

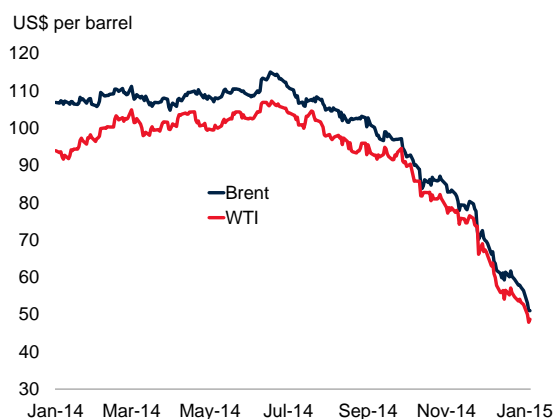
Global Weekly

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Taking Stock

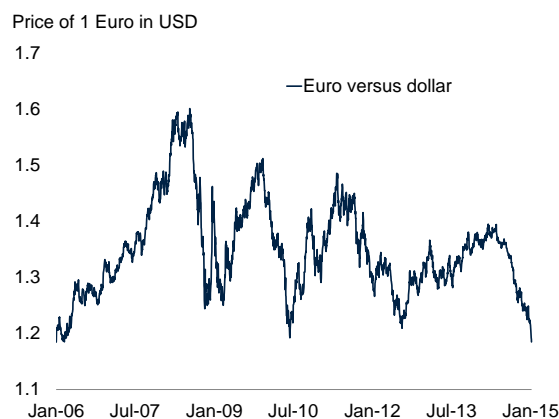
- Oil prices fell to new lows.** Oil prices declined to levels last hit in May 2009 as concerns about a stock surplus and demand weakness weighed on crude markets. ICE February Brent—the international oil marker—fell \$2.67 to \$53.75 a barrel in Monday trading to fresh five-and-a-half-year lows. Meanwhile, the Nymex February West Texas approached \$50 a barrel and the US benchmark dropped \$2.14 to \$50.55.
- The euro continued to slide.** The euro dropped to \$1.1809 on Wednesday, its weakest level since 2006, as Eurozone consumer prices fell by a more-than-expected 0.2 percent annually in December, the lowest since September 2009. The inflation rate in Germany, the bloc's largest economy, slowed to 0.1 percent (y/y) in December from a 0.5 percent in November, which was the lowest figure since October 2009. Concerns that tumbling oil prices will tip the currency bloc into a deflationary spiral have strengthened the case for the European Central Bank (ECB) to take bold policy action, such as sovereign asset purchase, to ward off deflationary risk in the monetary union.
- Investor sentiment in the Eurozone improved.** Eurozone's Sentix investor confidence index unexpectedly improved for the third consecutive month, climbing to 0.9 in January from -2.5 in December. Economists had forecast the index to improve to -1. The expectations sub-index rose to 13.5 from 12, while the current situation index rose to -11 from -16. The recent sharp drop in oil prices and the continued weakness in the euro were cited as the reasons behind the latest improvement in investor morale.
- China's service sector continued to strengthen.** China's HSBC/ Markit Services Purchasing Managers' Index (PMI) climbed to 53.4 in December, expanding for the eighth straight month and up from 53.0 in November. A sub-index measuring new business cooled slightly in December but remained well in expansion territory. The labor market was also buoyant, with the employment sub-index hitting an 18-month high. A sub-index for business expectations for the year ahead, however, dipped to its lowest reading since August 2014.
- Brazil's industrial production remained weak.** Industrial production declined more-than-expected 5.8 percent (y/y) in November after a 3.3 percent slump in October and was weaker than the 4 percent decline expected by economists. At the same time, inflation rose above target and the budget deficit deteriorated further.

FIGURE 1 Oil prices hit fresh lows



Source: Bloomberg.

FIGURE 2 The Euro fell to its lowest level against the U.S. dollar since 2006



Source: Bloomberg.

