



THE WORLD BANK

MUSTAPHA K. NABLI, EDITOR

# THE GREAT RECESSION

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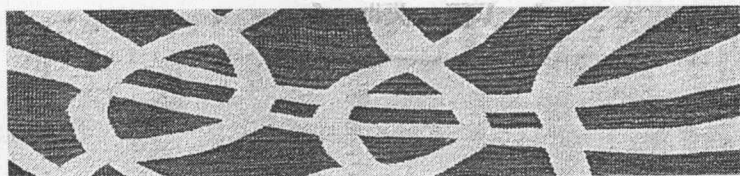
# DEVELOPING COUNTRIES

ECONOMIC IMPACT AND GROWTH PROSPECTS



# THE GREAT RECESSION and DEVELOPING COUNTRIES

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GROWTH PROSPECTS



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1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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1 2 3 4 13 12 11 10

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ISBN: 978-0-8213-8513-5

eISBN: 978-0-8213-8514-2

DOI: 10.1596/978-0-8213-8513-5

#### **Library of Congress Cataloging-in-Publication Data**

The Great Recession and the developing countries : economic impact and growth prospects.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-8213-8513-5 — ISBN 978-0-8213-8514-2 (electronic)

1. Financial crises—Developing countries—Case studies. 2. Global Financial Crisis, 2008–2009. 3. Economic forecasting—Developing countries—Case studies. 4. Developing countries—Economic conditions—21st century. 5. Economic development—Developing countries—Case studies. I. World Bank.

HB3722.G746 2010

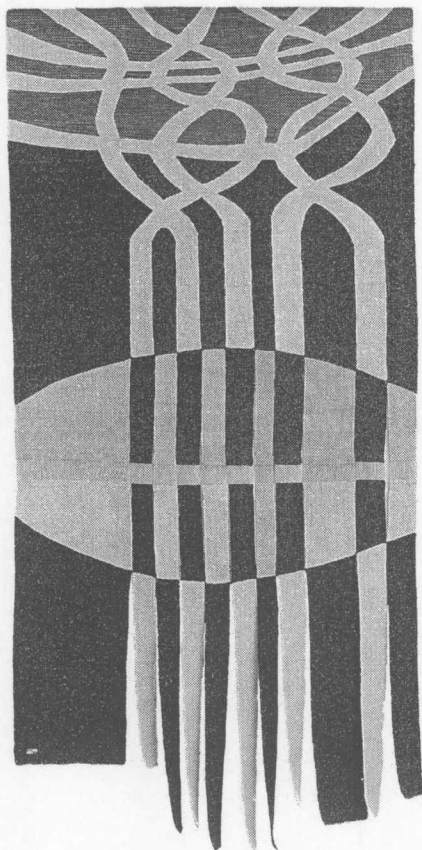
330.91724—dc22

2010045444

Cover design: W. Drew Fasick, The Fasick Group, Inc.

Cover art: Belkis Balpinar, *World Weave* (tapestry), Turkey.

# THE GREAT RECESSION and DEVELOPING COUNTRIES





## Preface

In the more than two years since the eruption of the financial crisis in advanced countries and its spread to become a global economic crisis, attention has been almost singularly focused on short-term developments, tactics for ending the financial chaos and economic collapse and initiating a recovery, and efforts to address the immediate economic and social disruptions caused by the crisis. Much less attention has been paid to the medium- and long-term implications of the crisis for growth, poverty reduction, and—more broadly—development in low- and middle-income countries. To fill this gap, the World Bank's Poverty Reduction and Economic Management Network (PREM) and its Development Economics (DEC) Vice Presidency jointly launched a project to explore how the ongoing crisis, the policy responses to it, and the postcrisis global economy would shape the medium-term growth prospects of developing countries. A selection of 10 countries was studied in order to (a) understand the factors that affected the extent of the economic impact—both in the short and medium term—resulting from the global crisis and (b) help identify policy measures that could support a more inclusive and sustainable growth path—a subject that is of great interest to the World Bank and the development community at large. The goal was not to forecast or predict growth and economic developments in the countries studied, but rather to look at how the medium- to long-term prospects for growth in developing countries might be affected by the way the crisis and the recovery play out and by postcrisis global conditions.

For the country studies, a single illustrative global scenario for the medium term has been used to explore the impact of global economic conditions on growth in developing countries. It would have been useful

to explore the impact of alternative scenarios; however, doing so was beyond the scope of this project. In addition, the crisis is ongoing and the recovery is tentative. The conclusions reached within this volume must therefore be understood within the context of these limitations and uncertainties. Nonetheless, we believe that these studies bring a rich set of data and analyses about the Great Recession and its impact on developing countries that will be useful for both the academic and development communities.

