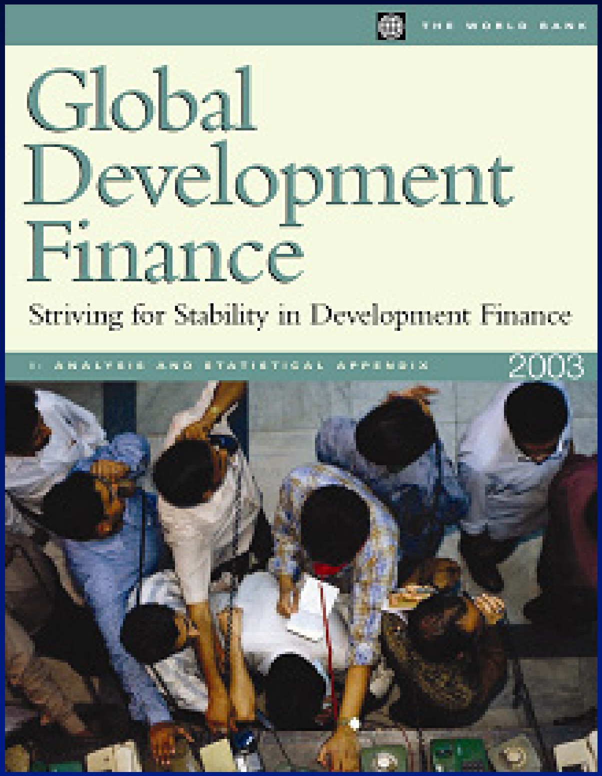
Global Development Finance 2003

Striving for Stability in Development Finance



Washington DC
April 2nd, 2003

DEVELOPMENT PROSPECTS

Outline

- Update on global economy
- Near-term trends in financial flows to developing counties
- The broader perspective on flows to developing countries and where they are headed
- Special focus: The rising importance of workers' remittances

