GLOBAL UPDATE

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CARE Ratings
Professional Risk Opinion

The World Bank released its Global Economic Prospects Report for Summer 2011, highlighting the main message that *the global financial crisis is no longer dictating the pace of economic development.* Most developing countries are on the path of regaining full-capacity activity.

Country-specific productivity and sectoral factors are the new dominant forces determining the direction and pace of global growth.

Global Economic Prospects:

The World Bank Report

June 2011

Global GDP Growth

Global growth is projected to remain strong from 2011 through 2013, with minor moderation in the current year. After growing at 3.8% in 2010, global GDP is projected to slow to 3.2% in 2011, firming at 3.6% in the subsequent two years

World Trade

- Export and import of merchandise has been the main determinant of global trade flows, recovery in manufacturing segment is expected to boost trade
- Demand from developing countries accounted for more than 50% of world import volume
- South Asian exports have been particularly strong, driven by sales to China and rest of East Asia
- Going forward, world trade to slow down, from 11.5% in 2010 to 8.0% in 2011 and further to 7.7% in 2013

Industrial Production

- Industrial production close to recovering at trend levels. Developing country output currently more than 20% above its pre-crisis levels, the pace however continues to remain moderate
- The inventory cycle in manufacturing makes industrial production more volatile than underlying demand

Global Inflation

- Although strong growth led by developing countries is a most likely outcome, further increase in food and oil prices cannot be ruled out which could upset these calculations
- Oil prices are projected to increase by about 36% in 2011, but register a decline in the next two years by 4.8% and 3.3% in 2012 and 2013
- Monetary policy measures to control inflation and currency appreciation to gain significance in this context.

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Investment Flows

Emerging market economies have entered 2011 with improved risk profiles and better growth prospects than HICs (High income countries).

- Post recession capital inflows have registered a revival, with FDI inflows to developing countries (DCs) growing at more than 24.5% in 2010, projected to increase further by 14.3% to $ 555 bn in 2011. This would be an opportune time for India to open up its FDI policies.
- Total FII inflows to DCs touched $ 119.1 bn in 2011 from $ 148 bn in 2010. India registered inflows worth $29.3 billion, around 20% of the total
    - Portfolio equity investments are expected to register negative growth amid volatile global conditions in 2011 at $ 119 bn. This could mean lower quantum of flows to India.

Table 1: World Economy - at a glance

(%)	*2009*	*2010*	*2011*	*2012*	*2013*
	A	*E*	*F*	*F*	*F*
Real GDP	***-2.2***	***3.8***	***3.2***	***3.6***	***3.6***
HICs	*-3.4*	*2.7*	*2.2*	*2.7*	*2.6*
DCs	*1.9*	*7.3*	*6.3*	*6.2*	*6.3*
Trade	***-11.0***	***11.5***	***8.0***	***7.7***	***7.7***
Prices					
Non-oil	*61.8*	*79.0*	*107.2*	*102.1*	*98.7*
Oil	*-36.3*	*28.0*	*35.6*	*-4.8*	*-3.3*
Investments					
FDI inflows	*-36.5*	*24.5*	*14.3*	*8.8*	*15.3*
FII inflows	*-303.4*	*36.6*	*-19.4*	*9.4*	*10.2*

Source: GEP, World Bank, June 2011
A-actuals, E-estimates, F-forecasts

Potential Downside Risks

- Continued turmoil in Middle East and North Africa could push up oil prices above their already high current levels
- Poor crop combined with high oil prices could increase domestic food prices, especially in developing countries prompting corrective monetary policy action. These may further present negative consequences on real incomes of urban poor

Exhibit 1: Global Economic Prospects

Japan
- Cause for slowdown in growth in high income countries (HICs). Growth for HICs including Japan 2.2% in 2011, excluding Japan expected to be more stable
- Rebuilding of Japan a concern

US
- Negative effects of household, banking and government budget consolidation to gradually wane
- Withdrawal of stimulus and monetary tightening may have to be considered

Euro Area
- Output gap high, indicating non-sustainability of pre-crisis production levels and severity of post-crisis adjustment
- Restructuring of sovereign debt

Developing Economies
- As output gap closes, growth to remain strong at 6.3%
- Good performance broadly based with non-BRIC economies at 4.5%
- Acceleration in regional trade
- Capacity constraints in domestic markets and global energy and metal markets

Political tensions and economic developments in Euro zone crucial

- Persistent Euro Area concerns accompanied with monetary tightening in high income countries could reveal further weakness in global economy

Policy Dictates

The World Bank identifies some major policy initiatives in its report in a bid to deal with persistent and emergent country-specific and factor-specific risks. Some of the policy highlights are -

Production capacities and inflation to be tackled at policy level

- Medium-term productivity enhancement for developing economies
- Managing inflationary pressures whilst re-establishing fiscal and monetary cushions of the past

Conclusion

Strong growth most likely in the next two years

Dynamic recovery appears to be well-established having a wide spread between developing and high-income countries. Maturation of economic cycles, gradual withdrawal of stimulus, monetary policy stance, political tensions and emerging inflationary pressures are expected to shape global growth prospects in the coming years.

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