United Nations
Department of Economic and Social Affairs

LINK Global Economic Outlook

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Acknowledgements

This report presents short-term prospects for the global economy in 2012-2013, highlighting major risks and uncertainties. The report draws on inputs from the experts of Project LINK, and analysis of staff in the Global Economic Monitoring Unit (GEMU)/Development Policy and Analysis Division (DPAD)/United Nations Department of Economic and Social Affairs.

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Overview

Despite scattered signs of improvement, the world economic situation and prospects continue to be challenging. After a marked slowdown in 2011, global economic growth will likely remain tepid in 2012, with most regions expanding at a pace below their potential.

Developed economies are still struggling to overcome the economic woes originating from the global financial crisis. This has given rise to sluggish and fragile growth. The outlook for developing economies and economies in transition remains more benign, although notable growth moderation is projected for 2012.

In the face of subdued growth, the jobs crisis continues, with global unemployment still above its pre-crisis level and unemployment in the euro area rising rapidly. Following an upturn in 2011, inflation is forecast to decelerate owing to weakening global demand and gradually moderating food and commodity prices.

The risks to the global outlook are tilted to the downside. The euro area debt crisis remains the biggest threat to the world economy. An escalation of the crisis would likely be associated with severe turmoil on financial markets and a sharp rise in global risk aversion, leading to a contraction of economic activity in developed countries, which would spill over to developing countries and economies in transition. A further sharp rise in global energy prices may also stifle global growth.

Global macroeconomic prospects

Global growth projected to slow, major risks looming

Despite some scattered signs of improvement in recent months, the world economic situation and prospects continue to be challenging. After a marked slowdown in the course of 2011, global economic growth will likely remain tepid in 2012, with most regions expanding at a pace below potential. In the baseline outlook (see box 1), world gross product (WGP) is projected to grow by 2.5 per cent in 2012 and 3.1 per cent in 2013, following growth of 2.7 per cent in 2011 (see table A.1 in the annex); this constitutes a slight downward revision from the forecasts presented in the *World Economic Situation and Prospects (WESP) 2012* in January. Downside risks for further weakening of global economic conditions remain unabatedly high.

Box 1: Assumptions for major economies in the baseline forecast

Monetary policy in major developed economies will continue to be very accommodative in 2012-13, with policy rates remaining at their effective lower bounds. The Federal Reserve Bank of the United States (Fed) recently signalled that its key policy rate would stay at the current near-zero level at least until 2014. The Fed continues to implement the so-called "Operation Twist", namely purchasing long-term treasuries and selling short-term treasuries. In the baseline scenario, it is assumed that the Fed will not implement a third round of quantitative easing (QE).

The European Central Bank (ECB) cut rates twice in late 2011, bringing them back to a record low. The rate for the main refinancing operations currently stands at 1 per cent. There is resistance to cutting policy rates further on the grounds that this may inhibit the functioning of the money markets. Short-term interest rates are already close to zero. The ECB also conducted two massive 3-year long term refinancing operations (LTRO) in recent months to provide euro area banks with sufficient liquidity. In the outlook, given the backdrop of very weak growth in 2012 and in 2013, conventional policy rates are assumed to remain at current levels. Unconventional policy is assumed to be on hold, with no further 3-year LTRO. In the event of significant financial market tensions, a new round of LTRO is assumed to be deployed to successfully calm markets.

The Bank of Japan (BoJ) recently adopted an explicit "inflation targeting" framework and set the target of CPI inflation at 1 per cent. This development is consistent with the assumption that the BoJ will keep the policy rate (overnight call rate) within the range of 0.0 to 0.1 per cent in the outlook period. The BoJ also increased the targeted scale of the Asset Purchasing Program from ¥55 trillion to ¥70 trillion with the increase earmarked for purchasing government bonds.

After tightening monetary conditions during the first half of 2011, the People's Bank of China (PBC) shifted at the end of last year towards a policy stance more supportive of growth. The PBC has lowered the reserve requirement ratio (RRR) for banks significantly, with further cuts expected in 2012. The policy rate has been cut by 25 basis points to 6.31 per cent, with no further changes expected in the baseline scenario for 2012 and 2013.

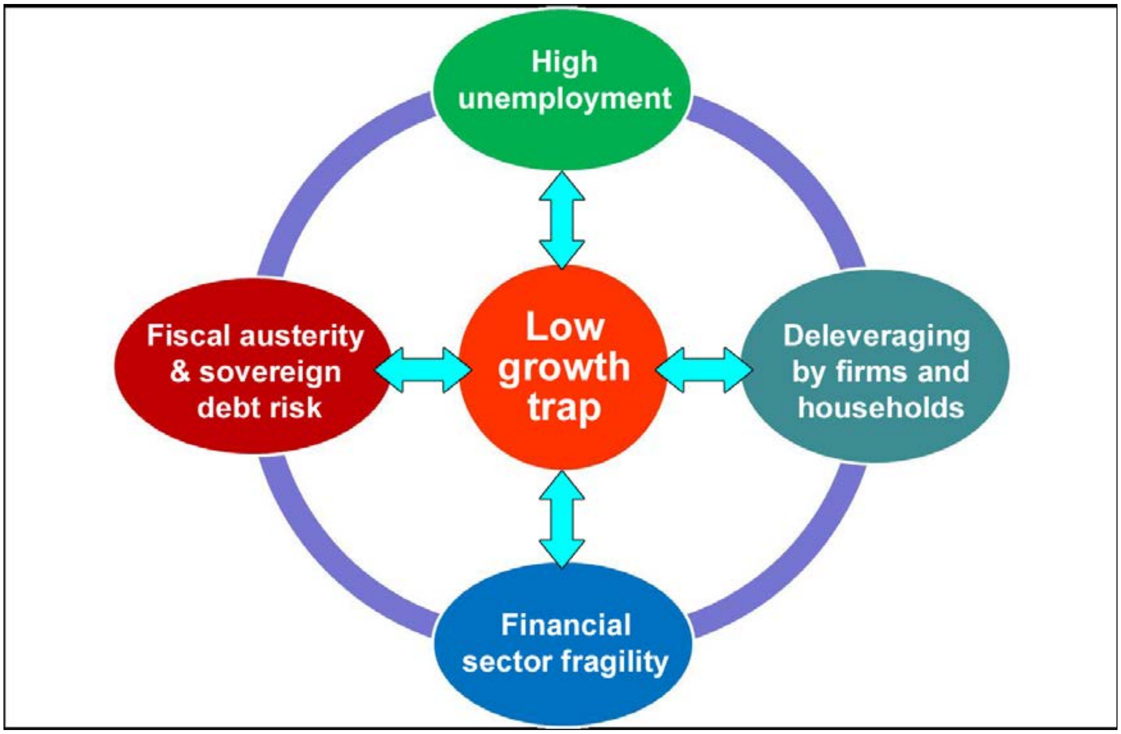
Fiscal policy in developed economies will be further tightened in 2012 and 2013. In the United States, real government spending is estimated to fall by 2 per cent in 2012 and 3.4 per cent in 2013, with uncertainty surrounding the automatic spending cuts scheduled to begin in January 2013. Fiscal policy in the euro area as a whole remains contractionary, but there are significant differences across countries. Most countries with access to low-cost debt, notably Germany, are expected to see mild fiscal tightening in the outlook period, with a moderate decline in real government expenditure. Governments in other countries such as Greece, Italy, Portugal and Spain will continue to implement severe fiscal austerity programs that include massive expenditure cuts and significant tax increases. In Japan, the draft budget for the fiscal year starting 1 April 2012, does not foresee significant fiscal consolidation as the primary balance deficit is set at a level very close to the previous one. Planned cuts in discretionary spending and social security payments are largely offset by higher debt service outlays and more expenditure for reconstruction. China is expected to maintain its current 'proactive' fiscal policy in the outlook period, with robust growth in expenditures and revenues. The Government has announced that it will increase expenditures by about 14 per cent in 2012 to mitigate the economic slowdown.

In the outlook period, changing risk perceptions are expected to be the major driver of the dollar/euro exchange rate. In the baseline forecast, no clear trend in the exchange rate is assumed, but rather a period of large swings around an average of 1.32 dollar/euro. While the interest rate differential is expected to remain stable between the United States and Japan, the deterioration of Japan's current account balance is forecast to trigger a weakening of the yen against the dollar. The annual average rate is assumed to be 82.5¥/US$ in 2012 and 85.0¥/US$ in 2013.

Brent crude oil prices are expected to average $110 per barrel in 2012 and $100 per barrel in 2013.

Most developed economies are still struggling to overcome the economic woes originating from the financial crisis. Four major weaknesses continue to feed into each other and conspire against any robust economic recovery (see figure 1). First, continued deleveraging by banks, firms and households is holding back normal credit flows and consumer and investment demand. Second, unemployment remains high, a condition that is both cause and effect of the lack of economic recovery. Third, fiscal austerity responses to deal with rising public debts are further deterring economic growth, which in turn is making a return to debt sustainability all the more difficult. And fourth, bank exposure to sovereign debts and the weak economy are perpetuating financial sector fragility, which in turn is spurring continued deleveraging.

Figure 1. The vicious cycle in developed economies



Source: UN/DESA

Developed countries, especially in Europe, continue to struggle to break through this vicious circle. Even if further deepening and spreading of the euro area's debt crisis can be avoided (which is assumed in the baseline scenario), economic activity in the European Union is projected to stagnate in 2012. The outlook is not as sombre for the United States and Japan, although in both countries output growth continues to be constrained by ongoing deleveraging and policy uncertainties.

Faced with weakening external demand and increased global uncertainties, developing countries and economies in transition are projected to see notable output growth moderation to, respectively, 5.3 per cent and 3.9 per cent in 2012. China's economy is expected to experience a soft landing, which is expected to weigh on international commodity markets and weaken growth in other developing regions. Economic growth in these economies is forecast to pick up slightly thereafter, assuming global demand recovers in 2013 and downside risks do not materialize.

Table 1. Growth of world output, 2006-2013, annual percentage change

	2006-2009 [a]	2010	2011 [b]	2012 [c]	2013 [c]	Change from January 2012 forecast: 2012	Change from January 2012 forecast: 2013
World	1.8	4.1	2.7	2.5	3.1	-0.1	-0.1
Developed economies	0.3	2.7	1.4	1.2	1.8	-0.1	0.0
United States of America	0.2	3.0	1.7	2.1	2.3	0.6	0.3
Japan	-0.7	4.4	-0.7	1.8	2.1	-0.2	0.1
European Union	0.6	2.0	1.6	0.0	1.2	-0.7	-0.4
EU15	0.4	2.0	1.4	-0.1	1.1	-0.7	-0.5
New EU Members	3.1	2.3	3.1	1.6	2.7	-1.0	-0.4
Euro area	0.5	1.9	1.5	-0.3	0.9	-0.7	-0.3
Other European	1.4	1.7	1.8	1.1	1.3	0.0	-0.3
Other developed countries	1.5	2.8	2.3	2.3	2.6	0.2	0.2
Economies in transition	3.7	4.1	4.5	4.0	4.2	0.1	0.1
South-Eastern Europe	2.8	0.5	1.0	0.6	1.8	-1.7	-1.4
Commonwealth of Independent States and Georgia	3.8	4.5	4.8	4.3	4.4	0.3	0.2
Russian Federation	3.3	4.0	4.3	4.4	4.4	0.5	0.4
Developing economies	5.8	7.5	5.9	5.3	5.8	-0.2	-0.1
Africa	4.7	4.6	2.1	4.2	4.8	-0.8	-0.3
North Africa	4.5	4.0	-2.3	4.4	4.4	-0.3	-1.1
Sub-Saharan Africa	4.8	4.9	4.2	4.1	5.0	-1.1	0.0
Nigeria	4.3	7.8	7.3	6.3	6.8	-0.5	-0.2
South Africa	3.2	2.9	3.1	2.8	3.5	-0.9	0.0
Others	6.2	5.4	3.8	4.2	5.4	-1.6	0.0
East and South Asia	7.6	8.8	6.9	6.3	6.8	-0.5	-0.1
East Asia	7.7	9.2	7.1	6.5	6.9	-0.3	0.0
China	11.4	10.4	9.2	8.3	8.5	-0.4	0.0
South Asia	7.2	7.1	6.1	5.6	6.1	-1.1	-0.8
India	8.4	8.9	7.1	6.7	7.2	-1.0	-0.7
Western Asia	3.5	6.2	6.9	4.0	4.4	0.2	0.1
Latin America and the Caribbean	3.2	6.0	4.3	3.7	4.2	0.4	0.0
South America	4.2	6.4	4.5	3.8	4.4	0.3	-0.1
Brazil	3.6	7.5	2.7	3.3	4.5	0.6	0.7
Mexico and Central America	1.1	5.6	4.1	3.4	3.9	0.8	0.3
Mexico	0.8	5.8	4.0	3.4	3.9	0.9	0.3
Caribbean	5.2	3.4	2.5	3.3	4.0	-0.2	-0.2
Least developed countries	7.4	5.8	4.0	4.1	5.7	-1.9	0.0
Memorandum items :							
World trade [d]	2.2	13.1	6.6	4.1	5.5	-0.3	-0.2
World output growth with PPP-based weights	3.0	5.0	3.7	3.4	4.0	-0.2	-0.1

Source: UN/DESA

a Average percentage change.

b Partly estimated.

c Forecast, based in part on Project LINK.

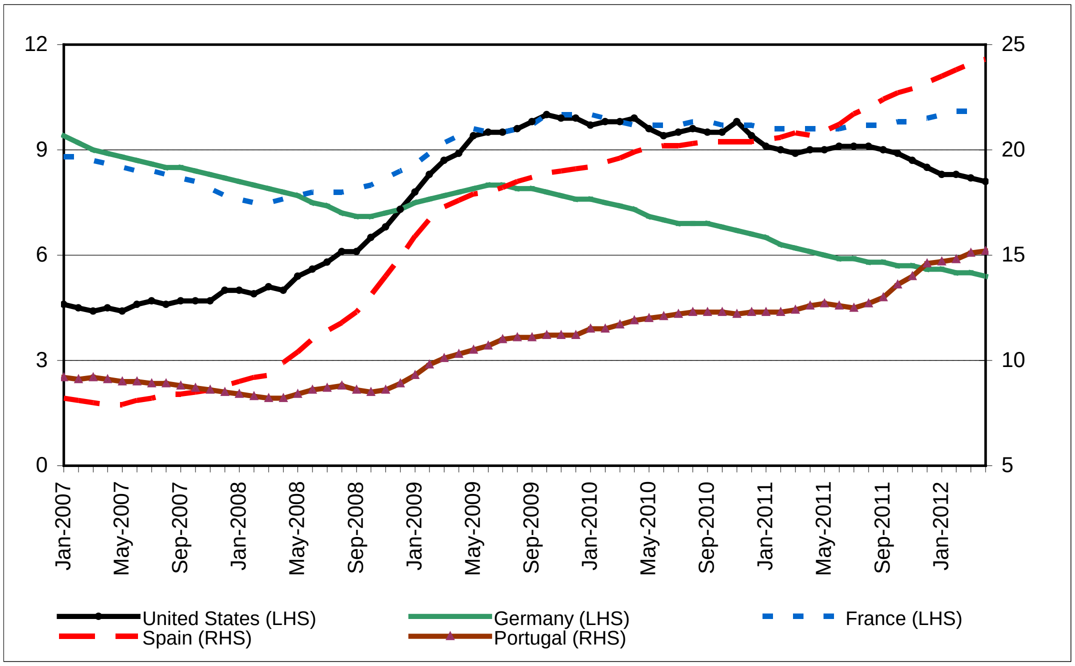
d Includes goods and services

The jobs crisis continues

Recovery of global employment remains the most pressing challenge. Despite moderate improvements in some countries once positive economic growth resumed by 2010, the marked slowdown of global growth in the course of 2011 has posed new hurdles for employment creation. Employment-to-population ratios remain below their 2007 levels in all major economies, except Brazil, China, and Germany. By the end of 2011, an estimated 48 million additional jobs were required for employment ratios to return to pre-crisis levels. In almost all developed countries, employment was lower at the end of 2011 than in 2007 and the jobs deficit among these countries tops 12 million. In many countries, this is also reflected in high and still rising unemployment rates (figure 1). In the United States, despite recent improvements, the unemployment rate remains high at over 8 per cent, well above pre-crisis levels. Almost all European countries faced greater unemployment rates at the end of 2011 than in 2007, except Austria and Germany. The unemployment rate in the euro area as a whole increased to a historic high of 11 per cent in April 2012, up by one percentage point from a year ago. It reached alarming heights in the debt-ridden euro area countries: in Spain, it stood at 24.3 per cent in April 2012 (up from an average rate of 8.6 per cent in 2007), in Portugal at 15.2 per cent (up from 8.5 per cent), in Ireland at 14.2 per cent (up from 5 per cent) and in Greece at 21.7 per cent in February 2012 (up from 8 per cent) Furthermore, long-term unemployment continues to increase in developed countries, reaching about 40 per cent of the unemployed in many countries. Most notably, the share of long-term unemployed rose significantly in the United States, the United Kingdom, and debt-distressed countries of the euro area.[1] Youth unemployment also increased markedly; most staggeringly in Spain, where more than half of young adults looking for a job cannot find one.

[1] See International Labour Organization, *World of Work Report 2012*, pp. 2-4

Figure 2. Unemployment rates in selected developed countries: January 2007 - February 2012 (Percentage of labour force)



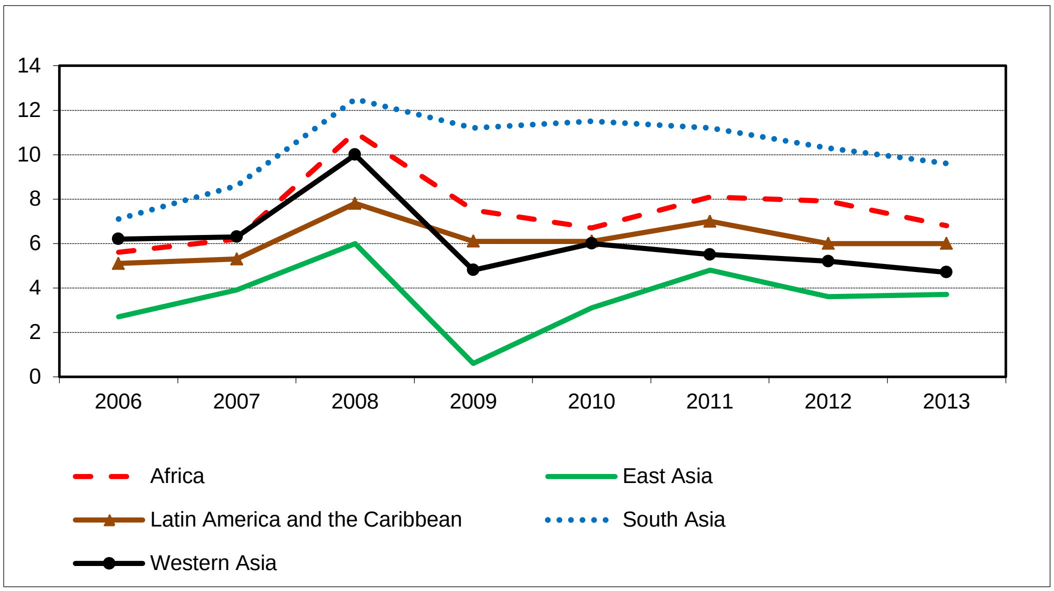
Source: UN/DESA based on data from EUROSTAT and OECD Main Economic Indicators

In developing countries, conversely, employment rebounded, on average more strongly than elsewhere. However, with growth in major developing economies slowing, the prospects for sustained improvements are uncertain. At the end of 2011, many countries in South Asia (including large countries like India), Western Asia (particularly those affected by political instability), Africa (including South Africa) and Latin America (including Mexico and Venezuela), faced large job deficits compared to 2007. In both East Asia and Latin America, employment creation decelerated, with unemployment increasing in Brazil during the first quarter of 2012, although the rate of unemployment is still lower from where it was a year ago. Continued high rates of underemployment, vulnerable employment, low wages, and absence of social safety nets prevail in most countries, though involuntary part-time underemployment for Latin America and East Asia seems to have fallen marginally.

Inflation is expected to moderate

Inflation is forecast to moderate in light of weakening demand and receding food and commodity prices. In Western Europe and the United States, a significant output gap combined with high unemployment will contain wage increases and prevent sustained upward pressure on inflation. Despite a declining trend worldwide, inflation will remain high in numerous developing countries, especially in Africa and South Asia (see figure 3). In Central and West Africa, the expansion of the natural resource sector will underpin strong growth in incomes and domestic demand, creating significant inflationary pressure. Supply bottlenecks will lead to double-digit inflation in Argentina and the Bolivarian Republic of Venezuela. In East Asia, Viet Nam is grappling with high inflation owing to a combination of supply-side pressures, strong credit growth, and a weak currency. The inflation forecast is subject to significant upside risks, including stronger wage growth, for example in China and Thailand: a further increase in international oil prices and a re-emergence of strong capital flows to emerging economies on the back of further quantitative easing in developed countries.

Figure 3. Average annual inflation rates in developing regions
(Per cent)



Source: UN/DESA

The international economic environment for developing countries

Trade growth is expected to decelerate further

The rapid recovery of world trade experienced after mid-2009 on the back of strong import growth by developing countries is currently followed by a marked deceleration. Growth of world import volume slowed from 13.6 per cent in 2010 to 6.7 per cent in 2011 and is projected to decelerate further to 4.2 per cent in 2012. Weak economic growth in developed countries is taking its toll on global trade activity. Most notably, stagnant economic activity in Europe is expected to yield near-zero growth of imports in

2012. The sluggish import demand from developed countries has been transmitted to many manufacturing exporters in developing countries. Looking further ahead, the 3.1 per cent growth of WGP forecast for 2013, following 2.5 per cent in 2012, may help stimulate trade activity, raising trade volume growth to an estimated 5.5 per cent in 2013. Sluggish growth in global demand will likely put downward pressure on energy and commodity prices, and primary commodity exporters are expected to see losses both in the terms of trade and in volume demand.

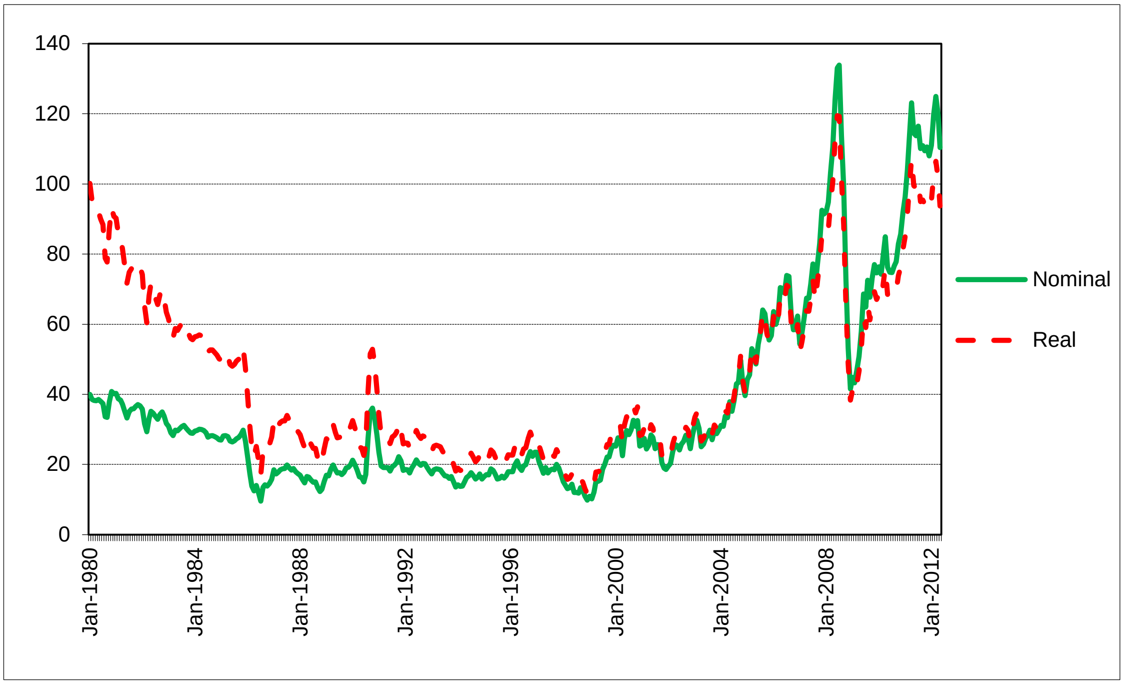
Non-oil commodity prices projected to recede, but oil prices remain high

World market prices of primary commodities declined markedly in the second half of 2011, but were on the rise again in early 2012, especially oil prices. After rising by 40 per cent to reach an all-time high average yearly price of $111 per barrel (p/b) in 2011, the Brent crude oil price increased further to $120 p/b in March 2012 before moderating in April and May (figure 4). The surge was triggered by bans imposed by the EU and the United States on oil imports from the Syrian Arab Republic and the Islamic Republic of Iran,[2] as well as by speculation about escalating geopolitical tensions in the region. Recently prices have declined significantly as the outlook for conflict with Iran has dissipated somewhat and fears of an exacerbation of the crisis in Europe expand. In the baseline outlook, assuming no escalation of such factors, the price of Brent crude is forecast to average $110 p/b in 2012 and $100 p/b in 2013. Metals prices are expected to fall moderately in 2012 as industrial output slows in China and the euro area faces recession. Food prices have come down from the highs of 2011, but remain elevated. Further easing is expected in the second half of 2012 and 2013.

