EADS Snapshot on
World Economic Outlook

No. 8 October 2009

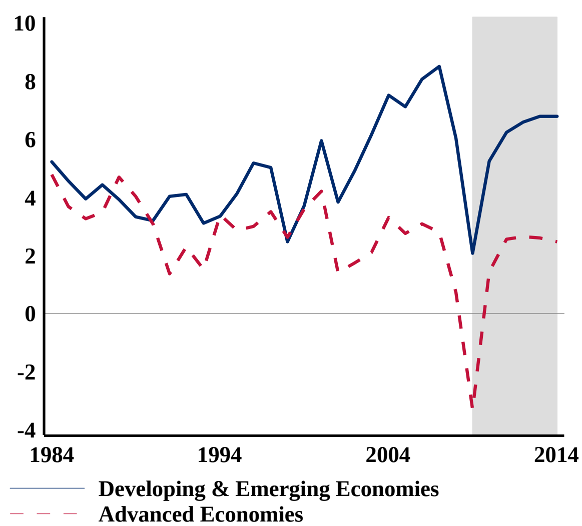
Introduction

The World Economic Outlook (WEO) is a semi-annual report put out by the IMF in conjunction with the IMF/World Bank meetings. It draws on information primarily gathered by IMF staff and presents economic analyses and projections at the global and country levels. This snapshot presents a brief overview of the October 2009 report's GDP growth projections in the context of a global economy that has recently returned to expansion from a deep recession. In addition, this snapshot presents regional overviews of economic growth leaders and laggards, international trade growth, private capital flows, and price trends of key commodities. This snapshot refers to regions as defined by the IMF.

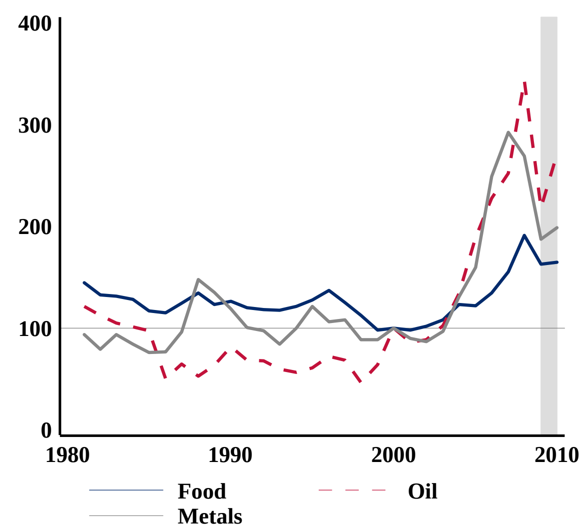
This snapshot compares the most recent IMF projections to projections from the April 2009 WEO issue. For comparison, the April 2009 WEO growth rates appear in parantheses. The October WEO is slightly more optimistic about the pace of global economic recovery than projections in the WEO of April 2009. Forecasts for global GDP, advanced economies, and emerging and developed economies have all been revised upward from the April WEO's forecasts. Reflecting a return to positive growth late in the year, the world economy in 2009 is expected to have contracted by about 1 percent (forecast in the April issue at 1.3 percent). Emerging and developing economies are expected to post a small positive growth rate of 1.7 percent for 2009 (1.5 percent). Advanced economies, on the other hand, are expected to register a collective contraction of about 3.5 percent (negative 3.8 percent).

The global economy's recovery from recession is expected to be slow. The October WEO forecasts global GDP to grow about 3 percent in 2010 (2.5 percent). About 5 percent growth is expected in 2010 for emerging economies (4.7 percent) and 1.3 percent for advanced economies (0.6 percent). However, the authors of the current report caution that recent growth may be unsustainable if government economic stimulus efforts are ended prematurely. They warn that the path to global recovery is in a vulnerable stage as it is currently based mainly on unsustainable levels of public spending. The report's authors also urge policy makers to balance the need for continued short-term public interventions with clear exit strategies, plans for financial reforms, and commitments to international collaboration.

