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LINK Global Economic Outlook

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This report presents the short-term prospects for the global economy in 2014-2015, including major risks and policy challenges. The report draws on inputs from the experts of Project LINK, as well as analysis of staff in the Global Economic Monitoring Unit (GEMU) of the Development Policy and Analysis Division (DPAD), United Nations Department of Economic and Social Affairs (DESA). Under the general direction of Pingfan Hong, the current report was coordinated by Matthias Kempf, with contributions from Grigor Agabekian, Clive Altshuler, Hung-Yi Li, Ingo Pitterle, Sebastian Vergara, Sergio Vieira and John Winkel. Cordelia Gow, Ann D'Lima and Rui Zhang provided statistical and editorial assistance. The views expressed herein do not necessarily represent those of the United Nations or its Member States.

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Overview

As projected in the *World Economic Situation and Prospects 2014*, the world economy is expected to strengthen in 2014-2015, although the latest updated global growth trajectory is slightly lower than previously forecast. Recovery in the developed economies will continue, but the growth prospects for the developing economies and the economies in transition have been revised downward, largely because of worsened economic and/or political conditions in a number of countries in these two latter groups.

This report identifies a number of risks and uncertainties for the world economy, including international spill-overs from the future unwinding of the monetary easing by major developed economies; vulnerabilities of emerging economies on both external and domestic fronts; remaining fragilities in the euro area; unsustainable public finance in the longer run for many developed countries; and risks associated with geopolitical tensions.

After assessing policy challenges in the areas of monetary and fiscal policies facing different groups of economies, the latest developments in trade policies and policies to strengthen employment growth, the report calls for strengthening international policy coordination to support a robust recovery of output and jobs, cooperation in international financial reforms and sufficient development financing resources to the least developed countries.

I. Global macroeconomic prospects

1. <u>Global growth prospects</u>

The world economy is expected to accelerate in 2014 and 2015, with updated growth rates of 2.8 per cent and 3.2 per cent, respectively (table 1), which are slightly lower than the forecast made in the World Economic Situation and Prospects 2014 as released in January.

A downward revision has been made mainly in the growth projections for developing economies and the economies in transition, as the situation in a number of countries in these two groups has somewhat deteriorated. With the projected growth rates of 4.7 per cent and 5.1 per cent for 2014 and 2015 respectively, developing countries as a whole will continue to contribute a large proportion to global growth. However, this growth trajectory is lower by two percentage points than what the developing countries had registered for a number of years prior to the global financial crisis. The downward revision in growth for the economies in transition is even more pronounced. As demonstrated in the two recent episodes of financial turbulences in mid-2013 and early 2014, a number of developing countries are vulnerable not only to the international spill-overs from the adjustments in monetary policies by major developed countries, but also to quite a few country-specific challenges, including structural imbalances, infrastructural bottlenecks, increased financial risks, incoherent macroeconomic management, as well as political tensions.

Growth in the developed economies is projected to be 2.0 per cent and 2.4 per cent for 2014 and 2015 respectively, about one percentage point higher than in the previous two years. For the first time since 2011, all major developed economies in North America, Europe and developed Asia are aligned together on the same upward growth trajectory, forming, hopefully, a virtuous cycle to reinforce their recovery. Nevertheless, after five years of being mired in the aftermath of the financial crisis, these projected growth rates are insufficient to recuperate the output and job losses in most of these economies. They are still confronting a number of challenges, including remaining fragilities in the euro area, elevated unemployment rates in some of these economies and unsustainable public finances in the longer run.

Box 1: Major assumptions for the baseline forecast

This box summarizes key assumptions underlying the baseline forecast, including monetary and fiscal policies for major economies, exchange rates for major currencies, international prices of oil and other primary commodities. Policy assumptions for other countries can be found in the text of the regional outlook.

Monetary policy

The *Federal Reserve of the United States* (Fed) is expected to maintain an accommodative monetary policy stance for 2014-2015, although in a lesser degree than the stance of 2013. The Fed modified the wording of its forward monetary policy guidance in early 2014, stating that it likely will be appropriate to maintain the current target range for the federal funds rate ***well past the time*** that the unemployment rate declines below 6½ percent, especially if projected inflation continues to run below the Committee's 2 percent longer run goal. It is assumed that the federal funds interest rate will remain within the range of 0 to ¼ percent until mid-2015, and then starting in the third quarter the Fed will start to gradually raise interest rates. The Fed's is assumed to continue winding down its QE policy, tapering its purchases of long-term government bonds and mortgage-backed securities by $10 billion each month until the monthly purchases reach zero by mid-2014. After this, the Fed will hold the assets on its balance sheet until mid-2015; and will then start to unload them gradually in the third quarter of 2015.

The European Central Bank (ECB) is assumed to leave policy interest rates at their current levels and to not introduce new QE measures. This stance will be maintained through the end of 2015. It is also assumed that the OMT will remain in place and that this will keep government bond yields within appropriate bounds. The existing refinancing operations will continue, so that the central bank balance sheet will change, according to the banking sector's needs, which are expected to continue to be on a diminishing path.

The Bank of Japan (BOJ) is assumed to continue its *"Quantitative and Qualitative Monetary Easing" (QQME) program*, increasing the monetary base at the rate of 60~70 trillion yen per year, through the end of 2015. It is also assumed that the BOJ will keep its main policy rate at the current close-to-zero level through the end 2015.

The People's Bank of China (PBOC) is expected to maintain a "prudent" stance in 2014/15 aimed at balancing two objectives: (i) providing sufficient credit and liquidity to support stable growth of the real economy; (ii) curbing the financial risks, associated with rapid lending growth and high leverage. Monetary conditions are expected to remain fairly accommodative, with an official M2 growth target for 2014 at 13 per cent, following growth of 13.6 per cent in 2013. The main policy interest rates and the required reserve ratio, which were not adjusted over the past year, are expected to remain at their current levels in the forecast period. At the micro-level, there have been signs of tighter lending conditions over the past year, such as liquidity shortages in the inter-banking market. Continued financial sector reform, especially further liberalization of interest rates, increased flexibility of the exchange rate regime and tighter regulation of the shadow banking sector, will have significant impacts on the liquidity conditions in the economy, on top of conventional monetary policy.

Fiscal policy

Fiscal policy in the *United States* is expected is expected to remain restrictive, but less severe than in 2013. Real federal government spending is expected to decline by 2 per cent in 2014, compared to the 5 per cent decline registered in 2013. Real spending for state and local governments will increase by 0.5 per cent in 2014, reversing the consecutive declines in the past four years.

In the *euro area*, it is assumed that for the majority of regional economies fiscal policy will continue to be focused on reducing fiscal imbalances, in line with the mandates of the Stability and Growth Pact (SGP), but that the degree of consolidation will be less onerous than in the past few years. Countries under adjustment programs will continue to abide by their terms, but shortfalls due to growth under-runs will not be made up but rather, the timetable for achieving targets will be extended. Finally it is assumed that no countries will ask for formal assistance under the European Stability Mechanism.

In *Japan*, the consumption tax rate rose from 5 per cent to 8 per cent in April 2014. The Government's original budget estimated that this would increase tax revenue by about 7 trillion yen (about 1.4 per cent of GDP). However, a supplementary budget adopted on 26 February will provide 3.2 trillion yen more expenditure. It is assumed that the tax rate will rise again from 8 per cent to 10 per cent in October 2015 as planned. It is also assumed that government expenditures will continue to increase moderately in real terms in 2014 and 2015, by about one per cent.

China is expected to maintain its proactive, mildly expansionary fiscal policy stance. Government spending is set to rise by 9.5 per cent, while revenue is expected to increase by 8 per cent. Expenditures for defence, social welfare and employment, and healthcare are likely to see above-average increases. The government budget deficit for 2014 is projected to be 1.35 trillion yuan (220 billion U.S. dollars), an increase of 150 billion yuan (12.5 per cent) over 2013. As a share of GDP, the deficit is projected at 2.1 per cent in 2014, fractionally higher than the 2-percent target for 2013.

Exchange rates among major currencies

It is assumed that the ***$US/euro*** will remain at current levels until the second half of 2014 but will then start to depreciate somewhat for the rest of the year, averaging 1.35 for the year as a whole , and then depreciate further to 1.29 in 2015.
The ***Yen/dollar*** depreciated significantly in 2013, to an average level of 97.6. It is assumed to continue to depreciate in 2014 to an average 103.5 and then to 105 in 2015.
The ***Renminbi/dollar*** averaged 6.15 CNY/dollar in 2013 and is assumed to appreciate to 6.08 CNY/dollar in 2014 and 6.03 CNY/dollar in 2015.

Oil price

The price of Brent crude oil is assumed to decline from $108 in 2013 to $105 in 2014 with no change in 2015.

Table 1: Growth of world output, 2012-2015 (annual percentage change)

					Change from January 2014 forecast	
	2012	2013 [a]	2014 [b]	2015 [b]	2014	2015
World	2.3	2.2	2.8	3.2	-0.2	-0.1
Developed economies	1.3	1.1	2	2.4	0.1	0.0
United States of America	2.8	1.9	2.5	3.2	0.0	0.0
Japan	1.4	1.5	1.4	0.9	-0.1	-0.3
European Union	-0.4	0.1	1.6	1.9	0.2	0.0
EU15	-0.5	0.0	1.5	1.8	0.1	0.0
New EU Members	0.6	1.1	2.4	2.9	0.3	0.2
Euro area	-0.7	-0.4	1.2	1.6	0.1	0.0
Other European	1.8	1.4	2.3	2.3	-0.3	-0.6
Other developed countries	2.5	2.2	2.1	2.6	-0.5	-0.3
Economies in transition	3.2	2.0	1.6	2.3	-1.7	-1.7
South-Eastern Europe	-0.9	1.9	2.0	3.1	-0.6	0.0
CIS and Georgia	3.4	2.0	1.6	2.3	-1.8	-1.8
Russian Federation	3.4	1.3	1.0	1.5	-1.9	-2.1
Developing economies	4.7	4.6	4.7	5.1	-0.4	-0.2
Africa	5.7	3.7	4.2	5.1	-0.5	0.1
North Africa	7.2	2.1	2.4	4.2	-0.9	-0.1
East Africa	5.8	6.0	6.5	6.6	0.1	0.2
Central Africa	5.8	3.2	4.5	4.1	-0.3	0.0
West Africa	6.6	6.5	7.0	7.1	0.1	0.3
Southern Africa	3.5	3.1	3.6	4.4	-0.6	0.0
East and South Asia	5.4	5.6	5.7	5.8	-0.1	-0.2
East Asia	5.9	6.0	6.0	6.0	-0.1	-0.1
China	7.7	7.7	7.3	7.1	-0.2	-0.2
South Asia	3.4	3.9	4.6	5.1	0.0	0.0
India	4.7	4.8	5.0	5.5	-0.3	-0.2
Western Asia	3.8	3.8	3.6	4.4	-0.8	0.4
Latin America and the Caribbean	3.0	2.7	2.6	3.4	-1.0	-0.7
South America	2.5	3.2	2.1	3.0	-1.3	-1.1
Brazil	0.9	2.3	1.7	2.8	-1.3	-1.4
Mexico and Central America	4.0	1.6	3.3	4.2	-0.7	0.0
Caribbean	2.8	2.9	3.6	3.7	0.3	-0.1
Least developed countries	4.8	5.3	5.6	5.9	-0.1	0.2
***Memorandum items*:**						
World trade [c]	2.5	2.5	4.1	5.1	-0.6	-0.1
World output growth with PPP-based weights	3.1	2.9	3.4	3.8	-0.2	-0.2

Source: UN/DESA

a. Actual or the most recent estimate.
b. Forecast, based in part on Project LINK.
c. Includes goods and services.

2. Employment trends

Globally, employment is estimated to have grown by 1.4 per cent in 2013[1], a similar pace as in 2012, but stubbornly slower than the rate of 1.7 per cent in the pre-crisis years. As a result, the global jobs gap (comparing the number of jobs existing today with the number of jobs that would exist considering the pre-crisis trend) widened further to 62 million in 2013. The global unemployment rate also remained unchanged at 6 per cent in 2013.[2] Long-term unemployment has been rising in developed countries, which could lead to higher levels of structural unemployment. Across developing countries, a main challenge remains the level of informal employment, which, on average, reaches between 40 and 50 per cent in Africa, Asia and Latin America and the Caribbean. In the outlook, global employment is expected to continue growing at a slow pace.

3. Inflation outlook

Global average inflation is projected to increase mildly from 2.4 per cent in 2013 to 2.7 per cent in 2014, the third-lowest level since 2000. However, the trends at the sub-regional level vary. While average inflation for developed economies is expected to increase from 1.2 per cent last year to 1.5 per cent in 2014 due to higher inflation in Japan, inflation in the European Union will actually decrease from 1.5 per cent to 1.1 per cent because of the sizable output gap, the weakness of the recovery and the strength of regional currencies, with a fall into deflation constituting a downside risk for some European countries. For the economies in transition, average inflation for the Commonwealth of Independent States will increase and fully compensate the almost 2 percentage point drop in inflation for the South Eastern European countries. Average inflation in the developing economies will remain relatively stable. While inflation for Africa and Western Asia will decline slightly, a more pronounced decrease is forecast for South Asia, mainly due to falling inflation in India and the Islamic Republic of Iran. By contrast, East Asia will register a slight increase in inflation. In Latin America and the Caribbean, inflation rates are fairly stable, with the notable exception of Argentina and the Bolivarian Republic of Venezuela.

4. Commodity prices

International commodity prices will remain at high levels by historical standards, but face downward pressure and great variation across commodities. The price of Brent crude oil is expected to fall from $108 per barrel (pb) last year to an average of $105 pb in 2014. If the recovery of global demand is slower than expected, oil prices could drift down more than anticipated. If further disruptions occur on the supply side in Libya, Iraq, Nigeria or other oil-exporting countries, oil prices may go above the projected level. The prices for agricultural products are also expected to decline in 2014, despite the strengthening global demand, as the relatively high prices for key staples in recent years have led to increased planting. In addition, the buoyant harvest in 2013 led to a noticeable improvement in global stocks. Even though the geopolitical

[1] ILO (2014). Global Employment Trends 2014: Risks of a jobless recovery? International Labour Organization. Geneva.
[2] Ibid.

tensions around Ukraine and the dry weather in some agricultural-producing countries, including the United States and Brazil, raised concerns regarding agricultural food prices, the favourable stocks situation and the expected abundant harvest this year, in particular for grains, are likely to keep prices below the levels of 2013. The prices of soybeans are also projected to decline, as record-high global production is anticipated this year. After a significant decline last year, prices for minerals and metals are expected to stabilize in 2014, before slightly increasing next year owing to strengthening global demand and tightening supply in some markets.

5. International trade flows

World trade growth appeared to be roughly flat in the first part of 2014. The situation is difficult to interpret at this point as high frequency indicators of trade point to some volatility, although in an overall picture of minimal growth, whereas freight transport statistics point to relatively modest growth over the first quarter. There is still some gradual improvement expected over the course of the year as developed country GDP growth picks up somewhat. Import demand in developed countries is expected to continue its very gradual increase as conditions improve in the United States and major European economies, but slightly more slowly than previously expected. The forecast is for world trade growth of 4.1 per cent in 2014, almost twice the growth rate of 2013, but still below the pre-crisis trend of double GDP growth. The improvement is expected to continue into 2015, with trade growth rising to 5.1 per cent. Forecasts for both 2014 and 2015 have been revised down from WESP 2014 owing to downward revisions in output growth rates for both Japan and a number of developing regions. Recent troubles in various developing countries, against a backdrop of changes in developed-country QE programs, have dampened output growth and pulled down trade growth. There are also concerns about slowing growth in China, which may affect the exports of many developing countries, particularly primary commodity exporters. Services growth continues to be stronger than trade in goods, although slower than in years prior to the crisis as financial services growth has pulled back. World commercial services exports in 2013 reached 4.6 trillion dollars, with a growth rate of 5.5 per cent, while according to preliminary joint estimates by UNCTAD and WTO, in the fourth quarter of 2013, world exports of services grew by 6 per cent, as compared with the same quarter of 2012.

World trade growth is expected to continue to rise in 2015 owing to a considerable pickup in import demand from developed countries. Much of that will come from an expected jump in imports to North America, particularly the United States. Trade growth in Japan and Australia is expected to be limited over the forecast period, with consumption remaining relatively subdued, leading to a decrease in imports between 2014 and 2015. In addition, an absence of depreciation in Japan, which pushed up exports in 2013, will leave export growth flat over the forecast period. Both import and export growth are expected to move in similar patterns for the Eurozone, compensating for the very low or negative levels of 2013 by moving to more than double GDP growth by 2015. This will fall back somewhat in the medium term towards the historical trend.

Export growth in developing countries is forecast to rise for both fuel and non-fuel exporters with significant improvements across a number of regions. Large shifts are expected for Mexico and Central America, with a rise from 1.3 per cent in 2013 to 5.8 per cent in 2014. Western Asian non-fuel exporters will also see a significant jump from -5.0 per cent in 2013 to 4.7 per cent in 2014. Export growth in East Asia will continue to be strong between 2013 and 2015 after a dip in 2012. South Asia saw negative export growth in 2012, but snapped back in 2013 and will continue to post high growth rates above 7 per cent, mostly driven by improvements in Indian trade. African trade is expected to continue improving over the forecast period from the lows of 2012, although at a pace slower than that of GDP growth, pointing to the smaller impact of trade on overall economic activity in many countries in the region. Trade growth will be relatively robust in the least developed countries, with both exports and imports growing, although import growth rates will be lower than during 2010-2012.

6. International capital flows

As the United States Federal Reserve (Fed) gradually scales back its monthly asset purchases, developing countries and economies in transition have seen a marked reduction in capital inflows in 2013 and early 2014, remaining exposed to sudden changes in financial market sentiment. However, the episode in early 2014 differed from the one in mid-2013 in several respects. First, the abrupt change in market sentiment was not triggered exclusively by a shift in views about the Fed’s policy path, but by a combination of factors, including fears of a larger-than-expected slowdown in emerging economies. Second, the recent sell-off of emerging market assets was mainly limited to equities, reflecting a flight to safety, with long-term United States interest rates retreating. Third, the latest market correction was smaller and shorter in duration, with investors discriminating more among emerging economies. Some countries that were among the hardest hit last year, such as India and Indonesia, escaped the turmoil in early 2014, following the improvement in key macroeconomic indicators. Global financial markets have since calmed and capital flows to emerging economies have stabilized. In the outlook, capital flows to emerging economies are projected to pick up slowly from the low levels seen in recent quarters, in line with the expected recovery in global growth. However, significant uncertainties and downside risks stem from the interaction between perceptions of the Fed’s tightening path and the idiosyncratic weaknesses in some emerging markets.

7. Exchange rates

The Fed’s announcement and activation of the QE tapering have since mid-2013 led to a large depreciation of many currencies against the United States dollar, although some of the depreciations were reversals of appreciation in the earlier years. In Western Europe, the fading out of the stimulus from the Long-Term Refinancing Operations and the lack of further stimulus measures by the European Central Bank (ECB), despite weak economic activity, has led to upward pressure on the currency. From a low of 1.20 in mid-2012, the euro has appreciated significantly against the dollar and is currently just below 1.40. By contrast, the introduction of new QE measures in Japan during 2013 has triggered a significant depreciation of the yen vis-à-vis all major currencies. In China, the renminbi continued to appreciate gradually against the dollar in 2013, but in the first two months of 2014, the appreciation trend came to an abrupt halt as the exchange rate reversed and experienced the largest depreciation in recent years. This mainly reflects efforts by the People’s Bank of China to alter the market trend of one-way bets on the appreciation of the renminbi. The currencies of many emerging economies depreciated sharply against the dollar in the second half of 2013, but some of them have managed to stabilize in early 2014.

8. Global imbalances

Global imbalances, that is the current-account imbalances across major economies, have continued to narrow in the past few years to the lowest level relative to world gross product in a decade and are expected to remain at a benign level in 2014-2015. While the United States remained the largest deficit economy, its external deficit is expected to be about 2.2 per cent (of GDP) in 2014, down significantly from the peak of 6.0 per cent registered in 2006. On the other hand, the aggregate external surplus of China, Japan and a group of fuel-exporting countries has narrowed accordingly. China, for instance, is expected to register a surplus of just above 2.0 per cent in 2014, a sharp decline from a high of 10.0 per cent in 2007. Japan's surplus is expected to drop to less than 1.0 per cent. In contrast, the surplus of the euro area as a whole has increased to about 2.9 per cent, with Germany running a surplus of 7.0 per cent. Large surpluses relative to GDP are still present in oil-exporting countries, at about 16.0 per cent in Saudi Arabia and at even higher levels in some of the other oil-exporting countries. While some of the adjustment of the imbalances in major economies reflects certain improvements in the unbalanced domestic structure of these economies, other parts of the adjustment reflects a cyclical adjustment: a weakening in external demand from the deficit countries, rather than a strengthening of external demand from the surplus countries.

II. Regional prospects

1. Developed economies

United States

In the United States, the growth momentum built in the second half of 2013 weakened notably in the first quarter of 2014, mainly because of the inclement weather, but the economy is anticipated to strengthen again in the rest of 2014. GDP is expected to grow by 2.5 per cent for 2014, to be followed by a further rise to 3.2 per cent in 2015. Both private consumption and business investment are expected to increase at a stronger pace than in the past two years, along with a continued improvement in the labour market and the housing sector, the two economic sectors that were beleaguered the most in the aftermath of the financial crisis. While the Fed programme of purchasing long-term assets is expected to be phased out in late 2014, monetary policy will remain highly accommodative during 2014-2015. Fiscal policy will continue to be restrictive, but to a much smaller degree when compared with the fiscal drag on GDP growth in the previous year, although the issue of fiscal unsustainability still needs to be seriously addressed in the longer run. The external conditions for the United States economy are expected to improve, but only slightly, as foreign demand from its major trade partners is expected to remain relatively weak. Major uncertainties and downside risks include those associated with the phase-out of the quantitative easing, particularly the possibility of an upward overshooting of the long-term interest rates, along with significant turbulences in financial markets. External shocks, such as a hard-landing in emerging economies and an escalation in geopolitical tensions, could also derail the economy from the baseline projection.

Growth of private consumption accelerated to 3.3 per cent by the end of 2013, before dropping to a pace below 2 per cent in the first quarter of 2014, largely due to the extremely adverse winter weather. Consumer spending is expected to strengthen further, underpinned by such factors as positive wealth effects from recovering housing prices and rising equity prices. In addition, the increase in disposable income generated by the continued, albeit slow, growth in employment will also provide important support for private consumption. Meanwhile, the ongoing financial deleveraging of households by reducing mortgage loans relative to income since the eruption of the financial crisis may have reached its end. Private consumption is forecast to expand by about 2.5 and 3.0 per cent in 2014 and 2015, respectively.

After a marked deceleration in 2013, partly depressed by the uncertainties associated with the government fiscal sequester and debt ceiling, business investment is expected to accelerate in 2014-2015, to a growth rate of 5.5-6.6 per cent, from the pace of 2.7 registered in 2013. Similar to the situation facing infrastructure, business structures in the United States are also in urgent need of investment.

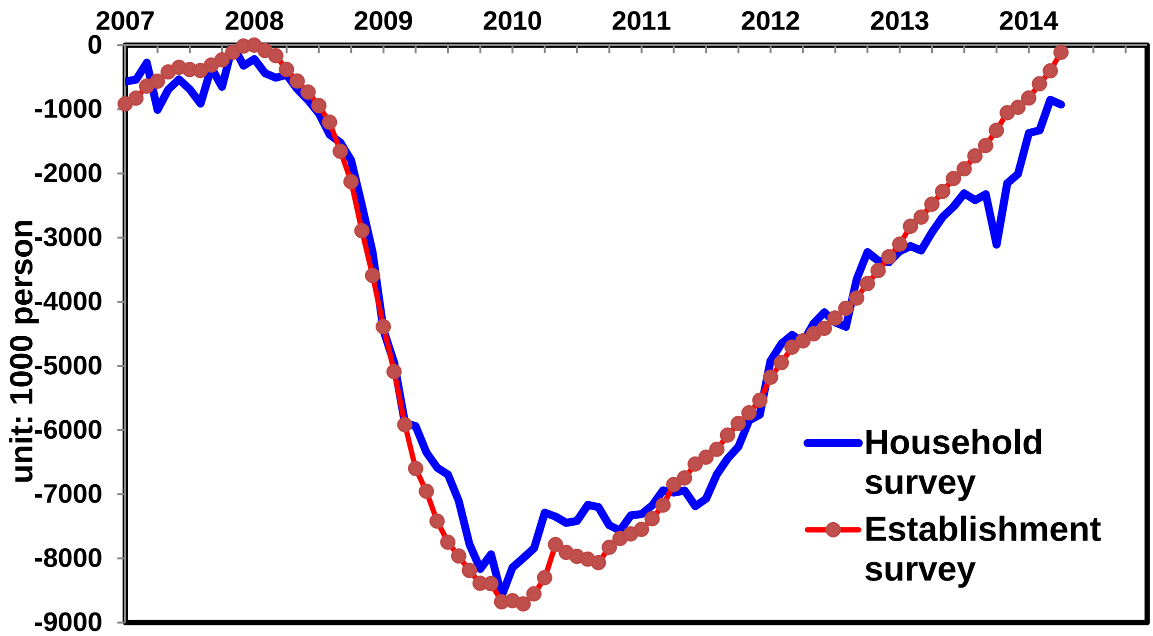
The recovery in the housing sector slowed somewhat in the second half of 2013, partly because mortgage interest rates increased by about 100 basis points, triggered by the Fed announcement of the QE tapering. The Standard and Poor’s Case-Shiller National Home Price Index has continued to recover, but it is still about 20.0 per cent below the pre-crisis peak registered in 2006. The housing sector is expected to continue its recovery in 2014-2015, to be supported by low inventories and the easing of lending standards for construction and land development loans.

The labour market in the United States is still on a path of recovery, although the pace has been slow compared with other business cycles in recent history. Growth of non-farm payroll employment has picked up some momentum since March 2014, after a slowdown in the previous months. In the second half of 2014, payroll employment is expected to fully recuperate the total loss of some 8 million jobs in the aftermath of the financial crisis and reach the pre-crisis level of 2007 (figure 1). However, by taking into account the increase in the labour force over the past five years, the current level of employment is still far from full employment. The unemployment rate is expected to decline further, to reach 6.3 per cent by the end of 2014 and 5.8 per cent by the end of 2015. Part of the decline, however, is due to a continuous drop in the labour force participation rate, resulting from several factors, including an aging population, higher school enrolment and the number of discouraged unemployed workers no longer seeking work.

Inflation has been benign, with the consumer price index (CPI) expected to stay below 2.0 per cent in the forecasting period.

