Appendix
Regional Economic Prospects

East Asia and the Pacific

Recent developments

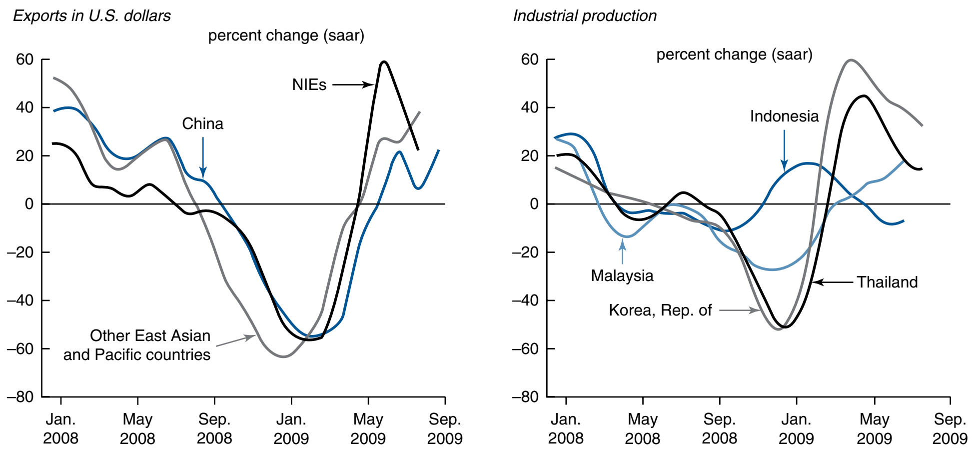
As chapter 1 outlined, economies in the East Asia and Pacific region were particularly hard hit by the collapse of global business investment in the fall of 2008. The crisis curtailed financing flows to private firms worldwide, and together with depressed growth expectations, investment plans were marked down sharply. Household wealth, incomes, and demand for consumer durables were affected just as adversely. Outside of China, investment in the East Asia region was hit exceptionally hard. Local equity markets fell by almost 60 percent from January to October 2008; currencies tumbled between 5 and 25 percent against the dollar through the first quarter of 2009. And bond spreads increased by 515 basis points from January 2007 to reach 645 points by November 2008.[1]

As one of the key producing regions for durable and capital goods—highly integrated into global production networks—East Asian economies experienced dramatic declines in trade and production between September 2008 and March 2009. Dollar-based exports dropped 25 percent, while production (excluding China) plummeted 15–30 percent over the period. High-income economies within the region—including Japan; Republic of Korea; Singapore; Taiwan, China; and Hong Kong, China—were equally or more severely hit by these developments (figure A1).[2]

East Asia's rebound from the global downturn over the course of 2009 was quicker and more robust than in other parts of the world. China led the global recovery in industrial production, with contributions to growth from the high-income OECD countries emerging only later in the year. The recovery in East Asia was underpinned by domestic stimulus programs put in place by a number of economies, most notably by China; a shift from large inventory reduction to restocking by firms; and a return to positive growth in exports and production by the second quarter of 2009.[3] Against this background, GDP losses for East Asia were limited in 2009, with current growth estimates placed at 6.8 percent, down from 8 percent in 2008. China grew by an estimated 8.4 percent during the year, while performance in Indonesia (4.5 percent) and Vietnam (5.5 percent) was strong. Output contractions were limited to Cambodia (−2.2 percent), Malaysia (−2.3 percent), Thailand (−2.7 percent), and several Pacific islands. However, when China is excluded from the 2009 growth estimates, GDP numbers for the remainder of the region offer a better reflection of the crisis, with an advance of just 1.3 percent following 4.8 percent growth in 2008 (table A1).

As the global downturn took hold across East Asia in late 2008, many developing countries, together with major developed economies, began to implement large-scale fiscal and monetary stimulus measures to support domestic demand and to counter the drag from the

Figure A1 East Asian exports and production hard hit by downturn in capital goods demand



Sources: Haver Analytics and World Bank.

