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Acknowledgements

This report presents the short-term prospects for the global economy in 2015-2016, including major risks and policy challenges.

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The current report was coordinated by Matthias Kempf, with contributions from Grigor Agabekian, Clive Altshuler, Hung-Yi Li, Ingo Pitterle, Hamid Rashid, Sebastian Vergara, Sergio Vieira and John Winkel. Cordelia Gow and Ann D'Lima provided statistical and editorial assistance. The interns Sha Miao, Jeremy Yu and Fabio Haufler also made contributions. Pingfan Hong provided general guidance.

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Contents

Overview

The world economy continues to grow at a moderate and uneven pace, encumbered by both the legacies of the global financial crisis and a number of new challenges. The global growth is projected to strengthen in 2015-2016, to a pace of 3.1 per cent and 3.4 per cent, respectively, up from the estimated rate of 2.6 per cent in 2014. This forecast is, however, subject to significant uncertainties and risks.

Six years through the aftermath of the global financial crisis, the majority of both developed and developing countries are seeing their GDP growth on a markedly lower path than they were prior to the crisis. While developed economies have indeed in 2014 all registered positive growth for the first time since 2011, growth in the euro area remains fragile and the momentum in Japan is also tapering off. Among developing countries and economies in transition, it is worrisome to see a sharp deceleration in a number of large emerging economies, particularly in Latin America and the Commonwealth of Independent States. A number of these economies continue to face various country-specific challenges, including structural imbalances, infrastructural bottlenecks, increased financial risks, incoherent macroeconomic management as well as geopolitical and political tensions.

Insufficient jobs remain a key policy concern worldwide, as the unemployment rates, particularly for youth, are still elevated in a large number of both developed and developing countries. The global inflation outlook remains benign, although a dozen of developing countries and economies in transition are challenged by high inflation while some European economies may face the risk of deflation.

International trade flows continue to expand at a lacklustre rate, while progress in the WTO multilateral trade negotiations remains sluggish, preventing any new impetus to boost the global dynamism in trade and output. At the same time, the international prices of primary commodities are on a downward trend. International capital flows to emerging economies are also moderating.

Major uncertainties and risks threatening the world economic outlook include the risks associated with the QE exit and the normalization of interest rates by the United States Federal Reserve, along with the divergence in monetary policies among the major developed countries; remaining fragility in both the financial sector and the real economy in the euro area; vulnerability in emerging economies to both the external shocks and domestic structural bottlenecks; a possible escalation in geopolitical tensions; and the risk of a failure in containing Ebola.

Macroeconomic policies worldwide are challenged to place the global economy on a more robust and balanced growth trajectory. In developed countries, the almost exclusive reliance on monetary policy is unlikely to achieve the multi-dimensional goals of robust growth, full employment, price stability and financial stability. In many developing countries, the policy space, as well as policy instruments, may not be sufficient to tackle the external vulnerabilities and domestic structural challenges. Therefore, coordination is needed within both developed and developing countries among different policies and structural reform measures.

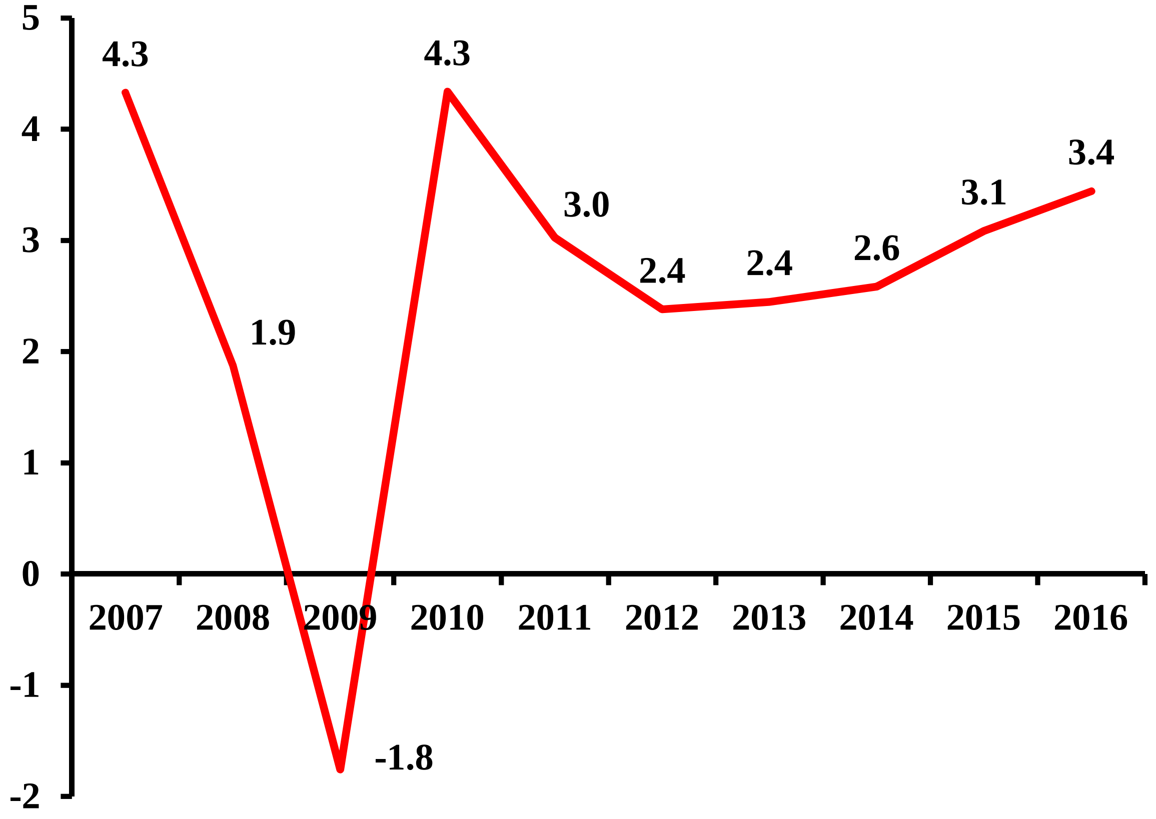
At the international level, policy coordination and cooperation are also imperative in many areas, including aligning macroeconomic policies worldwide towards the focus on supporting growth and jobs; mitigating adverse international policy spill-overs; furthering financial regulatory reforms; forging progress towards the completion in the WTO Doha Round; enhancing cross-border tax cooperation; providing sufficient resources to the LDCs; and ensuring a smooth transition in global development cooperation from the Millennium Development Goals to the Sustainable Development Goals as the post-2015 development policy framework.

I. Global macroeconomic prospects

I.1. Global growth prospects

The global economy continued to expand during 2014 at a moderate and uneven pace, as the prolonged recovery process from the global financial crisis was still saddled with the unfinished post-crisis adjustments. The global recovery was also exacerbated by some new challenges, including a number of unexpected shocks, such as the heightened geopolitical conflicts in different parts of the world and the most recent eruption of the Ebola pandemic. Growth of world gross product (WGP) is estimated to be 2.6 per cent in 2014, marginally better than the growth of 2.4 per cent registered in 2013, but lower than the 2.9 per cent projected in the previous *LINK Global Economic Outlook* of June 2014.[1] In the outlook, premised on a set of assumptions (box 1) and subject to a number of uncertainties and downside risks (see the section on uncertainties and risks), the global economy is expected to strengthen in the following two years, with WGP projected to grow by 3.1 and 3.4 per cent in 2015 and 2016, respectively (figure 1 and table 1).

Figure 1
Growth of world gross product, 2007-2016[2]
(Percentage change)



Source: UN/DESA.

[1] Available from http://www.un.org/en/development/desa/policy/proj_link/documents/geo_june_2014.pdf
[2] The growth rate for 2014 is partially estimated; rates for 2015 and 2016 are forecast.

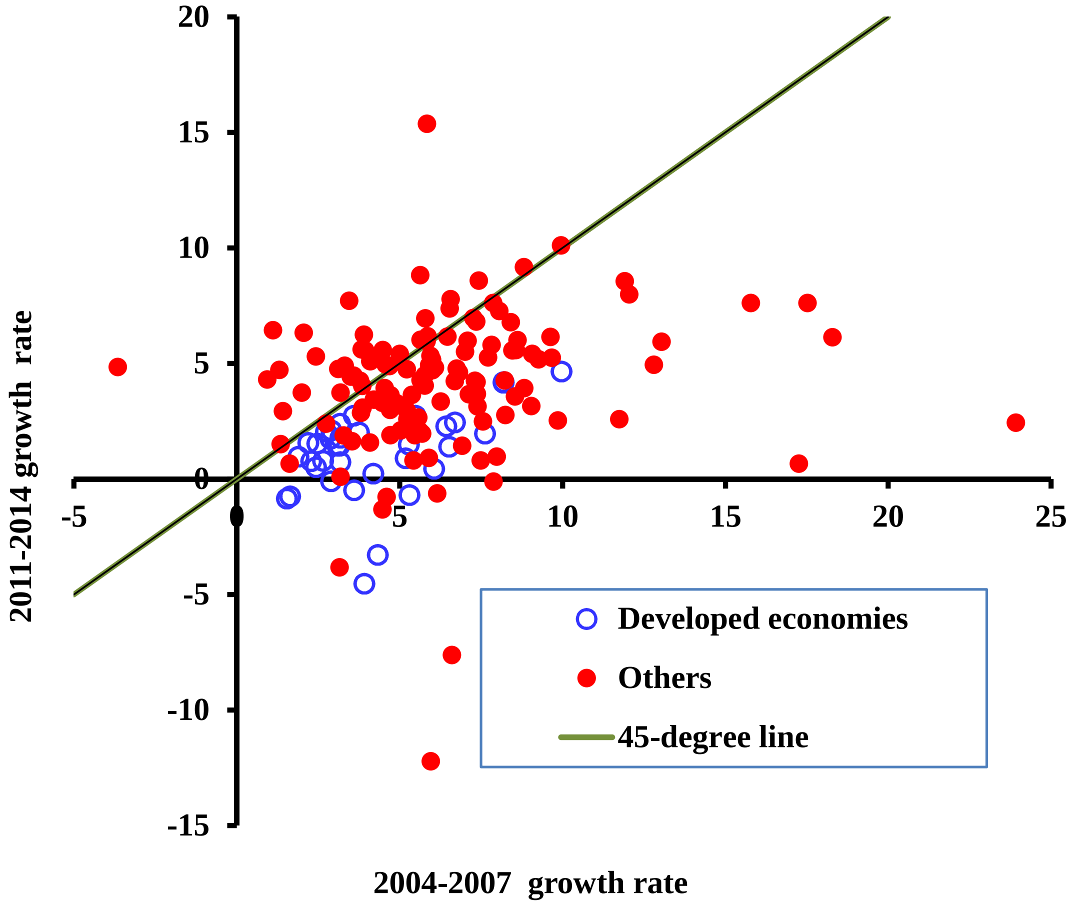
Table 1
Growth of world output, 2013-2016
(Annual percentage change)

					Change from May 2014 forecast	
	2013	2014 [a]	2015 [b]	2016 [b]	2014	2015
World	2.4	2.6	3.1	3.4	-0.3	-0.3
Developed economies	1.2	1.6	2.1	2.5	-0.3	-0.2
United States of America	2.2	2.1	2.8	3.4	-0.4	-0.4
Japan	1.5	0.8	1.2	1.1	-0.6	0.3
European Union	0.0	1.3	1.7	2.1	-0.3	-0.2
EU15	-0.1	1.2	1.6	1.9	-0.3	-0.2
New EU Members	1.1	2.5	3.0	3.3	0.1	0.1
Euro area	-0.5	0.8	1.4	1.8	-0.4	-0.3
Other European	1.4	1.5	2.1	2.3	-0.8	-0.1
Other developed countries	2.2	2.6	2.5	2.5	0.4	-0.1
Economies in transition	1.9	0.7	1.3	2.1	-0.9	-1.0
South-Eastern Europe	2.2	0.7	2.7	3.0	-1.3	-0.4
CIS and Georgia	1.9	0.7	1.2	2.0	-0.9	-1.0
Russian Federation	1.2	0.5	0.5	1.2	-0.5	-1.0
Developing economies	4.7	4.4	4.8	5.1	-0.3	-0.3
Africa	3.4	3.4	4.6	4.9	-0.8	-0.6
North Africa	1.8	1.5	3.9	4.4	-0.9	-0.2
East Africa	6.5	6.6	6.8	6.6	-0.1	0.0
Central Africa	2.5	4.3	4.8	5.0	-0.6	0.3
West Africa	5.8	5.9	6.2	6.1	-1.1	-0.9
Southern Africa	2.7	2.9	3.6	4.1	-0.8	-0.9
East and South Asia	5.8	5.9	6.0	6.0	0.1	0.0
East Asia	6.4	6.2	6.1	6.1	0.0	-0.1
China	7.7	7.3	7.0	6.8	0.0	-0.1
South Asia	3.7	5.0	5.3	5.7	0.5	0.3
India	4.7	5.4	5.8	6.3	0.4	0.3
Western Asia	3.7	3.0	3.7	4.3	-0.7	-0.8
Latin America and the Caribbean	2.6	1.4	2.4	3.1	-1.0	-0.9
South America	3.0	0.9	1.9	2.8	-1.1	-1.0
Brazil	2.5	0.4	1.5	2.4	-1.3	-1.3
Mexico and Central America	1.5	2.6	3.5	3.8	-0.7	-0.7
Caribbean	2.9	3.8	3.8	3.8	0.2	0.0
Least developed countries	5.0	5.3	5.7	5.8	-0.5	-0.3
***Memorandum items*:**						
World trade [c]	3.0	3.4	4.7	5.1	-0.7	-0.4
World output growth with PPP-based weights	3.0	3.1	3.6	3.9	-0.3	-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.

Six years after the global financial crisis, GDP growth for a majority of the world economies has shifted to a noticeably lower path compared to pre-crisis levels. Excluding the three years of 2008-2010, which featured, respectively, the eruption of the financial crisis, the great recession and the policy-driven rebound, four fifths of the world economies have seen average growth in 2011-2014 that was lower than the average growth in 2004-2007 (figure 2). At issue is whether such a shift to a lower path of growth in most countries will become entrenched for a long period. According to some pessimistic views, major developed economies are highly likely to be entrapped in a secular stagnation (box 2), while policymakers in China have indeed taken growth of 7.0-7.5 per cent as the new normal for the Chinese economy, compared with the average growth of 10 per cent that China achieved in the previous three decades. Many other large emerging economies, particularly outside Asia, have also seen a much slower growth trajectory in recent years as internal weaknesses interact with challenging external conditions.

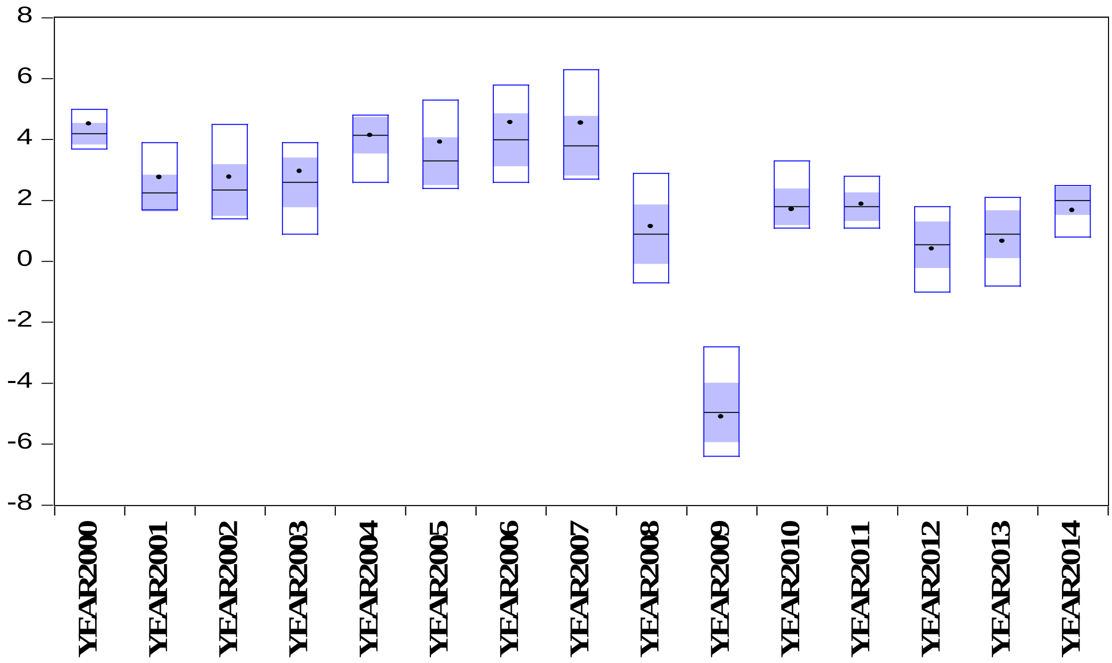
Figure 2
Comparison of pre- and post-crisis growth rates
(Percentage change)



Source: UN/DESA.

A salient feature for major developed countries during 2014 has been the erratic movements in their quarterly GDP growth rates. For example, the economy of the United States oscillated from a decline of 2.1 per cent in the first quarter of 2014 to an increase of 4.6 per cent in the second quarter, while the economy of Japan swung from a growth of 6.0 per cent to a sharp fall of 7.1 per cent. For the year as a whole, as projected in the previous LINK GEO, all major developed economies in North America, Europe and developed Asia have indeed aligned together on the same upward growth trajectory in 2014 for the first time since 2011. Although the discrepancy in the growth rates of these economies has narrowed from the previous year (figure 3), the growth picture remains diverse: while the United States has managed to maintain an annual growth rate above 2 per cent in 2014, the economic situation in Europe is precarious, particularly in the euro area, where a number of euro members teetered on the brink of falling back into recession. Meanwhile, in Japan, the momentum generated by a fiscal stimulus package and monetary easing introduced since 2013 has tapered off. In the baseline outlook, further improvement is expected for developed countries, with growth projected to be 2.1 and 2.5 per cent for 2015 and 2016, respectively, compared with the 1.6 per cent estimated for 2014. However, downside risks remain significant, especially in the euro area and Japan, which have seen renewed weakness in 2014.

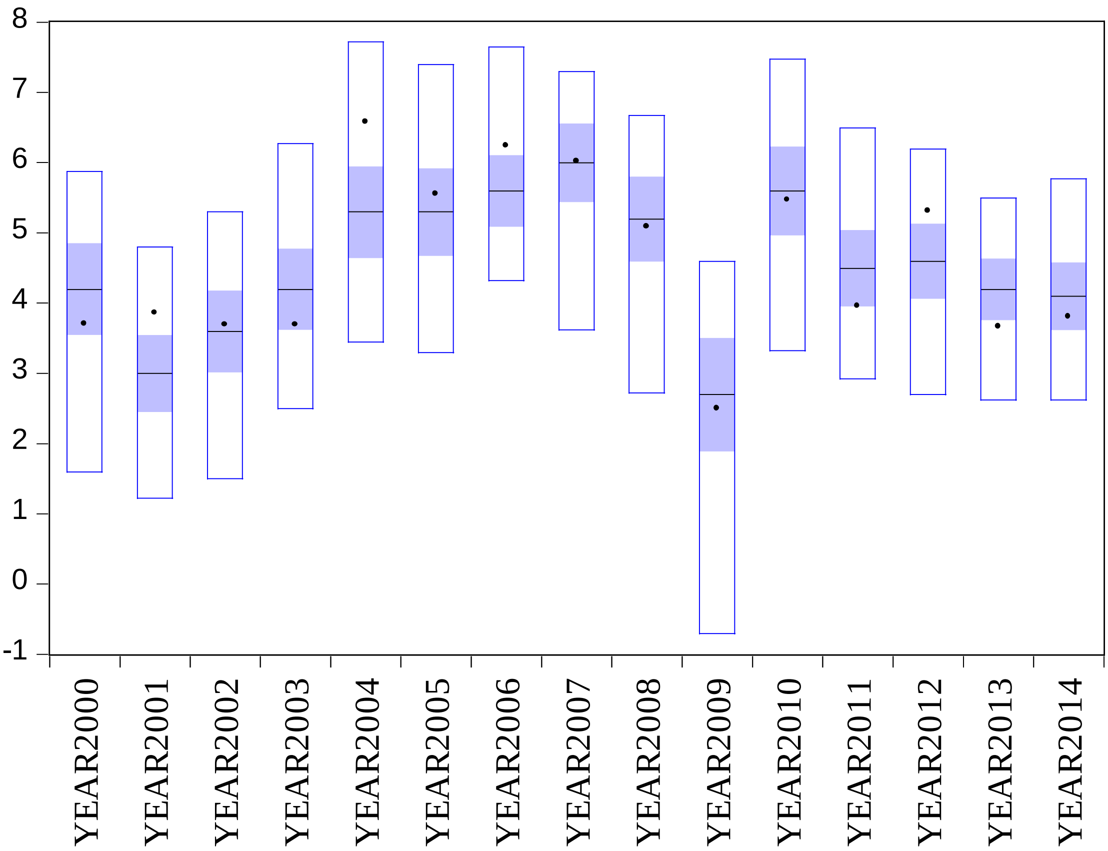
Figure 3
Distribution in growth rates for developed economies
(Percentage points)



Source: UN/DESA.
Note: The boxplots show the distribution of GDP growth rates among developed countries between the first and third quartiles, that is within the middle 50 per cent of the data. The wider a box, the more divergent are the growth rates. The horizontal line in the box represents the median, the symbol indicates the mean. The shading indicates a confidence interval at 95 per cent for the median.

Growth rates in developing countries and economies in transition have become more divergent during 2014 (figure 4), as a sharp deceleration occurred in a number of large emerging economies, particularly in Latin America and the Commonwealth of Independent States (CIS). A number of these economies have encountered various country-specific challenges, including structural imbalances, infrastructural bottlenecks, increased financial risks, incoherent macroeconomic management as well as geopolitical and political tensions. In contrast, East Asia, including China, managed to register a relatively robust growth, while India led South Asia to a recovery. In the baseline outlook, developing countries as a group are expected to grow at 4.8 and 5.1 per cent in 2015 and 2016, respectively, up from the 4.4 per cent estimated for 2014. The economies in transition as a group are expected to grow at 1.3 and 2.1 per cent in 2015 and 2016, respectively, up from the 0.7 per cent estimated for 2014. As in the case of developed economies, the risks to this baseline outlook are mainly on the downside. Many developing countries and economies in transition appear vulnerable to a tightening of global financial conditions and the risk of a sharper-than-expected slowdown in major emerging economies, as well as a further aggravation of geopolitical tensions and an escalation of the Ebola epidemic.

Figure 4
Distribution in growth rates for developing economies
(Percentage points)



Source: UN/DESA.

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 assumed to gradually normalize the stance of monetary policy during 2015-2016, from the extremely accommodative “anti-crisis” mode to a more neutral position. It is assumed that the federal funds interest rate will remain within the range of 0 to ¼ percent until mid-2015. The Fed will then start to raise interest rates gradually in the third quarter of 2015 with the federal funds interest rate reaching 2.75 per cent by the end of 2016. It is also assumed that the Fed will not continue the QE but will hold the assets that it acquired under the past QE policy on its balance sheet until they mature.

The European Central Bank (ECB) is assumed to keep its policy interest rates at their current levels through mid-2016, followed by a series of gradual increases. It is also assumed that the ECB will extend its existing program of providing unlimited short-term liquidity via its MRO’s until at least 2016. It will also follow through with its three new programs: the targeted longer-term refinancing operations (TLTROs) and the Asset Backed Securities and Covered Bond purchasing programs. In total these three programs are expected to add close to one trillion euro to the ECB’s balance sheet so that it would return to the level prevailing in 2012, around 3 trillion euro .

The Bank of Japan (BOJ) is assumed to continue its *“Quantitative and Qualitative Monetary Easing” (QQME)* program until April 2015. The policy rate for BOJ is also assumed to stay within the range of 0.0 to 0.1 per cent until mid-2016, after which rates will gradually rise.

The People’s Bank of China (PBOC) is expected to maintain its current monetary policy approach, which largely relies on short-term quantitative measures and targeted adjustments of liquidity. Overall, monetary conditions are expected to be neutral in 2015/16.

Fiscal policy

Fiscal policy in the *United States* is expected to remain restrictive, but less severe than in 2014. Real federal government spending is expected to decline by less than 1 per cent in 2015-2016. It is also assumed the debt ceiling will be increased during the forecasting period.

In the euro area, fiscal policy in the majority of economies will continue to focus on reducing fiscal imbalances, but 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 time-table for achieving targets will be extended. It is also assumed that no countries will ask for formal assistance under the European Stability Mechanism.

In *Japan*, the focus continues to be on improving the budget situation. It is assumed that the second part of the consumption tax increase, raising the tax rate from 8 to 10 per cent, will be carried out as planned. This is expected to reduce the primary balance deficit (relative to GDP) in the fiscal year 2015 to half of its level in 2010.

China is expected to maintain its current fiscal policy stance, which is based on robust expenditure growth and targeted easing measures to offset weaknesses. Accounting for recently adopted tightening measures on extra-budgetary activities, the overall fiscal policy stance has become more restrictive than the official budget figures suggest.

Exchange rates among major currencies

The dollar/euro exchange rate is assumed to average 1.34 in 2014 and to continue to depreciate, averaging 1.25 in 2015 and 1.21 in 2016.

The yen/dollar exchange rate is assumed to average 104.1 in 2014 and then 107.5 in 2015 and 105.5 in 2016.

The renminbi/dollar exchange rate is assumed to be 6.15 CNY/dollar in 2014 and 6.10 in 2015 and 6.05 in 2016.

Oil price

The price of Brent oil is expected to average $105/barrel in 2014. In 2015 and 2016, it is assumed to be $102/barrel and $99/barrel, respectively.

I.2. Employment trends

Global employment situation remains a key policy challenge, as GDP growth continued to be modest and below potential in many parts of the world. Globally, employment is expected to have grown at a similar pace than in 2013, around 1.4 per cent, still lower than the 1.7 per cent rate in pre-crisis years. As a result, unemployment figures remain historically high in many regions, even though they appear to have stopped rising. The overall labour market situation is, however, more complex and challenging if a wider range of indicators are taken into consideration, such as labour force participation, long-term unemployment, wage levels, involuntary part-time work and informality.

In developed economies, the job recovery has been insufficient to compensate for the losses from the financial crisis. The employment rate (considering the employment-to-population ratio) declined significantly after the financial crisis in the United States, from 63 per cent in 2007 to 59 per cent in September 2014, despite some improvements throughout the year. In the euro area and Japan, the decline was less dramatic, by 2.8 percentage points and 1.1 percentage points, respectively, between 2007 and 2013. Nevertheless, employment creation has been particularly lacking in several euro area countries, keeping the employment rate in 2014 close to its lowest point since the beginning of the crisis, whereas in Japan, the employment rate improved and was, in May 2014, comparable to the pre-crisis rate.

The overall decline in employment rates since the beginning of the financial crisis is explained by weak labour demand, but also by structural factors and lower labour force participation. A case in point is the United States, where the labour force participation rate was at its lowest level of the past 10 years in September 2014, although the rate had stabilised for the past year. The significantly lower rate of labour force participation can be ascribed to population ageing, an increase in skills upgrading and a higher number of discouraged workers.

During the forecast period, the overall employment situation is expected to improve in the United States and, more moderately, in Europe, which will narrow the jobs gap (the difference between the current employment rate and employment prior to the financial crisis). In Japan, instead, partly as a result of population ageing, the employment rate is not expected to increase.

As employment has been improving slowly, unemployment rates have shown some moderate improvements as well. Among developed economies, the United States has been experiencing a consistent decline of the unemployment rate in the past four years, with a decrease to 5.9 per cent in September 2014, from a peak of 10 per cent in 2010, even though the fall in labour force participation remains a major concern. The unemployment rate is expected to drop to an average of 5.4 per cent in 2016.

In Japan, the unemployment rate is now relatively low, at 3.7 per cent in August 2014, the lowest rate since 1997. Although this represents a considerable improvement since the 5.3 per cent peak in 2009, unemployment is not expected to decline further during the forecast period.

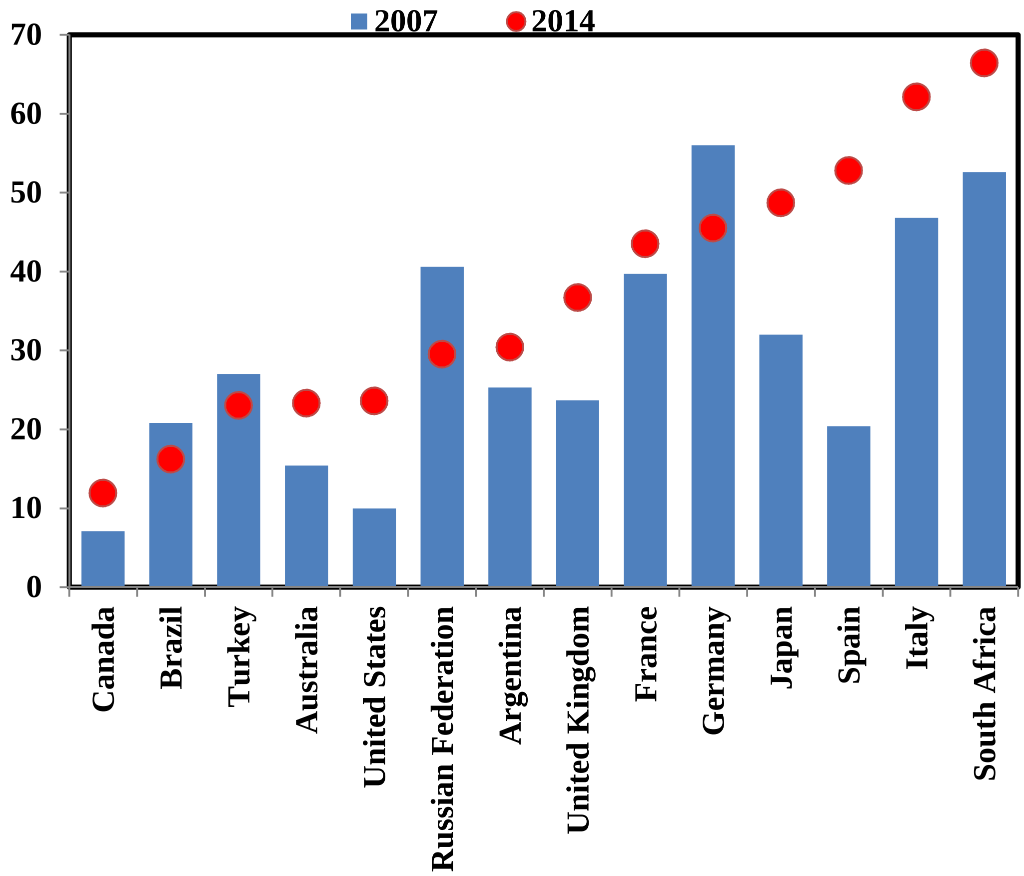
Unemployment in the euro area reached the historical high of 12 per cent in 2013 and has since then gradually declined, reaching 11.5 per cent in the second quarter of 2014, but it stalled recently. Unemployment figures in the region are expected to continue a modest downward trend, to an average of 11.3 per cent in 2015 and 10.8 in 2016, mirroring the overall weak macroeconomic context.

In a number of euro area economies that were deeply affected by the crisis and saw unemployment surge during the crisis, the unemployment rate has recently declined notably, such as in Ireland, Portugal, Spain and Greece. But labour force participation has also decreased considerably, particularly in Ireland and Portugal, which explains in part the rapid reduction of unemployment rates in these countries. Discrepancies in unemployment rates between countries are still significant. The unemployment rate in Germany remains historically low, at 4.9 per cent in July 2014, while Greece and Spain have continued to see extremely high rates of 27.2 per cent and 24.7 per cent, respectively, in May 2014. In addition, youth in the region face record high unemployment rates, such as 53 per cent in Spain, 44 per cent in Italy and 35 per cent in Portugal, as of September 2014.

During the Great Recession, the duration of unemployment has been abnormally prolonged in many developed and developing economies (figure 5), bringing long-term unemployment rates to record highs, including among youth. In OECD countries as a whole, in the last quarter of 2013, one third of unemployed individuals had been out of work for 12 months or more. This corresponds to 16.7 million people, which is twice as much as the number before the financial crisis. In the United States, for instance, the share of long-term unemployed increased from under 10 per cent in the last quarter of 2007 to about 33 per cent in the third quarter of 2011, before declining to 23.6 per cent in the second quarter of 2014. In Italy, Ireland and Spain, the share of long-term unemployed also increased substantially, reaching

62.1 per cent, 62 per cent and 52 per cent, respectively. In Germany, whose labour market was less affected by the financial crisis, long-term unemployment remains also persistently high, above 45 per cent.

Figure 5
Incidence of long-term unemployment among the unemployed population in major economies
(Percentage)



Source: OECD and ILO databases.
Note: Long-term unemployment refers to persons unemployed for one year or longer.

In addition to slower employment growth and higher unemployment rates, wages and earnings were also affected by the financial crisis. During the period 2010-13, the annualized real wage growth was about -0.1 per cent in the euro area, about 0.2 per cent in the United States and -0.1 per cent in Japan. Usually, when unemployment increases, wages and earnings tend to decrease. On the one hand, it could be argued that these adjustments are necessary in order to restore competitiveness and employment growth, and ultimately reduce unemployment. On the other hand, during the great recession, hourly wage adjustments were more severe than in other previous crises. Real wages have fallen faster for every percentage increase in unemployment than in the past, exacerbating social distress. In addition, the responsiveness of wage growth has also slowed during the recovery period, particularly in the United States, prolonging the economic burden on lower-income workers.

