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LINK Global Economic Outlook 2018-2020

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Acknowledgements

This report presents the short-term prospects for the global economy in 2018-2020, including major risks and policy challenges.

The report draws on the analysis of staff in the Global Economic Monitoring Branch (GEMB) of the Economic Analysis and Development Division (EAPD), United Nations Department of Economic and Social Affairs (DESA), and on inputs provided by the experts of Project LINK.

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Section 1: Prospects for the world economy

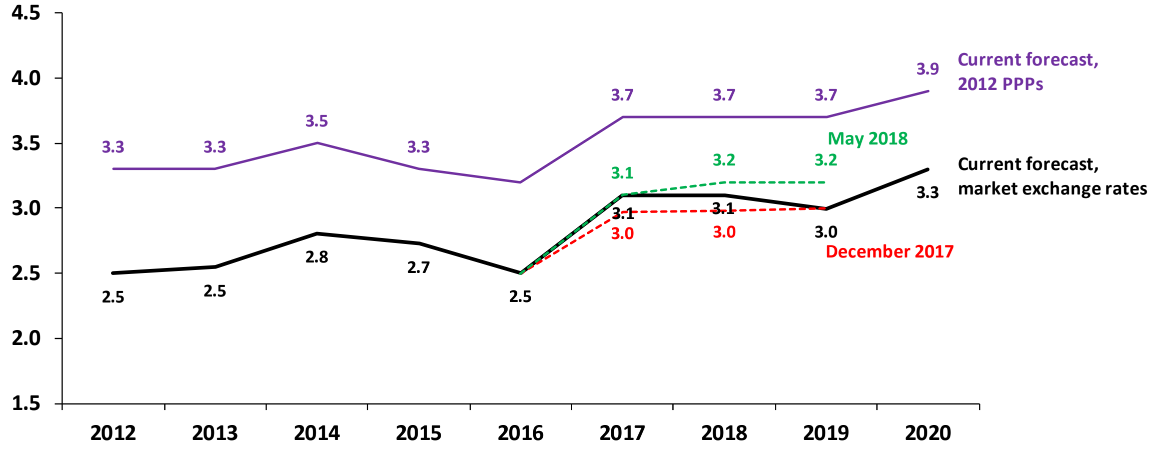
Global overview

Short-term prospects for the global economy remain steady, but risks continue to build

The global economy strengthened over the course of 2017, and the baseline forecast presented in this report points to steady, stable global growth of at least 3 per cent per annum for the next few years (figure 1.1). Growth rates in many developed economies have risen above their long-run potential, with limited upward impact on inflationary pressures to date. While these headline figures for the world economy remain largely favourable, risks to the economic outlook have continued to build. Global trade tensions continue to rise, and world trade growth has started to moderate, with risks of a more widespread slowdown. Uncertainty regarding monetary policy adjustment by major central banks, and the associated tightening of global financial conditions, constitutes a downside risk to investment prospects. In a number of countries, the undercurrent of geopolitical tensions has the potential to severely disrupt economic activity.

The transmission channels for these risks include increased volatility in financial markets, notably equity prices, interest rates, exchange rates and commodity prices, compounded by the potential for wider spillover and contagion effects. Many countries exhibit significant vulnerabilities that leave them exposed to such financial market disruptions. This derives from high and rising levels of debt, especially debt denominated in foreign currency; large macroeconomic imbalances; and excessive dependency on commodity markets. While many commodity-exporting countries are benefiting from higher energy and metal prices, the sharp drop in commodity markets in 2014-15 continues to weigh on fiscal and external balances of most commodity exporters, and has left a legacy of higher levels of debt.

Figure 1.1 World gross product growth



Source: UN/DESA.

Table 1. Growth of world output, 2016-2020

						Change from WESP 2018	
	2016	2017	2018[a]	2019[b]	2020[b]	2018	2019
World	2.5	3.1	3.1	3.0	3.3	0.1	0.0
Developed economies	1.6	2.3	2.2	2.0	2.1	0.2	0.1
United States of America	1.5	2.3	2.6	2.3	2.4	0.5	0.2
Japan	1.0	1.7	1.0	1.5	1.2	-0.2	0.5
European Union	2.0	2.4	2.2	2.0	2.1	0.1	0.1
EU-15	1.9	2.2	2.0	1.9	2.0	0.1	0.1
EU-13	3.1	4.6	4.1	3.6	3.4	0.5	0.1
Euro area	1.9	2.4	2.1	2.0	2.0	0.1	0.1
Other developed countries	1.9	2.4	2.4	2.1	2.4	0.0	-0.1
Economies in transition	0.4	2.1	2.1	2.1	2.8	-0.2	-0.3
South-Eastern Europe	3.0	2.3	3.6	3.7	3.6	0.4	0.4
Commonwealth of Independent States and Georgia	0.3	2.0	2.1	2.0	2.7	-0.2	-0.4
Russian Federation	-0.1	1.5	1.5	1.5	2.3	-0.4	-0.4
Developing economies	3.9	4.5	4.5	4.5	4.9	-0.1	-0.2
Africa	1.7	3.5	3.5	3.8	3.9	0.0	0.1
North Africa	3.0	5.7	4.4	4.7	4.1	0.3	0.6
East Africa	5.4	5.9	6.2	6.2	6.3	0.4	0.0
Central Africa	-0.5	-0.6	1.7	2.9	3.8	-0.4	0.4
West Africa	0.2	2.4	3.0	3.3	3.7	-0.3	-0.1
Southern Africa	0.7	1.5	1.8	2.3	2.7	-0.5	-0.2
East and South Asia	6.1	6.1	5.9	5.7	5.8	0.1	-0.2
East Asia	5.7	6.0	5.9	5.7	5.7	0.2	0.1
China	6.7	6.8	6.6	6.3	6.3	0.1	0.0
South Asia	7.9	6.2	5.9	6.0	6.3	-0.6	-1.0
India[c]	7.1	6.5	7.1	7.4	6.9	-0.1	0.0
Western Asia	3.3	2.3	2.8	2.1	2.8	0.5	-0.6
Latin America and the Caribbean	-1.3	1.0	1.4	2.1	3.1	-0.6	-0.4
South America	-2.9	0.5	1.0	2.0	3.1	-0.8	-0.4
Brazil	-3.5	1.0	1.6	2.5	3.0	-0.4	0.0
Mexico and Central America	3.1	2.3	2.4	2.2	3.1	-0.2	-0.4
Caribbean	-2.4	-0.3	1.7	2.2	2.7	-0.1	0.2
Least developed countries	4.2	4.7	5.3	5.5	5.6	0.1	0.1
Memorandum items							
World trade[d]	3.0	5.1	4.1	3.9	4.2	0.6	0.3
World output growth with PPP weights[e]	3.2	3.7	3.7	3.7	3.9	0	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, 2016-2020[a]

	2016	2017	2018[a]	2019[b]	2020[b]	Change from WESP 2018: 2018	Change from WESP 2018: 2019
World	2.6	2.8	2.8	2.9	2.8	0.0	0.1
Developed economies	0.7	1.7	1.9	2.1	2.1	0.0	0.0
United States of America	1.3	2.1	2.4	2.3	2.3	0.3	0.2
Japan	-0.1	0.5	0.9	1.4	1.5	-0.5	-0.4
European Union	0.3	1.7	1.8	2.1	2.1	0.0	0.0
EU-15	0.4	1.7	1.8	2.1	2.1	0.0	0.0
EU-13	-0.2	1.8	2.5	2.8	2.6	0.3	0.4
Euro area	0.2	1.5	1.7	2.0	2.0	0.1	0.0
Other developed countries	1.3	1.6	1.8	2.2	2.3	-0.2	0.3
Economies in transition	7.8	5.1	3.9	4.4	4.4	-1.2	-0.2
South-Eastern Europe	0.5	2.3	1.9	2.1	2.1	-0.1	-0.5
Commonwealth of Independent States and Georgia	8.1	5.2	4.0	4.5	4.4	-1.2	-0.2
Russian Federation	7.0	3.7	2.9	3.8	4.0	-1.5	-0.1
Developing economies	5.1	4.3	4.2	4.0	3.8	-0.1	-0.2
Africa	11.9	13.6	10.1	8.4	7.2	0.6	0.3
North Africa	11.6	18.3	10.7	7.8	5.9	2.4	0.7
East Africa	6.0	8.3	6.9	6.2	5.7	0.9	0.7
Central Africa	14.3	1.8	2.5	2.7	2.5	-0.4	-0.1
West Africa	13.4	13.9	13.5	12.1	10.2	-1.9	-0.7
Southern Africa	12.3	10.8	8.2	7.4	7.0	0.3	0.6
East and South Asia	2.6	2.4	2.7	2.8	2.9	-0.4	-0.6
East Asia	1.9	1.8	1.9	2.1	2.3	-0.6	-0.6
China	2.0	1.6	1.7	1.9	2.0	-0.8	-0.9
South Asia	5.6	5.1	6.3	5.7	5.7	0.5	-0.2
India[c]	4.9	3.3	5.5	4.6	4.7	1.0	-0.2
Western Asia	4.4	4.1	5.1	4.8	5.1	0.6	0.9
Latin America and the Caribbean	9.8	6.1	5.6	5.1	4.3	0.7	0.4
South America	12.5	6.4	6.0	5.3	4.3	0.6	0.1
Brazil	8.7	3.4	4.1	4.0	4.0	0.4	-0.1
Mexico and Central America	2.9	5.5	4.5	4.4	4.3	0.7	1.0
Caribbean	6.1	4.1	2.6	3.2	3.6	-2.1	-1.5
Least developed countries	11.3	12.3	11.5	8.4	7.1	3.1	1.0

a Figures exclude Venezuela (Bolivarian Republic of).
b Estimated.
c Forecast, based in part on Project LINK.

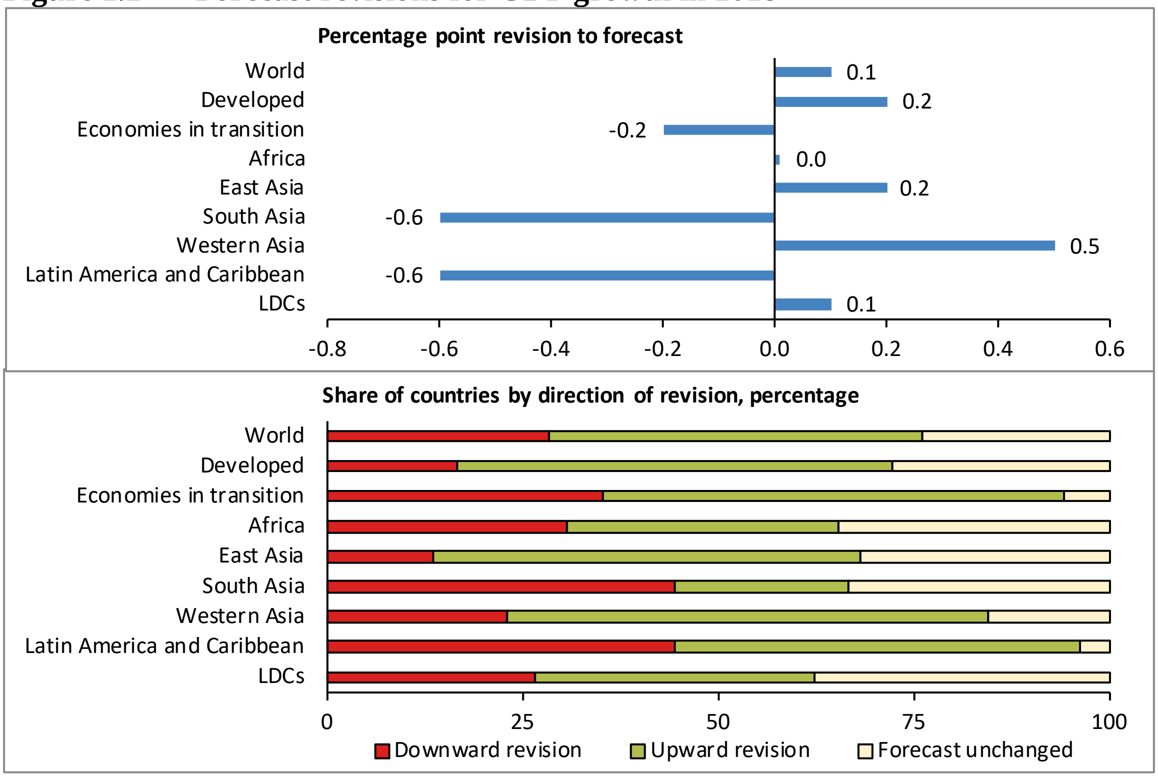
Rising risks heighten need to tackle development barriers

As emphasized in the *WESP 2018*, the improvement in macroeconomic conditions offers policymakers in many countries greater scope to address some of the deep-rooted barriers that hamper progress towards the SDGs. This includes, for example, accelerating the process of economic diversification; tackling high and/or rising levels of inequality; supporting essential investment; and strengthening institutions and governance to build a more transparent and dynamic business environment. The ongoing rise in economic risks makes this challenge all the more imperative, to build resilience in advance of any forthcoming economic shocks.

Upward revisions to forecasts for 2018 in half the world…

The global upturn over the past two years has been relatively broad based. For the first time since the global financial crisis, virtually all major economies are expanding at a solid pace. Forecasts for GDP growth in 2018 have been revised upward in nearly 50 per cent of countries since December 2017 (figure 1.2). This compares to downward revisions in about 25 per cent of countries.

Figure 1.2 Forecast revisions for GDP growth in 2018

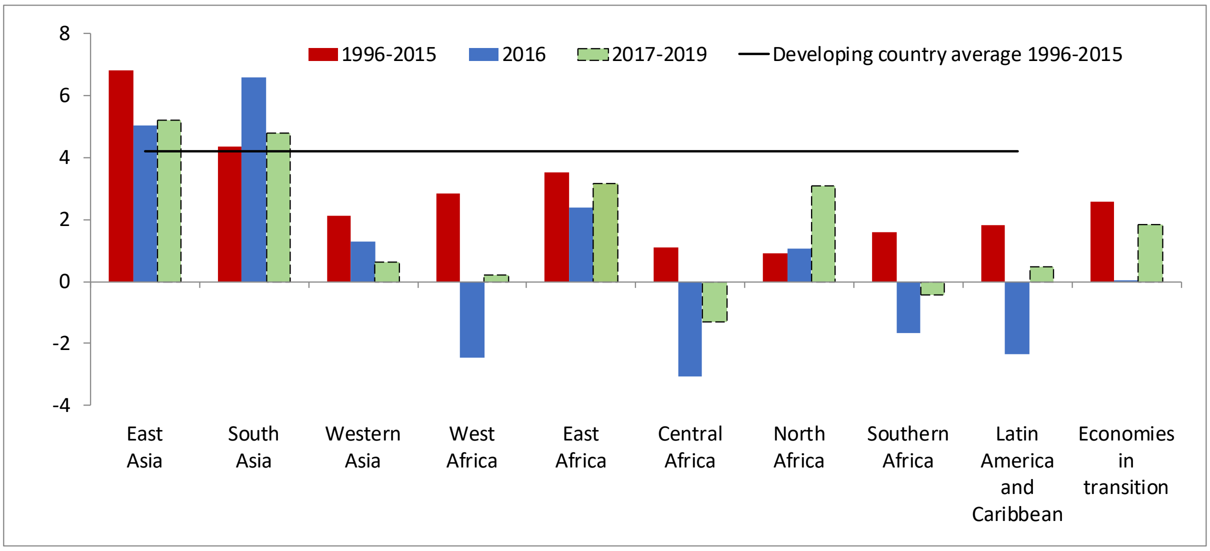


Source: Current forecasts compared to forecasts reported in WESP 2018.

… but some regions continue to lag behind

Despite a relatively broad-based upturn of economic activity, many countries in Central, West and Southern Africa, Western Asia and Latin America and the Caribbean are expected to see only modest growth in coming years, and stagnant per capita income. In per capita terms, output is expected to decline in Central and in Southern Africa this year. Some countries and regions are not sharing in the global cyclical upturn, in many cases reflecting structural impediments to development. This is explored further in Box 1.

