Global Economic Prospects

Fiscal Headwinds and Recovery

Regional appendix: South Asia

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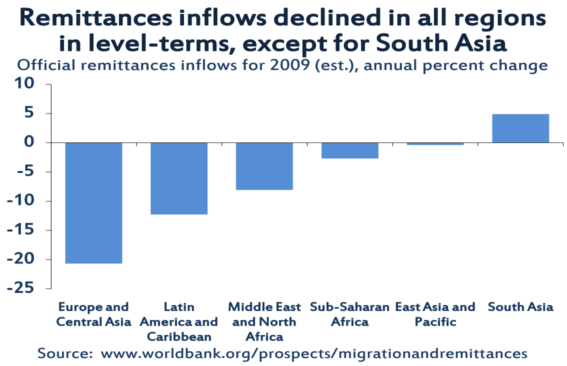
South Asia

Recent developments

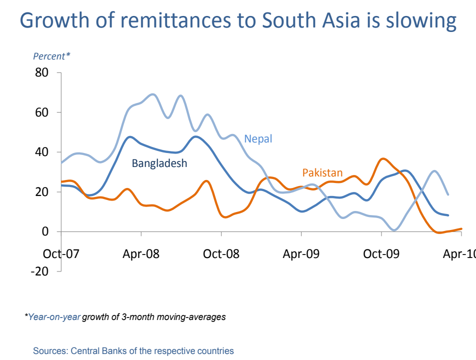
South Asia's GDP on a calendar year basis[8] began to recover in the second quarter of 2009, and GDP is projected to expand 7.6 percent in volume terms in 2010—posting the second fastest pace of growth among developing regions after East Asia and the Pacific (Table B5.1, line 2). This compares with a relatively modest 0.7 percentage point deceleration from 2008 to 2009, when GDP expanded 5.4 percent (down from 6.1 and 9.2 percent in 2008 and 2007, respectively). In contrast, GDP in the rest of the developing world slower by 4.6 percentage points in 2009, and indeed contracted by 6.2 percentage points, when China is excluded. (See the South Asia Economic Update at http://go.worldbank.org/6BU9N0AZM0 for more detail).

Although the global financial crisis has had important consequences for economic activity in South Asia, that impact was much less pronounced than in all other developing regions East Asia. Regional economic activity benefitted from limited exposures to the sub-prime markets and global banking systems—as the region's financial markets are less integrated than elsewhere—and relatively resilient capital inflows, which increased as a share of GDP—from 3.6 percent in 2008 to 3.9 percent in 2009. Fiscal and monetary stimulus (especially in India and, to a lesser extent, in Bangladesh and Sri Lanka), supported activity as well, along with the region's relative "niche" of trade in services, and in agricultural products—which were less impacted by the crisis than at the global level. Remittances also proved to be a key source of strength for the region during the global downturn. Reflecting the diversity of its migrant destinations and a rapid and large build-up in the stock of its migrants abroad in recent years, remittances inflows to the region expanded 4.9 percent in 2009—even as they declined by an estimated 9 percent in the rest of the developing world (Figure B5.1). And, while they are growing less quickly, remittances to the region have remained positive over the first four months of 2010.

Figure B5.1 Remittances have held up in South Asia

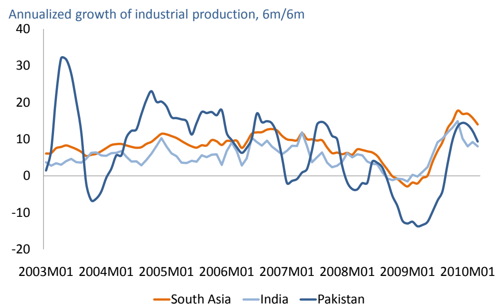


Growth in remittances to individual countries



As elsewhere in the global economy, the fall-off in activity during 2008 and 2009 (relative to pre-crisis 2007) was concentrated in the financial and industrial sectors (Figure B5.2), with service and agricultural sectors less directly affected. Capital inflows to the region more than halved from \$134 billion in 2007 to \$68 billion in 2009 (Table B5.3), with net international bank and bond lending almost completely drying up. Among countries within the region, the macro-impacts of the crisis was more severe for those with weaker fundamentals and greater external vulnerabilities at the onset, including Pakistan, Maldives and Sri Lanka with significant internal and external imbalances. Ongoing conflict and post-conflict issues also hampered economic activity in Afghanistan, Pakistan, Sri Lanka and Nepal.

