Appendix
Regional Economic Prospects

East Asia and the Pacific

Recent Developments

Substantial headwinds buffeted the economies of East Asia and the Pacific during 2008, causing GDP growth to slow sharply, from the 10.5 percent pace of 2007 to 8.5 percent in the year. The surge and relapse of crude oil and non-energy commodity prices affected a large and diverse set of countries in the region, from the hydrocarbon-exporting countries of Indonesia, Malaysia, Papua New Guinea, and Vietnam, to food and agricultural raw materials exporters, Thailand, the Philippines, and again Indonesia and Malaysia. The fall to negative ground in U.S. and Japanese import demand—under way for more than two years in the case of the United States—began to take a toll on the region's export growth and to dampen the earlier buoyancy of intra-region trade.[1]

What began in August 2007 as financial difficulties in the United States tied to subprime mortgage-based securities had turned into a global financial crisis as of October 2008, raising risk perceptions for several economies in East Asia. Equity markets were hard hit, spreads on international sovereign- and especially corporate debt increased sharply, exchange rates depreciated rapidly, and gross capital flows to the region fell by half during the first 9 months of 2008. Slower investment growth in East Asia is now expected to spill over into still weaker production, employment, household spending, and GDP growth.

Growth outturns were fairly diverse across the region in 2008. China registered a diminished 9.4 percent advance, down from 11.9 percent during 2007, on a slowdown in investment and smaller positive contributions to growth from net exports. The larger members of the Association of South Eastern Asian Nations (ASEAN)—Indonesia, Malaysia, and Thailand—grew 5.2 percent in the year, down from 6.1 percent during 2007. Growth in Vietnam dropped by 2 full percentage points to 6.5, in part as oil and non-energy commodities prices slumped, while a group of smaller economies saw a pick-up in growth to 5.1 percent from 3.7 percent, on the back of recovery in Fiji and continued strong growth in Papua New Guinea, powered by oil exports (table A1).

Even before the financial crisis intensified, there were signs of slowing growth. In China, GDP in the third quarter of 2008 eased to a gain of 9 percent (year-over-year) from 11.2 percent in the final quarter of 2007, marking a fifth consecutive quarter of slowing growth (figure A1). Thailand and Malaysia witnessed a larger falloff, with Thailand dropping to 2.9 percent in the second quarter from 7.1 (saar) in the fourth quarter of 2007, and Malaysia falling to 4.2 percent from 6.7 percent, on softer exports and private consumption. In contrast, growth in Indonesia accelerated, boosted by public spending financed from increases in windfall revenues thanks to high prices for hydrocarbons, fats, and oils.

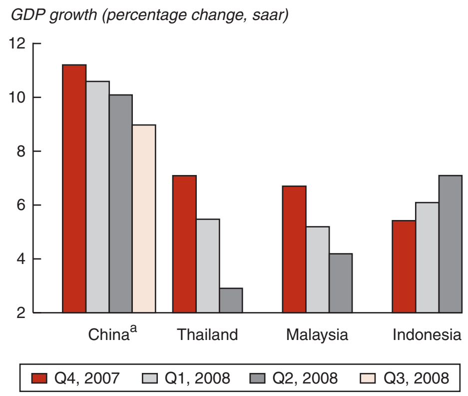
Table A1 East Asia and Pacific forecast summary
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[e]	2009[f]	2010[f]
GDP at market prices (2000 US$)[b]	8.4	9.1	10.1	10.5	8.5	6.7	7.8
GDP per capita (units in US$)	7.1	8.2	9.2	9.7	7.6	5.9	7.0
PPP GDP[c]	—	9.1	10.0	10.5	8.4	6.7	7.8
Private consumption	7.3	7.5	2.6	3.4	5.6	6.7	7.9
Public consumption	9.0	10.9	9.5	11.8	13.0	13.4	10.4
Fixed investment	10.3	12.6	12.6	12.9	10.5	6.9	8.4
Exports, GNFS[d]	11.7	18.5	18.6	15.4	8.3	2.6	9.7
Imports, GNFS[d]	11.2	11.0	11.6	10.9	10.8	3.4	11.7
Net exports, contribution to growth	0.3	4.1	4.6	3.8	0.2	0.0	0.5
Current account balance/GDP (%)	0.1	5.8	8.6	10.5	9.0	8.7	7.7
GDP deflator (median, LCU)	6.7	6.5	5.8	4.0	7.5	6.6	4.9
Fiscal balance/GDP (%)	−0.7	−1.1	−0.6	0.2	−0.9	−1.4	−1.5
Memo items: GDP							
East Asia excluding China	4.8	5.4	5.7	6.2	5.3	4.0	5.3
China	10.4	10.4	11.6	11.9	9.4	7.5	8.5
Indonesia	4.2	5.7	5.5	6.3	6.0	4.4	6.0
Thailand	4.5	4.5	5.1	4.8	4.6	3.6	5.0

Source: World Bank.

Notes: — = not available.
a. Growth rates over intervals are compound averages; 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 nonfactor services.
e. Estimate.
f. Forecast.

Figure A1 GDP growth eases in several East Asian economies



Source: World Bank and national agencies.
a. China = year-on-year.

Regional GDP is projected to slow to 6.7 percent in 2009, the weakest since the dot.com recession of 2001, and prior to that, the East Asia crisis of 1997–98. Regional export volumes are expected to decline from 8.3 percent in 2008 to 2.6 percent; investment to ease to 7 percent (still relatively strong due to developments in China), and net trade to contribute no impetus to regional growth for the first time in some years.

Commodity prices plummet; export-market growth contracts

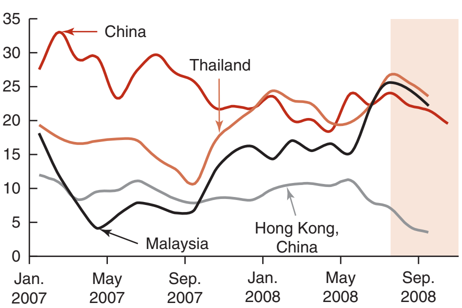
East Asia (excluding China), along with the Latin America region, has benefitted from high food and fuel prices from 2005 through mid-2008. During this period, terms of trade improved by a cumulative 10.3 percent in Vietnam, 4 percent in Indonesia, and 4.8 percent in Malaysia. In contrast, the terms of trade moved against China by a substantial 11.4 percent, with little effect, however, on the current account surplus. The steep decline in commodity prices since mid-2008 should benefit China and other oil importers in the region, helping to improve East Asia's aggregate terms of trade by 3.5 percent in 2009, with China's picking up 5.5 percent.

Sharply higher food and fuel prices and overheating in several economies accelerated inflation in the region, from a median 5.7 percent increase during 2007 to 11.9 percent by July 2008 (year-over-year). September figures (8.2 percent) suggest that favorable inflation responses are coming in step with the falloff in commodity prices and improved terms of trade since mid-2008. Headline consumer price inflation has eased substantially in China, for example, from a peak of 8.5 percent in April to 4 percent by October 2008; but Indonesia and the Philippines continue to witness building price pressures, stoked in the former by still strong consumer demand.

The spread of technical recession from the United States to Japan and the Euro Area during the second half of 2008 has begun to make a dent in export performance for the region, with China's outbound shipments (in dollar terms) easing below 20 percent growth (year-over-year) in October from the 30 percent pace of early 2007 (figure A2). Growth of exports from Hong Kong, China, reflecting in large part transshipments from the mainland, have halved to 5 percent. And the falloff in export performance is particularly acute in Singapore and Taiwan, China, where exports are now declining, affected in particular by a sharp drop

Figure A2 Export growth in East Asia turns down on falling OECD demand

Export values (US$, percentage change, 3-month moving average year-on-year)



Source: Haver Analytics.

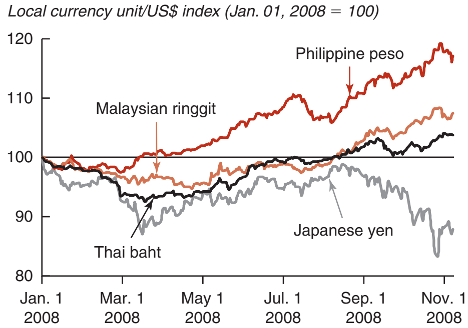
in demand for high-tech products. Export growth is also slowing in Malaysia and Thailand, which are experiencing sluggish manufactures shipments as well as the effects of commodity price declines on the dollar value of oil and agricultural exports. As recession deepens across the countries of the Organisation for Economic Co-operation and Development (OECD) during the course of 2009, East Asian export volumes are likely to fall sharply—to negative territory for many countries—with China seeing a modest advance of some 4.2 percent, down from the 10.1 percent gain of 2008.

Ripples of the financial crisis are reaching East Asia

The region was spared significant fallout during the early stages of the financial crisis in 2007, because, outside of China, holdings of securities backed by subprime U.S. mortgages were quite small. But with the intensification of the crisis, effects within the region are spreading. A sharp increase in risk aversion at the global level, plus a process of deleveraging by firms and banks that have suffered large losses in both high-income and developing countries, resulted in a heavy sell-off of global, including East Asian, equities. The benchmark MSCI Asia-Pacific Index plummeted by a cumulative 50 percent from January through October 2008, while China's 'B' share market in Shanghai is off a full 75 percent. The proceeds of these sales have been converted out of local currencies, resulting in a sharp depreciation for many regional currencies against both the dollar and the yen (figure A3). The Philippine peso, for example, has given up some 18 percent against the dollar over 2008 to date and 30 percent versus the yen. These developments have sharply increased the cost of capital for regional firms and escalated the local currency cost of international debt servicing, both factors likely to dampen private investment outlays in the coming months.

In international debt markets, sovereign spreads for East Asia jumped by some 610 basis points since the spring of 2008, reaching

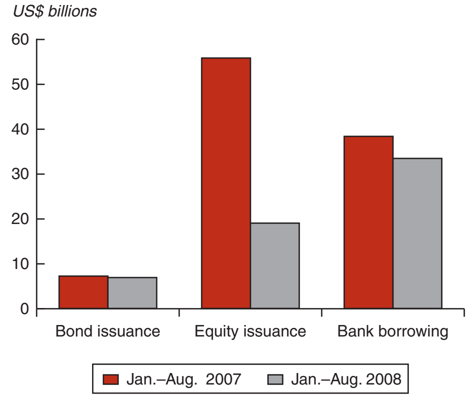
Figure A3 Exchange rates decline sharply as carry trades unwind



Source: Thomson/Datastream.

Note: Increase implies weaker local currency.

Figure A4 Gross capital inflows to East Asia contracted 40 percent in 2008



Source: World Bank.

825 basis points as of late October, well above the high of 450 basis points at the peak of the East Asian crisis in 1998. But as conditions in international markets began to unfreeze, and more and more countries announced fiscal stimulus packages to underpin their economies, spreads narrowed once more to 560 basis points during the first week of November. As of November 7, 2008, spreads were up by a modest 50 basis points for China, 300 points for Malaysia, 250 points in the Philippines, but a more-substantial 570 points in Indonesia. Spreads for corporate borrowers have increased by far more, and those for noninvestment grade corporations—the majority of private sector issuance in the region—have skyrocketed (see chapter 1). For several countries in East Asia, the hike in spreads has become problematic, effectively shutting down bond issuance as a cost-effective means of finance.

Given the process of deleveraging now under way among high-income financial institutions, the retreat from regional equity markets should be viewed together with a substantial falloff in capital flows to the region over the course of 2008. Gross capital flows to East Asia and the Pacific, not including foreign direct investment (FDI), dropped from $100 billion to $60 billion from January through August 2008, down 40 percent from the same period in 2007. The bulk of the falloff may be traced to sharp contractions in the issuance of initial public equity offerings (IPOs), largely from China, which were off 65 percent, from $56 billion to $19 billion in the year, in line with the deterioration of conditions in international markets. But banking flows also dropped 12.5 percent to $35 billion, and bond issuance eased by 7.5 percent to $7 billion (figure A4).

In contrast, FDI flows to the region surged by some two-thirds to a fresh record $175 billion in 2007, with FDI to China picking up 75 percent to near $140 billion, and with advances of 40 percent in Malaysia to $8.5 billion. Estimates for 2008 suggest a modest increase in overall FDI flows, showing some resilience in the face of the crisis. Measured by the extent to which sovereign spreads have increased, equity markets declined and exchange rates depreciated since September 15, together with the sharp falloff in capital flows in the last year, East Asian economies hit hardest by the crisis to date include Fiji, Indonesia, the Philippines, Thailand, and Vanuatu.

Difficult policy decisions

The general stance of policy in the region is moving from a tightening posture—initiated to deal with rising inflation—to a more relaxed one; large efforts have been made to free up liquidity to support banking systems from the contagion of financial stress from the high-income countries. Moreover, measures to underpin growth at a time of downside risks have also come to the fore. In China, bank rates were raised to 7.47 percent in January to help dampen inflation, then reduced to 6.66 percent on October 28, as the risk of financial disruptions and loss of liquidity in the banking system increased in importance. Further actions undertaken by China to prop up economic activity have included the announcement of a massive $586 billion stimulus program to focus on infrastructure, housing and income support, and increasing export tax rebates. In contrast, the Philippines first reduced policy rates to 7 percent to stimulate growth, then raised rates in four steps of 25 basis points to 8 percent to help stem a ramp-up in inflation.

Medium-term outlook

As always, developments in China will play a key role in shaping the region's growth profile through 2010. China's buffers against the financial crisis are impressive: $1.6 trillion in international reserves; a fiscal surplus of 1 percent of GDP; and a current account surplus of almost $400 billion or 10.4 percent of GDP in 2008. Policy efforts to underpin exports and household spending—to maintain GDP growth at rates near 9 percent in 2009 and forward—should carry positive effects. But an extreme falloff in export volume growth to 4.2 percent, on the back of recession in high-income countries, and slippage in investment to 8 percent in the year is projected to slow GDP growth to 7.5 percent in 2009, from the 9.4 percent pace of 2008 (table A2). A step-down in China's import growth to 6.5 percent will dampen the momentum of intraregional trade, causing exports for East Asia in aggregate to slide to 2.6 percent from the 8.3 percent advance of 2008.

Growth among the larger ASEAN countries is expected to ease to 3.8 percent from 5.2 percent in 2008, as export volumes decline by a percentage point, and the squeeze on commercial credit hits fixed investment, dropping it from growth of 8.8 percent in 2008 to 3.6 percent. Lower commodity prices and weaker import demand are projected to improve the group's current account surplus to $58 billion in 2009 from $55 billion in 2008. Among smaller countries, including Fiji, the Lao People's Democratic Republic, and Papua New Guinea, output growth is projected to slow to 3.4 percent from 5.1 percent in 2008, on the back of a sharp 5 percent decline in exports.

Recovery in regional growth during 2010 is anticipated to be fairly swift. The downturn in investment should be relatively short-lived, as credit and capital flows begin to thaw, and expectations for stronger domestic and external demand underpins a revival in regional capital spending to 8.4 percent (see table A1). Export growth is expected to rebound to 9.7 percent in the region (to 10.7 percent for China), as OECD and regional demand return to positive territory. Moreover, a moderation in East Asian inflation, as the surge in commodity prices passes out of calculation, will help to restore purchasing power to households and support a renewal in spending. Inflation as measured by the median GDP deflator for the region is expected to decline from 7.5 percent in 2008 to 4.9 percent by 2010.

Under these conditions, aggregate GDP for the region is anticipated to grow 7.8 percent in 2010, underpinned by 8.5 percent growth in China. For East Asia excluding China, GDP is expected to grow 5.3 percent in 2010, up from 4 percent. Current account positions are projected to vary across countries, easing to 8.8 percent of GDP in China, to 4.4 percent in the larger ASEAN members to minus 5.7 percent among the smaller countries of the region.

