste[d]								
GDP at market prices (% annual growth)[b]	3.3	9.5	12.0	8.3	8.1	8.0	7.7	8.6
Current account bal/GDP (%)	17.1	39.8	40.4	43.5	34.3	32.1	27.0	27.7
Vietnam								
GDP at market prices (% annual growth)[b]	7.1	6.8	6.2	5.2	5.3	5.4	5.4	5.5
Current account bal/GDP (%)	-10.8	-3.8	0.2	5.9	5.1	3.0	0.6	0.5

Source: World Bank
Notes: e = estimate, f = forecast
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. Samoa; Tuvalu; Kiribati; Democratic People's Republic of Korea; Marshall Islands; Micronesia, Federated States; N. Mariana Islands; Palau; and Tonga are not forecast owing to data limitations.
* Published forecasts are for only low and middle-income countries in the region, hence no high-income countries are included.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. GDP measured in constant 2010 U.S. dollars.
c. The start of production at Papua-New-Guinea-Liquefied Natural Gas (PNG-LNG) is expected to boost PNG's GDP growth to 20 percent and shift the current account to a 9 percent surplus in 2015. PNG's GDP deflators are expected to be updated in 2014 and the new GDP series is expected to be significantly different from the existing one.
d. Non-oil GDP. Timor-Leste's total GDP, including the oil economy, is roughly four times the non-oil economy, and highly volatile, subject to global oil prices and local production levels.

EUROPE and CENTRAL ASIA

GLOBAL ECONOMIC PROSPECTS

January 2014

Chapter 2

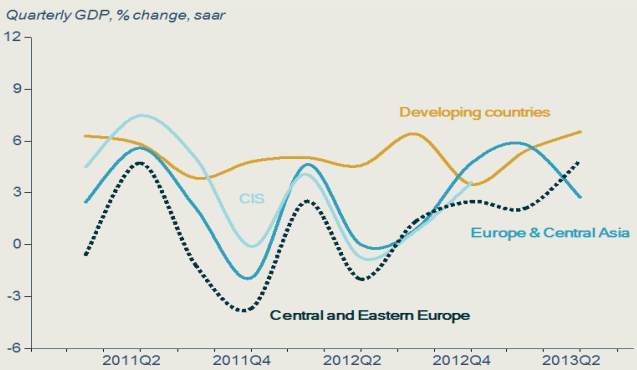
Regional growth strengthened in 2013 due to higher demand from Europe and strong growth in energy commodity-exporters. Non-energy commodity exporters suffered declines in metal and agricultural prices. Strong growth in high-income Europe will benefit most countries with strong trade ties. Prospects are weaker for those struggling with high fiscal and external deficits. A sharper slowdown in Russia and tighter global finance are key downside risks.

Recent developments

Economic activity strengthened in the Europe and Central Asia region[1] in 2013 supported by strengthening external demand. After subpar growth in 2012 (2.0 percent) economic activity in the region is estimated to have accelerated to 3.4 percent in 2013, albeit with divergent performances across countries (figure 2.6).[2] The pick-up was strongest in the Central and Eastern European subregion where output increased by 1.6 percent in 2013 (up from -0.1 percent in 2012), supported by strengthening demand in the Euro Area. In Turkey, the largest economy in the region, buoyant domestic demand underpinned acceleration in growth to 4.3 percent in 2013 from 2.2 percent in 2012. Growth in the remainder of the region was broadly stable at an estimated 3.5 percent in 2013 (3.4 percent in 2012), notwithstanding an estimated -1.1 percent contraction in Ukraine.

A moderate pick-up in external demand boosted regional economic activity. The return to growth in the Euro Area in the second quarter of 2013 supported real-side activity in the

Figure 2.6 **Growth is picking up in Europe and Central Asia**

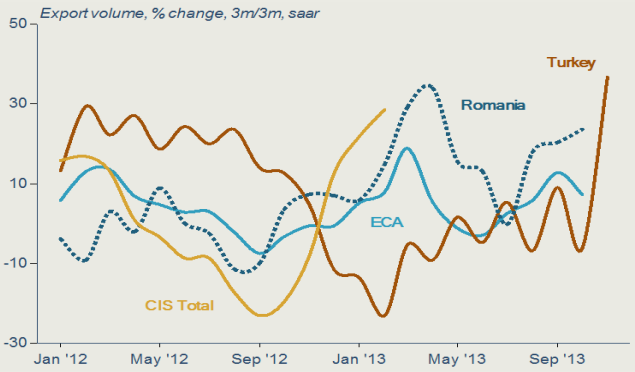


Source: Datastream and the World Bank

1. For the purposes of this report, the Europe and Central Asia region concerns only the low- and middle-income countries of the geographic region. As such it excludes from the aggregate Russia.

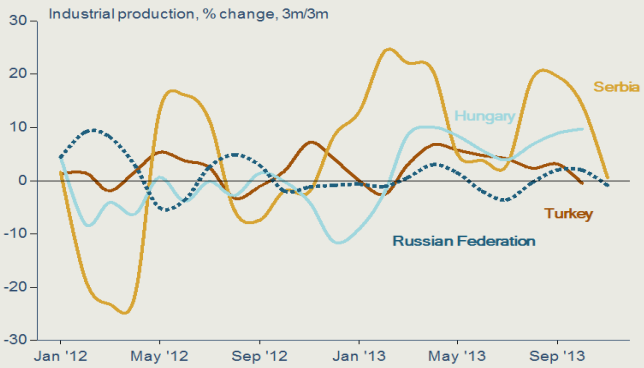
2. Regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.

Figure 2.7 **Exports are recovering led by Central and Eastern European countries**



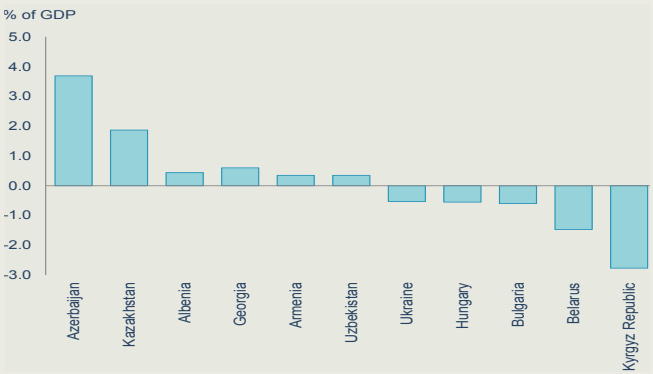
Source: World Bank.

Figure 2.8 **Performance of industrial production varies across countries**



Source: Datastream and the World Bank.

Figure 2.9 **Estimated impact of commodity price changes on trade balance**



Source: World Bank.

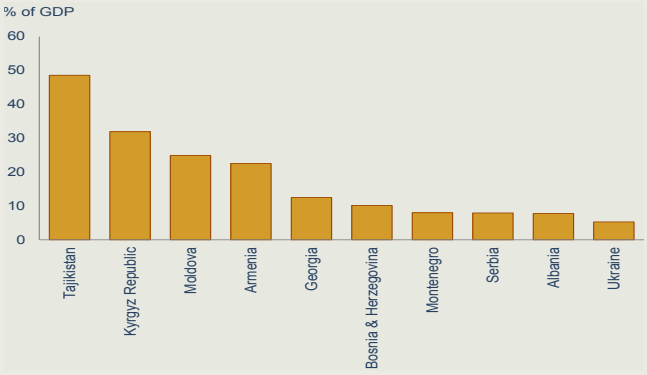
region, particularly in the Central and Eastern European countries through strong trade links.[3] Exports in the subregion grew by 8.6 percent during the first nine months of 2013 compared with the same period in 2012 reflecting particularly strong growth in the third quarter (16.2 percent annualized) (figure 2.7). In contrast Turkish exports were some 0.6 percent lower than a year before during the first nine months of 2013, reflecting weak global growth during the first half of the year and tighter sanctions on Iran (which cut sharply into gold exports). Stronger global growth in Q3 and the 13.0 percent depreciation of the lira since May has contributed to an annualized 8.8 percent increase in Turkey's Q3 exports, with new foreign orders rising at their fastest pace in 22 months, according to November business sentiment indicators. Recent monthly data for the Commonwealth of Independent States is not available, but given their strong trade links with Russia and falling Russian merchandise imports (-24.1 and -4.5 percent in Q2 and Q3, saar), noncommodity exports of these countries are likely to have been weak during this period. In contrast, oil production and exports in Kazakhstan and Azerbaijan have shown continued strength, supporting their above-regional-average GDP growth rates.

Regional industrial production strengthened, but performance differed across economies. For the region as an aggregate, industrial production accelerated to 2.3 percent growth during the first nine months of 2013 compared with a 0.7 percent in 2012. In the Central and Eastern European subregion industrial production accelerated to an annualized pace of 6.4 percent in 2013Q3 on stronger exports (figure 2.8). In Turkey, industrial activity has grown at a 3.1 percent year-to-date, reflecting strong domestic demand bolstered by accommodative monetary policies, particularly in the first half of the year.

Performance among the Commonwealth of Independent States has been mixed. Among energy-exporting countries (Azerbaijan, Kazakhstan, and Uzbekistan), activity has remained strong, reflecting relative strength in energy-related commodity prices, expansion of production in extractive sectors, and robust growth in domestic demand supported by government spending and, so far, stable remittance inflows (see below). In contrast, political disturbances have dampened economic activity and domestic demand in Ukraine, where industrial production contracted at a 2.9 percent annualized pace in the three months ending October—a 15th consecutive month of contraction. Among metal- and mineral-exporting countries in the subregion,

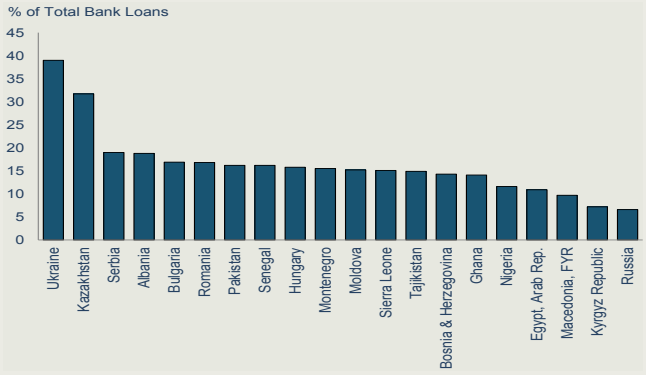
3. Central and Eastern European countries refer to Albania, Bosnia and Herzegovina, Bulgaria, Hungary, Kosovo, Macedonia, Montenegro, Romania, Serbia, and Turkey.

Figure 2.10 Remittances by country



Source: World Bank.

Figure 2.11 Non Performing Loans remain elevated in the region



Source: World Bank.

a 30 percent decline in metals and mineral prices since 2011 has cut into incomes and activity. Agricultural food prices are down 15 percent and raw materials have declined by 29 percent (energy prices are down by 9 percent). Belarus, Kyrgyz Republic, and Ukraine experienced the most negative terms of trade impacts, with lower export prices and higher energy import prices estimated to have reduced incomes by some 1.5, 2.7, and 0.6 percent of GDP, respectively (figure 2.9).

Strong remittance inflows partially mitigated the negative impact of deteriorating terms of trade. Because of strengthening activity in the Euro Area as well as resilient flows from Russia (despite its growth deceleration in the second half of 2013) remittances to the region rebounded by an estimated 11 percent in 2013, helping to support household consumption. The rebound was strongest in Tajikistan, with an estimated 23 percent increase in 2013. Remittances are particularly important to the economies of Tajikistan where they represent 48 percent of GDP, Kyrgyz Republic (31 percent of GDP), and Moldova (24.1 percent of GDP) (figure 2.10).

Capital inflows to the region began strong, but declined with speculation about the timing of an end to U.S. quantitative easing. Overall, net capital inflows to the region are estimated to have slightly decreased by $1.9 billion, or –1.6 percent, year-on-year in 2013, mainly because strong flows during the first five months of the year were offset by midyear weakness and ensuing volatility since then (table 2.4). The higher interest rates on U.S. government debt that accompanied speculation on the timing of an end of quantitative easing sparked an adjustment in global portfolios away from developing countries. As a result, average monthly capital flows to developing Europe and Central Asia fell by 60 percent between June and October as compared with the first five months of the year. Within the region, Turkey felt the most immediate impacts. The country's large current account deficits funded by relatively large share of short-term loans and volatile portfolio flows were seen as being particularly vulnerable to outflows and a rise in global interest rates. Hungary, Serbia, and Ukraine were also hard-hit by the sudden reversal in capital flows. Other countries, including Georgia and Kazakhstan, where the stock of private external debt is particularly high, also came under considerable pressure, resulting in increases in long-term interest rates. The weakness in capital inflows caused the region's currencies to depreciate by 3.7 percent on average (in nominal effective terms). Stock markets depreciated by 10.5 percent in June and by 4.3 percent between June and September, while efforts to resist depreciation in some countries (Hungary, Romania, Turkey) was reflected in a significant decline in reserves when expressed as a percent of monthly imports. Since August, capital inflows to the region have rebounded and local currencies appreciated, reserves and equity prices have partially recovered earlier losses, and bond yields have declined but remain elevated compared to pre-May levels. This episode, which led to the tightening of financing conditions, is a stark reminder of the vulnerabilities of economies in the region (see risk section).

Across the region, the banking sector remains weak, saddled with an overhang of non-performing loans. Fourteen of the 20 developing countries with the highest share of non-performing loans (NPLs) are in Europe and Central Asia (led by Kazakhstan, Serbia, Albania, Bulgaria, and Romania) (figure 2.11). In Central and Eastern European countries, high NPLs partly reflect the deep recession and the

Table 2.4 Net capital flows to Europe and Central Asia ($ billions)

	2008	2009	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Capital Inflows	324.9	101.3	85.3	137.3	121.2	119.3	116.6	133.1	149.9
Private inflows, net	300.3	52.3	57.3	130.4	128.1	114.2	111.6	124.1	137.9
Equity Inflows, net	165.5	54.8	27.6	75.1	72.4	55.4	54.1	59.3	65.1
Net FDI inflows	166	51.1	23.8	75.8	64.4	55	51	55	60
Net portfolio equity inflows	-0.4	3.7	3.7	-0.7	8	0.4	3.1	4.3	5.1
Private creditors. Net	134.8	-2.5	29.7	55.3	55.7	58.8	57.5	64.8	72.8
Bonds	-3.2	-6.8	7.1	8.2	38.7	29.7	22.7	20.6	19.7
Banks	133.2	14.4	-19	33.1	8.1	15.3	14.7	18.6	22.5
Other private	-0.9	-0.2	0.1	-0.1	-0.1	0.7	0.6	1.1	0.2
Short-term debt flows	5.7	-9.9	41.6	14.1	9	13.1	19.5	24.5	30.4
Official inflows, net	24.6	49	28	6.9	-6.9	5.1	5	9	12
World Bank	1.2	3.4	3.9	2.9	2	3.1	..	..	..
IMF	12.8	25.5	9	-1	-13	-4	..	..	..
Other official	10.6	20.2	15.1	5.1	4	6	..	..	..

Notes: e = estimate, f = forecast
Source: World Bank

tepid economic recovery. Slow growth has delayed the recovery in asset prices, discouraging banks from actively writing-off loans and disposals. High NPLs in turn have weakened credit creation by the banks hampering potentially productive investments. In the Commonwealth of Independent States sub region, the profitability of banks has generally recovered since the crisis, but the conditions underlying the vulnerabilities in the banking sector remain, including widespread use of state-directed credit and subsidized lending to priority sectors including the state-owned enterprises in commodity sectors.

Outlook

After expanding by an estimated 3.4 percent in 2013, GDP growth for the region is projected to steadily rise from 3.5 percent in 2014 to 3.8 percent by 2016. This pick-up in activity, though generally broadly-based, will be most marked in the Central and Eastern European economies, where there is currently the most spare capacity (table 2.5 and 2.6).

GDP growth in the Central and Eastern European subregion is expected to reach 2.6 percent by 2016, up from an estimated 1.5 percent in 2013, supported by strengthening economic activity in the Euro Area. Despite stronger growth, domestic demand, is expected to remain sluggish as a result of ongoing banking-sector restructuring and tighter international financial conditions, which will weigh on investment and consumer durable demand. Ongoing or planned fiscal consolidation in some countries (such as Albania, the Former Yugoslav Republic of Macedonia, and Serbia) will also partly offset the growth impetus from stronger exports. While conditions are projected to improve, growth will not be strong enough to make a substantial dent in regional unemployment and spare capacity over the forecast horizon.

Growth in the Commonwealth of Independent States is projected to pick up from an estimated 3.5 percent in 2013 to 4.1 percent in 2016. Among resource rich Commonwealth of Independent States, this pickup will be supported by the expected coming on stream of new export capacity following years of investment in the energy sectors. The strengthening of the global economy should be supportive of increased energy demand, although technological developments will continue to weigh on medium- to long-term prices. Oil prices are projected to remain stable in nominal terms through 2014 ($105.70 a barrel) before declining marginally in 2015 and 2016. Among non-energy-producing Commonwealth of Independent States, a strengthening outlook will be supported by a pickup in remittances and exports as the global economy strengthens.

Table 2.5 **Europe and Central Asia forecast summary***
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
GDP at market prices[b]	3.9	5.9	6.3	2.0	3.4	3.5	3.7	3.8
				(Sub-region totals -- countries with full NIA + BOP data)[c]				
GDP at market prices[c]	3.9	6.1	6.3	2.0	3.4	3.5	3.6	3.8
GDP per capita (units in US$)	3.5	5.3	5.5	1.2	2.7	2.8	2.9	3.1
PPP GDP	3.9	5.8	6.1	1.9	3.2	3.4	3.5	3.6
Private consumption	4.3	4.5	7.0	2.2	3.7	3.9	3.9	4.0
Public consumption	3.7	-0.7	2.9	4.1	2.5	2.3	2.8	2.8
Fixed investment	5.0	12.7	9.5	-0.7	4.3	5.1	5.2	4.8
Exports, GNFS[d]	5.1	8.5	8.6	4.6	2.6	4.2	4.8	5.2
Imports, GNFS[d]	5.4	12.5	11.1	1.3	4.9	4.9	5.8	5.7
Net exports, contribution to growth	-0.2	-1.7	-1.3	1.2	-1.1	-0.5	-0.6	-0.4
Current account bal/GDP (%)	-3.7	-3.3	-4.3	-3.5	-4.0	-4.0	-4.0	-3.9
GDP deflator (median, LCU)	9.3	8.5	8.7	3.4	4.3	4.3	4.6	4.3
Fiscal balance/GDP (%)	-4.4	-2.2	0.7	-1.1	-1.0	-1.0	-0.7	-0.7
Memo items: GDP								
ECA including high income countries	3.9	4.7	4.9	2.3	2.0	2.8	3.2	3.5
Transition countries[e]	4.8	3.4	4.2	1.7	2.7	3.5	3.4	3.5
Central and Eastern Europe[f]	3.1	0.3	2.0	-0.1	1.5	2.1	2.2	2.6
Commonwealth of Independent States[g]	6.5	6.1	6.0	3.4	3.5	4.5	4.3	4.1
Kazakhstan	7.5	7.3	7.5	5.0	6.0	5.8	5.9	5.9
Turkey	3.0	9.2	8.8	2.2	4.3	3.5	3.9	4.2
Romania	3.8	-0.9	2.3	0.7	2.5	2.5	2.7	2.7

Source: World Bank
Notes: e = estimate, f = forecast
* Unless otherwise indicated, regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. Sub-region aggregate excludes Bosnia and Herzegovina, Kosovo, Montenegro, Serbia, Tajikistan and Turkmenistan. Data limitations prevent the forecasting of GDP components or Balance of Payments details for these countries.
d. Exports and imports of goods and non-factor services (GNFS).
e. Transition countries: CEE and CIS (f + g below).
f. Central and Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Georgia, Kosovo, Lithuania, Macedonia, FYR, Montenegro, Romania, Serbia.
g. Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

Subregion remittances are projected to increase by 10.3 percent in 2014, benefiting from an economic recovery in the Euro Area and strengthening growth in Russia (from 1.3 percent in 2013 to 2.7 percent in 2014–16), the destination for a large number of migrants from Central Asian economies. On the downside, weaker metal and agricultural prices are likely to weigh on export revenues and government spending.

Growth in Turkey, the region's largest economy, is expected to stabilize around its potential growth rate of about 3.9 percent over the 2014–16 period—well below its pre-crisis rate of 6.8 percent (2002–07 average). As a significant beneficiary of international capital flows in recent years, Turkey will be affected by the tighter global financial markets. Gross capital flows to the region are expected to decline by 0.3 percent of regional GDP to about 6.3 percent of GDP by 2016 as global asset portfolios are rebalanced (see the extensive discussion in chapter 3). While tighter financial conditions should temper growth in Turkey, these effects are expected to be partially offset by relatively strong private consumption and investment and higher government consumption in the run-up to elections in 2014.

Risks

While the baseline forecast remains the most likely outcome, the outlook is subject to downside risks. Although the main tail-risks of the past five years have subsided, the underlying challenges that underpinned them—though less acute—remain. In the Euro Area, much has been achieved and banks have gone a long way to restructuring themselves, but the recovery will take time and considerable effort. Protracted recession in the Euro Area is therefore a downside risk to the outlook especially for countries with stronger trade and financial links with the area (in particular, Central and Eastern European economies). In addition, slower-than-projected growth in China, perhaps provoked by a quicker-than-anticipated decline in investment, could slow global growth by as much as 0.3 percent but with more marked effects on regional industrial commodity producers (such as Belarus and Ukraine). A sharper-than-expected slowdown in Russia would be a key downside risk for many Commonwealth of Independent States, especially those that are heavily dependent on Russia for import demand, remittance flows, and foreign investment (such as Armenia, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan).

Further tightening of global finance conditions is a downside risk to the outlook especially for countries with high refinancing needs. Over the medium term, the gradual return of long-term interest rates to more sustainable levels in both high-income and developing countries should help reduce the excesses and vulnerabilities that can accumulate in a persistently low interest rate environment. In the near term, however, the transition to higher global interest rates could be volatile. Should market reactions to the withdrawal of extraordinary monetary measures in high-income countries be less orderly than assumed in the baseline, simulations based on econometric work discussed in more detail in chapter 3 suggest that capital flows to developing countries could decline by 80 percent or more for several months—potentially sparking local crises in countries with large external imbalances and those that have experienced large credit expansions in recent years (such as Albania, Bosnia and Herzegovina, Kyrgyz Republic, Montenegro, Serbia, and Turkey).

High levels of external private sector debt are a challenge in the region. Particularly high debt levels in some countries in the region (such as Bulgaria, Kazakhstan, and Moldova) increase their susceptibility to changes in external financing conditions and currency mismatch. In addition, banks in many countries remain weak because of high levels of NPLs left over from the previous crisis. Ukraine is the most vulnerable because of a de facto peg against the U.S. dollar, which has come under pressure over the past year due to a severe recession in Ukraine. Risks in Turkey reflect rising leverage in the corporate sector with large amounts of foreign exchange liabilities (intermediated through the banking sector), relatively low reserve coverage of short-term external debt (compared with other major middle-income economies), and a reliance on short-term capital flows to cover its current account deficits.

On the upside, stronger growth than envisaged in the baseline could provide additional boost to the regional economies. A stronger-than-anticipated recovery in high-income economies could provide considerable support to external demand, notably in Central and East European developing countries, helping offset downward adjustments in domestic demand triggered by rising global interest rates. Declining global food prices should also reduce inflation pressures and food import costs, although they are a negative development for food exporters.

Table 2.6 **Europe and Central Asia country forecasts***

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Albania								
GDP at market prices (% annual growth)[b]	4.9	3.8	3.1	1.6	1.3	2.1	3.0	3.0
Current account bal/GDP (%)	-8.6	-11.5	-13.0	-10.8	-8.2	-7.1	-6.3	-6.7
Armenia								
GDP at market prices (% annual growth)[b]	7.7	2.2	4.7	7.2	3.2	5.0	5.0	5.0
Current account bal/GDP (%)	-7.4	-14.8	-11.0	-11.2	-10.6	-10.0	-9.2	-8.0
Azerbaijan								
GDP at market prices (% annual growth)[b]	14.1	5.0	0.1	2.2	4.9	5.3	4.5	3.9
Current account bal/GDP (%)	2.9	29.3	25.4	21.2	17.7	15.9	14.3	12.5
Belarus								
GDP at market prices (% annual growth)[b]	6.6	7.7	5.5	1.5	1.0	1.5	2.0	2.5
Current account bal/GDP (%)	-4.6	-15.0	-8.6	-2.7	-8.9	-8.1	-9.2	-7.9
Bosnia and Herzegovina								
GDP at market prices (% annual growth)[b]	4.0	0.7	1.3	-1.1	0.8	2.0	3.5	3.5
Current account bal/GDP (%)	-13.3	-5.6	-8.8	-9.6	-7.5	-6.6	-6.3	-6.1
Bulgaria								
GDP at market prices (% annual growth)[b]	4.0	0.4	1.8	0.8	0.6	1.7	1.8	2.0
Current account bal/GDP (%)	-11.3	-1.5	0.3	-1.3	2.1	-0.5	-0.9	-1.0
Georgia								
GDP at market prices (% annual growth)[b]	5.6	6.3	7.0	6.0	2.5	6.3	6.3	6.5
Current account bal/GDP (%)	-12.6	-10.2	-12.7	-11.7	-7.5	-7.1	-7.0	-6.3
Hungary								
GDP at market prices (% annual growth)[b]	1.8	1.3	1.6	-1.7	0.7	1.7	1.5	2.7
Current account bal/GDP (%)	-6.8	1.1	0.9	1.6	2.3	2.2	2.1	3.2
Kazakhstan								
GDP at market prices (% annual growth)[b]	7.5	7.3	7.5	5.0	6.0	5.8	5.9	5.9
Current account bal/GDP (%)	-2.0	0.9	5.4	0.3	-0.3	-1.3	-1.7	-1.8
Kosovo								
GDP at market prices (% annual growth) [b]	5.8	3.9	5.0	2.7	3.0	4.0	4.2	4.2
Current account bal/GDP (%)	-7.3	-12.0	-13.8	-7.6	-10.7	-8.7	-8.3	-8.6
Kyrgyz Republic								
GDP at market prices (% annual growth)[b]	4.2	-0.5	6.0	-0.9	7.8	6.5	5.4	5.3
Current account bal/GDP (%)	-6.0	-6.4	-6.0	-15.3	-10.4	-11.7	-11.0	-10.9
Moldova								
GDP at market prices (% annual growth)[b]	4.4	7.1	6.4	-0.7	5.5	3.8	4.0	4.0
Current account bal/GDP (%)	-8.4	-7.7	-11.3	-7.0	-6.1	-8.7	-9.6	-8.0
Macedonia, FYR								
GDP at market prices (% annual growth)[b]	2.3	2.9	2.8	-0.4	2.5	3.0	3.5	3.7
Current account bal/GDP (%)	-6.1	-2.1	-2.5	-3.1	-3.2	-4.5	-5.7	-6.1
Montenegro								
GDP at market prices (2005 US$)[b]	-	2.5	3.2	-2.5	1.8	2.5	2.7	2.9
Current account bal/GDP (%)	-11.4	-22.9	-17.7	-18.7	-14.7	-15.3	-15.1	-14.8
Romania								
GDP at market prices (% annual growth)[b]	3.8	-0.9	2.3	0.7	2.5	2.5	2.7	2.7
Current account bal/GDP (%)	-7.5	-4.6	-4.8	-3.8	-1.5	-1.8	-2.5	-2.7

Table 2.6 **Europe and Central Asia country forecasts***

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Serbia								
GDP at market prices (% annual growth)[b]	3.6	1.0	1.6	-1.7	2.0	1.0	2.2	2.5
Current account bal/GDP (%)	-9.7	-6.7	-9.2	-10.5	-6.0	-6.0	6.3	6.5
Tajikistan								
GDP at market prices (% annual growth)[b]	7.7	6.5	7.4	7.5	7.0	6.0	6.0	6.0
Current account bal/GDP (%)	-4.8	-1.2	-4.7	-1.9	-2.2	-2.4	-2.5	-2.5
Turkey								
GDP at market prices (% annual growth)[b]	3.0	9.2	8.8	2.2	4.3	3.5	3.9	4.2
Current account bal/GDP (%)	-3.2	-6.2	-9.7	-6.1	-7.4	-7.1	-6.8	-6.5
Turkmenistan								
GDP at market prices (% annual growth)[b]	12.6	9.2	14.7	11.1	10.1	10.7	10.5	10.1
Current account bal/GDP (%)	7.4	-10.6	2.0	0.0	-3.4	-1.7	-1.5	-1.5
Ukraine								
GDP at market prices (% annual growth)[b]	3.9	4.2	5.2	0.2	-1.1	2.0	1.0	0.7
Current account bal/GDP (%)	2.2	-2.2	-5.5	-8.4	-8.1	-5.7	-5.6	-5.5
Uzbekistan								
GDP at market prices (% annual growth)[b]	6.1	8.5	8.3	8.2	7.4	7.0	6.7	6.7
Current account bal/GDP (%)	5.2	6.2	5.8	2.7	3.2	3.6	2.3	1.2

Source: World Bank
Notes: e = estimate, f = forecast
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 are not forecast owing to data limitations.
* Published forecasts are for only low and middle-income countries in the region, hence no high-income countries are included.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. GDP measured in constant 2010 U.S. dollars.

LATIN AMERICA and the CARIBBEAN

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Subdued global trade, softer commodity prices, and domestic challenges curbed regional growth in 2013, keeping it largely unchanged from 2012. However, with global economic conditions expected to improve, the regional economic outlook is positive, with growth picking up from 2.5 percent in 2013 to an average of 3.3 percent per annum over the medium term. Downside risks include a disorderly rise in global interest rates and a prolonged and deeper slump in commodity prices.

Recent developments

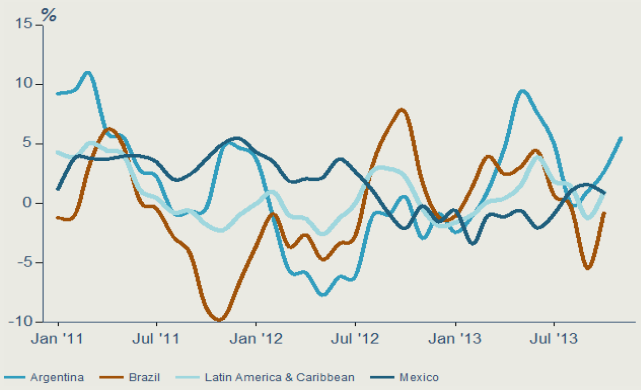
Amid a sluggish global recovery and lower commodity prices, regional economic activity was curbed in 2013. Regional real GDP growth edged down by 0.1 percentage point to 2.5 percent (y/y) in 2013, compared to 2.6 percent in 2012.[1] With GDP growing below its potential rate (estimated at 3.3 percent in 2013), the negative output gap that opened in 2012 further widened in 2013. However, overall regional growth conceals diversity across the sub-regions and countries. Output growth in Central and North America slowed sharply from 4.1 percent in 2012 to 1.7 percent in 2013, led by a sharp slowdown in Mexico. Similarly, with a weakening in Belize, the Dominican Republic and Suriname, growth in the Caribbean also eased to 2.2 percent in 2013 from 3.0 percent. In contrast, output growth in South America accelerated to 2.7 percent from 2.1 percent, led by stronger growth in Argentina, Brazil and Paraguay. Venezuela represented an outlier in the South America, with growth falling sharply to 0.7 percent in 2013 from 5.5 percent due to domestic challenges.

Despite a strong first half year and partial recovery in the last quarter, overall exports growth for 2013 has weakened considerably compared to 2012 reflecting mid-year weakness. Overall, for the 11 months through November, regional exports advanced by only 4.1 percent (y/y), compared with the 7.6 percent expansion observed over the same period in 2012. The regional outcome was generally consistent with global trends. Global import demand expanded in the first half of 2013, but contracted in Q3, partly reflecting uncertainty sparked by speculation about the future of U.S. monetary policy, before firming up again in Q4. Similarly, growth in the region's merchandise exports was also solid in the first half of 2013, expanding at an average annualized rate of more than 9 percent (q/q saar) through June, but fizzled out toward the end of Q3 (0.5 percent in September), before recovering somewhat in Q4 (more than 7 percent in October and November). Bolivia, Colombia, Costa Rica, Jamaica, and Mexico all saw marked decelerations in export growth, while export volumes contracted in 2013 in Honduras, Nicaragua and Peru. In contrast, thanks to a bumper harvest, Argentina's export volumes were up by 22 percent (y/y) through the first 11 months of 2013.

A short-lived upturn in industrial production gave way to broad-based weakness in the second half of 2013. For the first 10 months of 2013, regional industrial production increased by a dismal one half percent (y/y) over the same period in 2012. From a

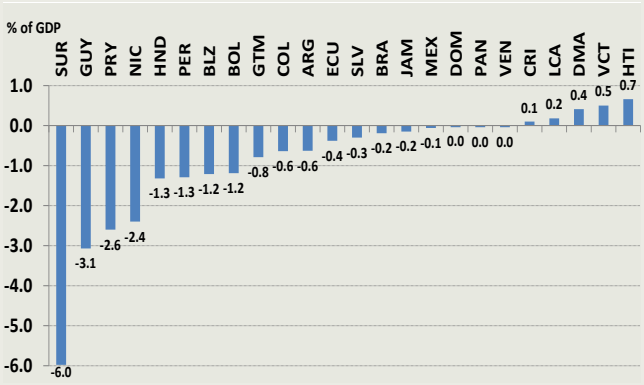
1. Regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.

Figure 2.12 Industrial production growth decelerates in Latin American and Caribbean countries



Source: Datastream, Haver Analytics.

Figure 2.13 Effect of lower commodity prices on the terms of trade



Source: World Bank.

contraction of 1.6 percent in January, output accelerated in the first half of 2013 peaking at an annualized pace of 3.9 percent (3m/3m saar) in June (figure 2.12). However, industrial activity growth has since decelerated, with output contracting at a 1.2 percent annualized rate in Q3. In Brazil, where industrial production has been particularly volatile, strong investment and exports pushed up industrial activity in the first half of the year. Due to monetary tightening that began in April and associated uncertainty, industrial production took a brief downturn in July, before making a recovery since August. Similarly, boosted by expansionary policies and a good harvest and consequently increased agricultural exports, Argentina's industrial production peaked in May, retreated sharply in June before making a recovery in July. Largely because of the delayed effects of weak export demand, developments among Central American economies also took on a similar path, with industrial activity contracting until July and signs of a recovery appearing for August through October.

A deterioration in the terms of trade worsened current account balances in the region's economies. For the region as a whole, lower commodity prices, together with the slowdown in export volumes, led the current account deficit as a share of GDP to increase from 1.7 percent in 2012 to 2.6 percent in 2013. The prices of agriculture products, metals and precious metals (in U.S. dollars) fell 7.2, 5.5 and 16.9 percent, respectively, in 2013. Given the commodity intensity of the region's exports, these price declines severely dented the region's value of exports, leading to a fall in export revenue and, in many cases, government revenue as well. Our calculations suggest that the income effect of the negative terms-of-trade shock led to a deterioration of the region's trade balances by some 0.3 percent of GDP. Suriname, where commodities constituted 97.5 percent of exports in 2010, experienced a terms-of-trade hit of almost 6 percent of GDP, leading to a substantial increase in its current account deficit (figure 2.13). In contrast, in Haiti, where primary commodities make up only 3 percent of exports, the terms-of-trade changes were favorable and reflected by an improving trade balance and an easing of its current account deficit in 2013. Similarly, other Central American and Caribbean countries with low commodity export shares, such as Dominica, St. Lucia, and St. Vincent and the Grenadines observed varying degrees of improvement to their current account balances.

Table 2.7 Gross capital flows to Latin America and the Caribbean region

Billions of US$	Total Gross Capital Flows	Equity Issue	Bond Issue	Bank Lending
Total flows 2012	149.5	19.8	92.8	36.9
Total flows 2013	177.6	29.2	98.3	50.1
Percentage Change	18.8	47.4	6.0	35.6
Average Jan - May 2012	11.6	1.2	8.6	1.9
Average Jul - Dec 2012	13.9	2.2	7.5	4.3
Percentage change	19.6	83.3	-13.0	126.5
Average Jan - May 2013	15.1	3.4	9.4	2.4
Average Jul - Dec 2013	16.1	1.7	8.6	5.8
Percentage Change	6.0	-51.5	-8.6	147.3

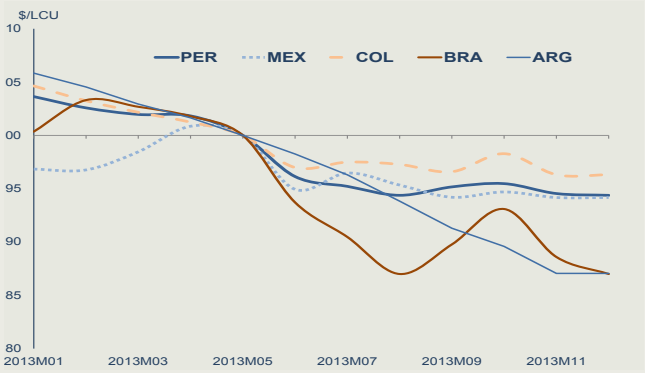
Source: World Bank.

Gross capital flows to the region increased overall for 2013, despite a slump in equity issues in the second half of the year. Gross capital flows to the region, consisting of the new equity issues, new bond issues, and syndicated bank lending, totaled $178 billion in 2013, an increase of 18.8 percent over the $150 billion in 2012 (table 2.7). Boosted by strong flows to Brazil and Mexico, equity issues jumped 47 percent, reaching $29 billion compared with the $20 billion in 2012. After posting robust flows in the first five months of 2013, capital flows to the region fell sharply in June on the prospect of QE tapering. Flows then rebounded in July, and with the unexpected decision by the U.S. Fed that it would not taper in September, capital flows to the region surged to $22 billion in September as the region's borrowers sold a record high $20.6 billion worth of bonds. While total flows to the region did strengthen substantially overall in 2013, average monthly equity issues for July to December amounted to only $1.7 billion, which is half the average amount of monthly equity issues from January to May of $3.4 billion. The less financially integrated economies of Central America and the Caribbean observed less turbulence from a reduction in capital inflows.

Regional currencies depreciated after the May tapering announcement. With the sell-off in emerging market assets following mid-year expectations of QE tapering, regional currencies depreciated, and in particular those currencies that saw larger depreciations, were more likely to had benefited more from earlier capital inflows and had relatively larger domestic imbalances. Between May and August, the Brazilian real, Colombian peso, Peruvian Nuevo sol, and Mexican peso depreciated by some 13.0, 2.7, 5.6, and 4.7 percent respectively (figure 2.14). However, as expectations of the tapering waned in September, regional currencies regained some of their depreciated value, but remained below their May 2013 levels. (In Brazil, the Central Bank did intervene in the currency market over the summer months, which led to its appreciation in September.) Bucking the trend, the Argentine peso continued to depreciate, even past September, in part reflecting loose monetary policy and weak investor sentiment. The broad depreciation in regional currencies has, however, been supportive of a nascent pick-up in regional exports starting in October, thereby cushioning the adverse effects of softer commodity prices.

Figure 2.14 **Regional currencies depreciate on prospect of QE tapering**

(US$/LCU exchange rate index, May 2013 = 100)



Source: World Bank.

Outlook

The regional economic outlook is projected to strengthen over the medium term, growing around potential — but below the boom years before the crisis. Regional GDP growth is forecast to strengthen from 2.9 percent in 2014 and 3.2 in 2015, and 3.7 percent in 2016 (table 2.8).

Strengthening global demand should support the region's growth over the forecast horizon. The baseline assumes that global economic activity will pickup over the projection horizon, supported in particular by a moderate acceleration of growth in high-income countries (see chapter one). Indeed, from a weak 2.4 percent (y/y) in 2013, global GDP is projected to gradually strengthen, reaching 3.5 percent in 2016. As a result, global trade growth will pick up from 3.1 percent in 2013 to 5.1 percent in 2016. The recovery in global trade, albeit it being modest compared with pre-crisis levels, will be supportive of exports from the Latin American and Caribbean region. We project that the region's export volumes will be expanding by more than 5 percent in 2016, up from the below 3 percent growth observed in both 2012 and 2013.

Continued decline in commodity prices will moderate export revenues. With few exceptions, commodity prices are projected to continue their downward trend in the medium term, yielding negative terms-of-trade developments for the majority of the region's commodity exporters along with decreases in export and government revenue, and, all else being equal, a worsening of the trade and current account balances. Countries such as Belize and Colombia where commodity exports make up about three-fourths of all exports, and Ecuador, a major exporter of bananas and crude oil, will see a deterioration of export revenues and trade balances and quite possibly their current account balances as well.

Table 2.8 **Latin America and the Caribbean forecast summary***
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
GDP at market prices[b]	2.7	6.0	4.1	2.6	2.5	2.9	3.2	3.7
				(Sub-region totals -- countries with full NIA + BOP data)[c]				
GDP at market prices[c]	2.7	6.0	4.1	2.6	2.5	2.9	3.2	3.7
GDP per capita (units in US$)	1.5	4.8	2.9	1.4	1.3	1.7	2.1	2.7
PPP GDP	2.6	6.1	4.5	2.9	2.7	3.1	3.3	3.8
Private consumption	3.1	5.6	4.9	3.8	2.6	2.8	2.9	3.2
Public consumption	2.7	4.3	2.8	3.7	2.2	2.3	2.6	2.7
Fixed investment	3.6	13.1	8.3	1.7	2.9	2.7	3.6	4.3
Exports, GNFS[d]	2.8	11.3	6.1	2.5	2.2	4.0	4.7	5.4
Imports, GNFS[d]	3.6	21.6	10.1	3.8	3.7	3.1	3.6	3.6
Net exports, contribution to growth	-0.1	-1.9	-0.9	-0.4	-0.4	0.1	0.1	0.2
Current account bal/GDP (%)	-0.4	-1.4	-1.4	-1.7	-2.6	-2.5	-2.3	-2.0
GDP deflator (median, LCU)	6.5	5.1	6.9	5.8	4.2	4.4	4.3	4.4
Fiscal balance/GDP (%)	-2.6	-3.1	-2.6	-3.9	-3.1	-3.0	-2.5	-2.4
Memo items: GDP								
South America[e]	3.1	6.3	4.1	2.1	2.7	2.6	2.9	3.5
Developing Central and North America[f]	1.5	5.1	4.0	4.1	1.7	3.5	3.9	4.2
Caribbean[g]	3.2	4.4	3.9	3.0	2.2	3.4	3.9	4.2
Brazil	2.9	7.5	2.7	0.9	2.2	2.4	2.7	3.7
Mexico	1.3	5.1	4.0	3.8	1.4	3.4	3.8	4.2
Argentina	2.9	9.2	8.9	1.9	5.0	2.8	2.5	2.5

Source: World Bank
Notes: e = estimate, f = forecast
* Unless otherwise indicated, regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. Sub-region aggregate excludes Cuba and Grenada, for which data limitations prevent the forecasting of GDP components or Balance of Payments details.
d. Exports and imports of goods and non-factor services (GNFS).
e.South America: Argentina, Bolivia, Brazil, Colombia, Ecuador, Guyana, Paraguay, Peru, Venezuela
f. Developing Central & North America: Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Panama, El Salvador.
g. Caribbean: Belize, Dominica, Dominican Republic, Haiti, Jamaica, St. Lucia, St. Vincent and the Grenadines, and Suriname.

Depreciated regional currencies will act as buffers to mitigate the adverse effects of the lower commodity prices on trade and current account balances, with the net effect being determined on a country-specific basis.

With global financing conditions further tightening, capital flows to the region will be further moderated. With the U.S. Fed's commencement of QE tapering in January 2014, long-term interest rates on U.S. Treasuries are expected to rise further, leading investors to demand higher interest rates on developing-country debts. Increased capital costs will slow debt flows to developing countries, including to the Latin American and Caribbean region, which has been one of the largest beneficiaries of the increased capital flows to developing countries observed in recent years (table 2.9). Overall, total net capital flows to the region will decline by about 3.7 percent (y/y) in 2014, on top of the 5.1 percent decline saw in 2013. The weaker growth in capital flows will thus temper the contribution of domestic demand to overall GDP growth, an effect that should be partially offset by stronger exports.

Table 2.9 **Net capital flows to Latin America and the Caribbean ($ billions)**

	2008	2009	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Capital Inflows	163.1	160.4	303.4	267.7	312.1	296.2	285.3	303.8	313.8
Private inflows, net	156.7	143.2	280.8	262.8	300.3	289.9	277.8	294.5	308.4
Equity Inflows, net	109.9	112.5	150.1	147.5	170.5	172.7	162.3	177.7	189.2
Net FDI inflows	121.5	71.2	110.9	145	150.3	158	144	152	160
Net portfolio equity inflows	-11.6	41.2	39.3	2.6	20.2	14.7	18.3	25.7	29.2
Private creditors. Net	46.8	30.7	130.7	115.3	129.8	117.2	115.5	116.8	119.2
Bonds	9.1	43.3	65.6	75.6	79.8	76.3	71.2	62.5	60.1
Banks	35.6	-4.2	18.3	46.1	28	23.4	20.1	35.4	36.2
Other private	-0.5	-0.5	0.9	-0.4	9.6	2.1	1.5	0.8	2.4
Short-term debt flows	2.6	-7.9	45.9	-5.9	12.3	15.4	22.7	18.1	20.5
Official inflows, net	6.4	17.2	22.6	4.9	11.8	6.3	7.5	9.3	5.4
World Bank	2.5	6.2	8.3	-2.9	3.6	2.2	..	..	..
IMF	0	0.4	1.3	0.2	-0.1	0.4	..	..	..
Other official	3.9	10.6	13	7.5	8.4	3.7	..	..	..

Notes: e = estimate, f = forecast
Source: World Bank

Performance across individual countries will vary. With strengthening exports growth, together with public investments for the upcoming World Cup in 2014 and summer Olympics in 2016, outweighing the adverse effects of lower commodity prices and tighter global financing conditions, Brazil, the largest economy in the region, is expected to see modest but sustained growth over the forecasting horizon from 2.4 percent (y/y) in 2014 accelerating to 3.7 in 2016 (table 2.10). Driven by a broad public transportation investment program that includes the expansion of the canal, Panama will continue to be an outlier, with high growth rates at 7.3 percent for 2014, moderating to above 6 percent for 2015 and 2016. Mexico is also expected to post a relatively robust performance, predominantly benefiting from a maturing recovery in the United States, and will see GDP growth steadily accelerate from 3.4 percent in 2014 to 4.2 percent in 2016. Similar to Mexico, other Central and North American economies with tight trade links to the strengthening United States are also expected to see growth rise from 3.5 percent in 2014 and to 4.2 percent in 2016. Likewise, the Caribbean economies are also anticipated to strengthen from 3.4 percent in 2014 to 4.2 percent in 2016, on stronger tourism income. In contrast, the Venezuelan economy is projected to undergo a drawn-out adjustment and weak growth in the medium term, as goods shortages and supply bottlenecks persist with high inflation.

Risks

Potential for a disorderly adjustment to higher long-term interest rates. Prospects will be sensitive to the pace at which accommodative monetary policy in high-income countries is withdrawn. In the baseline, the incremental withdrawal of quantitative easing, and its effect on long-term interest rates in United States, is assumed to continue to follow a relatively gradual trajectory in line with improving economic conditions in the United States. However, if markets react sharply to the continued tapering, then capital flows to developing countries could decrease by as much as 80 percent, destabilizing current account balances, leading to disorderly depreciations of regional currencies, and quite possibly, increasing imported inflation. These outcomes would compel local governments to tighten monetary policies and further reduce growth prospects. Latin America will not be immune to such developments, particularly because is one of the developing regions that has benefited the most from higher capital flows arising from loose monetary policies in high-income countries. As earlier observed, equity issuances slumped by around 50 percent following the mid-2013 perturbations in global financial markets, and regional currencies depreciated by up to 13 percent over the same time

period. Econometric analysis (see chapter 3) suggests that because investors tend to discriminate among countries, those with poorer macroeconomic fundamentals (such as high current account and fiscal deficits) are likely to see larger adjustments on the prospects of a disorderly tapering process.

Weaker than expected growth in the global economy. The baseline forecast assumes the continued improvement of advanced economies namely, the United States and the Euro Area. Outturns in Central and North American and Caribbean developing economies are likely to be particularly sensitive to the U.S. economy and in particular the evolution of fiscal policy discussions in that country. Similarly, although growth in the Euro Area has encouragingly turned positive in recent quarters, the nascent recovery is still too hesitant to decisively indicate whether the Euro Area is on the verge of regaining sustained growth in the immediate future.

Sharper-than-expected decline in commodity prices. The baseline also assumes a moderate decline in commodity prices. Given China's importance in global commodity markets (particularly in metal markets) a sharper-than-expected slowdown in China is likely to affect regional commodity exporters thereby eroding export and government revenues, and potentially aggravating current account imbalances.

