United Nations
Department of Economic and Social Affairs

LINK Global Economic Outlook

June 2013

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Acknowledgements

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Overview

Despite some improvements in global financial conditions and reduced short-term risks, the world economy continues to expand at a subdued pace. After a marked downturn over the past two years, global economic activity is expected to slowly gain momentum in the second half of 2013 and 2014 on the back of accommodative monetary policies in developed and developing economies. Most world regions are likely to see a moderate pick-up in activity, but growth will continue to be below potential and employment gains, especially in developed economies, will remain weak at best. The short-term risks associated with the situation in the euro area, the fiscal adjustments in the United States and the economic slowdown in large developing countries have diminished, but not disappeared. At the same time, new medium-term risks have emerged, including possible adverse effects of unconventional monetary measures in developed economies on global financial stability. These risks have the potential to once again derail the feeble recovery of the world economy. The main priority for policy makers worldwide should therefore be to support a robust and balanced global recovery, with a focus on promoting job creation. International policy coordination needs to be enhanced to mitigate negative policy spillovers, curb protectionism, promote cooperation in reforming the international financial system, and ensure sufficient resource flows to developing economies, and in particular the least developed countries.

Global macroeconomic prospects

Subdued global growth in 2013, some improvement expected for 2014

Despite some improvements in global financial conditions and reduced short-term risks, the world economy continues to expand at a subdued pace. After a marked downturn in 2012 and a weak start in 2013, global economic activity is expected to slowly gain momentum in the coming quarters, but improved growth will not register until 2014. Most world regions are likely to see a moderate recovery, but growth will generally remain below potential. In the baseline outlook, global growth has been revised slightly downward from the forecasts presented in January 2013. Growth of world gross product is now projected at 2.3 per cent in 2013, the same pace as in 2012, before accelerating to 3.1 per cent in 2014 (see table 1).

The risk of a renewed sharp downturn in global activity has declined over the past six months as policy measures taken in major developed economies helped stabilize consumer, business and investor confidence. In the euro area, financial market conditions have improved, sovereign spreads of the crisis countries have fallen, and the risk of a near-term breakup has declined. In the United States, policy makers avoided a very sharp fiscal contraction, although lower government spending will weigh on economic activity in 2013 and significant budget uncertainties remain. In Japan, the monetary and fiscal authorities have undertaken bold expansionary measures in early 2013 to overcome deflation and restore growth, even though the effects of these policies have yet to be seen.

Although tail risks have fallen, real economic activity in developed economies has so far remained weak. Aggregate demand is held back by high unemployment and simultaneous deleveraging in the private and public sectors, with most Governments continuing to pursue fiscal austerity. The drag on economic growth from these factors is likely to diminish slowly in the second half of 2013 and 2014. Supported by very accommodative monetary policies and somewhat improved confidence, private demand is expected to pick-up from the current low level, especially in the United States. Fiscal policy is expected to become less contractionary in 2014 in most European countries and the United States.

Developing countries and economies in transition continue to register much stronger growth than developed economies. In response to the economic slowdown in 2012, many of them, including some large countries in East Asia, South Asia and Latin America, adopted more expansionary monetary and – to a lesser extent – fiscal policies to strengthen domestic demand. This, along with a slight upturn in external demand, should provide a lift to economic growth in 2013. The pick-up in growth will, however, be slower than previously estimated as many large economies in this group, including Brazil, China, India and Russia face significant structural challenges. Potential growth in many developing countries is likely lower than before the global financial crisis; China, for example, is in the process of shifting to a lower but potentially more sustainable and balanced growth trajectory. The least developed countries (LDCs) are projected to see faster growth in 2013 than in the past two years. However, with commodity demand moderating and Official Development Assistance (ODA) falling, the pace of expansion in LDCs will still be notably slower than during the period 2004-08.

Table 1
Growth of world output
(Annual percentage change)

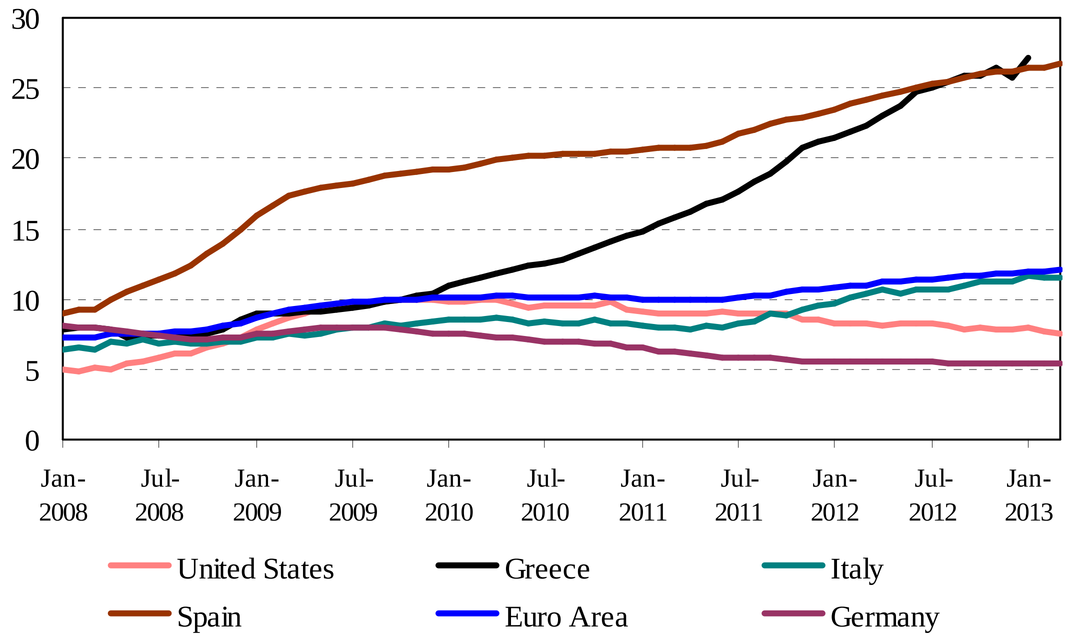
Region	2007-2010 [a]	2011	2012 [b]	2013 [c]	2014 [c]
World	1.8	2.8	2.3	2.3	3.1
Developed economies	0.3	1.4	1.2	1.0	2.0
United States of America	0.2	1.8	2.2	1.9	2.6
Japan	0.0	-0.6	2.0	1.3	1.6
European Union	0.3	1.5	-0.4	-0.2	1.3
EU15	0.2	1.4	-0.4	-0.2	1.3
New EU Members	2.2	3.2	0.8	1.1	2.2
Euro area	0.2	1.4	-0.6	-0.4	1.1
Other European	1.1	1.6	1.9	1.7	2.2
Other developed countries	1.6	2.5	2.6	2.0	2.7
Economies in transition	2.7	4.5	3.2	3.0	3.7
South-Eastern Europe	1.2	1.1	-1.2	0.9	1.8
Commonwealth of Independent States and Georgia	2.9	4.8	3.5	3.2	3.9
Russian Federation	2.4	4.3	3.4	2.9	3.5
Developing economies	5.8	5.8	4.6	5.0	5.4
Africa	4.7	1.0	5.1	4.6	5.1
North Africa	4.1	-6.1	7.7	3.7	4.6
Sub-Saharan Africa	4.9	4.5	4.0	5.1	5.4
Nigeria	6.9	7.4	6.6	6.8	7.0
South Africa	2.5	3.5	2.5	2.8	3.8
Others	6.1	4.1	4.1	5.9	5.7
East and South Asia	7.5	6.9	5.5	5.8	6.1
East Asia	7.7	7.1	5.9	6.1	6.3
China	10.8	9.2	7.8	7.8	7.7
South Asia	6.8	6.4	3.9	4.7	5.4
India	7.8	7.5	5.1	5.5	6.1
Western Asia	3.4	6.8	3.1	3.4	3.8
Latin America and the Caribbean	3.4	4.3	3.0	3.6	4.2
South America	4.6	4.5	2.5	3.5	4.2
Brazil	4.6	2.8	0.9	3.0	4.2
Mexico and Central America	1.2	4.0	4.0	3.9	4.1
Mexico	0.9	3.9	3.9	3.8	4.1
Caribbean	3.6	2.7	2.5	3.0	3.7
Least developed countries	6.9	3.4	3.8	5.8	5.7
Memorandum items:					
World trade[d]	3.0	6.9	2.7	3.5	5.0
World output growth with PPP-based weights	3.0	3.7	3.0	3.1	3.8

Source: UN/DESA.
[a] Average percentage change.
[b] Partly estimated.
[c] Forecast, based in part on Project LINK.
[d] Includes goods and services

Labour markets: more pain in the euro area

The employment situation remains a key policy challenge in many countries as the world economy continues to expand well below potential. The situation is, however, extremely heterogeneous across regions. Among developed countries, unemployment is most severe in parts of the euro area, which continue to see sharp contractions of economic activity amid stringent fiscal austerity programs. In early 2013, the unemployment rate increased to 26.7 per cent in Spain and at 27.2 per cent in Greece, with youth unemployment rates exceeding 59 per cent. In addition, unemployment is still on the rise in other euro area countries such as Belgium, Finland, France and Italy. Average unemployment in the euro area reached a new all-time high of 12.1 per cent in March 2013, and is forecast to average 12.8 per cent in 2014 (see figure 1).

Figure 1
Unemployment rates in selected developed countries and regions (seasonally adjusted), January 2008-March 2013
(Percentage)



Source: Statistical Office of the European Commission and United States Bureau of Labour Statistics.

The unemployment rate in the United States, by contrast, has further declined in recent months, although it remains high by historical standards. In April 2013, the unemployment rate stood at 7.5 per cent, down from 8.1 per cent a year ago. Some further improvement is expected in the outlook period, with unemployment averaging 7 per cent in 2014. Still, this trend masks a significant decline in labour force participation, which fell to 63.3 per cent in early 2013, the lowest level in the last three decades. Long term unemployment remains near historically high levels.

In most developing regions, labour markets have not suffered as extensively from weak demand as in developed economies. Furthermore, unemployment rates in some emerging economies have dropped below the levels seen before the financial crisis, particularly in South America and East Asia. In both regions, the employment outlook has remained robust in the face of the recent economic slowdown. By contrast, employment continues to be a key problem in many African countries, despite relatively high growth rates over the past few years. Developing countries continue to face many structural labour market challenges, such as low participation rates, particularly among women; high youth unemployment; large informal sectors; high shares of low-quality jobs and slow productivity growth. Employment-population ratios remain particularly low in North Africa and Western Asia. In South Asia employment-population ratios have come down significantly; India, for example, faces the lowest employment-population ratio in two decades as only about one third as many women are employed as men.

Youth unemployment rates are an ongoing problem in most world regions, although the factors contributing to those rates differ. In countries such as Algeria, Egypt and Turkey there is a lack of opportunity especially for more educated members of the labour force. While unemployment rates have come down over the past few years in many Latin American countries and have remained close to historic lows, youth unemployment rates are often much higher, for example in Argentina and Brazil. In East Africa and South Asia there is a more pervasive lack of opportunity, coupled with a bifurcated labour market and a significant percentage of the population relegated to the informal sector.

Trade: Weakness in developed economies persists

After slowing in 2012, growth in international trade is projected to pick up moderately in 2013 and 2014, in line with the expected mild recovery in global aggregate demand. Notably, the ratio between the growth of world trade and the growth of global output may be at a lower level than before the global financial crisis. While before the crisis global trade growth used to be twice as high as global output growth, the ratio has recently been close to 1.

In 2012, global trade volume growth declined sharply to only 2.7 per cent as a result of a synchronized slowdown in import demand in developed economies and many large developing countries. In Europe, import demand contracted, constrained by austerity measures, private deleveraging and rising unemployment. Import growth also weakened markedly in some large emerging economies, notably China, which had a significant effect on exports by many resource-rich developing countries.

In 2013, growth in the global trade volume is forecast to recover slightly to 3.4 per cent, before strengthening to 5 per cent in 2014. This trend is likely to be driven by slowly rising import demand from developed economies and a moderate pick up in demand from most developing regions, in particular East Asia and Latin America and the Caribbean. In Africa, trade growth is projected to be lower in 2013 than in the previous year, when North Africa saw a sharp rebound from a collapse in trade in 2011 in the wake of political instability.

Commodity prices face downwards pressures

International prices for primary commodities remain elevated by historical standards, but face downward pressure in the outlook period. In 2013, the aggregate commodity price index is expected to decline marginally owing to feeble global demand. In addition to the underlying trends in supply and demand, other factors such as a stronger US dollar and a potential move of investors towards equity markets may also exert downward pressure on commodity prices. A further decline of average commodity prices by 3.3 per cent is forecast for 2014 as supply for metals and oil is likely to expand and the dollar is expected to strengthen against other major currencies. However, price trends for the different commodity groups are expected to somewhat diverge in the near-term.

Oil prices remained elevated during the first half of 2013, although oil supply continued to exceed demand, following Saudi Arabia's activation of significant spare capacity in 2012. Elections in the United States and Israel in late 2012 somewhat lowered the risk of an abrupt escalation of geostrategic tensions in the Middle East, but Saudi oil output decreased by almost 1 million barrels per day in the same period. The Brent oil price briefly jumped to almost $120 per barrel in February 2013, before declining to below $110 per barrel. In the baseline outlook, assuming no escalation of geostrategic tensions in the Middle East and no shock in financial markets, the price of Brent crude is expected to average $110 per barrel (pb) in 2013 and to decrease to $100 pb in 2014, as demand from developed countries continues to decline and the United States and Iraq attempt to step up production.

By contrast, the price of metals and minerals increased moderately at the end of 2012 and early 2013, partly as a result of tentative signs of an improved economic outlook. In March and April, however, prices decreased noticeably. On an annual basis, metal prices are projected to rise slightly in 2013 in line with an expected pick-up in global industrial activity during the year. However, higher production will clearly limit the price increases, for example for aluminium, zinc, nickel and copper. In 2014, metal prices are expected to decline somewhat on the back of further expansions in supply and lower investment growth in China.

Prices of agricultural commodities, which stood at a relatively high level in early 2013, are expected to moderate slightly later in the year, against the backdrop of supply increases. Provided the extremely unfavourable weather conditions, which caused a supply-side shock in the second half of 2012, are not repeated in 2013, improved harvests should lead to lower average prices for many basic staples such as maize, soybeans and wheat. In many cases, elevated prices in recent years have encouraged farmers to increase the planting areas. Rice prices should continue to decline due to ample supply. The recently observed preference of portfolio investors for equity markets could further soften the upward pressure on prices of agricultural commodities. However, for certain staples such as maize and wheat, total consumption in 2013 is still expected to outpace production, leading to a further tightening of stocks. The need to rebuild stocks, together with the ongoing demand for biofuels and the meat industry, will sustain the prices of these staples at a relatively high historical level.

Global inflation slowing further

Despite the massive monetary easing by major central banks, inflation remains tame worldwide, partly reflecting large output gaps and high unemployment. Global inflation is projected to moderate further in 2013 to 2.6 per cent, down from 2.9 per cent in 2012. This decline mainly results from somewhat lower inflation in the United States and the EMU countries in the face of subdued demand, continued high unemployment and contained energy and food prices. In the economies in transition, by contrast, inflation is expected to accelerate from 6 per cent in 2012 to 7.3 per cent in 2013 as utility prices, nominal wages and public spending put upward pressure on prices. Average inflation in the developing economies will increase slightly from 5.4 per cent in 2012 to 5.6 per cent in 2013. This increase will stem from both cyclical factors, including a pick-up in demand in parts of East Asia and Latin America and the Caribbean, and one-off policy measures like lower fuel subsidies and higher minimum wages. In addition, various economies, especially in South Asia and Africa, will continue to face high inflation rates owing to a number of structural factors such as energy shortages, elevated inflationary expectations, changes in subsidy schemes and local food price conditions.

In 2014, global inflationary pressures are expected to remain mild even as economic activity, particularly in developed countries, strengthens. Japan is forecast to see a jump in inflation owing to a hike in the consumption tax and the BOJ's new quantitative easing program. Inflation in the euro area is expected to fall slightly in 2014 as persistently high unemployment keeps wage pressures very low. Most developing regions are likely to see a moderate decline in inflation in 2014 as international prices of oil, food and metals ease. The LDCs will continue to record somewhat higher inflation, but further declines from the high level in 2012 are expected.

Renewed increase in capital flow volatility poses risks, especially for emerging economies

Global financial conditions have somewhat improved in the first half of 2013 as new policy initiatives in developed economies reduced the near-term tail risks for the world economy. Increased global liquidity and higher risk appetite among investors have led to rising asset prices in developed countries, while also pushing up capital flows to emerging economies in early 2013. These capital flows have been dominated by portfolio investments, especially in corporate debt. In many emerging economies, large corporations have taken advantage of low borrowing costs. Bond markets in East Asian countries as well as Mexico and Turkey saw particularly large inflows in late 2012 and early 2013. Net equity flows, by contrast, have fluctuated considerably during the first half of 2013. After increasing substantially at the beginning of the year, there has been a sharp reversal in May and June, after the Federal Reserve Bank of the United States indicated a reduction in its monthly bond purchases. Meanwhile, cross-border bank lending displays a more heterogeneous pattern across regions. In emerging Europe, cross-border bank lending continues to be subdued, but in other countries, such as Brazil and the Russian Federation, bank lending rebounded sharply in the first quarter of 2013. Foreign direct investment to emerging economies also strengthened since mid-2012, and developing countries are expected to remain the main recipients of these inflows in the near term.

In the medium run, the upward trend of private capital flows to emerging economies is expected to continue as considerable growth and interest rate differentials remain. However, there is likely to be significant volatility in short-term international capital flows given potential changes to the currently prevailing extraordinary liquidity conditions. This uncertain environment poses considerable risks for emerging economies. If the gradual phasing-out of the quantitative easing program in the United States substantially increases capital outflows, emerging economies could see further notable declines in equity and bond markets. Heightened downward pressure on nominal exchange rates in developing countries could make additional monetary easing more complicated or even require higher interest rates. On the other hand, if QE programs continue or are expanded there could be a new round of large capital inflows in the second half of 2013 and 2014, which could lead to an appreciation of domestic currencies, excessive credit growth and to a build-up of significant leverage and asset price bubbles. Corporate leverage and foreign exchange denominated debt have indeed been on the rise in parts of East Asia and Latin America, potentially causing an increase in balance sheet risks and heightened vulnerability.

In contrast to private capital flows, official development assistance declined in the past year. Total flows from member countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) amounted to US$ 125.7 billion in 2012, down from US$ 133.7 billion in 2011, a 6 per cent fall in nominal terms. In constant dollars, this represented a fall of 4 per cent in net ODA disbursements to the developing countries. This is the first time since 1997 that the ODA volume decreased in two consecutive years. Most of this fall was due to less contribution from DAC members from the European Union, many of which were engulfed in severe fiscal constraints. The combined DAC donor's ODA was equivalent to 0.29 per cent of their combined gross national income (GNI), widening the delivery gap to 0.41 per cent of GNI from 0.39 per cent in 2011 towards meeting the UN target of disbursing 0.7 per cent of donor countries' GNI. Preliminary results of the OECD survey of donors' forward spending plans indicate that Country Programmable Aid (CPA) (a core subset of aid that includes programmes and projects, which are used to predict trends in total aid) is expected to stagnate during the period 2014-2016 after a temporary recovery in 2013 due to increases in contributions from some larger donors.

Exchange rates: Yen depreciates sharply; emerging economies' exchange rates experience significant volatility

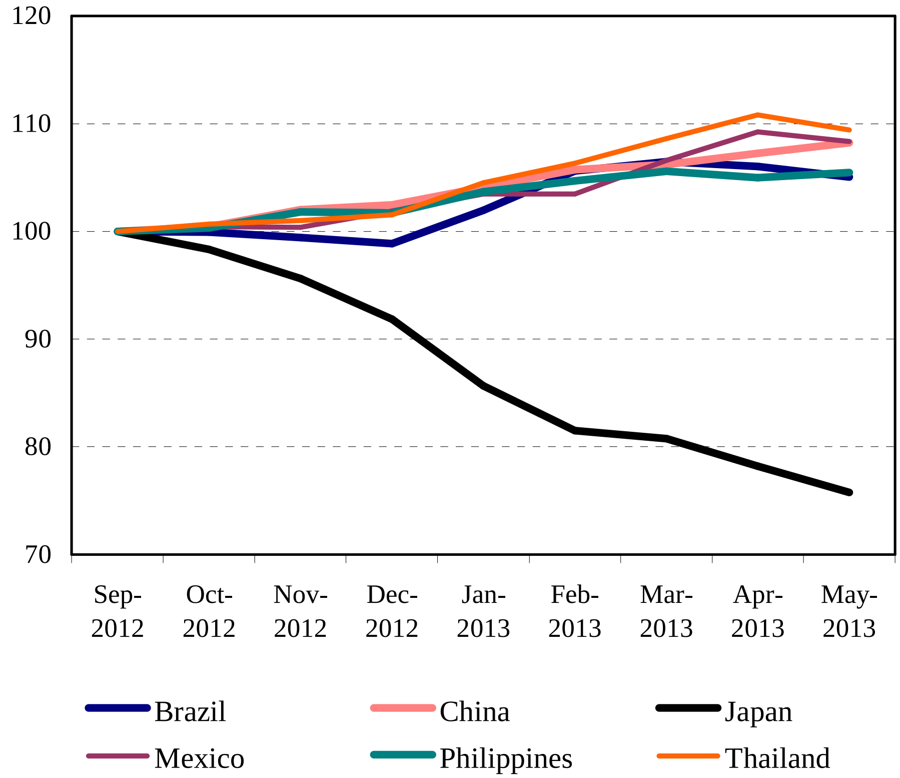
Since September 2012, there have been two major trends in international currency markets. First, the Japanese yen has depreciated sharply against all major currencies following the fundamental changes in the country's monetary policy strategy (see figure 2). Against the dollar, the yen depreciated by 25 per cent between September 2012 and May 2013. The sharp weakening of the yen has put particular pressure on the export industries of some East Asian countries, notably the Republic of Korea. Policymakers in several countries have expressed concerns over the shifts in export competitiveness related to the recent depreciation of the yen.

Second, the currencies of many large emerging economies have fluctuated substantially since late 2012. From September 2012 to April 2013, most domestic currencies appreciated significantly, mainly as a result of rising capital inflows in the face of additional quantitative easing in developed countries. Upward pressures on the national currencies were particularly noteworthy in Brazil, Mexico, the Philippines and Thailand. The Chinese renminbi also continued to strengthen gradually, reaching a 19-year high against the dollar in the second quarter of 2013 (see figure 2). However, the appreciation trend has been notably reversed in most countries since May 2013. With the exception of China, the currencies of emerging economies have depreciated sharply against the dollar as a result of the reduced liquidity prospects in developed countries, particularly the United States. Currencies of countries with large current account deficits, such as India, South Africa and Turkey, have seen particularly strong downward pressures. In the near-term, the gradual phasing-out of the quantitative easing is likely to increase exchange rate volatility in emerging economies.

Figure 2

Nominal effective exchange rate: Japan and selected emerging economies, September 2012 - May 2013

(Index: September 2012 = 100)



Source: UN/DESA, based on data from the Bank for International Settlements.

Regional prospects

Developed economies

United States

The economy of the United States started 2013 with a rebound from the stagnation of the last quarter of 2012. The rebound was accompanied by substantial gains in equity prices, a notable recovery in the housing market and moderate employment growth. These improvements were largely driven by the ever-increasing purchases of long-term securities by the Federal Reserve Bank (Fed), as well as Congress's agreement to maintain income tax rates for a majority of households. However, the automatic government spending cuts, which began in March 2013, are expected to weigh on economic activity over the rest of the year, restraining the fledgling recovery in private consumption and business investment. Meanwhile, external demand from major trade partners is expected to remain lacklustre. On the positive side, continued support is expected from the Fed, which committed itself to maintain an extremely accommodative monetary stance as long as the unemployment rate remains above 6.5 per cent and the projected inflation rate is not above 2.5 per cent. In the outlook, GDP growth is forecast to be 1.9 per cent in 2013, lower than the 2.2 per cent of 2012. The process of financial deleveraging is expected to ease in the coming years, which may provide improved lending conditions as the basis for stronger consumption spending, with GDP projected to grow by 2.6 in 2014. However, uncertainties about forthcoming policy decisions on the measures to replace the sequestration and strengthen long-run fiscal sustainability represent a moderate downside risk.

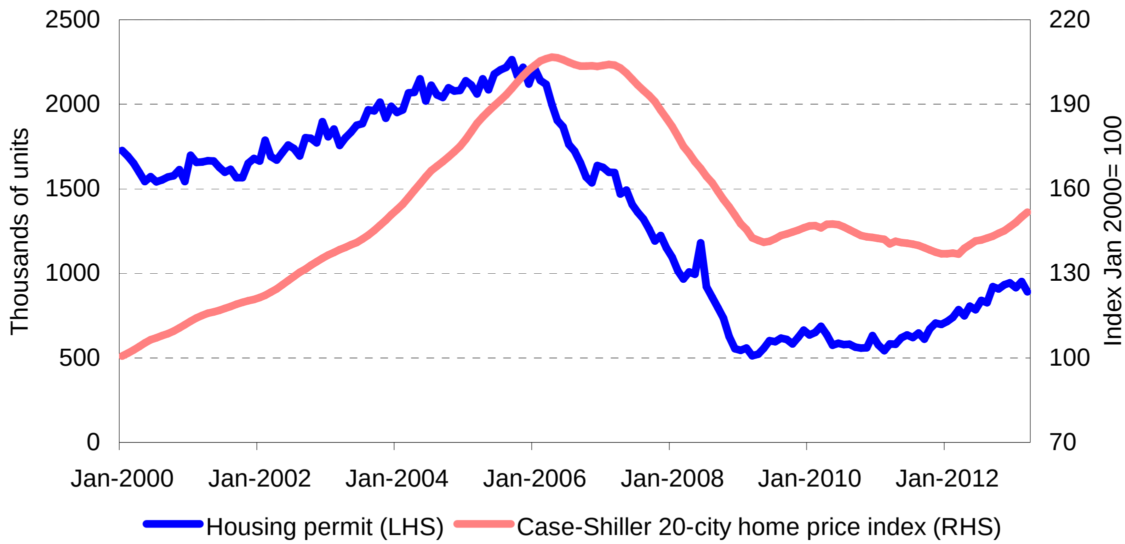
A positive development in the United States is the recovery in the housing sector since 2011, when construction activity for residential housing started to warm up after a five year slump. In 2012, residential fixed investment grew by 12 per cent from the previous year, contributing significantly to GDP growth. It was the first time since 2006 that residential investment did not drag down GDP. Double-digit growth in residential investment is projected in 2013-14. At the same time, new home sales increased rapidly in early 2013, growing by about 20 per cent from one year ago. The major indices for house prices, including the Standard & Poor's / Case-Shiller home price index, the Federal Housing Finance Agency house price index, and the Census Bureau average sale price, registered noticeable increases from the previous year (see figure 3). The recovery in the housing market has also improved household balance sheets. According to the flow-of-funds data from the Federal Reserve, the value of real estate for household and non-profit organizations had recovered by 8.9 per cent from the recent trough to the end of 2012. The ratio of outstanding mortgages to the value of real estate has declined to 47.4 per cent from the peak of 56.0 per cent.

