EADS Snapshot on
World Economic Outlook

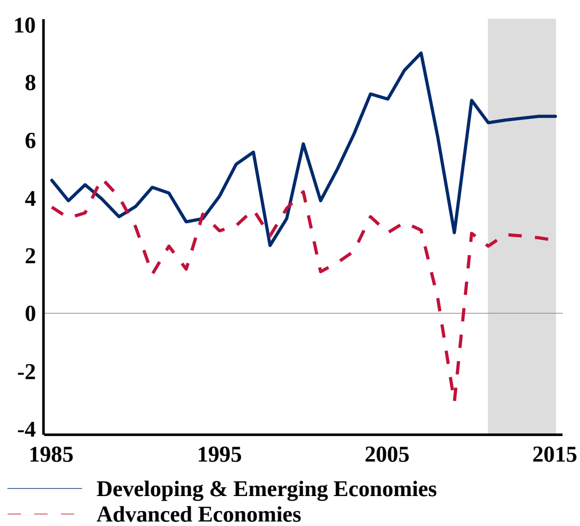
No. 24 October 2010

Introduction

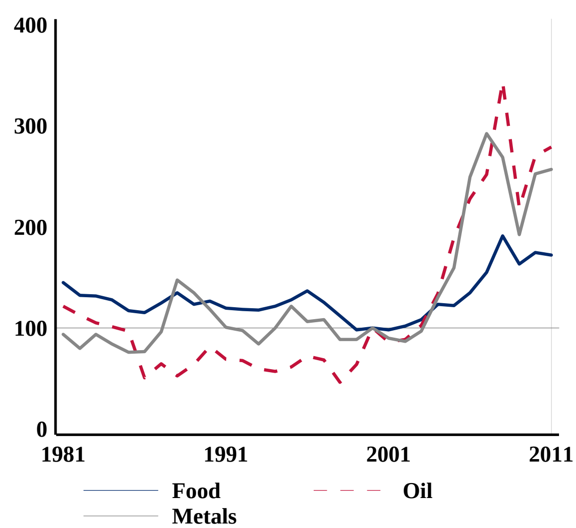
This snapshot highlights the global and regional growth projections and risks in the October 2010 World Economic Outlook (WEO), a semi-annual IMF report. The IMF finds that the recovery is proceeding as expected, but risk levels remain elevated. The majority of these risks exist in advanced economies and a few emerging economies. The first half of 2010 was marked by an increase in activity of 5.25 percent, about 0.5 percent higher than anticipated. Advanced economies grew by 3.5 percent, which the IMF considered a low rate given past recession recoveries, and emerging economies expanded by approximately 8 percent. For 2010, the IMF projects global activity to expand by 4.8 percent and in 2011 by 4.2 percent. The IMF forecasts that emerging economies will grow by 7.1 and 6.4 percent in 2010 and 2011, respectively, and that developed economies will see growth of only 2.7 and 2.2 percent over the same period. The WEO report reiterates the need for policy adjustments following the recent recession, including advanced economies legislating plans for sustainable fiscal positions before 2020, strengthening the financial sector to better recover from shocks and for emerging economies to foster domestic demand.

Overall, the October 2010 WEO report is split into two themes. The first addresses economic progress and potential risks to recovery from the global recession and the second addresses the need to consider medium-term solutions beginning in 2011. The report notes the setback in financial stability in the first half of 2010, particularly increased market volatility and heavy selling of sovereign debt. Other areas of concern are a continued undervaluation of Asian currencies and commodity prices falling from their high at the beginning of the recovery. While none of these potential weaknesses hindered the recovery, they do represent challenges and increase the risk of a stalled recovery. The medium-term concerns the WEO report focuses on are the worsening fundamentals in advanced economies and the limited options for emerging economies to adapt to reduced external demand. Advanced economies are constrained by the weak prospect of activity absent significant reforms and emerging economies are constrained by the inability of their domestic demand to compensate. The report recommends proactive policies in all economies to accelerate the rebalancing of demand to turn public demand into private demand and external debt into external surplus. A key task in achieving this goal is to begin fiscal consolidation in 2011 to lower fiscal deficits, combined with tax and expenditure reforms.

World Real GDP Growth



Real Commodity Prices 2000=100



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Country Growth Rate Forecasts

Compared to the IMF's April 2010 forecasts for GDP growth from 2009 to 2012, Turkmenistan remains in the lead with an impressive forecasted average annual growth of 9.4 percent. Large scale investments and high fuel prices have boosted growth in Turkmenistan. The carefully watched Chinese economy continues to speed along, moving into second place from third in the April 2010 report. Liberia has made significant progress moving from fifth to third place. India remains in fourth place, still projected to grow by about 8 percent annually. Iraq has made it to the ranks of the top five fastest growing USAID countries for the first time in the past two years.

