

Topical Appendix

Recent developments in financial markets

As discussed in the main text, the very high government deficits and debt levels in several high-income countries (notably, Greece, Ireland, Italy, Portugal and Spain) has provoked a great deal of volatility in international financial and commodity markets—notably oil and metals. So far, the main impacts for developing countries have been limited to a generalized decline in stock-market valuations (Figure A1.1), a significant fall in bond issuance in May (some due to seasonality), and an increase in volatility and realignment of global currencies, as the euro has depreciated against the dollar—to the benefit of exporters in countries tied to the euro, but to the detriment of those tied to the dollar.

Figure A1.1 Emerging market equities experienced declines recently

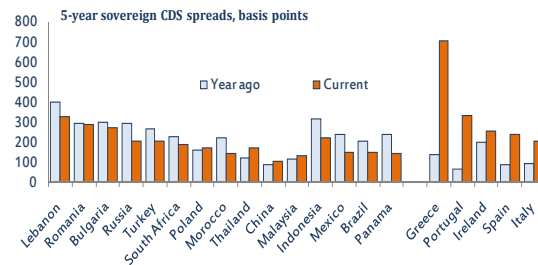


Source: Morgan-Stanley through Bloomberg.

For the moment, the crisis has not impacted sovereign risk premia of developing countries that do not have fiscal sustainability issues of their own. Most developing countries have much lower deficits and debt to GDP ratios than high-income countries. As a result, the price of insurance against a sovereign credit default (credit default swaps, or CDS) for most developing countries has remained relatively stable even as this same indicator has jumped substantially for the EU-5 (Figure A1.2). Despite the sharp increase in sovereign CDS spreads for Venezuela and Argentina (not shown in the

figure) in May, spreads for these countries actually declined slightly compared with a year ago after they had skyrocketed to more than 3,000 basis points in October 2008 and have remained high from that time on.

Figure A1.2 Sovereign risk premia for developing countries remain relatively stable



Source: Bloomberg and DECPG staff calculation

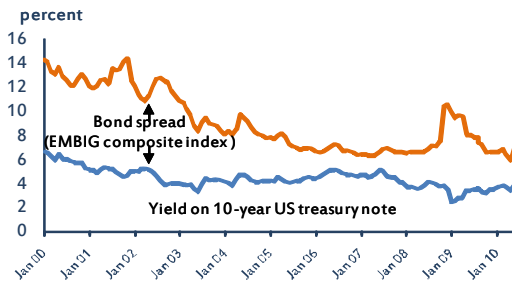
A recovery in credit conditions

Data on capital flows to developing countries do not, as yet, indicate that the crisis in Europe has had a major effect on developing country access to capital.

And even with the deterioration observed since the end of April, developing country stock markets are up since their post-Lehman lows of March 2009. Although developing-country sovereign interest rate premiums have widened to 325 basis points in May, they are still lower than the peak of more than 800 in October 2008 (Figure A1.3). And most developing-country currencies have regained pre-crisis levels, with some even appreciating against the dollar.

Both developing-country sovereign and corporate borrowers have taken advantage of improved market conditions, with bond issuance reaching \$115 billion in 2009, up almost \$65 billion over 2008. Developing-country borrowers have issued \$73 billion in bonds in the first four months of 2010, well ahead of the pace seen in periods of previous peak performance (Figure A1.4). In particular, developing-country

Figure A1.3 Emerging market sovereign bond spread and yields, January 2000-May 2010



Source: JP Morgan

corporate borrowers, after having been shut out of the market for three quarters following the crisis, succeeded in issuing \$43 billion since the beginning of 2010. However, in February—when the European debt problem affected the markets for the first time, and in May, when effects intensified, international bond issuances by developing countries were historically low, at \$5 and \$3 billion, respectively. There was only one sovereign issuance placed by Malaysia for \$1.25 billion in May. In fact, several sovereign borrowers (such as Argentina, Albania, Angola, Kenya, FYR Macedonia, Poland, and Tanzania) have likely delayed issuance plans due to current market conditions. It is difficult to determine with precision to what extent these reflect a normal seasonal decline, or a temporary reduction in issuances prompted by elevated market volatility related to European debt problems.