After some sharp deceleration in most of 2013, real exports strengthened at the end of 2013, with some of the momentum continuing through 2014-2015. Imports of petroleum products decreased while that of consumer goods grew at a reasonable pace. Real exports and imports are expected to grow at a similar pace, about 5-6 per cent, in 2014-2015. Both the trade deficit and the current-account deficit are expected to stay at about 3 per cent of GDP in 2014-2015.

Figure 1: United States, deviation of employment from the recent peak, January 2007 - April 2014



Source: UN/DESA, based on data from the United States Bureau of Labor Statistics.

The Fed has tapered the programme of purchasing long-term government bonds and mortgage-backed securities since January 2014, by $10 billion each month. At this pace, the programme will be phased out in late 2014. On the other hand, the Fed has modified its previous forward monetary policy guidance, indicating that it will maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5 per cent, especially if projected inflation continues to run below 2.0 per cent. In this regard, the federal funds interest rate will remain within the range of 0 to 0.25 per cent until mid-2015 and increase gradually starting in the third quarter of 2015.

The Government of the United States has made some progress in early 2014 in reducing uncertainties related to its fiscal policy, particularly the debt-ceiling, but fiscal policy will remain austere for 2014-2015, or even longer. After a decline by about 5.0 per cent in 2013, real federal government spending is expected to decline by about 1.5 per cent in 2014, a lesser drag on economic growth.

Canada

After registering growth of 2.0 per cent in 2013, the Canadian economy is expected to weaken slightly in 2014, but will accelerate in 2015. GDP is forecast to grow by 1.9 per cent in 2014, to be followed by a rate of 2.8 per cent in 2015. While the adverse weather has caused a notable slowdown in the economy in the first quarter of 2014, the Vancouver port strike has also entailed some impact. Employment growth has stalled and household consumption growth has been muted. A draw-down in inventories is also expected to have some negative impact on GDP growth. Meanwhile, the cyclical downturn in residential construction is expected to continue in 2014 and the growth of government spending will also be limited. On the positive side, the expected strengthening in the United States economy will provide some support for gains in Canadian net exports.

Japan

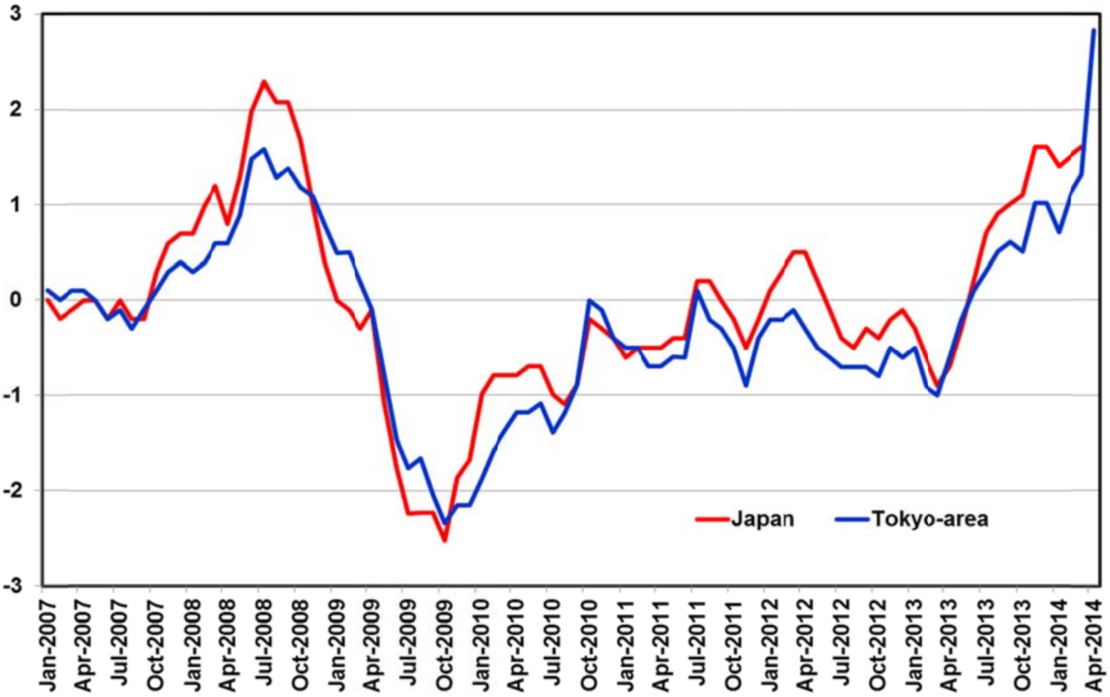
The Japanese economy expanded by 1.5 per cent in 2013, slightly faster than the 1.4 per cent in 2012. However, this figure conceals a very uneven profile over the year. In the first two quarters of 2013, the economy expanded at an annualized rate of 4.5 per cent per quarter; but the pace dropped to less than 1 per cent in the second half. This deceleration was mainly caused by reduced private consumption and an acceleration of imports, although the increase in fixed investment and government consumption compensated part of this weakening.

In early 2014, households brought forward the purchase of durable goods before the sales tax hike on 1 April. For example, in March 2014, the value of retail sales increased by 11 per cent from one year ago. The only comparable situation happened in March 1997, just before the tax hike on 1 April 1997. Consequently, private consumption expanded significantly in the first quarter but dropped immediately starting from the second quarter. For the whole year, private consumption is expected to grow by only 0.4 per cent, significantly lower than the 1.9 per cent increase in 2013. The quarterly profile of GDP is expected to show the same pattern. For 2014 as a whole, GDP is projected to expand by 1.4 per cent. The growth rate for 2015 will decline to 0.9 per cent, partially as a result of the recent tax hike and the second tax hike planned for October 2015.

The fiscal stimulus package introduced in 2013 has raised public consumption and investment to support growth. Together, these two items expanded by about 3.8 per cent in volume terms in 2013, the highest level since 2001. However, the end of this fiscal stimulus package will slow down the expansion. Although the Government has injected more expenditure through a supplementary budget authorized in early 2014, the magnitude will not be enough to fully offset the negative impact of higher taxes. For the outlook period, those two items are expected to decrease slightly in real terms.

The unconventional monetary policy implemented in April 2013 has driven down the yields for long-term securities and guided inflation expectations toward a higher level, as planned. At the end of the first quarter of 2014, the yield for 10-year Japanese Government bonds was about 20-25 basis points lower than the early-2013 level. It is predicted that this policy will be sustained over the outlook period. As a response to the new monetary policy stance, the Japanese yen has depreciated significantly vis-à-vis all major currencies. At the end of the first quarter of 2014, the Japanese yen’s value vis-à-vis the United States dollar was about 15 per cent lower than the late-2012 level. This depreciation helped to increase the headline inflation rate through higher-priced imported goods, especially energy-related ones. The year-over-year change of headline consumer price index (CPI) climbed from -0.9 per cent just before the introduction of the new policy to 1.6 per cent at the end of 2013 (see figure 2). However, as the yen’s exchange rate has relatively stabilized over the last two quarters, its impact on inflation has started to fade out; the annual inflation rates for the first three months of 2014 were basically the same as in late-2013. However, with the sales tax hike, it is predicted that the annual headline inflation rate for 2014 and 2015 could reach 2.6 per cent and 1.6 per cent, respectively. The CPI index for the Tokyo-area, a leading indicator for the national index, jumped by 1.9 per cent in April from the previous month after the tax hike.

Figure 2: Headline inflation in Japan (percentage change over previous year)



Source: UN/DESA, based on data from Bureau of Statistics, Japanese Government.

However, nominal wages have not increased much since the introduction of the new policies. If this situation continues, the cost of factors of production may not be able to support the inflation rate close to the target of 2 per cent over the medium term, especially after the base effects of the higher tax rate and the currency depreciation have faded. Meanwhile, the consumption power of wage earners may be trimmed if real wage rates become lower than before.

The global Great Recession and the natural disasters in 2011 have caused significant damages to the exports for Japan. In 2012, Japanese export volume was still more than 6 per cent lower than the level for 2008. The deprecation of the yen in 2013 was expected to help the expansion of exports; nevertheless, the recovery in exports has been slow. In 2013, export volume increased by only 1.6 per cent, while world trade increased by more than 2 per cent. It is expected to increase further by 1.9 per cent and 1.6 per cent in 2014 and 2015, respectively. This is much slower than the average speed of Japanese export expansion observed before the Great Recession. Two possible reasons are the damage to the export capacity imposed by the 2011 disasters and the relocation of production facilities to foreign countries. In contrast, import volume has maintained a solid growth rate over the past few years. In addition to the continuous appreciation of the yen until late-2012, the increased import of fuel for power generation after the phase-out of nuclear power stations is another reason for this trend. For the outlook period, the predicted pace in export growth will not be enough to eliminate the significant trade deficit accumulated since 2011. The trade balance is expected to remain in deficit over the outlook period, but the current account balance is expected to stay at a very minor surplus level with the help from a continuous surplus in the investment income balance.

The size of the labour force has been on a declining trend since entering the current century due to the aging of the population. Simultaneously, the unemployment rate displayed the same type of declining trend with the exception of the Great Recession period. After five years of continuous decline, the employment level only started to increase in 2013 and is expected to do so in 2014 and 2015. The unemployment rate is expected to decrease from the level of 4.0 per cent in 2013 to 3.4 per cent and 3.3 per cent in 2014 and 2015, respectively.

Australia

Australia's economy expanded by 2.4 per cent in 2013, after growth of 3.6 per cent in 2012, the best performance since 2007. In the outlook, growth is expected to fall moderately to 2.3 per cent and 2.2 per cent for 2014 and 2015, respectively. In 2013, the solid expansion of net exports was the most important factor contributing to growth. Given the expected mild growth of the world economy, export volume will grow by about 4 per cent per year on average during the outlook period, as new mining facilities enter the production stage. After contributing heavily to growth during the past few years, fixed investment declined by 1.3 per cent in 2013. However, investment in large mining resources projects is expected to continue expanding until 2015.

Private consumption grew by 2.0 per cent in 2013, noticeably slower than in the pre-Great Recession period. Over the outlook period, it is expected to grow only slightly faster than in 2013. After the unemployment rate increased by 1 percentage point to 6.2 per cent in 2013, households may increase their saving ratio and slow down the expansion of private consumption. Government consumption is expected to grow at only around 1 per cent per year, underpinned by concerns over avoiding the deterioration of the budget deficit. On the other hand, the Government is also assumed not to try to balance the budget within the outlook period.

The consumer inflation rate increased to 2.5 per cent in 2013 from 1.8 per cent in 2012, but is expected to come down and stay below the Reserve Bank of Australia (RBA)'s target range of 2.0 to 3.0 per cent. The unemployment rate will only come down slowly and will sustain the wage rate dynamic to be consistent with the inflation target.

Starting from a level of 4.75 per cent, the RBA in 2011 started a series of 25-basis-point cuts in its policy rate. The latest one occurred on 6 August 2013 and brought the rate to 2.50 per cent. Although the RBA pointed out at that time that "the outlook for inflation provided scope for easing monetary policy further", it has since then kept the rate unchanged at 2.50 per cent.

New Zealand

As in the case of Australia, New Zealand's economic growth also slowed down in 2013 to 2.5 per cent from 2.9 per cent in 2012, which was also the best performance since 2007. It is expected to reach 3.0 per cent and 2.6 per cent in 2014 and 2015, respectively. A major contributor for the solid growth in 2012-2013 was the strong expansion of fixed investment. A large portion of this investment was for the reconstruction after two earlier earthquakes. This activity is expected to continue during the outlook period, but at a slower pace.

Private consumption has maintained relatively stable growth and is expected to remain so in coming years. Government consumption is not expected to increase rapidly due to consolidation concerns. Export growth is expected to recover from the relatively low level of 1.0 per cent for 2013 and increase to about 4.0 per cent. Import growth will remain high, partially as the consequence of strong investment growth.

The headline inflation rate has remained within the lower half of the Reserve Bank of New Zealand (RBNZ)'s inflation target range in both 2012 and 2013. It is expected to remain so over the outlook period, although it may move upward toward the middle point of this range.

The RBNZ had kept its policy rate at 2.5 per cent since early 2011 until 13 March 2014; it then raised it to 3.0 per cent toward the end of April in two steps. This means that it is the first monetary authority of developed countries to tighten its policy stance since the Great Recession. The RBNZ cited the potential pressure on inflation from economic growth and macroprudential concerns as the main reasons for the policy action.

Western Europe

Western Europe emerged from recession in the second quarter of 2013, after six consecutive quarters of declining GDP. Economic activity continued to expand in the second half of the year, but for the year as a whole, GDP was held back by the large negative growth carry over from the end of 2012 and beginning of 2013. In the EU-15, GDP growth was stagnant in 2013, but is expected to grow by 1.5 per cent in 2014 and 1.8 percent in 2015. This marks an upward revision from the WESP 2014 of 0.1 percentage points for both 2013 and 2014, but no change for 2015.

The significant tensions in the region surrounding the euro area crisis have subsided dramatically since the European Central Bank (ECB) announced its Outright Monetary Transactions facility in September 2012, with bond markets stabilizing and measures of confidence picking up substantially since. Other restraining factors, legacies of the great recession, are gradually diminishing. Fiscal austerity programs have lessened in intensity, balance sheet repair, while ongoing, is also less of a drag on activity. But lending conditions remain fragmented, with bank credit difficult to obtain in periphery countries, particularly for small to medium sized enterprises, and capacity utilization is only just above its long term average. In light of this, the recovery remains weak, with GDP still below its pre-crisis level. Leading indicators are consistent with continued moderate growth going forward, but the substantial slack coupled with the slow growth profile has led to extremely low rates of inflation, to the point where there are concerns that the region could fall into deflation.

In the large economies, the United Kingdom is expected to have the strongest growth in 2014 at 2.7 per cent, followed by Germany at 1.9 per cent. France is expected to grow by 0.9 per cent. Spain and Italy both exited recession in 2013 and are expected to grow by just under 1.0 per cent in 2014. Among the smaller periphery economies, Ireland and Portugal exited recession in the second quarter, but Greece and Cyprus remained in recession. In the outlook, Cyprus is expected to continue to contract in both 2014 and 2015, while Greece is expected to register no growth in 2014, but positive growth in 2015.

Private consumption expenditure in the euro area declined for six consecutive quarters until finally turning up in the second quarter of 2013. For the year as a whole, it declined, but is expected to be a support to growth in 2014 and 2015. The improved outlook stems from a number of factors: consumer confidence has improved significantly; energy prices have come down; government austerity programs have diminished in intensity; and labour markets have stabilized, with rates of unemployment beginning to turn around and wages picking up.

Investment expenditure has been a major weak spot in the euro area, falling for eight consecutive quarters and registering a sharp annual decline in 2013. But it picked up in the second quarter of 2013 and is now expected to provide support to the recovery. Following the easing of euro area tensions, industrial confidence has improved significantly but has only just reached its long-term average. Capacity utilization has also increased significantly, but remains low by historical standards. Funding conditions vary tremendously across the region; interest rates on loans, particularly to SME's, are much higher in the periphery countries than elsewhere in the region. Housing investment has started to turn around, but remains a drag on activity in some countries.

Export volumes in the EU-15 grew by only 1.1 per cent in 2013, but are expected to pick up moderately to 3.4 and 4.6 per cent in 2014 and 2015, in line with the improvement in global demand. The appreciation of the euro, however, is a headwind, but is expected to reverse during 2014. Improved competiveness has helped periphery countries to boost export performance. Import volumes, which stagnated in 2013, are expected to grow by 3.2 per cent in 2014 and 4.5 per cent in 2015, as regional demand expands.

The relentless increase in unemployment, seen across most countries in the region following the great recession, ended during 2013 as the rate of unemployment stabilized at the record high of 12.0 per cent in the euro area for most of the year, but ticked down to 11.9 per cent in the final months. Going forward, the weak growth profile, continuing structural adjustment needs and the re-entry of discouraged workers into the labour market as conditions improve will lead to very little improvement in the headline unemployment figure. In the EU-15, the rate of unemployment is expected to be 11.0 per cent in 2014 after 11.1 per cent in 2013 and to come down to 10.6 in 2015. But there is tremendous diversity across the region. The rate of unemployment is expected to be only 5.5 per cent in Germany and 6.6 per cent in the United Kingdom, but 10.5 per cent in France, 13.0 per cent in Italy, and 25.9 per cent in Spain.

Youth unemployment is much higher, at close to 24 per cent in the euro area, but above 50 per cent in Spain, 42 per cent in Italy and 35 per cent in Portugal.

One major concern is that the glacially slow improvement in labour market conditions will lead to more workers transitioning to the ranks of the long-term unemployed and thence to discouraged worker status (those who have dropped out of the labour force). This would make their reintegration into the labour force challenging.

Long-term unemployment (defined as being unemployed 12 months or more) has increased significantly in the aftermath of the great recession, registering 2.6 per cent of the labour force in the EU-15 in 2008, but 5.2 per cent in 2013.

Headline inflation has fallen to exceptionally low levels. In the euro area, it has fallen to its lowest annual rate since November 2009. This stems in part from the decline in energy prices and the appreciation of the euro, but weak economic activity is the major cause, as core inflation drifted down significantly in 2013, hovering close to 1.0 per cent. The low average inflation meant that in the peripheral countries, where competitiveness adjustments are a necessary part of the overall regional rebalancing, inflation rates have been negative. In the outlook, output gaps remain substantial and are expected to close only slowly. Wages, while picking up modestly, will remain contained. Oil prices are expected to come down further in 2014 and remain low in 2015. Some upward pressure will come from the depreciation of the euro. This results in the harmonized index of consumer prices for the euro area falling from 1.35 per cent in 2013 to 1.18 in 2014 and thence to pick up to 1.44 in 2015.

In 2013, the ECB cut its Main Refinancing Rate and Marginal Lending Rate by a cumulative 50 basis points each, bringing them to 0.25 and 0.75, respectively, but left the Deposit Rate at zero. This narrowed the corridor bounded by the Deposit Rate and the Marginal Lending rate, but avoided introducing a negative rate of interest on the Deposit Rate.

The use of unconventional policies since the beginning of the global crisis, particularly the refinancing operations, led to an expansion of the ECB's balance sheet by more than 1 trillion euro to a total of about 3 trillion euro by mid-2012. However, in contrast to the QE programs of the United States Fed and the Bank of Japan (as well as the Bank of England), the ECB variant of QE can be termed endogenous (passive rather than active), with liquidity provided to the banks on demand. Since January 2013, banks have been allowed to repay these loans and as a result, the size of the balance sheet has shrunk to below two trillion euro.

The key unconventional policy that has so far eliminated the sporadic outbreaks of financial crisis in the sovereign bond markets has been the "Outright Monetary Transactions" (OMT) facility, introduced in September 2012. Under this facility, the ECB could make potentially unlimited purchases of selected country bonds to reduce their yields, but only if the country formally requested assistance and accepted conditionalities. These purchases would be fully sterilized, and so would not impact the bank's balance sheet and hence would not be QE.

In July 2013, the ECB introduced another form of (non-QE) unconventional policy, "Forward Guidance", similar to that already announced by the Fed and the Bank of England, but without the explicit linkage to any numerical targets. In the announcement, the ECB said that it would keep its policy rates at the current or even lower level for an extended period of time, given the expectation that inflation would remain subdued into the medium term, that the real economy remained weak and that monetary dynamics were subdued.

The current outlook for activity in the euro area is characterized by growth gradually picking up over the next few years, but remaining weak, while inflation, currently at exceptionally low levels, picks up slightly. Many market participants have been expecting some further stimulus from the ECB, but so far there has been no action. In the outlook, it is assumed that the ECB will not cut its policy interest rates further and will not introduce new QE measures unless there is a substantial negative shock of some kind. This stance will be maintained through the end of 2015.

It is also assumed that the OMT will remain in place and that this will keep government bond yields within appropriate bounds. The existing refinancing operations will continue so that the balance sheet will change according to the banking sector's needs, which are expected to continue to be on a diminishing path.

Since the end of the Great Recession, fiscal policy across the region has been dominated by the need to reduce deficits as in line with the mandates of the Stability and Growth Pact (SGP). Under the terms of the Excessive Deficit Procedure (EDP), this required budget consolidations of at least 0.5 percentage point per annum (far greater in some of the crisis countries) with a strict timetable for achieving budget goals.

Progress has been made, with the deficit-to-GDP ratio declining from 4.2% in 2011 to 3.7% in 2012 and an estimate of 3.1% in 2013, and the pressure for consolidation has eased significantly. In addition, Ireland's adjustment program has now ended (but remains under the EDP) and Italy is no longer under the EDP.

In June 2013, the ECOFIN Council granted some countries additional time to reach their budget targets, as it was clear that growth was suffering and making the achievement of targets more challenging.

But a number of countries remain under the EDP and so remain under pressure to continue consolidation, and in 2013 the euro area's "fiscal compact" entered into force, which adds additional budgetary requirements to those in the SGP. Structural government budget deficits should be less than 0.5% of GDP (or less than 1.0 per cent of GDP if their debt-to-GDP ratio is below 60 per cent) and debt ratios above 60 per cent will require remedial action. The implication is that government budgets will be under pressure for a long time.

In the outlook it is assumed that for the majority of regional economies, fiscal policy will continue to be focused on reducing fiscal imbalances, but that the degree of consolidation will be less onerous than in the past few years. The debt-crisis countries will continue their adjustment programs and any shortfalls due to growth under-runs will not be made up but rather the timetable for achieving targets will be extended. Finally, it is assumed that no countries will ask for formal assistance under the European Stability Mechanism.

The euro ranged from 1.28 to 1.38 $US/euro in 2013, ending the year near its peak value. So far in 2014, the euro depreciated for a few months but has since moved up steadily and again hovers near 1.38.

Looking at the usual fundamental factors, relative growth rates between the two regions are in favour of the US, current account balances are in favour of the euro area, relative risk perceptions regarding fiscal issues are balanced, while the balance of monetary policy stimulus is more nuanced.

On the surface, with the US currently tapering its QE program and expected to begin its policy interest rate normalization in mid-2015 while the ECB continues to maintain its current policy stance, the balance should favor a weaker euro. But with market expectations for further easing by the ECB repeatedly frustrated and the ECB's balance sheet continuing to contract as regional banks repay the loans taken out under the LTRO's, combined with the fact that, while the Fed is tapering, it is still increasing the size of its balance sheet, the balance may actually be the reverse, favoring a stronger euro.

Going forward, however, with the ECB continuing to maintain its current stance and the Fed ending its QE and then starting to normalize rates (as well as to start reducing the size of its balance sheet), the euro is expected to reverse course and decline. In the outlook, it is assumed that the $US/euro will remain at current levels into the second half of 2014 but will then start to decline somewhat for the rest of the year, with a more significant decline in 2015 when the Fed begins to raise interest rates.

While tensions from the euro area sovereign debt crisis have receded dramatically, significant risks remain. The banking sector remains under stress. Lending conditions remain heterogeneous across the region, with overall credit to the private sector still declining. In addition, the European Central Bank and the European Banking Authority are currently performing a major Asset Quality Review and stress tests for a large sample of the region's banks. These are expected to find a need for significant recapitalization of some banks, with a question of who will pay for this. If governments were to be required to finance a significant portion of this recapitalization, the negative feedback loop could re-emerge.

The risk of deflation is significant. In the euro area, headline inflation has been below 1.0 per cent since October 2013, which in conjunction with continuing weak growth in output raises the spectre of Japan-style deflation. Aside from being exceptionally difficult to exit, deflation would have the additional impact of increasing real government debt burdens and perhaps re-igniting the debt crisis as fiscal targets become increasingly difficult to achieve.

New EU members

The recovery in the new EU member states is firming against the backdrop of stronger economic activity in the EU-15, a modest pick-up in domestic demand, less fiscal drag and a turnaround in the inventory cycle. Although in most of the region, in 2013, net exports were largely responsible for the upturn in the second half of the year, a more balanced growth pattern is expected in 2014. There are indications of an eventual pick-up in private consumption, reflected in rising retail sales, and also investment, including in the biggest economy of the region, Poland. Although households across the region are still burdened by foreign-exchange-denominated debt and continue deleveraging, low inflation and real wage growth should boost their spending. Although the economies still operate below full capacity and FDI remains disappointing, investment should also pick up gradually (investment still may contract in 2014 in some countries, such as the Czech Republic, but at a milder rate), benefitting from improved business confidence and an expansion in public sector investment, especially utilising EU funds.

The external environment may pose some risks, as tapering of the QE has led to volatility in capital flows; a number of regional currencies depreciated in early 2014 on the back of the emerging market sell-off and the political crisis around Ukraine. Although cross-border deleveraging by parent banks is of much smaller magnitude than in previous years, the associated risk of capital outflows still cannot be discounted. Several of the new EU members, however, succeeded in raising funds in international capital markets on favourable terms and much improved current account positions should facilitate the region's access to external finance.

Almost all countries in the region are expected to register positive growth rates in 2014. Croatia is likely to remain an outlier, as following its accession to the EU in July 2013, the country became subject to the restrictions of the Stability and Growth Pact, which impose constraints on fiscal policy. It also has to restructure its loss-making enterprises and lost duty-free access to the CEFTA[3] markets of neighbouring countries. The aggregate GDP of the new EU member states is expected to grow by 2.1 per cent in 2014 and by 3.1 per cent in 2015.

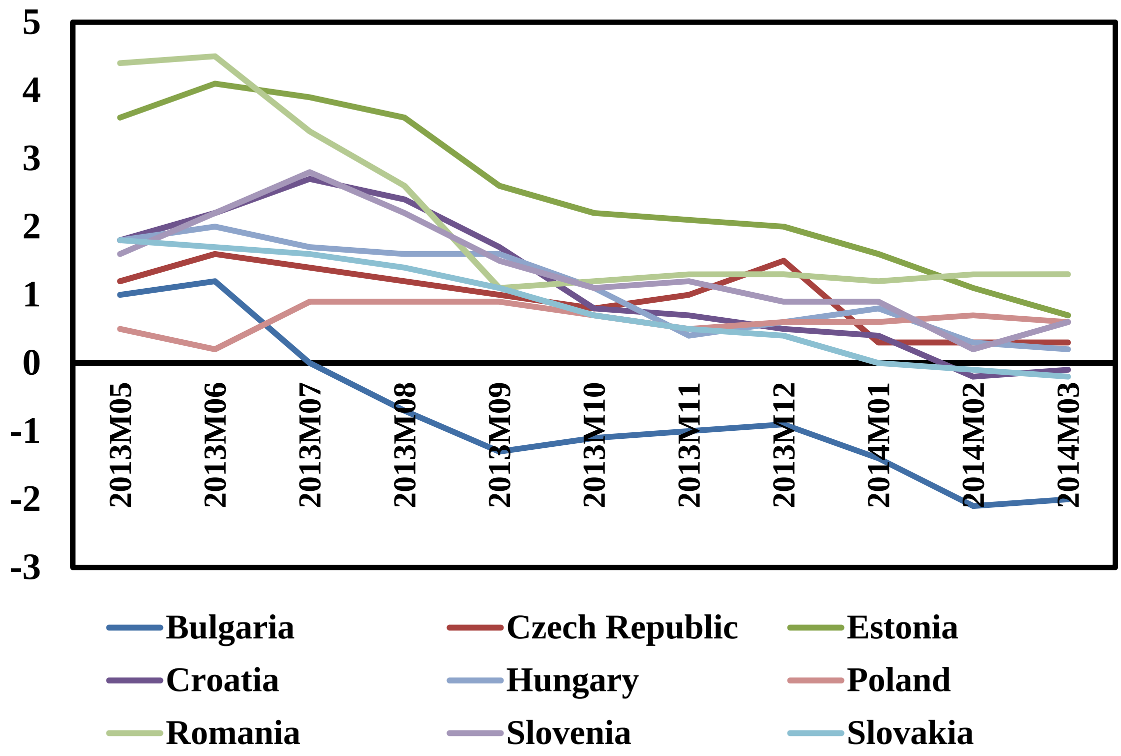
The unfolding geopolitical crisis around Ukraine may have negative repercussions for the region, especially in case of serious economic sanctions imposed against the Russian Federation or a disruption in the flow of natural gas through Ukraine. A spike in prices of energy, in particular of natural gas, would negatively affect the still tenuous recovery. The companies strongly exposed to sales or projects in the Russian Federation or Ukraine may sustain losses. Among the new EU members, Hungary, Lithuania and Poland have relatively large shares of exports to Ukraine. The banking sector in the region also would be negatively affected by such developments.

