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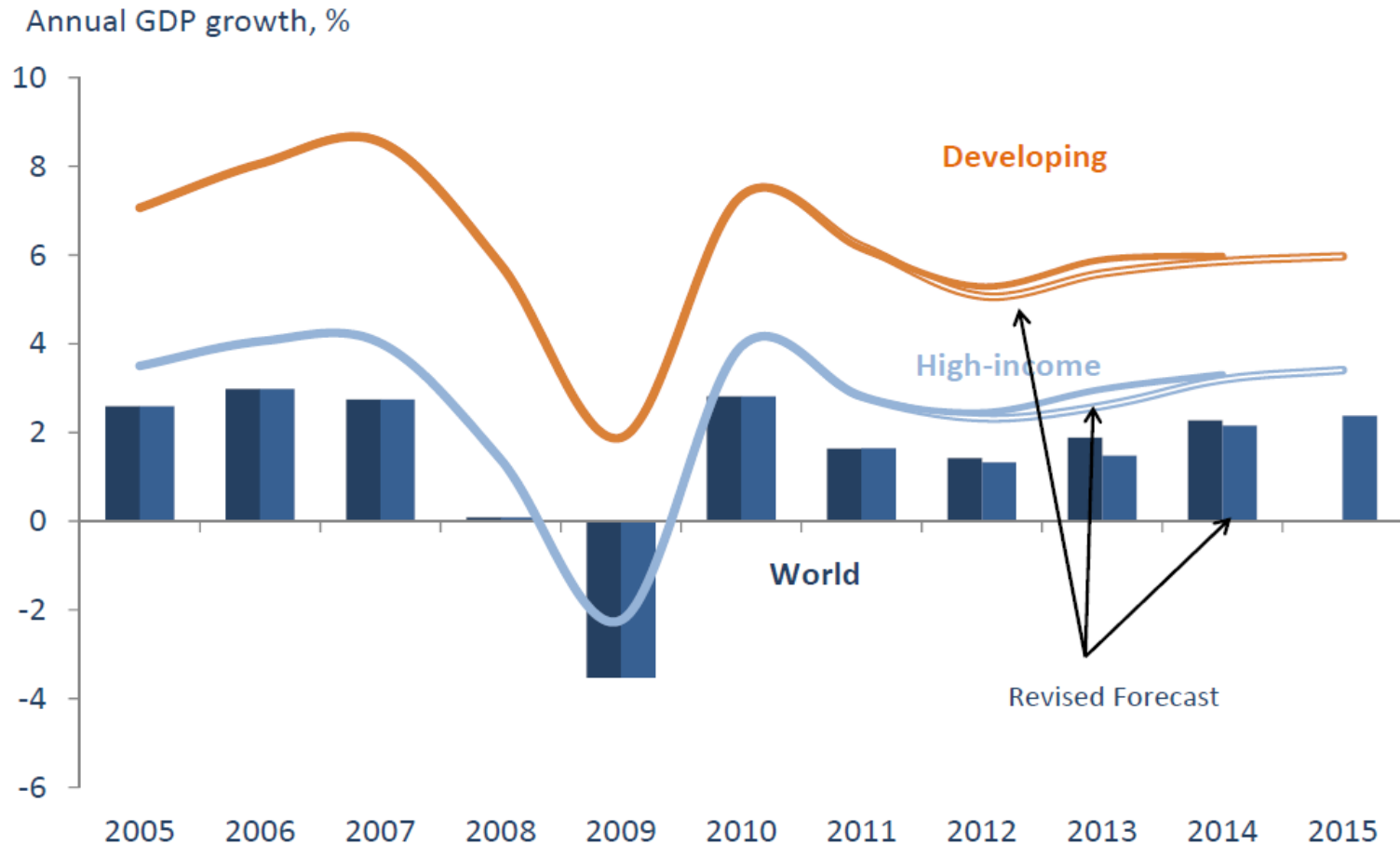
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GLOBAL ECONOMIC PROSPECTS

- ◆ May-June Euro area turmoil - impact larger than expected.
- ◆ Global financial markets substantially eased.
- ◆ Despite better financial conditions, stronger growth remains elusive.
- ◆ So far developing countries have weathered recession relatively well, but...
- ◆ Euro area deleveraging seems to be close to the end.
- ◆ ***“Confidence” is still weak.***