Venezuela remains as the bottom performer in terms of expected GDP growth, perhaps constrained by investor reluctance following continued nationalization of industries. In the April 2010 report, Cyprus, Haiti and Zimbabwe were expected to be among the slowest growers, however, they have been replaced by Tonga, Romania and Croatia.

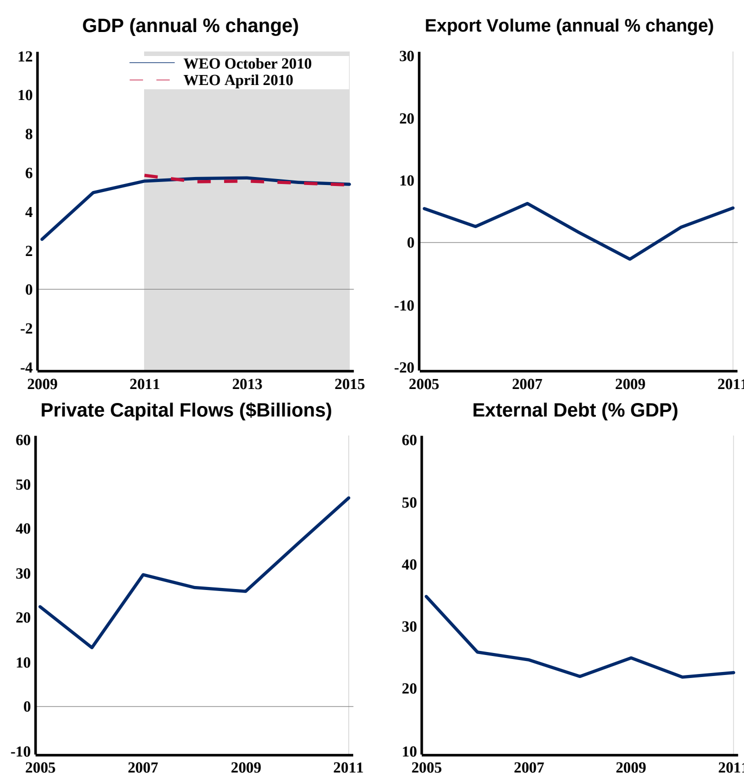
GDP Growth for USAID Assisted Countries (2009-2012)

USAID Assisted Country	GDP % Change	Mean Annual Change
Fastest Growing Economies		
Mongolia	87%	11.1%
China (P.R.C.)	59%	9.6%
Turkmenistan	58%	9.1%
Iraq	55%	8.4%
Liberia	53%	8.1%
Slowest Growing Economies		
Croatia	9%	0.5%
Belgium	9%	1.0%
Jamaica	8%	0.8%
Tonga	8%	1.2%
Venezuela	3%	-0.1%

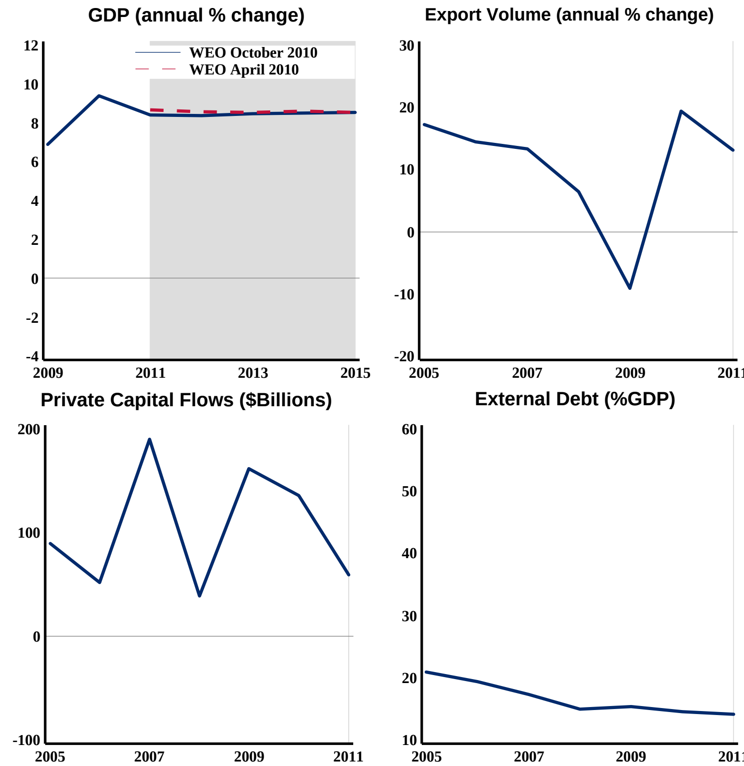
It is significant that the IMF is more optimistic that Haiti will be able to grow with the help of international support and regain GDP growth following the devastation caused by the January 2010 earthquake. On the other hand, things are not looking up for Romania and Croatia where GDP growth is expected to slow down.