Bank lending to developing countries remains depressed, as high-income banks continue to re-

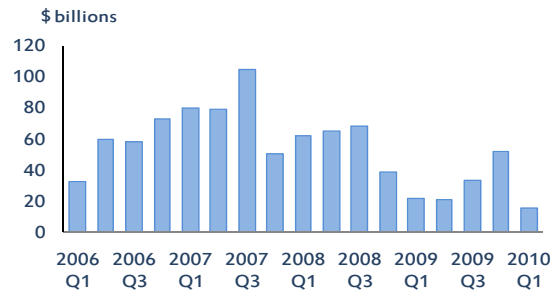
Figure A1.4 Increased bond issuance by developing countries 2006 Q1-2010Q1



Source: Dealogic.

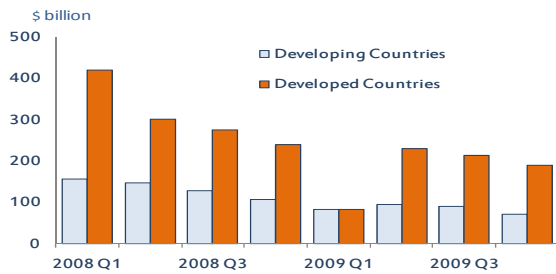
capitalize and strengthen their balance sheets (indeed, cross border lending to both developed and developing countries is down). As a result, net international bank lending in 2009 (disbursements minus repayments), amounted to negative \$53 billion. New (syndicated, bilateral and intra-bank) loans more than halved from \$531 billion in 2008 to \$258 billion, less than the \$311 billion in maturing debt that was repaid. Syndicated bank-lending totaled only \$123 billion in 2009—half its 2008 level. There has not been any sign of a rebound so far in 2010, with only \$46 billion in syndicated lending between January and May (Figure A1.5).

Figure A1.5 Syndicated bank lending continues to be limited



Source: Dealogic.

FDI inflows to developing countries fell 40 percent in 2009 (Figure A1.6). Flows declined from \$594 billion (3.4 percent of GDP) in 2008 to \$358 billion (2.1 percent of GDP)—the sharpest decline in 20 years. Even China experienced a 45 percent drop in FDI flows to an estimated \$78 billion, partly because of high disinvestments in the financial sector. Similarly, FDI inflows to other developed countries declined by another 40 percent in 2009 as they did in 2008. Multinational firms were hit hard by the global economic recession and financial crisis of the last year. Slower global growth squeezed their profitability, and at the same time economic uncertainty and weak global demand reduced their willingness (and ability) to expand abroad. Energy-oriented FDI was less affected as many companies with expertise in energy exploration still had strong cash positions, while falling prices of developing-country energy assets raised investment attractiveness.

Figure A1.6 Global net FDI flows recovered from trough in Q1-2009, but remain below 2008 levels

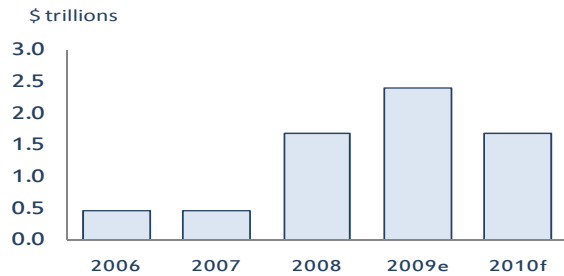
Source: Country sources and World Bank.

Overall, despite the rebound in bond issuance, portfolio equity flows and short-term debt flows (mostly trade related); international capital flows to developing countries fell sharply for a second year in 2009. Net private capital flows fell by a further 40 percent in 2009 to \$454 billion (2.7 percent of GDP) compared with \$752 billion (4.4 percent of GDP) in 2008 (see Table A1.1). This represents a dramatic reversal from peak levels of \$1.2 trillion in 2007 (8.5 percent of GDP).

Recent developments in international capital flows

The recovery in international capital flows to developing countries is expected to face headwinds from increased competition for global savings, as increased debt of high-income countries put pressure on developing countries. The five-fold increase in public sector financing requirements of high-income countries will enhance competition for funds and raise borrowing costs for developing-country borrowers going forward (Figure A1.7). In addition, the need for banks to rebuild their balance sheets, as well as increased risk aversion on the part of investors, should result in less abundant and more expensive capital.

