EADS Snapshot on

World Economic Outlook

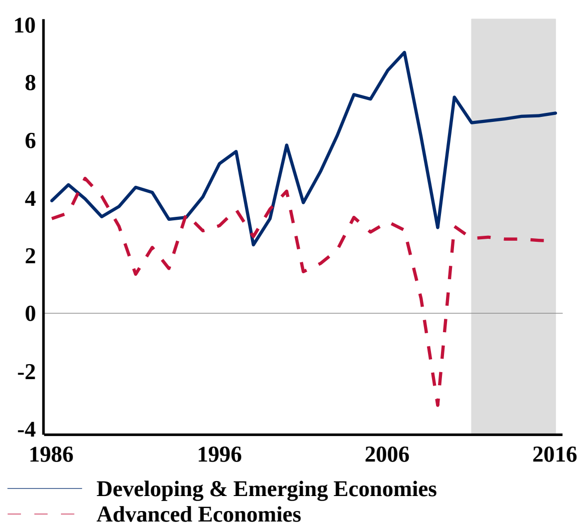
No. 30 May 2011

Introduction

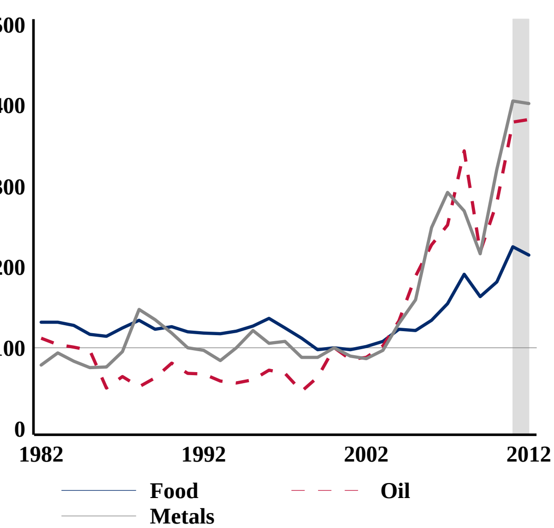
This snapshot highlights the global and regional growth projections in the April 2011 World Economic Outlook (WEO), a semi-annual IMF report. The IMF reports that the recovery is proceeding as expected: the overall world economy is projected to expand by 4½ percent in 2011 and 2012. Emerging and developing economies are leading the recovery with a projected growth rate of 6½ percent. By contrast, advanced economies are still struggling and are expected to register a modest growth rate of 2½ percent as illustrated in the below graph 'World Real GDP Growth.' For advanced economies, lagging output, high unemployment and nonperforming loans are still concerns and are projected to maintain this low growth rate into 2016. Additionally, the report reflects concerns that emerging economies are facing overheating as a result of output gaps and higher capital flows. The WEO report reiterates the need for fiscal consolidation among advanced economies and the importance for emerging economies to continue fostering domestic demand and strengthening the financial sector in order to reduce the risks from capital flows.

In Latin America and Asia and in low-income countries in sub-Saharan Africa improved terms of trade for emerging and developing economies have brought output back to pre-crisis peaks. These economies face the challenge of ensuring that the current expansion does not lead to inflation as increasing production approaches capacity constraints. The overall IMF commodity price index rose by 32 percent from mid-2010 to February 2011 due to a combination of strong demand growth and supply shocks. Increasing demand for commodities has been fuelled mostly by rapid growth in emerging and developing economies. The response in supply was slow as weather-related shocks affected food supply while unrest in the Middle East and North Africa affected the oil supply. Prolonged social unrest in the Middle East and North Africa could place further upward pressure on food prices.

World Real GDP Growth and Forecast



Real Commodity Prices 2000=100



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Country Growth Rate Forecasts

Compared to the IMF's October 2010 WEO Report, Mongolia and China remain the leaders among USAID assisted countries expected to grow fastest from 2009 to 2012. After growing by 10¼ percent in 2010, China's growth is expected to remain robust at 9½ percent this year and the next with the drivers of growth shifting increasingly from public to private demand. From 2010 to 2012, Iraq is projected to grow by 36 percent at an annual rate of 10.8 percent. Rapid economic growth in Ghana is forecast mainly on increased oil prices and production.

Venezuela remains among the bottom performer in terms of expected growth despite increases in oil prices. Fiji and Tonga also remain on the list of slowest growing economies. In Cote d'Ivoire, political turmoil has dampened growth prospects and GDP is only expected to grow 4 percent during the 2010-2013 period .

Haiti, which has seen a considerable inflow of foreign aid, is the 9th fastest growing country over this period and is expected to grow at an average annual rate of 4.9 percent.