Inflationary pressures remain subdued, thanks to lower energy and food prices in the second half of 2013 and certain cuts in utility prices in 2013 and 2014. On an annual basis, inflation fell to a record low in a number of new EU members, especially in Central Europe, in early 2014 and remained below the targets of the respective central banks (figure 3). A number of countries, such as Bulgaria, Hungary and Slovakia, registered episodes of deflation in the first half of 2014 and, therefore, their annual inflation rate for 2014 may even decline from 2013 levels. The prospective recovery in domestic demand should return inflation to central banks' target ranges later in 2014, although additional utility price cuts, for example in Hungary, and still feeble domestic demand should cap inflation at low levels. Average inflation in the region is expected to stay in the low single digits, at around 1.5 per cent in 2014. This outlook is subject to the potential risk of higher oil and gas prices, caused by the geopolitical tensions around Ukraine.

Fiscal policy in the new EU members is currently operating under less severe constraints than in 2011-2012, when the countries had to rebuild their public finances and meet the requirements of the EU's Stability and Growth Pact. Moreover, some countries may enact pro-growth fiscal spending in 2014-2015. However, despite the progress accomplished in reducing budget deficits, some of the new EU countries still remain under the excessive deficit procedure of the EU, with their budget deficits exceeding 3 per cent of GDP, among them Poland. The one-off transfer of funds from private pension funds to the state-run system in Poland, which took place in 2014, will not be taken into account in the budget balance, in accordance with the European System of Accounts methodology. Nonetheless, this transfer of government bonds and other assets worth almost $50 billion to the government, which redeemed them, reduced public debt, which is subject to constitutional limits, by 9 per cent of GDP. In Slovenia, the recapitalization of a number of domestic banks imposed a heavy toll on public finances, equivalent to around 10 per cent of the country's GDP. Consequently, the high-deficit countries will have to stay on the track of fiscal consolidation. Many countries in the region have agreed to sign the EU's Fiscal Compact agreement.

[3] Central European Free Trade Agreement.

Figure 3: Change in consumer price index in new EU member states (year-on-year; percent)



Source: Eurostat.

In addition to complying with budget deficit restrictions, the Governments are addressing long-term fiscal sustainability issues, with serious reforms of public finances on the agenda for 2015 and beyond. Nevertheless, most of the region will face less fiscal drag in 2014, and in some areas, public spending will support growth. In the Czech Republic, public investment is expected to increase in 2014. In Poland, the Government aims to use capital raised through privatization proceeds to boost resources of a state-owned bank in order to channel funds to large investments in industry and construction. In 2015, a number of countries in the region are planning to implement specific income policies, such as increases in minimum wages.

Monetary policy remains the main macroeconomic stimulus tool in the new EU members, with policy interest rates at record low levels in the countries with flexible currencies, despite the tapering of the Fed’s QE programme. The much improved current account positions mitigate the vulnerability of those countries to external shocks. Apart from setting low policy rates, a number of central banks in the region implemented unconventional policy measures, such as direct intervention to weaken the currency or the provision of funds to commercial banks for targeted lending. The Czech National Bank in November 2013 decided to implement direct interventions in the currency market in order to promote exports and to prevent a possible deflation, and is committed to maintaining a weaker currency for at least until the end of 2014. The Hungarian National Bank has launched a scheme of channelling funds to SMEs through commercial banks (Funding for Growth scheme), which has been extended to the end of 2014 while the size of allocated funds was increased to an equivalent of 6.5 per cent of GDP. Those countries which are members of the euro area, namely Estonia, Latvia (which joined in January 2014), Slovakia and Slovenia, maintain the low policy rate set by the ECB.

However, the impact of loose monetary policy on the region's credit markets has yet to be seen. Consumer credit seems to be slowly recovering in Poland, but for other countries in the region, the low asset quality of domestic banks and the low demand for credit still remains a constraint. The depreciation of the flexible currencies in early 2014 has led to an increase in the share of non-performing loans, especially in Hungary, as many of those loans are denominated in foreign currencies.

Looking forward, the cycle of monetary easing is approaching its end, as inflation is expected to pick up modestly in the second half of 2014 and the depreciation of currencies adversely affected holders of foreign-currency denominated loans. However, a shift to monetary tightening is unlikely to be on the agenda for the near future, as it would stifle the incipient recovery.

In contrast to the pre-crisis period, the countries in the region have much healthier current account positions, which are either in surplus (as in Hungary and Slovakia) or close to balance, with only minor exceptions. Even if the deficits widen in 2014, they should not endanger macroeconomic stability in the near term due to the trade surpluses run by several economies in the region

A renewed slowdown in the EU-15, caused, for example, by deflation, and a subsequent collapse in EU-15 import demand remains the main macroeconomic risk for the region. Although the risk of a disorderly deleveraging by the parent EU-15 banks significantly subsided, such a possibility still cannot be completely discounted. Capital outflows, caused by the changing investor sentiment toward the emerging markets, pose another risk.

The region needs to return to pre-crisis growth rates in order to converge with the EU-15 living standards. In the medium-term, however, an acceleration of growth to the pre-crisis levels is unlikely, without the resolution of household's foreign-exchange indebtedness problem, a recovery in FDI flows and further structural reforms.

The region is confronted with serious geopolitical risks related to the conflict around Ukraine. Any disruption of the flow of Russian natural gas may have potentially adverse consequences for the industries of the new EU members and the Russian market is an important sales destination for the region, especially for some of the Baltic States. Economic sanctions against the Russian Federation may also affect the transit of Russian goods through the Baltic States, causing a decline in the services balance.

2. Economies in transition

Commonwealth of Independent States (CIS) and Georgia

The CIS region continues to face a difficult international environment in terms of export demand and access to external finance. In addition, many countries are confronted with idiosyncratic challenges and risks. Several large CIS economies, including the Russian Federation, stagnated in early 2014.

The aggregate GDP growth of the CIS and Georgia is expected to decelerate from 2.0 per cent in 2013 to 1.3 per cent in 2014, strengthening only modestly to 2.3 per cent in 2015. The prospective establishment of the Eurasian Economic Union in 2015 should contribute to the strengthening of intra-regional economic ties.

The regional growth figure for the CIS masks significant country variations. The largest economy, the Russian Federation, is facing serious structural challenges and is projected to expand very slowly in the medium-term. A number of factors were responsible for a market slowdown in the Russian Federation in 2013 (the economy grew by a meager 1.3 per cent), such as plateaued oil output, a gradual weakening in consumer confidence, continuing capital outflows and weak private investment, as well as the completion of several large-scale public infrastructure projects a year earlier.

The Russian economy started 2014 with a disappointing performance: weak investment and virtually flat retail sales. The emerging market sell-off in early 2014 and the announcement of the Central Bank of its intention to gradually move to inflation targeting and abandon currency support have led to a drastic weakening of the exchange rate, which forced the Central Bank to intervene directly. Later, the conflict around Crimea and the introduction of economic sanctions, albeit limited, have led to a further erosion of consumer and business confidence, significant capital flight (estimated at over $60 billion for the first quarter of 2014, more than in 2013 as a whole) and further weakening of the currency, which contributed to inflation, undermining private consumption and forcing the Central Bank to hike its key policy rate twice, which will further curb private investment. Despite the Government's plans to launch several large infrastructure projects later in the year, the Russian economy is unlikely to expand by more than 1 per cent in 2014.

The economy of Ukraine, which flat-lined in 2013, is facing bleak near-term prospects. The country's GDP declined in the first quarter of 2014 amid the continuing political crisis. The National Bank of Ukraine in February had to abandon the fixed-currency peg versus the dollar, against the backdrop of a weak external position and capital outflows, and within the time span of a few months, the currency has weakened by almost 30 per cent. The country needs urgent balance of payment assistance, and has received the IMF's approval for a stand-by loan of 17 billion dollars. The Government has decided to comply with the Fund's requirements, such as rising natural gas tariffs for the population, imposing constrains on public wages and pensions, and reducing the size of the public sector, which may trigger social discontent. A loan from the IMF unlocked other sources of funding, including an additional loan from the United States as an energy subsidy package to compensate for the higher gas tariffs. However, possible retaliatory measures from the Russian Federation in response to signing a free-trade deal with the EU would seriously curb industrial production, which is strongly integrated into the Russian production chain, and exports. On an annual basis, because of the weakness in private consumption caused by currency devaluation and the weak labour market, disruptions in trade flows and fiscal retrenchment, the Ukrainian economy is forecast to contract in 2014, perhaps by several percentage points.

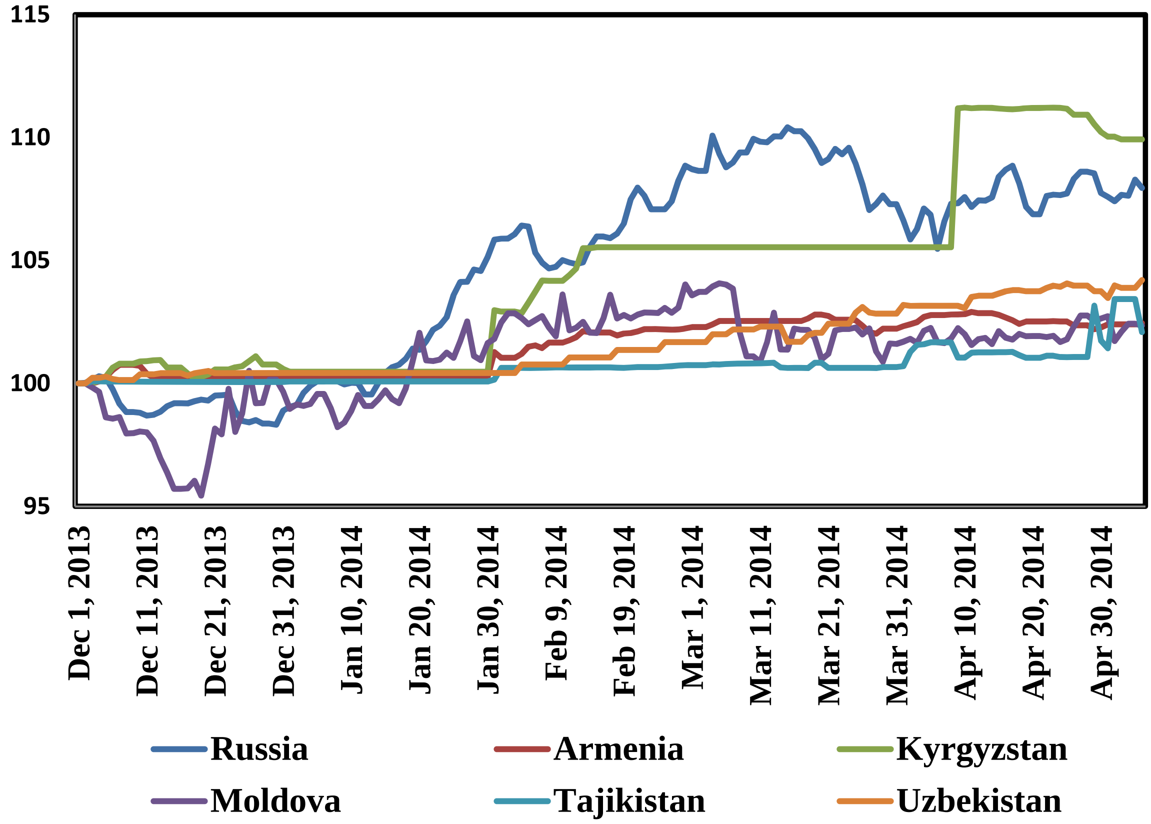
Many CIS economies maintain strong economic links with the Russian Federation and Ukraine. Among them, Belarus is strongly exposed to trade with those countries, and is extremely vulnerable to the economic downturn in Ukraine, which is its primary market for manufacturing and agricultural products. The economy of Belarus grew by only 0.9 per cent in 2013 (versus the official growth target of over 8 per cent); a low growth rate is also expected in 2014. Georgia (not a member of the CIS) and Moldova partially depend on sales to Ukraine; for those countries, the eventual implementation of free-trade agreements with the EU should compensate for the forgone exports to Ukraine. In the Caucasus, output from the oil sector is expected to be flat in Azerbaijan in 2014-2015 due to repair works at oil platforms. However, investment in the energy sector, infrastructure investment related to hosting the European Games in 2015 and efforts to diversify the economy will drive GDP growth at around 3.5 to 4.0 per cent in 2014. The expected moderation of growth compared with 2013 is explained by a slower increase in private consumption as banks are tightening their lending standards and some tightening in public expenditure.

The economies of Central Asia (most of which, except Kazakhstan, have relatively low per capita incomes and, consequently, higher growth potential) continued to expand at strong rates in 2013 on the back of commodity exports and public spending. Even if their growth is to decelerate somewhat in 2014, they still should outpace the rest of the region. The near-term economic prospects of Kazakhstan will be affected by the continuing delay of commercial production from the large offshore Kashagan oil and gas field. However, significant fiscal spending to offset the impact of devaluation on household consumption, and improved competitiveness, should sustain the economic momentum. In Tajikistan, growth in private consumption in 2013 was supported by remittances, especially from workers employed in construction related to the Sochi Olympic Winter Games. Despite the fall in the output of aluminum, the country’s key export, by over 30 per cent year-on-year, real GDP still increased by 6.5 per cent in 2013. A recovery in aluminum production may sustain a similar growth rate in 2014. In Kyrgyzstan, GDP expanded by 10.5 per cent in 2013 thanks to the recovery in gold production in the second half of the year, but a high base effect will lead to lower growth in 2014.

For the lower-income economies of the CIS, such as Armenia, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan, the weakening of the Russian currency as well as the devaluation in Kazakhstan may adversely impact the value of remittances sent home by migrant workers, restraining private consumption and possibly growth in those countries, and put pressure on their currencies (see figure 4).

Inflation in the CIS area is likely to accelerate in 2014, as those countries with near-zero or negative inflation in 2013, such a Georgia and Ukraine, will see consumer price increases. In the Russian Federation, inflation has already accelerated in late 2013 on the back of higher food prices and increases in some indirect taxes, reaching 6.8 per cent for the year as a whole, much above the initial annual target. The weakening of the currency in early 2014 has had an inflationary impact, which may even strengthen later in the year as most of the retailers will have to replenish their stocks and conclude new wholesale purchase agreements with their overseas suppliers. Moreover, the Russian industry is heavily dependent on imported components and as stocks are depleted, producer prices and the cost of industrial output will increase later in the year, feeding eventually into CPI inflation. The annual inflation rate in the Russian Federation in 2014 may exceed 7 per cent. In Ukraine, the end of the currency peg versus the dollar in early 2014 has also had an inflationary effect. Even taking into account the offsetting impact of depressed domestic demand, annual inflation, which turned negative in 2013, may reach 8 per cent in 2014. Belarus in the last several years registered the highest inflation rate in the CIS, following the country’s balance of payment crisis in 2011, with inflation over 18 per cent in 2013. Although inflation should subside modestly in 2014, the continuing weakening of the currency due to a problematic balance of payment position and ongoing fiscal spending should sustain inflation at around 15 per cent. The currency devaluation in February 2014 spurred inflation in Kazakhstan, which is expected to accelerate from around 5.5 per cent in 2013 to near 9.0 per cent in 2014. Many other economies in Central Asia traditionally saw high inflation rates on the basis of strong export revenue inflows, which expand the monetary base, and strong public spending. This trend is set to continue in 2014, with inflation rates approaching double digits.

Figure 4: Exchange rates versus the US dollar in the CIS (Index, 1 December 2013 = 100)



Source: Oanda Corporation (oanda.com), indexed by UN/DESA.

Monetary policy stances vary in the CIS. In the Russian Federation, the Central Bank twice hiked its policy rate in the first half of 2014 in response to a devaluation-led spike in inflation. Monetary loosening is not expected at least until mid-2014, and possibly even longer if inflationary pressures do not recede. While the Central Bank of the Russian Federation intends to move to a free-floating currency regime at the end of the year in order to adopt a direct inflation targeting strategy, massive capital outflows and the possibility of speculative attacks on the currency may lead to a reassessment of that strategy. The economy of Kazakhstan experienced devaluation pressures over the course of 2013, following depreciation of the Russian currency; the National Bank of Kazakhstan also devalued the currency in February in order to maintain export competitiveness. Despite the consequent jump in inflation, monetary tightening is apparently not on the agenda, as the banking sector continues to suffer from an exceptionally high share of non-performing loans (at over 30 per cent) and credit to the corporate sector is stagnating in contrast to consumer borrowing, which strongly expanded in 2013. To defend the currency, which lost significant value, the National Bank of Ukraine has increased its policy rate in April. In Azerbaijan, the currency peg to the dollar limits monetary policy options. The National Bank of Tajikistan repeatedly cut its policy rate over the last two years, most recently in February 2014. However, this move did not have much influence on the interest charged on loans.

On the fiscal policy side, in the Russian Federation, the Government may see a revenue shortfall in 2014 due to much lower than expected growth and, consequently, resort to spending from the country's Reserve Fund. However, social spending in 2014 is expected to increase at a milder pace than in 2013.In Ukraine, fiscal policy is expected to be very conservative, since a significant fiscal consolidation will be required to meet the conditions of the IMF loan accompanied with financial assistance from the EU and the United States. In the countries of Central Asia, public spending on wages and on infrastructure will continue. In Kazakhstan, fiscal expenditure will increase in order to compensate for the negative impact of devaluation on household's purchasing power. Fiscal revenue should be boosted by the increase in oil export duties enacted in March. In addition, transfers from the country's sovereign wealth fund will increase. In the Caucasus, fiscal policy will be moderately tighter in Azerbaijan, although its effect on the economy will still be expansionary.

Real exports in the CIS area grew by less than 2 per cent in 2013. Exports from the biggest economy, the Russian Federation, expanded very modestly, due to already stabilized oil output, and in 2014, real exports from the country should be flat. Exports from Belarus and Ukraine plummeted and a further contraction by around 8 per cent is expected in Ukraine in 2014. Exports shrunk also in Tajikistan due to a fall in aluminum production and the consequent decline in sales to the Russian Federation and Turkey. Exports from Azerbaijan remained virtually flat due to flat oil output and should remain so for the forecast period, slightly accelerating in 2015. The competitiveness of non-energy exports is restricted by the currency peg to the dollar, especially against the backdrop of devaluations in parts of the CIS. In the aggregate, CIS exports are expected to grow by less than 1 per cent in 2014 in real terms.

On the import side, total imports of the CIS area increased by 6.1 per cent in 2013, as weakening consumer sentiment in the Russian Federation has led to a slowdown in import growth to about 6 per cent. In 2014, however, real imports are expected to contract due to the weakening in domestic demand and depreciation of the currency. Imports strongly increased in Azerbaijan in 2013 due to preparations to host a number of sporting events and strong domestic demand for goods such as machinery and transport equipment, and are expected to expand at 6 per cent annually during the forecast period. Strong growth in remittances in Tajikistan has led to continuing growth in imports. In 2014, growth of aggregate CIS imports is expected to be negative, before mildly recovering in 2015.

Energy-exporting economies of the CIS run trade and current account surpluses. However, those surpluses, including in the Russian Federation, have been persistently diminishing. Energy importers, including Ukraine, have less healthy current account positions. The current account deficit in 2013 was especially high in Kyrgyzstan, approaching 20 per cent of GDP.

Economic prospects of the CIS economies are closely linked with international commodity prices, and a possible fall in those prices remains one of the main risks for the region. Apart from that, many CIS countries face certain idiosyncratic risks, in particular related to their financial sectors. The ongoing geopolitical tensions around Ukraine may have serious repercussions for the entire CIS area.

South-Eastern Europe

Economic growth in South-Eastern Europe recovered in 2013, after turning negative in 2012, and should gain further speed in 2014, responding to a more favourable external environment. The aggregate GDP is expected to increase by 2.0 per cent in 2014, the same as in 2013, and by 3.1 per cent in 2015. Major drivers will be recovering FDI flows and strengthening domestic demand. However, while an acceleration of growth to around 3 per cent will be a welcome development, that still would be below the pre-crisis growth levels and insufficient to address the region's structural needs of reindustrialization, an increase in the labour force participation ratio and a reduction of the high unemployment rates, especially among the youth. The region remains dependant on external finance to cover large current account deficits and faces repayments of private debt and loans taken from multilateral institutions. Accessing external funding may pose challenges against the backdrop of cooling investor sentiment towards emerging markets.

All South-East European economies registered positive growth rates in 2013. In Serbia, the economy grew by 2.5 per cent, with growth surprising on the upside supported by export-led manufacturing and improved agricultural output. A repetition of the buoyant harvest in 2014 is unlikely and since the Government is committed to fiscal consolidation and is seeking a loan from the IMF, the economy should slow down in 2014. Domestic demand in Serbia remained lacklustre, with construction activity declining by over 25 per cent in 2013 and investment contracting on an annual basis. In the near term, the economy will remain heavily dependent on exports. By contrast, in Albania, both exports and a recovery in construction activity drove growth. This should continue in 2014, while economic activity in the former Yugoslav Republic of Macedonia will be supported by public investment in the railway and road infrastructure. In Montenegro, the economy expanded by 3.5 per cent in 2013 after falling into recession in 2012, thanks to the positive contribution from net exports, a good tourism season and a modest recovery in private credit. Slightly lower growth is projected for 2014. The state of the banking system with a high share of non-performing loans (around 20 per cent of the total in mid-2013) remains a constraint on economic expansion. In addition, the country's aluminium factory experienced financial difficulties and had to rely on state-loan guarantees. In Bosnia and Herzegovina, private consumption is curbed by high unemployment and tough austerity measures, and growth will remain lacklustre.

In the outlook, the external environment for the region is expected to improve, although terms of access to external finance may remain precarious. As credit conditions ease, investment is set to recover gradually in 2014-2015, along with strengthening private consumption.

Average inflation in South-Eastern Europe should decelerate in 2014, mainly thanks to lower inflation in Serbia, which traditionally outpaced its neighbours in the speed of increase in consumer prices. Serbia's inflation, however, declined noticeably in the course of 2013 thanks to buoyant agricultural output and falling food prices, against the backdrop of weak domestic demand and tight monetary policy. In 2014, annual inflation in Serbia should be below 4 per cent, much lower than the 7.6 per cent inflation registered in 2013. In the rest of the region, inflationary pressures are extremely weak. Despite the increase in the VAT rate, inflation in Montenegro subsided in 2013 and turned negative in early 2014. In Bosnia and

Herzegovina, annual inflation in 2013 was negative and is expected to be very low in 2014. In the former Yugoslav Republic Macedonia, lower food and energy prices should keep inflation below 2 per cent.

In most of South-Eastern Europe, but especially in Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia, labour force surveys estimate the unemployment rate at over 25 per cent. In Serbia, the rate of registered unemployment increased from around 25 per cent in 2012 to 27.2 per cent in 2013 and is not expected to decline in the near-term period, as the Government is committed to supply-side reforms and a shrinking of the public sector. Tight fiscal policy will also prevent improvements in Bosnia and Herzegovina. Most of the unemployment in the region is structural, further aggravated by the recent cyclical downturn (in 2012, all South-Eastern European economies, except Albania, shrunk). In the former Yugoslav Republic of Macedonia, the rate of registered unemployment dropped to 28.7 per cent in the third quarter of 2013, from 31.2 per cent a year earlier, as the activity rate increased, in part thanks to publicly funded infrastructure projects, and this trend may continue.

Fiscal policy in most of South-Eastern Europe remains tight, as fixed exchange rates compel to fiscal discipline. The countries struggle to reduce their budget deficits and in some cases have to comply with IMF loan requirements. In Serbia, the budget deficit contracted from around 6.5 per cent of GDP in 2012 to about 4.9 per cent of GDP in 2013 due to the surplus in local governments' budgets and the Government's policies to reduce the size of public debt. The deficit for 2014 is initially planned at around 7 per cent of GDP. However, the impact of fiscal policy on growth is likely to be rather contractionary, as the Government is planning to obtain a loan from the IMF and will have to coordinate its policy with the Fund. In Montenegro, the budget deficit in 2013 reached 3.9 per cent of GDP, against the initial official target of 2.7 per cent, despite an increase in the VAT and a freeze in pensions implemented in 2013, because the Government provided assistance to a loss-making aluminium factory. Only thanks to the surplus by local governments, the consolidated deficit stood at 2.7 per cent of GDP. Although the Government envisages spending on crucial infrastructure development, consolidation is likely to continue, especially if the country turns to the IMF for balance of payment support. In Bosnia and Herzegovina, the IMF's stand-by agreement has been extended until mid-2015 and requires further fiscal retrenchment. In the former Yugoslav Republic of Macedonia, the Government intends to increase capital expenditure, while simultaneously reducing the budget deficit, and will need stronger revenue intake.

Formal or informal currency pegs constrain the conduct of monetary policy in the region. In the countries with flexible currencies, the National Bank of Serbia repeatedly increased its key policy rate until April 2013 in response to accelerating inflation, before cutting it by a total of 225 basis points by mid-April 2014 as inflationary pressures subsided. The tapering of the QE programme had led to stronger depreciation pressures in the region, and further interest rate cuts are unlikely. The Central Bank of Albania has also repeatedly cut its policy rate, bringing it to a record low in July 2013 amid rapidly falling inflation. Lending growth slightly picked-up in 2013 in Albania, the former Yugoslav Republic of Macedonia and Montenegro.