Another positive sign has been a steady, though moderate, recovery in nonfarm payroll employment. After adding 2.2 million jobs in 2012, payroll employment continued to increase in early 2013. The unemployment rate declined to 7.6 per cent in March, its lowest level since December 2008. However, the labour market is far from a full recovery, with total employment still below its 2007 level. While the labour force participation rate remains at the low level of 63.5 per cent, the ratio of the long-term unemployed (without a job for 27 weeks or longer) to total unemployed stands near a record high of about 40 per cent. This is about 15 percentage points higher than the peak of any other post-World War II recession. According to some studies, the extremely high ratio of long-term unemployed is not due to any structural changes in the labour market, but rather to the depth of the latest recession. These studies suggest that recent unemployment remains largely cyclical rather than structural: neither industrial nor demographic shifts nor a mismatch of skills is behind the high level of unemployment. Industries that contributed much to the increase in unemployment during 2007-2009 were the same that have increased employment in the recovery, and no shift has been identified in employment across industries. In the outlook, the unemployment rate is expected to decline gradually to 7 per cent in 2014.

Figure 3

United States: Housing permits and prices (seasonally adjusted), January 2000 – March 2013

(Index: Jan 2000 = 100; and thousands of units)



Source: UN/DESA based on United States Bureau of Census and S&P Dow Jones Indices.

Since late 2012, the Fed has strengthened its policy stance further mainly through two channels. First, through communication - the Fed has made its forward guidance regarding the anticipated path of the federal funds rate more explicit, indicating that the rate will remain at the current exceptionally low level as long as the unemployment rate remains above 6.5 per cent, and the projected inflation rate for the next one to two years is not above 2.5 per cent. Second, through its balance sheet - the Fed adjusted the size of its large–scale asset purchases (LSAP) in January 2013 by adding $45 billion in long-term Treasury securities to the original $40 billion of agency mortgage backed securities, totalling $85 billion per month. These measures seem to have contributed to the significant rise in equity prices and some improvement in the housing sector. In the outlook, monetary policy is expected to remain extremely accommodative, with the federal funds rate staying in the near-zero range and a gradual phase-out of the LSAP by the end of 2014.

By contrast, fiscal policy is expected to remain on a tightening trend and political uncertainties remain over the specific form of fiscal measures. The year 2013 started with a positive note, as the US Congress passed a new bill shortly after the expiration of all temporary tax relief programs to keep income tax rates for 99 per cent of families at 2012 levels, although the temporary 2 percentage point reduction in payroll taxes was phased out. However, as Congress failed to agree on how to reduce the government deficit in the next decade, across-the-board automatic spending cuts (sequestration) were activated in March 2013, totalling $1.2 trillion over the next nine years. The sequestration takes the form of equal cuts for defence and non-defence programmes. Although the act exempts Social Security, Medicaid and many other mandatory programmes from sequestration, it will result in cuts to education, public health, defence, and a number of other social programmes. For the remainder of 2013, cuts of $85 billion are estimated. In the outlook, it is assumed that the sequestration will be replaced at the end of the fiscal year (September 2013) by a new agreement that combines some tax increases and lower spending cuts than in the sequestration. Real government spending is expected to decline by 5 per cent in 2013 and to remain flat in 2014. Uncertainties remain over the extension of the public debt ceiling, which already hit the limit of $16 trillion at the end of 2012.

In the outlook, business investment is expected to grow at a moderate pace of about 5 per cent in 2013 and 6.5 per cent in 2014. Household consumption is expected to increase at a pace of 2-2.5 per cent, while inflation, measured by the headline consumer price index (CPI), will stay below 2 per cent. After a sharp fall in the last quarter of 2012, exports are expected to grow at only 2.5 per cent in 2013 and by 5 per cent in 2014. Imports will increase at a similar pace. Meanwhile, the current account deficit is estimated to narrow further to 2.7 per cent of GDP in 2013.

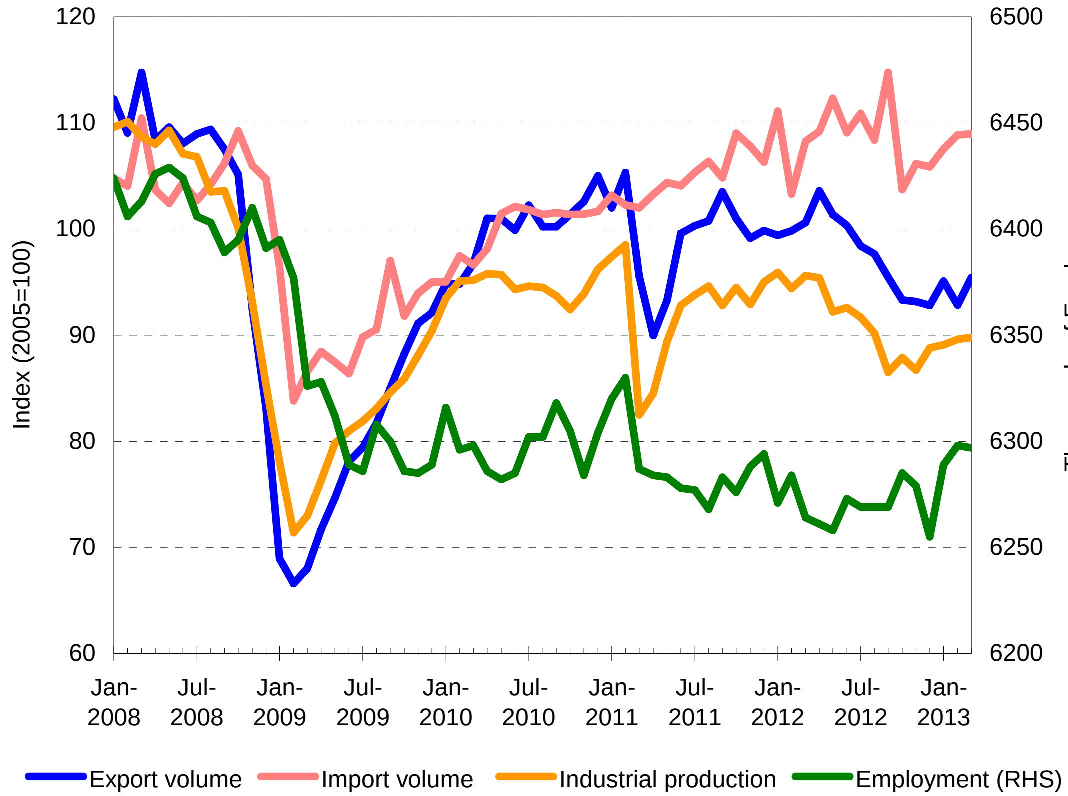
In Canada, economic activity decelerated more than expected in the second half of 2012 and should remain subdued in 2013, with growth dropping from 1.9 per cent in 2012 to 1.5 per cent in 2013, before strengthening slightly to 2.4 per cent in 2014. Business investment and exports, which decelerated sharply in late 2012, are expected to recover moderately, with uncertainty remaining particularly in external demand. While household spending will continue to see moderate growth, investment in the housing sector is expected to cool down from the high levels of last year. Government spending has been declining and is expected to be flat in the outlook. The unemployment rate is expected to stay around 7.2 per cent, and the inflation rate will remain below 2 per cent. The Bank of Canada is expected to maintain its key policy rate at the current level of 1 per cent until mid-2014.

Japan

In Japan, economic output grew by 2.0 per cent in 2012 after a contraction of 0.6 per cent in 2011 caused by the earthquake and tsunami of March 2011. Nevertheless, the profile for recovery was not smooth over the course of 2012. In the first quarter, GDP managed to grow at an annualized rate of 6.1 per cent from the previous one; it then declined for two consecutive quarters before regaining stability in the fourth quarter. This mid-year slump was triggered by a decline in non-residential investment and exports. Weak demand for output from both domestic and foreign markets and persistent deflation caused the sharp drop in investment, while weakened external demand, especially from Europe, and the elevated value of the Japanese yen caused exports to diminish (see Figure 4).

The new Government introduced a policy package in early 2013 which consisted of both fiscal stimulus and monetary easing. Assuming that these policy actions are as effective as planned, it is predicted that the Japanese economy will grow by 1.3 per cent and 1.6 per cent in 2013 and 2014, respectively. In June 2013, the Japanese Government is expected to introduce another package targeting structural reform, which may have positive effect on growth, especially in the medium-run.

Figure 4
Japan's industrial sector: production, exports, imports and employment (seasonally adjusted)



Source: UN/DESA based on data from the Bank of Japan and the Ministry of Economy, Trade and Industry of Japan.

The monetary element of the stimulus package was the "Quantitative and Qualitative Monetary Easing" (QQME) announced by the Bank of Japan (BOJ) on 4 April 2013. The "quantitative" part refers to increasing the monetary base - the new operating target for monetary policy - at an annual pace of 60-70 trillion yen via the purchase of Japanese Government Bonds (JGB) and other financial securities. The target is to double the monetary base from the end-of-2012 level of 138 trillion yen (about 29 per cent of nominal GDP for 2012) by the end of 2014. The BOJ plans to increase its net holdings of JGB by 50 trillion yen per year. The "qualitative" part refers to the plan to expand the target of bond purchases to JGB with longer time to maturity, including 40-year bonds. The average maturity of JGB held by the BOJ will increase to 7 years from the initial level of less than 3 years. It also refers to the inclusion of exchange-traded funds (ETF) and Japanese real estate investment trusts (REIT) within the purchase target. Through these actions, the BOJ expects to bring down the yields for longer-term securities and to increase inflation expectations of consumers and investors. These efforts are all designed with the aim of reaching the ultimate target of increasing the annual CPI inflation rate to 2 per cent within the next two years. While the initial response to the package on financial markets was positive, the move away from the purchase of shorter-term JGBs has pushed up the yields for that segment of JGB. In Japan, the prime lending rate charged by banks is anchored on the yields for shorter-term JGBs. If the prime lending rate increases noticeably, then the target for promoting investment may be partially offset.

The fiscal element of the Japanese Government's stimulus package is in the form of a supplemental budget for fiscal year 2012 which ended in March 2013. The supplemental budget increased the central government outlay by 10.3 trillion yen, reversing the small-scale tightening introduced by the previous Government. The increased expenditures will be used to improve the earthquake-resistance for infrastructure and buildings and to expand growth-inducing initiatives. Although the supplemental budget was adopted just one month before the end of fiscal year 2012, it is assumed that the increased budget will be transferred into the next fiscal year. As a result, real government consumption is projected to continue expanding over the outlook period, although the pace will slow down in 2014. On the revenue side, the consumption tax rate is scheduled to increase from the current level of 5 per cent to 8 per cent in April 2014 and further up to 10 per cent in October 2015. Although this hike in the consumption tax rate could be removed under very dire economic circumstances, the assumption is that it will be implemented as planned.

Employment is expected to grow very slowly due to the projection for mild GDP growth. On the other hand, the labour force is expected to continue declining at a slow pace owing to the decline in the working-age population and the almost-flat labour participation ratio. Assuming no major changes in the structure of the labour market, the average unemployment rate is predicted to decline from 4.4 per cent in 2012 to 3.7 per cent in 2014.

On a national account basis (that is, using the GDP deflator) Japan has experienced deflation for 15 consecutive years since 1998. The extent of the deflation has been declining over the past few years. Nevertheless, after the severe deterioration during the Great Recession, the consumer price index was still on a downward track in early 2013. The introduction of QQME is designed and expected to change this situation by increasing business and consumers' expectations of inflation. The surveys conducted in the first quarter provided some support to this assessment. In addition, the sharp depreciation of the Japanese yen has the potential to increase the prices of imported items included in the CPI basket. The headline CPI inflation rate is projected to start to turn positive in 2013 and reach 0.3 per cent for the whole year. In 2014, the inflation rate is forecast to increase to 1.4 per cent, partially as a result of the hike in the consumption tax rate.

After the Great Recession, the export volume of Japan has not been able to regain its pre-crisis level. In addition to weakened import demand from other developed countries and the damage caused by the natural disasters at home and in Thailand, the appreciation of the Japanese yen has also hampered export growth. From mid-2007 to mid-2012, the yen's role as a safe-haven has pushed up its value against the United States dollar by 56 per cent (52 per cent on a trade-weighted base, according to the IMF). However, over the summer of 2012, the perception that a new Japanese Government would possibly adopt a different monetary policy stance, started to proliferate in the financial market and the yen's exchange rate started to decline vis-à-vis the dollar and many other currencies. This trend has been sustained by certain statements made by Japanese politicians and was further enforced by the announcement of QQME in April 2013. From mid-September 2012 to April 2013, the yen depreciated by 22 per cent vis-à-vis the dollar. For the outlook, the baseline assumption is that the yen will remain close to or slightly above the current level (as of May 2013) in the coming two years. On this basis, it is projected that real exports will expand by more than 3 per cent per year in both 2013 and 2014; import volume will continue growing but at a pace 2 percentage points lower than in 2012 in both years. The balance of trade in merchandise will remain in deficit over the outlook period, but will stop dragging down GDP growth in 2014. The factor income generated by Japan's holding of external assets is expected to be enough to compensate for the deficit in the balance of goods and services and keep the current account balance positive, although at a much lower level than prior to the crisis.

The Australian economy managed to grow by 3.6 per cent in 2012, more than one percentage point higher than in the previous few years. The resumption of investment in the mining sector and the expansion of exports were the main reasons for this improvement. In the outlook, the pace of export growth is projected to remain solid, but investment in the mining sector is expected to slow down gradually, partially due to weakened international prices for Australia's major mining products. Meanwhile, growth in government consumption and public investment will also be lower, due to concerns about the fiscal balance. The GDP growth rate is expected to be 2.6 per cent in 2013 and 3.1 per cent in 2014. On 7 May 2013, the Reserve Bank of Australia (RBA, the central bank) decided to cut its policy rate by 25 basis points to 2.75 per cent, the seventh cut since November 2011. The statement from the RBA indicated that the slowdown of investment in the natural resources sector that is expected for 2013 warrants lower interest rates, which could also help other sectors.

In New Zealand, reconstruction for the Canterbury region after the earthquakes in 2010 and 2011 will continue and sustain fixed investment at an elevated level over the outlook period. Given that half of New Zealand's exports are food products, which are gaining popularity in the Asian market, export growth is predicted to remain strong. Government consumption is expected to grow only mildly due to concerns over maintaining fiscal balance. The GDP growth rate is expected to be 2.2 per cent in 2013 and 2.5 per cent in 2014. As in Australia, the New Zealand dollar has remained at an elevated level against the United States dollar after the Great Recession. In May of 2013, the Reserve Bank of New Zealand (RBNZ, the central bank), disclosed that it had intervened in the foreign exchange market in recent weeks. The RBNZ is assumed to have intervened directly instead of lowering its policy rate due to concerns about overheating in the housing market.

Western Europe

Western Europe remains mired in either recession or at best extremely low growth. Economic activity fell sharply in most countries in the fourth quarter of 2012, and despite an improvement in confidence in the early part of 2013 GDP is estimated to have declined for most countries in the first quarter of 2013 as well. While activity is expected to pick up in the second half of the year, the weak starting point and low momentum is expected to lead to yet another year of weak or negative growth. In the euro area, GDP is expected to decline by 0.3 per cent in 2013 after falling by 0.7 per cent in 2012. Only a small increase of 1.3 per cent is expected for 2014. While growth is generally weak, there remains considerable diversity of performance. Among the large economies, Germany is expected to grow by 0.6 per cent in 2013, while the United Kingdom will grow by 0.7 per cent. France is projected to register near zero growth, and Italy and Spain are expected to contract by 0.6 and 1.8 per cent, respectively. The crisis countries (except Ireland) are expected to experience far worse contractions.

Growth is held back by a number of factors, including fiscal austerity programs in many countries in the region, fragile banking systems, confidence sapping contagion effects from the sovereign debt crisis, and low extra-regional and exceptionally low intra-regional demand. In the crisis countries, fiscal austerity programs and bank financing conditions that are much tighter than elsewhere in the region are key constraints, but are also coupled with structural problems such as a lack of competitiveness, inflexible labour markets, and institutional deficiencies in public administration. The toxic feedback loop between weak sovereigns and banks remains active as does the loop between austerity, low growth, missed fiscal targets, and further austerity.

Evidence from high frequency data and short term indicators is not encouraging. After the ECB announced its OMT policy in September 2012 tensions in the euro area receded substantially as evidenced by a sharp decline in sovereign bond yield differentials, rises in equity markets and improvements in consumer and business confidence. The European Commission's Economic Sentiment Index increased for five months in a row, with similar behaviour in a number of country-level surveys. But in most cases the indices remained at low levels, consistent with at best stagnation of activity, and hard data, such as industrial production, construction activity and retail sales showed no evidence of a convincing turn-around. After the inconclusive election in Italy and more recently the crisis in Cyprus, confidence surveys reversed direction and have now declined for several months, but so far sovereign bond markets have remained fairly calm.

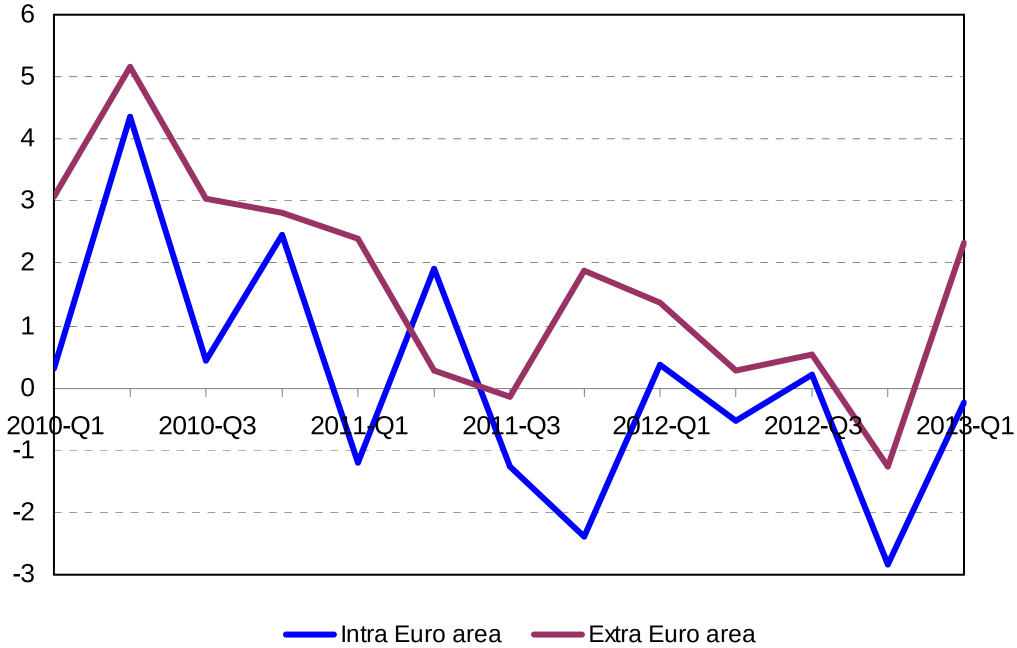
Consumption expenditure is weak and is expected to remain so in the outlook, but in some countries it continues to provide important support. Austerity programs and weak labour markets, which vary in intensity across the region, explain this pattern. Changes in consumer confidence have tended to follow the changes in uncertainty stemming from the ebbs and flows of the euro area crisis, and have been a main channel of contagion across the region. Investment expenditure is a major weak spot with little prospect for a sustained upturn given weak demand, elevated uncertainty, and exceptionally tight funding conditions in the crisis countries. Demand is weak, industrial confidence is set back with each new incident in the crisis, and capacity utilization remains low by historical standards. Bank credit standards continue to tighten. Funding conditions vary tremendously across the region, however with interest rates on loans, particularly to SME's, orders of magnitude higher in the crisis countries. Housing investment remains a major drag on activity in some countries, particularly those that experienced a housing bubble and subsequent collapse, such as Spain and the United Kingdom.

Export volume growth remains low (see figure 5). In the euro area it is projected at only 2.4 per cent in 2013, down from 2.7 per cent in 2012, with a mild pick-up to 4.6 per cent forecast for 2014. Extremely weak intra-regional demand is a key factor as well the slowing of extra-regional demand, particularly from East Asia. The latter had been an important source of export growth for countries specializing in capital goods. Import demand is similarly weak given the recessionary climate in the region, expected to be only 1.3 per cent in 2013 rising to 3.9 per cent in 2014. In the euro area, the appreciation of the euro in the early part of 2013 further dampens exports, but lacklustre demand is currently the key driving force.

With such low growth, unemployment rates continue to increase across the region. In the euro area it is expected to increase from 11.9 per cent of the labour force in 2012 to 12.7 per cent in 2013. Given the gradual pickup envisaged in the forecast, unemployment will peak in 2014 and start receding, with the full year average forecast at 12.8 per cent. Again there is significant diversity across the region with unemployment in 2013 expected to reach more than 28 per cent more than 27 per cent in Spain and close to 18 per cent in Portugal. At the other extreme are Austria and Germany with estimated rates of 4.8 and 6.9 per cent respectively in 2013.

Headline inflation remains subdued. In the euro area it averaged 2.4 per cent in 2012, boosted mostly by higher oil prices, while core inflation (abstracting from energy, food, alcohol and tobacco) ran well below 2 per cent. Inflation is expected to decelerate to 1.6 per cent in 2013 and slow further to 1.5 per cent in 2014. Given the weak growth profile, the large output gap will continue to exert downward pressure on prices going forward, while energy and food prices are assumed to remain contained.

Figure 5
Quarter-over-quarter change of Euro area export volume: 2010Q1 - 2013Q1
(Percentage change)



Source: UN/DESA based on data from EuroStat.

Fiscal policy remains tight across the region, a consequence of the large deterioration of fiscal positions following the great recession. This deterioration was of such magnitude that a large number of countries fell under the Excessive Deficit Procedure, which requires consolidations of at least 0.5 per cent of GDP per annum. At the euro area level, the deficit to GDP ratio was cut from 4.2 per cent in 2011 to 3.5 per cent in 2012 and is expected to decline further, to below 3 per cent in 2013. These numbers mask wide divergences between individual country positions, with the crisis countries being subject to very stringent consolidation programs. It is assumed that fiscal policy in the region will continue to be focused on reducing fiscal imbalances. The debt crisis countries are assumed to continue their adjustment programs, but the time-table for achieving targets will in some cases be extended, and no country will ask for formal assistance, under the European Stability Mechanism. At the start of 2013, the euro area's "fiscal compact" entered into force, as it was ratified by the twelfth country (Finland). Signatories are required to introduce laws limiting their structural government budget deficits to less than 0.5 per cent of GDP (or less than 1 per cent of GDP if their debt/GDP ratio is "significantly below 60 per cent"). The implication is that a loosening of fiscal policy over the next few years is highly unlikely.

Conventional monetary policies have taken a secondary role to unconventional policies, since policy interest rates were brought down to near zero during the great recession. But in May, the European Central Bank (ECB) cut its main refinancing rate by a quarter of a percentage point to 0.5 per cent. It also reduced its marginal lending rate by 50 basis points to 1 per cent, but kept its deposit facility rate at zero. The corridor between these two rates thus narrowed to 100 basis points – a level at which it had been only briefly during the great recession. The ECB avoided experimenting with a negative interest for the deposit facility.

Unconventional policies have been the main policy tool used to combat the effects of the sovereign debt crisis. Measures include refinancing operations with unlimited supply of liquidity (such as the two large scale long-term refinancing operations in December 2011 and February 2012), provision of foreign currency liquidity, purchases of covered bonds and purchases of sovereign debt in secondary markets. As a result, the ECB's balance sheet has expanded by more than 1 trillion euro to a total of about 3 trillion euro. In September 2012, the ECB introduced the "Outright Monetary Transactions" (OMT) facility, whereby it would make potentially unlimited purchases of selected country bonds to reduce their yields, if the country formally requested assistance and accepted conditionality. These purchases would be fully sterilized, and would therefore not change the size of the bank's balance sheet. Over the past few months the balance sheet has actually shrunk as some banks have begun to repay their loans. Despite the fact that no country has so far requested this assistance, the initiative and particularly its open-ended nature, has cooled tensions significantly, with bond yields for Italy, Portugal and Spain dropping significantly.

In the outlook, it is assumed that the ECB will not cut its main policy rates further and in particular not introduce a negative deposit rate. For unconventional policies, it is assumed that the OMT will remain in place throughout the forecast period, and that this will keep government bond yields within appropriate bounds. No new unconventional policies will be undertaken, but the existing refinancing operations will continue at full scale. The balance sheet will therefore change according to the banking sector's needs. Risks continue to be weighted to the downside. The sovereign debt crisis could flare up impacting on confidence, and could lead to renewed turmoil in sovereign debt markets and test the ECB's new OMT policy. Vulnerable banks could become insolvent forcing more government bailouts and leading to unsustainable government positions. On the positive side, external demand may pick up earlier and with more vigour than anticipated, giving a boost to exports and investment. More convincing implementation of already announced policy measures may ease tensions in the region.

