

## Fact Sheet--Global Economic Prospects 2010: Regional Outlook

The **East Asia and the Pacific** region led the rebound in the global economy last year, reflecting robust fiscal policy steps and strong domestic demand. China, with 8.4 percent growth last year, was an engine for regional growth, a pattern expected to continue this year, with Chinese GDP projected to grow 9 percent. GDP in the region is estimated to have increased 6.8 percent in 2009 and is forecast to edge up 8.1 percent this year. Capital flows to the region are returning and local financial market developments have provided further impetus to the recovery. Continuing excess capacity in manufacturing and only moderate advances in world trade growth will restrain GDP growth from accelerating much faster than 8.2 percent in 2011.

Reflecting pre-existing vulnerabilities in many countries (in particular current account deficits arising from large private sector savings-investment imbalances), developing **Europe and Central Asia** was hardest hit by the crisis, with GDP falling by an estimated 6.2 percent in 2009. Although GDP is projected to rise by 2.7 percent in 2010 and 3.6 percent in 2011, growth rates in most economies will remain below potential and unemployment and bank restructuring will continue to be pervasive. Much higher non-performing loans, higher interest rates and weak international capital flows will remain key challenges in the near term. Compared to the pre-crisis period, high non-performing loans, weak public finances and low international capital flows are likely to dampen investment growth in many countries. Moreover, significant downside risks persist, including the possibility of a double-dip recession or increased financial difficulties for banks in the region. Despite better international financing conditions and domestic adjustments, the region's external financing needs are expected to exceed inflows by as much as \$54 billion in 2010.

Stronger fundamentals helped the **Latin America and the Caribbean** region weather this crisis much better than in the past. Following an estimated 2.6 percent drop in GDP last year, regional output is projected to increase by 3.1 percent in 2010 and 3.6 percent in 2011, but weaker investment will keep growth from attaining boom year levels. Remittances and to some extent tourism (both important sources of external finance for Caribbean countries) are expected to recover only modestly in the 2010–11 period, undermined by weak labor market conditions in the United States and other high-income countries. Key challenges include the winding down of stimulus measures; providing for the unemployed in a fiscally sustainable manner; and maintaining openness towards international trade and investment.

The **Middle East and North Africa** region was less sharply impacted by the crisis than other regions, with overall GDP growth slowing to 2.9 percent in 2009. Growth among oil-importing developing countries was an estimated 4.7 percent in 2009. Among developing oil-exporters, growth eased to 1.6 percent, reflecting production restraint and reduced oil revenues. For the region as a whole, GDP is projected to grow 3.7 percent in 2010 and 4.4 percent by 2011. The forecast for recovery is premised on a revival in global oil demand, stabilizing oil prices and a rebound in key export markets. Despite a gradual withdrawal of fiscal stimulus measures, moderate advances in consumer and capital spending are expected to underpin firmer growth.

**South Asia** appears to have escaped the worst effects of the crisis. Nevertheless, its estimated 5.7 percent GDP growth in 2009 (the same growth rate as in 2008) represents a marked deceleration from the boom period, largely driven by a pronounced fall-off in investment growth. Private capital inflows—a key transmission channel of the crisis—are less significant as a share of South Asia's GDP (particularly foreign direct investment), compared with most other regions. Also, domestic demand in the region was relatively resilient, having been cushioned by counter-cyclical macroeconomic policies. Growth is expected to rebound to 6.9 and 7.4 percent in 2010 and 2011.

**Sub Saharan Africa** was also hard hit. It initially felt the crisis through trade, foreign direct investment, tourism, remittances, and official assistance channels. Regional GDP is estimated to have increased by only 1.1 percent last year. Oil exporters and middle income countries were hit more severely than low-income, fragile and less integrated countries – at least initially. In 2010 GDP is expected to grow by 4.8 percent in Sub-Saharan African countries excluding South Africa, with growth of 4.2 percent in fragile countries and 4.8 percent in low-income countries. South Africa is expected to grow by 2 percent this year after having contracted by 1.8 percent in 2009, while middle-income countries growth will accelerate to 3.5 percent. The overall regional outlook remains uncertain and the strength of the recovery will largely depend on demand from key export markets.