In 2013, exports noticeably increased in Serbia, by around 19 per cent in real terms, mostly thanks to the drastic expansion of production in one of the automotive factories. Albania also achieved a double-digit export growth rate in 2013, which was underpinned by the increased competitiveness following a modest depreciation of the currency. In the former Yugoslav Republic of Macedonia, real export growth was more modest, estimated at around 3.5 per cent, mostly in the category of transport equipment, while basic metal production and exports fell. Total real exports from the region are forecast to grow by around 7 per cent in 2014 and 2015.

Import growth in the region, however, was subdued. Despite falling inflation, real incomes shrunk in Serbia, and the weak labour markets also curbed consumer demand, while investment declined by around 8 per cent year-on-year. As a result, imports expanded only by around 2 per cent in real terms. In the former Yugoslav Republic of Macedonia, imports in real terms even contracted in 2013, as problems at the country’s oil refinery have led to a smaller volume of imported oil. Nevertheless, stronger demand for investment goods should bolster import growth in 2014-2015, which for the region as a whole is projected to reach 6 per cent in 2014 and 7 per cent in 2015 in real terms.

Some of the South-East European countries continue to run high current account deficits, which in 2013 reached 6 per cent of GDP in Serbia, 9 per cent of GDP in Albania, and 15 per cent of GDP in Montenegro. Those deficits are largely driven by structural trade deficits, given the region’s strong dependence on imports of energy and capital goods. Nevertheless, thanks to the robust export performance, the deficit in Serbia halved in 2013. While these deficits are partially covered by FDI, the region’s economies often rely on short-term capital flows to finance them, which may become a potential source of macroeconomic vulnerability in case of sudden capital outflows.

A renewed slowdown or a crisis in the EU remains the main potential risk for the region, given its strong trade and financial links with the euro area, especially Greece and Italy, as well as the region’s strong dependence on remittances and on external finance.

3. Developing economies

Africa

Economic growth in Africa will be somewhat lower than previously expected owing to a variety of issues across the continent, from continuing political tensions to pressure on exchange rates as well as weakness in some agricultural markets. Growth in North Africa is expected to be somewhat lower than expected in 2014 and 2015 mostly owing to continuing disruptions to oil output and exports in Libya. Morocco’s growth has been revised downwards owing to continuing weakness in European trading partners and weak agricultural output after a rebound from drought last year. Growth in East Africa has been revised slightly upwards, but there is a mixed picture with Kenya’s upward revision coming on the back of a downward revision to GDP for 2013. Rwanda’s growth rate has been revised down significantly after growth for 2013 came in at 4.6 per cent, well below previous expectations. Central Africa will see a marked acceleration in growth in 2014, mainly due to the negative effect of the sharp fall in growth in the Central African Republic last year. However, the subregion will register slowing growth in 2015, as the security situation in the Central African Republic prevents any meaningful economic progress. In addition, Equatorial Guinea’s economy will contract further by 3.3 per cent next year due to falling oil production and lower public infrastructure spending. West Africa is forecast to see steady growth at 7.0 per cent and 7.1 per cent in 2014 and 2015, respectively. In Southern Africa, growth will accelerate next year, although this is partly due to lower than previously expected growth this year. South Africa is forecast to register growth of 2.5 per cent this year, a downward revision by 0.8 percentage point compared to the previous forecast. Several factors depress growth this year, including the effect of higher interest rates on demand and the reduced purchasing power resulting from the depreciation of the rand.

Inflation will continue to decrease overall in Africa, from 6.9 per cent this year to 6.5 per cent in 2015, underpinned by steady or lower prices for food, commodities and oil. Inflation projections for the WESP update are considerably lower than in the WESP, for 2013, 2014 and 2015, partly owing to significant reductions in expected inflation for Libya where growth has been revised downwards. However, in various commodity-exporting economies these price trends have also contributed to the currency depreciation, which has offset some of the decrease in inflation. In West Africa, inflation will remain high in Nigeria, where prices will increase by 9.2 per cent this year and 10.5 per cent in 2015 due to strong fiscal spending in light of the elections next year and strong private consumption. Inflation in North Africa remains a mixed picture with relatively low rates in Morocco and Algeria offset by high rates in Sudan and rising inflation in Egypt and Libya. Inflation may rise as subsidy programs are phased out – as discussed in the fiscal policy section below. Inflation remains comparatively higher in East Africa, driven by continuing high prices for some food items, high energy prices and transportation costs, pressure on exchange rates and subsequently higher rates of imported inflation.

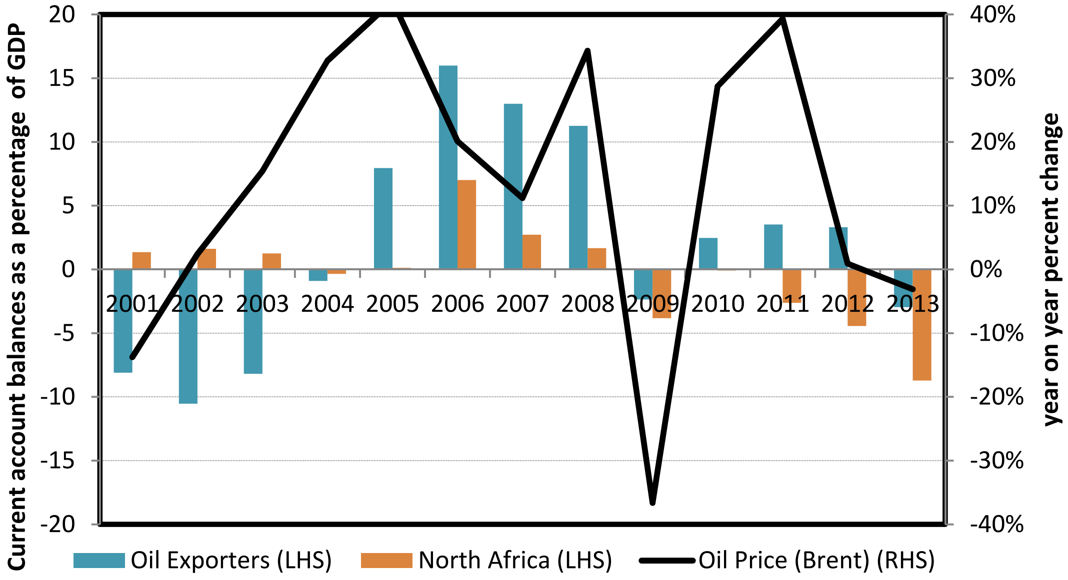
Monetary policy has been tightened in a number of African economies. For example, in Southern and West Africa, both South Africa and Ghana saw their policy interest rates increase in view of inflationary pressures stemming from currency depreciation. This tightening stance is expected to continue into 2015, although a sharper weakening in growth would create a dilemma for policymakers by accentuating the need to choose between controlling inflation and promoting growth. Most central banks in East Africa remain wary after inflation spiked in 2011 and 2012, although inflation has come down from those levels considerably. There has been concern about pressure on exchange rates, owing to a number of factors including widespread pressure on emerging market and developing country exchange rates as well as high current account deficits in some countries. The Central Bank of Kenya has repeatedly stepped in to stabilize the currency through the use of short term repos and reverse repos. In North Africa, the Central Bank of Egypt has continued to offer limited sales of dollars and has recently allowed the currency to fall slightly below 7 to the dollar, but there have been a few larger sales of dollars at various points where there appeared to be significant pressure on importers.

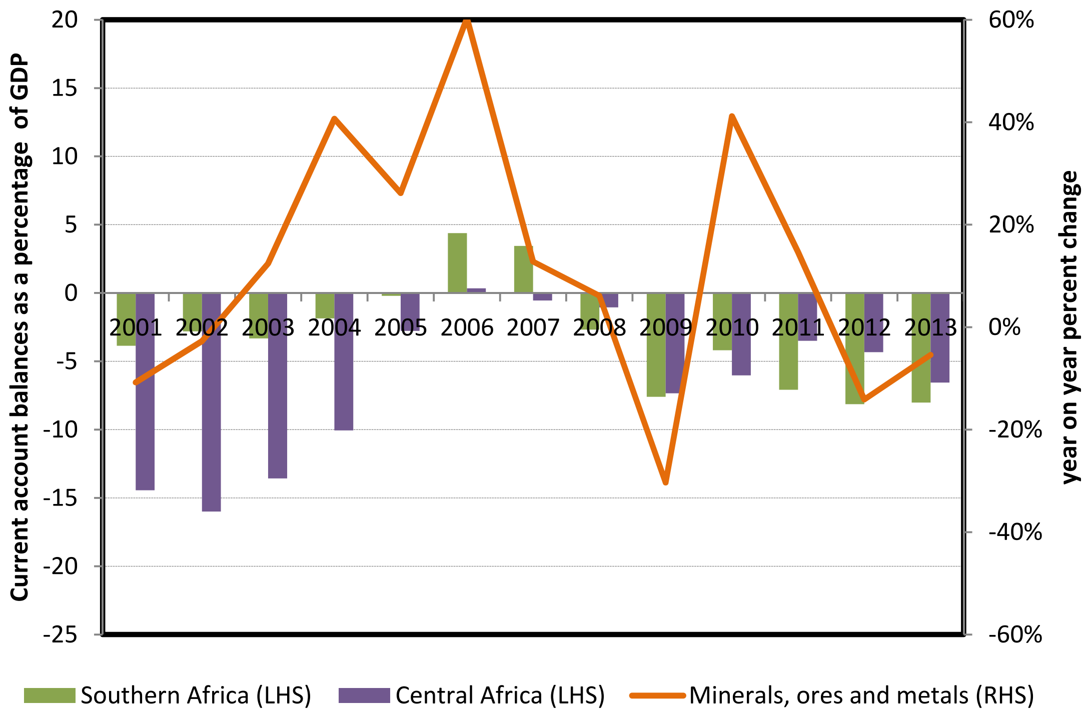
Elections, notably in Algeria this year and Nigeria next year, will underpin additional fiscal spending, although possibly with reduced effectiveness. On the revenue side, steady or slightly falling commodity prices will exert pressure on fiscal budgets in the big commodity-exporting economies in Southern and West Africa, with the added risk that the dominant role of commodity exports would also translate into a sharper fall in fiscal revenue in case of a more severe downturn in global demand. In addition, fiscal policy space remains limited also by institutional deficits that hinder or reduce the capacity of tax collection. In East Africa, fiscal policy remains mixed depending on the budgetary situation of the various countries. Burundi continues to take steps to limit its deficit although revenue may be lower than expected and limit the effectiveness of those efforts. Ethiopia continues to implement its public investment program, with a significant focus on infrastructure and human resource development, which will perpetuate modest deficits. A significant number of countries still rely on external budgetary support to make up for shortfalls and fluctuations in that support owing to both domestic and external factors have hampered growth in some countries. In North Africa, Egypt has introduced two stimulus plans to boost growth, one launched in late 2013, and another planned for the first half of 2014. Deficits remain relatively wide, although budgetary support from neighbouring gulf countries has helped to limit growth of the deficit below last year's level. A number of countries in the region are struggling with reducing subsidy programs for various goods and services as they contribute significantly to deficits, but are politically problematic and cuts may push up inflation and poverty.

The lower than previously forecast growth profile for Africa compounds the severe labour market problems that manifest themselves in the form of high unemployment rates, widespread underemployment, low earnings and gender disparities in earnings and employment opportunities. Assessing the employment situation continues to be difficult given the levels of informal employment in many countries, particularly in the agriculture and services sectors. Strengthening domestic demand due to rising incomes continues to be a major underlying trend in countries such as Nigeria and Ghana, also supporting the creation of jobs in sectors like construction and the telecommunication sector. However, more diversified economic activities with higher value-added are needed in order to create a more vibrant positive employment impact. Employment remains a significant issue in many North African countries, even after it contributed to the Arab Spring. Unemployment remains high, particularly among the rural population and among women. Some countries such as Egypt and Algeria have boosted minimum wages for public and private sector workers in an effort to stem unrest. Employment and wage demands have also been a driving factor in the protests disrupting the hydrocarbons sector in Libya.

Export growth is expected to rise for Africa as a whole after slower growth in 2012 and 2013, which were pulled down by weakness in developed country trading partners and some domestic disruptions. Import growth will continue to remain strong, propelled by a mix of increasing oil imports to some countries and imports of materials for investment, particularly related to infrastructure and oil exploration in East Africa. Many countries will continue to run trade deficits and, in a significant shift, some of the oil exporting countries have shifted to deficit as imports have risen more rapidly than exports and oil prices have moderately decreased (figure 5). Both Algeria and Nigeria have experienced significant declines in US imports of their oil, but Algeria has moved close to deficit, whereas Nigeria retains a substantial surplus. There has been a mixed picture for tourism, which is a significant sector for a number of countries with political turmoil or concerns surrounding elections cutting back on visitor numbers and spending. Particular conditions in Central Africa, especially the Central African Republic, brought down both exports and imports last year and are expected to continue to depress trade growth in 2014. On a somewhat more positive note, Intra-Africa trade has continued to rise and there have been recent steps in a number of countries to ease movements of both goods and labour.

Figure 5: Current account balances of African regions and changes in selected commodity indices





Source: IMF WEO database (current account balances), UNCTAD (commodity price indices)

East Asia

East Asia is projected to see robust economic growth in 2014 and 2015 as exports to developed countries strengthen and domestic demand remains firm. A further gradual slowdown in China is expected to be offset by a pick-up in growth in most of the region's other economies. Economic activity in the region is projected to expand by 6.0 per cent in both 2014 and 2015, the same pace as in 2013. In most economies, household consumption and fixed investment are expected to grow at a steady pace, helped by mild inflation, stable labour markets and generally low real interest rates. Monetary and fiscal policies will continue to be in line with robust growth. In the latter part of the forecast period, some central banks are expected to start tightening monetary policy in the face of improved global conditions, higher interest rates in the United States and a slight acceleration in domestic inflation.

Average economic growth in East Asia is significantly below the pace recorded in the period before the global financial crisis and during the immediate recovery from the crisis in 2010/11. This reflects not only the considerable slowdown of the Chinese economy, but also weaker growth in the region's high-income economies, including Hong Kong Special Administrative Region of China, the Republic of Korea, Singapore and Taiwan Province of China. These economies have been severely impacted by sluggish demand in some of their main trading partners, notably the United States and the European Union. However, with demand in developed countries slowly picking up, they have started to see a moderate recovery in economic growth. This positive trend should continue in the forecast period, although stronger exports to developed economies may be partly offset by weakening import demand from China. Growth in China is expected to moderate further over the next few years, with GDP forecast to expand by 7.3 per cent in 2014 and 7.1 per cent in 2015, down from 7.7 per cent in 2013. This lower growth trajectory is in line with the Government's focus on raising the quality of development and reflects somewhat tighter monetary and fiscal policies aimed at curbing financial risks. Recent growth trends have diverged among the countries of South-East Asia, mainly reflecting idiosyncratic factors. Growth moderated in 2013 in Indonesia and Malaysia owing to slower investment activity. Malaysia is projected to see growth accelerate from 4.7 per cent in 2013 to 5.2 per cent in 2014 on the back of stronger net exports. Indonesia's economy is forecast to expand by 5.6 per cent in 2014, down from 5.8 per cent in 2013. Household spending is expected to weaken, following monetary policy tightening in 2013, and exports will be negatively affected by the slowdown in China and an export ban on raw ore. Thailand's short-term outlook has deteriorated sharply, with the continuing political unrest taking a severe toll on domestic demand. Growth is currently projected to further slow from 2.9 per cent in 2013 to 2.3 per cent in 2014, before improving in 2015. The Philippines' economy registered the second-fastest growth rate in East Asia behind China in 2013, with GDP expanding by 7.2 per cent. This stronger-than-expected performance reflects a boom in construction, along with strong growth in household and government consumption. Although GDP growth is forecast to moderate gradually in 2014/15 as a result of less rapid expansion in investment activity, the overall outlook for the Philippines remains favourable.

In most East Asian economies, labour markets have remained fairly stable over the past year, supported by solid output growth. With few exceptions, official unemployment rates in the region are relatively low. This is particularly the case in the region's high-income economies, where unemployment rates in early 2014 ranged from 1.8 per cent in Singapore to 4.0 per cent in Taiwan Province of China. In the Republic of Korea, the unemployment rate edged slightly higher to about 3.5 per cent in the first quarter of 2014 as unfavourable weather conditions constrained hiring and the labour force participation rate increased. While general employment trends in the Republic of Korea remain favourable, youth unemployment (age group 15 -29) has increasingly become a problem. The employment rate for this age group has dropped to barely over 40 per cent, compared to 64 per cent for the population as a In part, this reflects educational mismatches and a strong preference of young job-seekers for the country's large international corporations over small and medium-sized enterprises. Official unemployment rates are below 4 per cent in China, Malaysia and Viet Nam. In Thailand, unemployment remains still below 1 per cent, although a moderate increase is expected for 2014 as a result of the ongoing political crisis. In the Philippines, the recent strong growth performance has not been accompanied by similar improvements in the labour market. This has led many economists to describe the current episode as "jobless growth". In January 2014, the unemployment rate in the Philippines stood at 7.5 per cent, up from 7.1 per cent a year ago. While official unemployment rates are relatively low in most economies, the high level of vulnerable employment constitutes a major challenge for many countries . The ILO estimates that in South-East Asia, the share of vulnerable employment is almost 60 per cent.

Consumer price inflation is projected to remain mild in most East Asian economies during the forecast period owing to continuing subdued international commodity prices, limited demand pressures and generally stable currencies. Across the region, robust agricultural production has helped dampen food price increases over the past year. With the exception of Indonesia, inflation is within or below the target ranges set by the region's central banks. Average consumer price inflation is forecast at 2.7 per cent in 2014 and 3.0 per cent in 2015, slightly up from 2.6 per cent in 2013. The expected mild increase in inflation can be attributed to a strengthening of domestic demand in several economies, including the Republic of Korea, Taiwan Province of China and Papua New Guinea, as well as country-specific factors, such as a further subsidy reduction in Malaysia. In China, consumer price inflation averaged only 2.3 per cent in the first three months of 2014, well below the Government's full-year target of 3.5 per cent. China's producer price inflation has remained firmly in negative territory, dropping by an average rate of 2.0 per cent in the first quarter of 2014. This reflects ongoing significant excess capacity, particularly in the industrial sector, weakness in global commodity prices and soft domestic demand. Led by higher food price inflation, upward pressures on prices in China are expected to slowly increase, with CPI inflation forecast to average 2.6 per cent in 2014 and 3.0 per cent in 2015. In Indonesia, year-on-year consumer price inflation declined from a high of 8.8 per cent in August 2013 to 7.3 per cent in March as the value of the rupiah stabilized and food prices softened. The gradual slowdown is expected to continue during the forecast period, although upside risks such as further hikes in administered prices and poor harvests remain.

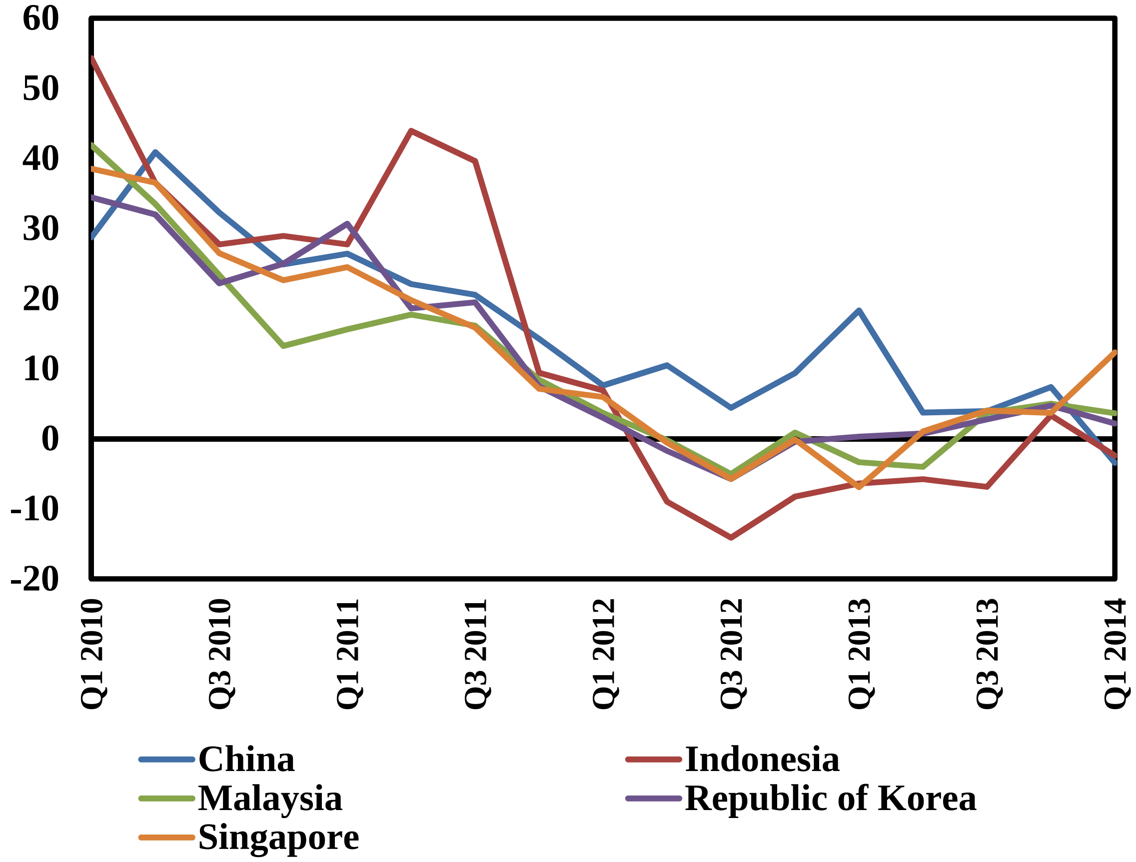
Against the backdrop of only mild inflationary pressures and well-anchored inflation expectations, East Asia's central banks have generally maintained accommodative monetary policies. This is reflected in low or negative real interest rates across the region. While monetary conditions have been mostly left unchanged over the past few months, the central banks of Thailand and Viet Nam further lowered their key policy rates in early 2014. In Thailand, the authorities responded to a rapidly deteriorating economic outlook as the political crisis deepened. In Viet Nam, the central bank aims to boost economic growth, which slowed considerably in the first quarter of 2014, at a time when inflation has fallen below the target range. Looking ahead, many central banks in East Asia are expected to gradually tighten monetary conditions in the latter part of the forecast period in the face of improving global conditions, higher interest rates in the United States and a slight pick-up in domestic inflation. In doing so, the authorities will, however, remain cautious owing to continuing global uncertainties and domestic risks, including elevated household and corporate debt levels in several countries. The People's Bank of China (PBoC) has already adopted a tighter monetary policy stance as it aims to simultaneously support stable growth of the real economy and curb the financial risks associated with high leverage. While the official M2 growth target for 2014 was maintained at 13 per cent, there have been signs of tighter lending conditions at the micro level, including liquidity shortages in the inter-banking market and financing difficulties for small and medium-sized enterprises.

Most East Asian Governments are expected to maintain prudent fiscal policies in 2014/15, in line with robust economic growth. Across the region, fiscal positions have remained sound even as some Governments introduced expansionary measures over the past year. Only Malaysia, Myanmar and Viet Nam recorded budget deficits above 3 per cent of GDP in 2013. Budget deficits declined considerably in the Philippines, where revenue growth accelerated, and in Thailand, where reconstruction expenditures declined. Several of the region's high-income economies, such as Hong Kong Special Administrative Region of China, the Republic of Korea and Singapore, continued to register budget surpluses. In China, the Government vowed to maintain its proactive fiscal policy stance in 2014, which is based on robust revenue and expenditure growth. According to the Government budget for 2014, spending is set to rise by 9.5 per cent this year, while revenue is expected to increase by 8 per cent. Concerned over a sharper-than-expected slowdown, the Chinese Government announced in April a small-scale stimulus plan, which includes the extension of tax breaks for small businesses, additional spending on railways and expansion of housing projects for low-income households. However, when taking into account recently adopted tightening measures on extra-budgetary activities, the overall fiscal policy stance in China is probably more restrictive than the official budget indicates. Since in most of the region's economies, GDP growth is projected to pick up in the forecast period, fiscal balances are likely to improve slightly.

Most East Asian economies experienced a recovery in export growth in 2013, especially in the second half of the year (figure 6). This positive trend is likely to continue in the forecast period as demand in developed economies, in particular the United States and the European Union, strengthens further. Exports will nonetheless grow at a considerably slower pace than before the global financial crisis. Economies that have a relatively strong exposure to the United States and Europe, such as the Republic of Korea, Singapore and Taiwan Province of China, are expected to see significant gains in export growth over the next two years. In China, real exports are forecast to grow at a similar pace to 2013, when they increased by 6.4 per cent. In Indonesia and, to a lesser extent, Malaysia, the Philippines and Thailand, export sectors will likely benefit from weaker national currencies. The Indonesian rupiah lost more than 20 per cent against the dollar in 2013 as speculation over Fed tapering and concerns over slowing growth and the country's current account deficit led to capital outflows. The Malaysian ringgit, the Philippine peso and the Thai baht also weakened in 2013, but regained some ground in early 2014. In line with more rapidly rising exports and robust domestic demand, import growth is also expected to accelerate in most economies. However, a further weakening of international commodity prices, notably oil, will limit any increases in the import bill. Most of the region's economies will maintain significant current account surpluses in the forecast period.. The aggregate current account surplus of the region, as a share of GDP, is expected to decline slightly, mainly owing to smaller surpluses in China and the Republic of Korea. In Indonesia, the current account deteriorated rapidly between 2011 and 2013 as export growth stalled and the primary income deficit widened. Despite a small surplus in the trade balance and some improvement at the end of the year, the current account deficit accounted for about 3.5 per cent of GDP in 2013. Given the combination of a much weaker rupiah and various government measures to stimulate export and restrain imports, the deficit is projected to narrow in 2014.

While the more stable outlook for the global economy has reduced the uncertainties and downside risks for East Asia, there are still several factors that could derail regional growth. On the one hand, an unexpectedly severe tightening of global liquidity conditions could lead to significantly higher real interest rates across the region, resulting in weaker growth in investment and consumption than currently anticipated. This risk factor is particularly relevant for countries with high household or corporate debt, such as the Republic of Korea, Malaysia and Thailand, and for economies with potential housing market bubbles, including Hong Kong Special Administrative Region of China and Singapore. On the other hand, a sharper-than-expected slowdown in China would have a severe impact on other economies in the region via trade and finance.

Figure 6: Export growth in selected East Asian economies, Q1 2010 – Q1 2014 (Year-on-year percentage changes in US dollar values)



Source: National statistical authorities.