Table 2.10 **Latin America and the Caribbean country forecasts***

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Argentina								
GDP at market prices (% annual growth)[b]	2.9	9.2	8.9	1.9	5.0	2.8	2.5	2.5
Current account bal/GDP (%)	2.7	0.4	-0.6	0.0	-0.8	-0.9	-0.8	-0.2
Belize								
GDP at market prices (% annual growth)[b]	5.0	2.7	1.9	5.3	1.8	2.7	3.3	3.4
Current account bal/GDP (%)	-12.7	-2.9	-1.1	-2.2	-1.8	-1.8	-1.7	-1.4
Bolivia								
GDP at market prices (% annual growth)[b]	3.4	4.1	5.2	5.2	5.3	4.7	4.0	3.6
Current account bal/GDP (%)	3.9	4.6	2.3	7.7	7.1	5.9	4.5	3.0
Brazil								
GDP at market prices (% annual growth)[b]	2.9	7.5	2.7	0.9	2.2	2.4	2.7	3.7
Current account bal/GDP (%)	-0.7	-2.2	-2.1	-2.4	-3.6	-3.7	-3.5	-3.2
Colombia								
GDP at market prices (% annual growth)[b]	3.7	4.0	6.6	4.2	4.0	4.3	4.2	4.0
Current account bal/GDP (%)	-1.4	-3.1	-2.9	-3.3	-3.5	-3.6	-3.3	-3.0
Costa Rica								
GDP at market prices (% annual growth)[b]	3.8	5.0	4.4	5.1	3.4	4.3	4.1	4.1
Current account bal/GDP (%)	-5.0	-3.5	-5.4	-5.6	-5.4	-5.6	-5.7	-5.7
Dominica								
GDP at market prices (% annual growth)[b]	2.4	1.2	1.0	1.7	1.1	1.7	1.8	2.1
Current account bal/GDP (%)	-18.4	-17.3	-14.7	-11.5	-10.0	-9.9	-9.6	-9.0
Dominican Republic								
GDP at market prices (% annual growth)[b]	4.5	7.8	4.5	3.9	2.5	3.9	4.6	4.9
Current account bal/GDP (%)	-2.6	-8.4	-8.2	-6.8	-4.8	-4.0	-3.2	-2.7
Ecuador								
GDP at market prices (% annual growth)[b]	4.2	3.5	7.8	5.1	4.0	4.1	4.2	4.3
Current account bal/GDP (%)	1.0	-2.3	-0.3	-0.3	-0.9	-0.8	-0.6	-0.5
El Salvador								
GDP at market prices (% annual growth)[b]	2.0	1.4	2.0	1.6	1.9	2.3	2.6	2.9
Current account bal/GDP (%)	-3.8	-2.7	-4.7	-5.1	-4.3	-3.5	-2.6	-1.1
Guatemala								
GDP at market prices (% annual growth)[b]	3.4	2.9	4.1	3.0	3.3	3.4	3.3	3.2
Current account bal/GDP (%)	-4.8	-1.6	-3.6	-2.9	-3.0	-2.8	-2.8	-2.9
Guyana								
GDP at market prices (% annual growth)[b]	2.1	4.4	5.4	4.8	4.4	3.9	3.5	3.5
Current account bal/GDP (%)	-10.0	-6.9	-14.4	-13.9	-17.0	-16.1	-15.4	-14.9
Honduras								
GDP at market prices (% annual growth)[b]	3.8	3.7	3.7	3.3	2.9	3.4	3.8	3.9
Current account bal/GDP (%)	-6.7	-5.4	-9.0	-9.7	-11.2	-8.2	-6.9	-6.0
Haiti								
GDP at market prices (% annual growth)[b]	0.6	-5.4	5.6	2.8	3.4	4.2	3.9	3.9
Current account bal/GDP (%)	-6.8	-29.4	-24.3	-16.1	-14.7	-14.0	-13.5	-12.0
Jamaica								
GDP at market prices (% annual growth)[b]	1.0	-1.5	1.7	-0.5	0.3	1.0	1.2	1.3
Current account bal/GDP (%)	-10.1	-7.1	-14.6	-12.7	-11.8	-9.4	-7.4	-6.1

Table 2.10 **Latin America and the Caribbean country forecasts***

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Mexico								
GDP at market prices (% annual growth)[b]	1.3	5.1	4.0	3.8	1.4	3.4	3.8	4.2
Current account bal/GDP (%)	-1.6	-0.2	-0.9	-0.9	-1.5	-1.5	-1.4	-1.4
Nicaragua								
GDP at market prices (% annual growth)[b]	2.8	3.6	5.4	5.2	3.8	4.2	4.4	4.3
Current account bal/GDP (%)	-17.3	-10.0	-13.2	-12.8	-13.6	-13.2	-12.2	-11.2
Panama								
GDP at market prices (% annual growth)[b]	5.6	7.6	10.6	10.5	7.9	7.3	6.9	6.5
Current account bal/GDP (%)	-4.8	-10.8	-12.8	-9.1	-12.5	-11.9	-11.1	-9.8
Peru								
GDP at market prices (% annual growth)[b]	4.8	8.8	6.9	6.3	4.9	5.5	5.9	5.8
Current account bal/GDP (%)	-0.7	-2.5	-1.9	-3.6	-4.9	-4.4	-3.8	-3.2
Paraguay								
GDP at market prices (% annual growth)[b]	2.0	13.1	4.3	-1.2	14.1	4.6	3.3	3.0
Current account bal/GDP (%)	2.0	-0.4	1.4	0.6	4.8	3.1	1.4	1.1
St. Lucia								
GDP at market prices (% annual growth)[b]	2.1	3.2	0.6	-0.9	0.7	1.5	1.7	1.8
Current account bal/GDP (%)	-19.6	-18.9	-21.7	-14.5	-14.6	-14.4	-13.9	-13.0
St. Vincent and the Grenadines								
GDP at market prices (% annual growth)[b]	2.9	-2.0	0.6	1.5	2.1	2.7	3.2	4.2
Current account bal/GDP (%)	-18.8	-30.9	-28.9	-30.3	-29.3	-28.3	-26.8	-25.3
Suriname								
GDP at market prices (% annual growth)[b]	4.4	4.1	4.7	4.5	3.9	4.1	3.5	3.5
Current account bal/GDP (%)	9.8	6.4	5.8	4.2	0.5	3.7	4.4	4.5
Venezuela, RB								
GDP at market prices (% annual growth)[b]	3.3	-1.5	4.2	5.5	0.7	0.5	1.7	2.3
Current account bal/GDP (%)	9.7	2.6	7.5	2.5	1.7	2.1	2.2	2.2

Source: World Bank
Notes: e = estimate, f = forecast
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.
Cuba, Grenada, St. Kitts and Nevis, are not forecast owing to data limitations.
* Published forecasts are for only low and middle-income countries in the region, hence no high-income countries are included.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. GDP measured in constant 2010 U.S. dollars.

MIDDLE EAST and NORTH AFRICA

GLOBAL ECONOMIC PROSPECTS

January 2014

Chapter 2

Political instability has weakened activity in the developing oil-importing countries, while security setbacks have negatively affected developing oil-exporting countries, with deterioration in fiscal and external accounts across the board. Growth for the region is expected to remain weak and below its potential in the forecast period, picking up to 3.6 percent by 2016. The outlook is subject to significant downside risks that are mostly internal to the region, while external risks are more balanced.

Recent developments

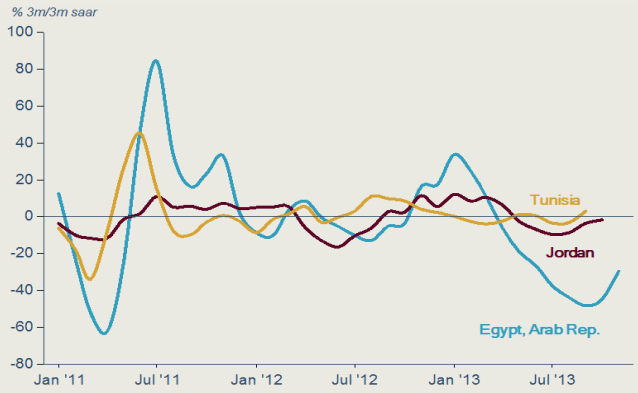
Three years after the Arab Spring, the economies of the Middle East and North Africa region remain depressed. In the decade before the uprisings in 2011, the region averaged solid growth of about 4 percent, and macroeconomic stability was underpinned by fiscal and external accounts that were broadly in balance.[1] However, that growth was accompanied by persistent structural problems—high youth unemployment, poor service delivery, and unequal access (of firms and households) to economic opportunities—which contributed to the discontent that led to the uprisings of the Arab Spring. Three years later, political turbulence, and in some cases violence, continues while the political transition remains far from complete and its outcome uncertain. Not surprisingly, economic growth has slowed, fiscal and external balances have worsened, and macroeconomic vulnerabilities have deepened. Meanwhile, the persistent structural problems remain unaddressed.

Political instability in oil-importing countries has weakened economic activity.[2] Political turmoil in Egypt, stalemate in Tunisia and an escalation of the civil war in Syria with spillovers to neighboring Lebanon and Jordan have weakened activity in the developing oil-importing countries. Rising social and political tensions in the run-up to and after the overthrow of the Morsi government weighed heavily on confidence in Egypt, causing investment and industrial output to plummet in the second and third quarters. Egypt's GDP contracted by 3.2 percent (saar) in 2013Q2, before rebounding to 5.2 percent (saar) in 2013Q3. Growth for the fiscal year (ending in 2013Q2) amounted to 2.0 percent, down from an already modest 2.3 percent in 2012. Since 2011, Egypt has experienced four separate episodes of a sharp deceleration or contraction in activity as political and social tensions erupted, punctuated by ultimately short-lived rebounds in activity. Two separate political assassinations in Tunisia contributed to the delay of the political transition towards the new constitution with GDP expanding by just 2.1 percent (saar) in 2013Q3, versus growth of 3.6 percent in 2012.

1. Regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.

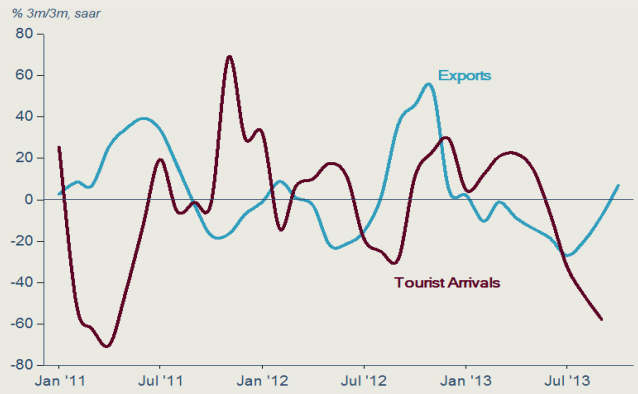
2. Oil-importing countries are Egypt, Jordan, Lebanon, Morocco, and Tunisia. Djibouti and West Bank and Gaza are not included because of data limitations.

Figure 2.15 **Political instability has weakened activity in oil-importing countries**



Source: Datastream, World Bank

Figure 2.16 **Exports are beginning to stabilize but tourism arrivals are still depressed**



Source: Datastream, UN World Tourism Office, World Bank.

Figure 2.17 **Security setbacks have negatively affected oil production in developing oil-exporters**

Source: Bloomberg, Energy Intelligence Group.

Industrial production in the oil-importing countries contracted by 36 percent (saar) in three months through October, led mainly by sharp declines of 44 percent in Egypt (figure 2.15). However, Purchasing Managers Index (PMI) survey crossed into positive territory in November 2013 for the first time in 13 months and remained so in December as well, signaling an improvement in manufacturing output going forward. Momentum in industrial production growth has strengthened recently in Jordan and Tunisia as well.

Exports have stabilized faster than industrial production and the recent data show that they have expanded by 7 percent (saar) in the three months through October (figure 2.16). Overall, exports—which had been on a decline since the start of 2013—bottomed out in July and began to recover, led by gains in Egypt, Jordan, and Tunisia.

Tourism arrivals to the oil-importing countries rebounded strongly in the first quarter of 2013, but plunged dramatically because of security uncertainties in the wake of the overthrow of Morsi government in Egypt and the continuing Syrian civil war, which affected Lebanon and Jordan (figure 2.16). Tourist arrivals dropped by 57 percent (saar) in three months through September in the oil-importing countries of the region.

Oil production is declining in developing oil exporting countries.[3] Oil production in developing oil-exporting countries—accounting for nearly a third of the region's oil output—has fallen over the past year by nearly 8.5 percent (year to date) in 2013, reflecting security setbacks, strikes, and infrastructure problems in Algeria, Iraq, and Libya, and international sanctions in the case of the Islamic Republic of Iran. By the end of November 2013, the aggregate production of developing oil exporters averaged 7.3 million barrels a day (mb/d), down from 8.5 mb/d at the beginning of 2013 and 9.5 mb/d at the end of 2010 (figure 2.17). Meanwhile, the developed oil exporters (Gulf Cooperation Countries, or GCC) continue to make up the loss in oil production, and, in some cases, provide financial support to the region's transition economies.

Security setbacks affected oil production in several countries. For example, Libyan production plunged to a postwar low of 0.2 mb/d in November 2013 as labor disputes, political turmoil, and infighting among local militias crippled the country's output. Output fell from average output of 1.4 mb/d in 2012 and 1.6 mb/d in 2010. Similarly, in Iraq—which surpassed Iran as the second-largest oil producer in

3. Developing oil exporters are Algeria, Iran, Iraq, Libya, Syria, and the Republic of Yemen.

the Organization of the Petroleum Exporting Countries at the end of 2012—production peaked at 3.2 mb/d and fell to 3 mb/d in November reflecting militant attacks on the Kirkuk-to-Ceyhan pipeline in the north (with volumes cut in half from March 2013) as well as planned maintenance disruptions in the south. Crude oil production in Syria dropped 57 percent in 2013—after falling 50 percent in 2012—and was virtually nonexistent as the ongoing civil war brought it to a standstill.

International sanctions affected Iran's crude oil production in 2012, but it has been stable in 2013. The International Energy Agency estimates that Iran's oil production was about 2.5 mb/d in November, of which some 1.2 mb/d were exported. Before sanctions were introduced in 2011, Iran produced about 3.5 mb/d and exported about 2.5 mb/d of crude oil. The interim deal on Iran's nuclear program reached in November 2013 is not expected to lift Iran's exports much above current levels.

External imbalances have worsened across the developing countries of the Middle East and North Africa region. Current account deficits have widened in the oil-importing countries—hurt particularly by the steep decline in tourism receipts—while current account surpluses have shrunk for the oil-exporting countries as oil exports have declined. Oil importers have experienced difficulty financing current account deficits as foreign investment flows declined and access to traditional capital markets became more limited in the midst of political turmoil.

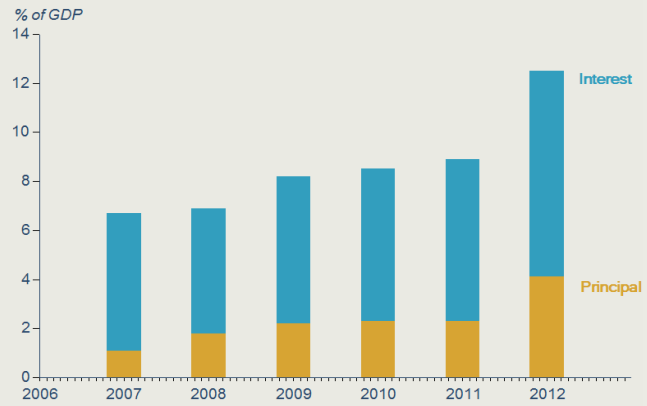
In Egypt, balance of payments pressures eased in 2013 thanks to exceptionally high bilateral borrowing from the Gulf counties, increased exchange rate flexibility, and weak economic activity. The current account deficit also narrowed in response to high inflows of remittances and a smaller non-oil trade deficit. In Tunisia, the current account deficit is expected to persist despite lower imports because of stagnating tourism receipts and remittances and weak exports. Interventions to sustain the currency in the face of a worsening current account and lower-than-expected official financing have led to a reduction in reserves, which had fallen to 3.5 months of imports at the end of September 2013. After a challenging 2012, Jordan's external balance improved in 2013 because of a decline in energy imports in response to subsidy reforms and an increase in official transfers. As external financing in the form of grants and loans from international financial institutions filled the financing gap in 2013, the pressure on the currency and foreign exchange reserves subsided.

With only a few exceptions, fiscal imbalances have worsened across the Middle East and North Africa region, especially in oil-importing countries. Deterioration reflects weaker revenues due to slow growth, rising public sector spending on wages, subsidies for food and fuel in the wake of the Arab Spring and, in some cases, increased debt servicing charges. With limited external financing, deficits have been financed mostly from the domestic banking sectors and, more recently, with loans and grants from the GCC countries.

Subsidies have historically played an important role in the economies of the region. Governments subsidize the price of energy products and food to provide a social safety net in the oil-importing countries and to share the oil revenues in the oil-exporting countries. According to IMF estimates, pretax energy subsidies in 2011 amounted to over 8 percent of regional GDP and nearly 50 percent of all subsidies in the world. Attempts to reduce general energy subsidies are under way in Egypt, Jordan, Morocco, and Tunisia. However, rising political uncertainty and lower economic growth pose challenges for implementation of these reforms.

Fiscal policies have remained expansionary. For example, in Egypt, the new government has announced a stimulus package equivalent to 1.6 percent of GDP on the strength of financing provided by the GCC countries. One of the key provisions of the new stimulus package is a 64 percent public sector wage increase beginning in January 2014. Rising fiscal deficits have led to growing public sector debt and concerns about debt sustainability. Government debt rose as a share of GDP in most developing countries in the region. In Egypt, spending pressures exacerbated by rising borrowing costs have pushed interest expenditures to about 8.4 percent of GDP, or 25 percent of total expenditures in fiscal year 2012 (figure 2.18). To finance its revenue shortfall, Egypt has relied heavily

Figure 2.18 **Debt service in Egypt**



Source: Egyptian Ministry of Finance.

Table 2.11 Net capital flows to Middle East and North Africa ($ billions)

	2008	2009	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Capital Inflows	23.9	30.9	31.4	10.2	32.7	28.9	21.3	28.8	32.1
Private inflows, net	25.6	28.4	30.1	9	27.9	19.8	15.2	23.7	27.7
Equity Inflows, net	30	27.5	24.2	13	18	14.8	12.9	19.5	21.8
Net FDI inflows	29.6	26.3	22.3	13.7	19.3	15.5	13.1	18.4	20.3
Net portfolio equity inflows	0.4	1.2	2	-0.6	-1.3	-0.7	-0.2	1.1	1.5
Private creditors. Net	-4.4	0.9	5.9	-4	9.9	5	2.3	4.2	5.9
Bonds	-0.8	0.1	3.2	-0.6	5.8	1.2	0.2	2.3	3.4
Banks	-0.4	-1.2	-1	-0.1	0.4	-0.4	-0.1	0.7	1.1
Other private	-1.3	-1	-0.8	-0.7	-0.3	-0.1	-0.1	-0.2	0.3
Short-term debt flows	-1.9	3	4.5	-2.6	4	4.3	2.3	1.4	1.1
Official inflows, net	-1.7	2.5	1.3	1.2	4.8	9.1	6.1	5.1	4.4
World Bank	-0.3	0.9	0.8	0.9	0.8	0.8	..	..	..
IMF	-0.1	-0.1	0	-0.1	0.5	0	..	..	..
Other official	-1.4	1.6	0.5	0.3	3.5	8.3	..	..	..

Notes: e = estimate, f = forecast
Source: World Bank

on domestic borrowing, increasing the exposure of the banking sector to sovereign risk, crowding out private sector borrowing, and pushing domestic interest rates higher. The quality of government spending has also deteriorated in some cases: in Morocco, the government for the first time spent more on subsidies than on public investment in 2012.

Capital flows to the developing countries of the region fell in 2013 to an estimated $28.9 billion, after recovering to $32.7 billion in 2012. The deterioration reflected a decrease in net FDI flows to Egypt and Tunisia, which fell 14.5 percent because of the political turmoil. Overall, net FDI levels remain well below pre-Arab Spring inflows and are not projected to recover to those levels in the forecast period (table 2.11). Strong official inflows in the form of aid from the Gulf countries have helped the region buffer the drop-off in private flows. In addition, sovereigns that have successfully accessed international markets have done so with external assistance. Jordan issued a $1.25 billion Eurobond backed by the U.S. government, while Tunisia successfully issued a $230 million with a Japanese guarantee. Egypt converted $3.7 billion of Qatar's aid to 18-month and three-year bonds.

Remittance inflows to the region are moderating as well, growing by 3.6 percent in 2013 to about $49 billion. The growth in remittances is easing from the 12 percent average annual growth recorded in 2010 to 2013 and is expected to be in the 5-6 percent range annually between 2014 and 2016. With about $20 billion in remittances anticipated in 2013, Egypt is the sixth-largest beneficiary in the developing world and receives about 40 percent of remittances sent to the region (remittances are more than three times larger than receipts from the Suez Canal, and are equivalent to about 165 percent of Egypt's official reserves). Egypt accounted for much of the remittance expansion in earlier years, as well as the slowing expected in 2013. Remittances to Lebanon and Morocco, two other large recipients in the region, recovered in 2013, after flat or negative growth in 2012.

Outlook

Growth in the Middle East and North Africa region is expected to remain weak during the forecast period. Given the persistent bouts of political instability and policy uncertainty, economic growth contracted by 0.1 percent in 2013—down from already weak growth of 1.5 percent in 2012. If Syria is removed from the regional aggregate, the growth slowed to 0.8 percent, down from 2.7 percent in 2012. The outlook for the region is shrouded in uncertainty and subject to a variety of risks, mostly domestic in nature and

Table 2.12 **Middle East and North Africa forecast summary***
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
GDP at market prices, geographic region[b, c]	4.0	4.2	2.3	3.4	1.8	3.6	4.0	4.1
GDP at market prices, developing countries[c]	4.1	4.4	-0.7	1.5	-0.1	2.8	3.3	3.6
	(Sub-region totals -- countries with full NIA + BOP data)[d]							
GDP at market prices, developing countries[c]	4.3	4.6	1.6	-1.1	0.0	1.8	2.7	3.0
GDP per capita (units in US$)	2.8	3.0	0.0	-2.6	-1.5	0.3	1.3	1.6
PPP GDP[e]	4.3	4.6	1.5	-1.1	0.0	1.8	2.7	3.0
Private consumption	4.0	2.0	1.2	2.3	1.4	3.1	3.7	3.4
Public consumption	3.5	3.3	2.7	1.8	3.5	3.4	3.2	3.1
Fixed investment	6.9	5.1	3.4	-0.2	-1.0	0.6	1.2	2.6
Exports, GNFS[f]	4.3	6.9	-0.8	-2.5	1.4	2.9	4.8	4.2
Imports, GNFS[f]	7.5	4.0	1.2	4.1	3.3	4.4	5.2	3.8
Net exports, contribution to growth	-0.6	0.8	-0.6	-2.0	-0.6	-0.6	-0.4	0.0
Current account bal/GDP (%)	5.2	1.7	1.9	-1.7	-3.1	-3.4	-3.5	-3.4
GDP deflator (median, LCU)	6.0	8.4	7.0	8.7	4.4	4.1	4.2	6.3
Fiscal balance/GDP (%)	-0.5	-1.7	-1.7	-7.6	-7.2	-6.4	-5.9	-5.9
Memo items: GDP								
Developing countries, ex. Syria	4.0	4.5	-0.5	2.7	0.8	3.2	3.4	3.6
Selected GCC Countries[g]	3.8	3.8	6.4	5.7	4.1	4.6	4.7	4.7
Developing Oil Exporters	3.8	4.8	-2.4	1.4	-1.5	3.0	3.4	3.4
Developing Oil Importers	4.5	3.7	2.3	1.5	2.5	2.6	3.2	3.8
Egypt	4.4	3.5	2.0	0.5	1.8	2.3	2.7	3.3
Fiscal Year Basis	4.3	5.1	1.8	2.3	2.0	2.2	3.1	3.3
Iran	4.6	5.9	2.2	-2.9	-1.5	1.0	1.8	2.0
Algeria	3.4	3.6	2.6	3.3	2.8	3.3	3.5	3.5

Source: World Bank
Notes: e = estimate, f = forecast
* Unless otherwise indicated, regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. Georgaphic region includes the following high-income countries: Bahrain, Kuwait, Oman, Saudi Arabia, United Arab Emirates and Qatar.
c. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
d. Sub-region aggregate excludes Iraq and Libya, for which data limitations prevent the forecasting of GDP components or Balance of Payments details.
e. GDP measured at PPP exchange rates.
f. Exports and imports of goods and non-factor services (GNFS).
g. Selected GCC Countries: Bahrain, Kuwait, Oman, Saudi Arabia and United Arab Emirates.

linked to political instability and policy uncertainty. Under the baseline scenario for the forecast period, marked improvement in the political uncertainty that has plagued the region is not expected. Growth is projected to expand by 2.8 percent in 2014 before rising to 3.6 percent in 2016. Of course, should the tensions ease more quickly than anticipated (or deteriorate) outcomes could be substantially better (worse).

Growth has been highly volatile among developing oil exporters, and is estimated to have contracted by 1.5 percent in 2013, reflecting production setbacks in Libya and Iraq, sanctions in Iran, and civil war in Syria. Growth is expected to firm to 3.4 percent by the end of the forecast period as oil prices are expected to remain relatively high, and mitigation or resolution of infrastructure problems and security setbacks should

improve oil output. In turn, this will underpin domestic demand and lead to a gradual improvement in fiscal and current accounts. Importantly, the baseline outlook for Iran assumes a partial easing of the sanctions in line with steps taken to date.

Aggregate growth in oil importers is expected to remain weak and below potential at 2.5 percent in 2013, but performance will not improve dramatically in the forecast period unless there is a credible restoration of political stability and return of confidence. Aggregate growth for the region is expected to slowly pick up to about 3.8 percent in 2016, closer to—but still well below—the region's potential growth. Consumption will be underpinned by large public outlays on wages and subsidies, while public investment will likely be constrained in the forecast period by large fiscal deficits.

The global economic environment will remain challenging for the recovery in the region. On the one hand, the real-side recovery in the high-income countries anticipated during the forecast period should lead to stronger exports. On the other hand, a normalization of the extraordinary monetary stimulus introduced in the wake of the global financial crisis in 2008 will raise interest rates and slow investment. While the region does not rely heavily on portfolio capital flows, it is expected to continue to underperform in attracting FDI. Of course, these effects would be more than counterbalanced if the domestic political and security situation were to improve.

Risks

The region's outlook is subject to significant downside risks that are mostly internal to the region. A further escalation of violence in Syria and spillovers to other countries (mainly Lebanon, Jordan and Iraq) can adversely affect the region. Over 2.1 million Syrian refugees are hosted in the region, with refugees in Lebanon and Jordan amounting to 19 and 8 percent of populations there. Economic, social, and fiscal pressures are high for these countries and could be exacerbated further should the civil war in Syria intensify.

Countries in political transition have benefited from large official transfers from the Gulf economies. While these are expected to continue, they nonetheless pose refinancing risk for the recipients. In addition, public debt levels have increased significantly in the past three years and could be approaching unsustainable levels as debt service takes an ever larger share of the expenditures, especially in the domestic debt markets.

Setbacks in political transitions and/or further escalation of violence in Egypt, Iraq, Libya, and Tunisia would further undermine confidence and delay the structural reforms or reduce oil output. On the upside, restoration of political stability and policy certainty that would lead to sustained attention to structural reforms could substantially boost confidence and return growth to the long-run potential.

External risks are more balanced. European growth could disappoint the already modest recovery projected, but it could also do better. Exports from the countries in North Africa, tourism, remittances, capital flows, and external balances would all be sensitive to differences in the outturn in Europe. In addition, risks from a tightening of global financial conditions could lead to a rise in risk premiums for developing countries and lead to lower FDI. Furthermore, a sharper-than-projected decline in commodity prices will lead to a significant deterioration in external and fiscal accounts of the oil-exporting countries although benefiting more vulnerable importers in the region.

Table 2.13 Middle East and North Africa country forecasts*

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Algeria								
GDP at market prices (% annual growth)[b]	3.4	3.6	2.6	3.3	2.8	3.3	3.5	3.5
Current account bal/GDP (%)	22.3	7.3	8.9	5.9	2.7	1.2	0.1	0.0
Egypt, Arab Rep.								
GDP at market prices (% annual growth)[b]	4.4	3.5	2.0	0.5	1.8	2.3	2.7	3.3
Fiscal Year Basis	4.3	5.1	1.8	2.3	2.0	2.2	3.1	3.3
Current account bal/GDP (%)	1.1	-2.0	-2.7	-3.1	-2.1	-1.6	-1.4	-1.3
Iran, Islamic Rep.								
GDP at market prices (% annual growth)[b]	4.6	5.9	2.2	-2.9	-1.5	1.0	1.8	2.0
Current account bal/GDP (%)	6.3	7.0	9.2	2.8	-0.9	-1.6	-1.9	-2.2
Iraq								
GDP at market prices (% annual growth)[b]	-1.0	5.9	8.5	8.4	4.2	6.5	6.6	8.3
Current account bal/GDP (%)	0.0	3.0	12.5	7.0	1.0	1.2	1.5	1.9
Jordan								
GDP at market prices (% annual growth)[b]	6.1	2.3	2.6	2.8	3.0	3.1	3.3	3.8
Current account bal/GDP (%)	-4.4	-7.1	-12.0	-17.7	-14.9	-14.0	-13.0	-11.6
Lebanon								
GDP at market prices (% annual growth)[b]	4.4	7.0	3.0	1.4	0.7	2.0	2.7	4.2
Current account bal/GDP (%)	-16.8	-20.4	-12.1	-13.5	-14.1	-13.3	-12.3	-11.3
Libya								
GDP at market prices (% annual growth)[b]	3.8	3.5	-53.9	104.5	-6.0	23.0	12.2	9.0
Current account bal/GDP (%)	0.0	19.5	9.1	29.1	3.2	5.4	4.4	5.5
Morocco								
GDP at market prices (% annual growth)[b]	4.6	3.6	5.0	2.7	4.5	3.6	4.4	4.7
Current account bal/GDP (%)	0.2	-4.6	-8.4	-9.7	-7.8	-7.3	-6.6	-5.7
Syrian Arab Republic								
GDP at market prices (% annual growth)[b,c]	4.6	3.2	-3.4	-21.8	-22.5	-8.6	1.7	1.7
Current account bal/GDP (%)	2.7	-0.6	-19.7	-19.0	-20.5	-15.5	-11.7	-9.1
Tunisia								
GDP at market prices (% annual growth)[b]	4.2	3.0	-2.0	3.6	2.6	2.5	3.3	3.6
Current account bal/GDP (%)	-2.7	-4.7	-7.3	-8.3	-8.9	-7.8	-7.5	-7.3
Yemen, Rep.								
GDP at market prices (% annual growth)[b]	3.5	7.7	-12.6	2.4	3.0	3.4	3.9	3.9
Current account bal/GDP (%)	1.1	-5.4	-5.4	-3.1	-5.1	-5.2	-4.6	-4.4

Source: World Bank
Notes: e = estimate, f = forecast
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, West Bank and Gaza are not forecast owing to data limitations.
* Published forecasts are for only low and middle-income countries in the region, hence no high-income countries are included.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. GDP measured in constant 2010 U.S. dollars.
c. The estimates for GDP decline in Syria in 2012 and 2013 are subject to significant uncertainty.

SOUTH ASIA

South Asia's GDP growth rose to an estimated 4.6 percent in 2013 from 4.2 percent in 2012, but was well below its average in the past decade, reflecting both rising domestic imbalances and a challenging external environment. Regional GDP growth is projected to improve to 5.7 percent in 2014 and then to rise to 6.3 percent in 2015 and 6.7 percent in 2016. The projected pickup will depend critically on ensuring macroeconomic stability, sustaining reforms, and reducing supply-side constraints.

Recent developments

Regional GDP growth is estimated to have picked up modestly in 2013 but was weak compared with past performance. South Asia's GDP growth rose to an estimated 4.6 percent in 2013 in calendar year-market price terms from 4.2 percent growth recorded in 2012. Growth was, however, well below its pre-crisis pace. In India, the largest regional economy, GDP growth measured on a factor cost basis is estimated to have moderated to 4.8 percent in the 2013–14 fiscal year (from the 5 percent rate in the previous fiscal year)—remaining well below the nearly 8 percent average growth achieved during the past decade. GDP growth in Pakistan, South Asia's second largest economy, has also been relatively weak in recent years, averaging 3.5 percent in factor cost terms since 2010, below the nearly 5 percent average growth during the previous decade. The relatively weak growth rates in these two countries, which together account for close to 90 percent of regional GDP, reflect a combination of domestic imbalances (including large fiscal deficits and high inflation), weakening investment rates, and a challenging external environment.[1] Among other countries, Bangladesh's growth slowed to 6.0 percent in FY2012–13 from 6.2 percent in FY2011–12, while growth in Afghanistan weakened sharply to an estimated 3.1 percent in 2013 from an exceptionally high 14.4 percent in 2012. By contrast, growth in Sri Lanka picked up to an estimated 7.0 percent in 2013 from 6.4 percent in 2012, with stronger manufacturing and services activity and a rebound in agriculture in the third quarter.

A cyclical improvement in activity in the second half of 2013 was led by a rapid expansion of exports. Activity in South Asia registered a cyclical recovery during the second half of 2013, following a mid-year slump. Regional export volumes expanded by a robust annualized 40.8 percent in the three months to October (3m/3m saar), reflecting a gradual recovery in global demand and currency depreciation in India (see figures 2.19 and 2.22). Export volumes in South Asia excluding India also rose robustly in the third quarter. Despite the strong momentum in recent quarters, regional export growth is estimated to have slowed in 2013. Nevertheless, the regional current account deficit fell by an estimated 1.1 percent of GDP—mainly owing to weaker import growth resulting from weak domestic demand and policy measures to reduce import of gold in India, and stable crude oil prices relative to 2012. Even with a

1. See Rajan (2013a and 2013b) for a discussion on India.

cyclical rebound in Q3, full-year industrial output growth for South Asia was very weak at an estimated 1.5 percent (y/y), although industrial activity picked up at a decidedly faster pace in Pakistan.

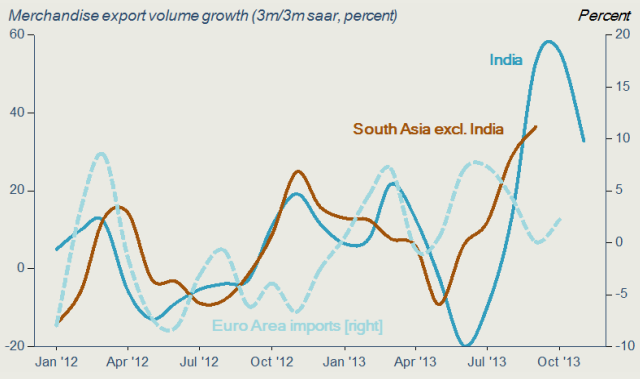
Investment growth in South Asia is estimated to have improved in 2013 but was still weak. Regional investment growth is estimated to have improved from a decade-low 1.1 percent recorded in the 2012 calendar year to a still relatively lackluster 3.5 percent in 2013. India's investment growth slowed sharply in FY2012–13, but has improved in the first half of the current fiscal year. In Pakistan, investment as a share of GDP has been falling (albeit at a slowing pace) in recent years. Generally weak regional investment reflects subdued, albeit improving, business sentiment in India (figure 2.20), as well as structural bottlenecks (including in electricity provision), policy uncertainties, and high inflation. In Bangladesh, unrest and disruptions in the run-up to national elections slowed private sector investment growth, although that was compensated to some extent by public investment.

Although retail inflation remained high in several countries, normal harvests and lower international commodity prices supported a stabilization of regional consumption growth. Sri Lanka experienced a significant decline in inflation momentum during the course of 2013, helped in part by weaker international commodity prices. In India, however, despite a negative output gap, consumer price inflation remained elevated at close to 10 percent (y/y) for much of the year, reflecting persistent food price inflation, currency depreciation, fuel price adjustments, and supply-side constraints. In Pakistan, both monetization of large fiscal deficits and structural constraints contributed to inflationary pressures. Inflation picked up in Bangladesh towards the end of 2013 amid intensification of political unrest. Despite high retail inflation in some South Asian countries, normal agricultural harvests, together with lower international commodity prices, helped to raise regional consumption growth marginally in 2013.

The pace of increase in migrant remittances moderated in 2013. Growth in remittances to South Asia is estimated to have moderated to 6.8 percent in 2013 from 9.7 percent the previous year, according to World Bank estimates (World Bank 2013 October (a)). Flows to India dipped in the first quarter, but with the depreciation of the rupee, they rebounded to reach an estimated $71 billion in 2013. Remittance flows to Nepal and Sri Lanka (where they are 25 and 10 percent of GDP) experienced double-digit growth in the 2013 calendar year. After rising 12.6 percent in FY2012–13, remittance inflows to Bangladesh fell 8.4 percent (y/y) in the first six months of the current fiscal year, reflecting both weak labor exports and political unrest. Flows to Pakistan, however, rose 9.5 percent (y/y) in the same period, compared with a 5.6 percent increase in FY2012–13.

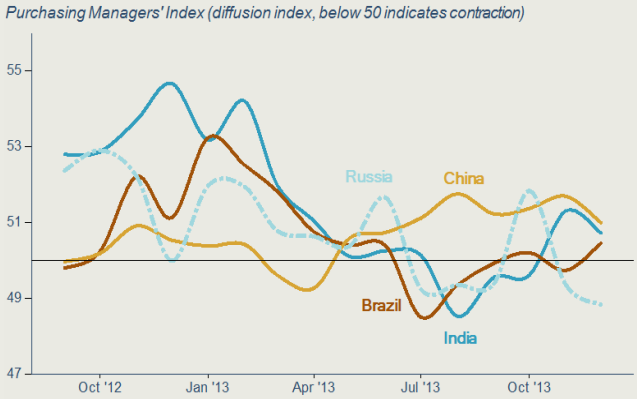
Fiscal deficits remain high, reflecting subsidy expenditures and weak revenue mobilization. Fiscal positions have improved marginally across the South Asia region, but deficits remain elevated (figure 2.21), with the regional deficit close to 7 percent of GDP. India's central government fiscal deficit at 4.9 percent of GDP in FY2012–13 was below target. Since April, however, the government's deficit target for FY2013–14 has come under pressure, reaching 94 percent of the target by November compared with 80 percent at the same point in the previous fiscal year. Pakistan's

Figure 2.19 **Regional exports surged with strengthening external demand and Indian Rupee depreciation**



Source: Datastream, Haver Analytics, World Bank

Figure 2.20 **Business sentiment improves in India in second half of 2013**



Source: Markit, Haver Analytics, World Bank

fiscal deficit was 8 percent of GDP in the 2012-13 fiscal year, although planned fiscal consolidation (including tax administration reforms) is expected to gradually reduce this deficit. Sri Lanka's deficit has fallen in recent years, but is estimated to be nearly 6 percent of GDP in 2013.

Weak GDP growth has adversely affected tax revenues in the region, already among the lowest (as a share of GDP) compared with developing countries at similar levels of economic development (World Bank 2013 October (b)). Subsidies on fuel and other items (including food and fertilizers) were 2.6 percent of GDP in India and 3.1 percent in Bangladesh, while energy subsidies were close to 2 percent in Pakistan, according to the International Monetary Fund estimates and national sources. South Asian countries have made some progress in fuel subsidy reforms. For instance, India has increased regulated diesel prices at monthly intervals. More decisive action, including eventually deregulating fuel prices while protecting the poor through targeted assistance, may be needed to lower subsidy burdens. Lowering subsides will help to reduce fiscal deficits or, alternatively, create room for increasing productivity-enhancing expenditures such as on education, health and infrastructure.

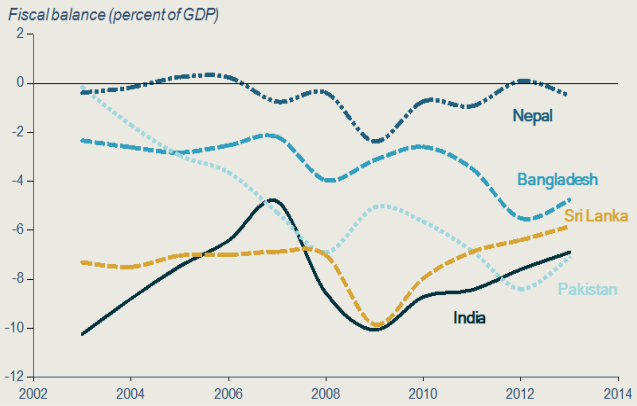
Capital flows to the South Asia region experienced a sharp correction during mid-year. India, with large current account and fiscal deficits and weaker growth, was hit particularly hard by a withdrawal of portfolio capital (resulting in steep currency depreciation) in the middle of the year, stemming from apprehensions of tapering of U.S. quantitative easing (QE) (figure 2.22). The rupee subsequently appreciated, in part because of policy interventions to support foreign exchange markets, and capital flows and equity markets rebounded as QE tapering was delayed to January. Nevertheless, net private capital flows to South Asia weakened to an estimated $85 billion in 2013 from $92 billion in 2012 (table 2.14).

Reserve buffers in the region have been depleted in recent years, but external debt ratios are relatively modest. International reserves as a share of imports have been drawn down in several South Asian countries in recent years, as a result of slower increase in exports, capital inflows, and remittances. International reserves have fallen below two months of imports in Pakistan. Nepal and Maldives both have trade deficits exceeding a quarter of GDP. The former's is mostly offset by remittances, but in the Maldives, the trade deficit has resulted in a current account deficit of 28 percent of GDP and weakening reserves. External debt as a share of GDP is modest in most South Asian countries, but in Sri Lanka, it is close to 48 percent of GDP. Sri Lanka's large current account deficit, high foreign debt, and openness to capital flows suggest that it remains especially vulnerable to tightening of international financial conditions— alongside India whose current account deficit narrowed sharply in 2013Q3, but was still elevated at nearly 3.5 percent of GDP in the first three quarters of 2013.

Outlook

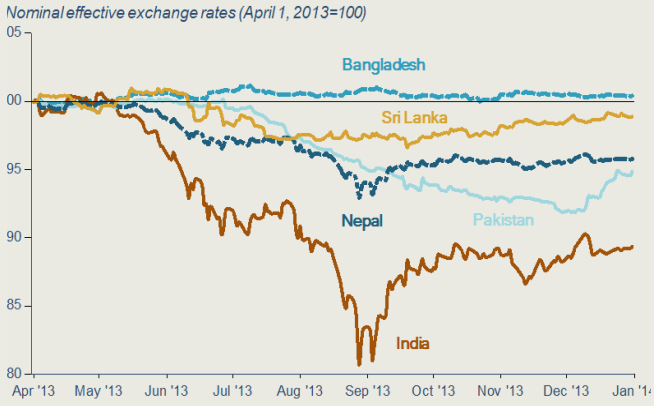
South Asia's regional GDP growth is projected to improve to 5.7 percent in 2014 in market price–calendar year terms, and to rise to 6.3 percent in 2015 and 6.7 percent in 2016

Figure 2.21 **Fiscal positions are improving but remain under stress**



Source: Datastream, Haver Analytics, World Bank

Figure 2.22 **Sharp currency depreciation in India, Nepal and Pakistan since mid-year**



Source: Datastream, Haver Analytics, World Bank

Table 2.14 Net capital flows to South Asia ($ billions)

	2008	2009	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Capital Inflows	64.7	90	106.9	84.7	96.1	90.6	92.8	101.4	113.5
Private inflows, net	55.8	79	96.1	78.1	92.1	84.7	87.7	96.7	109.7
Equity Inflows, net	35.1	63.6	61.1	36.1	50.8	50.3	54.4	59.5	70
Net FDI inflows	50.9	39.5	31.2	40.4	27.4	32	35.3	38.1	43.6
Net portfolio equity inflows	-15.8	24.1	29.9	-4.3	23.4	18.3	19.1	21.4	26.4
Private creditors. net	20.7	15.4	35	42	41.3	34.4	33.3	37.2	39.7
Bonds	1.7	1.9	10.1	0.7	5.1	6.2	5.3	4.7	4.1
Banks	11.2	10.9	13.2	18.6	23	15.2	12.5	15.7	16.2
Other private	-0.1	-0.1	0	0	-0.2	-0.1	0.1	0.1	0.2
Short-term debt flows	7.9	2.6	11.7	22.7	13.4	13.1	15.4	16.7	19.2
Official inflows, net	8.9	11	10.8	6.6	4	5.9	5.1	4.7	3.8
World Bank	1.4	2.4	3.3	2	0.9	0.5	..	..	..
IMF	3.2	3.6	2	0	-1.5	0.5	..	..	..
Other official	4.3	4.9	5.6	4.6	4.6	4.9	..	..	..

Notes: e = estimate, f = forecast
Source: World Bank

(table 2.15). A gradual improvement in regional growth over the forecast period will be led mainly by a projected recovery in global demand and domestic investment, although the latter remains subject to significant downside risks. Regional export growth is expected to gradually rise over the forecast horizon together with a projected strengthening of demand in the Euro Area and United States (the two largest destinations for South Asian exports) and robust growth in developing-country markets. Developing countries have become increasingly important trade partners of South Asian countries, accounting for over a third of the region' exports.

Regional investment activity is expected to firm in 2014, with a further increase projected for 2015 and 2016. Despite slowing of U.S. quantitative easing, investment rates in India are projected to experience a cyclical recovery. After declining for several years, the investment-to-GDP ratio in Pakistan is also expected to improve over the medium term. The projected increase in investment rates in the region, however, will depend critically on ensuring macroeconomic stability (including reducing fiscal deficits and inflation), making sustained progress on policy reforms, and reducing structural and regulatory constraints on production (particularly in the provision of energy and infrastructure).

Relatively stable or declining international commodity prices projected for the forecast period will contribute to reducing inflationary and current account pressures and—together with normal harvests and sustained remittance flows—supporting consumption in the region. A gradual decline in inflation expectations (provided structural reforms to release production bottlenecks are accelerated) will also contribute to consumption growth. Planned fiscal consolidation in Pakistan (and to a lesser extent in India) is likely to result in subdued growth in government spending compared with the period prior to 2012.

Private capital flows to the South Asia region are projected to rise marginally by 3 percent to $88 billion in 2014—led by a 10 percent increase in FDI flows, partly reflecting easing of regulations on foreign investment in India. Portfolio equity flows are projected to rise marginally in 2014, while private debt flows are expected to contract. Despite tapering of U.S. quantitative easing and eventual normalization of interest rates in high income countries, private capital flows to South Asia are projected to rise to $97 billion and $110 billion respectively in 2015 and 2016—along with improvement in regional growth performance and firming global activity. Remittance inflows are also projected to pick up to an estimated $145 billion by 2016 (World Bank 2013 October (a)).

Country GDP growth forecasts (table 2.16) broadly reflect the above regional trends but are also influenced by country-specific factors. Growth rates in India are

Table 2.15 **South Asia forecast summary***
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
GDP at market prices[b, e]	5.9	9.9	7.2	4.2	4.6	5.7	6.3	6.7
GDP per capita (units in US$)	4.4	8.4	5.8	2.7	3.2	4.3	4.9	5.3
PPP GDP[c]	5.9	10.0	7.3	4.1	4.6	5.7	6.3	6.7
Private consumption	5.3	7.7	7.0	3.8	4.1	5.3	6.0	6.4
Public consumption	5.5	7.1	7.4	4.5	4.0	5.2	5.9	6.3
Fixed investment	8.9	16.7	6.2	1.1	3.5	6.2	7.7	7.9
Exports, GNFS[d]	11.5	14.9	16.1	8.2	6.5	7.7	7.8	8.1
Imports, GNFS[d]	9.4	16.2	16.9	9.9	3.4	6.2	7.7	7.9
Net exports, contribution to growth	-0.2	-1.2	-1.3	-1.1	0.5	-0.1	-0.5	-0.5
Current account bal/GDP (%)	-0.6	-2.6	-3.1	-4.1	-3.0	-2.7	-2.6	-2.5
GDP deflator (median, LCU)	6.5	9.6	8.5	7.6	7.5	6.5	6.3	6.0
Fiscal balance/GDP (%)	-7.3	-8.0	-7.9	-7.5	-6.7	-6.8	-6.4	-6.0
Memo items: GDP at market prices[e]								
South Asia excluding India	4.5	4.9	5.2	4.9	4.8	5.1	5.2	5.3
India (at factor cost)	7.6	9.3	6.2	5.0	4.8	6.2	6.6	7.1
Pakistan (at factor cost)	4.9	2.6	3.7	4.4	3.6	3.4	4.1	4.5
Bangladesh	5.2	6.1	6.7	6.2	6.0	5.7	6.1	6.0

Source: World Bank
Notes: e = estimate, f = forecast
* Unless otherwise indicated, regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services (GNFS).
e. National income and product account data refer to fiscal years (FY) for the South Asian countries, while aggregates are presented in calendar year (CY) terms. The fiscal year runs from July 1 through June 30 in Bangladesh, Bhutan, and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Bhutan, Nepal, and Pakistan report FY2010/11 data in CY2011, while India reports FY2010/11 in CY2010.

projected to rise to over 6 percent in FY2014–15 (from an estimated 4.8 percent in the current fiscal year), and then to increase to 6.6 percent in FY2015–16 and to 7.1 percent in FY2016–17—with the stronger growth resulting in the gradual closing of a large negative output gap. Growth in India will be led by recovery in global demand and an increase in domestic investment, subject to downside risks outlined below. Growth in Pakistan is expected to moderate slightly to 3.4 percent in FY2013–14, in part reflecting necessary fiscal tightening, and then rise to 4.5 percent in the medium term. Political uncertainty and disruptions in the run-up to elections in Bangladesh will contribute to slow growth to an estimated 5.7 percent in FY2013–14. Coupled with earlier safety problems in garment factories, continued social unrest could adversely affect Bangladesh's manufacturing and export performance.

Growth in Nepal is projected to pick up after delayed budget approval and weak agricultural performance in the 2012–13 fiscal year resulted in a deceleration in growth. Sri Lanka's growth is projected to accelerate to 7.4 percent in 2014, mainly as a result of infrastructure spending, and consumption and services activity buoyed by remittance inflows. Over the medium term, however, Sri Lanka's growth is projected to slow to a more sustainable rate of around 6.3 percent. The withdrawal of international forces will affect Afghanistan, as previously donor-financed expenditure will need to be financed from budget expenditure. Afghanistan's GDP growth is projected at 3.5 percent for 2014 (a slight improvement from an estimated 3.1 percent in 2013), before rising gradually to around 5 percent as the security situation stabilizes and mining projects come online. As the presence of international forces in Afghanistan winds down, reductions in Coalition Support Funds

for Pakistan are likely to be offset by continued disbursements under the IMF's extended fund facility and robust inflows of remittances.

Risks

Risks to the outlook for the South Asia region are tilted to the downside, on balance. Some potential upside risks include better-than-anticipated global growth, and lower crude oil prices than projected. Domestic downside risks are particularly relevant for a sustained revival of investment and for medium-term growth prospects.

Domestic risks. The main domestic risks concern the ability of South Asian countries to keep current and planned reforms from going off-track and to maintain fiscal discipline. A stalling or reversal of policy reforms could see significantly lower investment and growth than that projected in the baseline. Limited fiscal space in South Asian countries compared with the immediate pre-2008 crisis period has already made it difficult to respond forcefully to intensification of crises. An inability to maintain fiscal discipline and to reduce subsidies could adversely affect sovereign creditworthiness. Political uncertainties related to national elections in Bangladesh in early 2014 and in India in mid-2014 could hamper a sustained revival of business confidence and investment. In Afghanistan, the combination of political transition and withdrawal of international forces in 2014 could pose risks to the country's fiscal sustainability and growth. Entrenchment of inflation expectations in India (RBI 2013a) could reduce space for monetary easing and adversely affect investment. Lack of progress in reducing supply-side constraints (particularly in electricity, infrastructure and agricultural sectors) could also pose significant downside risk to the outlook.

Disorderly adjustment of capital flows. The tapering of U.S quantitative easing is expected to proceed gradually, but abrupt changes in expectations could cause a disorderly adjustment of capital flows and currency depreciation pressures. Weak GDP growth has already taken a toll on corporate and bank balance sheets in India, as gross non-performing and restructured loans rose to 10.2 percent of loans in September 2013, with India's central bank warning of stress on asset quality in the iron and steel, and infrastructure sectors (RBI 2013b). Further strains from a sharp withdrawal of foreign capital could increase risk of corporate debt distress, while one-off costs of bank recapitalization can put pressure on fiscal positions.

Fragile global growth. Prolonged weakness in the Euro Area, U.S. fiscal policy brinkmanship, and geopolitical risks in the Middle East are additional sources of external risk. A relatively subdued recovery in the Euro Area, reflecting unresolved financial fragilities and structural problems, would act as a drag on global trade and affect South Asian exports. Risks from brinkmanship on U.S fiscal policy have diminished, but a recurrence could affect global activity through negative confidence effects. Tensions in the Middle-East have subsided somewhat, but a resurgence and associated supply shocks could result in a spike in international crude oil prices, and threaten the gains made in stabilizing current account positions in South Asia.

South Asian policy makers must continue the urgent task of rebuilding domestic and external policy buffers and reducing imbalances to deal with potential intensification of external pressures, as well as accelerate productivity-enhancing reforms and improve their business environment to raise growth rates on a sustained basis. Given already large fiscal and current account deficits, high inflation, and weak reserve positions (or a combination of these) in some South Asian countries, policymakers need to maintain an appropriately tight macroeconomic stance to avoid exacerbating external vulnerabilities and domestic inflationary pressures.

