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East and South Asia remains the fastest-growing region amid a prolonged episode of slow global growth: UN report

Robust domestic demand and accommodative macroeconomic policies continue to support regional growth

Bangkok, 19 January – East and South Asia is positioned to exhibit the fastest growth among all regions, as the global economy continues to be trapped in a prolonged period of slow economic growth, according to the United Nations World Economic Situation and Prospects (WESP) 2017 Report released today.

The report shows that world gross product grew by just 2.2 per cent in 2016, marking its slowest pace of expansion since the Great Recession of 2009. Global growth is projected to see a moderate improvement to 2.7 per cent in 2017 and 2.9 per cent in 2018, but this is more an indication of economic stabilization than a signal of a robust revival of global demand.

Against this backdrop, East and South Asia will continue to grow more rapidly than other regions. Regional GDP is estimated to have expanded by 5.7 per cent in 2016. Supported by robust consumption, a moderate pickup in investment and accommodative macroeconomic policies, annual growth is projected to reach 5.9 per cent in 2017-18.

Growth prospects in East Asia and South Asia

East Asia's economy is estimated to have grown by 5.5 per cent in 2016, with a marginal pickup to 5.6 per cent projected for both 2017 and 2018. Private consumption and public investment continue to drive growth. However, the subregion's export growth remained exceptionally weak in 2016. This has negatively affected consumer sentiment, resulting in weaker household spending in several economies. While overall fiscal balances have recently worsened in some countries, the relatively low public debt levels mean that there is still room for fiscal expansion. There are encouraging signs that the subregion will emerge from the two-year stretch of producer-price deflation. This could have a positive impact on corporate profits and investment.

China's stable output growth in 2016 has alleviated near-term concerns of a sharp growth slowdown. On the back of favourable domestic demand and supportive fiscal measures, the Chinese economy is projected to grow by 6.5 per cent per annum in 2017-2018, down slightly from the estimated 6.6 per cent in 2016.

In South Asia, growth is projected to remain vigorous, further accelerating to 6.9 per cent in 2017 and 2018, from 6.7 per cent in 2016. Policy reforms at the country level are expected to provide support to economic activity. Macroeconomic policies will also continue to play a positive role. Monetary policy is generally accommodative, while the fiscal policy stance remains moderately tight but with some degree of flexibility. Fiscal deficits are thus expected to remain elevated in most economies. From a medium-term perspective, key fiscal challenges for the subregion include improving tax revenues and promoting a supportive environment for the private sector, which together can enhance the capacity to implement counter-cyclical policies.

India has positioned itself as one of the most dynamic emerging economies. Growth is projected to reach 7.7 per cent in 2017 and 7.6 per cent 2018 amid strong private consumption. Investment demand is expected to pick up slightly, supported by monetary easing, government efforts towards infrastructure investments and public-private partnerships and domestic reforms.

Downside risks and policy challenges

The report cautions that there are significant downside risks to the global and the regional outlook. Among other issues, the report highlights the high degree of uncertainty in the international policy environment and elevated foreign currency-denominated debt levels as key downside risks that may derail global growth.

For East and South Asia, potential renewed episodes of high financial volatility, including a sudden surge in external borrowing costs and large capital outflows, could significantly increase the difficulties to roll over debt. In this context, high and rising corporate and household debt in some East Asian economies, most notably China, is a cause of concern. High levels of indebtedness could also constrain the policy space to introduce supportive fiscal measures. In South Asia, the reform agenda might also experience some setbacks, while political instabilities could dampen investment prospects.

Given the close linkages between demand, investment, trade and productivity, the extended episode of weak global growth may prove self-perpetuating, especially in the absence of concerted policy efforts to revive investment and foster a recovery in productivity. Under those circumstances, the report calls for a more balanced policy approach – one that goes beyond over-reliance on monetary policy- to not only restore robust growth in the medium term, but also to achieve greater progress on sustainable development.

About the report: *The World Economic Situation and Prospects report is the UN's flagship publication on expected trends in the global economy. The WESP is produced annually 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). The report is available from <http://bit.ly/WESP>.*

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