Risks

The favorable external environment that came to benefit the region in the past five years has shifted dramatically to the downside. Given

Table A2 East Asia and Pacific country forecasts
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[c]	2009[d]	2010[d]
Cambodia							
GDP at market prices (2000 US$)[b]	—	13.5	10.8	10.2	6.7	4.9	6.0
Current account balance/GDP (%)	—	−5.7	−4.7	−6.0	−15.3	−11.2	−8.0
China							
GDP at market prices (2000 US$)[b]	10.4	10.4	11.6	11.9	9.4	7.5	8.5
Current account bal/GDP (%)	1.5	7.2	9.9	12.2	10.7	10.2	8.8
Fiji							
GDP at market prices (2000 US$)[b]	2.1	0.7	3.6	−6.6	1.7	−1.0	3.0
Current account bal/GDP (%)	−3.7	−13.3	−24.1	−15.6	−22.6	−23.6	−22.5
Indonesia							
GDP at market prices (2000 US$)[b]	4.2	5.7	5.5	6.3	6.0	4.4	6.0
Current account bal/GDP (%)	−0.4	0.1	2.9	2.6	0.8	−0.1	−0.4
Lao PDR							
GDP at market prices (2000 US$)[b]	6.3	7.1	8.1	7.9	6.8	4.5	7.5
Current account bal/GDP (%)	−12.5	−19.3	−9.7	−16.4	−16.0	−17.2	−16.8
Malaysia							
GDP at market prices (2000 US$)[b]	7.1	5.0	5.8	6.4	5.5	3.7	4.6
Current account bal/GDP (%)	−0.4	14.6	17.2	16.7	22.0	17.5	16.4
Papua New Guinea							
GDP at market prices (2000 US$)[b]	4.8	3.3	2.6	6.2	5.5	4.5	5.5
Current account bal/GDP (%)	2.4	8.5	17.5	21.6	24.1	9.8	7.7
Philippines							
GDP at market prices (2000 US$)[b]	3.0	4.9	5.4	7.2	4.0	3.0	4.1
Current account bal/GDP (%)	−3.1	2.0	4.0	4.1	0.4	3.6	3.5
Thailand							
GDP at market prices (2000 US$)[b]	4.5	4.5	5.1	4.8	4.6	3.6	5.0
Current account bal/GDP (%)	−1.2	−4.3	1.1	6.3	2.2	5.2	5.0
Vanuatu							
GDP at market prices (2000 US$)[b]	4.1	6.5	7.2	5.0	4.5	3.0	5.2
Current account bal/GDP (%)	−8.2	−14.3	−8.1	−9.8	−14.4	−7.1	−5.3
Vietnam							
GDP at market prices (2000 US$)[b]	7.6	8.4	8.2	8.5	6.5	6.5	7.5
Current account bal/GDP (%)	−5.1	0.2	1.2	−0.2	−8.5	−3.4	−2.6

Source: World Bank.

Note: — = not available. Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. American Samoa; Micronesia; Federated States of Kiribati; Marshall Islands; Myanmar; Mongolia; N. Mariana Islands; Palau; Korea, Dem. Rep. Of; Solomon Islands; Timor-Leste; and Tonga are not forecast because of data limitations.

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

the sensitivity of regional GDP growth to trade, the possibility of a more extended period of recession, or only sluggish activity among the OECD countries, represents one of the primary risks to growth in East Asia. Such a scenario would be predicated on a more prolonged period than projected for the financial sector in the high-income countries to redress their balance sheets and for lending to resume. A second area of risk relates to continued adverse developments in financial markets. Should sovereign and especially corporate spreads not retreat from current levels, the region could face difficulty financing new investment and sustaining current projects. As a result, investment activity would continue to be depressed and the recession deeper; in that case, the risk that a country in the region could suffer significant exchange rate pressure or a balance of payments crisis cannot be ruled out.

Europe and Central Asia

Recent developments

The rapid GDP growth in Europe and Central Asia of the past 20 years, which largely reflected the enormous reform efforts undertaken by countries in the region (including those associated with accession to the European Union), eased in 2008 and is expected to give way to a sharp slowdown in 2009. The global financial crisis is expected to cut heavily into capital inflows and investment in the region. Moreover, a number of countries are particularly vulnerable because of high current account deficits that in many instances have been reliant on short-term capital inflows for their financing.

Regional GDP growth fell almost 2 percentage points to 5.3 percent in 2008, moderating from 7.1 percent in 2007, tied largely to a sharp falloff in growth during the second half of the year. The financial crisis and associated growth slowdown outside of the region is eroding macroeconomic buffers, including international reserves, and is placing banking sectors in several countries (notably, Hungary, the Russian Federation, and Ukraine) under severe stress. Even economies with little direct exposure to troubled U.S. financial assets are likely to be hit hard by direct and indirect spillover effects from the financial crisis.

The region exhibits diverse performance

GDP growth slowed across the region during 2008. The group of Central and Eastern European countries (CEE), (including Bulgaria, Poland, Romania, and the middle-income Baltic states but excluding Turkey), saw growth ease from 6.6 percent to 5.5 percent in the year. Slowing demand in the Euro Area dampened export performance, while overheating in several countries required a mix of fiscal and monetary tightening to stem inflationary pressures. Growth in the Baltic states has come close to a standstill, with Estonia and Latvia falling into recession and Lithuania faring little better. The global financial crisis disrupted Hungary's slow recovery of domestic demand and led the country to accept an emergency €15 billion Standby Arrangement with the International Monetary Fund. Growth in Turkey eased from 4.6 percent to 3 percent in 2008, as financial and exchange rate pressures picked up in the second half of the year (table A3).

GDP among the Commonwealth of Independent States (CIS) slid from the robust 8.6 percent registered in 2007—grounded in a surge in activity across hydrocarbon exporters—to 6.4 percent in 2008, reflecting reduced incomes as oil prices declined, and the effects of the banking crisis in Russia (growth in Russia eased from 8.1 percent to 6.0 percent). Excluding Russia and Kazakhstan (where growth slowed sharply from 8.5 to 4 percent), GDP declined less dramatically in the remaining CIS states, falling from 10.4 to 8.5 percent in the year.

The commodity price surge of 2006 through mid-2008 contributed directly to high inflation across almost all countries of the region. Most countries tightened monetary policy to stem second-round effects from the initial price hikes, while substantial currency appreciation (against the dollar) helped to mitigate inflation pressures to a degree. Romania posted the highest interest rates in the European Union, while Turkey scored the highest across all developing and advanced economies in Europe. The global food crisis had not caused the serious social tensions witnessed in other regions, because almost all countries in Europe and Central Asia have more or less adequate social safety nets in place. The World Bank is currently helping to finance seed purchases and nutritional programs for the Kyrgyz Republic, Moldova, and Tajikistan. And with three major grain exporters (Kazakhstan, Russia, and Ukraine) relaxing previously imposed export bans amid the region's best harvest in a decade, food prices are expected to moderate, helping to ease the earlier jump in headline inflation.

Table A3 Europe and Central Asia forecast summary
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[e]	2009[f]	2010[f]
GDP at market prices (2000 US$)[b]	−1.1	6.4	7.5	7.1	5.3	2.7	5.0
GDP per capita (units in US$)	−1.3	6.3	7.4	7.0	5.3	2.7	5.0
PPP GDP[c]	−1.2	6.3	7.7	7.4	5.7	2.6	5.1
Private consumption	0.6	7.0	8.2	8.5	8.4	5.3	6.2
Public consumption	0.0	3.6	5.2	5.5	4.9	3.3	4.0
Fixed investment	−7.0	11.0	14.9	15.4	10.0	−0.7	7.2
Exports, GNFS[d]	0.3	5.6	8.0	7.8	9.4	5.4	10.1
Imports, GNFS[d]	−2.8	10.6	15.5	18.8	14.7	6.3	11.0
Net exports, contribution to growth	1.1	−2.0	−3.4	−5.5	−3.6	−1.2	−1.8
Current account balance/GDP (%)	−0.7	2.6	1.5	−0.6	−0.8	−4.1	−4.5
GDP deflator (median, LCU)	—	6.8	5.8	7.5	10.9	8.9	6.8
Fiscal balance/GDP (%)	−5.0	2.6	2.9	2.4	1.9	1.1	1.1
Memo items: GDP							
Transition countries	2.3	6.1	6.7	5.7	4.4	2.6	4.8
Central and Eastern Europe	1.4	4.3	6.6	6.6	5.5	3.2	4.7
Commonwealth of Independent States	−4.3	6.8	8.4	8.6	6.4	2.9	5.2
Russian Federation	−3.9	6.4	7.4	8.1	6.0	3.0	5.0
Turkey	3.7	8.4	6.9	4.6	3.0	1.7	4.9
Poland	3.8	3.6	6.2	6.6	5.4	4.0	4.7

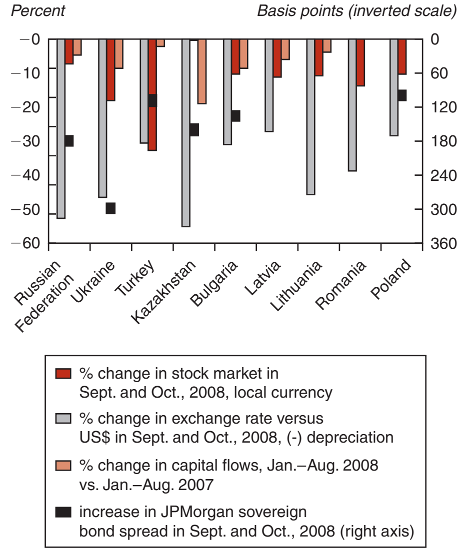
Source: World Bank.
Note: — = not available.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and nonfactor services.
e. Estimate.
f. Forecast.

Intensification of global crisis begins to exact toll

The sudden deepening of the financial crisis in the United States during September and October, and the accompanying start of deleveraging across financial institutions worldwide, triggered a wave of sell-offs in emerging market assets across the globe. Widening sovereign spreads, sharp currency depreciation, and a halving of domestic equity prices have been witnessed across emerging markets. The magnitude and extent of these developments in Europe and Central Asia are of concern (figure A5).

Recent spikes in sovereign spreads for a number of countries in the region have dwarfed those witnessed in earlier periods of flare-up since the start of financial turmoil in 2007. Except for Kazakhstan and Russia, where massive central bank intervention has taken place, other regional currencies have

Figure A5 Deepening global financial crisis affects Europe and Central Asia



Source: World Bank.

depreciated quite sharply, reversing almost all the gains of the last two years. Moreover, gross capital inflows to the region (equity IPOs, bond issuance, and bank lending) declined to $123 billion from January through August 2008, from $187 billion in the like period of 2007, a drop of some 34 percent. These developments underscore the swift spread of effects from the deterioration in international financial markets and point to more difficult financing conditions ahead, with funding for fixed investment in the region—a primary driver for growth—under particular uncertainty.

Activity in Russia already showed signs of slowing before fall 2008, when the financial crisis entered a more intense phase. Industrial production over the first eight months of 2008 declined by 2.3 points to 4.9 percent, compared with the same period in 2007, and growth in fixed capital investment almost halved. Gross capital inflows did halve to $74 billion in the January–August period, compared with $150 billion for all of 2007. Moreover, the credit crunch appeared to be draining domestic liquidity from the economy either directly (given that Russia is Europe's third largest bank borrower) or indirectly through the interbank and corporate sectors.

The Russian stock market crisis forced multiple suspensions of trading, and the government has taken all possible measures to mitigate growing financial and economic difficulties. These include but are not limited to cutting banks' reserve requirements and oil companies' export duties several times; injecting liquidity (more than $200 billion in federal budget fund deposits, subordinated loans, and the like), increasing coverage of retail bank deposit insurance by 75 percent; intervening in the foreign exchange market, evidenced in a decline of more than $100 billion in reserves between August and October; committing an additional $50 billion of reserves to solve refinancing difficulties in banks and companies (estimated to hold $80 billion-90 billion in debt service due in 2009); and using another $20 billion from its national wealth fund to boost domestic stock markets directly.

As in Russia, Ukraine's banks have relied on foreign bank- and other loans to fund domestic lending. And about $1 billion to service foreign debts is due during the final months of 2008. Facing rating agencies' downgrades, and massive withdrawals from the banking system during the first three weeks of October (amounting to $3 billion or about 4 percent of total deposits), the central bank banned preterm withdrawals, injected further liquidity, and imposed exchange controls. On the real side of the economy, Ukraine is starting to see decline in the metallurgy industry and in exports of these products (which provide 40 percent of export revenues), as global production and metal prices cool. These negative developments have prompted Ukraine to seek an IMF loan of $16.4 billion. Turkey's second-quarter GDP deteriorated sharply to 1.9 percent year-over-year from 6.7 percent a quarter earlier. And given Turkey's traditional reliance on short-term debt and external financing, the debt rollover situation is no better for Turkey than for Russia and Ukraine; Turkey holds more than $280 billion of foreign debt, of which one-sixth is short term.

Based on credit-default swap prices, Kazakhstan stands second in the global league of economies as riskiest for severe banking disruptions—after Iceland. The government has $15 billion dollars ($10 billion of which from its oil fund) available to stabilize the banking situation. Many other countries in Central and Eastern Europe carry similar vulnerabilities in terms of banking exposures, external deficits, and reliance on foreign capital flows, and governments have reacted to address them while trying to reassure investors and depositors. In Bulgaria, Poland, and Romania, guarantees on individual bank deposits have been raised in line with EU levels; Hungary, the Slovak Republic, and Slovenia have all enacted unlimited government guarantees on private bank deposits.

Medium-term outlook

The outlook for 2009 appears fairly sobering at this juncture. Slower growth in the region's main trading partners, the EU, (and for the CIS countries) Russia and China, will limit export opportunities. For example, the auto fabrication and export–industry, which had been performing well in Turkey and some CEE countries, will be put to a difficult test. Declines in equity markets will tend to raise the cost of capital for domestic firms and could delay privatization plans. Moreover, in countries where foreign banks have a dominant presence, local subsidiaries may feel the pinch from headquarters in the high-income countries, further escalating difficulties in domestic credit markets and contributing to a slowdown in economic activity.

Table A3 shows that still-robust gains in investment continued during 2008—an advance of 10 percent for the region; Russia gained 16 percent, other CIS countries grew capital spending 14 percent, with the CEE countries up 10.5 percent. But a flattening in domestic and foreign demand and much more difficult financing conditions are expected to cause real investment to stagnate in 2009, with related declines in orders, production, and employment.

Signs of the slowdown have already begun to emerge. In Russia, for example, Sberbank and Gazprom, the leading state bank and state company, both plan to cut back on workforce and investment; the third-largest steelmaker, Magnitogorsk, is reducing workforce levels by 3,000; truck manufacturer KamAZ plans to curtail production by 20 percent; and carmaker GAZ also foresees substantially less domestic and export demand. Russia's GDP is anticipated to drop to 3 percent in 2009, from the 6 percent pace of 2008 (table A4). However, financial support policies enacted to date, plus the substantial amount of international reserves held by the country, should help Russia weather the depth of global crisis in 2009 and rebound to growth of 5 percent by 2010.[2]

Deterioration in the external environment—and the fragile set of current conditions in a large number of European and Central Asian countries suggests the potential for a sharp slowdown in regional GDP growth to 2.7 percent in 2009 from the 5.3 percent advance of 2008. But under assumptions that global credit markets begin to function once more by early to mid-2009, and that growth in OECD centers starts to pull-up at the same time, regional growth is anticipated to firm to 5 percent by 2010. CIS countries outside of Russia are expected to realize a rebound in exports and a pick-up in consumer spending, as growth recovers from 2.8 percent in 2009 to 5.7 percent. And gradual revival in Euro Area demand helps CEE exports pick-up from 2.5 percent gains in 2009 to 7.6 percent by 2010, supporting a move in GDP from 3.2 percent to 4.7 percent. Lower oil prices will help alleviate a portion of the current account burden in oil importing countries, especially Turkey, and a large number of Central European countries.

Risks

In the short term, the financial system will be tested. In Russia, for example, the largest banks have enjoyed generous government support, but private and smaller banks may face liquidity shortages and possibly large-scale withdrawals should the situation worsen. Russia currently is home to 1,100 banks, of which the 20 largest account for 70 percent of household deposits and corporate loans. Outside Russia, the financial sector in a number of countries is dominated by banks from Western Europe, carrying the potential risk of contagion from difficulties being experienced by their home-country institutions.

