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2017-2019

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Acknowledgements

This report presents the short-term prospects for the global economy in 2018-2019, including major risks and policy challenges.

The report draws on the analysis of staff in the Global Economic Monitoring Unit (GEMU) of the Development Policy and Analysis Division (DPAD), United Nations Department of Economic and Social Affairs (DESA), and on inputs provided by the UN Regional Commissions (ESCAP, ESCWA, ECA, ECE and ECLAC), UNCTAD and the experts of Project LINK.

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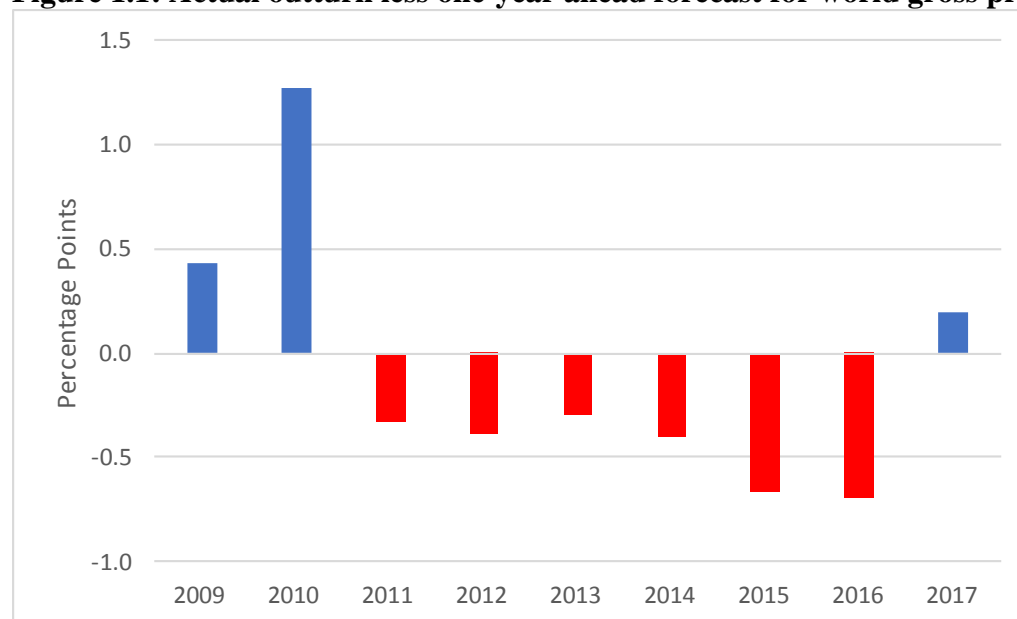
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Section 1: Prospects for the world economy

Global overview

The modest strengthening of global economic activity that became evident towards the end of 2016 continued into 2017. World industrial production has accelerated, in tandem with a recovery in global trade that springs predominantly from stronger demand in East Asia. This, in turn, has supported some revival in global investment. Confidence and economic sentiment indicators have also generally strengthened, especially in developed economies, although policy uncertainty in several arenas remains elevated. The current estimate for world gross product growth in 2017 of 2.9 per cent represents a small upward revision to forecasts released a year ago. This adjustment to the forecast is noteworthy in itself, as it marks the first occasion since 2010 that the world economy will exceed rather than disappoint expectations (figure 1.1). World gross product growth is expected to remain steady at 2.9-3.0 per cent in 2018 and 2019.

Figure 1.1: Actual outturn less one-year ahead forecast for world gross product growth



Source: *World Economic Situation and Prospects*, various issues

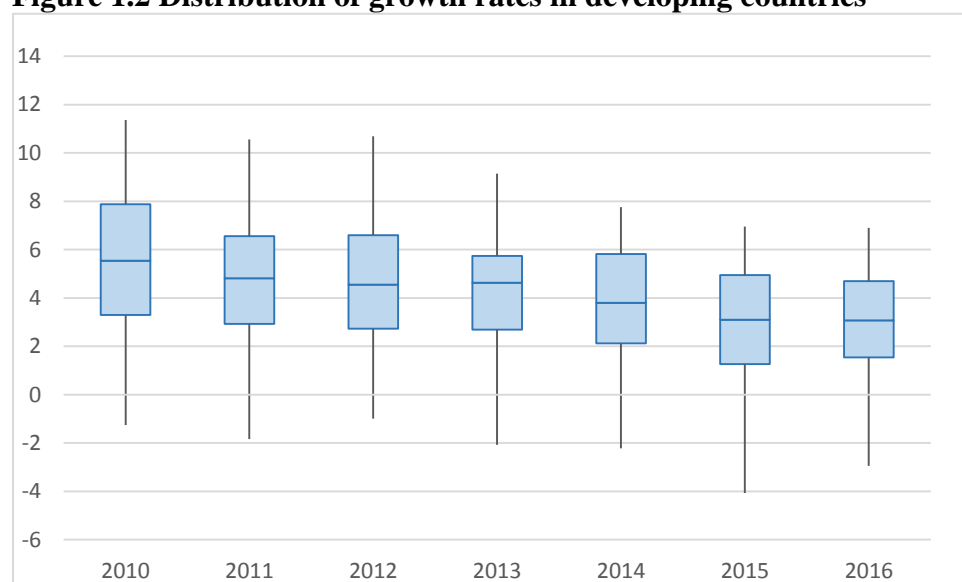
Against this backdrop, the world economy has reached a turning point in macroeconomic policy conditions. Many of the world's major central banks are now in a position to begin withdrawing the exceptional stimulus measures that have been in place for nearly a decade. The United States Federal Reserve has charted a path to normalize the size of its balance sheet and continues on its path of very gradual interest rate normalization. The European Central Bank has tapered the pace of its asset purchases, and has laid the groundwork to cease expansion of its balance sheet in 2018. Meanwhile, the Bank of Canada has raised interest rates by 50 basis points this year, and the Bank of England has announced that some withdrawal of monetary stimulus is likely to be appropriate over the coming months. At the same time, inflationary pressures have eased in several of the large developing economies

and economies in transition, allowing some easing of the monetary stance (e.g. Brazil and the Russian Federation).

The very gradual withdrawal of stimulus by the Federal Reserve has thus far not led to a significant tightening of global financial conditions. Financial market volatility remains low, and capital has started flowing back towards developing economies. Many of the overhanging constraints that lingered following the global financial crisis are easing, fostering a more conducive environment for a recovery in investment.

Notwithstanding these positive developments, stronger economic activity has not been shared evenly across countries and regions. Many parts of the world have yet to regain a healthy rate of growth, and the dispersion of growth rates, especially among developing economies, remain wide (figure 1.2).

Figure 1.2 Distribution of growth rates in developing countries



Source: UNSD and national statistics offices

Note: Boxplot indicates the distribution of growth rates in developing between the first and third quartiles. The median is indicated by the central bar and 95 per cent upper and lower ends of the range are indicated by the whiskers.

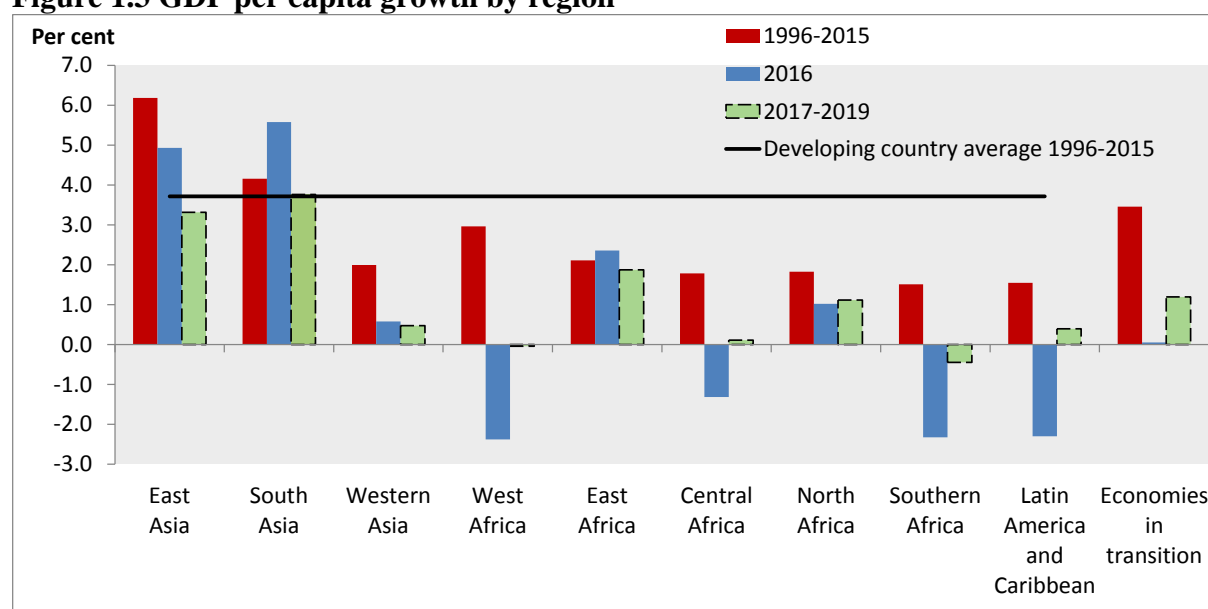
Moreover, the longer-term potential of the global economy continues to bear a scar from the extended period of weak investment and low productivity growth that followed the global financial crisis. Given the close linkages between demand, investment, trade and productivity, the extended episode of weak global investment may continue to forestall a more dynamic global economic recovery.

The upward revision to growth estimates for 2017 stems predominantly from firmer-than-expected growth in several developed economies – notably in Europe and Japan – as well as a more rapid recovery in the Russian Federation following two years of recession. East and South Asia remain the world's most dynamic regions, benefiting from robust domestic demand and supportive macroeconomic policies.

However, economic conditions remain challenging for many commodity-exporting countries, especially where the situation is exacerbated by security challenges or political uncertainty and instability. Prospects for Africa, in particular, have been confronted by compounding headwinds, with the mild recovery of many global commodity prices more than offset by domestic and regional pressures.

Despite the recent uptick, the pace of global economic growth remains insufficient to make rapid progress towards achieving the Sustainable Development Goals (SDGs). Many countries have even suffered recent setbacks in that progress, as GDP per capita declined in four major developing regions last year. Further setbacks or negligible per capita growth is anticipated in Central, Southern and West Africa, Western Asia, and Latin America and the Caribbean in 2018-2019 (figure 1.3). This pushes the targets of eradicating poverty and creating decent jobs for all further from reach, and poses risks to many of the other SDGs.

Figure 1.3 GDP per capita growth by region



Source: UN/DESA based on United Nations Statistics Division National Accounts Main Aggregates Database, United Nations Population Division World Population Prospects and UN/DESA forecasts.

* Includes estimates for 2017 and forecasts for 2018-2019

While economic prospects at the global level may have improved, economic forecasts for some of the world's poorest countries have been revised downward. Only a small handful of the least developed countries (LDCs) are expected to approach the Sustainable Development Goal target for GDP growth of "at least 7 per cent" in the near term. As a group, the LDCs are projected to grow by 4.6 per cent in 2017 and 5.3 per cent in 2018.

Table 1. Growth of world output, 2015-2019

						Change from WESP 2017 forecast	
	2015	2016	2017 ^a	2018 ^b	2019 ^b	2017	2018
World	2.7	2.3	2.9	2.9	3.0	0.2	0.0
Developed economies	2.2	1.6	2.1	1.9	1.8	0.4	0.1

United States of America	2.9	1.5	2.2	2.1	2.1	0.3	0.1
Japan	1.1	1.0	1.7	1.2	1.0	0.8	0.3
European Union	2.2	1.9	1.9	1.8	1.7	0.1	0.0
EU-15	2.1	1.8	1.7	1.6	1.6	0.1	-0.1
New EU Members	3.8	2.9	3.9	3.6	3.3	0.7	0.3
Euro area	2.0	1.8	1.7	1.7	1.6	0.0	0.0
Other developed countries	1.6	1.8	2.5	2.4	2.2	0.5	0.2
Economies in transition	-2.2	0.4	2.2	2.3	2.4	0.8	0.3
South-Eastern Europe	2.0	2.9	2.8	3.2	3.3	-0.3	-0.1
Commonwealth of Independent States and Georgia	-2.4	0.3	2.2	2.3	2.4	0.8	0.3
Russian Federation	-2.8	-0.2	1.8	1.9	1.9	0.8	0.4
Developing economies	3.9	3.6	4.3	4.6	4.7	-0.1	-0.1
Africa	3.1	1.6	3.1	3.5	3.8	-0.1	-0.3
North Africa	3.2	3.0	4.9	4.2	4.1	1.4	0.6
East Africa	6.7	5.3	5.5	6.1	6.3	-0.5	-0.2
Central Africa	1.5	1.3	2.5	3.2	3.4	-0.9	-1.0
West Africa	3.1	0.3	2.1	3.2	3.6	-1.0	-0.9
Southern Africa	1.9	0.0	1.1	2.2	2.5	-0.7	-0.4
East and South Asia	5.8	5.8	5.9	5.8	5.8	0.0	-0.1
East Asia	5.7	5.6	5.8	5.7	5.6	0.2	0.1
China	6.9	6.7	6.8	6.5	6.3	0.3	0.0
South Asia	6.2	6.3	6.3	6.6	6.8	-0.6	-0.3
India ^c	7.6	7.1	6.6	7.0	7.4	-1.1	-0.6
Western Asia	3.6	2.5	2.3	2.4	2.8	-0.2	-0.6
Latin America and the Caribbean	-0.6	-1.3	1.1	2.4	2.7	-0.2	0.3
South America	-1.9	-2.7	0.5	2.3	2.7	-0.4	0.3
Brazil	-3.8	-3.6	0.7	2.3	2.6	0.1	0.7
Mexico and Central America	2.9	2.5	2.4	2.6	2.6	0.1	0.4
Caribbean	4.0	1.9	2.5	2.7	2.7	-0.2	-0.1
Least developed countries	3.4	3.6	4.6	5.3	5.6	-0.6	-0.2
World trade ^d	2.9	2.3	3.7	3.5	3.9	1.0	0.2
World output growth with PPP-based weights ^e	3.3	3.0	3.6	3.7	3.7	0.1	0.0

a Estimated.

b Forecast, based in part on Project LINK.

c Fiscal year basis.

d Includes goods and services.

e Based on 2012 benchmark.

Table 2. Inflation, 2015-2019^a

						Change from WESP 2017 forecast	
	2015	2016	2017 ^a	2018 ^b	2019 ^b	2017	2018
World	2.1	2.4	2.6	2.8	2.9	-0.2	-0.1
Developed economies	0.2	0.7	1.5	1.9	2.1	-0.1	-0.1
United States of America	0.1	1.3	1.9	2.1	2.1	-0.3	-0.4
Japan	0.8	-0.1	0.3	1.4	1.8	-0.3	0

European Union	0	0.3	1.6	1.7	2.1	0.2	-0.2
EU-15	0.1	0.3	1.5	1.7	2.1	0.1	-0.2
EU-13	-0.4	-0.2	1.9	2.2	2.4	0.2	0
Euro area	0	0.2	1.4	1.5	2	0.2	-0.2
Other developed countries	1	1.3	1.5	2	1.9	-0.3	0.1
Economies in transition	15.8	7.8	5.3	5.1	4.6	-1.7	-0.2
South-Eastern Europe	0.8	0.4	2.4	2	2.6	0.7	-0.4
Commonwealth of Independent States and Georgia	16.4	8.1	5.4	5.2	4.7	-1.8	-0.2
Russian Federation	15.5	7.1	3.9	4.4	3.9	-2.7	-0.3
Developing economies	4.4	5.2	4.5	4.4	4.2	-0.2	-0.1
Africa	6.9	11	13.2	9.7	8.2	3.1	0.1
North Africa	7.8	11.3	17.6	8.3	7.1	9.2	0.4
East Africa	5.8	6	6.9	5.9	5.5	1.6	0.6
Central Africa	3.3	2.3	2.6	2.9	2.8	-0.1	-0.2
West Africa	8.3	13.2	14.3	15.4	12.8	-1.4	-0.3
Southern Africa	5.6	11.5	10.1	8.3	7.1	0.3	0.1
East and South Asia	2.6	2.6	2.5	3.2	3.5	-0.6	-0.2
East Asia	1.6	1.9	1.9	2.6	2.9	-0.4	-0.1
China	1.4	2	1.6	2.6	3	-0.5	-0.1
South Asia	6.9	5.5	5	5.6	5.8	-1.4	-0.5
India ^c	5.9	4.9	3.5	4.5	4.8	-2.2	-0.9
Western Asia	4.9	5.4	4.9	4.5	3.9	-0.6	-0.6
Latin America and the Caribbean	7.7	9.3	6	5.1	4.7	-0.1	0.3
South America	9.8	11.9	6.4	5.6	5.3	-1	0
Brazil	9.1	8.7	4.1	4.6	4.6	-1.7	0
Mexico and Central America	2.5	2.7	5.3	3.7	3.2	2.4	0.8
Caribbean	2.2	3.3	3.7	4	3.7	0.2	0.2
Least developed countries	7.8	12	11.7	8.8	7.7	1.5	0.1

a Figures exclude Venezuela (Bolivarian Republic of)

b Estimated.

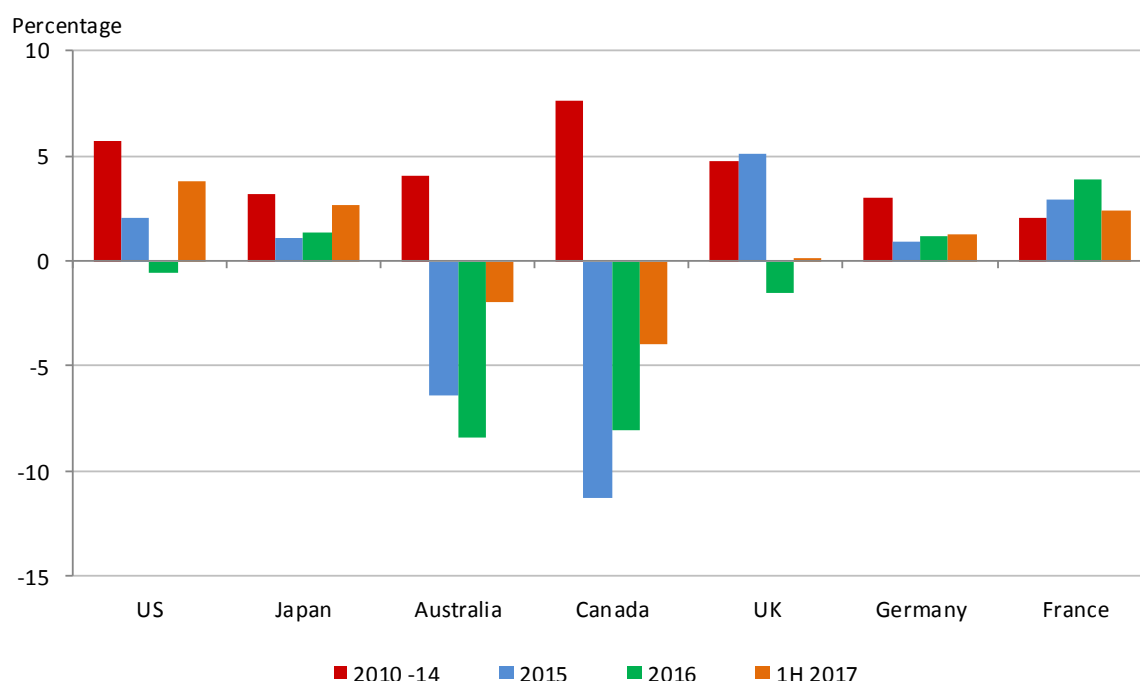
c Forecast, based in part on Project LINK.

Conditions for investment have improved

Private non-residential investment in Japan, the United States of America and several parts of Europe showed more resilience in the first half of 2017. This followed two years of exceptionally weak investment growth in many developed economies, and a prolonged episode of lackluster global investment overall. Adjustment in mining-related sectors continued to restrain investment in Australia and Canada. By contrast, following two years of steep cutbacks in investment in the shale-oil sector in the United States, investment in mining exploration, shafts and wells rebounded sharply in the first half of 2017. This may in part reflect an easing of environmental regulation, as well as advancements in drilling technology that make shale oil extraction profitable at a lower oil price. Heightened levels of uncertainty surrounding the United Kingdom of Great Britain and Northern Ireland's future relationship with its trading partners, following the decision to withdraw from the European Union

(Brexit), have resulted in a significant deterioration in investor sentiment, deterring investment in the United Kingdom (figure 1.4).

Figure 1.4 Average year-on-year change in private non-residential investment in selected developed economies (constant prices)



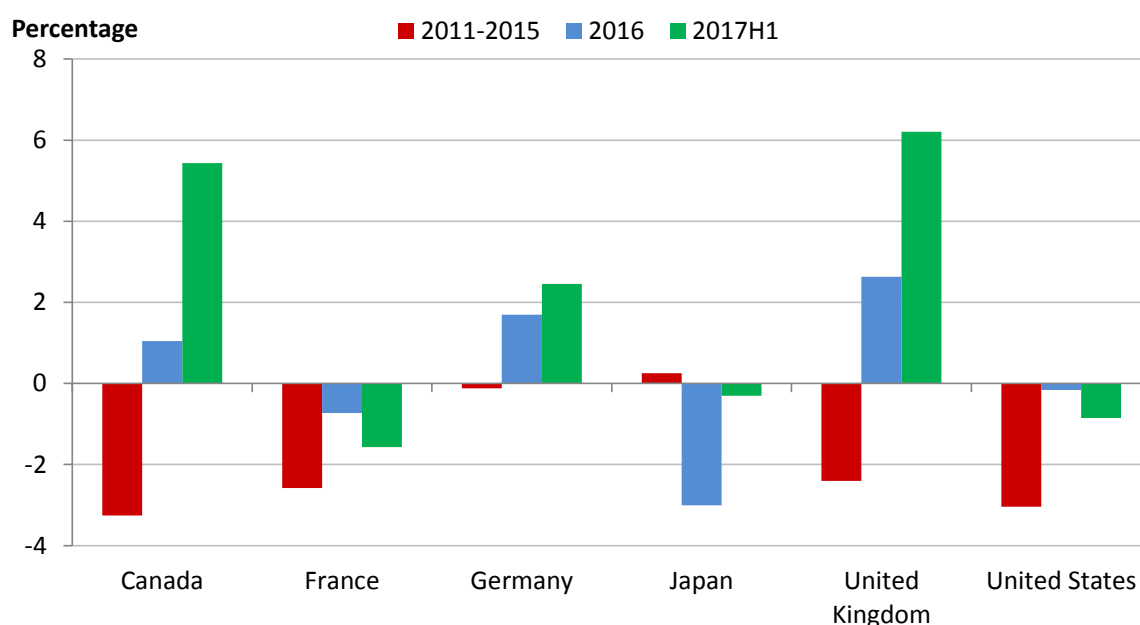
Source: National statistics offices.

Public sector investment has exhibited a strong rebound in Canada, Germany and the United Kingdom. This marks a significant reversal from the steep cutbacks in investment spending pursued by most developed-country Governments since 2010, as part of stringent fiscal austerity programmes. This welcome development may signal a broader trend towards a less restrictive fiscal stance in many parts of the world, although public sector investment has continued to contract in several countries, including the United States and France. In any case, it is likely to prove too little, too late to make a significant contribution towards achieving the goal of lifting collective G-20 GDP by 2 per cent by 2018 through new macroeconomic and structural policy measures, as agreed by the G-20 Leaders at the Brisbane Summit of 2014.¹

¹

http://www.g20australia.org/sites/default/files/g20_resources/library/brisbane_g20_leaders_summit_communique.pdf

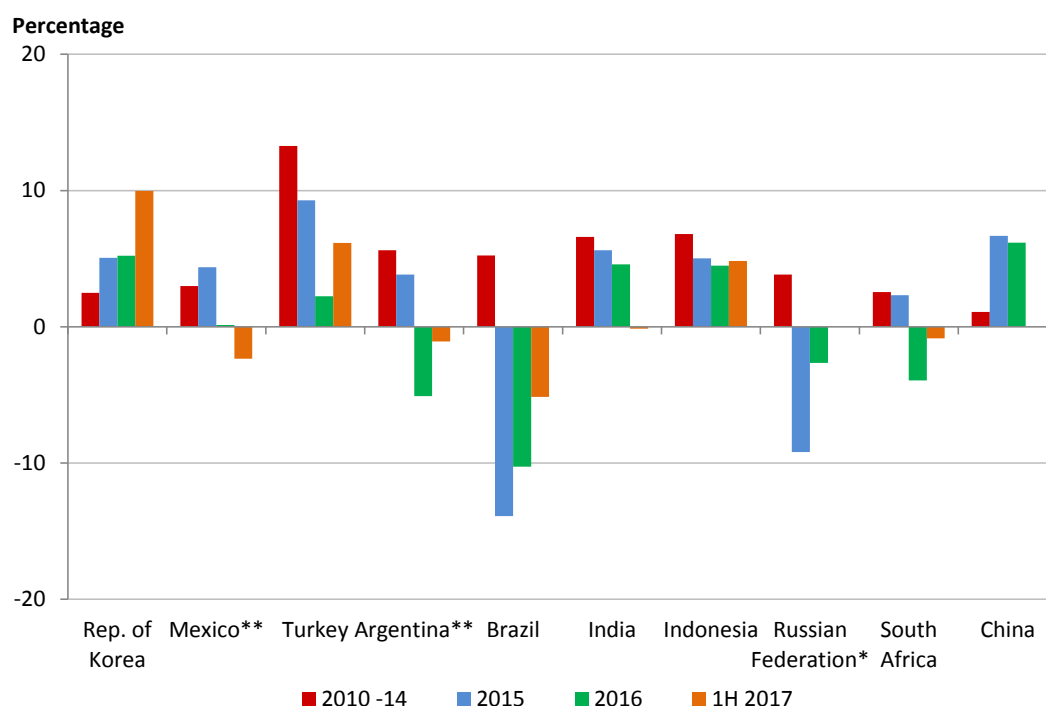
Figure 1.5 Average annual change in general government investment (constant prices)



Source: OECD Quarterly National Accounts, National statistics offices.

In major developing countries and economies in transition, private investment growth also slowed notably in recent years (Figure 1.5). More recent developments differ starkly across regions, with investment in several large economies in Latin America contracting, and investment rebounding in East Asia. To a large extent, the differences reflect the broad shift in income away from commodity exporter and towards commodity importers since 2014. A sharp decline in investment in the commodity sector has weighed on overall investment growth in Brazil, the Russian Federation and South Africa. In the Russian Federation, the decline in private investment also reflects the impact of international sanctions on access to capital and business sentiment. In Brazil and South Africa, political uncertainty and social unrests have also impacted the investment climate.

Figure 1.6 Average year-on-year change in gross fixed capital formation in selected developing and transition economies (constant prices)



Sources: OECD Quarterly National Accounts, United Nations Statistics Division National Accounts Main Aggregates Database.

* Data for 2017H1 is not available.