South Asia

Economic growth in South Asia is projected to pick up gradually in the forecast period, after remaining near a two-decade low in 2013. The moderate recovery is expected to be underpinned by stronger consumption and investment in the context of enhanced macroeconomic stability in several countries, including India, the Islamic Republic of Iran and Pakistan. External demand is also projected to improve in 2014/15 as growth in developed economies gains pace. On average, gross domestic product in South Asia is estimated to grow by 4.5 per cent in 2014 and 5.0 per cent in 2015, up from 3.9 per cent in 2013. The pace of the recovery will, however, be modest as structural impediments, including energy and transport constraints, continuing political uncertainty and lack of economic policy reforms, hold back growth. A slowdown in consumer price inflation over the past few quarters has reduced the pressure on central banks to further tighten monetary conditions. At the same time, fiscal balances have slightly improved, but deficits are still large.

In most South Asian countries, economic growth continued to be held back in 2013 by sluggish domestic demand. With the exception of Sri Lanka and, to a lesser extent, Bangladesh, consumption and investment spending across the region have remained weak, largely owing to structural obstacles and policy uncertainties. This has been partially offset by stronger net exports in the face of more favourable global conditions and weaker domestic currencies. India’s GDP growth, measured at factor costs, decelerated further from 5.1 per cent in 2012 to 4.7 per cent in 2013, the slowest pace in over a decade. With fixed investment stagnating and household consumption growing by less than 3 per cent, only a significant increase in net exports helped prevent a sharper slowdown. In the Islamic Republic of Iran, economic activity contracted by an estimated 2.3 per cent in 2013 as the international sanctions led to a sharp drop in oil exports and severe supply constraints. Most South Asian economies are projected to see a gradual recovery in the forecast period, although growth will generally remain below potential. In India, the Islamic Republic of Iran and Pakistan, several key macroeconomic indicators have shown improvement over the past six months. Lower inflation, stronger external balances and more stable currencies are expected to support business and consumer confidence. India’s economy is forecast to expand by 4.9 per cent in 2014 and 5.4 per cent in 2015, although significant uncertainties and downside risks remain. These include a weaker-than-expected monsoon and further monetary tightening in response to a renewed rise in inflation or a new wave of capital outflows. The Islamic Republic of Iran is projected to see a return to mildly positive growth this year as the partial lifting of sanctions will help non-oil exports. A more robust recovery depends, however, on further sanctions relief, especially for oil exports and the financial sector. Economic growth is also projected to pick up slightly in Bangladesh and Pakistan, supported by remittance inflows and a slowly improving investment climate. Sri Lanka remains the region’s fastest-growing economy, with annual growth forecast to stay above 7 per cent in the outlook period. Rising incomes and remittance inflows fuel domestic consumption while continuing reconstruction efforts support investment growth.

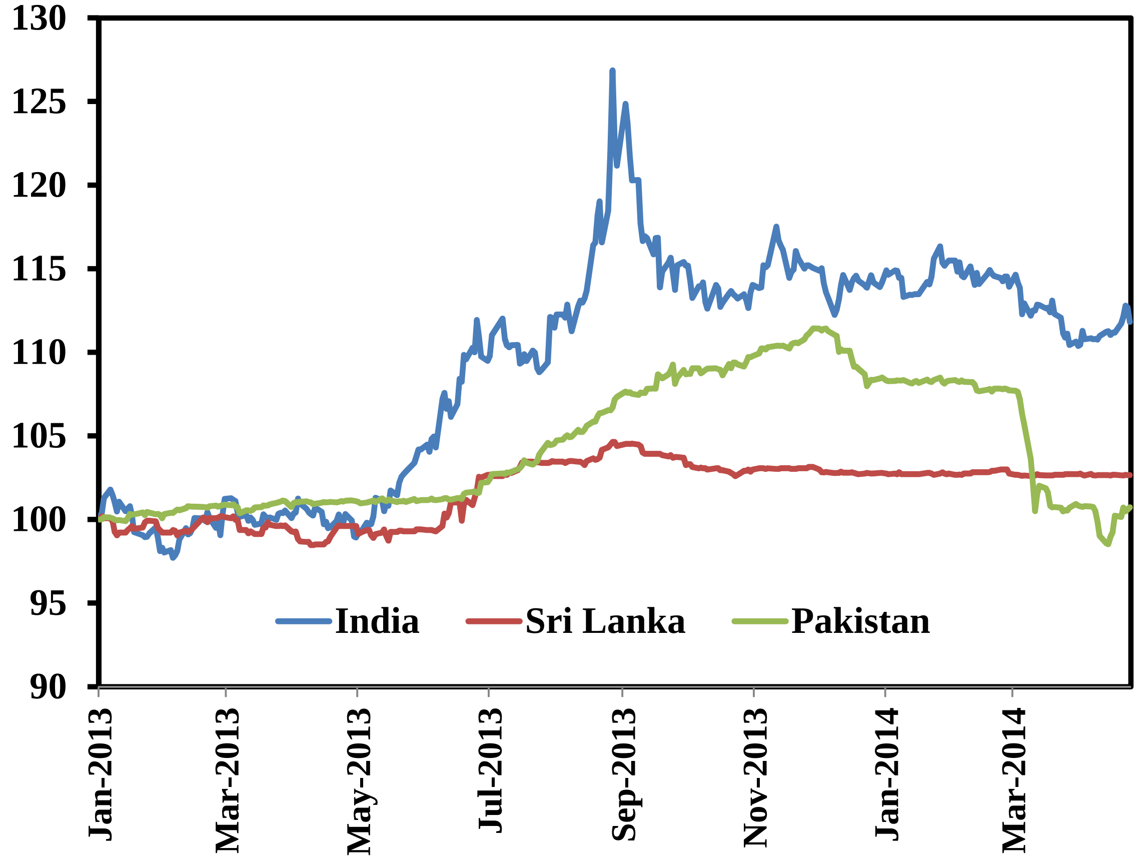
Recent employment surveys in several South Asian countries underline the enormous labour market challenges the region faces. While these challenges are mainly structural in nature, they have been exacerbated by the recent weakness in growth, particularly in India, the Islamic Republic of Iran, Nepal and Pakistan. The recently published “India Labour and Employment Report 2014” (by the Institute for Human Development) estimates that in the fiscal year 2011/12, about 90 per cent of workers were engaged in informal employment, with little or no social protection and low earnings. The report also indicates that labour market disparities and inequalities in India are very large, having further widened between 2004/05 and 2011/12. In 2011/12, the average daily earnings of a rural casual worker were estimated to be less than half of those of a regular worker and only 7 per cent of those of a public-sector employee. The gender gap also remains very large in most South Asian countries. In Pakistan, the female labour force participation rate stood at only 24.3 per cent in 2012/13, compared to 81.1 per cent for men. Unemployment in Pakistan is estimated to have increased from 5 per cent in 2007/08 to 6 per cent in 2012/13, while there has been a slight decline in the share of vulnerable employment from 62 per cent to 59 per cent. In Sri Lanka, South Asia's fastest-growing economy in recent years, the employment situation remained fairly stable over the past year. The unemployment rate averaged 4.4 per cent in 2013, up from 4.0 per cent in 2012. This increase is primarily the result of a higher labour force participation rate, which rose from 52.6 per cent to 53.8 per cent as more women entered the labour force. Even as economic growth in South Asia is expected to pick up over the next few years, labour markets in most countries will continue to struggle to absorb the large number of new entrants.

Across South Asia, consumer price inflation slowed in late 2013 and early 2014. This reflects a combination of domestic and international factors, including good harvests, limited aggregate demand pressures, stable national currencies and lower international commodity prices. In India and Pakistan, the recent tightening of monetary policy has also played a role in containing price pressure. Food price inflation, the main driver of inflation in the past few years, has declined in most countries. In India, for example, year-on-year inflation for food and beverages fell from 14.7 per cent in November 2013 to 8.6 per cent in February 2014 as prices for vegetables, especially onions and potatoes, dropped from their highs.

However, despite the recent moderation, inflation is still elevated in most South Asian economies as supply bottlenecks persist, inflationary expectations are deeply entrenched and Governments continue to cut food and fuel subsidies. Annual consumer price inflation in 2013 ranged from 6.9 per cent in Sri Lanka to 39.6 per cent in the Islamic Republic of Iran, where the international sanctions led to severe supply shortages and a sharp devaluation of the rial. For the region as a whole, consumer price inflation is projected to decline from 14.4 per cent in 2013 to 10.5 per cent in 2014 and 8.7 per cent in 2015. While the baseline scenario foresees a fall in inflation in all South Asian countries, significant upside risks remain. A faster-than-expected reduction of subsidies (particularly in India, Pakistan and Sri Lanka), insufficient monsoon rains or renewed currency weakness could push inflation well above current projections.

The recent easing of inflation in most South Asian countries has reduced the pressure on central banks to (further) tighten monetary policy. The central banks in India and Pakistan have left their benchmark policy rates unchanged in recent months after hiking them in late 2013/early 2014. The Reserve Bank of India (RBI) raised its key policy rate three times between September and January, lifting the repo rate from 7.25 per cent to 8.0 per cent. These moves have supported the disinflation process while also helping the Indian rupee recover some of its losses against the dollar in 2013 (figure 7). India's monetary authorities repeatedly emphasized that significantly lower and more stable inflation was a pre-condition to revive consumption and investment, which have slowed markedly over the past two years. The path of policy rates will therefore primarily depend on the upcoming trends in wholesale and consumer price inflation. Over the coming months, policy rates are expected to remain unchanged. Should the current disinflationary process continue and the external financial environment remain stable, the RBI may loosen monetary conditions in the later part of the forecast period. As part of a roadmap to strengthen India's monetary policy framework, the RBI plans to switch from wholesale to consumer prices as the primary measure of price changes. The State Bank of Pakistan (SBP) maintained its fairly tight monetary policy in early 2014, after increasing interest rates in September and November 2013. The policy rate has been kept at 10 per cent as the SBP has remained cautious about improvements in the macroeconomic situation, including a decline in inflation and a strengthening of the Pakistani rupee against the dollar. In Bangladesh and Sri Lanka, monetary conditions remain fairly accommodative. The moderation in inflation has given the central banks greater scope to support economic growth. Sri Lanka's central bank loosened its monetary policy slightly in January in a bid to stimulate credit growth. In both countries, no significant changes to the current monetary policy stance are expected, but some tightening could occur in the course of 2015.

Figure 7: Daily exchange rates in selected South Asian countries, January 2013 – April 2014 (Index for national currency per dollar, 2 January 2013 = 100)



Sources: For India and Sri Lanka: The United States Federal Reserve Economic Data (FRED), available from http://research.stlouisfed.org/fred2/categories/94. For Pakistan: ForexTicket, available from http://www.forexticket.co.uk/en/histo/USD-PKR

Fiscal deficits remain large in most South Asian economies as weak GDP growth and high subsidy costs have complicated the efforts to consolidate public finances. In the past fiscal year (2013 or 2012/13, respectively), the budget deficit stood at 2.4 per cent of GDP in the Islamic Republic of Iran, 4.9 per cent in India, 5.0 per cent in Bangladesh, 5.8 per cent in Sri Lanka and 8.0 per cent in Pakistan. In the outlook period, most countries are expected to see a slight improvement in their fiscal balances (relative to GDP) as efforts to reduce subsidy bills and to expand the tax base yield some results. Given the relatively weak growth momentum in most countries, deficit reduction will likely be slow and Governments may struggle to meet their targets. In India, the interim budget for the fiscal year 2014/15 projects a deficit of 4.6 per cent of GDP, following an estimated deficit of about 5.0 per cent in 2013/14. This interim budget could, however, be subject to major revisions after the formation of a new Government in May. A key question in this regard is whether the long-pending Goods and Services Tax (GST), described as India's most far-reaching reform of indirect taxes, will be implemented. In Pakistan, the $6.6 billion loan agreement with the IMF requests fiscal consolidation. During the first eight months of the fiscal year 2013/14, significant progress has been achieved as a pick-up in economic activity and a reduction in energy-related subsidies helped contain the deficit at an estimated 3.2 per cent of GDP. However, as in other South Asian economies, sustained medium-term fiscal consolidation will largely depend on the ability of Governments to raise fiscal revenues by reforming current tax systems and reducing tax evasion.

Most South Asian countries saw a recovery in exports during 2013 on the back of rising demand in developed economies and improved competitiveness due to weaker exchange rates. This generally positive trend is expected to continue in the forecast period, but country-specific factors will play an important role. In India, the value of merchandise exports increased by almost 10 per cent in the second half of 2013, after declining in 2012. In the first three months of 2014, however, nominal export revenues declined compared to a year ago. This can be partly attributed to export bans faced by some large Indian pharmaceutical companies in the United States and an end of lower import duties in the European Union's Generalized System of Preferences on 1 January 2014. Looking ahead, India's exports are likely to return to moderate growth in the course of the year as demand in key destination markets improves. Pakistan's exports, by contrast, are expected to receive a boost in the latter part of the forecast period from the European Parliament's decision in December 2013 to accord special trade privileges to Pakistan under its Generalized System of Preference-Plus scheme. Current account deficits as a share of GDP narrowed significantly in India and Sri Lanka, while Bangladesh's surplus increased. This improvement can be mainly attributed to lower import bills as global commodity prices eased, weaker currencies curbed import demand (India and Sri Lanka), and Governments implemented measures to directly reduce imports. India, for example, introduced measures to curb gold imports. While current account balances are expected to improve in the medium term, there could be considerable short-term fluctuations.

Downside risks to the economic outlook for South Asia mainly stem from political uncertainties, weather conditions and domestic credit conditions. Tighter global liquidity, along with a re-emergence of inflationary pressures, could lead to a significant tightening of domestic credit, particularly in India and Pakistan. This would likely weigh further on the already sluggish consumption and investment activity.

Western Asia

Internal instabilities and lower oil exports continue to shape economic development in Western Asia, which has seen relatively weak aggregate growth of 3.8 per cent in 2013, as in 2012. During the forecast period, GDP growth is projected to maintain a similar pace in 2014 of 3.6 per cent, before accelerating to 4.3 per cent in 2015. Although the regional aggregate picture is still relatively weak in comparison with pre-crisis trends, GDP growth has remained relatively stable in some parts of the region, supported by expansionary fiscal policies.

The member countries of the Gulf Cooperation Council (GCC), namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, have been on a stable recovery path, although their GDP growth is expected to have remained weak in historical terms, owing to lower oil prices and exports. In 2014, economic growth is expected to decelerate moderately, with the exception of a few countries, such as Oman and Saudi Arabia, where several infrastructural and industrial projects, currently under construction, will continue to support the economy. Nonoil sectors in GCC members, particularly the real estate sector, will continue to gain their strength in 2015, partly due to active fiscal policy, leading to accelerating GDP growth in a broader number of countries.

The economies of Iraq, Jordan, Lebanon, the Syrian Arab Republic and Yemen have been hampered by military conflict, continuing political instability, social unrest, security incidents and geopolitical tensions. As a result, aggregate GDP growth has been relatively weak in 2013 and is expected to remain subdued in 2014-15. The situation is especially dire in the Syrian Arab Republic, where the war has been taking a particularly heavy human toll and led to widespread destruction. An extraordinarily large number of refugees have fled to neighbouring countries, posing a severe challenge for public policy and fiscal budgets. In Lebanon and Jordan, the influx of refugees from the Syrian Arab Republic has led to an increase in the population by 25 per cent and 15 per cent, respectively. In Iraq, oil production has been disrupted in 2013 because of worsening security conditions, but is expected to improve gradually, increasing export capacity and GDP growth, albeit not before 2015. In other cases, such as in Jordan, large construction projects are expected to support the economy during the forecast period, although the economy will continue to be affected by the Syrian crisis.

In Turkey, political tensions have also been elevated, reducing investors’ appetite for lira-denominated portfolios, which have also been affected by the tapering in global liquidity. Both national and international investors have shifted part of their financial portfolios to foreign-exchange deposits, leading to a surge in capital outflows, which destabilized financial markets and the exchange rate. In 2013, GDP growth is expected to have expanded by 4 per cent, but higher interest rates – recently introduced in order to stabilize the lira – will affect domestic demand and GDP growth, which is expected to slow down significantly to 2.2 per cent in 2014. In 2015, GDP growth is expected to bounce back on the back of a pickup in exports. The Israeli economy is expected to remain relatively stable with a moderate improvement throughout the forecast period, as growth will pick up more broadly, helped by strong consumer spending and external demand. In 2013, GDP growth is expected to have reached 3.3 per cent, with acceleration to 3.5 and 3.7 per cent forecast for 2014 and 2015, respectively.

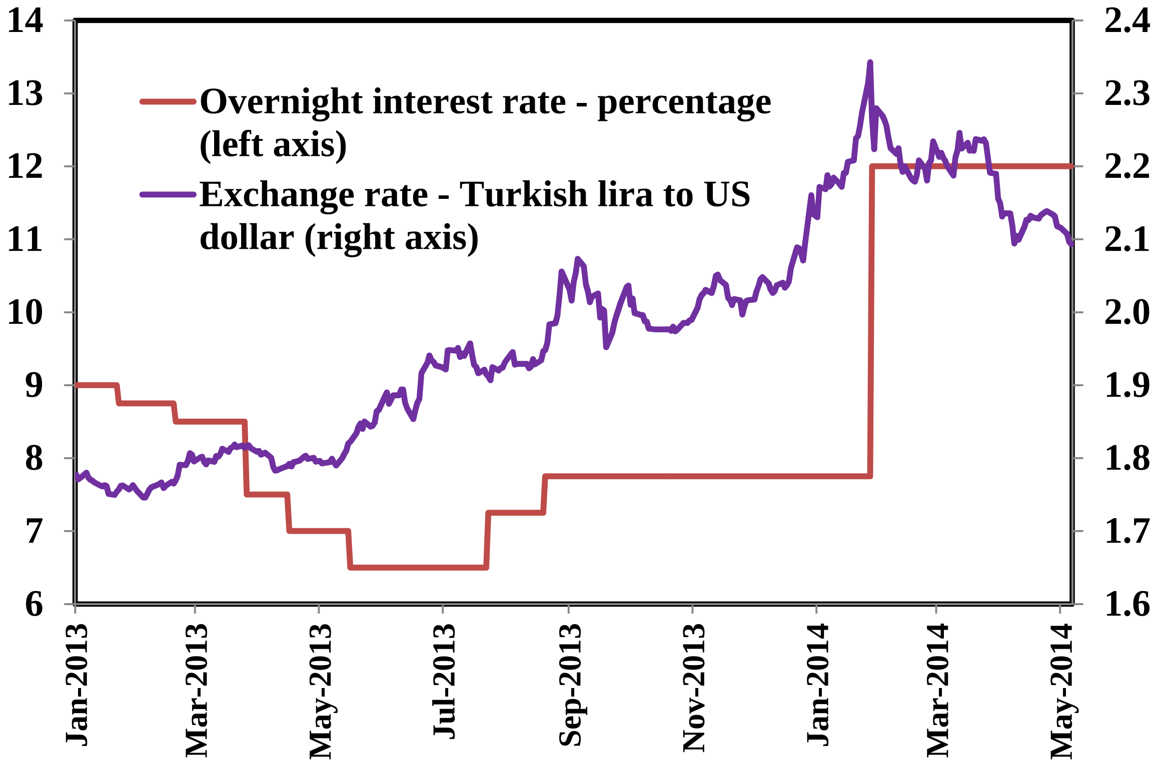
Labour market conditions continue to be a challenge in the region, both due to structural weaknesses in labour markets and more recent events. High levels of youth unemployment remain one of the most challenging issues, affecting more than 25 per cent of the youth population. This is the result of the deceleration of economic growth, recent political and military instabilities as well as problems in generating higher-value-added jobs that can match young graduates' educational attainment. In Western Asia as a whole, the unemployment rate is expected to have deteriorated in 2013 to around 9.3 per cent. During the forecast period, employment is expected to recover in line with growth of non-oil sectors, especially in GCC countries, but unemployment rates may decrease only moderately and will remain among the highest in the world. In particular, in Iraq, Jordan, Lebanon, the State of Palestine and Yemen, chronically high unemployment has been exacerbated by low domestic demand growth. Most Syrian refugees competed with domestic low-skilled workers for jobs in the informal sector in host countries.

Inflation in the region as a whole will continue to be relatively stable, besides a few exceptional cases. In 2013, inflation is expected to have increased to 6.0 per cent, up from 5.4 per cent in 2012. During the forecast period, the inflation rate is expected to stabilize between 5.9 per cent in 2014 and 5.3 per cent in 2015. The Syrian Arab Republic is expected to continue to register hyperinflation, which reached around 87 per cent in 2013, although it is difficult to estimate the exact rate. During the forecast period, in several GCC countries, a mild upward trend in the inflation rate is expected in 2014, mainly due to recovering domestic demand. In Turkey, the devaluation of the currency has added to inflation pressure and CPI inflation is expected to creep up to 9.0 per cent in 2014, after running at about 7.4 per cent in 2013. In Yemen, inflation is expected to remain in double digits, owing to strong price rises in food.

In the area of monetary policy, many countries in Western Asia utilize the pegged exchange rate as a main monetary anchor. Thereby, monetary policy is constrained by their currencies' peg to the dollar. As a result, interest rates in GCC countries are expected to remain stable until the end of 2015, mirroring the United States Fed's policy. The main active policy in these countries will be the implementation of measures to increase lending to small and medium private companies in order to boost employment creation. In Turkey, as the lira began to depreciate significantly against major currencies, interest rates have risen sharply at the end of January 2014, reversing the previous monetary policy stance (figure 8). The overnight lending rate, for instance, which is considered the main policy rate, was increased to 12 per cent from 7.75 per cent during that time. Monetary policy will remain tight and potentially additional increases in the interest rate will take place, as price inflation is expected to accelerate. These unfavourable factors are expected to weigh on real economic growth in the near term. Conversely, the Bank of Israel cut its interest rate at the end of February 2014 by 25 basis points to 0.75 per cent, as inflation was subdued and the shekel continued to appreciate. In addition, the central bank made large purchases of foreign currencies in early 2014, which may continue throughout the year if the upward pressure on the shekel resumes.

Fiscal policies are expected to remain expansionary in the GCC countries in order to compensate for lower oil exports. These countries are still enjoying ample fiscal space and massive stocks of reserves, which will allow elevated spending during the forecast period, despite the fact that oil prices may trend lower. The focus will continue to be on capital expenditure and large public-sector-led infrastructure projects. A case in point is Qatar, as the government is planning to spend $140 billion until 2022, mainly on infrastructure in order to host the football World Cup as well as a new railway and a new airport. The National Development Plan anticipates growth of 10 per cent in the non-oil economy for the coming years. Iraq is expected to step up its fiscal spending, following growing oil export revenues during 2013-2014. A tightened fiscal policy stance is expected to continue in Jordan, Lebanon and Yemen, owing to decreasing revenues and increasing deficits. In Turkey, fiscal policy is expected to remain tight as well, in order to keep public debt under control and to avoid another surge in domestic demand, which has led previously to a wider current account deficit. However, as monetary policy is now more restrictive and GDP growth is expected to slow down in 2014, the government may allow higher public expenditure in order to support the economy. In Israel, fiscal policy will remain relatively neutral, with a lower than expected budget deficit in 2013, which will enable the government to avoid higher income taxes that were originally planned for 2014.

Figure 8: Turkey - overnight interest rate and exchange rate: 2 January 2013- 7 May 2014



Source: Central Bank of the Republic of Turkey

The current-account surpluses of GCC members and Iraq are estimated to have declined moderately in 2013. Oil export revenues edged lower, while imports increased because of robust domestic demand growth. In 2014, the current account surpluses of those countries are expected to continue to narrow, as imports will remain robust in line with large capital projects and oil prices will trend downward. In Yemen, the current account deficit will continue to widen throughout the forecast period, owing to an expected surge in import volumes, while oil production and exports have been affected by sabotage. Meanwhile, the current-account deficits of Jordan and Lebanon are expected to narrow, mainly owing to lower import prices. In Turkey, real exports decelerated significantly in 2013, while imports have accelerated from zero growth in 2012 to 8 per cent growth in 2013, leading to a wider current account deficit of about 8 per cent of GDP in 2013. However, the recent depreciation of the Turkish lira and a higher external demand from developed economies are expected to help to narrow the current account deficit in 2014. In Israel, export sectors registered a mixed performance in 2013, but the current account remained in moderate surplus. The start of natural gas output is expected to boost exports further, which should strengthen the current account during the forecast period.

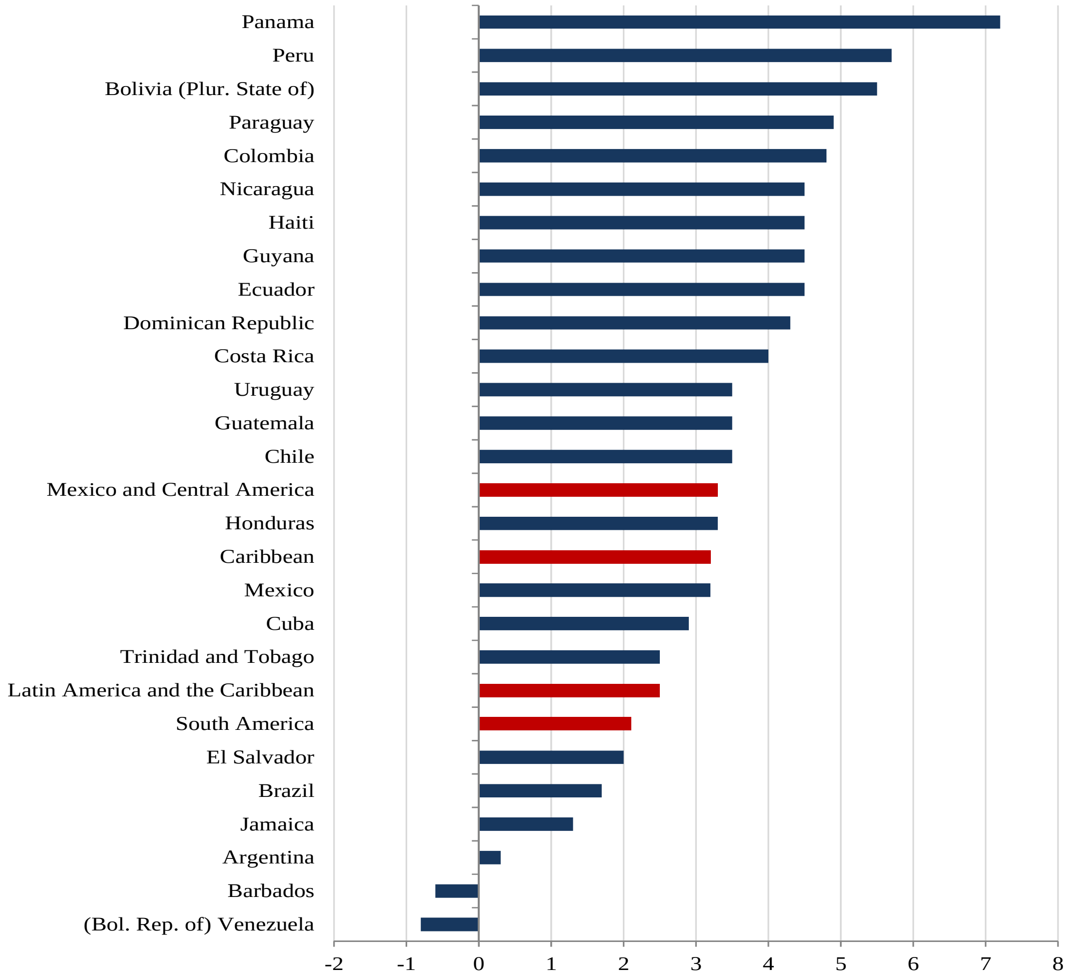
There are serious downside risks to this forecast, as geopolitical tensions can easily affect the region's economic prospects. A further escalation of the war in the Syrian Arab Republic, and the effects of this on Lebanon and Jordan, and a worsening of the security situation in Iraq are among the most evident risks. For GCC countries, a major risk lies in a sudden plunge in oil prices; for example, in case investors anticipate slower economic growth in China or OECD countries. As fiscal revenues depend on oil exports, countercyclical fiscal measures would be constrained in this case, leading to a negative effect on growth. With exchange rates pegged mostly to the dollar, the region will be impacted by the expected change in the monetary policy stance of the Fed. Finally, the Turkish economy is vulnerable to another surge in capital outflows, which would require increases in interest rates to the detriment of GDP growth.

