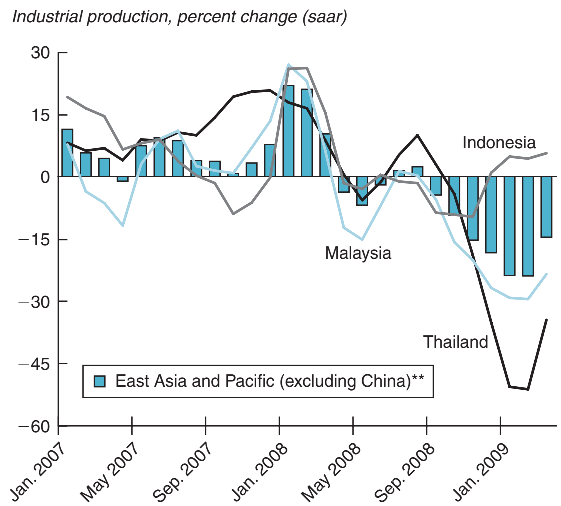
Appendix: Regional Outlooks

East Asia and Pacific

Recent Developments

Amid a sharp slowdown in global demand and a sudden stop in capital flows, growth in developing East Asia and Pacific slowed to 8 percent in 2008 from a record high 11.4 percent in 2007. The steep drop occurred despite policy easing and other measures taken by the authorities in most countries to support activity. With exports sharply down, companies moved to cut production and investment, while households have curbed consumption amid rising layoffs and economic uncertainty. Countries more dependent on exports, especially on single products or single markets, have seen activity fall faster and, in general, harder. Growth began slowing in most countries in the second quarter of 2008 and weakened sharply by the fourth, when all newly industrialized economies (NIEs) including Hong Kong, China; the Republic of Korea; Singapore; and Taiwan, China, were in recession and output was contracting in Malaysia, the Philippines, and Thailand, measured in seasonally adjusted annual growth terms (saar). The pace of economic expansion slumped further during the first quarter of 2009, with GDP in several NIEs falling at double-digit rates, and growth in the developing region slumping to 3.5 percent (saar). Still, high-frequency indicators, such as manufacturing production, suggested that the pace of decline was beginning to moderate (figure A.1).

Figure A.1 East Asia and Pacific production dropped sharply but shows signs of bottoming out



Source: World Bank data through Thomson Datastream.

Note: **Recent production data for China has been distorted by vagaries of timing of the Chinese New Year—yielding difficulties in seasonally adjusting the data for presentation.

China remains a brighter spot within the region and the global economy, amid signs that the fall off in economic activity may be reaching a bottom there. The country is weathering the financial and economic crisis better than many others because it does not rely on external financing, its banks have been largely unscathed by the international financial turmoil, and it has the fiscal and macroeconomic space to implement forceful stimulus measures. A large government investment program, equivalent to 12 percent of 2008 GDP, was announced in late 2008. And combined with monetary easing and other measures, domestic demand appears to be bottoming out, partly offsetting weak external demand and the effects of earlier efforts to combat overheating. Real GDP growth eased to a 10-year low 6.1 percent in the first quarter of 2009 (year-on-year) from 9 percent for 2008 as a whole and a record 13 percent in 2007.

Indonesia's slowdown came relatively late and, so far, has been more moderate than that of many other countries in the region. Though the expansion of all components of GDP slowed in late 2008, growth for the year amounted to 6.1 percent, a pace little changed from 2007. But further decline in exports and slower consumption and investment spending caused growth to fade to 4.4 percent in the first quarter of 2009 (year-on-year). In Thailand, contracting foreign demand combined with the impact of political uncertainty weighed heavily on economic activity, transforming the slow expansion of early 2008 into contraction by the fourth quarter at a sharp 22 percent pace (saar), while output continued to decline at a 7.3 percent annualized pace during the first quarter of 2009.

Cambodia experienced the sharpest growth slowdown in developing East Asia and Pacific. Exports, most of which are garments shipped to the United States, have suffered badly, as has construction after a sharp downward correction in housing prices, as well as lending and tourism. Real GDP growth slowed to 6.7 percent in 2008 following 10.2 percent gains in 2007. In contrast, Vietnam's growth slowed by much less in 2008 as the government tackled the threat of an overheating domestic economy decisively starting in late 2007. In response to the first shock of the current crisis, the authorities shifted emphasis from growth to stabilization in March 2008. By November 2008, they shifted once more to supporting economic activity through large interest rate reductions, injections of liquidity, and a fiscal stimulus package. The slowdown in growth was limited to 6.2 percent in 2008 from 8.5 percent in 2007.

Facilitated by declining inflation (consumer prices have eased substantially across East Asia as the food and fuel hikes of 2007–08 had more-than fully unwound by mid-2009), and in response to weakening economic activity and the impacts of the international financial crisis, monetary authorities in many countries have cut key policy interest rates and employed other measures to help sustain domestic liquidity and the availability of credit. Against a background of sound banking systems in most countries, these measures have ensured that liquidity in local currency has remained broadly adequate, and interbank rates have declined or remained stable. Policy actions included reductions in key central bank policy rates in all middle-income countries and Vietnam, cuts in rates for minimum required reserves (China, Indonesia for dollar deposits, Malaysia, the Philippines, and Vietnam), increases in rates paid on required reserves (Indonesia and Vietnam), and extensions of the coverage and maturity of central bank obligations. The central bank of China also added to liquidity by redeeming local-currency assets earlier. Several countries also extended their deposit guarantee schemes to cover most or all deposits.

The middle-income countries of East Asia are actively using fiscal policy to boost domestic demand. The stimulus packages in aggregate are equivalent to 3.6 percent of regional GDP, with the measures to be implemented in 2009 amounting to another 1.7 percent of GDP and most of the remainder to be delivered in 2010. The role of automatic stabilizers is smaller in East Asia than in other regions, leaving the deterioration of fiscal balances broadly in line with that of the more developed countries. Nonetheless, the developing countries of East Asia have been more forceful than other groups in delivering support to economic activity.

All middle-income countries have introduced discretionary fiscal stimulus packages. The low-income countries, typically with limited or no fiscal space and weak or limited absorptive and administrative capacity, have been working to obtain a boost in external aid to create room for additional outlays. Discretionary cuts in tax rates and increases in spending have combined with lower revenues in line with weaker growth and declining commodity prices to increase fiscal deficits throughout the region. The largest increases have been in China and Thailand, countries considered to have the largest available fiscal space. There are substantial variations across fiscal packages, notably in the size, in the share of tax cuts versus expenditure increases or other measures, and in whether the proposals target just 2009 or 2009–2010. The packages in China and the Philippines incorporate measures to be financed by both the public and private sectors. In contrast, the package in Malaysia includes sizable credit guarantees and equity investments that do not add to the public sector deficit.

Capital inflows diminish in 2008. Amid the surge and decline in commodity prices and the sharp contraction in trade during late 2008, current account balances improved only in China and

Malaysia, both countries with surpluses, and in the Lao People's Democratic Republic, a country with a large deficit. In China, the surplus rose further in 2008 in dollar terms, while monthly outcomes climbed to record highs late in the year as a sharp decline in trade took firmer hold, but weakened relative to GDP to about 10 percent. In Lao PDR, commodity exports rose briskly in 2008 and despite the decline in prices, outstripped the increase in exports in value terms. While the full-year external shortfall worsened modestly in Vietnam to about 10 percent of GDP, determined policy measures to combat overheating have succeeded in cooling the economy and have contributed to a shift in recent months from a trade deficit to a surplus. In contrast to these developments, current account balances worsened in the rest of the region. For the developing countries of East Asia, the aggregate current account surplus decreased from 9.5 percent of GDP in 2007 to 8.1 percent for 2008; but when China is excluded these figures shift dramatically to a surplus of 5.2 and 2.8 percent of GDP.

Global demand for developing-country assets decreased amid increased risk aversion, ongoing deleveraging, and weaker growth prospects, causing capital flows to countries in the region to weaken substantially. After peaking in 2007, net capital flows to East Asia and Pacific began slowing in early 2008 before shifting to outflows during the second quarter in Malaysia and the NIEs; and in the later part of the year in China and Indonesia. For the region as a whole, a notable softening in portfolio equity flows, bond issuance and bank borrowing was in evidence in 2008, while FDI retained a relatively firm tone on average, increasing by $10 billion in the year to $185 billion. Excluding official flows, resident lending abroad, and errors and omissions items, private capital flows to the region fell from about $280 billion in 2007 to $203 billion in 2008 (table A.1).

Nonresidents continued to sell equities, and in the second half of 2008, shifted to selling debt securities and selectively withdrawing bank deposits held with domestic banks. Inflows of foreign direct investment slowed sharply in the second half of 2008, as companies completed projects that had already been started but delayed new commitments and new construction. In some countries, earlier agreed projects were cancelled, notably in real estate development, mining, and manufacturing. Lending by foreign banks also slowed sharply during the year. Repayments to foreign banks began

Table A.1 Net capital flows to East Asia and Pacific

$ billions

Indicator	2002	2003	2004	2005	2006	2007	2008p
Current account balance	53.9	70.3	88.4	174.9	282.6	387.9	396.9
as % of GDP	*2.7*	*3.1*	*3.4*	*5.8*	*8.3*	*9.5*	*8.1*
Net private and official inflows	53.0	74.7	125.0	184.7	196.5	278.3	201.2
Net private inflows	60.7	81.9	130.2	187.6	206.0	281.2	203.0
Net equity inflows	63.2	69.3	89.6	130.1	161.4	210.5	192.5
Net FDI inflows	59.4	56.8	70.3	104.4	105.2	175.3	185.1
Net portfolio equity inflows	3.8	12.5	19.3	25.7	56.2	35.2	7.4
Net debt flows	−10.2	5.4	35.4	54.6	35.1	67.8	8.7
Official creditors	−7.7	−7.2	−5.2	−2.9	−9.5	−2.9	−1.8
World Bank	−1.7	−1.5	−1.9	−0.6	−0.4	−0.3	1.2
IMF	−2.7	−0.5	−1.6	−1.6	−8.5	0.0	0.0
Other official	−3.3	−5.2	−1.7	−0.7	−0.6	−2.6	−3.0
Private creditors	−2.5	12.6	40.6	57.5	44.6	70.7	10.5
Net M-L term debt flows	−12.4	−9.7	7.9	12.1	15.4	28.1	16.2
Bonds	0.1	1.8	9.6	12.1	5.6	2.3	2.2
Banks	−10.2	−8.4	0.4	2.0	11.4	26.2	14.0
Other private	−2.3	−3.1	−2.1	−2.0	−1.6	−0.4	0.0
Net short-term debt flows	9.9	22.3	32.7	45.4	29.2	42.6	−5.7
Balancing item[a]	−17.5	−7.7	23.4	−143.3	−187.1	−130.8	−170.2
Change in reserves (− = increase)	−89.4	−137.3	−236.8	−216.3	−291.9	−535.4	−427.9
Workers' remittances	29.5	35.4	39.2	46.7	53.0	65.3	69.6

Source: World Bank.
Note:
p = projected.
a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries.

during the second and third quarters, limiting full-year inflows to less than $20 billion. The countries with the largest bank repayments in 2008 were the Republic of Korea ($17 billion), Malaysia ($13 billion), and China ($9 billion).

Outlook

Weaker exports and slower expansion in domestic demand are set to slow real GDP growth in developing East Asia to 5 percent in 2009 from 8 percent in 2008, despite determined fiscal and monetary easing. Sluggishness in domestic demand reflects slower growth or declining investment spending by the private sector that is only partly offset by stronger government investment outlays in the middle-income countries. At the same time, household spending falters as precautionary savings balances are built, amid rising unemployment and slower wage increases (table A.2).

Thanks to China, growth in developing East Asia and the Pacific will be the fastest among the world's regions. The region's contribution to global GDP will remain the largest, equal in dollar terms to the sum of the contributions from the other three regions with positive impacts: South Asia, the Middle East and North Africa, and Sub-Saharan Africa. Given that developing East Asia's nominal GDP is barely a tenth of global output, however, the region's contribution to incremental global GDP will only partially offset the collapse in output in developed countries. If China is excluded, however, developing East Asia's performance is expected to be lackluster. The reason lies in the openness of the economies in the region and the tight production networks organized to serve the markets in the United States (and to a lesser extent Japan). But just as these structural characteristics have pulled down the growth performance of these countries during the global downturn, they will serve to support their performance once global growth resumes.

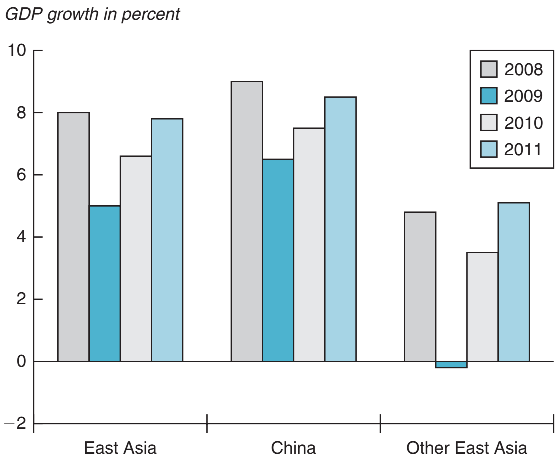
Developments in the region in 2009 will be influenced heavily by China (figure A.2). The slump in global demand will cause China's exports to fall this year, the first decline in decades. Nonetheless, a large monetary and fiscal stimulus should help partly offset the decline in exports and contain the slowdown in growth, projected at 6.5 percent for 2009 as a whole, down from 9 percent in 2008. With growth below potential, excess capacity is likely to restrain market-based investment and result in downward pressure on prices, following

Table A.2 East Asia and Pacific forecast summary
annual percent change unless indicated otherwise

Indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	2010	2011
GDP at market prices (2000 $)[b]	7.4	9.8	11.4	8.0	5.0	6.6	7.8
GDP per capita (units in $)	6.3	8.9	10.5	7.2	4.2	5.8	7.0
PPP GDP[c]	7.3	9.7	11.3	8.0	5.0	6.6	7.8
Private consumption	5.9	7.1	9.5	6.5	5.0	5.7	7.1
Public consumption	8.3	8.2	10.4	9.9	9.8	9.5	8.3
Fixed investment	7.9	8.8	9.5	8.3	11.5	6.8	7.5
Exports, GNFS[d]	12.7	19.0	15.3	9.7	−8.7	5.1	8.7
Imports, GNFS[d]	9.8	12.6	11.0	11.8	−2.9	4.6	8.6
Net exports, contribution to growth	1.1	4.3	3.7	0.5	−3.6	0.7	0.9
Current account bal/GDP (%)	2.2	8.3	9.5	8.1	7.5	6.7	5.8
GDP deflator (median, LCU)	5.9	1.3	1.8	6.4	6.0	2.5	2.2
Fiscal balance/GDP (%)	−1.7	−0.6	0.3	−0.9	−3.9	−4.6	−3.8
Memo items: GDP							
East Asia excluding China	3.5	5.7	6.2	4.8	−0.2	3.5	5.1
China	9.1	11.1	13.0	9.0	6.5	7.5	8.5
Indonesia	2.7	5.5	6.3	6.1	3.5	5.0	6.0
Thailand	2.7	5.3	4.9	2.7	−3.2	2.2	3.1

Source: World Bank.
Note:
a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services.

Figure A.2 China is key to East Asian prospects



Source: World Bank.

several months of month-on-month declines in the consumer price index. Even so, China will still grow faster than most other countries in the world in 2009, including all countries in developing East Asia. Indeed, excluding China, GDP in the region is seen to decline by 0.2 percent in 2009, the slowest since the crisis of the late 1990s.

In Malaysia and Thailand, among the region's other middle-income countries, output is projected to contract in 2009 due to a drop in exports and investment. In Malaysia, real GDP is projected to fall by 4.4 percent, a result of high and undiversified dependence on exports of electronics, oil, and crude palm oil, all of which are falling sharply, coupled with its relatively small domestic market. In Thailand a slump in exports, exacerbated by heightened political uncertainty, is set to cause output to contract at a 3.2 percent rate, following the slowest expansion in developing East Asia during 2008. Some of the low-income countries are hardest hit by the crisis. The deceleration in growth in Mongolia has been particularly swift, as the collapse in commodity export prices exposed an unsustainable fiscal situation with little saving from the commodity boom of 2007–08 and oversized and untargeted social transfers. Whereas other major commodity exporters let their currencies depreciate as terms of trade deteriorated, the Mongolian authorities defended the currency peg to the U.S. dollar, leading to a substantial loss of foreign exchange reserves that ultimately forced a sharp adjustment.

Looking beyond 2009, scope for faster recovery in the region will be helped by China but will ultimately depend on the pace of recovery in the advanced economies. Even under the assumption that a pickup in growth in developed countries begins in 2010, a sizable output gap will remain for several years, including high unemployment and weak consumption and imports, sustaining downward pressure on prices for manufactured products. A pickup in 2010, moreover, is likely to be relatively subdued, at 6.6 percent, up from the 5 percent trough of 2009, as consumers in developed countries adjust to lower wealth levels and banks complete the deleveraging process. Prospects for lower global growth—contrasted with the average of the past decade—increase the importance of China's rebalancing its growth pattern, by moving away from reliance on export-led manufacturing, boosting the role of services, and stimulating domestic consumption and, inevitably, imports.

Risks and uncertainties

The projections outlined in this report are surrounded by extreme uncertainties. While recovery among developed countries from most recessions has been relatively swift, an analysis of previous recessions in advanced economies suggests that when accompanied by a credit crunch, housing crisis, and equity bust, they tend to last twice as long and are deeper than other "normal" recessions. Further, while investment usually picked up strongly in past recoveries once inventories were exhausted, recovery from the current global recession may be more subdued because of the substantial destruction of wealth and ongoing deleveraging in financial systems around the world. Continued problems in commercial banks or even renewed financial market tensions could delay recovery further and lead to another year of stagnating or even contracting global growth. Finally, even when recovery begins, the pace of pickup is more likely to be subdued as global imbalances are gradually resolved (table A.3). The low case scenario presented in chapter 1 of this report highlights growth in East Asia and Pacific registering 4.2 percent in 2009, easing further into 2010 to 3.9 percent before a stronger revival sets in during 2011 at 7.5 percent (see table 1.10 in chapter 1).

Table A.3 East Asia and Pacific country forecasts

annual percent change unless indicated otherwise

Country/indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	2010	2011
Cambodia							
GDP at market prices (2000 $)[b]	8.3	10.8	10.2	6.7	1.0	3.0	5.0
Current account bal/GDP (%)	−4.6	−4.7	−6.0	−6.6	0.3	−0.5	−1.5
China							
GDP at market prices (2000 $)[b]	9.1	11.1	13.0	9.0	6.5	7.5	8.5
Current account bal/GDP (%)	2.6	9.5	11.0	9.8	9.3	8.3	7.2
Fiji							
GDP at market prices (2000 $)[b]	2.3	3.6	−6.6	1.2	−2.5	2.0	2.5
Current account bal/GDP (%)	−4.8	−7.5	−37.7	−44.3	−22.1	−25.5	−29.0
Indonesia							
GDP at market prices (2000 $)[b]	2.7	5.5	6.3	6.1	3.5	5.0	6.0
Current account bal/GDP (%)	1.5	2.9	2.4	0.1	−2.5	−2.7	−2.6
Lao PDR							
GDP at market prices (2000 $)[b]	6.2	8.1	7.9	6.9	5.0	8.0	8.0
Current account bal/GDP (%)	−9.2	1.5	2.7	−0.4	1.2	1.0	1.2
Malaysia							
GDP at market prices (2000 $)[b]	4.6	5.9	6.2	4.6	−4.4	2.2	5.3
Current account bal/GDP (%)	6.7	17.1	16.6	19.7	11.6	11.6	10.4
Papua New Guinea							
GDP at market prices (2000 $)[b]	0.7	2.6	6.2	5.8	3.5	5.0	5.5
Current account bal/GDP (%)	3.0	14.6	17.5	18.7	5.6	3.6	1.2
Philippines							
GDP at market prices (2000 $)[b]	4.2	5.4	7.2	4.6	−0.5	2.4	4.5
Current account bal/GDP (%)	−1.4	5.0	5.9	3.3	2.2	1.6	2.5
Thailand							
GDP at market prices (2000 $)[b]	2.7	5.3	4.9	2.7	−3.2	2.2	3.1
Current account bal/GDP (%)	1.9	1.1	6.5	0.1	3.8	3.6	3.4
Vanuatu							
GDP at market prices (2000 $)[b]	1.5	7.2	5.0	4.5	−2.5	3.5	5.0
Current account bal/GDP (%)	−9.8	−17.6	−12.4	−17.0	−12.0	−12.5	−14.2
Vietnam							
GDP at market prices (2000 $)[b]	7.2	8.2	8.5	6.2	3.5	5.0	7.0
Current account bal/GDP (%)	−2.4	−0.3	−9.1	−11.4	−14.9	−14.5	−14.3

Source: World Bank.
Note:
In the current very volatile global environment, World Bank forecasts are frequently updated based on new information and changing assumptions. Moreover, the confidence intervals around these point forecasts are larger than usual. As a result, the 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.

American Samoa, Micronesia, Fed. Sts., Kiribati, Marshall Islands, Myanmar, Mongolia, N. Mariana Islands, Palau, Korea, Dem. Rep., Solomon Islands, Timor-Leste, Tonga are not forecast owing to data limitations.
a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

Europe and Central Asia

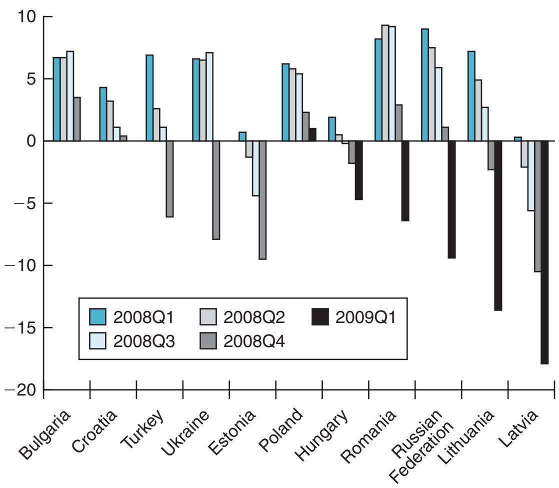
Recent developments

Among developing regions, Europe and Central Asia has been hit the hardest by the global economic and financial crisis. For several countries, a combination of international support, adjustment programs, and perhaps even private sector debt restructuring will be needed to avoid large-scale defaults. After years of growth over 6 percent, real GDP growth in the region slowed to 4 percent in 2008 and is expected to drop 4.7 percent in 2009, driven by a collapse in capital inflows, a sharp deterioration in terms of trade, and contraction in both domestic and external demand.

