

Weekly Global Economic Brief

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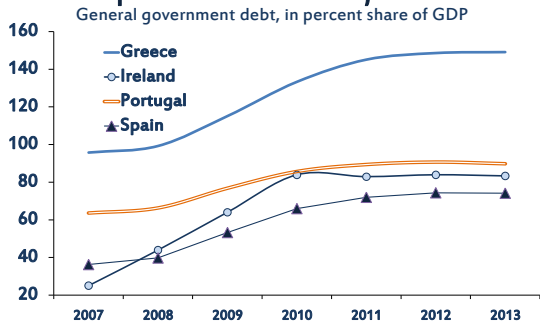
The European Union's €750bn aid-package—supported by the ECB's purchase of lower-rated securities, IMF funding, and the U.S. Federal Reserve's reopened euro-for-dollar swap-lines—has calmed global financial markets. However, the long-term solvency of heavily-indebted European sovereigns remains a concern, given the extraordinary adjustments that will be required to achieve sustainable debt-levels. Spillover effects into the banking sector are also a tension, with a number of European banks carrying large exposures to the highly-indebted European countries. Banks in Latin America and emerging Europe that are reliant on banks in these countries are also exposed. Sustained high European sovereign-debt and impaired bank balance-sheets will constrain credit growth, depressing investment and consumption, and could portend a difficult period of relative stagnation for Europe.

While the EU/IMF €750bn aid-package has eased immediate concerns about the liquidity of debt-burdened sovereigns, longer-term solvency issues remain. Even with planned deficit cuts of 10% or more in Greece and Ireland by 2014, debt-to-GDP ratios will continue to rise in Greece (albeit at a moderating pace) and only stabilize in Ireland. In part this is because cuts in government spending will slow economic activity and cut into tax revenues. Years of additional restraint will be required to bring debt-to-GDP ratios down to the 60% level required by the Maastricht Treaty.

The sovereign-debt crisis has sparked concerns about knock-on effects on the already fragile European banking system. If the debt crisis in heavily-indebted European countries were to destabilize the broader European banking system, this could have significant impacts in Latin America and Central and Eastern Europe. European banks hold government bonds and loans of heavily-indebted, high-income countries (Greece, Ireland, Italy, Portugal and Spain) totaling \$2.8trn or 18% of Europe's GDP. A default or large-scale restructuring could eat heavily into the banks' capital and solvency. Banks in the debt-burdened high-income European countries have been an important source of capital for the public-and private sectors in Latin American (\$320bn or 8% of GDP) and emerging Europe (\$400bn or 13% of GDP). In some cases, exposures are marked, as for example, Spanish banks own over 25% of bank capital in Mexico, Chile, and Peru. A cut-off of these flows could be seriously disruptive for these countries.

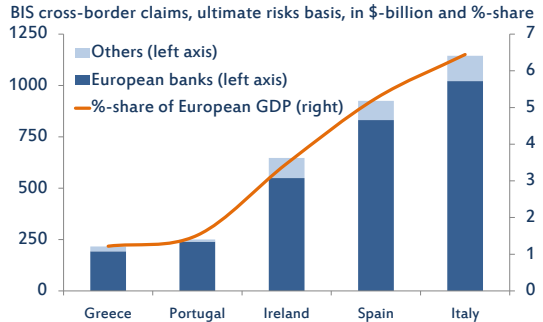
The debt crisis has pushed up borrowing costs worldwide on perceptions of heightened counterparty-risk. The dollar Libor-OIS spread (a gauge of banks' willingness to lend to one another) widened to above 20 basis points this week, the most since August 2009, indicating that commercial banks are concerned that other banks' exposure to Greek debt might impinge on their ability to repay loans—even those of very short maturity. Nevertheless, interbank spreads are lower than they were in 2H-2007 and 1H-2008, during the initial phases of the sub-prime crisis. Tightening of corporate debt-markets is also evident. Global corporate bond issuance fell 62% in early-May (as of May 11) over the same period in April.

