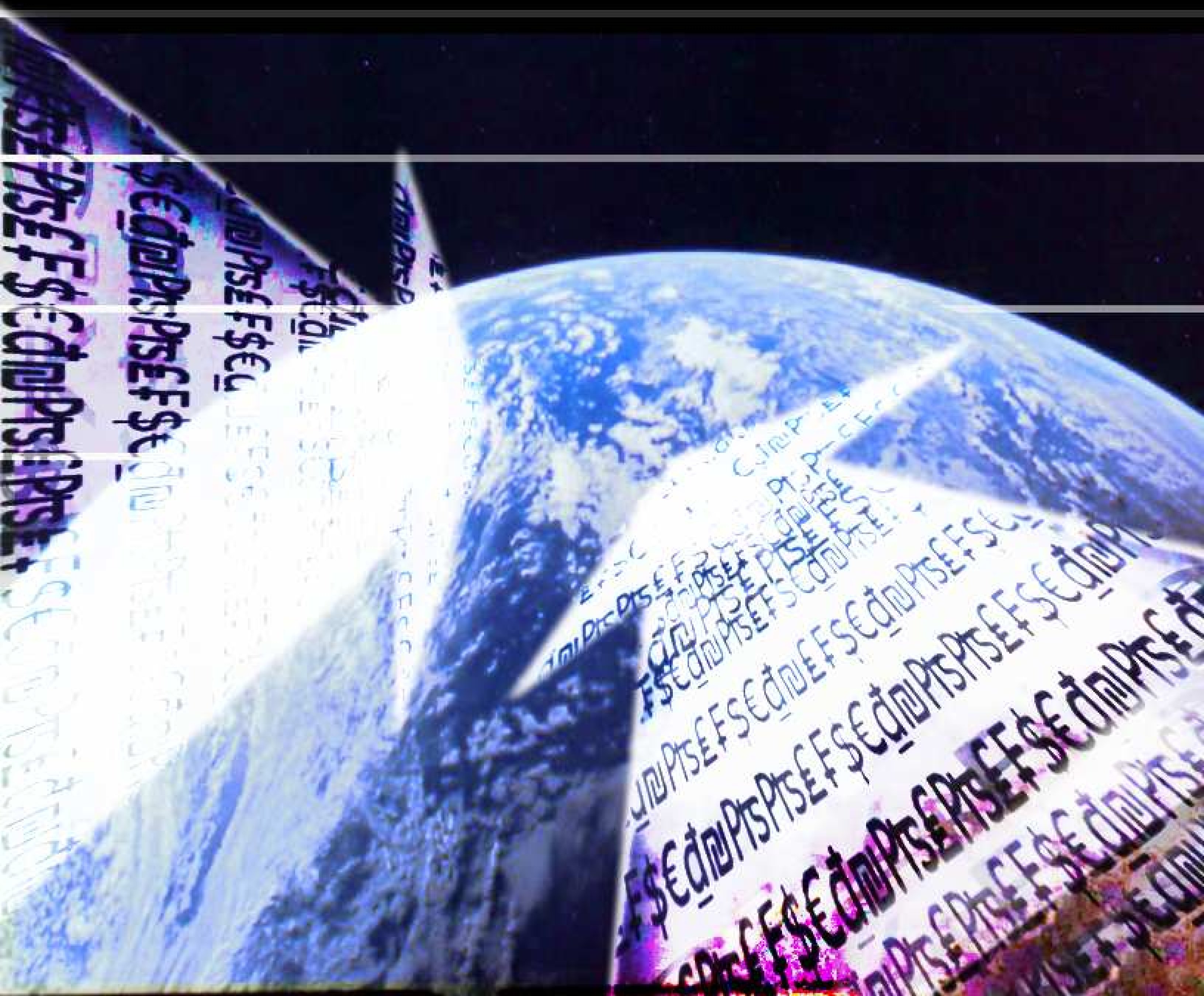
United Nations
Department of Economic and Social Affairs

LINK Global Economic Outlook

October 2012



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Acknowledgements

This report presents short-term prospects for the global economy in 2013-2014, including major risks and policy challenges. The report draws upon inputs from the experts of Project LINK, as well as analysis of staff in the Department of Economic and Social Affairs. The LINK Country Reports, which contain detailed country forecasts and policy analyses submitted by the national LINK centres, are available on the websites of both the United Nations and the University of Toronto.[1]

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[1] http://www.un.org/esa/analysis/link and http://www.chass.utoronto.ca/link

Overview

Four years after the eruption of the global financial crisis, the world economy is still in a precarious situation. Growth has weakened considerably during 2012 and the prospects for the next two years continue to be challenging, fraught with a number of uncertainties and risks slanted towards the downside.

Weaknesses in major developed economies continue and are at the root of the global economic woes. Most of them, particularly those in Europe, are dragged into a downward spiral as heightened sovereign risks, continued banking fragility, fiscal tightening, slower growth and rising unemployment viciously feedback into each other.

The economic woes in developed economies are also spilling over to developing countries and economies in transition through weaker demand for their exports and heightened volatility in capital flows and commodity prices. Growth has moderated significantly in many developing countries, along with a notable slowdown in investment spending. Moreover, some emerging economies that have grown rapidly in the past are increasingly facing some domestic structural bottlenecks, such as environmental and institutional constraints, which, if not addressed properly, may transform the current cyclical downturn into more permanent output losses over the long run. Low-income countries have held up relatively well, but are facing intensified adverse spillover effects from the slowdown in both developed and major middle-income countries and many see their external balances affected further by a combination of lower non-food and higher food prices in world markets.

The world economy is also facing a host of uncertainties and risks, most of which are clearly slanted to the downside. Immediate risks are a further deepening of the euro area crisis and a continued budget policy impasse in the United States, which could cause the world's largest economy to fall into a "fiscal cliff". Some of the large developing countries face the risk of a hard landing as a global downturn could compound structural domestic economic woes. Their hard landing would immediately spillover to low-income countries through commodity markets and global value chains. The possible escalation of geopolitical tensions in the Middle East poses a further risk with global economic ramifications, while lows in stocks for some basic grains could forebode another food crisis which would take a toll in particular on many low-income countries and the world's poor.

Policy makers in developed countries have been trying to break out of their vicious circle through further monetary expansion and announced policies of structural reform. The latter at best may have a gradual effect, leaving basically one accelerator to restore growth with only muted effect, because austerity measures prevail on the fiscal front, more needs to be done to repair the financial system and a good deal of policy uncertainty remains (such as in the United States). With only one accelerator and three brakes it seems difficult to break out of the vicious cycle and the risk for the global economy to slip into another recession thus remains unabatedly high. Policymakers worldwide need to think about alternative policy options. A more sequenced and concerted approach will be needed to break out of the cycle. At the global level, the focus of fiscal policies should shift from short-term consolidation to robust economic growth with medium- to long-run fiscal sustainability. Fiscal and structural policies should be redesigned to strengthen the impact on employment and promote structural change for more sustainable economic growth. Monetary and fiscal policies should be better coordinated, along with regulatory reforms of the financial sector. Sufficient resources should be ensured for developing countries, especially those possessing limited fiscal space and facing large development needs for achieving the Millennium Development Goals (MDGs).

1. Global macroeconomic prospects

Growth prospects: a danger of synchronized global downturn

Four years after the eruption of the global financial crisis, the world economy is still struggling to regain strength and is stuck in a protracted process of post-crisis adjustments. Global growth has weakened considerably during 2012 in a precariously synchronized downturn. A growing number of developed economies have already fallen into a double-dip recession. Many of those in severe sovereign debt distress are in deep recessions. Growth in the major developing countries has also decelerated notably, reflecting both domestic and external factors. Most low-income countries have held up relatively well so far, but are now also facing intensified adverse spillover effects from the slowdown in both developed and major middle-income countries. The prospects for the next two years continue to be challenging, fraught with major uncertainties and risks slanted towards the downside.

Conditioned on a set of assumptions (Box 1), in the Project LINK baseline, growth of world gross product (WGP) is expected to reach 2.3 per cent in 2012 and forecast at 2.5 per cent in 2013 and 3.3 per cent in 2014 (table 1 and figure 1). Such a moderate growth projection after the Great Recession implies that many economies in the world will continue to expand at a pace below potential and will not recover to pre-crisis employment levels. For many developing countries the global slowdown will imply a much slower pace of poverty reduction and narrowing of fiscal space for investments in education, health, basic sanitation and other critical areas needed for accelerated progress for achieving the Millennium Development Goals (MDGs).

Box 1: Major assumptions for the baseline forecast

This box summarizes key assumptions underlying the baseline forecast, including monetary and fiscal policies for major economies, exchange rates for major currencies, international prices of oil and other primary commodities. Policy assumptions for other countries can be found in the text of the regional outlook.

Monetary policy

The Federal Reserve of the *United States* (Fed) is assumed to keep the federal funds interest rate at the current low level, namely, between 0 and 0.25 per cent, until mid-2015. It is assumed that the Fed will purchase agency mortgage-backed securities at a pace of $40 billion per month until the end of 2014, and will also continue its program to extend the average maturity of its holdings of securities through the end of 2012, as well as reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities. The *European Central Bank* (ECB) is assumed to cut the Minimum Bid and Marginal Lending Facility rates by another 25 basis points, leaving the Deposit Rate at 0 per cent. It is also assumed that the ECB will start to implement the announced new policy initiative, “Outright Monetary Transactions” (OMT), to purchase the government bonds of Spain and a few other selected members of the euro area. The *Bank of Japan* (BoJ) will keep the policy interest rate at the current level (0-0.1 per cent), and will expand the size of the Asset Purchase Program from ¥70 trillion to ¥80 trillion by the end of 2013. In major emerging economies, the *People’s Bank of China* (PBC) is expected to reduce Reserve Requirement Rates twice in 2013 and reduce interest rates one more time in the same period.

Fiscal policy

In *the United States*, it is assumed that the 2 per cent payroll tax cut and emergency unemployment insurance benefits are extended for 2013, to be phased out gradually over several years. It is also assumed that the automatic spending cuts now scheduled to begin in January 2013 will be delayed, giving more time for the new Congress and president to produce a package of spending cuts and tax increases and increases in income taxes, effective in 2014. The Bush tax cuts are assumed to be extended for 2013-2014. As a result, real federal government spending on goods and services will fall about 3 per cent in 2013 and 2014, after a fall of about 2.5 per cent in the previous two years.

In *the euro area*, fiscal policy is assumed to be focused on reducing fiscal imbalances. The majority of countries remain subject to the Excessive Deficit Procedure (EDP) under which they must submit plans to bring their fiscal deficits close to balance within a specified time frame. Typically a minimum correction of 0.5 per cent per annum is expected and the time frames range from the current year to 2014.

The time periods for achievement of these goals will be extended in the most difficult cases. It is also assumed that Spain will enter an assistance program, a reqirement of the new OMT program of the ECB.

In Japan, the newly ratified bill to increase the consumption tax rate from its current level of 5 per cent to 8 per cent by April 2014 and to 10 per cent by October 2015 will be implemented. Real government expenditure, including investment is assumed to decline by a small proportion in 2013-2014, mainly due to a phase-out of reconstruction spending.

In *China*, the Government is assumed to maintain a ‘proactive’ fiscal policy stance, with an increase in public investment spending on infrastructure in 2013.

Exchange rates among major currencies

It is assumed that during the forecasting period of 2013-2014, the euro will fluctuate around an average of $1.28 per euro throughout the forecast. The Japanese yen is assumed to average about ¥80 per United States dollar, and the renminbi will average CNY6.23 per United States dollar.

Oil prices

Oil prices (Brent) are assumed to average about $105 p/b in 2013-2014, compared with $110 p/b in 2012.

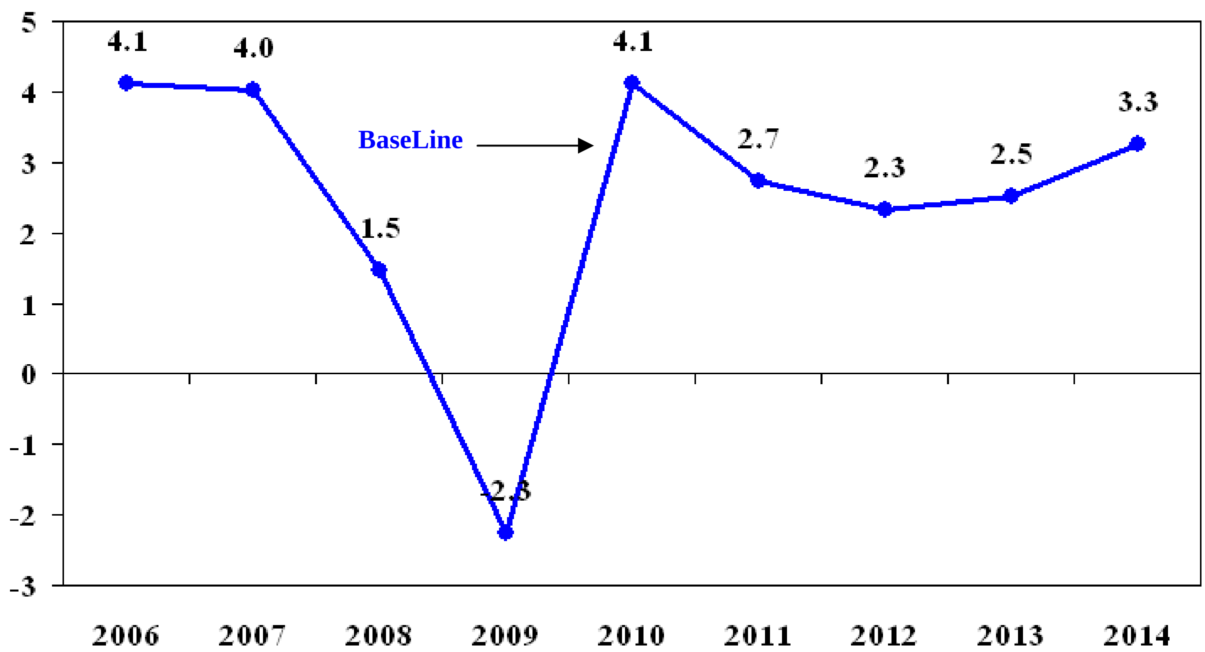
Table 1. Gross domestic product and world trade

	2005-2009[a]	2010	2011[b]	2012[c]	2013[c]	2014[c]	Change from June 2012 forecast: 2012	Change from June 2012 forecast: 2013
World	1.8	4.1	2.7	2.3	2.5	3.3	-0.2	-0.6
Developed economies	0.3	2.7	1.4	1.2	1.2	2.1	0.0	-0.6
United States of America	0.2	3.0	1.8	2.1	1.7	2.7	0.0	-0.6
Japan	-0.7	4.4	-0.8	2.5	1.4	1.1	0.7	-0.7
European Union	0.6	2.0	1.5	-0.3	0.6	1.7	-0.3	-0.6
EU15	0.4	2.0	1.4	-0.4	0.5	1.6	-0.3	-0.6
New EU members	3.1	2.3	3.1	1.3	2.2	2.9	-0.3	-0.5
Euro zone	0.5	1.9	1.5	-0.5	0.3	1.4	-0.2	-0.6
Other European	1.4	1.7	1.8	1.7	1.5	1.9	0.6	0.2
Other Developed countries	1.5	2.8	2.3	2.3	2.0	3.0	0.0	-0.6
Economies in transition	3.7	4.1	4.5	3.5	3.6	4.2	-0.5	-0.6
South-eastern Europe	2.8	0.5	1.1	-0.3	1.3	2.6	-0.9	-0.5
Commonwealth of Independent States and Georgia	3.8	4.5	4.8	3.8	3.8	4.3	-0.5	-0.6
Russian Federation	3.3	4.0	4.3	3.7	3.6	4.2	-0.7	-0.8
Developing economies	5.8	7.5	5.8	4.8	5.2	5.7	-0.5	-0.6
Africa	4.7	4.6	0.9	5.0	4.8	5.1	0.8	0.0
North Africa	4.5	4.0	-6.0	7.5	4.4	4.9	3.1	0.0
Sub-Saharan Africa	4.8	4.9	4.4	3.8	5.0	5.2	-0.3	0.0
Nigeria	4.3	7.8	7.5	6.4	6.8	7.2	0.1	0.0
South Africa	3.2	2.9	3.1	2.5	3.1	3.8	-0.3	-0.4
Others	6.2	5.4	4.2	3.8	5.6	5.3	-0.4	0.2
East and South Asia	7.6	8.8	6.9	5.6	6.0	6.5	-0.7	-0.8
East Asia	7.7	9.2	7.1	5.9	6.3	6.7	-0.6	-0.6
China	11.4	10.4	9.3	7.7	8.0	8.2	-0.6	-0.5
South Asia	7.2	7.1	6.1	4.4	5.1	5.7	-1.2	-1.0
India	8.4	8.9	7.1	5.5	6.1	6.5	-1.2	-1.1
Western Asia	3.5	6.2	6.7	3.6	3.5	4.1	-0.4	-0.9
Latin America and the Caribbean	3.2	6.0	4.4	3.3	3.9	4.4	-0.4	-0.3
South America	4.2	6.4	4.3	2.9	4.0	4.4	-0.9	-0.4
Brazil	3.6	7.5	2.7	1.7	4.0	4.4	-1.6	-0.5
Mexico and Central America	1.1	5.6	4.3	4.1	3.9	4.6	0.7	0.0
Mexico	0.8	5.8	4.0	4.0	3.8	4.6	0.6	-0.1
Caribbean	5.2	3.4	6.0	3.0	3.7	3.9	-0.3	-0.3
Least developed countries	7.4	5.8	3.8	3.7	5.8	5.5	-0.4	0.1
Memorandum items:								
World trade[d]	2.0	12.5	6.5	3.2	4.0	5.1	-0.9	-1.5
World output growth with PPP-based weights	3.0	5.0	3.7	3.1	3.4	4.1	-0.3	-0.6

Source: UN/DESA

a Average percentage change.
b Actual or most recent estimates.
c Forecast, based in part on Project LINK.
d Included goods and services

Figure 1. Growth of world gross product (% change), 2006-2014[a]



Source: Project LINK

a 2012 , 2013 and 2014 are forecasted figures.

a 2012 , 2013 and 2014 are forecasted figures. The dashed lines define the upper- and lower-bound of confidence interval.

Weaknesses in the major developed economies continue at the root of the global economic woes. Most of them, particularly those in Europe, are trapped in a vicious downward circle. Sovereign debt risks are feeding further banking sector fragility and vice versa: commercial banks that are laden with distressed sovereign bonds and other troubled assets require more government bailouts when the bond prices drop, leading to further heightening of sovereign risk as the countries' deficits rise. Additional quantitative easing has helped in Europe to temporarily ease, but not resolve some of these tensions. Sovereign debt problems are being responded mainly by fiscal austerity measures with recessionary effects on the real economy and higher unemployment as major collateral damage. This is resulting in weaker-than-projected GDP growth and a higher-than-anticipated debt-to-GDP ratio, triggering further austerity and causing more economic slowdown and job losses.

The worst situation is found in the euro area, where sovereign debt crises and attendant fiscal austerity programmes remain the dominant forces determining growth in the region which, when coupled with slowing external demand and high oil prices, yield a very poor outlook going forward. Several economies in the region are already in recession, while Germany has slowed significantly and France has stagnated. A number of new policy initiatives taken in 2012, including the Outright Monetary Transactions

(OMT), if implemented promptly, can indeed address some of the defects in the original design of the EMU, but these policies not likely will suffice to restore growth in the short run in the face of other policy stances that are putting a brake on economic recovery and job creation. In the outlook for the euro zone, GDP is expected to decline by 0.5 per cent in 2012 with growth reaching only 0.3 per cent in 2013 and 1.4 per cent in 2014. The risk for a much worse scenario remains high.

Economic growth in the new EU members has also decelerated during 2012, with a few of them already returning to recession. The worsening external condition has been aggravated by domestic austerity measures, weighing on the growth prospects. In the outlook, GDP is expected to grow by 2.2 per cent in 2013, compared with 1.3 per cent estimated for 2012, with numerous uncertainties and risks slanted on the downside.

The United States economy showed some positive signs in early 2012, including a fairly robust growth of business investment and exports, but these faded quickly during the year. Growth prospects for 2013 remain sluggish. On the positive side, the beleaguered housing sector seems to have shown some nascent signs of recovery, and further support is expected from the new round of quantitative easing recently launched by the Fed whereby the monetary authorities will continue to purchase mortgage-backed securities until the employment situation improves substantially. In the baseline outlook, GDP growth is forecast to reach 1.7 per cent in 2013, lower than the already anaemic pace of 2.1 per cent estimated for 2012. Risks remain high for a worse scenario to evolve in the short run, emanating not only from the possible “fiscal cliff” the economy may fall in to from 2013 (see the section on uncertainties and risks), but also from the risk of further intensification of the euro area crisis, and a hard landing in large developing economies.

In Japan, economic growth was higher in 2012 than in the previous year, mainly as the result of the recovery and reconstruction in the aftermath of the earthquake-related disasters of 2011. Some government programmes have also provided incentives to private consumption. Exports, however, have encountered strong headwinds, facing a slowdown in global demand and an appreciation of the yen. In the outlook, the economy is expected to face additional challenges, including the phase-out of the government incentive programme, an anticipated reduction in pension payments, a planned hike in the consumption tax rate and a cut in government spending amid concerns about the unsustainable high public debt. On the other hand, the reconstruction investment will continue, although at a slower pace. GDP is forecast to grow at 1.4 per cent in 2013 and 1.1 per cent in 2014, decelerating from the 2.5 per cent estimated for 2012.

The economic woes in developed economies are also spilling over to developing countries and economies in transition, through weaker demand for their exports and heightened volatility in capital flows and commodity prices. Meanwhile, growth in investment spending has slowed significantly in many of the major developing economies, presaging a continued deceleration of future output growth if not counteracted by policy measures. Moreover, many of those economies that have grown rapidly in the past are increasingly facing some domestic structural bottlenecks, such as environmental and institutional constraints, which if not addressed properly, may transform the current cyclical downturn into a more permanent loss in their potential growth for the longer run.

Among developing countries, *Africa* will see slight moderation in growth in 2013 to 4.8 per cent from 5.0 per cent in 2012. Major factors underpinning this continued growth trajectory include the strong performance of oil-exporting countries, continued fiscal spending in infrastructure projects, and expanding economic ties with Asian economies. However, the region remains plagued by numerous challenges, including military conflicts in numerous sub-regions. Growth of income per capita, however, will be below rates considered necessary to achieve substantial poverty reduction. Infrastructure shortfalls present major obstacles for more dynamic economic development in most economies of the region. The outlook is subject to a number of risks and uncertainties, including a more severe and broader global economic slowdown spreading to leading developing economies, unexpected adverse weather conditions and political instability.

The economies in developing Asia have weakened considerably during 2012, as the region's growth engines, China and India, both shifted to a lower gear. While a significant deceleration in exports has been a key factor for the slowdown, the effects of policy tightening in the previous two years also linger. Domestic investment has softened markedly. Meanwhile, both China and India are also facing a number of structural challenges. India's space for more policy stimulus seems limited. China and several other countries in the region possess much greater space for additional stimulus, but thus far have refrained from using it. In the outlook, growth for East Asia is projected to be 6.3 per cent in 2013, a slight pickup from the 5.9 per cent estimated for 2012, and growth for South Asia is expected to be 5.1 per cent in 2013, compared with 4.4 per cent of 2012.

Further divergence of economic growth trends are observed in Western Asia during 2012. Most oil-exporting countries experienced robust growth supported by record-high oil revenues and government spending. By contrast, economic activity weakened in oil-importing countries, burdened by higher import bills, declining external demand and shrinking policy space. As a result, oil-exporting and oil-importing economies are facing a dual track growth outlook. Meanwhile, social unrest and political instability, notably in the Syrian Arab Republic, continue to elevate the risk assessment for the entire region. On average, GDP growth in the region is estimated to decelerate from 6.7 per cent in 2011 to 3.6 per cent in 2012 and 3.5 per cent in 2013.

GDP growth in Latin America and the Caribbean averaged 4.4 per cent in 2011, but decelerated notably during 2012, affected by less export demand and lower non-food commodity prices. Weakening exports not only resulted from low and stagnant growth in developed countries, but especially also because of lower import growth from China. In the outlook, subject to the risks of a further downturn, the baseline projection is for a return to moderate economic growth rates, led by expected improvements in economic conditions in Brazil. For the region as whole, GDP growth is forecast to average 3.9 per cent in 2013, compared with 3.3 per cent in 2012.

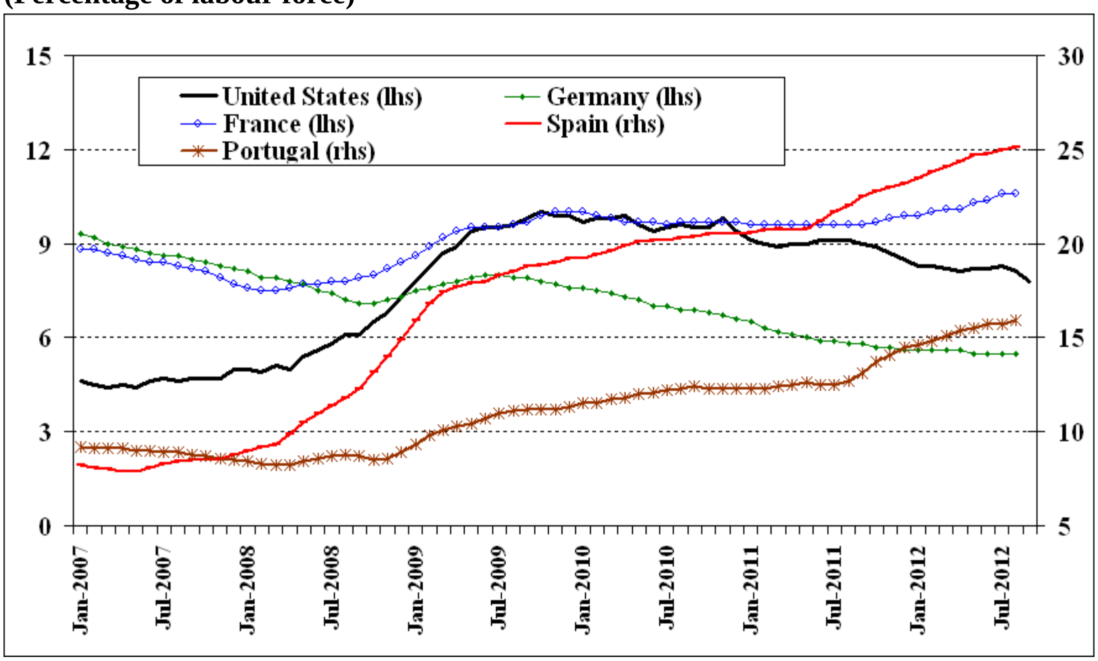
Among economies in transition, growth in most of the economies of the Commonwealth of Independent States (CIS) was robust in 2012, although it moderated in the second half of the year. Firm commodity prices, especially the prices of oil and natural gas, supported the economies of energy-exporters, including the Russian Federation and Kazakhstan. In contrast, growth in Moldova and Ukraine was adversely affected by the economic crisis in the euro area, because of close trade ties. The economies of small energy-importing countries in the CIS were supported by private remittances. In the outlook, GDP for the CIS is expected to grow by 3.8 per cent in 2013, the same as in 2012.

The prospects for most economies in South-eastern Europe in the short run remain challenging, due to their close ties with the euro area through trade and finance. GDP for the region is expected to grow by 1.3 per cent in 2013, compared with -0.3 per cent of 2012.

Global employment situation: remaining a key policy concern

The unemployment remains elevated in many developed economies, with the situation in Europe the most challenging. A double-dip recession in several European economies has had a heavy toll on labour markets. The unemployment rate continued to climb to a record high in the euro area during 2012, up by more one percentage point from one year ago, another EMU era record. The worst cases are in Spain and Greece, where the unemployment rate reached over 25 per cent and close to 25 per cent, respectively (figure 2). On the other hand, a few economies, such as Austria, Germany, Luxembourg and the Netherlands continue to register low unemployment rates around 5 per cent. Unemployment rates in Central and Eastern Europe also edged up slightly in 2012, partly resulting from fiscal austerity. In the United States, the unemployment rate stayed above 8 per cent for the most part of 2012, but dropped notably to 7.8 per cent in September. However, the participation rate is at record low, while the share of long-term unemployment (those unemployed for more than six months) reached a historical high of about 40 per cent, well above the peak of 25 per cent in any of the post-World War II recessions. Japan's unemployment rate retreated to below 5 per cent. In the outlook, more adequate job creation should be a key policy priority in developed economies.

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



Source: EUROSTAT and United States Bureau of Labor Statistics

The employment situation varies significantly across developing countries, but the common challenges are to improve the quality of employment and reduce vulnerable employment, as well as confront structural unemployment issues such as high youth unemployment and gender disparities in employment, all of which are key social and economic concerns in many developing countries.