In the medium-term, divergent performance in 2008 should not belie either the common factors underlying growth in Europe and Central Asia or the associated common risks. Recent growth has been supported by domestic demand and enabled by easy access to external financing in bank lending, bond issuance, and FDI, while net exports continue to offer a substantial drag on growth. Rapid credit expansion and accommodative wage policies have been widespread, while domestic saving is insufficient, while pro-cyclical fiscal

Table A4 Europe and Central Asia country forecasts
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[c]	2009[d]	2010[d]
Albania							
GDP at market prices (2000 US$)[b]	1.4	5.5	5.0	6.0	6.0	5.0	5.5
Current account balance/GDP (%)	−5.6	−6.8	−7.3	−10.0	−11.2	−5.3	−4.7
Armenia							
GDP at market prices (2000 US$)[b]	−3.8	13.9	13.3	13.7	9.0	6.4	6.7
Current account balance/GDP (%)	−12.0	−1.1	−1.8	−6.2	−7.6	−4.3	−4.3
Azerbaijan							
GDP at market prices (2000 US$)[b]	−5.2	26.2	34.5	25.0	17.7	10.4	7.8
Current account balance/GDP (%)	−15.8	1.3	17.7	30.7	41.6	30.7	28.4
Belarus							
GDP at market prices (2000 US$)[b]	−1.2	9.4	9.9	8.2	9.2	5.0	5.8
Current account balance/GDP (%)	—	1.4	−4.1	−6.4	−5.5	−6.2	−6.4
Bulgaria							
GDP at market prices (2000 US$)[b]	−1.7	6.2	6.3	6.2	6.0	2.4	6.0
Current account balance/GDP (%)	−2.3	−12.3	−15.7	−21.6	−24.3	−15.6	−13.6
Croatia							
GDP at market prices (2000 US$)[b]	−1.5	4.3	4.8	5.6	3.5	2.3	5.1
Current account balance/GDP (%)	1.0	−6.6	−7.6	−8.6	−9.9	−4.2	−3.2
Georgia							
GDP at market prices (2000 US$)[b]	−9.3	9.6	9.4	12.4	3.5	4.0	6.0
Current account balance/GDP (%)	—	−11.9	−16.2	−21.5	−21.9	−20.7	−22.0
Kazakhstan							
GDP at market prices (2000 US$)[b]	−3.6	9.7	10.7	8.5	4.0	1.9	6.2
Current account balance/GDP (%)	−2.1	−1.9	−2.2	−6.9	0.1	−7.0	−7.2
Kyrgyz Republic							
GDP at market prices (2000 US$)[b]	−4.0	−0.2	2.7	8.2	6.6	4.2	5.6
Current account balance/GDP (%)	−10.6	−2.4	−10.6	−7.2	−10.6	−5.6	−2.4
Lithuania							
GDP at market prices (2000 US$)[b]	−3.3	7.9	7.7	8.8	4.0	−0.3	2.0
Current account balance/GDP (%)	−5.8	−7.1	−10.7	−13.6	−13.9	−12.2	−10.9
Latvia							
GDP at market prices (2000 US$)[b]	−2.8	10.6	12.2	10.3	−0.8	−3.5	0.7
Current account balance/GDP (%)	−1.6	−12.4	−22.7	−22.8	−15.2	−10.5	−8.2
Moldova							
GDP at market prices (2000 US$)[b]	−9.8	7.5	4.0	3.0	6.5	4.0	4.0
Current account balance/GDP (%)	—	−8.3	−11.5	−15.8	−17.7	−4.4	−5.8
Macedonia, FYR							
GDP at market prices (2000 US$)[b]	−0.9	4.1	3.0	5.1	5.5	4.8	5.6
Current account balance/GDP (%)	—	−1.4	−0.4	−3.4	−9.8	−4.4	−3.5
Poland							
GDP at market prices (2000 US$)[b]	3.8	3.6	6.2	6.6	5.4	4.0	4.7
Current account balance/GDP (%)	−3.5	−1.2	−2.7	−3.8	−5.4	−6.2	−5.6
Romania							
GDP at market prices (2000 US$)[b]	−1.7	4.1	7.9	6.0	8.6	3.2	5.8
Current account balance/GDP (%)	−4.8	−8.7	−10.5	−13.7	−15.5	−8.6	−7.4
Russian Federation							
GDP at market prices (2000 US$)[b]	−3.9	6.4	7.4	8.1	6.0	3.0	5.0
Current account balance/GDP (%)	—	11.1	9.6	6.1	6.0	−3.4	−5.0
Turkey							
GDP at market prices (2000 US$)[b]	3.7	8.4	6.9	4.6	3.0	1.7	4.9
Current account balance/GDP (%)	−1.1	−4.7	−6.0	−5.7	−8.4	−3.9	−3.1

(continued)

Table A4 (*continued*)
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[c]	2009[d]	2010[d]
Ukraine							
GDP at market prices (2000 US$)[b]	−8.0	2.7	7.9	7.7	6.0	−3.0	4.4
Current account balance/GDP (%)	—	2.9	−1.5	−4.2	−6.5	−2.2	−1.3
Uzbekistan							
GDP at market prices (2000 US$)[b]	−0.2	7.0	7.3	9.5	8.0	7.0	6.5
Current account balance/GDP (%)	−0.9	13.1	14.3	18.8	20.6	14.7	13.1

Source: World Bank.

Note: — = not available.
Growth and Current Account figures presented here are World Bank projections and may differ from targets contained in other Bank documents. Bosnia and Herzegovina, Montenegro, Serbia, Tajikistan, Turkmenistan, and Yugoslavia are not forecast because of data limitations.

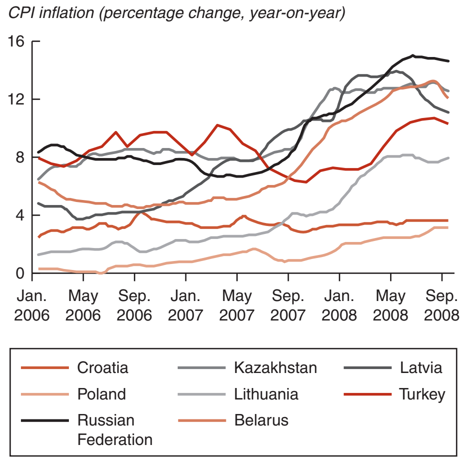
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Estimate.
d. Forecast.

policy is underway in a number of countries, such as Belarus, Romania, Russia and Ukraine.

The potential for second-round inflation effects remains a problem in the region. The reversal in commodity prices since mid-2008 has been reflected in a flattening or decline in inflation trends in at least 12 countries amid some indications of a falloff in core inflation (figure A6).[3] However, because domestic factors such as government spending and strong wage growth also drive prices, inflation expectations remain high, and the potential for a wage spiral is notable. Moreover, recent sharp currency declines and loosening of monetary policy, together with other aggressive measures to resist the economic downturn, may drive up inflation and endanger fiscal positions, causing problems in the longer run.

For many small and poorer countries that rely on remittances as an important source of financing, a downturn in neighboring countries in Western Europe and the CIS implies less in remittance flows from migrants abroad, raising the need for financing from other sources and potentially exacerbating poverty. This said, historical evidence shows remittances tend to be relatively resilient during a downturn, and should help cushion the slowdown.

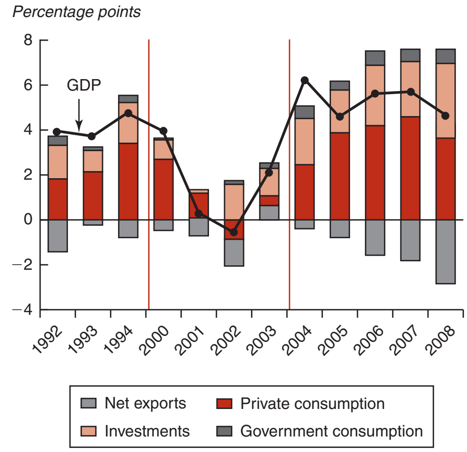
Figure A6 Core inflation is rising in several countries of Europe and Central Asia



Source: World Bank.

Beyond the set of immediate challenges, a longer-term concern is the set of substantial bottlenecks to growth that have been reached in infrastructure and labor markets in developing countries in general, and in a large number of European and Central Asian countries in particular. Faster GDP growth in the future is likely only if countries can take the necessary steps to improve the supply of essential utilities and upgrade transport, communications, and other key infrastructure. Such improvement, together with a diminishing of institutional and structural inefficiencies could help alleviate current constraints on growth in the longer run.

Figure A7 Contributions to GDP growth in Latin America and the Caribbean



Source: World Bank.

Latin America and the Caribbean

Recent developments

The global financial crisis has come to affect Latin America and the Caribbean after a period of exceptional GDP growth. The region grew at an annual rate of 5.3 percent over 2004–08, the strongest pace in the last three decades. GDP gains were led by República Bolivariana de Venezuela, which advanced at a 10.5 percent clip; Argentina at 8.4 percent; and Peru at 7.4 percent. Growth was also broad-based during this period, with the Caribbean countries gaining 5.9 percent annually and Central American countries growing 3.7 percent. The oil-exporting economies of the region saw GDP pick up at a 5.7 percent rate, and oil importers also grew briskly at 5.3 percent. Only two countries grew slower than 3 percent per year over the period—Jamaica at 1.6 percent and Haiti at 1.4 percent. The last period of strong region-wide growth occurred in 1991–94 when GDP advanced 4.2 percent annually (figure A7).

A favorable external environment of high commodity prices and strong import demand in high-income countries supported the region's recent growth performance. The role of the external environment is emphasized in Izquierdo and others 2008; Calvo and Talvi 2007; and Österholm and Zettelmeyer 2007. However, the region has also made genuine progress in maintaining independent monetary policy and increasing the credibility of central banks, introducing exchange rate flexibility, deepening local currency debt markets, and providing supportive fiscal policy (World Bank 2008c). Because of the improvements in policy and in the external environment, the region is in better macroeconomic and fiscal health than it was five years ago, or at the end of the previous growth spurt. But this healthy starting position will be seriously tested by the global crisis, which has already led to a withdrawal of funds from regional equity markets by international investors, sharply depreciating currencies and soaring sovereign- and corporate bond spreads. The U.S. and European recessions and the turnaround to decline in global commodity prices further darken the external environment for the region.

During 2008, Latin American GDP advanced 4.4 percent, still robust, albeit down from the strong 5.7 percent pace of the previous year. Buffers in the form of large levels of reserves and current account surpluses mitigated the impact of slowing exports to the United States to a degree. Latin America's exports lost momentum, however, growing only 1.7 percent in 2008 compared with 5 percent in 2007, while the region's current account position dropped from a surplus of 0.5 percent of GDP to a deficit of the same magnitude.

Output gains were quite differentiated across key countries and sub regions in Latin America and the Caribbean. The outright decline in U.S. imports adversely affected

Mexico's exports, sending them from growth of 3.3 percent in 2007 to contraction of 0.9 percent in 2008, and contributing to a slowdown in GDP growth from 3.2 percent to 2 percent over the period. Argentina's growth performance also slipped, from 8.7 percent in 2007 to 6.6 percent in 2008, on the back of slowing consumer spending and exports. In contrast, Brazil maintained GDP gains at a still-robust 5.2 percent pace, with its economy grounded in stronger consumer outlays and investment, further supported by favorable terms-of-trade developments during the first half of the year.

GDP growth eased in the Caribbean, declining from 6 percent in 2007 to 4.6 percent in 2008. The falloff was linked in part to hurricane damage but also to weaker exports and a negative contribution of trade to GDP. And Central American GDP slowed by more than a percentage point to 2.2 percent from 3.6 percent, largely because of a downshift in exports tied to the slowdown in U.S. demand (table A5).

Although not yet visible in GDP figures, a large number of countries in the region are already subject to adverse spillover effects of the financial crisis. Between September 15, when Lehman Brothers announced bankruptcy, and the end of October, equity markets lost half of their dollar values; currencies, especially those of Brazil, Chile, and Mexico depreciated precipitously against the dollar; the cost of corporate and government borrowing on international bond markets surged; investment spending appeared to be slowing, and the availability of trade finance tightened. These developments have added to the region's concerns regarding falling commodity prices (on the upside of which food and oil exporters benefited greatly), slowing remittance inflows and rising inflation.

Table A5 Latin America and the Caribbean forecast summary
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[e]	2009[f]	2010[f]
GDP at market prices (2000 US$)[b]	3.3	4.6	5.6	5.7	4.4	2.1	4.0
GDP per capita (units in US$)	1.6	3.3	4.2	4.4	3.1	0.9	2.8
PPP GDP[c]	4.2	4.6	5.5	5.7	4.4	2.2	4.1
Private consumption	—	5.8	6.3	6.9	5.4	3.1	4.6
Public consumption	—	3.0	4.6	4.0	4.5	2.4	2.6
Fixed investment	4.7	11.3	14.6	12.2	14.6	−4.1	8.8
Exports, GNFS[d]	8.1	8.1	7.7	5.0	1.7	−2.1	2.4
Imports, GNFS[d]	10.9	11.9	14.3	11.9	12.3	−3.9	6.9
Net exports, contribution to growth	−0.4	−0.8	−1.6	−1.9	−2.9	0.6	−1.4
Current account balance/GDP (%)	−2.8	1.4	1.6	0.5	−0.6	−0.3	0.0
GDP deflator (median, LCU)	11.3	5.7	8.0	7.5	10.2	6.7	5.5
Fiscal balance/GDP (%)	—	1.2	1.4	1.3	0.9	0.6	0.4
Memo items: GDP							
Latin America excluding Argentina	3.1	3.9	5.1	5.2	4.1	2.2	4.1
Central America	3.6	3.0	5.1	3.6	2.2	1.4	3.3
Caribbean	3.6	6.7	8.7	6.0	4.6	3.3	4.7
Brazil	2.5	2.9	3.8	5.4	5.2	2.8	4.6
Mexico	3.5	2.8	4.9	3.2	2.0	1.1	3.1
Argentina	4.5	9.2	8.5	8.7	6.6	1.5	4.0

Source: World Bank.

Note: — = not available.

a. Growth rates over intervals are compound averages; 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 nonfactor services.
e. Estimate.
f. Forecast.

Credit conditions tighten, capital flows plummet

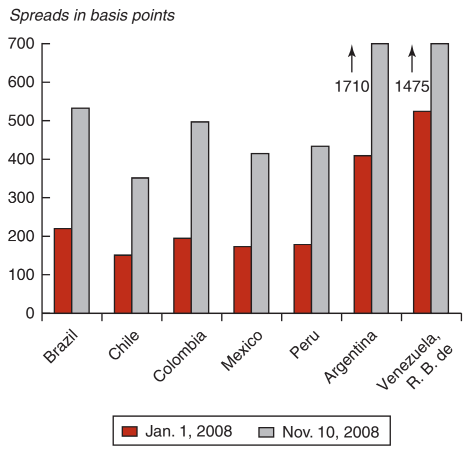
Sovereign spreads, as measured by JPMorgan-Chase Emerging Market Price Index (EMBI), have increased rapidly since mid-September throughout the region, with the largest rise (over 1,000 basis points) for Argentina and República Bolivariana de Venezuela (figure A8). The corporate bond market is seeing a similar trend, with soaring corporate spreads. Moreover, gross capital inflows to the region halved over January–August 2008 compared with the like period in 2007. Bond issuance dropped 46 percent to $18.5 billion; equity IPO issues virtually vanished in the hostile climate of 2008 (down 75 percent); and bank borrowing dropped one-third to $36 billion over the year to date.

Tighter financing conditions and expectations of weaker demand growth have led corporations and governments alike to review investment plans. The Republic of Korea's Hyundai, India's Reliance, and Brazil's Petrobras have either announced or postponed decisions on investment plans in Brazil. Petroleos de Venezuela has postponed several refining projects across the Caribbean and Central America. The Mexican airline Aladia filed for bankruptcy protection in October because of financing difficulties. And Controladora Comercial Mexicana, a large supermarket chain, also filed for bankruptcy after sustaining losses from derivatives trading.

As a result of falling equity markets and repatriation of foreign funds to home currencies, many of the region's currencies have experienced sharp depreciation since mid-September, a situation that runs the risk of reigniting inflation, even as commodity prices decline. After several years of appreciation, the Brazilian real started to decline in early July (figure A9). The central banks of Argentina, Brazil, Chile, and Mexico sold dollars on the spot market during October to prevent their currencies from sliding further. Mexico offered direct financing to commercial banks. Brazil relaxed reserve requirements, eliminated taxes on foreign investment, authorized state-owned banks to buy stakes in financial institutions, and allowed the central bank to enter into currency swaps with other central banks.

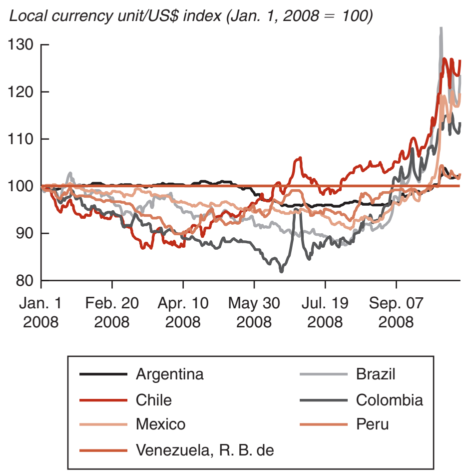
Another consequence of tightened credit conditions has been vanishing export credit

Figure A8 Bond spreads have increased sharply for many Latin American countries



Source: JPMorgan-Chase.

Figure A9 Exchange rates in Latin America and the Caribbean fell sharply against the dollar in late 2008



Source: Thomson/Datastream.