These trends are expected to contribute to a further moderation of inflation worldwide. Volatility in commodity prices will remain a concern for net commodity exporters and importers alike. Geo-political factors may push oil prices to even higher levels, posing an added downside risk to the world economic outlook (see below).

[2] See European Union Council Decisions 2011/522/CFSP of 2 September 2011 and 2012/35/CFSP of 23 January 2012 for the EU bans of Syrian and Iranian oil imports, and Executive Orders 13582 of 18 August 2011, and 12959 of 6 May 1995 for those imposed by the United States.

Figure 4. Brent oil price: January 1980–May 2012 (US$ per barrel; real price = nominal price deflated by the United States consumer price index)



Source: UN/DESA based on data from IMF International Financial Statistics

International capital flows: the calm before the storm?

After much turmoil during 2011, global capital markets regained some stability in early 2012 as concerns over the possibility of a hard landing of the Chinese economy eased (at least for now) and growth prospects in the United States seemed to have improved. However, in recent months market turmoil increased again as the euro area crisis deteriorated. During the first quarter of 2012, most emerging economies saw less volatility in private capital inflows, more moderated swings in exchange rates and modest stock market gains. For 2012 as a whole, total net private capital inflows to emerging countries are projected to be significant, though somewhat below 2011 levels.

Conditions in early 2012 contrast with those in the second half of 2011, when contagion from the turbulence in the euro area caused a sudden drop in capital flows to emerging and other developing economies. In an effort to strengthen their balance sheets, banks, especially in Europe, reduced their exposure to these markets. As a result, borrowing costs increased, asset prices fell, and the currencies of many emerging and other developing economies depreciated.

Yet, the current calm may be deceptive and new turmoil may surface easily. Capital inflows to these economies are likely to stay volatile, complicating macroeconomic policymaking. Push and pull factors will underlie the continued volatility. On one hand, the significant differences in economic growth and interest rates between emerging and developed economies will push more capital towards emerging economies. On the other hand, the continued deleveraging by European banks carries the risk of disorderly balance sheet adjustments, which could trigger massive withdrawals of capital from emerging economies.

Governments of emerging and other developing economies thus will need to further strengthen regulatory measures and buffers to shield themselves against continued capital flow volatility. Strong reserve positions and capital account regulatory measures helped countries to come out of the financial turmoil of the second half of 2011 relatively unscathed: banks survived the storm, while the sharp reversal in capital inflows did not seem to have affected economic activity too much.

Volatility in currency markets has resumed

Volatility in international currency markets resurfaced in the second quarter of 2012, after easing in the first three months., During the first quarter of 2012, most major currencies traded in fairly narrow ranges, with the euro-dollar exchange rate hovering around 1.32$/euro. However, shifting risk perceptions, mainly related to the situation in the euro area, have caused a marked drop in the value of the euro, with the exchange rate standing at about 1.25$/euro in early June 2012. The Japanese yen, which reached historical highs against all major currencies in 2011, depreciated significantly in early 2012 after the Bank of Japan set an inflation target of 1 per cent and expanded its asset buying program. Meanwhile, the gradual appreciation of the renminbi against the dollar has–at least temporarily–come to a standstill, with the exchange rate remaining close to 6.30 CNY/US$ since January 2012. The Brazilian real weakened markedly against major currencies in recent months after the Government implemented measures to prevent further appreciation and concerns over the euro area crisis led to capital outflows from emerging economies.

Developing countries cautiously shift macroeconomic policy stance

Against the backdrop of slowing growth, increased global uncertainty, and gradually moderating inflation, many central banks in developing countries have moved towards a more accommodative monetary policy stance in recent quarters. Brazil’s central bank cut its policy rate aggressively to spur growth, slow short-run capital inflows and reduce upward pressure on the real. The Reserve Bank of India also lowered its main interest rates, but–as in many other developing countries–concerns over relatively persistent inflation will likely limit further moves. The People’s Bank of China cut the reserve requirement ratio for banks several times to enhance liquidity in the banking system and also reduced its benchmark policy rate. In the outlook, most developing countries are expected to further ease monetary conditions in an attempt to support growth in the face of a global slowdown.

Governments in many developing countries are likely to shift towards a neutral fiscal policy stance in the outlook period, following mild tightening in 2011. In most East Asian economies, including China, fiscal expenditures will continue to increase at a solid pace to support growth amid weakening external demand. In Western Asia, Governments will continue to raise public spending, although at a much lower rate than in 2011 when expenditures were boosted in response to popular protests. Among the economies in transition, South-eastern European countries are tightening fiscal policy. In contrast, in some commodity-exporters in the CIS such as the Russian Federation and Kazakhstan, expansionary fiscal policy is expected to persist in 2012.

Global risks and uncertainties

Given the fragility of the global economy, the baseline outlook for 2012 and 2013 is subject to a high degree of uncertainty. Risks are tilted to the downside and include an escalation of the euro area debt crisis, a further rise in global energy prices because of increased geopolitical tensions and, though less likely, a hard landing of China's economy.

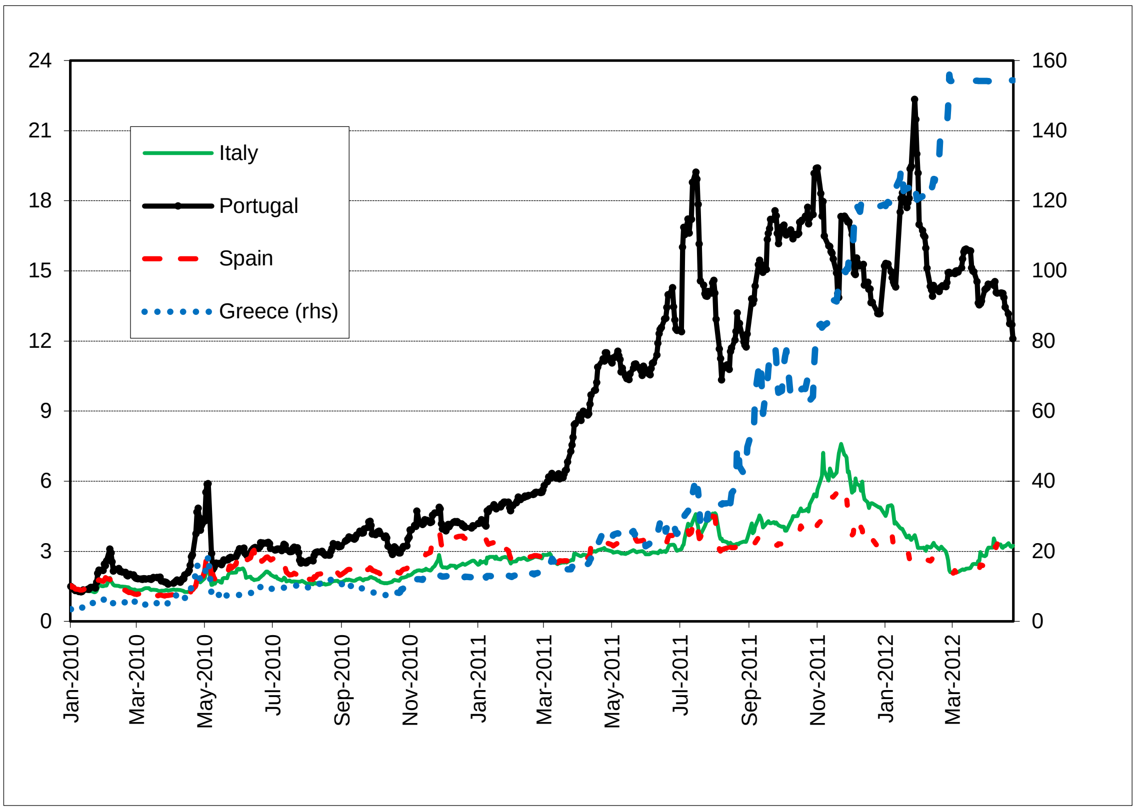
Escalation of the euro area crisis is the biggest threat to global growth

At the current juncture, the euro area crisis remains the biggest threat to global growth in the outlook period. An escalation of the crisis would likely be associated with severe turmoil in financial markets and a sharp rise in global risk aversion, leading to a contraction of economic activity in developed countries at large, which would spill over to developing countries and economies in transition.

Although some progress was made in early 2012 in easing financial market tensions, euro area policymakers have so far not addressed the fundamental and closely intertwined issues at the core of the crisis. They continue to face major challenges related to the fragility of financial institutions and the high level of sovereign debt. Tackling these challenges is complicated by structural imbalances within the euro area and the lack of growth impulses. Average unemployment in the region is at its highest level since the common currency was introduced; many economies face anaemic growth or recessions as firms and households are in a process of deleveraging, while governments pursue contractionary fiscal policies.

While asset price volatility and inter-bank borrowing costs eased somewhat in early 2012 (see figure 5), mostly owing to the ECB's Long-Term Refinancing Operations (LTRO), Europe's financial sector remains very fragile. The cleansing of bank balance sheets of poor-performing assets has been complicated by the slow growth of European economies and increased exposure to sovereign debt risk. A significant portion of those assets now lie with the ECB, having been pledged as collateral in the process of the LTRO. Conversely, stagnating and declining growth in many European economies is further eroding the quality of bank assets, as is the continued sovereign debt distress in the euro area. As a result, many European banks plan to shed more assets in the years ahead, in order to raise capital buffers and reduce their exposure to funding markets. Current estimates of the value of assets likely to be sold off over the next two years total about $2 trillion. Financial deleveraging is necessary to strengthen the long-run financial position of banks, but, in the short run, it will lead to tighter credit supplies, further weakening the real economy. In fact, bank credit supply has continued to decline in some European economies even after the LTRO. Despite the recent efforts by the ECB, bank funding markets are far from normal yet. Bank credit risk remains at a high level and investors' confidence in banks is weak, as reflected in the low prices of banking shares. Together with persistent high unemployment, the still ongoing deleveraging by households and fiscal austerity measures by Governments is keeping the risk of Europe entering into a downward, deflationary spiral dangerously high.

Figure 5. Yields for selected European 2-year sovereign debt bonds, January 2010–May 2012 (percentage points)



Source: UN/DESA based on data from JPMorgan Chase

Fiscal austerity has already pushed many countries in Europe further into recession and has become self-defeating as far as fiscal consolidation is concerned. This particularly holds for the debt-ridden euro area economies, including Greece and Portugal, which have already received EU-IMF bailout packages, and Italy and Spain, which saw the costs of public financing soar in 2011. Other euro area countries have also fallen back into recession, following fiscal retrenchment over the past two years. Low growth and high unemployment are at the heart of the region's problems. Given that the euro area economies are mostly trading with each other, weak demand in one country also creates significant negative spillover effects.

At present, the biggest danger for the euro area is posed by the situation in Greece spilling over to Italy and Spain as the size of their debts would likely challenge the region's rescue funds. A related fear is that Spain will slide into a downward spiral of austerity and recession, which will drive up its borrowing costs, lead to increased market turmoil and eventually require a bailout, leaving insufficient funds available for Italy. Such a scenario would likely involve renewed speculation about a break-up of the euro area, further unsettling financial markets and triggering a sharp downturn in global economic activity.

High oil prices pose significant downside risks for the world economy

The persistence of high oil prices is benefitting oil-exporting countries at the expense of economic activity in oil-importing countries. Oil prices above $100 per barrel could become a drag on global demand, but this would be all the more severe if the price shock emanates from a disruption in supply caused, for instance, by geo-political factors. The ban on Iranian oil imports imposed by the EU and the United States has already put upward pressure on oil prices. The impact on oil prices may be offset if other producers increase their supply. Spare capacity of Saudi Arabia, for instance, is estimated at 2.8 million barrels per day (mbd), more than enough to compensate for a complete halt in Iran's supply, as its net oil exports amount to 1.4 mbd. However, blockage of the Strait of Hormuz, which could be part of enhanced geo-political tensions, would prevent around 10 mbd from reaching international markets, exceeding by far available spare capacity in and outside of the Gulf region.

The IMF estimates that, if not offset by supply increases from other producers, a halt to Iranian oil exports would lead to an initial world price increase of 20 to 30 per cent.[3] Further uncertainties about supply disruptions could lead to more substantial price rises affecting global demand. Under present, relatively weak, global economic conditions, an oil price rise of 50 per cent sustained over the coming two years could lower WGP growth by 0.5 to 1 percentage point.[4] The impact could be stronger if it induced other commodity prices to rise as well, and if increased uncertainty triggered financial market turmoil–effects not considered in the given estimate of the impact.

Oil-importing countries with high fossil fuel-based energy intensity would be hit hard. The $32 increase in the average oil price during 2011 implied a net transfer of $450 billion from oil-importing to oil-exporting countries. In particular, developing countries

[3] IMF, *World Economic Outlook April 2012: Growth Resuming, Dangers Remain*, p. 15.
[4] Estimates based on the UN's World Economic Forecasting Model. Consumption and investment demand would fall in oil-importing countries, offset only in part by increased import demand from oil-exporters.

lacking strategic reserves or fiscal buffers to compensate domestic producers and consumers have seen strong increases in inflation rates because of rising energy prices. Their growth prospects would suffer from further price increases. While sustained high oil prices will likely induce movement away from fossil fuel consumption and, over time, enhance energy efficiency, which would be a welcome step towards green growth, there are more benign ways to achieve such effects. In this regard, signs that the risk of escalation of geo-political tensions in the region has subsided is good news for the world economy.

A hard-landing in China could hit global growth

A hard-landing of China's economy continues to pose a risk for the world economy, although the likelihood of such a scenario is relatively small despite a recent string of weaker-than-expected data. While in general a hard landing is defined as a sharp and sudden deceleration in growth, in the case of China it would mean that GDP growth slows to an annual pace of about 5-6 per cent in 2012-14, down from an average rate of almost 10 per cent in the period 2008-11. Since China has relied on an investment-driven growth model–gross fixed capital formation contributed on average 54 per cent to GDP growth over the past decade–only a sharp slowdown in investment spending could bring about a hard landing. In this context, the economy is currently facing two major risks: on the domestic front, a more pronounced downturn in the property sector, and on the external front, a drastic weakening of exports as growth in developed economies, especially the euro area.

China's property market entered a downturn in the last quarter of 2011, following years of rapid growth. The slowdown was engineered by the Chinese Government and Central Bank, which introduced a set of measures in 2010 to control soaring property prices–requesting larger down payments, setting up limits on the number of units people could purchase, and providing additional supply of affordable housing. As a result, prices have fallen moderately over the past few months in the majority of first and second-tier cities (see table 2). More importantly, transaction volumes have declined significantly and real estate investment has slowed. While the property market correction has been relatively mild so far, with only limited effects on the domestic economy, a more pronounced downturn could severely impact economic activity through a number of channels. First, rapidly decelerating growth–or even a contraction–in real estate investment would have a significant direct impact on GDP growth. In 2011, real estate investment accounted for 13 per cent of total GDP after growing by 28 per cent. Secondly, slower real estate investment growth could have considerable knock-on effects on supplying industries, such as steel and cement. And third, a pronounced decline in prices could force several highly indebted real estate developers out of business and cause a sizeable portion of credit to local governments to become impaired. The overall impact of a property market downturn could thus be sizeable in spite of the fact that China's households are not nearly as leveraged as their counterparts in the United States and some European countries were before the global financial crisis.

On the external front, an escalation of the crisis in the euro area would lead to a further slowdown in China's exports, which would negatively affect investment growth. The euro area currently accounts for about 15 per cent of China's exports.

A hard landing of the Chinese economy would have a significant global impact. Particularly hard hit would be the commodity-exporting countries that have benefited most from China's construction boom, including Australia, Chile and Brazil, as well as East Asian economies with very close trade linkages to China.

Table 2: Trend in sale prices in 70 cities in China, April 2012

	From previous month		**From one year ago**	
Number of cities where price	New houses	Existing houses	New houses	Existing houses
Declined	43	33	46	56
Remained steady	24	28	1	2
Increased	3	9	23	12

Source: National Bureau of Statistics of China

Regional prospects

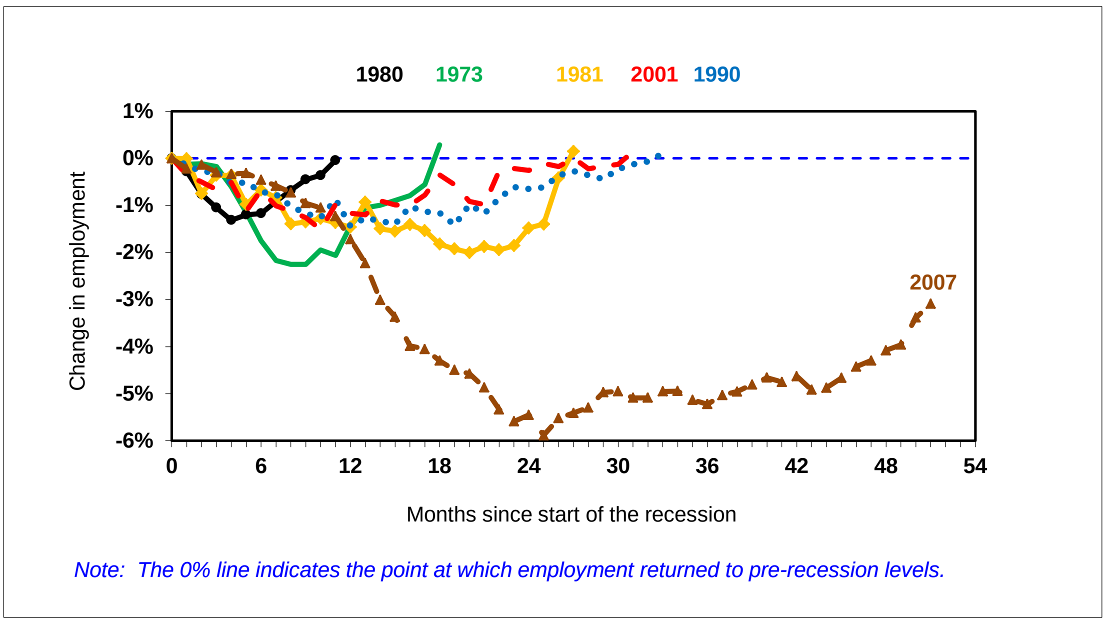
Developed economies

United States

The economy of the United States started 2012 on a positive note. The job market improved at a stronger-than-expected pace; major stock market indices registered solid gains and credit conditions eased notably; both consumer confidence and consumption spending increased markedly. However, some of the momentum tapered off by the end of the first quarter and the labour market weakened again during the second quarter, The unemployment rate remains much higher than it was before the crisis, with a large number of long-term unemployed; after a decline of more than 30 per cent in house prices over the past five years, the housing sector is still struggling to find the bottom; and gasoline prices have risen to high levels, squeezing household spending. With the phasing out of the fiscal stimulus measures initiated during the crisis government spending is declining, dragging GDP growth in the short run, while the upcoming presidential election creates uncertainties over the fiscal policy outlook. These uncertainties in turn will likely restrain business investment and hiring. In the outlook, GDP is expected to grow by 2.1 per cent in 2012 and 2.3 per cent in 2013.

Above-trend increases in job creation in late 2011 and early 2012 presented some encouraging news. From November 2011 to February 2012, payroll employment in the private sector increased on average by about 250,000 jobs per month. However, employment growth slowed notably in March and April. The overall labour market conditions remain challenging. Total employment is still almost 5 million jobs below the peak of 2007 (see figure 6), and a large part of the recent improvement in payroll employment reflected a decline in layoffs, instead of an increase in hiring. The decline in the unemployment rate has also been partly caused by a continued drop in labour force participation, the rate of which is now at the lowest level in decades. The share of long-term unemployed (unemployed for more than six months) stands at an historical high of about 40 percent, compared with the peak of 25 per cent in any of other recessions after the Second World War.

Figure 6. Change in U.S. employment after the onset of recession (per cent change in employment)



Source: U.S. Department of Labor

In the outlook, further improvement in employment growth would require much stronger growth in household consumption and business investment than assumed in the baseline forecast. The unemployment rate is expected to remain above 8 per cent until mid-2013.

Consumer spending has improved, particularly on durable goods, such as autos, reflecting partly pent-up demand, accommodated by improved credit conditions. In the outlook, high gasoline prices, the high unemployment rate, high household indebtedness and uncertainties about tax policies will weigh on consumer spending.

Business investment has been a key driver of the economic recovery. Capital spending on equipment and software spending grew at double-digit pace in 2010-2011. In the outlook, business investment is expected to continue to expand at a robust pace owing to favourable financing conditions for non-financial firms and ongoing needs for replacing equipment and improving productivity.

After five years in a slump, the housing sector is still struggling to regain its footing. Both new and existing home sales were trending upward in late 2011, but relapsed slightly in early 2012. House prices remained weak, with the Case-Shiller 20-city index continuing to decline. Overall, the index has dropped by more than 30 per cent from its peak and is back to the level of 2003. In the outlook, residential investment is expected to start recovering.

Growth of real exports decelerated in 2011 to 7 per cent after rebounding by 11 per cent in 2010. A further slowdown is expected in 2012, with growth forecast at 4 per cent. Growth of real imports is expected to follow the same pattern. The current account is expected to register a deficit of about 3.4 per cent of GDP, slightly higher than the 3.1 per cent of 2011, mainly reflecting an increase in the value of imports owing to high oil prices.

Headline inflation is expected to moderate to 2.2 per cent in 2012 from 2.9 per cent in the previous year as non-oil commodity prices ease gradually.

The Federal Reserve Bank of the United States (Fed) has vowed to keep the federal funds rate at 0 to 0.25 per cent until 2014. The Fed will likely continue to implement the operation of purchasing long-term treasuries and selling short-term treasuries until mid-2012. Afterward, no specific amount of quantitative easing (QE) is assumed in the baseline scenario. However, the Fed may adopt additional QE measures should the global financial and economic situation deteriorate significantly.

Spending stimulus packages injected since 2009, such as the American Recovery and Reinvestment Act (ARRA) and a few smaller spending packages (extension of unemployment benefits, COBRA healthcare benefits, state fiscal relief, etc. totalling $640 billion) are to be phased out in 2012. Defence spending is also falling. Real government spending is estimated to decline by 2 per cent in 2012 and 3.4 per cent in 2013. Uncertainty remains about the Automatic Spending Cut, which is scheduled to begin in January 2013, as defined in the agreement to raise the ceiling of government debt by the end of 2011. It is assumed that the new congress and president will produce a package of spending cuts and tax increases to avoid the Automatic Spending Cut. In addition, some cuts in Medicare, Medicaid, and Social Security will start in 2014. The 2 per cent payroll tax cut and emergency unemployment insurance benefits have been extended until the end of 2012, and are expected to be phased out gradually, rather than ending abruptly in 2013. The tax cuts of the Bush Administration will likely be extended for 2013. However, the uncertainty about fiscal policy will remain until after the election and will likely impede economic activity in the outlook.

Canada

Economic activity in Canada gained strength in late 2011 as growth in domestic consumption, investment, and exports offset the drag from lower government spending. The momentum has carried over to early 2012, as manufacturing continued to expand, although production in oil and gas extraction weakened. Concerns remain over external conditions, including uncertainties associated with the debt crisis in the euro area, and demand from the United States. In the outlook, GDP is expected to grow by 2 per cent in 2012, and 2.4 per cent in 2013, compared to 2.5 per cent registered in 2011.

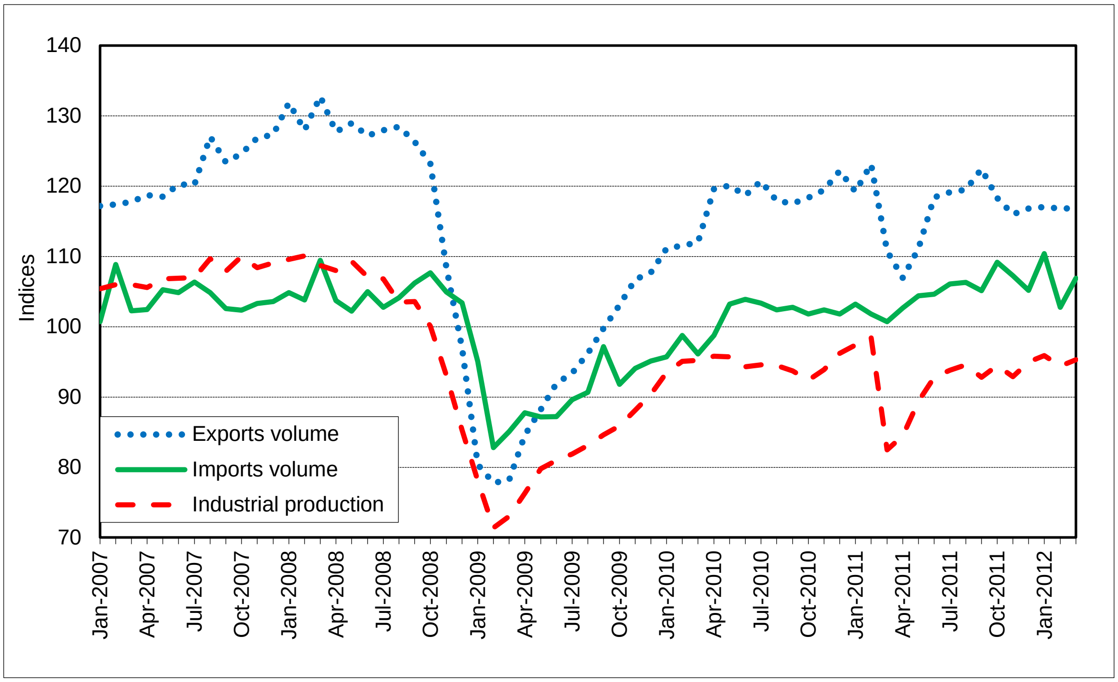
Although there are concerns about the high oil prices, inflation is expected to moderate in 2012 and remain at about 2 per cent in 2013. The Bank of Canada is expected to maintain its target for the policy interest rate at 1 per cent in 2012-2013.