The New EU Member States

Contrary to earlier expectations, a stable economic recovery in the new EU member States from Eastern Europe is unlikely to materialize in 2013, although activity may pick up in the second half of the year. In 2012, economic growth in all of the new EU members slowed, with three of them - the Czech Republic, Hungary and Slovenia - entering a recession caused by feeble external and domestic demand. As both the external and domestic environment still do not provide a favourable background for returning to a sustainable growth track, most of the new EU members are expected to register only marginally higher growth in 2013. Slovenia's economy may even shrink further. The protracted weakness in the euro area is curbing exports of the new EU members and FDI inflows into the region. Although the ECB's liquidity measures and the overall abundant global liquidity mitigated pressure on the parent banks from the EU-15 (which provide a large share of the lending in the region through local subsidiaries), these banks still continue cross-border deleveraging to strengthen their capital adequacy ratios in accordance with the new EU banking rules, constraining credit lines to the new EU members and also to some extent affecting FDI flows.

In most countries of the region, domestic demand remains subdued owing to weak labour markets, stagnant real wages and ongoing fiscal austerity. Business and consumer sentiment in the region have yet to rebound despite some signs of improvement in the first quarter of 2013. Low capacity utilization rates, together with tight corporate lending standards, are deterring private investment. In several countries, domestic demand may contract in 2013. The Baltic States are the exception, where domestic demand has strengthened along with improved labour markets. Economic activity in the region may gain some strength in the second half of 2013, provided that growth in the EU-15 recovers and monetary easing measures in Central Europe eventually lead to increased credit flows to businesses and households.

Growth of the aggregate GDP of the new EU members is projected to accelerate from 0.8 per cent in 2012 to 1.1 per cent in 2013 and 2.2 per cent in 2014 as import demand in the euro area moderately recovers and domestic demand improves. If the attitude towards fiscal consolidation plans for 2014-2015 softens, domestic demand may recover at a faster speed. Growth in the biggest economy of the region, Poland, drastically slowed to slightly above 2 per cent in 2012 and is expected to decelerate further to 2 per cent in 2013, as the country’s large infrastructure projects are completed and domestic demand remains fragile. For the smaller, export-oriented economies in Central Europe, mediocre growth rates are expected in 2013, while growth is expected to remain low in Bulgaria and Romania. The economies of the Baltic States may expand at around 3 per cent. Some of the small economies among the new EU members, such as Slovakia, succeeded in diversifying their export markets, in particular by increasing sales to China. This explains Slovakia’s relatively better economic performance in 2012, compared with the Czech Republic. Some sectors in Central Europe, such as the automotive industry, continued to attract FDI inflows in 2012.

In the second half of 2012, most of the new EU members were able to access financial markets at very low costs due to credible fiscal policies and more a favourable attitude of investors towards emerging markets. In early 2013, many of them enjoyed record low borrowing costs. Slovenia was able to place $3.5 billion worth of bonds in May 2013, despite its credit rating being downgraded to “junk” by the Moody’s rating agency and worries about the state of the country’s banking sector.

Labour markets in 2012 registered noticeable improvement in the Baltic States, as Estonia, Latvia, and Lithuania recorded significant declines in their unemployment rates, accompanied by increases in employment. In early 2013, the labour market trends in those countries remained largely favourable. In the Czech Republic and Poland, however, unemployment rates have increased in early 2013 and the near-term labour market outlook in these economies remains unfavourable, with unemployment expected to decline only in the medium-term. Furthermore, unemployment in the region is largely structural, reflecting skill mismatches and likely affecting potential output in the longer run. As the Governments possess limited fiscal policy space, they do not have many policy options to address those structural mismatches. Policy actions are generally limited to tightening benefits in order to create incentives to work and introducing public work programs.

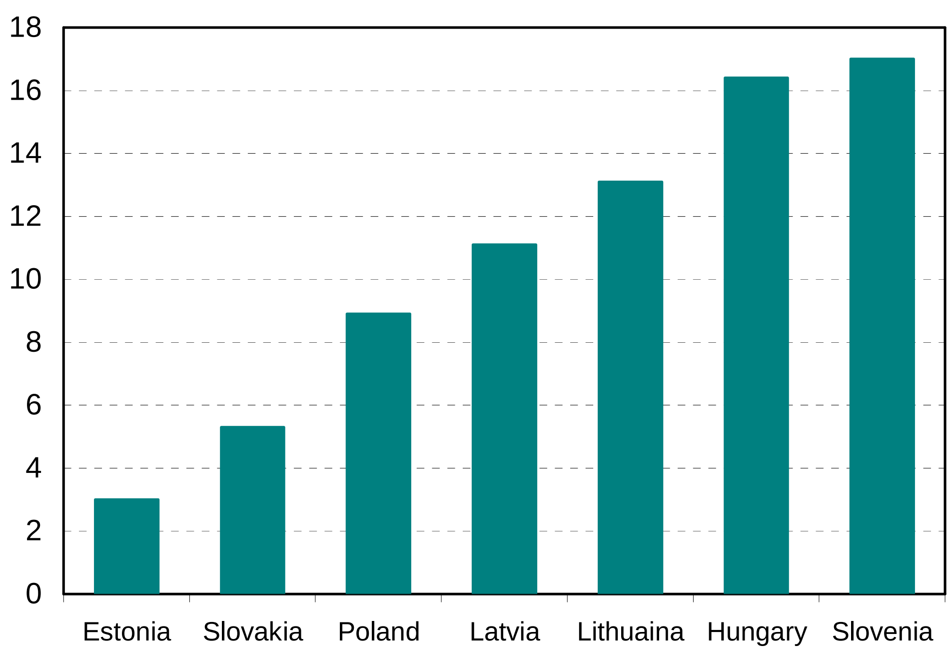
Inflationary pressures in the new EU members intensified in the second half of 2012, following a spike in food and energy prices, but were contained in early 2013. The slowdown in inflation reflects subsiding food price pressures, fragile domestic demand, conservative fiscal spending and stagnant labour markets. In early 2013, annual inflation declined to 1 per cent in Poland, and price developments triggered fears of deflation in the Czech Republic. Inflation remained, however, higher in Romania, at over 5 per cent, exceeding the Central Bank’s inflation target. In most countries of the region, annual consumer price inflation is expected to stay in the low single digits, between 1 and 3 per cent.

Monetary policies in the region are supportive of growth and are expected to remain so in the forecast period. Estonia, Slovakia and Slovenia are members of the euro area and therefore follow the policies of the ECB, with its loose monetary stance. Among the countries with flexible currencies, policy interest rates were reduced to record lows in the Czech Republic, Hungary and Poland. The National Bank of Romania may also start a rate-cutting cycle later in the year. In the Czech Republic, the key policy rate was reduced to a near-zero level of 0.05 per cent, rendering the real interest rate negative. In addition, the Czech National Bank has signalled its readiness to intervene directly in the currency market to weaken the currency to support exports. The Hungarian National Bank, in addition to reducing policy rates, resorted to non-traditional measures, by allocating about $1.1 billion for loans to SME's through commercial banks. However, despite those measures, lending conditions remain tight and private credit has been slow to pick up. The share of non-performing loans is still relatively high, for example exceeding 14 per cent in Slovenia in 2012 (see figure 6).

Figure 6

Non-performing loans as a share of total loans in selected new EU Member States, 2012

(Percentage)



Source: UN/DESA based on data from European Bank for Reconstruction and Development.

In March 2013, Latvia requested permission from the European Commission to adopt the euro in January 2014, as the country has successfully met all euro area admission criteria. Adoption of the euro by Latvia will likely contribute to the stability of the banking sector and facilitate external debt repayment, due to the large share of euro-denominated loans in the economy.

Although global liquidity and investors' interest towards emerging markets facilitated access of the new EU members to capital markets and made it easier to refinance their public debt, fiscal policies mostly remain focused on austerity. In the majority of those countries, the respective budget deficits exceeded 3 per cent of GDP in 2012, breaching the EU's Stability and Growth Pact (SGP), and the Governments are committed to meeting the SGP's conditions in the medium–term. However, facing weaker than expected prospects for economic growth, a number of Governments in the region had to revise their convergence plans as well as the respective medium-term fiscal targets submitted to the European Commission and may consider softening the highly unpopular austerity measures. Several countries introduced investment-related tax breaks for businesses in 2013 and some may reduce indirect taxes in 2014. In Slovenia, where the three major banks face recapitalisation needs, the budget deficit may approach 10 per cent of GDP in 2013.

The impact of fiscal policy on growth should be less contractionary in 2014/15 than in 2012, as the toughest austerity measures, such as spending cuts or tax increases, have already been implemented. Most countries in the region nevertheless face the need for significant reforms of public finances to achieve long-term sustainability, as they face longer-term demographic challenges. The biggest risk in the short-term for the new EU members is the inability of the EU -15 to return to a sustainable growth path in the second half of 2013 and the lingering uncertainty over the EU-15's economic prospects in 2014. For some of the new EU members, this risk is amplified by domestic factors, such as the fragile situation in the Slovenian banking sector.

Economies in transition

Commonwealth of Independent States (CIS) and Georgia

Economic performance of the countries of the Commonwealth of Independent States and Georgia is expected to remain diverse in 2013. The aggregate GDP of the CIS and Georgia, which expanded by 3.5 per cent in 2012, will grow at a slightly lower rate of 3.2 per cent in 2013. Growth is forecast to accelerate to 3.9 per cent in 2014, assuming that improved global economic conditions lead to stronger demand for primary commodities, direct investment flows and business confidence in the region. However, this aggregate figure masks significant regional variations, with relatively low growth rates expected in the Russian Federation and in the European part of the CIS, and stronger growth rates in the Caucasus and in Central Asia.

Economic prospects of the major energy exporters in the region will remain closely linked to trends in international prices for primary commodities, especially oil and natural gas, underscoring the need for industrial diversification of those economies. Economic growth in the Russian Federation, which continues to have a significant impact on other economies of the CIS area through trade, investment and remittances, is expected to moderate further to 2.9 per cent in 2013, down from 3.4 per cent in 2012, as the external economic environment does not provide a favourable background. Domestic demand in the Russian Federation has also apparently weakened in late 2012 and early 2013. This reflects lower consumer and business confidence and the impact of relatively high inflation. As a result, the economy of the Russian Federation expanded by a mere 1.6 per cent year on year in the first quarter of 2013. Domestic demand, especially private consumption, still remains the major contributor to growth, as the labour market continues to be tight despite some deterioration at the end of 2012. The strength of consumer confidence and trends in real disposable income will therefore shape the economic outlook in the near term. If inflation slows in the second half of 2013, private consumption may strengthen. As the economy is already operating near full capacity, investment may also accelerate in 2013, strengthening the country's longer-term output prospects. However, as many public investment projects are completed, much will depend on the progress achieved in improving the business environment and the trends in corporate lending. More favourable weather conditions than in 2012 would improve the agricultural output in the second half of 2013. A possible reduction in the central bank's policy rate (provided that inflation slows) would feed into stronger consumer and corporate credit growth.

Growth is expected to remain weak in the European part of the CIS. The economy of Ukraine contracted in the first quarter of 2013 despite a good performance of the agricultural sector, as demand for its major exports, such as steel, was weak. Higher prices for Russian natural gas have also become a drag on the economy. Seeking to diversify its energy supplies, Ukraine imported natural gas at cheaper prices from the EU countries in early 2013, benefiting from the low industrial activity in the EU. It is unclear, however, if this option will be available in the future. The country faces significant needs to repay or refinance its foreign debt in 2013. Although abundant global liquidity facilitated access of the CIS countries to financial markets, Ukraine may still need balance of payment support from the IMF. Lower steel prices and the country's strong exposure to the EU will curb export revenues and GDP growth in 2013 is unlikely to exceed 1.5 per cent. The economy of Belarus has certain structural weaknesses, such as export concentration in energy-intensive products, and is expected to grow at around 2.7 per cent in 2013. Growth will be constrained by high inflation and the expected shift to a tighter fiscal policy later in the year, as the fiscal authorities are targeting a balanced budget, as well as by high interest rates. The more favourable external borrowing conditions meanwhile reduced the need for a loan from the IMF.

In the Caucasus, growth may accelerate somewhat in Azerbaijan, thanks to the increasing dynamism in its non-energy sector, which expanded at a double-digit rate in the first quarter of 2013. Oil production, however, is likely to decline further, before rebounding again in 2014-2015 as new oil fields come on stream. Significant financial buffers, such as the oil fund, cushion the economy from the impact of a possible downturn in the non-oil sector. The economy of Armenia saw a surprising acceleration of growth in 2012 to over 7 per cent and maintained the strong momentum in the first quarter of 2013. Growth may, however, slow marginally in 2013, as harvests return to normal. In Georgia, GDP growth is expected to continue at around 6 per cent.

The energy-exporters of Central Asia will continue to register high growth rates on the back of strong export revenues and fiscal spending on wages and infrastructure development. In Kazakhstan, growth may accelerate to around 6 per cent in 2013 thanks to the development of a new major offshore oil field in the Caspian Sea. Slower than anticipated growth in China and in the Russian Federation as well as a decline in metal prices pose risks for the country. Exports of natural gas should increase in Turkmenistan, and gas revenues will be used to modernize the economy and to upgrade rural infrastructure.

The economies of Armenia, Georgia, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan will continue to receive strong inflows of remittances sent by migrant workers, predominantly from the Russian Federation. This will support private consumption as well as the domestic construction and retail sectors. For some of these economies, remittance inflows are very important, in the case of Tajikistan exceeding 45 per cent of GDP.

Labour markets in the CIS area are expected to improve in 2013, but only gradually. In the Russian Federation, the unemployment rate fell to a historic low of 5.4 per cent in mid-2012, before increasing to 6 per cent in the first quarter of 2013. The rate is expected to decline gradually over the forecast horizon. In Kazakhstan, by contrast, the economy continues to generate new jobs steadily. For the smaller economies in the CIS, progress in the labour market conditions is slow, but seasonal migration of workers to the Russian Federation and, to a lesser extent, Kazakhstan contributes to lower unemployment rates. The large share of the informal sector in these economies complicates the correct assessment of the labour market situation, though.

Inflation in the CIS area exhibited divergent trends in 2012, ranging from a negative inflation rate in Georgia and near-zero inflation in Ukraine to double-digit inflation in Uzbekistan and around 60 per cent annual inflation in Belarus, triggered by massive currency depreciation (see figure 7). The outlook for inflation remains heterogeneous. In the Russian Federation, year-on-year inflation exceeded 7 per cent in early 2013, as food prices continued to climb and prices for certain utilities were increased; therefore it will be problematic to meet the central bank's annual inflation target of 5 to 6 per cent. Although the expected improvement in agricultural output should contribute to lower inflation later in the year, continuing increases in nominal wages and in regulated prices will likely slow the disinflation process. By contrast, the economy Ukraine experienced deflationary pressures at the end of 2012, as the Government managed to curb food prices and utility costs ahead of the parliamentary elections. In 2013, consumer price increases will depend substantially on the adjustments in the household gas price tariffs and on the exchange rate. Although the country was able to borrow in the financial markets to refinance its external debt, a devaluation of the domestic currency, which would spur inflation, cannot be ruled out. In Belarus, monetary policy has been loosened to counteract the weak economic performance. This may add to inflationary pressures and lead to further currency depreciation. Despite supplies of cheap oil from the Russian Federation, the annual inflation rate is unlikely to fall below 20 per cent. In the economies of Central Asia, strong growth in export revenues and public spending will be accompanied by 6 to 8 per cent annual inflation. Some government policies, in particular, the stable exchange rate versus the dollar and the continuing government subsidies for food and fuel in Turkmenistan, will have an anti-inflationary effect.

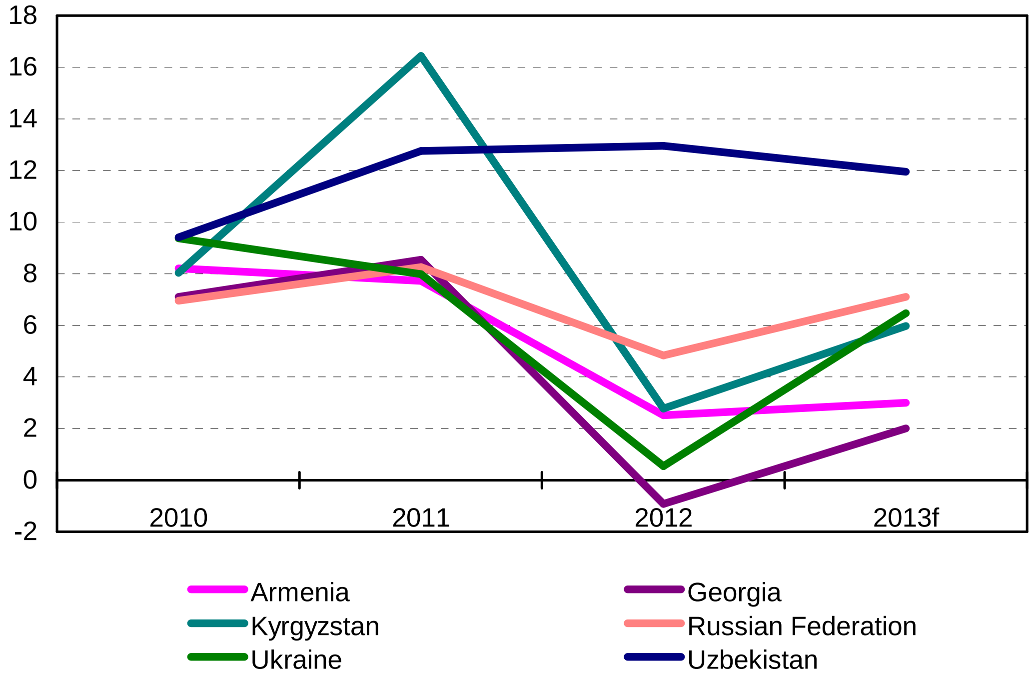
Fiscal policies of the CIS energy exporters should have a positive impact on economic growth in 2013. In the Russian Federation, public expenditures are expected to increase by 4.4 per cent, including raises in public-sector wages. The federal budget recorded a small deficit in 2012 (excluding oil and gas revenues, the deficit would exceed 10 per cent of GDP), and a deficit equal to 0.8 per cent of GDP is targeted for 2013. In order to meet the commitments in increasing wages, some spending cuts in public investment in infrastructure and education will be activated. The Government is implementing the fiscal rule linking public spending to the long-run average oil prices. In Kazakhstan, public revenues in 2013 will benefit from the beginning of exploitation of the major Kashagan oilfield in the Caspian Sea and from privatization proceeds, which will allow further increases in fiscal spending in 2014. In Azerbaijan, spending on infrastructure and social projects is expected to increase in the wake of the presidential elections. By contrast, among the major energy-importers, Ukraine is expected to consolidate public finances after the pre-electoral spending in 2012. In Belarus, where the government increased wages in the first quarter, more conservative fiscal spending is expected for the rest of the year, and the impact of fiscal policy is neutral at best.

On the monetary policy side, the Central Bank in the Russian Federation increased its policy interest rates in late 2012 in response to accelerating inflation. Provided that inflationary pressures weaken later in the year, the central bank will gain room for a gradual interest rate reduction in order to bolster domestic demand and economic activity. In Belarus, by contrast, monetary loosening continued in March in an attempt to counteract slow economic activity. Interest rates were also cut in February in Azerbaijan; however the impact of this decision on the real economy is expected to be limited due to the underdeveloped domestic debt market. In Kazakhstan, the relatively high inflation will prevent loosening monetary policy. In Ukraine, the Central Bank is committed to guarantee a stable exchange rate and regularly intervened in the currency market to support the currency. A large and uncontrolled devaluation would have serious balance sheet effects since a significant amount of consumer and business loans are denominated in foreign currencies. However, domestic currency devaluation, accompanied with a reduction in the interest rate, is still possible in 2013.

Figure 7

Consumer price inflation in selected countries of the CIS and in Georgia, 2010-2013

(Percentage)



Source: UN/DESA based on official data.

[f] Forecasts based on Project LINK.

The energy exporters of the CIS continued to record current account surpluses in 2012. The Russian Federation recorded a surplus equivalent to 4 per cent of GDP, which was nevertheless mirrored by a net capital outflow of $56.8 billion (equivalent to almost 3 per cent of GDP). Although the Russian banks drastically increased overseas borrowing and recorded a net inflow of capital equal to $23.6 billion in 2012, the non-financial sector saw a record high net outflow of $80.4 billion. Other energy exporters, like Azerbaijan and Kazakhstan, also continued to record current account surpluses and this trend should be sustained in the medium-term. Although Turkmenistan exported significant volumes of natural gas in 2012, large spending on imported equipment capped the country's current account surplus at around 3 per cent of GDP. Among the energy importers, the current account deficit widened sharply in Kyrgyzstan in 2012 as a result of falling gold sales and increased fuel imports and in Tajikistan due to declining aluminium sales. Ukraine registered a record current account deficit equivalent to 8.4 per cent of GDP in 2012 due to lower revenues from steel exports and higher prices for the Russian natural gas, which added to concerns over currency stability.

A sharp fall in international commodity prices remains the major short-term risk for the CIS area, together with the possibility of a protracted recession in the EU and a sharp slowdown in China. Some of the CIS economies, such as Ukraine, Kazakhstan and some of the smaller economies, are also facing domestic vulnerabilities related to the high share of non-performing loans in their banking systems.

South-Eastern Europe

The economies of South-Eastern Europe performed very poorly in 2012. Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Serbia entered a recession. Economic activity stagnated in Bosnia and Herzegovina, and in Albania, GDP increased by less than 2 per cent, following average growth of 6 per cent during the pre-crisis period. In 2013, the region is likely to see another year of meagre economic performance, against the backdrop of an unfavourable external environment and feeble domestic demand. The ongoing weakness in Greece, Italy and Slovenia, which are important export destinations and sources of FDI, cross-border capital flows and remittances for South-Eastern Europe, will continue to remain a drag on regional growth. Domestic demand, on the other hand, is constrained by high unemployment and stagnant wages, deleveraging by businesses and households, and a lack of bank lending, which continues to suppress private consumption and investment in the region. FDI inflows into South-Eastern Europe, which plummeted during the global recession, have not yet recovered to their pre-crisis levels. The countries of the region have very limited policy space, as they are trying to rebuild protective fiscal buffers, used during the crisis, and their monetary polices are constrained by formal and informal pegs to the euro.

The primary reason for the decline in GDP in several economies of South-Eastern Europe in 2012 was the fall in private consumption and investment. The continuing weakness in the region's labour markets, wage cuts as part of the austerity drive and rising inflation in the second half of 2012 eroded disposable incomes of households and led to falling private consumption. Despite efforts to jump-start new public investment projects and to allocate funds to private companies to invest in specific sectors, such as energy and tourism, progress in those areas was slow. Spare production capacity, in particular in Croatia, was another factor, deterring investment by the private sector. Consequently, real investment in Croatia declined by 4.6 per cent, the fourth annual decline in a row. Exports of goods grew only modestly or declined in 2012, while exports of services performed better. The tourism industry boomed in 2012, preventing an even deeper decline in GDP, in particular in Croatia and Montenegro.

Aggregate GDP of South-Eastern Europe, which contracted by 1.2 per cent in 2012, is expected to grow by only 0.9 per cent in 2013. Growth is projected to accelerate to a still meagre 1.9 per cent in 2014, provided the external environment improves and domestic investment shows more positive trends. The continuing stagnation has adversely affected employment prospects in the region. At the beginning of 2013, labour market conditions deteriorated in Croatia and Serbia, reflecting seasonal factors. In both countries, the registered unemployment rate exceeded 20 per cent, reaching 27 per cent in Serbia in March. Cyclical factors explain only part of the unemployment in South-Eastern Europe; a significant part of the unemployment is structural and requires long-term policy approaches.

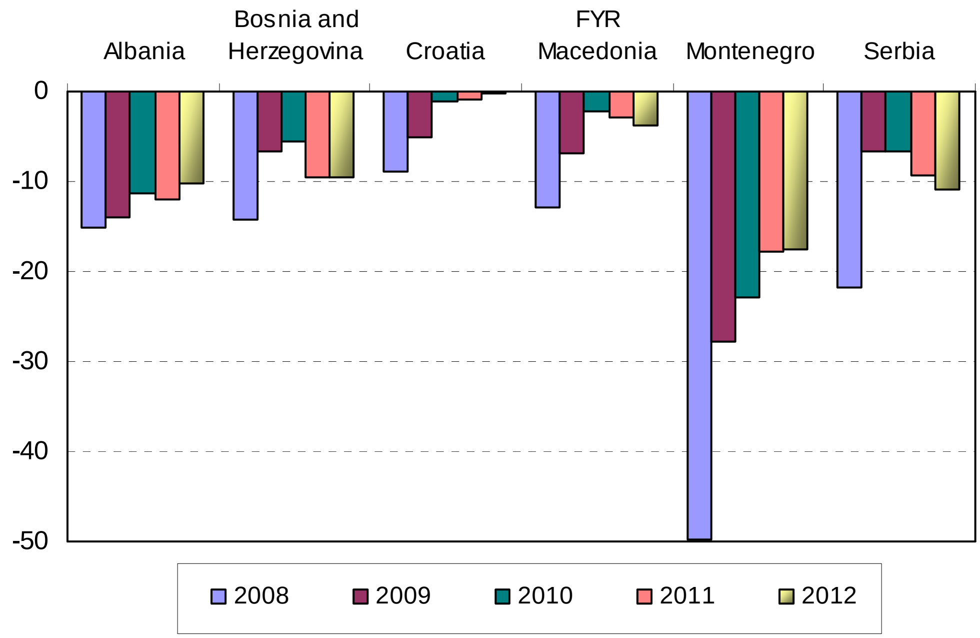
Price pressures, which intensified in the second half of 2012 as a result of a spike in food and energy prices, subsided in most of the region in early 2013, reflecting weak activity and lower commodity prices. Increases in indirect taxes and some administered prices had also contributed to inflation in 2012. In Croatia, liberalised prices for gas and electricity may add to inflation in 2013, while higher prices for utilities are expected to increase inflation in the former Yugoslav Republic of Macedonia. Nevertheless, slow nominal wage and credit growth should contain inflation in South-Eastern Europe, with the exception of Serbia, which has traditionally registered higher inflation rates than its neighbours. Inflation in Serbia is driven by rising food prices, increases in administered prices and high inflationary expectations. Annual inflation stood at double-digit levels in early 2013 –at 11.2 per cent in March- and is expected to exceed the target level of the National Bank of Serbia, averaging about 9 per cent in 2013. In the second half of the year, inflation in Serbia could slow if the harvest is favourable and the domestic currency continues to strengthen.