According to an OECD study for European economies,[3] in the absence of a minimum wage, income of new hires fell around 3 per cent for every percentage point increase in the regional unemployment rate. Consequently, as wages are the main source of income for the majority of households, today, many face the challenge of poverty, especially low-skilled workers, for who real wage growth declined more dramatically. In the US, for instance, the share of working poor in the overall working population soared from around 5 per cent in 2007 to about 7 per cent in 2012.

In developing countries and economies in transition, the employment situation has not improved considerably either, as economic expansion decelerated in many regions. Employment growth slowed down in the developing world, with the exception of South Asia, where employment growth is expected to have accelerated from 1.0 per cent in 2012 to 1.9 per cent in 2013. Employment rates (employment-to-population ratio) have remained stable in the developing world as a whole, although some countries saw noticeable improvement. For instance, among larger emerging economies, Argentina, Brazil, Indonesia, the Russian Federation, Saudi Arabia and Turkey have recorded higher employment rates in the first quarter of 2014 compared with the fourth quarter of 2007.

Despite slower employment growth, unemployment figures have remained relatively stable in 2013, due partially to lower labour force growth in East Asia, South Asia and Latin America and the Caribbean. In general, slower labour force growth can be attributable to ageing of the economically active population and to more young people enrolling in longer educational programs. In the developing world as a whole, little change in the unemployment rates is expected this year and during the forecast period, based on the anticipation of modest GDP growth.

Nevertheless, there are some discrepancies across regions which are worth noting. The highest unemployment rates continue to be registered in North Africa and Western Asia, 12.2 per cent and 10.9 per cent, respectively, in 2013. In both cases, unemployment figures remain higher than pre-crisis rates and they are not expected to improve during the forecast period, as extremely high structural unemployment, particularly among youth, and several armed conflicts will require longer-term solutions. In Turkey, for instance, the unemployment rate reached 9.1 per cent in the first quarter of 2014, 0.4 percentage points higher than one year earlier.

Conversely, reported unemployment rates remain low across much of East Asia and South Asia in 2013, at 4.5 and 4 per cent, respectively. Nevertheless, the unemployment rate in East Asia has been rising since the onset of the financial crisis, from 3.8 per cent in 2007, while the employment rate (employment-to-population ratio) remains below the pre-crisis level, confirming relatively slow employment growth. A case in point is the Republic of Korea, where the unemployment rate is now relatively low, 3.7 per cent in the second quarter of 2014, although it is still higher than the pre-crisis rate of 3.2 per cent.

In Latin America and the Caribbean, the unemployment rate continued to decrease moderately in 2013 amid subdued economic growth. Since the start of the financial crisis, the

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[3] OECD, *OECD Employment Outlook 2014*, Paris.

unemployment rate decreased from 6.9 per cent in 2007 to 6.5 per cent in 2013. This trend has continued in several economies during 2014. For instance, the unemployment rate in Brazil reached a record low of 5.0 per cent in August 2014, 0.3 percentage points lower than in August 2013. As economic conditions worsened in 2014 in the region as a whole, the employment rate and the quality of employment fell compared to previous years, owing to lower employment creation in the formal sector. Nevertheless, the unemployment rate for the region as a whole is expected to decrease to 6 per cent in 2014, owing to lower labour force participation.

By contrast, positive growth in many African countries has had a limited impact on employment and unemployment rates remained unchanged, at around 7.5 per cent in 2013 for the region as whole. In South Africa, for instance, the unemployment rate in the first quarter of 2014 was 24.8 per cent, 0.1 percentage points higher than one year earlier, and the highest in the region.

In the CIS and South-Eastern Europe, unemployment rates remain in general relatively high, with an average of about 8.2 per cent in 2013 and alarmingly high unemployment rates in most of South-Eastern Europe. Nevertheless, the unemployment rate was at historical lows in the Russian Federation, at 5.1 per cent in the first quarter of 2014, 0.2 percentage points lower than in the previous year.

In many developing countries, the unemployment rate is, however, a limited indicator to assess labour market conditions, given the high prevalence of informal and vulnerable employment. According to ILO estimations, informal employment is widespread in Africa, Asia and Latin America and the Caribbean, with a cross-country average between 40 and 50 per cent. But significantly higher informality rates can be found in some economies, particularly in South and South-East Asia, close to 90 per cent of total employment. In India, for instance, despite some progress in reducing the share of workers in the informal sector, in 2011/2012, they were still representing 82.2 per cent of the labour force. In addition to informality, gender gaps in earnings and the employment rate are still widespread in many parts of the developing world, especially where informality is more pronounced. For instance, the participation rate of women in the labour force is below 40 per cent in almost all countries in South Asia, whereas for men, it tends to be around 75 per cent.

I.3. Inflation outlook

Global inflation remains tame, although inflation rates remain elevated in about a dozen developing countries and economies in transition, while some developed economies in the euro area are facing the risk of deflation. For the outlook period, global average inflation is projected to stay close to the level observed in the past two years, which was about 3 per cent (table A.3). However, the trends at the subregional level vary. While average inflation for developed economies is expected to increase from 1.3 per cent in 2013 to 1.6 per cent in 2014 mainly due to the higher inflation in Japan, inflation in the European Union is predicted to decrease from 1.5 per cent in 2013 to 0.8 per cent in 2014 because of the sizeable output gap, the weakness of the recovery and the strength of regional currencies until mid-2014. A fall into deflation is considered as a downside risk for several euro area countries, as deflation, if persistent, may lead to greater reluctance by households and businesses to increase their current spending, thus weakening aggregate demand. The average inflation rate for the economies in transition is estimated to increase by 1.8 percentage points in 2014, with the increase in average inflation in the CIS countries more than offsetting the 3 percentage-point drop in inflation in the South-Eastern European countries. The significant depreciation of currencies for many CIS members played an important role for the acceleration of inflation in 2014. Regional inflation is predicted to be 8.3 per cent in 2014, but will decline to 7.6 per cent and 5.7 per cent in 2015 and 2016, respectively.

Average inflation for developing economies will fall slowly over the outlook period. In Africa, inflation will decline noticeably and stabilize at around 6.9 per cent up to 2016, due to the increasingly prudent monetary policies, in addition to moderating import prices. While inflation for East Asia will stay around the recent levels over the outlook period, a more pronounced decrease is forecast for South Asia due to falling inflation in almost all countries in that subregion, especially in India and the Islamic Republic of Iran. Regional average inflation for South Asia is projected to decrease from 14.7 per cent in 2013 to 7.6 per cent in 2016. In Western Asia, inflationary pressures have been well contained with the exception of Syria, Turkey and Yemen. Those three countries are expected to face close to or higher than 10 per cent inflation over the outlook period and push the regional inflation rate from 4.4 per cent in 2013 up to 5.3 per cent in 2016. In Latin America and the Caribbean, inflation rates are fairly stable for most countries, with the notable exception of Argentina and the Bolivarian Republic of Venezuela. Inflation in these two countries is expected to remain high in 2014-2016 and keep the regional inflation rate close to 10 per cent in 2014 and 2015.

I.4. International prices of primary commodities

International prices of primary commodities have been on a downward trend in the past two years, and no measurable upturn is projected for 2015-2016.

The Brent price of oil is projected to continue softening in 2015 -2016, as the gap between demand growth and supply growth is expected to continue. Oil demand growth has been slowing down throughout 2014, on the back of sluggish economic growth in key economies, including Western Europe and Japan. In addition, weaker- than-originally-expected GDP growth in China has weighed also on weaker demand, particularly during the second quarter of 2014. As a result, growth in oil demand was at its lowest level in two-and-a-half years. In 2015-2016, the United States is expected to offset partially the weaker demand from other developed economies. However, global demand growth for crude oil should continue on a moderate pace, in line with the overall demand for other primary commodities.

Conversely, oil supply has been growing strongly, both from OPEC and non-OPEC members. In particular, oil output from OPEC members has been relatively steady, despite conflicts in Iraq, which became a major pillar of global supply, just behind Saudi Arabia, the largest exporter of OPEC members. Against the backdrop of political and military tensions in Iraq, investors had originally worried about supply disruptions and oil prices shot up to a record high of $115/barrel on June 2014. However, only a small portion of Iraq’s oil output had been threatened. Concerns about disruptions were short-lived and prices resumed their downward trend afterwards, as previously expected, reinforced by the expectations that oil supply would remain stable throughout 2014 and the forecast period from both OPEC and non-OPEC sources.

In 2014, the oil price is estimated to average $105/barrel. The crude oil prices are expected to continue the downward trend in 2015 and 2016, declining by 3 per cent per year, to $102 and

$99 per barrel, respectively. The appreciation of the United States dollar is also expected to reinforce the downward trend of the Brent oil price. Nevertheless, there are significant risks to this forecast. On the downside, oil demand growth could be even weaker than projected, particularly from China, Western Europe and Japan, which would drive prices lower than the forecast. On the upside, if the conflict in Iraq further escalates, supply disruptions could become a major concern. In addition, reciprocal sanctions between the Russian Federation and leading OECD countries are raising more concerns about possible consequences on Russia's oil production and exports.

Non-oil commodity markets strengthened slightly during the first quarter of 2014, led by a surge in food prices, but eased thereafter. The Non-oil Nominal Commodity Price Index of UNCTAD[4] increased from 245 points in January to 252 points in March 2014 and decreased afterwards by 3 per cent to reach 244 points in August. The average value of the index over the period of January-August was about 6 per cent lower than a year ago, but remains high relative to its long-term trend. Compared to 2013, major commodity groups registered an overall decline or relative stability in their prices, with the exception of tropical beverages, which increased.

Since January 2014, prices of food and agricultural commodities have been trending in different directions. Prices of food, in particular grains, strengthened in early 2014, owing to weather concerns in major agrifood producing countries, such as the United States following dry and freezing weather; and tension between Ukraine and the Russian Federation, two big suppliers in the world's grain markets. Thereafter, thanks to improved weather conditions that have boosted global output, prices of grains tumbled. In vegetable oilseed and oil markets, prices generally eased, but with some short-term fluctuations. The UNCTAD Vegetable Oilseeds and Oils Price Index declined by 13 per cent from January to average 235 points in August 2014. This downward trend was driven by a drop in prices for soybeans, soybean oil and palm oil, owing mainly to positive crop conditions. By the next crop season, comfortable world inventories and the positive outlook for vegetable oilseed and oil production should keep downward pressure on prices. In the markets for tropical beverages, prices strengthened in 2014 after a steady decline since 2011. The UNCTAD Tropical Beverages Price Index rose 31 per cent between January and August 2014, led mainly by strong coffee and cocoa prices.

In raw agricultural commodity markets, prices have generally trended downward over the first eight months of 2014 amid slower economic growth of major industrial economies. In August 2014, The UNCTAD Agricultural Raw Materials Price Index was 10 per cent lower than its value in January. The price of natural rubber fell by 20 per cent over the period owing to slower demand, in particular from the automotive industry. For cotton, prices in early 2014 were driven up by concerns over the dry weather in the United States and massive cotton purchases by China. Afterwards, cotton prices declined, amid softening purchases from China and a good crop outlook, particularly in India, the world's second-largest producer. In August, the Cotton Outlook Index averaged $74 cents per pound, 19 per cent below its value in January. In the outlook, prices for most agricultural commodities should moderate further, especially if current crop conditions continue. However, weather conditions, including the potential effects of the El Nino phenomenon, are major upside risk factors.

[4] The UNCTAD Non-oil Nominal Commodity Price Index covers these subgroups of commodities: food, tropical beverages, vegetable oilseeds and oils, agricultural raw materials; and minerals, ores and metals.

The prices of minerals, ores and metals have trended downward from their peak in 2011, despite short-term price fluctuations. During the first eight months of 2014, the UNCTAD Minerals, ores and metals price index averaged 286 points, compared with 310 points during the same period in 2013. However, this general trend disguises the divergent performance of individual minerals, ores and metals. For example, while the iron ore market was bearish, nickel, zinc and aluminium registered a price surge over the first eight months of 2014. In the outlook, the price trend for base metals and ores will be largely determined by the demand from major countries, especially China, but unexpected supply disruptions might also be relevant. In China, the economic restructuring is likely to support metal prices, especially those that are mainly used in consumer goods such as zinc, tin and lead.

I.5. International trade flows

Lower growth in major developed countries and ensuing downward pressure on developing country trading partners has kept trade growth low over the past few years. World trade continued to grow at a slow pace in 2014, expanding at around 3.4 per cent, still well below pre-crisis trends. In the forecast period, trade growth is expected to pick up moderately along with improvement in global output, with the volume of world exports projected to grow by 4.5 per cent in 2015 and 5.0 per cent in 2016.

Developed countries are expected to see some improvement in trade flows, with export growth rising from 3.4 per cent in 2014 to 4.6 per cent in 2015. Import growth will also progress at a similar rate, with further improvement expected in 2016. This will be driven partly by firming growth in the United States with a strong rise in export growth from 2.7 per cent in 2014 to 5.3 per cent in 2015. Export growth will slow somewhat in 2016 to 4.5 per cent, restrained by the appreciation of the United States dollar. Further stabilization in Western Europe will boost export growth somewhat, although the deprecation of the euro may limit import growth in the Euro area. Japan’s exports are expected to grow moderately, partly due to a weaker yen.

Exports of the CIS have been heavily affected by geopolitical tensions in the region and the global oil market. Growth of export volumes for the region are estimated to be flat for 2014 and are only expected to rise moderately over the forecast period, by 0.6 per cent in 2015 and 1.8 per cent in 2016. Import growth will fare worse, falling by 3.0 per cent in 2014 and only rising to 1.1 per cent by 2016.

Growth of exports in developing countries is expected to increase from 3.9 per cent in 2014 to 4.8 per cent in 2015 and 5.6 per cent in 2016, while growth of imports will expand even more rapidly from 4.0 per cent in 2014 to 5.5 per cent in 2015 and 6.2 per cent in 2016.

Exports from Africa remained relatively weak in 2014, but are expected to revive somewhat in the forecast period with growth of 4.7 per cent in 2015 and 5.0 per cent in 2016, driven by the recovery in North Africa, continued robust growth in East and Southern Africa, and improvements in West Africa. Import growth in Africa is expected to continue to strengthen after rising to 5.4 per cent in 2014, up to 7.0 per cent by 2016.

Exports from East Asia have grown at a moderate pace in 2014, with significant variations across the region. Overall the region is estimated to see only 4.2 per cent growth in exports in 2014, down from 6.6 per cent in 2013, but this is expected to improve over the forecast period to 5.1 per cent in 2015 and 5.6 per cent in 2016, still well below previous trends. Import growth is even weaker, at only 3.5 per cent in 2014, although it will strengthen to reach the same pace as exports, to 5.7 per cent in 2016.

Exports from South Asia were strong in 2014, increasing by 8.8 per cent in 2014, and are expected to strengthen further to a growth rate of 9.2 per cent by 2016. Imports to South Asia recovered in 2014 by 4.0 per cent from a decline in 2013 and further improvement is expected in 2015-2016, to growth of 6.5 per cent and 7.6 per cent, respectively.

Latin America and the Caribbean registered export growth of 2.2 per cent in 2014, with the expectation of a continued improvement in the forecast period to a pace of 4.3 per cent in 2016. Import growth is expected to strengthen from 3.6 per cent in 2014 to 5.6 per cent in 2016. Improvements in both exports and imports in the region will mainly be driven by growth in Mexico and Central America.

Exports from West Asia rebounded somewhat in 2014, to a pace of 2.7 per cent, and this pace will remain in 2015, followed by a higher rate of 4.9 per cent in 2016. Despite the falling oil prices, imports have remained strong in the region, growing by 5.3 per cent in 2014, and are expected to rise by 7.1 per cent in 2016.

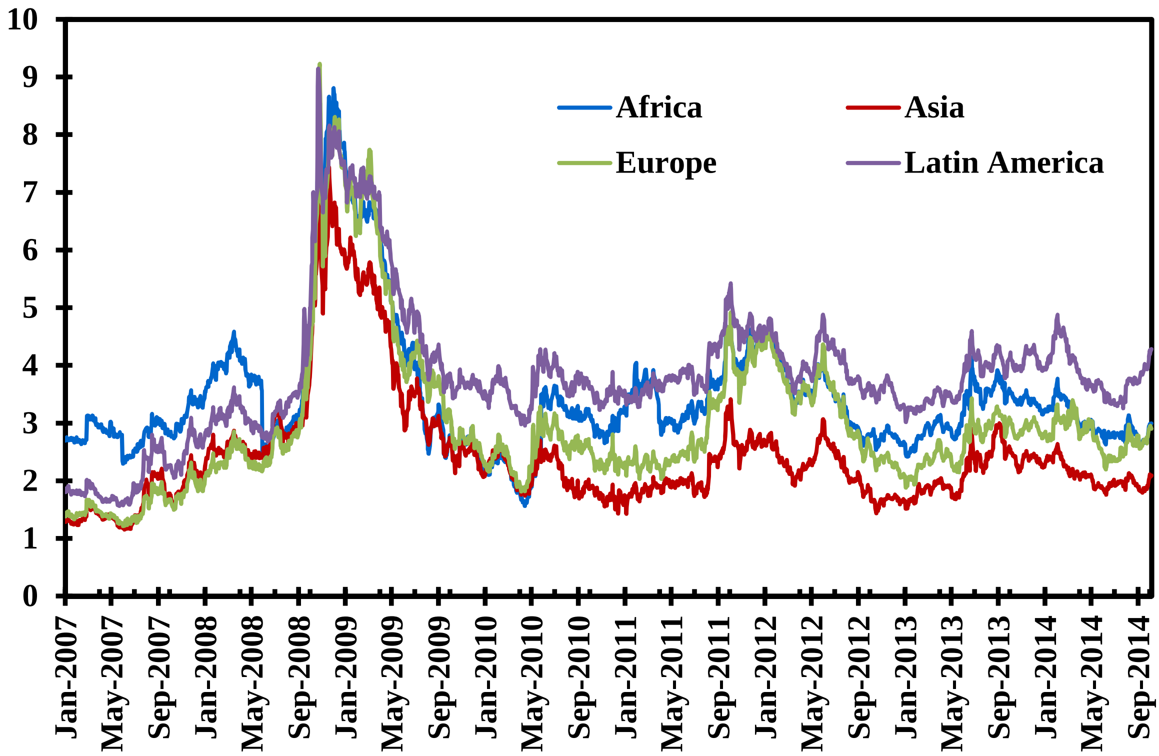
I.6. International capital inflows to emerging economies

Net private capital inflows to emerging economies have been on a moderate downturn since 2013, triggered by the tapering of the quantitative easing by the Fed, the deterioration in the growth prospects for these economies and escalated geopolitical tensions. In 2014, net private inflows to this group of economies are estimated to have declined by about 6.0 per cent from 2013, to a level of $1,160 billion, compared with the recent peak of $1,256 billion in 2012.[5] However, this decline is mainly explained by capital flight from the Russian Federation, amid a weak economic situation and escalating geopolitical tensions. In other emerging markets, capital inflows rebounded after a sharp contraction early 2014, albeit to varying degrees and with significant fluctuations. Meanwhile, external borrowing costs continue to be relatively low for most developing regions (figure 6). Despite this recent trend, the risks for abrupt adjustments and increased volatility driven by changes in investor sentiment remain high.

Among different types of capital flows, portfolio equity inflows rebounded significantly in 2014 from a sharp decline in 2013, reaching about $140 billion, driven by a renewed search for yield. By mid-2014, these flows increased significantly to Asia and Latin America, including countries such as Indonesia, India, Brazil and Mexico, but also to other markets such as Turkey and South Africa. By contrast, portfolio debt inflows continued to decline in 2014, to a level of $310 billion from $390 billion in 2013. Despite the decline over the past two years, debt inflows are noticeably higher than the pre-crisis peak levels. Moreover, the partial recovery of bond flows by mid-2014 - after the sharp reduction in January and February - resulted in a reduction in external financing costs in some developing regions, like Asia and Africa.

[5] Data and definition of private capital inflows in this section are based on Institute of International Finance, “Capital flows to emerging market economies”, IIF Research Note, 2 October 2014.

Figure 6
Yield spreads on developing economies bonds, January 2007 to October 2014
(Percentage)



Source: UN/DESA, based on data from JP Morgan Chase.

In contrast to other regions, emerging Europe has experienced a significant reduction in portfolio flows in 2014. There has been a pronounced withdrawal of capital from the Russian Federation, as the weak economic situation together with geopolitical tensions and sanctions imposed by major OECD countries - such as limitations to access their financial markets - has seriously affected the Russian Federation's financing conditions. This is also illustrated by the increase in Russian bond spreads by about 100 basis points in 2014.

Meanwhile, cross-border bank lending remains subdued in comparison to the pre-crisis levels, at only one third of the peak registered in 2007. This reflects the continued retrenchment by international commercial banks in developed countries. Nevertheless, banking flows to some emerging regions started to slightly recover by the end of 2013 and early 2014, particularly to China and Brazil.[6] In 2014, cross-border bank lending also declined in emerging Europe countries such as Poland, Ukraine and the Russian Federation.

[6] Bank for International Settlements, "International Banking and Financial Market Developments", *BIS Quarterly Review*, September 2014.

FDI inflows have remained the most stable and relevant source of financing for developing countries. FDI maintains a relatively solid path across regions, standing at around $550 billion for the past three years and accounting for about half of the total net inflows to emerging economies. In addition, the importance of emerging economies and developing countries regarding FDI outflows continues to increase. In 2013, these economies reached a record of $460 billion in FDI outflows, which constitutes about 39 per cent of global FDI outflows.[7]

Across different regions, emerging economies in Asia continue to receive the bulk of net capital inflows, accounting for about 60 per cent of the total in 2014, increasing from 51 per cent in 2013, with China alone absorbing some $500 billion. Emerging economies in Latin America accounted for 24 per cent, Africa and Western Asia combined for 8 per cent, and emerging economies in Europe for 7 per cent.

The outlook for capital inflows to emerging economies and developing countries remains moderately positive. Overall, net capital inflows are projected to stay at the same level in 2015 and slightly increase in 2016. But abrupt changes in investor sentiment about geopolitical tensions, the ongoing monetary policy shift in the United States and a further divergence of the monetary policy stances of the major central banks might significantly affect portfolio flows. As was also illustrated towards the middle of 2013, a retrenchment in capital flows can have widespread impacts, especially in emerging economies, on exchange rates, foreign reserves, bond yields and equity prices.[8] Economic fundamentals seem to provide little insulation in this regard and the magnitude of the short-term impacts appears to depend more strongly on the size of the national financial markets. A sudden stop in capital inflows also stands to significantly affect growth, for example through a tightening of bank lending.

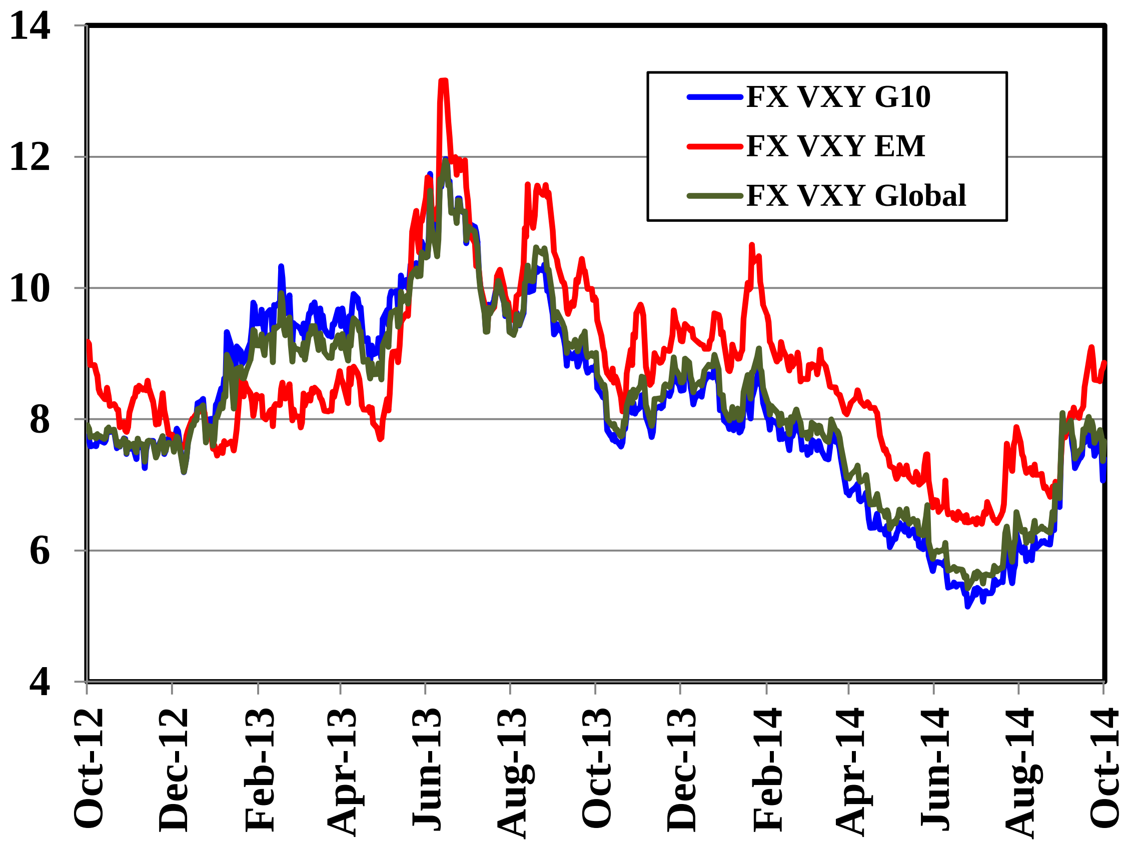
I.7. Exchange rates

Starting in the third quarter of 2014, the dominant trend on foreign exchange markets has been the strengthening of the dollar. This trend has been fuelled by expectations that the Fed's monetary policy stance would increasingly diverge from that of other major central banks, notably the ECB and BoJ. The dollar appreciation follows a period from February to June marked by relative stability of most developed country exchange rates and a moderate recovery of emerging market currencies, which weakened significantly in 2013. Volatility in foreign exchange markets declined to exceptionally low levels in the first half of 2014 (figure 7), but started to move up again in the third quarter as market participants focused on the widening economic and policy divergences.

The recent dollar strength has been broad-based, with considerable gains against the euro, the Japanese yen, the pound sterling and most emerging market currencies. The dollar index, which measures the value of the dollar relative to a basket of six developed economy currencies, reached a four-year high in early October 2014.[9]

[7] UNCTAD, "Global Investment Tends Monitor", No. 16, April 2014.
[8] B. Eichengreen and P. Gupta, "Tapering Talk: The Impact of Expectations of Reduced Federal Reserve Security Purchases on Emerging Markets", Policy Research Working Paper 6754, World Bank, December 2013.
[9] The basket of currencies includes the euro, the Japanese yen, the pound sterling, the Canadian dollar, the Swedish krona and the Swiss franc.

Figure 7
Exchange rate volatility indices, October 2012 – October 2014



Source: UN/DESA, based on data from JP Morgan Chase.

Against the euro, the dollar gained almost 10 per cent between May and October, climbing from 1.39 to 1.26 dollar/euro, after trading in a fairly narrow range in early 2014. The strong adjustment since May reflects a growing divergence in the economic performance and the monetary policies between the two areas. Faced with a slumping euro area economy and the threat of deflation, the ECB has taken additional steps to loosen monetary policy, including a further reduction of its main policy rates and the expansion of unconventional policies. The Fed, by contrast, will likely end its quantitative easing program in October 2014 and appears set to increase interest rates by mid-2015 amid robust growth prospects and positive labour market trends. As this divergence is expected to continue in the forecast period, the dollar is assumed to strengthen further against the euro, although much more slowly than in the third quarter of 2014.

The dollar also appreciated notably against the Japanese yen in the third quarter of 2014, moving from 101 yen/dollar in July to a six-year high of 109 yen/dollar in early October. As in the case of the euro area, this largely reflects different monetary policy paths as the BoJ is set to continue its easing program. The yen is expected to stay relatively weak in 2015, before appreciating slightly in 2016 as the BoJ starts to normalize its monetary policy.

With few exceptions, emerging market currencies also weakened notably against the dollar in the third quarter of 2014, while remaining fairly stable against the euro and the yen. This follows a moderate strengthening against developed economy currencies between February and June, when capital flows to emerging economies recovered amid relatively benign global financial conditions. The recent slide against the dollar reflects not only expectations of monetary policy tightening in the United States, but also renewed concerns over the short-term outlook for some emerging economies. In several countries, for example Brazil, the Russian Federation, South Africa and Turkey, the growth forecasts for 2014 and 2015 have been revised downward sharply in the face of weak domestic demand, geopolitical tensions and falling commodity prices. Some of these economies also continue to record considerable external imbalances, including large current-account deficits, and appear vulnerable to a sudden shift in market sentiment or a tightening of global financial conditions. These factors will continue to weigh on emerging market currencies in the outlook period, although, given diverging macroeconomic trends, significant cross-country differences are expected.

In contrast to most other emerging economy currencies, the Chinese renminbi appreciated against the dollar between May and early October, following a significant depreciation in early 2014. The People's Bank of China is expected to keep the average value of the renminbi relatively stable during the forecast period in a bid to maintain competitiveness and support growth.

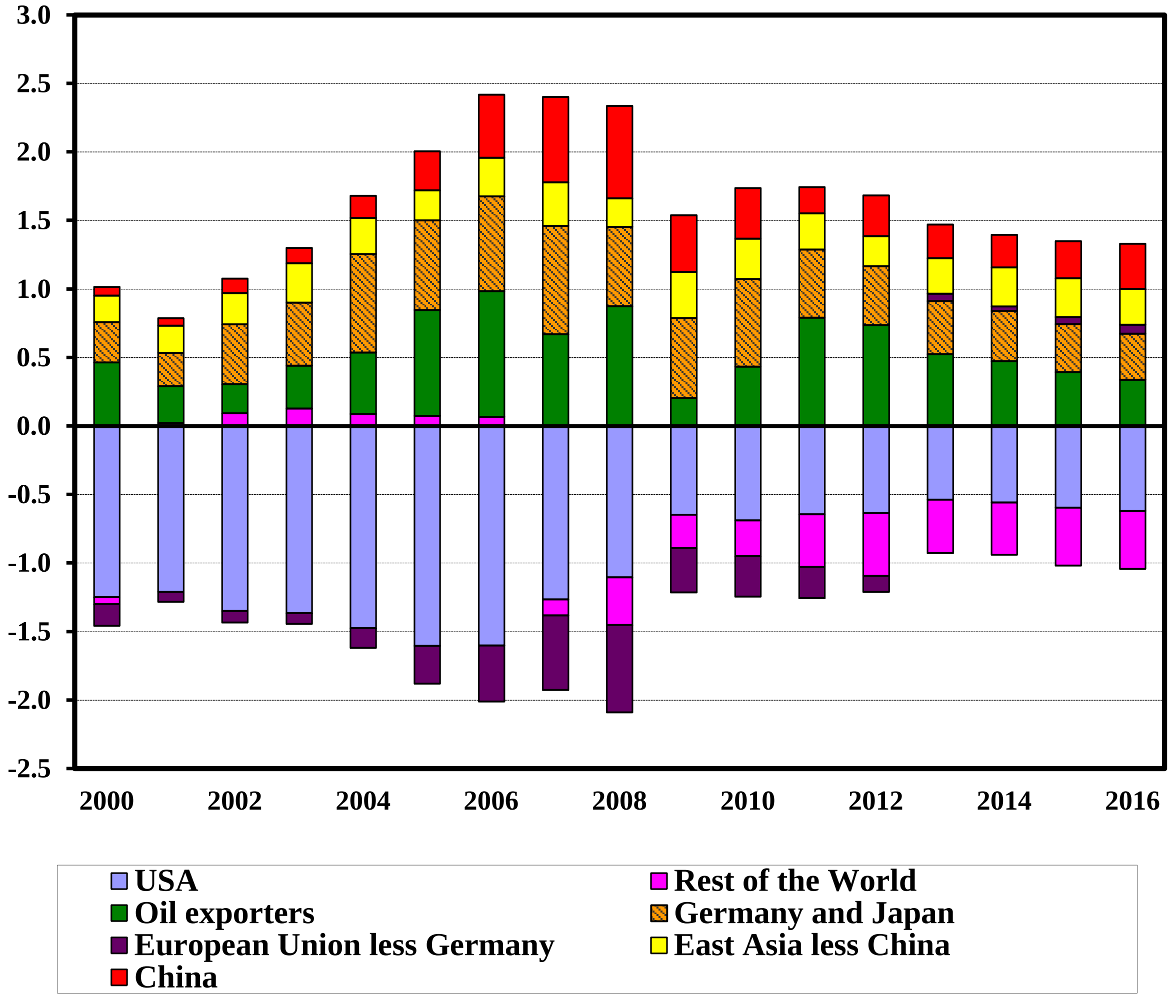
While the recent strengthening of the dollar has been in line with macroeconomic fundamentals and monetary policy developments, a further marked appreciation against other major currencies could have major global consequences. For the United States, a prolonged appreciation would weigh on net exports, weaken economic growth and further reduce inflation. For the sluggish Japanese and European economies, by contrast, weaker national currencies could stimulate exports and provide some support to growth, while also pushing up inflation. Among emerging economies, a much stronger dollar would hurt countries with large dollar-denominated debt and also provide further challenges for countries that heavily rely on foreign portfolio inflows to finance large current-account deficits.