Government spending is expected to remain a mild drag on growth in the near term, as the new budget released for 2012 continues to focus on reducing the deficit in the medium run, with the budget expected to return to surplus in 2015. The budget plan also includes incentives to promote increased research and development and increased capital investment in order to buttress productivity growth in the long run.

Japan

In Japan, the economy contracted by 4 per cent in the first half of 2011 as result of the severe earthquake in March, the subsequent tsunami, and the ensuing crisis at a nuclear power plant. In the fourth quarter, economic recovery was hampered by slowing demand from Europe and the disruption to the supply chain for export production caused by the flooding in Thailand (see figure 7). Exports declined at an annualized rate of 17 per cent in the fourth quarter. The quarter-over-quarter GDP growth rate decelerated from a relatively strong annualized rate of 7.1 per cent in the third quarter of 2011 to -0.7 per cent in the last quarter. For 2011 as a whole, GDP contracted by 0.7 per cent.

Figure 7. Key Japanese economic indicators
(Seasonally-adjusted index, 2005 = 100)



Source: UN/DESA based on national sources

One consequence of the disaster in the nuclear power plant was the de-facto shutdown of nuclear power generation in Japan by May 2012. Correspondingly, the import of mineral fuels increased by 25 per cent to meet demand for electricity power. In addition to the factors mentioned above, a sharp rise in the value of the yen and higher international oil prices contributed to the first annual trade deficit for Japan since 1981. Nevertheless, the current account remained in surplus owing to significant investment income associated with the country's large net foreign asset holdings. In 2011, the surplus stood at 1.6 per cent of GDP, which is well below the level registered in the years before the Great Recession. The yen has continued to appreciate vis-à-vis the dollar despite occasional interventions by the Bank of Japan.

In spite of the recession in 2011, the annual average unemployment rate declined to 4.6 per cent from 5.1 per cent in 2010. This can mostly be attributed to the long-term trend of a shrinking working-age population. The wage index declined by 0.2 per cent in 2011, following positive growth in 2010. Deflation continued to prevail in Japan, although the speed of decline decelerated in 2011 as a result of higher energy prices.

Recent data show that the negative effects of the flooding in Thailand on industrial production and export activity have worn off, with both indicators rebounding in February 2012. In 2012 and 2013, private consumption is expected to grow by 1.1 per cent and 0.6 per cent, respectively. Continuing reconstruction in the disaster-impacted areas is expected to prompt fixed investment growth of 2.5 per cent in 2012, the highest speed in 15 years. On the other hand, concerns over the budget deficit will lead to slower growth of government expenditures, estimated at 0.9 per cent in 2012 and 0.4 per cent in 2013, following 2.1 per cent in 2011. Meanwhile, import demand for fuel will rise to compensate for the phasing-out of nuclear power generation. As a result, net exports will subtract from growth in 2012, before making a small positive contribution in 2013. In the outlook, GDP is expected to grow by 1.7 per cent in 2012 and 2.1 per cent in 2013.

Employment is expected to grow slowly over the forecast period and the unemployment rate is expected to drop only marginally to about 4.5 per cent in 2013. Under current assumptions, deflation is expected to persist in 2012-2013, although at a lower rate than before the earthquake owing to the lower level of slack capacity.

While keeping the policy rate within the range of 0 to 0.1 per cent, the Bank of Japan has explicitly adopted the practice of inflation targeting since February 2012. The current target was set at an annual increase in the headline CPI of 1.0 per cent. The Bank of Japan has also expanded the size of its Assets Purchase Program in February and April 2012. The size of the whole programme was increased by 15 trillion yen, while the limit for the purchasing of Japanese Government bonds was increased by 20 trillion yen to 29 trillion yen. However, the actual holdings of Japanese Government bonds by the Bank of Japan under this program have been significantly lower than the announced target in the first half of 2012.

To deal with the fiscal deficit and public debt problems, the Government of Japan has also proposed a number of reforms in social security and taxation. The most significant item among these proposals is the plan to raise the consumption tax rate from the current level of 5 per cent to 8 per cent in April 2014 and further to 10 per cent in October 2015. According to Government estimates, this hike in the consumption tax rate, combined with other parts of the package, will bring down the government deficit to GDP ratio by more than 4 percentage points by 2020.

Australia and New Zealand

Australia suffered from devastating flooding in 2010 and early 2011, which led to a significant decline in exports. Nevertheless, the gradual recovery of coal production and investment for reconstruction and capacity expansion pushed GDP growth to 2.2 per cent in 2011, a significant upward adjustment from earlier estimates. For 2012, the export sector is expected to rebound strongly, helped by new production capacity in the mining sector. Investment in the mining sector is expected to expand at a solid pace, while investment in most other sectors is expected to stay tepid. Given the trend of falling housing prices, private consumption growth is expected to slow down from the strong pace in 2011. GDP is expected to grow by 2.7 per cent in 2012 and 2.8 per cent in 2013.

In November 2011, the Reserve Bank of Australia started to reverse its monetary tightening stance adopted two years earlier. By early May 2012, the cumulated cut was

100 basis points. The latest cut in May 2012 came in response to lower CPI inflation and declining housing prices.

In February 2011, New Zealand suffered from a severe earthquake in the Canterbury region for the second time within 6 months. Delayed reconstruction activities are expected to push the growth rate of investment to about 8 per cent in both 2012 and 2013. Although the Government plans to balance the budget by 2015, it is expected to provide additional funds for reconstruction in the short-run. External demand from Asian developing countries and Australia is expected to remain solid in 2012 and 2013, which will keep export growth above domestic demand growth. Economic activity is expected to grow by 2.8 per cent in 2012 and 3.5 per cent in 2013, compared with 1.3 per cent registered in 2011.

Western Europe

Western Europe continues to struggle with the multi-faceted impact of the euro area debt crisis and the fiscal austerity programs adopted to address it. Growth came to a halt in the fourth quarter of 2011 with GDP dropping markedly in most countries of the region. In late 2011 and early 2012, ECB policy actions, an agreement on a new fiscal architecture for the EMU (The Fiscal Compact), and a successful Greek write-down of its debt helped calm tensions in financial markets. Confidence indicators stabilized and began to pick up. However, this improvement was short lived, as the key underlying causes of the crisis remained in play. Tensions rose again in the second quarter of 2012. With confidence still fragile, a weak and vulnerable banking system, continued fiscal tightening, slowing external demand, high unemployment, and high oil prices, prospects for growth are bleak. Economic activity in the euro area is forecast to decline by 0.3 per cent in 2012 after growing by 1.5 percent in 2011, with only a modest upturn of 0.9 per cent expected in 2013.

The aggregate picture masks important differences across the region. Germany is expected to grow by 1.0 per cent in 2012, Sweden by 0.8 per cent, and a number of countries, including the United Kingdom and Ireland, are expected to grow by about 0.5 per cent. France is expected to grow by only 0.1 per cent, while GDP in Belgium and the Netherlands is expected to decline slightly in 2012 before turning up in 2013. The crisis-affected countries of Italy, Portugal and Spain, however, are expected to register negative GDP growth in both 2012 and 2013.

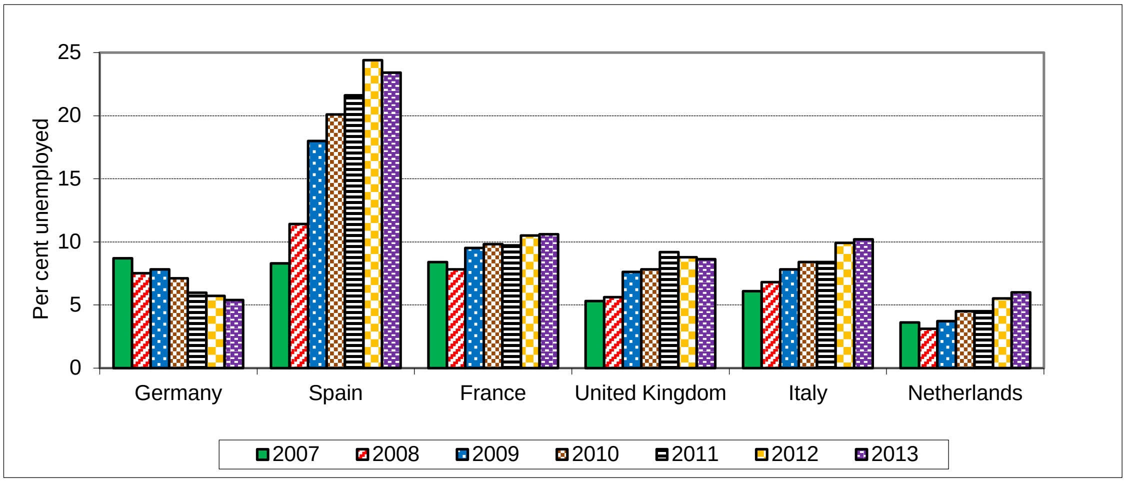
Falling consumption in the fourth quarter of 2011 was a key factor behind the sharp drop in output in many countries. This stemmed from the general collapse in consumer confidence as the sovereign debt crisis intensified, fiscal austerity programs of varying intensity across the region, and deteriorating employment and wage prospects in a number of economies. But the decline in consumption was not uniform across the region. In some countries, particularly those that are not under stringent fiscal austerity programs, consumption continues to provide some support to activity, owing to their relatively stronger labour markets. In these economies, low rates of unemployment and positive growth in real wages are cushioning income and adding to confidence. In contrast, in countries under severe fiscal austerity programs consumption expenditure dropped sharply and is expected to be constrained throughout the forecast period.

Investment spending has yet to fully recover from the great recession. After growing only marginally in 2011, total investment in the region is expected to decline slightly in 2012, with only a modest upturn forecast in 2013. Several factors have contributed to the weakness in investment: industrial confidence was hit badly in many economies by the sovereign debt crisis; capacity utilization remains low by historical standards; foreign demand has decelerated from 2011 and is not expected to pick up until later in 2012; despite low interest rates, bank credit standards have tightened in most countries, and credit to the private non-financial sector has been very weak in early 2012. Again there are significant differences across the region. Private investment grew by 4 to 6 per cent in several countries in 2011, but contracted in others. In addition, housing investment has remained a major drag to activity in some countries, particularly those that experienced the collapse of a housing bubble, such as Spain and the United Kingdom.

Export growth is expected to decelerate in 2012 due to a sharp drop in intra-regional demand, as well as slowing demand from East Asia and the United States of America. In the euro area, after growing by 6.2 per cent in 2011, exports are expected to grow by only 1.6 per cent in 2012, before rebounding to 3.8 per cent growth in 2013 as external demand picks up. Imports are expected to slow sharply as well, with the crisis-affected countries experiencing large declines in import volumes. In the euro area, import volume is expected to decline by 0.2 per cent in 2012 after increasing by 4.0 per cent in 2011. In 2013 only a moderate recovery is expected, with import volume growing by 2.9 per cent.

The deterioration in the economic climate since last year has led to a significant increase in unemployment (see figure 8). In the euro area, the rate of unemployment has increased from a post- recession low of 9.9 per cent in April 2011 to 10.9 per cent in March 2012, the highest rate since the inception of the EMU. However, significant regional differences are apparent: in Germany, unemployment has dropped in the same time period by 0.5 percentage points, standing at 5.6 percent, the lowest rate in twenty years; unemployment has also declined in a few other European countries, including Finland, Norway and Switzerland. In Austria, Belgium and Sweden, unemployment remained nearly stable at relatively low levels. Meanwhile, in the crisis-affected countries unemployment is at very high levels and continues to increase: in March 2012, the unemployment rate in Spain stood at 24.1 per cent, in Greece at 21.7 per cent, and in Ireland and Portugal at close to 15 per cent. The divergence is explained by large differences in growth performances (heightened by the tremendous fiscal consolidations going on in some countries), structural differences in the labour markets, and different degrees of government support. Going forward, this divergence is expected to continue. At the country level, about half of the regional economies are expected to see further deterioration (particularly those under severe fiscal adjustment programs), with the remainder experiencing stable or modestly declining rates. For the euro area, unemployment is expected to increase from 10.1 per cent in 2011 to 11.0 per cent in 2012, and stabilize in 2013 at an average rate of 10.9 per cent.

Figure 8. Unemployment in selected European economies
(Percentage of labour force)



Source: UN-DESA, OECD and Project LINK

Headline inflation, as measured by the Harmonized Index of Consumer Prices (HICP), remained above 2 per cent (the ECB's targeted upper bound) for all of 2011, reaching 3.0 per cent in the fourth quarter, and 2.7 per cent in the first quarter of 2012. The price index was pushed up by higher world energy prices as well as, in some cases, increases in administered prices. Core inflation, which abstracts from energy, food, alcohol and tobacco in an attempt to measure underlying inflationary pressures, has been much lower at about 1.5 per cent. In the outlook, headline inflation is expected to drift down slowly and average 2.0 per cent in 2012, and 1.7 per cent in 2013. Given the poor outlook for growth, the output gap will remain large, wage growth, while picking up modestly, will remain contained, and oil and other commodity prices are forecast to ease gradually.

Fiscal policy in the region continues to be focused on reducing fiscal imbalances. In the euro area, the majority of countries have been under Excessive Deficit Procedures (EDP) since the end of the great recession. These programs require the submission of plans detailing a road map for the correction of imbalances. Typically a minimum of 0.5 per cent per annum correction is expected and the time frames, which are country-specific, range from the current year to 2014. The situation in the crisis-affected countries is more severe, however, with significantly higher targeted annual consolidations and, in some cases, longer time periods of austerity being necessary. Given that these targets are relative to GDP, growth shortfalls must be made up with additional austerity measures.

During the first half of 2011, the ECB raised its policy interest rates twice, by a cumulative 50 basis points (bps) as economic growth began to solidify, but then had to change direction as it became clear that the euro area sovereign debt crisis was taking a significant toll on activity. The ECB cut rates twice in the fourth quarter of 2011, bringing them back to a record low. The rate for the main refinancing operations stands at

1 per cent. There is strong resistance to cutting policy rates further on the grounds that this would inhibit the functioning of the money markets.

Unconventional policies remain the main policy tool used to combat the effects of the sovereign debt crisis. Four types of measures have been used at various times: refinancing operations conducted at fixed rates with unlimited supply of liquidity, at increasingly long maturities and with reduced collateral requirements (most recently, two massive 3-year long term refinancing operations (LTRO) were conducted in December and February); provision of foreign currency liquidity (both US dollar and Swiss francs in the past); purchases of covered bonds (used early in the crisis); and purchases of sovereign debt in secondary markets under the Securities Markets Program.

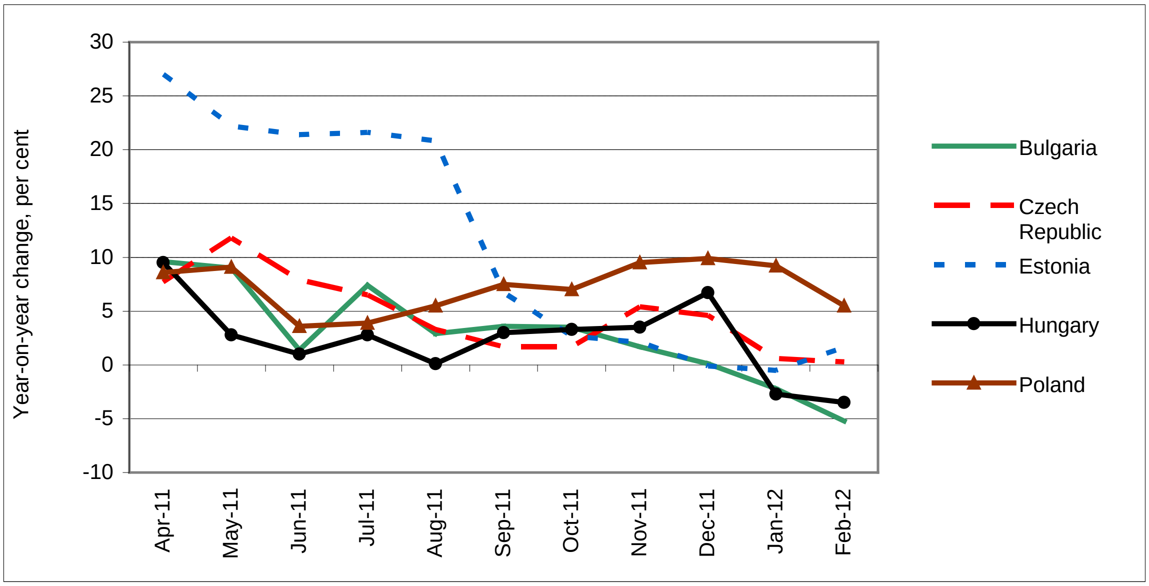
In the outlook, given the backdrop of very weak growth in 2012 and only a modest upturn in 2013, conventional policy rates are assumed to remain at current levels. Unconventional policy is assumed to be on hold. But in the event of a resurgence of significant financial market tensions, a new round of LTRO is assumed to be deployed to successfully calm markets.

Key risks to the forecast are weighted to the downside. The sovereign debt crisis could escalate, impacting on bank solvency and depressing confidence. Governments may see the need for increased austerity due to growth shortfalls which will lead to a downward spiral as this further austerity leads to further shortfalls in growth. Further increases in oil prices could also derail the delicate recovery. On the positive side, external demand may be stronger than anticipated.

The New EU Member States

The recovery in the economies of the new EU member States from Eastern Europe is expected to slow noticeably in 2012 owing to the weakness in the major export markets and the contractionary effects of fiscal austerity measures. Some of the region's countries, such as Hungary, may even slip back into recession. In many economies, industrial production lost steam towards the end of 2011 (see figure 9), leading to weaker growth in the second half of the year despite strong agricultural output. In the first quarter of 2012, industrial performance varied among countries, but in general, against the backdrop of sluggish conditions in the euro area, prospects for industrial output remained weak. Throughout 2012, domestic demand will not be able to support growth owing to fiscal tightening, weak labour markets, stagnating credit growth and the strong Swiss franc, in which a large share of the mortgages in Hungary and Poland are denominated. Consumer confidence in the region remains fragile, as fiscal austerity policies encompass wage and employment reductions in the public sector. The slowing growth will delay the recovery in the region's labour markets, which worsened somewhat since late 2011. Average GDP growth in the new EU member States is expected to slow from 3.1 per cent, reached in 2011, to just 1.6 per cent in 2012, strengthening later to 2.7 per cent in 2013.

Figure 9. Industrial output in selected new EU member States (Year-on-year change, per cent)



Source: UN/DESA based on data from EUROSTAT

The new EU members remain vulnerable to adverse external developments, such as a sovereign debt crisis or a banking crisis in the euro area, as they have exhausted most of the fiscal resources for countercyclical policies. In the case of a crisis, the new core capital requirements for European banks may lead to a massive deleveraging and a withdrawal of foreign capital from the region. To avoid disorderly deleveraging, fiscal and monetary authorities of the new EU members, multilateral lenders and private sector banks recently agreed on some principles aimed at maintaining the banks' commitment to the region (similar to the "Vienna Initiative" international coordination agreement reached in 2009).

Poland, which has a less export-dependent economy and a registered robust growth of 4.3 per cent in 2011, remains in a better position than its regional peers; the economy may expand at about 3 per cent in 2012. In the first half of the year, growth in Poland will be supported by public infrastructure spending in the wake of the Euro-2012 football championship. For most of the other economies, some of which have the highest export-to-GDP ratios in the EU, subdued growth of 1 to 2 per cent is projected in 2012, although certain industrial sectors, such as automotive production in the Czech Republic, Hungary and Slovakia, may still perform well and expand their capacity by attracting foreign direct investment. The Baltic States may register higher annual growth rates than countries in Central Europe, following strong growth in the first quarter.

Inflation in the new EU member states in 2011 was mostly driven by one-off factors, such as higher oil and food prices and higher VAT rates. As food prices retreated, inflation subsided towards the end of the year. Weak domestic demand and subdued real wage growth largely prevented a rise in core inflation, with the exception of the Baltic States. In 2012, consumer price inflation should weaken in most of the region (in part because of last year's base effect) and remain in the low single digits. One-off factors, such as the higher preferential VAT rate in the Czech Republic, may, however, push headline inflation up, and comparatively strong domestic demand in Poland may be accompanied by inflationary pressures.

In response to rising inflation, monetary policy was tightened in some new EU countries in 2011, in particular in Hungary and Poland, in order to keep inflation within the central bank's target range. Since then, the central bank of Hungary had little choice but to keep policy rates unchanged in order to maintain investor's confidence as the country is looking for another bailout, and to prevent a decline in the value of its currency, which would severely damage holders of mortgages denominated in foreign currency such as Swiss Francs. The central bank of Poland also kept interest rates unchanged for several months and eventually raised them in May 2012, as demand-driven inflationary pressures in the economy persisted. However, the policy rate was cut in Romania four times, most recently in March 2012, as inflationary pressures moderated, in order to provide a stimulus to the economy. Although the banking sector in the new EU countries is not facing liquidity constraints, and in Hungary the central bank offered a two-year collateralised credit facility to commercial banks in order to bolster lending to the real sector, credit growth remains subdued.

The region's labour markets, which recovered in the first half of 2011, most notably in the Baltic States, deteriorated somewhat towards the end of the year; unemployment rates increased, partly owing to seasonal effects. In 2012, reductions in public sector employment may lead to a rise in average unemployment in the region. Much of unemployment in the region is of a structural nature as skill mismatches are persistent. The Governments have limited fiscal space to address those issues, although public work programs in some countries may create some low-skill employment in the medium-term.

Most of the Governments of the new EU countries are committed to reducing their budget deficits to less than 3 per cent of GDP in the coming years, in line with the requirements of the Stability and Growth Pact of the EU, and are aiming to consolidate their finances after the crisis-led deterioration. Estonia's budget was close to balance in 2011, and although the country is likely to run a deficit in 2012, the Government nevertheless aims to return to a surplus in 2013. In parallel, Governments are planning to reform the structure of public finances, including pension systems, with a view to achieve long-run sustainability in the face of serious demographic pressures. The budgets for 2012 therefore envisage further austerity measures, such as reductions in the size of the public sector, as well as increases in indirect taxes to meet revenue targets, since slowing economic growth in 2012 will lead to lower budget revenues. To finance their budget deficits in 2011, a number of countries, such as the Czech Republic and Latvia, were successful in accessing international capital markets by issuing 5-year or 10-year Eurobonds. Hungary, by contrast, approached the EU for another bailout package, facing difficulties in refinancing its short-term external debt.

Some of the new EU members, among them Bulgaria, Estonia, Hungary and Slovakia, recorded current account surpluses in 2011, mostly thanks to improved trade balances and lower deficits on their investment income. In Hungary, weak domestic demand restrained import growth, and extra taxes imposed on a number of sectors such as banking and telecommunications reduced their profitability and hence the amount of repatriated profits. Slovakia registered a record trade surplus in 2011 and received more transfers from the EU. The current account surpluses are likely to continue in 2012, until profitability of foreign companies improves and stronger domestic demand absorbs more imports in 2013. Other countries in the region recorded current account deficits, however; the level of those deficits is much smaller than in the pre-crisis period and should not endanger macroeconomic stability. The deficit in Poland nevertheless increased to 4.3 per cent of GDP in 2011, as the country was undertaking massive infrastructure investments related to the Euro-2012 Football Championship, and may become a source of vulnerability as it was mostly covered by portfolio capital inflows.

The risks of a sovereign debt crisis in the euro area remain substantial. If the recession in the euro area deepens, many of the new EU member States may register negative growth in 2012. A banking crisis in the EU-15, which severely damages balance sheets of the large EU-15 banks present in the region, would lead to a massive withdrawal of the parent bank's capital and a potential credit crunch with a severe negative impact on the real sector.

Economies in transition

Commonwealth of Independent States (CIS)

The economies of the Commonwealth of Independent States (CIS) continued to grow at a robust pace in 2011, and many of them sustained this strong economic performance in early 2012. For major energy-exporters in the region, such as the Russian Federation and Kazakhstan, growth was predominantly driven by higher commodity prices, especially for oil and natural gas, and by increased public spending. The performance of those two economies strongly affects activity in the rest of the CIS via trade and remittances as they are major export markets and key destinations for migrant workers. Many other CIS economies, including those in Central Asia, also benefited from higher commodity prices and growth was further spurred by public infrastructure spending and workers remittances, which helped to strengthen private consumption in Armenia, Georgia[5], Kyrgyzstan, Moldova, Tajikistan and Uzbekistan. Throughout the CIS, strong agricultural output contributed positively to economic activity in the second half of 2011. Although integration processes in the CIS have been proceeding slowly, the Customs Union of Belarus, Kazakhstan and the Russian Federation, which was created at the beginning of 2010, was transformed in January 2012 into the Common Economic Space, which envisages ultimate free movement of goods, services, capital and labour.