For most of South-Eastern Europe, fiscal consolidation remains a top priority, although the ratio of public debt to GDP in those countries is relatively low, even in comparison to the new EU member States. However, the currency composition of the debt and its maturity structure requires reduced budget deficits and increased protective fiscal buffers. External borrowing conditions for South-Eastern European countries are relatively favourable. In 2013, the Russian Federation agreed to provide a ten-year $500 billion loan to Serbia as budget support at a favourable interest rate; part of this loan (the second tranche) is however conditional on concluding a new deal with the IMF. There is a possibility that the loan will also be used to repay part of the Government’s foreign debt.

Many countries in South-Eastern Europe ran large current-account deficits before the global economic and financial crisis. The current account balances significantly improved in the aftermath of the crisis, as the collapse of domestic demand and difficulties in obtaining external finance put a squeeze on imports. Since 2010, the deficits have expanded again, but for most of the countries they are well below their pre-crisis levels (see figure 8) and should not pose a macroeconomic threat. Furthermore, Croatia almost eliminated the deficit in the current account in 2012, as a record number of tourists visited the country. Montenegro remains an exception, with the current account deficit reaching 17.9 per cent of GDP in 2012, despite a successful tourism season (helped by VAT concessions), as exports of aluminium and steel were weak.

In July 2013, Croatia will join the EU. The entry of Croatia to the EU could support higher levels of investment if the country is able to absorb additional EU funds through its administrative capacity and to co-finance EU-related projects. Serbia was granted an EU candidate country status in 2012 and in April 2013 the European Commission recommended establishing a date for starting the accession talks. The major risk for the region is the continuing weakness in the economies of major trading partners, but the region also faces risks related to the strong presence of the Greek banking sector.

Figure 8
Current account balances as a share of GDP in South-Eastern Europe, 2008-2012
(Percentage)



Source: UN/DESA based on data from the IMF.

Developing countries

Africa

Africa's GDP is expected to grow by 4.6 per cent this year and 5.1 per cent in 2014, which implies a very moderate downward revision by 0.2 percentage point for the current year from the forecasts of the beginning of 2013. This downward revision mainly reflects the negative impact of the economic slump in developed economies and, in particular, the euro area, on economic activity in Africa. The main drivers of growth remain, however, intact over the forecast horizon. These growth factors include further increases in output in the natural resource sector, which underpins fiscal expenditure, especially in infrastructure projects. Moreover, Africa's trade and investment ties with emerging and developing economies are expected to intensify further, in a continuation of projects such as the recently announced financing from China for a port and industrial zone in Tanzania. Across the continent, rising incomes and urbanisation are propelling increasing domestic demand, which at least in relative terms helps to reduce the exposure of the continent to external economic shocks. At the same time, increasing diversification, for example into services such as telecommunications as well as construction, will continue to create a relatively more solid growth profile.

North Africa continues to post generally slow growth owing to a combination of internal and external factors. Demand from main trading partners in Europe continues to be weak and the growth of tourist arrivals has slowed as well. In Morocco, growth is expected to be 3.6 per cent in 2013 as agricultural output is expected to rebound after the drought of 2012. Internal factors will continue to weigh on growth in Egypt as inflation, political turmoil, lack of foreign reserves, currency depreciation and subsidy cuts restrain the economy. Libya will continue to rely on recovery in the oil sector for its growth, which will continue to expand moderately, but security concerns are weighing on the rest of the economy and workers' strikes at various oil and gas facilities have caused some disruptions. A deal has finally been reached between Sudan and South Sudan to resume oil exports by South Sudan through Sudanese pipelines, which should provide a much needed boost for both economies. Oil taxes and fees are a critical part of government revenue for both countries. This should allow Sudan to introduce subsidy cuts, which have in the past led to protests, at a more measured pace. While growth was negative in Sudan in 2012 due to the lack of oil revenue, some of that shortfall was made up by a significant increase in the mining, processing and export of gold.

Growth looks to be relatively robust for much of East Africa owing to new oil and gas discoveries, increased domestic demand and greater regional trade and trade with other developing countries. The peaceful outcome of Kenyan elections so far appears to be poised to yield a peace-dividend. Investment that was held back prior to the elections in fear of post-election violence, as occurred in 2007, is expected to come back into the economy. This will benefit both Kenya's growth, which is projected at 5.5 per cent in 2013, but also neighbouring countries such as Uganda, whose trade flows to Kenyan ports. Ethiopian growth will continue to be strong, though somewhat lower, as investment in the agricultural sector continues to increase as part of the most recent 10 year plan. In addition, the completion of a number of large hydropower projects will help with both energy generation and foreign currency reserves as there are plans to sell power to downstream customers in surrounding countries. A recent pledge for $10 billion in investment by China as well as plans for a $14 billion LNG export facility will help to maintain growth in Tanzania at 7.0 per cent in 2013 and 7.1 per cent in 2014 despite falling gold prices and output. Rwanda continues to post strong growth numbers on the back of the telecom and financial services sectors as well as government spending. Growth will, however, be somewhat lower than last year, owing to cuts in aid from some donors that raised concerns over involvement with rebels in the Democratic Republic of the Congo (DRC).

Central and West Africa will see the strongest subregional growth profile. In Nigeria, while weaker external demand will weigh on economic activity, growth will remain solid at 6.6 per cent in 2013 and 7.2 per cent in 2014. The oil sector continues to play a major role, but expanding non-oil sectors such as services and construction will continue to underpin a move towards more diversification. The picture is similar in Ghana, where growth of around 7.5 per cent both in 2013 and in 2014 will be driven by a further expansion of the natural resources sector –through investments in gold mines and oil and gas production capacities- as well as a parallel expansion of the services and construction sectors. In Sierra Leone and Liberia, the investment needs implied by post-conflict situations will boost growth. However, in a number of countries, solid headline growth figures remain insufficient to achieve any measurable progress in raising living standards due to a lack of basic services and high population growth rates. In some countries, a lack of democratic structures is complicating the prospects for any notable improvement of living standards.

In Southern Africa, economic growth will remain solid. The growth forecast for South Africa for 2013 has been revised slightly downwards to 2.8 per cent on the back of a weaker outlook for external demand, which plays a crucial role for the mining and manufacturing sectors, as well as more constrained consumer demand in view of the high unemployment rate. Growth will accelerate to 3.8 per cent in 2014, but this will be due more to positive external factors than any significant jolt from domestic spending. In Angola, the completion of a major LNG project will boost growth in 2013 to 8.3 per cent, although the resulting higher-base effect will lead to somewhat lower growth of 5.8 per cent in 2014. As in a number of other countries, governance issues remain a major obstacle in Angola to achieving a more significant increase in overall living standards.

High unemployment rates, underemployment and low earnings will continue to be some of the severe labour market problems that plague the continent. With a relatively more educated populace, but a lack of appropriate employment opportunities, youth are continuing to struggle to find employment in a number of North African economies such as Egypt, Tunisia and Morocco. This comes on top of already high unemployment rates in Egypt and Tunisia driven by lasting sluggishness in the economies following the Arab Spring. Unemployment is an issue as well in East Africa, though at least employment-population ratios have maintained the same levels over the past few years despite high rates of population growth. Employment continues to be concentrated in the agricultural sector, along with a significant portion of the population working in the informal sector. Unemployment statistics are therefore an unreliable measure of the actual employment situation of much of the population. As growth remains relatively robust across the sub-region, employment opportunities are expected to expand.

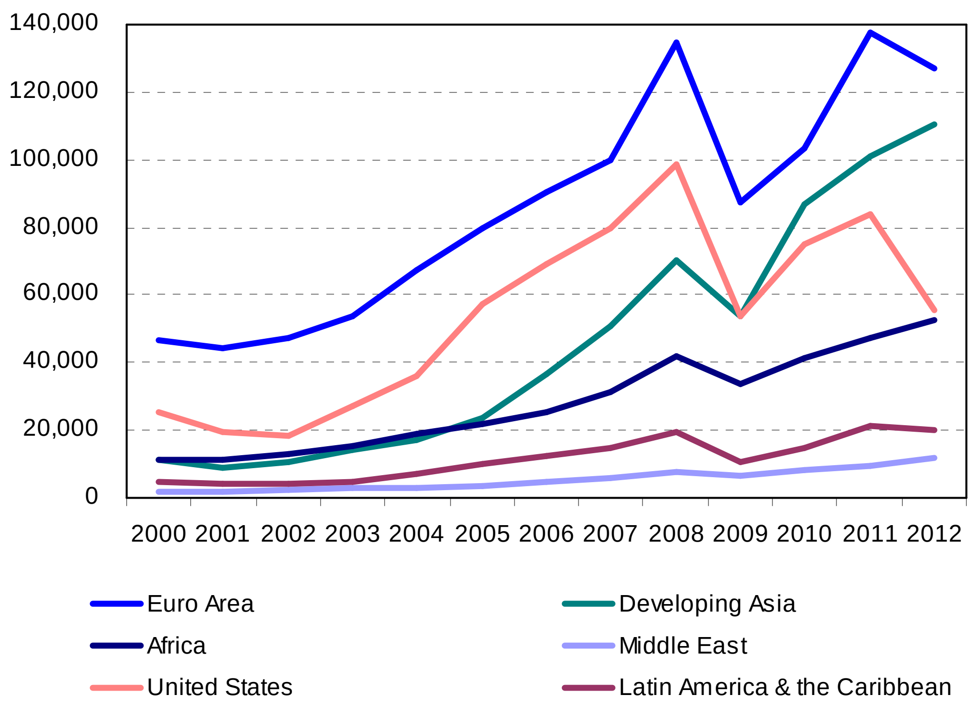
In Central, West and Southern Africa, one reason for the absence of a more dynamic labour demand has been the reliance on the primary sector, although the diversification trend in some economies such as Ghana and Nigeria into sectors such as telecommunications and construction is having a mitigating impact in this respect. In South Africa, the recorded unemployment rate will remain above 20 per cent due to the lack of significant external demand impulses and a skills mismatch. However, rising incomes and consumption will underpin a strengthening of the services sector, also promoting a more diverse employment base.

Inflation in Africa is forecast to moderate further, based on lower food prices and slightly moderating oil prices. However, this cannot mask the fact that in a number of countries, inflation remains stubbornly high. Inflation has eased across much of East Africa and is expected to remain moderate over the next year, provided there are no further shocks to the agricultural sector. While domestic inflation has come down somewhat, imported inflation remains an issue in a few countries such as Burundi, which has suffered from considerable currency depreciation over the past few years. Ethiopian inflation will continue to be driven by rising food prices, though this has come down significantly over the past 12 months. Inflation remains relatively low in most North African countries though it has picked up noticeably in Egypt, particularly in the crucial areas of food and fuel. This is driven both by currency depreciation as well as supply issues. Inflation appears to be one of the most significant problems in Sudan and South Sudan, where annual inflation in the first quarter of 2013 has been running at almost 48 per cent and 60 per cent, respectively.

Central and West Africa are forecast to see among the highest inflation rates in the region, averaging around 10.0 per cent in both 2013 and 2014. In both Nigeria and Ghana, strong fiscal spending and consumer demand will maintain the upward pressure on prices. However, in the Franc Zone, inflation will remain relatively low. Notably in Côte d'Ivoire, the normalisation of trading activities and a more stable political situation following the crisis in 2011 will keep inflation at 0.6 per cent in 2013. In Southern Africa, inflation will recede in South Africa due to more constrained domestic demand as well as in Zambia in light of fiscal tightening. By contrast, Mozambique will see an increase in inflation based on strong FDI inflows and an expansionary monetary policy stance. Among the highest inflation rates will occur in Malawi, where further exchange rate depreciation in the wake of the liberalisation of the currency regime will lead to an inflation rate of more than 20 per cent in 2013 and around 15 per cent in 2014.

Africa's exports to the euro area and the United States have seen a pronounced decrease in 2012, mainly reflecting the continuing weakness in developed economies. This left demand from developing Asia as well as exports to other African economies as the main driver of Africa's export performance (see figure 9). The persisting weakness, especially in the euro area, will continue to limit Africa's export growth in 2013. The underlying trend of increasing domestic demand, both from consumption and investment, especially in infrastructure, will propel import demand. This will result in greater pressure on external account balances across the region. Weaker trade with Europe will continue to weigh on North Africa, one of its main trading partners. Demand for oil and gas has proved relatively inelastic so Algeria and Libya have managed to hold up relatively well. Exports of food products, such as fish from Morocco and horticultural products from Kenya have also grown relatively rapidly despite the weakness in Europe. There are some signs of increased regional trade in East Africa, though a number of important East African Community (ECA) protocols that would ease cross-border flows have yet to be ratified. With a return to oil production, South Sudan's trade with neighbouring countries, particularly Rwanda could accelerate in the next few years. In Central and West Africa, both Ghana and Nigeria will see solid increases in imports in view of strong spending by consumers as well as investment in the resources sector and infrastructure. Meanwhile, in South Africa, the trade deficit will shrink due to a normalisation in mining exports after the strikes last year.

Figure 9
African exports to selected trading partners, 2000-2012
(Millions of dollars)



Source: UN/DESA based on IMF, Direction of Trade database.

Across the continent, the large shortcomings in economic and social development will continue to exert pressure regarding sustained public spending. The lack of infrastructure will use up significant public funds, although in several cases such as Ghana and Nigeria, fiscal policy will have to deal with less room for manoeuvring, implying sharper trade-offs, for example between increasing wages in the public sector or pursuing public infrastructure investment projects. Another major spending area will continue to be the need to provide at least some public welfare measures in view of otherwise absent welfare safety nets. On the revenue side, while solid prices for oil and other resources will underpin fiscal income flows, institutional shortcomings or simply a lack of institutional capacity will limit tax collection. At the same time, official development assistance (ODA) will remain under pressure given the fiscal austerity measures put in place in several major donor countries. One factor of uncertainty regarding fiscal policies is upcoming elections, for example in South Africa in 2014, which might lead to unforeseen spending initiatives without necessarily being tied to solid financing.

Subsidies, especially for food and fuel, remain a major fiscal policy challenge across the region. The situation is most stark in Egypt, where IMF conditionalities for a $4.8 billion loan rely on cuts in both of these areas. The fiscal deficit is projected to be 10.7 per cent of GDP for the fiscal year 2012-2013. Subsidy cuts will have significant impacts on a large percentage of population, particularly the poor. With national estimates of over 25 per cent of the population below the poverty line in 2011, many rely on subsidized bread. Subsidies have also pushed the fiscal deficit up to above 8 per cent in Morocco, though this is expected to ease somewhat in the coming years, both as the drought fades and some reform programs go into effect. Cuts to fuel subsidies in Tunisia are expected to bring the deficit down from 7.9 per cent of GDP in 2012 to around 5.1 per cent in 2013, but this caused significant popular anger and resulted in a pull-back on plans to also cut food subsidies.

Despite an overall moderating inflation trend in Africa, monetary policies will remain in tightening mode or at most adopt only a temporarily more accommodative stance. The reasons for this include strong fiscal spending as well as exchange rate depreciation, both of which will exert upward pressure on prices in several countries. Monetary policy will find room for a temporary, relative easing in South Africa, where inflation will remain below the official target, although the central bank is expected to shift towards a tighter policy stance towards the end of 2013 in order to push real interest rates into positive territory. By contrast, in Nigeria and Ghana, monetary policy will take a more cautious stance, also in view of sustained fiscal impulses for growth and the resulting upward pressure on inflation of this. Meanwhile, currency depreciation will be a major concern for monetary policy in a number of countries such as Malawi, Kenya, Burundi, Sudan and Egypt, although the seriousness of the situation varies. In Malawi, exchange rate depreciation will keep inflation above 20 per cent in 2013, with monetary policy expected to remain in a tightening mode with policy rates in a similar range in order to tackle the inflationary environment. Currency concerns will also remain a focus of the Central Bank of Egypt, which will continue to keep a tight lid on foreign exchange purchases. Egypt's foreign reserves have been falling significantly and the only prospect for an increase comes from IMF loans, although there has been a momentary reprieve owing to another transfer from Qatar, this time for $3 billion.

The region remains exposed to a number of risks and uncertainties. A more severe and broader global economic slowdown encompassing especially also emerging economies would hold the potential to inflict significant damage on the region's performance through a contraction in trade, tourism and remittances. Moreover, the fiscal problems in developed economies continue to create uncertainty regarding future ODA flows. In addition, unexpected adverse weather conditions that would negatively affect harvest yields pose another downside risk given the significant role of the agricultural sector in many economies. At the individual country level, a further deterioration of Egypt's fiscal position could result in weaker growth, continued political turmoil and possibly a spread of tensions to the surrounding region.

East Asia

Economic growth in East Asia is projected to pick up slightly in 2013 and 2014, following the marked slowdown over the past two years. The region's gross domestic product is forecast to expand by 6.1 per cent in 2013 and by 6.3 per cent in 2014, up from 5.9 per cent in 2012, but well below the 7.1 per cent recorded in 2011. The mild recovery is expected to be underpinned by robust growth in domestic demand and a gradual upturn in exports as conditions in developed economies improve. In most economies, private consumption and investment will expand at a solid pace, supported by stable labour market conditions, robust household income growth, accommodative monetary policies and subdued inflation. Fiscal policies will remain moderately expansionary and continue to provide support for growth.

The slowdown of East Asia's growth in 2012 can be mainly attributed to a marked downturn in China and in the region's higher-income economies, including Hong Kong Special Administrative Region of China, the Republic of Korea, Singapore and Taiwan Province of China. In China, full-year growth declined to 7.8 per cent in 2012, the slowest pace since 1999, as investment and exports weakened notably. China's slowdown also reflects a fundamental change in the Government's policy priorities towards more sustainable, balanced and equitable growth. In view of significant structural problems including overcapacities in many industries, high local Government debt, elevated property prices and soaring levels of environmental pollution, authorities likely prefer a shift to a lower growth trajectory over a new round of large-scale stimulus measures. On the basis of weaker-than-expected growth of 7.7 per cent (year on year) in the first quarter, China's full-year growth in 2013 is projected at 7.8 per cent, the same pace as in 2012. In 2014, China's economy is forecast to expand by 7.7 per cent.

The region's higher-income and strongly export-oriented economies saw growth drop sharply in 2012 owing to slowing export demand from China and developed economies and weaker capital spending. This group of economies is projected to experience a gradual recovery in 2013 and 2014 in line with the pick-up in global demand. However, growth will remain well below potential. This is particularly the case in the Republic of Korea, where private domestic demand – for both consumption and investment – is likely to recover only slowly. The marked downturn in China and the region's higher-income economies stands in contrast to the strong growth performance in Indonesia, Malaysia, the Philippines and Thailand in 2012. In these economies, buoyant consumption and investment demand, supported by expansionary monetary and fiscal policies, helped offset a decline in net exports. The economic outlook for these economies continues to be largely favourable, although a moderate decline in annual growth is projected for 2013. The slowdown mainly reflects less rapid growth in investment and, in the case of the Philippines and Thailand, the absence of positive base effects.

Labour markets in East Asia have remained broadly stable over the past year despite the significant growth slowdown in most economies. However, the average pace of employment growth in the region declined in 2012 according to ILO estimates. Unemployment rates have edged slightly higher in some of the strongly export-oriented economies, but remain low by historical standards. In Malaysia, the unemployment rate rose from an all-time low of 2.7 per cent in August 2012 to 3.0 per cent in February 2013, even as economic growth remained strong. In the Republic of Korea, the seasonally adjusted unemployment rate averaged 3.4 per cent in the first quarter of 2013, up from 3.0 per cent in the fourth quarter of 2012. On the other hand, unemployment continued to decline in Indonesia on the back of the rapid expansion of economic activity in recent years. In August 2012, the country's unemployment rate stood at 6.1 per cent, compared to a high of 11.2 per cent in August 2005. In the remainder of 2013 and 2014, unemployment rates across East Asia are projected to show little change given the expected moderate pace of economic growth in most countries. The region as a whole has the lowest unemployment rate in the world, but most countries still face major labour market challenges, including elevated rates of youth unemployment, high shares of low-productivity jobs in the agricultural and service sector and significant informal employment in some countries. While unemployment rates are generally higher for men than for women, women are more likely to work in vulnerable employment conditions. The largely favourable labour market conditions in the region are also reflected in robust growth in wages and salaries. In many countries, including China, Indonesia, Thailand and Viet Nam, Governments have raised the minimum wages considerably in recent quarters – a trend that is likely to continue in the outlook period.

Slowing growth and moderating commodity prices have led to a significant decline in inflationary pressures in East Asia over the past year. In 2012, consumer price inflation in the region averaged 2.8 per cent, down from 4.9 per cent in 2011. In the majority of countries, inflation is expected to remain contained in the outlook period. A further weakening of global commodity prices, combined with an appreciation of most national currencies, will likely help curb inflationary pressures. Demand pressures are also expected to remain weak even as output gaps have narrowed in many countries and are generally considered small. Average consumer price inflation is forecast to edge up to 3.1 per cent in 2013, ranging from an estimated 1.5 per cent in Taiwan Province of China to 7 per cent in Viet Nam. Contrary to the general trend, some countries could see inflation pick up notably in the quarters ahead. In Indonesia, annual inflation is projected to increase from 4.3 per cent in 2012 to 5.5 per cent in 2013 owing to cuts in fuel subsidies, minimum wage increases and a rise in food prices following severe flooding at the beginning of the year. In China, annual inflation is expected to accelerate from 2.6 per cent in 2012 to 3.2 per cent in 2013 on the back of ongoing strong credit expansion and robust nominal wage growth.

Most central banks in East Asia have maintained accommodative monetary policy stances in recent months, after loosening monetary conditions in 2011/12 in response to the economic slowdown. Policy rates have generally been kept on hold in early 2013 as global tail risks declined and the outlook for the region remained broadly stable, while inflationary pressures continued to be mild. Monetary policy was, however, further loosened in Papua New Guinea, the Republic of Korea and Viet Nam during the first quarter of 2013 as authorities responded to slowing growth and reduced or low inflationary pressures. In the remainder of 2013, most central banks are expected to maintain their current policy stance, with the possibility of some additional policy rate cuts. Monetary policy may be gradually tightened during the later part of the forecast period in the face of a pick-up in domestic demand and more favourable global conditions. Concerns over significant capital inflows from developed economies and currency appreciation pressures will, however, keep central banks from hiking interest rates quickly. In China, the authorities have already started to move in the direction of monetary tightening by restricting new lending to local Government financing vehicles and withdrawing funds in open market operations. The Chinese Government also lowered the growth target for broad money supply to 13 per cent in 2013, down from 14 per cent in 2012. Given the significant risks associated with the elevated property prices and the country's large shadow banking system, the authorities will likely introduce further restrictive measures in the outlook period, while also trying to keep growth on track.

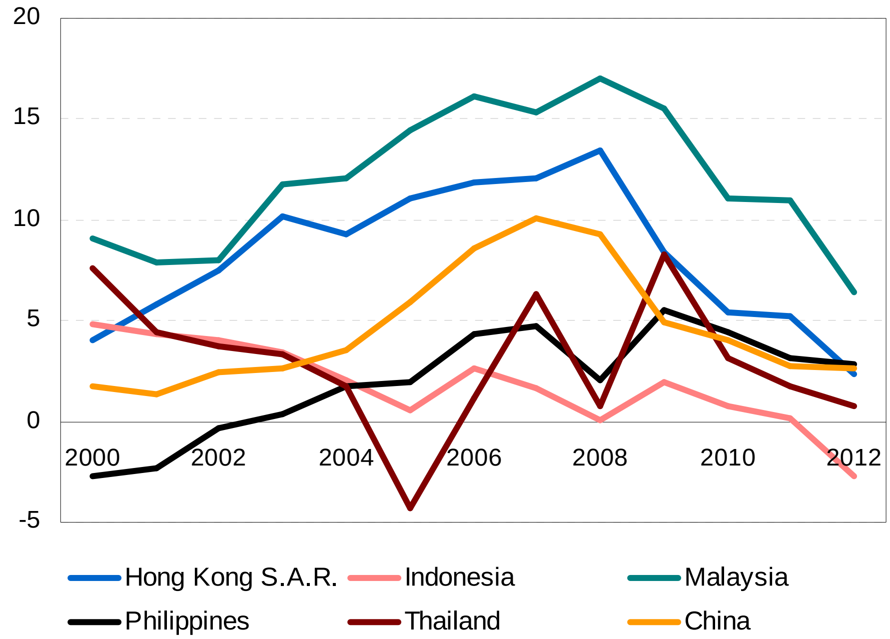
Against the backdrop of increased global risks and slowing domestic economies, many Governments in East Asia adopted more expansionary fiscal policies in 2012. In Indonesia, Malaysia, the Republic of Korea, Thailand and Viet Nam, the authorities implemented measures to stimulate private sector demand and mitigate the social impact of the slowdown. Such measures included tax rate cuts, hikes in civil servants' salaries and minimum wages, and provision of cash transfers and low-interest loans. In China, the Government fast-tracked infrastructure projects during 2012. These expansionary fiscal policies, combined with costly subsidy schemes, generally led to a slight deterioration in fiscal positions. Budget deficits and government debt levels as a percentage of GDP remain, however, still low in most economies other than Malaysia and Viet Nam. In both countries, the fiscal deficit stood at 4.7 per cent of GDP in 2012 owing to increased spending on infrastructure and social welfare programmes, and high fuel subsidy bills. In 2013 and 2014, fiscal policy across East Asia will remain accommodative and will contribute positively to economic growth. Given the expected gradual pick-up in growth in most economies, fiscal balances are projected to improve slightly. China is expected to maintain robust growth in expenditures and revenues as the general government deficit is scheduled to increase to 2.0 per cent of GDP in 2013. In the Republic of Korea, the Government recently announced a new set of stimulus measures in the form of a supplementary budget. While general government debt levels are generally low or moderate, some concerns have emerged about the continuing expansion in corporate and household debt, for example in China, Thailand, Malaysia, and the Republic of Korea.