Figure 1.3 Average annual GDP per capita growth by region



Source: UN/DESA

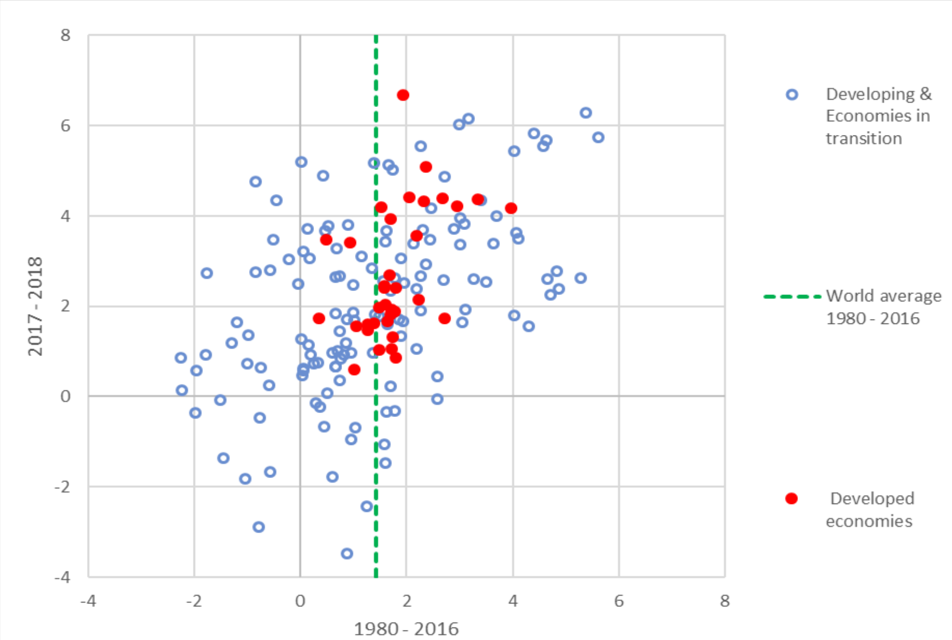
Forecasts for the economies in transition, South Asia and Latin America and the Caribbean have been revised downward for 2018. For the economies in transition, the downward revision predominantly reflects rising geopolitical tensions between the Russian Federation and several countries. In South Asia, the downward revision reflects the rapidly deteriorating economic outlook in the Islamic Republic of Iran, due to domestic weaknesses and the re-imposition of sanctions by the United States. The economic recovery in Latin America and the Caribbean has lost momentum in the first half of 2018 amid renewed weakness in some of the region's large economies, notably Argentina and Brazil.

GDP growth in the least developed countries (LDCs) is estimated to average 5.3 per cent in 2018 and 5.5 per cent in 2019, continuing a steady acceleration since 2015. Although most countries enjoy this trend, almost one third of the LDCs will grow by less in 2018 than in 2017. While some large LDCs are growing at an average annual rate of 7 per cent or more, including Bangladesh, Bhutan, Burkina Faso, Cambodia, Ethiopia, Laos, Myanmar and Senegal, many small island developing States (SIDS) and conflict-affected countries remain well below this Sustainable Development Goal (SDG) target. Per capita economic growth in the LDCs is steadily rising, although at levels insufficient to eradicate extreme poverty: longer-term growth projections point to nearly 30 per cent of the population in LDCs remaining in extreme poverty by 2030. Changing this outcome would require both faster growth in per capita incomes and a significant reduction in income inequality (see Box 2 below).

Box 1 Why do many developing countries continue to lag behind?

This positive overall picture for the world economy masks some worrisome long-term trends in the pattern of global growth. While average growth in developing and transition economies has strengthened since 2016, a significant number of countries have not been continuously participating in the global upturn and have fallen further behind. In 2016, GDP per capita declined in a staggering 49 countries,[1] the highest number since the 107 countries[2] in 2009. Thanks to the recent economic upturn, the number of countries with declining GDP per capita should recede to 24 in 2017–2018. These 24 countries are home to 550 million people—7 per cent of the global population. Raising the bar to a minimum of 1 per cent growth of GDP per capita, which is equivalent to the average of the five slowest-growing developed economies in 2018, a total of 48 developing and transition economies are below that threshold. This translates to 1.1 billion people or 15 per cent of the global population, or 1 in 7 people. Africa hosts 20 of these growth laggards, while the rest are mainly located in Western Asia and Latin America and the Caribbean.

Figure 1: GDP per capita growth 1980–2016 vs. 2017–2018



Source: UN/DESA.
Note: Figure illustrates data for 174 countries, comparing average GDP per capita growth over the period 1980–2016 to UN/DESA's estimates and projections for growth in 2017–2018.

In many cases, low projected growth for 2017–2018 is associated with a long-term legacy of weak economic performance. As illustrated in figure 1, estimates for GDP growth in 2017–2018 are positively correlated with historical average growth rates experienced between 1980

[1] All of these 49 countries are developing or transition economies.
[2] Of the 107 countries, 72 are developing or transition economies.

and 2016. Among the 48 growth laggards in 2017–2018, average GDP per capita growth over the period 1980–2016 in 38 countries was also below the global average of 1.4 per cent. This suggests the existence of growth barriers and traps for both low- and middle-income countries.[3]

What characterizes the 48 developing and transition countries that are facing weak growth in 2017-2018? First, 41 of these 48 countries are highly dependent on commodities, in particular oil.[4] In 27 of these countries, commodities constitute over 80 per cent of total merchandise exports. In several cases, such as Angola, the Bolivarian Republic of Venezuela, Chad, Equatorial Guinea, Nigeria, and Suriname, the commodity price collapse of 2014–16 revealed massive macroeconomic imbalances, triggering deep and prolonged crises. These economies are either still in recession or on a painfully slow recovery path.

Table 1

Income mobility of countries, 1980–2017

GDP per capita in 174 countries vs world average GDP per capita

		2017					
	% of world average	**<25%**	**25-50%**	**50-100%**	**100-200%**	**>200%**	**TOTAL**
1980	**<25%**	49*	8***	2	0	0	59
	25-50%	8**	17	7	1	0	33
	50-100%	0	5	14	7	2	28
	100-200%	0	0	4	15	2	21
	>200%	0	0	1	1	31	33

Source: UN/DESA.
Notes: Countries distributed according to GDP per capita relative to the world average in 1980 (rows) and 2017 (columns).
* **No change:** 49 countries with <25% of the 1980 world average had <25% of the 2017 world average
** **Moved down:** 8 countries with 25-50% of the 1980 world average had <25% of the 2017 world average
*** **Moved up:** 8 countries with <25% of the 1980 world average had 25-50% of the 2017 world average

Second, 17 of the 48 countries are classified as least developed countries (LDCs). This underscores the hurdles faced by countries with a very low development base and limited resources for crucial investment in areas such as infrastructure, healthcare and social programmes. As a result, low incomes often tend to be “sticky”.[5] The mobility matrix (table 1) shows the distribution of countries by GDP per capita relative to the world average in 1980 and 2017. Out of the 59 countries with a level of GDP per capita in 1980 of less than 25 per cent of the global average (row 1), 49 remained in the same category in 2017 (no change), whereas

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[3] Maria A. Arias and Yi Wen (2015), “Trapped: Few developing countries can climb the economic ladder or stay there”, *Regional Economist*, Federal Reserve Bank of St. Loui, October..

[4] According to UNCTAD, a country is classified as commodity-dependent if commodity exports (in value terms) account for more than 60 per cent of total merchandise exports. Applying a slightly lower threshold, the number of growth laggards sensitive to commodities is even higher.

[5] Debraj Ray (2010), Notes for a course in Development Economics, version 3.35.

8 reached 25–50 percent of the average, and two—China and Thailand—had progressed dramatically, to attain a level of GDP per capita of more than 50 per cent of the world average. By contrast, out of 33 countries with a level of GDP per capita in 1980 between 25 and 50 per cent of the world average (row 2), 8 countries saw their relative GDP per capita deteriorate below the 25 per cent threshold by 2017. The degree of stickiness during this period was even more pronounced for the highest income category (more than twice the world average GDP per capita), while mobility was much greater for the middle-income categories.

As another distinguishing factor, a significant number of growth laggards are mired in long-standing armed conflicts (Afghanistan, Somalia, Yemen), or face civil unrest and instability (Burundi, Bolivarian Republic of Venezuela, Democratic Republic of the Congo).[6] While geographical barriers and exposure to weather-related shocks act as a restraint on growth prospects in many cases, the experience of individual countries varies significantly. Among the 32 landlocked developing countries (LLDCs), only 7 are among the 48 countries identified as growth laggards above. However, all the commodity-dependent LLDCs recorded a sharp decline in GDP per capita growth following the collapse in global commodity prices in 2014–2015. Meanwhile, among the 34 small island developing States (SIDS), only 11 are identified among the 48 growth laggards.

While there is no single factor that explains why some countries continue to fall further behind, dependence on commodities—which generally implies a lack of developed non-commodity sectors in the economy—appears to be a common denominator among this heterogenous group. The experiences of China and several other East and South Asian economies, which managed to achieve high and relatively stable growth in GDP per capita over the past four decades, suggests that there are no ultimate traps to development. Nonetheless, conflict and a lack of economic diversification remain clear obstacles.

Level of global unemployment continues to rise

The upturn in the world economy has been associated with a slight improvement in global employment. According to the latest ILO estimates, the global unemployment rate stood at 5.5 per cent in 2017. High-income countries have seen notable gains in recent years, with the average unemployment rate declining from a post-financial crisis high of 8.2 per cent in 2010 to 5.6 per cent in 2017. In several large economies, including Germany, Japan and the United States, unemployment rates are currently at the lowest level in decades. This positive trend has, however, been largely offset by rising unemployment rates in upper-middle income countries such as Argentina, Brazil and South Africa. Worldwide, an estimated 190 million people are currently unemployed. While the global unemployment rate has remained largely stable in recent decades, the total number of unemployed people has increased by approximately 40 per cent since the early 1990s. This means that there is a consistently growing population that is

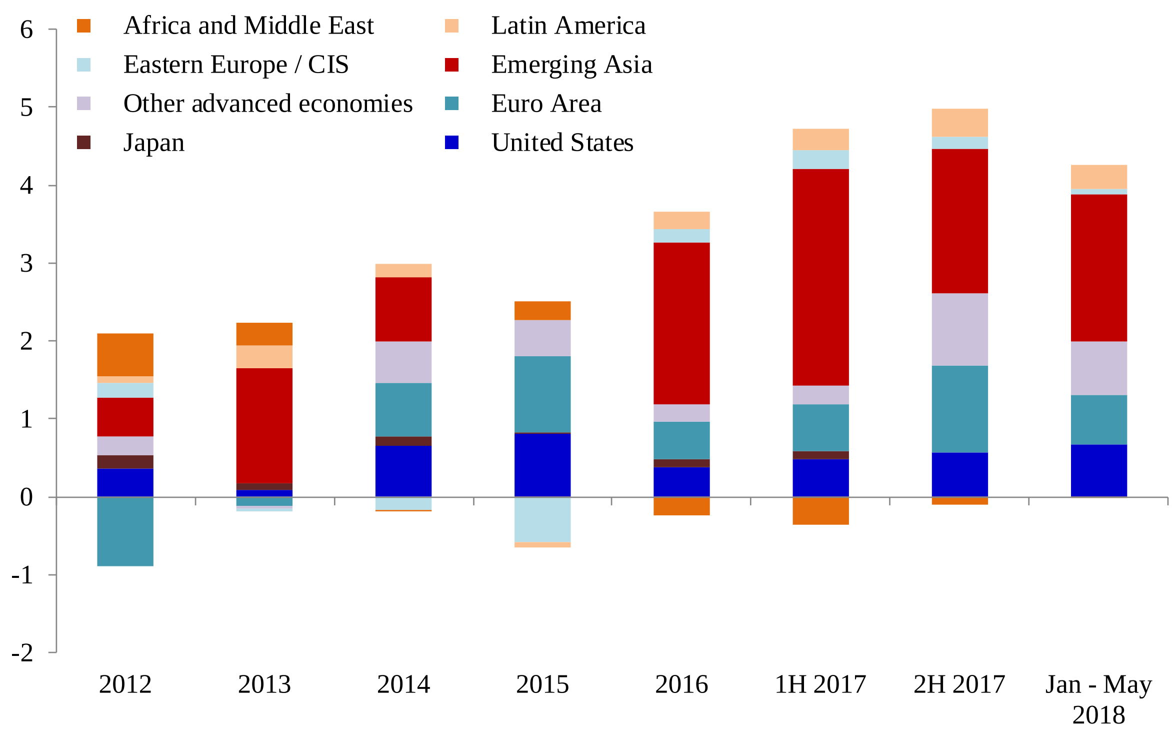
[6] See WESP Monthly Briefing August 2018.

not able to fully participate and benefit from the advances in the global economy. Moreover, since increasing the economic value creation at the bottom of the income distribution is among the few sustainable solutions for permanent inequality reduction (in contrast to transfers), lowering unemployment remains a main development challenge for policymakers.

World trade growth moderating

The growth of global trade remains above the average growth observed between 2012-2015, with all regions contributing positively to global import demand. However, after a robust performance in 2017, global trade has begun to moderate throughout 2018, amid escalating financial fragilities in some emerging economies, and rising trade tension among the world largest economies. In addition, downside risks have increased. There has been a visible escalation in trade tension among the largest world economies, most prominently between the United States and China. These recent developments have not yet had a large and significant impact on trade flows, but a further escalation could affect business and consumer confidence, asset prices and investment behaviour, with more severe consequences to the world economy. In the medium term, a subdued trade performance, together with the structurally low levels of global investment, will likely continue to constraint productivity growth.

Figure 1.4. Contribution to global merchandise import volume growth
Percentage points



Source: UN/DESA based on data from CPB Netherlands Bureau for Economic Policy Analysis. Regional groupings are not strictly comparable to those in the WESP, but are illustrative of regional tendencies.

Data for the first five months of 2018 shows that year-on-year growth in world merchandise trade slowed down to about 4.0 per cent (figure 1.4). However, leading indicators such as manufacturing output in developed countries point towards an even sharper deceleration in June and July. In particular, there has been a slowdown in export growth in the Euro Area, together with a noticeable decline in manufacturing output growth. In Asia, however, trade growth remains more resilient. For example, East Asia has benefited from strong global demand for electronics, boosting intraregional trade, given the region's deep integration into the industry's global production networks. Also, trade in services continues to expand at a faster pace than merchandise trade, encompassing an enormous potential in the medium term.

Against this backdrop, trade growth is expected to moderate to 4.1 per cent in 2018 and 3.9 per cent in 2019, after peaking at 5.1 per cent in 2017. In the medium term, the slower growth of global value chains, together with slow progress on trade liberalization and rising trade tensions, will likely continue to constraint global trade.

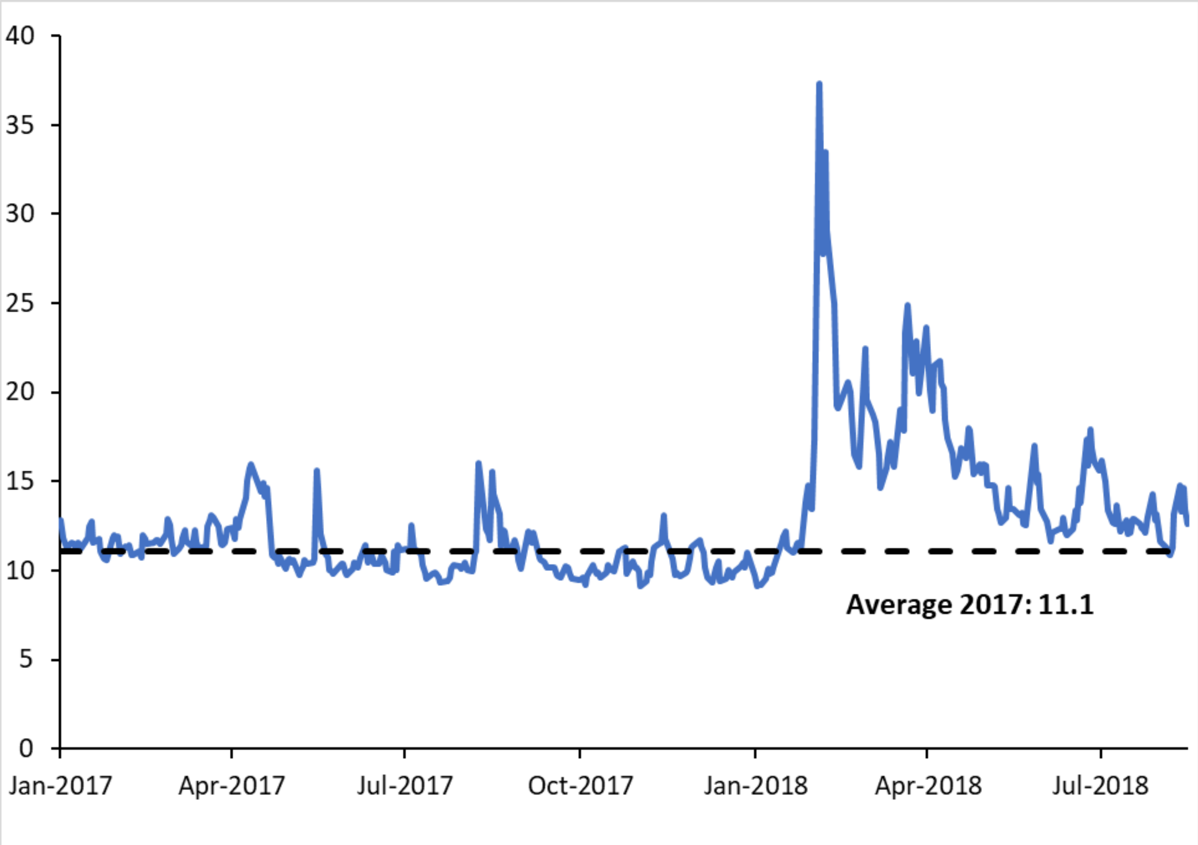
Terms of trade gains for energy and metal exporters

Steady global growth continues to support energy and metal prices. The price of Brent crude averaged $71 per barrel in the first six months of 2018 compared to $54 per barrel in 2017. Oil prices are expected to stay high for the rest of 2018 due the uncertainty surrounded by the economic sanctions on the Islamic Republic of Iran by the United States. Metal prices are generally projected to continue the moderate recovery, although certain markets, such as copper, have witnessed recent volatility driven by speculative trading. Metal prices also remain sensitive to shifts in demand from China, in particular. Agricultural prices are projected to remain stable, but are prone to localized spikes related to drought and conflict in parts of Western Asia and Africa.