Figure B5.2 Industrial production growth is easing



Source: World Bank

The rebound in activity beginning in the second quarter of 2009 and into 2010 (Figure B5.2) initially reflected rebound factors, including a recovery in external demand and in consumer and investor confidence. This was followed by a rebound in capital inflows and trade activity. In addition, the end to a severe drought in Afghanistan and improving macroeconomic stabilization in the Maldives, Pakistan, and Sri Lanka—supported by IMF Stand-By Facilities reached in 2009 and late 2008—also contributed to the uptick in activity.

The revival of economic activity through the first half of 2010 can be observed in the fiscal year accounts of several countries. In India, growth accelerated from 5.1 percent in FY2008/09 (April 2008 to March 2009) to 7.7 percent FY2009/10, with a relatively strong contribution from consumer and government demand reflecting expansionary fiscal and monetary policies.[9] (Table B5.4 presents GDP at factor cost and market prices for India). Despite lower interest rates and rising business confidence, investment grew by half a percentage point less quickly than overall GDP. Net exports and stock building also supported growth. A poor monsoon—the worst in nearly forty years, with rainfall reaching only 78 percent of the long-term trend—translated into very weak 0.2 percent growth in agricultural output. The services sector continues to be an important engine of growth, but the 8.5 percent expansion in FY2009/10 was down slightly from the rate of FY2008/09. Growth in the manufacturing sector accelerated to 10.8 percent, thus fully accounting for the pick-up in factor cost output to 7.4 percent in FY2009/10 from 6.7 percent in FY2008/09.

Growth has been much less dynamic in Pakistan, partly reflecting the fiscal and balance of payment imbalances that the country carried into the downturn, which limited the scope for expansionary fiscal and monetary policies. This situation was compounded by security issues, which placed additional pressures on the fiscal deficit and hampered both domestic and foreign investor confidence. Economic activity has also been undermined by structural issues, notably persistent electricity shortages. As a consequence, real GDP is estimated to have eased to 3 percent in FY2010 (ending June 2010) from 3.7 percent growth in FY2009.

In Bangladesh, recovery has also been restrained by structural bottlenecks—notably energy supply—particularly in the manufacturing sector. Overall, FY2010 (ending June 2010) GDP growth is projected to have slowed to 5.5 percent from 5.7 percent in FY2009—a fourth consecutive year of slowing GDP growth. Supply-side constraints dampened private sector investment and undermined exports (export processing zones are not immune to electricity blackouts), which have more than neutralized an expansionary fiscal policy and relatively strong household consumption growth—the latter having been supported by continued growth of remittances, and an increase in non-rice agricultural output (and hence rural incomes). As a result, capacity utilization remains low and industrial production growth weak.

A potentially worrisome fiscal position has developed in South Asia, as government deficits in the region have more than doubled since 2007, and at 8.8 percent of GDP are higher than in any other developing region. While debt-to-GDP ratios in South Asia remain much lower than in high-income Europe, bringing fiscal policy back onto a sustainable path must be a priority for the authorities in the region. Recognizing this, the Government of India has announced a medium-term adjustment plan to

Table B5.1 South Asia forecast summary

(annual percent change unless indicated otherwise)	95-05 [1]	2007	2008	Est. 2009	Forecast 2010	2011	2012
GDP at market prices (2005 USD) [2,6]	6.0	8.5	4.9	7.1	7.5	8.0	7.7
GDP in Calendar year basis [3]	6.1	9.2	6.1	5.4	7.6	7.9	7.6
GDP per capita (units in USD)	4.1	6.8	3.4	5.6	6.1	6.6	6.4
PPP GDP [4]	6.0	8.5	4.8	7.1	7.4	8.0	7.7
Private consumption	4.7	6.0	5.7	4.4	5.9	6.9	6.6
Public consumption	5.0	3.8	18.2	7.8	8.5	6.3	5.4
Fixed investment	8.0	12.7	4.0	6.0	10.6	11.1	10.8
Exports, GNFS [5]	11.3	7.4	16.0	-4.5	18.3	12.2	12.4
Imports, GNFS [5]	10.6	7.0	19.0	-7.2	16.5	11.5	11.8
Net exports, contribution to growth	-0.2	-0.3	-1.5	1.0	-0.4	-0.4	-0.4
Current account bal/GDP (%)	-0.7	-1.4	-3.1	-2.3	-2.3	-2.2	-2.0
GDP deflator (median, LCU)	5.9	7.7	9.3	14.1	8.0	7.0	6.4
Fiscal balance/GDP (%)	-7.4	-4.4	-8.4	-8.8	-8.0	-7.0	-6.2
Memo items: GDP at market prices [6]							
South Asia excluding India	4.5	6.0	3.9	4.3	4.1	4.8	5.2
India	6.4	9.1	5.1	7.7	8.2	8.7	8.2
at factor cost [7]		9.2	6.7	7.4	8.5	9.0	8.5
Pakistan	4.1	5.7	2.0	3.7	3.0	4.0	4.5
Bangladesh	5.3	6.4	6.2	5.7	5.5	5.8	6.1