Table A1 East Asia and Pacific forecast summary
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[e]	2010[f]	2011[f]
GDP at market prices (2005 US$)[b]	7.4	10.1	11.4	8.0	6.8	8.1	8.2
GDP per capita (units in US$)	6.3	9.2	10.5	7.2	6.0	7.2	7.3
PPP GDP[c]	7.3	10.1	11.3	8.0	6.8	8.0	8.2
Private consumption	5.7	8.1	8.7	6.7	5.9	7.3	7.5
Public consumption	8.1	8.2	9.8	7.8	11.1	8.4	7.3
Fixed investment	8.1	12.4	8.7	5.3	14.3	9.3	9.3
Exports, GNFS[d]	12.5	18.8	15.4	7.4	−13.5	6.6	8.8
Imports, GNFS[d]	9.7	12.7	11.0	4.9	−12.1	6.2	8.5
Net exports, contribution to growth	0.7	3.4	3.0	1.7	−2.0	0.7	0.8
Current account balance/GDP (%)	2.2	8.4	9.9	8.8	7.1	6.5	6.4
GDP deflator (median, LCU)	5.9	4.4	3.5	4.3	3.2	3.3	3.4
Fiscal balance/GDP (%)	−1.8	−0.7	0.0	−0.6	−3.3	−3.7	−3.1
Memo items: GDP							
East Asia excluding China	3.5	5.7	6.2	4.8	1.3	4.7	5.1
China	9.1	11.6	13.0	9.0	8.4	9.0	9.0
Indonesia	2.7	5.5	6.3	6.1	4.5	5.6	5.8
Thailand	2.7	5.3	4.9	2.6	−2.7	3.5	4.0

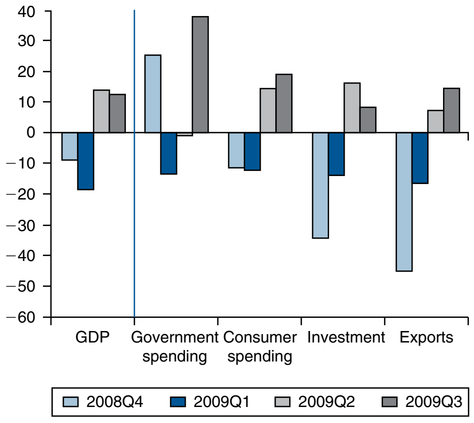
Source: World Bank.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services (GNFS).
e. Estimate.
f. Forecast.

collapse of export markets. The Chinese stimulus package is of special note; it entails some $575 billion to be spread proportionately over time from late 2008 through 2010, financed in part by a surge in credit expansion, with total new lending equivalent to 30 percent of GDP in 2009. Elsewhere in the region, government deficits (as a share of GDP) increased

Figure A2 Malaysia: A profile of recovery

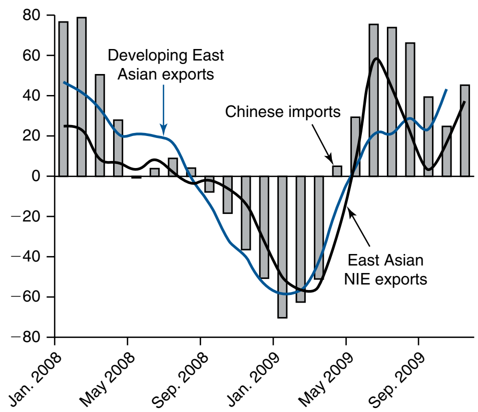
Percentage change (saar) in real GDP and components



Sources: Haver Analytics and World Bank.

Figure A3 China's stimulus program supports exports from regional partners

Export values, US$, seasonally adjusted annual percentage change



Sources: Haver Analytics and World Bank.

significantly, reflecting both automatic stabilizers and countercyclical measures.

Over the course of 2009, East Asia's stimulus measures began to bear fruit, supporting incomes and helping to boost household spending, underpinning infrastructure development though public investment outlays, and providing support for the financial sector (figure A2 shows the recovery for Malaysia). China's stimulus had regionwide impacts, by boosting demand for East Asian exports. China's infrastructure outlays also underpinned demand for regional commodities and raw materials used in construction, from countries such as Indonesia, Papua New Guinea, and Lao People's Democratic Republic (as well as Australia). As replenishment of inventories got under way, firms in China began to restock parts and components from regional suppliers, notably electronic goods from countries such as Malaysia and Thailand (as well as NIEs). Also, rising Chinese consumer expenditure stimulated demand for a variety of consumer durable goods across the region (figure A3).

In Malaysia, fixed investment declined by 35 percent during the fourth quarter of 2008 (saar) as an indirect result of the surge in international capital costs, combined (more importantly) with existing excess capacity, and expectations among Malaysian business that conditions in the main developed markets for electronics and other equipment would be in decline for an extended period (see figure A2). Exports fell abruptly, by 45 percent (saar), as the synchronous global shutdown of demand for capital and related goods took hold. GDP declined by a sharp 9.1 percent during the quarter. However, fiscal stimulus measures were implemented that helped to shore up confidence and provide direct support to the construction sector. The overall impact on the economy during the first two quarters of 2009 was limited, as decision and implementation lags affected the speed and rate of disbursement. While the steep decline in exports deeply affected the manufacturing sector, the impact on the economy as a whole was mitigated by the compression in processing imports.