Note: Increase = weaker local currency.

lines, which allow exporters to purchase goods and services they need to support their export sales. Exporters now face a double hit, with slowing import demand in high-income countries on the one hand, and more expensive credit to support export operations on the other. Anecdotal evidence from Brazil suggests that the fall of Lehman Brothers precipitated a collapse in export credit in Brazil, leading foreign investors and companies to repatriate billions of dollars from Brazil. Shrinking export credit could lead to difficult conditions for businesses that supply inputs to exporters, with ripple effects to the rest of the economy.

Remittance inflows are slowing

Worker remittances are an important source of income for many Latin American countries. The region has sent 28.3 million workers abroad—5.1 percent of the region's population—who send back $60 billion, on average, to their home countries (World Bank 2008a). The United States is the primary recipient of the region's emigrants, followed by Spain and Italy. In eight Latin American countries, remittances account for more than 10 percent of GDP. Mexico is the largest recipient with $25 billion in receipts. But the slowdown in the U.S. housing market and the resulting loss of construction jobs led to a 4.2 percent decline in remittances to Mexico over January–August 2008, compared with the same period of 2007. No evidence of similar large-scale decline has yet come to light in other regional economies.

Inflation remains high, notably in food

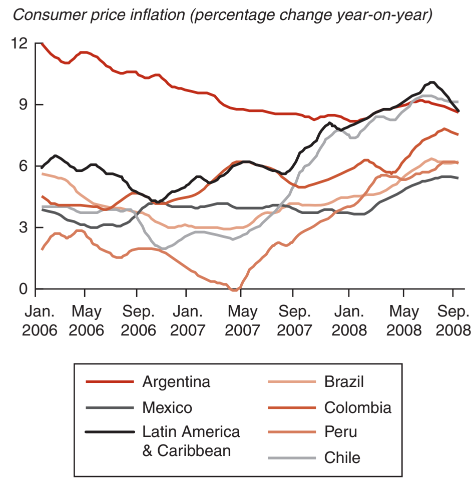
Rapid economic growth in Latin America also brought with it a ramp-up in inflation, which in 2008—abetted by the price surge for oil and food traded internationally—was at its highest level in a decade. Food prices rose substantially faster than the overall consumer price index for most countries (World Bank 2008b), and fundamental changes in global food dynamics appear to be under way. High energy prices, climate change, and rising biofuel production have driven the rise in food price inflation. Although Latin America has the largest surplus in food trade of all developing regions, food price inflation adversely affects most of the population, because households are net buyers of food. Poor people are also affected disproportionately because they spend a larger share of their income on food.

Two developments have occurred in recent months that are likely to help ease the pressure of food inflation. Central governments across the region raised interest rates in the first half of 2008 to stem inflationary pressures. More importantly, commodity prices began to plummet after reaching historically high levels in mid-2008. The latest inflation numbers (September 2008) for the region were generally lower than their peak levels in the preceding months (figure A10).

Medium-term outlook

GDP growth in the region is expected to fall off sharply to 2.1 percent in 2009 from 4.4 percent in 2008, driven by a sharp decline in capital spending—from robust growth of

Figure A10 Inflation still high in Latin America and the Caribbean despite sharp falloff in food and fuel prices



Source: World Bank.

14.6 percent in 2008 to a decline of 4 percent. Increasing cost of capital for business, channeled through falling domestic equity markets, widening spreads on international corporate bonds, and depreciating exchange rates is anticipated to combine with expectations for a sharp falloff in both domestic and overseas sales growth, leading to a retrenchment in private capital outlays (see table A5, earlier).

Falling investment is expected to lead to similar declines in regional imports, because the import content of investment tends to be quite high in Latin America. With imports declining almost 4 percent in 2009 and exports falling 2 percent, the contribution of trade to growth will shift to positive 0.6 points of growth for the first time in 20 years. But the drop in investment and in export revenues also carry multiplier effects through the regional economy, with real household spending easing to a 3.1 pace from 5.4 percent in 2008, and GDP growth slowing to 2.1 percent. GDP could rebound fairly quickly to 4 percent gains by 2010, should global credit markets thaw, risk aversion subside, and OECD countries revive on the back of renewed vigor in consumer spending—in step with the anticipated remission of inflation pressures. These developments represent a substantial change from recent global forecasts prepared in June 2008, when the region was expected to grow 4.3 percent in 2009 and 4.2 percent in 2010 (see *Global Development Finance 2008,* World Bank 2007d).

Growth in Brazil is expected to slow from 5.2 percent in 2008 to 2.8 percent in 2009. Inflation has already started to level off, in part as a result of the Central Bank of Brazil's raising policy interest rates, amid falling commodity prices. Consumer price inflation is expected to diminish from 6.3 percent in 2008 to 4.8 percent in 2009. Brazil is likely to witness its first current account deficit since 2002, tied to developments in the income accounts, as repatriation of profits by foreign companies is under way. However, a decline in the imports of capital goods is expected to help improve the current account in 2009 and 2010 (table A6).

Mexico's close economic ties to the U.S. economy are expected to slow its growth sharply in 2009. Export volume growth—which was already in negative territory in 2008—is projected to drop by 5 percent in 2009. Argentina will perhaps see the sharpest growth falloff in the region as it experiences declines in export market demand, commodity prices, and investment. Peru, Panama, and the Dominican Republic will also slow after very high growth averaging 8 percent for the last four years.

Risks

With the onset of the financial crisis, skyrocketing costs of capital, or an outright shutdown in credit flows, are the primary risks faced by the region. Should sovereign and corporate spreads not retreat from current levels, Latin America could have difficulty financing new investment projects and sustaining current projects. Although central banks worldwide have undertaken steps to inject liquidity into banking systems, a marked thawing of interbank rates and revival of credit flows has yet to be seen.

The favorable external environment that benefited the region in the past five years has almost vanished. Both high-income and developing-country GDP growth is slowing, diminishing demand for Latin America's commodities, manufactures, and services exports. Although inflation is still much higher than in early 2007, increases in headline inflation appear to have peaked in July or August 2008 in the seven largest economies in the region. Although inflation will likely continue to ease given declining commodity prices, a potential revival of inflation remains a concern, given depreciating currencies, a move toward monetary accommodation (mitigating a portion of the economic downturn), and the potential for second-round inflation effects.

Table A6 Latin America and the Caribbean country forecasts
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[c]	2009[d]	2010[d]
Argentina							
GDP at market prices (2000 US$)[b]	4.5	9.2	8.5	8.7	6.6	1.5	4.0
Current account balance/GDP (%)	−3.1	2.8	3.7	3.0	0.4	−3.2	−2.3
Belize							
GDP at market prices (2000 US$)[b]	5.9	3.1	5.6	3.0	2.8	2.1	2.9
Current account balance/GDP (%)	−7.3	−13.6	−1.2	−3.0	−3.7	−3.7	−1.6
Bolivia							
GDP at market prices (2000 US$)[b]	3.8	4.4	4.8	4.6	4.1	3.6	4.3
Current account balance/GDP (%)	−6.1	6.5	11.5	13.4	13.3	9.9	8.3
Brazil							
GDP at market prices (2000 US$)[b]	2.5	2.9	3.8	5.4	5.2	2.8	4.6
Current account balance/GDP (%)	−2.0	1.7	1.3	0.1	−1.3	0.6	1.1
Chile							
GDP at market prices (2000 US$)[b]	6.4	5.7	4.3	5.1	4.2	3.4	4.7
Current account balance/GDP (%)	−2.7	1.2	5.0	4.3	−0.8	−0.8	0.0
Colombia							
GDP at market prices (2000 US$)[b]	2.5	4.7	6.8	8.2	3.7	2.6	4.7
Current account balance/GDP (%)	−1.9	−1.6	−2.9	−2.6	−3.0	−1.5	−0.6
Costa Rica							
GDP at market prices (2000 US$)[b]	5.2	5.9	8.8	6.8	4.0	3.9	4.9
Current account balance/GDP (%)	−3.6	−4.9	−1.9	−8.7	−2.2	−3.3	−6.9
Dominica							
GDP at market prices (2000 US$)[b]	1.8	3.1	4.0	3.2	3.1	−1.5	3.3
Current account balance/GDP (%)	−16.9	−32.6	−0.3	−0.4	0.4	6.2	6.9
Dominican Republic							
GDP at market prices (2000 US$)[b]	6.0	9.3	10.7	8.5	5.2	2.6	4.5
Current account balance/GDP (%)	−3.2	−1.9	−3.7	−5.7	−9.5	−8.0	−3.8
Ecuador							
GDP at market prices (2000 US$)[b]	1.8	6.0	3.9	1.9	2.5	0.8	2.1
Current account balance/GDP (%)	−2.3	0.8	3.5	2.3	5.2	5.4	4.0
El Salvador							
GDP at market prices (2000 US$)[b]	4.6	3.1	4.2	4.2	2.0	2.6	2.9
Current account balance/GDP (%)	−2.0	−5.3	−4.7	−6.0	−8.4	−5.5	−5.2
Guatemala							
GDP at market prices (2000 US$)[b]	4.1	3.2	4.5	5.7	2.8	3.1	3.3
Current account balance/GDP (%)	−4.6	−4.5	−4.4	−5.1	−7.5	−5.3	−4.3
Guyana							
GDP at market prices (2000 US$)[b]	4.9	−2.2	4.8	5.5	4.8	4.0	3.1
Current account balance/GDP (%)	−15.4	−12.1	−19.7	−15.4	−18.2	−16.6	−15.1
Honduras							
GDP at market prices (2000 US$)[b]	3.3	6.1	6.3	6.3	3.1	4.0	4.8
Current account balance/GDP (%)	−7.7	−3.0	−4.7	−10.6	−14.7	−9.6	−8.3
Haiti							
GDP at market prices (2000 US$)[b]	−1.3	1.8	2.3	3.5	3.0	3.8	3.9
Current account balance/GDP (%)	−1.7	−6.4	−7.6	−1.8	−11.9	−12.1	−13.1
Jamaica							
GDP at market prices (2000 US$)[b]	1.9	1.8	2.5	1.2	0.9	0.8	2.3
Current account balance/GDP (%)	−2.7	−11.4	−10.9	−11.7	−17.0	−12.8	−10.8
Mexico							
GDP at market prices (2000 US$)[b]	3.5	2.8	4.9	3.2	2.0	1.1	3.1
Current account balance/GDP (%)	−3.7	−0.7	−0.3	−0.6	−1.0	−1.7	−1.7
Nicaragua							
GDP at market prices (2000 US$)[b]	3.4	4.3	3.7	3.5	2.2	1.5	2.9
Current account balance/GDP (%)	−28.7	−15.3	−16.4	−17.7	−20.9	−19.0	−15.4

(continued)

	1991–2000[a]	2005	2006	2007	2008[c]	2009[d]	2010[d]
Panama							
GDP at market prices (2000 US$)[b]	5.1	7.2	8.5	11.5	7.8	3.3	6.2
Current account balance/GDP (%)	−4.8	−3.1	−7.2	−5.4	−7.6	−9.4	−9.1
Peru							
GDP at market prices (2000 US$)[b]	4.0	6.4	7.6	9.0	8.5	5.2	6.6
Current account balance/GDP (%)	−5.5	1.6	3.0	1.3	−2.2	−1.6	−1.6
Paraguay							
GDP at market prices (2000 US$)[b]	1.8	2.9	6.0	6.8	4.2	3.0	3.8
Current account balance/GDP (%)	−2.2	0.5	2.0	0.8	0.0	−1.0	−0.8
St. Lucia							
GDP at market prices (2000 US$)[b]	3.1	7.3	4.5	4.0	4.4	4.8	5.0
Current account balance/GDP (%)	−11.6	−17.4	−23.4	−21.4	−21.8	−20.7	−19.8
St. Vincent and the Grenadines							
GDP at market prices (2000 US$)[b]	3.1	1.5	4.5	5.5	6.3	−0.6	5.6
Current account balance/GDP (%)	−18.8	−26.3	−25.9	−24.5	−24.7	−24.2	−20.0
Uruguay							
GDP at market prices (2000 US$)[b]	3.0	6.6	7.0	7.4	4.7	2.8	3.0
Current account balance/GDP (%)	−1.5	0.1	−2.3	−0.7	−1.7	−1.4	−0.9
Venezuela, R. B. de							
GDP at market prices (2000 US$)[b]	2.1	10.3	10.3	8.4	5.3	1.0	3.2
Current account balance/GDP (%)	2.6	17.5	14.8	8.8	8.7	9.0	8.0

Source: World Bank.

Note: Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. Barbados, Cuba, Grenada, and Suriname are not forecast because of data limitations.

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

Middle East and North Africa

Recent developments

The Middle East and North Africa region has been affected dramatically by developments in global commodity markets over the last three years, notably in 2008.[4] As a result there have been substantial up- and downshifts in terms of trade, current account positions, and external financing requirements. These shifts have occurred at the same time as the external environment for growth and for international finance deteriorated markedly. Still, regional GDP held up well through 2008, with domestic demand, notably investment financed in large part by FDI, providing impetus for growth. The pace of GDP growth for the developing countries of the region was unchanged in 2008 from the strong 5.8 percent registered in 2007. A falloff in the Islamic Republic of Iran's hydrocarbon sector eased GDP growth among oil-dominant economies from 6.4 percent in 2007 to 5.8 percent. And growth among the more diversified economies picked up from 3.8 percent in 2007 to 5.7 percent, led by a strong recovery from drought in Morocco (table A7).

Commodity price changes carry extreme effects across the region

The region has undergone tortuous change linked to global commodity prices through the last years—from gradual increases to a surge in crude oil, food (especially grains), and raw materials prices from 2005 through mid-2008—to a sudden and forceful unwinding of the bubble during the second half of 2008. On the upside of the commodity run, the developing oil exporters—Algeria, the Arab Republic of Egypt (though a more diversified economy), the Islamic Republic of Iran, the Syrian Arab Republic, and the Republic of Yemen—accumulated \$82 billion in additional revenues over 2003–07, with receipts coming to stand at \$130 billion in the latter year. During the first

Table A7 Middle East and North Africa forecast summary
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008*	2009†	2010†
GDP at market prices (2000 US$)[b]	3.7	4.2	5.3	5.8	5.8	3.9	5.2
GDP per capita (units in US$)	1.6	2.5	3.6	4.0	4.0	2.2	3.5
PPP GDP[c]	4.8	4.3	5.4	6.3	5.7	3.8	5.0
Private consumption	3.9	5.0	6.2	6.1	7.0	4.2	6.0
Public consumption	4.2	5.6	4.2	1.8	8.7	5.4	5.4
Fixed investment	3.9	7.8	4.8	16.8	18.9	7.0	10.5
Exports, GNFS[d]	3.1	9.5	6.7	6.0	10.1	−2.1	4.9
Imports, GNFS[d]	1.4	14.0	7.6	14.3	19.8	1.7	8.8
Net exports, contribution to growth	0.4	−1.7	−0.6	−3.1	−4.3	−1.3	−2.2
Current account balance/GDP (%)	−0.3	10.9	14.9	12.8	13.5	6.0	4.1
GDP deflator (median, LCU)	9.1	6.3	8.0	5.3	14.1	6.6	7.2
Fiscal balance/GDP (%)	4.0	5.5	0.7	1.3	2.0	0.0	−1.0
Memo items: GDP							
Middle East and North Africa[e]	3.4	5.1	4.9	5.1	5.9	4.1	5.5
Resource poor and labor abundant[f]	4.2	3.8	6.3	5.6	6.5	4.3	5.9
Resource rich and labor abundant[g]	3.3	4.6	4.5	6.1	5.1	3.6	4.5
Resource rich and labor importing[h]	3.0	6.5	4.2	4.1	6.0	4.3	6.0
Egypt, Arab Rep.	4.3	4.4	6.8	7.1	7.2	4.5	6.0
Iran, Islamic Rep.	3.7	4.3	5.9	7.8	5.6	3.5	4.2
Algeria	1.7	5.3	1.8	3.1	4.9	3.8	5.4

Source: World Bank.
* Estimate.
† Forecast.

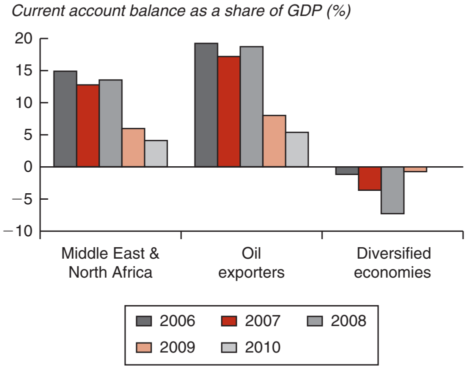
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and nonfactor services.
e. Geographic region includes these high-income countries: Bahrain, Kuwait, and Saudi Arabia.
f. Arab Rep. of Egypt, Jordan, Lebanon, Morocco, and Tunisia.
g. Algeria, Islamic Rep. of Iran, Syrian Arab Rep., and Republic of Yemen.
h. Bahrain, Kuwait, Oman, and Saudi Arabia.

half of 2008, revenues jumped a further 50 percent to nearly $200 billion. Since then, however, the financial crisis and expectations of much lower global growth have caused oil prices to plunge from peaks of nearly $150/bbl in early July to near $65/bbl by end-October 2008. As a result, regional oil exporters are now experiencing a substantial downshift in hydrocarbon receipts, terms of trade, and current account surplus positions that will manifest more clearly in 2009 (figure A11).