** 2017Q1

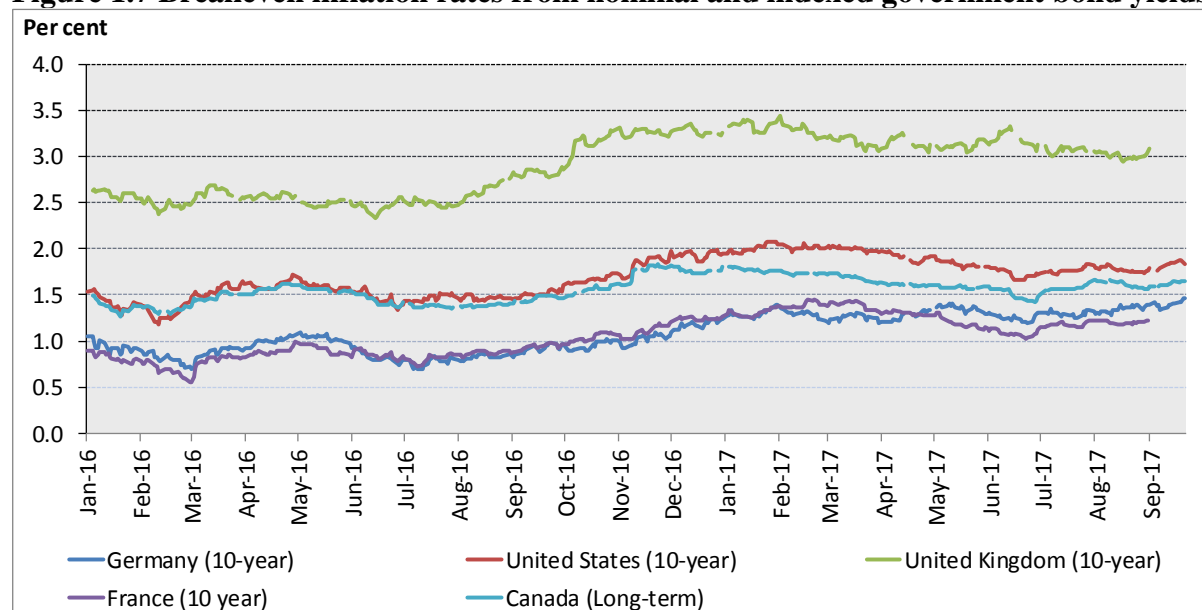
The tentative revival of investment in a small subset of developed and developing countries marks an important step towards a more broadly-based recovery in global productivity and rise in the longer-term potential of the world economy. However, the investment rebound may prove hesitant in the short-term. While the macroeconomic and financing conditions for investment have improved in many parts of the world, investors may postpone many major investment decisions, given the high levels of uncertainty regarding major trade policy agreements with Europe and the United States, as well as considerable uncertainties regarding the impact of balance sheet adjustment in the major central banks on global markets. If markets manage to weather the path of monetary policy normalization without severe disruption, the conditions for a stronger rebound in global investment will start to take shape.

Benign global inflation against backdrop of stronger growth

In the first half of 2017, global inflation dynamics were impacted in many countries by the steep year-on-year rise in energy prices relative to the lows reached in early 2016. While this transitory impact had largely dissipated by mid-year, longer-term inflation expectations in developed countries, as measured by the difference between nominal and inflation-indexed government bond yields, have edged upward relative to 2016 levels (figure 1.7), suggesting that expectations of a return to deflation have diminished. The upward shift in inflation led the President of the ECB to state in March 2017 that “the risks of deflation [in Europe] have

largely disappeared”, as the ECB slowed the pace of its asset purchases. In Japan, inflation has edged above zero, while in the United States and the United Kingdom headline inflation exceeded the central bank targets of 2 per cent for at least part of 2017. In aggregate, inflation in developed economies is expected to average 1.5 per cent in 2017, up from 0.7 per cent in 2016.

Figure 1.7 Breakeven inflation rates from nominal and indexed government bond yields

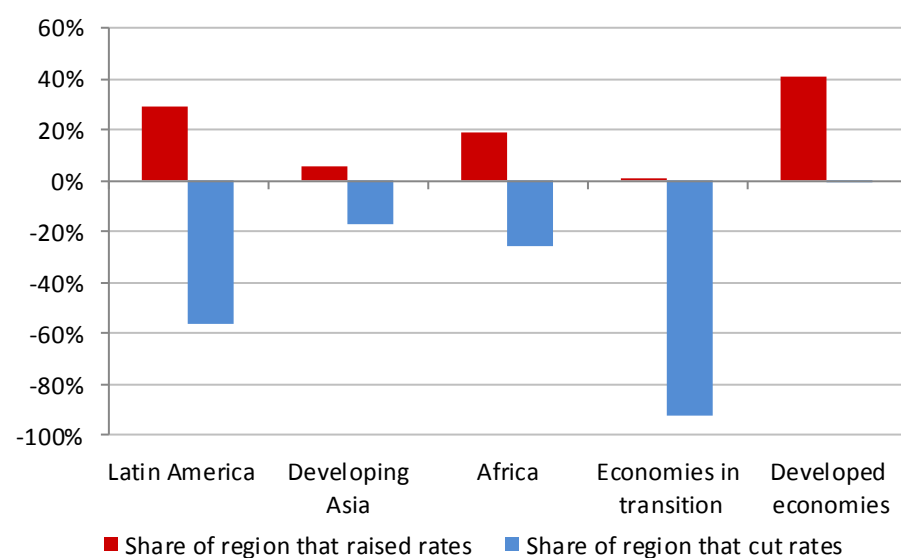


Source: UN/DESA, based on data from Agence France Trésor, Bank of Canada, Bank of England, Bundesbank, German Ministry of Finance and the United States Federal Reserve.

In many of the large developing economies and economies in transition, by contrast, price pressures have eased. In countries such as Brazil and South Africa, this partly reflects recovery in the exchange rate, following steep depreciations in 2015/2016. Meanwhile, high food price inflation has started to recede in a number of countries in Africa, where agricultural shortages caused by severe drought and other weather-related shocks, compounded by distribution blockages related to conflict situations, drove food price inflation to double digit levels in the early months of the year.

Easing inflationary pressures have allowed several commodity exporters in South America, parts of Africa and the Commonwealth of Independent States to cut interest rates in 2017, easing monetary conditions and providing more support to economic activity (figure 1.8).

Figure 1.8 Shifts in policy rates in 2017

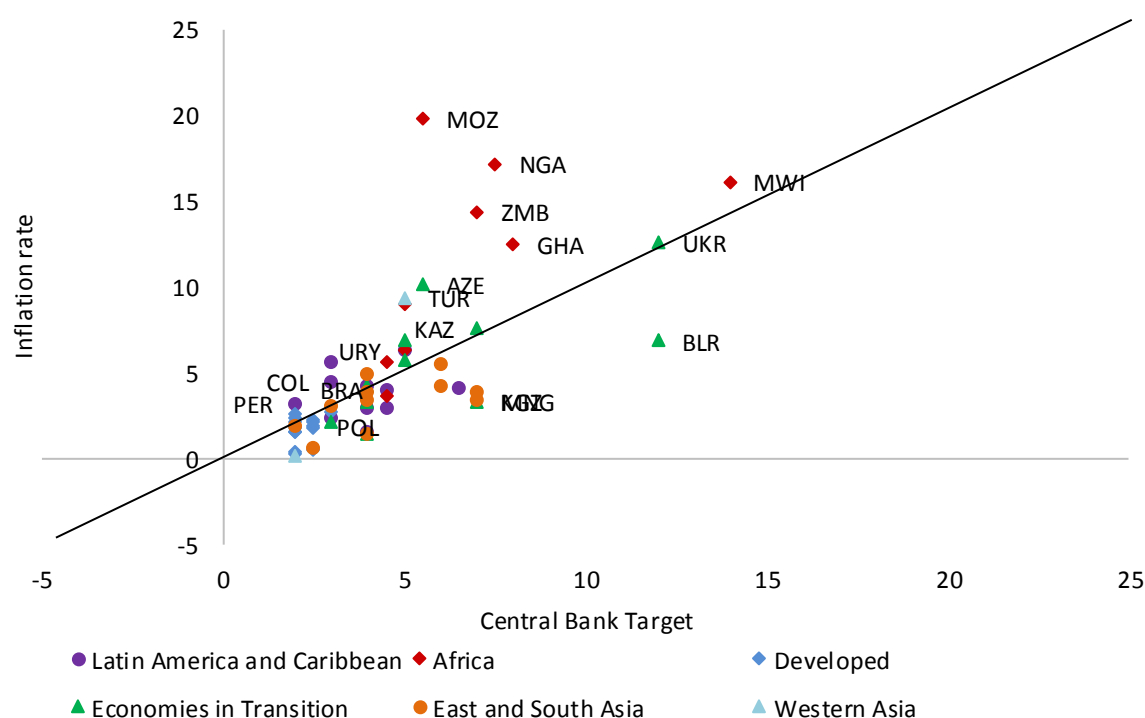


Source: UN/DESA.

Figure 1.9 compares the estimate for consumer price inflation in 2017 to the mid-point of central bank targets.² Inflation is at or below target in more than half of the countries in the sample. The countries exceeding official inflation targets are predominantly in Africa, while a few countries in South America and the Commonwealth of Independent States also continue to experience high inflation relative to target. Nonetheless, inflation has for the most part come down over the course of the year in these regions.

² The sample only includes countries that have an explicit or implicit target rate for inflation.

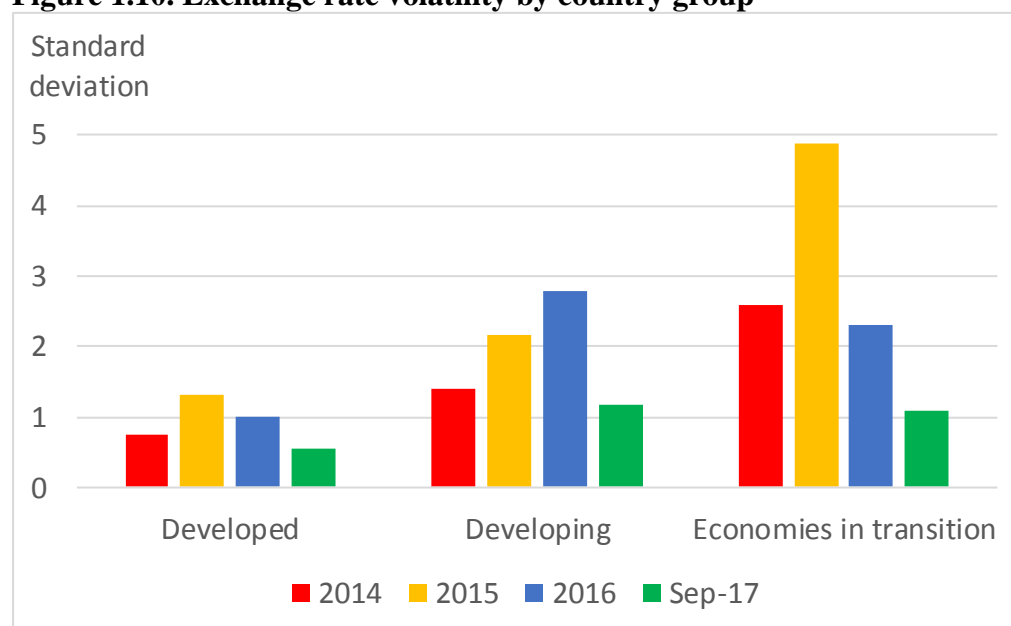
Figure 1.9 Forecast for inflation relative to central bank target in 2017 (%)



Source: Central bank news, UN/DESA forecasts

Going forward, inflationary pressures are expected to remain subdued in most developing regions, which may allow additional monetary easing in some countries. Notwithstanding the upward shift in inflation in developed economies, measures of core inflation generally remain below central bank targets, wage pressures are weak despite low unemployment in a number of countries, and shifts towards the withdrawal of monetary stimulus can be expected to restrain further inflationary pressures. Commodity prices are unlikely to rise sharply, and exchange rate volatility has dropped to low levels (figure 1.10). Despite the uptick in global growth, therefore, global inflationary pressures are expected to remain relatively benign. Nonetheless, there is a risk that market reaction to monetary adjustment in developed economies introduces higher levels of volatility. If this were to lead to currency pressures in developing countries – especially those with more open capital markets – inflationary pressures could build, leaving countries exposed to capital withdrawal and facing higher financing costs.

Figure 1.10. Exchange rate volatility by country group*



Source: UN/DESA

Note: Average standard deviation of monthly percentage change of currencies against US\$ of countries in group (figures for developing countries exclude Venezuela)

Oil market in the process of rebalancing

The oil market is in the process of rebalancing, as demand growth is surpassing supply growth. The level of commercial crude oil stock held by the member states of the Organization for Economic Cooperation and Development (OECD) has already been in decline. The market is likely to rebalance by the first quarter of 2018, eroding the excess crude oil inventory built up since 2014.

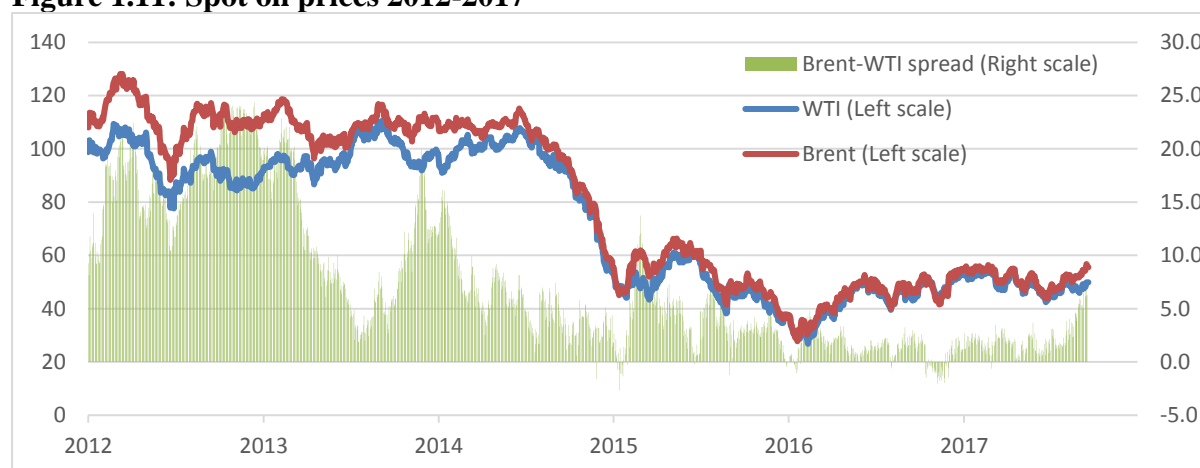
The Organization of the Petroleum Exporting Countries (OPEC) and the Russian Federation agreed to implement a coordinated reduction in production from January 2017 to March 2018, amounting to 1.8 million barrel per day (bpd) in total, although considering compliance performance actual cuts may be considerably less. Meanwhile, supply restraint related to production cuts will be offset by increased supply from non-OPEC countries. Crude oil supply from non-OPEC countries in 2017 is forecast to increase, driven by a rapid crude oil production recovery in the United States. In total, world crude oil supply for 2017 is expected to record a modest rise from the level in 2016.

The increase in world total demand for crude oil in 2017 is expected to exceed the increase in supply by roughly 1 million bpd. Strong demand growth is expected from China, India and the United States—the world's three largest energy consumers. A recovering demand from Europe is another supporting factor for the stable growth projection. Progress towards rebalancing is illustrated by the recent rise in refining margins in Asia, Europe and the Americas throughout 2017.

Speculative activity continues to play an important role in short-term price fluctuations, amid conflicting market prospects. Oil prices weakened in June and July over the market's concern vis-à-vis the slow decline of commercial crude oil stock and the rapid increase of crude oil

production in the United States. The Brent spot price fell by 12 per cent at its weakest in June from the January to May average of \$52.7 per barrel. However, in mid-September, the Brent spot price recovered to reach \$59 per barrel as the market confirmed a consistent demand growth for crude oil (figure 1.11). While prices may continue to fluctuate in response to short-term news, the Brent spot price is expected to average \$52.5 per barrel in 2017, and \$55.4 per barrel in 2018.

Figure 1.11: Spot oil prices 2012-2017

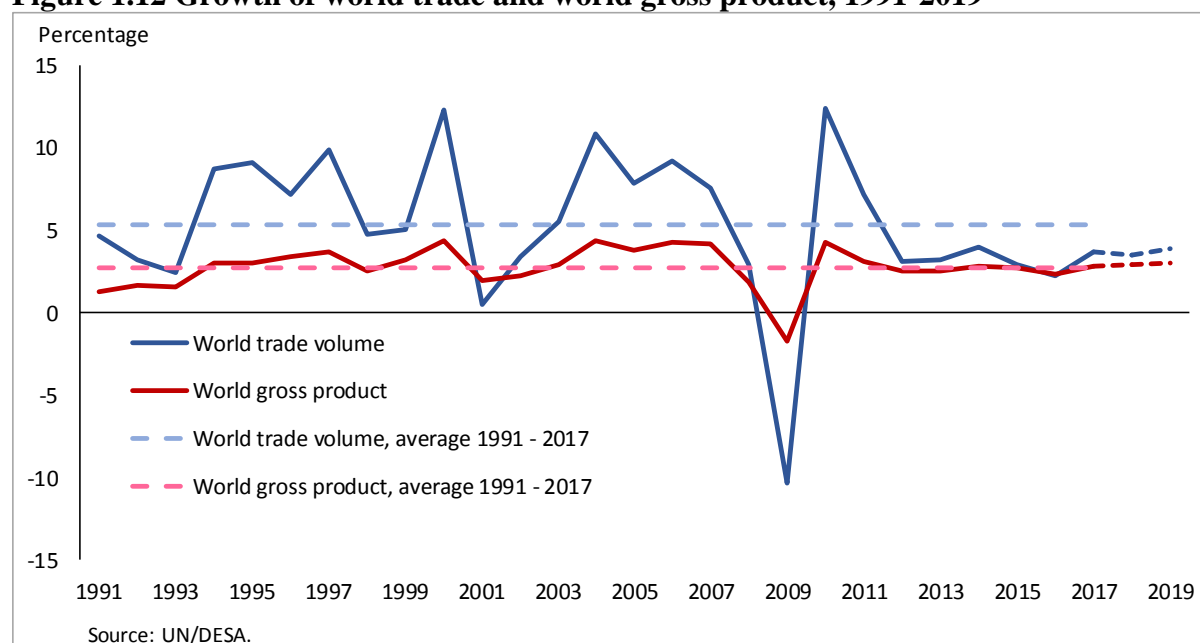


Source: Energy Information Administration

Emerging Asia drives rebound in international trade flows

In 2017, the volume of global trade in goods and services expanded by 3.7 per cent, rebounding from a post-crisis low growth rate of 2.3 per cent in 2016 (Figure 1.12). The recovery in global trade activity has occurred in tandem with a strengthening of industrial output and a general improvement in business confidence. These developments were reflected in a rise in the Global Manufacturing Purchasing Managers' Index to a six-year high during the year. Nevertheless, trade elasticity, which is calculated as the ratio of global trade growth to world gross product growth, only rose marginally in 2017.

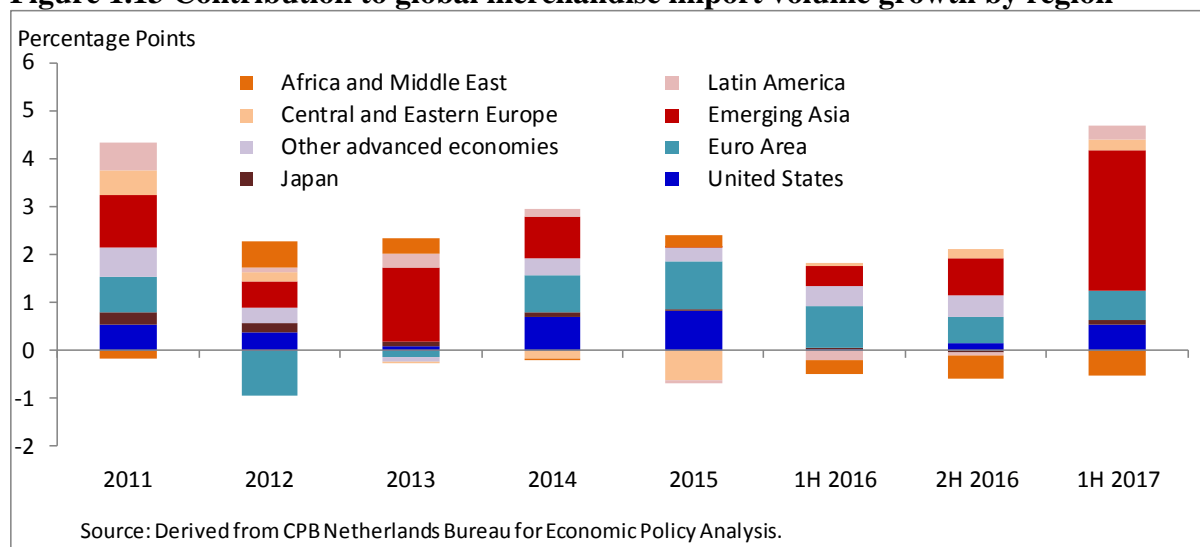
Figure 1.12 Growth of world trade and world gross product, 1991-2019



In the first half of 2017, world merchandise trade³ grew at its fastest pace in the post-crisis period. The strong growth figures, however, were in part attributed to a low base effect, given the weakness in trade flows observed in the preceding year. From the imports perspective, there was a marked variation in the strength of import demand between regions (Figure 1.13). In the first half of 2017, Emerging Asia contributed close to 70 per cent of growth in global merchandise imports, owing to stronger import demand from China as infrastructure investment and construction activity continued to gain strength, supported by policy stimulus measures. In several major developed economies, including Japan, the United States and the European Union, imports of capital goods rebounded during the first half of 2017, as firms responded to improving demand and rising capacity utilization rates.

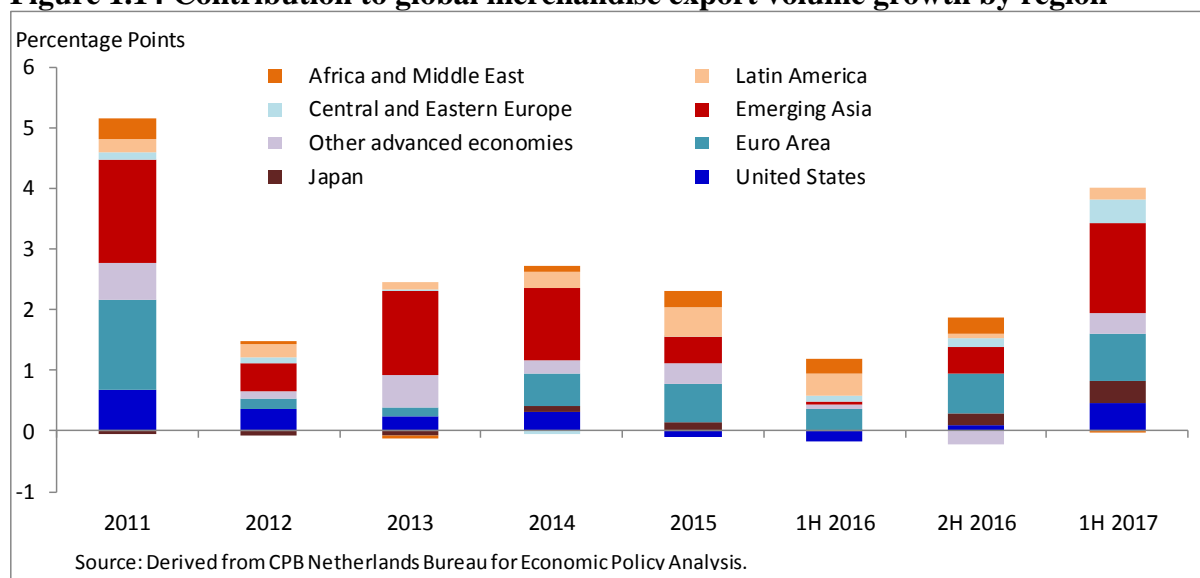
³ Merchandise trade volume data was obtained from the CPB Netherlands Bureau for Economic Policy Analysis. Countries included in the regional groupings here differ from the official classification used by the United Nations.

Figure 1.13 Contribution to global merchandise import volume growth by region



Among the other developing regions, Latin America saw a modest recovery in import demand, as large economies, including Argentina and Brazil emerged from recession. In contrast, import demand from Africa and the Middle East continued to decline, reflecting the persistent weakness in commodity-related revenue, depreciated domestic currencies and subdued investment activity. Notably, investment prospects in countries such as Algeria, Saudi Arabia and the United Arab Emirates remain muted, weighed down by cuts to oil production and fiscal consolidation efforts. Investment activity in many economies in the region has also been affected by political uncertainty.

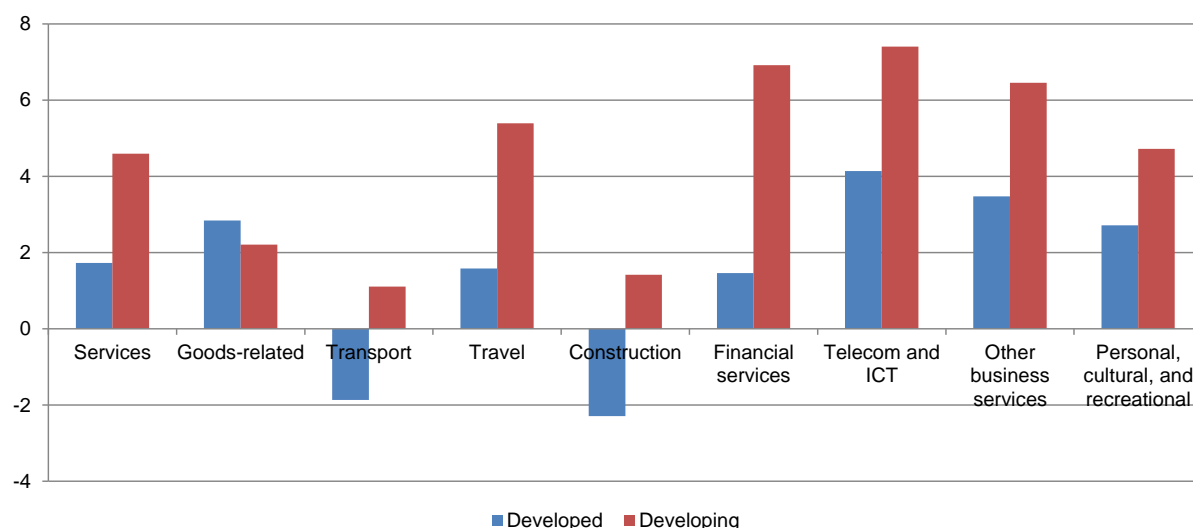
Figure 1.14 Contribution to global merchandise export volume growth by region



From the exports perspective, the recovery in global merchandise exports was broad-based across the developed, developing and transition economies (Figure 1.14). A pick-up in investment activity in the developed economies as well as in a few developing economies, including China, provided an impetus to export growth of the developing regions. In the Emerging Asia region, exports were also buoyed by an upturn in trade in electronic

components and products, reflecting the region's close integration into global value chains in the electronics industry. Meanwhile, exports from the United States benefited to a certain extent from a weakening of the dollar during the year.

Figure 1.15: Compound annual growth rate of services exports by category, 2008 – 2016
Percentage



Source: UNCTAD

At the same time, there remains a large potential for trade in services to boost prospects for international trade growth. In the aftermath of the global financial crisis, trade in services has exhibited higher resilience compared to trade in goods. In 2016, global services exports in value terms rebounded to register positive growth, following a contraction in 2015. Of particular interest is the potential for stronger trade in services to boost growth and development prospects of the developing economies. Between 2008 and 2016, services exports of the developing economies grew at a faster pace compared to the developed world (Figure 1.15). Of note, the strong growth in developing countries' exports of telecommunication, financial and other business services reflect a move towards the exports of higher value-added services, with potentially larger spillovers to the domestic economy.

Looking ahead, global trade activity is expected to remain on a moderate growth trajectory, expanding by 3.5 per cent in 2018 and 3.9 per cent in 2019. Global trade growth will be supported by the improvement in domestic demand conditions in the developed economies as well as in several large developing economies. In particular, the ongoing gradual recovery in investment growth has important implications for international trade flows, given the high import intensity of fixed investment relative to other expenditure components. For the commodity-exporting countries, the projected modest rise in global commodity prices will support import demand, amid higher revenue and a strengthening of domestic currencies.

