EADS Snapshot on
World Economic Outlook

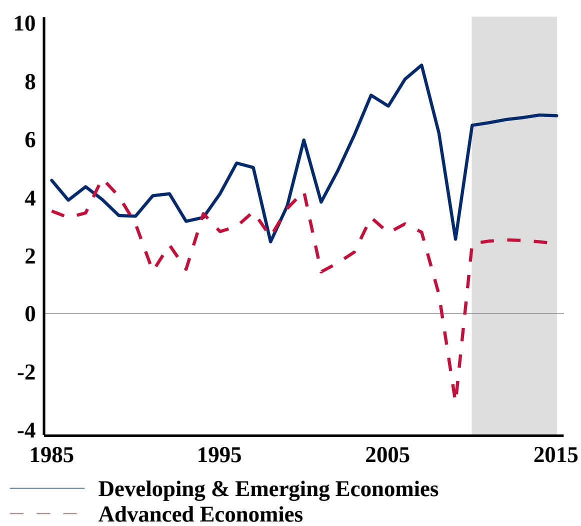
No. 17 May 2010

Introduction

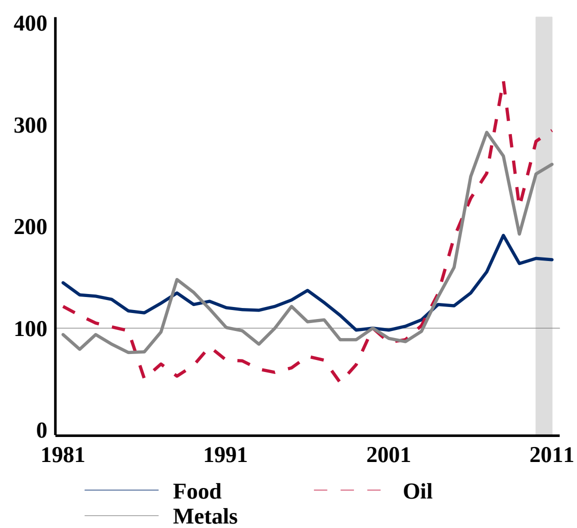
This snapshot highlights the main global and regional economic growth projections published in the April 2010 World Economic Outlook (WEO), a semi-annual IMF report. According to the IMF, the world economy has recovered more quickly from the post-financial crisis recession than was previously expected. After a ½ percent contraction in the global economy in 2009, world output is expected to expand by 4 ¼ percent in 2010. Developing countries, particularly in Asia, are leading the recovery. While developed countries are expected to grow at a modest 2 percent pace in 2010, growth in developing countries is projected to reach over 6 percent in 2010. However, the rapid upswing in growth rates is expected to plateau in 2011 and beyond as demonstrated in the chart below. Booming commodity prices accompanying the global recovery in 2009-2010 are also expected to decline and then stabilize. Thus, the WEO report emphasizes that enthusiasm over short-term recovery should be tempered by analysis of the risks to long-term global economic stability.

Overall, the April 2010 WEO report predicts relatively subdued long-term growth following the immediate recovery from the financial crisis. It also highlights differences among and within regions in recovery trends. The report suggests that resurging capital flows to emerging economies could be accompanied by heightened risks of inflation and asset bubbles. Additionally, the report reflects concerns that as developed countries exhaust their ability to pursue stimulus policies, the positive spillover from these policies will concurrently fade. Stimulus policies in developed countries have contributed to short-term recovery but have also led to a further deterioration of fiscal balance sheets which could negatively impact future financial stability. While the IMF suggests that fiscal stimulus policies should remain in 2010, the report urges developed countries to embark on fiscal consolidation by 2011 or earlier. The report emphasizes the threat of a return to wide global current account imbalances following the crisis. Economies with excessive current account surpluses are encouraged by the IMF to support increased domestic demand in order to rebalance the global economy. Finally, the IMF emphasizes the critical need for forward-looking, coordinated regulatory reforms of the global financial system to prevent a similar crisis in the future.