Trade and current account surpluses in most East Asian economies narrowed in 2012 as exports slowed more rapidly than imports (see figure 10). The weaker growth in export earnings across the region mainly reflects the slowdown in import demand in developed economies and a decline in the prices of many export commodities. The region was particularly affected by the fall in European Union demand for manufactured goods. Compared to 2011, the dollar value of merchandise exports remained flat or declined slightly in most East Asian economies, including Indonesia, Malaysia, the Republic of Korea and Taiwan Province of China. Import growth also weakened notably in most countries. In 2013, East Asia's exports and imports are projected to grow at a relatively weak pace given the ongoing sluggish demand in most developed countries. A gradual pick-up in external demand is expected in the second half of 2013 and in 2014. In most countries, trade and current account surpluses are expected to widen again slightly. A major exception is China, where the current account surplus declined to 2.4 per cent of GDP in 2012 and is expected to fall further to only about 1 per cent in 2014. This can be attributed to a gradual decline in the trade surplus and a widening service balance deficit as the number of Chinese tourists travelling overseas increases.

Figure 10

Current account balances as a share of GDP in selected East Asian economies, 2000-2012

(Percentage)



Source: UN/DESA based on data from the IMF World Economic Outlook Database, April 2013

A renewed deterioration of the crisis in the euro area and a sharp deceleration in the pace of growth in China continue to represent the main downside risks for the region. Additional risks factors are associated with the recent further expansion of unconventional monetary policies in developed economies. Current global financial conditions are characterized by abundant liquidity, low global interest rates, and a rising risk appetite and search for yields among investors. A further strong surge in capital inflows could lead to an appreciation of domestic currencies, to excessive credit growth and to a build-up of significant leverage and asset price bubbles – and thus increase balance sheet risks and the vulnerability to eventual changes in global conditions.

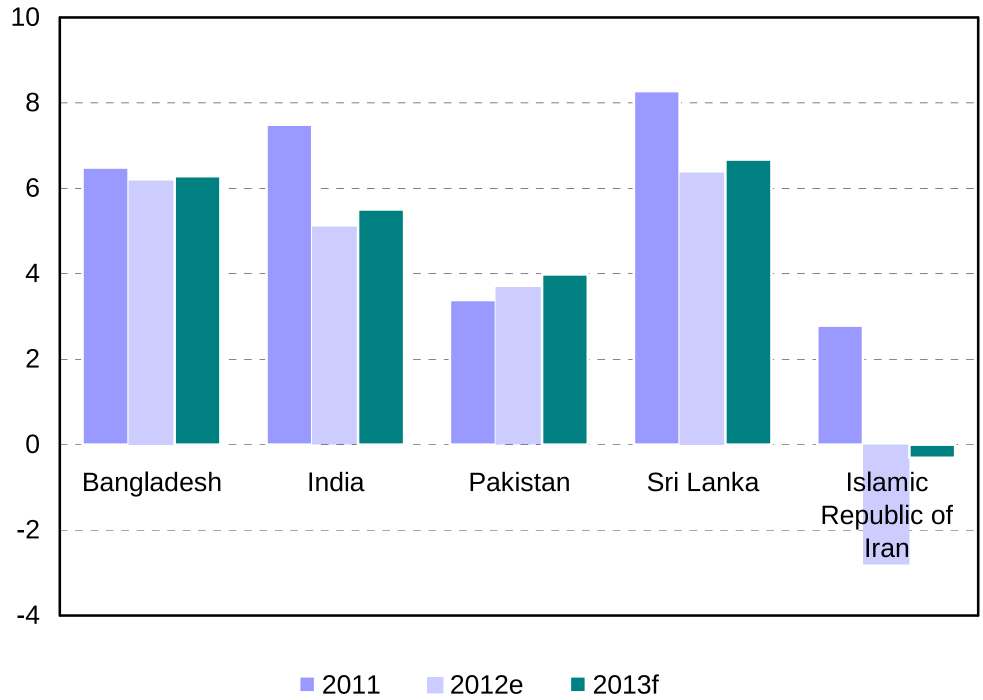
South Asia

After experiencing a sharp slowdown over the past two years, South Asia is expected to see a moderate recovery in economic growth in 2013 and 2014. The region's gross domestic product is projected to expand by 4.7 per cent this year and by 5.4 per cent next year, following estimated growth of only 3.9 per cent in 2012. The recovery will likely be based on an upturn in private demand, following the recent easing of monetary policy in the region, and a gradual strengthening of exports amid improving global conditions. Growth will, however, remain well below potential in most economies as a wide range of structural factors weigh on economic activity, including stubbornly high inflation, large fiscal deficits, political uncertainties, security issues, and transport and energy constraints.

The region's slowdown in 2012 reflects primarily a marked downturn in India's economy and a contraction of output in the Islamic Republic of Iran. India's economy lost further momentum in the second half of 2012, with GDP growth slowing to a multi-year low of 4.5 per cent (year on year) in the fourth quarter. Full-year growth declined to 5.1 per cent in 2012, down from 9.2 per cent in 2010 and 7.5 per cent in 2011 (see figure 11). This reflects ongoing weakness in investment – which never fully recovered from the slump in 2008 - and a significant deceleration in private consumption demand. Both components have been negatively affected by persistent inflation, high nominal interest rates and political gridlock. Weak external demand has also contributed to the slowdown. At the sectoral level, growth in agriculture slowed markedly in 2012 owing to lower-than-normal rainfall in the monsoon season. While economic growth in India has probably bottomed out, the recovery is likely to be slower than previously expected, with economic activity forecast to expand by 5.5 per cent in 2013 and 6.1 per cent in 2014. Private domestic demand will be the main driver of growth, supported by the easing of monetary policy over the past year and a set of policy reforms that aim at improving the business environment. In the Islamic Republic of Iran, economic activity is projected to contract for the second consecutive year in 2013 before recovering mildly in 2014. Domestic oil production will likely further decline in the outlook period as a result of the international sanctions against the country. High inflation and exchange rate volatility will continue to hamper private consumption and investment. Macroeconomic conditions also remain challenging in Nepal and Pakistan; both countries are expected to record subdued growth in 2013 and 2014 owing to significant structural and policy constraints. Pakistan's economy is forecast to expand by about 4 per cent in both years as political uncertainty, security concerns, low investment in physical and human capital, and water and energy shortages hold back growth. The economic outlook is much more favourable in Bangladesh and Sri Lanka, with annual growth projected above 6 per cent in 2013 and 2014. In both countries, the main drivers of growth will be private consumption and investment, which are supported by rising incomes and strong remittance inflows.

The lack of comprehensive up-to-date employment data for South Asian countries makes it difficult to assess the impact of the current economic slowdown on the region's labour markets. When available, official unemployment rates provide only limited information about the actual labour market problems as the majority of people continue to work in low-productivity jobs in the informal sector. In Pakistan, recent survey data suggest that labour market conditions have somewhat deteriorated in recent years. In the fourth quarter of 2012, the unemployment rate was estimated at 6.5 per cent, up from 6 per cent two years ago. The national average masks large differences between sub-groups, with unemployment being higher among women (9.2 per cent) than men (5.7 per cent) and higher in urban areas (10.1 per cent) than rural areas (5.0 per cent). Nearly one quarter of women living in urban areas were unemployed in late 2012 and the female labour force participation stood at only 7.1 per cent. Other countries in the region have similar unemployment patterns even if recent labour market trends have been more favourable. In Sri Lanka, the total unemployment rate was estimated at 4.1 per cent in the third quarter of 2012, only slightly up from the record-low of 3.9 per cent registered in the first half of 2012. However, in each age group, the unemployment rate was significantly higher for women than men and the unemployment rate for the age group 15 – 24 was about 10 times the rate for those over 30 years of age. In most countries of the region, labour market pressures are likely to further intensify in the years ahead as the labour force increases rapidly and economic growth remains well below potential.

Figure 11
GDP growth in selected South Asian economies, 2011-2013
(Percentage)



Source: UN/DESA.
[e] Expected values
[f] Forecasts based on Project LINK.

Inflation in South Asia remains elevated, even as a few countries have seen notably lower upward pressure on prices in recent months. In 2012, consumer price inflation averaged 12.1 per cent, up from 11.2 per cent in 2011. This increase mainly reflects ongoing strong pressure on consumer prices in India and a surge in inflation in the Islamic Republic of Iran – the two countries with the largest weight in the regional average. In India, consumer price inflation remained elevated at about 10 per cent in the first quarter of 2013, whereas wholesale inflation slowed markedly. This divergence mainly reflects the larger weight of the still rapidly increasing food prices in the consumer price index. In the Islamic Republic of Iran, the expansion of international sanctions in 2012 has led to a sharp weakening of the rial, a rapid rise in the prices of imported goods, and constraints in supply. By contrast, consumer price inflation in Pakistan and Sri Lanka decelerated markedly in recent quarters mainly owing to improved supply conditions for perishable food items, lower credit growth and reduced pressures from international commodity prices. The divergent inflation patterns are expected to continue in 2013; annual consumer price inflation is forecast to range from about 7 per cent in Pakistan and Sri Lanka to 28 per cent in the Islamic Republic of Iran. For the region as a whole, consumer price inflation is projected at 12.4 per cent, slightly higher than in 2012. Structural bottlenecks, such as energy shortages, high inflationary expectations, large fiscal deficits and adjustments in administered fuel and electricity prices will continue to provide upward pressure on prices. On the other hand, a further moderate decline in international food prices, more stable local currencies and sluggish demand, especially in Nepal and Pakistan, are likely to dampen inflationary pressures. Average regional inflation is forecast to moderate to about 10 per cent in 2014, but will remain higher than in other developing regions.

South Asia's monetary authorities have shifted their focus to strengthening domestic investment and supporting economic growth despite ongoing considerable inflationary pressures. Faced with weakening domestic demand and major global uncertainties, the central banks in Bangladesh, India, Pakistan and Sri Lanka have eased monetary policy in recent quarters. The Reserve Bank of India (RBI) lowered its main policy rate (the repurchase rate) from 8 per cent to 7.25 per cent in the first half of 2013. The RBI also reduced the cash reserve ratio to ease liquidity in the banking system and to support credit flows to productive sectors. In Pakistan, the central bank responded to sluggish growth and gradually falling inflation by loosening monetary conditions significantly. The benchmark discount rate was cut by a total of 250 basis points since August 2012 to 9.5 per cent, the lowest level in more than five years. The central banks in Bangladesh and Sri Lanka also reduced their main policy rates in early 2013 in an attempt to stimulate lending to the private sector and support domestic demand. Looking ahead, the central banks in India and Pakistan may slightly ease monetary conditions further in 2013; the room for additional policy rate cuts is, however, limited by persistent consumer price inflation in the case of India and by concerns over the fiscal and external deficit in Pakistan. In Bangladesh and Sri Lanka, monetary conditions are expected to remain unchanged in the remainder of the year, with the possibility of some tightening later in the forecast period.

South Asia's economies continue to face significant fiscal pressures as slowing growth of tax revenues, rising expenditures on energy, food and fertilizer subsidies and higher security spending weigh on government budgets. In the last fiscal year, Governments missed their deficit reduction targets by a wide margin and the budget deficit exceeded 5 per cent of GDP in Bangladesh, India, Pakistan and Sri Lanka. Despite the large deficits, most Governments are planning to increase spending considerably in 2013 and 2014 to support domestic demand and address development needs. In India, total budget expenditure is projected to rise by 16 per cent in the fiscal year 2013-14, with the deficit target set at 4.8 per cent of GDP. The spending increase is expected to be partly financed by the sale of government stakes in companies, temporary tax surcharges on firms and high-income earners, and a gradual reduction of fuel subsidies. As in other South Asian countries, improvement in the fiscal position in India depends on the strength of economic growth in the coming years and on progress in curbing subsidies and expanding the low tax base. Pakistan faces the most severe fiscal challenges in the region, with the deficit widening to 6.6 per cent of GDP in the fiscal year 2011-12. Although the deficit is projected to decline slightly in the current fiscal year 2012-13 (which will end on 30 June 2013), pressures for more comprehensive fiscal consolidation remain strong.

South Asia's exports were hit hard by weakening demand in key destination markets (including the European Union and the United States) in 2012, but have shown some signs of improvement in recent months. This is particularly the case in India, where the value of merchandise exports grew by 4 per cent year on year in the first quarter of 2013, after declining slightly in 2012. For 2013 as a whole, export revenues are projected to increase mildly in most economies of the region, supported by an expected pick-up in global activity in the second half of the year. The major exception is the Islamic Republic of Iran, where exports are projected to contract further amid the ongoing international sanctions. Across the region, slowing domestic demand and a significant depreciation of most national currencies put downward pressure on imports in 2012, but expenditures for fuel imports remained elevated throughout the year. In recent months, the bills for petroleum and petroleum products have, however, declined in some countries, especially India, which saw a 17 per cent drop year on year in March 2013. In 2012, India's current account deficit had widened to a record of 4.9 per cent of GDP. In most countries, trade and current account deficits as a percentage of GDP are expected to decline moderately in 2013. Deficits will, however, remain substantial in India, Pakistan and Sri Lanka. Workers' remittance flows, particularly to Bangladesh, Pakistan and Sri Lanka, will continue to grow strongly and help support current account balances.

Downside risks to the economic outlook for South Asia are related to the continuing weakness of the global economy, and in particular the ongoing problems in the euro area, as well as to regional or domestic vulnerabilities. On the external side, a renewed slowdown of global demand could further weaken South Asia's exports, lead to widening current account deficits and add pressures on the balance of payments. Political instability and worsening security conditions represent downside risks for several countries in the region, most notably Pakistan. In Bangladesh, uncertainties have emerged over growth in the garment industry, the country's leading export sector, after a garment factory building collapse killed over 1,000 workers. This has triggered widespread strikes and protests over security and working conditions and caused fears that some Western retailers could stop manufacturing in Bangladesh.

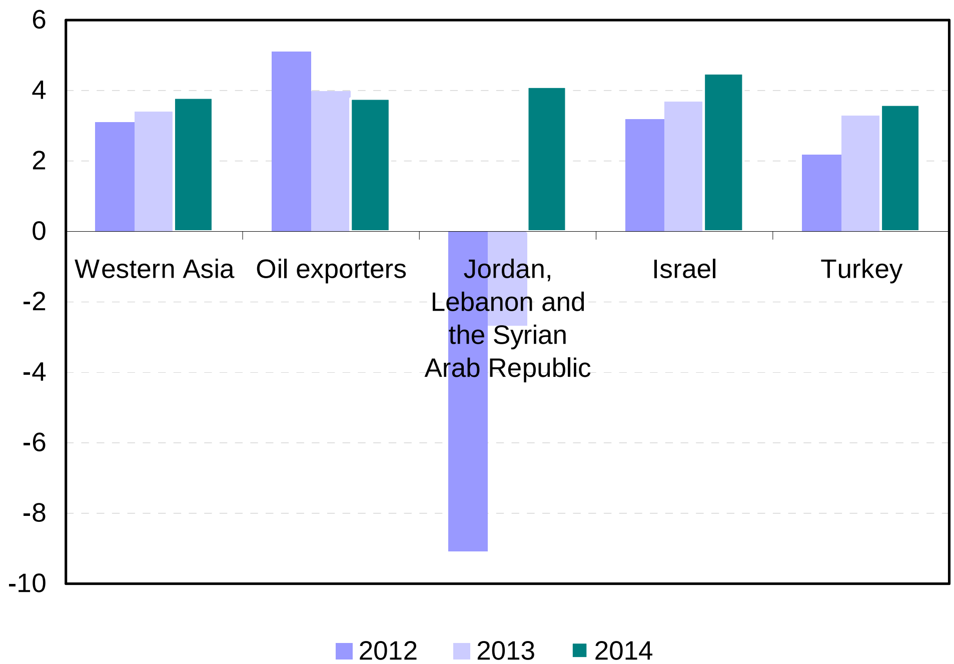
Western Asia

Economic growth in Western Asia decelerated in the second half of 2012 owing mainly to weakening external demand, especially from the euro area. As oil output declined, most oil-exporting countries increasingly relied on their weakly diversified non-oil sector. Economic activity also decelerated in oil-importing countries, burdened by high import bills, slackening demand and shrinking policy space. As a result, oil-exporting countries continued to grow faster than oil-importing countries in 2012, but this two-speed outlook may fade in 2013 on the back of gas production in Israel and rebounding private demand in Turkey. Average regional growth is expected to increase from 3.1 per cent in 2012 to 3.4 per cent in 2013 and to 3.8 per cent in 2014 (see Figure 12).

Since mid-2012, oil-exporting countries benefitted from record-high oil prices with the Brent price averaging $111 per barrel (pb). Oil output further rose in Iraq, but several Gulf Cooperation Council (GCC) countries, especially Saudi Arabia, significantly scaled back their production during the last quarter of 2012 in order to resorb excess supply in the oil market. Saudi economic activity was nevertheless underpinned by the expansion of domestic demand and a dynamic real estate sector. Public and private investments bolstered growth in Qatar. Economic activity grew more modestly in Bahrain and the United Arab Emirates as the financial and real estate sectors gradually recovered. In Yemen, national dialogue and the adoption of a record budget for 2013 mostly financed by regional donors, may contribute to restoring the political stability required for economic development. Civil war in the Syrian Arab Republic continued to weigh on the risk perception of the region, particularly affecting neighbouring countries. Trade, tourism and investment remained subdued in Jordan and Lebanon. The deteriorating external environment increasingly affected economic activity in Israel and Turkey during the second half of 2012, but the exploitation of Mediterranean gas resources in Israel and rebounding private demand in Turkey may strengthen their economic performance in the outlook.

The absorption capacity of labour markets remains weak across the region, generating underemployment, vulnerable employment and unemployment, which is only imperfectly hidden by low participation rates, especially among women. In Saudi Arabia, for instance, unemployment was estimated at 12.2 per cent in 2012 for the entire work force, but at 35 per cent for women, despite a female participation rate below 18 per cent. In GCC countries, employment in the private sector is mostly unattractive for nationals because of low wages. The wedge between private and public sectors further widened in the wake of the Arab Spring as rulers and legislators responded to social unrest by raising wages and creating new jobs in the public sector, including by strengthening security forces. Despite attempts to raise the share of nationals in the private sector, temporary migrant workers enjoying very limited rights still represent about 90 per cent of the private sector work force in GCC countries. This highlights the poor coordination of education, industrial and labour policies. In Iraq, unemployment in 2012 was estimated stable at around 20 per cent. In Jordan, the unemployment rate increased by about 1 percentage point to 12.8 per cent in the first quarter of 2013, with 11.1 per cent of men and 20.5 per cent of female workers remaining without employment. In Israel, unemployment declined to 6.5 per cent in January 2013. In Turkey, unemployment rose slightly during the second half of 2012, but remained below 10 per cent in January 2013.

Figure 12
Diverging growth trajectories in Western Asia, 2012-2014[a]
(Annual changes in GDP, percentage)



Source: UN/DESA based on Project LINK.
[a] Data for 2013 and 2014 are forecasts.

Inflation declined across the region in 2012 in a context of weakening external and domestic demand and remained moderate in the first months of 2013. In GCC countries, inflation averaged 3 per cent or less, except in Saudi Arabia. The housing component of the consumer price index was negative in Bahrain, Qatar and the United Arab Emirates, caused by excess supply and limited domestic demand pressures. The pass-through effect of high food and energy prices kept inflation above 10 per cent in Yemen. In Jordan, inflation reached 4.8 per cent in 2012 and rose to 7.6 per cent in the first quarter of 2013 partly as a consequence of fuel subsidies removal. In Lebanon, inflation also rose from mid-2012 on and may average 6 per cent in 2013, partly owing to higher wages and demand pressures arising from Syrian refugee inflows. Prices rose by about 50 per cent in the Syrian Arab Republic in 2012 as a consequence of currency devaluation, shortages and the liberalization of markets for subsidized goods, such as diesel and some food commodities. In Israel, consumer price inflation stood at 1.7 per cent in 2012 and declined slightly in the first months of 2013, while housing prices rose further. In Turkey, inflation slowed over the second half of 2012, oscillating around 7 per cent. While demand pressures may remain moderate across the region in 2013, countries aiming to reduce their budget deficit through a reduction or removal of energy subsidies may experience higher inflation.

Fiscal policy in Western Asia was durably affected by the Arab Spring. In most GCC countries, employment and housing measures significantly raised expenditures, and improved the redistribution of oil revenues across social classes. Kuwait also improved the redistribution of oil revenues across generations by raising the share of oil revenues allocated to its Future Generations Fund from 10 per cent to 25 per cent. The aggregate GCC budget surplus in 2012 is estimated at about 14 per cent of GDP. Medium-run fiscal balances remain strong, despite the rise of the break-even price of oil for GCC countries as a whole from $49 per barrel in 2008 to $79 in 2012. Bahrain and Oman are vulnerable to a potential drop in the oil price, however. While the former registered a small budget deficit in 2012 and plans to cut expenditures by 6 per cent in 2013, the latter still registered a budget surplus in 2012.

Oil-importing countries possessing limited policy buffers reacted more cautiously to political unrest. The Jordanian Government initially raised civil servant pay and restored energy subsidies in the wake of the Arab Spring, but the latter where eventually removed in November 2012. Ending fuel subsidies will contribute to reducing the budget deficit (including foreign grants) to 5.4 per cent of GDP in 2013, in line with the $2 billion agreement Jordan concluded with the IMF. In Lebanon, wage hikes approved in early 2013 will add to the budget deficit. In Israel, budget consolidation is likely to cut entitlements and to a lesser extent defence spending, which still represent close to 7 per cent of GDP. Together with modest tax hikes, these measures are expected to limit the expansion of the budget deficit to 4.7 per cent of GDP in 2013. In Turkey, the budget deficit remained below 2 per cent of GDP in 2012 owing to strong tax collection.

Monetary policy remained unchanged in most countries of the region since mid-2012. Policy rates in GCC countries that have their currencies pegged to the dollar remained constant, mirroring the stance of the Fed. Growing money stock improved liquidity conditions, contributing to slightly lower funding costs, which had increased in the wake of the Arab Spring. In Jordan and Lebanon, policy rates and liquidity conditions remained stable. In Jordan, however, international reserves shrank by about two-thirds in 2012 as a consequence of gas pipeline outages in the Sinai that compelled the Government to switch from cheap gas to more expensive oil imports for electricity generation. As of April 2013, international reserves only covered 4.1 months of Jordanian goods and services imports. In the Syrian Arab Republic, the official exchange rate of the pound versus the dollar increased from 70 to 86 pound per dollar between August 2012 and April 2013 and it is close to 100 on the black market.

Since mid-2012, the Turkish lira appreciated against the currencies of developed country trading partners that implemented quantitative easing. In recent months, the central bank lowered the upper bound of its interest rate corridor several times in order to discourage capital inflows. It further raised reserve requirements to rein in credit supply that expanded at an annualized rate of 25 per cent in order to match growing demand. The rapid growth of credit supply (about 10 percentage points above the target growth rate) may eventually complicate the management of the current account deficit and inflation. The Israeli shekel appreciated over the second half of 2012 and inflation declined along with weaker domestic and external demand. The central bank lowered interest rates twice, stabilizing its policy rate at 1.75 per cent. As monetary policy in most countries of the region is tied to the stance of central banks in developed economies, it is expected to remain mostly unchanged in 2013.

The contrast between external balances of oil-exporting and oil-importing countries remained strong in the second half of 2012. Surplus oil-exporting countries continued to benefit from elevated oil prices, but oil output started to decline in some GCC countries in the fourth quarter of the year. In GCC countries, current-account surpluses for 2012 ranged from about 8 per cent of GDP in the United Arab Emirates to more than 40 per cent in Kuwait. A significant proportion of oil trade revenues are reinvested abroad, adding to the estimated $1.9 trillion in foreign assets held by GCC sovereign wealth funds at the end of 2012. High current account deficits persisted in oil-importing countries, such as Jordan and Lebanon, as a result of weaker export demand, declining revenue from tourism and higher import bills. Jordan was especially affected by elevated oil prices as it had to switch from cheap gas to more expensive oil imports to produce electricity in the wake of repeated gas pipeline outages in the Sinai.

The trade deficit also widened in Israel, putting the current-account balance into deficit in 2012. Manufacturing exports, including for high-tech goods remained tepid, but the exploitation of Mediterranean gas that started in March 2013 will reduce reliance on energy imports in the future. In Turkey, weaker domestic demand during the second half of 2012 coupled with the opening of markets in Asia contributed to the progressive external balancing. In March 2013, the twelve-month trailing current account deficit had dropped below 6 per cent of GDP, reaching a two-year low. In the outlook, the magnitude of external imbalances across the region will largely depend on commodity price developments.

In the outlook, Western Asia faces several downside risks related to the possibility of abrupt changes in the oil price, possibly related to an escalation of political or geostrategic tensions. The intensification of the Syrian civil war and its spillover effects on neighbouring countries or rising tensions around the Strait of Hormuz could raise the oil-price risk premium and exacerbate existing current-account and fiscal imbalances. By contrast, if the financial woes and deeper fiscal austerity in developed countries were to trigger a global downturn, a sustained drop in the oil price - amplified by financialized commodity markets - would negatively affect fiscal and, eventually, social stability in oil-exporting countries.

Latin America and the Caribbean

Economic growth in Latin America and the Caribbean is expected to accelerate from 3.0 per cent in 2012 to 3.6 per cent in 2013 (see figure 13) and to 4.2 per cent in 2014. This acceleration will be sustained mainly by resilient domestic demand, which has driven regional economic growth in recent years. In Mexico and Central America, economic activity in 2013 is projected to expand by 3.9 per cent, similar to the past two years. This forecast is, however, sensitive to the economic trends in the United States. In South America, economic growth will strengthen by 1 percentage point in 2013, to 3.5 per cent, as the economies of Argentina and Brazil gradually gain momentum and the external demand for regional commodities recovers during the year. In line with the regional trend, the Caribbean region is expected to expand by 3.0 per cent in 2013, 0.5 percentage points higher than in 2012.