Global financial conditions are tightening…

Following a protracted period of abundant global liquidity and low borrowing costs, global financial conditions have begun to tighten since the beginning of 2018. Amid strengthening growth and rising inflation in the United States, the Fed is embarking on a slightly faster pace of monetary policy normalization than earlier anticipated, albeit still on a gradual trajectory. The adjustment in market expectations to faster interest rate hikes by the Fed has contributed to periodic episodes of heightened market volatility throughout the year (figure 1.5). In addition, investor sentiments were also strongly affected by intensifying trade tensions between the major economies and rising geopolitical risks in several regions. Uncertainties surrounding these developments, together with elevated levels of debt in many economies, drove an increase in risk aversion, as reflected in a broad-based strengthening of the dollar, renewed volatility in commodity prices, as well as capital outflows from emerging markets.

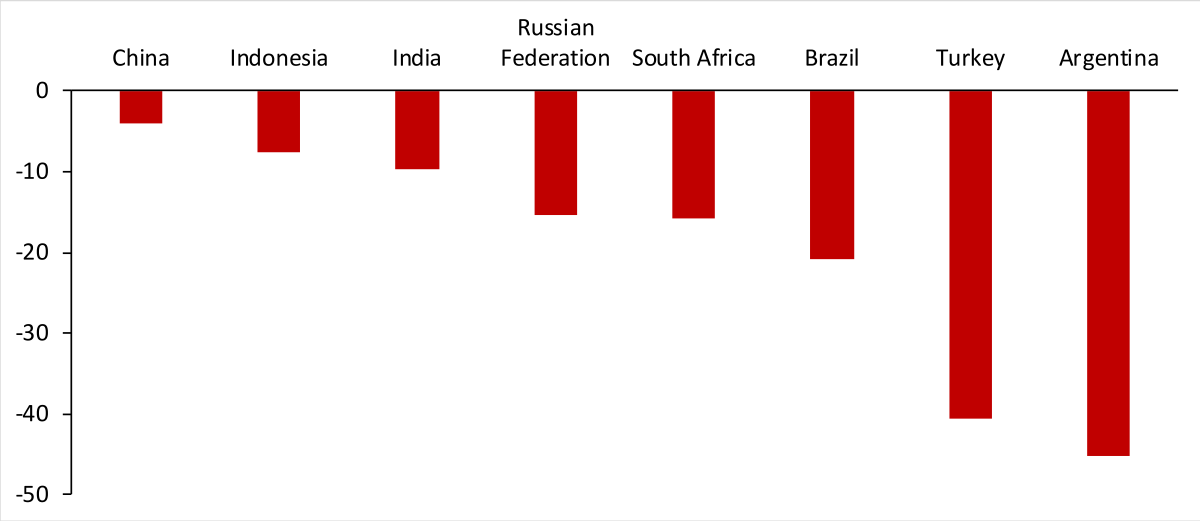
Figure 1.5 CBOE Equity Volatility Index (VIX)
Index



Source: CBOE Global Markets.

Against this backdrop, investors have begun to increasingly scrutinize the strength of fundamentals across emerging economies. Countries with significant vulnerabilities such as fragile growth, elevated debt, large current account and fiscal deficits, and high political uncertainty, have been more susceptible to large capital outflows and sharp currency depreciations. Notably, the currencies of Argentina and Turkey have weakened by more than 40 per cent compared to the start of the year, amid a spike in credit default swap and bond spreads in both these countries (figure 1.6). Several other large emerging economies, including Brazil, India, the Russian Federation, and South Africa also saw sizeable declines in equity markets and domestic currencies. In several of these economies, the rise in market turbulence prompted central banks to raise interest rates to stem outflows, contributing to tighter financing conditions.

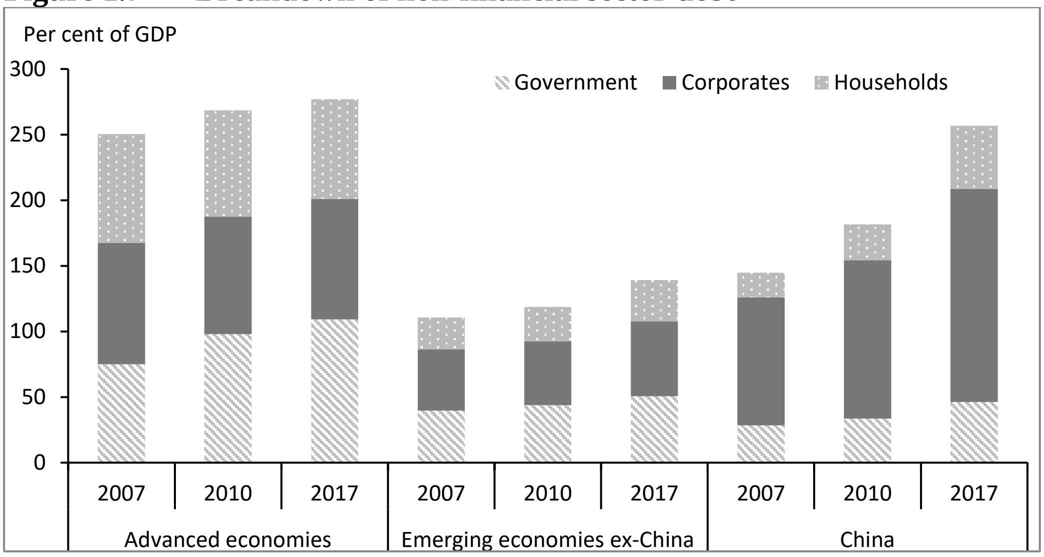
Figure 1.6 Year-to-date change selected currencies against the US dollar
Percentage



Source: CEIC.

In this environment, the downside risks to financial stability have increased, particularly for countries with elevated debt levels. In many developed economies, public and private debt levels remain well above levels seen before the financial crisis (figure 1.7). For the emerging economies, recent data from the Bank for International Settlements (BIS) showed that corporate debt of the non-financial sector continued to rise in 2017, amounting to 104.6 per cent of GDP. In particular, debt in the corporate sector in emerging economies surged, mainly in China but also in other economies such as Turkey, Brazil and Chile. In many of these economies, the prolonged period of excess of liquidity contributed to the "financialization" of the corporate sector to exploit carry trade opportunities and share buybacks, where a significant part of corporate debt was neither channeled to productive investments nor to high-productivity sectors.

Figure 1.7 Breakdown of non-financial sector debt



Source: BIS Total Credit Statistics.

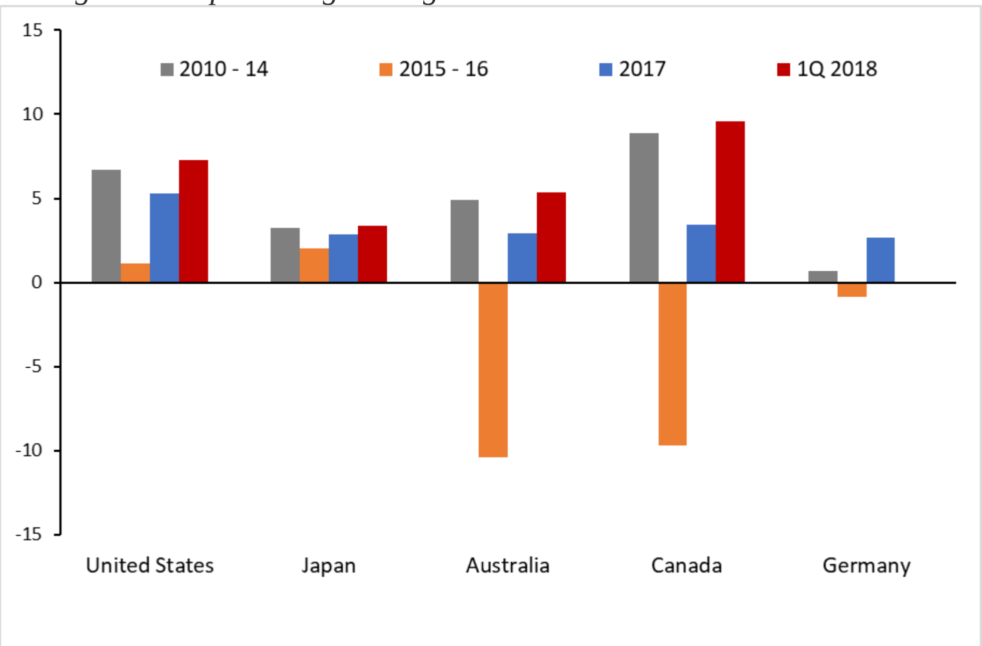
Amid rising borrowing costs and a stronger dollar, debt service ratios and interest burdens are likely to increase, potentially leading to higher risk of corporate distress while raising fiscal sustainability concerns in several countries. Furthermore, the current tightening of global financing conditions may result in a sharp deleveraging process, which will have large effects on real economic activity. This could entail potentially large effects on real economic activity through a sharp slowdown in investment or fiscal adjustment measures. In addition, there is risk of contagion across emerging economies in case of a full-blown financial or debt crisis, especially to countries exhibiting significant vulnerabilities.

Therefore, policymakers face the challenge of containing the further build-up of financial risks and enhancing resilience to the changing global financial conditions. In recent years, emerging economies have improved their macroeconomic management, being better prepared to utilize a wider, and more heterodox, policy toolkit in facing external shocks through the use of monetary, fiscal, exchange rate, macro-prudential policies and capital controls. However, it is also crucial to implement adequate policies to encourage an adequate level and composition of productive investments that can promote productivity growth and lift potential growth in the medium term.

…and investment performance may lose momentum

Investment conditions improved throughout 2017 and early 2018, contributing a large share of the acceleration in economic activity. In particular, private non-residential investment gained moderate momentum in developed countries. However, investment conditions have started to weaken, amid tightening financial conditions, rising trade tensions, and protracted policy uncertainties, and investment may begin to lose momentum over the coming quarters.

Figure 1.8 Private non-residential investment in selected developed economies
Average annual percentage change



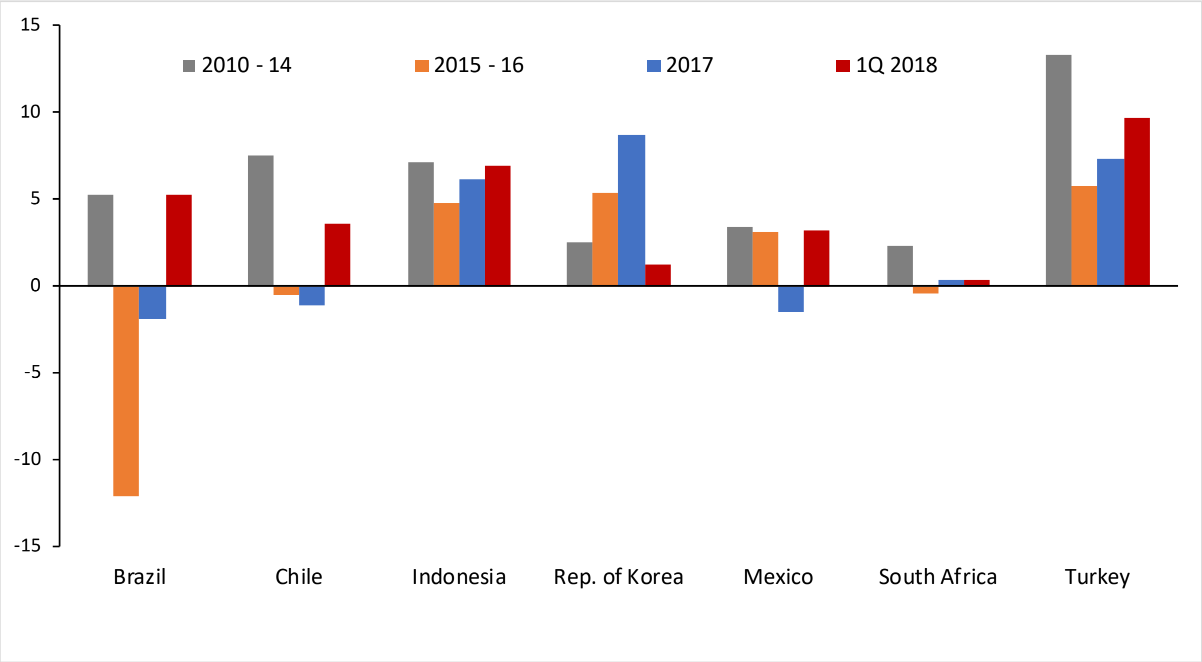
Note: 1Q 2018 refers to 1H 2018 data for United States and Japan.
Source: CEIC.

In the United States, business investment has strengthened in response to policy changes initiated in 2018, including a sharp decline in the corporate tax rate. In Europe, investment growth remains moderate, while construction activity is booming in several countries, supported by the continuing highly accommodative monetary policy by the ECB. But despite these recent trends, capital-output ratios remain below historical averages in many developed countries. Given the unprecedent monetary stimulus that has been implemented in major economies, the behavior of investment continues to be a major concern in the medium-term, and its current level seems well-below what is needed to achieve a more robust and sustained growth trajectory.

Meanwhile, the recent performance of investment in the developing economies has been heterogeneous (figure 1.9). Following a prolonged downturn, capital expenditure is recovering, in India and Brazil, while investment activity remains vigorous in Indonesia. In China, fixed investment remains moderately robust, but it is expected to continue its gradual slowdown. The moderate recovery in commodity prices should lead to improved investment prospects in the large commodity-dependent economies, including Chile, Nigeria and Peru. However, amid lower capital flows, elevated debt and more limited monetary policy space, investment conditions in many developing economies have weakened in recent periods. In the Russian Federation the tightening of economic sanctions is expected to weigh on investment activity in the near term, compounding the high business borrowing rates. For many economies in the African region, the level of investment appears to be insufficient to achieve a more sustained and inclusive growth.

Figure 1.9 Annual growth in gross fixed capital formation in selected developing economies

Percentage



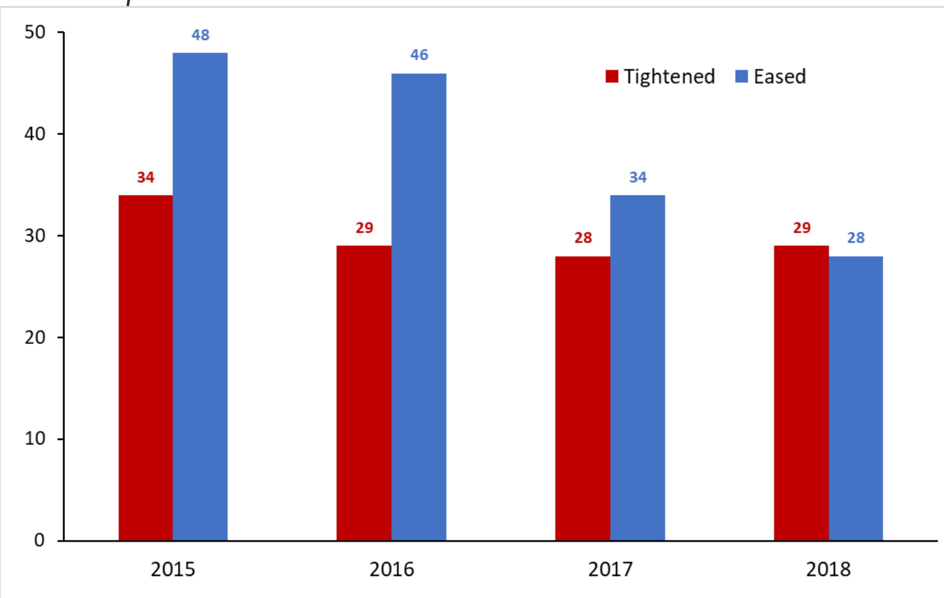
Note: 1Q 2018 refers to 1H 2018 data for Republic of Korea and Indonesia.
Source: CEIC.

Macroeconomic policy stance

Monetary policy

Global financial conditions are gradually tightening. In the developed economies, the monetary policy normalization process is expected to continue at a measured pace, as inflation rises closer to central bank targets. In response to strengthening growth and labour market conditions, however, the United States Federal Reserve (Fed) is embarking on a slightly faster pace of monetary adjustment than earlier expected. In June, the Fed raised the target range for the federal funds rate for the second time this year, to 1.75 – 2 per cent, and maintained its projections for two further rate hikes in 2018 and three rate hikes in 2019. Meanwhile, the European Central Bank (ECB) announced that it is likely to cease asset purchases at the end of 2018, but signalled that interest rates will remain at the current near-zero rates at least through September 2019. Despite high uncertainty surrounding the impact of Brexit, the Bank of England raised its key policy rate by 25 basis points to 0.75 per cent in August. By contrast, the Bank of Japan has reiterated its commitment to an ultra-loose monetary policy stance, reflecting a continued divergence in the magnitude and timing of monetary policy normalization between the developed countries.

Figure 1.10 Monetary policy stances
Number of central banks



Note: As of 20 August 2018. Sample covers 95 central banks across developed and developing economies, as well as the economies in transition.
Source: Central Bank News.