World Real GDP Growth



Real Commodity Prices 2000=100



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Country Growth Rate Forecasts

GDP Growth for USAID Assisted Countries (2008-2011)

USAID Assisted Country	GDP % Change	Average Change
Fastest Growing Economies		
Afghanistan	35%	8.9%
Ghana	34%	9.8%
Turkmenistan	31%	9.7%
China (P.R.C.)	30%	9.1%
Congo (Brazzaville)	29%	8.1%
Slowest Growing Economies		
Moldova	-6%	0.3%
Bulgaria	-7%	-0.2%
Ukraine	-8%	-1.3%
Ireland	-9%	-3.0%
Armenia	-12%	-1.2%

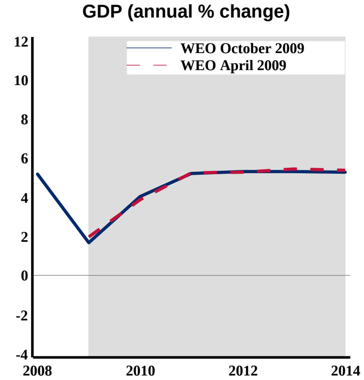
Compared to the April 2009 WEO Report, Afghanistan, Ghana, and China have remained in the lead among the fastest growing economies from 2008 to 2011 while Liberia and Timor-Leste have been replaced by Turkmenistan and Congo (Brazzaville). The economic outlook for these countries has been boosted by upward revisions of forecasted commodity prices, especially oil and natural gas. Turkmenistan, the fourth largest exporter of natural gas in the world, initially suffered from the fall in energy prices due to the global recession; however, government policies to diversify export markets have helped the country get back on its feet. In addition to projected improvements in export revenues, Ghana's economy has been boosted by social stability and sound economic fundamentals reflected by a strong currency. Growth in Afghanistan and Congo (Brazzaville) rests on shaky foundations due to recent conflicts and continued insecurity; however, the IMF predicts that these countries are on the path to stronger economic growth.

Unfortunately, the upbeat outlook for returning growth remains distant for several emerging European countries that are more integrated in global financial markets and have been hit hard by declining capital flows. The IMF predicts that low-income, non-oil-exporting countries with strong ties to Russia (Moldova, Bulgaria, Ukraine and Armenia) will suffer the steepest sustained declines in GDP growth over the next few years. Ireland is struggling to recover from a property market crash as well as bank recapitalization efforts that have pushed public debt to such high levels that the country may have to turn to the IMF for help.

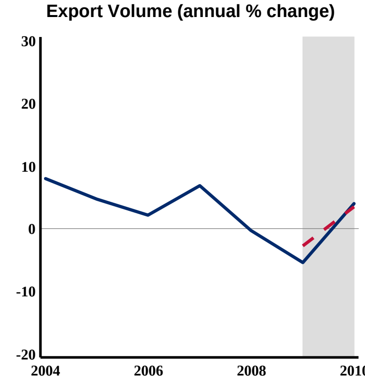
Africa: Slowly Getting Back on Track

While growth in Africa is estimated to have fallen sharply from the 2004-08 annual average of 6 percent to 1.8 percent in 2009, growth is expected to reach over 4 percent by 2010. South Africa initially suffered the greatest impact of the crisis due to its high degree of integration into the global economy. The South African economy is expected to contract by 2.2 percent in 2009 and grow at 1.7 percent in 2010. Declining net export volumes are also damaging the outlooks for several countries in Africa, particularly oil-exporters. In contrast, some low-income countries with relatively diversified exports have weathered the initial impacts of the crisis well but will still suffer as a result of expected declines in aid flows. Major reductions in debt as a percent of GDP made in several African countries from 2004 to 2008 have enabled governments to respond more effectively to external shocks related to the global crisis than in the past.The IMF recommends that African governments continue to support domestic demand and monitor vulnerabilities in banking systems in the short-run while committing resources towards facilitating private sector growth, enhancing infrastructure, and expanding poverty reduction strategies to support long term growth.