The oil exporters' current account surplus increased from 17.2 percent of GDP in 2007 only moderately to 18.7 percent in 2008, but global economic recession in 2009 will pressure oil prices lower and yield a sizable additional falloff in world oil demand. The group's current surplus position is projected to drop steeply to 8 percent of GDP during 2009 and to 5.4 percent by 2010. Real-side growth will be affected as revenue declines are likely to result in downsizing of ambitious investment projects or postponement of planned programs. At the same time, the Organization of Petroleum Exporting Countries (OPEC) will likely attempt to set limits on the decline in oil prices by constraining oil production, which will depress the oil sector in many economies, with ripple effects to the non-oil economy and the private sector.

The diversified economies of the region, including Jordan, Lebanon, Morocco, and Tunisia, are to varying degrees highly dependent on imports of oil and refined petroleum products, as well as on food and feedstuffs,

Figure A11 Current account positions in the Middle East and North Africa set to shift dramatically



Source: World Bank.

notably wheat and coarse grains. Their terms of trade worsened by 4.2 percent in 2008, pushing the group's current account deficit to 7.3 percent of GDP (not witnessed since the Asia crisis of 1997) from 3.6 percent in 2007 (see figure A11). Looking forward, these economies will benefit from lower commodity prices through 2010, and current account deficits are projected to decline to 0.7 and 0 percent of GDP in 2009 and 2010 respectively.

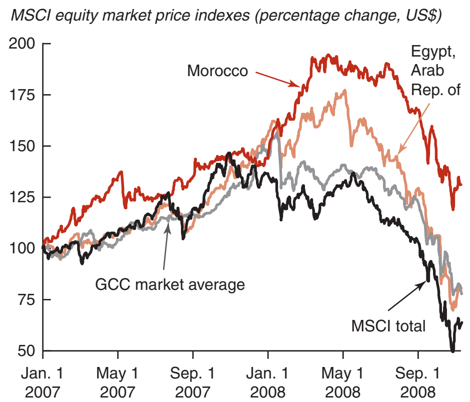
Effects of financial crisis are fairly muted, but several countries are vulnerable

To date, the direct effects of the financial crisis experienced by most developing economies in the region have been relatively mild. Banks and investment companies in the Middle East and North Africa were not large holders of subprime mortgage-backed securities, or "toxic assets" (though there may be questions concerning portfolios of sovereign wealth funds in the Gulf States). Indirect effects, however, have become evident. Following the announcement of the U.S. financial rescue plan in early October 2008, spreads on sovereign debt increased 170 basis points for Lebanon and 100 points for Egypt; but these increases contrasted well with the average rise of 250 basis points for all developing economies at that time. With country-specific developments set against the background of subsequent concerted policy rate reductions across the OECD countries, a step-up in economic stimulus plans and the beginnings of a thaw in credit markets, spreads in Egypt eased to 350 points, but those in Lebanon escalated to 730 basis points by early November.

Equity markets across the region echoed the sharp declines seen by emerging markets generally, as international (and domestic) investors withdrew funds from the asset class. From peak levels in the spring through early-November 2008, the Egyptian bourse dropped 54 percent, Morocco's exchange fell 33 percent, and the Gulf Cooperation Council (GCC) markets in aggregate declined 50 percent. This contrasts with a 54 percent decline in the MSCI index which covers all emerging markets (figure A12).

Gross capital flows to countries in the region have also declined, and may be expected to weaken further. Bond issuance dropped by two-thirds from \$4.6 billion to \$1.5 billion between January and August 2007 and the like period of 2008. Equity issuance declined from \$2.1 billion to \$750 million or 65 percent in the period as well. But a surge in bank borrowing from \$4 billion to \$14 billion in the period offset the downturn in other

Figure A12 Markets in the Middle East and North Africa are hard hit by financial crisis



Source: Morgan-Stanley.

Note: Gulf Cooperation Council (GCC).

finance components. Moreover, preliminary data for September show declines across all segments of flows to the region. The process of deleveraging across high-income financial institutions appears to have raised the possibility for a potentially sharp reduction in capital flows, particularly syndicated bank lending and to a lesser degree bond issuance, for the region. This is likely to carry adverse effects across countries, but with highly differentiated outcomes.[5]

Several countries stand exposed to the risk of adverse developments in international financial markets, which could negatively affect investment spending and growth. These countries may suffer from fragilities in macroeconomic structure (for example, a string of substantial current account- or fiscal deficits) or from the presence of stress points made clearer by the heightening of investor risk aversion.

The vulnerability index presented in chapter 1 (a weighted measure of the exposure of a country to developments in sovereign spreads, equity markets, and exchange rates, as well as in gross capital inflows) suggests that Lebanon, Syria, Jordan, and Egypt have been among the more affected countries in the region, though the vulnerability of these economies is low in contrast with the average exposure for other regions. Under a global scenario in which financial markets require a prolonged period to return to balance, these countries might find themselves at risk of adverse capital movements, pressures on equity markets, exchange rates, and eventually investment and growth.

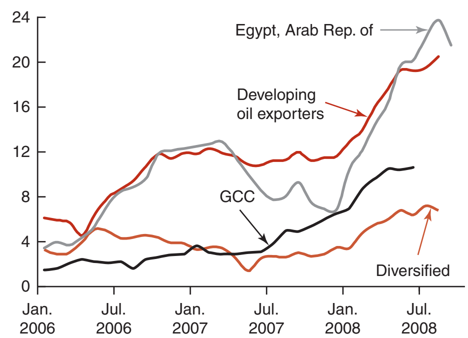
Production is mixed; inflation ramps higher, denting budgets across the region

Industrial production for the diversified economies of the region tailed off in late 2008, shifting from gains of 8 percent (on a GDP-weighted basis) during the first quarter to 4.5 percent by the third quarter (year-over-year). This decline reflects the increasingly sluggish performance of exports to key European and U.S. markets as well as emerging softness in domestic demand. In contrast, production among the developing oil exporters picked up from negative ground in the first quarter to 3 percent in the third, as growth in the non-oil sectors in both Algeria and the Islamic Republic of Iran well outpaced sluggish conditions in hydrocarbons. Output among the high-income GCC economies continued to grow quickly, underpinned by a continued rapid pace of commercial and residential real estate development in Bahrain, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). Production gains for the group jumped from 3 percent to 10 percent by the third quarter, with Qatar up 12 percent, Saudi Arabia climbing 11 percent, and the UAE moving to 20 percent growth in the period.

The surge in global prices for crude oil, food, and feed grains (50 percent or more during the first half of 2008), together with overheated domestic demand in several economies in the region (notably Egypt, the Islamic Republic of Iran, and a number of GCC countries), led to a sharp rise in consumer price inflation across the Middle East and North Africa (figure A13). Consumer prices for the diversified economies (GDP-weighted) accelerated to 7 percent in August 2008 from a trough nearer 1.5 percent in mid-2007; much of the increase was centered

Figure A13 Inflation rises across the Middle East and North Africa

Consumer price inflation (percentage change, year-over-year)



Source: World Bank data.

Note: Gulf Cooperation Council (GCC).

in Jordan, where inflation reached 20 percent. Aggregate inflation for developing oil exporters also breached 20 percent, mainly reflecting developments in the Islamic Republic of Iran, where substantial monetary stimulus led to overheating, pushing inflation to 27 percent; consumer prices in Egypt rose to a 24 percent pace, pushed up primarily by rising food prices and expanding domestic demand fueled by monetary growth.

Inflation remains a key challenge for the region. Although extensive reliance on fuel and food subsidies helps limit inflationary pressures, it comes at a very high fiscal cost. Not only do such steps reduce fiscal space to address other priorities, as discussed in chapter 3, they tend to be very inefficient mechanisms for alleviating poverty. Iranian energy subsidies exceeded 20 percent of GDP in 2007—08. Food and energy subsidies in Egypt increased to 1.9 and 6.9 percent of GDP in fiscal 2008, up from 1.3 and 5.5 percent, respectively, in fiscal 2007. Second-round inflationary effects have been boosted in several countries that responded to high food prices by increasing wages of select groups to help mitigate the worst of the impact on living standards.

Domestic demand, underpinned by substantial FDI, drives growth in the region

Strong gains in consumer spending, and especially in fixed investment, have been the key factors supporting growth across the region in 2008—all the more so as exports of the oil-dominant economies have been restrained in an effort to prop up crude oil prices, and those of the diversified economies have been increasingly affected by the slowdown in export market demand. Investment in the region grew almost 20 percent in 2008, accounting for 3.4 points of the region's 5.8 percent growth in the year, while consumer spending grew 7 percent (see table A7, earlier). Large infrastructure investment projects, such as the *Programme Complémentaire de Soutien à la Croissance* (PCSC) in Algeria, find counterparts in new real estate, commercial, and industrial developments in countries such as Egypt, Jordan, Morocco, and Tunisia, funded in large part by direct investment flows from the GCC.

Sectors benefiting from FDI have diversified from real estate and tourism-related properties toward industrial and infrastructure projects in the past few years. FDI to the developing countries of the region increased more than five-fold from $4.7 billion in 2000 to $26.4 billion in 2006; preliminary estimates for 2007 suggest a moderate downshift to $21.5 billion, reflecting diminishing levels of flows to Egypt, Jordan, and Tunisia.

Recent examples of FDI-driven developments include the Mediterranean Gate project, which aims to turn Tunis into a regional hub for finance, business, and technology. Work has begun on the first $1 billion of the $25 billion project, which is slated to house 2,500 international firms and provide 350,000 jobs over a 20-year period. In Jordan, Aqaba Development signed a $100 million agreement to develop an industrial port at Aqaba to handle potash exports. And in Morocco, construction is under way on a new Renault/Nissan production site—the plant will sponsor about 6,000 direct jobs, with 90 percent of production exported.

Among the region's oil exporters, Algeria experienced a fillip to growth in 2008, to 4.9 percent from 3.1 in 2007, as gains continued at a rapid 6 percent clip in the non-oil sector, notably in construction and services linked to infrastructure projects (table A8). Algeria stands in fair stead to weather financial spillovers from the global crisis; at end-September 2008, reserves stood at $140 billion, up $30 billion from end-2007. A falloff in the oil sector to 2 percent pressured growth in the Islamic Republic of Iran from 7.8 percent in 2007 to 5.6 percent. Overall GDP was supported by industry, which advanced 7.4 percent, services (6.8 percent), and agriculture (6.2 percent). Growth is being powered by a highly expansionary fiscal policy, which has pushed inflation toward 30 percent; and public spending is anticipated to move higher still ahead of presidential elections slated for 2009.

Table A8 Middle East and North Africa country forecasts
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[c]	2009[d]	2010[d]
Algeria							
GDP at market prices (2000 US$)[b]	1.7	5.3	1.8	3.1	4.9	3.8	5.4
Current account balance/GDP (%)	3.2	21.6	24.7	21.2	23.3	12.2	9.8
Egypt, Arab Rep.							
GDP at market prices (2000 US$)[b]	4.3	4.4	6.8	7.1	7.2	4.5	6.0
Current account balance/GDP (%)	0.9	2.3	2.4	0.3	−5.1	−2.7	−1.3
Iran, Islamic Rep.							
GDP at market prices (2000 US$)[b]	3.7	4.3	5.9	7.8	5.6	3.5	4.2
Current account balance/GDP (%)	1.2	20.4	27.6	28.5	36.3	17.9	12.1
Jordan							
GDP at market prices (2000 US$)[b]	5.1	7.3	6.3	6.0	5.5	4.2	6.0
Current account balance/GDP (%)	−4.3	−17.7	−8.1	−13.9	−14.9	−0.8	0.0
Lebanon							
GDP at market prices (2000 US$)[b]	7.2	1.0	0.0	2.0	5.5	4.0	4.5
Current account balance/GDP (%)	—	−12.8	−5.3	−8.7	−16.4	−6.5	−5.9
Morocco							
GDP at market prices (2000 US$)[b]	2.4	2.4	7.8	2.7	6.2	4.0	6.0
Current account balance/GDP (%)	−1.4	1.7	2.0	−0.3	−4.5	1.0	1.7
Syrian Arab Rep.							
GDP at market prices (2000 US$)[b]	5.1	4.5	5.1	6.6	3.7	2.5	4.2
Current account balance/GDP (%)	1.0	1.0	2.7	1.2	2.4	−2.0	−3.3
Tunisia							
GDP at market prices (2000 US$)[b]	4.7	4.2	5.7	6.3	5.1	3.7	5.8
Current account balance/GDP (%)	−4.3	−1.1	−2.0	−2.6	−3.9	0.0	0.8
Yemen, Rep.							
GDP at market prices (2000 US$)[b]	5.5	4.6	3.2	2.8	2.7	5.7	4.0
Current account balance/GDP (%)	−4.3	3.7	8.1	−0.5	1.3	1.3	2.5

Source: World Bank.

Note: Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. Djibouti, Iraq, Libya, and West Bank and Gaza are not forecast because of data limitations.

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

Growth in Egypt continued its strong momentum into 2008, moving from GDP gains of 7.1 percent in 2007 to 7.2 percent, as investment advanced by more than 30 percent funded in large part by FDI. Egypt has been the largest recipient of FDI in the region, attracting $13 billion (8.4 percent of GDP) in fiscal 2008, up from $11 billion in the previous fiscal year. But the country's equity markets have been hard hit by recent financial turmoil, with the CASE index off more than 50 percent since May 2008. Moody's and Fitch had earlier lowered the outlook on the country's Ba1 rating to negative from stable, citing inflation and the fiscal deficit as primary concerns. Egypt appears among the more exposed economies in the Middle East and North Africa to potential repercussions from developments in international financial markets.

In Syria, domestic demand, supported by strong output gains in transport, communications, finance and real estate, and public administration, drove growth of 3.7 percent during 2008. Declining oil production is the key challenge facing the economy. Oil output dropped 23 percent between 2003 and 2007, increasing pressure to expand the scope for private non-oil activities. Similar falloffs in oil production in the Republic of Yemen continue to plague the economy, restraining GDP growth there to 2.7 percent in 2008; though a coming online of large natural gas facilities in

2009 should yield a fillip to growth by more than 3 percentage points at that time.

Among the more-diversified economies, growth in Morocco recouped sharply to 6.2 percent in 2008 from the drought-inflicted 2.7 percent outturn of 2007. Vigor in non-agricultural sectors, especially in telecommunications, financial services, and construction, has driven growth. Policies to control domestic prices—food and fuel subsidies, temporary waivers on customs duties for cereals, and actions to fight price speculation—have helped maintain overall inflation at relatively low levels compared with many countries in the region. But subsidies have tripled in two years, reaching close to 6 percent of GDP in 2008. In Tunisia, GDP eased to 5.1 percent growth in 2008, from 6.3 percent in 2007, largely because of deterioration in the external environment, in particular the economic slowdown in the EU. Remaining import tariffs on EU goods were dismantled in January within the framework of the EU-Tunisia Association Agreement, and steps have been taken in the financial sector to reduce unsound and nonperforming loans by improving credit risk appraisals. Over the first seven months of 2008, foreign investment in industry increased 47.2 percent, widening from the earlier focus of FDI in tourism.

Jordan's growth slipped to 5.5 percent from 6 percent in 2007, on the back of still-buoyant domestic demand, financed in part by large capital inflows. Heavy public sector outlays in 2008 (and anticipated in the draft 2009 budget) suggest that fiscal and financing pressures will continue in the short term. The rise in fuel and food prices, together with expansionary policy, has pushed inflation above 22 percent as of August, and the current account deficit widened to almost 15 percent of GDP in the year. These circumstances place Jordan at some risk of interruption in private capital flows in the short term, but official development assistance and worker remittances may help the country bridge the potential financing gap. Finally, in Lebanon, GDP picked up to a 5.5 percent pace in 2008, from 2 percent during 2007, on a strong rise in consumer spending. At the same time, inflation lofted into double digits on the back of food and fuel prices, as well as high public sector wage settlements. Lebanon managed to finance its large trade deficit through stronger exports of services and higher net inflows from abroad.