Sovereign debt is projected to remain high, despite massive fiscal adjustment



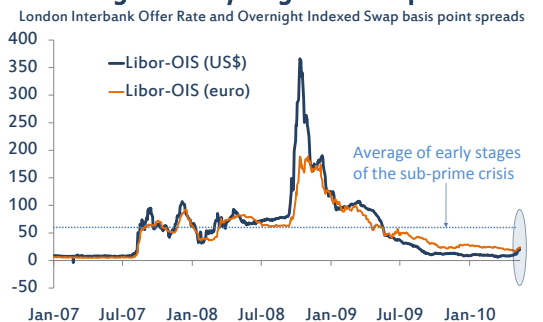
Sources: Institute for International Finance and DEC Prospects Group

European banks' foreign-claims in heavily-indebted Eurozone countries are sizeable



Sources: Bank for International Settlement and DEC Prospects Group

Funding cost pressures up—but well-below the average of early stages of sub-prime crisis



Sources: Bloomberg and World Bank DEC Prospects Group

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Economic Developments

indicators expressed as %ch y/y, except Industrial Production quarterly figures are %ch q/q, annualized

14-May-10

	2006	2007	2008	2009			2009			2010		
				Q2	Q3	Q4	Q1	Nov	Dec	Jan	Feb	Mar
Industrial Production, S.A.												
World	4.9	4.7	0.6	6.0	12.2	9.7	10.6	0.3	4.6	8.5	9.8	11.0
High Income Countries	3.3	2.6	-1.8	1.6	11.7	7.0	10.4	-4.4	0.3	5.7	7.8	9.7
Developing Countries	8.8	9.8	5.9	14.6	13.1	14.6	-	9.8	13.1	14.0	13.5	-
East Asia and Pacific	12.9	15.2	11.1	24.5	14.3	18.0	18.5	17.0	18.1	19.8	19.5	17.1
East Asia x. China	1.2	4.4	3.2	13.2	4.3	22.2	11.1	4.1	14.8	14.0	10.8	12.9
Europe and Central Asia	7.8	7.2	1.2	4.9	10.6	15.0	-	3.2	9.9	7.7	6.0	-
Middle East and N. Africa	-0.6	-0.4	1.6	4.8	3.3	0.9	-	0.3	1.2	3.4	-	-
Latin America and Caribbean	4.5	4.1	0.7	2.2	11.0	9.4	-	0.6	5.4	6.5	6.8	-
South Asia	10.6	9.1	4.1	15.7	19.6	13.5	-	11.0	16.4	15.8	14.1	-
Sub-Saharan Africa	4.0	6.3	3.4	-7.3	14.4	9.0	-	-2.7	3.0	4.0	-	-
Inflation, S.A.¹												
High Income Countries	2.5	2.4	4.3	0.7	0.1	0.9	1.4	1.0	1.3	1.3	1.5	1.6
Developing Countries	6.3	6.3	10.4	4.8	2.5	2.9	-	2.6	3.6	4.4	4.6	-
East Asia and Pacific	6.2	5.6	9.5	1.4	0.3	1.7	-	1.2	2.4	4.1	4.3	-
Europe and Central Asia	6.6	8.4	10.7	4.4	2.8	2.9	4.3	2.7	3.3	3.3	4.3	3.9
Middle East and N. Africa	6.2	3.9	14.9	3.3	4.2	-	-	-	-	-	-	-
Latin America and Caribbean	4.3	6.5	8.8	4.0	1.9	2.4	4.2	2.4	3.0	4.1	4.5	4.6
South Asia	7.5	7.6	10.9	8.9	9.7	8.7	11.0	8.9	9.5	11.3	13.1	13.0

¹ Inflation is calculated as medians for all groups.

Trade and Finance

indicators expressed as %ch y/y, except International Reserves %ch p/p and trade quarterly figures are %ch q/q, annualized