Among the largest countries, Mexico remains on a moderate growth path, and its economy is expected to expand by 3.8 per cent in 2013, driven mainly by a healthy performance of manufacturing exports and stable domestic demand. The aggressive structural reform agenda pursued by the Government will likely enhance competitiveness and the economic prospects in the coming years. Meanwhile, Brazil is expected to recover from the anaemic growth of 0.9 per cent recorded in 2012. In 2013, the largest regional economy is expected to expand by 3.0 per cent, driven by a rebound in investment, following loosening of monetary policy in 2012 and reductions in energy costs and payroll taxes in early 2013. Manufacturing output is also expected to recover, albeit slowly, after contracting since 2011. In Argentina, the agricultural sector will drive the recovery, with intra-regional and global exports projected to increase; however, business confidence remains weak. In Colombia, economic growth is expected to accelerate slightly from 4.0 in 2012 to 4.2 per cent in 2013, owing to a boost in private consumption following monetary stimulus since mid-2012. By contrast, the outlook in Venezuela has deteriorated significantly by early 2013 as a result of increasing political instabilities and a massive devaluation of the domestic currency. The GDP is expected to expand by a meagre 0.9 per cent this year.

The dynamism of private consumption is a relatively common pattern in most countries in the region. In 2013, private consumption in Chile and Peru continues on a strong trajectory, while growing more moderately in Argentina, Colombia and Mexico. Overall, private consumption in Latin America and the Caribbean is expected to expand by 3.9 per cent in 2013, similar to 2012. Meanwhile, investment is likely to expand more rapidly this year than in 2012, with a rebound projected in Argentina and Brazil after the poor performance in 2012. In Bolivia, Chile and Peru investment demand continues to be strong, particularly in the hydrocarbon and mining sectors.

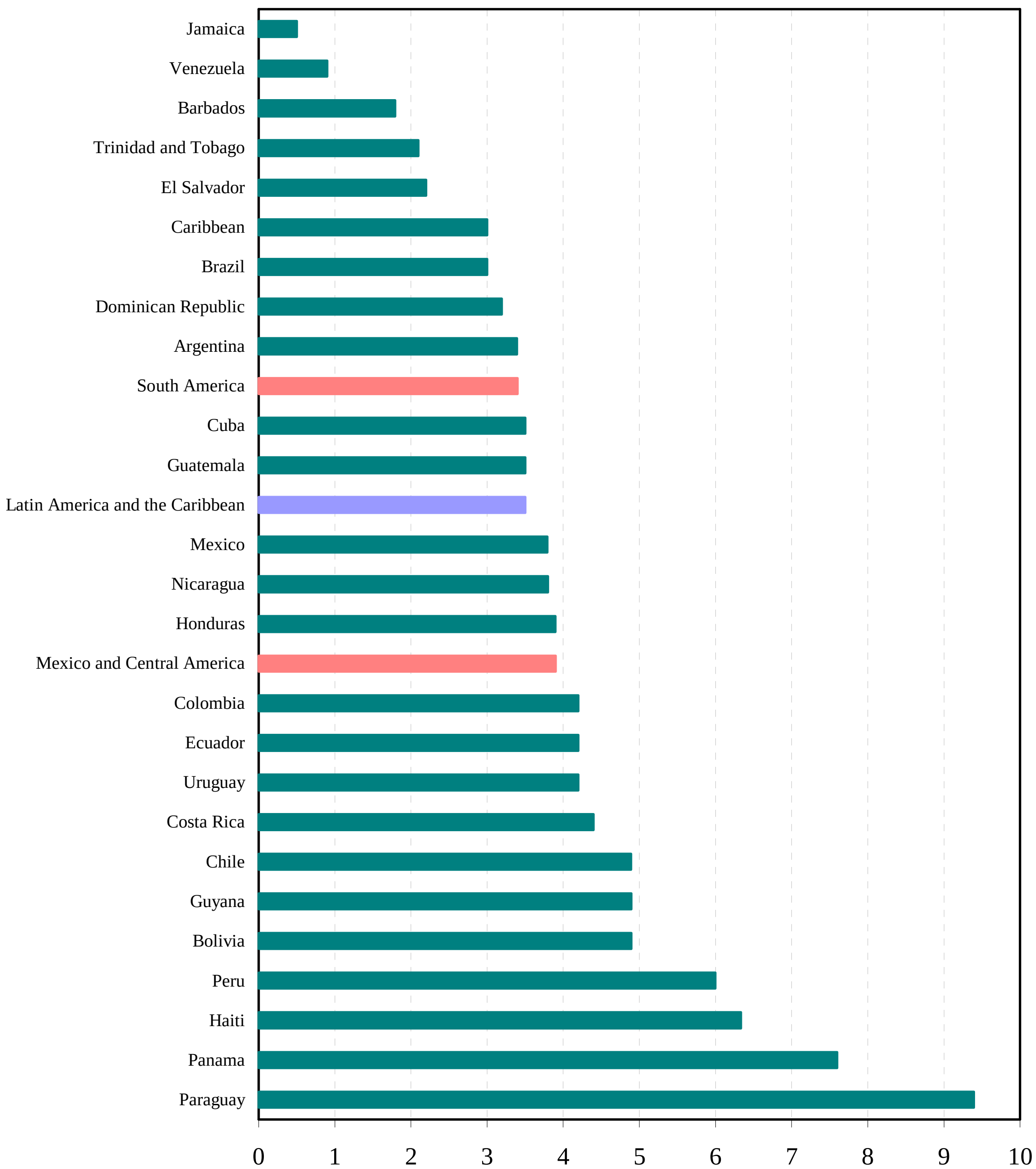
Importantly, domestic demand in the region continues to be supported by positive labour market trends, especially in South American countries and Mexico. The regional unemployment rate (weighted average) reached a record low of 6.4 per cent in 2012. In early 2013, the unemployment rate was about 6.0 per cent or lower in Brazil, Chile, Ecuador, Panama and Uruguay. In Mexico, the unemployment rate stood at 4.9 per cent in the first quarter of 2013. South American countries such as Argentina, Brazil and Chile, also saw noticeable increases in real wages in the last year. Unemployment remains however relatively high in Colombia and in most Caribbean economies. Regional labour market indicators are likely to remain robust this year, but further improvements, such as additional reductions in unemployment or faster job creation, will be difficult to achieve.

The inflation outlook is fairly stable, though inflation is expected to increase slightly in 2013, on the back of more accommodative monetary policies in some countries since the second half of 2012. The Bolivarian Republic of Venezuela displays the highest inflation rate in the region (year-on-year consumer price inflation reached 24.2 per cent in March 2013) and the massive depreciation of the local currency in early 2013 is adding to price pressures. The Caribbean sub-region, which is a net food importer, continues to be very sensitive to fluctuations in international food prices. Despite the relatively stable consumer price prospects for the region, inflation risks are still limiting monetary policy.

In general, monetary policy in the region has been cautiously managed in the last year. In countries that modified their monetary stance, the policy actions mainly aimed at promoting economic activity more actively, given the output gap in some countries. Since July 2012, the central banks of Brazil, Paraguay, Mexico, Colombia and the Dominican Republic reduced their policy interest rates. In the case of Colombia, interest rates were reduced from 5.25 per cent in July 2012 to 3.25 in March 2013. As a result, there is now less room for monetary policy to further promote economic activity. Moreover, the loose monetary cycle is expected to be partly reversed in some countries during 2013, given the existing inflation risks. For instance, the Central Bank of Brazil raised its benchmark interest rate from an all-time low of 7.25 per cent to

7.50 per cent in April 2013 on the back of higher inflationary pressures. This was the first interest rate hike in nearly two years and likely the starting point for a modest monetary tightening cycle.

Figure 13
Latin America and the Caribbean: GDP growth forecasts, 2013
(Percentage)



Source: UN/DESA based on Project LINK.

The fiscal position deteriorated slightly in 2012, mainly because of higher public expenditures in Argentina, Bolivia, Paraguay and Uruguay. In some countries, the global slowdown and the decline in regional terms of trade generated a contraction or stagnation of public revenues from natural resources. Tax revenues, which are more closely linked to domestic demand, showed a more robust behaviour. In 2012, Argentina, Chile, the Dominican Republic, Ecuador, El Salvador, Guatemala, Panama, and Peru implemented fiscal reforms in an attempt to increase tax revenues in the coming years. Overall, the fiscal position is not as strong as prior to the financial crisis, and Governments may find it more difficult to provide stimulus if global economic conditions deteriorate further. This is especially the case in the Caribbean, where public debt-to-GDP ratios are high. However, the region, and especially South American countries such as Bolivia, Chile and Peru, has preserved some space for countercyclical policies.

The export performance is expected to improve moderately in 2013, although the contribution of net exports to GDP growth will be similar than in 2012, as imports are also expected to increase. The highest export increase is expected in the countries of the Mercosur, as the Brazilian economy gradually recovers in 2013. In the rest of South America, exports are expected to increase more moderately, as economic growth in China tempers and economic conditions in Europe remain weak. In Mexico and Central America, exports continue to grow moderately, but the outlook will largely depend on the economic situation in the United States. However, in the region as a whole, the still feeble global recovery will limit major export expansions this year. In the same line, the manufacturing sector is also expected to grow only moderately. In the first months of 2013, manufacturing output was feeble in countries like Brazil, Peru, Chile and Argentina.

Global financial liquidity, relatively high interest rate differentials with respect to developed countries and moderately good regional economic prospects may encourage further capital flows to the region this year. As a result, appreciation pressures on domestic currencies might increase, as already observed for instance in Mexico and Chile in early 2013. In the actual context of high volatility of capital inflows and significant uncertainties in developed countries, the region should strengthen a coordinated framework on the fiscal, monetary, exchange rate and macro prudential policy fronts in order to promote financial stability and economic growth.

With growth projected to remain robust, the downward trend in poverty is likely to continue. In 2012, the poverty rate reached a 30-year low of 29 per cent, after continuously declining in the last decade. Despite this, the region’s policymakers should intensify their efforts to tackle structural growth and development constraints, such as the infrastructure bottlenecks and the high degree of natural resource dependency by conducting more proactive industrial policies.

Global risks and uncertainties

The world economy continues to face significant uncertainty, with risks still tilted to the downside. The *Global Economic Outlook October 2012* examined three major global risks and analyzed their potential impact on global growth: a substantial worsening of the euro area crisis; the United States falling off the fiscal cliff; and a hard landing for some large developing economies. Since then, there has been improvement in some of these areas, with short-term risks diminishing but not disappearing. These three risks are updated below.

Meanwhile, a few new risks have gradually emerged in recent months, particularly for the medium run. For example, the eventual exit from the ever-expanding unconventional monetary measures in developed economies could have significant adverse effects on financial stability in the future. Recent signals by the Federal Reserve Bank of slowing its quantitative easing program beginning in 2014 have already raised fears of worldwide financial turbulence. At the same time, a prolonged period of subdued growth in many economies with high unemployment and inadequate investment may have led to a noticeably lower potential output. All these and other risks, including those beyond the economic domain, such as geopolitical risks and natural disasters, have the potential to derail the still feeble global recovery.

Euro area risks diminished, but still potent

The crisis in the euro area continues to be a major risk factor for the world economy, although the policy actions taken over the past months have lowered some short-term risks. In particular, the Outright Monetary Transactions (OMT) facility and a few policy initiatives since late 2012 have significantly reduced the sovereign debt and default risks and the risks of a euro area break-up. This explains why the political impasse in the Italian election and the Cypriot bank bail-out have so far resulted in limited disturbances. Despite the progress, sources of significant risks remain in the banking, fiscal and social sectors. For instance, a large number of banks in the region still have weak balance sheets and remain fragile. Improved bank liquidity has not translated into growth in bank lending. Lending conditions remain tight, banks continue to deleverage and credit in the region continues to contract. These factors, in turn, hinder economic activities in the region. Given the way it was structured, the recent Cypriot bail-out actually raised risks in the banking sector by increasing the possibility of bank runs.

Lower sovereign yields, meanwhile, have not yet broken the downward spiral formed between fiscal consolidation and the economic downturn. Risks on the fiscal front are primarily related to countries missing their fiscal targets and, as a consequence, having to undertake additional austerity measures. The countries already under assistance programs will have little choice but to follow agreed-upon consolidation and restructuring measures. These measures may become more onerous, particularly in light of the harsh resolution to the recent Cypriot crisis which demonstrated that support for assistance has dwindled. In countries not under assistance programs, the key question is whether they will be forced to adopt new measures if they miss their deficit reduction targets. Finally, risks and uncertainties remain about the implementation of those new policy initiatives at both national and regional levels, such as the proposed steps towards banking union and fiscal integration. Should implementation of those policy initiatives stall or go awry, confidence could falter again, leading to a return of increased instabilities.

Fiscal cliff in the US averted, significant uncertainties remain

In the United States, the full impact of the fiscal cliff was averted when an agreement was reached in March 2013 over the Bush-era tax cuts – extending most but not all of the cuts. But Congress failed to agree on a new deficit reduction plan, triggering automatic, across-the-board spending cuts (sequestration) worth $1.2 trillion over the next nine years. For the remainder of 2013, this is estimated to result in a cut of $85 billion. In the baseline outlook, it is assumed that the sequestration will be replaced at the end of the current fiscal year (September 2013) by a new agreement with a combination of some tax increases and lower spending cuts than in the sequestration. Congress has managed to delay negotiations over the debt ceiling until the end of the current fiscal year in September, but the assumption is that the debt ceiling will be increased.

Significant uncertainties and risks remain, however: political gridlock may result in a failure to raise the debt ceiling and the sequestration may continue into 2014 and beyond. An additional risk is that the private sector proves to be less resilient than expected to the fiscal sequestration. If any of these transpire, economic growth in 2013-2014 would be much weaker than what is projected in the baseline. Policy impasse and more fiscal tightening could erode consumer and business confidence, leading to weaker consumer spending, business investment and hiring. This, in turn, could undermine the recovery in the housing sector.

Risks of a hard landing for large developing economies

Many large developing countries, including Brazil, China, India and the Russian Federation, saw a significant deceleration in GDP growth in the past two years, owing to a combination of weak external conditions and domestic impediments. In the baseline outlook for 2013-2014, growth in these economies is expected to strengthen in some cases, such as Brazil and India, and to stabilize in others, such as China. For some of these economies, however, the risk of a hard landing – that is, a further considerable slowdown in growth – remains. In China, for example, economic activity moderated again in the first quarter of 2013, after a short period of pickup in the second half of 2012, with growth slowing to 7.7 per cent year on year and 1.6 per cent quarter on quarter. While the baseline forecast projects growth to stabilize between 7-8 per cent in the coming years, the possibility of a hard landing – with growth slowing to about 5 per cent - cannot be ruled out.

The major risks for China's economy are associated with the housing bubble, the surge in shadow-banking activities, the lack of transparency in the local government debt, the excess capacity in many key industrial sectors, and the challenges in economic restructuring and reforms. Over the past year, China's authorities have made only limited progress in addressing these interconnected challenges despite continuing policy efforts. After a short period of stabilization, housing prices started to move up again in 2012, triggering a new round of tightening measures early this year. Local government debt, through special financing vehicles, and shadow banking activities, which are motivated by evading the conventional banking regulations and supervisions, boomed over the past few years. The size of shadow banking loans reached an estimated 30-40 per cent of GDP by the end of 2012. Meanwhile, given the high dependency of growth on government-guided investment, the ongoing economic restructuring, which aims at raising the consumption-to-GDP ratio and lowering the investment ratio, entails the risk of weakening the growth momentum too rapidly. A further moderation in GDP growth and rising financial risks could feed into each other to form a vicious circle, should no prompt policy actions be taken. Given the large size of the Chinese economy and the country's key role in international trade, a drop in China's growth to about 5 per cent would have a measurable impact on many other economies, especially developing countries.

Policy challenges

The top priority for macroeconomic policies worldwide remains to support a robust global recovery, with a focus on promoting job creation. The policy stance and policy mix in individual countries can, however, only be best stipulated in accordance with country-specific circumstances, based on potential tradeoffs and institutional and resource constraints. Meanwhile, international policy coordination should be enhanced to mitigate negative policy spillovers across countries, curb protectionism, promote cooperation in reforming the international financial system, and ensure sufficient resource inflows to the least developed countries.

Fiscal policy

The fiscal stance in most developed economies, with the salient exception of Japan, is expected to continue tightening in 2013, although the degree of tightening is expected to ease in some countries in 2014. In the United States, automatic government spending cuts (sequestration) of $85 billion have been activated in March 2013. Real government spending is expected to decline markedly, by 4 per cent in 2013, and another 1 per cent in 2014, although it is possible that some of the cuts will be reduced by subsequent agreements in late 2013.

In the euro area, countries in debt crisis or under debt distress are still subject to sizeable consolidation programs, but the time-table for achieving targets has in some cases be extended. Countries facing limited fiscal pressures, such as Germany, are expected to adopt a more neutral fiscal stance. As more countries ratify the fiscal compact, which limits structural government budget deficits, fiscal policy in the region will remain tight over the next few years. Bucking the trend in developed economies, Japan has launched a new fiscal stimulus package of about 1.5 per cent of GDP for fiscal year 2013, despite the fact that both the deficit and debt of Japan are among the highest in developed economies. This additional fiscal stimulus will add to public debt and further increase the debt-to-GDP ratio in the short-term and perhaps also in the medium-term if the country is unable to overcome deflation, which is reducing nominal GDP.

Concerns about future fiscal sustainability have been behind the fiscal tightening in many developed countries. Ceteris paribus, the higher the debt to GDP ratio, the higher the proportion of government revenue spent on interest payments. A continuously rising debt will eventually lead to a debt crisis. However, debt sustainability is not simply determined by the single indicator of the debt to GDP ratio, with a fixed threshold. Debt sustainability for a country depends on a complex set of variables, including interest rates, potential GDP growth, the proportion of debt held by foreign investors, the domestic saving rate, external balances, the structure of government spending and revenue, the demographic structure, etc. The wide range of these variables explains why some countries have fallen into debt crisis at a moderate debt ratio while other countries remain solvent at a much higher debt ratio.

The challenge for the policymakers in most developed countries is to set the fiscal stance that meets both the need to support a solid recovery in output and employment in the short run and to ensure the sustainability of public finance in the long run. According to recent studies, the negative effects of fiscal tightening on output and employment in the current economic environment are much larger than originally estimated, particularly when a group of countries tighten their fiscal policies simultaneously. Such policies may lead to loss of skills and degradation of human capital, especially if austerity undermines the educational system. This may

lead to lower potential output in the long-run, negatively affecting both the supply-side and demand-side of the economy. These findings have to some extent led to the extension of achieving the targets of fiscal adjustment for some countries in the euro area.
Furthermore, the G20 has also recently recognized the need to better protect public finances by combating harmful tax competition, especially by tax heavens, that causes significant tax revenue losses.

Therefore, for those countries facing low financing costs and high unemployment, it would be desirable to postpone fiscal tightening until the economy is recovered. It is also important to have a credible plan for fiscal sustainability in the long run. Countries in debt crisis or facing high financing costs may have to front-load fiscal consolidation and implement necessary structural reforms to enhance long-run productivity, but they should protect the welfare of the most vulnerable groups and minimize the damage to human capital. Measures should be taken to curb illegal tax evasion and aggressive tax optimization schemes that enable an estimated $20 trillion of private wealth and corporate profits, i.e., the annual GDP of the United States and Japan combined, to escape taxation. Harmful tax competition as practiced by many offshore financial centers (OFCs) and tax havens is estimated to cause every year between $500 billion and $1 trillion of tax revenue losses for developed and developing countries, thus significantly harming public finances and increasing inequality. In the developed economies, arrangements allowing companies to better adapt to business cycles by adjusting working hours rather than the number of employees, may mitigate the need for the activation of automatic stabilisers and pressure on budgets during economic downturns. Shifting taxes to some forms of carbon producing energy may also be worth considering, particularly if the funds are used in the construction of green infrastructure, which has been shown to be an engine of job creation.

In contrast, most developing countries and economies in transition are expected to adopt a relatively neutral fiscal stance: with mild tightening in some countries, such as Brazil and the Russian Federation, and a mild expansion in others, such as China and the Republic of Korea. While these economies have lower government deficits and debt levels than developed economies, their fiscal positions are weaker than before the global financial crisis. One challenge for these economies is to adjust the structure of government spending and revenue according to country-specific priorities: for some countries, such as China, it is desirable to increase the proportion of public spending on the social safety net, healthcare and education; while other countries, such as Brazil and India, need to enhance spending on infrastructure investment. In the long run, fiscal policy should be used to guide the transformation of the development model for these economies towards a more inclusive and sustainable system, for example, through public investment in green technology.

The fiscal budgets of the least developed countries (LDCs) will remain under pressure from various directions. Sustained public spending is needed to deal with a variety of serious issues, while the ability to raise tax revenue is often low. As official development assistance constitutes a significant share of public revenue for a number of LDCs, the move towards fiscal consolidation in developed economies imply increased uncertainty for the fiscal situation of many LDCs.

Monetary policy

Major developed economies have recently strengthened their monetary policy measures, both quantitatively and qualitatively, in an attempt to offset the negative effects of tighter fiscal policies on output and employment. Policy interest rates in these countries are expected to remain at or close to zero in 2013-2014. The central banks will continue to implement large-scale asset purchasing (LSAP) programmes. A new key feature of these policy measures is the open-ended strategy, which sets neither the total amount nor the duration for asset purchases. This strategy seems to have worked better than earlier intermittent approaches in providing a more stable anchor to financial market expectations.

The major central banks have also improved their communication by articulating their policy intentions to reduce uncertainties for consumers and investors. For instance, the Fed has made its forward guidance regarding the anticipated path of the federal funds rate more explicit: it indicated that the rate would remain at the current exceptionally low level as long as the unemployment rate remains above 6.5 per cent, or the inflation rate for the next one to two years is not projected to be above 2.5 per cent. The Bank of Japan has also explicitly defined its target to raise inflation to 2 per cent by 2015. Recent volatility in the markets in the wake of Fed statements on possible tapering of its QE highlights the need for clear communication strategies.

Major challenges for monetary policy in the developed economies lie in the future: when and how to unwind the LSAP programmes smoothly without engendering significant risks of financial instability and inflation. For instance, LSAPs may support delays in balance sheet cleanups in some banks, and unwinding of securities held by the central banks may lead to an abrupt increase in long-term interest rates resulting in losses for bond holders. In addition, falling bond prices as a result of LSAP pullbacks may hurt EU area bank balance sheets, which hold a significant amount of sovereign bonds. The central banks should therefore have a sound exit plan for the medium term to provide a solid anchor for inflation expectations. They should also have a forward-looking mechanism to mitigate possible financial instability when those unconventional measures end.

The monetary stance varies across developing countries and economies in transition. Most recently, several of these economies, for example India, have reduced interest rates to counter the growth deceleration, while others, such as China, have mainly relied on liquidity operations without reducing policy interest rates. In the Russian Federation, monetary policy remains restrictive in response to elevated inflation. Challenges for monetary authorities in developing countries and economies in transition also vary: a majority of these economies still require a mild accommodative monetary stance to strengthen growth, particularly domestic demand, as external demand continues to be anaemic. A few economies with strong inflationary pressures may need a neutral stance or mild monetary tightening.

A common challenge for monetary authorities in developing countries and economies in transition is to deal with the spillover effects of unconventional monetary easing by developed countries, such as increased volatility in capital inflows and international prices of primary commodities, and appreciation pressures on local currencies. In some cases, the policy authorities may have to resort to controls on short-term capital inflows and macro-prudential measures.

International policy coordination

Most recently, the G20 has reaffirmed its framework for strong, sustainable and balanced growth, which was launched in 2009. Under this framework, G20 members running current account deficits, mainly the United States, pledged to undertake policies to support private savings and to consolidate their fiscal deficit, while the surplus members agreed to strengthen domestic sources of growth through measures such as reducing financial markets distortions, boosting productivity in service sectors, and improving social safety nets.

The current account imbalances across major economies have narrowed significantly from the levels prior to the financial crisis. The external deficit of the United States is estimated to be less than 3 per cent of GDP in 2013, down substantially from the peak of 6 per cent of GDP in 2006. The surpluses of China, Japan and a group of fuel-exporting countries have also declined correspondingly, with the surplus of China down from 10 per cent of GDP in 2007 to about 2 per cent currently. However, more balanced current accounts across major economies may not be equivalent to more balanced global growth, and vice versa. Balanced global growth refers to a state when growth in most economies is close to potential growth, namely, close to full employment and full capacity utilization; this state does not necessarily correspond to a balanced current account across most countries. Therefore, international macroeconomic policy coordination should currently be focused on strengthening the global recovery and jobs creation, but not necessarily on targeting balanced current accounts across major economies.

International policy coordination is also needed to mitigate the negative spillover effects of the unconventional monetary policy measures adopted in developed economies. International reserve currency issuers have the obligation to maintain a stable value of their currencies. Excess volatility of capital flows and international prices of primary commodities should be curbed, as excess volatility is particularly detrimental to developing countries because of their small market size and limited capacity to hedge.

International policy cooperation and coordination are needed to move forward the reforms of the international financial system on several fronts. Five years after the eruption of the global financial crisis, progress in financial regulatory reform has been slow, encountering growing resistance from the financial industry. Some progress has been made in amending the global financial safety standards for the banking sector. A dozen countries have issued final regulations to implement Basel III and more countries have committed to do so during 2013. Progress has also been made in implementing over-the-counter (OTC) derivatives reforms. On the other hand, the question of ending “too big to fail” remains pending, and recommendations from the Financial Stability Board (FSB) for the oversight and regulation of the shadow banking sector have yet to be issued. More forceful efforts are needed to address the issues of international tax avoidance and evasion, particularly through tax havens, in order to protect public finances and level the playing field for small businesses in comparison to transnational corporations as well as for average tax payers and high-net-worth-individuals.

The current phase of reforming both the IMF and the World Bank needs to be completed to make their governance structure more representative, responsive and accountable. While there has been progress in ratifying the 2010 IMF quota and governance reforms, it is not yet fully completed. The new review of the IMF quota formula should be resolved quickly to enhance the voice and participation of developing economies.

International policy cooperation should ensure that sufficient resources are made available to developing countries, especially those possessing limited fiscal space and facing large needs for investments in sustainable and resilient growth, including the LDCs. ODA flows have declined in real terms in both 2011 and 2012. With less than 1,000 days left to the deadline of the UN Millennium Development Goals (MDGs), international communities should redouble their efforts to deliver on their commitments. These resources are badly needed for developing countries to accelerate progress towards the achievement of the MDGs by the end of 2015, and to lay a solid foundation for long-run sustainable development beyond 2015.

