Challenges for Central Banks

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The world has changed since the early 1990s

- Delinking of growth trends as developing countries reformed, opened up and brought inflation under control
- Linking of cyclical growth as developing countries integrated into global economy
- Financial transmission has overtaken trade links
- Move towards a multipolar and multi-currency world
Structural growth has become delinked

Real GDP growth, 7-year moving average

Source: World Bank
Developing countries reach potential growth in periods of low inflation

Source: World Bank
Inflation was brought under control as commodity prices declined

(Real, MUV-deflated, 2000=100)

Source: World Bank
Cycles have become more synchronized

GDP growth in deviation from trend

Developing Countries
High income: OECD

Source: World Bank
China is leading the global production cycle

(Industrial Production, annualized 3 months / 3 months growth rates, percentages)

Source: World Bank
Increasing cross-border M&A deals originating in EM is a feature of the new corporate landscape

Sources: Global Development Horizons 2011, based on Thomson-Reuters.
Challenges for central banks

• Focus no longer merely on inflation, but also on asset markets
• Prepare for future international financial shocks
• Facilitate shift towards multi-currency world
• Can monetary policy replace fiscal policy?
Asset price booms coincide with periods of decelerating inflation

Source: World Bank
Asset price booms coincide with periods of decelerating inflation

annual growth (%), average of 7 preceding years

Source: World Bank
Many developing countries have lost fiscal space

In 2007
• 40% of developing countries were in surplus
• 19% had a deficit larger than 3% of GDP

In 2011
• 19% of developing countries were in surplus
• 47% had a deficit larger than 3% of GDP

Source: World Bank
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