DEVELOPMENT PROSPECTS

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DEVELOPMENT PROSPECTS

The war has added more bumps to an uneven global expansion

War effects

- Higher oil prices, now some declines

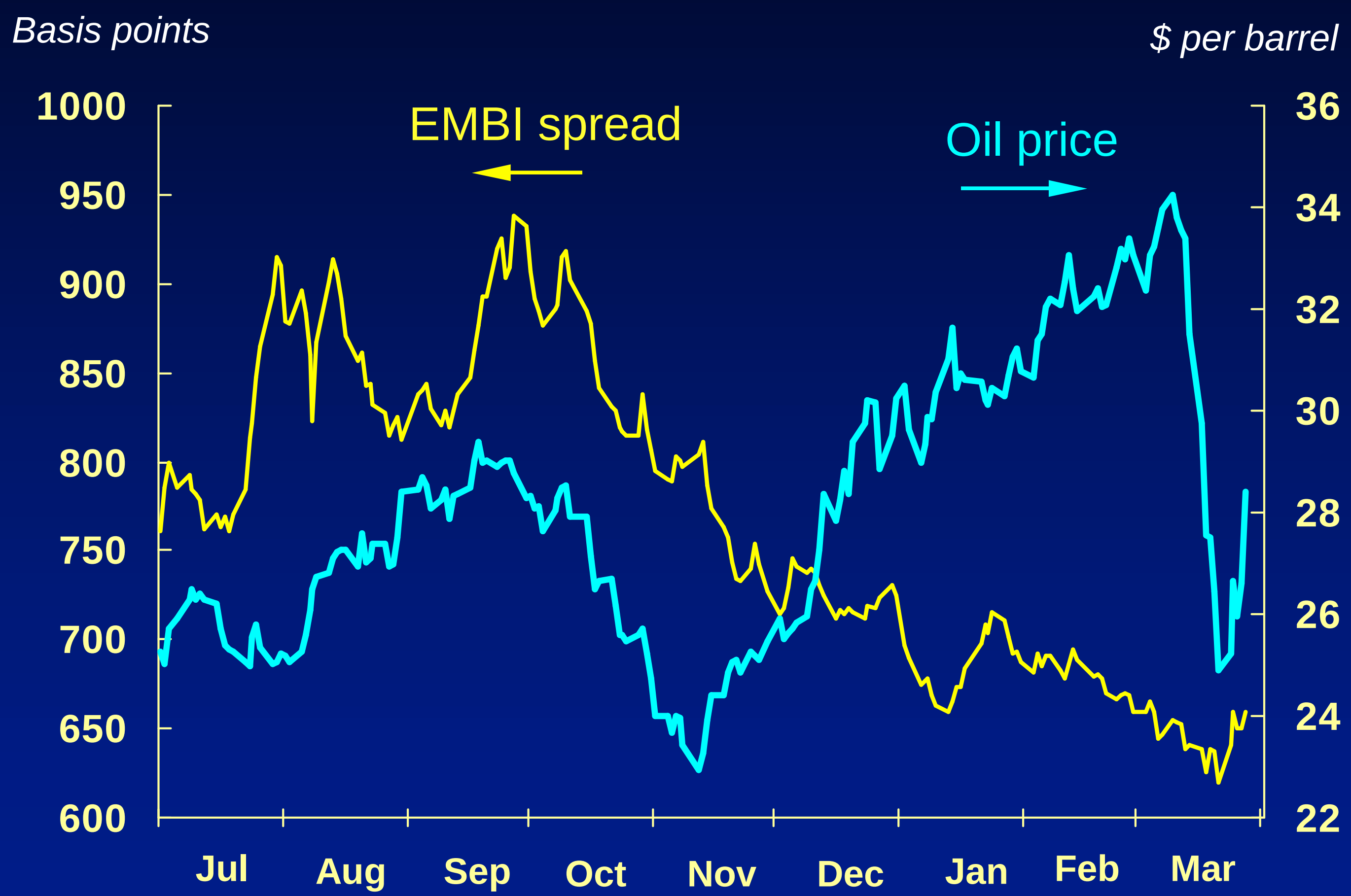
Q1: $32pb	Q2: $29pb	Q3: $23pb	Q4: $22pb

- Falling business and, especially, consumer confidence
- Increased volatility in financial markets
- More fiscal stimulus

DEVELOPMENT PROSPECTS

Financial strains for developing countries have been surprisingly muted

EMBI spread and oil prices



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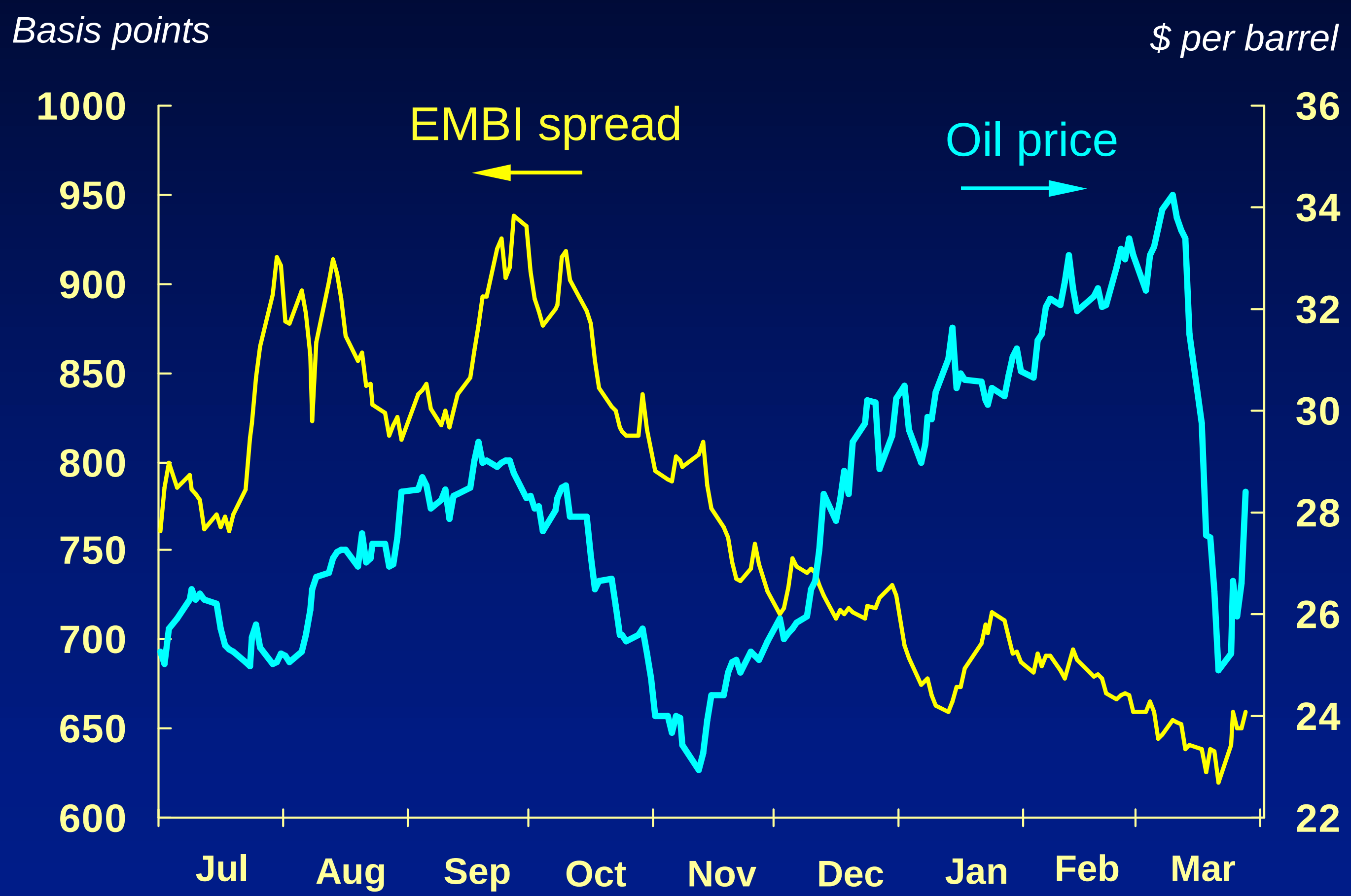