This volume is a product of a project undertaken under the leadership and guidance of Otaviano Canuto, Vice President for PREM, and Justin Yifu Lin, Senior Vice President and Chief Economist at the World Bank (DEC); and with the active support of Carlos Alberto Braga, Shahrokh Fardoust, Nadir Mohammed, and Sudarshan Gooptu. A number of colleagues from country teams at the World Bank provided support for the production of the country papers: Jozef Draaisma on Mexico, Miria Pigato on India, and Quang Hong Doan and Martin Rama on Vietnam. Andrew Burns, Mansour Dailami, and Dilip Ratha provided data and advice about the global scenario. Their help and support are gratefully acknowledged. We benefited from useful suggestions and comments made by participants during two seminars held in Washington, DC, December 17–18, 2009, and July 19–20, 2010, during which the papers were reviewed and discussed. The comments from these sessions were taken into consideration in preparing the final papers included in this volume. The July seminar sessions were chaired by Carlos Alberto Braga, Shahrokh Fardoust, Indermit Gill, Marcelo Giugale, Vikram Nehru, and Zia Mohammed Qureshi; the comments from these sessions have been included in this volume as discussant papers. Throughout the project, Rita Akweley Lartey provided excellent administrative support and Utku Kumru provided able and effective research assistance. In addition, Stephen McGroarty, Cindy Fisher, and Nora Ridolfi from the Office of the Publisher provided superb editorial and production support.

# Contributors

## Editor

**Mustapha K. Nabli** is Senior Adviser, Development Economics, World Bank.

## Chapter Authors

**Nguyen Ngoc Anh** is Chief Economist, Development and Policies Research Center, Vietnam.

**Erhanfadli M. Azrai** is Assistant Vice President, Khazanah Research and Investment Strategy, Malaysia.

**Fernando de Holanda Barbosa Filho** is Professor, Fundação Getulio Vargas, Brazil.

**Fernando Blanco** is Senior Economist, Africa Poverty Reduction and Economic Management Department, World Bank.

**Otaviano Canuto** is Vice President and Head of the Poverty Reduction and Economic Management Network, World Bank.

**Nguyen Dinh Chuc** is Senior Researcher, Development and Policies Research Center, Vietnam.

**Dipak Dasgupta** is Lead Economist, South Asia Economic Policy and Poverty Sector, World Bank.

**Gerardo Esquivel** is Professor of Economics, El Colegio de México, Mexico.

**Abhijit Sen Gupta** is Associate Professor, Jawaharlal Nehru University, India.

**Ardo Hansson** is Lead Economist, East Asia and Pacific Poverty Reduction and Economic Management Department, World Bank.

**Maciej Krzak** is Coordinator of the Macroeconomic Team, Center for Social and Economic Research, Poland.

**Luis Kuijs** is Senior Economist, East Asia and Pacific Poverty Reduction and Economic Management Department, World Bank.

**Eric Le Borgne** is Senior Economist, East Asia and Pacific Poverty Reduction and Economic Management Department, World Bank.

**Justin Yifu Lin** is Chief Economist and Senior Vice President, Development Economics, World Bank.

**Alvaro Manoel** is Senior Economist, Economic Policy and Debt Department, World Bank.

**Deepak Mishra** is Lead Economist, East Asia and Pacific Poverty Reduction and Economic Management Department, World Bank.

**Sheryll Namingit** is Analyst, East Asia and Pacific Poverty Reduction and Economic Management Department, World Bank.

**Nguyen Duc Nhat** is Executive Director, Development and Policies Research Center, Vietnam.

**Samuel Pessôa** is Professor, Fundação Getulio Vargas, Brazil.

**Kaspar Richter** is Senior Economist, Europe and Central Asia Poverty Reduction and Economic Management Department, World Bank.

**Nguyen Thang** is Director, Center for Analysis and Forecasting, Vietnamese Academy of Social Sciences, Vietnam.

**Mark Roland Thomas** is Lead Economist, Macroeconomics Unit, Europe and Central Asia Poverty Reduction and Economic Management Department, World Bank.

**Gallina A. Vincelette** is Senior Economist, Economic Policy and Debt Department, World Bank.



**Cihan Yalçın** is Senior Economist, Macroeconomics Unit, Europe and Central Asia Poverty Reduction and Economic Management Department, World Bank.

**Albert G. Zeufack** is Director, Khazanah Research and Investment Strategy, Malaysia.

### **Discussant Paper Authors**

**Milan Brahmbhatt** is Senior Adviser, Poverty Reduction and Economic Management Network, World Bank.

**Ishac Diwan** is Country Director, Western Africa Region, World Bank.

**Shahrokh Fardoust** is Director, Development Economics Operations and Strategy, World Bank.

**Edgardo Favaro** is Lead Economist, Economic Policy and Debt Department, World Bank.

**Indermit Gill** is Chief Economist, Europe and Central Asia Office of the Chief Economist, World Bank.

**Sudarshan Gooptu** is Sector Manager, Economic Policy and Debt Department, World Bank.

**Brian Pinto** is Senior Adviser, Poverty Reduction and Economic Management Network, World Bank.

**Martin Rama** is Lead Economist, South Asia Office of the Chief Economist, World Bank.

**David Rosenblatt** is Economic Adviser, Office of the Senior Vice President, Development Economics, and Chief Economist, World Bank.