Among the developing economies and economies in transition, a growing number of countries tightened monetary policy or reduced the degree of monetary accommodation in 2018 (figure 1.10). Rising interest rates by the Fed alongside an increase in investor risk aversion have resulted in large capital outflows across the developing countries, particularly those deemed to have weak fundamentals. As risks to financial stability increased in these countries, central banks, including in Argentina, India, Indonesia and Mexico, raised interest rates in order to stem outflows and support domestic currencies. In the Philippines and Pakistan, central banks raised policy rates during the year to mitigate the risk of overheating and rising inflationary pressures. Meanwhile, in many parts of the African region, monetary policy remains tight, given weakened exchange rates and elevated inflation rates. The Western Asian economies with fixed exchange rates to the dollar are expected to raise policy rates in line with the Fed.

The recent escalation in trade tensions, however, is posing a considerable risk to the growth outlook of many developing countries, particularly those with high trade openness. In addition, the renewed decline in commodity prices may threaten the recovery in the commodity-dependent economies. In response to these developments, several central banks have loosened or maintained accommodative monetary policy stances. In June, China reduced the reserve requirement ratio for large banks in order to stimulate lending to the domestic economy. Meanwhile, a few large commodity exporters, including Angola, Brazil, Colombia, the Russian Federation, and Zambia further lowered interest rates in 2018 to support the nascent economic recovery.

In this environment, central banks are facing a difficult policy challenge in balancing between supporting short-term growth prospects while preserving financial stability. Furthermore, for several countries, prolonged accommodative monetary conditions have contributed to a build-up of financial risks, in particular high indebtedness, which is complicating the conduct of monetary policy. In this aspect, many countries are expected to continue utilizing macroprudential tools to mitigate financial vulnerabilities.

Fiscal Policy

Amid a synchronized upturn in economic activity, most developed country Governments have adopted a broadly neutral fiscal policy stance for 2018-19. The main exception is the United States, where the “Tax Cuts and Jobs Act of 2017” is providing a boost to short-term growth. These budget changes, however, are expected to significantly increase the fiscal deficit and public debt levels over the medium term. With the United States’ economy being close to full employment, its current fiscal policy stance is highly procyclical. Given the ongoing economic expansion, the effects of this stimulus on overall economic activity is expected to be limited. In addition, not only is such an increase in debt unusual outside a recession, it also reduces the ability of fiscal policy to respond to the next economic downturn.

Fiscal policy in the European Union, by contrast, is expected to have a neutral impact on growth in 2018-19, with many countries shifting away from austerity in recent years. Across the region, stronger GDP growth and significant labour market gains have driven cyclical improvements in budget balances, by boosting tax revenues and reducing welfare expenditures. While almost all European countries are projected to record a primary balance surplus in 2019, the region’s aggregate public debt-to-GDP ratio remains high and is expected to decline only slowly.

Among the developing and transition economies, the projected moderate recovery in commodity prices is expected to ease fiscal pressures, particularly for the commodity exporters including Brazil, the Russian Federation and Saudi Arabia. Nevertheless, fiscal deficits are expected to remain sizeable in most commodity-dependent economies, with public debt-to-GDP ratios expected to rise further in the outlook period.

Furthermore, as global financial conditions tighten, fiscal sustainability concerns are increasing in many countries. The extended period of low global interest rates has allowed governments to increase debt levels with only a limited impact on debt servicing costs. Some countries have even seen a decline in government interest burdens over the last decade despite rising debt levels, as maturing debt was reissued at a lower rate of interest. As the period of extremely loose global financial conditions draws to a close, debt servicing costs are likely to rise. In some cases, rising debt service obligations have already intensified fiscal consolidation pressures, undermining governments' capacities and political will to pursue development objectives. In 2017, interest payments alone exceeded 20 per cent of government revenue in several countries in Africa, Latin America and South Asia. Amid high external uncertainty, countries with large fiscal deficits, high levels of maturing debt, and a substantial amount of foreign-currency-denominated debt are particularly vulnerable to a potential abrupt tightening of global liquidity conditions.

In the current environment, policymakers in the developing economies need to assess policy options not only to effectively mitigate external risks, but also to restore fiscal positions to a more sustainable footing. For the commodity-dependent economies, the present fiscal challenges highlight the urgent need to accelerate economic diversification efforts and diversify sources of government revenue. Measures to improve fiscal management are also important in strengthening public finances and preserving confidence. These measures could include improving the allocation of expenditure, expanding the tax base, and ensuring that public debt is channelled towards productive investment.

Risks to the outlook

There are a number of significant downside risks to the baseline scenario of a robust growth momentum in the near term presented in the current LINK GEO report. If some of those risks, or a confluence of them, materialize, that may push the global economy away from the forecast trajectory - not only the observed upswing in economic activity may be reversed, but a significant damage may be caused to the longer-term development prospects, which would become subject to considerable uncertainty. Concurrently, many development goals and targets, including those stipulated in the Agenda 2030, would be much harder to accomplish. On the economic side, an escalation of trade tensions and an abrupt tightening of global financial conditions pose the main risks. On the geopolitical side, the ongoing tensions in several regions, including the Korean Peninsula and the Middle East, present threats to the global economic outlook.

Escalation of trade policy disputes and dismantling of the multilateral trading system

Since early 2018, trade tensions among many of the world's largest economies have been escalating. The earlier protectionist rhetoric, primarily in the US, has been transformed into concrete actions. Since March 2018, the US government imposes tariffs on imports of steel and aluminum. This action has triggered several retaliatory responses from a number of major US trading partners. Furthermore, the US, in multiple rounds, has imposed a 25 per cent tariff on over 1,000 Chinese products, with a total value of $50 billion. China responded to this with an equivalent set of tariffs. The US administration announced plans to impose tariffs on another $200 billion worth of Chinese goods by September 6. It also expressed intention to increase tariffs on cars imported from the EU; currently this action is put on hold pending outcome of the upcoming talks on removing bilateral trade barriers between the US and the EU. If implemented, higher car tariffs would fuel further trade and political conflicts. In several other cases, quota restrictions were imposed in the US on imports of certain goods. Moreover, the US government refrained from expressing commitment to adhere to a rule-based multilateral trading system during the June 2018 G7 Summit in Canada. Looking forward, even if the policy of introducing or raising tariffs is abandoned for whatever reason, there is a high likelihood that the US will still enforce a wide range of additional non-tariff barriers to imports.

In addition to those measures taken outside the auspices of the World Trade Organization (WTO), an increasing number of disputes have been raised within the WTO in recent months, including cases involving Australia, Canada, China, India, Pakistan, the Republic of Korea, the Russian Federation, Ukraine, the United Arab Emirates, the United States and Viet Nam. Apart from reducing bilateral trade volumes, those measures will affect the global production chains due to their international fragmentation, leading to cost and price adjustments that could severely disrupt trade flows of other countries.

Apart from the bilateral trade disputes, major regional trade agreements such as NAFTA are undergoing protracted renegotiations. As a consequence of those developments, many countries are working towards building new regional trade arrangements, in particular, in Africa and in Asia, and are searching for alternative trading partners. The established pattern of global trade flows may undergo significant changes in the medium term, and such a shift towards a more fragmented international trade landscape could damage the prospects of the global economy.

The increase in protectionist measures, combined with the shift towards regional trade agreements and lack of progress in liberalizing trade in services, threatens to reverse progress towards a universal multilateral trading system and undermine the basic objectives and principles of the WTO.

As a result, many developing countries may face serious setbacks in expanding their export capacity and production base, reduced investment, and deterred progress towards the SDGs. A sharp escalation in trade barriers and disputes may lead to a drastic slowdown in trade and investment, and derail productivity gains, particularly given the deep linkages between trade, investment and productivity growth. The role of the WTO itself would weaken significantly, including the possibility of dismantling or rendering practically inept the WTO dispute resolution mechanism.

An abrupt tightening of global financial conditions

The prolonged period of ultra-low interest rates in developed economies and abundant global liquidity has resulted in a significant rise in financial asset valuations (stock prices, in particular, have been persistently increasing from their 2009 record lows) and a substantial increase in debt levels across regions.[7] More importantly, in many of these economies, the rise in debt has been mainly channeled towards real estate and financial assets rather than productive capital. Easy access to foreign funds allowed emerging economies (for example, Turkey and several Latin American countries) to run sizeable current account deficits in the post-crisis period. As a result, external financing needs - comprising short-term debt, amortization of medium and long-term debt and the current account deficit - have risen markedly in several cases.

As global financing conditions now tighten, concerns over potential negative consequences have come to the forefront. While monetary policy adjustment in major developed economies has been progressing gradually, there is uncertainty regarding the pace and impact going forward. In the US, the combination of a labour market that is close to full employment and a strongly pro-cyclical fiscal policy stance, could intensify inflationary pressures, requiring a more rapid withdrawal of monetary stimulus. In addition, against the backdrop of high uncertainty in the global policy environment, investor sentiment could shift abruptly, for example due to an escalation of trade conflicts, concerns over China's growth prospects or an intensification of geopolitical tensions. This could trigger severe asset price adjustments and a disorderly deleveraging process, potentially sparking banking sector stress and corporate bankruptcies.

The period of heightened financial market volatility in early 2018 exposed the vulnerabilities that have built up in many emerging economies. Amid increased risk aversion, emerging economies appear susceptible to a disorderly tightening of global liquidity conditions and sudden capital withdrawal. Most at risk are economies with high external financing needs and significant macroeconomic imbalances, such as large current account and fiscal deficits and high inflation. The recent financial turmoil in Argentina and Turkey has raised concerns over contagion to other emerging economies.

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[7] In many developed economies, public and private debt levels remain at historically high levels. In emerging economies, the average debt-to-GDP ratio (all credit to non-financial sector) increased from 139 per cent in 2010 to nearly 200 per cent in 2017. Non-financial sector debt in China rose from 180 to over 250 per cent of GDP. Debt levels in Latin America also increased visibly, for example in Brazil (from 125 to 145 per cent of GDP) and Mexico (from 56 to 77 per cent of GDP).

Section II: Key policy challenges

Unilateral trade measures challenge the multilateral trading system

There has been a significant increase in trade tensions among the world's largest economies, highlighting the risk of a significant negative fallout for global trade. Following a series of investigations, including those related to national security and the acts, policies, and practices of the Government of China related to technology transfer, intellectual property, and innovation, the United States proposed a series of measures aimed at protecting domestic industries from perceived security concerns or imbalances in market access. As a result, by early 2018 the United States imposed new import tariffs on a range of products, including steel and aluminum for national security reasons, and washing machines and solar panel cells as safeguard measures. In response to these measures, major trading partners have put forward plans for retaliatory measures, and at the same time all parties are seeking solutions to the disputes at the WTO. Since 2017 the United States Government also initiated a sweeping review of existing trade deals. There are ongoing negotiations between the United States, Canada and Mexico over the North American Free Trade Agreement (NAFTA). In addition, the United States and the European Union have reached a preliminary agreement on their willingness to resolve their differences on trade. While a more permanent solution is still pending, one of the proposals envisages a free-trade agreement that would be a modified version of earlier proposals that were shelved due to political and public resistance.

The trade dispute between the United States and China has gained momentum in recent months. The United States imposed a 25 per cent tariff on imports of more than 1,000 products from China, worth approximately $50 billion. Immediately, the Chinese Government imposed similar tariffs on United States products. Furthermore, both countries have threatened each other to impose additional import tariffs, with the United States identifying $200 billion worth of Chinese imports. A full-blown trade war between the two largest world economies could encompass severe economic consequences for the global economy. While the trade policy environment among large economies remains in flux, it nonetheless already constitutes a clear move away from unambiguous support for the multilateral trading system.

The WTO agreements include specific provisions to allow differential treatment for developing and developed economies in trade agreements, in order to support the development dimension of the trading system. The agreements also include provisions for countries to charge additional import duties to compensate for damage caused by "unfair" trading practices, a clause used to justify some of the recently-proposed measures. Nonetheless, a fundamental principle of the WTO is moving towards lower trade barriers between countries, as a means of encouraging trade.

The use of tariffs and trade barriers is often seen as a way to protect domestic industries and employment against external competition. In many circumstances, however, these moves can prove self-defeating. Assessing the macroeconomic impact of a single tariff requires an understanding of both the direct impact on the targeted sector and the indirect impacts elsewhere in the economy. For instance, a tariff on steel may preserve or create jobs within the steelmaking industry, as domestic firms are better able to compete with lower-cost producers abroad. This depends on the ability of domestic suppliers to expand production. The tariff also has an indirect impact on downstream steel-consuming industries and consumers more broadly. For the steel-consuming industries, the tariff raises production costs and may squeeze firm profits, potentially leading to job losses or lower wages in these industries. In addition, higher steel prices feed to the broader macroeconomy through higher consumer prices, dampening overall household demand.

The net impact of any tariff on the macroeconomy will depend on the relative magnitudes of these channels, as well as on spillovers and reactions in the rest of the world. Introducing a tariff in a large country would be expected to put downward pressure on international prices of the targeted product. For example, a tariff on steel in the United States may reduce demand for imported steel, and further aggravate the supply glut of steel in global markets. In practice, the global export price of steel has indeed come down by 5 per cent since the steel tariffs were announced, while the price of steel imported into the United States has risen by about 10 per cent.

Trade restrictive measures can also disrupt the intricate global and regional production networks that have evolved under existing policy, with potentially large impacts on many smaller developing countries integrated into those supply chains. In addition, tariffs may provoke retaliatory measures by other countries, which may constrain exports and increase uncertainty, with a negative impact on business confidence and investment. On the other hand, in some cases, trade diversion may benefit countries exempt from the new barriers. For example, a tariff on soybean exports from the United States to China could increase Chinese demand for soybeans from other countries, such as Brazil.

A further increase in trade barriers and retaliatory measures would mark a step back from the global efforts to revitalize a global partnership for sustainable development through progress towards building a universal, rules-based, open, non-discriminatory and equitable multilateral trading system, undermining some of the basic objectives of the WTO.

High inequality constrains inclusive growth

The recent improvement in global macroeconomic conditions should offer an opportunity to raise living standards on a broad scale. However, stronger economic growth in itself is not sufficient to ensure that these gains are widely shared. As recognized in SDG 10, reduced inequality – both within and among countries – is a key factor for inclusive growth and shared prosperity. Moreover, many other SDG goals and targets related to poverty, health or education are directly or indirectly linked to the issue of inequality (see Box 2 for further discussion on poverty).

The relationship between income inequality and growth at the country level is complex, with country-specific factors such as the size of the economy, the level of development and the institutional and political environment playing a major role. Empirical evidence has increasingly suggested that high levels of inequality hinder economic growth.[8,9] High income inequality is often associated with social tensions and political instability, which in turn can hamper growth-supporting investment. Inequality can also hinder human capital accumulation and social mobility, affecting both the short-term and medium-term economic prospects of a country. High levels of inequality are also often linked to disproportionate political influence by certain interest groups, resulting in market concentration and lack of competition, which in turn hampers productivity growth.

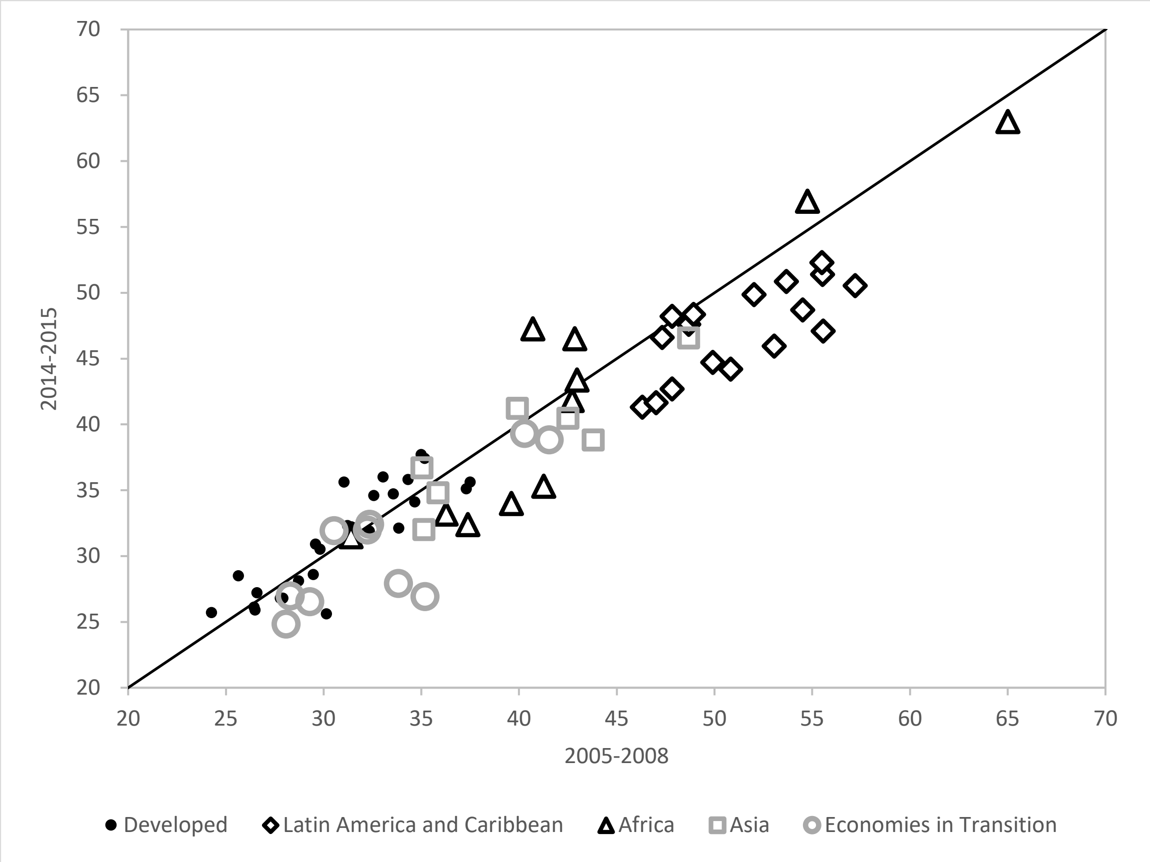
As widely documented, most developed and developing countries saw income inequality rise significantly throughout the 1980s and 1990s. In many cases, levels of inequality - measured for example by Gini coefficients or the income shares of the top 10 per cent - reached post-World War II highs. The increase in overall inequality can be attributed to both declining labour shares of income and rising wage inequality. Numerous factors contributed to these trends. Chief among them were moves towards privatization, liberalization and deregulation; skill-biased technological change; shifts towards less progressive tax systems; weakening of labour market institutions; and a decline in public capital. Widening income inequality – while not universal – prevailed across all major regions during this period.