The possibility of G3 policy tightening over the coming months (or years) could have a significant impact on emerging market bonds. For example, the last time that the U.S. Federal Reserve began to raise rates after a protracted easing cycle in 2004, it triggered a large widening of emerging market bond spreads,

Figure A1.7 Sovereign debt issuance by HICs 2006-2010

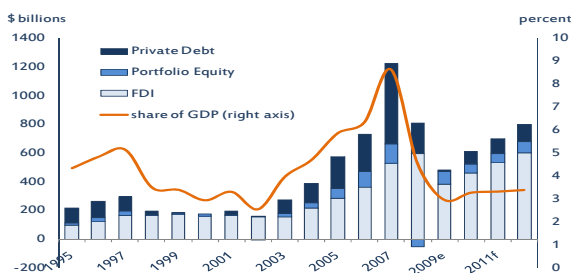
Source: IMF

while leading to only a shallow and short-lived spread-widening for U.S. corporate bonds. All of these elements will raise the cost of capital for developing countries. This, even if developing country risk premiums decline somewhat due to a relative improvement in emerging country risk vis-à-vis developed countries. However, if real interest rates in high-income countries were to return to pre-boom levels, and if the historical relationship between base rates and interest rate spreads remains unchanged, borrowing costs in developing countries could rise by between 110 and 220 basis points.

Net private capital flows to developing countries are projected to recuperate in 2010 as the global recovery continues; but they are not expected to reach pre-crisis levels in the medium term. Debt flows may be constrained by (rising) risk aversion (related to sovereign debt sustainability concerns), tighter regulations and increased competition for funding. While cross-border bank lending is expected to remain muted in the medium-term, several upper-middle income countries may opt to continue relying on international bond markets to raise capital. Most developing countries—poor countries in particular—have limited access to international bond markets. FDI is expected to rebound more readily, reflecting relatively strong growth prospects for developing countries, which will continue to push multinationals to undertake efficiency and market-enhancing investments in developing regions. As a result, private capital flows to developing countries are forecasted to recover from \$454 billion (2.7 percent of GDP) in 2009 to \$771 billion (3.2 percent of GDP) by

2012, still far below the \$1.2 trillion (8.5 percent of GDP) in 2007 (Figure A1.8).

Figure A1.8 Prospects for private capital inflows to developing countries

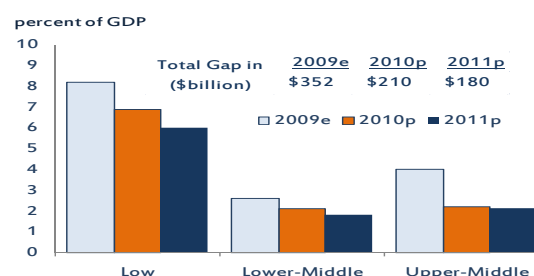


Source: World Bank

Financing gaps are expected to decline, but remain substantial for a number of countries. In 2009, high financing gaps led to significant current account adjustments and slower growth in several developing countries. Based on the assumption that the current account deficit to GDP ratios remain, at 2009 levels, and with the projected rise in international capital flows, the ex-ante financing gap is projected to decline gradually to \$180 billion in 2011 from \$352

billion in 2009. As a share of GDP, the decline in the gap was most marked for upper-middle-income countries (1.5 percent) and lower-middle income countries (1.3 percent) (Figure A1.9). For low income countries—given still-depressed bank-lending and limited access to bond markets—financing the projected gap of 6.5 percent of GDP in 2010 will prove challenging, especially should ODA flows decline.

Figure A1.9 External financing gaps for developing countries, 2009-2011



Source: World Bank

Table A1.1 Net capital flows to developing countries
\$ billions

	2005	2006	2007	2008	2009e	2010f	2011f	2012f
Net private and official inflows	501.8	659.8	1222.8	780.5	523.5			
Net private inflows (equity+debt)	573.3	732.1	1223.7	752.4	454.0	589.5	670.2	770.8
Net equity inflows	349.9	469.0	663.8	536.5	445.9	497.5	564.2	652.8
..Net FDI inflows	281.1	363.2	528.4	593.6	358.3	438.0	501.0	575.0
..Net portfolio equity inflows	68.8	105.8	135.4	-57.1	87.5	59.5	63.2	77.8
Net debt flows	151.9	190.8	559.0	244.0	77.6			
..Official creditors	-71.5	-72.3	-0.9	28.1	69.5			
....World Bank	2.7	-0.5	4.8	7.1	21.1			
....IMF	-40.2	-26.7	-5.1	10.8	27.5			
....Other official	-34.0	-45.1	-0.6	10.2	20.9			
..Private creditors	223.4	263.1	559.9	215.9	8.1	92.0	106.0	118.0
....Net M-L term debt flows	137.8	168.3	315.4	228.6	-2.7			
.....Bonds	56.8	31.7	87.4	15.0	54.8			
.....Banks	85.8	141.5	231.0	217.2	-52.9			
.....Other private	-4.8	-4.9	-3.0	-3.6	-4.6			
....Net short-term debt flows	85.6	94.8	244.5	-12.7	10.8			
Balancing item	-414.1	-446.5	-617.9	-808.4	-292.9			
Change in reserves (- = increase)	-393.6	-643.5	-1081	-439.0	-561.0			
Memorandum items								
Net FDI outflows	61.6	130.5	148.7	207.5	153.9	210.0	250.0	275.0
Workers' remittances	193.0	235.0	290.0	336.0	316.0	335.0	359.0	
As a percent of GDP (%)								
Net private and official inflows	5.03	5.59	8.45	4.51	3.09			
Net private inflows (equity+debt)	5.74	6.21	8.46	4.35	2.68	3.02	3.05	3.15
..Net FDI inflows	2.82	3.08	3.65	3.43	2.12	2.24	2.28	2.35
..Net portfolio equity inflows	0.69	0.90	0.94	-0.33	0.52	0.30	0.29	0.32
..Private creditors	1.5	1.6	3.9	1.4	0.5	0.5	0.5	0.5