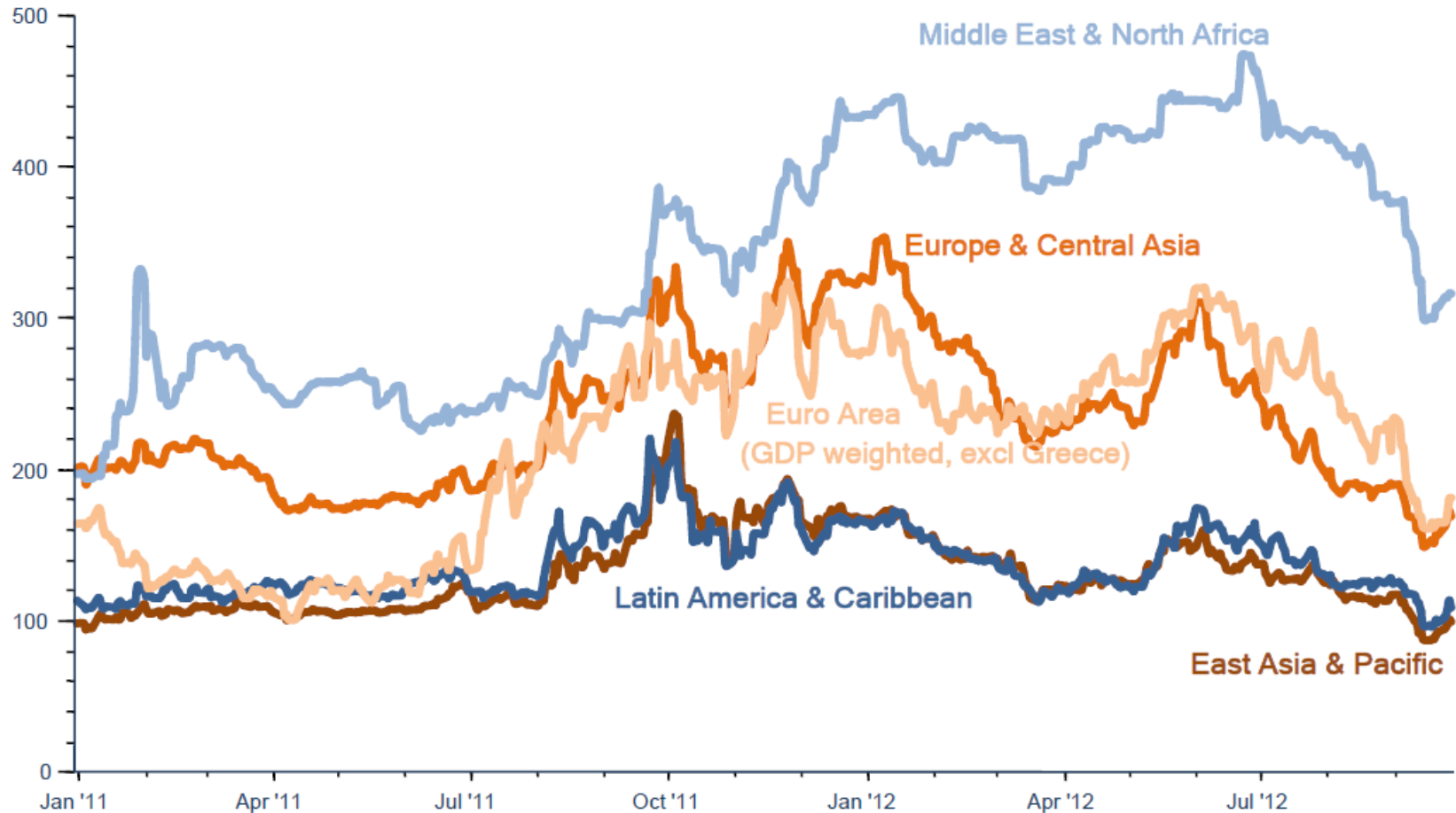
Modest real GDP growth over 2015; the projections have been downgraded in 2012 and 2013



Source: World Bank

Financial market have eased significantly since July, but financial risk is still elevated especially in MENA