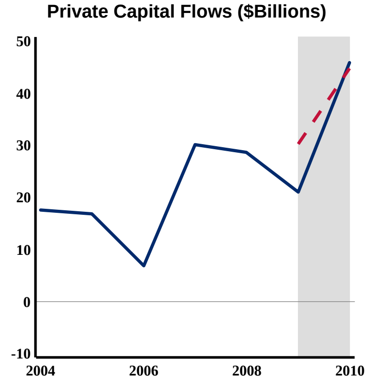
GDP (annual % change)



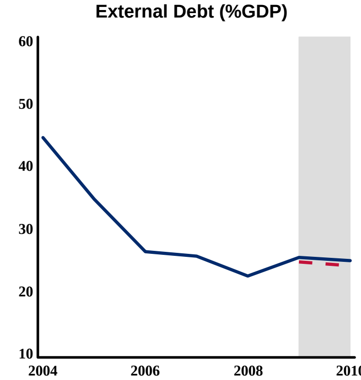
Export Volume (annual % change)



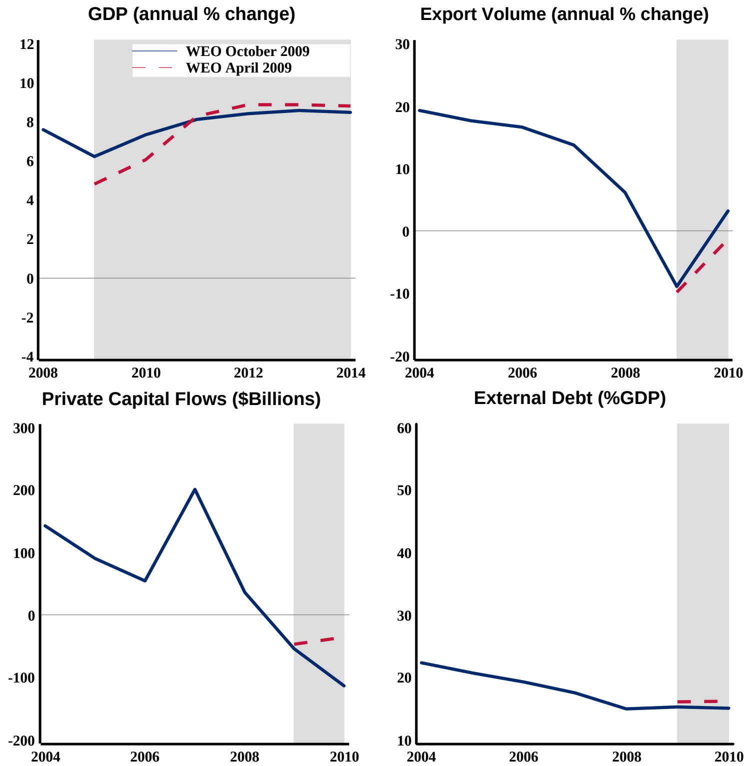
Private Capital Flows ($Billions)



External Debt (%GDP)