Sub-Saharan Africa: Accelerating Growth

Sub-Saharan Africa continues to rebound from 2009, when it grew by 2.6 percent. The region has been aided by countercyclical policies in many economies. Growth for 2010 and 2011 are projected at 5 and 5.5 percent, respectively. For oil-exporting economies, which provide a large share of Sub-Saharan Africa's overall improvement, their growth was aided by an increase in global demand and a strengthened oil price. Particularly, growth will be driven by a 7.4 percent increase in Nigeria (for both 2010 and 2011) Angola, where growth is expected to be 6 percent in 2010 and 7 percent in 2011. Middle-income economies, who experienced some contraction in 2009 due to links to the global economy, are recovering. South Africa is expected to grow by 3 percent in 2010 and 3.5 percent in 2011 and benefited from increased commodity trading with Asia and increased demand for its manufactured goods in the euro area. Low-income economies were not exposed to the brunt of the global recession, partly due to weak connections to global markets. Output growth in these economies is expected to improve to 4.9 and 6 percent in 2010 and 2011, respectively. The main risk to recovery in Sub-Saharan Africa is an overall weakened global recovery, harming trade for all types of economies in the region and diminishing remittance returns.

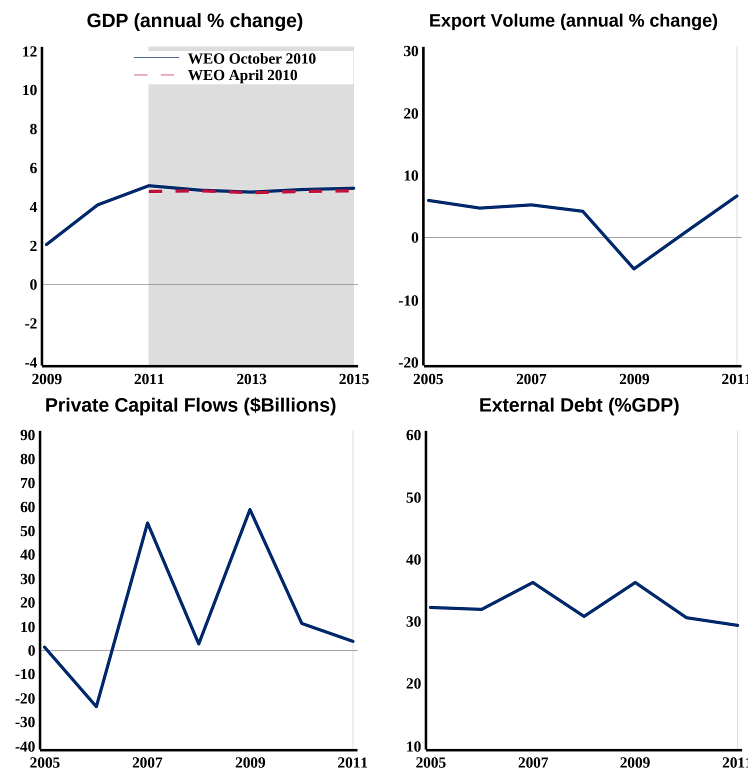


Asia: Advancing with Resilience



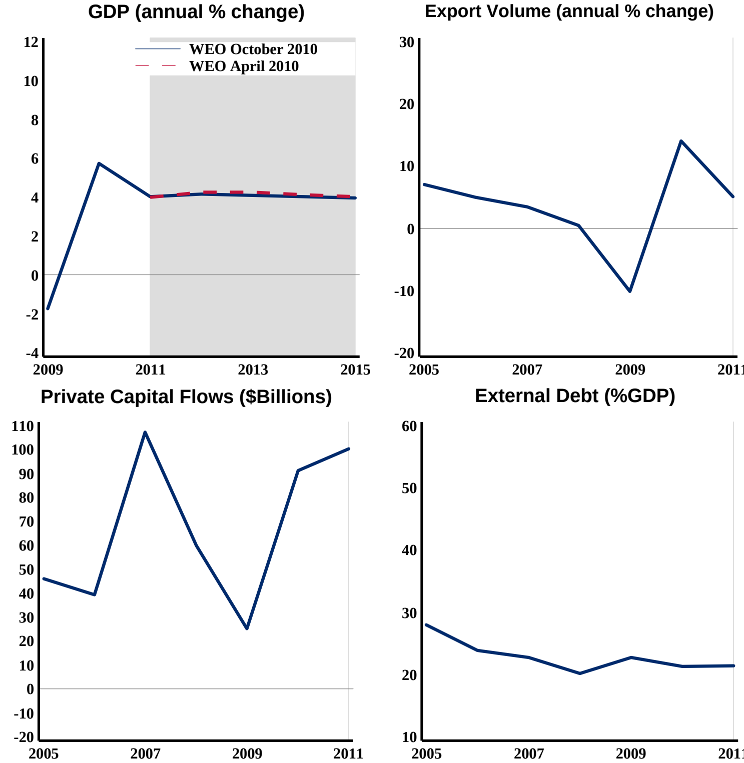
Asia entered the global recession on solid ground, by enacting proactive policies and having resilient domestic demand, and has managed to weather problems besetting other regions. Projected growth in the region's developing countries is 9.4 percent in 2010 and 8.4 percent in 2011. Current growth in the region will vary due to differences in the strength of an economy's stimulus, private demand and underlying economic and financial conditions. China's growth is projected to be 10.5 percent in 2010 and 9.6 percent in 2011, in large part due to increases in private domestic demand. India is projected to grow by 9.7 percent in 2010 and 8.4 in 2011, due to increased domestic demand and industrial production. Risks to the recovery among Asian economies include slow recoveries in the US and euro area resulting in diminished external demand, a greater slowdown in China than anticipated and shocks resulting from an uncertain external financial environment. Asia's future success depends on its ability to rebalance the drivers of growth, while also addressing the need to rely more on domestic demand. To ensure that Asian countries are better able to handle a future crisis and prevent external shocks from offsetting their recovery, the WEO report recommends several policy options. These options include implementing reforms in education, health and general social safety net programs, improving the business climate and further financial sector development.