	2006	2007	2008	2009			2009			2010		
				Q2	Q3	Q4	Q1	Nov	Dec	Jan	Feb	Mar
Exports, Nominal, US\$, S.A.												
World	15.9	15.2	14.9	5.4	34.4	46.5	-	4.3	13.1	21.1	25.2	-
High Income Countries	13.3	13.4	12.5	5.5	36.7	38.9	-	5.2	11.1	19.2	21.3	-
Developing Countries	22.9	19.7	20.8	5.1	29.3	65.0	28.5	2.4	17.6	25.4	33.8	31.8
East Asia and Pacific	23.4	22.0	16.7	1.4	25.9	75.6	32.5	1.8	20.8	26.6	38.5	29.2
Europe and Central Asia	22.9	21.8	29.1	5.3	45.7	73.6	25.6	3.8	19.1	31.9	35.6	38.3
Middle East and N. Africa	31.3	16.2	37.1	14.9	28.2	-	-	-13.1	-3.5	-	-	-
Latin America and Caribbean	19.7	13.3	11.7	12.9	7.2	65.4	32.5	4.7	19.4	24.5	26.9	31.3
South Asia	19.1	18.4	24.8	-14.8	56.7	38.3	66.7	13.3	9.9	13.3	33.5	52.6
Sub-Saharan Africa	23.6	20.0	27.3	24.2	58.7	-	-	6.4	13.7	-	-	-
Imports, Nominal, US\$, S.A.												
World	14.8	15.1	15.7	-1.9	36.2	45.8	-	2.0	10.9	19.6	23.9	-
High Income Countries	13.3	12.7	12.0	-7.5	37.0	39.3	-	1.1	6.6	14.1	20.2	-
Developing Countries	19.3	21.9	25.4	12.7	34.4	61.6	41.9	3.9	21.4	33.4	32.5	43.7
East Asia and Pacific	16.9	18.7	21.1	62.7	42.0	83.8	49.3	19.0	47.1	69.9	45.6	62.4
Europe and Central Asia	25.6	30.3	26.5	-10.7	30.0	49.5	-	-5.1	1.7	14.6	17.6	-
Middle East and N. Africa	9.6	23.0	44.7	12.1	11.6	-	-	-4.0	10.5	-	-	-
Latin America and Caribbean	19.5	19.0	22.1	-17.5	25.4	39.9	54.1	-8.0	3.4	8.7	24.0	34.8
South Asia	20.6	21.4	38.7	-18.7	48.9	112.8	100.1	-2.8	27.4	34.2	58.9	60.2
Sub-Saharan Africa	22.7	21.7	24.0	-10.2	39.9	-	-	0.7	0.7	-	-	-
International Reserves, US\$												
High Income Countries	11.1	12.7	6.0	5.1	9.4	2.6	1.4	1.8	-0.8	0.6	0.3	0.8
Developing Countries	33.0	42.0	12.5	6.3	7.0	4.2	1.4	2.0	-0.2	0.4	0.1	1.0
East Asia and Pacific	29.1	41.5	23.5	8.3	7.1	5.2	2.0	2.4	0.3	0.9	0.3	0.8
Europe and Central Asia	50.9	45.7	-8.6	6.7	4.8	3.7	1.8	2.2	-2.6	0.1	-0.4	2.0
Middle East and N. Africa	37.1	31.7	23.9	1.9	5.7	1.7	-	1.8	-0.6	-0.6	-	-
Latin America and Caribbean	21.6	44.6	11.3	1.8	8.9	5.9	0.4	1.9	1.8	-0.4	0.1	0.6
South Asia	28.1	53.2	-9.0	6.6	8.1	-1.5	-1.1	-1.2	-1.5	-0.7	-0.6	0.2
Sub-Saharan Africa	40.1	27.3	8.0	0.1	10.4	-	-	-	-	-	-	-