Among developing countries, the unemployment rates in most economies in East Asia and Latin America have already retreated to, or even below, levels seen prior to the global financial crisis. The growth moderation in late 2011 and 2012 has so far not led to a discernable rise in the unemployment rate in these two regions yet, but a caveat is that a rise in the unemployment rate would usually lag in an economic downturn, and if the growth slowdown prolongs further, the unemployment rate could be expected to increase notably.

In Africa, despite a relatively strong growth, the employment situation remains a major problem across the region, both in terms of the level of employment as well as the quality of jobs that are generated. Labour conflicts also constitute a major downside risk to the economic performance of the region. Gender disparity in employment remains acute in Africa, as well as in South Asia. Women are facing unemployment rates at least double those of men in some African countries, while female labour force participation rate in India and Pakistan is much lower than that of male. Meanwhile, social unrest in North Africa and West Asia has also been a factor to push up unemployment rates in some countries.

Among economies in transition, the unemployment rate in the Russian Federation declined to a record low of 5.2 per cent in 2012 as a result of increased public spending, but also partly because of a shrinking active population. Notable job creation has also been recorded in Kazakhstan, but the unemployment rate has increased in Ukraine as a result of tighter fiscal policy and weaker external sector.

Inflation outlook: receding in general, but persisting in some developing countries

The inflation outlook remains benign for most *developed economies*. Among them, inflation in the United States moderated over 2012, down to about 2 per cent from 3.1 per cent in 2011. A further moderation in headline inflation is expected in the outlook for 2013. In the euro area, headline inflation, as measured by the Harmonized Index of Consumer Prices (HICP) continues to be above the central bank's target of 2 per cent. Core inflation, which does not include price changes in volatile items such as energy, food, alcohol and tobacco, has been much lower at around 1.5 per cent, with no evidence of upward pressures. In the outlook, inflation is expected to drift down slowly. Inflation in the new EU members is also expected to move lower. Deflation continues to prevail in Japan, although the central bank has raised its inflation target to boost inflation expectations.

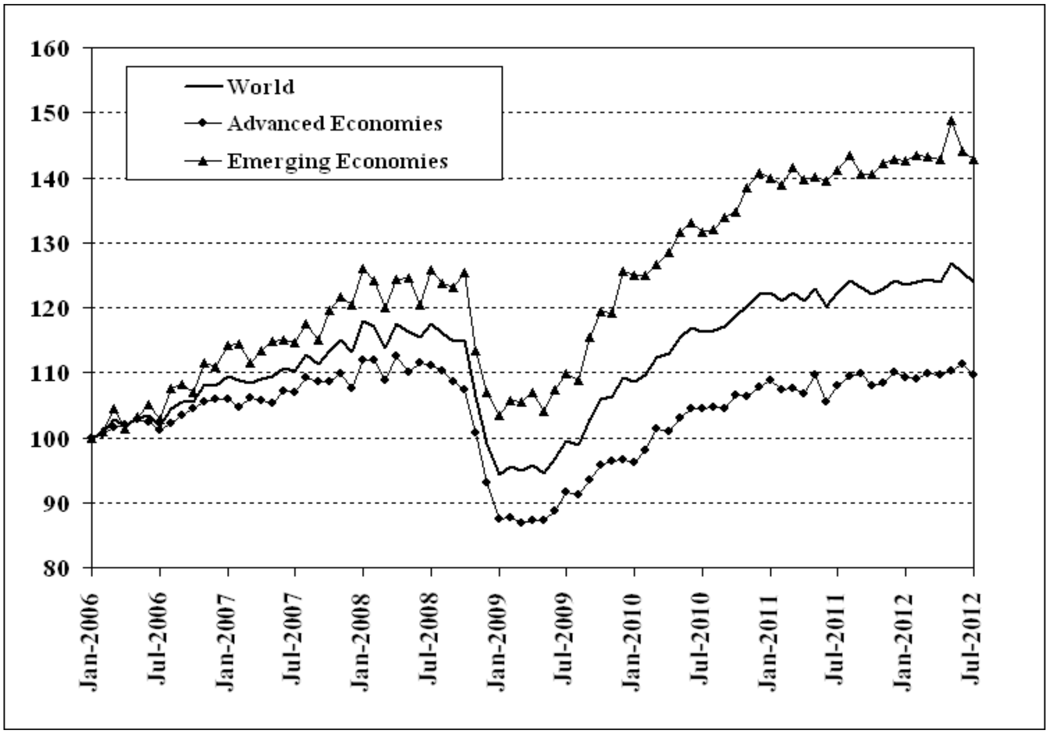
Inflation receded in a majority of *developing countries* during 2012, but remains stubbornly high in some. In the outlook, anticipated increases in food prices related to the recent droughts in the world, the still elevated prices of oil, and some country-specific supply-side constraints may continue to put some pressures on inflation in developing countries in 2013. In Africa, while inflation moderated in many economies, the rate of inflation is still above 10 per cent in such countries as Angola, Ghana and Nigeria. The inflation outlook remains subdued in general for East Asia, but challenging for South Asia, where the average inflation rate is estimated to be above 11 per cent in 2012 and will stay above 10 per cent in 2013. Inflation remains low in most economies in West Asia, but above 10 per cent in Yemen and 30 per cent in the Syrian Arab Republic. The inflation rate in Latin America and the Caribbean is expected to stay at about 6 per cent.

2. The international trade and finance

Trade flows: moderating sharply

As an engine of growth, international trade promotes global growth in good times, but it also transmits weaknesses from country to country in bad times. After plunging by more than 10 per cent in the Great Recession of 2009, world trade, measured by the volume of total exports, rebounded strongly in 2010, but since 2011, growth of world trade has lost momentum along with the recovery in global output (figure 3). During 2012, growth of world trade has decelerated sharply, mainly driven by a decline in the imports of many European economies, as the region is falling into the second recession in three years. Anemic demand in other major developed economies such as the United States and Japan has also slowed international trade flows, and through an increasingly sophisticated global constellation of production and trade, the weaknesses in developed economies were transmitted to developing countries and the economies in transition, feeding back and forth among all economies to form a synchronized downturn in world trade and global output.

Figure 3. World merchandise exports volume, January 2006 – July 2012 (Index, January 2006 = 100)



Source: CPB Netherlands Bureau for Economic Policy Analysis, re-based by UN/DESA

The value of imports of a number of euro members, such as Italy, Greece, Portugal and Spain, started to decline in late 2011, as the austerity measures adopted in these economies, along with the woes of debt stress and bank fragility, led to a drop in demand. Their imports continued to decline sharply during 2012, at an annual pace of about 20 per cent. By the first quarter of 2012, the weakness in demand spread to more European economies, and the economies such as France and Germany saw their imports plummet at an annual pace of more than 10 per cent during the summer. As intra-EU trade accounts for about 70 per cent of the region's trade, exports of many European countries also declined in the same period.

Meanwhile, growth of imports from the United States and Japan also slowed significantly in the second half of 2012, with imports to Japan actually declining. As a result, a few East Asian economies that have large shares of trade with the major developed countries started to experience a decline in their exports. For example, Republic of Korea, Taiwan Province of China, and Singapore started to register a significant drop in exports in early 2012. While China's export volume continued to expand, growth decelerated notably during the year and came to a halt in mid-2012. Economies exporting energy and other primary commodities followed suit. Brazil, the Russian Federation and South Africa, for instance, all registered export declines in varying degrees in the second half of 2012. A prolonged weakening of exports in many developing countries and the economies in transition, along with growing domestic structural problems, has pushed down GDP growth markedly in these economies during

2012, which in turn, through their flagging import demand, fed back to the developed economies as well.

At the same time, a rise in international protectionism, although only in a modest degree, and the protracted impasse in the world multilateral trade negotiations, have also adversely affected international trade flows.

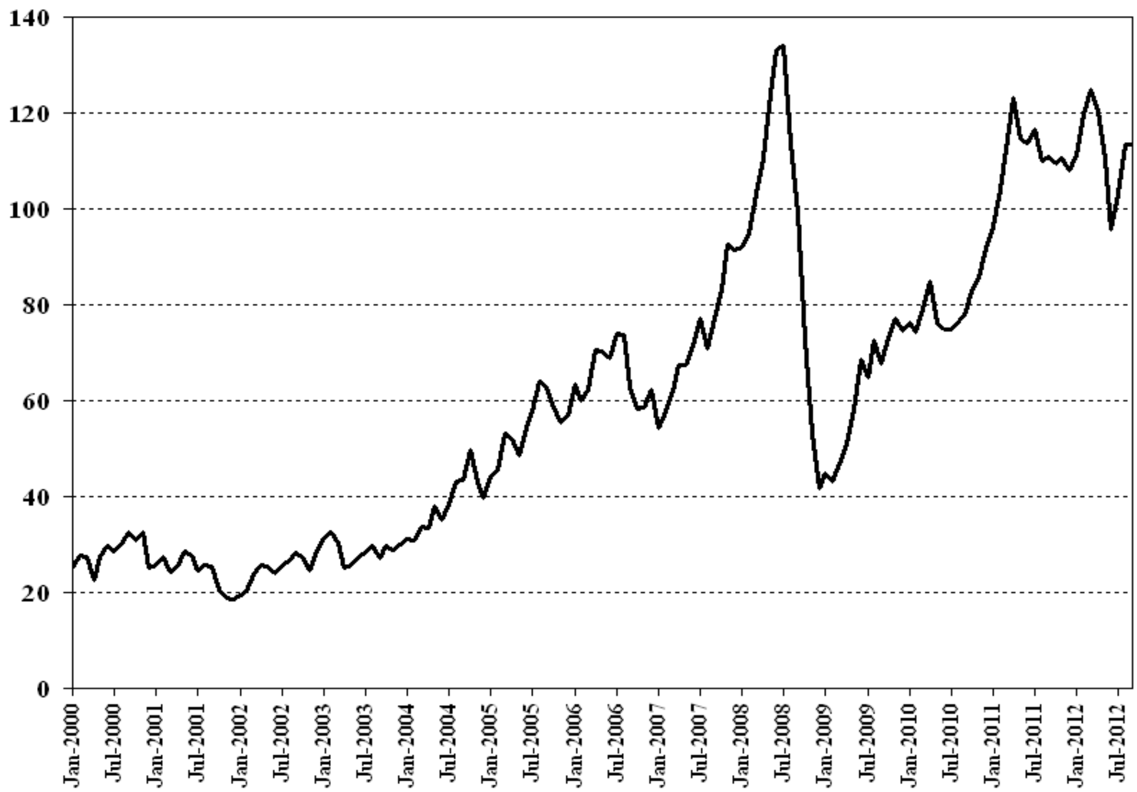
In the outlook, given a continued weak global growth outlook and the heightened uncertainties in the world economy in 2013, world trade flows are expected to remain in a tepid pace, growing by 4 per cent, in volume terms, compared an estimated growth of 3.3 per cent in 2012.

Oil prices tugged between weak demand and geopolitical uncertainties

The prices of oil showed some volatility during 2012 (figure 4), driven by the competing factors of weakening global demand and some heightened geopolitical risks on the supply side. Global oil demand is estimated have grown by 0.9 per cent, a slightly lower pace than in 2011. On the supply side, Western sanctions have negatively affected Syrian and, more importantly, Iranian oil exports, but have not tightened the physical market. The preventive increase in Saudi oil output in conjunction with the resumption of Libyan production as well as higher than expected output in North America, Latin America and the Russian Federation have temporarily raised supply slightly in excess of demand during the first three quarters of the year. Spare capacity, however, dropped to 2.8 million barrels per day (mb/d), while the spare capacity in the past 5 years was about 4-5 million barrels per day (mb/d) .

In the outlook, while global demand for oil is expected to remain subdued in 2013, oil output is expected to further increase in North America, the Russian Federation and Brazil, but decline in the North Sea and Central Asia. Saudi Arabia is expected to lower its production and hence increase its spare capacity accordingly. Persisting geopolitical instability in the Middle East likely will continue to put a risk premium on prices. Brent oil prices are expected to decline to $105 per barrel (p/b) in 2013, from an estimated average of $111 p/b in 2012.

Figure 4. Brent oil price, January 2000 - September 2012
(dollar per barrel)

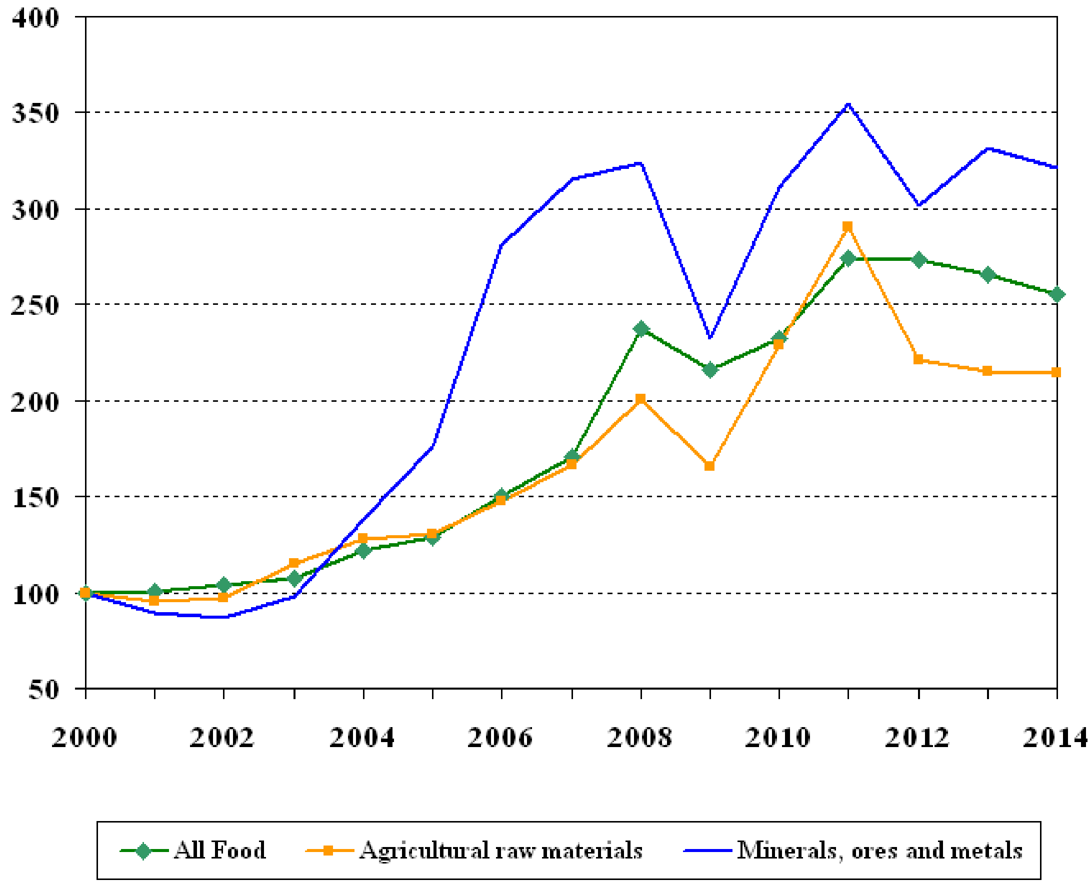


Source: UN/DESA

Non-oil commodity prices: rising food and declining non-food prices

After a strong start, prices of non-oil commodities started to fall in the second quarter of 2012 (Figure 5), as a result of a slowdown in global demand at large, triggered by the intensification of sovereign debt crisis in Europe and growth moderation in other developed economies, as well as large developing countries. The appreciation of the United States dollar has also contributed to the weakness in the prices of non-commodities, as these prices are denominated in the dollar.

Figure 5. Non-oil commodity price index (2000=100), 2000-2014



Source: UN/DESA

F*ood prices* jumped to a record high in July 2012, mainly resulting from a tight supply of maize and wheat as well as low stock levels. The severe drought in the United States reduced yield prospects and drove the United States maize price to an all-time high in July. Poor weather also adversely affected the outlook for wheat production in the Russian Federation, Ukraine and Kazakhstan. Global stocks for maize and wheat are expected to fall to, respectively, six and four year lows by the end of 2012. The price of rice, in contrast, remained relatively stable as stocks remain high and supply and demand were broadly in balance.

Prices of base metals and ores continued their downward trend in July and August 2012. Global demand for these commodities remained weak, as anaemic demand from developed economies was quickly followed by downgraded growth prospects in large developing countries, particularly China. At the same time, the development of new projects and the expansion of production over the last decade have increased global supply in these commodities. In some metals markets such as aluminium, nickel and zinc, supply has surpassed demand, further driving down the prices.

In the outlook, supply constraints are expected to keep food prices on an upward trend until early 2013, after which they will moderate. The prices of metals and ores are likely to remain weak, as global demand is not expected to pick up quickly during 2013, but the new round of quantitative easing (QE) by the central banks of major developed economies may provide some support for these prices, if the effects of past QE provide some guidance.

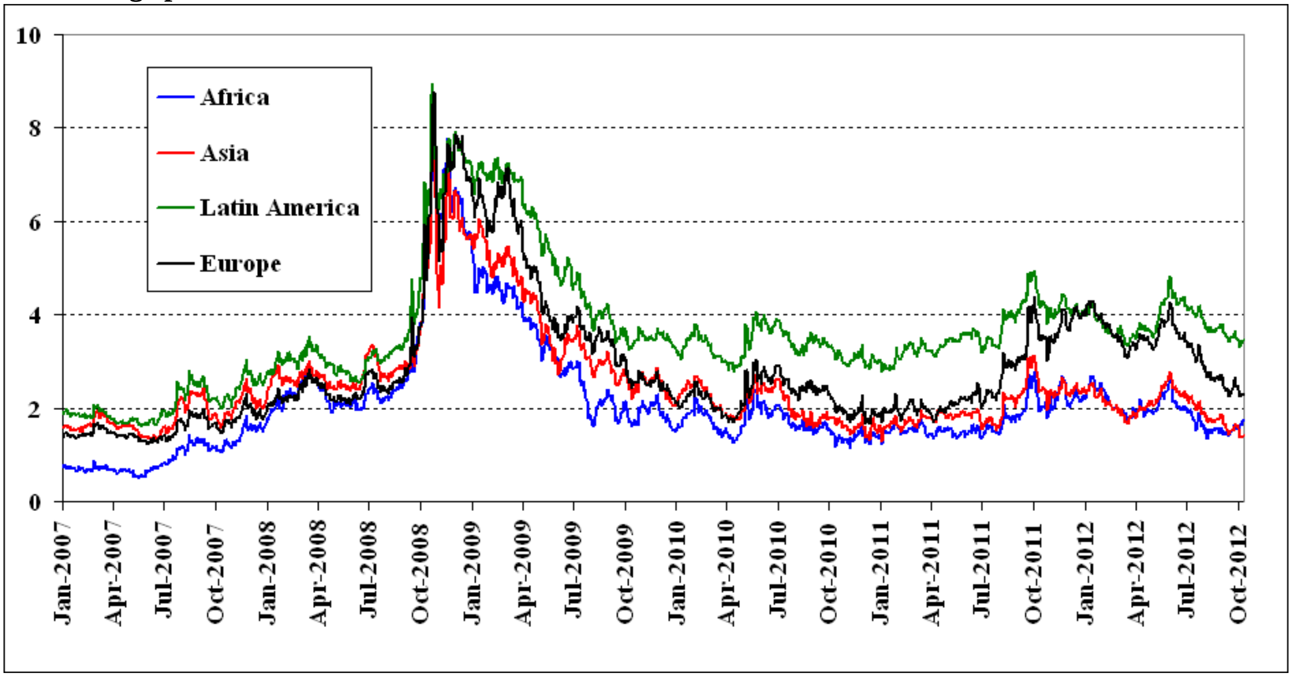
Capital flows to developing countries declined

Net private capital inflows to emerging markets, a group of developing countries and the economies in transition, decreased 11.5 per cent in 2012, to about $910 billion.[2] The continued fiscal problems in developed economies, notably in the euro zone, have had a major negative effect on both the level of capital flows as well as their volatility. At the same time, a number of factors in emerging markets have added to the downward pressure on capital flows. In the case of China, slower growth, an accommodative monetary policy stance, past exchange rate appreciation and uncertainty linked to the transition in the political leadership have lowered expectations regarding the pace of future currency appreciation and the country's appeal to investors. In North Africa and the Middle East, significant political uncertainties remain in the wake of political transformations and ongoing military conflicts, creating an adverse environment for stronger capital inflows. In Latin America, various countries such as Brazil implemented policies targeted specifically at limiting capital inflows, such as reductions in policy interest rates or restrictions on capital flows. Meanwhile, policies that cast doubt on basic investment preconditions, such as the reliability of property rights, negatively affected capital flows to a number of economies including Argentina, Hungary and the Russian Federation.

The costs of external financing for developing countries and economies in transition, in terms of the yield spread of sovereign bonds, moved upward in parts of 2012, when the crisis in the euro area escalated, but remained low in general (figure 6).

[2] Data up to 2012 are based on Institute of International Finance, "Capital flows to emerging market economies", 7 June 2012, but the outlook is based on the Project LINK.

Figure 6. Daily yield spreads on emerging market bonds, January 2007-October 2012
Percentage points



Source: JP Morgan Chase

In the outlook for 2013, net private capital inflows to emerging markets may increase only slightly. On the positive side, in the developed economies, the already announced policy actions, especially the new round of QE by the central banks, are expected to provide some stabilising impact on financial markets, which in turn will help underpin a greater risk appetite by investors. Interest rate and growth differentials are expected to remain in favour of developing countries. The loose monetary policy stance in developed economies that is keeping interest rates at historically low levels will provide the background for high levels of liquidity seeking higher returns in emerging markets. On the other hand, commercial banks in developed countries, particularly in Europe, will continue to deleverage, and uncertainties remain around the growth prospects for some large developing economies.

Net equity investment flows increased moderately by 2.8 per cent in 2012, to $560 billion. Foreign direct investment (FDI) fell by $25 billion or 4.8 per cent to $500 billion, mainly due to a pronounced fall in FDI flows to China. However, FDI to North Africa showed some recovery from the sharp fall in 2011 in light of political transitions, while Latin America saw a further increase in FDI topping record levels reached in 2011. The overall decrease in FDI was more than offset by the tripling of net portfolio investments, from $21 billion to $61 billion, from a relatively low base in 2011. More decisive actions by policy makers in developed economies in order to address fiscal problems underpinned an increased willingness by investors to take on risks, which, combined with attractive equity valuations, by historical standards, led to a more pronounced shift of portfolio investments into emerging markets. However, the sharp increase comes on the heels of a virtual collapse in net portfolio investments in 2011 by 85 per cent, highlighting their high volatility and dependence on current investor sentiment.

Net debt inflows to emerging markets contracted by 27 per cent in 2012, with net inflows of international bank lending to emerging economies falling by almost 50 per cent in light of continued pressure for banks in developed economies to stabilise their balance sheets by reducing leverage and increasing reserve levels. Non-bank lending decreased 18 per cent, illustrating slower credit growth due to the overall moderation in real economic activity.

Net capital outflows from emerging markets fell slightly in 2012, to $1.3 trillion, with lower net private capital outflows and accumulation of new reserves as compared with 2011. This overall trend is expected to continue in 2013.

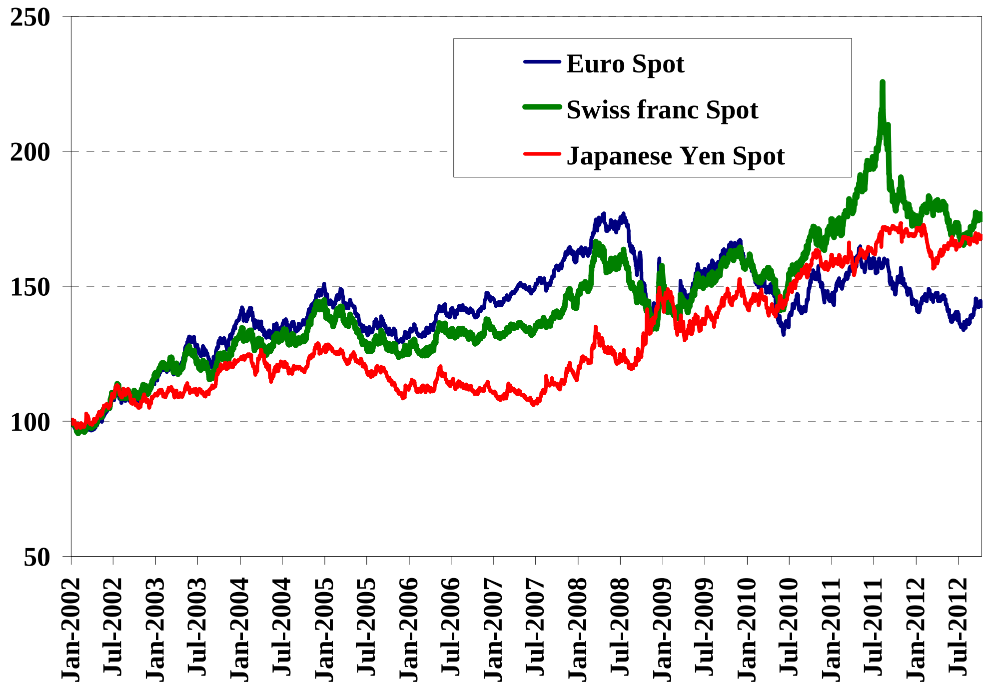
Official Development Aid (ODA) flows from member countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) reached $133.5 billion in 2011 compared to $128.5 billion in 2010. In real terms, however, this represented a fall of 3 per cent in net ODA disbursements to developing countries. In addition, the gap between meeting the UN target of disbursing 0.7 per cent of donor countries' gross national income and actual disbursements widened slightly to 0.32 per cent.

Preliminary results from the OECD survey of donors' forward spending plans indicate that Country Programmable Aid (CPA) (a core subset of aid that includes programmes and projects, which have predicted trends in total aid) is expected to increase by about 6 per cent in 2012 mainly on account of expected increases in outflows of soft loans from multilateral agencies that had benefited from earlier fund replenishments. However, CPA is expected to stagnate from 2013 to 2015 reflecting the delayed impact of the global economic crisis on donor country fiscal budgets.

QE and exchange rate appreciation in developing countries

A large depreciation of the euro vis-à-vis other major currencies was the defining trend in global foreign exchange markets for the first half of 2012 (figure 7), driven by the escalation of the debt crisis in the euro area. The euro rebounded somewhat in the second half of the year after the European authorities announced some new initiatives, including the Outright Monetary Transactions (OMT). The exchange rates between major currencies remained relatively calm in response to the launches of new rounds of quantitative easing (QE) by the central banks of major developed countries in September, partly because these central banks did it almost simultaneously, with an intention, at least tacitly, to avoid asymmetric shocks to the exchange rates. In the outlook, given the announced monetary policies in major developed economies and commonly shared weak growth prospects, it is difficult to ascertain a clear trend in the exchange rates among the major currencies (see the section on global assumptions for the exchange rates between the dollar vis-à-vis the euro and yen respectively).

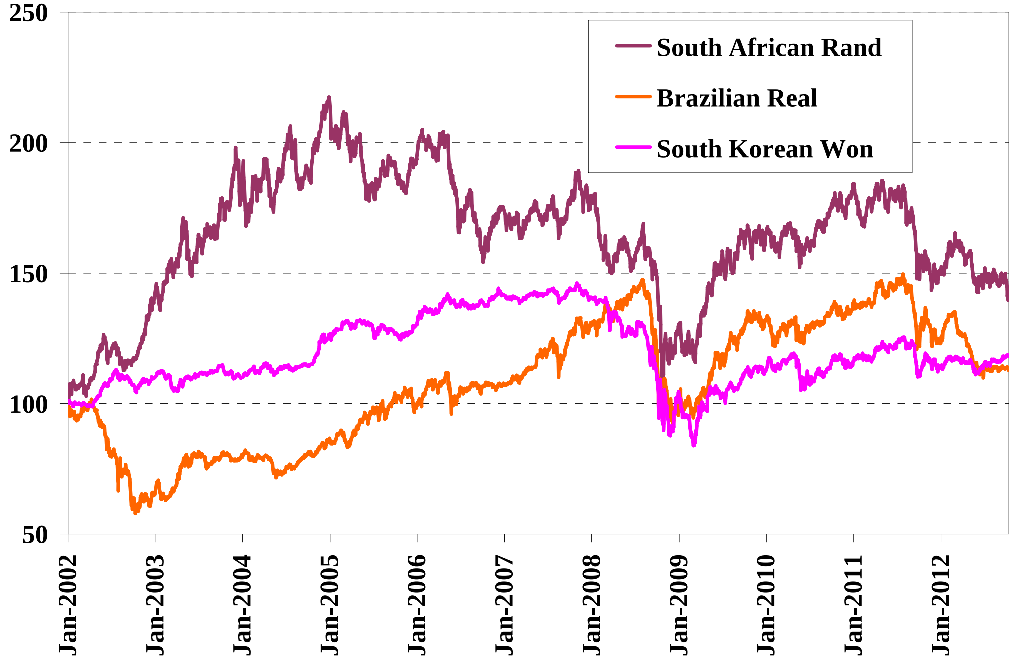
Figure 7. Exchange rate index of major currencies



Source: JPMorgan

After a precipitous fall in late 2011, currencies in most developing countries and the economies in transition depreciated further against the United States dollar during the first half of 2012 (figure 8). This trend was driven by two main factors: (1) a reduction in financial inflows to these countries as a result of the ongoing deleveraging by the commercial banks in developed economies, especially European banks; and (2) a continued moderation in the growth prospects for these economies. Since mid-2012, the exchange rates of most of these currencies have stabilized, and some of them started to rebound; notably after the launches of the new QE in major developed countries. In the outlook, continued implementation of the open-ended QE in major developed countries will likely increase the volatility in the exchange rates of the currencies of developing countries and the economies in transition.