Recent developments in trade

As the global recovery gained momentum, trade also rebounded and global merchandise exports accelerated sharply in recent months. Global goods exports in value terms advanced at a 47 percent annualized pace (saar) by the end of 2009; developing countries reported growth at 65 percent, while high income countries' exports gained 39 percent in December. However, this brisk pace is now slowing, as exports from developing countries eased to 32 percent, and shipments from high-income countries dropped to 16 percent during the first quarter of 2010. Of note, exports from Germany fell, as the pace of export growth dropped from 46 percent in December to negative territory in the first quarter.

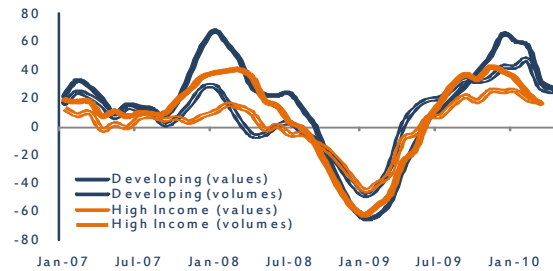
In volume terms, global exports have been growing at an annualized pace of 20 percent during the first quarter of 2010, with developing countries posting annualized gains of 26 percent, and high income economies 17 percent in most recent observations. However, in contrast with other high-income countries, Japanese exports accelerated in the first two months of 2010, growing at an annualized pace of 56 percent in January, before slipping to a still robust 40 percent growth in April—indicative of continued strong demand in the East Asia and Pacific region.

As is the case with output and industrial production growth, export growth is also becoming more differentiated among the various developing regions. In developing Europe, annualized growth reached 65 percent in the early phase of the recovery, but has since subsided to 24 percent in April. Exports from South Asia, Latin America and East Asia and Pacific remain strong, in fact on the edge of a second wind, even when China is excluded from the calculations.

Strong import demand from developing countries was responsible for the majority of the acceleration in global import volumes, which increased to an annualized pace of 25 percent in January. The pace of import growth has

Figure A2.1 Trade rebound is slowing

Merchandise exports, 3m/3m saar % change



Source: World Bank

remained strong in developing countries, at 30 percent in April, but receded in high income countries to 5 percent contrasted with 38 percent in September 2009. The growth in imports has decelerated sharply in the Euro Zone, to annualized negative growth of 12 percent by March. As several high income European countries launch austerity measures to rein in fiscal deficits, further weakness in domestic demand will undoubtedly lead to a reduced appetite for imports. In contrast, import demand in the United States, remains close to peak recovery rates of 20 percent annualized growth in March.

The importance and resilience of domestic demand is becoming evident among the patterns of import demand among developing countries. In South Asia, import volumes were growing at an annualized pace of 116 percent in February, influenced by a resurgence in demand from India. Similarly in Latin America, import demand has continued to accelerate, with annualized growth peaking at 61 percent in April. East Asian import demand appears to be stabilizing at very high growth rates in a 70 percent range: 40 percent (excluding China). In contrast, import demand in developing Europe has moderated from 50 percent at the end of 2009 to 15 percent by March.