The global trade outlook, however, faces considerable downside risks, arising mainly from high policy uncertainty in the international environment. A potential sharp escalation in trade

protectionism measures, particularly in the United States, will derail the recovery in global trade, with adverse effects on growth prospects of the developing countries. Uncertainty surrounding the United Kingdom's negotiations as it prepares to leave the European Union could weigh on business confidence and affect investment prospects in Europe. In addition, a sharper-than-expected growth moderation in the large emerging economies, including China, would also be a setback to trade growth. Meanwhile, ongoing structural shifts, including the slower expansion of global value chains and a deceleration in the pace of trade liberalization, will continue to constrain international trade growth going forward.

International transport and the environment

In line with stronger world trade growth, the volume of international transport is expected to grow significantly in the coming years. While on the one hand this is a welcome sign of a healthier economy, it also comes at an environmental cost from the associated rise in carbon dioxide (CO₂) emissions from aviation and shipping (see figures 1.16 and 1.17). In 2014, total emissions from these two industries amounted to about 3.5 per cent of global emissions. If ranked as one country, international shipping and aviation would be the fifth largest CO₂ emitter in the world, approximately equal to the sum of total emissions in Japan or Africa. Moreover, each industry would rank as a top ten emitter.

The bulk of trade occurs via international shipping, which moves about 80 per cent of global traded volume. Tourism is witnessing uninterrupted solid growth not recorded since the 1960s, with about half of all tourists worldwide arrive by air. Furthermore, international shipping and aviation emissions do not fall under the purview of the Paris Agreement.⁴

Emissions from these modes of transport have been on the rise and will continue to rise if left unchecked. According to the International Energy Agency⁵, CO₂ emissions from fuel combustion from international marine and aviation in 2014 were, respectively, 69 per cent and 95 per cent higher than in 1990, growing faster than road transport. Total CO₂ emissions from fuel combustion increased 58 percent in the same period. In business-as-usual scenarios, emissions from both sectors are projected to double or even triple by 2050, despite improvements in fleet efficiency.

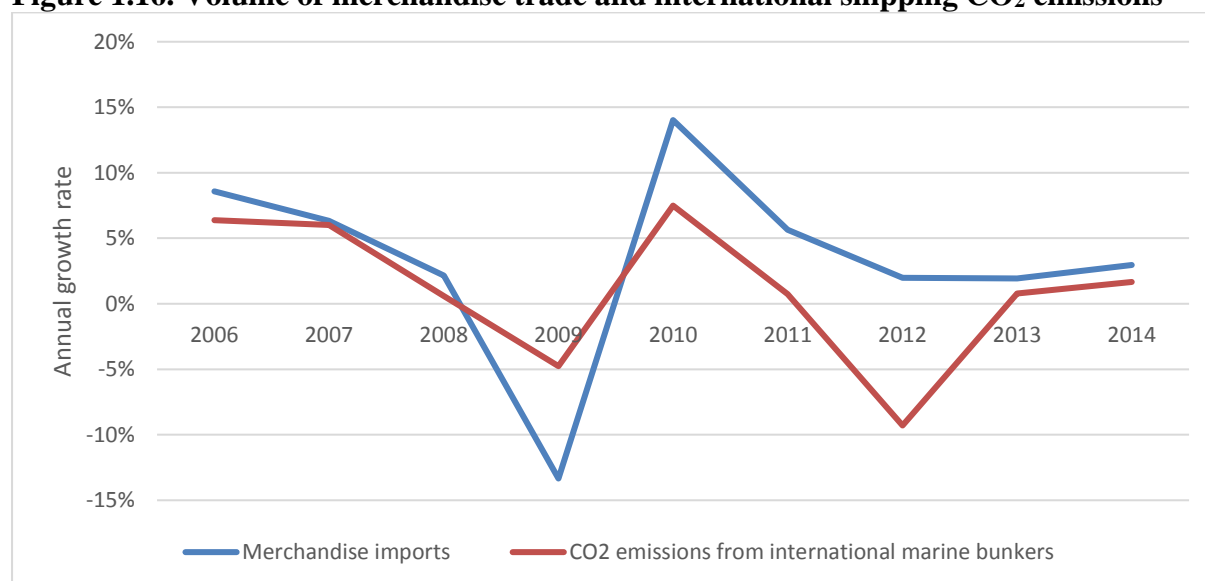
It is thus important to restrict CO₂ emissions in these sectors more effectively, as well as improve energy efficiency. In 2016, the International Civil Aviation Organization adopted the Carbon Offsetting Scheme for International Aviation (CORSIA), which mandates that, starting 2021, aircraft operators will be required to purchase offsets for growth in CO₂

⁴ Emissions from international aviation and maritime transport are calculated as part of the national greenhouse gas inventories of the United Nations Framework Convention on Climate Change (UNFCCC) Parties, but are excluded from national totals and reported separately. These emissions are not subject to the limitation and reduction commitments of Parties under the Convention, the Kyoto Protocol and the Paris Agreement. The environmental regulation of international shipping and aviation has been entrusted to the International Maritime Organization (IMO) and the International Civil Aviation Organization (ICAO), respectively.

⁵ International Energy Agency (2016), CO₂ emissions from fuel combustion highlights.

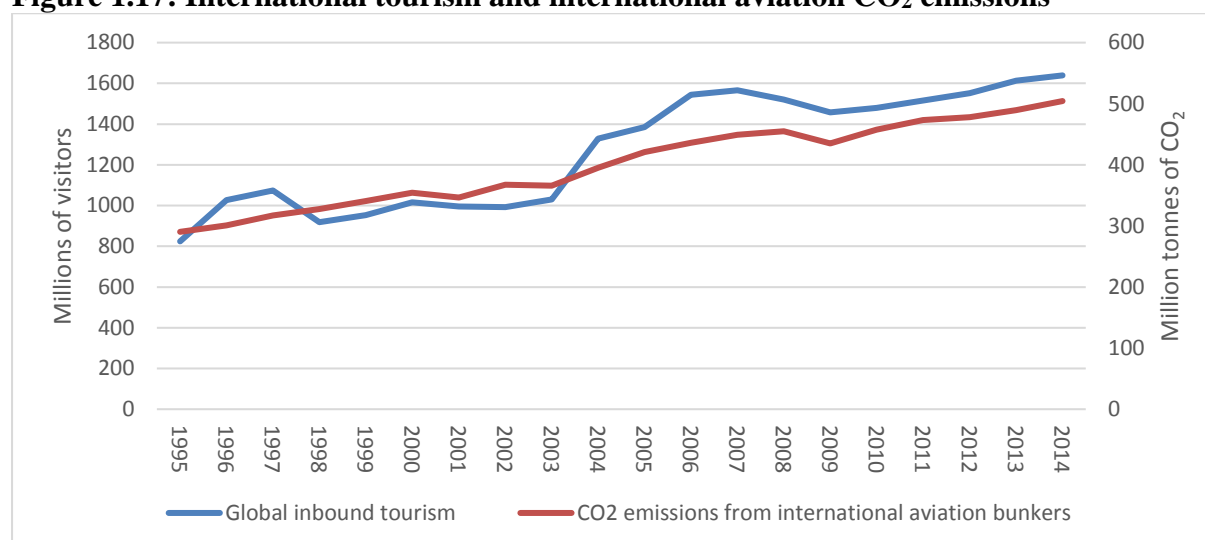
emissions above a baseline level⁶. In the shipping sector, by contrast, policy options are currently only in consideration. The International Maritime Organization will have a first greenhouse gas emissions reduction strategy in April 2018.

Figure 1.16. Volume of merchandise trade and international shipping CO₂ emissions



Source: UNCTADStat and IEA (2016). Note: CO₂ emissions from fuel combustion.

Figure 1.17: International tourism and international aviation CO₂ emissions



Source: UNWTO and IEA (2016). Note: CO₂ emissions from fuel combustion. Inbound tourism measured as arrivals of non-resident visitors (overnight visitors, tourists and same-day visitors, excursionists) at national borders.

⁶ As of 23 August 2017, 72 States, representing 87.7 per cent of international aviation activity, had expressed their intent to participate in CORSIA.

Capital flows to emerging economies gain momentum

Recent positive trends on global financial markets are being driven by the improving economic conditions in the world economy, the declining global policy uncertainties since early 2017, and expectations for a smooth and gradual transition to the monetary policy stance in the United States. Thus, investors' risk appetite has strengthened and stock markets are gaining momentum not only in developed countries—climbing to record highs in some cases—but also in several emerging economies (figure 1.18). In addition, financial volatility has declined visibly over the past year. Hence, the buoyant global financial and liquidity environment, coupled with the ongoing pick-up in global trade, is facilitating the recovery of investment and supporting global growth.

Figure 1.18. Stock markets indices, January 2015 – September 2017
(Index January 2015=100)

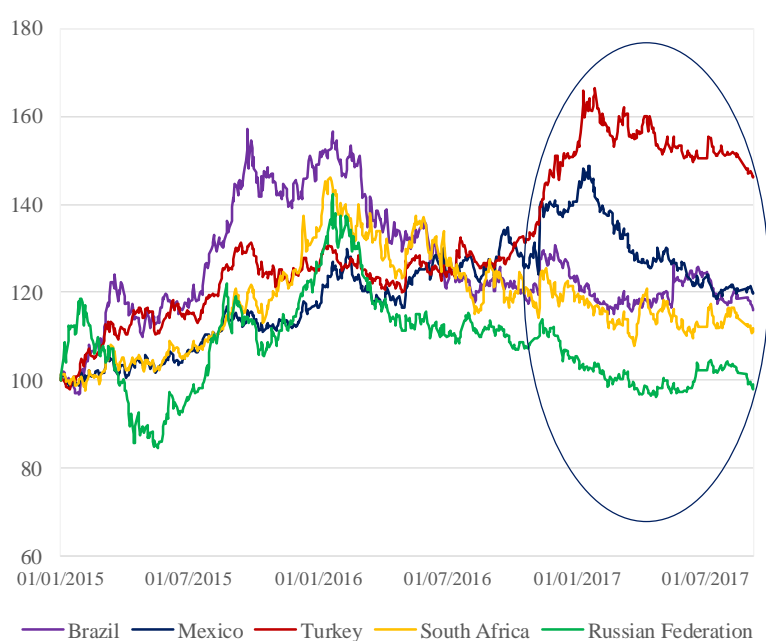


Source: DPAD/DESA based on JP Morgan.

Against this backdrop, capital flows into emerging economies have gained momentum in 2017, reversing the trend observed in previous years, where large capital outflows were registered. This has been facilitated by the improving economic conditions in emerging economies. In fact, after almost a decade-long decline, the growth differential with developed countries is rising again. Also, while some emerging economies, such as Brazil and the Russian Federation, are slowly recovering from deep downturns, others have undergone major macroeconomic adjustments in response to the lower commodity prices and capital inflows observed between 2014 and 2016. For instance, current accounts deficits narrowed noticeably in India and South Africa. Greater exchange rate flexibility, high levels of reserves and, in many cases, improved policy frameworks, have also helped the macroeconomic adjustments in several countries since 2014.

The resurgence in capital inflows has led to a reduction of financial spreads and the appreciation of domestic currencies. For instance, bond spreads have reached historical low levels in developing countries in Asia and Europe, while exchange rates have also recovered from the downward trend observed in previous years in Brazil, Mexico, the Russian Federation, South Africa and Turkey (figure 1.19). In addition, stock markets have risen, with the MSCI index reaching a multi-year high in September 2017, 20 per cent above September 2016 (figure 1.18).

Figure 1.19. Exchange rates of selected emerging-market currencies vis-à-vis the United States dollar, January 2015 – September 2017
(Index January 2015=100)



Source: DPAD/DESA based on IMF Representative rates

The recovery in capital inflows in emerging economies has been driven by equity and bond flows. In the first quarter of 2017, portfolio flows reached more than 100 billion, the highest figure since 2014.⁷ Portfolio flows have risen in Asia and Latin America, in countries such as Brazil, India, Indonesia, Malaysia, Mexico and Thailand. Moreover, portfolio capital outflows from China have also tempered, encouraging authorities to remove some monetary rules supporting the renminbi recently. In addition, cross-border banking flows are recovering after a substantial decline in 2015 and 2016, particularly in Brazil, China, and the Russian Federation.⁸ The recovery in banking flows will underpin credit growth, contingent on the momentum of emerging economies' business cycle. Meanwhile, foreign direct investment

⁷ Institute of International Finance, *Capital Flows to Emerging Markets: A Brighter Outlook* (5 June 2017).

⁸ Bank of International Settlements, "International banking and financial market development", *BIS Quarterly Review* (June 2017).

(FDI) flows in developing countries are expected to see a modest recovery in 2017, after falling by about 2 per cent in 2016, owing to improving economic prospects, the pick-up in global trade and higher corporate profits.⁹ The moderately positive picture for FDI encompasses most regions, except for Latin America, where FDI is expected to remain subdued. Some countries, including the least developed countries and the small island developing States, also continue to display structural difficulties in attracting FDI.

In the outlook, projections on capital inflows to emerging economies are moderately favourable. Furthermore, FDI, equity and cross-border banking flows will support the growth momentum in emerging economies in the near term, but this will also depend on the policy responses associated with larger inflows.¹⁰ Yet, monetary policy transitions in the United States, policy uncertainties in the international environment and political risks in domestic economies continue to be major hurdles. In particular, sudden changes in expectations or monetary policy mistakes by major central banks can generate large spikes in financial volatility with significant effects in emerging economies. In fact, recent evidence confirm that global financial conditions tend to generate large spillovers into local financial markets and to disrupt domestic monetary policy efforts to manage financial conditions. For instance, Rey (2015) highlights the existence of a global financial cycle in capital flows, asset prices and credit growth that is not aligned with countries' idiosyncratic macroeconomic conditions.¹¹ Against this backdrop, emerging economies should implement a combination of macroeconomic, foreign exchange and macro-prudential policies—including targeted and selective capital controls—to favour the positive effects, and contain the negative ones, of the boom and bust cycles of capital flows.

Productivity growth strengthening from low level

The improvement in the world economy since mid-2016 has been accompanied by a moderate pick-up in productivity growth.¹² After growing by only 1.3 per cent in both 2015 and 2016, global labour productivity is projected to increase by 1.9 per cent in 2017.¹³ However, this rate is still slightly below the 1990-2015 average of 2.1 per cent (figure 1.20).

⁹ United Nations Conference on Trade and Development, *World Investment Report 2017* (United Nations publication, Sales No. E.17.II.D.3).

¹⁰ Blanchard, Olivier, and others, "Capital flows: Expansionary or contractionary?", *American Economic Review: Papers & Proceedings 2016*, v. 106, No. 5, pp. 565–569.

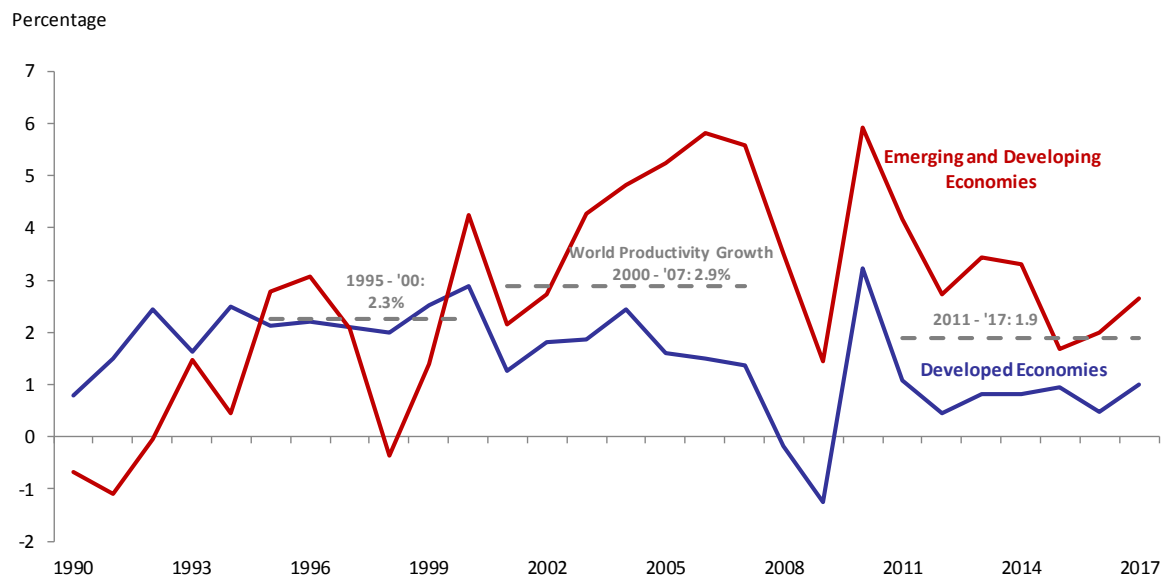
¹¹ Rey, Hélène, "Dilemma not trilemma: The global financial cycle and the monetary policy independence", NBER Working Paper 21162 (Massachusetts, May 2015).

¹² The main source of data used in this section is the Conference Board's Total Economy Database (TED), May 2017 Update. Regional aggregates differ from those used by DESA. Country level data is available.

¹³ Labour productivity is measured here as gross domestic product (output) per person employed. While output per hour worked would be a preferred measure, this indicator is not available for many developing countries. Global and regional aggregates as well as cross-country comparisons of productivity growth are therefore generally based on output per person.

The recent recovery in productivity growth has been geographically broad-based, with most regions posting gains.

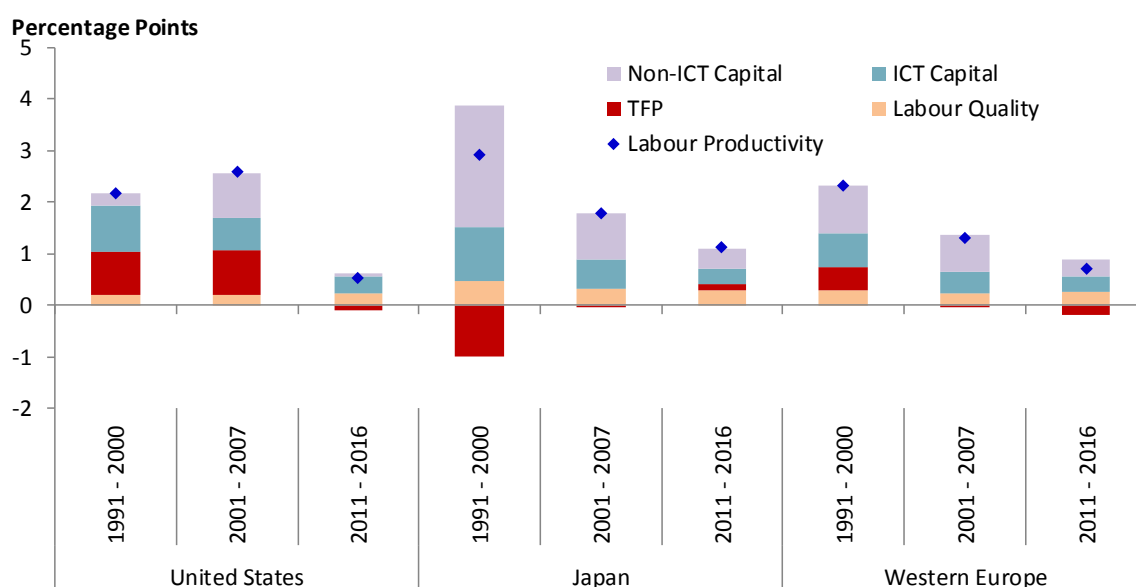
Figure 1.20: Labour Productivity Growth, Developed Economies vs. Developing Economies



Source: The Conference Board Total Economy Database™ (Adjusted version), May 2017, available from <http://www.conference-board.org/data/economydatabase/>.

Among developed economies, Japan, the United States and Europe have all seen productivity growth strengthen over the past year, albeit from low levels. Average labour productivity growth in developed economies is estimated to accelerate from 0.5 per cent in 2016 to 1 per cent in 2017. This improvement reflects both stronger output growth and slowing employment growth as labour markets have tightened in many countries (e.g. Germany, Japan, the United Kingdom and the United States).

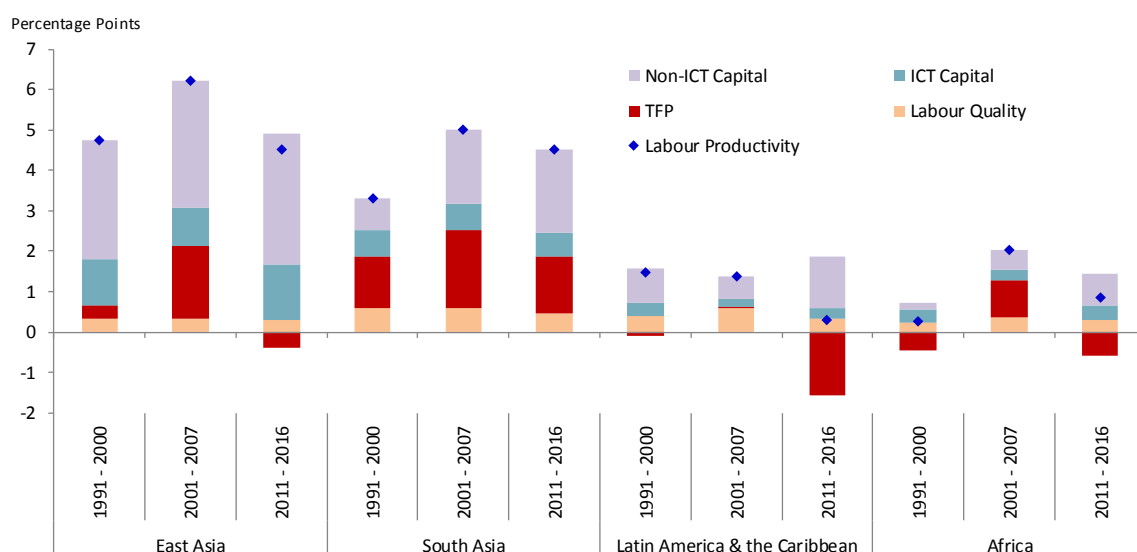
Figure 1.21: Contribution to Labour Productivity Growth in the Developed Economies



Source: UN/DESA estimates, The Conference Board. 2017. The Conference Board Total Economy Database™ (Adjusted version), May 2017, <http://www.conference-board.org/data/economydatabase/>

It is unclear whether this positive trend can be sustained and mark a reversal from the past few years. The period since the global financial crisis has been characterized by exceptionally weak productivity growth in almost all developed countries. The main reason for this poor performance was a marked downturn in private and public investment, which has been constrained by sluggish aggregate demand, austerity policies, fragile bank balance sheets and high levels of policy uncertainty. While still relevant, some of these factors have eased over the past year, indicating that the recent upturn could be more than just temporary. Yet, given long-term barriers such as demography, inadequate technological diffusion and elevated levels of inequality, a return to sustained labour productivity growth of about 2 per cent—last seen in the 1990s and early 2000s—will require decisive policy reforms.

Figure 1.22: Contribution to Labour Productivity Growth in the Developing Economies



Source: UN/DESA estimates, The Conference Board Total Economy Database™ (Adjusted version), May 2017, available from <http://www.conference-board.org/data/economydatabase/>

Average productivity growth in developing and transition economies has also improved notably, rising from 1.7 per cent in 2015 to an estimated 2.7 per cent in 2017. For the first time since 2011, all regions are expected to record positive labour productivity growth. While Latin America and sub-Saharan Africa have seen modest improvements compared to recent years, productivity growth is still subdued and the gap with respect to Asian economies, including China and India, remains immense. As in the case of developed countries, the latest upturn follows a marked decline in productivity growth during the post-crisis period. This slowdown has been largely due to a deceleration in total factor productivity growth, suggesting that developing countries are, on average, experiencing slower efficiency gains and technological absorption since the global crisis. The reasons behind this weakness vary from country to country and include both cyclical factors, such as weak developed market demand and low commodity prices, and structural influences, including slower trade integration and less dynamic transformation processes.

For the developing economies, a prolonged period of weak productivity growth will not only adversely impact medium-term growth prospects, but may also severely undermine progress on the Sustainable Development Goals. Therefore, policy measures to revive productivity growth, such as tackling infrastructure deficits, improving the quality of education and enhancing research and development, should be prioritized.

Declining unemployment rates mask deeper labour market challenges

While economic prospects have picked up modestly in recent months, the protracted period of weak global growth since 2008 has left a significant imprint on employment, wages and household welfare. This reaffirms concerns about the ability of the global economy to generate a sufficient number of high-quality jobs and ensure that the gains of growth are widely shared between and within countries. According to ILO estimates, there are more than 201 million people unemployed in 2017.¹⁴ While the global unemployment rate is expected to remain stable in 2018, as the labour force expands in line with demographic developments and participation, the level of global unemployment may rise by a further 2.7 million. Women are more likely to be unemployed than men, while youth are almost three times as likely as adults to be unemployed.¹⁵ Moreover, more than one-third of the population in low income countries that are in work are living in poverty, and more than 40 per cent of the world's workers are in vulnerable forms of employment, with little or no access to social protection, low and volatile income, and high levels of job insecurity.¹⁶ Southern Asia and sub-Saharan Africa are the regions most affected by vulnerable employment.

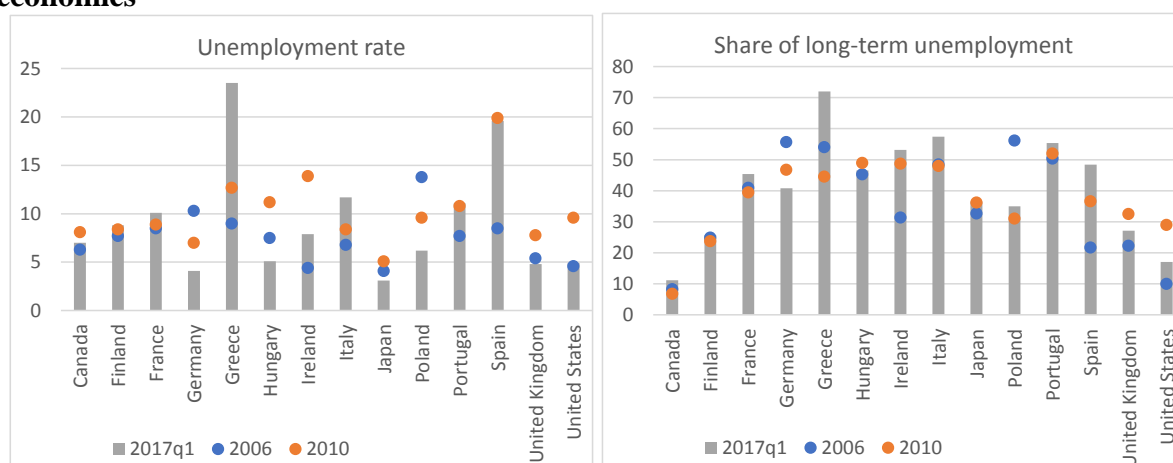
Notwithstanding these deeper challenges, headline labour market indicators in a broad spectrum of developed economies, economies in transition and developing economies continue to exhibit some improvements. Figures 1.23 and 1.24 compare current unemployment rates and long-term unemployment rates to levels prevailing in 2010 and 2006. In the sample of countries shown, unemployment rates have come down since 2010 in the vast majority of countries. Exceptions include countries such as Greece, Italy, Spain and South Africa, which have suffered exceptional challenges post-2010. Several commodity exporting countries that suffered a sharp drop in revenue in 2015-2016, have also seen a deterioration in labour market conditions. The share of long-term unemployment remains high in a number of countries, although a few countries, such as the United Kingdom, the United States, Israel and the Republic of Moldova have seen significant outflows from long-term unemployment into jobs since 2010.

¹⁴ ILOSTAT, ILO Modelled estimates, November 2016.