Figure 8. Exchange rates of selected emerging economies

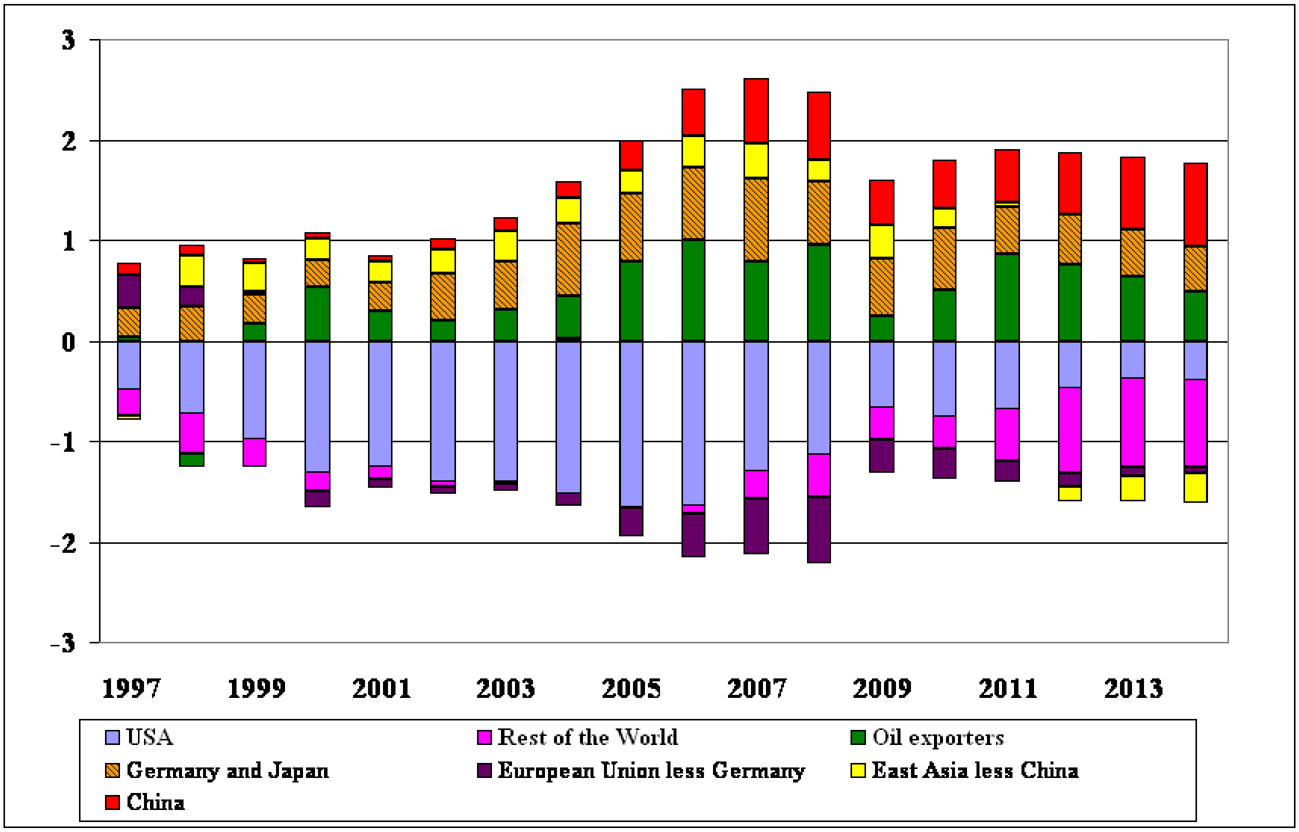


Source: JPMorgan

Narrowing global imbalances: not necessarily a propitious sign

Global imbalances, namely, the current account imbalances across major economies, continued to narrow in 2012 (figure 9), but not as a sign of greater global financial stability and more balanced growth. Rather, it mainly reflects an overall weakness in global demand and the synchronized downturn in international trade.

Figure 9. Global imbalances, 1997-2014
(Current account balances in per cent of world gross product, WGP)



Source: IMF *World Economic Outlook* database, October 2012 for historical data, and Project LINK for the forecasts in 2012-2014.

The United States remained the largest deficit economy, with an estimated external deficit of about $467 billion (3.1 per cent of GDP) in 2012, down substantially from its peak of $800 billion (6 per cent of GDP) registered in 2006. The external surpluses in China, Germany, Japan and a group of fuel-exporting countries, which form the counterpart to the United States deficit, have narrowed accordingly, albeit to varying degrees. China, for instance, is expected to register a surplus of just above 2 per cent of GDP in 2012, a sharp decline from a high of 10 per cent of GDP in 2007. Japan is expected to register a surplus of 1.6 per cent of GDP in 2012, also a significant reduction from its peak level of 5 per cent of GDP reached in 2007. While Germany's surplus declined only slightly, remaining above 5 per cent of GDP, the current account for the euro area as a whole turned from a deficit into a surplus of 1 per cent of GDP. Large surpluses relative to GDP were still present in oil-exporting countries, reaching 20 per cent of GDP or more in some of the oil-exporting countries in Western Asia.

While some of the adjustment of the imbalances in major economies reflects certain improvement in the unbalanced economic structure of these economies, a large part of the adjustment reflects a cyclical downturn, i.e. a weakening in external demand from the deficit countries, rather than a strengthening of external demand from the surplus countries. In the United States, after a couple of years of rebounding exports, both exports and imports have decelerated markedly in 2012. Domestically, a corresponding narrowing of the saving-investment gap reflects a slight decline in the savings rate and a large moderation in investment: the household saving rate, which increased from about 2 per cent of disposable household income before the financial crisis to about 5 per cent in the past few years, has actually declined slightly, to about 3.8 per cent, but investment slowed down more significantly. While the government deficit has indeed improved by more than one percentage point of GDP, dropping from 10.1 of per cent of GDP in 2011 to 8.7 per cent in 2012, it came mainly from further cuts in government spending, instead of an increase in government revenue. In the outlook, a further narrowing of the current account deficit is expected in the United States in 2013, as the result of weakness caused by similar adjustments.

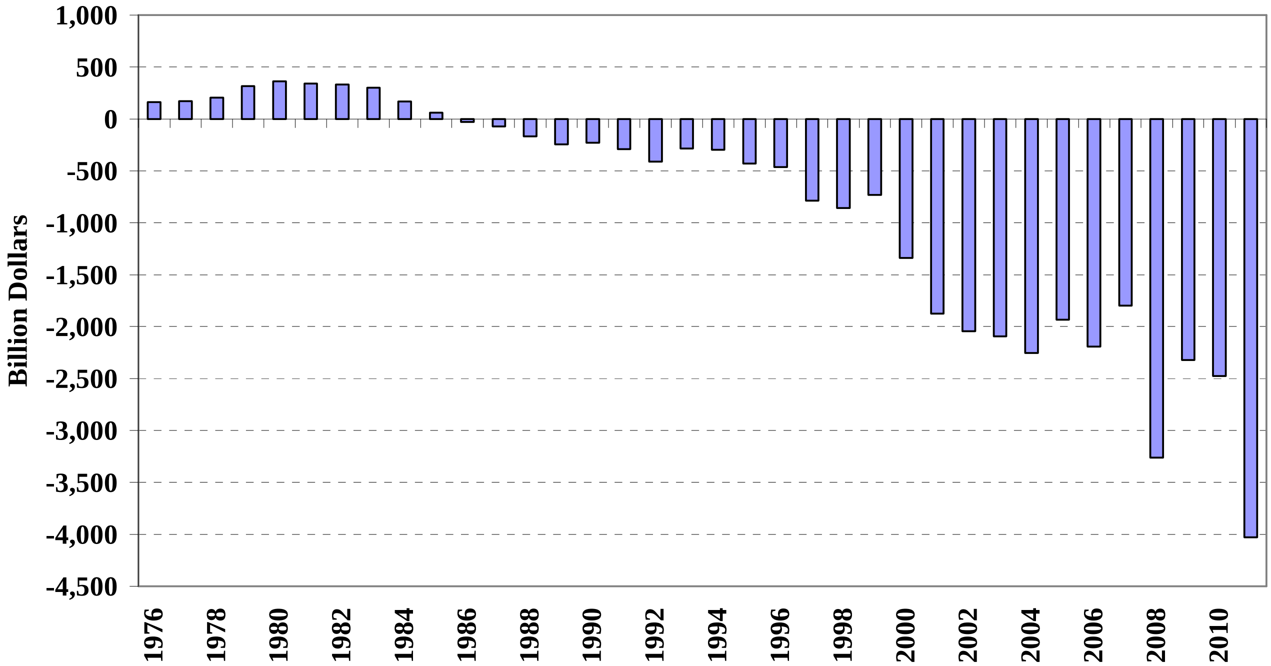
In the surplus countries, the decline in the external surplus of China has mainly been driven by a significant drop in the growth of its exports, rather than a strengthening of its imports. In fact, both exports and imports in China decelerated substantially in 2012. On the positive side, China's exchange rate policy has become more flexible over the past three years. Meanwhile, in the domestic economy, the Government has scaled up measures to boost household consumption, rebalancing the structure of the economy towards greater reliance on domestic demand, but no significant sign has been observed in the rise of consumption as a proportion of GDP. The corresponding narrowing of the saving-investment ratio in China came mainly from a notable slowdown in the growth of investment, rather than a reduction in saving resulting from increased consumption. In Japan, the narrowing of its external surplus has, to some extent, reflected the strengthening of its domestic demand, including increased imports of oil, related to the reconstruction in the aftermath of the devastating earthquake, but also a significant slowdown in exports. The surpluses in oil-exporting countries are of a quite different nature from other economies, as these countries will need to share the wealth generated by the endowment of oil with future generations via a continued accumulation of surpluses in the foreseeable future, but some studies warn of a slowdown in oil exports for the Russian Federation in the medium run.

Within the euro area, the current account deficits of many peripheral members of the euro area narrowed significantly as a result of both the fiscal austerity programs designed to cut the government deficit and the contraction in investment and consumption, accompanied by large financial outflows triggered by the panic in the banking sector of these countries. This is a reversal of the process in European economic integration of the past decade, when capital flowed from the core members to the peripheral members. In Germany, room remains for policies to stimulate more domestic demand so as to further narrow its external surplus.

The persistent global imbalances have induced wide imbalances in net asset and liability positions. The latest data show that the net external liability position of the United States widened to a record $4 trillion (more than 25 per cent of GDP) in 2011, a significant increase from $2.5 trillion in the previous year (figure 10). The foreign assets owned by the United States totalled about $21 trillion by the end of 2011, while assets in the United States owned by the rest of the world totalled about $25 trillion. The United States acquisitions of foreign assets increased by about $484 billion during the year, but valuation adjustments lowered the value of foreign assets owned by the United States by

$702 billion, mostly from decreases in prices of foreign stocks. On the other hand, foreign acquisitions of the assets in the United States increased by about $1 trillion, and valuation adjustments raised the value of foreign-owned assets in the United States by $353 billion, mostly from price increases of the United States Treasury bonds. In short, the large increase in the net external liability position of the United States during 2011 reflected mainly a substantial change in the valuation of the assets and liability, with net flows accounting for a smaller part. Given the trends in global financial markets in 2012, and the current account deficit discussed above, the net external liability position of the United States is estimated to have increased further during 2012.

Figure 10. Net International Investment position of the United States (Billions of dollars)



Source: UN/DESA based on United States Bureau of Economic Analysis data.
Note: Data for 2009 and 2010 has been revised and that of 2011 is preliminary.

Given current trends, the global imbalances are not expected to widen by a significant margin in the coming two years to become an imminent threat to the stability of the global economy, although the large net liability position of the United States is a concern for the stability of the exchange rates among major currencies. Should the global economy fall into another recession, the imbalances could narrow further, though in a more counterproductive way.

Therefore, the primary focus of international policy coordination should not be on rebalancing current account positions, but rather on reinvigorating the global recovery, job creation, and greater policy coherence to break out of the vicious circles.

3. Uncertainties and risks

The baseline outlook presented above is subject to major uncertainties and risks, mostly on the downside. For instance, the economic crisis in the euro area could continue to worsen and become more disruptive; the United States could fail to avert a “fiscal cliff”; the slowdown in a number of large developing countries, including China, could well deteriorate further, potentially ending in a “hard landing”; geopolitical tensions in West Asia and elsewhere in the world might spiral out of control; and a food crisis could erupt once more, taking a significant toll on the more vulnerable countries and the poorest in the world.

These and other risk factors, unfolding unexpectedly, could make the already fragile and anaemic global economic prospects even more miserable. In order to illustrate the degrees of severity these risks, should they materialize, could inflict on the global economy, this section is focused only on three of the mentioned risks: the risk of a much more disruptive adjustment in the economies of the euro area facing a vicious downward spiral of fiscal tightening and recession; the risk of a fiscal cliff in the United States, namely a sharp increase in tax combined with a cut in government spending; and the risk of a hard landing in China, namely, a further slowdown in GDP growth to a pace of about 5 per cent.

Risk of a much more detrimental adjustment in the euro area

The euro area crisis continues to be the biggest threat to global growth. The economies in the euro area have been suffering from a number of vicious circles, including the interactions between sovereign debt distress and banking sector fragility, which is deteriorating with vicious dynamics the balance sheets of both governments and commercial banks and the fiscal austerity responses which are exacerbating the economic downturn, self-defeating efforts at fiscal consolidation and pushing up debt ratios, thereby in turn triggering further budget cuts.

As a result, the region has already fallen into another recession three years after the global Great Recession of 2009, with unemployment rates rising: unemployment rates soaring to 25 per cent in such countries as Greece and Spain, and unemployment rates for youth rising to 50 per cent. The situation in Greece remains particularly dire, despite the fact that fears of an imminent exit from the monetary union have eased and subsequently Greek government bond yields have retreated from their peaks following the debt restructuring in early 2012. GDP continues to plunge, however, even after having fallen already by nearly 20 per cent since 2007. Unless the troika of the EU, the ECB and the IMF relax the terms of conditionality on the target and the time span of Greek fiscal adjustment, and provide more support, the economy can hardly extricate itself from the present crisis any time soon.

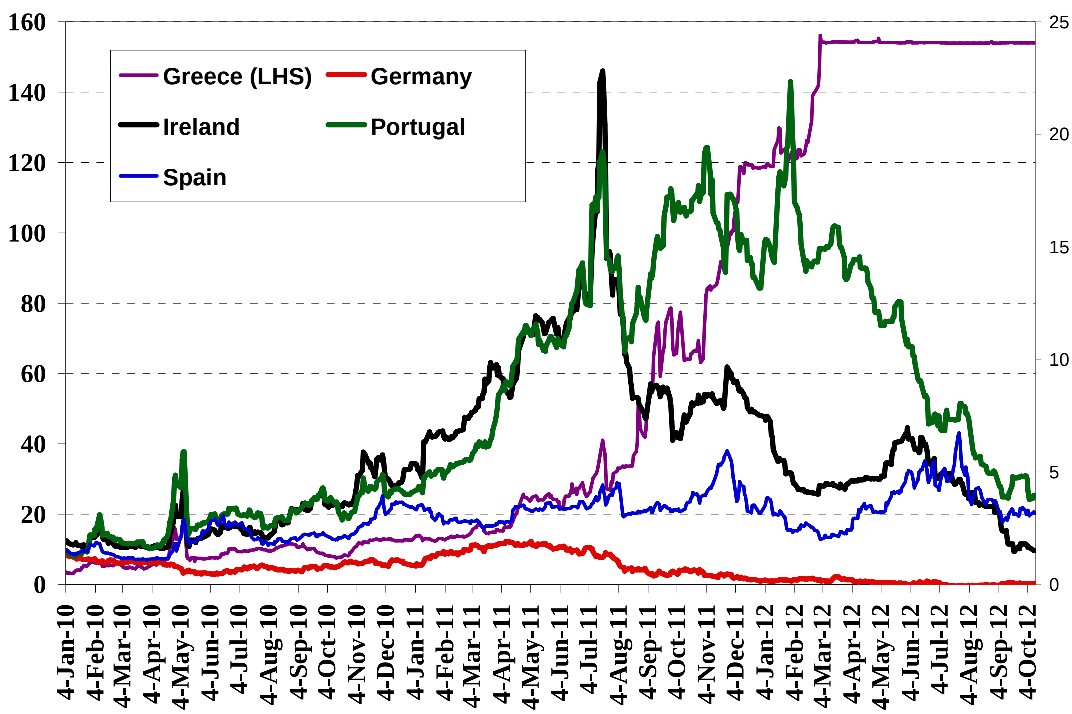
Meanwhile, the focus of attention has shifted towards Spain since mid-2012. Spain is the fourth largest economy of the euro area, with a GDP twice the size of Greece, Ireland, and Portugal combined. The country’s borrowing costs surged when the Government asked for international financing to recapitalize the banks in early June

2012. Yields on 10-year sovereign bonds peaked at 7.6 per cent in late July, surpassing the level Greece, Ireland and Portugal faced when they were forced to ask for international assistance to address debt distress. Financial market contagion also spread to Italy, which also has seen significant increases in sovereign borrowing costs.

These developments pose heightened systemic risks for the monetary union. In response, the ECB announced in September a new programme of outright monetary transactions (OMT) through which it can make potentially unlimited purchases of sovereign bonds issued by selected debt distressed countries and with a maturity of three years or shorter. The OMT programme aims to reduce borrowing costs for these countries. However, the ECB can only purchase bonds under the OMT programme if countries have applied for international assistance via the European Financial Stability Facility/European Stability Mechanism (EFSF/ESM), which comes with policy conditionality attached.

Even so, after the announcement, sovereign yields of Spain, as well as a few other countries, retreated notably (figure 11). In late September, as a number of anti-austerity riots took hold of the country, Spanish authorities presented a budget that aims to cut the projected 2013 deficit by €40 billion ($51.4 billion). Government spending is to be cut by 8.9 per cent, while public infrastructure spending is to drop from 1.3 per cent to 0.89 per cent of GDP, among other austerity measures. A recent bank stress test showed a capital shortfall of €59.3 billion for Spanish banks. It will be feasible to repair this with the €100 billion in European aid the Spanish government has already requested for recapitalization of its banks.

Figure 11. Yields on two year government bonds



Source: JPMorgan

ECB's OMT programme, if implemented as planned, can substantially alleviate the financing costs for Spain and other euro members. Uncertainties remain, however, on a number of issues unfolding in the future. For example, the agreement made earlier by euro area leaders to directly recapitalize Spanish banks without increasing the country's sovereign debt was considered to be a key initiative to effectively short-circuit the vicious feedback between sovereign debt and bank fragility. Most recently, a few euro members came up with a new interpretation that the direct bank recapitalization would work only for banks that get into trouble in the future, not for those that are being rescued under the current programme for Spain. If this interpretation holds in practice, the Spanish government deficit would be much higher than originally projected and could trigger severe additional fiscal adjustment.

Debate also continues over whether Spain actually needs such heavy budget cuts. In contrast with Greek's case, some analysts argue that Spain's woes started in the private sector as the bursting of the housing bubble drastically reduced government tax revenue and entailed a rescue of banks. Before that, the government had relatively low debt levels and a modest deficit. From this perspective, fiscal austerity would not address the root cause of the problem, but only exacerbate the economic downturn, causing more unemployment.

In any case, the policy initiatives announced so far, even if they are implemented properly as planned, seem to be insufficient to break the downward spiral many euro zone members face in the short run and inadequate to boost a solid growth in the medium run.

Given all the uncertainties and risks, a number of researchers have already studied the scenarios and economic ramifications of the possible exit of some euro members. However, the pessimistic scenario in this report is not constructed on such explicit assumptions, because a regime change of this scale, namely, a few members exit the monetary union by adopting their own currencies, would involve a complex set of institutional rearrangements, which are not easily simulated within the existing modelling framework. Instead, the downside scenario presented further below considers the possibility of much deeper recession in the euro area than delineated in the baseline. The further downturn could be caused by (a) delayed implementation of the OMT programme and other supports for those members in need, due to political difficulties in reaching agreement between the countries in need of assistance and the troika of EU, ECB and IMF and (b) much larger detrimental effects of the fiscal austerity programmes and more difficulties in structural adjustments than expected in the baseline forecast.

Will the United States fall off the "fiscal cliff"?

At the end of 2012, unless Congress can reach agreements to avert it, the United States will face a sharp change in its government spending and tax policy. Because of the potentially severe implications, it has been coined as the "fiscal cliff".

On the tax policy side, the Bush tax cuts worth $280 billion per year, the 2 percentage point payroll tax reduction worth $125 billion, and the emergency unemployment compensation worth of $40 billion would all expire by the end of 2012. More specifically, the expiration of the Bush tax cuts would imply an increase in income tax rates across all income levels by about 5 percentage points in 2013. Associated with the expiration of Bush tax cuts are the phase-out of the reduction in the Federal Child Tax Credit and an increase in the maximum tax rate for long-term capital gains by about 5 percentage points. The expiration of the 2 percentage-point reduction in employee payroll taxes would imply a decline in aggregate disposable income by about $125 billion. Moreover, the expiration of emergency unemployment compensation, which was first passed into law in 2008 and has since been extended in the past four years, would imply a reduction in consumption spending by about $40 billion.[3] On the expenditure side, the automatic budget cuts, written into the Budget Control Act as a result of the Super-committee's failure in 2011 to reach an agreement on bringing the government's deficit down to a sustainable level in the next ten years, will be activated, cutting expenditure by $98 billion. Together these actions amount to a downward aggregate demand adjustment of 4 per cent of GDP.

Given the political divide in Congress and the forthcoming presidential election, it is almost certain that no agreement will be made before the election. After the election, only a few weeks will be left for Congress to act before the fiscal cliff provisions take effect. Even if Congress acts after the election, the specific result of the agreements will also depend on the outcome of the election. In the worst case, political gridlock would prevent Congress from reaching any agreement, leading to a full-scale drop in government spending by about $98 billion and substantial hikes in taxes amounting to $450 billion in 2013. It would be reasonable to assume that after realizing colossal damages to the economy the policymakers would be forced to reach an agreement on reinstating those tax reduction measures and on ceasing the automatic spending cuts in the second half of 2013.

A stand-alone simulation shows that, compared with the baseline, private consumption in the United States would decline by 5 percentage points in 2013, government spending would drop by more than 3 percentage points, and investment would also decline significantly, and so would import demand. As a result, GDP would lose 3.8 percentage points in 2013 and another 1 percentage point in 2014 compared with the baseline.

Risks of a hard landing of some large developing economies

Growth in a number of large developing economies, such as Brazil, China and India, which enjoyed a long period of rapid growth prior to the global financial crisis and managed to recover quickly at a robust pace in 2010 after the Great Recession, all have experienced a notable slowdown during 2012. For example, growth in Brazil dropped from a peak of 7.5 per cent in 2010 to an estimated 1.7 per cent in 2012, in China from 10.4 per cent to 7.7 per cent, and in India from 8.9 per cent to 5.5 per cent.
Given the uncertainties about their external demand and various domestic growth challenges, risks of further and larger-than-expected declines in the growth of these economies are not trivial. In this section, China is used as an example to illustrate such risks and their implications for these economies and for the rest of the world.

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[3] For more details, see JPMorgan (2012) *Economic Research*: US fiscal cliff notes, and Bloomberg (2012), *The Economics Briefing*: fiscal cliff.

China’s exports continued to slow during 2012, due to weak demand in major developed economies. For 2012 as whole, real exports for China may register growth of about 5-6 per cent, compared with average growth of about 20 per cent registered in the past 10 years. Meanwhile, growth in investment, which contributed to more than 50 per cent of GDP growth in the past decades, has been decelerating. Growth in nominal fixed investment has declined from 25 per cent a year ago to 20 per cent currently. As fixed investment accounts for almost 50 per cent of GDP, this deceleration alone will reduce GDP growth by 2.5 percentage points. Compared with 2009, when China’s exports dropped by more 10 per cent, it appears that the present deceleration in GDP growth mainly comes on account of domestic account.

The slowdown in investment growth in China has mainly been driven by two factors. First, the government has adopted policies to control the risk of asset price bubbles in housing sector, including requirements for larger down payments and limits on the number of units people can purchase. Real estate investment, which accounts for about 25 per cent of total fixed investment, increased by 15 per cent in mid-2012 but down from the pace of 33 per cent a year ago Acquisition of land for housing has been declining at an annualized pace of about 20 per cent since the beginning of 2012. Because this is a key source of revenues for local governments, their fiscal space has been heavily reduced. Slower real estate investment growth has also considerable knock-on effects on supplying industries.

Second, the central government has become more cautious about fiscal stimulus. The large-scale (about 4 trillion Yuan) fiscal stimulus package of 2009/2010, mainly used for infrastructure investment, was an important driver of economic growth in those years. However, after it was phased out in 2011, increasing concerns have been expressed in China over the side effects of the stimulus, including corruption and quality problems associated with the projects, as well as excess capacity in some industries, such as iron and steel, and cement. The Government seems to be inclined to put more effort into restructuring, rather than more stimuli. This is based on the assumption that a rebalancing of the economy through an increase in the ratio of household consumption to GDP could compensate for a decreasing ratio of investment to GDP and a slowdown in exports, so that GDP would still grow at a reasonable pace (7.5 per cent is the official target for 2012). However, it is difficult to boost consumption in the short run; and moreover, the future GDP growth will depend on investment today.

Most recently, local governments have proposed a large number of projects. Fixed investment projects managed by local governments account for more than 90 per cent of total fixed investment in value terms. However, local governments are facing a shortage of financing: a lack of revenue from selling land and a lack of bank loans as the banks wait for signals from the central government.

In the baseline, we project a soft landing with GDP growth at about 8 per cent in 2013-2014, based on the assumption that the growth of fixed investment stabilizes at the current pace, as more projects receive adequate financing. However, risks are for a much larger drop in GDP growth to about 5 per cent, particularly if the deceleration in fixed investment growth continues, slowing by, say, another 5 – 10 percentage points each year during 2013-2014. More specific assumptions for this alternative scenario include: the central government maintaining the tightening measures in the housing sector, and policymakers continuing to be less proactive in adopting fiscal stimulus.

A double-dip global recession?

A simulation based on the World Economic Forecasting Model at the United Nations shows the outcomes if all three risks as discussed above materialize (Table 2). The world economy would fall into another recession. While GDP for developed economies would fall into an outright recession, declining by 1.1 per cent in 2013, GDP for developing countries and economies in transition would fall to a level by which many of these countries would register zero growth, or even a decline, in per-capita income.

Compared with the baseline forecast, this scenario would imply a loss of WGP by 2.4 percentage points, with all regions showing significant losses in their GDP.

Table 2. An alternative scenario

	Downside Scenario			Change from baseline	
GDP Growth Rate	2012	2013	2014	2013	2014
World	2.3	0.1	1.8	-2.4	-1.4
Developed economies	1.2	-1.1	1.3	-2.4	-0.7
USA	2.1	-2.1	1.4	-3.6	-1.1
Japan	2.5	-0.9	0.9	-2.2	-0.1
European Union	-0.3	-0.7	1.1	-1.5	-0.6
EU15	-0.4	-0.9	1.0	-1.5	-0.7
New EU members	1.3	1.3	2.3	-1.2	-0.3
Other European	1.7	1.5	1.9	-0.7	-0.2
Other Developed countries	2.3	0.8	2.1	-1.2	-0.9
Economies in transition	3.5	2.6	3.1	-1.4	-1.0
South-eastern Europe	-0.3	0.8	1.6	-0.7	-1.1
CIS and Georgia	3.8	2.8	3.2	-1.5	-1.0
Developing economies	4.8	2.7	2.8	-2.6	-2.9
Africa	5.0	3.1	3.8	-1.7	-1.3
East and South Asia	5.6	2.8	2.8	-3.4	-3.7
Western Asia	3.6	2.2	2.6	-1.4	-1.5
Latin America and the Caribbean	3.3	2.4	2.7	-1.5	-1.7
LDC	3.7	3.7	3.8	-2.0	-1.7

4. Policy challenges

Policy stances: a mix of fiscal tightening and monetary easing

Macroeconomic policy stances in the world have featured a combination of tightening fiscal policy and accommodative monetary policy, and this trend is expected to continue in the outlook for 2013 and 2014.