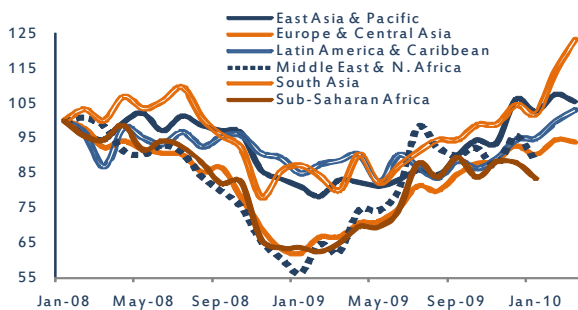
In value terms, global merchandise exports remained 10.6 percent below January 2008 values in March 2010, with the shortfall measuring 12.5 percent in high income countries and 6.2 percent in developing countries, with the latter benefitting from the recent resurgence in

commodity prices. In volume terms, global exports are just 4 percent below pre-crisis levels, with high income countries trade still 6 percent below January 2008 levels. In contrast, the volume of developing country exports has rebounded to 1.7 percent above pre-crisis levels by March 2010. This was largely due to South and East Asia, where export volumes have made a robust recovery, and were 14.5 and 5.3 percent above the pre-crisis levels of January 2008. In developing Europe, both merchandise export values (-16 percent) and volumes (-6 percent) remain below pre-crisis levels observed in January 2008.

The overall value (volume) of global merchandise imports remains 9 (6) percent below January 2008 levels, with a shortfall of 13 (10) percent in high income countries, and with developing regions 2 (6) percent above pre crisis levels. East Asia, South Asia and the Middle East were all importing more in volume terms by March 2010 than they were two years earlier, with South Asian import volumes up 21 percent from January 2008. Import demand has been very weak in developing Europe, remaining 16 percent below pre-crisis levels in volume terms in March.

Figure A2.2 Rapid developing-country import growth drives recovery in trade

Merchandise export volumes, Jan 2008 = 100

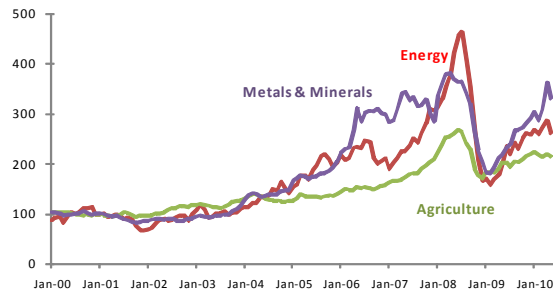


Source: World Bank

Recent developments in commodity markets

The rebound in commodity prices that started at the beginning of 2009 continued into 2010 as the global economy recovered. Increased demand from China, significant production cuts (metals and oil), and some weather-related factors (agriculture) also contributed to higher prices. As a result, energy prices increased by 60 percent in the first quarter of the year (compared with year-earlier levels) while metals and agricultural prices increased by 62 percent and 19 percent respectively (Figure A3.1).

Figure A3.1 Commodity price indices (Nominal US\$, 2000=100)



Source: World Bank

Following the outbreak of the Euro debt crisis, industrial commodities fell sharply during May due to concerns about economic growth and weakening commodity demand. Oil prices dropped from a high of \$87/bbl to \$68/bbl during May, and some metals prices fell more than 20 percent from their highs in April. The declines occurred amid recovering global demand, particularly outside of China, which had provided much of the initial demand strength during the recovery. Agriculture prices have not been impacted during the debt crisis. Furthermore, markets are generally well supplied and crop prospects are good. The only large decline was for rubber, and this mainly due to the plunge in oil prices.

Energy prices are projected to increase 25.1 percent in 2010, while non-energy commodity prices are expected to rise 16.8 percent in the

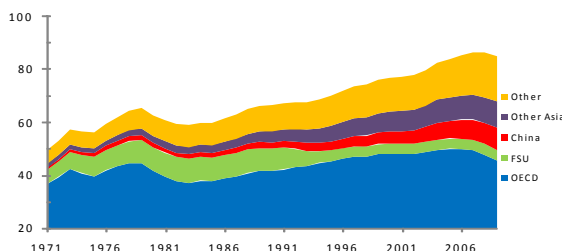
year—with the bulk of the gains in non-food sectors. However as the recovery in global growth peters out and output stabilizes at levels closer to potential growth rates, energy and non-energy prices are projected to decline by 4.5 percent and 4 percent, respectively, in 2011 and another 1.0 percent and 5.4 percent in 2012. Both energy and non-energy prices will remain well below their 2008 highs over the forecast period.

