Background Note

Economic and Social Council High-Level Segment
Global Policy Dialogue

World Economic Situation and Prospects Mid-2015[1]

Global growth prospects

The world economy continues to grow at a modest pace. Growth of world gross product is projected to accelerate slightly from 2.6 per cent in 2014 to 2.8 per cent in 2015 – a mild downward revision from the forecast presented in January. In 2016, global growth is expected to strengthen to 3.1 per cent. The subdued performance of the world economy since the global financial crisis has raised concerns of a "new normal" of lower growth, especially in view of a broad-based weakness in investment.

The downward revision in global growth for 2015 reflects mainly a deteriorating outlook in the economies in transition and several large developing countries. Gross domestic product in the economies in transition is projected to contract by 2 per cent this year, while average growth in developing countries is expected to remain at 4.4 per cent, about 3 percentage points below the pre-crisis pace. The growth divergence between the various regions is widening in 2015. This can be partly attributed to the differing impacts from the drop in the prices of oil and other commodities. For heavily commodity-dependent economies, the short-term growth prospects have worsened considerably. This has often been amplified by persistent domestic weaknesses, including macroeconomic imbalances, social and political unrest, and inefficient economic management. On the other hand, large commodity-importers have benefited from lower prices in the form of reduced inflationary, fiscal and balance-of-payment pressures. In 2016, growth in developing countries and economies in transition is projected to slowly pick up as some of the current headwinds start to recede.

The prospects for developed economies in 2015 have been slightly upgraded from earlier forecasts, with average growth projected to

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[1] Publication E/2015/73 from 7 May 2015. This provides an update of the *World Economic Situation and Prospects 2015* that was released in January 2015.

accelerate from 1.6 per cent in 2014 to 2.2 per cent in 2015. Almost all major developed economies are expected to see the growth momentum picking up. The upward revision primarily reflects an improved outlook for the eurozone. Despite the expectations of a more robust recovery, developed economies continue to face considerable headwinds from the legacies of the global financial crisis, including subdued employment levels, elevated private and public sector debt and financial sector fragilities.

Employment

Recent data confirm a modest labour market recovery in 2014, driven by improvements in developed economies, which is expected to continue in 2015. Global employment is estimated to have grown by 1.4 per cent in 2014, a similar expansion to that in 2013. While this is a modest improvement compared to average growth between 2007 and 2012, it remains persistently below the pre-crisis pace, when employment growth averaged 1.7 per cent annually. Against the backdrop of modest GDP growth, employment creation often remains too weak to recover the jobs lost during the crisis and to absorb new market entrants. Unemployment is thus expected to remain elevated in many developed countries, while part-time jobs and lower labour force participation will remain major challenges. Labour market conditions in many developing countries and economies in transition have somewhat deteriorated. With GDP growth slowing, employment growth is coming down, while gender gaps are widening.

Inflation

Average global inflation has continued to decline amid persistent negative output gaps and the drop in oil and food prices. In 2015, global consumer price inflation is expected to average 2.5 per cent, the lowest level since 2009. With oil prices expected to recover slowly and global activity projected to pick up, average inflation is forecast to accelerate slightly in 2016. This aggregate picture encompasses a wide range of diverse dynamics. In developed countries, inflation rates and inflation expectations have drifted downwards despite unprecedented expansionary monetary policies. In developing countries, lower oil prices have generally reduced inflationary pressures, giving central banks more room to tackle slowing growth. Inflation is, however, expected to remain high in several developing countries and economies in transition owing to a variety of factors, such as market distortions, supply shortages, currency depreciations and inflation inertia.