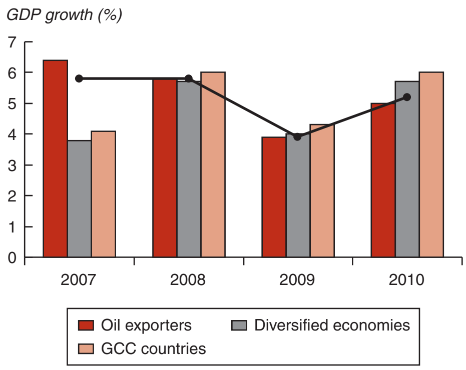
The medium-term outlook

The global downturn and financial crisis will exact a toll on growth in the Middle East and North Africa, but one that will be less dramatic than, for example, in Europe and Central Asia or South Asia, where country exposure and fragility of initial conditions are considerably more pronounced. As world oil demand falls sharply, any decisions by the region's oil exporters to curtail output to set a "floor" under oil prices—will play a large role in shaping growth profiles. And the shift from windfall revenue gains to current account surplus positions of less than 6 percent of GDP by 2010, much weaker oil revenues, tighter credit conditions, and weaker demand for the region's exports (including tourism) are expected to cause investment to decelerate sharply, rising by 7 percent in 2009 after growing 18.9 percent in 2008.

As a result, the region's GDP is anticipated to slow from 5.8 percent in 2008 to 3.9 percent in 2009. Growth among the oil exporters as well as the diversified economies is anticipated to fall to about 4 percent in 2009 (figure A14). Recovery in 2010, predicated upon a quick resolution of the financial crisis in high-income countries and a moderate revival of OECD growth, would see GDP pick-up to 5.2 percent, led by a return to 5.7 percent growth among the diversified economies. A very gradual buildup in global oil demand is likely to restrain GDP gains among the oil-exporting countries to 5 percent in 2010. Mainly reflecting cuts in oil production, export volumes are projected to decline 2.1 percent in 2009, while the regional current account surplus falls to 6 percent of GDP, from 13.5 percent in 2008.

Recovery for the region in 2010 hinges on a pickup in exports and a moderate upturn in

Figure A14 Notable slowing of growth across the Middle East and North Africa in 2009



Source: World Bank.

investment, but primarily on a 1.8 percentage point pickup in household outlays to growth of 6 percent, as the earlier run-up in commodity prices and consumer price inflation moderates, giving way to gradual stabilization and to a pick-up in consumer purchasing power. The region's current account position should continue to narrow to some 4 percent of GDP, providing a new set of "initial conditions" from which developments into the next decade are likely to spring.

Risks

Uncertainty surrounding the medium-term path for oil prices is probably the element of greatest risk confronting the region. Where the global price of oil settles, grounded in the fundamentals—as well as by pressures exerted by OPEC—will determine the potential growth path for the oil-dominant economies of the region. The "base case" view posits world crude oil prices remaining within a $65 to $75/bbl range through 2010, moving toward a real equilibrium price of $60/bbl in 2007 dollars by 2015. But substantial downsides to this price forecast can be envisioned should the slowdown in developing-country GDP growth fall much below the 4.5 percent posited for 2009. Although a repeat of 1985–86, when oil prices tumbled to $10/bbl is unlikely, prices below $50/bbl could be in the cards, with attendant adjustments required by the region's exporters.

A second element of concern for the region is the potential for unrest among the populace under the potentially harsh conditions of a global recession. A slowdown in remittance inflows would carry direct effects to poor families in need of income to sustain household consumption. And government budgets will remain under pressure, in part to maintain subsidies for basic goods.

South Asia

Recent Developments

GDP growth in South Asia slowed markedly in 2008 to 6.3 percent from 8.4 percent in 2007.[6] The onset of the financial crisis in the United States and Europe in mid-September 2008—which led to severe financial turmoil in emerging markets, including in many South Asian countries—ushered in a downshift in activity that started to take hold in late-2008. Growth had already begun to wane in the region prior to the onset of the global crisis, as rising inflationary pressures and tight credit conditions had started to take a toll on domestic activity, while already slowing external demand and high international commodity prices led to a deterioration in external positions.

The initial effects of the global financial crisis in South Asia were sharp corrections in regional equity markets. Bourses in India, Pakistan, and Sri Lanka dropped 57 percent, 39 percent, and 35 percent, respectively, over the year through mid-November (and 66, 50, and 39 percent, when measured in U.S. dollars). Notably in Pakistan, curbs on the sale of equities were imposed in August, effectively preventing the exit of existing investors and discouraging potential new investors.

Equity sell-offs and 'flight-to-quality' contributed to significant currency depreciation in some countries, with local currencies in India, Pakistan, and Nepal[7] falling by 21 percent, 30 percent, and 21 percent, respectively, against the U.S. dollar, over the year through mid-November. The Sri Lankan rupee depreciated by nearly 2 percent when the Central Bank allowed the peg against the U.S. dollar to adjust at end-October 2008. In contrast, the Bangladeshi taka appreciated slightly (2 percent) over the same period.

Notably, the region's banking sectors have been largely insulated from the crisis, given very limited exposures to the toxic debt instruments tied to U.S. sub-prime mortgages. With respect to the associated impacts of the financial crisis on the real economy—as financing for corporations, loans for households, and trade credit for exporters have become significantly more difficult to obtain—indications of a fall-off in external and domestic demand have begun to trickle in. For example, India's goods exports contracted 12 percent in October (year-over-year). This comes on the heels of a substantial deceleration in export growth to 10 percent in September from 27 percent in August despite the marked weakening of the rupee. Sri Lanka's exports also declined, falling 9.4 percent in September, contrasted with growth of 16.6 percent and 24.1 percent in August and July, respectively. Further, consumer confidence in India has deteriorated, with the index related to consumer spending down for a fourth consecutive month in October.[8]

Weaker conditions in South Asia were evident in the region prior to the onset of the global financial crisis, and were marked by an increasingly challenging global environment. In particular, sharply negative terms-of-trade effects from the rise in oil and global non-energy commodity prices, which peaked in mid-2008, acted as a drag on regional growth and contributed to a doubling of the regional current account deficit in the year. Rising international prices also contributed to a pronounced buildup in South Asia's inflation pressures. Higher prices, particularly for food and fuel, undermined real household incomes—with the poorest households generally affected the most—thus crimping household expenditures. Several governments attempted to offset the international price hikes with domestic subsidies, placing strains on fiscal balances. But with substantial and sustained increases through the middle of 2008, a greater degree of feed-through of higher food and fuel prices to households in these countries became inevitable. Tighter credit conditions, moderating demand, higher prices, and diminishing levels of confidence weighed on consumer and business spending alike. And investment growth decelerated to single digits from the robust growth witnessed during recent years.

The slowdown in growth during 2008 reflected increasing weakness in the region's two largest economies, India and Pakistan (table A9). In India, growth slowed across all sectors, with tighter monetary policy, rising inflationary pressures, and mounting fiscal and current account deficits weighing down economic activity. The more recent onset of the global financial crisis resulted in sharp losses in India's equity markets and drove down the value of the rupee. Foreign institutional investors pulled out of India to cover losses in high-income countries and as risk aversion heightened across the globe.

In Pakistan, the economy deteriorated sharply over the course of 2008, as headline inflation surged, and the current account and fiscal deficits jumped on the back of rising oil and food prices. Political turmoil and ongoing security concerns have also taken a toll on Pakistan's economy, while the global financial crisis added substantial downward pressures on its financial markets. Prior to reaching an agreement with the IMF for standby credit in mid-November, Pakistan came close to a full-blown balance of payments crisis. In neighboring Afghanistan, the economy has been hurt by a decline in agricultural output caused by poor precipitation, a sharp rise in international food prices, and the wheat export restrictions imposed by Pakistan, in addition to the disruptive effects of the spreading insurgency. And while GDP growth in Bhutan remained vibrant at 14.4 percent in 2008, it moderated from the 17 percent expansion of 2007, stemming from the initial boost from the first full year of operation of the immense Tala hydropower project.

Table A9 South Asia forecast summary
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[e]	2009[f]	2010[f]
GDP at market prices (2000 US$)[b]	5.2	8.7	9.0	8.4	6.3	5.4	7.2
GDP per capita (units in US$)	3.1	6.9	7.2	6.9	4.8	4.0	5.8
PPP GDP[c]	6.3	8.7	9.0	8.4	6.3	5.4	7.2
Private consumption	3.9	7.0	6.0	7.5	5.7	4.7	5.7
Public consumption	4.7	8.8	10.0	4.9	8.8	9.2	6.7
Fixed investment	5.5	14.6	16.5	13.5	7.1	4.8	10.7
Exports, GNFS[d]	10.6	7.0	17.3	7.3	4.3	3.7	8.3
Imports, GNFS[d]	9.8	12.9	21.9	7.0	6.5	2.7	7.8
Net exports, contribution to growth	−0.1	−1.0	−0.8	0.0	−0.5	0.2	0.0
Current account balance/GDP (%)	−1.6	−1.2	−1.5	−1.6	−3.5	−2.0	−1.9
GDP deflator (median, LCU)	8.2	6.5	9.2	8.4	9.7	8.0	6.0
Fiscal balance/GDP (%)	−7.7	−5.9	−6.1	−6.4	−8.1	−8.6	−8.0
Memo items: GDP							
South Asia excluding India	4.4	6.7	6.4	6.1	6.1	4.0	5.2
India	5.5	9.2	9.7	9.0	6.3	5.8	7.7
Pakistan	3.9	7.7	6.2	6.0	6.0	3.0	4.5
Bangladesh	4.8	6.0	6.6	6.4	6.2	5.7	6.2

Source: World Bank.

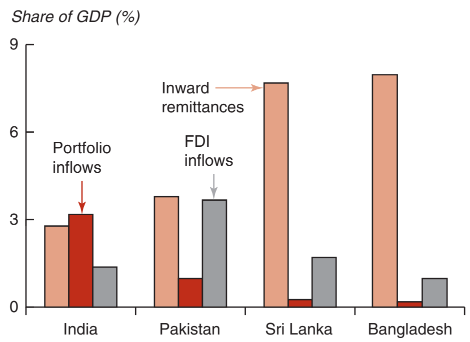
Note: To simplify presentation across countries and with other regions, annual national income and product account data for South Asia are reported in calendar years, although official country data are originally reported by fiscal year for Bangladesh, India, Pakistan, and Nepal.

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 nonfactor services.
e. Estimate.
f. Forecast.

In contrast with broadly declining activity in the region, growth in Bangladesh held steady, with domestic demand buoyed by a sharp increase in remittance inflows and by robust garment exports recorded in the first half of 2008. With relatively thin capital markets, Bangladesh's equities experienced much more muted declines than those experienced in other regional markets. Growth in Sri Lanka has also proven resilient in 2008, primarily because of a marked rise in agricultural production and a boom in tea exports, which helped to offset slower growth in garment exports. While its equity markets also suffered sharp corrections with the global financial crisis, the Sri Lankan rupee, which was pegged to the U.S. dollar early in 2008, remained stable against that currency. Partially in consequence, real appreciation of the Sri Lankan rupee has contributed to substantial widening of the current account deficit. In Nepal, growth firmed in 2008, helped by higher agricultural output and rising remittance inflows. These factors supported an increase in household incomes and private consumption, despite a buildup in inflation pressures.

The general deterioration in regional trade balances has been offset by large remittance inflows, which represent a sizable, and generally increasing share of GDP: during 2007, 14 percent in Nepal, 8 percent in Bangladesh and Sri Lanka, 4 percent in Pakistan, and 3 percent in India. FDI inflows remained strong through the first half of 2008, helping to ease external financing requirements. In India, FDI surged to 3 percent of GDP in 2008, up from 1.4 percent in 2007. FDI inflows to Pakistan remained relatively steady through the summer of 2008—on course to match the 3.7 percent of GDP recorded in 2007—but the extreme financial and economic difficulties encountered during the second half of the year were likely to have changed that for the worse. In 2007, FDI inflows to Sri Lanka and

Figure A15 Key international finance links in South Asia, 2007



Source: World Bank.

Bangladesh reached 1.7 and 1 percent of GDP respectively (figure A15).

In contrast, net portfolio flows to the region turned sharply negative during the first half of 2008, shifting from vibrant inflows of recent years. In India, where portfolio inflows surged to 3 percent of GDP in 2007, outflows are projected to exceed 1 percent of GDP in 2008. With the increase in global risk aversion and rebalancing of portfolio holdings in the high-income countries, gross capital flows decelerated in 2008, with an especially sharp falloff in equity and bond issuance and a somewhat less pronounced decline in bank borrowing. Faltering investor confidence led to higher international bond spreads, with those for Pakistan and Sri Lanka spiking to prohibitive levels in September and October. Hard currency reserves were drawn down to varying degrees, as investors pulled out of regional markets and as central banks sought to shore up currencies.

Fiscal policy across South Asia is broadly expansionary, with deficits generally exceeding 4.5 percent of GDP—they are projected to reach 8.5 percent in India, 7.5 percent in Pakistan and Sri Lanka, and 4.7 percent in Bangladesh in 2008. Nepal is an exception, where the 2008 deficit is projected at 2.8 percent of GDP, although that would be double the 2007 deficit. In 2008, budget deficits rose across the region—or remained high—as price subsidies for food, fuel, and fertilizer contributed to higher fiscal outlays. In some cases (India, Bangladesh, Pakistan), the subsidies contributed to a reversal in the general trend toward fiscal consolidation in recent years. Downward pressure on the revenue stream, resulting from the deceleration in growth, also played a role. As a consequence, a number of regional governments had begun to cut development spending.

With low, or in many cases, negative real interest rates, monetary policy is also broadly expansionary in South Asia. Prior to the onset of the global financial market crash in September 2008, some countries had tightened monetary conditions through interest rate hikes (India) or slower credit growth (Sri Lanka) in an effort to curtail rising inflationary pressures. Later in the year, however, as the credit crunch became manifest, regional monetary authorities quickly responded by injecting liquidity into banking systems through various measures, including lowering required reserve ratios and reducing policy interest rates.

Medium-term outlook

The outlook for regional growth is highly uncertain, because of the sustained degree of volatility and synchronized nature of the slowdown across countries—and because the full extent of financial disruption on both the regional and global economies remains unclear. South Asian GDP growth is projected to step down to 5.4 percent in 2009 from 6.3 percent in 2008. Continued financial sector volatility and balance sheet weakness will translate into ongoing risk aversion. That is expected to lead to a further contraction in portfolio inflows and mute the prospects for FDI, primarily affecting India and Pakistan, which receive the lion's share of the region's inflows. In turn, these factors are projected to lead to a sharp falloff in private investment growth. Equity price declines are expected to generate negative wealth effects, especially in the case of India, where market capitalization reached 160 percent of GDP in 2007, up from 90 percent in

Table A10 South Asia country forecasts
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[c]	2009[d]	2010[d]
Bangladesh							
GDP at market prices (2000 US$)[b]	4.8	6.0	6.6	6.4	6.2	5.7	6.2
Current account balance/GDP (%)	−0.4	−0.3	2.0	1.2	0.8	0.7	0.7
India							
GDP at market prices (2000 US$)[b]	5.5	9.2	9.7	9.0	6.3	5.8	7.7
Current account balance/GDP (%)	−1.2	−1.0	−1.0	−1.2	−3.1	−1.7	−1.9
Nepal							
GDP at market prices (2000 US$)[b]	5.0	3.1	3.7	2.6	5.5	3.8	4.9
Current account balance/GDP (%)	−6.3	0.0	−0.1	−1.2	1.2	1.0	0.8
Pakistan							
GDP at market prices (2000 US$)[b]	3.9	7.7	6.2	6.0	6.0	3.0	4.5
Current account balance/GDP (%)	−3.7	−3.3	−5.4	−5.8	−8.1	−4.6	−3.2
Sri Lanka							
GDP at market prices (2000 US$)[b]	5.2	6.0	7.7	6.8	6.3	4.0	5.5
Current account balance/GDP (%)	−4.6	−3.2	−5.3	−4.4	−7.5	−5.7	−5.5

Source: World Bank.

Note: Growth and Current Account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents. Afghanistan, Bhutan, and Maldives are not forecast because of 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.
c. Estimate.
d. Forecast.

2006 and where the housing boom has begun to lose steam (table A10).

Weakening foreign demand is expected to lead to a significant slowing in regional export growth, including services. In particular, the information technology and communications sector is considered vulnerable to shifts in financial sector activity, and clothing and tourism revenues are vulnerable to shifts in discretionary spending. Potential mitigating factors include cost-cutting measures by companies in high-income countries to the benefit of outsourcing suppliers (such as India) and shifts in spending to low-priced retailers, such as Wal-Mart, to the benefit of their suppliers (such as Bangladesh). Recession in high-income countries and a slowdown in growth among the Gulf oil exporters are expected to depress remittances inflows.

