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Global economy to improve marginally, but mounting uncertainties and risks could undermine economic growth, says UN

Upcoming US interest rate increases, remaining euro area fragility, a further slowdown in developing economies and geopolitical conflicts pose major concerns for global economic outlook

New York, 19 January—Global economic growth is forecast to increase marginally over the next two years, according to the United Nations *World Economic Situation and Prospects 2015 (WESP)* report, launched today. The global economy is expected to grow 3.1 per cent in 2015 and 3.3 per cent in 2016, compared with an estimated growth of 2.6 per cent for 2014.

The global economy expanded during 2014 at a moderate and uneven pace. Legacies from the global financial crisis continue to weigh on growth, while new challenges have emerged, including geopolitical conflicts such as in Ukraine and the Ebola epidemic.

Unemployment figures remain historically high in some regions, but appear to have stopped rising. While global inflation remains subdued, the spectrum ranges from deflation risks in the euro area to high inflation in some developing countries. Foreign direct investment inflows have remained the most stable and relevant source of financing for developing countries whereas portfolio capital flows are highly sensitive to changes in risk appetite.

Trade growth is expected to pick up moderately with the volume of world imports of goods and services projected to grow by 4.7 per cent in 2015. In 2015, fiscal tightening in most developed economies will continue, although the pace of tightening is expected to slow. The strong US dollar is expected to remain the dominant trend on foreign exchange markets.

“While some economic indicators are positive and moving in the right direction which points to the potential for a gradual return to consistent economic growth,” said Pingfan Hong, Director of the Development and Policy Analysis Division for the UN Department of Economic and Social Affairs, “many risks and uncertainties could dash efforts to get the global economy on track and moving forward.”

Developed economies

Among the developed economies, while the US maintained an annual growth rate above 2 per cent in 2014, the economic situation in Europe has been precarious, particularly in the euro area, where a number of euro members teetered on the brink of recession. In Japan, momentum generated by a fiscal stimulus package and monetary easing from 2013 tapered off in 2014.

The US economy is expected to improve in 2015-2016, with GDP projected to expand by 2.8 and 3.1 per cent, respectively. Only a slight improvement in growth is expected in Western Europe. The region is held back by the travails of the euro area, where the level of GDP has yet to regain its pre-recession peak. A projected slowdown in Japan is mainly attributed to the drop of private consumption due to a higher consumption tax.

Developing countries and economies in transition

Growth rates in developing countries and economies in transition diverged more during 2014, as a sharp deceleration occurred in many large emerging economies, particularly in Latin America and the Commonwealth of Independent States (CIS). In contrast, East Asia, including China, experienced only a mild slowdown, while India led South Asia to a moderate uptick.

Among the developing countries, Africa's overall growth momentum will continue, with GDP growth expected to accelerate to 4.6 per cent in 2015 and 4.9 per cent in 2016. East Asia will remain the fastest-growing region, and is projected to see stable growth of 6.1 per cent in 2015 and 6.0 per cent in 2016. Economic growth in South Asia is set to gradually pick up, while economic growth in Latin America and the Caribbean is projected to moderately improve. In the CIS, prospects are weak with near-zero growth expected in the Russian Federation. More detailed regional forecasts from *WESP* will be released in January 2015.

Looming risks and uncertainties could set back global economy

The euro area's recovery remains precarious. While the sense of crisis has dissipated, great risks remain. The underlying growth momentum in the euro area has decelerated to the point where an exogenous event could lead to a return to recession. The forthcoming further normalisation of the US Federal Reserve's monetary policy holds significant risks and uncertainties for the global economic outlook, depending on the timing and strategy of the monetary tightening, as well as the response by financial markets.

Many developing countries and economies in transition appear vulnerable to a tightening of global financial conditions, as well as a further aggravation of geopolitical tensions and an escalation of the Ebola epidemic. The ongoing high current-account deficits in some large emerging economies, such as Brazil, Indonesia, South Africa and Turkey, remain a concern, along with rapid credit growth in several emerging economies. A sudden change in market sentiment, similar to mid-2013 and early 2014, could trigger a painful adjustment process, especially in countries with large external deficits. A broad-based downturn in emerging economies, particularly a sharp slowdown in China, would weigh on economic performance worldwide.

A further risk lies in extreme volatility in oil prices which can have significant impacts on both oil exporting and oil importing countries. The crisis in Ukraine continues to have major regional macroeconomic repercussions. The situations in Iraq, Libya and the Syrian Arab Republic continue to hamper economic and human development regionally and remain major sources of uncertainty.

International policy coordination must be strengthened

To reduce risks and meet challenges, the report says, 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 long-term economic and financial stability.

WESP is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the UN Conference on Trade and Development (UNCTAD), the five UN regional commissions and the World Tourism Organisation (UNWTO).

For more information, visit: <http://www.un.org/en/development/desa/policy/wesp/>

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