Table 2.16 South Asia country forecasts*

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Calendar year basis[b]								
Afghanistan								
GDP at market prices (% annual growth)[c]	11.9	8.4	6.1	14.4	3.1	3.5	4.3	5.1
Current account bal/GDP (%)	-0.3	2.8	3.1	3.9	2.5	1.8	0.5	-0.3
Bangladesh								
GDP at market prices (% annual growth)[c]	5.2	6.4	6.5	6.1	5.8	5.9	6.1	6.0
Current account bal/GDP (%)	0.6	2.0	0.2	1.5	1.7	1.6	1.3	1.0
Bhutan								
GDP at market prices (% annual growth)[c]	7.7	9.6	9.5	8.3	7.9	8.4	8.6	8.6
Current account bal/GDP (%)	-0.1	-19.1	-25.5	-20.7	-20.9	-19.2	-18.4	-18.4
India								
GDP at factor cost (% annual growth)[c]	7.4	9.1	7.0	5.3	4.9	5.8	6.5	7.0
Current account bal/GDP (%)	-0.5	-3.2	-3.4	-5.0	-3.5	-3.2	-3.1	-2.9
Maldives								
GDP at market prices (% annual growth)[c]	6.3	7.1	7.0	3.4	4.3	4.2	4.1	4.1
Current account bal/GDP (%)	-1.1	-9.2	-21.4	-27.1	-28.0	-26.0	-25.0	-25.0
Nepal								
GDP at market prices (% annual growth)[c]	3.4	4.4	4.3	4.1	3.7	4.1	4.8	5.2
Current account bal/GDP (%)	-0.9	-2.6	0.2	1.4	1.5	1.0	0.6	0.1
Pakistan								
GDP at factor cost (% annual growth)[c]	4.9	3.1	4.0	4.0	3.5	3.8	4.3	4.5
Current account bal/GDP (%)	-1.4	-0.7	-1.1	-0.9	-1.7	-1.6	-1.4	-1.2
Sri Lanka								
GDP at market prices (% annual growth)[c]	4.4	8.0	8.2	6.4	7.0	7.4	6.5	6.3
Current account bal/GDP (%)	-3.7	-2.3	-7.9	-6.4	-5.1	-4.4	-3.8	-3.2
Fiscal year basis[b]								
Bangladesh								
GDP at market prices (% annual growth)[c]	5.2	6.1	6.7	6.2	6.0	5.7	6.1	6.0
Bhutan								
GDP at market prices (% annual growth)[c]	7.7	9.3	10.0	9.0	7.6	8.1	8.6	8.6
India								
GDP at factor cost (% annual growth)[c]	7.6	9.3	6.2	5.0	4.8	6.2	6.6	7.1
Nepal								
GDP at market prices (% annual growth)[c]	3.4	4.8	3.9	4.6	3.6	3.8	4.4	5.2
Pakistan								
GDP at factor cost (% annual growth)[c]	4.9	2.6	3.7	4.4	3.6	3.4	4.1	4.5

Source: World Bank
Notes: e = estimate, f = forecast
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.
* Published forecasts are for only low and middle-income countries in the region, hence no high-income countries are included.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. 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, Bhutan, and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Bhutan, Nepal, and Pakistan report FY2010/11 data in CY2011, while India reports FY2010/11 in CY2010. GDP figures presented in calendar years (CY) terms for Bangladesh, Bhutan, Nepal, India and Pakistan are calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity.
c. GDP measured in constant 2010 U.S. dollars.

SUB-SAHARAN AFRICA

GLOBAL ECONOMIC PROSPECTS

January 2014

Chapter 2

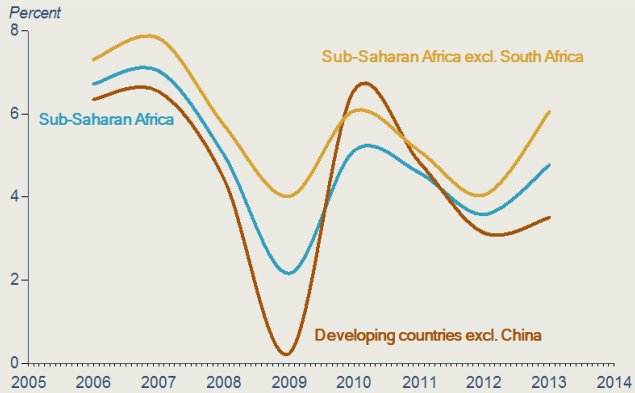
Sub-Saharan Africa's real GDP growth picked up to 4.7 percent in 2013 supported by robust domestic demand, notably investment growth. Strengthening external demand is expected to support growth over the forecast horizon, with regional GDP growth projected to improve to 5.3 percent in 2014, rising to 5.5 percent in 2016. However, a protracted decline in commodity prices, tighter global financing conditions, and domestic risks including political unrest, and weather shocks could weaken growth prospects.

Recent developments

Economic activity remained robust in much of Sub-Saharan Africa, with GDP growth in the region picking up in 2013. After an increase of 3.5 percent in 2012, GDP growth in the region strengthened to 4.7 percent in 2013, supported by robust domestic demand–notably investment growth.[1] In South Africa, the region's largest economy, structural bottlenecks and tense labor relations combined with weak external demand to keep growth slow at 1.9 percent. Excluding South Africa, GDP growth for the rest of the region averaged 6 percent (figure 2.23). About a third of countries grew by 6 percent or more in 2013 (figure 2.24), boosting real per capita incomes. In many of these countries, however, poverty remains widespread and unemployment is high.

Strong investment demand continues to support growth in the region. Gross fixed capital formation continued to increase rapidly in the region, expanding an estimated 7.3 percent in 2013, reaching 23.5 percent of GDP. Net foreign direct investment inflows grew 16.2 percent to $43 billion in 2013 (table 2.17). Much of the investment has flowed to the natural resource sector, supporting exploration and production in oil, gas, and mining. FDI flows to the nonresource sector also increased, however. This is particularly the case for the service sector, where rising consumer incomes are

Figure 2.23 Real GDP growth in Sub-Saharan Africa strengthened in 2013



Source: World Bank.

1. Regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.

Table 2.17 Net capital flows to Sub-Saharan Africa ($ billions)

	2008	2009	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Capital Inflows	46.5	56.5	59.5	62.9	73.6	86.1	66.9	73.2	79.8
Private inflows, net	41.5	46.3	46	50.1	62.6	74.5	66.9	73.2	79.8
Equity Inflows, net	38.7	48.2	40.4	39	46.4	52.6	51.7	57.6	62
Net FDI inflows	44.3	37.7	32.2	40	37	43	41	44.2	47.8
Net portfolio equity inflows	-5.6	10.5	8.2	-1	9.4	9.6	10.7	13.4	14.2
Private creditors. Net	2.8	-1.9	5.6	11.1	16.2	21.9	15.2	15.6	17.8
Bonds	-1.6	2	1.4	6	3.6	7.3	4.1	4.7	5.2
Banks	2.6	0.8	0.7	3.4	4	6.4	5.1	6.1	6.8
Other private	-0.1	0.8	0.5	0.1	0.6	1	0.8	0.7	1.3
Short-term debt flows	1.9	-5.5	3	1.6	8	7.2	5.2	4.1	4.5
Official inflows, net	5	10.2	13.5	12.8	11	11.6	..	..	..
World Bank	1.9	3.1	4	3.2	3.9	3.5	..	..	..
IMF	0.7	2.2	1.2	1.4	0.9	0.6	..	..	..
Other official	2.5	4.9	8.3	8.2	6.2	7.5	..	..	..

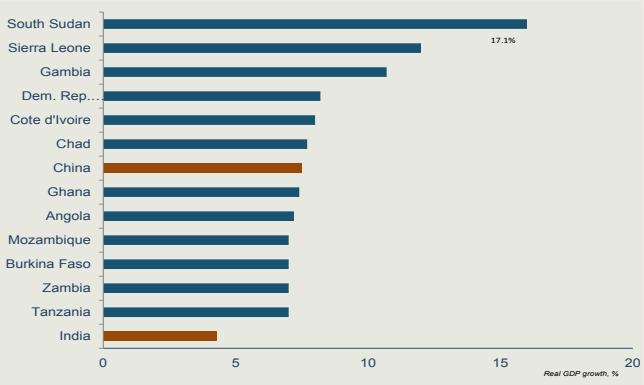
Notes: e = estimate, f = forecast
Source: World Bank

buoying activity in telecommunications, finance, retail, and transportation. Consumer-oriented FDI projects in manufacturing and services have expanded rapidly in recent years. As a result, their share in the total value of FDI greenfield projects in the region has risen from about 7 percent in 2008 to about 23 percent in 2012.[2]

Fiscal deficits widened in 2013 and debt-to-GDP ratios continued to rise across the region. After more than doubling in 2012, fiscal deficits are estimated to have deteriorated a further 0.3 percentage points in 2013, with the largest deterioration occurring among oil exporters and low-income countries (figure 2.25). In Cameroon and Chad, fiscal deficits as a share of GDP are estimated to have doubled in 2013; and in Malawi, the overall fiscal deficit is expected to widen to about 19 percent of GDP in 2013 after rising to 16.6 percent of GDP in 2012. Among middle-income countries, Ghana's fiscal deficit jumped to 10.9 percent of GDP in 2012 and remained high in 2013. In South Africa, the fiscal deficit has not declined as expected, and is estimated to remain at 4.2 percent of GDP in 2013. Ambitious public investment programs and increases in public wages coupled with weak revenues contributed to the deterioration of fiscal balances in many of these countries. The increase of fiscal deficits despite the acceleration of economic activity suggests rising structural imbalances, which falling commodity prices and reduced access to concessional resources could exacerbate.

Partly as a result, the debt—to—GDP ratio for the region as a whole has risen from 29.1 percent in 2008

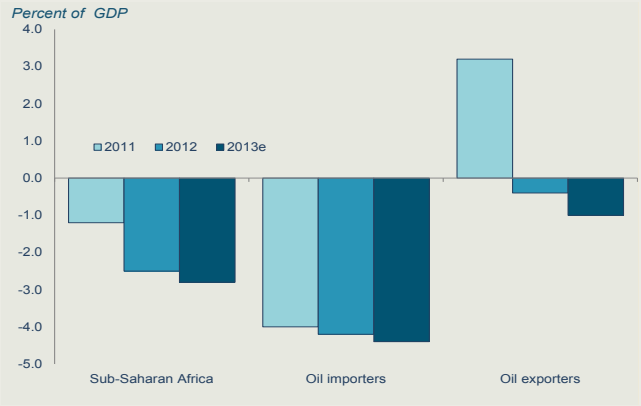
Figure 2.24 Sub-Saharan Africa was the second fastest growing region in 2013



Source: World Bank.

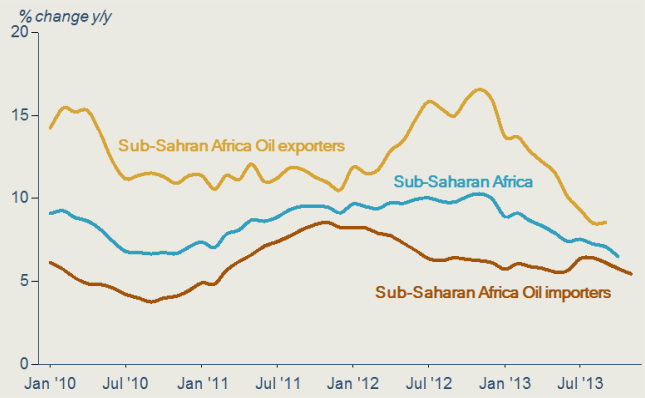
2. This includes North Africa, which accounts for about a third of the total to the Africa region.

Figure 2.25 Fiscal balances deteriorated in oil-exporting countries



Source: IMF Data.

Figure 2.26 Inflation eased in Sub-Saharan Africa in 2013



Source: World Bank.

to an estimated 34 percent in 2013. These averages, however, reflect significant variations across countries. Debt as a share of GDP ranges from a low of 6 percent in Equatorial Guinea, to a high of 126 percent of GDP in Eritrea. Some middle-income countries saw a sharp rise in their debt ratios, in excess of 50 percent in Ghana and 90 percent in Cape Verde in 2013. The widening fiscal deficits and rising debt ratios suggest rising fiscal vulnerabilities that may hamper potential growth. For most countries in the region, fiscal consolidation is needed not only to help create fiscal space for development spending but also to start rebuilding fiscal buffers to minimize exposure to external headwinds.

Supported by decelerating inflation and rising remittances, household consumption demand has been expanding robustly. Inflation eased in the region, declining to 6.5 percent in October 2013 from 10.1 percent the previous year (figure 2.26). Nonetheless, currency depreciations, wage increases, and infrastructure bottlenecks have kept inflation in double digits in many countries, including Guinea and Malawi. Central banks in many countries in the region have maintained an accommodative monetary policy stance in an effort to stimulate domestic demand. Central Banks in Kenya and South Africa have kept monetary policy unchanged; and, in the CFA franc zone, the two regional central banks cut their benchmark discount rates. Remittance inflows to the region remained robust, estimated at $32 billion in 2013, up from $30 billion in 2012. These inflows, combined with lower food prices, supported household incomes and demand. High- frequency consumption data is not available for much of the region. However, the annualized 6 percent growth in total imports for the first half of 2013, despite a 1.7 percent decline in capital equipment imports, suggests that private consumption, which accounts for over 60 percent of regional GDP, remained robust in 2013.

The region's export performance was adversely affected by the decline in commodity prices. The U.S. dollar prices of agricultural commodities, and metals and minerals declined by 7.2 and 5.5 percent respectively in 2013, while the price of oil remained stable, compared with the same period a year ago. The fall in commodity prices dampened export receipts in the region, even though on a volume basis exports went up in many countries. Year-to-date, export receipts fell an estimated 2.4 percent in the region. Meanwhile, supported by the coming on stream of new mines, export volumes for minerals and metals rose in several countries.

Tourism, an increasingly important driver of growth in several Sub-Saharan African countries, continues to grow at a robust pace. Data from the UN World Tourism Organization (UNWTO) shows that tourist arrivals to the region grew by 5.7 percent in the third quarter of 2013, bringing year—to—date growth to 5.1 percent, higher than the annual growth of 4.4 percent in 2012. Among the Sub-Saharan African destinations for which quarterly data is available, the strongest performers were Zimbabwe (+12.1 percent), Seychelles (+11.8 percent), Cape Verde (+8.7 percent), South Africa (+3.3 percent), Mauritius (+2.8 percent), and Swaziland (+2.1 percent). International tourist arrivals in the region were expected to remain robust in the fourth quarter of 2013. UNWTO estimates tourist arrivals will expand by up to 6.0 percent in 2013.

Table 2.18 **Sub-Saharan Africa forecast summary***
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
GDP at market prices[b]	4.4	5.1	4.6	3.5	4.7	5.3	5.4	5.5
				(Sub-region totals -- countries with full NIA + BOP data)[c]				
GDP at market prices[c]	4.4	5.1	4.6	3.5	4.7	5.3	5.4	5.5
GDP per capita (units in US$)	2.1	2.5	2.0	1.0	2.2	2.7	2.9	2.9
PPP GDP[c]	4.6	5.2	4.6	1.8	5.5	5.7	5.7	5.7
Private consumption	5.1	8.9	4.9	4.3	5.6	5.3	5.1	5.2
Public consumption	5.4	5.8	7.9	5.5	6.2	6.1	3.9	5.1
Fixed investment	8.9	0.0	8.7	6.6	7.3	6.0	7.3	6.2
Exports, GNFS[d]	4.2	5.5	6.2	0.2	5.4	6.2	6.2	5.8
Imports, GNFS[d]	4.5	8.7	10.1	4.6	7.6	6.5	5.7	5.1
Net exports, contribution to growth	-0.4	-1.0	-1.3	-1.6	-0.9	-0.3	0.0	0.1
Current account bal/GDP (%)	0.0	-1.3	0.2	-1.5	-3.0	-3.3	-3.3	-3.1
GDP deflator (median, LCU)	6.5	7.3	7.8	6.0	5.9	6.0	5.5	5.6
Fiscal balance/GDP (%)	-0.4	-3.5	-1.2	-2.6	-2.8	-2.6	-2.5	-2.5
Memo items: GDP								
SSA excluding South Africa	5.1	6.1	5.1	4.0	6.0	6.4	6.3	6.2
Oil exporters[e]	5.6	6.0	4.3	2.7	6.3	6.6	6.4	6.4
CFA countries[f]	3.6	4.0	2.6	5.5	4.6	5.3	5.0	5.3
South Africa	3.2	3.1	3.5	2.5	1.9	2.7	3.4	3.5
Nigeria	5.6	8.0	7.4	6.6	6.7	6.7	6.8	6.8
Angola	10.7	3.4	3.9	5.2	5.1	8.0	7.3	7.0

Source: World Bank
Notes: e = estimate, f = forecast
* Unless otherwise indicated, regional aggregates are computed for low and middle-income countries in the region and do not include any of the region's high-income countries.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. Sub-region aggregate excludes Liberia, Chad, Somalia and São Tomé and Principe. Data limitations prevent the forecasting of GDP components or Balance of Payments details for these countries.
d. Exports and imports of goods and non-factor services (GNFS).
e. Oil Exporters: Angola, Cote d Ivoire, Cameroon, Congo, Rep., Gabon, Nigeria, Sudan, Chad, Congo, Dem. Rep.
f. CFA Countries: Benin, Burkina Faso, Central African Republic, Cote d'Ivoire, Cameroon, Congo, Rep., Gabon, Equatorial Guinea, Mali, Niger, Senegal, Chad, Togo.

Outlook

Medium-term growth prospects for Sub-Saharan Africa are strong. Regional GDP growth is projected to strengthen to 5.3 percent in 2014 from 4.7 percent in 2013, rise to 5.4 percent in 2015 and reach 5.5 percent in 2016 (table 2.18). Excluding South Africa, the rest of the region is projected to grow at 6.3 percent on average in 2014—16.

Domestic demand, associated with investment in infrastructure and household consumption, will remain the main driver of growth for most countries in the region. The expected improvement in GDP growth also reflects anticipated higher growth notably in high-income countries. In this environment, foreign direct investment flows are expected to remain an important driver of growth for many countries in the region. Although commodity prices have eased, they remain high by historical standards and investment opportunities in the region are profitable. As a result, FDI flows, which are less sensitive to global interest rate hikes than

short-term portfolio flows, are projected to rise to $44.2 billion in 2015 and reach $47.8 billion in 2016.

Private consumption in the region is expected to remain strong in 2014—16. Reduced imported inflation, aided by a benign global inflationary environment and stable exchange rates, and adequate local harvests are expected to help contain inflationary pressures, which should allow for further interest rate cuts. Combined with steadily rising remittances, these effects should stimulate household consumption and permit a continued rapid expansion of domestic demand.

Government spending is projected to continue rising at a moderate pace, as governments expand spending on pro-poor projects in health, education and social services in an effort to reach the Millennium Development Goals by 2015. After rising by an estimated 6.2 percent in 2013, public consumption is projected to increase by 5 percent on average in 2014—16. Reflecting this slowdown, fiscal deficits are expected to decline; however, fiscal space will remain depleted for most countries in the region.

Growth in the region is expected to be driven by resource as well as nonresource—rich countries (table 2.19). Oil exporters, led by Angola, are projected to grow at 6.4 percent on average during 2014—16. Growth is also projected to remain robust in many mineral—exporting countries including Burkina Faso, Ghana, Mozambique and Tanzania, driven by FDI flows in the natural resource sector and increased production from projects coming on stream. In several nonresource—rich countries, notably Ethiopia and Rwanda, real GDP growth is projected to exceed the regional average, supported by robust growth in agriculture, services, and investments in infrastructure. Elsewhere, growth is forecast to remain moderate. While real GDP growth in many countries in the region is expected to remain stronger than in many other developing regions, poor physical infrastructure limits their growth potential. Unreliable electricity supply and poor road conditions will continue to impose high costs on business, reduce efficiency, and impede intraregional trade.

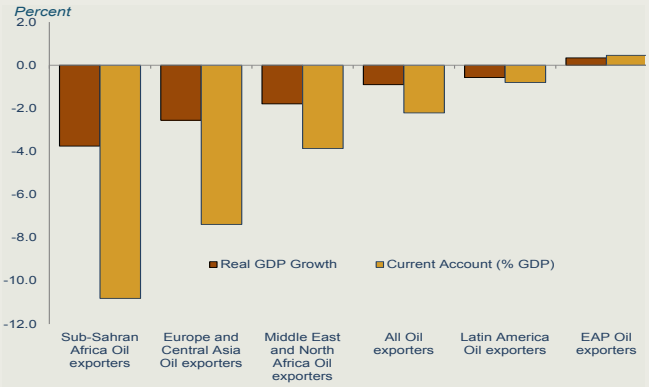
Net exports are projected to make a marginal contribution to GDP growth in the region over the forecast horizon. Following a sharp contraction in 2012, exports rebounded with an estimated 5.4 percent annual increase in 2013; but massive imports of capital and construction goods saw net exports subtract an estimated 0.9 percentage points from GDP growth. Export capacity is expected to strengthen during 2014—16, providing a boost to economic growth. The contributions of net exports will be somewhat constrained, however, by lower commodity prices, which will be exacerbated by low output in some countries, notably the oil-exporting Central African countries where production is stagnating. In metal-exporting countries, increased output will mitigate the weakness of metal prices. On the import side, the demand for capital goods is projected to remain strong, but as investments mature and construction projects approach completion in many countries, imports are expected to grow at a slower pace. Reflecting these trends and the weakening of commodity prices, the current account deficit in the region is projected to increase from an estimated 3 percent of GDP in 2013 to an average of 3.3 percent of GDP in 2014 and 2015, before narrowing to 3.1 percent of GDP in 2016. For most countries in the region net exports will be less of a drag on GDP growth during 2014—16

Risks

The main risks that threaten the region's economic outlook include a protracted decline in commodity prices brought on by increased output and weaker demand, second-round effects from the tightening of monetary conditions as the U.S. Federal Reserve begins to taper its asset purchases; and domestic risks from political unrest, security problems and adverse weather shocks.

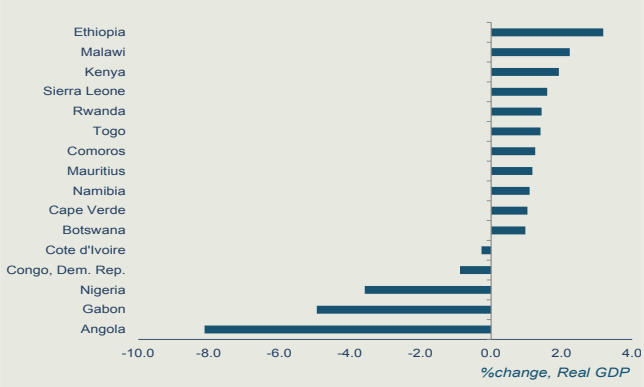
Long-term structural decline in commodity prices: Simulation results of a one-standard deviation decline in the price of oil from the baseline in 2014 show that growth in the region will decline by about 1.3 percentage points and current account balances will deteriorate by 4.5 percentage

Figure 2.27 **A one-standard deviation shock to oil prices will affect Sub-Saharan Africa the most**



Source: World Bank.

Figure 2.28 **Less diversified oil exporters would be hit hardest**



Source: World Bank.

points compared with baseline projections. Oil exporters, especially the less diversified ones such as Angola and Gabon, would be hit the hardest, with GDP declining 3.8 percentage points relative to the baseline and the current account deficit worsening by 10.8 percentage points (figure 2.27). This risk underscores the need for structural reforms to foster economic diversification. In contrast, the region's oil importers would benefit from the decline in oil prices, with GDP rising by some 0.61 percentage points and current account balances improving by 0.77 percentage points (figure 2.28).

Tighter monetary conditions: The tapering of asset purchases by the Federal Reserve is expected to lead to a rise in base interest rates and spreads. A 100-basis point increase in high-income country base rates is likely to be associated with a 110 to 157 basis point increase in developing-country yields (World Bank, 2013), implying an increase in the cost of raising capital, which could lead to lower investment and growth. South Africa, which has strong links with global financial markets, is particularly vulnerable to sudden stops of capital inflows given its reliance on portfolio inflows to finance its current account deficit. Frontier countries such as Kenya and Nigeria, which have seen significant portfolio inflows in local securities markets, would also be affected by the reversal of capital flows; and countries that are planning to tap the international bond markets are likely to face higher coupon rates.

Domestic risks associated with social and political unrest as well as emerging security problems remain a major threat to the economic prospects of a number of countries in the region. For example, political instability in the Central African Republic, which has added to the impoverishment of its population, could deteriorate further with spillovers to neighboring countries. Piracy attacks in the Gulf of Guinea, which increased sharply in 2012 both in number and intensity, could escalate and impose greater security spending on government budgets, push shipment costs higher, and disrupt trade in the subregion. Ongoing conflicts in Northern Nigeria are also emerging as an important security problem that might adversely affect economic activity in the subregion.

Risks from food price spikes at the global level appear contained for now. The global outlook for food prices is favorable, with improved supply prospects and a gradual rebuilding of food stocks. Yet, while short—term forecasts of weather conditions are broadly favorable, most countries in the region remain highly vulnerable to changing weather conditions given the importance of rain-fed subsistence agriculture for their economies and the livelihoods of their populations. Inadequate rainfalls could affect growth prospects in many of these countries. The resulting lower local harvests might raise the risk of food insecurity and push food prices higher, dampening household consumption, which has been an important driver of growth in the region in recent years.

Table 2.19 Sub-Saharan Africa country forecasts*

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Angola								
GDP at market prices (% annual growth)[b]	10.7	3.4	3.9	5.2	5.1	8.0	7.3	7.0
Current account bal/GDP (%)	4.9	9.1	12.6	10.4	10.6	9.2	9.5	10.1
Benin								
GDP at market prices (% annual growth)[b]	3.6	2.6	3.5	5.4	4.2	4.1	4.2	4.0
Current account bal/GDP (%)	-8.3	-9.4	-13.2	-11.6	-9.8	-9.8	-9.2	-8.9
Botswana								
GDP at market prices (% annual growth)[b]	3.5	8.1	6.1	4.3	4.6	5.0	5.2	5.2
Current account bal/GDP (%)	7.4	-7.4	-1.4	-4.5	-0.2	-1.2	-1.9	-2.4
Burkina Faso								
GDP at market prices (% annual growth)[b]	5.2	7.9	4.2	10.0	7.0	7.0	7.0	7.0
Current account bal/GDP (%)	-13.2	-5.8	-4.8	-6.8	-4.9	-4.3	-3.4	-1.2
Burundi								
GDP at market prices (% annual growth)[b]	2.9	3.8	4.2	4.0	4.3	4.5	4.1	3.5
Current account bal/GDP (%)	-17.5	-15.9	-16.3	-17.2	-17.9	-16.3	-16.0	-15.6
Cape Verde								
GDP at market prices (% annual growth)[b]	5.6	1.5	4.0	2.5	2.6	2.9	3.3	3.6
Current account bal/GDP (%)	-11.3	-14.5	-17.4	-12.4	-9.9	-8.1	-8.8	-8.9
Cameroon								
GDP at market prices (% annual growth)[b]	3.0	3.3	4.1	4.7	4.8	5.0	5.1	5.1
Current account bal/GDP (%)	-2.4	-3.8	-5.8	-6.4	-5.7	-5.9	-6.1	-6.4
Central African Republic								
GDP at market prices (% annual growth)[b]	0.7	3.3	3.1	4.1	-18.0	-1.8	1.1	2.5
Current account bal/GDP (%)	-8.6	-13.3	2.5	2.5	-1.1	-0.1	1.7	1.6
Comoros								
GDP at market prices (% annual growth)[b]	1.8	2.1	2.2	3.0	3.3	3.5	3.5	3.2
Current account bal/GDP (%)	-11.9	-27.4	-32.1	-16.9	-14.1	-13.5	-13.1	-11.9
Congo, Dem. Rep.								
GDP at market prices (% annual growth)[b]	4.2	7.2	6.9	7.2	7.5	7.5	7.4	6.7
Current account bal/GDP (%)	0.6	-16.6	-8.2	-12.3	-8.2	-5.3	-4.8	-4.6
Congo, Rep.								
GDP at market prices (% annual growth)[b]	3.8	8.8	3.4	3.8	5.6	5.4	5.5	5.5
Current account bal/GDP (%)	-2.0	-28.0	31.2	1.8	1.8	0.4	0.4	-0.3
Cote d'Ivoire								
GDP at market prices (% annual growth)[b]	0.8	2.4	-4.7	9.8	8.7	8.2	8.1	7.6
Current account bal/GDP (%)	1.9	2.1	1.4	-2.2	-3.5	-4.5	-4.3	-4.6
Equatorial Guinea								
GDP at market prices (% annual growth)[b]	15.0	-1.7	4.9	2.5	-1.5	-0.5	-1.6	2.1
Current account bal/GDP (%)	10.9	-24.7	-16.4	-14.9	-13.9	-12.9	-9.5	-7.4
Eritrea								
GDP at market prices (% annual growth)[b]	0.7	2.2	8.7	7.0	6.0	3.5	3.0	3.0
Current account bal/GDP (%)	-20.9	-5.5	3.2	22.5	23.5	27.6	28.8	29.3
Ethiopia								
GDP at market prices (% annual growth)[b]	7.5	8.6	7.9	7.7	7.0	7.1	7.0	7.1
Current account bal/GDP (%)	-5.0	-1.2	-2.0	-6.2	-6.4	-6.4	-6.5	-6.5

Table 2.19 Sub-Saharan Africa country forecasts*

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Gabon								
GDP at market prices (% annual growth)[b]	1.3	6.7	7.0	6.1	4.2	4.2	3.9	3.9
Current account bal/GDP (%)	14.8	5.8	11.4	14.4	9.6	9.1	7.3	6.9
Gambia, The								
GDP at market prices (% annual growth)[b]	3.2	6.5	-4.3	5.3	6.5	7.5	6.4	5.5
Current account bal/GDP (%)	-3.6	2.2	5.3	-7.3	-12.7	-13.1	-13.5	-10.3
Ghana								
GDP at market prices (% annual growth)[b]	5.0	8.0	15.0	7.9	7.4	7.4	7.3	6.7
Current account bal/GDP (%)	-6.5	-9.6	-8.9	-12.5	-11.7	-11.7	-10.2	-9.9
Guinea								
GDP at market prices (% annual growth)[b]	2.4	1.9	4.3	3.9	4.0	4.7	5.0	6.0
Current account bal/GDP (%)	-7.2	-7.0	-23.8	-35.4	-25.5	-46.3	-43.5	-38.7
Guinea-Bissau								
GDP at market prices (% annual growth)[b]	2.3	1.7	5.7	-1.5	3.0	2.7	2.7	2.9
Current account bal/GDP (%)	-9.0	-11.9	-6.1	-7.0	-5.8	-5.0	-4.5	-3.4
Kenya								
GDP at market prices (% annual growth)[b]	3.6	5.8	4.4	4.6	5.0	5.1	5.2	5.3
Current account bal/GDP (%)	-2.5	-7.7	-10.3	-9.8	-9.5	-8.6	-7.5	-7.5
Lesotho								
GDP at market prices (% annual growth)[b]	3.3	7.9	3.7	4.0	4.6	5.1	4.5	4.4
Current account bal/GDP (%)	2.9	-19.9	-20.5	-21.4	-14.5	-13.1	-12.0	-11.5
Madagascar								
GDP at market prices (% annual growth)[b]	3.0	0.5	1.9	3.1	4.1	4.8	5.4	5.4
Current account bal/GDP (%)	-12.4	-10.2	-10.4	-11.8	-13.6	-18.1	-20.3	-16.3
Malawi								
GDP at market prices (% annual growth)[b]	3.8	6.5	4.3	1.9	4.4	4.8	5.5	5.5
Current account bal/GDP (%)	-10.7	-16.8	-13.6	-15.0	-18.4	-15.9	-14.7	-15.6
Mali								
GDP at market prices (% annual growth)[b]	4.2	5.8	2.7	-1.2	4.0	5.2	4.5	4.6
Current account bal/GDP (%)	-8.3	-14.1	-7.0	-4.4	-9.6	-10.1	-10.0	-9.7
Mauritania								
GDP at market prices (% annual growth)[b]	4.5	5.1	4.0	7.6	5.7	4.6	4.0	3.3
Current account bal/GDP (%)	-10.8	-6.0	-1.9	-25.3	-25.5	-21.5	-17.0	-16.9
Mauritius								
GDP at market prices (% annual growth)[b]	3.4	7.7	3.8	3.2	3.7	4.1	4.3	4.2
Current account bal/GDP (%)	-2.7	-10.3	-13.4	-11.2	-9.6	-8.4	-7.7	-10.5
Mozambique								
GDP at market prices (% annual growth)[b]	7.1	7.1	7.3	7.4	7.0	8.5	8.5	8.5
Current account bal/GDP (%)	-14.0	-16.4	-23.8	-35.4	-40.3	-40.9	-39.2	-37.9
Namibia								
GDP at market prices (% annual growth)[b]	3.9	6.0	4.9	5.0	4.2	4.3	4.4	4.4
Current account bal/GDP (%)	3.5	-2.1	-4.7	-3.4	-2.0	-2.3	-3.8	-3.8
Niger								
GDP at market prices (% annual growth)[b]	3.6	-8.0	2.3	11.2	5.6	6.2	6.0	5.8
Current account bal/GDP (%)	-9.7	-21.3	-24.6	-19.6	-17.9	-17.7	-17.6	-16.8

	00-09[a]	2010	2011	2012	2013 e	2014 f	2015 f	2016 f
Nigeria								
GDP at market prices (% annual growth)[b]	5.6	8.0	7.4	6.6	6.7	6.7	6.8	6.8
Current account bal/GDP (%)	14.4	6.3	12.2	13.7	7.2	5.2	3.5	1.7
Rwanda								
GDP at market prices (% annual growth)[b]	7.2	7.2	8.2	8.0	7.0	7.5	7.2	7.0
Current account bal/GDP (%)	-6.0	-7.5	-7.4	-11.2	-8.4	-8.2	-8.5	-8.8
Senegal								
GDP at market prices (% annual growth)[b]	3.6	4.1	2.6	3.7	4.0	4.5	4.6	4.6
Current account bal/GDP (%)	-8.0	-4.7	-7.4	-9.2	-8.3	-7.2	-6.7	-5.9
Seychelles								
GDP at market prices (% annual growth)[b]	1.5	7.1	5.0	2.9	3.5	3.9	3.5	3.0
Current account bal/GDP (%)	-13.9	-19.5	-21.3	-23.8	-24.8	-21.7	-17.1	-22.2
Sierra Leone								
GDP at market prices (% annual growth)[b]	6.0	5.4	6.0	15.2	17.0	14.1	12.1	12.1
Current account bal/GDP (%)	-11.1	-25.0	-40.6	-37.1	-19.3	-10.6	-7.8	-7.4
South Africa								
GDP at market prices (% annual growth)[b]	3.2	3.1	3.5	2.5	1.9	2.7	3.4	3.5
Current account bal/GDP (%)	-3.0	-2.8	-3.4	-6.3	-6.9	-6.5	-6.4	-6.3
South Sudan								
GDP at market prices (% annual growth)[b]	4.4	3.1	2.6	-49.0	33.9	17.0	9.0	9.1
Current account bal/GDP (%)	10.7	30.3	17.5	-28.2	-14.6	9.2	13.3	15.2
Sudan								
GDP at market prices (% annual growth)[b]	5.6	3.5	-3.3	-10.1	2.9	2.9	3.0	3.2
Current account bal/GDP (%)	-5.9	-0.6	-0.4	-0.5	-5.3	-4.5	-4.0	-2.1
Tanzania								
GDP at market prices (% annual growth)[b]	6.2	7.0	6.4	6.9	7.1	7.4	7.6	7.8
Current account bal/GDP (%)	-9.3	-12.0	-19.3	-14.8	-17.2	-16.6	-16.0	-15.4
Togo								
GDP at market prices (% annual growth)[b]	1.7	4.0	4.8	5.6	5.0	4.5	4.5	4.4
Current account bal/GDP (%)	-9.2	-6.3	-4.1	-6.3	-9.2	-8.4	-8.7	-7.9
Uganda								
GDP at market prices (% annual growth)[b]	6.9	6.2	5.0	4.6	6.2	6.6	7.0	7.1
Current account bal/GDP (%)	-4.0	-7.9	-9.3	-5.5	-5.1	-4.6	-3.5	-3.2
Zambia								
GDP at market prices (% annual growth)[b]	4.8	7.6	6.8	7.3	6.0	6.5	6.0	5.8
Current account bal/GDP (%)	-10.8	6.0	2.9	2.7	2.8	2.4	2.2	2.2
Zimbabwe								
GDP at market prices (% annual growth)[b]	-5.9	9.6	9.4	4.4	2.2	3.3	3.4	3.5
Current account bal/GDP (%)	-12.2	-10.3	-23.0	-19.7	-21.9	-17.6	-14.7	-18.6

Source: World Bank
Notes: e = estimate, f = forecast
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, Sao Tome and Principe are not forecast owing to data limitations.
* Published forecasts are for only low and middle-income countries in the region, hence no high-income countries are included.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. GDP measured in constant 2010 U.S. dollars.

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Chapter III

CAPITAL FLOWS AND RISKS IN DEVELOPING COUNTRIES

Overview and main messages

The past two decades have seen dramatic changes in private capital inflows to developing countries. These flows have increased substantially both in absolute terms and as a share of developing-country GDP, and have been characterized by large fluctuations in response to changing global financial and economic conditions.

In the post-crisis period, financial inflows have averaged around 6 percent of GDP in developing countries, supported by historically low interest rates in high-income countries and stronger growth prospects across emerging and developing regions.

As the recovery in high-income countries firms amid a gradual withdrawal of extraordinary monetary stimulus, the global conditions prevailing in previous years will evolve in significant ways. Developing countries can expect in this context stronger demand for their exports as global trade regains momentum, but also rising interest rates and potentially weaker capital inflows.

In the most likely scenario, this process of normalization of activity and policy in high-income countries should follow a relatively orderly trajectory, with global interest rates rising only slowly to reach 3.6 percent by mid-2016. The analysis presented in this chapter show that such gradual tightening would imply limited disruption to developing countries, with a slowdown in capital inflows amounting to 0.6 percent of developing-country GDP between 2013 and 2016, driven in particularly by weaker portfolio investments.

However, the risk of more abrupt adjustments remains significant, especially if increased market volatility accompanies the actual unwinding of unprecedented central bank interventions. According to simulations, abrupt changes in market expectations, resulting in global bond yields increasing by 100 to 200 basis points within a couple of quarters, could lead to a sharp reduction in capital inflows to developing countries by between 50 and 80 percent for several months.

Some developing countries could face crisis risks should such scenario unfold. Focusing on an assessment of prevalent factors in past banking crises, evidence suggests that countries having seen a substantial expansion of domestic credit over the last five years, deteriorating current account balances, high levels of foreign and short-term debt and over-valued exchange rates could be more at risk in current circumstances.

In any event, policy makers need to consider how they would respond to a tightening of global financing conditions, and assess their specific vulnerabilities. Countries with adequate policy buffers and investor confidence may be able to rely on market mechanisms, counter-cyclical macroeconomic and prudential policies to deal with a retrenchment of foreign capital. In other cases, where the scope for maneuver is more limited, countries may be forced to tighten fiscal and monetary policy to reduce financing needs and attract additional inflows. Where adequate foreign reserves exist, these can be used to moderate the pace of exchange rate depreciation, while a loosening of capital inflow regulation and incentives for foreign direct investment might help smooth adjustments. Eventually, reforming domestic economies by improving the efficiency of labor markets, fiscal management, the breadth and depth of institutions, governance and infrastructure will be the most effective way to restore confidence and spur stability.

This chapter examines the pattern of private capital inflows to developing countries with a view to better understanding their main determinants and outlook in current circumstances. It is organized into three sections.

The first section describes the evolution of inflows in recent years and presents econometric evidence outlining the relative importance of changing global and country-specific conditions in that evolution. It finds that global factors accounted for about 60 percent of the increase in overall capital inflows to developing countries between 2009 and 2013, with the remainder explained by country-specific developments. Envisaging different scenarios, simulations of the likely path of capital inflows to developing countries in coming years are presented.

A second section concentrates on crisis risks and domestic vulnerabilities in the event of a disorderly adjustment, focusing on an evaluation of banking crisis probabilities at the individual country level.

A final section discusses policy options in the face of capital retrenchment risks, including macroeconomic and prudential policies as well as structural reform priorities.

Capital inflows: past and expected trends

Since the 1990s, when they represented an average of 4 percent of developing-country GDP, private capital inflows to developing countries increased markedly during the 2000s (see box 3.1 for a definition of capital inflows and their link with broader balance of payment developments). During the pre-crisis boom years 2003-07, inflows surged, peaking at more than 12 percent of developing-country GDP in 2007Q3, before crashing to negative territory in 2008 with the global financial crisis. They partly recovered in the post-crisis period - averaging 6 percent between 2010 and 2013 (figure 3.1).[1]

For the most part, strong capital inflows to developing countries contributed to higher investment rates and facilitated capital deepening and technological transfer, which had positive effects on growth potential and levels of development (World Bank, 2010a). In most cases, the rise in private capital inflows during the pre-crisis years did not cause excessively large current account imbalances in developing countries.

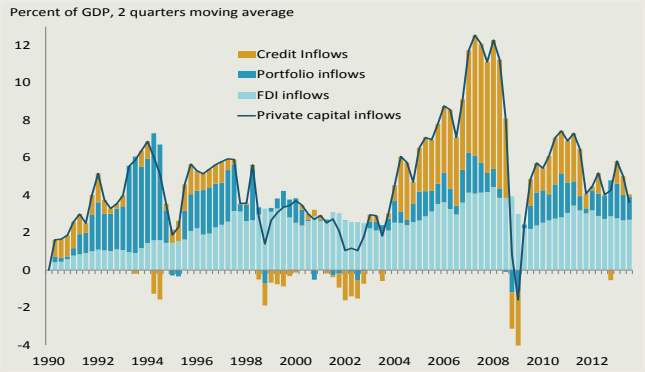
Developments in central Europe were a notable exception. Massive cross-border bank lending flows (representing alone 6 percent of regional GDP in the 2003-07 period; see figure 3.2), fueled credit and asset price bubbles in the pre-crisis period, contributing to a boom in private consumption, mounting current account deficits and indebtedness problems similar to those observed in high-income countries during the same period. As a result, unlike other regions developing Europe has gone through an extended period of restructuring and deleveraging similar to that of high-income countries.

While the remarkable increase in financial inflows to developing countries implied investment and growth opportunities in "normal" times, it also amplified the transmission of global financial shocks, as starkly illustrated during the 2008-09 financial crisis, when financial inflows to developing countries fell abruptly to about -1 percent.

Most developing regions exited from the crisis relatively quickly, thanks to counter-cyclical stimulus policies, better growth prospects (reflected in their relative credit ratings; see figure 3.3), and a gradual thawing of global financial

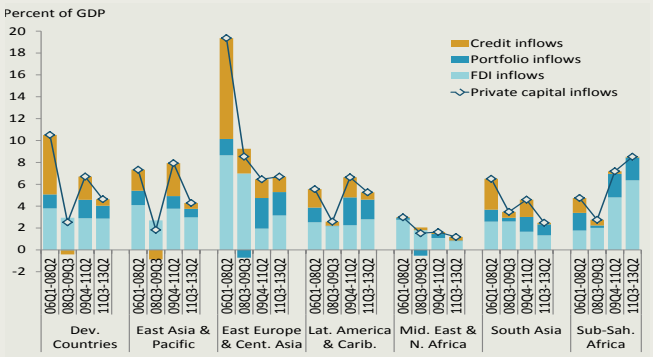
1. Here and in the remainder of this chapter, the post-crisis period is referred to as the period after 2009 and the boom period as 2003-07.

Figure 3.1 Private capital inflows to developing countries



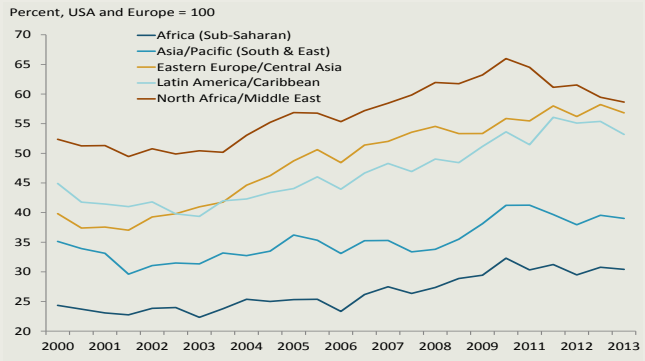
Source: World Bank, based on IMF Balance of Payments Statistics.

Figure 3.2 Private capital inflows to developing countries by region and type



Source: World Bank, based on IMF Balance of Payments Statistics.

Figure 3.3 Institutional investor rating for developing countries (relative to US and EU)



Source: Institutional Investor, World Bank.

Box 3.1 Private capital inflows: definition, link with balance of payment and financial exposure

The analysis presented in this chapter is specifically focused on the behavior of net private capital inflows by foreign investors into developing countries. This box clarifies the concept, its link to current account imbalances and external vulnerabilities.

Capital flows are recorded when there is transfer of ownership of financial assets from one country to another. When non-residents are purchasing assets in a country, the transaction is designated as a capital inflow for that country, and recorded as a change in foreign liabilities on its financial account balance. When domestic investors are purchasing assets abroad, the transaction is recorded as a capital outflow.

Private capital inflows are of particular interest, being most responsive to changes in global market conditions. They are labelled as "net inflows" in the balance of payment statistics as they include repayment of debt and equity disinvestment by non-residents, in contrast to gross inflow data, which refer only to the acquisition value of the assets.

Official inflows provided by international financial institutions and bilateral creditors are excluded from this analysis, as they follow entirely different patterns and determinants.

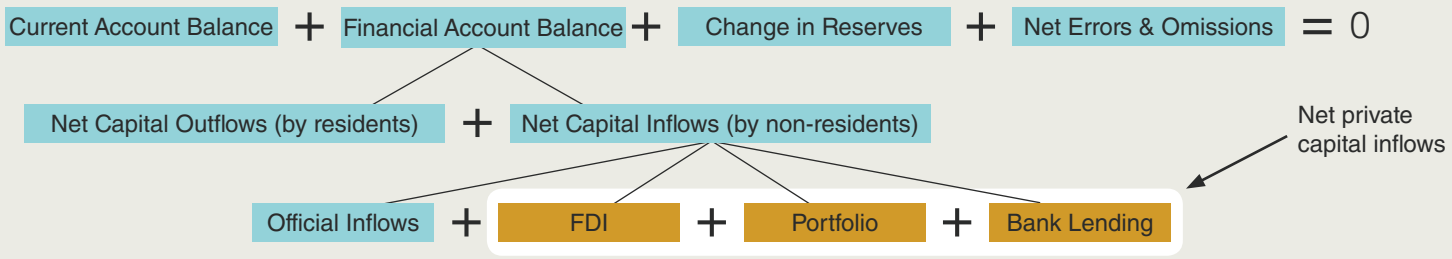
Data used in this chapter is mostly coming from the IMF balance of payment statistics (IFS database), complemented by the BIS Locational Banking data for cross-border lending, and national balance of payment data where appropriate.

Capital inflows, current account imbalances and vulnerability to external conditions

Capital inflows are tightly connected to broader balance of payment developments, as the financial account of a country matches by definition the sum of its current account position, changes in foreign currency reserves and statistical errors and omissions (Figure B3.1.1).

Thus large capital inflows, if leading to an improved financial account balance, can potentially be associated with a deterioration of the current account of the recipient country and a growing disconnection between domestic investment and saving. This could happen for instance if inflows put significant upward pressure on the real effective exchange rate or imply excessively loose domestic financing conditions. But these relationships are far from linear.

Figure B3.1.1 Net private capital inflows in the broader balance of payment framework



Source: World Bank, Institute of International Finance.

It is entirely possible, as observed in a number of developing countries prior to the financial crisis, to absorb large private capital inflows without widening current account deficits or foregoing surpluses, as inflows can be counterbalanced by residents' investments abroad, rising foreign currency reserves or counter-cyclical macroeconomic or prudential policies.

Irrespective of their direct impact on current account positions, large private capital inflows can have far-reaching implications for the propagation of external shocks through the buildup of large foreign liability positions, and serve to amplify the impact of changes in global financial conditions in all countries.

Risks relating to a sudden reversal of capital inflows are obviously more pronounced in countries running significant current account deficits, but could also be a threat to surplus countries with large external liabilities and overstretched domestic credit markets.

Analyzing the pattern of private capital inflows in all developing countries, as done in this chapter, appear particularly relevant in the context of an expected tightening of global financing conditions.

conditions. As demonstrated throughout this chapter, exceptionally loose monetary policy in high-income countries contributed significantly to the vigorous resurgence of financial inflows to developing countries in the post crisis period (peaking at 8.5 percent of their combined GDP by mid-2011).

This post-crisis upsurge was initially driven by a recovery in cross-border lending and later by a persistent rebalancing of portfolio investments, both largely influenced by exceptionally low interest rates and risk aversion. As a result, before the summer 2013, the weight of developing country bonds in global fixed income portfolios increased to levels last seen in the late-1990s (see chapter 1).

Portfolio investments (bond and equity inflows) have been robust in most regions since 2009 (figure 3.2). In contrast, bank lending has moderated particularly in emerging Europe because of continued deleveraging and balance sheet adjustments by banks in high-income countries.

Foreign direct investment (FDI) has been most stable component of capital inflows, although the picture is more mixed at the regional level. In Sub-Saharan Africa, FDI inflows have increased steadily in the post-crisis period, reaching 6.5 percent of the region's GDP most recently. That contrasts with South Asia and the Middle-East and North Africa where FDI flows have been declining (to 1.3 and 0.8 percent of regional GDP respectively) during the 2011-13 period.

Over the past two years, capital inflows have stabilized at around 4.5 percent of developing-country GDP. The slowdown was also associated with stagnant international reserves, rising capital outflows, and a deterioration of current account balances in a number of countries and regions, hence increasing their exposure to changes in external conditions.

As discussed in chapter 1, since May 2013, expectations of a gradual unwinding of quantitative easing (QE) by the U.S. Federal Reserve led to a significant portfolio adjustment on the part of global investors away from developing countries. Issuances of developing-country bond, equity, and syndicated bank loans dropped initially by around 50 percent, imposing significant adjustment pressures on currencies, asset prices, and foreign exchange reserves of several middle-income countries.

Modeling capital flows to developing countries

This section evaluates the main determinants of capital inflows to developing countries. It explores the likely impact of the recovery in growth and normalization of policies in high-income countries, examining a scenario where financial markets react in an orderly fashion as well as two scenarios where the adjustment is less orderly.

This analysis followed a two pronged approach. In a first step, a panel regression was used to assess the relative importance of global and domestic factors in determining the equilibrium level of capital inflows.

This is useful for understanding the long-term reaction (after all adjustment has occurred) to a change in global (or domestic) conditions. However, this approach is less suited for evaluating the short-term interaction and interplay between global factors and capital inflows.