World Real GDP Growth



Real Commodity Prices 2000=100



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Country Growth Rate Forecasts

Compared to the October 2009 WEO Report, Turkmenistan, Ghana, and China remain as the leaders among USAID assisted countries expected to grow the fastest from 2009 to 2012. Afghanistan and Congo (Brazzaville) have fallen from the top ranks, replaced by India and Liberia. Rapid economic growth forecasts for Turkmenistan and Ghana are based mainly on expected increases of oil exports. In China and India, rising private domestic demand is expected to replace government investment and post-crisis stimulus policies as the catalyst for growth.

The countries expected to have the slowest growth have changed dramatically since the October 2009 forecasts. In the previous WEO report, emerging economies in Europe were expected to continue to have negative GDP growth in the three years following the crisis. However, support from multilateral organizations and neighboring countries have helped spur more rapid economic recovery.

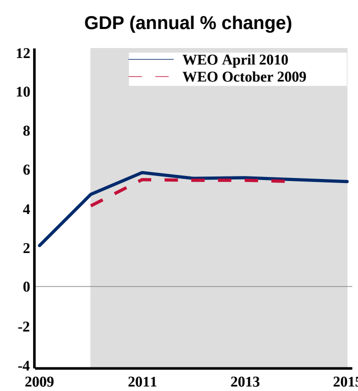
GDP Growth for USAID Assisted Countries (2009-2012)

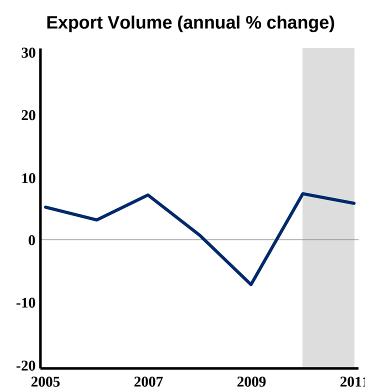
USAID Assisted Country	GDP % Change	Mean Annual Change
Fastest Growing Economies		
Turkmenistan	39%	9.7%
Ghana	34%	8.7%
China (P.R.C.)	33%	9.6%
India	27%	7.7%
Liberia	25%	7.0%
Slowest Growing Economies		
Cyprus	4%	0.5%
Haiti	3%	1.7%
Zimbabwe	3%	1.8%
Jamaica	3%	0.0%
Venezuela	-2%	-1.3%

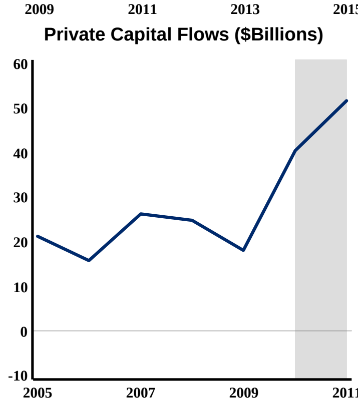
Although the table on the right only includes USAID assisted countries, it is important to note that Greece and Iceland also are among the countries with the lowest economic growth forecasts in the April 2010 WEO Report. While Venezuela is expected to benefit from rising commodity prices, current power shortages suggest that mismanagement of the economy may undermine stable economic growth. Jamaica, like other Caribbean countries, is suffering from declining tourist and remittance revenues. Meanwhile, Haiti has suffered additional setbacks due to the repercussions of a massive earthquake in January 2010.