However, the set of unfavorable global conditions are anticipated to lead to lower commodity prices, which will not only provide a fillip to real household incomes, but also provide governments with greater scope for fiscal stimulus. Falling commodity prices will reduce the import bill and boost the region's terms of trade. At the regional level, the current account deficit is expected to narrow substantially. Additionally, the recent sharp depreciation of local currencies against the dollar for India, Pakistan, and Nepal will help boost export competitiveness. This should help offset partially the negative effects of the coming contraction in world trade.

To help cushion the downturn related to the financial crisis, South Asian governments are seen to pursue countercyclical measures, although fiscal space is limited. Thus, monetary policy measures will often be the key mechanism for response to the crisis, although reductions in policy rates should be undertaken with care where there is pressure on the exchange rate. Even with tight budget envelopes, regional governments can improve the efficiency of public outlays by more directly targeting safety net programs to the benefit of the poor. In addition, and particularly where both fiscal and monetary policy responses are constrained, expansion of structural reforms should be pursued to stimulate growth in the near term and improve prospects for the medium and longer terms. Examples include improving governance and management of public sector firms, rationalizing government finances, enhancing openness where it could improve stability (such as FDI), and improving the quality of physical and financial infrastructure. Moving forward with existing planned investment programs, which often take years to develop, will support current activity and build capacity for eventual recovery.

Given strong underlying growth dynamics in South Asia, the negative feedback effects of the global financial crisis are expected to be temporary. A relatively rapid rebound is expected in 2010, with a projected revival of GDP growth to 7.2 percent by 2010. Private consumption and investment growth are forecast to gain steam, supported by strengthening global demand and a rebound in consumer and business confidence. Commodity price decreases are projected, which will support a reduction of inflationary pressures within the South Asian economies. The region's median inflation rate will have peaked in 2008 at 9.7 percent, although sustained pipeline pressures will prevent a rapid easing, with inflation moderating incrementally to 8 percent in 2009 and 6 percent by 2010.

Risks

Given the synchronized and widespread nature of the current crisis, downside risks to the baseline are pronounced. A more prolonged and pervasive credit crunch than envisioned in the baseline would lead to a deeper global recession. That in turn would likely lead to outright contraction of South Asia's private fixed investment (compared with the sharp slowing of growth found in the baseline), driven in part by a crimping of FDI inflows. South Asia's exports would also likely contract instead of slow, and remittances could compress sharply, especially were destination countries to send migrants home. With the growth slowdown, household incomes would decline and unemployment rise. Progress in poverty alleviation could slow markedly. While the region's banking sector has not been exposed to the toxic debt instruments that have plagued many high-income countries, in a downside scenario of protracted sluggish growth and risk aversion, weaknesses in the region's financial sector could emerge.

Whereas India holds sizable foreign exchange reserves (despite recent draw-downs) to help weather more negative than expected growth dynamics, other countries in the region have seen widening trade deficits and capital outflows reduce their reserve holdings, increasing their vulnerability to sustained pressure on currencies. Countries holding substantial short-term debt obligations would be more vulnerable. In the Maldives, the rapid buildup of debt obligations with the construction boom following the tsunami is of concern. Sri Lanka has a large public debt (equivalent to 83 percent of GDP in 2007), with 44 percent of the debt external, albeit primarily concessional; the country's fiscal position is thus vulnerable to higher interest rates and exchange rate depreciation. The Sri Lankan currency peg against the dollar could come under pressure, because the foreign reserve cover is relatively low. Bhutan also holds significant external debt obligations, but these are held primarily by India for the development of hydroelectric power, which Bhutan is in turn exporting to India. Should a deeper crisis lead to a falloff in foreign assistance, countries significantly reliant on aid (such as Afghanistan) would be more adversely affected.

In contrast, should the current global financial crisis be resolved relatively quickly, and growth dynamics prove more favorable than projected, policy makers would face very different challenges. Inflationary pressures could return to the forefront—as counter-cyclical measures could become effectively pro-cyclical—leading to higher internal and external deficits, hindering investment (through crowding out), and acting as a drag on growth.

Sub-Saharan Africa

Recent Developments

Sub-Saharan Africa's economy expanded 5.4 percent in 2008, the first time in more than 45 years that growth exceeded 5 percent for five years in succession—this despite substantial deterioration in the external environment during the year. GDP gains have been broad-based and less volatile, even in oil-importing economies, as strong commodity export revenues and capital inflows underpinned domestic demand. Another notable and encouraging feature of the recent growth spurt is the sustained contribution of fixed investment to growth, which carries positive implications for long-term potential growth.

Strong external demand, high commodity prices, and relatively robust private capital inflows invigorated growth across a large spectrum of economies, whether resource rich or resource poor. Oil-importing economies, outside of South Africa, grew 5.2 percent in 2008, down from 5.8 percent in 2007, while oil-exporting countries grew by more than 7.5 percent for a second consecutive year. However, several years of above-trend economic expansion have pushed a larger number of African economies up against capacity constraints stemming from inadequate investment in energy, roads, railways, and ports over the past decades. This constraint along with high food and fuel prices has contributed to the upturn in inflation witnessed across the subcontinent during the year (table A11).

South African growth eases

Growth in the Republic of South Africa trailed growth in other African economies in 2008, slowing markedly to an estimated 3.4 percent from 5.1 percent in 2007. Power outages plagued output growth in the mining sector, and household consumption slowed sharply, undercut by slower growth of credit, falling asset prices, and higher food and fuel prices. The region's largest economy has felt the repercussions of the intensification of the financial crisis since September 15. Increased risk aversion vis-à-vis emerging markets caused asset prices in South Africa to plummet, putting pressure on the rand, which has depreciated nearly 25 percent in nominal

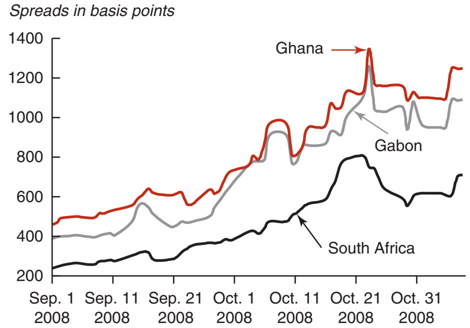
Table A11 Sub-Saharan Africa forecast summary
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[e]	2009[f]	2010[f]
GDP at market prices (2000 US$)[b]	2.3	5.9	5.9	6.3	5.4	4.6	5.8
GDP per capita (units in US$)	−0.5	3.4	3.4	4.3	3.4	2.7	3.8
PPP GDP[c]	3.2	6.2	6.1	6.7	5.7	4.9	6.1
Private consumption	1.3	5.2	6.5	6.5	3.4	3.5	5.2
Public consumption	2.4	6.2	6.0	6.2	5.4	6.0	7.4
Fixed investment	3.6	14.8	19.4	20.3	12.7	7.7	9.9
Exports, GNFS[d]	4.6	6.2	4.7	5.4	5.9	4.5	7.2
Imports, GNFS[d]	4.5	12.8	12.8	11.9	7.6	5.6	9.4
Net exports, contribution to growth	0.1	−2.3	−3.1	−2.9	−1.2	−0.8	−1.6
Current account balance/GDP (%)	−2.0	2.4	0.7	−0.3	1.0	−3.5	−3.7
GDP deflator (median, LCU)	10.2	7.2	7.3	6.3	8.6	6.5	4.1
Fiscal balance/GDP (%)	−4.7	0.2	1.0	−1.9	−0.6	−1.3	−1.5
Memo items: GDP							
Sub-Saharan Africa excluding South Africa	2.6	6.4	6.2	7.0	6.6	5.7	6.6
Oil exporters	2.0	7.5	6.8	8.2	7.8	6.6	7.3
CFA countries	2.5	4.0	2.4	3.4	4.5	4.3	5.0
South Africa	1.8	5.0	5.4	5.1	3.4	2.8	4.4
Nigeria	2.8	7.2	5.2	6.5	6.3	5.8	6.2
Kenya	1.9	5.7	6.1	7.1	3.3	3.7	5.9

Source: World Bank.

a. Growth rates over intervals are compound averages; 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 nonfactor services.
e. Estimate.
f. Forecast.

Figure A16 Bond spreads for African countries jumped after mid-September



Source: JPMorgan-Chase.

effective terms since the beginning of 2008. Like most emerging markets, South Africa saw spreads on its sovereign bonds surge, by more than 450 basis points between the beginning of September and mid November 2008; equity prices plummeted 40 percent in dollar terms over the same period (in local currency the loss was 21.7 percent) (figure A16).

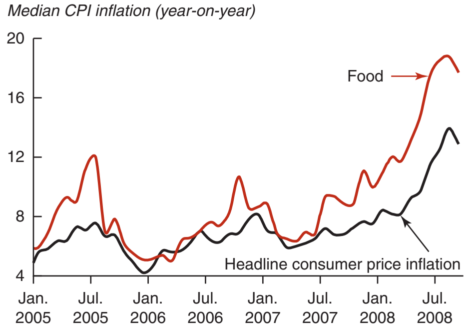
Helped by higher exports of gold and platinum, South Africa's current account deficit retreated to 7.3 percent of GDP in the second quarter of 2008, from 8.9 percent in the previous quarter. Lower prices for its main exports, together with weaker external demand, will cause the current account deficit to rise to 8 percent of GDP this year from 7.3 percent in 2007. With portfolio inflows financing three-fourths of South Africa's current account deficit in 2007, and with the increased volatility of these inflows, South Africa may find it difficult to finance its large current account deficit, especially if FDI inflows are also falling. Meanwhile, fiscal financing requirements are much more modest; South Africa is expected to run a small budget deficit in 2009, after being almost in-balance in 2008. Furthermore, government indebtedness remains low, with debt at 23.3 percent of GDP as of March 2008, and foreign debt accounting for less than 20 percent of total. This means that the government has room to borrow domestically to finance countercyclical policies.

Higher fiscal spending, a slowdown in FDI, and drying up of credit suggests that private investment growth, which has already been affected by tighter monetary policy, will slow further. The intensification of political tensions within the ruling African National Congress Party, which led to the resignation of President Thabo Mbeki several months before the end of his term, is likely to have a minimal direct impact on the economy but will add to uncertainties faced by investors now worried about a possible shift in economic policy.

Outside of South Africa, large commodity windfalls have fueled growth in resource-rich countries. Encouragingly, growth is spilling over to other sectors outside oil and mining, as part of the windfall is spent. In Nigeria, the non-oil economy is booming, despite continued unrest in the Niger Delta that caused oil output to drop 11.2 percent in the second quarter of 2008. Despite underperformance in the oil sector, second-quarter growth accelerated to 6.7 percent, from 5.5 percent in the first, as output in non-oil industries picked up to 8.5 percent, mainly on strong growth in agriculture, trade, and telecoms, which together accounted for 95 percent of non-oil growth. In Angola, GDP growth remained robust in the first half of the year, and growth in the non-oil sector will approach 20 percent this year, marginally down from 21.5 percent in 2007, as the construction, agriculture, and communication sectors continue to expand at an impressive pace.

High energy and agricultural prices and lower agriculture output caused by unfavorable weather conditions have affected industrial output in some countries. Indeed, in many West African countries the food processing sector has contracted due to lower agricultural output and higher input costs. Surges in food and fuel prices have pushed headline consumer price inflation into double digits in almost half of the countries in Sub-Saharan Africa, with median inflation moving rapidly to nearly 13 percent as of September 2008; median food inflation increased to more than 17.7 percent (figure A17). For example in Ethiopia, headline

Figure A17 African headline inflation jumps as food prices skyrocket



Source: World Bank.

inflation surged as high as 64 percent in 2008, as food inflation breached 80 percent. In some cases, core inflation also accelerated, as second-round inflation effects through wage settlements incorporating expectations of higher inflation were concluded. For example, in South Africa, unit labor costs increased 10.5 percent in the second quarter of 2008, spurred by average wage increases of 9.6 percent in the first nine months of the year.

High import prices in conjunction, in some cases, with strong investment demand (investment carries high import content in Africa) led current account balances to deteriorate in more than one of every two countries during 2008 relative to 2007. Thirteen of 44 countries experienced a worsening in excess of 2 percent of GDP, and 19 of 44 countries registered current account deficits in excess of 10 percent of GDP. In Ghana, for example, the trade deficit breached 26.2 percent of GDP in the second quarter of 2008 and is expected to reach more than 30 percent in 2009. The deficit excluding official transfers is likely to rise to more than 17 percent of GDP.

Political instability can still derail growth, as it did in Kenya, where output contracted 0.8 percent in the first quarter of 2008 (year-over-year). Political tensions caused a sharp contraction in tourism arrivals and in the agriculture sector. Other sectors were also affected to varying degrees, with transport contracting 2.2 percent; strong performance in mining and construction prevented a more dismal growth outcome. A resumption of conflict is also threatening growth prospects in the Democratic Republic of Congo.

Medium-term outlook

The rapid and marked deterioration in the external environment will cause growth in Sub-Saharan Africa to slow, coming in at 4.6 percent in 2009, a pace below 5 percent for only the first time in five years (see table A11, earlier). Direct effects of the global financial and economic crisis are likely to be much more limited than in other regions, because African economies are less integrated into the international financial system and rely relatively less on international capital and bond markets to finance investment.

For Africa, weaker external demand and lower commodity prices will be the major mechanisms through which the financial crisis will be transmitted. Declines in demand in key external markets will take a toll on exports, and the contribution of trade to GDP growth is likely to be negative in 2009. Perhaps more importantly, export revenues will be affected by markedly lower commodity prices next year, eroding government and corporate finances and affecting farmers' incomes adversely. Additional adverse factors coming to affect Sub-Saharan Africa, potentially with some lag, are a slowing pace of worker remittance receipts, and importantly for many low-income countries, possible moderation in Official Development Assistance (ODA) flows.

More of an issue for commodity-rich countries, gross portfolio flows to the region are expected to fall markedly as credit becomes scarce and more expensive and investors' risk aversion intensifies. Official aid may also be squeezed by reduced fiscal space in donor countries as they tackle financial crises at home. As a result, fragile countries that rely heavily on aid are faced with a potential deterioration in growth prospects. Moreover, recession in high-income countries will undermine tourism arrivals and revenues, as well as remittances, which represent a significant share of GDP for Cape Verde, the Gambia, Kenya, Liberia, Lesotho, and the Seychelles, among other countries. However, for countries where currencies depreciated heavily with respect to donor country currencies, receipts in local currency terms could still increase.

Countries with very large current account deficits, including Burundi, Eritrea, the Gambia, Ghana, Madagascar, Malawi, Rwanda, Togo, and the Seychelles will need to adjust domestic demand to lessen import growth as financing external deficits becomes more difficult, and as export revenues and transfers are diminished by slower global growth. Many of these economies are especially vulnerable because they have low levels of international reserves, in many cases covering less than three months of imports.

While oil exporters hold sufficient resources to weather the global economic downturn, many oil-importing economies have been hit hard by higher food and fuel prices and are less well equipped for the coming downturn. In a number of cases, increased subsidies have limited fiscal space for countercyclical spending. Over the past year, as food prices surged, many governments removed or suspended tariffs on imported foods, which undercut tariff revenues. In addition, a less-than-full pass-through of higher international oil prices led to a large increase in fuel subsidies in some countries, further reducing fiscal room. While the movement to lower food and fuel prices will bring some relief, countries remain in a weakened state.

Overall, aggregate GDP growth in Sub-Saharan Africa is projected to decline to 4.6 percent in 2009 from 5.4 percent in 2008, on the back of weaker investment outlays, faltering export performance, and softer private consumption. As external demand gradually recovers over the second half of 2009 and into 2010, growth should firm to 5.8 percent by the latter year. Excluding South Africa and Nigeria, growth is projected to ease by a full percentage point to 5.6 percent in 2009 and to bounce back to 6.7 percent by 2010. In oil-exporting economies, growth will slow by more than a full percentage point to 6.6 percent, but the exporters will remain the fastest-growing group of countries in the region, while growth in oil-importing countries outside South Africa is projected to ease to 4.6 percent, a rate still above the historical trend (table A12).