To capture such short-term dynamics and assess overshooting risks in relation to changes in external financing conditions, a vector autoregression model was estimated in a second step, and used for further simulations.

Accounting for global "push" and domestic "pull" factors

The economic literature suggests that capital inflows to individual developing countries are determined by both global external conditions ("push" factors) and domestic factors ("pull" factors).[2]

The model outlined in box 3.2 was designed to control for the impacts on capital inflows of changes in observable global conditions, including real incentives (growth and growth expectations), financial incentives (interest rates and interest rate differentials), access to liquidity (global money supply), and global risk aversion. It also accounts for domestic pull factors (credit ratings, local interest rates, GDP levels) that can influence the volumes of capital inflows to developing economies.

Importantly, the model does not attempt to tease out the full influence that extraordinary monetary policy measures undertaken in high-income countries had on capital inflows. To do so would require determining the extent to which quantitative easing itself influenced the various drivers of capital inflows (interest rates, liquidity, risk, and growth) - a question that is under active discussion in the literature, but over which there is little consensus

2. Recent work includes Fratzscher (2012), which finds that push factors were dominant during the crisis but pull factors were more important in the immediate recovery phase after the global crisis, while Forbes and Warnock (2012) identify global factors, especially global risk (VIX index) as a determinant of surges. Bruno and Shin (2013) identify global factors are dominant determinants of cross-border bank flows, particularly bank leverage and VIX. This last result may be explained by the close relationship between banks' value-at-risk and the VIX (Adrian and Shin, 2010).

Box 3.2 Modeling the influence of high-income policy (including quantitative easing) and domestic factors on capital inflows to developing countries

The results reported in the main text of chapter 3 are based on a panel econometric analysis designed to illuminate how global and domestic economic conditions influence the volume of capital inflows to individual developing countries. The study uses an unbalanced panel of available quarterly private capital inflows data for 60 developing countries for the 2000Q1- 2013Q2 period, thus spanning eight years of non-crisis year capital flows, and five years of post-crisis flows. These financial inflows comprise bond and equity portfolio flows, foreign direct investment, and cross-border bank lending, and were derived from the IMF Balance of Payments statistics and the Bank for International Settlements' Locational Banking Statistics, supplemented by national sources drawn from the Datastream and Haver Analytics databases.

The model allows for the influence on individual-country capital inflows of global economic variables ("push factors") that have been identified in the literature as affecting the propensity to invest, as well as country-specific "pull factors" that capture time-varying characteristics of individual countries that may affect the allocation of funds across countries. The observable pull and push factors include measures used to capture:

- Global financial conditions, such as the US Federal Funds rate, the US money supply (M2), and the yield curve (the difference between the US long-term interest rate and short-term policy rates). The role of global uncertainty and risk aversion was proxied by the VIX index.

- Real-side global conditions, such as high-income and developing world GDP growth, and the global composite purchasing managers index (PMI), which proxies for growth expectations.

- Domestic pull factors, including country GDP levels and institutional investor ratings, a country-specific (lagged) GDP growth differential (relative to the United States), and the interest rate differential between the developing country vis-à-vis the United States.

The extraordinary measures taken by central banks, in the United States, Europe, and Japan are likely to have influenced several of the global variables: short-term interest rates would have been affected by conventional monetary policy; the structure of the yield curve would have been affected by the Federal Reserve's purchase of mortgage-backed securities and long-term debt on secondary markets; and market uncertainty along with U.S. and global growth may have benefited from stimulatory monetary and fiscal policies. To the extent that such measures may have influenced these drivers, their influence on capital flows will have been captured in the regression.

To account for the possibility that extraordinary monetary measures have operated through other unobservable channels (or through conventional channels over and above these observable measures), a series of dummy variables covering the different episodes of quantitative easing were also included. Several alternative specifications were experimented with, including: a single QE dummy variable for all episodes of quantitative easing; separate indicator variables for each of the three episodes; and a continuous measure of QE interventions based on QE-related assets on central bank balance sheets. A non-zero coefficient on these dummies can be interpreted as indicating that there were additional influences on capital flows to developing economies from quantitative easing that are not directly attributable to observable measures.

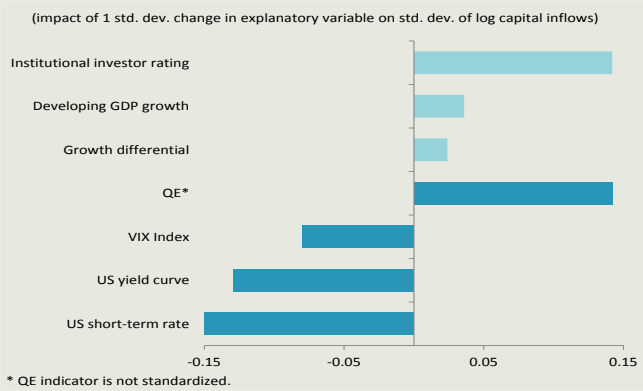
The baseline estimation employs econometric techniques that address the influence of time-invariant unobserved country effects, a time trend, and the possibility of bias due to the inclusion of a lagged dependent variable. In addition to the baseline, several additional variations were explored.

To ascertain whether quantitative easing may have altered the magnitude of the influence of the conventional transmission channels (say by making flows more sensitive to interest rate developments), a specification that allowed for interactions between the indicator and the observable global variables was considered. However, this specification was not retained as there was little evidence in favor such interaction effects. Furthermore, specifications that included market expectations of future interest rate changes were considered, but not retained because these expectations variables were not statistically significant.

The model is robust to several different specifications of the explanatory variables, as well as the inclusion of other variables that may plausibly explain capital flows. Lagged ratios of private credit as a share of GDP (financial depth), trade/GDP (trade openness), external debt/GDP, and real exchange rate appreciation were included in alternative specifications but did not prove to be statistically significant.

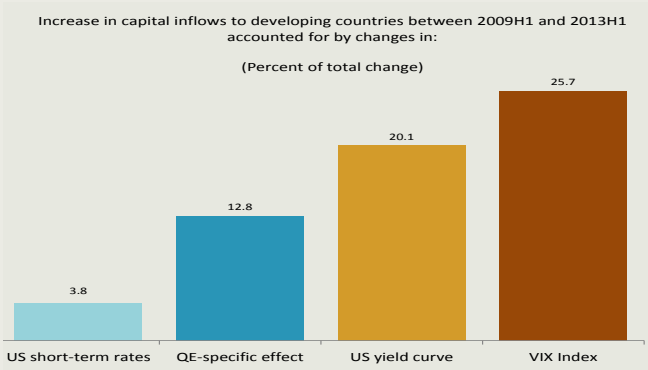
More details including benchmark regression results and the regression results for the constituent components of capital inflows, are provided in annex 1 (see also Lim, Mohapatra and Stocker forthcoming).

Figure 3.4 Impact of global and country-specific variables on capital inflows



Source: World Bank.

Figure 3.5 Estimated contribution to increase in capital inflows in the post-crisis period



Source: World Bank.

as yet.[3] Instead, the model simply uses a series of dummy variables to test whether extraordinary monetary measures may have had an effect on capital flows over and above those coming through the modeled channels.

The results obtained from the model are broadly consistent with the existing literature on observable factors associated with financial inflows (Alfaro, Kalemli-Ozcan and Volosovych 2008; Bruno and Shin 2013; Gelos, Sahay and Sandleris 2011; Forbes and Warnock 2012; Fratzscher, 2012).

Capital inflows to individual developing countries correlate in particular with country ratings and a number of global financial conditions, captured in the model by short-term U.S. interest rates, the yield curve, and the VIX index of implied stock market volatility (a measure of market uncertainty and risk aversion). The evidence for the effect of several other country-specific and global factors—such as growth differentials relative to the US, and aggregate developing-world growth—is somewhat weaker, and a number of factors, such as real interest rate differentials, are statistically indistinguishable from zero.

The various effects are summarized in figure 3.4, which shows the response of capital inflows to a change of one standard deviation in each of the explanatory variables. The response to market uncertainty/risk aversion appears to be relatively small over the full sample. However, because of its very large changes during the crisis and post-crisis periods, its variation between the first half of 2009 and the first half of 2013 is estimated to have had the largest impact on capital inflows during this period (figure 3.5).[4]

Both domestic and global factors appear to be important determinants of capital inflows to developing countries, with global factors (U.S. interest rates, risk and the additional unmodeled influence of quantitative easing) together accounting for about 60 percent of the increase in capital inflows between 2009 and 2013, with the remaining 40 percent explained by domestic factors such as countries' institutional investor rating, and developing-country growth and growth differentials.

About 13 percent of the total variation in capital flows during this period is picked up by the quantitative easing dummy, suggesting that capital flows were larger in the post-crisis period than would have been expected given the levels of other variables. These effects appear concentrated on earlier rounds of quantitative easing. When the quantitative easing indicator is split into separate episodes corresponding to QE1, 2, and 3, the impact on inflows diminishes between successive episodes. Indeed, when broken out, the QE3 variable is statistically insignificant—implying that by then all of the impact of quantitative easing

3. Most of the research that has been conducted on the impact of capital flows has looked at its impact on economic activity in the United States, and there is very little consensus on those impacts. IMF (2013) provides a useful review of this literature, which suggests that impacts on GDP could range between 0.13 percent growth to 8 percentage points and long-term interest rate effects that range from 75 to 200 basis points in the USA, and less than 50 to 160 basis points in the United Kingdom.

4. Estimates of the relative contribution of different factors in Figure 3.5 were calculated by multiplying the observed changes in short-term policy rates, yield curve, the QE episode dummy, and the risk index between the first half of 2009 and the first half of 2013 by the coefficient estimates obtained from the benchmark model.

Box 3.3 Modeling the inter-temporal adjustment of capital inflows

Dynamic interactions between global "push" factors, capital inflows and GDP growth in developing countries are captured using a six-dimensional vector autoregression model (VAR), estimated over the period 2000Q1 to 2013Q2 (see annex 2 for a detailed description). The VAR jointly models aggregate private capital inflows to developing countries as a share of their combined GDP; real GDP growth in both developing and G-4 countries (the United States, Euro Area, Japan and the United Kingdom); G-4 short-term interest rates; the G-4 yield curve (ten-year government bond yields minus 3-month interest rates), and the VIX index of implied stock market volatility, a popular measure of the pricing of financial market risks.

The impulse response of aggregate capital inflows in developing countries to a one standard deviation shock in the other five variables is presented in figure B3.3.1. At first sight, changes in growth patterns between developing and G4 countries seem to be dominant drivers, with the effect of shocks persisting for about a year and a half. Rising risk aversion (increase in the VIX) and a steepening of the G-4 yield curve are both associated with lower capital inflows (as a share of GDP), with peak effects after about four quarters. The direct impact of changes in short-term interest rates in the G-4 region is small.

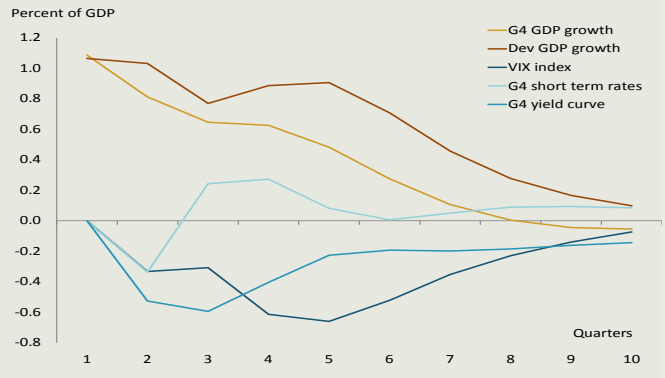
Further investigation shows more complex interactions between global factors and highlights the central role of market uncertainty and changes in risk assessments in the transmission of monetary shocks. In particular, an increase in the VIX index leads within four quarters to lower short-term interest rates, a steepening of the yield curve, and weaker growth in the G4 and developing countries. In other words, the impact of market distress on global growth and the slope of the yield curve serve to amplify the initial effect of increased uncertainty on capital inflows.

For the sample period, the model suggests that changes in risk aversion explain around 10 percent of the variance of GDP growth in both G-4 and developing regions, 20 percent of changes in the yield curve and 25 percent of changes in short term rates (figure B3.3.2).

In addition, the VIX index is itself the variable in the model most sensitive to changes in monetary conditions, with lower interest rates reflected within two to three quarters in lower risk aversion. About 8 percent of the variance of VIX is explained in the model by such change in monetary conditions.

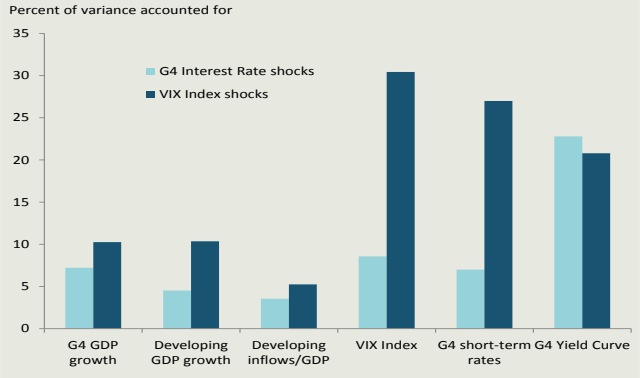
These results are consistent with recent studies, which tend to assign a similar or even bigger role of interest shocks in determining the price of risk, and in explaining the international transmission of monetary policy through financial flows and asset prices (Bruno and Shin 2013; Bekaert, Hoerova and Lo Luca 2012; Rey 2013).

Figure B3.3.1 Response of developing-country capital inflows (% of GDP) to one S.D. shock in:



Source: World Bank.

Figure B3.3.2 Variance of dependent variables explained by G-4 interest rates and VIX



Source: World Bank.

on capital flows has been accounted for through its effect (if any) on the traditional drivers of capital flows.

Implications for capital flows as global conditions normalize

The preceding analysis confirms previous research suggesting that global economic conditions play a major role in determining capital flows to developing countries.

As conditions in high-income countries improve (that is, as output gaps are closed and growth realigns with underlying potential output), monetary policy can be expected to normalize, and the extraordinary monetary policy measures that have been undertaken will be withdrawn. In this context, capital flows to developing countries should adjust to a new equilibrium. Simulations based on the panel regression results are shown in table 3.1.

These simulations are conditioned on the following underlying assumptions:

- Developing and high-income country GDP growth gradually strengthens in line with the projections presented in chapter 1.
- QE tapering by the U.S. Federal Reserve spans from January to December 2014, and has a very gradual effect on market conditions. It adds 50 basis points (bp) to U.S. long-term interest rates by the end of 2015 and a cumulative 100bp by the end of 2016. Policy rates in the United States start to increase in 2015Q3, from 0.25 to 2 percent by the end 2016.
- The European Central Bank (ECB), Bank of Japan and Bank of England, start to unwind their own quantitative/qualitative policies in the course of 2015-16, adding 50bp to their long term yields by the end of the forecast horizon, and tighten policy rates later than the U.S. Fed does.

The VAR model described in box 3.3, which maps out the inter-temporal relationships between GDP growth in high-income and developing regions, global interest rates, and uncertainty/risk taking, suggests that the VIX index will gradually rise back toward its long-term average of close to 20 by 2016, some 25 percent above current low levels.

Feeding these global "push factors" into the earlier panel regression results points to a baseline decline of capital inflows (relative to a "no change" scenario) of about 10 percent by 2016, or 0.6 percent of developing-country GDP by 2016 (see table 3.1).

These results confirm that a gradual normalization of global conditions would be accompanied by a modest retrenchment of capital inflows as a percentage of developing-country GDP, although remaining broadly in line with average levels between 1990 and 2003.

Looking a bit deeper

The above results refer to the sum of all capital inflows (portfolio flows, international bank lending, and foreign direct investment). When inflows are decomposed into their constituent components, portfolio flows are both the most volatile and the most sensitive to the external drivers associated with global financial conditions.

Estimates of the capital flow model performed on each individual component suggest that equilibrium portfolio flows are sensitive to changes in short-term interest rates, the yield curve, and global risk aversion, as well as to the QE indicator. Equilibrium foreign direct investment, in contrast, tends to be relatively insensitive to the effects of global push factors, although such flows are much more responsive to country-specific credit ratings, a result consistent with the literature (Alfaro, Kalemli-Ozcan and Volosovych 2008; Dailami, Kurlat, and Lim 2012).

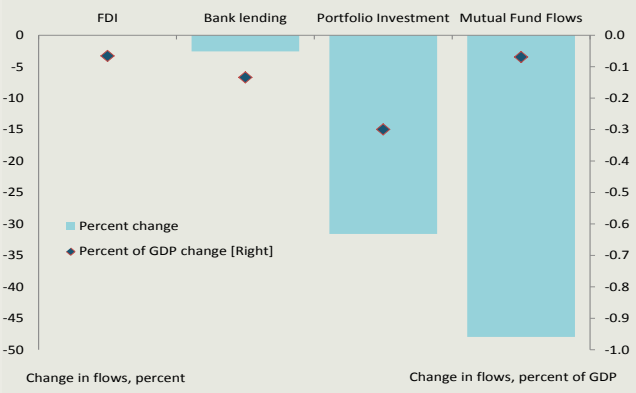
Cross-border bank lending falls into an intermediate category. In particular, the coefficient on the QE dummies was the largest for bank lending—suggesting that more so than for the other flows QE operated through channels other than those modeled to boost bank lending. At the same time, bank lending was also much less sensitive to the observable fundamental factors. This suggests that the response of overall inflows to global risk conditions and QE-specific effects are driven to a

Table 3.1 **Baseline results: a modest decline in capital inflows as global conditions normalize**

	History		Baseline		
	2012	2013	2014	2015	2016
Developing GDP growth	5.0	5.4	5.5	5.8	5.9
G4 GDP growth	1.4	1.1	2.2	2.4	2.4
G4 Yield curve	1.7	2.1	2.5	2.6	2.3
G4 10 Y Bond Yields	2.2	2.4	2.9	3.2	3.6
G4 3 m interest rates	0.4	0.2	0.3	0.6	1.2
VIX Index	18	15	16.9	18.2	18.9
Deviation of capital inflows from a "no change" scenario					
% of flows			-3.7	-7.4	-10.0
% of developing country GDP			-0.2	-0.4	-0.6

Source: World Bank.
Notes: Tan background implies an exogenously given variable.
Blue background shows VIX simulations derived from the VAR model.
Gold background denotes results from the panel regression.

Figure 3.6 **Estimated decline in capital inflows relative to no policy change baseline by type**



Source: World Bank.

Figure 3.7 **Estimated decline in regional capital inflows relative to no policy change baseline**

Source: World Bank.

large extent by the behavior of portfolio investments (figure 3.6). When flows into developing-country bond and equity mutual funds (a subset of portfolio flows) are considered, the sensitivity of these flows to changes in both the short-term interest rate and yield curve is much higher than for overall portfolio flows, and for other types of capital flows.

To the extent that this historical pattern persists over future tapering scenarios, portfolio flows are estimated to decline in the first year by 33 percent, while bank lending falls to a much smaller extent, and FDI hardly move at all (under the gradual tightening scenario). Partly as a result, the impact on regional capital flows may turn out to be very different.

For regions such as East Asia and the Pacific (excluding China) and Europe and Central Asia—where portfolio flows represent 53 and 45 percent of total flows respectively—enduring declines in inflows may be significantly larger than the declines in regions like Latin America, the Middle-East and North Africa, or South Asia where portfolio flows are a much smaller proportion of total flows (figure 3.7).

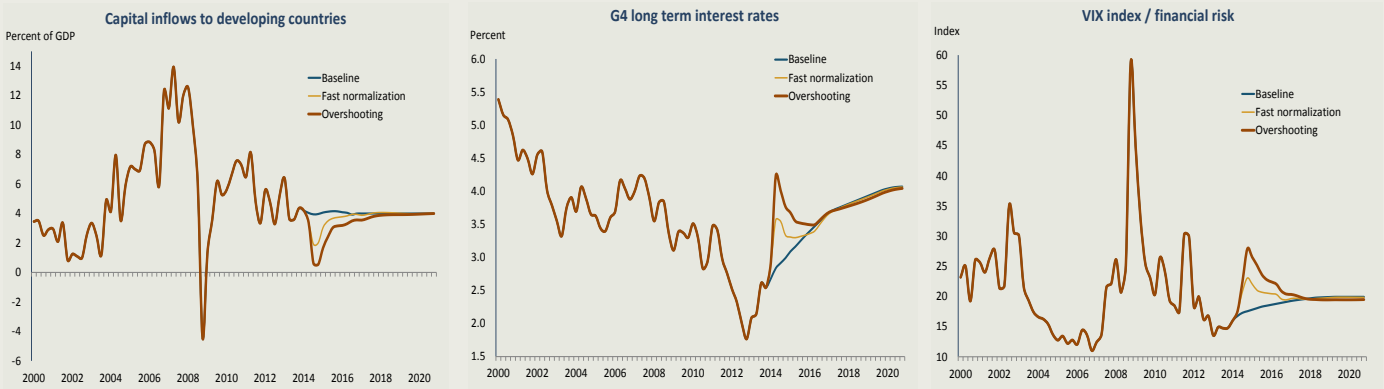
Sub-Saharan Africa sustains the third largest impact among the six regions, as capital flows are a particularly large share of Sub-Saharan Africa's GDP (See figure 3.2), even though portfolio flows are a relatively small share of overall flows (outside of South Africa, FDI is the dominant type of capital inflows—72 percent of the total).

Tracking the dynamic behavior of capital inflows and overshooting risks

The foregoing results assume that monetary authorities in high-income countries are able to engineer a gradual increase in long-term interest rates as quantitative easing is withdrawn in line with improved growth conditions. However, the experience of the summer of 2013—when the yield on 10-year U.S. Treasury bills jumped by some 100 basis points in a just a few months—suggests that a smooth market reaction to the actual tapering of quantitative easing is not assured. The next set of results considers the impacts on capital inflows of two alternative scenarios:

- "Fast normalization": long-term interest rates snap up by 100 basis points in the first half of 2014, before gradually converging back to baseline levels over the subsequent two years;

Figure 3.8 **Normalization scenarios, overshooting risks and capital inflow projections**



Source: World Bank.

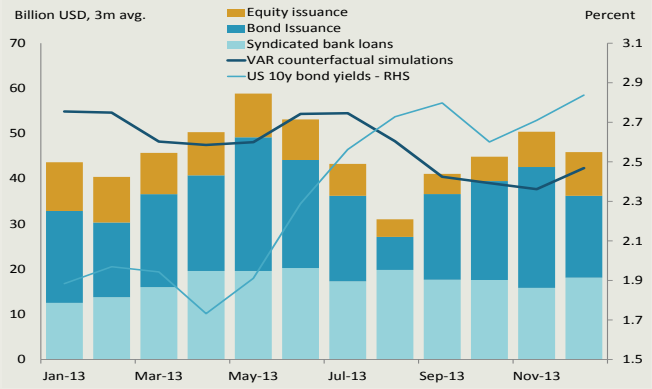
Box 3.4 A live experiment: tapering expectations and capital inflows during the summer of 2013

The simulations derived from the vector autoregression (VAR) model can be compared with actual developments following the Fed tapering announcement in May 2013. After the conditions for the unwinding of quantitative easing were outlined by the Fed chairman in a congressional testimony on May 22 2013, the U.S. long term interest rates suddenly shot up by 100bp and the VIX index initially rose from 15 to 20. Emerging market bond spreads increased significantly, and issuances of developing-country bond, equity, and syndicated bank loans dropped by around 50 percent during the summer (Figure B 3.4.1).

Although bond, equity issuances and syndicated bank flows are conceptually different from the private capital inflow data reported in the balance of payment statistics and used in our modeling strategy, the observed deceleration of flows during the summer of 2013 appear largely consistent with the elasticities estimated in the VAR model. Counterfactual simulations show that the decline predicted by the VAR model would have been of similar magnitude albeit more gradual than actually observed (figure B3.4.1). As presented in the "fast adjustment" scenario , a 100bp shock to the yield curve generally translates within two quarters into a drop in inflows of around 50 percent, with the VIX index predicted to increase by six points.

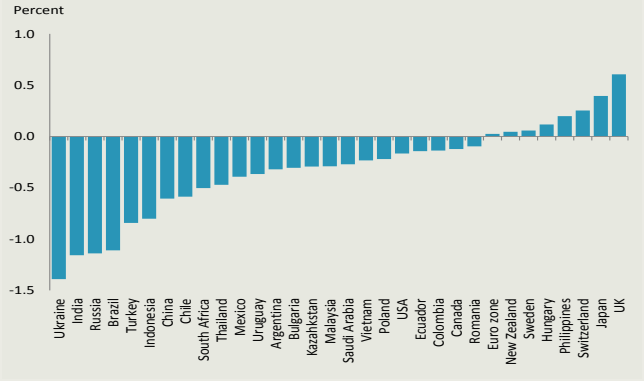
The observed impact of financial market tensions during the summer was also reflected in a deteriorated outlook for many developing economies, particular among those considered most vulnerable (figure B3.4.2).

Figure B3.4.1 Gross capital inflows to developing countries in the course of 2013



Source: World Bank.

Figure B3.4.2 2014 real GDP growth consensus forecast revisions from May to Sept 2013



Source: Consensus Economics, World Bank.

- "Overshooting": market reactions are assumed to be more abrupt, resulting in a sharp (200 bp) increase in long-term interest rates in first half of 2014, followed by a more protracted adjustment back to the baseline;

The vector autoregression (VAR) model described in Box 3.3 was used to explore inter-temporal adjustments between capital inflows, growth and global financing conditions, in order to assess the risk of a disorderly transition and sudden stops in financial inflows.

Figure 3.8 illustrates the adjustment path for three of the co-determined variables (capital inflows to developing economies; long-term interest rates and the VIX index of stock market volatility) under different scenarios.

In the baseline, the capital flow projections resulting from the VAR simulations are very similar to those drawn from the panel regression, with the share of capital inflows to GDP in developing countries declining by 0.5 percent over the projection horizon. In the two more extreme scenarios, deviations from the baseline are pronounced.

In the "fast normalization" scenario, the resulting increase in market volatility and rising risk aversion leads to a sharper but partially temporary correction in flows. In this context, private capital inflows drop by an average 30 percent in 2014, with a peak impact of 50 percent toward the end of the year.

As discussed in Box 3.4, the magnitude of these simulated effects is broadly consistent with the adjustments observed during May-September 2013, a period that lies mainly outside of the estimation period of the model.

In the "overshooting" scenario, where long-term interest rates spike initially by 200 bp, flows would then drop by 45 percent in 2014 as whole and up to 80 percent at the peak impact.

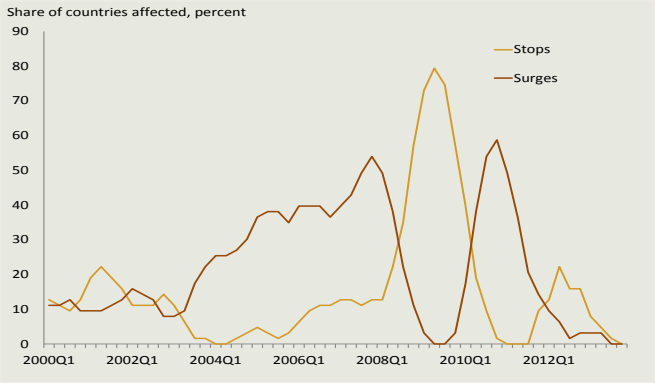
Box 3.5 **Surges, stops and aggregate capital inflows**

As discussed, in the main text, capital inflow surges tend to precede financial crises, and crises tend to occur at the same time as sudden stops. The surge in capital inflows in the pre-crisis period was typical (figure B3.5.1), as some 80 percent of developing countries in the sample suffered a sudden stop in its aftermath. The post-crisis rebound, which also classifies as a surge, was again followed by an increased incidence in stops, with 15 percent enduring such episode during 2012-13. The methodology used here to identify surge and stop episodes at the individual country level is based on Forbes and Warnock (2012), with the threshold being defined as changes in flows larger than one standard deviation around a five-year rolling mean.

The link between aggregate capital inflows to developing countries and the proportion of these countries going through either surge or stop episodes can be approximated empirically using a simple vector autoregression model approach. Over the period 2000Q1 to 2013Q2, the relationship can be summarized with the accumulated impulse response presented in figure B3.5.2.

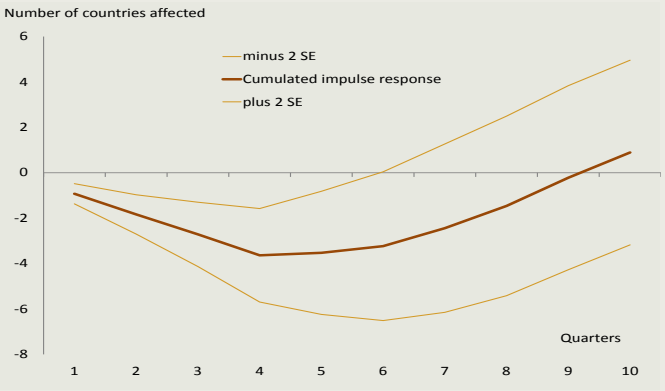
Overall, a decline of one standard deviation in the ratio of aggregate capital inflows to GDP (corresponding to a decline of about 2.7 percent of GDP), tends to increase the proportion of countries experiencing sudden stops to 22 percent after four quarters. In the "overshooting" scenario presented in the text, capital inflows are predicted to decline by 3.5 percent of GDP, implying that more than a quarter of developing countries could experience sudden stops in such scenario.

Figure B3.5.1 **Capital inflow episodes in developing countries**



Source: World Bank.

Figure B3.5.2 **Frequency of stop episodes: impulse response to changes in aggregate flows**



Source: World Bank.

Such a correction, albeit temporary, would have an important bearing on the probability of isolated or more diffused crises under different macroeconomic scenarios. This issue is addressed in the last section of this chapter.

Disequilibrium risks

The preceding analysis suggests that in the long run, the withdrawal of quantitative easing and a return to a tighter monetary policy in high-income countries will have a relatively small impact on capital inflows, reducing them from 4.6 percent of developing-country GDP in 2013Q3 to 4.0 by the end of 2016. However, the path to this new normal level of flows will matter.

If market reactions to tapering decisions are precipitous, developing countries could see flows decline by as much as 80 percent for several months. That would raise the likelihood of abrupt stops at the country level, with more than 25 percent of individual economies experiencing such an episode in these circumstances (box 3.5).

While this adjustment period might be short-lived, it is likely to inflict serious stresses on the financial and economic conditions in certain countries–potentially heightening crisis risks.

A brief history of crises in developing countries

According to data compiled by the International Monetary Fund (Laeven and Valencia 2012), there were some 147 financial crises globally between 1970 and 2011 (figure 3.9). Of these, 123 occurred in what are now classified as developing countries, and 95 developing countries had at least one crisis.

These crises have tended to occur in clusters, with currency crises and banking crises much more common occurrences than sovereign debt crises. The clustering suggests that crises are either being caused by common factors or that there are important contagion effects.

Crises in developing countries generally follow a period of surging capital inflows, and occur on the same year as a sudden retrenchment (figure 3.10). This is particularly clear for banking crises, as thirty-four percent of them occurred within two years after a period of strong capital inflows to the country, versus only 20 percent for currency crises and 17 percent for sovereign debt crises. Banking crises also tend to be more strongly correlated with sudden stops in capital inflows on the year of the crisis, although the direction of causality is unclear. Moreover, the evidence suggests that having had a banking crisis in the preceding two years increases the likelihood of a sovereign debt or currency crises, whiles these other kinds of crises do not increase the likelihood of later banking crises to the same extent.[5]

A more formal look at banking crises

An econometric analysis of the factors associated with an increased probability of crises in developing countries tends to confirm the links between the incidence of these crises, global factors, and individual country characteristics and vulnerabilities (box 3.6).

The empirical literature on banking crises is quite large.[6] While early work typically focused on domestic causes of banking crises, especially in a developing-country context, more recent work has focused on the effects of outside forces, such as global monetary and financial developments and contagion, on the likelihood of a crisis in a given country.[7]

Relative importance of global, contagion, and domestic factors

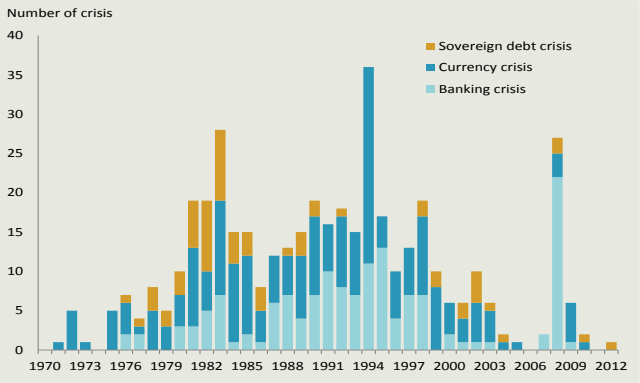
The regression results generally confirm the influence of both global and domestic factors in determining the onset of banking crisis (annex 3 table A3.3). The modeling strongly suggests that the risk of a banking crisis rises with an increase in global risk aversion, rising global interest rates and tightening of global liquidity—especially after a period of loose global monetary conditions.

5. In the two years following a banking crisis, a country has a 28 percent chance of having a currency or sovereign debt crisis. In contrast, the likelihood of a banking or sovereign debt crisis following a currency crisis is broadly the same (c. 20 percent) as is the likelihood of one occurring before the crisis or after the currency crisis. Taken together, this data suggests that banking crises tend to cause currency and sovereign debt crises in a way that those kinds of crises do not cause bank crises – an intuition that formal tests of granger causality confirm.

6. Eichengreen and Rose (1998) and Eichengreen and Arteta (2000) provide extensive review of the cross-country empirical literature on banking crises with a focus on developing countries. See also Reinhart and Rogoff (2009) for more recent discussion of the developments in the literature.

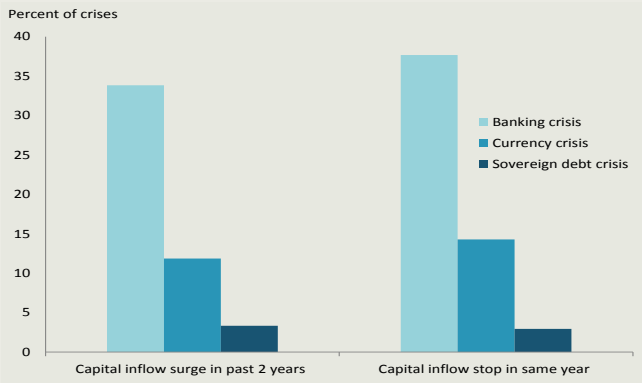
7. Earlier literature that emphasized the importance of global factors in explaining financial crises are, among others, Frankel and Rose 1996, Eichengreen, Rose, and Wyplosz 1996, Eichengreen and Rose 1998, Frankel and Roubini 2001, and Reinhart and Rogoff 2009. Forbes and Warnock (2010) examines the importance of global, contagion, as well as domestic factors in explaining extreme episodes of capital flows, although it tends to focus on high income and emerging economies. For a recent treatment of global and contagion factors in the literature of financial stress transmission, see for example IMF (2013b).

Figure 3.9 **Frequency of sovereign, currency and banking crisis**



Source: Laeven and Valencia (2012), World Bank.

Figure 3.10 **Capital inflow surges, stops and frequency of financial crises in developing countries**



Source: Laeven and Valencia (2012), World Bank.

Box 3.6 The banking-crisis regression model

The probability that a country will suffer a banking crisis is modeled as a function of global factors, contagion factors, and domestic factors. To assess the role of all three sets of factors on the likelihood of a crisis in a given developing country, a pooled probit model is estimated (see annex 3 for a detailed description).

The modeling work focuses on banking crises in developing countries using crisis data developed by Laeven and Valencia (2012) because the determinants of banking causes in developing countries may be distinct from those of high-income countries (Eichengreen, Rose, and Wyplosz 1996, Eichengreen and Rose 1998, Eichengreen and Arteta 2000). To avoid sample selection problems, explanatory data for the 67 developing countries that did not have a banking crisis are added to the 95 developing countries in the Laeven and Valencia data set, all of which had a banking crisis during the sample period. Observations for the three years following a crisis are dropped from the panel, so that the explanatory power of domestic factors that may have triggered a crisis are not diminished by inclusion of their post-crisis period when the binary crisis variable would be zero. All explanatory variables except global factors are entered with a one period lag in order to minimize endogeneity problems.

Global factors

Seven measures of global effects were tested for the model: global risk appetite, global interest rates, global growth, global liquidity, global bank leverage, and global commodity prices. Global risk appetite was measured by the Chicago Board of Trade Volatility Index (VXO), a measure commonly used to capture risk appetite in the global financial markets. Global growth is measured by the first principal component of real GDP growth in the Euro Area, Japan, United Kingdom, and the United States. Global liquidity is proxied by M2 as a share of GDP in the United States. Global interest rates are measured by the first principal components of rates on long-term government bonds in Germany, Japan, United Kingdom, and the United States. Global commodity prices are measured by the agricultural commodity index and energy commodity index.

Contagion factors

Following Forbes and Warnock (2012) and IMF (2013a), but giving precedence to variables that allowed for a wider country coverage, four variables were included to capture contagion effects: trade openness, trade linkage, financial linkage, and regional contagion. Trade openness is measured by a country's trade with the rest of the world scaled by its GDP. Trade linkage is defined as the bilateral trade volume between two countries (scaled by each country's total trade with the rest of the world) and multiplied by an indicator variable defined as equal to 1 if the trading partner is experiencing a banking crisis, and to 0 otherwise. Financial linkage is defined as the total bank claims between a country and BIS reporting banks scaled by GDP to capture the country's degree of integration with the global financial markets and hence exposure to financial contagion. Regional contagion is defined as the number of countries in the same region experiencing a banking crisis.

Domestic factors

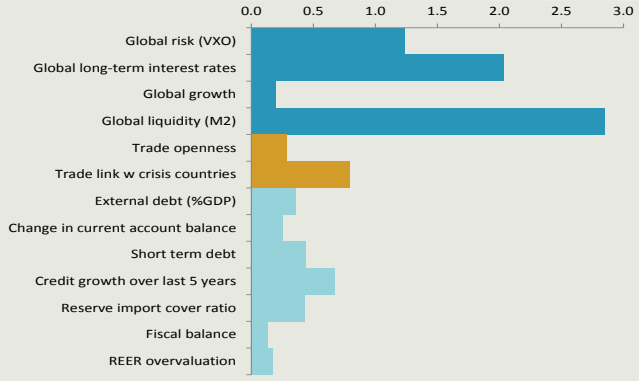
Ten separate variables were considered to capture country-specific factors: current account and fiscal balance, total external debt and a share of short term debt, domestic credit growth, inflation, per capita GDP growth, ratio of M2 to reserves, ratio of reserves to imports, and a measure of real exchange rate overvaluation. The definition of each variable is shown in Table A3.2 in the annex.

Among the contagion variables examined, only the trade linkages variable (the share of trade with other countries in crisis) was consistently statistically significant.

As expected, domestic factors play a critical role in determining whether an individual country enters into crisis. High levels of foreign and short-term debt, an earlier period of rapid domestic credit growth (measured as the change in domestic credit to GDP ratios over the previous five years), low levels of international reserves, and an overvaluation of the real exchange rate all increase the of risk of banking crises.

Figure 3.11 reports the estimated sensitivity of banking crises to the different variables identified in the econometric work. It shows the absolute value of the relative importance of each identified factor in

Figure 3.11 Estimated contribution to changes in banking-crisis risk



Source: World Bank.

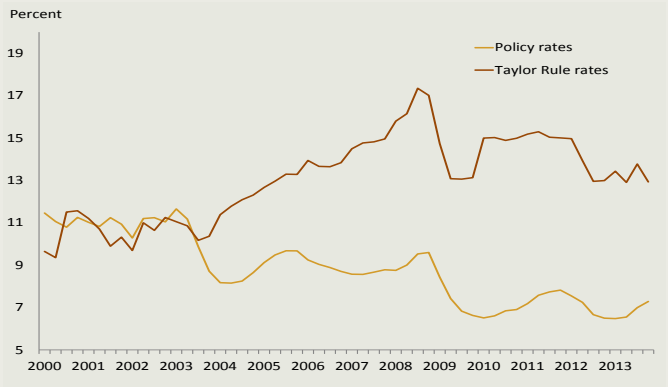
Box 3.7 Monetary policy, domestic credit growth and country-specific vulnerabilities

The "imported" easing of monetary conditions through large capital inflows in recent years has contributed to rapid credit expansion, widening current account deficits, and increasing banking sector vulnerabilities in some cases.

The surge of capital flows in the post-crisis period has contributed to lenient domestic credit conditions, directly through cross-border intermediation channels and indirectly through exchange rate and monetary policy spillovers. Regarding the latter, a simple Taylor Rule predicting the monetary policy stance of central banks in developing countries on the basis of domestic conditions (deviation of consumer price inflation from the policy target and the level of slack in the economy) suggests that policy rates were kept lower than normally suggested during periods of large capital inflows (figure B3.7.1 and He & McCauley (2013)).

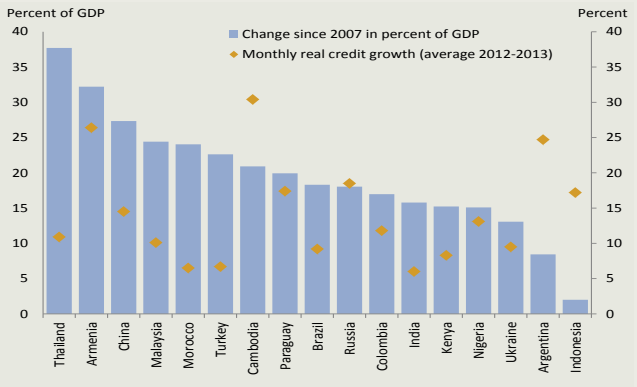
In this context, domestic credit has grown very rapidly in several developing countries in recent years, increasing the vulnerability of some economies to a rapid tightening of financing conditions. Outstanding credit exceeds 100 percent of GDP in 15 developing economies, and rose as a share of GDP by 15 or more percentage points in about 40 developing economies between 2007 and 2012. The sharpest upsurges were recorded in Thailand, Armenia, China, Malaysia, Morocco and Turkey (figure B3.7.2). Robust real credit growth continued during 2012 and 2013 in Cambodia, Argentina, Armenia, Indonesia, and Paraguay. Monetary, fiscal, and regulatory tightening in several countries, including China, Brazil, India, and Indonesia, has helped contain a further buildup of credit risks, but banks' exposure to rising interest rates has become an increasing source of concern since the start of QE tapering expectations.

Figure B3.7.1 Policy interest rates and "Taylor rule" rates in emerging and developing countries



Source: World Bank.

Figure B3.7.2 Domestic credit growth in selected developing countries



Source: World Bank, IFS.
Note: Real credit growth computed using official consumer price inflation data.

contributing to an increase or decrease in the likelihood of a crisis.[8]

Empirically, between 1970 and 2011 the global variables have played the largest role, explaining about 58 percent of the changes in the risk of banking crisis at the country level. Domestic factors—particularly credit growth over the previous five years, short-term debt, and the level of international reserves—are also important contributors to risk. Changes in domestic variables explain 29 percent of all the variation in risk over the sample period.

That said, it should be recognized that domestic variables are not entirely independent of external variables. In particular, as discussed in box 3.7, loose financial market conditions at the global level can feed through to rapid credit growth, exchange rate changes, and fluctuations in reserves at the domestic level.

The main difference between countries is that, while developing economies do not have the policy levers with which to affect global financial conditions, they can influence the extent and manner in which these bleed through into the domestic economy (see following discussion on policy).

Model prediction

Probability models like the one used here to estimate the sensitivity of banking crises to external, domestic, and contagion factors tend to have low predictive

8. More specifically, the figure shows the estimated impact of one standard-deviation shock to each variable on the predicted risk of banking crisis. Using the absolute value of coefficient facilitates comparison of relative importance of variables in influencing the predicted risk. See Chuhan, Classens, and Mamingi (1998) and IMF (2013a) for applications of similar approaches.

power because the events they model are low-probability events.

One measure of the adequacy of predictive power of the model is the proportion of threshold events it correctly predicts (and the proportion of non-events that it correctly predicts). By these measures, the model outlined in column 5 of annex table A3.3 does a reasonable job in predicting banking crises in developing countries—a conclusion supported by the AUROC statistic of more than 80 percent in the preferred model specification (see annex 3 for a discussion of alternative measures of predictive accuracy of the model).

Another measure is to compare the prediction of the model with actual events (within-sample prediction). Figure 3.12 plots the estimated probability of a crisis for six of the eight countries that had banking crises in 2008–09 compared with the average predicted risk for all countries during the same period.[9] In all cases, the model suggests an above-average risk of crisis for those countries that did have a crisis. Moreover, for all countries, the predicted risk of crisis increased rapidly before and including the year of crisis. However, in the cases of Mongolia and Nigeria, the predicted likelihood of banking crisis was only marginally higher than the average for all countries.

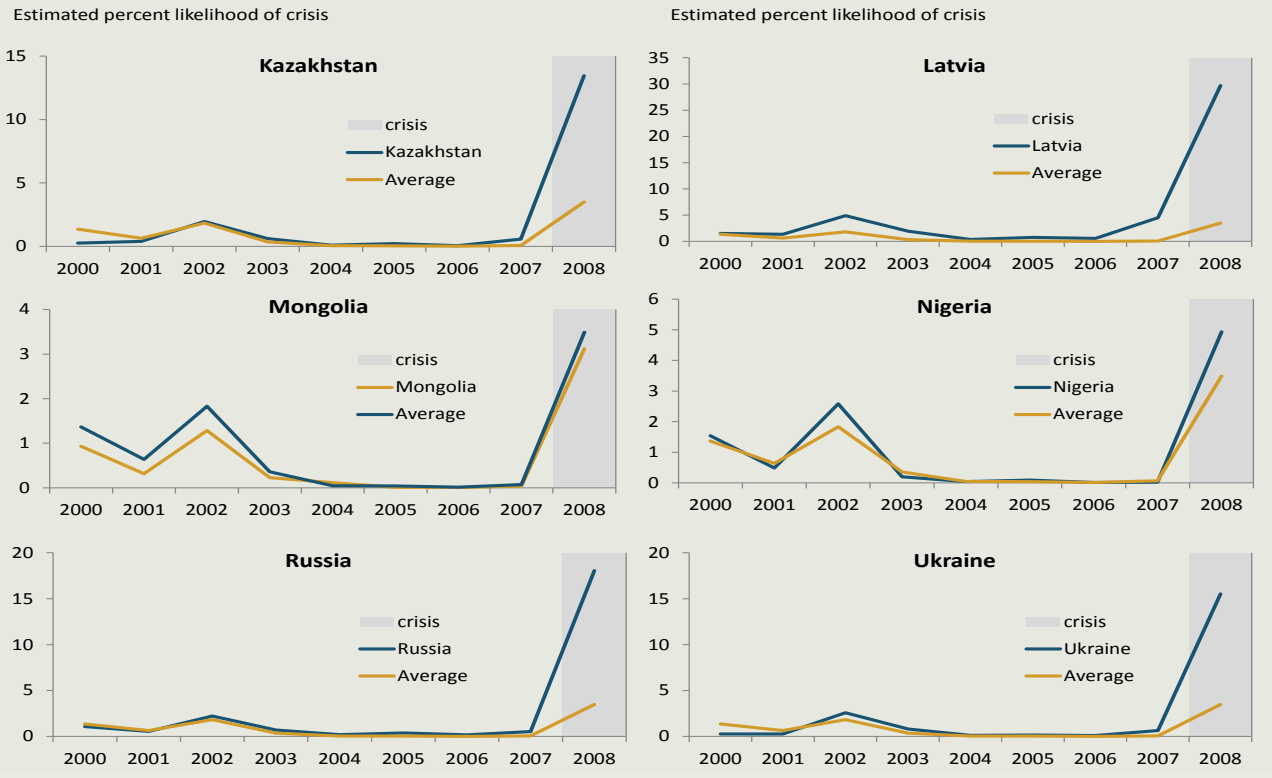
Assessing current risks

Given current conditions, empirical analysis of banking crisis risks suggests that several countries might be subject to heightened vulnerabilities.

Figure 3.13 presents key domestic risk factors in these countries. The shaded area in the center indicates average values of risk indicators in each region. The thick line represents the average values of risk indicators for countries

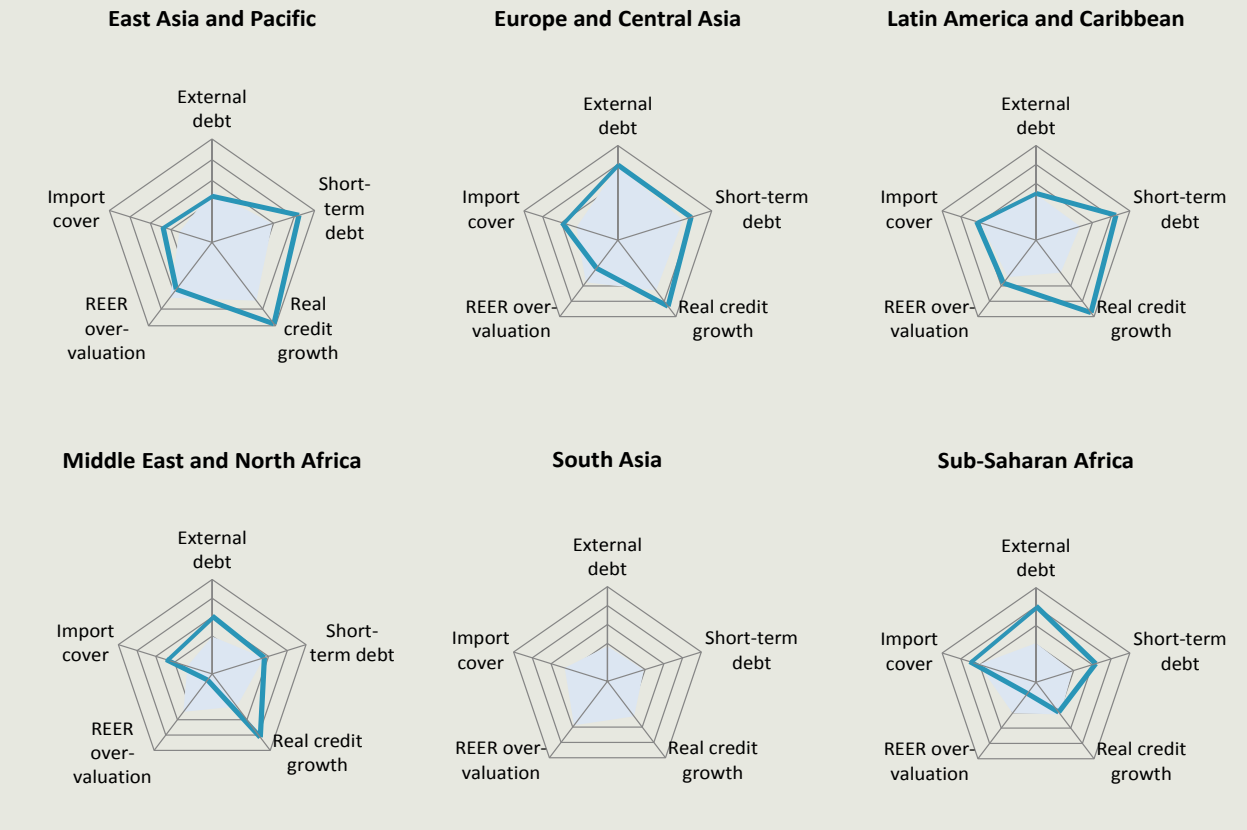
9. In the Laeven and Valencia (2012) data, eight developing countries had banking crisis in 2008–09 (compared with 15 in high-income countries): Hungary, Kazakhstan, Latvia, Mongolia, Nigeria, Russian Federation, Slovenia, and Ukraine. Hungary and Slovenia were not included in the prediction sample because of missing data in external debt (Slovenia) and short-term debt (Hungary and Slovenia).