I.8. Global imbalances

The size of global current-account imbalances narrowed slightly in 2014 as their pattern remained largely unchanged (figure 8). The sum of the absolute values of current-account balances is estimated at about 3.5 per cent of world gross product, down from a peak of 5.6 per cent in 2006.[10] A significant part of this narrowing appears to be permanent as weaker demand in many economies since the global financial crisis has often been matched by a decline in potential output.[11] Moreover, several of the major contributors to the pre-crisis imbalances, including China and Japan on the surplus side and the United States and the euro area's peripheral countries on the deficit side, have seen structural shifts that tended to push their economies toward external balance.

[10] The total imbalances depicted in figure 8 are smaller than the total (global) sum of current-account balances because some groups, such as the rest of the world, the European Union without Germany and East Asia without China, include both deficit and surplus countries.
[11] See IMF World Economic Outlook, October 2014, chap. 4.

Figure 8
Global imbalances, 2000-2016
(Current-account balances in per cent of world gross product)



Source: IMF *World Economic Outlook*, October 2014

The United States still has by far the largest current-account deficit in the world. For 2014, the deficit is estimated at $430 billion, slightly up from 2013. As a share of domestic GDP, the deficit stood at 2.5 per cent, well below the peak of 6 per cent registered in 2006. On the other side, China's surplus remained fairly constant in 2014 at about 1.9 per cent of GDP (compared to 10.1 per cent in 2007), whereas the surpluses of fuel-exporting countries in Western Asia, such as Saudi Arabia and the United Arab Emirates, further declined owing to lower oil prices. Germany, which has replaced China as the largest individual surplus country in the world, continued to see a significant current-account surplus in 2014 as exports continued to outpace imports. Germany's current-account-to-GDP ratio for 2014 is estimated at about 7 per cent, exceeding the European Commission's early-warning threshold of 6 per cent.[12] Japan, by contrast, recorded only a very small surplus of about 0.2 per cent of GDP, despite the weakening of the yen against the dollar.

In the outlook period, the total size of global imbalances, relative to WGP, is projected to remain fairly constant. From a global perspective, the magnitude of current-account imbalances does not appear to pose an imminent threat to the stability of the world economy. Nonetheless, there are important problems associated with the current pattern of imbalances and the ongoing adjustment processes. On the one hand, Europe's shift from a current account deficit prior to the global financial crisis to a significant surplus in recent years has largely been the result of weak internal demand as the euro area's peripheral economies fell into deep recessions, while northern countries, including Germany, relied heavily on exports for growth. Due to a lack of investment at home, the region has become the world's largest capital exporter. This is exerting a considerable deflationary impact on the world economy at a time when global demand is still slacking. On the other hand, the ongoing high current-account deficits in some large emerging economies, such as Brazil, Indonesia, South Africa and Turkey, remain a concern, particularly in light of fickle short-term international capital flows and an upcoming normalization of the Fed monetary policy. A sudden change in market sentiment, similar to the experience of mid-2013, could trigger a painful adjustment process in the countries with large external deficits through tighter monetary conditions and weaker aggregate demand.

II. Prospects by regions

II.1. Developed economies

United States

The economy of the United States started 2014 on a weak note, as GDP declined at an annualised rate of 2.1 per cent in the first quarter. However, the drop turned out to be an aberration, partly because of the exceptionally inclement winter weather and also partly due to a change in statistical methodology for measuring household consumption of healthcare services. The economy rebounded in the second quarter by 4.6 per cent and the growth for the year as a whole is estimated to be 2.1 per cent. In the outlook, the economy is expected to improve further in 2015-2016, with GDP projected to expand by 2.8 and 3.4 per cent, respectively. A robust growth in business investment will be the major driver, while household consumption is also expected to strengthen along with continued improvement in employment. The fiscal drag on GDP growth is expected to continue in the forecasting period, but the pace of reduction in government spending, in real terms, will be much milder than in the previous few years. While the Federal Reserve is expected to start raising interest rates in mid-2015, the monetary policy stance will remain accommodative, at least until the end of 2016, while inflation is expected to stay benign. The contribution from the external sector will be limited, as export growth is expected to be curbed by the strong appreciation of the dollar. The downside risks for the economy are mainly associated with the possibility of increasing volatility in financial markets in response to the normalization of monetary policy. Sizeable corrections in equity prices and bond yields can produce significant adverse effects on the growth and stability of the real economy. A worse-than-expected slowdown in the rest

[12] Germany recently undertook a major revision of the national accounts. This has resulted in an upward shift in the level of GDP and, accordingly, in a reduction of the current-account-to-GDP ratio. The number cited here is from before the revision. To provide an accurate assessment of present trends, a revision of past data is needed.

of the world, particularly Europe and a few large emerging economies, can also lead to weaker GDP growth for the United States than projected in the baseline.

Business investment, particularly investment in equipment, has been strengthening and is expected to expand at a pace of about 6 per cent in 2015-2016, with investment in industrial equipment growing at 8-9 per cent. Most firms in the United States are in solid financial condition. For instance, companies in the *Standard & Poor's 500* have the lowest net debt to earnings ratio in two decades, $3.59 trillion in cash and record earnings per share. With the long-term interest rates at a record low, companies have the potential to initiate even stronger investment than projected if the prospects for aggregate demand, both domestic and international, strengthen further. Meanwhile, housing investment continued to recover in 2014, although at a subdued pace compared with 2013, and is expected to strengthen further in 2015-2016 at a rate of 11 per cent.

Growth in consumer spending has been moderate, with an estimated pace of 2.2 per cent in real household consumption for 2014, lower than the previous year. In the outlook, real household consumption is projected to grow by 2.8 and 3.3 per cent in 2015-2016. While personal income has increased at an annual pace of about 4 per cent in 2014, the household saving rate also increased slightly to 5.1 per cent in 2014 from 4.9 per cent in 2013, reflecting a certain degree of cautiousness by middle income households in their spending.

The labour market holds the key to household consumption. Five years after the end of the Great Recession, payroll employment finally exceeded the pre-crisis peak registered in January 2008. Increases in payroll employment in 2014 have averaged 230,000 a month, up from the 190,000-a-month pace during 2012-2013. The unemployment rate has declined more than 4 percentage points from its peak of 2009, to below 6 per cent in late 2014, but the rate of underemployment remains above 11 per cent. The proportion of long-term unemployment (27 weeks or longer) has also been declining from the peak of 46 per cent of 2009 to 31 per cent in 2014, but this is still notably higher than the pre-crisis level.

The decline in the unemployment rate has also been accompanied by a steady drop in the labor force participation rate, although the latter stabilized during 2014. The labor force participation rate had actually begun to decline in early 2000, well before the Great Recession, partly reflecting the aging of the baby boom generation. However, the pace of decline accelerated with the recession of 2008-2009. The drop in the participation rate since 2008 can be attributed to increases in four factors: retirement, disability, school enrollment, and other reasons, including worker discouragement. Some of these changes are structural while some are cyclical due to the recession and the slow recovery. The flattening out of the labor force participation rate since 2013 could partly reflect discouraged workers returning to the labor force in response to the improvements in the labor market. In the outlook, employment is expected to continue increasing at an average monthly rate of more than 200,000, and the unemployment rate is expected to drop to 5.4 per cent by 2016.

Growth in both exports and imports has been sluggish in the past two years, at an annual pace of 2-3 per cent. Some moderate improvement is expected, to a rate of about 5 per cent in 2015-2016. Export growth will continue to be driven by increasing foreign demand for capital goods and industrial supplies, while imports of the United States will continue to undergo a structural change, with a declining trend in imports of petroleum as domestic energy production rises.

The United States dollar has appreciated significantly in the past year, particularly in the third quarter of 2014. For example, the dollar has appreciated by about 10 per cent against the euro in the past three months, and 9 per cent against the Japanese yen. Measured by a trade-weighted index against a basket of other currencies, the dollar has appreciated by 4 per cent in the last two months to a level very close to the peak for the past 10 years. While the strengthening of the dollar reflects a relatively stronger economic situation in the United States compared to a number of other economies, a continued appreciation of the dollar may curb economic growth in the United States in the future as the exports of the United States to other economies become more expensive and are expected to slow.

The current account deficit of the United States has been narrowing, relative to GDP, standing at about $430 billion in 2014, or less than 2.5 per cent of GDP. The deficit is expected to stabilize around this level in 2015-2016, as the effects of a strong dollar on the deficit are offset by the continued decline in imports of petroleum.

Fiscal policy has been tightening in the United States since 2011, with government spending in real terms declining by about 13 percentage points cumulatively over the past four years. In the outlook for 2015-2016, fiscal policy is expected to remain restrictive, but less severely than in 2014. Real federal government spending is expected to decline by less than 1 per cent in 2015-2016. It is also assumed the debt ceiling will be increased during the forecasting period.

The Federal Reserve (Fed) of the United States is expected to normalize gradually the monetary stance during 2015-2016, from the extremely accommodative “anti-recession” mode to a more neutral position, but the stance will remain supportive of growth. After the Fed stops the programme of purchasing long-term government bonds and mortgage-backed securities in late 2014, it will hold the assets on its balance sheet until they mature. The Fed will keep the federal funds interest rate within the range of 0 to ¼ per cent until mid-2015 and will start to raise the interest rates gradually afterward, with the interest rate reaching 2.75 per cent by the end of 2016.

In the outlook, certain risks are associated with the uncertainties in monetary policy. The Fed has a dual mandate to promote maximum employment and price stability, but given that inflation has remained tame for the past several years, employment has been a dominant concern for the Fed in conducting its monetary policy. The extraordinarily accommodative monetary policy in the past five years has mainly been aimed at confronting the challenges in the labor market. As employment is recovering, the Fed is preparing to normalise its monetary policy stance. However, there are two types of risks. First, if signs of inflation pressure come later than usual in the progression toward full employment, maintaining the zero interest rates until inflation pressures emerge could be too late, to be followed by an abrupt and potentially disruptive tightening of policy later on. On the other hand, the depressed participation rate and the still substantial level of long-term unemployment may cause inflation pressures to arise earlier than usual as the degree of slack in the labor market declines. But some of the resulting wage and price pressures could subsequently ease as higher real wages draw workers back into the labor force and lower long-term unemployment. In this case, tightening monetary policy immediately when inflation rises toward 2 percent may prevent labor markets from recovering fully.

Another risk is the possibility for the economy to be entrapped in a secular stagnation (box 2).

Box 2: The debate about secular stagnation in economic growth

Six years after the eruption of the global financial crisis, growth remains subdued in the world economy by historical standards, including in the United States and the euro area. This observation has prompted some economists to postulate the hypothesis of "secular stagnation", suggesting that the anemic growth may continue for a considerably longer period.

Weak investment demand

Supporting this notion are two different strands of arguments. The first group of arguments emphasizes weak aggregate demand, as evidenced in the conspicuously large output gaps in major developed economies (figure 1).[13] By this view, in the aftermath of the financial crisis, because the central banks cannot lower the nominal interest rates below the zero bound, the real interest rates remain too high to sufficiently boost investment demand relative to savings, thus leading to inadequate employment and aggregate demand. The main policy proposals from this group of thoughts include: (a) the central banks of major developed should raise the inflation target to 4 per cent from the current target of 2 per cent, so as to push down the real interest rate; (b) the governments should increase public investment in infrastructure.

Supply bottlenecks

Another group of economists focuses on the supply constraints as the main factor for growth stagnation. For instance, Gordon (2014)[14] has identified four indicators that may curb economic growth in the United States in the next few decades: demography, namely ageing and a stagnant population; education, in the form of no further increase in the average education level; widening inequality; and high public debt that makes public services unsustainable. These four bottlenecks may reduce the per-capital GDP growth rate in the United States from the average of 2 per cent in the past century to 0.8 per cent in the next few decades. The policies proposed by this group of economists include reforms of the education system, the labour market and the social welfare system.

As those policy proposals from either group seem to be difficult to implement, institutionally and/or politically, both groups of economists are therefore pessimistic about the growth prospects.

Implications for developing countries

The hypothesis of secular stagnation mainly refers to major developed economies, but it does have significant implications for developing countries. If major developed economies are entrapped in a "secular stagnation" for the next decade, for example, growth of exports in developing countries will be notably slower, as more than 50 per cent of the exports from developing countries go to developed countries, limiting growth in developing countries as well. One positive note, however, could be that if investment demand in major developed countries remains anemic, more global resources, relatively speaking, may find their way to

[13] For example, L. Summers, "Reflections on the 'new secular stagnation hypothesis'", in *Secular stagnation: facts, causes, and cure*, C. Teulings and R. Baldwin (eds.), CEPR Press 2014.
[14] See R. J. Gordon, "The demise of U.S. economic growth: restatement, rebuttal, and reflections", *NBER Working Paper* No. 19895, 2014.

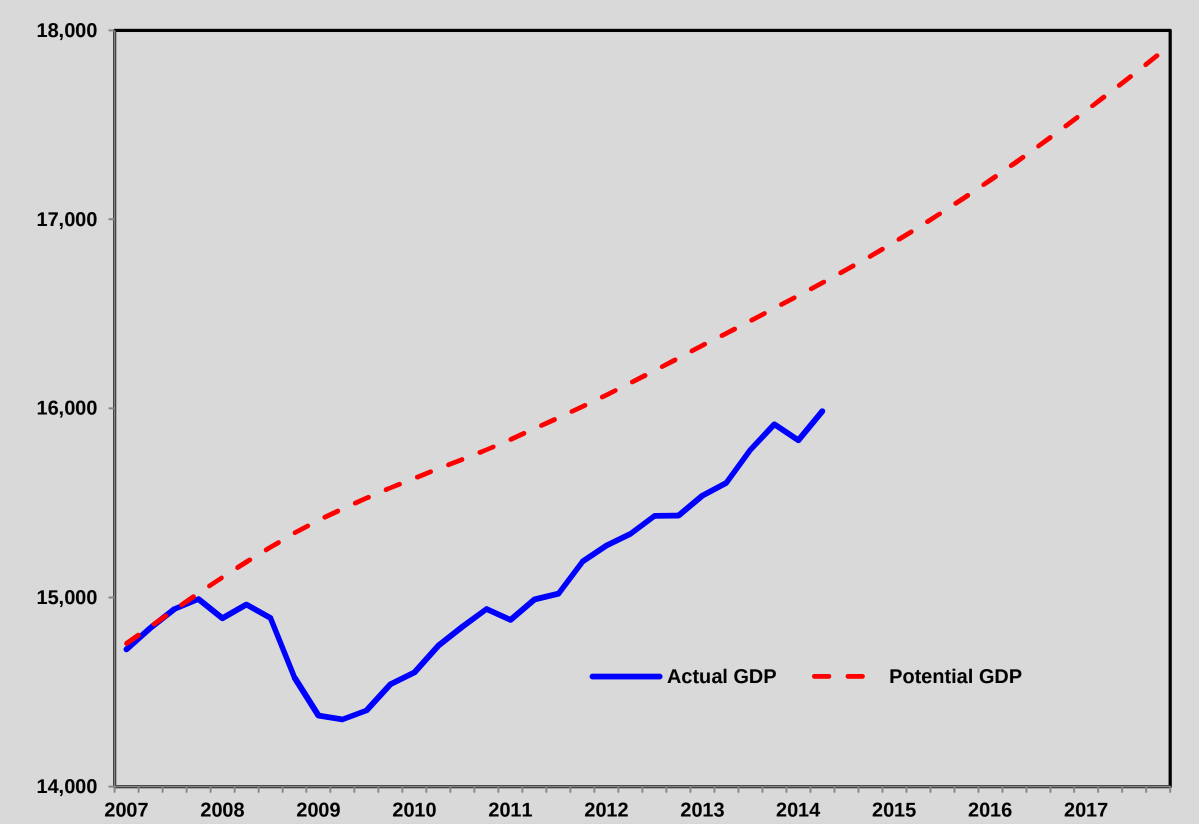
developing countries, promoting investment in developing countries and, thereby, narrowing the development gap with developed countries.

Alternative views on secular stagnation

The term "secular stagnation" was first coined by the Harvard economist Alvin Hansen in 1938 to describe the gloomy outlook during the Great Depression, but his pessimistic outlook proved to be wrong as the growth in the United States accelerated forcefully in the 1940s. However, some economists still believe that the growth acceleration in the 1940s was simulated by the surge in government spending during WWII, but currently no such scale of fiscal stimulus is available.

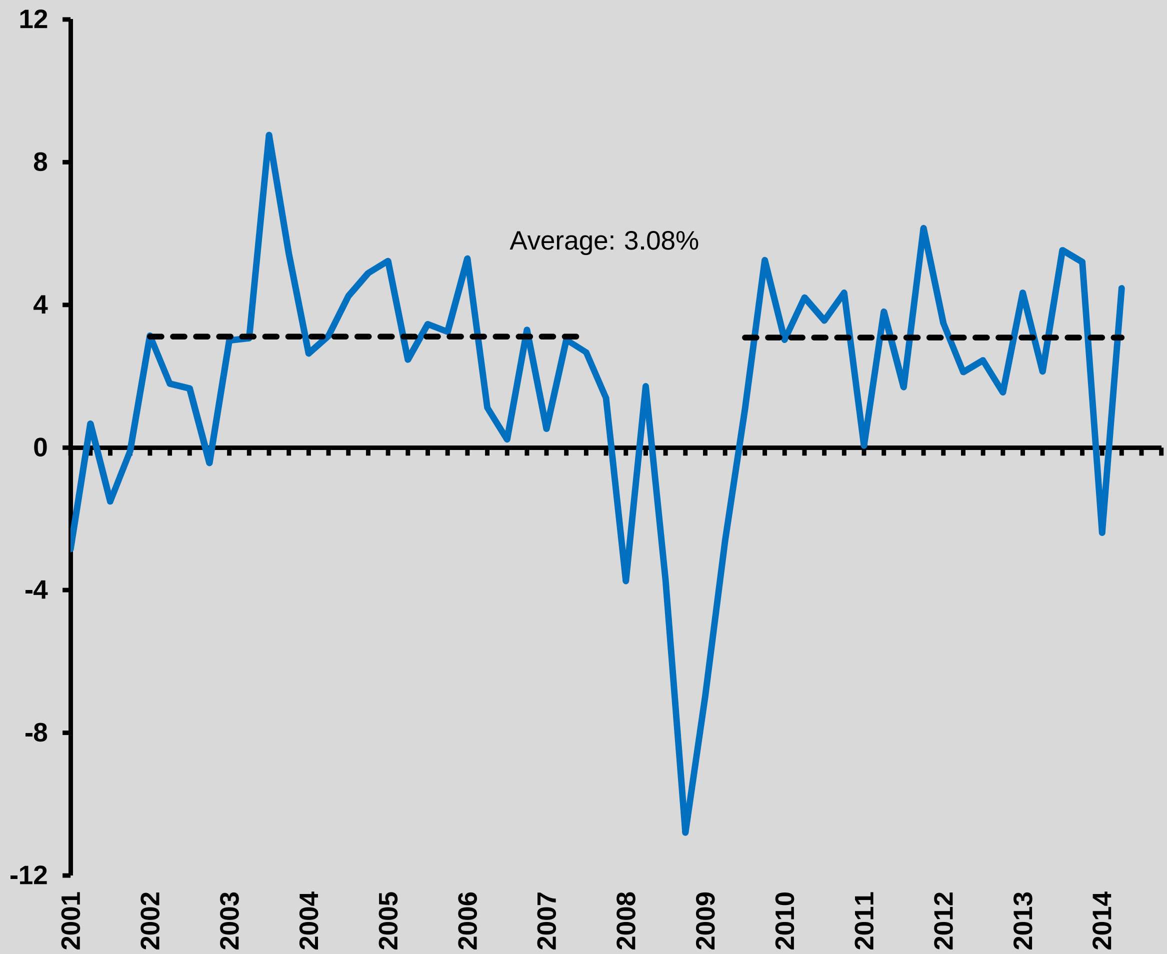
Some critics of this hypothesis pointed out that there is no stagnation at all, as the growth rates for GDP minus government expenditure in the United States in the aftermath of the financial crisis are actually higher than that in the period prior to the crisis (figure 2).

Figure 2.1
Actual and potential GDP in the United States
(Billions of 2009 dollars)



Source: UN/DESA, based on data from United States Bureau of Economic Analysis and Congressional Budget Office.

Figure 2.2
Private sector GDP growth rate
(Percentage change over previous year)



Source: United States Bureau of Economic Analysis; UN-DESA.

Canada

The economy of Canada has been in synchronization with the United States. Driven by a strong growth in exports, together with robust household consumption and some recovery in investment from the contraction in late 2013 and early 2014, GDP is estimated to increase by 2.2 per cent in 2014. In the outlook for 2015-2016, exports are expected to continue expanding at a robust pace of about 6 per cent, providing an important support to GDP growth. However, improvement in the labour market has been slow, with employment rising only marginally and mainly in terms of increases in part-time workers. Meanwhile, household indebtedness remains a concern. As a result, consumption spending is expected to be curbed in 2015-2016. Business investment is expected to recover, but only at a slow pace, as surveys show that firms are largely focusing on replacement of existing equipment, rather than new expansion. GDP is projected to grow by 2.4 and 2.6 per cent in 2015 and 2016, respectively.

Given that CPI inflation is about 2 per cent, at the middle point of the inflation-targeting range of the Central Bank, and the output gap remains negative, the Central Bank is expected to maintain the policy interest rate at the current level of 1 per cent until the end of 2015, to be followed by a gradual tightening. On the fiscal front, public finances in Canada are in a better condition compared to other developed countries, with the government deficit currently standing at 1.8 per cent of GDP. In the outlook, fiscal policy is expected to be in neutral stance and the deficit will narrow slightly to below 1.5 per cent of GDP by 2016.

Japan

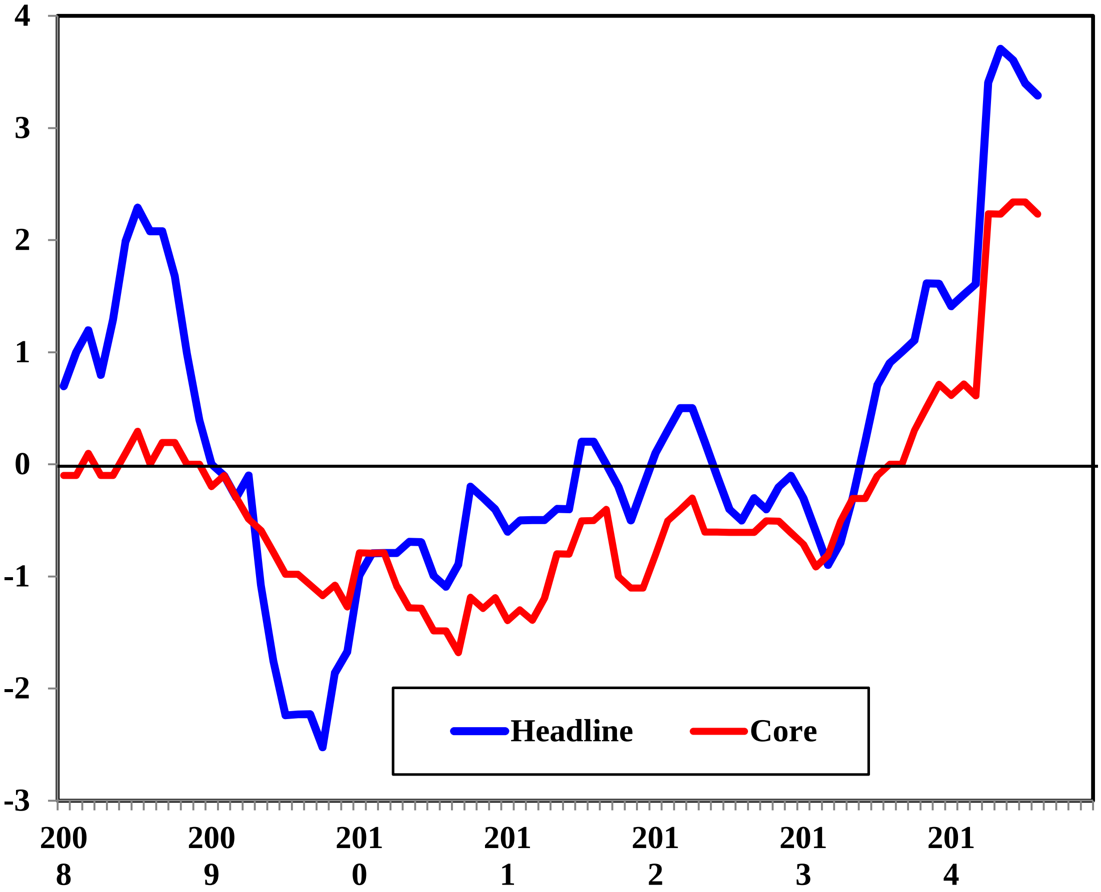
In early 2014, households brought forward the purchase of durable goods before the sales tax hike that became effective on 1 April. For example, in March 2014, the value of retail sales increased by 11 per cent from one year ago. The only comparable situation occurred in March 1997, just before the tax hike on 1 April 1997. Consequently, private consumption expanded significantly in the first quarter (8.4 per cent annualized), but dropped by 19 per cent in the second quarter. For the whole year, private consumption is expected to decline by 0.8 per cent. The quarterly profile of GDP is expected to show a similar pattern. For 2014 as a whole, GDP is projected to expand by 0.8 per cent, increasing to 1.2 per cent in 2015.

The fiscal stimulus package introduced in 2013 has raised public consumption and investment to support growth. Together, these two items expanded by about 2 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 increase only 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 third quarter of 2014, the yield for 10-year Japanese Government bonds was about 30 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 against the United States dollar was about 15 per cent lower than the late-2012 level, and it subsequently depreciated further by about 6 per cent toward the end of the third quarter. This depreciation helped to increase the headline inflation through the higher price for imports, especially energy.

The year-over-year change of the 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 (figure 9). After the sales tax hike, annual inflation increased to 3.7 per cent within two months but then started to decelerate slowly. The annual headline inflation rate for 2014 is estimated to reach 2.7 per cent and is projected to reach 1.7 per cent in 2015.

Figure 9
Inflation in Japan, January 2008 – August 2014
(Percentage change over previous year)



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

However, adjustments in the wage rate have been much slower than adjustments in prices. It was not until the third quarter to see a noticeable increase in wages. For 2014 as a whole, it is estimated that real wages will decline, underpinning weaker private consumption.

The global Great Recession and the natural disasters in 2011 have caused enormous damage 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, but the recovery in exports has been slow. In 2013, the export volume for goods and services increased by only 1.6 per cent, while world trade increased by more than 2 per cent. However, in the first half of 2014, exports increased by more than 7 per cent from a year ago. Exports are forecast to grow by 4.4 per cent and 2.4 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 caused 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 was another reason for this trend. In the first half of 2014, import volume increased by more than 10 per cent, which was expected to slow down after the impact of the tax rate hike fades out. For 2014 and 2015, import growth is expected to be close to export growth. 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 (about 0.2 to 0.3 per cent of GDP) 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 continue doing so in 2014 and 2015. The unemployment rate is expected to decrease from the level of 4.0 per cent in 2013 to 3.5 per cent and 3.4 per cent in 2014 and 2015, respectively.

Australia

Growth is estimated to increase to 3 per cent in 2014 and projected to recede to 2.4 per cent in both 2015 and 2016. 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 5 per cent per year on average during the outlook period, as new mining facilities enter the production stage. Investment in large mining resources projects is expected to continue expanding until 2015 and sustain the growth in fixed investment in both 2014 and 2015. However, it is predicted to decline in 2016.

Private consumption is estimated to grow by 2.5 per cent in 2014 and is predicted to grow at higher speed in both 2015 and 2016. Government consumption is expected to grow at close to 2 per cent per year from 2014 to 2016, underpinned by concerns over avoiding a further increase of the budget deficit. On the other hand, the Government is also assumed not to aim at balancing the budget within the outlook period.

The consumer inflation rate increased slightly to 2.6 per cent in 2014 from 2.5 per cent in 2013, but is predicted to decline to about 2 per cent in both 2015 and 2016, well within the Reserve Bank of Australia (RBA)'s target range of 2.0 to 3.0 per cent. The unemployment rate is estimated to be 6.2 per cent in 2014, noticeably higher than the 5.7 per cent registered in 2013. It is predicted that it may increase further and keep the wage rate dynamic in line 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

New Zealand's economy is estimated to grow by 2.9 per cent in 2014, mainly driven by the solid expansion of capital investment. The same factor will help to increase the predicted growth in 2015 to 3.2 per cent. A large portion of this investment was for the reconstruction after two earlier earthquakes that occurred in 2010 and 2011. Private consumption has maintained relatively stable growth and is expected to remain on this trend in the 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 0.7 per cent for 2013 and increase to about 2.5-3.0 per cent in 2014-2016. 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. Annual inflation is estimated to be 1.6 per cent in 2014, but is predicted to increase to 1.9 per cent in 2015. The RBNZ had kept its policy rate at 2.5 per cent from early 2011 until 13 March 2014 and then raised it to 3.5 per cent toward the end of July in four steps. It is the first monetary authority among developed countries to tighten its policy stance since the Great Recession. The RBNZ cited the potential pressure on inflation due to solid economic growth and macroprudential concerns as the main reasons for the policy action.

Western Europe

Western Europe continues to struggle to convincingly enter a period of more sustained growth, held back by the travails of the euro area. The euro area emerged from recession in the second quarter of 2013, after six consecutive quarters of declining GDP, but the first half of 2014 has seen a significant deceleration of activity. The situation is fragile. The level of GDP remains well below its pre-recession peak. Unemployment remains extremely high in many countries in the region, registering 11.5 per cent in the euro area in August, only half a per cent lower than its peak in 2013. At the same time, headline inflation continues to decelerate, registering only 0.3 per cent (year-over-year) in September.

The tensions surrounding the euro area sovereign debt crisis subsided dramatically after the European Central Bank (ECB) announced its Outright Monetary Transactions (OMT) facility in September 2012. Bond markets stabilized and measures of confidence picked up. But now, the paucity of activity and the heightened risks from the geopolitical tensions has brought renewed concern.

Many of the legacies of the Great Recession and the subsequent sovereign debt crisis continue to depress activity. Fiscal austerity programs, while lessened in intensity, remain in place; private sector balance sheet repair, also lessened in intensity, continues to be a drag on activity; the banking system remains under stress, with credit to the private sector still declining and lending conditions fragmented (bank credit is extremely difficult to obtain in periphery countries, particularly for small-to-medium-sized enterprises); capacity utilization remains below its long-term average. Added to these headwinds are the depressing effects of the geopolitical tensions in the Ukraine and sanctions on Russia, which have led to a sharp drop in confidence and exports with follow-through impact on investment.

Short term indicators continue to paint a picture of slowing growth momentum in the region, while the euro area increasingly flirts with deflation. Measures of confidence have been on a declining trend for several months. The European Commission's Economic Sentiment Indicator dipped below its long-term average in September and has been drifting down since it peaked in May. The Markit Eurozone PMI Composite Output Index fell to a nine-month low in September. Both readings are consistent with continuing, but very weak growth.

Given the sharp slowdown in activity, the growth carry-over for 2014 is only 0.6 per cent, and close to zero for 2015. In the euro area, GDP is expected to grow by only 0.8 per cent in 2014 after falling by 0.5 per cent in 2013. Growth is expected to pick up thereafter but to remain weak, 1.4 per cent in 2015 and 1.8 per cent in 2016. This represents a downward revision from the forecast in the WESP 2014 update of 0.4 percentage points in 2014 and 0.3 percentage points in 2015.

In the large economies, the situation is quite diverse. Italy is expected to contract by 0.4 per cent in 2014, after contracting by 1.9 per cent in 2013, with a rebound to only 0.51 per cent and 1.1 per cent in 2015 and 2016. France is expected to grow by only 0.3 per cent in 2014, the same rate of growth as in the previous two years, before some acceleration to 0.8 per cent and 1.3 per cent in 2015 and 2016. Germany started the year strongly, but has been negatively affected by the situation in Ukraine and is expected to grow by 1.5 per cent in 2014 and 1.8 and 2.1 per cent in 2015 and 2016. On the other hand, Spain is expected to continue its strong rebound after its contraction of 1.2 per cent in 2013, growing by 1.3 per cent in 2014 and 2.0 per cent and 2.5 per cent in 2015 and 2016. The United Kingdom is expected to continue its region-leading growth performance, with GDP growth of 3.1 per cent in 2014 and 2.5 per cent in 2015 and 2016.

Private consumption expenditure is expected to be a support to growth in the forecast period, after its negative contribution in 2013. 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 continues to be a major weak spot in the euro area, declining by 2.5 per cent in 2013. It is expected to stabilize and gradually pick up, but not to provide much support to growth. Following the easing of euro-area tensions, industrial confidence had improved significantly, but has seen a strong reversal since the tensions in Ukraine emerged, particularly in those countries with strong manufacturing orientation. Capacity utilization has increased significantly since the end of the great recession, but remains low by historical standards. Funding conditions vary tremendously across the region, with the periphery countries starved of credit. Housing investment has started to turn around, but remains a drag to activity in some countries.