The robust domestic demand that supported growth throughout 2007 and through the first three quarters of 2008 began to wane at the height of the crisis in September 2008. High levels of foreign-currency denominated private sector and household debt, rising unemployment, and broadening recession in trade partner countries contributed to

Figure A.3 Output declined rapidly in the fourth quarter of 2008

Real GDP, percent change year on year



Source: NIA; national sources.

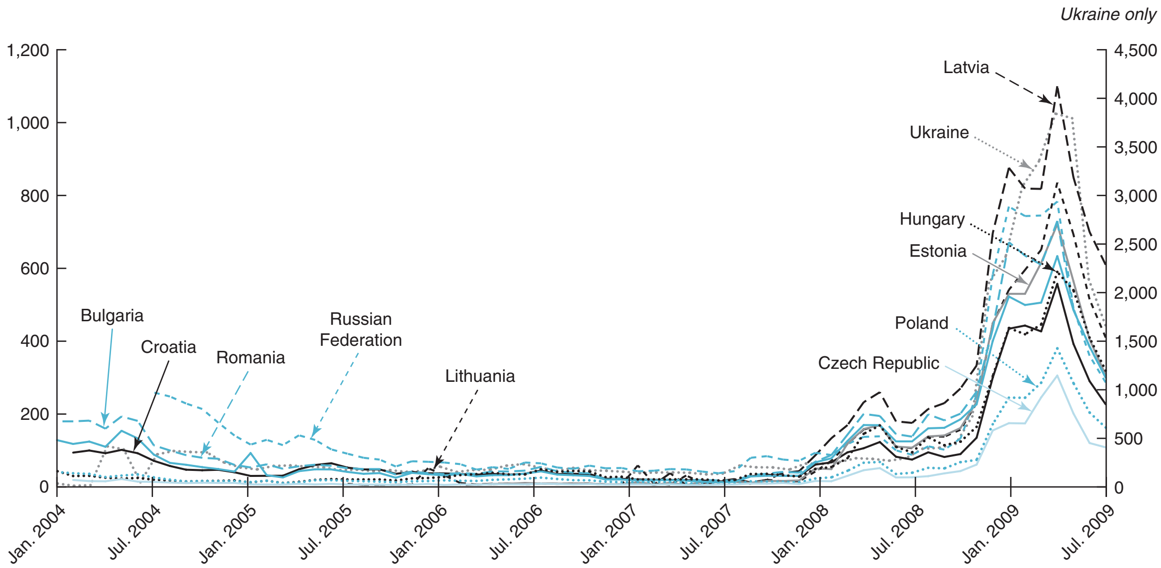
dramatic declines in GDP in several countries in the fourth quarter of 2008. The Baltic states of Estonia and Latvia suffered the most adverse impact with GDP falling by 9.5 and 10.5 percent relative to a year earlier, with other emerging markets such as Turkey and Ukraine also recording negative growth. In several countries with data available for the first quarter of 2009, output deteriorated further on a year-on-year basis. Economic activity continued to shrink in Hungary (−4.7 percent), Lithuania (−13.6 percent), and Latvia (−17.9 percent), while Romania and Russia stepped for the first time into negative growth territory (−6.4 and −9.4 percent, respectively). Poland, the only economy to show resilience, posted a modest GDP increase of 1 percent (figure A.3).

Unlike Latin America and the Caribbean and East Asia and Pacific, Europe and Central Asia entered the global financial crisis highly dependent on foreign capital inflows. For example, Hungary had been sustaining twin deficits (on the current account and the government budget) for several years, while Romania had been accumulating high levels of private sector foreign debt to finance booming domestic demand. As the financial crisis took hold in September 2008, key growth determinants for the region started to deteriorate rapidly, unveiling deep vulnerabilities. Surging commodity prices, which had spurred growth among commodity exporters in the first half of 2008 spiraled downward, external markets began to collapse, and capital flows reversed owing to heightened investor risk aversion. As a consequence, growth rates between 2007 and 2008 decelerated from 8.8 percent to 6 percent in private consumption and from 19.3 percent to 7.7 percent in investment activity. Weak domestic demand and investment contributed to a slowing in import growth to 9 percent in 2008 from 18.8 percent in 2007, while stress in the external markets reduced growth in exports of goods and services to 3.8 percent from 7.7 percent.

The most vulnerable group of countries within the broader region, Central and Eastern Europe (CEE), received shocks through several channels simultaneously. In the capital markets, external financing continued to decline, with total gross capital inflows (syndicated bank lending, bond issuance, and equity initial public offerings) plummeting from $56.6 billion in the second quarter of 2008 to a meager $3.9 billion in the first quarter of 2009. At the same time, spreads for government borrowing on international markets, a key measure of credit risk, widened to unprecedented levels. Between September 2008 and March 2009, spreads on sovereign five-year credit-default swaps increased from a range of 68 to 270 basis points to 381 to 1,100 basis points. Vulnerabilities in the banking sector and a general increase in the risk aversion toward emerging markets affected to different degrees each of the countries in the region. In Bulgaria and Romania spreads almost tripled, while in Croatia, Lithuania, and Poland spreads widened by five times or more their levels in mid-2008 (figure A.4). As market sentiment started to improve, credit-default swap rates eased in April and May but continued to hover above pre-crisis levels.

The drying-up of capital was amplified by adverse developments in the product markets, where record growth prior to the financial crisis had been supported by large trade flows with the Euro Area. Rapidly shrinking consumer demand and investment spending across major West European partners quickly resulted in a sharp contraction in trade. In the last quarter of 2008, real exports contracted by 2 percent in Poland (year-on-year), by 3 percent in Croatia, and by 6 percent in Bulgaria and Latvia. Turkish exports declined the most, by 8 percent, on the basis of falling demand for its manufactured goods.

Figure A.4 Financial crisis increased the price of risk
Spreads on selected five-year sovereign credit default swaps



Source: Thomson Datastream–CMA.

The decline in both capital inflows and exports caused double-digit contractions in industrial production at the beginning of 2009 across a range of countries. In the first quarter of 2009, industrial production fell by 10 percent in Croatia (year-on-year), by 11 percent in Poland, by 12 percent in Romania, by 18 percent in Bulgaria, by 22 percent in Turkey, and by 24 percent in Latvia. In the first quarter of 2009, Turkey posted a contraction of 51 percent in the number of automobiles produced relative to the first quarter of 2008. Poland's industrial production of motor vehicles also fell by more than 25 percent, though fueled to a large extent by slack domestic demand. The Romanian auto industry, regarded as one of the most vulnerable in the region, benefited from the scrap-car program that boosted sales of new cars in Germany. Car exports rose by 62 percent in the first quarter of 2009 compensating for a 51 percent decrease in domestic sales of new cars during the first four months.

In the labor markets, the crisis has reduced personal income due to rising unemployment at home and abroad, with the latter leading to lower workers' remittance inflows. Over 10 percent of GDP in Albania and 5 percent in Romania and Bulgaria came from migrant remittances[1] in 2007. With many migrant workers employed in the European sectors hardest hit by recession (such as household work, construction, and agriculture), receipts of remittances in the CEE region increased by only 5 percent in 2008, compared with 21 percent in the previous year. Lagging the first signs of decline in the real economy, unemployment in the CEE region rose in February-March by one percentage point over the average rate prevailing in the first half of 2008.

Pressures on the current account and financial distress triggered a sequence of borrowing from the International Monetary Fund (IMF). Hungary (which already had graduated from the group of middle-income countries) and Latvia were among the first to turn to the IMF in 2008, contracting loans of $18.1 billion. Serbia followed soon after, with a $530 million standby agreement targeted at maintaining market confidence in its economy. In March, Romania had to turn to the IMF for a loan of $17 billion after the national currency had lost about 20 percent of its value relative to the euro over the previous 12 months. At the beginning of April, Poland took advantage of a $20.5 billion flexible credit line from the IMF—a precautionary facility for countries with sound economic fundamentals—to boost its foreign currency reserves.

Despite the initial resilience shown within the Commonwealth of Independent States (CIS), the group has not been spared by the global meltdown. The sharp decline in international oil prices in the second half of 2008 adversely affected hydrocarbons producers, particularly the oil-exporting countries of Azerbaijan, Kazakhstan, and especially the Russian Federation. In Russia, formerly the region's engine of growth, the collapse of oil revenues caused GDP to decline at an annualized rate (saar) of 6.9 percent in the fourth quarter of 2008 and at a shocking 30.6 percent pace in the first quarter of 2009, bringing the level of GDP 9.4 percent lower than its level a year earlier.

In all CIS countries, dependence on external financing exacerbated the adverse impact of falling commodity prices. A general deterioration in investor confidence toward emerging markets widened across the region, hitting Kazakhstan, Russia, and Ukraine particularly hard. In Ukraine, spreads on five-year credit-default swaps increased from 443 basis points in September 2008 to a record high of 3,795 basis points in April 2009. In addition to the economic slowdown and financial turmoil, investors' concerns regarding Ukraine were increased by political difficulties in implementing a sequence of measures necessary to secure disbursements under an IMF stabilization loan agreement. Gross capital inflows to the CIS area fell by 39 percent in 2008, after surging by 84 percent in the previous year. In the first quarter of 2009, flows to all member countries fell to zero with the exception of Russia (which brought a $500 million bond to market and secured a syndicated bank loan of $1.35 billion) and Ukraine (which had a $7 million equity issuance) (table A.4).

The CIS area also suffered a decline in remittances, a major source of revenue for the low-income economies in the group. In 2007, international remittance receipts were the equivalent of 46 percent of GDP in Tajikistan, 28 percent in the Kyrgyz Republic, and 34 percent in Moldova. In Moldova, more than 35 percent of the population lived in remittance-receiving households in 2008.[2] With oil revenue–driven growth slowing in Russia, the advance in total remittance receipts for the CIS region decelerated dramatically to 7 percent in 2008 compared with record growth of 75 percent in 2007. Surging unemployment in Russia, which reached 10 percent in April 2009 (compared with 5.9 percent a year earlier),

Table A.4 Net capital flows to Europe and Central Asia

$ billions

Indicator	2002	2003	2004	2005	2006	2007	2008p
Current account balance	18.9	14.7	26.7	44.2	25.1	−34.1	−11.6
as % of GDP	*1.9*	*1.2*	*1.7*	*2.2*	*1.1*	*−1.1*	*−0.3*
Net private and official inflows	46.5	83.4	124.1	156.3	279.0	465.8	255.8
Net private inflows	43.7	89.3	134.3	192.1	311.3	471.4	250.5
Net equity inflows	22.0	31.2	59.1	70.8	125.4	180.8	162.4
Net FDI inflows	18.5	30.5	55.5	62.8	114.9	154.4	170.8
Net portfolio equity inflows	3.5	0.7	3.6	8.0	10.5	26.4	−8.4
Net debt flows	24.5	52.2	65.0	85.5	153.6	285.0	93.4
Official creditors	2.8	−5.9	−10.2	−35.8	−32.3	−5.6	5.3
World Bank	1.1	−0.4	0.5	−0.5	0.4	0.0	0.8
IMF	4.7	−1.9	−5.9	−9.8	−5.8	−5.0	7.0
Other official	−3.0	−3.6	−4.8	−25.5	−26.9	−0.6	−2.5
Private creditors	21.7	58.1	75.2	121.3	185.9	290.6	88.1
Net M-L term debt flows	17.0	24.2	54.8	101.0	131.2	189.3	93.8
Bonds	4.7	9.7	19.4	27.5	31.8	58.2	17.6
Banks	13.8	14.9	36.7	74.6	100.2	132.1	77.2
Other private	−1.5	−0.4	−1.3	−1.1	−0.8	−1.0	−1.0
Net short-term debt flows	4.7	33.9	20.4	20.3	54.7	101.3	−5.7
Balancing item[a]	−34.5	−45.4	−78.9	−110.0	−127.7	−194.7	−307.9
Change in reserves (− = increase)	−30.9	−52.8	−71.9	−90.6	−176.4	−237.1	63.8
Workers' remittances	13.7	15.5	22.2	31.2	38.3	50.4	53.1

Source: World Bank.
Note:
p = projected.
a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries.

forced hundreds of migrant workers to return to their home countries.[3] In an attempt to cushion severe external shocks from sharply falling remittances, Tajikistan, the region's poorest country, turned to the IMF in April for a $116 million loan under the Poverty Reduction and Growth Facility.

Outlook

The aftershocks from the initial crisis in global financial and product markets will continue to exact a painful toll on the growth outlook across Europe and Central Asia. As many countries are facing large balance-of-payments difficulties and in some cases unavoidable adjustments to the real side of their economies, the region will see the sharpest contraction among all developing regions (table A.5). Aggregate GDP is expected to contract by 4.7 percent in 2009 but recover to reach still-subdued growth of 1.6 percent as markets begin to thaw by 2010.

In Central and Eastern Europe, GDP is expected to decline by 1.6 percent and remain almost flat through 2010 as many economies in the region recover slowly from the crisis. The sharpest downturn will be felt in the Baltic states, as Latvia struggles to weather its sharp decline in GDP during 2008 and as the falloff in private consumption widens in Lithuania. Latvia's GDP is projected to fall 13 percent in 2009, while Lithuania's GDP appears set to contract by 10 percent. Despite relatively strong fundamentals, Poland will not remain unscathed. GDP is anticipated to grow by just 0.5 percent in 2009 as the country continues to be exposed to spillover effects through trade flows and financial vulnerabilities given the large presence of foreign-owned institutions in its banking system.

The CIS area is expected to face a deep recession in 2009, with real GDP contracting by 6.2 percent from growth of 8.6 percent in 2007 and 5.6 percent in 2008. The slowdown stems to a considerable extent from the projected 42 percent decline in international energy prices in 2009 (relative to the 2008 average). For the group of CIS oil-exporting countries, the decline in terms of trade

Table A.5 Europe and Central Asia forecast summary

annual percent change unless indicated otherwise

Indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	Forecast 2010	Forecast 2011
GDP at market prices (2000 $)[b]	4.1	7.5	6.9	4.0	−4.7	1.6	3.3
GDP per capita (units in $)	4.1	7.5	6.9	4.0	−4.7	1.6	3.2
PPP GDP[c]	4.0	7.7	7.3	4.4	−5.3	1.8	3.2
Private consumption	4.8	7.5	8.8	6.0	−3.9	2.0	3.8
Public consumption	2.3	5.1	4.8	4.0	1.0	1.6	3.0
Fixed investment	5.1	16.0	19.3	7.7	−19.5	0.4	3.0
Exports, GNFS[d]	7.9	8.3	7.7	3.8	−6.2	3.2	5.1
Imports, GNFS[d]	8.8	14.3	18.8	9.0	−12.0	2.9	5.5
Net exports, contribution to growth	−0.2	−2.4	−4.9	−2.7	3.4	−0.1	−0.5
Current account bal/GDP (%)	0.8	0.9	−1.3	−0.4	−1.2	−0.5	−0.5
GDP deflator (median, LCU)	17.2	8.9	8.8	12.3	2.1	5.0	5.0
Fiscal balance/GDP (%)	−3.1	3.2	1.6	0.7	−5.9	−4.1	−3.0
Memo items: GDP							
Transition countries	4.1	6.8	5.7	2.8	−3.5	1.0	3.1
Central and Eastern Europe	3.9	6.6	6.7	4.6	−1.6	0.6	3.2
Commonwealth of Independent States	4.1	8.5	8.6	5.6	−6.2	2.5	3.5
Russia	3.9	7.7	8.1	5.6	−7.5	2.5	3.0
Turkey	4.3	6.9	4.7	1.1	−5.5	1.5	3.0
Poland	4.3	6.2	6.7	4.8	0.5	0.9	3.5

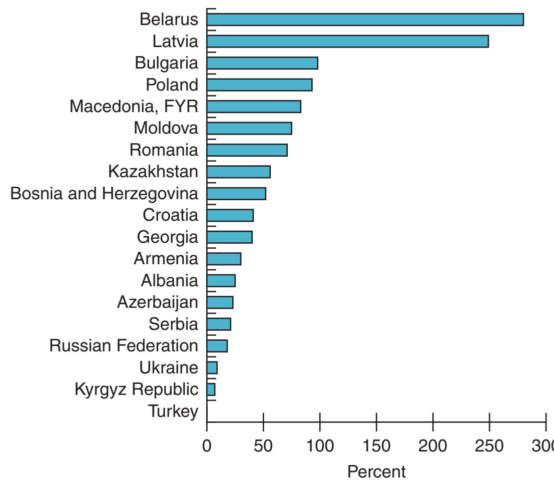
Source: World Bank.
Note:
a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services.

represents a loss of some 7.9 percent of their 2008 GDP. In Russia, the combination of declines in industrial output, soaring unemployment, and flight of foreign capital is expected to reduce GDP by 7.5 percent, sending damaging waves throughout the whole of the CIS through intraregional trade flows and transfers. Remittances to the broader CIS region are expected to decline for the first time in a decade, by 25 percent. The small oil-importing countries in the CIS will be the most affected owing to their close economic ties with Russia. GDP is expected to fall by 6 percent in Armenia, by 3.3 percent in Belarus, and by 3 in Moldova.

Financing requirements across the region are projected to remain substantial, due in part to large current-account deficits. The prolonged credit crunch, untamed recession in the Euro Area, and sharp contraction in Russia will continue to put pressure on current accounts in a number of countries. Two economies that are likely to maintain large surpluses are Azerbaijan and Uzbekistan, which in 2008 generated record double-digit surpluses in net exports of 38 percent of GDP and 16.2 percent of GDP, respectively. In 2009, Azerbaijan's current account surplus is projected to shrink to 10.3 percent of GDP, and Uzbekistan's to 11.8 percent of GDP. Russia is also expected to post a current account surplus of 2.4 percent of GDP as the fast rate of ruble depreciation has slowed imports considerably. In other countries, the sharp fall in exports of goods and services will be offset by contraction in imports through adjustments to the real side of the economy. However, these offsetting effects will not be enough to reverse persistent deficits in current-account balances. Overall in Europe and Central Asia, the current account deficit will widen from 0.4 percent of GDP in 2008 to 1.2 percent in 2009.

The region's large external financing requirements in 2009 also reflect the more than $283 billion in short-term debt coming due.[4] Among the countries with high short-term debt levels, only Russia could foot the bill from reserves or its current-account surplus if external finance were not forthcoming. As of February 2009, Belarus, Bulgaria, and Latvia held insufficient international reserves to cover debt coming due in 2009 (figure A.5). Kazakhstan, the Former Yugoslav Republic of Macedonia, Moldova, Poland,

Figure A.5 High short-term debt to total reserves ratios in Europe and Central Asia
Projected short-term debt due in 2009 (percent of reserves in February 2009)



Sources: International Financial Statistics; Bank for International Settlements; World Bank staff calculations.

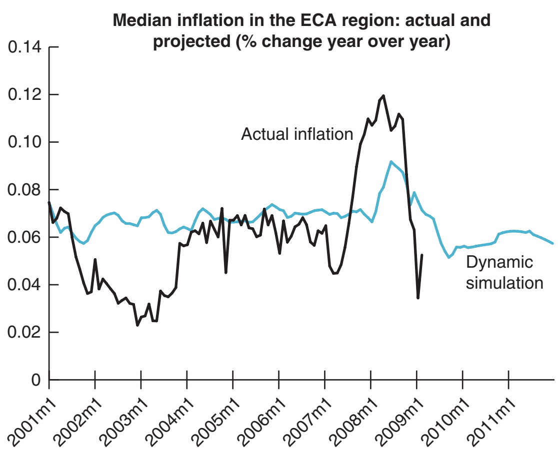
Romania, and Bulgaria had short-term debt levels above 50 percent of their reserves. So far, rollover of short-term debt has not proved to be the problem initially feared—in part because of moral suasion exercised by domestic and international authorities on lending banks.

With the sharp fall-off in capital flows, tight capital markets, and large borrowing requirements, financing gaps[5] in the region could be as high as $102 billion, or 3.7 percent of GDP in 2009. For those countries that lack large foreign currency reserves, the gap will have to be bridged either through capital flows from official sources or through internal adjustment. Between September 2008 and May 2009, nine countries reached agreements with the IMF for a total of $55.8 billion in assistance,[6] with additional funds being channeled through the World Bank, the European Commission, and several other donors. Lithuania and Turkey are exploring similar options and might contract stabilization packages from the IMF in 2009.

Although the surge in international official flows has offered some temporary relief, international assistance alone cannot make up for the sharp contraction in private capital flows, and many countries in the region are undergoing painful cuts in domestic demand as part of the adjustment process. Current account deficits in five countries in the region are projected to fall by 5 percent of GDP or more. In countries with floating exchange rates, some of the adjustment will occur through depreciation but at the cost of higher debt for private firms and households with loans denominated in foreign currency. The currencies of several countries are expected to depreciate further during 2009. In countries with more rigid exchange rate and/or monetary policy response, the adjustment will have to take place through a sharp contraction in imports and, thus, in domestic demand.

In the second half of 2008, inflationary trends across the region were gradually replaced by disinflationary pressures from fast-declining international energy and commodity prices (figure A.6). Lower agricultural prices favored by improved weather conditions and weaker domestic demand also contributed to this development. Projections for 2009 indicate that the region as a whole will see a widening in the output gap, from output exceeding long-term potential by 8.4 percent in 2008 to output below potential by 2.4 percent in 2009, which will put downward pressure on prices.[7] The most affected will be countries in the CIS, where output exceeded sustainable levels by 1.2 percent in 2008 but is projected to be below potential by 11.1 percent in 2009. However, in a

Figure A.6 Lower commodity prices should see inflation decline



Source: World Bank.

number of countries the effect of slowing activity on domestic prices will be offset by downward pressures on local currencies. This is particularly the case for net oil exporters and for those countries that face large current account imbalances. Econometric estimation of the behavior of headline inflation in response to changes in internationally traded dollar-denominated commodity prices also suggests that the median inflation rate for the region will stabilize within a 5.4 percent to 6.3 percent band through 2010.