¹⁵ United Nations (2017), Report of the Secretary-General on Progress towards the Sustainable Development Goals, E/2017/66.

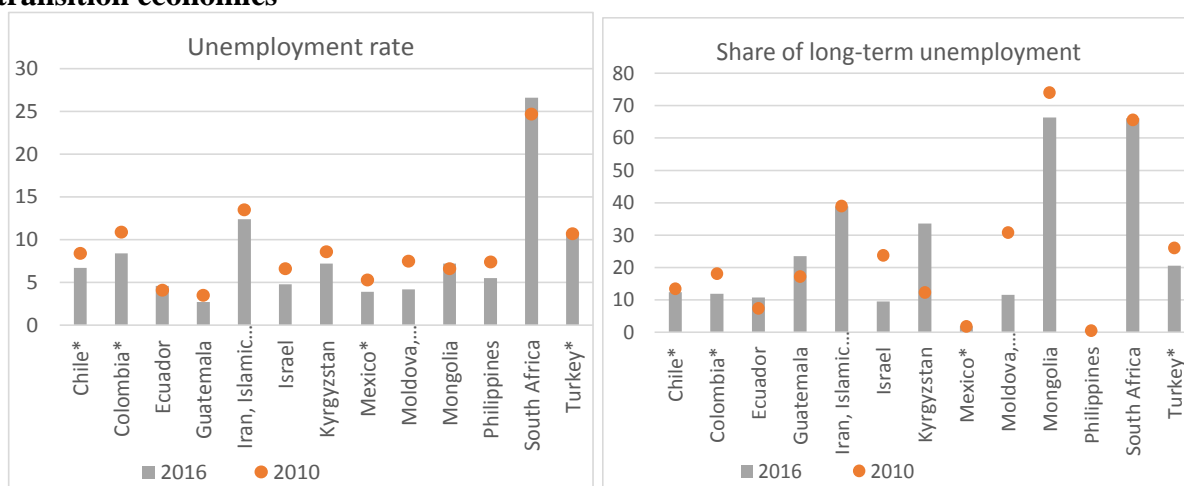
¹⁶ ILO (2017), World Employment Social Outlook, Trends 2017.

Figure 1.23 Unemployment and long-term unemployment in selected developed economies



Source: ILOSTAT, Unemployment and labour underutilization

Figure 1.24 Unemployment and long-term unemployment in selected developing and transition economies



Source: ILOSTAT, Unemployment and labour underutilization

The relatively large pools of long-term unemployed in a number of countries has been an important factor restraining wage growth and increasing wage inequality in recent years.¹⁷ Real wage growth has lagged productivity growth in a number of countries, in part reflecting the prevalence of low quality, low paid jobs, and a rise in the incidence of part-time and temporary contracts, as well as a deterioration in the wage bargaining power of workers.

Measures of wage inequality show that inequality has been rising in the majority of developed economies over the last decade, whereas a number of developing economies, predominantly in

¹⁷ OECD (2011), Divided we stand: Why inequality keeps rising.

Latin America, have seen wage inequality decline.¹⁸ The recent strong job creation in countries such as the United States has been accompanied by a rise in the ratio of wages for the highest paid workers to the average wage of those on the bottom 10 per cent of income scales. This observed rise in wage inequality is an important factor underpinning weak inflationary pressures in developed economies.

The challenge of eradicating poverty

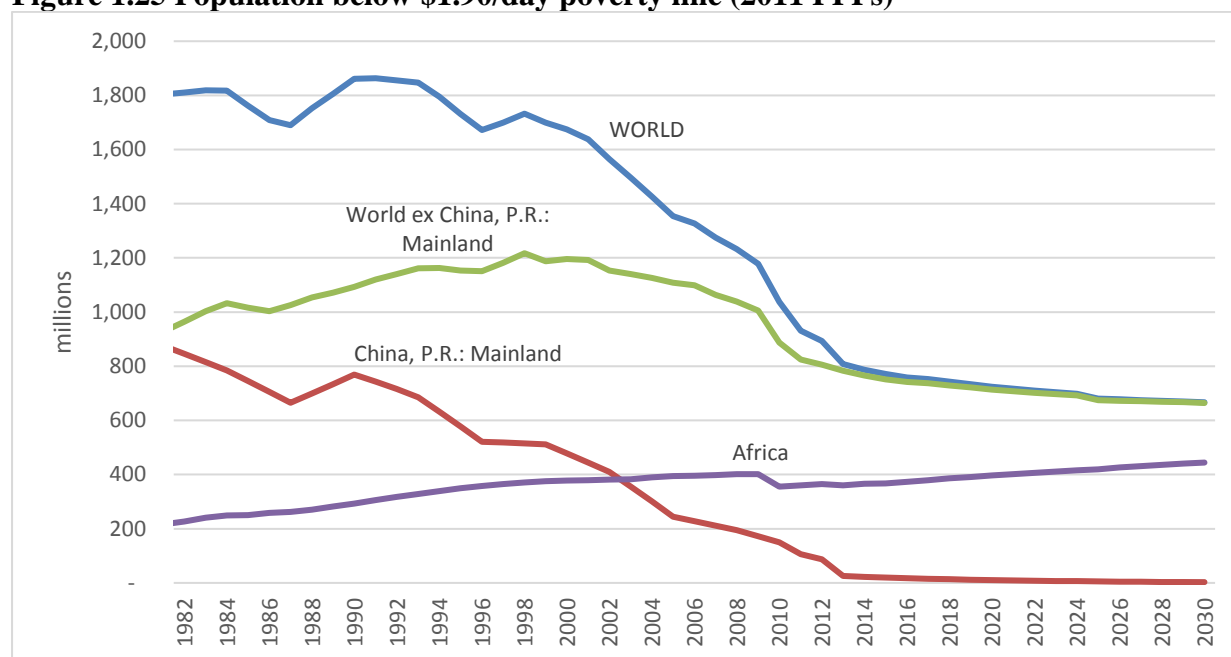
At least 750 million people live below the extreme poverty line in 2017, with almost no change from the last year. At the same time, the Food and Agriculture Organization of the United Nations (FAO 2017) estimates that 815 million people were undernourished in 2016, compared to 777 million in 2015.¹⁹ Put simply, this means that raising people above the extreme poverty line of \$1.90 per day may only be sufficient to provide them with adequate food. Reaching the target of eradicating extreme poverty, therefore, should be viewed as a small, but crucial, step towards the ultimate goal of eradicating poverty in all its forms. To provide some perspective: supporting around 750 million people in 2017 with \$1.90 a day, would cost around 0.7 per cent of global GDP, or 1.1 per cent of GDP of the richest 1 billion people—a goal that should be within reach.

There is no doubt that extreme poverty reduction has been decreasing in the last two decades globally. In the 1980s and in the beginning of 1990s there were almost 2 billion people living on less than \$1.90 a day – 30 to 40 percent of the global population. In 2000, about a quarter of the world remained in extreme poverty. In 2017, 13 years before the 2030 Agenda aims to end extreme poverty and hunger, around 10 per cent of the population live below the \$1.90 threshold.

¹⁸ ILO (2017) Global Wage Report 2016/17.

¹⁹ FAO (2017). The State of Food Security and Nutrition in the World 2017, Food and Agriculture Organization of the United Nations, pp. 2. Available from: <<http://www.fao.org/3/a-I7695e.pdf>> Accessed: [21.09.2017].

Figure 1.25 Population below \$1.90/day poverty line (2011 PPPs)



Source: World Bank Data and UN DESA estimated projections to 2030

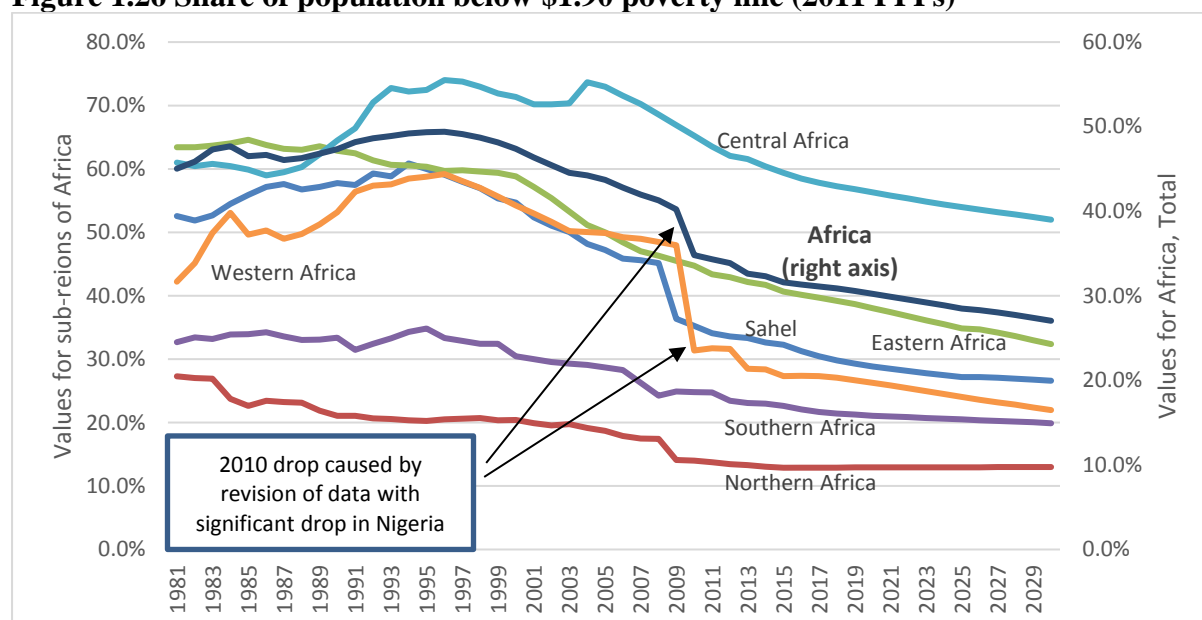
Despite the enormous progress, especially in the last 20 years, the evidence is strong that not enough has been done to ensure the SDG target of eradicating extreme poverty is met by 2030. Current estimated based on a set of model-based medium-term projections for consumption growth²⁰ and population growth estimates of the United Nations Population Division suggest that there may be around 650 million people living in extreme poverty in 2030. Furthermore, the reduction of poverty is likely to be uneven. Progress in poverty reduction over the last 20 years has been achieved mainly through enormous progress in large Asian economies, such as China (figure 1.25). The number of people living in extreme poverty in Asia dropped from around 1.5 billion in the beginning of 1980s to around 300 million people currently. Model-based projections suggest these numbers may further half by 2030, leaving only above 3 percent of people in Asia in extreme poverty.

The situation looks different on the African continent (figure 1.26), especially in the sub-Saharan region. In the beginning of the 1980s, it is estimated that around 45 per cent of Africans lived in extreme poverty, reaching almost half of the population in the 1990s. Following that decade, there was a significant decline to around 30 per cent currently.

²⁰ Projections carried out as an extension of the current short-term forecast baseline, using the World Economic Forecasting Model (https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/2016_Apr_WorldEconomicForecastingModel.pdf). Inequality, as captured by the standard deviation of log-income, is assumed to remain constant over the projection period. The reported projections represent a single scenario, based on a relatively neutral set of assumptions regarding trend productivity growth and other key parameters.

Nevertheless, the estimates suggest that there will be still over 25 percent of the people of Africa living in extreme poverty by 2030. Moreover, despite the improvement in poverty rates, expressed as a share of the population in figure 1.26, unless more effort and action is taken, the level of extreme poverty in Africa may rise by almost 60 million by 2030 (figure 1.27).

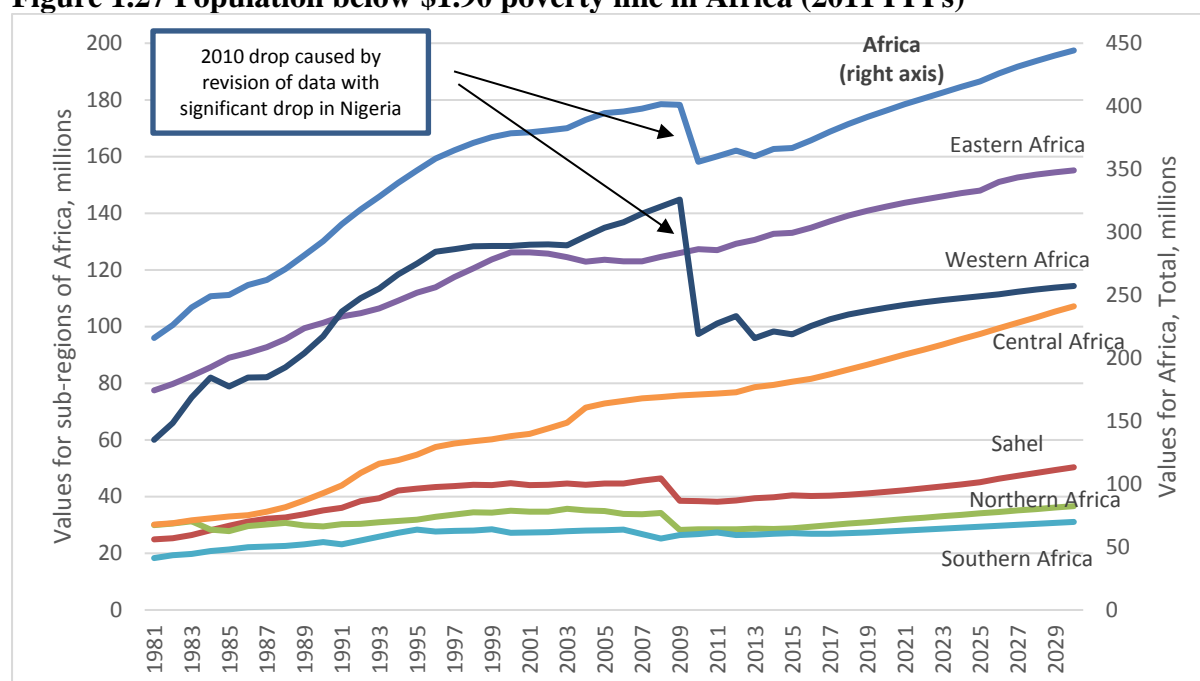
Figure 1.26 Share of population below \$1.90 poverty line (2011 PPPs)



Source: World Bank Data and UN DESA estimated projections to 2030

Because of its geographical, historic, economic, and climate complexity the changes among African regions and countries are far from even. The scenario suggests that all countries on the continent will reduce the share of people living below the poverty line. In the region of Sahel, with unfavourable climatic conditions and multiple conflict situations, the improvements would be expected to be minimal without a significant improvement in these conditions. The fastest growing economies in the Eastern and Western Africa are expected to see the steepest falls in poverty rates, raising more than 10 percent of their populations out of extreme poverty by 2030, although given the strong population growth, the number of people in extreme poverty may nonetheless rise.

Figure 1.27 Population below \$1.90 poverty line in Africa (2011 PPPs)



Source: World Bank Data and UN DESA estimated projections to 2030

The scenario presented illustrates the urgent need to foster an environment that will both accelerate medium-term growth prospects and tackle poverty through policies that address inequalities in income and opportunity.

Section 2. Uncertainties, risks and policy challenges

Major uncertainties and risks in the global economy

While many of the overhanging fragilities from the global financial crisis have eased, a number of uncertainties loom on the horizon, with the potential to derail the recent upturn in global economic growth. As highlighted above, despite the recent uptick, the pace of global economic growth remains imbalanced and insufficient to make rapid progress towards achieving the ambitious targets set out in the 2030 Agenda. If downside risks to the outlook were to materialize, this could push global growth rates down even further, with additional setbacks towards achieving the SDGs, particularly the goals of eradicating extreme poverty and creating decent jobs.

The rebound in confidence and economic sentiment indicators observed over the last several months in developed economies suggests that the perceptions of risks faced by households and firms have diminished. In conjunction, the macroeconomic and financing conditions for investment have improved in many parts of the world, with a decline in financial volatility, ample global liquidity, and a revival in world trade. A rise in investors' risk appetite is evidenced by the recent stock market momentum and return of capital flows towards emerging markets. These more favourable conditions have the potential to spur a more robust revival in global investment than currently forecast, raising growth prospects in both the short

and medium term. On the other hand, there are key areas of uncertainty on the horizon with the potential to derail the nascent revival in investment. The reaction of global financial markets as central banks navigate the uncharted path of normalizing their inflated balance sheets remains highly uncertain. Following almost a decade of extremely loose monetary policy, the Fed is embarking on an accelerated pace of interest rate rises, and has initiated the process of unwinding the post-crisis quantitative easing that more than quadrupled the size of its balance sheet between 2008 and 2014. Coordinating the normalization of policy rates with the normalization of the Fed balance sheet poses a number of challenges, with significant potential for maturity or liquidity mismatches to disrupt financial markets. Emerging markets, therefore, remain vulnerable to potential bouts of heightened risk aversion, capital outflow and financial sector volatility.

Global policy uncertainty also remains elevated, reflecting uncertainties over future developments that impact areas such as world trade, immigration, development aid and climate targets. Heightened policy uncertainty may delay the revival of global investment and productivity that is needed to restore strong and balanced global growth. There remains a significant risk that the expectations underpinning buoyant global economic sentiment may be disappointed, leading to a sharp reversal of confidence.

One source of global policy uncertainty relates to process of withdrawal of the United Kingdom from the European Union (Brexit). Exiting from the EU requires a comprehensive reconstitution of a host of relationships, including trade, financial and migration arrangements between the United Kingdom and its partners both inside and outside of Europe. While both sides seek to maintain a deep and special relationship between the United Kingdom and the European Union, progress with negotiations to date do not assure this as the final outcome, and there remains considerable uncertainty about the future policy framework governing trade, financial and migration arrangements between the United Kingdom and its partners post March 2019. There is also considerable uncertainty over whether the United Kingdom's redefined trade and investment policies may limit market access for developing countries, adding a layer of uncertainty to prospects for countries with high dependence on exports to the United Kingdom.

United States trade policy is another area of global policy uncertainty. The Government of the United States initiated a sweeping review of existing trade deals in January 2017. Within the first few days of the new Administration, the United States withdrew from the Trans-Pacific Partnership (TPP), stating a preference for bilateral trade negotiations over plurilateral agreements. In August 2017, Government began renegotiating the terms of the North American Free Trade Agreement (NAFTA), which has governed trade relations between Canada, Mexico and the United States since 1994. The United States has also initiated an investigation into China's laws, policies, and practices that may impact exports from the United States. Updating and amending existing trade agreements have the potential to benefit all parties, especially in areas such as transparency in regulation and rules of origin determination, and bringing labour and environmental provisions to the core of the agreements. However, there is a risk that excessive focus on bilateral trade balances may lead

to the introduction of new trade barriers, severely disrupting the intricate cross-border production chains that have evolved under existing agreements.

Rising geopolitical tensions in certain arenas may intensify the tendency to shift away from closer international integration, towards more unilateral and isolationist policies. According to the Global Conflict Tracker²¹, conflict in 27 countries and regions was either worsening or unchanged in 2017. Rising tensions have the potential to derail progress in key areas that call for deeper international policy coordination, including aligning the multilateral trading system with the 2030 Agenda for sustainable development; expanding official development aid; supporting climate finance and clean technology transfer; and addressing the challenges posed by large movements of refugees and migrants.

Policy challenges

Emerging protectionist tendencies may setback progress in the multilateral trading system

The 2030 Agenda for Sustainable Development acknowledges the role of international trade for development, most notably through several goals and targets that are linked to a successful Doha Round, whose negotiations have been underway since 2001. Most importantly, the 2030 Agenda recognises that meaningful progress in the Doha Round is essential for revitalizing the global partnership for sustainable development, as indicated in target 17.10 to promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system (MTS) under the World Trade Organization (WTO).

Still, a backlash to globalization—coupled with the global economic and trade slowdown and tightening job markets—has negatively affected the MTS and trade integration. This has led to significant course corrections, setbacks and renegotiations of existing and proposed trading arrangements. Moreover, the situation has also triggered concerns over heightened protectionism, trade disputes and escalating retaliations. The anti-globalization narratives, together with insufficient progress in multilateral trade negotiations under the Doha Round, have also facilitated an accelerated proliferation of plurilateral, mega-regional and regional trade negotiations which, in turn, have compounded the negative effects on the centrality of the MTS.

Strengthening the MTS is ever more important in the face of such intensified uncertainty. This is challenging as the outcome of the 10th WTO Ministerial Conference held in Nairobi in December 2015 (MC10) revealed a lack of consensus on the mandate. While many WTO members reaffirmed the Doha Development Agenda, other members believed that new approaches were necessary to achieve meaningful outcomes in multilateral negotiations. Several countries were of the view that this opened the door to unbundle a single undertaking

²¹ <https://www.cfr.org/interactives/global-conflict-tracker#!/>

and to address new issues, while others expressed that without a consensus to the contrary, the Doha Round remained in force. The discord also influences the effective implementation of some of the MC10 decisions, which remain issues in the run-up to the 11th WTO Ministerial Conference in December 2017 in Buenos Aires.

Efforts are needed to advance a global Sustainable Development Goals-led trade agenda in the international trading system to advance the potential of trade for development. The trade integration process of the last decades has created vast opportunities for countries to enhance and implement their economic and social development strategies. Still, the uneven distribution of these benefits between and within countries need to be addressed as this undermines the development potential of trade and, together with weak economic and trade growth, undercuts the achievement of the Sustainable Development Goals. This calls for a proactive, holistic and coherent policy mix that recognises the evolving nature of trade in response to technology, connectivity and new business models, and promotes a positive structural transformation, builds productive and export capacities, and enables competitiveness and diversification. Such a policy mix needs to mainstream trade policies into other areas to ensure that development concerns such as poverty reduction, industrialization, job creation, food security, gender equality and environmental sustainability are addressed. Liberalization policies require that potential risks, costs and trade-offs are also addressed. This points to the adequate content, pace and sequencing of liberalization so that regulatory and institutional frameworks are built in advance and create the capacity to adapt to new challenges, including those from liberalised markets. It also calls for skills development, social safety nets and adjustment mechanisms.

High level of global debt remains a concern

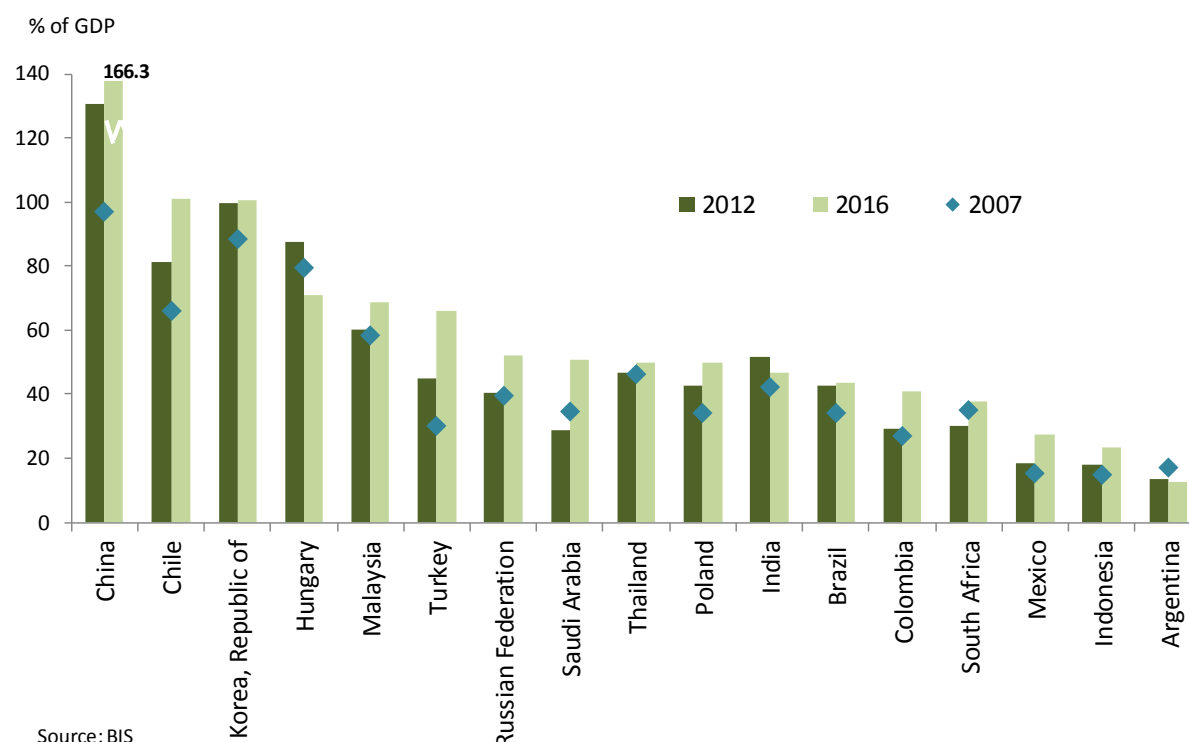
The prospects for the world economy have significantly improved over the past year amid a broad-based pickup in growth and benign global financial conditions. Financial market volatility has remained remarkably low despite elevated policy uncertainty; capital flows to emerging economies have rebounded amid positive investor sentiment; and global liquidity is still ample, supporting global bond and equity markets. These positive trends are linked to the gradual and measured approach towards monetary policy normalization taken by the United States Federal Reserve (Fed).

Despite these favourable conditions, financial vulnerabilities continue to be a major concern—both from the perspective of individual countries and from a more systemic viewpoint. While risk factors are present in different parts of the global financial system, they are highly interconnected and could be mutually reinforcing. From a global perspective, a key concern is the continued accumulation of debt relative to economic output. The ratio of global debt to gross domestic product (GDP) has further increased over the past few years

and is now considerably higher than it was at the onset of the financial crisis in 2007/08.²² This trend is particularly worrisome in view of the monetary policy shifts in the United States and Europe, which could result in an abrupt tightening of financing conditions around the globe. An increase in borrowing costs would weigh on the capacity of the corporate sector to embark on new investment, while also hampering household consumption.

Emerging economies, in particular China, account for the bulk of the recent build-up in global debt. As illustrated in figure 1.28, credit to the corporate sector as a share of GDP has trended upwards in most emerging economies. Similarly, household debt levels have risen, particularly across East Asia (figure 1.29). In many countries, the debt service ratio of the private sector—defined as the sum of interest payments and amortizations relative to income—remains elevated. The risks associated with increased private sector leverage are, however, mitigated by sound macroeconomic fundamentals, especially in Asian economies.