Latin America and the Caribbean

Economic growth in Latin America and the Caribbean is expected to remain subdued in 2014, as the previously expected recovery projected in the WESP 2014 will not materialize, amidst increasing idiosyncratic difficulties and downside risks in some of the largest economies. The region is expected to grow modestly by 2.6 per cent in 2014, with significant heterogeneity across sub-regions and countries (figure 9). On the one hand, economic growth in Mexico and Central America is strengthening, benefiting from the pick-up in economic activity in the United States. On the other, South America is slowing down markedly and is expected to grow by only 2.1 per cent in 2014, after experiencing an economic expansion of 3.2 per cent last year. Meanwhile, economic growth in the Caribbean is expected to accelerate to 3.6 per cent in 2014. At the regional level, private consumption - the main engine of growth in recent years - continues to slow down, while investment demand is expected to remain subdued, reflecting not only relatively lower commodity prices but also internal difficulties in some economies.

Among the largest economies, Mexico is expected to grow by 3.2 per cent in 2014, accelerating from the restrained growth of 1.1 per cent in 2013. Moreover, following the recent monetary stimulus and a more supportive fiscal stance, together with the expected investment boost coming from key structural reforms and the strengthening activity in the United States, the Mexican economy will likely gain further momentum in 2015. In South America, Argentina is experiencing a major slowdown and is expected to grow by a lacklustre 0.3 per cent in 2014, amidst falling business confidence, an increasing need for fiscal consolidation and continuing inflation pressures. In addition, Venezuela is facing serious political and economic turbulences and it is expected to enter into recession. The economic activity in Brazil remains highly subdued and macroeconomic policies have been unable to reinvigorate dynamism. The Brazilian economy is expected to expand by only 1.7 per cent in 2014, with meagre prospects for investment demand and increasing pressure on fiscal accounts. Other regional countries such as Panama, Bolivia, Colombia and Peru are expected to continue on a solid growth path in 2014, featuring a noteworthy dynamism in investment demand. Meanwhile, Chile's economy is decelerating significantly and is expected to expand by only 3.5 per cent this year. It still remains to be seen to what extent some structural reforms, particularly in the tax and educational system, might increase the medium-term growth prospects for the economy

Figure 9: Latin America and the Caribbean, GDP growth forecasts for 2014 (Percentage change)



Source: UN/DESA

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The inflation outlook remains relatively low and fairly stable in most of the regional economies, with the noticeable exceptions of Venezuela and Argentina. In these two countries, the variation in the consumer price index is expected to be substantial, fuelled by the devaluation of domestic currencies in early 2014. Meanwhile, inflation dynamics in Brazil have shown some signs of persistence, despite the significant monetary tightening initiated in 2013. The unemployment rate at the regional level is expected to increase only marginally in 2014, maintaining the relatively low levels of recent years and about 6.3 per cent in 2013. In fact, unemployment rates in Brazil, Chile, Mexico and Ecuador reached multi-year record lows by the second-half of 2013. However, the current regional slowdown has reduced employment creation in recent months, which seems to affect particularly the youth population. By early 2014, youth unemployment increased in some countries, such as Brazil, Argentina, Uruguay, Honduras, Panama and Jamaica.

The region is facing the major challenge of reinvigorating growth together with containing relatively high inflation pressures in several countries and confronting the spillover effects from the normalization of monetary policy in the United States. In this context, the monetary policy stance across countries is mixed. Some countries with relatively low inflation have opted to ease their monetary conditions recently, such as Chile, Peru and Mexico. By contrast, Brazil has significantly tightened its monetary stance to tackle persistent inflation, further affecting the subdued economic activity. Some Central American economies have also tended to reduce the expansion of their monetary base. In Argentina and Venezuela, the expansion of the monetary base remains relatively high, thus affecting the inflation outlook.

The fiscal position in the region, which slightly deteriorated in 2013 due to lower revenues related to decreasing commodity prices, is moving to a more supportive stance. For instance, countries like Mexico and Chile are likely to increase their fiscal deficits in 2014 because of counter-cyclical stimulus. Still, the fiscal positions in these economies remain fairly strong on the back of fiscal rules that have been strengthened recently. However, other economies are facing increasing pressures for fiscal discipline, like Brazil and Argentina. Overall, the level of public debt in Latin America as a whole remains relatively low, at about 31 per cent of GDP, particularly in countries such as Ecuador, Chile, Guatemala and Peru. By contrast, the Caribbean continues its fiscal consolidation as the public-debt level remains high, at about 76 per cent of GDP. Importantly, many regional economies have recently introduced fiscal reforms in order to increase the tax base, which should improve the fiscal accounts in the medium term.

Given the expected pick-up in economic activity in developed countries, the export performance in the region is likely to improve in the near term. The highest export increase is expected to materialize in Mexico and some Central American countries, as these economies benefit from the recovery in the United States. Irrespective of this aggregate picture, some sectors are facing major challenges in the sub-region. For instance, the coffee rust crisis continues to massively affect crops in Central America, particularly in Guatemala. In South America, exports are expected to increase moderately, as economic growth in China moderates and conditions in Europe remain fragile. Especially countries such as Chile and Argentina are expected to improve their external performance in this sub-region. In the same line, the manufacturing sector is also expected to gain moderate momentum during 2014. Still, removing structural constraints, like infrastructure bottlenecks and the relatively high costs of energy, remains a key requirement in order to increase the competitiveness of the manufacturing sector.

There are several downside risks that might further affect the economic prospects in the region in the near term. A hard landing of the Chinese economy would be particularly damaging for commodity exporters in South America such as Argentina, Chile and Peru. The potential vulnerability of some regional economies to the QE tapering in the United States is also a cause of concern. Regional economies might face additional financial turbulences arising from the normalization of global monetary conditions, which might trigger a reversal in capital inflows and a surge in capital outflows. This downside risk has recently increased, particularly as some economies are facing significant domestic difficulties to reinvigorate growth. In addition, current-account deficits also increased in several economies during 2013. In Brazil, the current-account deficit increased from 2.4 per cent of GDP in 2012 to 3.7 per cent in 2013. Other countries that also experienced an increase in the current-account deficit were Argentina, Peru, Mexico and Colombia.

Despite these concerns, it is also important to consider that most regional economies have relatively solid macroeconomic fundamentals, particularly in comparison to similar experiences of global financial turbulence decades ago. Macroeconomic management has improved significantly, including macro prudential measures, and several indicators point towards solid conditions: high international reserves, low public debt and low currency mismatches in most of the economies. In addition, in most countries, flexible exchange rates act as a first buffer, as already observed mid-2013 and early 2014. Moreover, the potential further depreciation of domestic currencies, especially in economies with relatively low inflation pressures, might boost export competitiveness in some countries, facilitating the adjustment to external conditions. This has already been observed in Chile and Colombia recently. In addition, capital inflows to Latin America and the Caribbean have shown signs of resilience, particularly in terms of foreign direct investment, which reflects the relatively good growth prospects and significant business opportunities in the medium term. Overall, the vulnerability to the spillover effects of the QE tapering is relatively low, but heterogeneous, depending on the position of the regional economies with respect to the domestic business cycle and several macroeconomic indicators.

Importantly, the prevailing internal and external conditions highlight the relevance of increasing the efforts regarding the reform agenda to tackle structural issues, boost investment demand and promote productivity growth. Some of the key issues in order to improve the medium-term development prospects are the infrastructure bottlenecks, energy sustainability and diversification of the productive structure through more proactive industrial policies.

III. Global risks and uncertainties

1. <u>Unwinding of monetary easing in major developed countries</u>

An important risk factor for global growth and financial stability remains the future adjustment in monetary policies by major developed countries, particularly QE. Since its introduction after the eruption of the global financial crisis, QE has already created numerous forms of spill-overs in the global economy.[4] For example, in earlier years, lower interest rates in developed countries underpinned capital flows to higher-yield markets especially in emerging economies, accompanied by upward pressure on exchange rates and pressure on the competitiveness of exports. Most recently, the prospect of an exit from QE in the United States and higher interest rates led to capital outflows and a sharp depreciation of currencies in developing countries, as evidenced in mid-2013 and early 2014.

In the outlook, as the QE of the United States is expected to be phased out in late 2014 and policy interest rates are expected to increase in mid-2015, this could lead to overshooting in long-term interest rates worldwide, selling off in global equity markets, outflows of capital from emerging economies, an increase in external financing costs for developing countries, and further depreciation of currencies for emerging economies. As a result, developing countries and economies in transition could face more painful adjustments and the moderate global growth could be derailed.

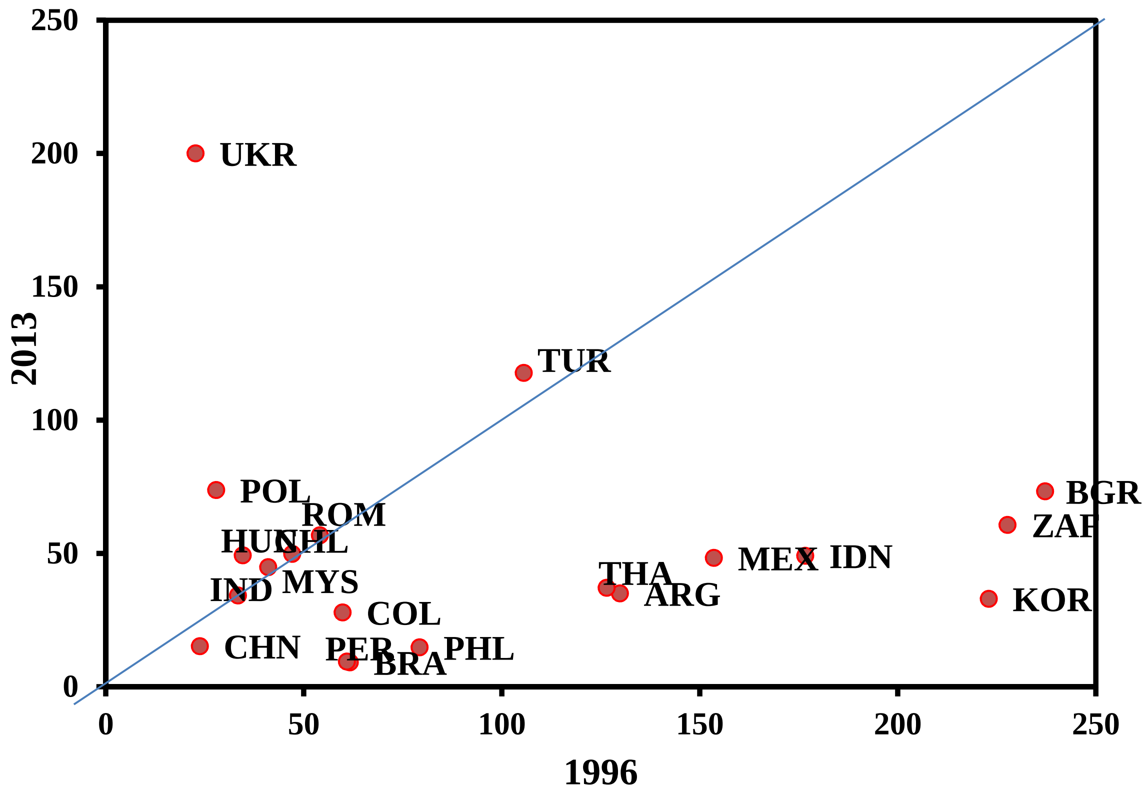
2. <u>Vulnerability in emerging-market economies</u>

The recent episodes of financial market turmoil in emerging markets have raised fears that these economies could be hit particularly hard by an upcoming monetary tightening cycle in major developed economies. The sudden massive capital outflows from emerging markets seen in mid-2013 and again in January 2014, which caused asset prices and currencies to tumble, have brought back memories of the emerging market crises of the 1990s, most notably Mexico's economic crisis in 1994 (Tequila crisis) and the Asian financial crisis of 1997/98. However, as illustrated in WESP 2014, emerging market economies as a whole seem to be in a much better position this time to weather tighter liquidity conditions and capital outflows. A key weakness in the 1990s was the combination of overvalued fixed exchange rates and large-scale foreign currency borrowing. By contrast, today, most emerging economies operate more flexible (albeit still managed) currency regimes and foreign currency borrowing has generally been more limited. More flexible exchange rate regimes have supported the necessary rebalancing process. A case in point is India, where the rupee's fall in 2013 has played an important role in reducing the current account deficit. Importantly, the ratio of short-term external debt to international reserves is also much lower today than it was in the mid-1990s, especially in East Asian and Latin American countries (figure 10). In addition, macroeconomic policy management has improved over the past twenty years: financial sector supervision and regulation have been strengthened, macro-prudential oversight has been enhanced and monetary and fiscal policies have become more prudent. Consequently, a widespread severe emerging-market crisis triggered by a sudden reversal of capital inflows seems unlikely at present. This is also reflected in the relatively low bond spreads that are currently observed in most emerging markets (figure 11).

[4] See also World Economic Situation and Prospects 2014, page 19, Box I.3.

Yet, there are weaknesses and potential vulnerabilities at the individual country level. On the external front, the ratio of total external debt to GDP has increased in the majority of emerging economies since the global financial crisis, but remains at low to moderate levels except in some Eastern European countries (for example Hungary). Current-account deficits (relative to GDP), however, are still large in a number of countries, such as Turkey, Ukraine and South Africa. These countries appear to be most vulnerable to further capital reversals, especially when short-term external debt levels are also elevated. More monetary policy tightening and substantial increases in financing costs in some emerging economies in response to external financial pressures could further hamper growth. A combination of slowing growth and higher interest rates can significantly heighten the risks for banks and non-bank financial institutions in many emerging economies as the size of credit to the private sector has increased rapidly in recent years to elevated levels. Meanwhile, political instability and weak economic policy credibility are additional risks for several emerging economies.

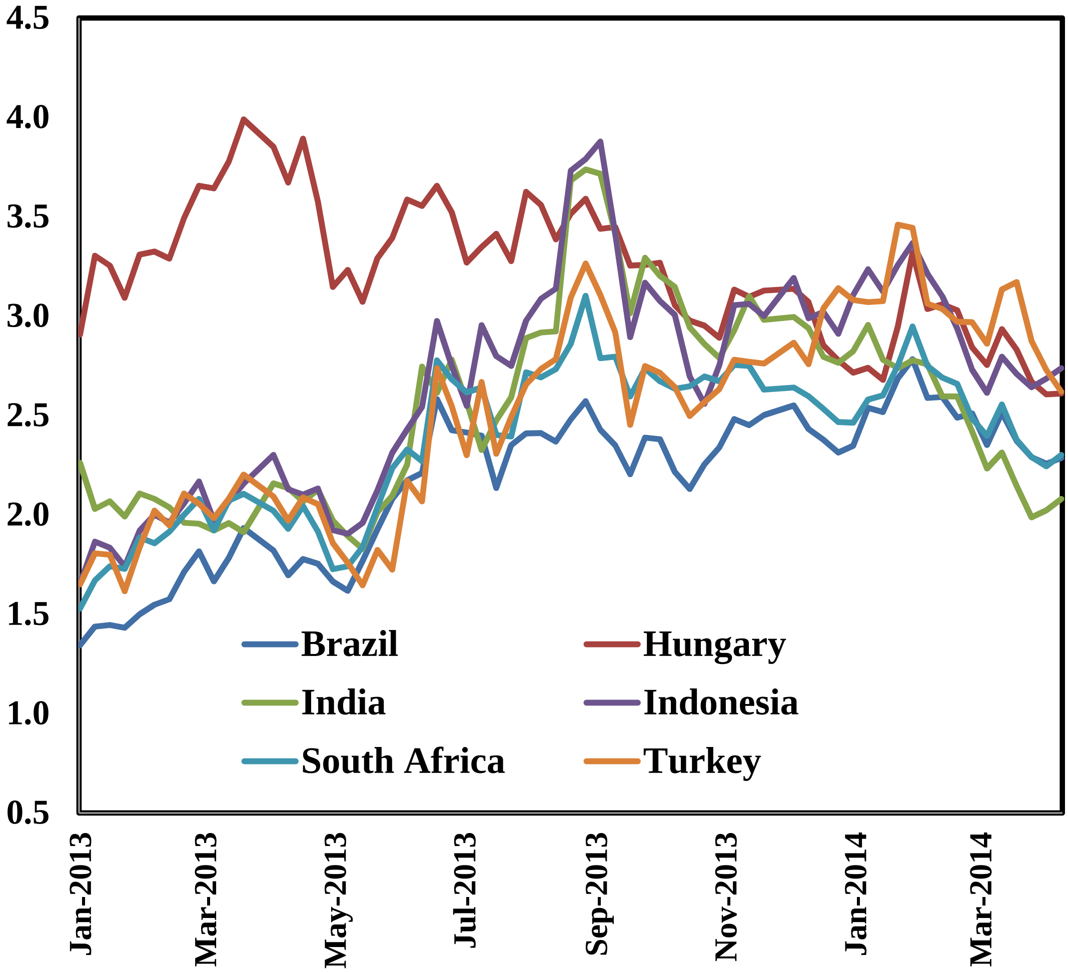
Figure 10: Short-term external debt to total reserves, 2013 vs. 1996 (in %)



Sources: Short-term external debt data are taken from the World Development Indicators (WDI) database and the Quarterly External Debt Database, jointly developed by the World Bank and IMF; debt data for Chile and the Republic of Korea are taken from national central banks. Foreign exchange reserves (excluding gold) are taken from the IMF's International Financial Statistics.

Note: For South Africa, the earlier figure is for 1997; for Argentina, the later figure is for 2012.

Figure 11: Weekly EMBI global strip spreads in selected economies, January 2013 – April 2014 (percentage point)



Source: JP Morgan[5]

3. <u>Remaining fragilities in the euro area</u>

In the euro area, the systemic risks have subsided dramatically since the ECB announced its Outright Monetary Transactions in August 2012. Despite having never been deployed, its mere existence has broken the negative feedback loop between weak banks and weak government fiscal positions. Sovereign bond spreads have narrowed significantly since its announcement and the sense of crisis has dissipated despite occasional events, both economic and political, that in the past would have led to renewed crisis.

[5] The JP Morgan Emerging Markets Bond Index Global (EMBI Global) measures the total returns for US dollar-denominated sovereign debt instruments. The sovereign spread is calculated over the entire duration of the strip Treasury curve using zero coupon rates. The spread is quoted in basis points. Higher values indicate higher default risk.

Nonetheless, significant fragilities remain. The banking sector remains under stress. Lending conditions remain heterogeneous across the region with overall credit to the private sector still declining. In addition, the ECB and the European Banking Authority are currently performing a major Asset Quality Review and stress tests for a large sample of the region's banks. These are expected to find a need for significant recapitalization of some banks, with a question of who will pay for this. If governments were to be required to finance a large portion of this recapitalization, the negative feedback loop could re-emerge.

With extremely high unemployment rates in some countries, inflation remains dangerously low. In the euro area, it has been below 1.0 per cent since October 2013, which in conjunction with continuing weak growth in output raises the spectre of Japan-style deflation. Aside from being exceptionally difficult to exit, deflation would also increase real government debt burdens and perhaps re-ignite the debt crisis as fiscal targets become increasingly difficult to achieve.

4. Other uncertainties and risks

There are other risks and uncertainties for the world economies. Public finances in many developed countries are still not on a sustainable path in the longer run. For example, in Japan, with its debt at 220 per cent of GDP, half of the revenue from new debt issuance was used for debt services in recent years. The increase of the sales tax rate this year is not sufficient to balance the primary budget. One potential risk is that financial markets demand a higher return. This risk will become even more acute if the current account turns into deficit for a sustained period.

In addition, geopolitical tensions in many parts of the world, extreme climates, and environmental disasters all pose consequential risks for the world economy.

IV. Policy challenges

1. Fiscal policy stance

The size of the average budget deficit in developed countries fell to 4.9 per cent of GDP in 2013, from 6.2 per cent in 2012, but public debt continued to rise. In the outlook, fiscal tightening will likely continue in most of the developed economies in 2014, but at a slower pace. In the United States, following fiscal austerity in past years, the fiscal drag on growth should be less contractionary in 2014. In the European Union, the speed of fiscal consolidation varied across countries, although the most indebted countries have already implemented drastic austerity packages. In Japan, where a large fiscal stimulus package was adopted in early 2013, the budget deficit increased to around 10.0 per cent of GDP. A supplementary package was introduced at the end of 2013 to soften the impact of the higher sales tax rate.

In many developing countries and economies in transition, whose fiscal position in terms of budget deficits and public debt was generally better than in the developed economies, budget deficits measurably increased in 2013, especially in a number of low-income countries. The reasons include increased public spending or lagging revenues, caused by weaker commodity prices. Although in general, public debt levels in developing countries are relatively low, increasingly volatile terms of access to financial markets and the rising share of external debt may create challenges in debt refinancing. At the same time, many developing economies are confronting poverty and increasing inequality, requiring a mix of fiscal prudence and a sustainable framework of social security for reducing poverty and inequality.

2. Monetary policy stance

Monetary policies in major developed countries remain accommodative, featured by policy interest rates at or near zero and QE. In addition, central banks in these countries adopt forward guidance as an important tool for reducing the potential for surprises and managing market expectations. Among the challenges is the formulation and timing of changes in forward guidance. For example, in early 2014, the Fed changed the wording of its forward guidance, driven especially by the faster than expected fall in unemployment that was largely due to a lower labour participation rate. In terms of differences across countries, while the Fed is struggling with charting its exit from its current policy stance, the ECB hinted at the possibility of taking an even more accommodative stance through new QE measures or via another cut in policy rates that would introduce a negative Deposit Rate.

In the developing countries and economies in transition, monetary policies vary, with some countries taking a tightening stance while others are easing. The relevant determinants include spill-overs from policy tightening in developed countries, especially in the form of capital inflow reversals and exchange rate depreciation; inflation rates, which remain high in numerous developing countries; unemployment levels; and overall economic growth. In this context, policy makers in several emerging markets have already had to confront the dilemma of slowing growth, which would merit lower policy interest rates, and the need to cope with external conditions through higher interest rates.

3. Policy challenges for managing the unwinding of QE

The withdrawal and unwinding of QE measures constitutes a major policy challenge in terms of the precise design and timing of individual actions. At the operational level, policymakers need to determine the magnitude and schedule of the reduction in asset purchases; decide on whether and at what pace to reduce their asset holdings; and tie this in with the future path of policy interest rates. These policy decisions continuously have to be reassessed and reflected against the emerging macroeconomic data picture and the state of the real economy.

To reduce the risks for global growth and financial stability, policymakers should pursue a clear communication strategy that provides concise guidance and effectively manages market expectations. In addition, policies explicitly need to take into account the risk of a premature withdrawal in the form of a more pronounced weakening of the economic recovery as well as the possibility that a delayed unwinding could drive up asset prices to unsustainable levels. For the case that financial markets overreact and contagion takes hold across the financial system, contingency plans need to be developed with broad coordination at the international level. Moreover, enhanced supervision, regulation and surveillance can help in reducing risks and vulnerabilities by addressing emerging problems at an early stage. In developing countries, the challenge lies in dealing with the possible spill-overs from the unwinding of QE in developed countries. This applies especially to those countries that are highly exposed to international capital markets and run large external imbalances financed by short-term external capital flows.

4. Policy challenges for strengthening employment

As the number of jobs lost in comparison with the pre-crisis employment trend continues to increase and structural unemployment remains a major problem, policymakers will need to implement more supportive macroeconomic policies and active labour market policies. Macroeconomic policies have so far been uncoordinated and their impact on job creation limited. While expansionary monetary policies in developed economies have helped avoiding larger falls in employment, they have not sufficiently stimulated employment. Moreover, weak aggregate demand, combined with fiscal consolidation in many developed economies, and more recently in some emerging economies, has led to a slow economic recovery and high uncertainty regarding the economic outlook. This, in turn, has limited the willingness of the private sector to invest. Hence, as emphasized by finance ministers and central bank governors at the latest G20 meeting, fiscal strategies will need to be more supportive of output growth and employment creation. In addition, on the monetary side, access to credit for small and medium enterprises is essential, as they play a significant role in job creation. Ultimately, there is the need to adequately coordinate monetary and fiscal policies to foster employment creation.

In terms of concrete labour market policies, policymakers will need to minimize individual losses due to reallocation of labour across sectors and to facilitate the re-employment of those that have experienced long spells of inactivity. First, governments will need to find the right balance between recent labour market flexibility initiatives, which are expected to create more dynamic labour markets, and unemployment benefit schemes to minimize individual losses for those who face higher risks of long-term unemployment and poverty. Second, unemployment benefits should be coupled with active labour market policies. Long-term unemployment, which has been on the rise, leads to depreciation of human capital, negative health effects and higher risks of aggravating structural unemployment. Specific lessons from OECD countries with lower unemployment rates during the crisis indicate that activation strategies for unemployed individuals should include job search assistance and training programmes as well as institutional reforms to better coordinate unemployment schemes with employment services. However, the main challenge remains that many governments face limited resources to ensure such adequate employment services. In many developing countries, greater diversification and the development of higher value-added sectors through more proactive industrial and innovation policies are needed to reduce unemployment and underemployment and to increase formal employment.