Overall, average fiscal positions across the region are expected to deteriorate further in 2009, to an average deficit of 5.9 percent of GDP, compared to surpluses of 1.6 percent in 2007 and 0.7 percent in 2008.

Risks and uncertainties

Risks to the outlook for the region remain skewed to the downside (table A.6). In the short term, a worsening in financial constraints and commercial bank lending carries a high liquidity risk, which could increase pressures on the balance of payments in several countries. The rapid expansion of foreign currency borrowing in the years before the crisis means that many such loans could become nonperforming were domestic currencies to depreciate sharply against the currency of the loan. This in turn could threaten the solvency of banks in ways that have yet to emerge—posing further challenges for policy makers. The currencies of Russia and Kazakhstan have already depreciated, after initial attempts to defend the exchange rates through massive drawdown on reserves. Other countries with large current-account and/or government deficits and relatively rigid exchange rate regimes may be at particular risk of such a scenario.

High levels of short-term debt also expose many countries in the region to rollover risk. So far this risk has not materialized. But the predominance of foreign-owned banks in Central and Eastern Europe (foreign-owned lenders predominantly headquartered in Austria, Greece, Italy, and Sweden account for 70 percent of local banking assets in several countries)[8] could expose countries in the region to a sharp reduction in access to foreign capital if parent banks in high-income countries are forced to scale back lending in the region as they seek to bolster their own balance sheets.

Table A.6 Europe and Central Asia country forecasts
annual percent change unless indicated otherwise

Country/indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	2010	2011
Albania							
GDP at market prices (2000 $)[b]	5.4	5.0	6.0	6.0	1.5	2.0	3.0
Current account bal/GDP (%)	−5.5	−7.3	−8.4	−12.4	−10.7	−8.9	−8.1
Armenia							
GDP at market prices (2000 $)[b]	8.6	13.3	13.8	6.8	−6.0	−2.0	1.0
Current account bal/GDP (%)	−11.7	−1.8	−6.7	−12.2	−12.1	−10.3	−6.5
Azerbaijan							
GDP at market prices (2000 $)[b]	10.2	34.5	25.0	10.8	3.3	5.2	9.0
Current account bal/GDP (%)	−16.6	17.7	29.5	38.0	10.3	15.5	19.0
Belarus							
GDP at market prices (2000 $)[b]	6.9	10.0	8.6	10.0	−3.3	2.6	4.4
Current account bal/GDP (%)	−3.2	−3.9	−6.7	−8.7	−7.8	−5.7	−3.6
Bulgaria							
GDP at market prices (2000 $)[b]	2.2	6.3	6.2	6.0	−1.5	1.5	3.0
Current account bal/GDP (%)	−3.6	−17.9	−23.6	−23.1	−14.1	−10.8	−8.7
Croatia							
GDP at market prices (2000 $)[b]	4.1	4.8	5.4	2.3	−3.0	0.3	3.0
Current account bal/GDP (%)	−3.5	−7.7	−8.6	−10.5	−7.6	−5.6	−6.4
Georgia							
GDP at market prices (2000 $)[b]	6.6	9.4	12.3	2.2	1.0	2.0	4.0
Current account bal/GDP (%)	−8.1	−16.2	−22.0	−22.5	−19.6	−16.8	−15.5
Kazakhstan							
GDP at market prices (2000 $)[b]	6.4	10.7	8.2	3.0	−1.5	1.5	3.0
Current account bal/GDP (%)	−2.3	−2.5	−7.9	5.5	−8.4	−7.8	−6.3
Kyrgyz Republic							
GDP at market prices (2000 $)[b]	4.7	2.7	7.4	6.6	0.5	2.5	3.5
Current account bal/GDP (%)	−10.2	−11.0	−7.1	−6.8	−6.0	−7.2	−7.8
Lithuania							
GDP at market prices (2000 $)[b]	6.0	7.7	8.9	3.0	−10.0	−2.5	2.5
Current account bal/GDP (%)	−7.9	−10.8	−14.3	−11.3	−5.0	−3.0	−1.8
Latvia							
GDP at market prices (2000 $)[b]	6.9	12.2	9.9	−4.6	−13.0	−3.0	2.6
Current account bal/GDP (%)	−7.5	−22.7	−21.8	−12.5	−6.6	−4.2	−3.9
Moldova							
GDP at market prices (2000 $)[b]	2.3	4.8	3.0	7.0	−3.0	2.0	4.0
Current account bal/GDP (%)	−7.9	−11.3	−16.7	−17.8	−12.1	−10.1	−9.3
Macedonia, FYR							
GDP at market prices (2000 $)[b]	2.2	4.0	5.1	4.9	−1.2	1.0	2.0
Current account bal/GDP (%)	−5.5	−0.4	−8.2	−13.8	−11.6	−11.4	−11.7
Poland							
GDP at market prices (2000 $)[b]	4.3	6.2	6.7	4.8	0.5	0.9	3.5
Current account bal/GDP (%)	−3.3	−2.8	−5.0	−5.6	−4.3	−4.0	−3.7
Romania							
GDP at market prices (2000 $)[b]	2.1	7.7	6.0	7.1	−4.0	0.5	2.5
Current account bal/GDP (%)	−5.8	−10.5	−13.7	−12.4	−8.4	−7.5	−8.7
Russian Federation							
GDP at market prices (2000 $)[b]	3.9	7.7	8.1	5.6	−7.5	2.5	3.0
Current account bal/GDP (%)	7.6	9.5	6.0	6.0	2.4	3.0	3.2
Turkey							
GDP at market prices (2000 $)[b]	4.3	6.9	4.7	1.1	−5.5	1.5	3.0
Current account bal/GDP (%)	−1.4	−6.0	−5.9	−5.6	−1.9	−1.9	−2.0

(*Continues*)

Table A.6 (*Continued*)
annual percent change unless indicated otherwise

					Forecast		
Country/indicator	1995–2005[a]	2006	2007	2008	2009	2010	2011
Ukraine							
GDP at market prices (2000 $)[b]	2.7	7.3	7.9	2.1	−9.0	1.0	3.5
Current account bal/GDP (%)	2.7	−1.5	−4.2	−7.5	0.1	1.0	−0.8
Uzbekistan							
GDP at market prices (2000 $)[b]	4.6	7.3	9.5	9.0	4.5	5.0	6.5
Current account bal/GDP (%)	3.3	14.4	13.3	16.2	11.8	15.2	13.6

Source: World Bank.
Note:
In the current very volatile global environment, World Bank forecasts are frequently updated based on new information and changing assumptions. Moreover, the confidence intervals around these point forecasts are larger than usual. As a result, the 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, Montenegro, Serbia, and Turkmenistan are not forecast owing to data limitations.
a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

Latin America and the Caribbean

Recent developments

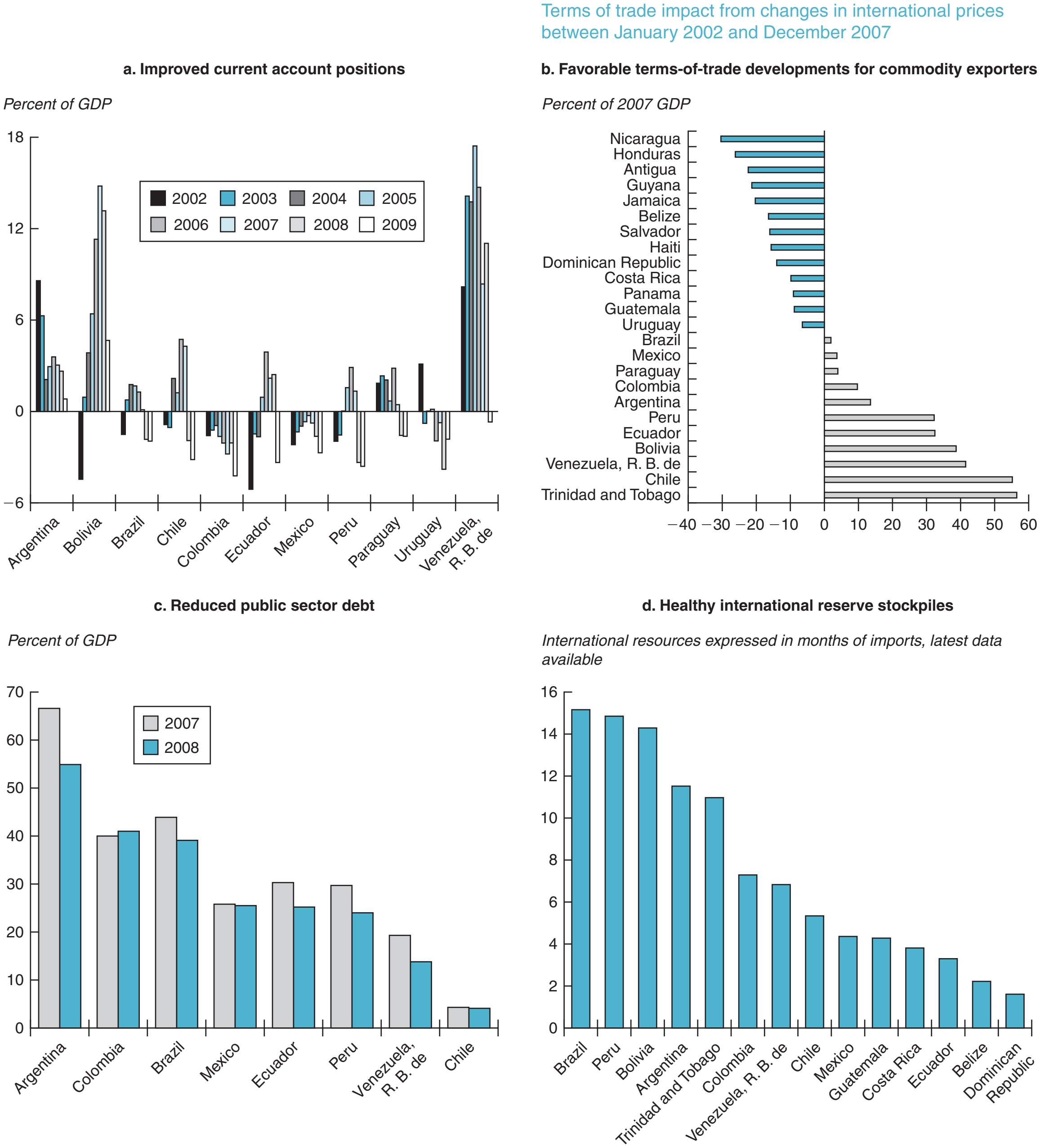
Almost six years of improving current account positions (figure A.7, panel a), marked terms-of-trade gains (panel b), declines in public external debt relative to output (panel c), expansions in international reserves (panel d), and financial sector reforms have strengthened the ability of many countries in Latin America and the Caribbean to weather external shocks. Nevertheless, the region has not been immune to the global increase in risk aversion and fall in external demand resulting from the financial crisis and growth has declined sharply in virtually all countries in the region.

Inflows of external capital from private sources dropped sharply during 2008, and countries experienced massive capital outflows in the last quarter of the year (for example, Brazil's recorded portfolio outflows shifted by $30 billion, and Mexico's by almost $11 billion, from the preceding year). Secondary-market spreads on both sovereign and corporate bonds jumped (figure A.8). Domestic lending rates to the private sector rose by almost 1,400 basis points in Argentina, 530 basis points in Brazil, 521 basis points in Chile, and 379 basis points in Paraguay between September and November 2008, but have come down since. Domestic financial market are deeper and play a bigger role in overall financial intermediation today contrasted with the crisis periods of 15–20 years ago.

The drop in external finance was compounded by plummeting trade in goods and services. During the fourth quarter of 2008, constant-price exports fell by almost 14 percent in Costa Rica, by over 10 percent in Argentina, 8 percent in Mexico, and almost 7 percent in Brazil and República Bolivariana de Venezuela, (figure A.9, panel a). The fall in commodity prices depressed commodity exporters' terms of trade, while providing some relief to oil-importing countries (panel b). However, for the region as a whole, the fall in commodity prices between July 2008 and May 2009 reduced incomes by an estimated 2.2 percent of GDP. Workers' remittances fell as host countries entered recession: between the first quarter of 2008 and the first quarter of 2009, remittances to Guatemala declined by 5.9 percent, to Mexico by 4.9 percent, to Panama by 6.3 percent, and to Colombia by 11.6 percent. El Salvador, Jamaica, Honduras, Haiti, and Guyana, where remittances exceed 15 percent of GDP, were also adversely affected. Tourism receipts also declined sharply; for example, the number of non-resident tourists in the Dominican Republic fell 5 percent in the first quarter (year-on-year).

Heightened uncertainty about the length and depth of the crisis, increased risk aversion on the part of international investors, and a drying up of finance caused a steep slowdown in growth of fixed investment spending in the fourth quarter of 2008 (figure A.10, panel a). In Chile, the year-on-year growth of investment fell from 29.9 percent

Figure A.7 Improved initial conditions are helping Latin America and the Caribbean weather the crisis



Source: World Bank.

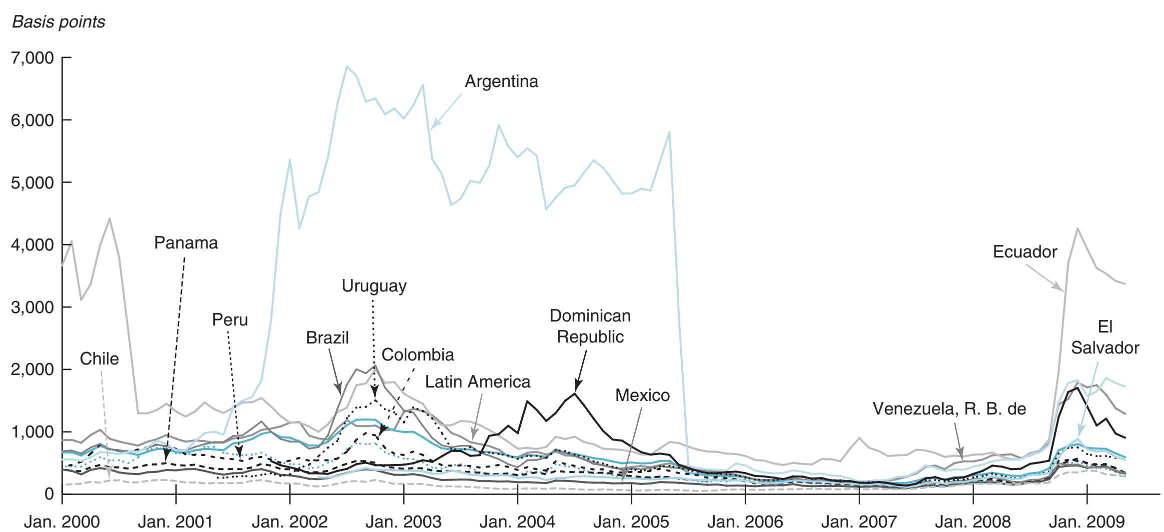
in the third quarter of 2008 to 10.4 percent in the fourth quarter; in Brazil it slowed from 19.7 percent to 3.9 percent, and in Argentina from 8.6 percent to minus 2.6 percent. In Mexico and Colombia, investment stagnated. Private consumption slowed or fell in most economies. Declines in net trade and decelerating investment and consumption meant a dramatic worsening of GDP growth in the fourth quarter of the year, ranging from a 1.6 percent fall in Mexico, to gains of 1.2 percent in Brazil, 0.3 percent in Argentina, and 0.2 percent in Chile (panel b).

Table A.7 Net capital flows to Latin America and the Caribbean
$ billions

Indicator	2002	2003	2004	2005	2006	2007	2008p
Current account balance	−15.7	7.7	19.9	33.5	47.0	15.4	−27.1
as % of GDP	*−0.9*	*0.4*	*1.0*	*1.4*	*1.6*	*0.4*	*−0.7*
Net private and official inflows	38.0	61.8	59.9	81.7	64.8	215.1	130.9
Net private inflows	25.6	57.0	70.0	112.9	85.0	215.9	127.2
Net equity inflows	54.4	45.6	64.3	83.0	82.8	137.1	118.3
Net FDI inflows	53.0	42.3	64.9	70.8	71.6	107.5	124.8
Net portfolio equity inflows	1.4	3.3	−0.6	12.2	11.2	29.6	−6.5
Net debt flows	−16.4	16.2	−4.4	−1.3	−18.0	78.0	12.6
Official creditors	12.4	4.8	−10.1	−31.2	−20.2	−0.8	3.7
World Bank	−0.6	−0.4	−1.0	−0.7	−3.4	−0.1	2.4
IMF	11.9	5.6	−6.3	−27.6	−12.1	0.0	0.0
Other official	1.1	−0.4	−2.8	−2.9	−4.7	−0.7	1.3
Private creditors	−28.8	11.4	5.7	29.9	2.2	78.8	8.9
Net M-L term debt flows	−8.5	9.1	0.2	14.1	3.2	45.7	11.6
Bonds	−0.8	11.0	−0.5	15.6	−16.2	8.7	−9.4
Banks	−6.2	−1.4	0.8	−1.4	19.9	37.0	21.8
Other private	−1.5	−0.5	−0.1	−0.1	−0.5	0.0	−0.8
Net short-term debt flows	−20.3	2.3	5.5	15.8	−1.0	33.1	−2.7
Balancing item[a]	−20.7	−35.4	−55.6	−82.2	−58.5	−96.3	−55.3
Change in reserves (− = increase)	−1.7	−34.1	−24.3	−33.1	−53.4	−134.2	−48.5
Workers' remittances	27.9	36.6	43.3	50.1	59.2	63.1	63.3

Source: World Bank.
Note:
p = projected.
a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries.

Figure A.8 EMBI sovereign spreads surged as the crisis shook investors' confidence

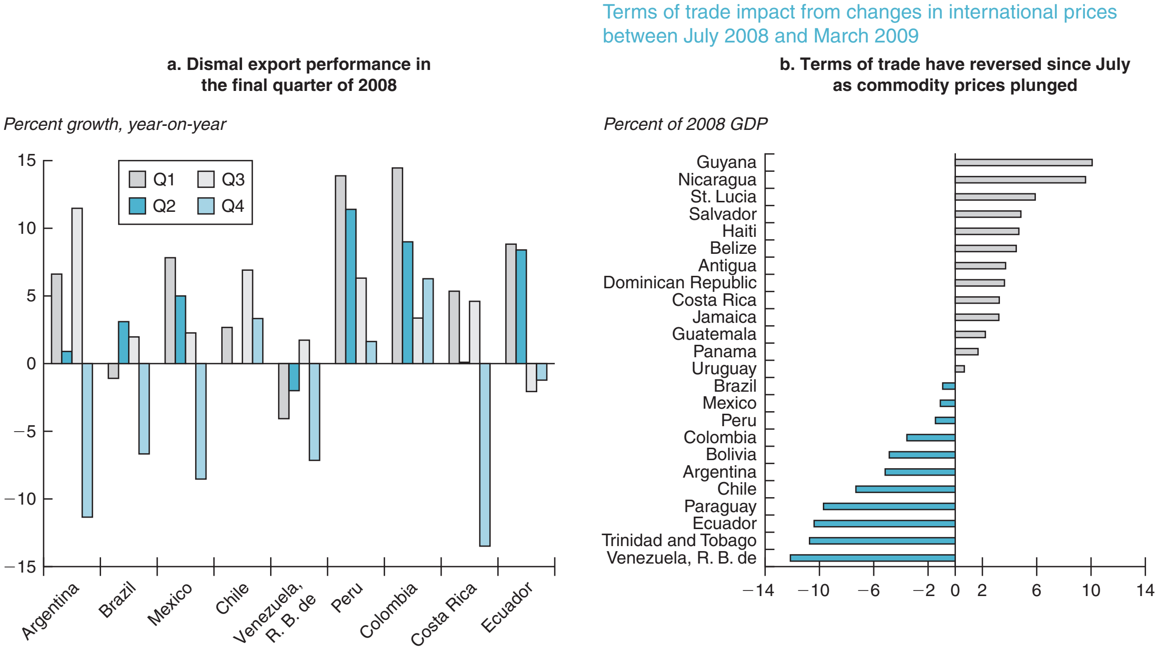


Source: JP Morgan.

The policy response

Several regional governments undertook countercyclical fiscal policies to fight the recession. And some central banks moved quickly to reduce interest rates. For example, from January through May of 2009, central banks in Chile and Brazil cut interest rates by 700 and 350 basis points, respectively. Most countries with high inflation initially took a cautious approach to monetary expansion. Since March, however, deteriorating

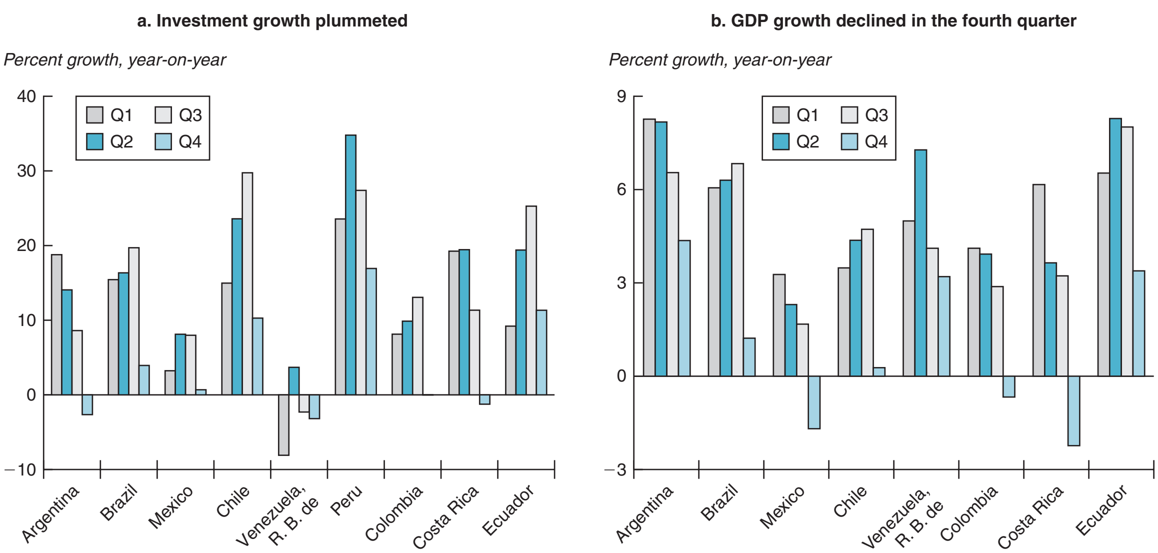
Figure A.9 Economic conditions in Latin America and the Caribbean have deteriorated sharply



Source: World Bank.

economic conditions have spurred a dramatic shift to aggressive interest rate cuts in Colombia (300 basis points), Mexico (225 basis points), and Peru (225 basis points). Most governments announced increased spending on infrastructure, reduced taxes, increased subsidies, or some combination of these measures. In Colombia the fiscal stimulus for 2009 is estimated at 4.5 percent of GDP; in Peru, about 3 percent; in Mexico, about 1.5 percent; in Argentina, 1.3 percent; and in Brazil, 0.4 percent. Including the recession-induced impact on tax revenues, automatic stabilizers, and other factors, the

Figure A.10 Sharply weaker investment growth has contributed to GDP slowdown



Source: World Bank.