Financial Markets

	2007	2008	2009		2010		2010			MRV ¹	Chg since Sep-12 '08 ³
			Q2	Q3	Q4	Q1	Feb	Mar	Apr		
Interest rates and LIBOR (%)											
U.S. Fed Funds Effective	5.02	1.93	0.18	0.15	0.12	0.13	0.13	0.16	0.20	0.20	-1.90
ECB repo	3.98	3.78	0.79	0.44	0.43	0.36	0.36	0.35	0.36	0.36	-4.02
US\$ LIBOR 3-months	5.30	2.91	0.85	0.41	0.27	0.26	0.25	0.27	0.31	0.43	-2.39
EURIBOR 3-months	4.28	4.63	1.31	0.87	0.72	0.66	0.66	0.64	0.64	0.68	-4.28
US 10-yr Treasury yield	4.63	3.65	3.30	3.50	3.45	3.71	3.68	3.72	3.82	3.57	-0.16
German Bund, 10 yr	4.22	3.99	3.35	3.31	3.22	3.20	3.19	3.12	3.08	2.89	-1.28
Spreads (basis points)											
US Corporate (High Yield Bonds)	304	915	1107	803	618	521	553	497	453	513	-219
JP Morgan Emerging Markets	197	406	503	384	318	299	320	276	255	294	-64
Asia	161	355	396	299	244	231	251	207	184	212	-84
Europe	158	370	467	369	269	235	258	214	196	241	-72
Latin America & Caribbean	208	426	548	416	364	354	376	331	310	350	-38
Middle East	476	585	618	470	399	318	326	307	297	322	-176
Africa	288	452	489	307	253	224	244	204	172	208	-126
Stock Indices²											
Global (MSCI)	393	327	234	268	294	297	286	303	312	296	-7.4
High-Income (\$ Index)	1571	1297	924	1054	1150	1161	1121	1183	1219	1159	-9.7
United States (S&P-500)	1476	1221	892	996	1089	1121	1088	1152	1196	1172	-6.4
Euro Area (S&P-350\$)	1909	1544	1025	1208	1344	1296	1240	1299	1324	1198	-18.6
Japan (Nikkei-225)	16983	12156	9275	10140	9967	10502	10165	10678	11130	10394	-14.9
Developing Markets (MSCI)	...	743	566	670	760	768	736	783	817	768	10.3
Asia	...	688	571	678	750	758	726	769	805	758	19.4
Europe & C. Asia	...	766	424	538	621	619	585	633	660	584	-22.3
Latin America & Caribbean	3670	3771	2760	3296	4002	3993	3813	4089	4211	3942	11.5
Middle East and N. Africa	693	733	433	473	491	492	486	510	530	518	-25.7
Africa	...	772	621	728	787	807	775	838	870	848	10.4
Exchange Rates (LCU / USD)											
High Income Countries											
Euro	0.73	0.68	0.73	0.70	0.68	0.72	0.73	0.74	0.74	0.79	11.8
Japan	117.74	103.37	97.40	93.57	89.62	90.73	90.25	90.55	93.42	93.02	-13.5
Brazil	1.95	1.83	2.08	1.87	1.74	1.80	1.84	1.79	1.76	1.77	-0.7
Russia	25.57	24.88	32.18	31.31	29.48	29.87	30.15	29.57	29.19	29.96	17.1
India	41.35	43.52	48.83	48.40	46.64	45.94	46.34	45.51	44.51	45.12	-1.3
China	7.61	6.95	6.83	6.83	6.83	6.83	6.83	6.83	6.83	6.83	-0.3
Egypt	5.64	5.44	5.62	5.54	5.47	5.47	5.48	5.49	5.53	5.60	3.0
South Africa	7.05	8.26	8.47	7.81	7.49	7.51	7.68	7.41	7.35	7.48	-7.2
Memo: USA nominal effective rate	89.39	84.39	88.61	84.17	81.30	83.38	83.90	83.80	84.32	84.32	-1.8

¹ MRV = Most Recent Value.

² MSCI Indices for Asia, Africa, and Europe and C. Asia, for 2008 are calculated from February-December, due to data availability.

³ Change expressed in levels for interest rates and spreads; percent change for stock market and exchange rates.

Commodity Prices

	2007	2008	2009		2010		2010			MRV	Chg since Sep-12 '08 ³
			Q2	Q3	Q4	Q1	Feb	Mar	Apr		
Oil price, \$/b, nominal ¹	71	97	59	68	75	77	74	79	84	78	-19.9
Non - Oil Index ²	165	197	150	159	172	180	177	180	183	175	-12.2
Food Index ²	155	218	182	175	182	-	186	180	177	176	-16.9
Metals and Minerals Index ²	184	184	123	146	160	171	164	175	183	167	-10.1
Baltic Dry Index ³	7072	6348	2661	2795	3378	3015	2678	3207	3038	3888	-19.0

¹ Simple average of Brent, Dubai and WTI.

² Base Date = Jan 1, 2005

³ Base Date = May 1, 1985