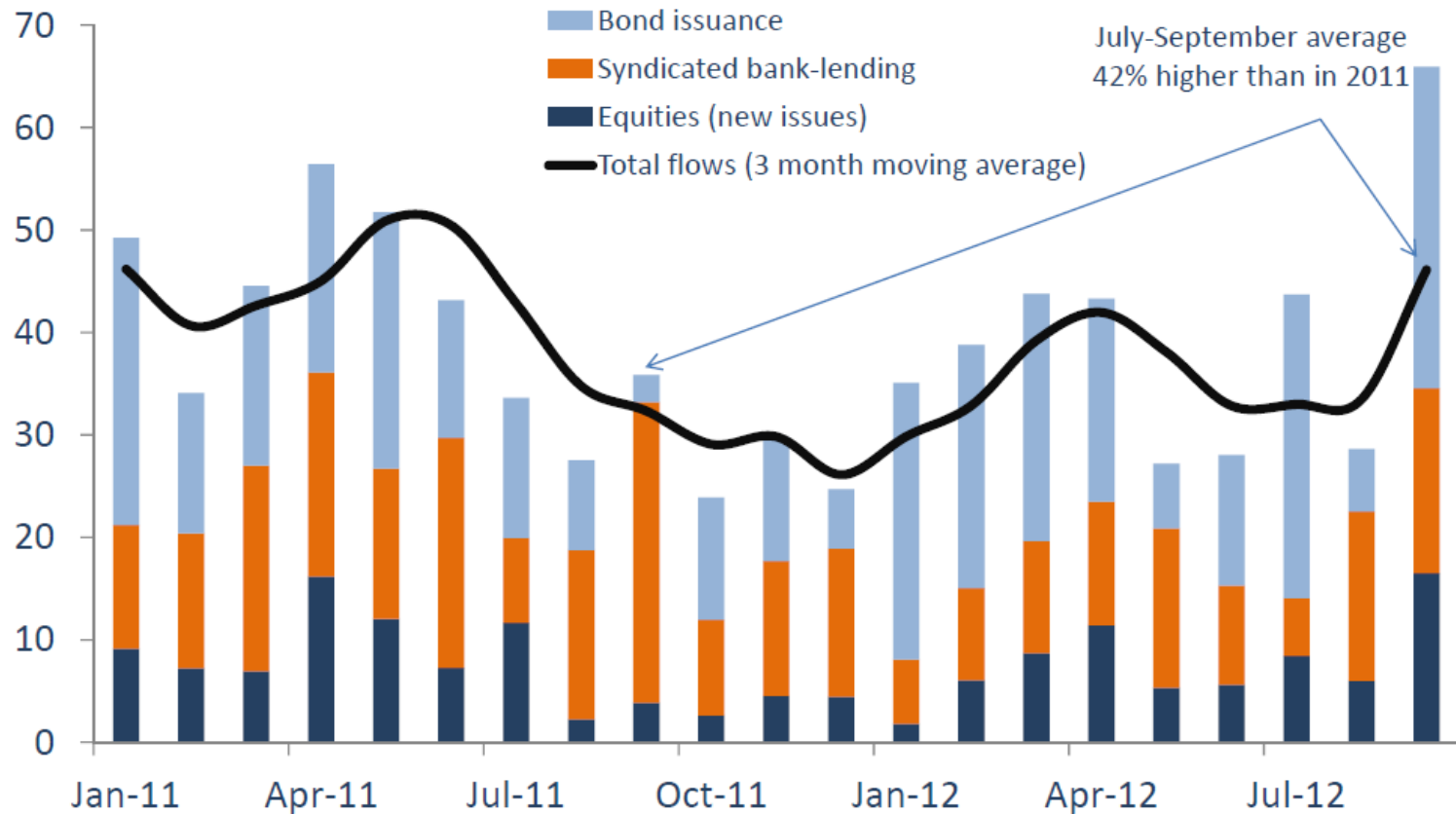
CDS rate, basis points



Source: World Bank

Capital flows to developing countries have rebounded, but investor's *confidence* is still weak