Weekly Insight: Fiscal Policy Cyclicity

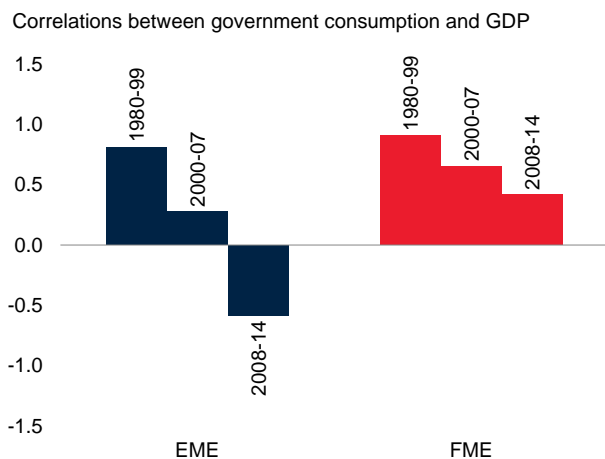
Fiscal policy in Emerging and Frontier Market Economies has become more countercyclical since the 1980s. Many economies used their fiscal space during the Great Recession to implement larger fiscal stimulus than in earlier contractions and have not fully returned their debt and fiscal balances to pre-crisis levels. In the medium-term, developing economies will need to rebuild the fiscal space that is necessary to maintain countercyclical policy in the future.

Many Emerging Market and Frontier Market Economies (EMEs and FMEs) implemented fiscal stimulus during the Great Recession of 2008-09. This stimulus was indicative of a broader trend among developing economies of fiscal policy countercyclicity. During recent downturns, governments in developing economies increased consumption or cut taxes to support activity instead of pursuing fiscal consolidation as they have in the past. Correlations between the cyclical components of government consumption and GDP from a cross-country sample indeed show that fiscal policy has become less procyclical since the 1990s, and more countercyclical since the Great Recession (Figure 3). High procyclicality between 1980 and 1999 in EMEs broadly turned to countercyclicity after the Great Recession, while procyclicality became less pronounced in FMEs. This evolution of fiscal cyclicity can be attributed to several factors, including improvements in policies, institutions, and enhanced financial market access.

Countercyclical fiscal policy is associated with greater fiscal space. Many EMEs and FMEs built fiscal space in the run up to the Great Recession of 2008-09, by reducing debt and closing deficits. Throughout the 2000s, procyclicality was less pronounced in economies with wide fiscal space (Figure 4). During the Great Recession, economies with government debt below 40 percent of GDP (implying wider fiscal space) were able to implement greater fiscal stimulus than more indebted governments (with narrower space). Government debt remains moderate in many economies, but is above 40 percent on average for EMEs and FMEs. Fiscal deficits are also substantial and have yet to return to pre-crisis levels.

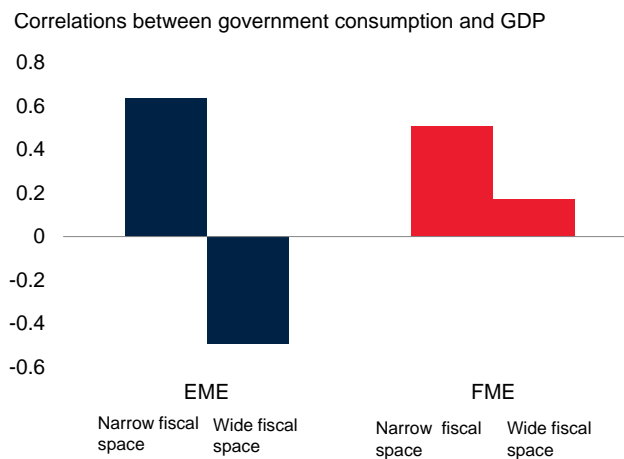
Developing economies need to rebuild their fiscal space in the medium-term to keep countercyclical fiscal policy available. Financing costs are expected to increase from their currently low levels as unconventional monetary policy in advanced economies comes to an end. With tightening global financial conditions and slowdowns or reversals to capital flows constraining monetary policy in many economies, fiscal policy will become an important tool to stimulate activity during cyclical downturns. For many developing countries, the expected soft commodity prices are an opportunity to implement subsidy reforms to help rebuild fiscal space while, at the same time, removing longstanding distortions to economic activity.