Source: World Bank.

region's fiscal balance is projected to deteriorate by 2.7 percent of GDP in 2009.

Countries with flexible exchange rates, in particular those reliant on commodity exports or tightly integrated with the U.S. economy, absorbed part of the shock through significant exchange rate depreciation. Virtually all countries with some exchange rate flexibility (in the region and elsewhere in the world) experienced a sharp depreciation against the U.S. dollar with investors' flight to safety. However, the extent of the depreciation against other trading partners was more modest. Of the 18 regional countries with current data on effective exchange rates, only three experienced a nominal effective depreciation of more than 10 percent from August 2008 to March 2009. Some countries intervened to stabilize currencies and saw a dwindling of reserves; international reserves excluding gold fell by $12 billion (12.5 percent) in Mexico, $2.9 billion (8.6 percent) in Peru, and $10.4 billion (5 percent) in Brazil between September and December 2008.

Outlook

Regional GDP is projected to fall by 2.2 percent in 2009, with uncertainty regarding the timing and strength of the recovery (table A.8). Weak exports, tight credit conditions and significant excess capacity are expected to cause fixed investment to fall by 10.1 percent. Rising unemployment and difficulty in obtaining consumer finance will continue to take a toll on private consumption, which is forecast to fall by 0.9 percent in 2009. Net exports are anticipated to add 0.8 percentage points to growth, as imports fall by 9.0 percent. The import contraction would be even greater, if changes in reserves or higher official flows were not available to finance deterioration in current-account balances (figure A.11). GDP growth is expected to recover to 2 percent by 2010, or less than 1 percent in per capita terms.

Brazil is more resilient to external demand shocks than many other economies in the region, given the smaller share of trade in its overall GDP,

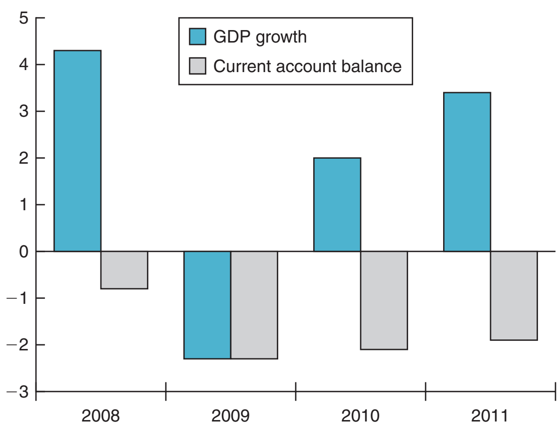
Table A.8 Latin America and the Caribbean forecast summary
annual percent change unless indicated otherwise

					Forecast		
Indicator	1995–2005[a]	2006	2007	2008	2009	2010	2011
GDP at market prices (2000 $)[b]	2.8	5.6	5.8	4.2	−2.2	2.0	3.3
GDP per capita (units in $)	1.3	4.2	4.4	2.9	−3.4	0.7	2.1
PPP GDP[c]	2.8	5.5	5.9	4.4	−2.0	2.0	3.4
Private consumption	3.1	6.4	4.0	4.6	−0.9	2.3	3.5
Public consumption	2.1	4.5	3.5	4.4	3.1	3.3	3.0
Fixed investment	3.5	13.5	21.3	11.6	−10.1	0.8	4.4
Exports, GNFS[d]	6.4	7.3	5.0	1.6	−7.7	2.3	5.1
Imports, GNFS[d]	6.6	14.2	12.2	8.8	−9.0	2.9	5.9
Net exports, contribution to growth	0.1	−1.6	−1.9	−2.0	0.8	−0.3	−0.5
Current account bal/GDP (%)	−1.7	1.6	0.4	−0.7	−2.3	−2.1	−1.9
GDP deflator (median, LCU)	7.1	6.8	4.5	7.9	10.7	6.0	6.1
Fiscal balance/GDP (%)	0.4	1.4	1.2	0.3	−2.4	−1.6	−0.6
Memo items: GDP							
LAC excluding Argentina	2.9	5.1	5.3	3.8	−2.4	2.0	3.6
Central America	3.6	5.0	3.7	1.7	−5.0	1.7	3.1
Caribbean	4.4	8.7	5.9	3.5	−0.1	2.3	4.6
Brazil	2.4	3.7	5.7	5.1	−1.1	2.5	4.1
Mexico	3.6	4.8	3.3	1.4	−5.8	1.7	3.0
Argentina	2.3	8.5	8.7	6.8	−1.5	1.9	2.1

Source: World Bank.
Note:
a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services.

Figure A.11 Output and current account balances will deteriorate in 2009, improving only modestly in 2010

Percent change, percent of GDP



Source: World Bank.

and has somewhat more room for monetary expansionary policies. Output is projected to contract by 1.1 percent in 2009 (after growth of 5.1 percent in 2008) and to bounce back to 2.5 percent in 2010 as external demand recovers and credit growth resumes, and as domestic demand remains resilient.

Declining exports and remittance receipts (the result of close links with the U.S. market) are expected to lower Mexico's GDP by more than 5.5 percent in 2009, after a decline of an estimated 8 percent in the first quarter. The outbreak of influenza A (H1N1), which reduced tourism and led to the closure of nonessential business from March through May 5, is estimated to have reduced annual growth by 0.8 percentage points. In 2010, the projected 1.8 percent recovery in U.S. GDP is expected to facilitate an expansion of 1.7 percent in Mexico.

Sharply weaker domestic demand and falling exports are expected to lower Argentina's GDP by 1.5 percent in 2009. In addition to reduced export volumes (particularly the impact of lower Brazilian demand on the auto sector), lower commodity prices, tight credit conditions, and the worst drought in seven decades will cut into exports. Unsustainable government policies are likely to further undermine investment, already suffering as a result of the global economic and financial crises. The economy is projected to expand 1.9 percent in 2010, boosted by stronger external demand and a return to more normal agricultural output.

In Chile, output is expected to fall by 0.4 percent in 2009, compared with 3.2 percent growth in 2008, as key exports (such as copper) decline sharply and fixed investment falls by 11.7 percent (table A.9). The cancellation of several private projects is expected to depress imports. The economy is projected to expand by 2.7 percent in 2010, boosted by a moderate recovery in external demand and higher commodity prices.

Colombia's economy is likely to contract for the first time since 1999 (by 0.7 percent), as exports and investment plunge, while widening current-account and fiscal deficits limit the space for countercyclical policies. Output growth may recover to 1.8 percent in 2010 with higher external demand.

In other economies, growth in Peru is expected to decelerate to around 3 percent from a very strong 9.8 percent in 2008. The economy of the República Bolivariana de Venezuela has weakened markedly with the decline in oil prices and macroeconomic mismanagement and is the only regional economy expected to continue to contract in 2010.

In Caribbean countries the number of tourists and tourism revenues are expected to be affected, undermining private consumption, and also affecting government revenues substantially. Moreover, tourism-related construction will stall as occupancy rates decline. Output in the Caribbean economies is expected to remain flat in 2009, compared to 3.5 percent growth in 2008, before rising to a below-trend 2.3 percent in 2010.

Countries in Central America will be hit hard, as in many economies, remittances account for a significant share of GDP. Declining remittances will have marked consequences for private consumption and investment, and the group's economy is likely to contract by 5 percent, after a disappointing 1.7 percent advance in 2008, before returning to a similar pace in 2010 (1.7 percent).

Risks and uncertainties

Perhaps the principal danger facing the economies of Latin America and the Caribbean is a deeper and more prolonged recession in advanced economies than presently anticipated. Further reductions in external demand would mean lower export revenues, while further deleveraging in high-income country banks would make it more

Table A.9 Latin America and the Caribbean country forecasts

annual percent change unless indicated otherwise

Country/indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	Forecast 2010	Forecast 2011
Argentina							
GDP at market prices (2000 $)[b]	2.3	8.5	8.7	6.8	−1.5	1.9	2.1
Current account bal/GDP (%)	−0.2	3.6	3.0	2.6	1.0	0.9	1.0
Belize							
GDP at market prices (2000 $)[b]	5.6	4.7	1.2	3.0	1.1	2.3	2.9
Current account bal/GDP (%)	−12.1	−2.1	−4.0	−10.7	−6.1	−5.4	−5.2
Bolivia							
GDP at market prices (2000 $)[b]	3.3	4.8	4.6	5.8	1.8	2.6	4.1
Current account bal/GDP (%)	−3.0	11.3	13.3	12.1	−1.4	−0.1	−0.2
Brazil							
GDP at market prices (2000 $)[b]	2.4	3.7	5.7	5.1	−1.1	2.5	4.1
Current account bal/GDP (%)	−2.0	1.3	0.1	−1.8	−1.9	−2.2	−2.4
Chile							
GDP at market prices (2000 $)[b]	4.2	4.3	4.7	3.2	−0.4	2.7	3.6
Current account bal/GDP (%)	−1.5	4.7	4.3	−1.9	−3.2	−2.9	−2.0
Colombia							
GDP at market prices (2000 $)[b]	2.1	6.8	7.5	2.5	−0.7	1.8	4.0
Current account bal/GDP (%)	−2.3	−2.1	−2.8	−2.1	−4.2	−4.3	−3.4
Costa Rica							
GDP at market prices (2000 $)[b]	4.5	8.2	7.8	2.7	−0.6	1.8	3.1
Current account bal/GDP (%)	−4.0	−4.5	−6.3	−8.8	−5.5	−5.1	−5.3
Dominica							
GDP at market prices (2000 $)[b]	3.1	4.0	0.9	3.1	−2.5	1.3	3.3
Current account bal/GDP (%)	−19.8	−17.1	−28.2	−37.3	−25.3	−27.4	−27.1
Dominican Republic							
GDP at market prices (2000 $)[b]	5.6	10.7	8.5	5.0	−0.5	2.3	5.0
Current account bal/GDP (%)	−1.0	−4.1	−5.6	−10.9	−6.0	−5.8	−3.4
Ecuador							
GDP at market prices (2000 $)[b]	3.2	3.9	2.5	6.5	−2.6	1.8	3.1
Current account bal/GDP (%)	−1.4	3.9	2.2	2.4	−3.4	−2.3	−1.3
El Salvador							
GDP at market prices (2000 $)[b]	2.7	4.2	4.7	2.5	−1.0	0.6	2.3
Current account bal/GDP (%)	−2.5	−3.6	−5.5	−7.2	−2.8	−4.0	−5.0
Guatemala							
GDP at market prices (2000 $)[b]	3.5	5.1	6.3	3.8	0.6	2.2	4.0
Current account bal/GDP (%)	−4.9	−4.9	−5.4	−4.8	−4.4	−4.5	−3.1
Guyana							
GDP at market prices (2000 $)[b]	1.7	5.1	5.4	4.2	1.8	3.2	4.7
Current account bal/GDP (%)	−9.4	−17.9	−18.5	−20.3	−18.4	−16.7	−16.4
Honduras							
GDP at market prices (2000 $)[b]	3.8	6.4	6.3	4.0	0.8	2.1	3.5
Current account bal/GDP (%)	−6.6	−4.7	−11.6	−14.1	−8.2	−8.6	−7.2
Haiti							
GDP at market prices (2000 $)[b]	0.9	2.3	3.2	1.4	−0.2	1.6	2.8
Current account bal/GDP (%)	−3.7	−9.0	−7.9	−9.6	−7.9	−7.6	−7.8
Jamaica							
GDP at market prices (2000 $)[b]	0.8	2.7	1.4	−1.4	−2.6	0.4	2.3
Current account bal/GDP (%)	−6.2	−10.8	−14.9	−15.6	−12.7	−11.0	−8.4
Mexico							
GDP at market prices (2000 $)[b]	3.6	4.8	3.3	1.4	−5.8	1.7	3.0
Current account bal/GDP (%)	−1.9	−0.3	−0.8	−1.6	−2.7	−2.6	−2.3
Nicaragua							
GDP at market prices (2000 $)[b]	4.1	3.7	3.2	2.8	−0.3	1.3	2.1
Current account bal/GDP (%)	−20.2	−12.8	−19.0	−22.7	−15.2	−11.8	−9.9
Panama							
GDP at market prices (2000 $)[b]	4.5	8.5	11.5	9.2	1.3	2.8	5.2
Current account bal/GDP (%)	−5.3	−3.1	−7.3	−12.1	−10.2	−11.1	−11.3

Table A.9 (*Continued*)

Country/indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	2010	2011
Peru							
GDP at market prices (2000 $)[b]	3.3	7.6	9.0	9.8	3.0	4.3	6.0
Current account bal/GDP (%)	−3.3	2.9	1.3	−3.3	−3.6	−3.3	−2.9
Paraguay							
GDP at market prices (2000 $)[b]	1.2	4.3	6.8	5.8	−0.9	1.8	3.0
Current account bal/GDP (%)	−1.5	2.8	0.7	−1.4	−2.0	−1.7	−0.7
St. Lucia							
GDP at market prices (2000 $)[b]	2.6	5.0	3.2	2.4	−1.4	1.7	3.0
Current account bal/GDP (%)	−13.8	−32.7	−31.4	−32.0	−26.1	−26.4	−25.8
St. Vincent and the Grenadines							
GDP at market prices (2000 $)[b]	4.2	6.9	6.7	2.3	−1.0	2.1	2.8
Current account bal/GDP (%)	−18.3	−24.3	−26.4	−27.9	−23.4	−23.0	−23.3
Uruguay							
GDP at market prices (2000 $)[b]	1.5	7.0	7.6	8.9	0.8	2.3	3.4
Current account bal/GDP (%)	−1.0	−1.9	−0.8	−3.8	−1.8	−2.2	−2.4
Venezuela, RB							
GDP at market prices (2000 $)[b]	1.6	10.3	8.4	4.8	−2.2	−1.4	1.2
Current account bal/GDP (%)	7.5	14.7	8.8	12.0	−0.8	1.2	1.2

Source: World Bank.
Note:
In the current very volatile global environment, World Bank forecasts are frequently updated based on new information and changing assumptions. Moreover, the confidence intervals around these point forecasts are larger than usual. As a result, the 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.

Barbados, Cuba, Grenada, and Suriname are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

difficult for countries to roll over short-term debt (the region's external financing needs are estimated at $268 billion in 2009). Several countries would be faced with the choice between even greater contractions in domestic demand to reduce imports to financeable levels or defaulting on external debt service obligations, with potentially severe implications for future access to finance.

Even with the anticipated recovery in advanced economies, foreign banks are expected to remain risk averse and reluctant to lend for a sustained period of time, while bond issuances to finance fiscal deficits in high-income countries could crowd out borrowing by both governments and the private sector in developing countries. The extent of the decline in foreign investors' appetite for claims on regional economies and the size of high-income government borrowing are particularly difficult to anticipate.

The risk of protectionism has also increased. As unemployment rises, governments are more likely to adopt politically motivated protectionist measures that will attract retaliatory measures, potentially igniting a trade war. Already, domestic purchase provisions of some stimulus packages and other measures indicate the growing risk of competitive trade restrictions.

The risk of an A(H1N1) flu pandemic remains. Fortunately this flu, which has already had a sharp negative output in Mexico, is less virulent than initially feared. Moreover, its rate of spread has diminished as both Northern and Southern hemispheres have exited their respective flu seasons. Nevertheless, when flu season returns H1N1 is likely to re-emerge. Should it do so in a more deadly form, the costs associated with mortality, illness, and absenteeism, and efforts to avoid infection could shave off more than 1 percent of GDP in countries affected. In the event of a pandemic, economies that rely heavily on tourism, would be severely affected.

Finally, the steps taken to contain the crisis raise the risk of macroeconomic instability in the longer term. Public debt has increased sharply, a result of fiscal stimulus packages and declines in government revenues from plummeting commodity prices and lower domestic activity. Substantial monetary easing also raises the risk of building up inflationary pressures in the future if central banks fail to appropriately retract monetary stimulus as the output gap narrows. Borrowing costs for Argentina, Ecuador, and the República Bolivariana de Venezuela have already increased sharply due to concerns over potential debt service interruptions.

The Middle East and North Africa

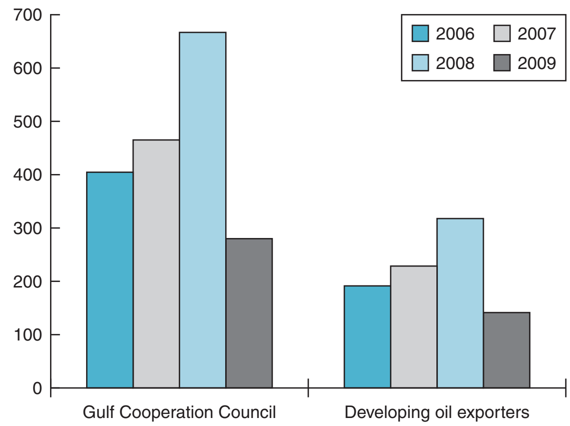
Recent Developments

GDP among the developing countries of the Middle East and North Africa region registered a strong 6 percent gain during 2008, on the back of surging oil revenues during the year's first half, continued robust non-oil export performance for the diversified economies, and favorable flows of remittances, tourism receipts and foreign direct investment (FDI).[9] These conditions were not to persist however, and the onset of the financial crisis in the United States during September 2008 began to exact a toll on regional growth into year-end 2008 and 2009. GDP is anticipated to almost halve to 3.1 percent during 2009 as the real-side effects of the crisis take firmer hold, and a return to average growth for the region (near 4.5 percent) is not expected before 2011. In the interim, those elements which supported growth over the last five years are anticipated to unwind: oil prices are projected to rise only modestly, averaging $66 in 2011; the European export market will remain flaccid; and slowing of services receipts and remittances will exact a toll on growth for both developing oil exporters and the more diversified economies of the region.

Initially, the developing countries of the Middle East and North Africa region were less directly affected by the financial crisis than those of many other developing regions. The biggest direct effect from the crisis was the acceleration in the decline of oil prices. That decline of about 65 percent from near $150/bbl to near $60/bbl at present has radically reduced government revenues among developing-country oil exporters, and especially for the high-income Gulf Cooperation Council (GCC) exporters. These economies include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (figure A.12). Over recent years, these countries have become a key source of investment financing (through FDI and other flows) as well as remittances for the diversified developing economies of the region. The dampening of these income and investment flows is an important element contributing to the slowdown in regional growth.

Figure A.12 Middle East and North Africa oil revenues hit hard by global recession in 2009

Hydrocarbon (oil and gas) exports, billions of U.S. dollars



Source: IEA; OPEC; national agencies; World Bank.

For the GCC in aggregate, oil and gas revenues dropped from $670 billion in 2008 to an estimated $280 billion during 2009—a massive decline equivalent to 38 percent of the group's GDP. Revenues for the developing oil exporters of the region, including Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic, and the Republic of Yemen declined from $320 billion to an estimated $140 billion, equivalent to 28 percent of GDP. Such severe revenue declines, against continuation of expenditures at a fairly rapid pace, has caused fiscal balances in a number of oil exporters to go into deficit. As a result, the public sector's capacity to mitigate some of the adverse consequences of the crisis through targeted stimulus packages, and other measures, has been reduced.

The financial elements of the global crisis have already taken a toll on the region, particularly through equity markets—affecting the cost of capital for firms and inducing a large-scale loss of wealth for households and institutions. Some estimates suggest that GCC sovereign wealth funds lost 27 percent of their value in the 12 months ending December 2008, with losses as high as 40 percent among those funds heavily allocated to emerging markets and private equity placements.[10]

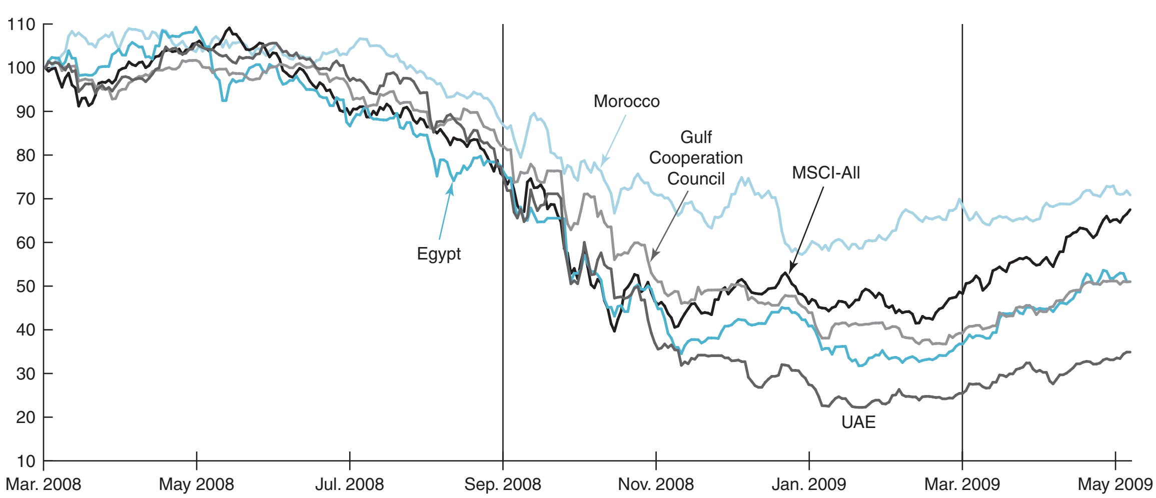
GCC equity prices in dollar terms dropped by some 58 percent between September 15, 2008 and March 12, 2009 (a period during which virtually all bourses registered sharp declines). Over the same period, equity prices in UAE plummeted by 70 percent, contrasted with a decline of 55 percent for all emerging markets (figure A.13). Since mid-March 2009, a global stock market rally has set in, grounded in improved expectations for the health of the international banking system (in the wake of the G-20 London Summit and following measures undertaken by the U.S. Treasury). Middle East and North African equities have participated in the upturn, with the GCC index gaining 37 percent through end-May, contrasted with a 52 percent increase in the MSCI-all market index over the period. The moderate gains for regional bourses are nonetheless indicative of improving confidence in the potential for the global economy to recover sooner rather than later.