Note that some countries – especially Turkey - have been hard hit, however

Global growth forecasts for 2003 trimmed, but not slashed

World Bank growth forecasts for 2003

Real GDP, percent change on year earlier

As of:	Jul-02	Dec-02	Apr-03
Global	3.6	2.5	2.3
OECD countries	3.1	2.1	1.8
Developing countries	5.0	3.9	4.0

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Net impact from build up to war and its assumed evolution: a hit of 0.5% to global GDP in 2003H1 (similar to September 11th)

DEVELOPMENT PROSPECTS

The forecast remains for a muted acceleration in growth over next 2 years

World Bank GDP growth forecasts

Real GDP, percent change on year earlier

	2003	2004	2005
Global	2.3	3.2	3.1
OECD countries	1.8	2.8	2.6
Developing countries	4.0	4.7	4.8

DEVELOPMENT PROSPECTS

Developing country outlook by region

Real GDP growth

	2002	2003	2004
East Asia and Pacific	6.7	6.4	6.6
E. Europe & C. Asia	4.1	3.7	3.7
Latin America & Carib.	-0.9	1.7	3.8
Middle East & N. Africa	2.6	3.7	3.9
South Asia	4.9	5.3	5.2
Sub-Saharan Africa	2.6	3.0	3.6

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DEVELOPMENT PROSPECTS

Global downside risks

- A more protracted war than financial markets are currently assuming
- Unbalanced nature of global expansion
  - U.S. current account deficit in excess of 5% of GDP
- High debt burdens still a problem across many sectors and economies

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DEVELOPMENT PROSPECTS

Net capital flows to and from developing countries

$ billion	2001	2002	2003
Net Debt Flows	3.2	7.2	5.0
Private creditors	-24.8	-9.0	5.0
Public creditors	28.0	16.2	0.0
Net FDI flows	171.7	143.0	145.0
Official grants	29.5	32.9	32.0
Fx reserves (- = inc.)	-80.3	-110.0	-108.0
Other assets (- = inc).	-128.2	-97.8	-81.2

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Developing countries are net capital exporters