Exports picked up in 2014 after the slowdown in world trade in 2012/2013. In the euro area, export volumes are expected to grow by 3.3 per cent in 2014, after 1.87 per cent in 2013, and then to gradually pick up pace in 2015 and 2016. The appreciation of the euro during 2013 accentuated the negative impact on regional exports, but its subsequent reversal in the second half of 2014 and assumed further depreciation in 2015 and 2016 provide a boost to exports. However, turmoil in Ukraine and the resulting sanctions provide another negative impulse to the region. Import volumes continued to rebound from their collapse in 2012 in line with the evolution of income, as the region recovered from the negative headwinds of the sovereign debt crisis. In the euro area, import volumes are expected to grow by 3.3 per cent in 2014, after only 1.1 per cent in 2013, and thence to pick up to above 4 per cent in 2015 and 2016, held back by the depreciation of the euro.

Unemployment remains at high levels in many countries in the region. After peaking at 12 per cent in the euro area in mid-2013, the rate of unemployment drifted down to 11.5 per cent in mid-2014, but has stalled at that level since. Going forward, the weak growth profile, continuing structural adjustment needs and the re-entry of discouraged workers into the labour market as conditions improve, leads to very little improvement in the headline unemployment figure. In the euro area, the rate of unemployment is expected to average 11.6 per cent in 2014, 11.3 in 2015 and 10.8 in 2016. But there is tremendous diversity across the region. The rate of unemployment in 2014 is expected to be only 5.0 per cent in Germany and 6.4 per cent in the United Kingdom, but 10.2 per cent in France, 12.8 per cent in Italy, and 24.6 per cent in Spain.

These figures also mask the much harsher conditions faced by youth in the region, with unemployment above 23 per cent in the euro area, but above 53 per cent in Spain, 44 per cent in Italy and 35 per cent in Portugal (September 2014). Another major concern is that the persistence of high rates of unemployment in some countries 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 re-integration 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 continues to decelerate, falling to 0.3 per cent (year-over-year) in September. To some extent, this results from temporary effects such as the decline in energy and food prices and the earlier appreciation of the euro, but weak economic activity is the major cause, as core inflation has also drifted down, remaining below 1 per cent since May 2014. Going forward, inflation is expected to remain low. Output gaps remain substantial and are expected to close only slowly in the outlook. 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. In the outlook, the harmonized index of consumer prices for the euro area is expected to fall from 1.4 per cent in 2013 to 0.6 in 2014 and thence to pick up to 12 in 2015.

Since the spring, the European Central Bank (ECB) has made a number of policy adjustments, both conventional and unconventional. In June, the ECB lowered its main refinancing rate to 0.15 per cent, the marginal lending rate to 0.40 per cent and the Deposit Facility Rate to -0.10 per cent and in September, these rates were cut again to 0.05 per cent, 0.30 per cent and -0.20 per cent, respectively. It was also announced that these would be the final cuts in policy rates.

Four new or enhanced unconventional policies were also announced at the June and September meetings:

- The extension of the existing unlimited short-term liquidity provided by Main Refinancing Operations (MROs) until at least 2016.
- A series of targeted longer-term refinancing operations (TLTROs), of which the first was held in September. Banks must meet lending benchmarks or repay the money.
- The ECB will buy Asset Backed Securities (ABS).
- A third Covered Bond Program (CBP) will be enacted.

The ABS and CBP policies are planned to start in October. The total amounts of funds have not been announced, but the ECB aims at bringing its balance sheet back to about 3 trillion euro, the level prevailing in 2012, a total increase of 1 trillion euros. It was also announced that the Governing Council is willing to adopt further measures should the economy need them, but the likelihood of outright purchases of euro area sovereign bonds remains remote.

In the outlook, it is assumed that policy interest rates will stay at current levels through mid-2016, followed by a series of gradual increases. Unconventional policies will be carried out as announced and the central bank balance sheet will return to 2012 levels through the end of 2016. There will be no new program of sovereign-bond buying.

Fiscal policy is still dominated by the need to reduce deficits under the Stability and Growth Pact (SGP). Progress has been made, the deficit-to-GDP ratio went from 4.2 per cent in 2011 to 3.0 per cent in 2013 and 2.7 per cent in the first quarter of 2014. Pressure for consolidation has eased. Since June 2013, countries were granted additional time to reach their budget targets. But many countries remain under the Excessive Deficit Procedure, so the pressure continues. In addition, there is now a "fiscal compact" (which entered into force in 2013), which adds additional budgetary requirements to those in the SGP. Structural government budget deficits should be less than 0.5 per cent of GDP (or less than 1 per cent of GDP if the debt-to-GDP ratio is below 60 per cent) and debt ratios above 60 per cent will require remedial action. The conclusion is that government budgets will be under pressure for a long time.

In the outlook, it is assumed that for a majority of regional economies, fiscal policy will continue to be focused on reducing fiscal imbalances. 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 time-table for achieving targets will be extended. Finally, it is assumed that no country will ask for formal assistance under the European Stability Mechanism.

New EU members

The recovery in the new EU member States gained further ground in the first half of 2014 thanks to the recovering domestic demand, gradual abandonment of fiscal austerity and a turnaround in the inventory cycle. In the first quarter of the year, the region also benefited from the rising economic dynamism in the EU-15.

Private consumption and investment became increasingly important as drivers of growth. Although households' foreign-exchange-denominated debt still remains a major macroeconomic problem in some of the new EU members, the record-low inflation and the increasing real wage growth have boosted households' spending capacity. Investment benefited from the expansion in public sector projects, in particular utilising EU funds. However, the region still remains heavily dependent on the external environment, especially export demand. The tapering of QE by the Fed in early 2014 has already affected those economies through volatility of capital flows and a sell-off in emerging market assets. Currently, the downgraded prospects for the euro area and geopolitical tensions in the region, affecting sales to non-EU markets, create additional risks.

The unfolding geopolitical conflict around Ukraine and the "sanctions war" between the Russian Federation and many leading OECD economies, which has led to disruptions in the established trade flows, will have certain repercussions for the region. The EU-15, which is the region's main export destination, has already been affected by lower exports of automotive components to the Russian Federation and forfeited sales of construction materials to the sanctioned Russian companies. The restriction on supplying deep-water drilling equipment to those companies will impact not only its European producers, but also some of the new EU members, especially from Central Europe, which are integrated into the production chain of the embargoed products. The imposition of the Russian ban on food imports, initially for a year, will hurt the region, especially the Baltic States and, to a smaller extent, Poland. This will occur through direct losses by the agricultural sector, secondary effects on the entire logistics system (including transportation), the impact on state budgets and the consequences for banks exposed to agricultural borrowers. The Baltic States will also face lower transit revenue. The loss of the Russian market may also have a multiplier effect on the region through weaker aggregate demand in the affected countries due to significant intra-regional trade links.

All countries in the region are expected to register positive growth rates in 2014, except Croatia, where a confluence of factors including tight fiscal policy to comply with the provisions of the Stability and Growth Pact and the lost duty-free access to the CEFTA[15] markets of the neighbouring countries curbed the economic recovery. The country's GDP will shrink for the sixth year in a row, before modestly growing next year. The aggregate GDP of the new EU member states is expected to grow by 2.5 per cent in 2014, by 3 per cent in 2015 and by 3.3 per cent in 2016.

Several factors, such as lower energy and food prices since the second half of 2013 and cuts in administered utility prices, drove inflation in the new EU members to record-low figures in 2014, with repeated incidents of deflation in a number of countries. Annual inflation in the region is expected to be well below the respective targets set by the central banks and even be negative in some cases. A moderate strengthening in domestic demand is likely to add a percentage point to annual inflation in 2015. This inflation outlook is, however, subject to the potential risk of higher oil and gas prices in case of serious natural gas supply disruptions caused by the geopolitical tensions around Ukraine.

Except in the Baltic States, where both net outward migration and the increased employment figures contributed to the improvement in the labour markets, the recovery in employment in the new EU members is progressing slowly. However, the recent employment gains in the Baltic States took place exactly in the sectors exposed to trade with the Russian Federation (such as agriculture or food processing) and the Russian food import ban may create risks for those industries. Nevertheless, positive labour market trends continued in 2014 in the Czech Republic, Hungary (where the public works program had an impact) and Poland. The entitlement of the citizens of Bulgaria and Romania to employment in any EU country since 2014 should somewhat mitigate pressure in the labour markets of those countries. In Croatia, however, labour market conditions worsened, as a number of companies, losing duty-free access to the CEFTA markets, outsourced production to the neighbouring CEFTA countries with a cheaper labour force. In addition, the country has to deal with its loss-making enterprises, as EU's fiscal rules constrain the provision of financial support. Given the largely structural nature of unemployment in the region, achieving any tangible progress will require committed policy actions.

[15] Central European Free Trade Agreement.

Fiscal austerity in the new EU members is being gradually phased out, as most of those countries succeeded in rebuilding their public finances in the aftermath of the global economic crisis. The impact of fiscal policy on growth in 2014 in some of the new EU members, such as the Czech Republic, may even be expansionary. However, some of those countries, including Poland, still have budget deficits exceeding 3 per cent of GDP and are subject to the excessive deficit procedure of the EU. The recapitalization of several domestic banks in Slovenia in 2014 imposed serious costs on public finances and taking those expenses into account, the budget deficit is likely to exceed 4 per cent of GDP. As a consequence, the high-deficit countries will have to remain on track of fiscal consolidation in the near-term. In addition, the Governments in the region, often facing pressure from the EU, are aiming at long-term fiscal sustainability and have serious reforms of public finances on their agenda for 2015 and beyond. Nevertheless, most of the region will face less fiscal drag in 2014 – 2015 and in some areas, public spending will support growth. In the Czech Republic and Hungary, public investment is expected to increase. In 2015, specific income policies are planned in several countries, such as minimum wage increases.

Monetary policy remains very accommodative and is used as the main instrument for macroeconomic stimulus in the new EU members. In the countries with flexible currencies (the Czech Republic, Hungary, Poland and Romania) policy interest rates are kept at record low levels, after a series of reductions in 2013 and 2014. The much-improved current account positions mitigate vulnerability of those countries to external shocks. Apart from maintaining the record-low policy rates, a number of central banks in the region use additional measures. The Czech National Bank in November 2013 started direct interventions in the currency market to improve export competitiveness and to avoid deflation. As a result, the currency has weakened markedly and a commitment has been made to maintain that exchange rate at least until the end of 2015. The Hungarian National Bank has launched the Funding for Growth scheme in 2013, channelling funds to SMEs through commercial banks. The scheme was extended until the end of 2014. The size of the allocated funds was increased to the equivalent of 6.5 per cent of GDP and by September 2014, the total amount of loans granted through the scheme was equivalent to 3.5 per cent of GDP, contributing a percentage point to economic growth. In addition, a series of measure were adopted in Hungary, alleviating the situation of holders of foreign-currency-denominated loans. 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. Lithuania is set to join the euro area in 2015. Loose monetary policy is likely to continue in 2015, as a spike in inflation is unlikely, bar unexpected developments, although the weaker currencies adversely affect the holders of foreign-exchange-denominated loans.

The region’s credit markets, however, are still stagnating, with minor exceptions, as the asset quality of domestic banks remains low and credit demand is recovering slowly. The depreciation of the flexible currencies in early 2014 has led to an increase in the share of non-performing loans, in particular, in Hungary, as many of those loans are denominated in foreign currencies. The actions taken to resolve the households’ indebtedness in Hungary will lead to losses by the banking sector, further restricting its lending ability.

The current account positions of the new EU members are much healthier than in the pre-crisis period, thanks to trade surpluses ran by several economies in the region and increasing transfers from the EU. Even if those deficits slightly increase in 2014, in particular because of a deficit on investment income as profitability of foreign-owned companies is growing, they should not endanger macroeconomic stability in the near term.

In the medium-term, an acceleration of growth in the new EU members to its pre-crisis level is unlikely, without the resolution of households' foreign-exchange indebtedness problem, a recovery in FDI flows and further structural reforms. However, growth is likely to strengthen by about one or two percentage points in 2015 and 2016, and most of the contribution to growth is expected to come from domestic demand.

The main macroeconomic risk for the region is another protracted slowdown in the EU-15, caused, in particular, by deflation. Capital outflows or a disorderly deleveraging, caused by the changing investor sentiment toward emerging markets, pose another risk. The extension of the sanctions against the Russian Federation to 2015 and beyond would affect the transit of Russian goods through the Baltic States, causing a decline in the services revenue, and the continuation of the Russian ban on agricultural imports would partially constrain the region's exports. A potential disruption of the flow of the Russian natural gas through Ukraine would have extremely detrimental consequences for the industries of the new EU members, as some of those countries almost completely depend on the Russian Federation for the supply of natural gas.

II.2. Economies in transition

Commonwealth of Independent States (CIS) and Georgia

The economic slowdown in several large CIS economies, which started in 2013, was further aggravated in 2014 by the conflict around Ukraine and associated geopolitical tensions. Growth in the Russian Federation, which has a strong impact on the region, was already disappointing in 2013; the conflict around Crimea and economic sanctions targeting broad sectors of the Russian economy have led to a massive outflow of capital, fall in the business confidence and depreciation of the currency. The economy of Ukraine is severely damaged by the internal political crisis and military conflict, disruptions in trade flows and weakness in private consumption, caused by the devaluation and deteriorated labor market, and is expected to shrink by several percentage points. Growth is expected to moderate in energy-exporting countries, such as Azerbaijan and Kazakhstan, due to flat oil output. For the lower-income economies of the CIS, such as Armenia, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan, the weakening of the Russian economy and currency (as well as the devaluation in Kazakhstan) has undermined the value of remittances sent home by migrant workers. Those remittances contracted in the first half of 2014 for the first time in five years, restraining private consumption and growth in those countries, and leading to currency depreciations. The aggregate GDP growth of the CIS and Georgia is expected to decelerate from 1.9 per cent in 2013 to 0.7 per cent in 2014, strengthening modestly to 1.2 per cent in 2015 and 2.0 per cent in 2016. The establishment of the Eurasian Economic Union on the basis of the existing Customs Union of the Russian Federation, Belarus and Kazakhstan, in January 2015, which will require further harmonization of economic regulations in the CIS area, should bolster intra-regional economic ties in the forecast period. Armenia and Kyrgyzstan are also on track to join the Eurasian Economic Union in 2015. At the same time, Georgia, Moldova and Ukraine in 2014 concluded association agreements with the EU, containing a provision on the establishment of a deep and comprehensive free-trade area (DCFTA). The implementation of the agreement, however, may lead to protective trade restrictions by the Russian Federation, which is an important export market for those countries.

The aggregate growth figure for the CIS masks different trends. The largest economy, the Russian Federation, seems to have exhausted its potential for fast expansion and is facing serious structural and cyclical impediments to growth. The goal of economic diversification has not been met yet, oil output remains virtually flat and natural gas exports may face serious challenges in the medium-term. 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 support for the currency have led to a drastic weakening of the exchange rate, forcing the Central Bank to intervene directly. In addition, the conflict around Crimea and the introduction of economic sanctions by most of the OECD countries have led to a further erosion of business confidence, significant capital flight and further depreciation of the currency. The Central Bank had to hike its key policy rate three times in 2014. Both the weak business sentiment and the high cost of capital and credit rationing (as the sanctions restricted access of the Russian corporate and banking sector to capital markets) undermined private investment, while public investment plans were cut. Moreover, high inflation curbed private consumption. Although the depreciated currency and the significant drop of imports from Ukraine have led to an import substitution effect for some sectors of the economy, growth in the Russian Federation in 2014 is expected to be very low and in 2015, the economy may face the risk of a recession. The restrictions on supplying deep-water drilling equipment for the state-owned Russian companies, if it remains in place, may seriously constrain medium-term growth prospects, as a number of oil exploration projects, in particular in the Arctic offshore, will be put on hold. The retaliatory Russian ban on food imports from the EU, the United States and several other countries will affect the retail sector, have an inflationary effect and further curb growth.

The economy of Ukraine will shrink by over 7 per cent in 2014, dragged down by falling consumption and investment, and its near-term prospects are not encouraging. The balance-of-payment assistance, received from the IMF and the EU, is accompanied with tough policy conditionality, such as raising the natural gas tariffs for the population, freezing growth in public wages and pensions as well as reducing the size of the public sector. The country may face serious energy shortages in the coming winter, amid disagreements on the terms of supply of Russian natural gas. To benefit fully from the association agreement concluded with the EU and duty-free access to the EU markets against the backdrop of import barriers set by the Russian Federation, significant industrial investment will be needed.

Low growth, despite an ample harvest, is expected also in Belarus, which is strongly exposed to trade with the Russian Federation and Ukraine through manufacturing and agricultural exports. The impact of weak export markets in the medium term may be partially offset by increasing transit trade bypassing Russian sanctions restricting EU food imports.

In the Caucasus, output from the oil and gas sector declined in Azerbaijan in the first half of 2014. Together with a slower increase in private consumption due to tightening lending standards and lower transfers from the state oil fund into the budget, this will lead to a slower growth in 2014. However, the ongoing investment in the energy sector, infrastructure investment related to hosting the European Games in 2015 and an expanding non-energy sector should boost growth in 2015.

Growth in the economies of Central Asia, while remaining above the CIS average, is also expected to moderate in 2014. In Kazakhstan, weaker household spending and the continuing delay of commercial production from the large offshore Kashagan oil and gas field will weigh on growth in 2014-2015. In Tajikistan, a sharp fall in the output of aluminum, declining cotton exports and weaker remittances will lead to a moderation of growth in 2014, while in Kyrgyzstan, lower remittances will offset the effect of expanding gold output. In Uzbekistan, according to official figures, GDP expanded by 8.1 per cent year-on-year in the first half of 2014, thanks to an expansion in industry, agriculture and services. Strong growth will continue in 2015, but is subject to risks, as private consumption may suffer from lower inflows of remittances and cotton prices in the outlook may remain subdued.

Average inflation in the CIS area has noticeably accelerated in 2014 as the weaker currencies in Kazakhstan, the Russian Federation and Ukraine contributed to imported inflation. Currencies depreciated versus the dollar and the euro also in those countries that receive significant inflows of remittances from the Russian Federation, such as the Republic of Moldova, Tajikistan and Kyrgyzstan. The Russian industry is heavily dependent on imported components and the higher producer prices and the rising cost of industrial output eventually feeds into CPI inflation. The Russian food import ban imposed on a number of countries in August further added to inflationary pressures and the annual inflation rate in 2014 may exceed 8 per cent. Belarus continues to see a record inflation rate in the CIS, approaching 20 per cent as the impact of strong wage growth was amplified by a depreciating currency; disinflation is not expected to be significant in the near-term. In the energy exporters of Central Asia, inflation remains high due to foreign exchange inflows and continued public spending (in the case of Kazakhstan, also due to a devalued currency), while in energy importers, currency depreciation was the leading inflationary factor. Inflation in 2015 is expected to decelerate as the initial impact of weaker currencies wears off.

Despite the economic slowdown, in the Russian Federation, the unemployment rate continued to decline, reaching historical lows in 2014. By contrast, the plummeting of economic activity in Ukraine has led to a sharp increase in unemployment. The labour market also worsened in some economies of Central Asia. In the outlook for 2015, there is some risk of higher unemployment in the Russian Federation, as the tight fiscal situation may force the public sector to shed labour. The diminished opportunities for migrant employment in the Russian Federation may increase pressure on labour markets of low-income CIS economies.

Monetary policy has been repeatedly tightened in the Russian Federation since early 2014, as the currency lost its value against the backdrop of rising geopolitical tensions in the region and the Central Bank expanded the currency's corridor and declared an intention to move to a free-floating currency regime at the end of the year. Subsequently, economic sanctions imposed by most of the OECD economies caused an outflow of capital, a significant depreciation of the currency and hikes in policy interest rates. Following depreciation of the Russian currency, the National Bank of Kazakhstan also devalued the currency in order to maintain competitiveness, but refrained from raising interest rates. To defend the currency, which depreciated markedly, the National Bank of Ukraine has increased its policy rate in April. Reacting to currency depreciation, the central bank of Kyrgyzstan also increased its policy rate in July. By contrast, the policy rate was cut three times in Belarus in 2014, despite the persistently high inflation, which remains the highest in the CIS. 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 impact on the lending rate charged on loans. In 2015, monetary policy in the region may vary. In the Russian Federation, high inflation is likely to prevent monetary loosening.

The impact of fiscal policy on growth in 2014-2015 in many CIS countries is likely to be contractionary. In the Russian Federation, lower than expected growth in 2014 has led to a revenue shortfall. As consumer confidence gradually weakened, consumption tax revenue also declined. The deficits in regional budgets, increasing pension liabilities and additional spending caused by the conflict around Ukraine all exerted a fiscal pressure. The Government is considering the possibility of granting the regions power to increase local consumption taxes or to introduce new ones, such as a resort tax. To provide support to the sanctioned companies and banks, the government decided to utilize the resources of the National Welfare Fund. The government also decided to freeze state contributions to the pension system in 2014 and 2015, diverting those funds to current expenditure. The budget for 2015 envisages a deficit of 0.5 per cent of GDP, but this may be based on optimistic assumptions. In Ukraine, fiscal policy is expected to be very conservative, as the government has to comply with the conditionality of the assistance provided by the IMF and the EU. As a result, the state oil and gas company will experience a financial squeeze because of the loss of state subsidies. In Central Asia, public spending on incomes and on infrastructure will continue. In Kazakhstan, fiscal expenditure will increase, aiming to offset the negative impact of currency devaluation on households. To enhance public revenue, the oil-export duty was increased in March and larger transfers from the country's sovereign wealth fund into the budget are planned. In the Caucasus, fiscal policy will be moderately tighter in Azerbaijan, but the impact on the economy will still be expansionary.

The energy-exporting economies of the CIS have continued to run trade and current account surpluses. However, these surpluses, including in the Russian Federation, have been persistently diminishing. Meanwhile, energy importers, including Belarus and Ukraine, have less healthy current account positions. The current account deficit in Kyrgyzstan exceeded 20 per cent of GDP in 2013. As weaker currencies led to a slowdown in imports, the current account positions should improve in some CIS countries in 2014, with the deficit in Ukraine declining to less than 6 per cent of GDP, from 9 per cent a year earlier.

The major macroeconomic risk for the CIS countries emanates from the possibility of lower oil prices, caused, in particular, by a drastic growth slowdown in major emerging economies. In addition, banking sectors in a number of economies still remain a source of vulnerability. Those risks are amplified by the ongoing geopolitical tensions in the region.

South-Eastern Europe

The tentative economic recovery in South-Eastern Europe in early 2014 was derailed by devastating floods in May, which affected parts of the region, mostly in Bosnia and Herzegovina and Serbia. Those floods caused significant damage to housing and infrastructure (including bridges, roads, energy and telecommunications), and hampered economic activity, leading to a drastic year-on-year decline in industrial and agricultural output in Serbia during the summer months.[16] As a consequence, the economic growth projection for Serbia is downgraded. In contrast to other countries in the region, which are expected to register positive, although mostly low, growth rates in 2014, Serbia's GDP is likely to shrink by about one per cent.

[16] During a donor conference convened in July by the European Commission, France and Slovenia, international donors pledged 1.8 billion euros in assistance to the flood-affected countries.

Economic performance among the South-East European countries in 2014 varied. In Serbia, the impact of floods in 2014 is aggravated by the ongoing fiscal consolidation and weaker real purchasing power of households. GDP is likely to decline (especially against the strong base effect created by the booming harvest in 2013 and the launch of production at an automotive factory), despite some positive contribution from restoration works to address the flood damage. By contrast, in the former Yugoslav Republic of Macedonia, the economy may expand by about 3 per cent in 2014, driven by strengthening domestic demand and a buoyant construction sector, which benefits from public spending. In Albania, strong export performance may lead to an acceleration of growth to about 2 per cent in 2014 and 2015. In Montenegro, growth prospects are constrained by financial problems at the country's aluminium factory and the weak state of the banking system.

In the outlook for 2015, recovering FDI flows and moderately stronger domestic demand should support growth rates in the region at around 3 per cent, still below the pre-crisis growth levels and insufficient to address the region's long-standing needs of rebuilding capital stock, achieving higher labour force participation, especially among the youth, and generating higher living standards. Although the region has much lower current account deficits than during the pre-crisis period, it still remains dependant on external finance and may face problems in accessing funding, especially because the prospective IMF programs may contain politically sensitive conditionality. Some of the South-East European countries, in particular Serbia, which has a free-trade agreement with the Russian Federation, may potentially benefit from the trade ban imposed by the Russian Federation on food imports from the EU. However, filling the gap to become an alternative food supplier will require overcoming certain logistical challenges. The aggregate GDP of South-Eastern Europe will increase by 0.7 per cent in 2014 and growth rates of 2.7 per cent and 3 per cent are expected in 2015 and 2016, respectively.

The average inflation rate in South-Eastern Europe noticeably declined in 2014, thanks to low inflation in Serbia, which traditionally has been a high-inflation country, and a near-zero or even negative inflation rate in other countries. Because of several factors, such as the buoyant agricultural output in 2013 and low food prices, weak domestic demand and a relatively stable currency, annual inflation in Serbia in 2014 is expected to drop to just around 3 per cent, from 7.6 per cent registered in 2013. In the former Yugoslav Republic of Macedonia, lower food prices and cuts to energy tariffs are likely to lead to negative inflation in 2014, with only a mild acceleration in 2015. Negative annual inflation is expected also in Bosnia and Herzegovina, which remained on a deflationary trend for several months due to weak domestic demand. In the outlook, inflationary pressures in South-Eastern Europe may strengthen only modestly in 2015-2016, along with recovering domestic demand, and average annual inflation should be in the low single digits.

In most of South-Eastern Europe, the labour market situation in 2014 remained precarious. Nevertheless, positive trends continued in the former Yugoslav Republic of Macedonia, where the rate of registered unemployment is likely to decline to 28 per cent, from 29 per cent in 2013, in part thanks to policy measures to encourage employment and public spending on infrastructure. A further decline in the unemployment rate is expected in 2015.

Fiscal policy in the region remains tight, as the countries are facing difficulties in financing their budget deficits, have to comply with the requirements of the existing IMF programs or are seeking further assistance from the IMF. Moreover, maintaining fixed currency regimes usually requires fiscal discipline. In Serbia, the budget deficit for 2014 was initially planned at around 7 per cent of GDP. However, the budget has come under pressure as massive floods lead to lower revenue intake and additional spending on restoration works. Consequently, the Government had to revise its 2014 budget parameters and is considering reductions in public wages, employment in the public sector, and subsidies to state-owned enterprises so that the impact of fiscal policy on growth in the near-term will be contractionary. For similar reasons, in Bosnia and Herzegovina, the original budget deficit target of below 2 per cent of GDP would be extremely difficult to meet. After a possible increase in public spending on the eve of the elections in October 2014, further cuts in public expenditure are likely in 2015. In the former Yugoslav Republic of Macedonia, the Government aims at higher capital expenditure, while trying to reduce the budget deficit.

The conduct of monetary policy in the region is constrained by formal or informal currency pegs. Among the countries with flexible currencies, the National Bank of Serbia repeatedly cut its policy rate until August 2014, as inflation hit a record low. Further cuts will depend on the availability of global liquidity and risks to the economy emanating from the political tensions around Ukraine. The Central Bank of Albania continued its monetary easing until May 2014, bringing its policy rate to a record low, to boost consumer and investment demand and to move inflation back to the target range.

The current account deficits in the region are nowhere near their precariously high levels of 2008. Lower imported energy prices and subdued domestic demand keep them somewhat in check. However, some countries still run large deficits, as they heavily depend on imports of energy and capital goods. The deficit in Serbia has declined to below 5 per cent of GDP in 2013 thanks to the exceptional export performance, but was negatively affected by weakening export growth in 2014 and may reach 6 per cent of GDP in 2014 and 2015. As floods constrained export capacity also in Bosnia and Herzegovina, the country's current account gap may approach 8 per cent in 2014 and 2015. In Montenegro, the deficit is driven by the country's negative trade balance and may exceed 15 per cent over the forecast period. Those deficits are expected to be at least partially covered by FDI, but if the reliance on short-term borrowing to finance those deficits continues, sudden capital outflows may pose risks.

A renewed slowdown in the EU remains the main macroeconomic risk for the region, which is strongly linked with the euro area.

II.3. Developing economies

Africa

Africa's overall growth momentum is set to continue, with GDP growth expected to accelerate from 3.4 per cent in 2014 to 4.6 per cent in 2015 and 4.9 per cent in 2016. Growth in private consumption and investment are expected to continue as the key drivers of GDP growth across all the five subregions and all economic groupings, underpinned by increasing consumer confidence, the expanding middle class, improvement in the business environment and the reduction in the cost of doing business. Government consumption will remain high on the continent due mainly to increased spending on infrastructure. However, its contribution to growth will decrease due to fiscal consolidation measures, mostly in Central, Southern and West Africa. Net exports will continue to have a negative contribution to growth across all the subregions, highlighting that the value of the region's commodity exports is outweighed by its industrial imports. Net exports in oil-importing countries are expected to decrease because of the expected depreciation of currencies which is partly due to tighter monetary policy in developed economies. Oil-exporting countries are expected to see a rebound from low growth of 2.0 per cent in 2014 to 4.5 per cent in 2015. Underpinning this year's slowdown were moderating oil prices, coupled with disruptions in oil production and political unrest in parts of North and West Africa (Central African Republic, Mali, and Libya). Oil-importing countries' growth will improve from 3.3 per cent in 2014 to 4.1 per cent in 2015. Mineral-rich countries, the fastest growing countries on the continent, are expected to build on their growth momentum and accelerate from 4.7 percent in 2014 to 5.4 per cent in 2015. This is mainly due to increased investments and new mineral discoveries in countries such as Sierra Leone (in iron ore and diamond production), Zambia (in copper mining), Botswana (in copper, coal and diamonds), Namibia (in uranium and diamonds), Angola (in coal mining) and Ghana and Liberia (in gold mining). Africa's non-oil and non-mineral rich economies are expected to continue improving their growth momentum, growing from 3.0 per cent in 2014 to 3.9 per cent in 2015, driven by strong expansion in services, agriculture and spending on infrastructure in countries such as Ethiopia.

Growth is expected to vary significantly across subregions. North and Southern Africa are expected to experience a pronounced acceleration in growth, from 1.5 per cent and 2.9 per cent in 2014 to 3.9 per cent and 3.6 per cent in 2015, respectively. The enhanced growth prospects for North Africa are underpinned by improving political stability in Egypt and Tunisia. In the Southern African subregion, although Angola, Mozambique and Zambia will continue to be the fastest growing economies, the 2015 growth acceleration is expected to be mainly driven by more investment in the non-diamond sector in Botswana, recovery in private consumption in South Africa, and increased investment in mining and natural gas exploration in Mozambique.

Central and West Africa are expected to experience a more moderate increase in growth, from 4.3 per cent and 5.9 per cent in 2014 to 4.8 per cent and 6.2 per cent in 2015, respectively, with increased political instability and terrorism in some of the countries in this region (e.g. Mali, Nigeria, Central African Republic) preventing an even stronger expansion. The Ebola outbreak in West Africa and possible increased political instability in the run-up to elections in Nigeria constitute major downside risks for the outlook.

Strengthening regional integration in the East Africa Community is expected to continue boosting GDP growth of this subregion, from 6.6 per cent this year to 6.8 per cent in 2015, making it the fastest-growing African subregion. Kenya and Uganda will be the key drivers of growth between 2014 and 2015. Kenya growth will benefit from the rapid expansion in the banking and telecommunication services, the rising of the middle class, urbanization, and investment in infrastructure, particularly the railway transport, while Uganda's growth will be supported by increasing activity in sectors such as construction, financial services, transport and telecommunication.

Inflation in the African region is expected to decelerate slightly from an average of 7.2 per cent in 2014 to 7.0 in 2015. Inflation has come down since a peak in 2012 thanks to moderating global prices for commodities, food, oil and industrial imports. Increasingly prudent monetary policies across the region are also credited for the subdued inflation. Oil importing countries are expected to be the major beneficiary of falling prices of oil and other commodities. Inflation is expected to fall slightly from 5.6 per cent in 2014 to 5.4 per cent in 2015 in these countries. Oil exporting countries continued to see high inflation in 2014 at 8.8

per cent and are expected to see a slight moderation to 8.4 per cent in 2015. Mineral rich countries are expected to experience a slight decrease in inflation. The risk remains that declining commodity and oil prices and tighter monetary policies in the US and EU could negatively weigh on the currencies of both oil and mineral exporting countries leading to imported inflation.

At the subregional level, Central Africa is set to continue being the least inflationary, mainly because most countries in this region pursue similar monetary policy, which is based on pegging their common currency, the CFA franc, to the Euro. In Southern Africa, inflation is expected to decrease from 6.2 percent in 2014 to 6.0 percent in 2015 due to lower oil and global food prices. Other factors that will contribute to inflation reduction include the improvement in domestic food supply in Malawi and Zambia, tight monetary policy in South Africa and Lesotho, and appreciation of the currency in Botswana, Malawi and Zambia.

In East Africa, inflation is expected to remain at 5.9 per cent in 2015, as in 2014. In West Africa, inflation is expected to increase from 7.9 per cent in 2014 to 8.8 per cent in 2015. In Kenya, inflation will be lower, but will continue to be driven by the outcome of the rainy season. In Tanzania, inflation will come down slightly, but will continue to remain above 6 per cent, driven by a weakening shilling and rising electricity tariffs. Nigeria is expected to be the key driver of West Africa's inflation due to fiscal expansion in the run-up to the 2015 elections and the growing consumer demand. In Ghana, increases in water and power tariffs, which caused inflation to peak at 17.5 per cent in 2014, will continue to be a source of inflationary pressures even into the first quarter of 2015. Nevertheless, given public backlashes, additional tariff increases may be postponed until after the 2016 elections, resulting into better inflation outlook in 2015.