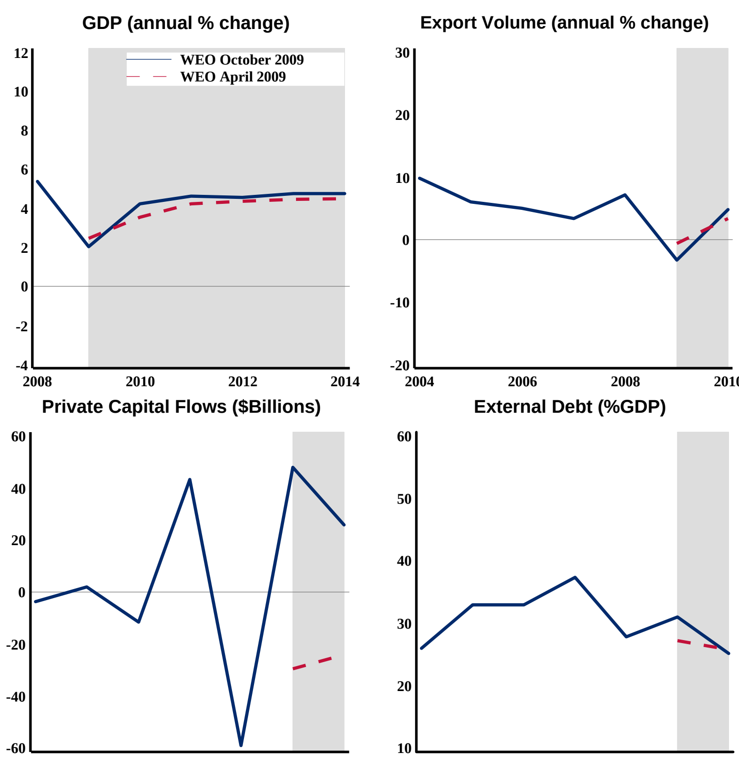


Asia: A Sustainable Recovery?



Despite the negative impact of declines in global trade on Asia's export-oriented economies, Asia led the way with major improvements in economic indicators during the first half of 2009. Positive signals include strengthening domestic demand and exports; however, it is uncertain whether Asia can sustain a strong recovery if growth in the rest of the world fails to pickup. Thus far, China has managed to maintain a strong pace, growing at an annual rate of 7.1 percent in the first half of this year. Japan has experienced a remarkable turnaround in economic growth. After a devastating decline in Japan's GDP by 10 percent annualized in the second half of 2008, growth has returned in the second quarter of 2009 to a positive 2.3 percent annualized. Rising industrial production in Hong Kong, India, South Korea, the Philippines, Taiwan, and Thailand has also brought hope that recovery is on the way. The overall health of banking sectors, aggressive expansionary fiscal and monetary policies, and a recent rebound in capital inflows have contributed to Asia's resilient growth. The IMF cautions that unwinding of policy support should begin in order to protect against unsustainable levels of credit growth that carry risks of incentivizing overinvestment, asset price inflation, and deteriorating credit quality in banking systems. The IMF suggests that Asian governments should strengthen domestic demand through improving social safety nets and health care systems, ensuring the development of proper supervisory and regulatory frameworks in the financial sector, and implementing more flexible exchange rate regimes to help rebalance growth.