**Luis Servén** is Senior Adviser, Development Economics Research Group, World Bank.

**Manu Sharma** is Junior Professional Associate, Poverty Reduction and Economic Management Network, World Bank.

**Shahid Yusuf** is Consultant, World Bank.

## Abbreviations

ADB	Asian Development Bank
ADLI	agricultural development-led industrialization (of Ethiopia)
ASEAN	Association of Southeast Asian Nations
BCB	Central Bank of Brazil
BNDES	Federal Economic and Social Development Bank (of Brazil)
BNM	Bank Negara Malaysia
BPC	Permanent Benefit for Elderly People (of Brazil)
BPO	business process outsourcing
bps	basis points
BSE	Bombay Stock Exchange
BSE Sensex	Bombay Stock Exchange Sensitivity Index
BSP	Bangko Sentral ng Pilipinas
BSRA	Banking Regulation and Supervision Agency (of Turkey)
BTr	Bureau of the Treasury (of the Philippines)
CA	current account
CB-BOL	Central Bank Board of Liquidators (of the Philippines)
CBRT	Central Bank of the Republic of Turkey
CCT	conditional cash transfer
CDS	credit default swap
CENVAT	central value added tax
CF	Christiano-Fitzgerald (filter)
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social (of Mexico)
CONgr	consumption growth

CNI	Confederação Nacional de Indústrias (of Brazil)
CPI	consumer price index
CRR	cash reserve ratio
CSO	Central Statistical Organization (of India)
DBM	Department of Budget and Management (of the Philippines)
DDP	Development Data Platform (of the World Bank)
DOF	Department of Finance (of the Philippines)
DOS	Department of Statistics (of Malaysia)
E&E	electrical and electronics
EC	European Commission
ECBs	external commercial borrowings
EM	emerging market
EMBI	Emerging Markets Bond Index
ERP	Economic Resiliency Plan (ERP)
eop	end of period
EPU	Economic Reports and Economic Planning Unit (of Malaysia)
EU	European Union
FDI	foreign direct investment
FGV	Getulio Vargas Foundation
FII	foreign institutional investment
FRL	Fiscal Responsibility Law (of Brazil)
FSA	Financial Supervision Authority (of Poland)
FY	fiscal year
GDP	gross domestic product
GEP	<i>Global Economic Prospects</i> (of the World Bank)
GFCF	gross fixed capital formation
GFS	Government Finance Statistics (of the IMF)
GoE	Government of Ethiopia
GSO	General Statistics Office (of Vietnam)
GST	goods and services tax
GVA	gross value added
HP	Hodrick-Prescott (filter)
IBGE	Brazilian Institute of Geography and Statistics
IMF	International Monetary Fund

INEGI	Instituto Nacional de Estadística y Geografía e Informática (of Mexico)
INVgr	investment growth
IPEA	Institute of Applied Economics Research
IPI	industrial production index
IPO	Imposto sobre Produtos Industrializados (of Brazil)
IPP	Investment Priorities Plan (of the Philippines)
IT	information technology
KLIBOR	Kuala Lumpur interbank offered rate
KRIS	Khazanah Research and Investment Strategy (of Malaysia)
LCU	local currency unit
LGU	local government unit
LOAS	Organic Law of Social Protection (of Brazil)
LT	long term
M1	money supply
M2	M1 plus quasi-money
mma	monthly moving average
MOF	Ministry of Finance (of Malaysia)
MoFED	Ministry of Finance and Economic Development (of Ethiopia)
MOOE	maintenance and other operating expenses
MPI	Ministry of Planning and Investment (of Vietnam)
MSMEs	micro, small, and medium enterprises
NAFTA	North America Free Trade Agreement
NBP	National Bank of Poland
NBS	National Bureau of Statistics (of China)
NEAC	National Economic Advisory Council (of Malaysia)
NEER	nominal effective exchange rate
NEM	New Economic Model (of Malaysia)
NFS	nonfactor services
NICs	newly industrialized countries
NPL	nonperforming loan
NSCB	National Statistical Coordination Board (of the Philippines)
NSO	National Statistics Office (of the Philippines)
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development

OEF	Oxford Economic Forecasts
PDIC	Philippines Deposit Insurance Corporation
PISA	Programme for International Student Assessment
PPG-ED	public and publicly guaranteed external debt
PPI	private participation in infrastructure
PPP	purchasing power parity
PSBR	public sector borrowing requirement
R&D	research and development
RBI	Reserve Bank of India
REER	real effective exchange rate
s.a.	seasonally adjusted
SMEs	small and medium enterprises
SOE	state-owned enterprise
STN	National Treasury Secretariat (of Brazil)
SVAR	structural vector autoregression
T&C	transport and communication
TFP	total factor productivity
TRP	Tariff Reform Program (of the Philippines)
VASS	Vietnam Academy of Social Sciences
VAT	value added tax
WDI	World Development Indicators Database (of the World Bank)
WEO	<i>World Economic Outlook</i> (of the IMF)
WTO	World Trade Organization
yoy	year-on-year



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