5. Development in international trade policies

Intensive efforts are under way within the WTO on implementing the outcomes of the Bali Ministerial Conference held last December and re-focusing new efforts to complete the Doha Round. It should become clearer later this year what progress is likely. There has been little progress with regards to negotiations of the two major trade pacts, the Transatlantic Trade and Investment Pact (TTIP) and the Trans-Pacific Partnership (TTP). A controversial point has been the inclusion of investor-state dispute settlement (ISDS) agreements in the TTIP. Some say that ISDS is necessary to ensure that companies operating in foreign countries are not subject to discriminatory regulations whereas others say that it will give companies undue influence over governments' ability to regulate industries within their borders.

However, progress has occurred on other bi-lateral trade agreements. Japan and Australia signed a free-trade agreement, which allows significantly greater food imports to Japan and reduces tariffs on cars, auto components and electronics, among other goods imported by Australia. It also raises the threshold for Japanese investments in Australia that must be cleared by the Foreign Investment Review Board. Most of the tariff cuts will be phased in over the next year.

Ahead of potential progress in Pacific Alliance negotiations, Panama and Mexico also signed a free-trade agreement, which is a prerequisite for Panama joining the alliance comprised of Mexico, Chile, Colombia and Peru.

West African leaders have failed to agree on a proposed free-trade agreement with the EU. The Economic Partnership Agreement (EPA) between the Economic Community of West African States (ECOWAS) and the EU would allow immediate access for ECOWAS members to EU markets and would in turn allow EU access to 75 per cent of ECOWAS members' markets gradually over the next 20 years. Nigeria has voiced concerns about the EPA's impact on its industrial sector. Included in the EPA was a 6.5 billion euro package from the EU to aid with ECOWAS members' integration into the world economy, which will have to wait until an agreement is reached.

6. International policy coordination

The need for more effective international policy coordination has become an imperative against the backdrop of a fragile recovery of the global economy and various downside risks such as destabilizing capital outflows and exchange rate volatility in emerging markets. In particular, stimulating global demand and output growth should remain an over-arching priority for enhanced policy coordination at the global level.

G-20 Finance Ministers, meeting in early 2014, committed to raising their collective GDP by more than 2 per cent or by US$2 trillion in 5 years to reduce their output gaps. They agreed to develop a comprehensive growth strategy - the Brisbane Action plan - ahead of the G-20 Summit later in 2014.

Moreover, efforts are needed for international tax cooperation. Profits should be taxed where they are earned and that all countries should sign the Multilateral Convention on Mutual Administrative Assistance in Tax Matters to improve compliance with domestic tax regulations. Further progress is needed to fight cross-border tax evasion and tax avoidance.

In the area of international financial regulation, some progress has been made in recent months, with large banks on course to meet the new Basel III capital requirements almost five years ahead of the deadline. The Financial Stability Board (FSB) agreed on a globally consistent leverage ratio, which financial institutions will be required to disclose by January 2015. In its efforts to end the so-called ‘too big to fail’ problem, FSB has already identified systematically important banks and is developing a global standard for minimum loss absorption capacity that these banks should maintain to mitigate the risk of default. These financial reforms need to be implemented promptly and consistently, and international regulatory cooperation needs to be strengthened.

Priorities should also be given to the implementation of the IMF quota and governance reforms agreed in 2010.

Regarding international development cooperation policies, official development assistance flows (ODA) have rebounded by 6.0 per cent in 2013 from the decline in 2011-2012, reaching a record level, but are still far below the UN target of 0.7 per cent of GNI. Development partners should ensure that sufficient external resources are available to developing countries, particularly to LDCs, to strengthen their capacity to meet the MDGs and to implement the post-2015 development framework.

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June 2014

Statistical Annex Tables

Table A.1
World and regions: rate of growth of real GDP, 2008 -2015
(Annual percentage change [a])

	2008	2009	2010	2011	2012	2013 [b]	2014 [c]	2015 [c]
World	1.5	-2.1	4.1	2.8	2.3	2.2	2.8	3.2
Developed economies	0.0	-3.7	2.6	1.5	1.3	1.1	2.0	2.4
North America	-0.2	-2.8	2.6	1.9	2.7	1.9	2.5	3.2
Asia and Oceania	-0.5	-4.4	4.2	0.0	1.8	1.7	1.6	1.2
Western Europe	0.4	-4.4	2.0	1.6	-0.3	0.2	1.6	1.9
European Union	0.4	-4.5	2.0	1.6	-0.4	0.1	1.6	1.9
EU15	0.1	-4.6	2.0	1.5	-0.5	0.0	1.5	1.8
New EU members	4.0	-3.8	2.1	3.0	0.6	1.1	2.4	2.9
Euro area	0.4	-4.4	2.0	1.6	-0.7	-0.4	1.2	1.6
Other European countries	1.3	-1.9	1.7	1.6	1.8	1.4	2.3	2.3
Economies in transit	5.3	-6.5	4.7	4.6	3.2	2.0	1.4	2.3
South-Eastern Europe	5.0	-2.1	1.7	1.9	-0.9	2.0	2.0	3.1
Commonwealth of Independent States and Georgia	5.3	-6.8	4.9	4.8	3.4	2.0	1.3	2.3
Developing economies	5.4	2.7	7.7	5.9	4.7	4.6	4.7	5.1
Africa	5.8	2.6	4.8	0.8	5.7	3.7	4.2	5.1
North Africa	6.3	3.4	4.2	-6.1	7.2	2.1	2.4	4.2
East Africa	6.6	4.8	7.1	6.5	5.8	6.0	6.5	6.6
Central Africa	5.2	2.9	5.2	3.9	5.8	3.2	4.5	4.1
West Africa	5.9	5.5	6.9	6.1	6.6	6.5	7.0	7.1
Southern Africa	5.0	-0.5	3.7	4.0	3.5	3.1	3.6	4.4
East and South Asia	6.1	5.4	9.1	7.0	5.4	5.6	5.7	5.8
East Asia	6.4	5.2	9.3	7.1	5.9	6.0	6.0	6.0
South Asia	4.7	6.1	8.4	6.4	3.4	3.9	4.6	5.1
Western Asia	4.7	-0.9	6.7	6.9	3.8	3.8	3.6	4.4
Latin America and the Caribbean	4.0	-1.5	5.8	4.4	3.0	2.7	2.6	3.4
South America	5.4	-0.2	6.4	4.6	2.5	3.2	2.1	3.0
Mexico and Central America	1.7	-4.2	5.0	4.1	4.0	1.6	3.3	4.2
Caribbean	3.7	0.6	3.2	2.7	2.8	2.9	3.6	3.7
Least Developed Country	7.7	5.0	5.8	3.5	4.8	5.3	5.6	5.9
Memorandum items:								
Major developed economies (G7)	-0.3	-3.9	2.9	1.5	1.6	1.3	2.0	2.4
OECD	0.1	-3.6	2.9	1.8	1.4	1.2	2.1	2.5
East Asia excluding China	2.8	0.3	7.7	4.2	3.3	3.6	3.9	4.3
South Asia excluding India	3.5	3.5	4.8	4.4	0.4	1.8	3.5	3.8
Western Asia excluding Israel and Turkey	7.1	1.0	5.7	6.3	4.7	3.7	4.3	4.6

Source: UN/DESA

[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, 2008-2015
(Annual percentage change)

	2008	2009	2010	2011	2012	2013 [a]	2014 [b]	2015 [b]
Developed Economies								
North America								
Canada	1.2	-2.7	3.4	2.5	1.7	2.0	1.9	2.8
United States	-0.3	-2.8	2.5	1.8	2.8	1.9	2.5	3.2
Asia and Oceania								
Australia	2.5	1.6	2.3	2.6	3.6	2.4	2.3	2.2
Japan	-1.0	-5.5	4.7	-0.5	1.4	1.5	1.4	0.9
New Zealand	-0.7	0.7	1.8	1.2	2.9	2.5	3.0	2.6
European Union								
EU-15								
Austria	1.4	-3.8	1.8	2.8	0.9	0.4	1.7	2.0
Belgium	1.0	-2.8	2.3	1.8	-0.1	0.2	1.3	1.5
Denmark	-0.8	-5.7	1.4	1.1	-0.4	0.4	0.9	1.6
Finland	0.3	-8.5	3.4	2.8	-1.0	-1.4	0.6	1.7
France	-0.1	-3.1	1.7	2.0	0.0	0.2	0.9	1.3
Germany	1.1	-5.1	4.0	3.3	0.7	0.4	1.9	2.1
Greece	-0.2	-3.1	-4.9	-7.1	-7.0	-3.9	0.0	1.5
Ireland	-2.2	-6.4	-1.1	2.2	0.1	-0.3	1.6	3.2
Italy	-1.2	-5.5	1.7	0.4	-2.4	-1.9	0.8	1.4
Luxembourg	-0.7	-5.6	3.1	1.9	-0.2	2.1	2.2	1.8
Netherlands	1.8	-3.7	1.5	0.9	-1.3	-0.8	0.7	1.2
Portugal	0.0	-2.9	1.9	-1.3	-3.2	-1.4	2.6	1.0
Spain	0.9	-3.8	-0.2	0.1	-1.6	-1.2	0.9	1.2
Sweden	-0.6	-5.0	6.6	2.9	0.9	1.5	2.7	2.9
United Kingdom	-0.8	-5.2	1.7	1.1	0.2	1.7	2.7	2.5
New EU Member								
Bulgaria	6.2	-5.5	0.4	1.8	0.8	0.9	2.1	2.3
Croatia	3.6	-1.9	1.3	0.4	-2.4	-5.7	-5.3	-1.1
Cyprus	3.1	-4.5	2.5	1.8	-1.0	-0.9	1.9	2.6
Czech Republic	-4.2	-14.1	2.6	9.6	3.9	0.8	2.6	3.0
Estonia	0.9	-6.8	1.1	1.6	-1.7	1.1	2.0	2.3
Hungary	-2.8	-17.7	-1.3	5.3	5.0	4.1	4.2	4.2
Latvia	2.9	-14.8	1.6	6.0	3.6	3.3	3.8	3.5
Lithuania	3.9	-2.8	4.0	1.6	0.8	1.8	2.0	2.3
Malta	5.1	1.6	3.9	4.5	1.9	1.5	3.0	3.5
Poland	7.3	-6.6	-1.1	2.2	0.7	3.5	3.5	3.8
Romania	5.8	-4.9	4.4	3.0	1.8	0.9	2.2	2.7
Slovak Republic	3.4	-7.9	1.3	0.7	-2.6	-1.1	-0.5	0.5
Slovenia								
Other European	1.2	-6.6	-4.1	2.7	1.4	2.3	2.8	3.1
Iceland	0.1	-1.6	0.5	1.3	2.9	0.6	2.1	1.8
Norway	2.2	-1.9	3.0	1.8	1.0	1.9	2.4	2.6
Switzerland								
Economies in transition								
South-Eastern Europe	7.5	3.3	3.8	3.1	1.3	0.4	2.5	4.0
Albania	5.6	-2.8	0.7	1.0	-0.7	1.5	1.9	2.6
Bosnia and Herzegovina	2.1	-6.9	-2.3	0.0	-2.0	-1.0	-0.2	1.5
Montenegro	6.9	-5.7	2.5	3.2	-2.5	3.5	2.6	3.0
Serbia	3.8	-3.5	1.0	1.6	-1.8	2.5	1.5	3.0
The former Yugoslav Republic of Macedonia	5.0	-0.9	2.9	2.8	-0.2	3.1	3.0	3.0
Commonwealth of Independent States								
Armenia	6.9	-14.2	2.2	4.7	7.1	3.5	4.5	5.0
Azerbaijan	10.6	9.4	4.6	-1.6	2.1	5.8	3.6	4.0
Belarus	10.2	0.2	7.7	5.5	1.5	0.9	2.3	2.5
Kazakhstan	3.3	1.2	7.0	7.5	5.0	6.0	6.1	5.9
Kyrgyzstan	8.4	2.9	-0.5	6.0	-0.9	10.5	4.8	6.0
Republic of Moldova	7.8	-6.0	7.1	6.8	-0.8	8.9	4.2	4.0
Russian Federation	5.2	-7.8	4.5	4.3	3.4	1.3	1.0	1.5
Tajikistan	7.6	4.0	6.5	2.4	7.5	6.5	6.9	6.5
Turkmenistan	14.7	6.1	9.2	14.1	8.0	10.2	9.5	9.5
Ukraine	2.3	-14.8	4.1	5.2	0.1	0.0	-6.0	1.0
Uzbekistan	9.0	8.1	8.5	8.3	7.4	8.0	6.8	7.0
Georgia	2.3	-3.8	6.3	7.2	6.1	3.2	5.0	5.0

Table A.2
Rates of growth of real GDP, 2008-2015 (*continued*)
(Annual percentage change)

	2008	2009	2010	2011	2012	2013[a]	2014[b]	2015[b]
Developing Economies								
Africa								
Algeria	2.0	1.7	3.6	2.6	2.6	2.8	3.5	3.4
Angola	13.8	2.4	3.4	3.9	6.8	7.0	6.9	7.6
Benin	5.0	2.7	2.6	3.5	5.4	4.6	4.4	4.5
Botswana	3.9	-7.8	8.6	6.1	3.7	5.9	5.7	4.6
Burkina Faso	5.8	3.0	8.4	5.1	6.2	6.6	6.8	6.9
Burundi	13.6	28.9	3.8	4.0	4.0	4.3	4.7	4.5
Cameroon	2.9	1.9	3.2	4.2	5.3	4.7	4.9	5.2
Cabo Verde	6.7	-1.3	1.5	5.0	4.3	2.5	2.9	3.4
Central African Republic	2.0	1.7	3.0	3.3	4.0	-18.5	-2.2	0.6
Chad	0.3	4.1	14.6	3.6	5.9	3.6	8.0	5.5
Comoros	0.6	1.1	2.0	2.1	2.5	3.4	3.7	3.9
Congo	5.9	7.5	8.7	6.0	6.8	6.0	6.2	7.0
Côte d'Ivoire	2.3	3.8	2.4	-4.7	8.6	8.2	7.4	6.3
Democratic Republic of the Congo	6.2	2.8	7.2	6.9	7.2	8.4	8.7	8.4
Djibouti	5.8	5.1	10.8	6.2	4.8	5.3	5.9	6.4
Egypt	7.2	4.6	5.2	1.8	2.2	2.0	2.2	3.4
Equatorial Guinea	16.1	4.1	1.3	-0.6	5.7	-1.5	-0.7	-3.3
Eritrea	-9.8	3.9	2.2	8.7	7.0	5.0	5.1	5.1
Ethiopia	10.8	8.8	12.6	11.2	8.5	7.6	7.0	7.2
Gabon	1.7	-0.4	5.6	7.1	6.2	5.9	6.2	6.0
Gambia	5.7	6.4	6.5	-4.6	6.2	6.5	7.3	7.1
Ghana	8.4	4.0	8.0	15.0	7.9	6.1	6.5	6.8
Guinea	4.8	-0.1	1.9	3.9	3.9	2.7	4.5	4.9
Guinea-Bissau	3.2	3.4	4.4	5.3	-2.9	1.9	2.4	3.0
Kenya	1.5	2.7	5.8	4.4	4.5	4.7	5.6	6.0
Lesotho	5.7	3.6	7.9	3.7	4.0	4.6	5.4	5.5
Liberia	8.0	7.8	7.3	8.2	11.3	7.5	7.3	7.0
Libya	14.6	-0.7	4.3	-61.3	104.5	-5.0	-3.2	8.7
Madagascar	7.1	-4.0	0.4	1.3	2.7	2.5	3.6	4.0
Malawi	5.7	-2.7	5.6	7.0	1.8	4.1	4.3	4.7
Mali	5.0	4.5	5.8	2.7	-1.2	5.0	6.8	6.5
Mauritania	-0.7	0.1	5.6	5.1	7.0	6.1	5.9	6.2
Mauritius	5.5	3.0	4.1	3.8	3.2	3.1	3.7	4.0
Morocco	5.6	4.8	3.6	5.0	2.7	4.4	3.6	4.6
Mozambique	6.8	6.3	7.1	7.3	7.4	7.0	7.3	7.6
Namibia	3.4	-1.1	6.0	4.9	5.0	4.2	5.0	5.1
Niger	9.6	-0.7	8.4	2.3	10.8	3.6	5.9	6.2
Nigeria	6.3	6.9	7.8	6.8	6.5	6.7	7.3	7.5
Rwanda	11.2	6.2	7.2	8.2	8.0	4.6	6.4	6.7
Sao Tome and Principe	9.1	3.9	4.6	4.5	6.4	3.9	4.2	4.5
Senegal	3.7	2.4	4.3	2.1	3.7	4.1	4.6	4.8
Sierra Leone	5.4	3.2	5.3	6.0	32.4	12.8	11.9	11.6
South Africa	3.6	-1.5	3.1	3.5	2.5	1.9	2.5	3.5
Togo	2.4	3.4	4.0	4.9	5.8	5.1	5.4	5.8
Tunisia	4.5	3.1	3.2	-1.9	3.6	2.7	3.2	4.4
Uganda	10.4	4.1	6.2	6.1	2.8	5.7	6.4	6.7
United Republic of Tanzania	7.4	6.0	7.0	6.4	6.9	7.1	7.4	7.1
Zambia	5.7	6.4	7.6	6.8	7.3	6.7	7.0	7.4
Zimbabwe	-4.7	16.9	9.6	10.6	4.4	2.2	2.4	2.5

Table A.2
Rates of growth of real GDP, 2008-2015 (*continued*)
(Annual percentage change)

	2008	2009	2010	2011	2012	2013 [a]	2014 [b]	2015 [b]
East and South Asia								
Bangladesh	6.0	5.8	6.3	6.7	6.2	5.9	5.9	6.1
Brunei Darussalam	-1.9	-1.8	2.6	3.4	1.0	0.1	1.6	2.3
China	9.6	9.2	10.4	9.3	7.7	7.7	7.3	7.1
Hong Kong, Special Administrative Region of China	2.1	-2.5	6.8	4.9	1.4	2.9	3.4	3.6
India	5.3	7.4	10.1	7.3	4.7	4.8	5.0	5.5
Indonesia	6.0	4.6	6.2	6.5	6.2	5.8	5.6	5.9
Iran, Islamic Republic of	3.1	3.5	5.4	3.6	-4.7	-2.3	1.1	1.7
Korea, Republic of	2.3	0.3	6.3	3.7	2.0	2.8	3.5	3.6
Malaysia	4.8	-1.5	7.4	5.1	5.6	4.7	5.2	5.5
Myanmar	10.3	10.6	10.4	5.5	6.3	5.5	6.5	6.8
Nepal	5.5	4.6	4.5	4.1	3.9	4.0	4.1	4.4
Pakistan	2.3	2.2	2.2	3.4	4.0	4.3	4.5	4.5
Papua New Guinea	6.6	6.1	7.6	11.3	9.2	4.8	5.8	13.5
Philippines	4.2	1.1	7.6	3.6	6.8	7.2	6.3	6.1
Singapore	1.7	-0.8	14.8	5.2	1.2	4.1	3.8	4.2
Sri Lanka	6.0	3.5	8.0	8.2	6.4	7.3	7.6	7.3
Taiwan, Province of China	0.7	-1.8	10.8	4.2	1.5	2.1	2.9	3.1
Thailand	1.7	-0.9	7.3	0.3	6.4	2.9	2.3	4.0
Vietnam	5.7	5.4	6.4	6.2	5.2	5.4	5.4	5.8
Western Asia								
Bahrain	6.2	2.5	4.3	2.1	3.4	5.3	4.0	3.6
Iraq	6.6	5.8	5.9	8.6	9.0	6.1	6.8	8.0
Israel	4.1	1.1	5.0	4.6	3.2	3.3	3.5	3.7
Jordan	7.2	5.5	2.3	2.6	2.7	2.8	3.0	4.3
Kuwait	2.5	-7.1	-2.4	6.3	8.3	4.0	3.8	4.0
Lebanon	9.3	8.5	6.9	1.6	1.2	1.3	2.2	2.6
Oman	13.2	3.3	5.6	0.3	5.8	3.0	4.1	3.9
Qatar	17.7	12.0	16.7	13.0	6.2	6.5	5.0	5.9
Saudi Arabia	8.4	1.8	7.4	8.6	5.8	3.8	4.0	4.4
Syrian Arab Republic	4.5	5.9	3.4	-2.0	-21.8	-22.5	0.0	0.0
Turkey	0.7	-4.8	9.2	8.8	2.2	4.0	2.2	4.0
United Arab Emirates	3.2	-4.8	1.7	3.9	4.3	5.0	5.2	5.0
Yemen	4.0	4.1	5.7	-12.8	2.0	3.9	2.6	2.3
Latin America and the Caribbean								
Argentina	6.8	0.9	9.2	8.9	1.9	4.9	0.3	1.5
Barbados	0.3	-4.1	0.2	0.6	0.7	-0.2	-0.6	0.5
Bolivia, Plurinational State of	6.1	3.4	4.1	5.2	5.2	6.5	5.5	5.1
Brazil	5.2	-0.3	7.5	2.7	0.9	2.3	1.7	2.8
Chile	3.3	-1.0	5.8	5.9	5.5	4.0	3.5	4.5
Colombia	3.5	1.7	4.0	6.6	4.0	4.3	4.8	4.6
Costa Rica	2.7	-1.0	5.0	4.4	5.1	3.4	4.0	4.1
Cuba	4.1	1.4	2.4	2.8	3.0	2.9	3.9	4.0
Dominican Republic	5.3	3.5	7.8	4.5	3.9	4.1	4.3	4.3
Ecuador	6.4	0.6	3.5	7.8	5.1	4.3	4.5	4.3
El Salvador	1.3	-3.1	1.4	2.2	1.9	1.4	2.0	2.0
Guatemala	3.3	0.5	2.9	4.2	3.0	3.5	3.5	3.8
Guyana	2.0	3.3	4.4	5.4	4.8	4.9	4.5	4.0
Haiti	0.8	2.9	-5.4	5.6	2.8	4.3	4.5	4.8
Honduras	4.2	-2.4	3.7	3.8	3.9	2.4	3.3	3.7
Jamaica	-0.7	-4.4	-1.5	1.7	-0.5	0.1	1.3	1.9
Mexico	1.4	-4.7	5.1	4.0	3.9	1.3	3.2	4.2
Nicaragua	4.0	-2.2	3.6	5.4	5.2	4.4	4.5	4.3
Panama	10.1	3.9	7.4	10.9	10.6	8.0	7.2	6.6
Paraguay	6.4	-4.0	13.1	4.3	-1.2	12.8	4.9	4.7
Peru	9.8	0.9	8.8	6.9	6.3	5.0	5.7	5.9
Trinidad and Tobago	3.4	-4.4	0.2	-1.6	1.5	1.5	2.5	2.7
Uruguay	7.2	2.2	8.9	6.5	3.9	4.0	3.5	3.8
Venezuela, Bolivarian Republic of	5.3	-3.2	-1.5	4.2	5.5	1.6	-0.8	0.2

Source: UN/DESA

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

Table A.3
World and regions: consumer price inflation, 2008-2015
(Annual percentage change [a])

	2008	2009	2010	2011	2012	2013 [b]	2014 [c]	2015 [c]
World	4.9	1.2	2.8	3.8	2.8	2.4	2.7	2.6
Developed economies	3.5	-0.1	1.8	2.8	1.9	1.2	1.5	1.6
North America	4.2	-0.7	2.4	3.7	2.1	1.2	1.6	1.6
Asia and Oceania	1.8	-0.8	-0.2	0.3	0.2	0.7	2.5	1.6
Western Europe	3.5	0.8	1.9	2.9	2.4	1.5	1.1	1.6
European Union	3.5	0.8	1.9	3.0	2.6	1.5	1.1	1.6
EU15	3.3	0.7	1.9	3.0	2.5	1.5	1.1	1.5
New EU members	6.1	3.1	2.8	3.7	3.7	1.4	1.4	2.3
Euro area	3.3	0.3	1.6	2.7	2.5	1.4	1.0	1.5
Other European countries	3.0	0.9	1.5	0.7	-0.1	1.0	1.2	1.2
Economies in transit	15.0	11.0	7.0	9.5	5.8	6.3	6.9	4.5
South-Eastern Europe	9.3	4.3	4.1	7.1	4.3	4.4	2.5	3.2
Commonwealth of Independent States and Georgia	15.3	11.3	7.1	9.7	5.8	6.4	7.1	4.6
Developing economies [d]	8.2	4.2	5.4	6.4	5.4	5.8	6.0	5.4
Africa [d]	11.0	7.9	6.6	7.9	8.4	6.9	6.8	6.4
North Africa	9.8	6.5	6.3	7.8	9.1	8.0	7.6	6.8
East Africa	21.7	12.9	7.4	16.7	13.1	6.0	6.3	6.1
Central Africa	6.6	4.3	2.4	2.0	4.5	3.3	3.4	3.2
West Africa	11.2	9.4	10.2	9.0	9.4	7.0	7.6	8.1
Southern Africa [d]	10.4	7.9	5.4	6.2	6.5	6.3	6.0	5.4
East and South Asia	7.4	2.8	4.9	6.2	4.7	5.1	4.3	4.2
East Asia	6.0	0.6	3.2	4.9	2.7	2.6	2.7	3.0
South Asia	12.7	11.1	11.6	11.1	12.0	14.3	10.4	8.7
Western Asia	10.2	4.1	5.6	5.9	5.4	6.0	5.9	5.3
Latin America and the Caribbean	7.8	5.9	6.0	6.4	5.9	6.9	9.5	7.8
South America	8.8	6.5	7.0	8.0	6.9	8.8	12.7	10.4
Mexico and Central America	5.7	5.1	4.1	3.7	4.1	3.8	4.3	3.5
Caribbean	12.9	4.1	8.2	7.5	5.7	5.6	4.5	4.7
Least Developed Country	13.6	8.4	9.0	11.8	11.7	10.4	9.0	7.6
Memorandum items:								
Major developed economies (G7)	3.4	-0.3	1.7	2.8	1.9	1.2	1.6	1.6
OECD	3.7	0.2	2.0	2.9	2.1	1.4	1.7	1.7
East Asia excluding China	6.1	1.8	3.0	4.3	2.9	2.6	2.8	3.2
South Asia excluding India	20.9	11.7	10.7	15.4	17.2	22.5	15.3	12.0
Western Asia excluding Israel and Turkey	10.9	2.9	4.4	6.0	4.0	5.9	4.8	4.3

Source: UN/DESA

[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 the United States dollar.

[b] Actual or the most recent estimate.

[c] Forecasts, based in part on Project LINK.

[d] Excluding Zimbabwe.