[5] Georgia is not a member of the CIS, but has strong economic links with the area.

In most CIS economies, growth in 2012 is expected to moderate slightly in line with lower commodity prices and tighter fiscal polices. Average GDP growth is projected to slow from 4.8 per cent in 2011 to 4.2 per cent in 2012. The pace of economic expansion is expected to remain almost the same in 2013, with GDP forecast to grow by 4.3 per cent.

The economy of the Russian Federation expanded by 4.3 per cent in 2011, supported by higher oil prices, abundant harvests, and increased fiscal spending, and is projected to grow at a similar rate in 2012. The economy expanded by 4 per cent year on year in the first quarter of 2012, although growth weakened in March. While the Russian economy is not immune to a sharp deterioration of conditions in the euro area, it is relatively sheltered from a transmission of the crisis through the banking sector, thanks to the small share of foreign-owned banks and the limited cross-border borrowing from Europe. The central bank appears to have sufficient resources to inject liquidity into the banking system in the case of an emergency. The current account of the Russian Federation is projected to remain in surplus in the medium term, unless oil prices drop significantly. The country, however, experienced near record capital outflows of over 80 billion dollars in 2011, triggered by negative sentiments among investors. This trend continued in the first quarter of 2012. The Russian Federation is set to join the WTO in 2012, which will have both costs and benefits in the short run.

The Ukrainian economy, which grew by 5 per cent on the back of higher steel prices, is expected to slow in 2012 owing to lower steel prices and weaker demand from the EU, although infrastructure spending in the wake of the Euro 2012 football championship may somewhat boost growth in the first half of the year. The economy suffered from an unusually cold winter in early 2012, which disrupted exports of grains and metals. Compared with the Russian Federation, Ukraine is more vulnerable to adverse developments in Europe as trade linkages are more pronounced and the country has to repay about 11.9 billion dollars in maturing debt obligations in 2012. Facing significant external financing needs, Ukraine does not enjoy favourable terms of access to international capital markets. Ukraine's IMF lending program, signed in 2010 and worth 15.2 billion dollars, has been suspended over the Government's refusal to raise gas tariffs. In Belarus, output was disrupted by the balance-of-payment crisis in 2011, but the economy nevertheless expanded by about 5 per cent, with the sharp devaluation of the domestic currency helping boost exports. The country's foreign exchange reserves strengthened in early 2012 and the pressure on the exchange rate tapered off, in part thanks to the inflows of external funds provided or facilitated by the Russian Federation. Economic growth is nonetheless expected to slow down slightly in 2012.

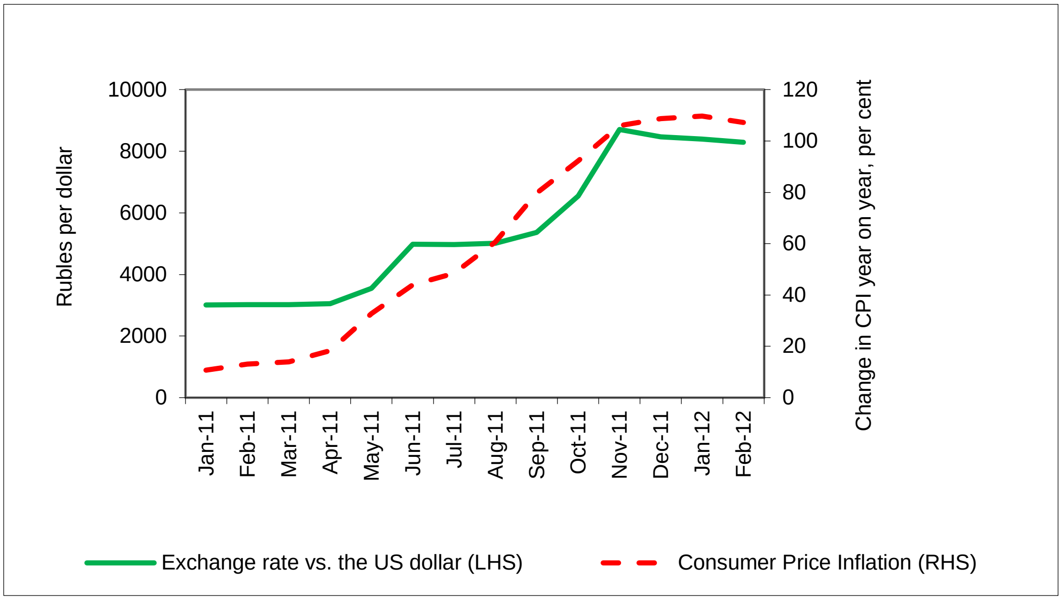
In the Central Asian economies, growth continued to be strong in the first quarter of 2012, with the economy of Turkmenistan expanding at a double-digit rate. Growth may slow in the course of the year as commodity prices weaken and some Governments pursue fiscal tightening. In Kazakhstan, the economy should remain robust, but the banking system faces systemic risks due to the large share of non-performing loans (over 30 per cent) and may need additional injections of capital.

In the South Caucasus, the economy of Azerbaijan slowed markedly in 2011, although some progress has been achieved in economic diversification away from the hydrocarbons sector. In early 2012, the non-energy sector continued to expand, assisted by preparations for the Eurovision song contest, while activity in the energy sector remained subdued. The recovery in Armenia, which was one of the most severely hit economies in the CIS in 2009, has been gaining momentum, with growth in 2012 expected to be about 4 per cent. In Georgia, which grew at an impressive rate of 7 per cent in 2011, external financial assistance is largely exhausted, and, concurrently, fiscal tightening will constrain growth to about 4 per cent in 2012.

Higher fiscal spending on the back of strong oil revenues led to a decline in the unemployment rate in the Russian Federation in 2011. The commitment of the Government to increased spending in 2012 should further support the labour market. By contrast, in Ukraine, the unemployment rate is expected to increase as a result of tighter fiscal and monetary policies and weaker external demand. In South Caucasus, labour markets somewhat improved in Armenia and in Georgia, but slow economic growth will limit employment creation. In Central Asia, employment growth continued in Kazakhstan; for many other Central Asian countries, an accurate assessment of the labour market situation is difficult, and a large share of the working age population is engaged in seasonal migration, working in agriculture, construction and services, predominantly in the Russian Federation.

Inflation in the CIS economies accelerated in the first half of 2011 on the back of higher food prices, increased public spending on wages, and in a few cases (for example Kazakhstan) massive export-related foreign exchange inflows. In Belarus (see figure 10), the drastic weakening of the currency led to an annual inflation rate of 52.4 per cent in 2011. In the second half of the year, inflation in the CIS subsided, in some cases abruptly, reaching a record low level in the Russian Federation. Average year-on-year inflation for 2011 (see figure 11) nevertheless reached double-digit figures in a number of Central Asian economies, namely in Tajikistan, where it was driven by higher prices of food and imported fuel, and in Turkmenistan and Uzbekistan, where strong export revenues and higher public sector wages pushed up inflation. Azerbaijan and Georgia also recorded close to double-digit inflation.

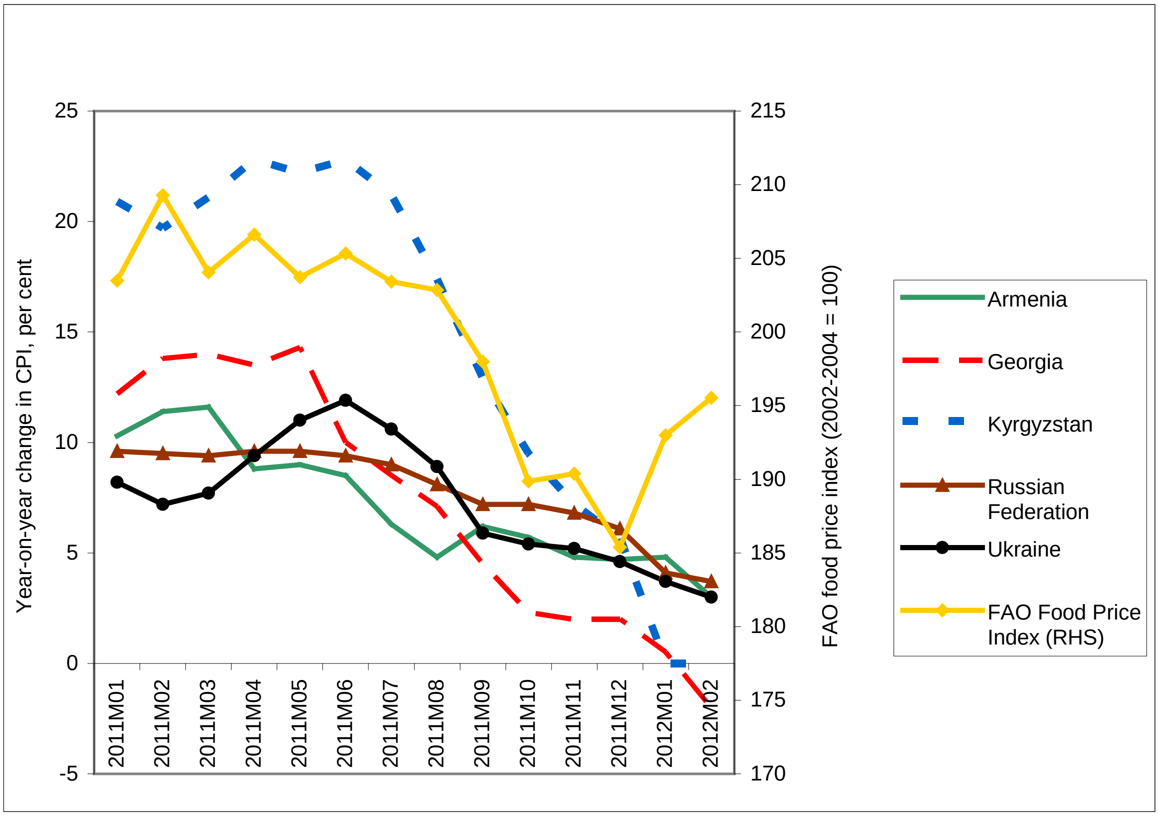
Figure 10. Depreciation of the currency and inflation in Belarus



Source: UN/DESA based on data from IFS, ECE

In the first quarter of 2012, disinflation in the CIS area continued and inflationary pressures should weaken further, reflecting lower commodity prices and tighter fiscal policies, including slower increases in nominal wages. Slowing inflation in the CIS economies should strengthen private consumption. In the Russian Federation, the Government postponed the annual rise in the utility tariffs in the wake of the presidential elections in March. This has kept inflation low, but the eventual tariff hike in the summer time will have a one-off effect on consumer prices. The rapid inflation in Belarus may persist through much of 2012.

Figure 11. Monthly inflation dynamics in selected CIS countries
(Year-on-year change in consumer price index, per cent)



Source: UN/DESA based on data from ECE, FAO

A number of central banks in the CIS, namely those of Belarus, Kazakhstan, Moldova, the Russian Federation, and Tajikistan, cut their policy rates in late 2011 and in early 2012, in response to slowing inflation. In Ukraine, by contrast, the central bank committed to a stable exchange rate versus the dollar and removed excess liquidity from the economy in 2011.

Fiscal policy was expansionary in many CIS countries in 2011, with public spending supporting growth. In the Russian Federation, higher oil prices improved the Government's fiscal position and returned the budget to surplus. However, owing to the Government's increased spending commitments in the wake of the presidential elections in March, the budget balance is likely to return to a slight deficit in 2012, which may persist in the outlook period. The Government is aiming to achieve a balanced budget by 2015, with relatively little debt accumulated between now and then. Strong hydrocarbon sector revenues also improved Kazakhstan's fiscal position in 2011 and expansionary public spending is expected to continue in 2012. Continuing fiscal expansion is also likely in Azerbaijan, which will draw resources from its overseas oil fund. For most of the other CIS countries, fiscal policy is expected to be tighter in 2012 for a variety of reasons, such as concerns about high external debt or compliance with the conditionality of IMF programs.

Current accounts of the major energy exporters in the CIS recorded surpluses in 2011. In the Russian Federation the surplus stood at 5.5 per cent of GDP, exceeding $100 billion, following higher oil and gas revenues. The current account of the Russian Federation is expected to remain in surplus in the medium-term. The current account surplus in 2011 reached 29.7 per cent of GDP in Azerbaijan and exceeded 7 per cent of GDP in Kazakhstan and Uzbekistan. This contrasts with high current account deficits in most other CIS states, which are net energy importers. In Belarus, the balance of payments crisis has led to an adjustment in the country's current account, reducing its deficit from 15.2 per cent of GDP in 2010 to 8.9 per cent in 2011. The deficit is projected to decline further in 2012. For many other CIS economies, the deficits are expected to remain high, often at double-digit levels.

The major risk the CIS economies are facing is the possibility of an abrupt decline in commodity prices in the event of a sharp slowdown in the global economy. In some countries, especially in Kazakhstan, Kyrgyzstan and Tajikistan, a large share of non-performing loans poses serious risks to the banking system. Economic diversification remains an urgent necessity for both the energy-exporters and the energy-importers in the CIS in order to lessen the exposure to commodity price fluctuations and volatility of remittances.

South-eastern Europe

The economies of South-eastern Europe are expected to stagnate in 2012, with Croatia likely to re-enter recession. Aggregate GDP of South-eastern Europe is expected to expand by only 0.6 per cent in 2012. Economic growth is projected to reach 2 per cent in the former Yugoslav Republic of Macedonia, where the economy is supported by government-led infrastructure projects. Growth in the region is forecast to accelerate to 1.8 per cent in 2013 on the back of a recovery in domestic demand.

The countries of South-eastern Europe recovered somewhat in 2011 from the consequences of the global economic and financial crisis, thanks to increased demand for and higher prices of commodities (metals in particular), a successful tourism season, and a modest recovery in remittances. However, economic performance in the final months of 2011 and the first quarter of 2012 was disappointing, as the impact of weak export demand was aggravated by unusually cold weather in January and February, which disrupted many areas of economic activity. Industrial production in early 2012 declined throughout the region. In the outlook for 2012, a repetition of last year's good export performance is unlikely, as the major export markets are set for a drastic slowdown. Some countries in the region, such as Albania, have strong trade links with Greece and Italy. In addition, weak and even deteriorating labour markets, lower public wages, sluggish credit growth and the indebtedness of the private sector continue to restrain domestic consumption and hold back investment. The Governments in the region have little fiscal resources to counteract the current slowdown, as they are trying to consolidate their finances amid concerns over high external debt levels. Nevertheless, some Governments are planning to boost investment in infrastructure and energy projects by utilizing EU funds and other international resources in order to overcome long-term growth constraints.

The surge in global food and energy prices in early 2011 pushed up inflation in the region, with food items accounting for a relatively large share in consumption price indices. As food prices subsided afterwards, inflation moderated in the second half of the year, and for most of the region disinflation continued in early 2012. In the outlook, demand-pull inflationary pressures are expected to remain low, and average annual inflation in South-eastern Europe should be in the low single digits in 2012. A likely exception is Serbia, where the currency remains under pressure and may depreciate further.

The region's labour markets remained weak in 2011 and noticeably worsened in Croatia and Serbia. In the first quarter of 2012, the rate of registered unemployment exceeded 20 per cent in Croatia and approached 17 per cent in Serbia. Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Montenegro have even higher unemployment rates. In Bosnia and Herzegovina, the unemployment rate has increased as employment shrunk towards the end of 2011. By contrast, there were some positive developments in the former Yugoslav Republic of Macedonia, where the unemployment rate declined by 1 to 2 percentage points in 2011, and in Albania and Montenegro, with a small reduction in unemployment. To address this cyclical deterioration in the labour market, the Government of Croatia intends to launch a public works program, while the upcoming tourism season should boost seasonal employment. While most of the region's unemployment is of a structural nature, the situation will be aggravated in the near term by planned reductions in the public sector. As a consequence of the crisis, informal employment, which is rampant in Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, and Serbia, increased even further.

The Governments in South-eastern Europe are trying to reduce their budget deficits, out of concern about the size of public debt, and in some cases are complying with the requirements of IMF programs. Fiscal policy is therefore mostly contractionary and will not provide support to growth in 2012, although the Governments, while aiming to reduce current expenditures, are trying to increase capital spending and to channel funds to support businesses. Reductions in public wages and social benefits, enacted to meet the budget deficit targets, are expected to adversely affect private consumption and consumer confidence.

The conduct of monetary policy is constrained in Bosnia and Herzegovina, which maintains a currency peg to the euro; in the former Yugoslav Republic of Macedonia, which maintains a de-facto currency peg; and in Montenegro, which uses the euro as the legal tender. In Croatia and Serbia, which both have flexible exchange rates, the national currencies came under severe pressure in the second half of 2011. In both countries, the central banks had to intervene repeatedly in order to protect their currencies, which significantly weakened by early 2012. The central banks also introduced changes to the mandatory reserve requirements for commercial banks. Many households and businesses in the region, especially in Croatia, have large foreign-exchange denominated debt, and a significant loss in the value of the currency would entail serious balance-sheet effects. Facing double-digit inflation, the National Bank of Serbia increased its key policy rate several times in the course of 2011, aiming to keep inflation within its target range. However, with inflation subsiding amid falling food prices, the central bank has softened its stance. Lower inflation also allowed monetary authorities in Albania to cut the policy rate to a record low in early 2012. Although the central banks in the region are aiming to revitalize credit flows, private credit growth in South-eastern Europe, with the exception of Albania, remains subdued.

Some countries in the region run high current account deficits. In Montenegro, where the current account deficit reached 25 per cent of GDP in 2010, the deficit declined in 2011 thanks to a surplus in trade in services; however, the deficit remained elevated at almost 20 per cent of GDP. Current account deficits were also high - close to or above 10 per cent of GDP - in Albania, Bosnia and Herzegovina, and Serbia, largely because of high trade deficits. Deficits are expected to remain at approximately the same level of GDP in 2012 and are likely to be only partially covered by foreign direct investment inflows. The goal of the EU integration remains a macroeconomic policy anchor for the region. Serbia was granted candidate country status in March 2012, entitling the country to larger financial assistance from the EU. Croatia is set to join the Union in mid-2013 and will receive the EU transfers available for a member state.

The region remains alarmingly dependent on external finance. In general, South-east European countries are more vulnerable to possible spillover risks from the Greek crisis than their counterparts in Eastern Europe, as the South-east European countries have strong financial and direct investment linkages with Greece. However, the risks vary across countries. For Albania, the former Yugoslav Republic of Macedonia, and Montenegro, the economies of Greece and Italy remain an important source of remittances and a sharp decline in those flows would stifle private consumption in the three countries.

Developing countries

<u>Africa</u>

Economic growth in Africa will remain solid, but at a slightly lower level than previously forecast in the WESP 2012. Regional gross domestic product is forecast to expand by 4.2 per cent in 2012 and 4.8 per cent in 2013, a downward revision by 0.8 and 0.4 percentage points, respectively, from the previous forecast. Lingering global uncertainty stemming from the public debt problems in Europe, doubts regarding the strength of economic growth in the United States, and an expected economic slowdown in China will weigh on exports and result in more cautious investment behaviour, especially in the infrastructure and resource sectors. In addition, political uncertainty remains a major drag on economic growth in a number of countries. In view of these factors, North Africa will see a sharper downward revision (1.8 and 1.2 percentage points for 2012 and 2013, respectively) than the region as a whole. However, despite the downward revision, the broader positive growth picture painted in previous assessments remains intact. In many economies, the service sector (in particular telecommunication and construction) remains strong, while the widespread shortfall in infrastructure continues to drive investment, both through public and private funding. At the same time, new production capacities and solid commodity prices underpin a continued vibrant performance in the resource sector. This overall positive growth performance will further help create conditions amenable to mitigating the severe economic and social problems that plague many countries in the region, such as widespread poverty and a lack of basic health care and education facilities. However, positive outcomes in this regard will require further progress in establishing effective institutions and policy capacity.

In South Africa, the biggest economy in the region, growth will reach 2.8 per cent in 2012, a downward revision by 0.9 percentage points from the previous assessment. This is especially owing to weaker exports to developed economies and the cooling demand from large emerging economies such as China, which represents the largest export destination for South Africa. Solid domestic demand will prevent a more drastic drop in growth, with private consumption being propelled by relatively low interest rates and higher wages. For 2013, the growth forecast remains at 3.5 percent, although a renewed severe global slowdown, with a potentially strong impact on domestic demand, constitutes a major downside risk. Both Namibia and Botswana are likely to see continued solid growth driven by the mining sector. However, economic performance in these countries remains sensitive to a pronounced fall in global growth and, in particular, weakening demand for natural resources.

The uncertain international economic situation also underpins a downward revision in growth for the region's oil exporters. Nigeria is forecast to see growth of 6.3 percent in 2012, down from an earlier estimate of 6.8 percent, with growth of 6.8 percent in 2013. The lower global growth will have a moderating impact on Nigeria's oil exports. The oil sector is also subject to more cautious investment behaviour in light of increased global uncertainty as well as continued political tensions in the main oil-producing areas. The main drivers of growth will be agriculture, the biggest sector in the economy with more than one third of total GDP, and the vibrant service sector, especially telecommunication and construction services. Angola is forecast to see growth of 8.3 percent in 2012, well below the previously projected 9.2 percent.

In line with the overall regional growth profile, the economies in North Africa will mostly see slower growth than previously forecast. In Egypt, the forecast for 2012 has been revised downwards to 1.7 percent (from 3.8 percent previously) in light of a variety of factors, including a slowdown in capital inflows; a significant drop in foreign exchange reserves, which has been exacerbated by the Central Bank's efforts to maintain the exchange rate peg to the dollar; falling tourism revenues; and continued political uncertainty. Risk factors for Egypt include the upcoming presidential elections and the possibility of a balance-of-payments crisis combined with a disorderly currency devaluation. Growth prospects for Libya, by contrast, have been revised upwards, but in light of a serious downward revision for growth in 2011. Since oil production has resumed faster than expected, the economy is projected to grow by about 22 per cent percent this year despite lingering political instability. In the case of Morocco, the forecast has been revised downwards, from 4.5 to 3.2 percent, due to the effects of recent droughts and the euro area crisis on the agricultural sector. Meanwhile, the dispute over oil revenues between Sudan and South Sudan continues, with possible drastic effects for both countries. Much of South Sudan’s economy and both countries’ government revenues rely on oil, illustrating the severe risks to both economies in case of a prolonged conflict.

As drought has faded, the prospects for East Africa remain relatively favourable, though little changed from the previous forecast. The recent discoveries of oil in Kenya and Uganda and natural gas in Tanzania have the potential to boost growth in the region, but this may take a few years based on the regular time delays between discovery and extraction. Growth prospects for the Democratic Republic of Congo remain relatively robust owing to continued high metals prices and mining revenues, although continuing political uncertainty and the effects of a new law requiring farms to be majority-owned by Congolese citizens have led to a downward revision in growth.

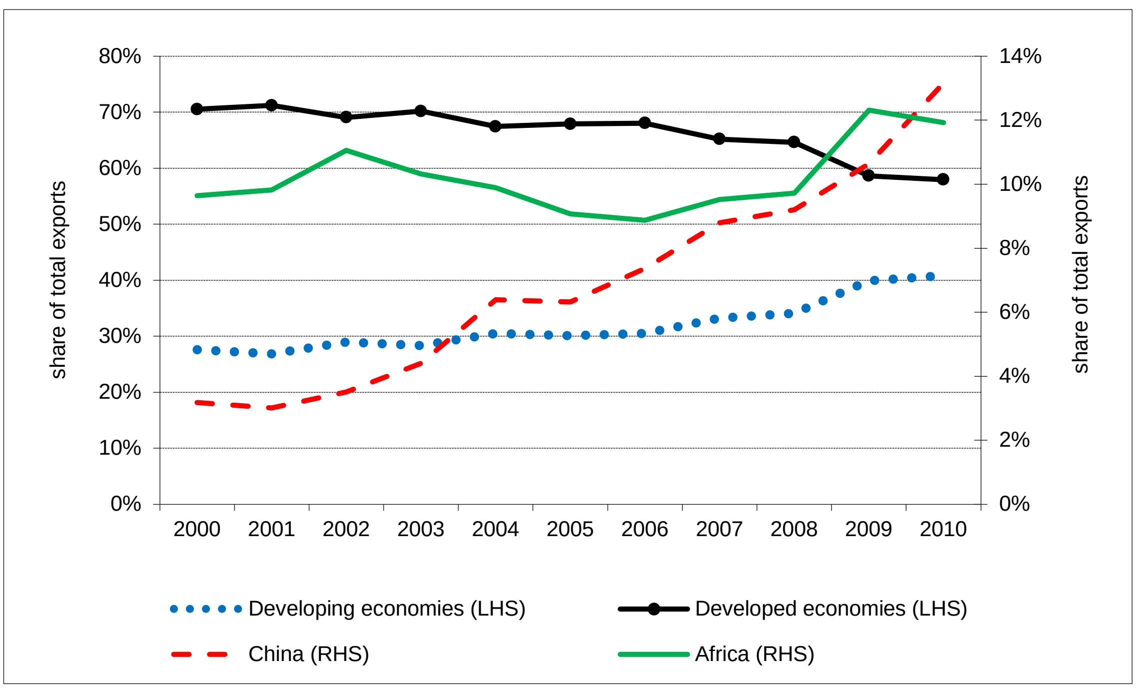
Inflation will, on average, fall slightly in the region owing to stable or lower commodity prices and improved weather conditions that will underpin solid agricultural production. The lowest inflation rates in the region will be observed in the franc zone, with the inflation picture in Cote d’Ivoire improving owing to a more stable political situation. By contrast, inflation will remain high in Central and West Africa, driven by significant commodity export revenues, higher wages, and generally solid domestic demand. Nigeria is forecast to see inflation of 12.1 per cent in 2012, with fiscal spending providing an additional source for upward price pressures. In Ghana, inflation will fall moderately to 8.5 per cent in 2012, with solid agricultural production partially being offset by income and wage effects in the wake of the start of oil production.