Fiscal policy

Facing a substantially widened budget deficit and a significantly increased public debt in the aftermath of the global financial crisis, most *developed economies* have undertaken painful fiscal adjustment in the past two years, by reducing government spending, raising taxes, and, in some case, liquidating public assets. By the end of 2012, the average overall fiscal deficit of developed countries is estimated to have narrowed to 5.9 per cent of GDP, from the peak of 8.9 per cent in 2009. The average debt, however, continued to increase to 110.7 per cent of GDP, from 95.2 per cent in 2009.[4]

In *the euro area*, the majority of countries have been under Excessive Deficit Procedures (EDP) since the end of the great recession, which typically requires a minimum 0.5 per cent correction in the deficit to GDP ratio per annum with a specified timeframe for a return to balance. The situation in the crisis-affected countries is far more severe, with significantly higher targeted annual consolidations, and longer time periods of austerity necessary. For example, Greece, Ireland, and Portugal, under the programmes of the EU and IMF, planned to reduce their primary balances by about 11 per cent of GDP by 2013. Spain and Italy also planned to adjust by 8.5 percent and 4.7 percent respectively in the same period.

Such draconian fiscal adjustments have disastrously exacerbated the economic woes in those crisis-inflicted countries, leading to much deeper recessions than anticipated, which in turn are making adjustment targets more difficult to attain. In the outlook, fiscal tightening is expected to continue in the euro area; however, with new policy initiatives, such as the OMT (see below), expected to break the linkage between bank fragility and sovereign stress. A notable shift is expected in the approach to fiscal adjustment such that budget overshooting due to recession is no longer met with additional structural tightening.

In the *United States*, fiscal tightening continues in the outlook. Real federal government spending on goods and services is expected to fall about 3 per cent in 2013 and 2014, after a fall of about 2.5 per cent in the previous two years. Uncertainty, however, remains surrounding a possible “fiscal cliff” scenario (see the section on uncertainties and downside risks in the global economic outlook). In the baseline, it is assumed that the 2 per cent payroll tax cut and emergency unemployment insurance benefits are extended for 2013, and then phased out gradually over several years. It is also assumed that the automatic spending cuts now scheduled to begin in January 2013 will be delayed, giving more time for the new Congress and president to produce a package of spending cuts and tax increases, including a combination of cuts in Medicare, Medicaid, and Social Security, and increases in income taxes, effective in 2014. The Bush tax cuts are assumed to be extended for 2013-2014.[5]

Facing the highest debt to GDP ratio among developed countries, Japan’s fiscal policy will feature a package of bills for the reform of social security and taxation, including an increase in 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. Meanwhile, post-quake reconstruction spending will decline in 2013.

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[4] International Monetary Fund, *Fiscal Monitor*, October 2012
[5] For details, see Global Insight *US Executive Summary*, October 2012

Compared with developed economies, most ***developing countries and economies in transition*** have a stronger fiscal position, in terms of budget deficits and public debt; although a number of low income countries are experiencing high budget deficit. In the outlook, fiscal policy stances are also expected to be quite diverse among developing countries and economies in transition.

Fiscal budgets in most African countries remain under pressure to meet demands for spending on a number of fronts including infrastructure investments and social security, while tax collection capacity remains limited. Fiscal policies will remain relatively expansionary in 2013, with many economies running budget deficits. In East Asia, fiscal balances deteriorated somewhat in 2012, but deficits remain low, and most governments have ample room to introduce large-scale fiscal stimulus measures if growth prospects further deteriorate sharply. In comparison, government budgets in South Asia are facing more pressure. For example, the central government deficit in India widened to 5.8 per cent of GDP in fiscal year 2011/12, well above the target of 4.6 per cent, owing to lower-than-expected corporate tax revenues, and higher subsidy expenditures as food and fuel prices remained elevated. In the 2012/13 budget, the government of India plans to reduce the deficit to 5.1 per cent of GDP. Fiscal policy in Western Asia has been shaped by social unrest in the region, and public expenditures have generally increased as a result. While oil-exporting countries will continue to increase government spending, supported by oil revenue, oil-importing countries have very limited policy buffers to do so. In Latin America and the Caribbean, many countries are well positioned to implement countercyclical fiscal policies to deal with slumps in aggregate demand. South American countries have relatively more fiscal space than Central America and the Caribbean.

In the CIS, the Russian Federation has adopted a new fiscal rule, which limits budgetary spending and plans to achieve a balanced budget by 2015, but allows a 5 per cent increase in planned spending in 2013. Fiscal policy in Kazakhstan and Azerbaijan will continue to be expansionary, but others will be tightening. Fiscal policies in most South and Eastern European economies are expected to tighten.

Monetary policy

Two common features are found in the outlook for monetary policy in major *developed economies*: (1) policy interest rates will stay at, or close to zero for the forecasting period of 2013-2014, and (2) the central banks of these countries launched new rounds of unconventional monetary policies, or in loose terms, quantitative easing (QE), in September 2012, in a concerted action. The Federal Reserve (Fed) of the United States announced the purchase of agency mortgage-backed securities at a rate of $40 billion per month until the labour market improves substantially. The ECB announced a new policy initiative dubbed “Outright Monetary Transactions” (OMT), whereby it will make potentially unlimited purchases of selected country bonds of unlimited duration to reduce yields, but with the stipulation that the respective country must first formally request assistance and accept conditionality. The Bank of Japan expanded the size of its Asset Purchase Program further to ¥80 trillion until the end of 2013. The most interesting points are the undefined duration and total amount of the new QE programmes by the Fed and the ECB, which indicate firm commitments by the central banks, which should provide an anchor for the confidence of financial markets.

In the past few years, through the QE programmes, the central banks have indeed been able to lower long-term interest rates, but studies have found that the incremental effects of lowering long-term interest rates on growth are diminishing over time; therefore, the new round will have even smaller effects. Concerns are also mounting in developing countries about the possible adverse effects of the QE on the financial and macroeconomic stability of these economies, increasing volatility in international prices of commodities, capital flows and exchange rates. However, policymakers in developed countries argue that such effects are not definitively found.

Facing a slowdown in growth and a receded inflation, central banks in many *developing countries and economies transition* have eased monetary policy in the past year (see table 3). In the outlook, further monetary easing will be likely in many of these countries, except for those with persistently high inflation, such as a few in South Asia and Africa. More details about monetary policy can be found in the regional economic outlook.

Table 3. Timeline of policy interest rate action for selected monetary authorities (as of 12 October 2012)

	Official interest rate	Last change		Current (%)	Change since (bp)	
		Date	Change		Trough[b]	Jul-11
Australia	Cash rate	2 October 2012	-25bp	3.25	25	-150
Brazil	SELIC overnight rate	10 October 2012	-25bp	7.25	0	-525
Canada	Overnight funding rate	8 September 2010	+25bp	1.00	75	0
Chile	Discount rate	12 January 2012	-25bp	5.00	450	-25
China	1-year working capital	7 July 2012	-31bp	6.00	69	-56
Colombia	Repo rate	24 August 2012	-25bp	4.75	175	25
Czech Republic	2-week repo rate	27 September 2012	-25bp	0.25	0	-50
Euro area	Refi rate	5 July 2012	-25bp	0.75	0	-75
Hong Kong, SAR[a]	Discount window base	17 December 2008	-100bp	0.50	0	0
Hungary	2-week deposit rate	25 September 2012	-25bp	6.50	125	50
India	Repo rate	17 April 2012	-50bp	8.00	325	0
Indonesia	BI rate	9 February 2012	-25bp	5.75	0	-100
Israel	Base rate	25 June 2012	-25bp	2.25	175	-100
Japan	Overnight call rate	5 October 2010	-5bp	0.05	0	0
Korea	Base rate	11 October 2012	-25bp	2.75	75	-50
Malaysia	Overnight policy rate	5 May 2011	+25bp	3.00	100	0
Mexico	Repo rate	17 July 2009	-25bp	4.50	0	0
New Zealand	Cash rate	10 March 2011	-50bp	2.50	0	0
Peru	Reference rate	12 May 2011	+25bp	4.25	300	0
Philippines	Reverse repo rate	26 July 2012	-25bp	3.75	0	-75
Poland	7-day intervention rate	9 May 2012	+25bp	4.75	125	25
Romania	Base rate	29 March 2012	-25bp	5.25	0	-100
Russia	Repo rate	13 September 2012	+25bp	5.50	N/A	N/A
South Africa	Repo rate	19 July 2012	-50bp	5.00	0	-50
Taiwan, Province of China	Official discount rate	30 June 2011	+12.5bp	1.875	62.5	0.0
Thailand	1-day repo rate	25 January 2012	-25bp	3.00	175	-25
Turkey	Effective rate	N/A[c]	N/A[c]	5.82	7	-43
United Kingdom	Bank rate	5 March 2009	-50bp	0.50	0	0
United States	Federal funds rate	16 December 2008	-87.5bp	0.125	0	0
Uruguay	Reference rate	28 September 2012	+25bp	9.00	275	100

Source: UN/DESA based on data of JPMorgan.

a Special Administrative Region of China.

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

c Effective rate adjusted on daily basis.

Alternative policy options: more forceful and concerted actions are needed

Given the looming uncertainties and downside risks as discussed in the previous section, it is highly possible that the current policy stances as summarized above may fail to prevent the global economy from slipping into another recession. Policymakers worldwide need to think about alternative policy options.

First, the approach as adopted by the euro area in the past two years must be replaced by a more comprehensive and integrated approach, in order to stem the systemic crisis of the monetary union, instead of aiming to deal with the debt crises of individual countries. While individual countries may still need to address issues in their domestic economic structures and institutions, crucial collective efforts are needed to close the institutional gaps and mend the systemic deficiencies of the economic and monetary union, including laying solid foundations for fiscal and banking unions. Only when concrete actions are taken towards further integration to restore confidence in the union, can other more technical policy measures be put in place to deal with such issues as how to resolve the debt overhang in a few countries, and how to break the linkage between sovereign risk and bank fragility.

Second, at the global level, the focus of fiscal policies should shift from short-term consolidation to robust economic growth with medium- to long-run fiscal sustainability. Against the political tide, Governments of economies with low financing costs in capital markets should allow automatic stabilizers to operate and sustain or enhance deficit-financed fiscal stimulus in the short run. Since fiscal space is clearly severely limited in some economies, international policy coordination will be critical. The first priority should be to boost demand in order to reduce unemployment, especially through public investment and more direct job creation. This would help households deleverage and boost consumption demand through income growth. Infrastructure investment and other structural measures would underpin strengthened export competitiveness over the medium run, giving time for China and other Asian economies to rebalance towards greater reliance on domestic demand growth and smaller trade surpluses.

Meanwhile, the short-term policy concern for many developing countries will be to prevent rising and volatile food and commodity prices and exchange-rate instability from undermining growth and leading their economies into another boom-bust cycle. These countries would need to ensure that macroeconomic policies are part of a transparent counter-cyclical framework that would include the use of fiscal stabilization funds combined with strengthened macroprudential financial and capital-account regulation to mitigate the impact of volatile commodity prices and capital inflows.

The third and related policy challenge will be to redesign fiscal policy—and economic policies more broadly—in order to strengthen the impact on employment and promote structural change for more sustainable economic growth. The optimal mix of supporting demand directly through taxes or income subsidies or indirectly through strengthening supply-side conditions, including by investing in infrastructure and new technologies, may vary across countries, but in most contexts, direct government spending tends to generate stronger employment effects. Greater investments in sustainable agriculture will also be critical, especially in developing countries and focused on smallholder farming, in order to provide further economic impetus, aligned with objectives of food security and poverty reduction.

The fourth policy challenge is to find not only greater synergy between monetary and fiscal stimulus, but also to better coordinate monetary policy action and regulatory reforms of the financial sector. Continuation of expansionary monetary policies among developed countries will be needed, but negative spillover effects such as highly volatile capital flows to developing countries need to be contained. Governments and central banks in developing countries should further strengthen their macro-prudential policy toolkit.

More accelerated regulatory reform of the financial sector will be essential in order to break out of the vicious circle of the low growth trap of developed countries and contain capital flow volatility for developing countries. While progress has been made in identifying and studying priority areas of regulatory reform and in offering policy recommendations, implementation is lagging behind. Moreover, insufficient coordination between national bodies appears to result in a regulatory patchwork, with major inconsistencies between jurisdictions. Global financial stability is unlikely to be achieved in the absence of a comprehensive, binding and internationally coordinated framework.

The last, but not the least, policy challenge is to ensure that sufficient resources are made available to developing countries, especially those possessing limited fiscal space and facing large development needs. These resources will be needed to accelerate progress towards the achievement of the Millennium Development Goals (MDGs) and for investments in sustainable and resilient growth, especially for the LDCs. Fiscal austerity among donor countries has also affected aid budgets, as is visible in the decline in real terms of the official development assistance flows in 2011. Apart from delivering on existing aid commitments, donor countries should consider mechanisms to delink aid flows from their business cycles so as to prevent delivery shortfalls in times of crisis, when the need for development aid is at its most urgent.

5. Regional prospects

Developed economies

United States

The economy of the United States has been mired in the aftermath of the sub-prime mortgage crisis for six years, with its per-capita income and employment still below the pre-crisis levels. During the course of 2012, some positive signs showed at the beginning of the year, including a relative robust recovery in business investment and exports, as well as a few months of stronger-than-expected growth in employment, but they faded away quickly amid an escalation of the debt crisis in the euro area and a general slowdown in the global economy, along with the heightened uncertainties about the looming fiscal cliff in the domestic economy. As these factors continue to linger, growth prospects for 2013 remain sluggish. On the positive side, the beleaguered housing sector seems to have shown some nascent signs of recovery. In addition, further support is expected in the form of the new round of quantitative easing that was launched by the Federal Reserve (Fed), which committed itself to keep purchasing mortgage backed securities until the employment situation improves substantially. In the baseline outlook, GDP growth is forecast to be 1.7 per cent in 2013, lower than the already anemic pace of 2.1 per cent estimated for 2012. Risks remain for an even worse scenario in the short run, emanating from the possibilities of a fiscal cliff, further eruption in the euro area debt crisis and a hard landing in large developing economies.

Assuming these downside risks could be averted, the economy of the United States is expected to gain some strength in the medium term. The process of deleveraging in the household and financial sectors over the past four years is expected to ease in 2014, which may provide improved lending conditions as the basis for stronger consumption spending.

Business investment was a key driver for the recovery of the past two years, growing at about 8.6 per cent for 2011 and 7.5 per cent for the first quarter of 2012, but has since started to decelerate notably, as firms become more cautious on capital investment amid the heightened uncertainties in both the domestic economy and the rest of the world. Growth of business equipment and software spending is expected to slow from 11 per cent in 2011 to 7 per cent in 2012, and further down to 6 per cent in 2013, and growth of spending on business structures is expected to slow to below 4 per cent in 2013.

The housing sector, after five years in a slump, is recovering. According to the Federal Housing Finance Agency (FHFA) price index, house prices are estimated to increase by more than 4 per cent in 2012. Inventories of unsold homes are falling and housing permits and starts are on an upward trend. Resident investment has been on the rise in 2012 and is expected to continue growing in the following years, driven by population growth and extremely low interest rates.

However, overall consumption spending growth will remain modest in the short run, as households are still facing a number of constraints, including a continued need for reducing high debt burdens, the difficulties in finding jobs and the uncertainties about future changes in tax policies.

Payroll employment increased at an average rate of above 1 per cent during 2012, higher than the growth of the labour force, but insufficient to bring about a significant reduction in the large number of unemployed in the wake of the financial crisis. The unemployment rate stayed above 8 per cent for the most part of 2012, but dropped unexpectedly to 7.8 per cent in September, partly explained by a large increase in part-time employment. The participation rate remains at a historically low level, while the share of long-term unemployed, namely, unemployed for more than six months, stands at a historical high of about 40 per cent, compared with the peak of 25 per cent in any of the other recessions after WWII. In the outlook, employment is expected to grow at a slow pace, with the unemployment rate remaining above 7 per cent by the end of 2013.

Inflation, measured by headline CPI, moderated in 2012 to about 2 per cent from 3.1 per cent in 2011 and is expected to retreat further in 2013, to 1.3 per cent.

Growth of exports was another driver in the past two years, reaching about 11 per cent in 2010 and 6.7 per cent in 2011. However, it has moderated significantly during the course of 2012, with an estimated pace of 3.6 per cent for the year, as demand from

Europe declined and demand from large developing countries slowed markedly. Growth of imports has also decelerated at a similar pace. In the outlook, growth of both exports and imports is expected to be around 3.5 per cent. Meanwhile, the current account deficit is estimated to be about 3 per cent of GDP in 2012, with a slight narrowing forecast for 2013.

The monetary policy stance remains very accommodative in the United States. In September 2012, the Fed announced its intention to keep the target range for the federal funds rate at 0 to 1/4 per cent through mid-2015, providing an anchor for the expectations of businesses and households. Meanwhile, the Fed decided to extend the average maturity of its holdings of securities through 2012 and to maintain its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities. In addition, the Fed launched a new round of quantitative easing to purchase agency mortgage-backed securities at a pace of $40 billion per month until the labour market has improved substantially, meaning, technically, such purchases will most likely continue through mid-2014.

In contrast, fiscal policy will remain in a tightening mode in the outlook. Real federal government spending on goods and services is expected to fall by about 3 per cent in 2013 and 2014, after a fall of about 2.5 per cent in the previous two years. More importantly, significant uncertainty remains about the decisions Congress will make on the expiration of the payroll tax cut, emergency unemployment insurance benefits and the Bush tax cuts, as well as on the automatic spending cuts (see the section on uncertainties and downside risks in the global economic outlook). In the baseline, it is assumed that the 2 per cent payroll tax cut and emergency unemployment insurance benefits are extended for 2013, and then phased out gradually over several years. It is also assumed that the automatic spending cuts now scheduled to begin in January 2013 will be delayed, giving more time for the new Congress and president to produce a package of spending cuts and tax increases, including a combination of cuts in Medicare, Medicaid and Social Security and increases in income taxes, effective in 2014. The Bush tax cuts are assumed to be extended for 2013-2014.

Japan

Throughout 2011, the Japanese economy suffered from the severe earthquake and the subsequent tsunami and crisis at a nuclear power plant in March. The economy contracted by more than 4 per cent in the first half of the year. During the fourth quarter, the recovery was disturbed by the flooding in Thailand, which is an important part of the supply chain for Japan's export production. The weakened demand from Europe and elevated value of the yen also dampened exports. The quarter-over-quarter annualized growth rate declined from 6.9 per cent in the third quarter to 0.3 per cent in the fourth quarter. For 2011 as a whole, the export growth rate declined from more than 24 per cent in 2010 to almost 0 per cent and pushed down the annual GDP growth rate to -0.8 per cent.

One consequence of the disaster in the nuclear power plant was the de-facto shutdown of nuclear power generation in Japan. Correspondingly, to meet the demand for electric power, imports of mineral fuels increased by 25 per cent. Japan encountered its first trade deficit at the annual level since 1981. Nevertheless, the significant stock of foreign assets held by Japanese citizens and the investment incomes generated by these assets have allowed the current account to remain in surplus. For 2011, the surplus was 2.0 per cent of GDP, which is noticeably lower than the level observed before the Great Recession. The yen exchange rate has maintained its medium-term trend of appreciating vis-à-vis the dollar. Although the Japanese Government has tried to intervene in the foreign exchange market after certain periods when the yen has appreciated strongly, the prevailing trend has still been an appreciation of the yen over the course of 2011 and 2012. For the forecast, it is assumed that the yen will depreciate against the dollar only slightly.

Monthly statistics for 2012 indicated a gradual fading of the negative impact on industrial production and export activity from flooding in Thailand. Both indicators rebounded in February 2012 but have again lost momentum since then. It is expected that the crisis in Europe and the elevated yen will limit export growth to only 2.8 per cent and 3.7 per cent for 2012 and 2013, respectively. Meanwhile, continued compensation for the phasing-out of nuclear power generation will result in elevated import demand for fuel, which will result in the external balance contributing negatively to growth for 2012 before turning positive in 2013.

In 2012, the gradual recovery from the disasters and the government programme to prompt the purchase of energy-efficient automobiles pushed private consumption growth to a rate of 2.5 per cent, which is the second-highest in two decades. However, the termination of this government programme, the possible reduction in pension payments and the planned hike in the consumption tax rate will cut into consumption, which is predicted to decline by 0.1 and 0.2 per cent in 2013 and 2014, respectively. During 2012, the continuous reconstruction in the disaster-affected areas has generated the strongest investment growth in 15 years. In 2013 and 2014, fixed investment is predicted to still expand, but only at the lower pace of 1.7 per cent and 1.5 per cent, respectively. Government consumption growth is expected to decline to 0.4 per cent and -0.1 per cent in the outlook period, much lower than the level of 1.3 per cent registered in 2012. Concerns for the budget deficit are the main reason for this decrease, in addition to the phasing-out of the efforts for reconstruction. In the outlook, GDP is expected to grow by 2.5 per cent in 2012, but the growth rate will decrease to 1.4 per cent and 1.1 per cent for 2013 and 2014, respectively.

Although Japan was in recession in 2011, the annual average headline unemployment rate actually declined to 4.6 per cent in 2011 from 5.1 per cent in the previous year. The long-term trend of a shrinking labour force and the disruption to the statistics compilation by the March 2011 disaster were behind this observation. Employment is expected to grow only slowly over the forecast period and the unemployment rate is expected to stay in the range of 4.5-5.0 per cent over the outlook horizon.

After positive growth in 2010, the wage index declined by 0.2 per cent in 2011, with the downward trend continuing in 2012. Deflation is still prevailing in Japan, although the speed of this decline in the CPI has been reduced in both 2011 and 2012 due to higher energy prices. Under the current assumption on oil prices, deflation may still persist in 2013 and 2014, although to a lesser extent than in the pre-Earthquake period because of the lower level of slack capacity. In 2014, the CPI inflation rate may become higher than 1.0 per cent due to the planned hike of the consumption tax rate from 5 per cent to 8 per cent in April of that year.

In 2012, the Japanese parliament has ratified a package of bills for the reform of social security and taxation. The most significant element of these reforms is an increase in 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 the Japanese Government’s estimation, this hike in the tax rate, combined with other parts of the package, will bring down the government deficit by more than 4 per cent of GDP over the medium run.

The Bank of Japan has kept the policy interest rate near zero for several years already and is expected to continue to do so over the forecast period. It has also adopted the practice of inflation targeting as of 14 February 2012, with the target currently set at an annual change of 1.0 per cent in the CPI. For this outlook, it is assumed that the predicted hike in the inflation rate in 2014 caused by the higher tax rate will not trigger a change in the policy rate. During the first nine months of 2012, the Bank of Japan has also expanded the size of the Asset Purchase Program further to ¥80 trillion over two policy decisions and extended the timeframe for implementation of this programme from mid-2013 to the end of 2013. It is expected that such action will bring down the long-term interest rate further.

Australia and New Zealand

Australia suffered from devastating flooding in 2010 and early 2011, which made exports decline noticeably in 2011. Nevertheless, the gradual recovery of coal production and investment for reconstruction and new production capacity has brought the GDP growth rate in 2011 to 2.3 per cent. For 2012, exports are expected to have continued their solid expansion. With help from new production capacity in the mining sector, exports are expected to have grown by 5.4 per cent in 2012 and are forecast to increase further by 3.4 per cent and 3.6 per cent in the next two years.

Investment in the mining sector is also expected to continue the solid expansion, while investment in other sectors is expected to stay tepid. However, the drop in prices for Australia’s main mineral products is expected to slow the investment in the natural resource sector. This outlook predicts that the growth rate for fixed capital formation will decline from 11.5 per cent in 2012 to 4.7 per cent in 2013 and further to -3.4 per cent in 2014.

Given the trend of continuing population growth, the growth rate for private consumption is predicted to stay on a level higher than 3 per cent over the period of 2012 to 2014. GDP is predicted to grow by 3.0 per cent in 2012 and 2.6 per cent and 3.2 per cent for 2013 and 2014, respectively.

In November 2011, the Reserve Bank of Australia has started to reverse the policy stance of higher policy rates it had adopted about two years ago. By early November 2012, the cumulated cut has been 150 basis points. It is believed that the lower CPI inflation, the weak external environment and declining housing prices were behind the last cut adopted in 2012.

In 2011, *New Zealand* suffered from a severe earthquake in the Canterbury region for the second time. The delayed reconstruction activity is expected to push the average investment growth rate to around 7 per cent in the three years after the disaster. Although the government plans to balance the budget within three years, in the short-run it is expected to provide more funds for reconstruction. Demand for New Zealand products from Asian developing countries and Australia is expected to remain solid in 2013 and 2014, which will keep the export expansion at a speed higher than domestic demand growth. GDP[6] is expected to grow by 2.1 per cent in 2012 and 2.1 per cent and 2.7 per cent for 2013 and 2014, respectively.

Canada

The Canadian economy started 2012 on a positive note, but lost momentum during the year, as business investment and exports, the two previous drivers of growth, softened. In the outlook, declining government spending will continue to be a drag on the economy in the short run, while the residential sector will retrench as well. The conditions are expected to remain challenging for Canadian exports. GDP is forecast to grow by 1.5 per cent in 2013, down from an estimate of 1.8 per cent in 2012. Some strengthening is expected in 2014, as GDP is forecast to rebound by 2.8 per cent.

While the unemployment rate is expected to stagnate at 7.3 per cent in 2013, the same level as in 2012, inflation will stay below 2 per cent in the forecasting period.

The Bank of Canada is expected to maintain the target of its policy interest rate at the current level until a gradual increase in mid-2014.

Government spending is expected to remain a mild drag on growth, 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 to buttress productivity growth in the long run.

Western Europe

The euro area sovereign debt crisis and attendant fiscal austerity programs remain the dominant forces determining growth in the region and, when coupled with slowing external demand and high oil prices, yield a very poor outlook going forward. GDP is expected to decline by 0.5 per cent in 2012, with growth reaching only 0.3 per cent in 2013 and 1.4 per cent in 2014.

The overwhelming headwinds affecting both domestic and foreign demand have reduced the variance of outcomes across the region. Through the second quarter, at least six euro area states were in technical recession, with more expected when third quarter figures are released. In addition, Germany, while expected to achieve positive growth for the year as a whole, has slowed significantly and France has not grown for three consecutive quarters, while the United Kingdom has experienced three consecutive quarters of negative growth. The crisis countries are in far deeper distress.

[6] Measured by expenditure.

A number of significant measures have been taken throughout the year and in each case, tensions subsided dramatically only to return a short time later. At the end of 2011 and in February 2012, the ECB conducted two large-scale long-term refinancing operations (LTRO). These operations were a success in halting the liquidity crisis in the banking system, but did not ultimately end the crisis of confidence over the survival of the EMU. In September, the ECB announced a new policy initiative dubbed "Outright Monetary Transactions" (OMT), whereby it will make potentially unlimited purchases (and held for an unlimited time period) of selected country bonds to reduce yields, but with the stipulation that the country must first formally request assistance and accept conditionality.

This complemented another agreement made by heads of state that would allow the use of the European Stability Mechanism (ESM) to directly recapitalize banks, thus breaking the link between bank re-capitalizations and government debt (but only after a new banking supervision entity would be created). These initiatives cooled tensions, with bond yields for Italy, Portugal and Spain dropping significantly, but again tensions revived not long thereafter. Other measures taken during the year include agreement on a new Fiscal Compact, essentially a beefed-up version of the Stability and Growth Pact, and the final approval by all member states of the new rescue fund, the ESM, which is now operational.

Taken together, these policies address many of the defects in the original design of the EMU, adding a lender of last resort, a banking union and a more credible Fiscal Compact. But they do not address the key short term issue of restoring growth in the region, without which the crisis countries will be unable to solve their fiscal problems.

Evidence from high-frequency data and short-term indicators is not encouraging. Business and consumer sentiment in the euro area has been falling since March 2012 and reached its lowest level since October 2009. Industrial production picked up at the beginning of the year but then drifted downward, with little momentum in the third quarter of the year. Both manufacturing and service sector confidence has fallen sharply and whereas earlier in the year, German confidence had held up remarkably, it has now also weakened significantly, with business confidence at its lowest level in more than two years.

Consumption is expected to remain weak in the outlook, but with significant differences across the region. Austerity programs are a major cause of weak consumption expenditure but vary in their intensity. The strength of labour markets is another key factor, in terms of both employment and wages, and also varies significantly across the region. The level of uncertainty stemming from the ebbs and flows of the euro area crisis is having a more uniform impact across the region, as consumer confidence, which had been improving earlier in the year, has since declined sharply in most countries.

Investment remains weak in the region with little prospect for a sustained upturn given weak demand, elevated uncertainty from the sovereign debt crisis and funding difficulties in the crisis countries. Intra-euro area demand is extremely weak and is now coupled with a significant deceleration in foreign demand. Industrial confidence has been hit badly by the sovereign debt crisis and, while rising in the early part of 2012, renewed tensions from the crisis led to further sharp declines throughout the year. Capacity utilization picked up slightly in the first quarter of 2012 but then dropped in the subsequent quarters and remains low by historical standards. Funding conditions vary across the region. In the crisis countries, conditions are extremely tight as their banking systems remain under tremendous pressures. Bank credit standards stabilized in the second quarter but are likely to have tightened in the second half of the year, with bank credit to the private non-financial sector very weak. Housing investment remains a major drag on activity in some countries, particularly those that experienced a housing bubble and subsequent collapse, such as Spain and the United Kingdom.