The picture has become more mixed since the early 2000s, including the period since the global financial crisis of 2008. Inequality continued to rise in most developed economies, especially crisis-affected European countries that saw sharp increases in unemployment and severe austerity measures. In most developing countries, especially in Latin America and parts of Africa, inequality remains at extraordinarily high levels, holding back productivity and growth. However, recent data have shown some modest improvement in inequality trends. As illustrated in figure 2.1, in most developing and transition economies for which recent data are available, Gini coefficients were lower in 2014-15 than in 2005-08. Similarly, the income share held by the highest 10 per cent declined slightly in most of these economies during this period, while in two out of three countries, mean incomes grew faster for the bottom 40 per cent than for the total population from 2008 to 2013.[10] In part, these gains may be temporary cyclical reactions to the global financial crisis (for example a temporary decline in the capital income share).[11] However, in some cases the positive trends reflect more structural longer-term changes. Latin America and the Caribbean, the region with the most uneven distribution of income, has made significant progress in reducing inequality in the past 15-20 years. Four factors contributed to the observed reduction in Gini coefficients across the region: first, a relative increase of the labour income of poor workers, partly as a result of higher minimum wages; second, an increase in average schooling of adults; third, an increase in government

[8] Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides (2014). Redistribution, Inequality and Growth. IMF Staff Discussion Note.
[9] This contrasts with some theoretical literature of the 20th century, which viewed higher inequality as an incentive to increase work and education efforts or as a factor encouraging higher rates of domestic savings.
[10] World Bank (2016), Poverty and Shared Prosperity, Taking on Inequality.
[11] IMF, World Economic Outlook, April 2017.

transfers to households in the form of targeted social programs; and fourth, a demographic dividend, with an increase in the share of working-age people. [12]

Figure 2.1 Gini coefficient, 2005-2008 and 2014-2015



Source: World Bank and \CEIC Data.

Note: Figure includes a subset of countries in each region for which data are available. A higher value of the Gini coefficient indicates a higher level of inequality.

In East Asia, the last decade has also seen more policy efforts geared towards addressing income inequality. Such measures include the implementation of large infrastructure plans, which generated jobs for low-skilled and migrant workers; the review of minimum wage policies; the introduction of cash handouts for the poor; and the strengthening of pension systems. In the former centrally planned economies of Central and Eastern Europe and the CIS, inequality also declined in the aftermath of the global financial crisis, after increasing sharply during the economic transition of the 1990s and early 2000s.

Levels of inequality remain high in many developing countries. However, recent positive experiences illustrate the role institutions and policies play in promoting a more equitable

12 Inter-American Development Bank (2016). Social Pulse in Latin America and the Caribbean 2016: Realities & Perspectives https://publications.iadb.org/handle/11319/7863

distribution of the gains from growth. The current benign global economic environment presents an opportunity to accelerate progress in this direction.

Box 2 Scenarios for poverty reduction

Accelerating progress towards greater income equality is essential for achieving many of the SDG targets, including the eradication of poverty. Despite enormous progress over the last two decades, globally, an estimated 782 million people continue to live below the extreme poverty line of $1.90 per day. Baseline estimates, based on an extension of the current short-term forecast baseline using the World Economic Forecasting Model,[13] suggest that 685 million people may remain in extreme poverty by 2030.

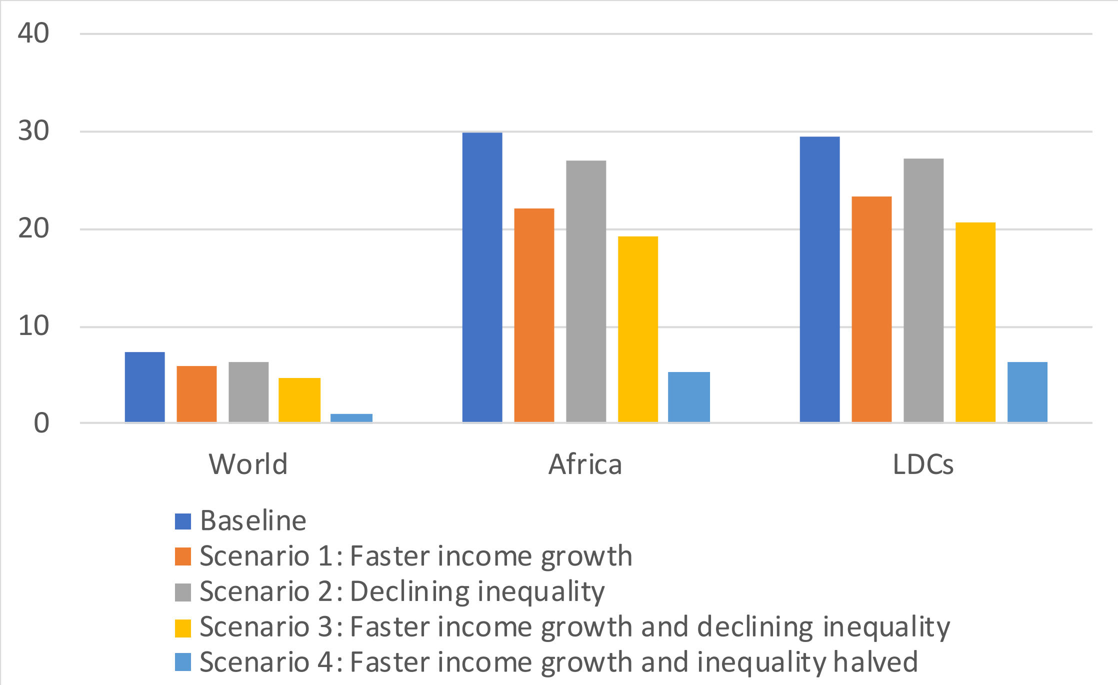
The share of a population living in extreme poverty depends on two key factors: the average level of income in the economy and the degree of income inequality. Even in a country where the average level of income is high relative the extreme poverty threshold of $1.90 per day, poverty rates may still be elevated if income is very unequally distributed across individuals. Reducing poverty can be achieved either by lifting average incomes or by reducing income inequality.

The baseline projections for poverty headcount ratios illustrated in figure 1 are based on a set of simplifying technical assumptions. The first assumption draws on the methodology employed by the World Bank to estimate poverty rates in non-survey years: the mean of the income distribution is assumed to evolve in line with aggregate consumption per capita, adjusting for the historical discrepancy between the two. Second, the distribution of income – or the degree of inequality – is assumed to remain constant within a country over the forecast horizon. Third, we assume that this distribution of income can be approximated as lognormal. For the majority of countries this assumption holds relatively well, but in some cases the actual data is more skewed or erratic.

Applying model-based forecasts for consumption per capita, the baseline projections suggest that more than 7 per cent of the global population may remain in poverty by 2030, with nearly 30 per cent of the population in Africa and in the LDCs remaining in extreme poverty, which would constitute a serious shortfall in global ambitions.

Figure 1. Extreme poverty headcount ratios, scenarios for 2030

13 https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/2016_Apr_WorldEconomicForecastingModel.pdf



Source: UN/DESA. Based on projections and scenarios produced with the WEFM.

What needs to change in order to meet the global goal of eradicating extreme poverty by 2030? Prospect for poverty rates under some alternative scenarios for growth and inequality are illustrated in figure 1. The first scenario considers a more rapid rise in average incomes relative to baseline projections. The left panel of figure 2 illustrates the historical distribution of average consumption per capita growth across 176 countries, as well as the forecast distribution for average growth in 2015-2030 that underlie the baseline projections. The forecast median growth rate is slightly optimistic, but broadly consistent with recent historical precedence. For the scenario, we raise average income growth to at least 4 per cent per annum, using the distribution of growth rates in the period 2000-2015 as a guide for a more optimistic scenario. Holding inequality constant, this would bring poverty rates in Africa and the LDCs down to 22-23 per cent by 2030 – still some way off target.

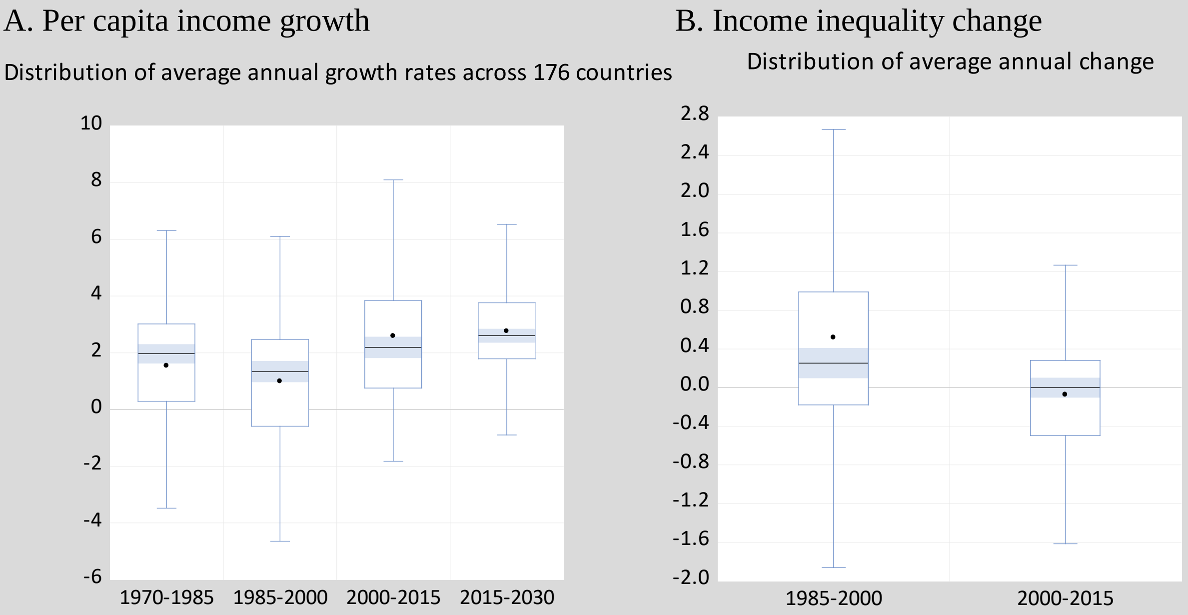
The second scenario maintains income growth from the baseline projections, but allows inequality to decline. The magnitude of decline is calibrated as an optimistic scenario, based on the distribution of the average annual change in inequality for the period 2000-2015, as illustrated in the right panel of figure 2.[14] Under this scenario, poverty rates decline to about 27 per cent in both Africa and the LDCs – a significant but nonetheless limited improvement.

The third scenario combines the rise in income growth from scenario 1 and the decline in inequality from scenario 2. This brings poverty rates in Africa below 20 per cent. While this

[14] The specific measure of inequality adopted in this exercise is the standard deviation of the log of average income in each country. In the scenario, this measure declines by 0.5 per cent per annum from 2016 to 2030.

would lift 240 million people out of extreme poverty compared to the baseline scenario, it nonetheless falls well short of the goal to "leave no one behind".

Figure 2. Distributions of average annual income growth and inequality change across countries



Source: UN/DESA, GCIP.
Note: Central lines indicate the median and dots the average of average growth ranges across countries. Shaded area is the 95 per cent confidence interval around the median. Boxes indicate range of 50 per cent of observations around the median, and endpoint of whiskers indicate the range of 95 per cent of observations.

The final scenario is more radical, combining both the faster growth in average incomes from scenario 1 and a dramatic improvement in inequality, that essentially halves the level of inequality in each country. Under this scenario, global poverty rates fall to about 1 per cent, while in Africa and the LDCs rates drop to 5-6 per cent.

These scenarios offer some insights into the scale of the challenges ahead. Eradicating poverty will require both an acceleration in income growth and steep declines in inequality. Historical improvements in inequality, which averaged 0 over the 15 years to 2015 and deteriorated over the previous 15-year period, are clearly woefully inadequate as a guide for the improvements needed over the coming decade. Integrated and cross-cutting policy measures, that both raise prospects for economic growth and reduce income inequalities, are essential to shift the world economy towards a more sustainable and inclusive path. This includes, for example, investment in areas such as education, healthcare, resilience to climate change and building financial and digital inclusion, to support economic growth and job creation in the short-term and promote long-term sustainable development.

Pricing in climate change

Acceleration in economic growth continues to bear environmental costs. In contrast to what is required, total anthropogenic GHG emissions are increasing. Global energy-related carbon dioxide (CO_2) emissions increased 1.4 per cent in 2017, reaching a historical high of 32.5

gigatons, due to the acceleration of global economic growth, relatively low cost of fossil fuels and weaker energy efficiency efforts, according to the International Energy Agency (IEA). At this rate, the IEA warns, current efforts to combat climate change are insufficient to meet the objectives of the Paris Agreement. Agricultural emissions, the second most important source of GHG emissions, have also steadily risen. In 2016, global emissions grew 1 per cent, with three-fifths of emissions due to livestock farming (FAO). Emissions related to industrial processes, waste and international transportation have also historically been increasing.

According to Munich Re's NatCatSERVICE database, the number of registered weather-related loss events has more than tripled since the 1980s. The year 2017 ranks among the top five years in terms of number of natural catastrophes. While attribution of any given weather event to climate change alone is difficult, climate change is expected to increase the likelihood and intensity of extreme weather events, such as catastrophic floods, droughts and storms.[15]

This poses serious threats to communities. In 2017, there were 18 million new displacements globally due to weather disasters (IDMC). Estimates of financial losses related to catastrophic natural events[16] reached $170 billion globally, of which less than half were insured ($49 billion). This is significantly higher than the averages for the last ten years. Though an increase in insured losses could be due to many factors, climate change is predicted to increase some categories of insured losses and the insurance industry is poised to keep track of changes as well as to price in the costs of climate change.

Other industries are also increasingly pricing in weather and climate change. Unseasonal weather conditions have been blamed by retailers and other companies for disappointing profits in given periods. Weather events can impact a company's demand as well as its supply, via impacts on its premises, operations, supply chain, transport needs and employee safety. Natural hazards can also affect the volatility of corporate cashflows and companies' credit ratings. According to S&P, between July 2015 and August 2017, climate factors were a key driver of rating action in 43 instances, 65 per cent of which were downgrades. In the 2017 financial year, 708 companies (including 73 on the S&P 500) disclosed a material effect on earnings from weather events, of which 90 per cent described it as negative. The average cited impact on earnings was 5 per cent (6 per cent for S&P 500) for the few companies who quantified it.[17]

To this end, the G20's Financial Stability Board recently created a Task Force on Climate-related Financial Disclosures (TCFD), which seeks to improve the quantification and disclosure of the financial impact of weather events in private and public entities. By creating more awareness and understanding of climate-related risks and opportunities, the TCFD hopes

[15] IPCC, 2013: Summary for Policymakers. In *Climate Change 2013: The Physical Science Basis. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change*, Stocker et al., eds. Cambridge, United Kingdom and New York, USA: Cambridge University Press.
[16] Includes geophysical, meteorological, hydrological and climatological events.
[17] S&P Global Ratings (2018). The Effects Of Weather Events On Corporate Earnings Are Gathering Force.

to foment better risk management, more informed strategic planning, and improved access to capital (TCFD, 2018). As of June 2018, 286 companies with a combined market capitalization of over $7.1 trillion and 48 other organizations (such as trade associations, central banks, regulators and national governments) in 40 countries over six continents have expressed their support for the TCFD recommendations, although implementation may take some time. Awareness is increasing in the business community as well as in the public at large that building resilience against the significant economic risks posed by climate change, may also bring new opportunities for growth.

Section 3. Regional economic prospects

Developed economies

North America: United States imports stagnate amid rising trade tensions

United States

Amid the build-up of trade tensions, the Unites States has withdrawn from and undertaken prolonged renegotiations of a number of major bilateral and plurilateral trade agreements, and has announced and introduced a wide range of tariff hikes over the course of 2018, creating considerable uncertainty in the global trade arena. To date, the impact of this uncertainty on the domestic economy has been offset by major fiscal stimulus measures introduced in 2018, including a 2 percentage points drop in income tax rates, a steep decline in the corporate tax rate and rise in Federal government consumption spending, especially on defence.