South Africa's economic growth is likely to weaken further in 2009, falling below 3 percent for the first time in almost a decade, as tighter monetary policy and high inflation causes household consumption to falter. Private investment growth will continue to decelerate, pushed down by tighter credit markets and as demand in main export markets contracts (figure A18). Large asset price declines and associated negative wealth effects, along with slower credit creation will undermine household consumption, and together with weaker external demand will cut into manufacturing output. Although investment growth in South Africa is projected to ease in 2009, it will still remain one of the engines of growth for the country, as the South African government continues to bring forth large projects in the energy sector to address the chronic electricity deficit and in infrastructure ahead of the 2010 World Football Cup. The falloff in South Africa's GDP growth will carry repercussions for neighboring economies that trade heavily with South Africa and receive remittances from expatriate workers in South Africa.

Risks

With the world economy at a crossroads, risks facing Sub-Saharan Africa have intensified. If the concerted efforts of policy makers around the globe fail to re-establish trust in the international financial system, the world economy risks a deeper and more prolonged recession. As a result, Sub-Saharan Africa's growth would drop more sharply than envisaged in the base forecast.

Among African countries, South Africa is probably the country most directly exposed to

Table A12 Sub-Saharan Africa country forecasts
(annual percent change unless indicated otherwise)

	1991–2000[a]	2005	2006	2007	2008[e]	2009[f]	2010[f]
Angola							
GDP at market prices (2000 US$)[b]	0.8	20.6	18.6	24.7	15.8	11.1	11.3
Current account balance/GDP (%)	−6.1	16.8	20.9	14.1	17.8	8.9	9.2
Benin							
GDP at market prices (2000 US$)[b]	4.8	2.9	3.8	4.7	5.0	5.1	5.7
Current account balance/GDP (%)	−6.8	−6.3	−7.3	−7.0	−8.6	−9.5	−9.5
Botswana							
GDP at market prices (2000 US$)[b]	6.2	4.0	2.1	6.0	4.7	4.1	4.5
Current account balance/GDP (%)	8.1	15.3	18.2	19.3	9.5	7.4	5.2
Burkina Faso							
GDP at market prices (2000 US$)[b]	4.0	7.1	5.5	3.6	4.1	4.6	5.5
Current account balance/GDP (%)	−5.6	−12.4	−11.7	−13.1	−14.2	−12.8	−12.2
Burundi							
GDP at market prices (2000 US$) [b]	−1.7	0.9	5.1	3.4	4.4	4.0	5.1
Current account bal/GDP (%)	−3.4	−28.4	−36.0	−37.6	−38.9	−36.2	−36.7
Cape Verde							
GDP at market prices (2000 US$)[b]	5.8	11.9	10.8	6.5	6.7	5.1	6.3
Current account bal/GDP (%)	−8.3	−3.5	−9.6	−15.5	−13.9	−11.9	−12.8
Cameroon							
GDP at market prices (2000 US$)[b]	1.4	2.0	3.2	3.4	3.9	4.0	4.4
Current account bal/GDP (%)	−2.9	−2.4	−2.1	−2.3	−0.5	−4.3	−4.6
Central African Republic							
GDP at market prices (2000 US$)[b]	1.6	2.2	4.1	3.8	3.4	4.2	4.8
Current account balance/GDP (%)	−4.3	−7.1	−7.4	−7.3	−7.0	−6.7	−7.1
Chad							
GDP at market prices (2000 US$)[b]	2.3	7.9	−0.5	0.7	1.6	2.8	3.0
Current account balance/GDP (%)	−5.5	−6.3	−7.3	−8.2	−3.8	−7.0	−8.8
Comoros							
GDP at market prices (2000 US$)[b]	1.1	4.2	0.5	1.8	0.6	1.2	2.5
Current account balance/GDP (%)	−6.8	−4.6	−5.5	−4.8	−7.2	−6.3	−6.8
Congo, Dem. Rep.							
GDP at market prices (2000 US$)[b]	−5.6	6.5	5.6	6.3	10.7	8.3	11.9
Current account balance/GDP (%)	2.0	−10.0	−9.8	−12.2	−11.9	−13.4	−10.1
Congo, Rep.							
GDP at market prices (2000 US$)[b]	1.4	7.7	6.2	−1.4	9.1	7.4	9.7
Current account balance/GDP (%)	−16.5	15.1	−3.9	−23.0	6.8	2.6	11.6
Côte d'Ivoire							
GDP at market prices (2000 US$)[b]	2.3	1.2	0.9	1.5	2.6	3.1	4.9
Current account balance/GDP (%)	−4.0	0.2	3.4	−0.2	0.7	−3.2	−3.8
Eritrea							
GDP at market prices (2000 US$)[b]	—	4.8	−1.0	1.3	1.2	2.0	4.2
Current account balance/GDP (%)	—	−26.1	−29.5	−30.2	−32.8	−22.1	−19.0
Ethiopia							
GDP at market prices (2000 US$)[b]	2.9	10.2	11.5	11.1	8.8	6.0	7.3
Current account balance/GDP (%)	−0.8	−13.7	−12.3	−11.8	−11.6	−8.9	−8.6
Gabon							
GDP at market prices (2000 US$)[b]	1.7	3.0	1.3	5.4	3.7	4.2	4.0
Current account balance/GDP (%)	5.6	15.9	15.5	15.4	19.6	10.3	8.1
Gambia, The							
GDP at market prices (2000 US$)[b]	3.3	5.0	6.5	6.4	5.3	4.5	5.4
Current account balance/GDP (%)	−1.6	−10.9	−13.8	−16.9	−19.8	−17.4	−16.3
Ghana							
GDP at market prices (2000 US$)[b]	4.3	5.9	6.2	6.5	6.0	5.6	6.0
Current account balance/GDP (%)	−6.5	−10.3	−12.6	−14.2	−17.1	−15.6	−16.0

(*continued*)

	1991–2000[a]	2005	2006	2007	2008[e]	2009[f]	2010[f]
Guinea							
GDP at market prices (2000 US$)[b]	4.1	3.3	2.8	1.8	4.3	3.7	4.6
Current account balance/GDP (%)	−5.6	−4.9	−1.7	−2.4	−4.9	−7.1	−7.2
Guinea-Bissau							
GDP at market prices (2000 US$)[b]	1.5	3.5	4.2	2.7	2.9	2.8	3.4
Current account balance/GDP (%)	−24.0	−7.2	−19.3	−15.9	−10.9	−12.1	−10.8
Kenya							
GDP at market prices (2000 US$)[b]	1.9	5.7	6.1	7.1	3.3	3.7	5.9
Current account balance/GDP (%)	−1.6	−1.4	−2.3	−3.7	−8.0	−6.4	−5.5
Lesotho							
GDP at market prices (2000 US$)[b]	3.5	2.9	7.2	4.9	4.1	3.2	4.2
Current account balance/GDP (%)	−13.4	−6.9	0.7	−0.2	1.8	4.6	4.5
Madagascar							
GDP at market prices (2000 US$)[b]	1.7	4.6	4.9	6.3	6.8	6.0	10.4
Current account balance/GDP (%)	−7.8	−12.4	−9.4	−14.2	−21.0	−15.7	−4.8
Malawi							
GDP at market prices (2000 US$)[b]	3.4	2.7	8.2	8.4	7.9	6.5	7.9
Current account balance/GDP (%)	−8.5	−11.8	−19.3	−17.9	−20.7	−19.8	−19.6
Mali							
GDP at market prices (2000 US$)[b]	4.0	6.1	5.3	3.1	5.1	3.9	5.1
Current account balance/GDP (%)	−8.9	−8.2	−6.4	−9.9	−9.1	−10.5	−10.4
Mauritania							
GDP at market prices (2000 US$)[b]	2.9	5.4	11.6	0.9	2.1	5.9	6.4
Current account balance/GDP (%)	−0.3	−49.0	−2.8	−4.9	−4.4	−9.4	−10.7
Mauritius							
GDP at market prices (2000 US$)[b]	5.3	4.6	3.5	5.4	5.0	3.8	5.3
Current account balance/GDP (%)	−1.6	−5.0	−10.0	−8.4	−10.0	−8.2	−8.3
Mozambique							
GDP at market prices (2000 US$)[b]	5.0	8.4	8.7	7.0	6.0	6.3	6.4
Current account balance/GDP (%)	−16.4	−11.6	−9.0	−15.8	−17.0	−16.0	−16.3
Namibia							
GDP at market prices (2000 US$)[b]	4.2	4.7	4.1	3.8	3.6	3.1	4.5
Current account balance/GDP (%)	3.1	4.3	18.8	20.9	23.0	21.3	20.1
Niger							
GDP at market prices (2000 US$)[b]	1.8	7.2	5.1	3.2	4.9	3.6	4.9
Current account balance/GDP (%)	−6.9	−9.1	−9.2	−10.9	−14.5	−13.7	−15.4
Nigeria							
GDP at market prices (2000 US$)[b]	2.8	7.2	5.2	6.5	6.3	5.8	6.2
Current account balance/GDP (%)	−0.8	31.5	22.5	21.8	20.3	7.0	4.6
Rwanda							
GDP at market prices (2000 US$)[b]	0.2	6.0	5.5	6.0	8.0	5.0	5.5
Current account balance/GDP (%)	−1.2	−3.9	−15.7	−15.6	−21.7	−15.7	−16.7
Senegal							
GDP at market prices (2000 US$)[b]	3.1	5.6	2.3	4.6	4.5	4.7	5.9
Current account balance/GDP (%)	−5.7	−6.5	−9.3	−11.7	−14.4	−12.7	−12.8
Seychelles							
GDP at market prices (2000 US$)[b]	4.5	1.2	5.3	7.3	2.3	0.5	3.0
Current account balance/GDP (%)	−7.4	−29.0	−22.6	−31.4	−30.2	−27.4	−23.8
Sierra Leone							
GDP at market prices (2000 US$)[b]	−4.7	7.3	7.4	6.4	5.8	5.1	6.5
Current account balance/GDP (%)	−9.0	−14.3	−8.8	−7.2	−8.3	−9.6	−9.7
South Africa							
GDP at market prices (2000 US$)[b]	1.8	5.0	5.4	5.1	3.4	2.8	4.4
Current account balance/GDP (%)	−0.2	−4.0	−6.5	−7.3	−8.0	−8.1	−8.3
Sudan							
GDP at market prices (2000 US$)[b]	5.8	8.6	11.8	10.1	10.3	8.0	8.1
Current account balance/GDP (%)	−8.2	−10.8	−13.6	−10.7	−6.8	−8.9	−9.0

(*continued*)

Table A12 (*continued*)
(annual percent change unless indicated otherwise)

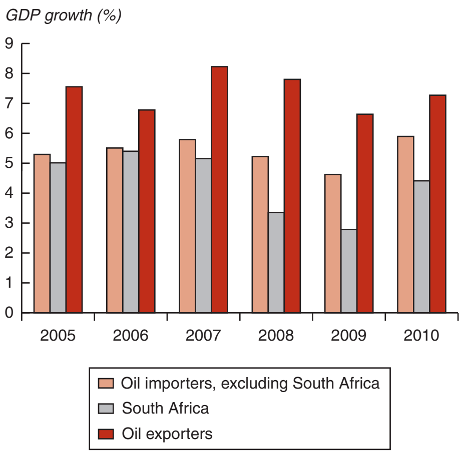
	1991–2000[a]	2005	2006	2007	2008[e]	2009[f]	2010[f]
Swaziland							
GDP at market prices (2000 US$)[b]	3.1	2.3	2.1	3.2	2.2	1.8	1.9
Current account balance/GDP (%)	−2.4	3.3	5.9	9.5	10.7	10.7	9.3
Tanzania							
GDP at market prices (2000 US$)[b]	2.9	6.8	6.2	7.1	7.2	6.3	7.0
Current account balance/GDP (%)	−12.5	−7.0	−12.9	−12.7	−14.2	−12.7	−12.9
Togo							
GDP at market prices (2000 US$)[b]	2.2	1.2	4.1	2.3	0.8	2.4	3.3
Current account balance/GDP (%)	−8.5	−21.8	−17.6	−16.0	−22.1	−16.9	−16.9
Uganda							
GDP at market prices (2000 US$)[b]	6.8	6.7	8.4	8.9	7.9	5.9	7.6
Current account balance/GDP (%)	−7.0	−4.8	−7.6	−8.0	−8.8	−9.3	−9.9
Zambia							
GDP at market prices (2000 US$)[b]	0.7	5.2	6.2	6.2	6.1	4.6	6.0
Current account balance/GDP (%)	−10.6	−10.0	−7.3	−7.2	−5.5	−8.1	−9.5
Zimbabwe							
GDP at market prices (2000 US$)[b]	0.9	−5.3	−4.2	−6.3	−4.9	−2.1	−2.1
Current account balance/GDP (%)	−7.5	28.5	30.7	36.6	40.2	18.1	18.6

Source: World Bank.

Note: — = not available.

a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2000 U.S. dollars.
c. Growth and current account figures presented here are World Bank projections and may differ from targets contained in other World Bank documents.
d. Liberia, Somalia, São Tomé and Príncipe, are not forecast because of data limitations. Current account balances exclude official transfers. In SACU members they include nonduty SACU transfers.
e. Estimate.
f. Forecast.

Figure A18 Economic growth to slow in Sub-Saharan Africa



Source: World Bank.

the current global financial turmoil. South Africa's risk of financial contagion, however, is limited by low exposure to "toxic" assets and foreign currency risks. However, a "flight to quality" could cause large portfolio outflows, which would imperil the country's ability to finance its large current account deficit, which in turn could trigger sharp depreciation of the rand and higher inflation.

Sub-Saharan African countries that are less integrated with international financial and capital markets would suffer more from lower external demand, dwindling tourism revenues, remittances, or aid. Commodity prices would fall further in such a scenario, causing export revenues in many countries to fall sharply and eroding fiscal positions, corporate profitability, and incomes. Vulnerability to external shocks, including terms-of-trade shocks, has increased over the past couple of years, as external and fiscal balances have deteriorated in many countries. Several countries have reached a point where external imbalances are unsustainable and a shut-off of financing, or large negative terms-of-trade shocks, could lead to balance of payments and currency crises, with adverse consequences for hard-won macroeconomic stability and long-term growth. Moreover, fragile economies that rely heavily on external aid and face daunting reconstruction and stabilization challenges will see their efforts to normalize the situation derailed by lack of sufficient external financing.

A sharp deceleration in growth would have significant consequences for poverty reduction in Africa. According to Arbache and Page (2007), had the region avoided some of the sharpest declines in per capita GDP growth, overall growth would have been 1 percentage point faster every year for the past three decades. Another risk is that the large-scale injection of liquidity into the global financial system comes to fuel inflation if monetary authorities fail to reverse polices at the first signs of a turnaround.

Notes

1. A downturn in the global high-tech cycle, in which East Asia plays a key role in the production and export of higher-tech goods, also contributed to the slowing of trade growth.

2. Russia currently holds somewhat less than \$500 billion in reserves, along with two large oil funds (about \$140 billion and \$50 billion, respectively, as of September 2008); it also has ample fiscal and current account surpluses (the latter, \$90 billion, or 8 percent of GDP as of September 2008).

3. Core inflation is calculated as headline CPI net of food, household energy, and transport fuels. Data for Belarus, Russia, and Turkey, where detailed subindexes are not available, are from official sources directly, which may use different definitions and calculation methods.

4. This report covers the developing (that is, low- and middle-income) countries of the Middle East and North Africa region, and thus excludes high-income economies Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates. In addition, for a number of middle- and high-income countries, the availability of economic data is insufficient for inclusion in the report; these include Djibuti, Iraq, Libya, and the West Bank and Gaza. For recent developments and the outlook for a broader range of Middle Eastern and North African economies, see *Economic Developments and Prospects, 2008,* The Middle East and North Africa Region World Bank, 2008.

5. Several GCC countries have responded forcefully to head off financial contagion. Qatar on October 13 launched a \$5.3 billion plan to purchase up to 20 percent of shares in banks listed on the Doha stock exchange. This followed by one day an announcement that United Arab Emirates would guarantee all deposits and savings in national banks, as well as all interbank operations in the Emirates. And Saudi Arabia cut interest rates in line with the Federal Reserve, while indicating that some \$40 billion would be made available to local banks.

6. National income and product account figures are presented in calendar years, although originally reported in fiscal years by Bangladesh, India, Nepal, and Pakistan. For example, fiscal year 2007/08 is reported as calendar year 2007 for India, and as 2008 for Bangladesh, Nepal, and Pakistan, due to differences in the timing of their fiscal years.

7. Nepal's currency is pegged to the Indian rupee.

8. Source: Boston Analytics Consumer Sentiment Index (BACSI), which is based on a monthly survey targeting Indian consumers across 11 cities (Delhi, Mumbai, Kolkata, Chennai, Hyderabad, Bengaluru, Nagpur, Kochi, Lucknow, Chandigarh, and Jaipur). See http://www.bostonanalytics.com/news.html.

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