Notes: 1. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
2. GDP measured in constant 2005 U.S. dollars.
3. GDP figures are presented in calendar years (CY) based on quarterly history for India. For Bangladesh, Nepal and Pakistan, CY data is calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity.
4. GDP measured at PPP exchange rates.
5. Exports and imports of goods and non-factor services.
6. National income and product account data refer to fiscal years (FY) for the South Asian countries with the exception of Sri Lanka, which reports in calendar year (CY). The fiscal year runs from July 1 through June 30 in Bangladesh and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Nepal and Pakistan report FY2007/08 data in CY2008, while India reports FY2007/08 in CY2007.
7. GDP at factor cost is customarily reported in India and tends to be higher than GDP at market prices. GDP at factor cost excludes indirect taxes and includes subsidies (while GDP at market prices includes indirect taxes and Table B5.4 and excludes subsidies). See the South Asia Economic Update (http://go.worldbank.org/6BU9N0AZM0) for more detail.

Source: World Bank

bring the debt-to-GDP ratio down to 68 percent of GDP at most by FY2014/15 from 77 percent in FY2009/10. Part of the recent fiscal deterioration reflects the costs of subsidies put in place in the wake of the food and fuel crisis, but not yet removed. In Pakistan the share jumped from 3.7 percent in FY2001/02 to 18.1 percent of GDP in FY2008/09, and in Bangladesh it rose from 1.3 percent to 9.6 percent over the same period. The increase was less pronounced elsewhere in the region, as in India, subsidies increased from 11.3 percent of government expenditures in FY2002/03 to 14.4 percent in FY2008/09 and in the Maldives, subsidies (including transfers) rose from 1.6 percent to 5.2 percent, respectively, in 2002 and 2008 (calendar years).[10]

Table B5.2 General government fiscal balance as percent share of GDP

	2006	2007	2008	2009	2010
South Asia	-5.1	-4.2	-8.4	-8.8	-8.0
India	-5.5	-4.2	-8.8	-9.5	-8.5
Pakistan	-3.7	-4.0	-7.1	-5.1	-5.1
Bangladesh	-3.3	-3.1	-6.1	-4.0	-5.5
Nepal	-1.5	-1.3	-4.6	-5.4	-6.5
Sril Lanka	-7.0	-6.9	-7.5	-9.8	-7.5
Other developing regions					
East Asia & Pacific	-0.6	0.4	-0.7	-2.9	-2.6
Europe & Central Asia	3.0	2.1	0.3	-6.3	-4.0
Latin America & Caribbean	1.4	1.2	0.3	-3.8	-2.3
Miidle-East & North Africa	-0.8	-0.2	1.7	-3.3	-4.1
Sub-Saharan Africa	1.5	-0.8	0.5	-5.8	-4.8

Source: World Bank.

While Central Banks in the region responded to the crisis by relaxing monetary policy, the period of monetary easing appears to be coming to an end, with central banks having either started to raise rates or signaling their intentions to do so in the near-term. In India, the rebound in international commodity prices (food and fuel) and the poor monsoon have contributed to higher inflationary pressures into early-2010. However, capital inflows increased in the first half of 2010 as well, putting upward pressure on the currency and leading the Reserve Bank of India to seek a balance between raising interest rates to limit inflation, and keeping them low to limit capital inflows and currency appreciation.