Figure 3.12 Model predictions for 2008/9 banking crisis



Source: World Bank.
Note: The figures show the predicted risks for the countries that experienced systemic banking crisis (blue) vis-à-vis the average predicted risk for the non-crisis sample (yellow) based on the econometric model reported in column 5 of annex table A3.3.

Figure 3.13 Domestic sources of risk by region



Source: World Bank.
Note: Radar charts summarize areas of elevated risk in each region. Each segment corresponds to significant domestic risk factors from the regression analysis (see annex 3 table A3.3). The center is the least risky area, and the further away from the center, the greater the risk. The thick line in each region represents the average value of each indicator among the countries whose predicted crisis risk is particularly elevated (one standard deviation above the average predicted risk of the entire sample). The grey area represents the average values of each indicator for the region as a whole. There are no countries whose predicted risk is more than one standard deviation above the average predicted risk in South Asia. Indicator values are standardized using percentile ranks.

whose predicted crisis risk is particularly elevated (one standard deviation above the average predicted risk of the entire sample).

Although conditions on the ground will vary and these kinds of gross indicators need to be interpreted with a great deal of caution, the results are instructive and point to areas of vulnerability that individual countries may need to address if they are to reduce risks of a crisis as external conditions tighten.

- In the East Asia and Pacific region, rapid credit expansions over the past five years and a rising ratio of short-term debt in total debt are common areas of concern.

- A high external debt to GDP ratio, which exposes countries to exchange rate and rollover risk, is an issue in several Central and Eastern European economies, with a heightened share of short-term debt in that total being a further concern in several others. A high short-term debt ratio makes a given level of debt much more sensitive to the short-term swings in investor sentiment or capital flows that might occur in the fast tightening and overshooting scenarios discussed earlier. Rapid credit growth is a further issue of common concern in the region, with credit to GDP ratios have risen sharply over the past five years in several economies—increasing the sensitivity of loan quality (and bank solvency) to the kind of sharp rise in interest rates discussed above.

- In Latin America and the Caribbean, fewer countries appear to be at immediate risk, with rapid credit growth combining with significant short-term debt ratios as the main sources of risk.

- In the Middle East and North Africa, political turmoil has cut deeply into economic growth in recent years (see chapters 1 and 2). Banking-sector risks stem mainly from its exposure to domestic credit quality and government financing needs, against the background of a deterioration in current account positions.

- Based on existing data, risks in South Asia appear low, but there are concerns that non-performing loans in India have increased. India has also seen a significant deterioration in its current account balance in recent years.

- Only few of the reported countries in Sub-Saharan Africa appear to have elevated risk, with deteriorating reserve positions a common thread, along with high exposure to short-term external debt in a few cases.

Policy response to weaker capital inflows

The preceding analysis suggests that in a benign scenario combining a gradual recovery in advanced economies and an orderly normalization of global financial conditions consistent with the baseline forecast of chapter 1, the risk of a sharp decline in global capital flows is modest.

However, events around the summer of 2013 illustrate the difficulties in managing market expectations as major central banks plan their exit from unprecedented market interventions. As discussed, an abrupt adjustment in global interest rates and increased financial market volatility could have significant impacts for capital flows, growth prospects, and financial stability in developing countries, with effects likely being concentrated among those more financially integrated and with the largest vulnerabilities.

If a disorderly adjustment occurs, authorities have a range of polices at their disposal to deal with financial market pressures, bearing in mind that the appropriate mix will vary depending on the individual country situation and policy regime. Steps that were taken developing countries during the recent May-September period included:

- Use of international reserves to support domestic currencies and smooth the adjustment process

- Implementation or exploitation of temporary swap arrangements with other central banks to increase access to liquidity and foreign currencies

- Use of monetary policy to raise benchmark interest rates and increase the attractiveness of assets denominated in national currencies

- Imposition of prudential measures such as limiting the foreign exchange positions that investors can take

- Implementing temporary capital controls on outward financial flows, while removing impediments to capital inflows for foreign direct investments and institutional investors

- Use of trade measures designed to conserve foreign currency, such as temporary import restrictions in the form of quantitative limits for commodity importers, tariffs, taxes and export support measures;

- Budgetary consolidation policies, cutting subsidies, and raising taxation

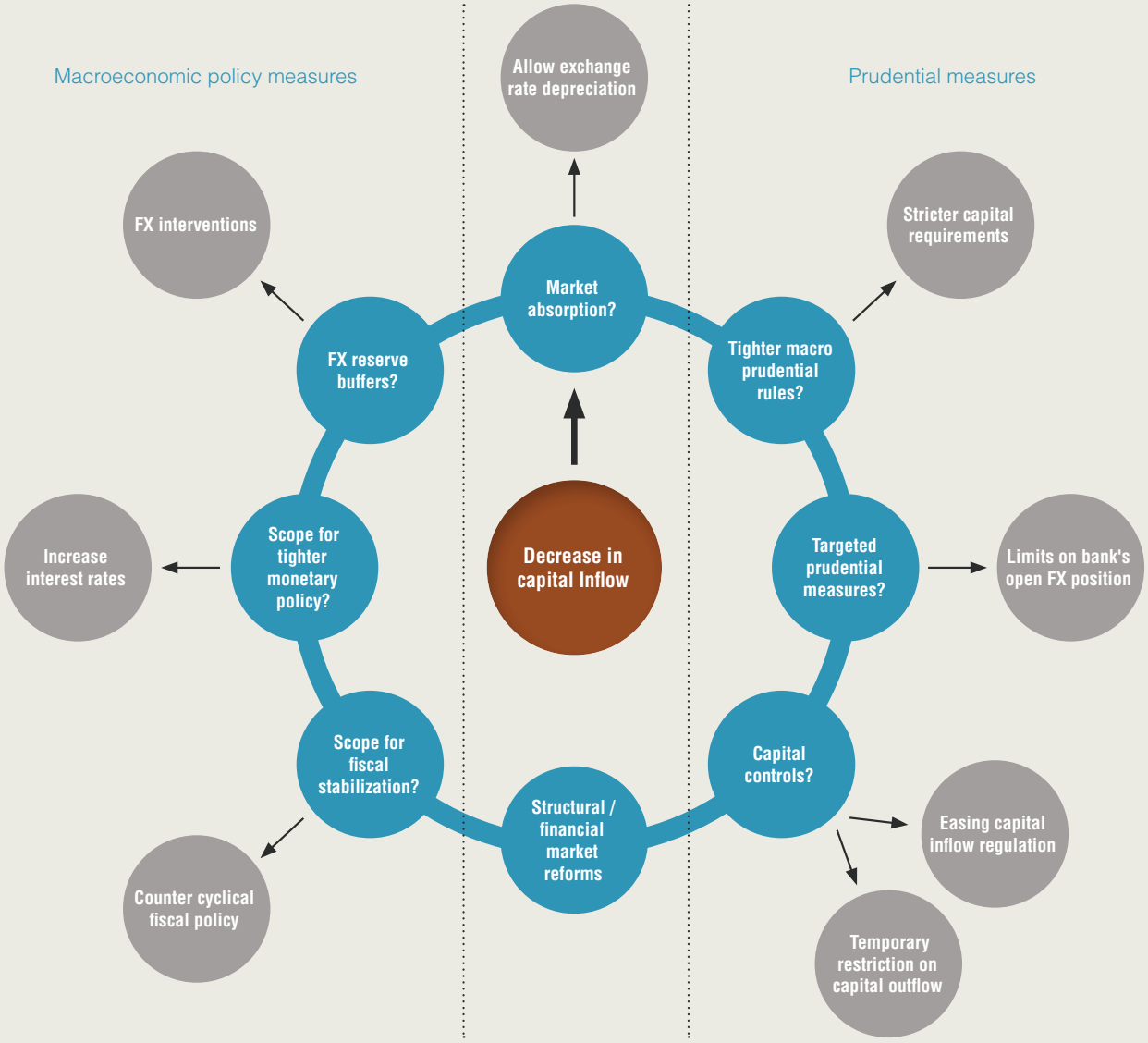
- Reforms aimed at bolstering the investment climate, in particular for foreign investors

Some of these measures worked by helping to restore market confidence and smooth adjustments. Others such as trade restrictions, may have helped reduce pressures in the short-run but could have important distortionary effects and fail to address underlying sources of vulnerability.

Figure 3.14 attempts to summarize the range of policy options available to countries for dealing with a sudden deceleration in capital inflows. Which policy response is right for which country will depend on country-specific factors, including the exchange rate regime, the degree of capital openness, the structure of external and banking sector liabilities, and the existing state of fiscal and other macroeconomic imbalances.

In general, countries with fully floating exchange rates should be able to rely more on market absorption mechanisms (like exchange rate depreciation) and counter-cyclical macroeconomic stabilization policies when sufficient buffers are available. Countries with less flexible exchange-rate regimes, large external liabilities and foreign denominated credit may have to focus more on prudential policies and financial inflow regulation. Although limited capital account openness may shelter an economy from capital flight, these economies could still be vulnerable through the exposure of financial sector balance sheets, requiring particular attention to specific contagion channels. Finally, the size of the country will matter, with small open economies having less room for autonomous macro and prudential policies.

Figure 3.14 **Policy options to cope with a sudden deceleration in capital inflows**



Source: World Bank.

From an operational perspective, the design of the most appropriate response will essentially be country specific, should involve all relevant stakeholders, and be transparent. No single solution will fit all.

The rest of this section explores in greater detail the issues associated with individual policy options.

Allowing currency depreciation

Relying on exchange rate depreciation to absorb adverse external shocks is appropriate if the depreciation does not itself exacerbate existing vulnerabilities (say, from currency mismatch in the loan books of firms, banks, or the sovereign) and is warranted by the fundamentals of the economy. Particularly in cases where currencies are already overvalued, currency depreciations could stimulate external competitiveness, reduce current account pressures, and eventually lead to stronger domestic activity.

Such orderly adjustment would operate only in the presence of a flexible exchange rate regime and a credible macroeconomic policy framework. The shift of many developing countries toward inflation-targeting central

bank objectives, fully floating currencies, and the "de-dollarization" of their economies has arguably moved a number of countries into this camp over the years.

Pursuing more active exchange rate and monetary policies

A sudden decline in capital inflows could, however, generate a disruptively rapid depreciation.

In such cases, temporary interventions in currency markets (leaning against the wind) by spending international reserves or invoking currency swaps or other arrangements to reduce liquidity risks and slow the pace of adjustment toward a new equilibrium may be warranted. Swap facilities have gained particular prominence recently, with a growing number of bilateral agreements between central banks to improve liquidity conditions and limit strains on foreign exchange markets in times of financial stress.

Exchange rate interventions tend to be effective only in the short-term, however, and a country's ability to deploy them will depend on the size of reserves that it has accumulated in the past.

Central banks may also be pressured into defending their currencies by tightening monetary policy and increasing the rate of return on domestic assets. Such a policy is likely to be most effective in countries facing domestic inflationary pressures and excessive credit growth, but it could be counterproductive in countries facing severe economic headwinds if the induced slower growth exacerbates the retrenchment of capital inflows.

Using capital controls as part of a crisis mitigation strategy

Maintaining an independent monetary policy and stable exchange rate in the face of fully liberalized capital accounts might become irresolvable, as large fluctuations in capital inflows will be met either by large exchange rate movements or undesirable cycles in domestic credit and money supply.

The "impossible trinity" of achieving monetary policy autonomy, stable exchange rates and full capital account openness is often cited as a reason for relying more on counter-cyclical prudential and fiscal policies, and where appropriate impose some form of controls on capital flows.

As repeatedly emphasized by the IMF and the World Bank, capital flow management instruments could be among the relevant short-term stabilization instruments to be used in a crisis situation. However, they should be used with caution, given their potential adverse effects on the level and cost of future financing and their mixed record in regulating large capital flow movements in the past (their effects seem to be most visible in changing the structure of foreign assets and liabilities rather than affecting overall fluctuations).

Although discussions on capital controls as part of crisis mitigation strategies often focus on managing capital outflows, counter-cyclical controls on inflows, where controls are loosened during sudden stop episodes and tightened during strong inflow cycles appear to be a more promising policy avenue.

Capital controls also seem most effective when they are implemented as part of a broad policy package that includes sound macroeconomic policies as well as robust financial regulation. They should be lifted once crisis conditions abate, and they may need to be adjusted continually to remain effective.

Implementing targeted prudential measures

Stricter prudential rules on lending and new regulatory initiatives to rein in excessive credit growth are still a priority in some countries to limit the further accumulation of credit risks and prevent a damaging credit crunch should global financing conditions suddenly tighten.

In those countries facing more immediate external financing pressures, the focus should be on containment strategies. Targeted prudential measures aimed in particular at reducing foreign exchange exposure in the financial sector and foreign currency lending could be effective in certain circumstances, but by definition they affect only those flows intermediated through the domestic financial sector and could have negative consequences for access to finance, in particular for small and medium companies.

Because bond and equity flows, in particular from foreign institutional investors, will arguably be most affected by rising global interest rates and the unwinding of quantitative easing policies, measures aimed at lifting barriers to such investments should be considered, along with targeted policies intended to open up new opportunities for foreign direct investments.

Restoring confidence through domestic reforms

Eventually, reforming domestic economies by improving the efficiency of labor markets, fiscal management, the

Figure 3.15 Main policy pillars to restore confidence

Source: World Bank.

breadth and depth of institutions, governance and infrastructure will be the most effective way to restore confidence and spur stability (figure 3.15). As emphasized by the dynamic recovery in most developing regions in the immediate aftermath of the global financial crisis in 2008-09, their resilience was significantly underpinned by a combination of a strong growth potential and an accumulation of substantial policy buffers.

Tighter liquidity standards, counter-cyclical fiscal and prudential rules are essential to build-up sufficient policy buffers and "lean against the wind" of disruptive cycles in capital flows. Such a stance requires a credible rule-based approach to macroeconomic and macro-prudential policies.

Developing countries should further enhance policies supporting private saving and domestic financial markets to intermediate it, hence reducing exposures to volatile external capital flows. These include long-term measures focusing on education, pension and health care reforms and the development of better regulated domestic bond and equity markets. In this process, authorities should closely monitor the composition of both domestic and foreign liabilities, adjusting regulation to the ever-changing nature of financial stability risks.

Reforms aimed at promoting growth and financial stability should not loose sight of the need to protect the most vulnerable and to develop social protection mechanisms to better cope with global shocks.

Reinforcing global coordination

Finally, the framework for global policy coordination should be further strengthened in the context of the Group of 20 (G-20), better recognizing large cross-border spillovers from high-income country policies and the mutual benefits of greater financial and economic stability in the developing world.

Over the past five years, G-20 members have made significant progress, but a certain reform fatigue is apparent. Important gaps in building a more resilient global financial system, improving international oversight, and limiting the propagation of systemic risks still need to be filled.

In addition, more tangible progress in the G-20 development agenda in areas such as economic growth, trade, financial inclusion, infrastructure, and climate change financing could make a significant contribution to promoting development and reducing poverty.

Erecting trade barriers to solve financial and economic headwinds would be counterproductive and should be resisted in both high-income and developing countries. The momentum created by the World Trade Organization agreement in December 2013 on trade facilitation, food security, development, and access of least developed countries, could lead to new opportunities for growth and development and should be followed up with further multilateral efforts to open up trade in goods and services and strengthen disciplines for investment.

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Annex I

Technical note: Panel data model of global and domestic factors influencing capital inflows to developing countries

Data Sources

The analysis of capital flows relies on an unbalanced panel of available data on quarterly capital flows for up to 60 developing countries for the 2000Q1–2013Q2 period, a span of eight years of non-crisis year capital flows, and five years of post-crisis flows (see country list in table A1.1). Aggregate financial inflows (GFI) are defined as the sum of changes in foreign holdings of three categories of assets (portfolio, FDI, and loans) in the developing economy, net of their own disinvestment in each of these three flows. Portfolio and FDI inflows were drawn primarily on balance of payments data from the International Monetary Fund's International Financial Statistics (IFS). These were supplemented by data from national sources drawn from Haver Analytics and Datastream (where gaps exist), and with bank lending data from the Bank of International Settlements' Locational Banking Statistics (LBS). The IFS data include a residual category, "other investments," that includes loans as a subcomponent. However, this category also includes other forms of cross-border finance (such as trade credit and cash) that are of a fundamentally different nature from bank loans, which make it harder to draw inferences when we disaggregate by flow type. We therefore use the more clearly-delineated LBS data instead.

We also draw on EPFR Global's Global Fund Flows and Allocations Data—which compiles secondary market

Table A1.1 Country list for panel data model of capital flows

Albania	Honduras	Nicaragua
Argentina	India	Nigeria
Armenia	Indonesia	Pakistan
Azerbaijan	Jordan	Panama
Bangladesh	Kazakhstan	Paraguay
Belarus	Kyrgyz Republic	Peru
Belize	Lao PDR	Philippines
Brazil	Latvia	Romania
Bulgaria	Lebanon	Russian Federation
Cape Verde	Lesotho	Seychelles
Chile	Lithuania	South Africa
China	Macedonia, FYR	Sri Lanka
Colombia	Malaysia	Suriname
Costa Rica	Mauritius	Thailand
Dominican Republic	Mexico	Turkey
Ecuador	Moldova	Uganda
Egypt, Arab Rep.	Mongolia	Ukraine
El Salvador	Morocco	Uruguay
Georgia	Mozambique	Venezuela, RB
Guatemala	Namibia	Vietnam

Note: The baseline sample is the largest available sample for the parsimonious and extended benchmark specifications.

Table A1.2 Variable list for panel data model of capital flows

Variable	Source
Private financial inflow	IMF International Financial Statistics, Datastream, Haver, Bank for International Settlements
Portfolio investment	IMF International Financial Statistics, Datastream, Haver
Foreign direct investment	IMF International Financial Statistics, Datastream, Haver
Bank lending	Bank for International Settlements' Locational Banking Statistics
Mutual fund flows (equity and bonds)	EPFR Global
US 3-month T-bill rate	US Federal Reserve; Datastream
US 10-year government bond yield	US Federal Reserve; Datastream
US money supply (M2)	US Federal Reserve; Federal Reserve Bank of St. Louis
VIX	Chicago Board Options Exchange, Datastream
GDP & GDP growth	Datastream, Haver, World Development Indicators
Global Purchasing Managers' Index (PMI)	JP Morgan; Markit
Central bank balance sheet expansion	US Federal Reserve; European Central Bank, Bank of Japan, Bank of England; Federal Reserve Bank of St. Louis.
Developing-country interest rates	IMF International Financial Statistics, Datastream
Country rating	Institutional Investor Ratings
Global savings	World Development Indicators
Trade/GDP	Haver, Datastream, IMF International Financial Statistics, World Development Indicators
External debt/GDP	World Development Indicators, Datastream, BIS
Private sector credit/GDP	IMF International Financial Statistics

Note: All variables are at quarterly frequency, unless indicated otherwise.

transactions of bond and equity purchases in emerging market mutual funds—to obtain a complementary fund inflow measure. The main explanatory and control variables were obtained from IFS, World Development Indicators (WDI), and central banks, supplemented with Datastream and Haver where gaps exist (see specific sources in table A1.2). Both capital flows and explanatory variables in the model are measured in real terms, in constant 2010 exchange rates and prices.

Model

The main dependent variable of interest, financial inflows (GFI_{it}), and its component parts (portfolio investment flows, foreign direct investment, and cross-border bank lending) are each modeled as a function of variables meant to proxy for various factors associated with the movement of cross-border flows. The model with both global and local determinants of capital flows is consistent with the recent policy and academic literature (see, for instance, Ahmed and Zlate 2013; Fratscher 2011; Bruno and Shin 2013; Forbes and Warnock 2012). This approach is also consistent with an earlier literature on capital flows (Chuhan, Claessens and Mamingi 1998; Sarno and Taylor 1997; Calvo Leiderman and Reinhart 1996; Montiel and Reinhart 1999).

$$GFI_{it} = GFI_{it-1} + \pi GRC_t + \lambda GFC_t + \chi QE_t + \beta' X_{it} + CRISIS_t + POSTCRISIS_t + a_i + \tau_t + \varepsilon_{it}$$

Measures used to capture relevant global financial conditions (GFC_t) include the US Federal Funds rate; the U.S. money supply (M2); the yield curve (the difference between the US long-term interest rate and short-term policy rates); and the VIX index. Increased short-term treasury yields raise the opportunity cost of alternative investments—including that of developing world assets—such that, all else being equal, capital inflows can be expected to fall, suggesting a negative coefficient a priori. The U.S. M2 serves as a quantity-based measure of available liquidity: an increase in M2 indicates an increase in available financing, which reduces the liquidity premium (raises yields on liquid assets) and substitutes away from financial investments in developing countries, thus also suggesting a negative coefficient. Note, as well, that our use of M2 as the measure of the money supply ensures that it overlaps only minimally with changes in the monetary base that result from QE operations. Pairwise correlations between the two are relatively low.

The yield curve captures the effect that quantitative easing can have on long-term yields, and hence of temporal rebalancing toward higher-risk asset classes, of which developing-country investments are one (Powell 2013); this relationship between a flatter yield curve and greater investment in riskier asset thus implies an a priori negative coefficient. The role of global uncertainty and risk aversion was proxied for by the VIX index (Rey 2013): greater uncertainty is likely to be associated with weaker flows (again, a negative coefficient).

The measures used to capture global real side conditions (GRC_t) include high-income country GDP growth (proxied by weighted-average growth rates of the G4 economies – the United States, Euro Area, the United Kingdom, and Japan) and the global composite Purchasing Managers Index (PMI) which proxies for growth expectations. Overall developing country growth was included to account for a combined pull factor for developing countries. Stronger real-side activity is likely to translate into greater investment opportunities overall and increased flows to developing countries; in general one would expect these coefficients to be positive. The coefficient on high-income growth can be ambiguous, because faster growth in advanced economies can render financial assets there more attractive, and hence reduce inflows to the developing world. Taken together, these global factors can be regarded as "push" factors.

The extraordinary measures taken by central banks, in the United States, Europe and Japan are likely to have influenced several of the global financial and real-side variables: by affecting short-term interest rates through conventional monetary policy; by affecting the term-structure of interest rates resulting from the Federal Reserve's purchase of mortgage-backed securities and long-term debt on secondary markets (Christensen and Rudebusch 2012; Gagnon et al. 2011; Krishnamurthy and Vissing-Jorgensen 2011); by reducing uncertainty over the future stance of central bank policy by serving as a credible commitment to low future rates (Bauer and Rudebusch 2013); and by the influence of these factors on US and global growth (Chen, Curdia and Ferrero 2012). To the extent that these policies have influenced these drivers, their influence on capital flows will have been captured in the regression.

To account for the possibility that extraordinary monetary measures have operated through other channels—or if QE may have any additional, unobservable effect over and above these standard, observable variables—a series of dummy variables covering the different episodes of quantitative easing (QE_t) were also included. A non-zero coefficient on these dummies can be interpreted as indicating that over and above the (unidentified) influence of quantitative easing on the fundamental drivers included in the model, quantitative easing had an additional impact on capital flows to developing countries that are not captured by observables variables.

Table A1.3 **Benchmark regressions for gross financial inflows (GFI)**

	B1	B2	B3	B4	B5	B6
Lagged inflows	0.473	0.477	0.481	0.466	0.473	0.473
	(0.02)***	(0.02)***	(0.02)***	(0.02)***	(0.02)***	(0.02)***
All QE	0.031			0.026		
episodes	(0.01)***			(0.01)***		
QE1 episode		0.041			0.049	
		(0.01)***			(0.01)***	
QE2 episode		0.031			0.035	
		(0.01)***			(0.01)***	
QE3 episode		0.025			0.006	
		(0.01)***			(0.00)	
QE-related			0.003			0.002
expansion			(0.00)***			(0.00)***
Global financial-side conditions						
3M T-bill	-0.010	-0.012	0.001	-0.016	-0.017	-0.006
rate	(0.00)***	(0.00)***	(0.00)	(0.01)*	(0.01)**	-0.01
Yield curve	-0.014	-0.017	-0.001	-0.018	-0.025	-0.007
	(0.00)***	(0.01)***	(0.00)	(0.01)**	(0.01)***	-0.01
VIX				-0.002	-0.002	-0.002
				(0.00)***	(0.00)***	(0.00)***
Money supply				-0.105	0.144	-0.097
(M2)				(0.22)	(0.26)	(0.22)
Global real-side conditions						
Global PMI				-0.001	-0.001	-0.002
				(0.00)	(0.00)	(0.00)
Developing	0.003	0.002	0.002	0.004	0.000	0.004
GDP growth	(0.00)**	(0.00)	(0.00)	(0.00)**	(0.00)	(0.00)**
High-income	0.001	0.001	0.001	0.000	0.001	0.000
GDP growth	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Country-specific controls						
Interest rate	0.000	0.000	0.000	0.000	0.000	0.000
differential	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Growth				0.001	0.001	0.001
differential				(0.00)*	(0.00)*	(0.00)
GDP	0.132	0.130	0.130	0.129	0.125	0.128
	(0.03)***	(0.03)***	(0.03)***	(0.03)***	(0.03)***	(0.03)***
Country insitutional	0.002	0.001	0.001	0.002	0.002	0.002
rating	(0.00)***	(0.00)***	(0.00)***	(0.00)***	(0.00)***	(0.00)***
Other controls						
Crisis period	-0.046	-0.052	-0.050	-0.022	-0.026	-0.026
	(0.01)***	(0.01)***	(0.01)***	-0.01	(0.01)*	(0.01)*
Post-crisis	-0.016	-0.025	-0.052	0.002	-0.010	-0.027
period	(0.00)	(0.01)*	(0.02)***	(0.01)	(0.01)	(0.02)
Adj. R^2	0.360	0.360	0.358	0.368	0.371	0.367
R^2 (within)	0.364	0.365	0.362	0.374	0.377	0.372
R^2 (between)	0.525	0.527	0.528	0.526	0.529	0.528
N (countries)	1,938 (60)	1,938 (60)	1,938 (60)	1,925 (60)	1,925 (60)	1,925 (60)

Notes:All level variables are in logarithmic form, but rates, indices, and indicator variables are untransformed. Bootstrapped standard errors (with 100 replications) are reported in parentheses. A time trend, country fixed effects, and constant term were included in the regressions, but not reported. * indicates significance at 10 percent level, **indicates significance at 5 percent level, and *** indicates significance at 1 percent level.

We consider three alternative measures for the additional effects of QE programs: a single QE variable that corresponds to all episodes of U.S quantitative easing; separate indicator variables for each of the three distinct episodes; and a continuous measure of QE interventions based on expansions in the size of the central bank's balance sheet. For the indicator variables, our coding scheme for the start/end quarters defines a quarter as belonging to the implementation window if the total number of implementation days exceeded half the days in any given quarter (for example, QE1, which began on December 16, 2008, is coded as starting 2009Q1, while QE2, which came into effect on November 3, 2010, is coded as beginning 2010Q4). The baseline specification includes QE operations by the U.S. Federal Reserve, while robustness tests took into account QE operations in other major advanced-economy central banks.

The vector X_{it} captures the influence of domestic "pull" factors and includes the log of country GDP volumes, country institutional investor ratings, country-specific lagged GDP growth differential (relative to the United States), the interest rate differential between the developing country and the United States, and the aggregate developing-country GDP growth. The interest rate differential relative to the United States captures spatial rebalancing that arbitrages cross-country differences in yields. The lagged growth differential captures the relative attractiveness of investing in a particular developing country. Lagged ratios of private credit as a share of GDP (financial depth), trade/GDP (trade openness), external debt/GDP, and real exchange rate appreciation were included in alternative specifications, but were not retained in the benchmark because they were not statistically significant across most specifications and are instead presented in robustness specifications.

Country fixed effects a_i and a time trend τ_t were included in all specifications. An indicator for crisis and post-crisis were included to account for the large decline in capital flows during 2008-09, and the possibility of a "new normal" in financial flows thereafter. Given that the equation is a dynamic panel model with fixed effects and subject to bias, the coefficients were estimated using a bias-corrected Least Squares Dummy Variables estimator (Bruno 2005) under the strictest condition for bias approximation up to $O(1/NT^2)$, with bootstrapped standard errors.

Results for benchmark specification

The results for the benchmark regression for financial inflows (GFI_{it}) are presented in table A1.3. Columns B1–B3 present a parsimonious specification, while columns B4–B6 present an extended specification with a larger number of independent variables. The results suggest that global financial conditions (short-term interest rates, the yield curve, and the VIX index) play an important role in determining the level of capital flows, are signed according to a priori expectations, and are consistent with the findings of Chuhan, Claessens, and Mamingi (1996), Reinhart and Reinhart (2008), Forbes and Warnock (2012), and Bruno and Shin (2013), among others. Among global real side indicators, some factors may have had a modest impact on flows (developing-country growth rates is marginally significant (at 10 percent) in some specifications, but global PMI and high-income country growth did not prove to be significantly associated with country-level capital flows).

The indicator for quantitative easing episodes has positive and statistically significant relationship, which suggests that over and above the other modeled channels, quantitative easing induced additional capital inflows. Consistent with the literature on the impact of quantitative easing on the US economy (Curdia and Ferrero 2013; Krishnamurthy and Vissing-Jorgensen 2013), these effects are diminishing with each new QE intervention: when the QE indicator is split into separate indicators for QE1, QE2 and QE3, the magnitude and significance diminishes between successive episodes (and for QE3 the coefficient is statistically insignificant).

Consistent with the existing literature (Alfaro, Kalemli-Ozcan and Volosovych 2008; Fratzscher, 2011; Gelos, Sahay and Sandleris 2011), the results suggest that capital flows to individual countries are strongly influenced by a number of country-specific pull factors, including changes in investor country ratings, which represent the perceived quality of policies and institutions. Changes in country-specific growth differentials relative to the United States are also a statistically significant pull factor (at the 10 percent level), which is consistent with growth performance being a proxy for the relative attractiveness of a country for international investors. Real interest rate differentials are not statistically significant, although that is consistent with the existing literature (Bruno and Shin 2013, for example).

Interactions of QE episode dummy with global financial and real-side conditions and additional robustness tests

To ascertain whether quantitative easing may have altered the influence of the conventional transmission channels of capital flows (say by making flows more sensitive to interest rate developments), a specification that allowed for interactions between the QE indicator and the observable global financial and real-side variables was also

explored. The results show little support for the argument that the sensitivity of transmission channels for unconventional monetary policy changed as a result of QE (see Lim, Mohapatra, and Stocker, forthcoming, for details).

Several alternative specifications were also examined, including a host of additional controls and alternative measures. These additional controls include the global level of saving (to account for the quantity of investable funds), the (lagged) ratio of trade to output, the (lagged) ratio of private credit to output, the (lagged) ratio of debt to GDP, the inflation differential, and the (lagged) real exchange rate. Note that including these additional variables does not alter the qualitative message from our baseline results nor do the coefficients for these controls generally enter with significant coefficients.

A measure of the third QE episode that includes an additional indicator for 2013Q2 when QE tapering was anticipated was associated with a significant reduction in inflows: the coefficient on the variable is almost twice as large as average effects over all previous QE episodes. Additionally, substituting the baseline interest rate differential for the interest rate spread computed from a richer array of fixed income instruments does not change the main qualitative conclusions.

An alternative set of measures allows for the fact that unconventional monetary policies were more or less simultaneously pursued by the Bank of England (via the Asset Purchase Facility), the Bank of Japan (via its Asset Purchase Program), and the European Central Bank (through its Securities Market Program (SMP) and Outright Monetary Transactions (OMT)). For the episode indicator, we drew on qualitative information in Neeley (2013) concerning G4 central bank unconventional monetary policy actions, and coded additional quarters as QE periods if at least two additional central banks engaged in QE. We stay with the convention and exclude the ECB's Long-Term Refinancing Operations as a form of QE. Note as well that while the SMP has resulted in a substantial expansion of the ECB balance sheet, the OMT has in fact never been used, despite widespread acknowledgment that the program engendered confidence effects.

This expanded QE indicator has a similar sign and significance as the benchmark specification. Given that the VIX, interest rates and GDP growth tend to be codetermined (Albuquerque, Loayza and Serven 2005; Kose, Otrok and Whiteman 2003) a common factor (the principal component of the three variables) was derived to proxy for global conditions. We construct this factor from the varimax orthogonal rotation of the first principal component of the vector of global variables. We also considered an alternative, the proportion-weighted sum of the first three principal components (all possessed eigenvalues greater than unity). Using this single factor did not affect other coefficients significantly, although it did reduce the overall power of the regression. Moreover, the Kaiser-Meyer-Olkin test of sampling adequacy indicates that the underlying variables are sufficiently distinct that partial correlations between them are low, and hence are not particularly well-suited for factor analysis.

Decompositions

To obtain greater insight into whether specific channels may be more operative then others, depending on the financial flow, we break down our dependent variable—aggregate inflows—into portfolio, loans, and FDI. Estimates of the capital flow model performed on each of these flows individually suggests presented in columns (D1)-(D3) of table A1.4 suggest that portfolio flows are the most sensitive to the external drivers associated with monetary conditions in high-income countries. The sensitivity of portfolio flows to changes in the yield curve is almost double that of overall capital flows, as is the response to the QE indicator. Foreign direct investment tends to be relatively insensitive to the effects of global push factors, and is much more responsive to country specific characteristics, consistent with the literature (Alfaro, Kalemli-Ozcan and Volosovych 2008, Benassy-Quere, Coupet and Mayer 2007; Dailami, Kurlat and Lim 2012). This result also corroborates with evidence from gravity-type models of FDI (which finds larger FDI flows between bilateral pairs with larger pairwise GDP), and the more general stylized fact that gross FDI inflows tend to be countercyclical and the least volatile among different financial flows (Contessi, DePace, and Francis 2013). Cross-border bank lending appears to fall into an intermediate category. In particular, the coefficient on the QE dummies is much larger for bank lending, suggesting that more so than for the other flows, QE operated through channels other than those modeled to boost bank lending. On the other hand, bank lending was much less sensitive to liquidity or portfolio rebalancing factors.

Columns D4-D6 of table A1.4 present measures of flows into emerging market mutual funds, a subset of portfolio inflows. The statistically significant coefficients in columns D4 are broadly comparable to overall portfolio inflows (D1). It is notable that while bond flows appear to react to more transmission channels than equity flows—debt is associated with changes in the VIX as well as in the global PMI, while equity is not—the magnitude (and standard errors) of the coefficients on equity are generally larger than those for debt. The coefficient of global PMI is negative, which indicates that inflows into debt decrease when global growth prospects improve—an outcome consistent with substitution into riskier assets when growth outlooks turn upward.

Table A1.4 **Decomposition of financial inflows**

	D1 Portfolio	D2 Loans	D3 FDI	D4 Gross fund	D5 Bonds	D6 Equity
Lagged inflows	0.261	0.307	0.597	-0.088	0.294	-0.011
	(0.02)***	(0.02)***	(0.02)***	(0.04)**	(0.03)***	-0.03
All QE	0.018	0.021	-0.003	0.061	0.015	0.044
episodes	(0.01)***	(0.01)***	-0.01	(0.02)***	-0.02	(0.03)*
Global financial-side conditions						
3M T-bill	-0.015	-0.004	0.004	-0.080	-0.089	-0.053
rate	(0.01)**	(0.01)	(0.01)	(0.02)***	(0.02)***	(0.03)**
Yield curve	-0.020	-0.002	0.005	-0.090	-0.065	-0.064
	(0.01)***	(0.01)	(0.01)	(0.03)***	(0.02)***	(0.03)**
VIX	-0.002	0.000	0.000	-0.002	-0.006	0.000
	(0.00)***	(0.00)	(0.00)	(0.00)	(0.00)***	(0.00)
Money supply	0.015	-0.071	0.056	-1.110	-2.120	-0.589
(M2)	(0.19)	(0.16)	(0.26)	(0.65)*	(0.45)***	(0.66)
Global real-side conditions						
Global PMI	-0.001	-0.001	-0.001	0.008	0.003	0.004
	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)
Developing	0.004	0.000	-0.001	0.014	0.023	0.007
GDP growth	(0.00)***	(0.00)	(0.00)	(0.01)***	(0.00)***	(0.01)
High-income	-0.001	0.002	0.004	-0.011	-0.017	-0.007
GDP growth	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)***	(0.01)
Country-specific controls						
Interest rate	0.000	0.000	0.000	-0.001	-0.002	0.000
differential	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)*	(0.00)
Growth	0.001	0.001	0.000	0.001	0.000	-0.001
differential	(0.00)*	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
GDP	0.009	0.110	0.070	-0.060	0.020	0.039
	(0.03)	(0.02)***	(0.04)*	(0.09)	(0.07)	(0.08)
Country insitutional	0.001	0.001	0.002	0.002	0.001	0.000
rating	(0.00)***	(0.00)***	(0.00)**	(0.00)	(0.00)	(0.00)
Other controls						
Crisis period	-0.002	-0.043	-0.005	0.024	-0.043	0.032
	(0.01)	(0.01)***	(0.02)	(0.04)	(0.03)	(0.05)
Post-crisis	0.024	-0.025	-0.010	0.038	-0.061	0.050
period	(0.01)*	(0.01)**	(0.02)	(0.05)	(0.04)	(0.05)
Adj. R^2	0.157	0.032	0.399	0.054	0.193	0.005
R^2 (within)	0.164	0.037	0.403	0.07	0.203	0.018
R^2 (between)	0.572	0.209	0.854	0.45	0.562	0.042
N (countries)	1,925 (60)	3,460 (85)	2,419 (63)	974 (31)	1,220 (39)	1,185 (37)

Source: World Bank.

Annex II

Technical note: vector autoregression analysis of capital inflows to developing countries

Model specification

Inter-temporal interactions between global "push" factors, capital inflows and GDP growth in developing countries are modeled using a six-dimensional vector autoregression (VAR) system, estimated over the period 2000Q1 to 2013Q2. The vector of endogenous variables consist of:

- aggregate capital inflows to developing countries as a share of their combined GDP - source: IFS / Balance of Payment data;
- Quarterly real GDP growth in both developing and G-4 countries—United States, Euro Area, Japan and the United Kingdom (sources: Haver, Datastream, National Statistical Offices)
- G-4 short term interest rates—three month money market rates (source: Datastream)
- G-4 yield curve–10 year government bond yields minus three-month interest rates (source: Datastream)
- The VIX index measuring the implied volatility of S&P 500 options (sources: Datastream, Chicago Board Options Exchange Market)

Descriptive statistics of the six dependent variables are presented in table A2.1.

Regarding the lag selection procedures for the VAR, the Hannan and Quinn information criterion (HIC) and Schwartz Bayesian Information Criterion (BIC) suggested one lag, but the Final Prediction Error (FPE) and Likelihood Ratio test statistics (LR) recommended two, while the Akaike Information Criterion (AIC) recommended four (table A2.2). A two-period lag structure was decided upon, with all eigenvalues being significant less than one. A formal Johansen Test rejects the presence of co-integration, so the system was estimated the model was estimated as an unrestricted VAR.

To compute impulse responses (figure A2.1) and variance decompositions (table A2.3), a structural identification was derived by imposing a Cholesky decomposition on the covariance matrix. The Cholesky restrictions were imposed by ordering the variables so that the first variable cannot respond to contemporaneous shocks (in the same quarter) of any other variables, the second one responds to contemporaneous shocks affecting only the first variable, and so on. The following order was suggested by expected time lags in the reaction of "real" variables to financial shocks: G-4 GDP growth, developing countries' GDP growth, developing countries capital inflows (in percent of GDP), the VIX index, G-4

Table A2.1 Descriptive statistics

	G4 GDP Growth	DEV GDP Growth	DEV Capital Inflows / GDP	VIX Index	G4 3m interest rate	G4 yield curve
Mean	1.3	6.1	5.5	21	2.0	1.5
Median	1.8	6.4	5.4	20	1.8	1.8
Std. Dev.	1.9	2.1	3.5	9	1.4	1.0

Source: World Bank.

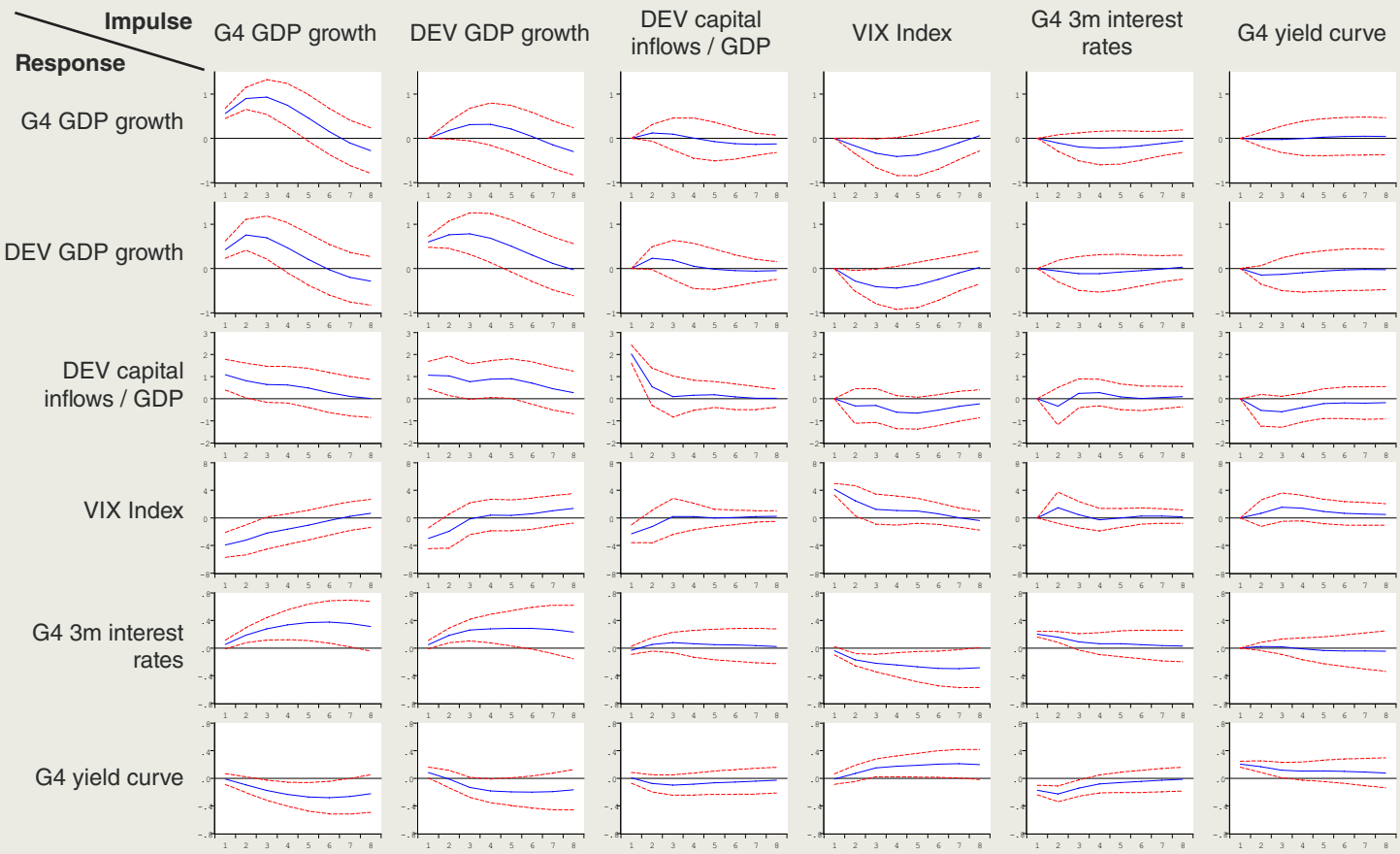
Table A2.2 VAR lag order selection criteria

Sample 2000 Q1—2013 Q2
Included observations: 46

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-521	NA	359	23	23	23
1	-280	408	0	14	16*	15*
2	-245	51*	0	14	17	15
3	-203	48	0	14	18	15
4	-151	48	0.04*	13*	19	15

Source: World Bank.

Figure A2.1 **Impulse response**



Source: World Bank.

Table A2.3 **Variance decomposition**

Variance decomposition of:	G4 GDP Growth	DEV GDP Growth	DEV Capital Inflows / GDP	VIX Index	G4 3m interest rate	G4 yield curve
G4 GDP Growth						
4 quarters	79	7	1	10	3	0
8 quarters	71	9	2	13	5	0
DEV GDP Growth						
4 quarters	36	49	2	11	1	1
8 quarters	33	49	2	14	1	1
DEV Capital Inflows / GDP						
4 quarters	22	29	36	5	2	6
8 quarters	19	34	29	10	2	6
VIX Index						
4 quarters	39	15	8	30	3	6
8 quarters	37	17	8	29	3	7
G4 3m interest rate						
4 quarters	35	28	2	22	12	0
8 quarters	41	26	1	26	5	0
G4 yield curve						
4 quarters	22	13	5	13	25	21
8 quarters	34	19	3	20	11	12

Source: World Bank.

short-term interest rates and the yield curve (potentially responding to all other variables in real time).

Interest rate assumptions and alternative scenarios

Baseline scenario:

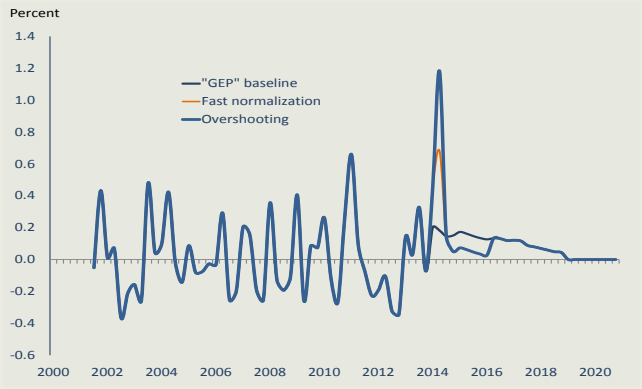
QE tapering by the U.S. Fed starts in January 2014 and ends in December 2014. Its effect is very gradual, adding 50bp to U.S. long-term interest rates by the end of 2015 and a cumulative 100bp by the end of 2016 (assuming that anticipation has already taken out half of the overall QE effect from May to November 2013).

The ECB, Bank of Japan, and Bank of England, start to unwind their own quantitative/qualitative policies in the course of 2015/16, adding 50bp to their long-term yields by the end of the forecast horizon. Only the U.S. Fed starts to increase policy rates by 2015Q3, from 0.25 to 2 percent by the end of 2016. The ECB, Bank of Japan and Bank of England follow broadly the same tightening path but a full year later. As a result, G4 long-term interest rates are expected in the baseline to increase from 2.5 percent in 2013Q4 to 3.7 percent by end 2016. The corresponding "add factor" in the VAR equation under this baseline scenario is presented in Figure A2.2, showing slightly positive residuals from the purely model-based prediction over the projection horizon (10 to 15bp).

Fast normalization and overshooting scenarios:

"Fast normalization" is a scenario in which the unwinding of QE specific effects on the yield curve (100bp) is front loaded and happens within the first two quarters of 2014.

Figure A2.2 **G4 yield curve equation: residual / add factor under different normalization scenarios**



Source: World Bank.

The add factor to the yield curve equation is adjusted upwards in 2014Q1 and 2014Q2 by a cumulative 100bp but is lowered back to zero afterwards. In other words, only the timing of the adjustment is affected; the cumulative impact is unchanged. The model is run on the alternative add factor series and simulations for all six endogenous variables reported as the fast normalization scenario.

"Overshooting" is a scenario in which the yield curve steepens by 200bp in the first half of 2014. In this context, the add factor to the yield curve is initially shifted upward as presented in figure A2.2. The model is run on the alternative add factor series and simulations for all six endogenous variables reported as the "overshooting" scenario.

Annex III

Technical note: modeling banking crisis risks in developing countries

Data sources and coverage

The analysis is based on the banking crisis data compiled by Laeven and Valencia (2012), which identifies 147 banking crisis in 162 countries for the period 1970–2011. The analysis focuses on the banking crisis in developing countries by excluding OECD country observations. Table A3.1 reports country and time coverage statistics. The primary data source for the explanatory variables are the World Bank's World Development Indicators (WDI) and Global Economic Prospects (GEP), the IMF's World Economic Outlook (WEO), International Finance Statistics (IFS), and Direction of Trade Statistics (DOTS), and the Bank of International Settlements (BIS) datasets. Table A3.2 reports the definition of the variables and data sources.

Table A3.1 **Countries in estimation samples**

	Country Name	Obs.		Country Name	Obs.		Country Name	Obs.
1.	Albania	10	36.	Gambia, The	14	71.	Niger	23
2.	Algeria	4	37.	Georgia	8	72.	Nigeria	20
3.	Angola	9	38.	Ghana	17	73.	Pakistan	23
4.	Argentina	11	39.	Guatemala	23	74.	Panama	13
5.	Armenia	10	40.	Guinea	11	75.	Papua New Guinea	19
6.	Azerbaijan	10	41.	Guinea-Bissau	5	76.	Paraguay	15
7.	Bangladesh	20	42.	Guyana	17	77.	Peru	17
8.	Belarus	10	43.	Haiti	10	78.	Philippines	20
9.	Belize	21	44.	Honduras	23	79.	Romania	8
10.	Benin	20	45.	India	20	80.	Russian Federation	7
11.	Bolivia	14	46.	Indonesia	20	81.	Rwanda	20
12.	Botswana	23	47.	Jamaica	17	82.	Senegal	20
13.	Brazil	13	48.	Jordan	20	83.	Seychelles	23
14.	Bulgaria	10	49.	Kazakhstan	9	84.	Sierra Leone	20
15.	Burkina Faso	11	50.	Kenya	18	85.	Solomon Islands	22
16.	Burundi	17	51.	Kyrgyz Republic	8	86.	South Africa	14
17.	Cambodia	11	52.	Lao PDR	12	87.	Sri Lanka	20
18.	Cameroon	17	53.	Latvia	10	88.	St. Lucia	23
19.	Cape Verde	20	54.	Lebanon	3	89.	St. Vincent and the Grenadines	23
20.	Central African Republic	6	55.	Lesotho	20	90.	Sudan	23
21.	Chile	23	56.	Lithuania	11	91.	Syrian Arab Republic	23
22.	China	20	57.	Macedonia, FYR	9	92.	Tanzania	16
23.	Colombia	16	58.	Madagascar	17	93.	Thailand	20
24.	Comoros	9	59.	Malawi	23	94.	Togo	20
25.	Congo, Dem. Rep.	4	60.	Malaysia	20	95.	Tunisia	20
26.	Congo, Rep.	19	61.	Mali	20	96.	Turkey	14
27.	Costa Rica	17	62.	Mauritania	2	97.	Uganda	13
28.	Cote d'Ivoire	20	63.	Mauritius	9	98.	Ukraine	7
29.	Dominica	22	64.	Mexico	20	99.	Uruguay	14
30.	Dominican Republic	20	65.	Moldova	10	100.	Vanuatu	23
31.	Ecuador	20	66.	Mongolia	9	101.	Venezuela, RB	20
32.	Egypt, Arab Rep.	23	67.	Morocco	15	102.	Vietnam	9
33.	El Salvador	14	68.	Mozambique	15	103.	Yemen, Rep.	10
34.	Ethiopia	23	69.	Nepal	20	104.	Zambia	14
35.	Gabon	20	70.	Nicaragua	13			

Source: World Bank, IMF, Laeven and Valencia (2012).