Gross capital flows to developing countries, billions USD



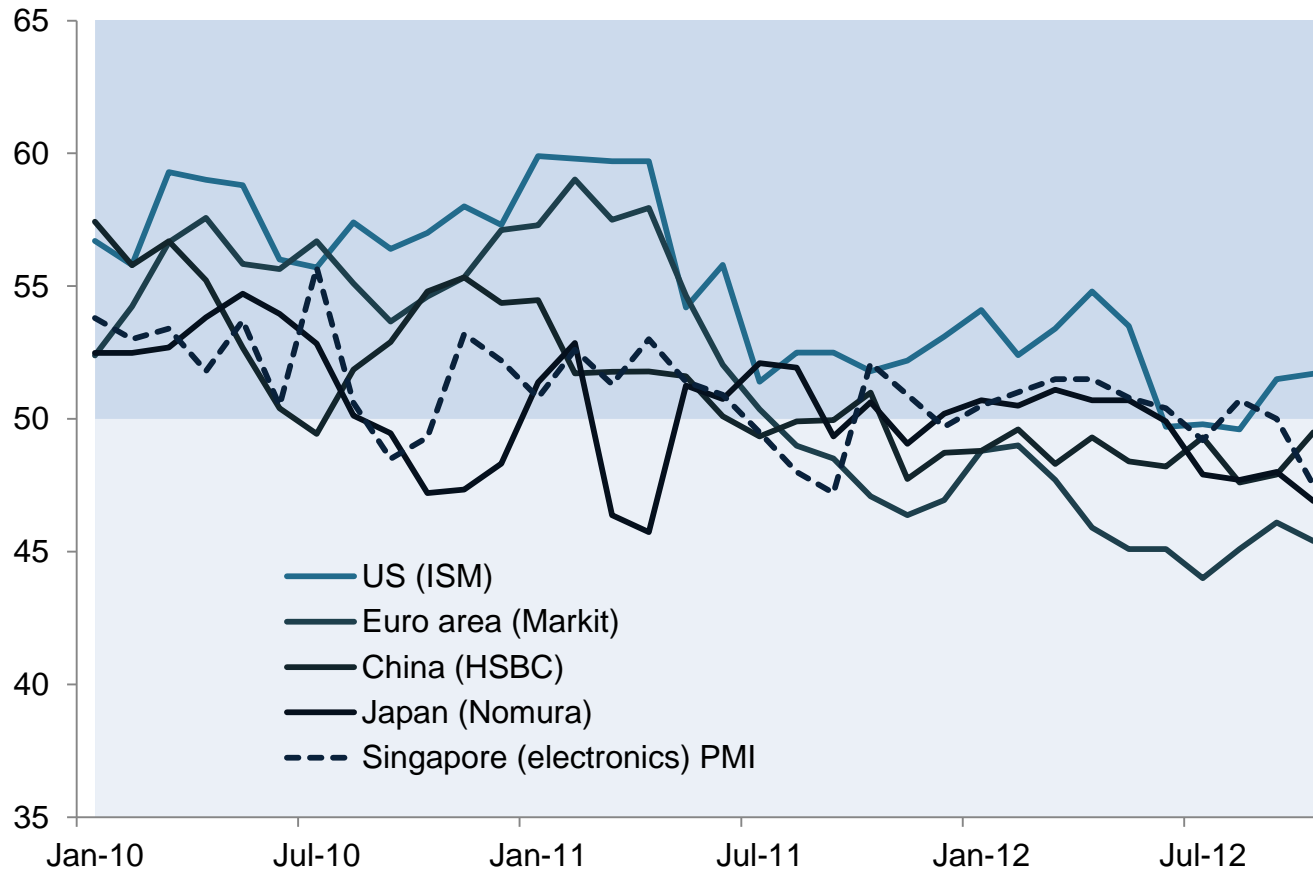
Source: Dealogic and World Bank

GLOBAL ECONOMIC PROSPECTS

High-income economies:

- ◆ Loose monetary policy - Central Banks (FRB, ECB, Bank of Japan) have been providing ample liquidity to cope with recession; impacts of successive quantitative easing have declined over time.
- ◆ Eurozone - sovereign debt/financial crisis is on-going and deepened.

Impact of Eurozone slowdown



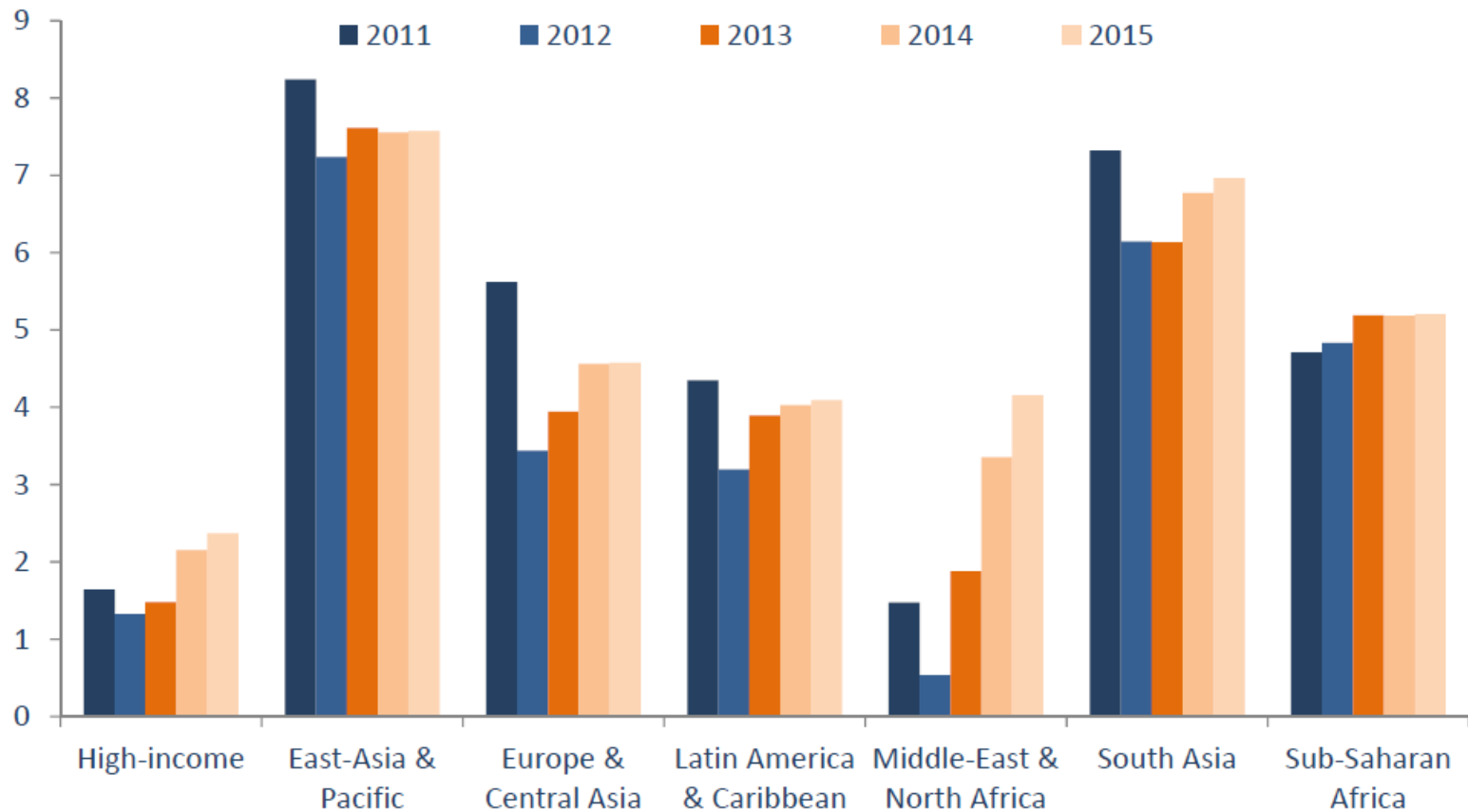
GLOBAL ECONOMIC PROSPECTS

Emerging and developing countries:

- ◆ Emerging Asia leading growth, but GDP growth is expected to sharply decrease in all regions (except Sub-Saharan Africa) in 2012.
- ◆ ASEAN 4 (Indonesia, Malaysia, Philippines, and Thailand) --- growth is buoyant and solid; financial conditions in Euro area, higher oil prices, and a slowdown in China would pose the largest risks to their outlooks.
- ◆ BRICs --- Industrial production has been weak; monetary easing advances in Brazil, India, and China (raising concerns on high inflation).
- ◆ China slowdown risk --- negative spill-over (reduced demand for exports) to inter-linked developing Asia (e.g., Malaysia, Thailand, Vietnam) and MENA
- ◆ Policy issues
 - ❖ Widening fiscal deficit.
 - ❖ Output capacity constraint already reached --- supply-side policy than stimulus package

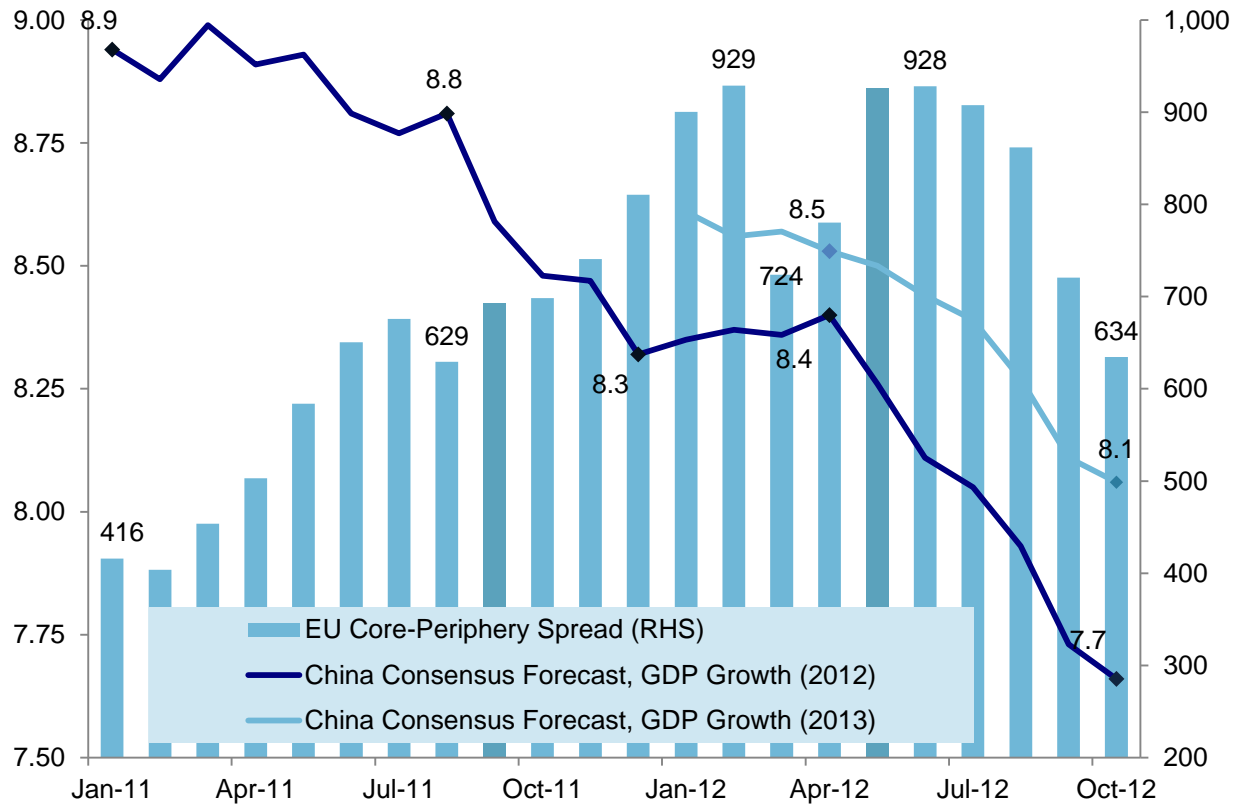
Regional growth prospects

Annual GDP growth, %

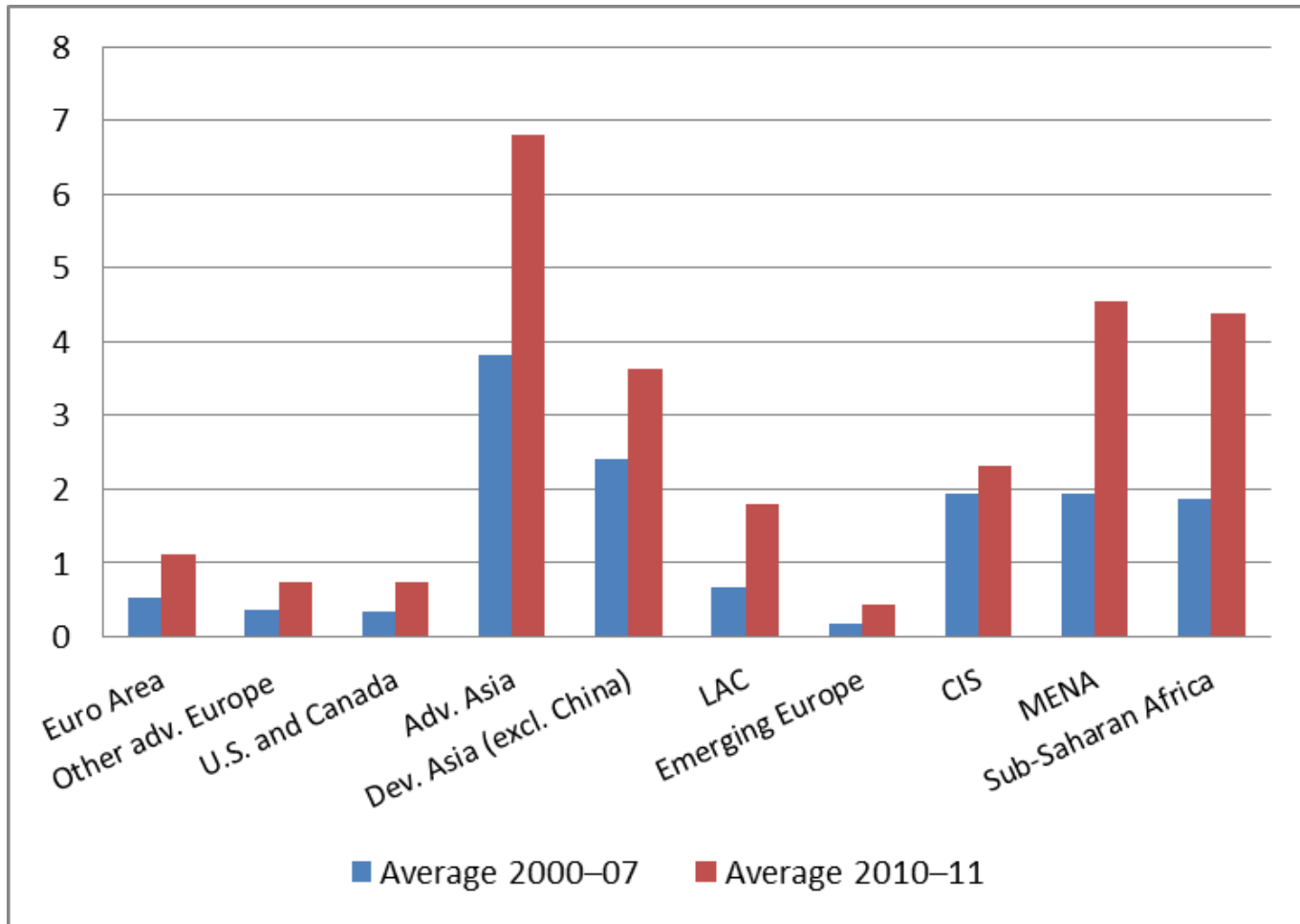


Source: World Bank

Impact of Eurozone slowdown



Export of Goods to China (as percentage of each region's GDP)



Source: IMF WEO Oct. 2012

GLOBAL ECONOMIC PROSPECTS

Commodity prices:

- ◆ Oil price gained 9% to \$105/bbl in August --- supply-side concerns due to geo-political tensions.
- ◆ Higher grain prices will add to burden on developing countries.
- ◆ Future prices --- both oil price and food prices are expected to fall in next few years.
- ◆ Yet long term demand may increase.