FIGURE 3 Changing stance of fiscal policy



Source: Global Economic Prospects January 2015.
 Note: The figure presents correlations between the cyclical components of government consumption and GDP from an unbalanced panel of annual data for 31 EMEs and 29 FMEs.

FIGURE 4 Cyclicity of fiscal policy and fiscal space



Source: Global Economic Prospects January 2015.
 Note: The figure presents correlations between the cyclical components of government consumption and GDP from an unbalanced panel of annual data for 31 EMEs and 29 FMEs. The samples have been divided based on fiscal space. Positive correlations suggest procyclicality, while negative correlations suggest countercyclicity.



Financial Markets

	2013				2014				2014							MRV ¹	Chg since Sep-12 '08 ³
	2010	2011	2012	2013	Q4	Q1	Q2	Q3	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
Interest rates and LIBOR (%)																	
U.S. Fed Funds Effective	0.18	0.10	0.14	0.11	0.09	0.07	0.09	0.09	0.10	0.09	0.09	0.09	0.09	0.09	0.12	0.12	-1.98
ECB repo	1.00	1.25	0.88	0.55	0.35	0.25	0.22	0.11	0.16	0.15	0.12	0.05	0.05	0.05	0.00	0.05	-4.20
US\$ LIBOR 3-months	0.34	0.34	0.43	0.27	0.24	0.24	0.23	0.23	0.23	0.23	0.24	0.23	0.23	0.23	0.25	0.25	-2.57
EURIBOR 3-months	0.75	1.34	0.49	0.15	0.20	0.27	0.27	0.13	0.21	0.17	0.16	0.06	0.06	0.06	0.00	0.06	-4.89
US 10-yr Treasury yield	3.20	2.77	1.78	2.33	2.73	2.75	2.61	2.49	2.59	2.52	2.43	2.51	2.32	2.30	2.19	2.10	-1.62
German Bund, 10 yr	2.78	2.65	1.57	1.63	1.79	1.68	1.43	1.07	1.35	1.20	1.02	1.00	0.87	0.79	0.64	0.45	-3.74
Spreads (basis points)																	
JP Morgan Emerging Markets	301	341	342	319	342	352	300	301	282	282	310	312	349	350	402	446	89
Asia	206	218	216	219	237	231	197	195	189	195	202	187	207	193	206	231	-65
Europe	247	301	320	267	290	301	265	262	236	244	274	270	295	293	368	433	120
Latin America & Caribbean	360	404	393	379	409	429	360	366	343	336	373	390	443	455	516	558	170
Middle East	342	366	449	435	428	408	376	369	360	372	379	358	395	388	411	445	-53
Africa	274	364	337	322	338	332	287	280	278	278	292	270	307	306	343	396	396
Stock Indices (end of period)²																	
Global (MSCI)	331	300	340	409	409	411	429	417	429	423	432	417	419	426	417	416	30.0
High-Income (\$ Index)	1280	1183	1339	1661	1661	1674	1743	1698	1743	1714	1749	1698	1708	1740	1710	1705	32.9
United States (S&P-500)	1258	1258	1426	1848	1848	1872	1960	1981	1960	1931	2003	1981	2018	2068	2059	2058	64.4
Euro Area (S&P-350\$)	1124	1005	1143	1339	1339	1361	1401	1411	1401	1380	1404	1411	1382	1425	1401	1396	20.8
Japan (Nikkei-225)	10229	8455	10395	16291	16291	14828	15454	16174	15454	15621	15425	16174	16756	17460	0	17451	42.9
Developing Markets (MSCI)	1151	916	1055	1003	1003	995	1051	1005	1051	1066	1088	1005	1016	1005	956	954	11.5
EM Asia	468	379	447	446	446	444	472	460	472	485	489	460	467	467	457	460	40.5
EM Europe	529	395	473	438	438	409	435	374	435	403	399	374	369	353	297	297	-41.6
EM Europe & Middle East	450	336	402	372	372	348	360	321	360	340	337	321	314	303	257	258	-37.1
EM Latin America & Caribbean	4614	3602	3798	3201	3201	3194	3370	3171	3370	3399	3664	3171	3158	3008	2728	2637	-25.4
Exchange Rates (LCU / USD)																	
High Income																	
Euro Area	0.76	0.72	0.78	0.75	0.73	0.73	0.73	0.76	0.74	0.74	0.75	0.78	0.79	0.80	0.81	0.83	18.5
Japan	87.76	79.74	79.85	97.61	100.51	102.78	102.14	104.04	102.07	101.75	102.98	107.39	108.02	116.40	119.37	120.50	11.6
Developing																	
Brazil	1.76	1.67	1.95	2.16	2.28	2.37	2.23	2.28	2.23	2.22	2.27	2.34	2.45	2.55	2.65	2.69	51.3
China	6.77	6.46	6.31	6.15	6.09	6.10	6.23	6.16	6.23	6.20	6.15	6.14	6.13	6.13	6.19	6.21	-9.3
Egypt	5.63	5.94	6.07	6.87	6.89	6.96	7.07	7.15	7.15	7.15	7.15	7.15	7.15	7.15	7.15	7.16	32.0
India	45.73	46.67	53.41	58.55	62.00	61.79	59.90	60.65	59.76	60.06	61.01	60.87	61.50	61.79	62.80	63.30	38.5
Russia	30.37	29.41	31.06	31.86	32.56	35.07	34.96	36.31	34.37	34.75	36.17	38.01	40.96	46.27	56.28	58.75	130.1
South Africa	7.32	7.26	8.21	9.65	10.16	10.86	10.54	10.77	10.68	10.66	10.66	10.99	11.06	11.10	11.53	11.68	46.2
Memo: USA nominal effective rate	100.19	98.53	102.00	104.77	106.31	108.33	108.68	110.57	109.31	109.43	110.61	111.67	112.66	113.83	0.00	115.62	20.7