While inflation remains moderate in North Africa, East Africa continues to see relatively high inflation rates, although below the highs of last year in some countries. As much of the inflation was driven by higher food prices due to drought in the region, the return of more favourable weather has brought down inflation and overall this is expected to continue.

Monetary policies will vary across the region. In South Africa, inflation will run close to the upper limit of the official target band of 3-6 per cent, which will underpin a tightening in monetary policy later in the year. In Nigeria and Ghana, after policy tightening to fight inflation, the central banks will have some room to ease their stance in view of moderately lower inflation rates. The central banks of Kenya, Tanzania and Uganda have all maintained high policy rates and are expected to continue those policies until inflation drops significantly. This will depend to a certain degree on energy prices, as water rates and food prices have already eased. It is also expected that the Central Bank of Kenya will continue its policy of keeping the dollar exchange rate within a relatively tight target corridor. Going forward, the high interbank and lending rates in Kenya and Tanzania are likely to have a slight dampening effect on economic activity.

Fiscal budgets in the region will benefit from solid tax revenues in view of vibrant private consumption and investment as well as, in the case of oil exporters, continued elevated oil prices. On the expenditure side, infrastructure projects will remain a major spending position across the region, with election-related spending adding a drag on fiscal balances in some countries such as Ghana. Within this general forecast, a number of countries will see declining fiscal deficits. In South Africa, the public budget will remain in deficit in light of significant infrastructure investments and increasing spending on public wages. However, solid tax revenues will still produce a decrease in the budget shortfall from 5.5 per cent of GDP in 2011 to 5.2 per cent in 2012. In Nigeria, the budget deficit will decrease from 3.3 per cent in 2011 to 2.8 per cent in 2012 due to continued solid oil-related revenues and a more cautious fiscal policy stance. By contrast, Zambia will see its budget deficit increase to 6.0 per cent in 2012 from 4.0 per cent last year, as expenditure growth, for example on wages, will outpace revenues. Similarly, the fiscal deficit for Morocco is expected to rise above 6 percent as subsidies for commodities increase due to the agricultural production shortfall. Tunisia's deficit is expected to rise above 7 percent, particularly on increased hiring by the Government as well as rising salaries for government workers. At the other end of the spectrum, Angola will post a budget surplus of 4.0 per cent in 2012 on the basis of strong oil revenues, emphasizing the challenge of effectively deploying public funds in order to reduce poverty and inequality. Overall, public debt levels as a share of GDP will remain moderate by international comparison.

Figure 12. Direction of African exports, 2000 - 2010



Source: UN/DESA based on data from UNCTAD

Overall the export profile for Africa has been shifting, from developed to developing countries, with a significant percentage of that increase going to China (see figure 11). Intra-Africa trade has increased modestly in the past few years as well, but some of this may have come as substitution during the crisis. Weaker demand from developed economies as well as the projected slowdown in growth in large emerging economies such as China will dampen export growth in many economies in the region, while import growth will generally remain solid on the back of domestic private consumption and infrastructure investments. This will on average reduce external balances across the region. For example, in South Africa, the current account deficit will increase to 4.6 per cent of GDP in 2012 from 4.2 per cent last year because of a measurable impact from the slowdown in China, which represents the biggest export destination for South Africa with around 13 per cent of total exports. Similar trends will unfold in a number of other economies with major natural resource sectors, for example Zambia. In the oil producers such as Nigeria and Angola, the expected lower average oil price will result in a decline in trade balances, although the possibility of an unexpected and more pronounced spike in oil prices represents a significant upside risk. At the same time, in some cases such as Ghana and Cameroon, the negative impact of lower oil prices on the trade balance will be offset by expanding oil output. The quick return of oil production in Libya should bring the current account balance back to strongly positive territory and will likely ease pressure on global oil prices. Lower coffee prices have been offset by increases in production in Burundi and Rwanda but are expected to increase the current account deficit in Uganda where production is down.

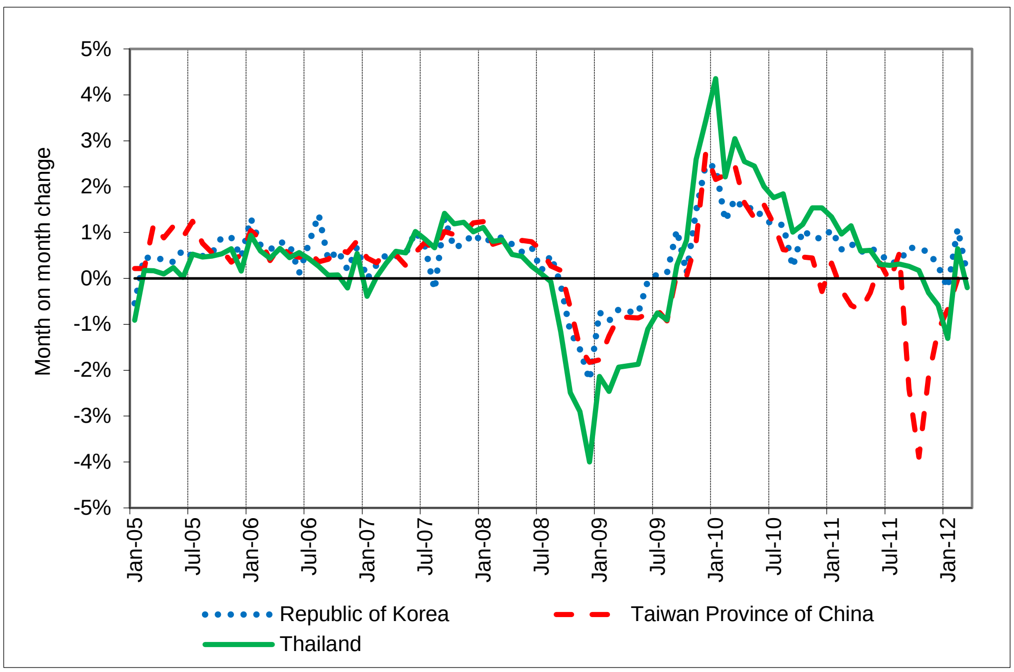
Africa's economic outlook is subject to a number of risks, including adverse weather patterns that could negatively impact agricultural production (especially in the Sahel), and negative fallout from any political instability.

East Asia

Sluggish demand in developed countries and a slowing Chinese economy are likely to weigh on growth in East Asia in 2012 and 2013. After decelerating from 9.2 per cent in 2010 to 7.1 per cent in 2011, average regional growth is expected to slow further to 6.5 per cent in 2012. In 2013, the pace of growth is projected to pick up slightly as global demand recovers, with regional GDP forecast to expand by 6.9 per cent. Since the region's exports are likely to increase only mildly in the forecast period, domestic demand will be the main driver of growth.

Economic growth in East Asia has moderated since mid-2011 amid weakening demand in developed regions, in particular the European Union. With export demand softening and global uncertainty increasing, industrial output across the region lost momentum (see figure 13). This has particularly affected the outlook for the region's strongly export-oriented economies such as Singapore and Taiwan Province of China; these economies saw a contraction of GDP in the fourth quarter of 2011 and are projected to experience a marked decline in annual GDP growth in 2012. In several other economies, notably China and Viet Nam, domestic factors have played a significant role in the slowdown. In both countries, the Government tightened credit in 2010 and 2011 to rein in inflation and cool property markets. In China, GDP growth declined to 8.1 per cent in the first quarter of 2012, down from average growth of 10.4 per cent in 2010 and 9.2 per cent in 2011. However, the risks of a hard landing of the Chinese economy, with growth dropping below 6 per cent in 2012 or 2013, remain very low. The recent easing of credit, combined with a slightly more expansionary fiscal policy stance, is projected to support growth in China in the outlook period. With exports and investment slowing across the region, household consumption has become an increasingly important growth driver. This shift is likely to continue in the years ahead. Consumption growth will be supported by rising real wages, resulting from fairly robust labour markets and lower inflation, as well as persistently low real interest rates after several central banks loosened monetary policy in late 2011 and early 2012. In most economies, fiscal policy is expected to become slightly more expansionary in 2012/13, contributing positively to growth. Thailand is expected to see a particularly large increase in fiscal spending this year as the Government invests heavily in post-flood reconstruction activities. This should support the recovery of economic activity in the country.

Figure 13. Industrial production growth in selected East Asian economies (12-month moving average, month on month change)



Source: UN/DESA based on data from national central banks

The moderate growth slowdown across East Asia has begun to affect the region's labour markets. Employment growth, especially in the manufacturing sector, has decelerated markedly since mid-2011 and unemployment rates have edged up in some of the region's higher-income countries, including the Republic of Korea and Hong Kong Special Administrative Region of China. The recent slowdown in labour markets follows a period of steady improvement as unemployment rates in many economies fell below the pre-crisis levels of 2007/08. On the back of robust economic growth, Indonesia's unemployment rate dropped to 6.3 per cent in February 2012, after averaging more than 9 per cent in the period 2004-08. Yet, the ILO estimates that more than half of all workers in Indonesia remain in vulnerable employment conditions. In the outlook, the region's labour markets are expected to remain fairly robust despite the expected mild growth slowdown, with average unemployment rates showing little change in 2012 and 2013. A significant increase in consumer price inflation in 2011 meant that average real wages grew only modestly. Since inflation is expected to decline in the outlook period, real wage growth may gain strength. This is particularly the case in the economies with lower per-capita income such as China, Indonesia and Viet Nam.

Across East Asia, consumer price inflation has gradually eased over the past few quarters. This reflects reduced inflationary pressure from food and commodity prices and a moderate slowdown of domestic demand, partly as a result of monetary tightening in the first half of 2011. Average annual inflation in East Asia is expected to decline from 4.8 per cent in 2011 to 3.6 per cent in 2012, before stabilizing at 3.7 per cent in 2013. The recent slowdown in food inflation can be attributed to improved supply conditions in the region, such as bumper rice harvests in China and Viet Nam, and renewed concerns over the strength of the global economy. Since most food and commodity prices are projected to remain stable or decline in 2012 and 2013, the overall outlook for inflation is benign. However, there are some upward risks, particularly in the later part of the forecast period. These include strong wage growth, particularly in China, Thailand and Viet Nam, a further increase in international oil prices, and a re-emergence of strong capital inflows on the back of further quantitative easing in developed economies. In Indonesia and Malaysia, Governments are planning to reform the existing costly fuel subsidy systems, which could lead to significantly higher inflation. Unlike the rest of the region, Viet Nam has struggled with high inflation owing to a combination of supply-side pressures, strong credit growth, and a weak dong. However, as these pressures wane, annual consumer price inflation is expected to slow significantly in 2012.

With inflationary pressures easing and economic growth slowing, monetary authorities in several East Asian countries have loosened monetary policy in recent months. The Central Banks of China, Indonesia, Thailand, the Philippines and Viet Nam cut their benchmark rates moderately. The People's Bank of China (PBC) also reduced the reserve requirement ratio for banks. The moves by the PBC aimed at pumping liquidity into the banking system in a bid to boost lending activity and support economic growth. In contrast, central banks in the region's higher-income economies (Hong Kong Special Administrative Region of China, the Republic of Korea, Singapore, and Taiwan Province of China) have so far refrained from easing monetary policy. Authorities in these economies expect that, despite significant global and regional risks, growth will gradually return to its long-term trend. Looking ahead, most central banks are expected to hold their policy rates steady or moderately loosen monetary conditions to mitigate the impact of a slowdown in exports.. In China, the PBC is likely to further cut the reserve requirement ratio for banks. In the later part of the outlook period, central banks may slowly shift to a tighter monetary policy stance, especially since current policy rates are well below the pre-financial crisis level in most countries.

Fiscal positions across East Asia continue to be healthy. After deteriorating in the wake of the global recession in 2008/09, government balances improved considerably over the past two years, thanks to strong growth and a gradual normalization of fiscal policy. In most countries, government spending continued to increase at a solid pace last year. Hong Kong Special Administrative Region of China, the Republic of Korea, and Singapore achieved budget surpluses in 2011, whereas several other economies–including China, Indonesia, and the Philippines–recorded deficits of less than 1.5 per cent of GDP. In 2012, most Governments will likely move towards a slightly more expansionary fiscal policy stance in order to help contain the economic slowdown. Moreover, in several countries (including China and the Republic of Korea) elections are looming, which may lead to increased spending. In China, government consumption growth is expected to accelerate in 2012, with spending on education, healthcare, and social programmes (such as affordable housing) seeing the largest increases. The budget deficit is projected to be about 1.5 per cent of GDP, slightly higher than in 2011. In Thailand, fiscal expenditure is projected to rise by about 15 per cent in 2012 as the Government spends heavily on post-flood reconstruction projects. Since this is likely to boost economic growth, the budget deficit is expected to increase only moderately from 1.2 per cent in 2011 to 2.5 per cent in 2012. While most Governments have ample fiscal space, they will only consider new large-scale stimulus measures if growth prospects deteriorate sharply.

East Asia's economies have seen a marked slowdown in export growth in recent quarters, mostly because of faltering demand from the European Union. In addition, intra-regional trade activity has lost some momentum as a result of the slowdown of the Chinese economy. In view of the subdued economic outlook in East Asia's leading export markets, export growth in 2012 is expected to be much lower than in previous years. In China, Indonesia, and the Republic of Korea, nominal merchandise exports (in dollars) are forecast to rise by less than 10 per cent, following about 20 per cent growth in 2011. The situation is different in the Philippines, where total merchandise export revenues are projected to recover moderately in 2012 after contracting last year due to a sharp downturn in demand for electronics goods. In many East Asian economies, import growth is expected to outpace export expansion in the outlook period. This trend can be attributed to sluggish growth in developed countries, persistently high oil prices, and, in the case of China, the Government's effort to move towards a more consumption-driven growth path. As a result, current account surpluses, as a share of GDP, are likely to narrow although they will remain high in several economies, particularly Malaysia, Singapore, and Taiwan Province of China. China's annual current account surplus, which narrowed from 10.6 per cent of GDP in 2007 to 2.9 per cent in 2011, is expected to decline to about 2 per cent of GDP in 2012.

Given their healthy economic fundamentals and robust domestic demand, East Asia's economies are in a strong position to weather the fallout from renewed financial turmoil in the euro area or a further downturn in global activity. Nonetheless, economic growth across the region would be significantly impacted by a severe crisis in developed countries, both through trade linkages and international capital flows. Moreover, such a crisis could shake consumer and business confidence in East Asia, leading to weaker growth in household consumption and investment. While the Chinese economy is unlikely to experience a hard landing in the outlook period, a more-rapid-than-expected deceleration of growth may negatively affect the rest of the region.

South Asia

Economic growth in South Asia is projected to ease to 5.6 per cent in 2012, down from an estimated 6.1 per cent in 2011 and well below the 7.1 per cent pace recorded in 2010. The regional slowdown mainly reflects lower growth in India, where domestic demand, in particular private investment, has weakened markedly on the back of aggressive monetary tightening and a policy standstill. Most South Asian countries will continue to face major headwinds to economic growth in the near term. On the domestic front, consumption and investment activity are negatively impacted by persistently high inflation, relatively restrictive macroeconomic policies and country-specific factors such as security concerns and political uncertainties. At the same time, external conditions have become more challenging. Sluggish economic activity in developed economies, combined with weaker growth in East Asia, will lead to slower export growth across the region in 2012. In addition, high oil prices continue to put a strain on fiscal and external balances, while also placing upward pressure on consumer price inflation.

India's economy, which accounts for almost three quarters of the region's total GDP, has experienced a marked slowdown in recent quarters. Full-year growth declined from 8.9 per cent in 2010 to 7.1 per cent in 2011 as investment activity weakened significantly. Growth will remain below potential in the first half of 2012, but a gradual upturn is projected for the second half of the year and 2013 as a result of monetary policy easing and a moderate improvement in global conditions. Annual growth is projected to decelerate to 6.7 per cent in 2012, before picking up to 7.2 per cent in 2013. The Islamic Republic of Iran, Nepal, and Pakistan will continue to record subdued growth in the outlook period. Tougher sanctions by the United States and the European Union, comprehensive subsidy reductions, and lower oil production will hold back economic activity in the Islamic Republic of Iran, with GDP forecast to expand only by 0.3 per cent in 2012. Growth in Nepal and Pakistan will continue to be constrained by long-standing structural impediments, but is projected to strengthen moderately in the outlook, mainly thanks to a recovery in investment. On the positive side, the prospects for Bangladesh and Sri Lanka remain favourable. Sri Lanka's growth accelerated to 8.3 per cent in 2011, the fastest pace in six decades, on the back of massive reconstruction spending and record tourist arrivals.

Recent employment surveys suggest that labour market trends in South Asia continue to diverge. Sri Lanka's unemployment rate declined to an all-time low of 4.2 per cent in mid-2011 as economic activity expanded strongly. According to the latest report by India's labour bureau, employment in the manufacturing sector increased steadily during the first three quarters of 2011 despite the marked growth slowdown. In contrast, unemployment and underemployment continue to be on the rise in the Islamic Republic of Iran and Pakistan. In both countries, growth in recent years has been well below the rate required to absorb the rapidly rising labour force–a trend that is likely to continue in the outlook period. In Pakistan, growth of about 7 per cent is needed to absorb the two million new labour market entrants annually. Relatively low official unemployment rates in most South Asian countries mask deep structural problems such as the persistence of low-productivity, low-pay jobs in the informal sector and large gender gaps. A recent IMF report indicates that in Pakistan the share of women working in wage employment declined from 33 per cent in 2000 to only 21 per cent in 2011. Moreover, across South Asia, women are more likely than men to be in vulnerable employment (own account workers plus contributing family workers). According to ILO estimates, the vulnerable employment rate in 2011 was 83.8 per cent for South Asian women and 75.5 per cent for men.

In most South Asian economies, inflation moderated in recent months largely as a result of lower food price increases. Regional consumer price inflation averaged 11.2 per cent in 2011, down from 11.5 per cent in 2010. The easing of food inflation reflects both lower international prices (for example edible oils), and increased domestic supply of food items following good harvests. In addition, strong base effects stemming from the surge in vegetable prices in early 2011 have pushed year-on-year food inflation rates down. At the same time, higher energy costs have led to a further rise in non-food inflation in most countries. In Bangladesh, non-food price inflation reached an all-time high of 13.6 per cent in February 2012. In the Islamic Republic of Iran, the gradual removal of subsidies on food and energy continues to fuel inflation. Despite those pressures, in the outlook, average annual inflation in the region is projected to moderate further, averaging 10.3 per cent in 2012, mostly owing to lower commodity prices and slower credit growth. However, insufficient monsoon rains, rising oil prices, and large fiscal deficits, especially in India and Pakistan, may put renewed upward pressure on inflation in the quarters ahead.

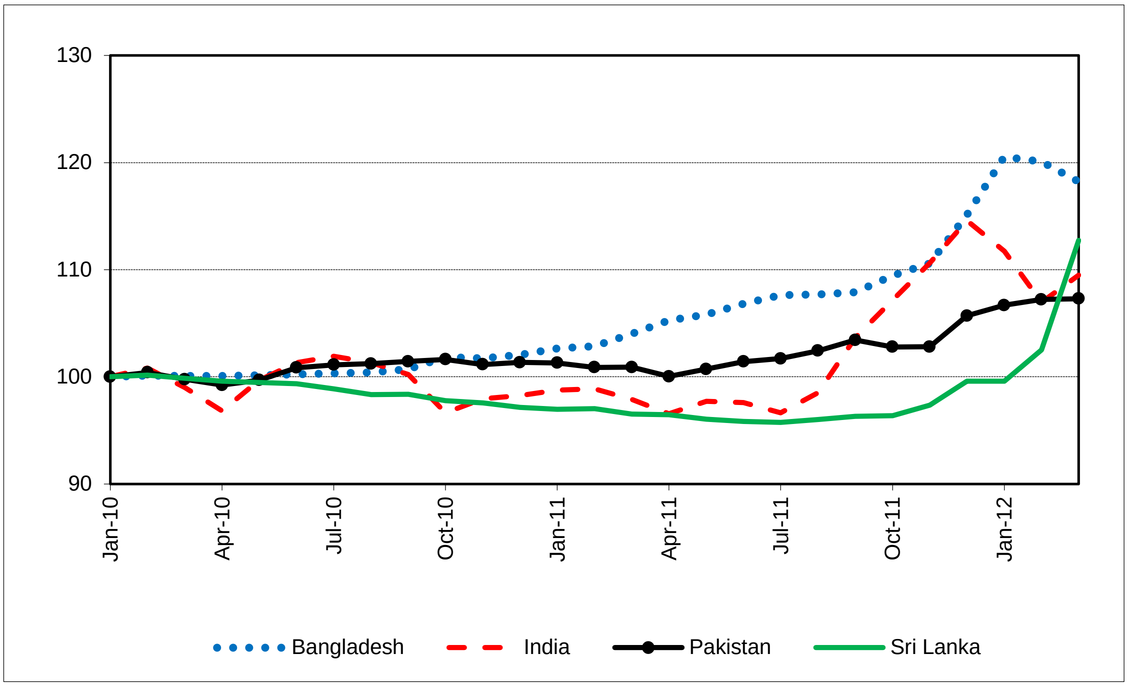
Monetary authorities across South Asia continue to face major challenges in their efforts to strike a balance between curbing inflation and supporting economic growth. In most countries, inflationary pressures remain elevated and central banks are therefore reluctant to ease monetary policy aggressively. The Reserve Bank of India (RBI) ended its tightening cycle in late 2011 and lowered the cash reserve ratio for banks from 6 to 4.75 per cent during the first quarter of 2012. In April, the RBI cut interest rates for the first time in three years, reducing the repo rate by 50 basis points to 8 per cent in an effort to stimulate the economy amid challenging domestic and external conditions. However, the authorities also indicated that room for further reductions was relatively limited given the persistence of significant inflationary pressure. The State Bank of Pakistan kept monetary conditions unchanged during the first quarter of 2012 after lowering its benchmark policy rate by a cumulative 200 basis points in the second half of 2011. The central bank is unlikely to loosen monetary policy further unless inflation, which has returned to double-digit levels, slows considerably. In Bangladesh and Sri Lanka, by contrast, the central banks are in a tightening mode. The Bangladesh Bank raised its key policy rates five times between March 2011 and January 2012 to curb persistently high inflation. The

Central Bank of Sri Lanka hiked interest rates in February and April 2012 in a bid to rein in credit growth and reduce the large trade deficit. In both countries, some additional monetary tightening is likely in the quarters ahead.

Fiscal deficits remain high and a major concern for policymakers in South Asia. In several countries, the deficit reduction target was missed in the past fiscal year as a result of weaker-than-expected revenue growth and higher-than-projected subsidy bills. Sustained high oil prices and the depreciation of regional currencies in 2011 led to a surge in the subsidy bill on petroleum products. Across the region, fiscal consolidation is complicated by very low tax bases, a high burden of interest payments and fragile security conditions, most notably in Pakistan. India's central government deficit reached 5.9 per cent of GDP in the fiscal year 2011/12, well above the target rate of 4.6 per cent. With economic activity slowing markedly, tax revenues fell short of budgeted levels. In addition, privatization proceeds from the partial sale of state-owned companies in the energy and steel sector were much lower than expected. In the recently unveiled budget for the fiscal year 2012-13, India's Government aims to reduce the deficit to 5.1 per cent of GDP. The bulk of the adjustment is expected to come from an increase in indirect tax rates. Pakistan's fiscal deficit increased to 6.6 per cent of GDP in the fiscal year 2010/11, the highest levels since the country's 2008 balance of payment crisis. While domestic authorities have implemented some measures to control spending and raise tax receipts, the sluggish growth outlook and persistently high oil prices weigh heavily on public finances. The Government is therefore unlikely to reach the deficit target of 4.7 per cent of GDP in 2011/12. Thanks to rapid growth during the past few years, Sri Lanka's Government managed to gradually reduce the budget deficit, while raising public expenditures considerably. The budget deficit stood at 7 per cent of GDP in 2011, down from 8 per cent in 2010, and is projected to decline to about 6.2 per cent in 2012.