Crude Oil

After five consecutive quarters of decline, world oil demand rose in the final quarter of 2009—led by strong demand in China, up 1.3 mb/d or 17 percent (year-on-year). However, much of China’s growth was feedstock (naphtha) for new petrochemical capacity, and thus represents a one-off source of growth. All of the projected growth in demand during 2010 (1.6 mb/d or 1.9 percent) will be from developing countries, as OECD demand is expected to remain flat following four years of decline (partly reflecting the impact of higher prices). In the medium term, world oil demand is expected to grow moderately, owing to efficiency improvements in transport and ongoing efforts by governments and industry to reduce carbon emissions, particularly in high-income countries.

In response to the large fall in global demand that began in 2008H2—as well as the precipitous drop in oil prices—OPEC reduced production by 4 mb/d in late-2008/early-2009 in an effort to raise prices to its target range of \$70-80/bbl. As a result, OPEC’s spare capacity has increased to more than 6 mb/d, roughly the same level as in

Figure A3.2 World oil demand (mb/d)



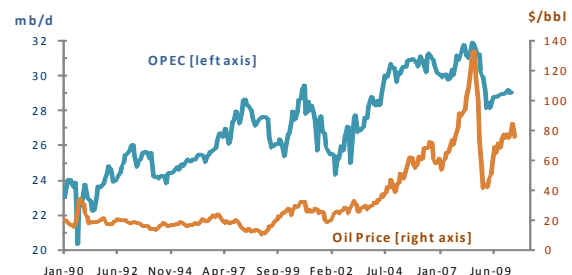
Source: International Energy Agency

2002 when oil prices were \$25/bbl. Even though oil inventories have fallen significantly from peak levels in early 2000, they remain relatively high.

Over the medium term, oil prices are expected to remain volatile, but on average are expected to remain in a \$70-80 range as OPEC seeks to put a floor under prices via production restraint. But the group will be wary of allowing prices to rise much above that level due to the impact on demand.

Growth in global oil demand is expected to remain moderate at 1.5 percent per year, with virtually all of the growth in developing countries and North America. Non-OPEC oil supplies should continue to rise modestly, as production increases in Brazil, Canada, the Caspian and West Africa, are offset by declines in yields from older fields, especially in the North Sea and Mexico. Globally there are no resource constraints, and our long-term forecast of \$75/bbl in real terms is commensurate with

Figure A3.3 OPEC crude oil production and oil prices



Source: International Energy Agency, and World Bank

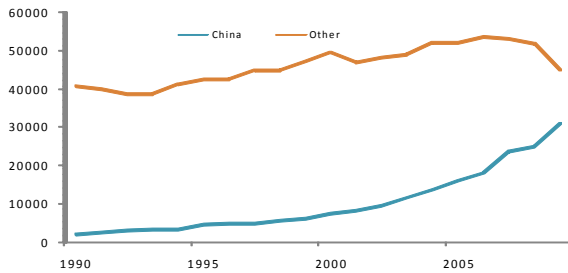
the higher end cost of developing additional oil capacity, notably from oil sands in Canada.

Metals

China has been the primary driver of metal prices this decade, as Chinese consumption of the main base metals (aluminum, copper, lead, nickel, tin and zinc) rose by 17 percent per year, while demand in the rest of the world fell 1.1

percent per year (Figure A3.4). In 2009, Chinese demand rose 23 percent, while demand in the world outside China fell 13.5 percent (and by 20.4 percent in the OECD). Much of the rise in Chinese demand went into stocks (both private and government) but there was also strong stimulus-led consumption for construction and infrastructure.

Figure A3.4 World metal consumption ('000 tonnes)



Source: World Metal Statistics, and World Bank

Because of the large drop in demand and prices following the onset of financial crisis in 2008, there were significant cutbacks at mines and smelters. With the sharp recovery in demand (mainly in China) prices more-than doubled from their troughs of early 2009. Over the next two years, prices are not expected to rise substantially, partly given the large price gains to date, but mainly due to substantial idle capacity. Further large price increases would require idle capacity being reabsorbed over the longer-term, but with demand growth slowing toward trend, pressures for real price increases should be moderate. Over the longer term, declining ore grades, environmental and land rehabilitation, as well as water, energy and labor pressures, may result in upward pressure on prices.

Agriculture

Agricultural prices have rebounded less sharply than energy and metals, having gained 28 percent between December 2008's trough and the first quarter of 2010. Most of the gains reflect large price increases in specific commodities, rather than a broader trend. Grain prices, for example, remained unchanged during this period while edible oil prices—traditionally the fastest growing food group in terms of

consumption—gained 31 percent. Fertilizer prices, a key input into agriculture, especially in grain production, declined 38 percent, and prices are now less-than half the 2008 average and about one-third the 2008Q3 record highs.

