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Global economy growing at modest pace, gradual improvement expected in next two years, says UN report

Widening economic divergence across regions amid decline in commodity prices

New York, 19 May—The world economy continues to grow at a modest pace, with a gradual improvement projected for the second half of 2015 and 2016, according to the United Nations [World Economic Situation and Prospects as of mid-2015](#) report, launched today.

Growth of world gross product is projected to improve slightly from 2.6 per cent in 2014 to 2.8 per cent in 2015—a downward revision by 0.3 percentage points from the forecast presented in the [World Economic Situation and Prospects 2015](#) (WESP) in January. The downward revision reflects mainly deterioration in the prospects of the economies in transition and several large developing countries, especially in South America. In 2016, global growth is forecast to improve to 3.1 per cent, which is still well below the pre-crisis pace.

“The current world economic situation is characterised by five ‘lows’: low growth, low trade flows, low inflation, low investment, and low interest rates, combined with two ‘highs’: high equity prices, and high debt levels”, remarked Pingfan Hong, Director of the [Development Policy and Analysis Division \(DPAD\)](#) of the [United Nations Department of Economic and Social Affairs](#).

The report notes that the growth divergence between the various regions will likely widen this year. *WESP* attributes this in part to the differing impacts from the recent drop in the prices of oil and other commodities. The short-term growth prospects of most commodity-exporting economies have been downgraded; by contrast, commodity-importers tend to benefit from the lower prices in the form of reduced inflationary, fiscal and balance-of-payment pressures.

The report warns of still significant downside risks to the forecast related to the impact of the upcoming monetary policy normalization in the United States, ongoing uncertainties in the euro area, potential spillovers from geopolitical conflicts and persistent vulnerabilities in emerging economies. These individual risk factors are interconnected and could be mutually reinforcing, potentially leading to a weaker-than-expected expansion of the global economy.

The overall subdued performance of the world economy since the global financial crisis has raised concerns of a “new normal” of lower growth. The broad-based weakness in investment worldwide not only holds back current growth, but also reduces potential growth in the future.

“It is somewhat concerning that, despite highly accommodative monetary policies and historically low global interest rates, real investment has been weak in many parts of the world since the global financial crisis”, said Ingo Pitterle, the DPAD’s team leader for the report.

Developed economies: growth momentum picking up

Almost all major developed economies are expected to see the growth momentum picking up, with average growth projected to accelerate from 1.6 per cent in 2014 to 2.2 per cent in 2015. The upward trend reflects a moderately improved outlook for the euro area, where the fragile recovery is gradually becoming more broad-based. Lower energy prices, significant currency depreciation on the back of the European Central Bank’s new large-scale asset-buying program, and some easing of fiscal consolidation pressures are expected to support the recovery. In the United States, export growth may be dampened by the significant appreciation of the US dollar since mid-2014. Despite expectations of a pick-up in growth, developed

economies still face considerable headwinds from the legacies of the global financial crisis, including subdued employment levels, elevated private and public sector debt, and financial sector fragilities.

Economies in transition: growth downgraded against backdrop of low oil prices

Gross domestic product (GDP) in the economies in transition is projected to contract by 2 per cent this year. The Russian economy will likely shrink in 2015, as low oil prices, weak business sentiment and high interest rates weigh on domestic demand. This will have negative spillover effects on other countries in the region.

Developing economies: growth prospects diverge

Average growth in developing countries is expected to remain at 4.4 per cent, about 3 percentage points below the pre-crisis pace.

Falling commodity prices and declining exchange rates are painting a mixed picture for *Africa*, with strong divergence between oil-exporting and oil-importing economies. Average growth is expected to reach 4.0 per cent in 2015 and 4.8 per cent in 2016, which is significantly lower than previously forecast.

East Asia will remain a key driver of global growth during the forecast period. Economic activity in the region is forecast to grow by 6.0 per cent in both 2015 and 2016, about the same pace as in 2014 and virtually unchanged from the January forecast.

South Asia's economic outlook is largely favourable. Most economies are expected to experience a strengthening of growth in 2015-2016 on the back of stronger domestic consumption and investment, and a pick-up in exports. India, in particular, is now projected to grow by 7.6 per cent in 2015 and 7.7 per cent in 2016, surpassing the growth of China, which is pegged at 7 per cent in 2015 and 6.8 per cent in 2016.

In *Western Asia*, lower oil prices weigh heavily on oil exporting economies, while the more diversified economies are expected to perform better than anticipated. If oil prices remain at the current low level for an extended period, oil exporting economies will face fiscal pressures, aggravating growth prospects for 2016.

According to the report, economic prospects in *Latin America and the Caribbean* have worsened noticeably, amidst lower commodity prices and persistent domestic fragilities. The region is expected to grow by only 0.5 per cent in 2015 and by 1.7 per cent in 2016. The Bolivarian Republic of Venezuela is falling into a deeper recession, while Brazil and Argentina are expected to experience slight contractions.

The *least developed countries* (LDCs) are expected to see growth of 4.9 per cent in 2015, a deceleration from 5.2 per cent in 2014 and a marked downward revision by 0.8 percentage point compared to the previous forecast. However, growth in some LDCs, such as Ethiopia, Rwanda and Tanzania, has been robust and sustained, owing in part to investments in agriculture and infrastructure, expanding services sectors and rising domestic demand.

Policy coordination

The report identifies key challenges in the areas of monetary, fiscal, labour market and trade policies, underlining the need for strengthened international policy coordination. *WESP* underscores such coordination becomes ever more critical as the Member States of the United Nations are expected to adopt a new financing framework for sustainable development, an ambitious sustainable development agenda, and a universal agreement on climate change later this year.

The World Economic Situation and Prospects as of mid-2015 updates the World Economic Situation and Prospects 2015 (United Nations publication, Sales No. E.15.II.C.2), released in January 2015.

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

Media contacts:

- Francyne Harrigan, fharrigan@un.org, +1-917-367-5414 — UN Department of Public Information