Table A3.2 **List of Variables Used in the Regression Analysis**

Variable	Definition	Source
Dependent Variable		
Banking crisis	Indicator variable that equals 1 if the country experiences a systemic banking crisis for the first year	Laeven and Valencia (2012)
Explanatory Variables		
Global Variable		
Global risk	Volatility Index (VXO) calculated by the Chicago Board Options Exchange, in annual inter-quartile range	CBOE
Global interest rate	Change in global interest rate give by the first principal component of the G4 (US, UK, Japan, and EU) long-term interest rates	WEO
Global liquidity	M2 as a share of GDP in US	WEO
Global growth	First principal component of G4 real GDP growth	WEO
Agricultural commodity price index	Global commodity price index	GEP
Energy commodity price index	Global commodity price index	GEP
Contagion Variables		
Poenness	Exports plus imports as a share of GDP	WDI
Trade linkage	Bilateral trade (export plus import) as a share of total exports, mulitplied by a dummy variable that equals =1 if the trade partner experiences a banking crisis	DOT
Financial Linkag	External position vis-à-vis BIS Reporting Banks as a share of GDP	BIS
Regional contagion	Dummy variable that equals 1 if the country in the same region experiences a banking crisis	WDI
Domestic Variables		
External debt	Total external debt as a share of GDP	WDI
Current account balance	Change in current account balance as a share of GDP over last 5 years	WDI, WEO
Short term debt	Short term external debt plus amortization due within a year as a share of total external debt	WDI, WEO, IFS
Domestic credit growth	Change in domestic credit as share of GDP over last 5 years	WDI
Inflation	Change in the consumer price index	WDI, WEO
Per capita GDP growth	Growth rate of real per capita GDP	WDI
Import cover	Reserves as a multiple of monthly imports	WDI, WEO, IFS, GEP
Ratio of M2 to reserves	M2 as a share of total reserves	WDI, IFS
Fiscal balance	Net borrowing/ lending by the government as a share of GDP	WDI, WEO
REER overvaluation	Real effective exchange rate minus long term trend (estimated by 10 year moving average)	WDI, GEP

Empirical methodology

In line with the literature, we estimate the relationship between the onset of banking crisis and the global, contagion, and domestic factors using a pooled probit model:

$$P(Crisis_{it} \mid W_{t,t-1}, X_{it-1}, Z_{it-1}) = F(\beta' W_{t,t-1} + \lambda' X_{it-1} + \theta' Z_{it-1})$$

where P(.) is the probability that a country i will be in banking crisis in time t, conditional on global factors W, contagion factors X, and domestic factors Z. F (.) is the standard normal distribution function that transforms a linear combination of the explanatory variables into the 0,1 interval.

A pooled regression involves pooling observations across country- and time-dimensions so that a unit of observation becomes a country-year, not a country. To allow for the fact that same countries are repeatedly observed in the sample, such that errors in the model are not independently and identically distributed, we use robust standard errors with clusters, where the cluster is defined as a country, to allow errors of a given country to be correlated over time.

We exclude observations three years following each crisis observation for a given country to avoid double counting and endogeneity. Similar approach has been used by Eichengreen, Rose and Wyplosz (1996), Eichengreen and Rose (1998), Eichengreen and Arteta (2000), and Forbes and Warnock (2012). Except for global factors, we also use lagged explanatory variables to reduce endogeneity concern. The general to specific approach is applied to arrive at the final probit specifications.

Results are reported in table A3.3. Column 4 in Table A3.3 evaluates the relative importance of all three sets of factors. The results generally confirm the strong influence of both global and domestic factors in the onset of banking crises found in the separate models (columns 1–3), although not all factors remain significant in the combined model. A consolidated model, applying the general-to-specific method to eliminate the insignificant variable for later analyses, is reported in column 5. The general-to-specific modeling refers to the process of simplifying an initially general (over-parameterized) model that adequately characterizes the empirical evidence within a theoretical framework and reducing the number of variables and parameters to be estimated to achieve greater statistical efficiency without causing significant problems of model misspecifications and omitted variable bias. Central aspects of this approach include the model selection procedures based on across-model comparison and parameter constancy, as well as evaluation of selection criteria such as adjusted pseudo-R squares, Akaike Information Criterion (AIC), and Bayesian Information Criterion (BIC), all of which are reported in the bottom of table A3.3. Given two models, a higher adjusted pseudo-R2, or a smaller AIC or BIC indicates a better-fitting model.

In the final version of the model (column 5), all the significant impact of global and domestic variables remains. Among the global factors, we continue to find the strong influence of global risk aversion, high global liquidity, and rising global interest rates. The positive coefficient on the lagged global liquidity and the negative coefficient on the lagged global risk variable are all consistent with a view that crises in individual developing countries tend to be preceded by periods of ample liquidity and suppressed risk. Most contagion variables are not statistically significant, although the trade links variable (the share of trade with other countries that are in crisis) remains significant. Among the domestic factors, a high external and short-term debt, rapid growth in domestic credit, low levels of international reserves, and overvaluation in real exchange rates are all significantly associated with heightened risk of banking crisis, with expected signs.

The bottom of table A3.3 reports alternative measures of the predictive accuracy of the models:

Percent of Correct Positive—Let pj be the predicted probability of a positive outcome and yj be the actual outcome (0 or 1). Let c be the cutoff value which we specify as equal to the observed risk of positive outcome in the estimation sample. A prediction is classified as "positive" if pj >= c, and classified as "negative" otherwise. Percent of Correct Positive is the fraction of yj=1 observations that are correctly classified as "positive" (pj>=c). This is also known as "sensitivity" of the model.

Percent of Correct Negative—This is the fraction of yj=0 observations that are correctly classified as "negative" (pj<c). This measure is also known as "specificity" of the model.

Area Under the Receiver Operating Characteristic Curve (AUROC)—The ROC curve is a graph of specificity against (1-sensitivity) as the cutoff c is varied from 0 to 1. The curve starts at (0, 0), corresponding to c = 1, and continues to (1, 1), corresponding to c = 0. The A model with no predictive power would have a ROC curve of a 45 degree line. The greater the predictive power, the more bowed the curve would be, and hence greater the area beneath the curve. A model with no predictive power has area 0.5; a perfect model has area 1.

Table A3.3 **Alternative specifications of banking crisis probit model**

	(1) Global	(2) Contagion	(3) Domestic	(4) All	(5) Consolidated
Global risk (t)	0.414 ***			0.295 ***	0.306 ***
	(3.80)			(2.60)	(2.77)
Global interest (t)	0.478			0.135	0.189
	(1.02)			(0.23)	(0.35)
Global growth (t)	-0.901 ***			-0.035	-0.010
	(-3.25)			(-0.10)	(-0.03)
Global liquidity (t)	-1.140 ***			-0.630	-0.687
	(-2.71)			(-1.53)	(-1.69)
Agri. commdity price (t)	-0.008			-0.034	-0.035
	(-0.14)			(-0.54)	(-0.58)
Energy commodity price (t)	-0.017			-0.018	-0.021
	(-0.77)			(-0.77)	(-0.90)
Global risk	-0.023			-0.056	-0.038
	(-0.25)			(-0.46)	(-0.33)
Global interest	1.010 **			1.280 *	1.300 **
	(2.03)			(1.92)	(2.02)
Global growth	0.254			-0.099	-0.099
	(0.64)			(-0.23)	(-0.24)
Global liquidity	0.935 ***			0.566 *	0.596 *
	(2.92)			(1.78)	(1.90)
Agri. commdity price	0.045			0.037	0.036
	(1.09)			(0.84)	(0.83)
Energy commodity price	-0.011			0.032	0.039
	(-0.32)			(0.75)	(0.92)
Openness		-1.67 ***		-0.460	-0.565
		(-2.62)		(-1.13)	(-1.42)
Tradelinkage		0.239 *		0.161 **	0.163 **
		(1.69)		(2.02)	(2.03)
Financial linkage		0.063		-0.073	
		(0.26)		(-0.58)	
Regional contagion		0.208 ***		0.032	
		(2.67)		(0.40)	
External debt			0.856 **	0.456	0.559 **
			(2.04)	(1.52)	(2.02)
Current account balance			-0.0371	-0.031	-0.030
			(-0.81)	(-0.98)	(-1.00)
Short term debt			0.798 **	0.403 **	0.360 *
			(2.47)	(2.04)	(1.84)
Credit growth			0.0851 ***	0.059 ***	0.057 ***
			(2.66)	(3.49)	(3.44)
Inflation			0.0301 **	0.005	
			(2.07)	(0.51)	
Per capita GDP growth			-0.106	-0.018	
			(-1.62)	(-0.50)	
Import cover			-0.169 *	-0.123 *	-0.116 *
			(-1.69)	(-1.96)	(-1.76)
Ratio of M2 to reserves			0.0122	0.002	
			(0.92)	(0.32)	

	(1) Global	(2) Contagion	(3) Domestic	(4) All	(5) Consolidated
Fiscal balance			-0.0416	-0.02	-0.022
			(-0.93)	(-0.65)	(-0.69)
REER overvaluation			0.000318	4.26E-04 *	0.001 **
			(0.73)	(1.83)	(2.14)
Observations	3,438	2,567	1,855	1,584	1,631
Observed risk	2.9%	3.3%	3.2%	3.3%	3.3%
Predicted Risk (at x-bar)					
Percent of Correcrt Positive†	93.9%	61.2%	64.4%	82.7%	79.3%
Percent of Correct Negative†	46.6%	57.4%	65.1%	68.5%	69.0%
AUROC††	0.741	0.667	0.666	0.831	0.832
Pseudo R-squared	0.096	0.020	0.051	0.174	0.174
AIC	831.4	741.4	518.2	431.9	430.3
BIC	911.2	770.7	579.0	576.8	549.0

Notes: Dependent varaibe is a binary indicator for a banking crisis. Explanatoyr variables are in one-period lag (t-1) unless otherwise indicated. Reported coefficients are marginal effects of a varaibel on the probability of a baning crisis in percentage points. Robust clustered standard errors are used. T statistics in parentheses.
* significant at 10%. ** significant at 5 percent. *** significant at 1%.
†Cut-off =observed risk in the data.
†† Area Under the Receiver Operating Characteristic Curve from the probit analysis. See annex 3 for further details.

Annex IV

Statistical annex

Table A4.1 **GDP growth**
(Constant 2010 U.S. dollars)

	Annual estimates and forecasts[a]								Quarterly growth[b]				
									2012		2013		
	00-09[c]	2010	2011	2012	2013e	2014f	2015f	2016f	Q3	Q4	Q1	Q2	Q3
World	**2.3**	**4.3**	**3.0**	**2.5**	**2.4**	**3.2**	**3.4**	**3.5**	**0.8**	**1.4**	**2.3**	**3.3**	**3.0**
High Income Countries	1.4	3.0	1.8	1.5	1.3	2.2	2.4	2.4	-0.1	0.0	2.0	2.7	2.1
European Union	1.0	1.9	1.6	-0.6	-0.4	1.1	1.4	1.5	-0.6	-2.3	-0.8	1.4	0.5
OECD Countries	1.3	2.9	1.8	1.5	1.2	2.1	2.3	2.4	-0.3	0.0	2.1	2.7	2.1
Non-OECD Countries	3.8	5.6	4.8	3.5	2.5	3.3	3.7	3.8	3.5	2.6	0.8	2.8	2.5
Developing Countries	**5.3**	**7.7**	**6.1**	**4.8**	**4.8**	**5.3**	**5.5**	**5.7**	**4.6**	**6.4**	**3.5**	**5.4**	**6.5**
East Asia and the Pacific	**8.0**	**9.6**	**8.3**	**7.4**	**7.2**	**7.2**	**7.1**	**7.1**	**7.4**	**8.3**	**5.3**	**7.5**	**8.5**
Cambodia	7.4	6.0	7.1	7.3	7.0	7.0	7.0	7.0	..	..	..	..	..
China	9.4	10.4	9.3	7.7	7.7	7.7	7.5	7.5	7.8	8.4	5.9	8.3	9.3
Fiji	1.1	0.1	1.9	2.3	2.4	2.1	2.2	2.3	..	..	..	..	..
Indonesia	4.6	6.2	6.5	6.2	5.6	5.3	5.5	5.5	5.8	6.6	5.3	5.6	4.9
Lao People's Dem. Rep.	5.5	8.5	8.0	8.2	8.0	7.7	8.1	8.1	..	..	..	..	..
Malaysia	3.9	7.2	5.1	5.6	4.5	4.8	4.9	4.9	4.0	9.2	-1.1	5.8	6.8
Mongolia	5.8	6.4	17.5	12.4	12.5	10.3	10.0	7.7	..	..	..	..	..
Myanmar	9.7	5.3	5.9	6.5	6.8	6.9	6.9	6.9	..	..	..	..	..
Papua New Guinea	3.0	7.7	10.7	8.1	4.0	8.5	20.0	5.0	..	..	..	..	..
Philippines	4.0	7.6	3.6	6.8	6.9	6.5	7.1	6.5	7.3	6.5	11.9	5.1	4.6
Solomon Islands	2.8	7.0	10.7	4.8	4.0	3.5	3.7	4.0	..	..	..	..	..
Thailand	3.5	7.8	0.1	6.5	3.2	4.5	5.0	5.2	6.4	12.4	-6.3	0.0	5.2
Timor-Leste	3.3	9.5	12.0	8.3	8.1	8.0	7.7	8.6	..	..	..	..	..
Vanuatu	2.8	1.6	1.4	2.3	1.7	2.2	3.0	3.0	..	..	..	..	..
Viet Nam	7.1	6.8	6.2	5.2	5.3	5.4	5.4	5.5	..	..	..	..	..
Europe and Central Asia	**3.9**	**5.9**	**6.3**	**2.0**	**3.4**	**3.5**	**3.7**	**3.8**	**0.0**	**0.9**	**4.7**	**5.8**	**2.7**
Albania	4.9	3.8	3.1	1.6	1.3	2.1	3.0	3.0	..	..	..	..	..
Armenia	7.7	2.2	4.7	7.2	3.2	5.0	5.0	5.0	..	..	..	..	..
Azerbaijan	14.1	5.0	0.1	2.2	4.9	5.3	4.5	3.9	..	..	..	..	..
Belarus	6.6	7.7	5.5	1.5	1.0	1.5	2.0	2.5	..	..	..	..	..
Bosnia and Herzegovina		0.7	1.3	-1.1	0.8	2.0	3.5	3.5	..	..	..	..	..
Bulgaria	4.0	0.4	1.8	0.8	0.6	1.7	1.8	2.0	0.4	0.2	0.5	-0.2	2.1
Georgia	5.6	6.3	7.0	6.0	2.5	6.3	6.3	6.5	..	..	..	..	..
Hungary	1.8	1.3	1.6	-1.7	0.7	1.7	1.5	2.7	-1.1	-2.2	3.6	1.7	3.6
Kazakhstan	7.5	7.3	7.5	5.0	6.0	5.8	5.9	5.9	5.4	4.2	2.7	..	..
Kosovo		3.9	5.0	2.7	3.0	4.0	4.2	4.2	..	..	..	..	..
Kyrgyz Republic	4.2	-0.5	6.0	-0.9	7.8	6.5	5.4	5.3	..	..	..	..	..
Macedonia, FYR	2.3	2.9	2.8	-0.4	2.5	3.0	3.5	3.7	..	..	..	..	..
Moldova	4.4	7.1	6.4	-0.8	5.5	3.8	4.0	4.0	..	..	..	..	..
Montenegro		2.5	3.2	-2.5	1.8	2.5	2.7	2.9	..	..	..	..	..
Romania	3.8	-0.9	2.3	0.7	2.5	2.5	2.7	2.7	-3.2	4.4	2.2	3.1	6.6
Serbia		1.0	1.6	-1.7	2.0	1.0	2.2	2.5	..	..	..	..	..
Tajikistan		6.5	7.4	7.5	7.0	6.0	6.0	6.0	..	..	..	..	..
Turkey	3.0	9.2	8.8	2.2	4.3	3.5	3.9	4.2	1.2	0.7	6.2	8.4	3.5
Turkmenistan		9.2	14.7	11.1	10.1	10.7	10.5	10.1	..	..	..	..	..
Ukraine	3.9	4.2	5.2	0.2	-1.1	2.0	1.0	0.7	-7.2	-3.0	4.7	0.5	-7.2
Uzbekistan	6.1	8.5	8.3	8.2	7.4	7.0	6.7	6.7	..	..	..	..	..

	Annual estimates and forecasts[a]								Recent Quarters[b]				
									2012		2013		
	00-09[c]	2010	2011	2012	2013e	2014f	2015f	2016f	Q3	Q4	Q1	Q2	Q3
Latin America and the Caribbean	**2.7**	**6.0**	**4.1**	**2.6**	**2.5**	**2.9**	**3.1**	**3.7**	**1.9**	**4.1**	**1.4**	**4.8**	**0.6**
Argentina	2.9	9.2	8.9	1.9	5.0	2.8	2.5	2.5	2.9	6.0	8.5	9.0	-0.7
Belize	5.0	2.7	1.9	5.3	1.8	2.7	3.3	3.4	..	..	..	..	..
Bolivia	3.4	4.1	5.2	5.2	5.3	4.7	4.0	3.6	7.8	9.4	6.0	2.2	..
Brazil	2.9	7.5	2.7	0.9	2.2	2.4	2.7	3.7	2.3	3.8	0.0	7.2	-1.9
Colombia	3.7	4.0	6.6	4.2	4.0	4.3	3.7	3.5	-0.1	6.6	0.9	8.6	4.5
Costa Rica	3.8	5.0	4.4	5.1	3.4	4.3	4.1	4.1	0.1	4.5	4.5	-1.6	13.4
Dominica	2.4	1.2	1.0	1.7	1.1	1.7	1.8	2.1	..	..	..	..	..
Dominican Republic	4.5	7.8	4.5	3.9	2.5	3.9	4.6	4.9	4.5	7.7	-12.8	14.5	13.8
Ecuador	4.2	3.5	7.8	5.1	4.0	4.1	4.2	4.3	2.4	2.7	3.9	5.0	..
El Salvadore	1.7	1.4	2.0	1.6	1.9	2.3	2.6	2.9	..	..	..	..	..
Guatemala	3.0	2.9	4.1	3.0	3.3	3.4	3.3	3.2	2.3	5.1	3.0	7.0	..
Guyana	2.1	4.4	5.4	4.8	4.4	3.9	3.5	3.5	..	..	..	..	..
Haiti	0.6	-5.4	5.6	2.8	3.4	4.2	3.9	3.9	..	..	..	..	..
Honduras	3.8	3.7	3.7	3.3	2.9	3.4	3.8	3.9	..	..	..	..	..
Jamaica	1.0	-1.5	1.7	-0.5	0.3	1.0	1.2	1.3	..	..	..	..	..
Mexico	1.3	5.1	4.0	3.8	1.4	3.4	3.8	4.2	0.4	3.1	0.8	-2.2	3.4
Nicaragua	2.8	3.6	5.5	5.2	3.8	4.2	4.4	4.3	..	..	..	..	..
Panama	5.6	7.6	10.6	10.5	7.9	7.3	6.9	6.5	..	..	..	..	..
Paraguay	2.5	13.1	4.3	-1.2	14.1	4.6	3.3	3.0	11.7	-0.7	69.3	-5.7	2.2
Peru	4.8	8.8	6.9	6.3	4.9	5.5	5.9	5.8	6.4	3.5	4.8	4.4	4.7
St. Lucia	2.1	3.2	0.6	-0.9	0.7	1.5	1.7	1.8	..	..	..	..	..
St. Vincent and the Grenadines	2.9	-2.0	0.6	1.5	2.1	2.7	3.2	4.2	..	..	..	..	..
Suriname	4.4	4.1	4.7	4.5	3.9	4.1	3.5	3.5	..	..	..	..	..
Venezuela, Bolivarian Rep. of	3.3	-1.5	4.2	5.5	0.7	0.5	1.7	2.3	..	..	..	..	..
Middle East and North Africa	**4.3**	**4.4**	**-0.7**	**1.5**	**-0.1**	**2.8**	**3.3**	**3.6**	**6.6**	**2.1**	**0.3**	**2.1**	**3.7**
Algeria	3.4	3.6	2.6	3.3	2.8	3.3	3.5	3.5	..	..	..	..	..
Egypt[d]	4.3	5.1	1.8	2.3	2.0	2.2	3.1	3.3	7.8	0.7	1.3	-3.1	5.2
Iran, Islamic Rep. of	4.6	5.9	2.2	-2.9	-1.5	1.0	1.8	2.0	..	..	..	..	..
Iraq		0.8	8.5	8.4	4.2	6.5	6.6	8.3	..	..	..	..	..
Jordan	6.1	2.3	2.6	2.8	3.0	3.1	3.3	3.8	2.7	2.3	2.9	4.3	1.7
Lebanon	4.4	7.0	3.0	1.4	0.7	2.0	2.7	4.2	..	..	..	..	..
Libya		3.5	-53.9	104.5	-6.0	23.0	12.2	9.0	..	..	..	..	..
Morocco	4.6	3.6	5.0	2.7	4.5	3.6	4.4	4.7	6.0	4.3	-1.8	12.3	1.9
Syrian Arab Republic	4.6	3.2	-3.4	-21.8	-22.5	-8.6	1.7	1.7	..	..	..	..	..
Tunisia	4.2	3.0	-2.0	3.6	2.6	2.5	3.3	3.6	5.1	3.1	0.7	5.1	2.1
Yemen	3.5	7.7	-12.6	2.4	3.0	3.4	3.9	3.9	..	..	..	..	..
South Asia	**5.9**	**9.9**	**7.2**	**4.2**	**4.6**	**5.7**	**6.3**	**6.7**	**..**	**..**	**..**	**..**	**..**
Afghanistan	11.9	8.4	6.1	14.4	3.1	3.5	4.3	5.1	..	..	..	..	..
Bangladesh[d]	5.2	6.1	6.7	6.2	6.0	5.7	6.1	6.0	..	..	..	..	..
Bhutan	7.7	9.3	10.0	9.0	7.6	8.1	8.6	8.6	..	..	..	..	..
India[d]	6.6	9.3	6.2	5.0	4.8	6.2	6.6	7.1	..	..	..	..	..
Maldives	6.3	7.1	7.0	3.4	4.3	4.2	4.1	4.1	..	..	..	..	..
Nepal[d]	3.4	4.8	3.9	4.6	3.6	3.8	4.4	5.2	..	..	..	..	..
Pakistan[d]	4.2	2.6	3.7	4.4	3.6	3.4	4.1	4.5	..	..	..	..	..
Sri Lanka	4.4	8.0	8.2	6.4	7.0	7.4	6.5	6.3	5.3	9.5	3.9	8.4	10.5

	Annual estimates and forecasts[a]								Recent Quarters[b]				
									2012		2013		
	00-09[c]	2010	2011	2012	2013e	2014f	2015f	2016f	Q3	Q4	Q1	Q2	Q3
Sub-Saharan Africa	**4.4**	**5.1**	**4.6**	**3.5**	**4.7**	**5.3**	**5.4**	**5.5**	**1.0**	**3.0**	**1.1**	**3.3**	**0.5**
Angola	10.7	3.4	3.9	5.2	5.1	8.0	7.3	7.0	..	..	..	..	..
Benin	3.6	2.6	3.5	5.4	4.2	4.1	4.2	4.0	..	..	..	..	..
Botswana	3.3	8.1	8.0	4.2	4.4	4.7	5.2	5.2	-5.4	22.2	10.0	4.5	-6.3
Burkina Faso	5.2	7.9	4.2	10.0	7.0	7.0	7.0	7.0	..	..	..	..	..
Burundi	2.9	3.8	4.2	4.0	4.3	4.5	4.1	3.5	..	..	..	..	..
Cameroon	3.0	3.3	4.1	4.7	4.8	5.0	5.1	5.1	..	..	..	..	..
Cape Verde	5.6	1.5	4.0	2.5	2.6	2.9	3.3	3.6	..	..	..	..	..
Central African Republic	0.7	3.3	3.1	4.1	-18.0	-1.8	1.1	2.5	..	..	..	..	..
Chad	8.0	13.0	1.8	5.1	5.0	8.7	5.9	5.9	..	..	..	..	..
Comoros	1.8	2.1	2.2	3.0	3.3	3.5	3.5	3.2	..	..	..	..	..
Congo, Democratic Rep.	4.2	7.2	6.9	7.2	7.5	7.5	7.4	6.7	..	..	..	..	..
Congo, Rep.	3.8	8.8	3.4	3.8	5.6	5.4	5.5	5.5	..	..	..	..	..
Cote d'Ivoire	0.8	2.4	-4.7	9.8	8.7	8.2	8.1	7.6	..	..	..	..	..
Eritrea	0.7	2.2	8.7	7.0	6.0	3.5	3.0	3.0	..	..	..	..	..
Ethiopia	7.4	9.9	7.3	8.5	7.0	7.2	7.0	7.1	..	..	..	..	..
Gabon	1.3	6.7	7.0	6.1	4.2	4.2	3.9	3.9	..	..	..	..	..
Gambia	3.2	6.5	-4.3	5.3	6.5	7.5	6.4	5.5	..	..	..	..	..
Ghana	5.0	8.0	15.0	7.9	7.4	7.4	7.3	6.7	..	..	..	..	..
Guinea	2.4	1.9	4.3	3.9	4.0	4.7	5.0	6.0	..	..	..	..	..
Guinea-Bissau	2.3	1.7	5.7	-1.5	3.0	2.7	2.7	2.9	..	..	..	..	..
Kenya	3.6	5.8	4.4	4.6	5.0	5.1	5.2	5.3	..	..	..	..	..
Lesotho	3.3	7.9	3.7	4.0	4.6	5.1	4.5	4.4	..	..	..	..	..
Madagascar	3.0	0.5	1.9	3.1	4.1	4.8	5.4	5.4	..	..	..	..	..
Malawi	3.8	6.5	4.3	1.9	4.4	4.8	5.5	5.5	..	..	..	..	..
Mali	4.2	5.8	2.7	-1.2	4.0	5.2	4.5	4.6	..	..	..	..	..
Mauritania	4.5	5.1	4.0	7.6	5.7	4.6	4.0	3.3	..	..	..	..	..
Mauritius	3.4	7.7	3.8	3.2	3.7	4.1	4.3	4.2	..	..	..	..	..
Mozambique	7.1	7.1	7.3	7.4	7.0	8.5	8.5	8.5	..	..	..	..	..
Namibia	3.9	6.0	4.9	5.0	4.2	4.3	4.4	4.4	..	..	..	..	..
Niger	3.6	-8.0	2.3	11.2	5.6	6.2	6.0	5.8	..	..	..	..	..
Nigeria	5.6	8.0	7.4	6.6	6.7	6.7	6.8	6.8	..	..	..	..	..
Rwanda	7.2	7.2	8.2	8.0	7.0	7.5	7.2	7.0	..	..	..	..	..
Senegal	3.6	4.1	2.6	3.7	4.0	4.5	4.6	4.6	..	..	..	..	..
Seychelles	1.5	7.1	5.0	2.9	3.5	3.9	3.5	3.0	..	..	..	..	..
Sierra Leone	6.0	5.4	6.0	15.2	17.0	14.1	12.1	12.1	..	..	..	..	..
South Africa	3.2	3.1	3.5	2.5	1.9	2.7	3.4	3.5	1.3	2.3	0.8	3.2	0.7
South Sudan	4.4	3.1	2.6	-49.0	33.9	17.0	9.0	9.1	..	..	..	..	..
Sudan	5.6	3.5	-3.3	-10.1	2.9	2.9	3.0	3.2	..	..	..	..	..
Tanzania	6.2	7.0	6.4	6.9	7.1	7.4	7.6	7.8	..	..	..	..	..
Togo	1.7	4.0	4.8	5.6	5.0	4.5	4.5	4.4	..	..	..	..	..
Uganda	6.8	5.9	6.6	3.4	5.8	6.5	6.8	7.1	..	..	..	..	..
Zambia	4.8	7.6	6.8	7.3	6.0	6.5	6.0	5.8	..	..	..	..	..
Zimbabwe	-5.9	9.6	9.4	4.4	2.2	3.3	3.4	3.5	..	..	..	..	..

Source: World Bank, WDI, IFS.
a. Annual percentage change.
b. Quarter over quarter growth, seasonally adjusted and annualized.
c. Coumpound average of the period 2000-2009.
d. Annual GDP is on fiscal year basis, as per reporting practice in thr country.

Table A4.2 **Current account balance**
(Percentage share of nominal GDP)

	Annual estimates and forecasts[a]								Recent Quarters[b]				
									2012		2013		
	00-09[c]	2010	2011	2012	2013e	2014f	2015f	2016f	Q3	Q4	Q1	Q2	Q3
World	**0.0**	**0.4**	**0.4**	**0.3**	**0.3**	**0.4**	**0.4**	**0.5**	**0.2**	**0.2**	**0.1**	**0.2**	**..**
High Income Countries	-0.4	0.3	0.5	0.6	0.7	0.8	0.9	1.0	0.4	0.4	0.3	0.5	..
European Union	0.2	0.5	0.6	1.7	2.5	3.0	3.3	3.7	2.2	2.7	..	..	..
OECD Countries	-1.2	-0.6	-0.7	-0.6	-0.4	-0.4	-0.5	-0.5	..	..	..	..	..
Non-OECD Countries	9.9	9.1	10.8	10.0	8.3	7.4	6.4	6.0	..	..	..	..	..
Developing Countries	**1.4**	**0.6**	**-0.1**	**-0.4**	**-0.7**	**-0.6**	**-0.5**	**-0.4**	**0.5**	**-0.7**	**-0.7**	**-0.6**	**-0.4**
East Asia and the Pacific	**4.6**	**3.8**	**1.9**	**1.9**	**1.9**	**1.9**	**1.9**	**1.9**	**3.3**	**1.9**	**..**	**..**	**..**
Cambodia	-4.5	-6.9	-7.9	-10.1	-9.6	-12.0	-11.8	-10.0	..	..	..	..	..
China	5.0	4.0	1.8	2.3	2.4	2.4	2.3	2.3	3.4	2.1	..	..	..
Fiji	-7.7	-4.4	-5.5	-1.4	-17.4	-5.5	-6.3	-7.8	..	..	..	..	..
Indonesia	2.5	0.7	0.2	-2.8	-3.5	-2.6	-2.3	-2.1	-2.4	-3.5	-2.4	..	..
Lao People's Dem. Rep.	-2.6	-10.0	-10.3	-15.3	-20.8	-20.0	-18.9	-17.0	..	..	..	..	..
Malaysia	12.6	11.1	11.0	6.1	4.3	4.3	4.1	4.0	..	..	..	..	..
Mongolia	-6.3	-14.3	-31.5	-32.7	-25.6	-16.8	-10.7	-9.2	-44.6	-26.7	..	..	..
Myanmar	-0.7	-1.3	-2.6	-4.1	-4.2	-4.8	-5.1	-5.1					
Papua New Guinea	2.4	-21.4	-23.5	-51.0	-27.0	-2.0	12.3	9.3	..	..	..	..	..
Philippines	1.5	4.5	3.2	2.9	2.0	0.6	0.7	1.0	4.8	..	..	..	..
Solomon Islands	-20.5	-30.8	-6.7	-0.1	-2.0	-6.5	-5.3	-7.6	..	..	..	..	..
Thailand	3.3	4.1	2.8	1.7	1.1	1.1	1.3	1.4	..	..	..	..	..
Timor-Leste	17.1	39.8	40.4	43.5	34.3	32.1	27.0	27.7	..	..	..	..	..
Vanuatu	-11.1	-15.0	-16.1	-12.8	-11.4	-9.9	-8.3	-7.1	..	..	..	..	..
Viet Nam	-10.8	-3.8	0.2	5.9	5.1	3.0	0.6	0.5	..	..	..	..	..
Europe and Central Asia	**-3.7**	**-3.3**	**-4.3**	**-3.5**	**-4.0**	**-4.0**	**-4.0**	**-3.9**	**-2.4**	**-4.3**	**-4.7**	**-5.6**	**-3.3**
Albania	-8.6	-11.5	-13.0	-10.8	-8.2	-7.1	-6.3	-6.7	..	..	..	..	..
Armenia	-7.4	-14.8	-11.0	-11.2	-10.6	-10.0	-9.2	-8.0	..	..	..	..	..
Azerbaijan	2.9	29.3	25.4	21.2	17.7	15.9	14.3	12.5	..	..	..	..	..
Bosnia and Herzegovina	..	-5.6	-8.8	-9.6	-7.5	-6.6	-6.3	-6.1	..	..	..	..	..
Belarus	-4.6	-15.0	-8.6	-2.7	-8.9	-8.1	-9.2	-7.9	..	..	..	..	..
Bulgaria	-11.3	-1.5	0.3	-1.3	2.1	-0.5	-0.9	-1.0	8.9	-4.9	-3.9	5.2	..
Georgia	-12.6	-10.2	-12.7	-11.7	-7.5	-7.1	-7.0	-6.3	..	..	..	..	..
Hungary	-6.8	1.1	0.9	1.6	2.3	2.2	2.1	3.2	3.3	-2.9	3.7	2.5	..
Kazakhstan	-2.0	0.9	5.4	0.3	-0.3	-1.3	-1.7	-1.8	-0.6	1.5	..	..	..
Kosovo	..	-12.0	-13.8	-7.6	-10.7	-8.7	-8.3	-8.6	..	..	..	..	..
Kyrgyz Republic	-6.0	-6.4	-6.0	-15.3	-10.4	-11.7	-11.0	-10.9	..	..	..	..	..
Macedonia, FYR	-6.1	-2.1	-2.5	-3.1	-3.2	-4.5	-5.7	-6.1	..	..	..	..	..
Montenegro	..	-22.9	-17.7	-18.7	-14.7	-15.3	-15.1	-14.8					
Moldova	-8.4	-7.7	-11.3	-7.0	-6.1	-8.7	-9.6	-8.0	..	..	..	..	..
Romania	-7.5	-4.6	-4.8	-3.8	-1.5	-1.8	-2.5	-2.7	-4.9	-3.2	0.8	1.0	..
Serbia	..	-6.7	-9.2	-10.5	-6.0	-6.0	6.3	6.5					
Tajikistan	..	-1.2	-4.7	-1.9	-2.2	-2.4	-2.5	-2.5					
Turkey	-3.2	-6.2	-9.7	-6.1	-7.4	-7.1	-6.8	-6.5	-4.1	-5.0	-7.8	-9.7	-6.1
Turkmenistan	..	-10.6	2.0	0.0	-3.4	-1.7	-1.5	-1.5					
Ukraine	2.2	-2.2	-5.5	-8.4	-8.1	-5.7	-5.6	-5.5	..	..	..	..	..
Uzbekistan	5.2	6.2	5.8	2.7	3.2	3.6	2.3	1.2	..	..	..	..	..

	Annual estimates and forecasts[a]								Recent Quarters[b]				
									2012		2013		
	00-09[c]	2010	2011	2012	2013e	2014f	2015f	2016f	Q3	Q4	Q1	Q2	Q3
Latin America and the Caribbean	**-0.4**	**-1.4**	**-1.4**	**-1.7**	**-2.6**	**-2.5**	**-2.3**	**-2.1**	**-1.6**	**-3.4**	**-3.3**	**-2.5**	**..**
Argentina	2.7	0.4	-0.6	0.0	-0.8	-0.9	-0.8	-0.2	0.6	-0.6	-1.9	0.5	..
Belize	-12.7	-2.9	-1.1	-2.2	-1.8	-1.8	-1.7	-1.4	..	..	..	..	..
Bolivia	3.9	4.6	2.3	7.7	7.1	5.9	4.5	3.0	12.3	8.7	..	..	..
Brazil	-0.7	-2.2	-2.1	-2.4	-3.6	-3.7	-3.5	-3.2	-1.6	-3.7	-4.2	-3.2	..
Colombia	-1.4	-3.1	-2.9	-3.3	-3.5	-3.6	-3.3	-3.0	-3.9	-3.6	-3.3	-2.9	..
Costa Rica	-5.0	-3.5	-5.4	-5.6	-5.4	-5.6	-5.7	-5.7	-5.2	-7.8	..	..	..
Dominica	-18.4	-17.3	-14.7	-11.5	-10.0	-9.9	-9.6	-9.0	..	..	..	..	..
Dominican Republic	-2.6	-8.4	-8.2	-6.8	-4.8	-4.0	-3.2	-2.7	-9.3	-7.0	..	..	..
Ecuador	1.0	-2.3	-0.3	-0.3	-0.9	-0.8	-0.6	-0.5	..	..	..	..	..
El Salvadore	-3.8	-2.7	-4.7	-5.1	-4.3	-3.5	-2.6	-1.1	..	..	..	..	..
Guatemala	-4.8	-1.6	-3.6	-2.9	-3.0	-2.8	-2.8	-2.9	-1.8	-5.2	-1.0	-2.9	..
Guyana	-10.0	-6.9	-14.4	-13.9	-17.0	-16.1	-15.4	-14.9	..	..	..	..	..
Haiti	-6.8	-29.4	-24.3	-17.3	-15.6	-15.0	-14.5	-27.0	..	..	..	..	..
Honduras	-6.7	-5.4	-9.0	-9.7	-11.2	-8.2	-6.9	-6.0	..	..	..	..	..
Jamaica	-10.1	-7.1	-14.6	-12.7	-11.8	-9.4	-7.4	-6.1	..	..	..	..	..
Mexico	-1.6	-0.2	-0.9	-0.9	-1.5	-1.5	-1.4	-1.4	-0.6	-3.0	-1.6	-1.6	-1.7
Nicaragua	-17.3	-10.0	-13.2	-12.8	-13.6	-13.2	-12.2	-11.2	..	..	..	..	..
Panama	-4.8	-10.8	-12.8	-9.1	-12.5	-11.9	-11.1	-9.8	..	..	..	..	..
Paraguay	2.0	-0.4	1.4	0.6	4.8	3.1	1.4	1.1	-0.7	-1.4	1.8	..	..
Peru	-0.7	-2.5	-1.9	-3.6	-4.9	-4.4	-3.8	-3.2	-5.2	-3.7	-5.0	-5.9	..
St. Lucia	-19.6	-18.9	-21.7	-14.5	-14.6	-14.4	-13.9	-13.0	..	..	..	..	..
St. Vincent and the Grenadines	-18.8	-30.9	-28.9	-30.3	-29.3	-28.3	-26.8	-25.3	..	..	..	..	..
Suriname	9.8	6.4	5.8	4.2	0.5	3.7	4.4	4.5	..	..	..	..	..
Venezuela, Bolivarian Rep. of	9.7	2.6	7.5	2.5	1.7	2.1	2.2	2.2	..	..	..	..	..
Middle East and North Africa	**5.2**	**1.7**	**1.9**	**-1.7**	**-3.1**	**-3.4**	**-3.5**	**-3.4**	**-1.8**	**-2.9**	**..**	**..**	**..**
Algeria	22.3	7.3	8.9	5.9	2.7	1.2	0.1	0.0	..	..	..	..	..
Egypt	1.1	-2.0	-2.7	-3.1	-2.1	-1.6	-1.4	-1.3	-0.4	-4.0	..	..	..
Iran, Islamic Rep. of	6.3	7.0	9.2	2.8	-0.9	-1.6	-1.9	-2.2	..	..	..	..	..
Iraq	..	3.0	12.5	7.0	1.0	1.2	1.5	1.9	..	..	..	..	..
Jordan	-4.4	-7.1	-12.0	-17.7	-14.9	-14.0	-13.0	-11.6	-16.6	-9.1	-11.0	..	..
Lebanon	-16.8	-20.4	-12.1	-13.5	-14.1	-13.3	-12.3	-11.3	..	..	..	..	..
Libya	..	19.5	9.1	29.1	3.2	5.4	4.4	5.5	..	..	..	..	..
Morocco	0.2	-4.6	-8.4	-9.7	-7.8	-7.3	-6.6	-5.7	-6.4	-10.8	..	..	..
Syrian Arab Republic	2.7	-0.6	-19.7	-19.0	-20.5	-15.5	-11.7	-9.1	..	..	..	..	..
Tunisia	-2.7	-4.7	-7.3	-8.3	-8.9	-7.8	-7.5	-7.3	..	..	..	..	..
Yemen	1.1	-5.4	-5.4	-3.1	-5.1	-5.2	-4.6	-4.4	..	..	..	..	..
South Asia	**-0.6**	**-2.6**	**-3.1**	**-4.1**	**-3.0**	**-2.7**	**-2.6**	**-2.5**	**..**	**..**	**..**	**..**	**..**
Afghanistan	-0.3	2.8	3.1	3.9	2.5	1.8	0.5	-0.3	..	..	..	..	..
Bangladesh	0.6	1.8	0.2	1.3	1.5	1.4	1.2	0.9	..	..	..	..	..
Bhutan	-0.1	-19.1	-25.5	-20.7	-20.9	-19.2	-18.4	-18.4					
India	-0.5	-3.2	-3.4	-5.0	-3.5	-3.2	-3.1	-2.9	..	..	..	..	..
Maldives	-1.1	-9.2	-21.4	-27.1	-28.0	-26.0	-25.0	-25.0					
Nepal	-0.9	-2.6	0.2	1.4	1.5	1.0	0.6	0.1	..	..	..	..	..
Pakistan	-1.4	-0.7	-1.1	-0.9	-1.7	-1.6	-1.4	-1.2	..	..	..	..	..
Sri Lanka	-3.7	-2.3	-7.9	-6.4	-5.1	-4.4	-3.8	-3.2	-4.7	-7.3	..	..	..

	Annual estimates and forecasts[a]								Recent Quarters[b]				
									2012		2013		
	00-09[c]	2010	2011	2012	2013e	2014f	2015f	2016f	Q3	Q4	Q1	Q2	Q3
Sub-Saharan Africa	**0.0**	**-1.3**	**0.2**	**-1.5**	**-3.0**	**-3.3**	**-3.3**	**-3.1**	**..**	**..**	**..**	**..**	**..**
Angola	4.9	9.1	12.6	10.4	10.6	9.2	9.5	10.1	..	..	..	..	..
Benin	-8.3	-9.4	-13.2	-11.6	-9.8	-9.8	-9.2	-8.9	..	..	..	..	..
Botswana	7.4	-7.4	-1.4	-4.5	-0.2	-1.2	-1.9	-2.4	..	..	..	..	..
Burkina Faso	-13.2	-5.8	-4.8	-6.8	-4.9	-4.3	-3.4	-1.2	..	..	..	..	..
Burundi	-17.5	-15.9	-16.3	-17.2	-17.9	-16.3	-16.0	-15.6	..	..	..	..	..
Cote d'Ivoire	1.9	2.1	1.4	-2.2	-3.5	-4.5	-4.3	-4.6	..	..	..	..	..
Cameroon	-2.4	-3.8	-5.8	-6.4	-5.7	-5.9	-6.1	-6.4	..	..	..	..	..
Cape Verde	-11.3	-14.5	-17.4	-12.4	-9.9	-8.1	-8.8	-8.9	..	..	..	..	..
Central African Republic	-8.6	-13.3	2.5	2.5	-1.1	-0.1	1.7	1.6	..	..	..	..	..
Chad	-17.4	-32.2	-13.0	-19.5	-18.2	-10.2	1.9	1.9	..	..	..	..	..
Comoros	-11.9	-27.4	-32.1	-16.9	-14.1	-13.5	-13.1	-11.9	..	..	..	..	..
Congo, Democratic Rep.	0.6	-16.6	-8.2	-12.3	-8.2	-5.3	-4.8	-4.6	..	..	..	..	..
Congo, Rep.	-2.0	-28.0	31.2	1.8	1.8	0.4	0.4	-0.3	..	..	..	..	..
Eritrea	-20.9	-5.5	3.2	22.5	23.5	27.6	28.8	29.3	..	..	..	..	..
Ethiopia	-5.0	-1.2	-2.0	-6.2	-6.4	-6.4	-6.5	-6.5	..	..	..	..	..
Gabon	14.8	5.8	11.4	14.4	9.6	9.1	7.3	6.9	..	..	..	..	..
Gambia	-3.6	2.2	5.3	-7.3	-12.7	-13.1	-13.5	-10.3	..	..	..	..	..
Ghana	-6.5	-9.6	-8.9	-12.5	-11.7	-11.7	-10.2	-9.9	..	..	..	..	..
Guinea	-7.2	-7.0	-23.8	-35.4	-25.5	-46.3	-43.5	-38.7	..	..	..	..	..
Guinea-Bissau	-9.0	-11.9	-6.1	-7.0	-5.8	-5.0	-4.5	-3.4	..	..	..	..	..
Kenya	-2.5	-7.7	-10.3	-9.8	-9.5	-8.6	-7.5	-7.5	..	..	..	..	..
Lesotho	2.9	-19.9	-20.5	-21.4	-14.5	-13.1	-12.0	-11.5	..	..	..	..	..
Madagascar	-12.4	-10.2	-10.4	-11.8	-13.6	-18.1	-20.3	-16.3	..	..	..	..	..
Malawi	-10.7	-16.8	-13.6	-15.0	-18.4	-15.9	-14.7	-15.6	..	..	..	..	..
Mali	-8.3	-14.1	-7.0	-4.4	-9.6	-10.1	-10.0	-9.7	..	..	..	..	..
Mauritania	-10.8	-6.0	-1.9	-25.3	-25.5	-21.5	-17.0	-16.9	..	..	..	..	..
Mauritius	-2.7	-10.3	-13.4	-11.2	-9.6	-8.4	-7.7	-10.5	..	..	..	..	..
Mozambique	-14.0	-16.4	-23.8	-35.4	-40.3	-40.9	-39.2	-37.9	..	..	..	..	..
Namibia	3.5	-2.1	-4.7	-3.4	-2.0	-2.3	-3.8	-3.8	..	..	..	..	..
Niger	-9.7	-21.3	-24.6	-19.6	-17.9	-17.7	-17.6	-16.8	..	..	..	..	..
Nigeria	14.4	6.3	12.2	13.7	7.2	5.2	3.5	1.7	..	..	..	..	..
Rwanda	-6.0	-7.5	-7.4	-11.2	-8.4	-8.2	-8.5	-8.8	..	..	..	..	..
Senegal	-8.0	-4.7	-7.4	-9.2	-8.3	-7.2	-6.7	-5.9	..	..	..	..	..
Seychelles	-13.9	-19.5	-21.3	-23.8	-24.8	-21.7	-17.1	-22.2	..	..	..	..	..
Sierra Leone	-11.1	-25.0	-40.6	-37.1	-19.3	-10.6	-7.8	-7.4	..	..	..	..	..
South Africa	-3.0	-2.8	-3.4	-6.3	-6.9	-6.5	-6.4	-6.3	-6.8	-6.0	-6.6	-6.5	..
South Sudan	10.7	30.3	17.5	-28.2	-14.6	9.2	13.3	15.2	..	..	..	..	..
Sudan	-5.9	-0.6	-0.4	-0.5	-5.3	-4.5	-4.0	-2.1	..	..	..	..	..
Tanzania	-9.3	-12.0	-19.3	-14.8	-17.2	-16.6	-16.0	-15.4	..	..	..	..	..
Togo	-9.2	-6.3	-4.1	-6.3	-9.2	-8.4	-8.7	-7.9	..	..	..	..	..
Uganda	-4.0	-7.9	-9.3	-5.5	-5.1	-4.6	-3.5	-3.2	..	..	..	..	..
Zambia	-10.8	6.0	2.9	2.7	2.8	2.4	2.2	2.2	..	..	..	..	..
Zimbabwe	-12.2	-10.3	-23.0	-19.7	-21.9	-17.6	-14.7	-18.6	..	..	..	..	..

Source: World Bank, WDI, IFS.
Note: Quarterly CAB figures from the IFS may differ from the annual figures from the WDI.
a. Percentage of GDP in current USD.
b. Quarterly current account as a share of GDP in current USD.
c. Simple average of the period 2000-2009.