For the most part, the gains in agricultural prices reflect price increases for certain tropical commodities. Coffee (arabica) prices, for example, have traded above \$3.00/kg during the past 12 months, reflecting strong demand and a weather-induced supply shortfall in Colombia, the world's second largest arabica supplier. Natural rubber prices reached record highs on the back of strong import demand following the recovery of the global economy (most natural rubber goes to tire manufacturing), higher crude oil prices (key input to competing synthetic rubber), as well as weather problems in key SE Asian rubber producing countries.

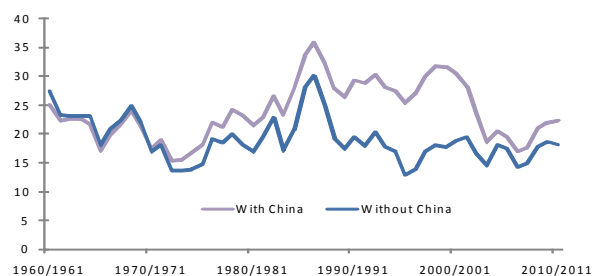
Cocoa's strength is largely due to Côte d'Ivoire's inability to supply the global market. Côte d'Ivoire, which accounts for one-third of global cocoa supplies, faces deteriorating infrastructure due to prolonged civil conflict, thus making the transport of inputs and output to and from cocoa producing areas very costly. In addition, diseases affecting cocoa trees have not been adequately addressed due to the poor state of its agricultural research system. These conditions combined with steady demand growth have exerted pressure on global markets. Sugar prices doubled between December 2008 and August 2009 reflecting a weather-induced shortfall in India, the world's second largest sugar supplier after Brazil. Interestingly, with the exception of natural rubber, these commodities did not participate in the 2008 commodity price spike.

Rice production shortfalls—in India earlier in 2009 and in the Philippines later in the year—put upward pressure on prices towards the end of 2009. This in turn led the Philippine government to announce large tenders for rice imports. However, prices receded in 2010 in view of the large stockpiles accumulated by many countries during the 2008 food price spike as well as good prospects for the current crop, and April 2010

rice prices recorded the lowest monthly average of the past 26-month period.

Overall agricultural markets, especially grains, appear to be well-supplied and, barring unforeseen (weather related) production problems—such as those affecting some tropical commodities—are likely to remain ample over the forecast period. Moreover, food security concerns have subsided. Most countries have reduced or eliminated trade restrictions introduced by the 2008 price spike. According to the latest U.S. Department of Agriculture's update, the global stocks-to-use ratio (including China) for key grains currently stands at 22

Figure A3.5 Global grains stocks-to-use ratio (percent)

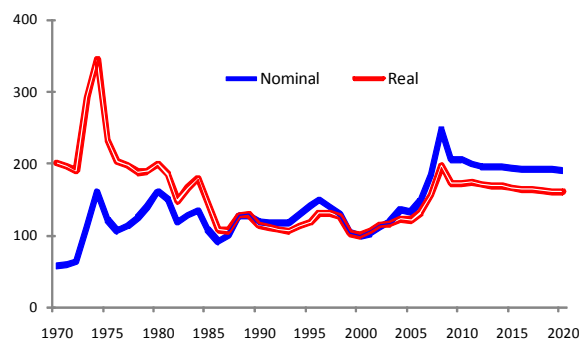


Source: US Department of Agriculture

percent (Figure A3.5), the highest ratio in the past 7-years and close to the historical average of 24 percent. As a result, food prices are projected to be essentially unchanged in 2010 compared with 2009, and to decline by 3 percent in 2011 (Figure A3.6).

Rising and volatile domestic staple food prices are an increasing concern in several Sub-Saharan African and South Asian countries. A recent study (World Bank, Food Price Watch, May

Figure A3.6 Food price indices (US\$, 2000=100)



Source: World Bank

2010) shows that in Tanzania the price of maize increased by 21 percent in the year ending February 2010 and in Kenya the price of maize rose by 16 percent in the same period. Also, the DRC, Uganda and Zimbabwe were among the countries with the sharpest fluctuation in prices of main food staples. Food price increases contribute to undernourishment and hunger and heighten the importance of food security policies. The upward trend in price of staples in domestic markets is, therefore, worrisome as it poses a significant threat to both food security and nutrition in the region. For example, in countries where staple food prices have risen sharply, estimates suggest that hunger could increase by between 2-3 percent.