Figure 1.28 Outstanding Credit to Non-Financial Corporates in Selected Emerging Economies, % of GDP



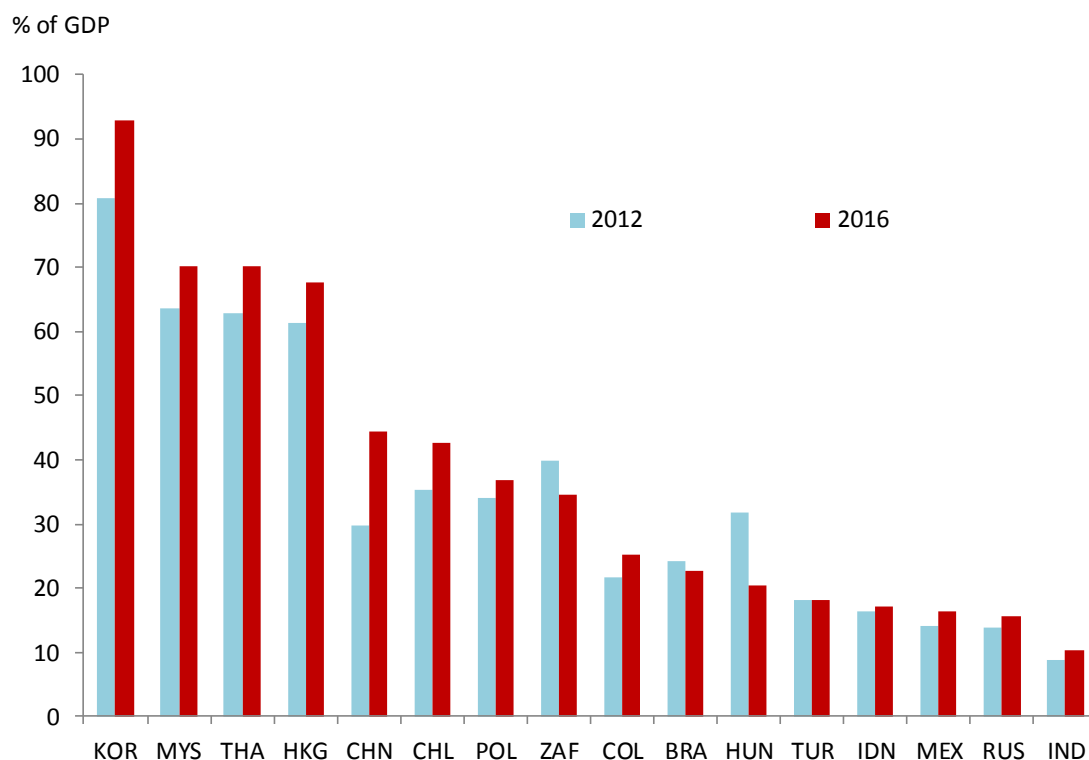
In developed economies, by contrast, the private sector has deleveraged in recent years, especially in countries that were at the core of the global financial crisis. Indicators of financial vulnerability, such as the credit-to-GDP gap, the share of non-performing loans, the

²² Moreover, the Bank for International Settlements recently noted that global debt could be significantly under-reported since traditional accounting practices exclude foreign exchange derivatives used to hedge international trade and foreign currency bonds, Bank of International Settlements (2017). “International banking and financial market development”, BIS Quarterly Review, June.

debt service ratio of the private sector and property market valuations, suggest that only few countries face elevated financial cycle risks (e.g. Australia, Canada).

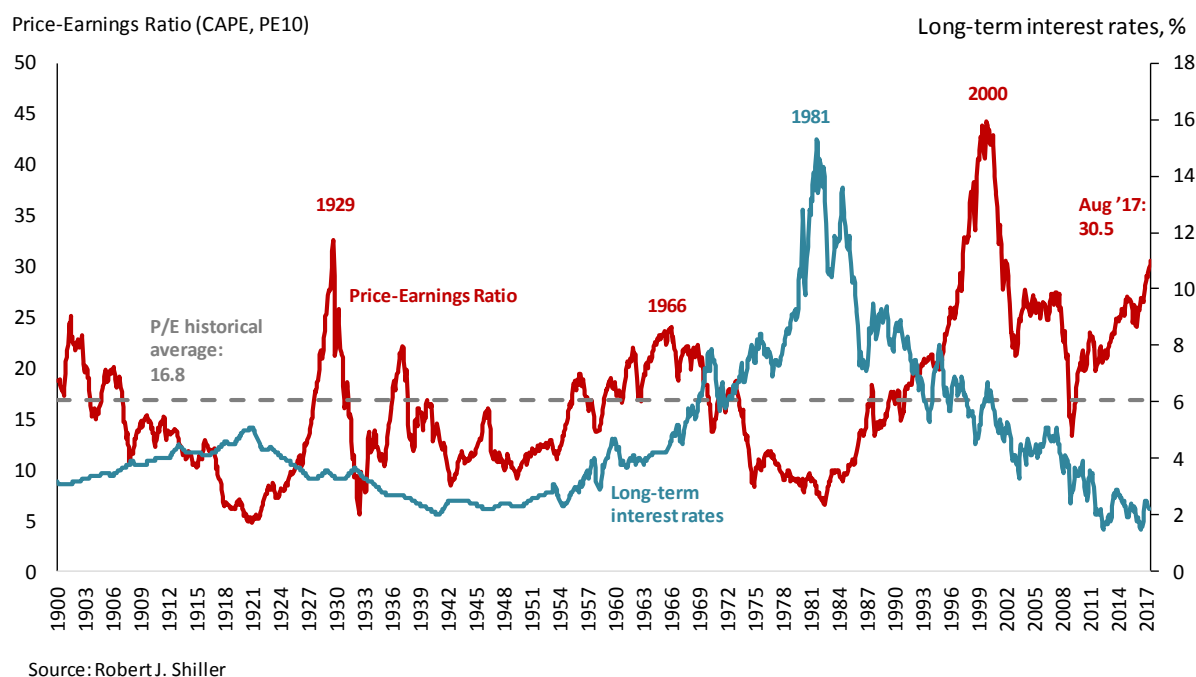
An important risk are the high and rising asset prices in developed economies. In many countries, stock and bond markets trade at high valuations from a historical perspective. This may reflect a certain degree of underpricing of risk and market complacency.

Figure 1.29 Household Debt in Selected Emerging Economies, % of GDP



Source: BIS

Figure 1.30 Price-Earnings Ratio of S&P 500 Index vs Long-Term Interest Rates



Challenge of monetary policy normalization

Most of the major central banks that have adopted “ultra-easy” monetary policies in response to the global economic and financial crisis and the European sovereign debt crisis, have also introduced massive “quantitative easing” (QE) programs (consisting of purchases of financial assets, mostly in the form of bonds) as part of their active monetary policy response. Near zero or negative policy interest rates and targeted efforts to provide liquidity in order to revitalize commercial bank lending were also part of the scheme. Among them, the Fed has embarked on a massive QE in three stages—first starting in late 2008, then launching the next two rounds in 2010 and 2012. Those financial assets purchases were halted in late 2014 after accumulating around \$4.5 trillion in assets on the Fed’s balance sheet.

The European Central Bank (ECB), in turn, has started bond purchases in 2011 and announced a “formal” QE program encompassing regular monthly bond purchases in 2015. The extremely accommodative monetary policy of the ECB, including a series of targeted longer-term refinancing operations conducted to stimulate commercial lending, and a €60 billion monthly bond purchases, against the background of near or below policy interest rates, is still continuing. The Bank of Japan has been purchasing government bonds from 2001 until 2006 to fight deflation and has re-launched and gradually expanded its bond-buying program since 2011.

Concurrently, the combined size of the balance sheets of those three major financial institutions has swollen to around \$15 trillion. Similar programs were also carried out by the Bank of England. Designed to counteract the financial crisis, reduce market volatility and revitalize business investment in order to propel real economy, those policies that resulted in the expanded central bank’s balance sheets may also produce adverse effects, leading to

credit and resource misallocation, emergence of asset bubbles and more complex pass-through mechanisms for monetary policy.

As the Fed announced in late September, starting from October 2017, in addition to the gradual normalization of its policy interest rates, it will gradually reduce the size of its balance sheet, through introducing monthly caps on the rolling-off the mortgage-backed and treasury securities that it currently holds. It is not clear at this stage what would be the eventual size of the Fed's balance sheet after the reduction. The impact of this reduction, both on the United States' economy and on the economies of emerging markets, is also difficult to estimate due to the extraordinary and unique nature of such a massive QE program; that impact will be partially determined by the accompanying policy stances, such as the trajectory of the short-term interest rates. The reduction of the Fed's balance sheet will somewhat weaken its leverage in targeting the short-term interest rate and also embolden the commercial banking system in setting the terms of financial intermediation. A possible bond sell-off would drive up long-term interest rates.

Apart from the US economy, the Fed's balance sheet reduction may have spillover effects on emerging markets through several channels. A possible weakening of the aggregate demand in the US would impact those markets through the trade channel, adding to the possible effects of the resurgent protectionist policies, should they materialize. In the financial markets, the reversal of QE may lead to higher risk premia and higher cost of sovereign and corporate borrowing, as well as higher market volatility; the resulting increased risk aversion by investors would make it harder to refinance emerging markets' external debt. Combined with the higher Fed policy rates, the abandoning of QE may also strengthen the dollar, inflating local currency value of the emerging markets' dollar-denominated debt (estimated at over \$3 trillion as of early 2017).

Even if a smooth path for the US short-term interest rates is chosen to mitigate the impact of increased uncertainty on the conditions of long-term borrowing, certain risks remain. Possible sell-offs of emerging market equities and sovereign debt and capital outflows would trigger currency depreciations, which may be contractionary and would increase debt servicing and refinancing burden. This may be in particular relevant for a number of African countries that have entered financial markets without a prior experience and issued large amounts of sovereign debt benefiting from the loose global monetary conditions. In 2013, merely a signaling of a possible reversal of QE in the United States triggered a massive sell-off of the emerging market assets and led to an abrupt depreciation of a number of currencies and drove up the emerging markets' borrowing costs.

Similarly to the Fed, the ECB is also likely to taper its bond-buying program over the course of 2018 (in some of the European Union countries, the ECB is approaching the ceiling on its allowed debt holdings) and, at some stage, to start gradually reducing its balance sheet. The timing of the reduction is not clear, since the ECB may decide to continue corporate bond purchases in order to encourage business investment. Compared with the possible spillovers of the Fed's policies, the impact of the ECB's balance sheet normalization on emerging

markets is expected to be relatively moderate. Although their euro-denominated public and private debt has in fact sharply increased since 2015 (in total, the global financial system has absorbed around €2 trillion under the ECB's QE program), it nevertheless represents only a small fraction of its total external debt. Still, some countries may be more exposed to risks than the others, in particular those Eastern European economies that have accumulated sizeable euro-denominated private debt under the expectations of the eventual euro adoption.

Although risks of a full-blown financial crisis caused by the reductions in the size of the Fed and the ECB balance sheets are relatively low, especially if these major central banks maintain clear and efficient communication about their future policies, the governments and the monetary authorities in emerging markets should be ready to mitigate possible undesired consequences of QE reversals, elaborating detailed policy responses well in advance. For example, to mitigate the possible exchange rate risks, it would be rational to build sufficient hard currency reserves. Maintaining stability and confidence in the domestic banking system and gradually reducing the exposure to dollar and euro-denominated lending will provide additional anti-crisis buffers.

Stimulating growth potential

Despite a significant upward revision of the world gross product (WGP) growth forecast in this report which indicates an accelerating global economic expansion, the projected WGP growth rates are expected to remain below the pre-crisis average over 1998-2007. Under this low-growth regime, some economies, including that of the United States', are increasingly operating near its capacity. A rapidly tightening labour markets has been cited for the recent tightening stance of the Fed. Even not as evident as in the United States, other central banks and monetary authorities in the developed economies are gradually shifting to tighter stances while the respective rate of economic expansion is still lower than the pre-crisis levels. The world economy's long-run potential growth rate has diminished to the level where demand stimulus policies have insufficient latitude. Devising policy options to stimulate growth potential becomes a global policy challenge, not only for achieving a higher long-term growth but also for creating sufficient policy spaces for short-term macro-prudential policies.

Growth potential is identified with market failures that prevent an economy from achieving a higher long-run aggregate growth path. For the recent weak investment at an extremely low financing cost in the developed economies, growth potential can be identified with the conditions that impede a higher level of investments. Among others, two impediments can be targeted within the macroeconomic policy framework. The first is under-investment due to positive externalities. Productivity-improving inventions exhibit the characteristic of public goods as new technology can diffuse easily and quickly from the original inventor. A prompt technological diffusion is a key for a higher aggregate growth. However, a private firm is reluctant to invest under this circumstance unless a reasonable return on the investment is guaranteed. The second impediment is under-investment in the developing economies due to the skewed geographical distribution of loanable funds. While excess saving in the developed economies pushes real interest rate near zero and causes a prolonged economic stagnation,

the developing economies remain suffering from the lack of funds. The recent discussion of secular stagnation in an open economy setting²³ proposes an increasing transfer of funds from the developed economies to capital-scarce developing economies to bring the developed economies out of stagnation and to promote investments in the developing economies. In this sense, Sustainable Development Goal 17: to strengthen the means of implementation and revitalize the global partnership for sustainable development, as well as international investment initiatives such as *One Belt, One Road*, holds the key to stimulate the growth potential of the world economy.

Section 3. Regional economic prospects

Developed economies

North America

United States

GDP in the United States expanded at an annualized rate of 1.8 per cent in the first half of 2017, marking a step up from the 1.5 per cent growth recorded in 2016, but below market expectations. Nonetheless, the underlying pace of economic growth remains steady, and on track to average 2.1-2.2 per cent per annum in 2017-2019, in line with projections in the WESP 2017. Household spending remains relatively solid, posting annualized gains of 2.5 per cent in the first half of 2017. However, consumer spending has been financed largely from savings since 2016, as income growth remains weak despite strong job creation. The unemployment rate in the United States dipped to its lowest level since 2001 in mid-2017. While pockets of unemployment persist in certain sectors and regions of the country, and labour force participation rates of workers over the age of 55 have declined significantly since the financial crisis, labour market conditions have clearly tightened, which is expected to put some upward pressure on wages in 2018.

The core inflation measure closely monitored by the Federal Open Market Committee (FOMC) of the Federal Reserve averaged 1.6 per cent in the first seven months of 2017, drifting slightly downward from March. This has not deterred the FOMC from forging ahead with its balance sheet normalization program in October 2017. Inflation is expected to rise towards the central bank target of 2 per cent over the course of 2018, contingent on an acceleration in wage growth.

House prices in the United States are nearly as high today as they were at the peak of the housing market bubble in 2006-07, which ultimately acted as one of the triggers of the global financial crisis. Underlying fundamentals in the housing market, however, are more closely

²³ Eggertsson, Gauti, Neil Mehrotra and Lawrence H. Summers, "Secular stagnation in the open economy", , *American Economic Review*, v. 106, No. 5, pp. 503-507.

aligned with house prices than they were in 2006-07. The level of investment in housing remains nearly 15 per cent below pre-crisis peaks, despite being a driving force behind economic growth in recent quarters; household indebtedness has been on the rise since 2013, but also remains below previous peaks; and mortgage delinquency rates continue to decline.

Non-residential investment saw some revival in the first half of 2017, after contracting in 2016. While the Administration's proposed Infrastructure Plan to support \$1 trillion in infrastructure investment has not yet gained traction, a recovery in external demand coupled with expectations for stable domestic growth will continue to support investment into 2018. Economic activity in 2018 may also gain some support from additional government spending, largely in the areas of defense, which will be partly offset by cuts in spending on education, healthcare, environmental protection and development aid.

[Country forecast summaries by LINK participants](#)

Canada

PEAP Memo 2017-6, Policy and Economic Analysis Program, Rotman School of Management, University of Toronto

Contributors:

Statistics Canada's first estimate of real GDP growth (1.1%) for the 2nd quarter of 2017 was quite a bit stronger than we were expecting (0.8%), largely due to much stronger household consumption growth than we anticipated. Disposable income for the quarter was surprisingly strong, especially since wage growth remained muted. However, this was more than offset by quite weak personal income tax collections and the inclusion, as we understand it, of the federal government's retroactive payments to veterans. Net trade was also modestly stronger than expected but investment was weaker as strength in business investment was offset by the downturn in housing, which occurred a quarter sooner than anticipated.

Given the robust nature of economic growth in Canada over the first half of 2017 it has been no surprise at all that the Bank of Canada has begun to modestly increase its benchmark rate, even as inflation in the country remains muted. It is interesting to note that the rebound in economic growth has happened largely without, as far as we can tell, the contribution of the anticipated surge in investment spending that has been announced by many levels of government. The Canadian dollar, however, has appreciated much more quickly than anticipated on the back of the Bank's rate increases, even as commodity prices have remained relatively weak. Keeping both of these competing impacts on future economic growth in mind, we expect that the Bank will continue to raise rates over the coming quarters, largely in step with the Fed.

We remain concerned that uncertainty regarding provincial economic and fiscal policies may impact business confidence over the coming quarters and years. We think the Ontario labour policy changes, in particular the announced dramatic increase in the minimum wage for the province, will cause a drag in the economy. We continue to expect that household consumption growth will be relatively muted over the next few years as interest rates climb,

housing investment growth moderates and governments concentrate on other priorities than increases in transfers to households.

Even allowing for the impacts from the strengthened Canadian dollar we expect that CPI inflation will increase somewhat into 2018 and beyond as the impacts of carbon taxes or their equivalent should push inflation modestly higher.

Developed Asia and Pacific

Japan: Domestic demand growth leads the economic expansion

Japan has seen some rebound in activity in the first half of 2017. The continuously accommodative macroeconomic policy stance prompts a robust economic growth which is led by a rapid domestic demand expansion. In the second quarter this year, net exports, which had supported the growth of late, contributed negatively to the GDP growth for the first time in four quarters. In the same period, domestic demand contributed positively to the real GDP growth rate for the third consecutive quarter. The private consumption jumped significantly, the private investment remains robust, and the public investment surged to implement the supplementary budget. Corporate profits continued to grow, albeit at a moderate pace, for a weak Japanese yen against the major currencies of the trading partners. Since the previous inventory cycle has just ended, Japanese firms are in position to expand their production levels in the short run. Nevertheless, a question of sustainability remains. The recovery in the private consumption was supported by a sharp improvement in households' propensity to consume. However, slow growth in real wage level may dent the consumer confidence as consumer prices are increasing at a faster rate than wages. The forecast for GDP growth has been revised up to 1.7 per cent in 2017. As the present momentum is projected to taper off, the GDP growth is forecast to be 1.2 per cent for 2018, and 1.0 per cent for 2019.

Country forecast summaries by LINK participants

Australia

Peter Brain, Jane Cunningham* and Duncan Ironmonger***

**National Institute of Economic and Industry Research, **Department of Economics, University of Melbourne*

The Australian policy authorities, as expressed in the Central Bank's latest (August 2017) *Statement on Monetary Policy*, expect Australia's short-term growth to be in the 3 to 4 per cent per annum range for the years to June and December 2019. This is an improvement on the Bank's expectations for the years to June and December 2018. The rate of growth of real GDP in 2012 (3.6 per cent) was the best since 2007 (4.7 per cent); it slowed-down in 2013 (to 2.1 per cent), improved to 2.8 per cent in 2014 and 2.4 percent in 2015. We expect it will rise again to 2.9 percent in 2017 and 3.1 per cent in 2018 followed by 2.3 per cent in 2019. The unemployment rate increased a little to 6.1 per cent in 2015; our forecasts are for this to decline to 5.3 per cent by 2019.

Investment in very large mining resources projects has come to a peak and declined rapidly. This led to a reduction of total gross fixed capital formation throughout the four years 2013 to 2016. In both 2017 and 2018 we expect total real fixed capital formation to increase by more than 5 per cent mainly due to a rise in new dwelling construction. In 2019 this slows to only 1.4 per cent. The growth of real private consumption expenditure declined in 2013 to an increase of only 1.7 per cent, less than half the pre-GFC average from 2000 to 2007 of 4.0 per cent. It rose to 2.8 percent in 2014 and 2.7 per cent in 2015 and is forecast to be 2.6 per cent in 2016 and 2.4 per cent in 2017. We expect this to slow to 1.7 per cent in 2018 and 1.9 per cent in 2019. Government consumption expenditures, after a surge in real growth of 4.0 per cent in 2016, are forecast to slow to 3.8 per cent in 2017, 2.4 per cent in 2018 and 1.8 per cent in 2019.

Japan

Yoshihisa Inada

Center for Quantitative Economic Analysis of APIR

From our previous forecast (released May 30th), we have revised the 2017 real growth rate up by a large 0.4 percentage points (from 1.5 per cent to 1.9 per cent), and the 2018 growth rate up by a marginal 0.2 percentage points (from 1.1 per cent to 1.3 per cent).

We forecast that CPI core inflation will rise by 0.1 per cent in 2017, and 0.7 per cent in 2018. We revised our previous forecast for 2017 downwards slightly by 0.1 percentage points (from 0.2 per cent to 0.1 per cent), and by 0.2 percentage points to 2018 forecast of 0.7 per cent, based on our lower forecast for oil price growth.

Let us examine the forecast contribution to real GDP growth by its main components. In 2017, we forecast that private demand will contribute 1.5 percentage points, a large increase from the previous year's contribution of 0.3 per cent. Public demand's contribution will also increase from 0.1 percentage points last year to 0.2 percentage points in 2017. The recovery in internal demand is thus strengthening across the board. Conversely however, we forecast the contribution of net exports to fall from 0.6 percentage points in 2016 to 0.3 percentage points in 2017. Overall, we forecast a strong recovery for the Japanese economy, but the risks of stagnant exports (caused by a global economic slowdown) and increases in the inflation rate remain.

In 2018, we forecast that private demand will contribute 1.3 percentage points, a reduction from its 2017 contribution. We also forecast that public demand's contribution will edge down to 0.1 percentage points. We expect net exports to slow from to zero per cent.

Europe

Economic activity in Europe remains robust, with real GDP growth for the European Union (EU) forecast to continue at 1.8 per cent in 2018. Private consumption will remain a major driver of this performance, especially in view of rising disposable incomes due to falling

unemployment rates, emerging further upward pressure on wages and the continued low level of interest rates. While the expansionary monetary policy stance will also continue to underpin business investment and construction activity, the expected beginning of a more marked reduction in the monetary stimulus by the European Central Bank (ECB) will have some dampening effect, leading to a slight downtick in growth to 1.7 per cent in 2019. Inflation will accelerate to 1.7 per cent in 2018 and 2.1 per cent in 2019, driven by stronger domestic demand and currency depreciation in the United Kingdom, although the appreciation of the euro will limit inflationary pressures.

This overall solid aggregate growth trajectory encompasses several economies with markedly higher growth rates. For example, Spain is forecast to see growth of 2.4 per cent in 2018 and 2.1 per cent in 2019, driven by private consumption, fixed investment - especially in construction and machinery - and solid external demand, including tourism. A similar combination of solid domestic and external demand will drive growth in Ireland, with a growth forecast of 2.8 per cent and 3.1 per cent for 2018 and 2019, respectively. By contrast, Italy will register the lowest growth in the region, with 1.1 per cent and 1.0 per cent in 2018 and 2019, respectively. Moderate employment growth and weak consumer sentiment because of political uncertainty will hinder private consumption growth, while weak public investment and limited access to bank lending will cap fixed investment. In the United Kingdom, growth will decelerate to 1.4 per cent in both 2018 and 2019, as the economy will face increasing pressure from the effects of the decision to leave the EU. The weaker pound has created upward import cost pressures and tamed domestic demand. At the same time, business investment is suffering from significant uncertainty regarding the future framework for the economic relations of the United Kingdom with the EU and the rest of the world. This includes, in particular, the looming loss for businesses located in the United Kingdom of the right to operate in all EU member countries under the umbrella of unified EU regulations.

The outlook for the region is subject to a number of risks. The negotiations over the exit of the United Kingdom from the EU will remain a major factor of uncertainty and any negative surprises or any perceived increase in the probability of a negotiation failure would further crimp business investment in the United Kingdom. In terms of European economic policy, the ECB has already implemented some pivot in its policy stance by reducing the amount of its monthly asset purchases, but implementing the further reduction in its stimulus will be challenging in terms of both its precise design and its communication to the public, creating major risks for actual or perceived policy missteps. In the area of fiscal policy, the euro zone's lack of a stronger and more coherent institutional underpinning will remain a major weakness. The continued overly reliance on targets for budget deficits leaves the problem of enforceability and the risk of renewed tensions between member states, especially in case of an economic downturn.

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Austria

*Klaus Weyerstrass, Helmut Hofer, Sebastian Koch
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After a prolonged period of very low growth, in 2016 private consumption grew robustly, stimulated by income tax reductions. Over the forecast period, the positive consumption dynamics should continue. This is indicated by the improvement in consumer confidence. Although the stimulating impulses from last year's tax reform are fading out, the increase in the negative tax as part of the tax reform will only take effect this year, and the savings rate should decline somewhat after the increase in the year the tax reform entered into force. Private consumption will benefit from the considerably improving labor market situation. On the other hand, rising inflation weighs on real disposable income.

Gross fixed capital formation remains vigorous. The positive general economic outlook, high capacity utilization and favorable financing conditions support investment in machinery and equipment. Construction investment benefits in addition from fiscal measures and from population growth. However, empirical evidence suggests that investment cycles are high, but relatively short-lived. Hence, we expect investment growth to moderate over the forecast period.

Driven by the strong acceleration of world trade and the increased international demand for investment goods, Austrian exports picked up noticeably in the first half of 2017. This positive momentum should continue in the rest of the year, and also in 2018 and 2019. Hence, exports will grow strongly and contribute significantly to economic growth in general and to growth in manufacturing output in particular. Imports should also remain strong, driven by robust domestic demand growth and the import content of exports. Overall, net exports should contribute positively to GDP growth in 2017 to 2019, unlike the development in 2016.

Since May the inflation rate amounts to 2 percent, after 2 ¼ percent in the first quarter. The pick-up in inflation compared to 2016 in the first half of the year was caused by rising energy prices. While the inflation differential towards the euro area average narrowed until April, it again widened thereafter. Price dynamics in the services sector continue to be the driving force of domestic inflation. Stronger price increases for food and industrial goods compensate lower rates in the energy sector. Since neither for the international raw material and energy prices nor for domestic unit labor costs significant increases are expected, the inflation rate should reach around 2 percent over the remainder of 2017 as well as in 2018 and 2019.

The economic upswing leads to vigorous employment growth, supported by reductions in non-wage labor costs that became effective in 2016. For the first time since 2011 the unemployment rate is falling, despite continuously increasing labor supply. During the forecast period, the strong employment growth and the decline of unemployment should continue. Risks to the unemployment outlook are high since it is not yet entirely clear to which extent the high number of refugees that came to Austria in 2015 and 2016 will enter the labor market, and how good their employability will be.

For the first time in a long time, risks seem to be tilted to the upside. In addition to the risks to the global outlook mentioned above, there are also domestic risks. On the positive side, declining unemployment and positive business sentiment could foster a stronger self-

supporting upswing. On the negative side, an increase in the savings rate could dampen private consumption growth.

Germany

Business Cycle Report of RWI – RWI, Leibniz Institute for Economic Research – from September 4th 2017;

Contributors: Roland Döhrn, Torsten Schmidt, György Barabas, Boris Blagov, Angela Fuest, Heinz Gebhardt, Daniela Grozea-Helmenstein, Philipp Jäger, Martin Micheli and Svetlana Rujin

The business cycle upswing continued to be buoyant in the first half of 2017. Growth was driven by domestic demand. It was increasingly supported by investment, in particular investment in construction. Indicators suggest that aggregate output grew strongly also in the third quarter. We expect GDP to increase by 1.9 per cent in 2017. The upswing is forecasted to continue over the forecast horizon. Domestic demand will be the main driver. However, impulses also will come from the international environment. Summing up, we expect GDP to grow by 2.1 resp. 2.0 per cent in 2018 and 2019.

The employment situation improved further in the recent months in the wake of the strong output growth. However, employment growth will increasingly be dampened by shortages in some segments of the labor market. Refugees who have sought asylum in Germany will enlarge labor supply. But their employment chances will be low for now. Therefore the unemployment rate will be reduced gradually only from 5.7 per cent in 2017 to 5.5 resp. 5.3 per cent in 2018 and 2019.

Inflation was determined increasingly by domestic factors in the course of this year. The core rate (prices excluding energy) amounted 1.8 per cent in August. In the forecast period the pressure on prices from the domestic side will persist. At the same time the sharp appreciated Euro will dampen inflation. Consumer prices will rise by 1.6 per cent in this year and the next. In 2019 inflation will go up to 1.8 per cent.

The fiscal budget will exhibit a surplus of € 29 bn. in this year. With the macro economic environment staying favorable and assuming a neutral fiscal stance the fiscal surplus is expected to increase to € 36 bn. in 2018 and € 40 bn. in 2019. However, this forecast does not take into account fiscal measures potentially realized after the general election in September 2017.