In most South Asian economies, trade deficits are expected to widen further in the outlook period, as import spending rises faster than export revenues. In 2011, export activity increased rapidly across the region despite a marked slowdown at the end of the year. In dollar terms, total export earnings rose by 34 per cent in India, 23 per cent in Pakistan, and 22 per cent in Sri Lanka. In volume terms, India's exports grew by 16 per cent, the fastest pace among large economies, as demand for the country's engineering goods, petroleum products, and gems and jewellery soared. The region benefited in particular from a rebound in textile export revenues as both prices and quantities increased considerably. Sri Lanka's service exports were also boosted by a record inflow of tourists in 2011. Export growth has, however, decelerated significantly in recent months as many European countries slipped into recession and economic activity in East Asia lost momentum. Given the subdued global outlook, the region's exports are projected to rise at a much slower pace in 2012 than in the past two years. On the import side, the rapid growth in 2011 can be mainly attributed to high international commodity prices and strong domestic demand. High oil prices will continue to inflate the import bills in 2012, contributing to a further widening of trade deficits. The large trade deficits are partly offset by continuing strong remittance inflows, which rose on average by 10 per cent in US dollar terms in 2011. With economic growth in Europe and the Gulf Cooperation Council countries projected to slow down in the outlook period, the pace of remittance growth will likely moderate. This may further increase pressure on the region's currencies to depreciate. Since mid-2011, South Asian currencies have weakened significantly against the dollar as trade deficits in the region expanded and capital inflows dried up (see figure 14).

Figure 14. Index of nominal exchange rates against the dollar in selected South Asian economies, January 2010–March 2012 (monthly averages, Jan 2010=100)



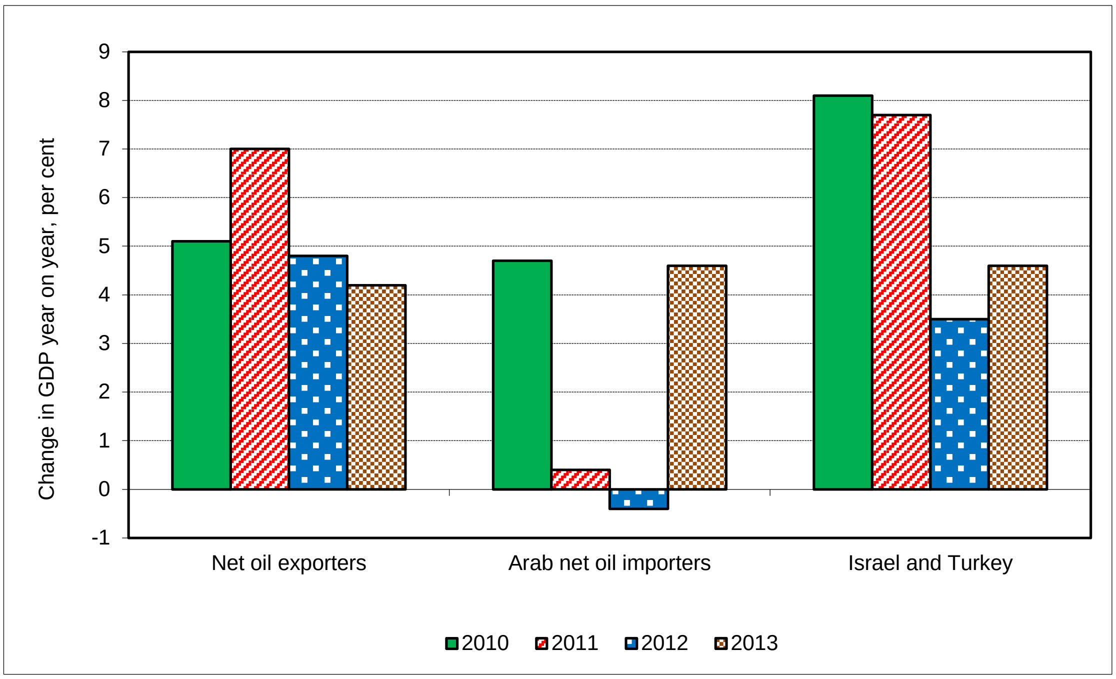
Source: UN/DESA based on data from IMF, International Financial Statistics

European countries remain a key export market for South Asia and a main source of tourism revenues. A deepening of the crisis in Europe, with renewed financial market turmoil or prolonged recessions in some of the larger economies, could thus lead to significantly lower growth across the region. A further increase in international oil prices also represents a risk for South Asia as this would complicate fiscal consolidation efforts and monetary policy decisions, while also leading to a widening of current account deficits.

Western Asia

Western Asia's growth momentum decelerated in the second half of 2011 and in the first months of 2012 on the back of weakening external demand and a moderation of public spending following the exceptional measures taken in the wake of the Arab spring. As a result, average GDP growth in the region is estimated to decline from 6.9 per cent in 2011 to 4.0 per cent in 2012 before picking up to 4.4 per cent in 2013. The persistence of oil prices above 100 dollars per barrel however, generates a dual track growth outlook for oil-exporting and oil-importing countries (see figure 15). While Gulf Cooperation Council (GCC) countries and Iraq may experience robust growth, the recent slowdown in Israel and Turkey is likely to extend into the second half of 2012 if economic activity fails to pick up in their main export markets. Lasting clashes in the Syrian Arab Republic furthermore negatively affected economic activity, especially tourism, in neighbouring countries.

Figure 15. Diverging growth trajectories in Western Asia
(Annual changes in GDP, per cent)



Source: UN/DESA based on Project LINK

Economic growth in oil-exporting countries strongly benefited from rising oil prices. The basket price of the Organization of the Petroleum Exporting Countries (OPEC), which increased by 39 per cent in 2011 to an all-time average high of $107.5 per barrel, rose by an additional 15 per cent in early 2012, before declining moderately. Oil production also increased in a number of countries to compensate for production outages during the Libyan conflict and, more recently, in response to an import ban on Syrian and Iranian crudes by the European Union. Saudi Arabia, for instance, raised its crude production from 8.3 million barrels per day (mbd) in January 2011 to almost 10 mbd in 2012. Other Gulf Cooperation Council (GCC) countries and Iraq also raised their oil output, which accounts for more than 80 per cent of their exports and government revenues.

The generous social spending measures announced by many Arab Governments in reaction to popular protests further boosted economic growth by increasing public and private consumption. As a result, most oil-exporting countries fared even better in 2011 than they did in 2010. In 2012, growth is forecast to decline on the back of a more moderate increase in government spending and slackening economic activity in developed economies.

Fuel importers experienced continued economic growth in 2011 despite rising import bills and weakening external demand. In Turkey, strong credit demand and private consumption supported economic activity, especially in the construction, trade, transportation, and communication sectors, while raising concerns over a possible housing bubble. The economy grew by 8.5 per cent in 2011 but momentum faded during the second half of the year, with year-on-year growth slowing to 5.2 per cent in the last quarter. A similar trend is perceptible in Israel, where growth in the last quarter of 2011 was more than one percentage point below the yearly growth rate estimated at 4.7 per cent. In Jordan, modest temporary economic support measures stimulated private consumption in 2011 on the back of growing budget deficits. Regional unrest, however, negatively affected economic activity in some countries.

Lasting protests and political turmoil are likely to hamper economic activity in the Syrian Arab Republic even further, with GDP projected to contract for a second consecutive year. In Yemen and Bahrain, which were significantly affected by political unrest in 2011, stability has been restored for now. The political and military responses of the governments have not, however, addressed many of the underlying issues. In Yemen, despite the departure of the former president, political tensions remain high and the security situation continues to be precarious. In Bahrain, ongoing social and political problems may discourage investors and harm the country's ambition of becoming a regional hub for financial and other services.

Political unrest highlights the poor employment situation as well as the common problematic features of many labour markets in the region. Officially, unemployment is estimated at less than 4 per cent in GCC countries and between 6 and 17 per cent in other countries. However, these statistics are believed to largely underestimate real unemployment while also not covering underemployment and vulnerable employment. In reality, and despite extremely low female participation rates, unemployment rates in the region are among the highest in the world, especially among educated youth. At the same time, migrant workers represent, on average, more than 70 per cent of the labour force in GCC countries. These conditions point, inter alia, at a longstanding lack of coherence between education and economic development policies. In the wake of political unrest in 2011, many governments created jobs and increased wages for nationals in the public sector. While such policies bear the risk of further weakening the attractiveness of the private sector for nationals, they also highlight the sharp duality of the labour markets in GCC countries, with subpar working conditions for migrant workers, especially in the construction sector.

In Turkey, the unemployment rate fell slightly to below 9 per cent in early 2012, after peaking at more than 14 per cent in 2009. In Israel, unemployment averaged 5.6 per cent in 2011, below its pre-crisis level. Despite this apparent improvement, poverty rates in Israel are higher than in any other OECD country and rising income disparities along with the high cost of living are weakening the purchasing power of most Israelis. In July and August 2011, these developments led to the largest social protests the country has experienced since its creation.

Fiscal policy in Western Asia was significantly affected by political turmoil in 2011, especially in oil-exporting countries, but the social spending measures introduced in response to the unrest also bear longer-term consequences. In Kuwait, for instance, the decision to distribute free flour over a one-year period as well as a one-time grant of $3500 to all nationals only had a temporary effect on the government budget. The raise in public sector salaries of up to 100 per cent in the United Arab Emirates, by contrast, represents a permanent increase in public expenditures. In Saudi Arabia, massive investment in construction over the next years will likely ease pressures on rising rental prices and facilitate access to housing. In many countries, the permanent increases in public sector employment may represent a drag on public finances in the years ahead.

Oil-importing countries reacted more cautiously to political unrest. Jordan, for instance, plans to reduce its budget deficit to 5.9 per cent of GDP in 2012, down from 6.1 per cent in 2011. Without international development assistance, however, the deficit would exceed 10 per cent and the country would face difficulties in raising funds on international financial markets. In Israel, several recommendations of the Trajtenberg Committee—created in 2011 in the wake of popular unrest in order to examine and propose solutions to the country's socioeconomic problems—have been accepted by the Government. The budget deficit is projected to increase slightly as military spending remains massive, amounting to more than 6 per cent of GDP. In Turkey, weaker growth may increase the budget deficit in 2012 to about 2 per cent of GDP.

During the first half of 2011, inflation was on the rise across the region as a result of increasing food and energy prices. In countries with pegged currencies, the weakness of the dollar further contributed to the rise in imported inflation. In Israel and Turkey, this trend was compounded by strong private consumption and credit growth. With the weakening of aggregate demand and receding world food and energy prices during the second half of 2011, inflationary pressures started to ease. In Saudi Arabia, inflation averaged 5 percent on the back of rising housing prices and private consumption, while continued deleveraging and falling housing prices in Dubai contributed to low inflation in the United Arab Emirates. In Turkey, inflation averaged 8.2 per cent in 2011. Previous attempts of the central bank to curb both loan and private consumption growth without raising the interest rate have led to a depreciation of the Turkish lira over the course of 2011, fostering imported inflation. Despite the slight improvement in the first months of 2012, inflation remains above the 5 per cent target of the central bank.

Monetary authorities in the region pursue different objectives. In most oil-exporting countries, currencies are pegged to or closely managed against the dollar, and monetary policy is tied to the stance of the United States Federal Reserve.

As a consequence of lasting political unrest, the Syrian pound lost close to half of its value on the black market in the course of 2011, but officially only devaluated by 20 per cent compared to the US dollar. In January 2012, the Syrian central bank introduced a managed float of its exchange rate with the objective to ease the discrepancy between the official and black market exchange rates and allow commercial banks to take advantage of the strong demand for the dollar. As a ripple effect of sanctions against the Syrian and Iranian central banks, demand for dollars in the daily auctions of the Iraqi central bank exceeded $300 million during several months around the end of 2011, more than twice its usual level. It decreased as the central bank decided to closely monitor the applications to buy currency from its auctions.

In Israel, inflation-targeting led the central bank to raise its policy rate four times in 2011 before lowering it three times to 2.5 per cent as weakening demand from its main export markets threatened to affect domestic demand.

The Turkish central bank implemented unorthodox monetary policy measures to simultaneously sustain robust growth while coping with high inflation, a weakening currency, and a large current account deficit. Following a cut in its benchmark rate in August despite quarterly inflation hovering above 10 per cent, it subsequently hiked the overnight lending rate in October by elevating the upper limit of the interest corridor of the daily repo auction from 9 to 12.5 per cent, in order to tighten the effective funding rate. As the Turkish lira gained some strength at the end of 2011, the central bank temporarily cut the overnight lending rate before raising it again in March 2012. This constituted an attempt to rein in inflation and limit the pass-through from the foreign exchange market into inflation by strengthening the lira.

In fuel-exporting countries, strong external surpluses were accumulated in 2011 as a result of rising oil prices and increased oil production–a trend that extended into the first half of 2012. With oil representing more than 80 per cent of export revenues in GCC countries as well as in Iraq, trade balance surpluses traced the increase in oil price, which rose by 40 per cent in 2011 and 15 per cent since the beginning of 2012. Oil importing countries faced higher import bills in a context of weakening external demand. Israel experienced a negative current account balance over the last three quarters of 2011, but recorded a small full-year surplus. In Turkey, the current account deficit rose to more than 10 per cent in 2011, strongly affected by the rising price of oil, which accounts for most of the deficit. As short-term prospects for developed countries remain grim, authorities in Turkey and the United Arab Emirates concluded bilateral currency swap arrangements with China in 2012 aimed at facilitating bilateral trade in the respective local currencies.

Clouded by domestic political unrest and a possible escalation of conflicts, the precarious security situation led to a region-wide repricing of risk, raising borrowing costs in many countries, including Bahrain, Jordan, and Lebanon. All countries registered portfolio investment outflows, and FDI into the region is estimated to have declined for the third consecutive year, with total inflows falling by 14 per cent in 2011. The impact in oil-exporting countries, however, has been limited, as financing for large-scale projects related to oil and its derivatives remained uninterrupted.

In the outlook, Western Asia faces three major downside risks: first, the region may be destabilized by the revival of international tensions in the region or by domestic political unrest; second, if the financial woes and deeper fiscal austerity in developed countries were to trigger a global downturn, it would negatively impact on economic activity in the region; and third, inaction in relation to the dire employment situation and, more broadly, the failure to implement effective diversification strategies based on a more inclusive development paradigm represent major risks to long-run stability and prosperity in the region.

Latin America and the Caribbean

Growth in Latin America and the Caribbean is expected to decelerate from 4.3 per cent in 2011 to 3.7 per cent in 2012, before strengthening to 4.2 per cent in 2013. In all South American countries, with the exception of Brazil, growth is expected to slow in 2012 compared to 2011. The Brazilian economy is expected to grow by 3.3 per cent in 2012, up from 2.7 per cent in 2011, mainly driven by private investment and government spending. A fall in industrial production and strong appreciation of the real in early 2012 has prompted the Government to strengthen capital account regulation in order to preserve the competitiveness of exporting industries. In the course of the first quarter the real has retreated from previous highs but industrial production has not showed signs of recovery.

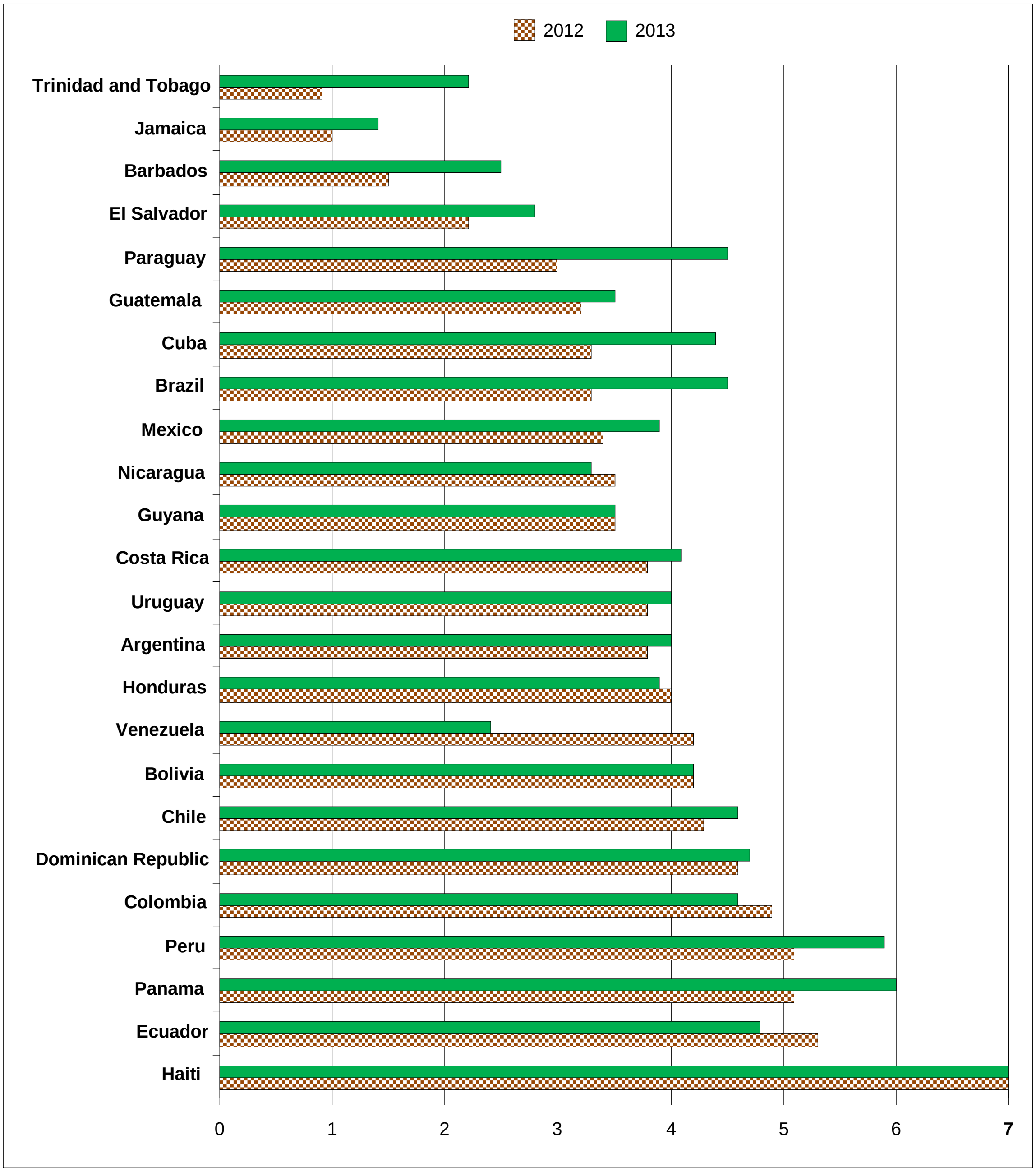
Argentina is expected to record the sharpest slowdown in South America. After 9.1 per cent growth in 2011, GDP is expected to grow by 3.8 per cent in 2012, following a slowdown of all components of aggregate demand, especially private investment and government spending. Faced with shrinking tax revenues, the Government has announced further spending cuts and introduced measures to support the external surplus. In April, the Government nationalized the main oil-producing company with the explicit aim of developing the country’s vast oil resources and reducing the energy import bill. Colombia, Ecuador, and Peru are expected to be the fastest growing economies in the subregion, with GDP increasing for each by approximately 5 percent in 2012.

Growth in Mexico and Central America is forecast to slow down from an average of 4.1 per cent in 2011 to 3.4 per cent in 2012. Honduras is the only country in the subregion whose economy is expected to gain strength, reaching 4 percent growth in 2012, driven by an expansion of private consumption. In Mexico, growth is expected to slow down to 3.4 per cent, compared to 4 per cent in 2011.. Panama is expected to experience the sharpest slowdown in the subregion, with growth dropping from 9.5 per cent in 2011 to 5.1 in 2012, following a marked deceleration of private investment and exports.

Caribbean economies are expected to grow faster, from an average of 2.5 per cent in 2011 to 3.4 per cent in 2012. However, for this subregion the pattern is more diverse: Jamaica is expected to slow down to 1 per cent growth in 2012, while growth in Cuba, the Dominican Republic, and Trinidad and Tobago is expected to accelerate to 3.3 per cent, 4.6 per cent, and 0.9 per cent, respectively, in 2012.

In 2013, most economies in Latin America and the Caribbean are expected to record an acceleration of GDP growth (see figure 16).

Figure 16. Growth in Latin American and the Caribbean, 2012-2013
(Change in GDP year on year, per cent)



Source: UN/DESA based on national sources

Following the moderation of aggregate demand growth in the region, inflationary pressures seem to have subsided. With the exception of Argentina and the Bolivarian Republic of Venezuela, where inflation is expected to be 11.3 per cent and 26 per cent, respectively, consumer prices are expected to grow only mildly. Inflation in Brazil is expected to slow to 5.4 per cent, one percentage point above the Central Bank's target range. Commodity prices are expected to cool, especially as the Chinese economy, the region's biggest trading partner, slows down in 2012.

On the other hand, financial asset inflation has gained strength in most of 2011, as international capital flows to Latin America and the Caribbean soared, with investors seeking higher returns than those offered in the euro area and the United States. Several Governments, such as those in Brazil, Colombia, and Peru, issued new dollar-denominated bonds, while the Government of the Plurinational State of Bolivia is expected to issue the first new bonds on the New York Stock Exchange in almost one hundred years. Many of the regional currencies, including those of Brazil, Chile, and Colombia, appreciated in early 2012. In Brazil, the appreciation of the real has adversely impacted exports and industrial production. Industrial production contracted in the first quarter of 2012 and is expected to recover only in 2013. Consequently, unemployment increased slightly after five years of continuous improvements, with the unemployment rate increasing from 6 per cent to 6.2 per cent in the first quarter. The Government reacted to these developments by tightening capital account regulations and extending reductions of payroll taxes to vulnerable sectors such as the automotive industry and textile and clothing.

Monetary policy has remained on hold or has been eased only slightly in most countries. An exception is Brazil, where the central bank loosened monetary conditions aggressively in recent quarters. The benchmark SELIC rate has been cut several times in the first half 2012. The central bank attempts to align the interest rates with those of developed economies.

Fiscal expansion has been resumed in many countries in 2012, following a year of tightening across the region. In Brazil, government expenditure is expected to grow at higher rates than in 2011, as new infrastructure financing is pumped into the economy through BNDES, the national development bank, and tax breaks are extended to industrial businesses that have been hit by the currency appreciation. In Mexico and Venezuela, public spending is expected to expand by 2.7 per cent and 7.5 per cent, respectively, in the run up to general elections. On the other hand, in most other countries, including Argentina, Chile, Colombia, and Peru, fiscal expenditure is expected to grow at much lower rates as the Governments seek to reduce deficits and regain the fiscal space lost during and after the crisis.

Major risks for the region's economy are related to the deceleration of growth in major trading partners, especially China, and a credit crisis in the euro area. Commodity orders from China, which currently absorbs 20 percent of the region's exports, seem not to have decreased in the first quarter of 2012, but investment in mining development is on hold, signalling doubts over future orders.

Tensions in the euro area's financial system and a protracted economic crisis may spill over onto Latin American and Caribbean economies through three channels. The trade channel has already showed signs of weakening, as demand in Europe is hurt by fiscal austerity and high unemployment. As tensions continue in European financial markets, especially bond markets, measures introduced by regulators to strengthen the banking system may spill over into bank operations in Latin America. Brazil, Mexico, and most Caribbean countries, where European banks' market shares are especially high, are especially vulnerable to a withdrawal of funds that may occur as credit is tightened in Europe and capital requirements are raised.

A third risk is continuing expansionary monetary policy in Europe and the United States. As interest rates in developed economies are kept low and the banking system repeatedly receives cash injections, US and European banks and financial institutions have been seeking higher returns in emerging markets, including in Latin America. However, the large capital inflows in the region's fastest growing countries have driven up exchange rates, harming industrial production and employment. If this trend continues and policy makers in Latin America cannot sterilize the influx of new money, exchange rates may climb consistently and trigger a protectionist response.

Annex tables

Table A.1
World and regions: rates of growth of real GDP, 2006-2013
(Annual percentage change[a])

	2006	2007	2008	2009	2010	2011[b]	2012[c]	2013[c]
World	4.1	4.0	1.5	-2.3	4.1	2.7	2.5	3.1
Developed economies	2.8	2.6	0.0	-3.9	2.7	1.4	1.2	1.8
North America	2.7	1.9	-0.2	-3.4	3.0	1.8	2.1	2.3
Asia and Oceania	2.0	2.4	-0.5	-4.3	4.0	-0.2	1.9	2.2
Europe	3.3	3.2	0.3	-4.1	2.0	1.6	0.0	1.2
European Union	3.3	3.2	0.3	-4.3	2.0	1.6	0.0	1.2
EU-15	3.1	3.0	0.0	-4.3	2.0	1.4	-0.1	1.1
New EU Members	6.5	6.0	4.1	-3.7	2.3	3.1	1.6	2.7
Other Europe	3.1	3.4	1.2	-1.9	1.7	1.8	1.1	1.3
Memorandum items:								
Euro area	3.2	3.0	0.4	-4.2	1.9	1.5	-0.3	0.9
Major developed economies (G-7)	2.6	2.2	-0.3	-4.1	3.0	1.3	1.4	1.9
OECD	3.0	2.7	0.1	-3.8	3.0	1.6	1.3	2.0
Economies in transition	8.4	8.6	5.2	-6.5	4.1	4.5	3.9	4.1
South-Eastern Europe	5.2	6.0	4.2	-3.7	0.5	1.1	0.6	1.8
Commonwealth of Independent States and Georgia	8.7	8.8	5.3	-6.8	4.5	4.8	4.2	4.3
Developing countries	7.6	7.9	5.2	2.5	7.5	5.9	5.3	5.8
Africa	6.1	6.0	4.8	2.0	4.6	2.0	4.2	4.8
North Africa	5.4	4.7	4.6	3.2	4.0	-2.4	4.4	4.4
Sub-Saharan Africa	6.4	6.7	4.9	1.4	4.9	4.2	4.1	5.0
East and South Asia	9.1	10.0	6.1	5.3	8.8	6.9	6.3	6.8
East Asia	9.2	10.3	6.4	5.1	9.2	7.1	6.5	6.9
South Asia	8.5	8.9	5.2	6.2	7.1	6.1	5.6	6.1
Western Asia	6.7	4.6	3.8	-0.9	6.2	6.9	4.0	4.4
Latin America and the Caribbean	5.6	5.6	4.0	-2.1	6.0	4.3	3.7	4.2
South America	5.5	6.7	5.4	-0.4	6.4	4.5	3.8	4.4
Mexico and Central America	5.2	3.8	1.5	-5.7	5.6	4.1	3.4	3.9
Caribbean	10.2	6.5	3.6	0.8	3.4	2.5	3.3	4.0
Memorandum items:								
Least developed countries	7.9	8.9	7.7	5.0	5.8	4.0	4.1	5.7
Sub-Saharan Africa (excluding Nigeria and South Africa)	6.7	8.1	6.8	3.4	5.4	3.8	4.2	5.4
East Asia (excluding China)	5.7	6.1	2.7	0.1	7.7	4.1	3.9	4.6
South Asia (excluding India)	6.2	7.1	3.3	2.1	2.8	3.5	2.7	3.3
Western Asia (excluding Israel and Turkey)	6.7	4.4	5.8	1.1	4.8	6.3	4.3	4.2

Source : Project LINK

a Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.
b Actual or the most recent estimate.
c Forecasts, based in part on Project LINK.