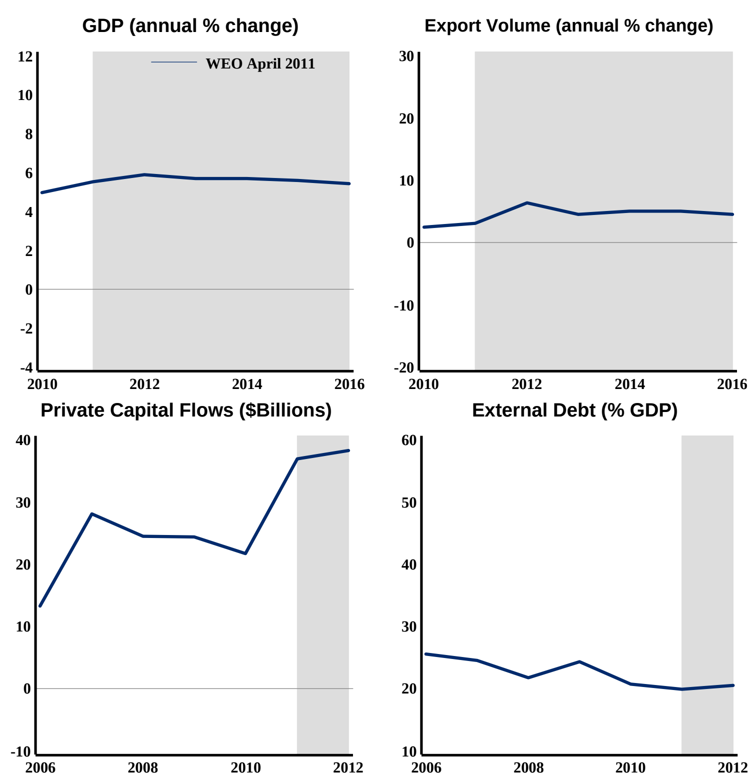
GDP Growth and Forecast for USAID Assisted Countries (2010-2013)

USAID Assisted Country	GDP % Change	Mean Annual Change
Fastest Growing Economies		
Mongolia	45%	13.3%
Iraq	36%	10.8%
China (P.R.C.)	31%	9.5%
Ghana	29%	9.0%
Niger	28%	8.7%
Slowest Growing Economies		
Tonga	5%	1.6%
Venezuela	5%	1.6%
Swaziland	5%	1.5%
Cote d'Ivoire	4%	1.5%
Fiji	4%	1.3%

GDP% Change refers to GDP growth over the specified period. Mean Annual Change is the average of annual growth rates for the specified period.