The economy of the United States is operating at or close to full capacity and exhibited robust annualized growth of 4.1 per cent in the second quarter of 2018. GDP growth is expected to reach 2.6 per cent in 2018 and 2.3 per cent in 2019. The decline in the corporate tax rate will continue to support investment in the near term, while income tax cuts will continue to sustain steady household spending. However, after-tax wage inequality is expected to continue to rise, as higher income households reap a greater share of tax cuts.

These stimulus measures will allow the federal deficit to widen from 3.5 per cent of GDP in 2017 to about 5 per cent of GDP by 2019, and government debt will continue to rise relative to GDP for the next decade. The aggressive fiscal expansion, at a point when the economy is operating near full capacity, coupled with potential upward pressure on inflation from import tariffs, may accelerate the pace of interest rate rises by the Fed.

Net trade made a strong positive contribution to GDP growth in the second quarter of the year, as export growth remained steady while import volumes stagnated. Imports of services, especially travel services, dropped sharply. Weak import volumes limit scope for positive spillovers from the buoyant United States economy on the rest of the world.

Canada

In Canada, the economy registered exceptional growth of 3 per cent in 2017, driven by fiscal stimulus measures and strong gains in housing wealth. Looking ahead, economic activity is expected to expand at a more moderate, but healthy pace of 2-2.4 per cent in 2018-2020. In the first half of 2018, household consumption and investment growth slowed, and the real estate sector has cooled. This is offset by accelerating business investment, especially in mining and oil extraction industries. However, elevated uncertainty surrounding the ongoing renegotiation of NAFTA and the impact of United States tariffs may restrain the rebound in investment in the near term.

Country forecast summaries by LINK participants

Canada

PEAP Policy Study 2018-2, Policy and Economic Analysis Program, Rotman School of Management, University of Toronto
Contributors: Peter Dungan and Steve Murphy

We have said this many times over the last few years, but there continues to be uncertainty over the robustness in the economic recovery in much of the world. Building on strength through the first half of 2018, however, we expect the US economy to provide an important underpinning to Canadian growth. The collapse and subsequent stop/start/stop/start recovery in world oil prices has caused significant weakness in the Canadian economy (exacerbated in the 2nd quarter of 2016 by the wild fires in northern Alberta), with business investment particularly hard hit. Recent Canadian data suggest that the economy has turned the corner, however, as business investment has begun to firm, and government infrastructure spending has finally kicked in. Uncertainty over the future of NAFTA and ongoing U.S. tariff threats remain a concern though, and we are somewhat pessimistic on growth through the end of 2018.

We expect the US Fed to be remain cautious in continuing to raise interest rates with only one quarter point increase per quarter for several years. Given the recent strong Canadian data, the Bank of Canada has also begun increasing rates but we expect it too will be cautious in how quickly it raises rates, given continued uncertainty over U.S. trade policy, among other things. This should translate into some softness in the dollar in the very near term, as oil prices retreat somewhat over the next few months. As the Bank continues to increase rates and commodity prices firm in 2019 and beyond, the dollar should begin to strengthen.

Our medium-to-long-term projection is similar to our previous recent published projections but the relative contributions from trade and investment have continued to shift somewhat. There should be a continued gradual nominal appreciation of the Canada-U.S. exchange rate, together with a real appreciation, as the U.S. adjusts to a more sustainable current account balance. The long-term projection for the dollar, however, is expected to climb only modestly above 90 cents U.S. by 2050. We expect that Canada’s current account will be negative throughout almost the entire projection period. As in our last projection, we expect that net energy trade will be much weaker than in previous projections, as we have come to the conclusion (perhaps belatedly) that world environmental concerns will significantly reduce demand for carbon based energy products in the medium- to-longer term.

Developed Asia and Pacific

Japan

Real GDP growth is decelerating in Japan after marking 1.7 per cent in 2017. Although the rising corporate profits have resulted in robust growth in the corporate capital investments, the rapid decline in the private housing investments has lowered the aggregate growth path. The labour market remains tight, although it has not given rise to significant inflationary pressure and wage growth remains slow. Moreover, the moderately rising wage level remains insufficient to bolster household consumption growth. In its recent policy announcement, the Bank of Japan (BoJ) projected that consumer price inflation would not reach its 2 percent target by 2021. The potential for a sharp appreciation of the Japanese yen poses a key downside risk to the economy.

The BoJ has maintained a set of unconventional monetary easing measures which is known as the Quantitative and Qualitative Monetary Easing (QQE). While continuing to use its balance sheet to expand the monetary base, the pace of the asset expansion has been slowing down in 2018. Meanwhile, the year-on-year growth rate of broad money stock, M2, has been decelerating from its peak of 4.0 per cent in October 2017 to 3.0 per cent in July 2018.

In response to the Government's commitments to fiscal consolidation, particularly to lowering its debt-dependency, the fiscal policy stance shifted to neutral in 2018. As no major public investment projects were included in the supplemental budget in 2017 fiscal year, Government spending did not actively stimulate the domestic demand in the first half of 2018.

Country forecast summaries by LINK participants

Australia

Peter Brain and Jane Cunningham* and Duncan Ironmonger***
**National Institute of Economic and Industry Research, **Department of Economics, University of Melbourne*

The projected Australian GDP growth is relatively weak by historical standards. After a rate 3.1 per cent in 2018 it slows to 2.2 per cent in 2019 and just 2.0 per cent in 2020.

An important factor in Australia's subdued economic outlook is the decline of the manufacturing sector. Manufacturing output peaked in the middle of 2008. Since then it has steadily declined to the extent that by the end of 2017 it was 14 per cent below its peak value. The weakness this has created in the current account deficit has been disguised by low world interest rates.

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 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 2.8 per cent and 2.5 per cent in 2020.

The relatively weak economic profile and reduced labour market conditions will ensure that inflation and wages growth will remain subdued. The inflation rate is above 2 per cent for the forecast period. Real wages growth is in line with slow, by historical standards, growth in productivity as measured by GDP per hour worked.

Japan

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According to the first preliminary GDP estimates released on August 10, real GDP in 2018Q2 grew 0.5% QoQ, 1.9% when annualized, up for the first time in two quarters. The actual growth in Q2 (1.9%) was larger than the market consensus of 1.46% (ESP Forecast's August Survey) and our final forecast was 2.0% with pinpoint accuracy, based on the CQM (expenditure side forecast of Current Quarter Model).

Incorporating the second preliminary estimate of Q2 GDP into our model yields a real GDP growth rate forecast of +0.9% in CY2018, +1.3% in CY2019 and +0.2% in CY2020, leaving our scenario of a slow recovery through 2019 unchanged.

A special feature of our forecast is that it confirms the existence of a virtuous circle of business investment and exports. A glance at the main contributors to real GDP growth in CY2018 reveals deceleration trends in private demand, public demand and net exports by +0.7%pt, +0.1%pt and +0.1%pt, respectively.

Generally, business confidence in the economy is improving. Stock prices are doing well, and firms' exchange rate expectations have been surpassed, with the Japanese yen being weaker than projected. Firms' revenues remain high, and the conditions necessary for an increase in capital investments are in place.

As a result of the annual trade union negotiations in the spring of 2018, the wage growth rate was higher than last year's, but it failed to reach the 3% benchmark set by the government. Compared to the slight growth in nominal wages, real wage growth was limited. In addition, when non-working households are included, the real disposable income growth of all households is lower than that of employed people.

Europe: Solid growth with significant downside risks

The growth outlook for Europe remains robust, but downside risks are high. GDP of the European Union (EU) is projected to expand by 2.2 per cent this year and 2.0 per cent in 2019, an upward revision to forecasts made a year ago. Strong private consumption growth is underpinned by dynamic labour market conditions and rising disposable incomes. Business investment and construction activity will also be supported by the European Central Bank's (ECB) loose monetary policy stance. However, downside risks to the region's outlook have increased. Amid rising trade tensions among major economies, various product groups have become the subject of new or changed tariff regimes. A tightening of trade restrictions poses a significant risk for the export-reliant European economies. As the United Kingdom of Great Britain and Northern Ireland prepares to leave the EU, the transition phase will entail significant uncertainty, particularly over future trade relations between the two parties. This increases the risk of businesses diverting investments away from the United Kingdom. The ECB faces the challenge of designing and communicating a normalization of its monetary policy stance, both in terms of its asset holdings and the policy rate, which could become an additional source of financial market volatility.

The EU members from Eastern Europe and the Baltics during the first two quarters of 2018 have sustained the buoyant economic dynamism of 2017, with GDP growth often exceeding earlier forecasts. The largest economy in the group, Poland, has expanded by over 5 per cent in both quarters; growth exceeded 4 per cent for the first half of 2018 in Hungary, Slovakia, and Romania. By contrast, in the Czech Republic growth moderated, due to weaker exports.

Export performance of the East European industrial sector remains one of the key growth drivers. Output of the automotive industry, after reaching record highs in 2017, remained strong, and the sector is attracting massive new investments despite rising wage costs. Private consumption, boosted by the surge in nominal wages and loose monetary policy, has also notably contributed to growth, becoming the main engine of the Polish economy. Labour market conditions have continued to tighten and exert upward pressure on wages, in part because of the outward migration and skills shortages.

There are signs that some of those economies may be operating above potential. This raises questions about growth sustainability, as consumption-driven expansion and the rising private debt burden are hiding numerous risks. The climbing housing prices across Eastern Europe and the increased exposure of the financial sector to housing loans may indicate emergence of another housing bubble. Concerns about overheating, along with currency pressures linked to the stronger dollar and the announced tapering of the ECB's ultra-loose stance, have prompted a few central banks to tighten monetary policy.

There are indications that economic activity may cool down in the second half of the year, but the aggregate growth of this group of countries should exceed the EU average, as they are still catching up, with capital accumulation, technology transfers and productivity gains. However, both external and internal constraints are emerging. The outflow of labour to the richer EU counterparts has reached dangerous levels of depopulation in some cases. The anticipated mild fiscal tightening, together with slowing of the consumption boom in response to inflation, should result in a slight moderation in growth in 2019 – 2020. In the longer time horizon, the decision of the UK to abandon the EU may affect future migration flows, although a mass return of migrants from the UK to their countries of origin in Eastern Europe and Baltics is unlikely. The proposed reduction in the EU cohesion funds in the 2021-2027 EU budget cycle may curb further progress in infrastructure development and construction.

Country forecast summaries by LINK participants

Austria

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The Austrian economy grew strongly in the first half of 2018. Against the background of the weaker economy in the euro area since the beginning of the year and due to the increased uncertainty in the global economic environment, in the forecast period GDP growth should moderate considerably. The Austrian economy is therefore expected to grow by 2.9 percent in 2018, 1.7 percent in 2019 and 1.6 percent in 2020. Due to the still excellent economic situation, the public budget should be roughly balanced. Urgently needed structural reforms must be tackled now. The unemployment rate should stabilize at 5 percent, and the inflation rate should reach 2 percent. Forecast risks are currently clearly tilted to the downside, with protectionist tendencies and the outcome of the Brexit negotiations being the main factors.

Bulgaria

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It has been hard and painful for the Bulgarian economy to look for its road to an acceptable economic growth after the crisis of 2008. During the last couple of years economic dynamics seems to have accelerated (the average annual growth of GDP for 2015-2017 was 3,7 %), but this growth is too weak in view of the significant economic lag in comparison with the EU. Investments went on lagging significantly behind, too. So, the recovery of the economy can be described as relatively stable.

The forecast suggested should be treated as conditional. This country needs average annual rates of growth of minimum about 4-5%. The upturn presumes a change in the nature and principles of macroeconomic management. Such beginnings are not yet to be seen. Parties should become aware that they are not formations of a business company type whose goals are primarily and most of all to satisfy the interests of their own members and that they should rise above the narrow party interests. This can only take place provided there is a much more active and conscious participation of the predominant part of the population in the political process in the country, i.e. it presumes a necessary maturing of the people. The process of such a maturing will influence decisively the speed of economic growth.

It is expected that economic growth will be to about 5% by the end of the forecasted period. Given a normalization of development we should expect an overtaking price development inside the country compared to the EU as far as Bulgaria's price level is about half of the EU's one. The respective indicators accompanying economic growth will change in parallel.

Croatia

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Following a 3.3 percent growth rate in the third quarter of 2017, the final quarter saw a 2.0 percent increase in Croatian GDP measured year-on-year and a meager 0.1 percent increase measured quarter-to-quarter (seasonally adjusted). This considerable loss of steam is most evident in industrial production, which decreased in both November and December 2017, but also in a milder increase in exports and a weaker-than-expected growth of investment. Despite favorable credit conditions, investment is being held back by a lack of reforms that target the business environment and by stalled capital expenditures of Agrokor-related firms. This underperformance in the final quarter of 2017 brought down the growth figure for the entire year to 2.8 percent, which is somewhat below the 3.2 percent growth in 2016.

Based on the latest available data, we foresee a continuation of this gradual slowdown in activity. Private consumption will remain the most significant contributor to overall GDP growth. The domestic demand strengthening will also be reflected in higher import growth rates and a negative contribution of net foreign demand to GDP growth. This decrease in the pace of recovery is reflected in our real GDP growth forecasts for 2018 and 2019, which now stand at 2.7 and 2.6 percent.

Denmark

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The growth in the Danish economy has increased in recent years, and is now at its highest level since the crisis in 2008. Compared to the rest of the world the growth rate is however still moderate. The growth since the crisis has primarily been due to exports but has also been supported by an increase in domestic demand in most recent years.

The Danish economy is expected to grow by about 1.5 % and 1.7 % in 2018 and 2019. The primary force behind this is domestic demand. Private consumption is expected to increase by about 2 % in the coming years while investments in both housing and business are expected to increase by about 5-6% as the need for capital increases. Households and firms have been precautious since the crisis, implying an increase in household wealth and a low capital/labour ratio. Both are expected to turn around in the coming years.

Productivity growth has been rather weak in the past years and is expected to remain low in 2018 with growth of about 0.7 %. In 2019, the capital stock is expected to have increased enough to make room for a bit more growth in productivity, which is predicted to be about 1%.

The low productivity growth means that employment has to increase to create the expected growth in GDP. The forecast is that employment will grow by 40.000 in 2018 and 25.000 in 2019.

The growth in exports is expected to decrease a bit because of stagnation in the growth in advanced economies, but it is still a driving force behind the growth in the Danish economy. However, as domestic demand increases, imports will follow and net exports will have a negative effect on GDP growth in the coming years.

Germany

Business Cycle Report of RWI – RWI, Leibniz Institute for Economic Research – from June 18th 2018;
Contributors: Roland Döhrn, György Barabas, Boris Blagov, Philipp Jäger, Robin Jessen, Martin Micheli, Svetlana Rujin, Torsten Schmidt and Klaus Weyerstraß.

The upswing in the German economy lost momentum in the first half of this year. External factors have been a matter of concern, which had a dampening impact on economic activity in the first six months of 2018. Thus, exports declined in the first quarter and available indicators do not suggest a quick recovery. Moreover, export expectations of the private sector have deteriorated, partly reflecting uncertainty about future trade policy. Domestic demand, on the other hand, is expected to remain strong. Hence, investment in construction continues to grow strongly and private consumption benefits from both increasing employment and wages. Furthermore, tax cuts and transfer payments are expected to give a further boost to private consumption in 2019. Against this background, GDP is expected to grow by 1.8 percent this year and by 1.5 percent in 2019. Thus, RWI revises its economic growth forecast down by 0.6 and 0.4 percentage points, respectively, compared to its March forecast. Employment growth is expected to lose momentum. Due to cyclical factors and a more expansionary fiscal stance, the fiscal surplus is projected to fall from € 41 bn this year to € 27 bn in 2019.

In the medium-run we expect total factor productivity to become the main driver of potential output growth in Germany. After a slowdown of productivity growth during the financial crisis, TFP growth accelerated considerably in the recent years. In this projection we assume that productivity growth rates increased further from 0.5% to 0.8%. Against this background we expect an increase of potential output of 1.4% per year. Moreover, we expect that the growth rates of actual output decelerates towards potential output growth. As a result the economic upswing in Germany will continue but at a slower pace. The output gap will remain at one percent of potential output in the medium-term. An economic overheating is unlikely.

Italy

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In the first quarter 2018, GDP growth slowed to 0.3 per cent, quarter on quarter, from 0.4 per cent in 2017 Q4, as a result of a reduction in exports (-2.1 per cent) and investment (-2.4 per cent). A favourable wealth effect (due to stock-market dynamic) and an improved consumer confidence had increased the propensity to consume. While the reduction in exports was shared by the major European countries, the reduction in investments hit Italy in particular. Specifically, investment in machinery and equipment fell by 5.1 per cent quarter on quarter, confirming the difficult recovery from the crisis despite tax incentives, on the other hand, the positive transport equipment cycle continued. A further slowdown is expected in 2018 Q2, suggested by the negative industrial production dynamic and the stabilization of survey indicators. As in the rest of euro area, the deceleration over the last few months has been due to temporary factors.

Uncertainty, at the end of May, about the new government’s economic policy, led to a sharp worsening in the country’s risk assessments. The spread BTP-Bund increased by more than 100bp, back to 2013 levels, and the stock market index fell by 12 per cent (-19 per cent for banking sector shares), a deterioration that likely will not be fully reversed in the coming months.