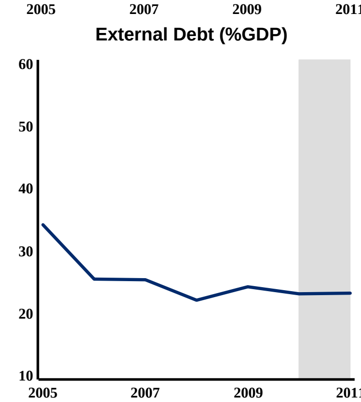
Sub-Saharan Africa: Proving Resilient

Sub-Saharan Africa appears to have come through the global crisis well and even stronger than expected. Despite the collapse in exports and commodity markets, which affected middle income and oil exporting countries, the region grew 2 percent last year. The WEO report argues the region's quick recovery reflects 'limited integration of most low-income economies into the global economy and the limited impact on their terms of trade, the rapid normalization in global trade and commodity prices and the use of countercyclical fiscal policies.' South Africa, who was projected to contract 2.2 percent in 2009, decreased only by 1.8 percent. Additionally, the country was projected in October to grow merely 1.7 in 2010 and the WEO has adjusted this number to growth of 2.6 percent. The decreased global demand and oil prices caused output growth in oil exporting countries to slow by 3.5 percentage points in 2009. However, these same economies are predicted to see 6.8 and 7.1 percent growth in 2010 and 2011 respectively. Low-income economies in Africa are predicted to grow 4.7 percent in 2010 and 6.7 percent in 2011. The region remains plagued by risks including potentially large swings in commodity prices, declines in bilateral aid, and pervasive political uncertainty.