North Africa is expected to experience the largest fall in inflation, from 7.7 per cent in 2014 to 7.2 per cent in 2015 as West Africa overtakes it as the most inflationary subregion in Africa. Falling global food prices will particularly benefit Algeria and Mauritania where food and commodity prices constitute a large proportion of their inflation basket. Morocco is expected to continue to have low inflation due to moderating domestic demand, falling international food prices and mild currency appreciation against the US dollar. In Egypt and Libya, disruptions in supply chains due to political instability are expected to continue being a major burden to monetary authorities. Cuts in food and energy subsidies and high minimum wages for government employees will also drive inflation in Egypt.

Fiscal balances for African countries are set to remain negative as countries continue their investment in infrastructure, and some public services such as public sector wage bills, transfers and subsidies and other expenditures on social sector projects. However, the region's fiscal deficit is expected to slightly decline from 0.37 per cent of GDP in 2014 to 0.35 per cent of GDP in 2015. This decline is expected to be driven by decreases in North, Southern, and East Africa. In South Africa, fiscal authorities have undertaken measured to reduce fiscal deficit by minimising corruption and inefficiencies, and cutting allocations on non-essential expenditure, for example entertainment, travel and consultant services. In Botswana, the buoyant revenue from mineral tax, income and value added, and SACU revenue sharing scheme will improve the fiscal surplus in the 2014-2015 period.

With reference to economic groupings, fiscal balances of oil-exporting and mineral-rich countries will deteriorate in 2014 due to moderating oil and commodity prices. However, because oil prices will remain relatively high, fiscal balances should improve in 2015. Other factors that will contribute to improvements in fiscal balances in oil-exporting and mineral-rich countries are fiscal consolidation and the emergence of new sources of revenue, and innovative resource mobilization in some economies, such as South Africa, Botswana, Cameroon and Congo Republic. However, at country-level, fiscal balances may deteriorate in Nigeria, Tanzania and Sudan as they increase spending in the lead up to national elections scheduled for 2015.

Oil exporting countries will continue to have current account surpluses, although the moderating oil prices will continue to trim these surpluses in 2015. On the other hand, current account deficits of oil importing countries will decrease due this development. Mineral rich countries will continue to have the largest current account deficit because of invisible trade deficits, due to the reliance on imported services. And also because the mining sectors are dominated by multinational companies, mineral-rich countries face structural deficits on the income account when these companies pay external debt and repatriate profits.

Current account balances of open economies such as South Africa, Kenya, Nigeria, Botswana, etc. could benefit from increasing net exports as their currencies weaken due to tighter monetary policy in the United States. However, this will depend on whether the weakening currencies will not affect competitiveness through their effect on imported inflation. South Africa is expected to reduce its current account deficit from 5.4 per cent of GDP in 2014 to 4.7 per cent of GDP in 2015. Despite falling oil prices, Nigeria's current account balance is expected to remain positive, benefiting, partly, from the improvement in remittances from its large diaspora population.

Despite the continuation of relatively robust growth across the region, a number of internal and external risks may derail Africa's medium-term economic performance. Firstly, the slowdown in oil and commodity prices, continued slow recovery in the US, Eurozone and Japan, and slowdown in demand for commodities in China will negatively weigh on Africa's medium-term trade earnings. Secondly, tighter global financial conditions in developed economies (such as the USA) as they roll back their accommodative monetary policy might result into the outflow of private capital and increase the volatility of currencies.

The Ebola outbreak is a major internal risk for Africa's medium-term growth prospects. The outbreak has already had a significant negative impact on trade in both goods and services (particularly, travel and tourism) in the African region. With no immediate solution in sight, Africa's economic performance for 2014 and 2015 is likely to be subdued. The World Bank estimates that Ebola could cost $32 billion by the end of 2015, if it spreads to other neighbouring countries. Of course, these estimates do not account for long-term economic effects that the region may face given that the disease is killing valuable human capital. A strong global response is therefore needed to contain and stop the spread of Ebola.

Political instability and terrorism in a number of African countries and civil and labour unrest in other countries will continue to be a source of pessimism, disruption and damage, and negatively weigh on investment, trade and tourism on the continent. However, the aggregate number of armed conflicts in Africa has decreased since 2000, and more initiatives are being undertaken at the continental level to address issues of peace and security.[17] Finally, weather-related shocks will continue to be a source of downside risks, given that most African economies are still dependent on agricultural production.

[17] ECA, "Frontier markets in Africa: Misperceptions in a sea of opportunities", Addis Ababa, 2014.

East Asia

East Asia is projected to sustain growth of 6.1 per cent in 2015 and 2016, compared to an estimated 6.2 per cent in 2014. China's transition to more moderate growth is expected to be largely offset by higher growth in other economies, where investment and exports will likely strengthen. Household consumption is expected to remain robust in most economies, supported by mild inflation, robust labour markets and generally low real interest rates, even as monetary conditions will likely become less accommodative in line with the normalization of monetary policy in the United States. Fiscal policy is expected to remain mildly supportive of growth and most countries have sufficient space to provide additional stimulus, if necessary.

East Asia's growth in 2014 was underpinned by robust private consumption, which held up well even as investment demand lost strength in several economies. Household consumption contributed 3 to 4 percentage points to GDP growth in Malaysia and the Philippines and was also strong in China as new jobs were created in the services sector. Spending was more subdued, however, in Indonesia, the Republic of Korea, Thailand and Viet Nam, owing to country-specific factors, such as tighter credit conditions, stagnant household incomes, political instability and banking sector problems. In the medium-term, household debt could become a significant constraint in Malaysia and Thailand, where it has increased rapidly in recent years to 86 and 83 per cent of GDP, respectively.

Investment growth was less dynamic across East Asia in the past year. In China, industrial overcapacity, combined with slow growth in exports and some correction in the real estate market, dragged on investment. In Indonesia, tighter credit conditions added to the difficulties arising from lower commodity prices and weak exports, while public investment has been constrained by a tight fiscal framework. In Thailand, the burden of political instability fell largely on investment. Fixed-capital formation was, by contrast, relatively robust in Malaysia and the Philippines, although its contribution to GDP growth was lower than in 2014. In the coming years, investment is expected to strengthen in many of the region's lower-cost economies, such as Indonesia and Viet Nam, as manufacturing activities relocate from China and Governments take a more active approach to addressing infrastructure deficits.

East Asia's economies also benefited from a mild pickup in external demand, although this positive effect was weaker than projected at the beginning of the year. Manufacture exporters, such as Malaysia, the Philippines and Viet Nam, continued to perform significantly better than commodity exporters like Indonesia. Given an expected further moderation in international commodity prices, this trend is likely to continue in the forecast period.

Such broad trends aside, East Asia's growth performance was determined by country-specific policies and circumstances. In China, the economy is transitioning to a more consumption- and service-oriented system, which has resulted in lower headline GDP growth. In 2014, the economy expanded by 7.3 per cent, down from 7.7 per cent in 2013. A further gradual deceleration to 7.0 per cent in 2015 and 6.8 per cent in 2016 is forecast. 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. The slowdown in China has negatively impacted economic activity in Hong Kong Special Administrative Region of China, where business investment weakened and tourist spending dropped sharply. In the Republic of Korea, growth has picked up to about 3.5 per cent in

2014, but high household debt, a stagnant property market and dampened consumer sentiment due to a fatal ferry accident in April have weighed on activity. Growth further slowed in Indonesia and Thailand, but remained strong in Malaysia and the Philippines. In Indonesia, domestic demand growth moderated following policy measures to curb inflation and the current-account deficit, although sentiment improved following elections in July and the economy is likely to gradually gain strength in 2015 and 2016. The Thai economy contracted in the first quarter amidst political instability, before regaining some momentum from the second quarter onwards as private and public spending resumed and exports improved. Further improvements are expected in the outlook period, with GDP growth forecast to recover to about 5 per cent. Private investment and exports were resilient in Malaysia, even as public infrastructure outlays declined. The Philippines achieved a third consecutive year of high growth despite major natural disasters, based on robust private consumption and improving exports. Papua New Guinea is expected to see a massive jump in GDP growth in 2015 as it starts to export liquefied gas.

Given the region's solid growth outlook, the labour market situations are likely to remain robust. With few exceptions, official unemployment rates in the region are generally low. In the region's higher-income economies, average unemployment rates in 2014 ranged from 1.8 per cent in Singapore to 4.0 per cent in Taiwan Province of China. In China, despite slower economic growth, the unemployment rate in 31 large and midsize cities remained at around 5 per cent in the first eight months of 2014, while growth of jobs has been faster than expected. The unemployment rate rose marginally in the Republic of Korea and Thailand, while declining in Indonesia and the Philippines. In most countries, the jobless rate for those aged 25 to 29 continued to be two to three times higher than for the other age groups. Widespread vulnerable employment remains a particular concern in some of the region's lower-income economies, notably in Indonesia, the Philippines and Viet Nam.

Average consumer price inflation in East Asia slowed to 2.5 per cent in 2014, down from 2.8 per cent in 2013. In most countries, inflation is within or below the target ranges set by the central banks. Recent trends in inflation varied across the region largely in relation to the strength of domestic demand. In China, average inflation declined from 2.6 per cent in 2013 to 2.1 per cent in 2014, in line with slower economic growth and stable food prices. Inflation also slowed in Hong Kong Special Administrative Region of China, Indonesia, Singapore and Viet Nam, but accelerated in Malaysia and the Philippines consistent with above-trend economic growth. In Malaysia, inflation is expected to temporarily rise in 2015 with the introduction of a new consumption tax. For the region as a whole, consumer price inflation is expected to accelerate gradually, rising to 2.8 per cent in 2015 and 3.1 per cent in 2016.

Monetary policy remained generally accommodative across East Asia. The moves by central banks in the past year reflect the different macroeconomic trends in the region China's central bank opted for only targeted measures to support the economy in the course of 2014, rather than generalized policy easing, given concerns over rapid credit growth and high leverage. The Republic of Korea, Thailand and Viet Nam cut their main policy rates during the year in a bid to revive domestic demand. In contrast, the central banks of Malaysia and the Philippines raised interest rates as inflationary pressures went up. At the same time, monetary and financial authorities in a number of countries used macroprudential measures to address financial sector risks, such as curbs on real-estate lending.

Fiscal policy, too, was generally supportive of growth. In several countries, the Governments tried to further stimulate economic activity. In China, the authorities took a number of measures to support domestic demand, including tax relief for small firms and accelerated fiscal and infrastructure spending. The Republic of Korea announced in July a stimulus package of $11.7 billion, targeting low-income households, small firms and the property market. In September, the Government introduced for 2015 the most expansionary budget since 2009. In Thailand, the military Government announced in August plans to spend $75 billion over eight years to improve transport infrastructure. In the Philippines, one percentage point of GDP was earmarked for post-disaster reconstruction in 2014, while the pipeline of public-private-partnership projects was expanded and infrastructure spending is planned to double to 5 per cent of GDP by 2016. Most East Asian economies have the fiscal space to further boost investments in human and physical capital. Public debt as a share of GDP ranges from less than 30 per cent in Indonesia and the Philippines, which have reduced debt over the past decade, to 45 to 55 per cent in Malaysia and Thailand. Moreover, countries are reprioritizing expenditures and pursuing tax policy and administration improvements. In particular, several countries, such as Indonesia and Malaysia, are in the process of reforming their energy subsidy systems.

East Asia's trade and current-account surpluses have narrowed since the global financial crisis. In 2013, the region's combined current-account surplus stood at about 3 per cent of GDP, compared with a high of 8.3 per cent in 2007. The trend towards lower surpluses marginally reversed in 2014, as exports strengthened but domestic demand, particularly investment, moderated in many countries. Malaysia, the Philippines and Viet Nam saw dynamic export growth in 2014, led by strong international demand for electrical and electronic products. Export growth was less buoyant, but still solid, in other parts of the region, including China, the Republic of Korea, Singapore and Taiwan Province of China. These economies saw export revenues (in dollar values) grow by an estimated 3-5 per cent in 2014. By contrast, export revenues were flat in Thailand and contracted slightly in Indonesia during this period. In Indonesia, the decline can be attributed to weak international commodity prices and new regulations banning the export of unprocessed minerals. In Thailand, the stagnation reflects mainly the impact of the political turmoil and a shift in global demand away from hard discs. Imports generally grew at a slower pace than exports in 2014, in part owing to lower international prices of fuel and other commodities. China saw import spending (in dollar values) rise only marginally in 2014, while Indonesia and Thailand experienced marked declines, largely as a result of weak investment activity.

Net capital inflows to the region were generally stronger in 2014 than in 2013, despite considerable outflows at the beginning of the year. Most currencies registered gains against the euro and the yen, but losses against the dollar, which appreciated sharply in the third quarter of the year.

The key downside risks for East Asia are related to the upcoming tightening of global liquidity conditions and to the slowdown of the Chinese economy. On the one hand, the rise in interest rates in the United States could lead to a marked adjustment in credit conditions for East Asia's emerging economies, resulting in weaker investment and consumption growth 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 through trade and finance on other economies in the region, in particular commodity exporters such as Cambodia and Indonesia.

South Asia

South Asia's economic growth is set to reach a four-year high of 5.3 per cent in 2015, up from an estimated 5.0 per cent in 2014 and well above the 3.7 per cent recorded in 2013. For 2016, a further acceleration to 5.7 per cent is forecast. The recovery is expected to be led by India, which accounts for about 70 per cent of regional output and is projected to see a steady pick-up in growth during the outlook period. Over the past year, growth has strengthened in Bangladesh, Pakistan and Sri Lanka, supported by stronger external demand, lower domestic price pressures and higher government expenditures. The Islamic Republic of Iran has started to slowly recover from the recession of 2012-2013, as some of the international sanctions against the country have been lifted. Smaller economies in the region, such as Bhutan and Nepal, should benefit from the more favourable macroeconomic conditions in India. The growth projections for 2015 and 2016 rest on a set of key assumptions, including normal monsoon conditions, stable or slightly moderating global food and energy prices, a limited impact of higher international interest rates on regional credit conditions and continued domestic policy reforms. There are significant downside risks for the region owing to continuing fragility of the global economy and considerable country-specific weaknesses, including political instability and energy and transport constraints. Any adverse shocks could dampen South Asia's growth performance notably given the limited monetary and fiscal policy space in most of the region.

The Indian economy expanded by an estimated 5.4 per cent this year, a slight improvement from growth of 4.7 per cent recorded in 2013, but still significantly below the 8 per cent-pace of the pre-crisis period. Growth accelerated in the second quarter of 2014, partly as a result of improved market sentiment after the new administration took office and announced its intention to reform the bureaucracy, labour laws and public subsidies. After years of sluggishness, fixed investment has started to recover. This has also been reflected in a rebound in the manufacturing and construction sectors. Recent reforms to ease restrictions on foreign direct investment and speed up investment in large-scale projects also contributed to the growth pickup. Going forward, India is projected to see a gradual acceleration in growth, with GDP forecast to expand by 5.8 per cent in 2015 and 6.3 per cent in 2016. Meanwhile, Bangladesh and Sri Lanka maintained strong growth of 6.2 per cent and 7.7 per cent in 2014, respectively, amid buoyant household consumption and investment. Both economies are expected to expand at a similar pace in 2015 and 2016 than in the past year. Although Pakistan's GDP growth rebounded to an estimated 4.2 per cent in 2014 on the back of robust private and public consumption, macroeconomic fundamentals remain fragile in the face of ongoing security concerns and low fixed investment that is constrained by the shortage of domestic savings. Growth is forecast to decline slightly in 2015, before picking up again in 2016.

Until recently, subdued manufacturing activity in India had put pressure on the labour market. Official figures indicated that the industrial sector lost around 36,000 jobs in the first quarter of 2014.[18] The textile sector recorded the largest decline. Elsewhere in the region, the job market situation appeared to be stable, although employment data are generally limited. In the Islamic Republic of Iran, the unemployment rate remained above 10 per cent in 2013. Unemployment in Sri Lanka declined to 4.1 per cent in the first quarter of 2014, but wage levels grew more slowly than in previous years, especially in the agricultural sector. Wage

[18] Quarterly report on changes in employment in selected sectors (January 2014 to March 2014), Ministry of Labour and Employment, India.

growth was steadier in Bangladesh and Nepal. In countries with available data (including India, Pakistan and Sri Lanka), unemployment rates remained higher for women than for men. This is particularly alarming since the labour force participation rate is much lower among women than men. The share of vulnerable employment, defined as unpaid family workers and own-account workers, is as high as 60 per cent in Pakistan and 80 per cent in India.

Average consumer price inflation in South Asia softened from close to 15 per cent in 2013 to a still elevated level of 9.5 per cent in 2014. Falling global commodity prices, vigilant monetary policy and limited demand pressures contributed to lower inflation, despite the late arrival of the monsoon and floods in certain parts of the region. India's inflation rate (year on year) fell below 8 per cent in mid-2014, compared to 10.4 per cent in the final quarter of 2013. This also helped bring down price pressures in Nepal, which is closely tied to India through the pegged exchange rate and strong trade flows. In Sri Lanka, inflation declined to a multi-year low of 3.5 per cent in the third quarter of 2014. In the Islamic Republic of Iran, consumer prices were up by about 15 per cent in mid-2014, after a 40 per cent-surge in 2013, when the international sanctions had led to significant supply shortages and a sharp devaluation of the rial. In most countries of the region, food inflation remained generally higher than overall inflation, thus weighing on the purchasing power of the poor. Going forward, average inflation in the region is expected to moderate further to 8.4 per cent in 2015 and 7.6 per cent in 2016. Upside risks to the baseline inflation forecast remain, however, high. Given the dominance of traditional agriculture and the reliance on imported foods, South Asia is highly vulnerable to weather conditions and global price developments. A faster-than-expected reduction of subsidies and a new round of currency weakness could also push inflation well above current projections.

Amid slowing inflation and a slight recovery in growth, monetary policy remained fairly stable in 2014. The Reserve Bank of India has kept its key policy interest rate at 8 per cent after upward adjustments in response to price pressures and capital outflows between mid-2013 and early 2014. India's monetary authorities recently emphasized that while inflation has eased, the balance of risks was still to the upside. Policy rates are thus expected to remain unchanged in the near-term. Should the current disinflationary process continue and the external financial environment remains stable, the RBI may loosen monetary conditions in the later part of the forecast period. As in India, the policy rates were also left unchanged in Bangladesh, Pakistan and Sri Lanka in 2014, although Bangladesh's central bank raised the cash reserve ratio by 50 basis points to 6.5 per cent in June to curb excess liquidity in the banking system.

Expansionary fiscal policy has supported economic growth over the past year, but persistently large fiscal deficits add risk to medium-term debt sustainability. Fiscal deficits generally trended down in 2014, but remained high at about 4 per cent of GDP in India, 5 per cent in Bangladesh and Sri Lanka, and 7 per cent in Pakistan. Military spending and heavy price-subsidy bills accounted for a significant portion of total government expenditures in these countries. Part of this spending could be channelled to more productive uses such as infrastructure upgrading. In the outlook period, most countries are expected to see a further slight improvement in their fiscal balances (relative to GDP), as efforts to rationalise subsidy bills and to expand the tax base yield some results and economic growth picks up. Deficit reduction will, however, likely be slow and most Governments will struggle to meet their announced targets.

Most South Asian economies, including Bangladesh, India, the Islamic Republic of Iran and Sri Lanka, recorded solid growth in export revenues in 2014. India's exports benefited from the marked depreciation of the rupee in 2013, and Bangladesh and Sri Lanka registered expansions of garment exports amid robust demand in developed economies. In 2014, total export revenues (in local currency) are estimated to have increased by about 14 per cent in Sri Lanka and 9 per cent in Bangladesh. As some of the sanctions against the Islamic Republic of Iran were suspended, exports started to recover in 2014, albeit at only a moderate pace. Pakistan's exports during the first eight months of 2014 contracted slightly in dollar terms, while growing slowly in local currency units. On the import side, South Asia's economies generally benefited from the average decline in fuel prices in the past year. Moreover, some country-specific measures, such as an import duty on gold and silver in India, helped curb total import spending. External account positions generally improved in 2014. Bangladesh, Nepal, Pakistan and Sri Lanka recorded a further increase in workers' remittances, which account for more than 5 per cent of GDP in these economies. Similarly, tourist arrivals generally rose, although tourism revenues remain small relative to merchandise exports, except in Nepal. India's current-account deficit moderated from a peak of 6.1 per cent in the last quarter of 2012 to only 0.2 per cent in the first quarter of 2014. International reserves increased in most of the region's economies and currently range from close to four months of imports in Pakistan (partly due to the IMF financial support programme) to nine months in Nepal. Except in Sri Lanka, the size of external debt in total debt is also low.

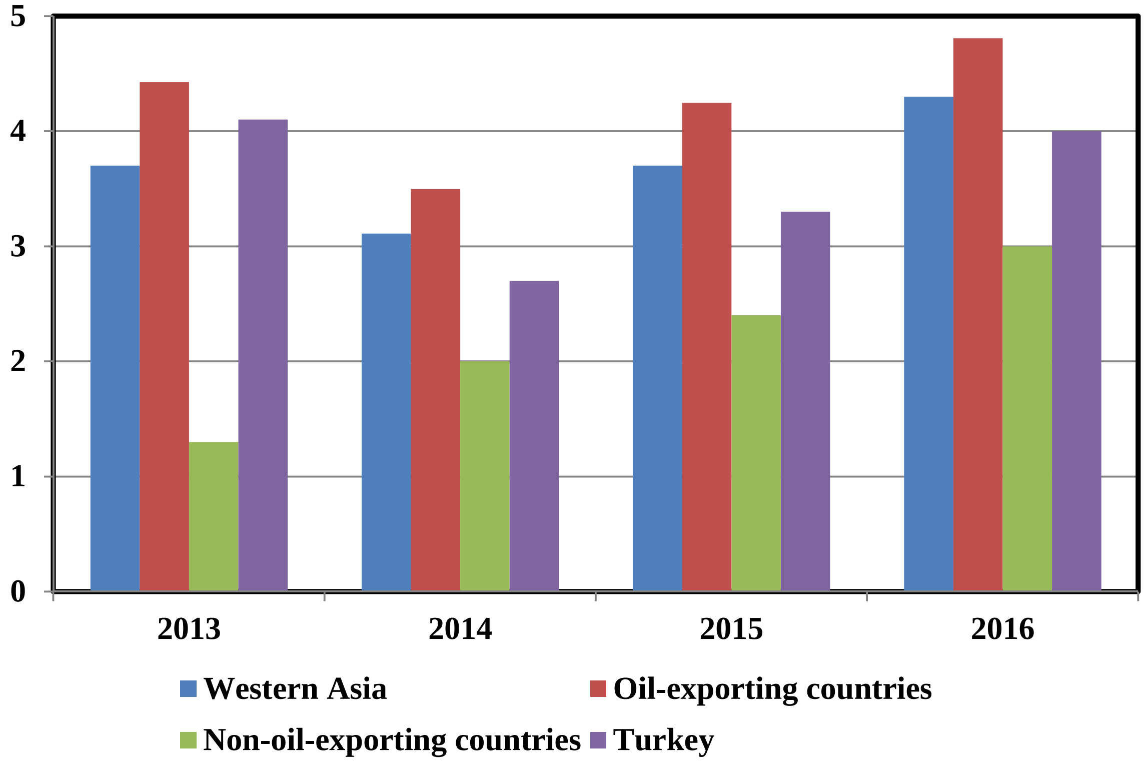
Across South Asia, macroeconomic stability has improved over the past two years, with economic growth starting to recover and inflation trending lower. However, a return to a fast-growth episode would require major domestic policy reforms. There are significant downside risks to the baseline outlook, related to the continuing fragility of the global economy and country-specific weaknesses, such as volatile security conditions and energy supply bottlenecks. Tighter global liquidity, along with a re-emergence of domestic inflationary pressures, could lead to a tightening of domestic credit, particularly in India and Pakistan. This would likely weaken consumption and investment activity.

Western Asia

Lower oil prices and armed conflicts in Iraq, Gaza and Syria hampered economic growth in Western Asia, which is expected to slow to 3.0 per cent in 2014 from 3.7 per cent in 2013 (figure 10). The international environment was not conducive to GDP growth either, as the region did not benefit directly from the recovery of the United States economy, while subdued economic growth in European economies restrained non-oil exports. During the forecast period, growth is expected to pick up in many countries, albeit to relatively modest levels compared to previous years.

In Turkey, the biggest economy in the region, real GDP rose 2.1 per cent in the second quarter, following a 4.7 per cent increase in the first quarter, which brings the GDP growth rate for the first half of 2014 to 3.3 per cent. The economic slowdown is mainly due to a deceleration of private consumption and investment. Private final consumption increased only by 0.4 per cent in the second quarter, after a 3.2 per cent increase in the previous quarter. This results in a growth rate of 1.8 per cent for the first half of 2014. In 2013, private consumption had grown by 5.1 per cent. This overall slowdown in private demand largely reflects tighter monetary policy, which started in January 2014, in order to prevent further currency depreciation and high inflation. As a result, the current GDP forecast for 2014 stands at 2.7 per cent, representing a major slowdown compared with 4.1 per cent in 2013. However, the economy could bounce back in 2015-16, but not to more than an average of 3.7 per cent a year, mainly on the back of better external demand, provided that the depreciation of the national currency will continue to help the export sector.

Figure 10
GDP growth in Western Asia
(Percentage change over previous year)



Source: UN/DESA.

Member countries of the Gulf Cooperation Council (GCC), namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, witnessed slower growth in 2014 due to declining oil revenues. Despite lower oil prices, external demand from East and South Asia positively impacted the region through increasingly strengthened inter-regional trade linkages. At the same time, several economies in the region were able to minimize the negative impact of the subdued oil sector by increasing fiscal spending and stimulating domestic demand. That is, for instance, the case in Saudi Arabia, which is expected to be the only economy registering faster GDP growth in 2014, up from 3.8 per cent in 2013 to 4.0 per cent in 2014. The forecast for this subgroup of countries remains fairly positive, despite expected lower oil prices in 2015. Domestic demand will remain strong, stimulated by ongoing public investment in infrastructure, as many of the countries enjoy sizeable financial reserves to cope comfortably with lower oil prices. Qatar and Saudi Arabia are both expected to register slightly faster GDP growth in 2015, at 6.7 per cent and 4.2 per cent, respectively.

Besides the heavy humanitarian toll, the intensifying armed violence in the region caused substantial losses of capital stock, hampered private investment activities and depressed growth prospects of Iraq, Israel, Palestine, Syria and Yemen. In addition, the continuing influx of Syrian refugees overburdened the economic infrastructures of Jordan, Lebanon and Turkey. Data is limited for countries facing military conflicts and it is difficult to assess with confidence the economic situation in Iraq and Syria. Nevertheless, in Iraq, the economic growth rate is expected to be negative in 2014, -2.6 per cent. Despite stable crude oil exports, the collapse of non-oil-sector activities due to the expanding conflict areas in the country significantly worsened the economic situation and the standard of living. In Syria, GDP has been contracting for the past three years, by 3 per cent in 2011, by 30.8 per cent in 2012 and by 37.7 in 2013. As a result, the GDP level of Syria at the end of 2013 was about 41 per cent of the level in 2010. At this stage, it is difficult to assess the economic situation for 2014 and for the forecast period, but the economy will continue to be hampered by the ongoing military conflict.

A divergence between the aggregate growth rate and the standard of living was observed in Jordan and Lebanon, where the extent of economic expansion was insufficient for the significantly increased number of residents coming from conflict countries in the region. Nevertheless, GDP growth is expected to accelerate in these two economies in 2014, to 3.5 per cent in Jordan and to 2 per cent in Lebanon, driven mainly by strong growth in construction and government spending. In Israel, by contrast, GDP growth is expected to decelerate in 2014, partly due to the conflict in Gaza, but also due to lower private consumption and investment. All these three economies, namely Israel, Jordan and Lebanon, are expected to see their economies expand at a faster pace during the forecast period.

The stable domestic demand expansion in GCC countries contributed to the increase in labour demand in those countries. In spite of labour nationalization measures taken by some GCC countries, demand for additional labour in the private sector, both in skilled and unskilled categories, resulted a growing number of immigrants. Against a backdrop of meagre job growth in 2014, unemployment figures will remain high for nationals (i.e., the rates excluding foreign workers), particularly for youth. Moreover, the intensifying armed conflicts in Iraq, Palestine, Syria and Yemen forced workers either to be unemployed or economically inactive. The present trend is expected to continue during the forecast period due to moderate GDP growth. Labour nationalization in GCC countries is expected to continue at various levels, which may have negative effects for job seekers from Jordan and Lebanon.

Reflecting the declining trend in international commodity prices, inflationary pressures were well contained in the region in 2014, with the exception of Syria, Turkey and Yemen. In aggregate, the inflation rate for Western Asia increased to 4.8 per cent in 2014 from 4.2 per cent in 2013. This trend is expected to continue during the forecast period. In Syria, during the overall conflict period, the consumer price index increased by around 179 per cent. In addition, in 2014, the country was under severe foreign-exchange constraints and experiencing significant successive devaluations of its national currency, aggravating the situation. In Turkey, despite tighter monetary policy, inflation has trended up, with an anticipated annual increase of 8.9 per cent in 2014, compared with 7.5 per cent in 2013. Yemen’s inflation remains in double digits as a result of fuel and electricity shortages. There also appears to be a shortage of essential goods and rising prices in conflict areas in Iraq, although official figures in this respect are still limited. Housing-related items in GCC countries, particularly property rent, started becoming the main contributor of the present inflationary pressures in this subregion.

In the area of monetary policy, Turkey saw the start of a tighter policy stance in January 2014 in order to prevent further currency depreciation and high inflation. For instance, the central bank raised the one-week repurchase (repo) lending rate from 4.5 per cent to 10 per cent in late January 2014. Nevertheless, the subsequent economic slowdown has put the central bank under pressure to revise its monetary policy stance. Assuming that inflation will remain high, the central bank will keep interest rates relatively close to current levels during the forecast period. In GCC countries, a growth-supporting monetary policy regime with historically low policy interest rates continued throughout 2014, mirroring the monetary policy stance of the United States. In Israel, monetary policy will remain loose during the forecast period, given the anticipated low inflation and modest economic growth as well as the central bank's desire to sustain the recent weakening of the national currency. In Jordan, the recovering foreign reserves allowed the Central Bank to augment its expansionary policy stance by cutting its policy rate twice in the first half of 2014. The Lebanese central bank continued to utilize subsidized loan packages in order to stimulate domestic demand. The central banks in Iraq, Syria and Yemen placed their policy priority on economic stabilization, aiming at a smooth facilitation of foreign-exchange supplies. Monetary policies in the region will be revised in line with the anticipated interest rate hike in the United States in 2015, especially in countries whose national currency is pegged to the dollar.

Regarding fiscal policy, Turkey is expected to keep its policy stance relatively tight during the forecast period in order to keep public debt under control and to reduce the large current-account deficit. However, given the anticipated economic slowdown owing to tighter monetary policy, the government might opt for a more expansive fiscal policy in 2015-16. In the fiscal year covering 2014, the fiscal stance of GCC countries remained expansionary, although with a more conservative tone. The growth in public expenditure in real terms was a basis of support for domestic demand expansion in GCC countries. However, as oil prices are expected to continue their downward trend, fiscal policy is likely to become less expansionary in several countries, including Saudi Arabia, and smaller economies that were facing fiscal deficits in 2014, such as Bahrain and Oman. A tighter fiscal policy environment remained in Jordan, Lebanon and Yemen, where rising government debts level had started pressuring fiscal balance with higher interest payments in budget expenditures. The resulting high current expenditure level forced those countries to rely more on foreign aids to carry out public capital investments. Fiscal consolidation, including subsidy reforms, remained a major policy agenda in Jordan and Yemen but the increasingly sensitive political situation made any reform attempt difficult. The deteriorating security situation and the armed violence hampered the effective implementation of fiscal policy in Iraq, Palestine and Syria.

The current-account deficit of Turkey is expected to narrow in 2014 and during the forecast period, while financing the deficit may become more challenging than in previous years. The trade balance has improved, as exports increased in the first half of 2014 by 8.1 per cent, while imports contracted by 2.1 per cent in the same period. Consequently, the current account deficit decreased to 26.8 billion dollars for the January-July 2014 period, compared with 43.3 billion dollars for the same period in the previous year. Despite declining oil export revenues, GCC countries, as well as Iraq, are expected to register current-account surpluses in 2014, although narrower than in previous years. The current-account deficits are estimated to edge up in Jordan, Lebanon and Yemen, with the lack of change in the amount of foreign reserves held by the central banks of these countries indicating that the current-account deficits were barely financed by positive capital inflows. Syria continued to be under severe foreign-exchange constraints. Israel is also expected to face a trade deficit in 2014, as exports stagnated. During the forecast period, exports are expected to improve, although this most likely will not help to reduce the trade deficit.

The outlook is subject to four major downside risk factors. The first factor is the possible expansion of conflict areas in Syria and Iraq to other countries in the region. The further loss of talent, capital stock and infrastructure would have direct negative consequences for the region's economic growth. Second, if crude oil prices fall below 70 dollars per barrel in Brent, business confidence in GCC countries will be negatively impacted. The third factor is unanticipated repercussions from monetary tightening in the United States on the region's funding costs. The fourth factor is the growth prospects of East and South Asian economies.