Table A.4
Consumer price inflation, 2008-2015
(Annual percentage change)

	2008	2009	2010	2011	2012	2013 [a]	2014 [b]	2015 [b]
Developed Economies								
North America								
Canada	2.4	0.3	1.8	2.9	1.5	0.9	1.4	1.9
United States	4.3	-0.8	2.5	3.8	2.1	1.2	1.6	1.5
Asia and Oceania								
Australia	4.4	1.8	2.9	3.3	1.8	2.5	1.6	1.9
Japan	1.4	-1.3	-0.7	-0.3	0.0	0.4	2.6	1.6
New Zealand	4.0	2.1	2.3	4.0	1.1	1.1	1.4	1.9
European Union								
EU-15								
Austria	3.2	0.4	1.7	3.6	2.6	2.1	1.8	1.9
Belgium	4.5	0.0	2.3	3.4	2.6	1.2	1.0	1.8
Denmark	3.6	1.1	2.2	2.7	2.4	0.5	1.3	1.7
Finland	3.9	1.6	1.7	3.3	3.2	2.2	1.6	1.4
France	3.2	0.1	1.7	2.3	2.2	1.0	0.9	1.2
Germany	2.8	0.2	1.2	2.5	2.1	1.6	1.3	1.4
Greece	4.2	1.3	4.7	3.1	1.0	-0.9	-1.0	0.5
Ireland	3.1	-1.7	-1.6	1.2	1.9	0.5	0.4	1.0
Italy	3.5	0.8	1.6	2.9	3.3	1.3	0.9	1.8
Luxembourg	3.4	0.4	2.3	3.4	2.7	1.7	1.4	1.6
Netherlands	2.2	1.0	0.9	2.5	2.8	2.6	1.0	1.2
Portugal	2.7	-0.9	1.4	3.6	2.8	0.4	1.5	1.0
Spain	4.1	-0.2	2.0	3.1	2.4	1.5	1.0	2.0
Sweden	3.3	1.9	1.9	1.4	0.9	0.4	0.1	1.2
United Kingdom	3.6	2.2	3.3	4.5	2.8	2.6	1.6	1.8
New EU members								
Bulgaria	12.3	2.8	2.5	4.2	2.9	0.7	1.5	2.5
Croatia	4.7	0.4	2.5	3.3	2.4	0.4	0.4	1.0
Cyprus	6.3	0.6	1.2	2.1	3.5	1.4	1.5	2.0
Czech Republic	10.6	0.2	2.7	5.1	4.2	3.3	2.5	2.9
Estonia	6.0	4.0	4.7	3.9	5.7	1.7	1.5	3.0
Hungary	15.4	3.5	-1.1	4.4	2.3	0.0	1.5	3.0
Latvia	10.9	4.4	1.3	4.1	3.0	1.0	1.5	2.9
Lithuania	4.2	2.1	1.4	2.8	2.4	1.0	1.6	2.4
Malta	4.2	4.0	2.7	3.9	3.7	0.8	1.2	2.0
Poland	7.9	5.6	6.1	5.8	3.4	3.2	2.5	3.0
Romania	3.9	0.9	0.7	4.1	3.7	1.5	0.5	2.0
Slovak Republic	5.5	0.9	2.1	2.1	2.8	2.0	1.2	1.5
Slovenia								
Other Europe	12.7	12.0	5.4	4.0	5.2	3.9	3.4	2.8
Iceland	3.4	2.3	2.3	1.3	0.4	2.0	2.3	1.6
Norway	2.3	-0.7	0.6	0.1	-0.7	0.1	0.2	0.8
Switzerland								
Economies in transition								
South-eastern Europe	3.3	2.3	3.6	3.4	2.1	2.0	2.5	2.6
Albania	7.4	-0.3	2.2	3.7	2.0	-0.1	1.0	2.0
Bosnia and Herzegovina	6.0	2.4	1.0	2.3	3.4	2.1	1.4	2.6
Montenegro	9.0	3.8	0.6	3.2	3.6	2.3	2.5	2.5
Serbia	12.4	8.2	6.1	11.2	7.3	7.6	3.2	4.2
The former Yugoslav Republic of Macedonia	8.4	-0.8	1.5	3.1	-0.8	3.0	2.1	2.5
Commonwealth of Independent States								
Armenia	8.9	3.4	8.2	7.7	2.6	6.0	5.5	4.0
Azerbaijan	20.8	1.4	5.6	7.8	1.0	2.5	4.2	4.0
Belarus	14.9	12.9	7.7	53.4	59.1	18.3	15.0	12.0
Kazakhstan	17.1	7.3	7.1	8.3	5.1	5.5	8.8	6.5
Kyrgyzstan	24.5	6.9	8.0	16.4	2.7	6.9	6.0	5.0
Republic of Moldova	12.9	-0.1	7.4	7.8	4.7	4.6	5.5	4.5
Russian Federation	14.0	11.7	6.9	8.2	4.2	6.8	6.7	4.4
Tajikistan	20.9	6.4	6.4	12.4	5.8	5.6	5.0	6.0
Turkmenistan	14.5	-2.7	4.4	8.0	8.0	9.0	9.5	9.5
Ukraine	25.2	15.9	9.4	8.0	2.7	-0.9	6.8	1.0
Uzbekistan	12.7	14.1	9.4	12.0	11.0	10.0	11.0	8.8
Georgia	10.1	1.7	7.1	8.6	-1.0	-0.5	4.5	4.0

Table A.4
Consumer price inflation, 2008-2015 (*continued*)
(Annual percentage change)

	2008	2009	2010	2011	2012	2013 [a]	2014 [b]	2015 [b]
Developing economies								
Africa								
Algeria	4.9	5.7	3.9	4.5	8.9	3.3	4.0	4.0
Angola	12.5	13.7	14.5	13.5	10.3	8.8	8.0	8.2
Benin	7.9	2.2	2.3	2.7	6.7	1.5	2.1	2.2
Botswana	12.7	8.0	6.9	8.5	7.5	5.9	6.1	5.6
Burkina Faso	10.7	2.6	-0.8	2.8	3.8	0.6	0.9	1.3
Burundi	24.1	11.0	6.4	9.7	18.0	8.9	6.8	7.0
Cameroon	5.3	3.0	1.3	2.9	2.9	2.8	2.4	2.6
Cabo Verde	6.8	1.0	2.1	4.5	2.5	1.5	2.0	2.7
Central African Republic	9.3	3.5	1.5	1.3	5.8	6.5	9.5	2.1
Chad	10.3	10.0	-2.1	-4.9	10.2	4.5	4.5	5.2
Comoros	4.8	4.8	4.4	10.4	4.0	3.2	3.3	3.2
Congo	7.3	5.3	5.0	1.3	3.9	4.2	2.9	2.5
Côte d'Ivoire	6.3	1.0	1.7	4.9	1.3	2.6	2.3	2.8
Democratic Republic of the Congo	17.3	30.1	24.1	16.9	10.7	1.0	3.0	4.0
Djibouti	12.0	1.7	3.9	11.5	5.0	2.4	2.0	2.2
Egypt	18.3	11.8	11.3	10.1	7.1	9.5	10.0	10.1
Equatorial Guinea	6.6	4.7	7.8	6.9	6.1	6.0	5.6	5.3
Eritrea	19.9	33.0	12.7	14.0	14.0	12.8	12.5	12.0
Ethiopia	44.4	8.5	8.1	33.2	22.8	8.1	8.2	8.0
Gabon	5.3	1.9	1.5	1.3	2.7	0.4	2.2	2.0
Gambia	4.5	4.6	5.0	4.8	4.2	5.9	4.1	4.5
Ghana	16.5	19.3	10.7	8.7	9.1	11.7	12.7	9.3
Guinea	18.4	4.7	15.5	21.3	15.2	11.9	9.0	7.2
Guinea-Bissau	10.5	-1.7	2.5	5.0	2.0	0.8	1.2	1.9
Kenya	26.2	9.2	4.0	14.0	9.4	5.7	6.2	5.7
Lesotho	10.7	7.4	3.6	5.0	6.1	5.0	4.4	5.0
Liberia	17.5	7.4	7.3	7.4	5.5	5.2	6.0	6.1
Libya	10.4	2.5	2.8	15.5	6.1	2.6	4.2	5.7
Madagascar	9.2	9.0	9.2	9.5	6.4	6.5	6.4	6.0
Malawi	8.7	8.4	7.4	7.6	21.3	28.5	19.2	10.7
Mali	9.2	2.5	1.1	2.9	5.4	-0.2	1.5	2.4
Mauritania	7.3	2.2	6.3	5.6	4.9	4.3	4.8	4.7
Mauritius	9.7	2.5	2.9	6.5	3.8	3.5	4.0	4.2
Morocco	3.7	1.0	1.0	0.9	1.3	1.9	2.5	2.6
Mozambique	10.3	3.3	12.7	10.4	2.1	4.2	4.1	4.8
Namibia	10.4	8.8	1.2	5.5	9.3	5.6	5.3	5.0
Niger	11.3	0.6	0.8	2.9	0.5	2.3	2.5	2.7
Nigeria	11.6	11.5	13.7	10.8	12.2	8.5	9.2	10.5
Rwanda	15.4	10.4	2.3	5.7	6.3	4.2	4.4	5.0
Sao Tome and Principe	26.1	17.0	13.3	12.0	8.0	8.7	6.9	6.6
Senegal	5.8	-1.1	1.3	3.4	1.4	0.8	1.6	1.9
Sierra Leone	14.8	9.3	15.8	16.8	11.7	10.3	8.4	8.1
Somalia	30.0	25.0	2.1	2.2	2.0	2.0	4.0	5.0
South Africa	10.1	7.3	4.1	5.0	5.8	5.8	5.7	5.0
Togo	8.7	3.3	1.8	3.6	2.6	1.8	2.2	2.4
Tunisia	4.9	3.5	4.4	3.6	5.5	6.1	5.6	4.7
Uganda	12.1	13.0	4.0	18.7	14.0	5.5	6.8	6.5
United Republic of Tanzania	10.3	12.1	6.2	12.7	16.0	7.9	6.7	6.2
Zambia	12.4	13.4	8.5	6.4	6.6	7.0	7.4	6.7
Zimbabwe	0	0.0	5.9	5.4	8.3	8.5	6.6	6.1

Table A.4
Consumer price inflation, 2008-2015 (*continue* d)
(Annual percentage change)

	2008	2009	2010	2011	2012	2013 [a]	2014 [b]	2015 [b]
East and South Asia								
Bangladesh	8.9	5.4	8.1	10.7	6.2	7.5	7.2	7.0
Brunei Darussalam	2.1	1.0	0.4	2.0	0.5	0.4	1.5	1.7
China	6.0	-0.7	3.3	5.5	2.6	2.7	2.6	2.9
Hong Kong, Special Administrative Regior	4.3	0.6	2.3	5.3	4.0	4.3	4.1	4.0
India	8.4	10.9	12.0	8.9	9.2	10.0	7.8	6.9
Indonesia	10.2	4.4	5.2	5.4	4.3	6.9	6.9	6.6
Iran, Islamic Republic of	25.5	13.5	10.1	20.6	27.3	39.6	25.0	18.2
Korea, Republic of	4.7	2.8	2.9	4.0	2.2	1.3	1.7	2.3
Malaysia	5.4	0.6	1.7	3.2	1.7	2.1	3.4	3.5
Myanmar	26.8	1.5	7.7	5.1	1.5	5.5	5.9	6.4
Nepal	10.9	11.6	10.0	9.5	9.4	9.1	8.5	8.0
Pakistan	20.3	13.6	13.9	11.9	9.7	7.7	7.0	6.7
Papua New Guinea	10.8	6.9	6.0	8.4	2.2	3.4	4.6	5.5
Philippines	8.3	4.1	3.9	4.6	3.2	3.0	4.0	3.5
Singapore	6.5	0.6	2.8	5.3	4.5	2.4	2.2	2.6
Sri Lanka	22.6	3.5	6.2	6.7	7.5	6.9	4.8	5.0
Taiwan, Province of China	3.5	-0.9	1.0	1.4	1.9	0.8	1.0	1.7
Thailand	5.5	-0.8	3.3	3.8	3.0	2.2	2.3	2.9
Viet Nam	23.1	7.1	8.9	18.7	9.1	6.6	5.9	6.4
Western Asia								
Bahrain	3.5	2.8	2.0	-0.4	2.8	3.5	3.3	4.3
Israel	4.6	3.3	2.7	3.5	1.7	1.5	1.5	2.3
Jordan	14.9	-0.7	5.0	4.4	4.8	5.5	5.0	3.0
Kuwait	10.6	4.6	4.5	4.9	2.8	2.7	3.5	3.7
Oman	12.1	3.9	3.2	4.1	2.9	1.3	2.1	3.7
Qatar	15.1	-4.9	-2.4	1.9	1.9	3.1	4.2	4.6
Saudi Arabia	9.9	5.1	5.3	5.8	2.9	3.5	3.3	4.3
Syrian Arab Republic	15.7	2.9	4.4	4.8	37.4	87.3	42.7	12.0
Turkey	10.4	6.3	8.6	6.5	8.9	7.4	9.0	7.7
Yemen	19.0	5.4	11.2	16.4	10.1	11.0	11.7	10.0
Latin America and the Caribbean								
Argentina	8.6	6.3	10.8	9.5	10.0	10.9	34.7	26.5
Barbados	8.1	3.6	5.8	9.4	4.5	2.3	2.2	2.0
Bolivia, Plurinational State of	14.0	3.3	2.5	9.8	4.6	5.7	6.5	5.8
Brazil	5.7	4.8	5.0	6.6	5.4	6.2	6.1	5.7
Chile	8.7	0.4	1.4	3.3	3.0	1.9	3.3	3.2
Colombia	7.0	4.2	2.3	3.4	3.2	2.0	2.5	3.1
Costa Rica	13.4	7.8	5.7	4.9	4.5	5.2	3.5	4.8
Dominican Republic	10.6	1.4	6.3	8.5	3.7	4.8	3.5	4.2
Ecuador	8.4	5.2	3.6	4.5	5.1	2.7	2.9	3.1
El Salvador	6.7	1.1	0.9	5.1	1.7	0.8	1.7	2.7
Guatemala	11.4	1.9	3.9	6.2	3.8	4.3	4.3	4.5
Guyana	8.1	2.9	2.1	5.0	2.4	3.5	4.1	4.0
Haiti	15.5	0.0	5.7	8.4	6.3	6.8	4.6	5.4
Honduras	11.4	5.5	4.7	6.8	5.2	5.2	5.1	5.8
Jamaica	22.0	9.6	12.6	7.5	6.9	9.4	8.0	7.3
Mexico	5.1	5.3	4.2	3.4	4.1	3.8	4.4	3.4
Nicaragua	19.8	3.7	5.5	8.1	7.2	7.4	6.5	6.8
Panama	8.8	2.4	3.5	5.9	5.7	4.0	3.6	3.6
Paraguay	10.2	2.6	4.7	8.3	3.7	2.7	4.9	5.1
Peru	5.8	2.9	1.5	3.4	3.7	2.8	2.7	2.5
Trinidad and Tobago	12.0	7.0	10.5	5.1	9.3	5.2	4.7	4.5
Uruguay	7.9	7.1	6.7	8.1	8.1	8.6	8.5	7.7
Venezuela, Bolivarian Republic of	31.4	27.1	28.2	26.1	21.1	40.6	53.2	39.6

Source: UN/DESA

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, 2008-2015
(Annual percentage change)

Region	Flow	2008	2009	2010	2011	2012	2013 [a]	2014 [b]	2015 [b]
World	Exports	14.1	-19.7	19.4	17.8	1.4	3.0	5.4	6.1
	Imports	14.4	-20.0	19.1	17.9	1.8	1.8	4.8	6.5
Developed economies	Exports	11.1	-19.7	13.8	15.3	-1.8	2.4	4.6	3.7
	Imports	11.3	-22.0	14.4	15.9	-2.0	0.7	3.8	4.6
North America	Exports	9.6	-16.9	17.2	14.5	3.6	2.4	3.9	5.5
	Imports	7.6	-22.1	19.9	13.2	2.7	0.3	1.4	6.3
Asia and Oceania	Exports	13.9	-23.3	30.9	11.5	-2.5	-6.7	-0.5	2.8
	Imports	20.5	-24.8	24.1	23.1	5.4	-5.5	3.5	4.4
Europe	Exports	11.1	-20.0	10.4	16.2	-3.3	3.9	5.5	3.2
	Imports	11.6	-21.6	10.9	15.9	-5.1	2.1	4.9	3.9
European Union	Exports	10.7	-20.1	10.4	15.9	-3.5	4.1	5.8	3.3
	Imports	11.6	-21.9	10.8	15.7	-5.3	2.0	5.0	4.0
EU-15	Exports	9.9	-20.0	9.9	15.5	-3.6	3.7	5.8	3.2
	Imports	10.7	-21.1	10.4	15.3	-5.4	1.7	4.9	3.9
New EU Members	Exports	18.2	-21.3	14.0	19.9	-2.6	7.3	5.4	4.2
	Imports	19.0	-27.7	14.0	19.3	-4.5	4.3	5.4	4.5
Other Europe	Exports	10.7	-19.7	9.7	15.8	-3.7	4.3	5.7	3.2
	Imports	12.2	-20.8	10.1	15.9	-6.3	2.1	5.0	3.8
Euro area	Exports	18.5	-17.8	11.3	19.5	-1.7	0.3	2.4	0.9
	Imports	11.8	-15.6	12.9	18.4	-1.5	3.5	3.9	2.9
Economies in transition	Exports	31.6	-32.3	27.8	31.2	3.6	4.0	-3.1	1.7
	Imports	29.2	-30.1	22.3	28.2	7.4	6.2	-3.7	2.4
South-eastern Europe	Exports	22.5	-19.6	13.6	20.9	-6.3	12.6	8.4	5.6
	Imports	27.3	-27.1	2.4	18.5	-6.0	8.1	8.7	6.9
Commonwealth of Independent States	Exports	32.0	-32.8	28.4	31.7	4.0	3.8	-3.6	1.6
	Imports	29.4	-30.4	24.2	29.0	8.4	6.1	-4.5	2.1
Developing countries	Exports	17.4	-18.4	27.6	20.0	5.3	3.6	7.3	9.4
	Imports	19.1	-15.3	26.7	20.2	6.9	2.9	6.8	9.3
Africa	Exports	29.3	-27.3	27.5	16.8	2.2	1.7	2.5	6.6
	Imports	25.7	-10.0	11.5	14.9	8.2	7.4	7.5	11.2
North Africa	Exports	34.2	-30.8	16.7	-6.2	16.8	-2.4	2.9	5.0
	Imports	38.8	-8.0	5.2	0.6	17.3	4.2	3.8	8.7
East Africa	Exports	20.3	-13.7	28.8	20.0	9.3	9.9	10.6	10.0
	Imports	26.7	-9.0	17.0	19.4	13.4	8.3	10.0	9.4
Central Africa	Exports	36.8	-27.1	32.1	25.3	-4.6	8.3	-1.6	-1.1
	Imports	30.7	-2.3	6.6	9.6	4.6	2.4	3.9	1.7
West Africa	Exports	38.2	-26.6	49.7	39.7	-10.9	4.0	-1.1	3.7
	Imports	10.0	-3.6	21.3	27.6	1.5	12.1	10.8	14.2
Southern Africa	Exports	18.6	-25.2	26.9	25.7	-0.2	1.3	4.0	11.2
	Imports	20.5	-17.2	12.9	23.4	2.7	8.2	8.7	13.4
East and South Asia	Exports	13.8	-14.5	28.3	18.2	6.2	3.1	7.3	9.5
	Imports	17.3	-14.3	31.1	21.0	7.4	0.8	6.4	9.1
East Asia	Exports	13.6	-15.4	28.6	17.4	7.9	2.9	7.1	8.9
	Imports	16.9	-15.9	32.6	20.3	8.6	1.3	6.5	8.8
South Asia	Exports	15.7	-6.1	25.9	24.6	-7.8	4.8	8.5	15.5
	Imports	19.8	-2.7	22.6	25.8	0.2	-2.2	5.7	11.0
Western Asia	Exports	28.7	-26.3	21.1	32.9	6.6	7.6	10.7	11.6
	Imports	21.8	-17.5	15.1	20.0	4.9	7.8	8.7	9.8
Latin America and the Caribbean	Exports	15.0	-20.7	31.1	17.7	1.5	2.6	6.4	7.0
	Imports	20.9	-20.3	28.4	19.4	5.7	5.4	6.6	8.5
South America	Exports	21.1	-21.5	35.6	17.7	-1.1	1.1	5.0	4.7
	Imports	30.7	-18.6	31.5	20.7	5.6	5.5	5.0	7.1
Mexico and Central America	Exports	7.2	-18.4	25.6	17.4	6.3	4.9	8.7	10.5
	Imports	9.6	-22.1	25.6	17.7	6.5	5.5	9.2	10.6
Caribbean	Exports	5.3	-29.8	13.0	21.4	-2.4	3.3	3.9	4.6
	Imports	20.5	-24.6	14.4	17.7	-2.2	2.1	6.0	6.5
Least developed countries	Exports	27.6	-21.5	25.1	26.5	63.3	-30.0	7.8	9.3
	Imports	31.2	-4.1	9.6	21.3	66.8	-25.6	10.7	12.4

Source: UN/DESA

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

Table A.6
World trade: growth in trade volume of goods and non-factor services, by major country group, 2008-2015
(annual percentage change)

Region	Flow	2008	2009	2010	2011	2012 [a]	2013 [b]	2014 [b]	2015 [b]
World	Exports	2.8	-10.0	12.1	6.1	2.4	2.6	4.2	4.9
	Imports	2.9	-11.1	13.1	6.6	2.5	2.5	4.0	5.3
Developed economies	Exports	1.9	-11.7	11.3	5.6	2.4	1.8	3.4	4.2
	Imports	0.4	-12.2	10.8	4.8	1.1	0.9	3.1	4.7
North America	Exports	3.3	-9.9	10.5	6.6	3.1	2.6	3.6	3.9
	Imports	-2.1	-13.4	12.9	5.0	2.4	1.4	2.1	6.0
Asia and Oceania	Exports	1.8	-17.8	18.5	-0.3	1.4	2.8	2.4	2.4
	Imports	2.5	-14.1	12.0	7.1	5.4	2.0	3.7	2.7
Europe	Exports	1.5	-11.4	10.5	6.2	2.3	1.4	3.5	4.6
	Imports	1.1	-11.3	9.8	4.3	-0.1	0.5	3.4	4.5
European Union	Exports	1.5	-11.7	11.0	6.5	2.3	1.5	3.6	4.7
	Imports	1.1	-11.5	9.8	4.4	-0.3	0.4	3.4	4.6
EU-15	Exports	1.1	-11.8	10.7	6.1	2.1	1.1	3.4	4.6
	Imports	0.6	-10.8	9.6	3.9	-0.4	0.1	3.2	4.5
New EU Members	Exports	5.2	-10.7	13.1	9.3	3.6	4.4	4.6	5.3
	Imports	5.0	-16.7	12.2	7.6	0.8	2.3	4.4	5.4
Other Europe	Exports	1.0	-12.4	11.6	6.5	2.5	1.3	3.5	4.7
	Imports	0.9	-10.9	10.0	4.5	-0.9	0.1	3.4	4.7
Euro area	Exports	1.9	-6.2	4.8	2.1	1.9	-0.1	3.3	2.9
	Imports	0.7	-8.2	8.5	4.1	2.8	1.9	3.6	3.3
Economies in transition	Exports	1.8	-6.6	6.8	3.2	1.1	1.5	0.6	2.0
	Imports	11.9	-26.4	16.7	16.6	8.1	3.5	-0.6	2.2
South-eastern Europe	Exports	5.8	-7.7	15.6	4.3	0.9	7.2	7.1	6.7
	Imports	8.7	-15.9	2.8	6.1	0.9	3.9	6.4	7.1
Commonwealth of Independent States	Exports	1.7	-6.6	6.4	3.1	1.1	1.3	0.4	1.8
	Imports	12.1	-27.3	18.0	17.5	8.6	3.5	-1.1	1.8
Developing countries	Exports	4.3	-7.6	13.6	7.2	2.6	3.9	5.5	6.1
	Imports	6.6	-7.7	16.4	8.7	4.1	4.7	5.6	6.4
Africa	Exports	8.4	-14.7	10.0	2.3	0.8	1.1	2.9	4.9
	Imports	8.6	-5.6	7.0	5.4	2.7	4.8	4.4	6.2
North Africa	Exports	6.5	-9.3	3.5	-15.5	11.4	-1.7	2.0	4.9
	Imports	14.6	-5.4	3.3	-8.4	13.9	3.8	3.1	5.4
East Africa	Exports	11.2	-3.9	10.7	9.8	6.2	5.9	6.4	5.8
	Imports	11.2	3.6	11.4	15.1	9.7	6.3	6.4	6.2
Central Africa	Exports	3.0	-2.8	1.2	-0.9	1.1	-4.0	-1.3	1.3
	Imports	8.7	6.1	9.6	1.4	6.6	-2.0	-1.3	2.3
West Africa	Exports	21.6	-20.9	39.0	26.3	-14.6	1.8	2.8	3.5
	Imports	-3.1	5.6	11.1	22.8	-21.7	4.6	6.7	8.2
Southern Africa	Exports	5.1	-21.1	4.7	6.0	2.5	3.6	4.1	6.3
	Imports	8.3	-15.2	7.3	8.1	6.5	6.6	4.5	6.5
East and South Asia	Exports	4.8	-6.0	16.9	7.3	2.2	5.4	6.2	6.5
	Imports	5.6	-5.0	18.1	8.2	3.9	4.6	5.8	6.4
East Asia	Exports	4.4	-6.8	17.5	6.7	2.7	5.2	6.1	6.2
	Imports	4.4	-6.0	19.4	7.1	3.7	5.5	6.1	6.5
South Asia	Exports	7.9	0.8	12.4	11.8	-1.5	7.1	7.6	8.4
	Imports	13.7	1.6	10.2	16.1	4.8	-1.2	3.3	5.7
Western Asia	Exports	3.2	-7.9	6.5	9.9	5.5	0.7	4.0	5.3
	Imports	8.1	-13.4	9.2	10.1	5.6	5.1	5.4	6.8
Latin America and the Caribbean	Exports	1.0	-9.8	8.9	7.1	2.1	1.4	5.0	5.8
	Imports	8.6	-14.6	21.5	11.3	4.5	4.5	5.6	6.2
South America	Exports	1.1	-8.2	4.1	5.7	0.4	1.3	4.4	5.6
	Imports	12.2	-12.6	24.2	13.1	4.1	5.4	4.8	5.7
Mexico and Central America	Exports	-0.2	-10.7	18.0	8.8	5.0	1.3	5.8	6.3
	Imports	4.3	-17.2	19.3	8.9	5.9	3.5	7.0	7.2
Caribbean	Exports	9.8	-28.3	11.1	16.0	0.4	4.3	5.1	4.6
	Imports	4.9	-15.8	6.2	9.9	-2.0	1.9	4.3	4.2
Least developed countries	Exports	6.4	-15.0	6.7	6.0	5.7	4.0	5.4	6.5
	Imports	11.1	-4.5	10.7	8.6	7.8	5.7	6.3	7.4

Source: UN/DESA

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