International trade flows

Global trade is expected to improve moderately, growing somewhat faster than the rate of global output and expanding by an estimated 3.8 per cent in 2015 and 4.8 per cent in 2016. Trade growth in early 2015 has been relatively sluggish, but similar patterns have been observed in recent years with trade rebounding over the rest of the year. Substantial changes in exchange rates are expected to result in some shifts in directions of trade. While prospects for global trade are improving, several factors will continue to limit the possibilities for trade to return to higher growth patterns. These include lingering subdued global demand; limited prospects for large increases in trade growth as a result of trade agreements; and perhaps more limited scope for further integration of developing countries into the global trading system.

Risks and uncertainties

The global economy continues to face significant uncertainties and downside risks, related to the upcoming monetary policy normalization in the United States, ongoing uncertainties in the eurozone, potential spillovers from geopolitical conflicts and persistent vulnerabilities in many emerging economies. These individual risk factors are interconnected and could be mutually reinforcing, potentially leading to weaker-than-expected global growth in the forecast period.

Policy challenges

To mitigate the downside risks and ensure a return to strong, sustainable and balanced growth, a broad set of policy measures at the domestic, regional and global level is needed. In the area of monetary policy, the main challenge in developed economies, especially the United States, is to ensure a gradual and smooth normalization of the policy stance. Monetary authorities in developing countries and economies in transition face the task of supporting growth, while also ensuring robust capital inflows amid uncertain and volatile global financial conditions. In the area of fiscal policy, Governments need to find a balance between the stabilisation of public finances and the need to bolster potential output and support employment creation. For many developing countries, the drop in oil prices has provided an opportunity to reform the existing fuel subsidy systems. For labour market support, macroeconomic policies to stimulate aggregate demand, such as targeted infrastructure investment, need to be complemented by active labour market policies and structural reforms. In the area of international trade policy, difficulties in concluding even a reduced-form multilateral agreement have driven countries to pursue bilateral and regional agreements. There is a need for countries to participate in WTO processes in order to harmonize the multilateral, regional and bilateral trading frameworks. Stronger international policy coordination in economic areas becomes ever more critical as the Member States of the United Nations adopt a new financing framework for sustainable development and a post-2015 sustainable development agenda. Realization of the post-2015 development agenda will require strengthened international cooperation to build resilience against economic shocks and contagion, and ensure the adequacy and predictability of long-term development finance.

Prospects for LDCs

The least developed countries (LDCs) are expected to see growth of 4.9 per cent in 2015, a deceleration from 5.2 per cent in 2014 and a marked downward revision by 0.8 percentage point compared to the previous forecast. Growth in some LDCs, for example Bangladesh, Ethiopia, Rwanda and Tanzania, has been robust and sustained, owing mainly to buoyant domestic demand, with strong investment in agriculture and infrastructure. On the other hand, the commodity price decline is putting a dent in the revenues of commodity-exporting LDCs, leading to lower investment and consumption levels. In several countries, such as South Sudan and Yemen, economic growth and development is also hindered by unstable security.

LDC graduation issues

Eligibility for graduation is determined by the United Nations Committee for Development Policy (CDP), as mandated by the Economic and Social Council. The issue of meeting eligibility for graduation has gained renewed attention since the adoption the Istanbul Programme of Action by the United Nations in 2011. Among its priority goals, the Programme aims to enable half of the LDCs to meet the criteria for graduation by 2020. In the 2015 triennial review, the CDP established that ten LDCs met the graduation criteria. Of these, two countries are in the process of graduating from the category (Equatorial Guinea and Vanuatu), other two countries have been recommended for graduation and are awaiting decisions by ECOSOC or the General Assembly (Tuvalu and Angola). Six countries (Kiribati, Bhutan, Nepal, Sao Tome and Principe, Solomon Islands, and Timor-Leste) will be considered for graduation by the CDP in the next triennial review in 2018.

The main reason for the increase in LDCs meeting the graduation criteria is their continued progress in raising incomes and building human assets. While indicating a great development achievement, graduation also implies the eventual phasing out of LDC specific support by development and trading partners. This support includes special modalities of bilateral ODA, preferential market access, dedicated funds and technical assistance programmes, and travel benefits.