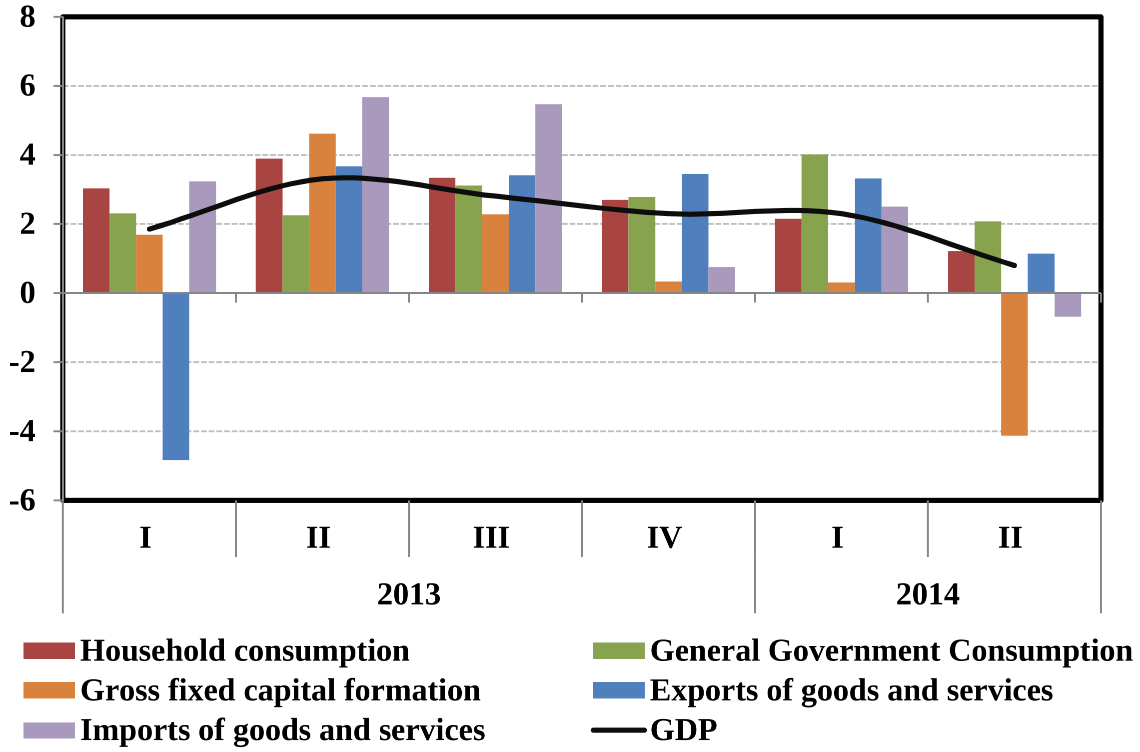
Latin America and the Caribbean

In 2014, economic growth in Latin America and the Caribbean decelerated markedly to an estimated 1.4 per cent, after reaching 2.67 per cent in 2013. Weak domestic conditions - especially investment demand - combined with sluggish external demand and deteriorating terms of trade for most countries are the main factors behind this disappointing performance. Among subregions, South America posted a significant decline in growth due to major turbulences in large economies. In contrast, growth in Mexico and Central America is slowly strengthening, favoured by the recovery in the United States, the increase in migrant remittances and, in some countries, a rise in bank lending. The Caribbean is also expected to register a pick-up in growth in 2014.

Among the largest countries, the Mexican economy is accelerating from the downturn last year and is expected to expand by 2.4 per cent in 2014. Following monetary and fiscal stimulus, together with the expected investment boost coming from structural reforms and the economic strengthening of the United States, the Mexican economy will likely gain further momentum in 2015. In South America, Brazil is expected to grow by only 0.4 per cent in 2014, with a major fall in investment and a poor performance of the manufacturing sector. Venezuela is expected to have an economic contraction this year amidst serious economic imbalances. In addition, Argentina is seeing a major slowdown and the likelihood to enter into recession this year has recently increased. Chile's economy is also decelerating markedly and it is expected to expand by only 1.9 per cent in 2014. Other countries such as Bolivia, Colombia and Peru are expected to continue on a more solid growth path, driven by dynamic domestic demand.

Although there is considerable heterogeneity among countries, in general, cooling household consumption and a decline in gross fixed-capital formation translated into lower domestic demand growth (figure 11). Government consumption, on the other hand, picked up and the net contribution of exports to GDP growth was slightly positive, given the fall in import volumes. This was reflected in a downtick in retail sales and, in some countries, construction activity. Growth in retail sales decelerated at a faster pace during 2014 compared to 2013, while construction activity posted mixed results. It contracted in several countries, while double-digit growth was recorded in others. Manufacturing also put in a mixed performance, with higher growth in several countries in the north of the region and low or negative growth in South America. The impact of the external environment on region's economies varied in line with their exposure to the global economy and with their capacity to respond with counter-cyclical policies. The slowdown in China and the stagnation in the Eurozone took a heavier toll on South America's commodity exporters and Brazil, some of whom have nonetheless greater fiscal space to counteract falling external demand. The recovery of the economy of the United States during 2014 benefited Mexico as well as the countries of Central America and the Caribbean through the positive impact on exports of goods and services (primarily tourism).

Figure 11
Latin America: Growth in GDP and aggregate-demand components
(Quarterly year-on-year-growth rate, percentage, constant 2005 dollars)



Source: UN/ECLAC.

Regarding labour markets, the economic conditions prevailing in the region in 2014 were reflected in a lower demand for labour and as in 2013, the employment rate fell compared to the previous year, primarily because of inadequate levels of formal-salaried-job creation. Progress on improving the quality of employment, as measured by the number of workers covered by contributory social security systems, was also slower than in previous years. However, at the regional level, weak job creation has not translated into higher unemployment rates as labour supply growth moderated, reflected by a lower participation rate. In addition, real wages still increased at a moderate pace in several countries. Combined with, albeit decelerating, credit growth, this sustained the slight increase in household consumption.

At the regional level, inflation accelerated during 2014 and reached a 12-month cumulative rate of 9.1 per cent in August, compared to 7.9 per cent in December 2013. This is explained by higher core inflation and, in some countries, the impact of national currencies' depreciations on domestic prices. However, this upward trend was not generalized among countries in the region. The higher regional inflation rate was driven mainly by rising prices in the Bolivarian Republic of Venezuela and Argentina, while inflation decreased somewhat in Mexico and several Central American and Caribbean countries.

The combination of low growth rates and higher inflation posed a dilemma for monetary policy authorities in the region. In the first months of 2014, some countries increased their interest rates (Brazil, Colombia) while others slowed down the expansion of the monetary aggregates. However, towards the middle of the year, inflationary pressures seemed to have eased in some countries, which broadened the scope for expansionary policies, with several countries lowering their interest rates to stimulate growth (Chile, Mexico and, later on, Colombia). Furthermore, a number of countries also implemented macro-prudential measures to improve regulation and oversight of the financial sector and adjust their management of reserves and capital flows. Meanwhile, domestic lending in the region continued to grow in 2014, albeit at lower rates. Domestic lending to the private sector slowed down in those economies more integrated into the international financial markets and in some Central American countries, while in those economies that do not follow inflation targets, nominal credit growth picked up substantially during the first months of 2014. In Brazil, Ecuador, Mexico, Panama and Peru, lending by public banks grew faster than lending by private banks as the authorities sought to stimulate domestic demand.

At the regional level, international reserves grew slightly in 2014, while at the country level, the result was mixed. In Argentina, Barbados, Ecuador, Guyana and Panama, international reserves dropped in the first half of the year. Bahamas, El Salvador and the Dominican Republic posted significant increases, while Paraguay, Uruguay, Brazil and Mexico saw more moderate increases. The slower build-up of international reserves reflected also their use as a tool to reduce exchange rate volatility. In early 2014, the central banks of the Dominican Republic, Costa Rica, Peru and Trinidad and Tobago actively intervened in foreign currency markets, while the central bank of Brazil extended the daily currency swap programme it introduced in August 2013.

The region's overall fiscal balance in 2014 is expected to register a deficit of 2.5 per cent of GDP. The region's persistent deficits point to a structural deterioration of public finances, in particular given the fact that they are combined with external imbalances. Fiscal revenues posted different trends among countries. In some countries, lower fiscal revenues were in line with the decline in revenue from non-renewable natural resources (Chile, Bolivia), while in others (Paraguay, Peru and Colombia), increases in revenues from income and value-added-tax collection were offset by non-tax revenues (Paraguay), a drop in financial surpluses of the public oil company (Colombia), and mining revenues (Peru). Public expenditure, especially current expenditure and particularly that by central governments, continued to grow faster than economic activity. Nevertheless, several countries have announced substantial infrastructure programmes for the coming years and public-private partnership initiatives are on the rise. In the English- and Dutch-speaking Caribbean countries, current primary expenditure held at levels similar to 2013, with a growing interest-payment burden. As deficits inched up, regional public debt saw a new, albeit modest, increase in 2014, in line with the trend of the past two years.

The pattern of stagnating and gradually falling prices for a number of the region's export commodities continued in 2014, given slower global demand growth for these products.

Exceptions to this trend were tropical beverages, whose prices increased at a fast pace in the first half of the year. In this context, regional terms of trade are expected to slightly decrease, albeit to varying degrees, depending on the export structure. In contrast to commodity-exporting countries, terms of trade in Central American and non-commodities-exporting Caribbean economies increased slightly, as they are net importers of food and oil.

Lower commodity prices were slightly compensated by an increase in export volumes, while imports remained stagnant compared to 2013, mainly due to the fall in the regional investment rate and lower dynamism of household consumption. In this context, the region's trade surplus improved slightly. However at the country level, performance was uneven, as in Mexico and some Central American countries, exports edged up, in contrast with the declines that prevailed in South America. Among the contributing factors to this result were differences in the economic evolution of major trading partners and uneven export price trends. An increase in remittance inflows, with the exception of countries like Colombia and Ecuador who have a large share of emigrants in Europe, and a recovery in tourism in most of the Caribbean countries, Central America and Mexico, as well as relatively unchanged negative service and income balances contributed to the condition of the regional current-account balance, which remained at similar levels compared to those of 2013, at around 2.7 per cent of GDP. As in 2013, the current-account deficit in 2014 was mainly funded by net foreign direct investment flows, followed by net portfolio investment.

The regional outlook for 2015 depends largely on the growth performance of China, the recovery of developed economies and the expected increase in regional investment. In the baseline scenario, regional economic growth is expected to recover to about 2.4 per cent in 2015. On the external front, a sustained recovery of the United States economy will benefit regional exports, particularly in Mexico and Central America. It will also have a positive impact on growth through tourism and remittances channels. To this adds the persistence of high, although tightening, liquidity in the global financial markets and relatively high commodity prices, albeit at somewhat lower levels than in 2013-2014. In addition, the expected currency depreciations against the dollar in light of the tightening of monetary policy in the United States will also contribute to an increased external competiveness of regional exports. On the domestic front, investment demand is expected to rise, led by the implementation of public investment projects announced by several countries such as Mexico (oil sector), Brazil (oil sector and works related to the Olympic Games 2016) and Chile (infrastructure and mining).

III. Global risks and uncertainties

III.1. Risks associated with the QE exit and the normalisation of interest rates by the Fed

The uncertainty associated with the normalisation of monetary policy by the Fed can be captured in three different scenarios.[19] While the most likely baseline assumption regarding interest rates depends on adequate growth, sufficient employment creation and controlled inflation, special circumstances can trigger a deviation from the assumed interest rate path. This, in turn, would lead to the sudden repricing of financial assets, higher volatility and possibly global spillovers. In one possible scenario, higher inflation or financial instability concerns would lead to a more rapid increase in the policy interest rate. Together with a rise in term premia, this would drive up credit spreads, accompanied by an increase in volatility and significant repercussions for global financial markets. By contrast, in another scenario, a renewed slowdown in growth prompts a delay in interest rate hikes, setting off higher volatility and possibly leading to additional financial instability risks in light of asset pricing that is even longer based rather on abundant liquidity than on economic fundamentals.

Any deviation from the policy interest rate path expected by financial markets could have major ramifications in financial markets.[20] One reason for this is the decrease in market liquidity for corporate bonds due to a retrenchment of market-making banks. As a consequence of this, any sharp increase in trading volume as it is likely to occur especially in the case of a sell-off in bond markets due to an upward revision of interest rate expectations would lead to a more pronounced fall in bond prices, higher yields and higher borrowing costs. A further reason lies in the increased role of financial players that feature a higher redemption risk. Mutual funds and exchange-traded funds (ETFs), together with households, have seen a continuous increase in their share as holders of corporate bonds, while the share of insurance and pension funds has decreased. This means that a jump in withdrawals especially from funds that are focused on rather illiquid high-yield bond markets could lead to indiscriminate selling and sharp price falls.

A faster-than-expected normalisation of interest rates in the United States can also create significant international spillover effects, especially drying up liquidity in emerging economies and pushing up bond yields.[21] Historically, the yields on 10-year government bonds across advanced and major developing economies have exhibited a high degree of correlation, especially during phases of rising interest rates in the United States. The direction of causation flows from the United States to the other markets, with the term premium being the major adjustment component. This observation is especially relevant in the current context, with other central banks like the ECB remaining committed to a loose monetary policy stance. While this will keep expected short-term interest rates low, a cascading term premium shock would still be likely to put upward pressure on long-term yields. Many emerging economies also remain vulnerable to the fallout from rising global interest rates. While certain economic fundamentals such as currency reserve ratios are overall in better condition than in the past, various factors have increased emerging markets' vulnerability particularly to higher global interest rates. This includes, for example, rising levels of foreign-currency-denominated debt and short-term debt in a number of cases.

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[19] IMF, Global Financial Stability Report, April 2014, p. 16.
[20] IMF, Global Financial Stability Report, April 2014, p. 18.
[21] Ibid.

III.2. Remaining fragilities in the euro area

The euro area sovereign debt crisis has subsided dramatically since the European Central Bank (ECB) announced its Outright Monetary Transactions facility in August 2012. It has yet to be activated, but its mere existence has broken the negative feedback loop between weak banks and weak government fiscal positions. Sovereign-bond spreads have narrowed significantly and some of the crisis countries have seen an improvement in their debt ratings.

However, while the sense of crisis has dissipated, significant risks remain. The banking sector remains under stress. Lending conditions remain fragmented across the region with firms in periphery countries, particularly SME's, starved of credit. In addition, the ECB and the European Banking Authority are currently performing a major asset-quality review and stress tests for the region's banks. These are expected to determine a need for significant recapitalization of some banks, with a question of who will pay for it. If governments were to be required to finance a large portion of this recapitalization, the negative feedback loop could re-emerge.

The most significant risk, however, is the precarious nature of the euro area recovery. The underlying growth momentum in the region has decelerated to the point where an exogenous event could lead to a return to recession. The current tensions in the Ukraine and resulting sanctions have already had a serious negative impact on activity and confidence. The weak state of the recovery is characterized by continued low levels of private investment, extremely high unemployment in many countries, which becomes more entrenched as the ranks of the long-term unemployed increase, and by dangerously low inflation, which could turn to Japan-style deflation. Aside from being exceptionally difficult to exit, deflation would also increase real government debt burdens and perhaps reignite the debt crisis as fiscal targets become increasingly difficult to achieve.

III.3. Vulnerability in emerging-market economies

Many large emerging market countries continue to face a very challenging macroeconomic environment as weaknesses in their domestic economies, evinced by sluggish economic growth, interact with external financial vulnerabilities in the context of an expected tightening of global liquidity conditions. Although the baseline forecast projects a moderate growth recovery in 2015 and 20116 for almost all emerging economies, including Brazil, India, Indonesia, Mexico, the Russian Federation, South Africa and Turkey, and only a slight moderation in China, there are significant risks of a further slowdown or a prolonged period of weak growth. A broad-based downturn in emerging economies, particularly a sharp slowdown in China, would not only weigh on growth in smaller developing countries and economies in transition, but could also derail the fragile recovery in developed countries, particularly in the struggling euro area.

At present, the main danger for many emerging economies arises from the potential for negative feedback loops between weak activity in the real sector, reversals of capital inflows and a tightening of domestic financial conditions amid an expected rise in the interest rates in the United States. The financial turmoil episodes of mid-2013 and early 2014 illustrated the dynamics of such feedback loops and underlined the policy dilemma some of the countries are facing. During these episodes, global investors reallocated their portfolios amid a reassessment of the Fed's monetary tightening path, concerns over global growth, higher uncertainty and country-specific shocks.[22] This resulted in strong portfolio capital reversals and rapidly depreciating currencies in emerging economies, particularly those with large external financing needs and macroeconomic imbalances, such as Brazil, Indonesia, South Africa and Turkey. Faced with significant downward pressure on domestic assets and currencies, the central banks in these countries hiked interest rates even as economic growth sputtered. These moves, while helping to stabilize financial markets, have further slowed down activity in the real sector. Over the course of the year, the growth estimates for 2014 have been lowered sharply for Brazil, South Africa and Turkey and marginally for Indonesia.

Geopolitical tensions, especially the conflict between Russia and Ukraine, the weaker-than-expected performance of developed economies and the growth moderation in China have also negatively impacted real activity in emerging economies over the past year. Contrary to expectations at the beginning of the year, average GDP growth in a group of 18 emerging economies declined further in 2014 to 4.1 per cent, down from 4.7 per cent in 2013 (figure 12).[23] The current pace is less than half the rate recorded in the period 2004-07, when these countries grew at an annual average rate of 8.5 per cent. When China is excluded, the slowdown is even more pronounced, indicating the magnitude of the recent slump. Without China, emerging market growth in 2014 averaged only 2.3 per cent, compared to 6.5 per cent in 2004-07.

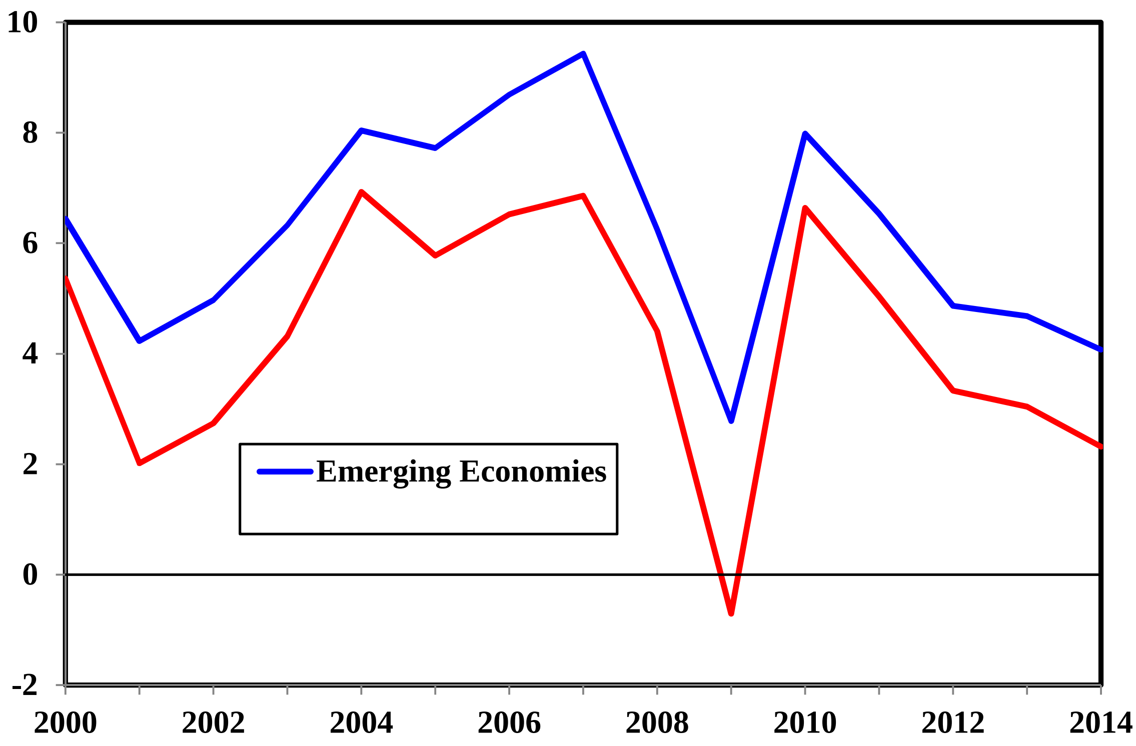
Much of the recent downturn in emerging economies outside Asia can be attributed to weak growth in investment and total factor productivity. In many countries, investment in fixed capital has slowed considerably since 2011 even as global financial conditions remained unusually loose. As a result, the contributions of gross fixed investment to GDP growth in most emerging economies outside Asia have been low or negative in the past two years. Investment to GDP ratios have remained below 20 per cent in several economies, for example in Argentina, Brazil, South Africa and Turkey. Growth in total factor productivity fell to the lowest level in two decades in 2013, indicating increased challenges for emerging economies to achieve technological progress and efficiency gains. Given the expected normalization of monetary policy in the United States, it is likely that emerging markets will see a tightening of financial conditions in the forecast period. In the absence of a new reform push, this may further weaken real investment growth, particularly in the private sector. A key question in this regard is the degree to which the upcoming increase in US interest rates will affect borrowing costs in emerging economies.

While fixed capital formation has often remained subdued, many emerging economies have registered considerable credit growth in recent years, with increased leverage in the household and the corporate sector. Corporate sector debt as a share of GDP is particularly high in some faster-growing East Asian countries, such as China and Malaysia, but also elevated in many less dynamic economies, including Brazil, Russia, South Africa and Turkey. Preliminary evidence suggests that part of the new borrowing has been used for more speculative activities, as indicated by a marked increase in corporate cash holdings.[24] Rising

[22] Changes in market expectations about the path of monetary tightening in the United States were the main factor behind the turbulences in mid-2013, whereas country-specific shocks, such as an unexpected devaluation in Argentina and a deterioration of the political situation in Russia and Ukraine, played the major role in early 2014.
[23] The 18 emerging economies analyzed here are: China, Brazil, India, the Russian Federation, Mexico, Turkey, Indonesia, Poland, Argentina, South Africa, Thailand, the Bolivarian Republic of Venezuela, Colombia, Malaysia, Chile, the Philippines, Peru and Ukraine.
[24] See BIS Quarterly Review, "Risks related to EME corporate balance sheets: the role of leverage and currency mismatch", September 2014.

interest rates, along with weakening earnings in the context of slowing economic growth, could put considerable pressure on corporate balance sheets. China's high and rapidly rising level of total debt poses a substantial risk factor although almost all of the debt is held domestically and the country is partly insulated from changes to global financial conditions.

Figure 12
Annual GDP growth in emerging economies
(Percentage)



Source: UN/DESA.
Note: The following 18 emerging economies are included: China, Brazil, India, the Russian Federation, Mexico, Turkey, Indonesia, Poland, Argentina, South Africa, Thailand, the Bolivarian Republic of Venezuela, Colombia, Malaysia, Chile, the Philippines, Peru and Ukraine.

An additional risk factor for several emerging economies, including Brazil, Colombia, Indonesia, Peru, South Africa and Turkey, are persistently large current account deficits. According to recent projections, full-year current account deficits in 2014 are expected to be about 3.5 per cent in Brazil and Indonesia, 4 per cent in Colombia, 5 per cent in Peru and close to 6 per cent in South Africa and Turkey. Economies with large external financing needs, weak economic fundamentals and large open capital markets appear to be most vulnerable to a tightening of global financing conditions and further portfolio reallocation.

III.4. Geopolitical tensions and risks

Geopolitical tensions remain a major downside risk for the economic outlook. The crises in Ukraine, Syria, Iraq and Libya have already had, in addition to the severe human toll, pronounced economic impacts at the national and subregional levels, although the global economic effect has so far been relatively muted. A major reason for this is that global oil markets remained on an even footing, with any actual or feared conflict-related decline in oil supplies being offset by oil production increases notably in the United States. Nevertheless, the world economy remains at risk to experience a more pronounced slowdown that could be caused by subregional economic weakness due to conflict and sanctions feeding into a broader global impact. A further risk lies in a drastic fall in oil output and exports by a major oil-exporting country, which may set off a sharp adjustment in financial markets' risk perception, leading to higher risk premia and an increase in market volatility across different asset classes.

The crisis in Ukraine has led to several rounds of sanctions between the Russian Federation and leading OECD economies. Those countries have introduced a series of increasingly tough sanctions against the Russian economy, affecting the defence, finance and energy sectors by restricting exports of arms, double-use technology and certain equipment for oil industry and curbing access of the Russian banks and companies to international capital markets. The measures have already imposed a serious toll on the Russian economy through worsening business sentiment and an outflow of capital and triggered a reciprocal response. The Government of the Russian Federation has decided in August to impose counter-sanctions against those countries, in particular banning for one year imports of their food products, despite the fact that switching to alternative suppliers may imply high transaction costs and lead to higher inflation, which currently poses a serious macroeconomic threat to the Russian economy.

Weaker Russian import demand has already affected a number of EU economies, as the Russian market absorbs almost 5 per cent of the euro area's exports. The slowdown in the German economy in the second quarter is partially explained by lower exports of automotive components to the Russian Federation. Moreover, the restriction on supplying deep-water drilling equipment to sanctioned Russian companies affected its producers. Financial difficulties experienced by the sanctioned oil companies will limit their investment plans and, consequently, sales of construction materials to those companies. Some countries, such as the Baltic States and Finland, will lose transit revenue. The tourism industry globally will suffer from the depreciation of the Russian currency. The Russian ban on food imports, in turn, will mostly hurt those countries which are strongly exposed to trade with the Russian Federation, not only through direct losses by the agricultural sector, but also their consequential effects. Total EU food exports to the Russian market amount to $11 billion annually. The forgone food exports would impact the entire logistics sector (including transport), put pressure on the states' budgets to compensate for farmers' losses, put at risk banks exposed to agricultural borrowers by increasing the number of non-performing loans and constrain credit extended to farmers. For some East European countries (especially the Baltic States and Poland), but also for Finland and Norway, the Russian Federation absorbs a significant share of their food exports. For Poland, fruit and vegetable exports to the Russian Federation provided revenue of around $1 billion last years. The loss of the Russian market would also have a multiplier effect on the region through weaker aggregate demand in the affected countries, due to significant intra-regional trade links. Although the EU members will be able to file a compensation claim with the EU, and the European Commission in late August announced support measures for dairy exporters and fruit and vegetable farmers, full coverage of losses is not likely. By contrast, some countries, among them Argentina, Brazil, Serbia and Turkey, as well as some CIS economies, may benefit from the current situation, becoming an alternative food product supplier to the Russian Federation.

The conflicts in Iraq, Syria and Libya, besides the severe humanitarian toll, all concern major oil exporters or their vicinity. In 2013, Iraq's oil production constituted 3.7 per cent of total world oil production, while Libya provided 1.1 per cent of global output. But despite the ongoing conflicts in these countries, crude oil prices actually declined, in contrast to similar episodes in the past that saw sharp increases in crude oil prices. This price behaviour is linked to the oil output trend in other oil producers, especially the United States. Oil production there jumped by 12.5 per cent in 2013, following an increase by 13 per cent in the previous year. The United States oil output level in 2013 came close to that of the Russian Federation, which is surpassed only by Saudi Arabia. Taken together, this has increased the resilience of the global oil market to any crisis scenarios. However, a major downside risk remains the possible sudden and drastic stoppage of exports by a major supplier country. While even such a scenario could eventually be compensated by existing slack in global oil markets, the immediate reaction of financial markets could be severe, with possible negative repercussions also for real economic activity. [25]

A further risk to the outlook constitutes the future development in the current Ebola epidemic. The current outbreak of the disease is the largest one since the virus was first discovered in 1976, with the number of cases and deaths in this outbreak exceeding those of the previous outbreaks combined. In August of this year, the WHO declared the outbreak an international public health emergency, and in September, the United Nations Security Council declared the epidemic a threat to international peace and security. The first cases of the current outbreak were identified in March of this year and the majority of cases have so far occurred in three West African countries, namely Guinea, Sierra Leone and Liberia. The occurrence of the outbreak and the difficulties in addressing it have been underpinned by the weak health systems in these countries, both in terms of human and physical resources. In addition to the severe human toll of the disease so far, it has also created major economic costs in the affected countries through restrictions on travel and trade.

IV. Policy challenges

IV.1. Fiscal policy stance

For major developed economies, including Japan, which earlier resorted to a fiscal stimulus, fiscal policy in 2014 was dominated by pursuing the goal of fiscal consolidation, both on the revenue and on the expenditure side. Consequently, the average size of the budget deficit in developed economies is expected to decline further in 2014. The implications of those consolidation policies for economic growth may be not so straightforward to assess, but in general they should have a mildly contractionary impact. In the outlook for 2015, fiscal tightening in most of the developed economies is likely to continue, but as the most drastic post-crisis austerity measures have already been implemented, the countries should face less fiscal drag, unless the cyclical position of those economies deteriorates dramatically, undermining public revenues.

[25] Source for oil market data: BP Statistical Review of World Energy, June 2014, page 8.

The value of public debt, however, in many developed economies still remains above its historical averages; although it is extremely difficult to set quantitative benchmarks to identify long-term fiscal sustainability, which may vary across the countries, those debt levels may compel to serious reforms of the structure of public spending.

In the United States, several years of fiscal austerity noticeably reduced the size of the federal budget deficit (almost halving that in size by 2013) and repaired public accounts at the state and local government level. Although the federal budget squeeze is expected to continue in 2015 (despite the increase in the public debt ceiling agreed in February 2014), spending at the state and local government level may increase; thus the total impact of fiscal policy on growth may be largely neutral. Nevertheless, the sustainability of the entitlement programs in the long-run is repeatedly being questioned and their reforms will remain on the agenda, although the sharp political divisions will most likely prevent reaching any consensus in the near-term.

In the European Union, where fiscal accounts have been severely damaged by the loss of tax income during the economic downturn, countercyclical spending and bailouts of the banking system, fiscal consolidation have been progressing slowly, with only slight improvements in the fiscal positions of many countries; in some large economies, such as France, the government relied mostly on tax increases. A large number of the EU members in 2014 are expected to violate the provision of the Stability and Growth Pact stipulating a deficit below 3 per cent of GDP. In early October, the government of France announced that it will shift its target date of complying with the 3 per cent threshold to 2017, two year beyond its initial target. The overall efficiency of the austerity measures in the periphery euro area countries is being debated, however, their deficits have been reduced significantly and the prospective issuance of Eurobonds should mitigate near-term fiscal risks and promote greater fiscal discipline in the EU.

In Japan, the large fiscal stimulus enacted in 2013 has led to a swelling of the budget deficit to around 10 per cent of GDP. The public debt to GDP ratio, at over 220 per cent, has already been among the highest in developed countries (most debt , however is held domestically, the borrowing costs are low and the real interest rate became negative after the monetary stimulus) and may be unsustainable in the long-run. The consumption tax increases, enacted in 2014 and planned for 2015, should gradually reduce the deficit.

In developing countries and economies in transition, fiscal developments in 2014 varied. Their budget deficits and public debt levels are generally lower, than in developed economies. As commodity prices still remained weak, public revenues in a number of commodity exporters continued to underperform. In China, the fiscal deficit moderately expanded; against the backdrop of the high indebtedness of local governments spending by the central government is likely to increase in the future.

Despite comparatively low public-debt levels, for many developing countries a more cautious attitude towards sovereign borrowing may be recommended, as refinancing external debt may prove to be costly in case of a sharp change of investor’s appetite towards emerging markets or a weakening of the exchange rate. However, the increasing inequality in many emerging economies will necessitate fiscal spending aiming at narrowing income gaps and promoting social mobility among population.

IV.2. Monetary policy stance

As indicated in table 2, the direction of monetary policies has become more divergent among different economies in the world. While some countries are in position to raise interest rates, others intend to reduce interest rates, reflecting a diverse economic situation and different country-specific challenges facing different economies.

Major developed economy central banks continued to maintain accommodative monetary policy stances in 2014 against the backdrop of a weak recovery, deflationary pressures and limited support from the fiscal side. At its most recent meeting in September, the United States Fed decided to maintain the federal funds rate within the current range of 0-1/4 per cent for a "considerable time" after ending the asset-purchase program, especially if projected inflation continues to run below 2 per cent and inflation expectations remain well anchored.

With a forward guidance issued in July, the European Central Bank (ECB) announced that interest rates would remain at present or lower levels for an "extended period of time", given the subdued outlook for inflation in the medium-term, broad-based weakness in the real economy and weak monetary transmission. In line with its forward guidance, the ECB kept the interest rates on refinancing operations, the marginal lending facility and the deposit facility unchanged at 0.05 per cent, 0.30 per cent and -0.20 per cent, respectively, in September. In mid-October, the ECB will start buying covered bonds and asset-backed securities, which are expected to add 1.1 trillion euros to its balance sheet. The new round of asset purchases is expected to boost lending to SMEs, a priority sector for the ECB to stimulate employment and growth in the euro area economies.

In its meeting in October, the Bank of England (BOE) kept the policy rate unchanged at 0.5 per cent and the asset-purchase programme at 375 billion pounds. In its first forward guidance in August 2013, the BOE had signalled that it would leave interest rates unchanged at 0.5 per cent at least until the unemployment rate fell to 7 per cent. As unemployment fell below 7 per cent by April 2014, however, the BOE maintained that there was still room for non-inflationary growth in the economy before it needed to raise interest rates and that the increases in interest rates are likely to be "gradual and limited".