In Bangladesh, Pakistan and Sri Lanka, inflation is on the rise, partly reflecting one-off effects from higher food and fuel prices. In Bangladesh and Pakistan, the acceleration in inflation comes despite sluggish growth, and Central Banks in both countries face the unwelcome prospect of boosting interest rates even as growth disappoints. Indeed, Bangladesh Bank increased the Cash Reserve Requirement from 5.0 percent to 5.5 percent in May and revised the FY2008/2009 GDP growth estimate down to 5.7 percent from 5.9 percent. Elevated international commodity prices—notably fuel, and in particular food prices—have also contributed to higher inflationary pressures in some of the smaller economies (including Bhutan and the Maldives). Even in Afghanistan, a period of falling prices appears to be coming to an end. In Nepal, broad money growth has also been very rapid, due in large part to strong growth in remittances. Correspondingly, inflation has been in the double digits for the last two years—again reflecting to a considerable degree increases in food prices. Monetary policy has been very accommodating, witnessed negative real interest rates.

In contrast, prices continue to fall in Afghanistan, but the pace of deflation eased in late-2009, buoyed by firming of housing and food prices. The monetary targets agreed with the IMF for money circulation growth were overshot—but given continued deflation, no corresponding policy action is anticipated.

Capital inflows into the region have picked up sharply from recent lows. Approximately $60 billion in capital (including portfolio and FDI) flowed into India in (April 2009 to March 2010), up from $7 billion in FY08. On a calendar year basis, net inflows in 2009 rose less markedly, with much of the uptick expected in 2010, when net private capital flows are projected to reach $66.5 billion for the region compared with $61.9 billion posted in 2009 (Table B5.3).

Table B5.3 Net capital flows to South Asia
$ billions

	2003	2004	2005	2006	2007	2008	2009e	2010f	2011f	2012f
Financial flows:										
Net private and official inflows	**14.3**	**21.0**	**28.2**	**61.4**	**134.2**	**62.7**	**73.8**			
Net private inflows (equity+debt)	**18.5**	**21.4**	**25.3**	**57.9**	**129.5**	**53.2**	**61.9**	**66.5**	**74.2**	**87.2**
..Net private inflows (% GDP)	2.4	2.4	2.5	5.0	9.0	3.6	3.9	3.4	3.2	3.4
Net equity inflows	13.4	16.6	23.3	36.4	68.4	32.9	66.0			
..Net FDI inflows	5.4	7.6	10.9	26.0	32.3	48.7	41.4			
..Net portfolio equity inflows	8.0	9.0	12.4	10.4	36.1	-15.8	24.6			
Net debt flows	0.9	4.4	4.9	25.0	65.8	29.8	7.8			
..Official creditors	-4.2	-0.4	2.9	3.5	4.7	9.5	11.9			
....World Bank	-2.3	2.3	2.3	2.0	2.0	1.4	2.4			
....IMF	-0.1	-0.3	0.0	-0.1	-0.1	3.2	3.7			
....Other official	-1.8	-2.4	0.6	1.6	2.8	4.9	5.8			
..Private creditors	5.1	4.8	2.0	21.5	61.1	20.3	-4.1			
....Net M-L term debt flows	3.1	4.1	-0.3	19.8	31.0	12.7	-3.6			
......Bonds	-3.7	3.9	-2.8	6.4	10.4	1.7	0.4			
......Banks	6.8	0.5	2.6	13.4	20.4	10.9	-4.1			
......Other private	0.0	-0.3	-0.1	0.0	0.2	0.1	0.1			
....Net short-term debt flows	2.0	0.7	2.3	1.7	30.1	7.6	-0.5			
Balancing item	**10.1**	**7.6**	**-6.6**	**-3.1**	**-12.8**	**-41.7**	**-15.0**			
Change in reserves (- = increase)	**-36.9**	**-27.6**	**-6.8**	**-41.8**	**-101.1**	**26.4**	**-20.8**			
Memorandum items										
Workers' remittances	30.4	28.7	33.9	43.0	54.0	72.0	75.0	**79.0**	**83.0**	

Source: World Bank. *Note*: e = estimate; f = forecast.

Outlook

Regional GDP growth is projected to rebound to 7.6 percent in 2010 (calendar year basis), up from 5.4 percent in CY 2009. GDP in India (about 80 percent of the region's output) is expected to increase by 8.3 percent in CY 2010, up from 5.7 percent in CY 2009 and average 8.4 percent in CY 2011 through CY 2012 (Table B5.4). Regional growth excluding India, is projected to expand by 4.1 percent in 2010 (slightly less quickly than in the rest of the developing world excluding India and China), and close to 5 percent for the remainder of the forecast period.