Table A4.3 **GDP output gap and potential growth**
(Constant 2010 U.S. dollars)

	GDP output gap[a]								Potential GDP growth[b]							
	00-09[c]	2010	2011	2012	2013e	2014f	2015f	2016f	00-09[d]	2010	2011	2012	2013e	2014f	2015f	2016f
World	**0.4**	**-0.6**	**-0.2**	**-0.5**	**-1.0**	**-0.9**	**-0.7**	**-0.5**	**2.7**	**2.5**	**2.6**	**2.8**	**2.9**	**3.0**	**3.2**	**3.3**
High Income Countries	0.6	-1.3	-0.8	-0.7	-1.1	-0.7	-0.4	-0.2	1.9	1.1	1.3	1.5	1.6	1.8	2.1	2.2
European Union	0.8	-0.8	0.4	-0.7	-1.6	-1.3	-0.7	-0.4	1.4	0.3	0.4	0.4	0.5	0.7	0.9	1.1
OECD Countries	0.5	-1.4	-0.9	-0.8	-1.1	-0.7	-0.4	-0.1	1.8	1.0	1.2	1.4	1.5	1.7	1.9	2.1
Non-OECD Countries	1.1	-1.1	0.0	-0.2	-1.4	-2.2	-2.9	-3.8	4.0	3.4	3.7	3.7	3.8	4.1	4.4	4.9
Developing Countries	**-0.5**	**1.1**	**1.3**	**0.1**	**-0.8**	**-1.2**	**-1.3**	**-1.1**	**5.3**	**6.1**	**6.0**	**5.9**	**5.8**	**5.7**	**5.6**	**5.5**
East Asia and the Pacific	**-1.0**	**1.8**	**1.8**	**1.0**	**0.1**	**-0.5**	**-0.9**	**-1.2**	**7.7**	**8.7**	**8.3**	**8.3**	**8.1**	**7.9**	**7.6**	**7.4**
Cambodia	0.2	-2.9	-2.1	-0.9	-0.1	0.6	1.1	1.6	7.5	6.2	6.2	6.0	6.1	6.2	6.5	6.5
China	-1.0	2.4	2.5	1.2	0.2	-0.6	-1.2	-1.7	9.1	9.7	9.2	9.1	8.8	8.5	8.2	8.0
Indonesia	-1.8	-0.3	0.2	0.5	0.5	0.4	0.7	1.3	4.1	5.9	5.9	5.9	5.7	5.4	5.2	4.8
Lao People's Dem. Rep.	-1.1	-1.2	-0.4	0.3	0.7	0.7	1.2	1.9	5.9	6.4	7.2	7.4	7.6	7.7	7.6	7.4
Malaysia	-0.4	-0.9	-0.5	0.0	-0.6	-0.7	-0.7	-0.7	4.2	4.8	4.6	5.1	5.1	5.0	4.9	4.9
Mongolia	-1.0	-7.3	-1.0	0.1	1.5	1.4	2.0	1.4	6.4	8.0	10.1	11.1	11.0	10.4	9.3	8.3
Papua New Guinea	-2.7	-1.3	0.0	-1.4	-6.2	-7.3	1.8	-1.7	2.9	8.5	9.2	9.7	9.4	9.8	9.3	8.7
Philippines	-0.4	-0.2	-1.5	-0.2	1.1	2.0	3.2	4.1	4.2	5.4	5.1	5.3	5.5	5.7	5.8	5.7
Solomon Islands	-3.8	1.1	4.0	2.1	0.4	-0.9	-1.1	-0.4	1.9	7.6	7.5	6.8	5.8	4.9	4.0	3.2
Thailand	-0.5	0.1	-3.6	-1.4	-2.3	-2.1	-1.4	-0.6	3.4	3.9	3.9	4.2	4.2	4.2	4.3	4.3
Vanuatu	-1.0	0.4	-1.1	-1.4	-1.9	-1.7	-0.6	0.6	3.2	3.8	2.9	2.6	2.2	2.0	1.9	1.7
Viet Nam	-0.2	0.2	0.5	0.3	0.2	0.1	-0.1	-0.1	7.0	6.5	5.9	5.4	5.4	5.5	5.7	5.5
Europe and Central Asia	**0.1**	**-1.8**	**0.6**	**-0.9**	**-1.1**	**-1.3**	**-1.4**	**-1.4**	**4.1**	**3.6**	**3.8**	**3.6**	**3.6**	**3.7**	**3.7**	**3.7**
Albania	0.8	2.5	2.7	1.2	-0.6	-1.4	-1.4	-1.6	5.3	2.8	2.9	3.2	3.1	3.0	2.9	3.3
Armenia	4.6	-4.6	-3.8	-0.9	-2.4	-3.1	-4.8	-7.3	7.2	4.0	3.8	4.1	4.8	5.8	6.9	7.8
Azerbaijan	-0.5	10.4	3.2	-2.2	-4.2	-5.5	-7.0	-8.2	12.5	7.4	7.1	7.9	7.1	6.6	6.2	5.2
Belarus	1.5	4.2	4.0	1.2	-2.0	-4.8	-7.4	-9.5	6.2	6.3	5.7	4.3	4.3	4.5	4.7	3.9
Bulgaria	1.6	-2.7	-2.1	-2.6	-3.3	-3.0	-2.7	-2.4	4.1	1.4	1.2	1.4	1.3	1.4	1.6	1.6
Georgia	4.3	-1.4	0.0	0.4	-2.6	-2.4	-2.7	-3.0	6.0	6.4	5.4	5.6	5.7	6.1	6.7	6.8
Hungary	1.3	-3.1	-1.7	-3.3	-2.8	-1.7	-1.2	0.2	2.2	0.1	0.1	-0.1	0.2	0.5	1.0	1.2
Kazakhstan	1.9	-1.2	0.2	-0.3	0.2	0.4	0.7	1.2	7.0	5.8	6.0	5.6	5.5	5.5	5.6	5.4
Kyrgyz Republic	2.0	-1.8	0.5	-4.8	-2.1	-0.7	-0.7	-0.8	4.0	4.3	3.5	4.7	4.8	5.0	5.4	5.5
Macedonia, FYR	0.3	1.5	1.6	-0.8	-0.9	-0.7	0.0	0.8	2.8	2.4	2.8	2.0	2.6	2.7	2.8	2.9
Moldova	1.7	-0.7	2.1	-2.0	-0.6	0.3	1.3	2.0	4.0	3.6	3.5	3.3	2.7	2.8	3.0	3.3
Romania	0.6	-2.2	-2.0	-3.3	-3.0	-2.6	-1.9	-1.3	3.0	1.7	2.0	2.1	2.2	2.1	2.0	2.0
Turkey	-1.5	-2.3	1.7	0.0	0.3	-0.1	-0.2	0.1	3.6	4.0	4.4	4.0	4.0	4.0	4.0	3.9
Ukraine	3.4	-4.5	-1.1	-2.5	-5.3	-5.4	-6.9	-8.8	3.6	1.6	1.6	1.7	1.8	2.2	2.6	2.8
Uzbekistan	-1.0	0.4	1.0	1.5	1.5	1.3	1.2	1.2	6.1	8.2	7.7	7.7	7.4	7.1	6.9	6.6
Latin America and the Caribbean	**-0.5**	**0.3**	**0.7**	**-0.1**	**-0.9**	**-1.2**	**-1.1**	**-0.4**	**2.9**	**3.7**	**3.7**	**3.5**	**3.3**	**3.2**	**3.1**	**3.0**
Argentina	-3.4	2.5	5.7	2.8	3.5	2.4	1.4	0.7	3.1	5.5	5.6	4.7	4.3	3.9	3.6	3.3
Belize	1.7	-0.8	-1.7	0.6	-0.4	-0.6	-0.5	-0.4	3.9	2.7	2.9	2.9	2.8	2.9	3.1	3.4
Bolivia	-1.0	0.1	0.5	1.1	1.8	2.3	2.1	1.9	3.3	4.5	4.7	4.6	4.5	4.3	4.1	3.9
Brazil	-0.6	2.8	2.0	-0.2	-1.0	-1.5	-1.5	-0.5	2.9	3.8	3.5	3.1	3.0	2.9	2.7	2.7
Colombia	-0.7	-0.9	1.0	0.7	0.6	0.8	1.1	1.4	3.5	4.3	4.6	4.4	4.2	4.0	3.8	3.6
Costa Rica	-0.4	-1.2	-0.8	0.2	-0.5	-0.3	-0.3	-0.2	4.2	4.0	4.0	4.1	4.1	4.1	4.1	4.0
Dominica	-0.2	1.8	1.0	-0.5	-1.2	-1.2	-1.0	-0.5	1.9	2.5	1.8	1.9	1.8	1.7	1.6	1.6
Dominican Republic	-0.7	2.6	2.1	1.3	-0.5	-0.9	-0.6	0.0	4.8	5.4	5.0	4.7	4.4	4.3	4.3	4.3
Ecuador	-0.4	-2.1	0.5	0.8	0.2	-0.1	-0.1	0.2	3.7	4.2	4.5	4.7	4.6	4.4	4.2	4.1
El Salvadore	0.4	-1.6	-1.3	-1.5	-1.6	-1.3	-0.8	-0.4	2.0	1.3	1.7	1.8	1.9	2.0	2.1	2.5
Guatemala	-0.1	-0.9	-0.1	-0.3	-0.1	0.1	0.3	0.3	3.2	3.0	3.2	3.2	3.1	3.1	3.2	3.2
Guyana	-1.0	0.1	0.5	0.8	1.1	1.2	1.0	0.4	2.1	3.6	4.7	4.5	4.1	3.8	3.7	4.1
Haiti	0.0	-6.4	-3.1	-1.1	0.6	2.4	3.4	3.9	0.9	1.9	2.0	0.8	1.6	2.3	2.9	3.4
Honduras	0.1	-0.7	-0.5	-0.6	-1.0	-1.1	-0.8	-0.6	3.7	2.9	3.5	3.4	3.4	3.5	3.5	3.7
Jamaica	-0.1	-2.9	-1.5	-2.2	-2.0	-1.2	-0.1	0.7	0.8	-0.5	-0.1	0.1	0.2	0.1	0.1	0.5
Mexico	0.7	-3.8	-2.8	-1.9	-3.3	-2.9	-2.3	-1.2	2.4	2.5	2.9	2.9	2.9	3.0	3.1	3.1
Nicaragua	0.7	-2.4	-0.8	0.3	0.1	0.2	0.4	0.3	3.4	3.1	3.8	4.0	4.0	4.1	4.2	4.4
Panama	-1.4	1.2	1.7	2.7	1.5	0.6	-0.1	-0.5	5.5	7.8	10.0	9.4	9.1	8.3	7.6	6.9
Paraguay	-2.6	2.5	2.4	-3.3	6.5	7.5	7.4	7.3	2.8	5.0	4.1	3.7	3.7	3.6	3.4	3.1
Peru	-1.3	0.5	0.9	0.7	-0.4	-0.6	-0.2	0.5	4.8	6.9	6.4	6.5	6.1	5.8	5.4	5.1
St. Lucia	-1.3	1.9	1.3	-0.7	-1.3	-1.1	-0.9	-0.5	2.0	1.6	1.2	1.2	1.2	1.3	1.4	1.4
St. Vincent and the Grenadines	1.2	-4.5	-5.2	-5.2	-4.8	-3.8	-2.6	-0.6	2.9	1.9	1.4	1.5	1.6	1.7	1.9	2.1
Suriname	-0.8	0.2	0.6	1.2	0.9	1.1	0.8	0.6	3.9	4.7	4.2	4.3	4.1	4.0	3.8	3.8
Venezuela, Bolivarian Rep. of	-0.9	-2.2	-0.9	1.5	-0.2	-1.8	-1.9	-1.3	3.0	3.0	2.8	3.0	2.5	2.1	1.8	1.7

	GDP output gap[a]								Potential GDP growth[b]							
	00-09[c]	2010	2011	2012	2013e	2014f	2015f	2016f	00-09[d]	2010	2011	2012	2013e	2014f	2015f	2016f
Middle East and North Africa	**0.2**	**3.4**	**1.8**	**-2.2**	**-4.8**	**-5.6**	**-5.5**	**-5.1**	**4.0**	**3.4**	**3.2**	**2.9**	**2.7**	**2.7**	**2.7**	**2.5**
Algeria	1.2	0.3	-0.6	-0.6	-0.9	-0.8	-0.8	-0.7	3.2	3.6	3.5	3.3	3.1	3.2	3.5	3.4
Egypt	0.2	2.9	1.0	-2.3	-4.2	-5.4	-6.0	-6.1	4.2	4.1	3.9	3.9	3.8	3.6	3.4	3.4
Iran, Islamic Rep. of	-0.1	5.2	5.1	0.1	-3.0	-3.7	-3.5	-2.8	4.1	2.5	2.3	1.9	1.7	1.7	1.7	1.2
Jordan	0.6	3.1	1.4	0.0	-1.2	-2.4	-3.4	-3.7	5.3	4.6	4.3	4.2	4.3	4.4	4.3	4.1
Lebanon	-1.4	6.4	4.6	1.6	-1.7	-3.2	-3.7	-2.6	3.6	5.1	4.8	4.4	4.0	3.6	3.3	2.9
Morocco	-0.1	-0.2	0.4	-1.1	-0.8	-1.4	-1.2	-0.6	4.1	4.5	4.4	4.3	4.2	4.2	4.2	4.1
Syrian Arab Republic	-0.5	3.5	-2.7	-25.0	-42.0	-46.8	-45.6	-44.6	3.8	3.8	2.9	1.4	0.3	-0.4	-0.6	-0.1
Tunisia	0.8	2.3	-3.0	-2.9	-3.8	-4.8	-5.2	-5.4	3.9	3.6	3.4	3.5	3.5	3.6	3.7	3.8
Yemen	0.3	8.5	-6.8	-6.2	-5.4	-4.6	-3.6	-2.6	3.2	2.0	1.8	1.8	2.1	2.5	2.8	2.9
South Asia	**-0.6**	**1.4**	**1.9**	**-0.2**	**-1.6**	**-1.9**	**-1.6**	**-0.9**	**6.1**	**7.0**	**6.7**	**6.3**	**6.1**	**6.0**	**6.0**	**6.0**
Bangladesh	-0.5	-0.1	0.1	0.1	-0.1	-0.2	-0.1	0.2	5.3	6.2	6.2	6.2	6.0	6.0	5.9	5.7
India	-0.6	2.2	2.8	0.1	-1.7	-2.1	-1.9	-1.2	6.4	7.6	7.1	6.6	6.4	6.3	6.3	6.2
Nepal	-0.1	0.6	0.8	0.8	0.4	0.3	0.7	1.5	3.6	4.4	4.1	4.1	4.1	4.2	4.4	4.5
Pakistan	-0.7	-4.2	-4.2	-2.9	-1.8	-1.8	-1.2	-0.5	4.3	3.8	3.5	3.6	3.6	3.7	3.7	3.9
Sri Lanka	-1.2	-1.2	0.3	0.2	0.7	1.5	1.4	1.4	5.0	6.3	6.6	6.5	6.5	6.5	6.6	6.4
Sub-Saharan Africa	**0.3**	**0.3**	**0.2**	**-1.0**	**-1.1**	**-0.8**	**-0.4**	**0.2**	**4.3**	**4.9**	**4.7**	**4.8**	**4.8**	**4.9**	**5.0**	**4.9**
Angola	0.9	3.0	-0.9	-3.6	-5.6	-5.0	-4.8	-4.4	9.3	8.6	8.0	8.1	7.3	7.3	7.1	6.6
Benin	0.7	-1.3	-1.5	-0.1	0.0	0.0	0.1	0.0	3.8	3.5	3.8	3.9	4.1	4.1	4.2	4.0
Botswana	0.7	-1.9	-0.5	-1.1	-1.2	-0.8	-0.3	0.0	3.8	4.8	4.6	4.9	4.6	4.6	4.7	4.9
Burkina Faso	0.8	-3.1	-5.1	-1.8	-1.3	-1.0	-1.0	-0.7	5.6	7.1	6.4	6.3	6.5	6.7	6.9	6.7
Burundi	-1.0	-0.2	0.5	0.8	1.2	1.6	1.8	1.7	3.5	2.3	3.5	3.6	3.9	4.1	3.9	3.6
Cameroon	2.0	-1.2	-1.5	-1.2	-0.8	-0.5	-0.3	-0.1	3.3	4.0	4.5	4.4	4.4	4.6	4.9	4.9
Cape Verde	1.1	-3.3	-3.9	-5.8	-7.7	-9.7	-11.8	-14.0	6.0	5.1	4.6	4.6	4.8	5.1	5.7	6.3
Central African Republic	-0.7	-2.2	-2.0	-0.1	-19.3	-21.5	-21.2	-19.5	1.2	3.7	2.9	2.1	1.5	1.0	0.7	0.3
Chad	0.5	0.3	-3.9	-4.8	-5.5	-3.1	-3.2	-3.0	7.3	7.3	6.2	6.1	5.8	6.1	6.0	5.7
Comoros	0.7	-2.0	-2.2	-1.8	-1.1	-0.5	-0.2	0.2	1.8	3.1	2.5	2.5	2.6	2.9	3.1	2.8
Congo, Democratic Rep.	-1.4	-1.9	-1.5	-0.5	0.1	0.2	0.2	0.1	3.9	6.9	6.4	6.1	6.8	7.4	7.4	6.8
Congo, Rep.	0.2	3.9	1.4	-0.6	-0.8	-1.0	-1.0	-0.7	3.7	5.0	5.9	5.9	5.9	5.6	5.5	5.1
Cote d'Ivoire	-0.5	1.9	-4.4	3.3	9.7	15.3	20.8	25.9	0.8	2.2	1.6	1.7	2.3	3.0	3.2	3.3
Eritrea	-3.5	-7.0	-1.5	2.1	4.1	3.5	2.7	2.6	1.3	1.1	2.7	3.2	4.0	4.0	3.9	3.0
Ethiopia	-1.0	2.2	1.9	1.8	1.0	0.7	0.4	0.6	7.3	9.0	8.2	7.9	7.7	7.5	7.3	6.9
Gabon	-2.3	-2.5	0.7	2.7	3.0	3.2	3.0	2.6	1.5	3.1	3.6	4.0	3.9	4.0	4.1	4.2
Gambia	0.3	3.8	-4.1	-3.9	-3.1	-1.5	-0.8	-0.5	3.3	4.4	3.6	5.1	5.7	5.7	5.7	5.2
Ghana	-1.5	-5.0	1.3	1.5	1.7	1.4	1.3	0.7	5.7	7.6	7.9	7.6	7.3	7.6	7.5	7.3
Guinea	1.3	-0.2	0.6	0.1	1.0	0.5	0.4	2.1	2.2	3.0	3.5	4.5	3.1	5.2	5.1	4.3
Guinea-Bissau	-1.8	1.1	2.7	-2.2	-1.9	-1.8	-1.6	-0.8	1.3	3.1	4.0	3.5	2.6	2.6	2.6	2.0
Kenya	-0.7	0.1	-0.2	-0.4	-0.4	-0.3	0.0	0.6	3.5	4.6	4.6	4.8	5.0	5.0	4.9	4.6
Lesotho	-1.1	1.5	0.6	-0.4	-0.2	0.4	0.3	0.2	3.2	5.1	4.6	5.1	4.3	4.5	4.7	4.4
Madagascar	1.5	-3.1	-4.5	-4.9	-4.5	-3.5	-2.2	-0.8	3.6	2.4	3.4	3.5	3.7	3.8	3.9	3.9
Malawi	-0.4	-0.7	-0.6	-2.2	-1.7	-1.2	-0.4	0.1	4.5	7.0	4.2	3.5	3.9	4.3	4.7	4.9
Mali	1.2	2.5	2.8	-0.8	0.3	2.0	2.6	3.1	4.0	4.8	2.4	2.3	2.9	3.4	3.9	4.0
Mauritania	-0.8	-0.8	-1.7	0.1	0.7	0.7	0.7	0.8	4.8	3.0	5.0	5.6	5.0	4.7	3.9	3.2
Mauritius	-0.1	1.8	1.2	0.2	-0.3	-0.4	-0.5	-0.5	3.9	4.3	4.4	4.2	4.2	4.3	4.4	4.2
Mozambique	0.4	0.9	0.2	-0.3	-1.4	-1.5	-1.5	-1.2	6.4	7.7	8.1	7.9	8.2	8.5	8.6	8.1
Namibia	-0.1	-1.5	-0.4	0.5	1.4	1.9	1.9	1.6	4.1	4.2	3.8	4.0	3.3	3.8	4.4	4.7
Niger	2.4	-9.5	-11.2	-4.4	-2.7	-0.8	0.6	1.6	3.0	5.6	4.2	3.3	3.7	4.2	4.6	4.7
Nigeria	-0.6	0.5	1.2	0.7	0.2	-0.1	-0.3	-0.2	5.5	6.8	6.6	7.1	7.2	7.1	7.0	6.7
Rwanda	1.0	-2.5	-1.4	-0.4	-0.2	0.4	0.6	0.3	7.2	9.0	7.1	6.9	6.8	6.8	7.0	7.3
Senegal	1.1	-0.2	-1.2	-1.5	-1.4	-1.0	-0.6	-0.2	3.8	3.7	3.8	4.0	3.9	4.0	4.2	4.2
Seychelles	-1.9	1.3	2.3	1.3	0.8	0.8	0.7	0.7	2.4	2.8	4.0	3.9	3.9	3.9	3.6	3.0
Sierra Leone	1.1	-4.3	-9.8	-9.3	-6.4	-4.7	-3.3	-0.7	6.0	9.3	12.5	14.6	13.3	12.1	10.5	9.3
South Africa	0.6	-1.0	-0.5	-1.0	-1.9	-2.0	-1.5	-0.8	3.2	3.2	3.0	3.0	2.9	2.8	2.9	2.8
South Sudan	3.7	15.6	23.1	-31.9	-3.2	21.1	40.1	60.0	3.4	-3.7	-3.6	-7.8	-5.8	-6.5	-5.7	-4.5
Sudan	1.6	7.8	3.2	-6.7	-4.2	-1.9	-0.6	0.4	4.8	2.6	1.1	-0.6	0.1	0.5	1.7	2.1
Tanzania	0.7	0.8	-0.6	-1.6	-2.0	-2.3	-2.2	-1.7	5.9	7.1	7.9	8.0	7.5	7.7	7.5	7.3
Togo	-1.0	-1.6	-0.9	0.0	0.2	0.1	0.0	0.1	2.2	4.3	4.0	4.7	4.8	4.6	4.6	4.3
Uganda	0.0	2.1	0.8	-0.7	-1.3	-1.9	-1.7	-1.2	6.4	6.4	6.3	6.3	6.8	7.2	6.7	6.6
Zambia	-1.2	-1.1	-0.8	0.5	0.2	0.5	0.3	-0.1	5.0	6.5	6.5	5.9	6.3	6.2	6.2	6.2
Zimbabwe	-5.0	-4.7	2.6	6.1	6.8	8.8	11.4	15.2	-3.9	-0.3	1.6	1.0	1.5	1.4	1.0	0.0

Source: World Bank, WDI.
a. Gap between real GDP growth and potential GDP growth.
b. Potential GDP growth rate, year over year.
c. Simple average of the gap in the period 2000-2009.
d. Compound average of potential growth during the period 2000-2009.

Table A4.4 Merchandise import growth

(Constant 2010 U.S. dollars)

	Recent years[a]				Recent Quarters[b]					Recent Months[c]				
					2012		2013			2013				
	00-09[d]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
World	**3.3**	**14.3**	**6.6**	**2.5**	**-3.8**	**4.9**	**9.5**	**2.5**	**-0.2**	**-3.0**	**-0.2**	**1.8**	**..**	**..**
High Income Countries	1.8	12.3	4.8	0.5	-4.4	0.9	4.0	4.6	0.5	-0.5	0.5	4.0	..	..
European Union	2.1	8.1	4.7	-4.2	-6.1	-2.5	7.1	7.0	0.1	4.4	0.1	2.2	..	..
OECD Countries	2.0	11.8	5.2	0.3	-5.2	0.1	3.1	8.1	0.2	0.6	0.2	2.8	..	..
Non-OECD Countries	1.5	18.8	6.0	4.2	0.6	11.7	10.1	-5.4	-1.2	-6.3	-1.2	5.3	12.2	..
Developing Countries	**7.6**	**18.8**	**11.2**	**7.3**	**-2.5**	**13.8**	**22.3**	**-2.0**	**-1.8**	**-8.2**	**-1.8**	**-2.9**	**-0.2**	**..**
East Asia and the Pacific	**8.6**	**26.4**	**10.9**	**8.2**	**-3.8**	**17.9**	**30.4**	**-10.0**	**-0.5**	**-14.0**	**-0.5**	**-0.2**	**6.9**	**..**
Cambodia	5.1	12.7	8.1	18.8	41.6	12.9	..	..	..	..	..	..	..	..
China	12.5	25.5	10.7	8.5	-0.3	14.5	32.6	-10.0	5.0	-13.8	5.0	4.4	8.6	..
Indonesia	8.3	33.8	17.3	10.5	-35.4	50.8	3.5	-10.2	-18.8	-21.2	-18.8	-25.7	19.7	..
Lao People's Dem. Rep.	8.0	35.8	..	..	..	..	..	..	..	..	..	..	..	..
Malaysia	1.5	25.8	2.6	7.2	-5.6	-6.0	60.8	-11.3	-6.0	-12.7	-6.0	6.9	..	..
Mongolia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Papua New Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Philippines	1.6	20.1	0.1	1.2	-17.3	9.8	-16.2	10.0	79.9	57.2	79.9	26.9	..	..
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Thailand	5.8	37.6	17.9	5.4	-0.2	43.5	29.3	-18.5	-33.8	-27.2	-33.8	-23.2	-11.1	..
Vanuatu	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Viet Nam	13.0	14.4	11.7	12.3	5.5	22.3	35.4	6.7	11.6	-3.0	11.6	..	..	..
Europe and Central Asia	**10.7**	**14.4**	**17.4**	**7.6**	**0.0**	**-1.4**	**19.5**	**23.5**	**0.3**	**6.8**	**0.3**	**-6.4**	**..**	**..**
Albania	12.6	-7.4	9.8	-7.8	8.8	-17.0	-1.1	11.6	10.3	12.6	10.3	2.6	7.2	..
Armenia	11.0	9.9	-2.1	4.4	-36.3	47.0	20.2	-20.3	17.8	13.6	17.8	17.3	..	..
Azerbaijan	15.1	2.3	33.4	24.1	283.2	-15.4	..	..	..	..	..	..	..	..
Belarus	8.9	11.0	14.3	3.0	-14.6	-25.0	11.9	-9.6	4.3	7.0	4.3	-16.8	..	..
Bulgaria	5.9	5.4	12.8	24.1	6.8	-18.1	13.6	-0.7	24.1	30.5	24.1	10.5	..	..
Georgia	12.4	11.8	18.3	..	..	..	..	..	..	..	..	..	..	..
Hungary	8.0	15.7	8.9	5.0	11.1	21.8	15.5	15.9	-10.3	-0.7	-10.3	-9.7	..	..
Kazakhstan	16.0	2.4	7.6	28.6	24.7	-1.4	15.6	20.1	-20.3	-7.2	-20.3	-17.1	..	..
Kyrgyz Republic	10.3	21.2	25.7	12.8	4.5	25.9	-19.4	46.8	14.8	31.5	14.8	..	..	..
Macedonia, FYR	5.7	-0.4	13.0	-5.4	-21.1	22.5	3.3	15.1	-12.7	0.2	-12.7	..	..	..
Moldova	12.9	11.4	23.7	1.8	0.2	2.4	42.9	-1.5	..	..	..	..	..	..
Romania	7.8	13.6	5.4	1.3	-6.8	-8.1	19.4	-12.0	31.3	18.7	31.3	15.5	..	..
Turkey	15.1	18.0	26.5	8.3	-3.5	1.6	11.7	55.8	-1.7	5.5	-1.7	-8.3	13.3	..
Ukraine	9.4	25.7	21.3	-2.9	-15.7	-14.2	..	..	..	..	..	..	..	..
Uzbekistan	12.9	-2.2	5.7	10.2	-22.9	26.1	..	..	..	..	..	..	..	..
Latin America and the Caribbean	**3.3**	**19.7**	**9.2**	**7.3**	**-7.6**	**22.9**	**11.9**	**8.9**	**8.3**	**10.6**	**8.3**	**0.3**	**-12.6**	**..**
Argentina	16.6	46.3	29.1	3.6	43.0	42.4	17.9	46.2	1.8	2.3	1.8	-6.4	-20.2	..
Belize	1.2	0.8	6.6	8.5	-22.9	-3.0	..	..	..	..	..	..	..	..
Bolivia	7.0	18.6	29.4	6.1	-5.2	51.0	19.7	-3.4	7.6	-7.3	7.6	28.8	..	..
Brazil	5.0	21.5	3.8	14.5	-13.7	32.1	30.2	15.5	39.2	49.9	39.2	-0.8	-29.5	-34.4
Colombia	6.6	17.4	20.5	10.8	-21.9	-5.9	32.4	-3.6	-2.1	-13.4	-2.1	21.1	..	..
Costa Rica	3.4	14.4	7.7	9.8	-13.3	30.8	0.4	16.7	-11.1	-14.9	-11.1	11.5	..	..
Dominica	1.9	-4.9	-8.5	-12.4	33.3	-32.6	..	..	..	..	..	..	..	..
Dominican Republic	-0.4	18.3	-3.9	-1.1	-9.1	-7.3	..	..	..	..	..	..	..	..
Ecuador	10.5	21.2	5.4	-1.7	17.9	-17.6	41.3	-5.4	22.7	13.1	22.7	31.7	..	..
El Salvadore	1.4	8.9	5.2	4.5	21.9	-6.0	15.5	35.2	..	..	..	..	..	..
Guatemala	4.9	14.4	8.5	4.1	-16.2	18.2	-17.5	19.4	-13.9	-18.5	-13.9	..	..	..
Guyana	3.0	15.3	17.0	-1.8	37.5	22.3	..	..	..	..	..	..	..	..
Haiti	4.5	39.0	-10.1	-7.7	88.2	19.5	..	..	..	..	..	..	..	..
Honduras	5.5	10.1	13.9	5.3	29.9	-12.1	-1.3	-9.6	..	..	..	..	..	..
Jamaica	4.7	5.3	8.0	-0.8	-2.6	-10.1	79.0	-45.9	..	-40.3	..	..	..	..
Mexico	0.3	23.2	8.6	4.7	-9.8	17.1	2.8	13.5	-8.3	-5.8	-8.3	-5.5	-3.0	..
Nicaragua	4.1	14.7	12.5	13.2	-19.5	23.3	-32.5	35.9	6.1	51.1	6.1	15.4	..	..
Panama	6.4	13.4	13.0	12.6	37.3	-25.0	..	..	..	..	..	..	..	..
Paraguay	10.7	39.6	11.8	-8.5	-26.6	24.6	..	..	..	..	..	..	..	..
Peru	3.7	16.6	10.2	4.7	5.9	-7.9	20.9	13.5	19.9	18.1	19.9	21.4	..	..
St. Lucia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
St. Vincent and the Grenadines	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Suriname	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Venezuela, Bolivarian Rep. of	7.2	-22.1	1.7	15.5	-43.6	203.6	-49.1	..	..	..	..	..	..	..

	Recent years[a]				Recent Quarters[b]					Recent Months[c]				
					2012		2013			2013				
	00-09[d]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
Middle East and North Africa	**8.9**	**8.4**	**7.9**	**7.2**	**-12.3**	**-1.5**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Algeria	12.9	-3.9	3.7	11.5	-0.8	30.3	..	..	..	..	..	..	..	..
Egypt	9.1	11.9	-2.3	20.0	-43.1	-4.3	9.9	-33.3	-26.3	0.6	-26.3	..	..	..
Iran, Islamic Rep. of	10.0	27.9	29.9	-1.4	-1.5	-39.6	..	..	..	..	..	..	..	..
Jordan	4.8	-10.2	-2.7	9.0	70.8	9.2	-5.8	4.0	18.2	20.8	18.2	0.5	..	..
Lebanon	7.0	-6.4	-4.8	7.8	11.7	23.7	..	..	..	..	..	..	..	..
Morocco	7.9	3.8	10.3	-0.7	-31.7	78.1	-30.2	21.1	32.5	37.7	32.5	24.1	..	..
Syrian Arab Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tunisia	5.7	11.5	-3.4	3.5	-0.5	5.0	16.4	-8.5	0.9	-7.7	0.9	-8.3	-9.2	..
Yemen	11.6	4.8	-13.9	35.1	27.3	2.2	..	..	..	..	..	..	..	..
South Asia	**7.3**	**19.0**	**10.2**	**4.2**	**23.2**	**13.1**	**12.8**	**-8.8**	**-25.6**	**-28.2**	**-25.6**	**-17.7**	**-14.0**	**..**
Bangladesh	..	21.3	15.0	-2.1	-1.7	-19.2	37.6	1.8	21.0	34.3	21.0	6.4	..	..
India	12.0	20.8	11.0	5.7	27.0	19.7	12.2	-13.1	-32.4	-35.0	-32.4	-22.1	-19.6	..
Nepal	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Pakistan	5.0	4.7	-6.0	-3.8	12.0	-6.9	3.7	22.0	2.3	-6.3	2.3	-11.1	-3.3	..
Sri Lanka	2.7	15.4	23.9	0.0	10.6	-23.6	6.7	37.0	34.0	35.0	34.0	..	..	..
Sub-Saharan Africa	**8.4**	**6.5**	**10.6**	**5.1**	**-8.8**	**8.9**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Angola	20.3	-16.1	2.2	24.8	70.1	-28.4	..	..	..	..	..	..	..	..
Benin	23.4	16.3	27.7	-29.3	-7.4	200.7	..	..	..	..	..	..	..	..
Botswana	5.7	..	..	..	..	..	..	..	..	..	..	..	..	..
Burkina Faso	10.9	4.9	3.1	10.7	-30.7	37.3	..	..	..	..	..	..	..	..
Burundi	7.8	21.0	35.3	2.4	-19.6	-21.9	96.6	6.6	-33.2	-37.6	-33.2	..	..	..
Cameroon	6.1	3.0	11.2	8.8	12.2	22.2	..	..	..	..	..	..	..	..
Cape Verde	9.1	1.0	29.2	-23.6	31.7	16.0	..	..	..	..	..	..	..	..
Central African Republic	9.3	52.5	46.4	-38.0	843.9	-97.6	..	..	..	..	..	..	..	..
Chad	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Comoros	7.0	11.0	-2.0	7.8	10.0	0.9	..	..	..	..	..	..	..	..
Congo, Democratic Rep.	15.4	12.1	19.9	8.3	1.9	-44.0	..	..	..	..	..	..	..	..
Congo, Rep.	17.3	-7.6	22.2	0.0	7.6	-7.5	..	..	..	..	..	..	..	..
Cote d'Ivoire	6.2	9.6	-32.1	35.4	19.3	-6.2	..	..	..	..	..	..	..	..
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	14.8	19.9	3.4	31.0	-3.7	36.0	..	..	..	..	..	..	..	..
Gabon	2.9	8.7	19.9	5.3	-30.5	-1.5	..	..	..	..	..	..	..	..
Gambia	6.2	-3.1	23.6	-7.3	-12.9	-34.4	..	..	..	..	..	..	..	..
Ghana	10.7	20.8	19.5	23.0	2.4	-30.3	..	..	..	..	..	..	..	..
Guinea	18.1	7.2	18.4	12.2	17.5	36.5	..	..	..	..	..	..	..	..
Guinea-Bissau	7.7	-20.0	17.7	2.1	-36.3	18.3	..	..	..	..	..	..	..	..
Kenya	9.7	..	..	..	..	..	..	..	..	..	..	..	..	..
Lesotho	4.9	17.5	-1.3	7.8	-40.3	6.5	-12.0	-68.6	..	..	..	..	..	..
Madagascar	12.7	-12.4	3.6	7.3	-11.0	17.6	..	..	..	..	..	..	..	..
Malawi	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mali	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mauritania	9.3	15.1	22.1	13.2	-47.6	13.1	..	..	..	..	..	..	..	..
Mauritius	2.0	6.2	6.3	2.8	-14.4	10.4	..	..	..	..	..	..	..	..
Mozambique	10.7	-6.8	86.8	11.7	49.0	81.7	..	..	..	..	..	..	..	..
Namibia	8.9	-0.9	1.6	..	..	..	..	..	..	..	..	..	..	..
Niger	14.4	-5.5	-11.0	-3.2	64.8	31.8	..	..	..	..	..	..	..	..
Nigeria	19.4	6.2	13.0	-4.3	-32.3	58.6	..	..	..	..	..	..	..	..
Rwanda	16.0	..	..	..	..	..	..	..	..	..	..	..	..	..
Senegal	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Seychelles	6.9	2.5	3.8	10.5	-26.6	14.5	..	..	..	..	..	..	..	..
Sierra Leone	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	6.1	16.1	10.8	2.3	-13.6	3.2	10.3	15.2	-2.3	-1.1	-2.3	7.5	-0.2	..
South Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sudan	16.9	-0.1	-17.8	1.8	-47.7	10.3	..	..	..	..	..	..	..	..
Tanzania	12.7	19.4	22.9	7.2	-2.3	5.9	37.0	-28.0	73.3	41.9	73.3	78.5	29.6	..
Togo	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	9.1	11.1	3.9	5.7	-25.9	-21.3	-12.7	47.5	1.0	11.0	1.0	-4.5	..	..
Zambia	9.4	26.7	15.0	10.9	38.0	-32.7	..	..	..	..	..	..	..	..
Zimbabwe	2.3	29.3	9.2	-0.7	-13.0	-26.6	..	..	..	..	..	..	..	..

Source: World Bank, IFS, Haver Analytics, Datastream.
a. Year over Year percent growth.
b. Quarter over quarter percent growth, seasonally adjusted annualized rate.
c. Three month over three month moving average of seasonally adjusted annualized growth rate.
d. Compound average of the period 2000-2009.

Table A4.5 Merchandise export growth

(Constant 2010 U.S. dollars)

	Recent years[a]				Recent Quarters[b]					Recent Months[c]				
					2012		2013			2013				
	00-09[d]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
World	**2.9**	**15.4**	**6.1**	**2.0**	**-5.1**	**4.5**	**11.5**	**-0.1**	**1.5**	**-0.6**	**1.5**	**7.4**	**..**	**..**
High Income Countries	1.9	14.2	5.1	0.6	-3.1	1.7	6.2	4.5	1.0	2.8	1.0	4.3	..	..
European Union	1.7	12.1	5.6	-1.0	-2.2	0.4	11.6	3.2	3.2	6.8	3.2	5.0	..	..
OECD Countries	1.6	13.8	4.9	0.6	-4.4	0.2	7.9	5.3	1.8	4.7	1.8	4.5	..	..
Non-OECD Countries	3.9	15.2	5.7	2.3	1.4	7.7	-1.4	3.4	-0.6	-5.8	-0.6	3.6	9.7	..
Developing Countries	**6.1**	**18.2**	**8.3**	**5.3**	**-9.4**	**11.0**	**24.0**	**-9.9**	**2.7**	**-8.0**	**2.7**	**14.6**	**18.2**	**..**
East Asia and the Pacific	**9.2**	**24.2**	**8.9**	**8.3**	**-7.1**	**13.1**	**35.2**	**-18.3**	**-2.3**	**-14.7**	**-2.3**	**15.4**	**21.8**	**..**
Cambodia	5.6	22.1	21.9	18.2	25.0	33.3	..	..	..	..	..	..	..	..
China	14.6	26.9	9.9	9.6	-5.3	13.6	45.1	-21.3	-3.5	-17.7	-3.5	18.3	20.7	..
Indonesia	0.1	17.2	10.7	0.5	-14.8	-3.5	33.3	-14.9	-20.1	-23.4	-20.1	-15.3	36.4	..
Lao People's Dem. Rep.	6.5	36.4	13.9	17.4	-55.5	51.6	..	..	..	..	..	..	..	..
Malaysia	2.0	20.1	2.3	0.9	-13.8	11.4	7.2	-12.8	15.9	4.0	15.9	23.1	..	..
Mongolia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Papua New Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Philippines	0.9	27.3	-14.1	9.4	-31.1	5.5	19.5	11.5	7.1	8.9	7.1	5.4	..	..
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Thailand	4.6	16.4	8.8	2.4	-9.2	14.5	0.7	-10.9	-6.5	-8.9	-6.5	4.1	2.5	..
Vanuatu	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Viet Nam	11.7	14.6	18.2	26.7	8.1	35.8	17.7	-0.4	24.3	3.4	24.3	..	..	..
Europe and Central Asia	**8.9**	**11.7**	**11.7**	**4.3**	**-7.5**	**-0.5**	**18.4**	**-2.9**	**12.8**	**5.8**	**12.8**	**7.2**	**..**	**..**
Albania	11.9	32.2	12.9	2.2	28.5	6.4	20.3	27.8	17.3	24.0	17.3	5.4	5.2	..
Armenia	4.5	34.9	16.8	11.3	-2.4	53.1	37.9	-31.0	19.6	60.5	19.6	-7.1	..	..
Azerbaijan	18.0	-1.0	-0.9	-6.0	-26.7	73.9	..	..	..	..	..	..	..	..
Belarus	8.2	13.0	45.7	13.1	-43.7	-23.5	-1.0	-29.5	4.1	9.2	4.1	-6.7	..	..
Bulgaria	9.9	2.4	29.4	7.5	-8.3	9.9	32.2	12.8	29.0	26.5	29.0	37.0	..	..
Georgia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Hungary	9.1	10.3	6.9	-6.4	-11.4	-7.3	48.2	-1.5	12.6	10.1	12.6	17.1	..	..
Kazakhstan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Kyrgyz Republic	4.5	-10.0	4.4	-19.5	-12.0	122.9	-59.1	..	..	..	..	..	..	..
Macedonia, FYR	3.6	17.1	23.1	-7.8	-14.3	25.1	24.3	-10.9	10.0	23.8	10.0	-1.4	..	..
Moldova	7.4	13.1	19.9	2.0	-18.3	24.6	..	..	..	..	..	..	..	..
Romania	7.3	23.8	9.7	0.9	-9.9	7.1	28.4	13.1	20.3	17.8	20.3	23.5	..	..
Turkey	9.4	11.1	6.5	16.2	14.0	-11.5	-5.3	-4.7	9.1	-6.8	9.1	-6.2	36.3	..
Ukraine	6.2	20.5	18.6	-0.5	-9.4	17.8	..	..	..	..	..	..	..	..
Uzbekistan	6.0	-3.2	-16.3	9.1	74.4	5.6	..	..	..	..	..	..	..	..
Latin America and the Caribbean	**1.6**	**10.7**	**6.3**	**6.9**	**-1.2**	**5.8**	**-2.5**	**25.5**	**0.5**	**1.4**	**0.5**	**7.0**	**7.9**	**..**
Argentina	16.4	18.4	9.5	3.9	26.1	34.5	18.4	47.8	17.7	21.3	17.7	0.5	-4.6	..
Belize	-4.2	3.5	-2.3	-0.7	-28.8	5.6	..	..	..	..	..	..	..	..
Bolivia	8.8	7.6	11.3	39.7	3.4	71.8	-10.4	-12.5	-15.3	-22.2	-15.3	-9.3	..	..
Brazil	5.8	10.3	8.8	1.8	-4.1	6.5	0.5	31.8	-19.4	-16.4	-19.4	-1.0	17.3	20.2
Colombia	5.2	0.7	16.5	12.1	3.4	22.3	-18.1	24.9	-8.5	13.8	-8.5	1.8	..	..
Costa Rica	1.8	3.2	0.3	11.9	-4.9	10.8	-2.6	4.8	15.6	15.0	15.6	25.2	..	..
Dominica	-6.9	3.7	-25.8	13.5	-52.3	92.1	..	..	..	..	..	..	..	..
Dominican Republic	-3.5	14.2	10.4	8.7	6.5	23.2	..	..	..	..	..	..	..	..
Ecuador	3.2	-2.7	3.7	1.1	-7.0	-4.8	23.6	-5.7	17.5	13.8	17.5	17.3	..	..
El Salvadore	0.2	9.2	4.5	5.9	39.2	6.7	-6.7	49.0	..	..	..	..	..	..
Guatemala	2.5	5.7	4.1	7.6	21.4	33.9	-20.1	8.0	-1.5	-9.9	-1.5	..	..	..
Guyana	-2.5	-3.0	4.5	24.9	267.3	16.0	..	..	..	..	..	..	..	..
Haiti	4.1	-6.1	28.6	5.4	4.2	47.2	..	..	..	..	..	..	..	..
Honduras	2.9	9.6	20.9	19.0	88.5	-54.0	5.2	-28.1	..	..	..	..	..	..
Jamaica	-1.5	-19.1	7.8	20.2	10.0	38.1	-4.1	-30.7	..	3.0	..	..	..	..
Mexico	0.2	15.9	2.4	9.1	-9.9	-0.4	-5.3	18.3	9.5	5.7	9.5	11.8	9.7	..
Nicaragua	4.5	17.6	3.3	25.2	44.0	14.4	-51.1	16.2	42.0	42.5	42.0	60.2	..	..
Panama	-1.7	-18.0	..	..	..	..	..	..	..	..	..	..	..	..
Paraguay	7.5	30.8	-2.5	7.3	159.0	89.8	..	..	..	..	..	..	..	..
Peru	5.2	-12.7	9.9	9.6	11.4	-27.6	-12.8	60.2	15.3	12.8	15.3	35.7	..	..
St. Lucia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
St. Vincent and the Grenadines	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Suriname	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Venezuela, Bolivarian Rep. of	..	..	..	..	..	..	..	..	..	..	..	..	..	..

	Recent years[a]				Recent Quarters[b]					Recent Months[c]				
					2012		2013			2013				
	00-09[d]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
Middle East and North Africa	**2.9**	**8.8**	**0.7**	**-15.7**	**-44.5**	**39.2**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Algeria	-0.3	6.7	0.0	-23.9	-18.5	16.3	..	..	..	..	..	..	..	..
Egypt	12.4	6.4	-1.6	-3.4	40.4	6.2	10.0	-31.5	-15.7	-30.2	-15.7	..	..	..
Iran, Islamic Rep. of	3.4	6.4	1.3	-20.5	-78.1	115.3	..	..	..	..	..	..	..	..
Jordan	3.4	27.3	1.3	-8.4	33.4	-11.3	5.2	14.4	44.9	32.6	44.9	..	..	..
Lebanon	12.9	12.6	-1.8	-4.0	37.8	-75.0	..	..	..	..	..	..	..	..
Morocco	4.1	18.8	11.4	1.0	-3.9	33.6	-22.0	38.0	-10.8	-2.2	-10.8	-4.1	..	..
Syrian Arab Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tunisia	6.7	7.1	-3.0	-3.8	-12.3	16.8	40.7	-25.3	0.2	-16.2	0.2	-10.2	9.2	..
Yemen	-5.9	38.5	-9.7	-11.3	45.6	-13.4	..	..	..	..	..	..	..	..
South Asia	**9.9**	**22.8**	**18.8**	**1.0**	**-2.5**	**12.2**	**19.5**	**-16.1**	**50.3**	**15.2**	**50.3**	**40.8**	**13.8**	**..**
Bangladesh	9.5	10.8	28.6	-2.6	-10.9	39.9	34.9	1.0	10.7	35.1	10.7	-68.2	..	..
India	11.4	26.0	19.7	1.8	-2.7	11.6	21.8	-19.7	53.1	12.9	53.1	55.9	32.9	..
Nepal	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Pakistan	5.2	7.2	1.1	-3.3	25.3	1.5	-26.2	17.2	82.6	24.7	82.6	52.8	41.8	..
Sri Lanka	0.3	10.3	20.4	-5.9	-28.4	2.5	45.0	-3.5	16.6	23.2	16.6	..	..	..
Sub-Saharan Africa	**1.6**	**8.0**	**0.0**	**-0.3**	**-28.6**	**7.1**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Angola	8.6	5.9	-5.9	11.4	-62.2	20.4	..	..	..	..	..	..	..	..
Benin	3.1	42.4	-0.3	26.3	40.6	-37.5	..	..	..	..	..	..	..	..
Botswana	-0.9	..	..	..	..	..	..	..	..	..	..	..	..	..
Burkina Faso	8.4	1.7	-7.8	29.0	-72.6	-8.6	..	..	..	..	..	..	..	..
Burundi	-2.0	-2.0	3.5	40.4	-1.9	-46.2	-44.7	91.4	-74.2	-18.0	-74.2	..	..	..
Cameroon	0.1	-1.5	-4.6	10.0	-4.0	49.4	..	..	..	..	..	..	..	..
Cape Verde	11.5	22.5	29.4	14.2	280.0	-60.2	..	..	..	..	..	..	..	..
Central African Republic	-9.4	2.9	1.5	20.4	63.9	55.2	..	..	..	..	..	..	..	..
Chad	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Comoros	3.7	7.1	43.1	51.1	102.0	..	..	..	..	..	..	..	..	..
Congo, Democratic Rep.	1.9	59.4	6.3	2.2	-42.5	56.0	..	..	..	..	..	..	..	..
Congo, Rep.	6.1	25.5	-11.2	-3.9	-45.4	52.9	..	..	..	..	..	..	..	..
Cote d'Ivoire	2.6	-16.4	-6.2	6.9	-5.6	-8.6	..	..	..	..	..	..	..	..
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	6.9	-5.3	-6.1	31.4	-7.8	176.3	..	..	..	..	..	..	..	..
Gabon	-4.4	18.3	11.9	2.7	3.2	-44.0	..	..	..	..	..	..	..	..
Gambia	-4.4	15.3	55.3	-3.9	367.8	369.5	..	..	..	..	..	..	..	..
Ghana	-1.6	5.5	56.3	-8.0	-18.6	54.8	..	..	..	..	..	..	..	..
Guinea	2.8	44.1	-17.8	-11.0	-61.8	25.3	..	..	..	..	..	..	..	..
Guinea-Bissau	-6.8	48.7	-2.2	-26.9	-16.6	185.5	..	..	..	..	..	..	..	..
Kenya	6.4	..	..	..	..	..	..	..	..	..	..	..	..	..
Lesotho	9.4	17.3	20.7	-15.4	-36.5	64.4	-5.7	-83.2	..	..	..	..	..	..
Madagascar	-0.8	-3.5	30.3	-0.8	-32.9	55.6	..	..	..	..	..	..	..	..
Malawi	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mali	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mauritania	2.0	-27.2	21.0	10.5	-27.5	-51.7	..	..	..	..	..	..	..	..
Mauritius	-1.1	7.9	0.4	6.4	-17.0	28.8	..	..	..	..	..	..	..	..
Mozambique	13.8	1.2	25.6	22.5	21.6	45.6	..	..	..	..	..	..	..	..
Namibia	6.6	20.7	-0.5	..	..	..	..	..	..	..	..	..	..	..
Niger	8.7	-60.1	122.2	-11.2	-98.2	200.0	..	..	..	..	..	..	..	..
Nigeria	-0.7	22.1	6.0	-0.8	-18.7	-12.5	..	..	..	..	..	..	..	..
Rwanda	7.3	..	..	..	..	..	..	..	..	..	..	..	..	..
Senegal	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Seychelles	7.2	2.4	-7.8	19.9	6.5	-2.3	..	..	..	..	..	..	..	..
Sierra Leone	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	-0.2	-3.2	1.6	-2.6	-9.4	5.5	12.0	-1.4	-4.1	-1.6	-4.1	12.7	16.6	..
South Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sudan	8.1	6.0	-35.6	-64.9	-48.3	328.3	..	..	..	..	..	..	..	..
Tanzania	9.4	12.2	-1.8	17.6	-23.2	-17.3	-32.6	34.4	40.5	89.9	40.5	46.7	82.4	..
Togo	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	14.8	-16.3	-0.1	23.5	9.8	-11.5	44.8	2.3	-8.0	-5.7	-8.0	-3.0	..	..
Zambia	14.1	48.8	-19.7	-7.9	-57.8	12.4	..	..	..	..	..	..	..	..
Zimbabwe	-11.7	19.6	24.7	11.8	-18.9	435.7	..	..	..	..	..	..	..	..

Source: World Bank, IFS, Haver Analytics, Datastream.
a. Year over Year percent growth.
b. Quarter over quarter percent growth, seasonally adjusted annualized rate.
c. Three month over three month moving average of seasonally adjusted annualized growth rate.
d. Compound average of the period 2000-2009.