Exports slowed noticeably during the year, given the extremely weak intra-regional demand but increasingly coupled with the slowing of extra-regional demand as well, particularly from East Asia. The latter had been an important source of export growth for countries specializing in capital goods. Import demand is similarly weak given the recessionary climate in the region. In the euro area, some support to the export performance (and a muting of imports) is expected from the depreciation of the euro, but lackluster demand is currently the key driving force.

Meagre growth, and in an increasing number of countries recession, has wreaked havoc on labour markets. In the euro area, the rate of unemployment climbed to 11.4 per cent in August, up 1.2 percentage points from one year ago, another EMU era record. Significant regional differences remain. In Spain, unemployment registered 25.1 per cent in August, in Greece it was 24.4 per cent (June), while in Portugal it was 14.2 per cent, all countries subject to harsh austerity programs. At the other extreme are Austria, Germany, Luxembourg and the Netherlands with rates of around 5 per cent. Given the poor growth outlook over the forecast horizon, unemployment in the euro area is expected to continue to increase to 11.6 per cent in 2013, stabilizing at 11.5 per cent in 2014.

Headline inflation, as measured by the Harmonized Index of Consumer Prices (HICP), continues to be above 2 per cent (The ECB's targeted upper bound) as it has been since December of 2010, registering 2.5 per cent in August, boosted in part by high energy and other commodity prices as well as by administered prices. But core inflation, which abstracts from energy, food, alcohol and tobacco, in an attempt to measure underlying inflationary pressures, has been much lower at around 1.5 per cent, with no evidence of upward creep. In the outlook, headline inflation is expected to drift down slowly, and average 2.3 per cent in 2012, 2.0 per cent in 2013 and 1.8 per cent in 2014. Given the poor outlook for growth, the output gap will remain large, wage growth, while picking up modestly, will remain contained, and the assumptions on oil and other commodity prices yield little impact from these sources.

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, which typically requires a minimum of 0.5 per cent correction in the deficit to GDP ratio per annum with a specified time-frame for return to balance. The situation in the crisis-affected countries is far more severe, with significantly higher targeted annual consolidations and longer time periods of austerity necessary. Given that these targets are in terms of ratios to GDP, growth shortfalls require additional austerity measures which has led to a continuing downward spiral for the crisis countries. In the outlook, it is assumed that existing fiscal plans are implemented so that growth shortfalls will not be made up, but rather that the time periods for consolidation are lengthened.

Key risks to the forecast continue to be weighted to the downside. The sovereign debt crisis could flare up significantly, impacting bank solvency and depressing confidence. Governments may be forced to make up for growth shortfalls by introducing new austerity measures. In addition, oil prices could surge again, producing a strong negative shock. On the positive side, external demand may pick up earlier and with more vigour than anticipated, giving a boost to exports and investment. Moreover, tensions may subside in the region in the case of a more convincing implementation of the already announced package of policy measures, which would boost confidence.

The new EU members

The tenuous economic recovery in the new EU member states that emerged in 2010 has continuously weakened over the course of 2012. Although some countries of the region, such as the Baltic States and Poland, started the year with solid first quarter economic results, the ongoing troubles in the euro area, which still remains the major export market for the region and the biggest source of FDI, has led to a visible deterioration of the region's current economic prospects. Some of the new EU members such as the Czech Republic, Hungary and Slovenia have already been in, or entered into, a technical recession in 2012, with at least two consecutive quarters of negative quarter-on-quarter GDP growth, and are likely to see negative annual economic growth in 2012.

The impact of the unfavourable trade environment in 2012 has been further aggravated by the ongoing fiscal austerity measures and, consequently, by suppressed domestic demand and weak labour markets. Most of the fiscal space the new EU members possessed is exhausted and even in cases when a country can still enact a fiscal stimulus to counteract the downturn, there are often other constraints such as constitutional limits on the size of public debt, as in Poland. The deteriorating investor sentiment towards the euro area and portfolio investors' search for alternative markets has led to more favourable borrowing terms for the new EU members in 2012. However, the commitment to fiscal discipline remains one of the prerequisites for the low sovereign debt yields of those countries and further squeezes fiscal policy space, as many governments face significant external debt repayment or refinancing needs.

The persistent weakness in external and domestic demand will lead to a slowdown in GDP in 2012. Aggregate GDP of the new EU members will grow by 1.3 per cent in 2012 and growth will accelerate to a by historical standards still moderate rate of 2.2 per cent in 2013 amid numerous uncertainties and risks.

Economic performance varied in the region in 2012.The biggest economy, Poland, which was the only EU economy to avoid recession in 2009-2010 and expanded by an impressive 4.3 per cent in 2011, in the first half of 2012 benefited from the massive infrastructure spending related to the Euro-2012 Football Championship. The country is relatively sheltered from the euro area debt crisis, having a smaller export-to-GDP ratio compared with its regional peers and exhibiting extensive trade ties with the Russian Federation. However, cooling domestic demand and the need for fiscal consolidation and keeping the public debt in check slowed the economy in the second half of the year, with annual growth expected to hardly exceed 3 per cent. A similar growth rate is expected for 2013. For other countries in Central Europe, which have much larger export-to-GDP ratios (close to or above 70 per cent), industrial output in 2012 was held back by faltering external demand. The key automotive industry, while continuing to drive industrial output and exports in Central Europe and attracting further FDI, slowed in the second half of 2012, especially in the Czech Republic. Slovakia, meanwhile, recorded more successful car sales thanks to the higher share of its non-EU export markets. Economic growth prospects for those exporters in 2013 will largely depend on the developments in the euro area. The Baltic States started 2012 with broad-based growth, some at high rates, but a moderation in growth will lead to an expansion of their economies by only about 3 per cent in 2012 and 2013. Bulgaria and Romania, where low growth rates are also expected, may face additional risks to their economies, as they have stronger trade, finance and investment links with Greece and Italy.

Price pressures in the region, which resurfaced in mid-2012 triggered by higher oil and food prices, subsided later in the year. Although headline inflation rates in a number of cases overshot the respective central banks' targets, this was explained mostly by the impact of external shocks and the increases in indirect taxes to meet fiscal revenue targets, while core inflation remained weak, with the exception of the Baltic States and Poland. Slower growth in the second half of 2012 and weak labour markets will keep inflation in check for the rest of the year. Provided that economic activity picks-up in 2013, core inflationary pressures may strengthen, but annual headline inflation in 2013 is likely to be lower because of the base effect of one-off price increases in 2012.

Fiscal policies in the region in 2012 have been following a consolidation path to reduce the budget deficits in the medium-term to the required benchmark of 3 per cent of GDP, as stipulated by the EU's Stability and Growth Pact both for the euro area members and non-members. Lower than projected economic growth, however, forced many of the new EU member states to revise their budgets in mid-2012, adopting new fiscal targets. Fiscal authorities also resorted to new revenue-enhancing measures, such as additional increases in indirect and other taxes. Those policies, while improving sentiment in international capital markets, in many cases created a serious social backlash and their impact on the economies, at least in the short term, is contractionary. Some countries, such as Hungary, applied for external financial assistance to meet their fiscal targets and external debt obligations. However, Hungary's negotiations with the IMF on obtaining new funding are progressing slowly, amid serious disagreements on tax and spending policies.

By contrast, monetary policies in 2012 remained pro-growth in nature. In Hungary, where consumer prices increased by 6 per cent year-on-year during the summer, the Central Bank cut policy rates, prioritising growth over inflation. Benchmark interest rates were also cut in the Czech Republic, to a record low of 0.25 per cent, which is 0.5 percentage point below the ECB rate, and in Latvia. Nevertheless, credit growth remains anaemic and will hardly pick-up in 2013. Although banking sectors in some of the new EU members recorded profits in 2012, only in Poland and Slovakia did real credit expand in the first half of the year. Both demand for credit and credit supply remain weak, as households continue to repay their debt (often denominated in foreign currencies), businesses are cautious and banks, facing reduced access to cross-border funding, clearly refrain from risky lending. Accommodative monetary policy may, however, support the region's exports through weaker exchange rates.

New core capital requirements of the EU banking regulation compelled the parent EU-15 banks, operating in the region, to improve their capital adequacy ratios, which led to a continuing deleveraging in the new EU member states. A serious distress of parent banks could lead to a severe credit crunch in Eastern Europe. The so-called "Vienna 2.0" Initiative agreed in early 2012 by the governments, the central banks, international financial institutions and the major commercial banks present in the region does not contain the same commitments as the Vienna Initiative adopted in 2009, which played a significant role in preventing a drastic outflow of capital from Eastern Europe during the crisis.

The region’s labor markets, which recovered in 2011 most notably in the Baltic States, suffered some setbacks in 2012, as the unemployment rates slightly increased, partly reflecting reductions in the size of the public sector. The ongoing fiscal consolidation is complicating governments’ efforts to address labour market issues, although public work programs in some countries, such as Hungary, created some low-skill employment. Much of the unemployment in the region is structural by its nature and requires much more serious policy actions.

In line with the deceleration in global trade growth, the expansion in exports and imports of the new EU members weakened in 2012. Although growth rates both for exports and imports in real terms remained mostly positive, they were far below the double-digit rates achieved in 2011, as external demand for manufactured goods shrank. Exports retained some resilience in the first two quarters of 2012, but then weakened markedly. Most of the growth in exports came from trade with non-EU partners such as the Russian Federation and Ukraine. Due to the strong import content of exports in key industries and because the weakening domestic demand took its toll on imports of consumer goods, imports also cooled down towards the end of 2012. In 2013, both merchandise exports and imports of the new EU members will increase by 1 to 3 per cent in real terms, as a strong recovery either in external or internal demand is unlikely. The Czech Republic, Hungary and Slovakia recorded trade surpluses in 2012, which improved their current account balances. In certain cases, namely in Bulgaria, Latvia, Lithuania and Slovenia, where the trade balance was negative, surpluses in trade in services and surpluses in current transfers, including transfers from the EU, improved the current account position. In 2012, the current account was in surplus in Hungary and Slovakia and in deficit in other countries in the region, with a similar situation being expected in 2013. FDI flows are expected to cover at least part of the deficit during the forecast period for the majority of countries.

A major risk in the outlook remains a protracted recession in the EU-15, which would delay the recovery of exports, further technological upgrades through FDI flows and a resolution of the structural problems faced by the new EU members. Other downside risks include the inability to prevent a sharp cut in cross-border lending and an excessively contractionary impact of fiscal tightening.

Economies in transition

South-eastern Europe

The economic picture in most of South-eastern Europe remains dim and the region's short-term growth prospects do not allow much optimism. The renewed troubles in the euro area, which absorbs the bulk of the region's exports and is the most important source for FDI and migrants' remittances, badly affected the region in 2012. Following the double-digit recovery in the region's exports in 2011, external trade expanded only by a few percentage points in 2012. FDI and portfolio capital inflows also remained below their pre-crisis levels. Domestic demand, which sharply contracted during the global economic and financial crisis, in 2012 continued to strengthen in certain South-east European countries, albeit from a low base, and was able to cushion to some extent the impact of the adverse external conditions. However, the ongoing fiscal consolidation efforts in most of the region and excessively high unemployment act as a break on any serious upturn in domestic demand. Production in 2012 was also disrupted by the unusually cold weather in February, which brought industrial output and construction to a halt. The persistent drought in the summer has imposed, in turn, a heavy toll on the agricultural sector. Consequently, Croatia and Serbia are likely to see negative GDP growth rates in 2012 and GDP of the region as a whole is expected to decline by 0.3 per cent in 2012, increasing only modestly by 1.3 per cent in 2013. In 2013, Croatia is set to join the EU and the country's admission to the union should bring certain economic benefits through the removal of the last trade barriers and stronger FDI inflows, as well as larger financial assistance.

The South-east European economies are comparatively more vulnerable to a worsening of the euro area crisis compared to most of their East European neighbours, as they are more exposed to the economies of Greece and Italy, some of the most troubled euro area countries. Albania receives most of its remittances from Greece, while the former Yugoslav Republic of Macedonia and Montenegro heavily depend on the Greek market and Serbia has strong trade links with Italy. Moreover, the Greek banking sector has a significant share in the South-east European financial market and a massive withdrawal of capital may seriously distress the region's financial markets, even despite the fact that the banks increasingly rely on the domestic deposit base.

Inflationary pressures in South-eastern Europe intensified in the summer months, but that upward trend mostly reflected a spike in food and energy prices, some one-off effects such as rises in VAT rates or increases in administratively controlled utility prices, and, in the case of Serbia, also a depreciating currency. For most of the countries, annual inflation in 2012 should remain in the range of 2-4 per cent. As the impact of one-off factors tapers off, inflation in the region in 2013 should be one half of a percentage point weaker.

Unemployment in South-eastern Europe remains high and largely structural by its nature. In 2012, the rate of registered unemployment in Serbia approached 26 per cent. Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia have even higher unemployment rates, persistently above 30 per cent, as the region has not yet fully recovered from the consequences of the break-up of the former Yugoslavia and its reindustrialization yet remains a goal. While governments have only limited options to address the labor market issues, they are trying to allocate funds and implement programs to boost employment and competitiveness.

Fiscal policies in 2013 will be hardly able to support growth, as most governments consolidate public finances. Faced with lower than projected economic growth, or even a decline in output in the first half of 2012 and lower than anticipated revenue intake, some governments in the region had to revise their annual budgets and to introduce additional measures to meet fiscal targets. Most of the consolidation is expected to come from the revenue side, through further increases in indirect taxation and the introduction of additional taxes, as cuts in public expenditure threaten to trigger serious public backlashes. For Bosnia and Herzegovina, which obtained a new stand-by loan from the IMF, fiscal policy should also meet the conditions set by the Fund.

The conduct of monetary policy in South-eastern Europe is constrained by unilateral euroization, which is the case in Montenegro, or by formal or informal currency pegs. In the countries with flexible currencies, in 2012 monetary easing continued in Albania, but interest rates in Serbia, where inflation moved beyond the central bank's tolerance band, were raised several times. Monetary conditions should remain mostly accommodative in 2013, however, as private credit growth will remain slow to pick up.

Trade in goods in South-eastern Europe grew only modestly in 2012. Both exports and imports in the region increased by only a few percentage points in real terms, reflecting lower export and import demand. All South-east European countries run trade deficits in goods and this is expected to continue in 2013. The tourism sector, on the other hand, performed well in Croatia and in Montenegro. Provided the crisis in the euro area is successfully resolved and external demand recovers, real exports may grow by about 3 to 5 per cent in 2013, and a modest recovery in domestic demand, especially investment, may lead to a similar growth rate of imports. The current accounts deficits in the region, despite the inflows of workers remittances, again started to expand since 2010, as recovering domestic demand spurred imports. Albania, Bosnia and Herzegovina, Montenegro and Serbia have relatively large current account deficits, approaching or exceeding 10 per cent of GDP.

The major risk the region is facing is the spillover effect of a possible further deterioration in the euro area through trade, finance and remittance channels.

Commonwealth of Independent States (CIS)

Most of the economies of the Commonwealth of Independent States (CIS) continued their robust growth in 2012, although the speed of economic expansion moderated in some of them in the second half of the year. As in previous years, strong international commodity prices, especially for oil and natural gas, supported the economies of CIS energy-exporters, including the Russian Federation and Kazakhstan. Those two economies, by absorbing a large share of the CIS exports, despite the ongoing diversification of the external trade in the area, and by remaining an important source of migrant workers' remittances, had a favourable impact on other CIS countries.

There are indications that growth weakened in the Russian Federation in the second half of the year, as the impact of the pre-electoral fiscal spending gradually tapered off and the corporate sector was cautious in taking investment decisions. Nevertheless, the economy is expected to grow by almost 4 per cent in 2012, mostly thanks to robust domestic demand. The Russian Federation, however, is still facing significant capital outflows. Among other CIS economies, an abrupt decline in growth is anticipated in Moldova and Ukraine, as those countries are more exposed to the euro area through the direction of their foreign trade and were badly affected by the unusually cold weather in early 2012. Growth in 2012 will remain low in Azerbaijan, with the main driver being the non-oil sector. In the economies of Central Asia, high commodity prices and public infrastructure projects should sustain GDP growth rates in the range from 6 to 12 per cent in 2012, with the exception of Kyrgyzstan, where output in the country's largest gold mine was disrupted by a strike. In 2012, migrant workers' remittances continued to support the economies of Armenia, Georgia[7], Kyrgyzstan, Moldova, Tajikistan and Uzbekistan, albeit to a different degree. As commodity prices in 2012 retreated from their 2011 levels and a severe drought in many areas of the CIS, including in the Russian Federation, Kazakhstan and Ukraine, severely disrupted agricultural output, growth rates for most of the CIS economies in 2012 are expected to be lower compared with 2011. The aggregate GDP of the region will grow by about 3.8 per cent both in 2012 and 2013.

Economic integration in the CIS is progressing 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. In September, Moldova and Ukraine joined the CIS Free Trade Agreement, signed earlier in 2011 by six CIS countries. In the international arena, the Russian Federation joined the WTO in July 2012 after many years of protracted negotiations. The accession should eventually lead to lower import tariffs on a wide range of products, but its near term impact will be minimal, as only about a third of tariffs will be reduced immediately and tariff reduction on the most sensitive products will not take place until 2019.

Inflationary pressures in the CIS resurfaced in mid-2012 on the back of another spike in food and energy prices. Some other factors contributed to inflation as well, such as tariff hikes in the Russian Federation during the summer. Annual inflation in the Russian Federation in 2012 may exceed 5 per cent. As most of the CIS area is likely to see a drastically reduced harvest, food prices may again exert inflationary pressure in late 2012 and early 2013. Inflation rates in the CIS in 2012 are expected to vary from about 0.5 per cent in Georgia, where consumer prices fell year-on-year in early 2012, to over 60 per cent in Belarus, where the currency drastically depreciated in the aftermath of a balance-of-payments crisis. Mostly similar inflation rates (except for Belarus) are projected for 2013 as the disinflation process will be impeded by further increases in regulated prices across the CIS. Other factors in this respect will be continuing increases in wages in energy-exporters and export-related foreign exchange inflows.

Increased public spending on the back of strong export revenues and shrinking active population have led to a decline in the unemployment rate in the Russian Federation to a record low in 2012. The commitment of the Government to increase

[7] Georgia is not a member of the CIS. However, it has strong economic links with the region.

public spending in 2013 should further reduce the unemployment rate. In Central Asia, positive trends in job creation were recorded in Kazakhstan. By contrast, in Ukraine, the unemployment rate has increased in 2012 as a result of tighter fiscal policy and weaker export performance. The labour market conditions in many other CIS economies, especially in Central Asia, are difficult to assess as a large share of the working age population is engaged in seasonal employment outside their countries.

Facing increasing inflationary pressures, the central bank of the Russian Federation raised its key interest rates by 25 basis points in September, despite strong objections from the corporate sector. By contrast, in Kazakhstan, the central bank repeatedly reduced interest rates in 2012 to provide an additional stimulus to the economy. A more accommodative policy stance was also taken by the central banks in Belarus, where the policy rate has been reduced from 45 to 30.5 per cent, Georgia, Kyrgyzstan, Tajikistan and Ukraine. However, in many CIS economies, the credit markets are underdeveloped, which limits the impact of monetary policy actions. In those energy-exporting countries which face strong foreign exchange inflows, the central banks will try to prevent appreciation of their currencies.

Fiscal policy was expansionary in the Russian Federation in early 2012, as the country faced presidential elections. The Government is aiming to achieve a balanced budget by 2015 and has adopted a new fiscal rule, which limits budgetary spending. Any revenue, accrued from a higher oil price than embedded in the budget will be diverted to reserve funds. The new rule nevertheless allows a 5 per cent increase in planned spending in 2013. Expansionary public spending in 2012 also continued in Kazakhstan and increases in oil and gas revenue will allow the Government to support growth in 2013 and onwards while achieving a balanced budget. Continuing fiscal expansion is also likely in Azerbaijan, which will draw resources from its overseas oil fund. For most of the other CIS countries, which are energy importers, fiscal policy has been tightened in 2012 for a variety of reasons, including concerns about high external debt or compliance with the conditionality of IMF programs, and will have at best a neutral effect on growth over the forecast horizon.

In 2012, the energy exporters of the CIS again run trade, as well as current account, surpluses. Energy-importers run trade and current account deficits, which in many cases were mitigated by a positive balance on current transfers. However, in the Russian Federation, the trade surplus narrowed, as oil prices retreated from their 2011 highs and the pre-electoral fiscal spending bolstered imports. In volume terms, Russian exports increased by about 5 per cent in 2012 and are expected to grow again by 5 per cent in 2013. Ukrainian exports, however, stagnated as external demand, especially for metals, hit a standstill. The export performance noticeably improved in Belarus, boosted by currency devaluation. In Azerbaijan, however, exports grew by a mere 1 per cent or less, reflecting declining oil output.

On the import side, strong consumer demand in the Russian Federation sustained double-digit real import growth and imports are expected to increase by a further 8 per cent in 2013. Import growth slowed in Ukraine in line with lower export revenues and a weaker propensity to spend as well as in Kazakhstan, mirroring more responsible fiscal spending. Since in most economies of Central Asia, public spending on infrastructure has continued and private consumption also strengthened, real imports in these countries expanded by 12 per cent in 2012.

The possibility of a sharp drop in commodity prices remains the main risk for most of the CIS economies, as economic diversification still remains an urgent necessity both for the energy-exporters and the energy-importers. Other medium-term risks may emerge from a weak banking sector, especially in Kazakhstan, Kyrgyzstan and Tajikistan, difficulties in increasing or coping with declining energy output and insufficient levels of investment, including into human capital.

Developing countries

Africa

Africa will see a minor deceleration in growth in 2013 to 4.8 per cent from 5.0 per cent in 2012, though some of the change is distorted by significant changes in Libya. Without Libya, which is estimated to have doubled its GDP in 2012 after a 60 per cent fall in 2011, growth is actually accelerating, moving up from 3.4 per cent in 2012 to 4.5 per cent in 2013. Major factors underpinning this solid growth trajectory include the strong performance of oil-exporting countries in view of increasing output and elevated price levels, continued fiscal spending especially in infrastructure projects as well as expanding economic ties with Asian economies in terms of both trade and investment flows. This ongoing shift in the external exposure of some countries in the region also serves as a cushion against the negative fallout from the economic problems in the developed economies. A further hallmark of growth in many economies in the region remains the growing role of domestic demand in light of rising incomes, providing an additional degree of insulation against external shocks. Despite this positive headline performance, the region remains plagued by numerous challenges. Military conflicts threaten the population in numerous sub-regions and prevent sustained economic and social development. In addition, on a per capita basis, economic growth will be far too low to achieve more significant reductions in poverty levels. Furthermore, infrastructure shortfalls represent a major obstacle for more vibrant economic development. The outlook is subject to a number of risks and uncertainties, including a more severe and broader global economic slowdown encompassing especially also emerging economies, unexpected adverse weather conditions that would negatively affect harvest yields and political instability given the often still only weak institutional environment.

Economic growth in North Africa has been relatively uneven, partly due to the lingering after-effects of the political and social transitions in the wake of the Arab spring. Wide swings in the GDP growth rate for Libya, given that it makes up around one quarter of the GDP for the sub-region, pushed regional growth rates further down in 2011 and up in 2012. The rest of the economies in the region have had much more modest changes. Growth in Egypt’s economy is expected at 3.2 per cent in 2013, as external support eases stability concerns and fears of a currency crisis abate. In Libya, a more rapid than expected return to pre-revolutionary levels of oil production greatly boosted growth rates. There and in Algeria, robust oil output and prices will continue to support economic growth. An end to the drought that has cut agricultural output in Mauritania, Morocco and Algeria will help to boost output and reduce imports as well as trade deficits. Growth in many of the countries will remain somewhat subdued in the near future due to the continued sluggishness in the European economy. Lower tourism numbers in Egypt, Tunisia and Morocco and slower trade between the two regions will keep economic expansion restrained. Increased intra-regional trade and cooperation is expected to provide a small buffer, but regional markets are still much smaller compared to the volume of trade with the EU.

In Sub-Saharan Africa, South Africa will register accelerating growth of 3.1 per cent in 2013 in view of a stabilising international economic environment that is particularly relevant for its resources and manufacturing sector. However, on the domestic side, growth will be held back by the continued high unemployment rate. In addition, economic inequality underpins a significant downside risk to economic growth as it could lead to intensifying social and political tensions as well as further labour unrest.

The oil-producing economies in the region will benefit from an improved global growth picture in the form of sustained oil export volumes and prices. In Nigeria, growth is forecast to accelerate to 6.8 per cent in 2013, with non-oil sectors such as telecommunications and construction providing significant impetus to economic activity. The positive impact of the oil and services sectors on growth is similar in Ghana, where solid agricultural output and increasing production by gold mines are forecast to lend additional support to the economic performance. Other economies that will benefit from solid conditions in the oil market include Angola, Cameroon, Gabon, Chad and Equatorial Guinea. However, this exposure to the international oil market also implies a major downside risk in the case of a significant fall in oil prices that could be triggered, for example, by a more pronounced global slowdown. Along the same line, growth in countries relying on mining exports such as the Democratic Republic of Congo, Tanzania and Zambia will continue to be strong, combined with the downside risk of exposure to slowing international commodity demand, for example from China.

The sub region continues to see a generally vibrant development in domestic demand, based on strong investment in view of the shortfall in infrastructure and the expansion of service sectors such as telecommunications and construction. This applies, for example, to Kenya, which is expected to maintain relatively robust growth of 5.4 per cent in 2013, with a rebound in domestic investment helped further by lower interest rates.

Power generation issues will remain a drag on growth in a number of countries in Sub-Saharan Africa such as Uganda, where the economy will grow by 5.5 per cent in 2013. The continent suffers not only from a widespread lack of accessibility to the power grid, but also the unreliability of the supply that does actually exist. This is due to the burden on the electricity grid in view of an often stark imbalance between demand and supply as well as the emergence of new challenges such as the impact of more volatile weather patterns on the availability of hydropower, which makes up a significant share of the installed generation capacity in a number of countries. Expansion into other power generation methods such as the use of peat in Rwanda and geothermal power in Kenya are expected to help in mitigating some of these issues.

Inflation rates will on average recede moderately across the region in view of the weakening international environment and the fading one-off impact of drought conditions on harvest yields and domestic food prices. In South Africa, upward inflation pressure from wage growth and higher regulated prices will increasingly be offset by weakening commodity prices, resulting in an inflation rate of 4.2 per cent in 2013. Côte d'Ivoire will register one of the lowest inflation rates in the region, with the more stable political situation and the normalisation of trading activities on local markets keeping price increases limited to 2.1 per cent in 2013. By contrast, some of the highest inflation rates will occur in the oil exporters. In the case of Nigeria, government spending, especially at the state level, will keep inflation above 10 per cent in 2013, while strong domestic consumption will keep inflation in Angola and Ghana at 8.6 per cent and 8 per cent, respectively, in 2013. A number of countries will see a continuation of a pronounced downward trend in inflation rates. In Kenya and Uganda, for example, the high inflation rates of late 2011 and early 2012 have been brought down through aggressive interest rate policies and, barring a return of significant drought conditions, inflation will continue to moderate and remain in single digits in 2013.

In the area of monetary policy, the moderating impact of the weakening external environment will provide some room for taking a more accommodative stance, although this will need to be balanced with the possible inflationary effect of still vibrant domestic demand in many economies. Relatively more stable political conditions in North Africa will reduce the pressure on monetary policy makers to support exchange rates, which will also have a stabilising effect on the level of foreign currency reserves.

Fiscal budgets will remain under pressure on a number of fronts. The lack of infrastructure will require significant investments, while the lack of social security systems and high unemployment levels will create continuing pressure to initiate new spending to address at least some of the urgent welfare problems. At the same time, generating sufficient revenues will remain challenging. Many countries have only limited tax collection capabilities, weaker oil prices will provide no additional boom to fiscal revenues in oil exporters and overseas development assistance is also expected to remain under pressure given the fiscal constraints in developed economies.

In the forecast, fiscal policies will remain relatively loose in 2013, with many economies running budget deficits, while some move towards consolidation is expected in 2014. In South Africa, for example, the fiscal deficit will remain at around 5 per cent in 2013 in light of investment spending and higher wages, before falling back to around 4 per cent due to higher growth in 2014. In Morocco, increased payments to public sector workers approved in the wake of the Arab Spring will help to maintain some domestic demand, while putting increased pressure on the deficit which is expected to remain above 6 per cent in 2013. Cuts in fuel and food subsidies will help to mitigate some of the rise in the deficit, but will present new political challenges which may limit further cuts. Various countries have successfully tapped international capital markets, including a 10-year euro bond issue by Zambia at a yield lower than that for comparable bonds from some euro zone countries. Given the historically low interest rates in developed countries and the continued positive growth prospects in Africa, the issuance of international debt will remain an attractive financing option for a number of countries.

