Eurozone growth accelerates in first quarter

**Financial Markets**

The dollar fell to its lowest level in three months as weaker-than-expected U.S. retail sales reinforced the view that the Federal Reserve will hold off raising interest rates for some time to come. The U.S. dollar index, which tracks the greenback against a basket of six major currencies, fell 1% after hitting a more than three-month low. The gauge has now dropped some 6.5% from a 12-year peak reached in March. Meanwhile, the euro strengthened to as much as $1.137 versus the dollar.

*Chinese* regulators issued a guideline, with details of a previously announced debt-swap plan, that says banks and local governments can use municipal bonds as collateral for borrowing from the central bank, which could boost a fledgling municipal market. China launched its municipal bond market last September in the hope that by forcing provincial governments to raise funds only through bond issues, financial markets would enforce budget discipline on the governments and limit their borrowing, which has ballooned in recent years to an estimated $3 trillion. In an effort to limit debt servicing costs for municipalities, China’s finance ministry in March revealed a plan that local governments would be allowed to swap 1 trillion yuan ($160 billion) worth of high-interest local debt maturing this year for new municipal bonds.

**High Income Economies**

In a sign of continued weakness in the retail sector, U.S. retail sales were unexpectedly flat in April, following an upwardly revised 1.1% (m/m) increase in March. Economists had expected retail sales to edge up by 0.2%. The latest reading was partly due to a pullback in sales by motor vehicle and parts dealers, which fell by 0.4% in April after surging 2.9% in March. Core retail sales, which exclude autos, gasoline, and building materials, were also flat in April after climbing by 0.5% in March.

*Eurozone* economic growth improved as expected in Q1 as growth in France and Spain accelerated and Italy expanded, offsetting the weak performance of Germany. GDP expanded 0.4% (q/q), slightly faster than the 0.3% growth seen in Q4 2014, flash estimates published by Eurostat showed Wednesday. The growth rate matched economists' expectations. On a yearly basis, economic growth improved to 1.0% (y/y), in line with economists' forecast, from 0.9% in Q4.

Citing lower productivity and sterling strength, the Bank of England (BoE) has downgraded the growth forecast for the British economy. The bank expects GDP to expand 2.5% in 2015, slower than the prior projection of 2.9%, said in its quarterly Inflation Report, released Wednesday. The bank forecast 2.6% growth for 2016 instead of 2.9%. The bank also suggested that the interest rate would be raised by the middle of 2016. Further, inflation is expected to return to its 2% target within two years.

**Developing Economies**
East Asia and Pacific

China's industrial production grew at a faster pace in April, while retail sales growth eased for the third straight month, data from the National Bureau of Statistics showed Wednesday. Industrial output expanded 5.9% (y/y) in April, faster than March's 5.6% increase, but slightly weaker than the 6% rise forecast by economists. Meanwhile, growth in retail sales slowed to 10% in April from 10.2% in March.

Sub-Saharan Africa

Consumer prices in Ghana increased 16.8% (y/y) in April, up from 16.6% in March, due to higher utilities cost. Compared to April 2014, housing, water, electricity, gas and other fuels prices rose 25.0%, pushing up non-food products cost 23.2%, slightly up from 23.1% in March. Meanwhile food prices increased 7.2%. Meanwhile, Ghana's central bank unexpectedly raised its benchmark interest rate by 1% to shore up its weakening currency.

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