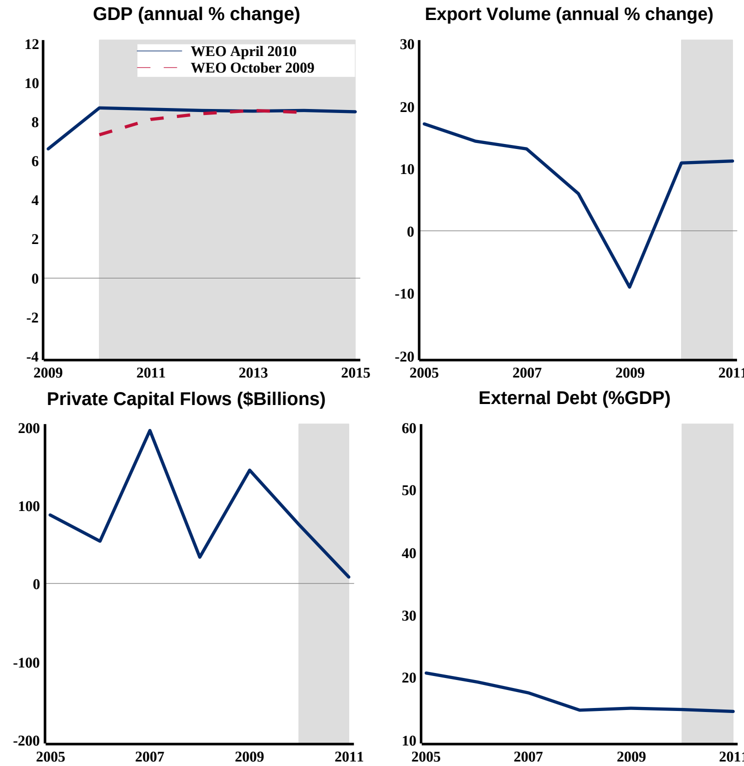






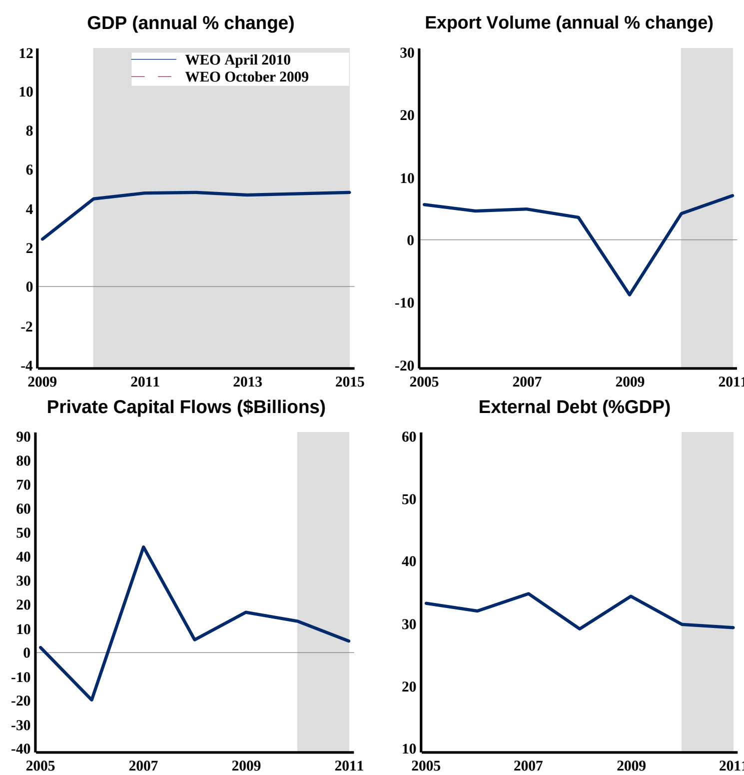


Asia: A Rapid and Balanced Recovery



Despite the drastic and sudden downturn in the Asian economies in late 2008, the region on the whole has rebounded stronger than projected in the October 2009 WEO report. Unfortunately, Japan remains the major exception. Asian countries have experienced a more balanced recovery, relying on external and domestic demand to spur output growth. The WEO report highlights four factors that have led to this recovery, including rapid normalization of trade, the bottoming out of the inventory cycle (both domestically and with the U.S.), resilient domestic demand, and a resumption of capital inflows into the region. Real GDP growth in Asia is projected to be 6.9 percent in 2010 and 7 percent in 2011, (the data in the charts on the right report only for developing Asia). China continues to have the strongest recovery, with projections of 10 percent GDP growth in both 2010 and 2011. Additionally, India's growth is projected to reach 8.8 percent in 2010 and 8.4 percent in 2011. Each economy is strengthened by consumption as labor markets improve and investment expands. The growth in India and China is expected to have positive spillovers throughout the region, especially in countries like Korea whose growth is projected to be 4.5 percent in 2010 and 5 percent in 2011. The ASEAN-5 (Indonesia, Thailand, Philippines, Malaysia and Vietnam) are expected to grow 5.5 percent in 2010, driven by private domestic demand and net exports. The report suggests that improvements in private investment could play an import role in improving domestic demand in the ASEAN economies. Fiscally the region faces debt-sustainability on a similar scale as advanced economies.

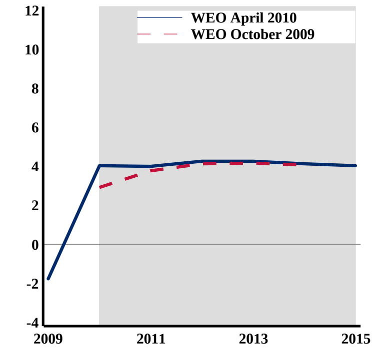
Middle East & North Africa: Picking Up Speed



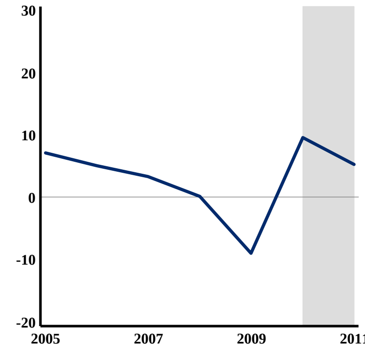
The Middle East and North Africa region is expected to rebound. However, the outlooks for different countries across the region vary. Higher commodity prices and rebounding external demand combined with increases in government spending are providing relief. On the other hand, vulnerable financial sectors and weak property markets are holding back some countries, such as Kuwait and the United Arab Emirates, while declines in worker remittances and tourism are negatively impacting other countries, such as Morocco and Tunisia. Qatar is the strongest regional performer, with GDP expected to expand by 18.5 percent in 2010 thanks to an expansion of natural gas production and large investment expenditures. In contrast, growth in a fellow oil-exporting country, the United Arab Emirates, is expected to reach 1.25 percent in 2010 as property-related sectors continue to contract. On the bright side, large current account surpluses in the region before the crisis are expected to return to more modest levels as public spending on non-energy-related sectors is helping diversify economies and rebalance regional growth.