Recent developments in inflation

Core inflation in the Euro zone has eased to very low levels, raising the specter of deflation – which is already visible in some countries. This is largely reflective of weak domestic demand, excess capacity and continued high unemployment, which has reduced the pricing power of both producers and labor. In April

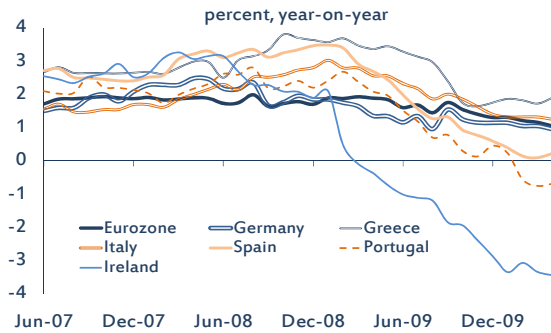
Table A3.1 Key nominal commodity price indices (actual and forecast, 2000=100), 2004-11

	Actual						Projection	
	2004	2005	2006	2007	2008	2009	2010	2011
Energy	136	188	221	245	342	214	268	257
Non-Energy	133	149	192	225	272	213	249	239
Agriculture	130	133	150	180	229	198	211	196
Food	136	134	147	185	247	205	206	199
Beverages	120	137	145	170	210	220	233	196
Raw Materials	120	131	160	175	196	169	215	190
Metals & Minerals	139	179	280	314	326	236	329	330
Fertilizers	137	163	169	240	567	293	259	209

Source: World Bank

2010, core inflation for the euro area was down to 0.8 percent year-on-year, the lowest core inflation rate since at least 1991. In Germany core inflation dropped to 0.3 percent, while in Spain, Portugal, and Ireland core prices were falling for the first time since the euro was introduced—a development that should help competitiveness issues in these countries (Figure A4.1). A weaker euro, the result of the lingering sovereign stress, could prevent a further slide toward deflation even in the event of weak private consumption in the euro area.

Figure A4.1 Core inflation in high-income countries (% change yoy)

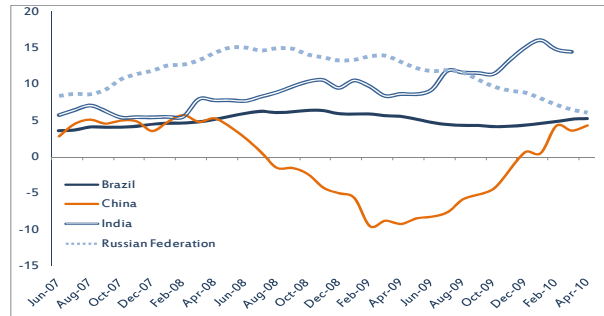


Source: Datastream and World Bank calculations

Among developing countries, the BRICs have generally registered very strong recoveries following the financial crisis. This has supported renewed (mostly portfolio related) capital inflows, which has raised domestic liquidity and a revival of asset price inflation. Compared to other countries, BRICs are also operating at levels that are much closer to full capacity, implying higher domestic demand price pressures relative to other countries. As a result, inflation pressures have been rising recently – notably in China and India (Figure A4.2). The only exception among BRICs has been Russia, where a strengthening rouble has contributed to a decline in inflation.

In other low and middle-income countries, there are also signs of a pick-up in inflation (albeit from very low levels). In low-income countries, headline inflation has steadily increased after a rebound from 1.3 percent in October 2009 to

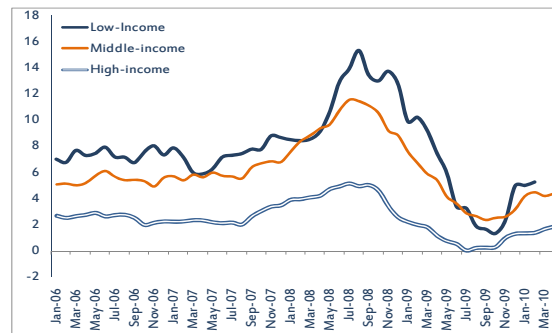
Figure A4.2 Headline inflation in BRICs (% change yoy)



Source: Global Economic Monitor and World Bank calculations

more-than 5 percent in February 2010—but still remaining below the 7 percent average registered during the January 2006 – July 2007 period (Figure A4.3). In middle-income countries, inflation followed a similar, but less steep trend. It bottomed at 2.3 percent in September 2009 and has gained nearly 2 percentage points since then. This compares with a pre-crisis peak of 11.5 percent in July 2008.

Figure A4.3 Headline inflation in low-, middle-, and high-income countries, medians (% change yoy)



Source: Global Economic Monitor and World Bank calculations