Global policy scenario

A policy scenario aimed at moving the world economy closer to a balanced growth path was simulated using the UN Global Policy Model (GPM). This new scenario operates with a number of the policy suggestions outlined above such as targeted fiscal policies with a focus on job creation and policy coordination to mitigate negative spillover effects. Taking into account historical experiences specific to particular economies as well as more recent developments the model also enacts region and country specific policies. With monetary policy in many developed countries reaching its limits, the model implements some fiscal policy interventions in the short run designed to move the world past this period of sustained below-potential growth rates. In some cases this involves targeted government spending, structural policies and investment incentives.

More specifically, an easing or reversing of austerity measures in the US and select EU countries was implemented in combination with investment incentives and some changes in tax policy. The current context for this exercise is one where a number of countries have been cutting government spending in conjunction with deleveraging by businesses and households. This has had detrimental effects on growth and resulted in increases in debt to GDP ratios. According to the model simulations, the more accommodative fiscal policies do not result in significantly increased inflation or an expansion of deficit to GDP ratios as the implemented measures lead to improvements in growth. The improved growth supports tax revenue which offsets the new debt incurred by fiscal expansion. In some cases, such as Italy, base-broadening taxation measures were necessary to offset expanding deficits, as the interventions implemented in the policy scenario led to an initial further widening of the deficit.

In developing countries with greater fiscal space, public investments in infrastructure were modelled among other interventions. As well, incentives for investment in both capital stock and human capital to boost productivity were simulated for East Asia and China. In South Asia, Western Asia and North Africa, labour market reforms were enacted to boost female employment and promote a shift from informal to formal employment. Increases in expenditures on education and infrastructure in South and Latin America were offset by adjusting the tax system to increase progressivity and appropriately tax natural resources. In some cases, for the sake of consistency, some policy coordination was required as the effects of policies in one region have spill-over effects in other regions. For example labour market reforms to boost female employment in Western Asia are likely to result in a reduction in migrant labour particularly from the South Asia and a subsequent fall in remittances. This is could be offset by further changes in labour markets in South Asia as well as investment incentives to create the necessary economic activity to absorb the new crop of domestic workers. Coordination of credit from Gulf countries to South Asian countries could be facilitated to ease this transition. There were also efforts to diversify export partnerships in developing countries. This combination of policies produced a more robust growth path for the world economy while maintaining government balances and promoting necessary structural shifts. Structural shifts are a complex process that often results in significant social, political and economic upheaval. The implementation of programs at the national level involving efforts by both the public and private sector are undertaken in the scenario to help ease the transition.

The scenario results in an increase in WGP growth by around 0.5 percentage points for 2014 as well as improved growth patterns for subsequent years without significant increases in debt or inflationary pressures. This relatively moderate increase in growth reflects the generally slow nature of the significant structural changes that take place in some of the economies over the policy scenario horizon. In addition, employment improves moderately, particularly in the near term as austerity measures are loosened, mitigating the downward pressure on labour markets. The growth rates of trade in goods and services, private investment and capacity utilization all improve, though some pressures on current account imbalances remain.

LINK Global Economic Outlook
June 2013

Statistics Annex Table

Table A.1
World and regions: rates of growth of real GDP, 2007-2014
(Annual percentage change[a])

	2007	2008	2009	2010	2011	2012[b]	2013[c]	2014[c]
World	4.0	1.5	-2.1	4.0	2.8	2.3	2.3	3.1
Developed economies	2.6	0.0	-3.8	2.6	1.4	1.2	1.0	2.0
North America	1.9	-0.2	-3.0	2.5	1.9	2.2	1.8	2.6
Asia and Oceania	2.6	-0.5	-4.4	4.2	-0.1	2.3	1.5	1.9
Europe	3.2	0.4	-4.2	2.1	1.5	-0.2	0.0	1.4
European Union	3.2	0.3	-4.3	2.1	1.5	-0.3	-0.1	1.3
EU-15	3.0	0.1	-4.4	2.0	1.4	-0.4	-0.2	1.3
New EU Members	6.0	4.1	-3.6	2.3	3.2	0.8	1.1	2.2
Other Europe	3.4	1.2	-1.9	1.8	1.6	1.9	1.7	2.2
Memorandum items:								
Euro area	3.0	0.4	-4.4	2.0	1.4	-0.6	-0.4	1.1
Major developed economies (G-7)	2.3	-0.3	-3.9	2.8	1.4	1.4	1.2	2.1
OECD	2.7	0.1	-3.7	2.9	1.7	1.3	1.2	2.1
Economies in transition	8.6	5.2	-6.6	4.4	4.5	3.2	3.0	3.7
South-Eastern Europe	5.5	3.7	-4.3	0.3	1.1	-1.2	0.9	1.9
Commonwealth of Independent States and Georgia	8.9	5.4	-6.8	4.8	4.8	3.5	3.2	3.9
Developing countries	7.9	5.2	2.6	7.6	5.8	4.6	4.9	5.4
Africa	6.2	5.2	2.7	4.7	1.0	5.1	4.6	5.1
North Africa	4.7	4.6	3.1	4.1	-6.1	7.7	3.7	4.6
Sub-Saharan Africa	6.9	5.5	2.4	5.0	4.5	4.0	5.1	5.4
East and South Asia	9.9	6.1	5.3	9.0	6.9	5.5	5.8	6.1
East Asia	10.2	6.4	5.2	9.2	7.1	5.9	6.1	6.3
South Asia	8.6	4.6	6.1	8.0	6.4	3.9	4.7	5.4
Western Asia	4.7	3.8	-1.6	6.8	6.8	3.1	3.4	3.8
Latin America and the Caribbean	5.6	4.0	-1.9	5.9	4.3	3.0	3.5	4.2
South America	6.7	5.4	-0.2	6.5	4.5	2.5	3.4	4.2
Mexico and Central America	3.7	1.6	-5.4	5.2	4.0	4.0	3.9	4.1
Caribbean	6.4	3.6	0.9	3.5	2.7	2.5	3.0	3.7
Memorandum items:								
Least developed countries	9.0	7.7	5.1	5.8	3.4	3.8	5.8	5.7
Sub-Saharan Africa (excluding Nigeria and South Africa)	8.1	6.7	4.0	5.4	4.1	4.1	5.9	5.7
East Asia (excluding China)	6.0	2.8	0.2	7.7	4.2	3.2	3.6	4.1
South Asia (excluding India)	6.3	3.1	3.8	5.2	3.9	1.0	2.5	3.5
Western Asia (excluding Israel and Turkey)	4.6	5.7	0.0	5.8	6.1	3.7	3.5	3.8

Source : Project LINK

a Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.
b Actual or the most recent estimate.
c Forecasts, based in part on Project LINK.

Table A.2
Rates of growth of real GDP, 2007-2014
(Annual percentage change)

	2007	2008	2009	2010	2011	2012[a]	2013[b]	2014[b]
Developed Economies								
North America								
Canada	2.1	1.1	-2.8	3.2	2.6	1.8	1.5	2.4
United States	1.9	-0.3	-3.1	2.4	1.8	2.2	1.9	2.6
Asia and Oceania								
Australia	4.8	2.4	1.5	2.6	2.4	3.6	2.6	3.1
Japan	2.2	-1.0	-5.5	4.6	-0.6	2.0	1.3	1.6
New Zealand	3.3	-0.6	0.3	0.9	1.3	3.0	2.1	3.3
European Union								
EU-15								
Austria	3.7	1.4	-3.8	2.0	2.7	0.8	0.8	1.8
Belgium	2.9	1.0	-2.8	2.3	1.8	-0.2	-0.3	1.3
Denmark	1.6	-0.8	-5.7	1.6	1.1	-0.6	0.6	1.1
Finland	5.3	0.3	-8.5	3.3	2.8	-0.2	0.4	1.5
France	2.3	-0.1	-3.2	1.6	1.6	-0.1	0.0	0.6
Germany	3.3	1.1	-5.1	4.1	3.0	0.7	0.6	2.1
Greece	3.5	-0.2	-3.1	-4.9	-7.1	-6.4	-5.0	-1.5
Ireland	5.4	-2.1	-5.5	-0.8	1.4	0.6	0.5	1.4
Italy	1.7	-1.2	-5.5	1.7	0.4	-2.4	-1.5	0.8
Luxembourg	6.6	-0.7	-4.1	2.9	1.6	0.2	0.3	1.2
Netherlands	3.9	1.8	-3.7	1.5	1.0	-0.9	-0.5	1.0
Portugal	2.4	0.0	-2.9	1.9	-1.6	-3.2	-3.0	-0.6
Spain	3.5	0.9	-3.7	-0.4	0.4	-1.4	-1.7	0.1
Sweden	3.3	-0.6	-5.0	6.5	3.7	0.8	1.3	2.4
United Kingdom	3.6	-1.0	-4.0	1.8	0.9	0.2	0.7	1.9
New EU Member								
Bulgaria	6.4	6.2	-5.5	0.4	1.7	0.8	1.5	2.5
Cyprus	5.1	3.6	-1.9	1.3	0.5	-2.4	-10.2	-7.8
Czech Republic	5.7	3.1	-4.5	2.6	2.0	-1.2	0.1	2.0
Estonia	7.5	-4.2	-14.0	3.4	8.4	3.4	2.3	2.8
Hungary	0.1	0.9	-6.7	1.4	1.8	-1.7	0.1	1.9
Latvia	9.6	-3.2	-17.7	-0.9	5.5	5.2	4.0	4.0
Lithuania	9.8	2.9	-14.9	1.5	5.9	3.6	2.7	3.0
Malta	4.3	4.1	-2.7	2.3	2.1	0.9	0.7	1.1
Poland	6.8	5.1	1.6	3.9	4.4	2.1	2.0	2.5
Romania	6.3	7.4	-6.6	-1.7	2.4	0.7	2.1	3.0
Slovak Republic	10.5	5.8	-4.9	4.4	3.2	2.0	0.6	1.5
Slovenia	7.0	3.4	-7.8	1.1	0.6	-2.3	-1.4	0.9
Other European								
Iceland	6.0	1.2	-6.6	-4.0	2.6	2.0	1.7	2.1
Norway	2.7	0.1	-1.6	0.4	1.2	3.2	2.4	2.6
Switzerland	3.8	2.2	-1.9	3.0	1.9	1.0	1.2	1.9
Economies in transition								
South-Eastern Europe								
Albania	5.9	7.6	3.3	3.9	2.0	1.6	2.1	3.0
Bosnia and Herzegovina	6.1	5.6	-2.9	0.7	1.7	0.2	0.8	2.5
Croatia	5.1	2.1	-7.0	-1.4	0.0	-2.0	0.2	1.5
Montenegro	10.7	6.9	-5.6	2.5	2.5	-0.6	1.5	2.3
Serbia	5.4	3.8	-3.5	1.0	1.6	-1.7	1.5	1.5
The former Yugoslav Republic of Macedonia	6.1	5.0	-0.9	1.8	3.0	-0.3	1.2	2.5
Commonwealth of Independent States								
Armenia	13.7	6.9	-14.1	2.2	4.7	7.1	6.0	5.5
Azerbaijan	25.1	10.9	9.2	5.0	0.1	2.2	3.0	2.8
Belarus	8.6	10.3	0.1	7.7	5.3	1.5	2.3	3.0
Kazakhstan	8.7	3.4	1.2	7.2	7.5	5.5	6.0	8.0
Kyrgyzstan	8.5	8.4	2.9	-0.5	5.7	-0.9	5.1	5.0
Republic of Moldova	3.0	7.9	-6.0	7.1	6.4	-0.8	2.5	3.0
Russian Federation	8.5	5.3	-7.9	4.3	4.3	3.4	2.9	3.5
Tajikistan	7.8	7.6	4.0	6.5	7.4	7.5	6.0	6.5
Turkmenistan	11.8	14.8	6.1	9.2	14.6	8.0	7.0	7.0
Ukraine	7.9	2.3	-14.8	4.1	5.2	1.8	1.5	2.8
Uzbekistan	9.5	9.1	8.0	8.5	8.3	8.2	7.0	6.9
Georgia	12.3	2.3	-3.8	6.3	7.0	7.0	6.0	6.1

	2007	2008	2009	2010	2011	2012[a]	2013[b]	2014[b]
Developing Economies								
Africa								
Algeria	3.0	2.4	2.4	3.3	2.8	2.4	3.3	3.6
Angola	23.2	13.8	2.4	3.7	3.9	7.9	8.3	5.8
Benin	4.6	5.0	2.6	2.5	3.2	3.4	4.6	4.8
Botswana	4.8	3.0	-4.8	7.0	3.7	6.2	5.8	5.5
Burkina Faso	4.1	5.8	2.9	7.9	-7.9	6.4	6.9	7.1
Burundi	6.4	13.6	3.5	3.9	4.2	4.0	3.8	4.3
Cameroon	3.3	2.9	1.9	3.2	5.6	4.5	4.7	4.7
Cape Verde	8.6	6.2	3.5	5.4	5.4	4.6	4.3	4.7
Central African Republic	3.7	2.0	1.7	3.0	1.9	3.8	2.5	4.0
Chad	0.1	0.3	4.1	14.6	0.7	6.2	4.0	5.0
Comoros	0.5	1.0	1.8	2.0	2.2	2.5	3.3	3.3
Congo	-1.6	6.0	7.5	8.7	4.5	4.5	5.5	5.7
Côte d'Ivoire	1.6	2.3	3.8	3.0	-4.7	8.6	7.2	7.8
Democratic Republic of the Congo	6.3	6.2	2.7	7.2	6.9	7.1	7.7	6.6
Djibouti	5.0	5.8	5.0	3.5	4.4	4.7	4.8	4.4
Egypt	7.1	7.2	4.6	5.2	1.8	2.1	1.5	4.4
Equatorial Guinea	23.2	15.3	4.6	-0.8	7.1	7.2	6.5	6.7
Eritrea	1.4	-9.8	3.9	2.2	8.7	6.5	5.0	4.3
Ethiopia	11.5	10.8	8.8	12.5	11.2	8.2	7.2	7.0
Gabon	5.6	1.8	-0.4	5.6	5.8	5.8	6.2	5.4
Gambia	4.7	5.5	6.3	6.0	5.5	2.4	8.2	5.5
Ghana	6.4	8.4	4.6	6.7	14.4	7.1	7.5	7.4
Guinea	2.5	4.7	0.9	2.1	2.7	4.6	4.9	5.1
Guinea-Bissau	4.1	4.0	12.7	6.0	4.1	-1.8	2.2	3.5
Kenya	7.0	1.5	2.7	5.7	4.4	4.1	5.5	5.8
Lesotho	4.7	5.5	2.8	5.6	5.8	3.8	5.9	5.3
Liberia	8.6	8.0	7.8	7.3	8.2	8.4	7.5	6.4
Libya	5.1	2.7	-0.8	4.2	-62.0	104.0	12.5	8.1
Madagascar	6.3	7.1	-4.2	0.4	1.6	2.4	3.2	4.4
Malawi	9.6	8.3	8.9	6.7	4.5	1.6	4.1	4.3
Mali	4.3	5.0	3.4	4.1	2.7	-3.0	3.5	5.9
Mauritania	1.6	-0.7	0.1	5.6	5.1	5.2	6.2	5.5
Mauritius	5.8	5.5	3.3	4.1	3.5	3.3	3.4	3.9
Morocco	2.7	5.6	4.7	3.7	4.1	2.4	3.6	4.9
Mozambique	7.3	6.9	6.3	6.8	7.1	7.4	7.0	7.3
Namibia	5.4	4.3	-0.7	6.6	4.9	4.0	4.7	5.4
Niger	3.1	9.6	-1.8	5.6	2.3	11.2	6.2	6.5
Nigeria	6.4	6.3	6.9	7.8	7.4	6.6	6.8	7.0
Rwanda	7.7	11.1	6.2	7.2	8.6	7.3	7.1	7.1
Sao Tome and Principe	2.4	9.4	4.8	4.5	4.9	5.0	5.3	5.4
Senegal	4.9	3.7	2.0	4.1	2.8	3.9	4.4	4.6
Sierra Leone	8.0	5.2	-1.2	2.2	6.5	17.7	12.6	10.4
South Africa	5.6	3.6	-1.7	2.9	3.5	2.5	2.8	3.8
Togo	2.1	2.4	3.3	4.0	3.9	4.4	4.7	4.9
Tunisia	6.3	4.5	3.1	3.5	-1.5	2.8	3.3	3.8
Uganda	8.1	10.4	4.2	6.3	4.1	6.5	5.3	6.7
United Republic of Tanzania	7.1	7.5	6.0	7.0	6.4	6.8	7.0	7.1
Zambia	6.3	5.7	6.7	6.5	6.6	6.1	6.8	8.3
Zimbabwe	-3.3	-4.7	16.9	9.6	10.3	3.1	2.2	2.4
East and South Asia								
Bangladesh	6.3	6.0	5.9	6.3	6.5	6.2	6.3	6.4
Brunei Darussalam	0.2	-1.9	-1.8	2.6	2.2	1.5	1.8	2.0
China	14.2	9.6	9.2	10.3	9.2	7.8	7.8	7.7
Hong Kong, Special Administrative Region of China	6.4	2.4	-2.7	7.0	5.0	1.4	2.7	3.3
India	9.6	5.2	7.2	9.2	7.5	5.1	5.5	6.1
Indonesia	6.3	6.0	4.6	6.2	6.5	6.2	6.1	6.3
Iran, Islamic Republic of	7.8	2.1	3.2	5.5	2.8	-2.8	-0.3	1.5
Korea, Republic of	5.1	2.3	0.3	6.3	3.6	2.0	2.3	2.9
Malaysia	6.3	4.9	-1.5	7.1	5.1	5.6	5.0	5.3
Myanmar	12.0	10.2	10.6	10.4	5.4	5.0	5.3	5.9
Nepal	4.4	5.6	4.6	4.5	4.1	4.0	3.8	4.1
Pakistan	3.6	2.6	3.5	3.2	3.4	3.7	4.0	4.2
Papua New Guinea	7.2	6.7	6.2	7.6	8.8	9.1	4.3	5.4
Philippines	6.6	4.2	1.1	7.6	3.7	6.6	5.9	5.7
Singapore	8.9	1.8	-1.0	14.7	4.9	1.3	1.9	3.3
Sri Lanka	6.8	6.0	3.5	8.0	8.3	6.4	6.7	6.4
Taiwan, Province of China	6.0	0.8	-1.9	10.9	4.1	1.3	2.9	3.6
Thailand	5.4	1.7	-1.1	7.5	0.1	6.4	5.0	5.2
Vietnam	8.5	6.3	5.3	6.8	5.9	5.0	5.3	5.9

	2007	2008	2009	2010	2011	2012[a]	2013[b]	2014[b]
Western Asia								
Bahrain	8.4	6.3	3.1	4.5	2.2	3.1	3.9	3.0
Iraq	1.4	6.6	5.8	5.9	8.6	9.3	7.8	8.1
Israel	5.5	4.1	0.8	4.8	4.7	3.2	3.7	4.5
Jordan	8.2	7.3	5.5	2.3	2.6	2.6	2.9	3.0
Kuwait	6.5	4.2	-7.8	7.9	8.2	5.5	1.9	3.1
Lebanon	8.4	8.6	9.0	7.0	1.5	1.6	2.1	3.5
Oman	6.7	12.9	1.1	8.1	5.5	4.5	4.3	3.6
Qatar	18.0	17.7	12.0	16.7	13.5	5.9	5.1	4.5
Saudi Arabia	2.0	4.2	0.1	5.1	7.1	5.9	4.1	3.7
Syrian Arab Republic	5.7	4.5	5.9	3.4	-2.0	-31.4	-15.0	6.0
Turkey	4.7	0.7	-4.8	9.1	8.5	2.2	3.3	3.6
United Arab Emirates	3.2	3.2	-4.8	1.3	4.2	3.3	3.7	3.4
Yemen	3.5	4.0	4.3	7.8	-10.5	-1.0	3.0	3.0
Latin America and the Caribbean								
Argentina	8.7	6.8	0.8	9.2	8.9	1.9	3.4	3.9
Barbados	1.7	0.4	-4.1	0.2	0.6	0.2	1.8	2.0
Bolivia, Plurinational State of	4.6	6.1	3.4	4.1	5.2	5.2	4.9	5.0
Brazil	6.1	5.1	-0.3	7.6	2.8	0.9	3.0	4.2
Chile	5.2	3.3	-1.1	6.1	6.0	5.6	4.9	4.8
Colombia	6.9	3.6	1.7	4.0	5.9	4.0	4.2	4.6
Costa Rica	7.9	2.8	-1.0	4.7	4.2	4.9	4.4	4.5
Cuba	7.3	4.1	1.4	2.4	2.7	3.0	3.5	3.8
Dominican Republic	8.5	5.3	3.4	7.7	4.5	3.9	3.2	4.2
Ecuador	2.0	7.3	0.4	3.6	7.8	5.0	4.2	4.5
El Salvador	3.8	1.3	-3.2	1.3	1.5	1.3	2.2	2.6
Guatemala	6.3	3.3	0.5	2.9	3.9	3.2	3.5	3.5
Guyana	5.4	2.1	3.3	3.6	4.6	3.3	4.9	4.8
Haiti	3.3	0.9	2.9	-5.4	5.6	2.9	6.3	6.3
Honduras	6.2	4.2	-2.1	2.8	3.6	3.5	3.9	4.2
Jamaica	1.4	-0.8	-3.1	-1.4	1.5	-1.0	0.5	1.2
Mexico	3.4	1.3	-6.0	5.3	3.9	3.9	3.8	4.1
Nicaragua	3.6	2.9	-1.5	4.5	4.7	4.0	3.8	3.9
Panama	12.1	10.2	3.8	7.6	10.6	10.1	7.6	7.3
Paraguay	6.8	5.9	-3.9	15.0	3.8	-0.9	9.4	5.0
Peru	8.9	9.8	0.8	8.7	6.9	6.2	6.0	5.8
Trinidad and Tobago	4.8	2.4	-3.5	2.5	-1.4	-0.5	2.1	3.1
Uruguay	6.5	7.2	2.4	8.9	5.7	3.9	4.2	4.3
Venezuela, Bolivarian Republic of	8.8	5.3	-3.2	-1.5	3.9	5.6	0.9	3.0

Source: Project LINK

a Actual or most recent estimate.
b Forecasts, based in part on Project LINK.

Table A.3
World and regions: consumer price inflation, 2007-2014
(Annual percentage change[a])

	2007	2008	2009	2010	2011	2012[b]	2013[c]	2014[c]
Developed economies	2.1	3.5	-0.1	1.8	2.5	1.9	1.5	1.7
North America	2.6	4.2	-0.7	2.4	2.9	2.1	1.5	1.7
Asia and Oceania	0.4	1.8	-0.8	-0.1	0.3	0.3	0.6	1.7
Europe	2.2	3.5	0.8	1.9	2.9	2.4	1.7	1.6
European Union	2.2	3.5	0.8	1.9	3.0	2.6	1.8	1.6
EU-15	2.1	3.3	0.7	1.9	2.9	2.5	1.7	1.5
New EU Members	4.1	6.1	3.2	2.9	3.8	3.8	2.6	2.8
Other Europe	0.8	3.1	0.9	1.5	0.7	-0.1	0.9	1.2
Memorandum items:								
Euro area	2.1	3.3	0.3	1.5	2.7	2.5	1.6	1.5
Major developed economies (G-7)	2.0	3.4	-0.3	1.7	2.4	1.9	1.4	1.6
OECD	2.2	3.6	0.2	1.9	2.6	2.0	1.6	1.8
Economies in transition	9.0	15.8	10.8	6.8	9.3	6.0	6.6	6.4
South-eastern Europe	3.6	7.9	3.5	2.8	5.0	4.2	4.4	3.3
Commonwealth of Independent States and Georgia	9.5	16.6	11.4	7.2	9.7	6.2	6.9	6.6
Developing countries[d]	5.2	8.2	4.3	5.5	6.3	5.5	5.7	5.0
Africa[d]	6.2	11.6	8.0	6.6	7.8	8.0	6.5	5.8
North Africa	5.3	9.7	6.1	5.3	6.7	6.2	5.2	5.5
Sub-Saharan Africa[d]	6.9	12.7	8.4	5.8	7.9	8.3	6.5	5.2
East and South Asia	4.9	7.4	2.8	4.9	6.2	4.8	5.1	4.7
East Asia	3.9	6.0	0.6	3.2	4.9	2.8	3.1	3.1
South Asia	8.5	12.5	11.1	11.4	11.0	12.1	12.4	10.4
Western Asia	6.2	10.2	4.9	6.1	5.5	5.6	5.8	4.7
Latin America and the Caribbean	5.2	7.8	6.0	6.0	6.4	6.2	6.7	5.8
South America	5.6	8.7	6.6	7.1	8.0	7.4	8.4	7.0
Mexico and Central America	4.2	5.9	5.2	4.1	3.6	4.1	3.8	3.8
Caribbean	8.6	10.5	3.0	5.6	6.9	4.4	5.9	5.0
Memorandum items:								
Least developed countries	9.4	14.0	8.4	9.0	11.7	12.4	9.6	7.6
Sub-Saharan Africa [d] (Excluding Nigeria and South Africa)	7.5	13.8	9.1	7.3	10.3	10.4	7.9	6.3
East Asia (excluding China)	3.1	6.2	1.9	3.0	4.3	2.9	2.9	3.1
South Asia (excluding India)	13.2	21.4	11.9	10.7	15.8	18.4	17.9	14.2
Western Asia (excluding Israel and Turkey)	5.3	11.1	3.7	4.5	4.9	5.9	6.4	4.5

Source: Project LINK

a Calculated as a weighted average of individual country growth rates of consumer price index (CPI), where weights are based on GDP in 2005, in United States dollars .
b Actual or the most recent estimate.
c Forecasts, based in part on Project LINK.
d Excluding Zimbabwe.