The Bank of Japan (BOJ) continued its Quantitative and Qualitative Monetary Easing, as inflation remained well below the 2 per cent-target. In October, the BOJ announced that it will increase the monetary base at an annual pace of about 60-70 trillion yen and purchase Japanese government bonds (JGBs) at an annual rate of about 50 trillion yen, with an average remaining maturity of about seven years. The BOJ kept its policy rate unchanged at 0.30 per cent, which has remained at this level since December 2008.

Developing and emerging economy central banks, in contrast, demonstrated considerable divergences in their monetary policy operations. The People's Bank of China, focusing on liquidity management and quantitative measures, reduced the short-term Repo rate twice during 2014 to inject liquidity into the banking system. It also cut the reserve requirements for banks that lend to SMEs and rural sectors of the economy. On the other hand, the central bank of Brazil increased its policy rate three times during 2014 amid concerns about rising inflation. The central banks of India, and South Africa raised interest rates during the first half of 2014, largely to stem capital outflows and prevent depreciation of their exchange rates, while the central bank of Indonesia has kept its policy rate unchanged at 7.5 per cent since November 2013 and the central bank of Turkey cut the policy rate by 50 basis points in May 2014.

Table 2
Timeline of policy interest rate action for selected monetary authorities
(as of 10 October 2014)

	Official interest rate	Last change		Current	Change since (bp)	
		Date	Change	(%)	Trough[b]	Jul-11
Australia	Cash rate	6 August 2013	-25bp	2.50	0	-225
Brazil	SELIC Overnight rate	2 April 2014	+25bp	11.00	375	-150
Canada	Overnight funding rate	8 September 2010	+25bp	1.00	75	0
Chile	Discount rate	14 August 2014	-25bp	3.25	275	-200
China	1-yr working capital	7 July 2012	-31bp	6.00	69	-56
Colombia	Repo rate	29 August 2014	+25bp	4.50	150	0
Czech Republic	2-week repo rate	1 November 2012	-20bp	0.05	0	-70
Euro area	Refi rate	4 September 2014	-10bp	0.05	0	-145
Hong Kong, SAR[a]	Discount window base	17 December 2008	-100bp	0.50	0	0
Hungary	2-week deposit rate	22 July 2014	-20bp	2.10	0	-390
India	Repo rate	28 January 2014	+25bp	8.00	325	0
Indonesia	BI rate	12 November 2013	+25bp	7.50	175	75
Israel	Base rate	25 August 2014	-25bp	0.25	0	-300
Japan	Overnight call rate[c]	5 October 2010	-5bp	0.05	0	0
Korea	Base rate	14 August 2014	-25bp	2.25	25	-100
Malaysia	Overnight rate	10 July 2014	+25bp	3.25	125	25
Mexico	Repo rate	6 June 2014	-50bp	3.00	0	-150
New Zealand	Cash rate	24 July 2014	+25bp	3.50	100	100
Peru	Reference rate	11 September 2014	-25bp	3.50	225	-75
Philippines	Reverse repo rate	11 September 2014	+25bp	4.00	50	-50
Poland	7-day intervention rate	8 October 2014	-50bp	2.00	0	-250
Romania	Base rate	30 September 2014	-25bp	3.00	0	-325
Russia	Key pol rate	25 July 2014	+50bp	8.00	N/A	N/A
South Africa	Repo rate	17 July 2014	+25bp	5.75	75	25
Taiwan, Province of China	Official discount rate	30 June 2011	+12.5bp	1.875	62.5	0
Thailand	1-day repo rate	12 March 2014	-25bp	2.00	75	-125
Turkey	1-week repo	17 July 2014	-50bp	8.25	324	200
United Kingdom	Bank rate	5 March 2009	-50bp	0.50	0	0
United States	Federal funds rate	16 December 2008	-87.5bp	0.125	0	0

Source: JPMorgan Chase.

a Special Administrative Region of China.

b Refers to trough end-quarter rate from 2009 to present.

c Bank of Japan targets ¥60-70 tn/year expansion in monetary base.

IV.3. Challenges in managing the normalisation of monetary policy

Both the end of QE by the Fed in October and the normalisation of its policy interest rate that is assumed in the baseline forecast hold significant risks and uncertainties for the economic outlook. These relate to the design of the exit strategy, its timing and the perception by financial markets. The potential difficulties that can arise in this context already became clear in the spring of 2013, when the announcement by the Fed of its intention to taper its bond purchases set off a fall in the price of various financial assets and a spike in financial market volatility.

As the Fed is about to end its quantitative easing in the form of bond purchases, the focus has increasingly moved to the future trajectory of the policy interest rate. As outlined in the assumptions for the baseline forecast, the first interest rate hike is expected in the third quarter of 2015, with further gradual increases bringing the policy rate to 2.75 per cent by the end of 2016. This projection is linked to the guidance given by the Fed that it will maintain the current near-zero level of interest rates for a considerable time after the end of the asset purchase program, provided that inflation remains low.

The actual path of the policy interest rate will depend on a number of factors, especially the emerging macroeconomic picture in terms of unemployment and inflation as well as concerns about financial stability risks. In another direction, interest rates will also be a major determinant not just of the macroeconomic performance, but also the extent of financial stability risks and global spillovers. Policy makers face the challenge to determine the optimal magnitude and timing of interest rate changes while dealing with a difficult tradeoff: delaying the policy tightening can create additional asset mispricing and financial stability risks, while an unwarrantedly quick tightening could weaken the still fragile economic growth picture.

The difficulty of designing the optimal monetary policy path stems in large part from the uncertain nature of macroeconomic data. A case in point is the unemployment rate in the United States, which has fallen from a peak of 10 per cent to 6.1 per cent. However, at the same time, the percentage of employees working part-time but preferring to work full-time remains elevated, indicating significant underemployment. In addition, the labour force participation rate has decreased, meaning that more people have simply stopped looking for a job. This raises two issues for monetary policy makers. First, there is the need to consider a broader unemployment variable that adjusts the nominal unemployment rate for involuntary part-time work and the decrease in the labour force participation rate. Second, if the drop in the participation rate is cyclical, monetary policy can be a potent means to reduce the participation gap by letting the unemployment rate fall below its long-run natural rate. This would help bringing people back into the job market, which as a side effect would also reduce up to a certain point any inflation pressure from the undershooting of the unemployment rate.[26] However, an opposite argument can be made that a large part of the decline in the participation rate is actually structural, due to for example the ageing of the population.[27] In this case, targeting the participation rate with monetary policy would be inadequate and create upward wage pressures and inflation.

[26] Christopher Erceg and Andrew Levin, “Labour force participation and monetary policy in the wake of the great recession”, IMF Working Paper WP/13/245, July 2013, p. 4.

[27] Stephanie Aaronson, Tomaz Cajner, Bruce Fallick, Felix Galbis-Reig, Christopher Smith, William Wascher, “Labour force participation: Recent developments and future prospects”, Economic Studies at Brookings, September 2014, p. 62.

IV.4. Policy challenges for strengthening employment and improving working conditions

In the aftermath of the financial crisis, policy makers face a number of challenges to restore full employment and decent labour conditions. Employment rates, in comparison with pre-crisis levels, are still relatively low in many economies, requiring more supportive macroeconomic policies to foster employment creation. At the same time, long-term unemployment has increased and labour market conditions, wages in particular, have deteriorated, requiring more active labour market policies.

One important element of efforts to restore pre-crisis employment rates are sufficiently expansionary macroeconomic policies, both monetary and fiscal, with a view towards supporting aggregate demand. So far, in many developed economies, macroeconomic policies have been uncoordinated with only a limited impact on job creation. While expansionary monetary policies in developed economies have helped avoiding larger falls in employment, they have not sufficiently stimulated employment growth, as rates of investment remain low. Moreover, fiscal consolidation in many developed economies and, more recently, in some emerging economies has led to a weak economic recovery and high uncertainty regarding the economic outlook, deterring private investment and perpetuating a vicious cycle of weak labour demand and constrained private consumption. In light of this, the main challenge for many policy makers has been to implement fiscal strategies that are more supportive of output growth and employment creation, while facing limited fiscal space. On the monetary side, access to credit for SMEs will continue to be an essential tool, as they play a significant role in job creation. Moreover, there is also the need to adequately coordinate monetary and fiscal policies to foster employment creation. On the structural side, in a number of countries, policy makers need to create an environment that is more amenable to the creation of businesses and job creation, for example by streamlining administrative procedures.

Besides the urgency of integrating a larger number of persons out of work, wage growth policies should also be contemplated, as consumer demand has been constrained, not only as a result of the financial crisis, but also as a result of a long-term decline in the labour share in total income. This is mainly the result of a long-term trend of substituting labour by capital, through automation, which has led to a widening gap between wage growth and productivity growth. As a result, real wages have been flat for a decade in many developed economies and decreased, both in nominal and real terms, in the aftermath of the financial crisis (see section on labour markets), leading to higher levels of working poverty and income inequality. Although wage adjustments were inevitable to restore competitiveness in depressed economies, the burden of these adjustments tended to be concentrated in lower income groups and among unskilled workers.

Evidence shows,[28] however, that introducing or increasing minimum wages are effective measures to curb working poverty and income inequality, while supporting aggregate demand. This type of initiatives can also help to increase the labour-force participation, which declined during the financial crisis, by encouraging workers who had previously given up searching for a job to again look for employment. The main challenge, however, is to set the minimum wage at a level that it does not reduce employment opportunities, even though adverse effects tend to be small.

[28] OECD, *OECD Employment Outlook 2014*, Paris.

In terms of concrete labour market policies, policymakers should also minimize individual losses due to structural economic changes, such as automation. Thus, governments will need to find the right balance between recent labour market flexibility initiatives, which are expected to create more dynamic labour markets, and guaranteeing decent working conditions. In developed economies, in-work benefits and tax credits for low-paid workers have been efficient in limiting the risk of working poverty. 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. Social protection programmes have also been implemented in many emerging economies recently, improving labour market conditions and helping to support aggregate demand.

Long-term unemployment remains another major challenge for policy makers, including in countries where unemployment figures appear to have declined faster in recent years. Long-term unemployment, which has been on the rise (see section on labour markets), leads to the depreciation of human capital, negative health effects and higher risks of aggravating structural unemployment. Ultimately, it would likely limit a country's economic growth potential and require extended social programs, straining budget resources, while creating a dilemma for monetary policy. Because long-term unemployed remain progressively on the margins of labour markets, wages can rise as the short-term unemployed cohort shrinks. Thereby, lower short-term unemployment could lift inflation and push central banks to reverse their expansionary monetary policy by raising interest rates, which would aggravate job prospects for the long-term unemployed.

Thus, concrete labour market policies to tackle long-term unemployment have to be implemented, as conventional policies to stimulate aggregate demand will not be sufficient to reintegrate those trapped in extended joblessness. Empirical evidence[29] shows that long-term unemployment often leads to discrimination from employers, worker discouragement or skills depreciation. As a result, long-term unemployed tend to leave the labour market altogether, mainly because they are discouraged by the relatively low prospects of finding a job. This is particularly evident for workers who are suffering from a chronic skill mismatch due to technological changes or industrial geographical reallocation. These workers do not possess the high skills required to reintegrate into today's labour market.

In many cases, governments should extend unemployment benefit schemes to minimize individual losses for those who face higher risks of long-term unemployment and poverty. In order to create incentives for individuals to continue seeking employment while benefiting from unemployment benefits, governments have introduced a myriad of additional policies. Unemployment benefits, for instance, should be coupled with active labour market policies. Specific lessons from developed economies 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, in the aftermath of the financial crisis, many governments face limited resources to ensure such adequate employment services.

[29] A. B. Krueger, J. Cramer and D. Cho. "Are the long-term unemployed on the margins of the labor market?", Brooking Panel on Economic Activity, 20-21 March 2014.

IV.5. Development in international trade policies

At the ninth Ministerial Conference of the WTO, held in Bali in December 2013, agreements were reached that covered trade facilitation, agriculture, a package of decisions related to the LDCs, and a monitoring system on special and differential treatment (SDT) provisions.

Among these agreements, the Trade Facilitation Agreement, the first multilateral agreement concluded in the WTO since its creation in 1995, was considered to be able to induce a reduction in business costs equivalent to up to 15 per cent of present costs and raise global exports by as much as $1 trillion in the most optimistic scenario.[30] In Africa, for example, a significant reduction in transaction costs may not only enhance Africa's trade with the rest of the world, but also support regional integration. However, a key WTO member failed to ratify the agreement by the deadline of 31 July 2014 and as this report is being written a new deadline for this key member to back this agreement is set for 21 October 2014.

The agreements reached in Bali encompassed only a limited and least controversial subset of the issues of the Doha Round. WTO ministers were instructed to prepare, by December 2014, a clearly defined work programme to conclude the Doha Round. There is recognition that tough issues lie ahead, particularly concerning industrial goods, services and agriculture, which are crucial for many developing countries. The list of unresolved issues contains many possible stumbling blocks. Even decisions in the package that are binding will require time and commitment from the parties in order to have a positive effect on international trade.

Since the Doha Round started more than a decade ago, the landscape of international trade and political order has changed considerably. The number of bilateral and regional trade agreements has increased substantially, for instance. Some of the multi-country agreements currently under negotiation, such as the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership, might have a major impact on international trade, but developing-country considerations may not be taken into account in those negotiations. The multilateral trading system is faced with the danger of fragmentation. Bali has renewed the trust in the WTO, but it also reinforced views on the difficulty in achieving ambitious reforms at the multilateral level. This poses a challenge to the entire multilateral approach to development cooperation.

IV.6. International policy coordination

In order to mitigate the risks and meet challenges as discussed above, it is imperative to strengthen international policy coordination. In particular, macroeconomic policies worldwide should be aligned toward supporting robust and balanced growth, creating productive jobs, and maintaining economic and financial stability in the long run. Meanwhile, international policy coordination and cooperation is equally important for such areas as defusing geopolitical tensions and containing Ebola pandemics.

[30] See Organization for Economic Cooperation and Development, "The WTO Trade Facilitation Agreement: potential impact on trade costs", Paris, February 2014.

The new initiative of the Group of 20 to raise their collective GDP by more than 2 per cent by 2018 above the trajectory projected in 2013 is positive for the global economy. The call by the IMF and the World Bank for increasing global investment in infrastructure, including energy, is also highly timely, which will not only stimulate short-term growth and employment, but also lift long-term potential growth. However, broader international policy coordination is also needed to boost growth in the majority of developing countries, especially the least-developed countries (LDCs). In this regard, the international community should accelerate its concerted efforts to deliver on the ODA commitment to the LDCs. ODA flows rebounded by 6.0 per cent in 2013 from the decline in 2011 and 2012, reaching a record level, but are still far below the United Nations target of 0.7 per cent of gross national income of the donor countries.

The international community has taken important steps to strengthen the resilience of the financial sector through regulatory reform. These reforms attempt to reduce the risk of future crises, but should balance the need for greater stability with ensuring sufficient access to financing, particularly for sustainable development. To date, reforms have focused on regulation of the banking sector. Further progress is needed on other aspects of the international regulatory agenda, including addressing shadow banking and systemically important institutions that are considered “too big to fail”. There is also a need for stronger cross-border resolution regimes with fair burden sharing. The development and implementation of international financial regulation would also benefit from greater representation of and participation by developing countries.

Progress continues to be made on international cooperation in tax matters. There is important ongoing work in this area in several international forums, including the OECD, G20 and the United Nations system. Some steps have been taken, for example, against base erosion and profit shifting (BEPS) and towards developing a widely applicable system of automatic exchange of tax information between countries. In all areas of international tax cooperation, it will be critically important to ensure that the developing world, and in particular the poorest countries, are able to participate in, and benefit from, new developments. Domestic resource mobilization will be central to raising resources to finance sustainable development. Measures which aim to support the developing world to mobilise more domestic resources for development, such as through capacity building, are critically important and have high development pay-backs.

Timely implementation of the 2010 IMF quota and governance reform would have been an important first step towards bolstering the credibility, legitimacy and effectiveness of the institution. Rapid adoption of the 2010 IMF reforms will pave the way for the next round of quota and voice reforms. Successful completion of further reforms will boost the coherence and stability of the global financial system. Additionally, Member States agreed in April 2010 that the next round of World Bank governance reforms in 2015 should move the institution over time towards equitable voting power and protect the voting power of the smallest poor countries. Agreement should be reached on these reforms in a timely fashion.

It also is crucial to enhance international policy coordination on global sustainable development. The UN Member States are formulating an ambitious and transformative post-2015 development agenda. The broad contours of this agenda are becoming clear, especially a strong commitment to end poverty and ensure sustainable development for all. The Open Working Group of the General Assembly on Sustainable Development Goals (SDGs), initiated by the United Nations Conference on Sustainable Development

(Rio+20), has put forward a proposed set of 17 goals and 169 associated targets. While poverty eradication will remain at its core, the post-2015 development agenda should balance the economic, social and environmental dimensions of sustainable development. It is generally agreed that the agenda should be firmly anchored in universally accepted values and principles and complete the unfinished business of the Millennium Development Goals (MDGs), while building upon their strengths. In addition, the Intergovernmental Committee of Experts on Sustainable Development Financing, established in follow-up to the Rio+20 Conference, has delivered its report proposing options for a sustainable development financing strategy. As the target date of the MDGs is approaching, it is a challenge for the international community to ensure a seamless transition from the MDGs to the SDGs in 2015.

LINK Global Economic Outlook
October 2014

Statistical Annex Tables

Table A.1
World and regions: rate of growth of real GDP, 2009 -2016
(Annual percentage change [a])

	2009	2010	2011	2012	2013	2014 [b]	2015 [c]	2016 [c]
World	-1.8	4.3	3.0	2.4	2.4	2.6	3.1	3.4
Developed economies	-3.7	2.6	1.4	1.1	1.2	1.6	2.1	2.5
North America	-2.8	2.6	1.7	2.3	2.2	2.1	2.8	3.3
Asia and Oceania	-4.2	4.1	0.1	1.9	1.7	1.3	1.5	1.4
Western Europe	-4.4	2.1	1.7	-0.3	0.1	1.3	1.7	2.1
European Union	-4.6	2.1	1.7	-0.4	0.0	1.3	1.7	2.1
EU15	-4.6	2.1	1.6	-0.5	-0.1	1.2	1.6	1.9
New EU members	-4.0	2.0	3.0	0.7	1.1	2.5	3.0	3.3
Euro area	-4.6	2.0	1.7	-0.7	-0.5	0.8	1.4	1.8
Other European countries	-1.9	1.8	1.6	1.8	1.4	1.5	2.1	2.3
Economies in transit	-6.6	4.7	4.6	3.2	1.9	0.7	1.3	2.1
South-Eastern Europe	-2.2	1.6	1.9	-0.9	2.2	0.7	2.7	3.0
Commonwealth of Independent States and Georgia	-6.7	4.9	4.7	3.4	1.9	0.7	1.2	2.0
Developing economies	3.1	7.8	6.0	4.6	4.7	4.4	4.8	5.1
Africa	2.7	4.9	1.1	5.6	3.4	3.4	4.6	4.9
North Africa	3.5	4.3	-5.4	6.7	1.8	1.5	3.9	4.4
East Africa	4.6	7.1	6.7	6.2	6.5	6.6	6.8	6.6
Central Africa	2.9	5.8	4.2	5.8	2.5	4.3	4.8	5.0
West Africa	5.6	7.0	6.2	6.7	5.8	5.9	6.2	6.1
Southern Africa	-0.4	3.7	4.0	3.6	2.7	2.9	3.6	4.1
East and South Asia	5.9	9.2	7.2	5.5	5.8	5.9	6.0	6.0
East Asia	5.9	9.4	7.5	6.3	6.4	6.2	6.1	6.1
South Asia	6.1	8.4	6.4	2.4	3.7	5.0	5.3	5.7
Western Asia	-0.7	6.5	6.8	3.5	3.7	3.0	3.7	4.3
Latin America and the Caribbean	-1.3	6.0	4.2	2.7	2.6	1.4	2.4	3.1
South America	-0.3	6.5	4.3	2.2	3.0	0.9	1.9	2.8
Mexico and Central America	-4.2	5.0	4.1	4.1	1.5	2.6	3.5	3.8
Caribbean	0.7	3.0	2.7	2.8	2.9	3.8	3.8	3.8
Least Developed Country	5.1	6.0	3.7	4.9	5.0	5.3	5.7	5.8
Memorandum items:								
Major developed economies (G7)	-3.9	2.9	1.4	1.3	1.4	1.6	2.1	2.5
OECD	-3.6	2.9	1.7	1.3	1.3	1.7	2.2	2.6
East Asia excluding China	0.9	7.7	4.4	3.9	4.0	4.0	4.5	4.6
South Asia excluding India	3.5	4.9	4.3	-1.2	1.4	3.9	4.1	4.2
Western Asia excluding Israel and Turkey	1.1	5.5	6.2	4.2	3.5	3.2	4.0	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 2010 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, 2009-2016
(Annual percentage change)

	2009	2010	2011	2012	2013	2014 [b]	2015 [c]	2016 [c]
Developed Economies								
North America								
Canada	-2.7	3.4	2.5	1.7	2.0	2.2	2.4	2.6
United States	-2.8	2.5	1.6	2.3	2.2	2.1	2.8	3.4
Asia and Oceania								
Australia	1.6	2.3	2.6	3.6	2.4	3.0	2.4	2.4
Japan	-5.5	4.7	-0.5	1.5	1.5	0.8	1.2	1.1
New Zealand	0.6	1.8	1.2	2.8	2.4	2.9	3.2	3.0
European Union								
EU-15								
Austria	-3.8	1.8	2.8	0.9	0.3	0.8	1.6	2.2
Belgium	-2.8	2.3	1.8	-0.1	0.2	0.9	1.2	1.3
Denmark	-5.7	1.4	1.1	-0.4	0.4	1.4	2.0	2.1
Finland	-8.5	3.4	2.8	-1.0	-1.3	0.0	1.4	1.5
France	-2.9	2.0	2.1	0.3	0.3	0.3	0.8	1.3
Germany	-5.6	4.1	3.6	0.4	0.1	1.5	1.8	2.1
Greece	-3.1	-4.9	-7.1	-7.0	-3.9	0.4	2.3	2.9
Ireland	-6.4	-1.1	2.2	0.2	0.1	4.5	3.4	3.4
Italy	-5.5	1.7	0.4	-2.4	-1.9	-0.4	0.5	1.1
Luxembourg	-5.6	3.1	1.9	-0.2	2.1	2.4	2.1	2.1
Netherlands	-3.7	1.5	0.9	-1.2	-0.8	0.8	1.2	1.6
Portugal	-3.0	1.9	-1.8	-3.3	-1.4	0.6	0.8	1.1
Spain	-3.8	-0.2	0.1	-1.6	-1.2	1.3	2.0	2.5
Sweden	-5.0	6.6	2.9	0.9	1.6	1.8	3.1	3.1
United Kingdom	-5.2	1.7	1.1	0.3	1.7	3.1	2.5	2.5
New EU Member								
Bulgaria	-5.5	0.4	1.8	0.8	0.9	1.3	2.7	2.9
Croatia	-6.9	-2.3	0.0	-2.0	-0.9	-0.5	0.7	2.5
Cyprus	-1.9	1.3	0.4	-2.4	-5.4	-3.7	0.9	1.0
Czech Republic	-4.5	2.5	1.8	-1.0	-0.9	2.3	2.5	2.9
Estonia	-14.1	3.3	8.7	4.5	2.2	2.5	3.0	3.0
Hungary	-6.8	1.1	1.6	-1.7	1.1	2.8	2.8	3.2
Latvia	-17.7	-1.3	5.3	5.0	4.1	2.6	3.5	4.0
Lithuania	-14.8	1.6	6.0	3.7	3.3	2.7	3.0	3.0
Malta	-2.8	4.0	1.6	0.8	2.6	2.0	2.1	2.2
Poland	1.6	3.9	4.5	2.0	1.6	3.2	3.6	3.6
Romania	-6.6	-1.1	2.2	0.7	3.5	2.5	3.5	3.9
Slovak Republic	-4.9	4.4	3.0	1.8	0.9	2.1	2.7	2.6
Slovenia	-7.9	1.3	0.7	-2.5	-1.1	2.0	3.0	3.5
Other European								
Iceland	-6.6	-4.1	2.7	1.4	2.1	2.2	1.0	0.3
Norway	-1.6	0.5	1.3	2.9	0.6	1.9	1.7	2.4
Switzerland	-1.9	3.0	1.8	1.0	1.9	1.1	2.5	2.3
Economies in transition								
South-Eastern Europe								
Albania	3.3	3.8	3.1	1.3	1.0	1.5	3.0	4.0
Bosnia and Herzegovina	-2.8	0.7	1.0	-0.7	2.0	1.5	2.6	2.5
Montenegro	-5.7	2.5	3.2	-2.5	3.0	3.0	3.0	3.0
Serbia	-3.5	1.0	1.6	-1.7	2.5	-0.8	2.5	3.0
The former Yugoslav Republic of Macedonia	-0.9	2.9	2.8	-0.2	2.9	3.2	3.2	3.0
Commonwealth of Independent States								
Armenia	-14.1	2.2	4.7	7.2	3.5	3.5	4.0	4.2
Azerbaijan	9.4	4.6	-1.6	2.1	5.8	3.2	4.2	3.5
Belarus	0.2	7.7	5.5	1.5	0.9	1.5	2.5	3.5
Kazakhstan	1.2	7.0	7.5	5.0	6.0	4.0	4.8	6.0
Kyrgyzstan	2.9	-0.5	6.0	-0.9	10.3	3.8	5.0	6.0
Republic of Moldova	-6.0	7.1	6.8	-0.8	7.1	3.0	3.5	3.5
Russian Federation	-7.8	4.5	4.3	3.4	1.2	0.5	0.5	1.2
Tajikistan	4.0	6.5	2.4	7.5	6.5	5.0	5.2	5.0
Turkmenistan	6.1	9.2	14.1	8.0	9.0	8.0	8.0	7.0
Ukraine	-14.8	4.1	5.2	0.2	0.0	-7.1	-1.2	1.8
Uzbekistan	8.1	8.5	8.3	7.4	8.0	6.8	7.0	6.0
Georgia	-3.8	6.3	7.2	6.1	2.5	5.0	4.8	4.0

Table A.2
Rates of growth of real GDP, 2009-2016 (*continued*)
(Annual percentage change)

	2009	2010	2011	2012	2013	2014[b]	2015[c]	2016[c]
Developing Economies								
Africa								
Algeria	1.7	3.6	2.6	2.6	2.7	3.2	3.4	3.5
Angola	2.4	3.5	3.9	6.8	3.6	4.3	5.6	6.1
Benin	2.7	2.6	3.5	5.4	5.6	5.1	4.9	5.0
Botswana	-7.8	8.6	6.1	3.7	5.8	5.8	5.1	4.9
Burkina Faso	3.0	8.4	5.1	6.2	6.5	6.8	6.9	6.6
Burundi	28.9	3.8	4.0	5.2	4.5	4.1	4.0	4.0
Cameroon	1.9	3.2	4.2	5.3	5.5	5.1	5.2	5.4
Cabo Verde	-1.3	1.5	5.0	4.3	0.5	2.5	2.8	3.0
Central African Republic	1.7	3.0	3.3	4.0	-27.0	-1.6	1.8	2.0
Chad	4.1	14.6	3.6	5.9	3.6	8.0	5.5	6.1
Comoros	1.1	2.0	2.1	2.5	3.4	3.5	3.6	3.7
Congo	7.5	8.7	6.0	6.8	3.4	4.8	7.4	7.1
Côte d'Ivoire	3.8	2.4	-4.7	8.6	8.7	7.9	6.3	6.5
Democratic Republic of the Congo	2.8	7.2	6.9	7.2	8.5	8.5	8.2	8.0
Djibouti	5.1	3.5	4.4	4.7	4.8	4.4	3.8	3.7
Egypt	4.6	5.2	1.8	2.2	2.3	2.1	3.3	4.0
Equatorial Guinea	4.1	1.3	-0.6	5.7	-4.9	-2.3	-1.6	-0.7
Eritrea	3.9	2.2	8.7	7.5	1.3	7.0	7.3	6.8
Ethiopia	8.8	12.6	11.2	8.5	9.8	7.9	7.5	6.9
Gabon	-0.4	5.6	7.1	6.2	5.8	5.0	5.6	5.4
Gambia	6.4	6.5	-4.6	6.3	6.0	7.0	6.7	6.0
Ghana	4.0	8.0	15.0	7.9	7.1	6.2	8.5	8.6
Guinea	-0.1	1.9	3.9	3.9	2.5	2.3	1.6	3.1
Guinea-Bissau	3.4	4.4	5.3	-2.8	0.7	2.1	2.9	3.4
Kenya	2.7	5.8	4.4	4.6	4.7	5.1	5.8	5.6
Lesotho	3.6	7.9	3.7	4.0	5.9	4.9	5.4	5.3
Liberia	7.8	7.3	8.2	11.3	10.8	5.1	3.5	4.8
Libya	-0.7	4.3	-61.3	104.5	-8.2	-12.2	8.0	9.9
Madagascar	-4.0	0.4	1.3	2.7	2.4	3.2	4.2	4.5
Malawi	-2.7	5.6	7.0	1.8	5.0	4.1	4.5	4.4
Mali	4.5	5.8	2.7	-1.2	2.1	5.8	6.1	5.9
Mauritania	0.1	5.6	5.1	4.6	6.1	5.9	6.2	6.1
Mauritius	3.0	4.1	3.8	3.2	3.2	3.4	3.6	3.3
Morocco	4.8	3.6	5.0	2.7	4.4	3.2	4.3	4.5
Mozambique	6.3	7.1	7.3	7.4	7.1	7.3	7.6	7.2
Namibia	-1.1	6.0	4.9	5.0	4.4	4.9	4.5	4.4
Niger	-0.7	8.4	2.3	10.8	3.9	5.7	6.3	6.0
Nigeria	6.9	7.8	6.8	6.5	5.5	5.8	6.1	5.9
Rwanda	6.2	7.2	8.2	8.0	4.6	6.0	6.5	6.9
Sao Tome and Principe	3.9	4.6	4.5	6.4	3.9	4.3	4.8	4.6
Senegal	2.4	4.3	2.1	3.8	3.5	4.6	4.5	4.3
Sierra Leone	3.2	5.3	6.0	32.5	17.4	8.5	3.7	4.3
South Africa	-1.5	3.1	3.5	2.5	1.9	2.0	2.7	3.3
Togo	3.4	4.0	4.9	5.9	5.1	5.4	5.8	5.5
Tunisia	3.1	3.2	-1.9	4.2	2.3	2.6	3.6	4.4
Uganda	4.1	6.2	6.1	4.4	5.0	6.0	6.5	6.7
United Republic of Tanzania	6.0	7.0	6.4	6.9	7.0	7.1	7.2	7.0
Zambia	6.4	7.6	6.8	7.3	6.7	6.4	6.5	6.3
Zimbabwe	16.9	9.6	10.6	4.4	2.2	3.2	3.1	3.0

Table A.2
Rates of growth of real GDP, 2009-2016 (*continued*)
(Annual percentage change)