Trade balances will experience downward pressure across most of the region, as domestic demand and investment will be driving strong imports. A number of countries such as Tanzania will also continue to see an increasing need for fuel imports, as economic growth and economic activity are outstripping available power supplies. East African economies with new oil and gas discoveries will face downward pressure on their trade balances in the near term due to imports of the industrial products needed for exploration activities. In the case of exporters of oil and minerals, the more subdued global demand picture will also translate into more moderate export growth, increasing the net drag on external balances. In addition, the weakness in the euro zone will provide a further dampening impact on external balances. This applies, for example, to North Africa, although the low demand elasticity of oil exports will create a stabilising effect on the external accounts of countries like Libya and Algeria. Meanwhile, continuing demand for gold will help to offset some deficits in Sudan and Tanzania, while increased productivity in agriculture and horticulture will help to boost exports in Kenya and Ethiopia. A major downside risk to external balances lies in a more drastic slowdown especially in China, which would hit major exporters of natural resources such as South Africa particularly hard. External account balances are forecast to increase in 2014 along with an improving external environment and strengthening exports.

Despite the positive growth picture, the employment situation remains a major problem across the region, both in terms of the level of employment as well as, like especially in North Africa, the quality of jobs that are generated. Issues of gender disparity in employment are also acute, with women facing unemployment rates at least double that of men in countries such as Algeria and Egypt.

Demographic trends are one determinant in this respect, as overall young populations imply that even solid growth rates are not enough to generate enough jobs to absorb the new entrants into the labour market. Moreover, a lack of diversification away from activities related to resource extraction or agriculture prevents the creation of more vibrant labour demand. However, the continued growth in services such as telecommunications and construction in countries such as Nigeria, Kenya and Ghana will be a positive factor in this respect. At the same time, labour conflicts or social unrest constitute a major downside risk to the economic performance of the region. In South Africa, for example, a labour conflict in the mining sector caused the loss of numerous lives and major disruptions in a crucial sector of the economy in 2012. Strikes by public sector workers also occurred in Kenya and Tanzania, causing major disruptions in the health and education sectors.

East Asia

East Asia’s growth momentum has weakened considerably over the past year as a result of sluggish demand in developed countries and a sharper-than-expected slowdown in China. The region’s gross domestic product grew by 5.9 per cent in 2012, down from 7.1 per cent in 2011 and 9.2 per cent in 2010. In the outlook, regional growth is projected to pick up to 6.3 per cent in 2013 and 6.7 per cent in 2014 as a slight recovery in global demand and more accommodative macroeconomic policies, including in China, stimulate activity. The recent slowdown mainly reflects a sharp drop-off in export growth as demand from the European Union faltered and intra-regional trade softened. In most countries, domestic demand expanded at a robust pace in 2012, supported by resilient labour markets and a decline in inflation. Monetary and fiscal policies have become more expansionary in most economies, although the authorities have so far refrained from aggressive policy easing.

The marked slowdown in average regional growth in 2012 masks significant differences among economies. The region's higher-income and heavily export-dependent economies, including Hong Kong Special Administrative Region of China, Singapore and Taiwan Province of China experienced the most pronounced economic downturn, with annual growth dropping below 2 per cent. These economies were severely impacted by the recession in the euro area, subdued demand in the United States and Japan, and slowing growth in China. In 2013 and 2014, this group of economies is projected to see a moderate growth recovery as global conditions improve. In China, the pace of economic expansion dropped from 9.2 per cent in 2011 to 7.7 per cent in 2012, the lowest rate in more than a decade. Weak export demand and a sharp decline in investment growth (especially in the real estate sector) dampened economic activity. While the risks of a hard landing of the Chinese economy, with growth declining to an annual pace of about 5 per cent, remain low, only a mild recovery to 8.0 per cent growth in 2013 is projected. The slowdown in China and the higher-income economies of East Asia contrasts with robust growth in Indonesia, Malaysia, the Philippines and Thailand, where buoyant consumption and investment demand largely offset lower net exports. The strong growth performance in the Philippines and Thailand in 2012 was supported by significant rises in public investment spending, but also reflects a base effect following weak growth in 2011. Growth in this group of countries is forecast to remain fairly stable in 2013.

East Asia's labour markets have so far been resilient to the slowdown in growth across the region. In many economies, including Malaysia, the Republic of Korea and Singapore, the unemployment rate has remained close to historically low levels as robust domestic demand helped offset the downturn in manufacturing and exports. In Indonesia, the unemployment rate declined further to 6.3 per cent in the first quarter of 2012, about half the rate of 2006. As in other East Asian countries, most of the new jobs in Indonesia have been created in the service sector, where productivity continues to be much lower than in the manufacturing sector. As a result, the share of workers in vulnerable employment conditions remains high, ranging from about 20 per cent in Malaysia according to ILO estimates to 50 per cent in Thailand and 60 per cent in Indonesia. Given that labour markets tend to react with a lag to weakening economic activity, the regional slowdown is likely to exert more significant downward pressure on employment in the quarters ahead. Unemployment rates are expected to move higher in many countries, especially the region's higher-income and strongly export-dependent economies. The most recent unemployment figures for Hong Kong Special Administrative Region of China and Taiwan Province of China have already shown an uptick in the third quarter of 2012. As a result of slowing inflation, real wage growth has gained strength over the past year in the economies with lower per-capita income, such as China and Viet Nam.

Inflation has declined considerably in East Asia over the past year as economic growth slowed and many commodity prices moderated. For the region as a whole, consumer price inflation averaged 2.9 per cent in 2012, well below the rate of 4.9 per cent in 2011. In most economies, including China, Indonesia and the Republic of Korea, the current inflation level is firmly within the central bank's target range. Viet Nam has seen a particularly sharp deceleration in inflation, which dropped from 23 per cent year-on-year in August 2011 to 5 per cent in August 2012. This decline can be mainly attributed to a series of monetary policy measures in 2011 that restrained credit growth and stabilized the currency. By contrast, consumer price inflation has remained fairly sticky in Singapore and moved higher in Taiwan Province of China following a reduction of petrol and electricity subsidies. Despite the recent spike in the global prices of several commodities, notably corn and soybeans, overall price pressures in East Asia remain subdued and the inflation outlook is benign. With growth projected to be below potential in most economies in 2013, demand-pull pressures are likely to remain low. In addition, the strength of regional currencies against the dollar and the euro is expected to reduce imported inflation. Regional inflation is projected to average 3.1 per cent in 2013 and 3.5 per cent in 2014 in line with a gradual growth recovery. Upside risks to inflation include the re-emergence of strong capital inflows following the new round of unconventional monetary policies in developed economies, the impact of planned subsidy reductions (e.g. in Indonesia and Malaysia) and strong nominal wage growth, especially in China, Thailand and Viet Nam.

Against the backdrop of slowing economic activity and reduced price pressures, most central banks in East Asia have shifted their focus from inflation to growth. Unlike in 2008/09, however, the authorities have not eased monetary policy aggressively, but have instead taken calibrated and cautious steps to strengthen their economies. The main exception has been the State Bank of Viet Nam, which lowered its benchmark interest rate five times in the first half of 2012 after inflation slowed considerably. The People's Bank of China (PBC) cut interest rates in June and July, reducing the one-year benchmark deposit rate by 50 basis points to 3 per cent and the one-year benchmark loan rate by 56 basis points to 6 per cent. In addition, the PBC further lowered the reserve requirement ratio for deposit-taking institutions and used open-market operations to inject liquidity into the banking sector. Similarly, the central banks in the Philippines, the Republic of Korea and Thailand reduced policy rates in recent months. The monetary authorities in Hong Kong Special Administrative Region of China, Singapore and Taiwan Province of China, by contrast, have so far refrained from easing monetary policy despite the marked slowdown in economic growth. Looking ahead, most central banks are likely to remain cautious, with some additional monetary easing expected in China and a few other economies.

After improving in the wake of the strong recovery from the 2008/09 recession, fiscal balances in East Asia deteriorated in 2012. This reflects both weaker revenue growth amid decelerating economic activity and rising expenditures as governments tried to counter the impact of the slowdown. In several countries such as China and the Philippines, the Government announced stimulus measures in the course of 2012, albeit of a much smaller size than in the aftermath of the global financial crisis. In Thailand, government spending rose sharply in 2012 owing to flood relief and reconstruction programmes. In Indonesia and Malaysia, expenditures on subsidies remained elevated owing to persistently high oil prices. On the other hand, Indonesia and the Philippines reported significant underspending of government funds, which lowered the deficit. Despite the more challenging situation, budget deficits remained below 3 per cent in 2012 in all East Asian economies other than Malaysia and Viet Nam. Going forward, fiscal deficits are projected to narrow in most countries as growth and government revenues gradually recover and authorities remain committed to long-term fiscal sustainability. While low deficit and debt levels imply that most governments have ample room to introduce large-scale fiscal stimulus measures, they will only do so if growth prospects further deteriorate sharply.

With the exception of China, East Asia's exports decelerated more rapidly than imports over the past year, leading to a narrowing of trade and current account surpluses. The weakness in export earnings across the region reflects subdued import demand in developed economies, slowing demand in China and a decline in the prices of many export commodities such as rubber and copper. The region was particularly affected by the fall in European Union demand for machinery, transport equipment and manufactured goods. Compared to 2011, nominal merchandise exports (in dollars) remained flat or declined slightly in most East Asian economies, including Indonesia, Malaysia, the Republic of Korea and Taiwan Province of China. Import bills, by contrast, continued to grow in most countries, although at a much slower pace than in the past two years. In Indonesia, import growth remained robust owing to strong domestic demand, resulting in a sharp contraction of the trade surplus and the first annual current account deficit in 15 years. Conversely, China's export earnings grew slightly faster than its imports. As a result, the current account surplus remained stable at about 2.8 per cent of GDP. In 2013, East Asia's exports and imports are projected to grow at a subdued pace given the continuing weakness in global conditions. Trade and current account balances are expected to improve slightly.

Despite the region's strong fundamentals, overall risks remain tilted to the downside. A further deterioration of the sovereign debt crisis in Europe remains a key risk for East Asia's economies since it would likely lead to renewed turmoil on financial markets and a sharp contraction in global trade activity. Fiscal policy uncertainty in the United States, continued geopolitical risks in oil-producing areas and high commodity price volatility owing to heightened global financial liquidity represent additional risk factors for regional growth. Finally, a sharp deceleration in the pace of growth in China would have a severe impact on economic activity in the region.

South Asia

Economic activity in South Asia slowed further in 2012 as internal and external headwinds persisted. After growing by 6.1 per cent in 2011, the region's gross domestic product expanded by an estimated 4.4 per cent in 2012, the slowest pace in a decade. Persistently high inflation, political uncertainties, and transport and energy constraints have weighed on household consumption and investment. At the same time, the region's exports have been hit by slowing demand in developed countries and many emerging economies, notably China. In most South Asian countries, the scope for macroeconomic policies to promote growth is limited. Central banks are trying to strike a balance between supporting demand and curbing inflation, while governments are facing increased pressure to bring down budget deficits. Going forward, regional growth is projected to accelerate slightly to 5.1 per cent in 2013 and 5.7 per cent in 2014, led by a gradual recovery in India.

India's economy, which accounts for almost 75 per cent of the region's total GDP, has experienced a marked slowdown in growth over the past two years. After growing by more than 9 per cent in 2010, GDP is estimated to have risen by only 5.5 per cent in 2012. The slowdown can be mostly attributed to domestic factors as private consumption and investment were negatively affected by persistent inflation, high nominal interest rates, large fiscal deficits and political gridlock. These factors will continue to be a drag on the economy in the outlook period, although growth is projected to recover moderately to 6.1 per cent in 2013. The recovery will likely be supported by slightly more accommodative monetary policy and improved business confidence, following recent government measures to reduce the subsidy bill and open up several sectors of the economy to foreign direct investment. Nepal and Pakistan continue to experience subdued economic growth as ongoing political instability and security concerns weigh on domestic demand. In Pakistan, investment has declined for four consecutive years and accounted for only 12.5 per cent of GDP in fiscal year 2011/12. Economic activity in the Islamic Republic of Iran is projected to have contracted in 2012 as the sanctions by the European Union and the United States have led to a sharp decline in oil exports and a massive fall in the value of the rial. On the positive side, the growth prospects for Bangladesh and Sri Lanka remain largely favourable despite a moderate slowdown in 2012. In both countries, the economic expansion is based on strong growth in private investment and consumption, which is supported by a steady increase in workers' remittances.

Given the lack of current labour market data in South Asia, the employment impact of the recent economic slowdown is largely unclear. The latest survey by India's Labour Bureau indicates that employment growth in the country's manufacturing sector slowed markedly during the fiscal year 2011-12. According to the survey, employment continued to increase in India's exporting firms between September 2011 and March 2012, but declined in the non-exporting sector amid weakening domestic demand. Although official unemployment rates in the region are low, with the ILO projecting average regional unemployment in 2012 of only 3.8 per cent, there are deep-rooted structural labour market challenges. These challenges include the dominance of low-productivity jobs in the informal sector, the very large proportion of working poor, low female participation rates and high youth unemployment. Recent labour market reports for India and Pakistan illustrate the magnitude of these challenges. In India, less than 20 per cent of persons are classified as wage/salary earners, whereas about 80 per cent are either self-employed or temporary workers. The female labour force participation rate in India is estimated at 25.4 per cent, compared to 77.4 per cent for males. In Pakistan, three quarters of employed women work in the agricultural sector, the large majority of them in vulnerable employment conditions. These figures highlight the pressing need to generate productive employment in the manufacturing and services sector to allow people to move out of low-productivity agricultural jobs.

After slowing at the beginning of 2012, inflationary pressures have picked up again in most South Asian economies in recent months. Regional consumer price inflation is projected to average 11.7 per cent in 2012, up slightly from 11.1 per cent in 2011. The renewed rise in inflation can be attributed to a number of factors, including drought conditions in parts of the region, higher international food prices, significant depreciation of local currencies against the dollar and hikes in administered fuel and electricity prices. Strong nominal wage growth and large fiscal deficits, particularly in India and Pakistan, have also added to inflationary pressures. Year-on-year inflation rose to about 25 per cent in the Islamic Republic of Iran in late 2012, as the removal of government subsidies and the fall of the rial against the dollar, triggered by the tightening of Western sanctions, drove up prices. By contrast, Bangladesh and Pakistan experienced a moderate decline in inflation in the course of 2012, in part owing to more subdued growth of private sector credit. In the outlook, consumer price inflation is projected to decline slightly in most South Asian economies, averaging 10.7 per cent in 2013 and 9.9 per cent in 2014 for the region as a whole. More stable local currencies, lower international food prices and the impact of slower money supply growth are expected to reduce upward price pressures. However, deeply entrenched inflation expectations, coupled with the need for governments to further raise administered energy prices, will constrain progress in reducing inflation.

Persistently strong inflationary pressures and large fiscal deficits continue to limit the scope for more expansionary monetary policies in South Asia. In general, the region's central banks have remained reluctant to ease monetary conditions aggressively in order to stimulate domestic demand and counter the economic slowdown. In Bangladesh and Sri Lanka, the central banks left monetary policy unchanged in the second and third quarter of 2012, following some earlier tightening. In both countries, the authorities are expected to maintain the current policy stance in the first half of 2013 unless growth slows more sharply than expected. The Reserve Bank of India (RBI), which had hiked its benchmark repo rate 13 times by a total of 375 basis points between March 2010 and October 2011, cut interest rates only once during the first nine months of 2012 even as consumption and investment growth weakened considerably. In April, the repo rate was lowered by 50 basis points to 8 per cent. In an attempt to boost liquidity in the banking system, the RBI also reduced the cash reserve ratio for banks from 6 per cent at the beginning of the year to 4.5 per cent in October. While India's monetary authorities remain focused on containing inflation and anchoring inflation expectations, the continuing weakness in domestic demand, in particular private investment spending, is expected to prompt further monetary easing in the quarters ahead. Unlike the RBI, the State Bank of Pakistan (SBP) has fully shifted its focus to strengthening private investment, which has declined for four consecutive years, and supporting domestic demand. The SBP cut its main policy rate in August and October 2012, lowering it from 12 per cent to 10 per cent. If inflation continues to slow in the coming quarters, additional interest rate reductions are likely.

Slowing tax revenue growth and rising expenditures on energy, food and fertilizer subsidies have put additional pressure on fiscal balances in South Asia. In almost all countries, the deficit reduction targets for the past fiscal year were missed by a considerable margin; this trend that is likely to continue in the current fiscal year despite increased government efforts to bring down subsidy bills. In India, the central government deficit widened to 5.8 per cent of GDP in fiscal year 2011/12, well above the target of 4.6 per cent. The shortfall can be primarily attributed to lower-than-expected corporate tax revenues, following the marked slowdown in economic growth, and higher subsidy expenditure as food and fuel prices remained elevated. In the budget for the new fiscal year 2012/13, India's Government outlined a moderate fiscal consolidation program, planning to reduce the deficit to 5.1 per cent of GDP. After recording a four-month deficit equivalent to more than 50 per cent of the full-year target, the Government introduced a series of measures to lower the subsidy bill, including a significant increase in the administered price of diesel and restrictions on the purchase of subsidized cooking gas cylinders. Despite these measures, the 2012/13 target is likely to be missed as the slow pace of growth and persistently high oil prices continue to weigh on public finances.

Actual government deficits also exceeded initial targets in other South Asian economies during the past fiscal year, amounting to 5.2 per cent of GDP in Bangladesh and about 6.3 per cent in Pakistan. Governments in both countries face major challenges in bringing the fiscal deficit down. These include strong expenditure demands to address energy shortages and enhance welfare spending as well as very narrow tax bases.

In most South Asian economies, trade and current account deficits widened significantly in 2012. Exports were hit hard by weakening demand in key markets, including the European Union, the United States and China. In dollar terms, total annual merchandise exports in 2012 are estimated to have fallen by about 3 per cent in India, 6 per cent in Sri Lanka and 8 per cent in Pakistan. The decline in export receipts reflects both lower volumes and lower prices of some major export commodities such as rubber and cotton. In the Islamic Republic of Iran, export earnings are estimated to have contracted by more than 25 per cent in 2012, following the tightening of European Union and United States sanctions in the first half of the year. In most South Asian countries, import spending growth also declined sharply in 2012, although import bills continued to be pushed up by high oil prices and still robust consumer demand. An important factor behind the slowdown in import spending was the sharp depreciation of local currencies. The Indian rupee, for example, lost more than 25 per cent of its value against the dollar between June 2011 and June 2012. Sri Lanka's rupee also fell sharply against the dollar after the central bank decided in February 2012 to allow greater exchange rate flexibility. The weakness in the region's currencies reflects the large and rising current account deficits as well as a sharp decline in portfolio equity and debt inflows amid recurring concerns over the euro area's debt crisis. Workers' remittance flows to Bangladesh, Pakistan and Sri Lanka continued to grow at a strong pace in 2012. In 2013 and 2014, South Asia's economies will continue to record large and partly widening current account deficits. Even in countries such as India, where exports are projected to rise faster than imports, nominal current account deficits are likely to increase further owing to the significantly lower value of exports in 2012.

Downside risks to the economic outlook for South Asia are related to the continuing weakness of the global macroeconomic environment and to regional or domestic economic vulnerabilities. On the external side, a global recession triggered by an escalation of the euro area crisis or the fiscal cliff in the United States would further weaken South Asia's exports, while also reducing workers' remittance inflows. Widening current account deficits, coupled with lower portfolio capital inflows, could cause significant pressure on the balance of payments, possibly requiring contractionary adjustment policies. Political instability and deteriorating security conditions represent downside risks for several countries in the region, notably the Islamic Republic of Iran, Nepal and Pakistan. In India, lack of economic reforms owing to political gridlock may lead to further downward revisions of growth in the outlook period.

Western Asia

Western Asia's growth momentum further polarized in 2012. Most oil-exporting countries experienced robust growth on the back of record-high oil revenues and government spending. By contrast, economic activity weakened in oil-importing countries, burdened by higher import bills, declining external demand and shrinking policy space. As a result, oil-exporting and oil-importing economies are facing a dual track growth outlook. On average, GDP growth in the region is estimated to decline from 6.7 per cent in 2011 to 3.6 per cent in 2012 and 3.5 per cent in 2013.

Most oil-exporting countries benefitted from record-high oil prices and rising oil output in 2012, especially Saudi Arabia, Iraq and Kuwait. Strong growth in Saudi Arabia was further underpinned by the expansion of domestic demand and a dynamic real estate sector. Public and private investments bolstered growth in Qatar. Economic activity grew more modestly in Bahrain, Oman and the United Arab Emirates as the financial and real estate sectors gradually recovered. Political instability delayed any possible recovery in Yemen.

Social unrest and political instability, notably the civil war in the Syrian Arab Republic, weighed on risk perception in the entire region. Neighbouring Jordan and Lebanon were directly affected by subdued cross-border economic activities, including trade, investment and tourism, resulting in rising current account deficits. In Jordan, weak economic growth further exacerbated the difficulty of limiting budget deficits without reviving social unrest.

The deteriorating external environment increasingly affected economic activity in Israel, while weakening domestic demand contributed to a sharp decline in economic growth in Turkey.

Social unrest highlighted the poor employment situation prevailing in countries across the region. In Gulf Cooperation Council (GCC) countries, official unemployment rates are relatively low, but common problematic features include low employment rates and, its corollary, hidden unemployment as well as an excessive reliance on migrant labour, which on average represents 70 per cent of the labour force. In Saudi Arabia, for instance, the unemployment scheme created in the wake of the Arab Spring, which includes unemployment benefits of $533 per month, attracted more than a million unemployed workers, many of them women previously not considered as part of the labour force. In Gulf countries, private sector jobs are generally very unattractive compared to those in the public sector. As a result, migrant workers who are more inclined than nationals to accept inferior working conditions represent around 90 per cent of manpower in the private sector. Quotas and visa restrictions for migrants as well as minimum pay requirements for natives in the private sector have so far failed to significantly support job creation for natives in the private sector.

Conflict in the Syrian Arab Republic is significantly harming production and employment. Unemployment increased significantly from 8.6 per cent in 2010 to 14.9 per cent in 2011 and the situation likely worsened this year. In Jordan, the unemployment rate declined by 0.9 percentage point, averaging 12 per cent over the first three quarters of 2012.

In Turkey, unemployment declined further to almost 8 per cent in 2012, after peaking above 14 per cent in 2009. In Israel, the official unemployment rate increased by more than one percentage point as economic statistical methodologies were brought in line with OECD standards, reaching 7 per cent in 2012. Rising income inequality, a record poverty rate relative to other OECD countries and the most recent unemployment statistics provide a bleaker picture of the Israeli labour market, undermining claims that the country is riding through the global crisis with relative ease.

Fiscal policy in Western Asia was durably affected by political unrest in the region last year. Temporary and permanent increases in public expenditures will represent a drag on public finances in many countries in the years ahead. With oil revenues at a record high in 2012, GCC countries and Iraq continued their active fiscal policies and actual expenditures may even exceed budgeted figures. As governments resume implementing their respective development plan, spending is progressively shifting from current to capital expenditures. This trend was challenged in Oman, however, where the Sultan announced the creation of an additional 56,000 jobs in the context of renewed social unrest. While medium-run fiscal balances remain strong in many Gulf countries, the break-even price of oil for GCC countries as a whole is estimated to have increased from $49 per barrel in 2008 to $79 in 2012, with Bahrain and Oman being most vulnerable to a potential oil price drop.

Oil-importing countries possessing limited policy buffers reacted more cautiously to political unrest and experienced mixed fortunes. A modest increase in public sector wages could not prevent the Syrian Arab Republic from plunging into prolonged violence. In Jordan, civil servant pay raises widened the budget deficit. As the Government implemented spending cuts in the second half of 2012, growing public discontent led it to backtrack on its attempt to reduce ever more costly energy subsidies. As a result, Jordan's reliance on external grants from GCC countries and conditional IMF loans grew further along with a deficit exceeding 6 per cent of GDP. Lebanon's fiscal stance remained neutral during the first half of 2012, but a proposed public sector salary increase may widen the budget deficit.

In Israel, several recommendations of the Trajtenberg Committee that was created in 2011 in the wake of social unrest have been accepted by the Government, but the projected rise of the budget deficit to 3.4 per cent of GDP in 2012 is more directly related to steady military spending amounting to more than 6 per cent of GDP. In Turkey, slowing growth is expected to have increased the budget deficit from an estimated 1.4 per cent of GDP in 2011 to 2 per cent in 2012. Fiscal balances in Turkey and across the region are forecast to deteriorate next year.

Inflation declined across the region during the first three quarters of 2012 in the context of high commodity prices, but weakening external and domestic demand. In GCC countries, inflation remained around 3 per cent or below, except in Saudi Arabia. The housing component of the consumer price index was negative in Bahrain, Qatar and the United Arab Emirates, caused by excess capacity and limited domestic demand pressures. In Saudi Arabia, inflation remained above 5 per cent during the first half of the year, driven by strong domestic demand and housing prices growing by almost 9 per cent, and slightly declined thereafter. High commodity prices contributed to keep inflation above 10 per cent in Yemen, where the Government could not stabilize prices by increasing subsidies.

Inflation in the Syrian Arab Republic may exceed 30 per cent in 2012 as a consequence of ongoing violence, the oil embargo and financial sanctions that are hampering production and trade. In Jordan and Lebanon, the pass-through effect of high food and energy prices kept inflation above 4 per cent during the first three quarters of the year, a slight decline compared to 2011.

In Israel, the consumer price index grew by 2.1 per cent during the first three quarters of 2012 on the back of high food and housing prices, about 1 percentage point lower compared to last year. In Turkey, demand-led inflationary pressures progressively weakened during the year, but higher food and energy prices as well as value-added tax increases pushed up inflation, which may decelerate to 7 per cent at the end of the year. Barring a revival of domestic and external demand pressures or a crisis pushing up commodity prices, inflation will likely decline further across the region in 2013.

Conventional monetary policy remained unchanged in many countries of the region in 2012. Policy rates in GCC countries that have their currencies pegged to the dollar remained constant, almost mirroring the stance of the United States Federal Reserve. Kuwait, which closely manages its currency against the dollar, lowered its benchmark discount rate by 50 basis points to 2 per cent in October. Growing money stock in GCC countries improved liquidity conditions, contributing to slightly lower funding costs, which had increased in the wake of the Arab Spring.

Meanwhile, funding costs were on a rising trend in Jordan and Lebanon. Jordan raised its policy rate by 50 basis points in February to defend the national currency, setting the overnight repurchase agreement rate at 4.75 per cent. In January, the Syrian Arab Republic introduced a managed float of its exchange rate, allowing the Syrian pound to devaluate by more than 30 per cent. The measure eased the discrepancy between the official and black market exchange rates, thus avoiding a rapid depletion of foreign reserves, and allowed commercial banks to take advantage of the strong demand for the dollar.

The depreciating Turkish lira stabilized against the dollar at the end of 2011 as the central bank tightened monetary policy by raising overnight lending rates and widening the interest rate corridor. Reserve requirement ratios were also reduced in order to prevent an undesirable tightening in liquidity conditions. In 2012, as the current account deficit progressively declined along with domestic demand, monetary authorities kept the policy rate constant, but continued to reduce the effective funding rate from 11 percent in January to less than 7 percent in September. Inflation remained above target. In Israel, weakening demand-led inflationary pressures led the central bank to loosen monetary policy three times during the first half of the year, setting the interest rate at 2.25 per cent. As most countries across the region tie their monetary policy to the stance of central banks in advanced economies, monetary loosening required in view of a grim growth perspective may only occur in those countries with independent monetary policy in 2013.

The dual track growth outlook in the region largely stems from growing external imbalances. While record oil revenues boosted external surpluses in oil-exporting countries, higher import bills burdened existing deficits in oil-importing countries. In GCC countries, current account surpluses range from around 8 per cent of GDP in the United Arab Emirates to more than 40 per cent in Kuwait. Oil production outages caused by pipeline attacks in Yemen contributed to the external deficit.

Current account deficits also widened in Jordan and Lebanon on the back of high commodity prices and rising import bills, weak external demand as well as declining tourism revenues and investment flows. Foreign reserves dropped by 37 per cent in Jordan over the first half of the year and reserve accumulation stalled in Lebanon.

The trade deficit also increased in Israel in 2012, generating a current account deficit. Weakening import demand from Europe and the United States led to a drop in manufacturing exports, including for high-tech goods. As Turkish goods have found new export markets to the east of the country, exports have become comparatively less reliant on Western markets. This underpinned some resilience in exports during the first half of 2012, while imports stagnated. Although the trade balance remained largely negative, it improved slightly and contributed to the declining current account deficit, which may reach 7 per cent this year compared to more than 10 per cent in 2011. While external imbalances across the region are structural, their magnitude in the years ahead largely depends on commodity price developments. The discovery of gas resources in the Mediterranean is likely to transform Israel into a chronic surplus country starting in 2014.