Table A.4
Consumer price inflation, 2007-2014
(Annual percentage change)

	2007	2008	2009	2010	2011	2012[a]	2013[b]	2014[b]
Developed Economies								
North America								
Canada	2.1	2.4	0.3	1.8	2.9	1.5	1.2	2.0
United States	2.6	4.3	-0.8	2.5	2.9	2.1	1.5	1.7
Asia and Oceania								
Australia	2.3	4.4	1.8	2.9	3.3	1.8	2.6	2.9
Japan	0.1	1.4	-1.3	-0.7	-0.3	0.0	0.3	1.5
New Zealand	2.4	4.0	2.1	2.3	4.0	2.4	2.4	2.1
European Union								
EU-15								
Austria	2.2	3.2	0.4	1.6	3.6	2.6	2.1	2.0
Belgium	1.8	4.5	0.0	2.3	3.4	2.6	1.5	2.0
Denmark	1.7	3.6	1.1	2.2	2.7	2.4	1.2	2.3
Finland	1.6	3.9	1.6	1.7	3.3	3.2	2.4	1.6
France	1.6	3.2	0.1	1.7	2.2	2.1	1.4	0.9
Germany	2.3	2.8	0.2	1.1	2.5	2.1	1.8	1.8
Greece	3.0	4.2	1.4	4.7	3.1	1.0	0.0	0.7
Ireland	2.9	3.1	-1.7	-1.6	1.2	1.9	0.8	1.2
Italy	2.0	3.5	0.8	1.6	2.9	3.3	1.7	1.9
Luxembourg	2.7	4.1	0.0	2.8	3.4	2.9	2.5	2.4
Netherlands	1.6	2.2	1.0	0.9	2.5	2.8	2.7	2.0
Portugal	2.4	2.7	-0.9	1.4	3.6	2.8	0.2	1.2
Spain	2.8	4.1	-0.2	2.0	3.1	2.4	1.5	0.8
Sweden	1.7	3.4	1.9	1.9	1.4	0.9	0.2	1.1
United Kingdom	2.3	3.6	2.2	3.3	4.5	2.8	2.6	1.6
New EU members								
Bulgaria	8.4	12.4	2.8	2.5	4.2	2.9	3.0	3.5
Cyprus	2.3	4.7	0.4	2.5	3.3	3.1	2.0	1.7
Czech Republic	3.0	6.3	0.6	1.3	2.2	3.6	2.1	2.5
Estonia	6.7	10.6	0.2	2.8	5.1	4.2	3.0	3.0
Hungary	7.9	6.0	4.0	4.8	4.0	5.7	3.9	3.0
Latvia	10.1	15.6	3.6	-1.1	4.4	2.5	2.0	2.9
Lithuania	5.7	11.1	4.5	1.4	4.1	3.1	2.5	3.0
Malta	1.3	4.2	2.1	1.4	2.8	3.3	3.0	3.2
Poland	2.6	4.2	4.0	2.7	3.9	3.7	1.7	2.7
Romania	4.8	8.0	5.6	6.2	5.8	3.3	5.1	3.5
Slovak Republic	1.9	3.9	0.9	0.7	4.1	3.7	2.1	2.5
Slovenia	3.8	5.5	0.9	2.1	2.0	2.7	2.2	1.8
Other Europe								
Iceland	5.1	12.7	12.0	5.4	4.0	5.2	4.1	3.8
Norway	0.7	3.4	2.3	2.3	1.2	0.4	1.5	1.4
Switzerland	0.8	2.3	-0.7	0.6	0.1	-0.7	0.3	1.0
Economies in Transition								
South-eastern Europe								
Albania	2.9	3.4	2.4	3.6	3.4	2.0	2.5	2.5
Bosnia and Herzegovina	1.5	7.4	-0.3	2.2	3.7	2.1	2.1	2.5
Croatia	2.9	6.1	2.5	1.1	2.2	3.4	3.0	2.7
Montenegro	4.3	9.1	4.0	0.6	3.2	4.0	3.0	3.0
Serbia	6.4	12.5	8.3	6.2	11.2	7.3	9.0	5.1
The former Yugoslav Republic of Macedonia	2.3	8.5	-0.7	1.5	3.9	3.1	2.5	2.7
Commonwealth of Independent States								
Armenia	4.4	8.9	3.4	8.2	7.7	2.5	4.0	3.6
Azerbaijan	16.6	21.2	1.4	5.7	7.8	1.8	3.0	4.0
Belarus	8.2	15.0	13.0	7.7	53.4	60.0	25.0	15.5
Kazakhstan	10.8	17.6	7.4	7.2	8.3	5.1	6.4	5.9
Kyrgyzstan	10.1	24.6	7.0	8.0	16.4	2.8	6.0	5.0
Republic of Moldova	12.3	12.9	0.0	7.4	7.6	4.6	3.8	5.4
Russian Federation	9.0	15.6	11.7	6.9	8.3	4.8	6.5	6.4
Tajikistan	13.4	21.2	6.6	6.5	12.4	6.0	7.5	7.0
Turkmenistan	6.3	15.0	-2.6	4.5	12.0	4.8	6.0	9.9
Ukraine	12.8	25.3	16.0	9.4	8.0	0.5	4.5	6.0
Uzbekistan	12.3	13.2	14.1	9.4	12.8	13.0	11.9	11.0
Georgia	9.2	10.1	1.8	7.1	8.5	-0.9	2.0	2.9

	2007	2008	2009	2010	2011	2012[a]	2013[b]	2014[b]
Developing Economies								
Africa								
Algeria	3.7	5.6	6.0	3.9	4.4	8.8	4.9	4.8
Angola	12.2	12.9	13.9	14.6	13.5	10.3	9.0	8.5
Benin	1.3	8.3	2.3	2.3	2.6	5.4	3.1	3.3
Botswana	7.1	13.1	8.2	6.9	8.8	7.4	5.9	5.9
Burkina Faso	-0.2	11.1	2.7	-0.8	2.7	4.4	3.0	2.8
Burundi	8.3	24.6	11.1	6.4	9.7	16.6	12.0	8.1
Cameroon	0.9	5.7	3.2	1.3	2.8	2.8	2.9	3.0
Cape Verde	4.4	7.2	1.1	2.1	4.5	2.5	2.2	2.4
Central African Republic	0.9	9.7	3.6	1.5	1.2	4.9	7.9	3.4
Chad	-9.0	10.7	10.1	-2.1	-5.0	9.5	4.0	4.7
Comoros	4.5	5.6	5.0	4.6	5.9	4.9	3.4	2.9
Congo	2.7	7.7	5.5	5.0	1.3	5.0	4.5	3.0
Côte d'Ivoire	1.9	6.7	1.2	1.7	4.9	2.7	0.6	2.3
Democratic Republic of the Congo	16.9	17.7	27.3	22.3	15.4	9.8	9.4	8.7
Djibouti	5.0	12.0	1.7	4.0	11.5	7.5	5.3	6.9
Egypt	9.3	18.7	11.9	11.3	10.0	7.0	9.0	10.1
Equatorial Guinea	2.8	7.3	5.0	7.8	6.9	6.2	5.8	5.7
Eritrea	9.3	19.9	33.0	12.7	14.0	13.0	12.5	11.0
Ethiopia	17.2	44.9	8.6	8.1	31.9	23.2	14.1	13.0
Gabon	5.0	6.0	2.2	1.5	1.2	2.9	2.5	2.4
Gambia	5.4	4.8	4.7	5.0	4.7	4.6	4.3	4.1
Ghana	10.6	16.3	19.0	10.5	8.6	9.0	8.8	7.9
Guinea	22.8	18.3	4.6	13.2	17.5	15.1	10.1	8.5
Guinea-Bissau	4.6	10.9	-1.5	2.5	7.8	2.7	2.3	2.1
Kenya	9.8	26.7	9.4	4.0	18.8	3.1	4.4	4.9
Lesotho	8.0	11.1	7.3	3.6	5.0	6.1	4.6	5.0
Liberia	13.7	17.5	7.4	7.3	7.4	5.5	6.0	6.0
Libya	6.3	10.7	2.6	2.5	15.0	5.0	2.0	3.0
Madagascar	10.1	9.1	8.8	9.1	9.4	6.4	6.9	6.4
Malawi	8.0	8.7	8.4	7.4	7.6	31.0	17.1	13.4
Mali	1.4	9.6	2.3	1.1	2.8	5.4	4.9	4.5
Mauritania	7.3	7.8	2.3	6.3	5.6	6.1	5.9	5.7
Mauritius	8.8	10.1	2.7	2.9	4.7	3.1	5.8	4.5
Morocco	2.0	4.1	1.1	1.0	0.9	1.2	2.3	2.4
Mozambique	8.2	10.7	3.4	12.7	5.4	3.1	1.7	7.7
Namibia	6.7	10.8	8.9	3.1	7.1	6.2	4.1	4.4
Niger	0.1	11.7	4.4	0.8	2.8	1.1	0.7	1.0
Nigeria	5.4	11.9	11.7	13.7	10.8	12.1	10.1	9.5
Rwanda	9.1	15.4	10.3	2.2	5.4	6.4	5.9	5.7
Sao Tome and Principe	18.5	26.1	17.0	13.3	12.0	8.0	7.0	7.0
Senegal	5.9	6.2	-0.9	1.2	3.3	1.1	2.8	2.0
Sierra Leone	11.7	15.3	9.4	16.6	16.2	12.8	11.0	9.7
Somalia	15.0	30.0	25.0	2.1	2.2	2.2	2.1	2.1
South Africa	6.2	11.3	7.6	4.0	4.9	5.7	4.7	3.8
Togo	1.0	9.1	2.1	1.8	3.5	2.5	2.3	2.6
Tunisia	3.4	5.7	3.8	4.4	3.5	5.8	4.9	3.5
Uganda	6.1	12.9	13.3	3.9	18.6	13.9	5.9	5.2
United Republic of Tanzania	7.0	11.1	12.4	6.2	12.6	15.8	8.5	7.7
Zambia	10.7	13.4	12.4	8.6	6.4	7.9	9.0	4.7
Zimbabwe	24411	0.0	0.0	5.9	5.4	8.3	8.0	6.6
East and South Asia								
Bangladesh	9.1	9.2	5.6	8.2	10.7	8.7	8.2	7.4
Brunei Darussalam	1.0	2.1	1.0	0.4	2.0	0.7	1.0	1.1
China	4.7	5.9	-0.7	3.3	5.5	2.6	3.2	3.1
Hong Kong, Special Administrative Region of Cl	2.0	4.4	0.7	2.4	5.3	4.1	4.2	3.9
India	6.3	8.2	10.7	11.8	8.7	9.1	9.7	8.6
Indonesia	6.5	10.2	4.4	5.1	5.4	4.3	5.5	5.2
Iran, Islamic Republic of	17.2	25.6	13.5	10.2	20.7	27.3	28.0	21.5
Korea, Republic of	2.5	4.7	2.8	2.9	4.0	2.2	2.0	2.4
Malaysia	2.0	5.6	0.7	1.8	3.2	1.7	2.0	2.3
Myanmar	35.0	27.3	1.7	7.8	5.1	3.0	5.5	6.3
Nepal	6.1	11.2	11.8	10.1	9.6	9.5	9.9	9.0
Pakistan	7.6	20.6	13.8	14.0	11.9	9.7	7.0	6.2
Papua New Guinea	0.9	10.9	7.0	6.1	8.5	1.6	5.5	4.5
Philippines	2.9	8.4	4.2	3.9	4.7	3.2	3.5	3.8
Singapore	2.1	6.7	0.7	2.9	5.4	4.6	4.1	3.5
Sri Lanka	15.8	22.7	3.6	6.3	7.0	7.5	6.9	5.7
Taiwan, Province of China	1.8	3.8	-0.7	1.0	1.4	1.9	1.5	1.9
Thailand	2.3	5.6	-0.8	3.4	3.8	3.0	3.1	3.2
Viet Nam	8.3	23.1	7.1	8.9	18.7	9.1	7.0	7.4

	2007	2008	2009	2010	2011	2012[a]	2013[b]	2014[b]
Western Asia								
Bahrain	3.3	3.5	2.8	2.0	-0.4	0.7	1.5	3.0
Israel	0.5	4.9	3.5	2.8	3.5	1.7	2.1	3.0
Jordan	5.4	15.1	-0.6	5.1	4.4	4.7	6.3	4.5
Kuwait	5.5	10.6	4.0	4.0	4.8	2.6	3.5	3.8
Oman	6.0	12.1	3.9	3.2	4.1	3.0	2.8	3.4
Qatar	13.8	15.1	-4.9	-2.4	1.9	1.9	2.9	2.9
Saudi Arabia	4.2	9.9	5.1	5.4	5.0	4.9	4.4	4.0
Syrian Arab Republic	3.9	15.9	3.0	4.4	4.8	29.1	40.0	12.0
Turkey	8.8	10.7	6.4	8.6	6.6	6.4	6.2	5.5
Yemen	7.9	19.0	5.4	11.2	16.4	17.3	13.1	10.0
Latin America and the Caribbean								
Argentina	8.8	8.8	6.3	10.8	9.5	14.5	12.3	10.0
Barbados	4.0	8.3	3.7	5.8	9.4	6.5	3.1	2.2
Bolivia, Plurinational State of	8.7	14.0	3.3	2.5	9.8	4.5	4.5	4.0
Brazil	3.6	5.7	4.9	5.0	6.7	5.5	6.4	5.0
Chile	4.4	8.9	0.4	1.4	3.3	3.0	3.0	3.7
Colombia	5.5	7.0	4.2	2.3	3.4	3.2	2.2	2.8
Costa Rica	9.4	13.7	7.9	5.7	4.9	4.5	5.5	5.4
Dominican Republic	6.1	10.8	1.5	6.3	8.5	3.7	6.4	4.2
Ecuador	2.3	8.4	5.2	3.6	4.5	5.1	4.4	4.2
El Salvador	4.6	6.9	1.1	1.2	5.1	2.0	3.1	3.6
Guatemala	6.8	11.4	1.9	3.9	6.2	3.9	4.1	4.3
Guyana	12.3	8.3	3.0	2.1	5.0	3.0	5.6	5.7
Haiti	8.5	15.8	0.1	5.8	8.5	8.5	6.4	7.9
Honduras	6.9	11.4	5.5	4.7	6.8	5.2	5.3	5.9
Jamaica	9.3	22.0	9.6	12.6	7.5	6.9	8.3	6.4
Mexico	4.0	5.3	5.4	4.2	3.4	4.1	3.7	3.7
Nicaragua	11.1	20.0	3.7	5.5	8.1	7.2	8.1	6.4
Panama	4.2	9.0	2.5	3.5	5.9	5.7	4.7	4.4
Paraguay	8.1	10.6	2.7	4.7	8.3	3.7	3.7	4.8
Peru	1.8	6.0	3.0	1.5	3.4	3.7	2.5	2.5
Trinidad and Tobago	7.9	12.1	7.0	10.6	5.1	9.3	5.0	5.8
Uruguay	8.1	8.1	7.2	6.7	8.1	8.1	7.1	6.0
Venezuela, Bolivarian Republic of	16.9	29.8	27.1	28.2	26.1	21.1	31.1	25.5

Source: Project LINK

a Actual or most recent estimate.
b Forecasts, based in part on Project LINK.

Table A.5
World trade: growth in trade value of goods and non-factor services, by major country group, 2007-2014
(annual percentage change)

Region	Flow	2007	2008	2009	2010	2011	2012	2013	2014
World	Exports	16.1	14.2	-19.7	19.3	17.8	2.7	5.6	7.3
	Imports	15.9	14.5	-20.1	18.9	17.8	2.5	6.3	6.5
Developed economies	Exports	15.3	11.2	-19.7	13.5	15.0	-1.8	3.6	4.3
	Imports	13.4	11.4	-22.0	14.2	15.6	-1.7	3.6	3.6
North America	Exports	11.7	10.0	-16.9	17.0	14.1	3.4	3.4	6.6
	Imports	6.5	7.7	-22.0	19.7	13.1	3.0	1.6	4.5
Asia and Oceania	Exports	11.2	13.9	-23.4	30.9	11.5	-1.7	-3.0	3.2
	Imports	10.6	20.9	-24.7	23.9	23.1	6.3	8.1	4.9
Europe	Exports	17.1	11.2	-20.0	10.1	15.9	-3.4	4.7	3.7
	Imports	16.9	11.6	-21.7	10.7	15.6	-5.0	3.7	3.0
European Union	Exports	17.1	10.7	-20.2	10.1	15.7	-3.5	4.8	3.7
	Imports	16.8	11.6	-22.0	10.6	15.4	-5.1	3.6	2.9
EU-15	Exports	16.3	9.9	-20.1	9.5	15.2	-3.6	4.5	3.4
	Imports	15.7	10.7	-21.3	10.1	14.9	-5.3	3.1	2.3
New EU Members	Exports	25.1	18.2	-21.2	14.9	19.8	-2.6	6.9	6.3
	Imports	26.7	19.2	-27.6	15.1	19.3	-3.8	7.7	7.6
Other Europe	Exports	16.4	18.5	-17.8	11.5	19.0	-2.5	4.1	2.9
	Imports	18.6	11.8	-15.6	12.3	18.3	-2.0	6.3	3.8
Euro area	Exports	18.2	10.8	-19.8	9.3	15.5	-3.5	5.6	3.4
	Imports	17.3	12.2	-21.0	9.7	15.5	-6.1	3.9	2.1
Economies in transition	Exports	21.6	31.0	-32.6	26.8	31.0	-1.3	3.2	7.2
	Imports	34.0	28.7	-29.8	20.6	27.5	5.2	7.5	11.3
South-eastern Europe	Exports	23.8	19.6	-21.2	8.1	17.0	-7.8	6.9	4.3
	Imports	30.9	23.4	-27.7	0.0	16.3	-4.0	8.3	5.3
Commonwealth of Independent States	Exports	21.4	32.0	-33.5	28.6	32.1	-0.8	3.0	7.4
	Imports	34.5	29.6	-30.1	23.9	28.9	6.3	7.4	11.9
Developing countries	Exports	16.9	17.4	-18.3	27.7	20.5	9.0	8.1	10.7
	Imports	19.6	19.3	-15.5	26.7	20.4	8.5	9.7	9.7
Africa	Exports	12.8	27.9	-26.5	27.8	17.9	28.9	-0.8	4.8
	Imports	27.3	25.9	-12.4	10.8	18.0	15.1	3.6	9.1
North Africa	Exports	16.0	30.0	-27.8	15.1	-0.3	32.0	2.6	2.2
	Imports	24.5	37.3	-11.9	4.4	3.3	13.2	6.4	8.5
Sub-Saharan Africa	Exports	10.7	26.5	-25.6	35.9	27.8	27.6	-2.2	6.0
	Imports	28.7	20.2	-12.7	14.5	25.8	16.0	2.4	9.3
Sub-Saharan Africa	Exports	22.2	28.7	-22.7	20.0	24.6	41.8	-8.3	6.4
(Excluding Nigeria & South Africa)	Imports	28.8	32.9	-8.6	5.7	26.2	24.2	-2.8	8.5
East and South Asia	Exports	18.6	13.9	-14.5	28.5	20.0	4.9	9.6	11.3
	Imports	16.9	17.3	-14.3	31.2	21.8	7.5	10.6	9.9
East Asia	Exports	18.1	13.6	-15.4	28.7	19.6	5.3	9.3	11.0
	Imports	15.7	16.9	-16.0	32.6	21.3	8.2	10.6	9.7
South Asia	Exports	24.0	16.0	-6.0	27.1	23.3	2.4	11.7	13.6
	Imports	25.6	20.1	-2.9	23.0	25.1	3.3	10.1	11.0
Western Asia	Exports	15.7	28.8	-26.3	20.8	26.9	18.6	8.6	9.7
	Imports	28.8	22.1	-17.4	14.9	15.4	11.4	8.9	8.3
Latin America and the Caribbean	Exports	12.8	15.4	-20.7	31.1	17.8	6.8	6.9	12.4
	Imports	19.3	21.3	-20.1	28.4	19.3	7.1	10.1	10.5
South America	Exports	15.9	21.2	-21.6	35.6	18.2	7.1	4.0	13.6
	Imports	28.1	31.0	-18.5	31.5	20.7	6.9	9.4	10.0
Mexico and Central America	Exports	9.7	7.2	-18.4	25.6	17.2	6.1	12.0	11.0
	Imports	11.0	10.1	-21.9	25.7	17.7	7.0	11.6	11.5
Caribbean	Exports	2.8	12.1	-27.9	12.4	15.9	6.9	7.8	7.0
	Imports	12.8	20.0	-24.0	12.6	15.2	10.6	7.5	8.0
Least developed countries	Exports	24.9	28.2	-21.9	22.3	28.0	46.1	-8.3	9.5
	Imports	29.1	32.6	-5.1	9.0	23.5	25.1	-1.9	10.0

Source: UN/DESA

Table A.6
World trade: growth in trade volume of goods and non-factor services, by major country group, 2007-2014
(annual percentage change)

Region	Flow	2007	2008	2009	2010	2011	2012	2013	2014
World	Exports	6.9	2.8	-9.4	12.6	6.8	2.8	3.4	4.8
	Imports	7.8	2.8	-10.5	13.4	7.0	2.6	3.7	5.2
Developed economies	Exports	6.3	2.0	-11.7	11.0	5.4	2.3	2.4	4.4
	Imports	5.0	0.4	-12.2	10.6	4.6	1.1	2.0	4.2
North America	Exports	7.3	3.6	-9.9	10.2	6.3	3.0	2.6	4.8
	Imports	2.9	-2.1	-13.3	12.7	5.0	2.5	1.9	5.1
Asia and Oceania	Exports	7.4	1.8	-17.8	18.6	-0.3	1.4	4.0	4.6
	Imports	4.5	2.6	-14.2	11.7	6.9	5.6	4.8	4.2
Europe	Exports	5.8	1.6	-11.3	10.2	6.0	2.2	2.2	4.2
	Imports	6.0	1.1	-11.4	9.5	4.1	-0.2	1.6	3.8
European Union	Exports	5.7	1.6	-11.7	10.6	6.3	2.3	2.2	4.3
	Imports	5.9	1.1	-11.6	9.6	4.1	-0.3	1.5	3.8
EU-15	Exports	5.2	1.2	-11.8	10.2	6.0	2.2	2.1	4.3
	Imports	5.1	0.7	-11.0	9.2	3.6	-0.4	1.4	3.8
New EU Members	Exports	10.6	5.3	-10.5	13.9	9.2	3.0	2.9	4.3
	Imports	13.7	4.9	-16.6	13.1	7.4	0.5	2.0	3.8
Other Europe	Exports	6.6	1.9	-6.2	4.8	1.7	1.5	1.5	2.6
	Imports	7.3	0.7	-8.2	7.9	4.1	2.6	3.9	4.1
Euro area	Exports	6.6	1.1	-12.4	11.1	6.2	2.7	2.2	4.4
	Imports	6.3	0.9	-11.1	9.6	4.1	-0.8	1.3	3.9
Economies in transition	Exports	7.2	1.8	-7.8	6.6	3.1	1.5	3.5	2.7
	Imports	22.0	9.8	-25.7	15.9	15.9	8.2	7.9	6.9
South-eastern Europe	Exports	5.8	3.1	-13.2	12.6	4.5	-0.2	3.8	3.8
	Imports	12.1	5.9	-19.9	5.0	3.8	2.6	4.8	5.0
Commonwealth of Independent States	Exports	7.3	1.7	-7.3	6.2	3.0	1.6	3.5	2.6
	Imports	23.5	10.3	-26.4	17.5	17.5	8.8	8.3	7.1
Developing countries	Exports	7.9	4.2	-5.9	15.6	9.0	3.7	4.7	5.7
	Imports	11.9	6.5	-5.8	17.9	9.8	4.2	5.8	6.3
Africa	Exports	3.0	8.7	-15.0	9.5	1.2	7.8	4.8	4.8
	Imports	18.2	8.9	-5.6	6.8	6.8	8.5	6.8	7.6
North Africa	Exports	6.7	7.5	-9.2	2.1	-16.8	17.2	3.8	4.2
	Imports	16.7	16.7	-5.8	1.1	0.7	11.3	4.6	6.4
Sub-Saharan Africa	Exports	1.0	9.3	-18.2	14.0	10.9	4.0	5.3	5.1
	Imports	18.9	4.9	-5.5	10.1	10.0	7.1	7.9	8.2
Sub-Saharan Africa	Exports	8.8	7.8	-12.0	6.3	5.1	6.2	6.2	5.3
(Excluding Nigeria & South Africa)	Imports	16.9	13.4	-3.2	9.2	6.7	8.0	6.8	6.3
East and South Asia	Exports	10.5	4.5	-2.9	20.1	10.8	3.6	5.3	6.1
	Imports	9.2	5.4	-1.5	20.7	10.1	4.0	5.7	6.4
East Asia	Exports	11.0	4.0	-3.3	20.9	10.7	3.7	5.3	5.9
	Imports	9.2	4.1	-2.1	22.6	9.5	4.2	5.8	6.4
South Asia	Exports	6.3	7.8	0.8	13.8	12.3	2.9	5.5	7.1
	Imports	9.3	13.7	1.6	10.1	14.2	2.6	5.3	6.8
Western Asia	Exports	5.2	3.7	-8.4	6.7	7.5	2.6	1.7	3.7
	Imports	19.2	8.1	-13.6	8.5	9.3	2.8	4.9	4.7
Latin America and the Caribbean	Exports	4.1	1.4	-9.7	8.8	6.5	2.9	5.0	6.1
	Imports	13.5	7.9	-14.9	21.0	10.6	4.3	6.4	6.7
South America	Exports	3.1	1.1	-8.3	4.1	5.9	1.1	4.2	6.1
	Imports	19.6	12.0	-12.7	24.3	12.8	3.4	5.4	5.5
Mexico and Central America	Exports	6.7	1.3	-12.1	18.7	8.0	5.9	6.2	6.1
	Imports	7.6	2.8	-17.8	18.3	7.9	5.5	8.3	8.5
Caribbean	Exports	-0.8	8.0	-14.9	3.8	0.8	4.4	7.0	6.3
	Imports	5.0	7.1	-15.8	1.6	3.8	6.8	5.2	6.0
Least developed countries	Exports	7.6	6.6	-15.6	6.0	5.5	5.4	7.3	6.2
	Imports	14.6	10.7	-4.0	9.7	6.6	6.3	7.4	7.0

Source: UN/DESA

a Actual or the most recent estimate.
b Forecasts, based in part on Project LINK.