	2009	2010	2011	2012	2013	2014 [b]	2015 [c]	2016 [c]
East and South Asia								
Bangladesh	5.8	6.3	6.7	6.2	6.1	6.2	6.4	6.4
Brunei Darussalam	-1.8	2.6	3.4	0.9	-1.8	-0.1	2.3	2.4
China	9.2	10.4	9.3	7.7	7.7	7.3	7.0	6.8
Hong Kong, Special Administrative Region of China	-2.5	6.8	4.9	1.5	2.9	2.0	2.7	2.9
India	7.4	10.1	7.3	4.0	4.7	5.4	5.8	6.3
Indonesia	4.6	6.2	6.5	6.2	5.8	5.2	5.6	5.9
Iran, Islamic Republic of	3.5	5.4	3.6	-6.6	-2.2	2.4	2.7	2.9
Korea, Republic of	0.7	6.5	3.7	2.3	3.0	3.5	3.6	3.8
Malaysia	-1.5	7.4	5.1	5.6	4.7	6.1	5.5	5.7
Myanmar	10.6	10.4	5.4	5.0	5.3	5.9	6.3	6.3
Nepal	4.6	4.3	3.9	4.3	4.6	5.1	5.0	5.3
Pakistan	2.2	2.2	3.4	4.2	3.9	4.2	4.1	4.3
Papua New Guinea	6.1	7.6	11.3	9.2	5.1	5.4	13.8	6.3
Philippines	1.1	7.6	3.6	6.8	7.2	6.4	6.1	6.0
Singapore	-0.8	14.8	5.2	1.3	3.9	3.3	3.6	4.1
Sri Lanka	3.5	8.0	8.2	6.4	7.3	7.7	7.4	7.1
Taiwan, Province of China	-1.8	10.8	4.2	1.5	2.1	3.5	3.4	3.1
Thailand	-0.9	7.3	0.3	6.4	2.9	1.3	4.7	5.0
Vietnam	5.4	6.4	6.2	5.2	5.4	5.8	6.3	6.5
Western Asia								
Bahrain	2.5	4.3	2.1	3.4	5.3	3.3	3.2	4.0
Iraq	5.8	5.9	8.6	9.0	4.2	-2.6	1.5	7.6
Israel	1.1	5.0	4.6	3.2	3.4	2.7	2.9	3.3
Jordan	5.5	2.3	2.6	2.7	2.8	3.5	3.8	4.0
Kuwait	-7.1	-2.4	6.3	5.1	3.0	2.8	3.7	4.0
Lebanon	8.5	6.9	1.6	1.5	1.3	2.0	2.4	3.0
Oman	3.3	5.6	0.3	5.0	4.8	4.2	3.9	3.8
Qatar	12.0	16.7	13.0	6.2	6.5	6.4	6.7	6.1
Saudi Arabia	1.8	7.4	8.6	5.1	3.8	4.0	4.2	4.2
Turkey	-4.8	9.2	8.8	2.2	4.1	2.7	3.3	4.0
United Arab Emirates	-4.8	1.7	3.9	4.4	5.2	4.6	4.5	4.3
Yemen	4.1	5.7	-12.8	2.0	4.6	2.1	3.4	3.7
Latin America and the Caribbean								
Argentina	0.1	9.1	8.6	0.9	2.9	-0.3	0.8	2.5
Barbados	-4.1	0.3	0.8	0.0	0.2	0.0	0.9	1.8
Bolivia, Plurinational State of	3.4	4.1	5.2	5.2	6.8	5.4	4.8	4.9
Brazil	-0.3	7.5	2.7	1.0	2.5	0.4	1.5	2.4
Chile	-1.0	5.8	5.9	5.4	4.1	1.9	3.1	3.9
Colombia	1.7	4.0	6.6	4.0	4.7	5.0	4.5	4.7
Costa Rica	-1.0	5.0	4.5	5.1	3.5	3.7	3.7	3.9
Cuba	1.4	2.4	2.8	3.0	2.9	3.9	4.0	4.0
Dominican Republic	3.5	7.8	4.5	3.9	4.1	5.0	4.4	4.5
Ecuador	0.6	3.5	7.8	5.1	4.5	4.0	4.3	4.4
El Salvador	-3.1	1.4	2.2	1.9	1.7	1.9	1.9	2.1
Guatemala	0.5	2.9	4.2	3.0	3.7	3.5	3.9	3.5
Guyana	3.3	4.4	5.4	4.8	5.2	4.0	4.3	4.5
Haiti	3.1	-5.5	5.5	2.9	4.3	4.0	4.5	4.5
Honduras	-2.4	3.7	3.8	3.9	2.6	3.0	3.3	3.4
Jamaica	-3.5	-1.5	1.3	-0.2	0.2	1.2	1.9	2.1
Mexico	-4.7	5.1	3.9	4.0	1.1	2.4	3.4	3.8
Nicaragua	-2.8	3.3	5.7	5.0	4.6	4.5	4.2	4.3
Panama	3.9	7.4	10.9	10.7	8.4	6.7	6.4	6.2
Paraguay	-4.0	13.1	4.3	-1.2	13.6	4.4	4.6	4.2
Peru	1.0	8.5	6.5	6.0	5.8	4.0	4.7	5.1
Trinidad and Tobago	-4.4	0.2	-1.6	1.5	1.6	2.3	2.5	2.4
Uruguay	2.4	8.4	7.3	3.7	4.4	3.0	3.2	3.7
Venezuela, Bolivarian Republic of	-3.2	-1.5	4.2	5.6	1.3	-2.2	-0.5	1.0

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, 2009-2016
(Annual percentage change [a])

	2009	2010	2011	2012	2013	2014 [a]	2015 [b]	2016[b]
World	1.7	3.0	4.2	3.2	3.0	3.2	3.0	3.0
Developed economies	0.1	1.5	2.6	1.9	1.3	1.6	1.5	1.7
North America	-0.2	1.6	3.2	2.0	1.4	1.9	1.6	1.6
Asia and Oceania	-0.7	0.0	0.5	0.3	0.8	2.7	1.8	1.8
Western Europe	0.8	1.9	2.8	2.4	1.5	0.8	1.3	1.7
European Union	0.8	1.9	3.0	2.6	1.5	0.8	1.3	1.8
EU15	0.6	1.9	2.9	2.5	1.5	0.8	1.2	1.7
New EU members	3.1	2.7	3.8	3.7	1.4	0.5	1.6	2.5
Euro area	0.3	1.6	2.7	2.5	1.4	0.6	1.2	1.7
Other European countries	0.8	1.4	0.6	-0.2	0.9	1.0	1.2	1.4
Economies in transit	10.9	7.0	9.5	6.2	6.3	8.1	7.4	5.6
South-Eastern Europe	4.7	4.7	5.5	4.5	4.3	1.3	2.3	2.6
Commonwealth of Independent States and Georgia	11.1	7.1	9.7	6.2	6.4	8.3	7.6	5.7
Developing economies [d]	4.0	5.6	6.7	5.6	6.0	5.8	5.6	5.2
Africa [d]	8.1	7.2	8.5	8.9	7.2	7.0	6.9	6.8
North Africa	7.1	6.9	8.3	9.4	8.6	7.7	7.2	7.1
East Africa	9.5	6.1	17.7	13.6	5.9	5.9	5.9	6.1
Central Africa	4.5	2.5	2.0	5.2	2.7	3.6	2.8	2.9
West Africa	9.9	10.8	9.3	9.9	7.4	7.9	8.8	8.5
Southern Africa [d]	8.4	6.0	6.7	6.7	6.3	6.2	6.0	5.9
East and South Asia	2.6	5.0	6.4	4.7	5.3	3.9	3.9	4.0
East Asia	0.3	3.3	5.2	2.8	2.8	2.5	2.8	3.1
South Asia	11.1	11.5	11.1	12.2	14.7	9.5	8.4	7.6
Western Asia	3.5	5.7	6.5	6.3	4.4	4.7	5.3	5.3
Latin America and the Caribbean	6.0	6.2	6.9	6.1	8.0	10.7	9.5	7.6
South America	6.4	6.9	7.9	6.8	9.5	13.2	11.5	8.9
Mexico and Central America	5.1	4.1	3.7	4.1	3.9	3.8	3.7	3.8
Caribbean	3.7	7.9	7.6	5.5	5.2	4.1	4.6	5.1
Least developed country	7.7	8.9	12.0	12.2	10.1	8.6	7.5	7.2
Memorandum items:								
Major developed economies (G7)	-0.1	1.3	2.5	1.8	1.3	1.7	1.5	1.7
OECD	0.4	1.7	2.7	2.1	1.5	1.7	1.7	1.9
East Asia excluding China	2.1	3.3	4.6	3.2	3.0	3.1	3.2	3.4
South Asia excluding India	11.7	10.5	16.1	18.7	24.9	12.9	10.7	10.2
Western Asia excluding Israel and Turkey	2.2	4.7	7.0	5.8	3.2	3.2	3.9	4.2

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 2010, 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, 2009-2016
(Annual percentage change)

	2009	2010	2011	2012	2013	2014[a]	2015[b]	2016 [b]
Developed Economies								
North America								
Canada	0.3	1.8	2.9	1.5	0.9	2.0	1.6	1.8
United States	-0.3	1.6	3.2	2.0	1.4	1.9	1.6	1.6
Asia and Oceania								
Australia	1.8	2.9	3.3	1.8	2.5	2.6	1.9	2.1
Japan	-1.3	-0.7	-0.3	0.0	0.4	2.7	1.7	1.8
New Zealand	2.1	2.3	4.0	1.1	1.1	1.6	1.9	2.0
European Union								
EU-15								
Austria	0.4	1.7	3.5	2.6	2.1	1.7	2.0	1.9
Belgium	0.0	2.3	3.4	2.6	1.2	0.7	1.2	2.2
Denmark	1.1	2.2	2.7	2.4	0.5	0.9	1.2	1.9
Finland	1.6	1.7	3.3	3.2	2.2	1.2	1.3	1.5
France	0.1	1.7	2.3	2.2	1.0	0.7	0.8	1.2
Germany	0.2	1.2	2.5	2.1	1.6	1.0	1.6	2.1
Greece	1.3	4.7	3.1	1.0	-0.9	-1.2	0.2	0.8
Ireland	-1.7	-1.6	1.2	1.9	0.5	0.6	1.2	1.3
Italy	0.8	1.6	2.9	3.3	1.3	0.3	0.7	1.5
Luxembourg	0.4	2.3	3.4	2.7	1.7	0.9	2.1	2.1
Netherlands	1.0	0.9	2.5	2.8	2.6	0.5	1.0	1.1
Portugal	-0.9	1.4	3.6	2.8	0.4	-0.2	0.5	0.7
Spain	-0.2	2.0	3.0	2.4	1.5	0.4	1.4	2.0
Sweden	1.9	1.9	1.4	0.9	0.4	0.0	1.1	2.2
United Kingdom	2.2	3.3	4.5	2.8	2.6	1.6	1.8	1.8
New EU members								
Bulgaria	2.8	2.5	4.2	2.9	0.7	-0.5	1.5	2.0
Croatia	2.4	1.0	2.3	3.4	2.1	0.3	1.6	2.3
Cyprus	0.4	2.5	3.3	2.4	-0.4	-0.7	1.4	1.8
Czech Republic	0.6	1.2	2.1	3.5	1.4	0.5	1.5	2.0
Estonia	0.2	2.7	5.1	4.2	3.3	1.2	2.5	3.0
Hungary	4.0	4.7	3.9	5.7	1.7	0.5	2.5	2.9
Latvia	3.5	-1.1	4.4	2.3	0.0	0.5	1.5	2.5
Lithuania	4.4	1.3	4.1	3.1	1.0	0.5	3.0	2.5
Malta	2.1	1.4	2.8	2.4	1.4	1.1	1.8	1.8
Poland	4.0	2.7	3.9	3.7	0.8	0.2	1.0	2.5
Romania	5.6	6.1	5.8	3.4	3.2	1.5	2.5	3.0
Slovak Republic	0.9	0.7	4.1	3.7	1.5	0.5	2.0	2.5
Slovenia	0.9	2.1	2.1	2.8	1.9	0.4	1.2	2.0
Other Europe								
Iceland	12.0	5.4	4.0	5.2	3.9	2.8	2.6	2.5
Norway	2.3	2.3	1.3	0.4	2.0	2.1	1.7	1.7
Switzerland	-0.7	0.6	0.1	-0.7	0.1	0.1	0.8	1.2
Economies in transition								
South-eastern Europe								
Albania	2.3	3.6	3.4	2.1	2.0	1.5	2.0	2.5
Bosnia and Herzegovina	0.8	1.9	3.0	4.3	-0.1	-0.8	1.0	2.0
Montenegro	3.4	0.7	3.2	3.6	2.3	0.5	2.0	2.5
Serbia	8.9	7.5	8.1	6.8	7.6	2.7	3.0	3.0
The former Yugoslav Republic of Macedonia	-0.8	1.5	3.1	-0.3	3.0	-0.5	2.0	2.5
Commonwealth of Independent States								
Armenia	3.4	8.2	7.7	2.6	6.0	3.8	4.0	2.9
Azerbaijan	1.4	5.6	7.8	1.0	2.5	2.0	3.0	3.5
Belarus	12.9	7.7	53.4	59.1	18.3	17.0	15.0	8.3
Kazakhstan	7.3	7.2	8.3	5.1	5.5	7.0	6.5	4.5
Kyrgyzstan	6.9	8.0	16.4	2.7	6.9	6.8	6.5	4.5
Republic of Moldova	0.6	13.3	8.1	5.8	4.6	5.6	5.0	4.8
Russian Federation	11.7	6.9	8.4	5.0	6.8	8.0	7.5	6.0
Tajikistan	6.4	6.4	12.4	5.8	5.6	6.0	6.5	5.5
Turkmenistan	-2.7	4.5	8.0	8.0	9.0	9.5	9.0	9.5
Ukraine	15.8	9.4	7.9	0.6	-0.9	12.5	8.3	2.5
Uzbekistan	14.1	9.4	12.0	11.0	10.0	11.0	8.8	8.5
Georgia	1.7	7.1	8.5	-0.9	-0.5	5.0	4.5	3.0

Table A.4
Consumer price inflation, 2009-2016 (continued)
(Annual percentage change)

	2009	2010	2011	2012	2013	2014[a]	2015[b]	2016 [b]
Developing economies								
Africa								
Algeria	5.7	3.9	4.5	8.9	3.2	3.0	4.0	4.2
Angola	13.7	14.5	13.5	10.3	8.8	7.5	7.8	7.6
Benin	2.2	2.3	2.7	6.8	1.2	1.5	1.6	1.8
Botswana	8.0	6.9	8.5	7.5	4.1	4.5	4.2	4.1
Burkina Faso	2.6	-0.8	2.8	3.8	0.5	0.4	1.6	1.8
Burundi	11.0	6.4	9.7	18.0	8.9	6.8	7.0	6.5
Cameroon	3.0	1.3	2.9	2.9	2.0	2.2	2.5	2.3
Cabo Verde	1.0	2.1	4.5	2.5	1.6	1.6	2.3	2.2
Central African Republic	3.5	1.5	1.3	5.8	1.5	9.0	3.1	3.5
Chad	10.0	-2.1	-3.7	14.0	0.1	1.4	1.9	2.1
Comoros	4.8	4.9	10.1	3.2	2.3	3.2	3.2	3.2
Congo	5.3	5.0	1.3	3.9	6.0	1.1	1.9	2.0
Côte d'Ivoire	1.0	1.7	4.9	1.3	2.6	1.1	2.5	3.0
Democratic Republic of the Congo	2.8	7.1	15.3	9.7	1.0	2.0	3.0	4.0
Djibouti	1.7	4.0	11.5	7.5	5.3	6.9	7.5	7.8
Egypt	11.8	11.3	10.1	7.1	9.5	10.0	10.1	9.9
Equatorial Guinea	4.7	7.8	6.9	6.1	6.0	5.6	5.3	5.4
Eritrea	33.0	17.0	15.7	12.3	13.0	13.0	12.8	12.7
Ethiopia	8.5	8.1	33.2	22.8	8.0	7.8	7.9	8.0
Gabon	1.9	1.5	1.3	2.7	0.5	7.0	2.8	3.0
Gambia	4.6	5.0	4.8	4.3	5.7	5.6	5.3	5.4
Ghana	19.3	10.7	8.7	9.2	12.6	17.5	13.7	12.5
Guinea	4.7	13.6	20.2	12.3	11.9	12.4	8.8	9.0
Guinea-Bissau	-1.7	2.5	5.0	2.1	0.7	0.0	1.3	2.1
Kenya	9.2	4.0	14.0	9.4	5.7	7.0	6.0	5.7
Lesotho	7.4	3.6	5.0	6.1	4.9	5.3	5.0	4.8
Liberia	7.4	3.6	2.5	18.2	7.6	11.2	9.2	8.5
Libya	2.5	2.8	15.5	6.1	2.6	4.2	5.7	5.4
Madagascar	9.0	9.2	9.5	6.4	5.8	6.4	6.6	6.2
Malawi	8.4	7.4	7.6	21.3	25.5	17.2	10.7	9.5
Mali	2.5	1.1	2.9	5.4	-0.6	1.0	1.9	1.8
Mauritania	2.2	6.3	5.6	4.9	4.2	4.3	4.7	4.6
Mauritius	2.5	2.9	6.5	3.9	4.1	4.0	4.6	4.4
Morocco	1.0	1.0	0.9	1.3	1.9	1.0	2.1	2.2
Mozambique	3.3	12.7	10.4	2.1	3.0	4.9	4.6	4.2
Namibia	8.8	0.9	5.1	8.6	4.9	5.8	4.1	4.3
Niger	0.6	0.8	2.9	0.5	2.3	2.5	2.2	2.3
Nigeria	11.5	13.7	10.8	12.2	8.5	8.5	10.2	9.9
Rwanda	10.4	2.3	5.7	6.3	4.2	2.6	4.0	4.2
Sao Tome and Principe	17.0	13.3	12.0	8.0	8.7	6.9	6.6	6.6
Senegal	-1.1	1.3	3.4	1.4	0.2	1.2	1.4	1.3
Sierra Leone	9.3	17.6	18.0	12.1	10.4	8.5	8.1	8.1
Somalia	25.0	2.1	2.2	2.0	2.0	4.0	5.0	5.0
South Africa	7.3	4.1	5.0	5.8	5.7	5.9	5.7	5.6
Togo	3.3	1.8	3.6	2.6	1.8	2.2	2.4	2.4
Tunisia	3.5	4.4	3.6	5.5	6.1	5.6	5.2	4.4
Uganda	13.0	4.0	18.7	14.0	5.5	4.0	5.0	6.1
United Republic of Tanzania	12.1	6.2	12.7	16.0	7.9	6.6	6.2	5.8
Zambia	13.4	8.5	6.4	6.6	7.1	7.6	6.7	6.5
Zimbabwe	0	5.9	5.4	8.3	8.5	6.6	6.1	5.4

Table A.4

Consumer price inflation, 2009-2016 (continued)
(Annual percentage change)

	2009	2010	2011	2012	2013	2014[a]	2015[b]	2016 [b]
East and South Asia								
Bangladesh	5.4	8.1	10.7	6.2	7.5	7.1	6.7	6.5
Brunei Darussalam	1.0	0.4	2.0	0.5	0.4	0.1	0.5	0.8
China	-0.7	3.3	5.5	2.6	2.7	2.1	2.5	2.9
Hong Kong, Special Administrative Regior	0.6	2.3	5.3	4.1	4.4	3.8	4.1	4.2
India	10.9	12.0	8.9	9.3	10.1	8.0	7.4	6.5
Indonesia	4.4	5.2	5.4	4.3	6.4	6.0	5.1	5.3
Iran, Islamic Republic of	13.5	10.1	20.6	27.4	39.3	17.8	14.0	13.0
Korea, Republic of	2.8	2.9	4.0	2.2	1.3	1.4	2.0	2.3
Malaysia	0.6	1.7	3.2	1.7	2.1	3.5	4.2	3.7
Myanmar	1.7	7.8	5.1	3.0	5.5	6.3	6.2	6.2
Nepal	11.1	9.3	9.3	9.5	9.0	8.4	7.9	7.7
Pakistan	13.6	13.9	11.9	9.7	7.7	7.7	7.4	7.6
Papua New Guinea	6.9	6.0	8.4	2.2	3.5	5.5	5.7	5.3
Philippines	4.2	3.8	4.6	3.2	3.0	4.6	4.2	4.0
Singapore	0.6	2.8	5.3	4.5	2.4	1.5	2.3	2.2
Sri Lanka	3.5	6.2	6.7	7.5	6.9	3.8	4.3	4.5
Taiwan, Province of China	-0.9	1.0	1.4	1.9	0.8	1.5	1.8	2.0
Thailand	-0.8	3.3	3.8	3.0	2.2	2.2	2.5	2.8
Viet Nam	7.1	8.9	18.7	9.1	6.6	4.4	5.1	5.6
Western Asia								
Bahrain	2.8	2.0	-0.4	2.8	3.3	2.9	2.7	3.0
Israel	3.3	2.7	3.5	1.7	1.5	0.7	1.5	2.1
Jordan	-0.7	5.0	4.4	4.8	5.5	5.0	3.0	4.6
Kuwait	4.0	4.0	4.7	2.9	2.6	3.0	3.7	4.1
Oman	3.9	3.2	4.1	2.9	2.1	2.5	2.6	3.5
Qatar	-4.9	-2.4	1.9	1.9	3.1	3.2	4.2	4.6
Saudi Arabia	5.0	5.4	5.8	2.9	3.5	3.0	3.7	4.0
Turkey	6.3	8.6	6.5	8.9	7.5	8.9	9.2	8.5
Yemen	5.4	11.2	16.4	17.3	11.0	10.3	11.9	7.9
Latin America and the Caribbean								
Argentina	6.2	10.5	9.8	10.0	20.7	32.5	25.5	18.3
Barbados	3.6	5.8	9.4	4.5	1.8	1.3	3.1	2.8
Bolivia, Plurinational State of	3.3	2.5	9.8	4.6	5.7	6.6	6.5	6.0
Brazil	4.8	5.0	6.6	5.4	5.9	6.3	6.3	5.8
Chile	0.4	1.4	3.3	3.0	1.9	4.1	3.4	3.1
Colombia	4.2	2.3	3.4	3.2	2.0	2.9	3.4	3.3
Costa Rica	7.8	5.7	4.9	4.5	5.2	4.9	5.4	5.0
Dominican Republic	1.4	6.3	8.5	3.7	4.8	3.3	3.8	4.5
Ecuador	5.2	3.6	4.5	5.1	2.7	3.9	4.1	4.5
El Salvador	1.1	0.9	5.1	1.7	0.8	1.2	2.3	2.6
Guatemala	1.9	3.9	6.2	3.8	4.3	3.8	4.9	4.5
Guyana	2.9	2.1	5.0	2.4	1.9	2.5	2.4	2.9
Haiti	0.0	5.7	8.4	6.3	5.9	4.3	4.6	5.5
Honduras	5.5	4.7	6.8	5.2	5.2	6.2	5.4	5.5
Jamaica	9.6	12.6	7.5	6.9	8.4	8.1	7.3	7.1
Mexico	5.3	4.2	3.4	4.1	3.8	3.8	3.6	3.7
Nicaragua	3.7	5.5	8.1	7.2	7.1	6.2	7.3	7.2
Panama	2.4	3.5	5.9	5.7	4.0	3.0	3.9	3.8
Paraguay	2.6	4.7	8.3	3.7	2.6	4.6	4.8	4.9
Peru	2.9	1.5	3.4	3.7	2.8	3.4	2.7	3.0
Trinidad and Tobago	7.0	10.5	5.1	9.3	5.2	4.3	5.5	5.7
Uruguay	7.1	6.7	8.1	8.1	8.6	8.9	7.2	7.0
Venezuela, Bolivarian Republic of	27.1	28.2	26.1	21.1	40.6	64.4	53.2	34.6

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, 2009-2016
(Annual percentage change)

Region	Flow	2009	2010	2011	2012	2013	2014 [a]	2015 [b]	2016 [b]
World	Exports	-19.7	19.4	17.8	1.1	3.8	3.3	3.8	6.0
	Imports	-20.0	19.1	18.1	1.3	2.6	2.7	4.5	5.9
Developed economies	Exports	-19.7	13.7	15.3	-1.8	2.9	3.3	1.5	4.3
	Imports	-22.2	14.5	16.0	-2.0	1.1	2.6	3.0	4.9
North America	Exports	-16.6	17.4	14.3	3.4	2.6	3.6	7.3	7.2
	Imports	-22.1	19.8	13.7	2.8	0.2	3.1	4.3	6.5
Asia and Oceania	Exports	-23.3	30.9	11.5	-2.4	-6.5	0.8	1.9	5.6
	Imports	-24.9	24.1	23.1	5.6	-5.4	1.7	4.0	3.6
Europe	Exports	-20.1	10.2	16.2	-3.4	4.4	3.6	-0.5	3.1
	Imports	-21.9	11.0	15.9	-5.2	2.7	2.6	2.3	4.4
European Union	Exports	-20.3	10.1	16.0	-3.5	4.7	3.6	-0.4	3.2
	Imports	-22.2	10.9	15.8	-5.5	2.7	2.5	2.2	4.4
EU-15	Exports	-20.2	9.6	15.5	-3.6	4.3	3.1	-0.9	2.9
	Imports	-21.4	10.5	15.3	-5.6	2.5	2.1	2.2	4.3
New EU Members	Exports	-21.2	14.0	19.9	-2.5	7.5	7.2	2.7	5.1
	Imports	-27.7	14.0	19.3	-4.5	4.1	5.5	2.7	4.9
Other Europe	Exports	-17.7	11.3	19.5	-1.6	0.9	2.8	-1.5	1.7
	Imports	-15.6	13.0	18.4	-1.4	3.8	3.5	3.5	4.9
Euro area	Exports	-19.9	9.3	15.9	-3.8	5.0	3.5	-0.8	2.8
	Imports	-21.3	10.2	16.0	-6.6	3.0	2.2	2.0	4.2
Economies in transition	Exports	-32.3	27.8	31.2	3.7	5.5	-2.8	-0.1	1.3
	Imports	-30.1	22.3	28.2	7.4	3.1	-5.7	-0.8	0.5
South-eastern Europe	Exports	-19.6	13.7	20.9	-6.3	14.4	5.6	6.4	4.6
	Imports	-27.1	2.4	18.5	-6.0	3.5	3.8	5.3	4.5
Commonwealth of Independent States	Exports	-32.8	28.4	31.6	4.0	5.2	-3.1	-0.4	1.2
	Imports	-30.4	24.2	29.0	8.5	3.1	-6.3	-1.3	0.1
Developing countries	Exports	-18.2	27.4	20.1	4.7	4.7	3.9	6.8	8.3
	Imports	-15.0	26.6	20.4	5.7	4.5	3.6	6.7	7.7
Africa	Exports	-27.2	27.4	16.9	2.3	2.7	0.8	4.5	6.3
	Imports	-10.0	11.8	15.3	8.0	5.6	6.9	7.5	8.4
North Africa	Exports	-30.7	16.7	-6.2	16.9	-5.3	-2.4	4.1	4.4
	Imports	-8.0	5.2	0.6	17.3	3.3	3.6	7.1	8.8
East Africa	Exports	-13.5	28.6	20.7	9.9	9.7	8.0	8.0	8.1
	Imports	-8.7	16.9	19.3	13.4	6.8	9.8	9.0	7.9
Central Africa	Exports	-27.1	32.1	25.2	-4.5	3.9	4.6	-4.0	3.0
	Imports	-2.4	6.6	9.6	4.6	2.5	4.8	2.9	4.2
West Africa	Exports	-26.5	49.6	39.5	-11.0	4.5	-0.3	-1.4	6.2
	Imports	-3.4	21.2	27.4	1.5	8.1	9.2	4.6	7.8
Southern Africa	Exports	-24.9	26.8	25.8	0.0	8.1	2.2	9.7	8.3
	Imports	-17.1	13.8	24.6	2.1	6.7	8.2	9.9	9.0
East and South Asia	Exports	-14.2	28.0	18.3	4.8	5.9	4.9	8.1	9.4
	Imports	-13.9	30.9	21.4	5.3	3.7	2.1	6.0	7.1
East Asia	Exports	-15.1	28.3	17.6	5.9	6.7	4.3	7.3	8.7
	Imports	-15.6	32.3	20.8	6.0	4.8	1.6	5.3	6.2
South Asia	Exports	-6.0	25.9	24.5	-4.0	-1.3	10.4	15.3	15.4
	Imports	-2.2	22.4	25.5	1.1	-3.4	5.5	10.7	12.9
Western Asia	Exports	-26.2	21.1	32.9	8.4	3.8	1.3	2.8	5.4
	Imports	-17.3	15.0	19.9	6.1	9.1	8.3	8.9	9.9
Latin America and the Caribbean	Exports	-20.7	31.2	17.7	1.6	1.6	3.9	6.3	6.9
	Imports	-20.2	28.4	19.4	5.7	3.3	4.2	7.4	7.6
South America	Exports	-21.5	35.7	17.7	-1.0	-0.6	2.2	5.1	5.6
	Imports	-18.6	31.5	20.7	5.6	3.2	2.1	6.3	7.4
Mexico and Central America	Exports	-18.5	25.7	17.4	6.4	4.9	6.3	8.2	8.9
	Imports	-21.9	25.6	17.7	6.5	3.9	7.3	9.1	8.0
Caribbean	Exports	-29.8	13.0	21.4	-2.4	3.8	7.0	5.4	5.3
	Imports	-24.6	14.4	17.8	-2.2	-1.0	3.9	5.6	4.9
Least developed countries	Exports	-21.4	25.0	26.6	7.7	15.2	4.8	7.8	7.0
	Imports	-3.8	9.6	20.9	9.0	11.8	10.1	10.8	10.2

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, 2009-2016
(annual percentage change)

Region	Flow	2009	2010	2011	2012	2013	2014 [a]	2015 [b]	2016 [b]
World	Exports	-9.9	11.9	6.3	2.6	3.1	3.5	4.5	5.0
	Imports	-11.2	13.1	6.9	2.5	2.9	3.4	4.8	5.2
Developed economies	Exports	-11.8	11.2	5.6	2.2	2.2	3.4	4.6	4.8
	Imports	-12.5	10.9	5.0	1.0	1.2	3.3	4.6	4.7
North America	Exports	-9.7	10.8	6.4	2.9	2.9	3.3	5.3	4.5
	Imports	-13.6	13.0	5.6	2.5	1.2	3.2	4.9	5.2
Asia and Oceania	Exports	-17.7	18.5	-0.3	1.4	2.8	4.6	2.9	4.6
	Imports	-14.3	12.0	7.1	5.5	2.2	4.2	3.7	1.8
Europe	Exports	-11.5	10.3	6.3	2.2	1.8	3.3	4.6	4.9
	Imports	-11.7	9.8	4.4	-0.4	1.1	3.2	4.6	4.9
European Union	Exports	-11.9	10.7	6.6	2.2	1.9	3.3	4.7	5.1
	Imports	-11.9	9.9	4.4	-0.6	1.1	3.2	4.7	5.0
EU-15	Exports	-12.0	10.4	6.3	2.0	1.6	3.1	4.6	5.0
	Imports	-11.2	9.6	4.0	-0.7	0.9	3.0	4.6	4.9
New EU Members	Exports	-10.6	13.1	9.2	3.8	4.5	4.8	5.1	5.4
	Imports	-16.7	12.2	7.6	0.9	2.2	4.6	5.2	5.8
Other Europe	Exports	-6.2	4.8	2.1	2.0	0.1	3.0	2.4	3.1
	Imports	-8.2	8.6	4.1	2.8	2.2	2.6	3.7	3.7
Euro area	Exports	-12.6	11.3	6.6	2.3	1.9	3.3	4.6	4.8
	Imports	-11.5	10.0	4.6	-1.3	1.1	3.3	4.7	4.8
Economies in transition	Exports	-6.6	6.8	3.2	1.1	2.8	0.3	0.9	1.9
	Imports	-26.4	16.7	16.6	8.1	2.2	-2.5	0.7	1.6
South-eastern Europe	Exports	-7.7	15.6	4.3	0.9	10.4	6.5	7.4	5.3
	Imports	-15.8	2.9	6.1	0.9	2.5	6.0	6.8	7.0
Commonwealth of Independent States	Exports	-6.5	6.4	3.1	1.1	2.5	0.0	0.6	1.8
	Imports	-27.3	18.0	17.4	8.6	2.2	-3.0	0.2	1.1
Developing countries	Exports	-7.5	13.4	7.6	3.1	4.3	3.9	4.8	5.6
	Imports	-7.4	16.3	9.2	4.3	5.3	4.0	5.5	6.2
Africa	Exports	-14.3	10.0	2.4	0.9	1.1	2.0	4.7	5.0
	Imports	-5.1	7.2	5.7	2.4	3.8	5.4	6.7	7.0
North Africa	Exports	-9.3	3.5	-15.5	11.5	-1.2	-1.7	3.1	4.1
	Imports	-5.4	3.3	-8.4	13.9	2.0	2.7	5.0	6.2
East Africa	Exports	-3.8	10.6	10.3	6.7	6.1	5.3	5.4	5.6
	Imports	3.8	11.3	14.9	9.6	8.1	7.8	7.7	7.2
Central Africa	Exports	-2.8	1.2	-0.9	1.1	-4.2	1.0	1.8	3.8
	Imports	6.0	9.6	1.4	6.6	0.1	2.2	4.3	4.2
West Africa	Exports	-20.8	38.9	26.2	-14.4	-2.1	3.8	5.0	5.5
	Imports	5.7	11.0	22.7	-21.5	2.5	10.0	10.8	10.3
Southern Africa	Exports	-20.2	4.7	6.3	2.4	5.6	3.8	6.3	5.6
	Imports	-13.9	8.0	9.4	5.5	5.4	5.3	6.2	6.4
East and South Asia	Exports	-5.9	16.6	7.8	2.7	6.0	4.7	5.5	6.0
	Imports	-4.6	17.9	9.0	4.0	5.7	3.6	5.3	6.0
East Asia	Exports	-6.7	17.1	7.4	2.9	6.6	4.2	5.1	5.6
	Imports	-5.6	19.2	8.0	3.7	6.9	3.5	5.1	5.7
South Asia	Exports	0.8	12.3	11.7	1.5	1.7	8.8	8.9	9.2
	Imports	2.1	10.1	15.8	5.9	-1.6	4.0	6.5	7.6
Western Asia	Exports	-7.9	6.4	9.8	7.3	1.4	2.7	2.7	4.9
	Imports	-13.2	9.0	10.0	7.0	7.1	5.3	6.3	7.1
Latin America and the Caribbean	Exports	-9.8	8.9	7.1	2.1	1.2	2.2	3.9	4.3
	Imports	-14.6	21.5	11.3	4.5	2.9	3.6	5.0	5.6
South America	Exports	-8.2	4.1	5.6	0.5	0.7	1.0	3.3	3.7
	Imports	-12.7	24.2	13.1	4.1	3.6	1.9	4.1	5.4
Mexico and Central America	Exports	-10.8	18.0	8.8	5.1	1.6	4.0	4.7	5.3
	Imports	-17.1	19.3	8.9	5.9	1.9	6.3	6.4	6.0
Caribbean	Exports	-28.3	11.1	16.0	0.4	5.6	4.3	3.9	4.3
	Imports	-15.8	6.2	9.9	-2.0	-0.3	3.7	4.4	4.3
Least developed countries	Exports	-14.9	6.6	6.1	5.9	4.7	5.0	6.4	5.7
	Imports	-4.2	10.6	8.4	8.1	6.7	6.8	7.6	7.6

Source: UN/DESA

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