Table A.2
Rates of growth of real GDP, 2006 -2013
(Annual percentage change)

	2006	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]
Developed economies								
North America								
Canada	2.8	2.2	0.7	-2.8	3.2	2.5	2.0	2.4
United States	2.7	1.9	-0.3	-3.5	3.0	1.7	2.1	2.3
Asia and Oceania								
Australia	3.6	3.8	2.3	1.5	2.4	2.2	2.7	2.8
Japan	1.7	2.2	-1.0	-5.5	4.4	-0.7	1.7	2.1
New Zealand	2.2	2.9	-0.7	-0.1	2.5	1.3	2.8	3.5
European Union								
EU-15								
Austria	3.7	3.7	1.4	-3.8	2.3	3.1	0.8	1.7
Belgium	2.7	2.9	1.0	-2.8	2.3	1.9	-0.4	1.2
Denmark	3.4	1.6	-1.1	-5.2	1.7	1.0	0.5	1.1
Finland	4.4	5.4	1.0	-8.2	3.6	2.8	0.4	1.8
France	2.5	2.3	-0.1	-2.7	1.5	1.7	0.1	0.7
Germany	3.7	3.3	1.1	-5.1	3.7	3.0	1.0	2.0
Greece	5.5	3.0	-0.2	-3.3	-3.5	-6.8	-7.2	-1.9
Ireland	5.3	5.2	-3.0	-7.0	-0.4	0.7	0.5	2.1
Italy	2.0	1.5	-1.2	-5.1	1.5	0.3	-1.7	0.2
Luxembourg	5.0	6.6	0.8	-5.3	2.7	1.3	-0.8	0.5
Netherlands	3.4	3.9	1.8	-3.5	1.7	1.2	-0.7	1.3
Portugal	1.4	2.4	0.0	-2.9	1.4	-1.5	-4.0	-2.1
Spain	4.0	3.6	0.9	-3.7	-0.1	0.7	-1.0	-0.4
Sweden	4.3	3.3	-0.6	-5.2	5.6	4.0	0.8	2.5
United Kingdom	2.6	3.5	-1.1	-4.4	2.1	0.9	0.5	1.7
New EU Member								
Bulgaria	6.5	6.4	6.2	-5.5	0.2	1.7	1.0	2.0
Cyprus	4.1	5.1	3.6	-1.9	1.1	1.3	-0.7	2.0
Czech Republic	7.0	5.7	3.1	-4.7	2.7	1.7	0.2	2.0
Estonia	10.1	7.5	-3.7	-14.3	2.3	7.6	3.0	3.8
Hungary	3.9	0.1	0.9	-6.8	1.3	1.7	-0.5	1.5
Latvia	11.2	9.6	-3.3	-17.7	-0.3	5.5	3.0	3.0
Lithuania	7.8	9.8	2.9	-14.8	1.4	5.9	3.2	3.0
Malta	2.2	4.3	4.4	-2.7	2.7	2.1	0.2	1.2
Poland	6.2	6.8	5.1	1.6	3.9	4.3	3.0	3.5
Romania	7.9	6.3	7.3	-6.6	-1.9	2.5	1.2	2.7
Slovak Republic	8.3	10.5	5.9	-4.9	4.3	3.3	1.2	2.0
Slovenia	5.8	6.9	3.6	-8.0	1.5	-0.2	0.2	2.0
Other European								
Iceland	4.7	6.0	1.3	-6.7	-4.0	3.1	1.3	2.1
Norway	2.3	3.1	0.0	-1.7	0.7	1.6	2.2	2.0
Switzerland	3.6	3.6	2.1	-1.9	2.7	1.9	0.2	0.7
Economies in transition								
South-Eastern Europe								
Albania	5.4	5.9	7.7	3.3	3.5	3.0	1.5	3.0
Bosnia and Herzegovina	6.0	6.2	5.7	-2.9	0.8	1.5	1.0	2.0
Croatia	4.9	5.1	2.2	-6.0	-1.2	0.0	-0.2	1.0
Montenegro	8.6	10.7	6.9	-5.7	1.0	2.5	1.0	2.3
Serbia	5.2	6.9	5.5	-3.1	1.7	1.6	1.0	2.3
The former Yugoslav Republic of Macedonia	5.0	6.1	5.0	-0.9	1.8	3.0	2.0	2.5
Commonwealth of Independent States								
Armenia	13.2	13.7	6.9	-14.2	2.1	4.7	3.8	4.0
Azerbaijan	34.5	25.1	10.8	9.3	5.0	0.1	3.5	3.2
Belarus	10.0	8.6	10.2	0.2	7.6	5.3	2.7	4.0
Kazakhstan	10.6	8.7	3.3	1.2	7.0	7.5	6.0	5.5
Kyrgyzstan	3.1	8.5	8.4	2.9	-1.4	5.7	4.5	4.8
Republic of Moldova	4.8	3.0	7.8	-6.0	6.9	6.0	2.5	3.0
Russian Federation	8.2	8.5	5.2	-7.8	4.0	4.3	4.2	4.2
Tajikistan	6.6	7.8	7.6	4.0	6.5	7.4	6.0	5.8
Turkmenistan	11.0	11.1	14.7	6.1	9.2	14.7	5.0	6.0
Ukraine	7.3	7.9	2.3	-14.8	3.7	5.2	2.5	3.5
Uzbekistan	7.3	9.5	9.0	8.1	8.5	8.3	6.8	6.9
Georgia	9.4	12.3	2.3	-3.8	6.4	7.0	4.0	5.0

	2006	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]
	Developing economies							
Africa								
Algeria	2.0	3.0	2.4	2.4	3.3	2.7	3.0	2.9
Angola	18.6	22.6	13.8	2.4	3.4	3.7	8.3	7.5
Benin	3.8	4.6	5.0	2.7	2.6	3.8	3.7	4.5
Botswana	5.1	4.8	2.9	-4.9	7.2	5.6	5.4	4.3
Burkina Faso	6.3	4.1	6.4	3.2	7.9	5.6	5.8	5.6
Burundi	5.5	6.4	4.3	3.4	3.9	4.5	4.6	4.5
Cameroon	3.2	3.3	2.9	1.2	2.8	3.8	4.3	4.1
Cape Verde	10.1	8.6	6.2	2.8	5.4	5.2	4.8	5.3
Central African Republic	4.0	4.5	4.4	1.8	3.3	4.8	4.2	3.9
Chad	0.2	0.1	0.3	-3.5	13.0	3.1	6.5	4.4
Comoros	1.2	0.5	1.0	1.8	2.1	2.1	3.3	2.5
Congo	6.2	-1.6	5.9	7.5	8.8	5.1	6.2	3.6
Côte d'Ivoire	1.2	2.3	3.8	0.0	2.6	-5.9	5.8	5.6
Democratic Republic of the Congo	5.6	6.3	6.1	2.8	7.2	6.2	5.8	5.5
Djibouti	12.7	5.0	5.0	5.5	3.5	4.4	4.7	4.8
Egypt	6.8	7.1	7.2	4.7	5.1	1.3	1.7	4.9
Equatorial Guinea	5.3	23.2	15.2	4.8	2.7	4.6	5.3	4.3
Eritrea	-1.0	1.4	-9.8	3.6	2.2	8.2	6.5	5.0
Ethiopia	10.8	11.5	10.8	8.8	12.4	7.8	7.0	7.6
Gabon	-2.4	5.6	1.7	-0.4	5.6	5.7	4.7	3.0
Gambia	1.6	4.7	5.6	5.6	5.9	3.0	2.2	5.1
Ghana	4.6	6.5	8.4	4.0	7.7	9.8	7.4	7.8
Guinea	1.0	1.8	4.9	-0.3	2.8	4.0	5.0	4.8
Guinea-Bissau	2.8	4.1	4.0	7.7	3.5	5.3	4.8	4.5
Kenya	6.3	7.0	1.5	2.6	5.6	5.0	5.9	5.8
Lesotho	4.7	4.5	4.7	-1.4	3.3	3.5	5.6	5.9
Liberia	7.8	9.4	7.1	4.6	5.6	6.7	9.0	7.5
Libya	6.7	5.1	2.7	-0.7	4.2	-32.2	22.2	8.5
Madagascar	5.0	6.2	7.1	-4.1	0.5	0.9	3.2	4.0
Malawi	4.7	9.6	8.3	8.9	5.2	4.5	4.7	5.5
Mali	5.3	4.3	5.0	3.4	5.8	5.2	5.5	5.2
Mauritania	18.9	1.6	0.8	1.6	4.7	5.2	5.7	5.2
Mauritius	4.5	5.9	5.5	2.6	4.2	4.1	3.1	3.5
Morocco	7.8	2.7	5.6	5.0	3.3	4.3	3.2	4.0
Mozambique	8.7	7.3	6.8	6.3	7.2	7.2	8.0	8.5
Namibia	7.1	5.4	4.3	-3.6	6.6	4.2	4.6	4.8
Niger	5.8	3.1	9.6	-2.3	8.0	3.8	8.7	6.2
Nigeria	7.5	5.1	2.3	2.4	7.8	7.3	6.3	6.8
Rwanda	9.0	7.7	11.5	6.1	7.5	8.4	8.2	7.5
Sao Tome and Principe	12.3	2.4	9.4	4.8	4.5	5.5	5.0	5.5
Senegal	2.5	4.9	3.2	4.7	5.7	2.8	4.3	5.2
Sierra Leone	6.4	4.3	4.7	2.8	4.9	5.6	40.0	6.5
South Africa	5.6	5.6	3.6	-1.7	2.9	3.1	2.8	3.5
Togo	3.9	2.1	2.4	-4.5	3.7	3.9	4.2	4.1
Tunisia	5.7	6.3	4.5	3.2	3.7	-1.8	3.3	3.6
Uganda	7.0	8.1	10.4	4.4	2.5	5.7	5.4	5.2
United Republic of Tanzania	6.7	7.1	7.4	6.0	6.8	6.1	6.8	6.8
Zambia	6.2	6.3	6.0	6.1	7.3	6.6	7.0	6.5
Zimbabwe	-3.6	-3.3	-4.7	7.3	9.0	5.9	2.4	2.2
East and South Asia								
Bangladesh	6.6	6.4	6.0	5.9	6.4	6.7	6.3	6.6
Brunei Darussalam	4.4	0.2	-1.9	-1.8	4.1	2.6	1.7	1.9
China	12.7	14.2	9.6	9.2	10.4	9.2	8.3	8.5
Hong Kong, Special Administrative Region of China	7.0	6.4	2.3	-2.7	7.0	5.0	3.1	4.4
India	9.6	9.7	6.1	8.1	8.9	7.1	6.7	7.2
Indonesia	5.5	7.4	4.9	4.6	6.1	6.5	6.1	6.3
Iran, Islamic Republic of	6.1	8.3	2.5	0.3	0.8	2.0	0.3	1.1
Korea, Republic of	5.2	5.1	2.3	0.3	6.2	3.6	3.3	3.9
Malaysia	5.8	6.5	4.8	-1.6	7.2	5.1	4.2	4.9
Myanmar	13.1	12.0	10.2	10.4	10.4	5.1	5.3	5.6
Nepal	3.7	3.4	5.5	4.5	3.7	3.9	4.3	4.5
Pakistan	6.2	5.7	2.6	2.8	3.1	3.0	3.7	4.0
Papua New Guinea	2.3	7.2	6.6	5.5	7.1	8.9	7.7	4.5
Philippines	5.2	6.6	4.2	1.1	7.6	3.7	4.4	4.8
Singapore	8.7	8.8	1.5	-0.8	14.5	4.9	2.3	4.3
Sri Lanka	7.7	6.8	6.0	3.5	8.0	8.3	6.9	7.2
Taiwan, Province of China	5.4	6.0	0.7	-1.9	10.9	4.0	3.1	4.1
Thailand	5.1	5.0	2.5	-2.3	7.8	0.1	5.4	5.8
Vietnam	8.2	8.5	6.3	5.3	6.8	5.9	5.4	6.1

	2006	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]
Western Asia								
Bahrain	6.6	8.4	6.3	3.1	4.5	2.1	3.4	4.0
Iraq	10.2	1.4	6.6	9.3	5.1	9.0	12.0	8.0
Israel	5.6	5.5	4.0	0.8	4.8	4.7	2.9	2.9
Jordan	7.9	8.5	7.6	2.3	3.1	2.9	3.1	3.0
Kuwait	5.2	4.4	5.0	-5.2	2.0	5.7	4.7	4.5
Lebanon	0.7	7.6	9.3	8.0	7.5	1.7	3.1	4.0
Oman	5.5	6.7	12.8	1.1	4.2	4.5	4.0	4.1
Qatar	26.2	18.0	17.7	12.0	19.4	18.0	6.9	5.5
Saudi Arabia	3.2	2.0	4.2	0.2	3.8	6.8	4.9	3.7
Syrian Arab Republic	5.0	5.7	4.5	6.0	3.2	-2.0	-5.5	6.0
Turkey	6.9	4.7	0.7	-4.8	9.0	8.5	3.7	5.1
United Arab Emirates	9.9	3.2	3.3	-1.6	1.4	3.5	3.0	3.4
Yemen	3.8	4.4	4.7	4.7	8.0	-2.2	1.0	5.0
Latin America and the Caribbean								
Argentina	8.5	8.7	6.8	0.9	9.2	9.1	3.8	4.0
Barbados	3.6	3.8	-0.2	-5.5	-0.5	0.5	1.5	2.5
Bolivia, Plurinational State of	4.8	4.6	6.1	3.4	4.1	4.4	4.2	4.2
Brazil	4.0	6.1	5.2	-0.6	7.5	2.7	3.3	4.5
Chile	4.6	4.6	3.7	-1.7	5.2	6.0	4.3	4.6
Colombia	6.7	6.9	3.5	1.5	4.3	5.8	4.9	4.6
Costa Rica	8.8	7.9	2.7	-1.3	4.2	4.2	3.8	4.1
Cuba	12.1	7.3	4.1	1.4	2.1	2.7	3.3	4.4
Dominican Republic	10.7	8.5	5.3	3.5	7.8	4.1	4.6	4.7
Ecuador	4.8	2.0	7.2	0.4	3.2	8.7	5.3	4.8
El Salvador	3.9	3.8	1.3	-3.1	1.4	1.5	2.2	2.8
Guatemala	5.4	6.3	3.3	0.5	2.6	3.8	3.2	3.5
Guyana	5.1	7.0	2.0	3.3	3.6	4.8	3.5	3.5
Haiti	2.3	3.3	0.8	2.9	-5.1	5.0	7.0	7.0
Honduras	6.6	6.2	4.2	-2.1	2.8	3.8	4.0	3.9
Jamaica	2.5	1.4	-0.5	-3.0	-1.1	1.5	1.0	1.4
Mexico	5.1	3.4	1.2	-6.3	5.8	4.0	3.4	3.9
Nicaragua	4.2	3.6	2.8	-1.5	4.5	4.6	3.5	3.3
Panama	8.5	12.1	10.7	2.6	7.5	9.5	5.1	6.0
Paraguay	4.3	6.8	5.8	-3.8	15.3	4.0	3.0	4.5
Peru	7.7	8.9	9.8	0.9	8.8	7.0	5.1	5.9
Trinidad and Tobago	13.2	4.8	2.4	-3.5	2.5	-1.4	0.9	2.2
Uruguay	4.3	7.3	8.6	2.6	8.5	5.8	3.8	4.0
Venezuela, Bolivarian Republic of	9.9	8.8	4.2	-3.3	-1.4	4.0	4.2	2.4

Source: Project LINK

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

Table A.3
World and regions: consumer price inflation, 2006-2013
(Annual percentage change[a])

	2006	2007	2008	2009	2010	2011[b]	2012[c]	2013[c]
World	3.0	3.0	4.8	1.2	2.8	3.6	2.9	2.6
Developed economies	2.3	2.1	3.5	-0.1	1.8	2.5	1.9	1.7
North America	3.1	2.6	4.1	-0.7	2.4	2.9	2.2	1.6
Asia and Oceania	0.7	0.5	1.9	-0.8	-0.1	0.3	1.2	1.1
Europe	2.2	2.2	3.5	0.8	1.9	2.8	2.0	1.9
European Union	2.2	2.2	3.5	0.8	1.9	2.9	2.1	1.9
EU-15	2.2	2.1	3.3	0.7	1.9	2.9	2.0	1.9
New EU Members	3.1	4.1	6.1	3.2	2.9	3.7	3.5	2.7
Other Europe	1.8	0.9	3.0	0.9	1.5	0.8	0.2	1.0
Memorandum items:								
Euro area	2.2	2.1	3.3	0.3	1.6	2.6	2.0	2.0
Major developed economies (G-7)	2.3	2.0	3.4	-0.3	1.7	2.4	2.0	1.6
OECD	2.4	2.2	3.6	0.2	2.0	2.6	2.0	1.8
Economies in transition	9.3	9.1	14.3	10.9	7.0	9.4	5.7	6.3
South-eastern Europe	5.7	3.6	7.8	3.4	2.8	5.0	3.3	3.1
Commonwealth of Independent States and Georgia	9.6	9.6	14.9	11.6	7.4	9.8	6.0	6.6
Developing countries[d]	4.5	5.3	8.1	4.3	5.5	6.5	5.6	5.4
Africa[d]	5.6	6.2	11.0	7.5	6.7	8.1	7.9	6.8
North Africa	4.1	5.3	9.2	5.9	5.3	6.6	4.9	3.7
Sub-Saharan Africa[d]	6.0	6.9	11.9	7.5	6.1	8.5	8.9	7.8
East and South Asia	3.6	4.9	7.4	2.8	4.9	6.2	5.1	4.9
East Asia	2.7	3.9	6.0	0.6	3.1	4.8	3.6	3.7
South Asia	7.1	8.6	12.5	11.2	11.5	11.2	10.3	9.6
Western Asia	6.2	6.3	10.0	4.8	6.0	5.5	5.2	4.7
Latin America and the Caribbean	5.1	5.3	7.8	6.1	6.1	7.0	6.0	6.0
South America	5.7	5.7	8.8	6.7	7.1	8.7	7.5	7.2
Mexico and Central America	3.9	4.3	5.7	5.1	4.2	4.0	3.5	4.0
Caribbean	8.2	7.2	12.8	4.1	8.1	7.0	5.7	5.8
Memorandum items:								
Least developed countries	9.0	9.4	13.6	7.1	9.2	12.6	12.7	11.2
Sub-Saharan Africa [d] (Excluding Nigeria and South Africa)	8.4	7.5	13.4	7.9	7.8	11.4	11.8	10.4
East Asia (excluding China)	3.9	3.1	6.1	1.8	3.0	4.2	3.6	3.4
South Asia (excluding India)	9.9	13.1	21.3	11.7	10.6	16.9	15.8	14.1
Western Asia (excluding Israel and Turkey)	4.0	5.4	11.1	3.7	4.5	5.2	5.6	5.0

Source: Project LINK

a Calculated as a weighted average of individual country growth rates of consumer price index (CPI), where weights are based on GDP in 2005, in United States dollars .
b Actual or the most recent estimate.
c Forecasts, based in part on Project LINK.
d Excluding Zimbabwe.

Table A.4
Consumer price inflation, 2006-2013
(Annual percentage change)

	2006	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]
Developed economies								
North America								
Canada	2.0	2.1	2.4	0.3	1.8	2.9	1.8	1.9
United States	3.2	2.6	4.3	-0.8	2.5	2.9	2.2	1.6
Asia and Oceania								
Australia	3.5	2.3	4.4	1.8	2.8	3.4	2.6	3.6
Japan	0.2	0.1	1.4	-1.3	-0.7	-0.3	0.9	0.7
New Zealand	3.4	2.4	4.0	2.1	2.3	4.0	2.4	2.4
European Union								
EU-15								
Austria	1.7	2.2	3.2	0.4	1.7	3.6	2.2	2.0
Belgium	2.3	1.8	4.5	0.0	2.3	3.5	2.2	2.4
Denmark	1.8	1.7	3.6	1.1	2.2	2.7	2.3	2.0
Finland	1.3	1.6	3.9	1.6	1.7	3.3	2.5	1.7
France	1.9	1.6	3.2	0.1	1.7	2.3	2.2	2.1
Germany	1.8	2.3	2.8	0.2	1.2	2.3	1.8	1.6
Greece	3.3	3.0	4.2	1.4	4.7	1.1	-7.1	-2.9
Ireland	2.7	2.9	3.1	-1.7	-1.6	1.1	1.5	0.9
Italy	2.2	2.0	3.5	0.8	1.6	2.8	2.6	2.7
Luxembourg	2.7	2.3	3.4	0.4	2.3	3.7	2.6	2.7
Netherlands	1.7	1.6	2.2	1.0	0.9	2.5	2.2	1.8
Portugal	3.0	2.4	2.7	-0.9	1.4	3.6	2.6	1.4
Spain	3.6	2.8	4.1	-0.2	2.0	3.2	2.3	2.6
Sweden	1.5	1.7	3.4	1.9	1.9	1.5	1.4	1.9
United Kingdom	2.3	2.3	3.6	2.2	3.3	4.5	2.4	1.5
New EU members								
Bulgaria	7.3	8.4	12.3	2.8	2.5	3.4	2.5	3.0
Cyprus	2.5	2.3	4.7	0.4	2.4	3.5	3.7	2.6
Czech Republic	2.1	3.0	6.3	0.6	1.2	1.8	3.0	2.0
Estonia	4.5	6.7	10.6	0.2	2.7	5.0	3.0	3.0
Hungary	4.0	7.9	6.0	4.0	4.7	3.9	5.6	3.0
Latvia	6.5	10.1	15.4	3.5	-1.1	4.2	3.0	2.5
Lithuania	3.8	5.7	10.9	4.4	1.3	4.1	3.0	2.6
Malta	2.8	1.3	4.2	2.1	1.4	2.1	0.2	1.2
Poland	1.3	2.6	4.2	4.0	2.7	3.9	3.5	3.0
Romania	6.6	4.8	7.9	5.6	6.1	5.8	3.2	3.0
Slovak Republic	4.3	1.9	3.9	0.9	0.7	4.1	2.5	2.2
Slovenia	2.5	3.8	5.5	0.9	2.1	2.1	1.9	2.1
Other Europe								
Iceland	6.7	5.1	12.7	12.0	5.4	5.4	4.0	4.8
Norway	2.5	0.7	3.4	2.3	2.3	1.2	1.3	1.7
Switzerland	1.0	0.8	2.3	-0.7	0.6	0.2	-0.8	0.3
Economies in transition								
South-eastern Europe								
Albania	2.4	2.9	3.3	2.3	3.6	3.6	2.5	3.0
Bosnia and Herzegovina	6.1	1.5	7.4	-0.3	2.1	3.7	3.0	3.0
Croatia	3.2	2.9	6.0	2.4	1.0	2.3	2.6	2.7
Montenegro	3.0	4.3	9.0	3.9	0.5	3.5	3.0	3.0
Serbia	11.7	6.4	12.4	8.1	6.2	11.2	5.0	4.0
The former Yugoslav Republic of Macedonia	3.2	2.3	8.4	-0.8	1.5	4.0	3.0	3.0
Commonwealth of Independent States								
Armenia	2.9	4.4	8.9	3.4	8.2	7.7	4.5	4.5
Azerbaijan	15.2	16.3	20.6	4.5	10.5	8.1	5.0	6.0
Belarus	7.0	8.8	14.5	12.9	8.1	52.4	32.0	15.0
Kazakhstan	8.6	10.8	17.1	7.3	7.1	8.4	5.6	5.1
Kyrgyzstan	5.6	10.1	24.5	6.9	7.9	16.0	4.0	4.5
Republic of Moldova	10.8	14.8	10.8	0.6	13.0	7.6	5.6	6.0
Russian Federation	9.7	9.0	14.0	11.7	6.9	8.4	5.1	6.5
Tajikistan	18.6	19.4	32.9	6.5	48.6	12.0	8.0	9.0
Turkmenistan	8.2	6.3	14.5	-2.7	4.4	5.5	6.0	6.0
Ukraine	9.2	13.1	21.6	17.4	10.1	8.1	4.2	6.0
Uzbekistan	14.2	12.3	12.7	14.1	9.4	13.5	12.0	10.5
Georgia	9.2	9.2	9.9	1.8	7.0	8.5	3.0	3.0