The banking sector in the region has weathered the crisis relatively well, in part because of limited direct exposure to subprime mortgages and related asset-backed securities. However, a Kuwaiti bank suffered significant losses in late 2008 from trading in currency derivatives. In response, many banks across the region tightened lending standards, and, in some countries, reduced lending directly. The impact of the crisis on investment firms in the region is less clear, mainly because of data unavailability. However, anecdotal evidence suggests that some firms may have run into financial difficulties due to maturity mismatches on their balance sheets. As elsewhere, access to external financing has become more difficult and borrowing spreads increased for countries in the region following the eruption of the crisis. Most countries did not need to borrow during the latter part of 2008 because they had generally favorable balance of payments positions and access to alternative sources of financing, such as remittances, FDI, tourism receipts, foreign aid, and international reserves.

Table A.10 highlights the general financial health of the developing region over the period since 2005, when higher oil prices, generally favorable terms of trade and export market growth began to move current account surplus positions into double-digit shares of regional GDP. Net additions to reserves accumulated to more-than $140 billion over the period, as aggregate current account surplus positions were complemented by increasing inflows of FDI, which rose from $7 billion during 2004 to $25 billion in 2006

Figure A.13 Middle East and North Africa bourses hit hard at the worst of financial crisis

Equity indexes, March 2008 = 100 (U.S. dollar terms)



Source: Morgan-Stanley.

Table A.10 Net capital flows to the Middle East and North Africa
$ billions

Indicator	2002	2003	2004	2005	2006	2007	2008p
Current account balance	6.1	22.4	38.3	59.9	93.1	80.7	97.6
as % of GDP	*1.6*	*5.3*	*7.9*	*10.9*	*16.3*	*13.0*	*13.0*
Net private and official inflows	7.7	9.8	12.1	15.8	13.4	21.6	23.3
Net private inflows	9.8	11.9	15.8	19.1	24.7	21.0	23.3
Net equity inflows	4.2	7.8	7.6	16.5	26.0	22.1	24.5
Net FDI inflows	4.7	7.6	6.9	14.1	25.0	24.2	22.5
Net portfolio equity inflows	−0.5	0.2	0.7	2.4	1.0	−2.1	2.0
Net debt flows	3.5	2.0	4.5	−0.7	−12.6	−0.5	−1.2
Official creditors	−2.1	−2.1	−3.7	−3.3	−11.3	0.6	0.0
World Bank	−0.2	−0.3	−0.6	0.0	−0.8	1.0	−0.2
IMF	−0.3	−0.6	−0.5	−0.7	−0.2	−0.1	−0.1
Other official	−1.6	−1.2	−2.6	−2.6	−10.3	−0.3	0.3
Private creditors	5.6	4.1	8.2	2.6	−1.3	−1.1	−1.2
Net M-L term debt flows	5.4	0.8	2.6	2.8	−1.6	−1.8	−0.8
Bonds	5.2	0.7	2.8	2.5	0.8	0.1	−0.6
Banks	0.3	−0.5	−0.2	1.1	−1.3	−0.5	1.4
Other private	−0.1	0.6	0.0	−0.8	−1.1	−1.4	−1.6
Net short-term debt flows	0.2	3.3	5.6	−0.2	0.3	0.7	−0.4
Balancing item[a]	−2.5	−10.4	−36.1	−55.3	−70.2	−58.7	−78.3
Change in reserves (− = increase)	−11.3	−21.7	−14.2	−20.3	−36.3	−43.6	−42.6
Workers' remittances	15.2	20.4	23.0	24.3	25.7	31.3	33.7

Source: World Bank.
Note:
p = projected.
a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries.

(or 4.5 percent of GDP). FDI was increasingly sourced from the GCC countries and targeted at a wide range of infrastructure, real-estate and industrial projects across the region, from Morocco to Jordan. As global financial conditions began to deteriorate during 2008, FDI flows receded to a still-high $22.5 billion. However, worker remittances (bottom panel of table A.10) continued to increase, helping to support reserve accumulation at a substantial $43 billion pace in the year.

The collapse in global industrial activity as well as investment and consumer outlays during the fourth quarter of 2008 and first quarter of 2009 cut sharply into demand for oil. World crude oil demand fell a hefty 3.7 percent between the final quarter of 2008 and the first of 2009, standing more than 3 million barrels per day (mb/d) lower than a year earlier. For 2009 as a whole, oil demand is anticipated to decline by 2.16 mb/d with continuing large falloffs in high-income countries and only moderate gains across developing countries. Oil producers in the Middle East and North Africa region have responded quickly by reducing supply in an effort to support prices at a tenable "floor level."

Output among the GCC exporters has been trimmed by some 10.6 percent (year-over-year) over the course of the last months of 2008 through May 2009, led by large cutbacks in Kuwait (14 percent) and Saudi Arabia (12.7 percent). Production has been reined in by the developing exporters of the region, with Algerian output declining 11 percent and that of the Islamic Republic of Iran by 7 percent. This development alone will reduce growth in the oil economies of these countries by substantial margins in 2009, carrying overall GDP growth lower by an average of some 5 percentage points compared with 2008. Both Saudi Arabia and Kuwait are projected to slip into recession during 2009, with growth for all exporters falling from 6.2 percent in 2008 to 2 percent in 2009. Spillovers from this development to the diversified group of economies are anticipated to be widespread and adverse, running the scope from reduced FDI inflows to lower remittances and reduced tourism from the Gulf to other countries in the region (earlier a quickly increasing trend).

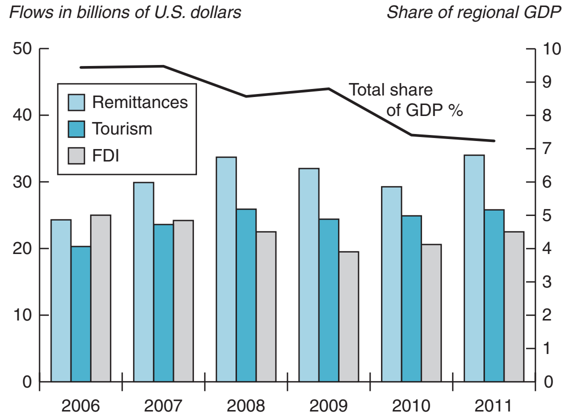
For the more diversified economies, export volumes and values have declined by as much as

35 percent in nominal terms since September 2008. A key determinant for this development is the collapse of import demand in the Euro Area (as well as the United States). For example French import volume declined 19 percent during the first quarter of 2009 on the heels of a 12 percent contraction in the previous quarter (saar). Exports from Morocco dropped 45 percent from September 2008 through February 2009, from Tunisia 31 percent, and from Jordan 18.4 percent. However, industrial production has held up better than in most other developing regions, with output over the same period down by some 5 percent in most countries in the Middle East and North Africa compared with 15 or more percent for the world as a whole. For example, Egyptian production stood 30 percent above year –earlier levels in November 2008 while in Jordan it was 26 percent higher in January 2009 than a year before. As more recent data become available, they will undoubtedly show substantial deterioration for countries with important trade links to Europe.

Countries such as Egypt, Morocco, Tunisia, Jordan and Lebanon derive both balance of payments support and needed domestic income through exports of services, notably tourism and business services, remittance receipts from workers abroad (largely from Europe and the GCC countries), and more recently, strong FDI flows, which have helped to underpin and catalyze domestic private and public capital expenditures. Such flows amount to substantial proportions of GDP for these countries. In Egypt, for example, total flows represented 18.7 percent of GDP in 2007, of which remittances 5.7 percent, tourism 5.5 percent, and FDI 7.6 percent. Given the current global and regional economic environment, these income and investment flows are slated to decline both in absolute terms and as a share of GDP, with negative consequences for current-account deficits and domestic demand (figure A.14).

A large number of countries within the region suffered heavily from the food and fuel crisis which preceded the onset of the global financial crisis. The Middle East and North Africa is the world's largest net food importing region. As food, notably grains prices escalated at a record pace over 2006 to mid-2008, and oil prices moved up, while terms of trade for countries oil-importing

Figure A.14 Remittances, FDI and tourism revenues decline as a share of GDP



Sources: World Bank; United Nations; IMF.

countries in the region such as Morocco, Tunisia, Lebanon, Jordan and Egypt plummeted. Inflation moved into double digits in several countries linked to the food and fuel price increases, and authorities undertook measures to offset the more adverse effects on the poor, including increased subsidies, measures to boost incomes through higher civil service wages, and finally a move-up in interest rates in a number of countries to counter the inflationary impulse. One brighter aspect of the current conjuncture is that inflation rates across the region are easing, as the gains in both food and fuel prices unwind, serving to boost the purchasing power of consumers. For example, Tunisian CPI inflation softened to 3.1 percent in February 2009 (year-on-year) from 4.9 percent during 2008, Jordan's to 1.5 percent from 14.9 percent, while Saudi Arabian inflation has dropped to 6 percent from 10 percent in 2008.

Outlook

GDP growth for the developing countries in the region is projected to halve from 6 percent in 2008 to 3.1 percent in 2009 (table A.11). For the broadly geographic region, including the GCC countries, the slowdown is expected to be still more pronounced, shifting from growth of 5.6 percent in 2008 to gains of just 1.6 percent in 2009, largely reflecting the sharp decline in oil output (see Memo items to table A.11).

Table A.11 Middle East and North Africa forecast summary

annual percent change unless indicated otherwise

Indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	2010	2011
GDP at market prices (2000 $)[b]	4.4	5.3	5.4	6.0	3.1	3.8	4.6
GDP per capita (units in $)	2.7	3.5	3.6	4.2	1.3	2.1	2.9
PPP GDP[c]	4.5	5.3	5.5	6.1	3.0	3.6	4.4
Private consumption	4.1	5.8	6.1	7.2	2.8	4.0	4.9
Public consumption	3.4	4.2	3.1	6.6	8.6	7.6	6.8
Fixed investment	6.3	1.2	23.3	19.7	3.8	6.0	7.5
Exports, GNFS[d]	5.1	7.3	8.2	7.6	−2.0	2.9	5.1
Imports, GNFS[d]	5.8	7.8	19.5	18.2	0.6	5.4	7.1
Net exports, contribution to growth	−0.4	−0.5	−4.2	−4.7	−0.9	−1.5	−1.6
Current account bal/GDP (%)	2.9	16.3	13.0	13.0	−1.6	−1.5	−1.8
GDP deflator (median, LCU)	5.2	3.8	4.4	16.9	4.8	9.8	7.6
Fiscal balance/GDP (%)	5.0	−2.7	−0.5	−1.5	−5.4	−3.6	−3.5
Memo items: GDP							
MENA Geographic Region[e]	4.1	4.8	4.9	5.6	1.6	3.5	4.4
Selected GCC Countries[f]	3.6	4.0	4.0	4.9	-0.5	3.0	4.3
Egypt	4.4	6.8	7.1	7.2	3.8	4.2	5.0
Iran	4.8	5.7	6.2	6.9	2.5	3.0	4.0
Algeria	4.0	1.8	3.0	3.0	2.2	3.5	4.0

Source: World Bank.
Note:
a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services.
e. Geographic region includes high-income countries: Bahrain, Kuwait, Oman and Saudi Arabia.
f. Selected GCC Countries: Bahrain, Kuwait, Oman and Saudi Arabia.

Across countries in the region, the extent of the slowdown is expected to vary depending on trade links to Europe (falling export market growth), reliance on oil revenues, and initial fiscal and external account positions. Oil exporters with large populations (Algeria, the Islamic Republic of Iran, and the Syrian Arab Republic) are much more fiscally constrained than oil exporters with smaller populations; as a result these countries entered the crisis with significantly weaker fiscal and external positions. Governments, like Algeria, with sufficient international reserves or large sovereign wealth funds are using fiscal policy to cushion the downturn, while others with limited resources (such as the Islamic Republic of Iran) have responded to the crisis and declining revenues by reducing government spending pro-cyclically. Growth in these countries is projected to decline, with total output growth decelerating in Algeria from 3 percent in 2008 to 2.2 percent in 2009, and from 6.9 percent to 2.5 percent in the Islamic Republic of Iran.

The projected weak recovery in global demand for oil is expected to restrain the recovery in these countries, with growth increasing only gradually to 3.0–3.5 percent in 2010 and to 4 percent by 2011. Because of the sharp falloff in oil prices, current account balances are projected to deteriorate sharply among developing oil exporters from 23.8 percent of GDP in 2008 to 3.5 percent by 2011.

Prospects for several of the more diversified economies of the region, including Jordan and Lebanon, are dependent on remittances, FDI flows, tourism, and foreign aid, and therefore their prospects will depend on those of the Gulf States and to a lesser extent those of the international donor community. Growth in this group of countries is projected to decline from a relatively robust 5.6 percent in 2008 to 3.9 percent in 2009 (table A.12). Within this group, Lebanon and Jordan entered the crisis with weak macroeconomic positions—high debt, and current account and fiscal deficits. GDP growth in both countries is projected to slow by more than 3 percentage points in 2009. Reduced remittances, FDI, and tourism are expected to weigh heavily on external balances in both countries, especially given

Table A.12 Middle East and North Africa country forecasts

annual percent change unless indicated otherwise

					Forecast		
Country/indicator	1995–2005[a]	2006	2007	2008	2009	2010	2011
Algeria							
GDP at market prices (2000 $)[b]	4.0	1.8	3.0	3.0	2.2	3.5	4.0
Current account bal/GDP (%)	8.2	49.0	35.8	37.3	4.1	−0.9	−4.6
Egypt, Arab Rep.							
GDP at market prices (2000 $)[b]	4.4	6.8	7.1	7.2	3.8	4.2	5.0
Current account bal/GDP (%)	0.4	2.4	0.3	−6.5	−6.1	−5.8	−5.3
Iran, Islamic Rep.							
GDP at market prices (2000 $)[b]	4.8	5.7	6.2	6.9	2.5	3.0	4.0
Current account bal/GDP (%)	7.2	28.6	28.9	37.4	5.9	7.4	7.2
Jordan							
GDP at market prices (2000 $)[b]	4.7	6.3	6.6	5.5	2.5	3.5	4.5
Current account bal/GDP (%)	0.0	−11.3	−17.0	−27.5	−10.1	−10.3	−10.4
Lebanon							
GDP at market prices (2000 $)[b]	3.3	−0.6	7.5	6.5	2.5	4.5	5.0
Current account bal/GDP (%)	−19.5	−5.4	−8.0	−14.7	−6.1	−5.4	−4.8
Morocco							
GDP at market prices (2000 $)[b]	4.4	8.0	2.2	6.4	3.2	4.5	5.5
Current account bal/GDP (%)	0.7	2.0	−0.3	−6.1	−2.4	−2.7	−2.5
Syrian Arab Republic							
GDP at market prices (2000 $)[b]	3.2	5.1	4.2	5.2	3.0	3.5	4.5
Current account bal/GDP (%)	3.0	2.5	2.1	0.9	−7.7	−6.9	−6.7
Tunisia							
GDP at market prices (2000 $)[b]	5.0	5.5	6.3	4.5	3.0	4.0	5.0
Current account bal/GDP (%)	−3.0	−2.0	−2.6	−5.4	−4.7	−3.3	−1.6
Yemen, Rep.							
GDP at market prices (2000 $)[b]	4.9	3.2	3.0	4.0	7.7	5.0	4.0
Current account bal/GDP (%)	3.1	1.2	−8.0	−6.5	−9.2	−3.4	−1.0

Source: World Bank.
Note:
In the current very volatile global environment, World Bank forecasts are frequently updated based on new information and changing assumptions. Moreover, the confidence intervals around these point forecasts are larger than usual. As a result, the 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, Iraq, Libya, and West Bank and Gaza are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

expected reductions in capital flows. Current accounts in the two countries in 2008 represented 15 and 27 percent of GDP, respectively. Lower oil prices and a forced reduction in imports caused by the lack of available external financing are expected to bring those deficits down by more than 10 percent in each country in 2009.

The Republic of Yemen is projected to buck the global trend for slower growth in 2009 with the coming on-stream of new liquid natural gas (LNG) plants. In Djibouti, the operation of a new port facility by Dubai World and spending by foreign military bases is projected to provide a cushion and prevent a sharp decline in GDP growth. The diversified countries of North Africa (Egypt, Morocco, and Tunisia) entered the crisis with relatively good macroeconomic positions and have experienced limited fallout in their own financial systems. However, the real-side of the crisis has been keenly felt, because of their close trade and financial ties to high-income Europe and their reliance on European tourism and remittance flows. In Egypt, fourth-quarter GDP expanded by only 4.1 percent in 2008 compared with 7.7 percent a year earlier; monthly job creation fell by 30 percent and foreign investment flows by 48 percent. Reflecting the continuation of these trends into the rest of the year, GDP is projected to slow by 3 percentage points or more in Egypt and Morocco, with the former's GDP growth easing to 3.8 percent from 7.2 percent in 2008, and Moroccan output down from 6.4 percent to 3.2 percent in 2009.

Prospects for recovery in the developing countries in the Middle East and North Africa will depend importantly on the strength of the eventual revival of growth in Europe and in the GCC countries. Continued weakness in the price of oil, the persistent drag of global finance, weak remittance flows, and strong negative wealth effects from falling real-estate and equity prices in the region are all projected to restrain recovery. GDP is expected to increase by 3.8 percent in 2010 and 4.6 percent by 2011, but because of the amplitude of the slowdown already experienced, unemployment and spare capacity, especially in the oil sector, will continue to be issues even at the end of the forecast period. This general pattern is expected to be mirrored in both the resource-rich and resource-poor countries of the region, with the recovery still more muted among the oil exporters.

Risks and uncertainties

In many respects, the risks going forward for countries in the region are the same as for the global economy. On the downside is the worrying risk that instead of a slow recovery, as projected in the baseline, the recession lasts significantly longer and is associated with secondary crises in countries with large current account deficits (see chapter 1). Although many countries in the Middle East and North Africa region would be affected negatively by a further drying up of foreign capital flows, weaker exports, and remittances, Jordan and Lebanon—two countries with large current-account deficits—face the largest risk of a balance-of-payments crisis in a protracted recession scenario. Should a lack of access to foreign exchange form a binding constraint and official assistance and remittance flows are unable to fill the gap, the countries could be forced into a very painful restructuring process accompanied by large currency depreciation and a reduction in domestic demand in order to restore external balance. Inevitably, this would lead to much higher unemployment and increased social tensions. Other countries in the region would be less dramatically affected by a prolonged recession scenario. Weaker trade flows, lower remittances, and tourism receipts would likely extend the growth recession further in the region and result in an even larger buildup in spare capacity.

The outlook for global energy demand and world oil prices is another key risk for the region. In the baseline, energy demand is projected to remain low and oil prices are unlikely to increase much beyond current levels. With recent OPEC production cuts and with Saudi Arabia's increase in its production capacity to 12.5 million barrels a day (thanks to recent investment), there is sufficient slack to absorb any decline in supply that might be caused by unanticipated supply disruptions in other markets.

South Asia

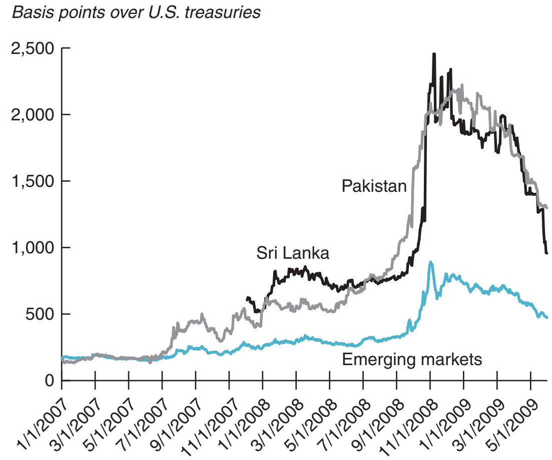
Recent developments

Amid the onset of the global crisis in September 2008, GDP growth in South Asia registered a relatively resilient 7.1 percent in 2008, albeit down significantly from the robust 8.7 percent outturn of 2007, on a calendar-year basis. This 1.6 percentage point falloff in growth compares favorably with the 3.4 and 2.9 percentage point declines in the East Asia and Pacific and Europe and Central Asia regions. South Asia's economies have been cushioned somewhat from the real-side effects of the crisis because exports represent a relatively small share of the region's GDP and because their financial market integration is limited. Production is less specialized in manufacturing or natural resources—sectors that have been hit particularly hard by the crisis. Real incomes and consumer demand in the region have been bolstered by the collapse in global commodity prices, notably that of oil. However, employment of migrant workers and remittances inflows to the region are facing strong headwinds in the wake of the fall-off in activity in high-income host countries. A number of economies have been forced to undertake sharp adjustment measures to address macroeconomic imbalances, which has led to a slowdown in domestic demand. Pakistan faced a balance-of-payments crisis in the second half of 2008, eventually reaching an agreement with the IMF toward the end of the year. Sri Lanka—currently in discussion with the IMF on a stand-by facility (as of end-May)—and the Maldives are also struggling with large imbalances, especially so in the Maldives where the current account deficit surged to 53 percent of GDP and the fiscal deficit increased to 14 percent of GDP.