¹ MRV = Most Recent Value.

² MSCI Indices for Asia, Africa, and Europe and C. Asia, for 2008 are calculated from February-December, due to data availability.

³ Change expressed in levels for interest rates and spreads; percent change for stock market and exchange rates.

Commodity Prices

	2013				2014				2014							MRV	Chg since Sep-12 '08 ³
	2010	2011	2012	2013	Q4	Q1	Q2	Q3	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
Oil price, \$/b, nominal ¹	79	104	105	104	105	104	106	100	108	105	100	96	86	77	61	50	-48.2
Non - Oil Index ²	..	97	85	79	75	76	78	73	76	75	74	71	70	71	69	69	..
Food Index ²	..	99	97	89	85	86	89	75	86	79	76	72	72	76	75	74	..
Metals and Minerals Index ³	103	117	99	94	92	88	87	89	87	90	90	87	84	84	80	82	-20.8
Baltic Dry Index ⁴	2755	1545	916	1215	1876	1375	983	948	912	796	948	1101	1096	1328	880	758	-84.2

¹ Simple average of Brent, Dubai and WTI.

² Base Date = Jan 3, 2011 due to data availability.

The Index component combination in the Weekly tables differs from that of the Pink Sheet.

³ Base Date = Jan 4, 2010 due to data availability.

The Index component combination in the Weekly tables differs from that of the Pink Sheet.

⁴ Base Date = May 1, 1985