Hungary

Zsolt Darvas and Andras Simon

In the period of the last two years a new phenomena is showing up on the market. On the place of the abundant labor supply that had dominated the early post-socialist period a new world is developing, where labor is beginning to become a scarce good. *Real* wages have increased by 6.2% in 2017 and 10.1% is expected in 2017. The main danger that might show up in such a situation is inflation and the threat of an international payment unbalance. The outcome of the game will depend on the strength of the financial system to prevent a situation of erasing inflation expectations. In the recent period Hungary (like other neighbors) were

successful in putting inflation and other financial issues into order. This might help to give a relative stability to expectations.

It is difficult to give a definite forecast for the future in a world which is in a period of full uncertainties that are depending on unknown future political events.

As a starting point let us give the lines of the first 3 years of the Hungarian economy that might be considered as the heritage for the next generation. That gives the base of future developments. This basis is the following:

1. A healthy strong financial system that resists minor shocks in case of a sustained domestic cautious policy
2. A stable, below 3% existing inflationary path
3. A growth path around 2-3%

This could be the long-run path if no shock arrives. The following events may make deviations:

1. Effects of the labor market shock. It might bring an inflation shock. Our guess is No.
2. Future policy paths: a) high inefficiency in government economic policy. Effect: long run decay in the growth path. b) Reliable rules and clean legislation. Effect: increase of confidence and higher investments. Our guess of the final outcome: Undecided game.
3. Drop in the 3-5 percent EU support. Effect: later issue, negative effect, but hopefully not shocking

External price and market shocks: might be very serious. More probability to get worse than the present very favorable situation

Norway

Thomas von Brasch and Mette Rolland

Statistics Norway/The Financial Supervisory Authority of Norway

Developments in consumption are largely determined by movements in household income, wealth and interest rates. After fairly weak growth through the first half of 2016, consumption in households and non-profit organisations picked up markedly through the second half of last year and the growth accelerated in the first half of this year. Wage income is the primary source of household income, and for many years has made the most important contribution to growth in real disposable income. As a result of a pronounced fall in real wages and weak employment developments, wage income pushed down growth in real disposable income last year. We envisage substantially higher growth in real wages in the period ahead, and that employment will continue to grow faster as a result of higher production growth. Government transfers may also contribute appreciably to growth in real disposable income through the projection period. The increased real income growth, coupled with increased real house prices, will have a stimulating effect on consumption in 2017. Even if income growth should pick up further next year to well over 3 per cent, a marked fall in real house prices would largely neutralise these effects. Given a markedly smaller fall in real house prices, and growth in real income that remains up at about 2.5 per cent, consumption

growth could pick up in 2019 and 2020. On balance, our projections imply consumption growth of just under 2.5 per cent this year and next and up to 3 per cent in the last two years of the projection period. Since the financial crisis, households have displayed a tendency to increased saving in financial and real assets. In periods of weak income developments, like last year and the first two quarters of this year, households will normally smooth consumption somewhat, causing the saving ratio to fall. Our projections for income, consumption and assets indicate that the saving ratio will slowly pick up again in the course of the projection period.

After a period of strong growth in house prices the trend has turned, and according to our projections, house prices will fall by almost 5 per cent as an annual average in 2018. Prices are forecast to pick up through 2019, but nonetheless to fall by just over 1 per cent as an annual average in 2019, before rising by 1 per cent from 2019 to 2020. The reason for this reversal is to some extent slightly tighter granting of credit, but first and foremost the record-high housing investment in 2016 and so far in 2017. As real house prices fall, we expect housing investment also to stop rising, and then to gradually decline. Because of the high growth through 2016 and into 2017, our projections nonetheless point to housing investment growth of close to 8.5 per cent in 2017 as an annual average. We forecast that housing investment will fall by over 3 per cent in 2019 and 6 per cent in 2019, but remain virtually unchanged from 2019 to 2020. After this fall, the level of housing investment in 2020 will be around 1 per cent lower than the peak year of 2016, and will thus remain at a historically very high level.

Mainland business investment increased quite appreciably through 2016 after falling moderately through the previous three years. The investment upturn has not continued, and investment slipped by 0.8 per cent in both the first and second quarters of 2017. However, the cyclical upturn in Norway and other countries and a continued low interest rate level are providing scope for profitable investment projects in many industries. Our projections show that aggregate mainland business investment will increase by 4 per cent in 2017 as an annual average. The projections indicate roughly the same growth for the next few years, except for 2018, when investment growth will be slightly higher.

In the current year, exports will strengthen compared with the weak year of 2016. Improved cost-competitiveness as a result of the depreciation of the krone in recent years is expected to boost exports of traditional goods and services in the near term. In particular, exports of goods and services related to international petroleum activities are expected to rebound, as the oil price has increased appreciably after bottoming out last year, and many cost-cutting measures have been implemented by the petroleum sector. Growth in the Norwegian export market otherwise seems likely to be slightly higher this year and next than previously envisaged. This will also generate positive growth impulses to exports of traditional goods and services. Oil and gas exports are expected to grow very moderately for the first few years. Only when the big Johan Sverdrup field starts production, probably in late 2019, will exports of oil and gas grow markedly. The trade surplus was sharply reduced in 2015 and 2016, with most of the reduction attributable to the plunging oil price. The decline has

continued into 2017, but we assume that the negative factors will be reversed to some extent, resulting in a growing trade surplus through the projection period. In recent years, the balance of income and current transfers has strengthened considerably. This is expected to persist to a somewhat varying extent, but still such that the surplus on income and current transfers will be larger than the trade surplus. The current account surplus will accordingly also increase. The surplus expressed as a share of GDP is expected to be 4-5 per cent in the projection period.

Mainland GDP increased by 0.7 per cent in the second quarter of 2017 following similar growth in the first quarter. We project mainland GDP growth of 2 per cent in 2017 and somewhat higher for the next three years. We estimate trend growth for the Norwegian economy as just under 2 per cent. If we assume this, our projections therefore imply that the economy is in a cautious cyclical upturn which will last through 2020.

Although employment picked up a little in the second quarter, developments have been relatively modest since 2015. Despite the weak developments in employment, unemployment declined from a peak of 4.9 per cent in the third quarter of 2016 to 4.3 per cent as an average for the period May to July 2017. The decline is largely due to contraction of the labour force. We expect employment to pick up a little in 2017 and the period ahead, in pace with the economic upturn. The improvement in the economic situation will also be conducive to an increase in the labour force, however. According to our calculations, unemployment will fall to just under 4 per cent towards the end of the projection period.

Nominal annual wage growth has been low since 2014, and last year's annual wage growth of 1.7 per cent was the lowest observed in Norway for more than 70 years. We forecast higher, but still moderate wage growth both this year and for the next few years.

Inflation was very high in 2016, peaking in July, and has been falling steadily since. The higher inflation in the first half of last year can be largely attributed to the time-lagged effects of the depreciation of the krone from early 2013 and up to January 2016. Since then the krone has strengthened, on balance, and this factor in isolation pushes Norwegian consumer prices down. When inflation peaked in July last year the year-on-year rise in the CPI was 4.4 per cent. In July 2017, the year-on-year rise in the CPI had fallen back to 1.5 per. Our projections show the CPI as an annual average increasing by 2.1 per cent in 2017, but more slowly over the next few years.

Romania

Bianca Pauna

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The real GDP will follow its current trend in the near future and is forecasted to grow at slightly lower rates than the one experienced in recent years. Even so Romania will keep its position among the fastest growing European economies. The GDP growth will still be mostly demand oriented fuelled by the recent expected increases in wages but the growth in the private and possibly public investments will contribute as well.

Inflation was at a record low in the recent past due to a mix of internal and external factors among which we mention the recent cuts in VAT tax rates, the decrease in the price of oil on the international markets. However, there is a risk that inflation will increase due to increased access to credit, further wage increases, tightening of the labor market, etc. The other deflators will follow the trend in the consumer price index as well. The unemployment rate continues its declining trend putting additional pressure on wages and the inflation rate. The expectation of higher wages is captured by the forecasted value of wage inflation which is expected to be over 6% in 2017 and 2018, when the increases are scheduled to be implemented, while in the 2019 the growth rate of wages reverts to more manageable values of around 1%.

Slovak Republic

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The estimate of the Slovak economic growth this year is based on the assumption that aggregate demand growth will accelerate from 2.8% in 2016 to 3.4% in 2017. We expect its growth to accelerate due to domestic demand, while external demand growth should slow down. Accelerating growth in domestic demand should be driven by consumer demand and investment demand that should recover (the impact of base effect). In the case of public sector demand stagnation appears to be the most likely option this year. We estimate real GDP to rise by 3.3% in 2017, while nominal GDP by 4.3% (see Table below). The aggregate price level in the economy (measured by GDP deflator) should increase by 1.0% this year after three years of decline. In 2018 real GDP growth should increase to 3.6%. However, the positive risk for GDP growth next year is the start of production of the new car factory *Jaguar Land Rover*.

Inflation at consumer market should also contribute to GDP deflator growth. CPI should grow by 1.3% this year, by 1.9% (always on average) in 2018, due to both cost and demand factors. The pressure to increase consumer prices this and next years will generate, besides world oil prices, also the population purchasing power rising as a result of the expected real wage growth and overall employment. Due to the expected increase in labor market demand the unemployment rate will fall to 7.8% this year and to 6.9% in 2018 (LFS methodology).

Expected economic growth should not, in this or next year, cause the deepening of external economic imbalances. On the contrary, the current account deficit should fall from 0.7% of GDP in 2016 to 0.5% of GDP in 2017, or to 0.2% of GDP in 2018. This is related to trade surpluses that should rise to a significant extent with the growth of passenger car exports.

Slovenia

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In the middle of 2017, Slovenian economic performance is considered to be very good with GDP growth around 5 percent accompanied with rapidly declining unemployment, very low

inflation rate, likely budget surplus, and enormous current account surplus. Impulses from foreign demand remain strong which is indicated by rapid growth of foreign trade, and current account surplus of close to 8 percent of GDP. Foreign demand impulses have been in 2017 enhanced by domestic demand with 3.4% yearly growth of private consumption, 11% growth of gross fixed investments, and 1% growth of government expenditures. Expected dynamics of demand for the rest of the year does not indicate noticeable changes except for construction, where expected demand exceeds the long-term average.

Slovenian strong GDP growth is expected to continue also in 2018, albeit with a somewhat slower intensity. The forecasts of foreign and domestic institutions are continually improving, though they are accompanied by the usual mantras on the urgent need of structural reforms, balanced budget, and warnings of how dangerous pensioners will be in 2050. Unemployment will decrease slightly, inflation will remain subdued and most likely at the level around 2 percent, budget deficit will be small or might even turn to a surplus, while enormous current account surplus of 10% of GDP will stop increasing.

Spain

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Spanish economy would maintain the current growth rates for the rest of the year, which would allow the year to close at 3.1%, just one tenth below the rate recorded in 2016. For 2018 a slightly deceleration path is expected, and the annual growth rate for GDP would be around 2,5%

Regarding the evolution of national demand, in annual terms, private consumption and investment will be the main drivers of growth during the current year. The expected deceleration for coming quarters, specially in 2018, will be mainly due to a lower growth of the national demand (2.8% in 2016, 2.4% in 2017, 2.3% in 2018), compensated this year by a greater growth in external demand (+0.7 compared to + 0.5% in 2016), but is not expected to continue in the next year (+0.2).

The progressive moderation in GDP growth rates will be reflected in the rates of job creation, which will be moderated, thus allowing the normalization of productivity growth rates. The net employment generation rose above half a million in the second quarter of the year, improving the data for 2016, and it is estimated that the generation in the whole of 2017 will be around 470.00 jobs. That generation should be reduced by 2018 as a result of the lower economic growth expected, and would be around 400,000 jobs.

As for the evolution of inflation for the coming months, a weak oil price will cause general inflation continues to fall to close the year somewhat below 1%. Core inflation (a general index without unprocessed food and energy products) was 1.0% in May, 2 tenths below the April figure, and is expected to remain at these levels in the second half of the year. The absence of significant inflationary pressures despite the dynamism of economic activity is explained by a still high level of underutilized productive resources.

The challenge for the next few years is for public debt to begin on a downward path. Thus, between 2017 and 2020, the Government expects the public debt to decrease, on average, by 1.7 pp. p. per year, down to 92.6% of GDP in 2020. According to these forecasts, the debt reduction process will continue to count on three major allies: good GDP growth, which will register nominal growth rates in the order of 4% per year; the correction of the primary public balance, which is expected to reach a surplus of 2.1% of GDP in 2020, and the maintenance of an accommodative monetary policy by the ECB

Looking ahead to the rest of the year, it is expect to maintain the current account surplus. On the one hand, the lower expected growth in the price of oil in annual terms will contain the increase in the energy bill. On the other hand, exports of non-energy goods will maintain their positive evolution. This good performance is explained by the higher growth of target markets, especially the euro area. Also, the arrival of international tourists continues to improve the record records of 2016.

Switzerland

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The domestic sector and especially private consumption are in slow motion in 2017-2019. The export sector has to face various international uncertainties and risks as well as a continuously strong Swiss franc, despite the measures taken by the Swiss National Bank.

The recent index of consumer sentiment fell again more deeply in the negative zone. Swiss households believe that their financial situation will deteriorate in the coming months and they consider the time less favorable to buy durable goods. The weak growth forecast for real wages in 2017-2018 is thus unlikely to encourage Swiss households to spend more in the coming months. Export firms are more optimistic for the coming months and the recent export indicator moved to higher values. The poor growth rates expected for domestic demand may thus be partly offset by a stronger export sector during the second half year period.

In view of the above developments, Swiss GDP is expected to strengthen a bit in 2017 up to 1.7% (1.3% in 2016), and remain around these values in 2018-2019 (1.8% □ 1.9%). These rates will not be sufficient to reduce the output gap which will remain negative over the entire period 2017-2019.

Economies in transition

The Commonwealth of Independent States and Georgia: economic activity is strengthening

The pace of economic activity in the CIS area is accelerating, marked by the return to growth in the Russian Federation after two years of contraction. Improved terms of trade, a more supportive external environment and less volatile macro conditions are driving the recovery, with moderate strengthening in domestic demand - the dynamics of retail trade and mortgage

lending are improving amid real wage growth. In Ukraine, the recovery continued for a second year, with positive growth surprises despite the company seizures and trade disruptions in the east of the country. However, the negative impact of these events is likely to result in slower expansion. Belarus is coming out of its recession, with strong industrial growth and a good harvest. The settlement of the dispute with the Russian Federation on oil deliveries and gas debts has boosted economic prospects. In Kazakhstan, increasing oil production at the Kashagan field contributed to improved performance.

The recovery of remittances flows is contributing to the acceleration of economic activity in Central Asia. In Kyrgyzstan, large increases in gold production boosted output. In Armenia, where remittances are also important, the economy is bouncing back strongly, amid rapid industrial growth and higher copper prices. Azerbaijan is the only CIS country where GDP is expected to contract this year. Overall, projected growth is modest and well-below the rates seen in the pre-crisis period. Aggregate CIS output remained practically flat in 2016 and it is expected to increase by around 2.2 per cent in 2017, accelerating to around 2.3 per cent in 2018.

Inflation in the CIS is coming down, supported by the strengthening of exchange rates, but in some countries utilities increases are pushing prices up. In the Russian Federation, lower food prices, driven by a good harvest and the resumption of imports from Turkey, contributed to the decline of inflation to record low levels. In Ukraine, inflation remained at elevated levels. By contrast, inflation in Belarus has now fallen into single digits, supported by a tight monetary policy and the reduction of directed lending. In Uzbekistan, the liberalization of currency regulation and the ongoing shift to convertibility opens new vistas for investment but the ensuing sharp depreciation will push inflationary pressures. Declining prices pressures are allowing a cautious loosening of monetary policies, although countries in the region are in different positions in this easing cycle. In the Russian Federation, real rates remain large in comparison to other emerging markets. The banking sector remains generally in poor shape in the region. State support has been substantial in recent years and more will be required. The ongoing consolidation of the sector may raise the risk of excessive concentration.

Employment held well during the crisis, given wage flexibility and shifts to part-time work. The recovery is resulting in growing wage gains, the reduction of involuntary adjustment mechanisms and declines in unemployment rates. In the Russian Federation, falling unemployment is being accompanied by a shrinking labour force.

While sanctions against the Russian Federation remain in place, the region is facing a benign environment for access to capital. A number of countries, including Belarus, Ukraine and Tajikistan have taken advantage of the search for yield among international investors to launch Eurobonds.. Debt servicing payments loom large in the years ahead.

Once more, the recent downturn has exposed the vulnerability of the region to falling commodity prices. However, progress on economic diversification remains slow. Moderate growth prospects have increased the interest for structural reforms but the pace of

implementation will be influenced by the political calendar ahead, with a number of elections planned.

Country forecast summaries by LINK participants

Russian Federation

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Slow recovery of the Russian economy is expected in 2018–2019, at a growth rate of 1.8–2.1%. The most important driver of the growth will be the accumulation of fixed capital. This dynamic will be linked to the relaxation of monetary policy and the overall improvement of economic conditions, and the need for such a dynamic will be associated with increased import competition.

Household consumption, on the contrary, will clearly be a much weaker driver of economic growth than before. Considering harsher import competition, severe budget restrictions, and substantial fiscal pressure on the business community, the dynamic of real wages will be closing in on workforce productivity. On the other hand, given the negative experience with loan payments during the crises of 2008–2010 and 2014–2016, neither banks, nor households will likely be up for plunging into consumer lending as they have done before. As a result, the dynamic of retail trade is not going to substantially exceed the growth of real wages.

A lack of competitiveness of Russian non-energy products, as always, is becoming the most important issue limiting economic growth. As a result (considering the extremely low dynamic in hydrocarbon exports), the export dynamic for Russian products will not exceed 1.8–2.1%. At the same time, the import, as can be observed already, will continue to grow exponentially as compared to the overall dynamic of the economy. This situation will both keep the mid-term economic growth under control and stipulate the risk of ruble rate destabilization which, in turn, would limit the Bank of Russia's ability to lower the key rate.

Ultimately, it can be expected that the ongoing success in the fight against inflation (based in part on the super-strict monetary policy and in part on decreasing the price of certain food products) will not replicate itself. Even in 2019, the annual average inflation level is unlikely to fall below 3.8–4.1%.

Ukraine

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In 2017, the Ukrainian economy continues to grow slowly. Thus, real GDP in the 1st quarter of 2017 amounted to 102.5%, in the 2nd quarter - 102.3% compared to the corresponding quarters of 2016. A significant factor of the improvement of the annual performance as compared to last year is the lower comparative base.

Despite the economic growth indicators for 2016 and I-II quarters of 2017 (at the level of 2.5–2.4%), according to the results of 2018–2019, Ukraine's GDP growth is unlikely to significantly improve. First of all, this will be affected by a significant unemployment (10.1%

in 2017, 9.5% in 2018 and 8.9% in 2019), inflation fluctuations (from 14.8% in 2017 to 11.7% in 2018 and to 9.5% in 2019), a low level of investment activity (according to our calculations, the rate of gross accumulation of fixed capital in 2017-2019 will not exceed 16.3% of GDP). The above will lead to a moderate GDP growth in Ukraine: in 2017 - at the level of 1.3-1.6%, in 2018 - 2.5%, and in 2019 - 3.7%, which will further increase the backlog of real GDP from its potential level (the negative "GDP-gap" in the annual figure may reach 20%).

South-Eastern Europe: benefiting from the favourable EU outlook

The pace of economic activity is picking up in the region, supported by improved economic prospects in the EU and stronger domestic demand. Infrastructure-related investment continues to boost growth, in particular in Montenegro. In Serbia, private consumption is also playing an increasing role in driving growth. In Albania, rising employment and higher wages, including in the public sector, boosted consumption. Domestic political uncertainties, however, may negatively weigh on the economy of the former Yugoslav Republic of Macedonia. After growing by ... per cent in 2016, the region's GDP is expected to expand by 2.8 per cent in 2017 and 3.2 per cent in 2018.

Inflation in the region remains low, although it has started to increase slightly amid strengthening domestic demand. The absence of price pressures and further progress on fiscal consolidation led Serbia's monetary authorities to cut rates for the first time since July 2016. Cautious easing will continue, with some cost pressure coming out from utility prices hikes and the increase of the minimum wage.

Economic growth has created new jobs, but nevertheless unemployment remains high, particularly in Bosnia and Herzegovina and, despite the introduction of public sector programmes, in TFYR Macedonia.

Economic prospects of South-Eastern Europe depend on growth dynamics in the European Union. Dependence on external financing is also a source of fragility. Geopolitical tensions are also a downside risk.

Developing economies

Africa

Africa's economic growth performance is projected to be 2.6 per cent in 2017. This marks a rebound from subdued growth of 1.6 per cent witnessed in 2016, but remains barely higher than population growth for 2017 estimated at 2.5 per cent. The modest expansion can be explained by strengthening external demand and a modest increase in commodity prices over the year, as well as improvement in domestic conditions – growth in private consumption, increase in investment and strong government expenditure, especially in infrastructure. Four of the continent's largest economies – Algeria, Angola, Nigeria and South Africa, observed subdued rates of growth, which translated into modest average growth for the region.

Macroeconomic fundamentals improved this year. Rising commodity prices allowed for a moderate easing of fiscal pressures and improvement in the continent's current account balance. Oil-exporting countries saw an enhancement in oil revenues while the import bill was cut down. The current account deficit remains high in oil-importing countries, particularly in East Africa where some countries sustain high capital imports for infrastructure projects and a higher cost of fuel imports driven by the increase in global oil prices. Interest rates decreased slightly compared to 2016 on account of an easing of inflationary pressures in several countries. However, the inflation rate remains high. Exchange rates have stabilized further this year across the region.

Main risks to the growth outlook include volatility in commodity prices and a slump in the global economy's recovery, which could affect trade, investment and remittance flows towards African economies. Political instability and security issues remain important risks to several countries.

East Africa continues to lead growth in the continent with an annual growth rate of 5.5 percent in 2017, followed by North Africa (4.9 percent), Central Africa (2.5 percent), West Africa (2.1 percent) and Southern Africa (1.1 percent).

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Ghana

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High Growth Module: “Accelerated and Sustained Growth”: If the growth in real GDP is to reverse from slower rates in a few years, what does it mean and take? By implication it means removing constraints in the way of production (i.e. strengthening the supply-side capacity) and allowing the economy to unleash all its potentials that will raise the per capita income to US\$2400. It also means further diversifying the export sector through adding value to most of the primary products. The investment implications for the high scenario include gross capital formation rising from the current growth rate of negative 12.0 percent to above 100 percent by 2017. The analysis of the output-incremental capital ratio (OICR), which measures investment efficiency, shows that there must be improved efficient use of investment resources in order to increase the ratio to a higher level. The high Growth module is likely to occur because of government's commitment to ease the business enabling environment and make Ghana the most business-friendly economy in Africa.

Low Growth Module: “Business as Usual”: The old policy regime is likely to be abolished to give way to achieving the targets. Government has indicated that it is moving away from business as usual to business-friendly and people centred policies and massive regulatory reforms to sanitize the implementation processes and removing bureaucratic bottle-necks. However, if it fails to realise these, then the growth rates may not exceed 5.4 percent as against 7.4 percent target set in the medium term economic policy 2017-2019.

Forecasts and Analysis (2017-2018): The macroeconomic programme for 2017 is aimed at restoring and sustaining economic stability through enhancing fiscal discipline, monetary

discipline, and financial stability; shifting the focus of economic management from taxation to production; managing the economy competently; and making the machinery of government work to deliver the benefits of progress for all Ghanaians. Comparing the targets set in the medium term macroeconomic framework with what has been achieved so far in the first two quarters of 2017 one can clearly confirm that at least the growth could be sustained above the low growth module.

Nigeria

S. O. Olofin, O. E. Olubusoye, A. A. Salisu, K. O. Isah, T.F. Oloko and A.E. Ogbonna

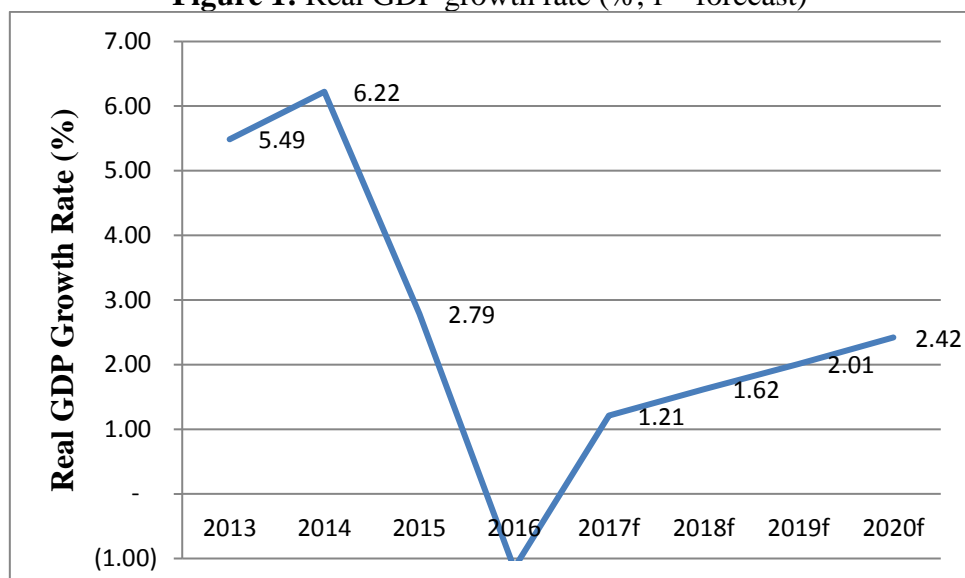
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After sustaining an impressive decade of economic growth, the advent of economic recession has seen Nigeria breaking a number of downside records among the notables, which are: the contraction of GDP over the three quarters of 2016 for the first time in the last 25 years; the upward inflationary trend from one digit rate of 8.7 per cent to 18.6 per cent, being the highest in the last eleven years as of December 2016, and the surge in unemployment rate to a record high of 13.9 per cent in the third quarter of 2016²⁴. Moreover, there is progress in the conflict with Boko Haram in the North East Nigeria and the intensification of dialogue with militants in the Niger Delta.

Our forecasts for 2017 through 2020 are rather optimistic (see Figure 1). Real GDP, for example, is expected to grow by 1.2 per cent in 2017, 1.6 per cent in 2018, and over 2.0 by the year 2020. Meanwhile, figure 2 suggests that the rising inflation trend may remain even until year 2020. This may be expected due to the anticipated increase in government expenditure as the 2019 General election draws near. However, the likelihood is that if all forms of domestic unrests are resolved, leading to considerable decline in the domestic and imported inflation rates, and the current administration remains as conservative in spending as expected, this trend could be reversed.

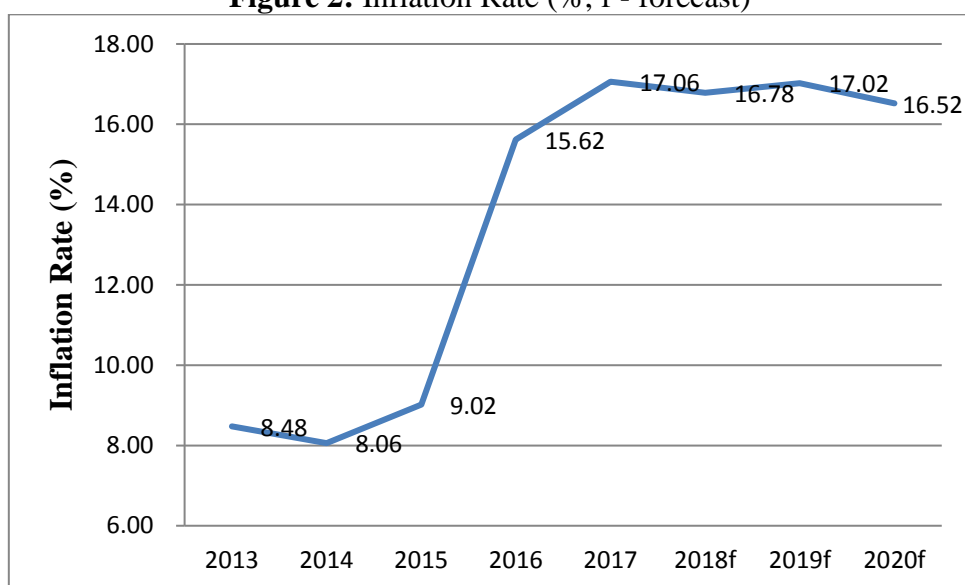
²⁴ National Bureau of Statistic (NBS, 2016)

Figure 1: Real GDP growth rate (%; f – forecast)



Source: Actual values – NBS, Forecasted values – CEAR

Figure 2: Inflation Rate (%; f - forecast)



Source: Actual values – NBS, Forecasted values – CEAR

South Africa

Plus Economics (2017). South African Country Report and Forecast – October 2017.