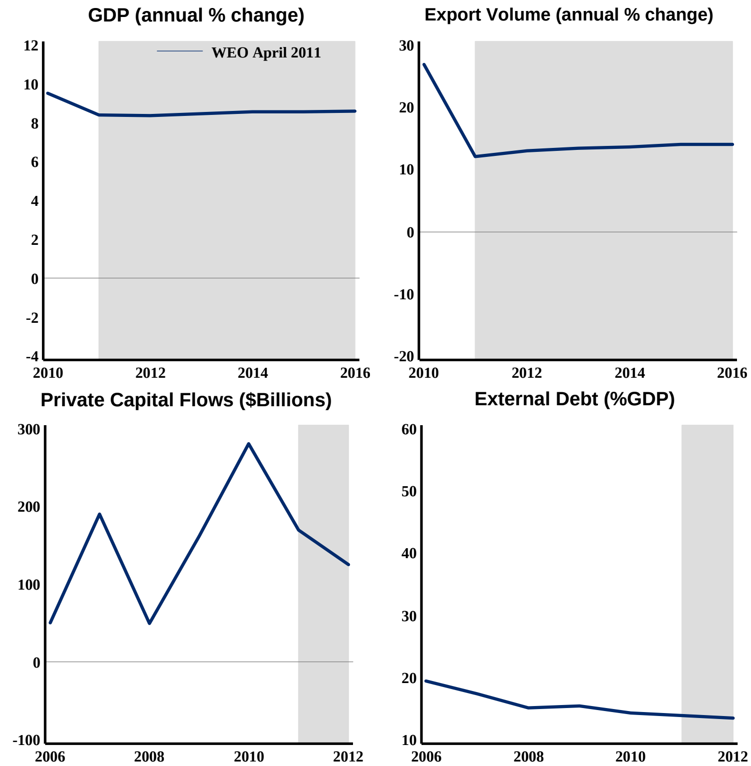
Sub-Saharan Africa: Recovering Strongly

Sub-Saharan Africa has recovered well from the global financial crisis and is now second only to developing Asia in its growth rate. The region grew rapidly last year due to growth in domestic demand, increased trade and commodity prices. Growth is being led by low income countries which are projected to expand by 6 percent this year. Ghana is now the third largest LIC in the region and is projected to grow by 13¾ percent this year due to expanded oil production. Further increases in oil prices in 2011 are expected to sustain the recovery for oil exporters. Recovery is expected to be relatively weak in South Africa, the region's largest economy. Despite an already sizable output gap, South Africa is expected to grow by only 3½ percent in 2011, a rate that is insufficient to reverse the substantial job losses of the past two years. The main risk to recovery in Sub-Saharan Africa is inflation pressure from rising commodity prices, especially given the limited spare capacity in many economies. Rising food prices are likely to affect the urban poor given the high share of food in their consumption baskets. Another potential risk factor is political instability with as many as 17 national elections scheduled for 2011.



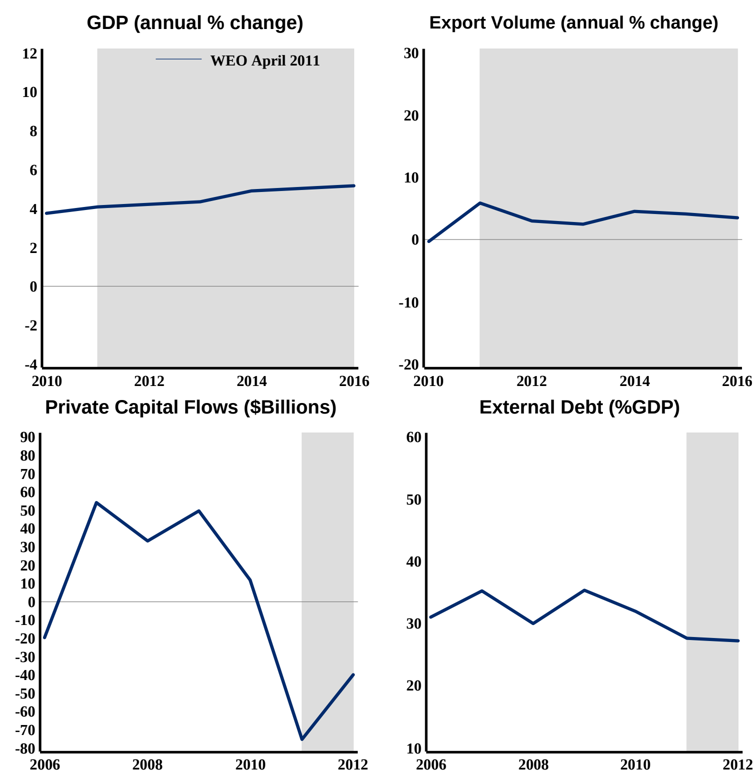
Asia: Still in the Lead

Asia continues to outpace other regions with strong export performance, private domestic demand and rapid credit growth. China is predicted to grow at 9½percent this year and the next, with the main drivers of growth expected to shift increasingly from public to private demand. The ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam) are projected to expand by 5½ percent in 2011 and 5¾ percent in 2012, Indonesia being the fastest grower with strong consumption and recovering investment fueling a growth rate of 6¼ percent this year and 6½ percent in 2012. However, inflation is on the rise and is expected to continue increasing this year across much of developing Asia. Inflation pressure is most evident in India, where inflation is projected to remain at 7½ percent this year. In China, price pressures have expanded from food products to include housing and inflation is projected to reach 5 percent this year. A similar pattern of accelerating and generalized inflation is projected at 6 percent this year. Despite a large increase in intra-regional trade, two-thirds of the final demand for Asian exports still comes from outside the region, and renewed turbulence in the euro area presents significant risks to the recovery among Asian economies.



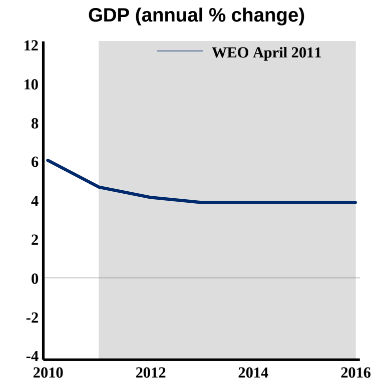
Middle East and North Africa: The Recovery Continues in an Uncertain Environment