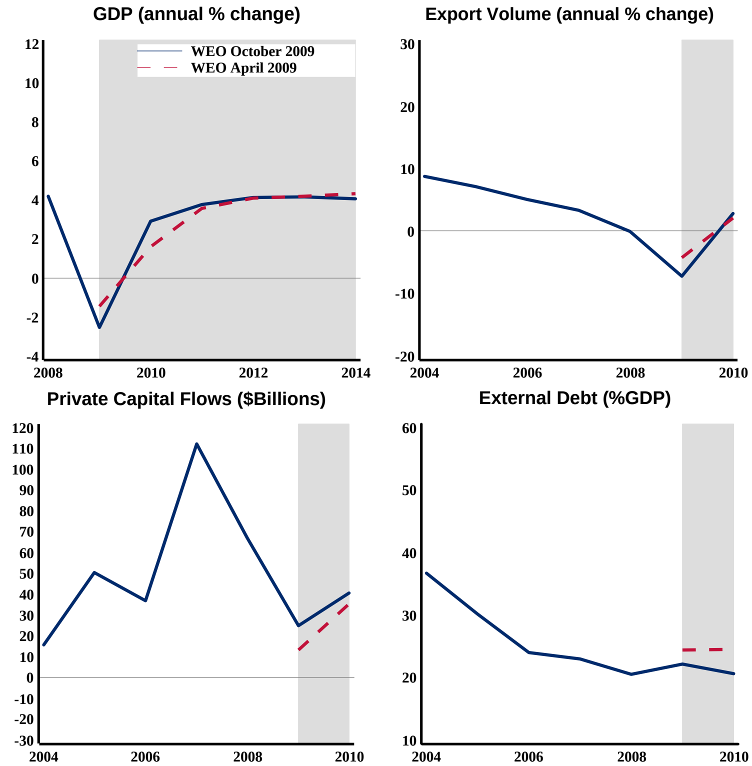
Middle East: Improving Growth Outlook



Oil exporters in the Middle East have been hurt the most by falling oil prices and demand, to which authorities have responded by expanding fiscal policies. Such policies, combined with a large decline in capital inflows, lead to a drawdown of international reserves. Oil importers have been more shielded from the impact of the crisis due to their lower degree of integration in international capital markets. Real GDP growth in the region overall is expected to be 2 percent in 2009 and to reach around 4 ¼ percent in 2010 with growth recovering more quickly for oil importers than exporters. However, several oil exporting countries, such as the United Arab Emirates, Saudi Arabia, Kuwait, and Qatar are utilizing their strong international reserves and fiscal position prior to the crisis to adopt counter-cyclical macroeconomic policies in order to boost domestic demand and their non-oil sector. The IMF suggests that expansionary fiscal policies should be continued and more attention should be focused on strengthening financial sectors through analyzing banks' potential recapitalization needs, strengthening cross-border supervision, and increasing the transparency of sovereign wealth fund management.

Western Hemisphere: Reforms Have Contributed to Resilience

Real GDP in the region is expected to have contracted by 2.5 percent in 2009, but is expected to pick up to almost 3 percent in 2010. Returning capital flows, rebounding commodity prices, and stable banking systems have helped boost several Latin American countries out of the global recession. In addition, declines in debt as a percent of GDP since 2004 have allowed several Latin American countries to adopt countercyclical fiscal and monetary policies in response to the global crisis. Brazil is at the forefront of recovery in the region due to its large domestic market, diversified export products and markets, and successful expansionary fiscal and monetary policies. Countries in the Caribbean and Central America have suffered more from the crisis due to large declines in worker remittances and tourism earnings. Many countries in the Caribbean have a more limited scope to implement countercyclical fiscal policies due to declines in public revenues, high levels of debt, and less access to external financing.



Beyond 2010: The Medium and Long-term Outlook for Global Recovery

The last chapter of the October 2009 WEO Report analyzes the aftermath of past financial crises and draws gloomy conclusions for the potential long-term impacts of the current financial crisis on global economic growth. The WEO predicts that while global economic growth rates will likely return to pre-crisis rates in the medium-term, banking crises generally lead to permanent output losses that result in a depressed long-term path of economic growth compared to the projected path prior to the crisis. The main factors contributing to predicted permanent losses in potential global output include lower capital accumulation, higher unemployment, and lower total factor productivity.

The WEO report also suggests that the financial crisis has created pressure for a global rebalancing of demand. Prior to the crisis many advanced countries had high levels of consumption and large current account deficits balanced by high savings rates and current account surpluses in developing countries, particularly in Asia. However, developed countries suffering from asset price busts will have to increase savings rates especially as public stimulus efforts are gradually unwound. As a result, developing countries that have followed export-led growth strategies will have to adjust to rely more on domestic demand. This rebalancing will not be easy to achieve. While many emphasize the potential role of China in replacing demand from developed countries by decreasing its current account surplus, consumption in China is currently equal to only one quarter of total consumption in the United States and Europe. Thus, rebalancing global demand to support sustainable growth will require shifts in the long-term policies of a broad range of countries, not just China.

For weekly updates on the global financial crisis see the 'Financial Crisis Tracker' under Special Features on the EADS Economic and Social Database Homepage at http://esdb.eads.usaidallnet.gov/docs/financial/reports.html.

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.