

Weekly Global Economic Brief

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The rebound in global output during the second half of 2009 was buoyed by “cash-for-clunker” incentive programs that propelled global car sales to a record high. As these programs have begun to expire, the pace of industrial production growth is expected to moderate in the coming months. High levels of public debt will require large—although not unprecedented—fiscal adjustments in many high-income countries over the next 20-years. Emerging market bond yields have climbed since late-2009, due to higher yields on benchmark U.S. Treasuries, although their spreads have remained broadly stable during the period. As U.S. bond yields increase further with the reversal of the Federal Reserve’s monetary stimulus measures, emerging market bond yields are likely to rise as well.

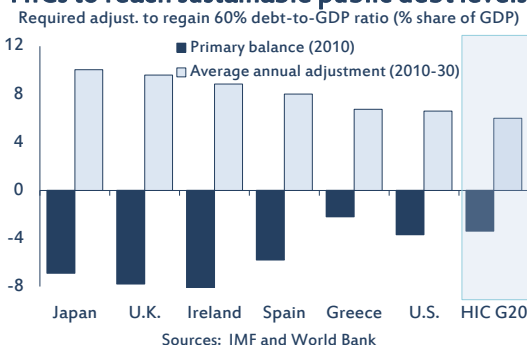
Auto sale incentive programs supported record high global auto sales and a rebound in industrial production. Some countries that witnessed a marked revival in manufacturing activity in the second half of 2009 had car sale incentive programs. As these programs have recently expired in the U.S., Korea, Australia, and in most Euro Zone countries—or are about to in Brazil, India, and the U.K.—momentum growth in industrial production is expected to slow in the months ahead. This, alongside adverse weather conditions, appears to have been a contributing factor in the recent loss of momentum in industrial output in Germany. By effectively front-loading demand, these programs pushed global car sales to an all-time high of 54.3mn units in January 2010 (seasonally adjusted annualized rate, JP Morgan).

Industrial output momentum likely to slow as auto sales incentive programs expire



Many G-20 countries face significant fiscal adjustment. High government debt and aging populations will force many high-income countries (HICs) to undergo sharp fiscal consolidation over the next 20-years. The IMF estimates that—to regain a sustainable 60% debt-to-GDP ratio—the HIC G-20 will need to adjust primary fiscal balances (excluding interest payments) from a deficit of 3.5% of GDP in 2010 to a surplus of 4.5% by 2020 and then maintain a 4.5% surplus through 2030 (i.e., cut spending or raise revenues by an average of about 6% over a 20-year period). While challenging, such large adjustments are not unprecedented. For most developing countries (LMICs) no such adjustment will be required, as their debt ratios are much lower—40% in 2010 for the LMIC G-20 vs. 107% for the HIC G-20.

Large fiscal consolidation ahead for many HICs to reach sustainable public debt levels



Emerging market bond spreads have declined from recent peaks in October 2008, although they remain about 80 basis points above the level posted during the 18-month period ending in June 2007. While bond spreads have been broadly stable since October 2009, benchmark U.S. Treasury yields have increased 50 basis points since end-November, pushing up the cost of capital for developing countries. Looking ahead, as non-traditional monetary stimulus measures (which have kept down medium-term interest rates in the U.S.) are withdrawn, developing country bond yields are expected to rise further—although perhaps not on a one-to-one basis with the rise in the cost of U.S. bonds.

Emerging market spreads have held steady from Q3-2009, but U.S. Treasuries are up



Economic Developments

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

09-Mar-10

	2006	2007	2008	2009				2009				
				Q1	Q2	Q3	Q4	Aug	Sep	Oct	Nov	Dec
Industrial Production, S.A.												
World	4.8	4.7	0.7	-21.9	5.8	12.7	8.6	-7.3	-5.3	-3.7	0.3	4.6
High Income Countries	3.3	2.6	-1.7	-30.7	1.2	12.2	-	-12.1	-9.8	-8.6	-4.4	-
Developing Countries	8.8	9.7	6.0	-2.2	14.8	13.5	13.0	2.6	3.7	6.2	9.7	13.0
East Asia and Pacific	12.9	15.2	11.1	10.2	25.1	15.2	15.7	9.7	11.6	14.2	17.0	18.1
East Asia x. China	1.2	4.3	3.8	-6.2	13.2	5.4	20.3	-3.3	0.2	3.5	5.0	15.0
Europe and Central Asia	7.8	7.2	1.2	-15.6	4.8	10.5	14.9	-8.0	-7.4	-3.2	3.2	9.7
Middle East and N. Africa	-0.6	-0.4	1.6	-6.7	5.7	4.4	-	0.3	0.6	1.2	1.1	-
Latin America and Caribbean	4.6	4.2	0.7	-17.4	2.5	10.6	8.6	-6.5	-5.8	-4.1	0.4	5.4
South Asia	10.6	9.1	4.1	2.0	15.9	20.4	11.9	9.6	8.2	10.2	10.9	16.0
Sub-Saharan Africa	4.1	6.3	3.5	-16.4	-4.3	11.5	-	-6.5	-4.8	-4.1	-1.5	-
Inflation, S.A.¹												
High Income Countries	2.5	2.4	4.3	1.9	0.7	0.2	0.9	0.2	0.2	0.3	0.9	1.3
Developing Countries	6.2	6.2	10.4	7.9	4.8	2.5	-	2.3	2.1	2.6	2.8	4.3
East Asia and Pacific	6.2	5.5	9.5	4.4	1.4	0.3	-	0.0	0.2	-0.3	1.3	2.9
Europe and Central Asia	6.5	8.4	10.7	8.4	4.2	2.9	3.0	2.7	2.8	3.2	2.8	3.7
Middle East and N. Africa	6.2	3.9	14.9	4.5	3.3	4.2	-	4.0	4.8	5.0	-	-
Latin America and Caribbean	4.3	6.4	8.8	6.2	4.0	1.9	2.9	1.9	2.7	2.7	2.6	3.3
South Asia	7.5	7.6	10.9	9.5	8.9	9.7	8.3	7.6	7.4	7.8	10.6	10.6