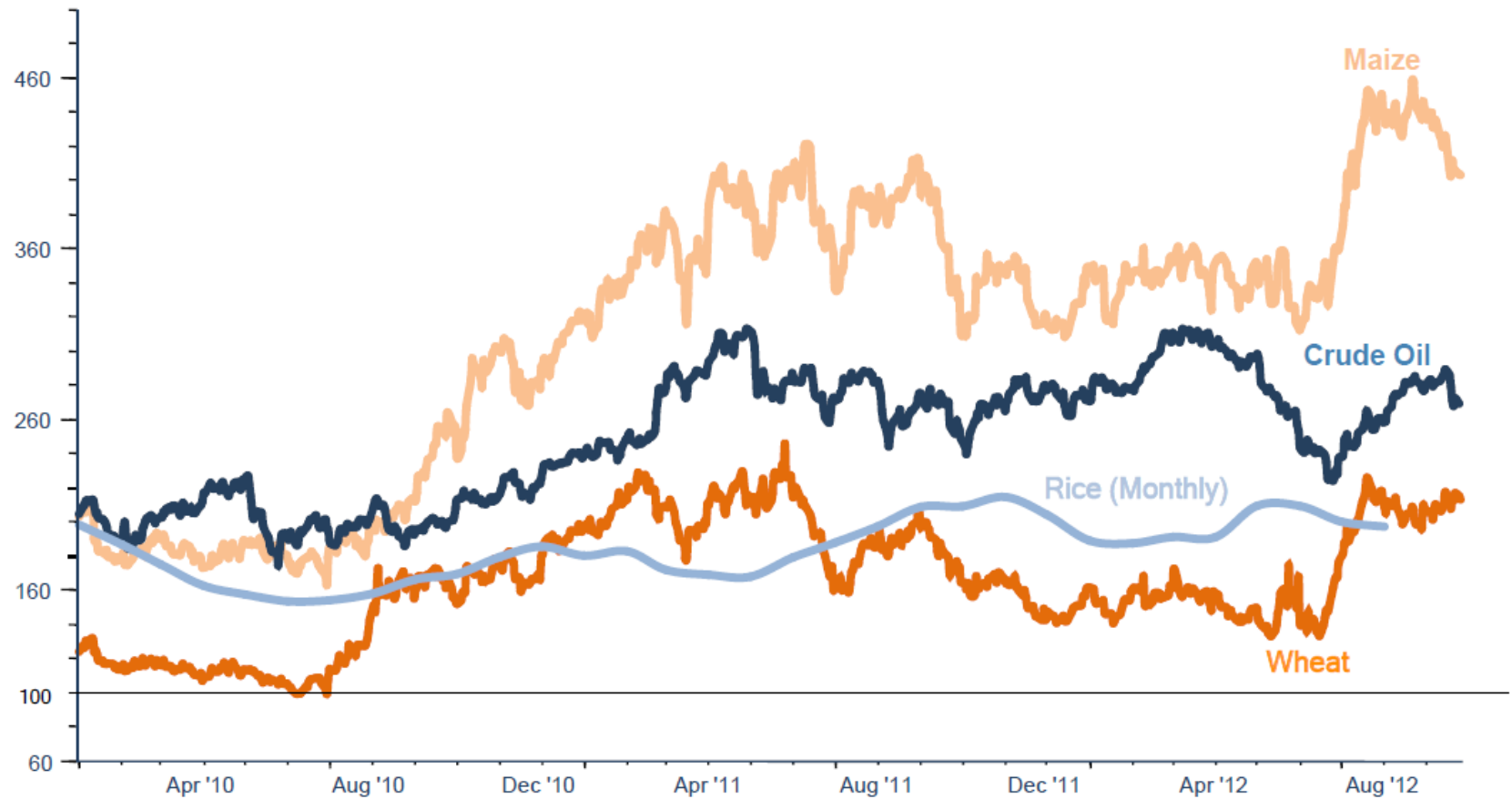
GLOBAL ECONOMIC PROSPECTS

Implication of higher oil price:

- ◆ Differences in the economic performance between oil exporters and importers have widened.
- ◆ Oil exporting countries --- higher exports and revenues, increasing public spending has supported robust growth.
- ◆ Oil importing countries --- social unrest and political uncertainty, extended fuel subsidy strains budget, declining FX reserves.
- ◆ In the near term, lowering oil price may put fiscal pressure for oil exporters to sustain high public spending.