The immediate impact of the crisis on the South Asian economy was most apparent in financial markets, although the banking sector was relatively unscathed—given the region's minimal exposure to toxic assets and the limited presence of foreign commercial and investment banks. Stock markets were buffeted largely in line with global equities, especially through the end of 2008. Since that time, equity markets in the region have stabilized, with some bourses posting gains as of the end of May 2009. Stock markets in India, for example, advanced in April and May, with a surge following recent elections that boosted market sentiment and underpinned expectations of an accelerated reform program and greater openness to foreign investors. Markets in Bangladesh witnessed less extreme volatility than other regional stock markets, as its equity market is not highly capitalized, trading is thin, and foreign participation is low (2.5 percent of total assets are held by foreign investors). Regional bond markets also suffered from the sharp deterioration in investor sentiment and widespread deleveraging by commercial banks in developed countries, which resulted in a withdrawal of investment funds from emerging markets in the fall of 2008. Bond spreads surged for sovereigns in the region, and spreads for emerging market corporate borrowers effectively barred them from the market—notably for Pakistan and Sri Lanka. As global markets have begun to thaw, and after Pakistan and Sri Lanka began to work with the IMF on stabilization packages, spreads have narrowed significantly. As of late May 2009, spreads had declined to 1,298 basis points in Pakistan and 957 points in Sri Lanka from 2,221 and 2,455 in December and October of 2008, respectively. Nonetheless, spreads remain substantially above the emerging market average of 473 basis points (figure A.15).

Gross capital inflows—international syndicated bank lending, equity placements, and bond issuance—to South Asia had surged in recent years, but collapsed in the aftermath of the crisis. Flows to South Asia fell by 29 percent in 2008, among the sharpest declines posted among developing regions. In the first quarter of 2009, inflows to Bangladesh, Pakistan, and Sri Lanka fell to zero, while in India they were extremely subdued, down 64 percent relative to inflows recorded during the first quarter of 2008. In India, gross inflows were primarily composed of bank loans, with a trickling of equity inflows for the first quarter of 2009. Gross financial flows posted a recovery in India during April and May, as international investor confidence improved on early indications of a recovery for global growth and on expectations that the country is well-placed to benefit from an eventual turnaround. Markets have also reacted positively to the decisive election outcomes.

Figure A.15 JP Morgan Emerging Market Bond Index (EMBI), stripped spreads



Source: JP Morgan.

Capital inflows, including recent record-high FDI inflows, had become a significant source of finance for the rapid rise in regional investment (particularly for corporate capital expenditures in India) and a key driver of regional GDP growth over recent years (table A.13). As a consequence, their reversal has contributed to a sharp falloff in regional investment growth. For example, in Pakistan, FDI represented 13.4 percent of gross domestic investment in 2007 but has since declined by more than half, sapping badly needed capital for investment programs. In India, FDI inflows fell from 4.6 percent of gross domestic investment in the third quarter of 2008 to only 0.7 percent during the fourth quarter of the year. In contrast, in Bangladesh, FDI has been relatively resilient. Despite the crisis, inflows between July 2008 and February 2009 were twice as high as in the previous year and are projected to reach 1.4 percent of GDP in the current fiscal year.

On a net basis, total private and official capital flows to the region contracted by one-third

Table A.13 Net capital flows to South Asia

$ billions

Indicator	2002	2003	2004	2005	2006	2007	2008p
Current account balance	11.4	12.5	−1.0	−12.4	−16.6	−20.5	−59.1
as % of GDP	*1.8*	*1.6*	*−0.1*	*−1.2*	*−1.5*	*−1.5*	*−3.9*
Net private and official inflows	7.4	13.8	25.4	28.6	76.6	116.5	77.0
Net private inflows	9.7	15.5	24.3	25.4	71.9	112.5	66.5
Net equity inflows	7.7	13.4	16.8	22.7	33.6	66.0	65.5
Net FDI inflows	6.7	5.4	7.8	10.3	23.2	29.9	47.5
Net portfolio equity inflows	1.0	8.0	9.0	12.4	10.4	36.1	18.0
Net debt flows	−0.3	0.4	8.6	5.9	43.0	50.5	11.5
Official creditors	−2.3	−1.7	1.1	3.2	4.7	4.0	10.5
World Bank	−1.0	−0.1	2.1	2.3	1.9	1.9	1.4
IMF	0.1	−0.1	−0.3	0.0	−0.1	−0.1	3.2
Other official	−1.4	−1.5	−0.7	0.9	2.9	2.2	5.9
Private creditors	2.0	2.1	7.5	2.7	38.3	46.5	1.0
Net M-L term debt flows	0.2	1.4	4.9	1.1	20.3	27.2	1.8
Bonds	−0.7	−3.1	4.1	−2.9	4.3	9.5	1.5
Banks	1.0	4.5	1.1	4.1	16.0	17.7	5.9
Other private	−0.1	0.0	−0.3	−0.1	0.0	0.0	−5.6
Net short-term debt flows	1.8	0.7	2.6	1.6	18.0	19.3	−0.8
Balancing item[a]	8.2	9.6	3.0	−10.4	−19.8	5.0	−44.8
Change in reserves (− = increase)	−27.0	−35.9	−27.3	−5.8	−40.2	−101.0	27.0
Workers' remittances	24.1	30.4	28.7	33.1	39.6	52.1	66.0

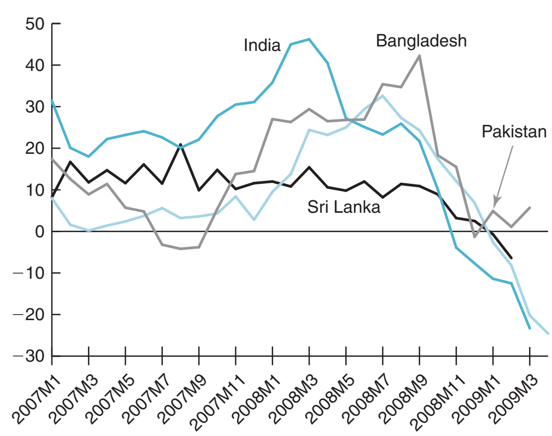
Source: World Bank.
Note:
p = projected.
a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries.

in 2008 from a record-high $116.5 billion in 2007. The contraction was led by a halving of portfolio equity inflows plunging private creditor bond issuance and syndicated bank loans, which contracted 84 percent and 67 percent, respectively. In contrast, during 2008, net FDI inflows grew 59 percent, coming to represent nearly two-thirds of total net inflows. This sharp increase in net FDI inflows was driven by surges in FDI to India and Pakistan—largely accumulated prior to the onset of the crisis—which registered gains of 52 percent and 59 percent, respectively.

Although less immediate than the transmission to the financial sector, the crisis has also had a severe impact on trade flows (figure A.16). This has become increasingly evident as the collapse in demand—most pronounced among the high-income countries—led to a falloff in exports that has become more pervasive across the global economy in the first quarter of 2009. In the six months through March 2009, regional merchandise exports in dollar terms fell by one-third from August 2008 pre-crisis levels. This stands in stark contrast to the 17 percent boom in export growth posted in the six months through March 2008. In India, Pakistan, and Sri Lanka, exports are contracting at double-digit annual rates (seasonally adjusted), down 33 percent, 27.5 percent (both as of March 2009), and 11.6 percent (as of February), respectively. In Bangladesh, exports averaged 3 percent annualized growth during the three months through January 2009, down from a peak of 72 percent in July 2008. Regional merchandise

Figure A.16 South Asian exports, values

3mma, y/y percent change



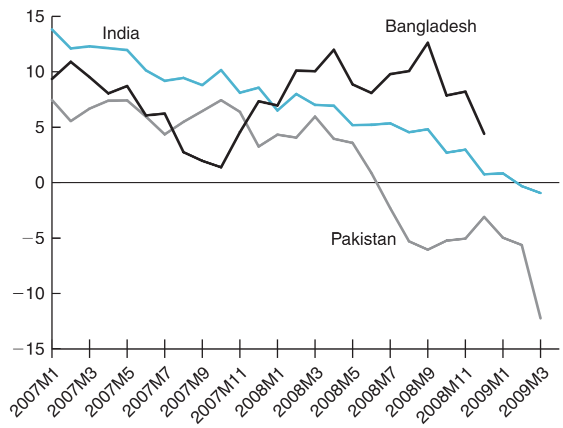
Source: World Bank.

imports have also contracted sharply, reflecting weakening domestic demand and the steep fall in international commodity prices, particularly oil. In the six months through March 2009, regional merchandise import values fell 30 percent from August 2008 pre-crisis levels, contracting just slightly less than the 33 percent recorded for exports over the same period. As the level of imports is significantly larger than exports in most countries, this has led to a general improvement in trade balances.

The marked deterioration in investor confidence, collapse in capital flows and plummeting external demand and trade are translating into a significant falloff in industrial production. High frequency data for South Asia (where available) show a decidedly sharp slowdown—if not outright contraction—in economic activity in recent months. Industrial production in India was down 2.4 percent in March 2009 from a year earlier and in Pakistan it was down 20.6 percent. In India, industrial activity has been generally trending downward since late 2006, recording a halving of growth to 4.4 percent in 2008, compared with outturns of 10 percent growth in both 2006 and 2007. In Pakistan, industrial production has posted negative readings since July 2008, now down 23 percent on an annualized basis as of March 2009, from an expansion of 5.5 percent during 2007. In Bangladesh, manufacturing output has slowed markedly, falling to 2.8 percent in December (year-on-year). During the fourth quarter of 2008, production slowed to 4.4 percent, nearly one-third the 12.6 percent pace recorded in the preceding quarter (figure A.17).

Figure A.17 Industrial production in South Asia

3-month moving average, y/y % change, seasonally adjusted



Sources: World Bank; Thomson Datastream.

Reflecting the collapse in food and fuel prices since the recent peak in mid-2008 and falling domestic demand, regional inflationary pressures have subsided and disinflation is evident across the region. Indeed, at one extreme, Afghanistan recently registered sharp deflation of 9.7 percent at an annual rate in April 2009. This compares with a recent high rate of inflation of 47.8 percent in May 2008 and reflects a sharp fall of food prices, as agricultural output has rebounded dramatically following the severe drought of last year.[11] Elsewhere in the region, the path of disinflation is particularly marked in Sri Lanka, where the consumer price index has come down by 25 percentage points since a recent peak in June 2008, reaching an annual rate of 3.3 percent in May 2009. Disinflationary pressures are less pronounced elsewhere in the region, although also clearly evident. In India, wholesale producer prices moderated sharply (reaching close to a zero annual rate in March), although consumer price inflation has proven more sticky downward (at just below 10 percent in March). In Bangladesh, inflation moderated to 5 percent in March 2009, down from a recent peak of 10.8 percent in August 2008. In the Maldives, inflation has also eased significantly to 11.2 percent in March, compared with a year ago, down from over 17 percent in July 2008. In Pakistan, notably, inflationary pressures have proven more stubborn. While the consumer price index in Pakistan is down by a marked 8 percentage points since August 2008, it remains in double digits at an annual rate of 17.2 percent in March 2009—among the highest rates in the world. Inflation in Nepal also remains at double-digit rates (14.4 percent as of March), with limited pass-through to consumers of lower international commodity prices.

In the immediate aftermath of the crisis, remittance inflows to South Asia rebounded. However, this was an apparently temporary phenomenon, because migrant workers who have lost foreign jobs are reported to be returning to their home countries with accumulated savings. More recently, remittance inflows have begun to dwindle, if not contract. For example, in Bangladesh, although remittance inflows have continued to grow, the rate of increase has declined sharply from an annual rate of 50 percent pace in August 2008 to only 9.6 percent in April 2009. In Sri Lanka, net remittances inflows declined 3.8 percent in March 2009 over a year ago, posting the fifth consecutive month of decline (on the heels of an 18 percent decline in February)—compared with over 22 percent annual growth rate for the third quarter of 2008.

Tourism, a key source of foreign exchange and economic growth in a number of regional economies, has also been negatively affected by the global crisis. In Bhutan, where tourism recently contributed 7 percent to GDP growth, tourist arrivals declined 37.8 percent (year-on-year) in March 2009, compared with growth of 40 percent in 2008. In the Maldives, tourism activity, which represents over one-third of GDP, has declined by about 10 percent. In Sri Lanka, the recently ended civil war contributed to an 11 percent fall in tourist arrivals during 2008. In Nepal, tourist arrivals are mixed, shrinking 17.6 percent in March 2009 over the previous year and growing 15.8 percent in April. Until recently, tourism revenues in Nepal were rising rapidly, up to 2.3 percent of GDP in fiscal 2007/08 (through June 2008), roughly double the outturn of the previous year on the improved security situation and emerging political stability.

The policy response by regional governments to the slowdown has been mixed. Most countries have relied on monetary measures, because fiscal space is highly constrained. Monetary policy has been eased in line with significantly lower inflationary pressures in most countries. In some cases, central banks rapidly introduced cuts to their benchmark rates after the credit crunch took hold in September 2008. Regional exchange rate policies have also shifted (notably in India, and more recently in Sri Lanka), where countries relatively quickly shifted from defending their currencies to a posture of conserving international reserve holdings. Currencies across the region depreciated against the dollar—a pattern evident across most developing countries—with international investors shifting to 'safe-haven' assets. Against a trade-weighted basket of currencies, in nominal terms, the extent of depreciation was more modest. For example, the Indian rupee depreciated by close to 20 percent against the US dollar from August 2008 to March 2009, but by only 6.6 percent against the trade-weighted basket of currencies over the same period. Adjusting for inflation rates across trade partners, the pattern is more mixed. For instance, the real effective exchange rates (REER) for the Indian rupee depreciated close to 9 percent between August 2008 and March 2009. In contrast, whereas Pakistan's rupee depreciated by 13.5 percent from August 2008 to March 2009 against the US dollar, the REER for the Pakistani rupee appreciated by just over 9 percent over the same period—in part reflecting its significantly higher inflationary pressures compared with its trade partners.

Among developing regions, South Asia entered the crisis with the least fiscal space. Before the onset of the crisis, general government fiscal deficits exceeded 5 percent of GDP in India, Pakistan, and Sri Lanka, and in the Maldives it exceeded 10 percent. In Bangladesh the deficit represented close to 4 percent of GDP. Despite limited resources, India, and Bangladesh have introduced fiscal stimulus packages to support domestic demand. In India, where fiscal policy had already become much more expansionary before the crisis, the government introduced a fiscal stimulus package in late 2008. The fiscal 2008/09 stimulus measures, geared at boosting demand, are equal to about 3.5 percent of India's GDP. As a consequence, the public sector deficit is projected to have increased from 5.8 percent of GDP in 2007 to 9.8 percent in 2008 and to over 12 percent as of early-2009. In Bangladesh, the government announced a stimulus package in late-April 2009, focused on providing assistance to the export sector, remittance flows, the annual development program, and investment projects. For the final quarter of fiscal 2008/09 ending in June 2009, stimulus spending from the package comes to 34 billion taka (or about 0.7 percent of 2007/08 GDP).

Meanwhile, in the Maldives, where the deficit has surged to an estimated 14 percent of GDP, the government is facing a fiscal crisis. The problem began building in 2005 in the aftermath of the December 2004 tsunami; as the government hiked outlays for reconstruction, many recurrent expenditures were increasingly unrelated to the reconstruction effort. While less extreme, fiscal pressures in Sri Lanka are also rising, in this case because of a steep decline in tax revenue. During the first two

Table A.14 South Asia forecast summary
annual percent change unless indicated otherwise

					Forecast		
Indicator	1995–2005[a]	2006	2007	2008	2009	2010	2011
GDP at market prices (2000 $)[b]	6.0	9.0	8.4	6.1	4.6	7.0	7.8
GDP in calendar year basis[c]	6.1	9.3	8.7	7.1	5.5	7.1	7.7
GDP per capita (units in $)	4.1	7.3	6.8	4.6	3.2	5.7	6.4
PPP GDP[c]	6.0	9.1	8.5	6.1	4.6	7.1	7.8
Private consumption	4.7	6.3	7.3	3.8	3.7	5.6	6.3
Public consumption	4.9	10.4	6.3	17.5	8.9	4.7	4.0
Fixed investment	8.0	14.7	13.6	11.4	6.3	10.6	11.5
Exports, GNFS[d]	10.9	17.4	8.1	10.4	−2.6	7.1	10.8
Imports, GNFS[d]	10.5	22.4	8.0	15.2	0.4	6.9	9.5
Net exports, contribution to growth	−0.2	−1.8	−0.4	−1.7	−0.7	−0.4	−0.4
Current account bal/GDP (%)	−0.6	−1.5	−1.5	−3.9	−1.7	−2.4	−2.5
GDP deflator (median, LCU)	6.3	6.7	7.8	12.0	9.7	5.1	5.5
Fiscal balance/GDP (%)	−7.7	−5.6	−6.4	−8.9	−10.9	−11.3	−9.2
Memo items: GDP							
South Asia excluding India	4.5	6.8	6.3	5.9	2.6	3.4	4.8
India	6.4	9.7	9.0	6.1	5.1	8.0	8.5
Pakistan	4.1	6.9	6.4	5.8	1.0	2.5	4.5
Bangladesh	5.3	6.6	6.4	6.2	5.0	4.5	5.0

Source: World Bank.
Note:
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 and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Nepal and Pakistan report FY2007/08 data in CY2008, while India reports FY2007/08 in CY2007.
a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services.

months of 2009, customs revenues are estimated to have shrunk by an annual rate of 50 percent.

The government of Pakistan is pursuing fiscal consolidation under the new IMF program reached in November 2008, with the burden of adjustment falling primarily on expenditures. As of December 2008 (halfway through the fiscal year), the government is on track to reduce the deficit to 4.3 percent of GDP from 7.4 percent a year earlier. Nepal is also bucking the trend of growing deficits and is actually expected to register a budget surplus, attributable to improved tax receipts (up 38 percent) and reduced capital expenditures.

Outlook

The outlook for regional growth remains highly uncertain, given the synchronized nature of the slowdown in growth across the globe. There are significant uncertainties tied to potential negative feedback loops between the real and financial sectors within and among countries and about how massive swings in commodity prices and exchange rate will ultimately affect different industries.

In the baseline scenario of a deep global recession followed by a slower-than-normal recovery, GDP growth in South Asia is projected to slow sharply to 5.5 percent in 2009, compared with 7.1 percent in 2008, on a calendar-year basis (table A.14). This compares favorably with the deceleration in growth of 4.7 percentage points projected for all developing countries and especially with Europe and Central Asia, Latin America and the Caribbean, and the OECD economies where output is projected to decline. All components of demand are being hit, with investment growth in particular being compressed by a contraction in external demand—with world trade projected to contract 10 percent in 2009. Private consumption is projected to decelerate in the wake of job losses, weaker remittance inflows, and heightened uncertainty. Government consumption is also projected to ease significantly, as a result of falling revenues and higher borrowing costs.

The regional fiscal balance is projected to deteriorate in 2009 to a deficit of 10.9 percent of GDP from an estimated 8.9 percent in 2008. On the expenditure side, higher borrowing costs will also come into play. Interest payments represent over 20 percent of total outlays for South Asia, by far the highest share among developing regions. India, Pakistan, and Sri Lanka are most vulnerable in this respect, with interest payments accounting for 20 percent, 26.3 percent, and nearly 29 percent of central government expenditures, respectively. On the revenue side, the collapse in trade activity is disproportionately hitting the revenue stream because taxes on international trade represent nearly 15 percent of revenues for the region, more than double the share for developing countries as a group. Bangladesh and the Maldives are particularly reliant on taxes on trade, which represent 33 percent and 30 percent of their total revenues, respectively.

In response to the collapse in external demand, regional exports of goods and services are projected to contract in 2009. All export categories are facing downward pressures; information technology industries (India) are considered especially vulnerable to the downturn in financial sector activity, and textile exports (Bangladesh, Pakistan, Sri Lanka) and tourism (Bhutan, Maldives, Nepal, and Sri Lanka) are vulnerable to cuts in discretionary spending. However, the regional current account deficit is projected to shrink to 1.7 percent of GDP in 2009 from 3.9 percent in 2008 because import expenditures are projected to slow sharply with weaker domestic demand growth, given the projected improvement in the terms of trade.

Weak economic conditions in high-income countries are projected to reduce remittances in labor-exporting countries in 2009. For example, foreign employment of Bangladeshi workers declined 27.4 percent in the eight months ending March 2009, compared with the same period in the preceding year. Inevitably this decline will result in a significant downward adjustment in remittance inflows to the country over the coming period. Although remittances are typically countercyclical—expatriates tend to send more money to their country of origin in times of need—the synchronized character of the global recession has made them procyclical. They represent a key supply of foreign exchange for regional economies—equivalent to 18 percent of GDP in Nepal, and 9 percent in both Bangladesh and Sri Lanka (2007), 4 percent in Pakistan, and 3 percent in India. In dollar terms, India received $27 billion in remittance inflows 2007, the highest level of inflows among developing countries. In Pakistan, remittances are estimated to have covered 47 percent of the surging current account deficit in fiscal year 2007/08.

Given the region's strong underlying growth dynamics, the negative impacts of the crisis are expected to begin to unwind in 2010 and 2011, with a projected rebound in GDP growth to 7.1 percent and 7.7 percent, respectively (table A.15). The relatively rapid recovery in regional activity to close to potential output growth comes despite the weak recovery projected elsewhere and reflects the lagged impact of recent monetary policy easing—with some potential for further interest rate cuts. Fiscal stimulus measures, where they are being pursued, should also provide a boost to household income and spending. Nevertheless, given the extent of the slowdown already absorbed, over the forecast period GDP growth will persist below the 8.3 percent average outturn in the five years through 2007.

Risks and uncertainties

Given the recent extremely high degree of volatility and massive shifts in demand across global markets, the outlook remains highly uncertain, particularly with respect to the timing of negative impacts and the rebound in activity. On the upside, some industries could benefit from shifts to lower-cost providers, such as for low-end textiles (Bangladesh) and outsourcing (India). In India, the reform agenda of the newly elected government has already improved investor sentiment and could yield an even stronger recovery in investment demand. In Sri Lanka, the recent end of the decades old civil war has buoyed domestic sentiment, which could also provide a fillip to growth and stronger than envisioned outcomes. A recovery of global growth that is stronger and more rapid than currently anticipated would support higher growth outcomes for South Asia, primarily through stronger external demand leading to higher export growth, and an improved risk appetite translating into higher capital inflows.