Table A4.6 **Industrial production growth**
(Indexed on constant 2010 U.S. dollars)

	Recent years[a]				Recent Quarters[b]					Recent Months[c]				
					2012		2013			2013				
	00-09[d]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
World	**1.6**	**9.3**	**4.8**	**3.0**	**0.6**	**2.3**	**3.5**	**3.0**	**4.6**	**3.3**	**4.6**	**4.9**	**..**	**..**
High Income Countries	-0.4	7.9	2.5	0.8	-2.5	-2.5	1.6	2.6	2.3	1.8	2.3	2.0	..	..
European Union	-0.7	6.8	3.1	-2.6	-0.4	-7.7	1.5	2.8	-0.4	0.8	-0.4	0.1	..	..
OECD Countries	-0.6	7.7	2.3	0.7	-2.5	-2.7	2.3	2.3	2.3	1.8	2.3	1.9	..	..
Non-OECD Countries	1.5	8.8	6.1	2.4	-1.6	-0.1	-3.3	2.9	2.0	1.6	2.0	1.2	..	..
Developing Countries	**5.9**	**11.4**	**8.0**	**6.1**	**4.8**	**8.8**	**6.0**	**3.5**	**7.4**	**5.1**	**7.4**	**8.3**	**..**	**..**
East Asia and the Pacific	**10.3**	**14.5**	**11.7**	**9.2**	**7.6**	**13.9**	**8.4**	**4.7**	**11.3**	**7.9**	**11.3**	**12.3**	**12.0**	**..**
Cambodia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
China	12.9	15.5	13.7	10.0	9.1	12.3	9.7	6.0	12.7	9.7	12.7	13.2	12.4	..
Indonesia	2.6	4.7	4.0	4.1	-1.2	40.5	-0.1	-6.2	0.0	-10.1	0.0	5.2	..	..
Lao People's Dem. Rep.	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Malaysia	2.3	7.2	1.2	4.4	-0.4	16.5	-9.7	11.0	-0.5	5.3	-0.5	-3.5	..	..
Mongolia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Papua New Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Philippines	-3.1	23.5	1.4	7.5	13.5	6.1	23.1	5.5	32.2	20.5	32.2	47.5	..	..
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Thailand	5.4	14.6	-8.5	2.1	-11.8	9.0	-3.6	-12.6	-6.9	-7.4	-6.9	-6.6	-7.6	..
Vanuatu	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Viet Nam	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Europe and Central Asia	**1.7**	**11.9**	**5.9**	**0.7**	**-2.1**	**3.8**	**2.5**	**4.2**	**4.6**	**4.5**	**4.6**	**4.1**	**..**	**..**
Albania	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Armenia	8.2	23.8	23.0	12.4	2.0	16.9	42.9	-37.1	32.8	21.7	32.8	51.3	..	..
Azerbaijan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Belarus	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bulgaria	3.4	1.9	6.0	-0.4	-3.0	-1.5	4.0	-14.6	9.1	2.4	9.1	16.2	..	..
Georgia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Hungary	2.6	10.6	5.6	-1.4	1.4	-11.5	8.6	5.7	8.9	6.8	8.9	9.7	..	..
Kazakhstan	-1.8	20.4	-7.8	-5.4	-13.5	23.8	-10.9	11.7	8.1	15.8	8.1	0.5	-0.5	..
Kyrgyz Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Macedonia, FYR	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Moldova	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Romania	1.8	5.1	7.6	2.8	3.9	3.8	10.9	8.4	3.8	2.3	3.8	16.2	..	..
Turkey	2.6	12.4	9.7	2.4	-1.1	4.1	3.0	4.7	3.1	2.3	3.1	-0.5	..	..
Ukraine	..	10.7	8.1	-0.4	-3.7	-5.7	-7.8	-4.7	-1.6	-0.7	-1.6	-2.6	-4.8	..
Uzbekistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Latin America and the Caribbean	**0.7**	**5.9**	**2.7**	**-0.5**	**2.9**	**-1.9**	**0.1**	**3.9**	**-1.2**	**1.4**	**-1.2**	**0.9**	**..**	**..**
Argentina	3.0	9.2	5.9	-1.9	-0.9	-0.9	1.0	7.5	1.0	0.0	1.0	2.6	5.5	..
Belize	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bolivia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Brazil	1.9	10.6	0.4	-2.7	6.4	-1.2	3.9	4.4	-5.5	-0.3	-5.5	-0.8	..	..
Colombia	2.4	4.2	5.0	-0.5	3.7	-7.7	-14.0	23.9	-0.3	8.3	-0.3	3.7	..	..
Costa Rica	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Dominica	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Dominican Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ecuador	2.0	0.0	2.8	1.1	7.1	-5.9	3.8	12.5	10.2	12.1	10.2	8.3	..	..
El Salvadore	1.4	..	..	..	..	..	..	..	..	..	..	..	..	..
Guatemala	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guyana	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Haiti	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Honduras	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Jamaica	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	0.5	4.6	3.4	2.5	-0.9	-1.6	-1.1	-2.1	1.6	1.0	1.6	0.9	..	..
Nicaragua	2.7	8.7	6.0	2.7	8.8	4.2	-11.9	14.2	-24.5	-33.6	-24.5	-4.1	..	..
Panama	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Paraguay	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Peru	4.3	14.1	5.7	1.5	12.4	-5.2	-6.3	14.2	3.8	14.7	3.8	2.9	..	..
St. Lucia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
St. Vincent and the Grenadines	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Suriname	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Venezuela, Bolivarian Rep. of	-3.0	-4.5	3.8	0.0	0.1	-0.5	0.9	-0.4	..	..	..	..	..	..

	Recent years[a]				Recent Quarters[b]					Recent Months[c]				
					2012		2013			2013				
	00-09[d]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
Middle East and North Africa	**1.9**	**2.1**	**-9.3**	**3.2**	**-6.0**	**-12.7**	**2.5**	**1.6**	**..**	**..**	**..**	**..**	**..**	**..**
Algeria	2.7	-2.8	0.0	-0.5	-0.4	-14.7	2.4	4.0	..	..	..	..	..	..
Egypt	..	10.0	-6.8	4.9	-9.7	23.2	10.9	-26.4	-51.1	-46.4	-51.1	-48.6	..	..
Iran, Islamic Rep. of	0.9	1.1	-0.6	-17.0	-30.0	-16.4	19.8	0.7	..	..	..	..	..	..
Jordan	3.8	-3.1	-0.3	0.3	2.7	5.5	10.5	-6.8	-3.6	-8.7	-3.6	-1.7	..	..
Lebanon	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Morocco	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Syrian Arab Republic	-3.4	-0.2	-18.4	-47.7	-71.8	6.9	-39.9	-89.3	..	..	..	..	..	..
Tunisia	2.1	7.7	-3.7	2.2	12.1	0.5	-4.2	0.5	..	-3.4	..	..	..	..
Yemen	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Asia	**6.3**	**9.9**	**5.6**	**1.3**	**-1.7**	**8.0**	**4.5**	**-9.9**	**8.0**	**0.5**	**8.0**	**2.1**	**..**	**..**
Bangladesh	..	9.6	17.0	9.3	-1.3	22.3	5.6	-3.7	..	20.7	..	..	..	..
India	6.4	9.7	4.8	0.7	-2.1	6.7	3.3	-10.6	8.9	-0.6	8.9	4.2	..	..
Nepal	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Pakistan	5.7	11.0	6.4	1.7	8.5	11.7	18.8	-10.8	7.7	-1.0	7.7	11.4	..	..
Sri Lanka	..	15.1	8.0	-0.3	-14.2	6.5	4.0	0.5	..	-5.0	..	..	..	..
Sub-Saharan Africa	**1.1**	**4.9**	**0.6**	**1.5**	**-4.5**	**-0.7**	**-3.8**	**9.1**	**..**	**..**	**..**	**..**	**..**	**..**
Angola	9.8	1.7	-7.9	1.7	-11.2	-3.4	3.9	11.8	..	..	..	..	..	..
Benin	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Botswana	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burkina Faso	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burundi	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Cameroon	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Cape Verde	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Central African Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Chad	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Comoros	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Congo, Democratic Rep.	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Congo, Rep.	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Cote d'Ivoire	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Gabon	-2.6	1.5	-0.4	-1.0	-1.8	-2.5	-0.6	-3.3	..	..	..	..	..	..
Gambia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ghana	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guinea-Bissau	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Kenya	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Lesotho	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Madagascar	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Malawi	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mali	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mauritania	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mauritius	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mozambique	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Namibia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Niger	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nigeria	0.2	11.2	3.9	-1.2	-13.3	-18.2	-1.5	-2.8	..	..	..	..	..	..
Rwanda	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Senegal	..	2.9	6.7	-0.5	18.8	-21.3	-16.5	..	..	..	..	..	..	..
Seychelles	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sierra Leone	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	0.4	4.5	2.7	2.6	0.9	7.3	-6.9	12.8	-8.0	0.5	-8.0	-9.6	..	..
South Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tanzania	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Togo	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Zambia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Zimbabwe	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Source: World Bank, IFS, Haver Analytics, Datastream.
a. Year over Year percent growth in total industrial production volume.
b. Quarter over quarter percent growth, seasonally adjusted annualized rate.
c. Three month over three month moving average of seasonally adjusted annualized growth rate.
d. Compound average of the period 2000-2009.

Table A4.7 **Inflation**

(Growth in 2010 based consumer price index)

	Recent years[a]				Recent Quarters[b]				Recent Months[c]				
					2012		2013		2013				
	00-09[d]	2010	2011	2012	Q3	Q4	Q1	Q2	Aug	Sep	Oct	Nov	Dec
World	**2.4**	**3.0**	**4.3**	**3.3**	**2.9**	**3.6**	**3.3**	**2.8**	**4.2**	**4.3**	**3.9**	**3.5**	**..**
High Income Countries	1.9	1.7	2.8	2.0	1.7	2.2	1.2	0.8	2.4	2.4	1.8	1.2	..
European Union	1.8	1.5	2.6	2.3	2.3	1.9	0.7	0.7	2.0	2.0	1.0	0.2	..
OECD Countries	1.9	1.7	2.7	2.1	1.6	2.1	1.4	0.9	2.5	2.5	1.7	1.1	..
Non-OECD Countries	4.9	4.6	6.0	4.0	6.4	4.7	3.5	3.6	4.7	4.8	4.6	4.5	..
Developing Countries	**3.4**	**5.2**	**6.7**	**5.3**	**4.8**	**5.6**	**6.6**	**5.8**	**6.9**	**7.0**	**7.2**	**7.0**	**..**
East Asia and the Pacific	**2.1**	**3.4**	**5.4**	**2.8**	**1.8**	**2.8**	**3.3**	**2.4**	**3.3**	**3.7**	**4.2**	**4.2**	**..**
Cambodia	5.0	4.0	5.5	2.9	0.1	3.4	3.1	2.6	5.7	5.7	4.5	4.6	..
China	1.8	3.3	5.4	2.6	1.6	2.6	3.1	2.3	3.0	3.2	3.8	4.0	..
Indonesia	7.9	5.1	5.4	4.3	3.5	4.4	7.8	6.9	12.6	15.6	11.2	6.4	3.5
Lao People's Dem. Rep.	7.0	6.0	7.6	4.3	1.7	8.9	9.7	3.0	6.1	6.8	..	..	..
Malaysia	2.0	1.6	3.2	1.7	0.9	2.1	2.0	2.1	1.7	2.6	3.6	5.2	..
Mongolia	7.7	10.2	9.5	15.0	16.5	14.0	4.1	1.3	2.9	13.4	22.4	26.7	..
Papua New Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..
Philippines	4.2	3.8	4.7	3.2	4.7	1.6	2.6	1.8	3.1	3.7	4.0	4.9	5.8
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..
Thailand	2.3	3.3	3.8	3.0	4.3	4.0	1.7	-0.4	1.1	1.6	1.9	3.1	3.8
Vanuatu	..	..	..	..	..	..	..	..	..	..	..	..	..
Viet Nam	6.7	9.0	18.7	9.1	6.1	13.4	6.0	1.2	5.2	8.0	10.0	9.4	..
Europe and Central Asia	**..**	**7.8**	**7.7**	**8.9**	**6.4**	**5.1**	**8.9**	**5.8**	**9.2**	**8.2**	**5.3**	**2.6**	**..**
Albania	2.7	3.6	3.4	2.0	3.7	0.6	1.7	3.0	2.3	0.9	0.5	0.4	..
Armenia	3.6	8.2	7.6	2.5	5.0	7.1	2.9	6.5	17.2	18.9	12.6	4.6	..
Azerbaijan	6.8	5.9	7.9	1.0	-1.4	2.9	..	..	..	..	..	..	..
Belarus	19.1	7.7	53.0	59.5	18.6	10.7	34.0	16.4	7.4	5.0	2.4	4.1	..
Bulgaria	5.7	2.4	4.2	3.0	9.2	2.9	-0.2	-2.7	-0.4	-2.3	-3.1	-2.7	..
Georgia	5.9	7.1	8.5	-0.9	1.8	-4.1	-4.9	5.4	7.2	1.6	..	..	..
Hungary	5.1	4.9	3.9	5.7	4.6	3.4	-1.1	0.4	2.9	3.3	3.0	2.2	..
Kazakhstan	7.8	7.1	8.3	5.1	6.8	7.6	6.6	3.5	4.6	5.0	5.0	..	..
Kyrgyz Republic	6.6	8.0	16.5	2.7	10.9	13.1	3.1	4.8	6.9	6.2	5.0	..	..
Macedonia, FYR	2.2	1.5	3.9	3.3	6.2	5.7	-0.9	3.7	4.7	2.8	1.6	0.0	..
Moldova	..	..	..	..	..	..	..	..	..	..	..	..	..
Romania	11.4	6.1	5.8	3.3	7.9	5.2	5.8	2.4	1.9	-0.1	-1.5	..	..
Turkey	..	8.6	6.5	8.9	6.0	5.3	9.9	6.9	12.4	11.3	7.5	3.4	2.0
Ukraine	10.1	9.3	7.9	0.6	2.0	-1.3	-1.4	-0.8	2.2	1.8	0.4	0.3	..
Uzbekistan	..	..	..	..	..	..	..	..	..	..	..	..	..
Latin America and the Caribbean	**5.8**	**6.5**	**7.5**	**6.8**	**7.4**	**7.9**	**9.4**	**11.2**	**11.6**	**11.0**	**11.3**	**11.3**	**..**
Argentina	8.5	10.5	9.8	10.0	10.5	11.4	10.8	9.1	10.6	10.9	10.9	10.9	..
Belize	..	..	..	..	..	..	..	..	..	..	..	..	..
Bolivia	4.5	2.5	9.8	4.6	5.0	4.0	4.7	5.7	7.8	10.2	12.4	11.7	..
Brazil	6.1	5.0	6.6	5.4	7.2	6.7	7.1	5.5	5.4	5.1	5.0	4.9	..
Colombia	5.3	2.3	3.4	3.2	3.0	2.7	0.1	2.5	3.6	3.7	3.0	2.1	1.0
Costa Rica	9.7	5.7	4.9	4.5	3.1	6.4	7.9	4.8	2.5	3.1	2.6	1.5	..
Dominica	1.9	3.2	2.4	1.4	1.7	3.9	..	..	..	..	..	..	..
Dominican Republic	11.4	6.3	8.5	3.7	2.8	8.4	7.0	1.6	3.0	4.8	5.4	4.8	..
Ecuador	7.7	3.5	4.5	5.1	5.7	3.4	1.6	1.1	1.9	2.4	2.9	3.4	..
El Salvadore	3.3	0.9	5.1	1.7	-0.6	2.8	2.1	-2.8	0.0	1.8	1.9	1.7	..
Guatemala	6.4	3.9	6.2	3.8	3.5	4.2	5.7	4.2	4.3	3.7	3.3	3.3	..
Guyana	..	..	..	..	..	..	..	..	..	..	..	..	..
Haiti	13.4	5.7	8.4	6.3	10.1	10.2	4.1	3.9	3.3	3.7	3.6	..	..
Honduras	7.1	4.7	6.8	5.2	3.2	6.8	6.3	3.3	4.3	5.0	5.0	4.5	..
Jamaica	10.1	12.6	7.5	6.9	5.3	12.8	10.0	8.1	5.6	8.8	..	..	..
Mexico	4.3	4.2	3.4	4.1	6.1	2.9	3.2	5.8	2.7	2.0	2.4	3.0	..
Nicaragua	..	..	..	..	..	..	..	..	..	..	..	..	..
Panama	2.2	3.5	5.9	5.7	4.0	3.8	4.3	3.3	5.0	4.6	3.8	3.1	..
Paraguay	7.3	4.7	8.2	3.7	1.7	2.0	1.2	0.6	7.2	7.8	7.5	..	..
Peru	2.2	1.5	3.4	3.7	2.1	2.6	1.9	3.5	4.4	4.5	4.2	3.0	1.9
St. Lucia	..	..	..	..	..	..	..	..	..	..	..	..	..
St. Vincent and the Grenadines	3.0	1.5	3.2	2.6	0.9	0.4	..	..	..	..	..	..	..
Suriname	..	..	..	..	..	..	..	..	..	..	..	..	..
Venezuela, Bolivarian Rep. of	..	28.2	26.1	21.1	15.3	27.0	40.9	59.9	63.7	57.9	58.2	..	..

	Recent years[a]				Recent Quarters[b]				Recent Months[c]				
					2012		2013		2013				
	00-09[d]	2010	2011	2012	Q3	Q4	Q1	Q2	Aug	Sep	Oct	Nov	Dec
Middle East and North Africa	**7.0**	**7.0**	**11.3**	**15.7**	**19.4**	**23.5**	**25.7**	**20.0**	**22.2**	**23.5**	**23.8**	**..**	**..**
Algeria	3.2	3.9	4.5	8.9	4.3	6.4	4.2	-0.3	3.2	1.8	..	..	..
Egypt	7.1	10.5	10.1	7.1	1.4	4.9	18.0	10.9	9.5	7.1	6.5	8.3	..
Iran, Islamic Rep. of	13.7	10.2	20.6	27.4	39.7	48.3	47.2	35.0	38.5	43.0	43.2	..	..
Jordan	3.7	5.0	4.4	4.8	6.0	8.3	7.6	1.1	3.4	4.6	4.3	2.7	..
Lebanon	..	4.0	5.0	6.6	28.0	4.9	1.7	-0.5	0.3	-0.7	-1.1	-0.5	..
Morocco	1.7	1.0	0.9	1.3	3.2	2.0	2.2	2.7	2.2	-0.1	-0.9	..	..
Syrian Arab Republic	4.7	4.4	4.8	36.7	39.9	46.8	31.6	39.6	57.7	59.9	53.9	..	..
Tunisia	2.9	4.4	3.6	5.5	6.0	5.9	7.9	5.8	4.5	4.3	4.4	4.6	..
Yemen	..	11.2	19.5	9.9	11.5	13.1	18.6	14.2	3.1	-0.7	..	..	..
South Asia	**..**	**11.9**	**9.8**	**9.5**	**8.4**	**8.5**	**10.2**	**9.0**	**9.6**	**9.6**	**10.2**	**11.4**	**..**
Bangladesh	5.5	8.1	10.3	6.5	6.2	11.3	10.5	4.8	3.2	3.6	5.3	7.4	..
India	..	12.2	9.6	9.7	9.2	8.9	10.4	9.5	9.7	9.8	10.7	12.2	..
Nepal	5.7	10.0	9.6	9.4	16.9	4.6	7.9	5.7	..	..	..	..	..
Pakistan	..	12.9	11.9	9.7	1.4	4.5	9.8	6.7	12.3	11.5	9.2	8.5	10.9
Sri Lanka	10.3	6.2	6.7	7.5	10.3	4.4	5.4	7.3	10.3	7.8	5.5	3.5	2.3
Sub-Saharan Africa	**7.3**	**7.7**	**8.6**	**9.8**	**8.8**	**10.7**	**5.8**	**5.8**	**5.6**	**6.4**	**6.8**	**..**	**..**
Angola	40.5	14.5	13.5	10.3	8.7	8.8	9.2	9.9	8.8	8.0	..	..	..
Benin	2.9	2.3	2.7	6.7	3.6	5.2	-0.1	-0.9	-1.1	1.5	-2.1	..	..
Botswana	7.8	7.0	8.5	7.5	6.6	10.0	7.3	1.7	1.4	3.1	4.4	..	..
Burkina Faso	3.0	-0.8	2.7	3.8	6.6	1.0	-1.6	1.1	-1.1	-3.4	-5.6	-3.9	..
Burundi	8.4	6.4	9.8	18.0	1.4	6.9	11.2	10.2	17.5	15.6	..	..	..
Cameroon	2.4	1.3	2.9	2.9	3.4	3.4	2.1	..	..	..	..	..	..
Cape Verde	2.2	2.1	4.5	2.5	4.0	6.5	-0.5	-3.1	-0.1	1.5	2.3	2.4	..
Central African Republic	3.1	1.5	1.3	5.8	3.8	5.0	7.6	-11.1	..	..	..	..	..
Chad	3.5	-2.1	-4.9	10.1	42.0	-3.4	..	..	..	..	..	..	..
Comoros	..	..	..	..	..	..	..	..	..	..	..	..	..
Congo, Democratic Rep.	59.3	98.9	..	..	..	..	..	..	..	..	..	..	..
Congo, Rep.	3.1	5.0	1.3	3.9	20.7	11.9	-4.3	2.2	5.8	6.3	..	..	..
Cote d'Ivoire	2.8	1.7	4.9	1.3	8.2	5.5	1.4	-1.1	2.1	3.6	3.9	..	..
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	10.2	8.2	33.0	22.9	13.5	9.8	3.3	0.1	12.4	17.8	17.6	..	..
Gabon	1.9	1.5	1.3	2.7	3.9	-1.8	-2.4	-3.4	-4.3	4.7	15.0	..	..
Gambia	..	..	..	..	..	..	..	..	..	..	..	..	..
Ghana	15.6	10.7	8.7	9.1	8.7	8.4	12.1	12.5	..	..	..	..	..
Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..
Guinea-Bissau	2.2	2.5	5.0	2.1	1.0	1.3	0.9	-3.5	-1.6	2.4	5.7	..	..
Kenya	9.7	4.0	14.1	9.4	-1.1	4.9	8.7	5.0	6.8	9.5	10.5	..	..
Lesotho	..	..	..	..	..	..	..	..	..	..	..	..	..
Madagascar	9.2	9.2	9.5	6.4	5.2	3.8	2.0	3.5	..	..	..	..	..
Malawi	11.2	7.4	7.6	21.6	42.4	41.7	20.2	24.2	13.6	..	..	..	..
Mali	2.6	1.1	2.9	5.4	-3.1	2.1	-5.2	0.7	0.3	0.4	0.6	2.1	..
Mauritania	5.9	6.3	5.6	4.9	1.7	3.9	4.3	4.4	7.0	7.0	6.1	..	..
Mauritius	5.5	2.9	6.5	3.8	3.1	3.9	3.3	4.5	..	..	..	..	..
Mozambique	9.3	13.0	10.3	2.1	2.7	7.6	4.6	5.7	1.0	..	..	..	..
Namibia	..	4.5	5.0	6.5	5.6	10.6	4.1	..	..	..	..	..	..
Niger	2.4	0.8	2.9	0.5	-1.4	1.5	2.8	3.9	5.6	7.0	3.0	..	..
Nigeria	11.4	13.7	10.8	12.2	6.8	13.2	6.7	8.5	5.8	5.2	5.9	..	..
Rwanda	7.7	2.3	5.7	6.3	2.7	1.8	7.2	3.0	2.9	5.0	8.2	..	..
Senegal	2.0	1.2	3.4	1.4	0.5	4.1	-2.7	1.1	1.0	2.2	4.2	4.6	..
Seychelles	8.1	-2.4	2.6	7.1	5.7	1.6	3.8	5.5	3.0	2.9	3.3	..	..
Sierra Leone	..	16.6	16.2	12.9	9.7	14.2	10.3	9.2	8.3	7.5	..	..	..
South Africa	5.5	4.3	5.0	5.7	3.7	8.3	5.8	4.8	4.9	6.2	6.5	5.7	..
South Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..
Sudan	7.8	13.3	22.1	37.3	56.1	34.0	..	..	..	..	..	..	..
Tanzania	..	..	..	..	..	..	..	..	..	..	..	..	..
Togo	2.8	1.8	3.6	2.6	1.6	4.7	3.1	-1.0	-2.0	-1.0	0.6	2.4	..
Uganda	6.0	4.0	18.7	14.0	-0.7	3.9	5.1	6.0	10.1	13.1	13.3	9.3	..
Zambia	..	..	..	..	..	..	..	..	..	..	..	..	..
Zimbabwe	..	..	..	..	..	..	..	..	..	..	..	..	..

Source: World Bank, IFS, Haver Analytics, Datastream.
a. Year over Year inflation in consumer price index.
b. Quarter over quarter inflation, seasonally adjusted annualized rate.
c. Three month over three month moving average of seasonally adjusted annualized inflation.
d. Average inflation over the period 2000-2009.

Table A4.8 Unemployment

(Percentage of working age population)

	Recent years				Recent Quarters					Recent Months				
					2012		2013			2013				
	00-09[a]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
World	**6.9**	**7.3**	**7.1**	**7.1**	**6.3**	**6.3**	**6.3**	**6.3**	**6.3**	**6.3**	**6.3**	**..**	**..**	**..**
High Income Countries	6.9	8.3	7.9	7.9	7.9	7.9	8.0	8.0	7.9	8.0	7.9	7.9	7.8	..
European Union	8.7	10.2	10.4	11.8	12.0	12.3	12.5	12.6	12.8	12.9	12.7	12.7	..	..
OECD Countries	6.7	8.4	8.0	8.1	8.1	8.2	8.2	8.2	8.1	8.2	8.1	8.1	7.9	..
Non-OECD Countries	7.9	7.6	6.7	5.8	5.7	5.5	5.6	5.8	5.7	5.9	5.9	5.9	5.8	..
Developing Countries	**7.0**	**7.0**	**6.9**	**6.8**	**5.5**	**5.5**	**5.5**	**5.5**	**5.5**	**5.4**	**5.4**	**..**	**..**	**..**
East Asia and the Pacific	**4.9**	**4.6**	**4.4**	**4.4**	**4.4**	**..**	**4.3**	**..**	**4.3**	**4.0**	**4.0**	**..**	**..**	**..**
Cambodia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
China	4.2	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.0	4.0	4.0	..	..	..
Indonesia	9.0	7.1	6.6	6.1	6.1	..	5.9	..	6.3	..	..	..	..	..
Lao People's Dem. Rep.	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Malaysia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mongolia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Papua New Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Philippines	9.6	7.3	7.0	7.0	6.9	7.2	7.0	7.3	7.2	7.2	7.2	6.9	6.9	6.8
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Thailand	1.9	1.0	0.6	0.7	0.6	0.5	0.7	0.7	0.8	0.8	0.7	0.7	..	..
Vanuatu	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Viet Nam	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Europe and Central Asia	**7.9**	**8.2**	**7.2**	**6.9**	**6.9**	**7.0**	**6.9**	**7.0**	**7.2**	**7.2**	**7.2**	**..**	**..**	**..**
Albania	14.7	13.7	13.3	12.9	12.9	12.8	12.8	12.8	12.8	12.8	12.8	..	..	..
Armenia	7.9	7.0	6.2	..	..	..	..	..	..	..	..	..	..	..
Azerbaijan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Belarus	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bulgaria	12.3	9.7	10.1	11.1	11.3	11.6	11.1	11.1	11.4	11.3	11.6	11.7	11.8	..
Georgia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Hungary	7.0	11.2	11.0	10.9	10.8	11.0	10.9	10.4	10.1	10.1	10.1	9.6	..	..
Kazakhstan	8.1	5.8	5.4	5.3	5.3	5.3	5.2	5.2	5.3	5.3	5.2	5.2	5.2	..
Kyrgyz Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Macedonia, FYR	35.2	32.0	31.4	31.0	30.9	30.5	29.6	28.9	29.0	29.0	29.0	..	..	..
Moldova	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Romania	7.0	7.6	5.4	5.1	5.2	5.2	5.2	5.3	5.1	5.1	4.8	5.4	5.4	..
Turkey	11.2	11.9	9.8	9.2	9.2	9.4	9.4	9.6	10.1	10.1	10.2	..	..	..
Ukraine	3.2	1.6	1.8	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.7	1.7	1.7	..
Uzbekistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Latin America and the Caribbean	**8.8**	**7.2**	**6.6**	**6.2**	**6.1**	**6.1**	**6.2**	**6.1**	**6.0**	**5.9**	**6.0**	**5.8**	**5.7**	**..**
Argentina	11.1	7.7	7.1	7.2	7.5	7.2	7.7	7.1	6.7	6.7	6.6	..	..	..
Belize	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bolivia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Brazil	10.1	6.7	6.0	5.5	5.3	5.4	5.4	5.5	5.4	5.3	5.4	5.3	5.1	..
Colombia	13.0	11.8	10.8	10.4	10.3	10.2	10.3	9.5	9.5	9.7	9.5	9.1	9.4	..
Costa Rica	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Dominica	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Dominican Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ecuador	..	..	..	..	..	..	..	..	..	..	..	..	..	..
El Salvadore	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guatemala	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guyana	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Haiti	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Honduras	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Jamaica	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	3.7	5.4	5.2	5.0	4.8	5.0	5.0	5.1	4.9	4.8	4.9	4.9	4.6	..
Nicaragua	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Panama	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Paraguay	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Peru	8.9	7.9	7.7	6.8	6.6	6.1	5.7	6.1	5.9	5.5	6.3	5.6	5.9	..
St. Lucia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
St. Vincent and the Grenadines	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Suriname	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Venezuela, Bolivarian Rep. of	12.2	8.5	8.2	7.8	7.6	7.4	7.5	7.5	7.7	7.7	7.8	7.6	7.6	..

	Recent years				Recent Quarters					Recent Months				
					2012		2013			2013				
	00-09[a]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
Middle East and North Africa	**10.0**	**9.0**	**11.1**	**11.6**	**11.7**	**11.8**	**11.8**	**12.1**	**12.3**	**12.3**	**12.4**	**..**	**..**	**..**
Algeria	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Egypt	10.0	9.0	12.0	12.7	12.8	13.1	12.9	13.2	13.7	13.7	13.8	..	..	..
Iran, Islamic Rep. of	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Jordan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Lebanon	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Morocco	11.0	9.1	8.9	9.0	9.1	8.8	8.9	9.4	8.9	8.9	8.8	..	..	..
Syrian Arab Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tunisia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Yemen	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Asia	**9.9**	**9.4**	**9.3**	**9.4**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Bangladesh	..	..	..	..	..	..	..	..	..	..	..	..	..	..
India	9.4	10.0	9.8	9.9	..	..	..	..	..	..	..	..	..	..
Nepal	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Pakistan	7.0	5.6	6.0	..	..	..	..	..	..	..	..	..	..	..
Sri Lanka	7.0	4.9	4.0	3.9	4.0	3.9	4.6	4.3	..	..	..	..	..	..
Sub-Saharan Africa	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Angola	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Benin	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Botswana	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burkina Faso	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burundi	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Cameroon	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Cape Verde	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Central African Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Chad	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Comoros	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Congo, Democratic Rep.	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Congo, Rep.	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Cote d'Ivoire	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Gabon	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Gambia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ghana	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guinea-Bissau	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Kenya	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Lesotho	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Madagascar	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Malawi	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mali	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mauritania	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mauritius	8.4	7.7	7.9	7.9	8.0	8.4	8.2	8.0	7.9	7.9	7.9	..	..	..
Mozambique	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Namibia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Niger	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nigeria	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Rwanda	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Senegal	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Seychelles	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sierra Leone	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	25.0	24.9	24.9	25.1	25.3	25.6	25.0	25.2	24.5	24.5	24.4	..	..	..
South Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tanzania	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Togo	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Zambia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Zimbabwe	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Source: World Bank, IFS, Haver Analytics, Datastream.
a. Average annual unemployment during period 2000-2009.

Table A4.9 Total reserves in terms of merchandise imports

	Years of imports covered				Average months covered per quarter					Months of imports covered				
					2012		2013			2013				
	00-09[a]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
World	**0.4**	**0.7**	**0.6**	**0.6**	**7.7**	**7.7**	**7.7**	**7.9**	**7.9**	**8.0**	**8.0**	**..**	**..**	**..**
High Income Countries	0.3	0.4	0.4	0.5	5.4	5.5	5.5	5.6	5.5	5.6	5.6	5.5	..	..
European Union	0.1	0.1	0.1	0.1	0.9	0.9	0.9	0.8	0.8	0.9	0.8	0.8	..	..
OECD Countries	0.3	0.3	0.3	0.3	3.9	3.9	3.9	3.9	3.9	4.0	4.0	3.9	..	..
Non-OECD Countries	0.9	1.1	1.0	1.1	12.6	12.6	12.6	13.2	13.3	13.6	13.1	13.1	13.4	..
Developing Countries	**0.8**	**1.2**	**1.0**	**1.0**	**12.6**	**12.2**	**12.2**	**12.7**	**12.9**	**13.0**	**13.1**	**..**	**..**	**..**
East Asia and the Pacific	**1.0**	**1.6**	**1.5**	**1.4**	**17.5**	**16.9**	**16.7**	**17.8**	**17.7**	**18.0**	**18.0**	**..**	**..**	**..**
Cambodia	0.3	0.6	0.5	0.5	5.6	5.7	6.9	..	..	..	..	..	..	..
China	1.3	2.1	1.8	1.8	22.1	21.3	21.0	22.6	22.3	22.5	22.7	..	..	..
Indonesia	0.8	0.7	0.6	0.6	7.1	6.5	6.3	6.3	6.1	6.9	5.8	6.1	6.2	..
Lao People's Dem. Rep.	0.4	0.3	..	..	..	..	..	..	..	..	..	..	..	..
Malaysia	0.6	0.6	0.7	0.7	8.2	8.5	7.9	8.1	8.0	7.8	8.1	7.7	..	..
Mongolia	0.3	0.6	0.3	0.5	4.2	4.9	6.2	..	..	..	..	..	..	..
Papua New Guinea	0.3	..	..	..	..	..	..	..	..	..	..	..	..	..
Philippines	0.5	1.0	1.1	1.2	13.8	13.7	15.6	14.4	13.6	13.5	13.5	15.8	..	..
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Thailand	0.6	0.9	0.7	0.7	8.5	7.9	7.6	7.9	8.4	8.2	8.6	7.8	7.9	..
Vanuatu	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Viet Nam	0.3	0.1	0.1	0.2	2.2	2.3	2.7	2.5	..	..	..	..	..	..
Europe and Central Asia	**0.4**	**0.6**	**0.5**	**0.5**	**5.6**	**5.7**	**5.6**	**5.7**	**5.6**	**5.9**	**5.6**	**5.8**	**..**	**..**
Albania	0.5	0.6	0.4	0.5	6.0	6.3	6.4	6.4	6.5	6.6	6.8	6.3	..	..
Armenia	0.4	0.5	0.5	0.4	5.2	4.7	4.6	4.7	5.5	5.4	6.4	4.9	..	..
Azerbaijan	0.5	1.0	1.1	1.0	9.3	9.8	10.1	..	..	..	..	..	..	..
Belarus	0.1	0.1	0.1	0.1	1.5	1.6	1.6	1.8	1.6	1.6	1.6	1.4	..	..
Bulgaria	0.3	0.4	0.3	0.4	4.3	4.6	4.1	4.5	4.4	4.5	4.4	4.5	..	..
Georgia	0.2	0.5	0.4	..	..	..	..	..	..	..	..	..	..	..
Hungary	0.3	0.5	0.5	0.5	5.7	5.7	5.7	5.6	5.1	4.9	4.9	5.2	..	..
Kazakhstan	0.5	0.8	0.7	0.5	6.1	5.8	5.3	5.1	4.9	5.4	4.4	4.3	..	..
Kyrgyz Republic	0.8	1.2	0.9	0.9	10.5	10.1	11.5	10.1	10.2	10.1	10.3	..	..	..
Macedonia, FYR	0.4	0.4	0.3	0.4	4.5	4.5	5.0	4.6	4.7	4.7	5.1	..	..	..
Moldova	0.3	0.5	0.4	0.5	5.2	5.7	5.4	5.4	..	..	..	..	..	..
Romania	0.5	0.9	0.8	0.8	8.8	9.1	9.2	9.7	9.2	9.1	9.7	9.6	..	..
Turkey	0.4	0.4	0.3	0.4	4.7	5.1	5.0	5.1	5.4	5.8	5.3	5.6	5.2	..
Ukraine	0.4	0.5	0.4	0.3	4.3	3.7	3.1	..	..	..	..	..	..	..
Uzbekistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Latin America and the Caribbean	**0.5**	**0.8**	**0.7**	**0.8**	**9.4**	**9.0**	**8.9**	**9.0**	**9.1**	**9.3**	**9.4**	**8.6**	**9.6**	**..**
Argentina	1.0	0.9	0.6	0.6	7.5	7.1	6.3	5.4	5.4	5.4	5.5	4.9	4.8	..
Belize	0.2	0.3	0.3	0.3	3.9	4.0	4.0	..	..	..	..	..	..	..
Bolivia	0.8	1.5	1.3	1.4	16.4	15.7	15.8	16.4	16.5	15.4	17.4	15.5	..	..
Brazil	1.0	1.6	1.6	1.7	21.7	19.6	18.2	18.5	18.7	19.6	19.9	16.5	20.1	..
Colombia	0.7	0.7	0.6	0.6	7.1	7.3	7.7	8.1	8.4	8.5	8.6	8.2	..	..
Costa Rica	0.3	0.3	0.3	0.4	3.5	4.1	4.6	5.2	5.1	5.3	5.0	4.8	..	..
Dominica	0.3	0.3	0.4	0.5	5.2	6.0	6.2	..	..	..	..	..	..	..
Dominican Republic	0.1	0.2	0.2	0.2	2.3	2.3	2.1	..	..	..	..	..	..	..
Ecuador	0.2	0.1	0.1	0.0	1.4	0.9	1.0	1.3	1.3	1.4	1.4	1.3	..	..
El Salvadore	0.3	0.3	0.2	0.3	2.5	2.8	3.3	3.0	..	..	..	..	..	..
Guatemala	0.4	0.5	0.4	0.4	5.3	5.0	5.8	5.7	5.5	5.9	5.1	..	..	..
Guyana	0.4	0.5	0.4	0.5	5.6	5.5	5.4	..	..	..	..	..	..	..
Haiti	0.2	0.4	0.4	0.4	6.0	5.2	..	..	..	..	..	..	..	..
Honduras	0.4	0.4	0.3	0.3	3.1	3.0	3.6	3.9	3.1	..	..	..	..	..
Jamaica	0.4	0.5	0.4	0.3	4.1	3.7	3.0	3.9	3.8	3.9	..	..	..	..
Mexico	0.3	0.4	0.4	0.4	5.3	5.1	5.2	5.1	5.3	5.4	5.5	5.3	5.7	..
Nicaragua	0.3	0.4	0.4	0.3	3.8	3.7	4.3	4.0	3.9	3.7	4.0	4.1	..	..
Panama	0.3	0.3	0.2	0.2	1.9	2.1	2.2	..	..	..	..	..	..	..
Paraguay	0.4	0.4	0.4	0.4	4.9	4.7	4.8	..	..	..	..	..	..	..
Peru	1.2	1.5	1.3	1.5	16.6	17.7	18.4	18.7	18.6	18.0	19.1	17.8	..	..
St. Lucia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
St. Vincent and the Grenadines	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Suriname	0.6	1.2	0.4	0.4	4.3	4.5	4.4	..	..	..	..	..	..	..
Venezuela, Bolivarian Rep. of	0.8	0.4	0.3	0.2	2.4	2.0	2.6	..	..	..	..	..	..	..

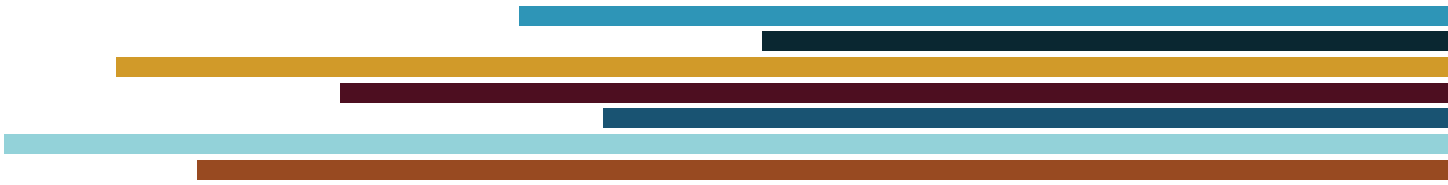
	Years of imports covered				Average months covered per quarter					Months of imports covered				
					2012		2013			2013				
	00-09[a]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
Middle East and North Africa	**1.2**	**1.4**	**1.3**	**1.2**	**13.8**	**14.1**	**14.2**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Algeria	2.8	4.0	3.9	3.7	42.9	40.5	38.0	..	..	..	..	..	..	..
Egypt	1.0	0.6	0.3	0.2	2.1	2.2	1.9	2.4	3.4	3.5	3.6	..	..	..
Iran, Islamic Rep. of	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Jordan	0.7	0.8	0.6	0.4	4.9	4.7	5.3	6.1	5.9	6.2	6.0	6.2	..	..
Lebanon	1.3	2.0	2.0	2.1	26.1	25.0	21.7	..	..	..	..	..	..	..
Morocco	0.8	0.6	0.4	0.4	4.7	4.1	4.8	4.8	4.6	4.5	4.5	4.5	..	..
Syrian Arab Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tunisia	0.3	0.4	0.3	0.3	3.2	3.4	3.7	3.4	3.5	3.5	3.5	3.9	3.6	..
Yemen	1.1	0.6	0.4	0.4	4.3	4.9	4.4	..	..	..	..	..	..	..
South Asia	**0.9**	**0.7**	**0.5**	**0.5**	**6.1**	**5.9**	**5.9**	**6.1**	**6.3**	**6.1**	**6.5**	**6.6**	**6.8**	**..**
Bangladesh	0.5	0.4	0.2	0.4	3.6	4.3	4.6	4.9	5.1	5.4	5.0	5.4	..	..
India	1.0	0.8	0.6	0.6	6.6	6.3	6.3	6.7	7.0	6.6	7.3	7.2	7.6	..
Nepal	0.7	..	..	..	..	..	..	..	..	..	..	..	..	..
Pakistan	0.4	0.4	0.3	0.2	3.1	2.8	2.5	2.0	1.6	1.7	1.5	1.6	..	..
Sri Lanka	0.3	0.5	0.3	0.3	4.7	4.1	4.1	3.7	3.5	3.5	3.6	..	..	..
Sub-Saharan Africa	**0.5**	**0.6**	**0.5**	**0.6**	**6.3**	**6.4**	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Angola	0.5	1.3	1.7	1.6	16.1	18.0	20.1	..	..	..	..	..	..	..
Benin	0.6	0.2	0.1	0.1	1.6	1.0	0.8	..	..	..	..	..	..	..
Botswana	2.3	..	..	..	..	..	..	..	..	..	..	..	..	..
Burkina Faso	0.6	0.6	0.4	0.4	4.8	5.1	3.9	..	..	..	..	..	..	..
Burundi	0.4	0.7	0.4	0.4	4.3	4.7	4.4	4.1	4.7	4.2	5.0	..	..	..
Cameroon	0.5	0.8	0.6	0.5	5.9	5.9	..	..	..	..	..	..	..	..
Cape Verde	0.4	0.5	0.3	0.5	5.9	6.6	6.8	..	..	..	..	..	..	..
Central African Republic	0.7	0.3	0.2	0.3	2.5	5.5	..	..	..	..	..	..	..	..
Chad	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Comoros	0.7	0.7	0.7	0.8	8.2	8.4	10.1	..	..	..	..	..	..	..
Congo, Democratic Rep.	0.1	0.3	0.2	0.3	2.8	3.6	3.0	..	..	..	..	..	..	..
Congo, Rep.	0.5	1.4	1.3	1.3	16.2	16.4	..	..	..	..	..	..	..	..
Cote d'Ivoire	0.4	0.4	0.7	0.5	4.9	5.1	5.5	..	..	..	..	..	..	..
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	0.3	..	..	..	..	..	..	..	..	..	..	..	..	..
Gabon	0.4	0.6	0.6	0.6	7.4	7.6	..	..	..	..	..	..	..	..
Gambia	0.2	0.2	0.2	0.2	2.7	2.9	2.6	..	..	..	..	..	..	..
Ghana	0.2	0.4	0.3	0.3	2.3	3.3	3.1	..	..	..	..	..	..	..
Guinea	0.1	0.0	0.0	..	..	..	..	..	..	..	..	..	..	..
Guinea-Bissau	0.5	0.6	0.6	0.5	7.3	6.3	6.0	..	..	..	..	..	..	..
Kenya	0.3	..	..	..	..	..	..	..	..	..	..	..	..	..
Lesotho	0.5	0.5	0.4	0.5	5.5	5.8	6.3	8.3	..	..	..	..	..	..
Madagascar	0.3	0.4	0.4	0.4	4.1	4.0	3.9	..	..	..	..	..	..	..
Malawi	0.2	..	..	..	..	..	..	..	..	..	..	..	..	..
Mali	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mauritania	0.1	0.1	0.1	0.2	2.5	2.6	2.9	..	..	..	..	..	..	..
Mauritius	0.5	0.6	0.5	0.5	6.3	6.3	7.4	..	..	..	..	..	..	..
Mozambique	0.5	0.6	0.3	0.3	3.8	3.4	3.2	..	..	..	..	..	..	..
Namibia	0.2	0.3	0.3	..	..	..	..	..	..	..	..	..	..	..
Niger	0.4	0.5	0.4	0.7	6.6	6.6	6.8	..	..	..	..	..	..	..
Nigeria	1.1	0.7	0.6	0.8	9.5	9.2	..	..	..	..	..	..	..	..
Rwanda	0.8	..	..	..	..	..	..	..	..	..	..	..	..	..
Senegal	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Seychelles	0.1	0.3	0.2	0.3	3.1	3.0	2.8	..	..	..	..	..	..	..
Sierra Leone	0.4	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	0.3	0.5	0.4	0.4	5.2	5.2	5.3	5.0	5.1	5.1	5.3	5.3	5.6	..
South Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sudan	0.2	0.1	0.0	0.0	0.3	0.3	..	..	..	..	..	..	..	..
Tanzania	0.7	0.5	0.3	0.4	4.2	4.2	4.0	4.7	4.3	4.3	3.9	4.7	4.0	..
Togo	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	0.8	0.6	0.5	0.6	7.1	7.7	8.5	7.5	7.5	7.6	7.7	7.4	..	..
Zambia	0.3	0.4	0.3	0.4	4.2	5.8	4.4	..	..	..	..	..	..	..
Zimbabwe	0.1	0.2	0.1	0.1	1.4	1.7	1.4	..	..	..	..	..	..	..

Source: World Bank, IFS, Haver Analytics, Datastream.
a. Average years of imports covered by stock of total reserves during period 2000-2009.

Table A4.10 Commodity price indices
(2010 as Base Year)

	Annual average index				Quarterly average index					Monthly index				
					2012		2013			2013				
	00-09[a]	2010	2011	2012	Q3	Q4	Q1	Q2	Q3	Aug	Sep	Oct	Nov	Dec
Energy	**66.5**	**100.0**	**128.7**	**127.6**	**124.9**	**124.7**	**128.6**	**123.1**	**130.2**	**130.9**	**131.6**	**128.3**	**125.5**	**129.5**
Coal, Australia	53.0	100.0	122.7	97.4	90.3	87.8	93.9	87.0	78.1	77.8	78.4	80.2	83.1	85.2
Crude oil, average	62.2	100.0	131.6	132.9	130.0	129.0	133.0	125.7	135.9	136.8	137.6	133.4	129.8	133.5
Natural gas, Europe	78.0	100.0	126.9	138.4	134.3	141.6	142.8	149.2	138.7	140.5	135.7	137.2	137.8	139.4
Non-energy	**65.2**	**100.0**	**119.8**	**109.5**	**110.4**	**108.2**	**107.2**	**101.7**	**99.2**	**99.4**	**98.7**	**99.1**	**98.0**	**98.5**
Agriculture	**66.3**	**100.0**	**121.6**	**114.5**	**118.6**	**113.5**	**110.1**	**107.3**	**104.3**	**103.8**	**103.6**	**104.0**	**103.1**	**103.3**
Beverages	**57.2**	**100.0**	**116.0**	**92.6**	**94.5**	**89.3**	**84.5**	**83.3**	**82.2**	**82.5**	**82.6**	**83.1**	**81.5**	**84.7**
Cocoa	56.2	100.0	95.1	76.3	79.6	78.2	70.5	73.6	78.8	79.3	83.5	87.2	87.9	90.2
Coffee, arabica	50.6	100.0	138.3	95.2	92.6	82.7	77.7	74.0	69.0	69.0	67.5	65.7	62.3	64.3
Coffee, robusta	70.7	100.0	138.7	130.6	134.8	126.5	131.2	123.5	117.3	119.4	111.5	106.3	101.2	111.6
Food	**68.1**	**100.0**	**122.5**	**124.5**	**132.5**	**124.9**	**120.7**	**117.4**	**113.2**	**112.1**	**111.5**	**112.0**	**111.2**	**110.5**
Fats and oils	**64.5**	**100.0**	**120.5**	**126.1**	**137.9**	**122.9**	**117.8**	**112.7**	**113.8**	**111.3**	**116.5**	**117.5**	**119.9**	**120.1**
Palm oil	57.9	100.0	124.9	110.9	110.2	89.8	94.7	94.4	91.8	92.0	91.0	95.4	102.2	101.2
Soybean meal	67.7	100.0	105.2	138.5	166.6	155.0	140.3	139.6	145.8	139.0	149.6	153.3	149.6	149.1
Soybeans	68.4	100.0	120.2	131.5	149.4	134.4	125.9	112.3	117.2	114.7	123.6	120.9	122.9	126.3
Grains	**70.8**	**100.0**	**138.2**	**141.3**	**152.8**	**150.2**	**143.6**	**138.3**	**121.6**	**120.9**	**111.7**	**111.7**	**109.0**	**107.6**
Maize	68.2	100.0	156.9	160.5	176.8	170.6	164.0	156.7	130.1	128.4	111.6	108.5	107.1	106.2
Rice, Thailand, 5%	63.9	100.0	111.1	115.2	116.2	114.2	115.0	110.8	97.6	97.9	90.8	89.8	89.6	92.2
Wheat, US, HRW	82.4	100.0	141.5	140.1	156.3	159.1	143.7	140.3	136.8	136.6	137.5	145.7	137.2	130.4
Other food	**70.6**	**100.0**	**111.1**	**107.1**	**106.9**	**104.7**	**104.0**	**104.7**	**104.7**	**105.3**	**104.8**	**105.0**	**101.6**	**100.4**
Bananas, US	70.0	100.0	111.5	113.3	110.5	108.8	107.1	104.5	107.5	108.3	107.9	107.3	106.3	106.3
Sugar, world	48.7	100.0	122.1	101.2	99.8	92.3	87.1	82.2	80.3	80.0	81.7	87.7	83.0	77.7
Raw materials														
Cotton ("A" Index)	56.8	100.0	145.8	86.1	81.3	79.2	86.8	89.5	88.7	89.6	87.0	86.3	81.7	84.5
Rubber, Singapore	40.3	100.0	132.0	92.4	81.3	84.7	86.4	79.5	70.9	70.3	72.2	69.4	68.1	70.0
Sawnwood, Malaysia	78.3	100.0	110.7	103.3	101.9	103.1	99.6	98.7	99.7	99.6	102.0	103.4	103.5	105.3
Fertilizers	**70.4**	**100.0**	**142.6**	**137.6**	**135.5**	**132.0**	**128.9**	**119.8**	**108.2**	**107.5**	**102.6**	**98.8**	**96.6**	**98.2**
Triple superphosphate	68.4	100.0	140.9	121.0	127.0	118.4	113.9	111.6	95.8	93.6	87.1	81.2	77.2	78.2
Metals and minerals	**62.3**	**100.0**	**113.5**	**96.1**	**90.8**	**94.6**	**98.7**	**88.2**	**87.8**	**89.6**	**88.2**	**89.1**	**87.8**	**88.7**
Aluminum	86.7	100.0	110.5	93.1	88.7	92.2	92.0	84.5	82.0	83.6	81.0	83.5	80.4	80.0
Copper	52.1	100.0	117.2	105.7	102.6	105.0	105.1	95.0	94.0	95.5	95.0	95.6	93.8	95.7
Gold	42.7	100.0	128.1	136.3	135.3	140.3	133.2	115.5	108.5	110.4	110.1	107.5	104.2	100.0
Nickel	71.9	100.0	105.1	80.5	75.1	77.9	79.3	68.6	64.0	65.6	63.3	64.7	62.7	63.9
Memo														
Crude Oil (US$)	49.2	79.0	104.0	105.0	102.8	101.9	105.1	99.3	107.4	108.2	108.8	105.4	102.6	105.5

Source: World Bank.
a. Average of price index for the period 2000-2009.



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