Still, GDP declined by 18.3 percent (saar) in the first quarter of 2009, as exports continued in sharp decline, even though the falloff in investment was mitigated by a second fiscal measure (RM15 billion, or 2.3 percent of GDP). By the second and third quarters, Malaysia had emerged to recovery, after additional government spending and effects of earlier stimulus helped to turn around investment and consumer spending, while exports rebounded sharply (in part because of Chinese demand). The annualized pace of GDP growth rebounded strongly to 14.0 and 12.2 percent, respectively, in the second and third quarters.

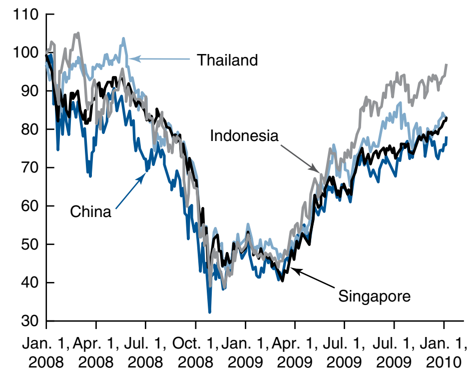
Capital flows are returning to East Asia, with a notable pickup during the fall of 2009. East Asian bond and initial public offerings (IPO) increased as conditions in international markets became more hospitable, with spreads much reduced from crisis levels and underlying demand conditions firming. Some $12.8 billion in bonds were issued in the year to October, representing a doubling of issuance from the like period of 2008. IPO issuance increased to $38 billion, largely from China, but also from Malaysia and Indonesia, up 65 percent from the same period in 2008. But cross-border bank lending disappointed, largely reflecting risk aversion on the part of international commercial banks, where deleveraging continues to be the order of the day. Syndicated loans to East Asian entities amounted to $12.8 billion during the year through October, down substantially from the $37 billion raised in the same period of 2008. Total gross flows to developing East Asia amounted to $63 billion over the year through October—a 4.5 percent decline from the $66 billion accrued in the same period of 2008.

Local financial market developments have provided further impetus to the recovery. A return of capital from the United States, where funds had earlier fled to safe-haven securities has underpinned a rapid rebound in regional equity markets following steep declines in 2008 and early 2009 (figure A4). Bourses in Indonesia and Thailand are close to regaining levels that prevailed in January 2008, while Indonesia's market has more than doubled from October 2008 troughs, as have equity markets in Thailand and Singapore. The rebound in equity markets and falling interest rate spreads have helped reduce the cost of capital for firms, restore a significant portion of earlier wealth losses, and lift overall confidence. The return of foreign capital also helped to reverse some of the earlier sharp declines in local currencies (figure A5). Under

Figure A4 Equity markets have nearly recovered from earlier declines

Local currency–based equity prices

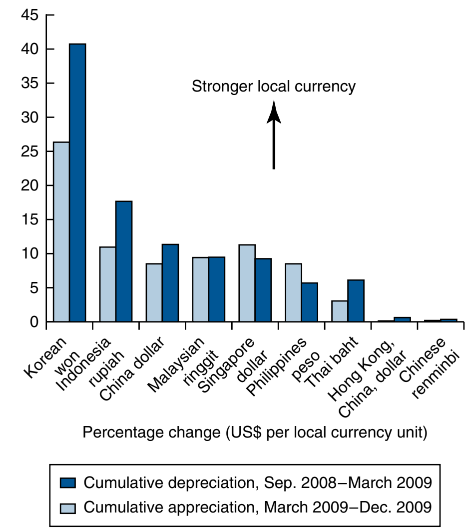
Index, Jan. 1, 2008 = 100



Sources: Morgan-Stanley through Thomson/Datastream.

Figure A5 East Asian currencies continue to recoup against U.S. dollar

Local currency unit, percentage change



Source: Thomson/Datastream.

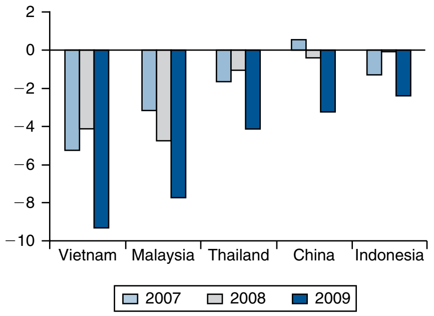
these circumstances the potential formation of a "new" financial market bubble in the region is an increasing cause for concern.