The pick-up in South Asia's output in 2010 reflects a projected rise in the contribution to growth of private consumption and investment, buoyed by improving consumer and business sentiment and easing credit conditions. The government sector is expected to add to overall demand only marginally, as the stimulus measures begin to unwind, while the contribution from net exports should be slightly positive, as rapid consumer and business demand cause imports to grow nearly as quickly as exports.

The recovery in capital inflows already visible in monthly data is projected to continue, with total inflows to the region reaching close to $74.2 billion in 2010 and $87.2 billion in 2011 and 2012, respectively—although as a share of GDP they are projected to diminish slightly to 3.2 percent in 2011 before firming back to a share of 3.4 percent in 2012. While more than 33 percent higher than in 2009, flows will remain one-third below their peak 2007 level. Robust growth in FDI inflows (attracted by relatively strong growth prospects) are projected to more than offset a projected fall-off in portfolio inflows (2009 inflows were inflated by the return of stakes that fled the region during the massive outflows of late-2008). Remittances to the region are also expected to strengthen as economic activity in donor countries improves. Increased foreign currency flows from remittances and international capital sources, together with the region's reduced current account balance, suggest that the region should not face any serious financing challenges

Regional growth is projected to accelerate further in CY 2011 to 7.9 percent before moderating somewhat to 7.6 percent in CY 2012. This firming partly reflects a strengthening of the recovery in Pakistan, Sri Lanka and Maldives, where gains have been made in reducing significant macroeconomic imbalances. Regional growth will also be supported by stronger external demand from high-income countries—which should bolster regional exports and capital inflows. With relatively strong growth prospects, South Asia is expected to draw significant FDI inflows (a rising share of those to developing countries), which will bolster investment and trade activity. An enhanced pace of fiscal consolidation and withdrawal of monetary stimulus measures are expected to be the major drivers of the projected moderation of growth rates in 2012.

With ongoing fiscal consolidation efforts, government deficits are nevertheless projected to remain high at 6.2 percent of regional GDP in 2012. Especially with markets' current focus on fiscal sustainability issues, these high deficits and associated repayments will be of growing concern (interest payments currently represent 22 percent of government expenditures in the region).[11]

The moderation of economic growth in 2011 and 2012, a tightening of credit conditions, stable oil price, along with expectations of a good Monsoon in 2010 (the India Meteorological Department recently projected that the upcoming monsoon will be normal), suggest that inflationary pressures should diminish over the coming year.

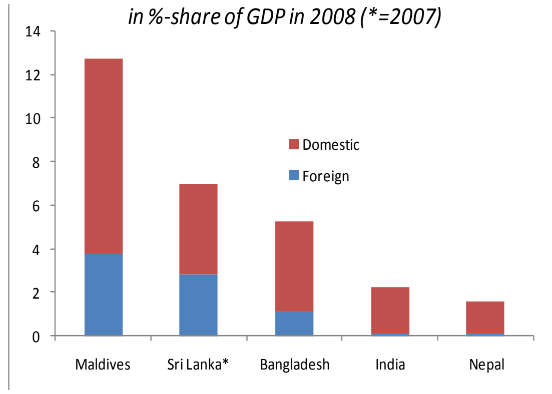
Risks

The main risk facing the global economy at this stage, comes from the possibility that the debt sustainability issues in high-income Europe cause countries in the region to default or impose a major restructuring of debt. Steps so far to guarantee the short-term solvency of these countries have calmed markets, but issues concerning the political (and economic) feasibility of taking the steps necessary to bring this debt under control remain unresolved. Moreover, many banks in the high-income world carry large exposures to debt in these highly-indebted countries. A major default or restructuring could inflict serious damage on their balance sheets, with potentially large repercussions on the global financial system—and such an event would also likely cause a significant increase in risk aversion resulting in higher international interest rates, and uncertainty about fiscal policy could cause risk premia to rise.

Further, a prolonged period of heightened uncertainty could translate into weaker-than-projected external demand. Under such a scenario, the estimated total impact in South Asia is for as much as a 2.5 percent cumulative reduction in GDP growth between 2010 and 2012 relative to the forecast presented. (See main text, alternative scenarios). Notably, trade impacts in South Asia would likely be smaller than in other developing regions—given that about 5.7 percent of total exports are with the at-risk high-income European countries (compared with 10 percent and 19.3 percent in Europe and Central Asia and Middle East and North Arica, respectively).