The South African economy, now in a technical recession, contracted in real, annualised terms by 0.3 and 0.7 per cent in the last quarter of 2016 and the first quarter of 2017, respectively. Annual GDP growth rates have fallen consistently since recovering mildly from the Global Financial Crisis in 2009 (GFC). The post-crisis annual high of 3.3 per cent in 2011 has not been recouped, despite a spike of 5.2 per cent in the fourth quarter of 2013.

Recoveries in real quarter-on-quarter, seasonally adjusted and annualised growth in the mining sector (12.8 per cent in 2017Q1, up from -11.5 per cent in 2016Q4) and agriculture sector (22.2 and -0.1 per cent in the first quarter of 2017 and fourth quarter of 2016, respectively) were insufficient to boost overall economic growth. All other sectors registered contractions over the same period, including a reduction in the tertiary sector for the first time since the GFC.

East Asia

The short-term growth outlook for East Asia remains robust, buoyed by favourable domestic demand, in particular private consumption and public investment. Growth in the region is also benefitting from stronger external demand, amid a rebound in international trade flows. Following growth of 5.6 per cent in 2016, the East Asia region is projected to expand at a relatively steady pace of 5.8 per cent in 2017 and 5.7 per cent in 2018.

Growth in China is expected to moderate from an estimated 6.8 per cent in 2017 to 6.5 per cent in 2018. The stronger-than-expected growth in the first half of 2017 was in part driven by policy stimulus measures, including higher infrastructure spending. Going forward, while ongoing structural reforms will continue to dampen investment in sectors with excess capacity, domestic demand will remain supported by accommodative fiscal measures. However, elevated corporate debt and property prices continue to pose a risk to financial stability.

For most East Asian economies, private consumption is likely to remain the key driver of growth. In Indonesia, the Republic of Korea, Malaysia, and Thailand, household spending strengthened in the first half of 2017, supported by modest inflationary pressures, low interest rates and an improvement in consumer confidence. In the Republic of Korea, the Government's plan to expand welfare benefits and promote stronger job creation will also provide further impetus to consumer spending.

East Asia's growth will also continue to be lifted by the recovery in exports, which has been driven in part by an improvement in demand from the United States and Europe. For several countries in the region, including the Republic of Korea and Taiwan Province of China, the surge in exports in 2017 has been largely attributed to the increase in global demand for electronic products. For the commodity exporters in the region, such as Indonesia and Malaysia, growth has been further boosted by the recovery in prices of key commodities, including coal, palm oil and rubber. Public investment is also expected to remain strong in countries such as the Philippines, Taiwan Province of China and Thailand, as their respective Governments embark on large infrastructure projects, aimed at alleviating structural bottlenecks. Private investment activity in the region, however, has remained relatively subdued, as high uncertainty continues to weigh on investor sentiments. In several major economies, including China, investment activity continues to be constrained by low capacity utilization or excess capacity, particularly in the industrial sector.

The region faces considerable downside risks to its growth outlook. The ongoing backlash against hyper-globalization poses a risk to the region's growth prospects, given the region's deep integration into global and regional value chains. Of note, between 2014 and 2017, for each liberalising trade measure that Asia-Pacific countries have implemented, 3.7 restrictive measures were adopted. In addition, elevated financial sector vulnerabilities, particularly high private sector debt, will continue to weigh on investment prospects in several countries. Rising geopolitical tensions, notably in the Korean Peninsula, also poses a risk to investor confidence in the region..

Country forecast summaries by LINK participants

China

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Since 2017, China's economy remains steady and tends to show promising and improving trend. Enterprise revenues have been rising, the market expectation has been improving, the transformation from old to new momentums has been accelerating, the prices of commodities are mild and controllable, the employment conditions are good and the balance of international payments is basically stable.

Since the first quarter of 2015, the growth rate of China's economy has been slightly fluctuating between 6.7 and 7.0%, which manifests that the stability of economic operation has been remarkably enhanced. Especially since 2017, driven by such factors as the export are evidently better than expected, the restocking of industrial enterprises and the boom of the real estate market, the growth rate of economy is slightly rising. During the first half of the year, China's GDP is increased by 6.9%, up by 0.2% on a year-on-year basis, which is the first bounce-back for half a year since 2011. During the second half of the year, China's economy will steadily move forward under the guidance of new development idea and driven by the supply-side structural reform and innovation. However, factors such as base number, price and exchange rate will result in the slowdown of export growth; the restocking cycle of enterprises will put to an end and the real estate market will cool down as expected, so the investment growth will be restrained; more stringent specification of financing by the local governments will impact the follow-up fund sources for capital investment, while financial deleveraging and risk prevention will suppress liquidity. Overall, China's economy tends to be mild and slow down. It is estimated that GDP will increase by about 6.7% for the second half of the year and about 6.8% for the whole year.

Hong Kong

Win-Lin Chou

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Being a small and open economy, the economic performance of Hong Kong is largely affected by the economic conditions of Hong Kong's trading partners. The most important trading partner is the Mainland. China's real GDP increased 6.9 percent in the first half of 2017, after growing at 6.7 percent in 2016. We expect real GDP of China to increase 6.9

percent in 2017 as a whole, and assumed that it will continue to increase at the same rate in 2018.

Results of the Quarterly Business Tendency Survey and other surveys on business sentiments conducted by Hong Kong Census and Statistics Department indicated that the business sentiment in many economic sectors showed improvement. In particular, large firms in financing and insurance, information and communications, and manufacturing sectors are highly optimistic about their future business conditions. In view of the improved business conditions, we forecast further improvement in fixed investment in the second half of 2017 and in 2018.

The key external factors that are likely to affect the outlook of the Hong Kong economy are: The economic growth of the Chinese economy, and that of the US economy. There have been concerns about a possible adoption of more inward-looking trade policies of the new US administration. Uncertainties on the timing and pace of US interest rate hikes in the future are likely to increase the financial market volatility. Regarding the internal side, facing decelerating growth in the number of tourist arrival and the decline in Chinese mainland visitors' spending power.

The Philippines

Richard Emerson D. Ballester
NEDA

The recent economic performance can be summarized into three points. First, GDP growth has been on a sharp monotonic uptrend over the last three decades. With a 6.9 percent GDP growth in 2016, which was at the high-end of the government's target of 6 to 7 percent, the Philippines is poised to be one of the fastest rising emerging economies in Asia over the medium-term. Second, the economy is also undergoing structural transformation. This means that growth is increasingly being driven by investment vis-à-vis consumption, and led by the industry sector. Third, total factor productivity (TFP) growth of the economy in recent years has been the fastest in ASEAN, at 2.3 percent. This means that capital efficiency has been improving. These three points suggest that economic growth is sustainable, hence capable of generating more stable and gainful jobs.

Real GDP is expected to grow by 6.5 – 7.5 percent in 2017. The economic expansion will be driven by the industry sector in the supply-side while the expenditure side will be boosted primarily by domestic demand. The sustained economic growth is due to the increasing potential output growth.

The country remains vigilant and well-positioned to weather external risks which includes slower than expected growth in the US and UK, tightening in global financial conditions, inward looking policies and extended period of policy uncertainty, and geopolitical tensions. On the domestic front, we are concerned about downside risks to growth including increased intensity and frequency of natural hazards and delays to infrastructure spending.

Republic of Korea

Cho, Duksang

Korea Development Institute

Korea's export growth is expected to improve in 2017 on advancements in a few sectors amid a moderate recovery of the global economy. Korea's exports and private consumption are expected to maintain a moderate growth in 2018 while GDP growth falls again from 2017 as overall investment growth decelerates. The effects from improvements in real income on private consumption are expected to wane due to rising oil prices, and growth will likely decrease as the impact from consumption stimulus measures in 2016 dissipates. The recent favorable trend in facilities investment is not expected to last long despite the modest improvement in export growth as the manufacturing capacity utilization rate remains at a low level. A gradual slowing of the recent high growth in construction investment is expected, mainly in building construction. Exports are projected to grow at a faster rate than GDP despite the sluggish growth in certain items as the global economy picks up at a moderate pace.

The Korean economy may weaken faster than anticipated if trade protectionism gains momentum, or if surrounding geopolitical uncertainties worsen. The rise of trade protectionism will increase tariff and non-tariff barriers and erode the modest recovery of world trade, eventually having a negative impact on the highly trade-dependent Korean economy. Meanwhile, mounting geopolitical uncertainties will not only unsettle the financial market but also weaken consumer and investor sentiments. If marginal households and firms with weak debt repayment ability rapidly fall into default, the negative repercussions arising from outside shocks may be amplified further.

Taiwan Province of China

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The Institute of Economics, Academia Sinica, Taipei

According to the latest forecast released by IMF, the world trade volume will grow 4.0% in both advanced economies and emerging markets and developing economies in 2017, a much better number than growth in 2015 and 2016. In the coming two years, we expect external pressures to ease due to recovery of the world economy. This should have a most pronounced reflection in the growth of exports and imports. Despite domestic private consumption and investment having been relatively sluggish, some forward-looking indicators, such as new orders and composite leading indicators, as well as measures of economic confidence, including consumer and business expectations surveys, have lifted, suggesting that the improved growth momentum could continue. In addition, the government reform package will stimulate consumption and investment at the same time. In sum, long-term growth prospects for Taiwan should continue to experience modest recovery. Therefore, according to the macroeconomic model of Academia Sinica, real GDP is forecast to grow by 2.17% in 2017, 2.42% in 2018 and 2.45% in 2019 with a strong exports outlook and public investment scaling up to lift the momentum. In the following, we discuss the major components of GDP.

However, a number of issues can threaten slowdown of Taiwan's economic momentum, going forward. These include weak private consumption and fallout from ongoing labor, pension and tax reforms, as well as uncertainties stemming from the growing protectionism,

geopolitical risks and impacts of the Federal Reserve policy, which could affect the only engine we have so far and that makes our economy more fragile.

South Asia

The economic outlook remains steady and largely favourable in South Asia, driven by private consumption and sound macroeconomic policies. After expanding by 6.3 per cent in 2016, the economies of South Asia are projected to grow by 6.2 per cent in 2017 and 6.6 per cent in 2018. In addition, inflation has remained relatively at low and stable levels, which has enlarged the monetary policy space in some economies recently. More specifically, growth in Bangladesh and Pakistan in FY17 was higher than previously expected, due to robust private consumption and a substantial expansion of the agricultural output. The economy of Islamic Republic of Iran is expected to strengthen in the near term, as oil production and private investments continue rising, while Sri Lanka's growth will be moderate given the impact of a drought and the ongoing fiscal consolidation and monetary tightening. Meanwhile, the Indian economy has not met expectations in 2017. The annualized growth in the first quarter of the current fiscal year, though backed by government spending, was a meagre 5.7 per cent –the lowest in the last three years. The lingering effects of demonetization policy and a sharp fall in manufacturing activity have tempered economic activity in 2017. Despite some signs that the Indian's economy is regaining momentum recently, growth in FY2017/18 will probably slip below 7%. Importantly, stressed balance sheets in the corporate and banking sectors are also preventing any strong rebound on investment growth in the Indian economy in the near term. By contrast, the performance of investment is more vigorous in Pakistan, Nepal, and Bangladesh.

Given the large infrastructure and energy deficits across the region, promoting private investments should be a key policy priority, not only for its short-term effects on growth but also for medium-term consequences on productivity growth in the region. On the fiscal front, a key challenge is to improve the capacity to implement counter-cyclical policies by striking a balance between improving tax revenues –and the efficiency of tax systems-, and promoting a supportive environment for the private sector. In fact, a proactive fiscal policy can play a major role in stabilizing economic activity, crowding-in private investments and supporting development priorities in areas such as social protection, poverty and inequality. In the outlook, the region faces different risks, including geopolitical tensions, setbacks in the reform agenda, and capital outflows and exchange rate volatility stemming from the ongoing normalization of the monetary policy in the United States.

Country forecast summaries by LINK participants

Nepal

Dilli Raj Khanal

Our forecasts show that in the current fiscal year 2017/18 there will be some dampening effect of floods and landslides on overall performance of the economy. Country's preoccupation with provincial and general election in November-December may also have

some adverse effect on rescuing the economy from such an adverse effect. This also may affect the ongoing reforms including timely enactment of various laws. But gradual improvement in the second half of the economy is expected. During this period, further improvement in the supply of public utility services with added positive investment environment is anticipated. Further pick up in reconstruction works is also expected. Although some price pressures are foreseen in this fiscal year due to the loss in food production, among others, still the inflation rate is projected to be moderate.

More rebound in the economy is projected for the fiscal year 2018/19 with positive outcomes from various reforms including improved governance and delivery. It is assumed that the reconstruction works will be further expanded along with additional private investment, both domestic and foreign, in more productive areas like energy and infrastructure. The monetary policy is also expected to focus banking investment in more productive areas. Some ease in inflationary pressure is also expected. However, in trade and government surplus front, no improvement is envisaged. Despite improved revenue and export performance, faster rise in current expenditure and persistence of wider gaps between the level of exports and imports is projected to nullify such a positive effect.

Pakistan

Qazi Masood Ahmed

After a spell of 5-year slow growth Pakistan has experienced real GDP growth rate of 5.2% in the FY17. This growth was mainly driven by the increased growth in the agriculture and services sector. The government based upon its efficient performance has set the GDP growth target at 6% for the FY-18. The 6% growth can be achieved as the agriculture sector is expected to benefit from the various reforms brought in this sector. Similarly, industry will grow under the China Pakistan Economic Corridor (CPEC) construction activities and other development projects going within the country. Services sector will also grow because of a strong expansion in commodity producing sectors. The good performance of both agriculture as well as industrial sector will contribute positively towards the trade and transport activities. However, there are certain risks involved in achieving these set targets which includes the bad law and order situation in the country, delays in completion of construction projects, weather conditions affecting the crop yield and deterioration in external account.

Western Asia: outlook mixed, overshadowed by oil market and geopolitical factors

The economic outlook for Western Asia remains mixed, overshadowed by oil market developments and geopolitical factors. Major oil-exporting economies, mainly the member states of the Gulf Cooperation Council (GCC), exhibit weak economic expansion in real terms due to the lower crude oil production levels in compliance with the OPEC-led production reduction agreement. However, the increasing oil export revenues due to the recovery in oil prices sustain the expansion of domestic demand, albeit at a very slow pace. The domestic demands of GCC countries are also sustained by the value of financial and real

estate assets that have been stabilized in 2017 after a continuous decline since August 2014. The geopolitical situation in the region continues to influence the economies in Western Asia. The Iraqi economy regained a degree of stability as the security situation improved in various parts of the country. The economies of Jordan and Lebanon remains weak, being under the heavy influence of political and security situation in Syria. The dire economic situation in Syria and Yemen continues as both countries face humanitarian crises due to ongoing armed violence. The diplomatic rift over Qatar has only a mild economic impact so far. However, if the present situation persists, it is likely to cost the region in the long run due to the loss of network gains within GCC. Meanwhile, robust economic expansions are observed in Israel and Turkey. The Israeli economy remained strong with low inflation and unemployment rates. Both monetary and fiscal policies are in place to accommodate a further stable economic expansion. The Turkish economy shows resilience, relinquishing the risk factor associated to a rapid devaluation of the Turkish Lira. The recovery in the Turkish GDP growth rate is supported by a robust expansion of both external and internal demands. The GDP growth for Western Asia is forecast to edge down to 2.3 per cent in 2017. A slow recovery is projected as the GDP growth is forecast to be 2.4 per cent for 2018, and 2.8 per cent for 2019.

Country forecast summaries by LINK participants

Turkey

Suleyman Ozmucur

University of Pennsylvania

Real GDP, which grew by 2.9 per cent in 2016, is forecasted to grow 3.4 per cent in 2017, and 2.1 per cent in 2018. The GDP deflator is forecasted to increase 9.5 per cent in 2017, and 11.5 per cent in 2018. In 2017, exports of goods are expected to be \$161.0 billion, and imports of goods are expected to be \$210.9 billion leading to a trade deficit of \$63.6 billion, and a current account deficit of \$39.5 billion.

Real GDP rose 5.1 per cent in the first quarter, following a 3.5 per cent increase in the previous quarter, according to the Turkish Statistical Institute. Real final consumption of resident households increased 5.1 per cent in the first quarter, while real government final consumption increased 9.4 per cent. Real fixed investment increased 2.2 per cent in the first quarter, following a 2.0 per cent increase in the previous quarter. Real exports of goods and services increased 10.6 per cent in the first quarter, while real imports of goods and services increased 0.8 per cent.

The biggest concern and source of uncertainty is the war in neighboring countries. There are already more than two million refugees from neighboring countries who fled into Turkey. Tensions in the domestic front are also building up. The large outstanding public debt and the current account deficit are always a source of concern for Turkey.

Latin America and the Caribbean

Against the backdrop of more favourable global conditions, Latin America and the Caribbean is set to see a mild economic recovery during the forecast period. After two consecutive years of contraction, the region's gross domestic product is projected to grow by 1.0 per cent in 2017 and 2.4 per cent in 2018. The return to positive aggregate growth is mostly attributable to Argentina and Brazil, which have emerged from recession. Mexico and Central America as well as the Caribbean will continue to grow at a considerably faster pace than South America in 2017, but this gap is forecast to close over the coming years.

South America's economies benefit from stronger external demand, a moderate upturn in commodity prices and benign external financing conditions. Falling inflation and looser monetary policy continue to support private consumption and investment. However, the sub-region's recovery remains shallow and uneven amid ongoing political uncertainty in several countries, continuing needs for fiscal consolidation and structural impediments to growth such as inadequate infrastructure and weak labour productivity.

Mexico and Central America are expected to see moderate growth in 2017-19. Economic activity is supported by strong remittance flows. Costa Rica, Nicaragua and Panama will remain the fastest-growing economies in the sub-region, benefiting from buoyant private consumption and robust public investment, particularly in infrastructure. The growth prospects of the Mexican economy have slightly improved as low unemployment and strong consumer confidence boosted private consumption, while manufacturing production and exports benefited from a recovery in US industrial production.

Aggregate economic growth in the Caribbean is projected to gain some momentum during the forecast period, but will remain modest. The economic performances of individual countries vary widely. Despite some moderation in recent quarters, the Dominican Republic continues to be one of the region's fastest-growing economies thanks to strong remittance inflows, a buoyant tourism sector and robust growth in investment and exports. On the other hand, Cuba, Haiti and Trinidad and Tobago face subdued growth prospects amid severe structural constraints, institutional weaknesses and macroeconomic imbalances.

Country forecast summaries by LINK participants

Mexico (1)

Eduardo Loria

Center for Modeling and Economic Forecast, UNAM

The election outcome in the United States gave 2017 forecasts a complicated-to-recessive tone in the early months of the year. However, as the majority of his concerns have not materialized, academic and official forecasts have been gradually revised, improving the growth outlook for this year and next year. Mexico's Central Bank, for instance, had a forecast of 1.5-2.5%, and updated this to 2-2.5% on August 30th. Notice that the bank's forecast not only improved but also narrowed, indicating a reduction of uncertainty. We at the

Center for Modeling and Economic Forecast raised our own forecast since our quarterly meeting in March.

Last year, the US industrial sector was in recession, affecting manufacturing production and exports in Mexico, due to the strong link that has been created over two decades of free trade. So far this year, industrial production in the US has recovered and Mexican manufacturing production and exports have followed, resulting in positive impacts for the rest of the economy. Notwithstanding protectionist rhetoric in the US, including taxation of outward foreign direct investment (FDI), Mexico saw in the first quarter of 2017 historic levels of investment, totaling almost US\$8 billion, with around 40 percent of FDI inflows coming from the United States. In view of these results, it is easy to understand why Mexico rose one step in the global ranking of A.T. Kearney's FDI Confidence Index.

On another positive note, remittances from the United States to Mexico have also surged to historic levels, due to (1) a drop in the unemployment rate of Hispanics in the US, (2) a substantial increase in the temporary worker visas being issued and (3) the fact that threats of taxing money transfers from the US have not materialized. In this context, the unemployment rate has dropped substantially to around 3.5%, a level that had not been reached since before the 2009 crisis. Similarly, the informal labor rate has seen an important decline. Importantly, the Bank of Mexico has systematically increased its interest rate to its current level of 7% for three basic reasons: (1) to suppress a strong inflationary surge that reached 6.6% in August, and which began in January due to the increase in hydrocarbon prices and the minimum wage; (2) as a response to the beginning of the monetary normalization process in the United States; and (3) as a reaction to the rapid depreciation of the Peso, largely driven by uncertainty over a shift in US policies. Although a similar inflation rate to that of 2009 has been reached, it is important to note that a sizeable deceleration is already on its way, and forecasts indicate that in one or two months the yearly rate will begin to fall gradually. As a result, it is highly likely that inflation will be around 3.8% in 2018, within Banxico's target range.

Mexico (2)

Alfredo Coutiño

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Our Baseline scenario outlines an economy with no major improvement this year, advancing at still-limited rates since the impact of reforms will be felt only in the medium term. The recovery in the medium-term will be the result of some positive factors: a domestic market gaining some steam by the improvement in purchasing power, the strengthening of the external demand—particularly under a new NAFTA agreement, and positive effects generated by new reforms. Growth will still remain restricted by the limited potential capacity, with the economy advancing at a rate of 2% this year (after 2.3% in 2016), accelerating to 2.5% in 2018 benefited by the positive effects of the election year, and decelerating to 1.5% in 2019 as a result of the negative effect of the political business cycle during the first year of the new administration. In the medium term, the economy will advance at rates determined by the increase in production capacity, between 3% and 3.5%.

Inflation will end this year well-above the central target, even surpassing 6% given the more general price realignment in process. The currency pass-through will stay affecting inflation this year. Next year, inflation will show some decline but will remain above the 3% target, since it will just converge to its genuine structural rate around 4%. In 2019, with the traditional deceleration at the beginning of the new government, and the surrounding uncertainty affecting the MXN peso, inflation will rebound again. Under these circumstances, policymakers will keep monetary conditions mildly restrictive until fiscal policy opens space for monetary policy to return to neutrality. Rates could turn even more restrictive if volatility worsens as a result of a market overreaction to the Fed's monetary normalization, or in the event of a new government with anti-market approach.

New rounds of reforms will certainly strengthen the economy's potential capacity, particularly if they deepen structural changes. The greater the economic opening the bigger the impact on potential growth. Mexico is certainly moving in the right direction of strengthening the accumulation of capital, which in the end will increase productivity and promote technological progress. A new fiscal reform will soon be needed, since the country remains as one with the lowest tax revenues as a ratio of GDP in Latin America, and even with a ratio below the region's average.

The new production capacity generated by reforms, together with the positive effects from the U.S. recovery, will determine growth in the future. However, in order to promote a growth path free of imbalances, in the long run the economy should be functioning around its new steady state rate (3.0%-3.5%).

Costa Rica

Juan-Rafael Vargas

Escuela de Economía, Universidad de Costa Rica

Forecasts point to an annual change in economic activity of 3.8% for 2017 and 4.1% for 2018, above the average growth rate of the last four years (3.5%). GDP growth for 2017 was revised downward, mainly due to the slower pace of growth in financial intermediation, accommodation and food services, transportation and storage, and by 2018 the annual growth estimate remained at 4.1%; however, in the detail of activities, the construction activity was revised upwards and the lower growth of business support services was considered.

The projections for 2017-2018 will be determined by the expansion of domestic spending due to the increased availability and the impact of the terms of trade (deterioration in 2017 and gain in 2018) and, to a lesser extent, by demand mainly in 2017.

By 2017, the deceleration of GDP growth includes the reversal of the internal constraints that fueled the financial intermediation activity during the past year and, in the case of agricultural activity and the growth of trading partners, during the past year. By 2018, domestic demand is expected to expand further through consumption and investment and, to a lesser extent, by increased exports.

Appendix A. Statistics tables

Table A.1

Developed economies: rates of growth of real GDP, 2016-2019

Annual percentage change				
	2016	2017 ^b	2018 ^c	2019 ^c
Developed economies	1.6	2.1	1.9	1.8
United States	1.5	2.2	2.1	2.1
Canada	1.5	3.0	2.3	2.2
Japan	1.0	1.7	1.2	1.0
Australia	2.4	2.9	3.1	2.3
New Zealand	3.6	2.5	2.9	2.6
European Union	1.9	1.9	1.8	1.7
EU-15	1.8	1.7	1.6	1.6
Austria	1.5	1.6	1.6	1.5
Belgium	1.2	1.5	1.6	1.6
Denmark	1.7	2.0	1.9	1.8
Finland	1.9	1.4	1.4	1.4
France	1.2	1.4	1.4	1.6
Germany	1.9	1.8	1.8	1.6
Greece	0.0	1.3	1.8	1.9
Ireland	5.1	2.2	2.8	3.1
Italy	0.9	1.3	1.1	1.0
Luxembourg	4.2	3.3	3.1	3.0
Netherlands	2.2	1.9	1.8	1.7
Portugal	1.4	1.6	1.4	1.2
Spain	3.2	2.7	2.4	2.1
Sweden	3.2	2.7	2.4	2.3
United Kingdom	1.8	1.7	1.4	1.4
EU-13	2.9	3.9	3.6	3.3
Bulgaria	3.4	3.4	3.8	4.8
Croatia	3.0	3.1	3.3	2.7
Cyprus	2.8	3.1	2.2	2.0
Czech Republic	2.6	4.4	2.8	2.4
Estonia	1.6	4.0	3.4	3.0
Hungary	2.0	3.6	3.2	3.2
Latvia	2.0	3.5	3.0	3.0
Lithuania	2.3	3.6	3.4	3.1
Malta	5.1	3.1	2.9	2.9
Poland	2.6	3.7	3.9	3.2
Romania	4.8	5.0	4.4	4.2
Slovakia	3.3	3.3	3.6	3.9
Slovenia	3.1	4.6	4.2	4.0
Other Europe	1.3	1.4	1.7	1.9

Iceland	7.2	5.1	3.4	3.1
Norway	1.1	1.4	1.8	2.0
Switzerland	1.3	1.2	1.7	1.7
Memorandum items:				
North America	1.5	2.3	2.1	2.1
Developed Asia and Pacific	1.4	1.9	1.6	1.3
Europe	1.9	1.9	1.8	1.8
Major developed economies	1.4	2.0	1.8	1.7
Euro area	1.8	1.7	1.7	1.6

Sources: UN/DESA, based on data of the United Nations Statistics Division and individual national sources.

Note: Regional aggregates calculated at 2010 prices and exchange rates.

a Average percentage change.

b Partly estimated.