Inflation has eased broadly in East Asia, given the slowing in activity and lower food and fuel prices, although conditions vary widely across countries. Increases in the consumer price index for 2009 range between highs of 20 and 12 percent in Cambodia and Vietnam, to 3 and zero percent (or slightly negative) in China, the Philippines, and Thailand.

In step with the cyclical downturn (a sharp drop in government revenues) and with large discretionary stimulus packages, fiscal deficits have widened across both middle- and low-income countries in the region—this even as fiscal space for the latter countries such as Cambodia and Lao PDR appears limited. The World Bank's East Asia and Pacific Department in a recent "East Asia Update" (November 2009) estimates that fiscal stimulus in the regions' middle-income countries amounted to 2.1 percent of GDP in 2009, up from an earlier estimate of 1.7 percent. China's fiscal shortfall is projected to have reached a record 3.3 percent of GDP during 2009, but a number of countries exceeded this deficit when the deficit is expressed as a proportion of GDP (figure A6). Examples include Vietnam at 9.4 percent of GDP, Malaysia at 7.8 percent, Thailand (4.2 percent) and the Philippines (3.8 percent). The unwinding of these fiscal support measures will play an important role in shaping the economic recovery over the forecast period.

Figure A6 Stimulus measures yield widening fiscal shortfalls across the region

Overall government fiscal balance, percent of GDP



Sources: National authorities and Bank staff projections.

Although trade conditions have improved over the course of 2009 as Chinese imports recovered, regional export volumes (goods and services) dropped 13.5 percent during the year, while imports fell 12.1 percent, leading to a narrowing of the aggregate current account position from a surplus of 8.8 percent of GDP in 2008 to 7.1 percent for 2009. This was aided in particular by a sharp decline in China's current account surplus, which fell from 9.8 percent of GDP in 2008 to 6.4 percent of GDP during the first six months of 2009.

Medium-term outlook

Momentum underlying economic activity in the region should be sustained, as a gradual decline in the effects of domestic stimulus measures is countered over the course of 2010 by the return to growth (albeit moderate) in East Asia's main OECD export markets. But contrasted with earlier episodes of global downturns (for example the 2001–03 "dot-com" bust), the rebound and recovery path of GDP in East Asia is expected to be more muted, reflecting weaker global demand and less buoyant financial conditions. Continued strong advances in China's domestic demand, and associated imports, should play an important role in underpinning a second export-led revival phase for the remainder of the region. At the same time, world trade growth is anticipated to revive from the estimated 14.4 percent decline in 2009 to a gain of 6.2 percent by 2011.

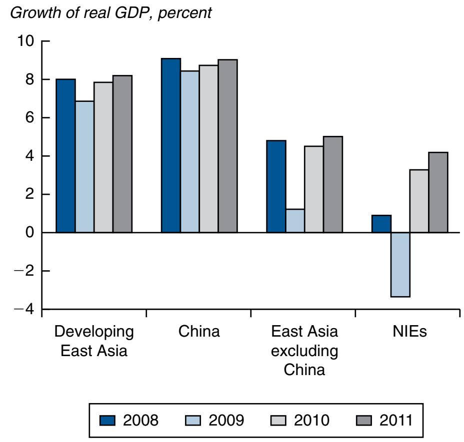
Against this background, East Asian export volumes are forecast to advance by 6.6 percent in 2010 and 8.8 percent in 2011, picking up additional market share. The regional current account surplus position is anticipated to moderate from 7.1 percent of GDP in 2009 to

6.4 percent by 2011 (see table A1), reflecting an increased contribution to overall growth from domestic demand.

The recovery in business investment is expected to be gradual (by historic standards), as excess capacity will first have to be worked down. Growth of public sector outlays should ease from 2009 peaks of 11.1 percent to 7.3 percent by 2011. Recognizing that prospects for an export-led recovery are less favorable than in the past, policy is likely to shift further toward fostering growth in household demand, helping, in turn, to offset the profile of weaker government spending.

On balance, regional GDP growth is expected to increase to 8.2 percent by 2011 from the 6.8 percent registered in 2009. This is a modest recovery by historic standards, but, at the end of the first year of financial crisis, the regional downturn has been equally moderate, compared, for example, with the East Asian crisis of the late 1990s. Domestic demand will be the key growth driver, with more modest net trade contributions. China will lead the regional advance with GDP growth of 9 percent by 2010 (figure A7; table A2). Growth excluding China is anticipated to pick up to 5.1 percent by 2011, from an estimated 1.3 percent in 2009. In particular, shifts from negative to positive growth in Malaysia and Thailand and a solid acceleration in activity in Indonesia and Vietnam should underpin the turnaround.