Resurgence of oil and food prices threatens poverty ahead

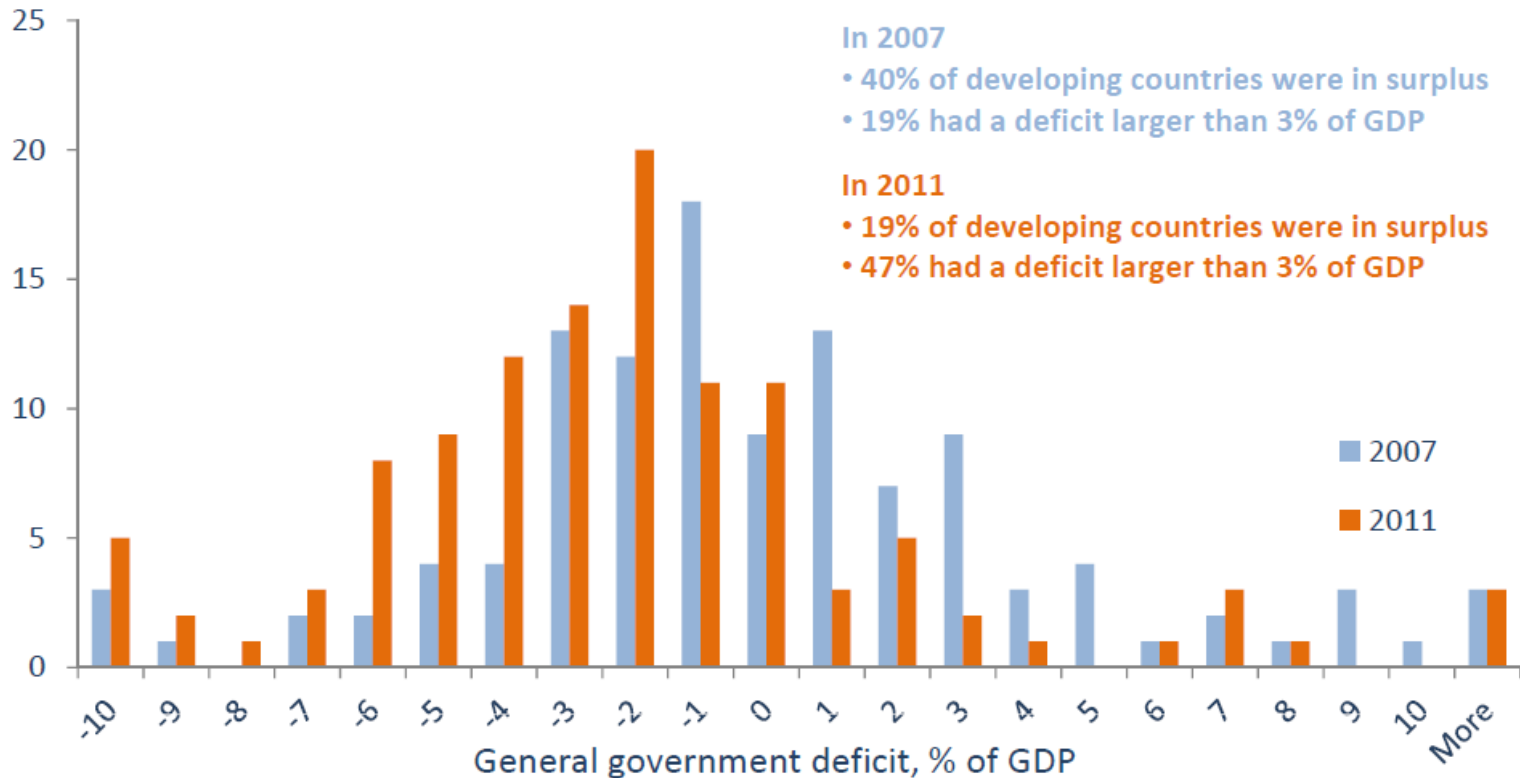
Index, Jan. 2005=100



Source: World Bank

Developing countries need to rebuild fiscal space to buffer against global shocks

of developing economies



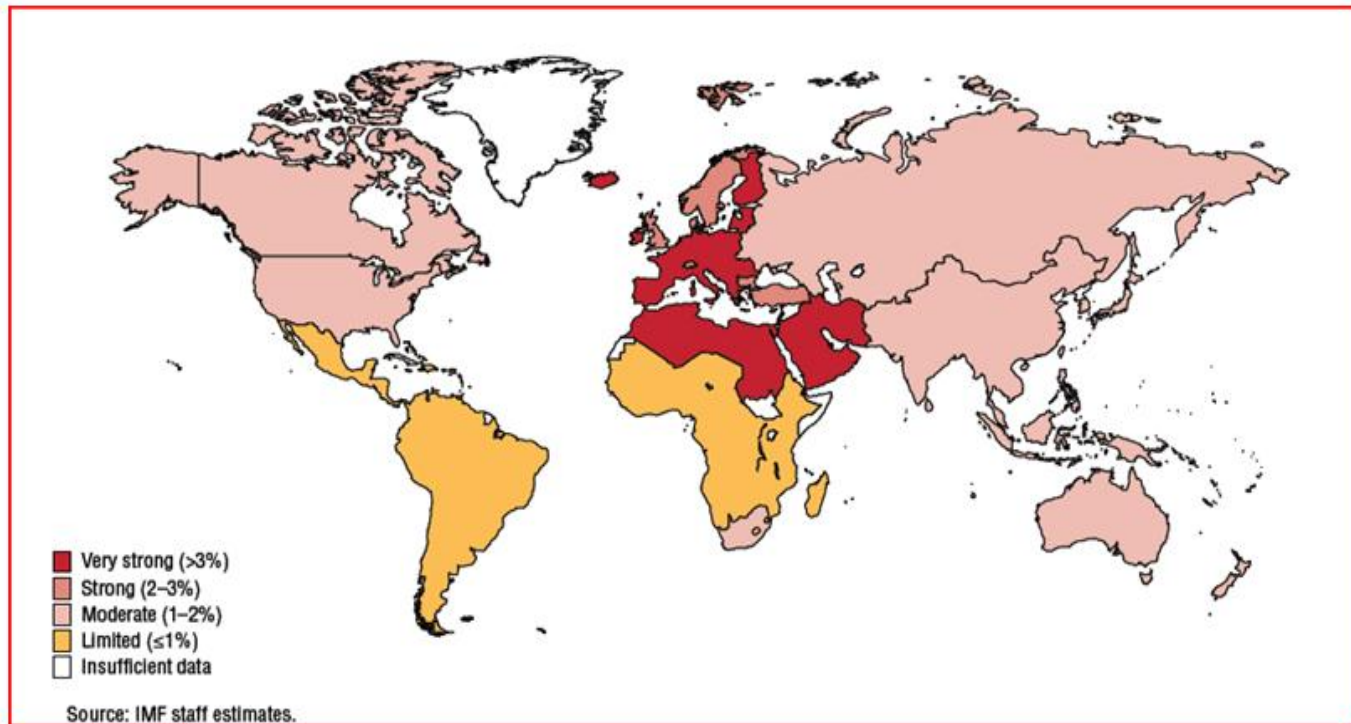
Source: World Bank

IMPLICATIONS FOR AMAN UNION COUNTRIES

- ◆ Middle East and North Africa
 - ❖ Slowest growth of any region in 2012.
 - ❖ FDI inflows, tourist receipt and worker remittance fell sharply.
 - ❖ Geo-political situation in MENA region would critically affect oil price trajectory.
 - ❖ Strong impact of Euro debt crisis.
 - ❖ Political instability & negative economic spillovers from Syria.
 - ❖ Financial market risk is still elevated.
 - ❖ However, investors see increased market opportunities (rich natural resources, young population)

Impact of Eurozone slowdown

Peak deviation of output from IMF's WEO baseline



Source: IMF, WEO, April 2012