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				
				Q1	Q2	Q3	Q4	Aug	Sep	Oct	Nov	Dec
Exports, Nominal, US\$, S.A.												
World	16.0	15.2	15.0	-50.9	7.1	34.6	47.4	-26.4	-19.2	-12.0	4.3	13.3
High Income Countries	13.3	13.4	12.4	-49.4	7.2	36.7	38.5	-25.6	-18.1	-11.4	5.0	10.7
Developing Countries	23.1	19.8	21.0	-54.2	6.8	30.1	68.8	-28.1	-21.4	-13.2	2.9	19.1
East Asia and Pacific	23.4	22.0	16.7	-49.8	3.3	26.9	76.5	-22.4	-15.9	-9.3	2.1	21.0
Europe and Central Asia	23.0	22.0	29.3	-61.3	9.5	49.2	80.5	-34.0	-28.9	-13.4	6.2	22.1
Middle East and N. Africa	31.4	16.2	37.2	-73.9	15.4	-	-	-40.2	-36.2	-30.4	-	-
Latin America and Caribbean	19.7	13.2	11.8	-45.7	13.7	7.9	67.3	-26.5	-20.3	-13.6	4.8	20.0
South Asia	22.1	20.3	26.3	-33.7	-16.4	41.2	58.7	-25.1	-13.1	-5.7	13.3	10.8
Sub-Saharan Africa	24.2	20.1	28.0	-66.6	22.8	-	-	-36.5	-24.0	-23.7	-	-
Imports, Nominal, US\$, S.A.												
World	14.8	15.1	15.7	-52.6	0.3	35.9	47.0	-26.7	-20.1	-14.6	2.3	10.8
High Income Countries	13.3	12.7	12.0	-50.5	-6.1	36.6	39.7	-26.8	-20.0	-14.5	1.5	6.1
Developing Countries	19.4	21.8	25.3	-57.3	16.8	34.2	64.6	-26.4	-20.3	-14.9	4.2	21.9
East Asia and Pacific	16.9	18.7	21.1	-56.6	64.9	42.0	86.8	-19.6	-8.6	-6.7	19.4	46.7
Europe and Central Asia	25.6	30.3	26.4	-63.2	-7.9	31.7	48.0	-36.6	-32.5	-23.3	-4.6	1.5
Middle East and N. Africa	9.7	23.0	44.7	-40.3	15.5	12.2	-98.6	-14.3	-16.9	-8.7	-	-
Latin America and Caribbean	19.5	19.0	22.1	-57.7	-15.6	23.5	42.5	-30.9	-26.4	-26.2	-7.8	3.5
South Asia	20.5	21.4	38.6	-66.1	2.6	50.5	107.0	-31.9	-28.3	-14.5	-3.0	28.4
Sub-Saharan Africa	23.1	21.5	24.0	-43.1	-7.9	34.3	-	-21.9	-18.3	-10.1	-	-
International Reserves, US\$												
High Income Countries	11.1	12.7	6.0	-1.9	5.1	9.5	2.7	6.0	2.2	1.7	1.8	-0.8
Developing Countries	33.0	42.0	12.6	-2.7	6.4	7.0	-	2.8	2.4	2.3	-	-
East Asia and Pacific	29.1	41.5	23.5	0.6	8.3	7.0	-	2.2	2.9	2.3	-	-
Europe and Central Asia	50.9	45.7	-8.5	-9.5	6.7	4.8	3.7	3.0	1.4	4.1	2.2	-2.6
Middle East and N. Africa	37.1	31.7	23.9	-3.4	1.9	-	-	2.1	1.6	0.5	1.7	-0.6
Latin America and Caribbean	21.6	44.6	11.3	-6.0	1.9	9.0	5.9	4.6	2.1	2.2	1.8	1.7
South Asia	28.1	53.2	-9.0	-2.2	6.6	8.1	-1.6	4.0	1.4	1.1	-1.2	-1.5
Sub-Saharan Africa	40.1	27.3	8.0	-8.8	0.1	10.7	-	5.9	4.0	0.2	-	-