Although such upside outcomes are possible, downside risks are more pronounced. More negative growth outturns could be driven by a deeper

Table A.15 South Asia country forecasts

annual percent change unless indicated otherwise

Country/indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	2010	2011
Bangladesh							
GDP at market prices (2000 $)[b]	5.3	6.6	6.4	6.2	5.0	4.5	5.0
Current account bal/GDP (%)	−0.6	2.0	1.2	0.9	0.9	0.6	0.4
India							
GDP at market prices (2000 $)[b]	6.4	9.7	9.0	6.1	5.1	8.0	8.5
Current account bal/GDP (%)	−0.4	−1.0	−1.0	−3.4	−1.4	−2.3	−2.5
Nepal							
GDP at market prices (2000 $)[b]	4.1	2.8	3.2	4.7	3.0	3.5	4.0
Current account bal/GDP (%)	−3.5	0.0	−2.6	1.1	2.5	2.0	1.3
Pakistan							
GDP at market prices (2000 $)[b]	4.1	6.9	6.4	5.8	1.0	2.5	4.5
Current account bal/GDP (%)	−1.1	−5.4	−5.8	−8.4	−5.2	−4.5	−4.3
Sri Lanka							
GDP at market prices (2000 $)[b]	4.5	7.7	6.8	6.0	2.5	4.0	5.5
Current account bal/GDP (%)	−3.2	−5.7	−4.5	−9.3	−3.6	−3.8	−3.7
Memo items: GDP on calendar year basis							
South Asia	6.1	9.3	8.7	7.1	5.5	7.1	7.7
Bangladesh	5.0	6.3	6.5	6.3	5.6	4.7	4.8
India	6.6	9.9	9.3	7.3	5.9	8.1	8.5
Nepal	3.9	3.0	3.0	4.0	3.8	3.3	3.8
Pakistan	3.7	7.3	6.6	6.1	3.3	1.8	3.5

Source: World Bank.

Note:

In the current very volatile global environment, World Bank forecasts are frequently updated based on new information and changing assumptions. Moreover, the confidence intervals around these point forecasts are larger than usual. As a result, the 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.

Afghanistan, Bhutan, Maldives are not forecast owing to data limitations.

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 and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Nepal and Pakistan report FY2007/08 data in CY2008, while India reports FY2007/08 in CY2007.

GDP figures are presented in calendar years (CY) based on quarterly history for India. For Bangladesh, Nepal and Pakistan, CY data is calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity.

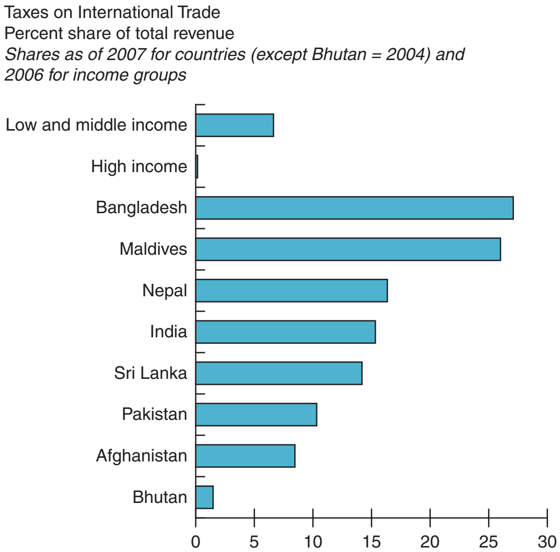
a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

b. GDP measured in constant 2000 U.S. dollars.

and more protracted global recession as outlined in chapter 1. This would lead to weaker external demand and a slower rebound in investment growth in South Asia. A protracted global recession would translate into a sharper decline in remittances than forecast, where Bangladesh, Nepal, and Sri Lanka, in particular, would be vulnerable. Additionally, in such a scenario, foreign assistance could be curbed, as high-income countries face their own mounting fiscal pressures. Afghanistan, in particular, would be exposed to significantly reduced aid flows, where aid accounts for two-thirds of central government expenditures. However, given its geopolitical importance, a falloff appears unlikely. Reduced aid would force a further contraction in fiscal spending especially in countries like Bangladesh, Pakistan, and Sri Lanka, where aid represents 21, 9, and 9 percent of central government expenditures.

On the domestic front, downside risks are tied in particular to the region's large fiscal obligations and relatively high reliance on taxes on trade and large subsidy programs, both of which would lead to heightened fiscal pressures in the event of a protracted global recession (figure A.18). Ongoing budgetary pressures are also likely to lead to cuts in development spending. Large fiscal deficits also represent a threat to long-term growth, weighing on potential output by crowding out private investment through the increased call on capital by the public sector (by foreign and domestic agents) and higher interest rates. Growing public sector obligations also are likely to translate into increased debt

Figure A.18 Government revenue in South Asia is very dependent on trade



Source: World Bank.

ratios, raising the risk of default. Central government debt represents 85 percent of GDP in Sri Lanka, over 70 percent in Bhutan, and close to 55 percent in India, the Maldives, and Pakistan.

With slower growth outturns and rising unemployment, higher poverty is a significant political, humanitarian and economic risk. South Asia's social protection spending is less developed than in East Asia and the Pacific and the Middle East and North Africa where social insurance spending represents 2.9 percent and 3 percent of GDP, respectively. In South Asia it is less than half that amount at 1.4 percent.

Separately, security threats, civil strife, and political uncertainties remain of concern across much of the region.

Sub-Saharan Africa

Recent developments

Although many countries in Sub-Saharan Africa have only weak links to international financial markets and relatively small manufacturing sectors, the financial crisis had immediate consequences for countries in Sub-Saharan Africa. Output and incomes in the region have been negatively affected by falling commodity prices, falling volume demand for metal and mineral exports, and declining remittances and tourism.

Partly because of increased uncertainty and the generalized flight to quality that immediately followed the outbreak of the crisis, but also because lower commodity prices have reduced the attractiveness of private investment in the region, capital flows to the region declined sharply (table A.16). Some $5.7 billion in portfolio investment left South Africa during the fourth quarter of 2008, up from a $1 billion outflow in the third quarter. In Uganda the outflow was much smaller—$119 million—but contrasted even more sharply with a $9 million inflow in the third quarter of 2008. In South Africa, foreign direct investment fell to 3.3 billion rand in the fourth quarter from 22.4 billion rand in the third quarter.

The same factors that precipitated the reversal in capital flows also saw borrowing costs rise sharply for those few countries in the region that have access to international bond markets. Initially, sovereign spreads jumped as high as 1,900 basis points in the case of Ghana, but have since declined (figure A.19). Nevertheless, sovereign spreads for Ghana and Gabon remain between 220 and 375 basis points above their pre-September 15th level. For South Africa, spreads remain 50 basis points higher. Partly as a result of sharp increases in external borrowing costs and unwillingness to lend, many countries and firms postponed issuing new bonds, with emerging frontier economies in the region being the most affected. While official assistance to the region has increased, the additional aid has not been sufficient to close the widening financing gap. For the region as a whole the financing gap is expected to lie between $30 billion and $45 billion in 2009 (see chapter 3).

Responding to the outflow of capital, currencies of countries in the region depreciated sharply against the dollar, as did those of virtually every other country in the world, with the average depreciation in countries in the region amounting to 25 percent. However, on a trade-weighted basis the depreciations were milder, precisely because all countries depreciated. Of the countries with available data only Lesotho, South Africa, and Zambia depreciated by 10 percent or more.

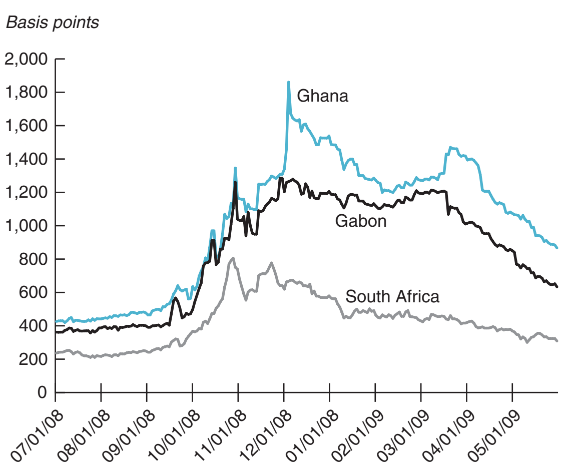
The rapid drop in global demand for industrial products accelerated the decline in global commodity prices (see chapter 1). For African

Table A.16 Net capital flows to Sub-Saharan Africa
$ billions

Indicator	2002	2003	2004	2005	2006	2007	2008p
Current account balance	−6.2	−9.2	−1.0	6.4	6.9	−23.2	−18.7
as % of GDP	*−1.7*	*−2.1*	*−0.2*	*1.0*	*1.0*	*−2.7*	*−1.9*
Net private and official inflows	9.6	15.0	23.2	31.8	38.0	60.4	38.7
Net private inflows	6.9	13.5	20.9	32.8	40.3	55.5	35.9
Net equity inflows	9.8	13.6	16.6	24.2	33.5	42.1	35.6
Net FDI inflows	10.2	12.9	9.9	16.8	18.5	28.6	32.4
Net portfolio equity inflows	−0.4	0.7	6.7	7.4	15.0	13.5	3.2
Net debt flows	−0.2	1.4	6.6	7.6	4.5	18.3	3.1
Official creditors	2.7	1.5	2.3	−1.0	−2.3	4.9	2.8
World Bank	2.2	2.2	2.5	2.4	2.0	2.4	1.7
IMF	0.5	0.0	−0.1	−0.4	−0.1	0.1	0.7
Other official	0.0	−0.7	−0.1	−3.0	−4.2	2.4	0.4
Private creditors	−2.9	−0.1	4.3	8.6	6.8	13.4	0.3
Net M-L term debt flows	−1.1	0.9	2.7	4.9	−2.1	7.9	1.3
Bonds	1.5	0.4	0.6	1.3	0.3	6.6	−1.0
Banks	−1.9	1.2	2.4	3.8	−1.7	1.9	2.7
Other private	−0.7	−0.7	−0.3	−0.2	−0.7	−0.6	−0.4
Net short-term debt flows	−1.8	−1.0	1.6	3.7	8.9	5.5	−1.0
Balancing item[a]	−3.2	−2.0	−0.6	−18.6	−13.2	−11.0	−0.9
Change in reserves (− = increase)	−0.2	−3.8	−21.7	−19.5	−31.7	−26.1	−19.0
Workers' remittances	5.0	6.0	8.0	9.4	12.9	18.6	19.8

Source: World Bank.
Note:
p = projected.
a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries.

Figure A.19 Bond spreads in Sub-Saharan Africa widened sharply in the wake of the global financial crisis



Source: JP Morgan-Chase.

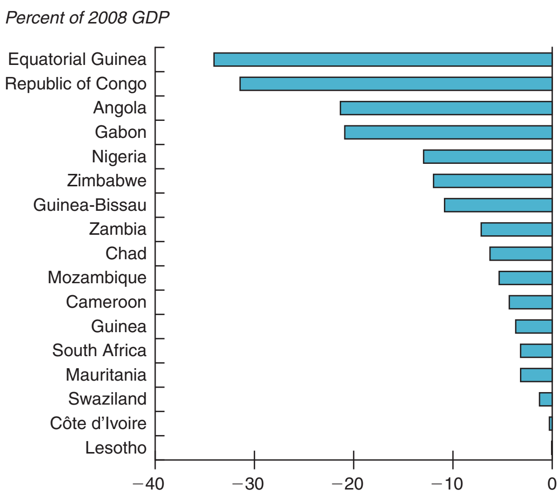
commodity exporters, these lower prices represented a significant loss in incomes and induced a sharp deterioration in their current account positions. For oil importers, however, lower fuel prices represented a favorable terms-of-trade development. Overall, the terms of trade deteriorated in 18 of 44 countries in the region between July 2008 and May 2009, with income losses in excess of 10 percent of GDP in 7 of them (figure A.20). Another 26 countries recorded improved terms of trade, largely because of lower fuel prices. Particularly strong gains came in countries such as Cape Verde, Eritrea, Seychelles, and Togo that rely heavily on oil imports to satisfy domestic demand.

Weaker economic conditions in high-income countries have also negatively affected remittances and tourism, two important sources of foreign currency for countries in Sub-Saharan Africa. Tourism revenues weakened in the final quarter of 2008 and in the first few months of 2009, and remittances are projected to decline by some 4.4 percent in 2009.

Despite currency depreciations (which tend to increase the price of imported goods), inflation in more than half of the countries in the region for which data are available decelerated by more than 2 percentage points between September 2008 and March 2009, mainly because of falling oil prices. Internationally traded food prices have also declined, but food prices in individual countries have responded with a lag, and year-over-year measures of food inflation remain high in many countries.

Figure A.20 Terms of trade losses since July have been significant in some countries as commodity prices plunged

Terms of trade impact of changes in international prices between July 2008 and May 2009



Source: World Bank.

For countries in west Africa, both overall inflation and food inflation came down sharply. For example in Côte d'Ivoire, consumer price inflation decelerated to bel\ow 4 percent in March (year-on-year) from almost 9.6 percent in September, as food inflation eased to 5.4 percent from close to 15 percent. Similarly in Mali, consumer price inflation diminished to 5.4 percent from 12.3 percent as food inflation eased to 6.4 percent from a peak of 17.5 percent in July.

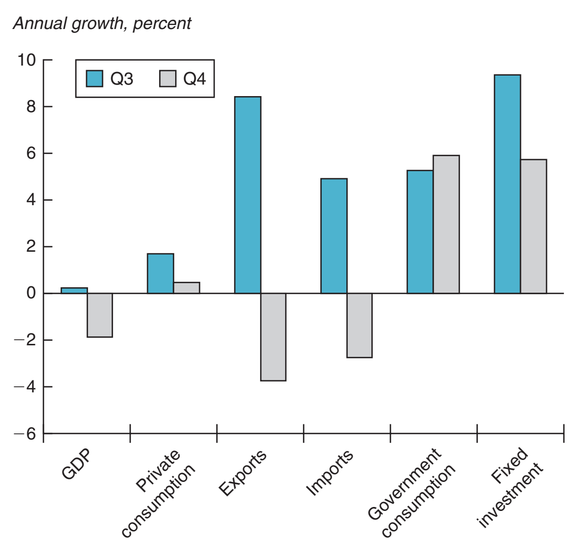
Food price inflation accelerated or remained high in many east African countries, including Kenya, Rwanda, Tanzania, and Uganda. In Ethiopia, food price inflation slowed sharply to 26.5 percent in March from 80 percent in September, bringing overall inflation down to 23.7 percent from 60 percent.

In southern Africa, food inflation remains above 20 percent in Botswana, keeping overall inflation high at 11.7 percent. In Zambia food inflation contributed 7.9 percentage points to the 14.7 percent inflation rate in May. In South Africa, overall inflation also remains high at more than 8 percent, pushed by a 15.7 percent surge in food and nonalcoholic beverage prices that contributed 2.4 percentage points to overall inflation in January 2009 and by rising housing and utility costs that contributed a similar amount to headline inflation.

The credit squeeze, coupled with a rapid drop in consumer and investor confidence, was reflected in a quick decline both in world demand for the exports of African countries and in domestic demand for investment and for consumer durable goods. The fall in investment activity was especially pronounced in extractive industries, both because of reduced commodity prices and because of reliance on external financing sources. The sharpest decline was recorded in spending on durable goods (transport equipment in particular). In South Africa, growth in investment activity more than halved to 3 percent (on a seasonally adjusted annual rate) from 7.3 percent, mainly because of government restraint. Private sector investment (mainly reflecting mining sector activity) continued to expand at a brisk 2.9 percent pace, about the same rate as in the third quarter.

In South Africa, tighter credit conditions and rising interest rates coupled with increasing unemployment have been reflected in declining consumer confidence. This, together with cuts in consumer wealth due to falling house and equity prices yielded a 2.7 percent (saar) contraction in household consumption expenditure in the fourth quarter of 2008 (figure A.21). This followed a

Figure A.21 External trade and private consumption deteriorated markedly in the fourth quarter of 2008 in South Africa



Source: South Africa Reserve Bank.

0.9 percent contraction the previous quarter and marked the first time since 1992 that consumer spending contracted for two consecutive quarters.

The sharp decline in global trade during the fourth quarter of 2008 and into 2009 was reflected in much weaker export growth or outright contraction for Sub-Saharan African countries, in particular for countries with large mining operations like Botswana, Namibia, and Zambia. In South Africa, merchandise exports declined 6.3 percent in the fourth quarter (year-on-year).

Weak demand, especially for durables and cars, caused industrial output to fall in many countries. Industrial production fell by an annualized 22.1 percent in the first quarter in South Africa, while in Angola it fell by more than10 percent between September 2008 and January 2009. Mining sectors also contracted markedly as external demand plunged. In South Africa the mining sector contracted at an annualized 32.8 percent pace in the first quarter. In Zambia weaker demand for copper led to mine closures. In Namibia and Botswana (long a star performer in the region), low demand for diamonds forced mine closures, leading to sharp declines in fourth-quarter output. In Lesotho, the contraction in the U.S. economy has badly affected the manufacturing sector, which benefited under the African Growth and Opportunity Act in previous years. Exports from Lesotho, Namibia, and Swaziland were also hit hard by the contraction in South Africa, which resulted in a reduction in workers' remittances that accounted for 30 percent of GDP in 2008 in the case of Lesotho.

In Mozambique, the rehabilitation of roads and bridges continues to be a major growth stimulus for the country's secondary sector; construction output accelerated to 20.1 percent, from 18.7 percent (year-on-year) in the second quarter of 2008. However, the sharp fall in aluminum prices and in demand from the auto sector is cutting into industrial output. Côte d'Ivoire continued its economic recovery in 2008, with growth accelerating to 2.5 percent from 1.5 percent previously, pushed by a strong rebound in the construction, food output, and telecommunications sectors. Other countries in the West Africa Economic and Monetary Union recorded an acceleration in growth, helped by improved weather conditions that bolstered output in the primary sectors, as well as by improvements in sociopolitical conditions in Côte d'Ivoire. Some fragile countries are continuing to enjoy a peace dividend.

Fiscal balances in oil-importing countries deteriorated during the course of 2008 as governments took a series of measures to delay the pass-through to domestic prices of higher prices for food and fuel imports in the first half of the year. The fiscal costs of these policies may have averaged 1 percent of GDP in 2008.[12] Sharply falling activity beginning in the fourth quarter of the year led to a further deterioration in fiscal balances, as falling industrial and trade activity and declining commodity prices disproportionately affect the formal sectors from which most tax revenues derive. The deterioration in fiscal positions in oil-importing countries averaged 1.1 percent of GDP and is now limiting the fiscal space for countercyclical policies. In Ghana, expansionary fiscal policy in an election year caused the budget deficit net of grants to almost double. Despite rising non-oil budget deficits, the fiscal positions of oil-exporting countries improved by about 3 percent of GDP in 2008, boosted by high oil prices. However, the sharp decline in oil prices is now undermining government revenues in oil-exporting countries. For example, tax revenues in Nigeria were well below the government's target in the first quarter of 2009, reducing the space for fiscal stimulus.

Current account positions in oil-importing countries other than South Africa deteriorated by 3.4 percent of their GDP in 2008 as a result of terms-of-trade losses, sharp drops in exports in the last quarter of 2008, lower remittances, declining tourism revenues, and lower aid inflows. Despite lower oil prices in the second half of 2008, oil exporters in the region saw their current account surpluses improve by 2.6 percentage points to 6.2 percent of their GDP. In South Africa, the current account deficit narrowed to 5.8 percent of GDP in the fourth quarter of 2008, from 7.8 percent of GDP in the previous quarter, as the trade deficit almost halved.

Outlook

Growth in Sub-Saharan Africa is expected to decelerate markedly in 2009, to 1.0 percent from an estimated 4.8 percent in 2008. GDP in South Africa will actually contract by 1.5 percent (table A.17). Growth in oil-importing countries other than South Africa is projected to decelerate to 2.7 percent from an estimated 5.3 percent in 2008, while

Table A.17 Sub-Saharan Africa forecast summary
annual percent change unless indicated otherwise

Indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	2010	2011
GDP at market prices (2000 $)[b]	3.9	6.0	6.2	4.8	1.0	3.7	5.2
GDP per capita (units in $)	1.3	3.5	3.8	2.8	−0.9	1.8	3.2
PPP GDP[c]	3.9	6.3	6.6	5.1	1.1	3.9	5.4
Private consumption	2.7	6.5	7.1	3.3	0.8	3.5	4.7
Public consumption	5.3	6.0	6.2	5.8	5.5	6.1	5.8
Fixed investment	7.4	18.7	20.5	12.4	−2.6	3.9	7.7
Exports, GNFS[d]	4.8	5.1	4.1	4.7	−3.2	4.2	6.4
Imports, GNFS[d]	6.2	12.7	11.9	6.6	−3.0	4.7	7.3
Net exports, contribution to growth	−0.4	−2.9	−3.2	−1.2	0.2	−0.6	−0.9
Current account bal/GDP (%)	−1.8	1.0	−2.7	−1.9	−8.1	−7.0	−6.2
GDP deflator (median, LCU)	7.3	7.7	7.3	10.2	5.5	5.0	4.5
Fiscal balance/GDP (%)	−3.0	1.5	−0.8	0.5	−5.0	−3.4	−1.9
Memo items: GDP							
SSA excluding South Africa	4.5	6.2	7.0	5.9	2.4	4.3	5.7
Oil exporters	4.4	7.1	7.9	6.3	2.2	4.4	6.3
CFA countries	4.1	2.2	3.5	4.2	2.3	3.6	4.8
South Africa	3.3	5.3	5.1	3.1	−1.5	2.6	4.1
Nigeria	4.6	6.2	6.3	5.3	2.9	3.6	5.6
Kenya	2.9	6.1	7.1	1.7	2.6	3.4	4.9

Source: World Bank.
Note:
a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services.