Middle East & North Africa: Recovering Strongly



Recovery in the MENA region had been primarily due to increases in oil prices since 2009. The region is expected to grow 4.1 percent in 2010 and 5.1 percent in 2011, aided not only by improved oil prices, but also by the timely fiscal stimulus in many non-oil exporting economies. Growth in oil-exporting economies is expected to remain robust and the region will benefit from economies exhibiting political stability and strong capital inflows, such as Lebanon. The outlook in the region is linked to global developments, particularly through the impact of oil prices. This linkage is also a source of weakness, as a collapse in the price of oil will have implications for all economies in the region. Furthermore, weakness in the European recovery could harm MENA's growth as Europe is its largest trading partner. A short-term concern for MENA economies is improving credit balance sheets by encouraging credit growth. Medium-term goals for the region are to raise growth and job creation for its rapidly growing population, to attract FDI and build human capital through an improved education system.

Latin America and the Caribbean: Rolling Along a Strong Growth Path



Latin America is continuing an impressive recovery trajectory despite continued strains in global markets. Overall, LAC growth can be attributed to external conditions, including sustained demand for commodity exports, increased capital inflows and strong macroeconomic policy fundamentals. Growth in LAC is projected to be 5.7 percent in 2010 and 4 percent in 2011. Risks to sustained progress include contagion from an extended or double-dip recession in advanced economies and the risk of overheating. The conditions for recovery vary across the region. The LA-4 (Brazil, Chile, Colombia and Peru), are moving toward a robust recovery, buoyed by strong commodity prices, increased links to China, growing intraregional trade and improved macroeconomic policy frameworks. Mexico is recovering despite risks related to its interconnectedness with the U.S. economy. Caribbean economies are facing greater challenges due to diminished tourism, decreased remittance flows and chronic public debt burdens. For the majority of the region, the IMF emphasizes that it is time to take advantage of the cyclical upswing to unwind stimulus and continue to pursue strong macroeconomic policy management. In addition, the LA-4 and Mexico should take actions to deepen capital markets and improve the supervision and regulation of capital inflows. The IMF suggests that potential capital controls should be supported by other measures including two-way exchange rate flexibility.

Will the Financial Crisis Keep Down Global Trade?

In the final chapter of the October 2010 WEO Report, the IMF analyzes the short and long-term impact of financial crises on global trade. In the last quarter of 2008 and first quarter of 2009, the volume of world imports declined by 30 percent, annualized. Trade volumes made up some lost ground in the first half of 2009, but some countries remain more than 20 percent below their pre-crisis levels and almost 40 percent below their pre-crisis trend. The IMF finds that countries where there is a financial crisis tend to see a substantial and sustained decline in imports, while exports are not as negatively affected. The report emphasizes that several factors contribute to diminished import demand in crisis affected countries, including adverse output dynamics, impaired credit conditions, increased exchange rate volatility and more pressure for protectionist measures. Analysis of past crisis episodes reveals that demand for capital and consumer durables is affected more adversely than demand for services, primary goods and intermediate goods. Applying these findings to the recent crisis, IMF analysts predict that the decline in import demand in the U.S. and most of Western Europe will be protracted. The main implication for developing countries that rely heavily on demand from advanced countries for exports is an urgent need to strengthen domestic demand and to seek new trade partners.

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