Failure to bring regional fiscal policy back onto a sustainable path would likely exacerbate these effects further. Here, policy should focus on broadening the revenue base, reining in subsidies, and gaining greater efficiency in outlays, in part by focusing expenditure on projects that alleviate longstanding bottlenecks. Even in the absence of a high-income crisis, countries in South Asia will face increased competition for global capital and rising borrowing costs. In this regard, the recourse that countries in the region have had to domestic borrowing is welcome, because it reduces foreign currency risk associated with international borrowing (Figure B5.3). However, increased sovereign borrowing on domestic markets also has its costs; in particular, it may hamper growth by crowding out private-sector borrowers.

Figure B5.3 Net incurrence of government liabilities



Source: World Bank, GDF Finance database April 2010

Outcomes in South Asia will also be sensitive to other external conditions, notably remittance flows and international commodity prices. Should the recovery in high-income countries—notably Europe—stall, sustained high unemployment rates in migrant-destination countries could lead to a reduction in the stock of migrants abroad and a decline in remittance flows that are a critical source of income for countries in South Asia. Similarly, a spike in fuel or food prices could undermine real incomes, stymieing progress in reducing poverty.

On the upside, South Asia might benefit from a larger than projected influx of foreign capital inflows. While inflows provide significant benefits that are supportive of growth, countries such as India—which are attracting substantial and rising shares of total capital inflows to developing countries due to their relatively strong growth performance and prospects—face some associated risks. Large and sudden inflows can stoke inflationary pressures and contribute to asset-price bubbles while creating challenges for monetary policy management.

Table B5.4 South Asia country forecasts

(annual percent change unless indicated otherwise)	95-05 [2]	2007	2008	Est. 2009	Forecast 2010	Forecast 2011	Forecast 2012
Calendar year basis [3]							
Bangladesh							
Real GDP at market prices	5.4	6.3	5.9	5.6	5.7	6.0	6.1
Current account bal/GDP (%)	-0.6	1.2	1.2	2.9	1.7	1.5	1.5
India							
Real GDP at market prices	6.5	9.9	6.4	5.7	8.3	8.6	8.2
Memo: Real GDP at factor cost [5]	-	9.5	7.4	6.7	8.6	8.9	8.5
Current account bal/GDP (%)	-0.5	-0.9	-2.3	-2.3	-2.3	-2.2	-2.1
Nepal							
Real GDP at market prices	4.0	4.4	5.0	3.8	3.5	4.1	4.2
Current account bal/GDP (%)	-3.5	-1.1	3.0	4.0	-1.9	0.0	-0.1
Pakistan							
Real GDP at market prices	4.2	3.8	2.9	3.3	3.5	4.2	4.5
Current account bal/GDP (%)	-1.1	-5.5	-10.1	-5.4	-3.6	-3.8	-3.9
Sri Lanka							
Real GDP at market prices	4.5	6.8	6.0	3.5	5.8	5.7	5.9
Current account bal/GDP (%)	-3.2	-4.6	-9.5	-0.5	-2.8	-3.3	-3.5
Fiscal year basis [4]							
Bangladesh							
Real GDP at market prices	5.3	6.4	6.2	5.7	5.5	5.8	6.1
Current account bal/GDP (%)	-0.7	1.4	0.9	2.9	1.9	1.6	1.5
India							
Real GDP at market prices	6.4	9.1	5.1	7.7	8.2	8.7	8.2
Memo: Real GDP at factor cost [5]	-	9.2	6.7	7.4	8.5	9.0	8.5
Current account bal/GDP (%)	-0.4	-1.4	-2.4	-2.4	-2.4	-2.3	-2.1
Nepal							
Real GDP at market prices	4.1	3.3	5.3	4.7	3.0	4.0	4.2
Current account bal/GDP (%)	-0.9	-0.1	2.9	4.1	-2.0	0.0	-0.1
Pakistan							
Real GDP at market prices	4.1	5.7	2.0	3.7	3.0	4.0	4.5
Current account bal/GDP (%)	-0.7	-5.8	-9.7	-5.6	-3.8	-4.0	-3.9

Notes: 1. Afghanistan, Bhutan, Maldives are not forecast owing to data limitations.

2. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

3. GDP figures are presented in calendar years (CY) based on quarterly history for India. For Bangladesh, Nepal and Pakistan, CY data is calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity.