In the outlook, Western Asia faces four major downside risks. First, renewed domestic social unrest could raise the oil price risk premium, exacerbating existing current account and fiscal imbalances deriving from high oil prices. Second, rising international tensions leading to a blockade of the Strait of Hormuz could trigger an international oil supply shortage and an unprecedented price hike, holding the potential to have a significant negative impact on global growth. Third, if the financial woes and deeper fiscal austerity in developed countries were to trigger a global downturn, a sustained drop in the oil price would negatively affect fiscal and eventually social stability in oil-exporting countries. Finally, 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

Latin America and the Caribbean are expected to see an acceleration in growth to 3.9 per cent in 2013, after a more moderate expansion by 3.3 per cent in 2012. This continued solid growth trajectory is closely tied to the performance of the Brazilian economy, which is expected to expand by 4.0 per cent in 2013. Mexico and Central America are forecast to register growth rates similar to those of 2012, 3.9 per cent, although these are highly sensitive to the US scenario. In line with the regional picture, the Caribbean countries will also register an acceleration in growth to 3.7 per cent in 2013, 0.7 percentage points higher than in 2012.

Remarkably, Latin America’s growth has been 4.6 per cent on average in the last three years. This represents a certain decoupling from the performance of developed economies, which is a new characteristic of the region’s growth path. Nevertheless, economic prospects were deteriorating during the second half of 2012 as the stagnation in the developed economies and the slowdown in China began to affect regional exports. Therefore, the region is expected to have achieved a more moderate growth rate of 3.3 per cent in 2012, a second consecutive decline from 4.4 per cent in 2011 and 6 per cent in 2010. The slower regional growth in 2012 reflects, in particular, the lower growth in South America of 2.9 per cent, with Brazil and Argentina contributing greatly to the overall picture as two of the biggest economies in the subregion.

Latin America’s moderate growth of 2012 was explained in large part by still resilient domestic demand. Important drivers were private expenditure in Mexico, Chile, Colombia and Peru as well as investment in Mexico and South American countries like Ecuador, Chile, Colombia and Peru. The external sector shows a dichotomy across the region. While Mexico, Central America and the Caribbean benefited from the fragile

United States recovery through solid net exports, South American countries have been relatively more affected by the slowdown in China and the euro zone recession. The external sector constitutes the main impact channel, especially in Chile, Argentina, Brazil and Uruguay. Remittances are another channel through which the European situation is affecting Latin America, particularly Ecuador and Colombia.

Despite the slowdown in the region in 2012, labour market indicators continued to show a good performance, for example in the form of the rising trend in employment rates, real wages and women's labour force participation as well as lower unemployment rates. For the whole region, urban unemployment reached an historical low of 6.5 per cent. The unemployment rate is even lower than 6 percent in Brazil, Ecuador, Mexico, Panama and Uruguay. Also, formal employment creation was buoyant in Mexico, Chile, Costa Rica, Mexico and Nicaragua. Reflecting the role of domestic demand as the main growth engine, employment generation has been concentrated in the non-tradable sector. The overall labour situation reinforced private consumption in the region; thus strengthen the key source of economic growth in recent years. However, there were also some indicators that this impulse began to weaken in the second half of the year. For example, job creation rates slowed in Argentina, Bolivian Republic of Venezuela, Paraguay and Peru.

In contrast to conditions in the developed world, labour market indicators in the region are likely to remain strong in 2013, but further improvements such as additional reductions in unemployment or higher employment creation rates will be difficult to achieve. Thus, it is also expected that there will be only limited additional positive feedback from labour markets to private consumption.

The inflation outlook for 2013 is relatively stable, but there might be some upward trends if the gradual shifts towards loosening monetary policies consolidate further. Also, trends in international food prices, especially for grains, may threaten the inflation targets in the region in 2013, especially in Central America and the Caribbean. Nonetheless, there is no clear sign that underlying inflation across the region is shifting into an upward trend. The estimated inflation rate was 6 per cent in 2012, 0.9 percentage point lower than 2011. Central American countries saw the largest declines in inflation, thanks to lower price rises for food.

Monetary policy in the region has some space in order to promote economic activity if the global picture and, in particular, the economic conditions in the United States worsen in 2013. However, considering the strength of private consumption, monetary policy will continue on a cautious path. During 2012, half of the economies did not modify their policy interest rate, but as the global downturn began to affect regional exports and economic perspectives in some countries deteriorated, the focus of policymakers gradually shifted from reducing inflation towards promoting economic activity. The most notable case is Brazil, which in fact started to reduce interest rates even earlier, in August 2011. Since then, the central bank has successively reduced the Selic reference rate by 500 basis points, to a historical low of 7.5 per cent. Colombia, Paraguay, the Dominican Republic and the Bolivarian Republic of Venezuela have also reduced their policy interest rates during 2012. Only Uruguay, Argentina and Honduras increased their interest rates in 2012.

The quantitative easing measures in developed economies will underpin additional appreciation pressures on the region's currencies in 2013. Given policymakers' track record, this might lead to additional interventions in exchange rate markets, further increasing international reserves in the region. Indeed, the region has continued to attract substantial private capital inflows during 2012, maintaining favourable financing conditions for funding the current account deficit of around 1.7 per cent of GDP. As in 2011, the current account deficit was mainly funded by net foreign direct investment flows, followed by net portfolio investment.

The exchange rates of the national currencies of the region remain at higher levels compared to those before the global downturn. However, during 2012, there were diverging trends. Countries like Colombia, Chile, Mexico and Peru have experienced an appreciation of their domestic currencies, while Brazil and Argentina saw a depreciation of their currencies. The volatile behaviour of capital markets and exchange rates led many of the region's central banks to intervene actively in foreign-exchange markets. Clearly, the tendency towards foreign-exchange purchases suggests that central banks were more concerned about avoiding local-currency appreciation than depreciation. As a result, most countries increased their level of international reserves during 2012.

In the area of fiscal policy, the outlook for 2013 is a continuing consolidation of fiscal balances. Given the economic growth forecasts and fiscal policies currently in place, the region will continue on its downward trend in terms of the ratio of public debt to GDP, which is forecast to move towards 30 per cent in the medium term. Moreover, the region shows a similar picture in 2012 compared to the preceding year, with fiscal consolidation continuing to recoup fiscal policy space in the form of an overall budget balance of -1.8 per cent of GDP in 2012, a primary budget balance of -0.1 of GDP and with revenues and expenditures growing at the same pace as GDP. The situation varies widely across countries, but many countries are well placed to implement countercyclical fiscal policies to deal with potential slumps in aggregate demand. In relative terms, South American countries like Chile, Peru, Paraguay and the Plurinational State of Bolivia have more fiscal space. In addition, some countries, namely Ecuador, Peru and Chile, introduced tax reforms in 2012 aimed to increase the tax base. In Central America, public deficits have become a persistent problem in recent years, as governments have raised expenditures to safeguard social spending. However, recent tax and administrative reforms in El Salvador, Guatemala, Honduras, Nicaragua and Panama should improve fiscal revenues and thus fiscal balances. Meanwhile, Caribbean public deficits also widened during the crisis owing to increased spending. In most Caribbean countries, public debt as a percentage of GDP remains relatively high, at a level of more than 60 per cent.

In 2012, Latin American countries continued to implement macroprudential policies. These included new regulations on foreign currency deposits (Paraguay, Peru and the Plurinational State of Bolivia), changes in capital requirements for financial institutions (Uruguay), restrictions on the issuance of negotiable securities (Brazil) and new mortgage bond regulations (Chile).

Considering the current export slowdown and to some extend the deterioration in the terms of trade, the region's current account balance will likely continue deteriorating in 2013, though only slightly. This is especially the case for mineral exporters, like Chile and Peru. During 2012, the region's trade surplus declined in value terms, as export growth slowed to 4 per cent while imports continued to grow at a slightly higher rate of 7.5 per cent. The slowdown in export growth is attributable mainly to the fall in exports to the European Union by South American countries, namely Brazil, Chile, Ecuador, Paraguay, Peru, Uruguay and the members of the Caribbean Community (CARICOM). By contrast, exports from Mexico and some Central American countries to that region still increased. The decline in import growth, in turn, reflected the generally slower economic activity, as well as the effects of import restrictions in some countries, most notably Argentina, but also some others like Brazil and Ecuador. Also, international prices for the region's main export commodities witnessed declines across the board throughout 2012, reflecting deteriorating global growth prospects. This is especially the case for metals, agricultural raw materials and tropical beverages, while the prices of food and energy held up at levels similar to those of 2011. As a result, regional terms of trade suffered a decline of around 2 per cent. Only the hydrocarbon-exporting countries, namely the Bolivarian Republic of Venezuela, Ecuador, the Plurinational State of Bolivia, Trinidad and Tobago and Mexico, posted an increase in their terms of trade, although in the case of Mexico, this was due to the significant role of manufactured products in exports.

Risk and uncertainties are tilted towards the downside of the baseline estimations and include the potential fiscal cliff in the United States, a deepening of the sovereign debt crises in the euro zone and a hard-landing of the Chinese economy. A worsening global scenario will darken the economic outlook for the region with heterogeneous impacts. A more pronounced slowdown or renewed financial turmoil in the euro zone would have a relatively modest effect in the region as a whole, but it would be more relevant for the southern part of the region, both in terms of lower demand for regional exports and remittances. However, South American countries are well placed to implement countercyclical policies. A worsening scenario in the United States, in particular the fiscal cliff, would have a relatively larger effect in the whole region considering the closer economic linkages. The economic impacts would be larger in the Caribbean, Central America and Mexico through the export, tourism and remittance channels. At the same time, the Caribbean countries have less fiscal space to implement countercyclical policies. Additionally, a hard-landing of China would affect South American countries, especially non-diversified commodity exporters by means of export volumes and commodity prices, relatively more strongly. In the baseline scenario, there is also an increasing concern among policymakers about the quantitative easing measures implemented in developed countries, particularly regarding the potential effects of capital inflows on exchange rates. Considering the expected slowdown in regional exports, potential further appreciations might introduce additional constraints on economic growth.

The recent experience of the Latin America and the Caribbean, particularly in the global crisis, highlights the relevance of implementing coordinated policies on the fiscal, monetary, exchange rate and macroprudential fronts. Moreover, the region not only should carefully address these macroeconomic issues in an integrated manner, but also the structural and microeconomic growth constraints. In fact, some underlying key aspects that remain unsolved as cornerstones to enhance long term economic growth are the infrastructure bottlenecks, the high degree of natural resource dependency and the low level of innovation and technology diffusion. Stronger micro patterns would improve not only the economic growth sustainability but also the resilience to external shocks.

LINK Global Economic Outlook
October 2012

Statistics Annex Table

Table A.1
World and regions: rates of growth of real GDP, 2007-2014
(Annual percentage change[a])

	2007	2008	2009	2010	2011[b]	2012[c]	2013[c]	2014[c]
World	4.0	1.5	-2.3	4.1	2.7	2.3	2.5	3.3
Developed economies	2.6	0.0	-3.9	2.7	1.4	1.2	1.2	2.1
North America	1.9	-0.2	-3.4	3.0	1.9	2.1	1.7	2.7
Asia and Oceania	2.4	-0.5	-4.3	4.0	-0.3	2.6	1.6	1.5
Europe	3.2	0.3	-4.1	2.0	1.6	-0.2	0.6	1.7
European Union	3.2	0.3	-4.3	2.0	1.5	-0.3	0.6	1.7
EU-15	3.0	0.0	-4.3	2.0	1.4	-0.4	0.5	1.6
New EU Members	6.0	4.1	-3.7	2.3	3.1	1.3	2.2	2.9
Other Europe	3.4	1.2	-1.9	1.7	1.8	1.7	1.5	1.9
Memorandum items:								
Euro area	3.0	0.4	-4.2	1.9	1.5	-0.5	0.3	1.4
Major developed economies (G-7)	2.2	-0.3	-4.1	3.0	1.4	1.4	1.3	2.1
OECD	2.7	0.1	-3.8	3.0	1.6	1.4	1.4	2.3
Economies in transition	8.6	5.2	-6.5	4.1	4.5	3.5	3.6	4.2
South-Eastern Europe	6.0	4.2	-3.7	0.5	1.1	-0.3	1.3	2.6
Commonwealth of Independent States and Georgia	8.8	5.3	-6.8	4.5	4.8	3.8	3.8	4.3
Developing countries	7.9	5.2	2.5	7.5	5.8	4.8	5.2	5.7
Africa	6.0	4.8	2.0	4.6	0.9	5.0	4.8	5.1
North Africa	4.7	4.6	3.2	4.0	-6.0	7.5	4.4	4.9
Sub-Saharan Africa	6.7	4.9	1.4	4.9	4.4	3.8	5.0	5.2
East and South Asia	10.0	6.1	5.3	8.8	6.9	5.6	6.0	6.5
East Asia	10.3	6.4	5.1	9.2	7.1	5.9	6.3	6.7
South Asia	8.9	5.2	6.2	7.1	6.1	4.4	5.1	5.7
Western Asia	4.6	3.8	-0.9	6.2	6.7	3.6	3.5	4.1
Latin America and the Caribbean	5.6	4.0	-2.1	6.0	4.4	3.3	3.9	4.4
South America	6.7	5.4	-0.4	6.4	4.3	2.9	4.0	4.4
Mexico and Central America	3.8	1.5	-5.7	5.6	4.3	4.1	3.9	4.6
Caribbean	6.5	3.6	0.8	3.4	6.0	3.0	3.7	3.9
Memorandum items:								
Least developed countries	8.9	7.7	5.0	5.8	3.8	3.7	5.8	5.5
Sub-Saharan Africa (excluding Nigeria and South Africa)	8.1	6.8	3.4	5.4	4.2	3.8	5.6	5.3
East Asia (excluding China)	6.1	2.7	0.1	7.7	4.2	3.2	3.8	4.3
South Asia (excluding India)	7.1	3.3	2.1	2.8	3.6	1.6	2.4	3.6
Western Asia (excluding Israel and Turkey)	4.4	5.8	1.1	4.8	6.0	4.0	3.7	3.7

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, 2007-2014
(Annual percentage change)

	2007	2008	2009	2010	2011	2012[a]	2013[b]	2014[b]
Developed Economies								
North America								
Canada	2.2	0.7	-2.8	3.2	2.4	1.8	1.5	2.8
United States	1.9	-0.3	-3.5	3.0	1.8	2.1	1.7	2.7
Asia and Oceania								
Australia	3.8	2.3	1.5	2.4	2.3	3.0	2.6	3.3
Japan	2.2	-1.0	-5.5	4.4	-0.8	2.5	1.4	1.1
New Zealand	2.9	-0.7	-0.1	2.5	0.3	2.1	2.1	2.7
European Union								
EU-15								
Austria	3.7	1.4	-3.8	2.3	2.7	0.8	1.3	2.0
Belgium	2.9	1.0	-2.8	2.3	1.8	-0.3	0.5	1.5
Denmark	1.6	-1.1	-5.2	1.7	2.3	1.1	1.2	1.3
Finland	5.4	1.0	-8.2	3.6	2.8	1.5	1.2	1.6
France	2.3	-0.1	-2.7	1.5	1.7	0.1	0.3	1.1
Germany	3.3	1.1	-5.1	3.7	3.0	0.9	1.0	1.8
Greece	3.0	-0.2	-3.3	-3.5	-6.9	-6.1	-1.8	0.6
Ireland	5.2	-3.0	-7.0	-0.4	1.4	0.5	1.7	2.4
Italy	1.5	-1.2	-5.1	1.5	0.4	-2.4	-0.3	1.4
Luxembourg	6.6	0.8	-5.3	2.7	1.6	-0.1	0.9	2.0
Netherlands	3.9	1.8	-3.5	1.7	1.0	-0.5	0.7	1.4
Portugal	2.4	0.0	-2.9	1.4	-1.7	-3.2	-2.2	0.2
Spain	3.6	0.9	-3.7	-0.1	0.4	-1.8	-1.5	0.6
Sweden	3.3	-0.6	-5.2	5.6	3.9	1.7	1.8	2.8
United Kingdom	3.5	-1.1	-4.4	2.1	0.8	-0.3	1.2	2.3
New EU Member								
Bulgaria	6.4	6.2	-5.5	0.2	1.8	1.0	2.5	3.5
Cyprus	5.1	3.6	-1.9	1.1	0.5	-1.2	0.5	1.3
Czech Republic	5.7	3.1	-4.7	2.7	1.7	-0.8	1.1	2.0
Estonia	7.5	-3.7	-14.3	2.3	7.4	2.5	3.0	3.5
Hungary	0.1	0.9	-6.8	1.3	1.7	-1.3	0.6	2.2
Latvia	9.6	-3.3	-17.7	-0.3	5.5	3.0	3.5	3.5
Lithuania	9.8	2.9	-14.8	1.4	5.9	2.6	3.0	3.0
Malta	4.3	4.4	-2.7	2.7	2.2	-0.7	1.1	1.8
Poland	6.8	5.1	1.6	3.9	4.3	2.9	3.0	3.5
Romania	6.3	7.3	-6.6	-1.9	2.5	1.0	2.3	3.0
Slovak Republic	10.5	5.9	-4.9	4.3	3.3	2.4	2.0	2.6
Slovenia	6.9	3.6	-8.0	1.5	0.6	-0.9	2.1	2.2
Other European								
Iceland	6.0	1.3	-6.7	-4.0	2.6	2.6	2.7	2.6
Norway	3.1	0.0	-1.7	0.7	1.5	3.5	2.2	2.4
Switzerland	3.6	2.1	-1.9	2.7	2.0	0.3	0.8	1.4
Economies in Transition								
South-Eastern Europe								
Albania	5.9	7.7	3.3	3.5	2.0	1.5	3.0	3.0
Bosnia and Herzegovina	6.2	5.7	-2.9	0.8	1.5	0.2	1.0	2.1
Croatia	5.1	2.2	-6.0	-1.2	0.0	-1.3	0.8	2.5
Montenegro	10.7	6.9	-5.7	1.0	2.6	0.4	1.5	3.0
Serbia	6.9	5.5	-3.1	1.7	1.6	0.0	1.3	2.8
The former Yugoslav Republic of Macedonia	6.1	5.0	-0.9	1.8	3.0	1.0	2.3	2.5
Commonwealth of Independent States								
Armenia	13.7	6.9	-14.2	2.1	4.7	3.8	4.0	4.0
Azerbaijan	25.1	10.8	9.3	5.0	0.1	1.0	2.5	3.8
Belarus	8.6	10.2	0.2	7.6	5.3	3.9	3.1	5.0
Kazakhstan	8.7	3.3	1.2	7.0	7.5	5.5	5.0	5.0
Kyrgyzstan	8.5	8.4	2.9	-1.4	5.7	0.8	3.5	4.0
Republic of Moldova	3.0	7.8	-6.0	6.9	6.5	0.6	2.0	3.0
Russian Federation	8.5	5.2	-7.8	4.0	4.3	3.7	3.6	4.2
Tajikistan	7.8	7.6	4.0	6.5	7.4	4.8	5.7	5.0
Turkmenistan	11.1	14.7	6.1	9.2	14.8	9.0	8.0	7.0
Ukraine	7.9	2.3	-14.8	3.7	5.2	2.0	3.2	4.0
Uzbekistan	9.5	9.0	8.1	8.5	8.3	7.0	6.9	6.1
Georgia	12.3	2.3	-3.8	6.4	7.0	4.0	5.0	4.0

	2007	2008	2009	2010	2011	2012[a]	2013[b]	2014[b]
	Developing Economies							
Africa								
Algeria	3.0	2.4	2.4	3.3	2.4	2.8	2.9	3.8
Angola	22.6	13.8	2.4	3.4	3.6	7.5	7.7	6.2
Benin	4.6	5.0	2.7	2.6	3.2	3.4	4.6	4.5
Botswana	4.8	2.9	-4.9	7.2	5.1	4.2	4.6	4.3
Burkina Faso	4.1	6.4	3.2	7.9	4.2	6.0	6.2	5.9
Burundi	6.4	4.3	3.4	3.9	4.0	4.4	4.8	4.3
Cameroon	3.3	2.9	1.2	2.8	4.1	4.5	4.7	4.5
Cape Verde	8.6	6.2	2.8	5.4	5.2	4.8	5.0	5.1
Central African Republic	4.5	4.4	1.8	3.3	3.1	3.8	4.0	3.9
Chad	0.1	0.3	-3.5	13.0	3.1	6.2	4.0	4.2
Comoros	0.5	1.0	1.8	2.1	2.2	2.5	3.5	3.4
Congo	-1.6	5.9	7.5	8.8	4.5	3.7	5.4	4.6
Côte d'Ivoire	2.3	3.8	0.0	2.6	-4.5	7.0	6.1	5.7
Democratic Republic of the Congo	6.3	6.1	2.8	7.2	6.9	7.0	7.1	6.4
Djibouti	5.0	5.0	5.5	3.5	4.4	4.7	4.8	4.3
Egypt	7.1	7.2	4.7	5.1	1.7	1.1	3.2	4.7
Equatorial Guinea	23.2	15.2	4.8	2.7	4.6	6.3	5.8	5.1
Eritrea	1.4	-9.8	3.6	2.2	8.2	6.5	5.0	4.3
Ethiopia	11.5	10.8	8.8	12.4	10.1	7.0	7.4	6.8
Gabon	5.6	1.7	-0.4	5.6	5.7	4.7	3.5	3.7
Gambia	4.7	5.6	5.6	5.9	3.3	-1.0	6.2	4.5
Ghana	6.5	8.4	4.0	7.7	14.4	7.4	7.8	7.1
Guinea	1.8	4.9	-0.3	2.8	3.6	4.0	4.4	4.3
Guinea-Bissau	4.1	4.0	7.7	3.5	5.3	-0.5	2.6	2.9
Kenya	7.0	1.5	2.6	5.6	4.4	4.8	5.4	5.5
Lesotho	4.5	4.7	-1.4	3.3	5.8	4.3	5.9	5.3
Liberia	9.4	7.1	4.6	5.6	6.9	8.4	7.5	6.4
Libya	5.1	2.7	-0.7	4.2	-61.0	100.7	12.8	8.5
Madagascar	6.2	7.1	-4.1	0.5	1.0	2.3	3.3	4.4
Malawi	9.6	8.3	8.9	5.2	4.3	4.1	5.4	5.1
Mali	4.3	5.0	3.4	5.8	5.4	1.0	5.2	6.0
Mauritania	1.6	0.8	1.6	4.7	4.4	4.8	6.3	5.5
Mauritius	5.9	5.5	2.6	4.2	3.9	3.1	3.5	4.1
Morocco	2.7	5.6	5.0	3.3	4.8	2.8	4.9	5.2
Mozambique	7.3	6.8	6.3	7.2	7.2	7.5	8.1	8.0
Namibia	5.4	4.3	-3.6	6.6	4.9	4.0	4.6	5.3
Niger	3.1	9.6	-2.3	8.0	2.3	9.1	5.9	6.2
Nigeria	5.1	2.3	2.4	7.8	7.5	6.4	6.8	7.2
Rwanda	7.7	11.5	6.1	7.5	8.6	7.9	7.6	7.2
Sao Tome and Principe	2.4	9.4	4.8	4.5	5.5	5.0	5.3	5.4
Senegal	4.9	3.2	4.7	5.7	2.6	3.9	4.6	4.7
Sierra Leone	4.3	4.7	2.8	4.9	5.3	26.5	7.4	7.6
South Africa	5.6	3.6	-1.7	2.9	3.1	2.5	3.1	3.8
Togo	2.1	2.4	-4.5	3.7	2.5	3.5	4.2	4.5
Tunisia	6.3	4.5	3.2	3.7	-1.7	2.6	3.4	4.2
Uganda	8.1	10.4	4.4	2.5	4.1	4.6	5.5	6.7
United Republic of Tanzania	7.1	7.4	6.0	6.8	6.5	6.8	7.1	7.4
Zambia	6.3	6.0	6.1	7.3	6.6	5.8	6.3	6.2
Zimbabwe	-3.3	-4.7	7.3	9.0	5.9	3.1	2.2	2.4
East and South Asia								
Bangladesh	6.4	6.0	5.9	6.4	6.7	6.2	6.3	6.4
Brunei Darussalam	0.2	-1.9	-1.8	4.1	2.2	1.2	1.6	1.8
China	14.2	9.6	9.2	10.4	9.3	7.7	8.0	8.2
Hong Kong, Special Administrative Region of China	6.4	2.3	-2.7	7.0	5.0	1.3	2.3	3.1
India	9.7	6.1	8.1	8.9	7.1	5.5	6.1	6.5
Indonesia	7.4	4.9	4.6	6.1	6.5	6.1	6.2	6.3
Iran, Islamic Republic of	8.3	2.5	0.3	0.8	2.0	-1.9	-0.9	1.5
Korea, Republic of	5.1	2.3	0.3	6.2	3.6	2.5	3.2	3.5
Malaysia	6.5	4.8	-1.6	7.2	5.1	4.4	4.3	4.9
Myanmar	12.0	10.2	10.4	10.4	5.2	5.6	6.0	6.0
Nepal	3.4	5.5	4.5	3.7	3.9	4.0	3.7	4.0
Pakistan	5.7	2.6	2.8	3.1	3.4	3.8	4.2	4.4
Papua New Guinea	7.2	6.6	5.5	7.1	8.7	9.4	4.2	6.1
Philippines	6.6	4.2	1.1	7.6	3.9	5.3	5.2	5.5
Singapore	8.8	1.5	-0.8	14.5	4.9	1.9	2.8	4.2
Sri Lanka	6.8	6.0	3.5	8.0	8.3	6.5	6.7	6.4
Taiwan, Province of China	6.0	0.7	-1.9	10.9	4.0	1.3	2.7	3.3
Thailand	5.0	2.5	-2.3	7.8	0.1	5.4	4.8	5.0
Vietnam	8.5	6.3	5.3	6.8	5.9	5.0	5.7	6.2

	2007	2008	2009	2010	2011	2012[a]	2013[b]	2014[b]
Western Asia								
Bahrain	8.4	6.3	3.1	4.5	2.2	2.5	2.9	3.0
Iraq	1.4	6.6	9.3	5.1	9.0	11.3	7.8	8.1
Israel	5.5	4.0	0.8	4.8	4.7	2.9	2.8	6.0
Jordan	8.5	7.6	2.3	3.1	2.6	2.9	3.0	3.5
Kuwait	4.4	5.0	-5.2	2.0	8.2	4.7	4.5	4.0
Lebanon	7.6	9.3	8.0	7.5	1.5	1.6	4.5	4.0
Oman	6.7	12.8	1.1	4.2	5.5	4.5	3.5	4.0
Qatar	18.0	17.7	12.0	19.4	13.5	6.2	4.5	4.0
Saudi Arabia	2.0	4.2	0.2	3.8	6.8	5.5	3.7	3.0
Syrian Arab Republic	5.7	4.5	6.0	3.2	-2.2	-15.0	-6.0	10.0
Turkey	4.7	0.7	-4.8	9.0	8.5	3.0	3.4	4.2
United Arab Emirates	3.2	3.3	-1.6	1.4	4.2	3.0	3.4	3.4
Yemen	4.4	4.7	4.7	8.0	-10.5	-1.0	5.0	3.0
Latin America and the Caribbean								
Argentina	8.7	6.8	0.9	9.2	7.9	2.5	3.2	4.2
Barbados	3.8	-0.2	-5.5	-0.5	3.8	0.9	1.7	2.0
Bolivia, Plurinational State of	4.6	6.1	3.4	4.1	5.2	4.7	4.7	4.5
Brazil	6.1	5.2	-0.6	7.5	2.7	1.7	4.0	4.4
Chile	4.6	3.7	-1.7	5.2	6.0	5.1	4.6	4.9
Colombia	6.9	3.5	1.5	4.3	4.4	4.4	4.5	4.8
Costa Rica	7.9	2.7	-1.3	4.2	4.2	4.5	4.4	4.7
Cuba	7.3	4.1	1.4	2.1	2.7	3.0	3.5	3.3
Dominican Republic	8.5	5.3	3.5	7.8	12.5	4.1	4.7	5.1
Ecuador	2.0	7.2	0.4	3.2	8.7	4.3	4.4	4.5
El Salvador	3.8	1.3	-3.1	1.4	1.5	1.6	2.2	3.1
Guatemala	6.3	3.3	0.5	2.6	6.6	3.3	3.7	3.3
Guyana	7.0	2.0	3.3	3.6	4.8	3.9	5.1	5.1
Haiti	3.3	0.8	2.9	-5.1	27.9	4.8	7.0	6.5
Honduras	6.2	4.2	-2.1	2.8	8.7	3.8	3.5	4.0
Jamaica	1.4	-0.5	-3.0	-1.1	0.9	0.8	1.0	1.3
Mexico	3.4	1.2	-6.3	5.8	4.0	4.0	3.8	4.6
Nicaragua	3.6	2.8	-1.5	4.5	5.5	3.9	4.2	3.9
Panama	12.1	10.7	2.6	7.5	11.0	9.0	7.5	7.2
Paraguay	6.8	5.8	-3.8	15.3	1.3	-1.6	6.9	5.0
Peru	8.9	9.8	0.9	8.8	6.8	6.0	5.8	5.6
Trinidad and Tobago	4.8	2.4	-3.5	2.5	-1.5	0.7	2.3	3.0
Uruguay	7.3	8.6	2.6	8.5	11.0	3.5	4.2	4.0
Venezuela, Bolivarian Republic of	8.8	4.2	-3.3	-1.4	4.0	5.1	2.5	2.9

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, 2007-2014
(Annual percentage change[a])