	2006	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]
	Developing economies							
Africa								
Algeria	2.3	3.7	4.9	5.7	3.9	13.1	7.8	4.3
Angola	13.3	12.2	12.5	13.7	14.5	13.5	11.8	10.5
Benin	3.8	1.3	7.9	2.2	2.3	3.2	3.4	3.5
Botswana	11.6	7.1	12.7	8.0	6.9	8.7	6.0	5.4
Burkina Faso	2.3	-0.2	10.6	2.6	-0.8	2.7	3.2	3.4
Burundi	2.8	8.3	24.1	11.0	6.4	15.9	11.1	9.8
Cameroon	5.1	0.9	5.3	3.0	1.3	4.9	7.9	9.2
Cape Verde	5.4	4.4	6.8	1.0	-84.9	-32.0	11.4	22.2
Central African Republic	6.7	0.9	9.3	3.5	1.5	1.7	2.0	2.2
Chad	8.0	-9.0	10.3	8.1	19.2	12.6	12.8	13.9
Comoros	3.4	4.5	4.8	4.8	4.5	10.9	7.7	5.5
Congo	6.5	2.7	7.3	4.5	25.0	12.8	6.5	-0.7
Côte d'Ivoire	2.5	1.9	6.3	1.0	1.7	5.1	2.8	2.6
Democratic Republic of the Congo	13.1	16.9	17.3	27.1	22.3	22.7	15.4	12.9
Djibouti	3.5	5.0	12.0	1.7	4.0	11.5	7.5	5.3
Egypt	7.6	9.3	18.3	11.8	11.3	10.1	9.2	5.6
Equatorial Guinea	4.4	2.8	6.5	-38.8	9.6	0.0	-10.5	-14.3
Eritrea	15.1	9.3	19.9	33.0	12.7	14.0	13.0	12.5
Ethiopia	12.3	17.2	44.4	8.5	8.1	25.0	28.0	22.0
Gabon	-1.4	5.0	5.3	1.9	1.5	1.9	3.2	3.0
Gambia	2.1	5.4	4.5	4.6	5.0	11.1	10.5	5.1
Ghana	10.9	10.7	16.5	19.2	10.7	8.7	8.5	8.0
Guinea	34.7	22.9	18.4	4.7	20.7	37.1	25.0	17.1
Guinea-Bissau	2.0	4.6	10.5	-1.6	36.9	21.3	12.2	1.8
Kenya	14.5	9.8	26.2	9.2	4.0	14.0	12.3	10.3
Lesotho	6.0	8.0	10.7	7.2	3.6	5.8	7.4	5.8
Liberia	7.2	13.7	17.5	7.4	7.3	7.4	5.5	6.0
Libya	1.5	6.3	10.3	2.5	2.5	-6.2	-5.9	-0.1
Madagascar	10.7	10.3	9.2	8.9	9.2	9.4	15.2	15.7
Malawi	14.0	8.0	8.7	8.4	7.4	7.6	9.0	10.5
Mali	1.5	1.4	9.2	2.2	1.1	5.5	6.2	3.5
Mauritania	6.2	7.3	7.3	2.2	6.3	15.3	12.2	11.2
Mauritius	8.9	8.8	9.7	2.6	1.6	6.9	6.4	3.7
Morocco	3.3	2.0	3.7	1.0	1.0	1.0	0.5	2.0
Mozambique	13.2	8.2	10.3	3.3	10.6	4.5	0.0	2.5
Namibia	5.1	6.7	10.3	8.8	-1.2	11.9	7.9	4.4
Niger	0.0	0.1	11.3	4.3	0.8	3.6	4.6	1.4
Nigeria	8.2	5.4	11.6	11.5	13.5	10.8	12.1	11.0
Rwanda	8.9	9.1	15.4	10.4	2.3	8.3	8.5	8.0
Sao Tome and Principe	23.1	18.5	26.1	17.0	13.3	12.0	8.0	7.0
Senegal	2.1	5.9	5.8	-1.1	1.3	2.7	2.6	3.1
Sierra Leone	9.5	11.7	14.8	9.3	11.5	17.9	13.6	11.2
Somalia	14.0	15.0	30.0	25.0	2.1	2.2	2.2	2.1
South Africa	3.2	6.2	10.1	7.2	4.1	5.0	5.3	4.8
Togo	2.2	1.0	8.7	-0.2	-0.8	2.7	-0.3	-0.8
Tunisia	4.5	3.4	4.9	3.5	4.4	3.6	6.0	5.0
Uganda	7.3	6.1	12.0	13.0	4.0	25.2	19.0	17.0
United Republic of Tanzania	7.3	7.0	10.3	12.1	6.2	12.7	16.5	14.0
Zambia	9.0	10.7	12.4	13.4	8.5	15.5	10.5	9.1
Zimbabwe	1096.7	24411.0	0.0	0.0	5.9	5.4	8.3	7.9
East and South Asia								
Bangladesh	6.8	9.1	8.9	5.4	8.1	10.7	9.5	8.2
Brunei Darussalam	0.2	1.0	2.1	1.0	0.4	2.0	1.6	1.5
China	1.5	4.7	5.9	-0.7	3.3	5.4	3.7	4.0
Hong Kong, Special Administrative Region	2.1	2.0	4.3	0.6	2.3	5.3	4.4	4.0
India	5.8	6.4	8.3	10.9	12.0	8.5	7.7	7.4
Indonesia	13.1	6.5	10.2	4.4	5.1	5.4	5.4	5.0
Iran, Islamic Republic of	11.9	17.2	25.5	13.5	10.1	22.7	22.5	20.0
Korea, Republic of	2.2	2.5	4.7	2.8	2.9	4.0	2.9	3.0
Malaysia	3.6	2.0	5.4	0.6	1.7	3.2	2.4	2.6
Myanmar	20.0	35.0	26.8	1.5	7.7	5.0	5.8	6.0
Nepal	7.6	6.1	10.9	11.6	10.0	9.1	7.9	7.5
Pakistan	7.9	7.6	20.3	13.6	13.9	11.9	9.5	8.3
Papua New Guinea	2.4	0.9	10.8	6.9	6.0	8.7	7.5	6.7
Philippines	6.2	2.8	9.3	3.2	3.8	4.4	3.5	3.9
Singapore	1.0	2.1	6.5	0.6	2.8	5.2	5.1	3.7
Sri Lanka	10.0	15.8	22.6	3.4	5.9	7.0	4.8	5.9
Taiwan, Province of China	0.6	1.8	3.5	-0.9	1.0	1.4	1.7	1.6
Thailand	4.6	2.3	5.4	-0.9	3.3	3.8	3.3	3.5
Viet Nam	7.4	8.3	23.1	7.1	8.9	18.7	13.7	10.6

	2006	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]
Western Asia								
Bahrain	2.0	3.3	3.5	2.8	2.0	2.7	4.1	4.0
Israel	2.1	0.5	4.6	3.3	2.7	3.4	2.5	2.1
Jordan	6.3	5.4	14.9	-0.7	5.0	3.9	4.0	5.1
Kuwait	3.1	5.5	10.6	4.0	4.0	4.9	4.0	3.5
Oman	3.2	6.0	12.1	3.9	3.2	4.2	4.0	3.8
Qatar	11.8	13.8	15.1	-4.9	-2.4	2.1	3.0	3.9
Saudi Arabia	2.2	4.2	9.9	5.1	5.3	5.0	5.4	5.0
Syrian Arab Republic	10.0	3.9	15.7	2.9	4.4	4.8	15.0	9.5
Turkey	9.6	8.8	10.4	6.3	8.6	6.5	5.5	5.2
Yemen	10.8	7.9	19.0	5.4	11.2	20.0	10.0	8.0
Latin America and the Caribbean								
Argentina	10.9	8.8	8.6	6.3	10.8	15.7	11.3	9.7
Barbados	7.3	4.0	8.1	3.6	5.8	9.0	8.5	8.0
Bolivia, Plurinational State of	4.3	8.7	14.0	3.3	2.5	6.9	5.4	6.5
Brazil	4.2	3.6	5.6	4.9	5.0	6.5	5.4	5.0
Chile	3.4	4.4	8.7	0.3	1.4	4.4	3.4	3.4
Colombia	4.3	5.5	7.0	4.2	2.3	3.7	3.0	3.2
Costa Rica	11.5	9.4	13.4	7.8	5.7	4.7	5.4	5.7
Dominican Republic	7.6	6.1	10.6	1.4	6.3	7.8	5.4	5.0
Ecuador	3.0	2.3	8.4	5.2	3.6	5.4	5.2	3.8
El Salvador	4.0	4.6	6.7	1.1	1.2	5.0	3.9	3.8
Guatemala	6.6	6.8	11.4	1.9	3.9	6.2	5.5	5.4
Guyana	6.6	12.3	8.1	2.9	2.1	7.0	6.1	5.4
Haiti	13.1	8.5	15.5	0.0	5.7	8.5	8.5	8.0
Honduras	5.6	6.9	11.4	5.5	4.7	5.6	6.2	6.0
Jamaica	8.6	9.3	22.0	9.6	12.6	6.0	6.6	8.9
Mexico	3.6	4.0	5.1	5.3	4.2	3.8	3.3	3.9
Nicaragua	9.1	11.1	19.8	3.7	5.5	8.0	7.6	6.4
Panama	2.1	4.2	8.8	2.4	3.5	6.3	4.5	3.8
Paraguay	9.6	8.1	10.2	2.6	4.7	5.1	5.5	5.1
Peru	2.0	1.8	5.8	2.9	1.5	3.4	3.4	3.2
Trinidad and Tobago	8.3	7.9	12.0	7.0	10.5	5.3	4.4	4.5
Uruguay	6.4	8.1	7.9	7.1	6.7	8.6	6.4	6.2
Venezuela, Bolivarian Republic of	13.7	18.7	31.4	28.6	29.1	26.0	26.0	28.0

Source: Project LINK

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

Table A.5
World trade: changes in trade value of goods and non-factor services, by major country group, 2006-2013
(annual percentage change)

Region	Flow	2006	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]
World	Exports	15.2	16.2	14.0	-19.9	17.9	17.5	7.6	8.7
	Imports	14.4	16.0	14.4	-20.3	17.5	18.7	6.8	8.6
Developed economies	Exports	12.6	15.5	11.2	-19.9	13.6	15.2	2.1	6.8
	Imports	12.8	13.5	11.4	-22.2	14.2	16.5	3.0	5.8
North America	Exports	11.5	11.7	10.0	-17.1	17.1	14.2	6.6	6.4
	Imports	10.6	6.5	7.6	-22.2	19.7	13.6	7.2	5.2
Asia and Oceania	Exports	8.6	11.2	14.1	-23.5	31.0	11.7	3.6	5.2
	Imports	9.7	10.5	20.7	-24.9	23.9	23.0	6.9	5.7
Europe	Exports	13.5	17.3	11.2	-20.3	10.1	16.1	0.4	7.2
	Imports	14.3	17.1	11.7	-21.8	10.7	16.6	0.6	6.1
European Union	Exports	13.5	17.3	10.8	-20.4	9.9	16.0	0.6	7.6
	Imports	14.4	17.0	11.7	-22.1	10.7	16.7	0.5	6.2
EU-15	Exports	12.7	16.5	9.9	-20.3	9.3	15.5	0.3	6.9
	Imports	13.5	15.8	10.8	-21.5	10.1	15.6	-0.5	5.5
New EU Members	Exports	22.0	26.3	19.1	-20.8	15.0	20.5	2.3	12.9
	Imports	23.6	28.0	19.9	-27.3	15.2	25.7	8.3	11.1
Other Europe	Exports	13.4	16.4	18.5	-18.8	13.0	17.4	-1.5	2.4
	Imports	11.2	18.5	12.2	-15.7	12.2	15.9	2.8	4.3
Euro area	Exports	12.4	18.3	10.8	-20.0	9.2	15.5	0.2	6.9
	Imports	13.5	17.4	12.3	-21.2	9.8	15.2	-0.7	5.4
Economies in transition	Exports	24.3	21.5	31.0	-32.1	27.3	23.1	24.9	0.7
	Imports	24.4	33.8	28.7	-30.2	21.7	40.5	8.7	9.0
South-eastern Europe	Exports	17.5	23.6	18.7	-21.3	9.6	15.5	0.3	8.6
	Imports	18.1	31.2	22.1	-27.8	0.1	19.2	1.3	7.0
Commonwealth of Independent States	Exports	24.8	21.4	32.0	-32.8	28.7	23.7	26.5	0.3
	Imports	25.4	34.2	29.7	-30.5	24.6	42.8	9.3	9.1
Developing countries	Exports	19.2	17.0	17.0	-18.3	23.7	20.3	13.5	12.0
	Imports	17.2	19.5	19.0	-15.6	22.7	20.4	12.4	12.5
Africa	Exports	24.3	13.4	27.1	-25.9	28.8	19.0	23.6	5.0
	Imports	18.6	27.8	24.3	-11.2	12.7	21.5	13.0	12.7
North Africa	Exports	14.9	16.0	29.8	-27.9	16.5	0.1	29.7	0.4
	Imports	15.6	24.5	36.6	-11.9	4.0	4.1	6.4	5.8
Sub-Saharan Africa	Exports	31.5	11.6	25.2	-24.4	37.3	30.1	20.8	7.3
	Imports	20.5	29.7	17.6	-10.7	18.1	31.1	15.9	15.5
Sub-Saharan Africa	Exports	20.3	27.0	26.8	-20.1	19.0	29.2	19.7	6.4
(Excluding Nigeria & South Africa)	Imports	12.1	31.7	30.6	-5.0	7.9	18.0	8.1	6.9
East and South Asia	Exports	18.8	18.7	13.7	-14.7	22.8	21.7	10.5	14.0
	Imports	16.3	16.8	17.3	-14.6	24.7	22.4	11.6	13.2
East Asia	Exports	18.6	18.1	13.5	-15.4	22.9	20.4	10.6	13.4
	Imports	15.7	15.7	16.9	-16.0	25.8	21.1	11.9	12.9
South Asia	Exports	21.0	24.1	15.2	-7.9	22.3	33.1	9.4	18.4
	Imports	21.7	25.7	20.4	-4.9	18.1	31.0	10.0	14.8
Western Asia	Exports	19.0	15.3	28.4	-26.3	17.5	24.0	19.1	8.5
	Imports	19.9	28.8	22.4	-17.5	12.1	19.4	13.2	8.1
Latin America and the Caribbean	Exports	18.7	12.9	15.5	-21.1	31.7	11.2	17.1	10.6
	Imports	18.1	19.5	20.8	-20.4	29.4	12.1	15.3	13.0
South America	Exports	20.9	15.9	21.4	-22.0	36.2	11.0	19.7	8.4
	Imports	22.3	28.2	30.5	-19.0	31.5	13.7	16.7	12.6
Mexico and Central America	Exports	15.2	9.6	7.0	-18.5	25.5	11.6	13.0	15.0
	Imports	14.5	10.9	9.4	-22.3	27.0	9.4	13.4	13.8
Caribbean	Exports	24.6	1.6	13.2	-33.3	17.0	10.8	13.0	7.7
	Imports	12.4	15.5	19.6	-23.2	18.4	16.2	11.5	11.2
Least developed countries	Exports	23.9	30.5	24.6	-17.4	19.3	26.4	19.6	7.7
	Imports	14.2	32.1	29.7	-3.0	9.8	18.8	8.9	7.8

Source: UN/DESA

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

Table A.6
World trade: changes in trade volume of goods and non-factor services, by major country group, 2006-2013
(annual percentage change)

Region	Flow	2006	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]
World	Exports	9.5	7.2	2.7	-9.2	12.5	6.2	4.0	5.5
	Imports	9.7	7.7	2.7	-10.5	13.6	6.7	4.2	5.5
Developed economies	Exports	8.7	6.3	2.0	-12.0	11.1	5.6	2.7	4.7
	Imports	8.1	5.1	0.5	-12.6	10.6	4.9	2.1	3.8
North America	Exports	6.7	7.2	3.5	-10.4	10.3	6.2	4.5	5.3
	Imports	5.9	2.9	-2.0	-13.6	12.6	5.2	3.5	3.6
Asia and Oceania	Exports	8.1	7.4	1.8	-17.8	18.5	-0.2	5.6	6.8
	Imports	4.7	4.5	2.5	-14.2	11.7	7.1	9.2	5.9
Europe	Exports	9.4	5.9	1.5	-11.7	10.5	6.3	1.8	4.2
	Imports	9.5	6.1	1.2	-12.0	9.7	4.5	0.6	3.5
European Union	Exports	9.7	5.9	1.5	-12.1	10.8	6.6	1.9	4.4
	Imports	9.6	6.1	1.2	-12.2	9.8	4.6	0.5	3.5
EU-15	Exports	9.1	5.4	1.1	-12.2	10.4	6.2	1.6	4.1
	Imports	8.9	5.2	0.7	-11.6	9.4	3.9	0.0	3.1
New EU Members	Exports	15.7	10.5	5.3	-10.7	14.2	10.2	4.3	6.5
	Imports	16.9	13.7	5.0	-16.5	13.4	10.0	4.6	6.4
Other Europe	Exports	4.8	6.0	1.9	-6.5	5.4	1.5	0.8	1.8
	Imports	7.5	7.2	1.1	-8.4	8.2	2.1	1.3	3.7
Euro area	Exports	8.9	6.6	1.0	-12.7	11.3	6.2	1.6	3.8
	Imports	8.7	6.3	0.9	-11.6	9.6	3.9	-0.2	2.9
Economies in transition	Exports	7.0	7.3	1.9	-6.9	7.4	4.1	4.5	4.5
	Imports	16.2	22.0	11.6	-26.2	16.5	18.9	9.2	6.3
South-eastern Europe	Exports	9.7	5.6	3.6	-14.0	14.3	5.2	1.5	6.2
	Imports	11.1	12.8	5.9	-19.0	4.3	2.9	1.7	5.7
Commonwealth of Independent States	Exports	6.8	7.5	1.8	-6.4	6.9	4.0	4.7	4.4
	Imports	17.0	23.4	12.3	-27.1	18.3	21.0	10.0	6.4
Developing countries	Exports	11.2	8.6	4.1	-4.9	15.2	7.4	5.7	6.7
	Imports	12.5	11.7	6.2	-4.8	18.5	8.5	7.0	8.0
Africa	Exports	11.8	3.6	10.0	-11.6	4.5	-1.6	7.3	6.0
	Imports	12.4	15.9	8.3	-6.4	4.3	5.0	7.7	7.2
North Africa	Exports	6.1	6.3	6.8	-8.7	3.5	-12.1	8.5	5.2
	Imports	9.6	15.9	15.9	-5.1	3.7	-3.1	5.9	5.6
Sub-Saharan Africa	Exports	16.4	1.6	12.4	-13.7	5.3	6.4	6.6	6.4
	Imports	14.0	15.9	4.0	-7.2	4.8	10.3	8.8	8.0
Sub-Saharan Africa	Exports	5.5	7.6	7.3	-1.9	3.3	4.2	5.5	4.8
(Excluding Nigeria & South Africa)	Imports	4.2	17.2	15.9	2.1	5.2	5.9	6.0	5.2
East and South Asia	Exports	13.6	10.8	4.2	-2.6	20.0	8.8	5.5	7.4
	Imports	12.0	9.3	5.0	-0.4	20.8	8.8	6.2	8.3
East Asia	Exports	13.4	11.3	3.9	-2.7	21.3	7.9	5.3	7.1
	Imports	11.3	9.3	3.8	-0.5	23.0	7.9	5.8	8.1
South Asia	Exports	15.5	6.0	6.8	-1.5	8.8	17.5	8.1	9.4
	Imports	17.3	9.2	14.1	0.4	5.4	16.3	9.2	9.5
Western Asia	Exports	6.3	6.1	2.7	-6.2	3.1	6.3	6.8	4.0
	Imports	13.2	19.5	8.2	-12.5	9.1	12.8	7.1	4.5
Latin America and the Caribbean	Exports	6.5	4.9	1.7	-10.1	11.6	5.9	4.9	6.1
	Imports	14.6	13.5	8.5	-15.5	24.4	5.6	10.4	9.7
South America	Exports	4.0	4.1	1.7	-8.4	5.4	5.4	5.0	6.0
	Imports	17.8	19.2	13.0	-13.6	26.5	8.0	11.3	10.3
Mexico and Central America	Exports	10.5	6.6	1.2	-12.7	22.3	6.7	4.7	6.2
	Imports	11.6	7.5	3.0	-18.3	22.0	1.8	9.0	8.9
Caribbean	Exports	11.8	-1.3	11.5	-14.8	15.8	3.7	7.1	6.2
	Imports	6.4	7.0	6.1	-14.5	12.6	5.7	8.0	7.3
Least developed countries	Exports	9.8	9.1	7.0	-0.3	5.2	5.1	7.0	5.9
	Imports	6.7	16.1	15.7	2.3	6.9	7.2	7.5	6.7

Source: UN/DESA

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

Table A.7

Unemployment rate [a, b]: developed economies, 2006-2013

	2006	*2007*	*2008*	*2009*	*2010*	*2011*	*2012* [c]	*2013* [c]
Developed economies	**6.4**	**5.8**	**6.1**	**8.4**	**8.8**	**8.6**	**8.5**	**8.4**
United States	4.6	4.6	5.8	9.3	9.6	8.9	8.2	8.0
Canada	6.3	6.0	6.1	8.3	7.9	7.5	7.5	7.1
Japan	4.1	3.9	4.0	5.1	5.1	4.6	4.4	4.5
Australia	4.8	4.4	4.2	5.6	5.2	5.1	5.3	5.0
New Zealand	3.9	3.7	4.2	6.1	6.2	6.2	6.2	6.2
European Union	**8.3**	**7.3**	**7.1**	**9.0**	**9.7**	**9.8**	**10.3**	**10.1**
EU-15	7.8	7.1	7.2	9.1	9.6	9.8	10.5	10.4
Austria	4.7	4.4	3.8	4.8	4.4	4.6	4.5	4.4
Belgium	8.3	7.5	7.0	7.9	8.3	7.2	7.6	7.7
Denmark	3.9	3.8	3.4	6.1	7.4	7.6	7.6	7.3
Finland	7.7	6.9	6.4	8.2	8.4	7.8	7.9	7.9
France	9.2	8.4	7.8	9.5	9.8	9.7	10.5	10.6
Germany	10.2	8.7	7.5	7.8	7.1	6.0	5.7	5.4
Greece	8.9	8.3	7.7	9.5	12.5	17.7	22.3	25.3
Ireland	4.5	4.6	6.3	11.8	13.7	14.5	14.5	14.1
Italy	6.8	6.1	6.8	7.8	8.4	8.4	9.9	10.2
Netherlands	4.3	3.6	3.1	3.7	4.5	4.5	5.5	6.0
Portugal	8.6	8.9	8.5	10.6	12.0	12.9	14.6	15.4
Spain	8.5	8.3	11.4	18.0	20.1	21.6	24.4	23.4
Sweden	7.1	6.1	6.2	8.3	8.4	7.5	7.7	7.7
United Kingdom	5.4	5.3	5.6	7.6	7.8	9.2	8.8	8.6
New EU member States	10.0	7.7	6.5	8.5	9.9	10.0	9.7	9.2
Bulgaria	9.0	6.9	5.6	6.8	10.2	8.9	9.6	8.6
Czech Republic	7.2	5.3	4.4	6.7	7.3	6.8	6.8	6.8
Estonia	5.9	4.6	5.6	13.8	16.9	12.8	11.5	11.2
Hungary	7.4	7.4	7.8	10.0	11.2	11.0	10.5	10.0
Latvia	6.8	6.0	7.4	17.2	18.7	15.6	13.8	12.8
Lithuania	5.6	4.3	5.9	13.7	17.8	15.4	15.0	14.6
Poland	13.9	9.7	7.2	8.2	9.6	12.5	12.2	11.6
Romania	7.3	6.4	5.8	6.9	7.3	5.1	4.5	4.0
Slovakia	13.4	11.1	9.5	12.0	14.4	13.5	14.2	14.1
Slovenia	6.0	4.9	4.4	5.9	7.3	8.1	8.6	8.8
Other Europe	3.7	3.1	2.9	3.7	3.9	3.2	3.3	3.6
Norway	3.4	2.5	2.5	3.1	3.5	3.3	3.4	3.5
Switzerland	3.8	3.4	3.2	4.1	4.2	3.1	3.3	3.6
Memorandum items:								
Major developed economies	5.8	5.5	5.9	8.1	8.2	7.8	7.5	7.4
Euro area	8.5	7.6	7.7	9.6	10.1	10.1	11.0	10.9

Source: UN/DESA, based on data of the OECD and Eurostat.

a Unemployment data are standardized by the OECD and Eurostat for comparability among countries and over time, in conformity with the definitions of the International Labour Organization (see OECD, *Standardized Unemployment Rates: Sources and Methods* (Paris, 1985)).

b Data for country groups are weighted averages, where labour force is used for weights.

c Baseline scenario forecasts, based in part on Project LINK and UN/DESA World Economic Forecasting Model