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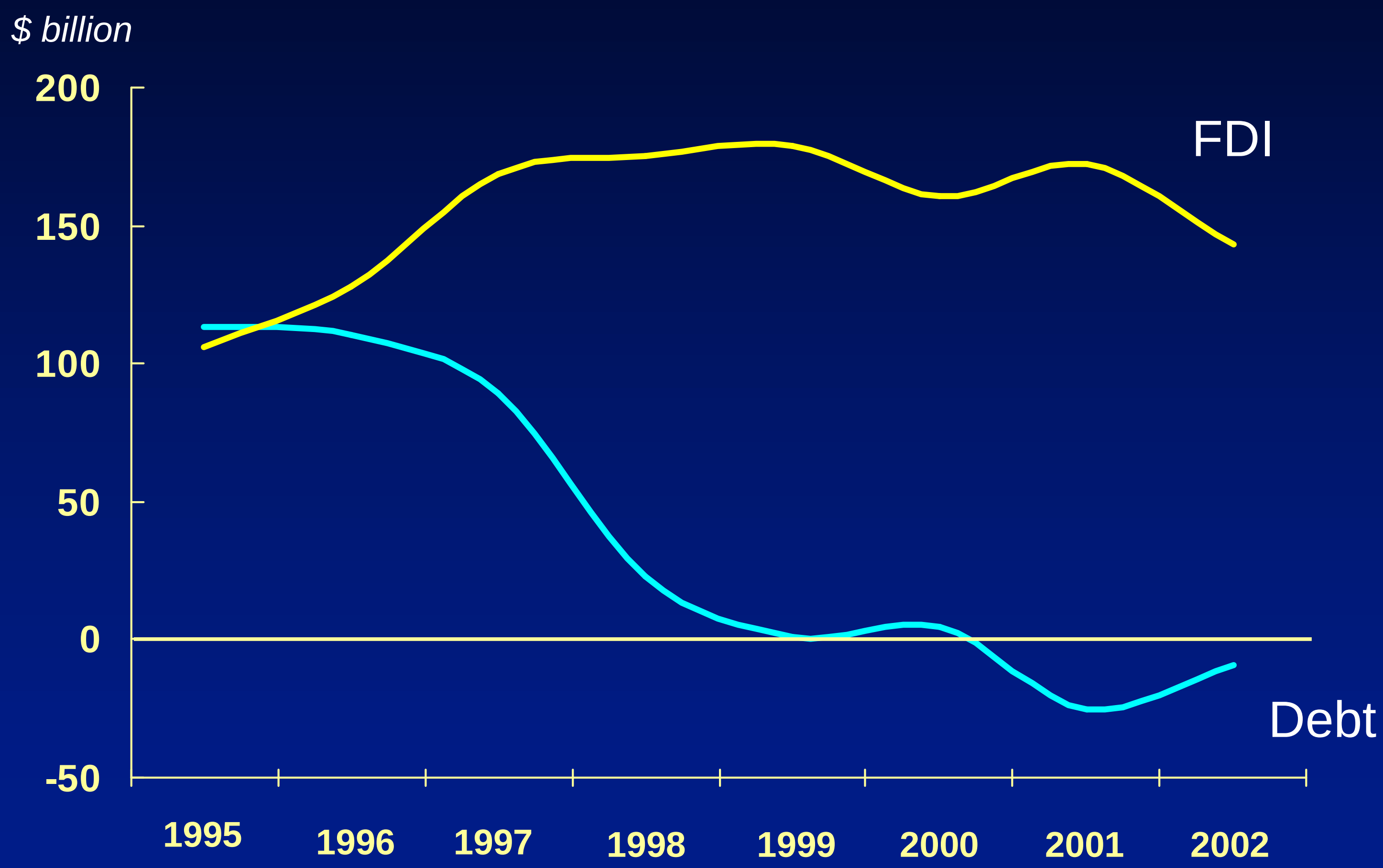
DEVELOPMENT PROSPECTS

A fundamental rotation in capital flows from private creditors

Net private debt and inward FDI flows



Why is it happening?

Demand for debt is falling

Countries don't want to be dependent on volatile external debt flows

Especially true of East Asia after 1998

Supply of debt is falling

Bond market investors more focused on credit risks than returns. Increasing demand for investment grade bonds

Banks are retrenching after credit losses in early 2000s

DEVELOPMENT PROSPECTS

Will it continue?

- Many countries, especially in Latin America, still have high debt loads
- FDI has shown remarkable resilience, although returns on FDI have been falling
- It is a positive development:
    - It makes for more stable financial flows to developing countries
    - Provides greater risk sharing