	2007	2008	2009	2010	2011[b]	2012[c]	2013[c]	2014[c]
Developed economies	2.1	3.5	-0.1	1.8	2.5	1.9	1.6	1.8
North America	2.6	4.1	-0.7	2.4	2.9	2.0	1.5	1.9
Asia and Oceania	0.5	1.9	-0.8	-0.1	0.3	0.5	0.7	1.9
Europe	2.2	3.5	0.8	1.9	2.9	2.3	2.0	1.8
European Union	2.2	3.5	0.8	1.9	3.0	2.4	2.1	1.8
EU-15	2.1	3.3	0.7	1.9	3.0	2.3	2.0	1.8
New EU Members	4.1	6.1	3.2	2.9	3.8	3.6	3.1	2.9
Other Europe	0.9	3.0	0.9	1.5	0.7	0.2	0.7	1.3
Memorandum items:								
Euro area	2.1	3.3	0.3	1.6	2.7	2.3	2.0	1.8
Major developed economies (G-7)	2.0	3.4	-0.3	1.7	2.4	1.8	1.5	1.9
OECD	2.2	3.6	0.2	2.0	2.6	2.0	1.7	2.0
Economies in transition	9.1	14.3	10.9	7.0	9.5	6.7	7.4	5.9
South-eastern Europe	3.6	7.8	3.4	2.8	5.0	3.8	3.5	3.4
Commonwealth of Independent States and Georgia	9.6	14.9	11.6	7.4	9.9	6.9	7.8	6.1
Developing countries[d]	5.3	8.1	4.3	5.5	6.5	5.5	5.3	5.0
Africa[d]	6.2	11.0	7.5	6.8	7.9	8.1	6.6	5.9
North Africa	5.3	9.2	5.9	5.3	7.2	6.4	5.1	4.7
Sub-Saharan Africa[d]	6.9	11.9	7.5	6.2	7.8	8.3	6.5	5.8
East and South Asia	4.9	7.4	2.8	4.9	6.2	4.8	4.7	4.8
East Asia	3.9	6.0	0.6	3.1	4.9	2.9	3.1	3.5
South Asia	8.6	12.5	11.2	11.5	11.1	11.7	10.7	9.9
Western Asia	6.3	10.0	4.8	6.0	5.5	5.8	5.0	4.6
Latin America and the Caribbean	5.3	7.8	6.1	6.1	6.9	6.0	6.2	5.4
South America	5.7	8.8	6.7	7.1	8.8	7.2	7.6	6.5
Mexico and Central America	4.3	5.7	5.1	4.2	3.7	4.1	3.8	3.6
Caribbean	7.2	12.8	4.1	8.1	7.6	6.3	5.8	4.8
Memorandum items:								
Least developed countries	9.4	13.6	7.1	9.4	11.5	12.2	9.8	8.1
Sub-Saharan Africa [d] (Excluding Nigeria and South Africa)	7.5	13.4	7.9	8.0	10.1	10.8	8.5	6.9
East Asia (excluding China)	3.1	6.1	1.8	3.0	4.3	3.1	3.1	3.2
South Asia (excluding India)	13.1	21.3	11.7	10.6	15.8	16.3	14.3	13.0
Western Asia (excluding Israel and Turkey)	5.4	11.1	3.7	4.5	5.0	6.1	4.6	4.1

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, 2007-2014
(Annual percentage change)

	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]	2014[b]
Developed Economies								
North America								
Canada	2.1	2.4	0.3	1.8	2.9	1.7	1.9	1.9
United States	2.6	4.3	-0.8	2.5	2.9	2.0	1.4	1.9
Asia and Oceania								
Australia	2.3	4.4	1.8	2.8	3.4	1.7	2.5	2.0
Japan	0.1	1.4	-1.3	-0.7	-0.3	0.3	0.4	1.8
New Zealand	2.4	4.0	2.1	2.3	4.0	1.2	1.8	2.1
European Union								
EU-15								
Austria	2.2	3.2	0.4	1.7	3.6	2.3	2.0	2.0
Belgium	1.8	4.5	0.0	2.3	3.5	0.6	2.9	0.9
Denmark	1.7	3.6	1.1	2.2	2.7	2.3	1.5	1.3
Finland	1.6	3.9	1.6	1.7	3.3	2.9	2.2	1.6
France	1.6	3.2	0.1	1.7	2.3	2.3	2.2	2.1
Germany	2.3	2.8	0.2	1.2	2.5	1.9	1.8	1.6
Greece	3.0	4.2	1.4	4.7	3.1	1.1	0.4	1.0
Ireland	2.9	3.1	-1.7	-1.6	1.2	2.0	1.3	1.5
Italy	2.0	3.5	0.8	1.6	2.9	2.9	1.8	2.1
Luxembourg	2.3	3.4	0.4	2.3	3.7	2.6	2.7	2.0
Netherlands	1.6	2.2	1.0	0.9	2.5	2.3	2.0	2.0
Portugal	2.4	2.7	-0.9	1.4	3.6	2.8	1.9	1.5
Spain	2.8	4.1	-0.2	2.0	3.1	2.5	2.9	1.8
Sweden	1.7	3.4	1.9	1.9	1.4	1.1	0.8	1.3
United Kingdom	2.3	3.6	2.2	3.3	4.5	2.7	2.0	1.7
New EU members								
Bulgaria	8.4	12.3	2.8	2.5	4.3	2.7	3.5	3.5
Cyprus	2.3	4.7	0.4	2.4	3.5	3.6	2.6	3.0
Czech Republic	3.0	6.3	0.6	1.2	2.2	2.9	2.7	2.5
Estonia	6.7	10.6	0.2	2.7	5.0	3.5	3.0	3.0
Hungary	7.9	6.0	4.0	4.7	4.0	5.5	4.3	3.5
Latvia	10.1	15.4	3.5	-1.1	4.2	2.5	2.7	2.5
Lithuania	5.7	10.9	4.4	1.3	4.1	3.4	3.0	3.0
Malta	1.3	4.2	2.1	1.4	2.8	2.9	3.9	1.0
Poland	2.6	4.2	4.0	2.7	3.9	3.6	3.0	2.8
Romania	4.8	7.9	5.6	6.1	5.8	3.1	3.6	3.0
Slovak Republic	1.9	3.9	0.9	0.7	4.1	3.7	2.4	2.5
Slovenia	3.8	5.5	0.9	2.1	2.1	2.0	1.8	1.9
Other Europe								
Iceland	5.1	12.7	12.0	5.4	4.0	5.3	3.5	3.8
Norway	0.7	3.4	2.3	2.3	1.3	0.9	1.6	2.1
Switzerland	0.8	2.3	-0.7	0.6	0.1	-0.7	-0.1	0.5
Economies in Transition								
South-eastern Europe								
Albania	2.9	3.3	2.3	3.6	3.6	2.3	2.5	2.7
Bosnia and Herzegovina	1.5	7.4	-0.3	2.1	3.7	2.5	2.5	3.0
Croatia	2.9	6.0	2.4	1.0	2.3	3.2	2.6	2.7
Montenegro	4.3	9.0	3.9	0.5	3.0	2.7	3.0	2.7
Serbia	6.4	12.4	8.1	6.2	11.2	6.1	5.8	5.0
The former Yugoslav Republic of Macedonia	2.3	8.4	-0.8	1.5	3.9	3.2	3.0	2.6
Commonwealth of Independent States								
Armenia	4.4	8.9	3.4	8.2	7.7	4.2	4.3	4.3
Azerbaijan	16.3	20.6	4.5	10.5	7.9	2.3	2.6	4.1
Belarus	8.8	14.5	12.9	8.1	52.5	68.1	28.0	15.5
Kazakhstan	10.8	17.1	7.3	7.1	8.4	5.1	6.5	5.0
Kyrgyzstan	10.1	24.5	6.9	7.9	16.6	4.0	5.0	5.0
Republic of Moldova	14.8	10.8	0.6	13.0	7.5	4.4	4.4	5.0
Russian Federation	9.0	14.0	11.7	6.9	8.5	5.1	7.0	5.7
Tajikistan	19.4	32.9	6.5	48.6	12.4	12.4	6.5	9.0
Turkmenistan	6.3	14.5	-2.7	4.4	11.1	10.3	12.1	10.0
Ukraine	13.1	21.6	17.4	10.1	8.0	2.3	8.0	6.0
Uzbekistan	12.3	12.7	14.1	9.4	12.8	14.0	13.0	11.0
Georgia	9.2	9.9	1.8	7.0	8.5	0.5	4.3	3.0

	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]	2014[b]
Developing Economies								
Africa								
Algeria	3.7	4.9	5.7	3.9	4.5	8.6	4.8	4.0
Angola	12.2	12.5	13.7	14.5	13.5	10.5	8.6	8.5
Benin	1.3	7.9	2.2	2.3	2.7	5.5	3.2	3.4
Botswana	7.1	12.7	8.0	6.9	9.2	6.0	5.7	5.4
Burkina Faso	-0.2	10.6	2.6	-0.8	2.8	4.5	2.9	3.2
Burundi	8.3	24.1	11.0	6.4	9.7	15.3	10.2	8.7
Cameroon	0.9	5.3	3.0	1.3	2.9	3.0	3.1	3.0
Cape Verde	4.4	6.8	1.0	-84.9	4.5	2.4	2.3	2.5
Central African Republic	0.9	9.3	3.5	1.5	0.1	5.5	3.0	2.6
Chad	-9.0	10.3	8.1	19.2	-4.9	5.0	3.5	3.7
Comoros	4.5	4.8	4.8	4.5	6.0	5.0	3.5	3.0
Congo	2.7	7.3	4.5	25.0	1.9	3.5	3.0	3.2
Côte d'Ivoire	1.9	6.3	1.0	1.7	5.1	1.6	2.1	2.3
Democratic Republic of the Congo	16.9	17.3	27.1	30.5	15.2	10.9	10.2	9.5
Djibouti	5.0	12.0	1.7	4.0	11.5	7.5	5.3	5.3
Egypt	9.3	18.3	11.8	11.3	11.5	8.3	9.1	8.0
Equatorial Guinea	2.8	6.5	-38.8	9.6	7.0	6.2	5.8	5.7
Eritrea	9.3	19.9	33.0	12.7	14.0	13.0	12.5	12.5
Ethiopia	17.2	44.4	8.5	8.1	32.0	25.0	22.0	18.0
Gabon	5.0	5.3	1.9	1.5	1.3	2.7	2.5	2.4
Gambia	5.4	4.5	4.6	5.0	4.8	6.2	4.6	4.7
Ghana	10.7	16.5	19.2	10.7	8.7	8.8	8.0	7.1
Guinea	22.9	18.4	4.7	20.7	21.4	15.0	9.0	10.0
Guinea-Bissau	4.6	10.5	-1.6	36.9	5.0	6.4	4.1	3.2
Kenya	9.8	26.2	9.2	4.0	18.9	11.0	6.0	5.0
Lesotho	8.0	10.7	7.2	3.6	5.0	6.1	4.7	5.0
Liberia	13.7	17.5	7.4	7.3	7.4	5.5	6.0	6.0
Libya	6.3	10.3	2.5	2.5	15.0	5.0	2.0	3.0
Madagascar	10.3	9.2	8.9	9.2	9.7	7.5	7.0	6.5
Malawi	8.0	8.7	8.4	7.4	7.6	18.2	16.5	11.5
Mali	1.4	9.2	2.2	1.1	2.9	6.4	3.0	3.4
Mauritania	7.3	7.3	2.2	6.3	5.7	6.2	6.0	5.8
Mauritius	8.8	9.7	2.6	1.6	6.5	4.7	4.2	3.4
Morocco	2.0	3.7	1.0	1.0	0.9	1.2	1.8	2.1
Mozambique	8.2	10.3	3.3	10.6	10.4	3.5	6.3	6.0
Namibia	6.7	10.3	8.8	-1.2	5.0	5.8	4.6	5.0
Niger	0.1	11.3	4.3	0.8	2.9	3.9	2.6	2.8
Nigeria	5.4	11.6	11.5	13.5	10.8	12.5	11.0	9.8
Rwanda	9.1	15.4	10.4	2.3	5.5	8.0	6.5	5.7
Sao Tome and Principe	18.5	26.1	17.0	13.3	12.0	8.0	7.0	7.0
Senegal	5.9	5.8	-1.1	1.3	3.4	1.5	3.0	3.0
Sierra Leone	11.7	14.8	9.3	11.5	16.2	12.6	10.3	11.1
Somalia	15.0	30.0	25.0	2.1	2.2	2.2	2.1	2.1
South Africa	6.2	10.1	7.2	4.1	5.0	5.2	4.2	4.6
Togo	1.0	8.7	-0.2	-0.8	-36.6	13.6	25.9	22.9
Tunisia	3.4	4.9	3.5	4.4	3.5	5.0	4.7	4.2
Uganda	6.1	12.0	13.0	4.0	18.7	14.2	5.6	5.0
United Republic of Tanzania	7.0	10.3	12.1	6.2	19.0	15.5	10.0	8.0
Zambia	10.7	12.4	13.4	8.5	-11.5	4.7	5.5	3.2
Zimbabwe	24411	0.0	0.0	5.9	5.4	8.3	8.0	6.6
East and South Asia								
Bangladesh	9.1	8.9	5.4	8.1	10.7	8.7	7.8	7.4
Brunei Darussalam	1.0	2.1	1.0	0.4	2.0	1.2	1.6	1.5
China	4.7	5.9	-0.7	3.3	5.5	2.8	3.1	3.7
Hong Kong, Special Administrative Region of Cl	2.0	4.3	0.6	2.3	5.3	3.9	3.2	3.0
India	6.4	8.3	10.9	12.0	8.9	9.4	8.9	8.4
Indonesia	6.5	10.2	4.4	5.1	5.4	4.3	4.8	4.9
Iran, Islamic Republic of	17.2	25.5	13.5	10.1	20.6	23.0	20.0	18.0
Korea, Republic of	2.5	4.7	2.8	2.9	4.0	2.3	2.6	2.9
Malaysia	2.0	5.4	0.6	1.7	3.2	1.7	2.3	2.5
Myanmar	35.0	26.8	1.5	7.7	5.0	5.5	6.3	6.2
Nepal	6.1	10.9	11.6	10.0	9.6	9.6	9.0	8.2
Pakistan	7.6	20.3	13.6	13.9	11.9	10.1	9.2	8.6
Papua New Guinea	0.9	10.8	6.9	6.0	8.4	4.0	4.5	5.0
Philippines	2.8	9.3	3.2	3.8	4.6	3.3	3.7	3.9
Singapore	2.1	6.5	0.6	2.8	5.3	5.2	4.4	3.2
Sri Lanka	15.8	22.6	3.4	5.9	7.0	7.4	5.9	5.5
Taiwan, Province of China	1.8	3.5	-0.9	1.0	1.4	2.1	1.9	1.8
Thailand	2.3	5.4	-0.9	3.3	3.8	3.1	3.5	3.2
Viet Nam	8.3	23.1	7.1	8.9	18.7	9.2	7.2	7.4

	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]	2014[b]
Western Asia								
Bahrain	3.3	3.5	2.8	2.0	0.2	3.0	3.1	3.0
Israel	0.5	4.6	3.3	2.7	3.4	2.4	2.1	3.0
Jordan	5.4	14.9	-0.7	5.0	4.4	4.0	4.0	4.0
Kuwait	5.5	10.6	4.0	4.0	4.7	4.1	3.9	4.0
Oman	6.0	12.1	3.9	3.2	4.1	3.0	3.4	4.0
Qatar	13.8	15.1	-4.9	-2.4	1.9	1.9	2.9	3.5
Saudi Arabia	4.2	9.9	5.1	5.3	5.0	4.9	4.4	4.0
Syrian Arab Republic	3.9	15.7	2.9	4.4	4.7	29.1	9.5	4.5
Turkey	8.8	10.4	6.3	8.6	6.5	6.4	6.2	5.5
Yemen	7.9	19.0	5.4	11.2	19.4	13.1	10.0	8.0
Latin America and the Caribbean								
Argentina	8.8	8.6	6.3	10.8	15.7	11.3	9.7	4.0
Barbados	4.0	8.1	3.6	5.8	9.4	8.0	5.0	4.4
Bolivia, Plurinational State of	8.7	14.0	3.3	2.5	9.8	5.6	6.6	6.4
Brazil	3.6	5.6	4.9	5.0	6.5	5.3	5.8	5.0
Chile	4.4	8.7	0.3	1.4	4.4	3.0	2.5	3.0
Colombia	5.5	7.0	4.2	2.3	3.4	3.2	3.1	3.1
Costa Rica	9.4	13.4	7.8	5.7	4.7	4.6	5.7	4.9
Dominican Republic	6.1	10.6	1.4	6.3	8.5	4.1	4.8	4.8
Ecuador	2.3	8.4	5.2	3.6	4.5	5.1	4.2	3.0
El Salvador	4.6	6.7	1.1	1.2	5.1	2.4	3.7	3.7
Guatemala	6.8	11.4	1.9	3.9	6.2	3.9	4.1	4.0
Guyana	12.3	8.1	2.9	2.1	7.0	3.0	5.6	5.0
Haiti	8.5	15.5	0.0	5.7	8.4	6.7	5.9	4.2
Honduras	6.9	11.4	5.5	4.7	6.8	5.8	6.7	6.3
Jamaica	9.3	22.0	9.6	12.6	7.5	7.3	8.2	6.4
Mexico	4.0	5.1	5.3	4.2	3.4	4.0	3.7	3.5
Nicaragua	11.1	19.8	3.7	5.5	8.1	8.1	8.3	7.3
Panama	4.2	8.8	2.4	3.5	5.9	6.0	4.0	4.3
Paraguay	8.1	10.2	2.6	4.7	8.3	5.8	5.1	5.1
Peru	1.8	5.8	2.9	1.5	3.4	3.6	3.1	2.5
Trinidad and Tobago	7.9	12.0	7.0	10.5	5.1	9.9	6.5	4.0
Uruguay	8.1	7.9	7.1	6.7	15.7	11.3	9.7	4.0
Venezuela, Bolivarian Republic of	18.7	31.4	28.6	29.1	26.0	23.0	28.0	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, 2007-2014
(annual percentage change)

Region	Flow	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]	2014[b]
World	Exports	16.2	15.5	-19.8	20.4	13.6	4.6	6.6	8.3
	Imports	16.0	16.0	-20.3	17.7	16.4	4.4	6.9	8.3
Developed economies	Exports	15.4	13.6	-19.8	13.8	14.1	0.1	4.2	6.4
	Imports	13.5	13.8	-22.3	14.2	14.2	0.9	4.0	6.2
North America	Exports	11.7	10.0	-16.9	17.1	14.2	4.0	4.2	5.9
	Imports	6.5	7.6	-22.1	19.6	13.2	3.4	2.4	6.2
Asia and Oceania	Exports	11.1	13.9	-23.3	30.9	11.4	0.6	-0.9	4.7
	Imports	10.5	20.6	-24.8	23.8	23.1	9.2	2.0	2.1
Europe	Exports	17.2	14.7	-20.2	10.6	14.5	-1.2	5.0	6.7
	Imports	17.0	15.5	-22.1	10.9	13.3	-1.4	5.0	6.8
European Union	Exports	17.2	14.5	-20.3	10.4	14.2	-1.0	5.4	6.9
	Imports	16.9	15.6	-22.4	10.9	13.0	-1.4	5.1	6.9
EU-15	Exports	16.3	9.9	-20.0	9.5	15.2	-1.1	4.9	6.6
	Imports	15.7	10.8	-21.2	10.0	14.9	-1.8	4.7	6.7
New EU Members	Exports	26.3	57.6	-22.1	16.5	8.1	0.0	8.6	9.1
	Imports	28.0	57.5	-29.6	16.6	0.9	1.5	8.3	8.3
Other Europe	Exports	16.4	18.5	-18.5	13.0	18.8	-3.4	-1.3	4.0
	Imports	18.6	11.8	-15.6	12.3	17.9	-1.1	2.8	5.5
Euro area	Exports	18.3	15.7	-20.0	9.8	13.6	-1.2	5.1	6.6
	Imports	17.4	17.7	-21.6	10.1	12.3	-2.7	4.8	6.8
Economies in transition	Exports	21.6	30.9	-32.0	27.2	21.1	-1.0	3.4	9.2
	Imports	33.7	28.6	-30.1	21.4	29.2	2.6	6.9	12.3
South-eastern Europe	Exports	23.9	18.8	-21.1	10.1	15.0	-3.2	6.1	7.4
	Imports	30.9	22.1	-27.7	0.7	18.7	-2.9	6.9	7.8
Commonwealth of Independent States	Exports	21.4	32.0	-32.8	28.8	21.5	-0.8	3.2	9.4
	Imports	34.2	29.7	-30.5	24.6	30.6	3.3	7.0	12.8
Developing countries	Exports	16.9	17.0	-18.3	30.2	12.1	11.5	10.0	10.6
	Imports	19.6	19.1	-15.5	23.5	18.7	9.8	11.1	10.8
Africa	Exports	13.6	27.2	-25.9	109.5	-32.8	24.1	5.4	4.5
	Imports	27.7	24.6	-10.8	21.4	11.1	16.6	14.2	15.3
North Africa	Exports	16.0	29.8	-27.8	16.5	-7.1	38.8	1.1	0.7
	Imports	24.5	36.6	-11.9	4.1	0.2	18.0	6.2	6.6
Sub-Saharan Africa	Exports	12.2	25.5	-24.6	168.5	-39.9	17.9	7.6	6.3
	Imports	29.4	18.5	-10.1	31.4	16.1	16.0	17.4	18.4
Sub-Saharan Africa	Exports	25.6	27.2	-21.2	263.7	-59.1	18.9	8.2	6.0
(Excluding Nigeria & South Africa)	Imports	30.8	30.5	-4.7	34.7	18.7	14.6	15.4	16.2
East and South Asia	Exports	18.7	13.7	-14.6	22.9	20.5	8.8	11.6	11.8
	Imports	16.8	17.3	-14.5	24.7	21.2	8.6	11.8	10.9
East Asia	Exports	18.1	13.5	-15.4	22.9	19.5	9.3	11.2	10.9
	Imports	15.7	16.9	-16.0	25.9	19.8	9.2	11.7	10.5
South Asia	Exports	24.1	15.2	-7.4	23.0	28.8	4.9	15.0	18.3
	Imports	25.7	20.4	-4.4	17.7	30.7	5.0	12.2	13.3
Western Asia	Exports	15.4	27.4	-25.8	18.7	16.5	14.9	4.8	6.0
	Imports	28.5	22.0	-17.1	13.3	14.1	10.9	6.3	6.2
Latin America and the Caribbean	Exports	12.9	15.4	-21.0	31.4	12.3	14.0	10.5	13.5
	Imports	19.4	20.7	-20.5	29.0	16.3	10.3	10.1	11.5
South America	Exports	15.9	21.4	-22.0	36.2	8.7	17.9	10.5	15.4
	Imports	28.2	30.4	-19.0	31.5	14.9	13.8	11.0	12.3
Mexico and Central America	Exports	9.7	7.1	-18.4	25.5	19.4	8.1	10.7	10.6
	Imports	11.0	9.5	-22.2	26.9	18.2	5.6	8.8	10.4
Caribbean	Exports	3.0	11.8	-29.5	11.5	1.8	10.6	7.9	9.5
	Imports	14.9	17.9	-23.2	14.2	19.7	7.5	8.3	8.7
Least developed countries	Exports	29.0	26.1	-19.6	166.5	-45.3	18.8	9.4	7.8
	Imports	31.3	29.7	-0.7	20.2	19.2	10.9	10.6	10.9

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, 2007-2014
(annual percentage change)

Region	Flow	2007	2008	2009	2010	2011[a]	2012[b]	2013[b]	2014[b]
World	Exports	6.7	2.7	-9.3	12.0	6.3	3.2	3.9	5.1
	Imports	7.7	2.7	-11.1	13.2	6.6	3.2	4.2	5.2
Developed economies	Exports	6.2	2.0	-11.9	11.3	5.8	2.6	3.1	4.3
	Imports	5.1	0.3	-12.7	10.8	5.0	2.1	2.9	3.9
North America	Exports	7.3	3.6	-10.1	10.2	6.3	3.7	3.1	4.4
	Imports	3.0	-2.0	-13.5	12.6	5.2	3.1	3.5	5.1
Asia and Oceania	Exports	7.4	1.8	-17.8	18.6	-0.3	3.4	3.7	5.8
	Imports	4.5	2.5	-14.1	11.9	7.4	7.9	2.0	-0.2
Europe	Exports	5.7	1.6	-11.5	10.7	6.6	2.1	3.0	4.0
	Imports	6.0	0.9	-12.1	9.9	4.6	0.8	2.8	4.0
European Union	Exports	5.7	1.5	-11.9	11.0	6.9	2.2	3.1	4.1
	Imports	6.0	0.9	-12.3	10.0	4.7	0.8	2.8	4.0
EU-15	Exports	5.2	1.2	-11.8	10.3	5.9	2.1	3.0	4.0
	Imports	5.1	0.7	-11.0	9.2	3.6	0.6	2.7	4.0
New EU Members	Exports	8.7	4.1	-12.2	16.2	13.4	3.0	3.7	4.9
	Imports	11.6	1.9	-20.4	15.0	11.8	2.1	3.3	4.2
Other Europe	Exports	6.6	1.9	-6.1	5.4	1.9	0.0	0.9	2.4
	Imports	7.3	0.6	-8.2	8.2	4.0	0.4	2.8	3.7
Euro area	Exports	6.5	1.1	-12.6	11.6	7.0	2.5	3.0	3.8
	Imports	6.3	0.6	-12.1	9.9	4.9	0.5	2.6	3.8
Economies in transition	Exports	7.2	2.1	-7.3	7.3	3.6	3.6	4.2	4.4
	Imports	22.1	11.6	-26.4	16.3	15.9	7.3	7.6	7.8
South-eastern Europe	Exports	6.3	3.7	-14.1	13.4	4.7	1.3	4.4	4.6
	Imports	12.7	6.1	-19.2	3.5	3.4	1.7	4.8	5.4
Commonwealth of Independent States	Exports	7.3	2.0	-6.8	6.9	3.5	3.8	4.2	4.4
	Imports	23.5	12.4	-27.4	18.2	17.5	7.9	7.9	8.0
Developing countries	Exports	7.3	3.8	-5.6	13.3	7.3	4.1	4.9	6.2
	Imports	11.9	6.3	-6.4	16.9	8.3	4.6	6.0	6.9
Africa	Exports	1.0	5.7	-7.5	1.5	5.0	7.0	4.0	5.2
	Imports	16.1	6.6	-5.8	2.5	3.8	10.4	8.3	8.1
North Africa	Exports	6.6	7.4	-8.9	3.2	-16.7	19.5	6.0	4.4
	Imports	16.6	16.8	-5.7	2.8	-0.9	12.6	7.2	6.3
Sub-Saharan Africa	Exports	-0.5	5.2	-7.1	1.0	11.0	4.5	3.6	5.4
	Imports	15.9	2.5	-5.9	2.4	6.0	9.5	8.8	8.9
Sub-Saharan Africa	Exports	0.9	0.6	0.4	-1.1	15.3	3.8	2.5	4.8
(Excluding Nigeria & South Africa)	Imports	14.8	15.1	3.5	4.8	9.9	7.8	6.3	6.0
East and South Asia	Exports	10.3	4.3	-3.4	19.3	7.9	3.6	5.3	6.4
	Imports	9.1	5.4	-2.4	19.6	8.4	3.9	5.8	6.8
East Asia	Exports	10.8	3.9	-3.7	20.5	7.0	3.4	5.1	5.9
	Imports	9.1	4.0	-3.0	22.1	7.0	3.8	5.6	6.4
South Asia	Exports	6.3	7.3	-1.2	9.8	15.9	5.4	6.4	9.6
	Imports	9.3	14.1	1.0	5.2	18.3	4.4	6.8	9.3
Western Asia	Exports	5.8	2.7	-7.4	4.2	8.5	3.6	2.1	4.6
	Imports	19.2	8.1	-12.7	9.0	9.5	4.1	3.7	3.9
Latin America and the Caribbean	Exports	4.2	1.6	-10.1	9.9	5.7	3.9	6.7	7.9
	Imports	13.8	8.2	-15.8	23.1	9.5	4.5	7.4	8.8
South America	Exports	3.1	1.5	-8.8	4.1	5.7	1.3	6.9	8.0
	Imports	19.8	12.4	-14.0	25.3	11.6	3.8	8.2	9.2
Mexico and Central America	Exports	6.7	1.3	-12.4	21.9	6.7	8.2	6.3	8.0
	Imports	7.6	3.0	-18.2	21.8	6.2	5.8	6.2	8.6
Caribbean	Exports	0.1	7.2	-13.2	8.5	-5.9	6.6	8.4	5.8
	Imports	7.3	6.0	-15.8	7.4	9.2	3.7	6.0	4.9
Least developed countries	Exports	-2.8	0.1	1.4	2.0	19.1	0.8	0.3	3.8
	Imports	13.1	13.7	6.2	5.7	9.8	6.5	6.5	6.3

Source: UN/DESA

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