4. National income and product account data refer to fiscal years (FY) for the South Asian countries with the exception of Sri Lanka, which reports in calendar year (CY). The fiscal year runs from July 1 through June 30 in Bangladesh and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Nepal and Pakistan report FY2007/08 data in CY2008, while India reports FY2007/08 in CY2007.

5. GDP at factor cost excludes indirect taxes and includes subsidies, (while GDP at market prices includes indirect taxes and excludes subsidies).

Source: World Bank

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Notes:

1. Armenia, Bosnia and Herzegovina, Georgia, Latvia, Romania, and Ukraine entered Stand-by-Arrangements; Moldova and Tajikistan entered Extended Credit Facilities; Moldova also entered an Extended Arrangement, and the Kyrgyz Republic entered an Exogenous Shock Facility. Additionally, Poland opened a Flexible Credit Line of 13.7 billion SDRs, but it did not draw upon it before it expired in early-May 2010.

2. Central Bank of Russia (http://www.cbr.ru/eng/statistics/?Prtid=svs).

3. The countries covered in the Europe and Central Asia section of the regional appendix are those that fall into the World Bank's definition of low- and middle-income countries (with economies divided according to 2008 GNI per capita, calculated using the World Bank Atlas method, with income groups categorized as low income, with income of $975 or less; lower middle income with $976 - $3,855; upper middle income, with $3,856 - $11,905; and high income with $11,906 or more). The 24 countries are Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, Latvia, Lithuania, Former Yugoslav Republic of Macedonia, Montenegro, Poland, Romania and Serbia (in the Central European sub -region); Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation, Tajikistan, Ukraine, and Uzbekistan (in the Commonwealth of Independent States sub -region); and Turkey. Transition countries include all 24 countries with the exception of Turkey. Among these developing countries, Bulgaria, Latvia, Lithuania, Poland and Romania are new European Union members. Owing to data limitations, forecasts are not available for Kosovo, Montenegro, and Turkmenistan. The EU -10 countries consist of: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

4. The output gap is defined as the difference between the actual level of industrial production in March 2010 (or latest date) and the level that would have been observed if output had continued to expand at the average rate between January 2003 and August 2008, expressed as a percent of that trend rate.

5. IMF Regional Economic Outlook: Western Hemisphere, May 2010.

6. The low-and-middle income countries of the Middle East and North Africa region as presented in this report include Algeria, the Arab Republic of Egypt, the Islamic Republic of Iran, Jordan, Lebanon, Morocco, the Syrian Arab Republic, Tunisia and the Republic of Yemen (low-income country). Several developing countries are not covered owing to data insufficiencies, including Djibouti, Iraq, Libya and the West Bank and Gaza. High-income economies of the broader geographic region, including Gulf Cooperation Council (GCC) members, Bahrain, Kuwait, Oman and Saudi Arabia are covered in this report under the group of "other high-income countries". But as the GCC has become more integrated with the developing economies of the region, a brief discussion of economic developments is a feature of this appendix. Among the GCC, insufficient data exists for inclusion of Qatar and the United Arab Emirates in the database and forecasting model underlying this note.

7. Average growth for the developing Middle East and North Africa region over the ten-year span from 1995-2005, registered 4.4 percent--a fair estimate for growth of potential output for the region's developing countries.

8. Many countries in the region commonly report GDP on a fiscal year (FY) basis in contrast with most developing (and high-income) countries, which report GDP on a calendar year (CY) basis. In this annex, this data is converted onto a calendar year basis in order to ensure comparability with data presented for other countries. The conversion is achieved by calculating CY equivalents for GDP in India using quarterly data, and by making an estimate using appropriately weighted averages of the FY data for Bangladesh, Nepal and Pakistan. Sri Lanka reports national income and product accounts on a calendar year basis. The fiscal year runs from July 1 through June 30 in Bangladesh and Pakistan, from July 16 through July 15 in Nepal, and from April 1 through March 31 in India. Because of reporting practices, Bangladesh, Nepal, and Pakistan report FY2008/09 data in CY2009, while India reports FY2008/09 in CY2008.

9. The text references GDP at market prices for all countries including India for consistency across developing countries (as GDP at market prices is the metric used by most economies). In some South Asian economies, GDP at factor cost is more widely referenced in the press. GDP at factor cost excludes indirect taxes and includes subsidies—whereas GDP at market prices includes indirect taxes and excludes subsidies. Table B5.4 presents GDP at both factor cost and market prices for India.

10. World Bank, World Development Indicators, and Government sources.

11. World Development Indicators (April 2010).