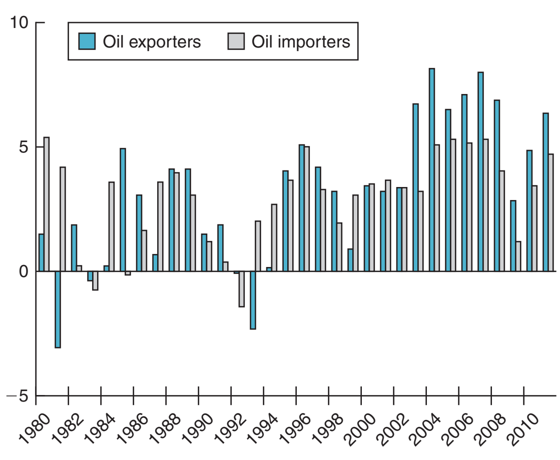
for regional oil exporters growth is expected to ease to 2.2 percent, down sharply from the robust 6.3 percent pace in 2008 (figure A.22).

Much of the decline in growth for 2009 reflects the sharp deceleration in investment and consumption activity that has already occurred, and growth should strengthen in most countries during the second half of 2009. The projected recovery is expected to be relatively slow, partly because of a muted recovery in global export demand, but also because mounting unemployment, lower incomes, and continued financial sector weakness will prevent consumer and investment demand from rebounding quickly. Government spending, although projected to rise, is not expected to have a major offsetting influence on domestic demand, except perhaps in oil-exporting countries where fiscal surpluses provide additional scope for a more expansionary course. Indeed, in many oil-importing countries automatic stabilizers are small given the small share of government revenues in total GDP, and the fiscal space for discretionary spending is limited by tight financing conditions.

Some of the biggest slowdowns are projected to occur in smaller open economies like Botswana, Mauritius, and Seychelles. In Botswana, contraction in mining output is expected to cause an 8 percent decline in overall GDP, while Seychelles' economy will contract by more than 10 percent.

Figure A.22 Economic growth decelerated abruptly in 2009 to the lowest level in almost a decade in Sub-Saharan Africa

Annual growth, percent



Source: World Bank.

Côte d'Ivoire is expected to buck the trend toward growth deceleration, because growth is slowly returning after several years of conflict-induced slowdown. GDP is projected to accelerate slightly in 2009, as exports rise, and construction, food production, and government spending on basic infrastructure, poverty reduction, and other post-conflict needs will make significant contributions to growth.

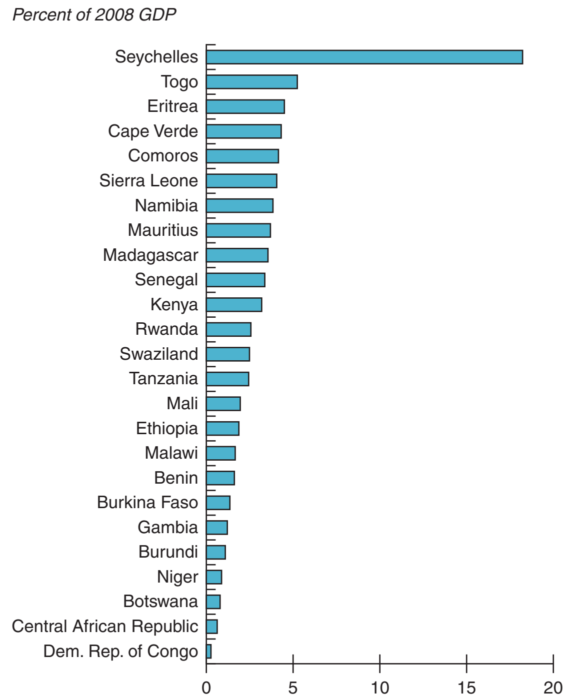
Current account positions in oil-exporting countries are expected to deteriorate sharply due to lower commodity prices in 2009. These will cause large swings in trade balances, only partially offset by profit repatriation by oil companies (figure A.23). Oil-importing countries in the region stand to gain from lower prices for imported fuel, although lower remittances, services revenues, and current transfer inflows will keep the current account balances at relatively high levels (figure A.24).

Current transfers to the region are projected to weaken further, as remittances and aid flows suffer. In Ghana, for example, net official transfers averaged $17.6 million in the last two quarters compared to $223.5 million in the first half of the year. In Uganda, current official transfers were down 7.8 percent year-on-year in the last quarter of 2008. Globally, remittances, which in Sub-Saharan Africa were equal to about two-thirds of FDI and about half of ODA in 2008, are projected to decline by about 4.4 percent in 2009, before recovering in 2010. Countries like Lesotho, Sierra Leone, Cape Verde, Senegal, and Togo, where remittances account for more than 8 percent of GDP will suffer the most.

Fiscal balances throughout the region are projected to weaken further in 2009 due to low activity levels. While output growth will pick up in 2010 and 2011, the slow pace of the recovery will mean that spare capacity, heightened unemployment and weak government revenues will continue to characterize the economic situation throughout the projection period. Oil exporting countries will see their fiscal balances turn to deficits in 2009, to the tune of 4.0 percent of their GDP, as oil prices are markedly lower and as export volumes decline. Meanwhile in oil importing countries fiscal deficits will rise by 2.5 percentage points to close to 6 percent of GDP in 2009, before narrowing moderately over the next two years.

Figure A.24 Terms of trade gains expected among oil-importing countries in 2009

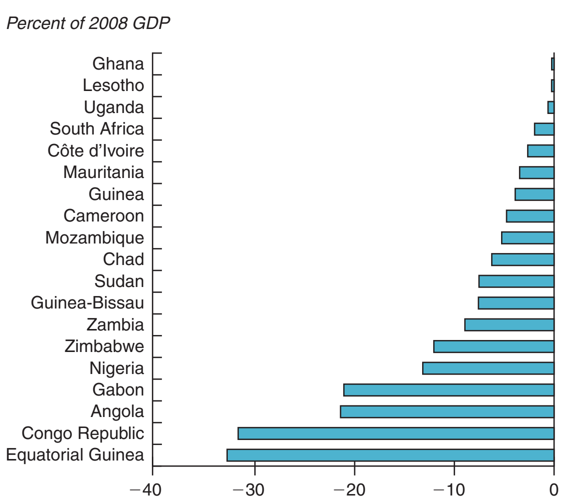
Estimated terms of trade impact from changes in international prices between 2008 and 2009



Source: World Bank.

Figure A.23 Large terms of trade losses expected in countries exporting minerals and oil

Estimated terms of trade impact from changes in international prices between 2008 and 2009



Source: World Bank.

Prospects for 2010 and 2011 are for a slow recovery in Sub-Saharan Africa with growth picking up to about 3.7 percent in 2010 and 5.2 percent in 2011, as both domestic and external demand begin to recover. The overall pattern is similar for both oil-exporting and oil-importing countries (excluding South Africa), with growth in 2010 projected to reach 4.4 percent for each group, accelerating to 6.3 percent and 5.2 percent in 2011, respectively (table A.18).

The recovery in South Africa should follow a similar profile as for the rest of the continent, with output projected to increase by 2.6 percent in 2010 and by 4.1 percent in 2011, as weak financial conditions and excess capacity in many sectors mitigate against a sharp rebound in either investment or consumption. In Nigeria, one of the countries in Africa hit the hardest by the global financial crisis, the banking system is under stress, with some estimates suggesting as much as half of bank capital ($10 billion) is tied up in questionable assets.[13] Credit conditions are therefore expected to be particularly tight there and will likely further undermine growth in the non-oil sector. Only higher government spending is projected to prevent the economy from sliding even further.

Risks and uncertainties

The risks for the Sub-Saharan Africa region are heavily tilted to the downside. A deeper and prolonged global recession would slow the recovery in external demand, prevent a recovery in commodity prices, and further depress tourism revenues, remittances, aid, and private capital flows. Such a scenario (described in chapter 1) would imply additional widening of the output gap in the region by about 3 percentage points and a continuation of recession-like conditions beyond the projection period.

Sharp contractions in remittances and official aid flows also represent a risk for the region because many Sub-Saharan countries depend heavily

Table A.18 Sub-Saharan Africa country forecasts
annual percent change unless indicated otherwise

Country/indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	Forecast 2010	Forecast 2011
Angola							
GDP at market prices (2000 $)[b]	8.3	18.6	23.4	14.3	−1.9	6.5	10.7
Current account bal/GDP (%)	−2.4	16.9	15.3	19.4	−5.8	−0.1	2.2
Benin							
GDP at market prices (2000 $)[b]	4.6	3.8	4.6	4.9	2.9	3.7	5.5
Current account bal/GDP (%)	−7.2	−7.1	−10.9	−12.3	−10.7	−9.9	−9.1
Botswana							
GDP at market prices (2000 $)[b]	6.9	3.4	3.8	3.0	−8.0	4.8	3.1
Current account bal/GDP (%)	8.1	18.0	18.0	5.2	−7.7	−2.5	−2.2
Burkina Faso							
GDP at market prices (2000 $)[b]	5.2	5.5	4.0	4.7	3.6	4.8	5.9
Current account bal/GDP (%)	−10.1	−13.1	−13.6	−14.5	−13.9	−13.4	−13.8
Burundi							
GDP at market prices (2000 $)[b]	1.0	5.1	3.6	4.4	2.6	3.7	5.1
Current account bal/GDP (%)	−10.8	−35.9	−29.6	−33.3	−27.8	−26.6	−26.0
Cape Verde							
GDP at market prices (2000 $)[b]	5.2	10.7	7.8	5.9	3.8	4.4	5.4
Current account bal/GDP (%)	−10.0	−3.4	−13.4	−17.8	−19.2	−17.9	−18.4
Cameroon							
GDP at market prices (2000 $)[b]	4.2	3.2	3.3	3.9	2.0	2.7	3.5
Current account bal/GDP (%)	−3.5	−0.8	−5.0	−1.2	−6.1	−5.6	−5.1
Central African Republic							
GDP at market prices (2000 $)[b]	0.7	4.0	4.2	3.4	2.7	3.4	4.3
Current account bal/GDP (%)	−4.4	−7.6	−8.5	−9.0	−7.7	−8.0	−8.3
Chad							
GDP at market prices (2000 $)[b]	8.6	0.2	0.2	0.2	0.4	2.1	3.0
Current account bal/GDP (%)	−24.2	−7.2	−11.5	−9.0	−11.5	−9.7	−10.2

(*Continues*)

Table A.18 (*Continued*)

annual percent change unless indicated otherwise

Country/indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	2010	2011
Comoros							
GDP at market prices (2000 $)[b]	2.1	1.2	−1.0	0.6	0.2	2.1	2.5
Current account bal/GDP (%)	−6.3	−5.5	−8.1	−12.9	−8.4	−9.6	−10.8
Congo, Dem. Rep.							
GDP at market prices (2000 $)[b]	−0.1	5.6	6.3	7.1	3.0	5.3	7.1
Current account bal/GDP (%)	−1.3	−9.8	−12.2	−19.8	−27.9	−27.9	−27.3
Congo, Rep.							
GDP at market prices (2000 $)[b]	3.4	6.2	−1.6	6.1	7.4	9.7	10.7
Current account bal/GDP (%)	−2.2	1.7	−25.4	−6.4	−17.7	−6.4	−0.0
Côte d'Ivoire							
GDP at market prices (2000 $)[b]	1.5	−0.3	1.5	2.5	3.1	4.2	4.9
Current account bal/GDP (%)	−0.2	2.8	1.0	0.9	0.7	−1.6	−3.2
Eritrea							
GDP at market prices (2000 $)[b]	2.6	−1.0	1.3	1.2	1.7	4.2	4.4
Current account bal/GDP (%)	−14.7	−24.1	−17.8	−18.2	−9.3	−8.6	−8.2
Ethiopia							
GDP at market prices (2000 $)[b]	5.5	10.9	11.5	11.1	6.0	7.0	7.3
Current account bal/GDP (%)	−3.3	−12.0	−10.0	−10.5	−9.9	−9.4	−8.6
Gabon							
GDP at market prices (2000 $)[b]	1.0	1.2	5.6	3.0	0.2	2.3	3.5
Current account bal/GDP (%)	10.6	15.6	16.2	16.8	−2.4	−1.6	−0.2
Gambia, The							
GDP at market prices (2000 $)[b]	4.2	6.5	7.0	5.3	4.5	5.1	5.4
Current account bal/GDP (%)	−5.3	−14.2	−12.1	−15.2	−15.8	−16.2	−16.3
Ghana							
GDP at market prices (2000 $)[b]	4.7	6.4	6.1	7.1	4.1	4.6	5.4
Current account bal/GDP (%)	−5.4	−8.1	−14.3	−20.5	−14.1	−13.7	−14.5
Guinea							
GDP at market prices (2000 $)[b]	3.7	2.2	1.8	3.0	2.0	2.6	4.8
Current account bal/GDP (%)	−4.8	−1.8	−6.8	−10.3	−5.7	−4.4	−3.5
Guinea-Bissau							
GDP at market prices (2000 $)[b]	−0.3	1.8	2.7	2.9	2.1	3.4	3.4
Current account bal/GDP (%)	−13.4	−19.1	−10.0	−12.9	−16.5	−15.1	−15.1
Kenya							
GDP at market prices (2000 $)[b]	2.9	6.1	7.1	1.7	2.6	3.4	4.9
Current account bal/GDP (%)	−7.5	−2.0	−4.7	−6.8	−4.8	−5.0	−4.5
Lesotho							
GDP at market prices (2000 $)[b]	3.0	7.2	4.9	4.1	0.9	2.2	3.6
Current account bal/GDP (%)	−20.6	4.4	−8.4	−17.0	−16.4	−16.9	−16.7
Madagascar							
GDP at market prices (2000 $)[b]	3.1	4.9	6.5	6.0	3.5	4.8	6.2
Current account bal/GDP (%)	−8.6	−9.6	−14.0	−20.6	−13.8	−13.0	−11.4
Malawi							
GDP at market prices (2000 $)[b]	2.4	7.9	7.4	6.9	6.6	5.6	4.6
Current account bal/GDP (%)	−5.7	−16.7	−15.5	−17.5	−13.5	−13.4	−12.2
Mali							
GDP at market prices (2000 $)[b]	5.8	5.3	4.3	5.0	3.7	5.1	5.3
Current account bal/GDP (%)	−8.7	−5.7	−8.3	−9.9	−8.3	−10.2	−11.3
Mauritania							
GDP at market prices (2000 $)[b]	4.3	11.7	1.0	2.2	2.7	4.1	5.0
Current account bal/GDP (%)	−6.3	2.8	−7.0	−11.0	−11.4	−16.2	−16.4
Mauritius							
GDP at market prices (2000 $)[b]	4.8	3.5	4.2	5.8	2.4	2.8	3.7
Current account bal/GDP (%)	0.1	−9.5	−8.4	−8.8	−10.0	−10.9	−8.4
Mozambique							
GDP at market prices (2000 $)[b]	8.0	8.0	7.0	6.4	4.5	4.9	5.9
Current account bal/GDP (%)	−15.1	−11.3	−16.1	−19.3	−19.7	−16.0	−11.5
Namibia							

(Continues)

Table A.18 Sub-Saharan Africa country forecasts (*Continued*)

annual percent change unless indicated otherwise

Country/indicator	1995–2005[a]	2006	2007	2008	Forecast 2009	2010	2011
GDP at market prices (2000 $)[b]	4.1	2.9	5.9	2.7	−1.7	2.1	3.3
Current account bal/GDP (%)	3.2	3.6	−2.3	−10.6	−11.8	−10.5	−10.9
Niger							
GDP at market prices (2000 $)[b]	3.5	5.2	3.2	6.9	3.6	4.9	5.3
Current account bal/GDP (%)	−7.1	−8.6	−10.0	−13.3	−16.3	−15.9	−16.6
Nigeria							
GDP at market prices (2000 $)[b]	4.6	6.2	6.3	5.3	2.9	3.6	5.6
Current account bal/GDP (%)	5.4	20.6	4.7	6.1	−8.7	−6.2	−4.6
Rwanda							
GDP at market prices (2000 $)[b]	8.3	7.2	7.9	8.4	5.1	5.5	5.8
Current account bal/GDP (%)	−4.1	−12.3	−12.7	−17.6	−13.4	−13.2	−12.9
Senegal							
GDP at market prices (2000 $)[b]	4.4	2.3	4.8	4.5	3.1	3.8	5.0
Current account bal/GDP (%)	−5.7	−9.4	−10.0	−12.2	−13.6	−13.8	−14.3
Seychelles							
GDP at market prices (2000 $)[b]	2.2	5.3	8.3	0.1	−10.5	2.7	3.7
Current account bal/GDP (%)	−13.8	−18.7	−22.2	−32.0	−29.7	−24.0	−20.4
Sierra Leone							
GDP at market prices (2000 $)[b]	4.5	7.4	6.5	5.8	4.0	5.5	6.5
Current account bal/GDP (%)	−12.4	−9.5	−8.0	−11.2	−6.6	−6.9	−7.6
South Africa							
GDP at market prices (2000 $)[b]	3.3	5.3	5.1	3.1	−1.5	2.6	4.1
Current account bal/GDP (%)	−1.7	−6.6	−7.2	−7.4	−6.1	−6.4	−5.9
Sudan							
GDP at market prices (2000 $)[b]	6.2	11.3	10.2	6.1	4.1	5.3	6.2
Current account bal/GDP (%)	−6.6	−14.3	−5.9	−4.4	−7.5	−6.6	−5.7
Swaziland							
GDP at market prices (2000 $)[b]	1.9	2.8	2.4	2.2	0.8	1.2	1.5
Current account bal/GDP (%)	−1.0	−14.0	−21.3	−27.4	−23.2	−22.7	−22.3
Tanzania							
GDP at market prices (2000 $)[b]	5.4	6.7	7.1	7.5	4.8	5.5	6.4
Current account bal/GDP (%)	−6.3	−8.3	−11.1	−12.0	−10.0	−10.3	−10.9
Togo							
GDP at market prices (2000 $)[b]	3.3	4.1	2.0	0.8	2.2	2.4	3.3
Current account bal/GDP (%)	−10.7	−9.9	−7.5	−9.6	−9.3	−9.8	−9.5
Uganda							
GDP at market prices (2000 $)[b]	6.1	10.8	8.6	9.5	5.0	5.6	6.6
Current account bal/GDP (%)	−7.0	−7.1	−6.9	−7.7	−9.5	−9.3	−9.4
Zambia							
GDP at market prices (2000 $)[b]	3.8	6.2	6.3	6.0	3.0	4.9	5.5
Current account bal/GDP (%)	−12.8	−0.7	−6.1	−9.8	−11.5	−12.5	−12.0
Zimbabwe							
GDP at market prices (2000 $)[b]	−2.4	−4.2	−6.3	−4.9	−4.6	−3.1	−2.1
Current account bal/GDP (%)	0.5	30.7	42.1	28.3	16.3	13.5	15.6

Source: World Bank.
Note:
In the current very volatile global environment, World Bank forecasts are frequently updated based on new information and changing assumptions. Moreover, the confidence intervals around these point forecasts are larger than usual. As a result, the 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, Mayotte, Somalia, and São Tome and Principe are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.

on aid flows for budget support and because remittances represent an important cushion against poverty. The shortfalls in aid would intensify the fiscal problems, limiting further the fiscal space for countercyclical policies at a time when they are especially needed.

An uncertainty clouding the medium term derives from the sharp increase in developed-country borrowing following the crisis and the possibility that such borrowing crowds frontier economies in the region out of international capital markets, leaving countries with the large external financing needs such as Ghana, Kenya, Mauritius, Nigeria, South Africa, and Tanzania vulnerable.

Among countries with relatively developed financial markets,[14] the sharp slowdown (or even outright contraction in economic activity) could result in a big increase in the number of nonperforming loans—especially in countries where credit to domestic commodity exporters represents a large share of total credit extended. This in turn may require government support to financial institutions and depositors adding further pressures on government finances.

Plummeting government revenues heighten the risk of large increases in public debt to unsustainable levels. This will have long-term consequences for growth, causing interest rates to rise, crowding out the private sector, and undermining long-term growth potential. This risk should be balanced against the acute need for fiscal stimulus in the short term to help boost domestic demand and safeguard growth at a time of extremely weak external demand. It is very important that at a time of scarce resources, spending undertaken by governments be the most efficient in terms of supporting growth, addressing bottle-necks, and increasing long-run productivity.

Notes

1. Migrant remittances are defined as the sum of workers' remittances, compensation of employees, and migrant transfers.

2. International Organization for Migration 2008 survey.

3. *Migrants return home to Tajikistan,* BBC, April 28, 2009.

4. Short-term debt due in 2009 is calculated based on the Bank of International Settlements reporting system and data released in May 2009.

5. In consistency with the methodology explained in chapter 3, the financing gap is defined as the difference between total external financing requirements (current-account deficit plus scheduled principal payments on both short-term and long-term private debt coming due in the year) and private capital flows (new loans on private debt, net equity flows, and net unidentified capital outflows).

6. Georgia, which signed a $740 million stand-by agreement in September 2008, is excluded from this total because the package was mainly targeted at helping economic recovery after the Russian war.

7. The output gap is defined as the difference between the actual and potential GDP as a share of the potential GDP in a given year.

8. See GDF 2008, chapter 3.

9. The low- and middle income countries of the Middle East and North Africa region include Algeria, the Arab Republic of Egypt, the Islamic Republic of Iran, Jordan, Lebanon, Morocco, the Syrian Arab Republic, Tunisia, and the Republic of Yemen. Several developing economies are not covered in this report due to data insufficiencies, including Djibouti, Iraq, Libya and the West Bank and Gaza. High-income economies of the broader geographic region, including Gulf Cooperation Council (GCC) members Bahrain, Kuwait, Oman, and Saudi Arabia are covered in this report under the category of "other high-income countries," but the importance of GCC developments for the broader economic region should be underscored. Among the GCC, insufficient data exits for inclusion of Qatar and the United Arab Emirates.

10. Council on Foreign Relations (2009).

11. Wheat production in Afghanistan is projected to rise by 40–50 percent over 2008, given improved weather conditions, and the UN Food and Agriculture Organization has reported that the country is likely to be self-sufficient in wheat this year.

12. *International Monetary Fund,* Regional Economic Outlook Sub-Saharan Africa, April 2009.

13. Estimate of Eurasia Group. According to Bank of America Corp., banks have provided at least 1 trillion naira ($6.8 billion) of margin loans.

14. African countries with more developed financial markets are Botswana, Cape Verde, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, South Africa, Tanzania, Uganda.