Western Hemisphere: Staging a Robust Recovery

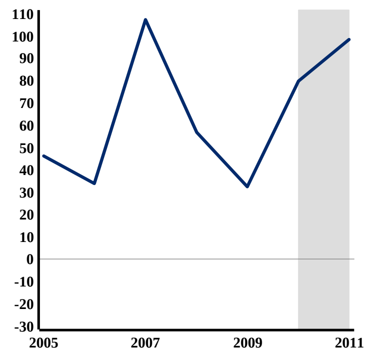
GDP (annual % change)



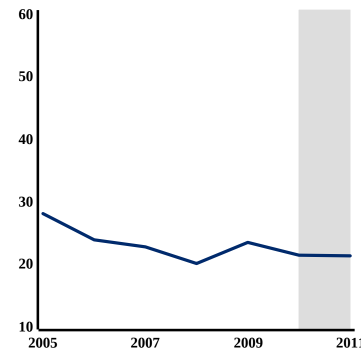
Export Volume (annual % change)



Private Capital Flows ($Billions)



External Debt (%GDP)



Latin America has weathered the financial crisis well and is expected to sustain positive growth in 2010 and 2011. Government stimulus policies have strengthened domestic demand while sound fundamentals such as solid balance sheets are helping to attract capital inflows. In general, recovery in the global economy and higher commodity prices are expected to benefit Latin American exporters. However, weak demand for tourism and declining remittances are hurting several countries, especially in the Caribbean. GDP in the Western Hemisphere is expected to grow approximately 4 percent in 2010. However, growth rates in Central America and the Caribbean are expected to be significantly lower, at 2.7 percent and 1.5 percent, respectively. Peru is forecasted to have the greatest economic growth in the region in 2010, growing 6 percent mainly due to strong domestic demand and high commodity prices.

The IMF identifies several risks to the sustainability of growth in Latin America. The first is the risk that commodity prices will fall or the global economy will slip back into another recession with spillover effects. Another risk is that increased capital flows could be speculative and contribute to inflation and overheating.

IMF Policy Recommendations for Developing Countries: Rebalancing Current Account Surpluses

Most developing countries are not suffering from the direct impacts of the financial crisis to the same extent as developed countries. However, they may face future challenges due to decreased demand from developed countries for their exports if they do not decrease large current account surpluses. Developing countries may be hesitant to adopt policies such as allowing real exchange rate appreciation to reverse current account surpluses for fear of undermining economic growth. The IMF examines five cases in which countries have used various policies to decrease current account surpluses and finds that in general there is not a negative impact on long-term growth. The analysis suggests that while currency appreciation can lead to a decline in employment and production in the tradables sector, these losses are offset by growth in the non-tradables sector and by expansionary macroeconomic policies that help boost domestic demand. In addition to allowing currencies to appreciate, the IMF encourages countries to liberalize trade by decreasing barriers preventing imports from entering their economy. Finally, the IMF recommends reforms to facilitate growth and upgrades in the quality of products produced in the nontradables sector and export sectors as key to mitigating any declines in growth related to real exchange rate appreciation and trade liberalization.

How can I get WEO data?
To access the complete country dataset from the WEO, visit the Economic and Social Database (ESDB) at http://esdb.eads.usaidallnet.gov/. The ESDB website also offers related datasets from the IMF, World Bank, and other sources. Through the ESDB website you can also access standard country profiles, generate customized tables and graphs, and utilize analytic tools such as the Financial Sector Analysis Tool.