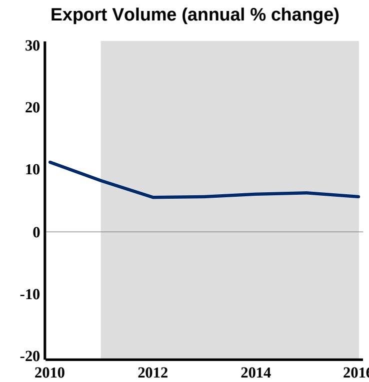
The MENA region has weathered the global crisis relatively well with GDP projected to grow at 4 percent in 2011, edging up to about 4.25 percent in 2012. Higher commodity prices and external demand are boosting production and exports in many economies in the region. In addition, government spending continues to foster the recovery in many oil-exporting economies. By contrast, Egypt's GDP growth is expected to fall below its 2010 level of 5.5 . Tunisia presents a similar story with projected growth of 1.25 percent in 2011. The key policy challenges across the region are daunting. Chronically high unemployment, especially among the young and the educated is a long-standing challenge. In addition, inflation is projected to increase of approximately 10 percent in 2011. Despite high debt levels, many countries have enacted measures to shield populations from commodity prices increases through increased food and fuel subsidies, social transfers, direct cash transfers and expanded civil servant salaries. The effects of political and social turmoil could be larger than currently anticipated, especially if unrest spills over to other countries in the region.

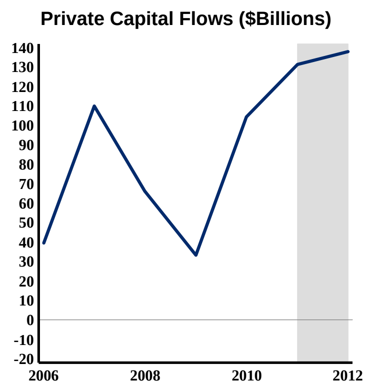


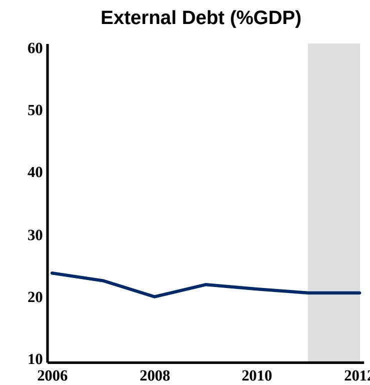
Latin America and the Caribbean: A Two Tailed Wind

Latin America has weathered the crisis well and growth in the region is projected to average 4¾ percent in 2011 and 4¼ percent in 2012. Overall, LAC growth can be attributed to external conditions including robust demand for commodity exports and increased capital inflows. The outlook for commodity exporters is generally positive with growth for financially integrated commodity exporters (Brazil, Chile, Columbia, Peru, Uruguay) projected at 4¾ percent. In Central America, support has also come from a recovery in remittance flows. Prospects for Mexico continue to be closely tied to those for the United States with real activity projected to expand by 4½ percent.









Caribbean economies are facing greater challenges due to decreased tourism and remittance flows. While growth for the region in 2011 is forecast at 4.25 percent, this is due mostly to a strong performance by the Dominican Republic and post-earthquake rebuilding in Haiti. When these countries are excluded, growth in the Caribbean is projected to be 2.25 percent.

The IMF warns that the favorable conditions underpinning current growth also present significant risk. The region's strong linkages to Brazil and its high reliance on China for most of its commodity exports could adversely affect the region in the event of a slowdown in either of these economies. In addition, expanded capital flows and real credit growth if left unchecked could lead to an eventual bust.

IMF Policy Recommendations for Emerging Economies: Macro-Prudential Policies

Policymakers in many Emerging Economies have viewed the recent increase in capital flows with mixed enthusiasm. While external capital can provide financing and strengthen domestic demand through currency appreciation, it can increase at a rate that that is difficult to manage or it can exhibit extreme volatility and exacerbate domestic economic or financial boom-bust cycles. Policymakers in Emerging Economies face the difficult question of how capital flows would be affected should a shift in current global financing conditions occur. The report suggests that capital flows are generally volatile from the point of view of the recipient economy and particularly sensitive to Advanced Economies' monetary policy changes, which are outside the control of domestic policymakers. In a simulation, economies that had direct foreign financial exposure to the United States experienced an additional decrease in their net capital flows in response to U.S. monetary tightening than economies with no such direct U.S. financial exposure. Thus, as economies further integrate with global financial markets, it is important that they adopt policies to preserve domestic economic and financial strength to cope with variable capital flows. The IMF advocates the adoption of strong macroeconomic policies, prudential financial supervision, and other macro-prudential measures to sustain strong growth and better cope with the volatile nature of capital flows.

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.