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

Table A.2

Economies in transition: rates of growth of real GDP, 2016-2019

Annual percentage change				
	<i>2016</i>	<i>2017^b</i>	<i>2018^c</i>	<i>2019^c</i>
Economies in transition	0.4	2.2	2.3	2.4
<i>South-Eastern Europe</i>	2.9	2.8	3.2	3.3
Albania	3.5	3.8	3.8	3.7
Bosnia and Herzegovina	3.0	3.0	3.0	3.0
Montenegro	2.5	3.8	3.6	3.5
Serbia	2.8	2.5	3.0	3.3
The former Yugoslav Republic of Macedonia	2.4	2.1	3.0	3.3
<i>Commonwealth of Independent States and Georgia^d</i>	0.3	2.2	2.3	2.4
<i>Net fuel exporters</i>	0.2	2.2	2.2	2.2
Azerbaijan	-2.5	-1.0	1.6	2.1
Kazakhstan	0.9	4.0	3.0	3.0
Russian Federation	-0.2	1.8	1.9	1.9
Turkmenistan	6.2	6.0	4.8	5.0
Uzbekistan	8.1	7.8	6.4	6.1
<i>Net fuel importers</i>	1.2	2.4	2.8	3.5
Armenia	0.2	4.8	3.8	3.6
Belarus	-2.7	1.5	2.0	2.3
Georgia ^d	2.7	4.8	4.3	4.3
Kyrgyzstan	3.8	6.0	5.8	4.7
Republic of Moldova	4.1	3.5	3.8	3.8
Tajikistan	6.9	5.1	5.1	6.0

Ukraine ^e	2.2	1.8	2.5	3.6
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Sources: UN/DESA, based on data of the United Nations Statistics Division and individual national sources.

Note: Regional aggregates calculated at 2010 prices and exchange rates.

a Average percentage change.

b Partly estimated.

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

d Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

e Starting in 2010, data for the Ukraine excludes the temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol.

Table A.3

Developing economies: rates of growth of real GDP, 2016-2019

Annual percentage change				
	2016	2017 ^b	2018 ^c	2019 ^c
Developing countries^d	3.6	4.3	4.6	4.7
Africa	1.6	3.1	3.5	3.8
North Africa	3.0	4.9	4.2	4.1
Algeria	3.1	2.8	2.6	2.2
Egypt ^e	3.9	3.6	3.9	4.5
Libya	5.2	45.9	16.2	12.3
Mauritania	1.5	3.8	5.2	5.2
Morocco	1.1	4.2	4.1	4.0
Sudan ^e	4.0	4.3	4.1	4.1
Tunisia	1.0	2.8	3.2	3.3
East Africa	5.3	5.5	6.1	6.3
Burundi	-0.5	0.1	0.1	3.0
Comoros	2.2	3.0	3.4	3.8
Democratic Republic of the Congo	2.4	2.8	4.5	4.7
Djibouti	6.7	6.8	6.8	6.7
Eritrea	3.7	3.2	3.5	3.8
Ethiopia	8.0	7.1	7.3	7.5
Kenya	5.4	5.4	5.9	6.0
Madagascar	4.1	4.3	4.5	4.8
Rwanda	5.9	6.1	6.7	7.0
Somalia	2.6	2.5	3.3	3.9
Uganda	2.6	5.2	5.7	6.0
United Republic of Tanzania	6.6	6.5	6.8	6.9
Central Africa	1.3	2.5	3.2	3.4
Cameroon	5.3	5.0	5.1	5.1

Central African Republic	5.1	5.0	5.1	5.0
Chad	-3.0	0.6	3.2	3.8
Congo	2.0	3.9	3.4	2.9
Equatorial Guinea	-7.3	-4.9	-3.3	-2.4
Gabon	5.2	4.2	4.3	4.3
Sao Tome and Principe	4.6	5.0	5.4	5.7
West Africa	0.3	2.1	3.2	3.6
Benin	4.2	6.0	6.1	6.2
Burkina Faso	5.2	5.7	6.0	6.3
Cabo Verde	3.0	3.5	3.7	3.9
Côte D'Ivoire	9.5	8.0	7.7	7.3
Gambia (Islamic Republic of the)	2.1	3.4	3.9	4.0
Ghana	3.5	6.8	7.1	6.5
Guinea	4.9	4.5	4.7	5.2
Guinea Bissau	4.7	5.0	5.1	5.2
Liberia	2.4	4.0	4.8	5.4
Mali	5.3	5.2	5.1	5.1
Niger	4.5	4.7	5.0	5.3
Nigeria	-1.6	0.5	1.9	2.4
Senegal	6.5	6.3	6.6	6.8
Sierra Leone	4.7	5.1	5.1	5.7
Togo	5.3	4.9	5.1	5.4
Southern Africa	0.0	1.1	2.2	2.5
Angola	-3.7	0.6	2.2	2.5
Botswana	4.3	4.0	4.2	4.3
Lesotho	2.2	2.9	3.7	3.8
Malawi	2.9	3.5	4.4	5.1
Mauritius	3.6	3.5	3.7	3.9
Mozambique	3.3	4.1	4.7	5.8
Namibia	0.0	3.1	3.2	3.2
South Africa	0.3	0.6	1.8	2.1
Swaziland	-0.6	1.0	1.9	1.6
Zambia	3.0	3.8	4.4	4.6
Zimbabwe	0.5	0.0	2.9	2.3
Africa - net fuel exporters	1.0	3.0	3.3	3.5
Africa - net fuel importers	2.2	3.1	3.9	4.1
<i>East and South Asia</i>	5.8	5.9	5.8	5.8
East Asia	5.6	5.8	5.7	5.6
Brunei Darussalam	-2.5	1.7	2.2	2.6
Cambodia	7.2	7.0	7.1	7.0
China	6.7	6.8	6.5	6.3
Fiji	1.9	3.9	3.4	3.3
Hong Kong SAR ^f	2.0	3.4	2.8	3.0
Indonesia	5.0	5.2	5.3	5.4
Kiribati	1.9	2.0	1.8	1.9

Lao People's Democratic Republic	7.0	7.2	7.3	7.2
Malaysia	4.2	5.2	4.9	5.0
Mongolia	1.4	3.4	4.0	5.0
Myanmar ^e	6.6	7.3	7.2	7.4
Papua New Guinea	2.5	3.0	3.2	3.4
Philippines	6.9	6.7	6.9	6.9
Republic of Korea	2.8	2.7	2.8	2.8
Samoa	6.6	2.9	2.0	2.1
Singapore	2.0	2.5	2.6	2.6
Solomon Islands	3.2	3.0	2.8	3.2
Taiwan Province of China	1.5	2.2	2.4	2.5
Thailand	3.2	3.5	3.4	3.3
Timor-Leste	4.6	5.1	5.5	5.8
Vanuatu	4.0	4.2	3.8	3.5
Viet Nam	6.2	6.3	6.4	6.4
South Asia	6.3	6.3	6.6	6.8
Afghanistan ^e	2.3	3.1	4.3	5.6
Bangladesh ^e	7.1	7.2	7.3	7.4
Bhutan	6.4	6.6	7.0	7.1
India ^e	7.1	6.6	7.0	7.4
Iran (Islamic Republic of) ^e	4.5	5.5	5.7	5.5
Maldives	3.9	4.5	4.6	4.5
Nepal ^e	0.4	7.5	4.6	4.7
Pakistan ^e	4.7	5.3	5.5	5.1
Sri Lanka	4.4	4.7	4.8	4.9
East and South Asia - net fuel exporters	4.8	5.4	5.5	5.6
East and South Asia - net fuel importers	5.9	6.0	5.9	5.8
<i>Western Asia</i>	2.5	2.3	2.4	2.8
Western Asia - net fuel exporters	2.3	1.6	2.5	2.6
Bahrain	3.0	1.8	1.9	2.1
Iraq	3.0	3.8	3.7	3.1
Kuwait	1.3	2.5	2.5	2.9
Oman	2.4	2.3	2.7	2.1
Qatar	5.3	3.0	3.3	2.9
Saudi Arabia	1.7	0.4	1.8	2.1
United Arab Emirates	2.4	2.1	2.8	3.1
Yemen	-11.1	-7.5	-4.3	0.2
Western Asia -net fuel importers	2.9	3.1	2.3	3.0
Israel	4.0	2.9	3.1	3.2
Jordan	2.0	2.5	2.8	2.9
Lebanon	1.1	2.0	2.5	2.5
Syrian Arab Republic	-5.8	-3.9	-2.3	0.4
Turkey	2.9	3.4	2.1	3.0
<i>Latin America and the Caribbean</i>	-1.3	1.1	2.4	2.7
South America	-2.7	0.5	2.3	2.7

Argentina	-2.2	2.5	3.0	3.2
Bolivia (Plurinational State of)	4.3	4.0	3.7	3.2
Brazil	-3.6	0.7	2.3	2.6
Chile	1.6	1.3	2.4	2.8
Colombia	2.0	1.7	2.5	2.9
Ecuador	-1.5	0.8	1.5	2.4
Paraguay	4.0	4.1	3.8	3.9
Peru	3.9	2.7	3.4	3.5
Suriname	-10.5	-0.2	1.2	2.2
Uruguay	1.4	3.4	3.0	2.8
Venezuela (Bolivarian Republic of)	-9.5	-7.0	0.2	1.9
Mexico and Central America	2.5	2.4	2.6	2.6
Belize	-0.8	3.0	2.6	2.6
Costa Rica	4.3	3.9	4.0	4.0
El Salvador	2.4	2.3	2.4	3.0
Guatemala	3.1	3.4	3.5	3.5
Honduras	3.6	3.5	3.6	3.3
Mexico	2.3	2.2	2.4	2.4
Nicaragua ^c	4.7	4.5	4.5	5.1
Panama	4.9	5.2	4.8	3.8
Caribbean	1.9	2.5	2.7	2.7
Bahamas	0.5	0.9	1.1	1.3
Barbados	1.5	1.7	2.0	3.1
Cuba	-0.9	1.0	1.6	1.9
Dominican Republic	6.6	5.1	4.5	4.2
Guyana	3.6	3.9	4.1	3.7
Haiti ^e	1.6	1.5	2.0	2.6
Jamaica	1.5	1.8	2.1	2.5
Trinidad and Tobago	-1.8	0.5	1.1	1.2
Latin America and the Caribbean - net fuel exporters	-3.5	-2.0	1.5	2.4
Latin America and the Caribbean - net fuel importers	-0.9	1.6	2.5	2.7
Memorandum items:				
Least developed countries	3.6	4.6	5.3	5.6
Africa (excluding Libya)	1.6	2.6	3.4	3.6
North Africa (excluding Libya)	2.9	3.4	3.5	3.6
East Asia (excluding China)	3.6	3.9	4.0	4.0
South Asia (excluding India)	4.6	5.9	5.5	6.0
Western Asia (excluding Israel and Turkey)	2.1	1.6	2.4	2.5
Arab States ^g	2.4	2.5	2.9	3.0
Landlocked developing economies	3.0	4.3	4.3	4.4
Small island developing economies	2.0	2.5	2.7	2.7

Sources: UN/DESA, based on data of the United Nations Statistics Division and individual national sources.

Note: Regional aggregates calculated at 2010 prices and exchange rates.

a Average percentage change.

b Partly estimated.

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

d Covering countries that account for 98 per cent of the population of all developing countries.

e Fiscal year basis

f Special Administrative Region of China.

g Currently includes data for Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, and Yemen.

Table A.4

Developed economies: consumer price inflation, 2016-2019

Annual percentage change^a	<i>2016</i>	<i>2017^b</i>	<i>2018^c</i>	<i>2019^c</i>
Developed economies	0.7	1.5	1.9	2.1
United States	1.3	1.9	2.1	2.1
Canada	1.4	1.5	2.1	2.0
Japan	-0.1	0.3	1.4	1.8
Australia	1.3	1.7	2.3	2.0
New Zealand	0.6	1.8	2.0	2.5
European Union	0.3	1.6	1.7	2.1
<i>EU-15</i>	0.3	1.5	1.7	2.1
Austria	0.9	2.1	1.8	2.2
Belgium	1.8	2.1	2.2	2.3
Denmark	0.0	1.1	2.0	2.3
Finland	0.4	0.8	1.9	2.3
France	0.3	1.0	1.5	2.0
Germany	0.4	1.5	1.7	2.2
Greece	0.0	1.3	1.4	2.3
Ireland	-0.2	0.3	1.8	2.2
Italy	-0.1	1.2	0.9	1.4
Luxembourg	0.0	1.7	1.8	2.7
Netherlands	0.1	1.2	1.5	2.0
Portugal	0.6	1.3	1.9	2.2
Spain	-0.3	1.6	1.6	1.8
Sweden	1.1	1.6	2.0	2.2
United Kingdom	0.7	2.6	2.5	2.9
<i>EU-13</i>	-0.2	1.9	2.2	2.4
Bulgaria	-0.8	2.0	2.5	2.5
Croatia	-1.1	1.0	1.5	2.3
Cyprus	-1.4	0.8	1.6	2.0
Czech Republic	0.7	2.3	2.1	2.1
Estonia	0.8	3.1	2.8	2.6
Hungary	0.4	2.7	2.7	2.8

Latvia	0.1	2.9	2.3	2.7
Lithuania	0.9	3.2	2.6	2.8
Malta	0.6	1.7	2.9	2.8
Poland	-0.2	1.9	2.3	2.6
Romania	-1.5	0.8	1.6	2.0
Slovakia	-0.5	1.3	1.9	2.1
Slovenia	-0.2	2.0	2.5	2.1
Other Europe	1.3	1.2	1.4	1.4
Iceland	0.8	1.8	3.2	3.2
Norway	3.9	2.1	2.1	1.5
Switzerland	-0.5	0.4	0.8	1.3
Memorandum items:				
North America	1.3	1.9	2.1	2.1
Asia and Oceania	0.1	0.6	1.6	1.9
Europe	0.4	1.5	1.7	2.1
Major developed economies	0.7	1.5	1.9	2.1
Euro area	0.2	1.4	1.5	2.0

Sources: UN/DESA, based on OECD *Main Economic Indicators*; Eurostat; and individual national sources.

a Data for country groups are weighted averages, where weights for each year are based on 2010 GDP in United States dollars.

b Partly estimated.

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

Table A.5

Economies in transition: consumer price inflation, 2016-2019

Annual percentage change^a	2016	2017^b	2018^c	2019^c
Economies in transition	7.8	5.3	5.1	4.6
<i>South-Eastern Europe</i>	0.4	2.4	2.0	2.6
Albania	1.3	2.2	2.7	2.9
Bosnia and Herzegovina	-1.3	1.5	2.0	2.1
Montenegro	-0.3	2.0	2.1	2.2
Serbia	1.1	3.2	2.0	3.0
The former Yugoslav Republic of Macedonia	-0.2	1.0	1.5	1.9
<i>Commonwealth of Independent States and Georgia^d</i>	8.1	5.4	5.2	4.7
<i>Net fuel exporters</i>	7.6	4.6	4.7	4.3
Azerbaijan	4.2	12.0	5.9	7.5
Kazakhstan	14.5	7.6	6.1	5.7
Russian Federation	7.1	3.9	4.4	3.9
Turkmenistan	6.7	5.6	6.0	4.6
Uzbekistan	9.1	10.5	8.0	7.6
<i>Net fuel importers</i>	11.5	11.4	9.3	7.9

Armenia	-1.3	1.9	2.8	3.3
Belarus	11.8	7.1	6.8	6.5
Georgia ^d	2.1	5.8	3.0	3.0
Kyrgyzstan	0.4	4.0	3.0	3.0
Republic of Moldova	6.4	6.9	5.8	5.3
Tajikistan	6.0	7.5	5.4	4.7
Ukraine ^e	13.9	14.8	11.7	9.5

Source: UN/DESA, based on data of the Economic Commission for Europe.

a Data for country groups are weighted averages, where weights for each year are based on 2010 GDP in United States dollars.

b Partly estimated.

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

d Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

e Starting in 2010, data for the Ukraine excludes the temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol.

Table A.6

Developing economies: consumer price inflation, 2016-2019

Annual percentage change^a	<i>2016</i>	<i>2017^b</i>	<i>2018^c</i>	<i>2019^c</i>
Developing countries by region^d	5.2	4.5	4.4	4.2
<i>Africa</i>	11	13.2	9.7	8.2
North Africa	11.3	17.6	8.3	7.1
Algeria	6.4	5.4	3.8	3.2
Egypt	13.8	30.5	12.2	10.8
Libya	25.9	27	14	10
Mauritania	1.5	2.3	4.3	5.3
Morocco	1.6	0.7	2.8	2.7
Sudan	17.6	26.8	10	9.5
Tunisia	3.7	4.9	3.6	3.5
East Africa	6	6.9	5.9	5.5
Burundi	5.5	4.2	3.8	3.7
Comoros	2	2.2	3	2.7
Democratic Republic of the Congo	4.9	5	4.2	3.6
Djibouti	2.7	3.5	4	2.7
Eritrea	11.5	7.5	5.9	4.3
Ethiopia	7.3	8.1	8.2	8.3
Kenya	6.3	9	6	5
Madagascar	6.7	7	6.5	6.2
Rwanda	5.7	7	5.1	5.1
Somalia	2	2.2	0.8	1.3
Uganda	5.5	6.4	5.6	5.5
United Republic of Tanzania	5.2	5.3	5.4	5.3

Central Africa	2.3	2.6	2.9	2.8
Cameroon	0.9	2.3	2.3	2.2
Central African Republic	41.8	21.8	11.1	8
Chad	-2.8	-0.7	1.6	2.5
Congo	3.7	4.1	3.9	3.2
Equatorial Guinea	1.4	1.6	2.6	3
Gabon	2.1	2.5	2.8	2.7
Sao Tome and Principe	5.4	4.5	3.9	2.7
West Africa	13.2	14.3	15.4	12.8
Benin	-0.9	3.3	3.5	3
Burkina Faso	-0.2	1.6	2.2	2.2
Cabo Verde	-1.4	0.5	1.6	2.1
Côte D'Ivoire	0.7	0.7	4	4
Gambia (Islamic Republic of the)	7.2	4.6	4.1	3.9
Ghana	17.5	12.5	10.2	9.2
Guinea	8.1	8.8	7.6	6.4
Guinea Bissau	1.7	2.5	3.1	3
Liberia	8.8	6.2	5.3	4
Mali	-1.8	1.3	2.7	2.8
Niger	0.2	1.8	2	2.4
Nigeria	15.7	17.2	18.7	15.3
Senegal	0.8	1.8	2.7	2.6
Sierra Leone	10.9	9.2	8.6	7.5
Togo	0.9	2.3	2.2	2.1
Southern Africa	11.5	10.1	8.3	7.1
Angola	34.7	30.9	21.8	18.7
Botswana	3.8	3.7	3.9	4.3
Lesotho	6.6	6.4	6.2	5.4
Malawi	21.7	16.2	11.9	8.7
Mauritius	1	3.5	3.2	3.5
Mozambique	19.9	19.9	12	6.5
Namibia	6.7	6.8	5.6	5.1
South Africa	6.6	5.6	5.7	4.9
Swaziland	7.8	6.7	5.9	5.1
Zambia	17.9	14.4	9.6	7.8
Zimbabwe	-1.6	1	1.5	2.2
Africa net fuel exporters	14.9	19.1	13.1	11
Africa net fuel importers	6.2	5.8	5.4	4.8
East and South Asia	2.6	2.5	3.2	3.5
East Asia	1.9	1.9	2.6	2.9
Brunei Darussalam	-0.7	0.7	0.8	1.8
Cambodia	3	3.5	3.6	3.4
China	2	1.6	2.6	3
Fiji	3.9	4.1	2.8	2.5

Hong Kong SAR ^e	2.4	2.7	2.8	2.9
Indonesia	3.6	4	4.4	4.2
Kiribati	1.3	1.7	2	2.2
Lao People's Democratic Republic	1.5	1.2	2.4	2.8
Malaysia	2.1	3.8	2.4	2.8
Mongolia	0.6	4.3	5	5.7
Myanmar	7	6.8	7.5	6.6
Papua New Guinea	6.7	7.5	7.3	5.2
Philippines	1.8	3.1	3	2.8
Republic of Korea	1	1.9	2	2.2
Samoa	1.3	1.6	2.2	2.5
Singapore	-0.5	0.5	2.1	2.7
Solomon Islands	1.1	1.8	2.2	2.5
Taiwan Province of China	0.8	1	1.1	1.3
Thailand	0.2	0.6	1.8	2
Timor-Leste	-1.2	1.9	3.3	3.3
Vanuatu	0.9	2.9	3.2	3.2
Viet Nam	3.2	3.7	4.2	4.8
South Asia	5.5	5	5.6	5.8
Afghanistan	2.2	5.6	6.8	8.8
Bangladesh	5.5	5.4	5.5	5.6
Bhutan	4.4	4.5	5	4.8
India	4.9	3.5	4.5	4.8
Iran (Islamic Republic of)	8.6	10.5	9.5	9.5
Maldives	0.5	2.9	3.7	3.9
Nepal	8.8	8.5	8	7.8
Pakistan	3.8	4.2	5.5	5.5
Sri Lanka	4	6	5	4.9
East and South Asia net fuel exporters	5.2	6.1	6.1	6
East and South Asia net fuel importers	2.3	2.1	2.9	3.2
Western Asia	5.4	4.9	4.5	3.9
Western Asia net fuel exporters	3.6	1.7	2.5	2.7
Bahrain	2.8	1.3	2.5	3
Iraq	2.8	2	3	3.4
Kuwait	3.2	3.4	3.8	3.4
Oman	1.1	1.7	2.9	2.6
Qatar	2.9	2.4	2.6	3.2
Saudi Arabia	3.6	-0.3	1	1.4
United Arab Emirates	1.6	2.2	2.5	3.5
Yemen	35	22.5	18	9.3
Western Asia net fuel importers	7.5	8.6	7	5.4
Israel	-0.5	0.2	2.3	2.2
Jordan	-0.8	3.4	2.6	2.3

Lebanon	-0.8	3.2	2.2	2.3
Syrian Arab Republic	46.1	21.3	13.9	10.6
Turkey	7.7	10.7	8.3	6.3
Latin America and the Caribbean^d	9.3	6	5.1	4.7
South America^d	11.9	6.4	5.6	5.3
Argentina	40.5	24	15	12.6
Bolivia (Plurinational State of)	3.6	2.6	4.4	3.5
Brazil	8.7	4.1	4.6	4.6
Chile	3.8	2.4	2.8	3
Colombia	7.5	4.5	3.6	3.2
Ecuador	1.7	0.8	1.8	2.3
Paraguay	4.1	3	3.9	4.2
Peru	3.6	3.2	2.4	2.5
Suriname	55.5	35.2	22.1	12
Uruguay	9.6	6.4	7	6.3
Venezuela (Bolivarian Republic of)	400	450	350	81.1
Mexico and Central America	2.7	5.3	3.7	3.2
Belize	1.1	2	1.9	1.8
Costa Rica	0	1.6	3.4	3.9
El Salvador	0.6	0.6	1.6	1.8
Guatemala	4.4	4.3	4	3.8
Honduras	2.7	4.1	4.2	5.2
Mexico	2.8	5.7	3.8	3.2
Nicaragua	3.5	3.3	4.7	5
Panama	0.7	1.1	2.3	2.1
Caribbean	3.3	3.7	4	3.7
Bahamas	-0.3	1.1	1.4	1.7
Barbados	-0.7	1.2	1.5	1.8
Cuba	4.5	4.2	4	3.7
Dominican Republic	1.6	2.9	4	3.6
Guyana	0.7	2	2.3	1.9
Haiti	13.8	12	9.1	6
Jamaica	2.3	4.1	4	4.4
Trinidad and Tobago	3.1	3.1	3.9	4.2
Latin America and the Caribbean net fuel exporters	6.1	3.7	3.4	3.1
Latin America and the Caribbean net fuel importers	9.6	6.2	5.2	4.9
Memorandum items:				
Least developed countries	12	11.7	8.8	7.7
East Asia (excluding China)	1.7	2.4	2.6	2.8
South Asia (excluding India)	6.6	7.9	7.6	7.7
Western Asia (excluding Israel and Turkey)	5.2	2.6	2.9	3
Arab States ^f	7.2	7.4	4.6	4.3

Landlocked developing economies	8	7.1	5.8	5.7
Small island developing economies	1.8	2.4	3.2	3.3

Source: UN/DESA

a Data for country groups are weighted averages, where weights are based on GDP in 2010 prices and exchange rates.

b Partly estimated.

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

d Regional aggregates exclude Venezuela (Bolivarian Republic of), due to the potential distortionary impacts of very high inflation in a single country

e Special Administrative Region of China.

f Currently includes data for Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates and Yemen.

Table A.7

World trade:^a Changes in value and volume of exports and imports by major country group, 2016-2019

	2016	2017 ^b	2018 ^c	2019 ^c
Dollar value of exports				
World	-0.2	4.3	4.3	6.6
Developed economies	0.1	2.9	3.6	6.4
North America	-2.4	3.8	3.6	6.0
Europe	0.6	2.8	3.7	6.4
Developed Asia and Pacific	3.8	1.9	3.1	7.1
Economies in transition	-0.3	12.3	6.2	7.2
South-Eastern Europe	4.3	3.6	5.1	6.5
Commonwealth of Independent States and Georgia	-0.5	12.9	6.2	7.3
Developing economies	-0.7	5.5	5.0	6.9
Latin American and the Caribbean	0.5	7.3	6.1	6.6
Africa	-1.6	8.9	6.0	8.2
East Asia	-0.3	3.9	4.2	6.6
South Asia	3.0	7.8	6.1	6.5
Western Asia	-4.9	9.0	6.5	8.1
Dollar value of imports				
World	-1.0	4.7	4.5	6.9
Developed economies	-0.7	4.2	4.1	6.6
North America	-2.0	5.3	4.6	6.6
Europe	0.9	3.4	3.8	6.5
Developed Asia and Pacific	-6.7	6.0	4.9	6.8
Economies in transition	-3.2	4.6	5.1	4.8
South-Eastern Europe	4.6	5.0	5.8	7.8
Commonwealth of Independent States and Georgia	-3.9	4.6	5.1	4.5
Developing economies	-1.3	5.3	4.9	7.5
Latin American and the Caribbean	-19.3	3.2	4.2	5.8

Africa	-1.6	3.6	5.1	7.2
East Asia	0.8	5.7	4.6	7.5
South Asia	2.9	4.8	7.0	13.2
Western Asia	10.3	6.9	5.5	6.1
Volume of exports				
World	2.3	3.7	3.5	4.0
Developed economies	2.6	4.2	3.8	4.2
North America	0.0	2.4	2.8	3.7
Europe	3.3	4.7	3.9	4.2
Developed Asia and Pacific	3.6	4.5	5.2	4.8
Economies in transition	2.8	3.7	2.5	2.6
South-Eastern Europe	4.8	7.4	5.7	5.2
Commonwealth of Independent States and Georgia	2.7	3.5	2.4	2.5
Developing economies	1.8	2.9	3.2	3.9
Latin American and the Caribbean	1.1	2.2	2.1	4.1
Africa	3.1	3.4	3.1	4.4
East Asia	2.3	3.4	3.5	3.8
South Asia	0.6	1.2	2.3	3.8
Western Asia	0.4	2.5	3.4	4.2
Volume of imports				
World	2.2	3.6	3.4	3.8
Developed economies	2.9	3.6	3.2	3.8
North America	0.9	2.9	2.6	3.9
Europe	4.4	4.0	3.5	3.8
Developed Asia and Pacific	-0.9	3.3	3.1	3.3
Economies in transition	-2.3	9.5	5.2	4.1
South-Eastern Europe	6.5	6.3	5.9	4.6
Commonwealth of Independent States and Georgia	-3.1	9.8	5.2	4.1
Developing economies	1.6	3.3	3.5	3.8
Latin American and the Caribbean	-2.0	1.5	1.9	3.5
Africa	0.7	3.7	4.6	4.4
East Asia	2.6	3.9	3.7	3.7
South Asia	1.0	2.9	4.0	7.6
Western Asia	1.6	2.6	3.5	2.5

Source: UN/DESA

a Includes goods and non-factor services.

b Partly estimated.

c Baseline forecast, based in part on Project LINK.