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DEVELOPMENT PROSPECTS

Remittances have become a key source of global finance

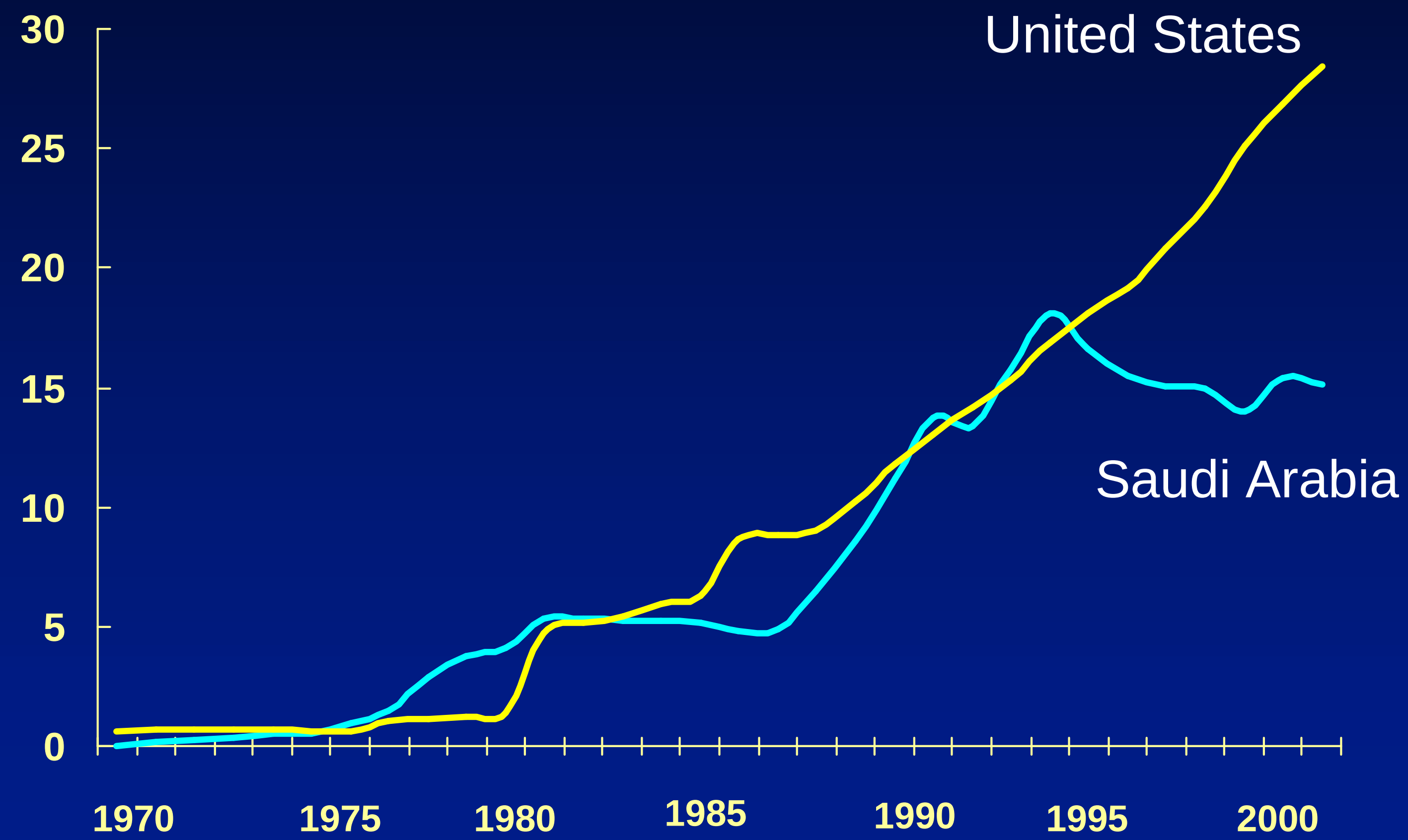
$ billion	1995	2002
Net Debt Flows	151.8	7.2
Net FDI flows	105.6	143.0
Workers' remittances	48.1	80.0

DEVELOPMENT PROSPECTS

Main providers of remittances

Outward workers' remittance payments

To all countries, $ billion



Main recipients of remittances

$ billion	1995	2002
East Asia and Pacific	8.3	11.0
E. Europe & C. Asia	5.5	10.0
Latin America & Carib.	12.8	25.0
Middle East & N. Africa	8.6	14.0
South Asia	10.0	16.0
Sub-Saharan Africa	2.7	4.0

DEVELOPMENT PROSPECTS

Vulnerabilities to remittance flows

- Growing concern about migration in high-income countries, driven by weak labor markets
- Concern about security issues in high income countries
- Impact of war in Iraq

Concluding messages

- War has added a new negative (magnitude uncertain) to an already anemic and uneven global recovery
- External financial conditions facing most developing countries are gradually improving, although developing countries to remain net capital exporters
- There has been a fundamental shift in the pattern of private sector financing for developing countries, which is not over
- The growth in remittances has made them an increasingly important source of global development finance

DEVELOPMENT PROSPECTS