Average annual GDP is expected to grow at 1.2 per cent in 2018 after a peak of 1.6 per cent in 2017, with moderate growth forecast for 2019 and 2020 (1.2 and 1 per cent). The BTP-Bund spread is not expected to fall back to the levels experienced at the beginning of 2018, given the uncertainty linked to the general political situation. The debt-to-GDP ratio is projected at 130.2 per cent in 2020, it was 131.8 per cent in 2017.

Romania

Emilian Dobrescu, Bianca Pauna, Viorel Gaftea
Center for Macroeconomic Modeling

Romania's rate of growth continues to be one of the highest in EU, the engine behind is private consumption fuelled by the recent increase in the minimum wage, pubic wages in some sectors and pensions, and the private investment, which is at risk due to the increased in interest rates generated by increased inflation.

The main challenges are related to external factors: exchange rate dynamics, demand from external markets, crude oil and energy price, sovereign debt risk.

Another set of uncertainty regards to the capabilities of the government to implement the financial discipline needed in order to restrict its budget expenditures in the view of the additional increases generated by the new budget wage system, increases in pensions, the support of the health-care and the education systems, national defence and public order, transport and other infrastructure. The government will need to increase efficiency in tax collection a goal that has till now eluded all governments, and to review fiscal policy with the goal of removing some taxes[18] and further lowering others which are too high.

Another area that needs to be address is the labour market, in view of attracting the inactive workers in employment, especially young people and women whose activity rates still lag behind the European Union's target.

Slovak Republic

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Since the beginning of the last year the growth of the Slovak economy has slightly accelerated mainly due to domestic demand. Real GDP grew by 3.4% last year and according to preliminary data in the first half of 2018 it increased by 3.8%, which is the rate of its long-term average growth. While in the last year growth of domestic demand accelerated mainly due to consumer demand, since the beginning of this year it has been also driven by investment demand and public sector demand. Consumer demand is rising despite higher inflation that increased from 1.9% in December 2017 to 2.8% in June 2018. Besides CPI the growth of aggregate price level in the economy is also accelerating. While the GDP deflator grew by 1.3% last year, in the first half of 2018 it rose by 2.3%. Growth of both CPI and GDP deflator

[18] The number of taxis in Romania is very high.

is mainly related to continuing rise in import prices i.e. it is caused mainly by cost factors. The influence of the demand factors on their growth is smaller, but stronger than in 2017. The rise in consumer demand is linked to the growth of total employment and real wages at the macro level. In spite of higher inflation real wages rose above 3% in the first half of 2018 as the nominal wage growth at the macro level increased significantly. This is related also to the fact that the labour market has a shortage of unemployed people with required qualification. As demand on the labour market has been rising steadily since 2014, total employment in the economy reached historically the highest level in the first half of this year, while the unemployment rate fell below 7% (according to the ILO methodology) and reached the historical minimum. We expect that trend of accelerated growth of the Slovak economy performance will continue in the forecast horizon. We estimate real GDP to grow by 3.8% this year and by 4.0% in 2019. Consumer prices (CPI) should grow by 2.6% and 2.3% in 2018 and 2019, respectively. On the other hand, the unemployment rate should drop from 8.1% in 2017 to 6.5% in 2018, respectively to 6.0% in 2019 (according to the LFS methodology).

Slovenia

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The economic results were excellent for Slovenia in 2017 and expectations are to continue in 2018-2020 with only slight decline. GDP growth is over 4%, inflation is subdued at 2 -3%, current account surplus exceeds 6% and budged experiences small. New elections in June 2018 prolonged mandate to the center-left government, in difference to the center right parties winners in neighboring countries. As highly opened economy Slovenia can suffer from the deteriorating international economic and political environment, especially if Germany as major export destination suffers economic slowdown.

Despite recent parliamentary elections domestic economic conditions are favorable in Slovenia. Major issues are health sector management (not enough money was devoted and corporate governance is weak), banking sector (privatization of the largest bank is in program for the Fall 2018 under pressure from Brussels) and infrastructure projects are slow in implementation (railway, road, ecological).

At the moment, the international environment is a major threat to Slovene economy. Increased tariffs, trade wars and political uncertainties in the EU and in rest of the world will have negative impact on highly open economy of Slovenia. In case of further setback in international environment in form of global slowing down of GDP and trade growth of Slovenian domestic final demand should substitute the external demand as more important machine of growth. Unfortunately, restriction in budget remains, and financing of infrastructure investment is not expected. Instead of austerity policy of the EU and even more strongly performed in Slovenia, domestic fiscal and monetary stimulus will be needed in case of international economic slowdown.

Spain

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In the first months of the year, global activity and world trade shown some signs of loss of momentum, concentrated mainly in the developed economies and that, partially, were due to causes of a transitory nature. Beyond these developments, several factors continue contributing to favorable prospects, supported, in particular, by the persistence of comfortable financial conditions. Thus, the Spanish economy continues to benefit from the maintenance of very accommodative financial conditions, while the ECB is very patient when it comes to withdraw monetary stimulus.

The Spanish economy has continued to show a strong dynamism at the beginning of 2018. Specifically, as in the last two quarters of 2017, GDP grew by 0.7% in the first of this year. The outlook for the period 2018-2019, draws an extension of the expansionary stage, although it is expected that the growth intensity will be gradually mitigated along the projection horizon, so that, whilst the projected GDP growth rate for this year is 2.7 %, the growth could ease to 2.3% in 2019.

These projections are based on the advances in the correction of the imbalances of the economy, as well as, from a more conjuncture perspective, in the continued firmness of activity and world trade, in the persistence of favorable conditions for the financing of the agents and in a tone of fiscal policy somewhat more expansive than the one projected so far.

From the domestic point of view; the current projections incorporate the assumption that, in the coming periods, the decrease in political uncertainty related to the situation in Catalonia will be maintained. However, it cannot be ruled out that an intensification of tensions will take place, which would have a negative impact on the evolution of the activity. In the same way, the change in the Government can alter the spending policies of the executive, which will influence the country's deficit and may subtract some additional tenths from the growth of the current year.

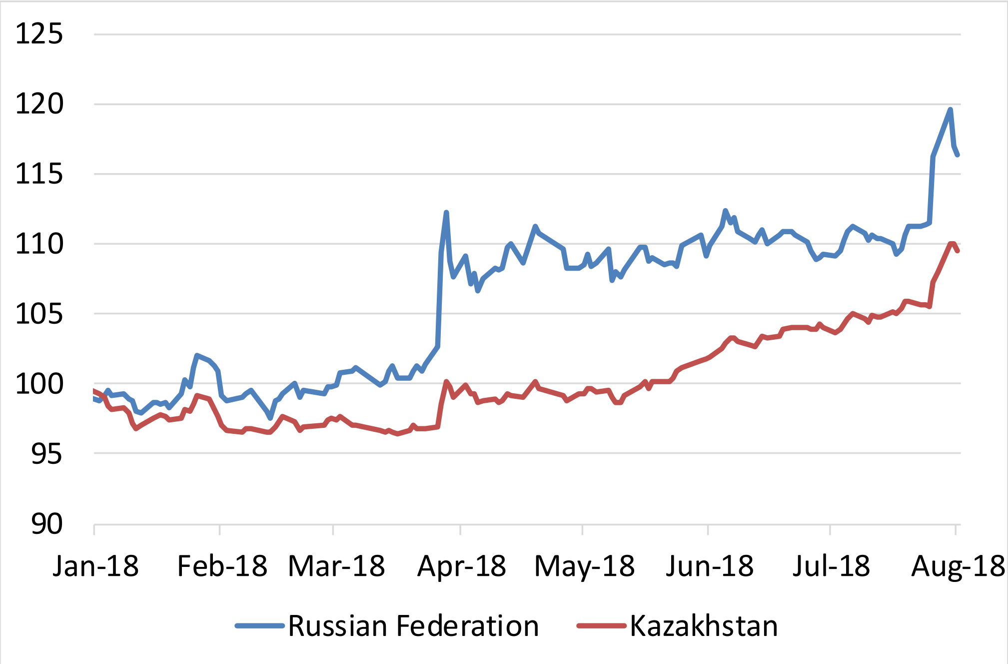
Risks associated with the international environment are more numerous: escalation of barriers and commercial disputes worldwide; as older workers participate less in the labor market, the aging of the population could cool growth and, in many cases, jeopardize the sustainability of social security systems; the prolonged period of abundant liquidity and low cost of indebtedness have contributed to an additional increase in global indebtedness and the rise of financial imbalances, and it is also linked to current prices of financial assets, which are inflated and suggest an undervaluation of the risk.

Economies in transition

The Commonwealth of Independent States and Georgia

Most economies of the **Commonwealth of Independent States (CIS)** saw favourable economic outturns in the first two quarters of 2018, with accelerating growth and tapering inflation, as recovery in the Russian Federation has supported activity across the region via trade and remittance channels. The Russian economy itself has expanded by 1.3 per cent and 1.8 per cent in the first two quarters respectively, mostly driven by private consumption, while higher oil price allowed rebuilding of fiscal buffers. The FIFA 2018 World Cup, preparations to which contributed to fixed investment earlier, has provided a large boost to the tourism industry in June and July. Consumer spending has been gradually recovering thanks to a stabilised currency, sharp disinflation (inflation fell to a record low level of 2.2 per cent in January, slightly accelerating later) and the pick-up in household borrowing. However, geopolitical tensions and the tightening of economic sanctions against the Russian Federation in April have complicated activities of Russian companies, and have put downward pressure on the rouble. Furthermore, in August, the US has announced further sanction intentions, with the possibility of freezing several large Russian banks' assets and restricting their dollar transactions, and targeting Russian sovereign debt. This exacerbated currency pressures and the Central Bank had to downscale foreign exchange purchases conducted in accordance with the budget rule. Inflationary pressures in the second half of 2018 may intensify. After the series of interest rate cuts in 2018 the Central Bank took a pause, while business lending remains supressed. The depreciation in the Russian Federation had also a spillover effect on the currency in Kazakhstan (figure 3.1).

Figure 3.1 Exchange rate versus US dollar for Russian Federation and Kazakhstan
9 January 2018 =100



Source: IMF

Fiscal policy in the Russian Federation is constrained by the fiscal rule introduced in 2017. In order to boost budget revenue, in particular for financing programs aimed towards the social and economic targets announced in May 2018, the Government has decided to lift the VAT rate in January 2019. This may exert additional inflationary pressure, curb consumer spending, and prevent further monetary relaxation. The forecast for Russian GDP growth is revised slightly downwards, to 1.5 per cent in 2018 and 2019. Insufficient business lending, weak investment, banking sector vulnerabilities and tight fiscal policy, prioritizing the build-up of protective buffers, are constraining growth prospects. Full implementation of the proposed US sanctions may push the Russian economy into a protracted stagnation, with negative regional spillovers, as the scope for import substitution is largely exhausted.

Other energy-exporting economies of the CIS should maintain a positive growth trajectory in 2018 and 2019, thanks to higher oil prices and prudent macroeconomic policies. In Kazakhstan, growth surpassed 4 per cent in the first half of 2018, reflecting the rising oil and gas output and investment in transport infrastructure, while disinflation facilitated private consumption. In Azerbaijan, the economy continued to stagnate in the first half of 2018. However, a planned rise in the natural gas output should accelerate growth in 2019.

Among the CIS energy-importers, the economy of Ukraine has expanded by over 3.5 per cent in the first two quarters and this trend is expected to continue for the rest of the year. However, the progress is hampered by mass emigration, which is also driving up wage costs. The sharp increase in remittances has mitigated external financing needs. However, tough policy choices remain after the IMF loan delays, as large external debt repayments are looming in 2018-2019. To protect the currency, monetary policy was tightened in 2018. The possibility of downscaling the Russian natural gas transit since 2019 presents an additional risk. Belarus, benefiting from the improved Russian demand and strong expansion of industrial exports to non-CIS countries, has accomplished 4.5 per cent GDP growth in the first half of 2018; a stronger currency and disinflation allowed for interest rate cuts.

In the first half of 2018, remittances to the smaller CIS countries remained robust, bolstering private spending, although the weakening of the Russian rouble may undermine the purchasing power of those transfers. In the Caucasus, strong economic activity was recorded in Armenia, where output increased by over 8 per cent, driven by construction, mining, manufacturing and services. In Central Asia, growth exceeded 7 per cent in Tajikistan thanks to the larger aluminium and gold exports and Chinese investment in metals processing. Looking forward, the Central Asian region should benefit from the implementation of the "Belt and Road Initiative" (BRI), through upgrades of the railway, road and energy infrastructure, improved connections with Europe and China, and better market access. However, in some cases investment carried out within the BRI project's framework has driven up external debt, giving rise to longer-term financial stability risks.

Aggregate GDP of the CIS and Georgia is expected to increase by 2.1 per cent in 2018 and 2.0 per cent 2019. A sudden downturn in commodity prices remains the main downside risk for the region, given the slow progress on output diversification. Other risks include banking sector weaknesses, which have not been eliminated despite numerous bailout efforts, geopolitical conflicts and also tighter conditions of access to external funding and debt refinancing.

Country forecast summaries by LINK participants

Russian Federation

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The Russian economy has shifted towards highly conservative rates of economic growth (1.5% in 2017, and in 2018, as estimated), and this is in the conditions of quite favorable external economic conditions. Such a low dynamic comes with an underlying important reason—a combination of a fairly harsh monetary and budget policy (budget surplus is expected this year). In turn, this policy was associated with the idea of securing unquestionable budget stability and balance of payments in the conditions of uncertainty tied to the dynamic of global energy and construction materials demand, and with the expansion of the economic sanctions against Russia. Indirectly, it resulted in achieving the uniquely low for our country inflation rates (2017: 2.5%, 2018: 3.4%, with the Bank of Russia's goal set at 4.0%, December to December).

A key external factor contributing to uncertainty is global oil prices. They may decrease significantly if crisis events emerge in the global economy, and/or expansion of the supply from Venezuela, Iran, Iraq, or Libya, and also a decrease in the "risk component" in the price in the event of crisis resolution in the Middle East.

Moreover, the Russian economy may be negatively affected by both potential expansion of sectoral sanctions, and the growth of protectionist practices on certain global markets (ferrous and nonferrous metals, for example).

In terms of the internal market conditions, there are two factors of uncertainty:

- a set of issues associated with the pension reform (to what extent will the increase in the retirement age affect companies' behavior and the welfare of the population);
- will a system be put together to stimulate economic growth as outlined in the Russian President's Address on March 1, 2018 (in which an actual objective of the annual economic growth has been set to 4–4.5% in 2020s), or will the economic policy remain mostly conservative and oriented towards budget and financial stabilization.

Ukraine

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In 2018-2020 Ukraine's economic dynamics will remain inertial. Its parameters will be largely determined by the situation on the international commodity markets, the deficit of domestic and external private financing, complicated relations with official creditors, the impact of the presidential and parliamentary elections in 2019, the losses caused by the occupation of part of the national territory, the costs associated with the need to protect the eastern borders, as well as the forced search for new external partners and markets for traditional export items.

The growth rates of real GDP will not exceed the world average and will amount to: in 2018 - 3.1%, in 2019 - 2.9%, and in 2020 - 3.5%. No significant shifts are expected in favor of medium- and high-tech industries. The inflation rate will slow down. The national currency will devalue moderately. The credit activities will remain low and will focus mainly on trading operations, real estate operations and export industries. Labor emigration will continue.

Medium-term risks will be associated with continued external aggression in the East of the country, deeper protectionism practiced by the leading advanced economies, their sharper than expected overall decline as well as limited and dearer resources on the external financial markets.

South-Eastern Europe

The outlook for **South-Eastern Europe** is generally favourable, with the region's aggregate GDP expected to expand by 3.6 per cent in 2018 and 3.7 per cent in 2019, supported mostly by investment and exports. The prospect of EU accession, confirmed by the recent European Commission strategy paper, remains an important macroeconomic policy anchor, and pre-accession assistance provided by the EU has a tangible developmental impact.

In the first half of 2018, the economic upswing in the region continued, with the Serbian economy expanding at a ten-year high rate of 4.5 per cent, bolstered by agriculture and construction sectors. A surge in investment boosted growth in Montenegro. Solid economic performance was also recorded in Albania with growth surpassing 3.5 per cent, as exports and domestic demand remained strong. Interest rates were cut in response to upward pressure on the currency in April-May, which stemmed from rising export revenues and one-off factors. By contrast, the economy of the former Yugoslav Republic of Macedonia has stagnated, due to weak investment.