Financial Markets

	2007	2008	2009				2009			2010	MRV ¹	Chg since Sep-12 '08 ³
			Q1	Q2	Q3	Q4	Dec	Jan	Feb			
Interest rates and LIBOR (%)												
U.S. Fed Funds Effective	5.02	1.93	0.19	0.18	0.15	0.12	0.12	0.11	0.13	0.14	-1.96	
ECB repo	3.98	3.78	1.12	0.79	0.44	0.43	0.41	0.37	0.36	0.34	-4.03	
US\$ LIBOR 3-months	5.30	2.91	1.24	0.85	0.41	0.27	0.25	0.25	0.25	0.26	-2.56	
EURIBOR 3-months	4.28	4.63	2.02	1.31	0.87	0.72	0.71	0.68	0.66	0.65	-4.31	
US 10-yr Treasury yield	4.63	3.65	2.71	3.30	3.50	3.45	3.59	3.72	3.68	3.72	0.00	
German Bund, 10 yr	4.22	3.99	3.10	3.35	3.31	3.22	3.18	3.28	3.19	3.15	-1.03	
Spreads (basis points)												
US Corporate (High Yield Bonds)	304	915	1516	1107	803	618	587	513	553	508	-225	
JP Morgan Emerging Markets	197	406	683	503	384	318	309	300	320	274	-83	
Asia	161	355	558	396	299	244	231	234	251	210	-86	
Europe	158	370	692	467	369	269	253	232	258	214	-99	
Latin America & Caribbean	208	426	712	548	416	364	361	355	376	327	-61	
Middle East	476	585	808	618	470	399	376	321	326	303	-196	
Africa	288	452	673	489	307	253	239	224	244	209	-126	
Stock Indices²												
Global (MSCI)	393	327	204	234	268	294	298	302	286	302	-5.5	
High-Income (\$ Index)	1571	1297	820	924	1054	1150	1163	1178	1121	1180	-8.0	
United States (S&P-500)	1476	1221	810	892	996	1089	1111	1124	1088	1146	-8.5	
Euro Area (S&P-350\$)	1909	1544	899	1025	1208	1344	1346	1347	1240	1305	-11.3	
Japan (Nikkei-225)	16983	12156	7961	9275	10140	9967	10195	10663	10165	10564	-13.5	
Developing Markets (MSCI)	...	743	431	566	670	760	769	784	736	787	13.0	
Asia	...	688	430	571	678	750	761	778	726	772	21.6	
Europe & C. Asia	...	766	341	424	538	621	619	639	585	631	-16.0	
Latin America & Caribbean	3670	3771	2103	2760	3296	4002	4093	4079	3813	4152	17.4	
Middle East and N. Africa	693	733	358	433	473	491	471	479	486	505	-27.4	
Africa	...	772	496	621	728	787	793	807	775	836	8.9	
Exchange Rates (LCU / USD)												
High Income Countries												
Euro	0.73	0.68	0.77	0.73	0.70	0.68	0.69	0.70	0.73	0.73	3.7	
Japan	117.74	103.37	93.52	97.40	93.57	89.62	89.70	91.39	90.25	90.00	-16.3	
Brazil	1.95	1.83	2.32	2.08	1.87	1.74	1.75	1.78	1.84	1.77	-1.0	
Russia	25.57	24.88	34.09	32.18	31.31	29.48	30.06	29.88	30.15	29.53	15.5	
India	41.35	43.52	49.83	48.83	48.40	46.64	46.61	45.96	46.34	45.38	-0.8	
China	7.61	6.95	6.84	6.83	6.83	6.83	6.83	6.83	6.83	6.83	-0.3	
Egypt	5.64	5.44	5.58	5.62	5.54	5.47	5.49	5.45	5.48	5.48	0.7	
South Africa	7.05	8.26	9.95	8.47	7.81	7.49	7.48	7.45	7.68	7.40	-8.2	
Memo: USA nominal effective rate	89.39	84.39	91.12	88.61	84.17	81.30	81.73	82.43	83.90	83.90	-2.3	

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				2009			2010	MRV	Chg since Sep-12 '08 ³
			Q1	Q2	Q3	Q4	Dec	Jan	Feb			
Oil price, \$/b, nominal ¹	71	97	44	59	68	75	75	77	74	80	-18.3	
Non - Oil Index ²	165	197	132	150	159	172	179	183	177	180	-9.5	
Food Index ²	155	218	162	182	175	182	189	192	186	181	-14.8	
Metals and Minerals Index ²	184	184	103	123	146	160	166	173	164	174	-6.2	
Baltic Dry Index ³	7072	6348	1557	2661	2795	3378	3449	3161	2678	3230	-32.7	

¹ Simple average of Brent, Dubai and WTI.

² Base Date = Jan 1, 2005

³ Base Date = May 1, 1985