Figure A7 East Asia will enjoy a moderate rebound in 2010–11



Source: World Bank.

Risks

Downside risks facing the region have diminished owing to improvements in the global financial environment and positive growth developments within East Asia and the Pacific. The possibility of a "double-dip" global recession remains, particularly as mature economies will be unwinding both monetary and fiscal stimulus. Also within the region, the Chinese stimulus program, and in particular the surge in liquidity over the course of 2009, raises uncertainties regarding the future growth path. Prospects for low-income countries (Cambodia, Lao PDR, and Vietnam) will depend heavily on improvements in the international environment for bank lending. Recent developments in Dubai and credit rating downgrades for Greece are indicative of continued uncertainties, which, should they become widespread, may have serious implications for bank lending and growth around the globe, particularly in developing countries. Consequently, banking flows may remain sluggish for an extended period of time as commercial banks remain cautious and rebuild balance sheets. Furthermore, for middle-income countries currently benefiting from the return of large-scale inflows, driven by international investors' search for yields above those available in mature markets, there is a risk of yet another round of "asset bubbles," this time in emerging markets, the bursting of which could carry adverse effects over the short to medium term.

Table A2 East Asia and Pacific country forecasts
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Cambodia							
GDP at market prices (2005 US$)[b]	8.3	10.8	10.2	6.7	−2.2	4.2	6.0
Current account balance/GDP (%)	−4.4	−3.6	−6.3	−10.2	−3.5	−4.0	−4.0
China							
GDP at market prices (2005 US$)[b]	9.1	11.6	13.0	9.0	8.4	9.0	9.0
Current account balance/GDP (%)	2.6	9.7	11.0	9.8	5.6	4.1	4.0
Fiji							
GDP at market prices (2005 US$)[b]	2.3	3.6	−6.6	0.2	−0.3	1.8	2.2
Current account balance/GDP (%)	−4.8	−22.5	−14.4	−19.6	−25.4	−24.8	−27.7
Indonesia							
GDP at market prices (2005 US$)[b]	2.7	5.5	6.3	6.1	4.5	5.6	5.8
Current account balance/GDP (%)	1.5	3.0	2.4	0.1	1.4	0.5	0.3
Lao PDR							
GDP at market prices (2005 US$)[b]	6.2	8.4	7.6	7.3	6.4	7.5	7.3
Current account balance/GDP (%)	−9.8	1.4	2.5	−12.5	−8.1	−6.0	−7.0
Malaysia							
GDP at market prices (2005 US$)[b]	4.8	5.8	6.2	4.6	−2.3	4.1	4.8
Current account balance/GDP (%)	6.5	16.3	15.5	17.5	15.3	15.5	15.0
Papua New Guinea							
GDP at market prices (2005 US$)[b]	0.7	2.6	6.5	6.6	3.9	3.7	3.3
Current account balance/GDP (%)	3.0	2.2	1.8	2.8	−6.7	−4.7	−4.3
Philippines							
GDP at market prices (2005 US$)[b]	4.2	5.3	7.1	3.8	1.0	3.5	3.8
Current account balance/GDP (%)	−1.4	4.5	4.9	2.5	3.4	2.8	2.3
Thailand							
GDP at market prices (2005 US$)[b]	2.7	5.3	4.9	2.6	−2.7	3.5	4.0
Current account balance/GDP (%)	1.9	1.1	5.7	−0.1	5.5	3.5	3.0
Vanuatu							
GDP at market prices (2005 US$)[b]	1.5	7.4	6.8	6.6	4.2	4.5	5.5
Current account balance/GDP (%)	−9.8	−4.1	−5.3	−5.9	−4.7	−4.4	−3.4
Vietnam							
GDP at market prices (2005 US$)[b]	7.2	8.2	8.5	6.2	5.5	6.5	7.0
Current account balance/GDP (%)	−2.5	−0.3	−9.8	−11.9	−5.1	−4.5	−4.4

Source: World Bank.

Note: 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.

American Samoa; Micronesia, Fed. Sts.; Kiribati; Marshall Islands; Myanmar; Mongolia; N. Mariana Islands; Palau; Korea, Dem. Rep.; Solomon Islands; Timor-Leste; and Tonga are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. Estimate.
d. Forecast.

Europe and Central Asia

Recent developments

Among developing regions, the Europe and Central Asia region[4] has been the most negatively affected by the global financial crisis, albeit with large variations across the region in the degree of impact. Aggregate GDP is estimated to have contracted 6.2 percent in 2009, nearly twice as much as the 3.3 percent estimated decline in high-income countries, and sharply more negative than the (2.2 percent) contraction for the remaining developing countries excluding China and India (table A3).