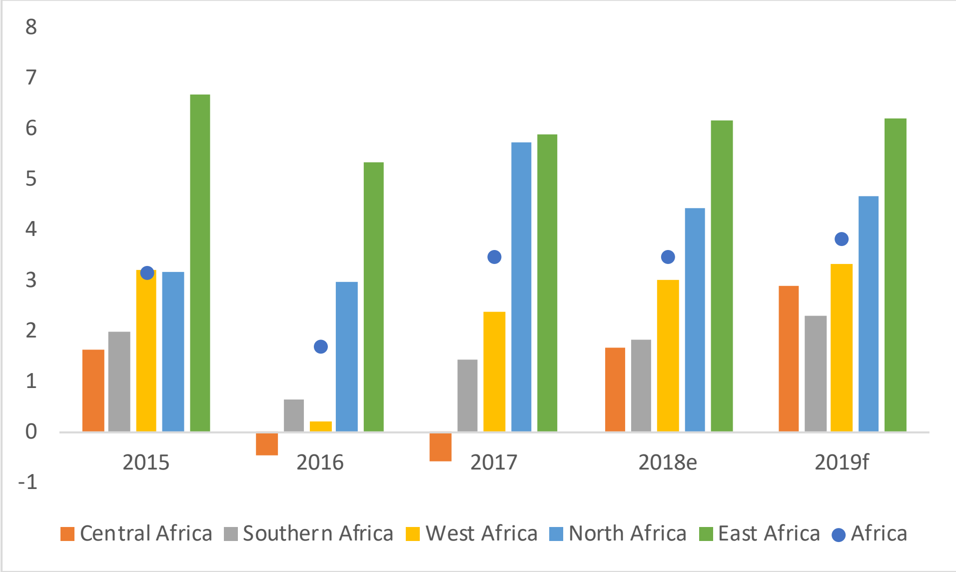
Labour markets in the region continued to improve in 2018, while inflation remained largely subdued. Stronger growth is needed to address the region's diverse problems, but the longer-term capacity expansion is constrained by the ongoing depopulation caused by outward migration. Shrinking population and increasing dependency ratios are becoming policy challenges, in particular in Serbia. Some of the region's countries are strongly exposed to Greece and Italy, and would suffer spillovers from possible deterioration in those countries.

Developing economies

Africa

The African economies are forecast to grow in aggregate 3.5 per cent in 2018 and 3.8 per cent in 2019. Growth is led by the eastern and northern regions though all regions are posting mildly accelerating real GDP growth rates (figure 3.2). Three-fifths of African countries are expected to grow faster in 2018. The improvement reflects higher commodity prices and improved external and internal demand. However, one-third of economies home to over 500 million people are growing slower in 2018. Per capita income growth for the continent, estimated at 0.9 per cent in 2018 has modestly improved from the trough of 2016 but remains insufficient to significantly improve living standards for great swathes of the population.

Figure 3.2 Real GDP per capita growth rates by sub-region in Africa, 2015-2019



Source: UN DESA.

In North Africa, stabilizing macroeconomic conditions provide cautiously positive economic prospects. The primary driver for growth is the improving balance-of-payments conditions, which stemmed from the economic recovery in Europe, reviving tourism, and recovering commodity prices. The relaxed foreign exchange constraint provided sufficient space for the domestic economy to expand without inflationary pressures in Algeria, Egypt, Mauritania, and Morocco. The exception for this trend has been seen in Sudan and Tunisia where foreign exchange constraints caused accelerating consumer inflation. Monetary stances remained neutral in the sub-region except for Sudan and Tunisia where the central banks tightened the stances. Fiscal stances generally remained tight, as fiscal balances have not been improved in most of the countries. Political instability and social unrest remain a significant downside risk factor in this sub-region, particularly in Libya, Sudan and Tunisia.

In West Africa, economic recovery in Nigeria continues albeit at a slow pace. About 2 per cent growth is expected this year supported by higher oil prices, easing fiscal and external pressures. However, oil production remains below past trends and both agriculture and non-oil non-agricultural sector growth remain frail. International reserves are stable and inflation is at its lowest rate since January 2016. Strong growth continues in the West African Economic and Monetary Union with low inflation. Fiscal deficits should narrow in the context of IMF supported programs. Social demands, security concerns and slow revenue mobilization pose the risk of destabilizing crucial fiscal consolidation efforts.

A fragile economic recovery is underway in Central Africa. After recession in 2016-2017, growth is expected to pick up in the region supported by a higher oil price and a rebound in oil production, which should continue to help fiscal and external sustainability efforts. Inflation is expected to remain low amid weak growth and continued tight monetary policy. Deterioration in already precarious security situations (Cameroon's Anglophone region, Central African

Republic, Lake Chad region, Congo Pool region) constitutes a risk to the outlook. Social tensions may escalate further amid several elections.

Southern Africa is projected to record 2 per cent GDP growth in 2018, driven mostly by its two largest economies – South Africa and Angola. However, growth in per capita terms is expected to be null in the region. In South Africa, the agricultural sector has performed slightly better compared to the same period last year. However, proposed agricultural reforms dim the sector's outlook. Fiscal policy will be increasingly restrictive due to fiscal consolidation efforts. The outlook for Angola faces downside risks related to oil prices and declining oil output from certain aging oil fields. The challenging business environment also constraints diversification efforts. Policy uncertainty due to a recent political transition still clouds the outlook for Zimbabwe.

East Africa will continue to grow the fastest among the African sub-regions, at an average rate of 6 per cent. Ethiopia, Kenya and Tanzania remain the region's main growth engines with spill over effects on neighbouring economies. Eritrea is expected to benefit from the recent peace agreement with Ethiopia, though it might take a few years until peace benefits fully materialize. The Ethiopian government's push towards growth in agriculture should have positive effects in the income situation of the poorest and the inequality situation. Improved weather conditions support Kenyan growth, boost private consumption and leave more fiscal space for the government's activities, including infrastructure development projects.

Many economies remain overly exposed to changes in commodity prices. Current global trade tensions constitute downside risks for the 2018-2019 outlook since many economies depend on export-oriented agriculture and manufacturing sectors. Other risks include the economic slowdown of developed economies and large Asian economies which could diminish export revenues and fiscal space, and put pressure on local currencies, making foreign denominated debt servicing more difficult.

Country forecast summaries by LINK participants

Angola

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After reaching a peak of 110.44 USD per barrel in June 2014, the price of crude started to fall steeply until it reached its lowest price in January 2016 at around USD 29 per barrel, thus creating a series of constraints in all sectors of the economy. However, in 2018 the price reached a peak since 2014 (around USD 79.80 per barrel in May), following market expectations of a continuous increase in the price of oil in international markets.

The low oil prices has led to extreme difficulties reflected in the shift from a surplus to a deficit both in government and external account, which translated into a slowdown of economic activity. To further ensue economic stability, in 2018 Central Bank of Angola (BNA) pursued additional monetary and foreign exchange reforms. The conduct of monetary policy has been simplified by replacing some instruments for others more in line with the current environment, such as adopting the monetary base as the operational variable.

Starting in January 2018, the peg to the dollar has been abandoned. The Kwanza is now floating against other currencies, being still semi-pegged to the Euro, the currency used by our main trading partners. The floating band against the Euro has been introduced to narrow unnecessary volatility for the exchange rate as the foreign exchange market is continuously being liberalized. The implementation of the new exchange rate regime has achieved a continuous reduction in the foreign exchange rate spread, which enhances economic efficiency in the allocation of scarce international reserves.

Ghana

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The economic outlook of Ghana remains robust for 2018 in spite of observed headwinds especially the domestic revenue mobilisation and volatilities in the domestic currency market.

The real GDP growth rate tremendously improved to 8.5 percent recording GH¢39.18 billion in 2017 and growth prospects for 2018 shows a growth rate of 7.43 percent in 2018, and 7.37 percent in 2019. The annual inflation rate based on average CPI declined by 12.3 percent in 2017 and is expected to hit a single digit of 8.9 percent in 2018. The External Sector performance improved significantly in 2017 with the overall Balance of Payments surplus of US$1.09 billion (2.3% of GDP) in 2017, due to improvement in the trade balance with a surplus of US$1.14 billion in 2017, driven by increased crude oil and gold export receipts which led to a 23.5 percent increase in total export receipts, coupled with a decline in imports by 1.8 percent. The year 2018 also experienced similar improvements as the price developments, together with improved production outturns, especially in crude oil, expected to translate into a positive trade balance of US$1.9 billion (3.3% of GDP) in 2018. The current account balance improved to a deficit of US$2.12 billion (4.3% of GDP) in 2017 and 1.54 billion (2.7% of GDP) in 2018. The fiscal sector showed a primary surplus of 0.6 percent of GDP in 2017 and total public debt of about 72 percent in 2016, declined to 69.8 percent of GDP in 2017 before slowing further at the end of May 2018 to 63.8 percent of GDP (GH¢154.3 billion).

Sustainability of high growth rate largely depends on the implementation of programmes and policies for the achievement of the objectives of the medium term framework 2018 – 2021.

Nigeria

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The country is gradually recovering from the recession that followed from the major decline in oil price after the Q3 2014 oil price shock .One outcome of this has been a major policy focus on the need for output diversification, away from sole dependence on oil and oil export earnings. To concretize the aforementioned, the Economic Recovery and Growth Plan (ERGP) were initiated by the federal government of Nigeria, and this has witnessed some measure successes in its implementation. However, the unresponsiveness to the call for political restructuring by sub-national groups that claim to have been marginalized, have increased tension in most parts of the country, causing citizens to live in fear, especially in violent agitation prone areas. The resulting negative impact on the level of economic activity and the rate of economic growth has been quite significant. The problem of prevailing general atmosphere of fear and insecurity in some parts of the country particularly in the North East region of the country portends a major problem that must be adequately addressed, if expected 2019 elections are to come off peacefully. However, this downside risk notwithstanding, the steady but gradual recovery from the recession is likely to be sustained; the economy is projected to grow by an annual average rate of 1.62% and 2.01% in 2018 and 2019, respectively.

South Africa

Plus Economics (2017). South African Country Report and Forecast – September 2018.

Despite improvements in confidence at the beginning of 2018 due to the election of a new president, the stability of the South African economy has been threatened by the announcement of the government's intention to expropriate land without compensation. The declaration is in part as a response to simmering tensions and unrelenting social unrest over the past years, symptomatic of a country characterised by deep and severe structural unemployment problems – youth unemployment according to the expanded definition was 67 per cent in the first quarter of 2018. Notwithstanding express commitments by the South African government to prudent fiscal policy, surging public debt (expected to reach 52 per cent in 2020/21), along with the aforementioned political and social tensions, continues to endanger investor confidence – and increases the threat of further credit-rating downgrades (Moody's is the only major ratings agency to not yet downgrade the country's sovereign long-term foreign currency to "junk status"). Foreign and domestic fixed investment is waning whilst domestic demand is also deteriorating, with signs of only mild improvement, and hence the growth prospects for South Africa remain muted. Real GDP grew by 1.3 per cent in 2018, and is expected to reach only 2 per cent by 2020.

East Asia

Following robust growth of 5.9 per cent in 2018, the **East Asia** region is projected to expand at a steady pace of 5.7 per cent in 2019 and 2020. The region's favourable growth outlook is underpinned by resilient private consumption and public investment, as well as the continued improvement in external demand. Nevertheless, downside risks to the region's growth outlook have increased, arising mainly from intensifying trade tensions between the United States and China.

In China, growth is expected to remain solid, supported by robust consumer spending and supportive fiscal policies. Amid ongoing economic rebalancing efforts, growth in the Chinese economy is projected to gradually moderate from 6.6 per cent in 2018 to 6.3 per cent in 2019. Structural reform measures to reduce debt levels, cool the property market and reduce excess industrial capacity will weigh on investment activity. Amid high external uncertainty, however, the Chinese authorities face the challenge of balancing between policy measures aimed at reining in domestic financial vulnerabilities while at the same time supporting the economy's short-term growth prospects.

Most other economies in the region are expected to experience stable GDP growth in the outlook period. Private consumption will remain the key driver of growth, supported by healthy job creation, low interest rates and modest inflationary pressures. In the Republic of Korea, Myanmar and Thailand, consumer spending will be further boosted by the increase in minimum wages this year. In addition, growth in many countries, including Indonesia, the Philippines and Thailand, will also be supported by the implementation of large infrastructure projects, which will help to alleviate structural bottlenecks and boost productivity growth in the medium term.

Leading indicators, including Manufacturing Purchasing Managers' Indices and export orders, are pointing towards a moderation in the region's growth momentum in the second half of 2018. At the same time, downside risks to the region's growth outlook have increased. An escalation of trade tensions between the United States and China will significantly affect the East Asian economies, given the region's high trade openness and deep integration into global production networks. Persistent uncertainty surrounding the imposition of tariffs will also weigh on the region's investment outlook.

Given the high uncertainty in the international environment, any unexpected policy decisions by the major economies may trigger a sudden shock to investor confidence, leading to an abrupt tightening of global financial conditions. This may in turn result in large capital outflows from East Asia, posing a risk to domestic financial stability. In several economies, existing financial sector vulnerabilities, in particular high corporate and household debt, will continue to dampen investment prospects.

Country forecast summaries by LINK participants

Hong Kong

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Real gross domestic product (GDP) in Hong Kong slowed down to 3.5 percent in the second quarter of 2018, after increasing 4.6 percent in the first quarter[19]. The second quarter slowdown in real GDP mainly reflected decelerations in private consumption expenditure, gross fixed investment, and total exports of goods and services.

The economic performance of Hong Kong is largely affected by the economic conditions of Hong Kong's trading partners. When making our forecasts, a number of assumptions on the growth of Hong Kong's major trading partners such as the Mainland, the United States, and the European Union, have been adopted. China's real GDP growth decelerated to 6.7 percent in the second quarter of 2018 from 6.8 percent in the preceding quarter. The deceleration is

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[19] Rates of change, unless otherwise specified, are year-on-year rates in real terms.

likely to continue in the second half, as suggested by smaller increases in the volume index of industrial production, in services production, in total sales of consumer goods, and in fixed investment for the month of July. The trade tensions between China and the United States is also likely to be a drag on overall economic growth in the second half, we assumed real GDP of China to increase 6.5 percent for 2018 and 2019.

As in the past years, the engine of the economic growth in Hong Kong for 2018 and 2019 is forecast to come from the domestic sector with private spending serving as the largest contributor. While the global economic growth remained robust so far, external uncertainties have increased markedly since June when the United States escalated trade conflicts with China and other major trading partners. These uncertainties could undermine the global economic sentiment, and trade and investment activities. Additionally, a number of economic indicators released by the State Bureau of Statistics in China in July have suggested the pace of economic growth in the China reached its peak in the first half of 2018. We therefore conclude that our baseline forecast of the Hong Kong economy is increasingly clouded by the ongoing trade tensions and the slowdown in the economic growth of China.

The Philippines

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NEDA

The Philippine economy continue to expand at an accelerated pace over the last six years, marked by structural transformation. The Philippine economy grew by an average of 6.6 percent in the last six years, the strongest since the mid-1970s. In 2017, real GDP grew by 6.7 percent, within the government's target of 6.5 to 7.5 percent. Sources of growth have broadened, with an increased contribution of industry, primarily manufacturing on the supply side and by investment on the demand side. Even as the sources of growth are broadening, the benefits of that growth continue to spread. In 2017, ten (10) out of the country's seventeen regions have expanded by 6.0 percent and above, thus making the growth more inclusive. The higher pace and improved quality of economic growth is also creating more and better jobs. The country's unemployment rate registered the lowest at 5.5 percent in 2016 and 5.7 percent in 2017. Underemployment likewise registered the lowest rate over the past decade at 16.1 percent in 2017.

Republic of Korea

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The Korean economy is maintaining moderate growth with continued improvements in the service sector despite a sluggish construction industry. Manufacturing is showing slightly higher growth from last quarter in terms of the value-added in the national accounts, although output has stalled according to the Index of Industrial Production (IIP).

Under the circumstances both at home and abroad, Korea's macroeconomic policies require an accommodative stance for the time being as the current economic recovery still lacks a virtuous cycle e.g. inflationary pressure and strong employment. Fiscal policies must be flexibly managed in response to changing economic conditions and monetary policies should remain accommodative for now. Financial policies need to consider the possibility of higher volatility in the global financial markets as a result of the US rate hike and instability in emerging markets while reinforcing macroprudential countermeasures against capital flow volatility.

In the medium-run, restructuring efforts must continue to resolve pending challenges such as unbalanced growth between different industries and weak job-creation capacity. Without consistent restructuring efforts to accurately diagnose and tackle problems, the Korean economy will not be able to avoid losing its economic competitiveness and dynamism. Thus, an objective assessment should be conducted on the global competitiveness of key export industries to confirm the urgency of restructuring not only key industries sectors but also the overall economy. In addition, policy discussions on the balanced growth of manufacturing and services and strengthening the competitiveness of the service sector need to be held in earnest to increase the likelihood of creating a virtuous cycle in which higher domestic demand leads to more value added.

Taiwan Province of China

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The global economy gathered momentum in early 2018, reflecting that major advanced economies and emerging markets were significantly exceeding expectations. In paticular, the U.S. fiscal stimulus (Tax Cuts and Jobs Act of 2017) and healthy Chinese domestic demand supported further global demand growth. Additionally, the increase in international raw materials prices spurred recovery of resource-rich countries, helping the emerging markets accelerate GDP growth.

Taiwan experienced strong exports and solid private consumption which bumped up economic growth in the first half of 2018, better-than-expected. The broad economic figures show that rapidly emerging tech applications boosted global demand, bolstering the external sector. Meanwhile, a steady labor market and rising real wages spurred retail sales further this year. Despite the robust performance of the export-oriented industry, fixed capital formation remains slow because of low investments in machinery and equipment by the semiconductor industry.

On the back of solid global demand, the Taiwanese economy is seeing intensifying improvement in 2018. However, a number of issues can threaten slowdown of the momentum. These include uncertainties stemming from the mounting global trade tensions, the spread of geopolitical conflicts, turbulence in financial markets and the continuous rise of oil prices. These exposures inadvertently could affect consumers' confidence and corporations' willingness to invest.

On the other hand, the government plans to boost investment and stimulate implementation of major public infrastructure projects. The execution of these policies may help mitigate the external risks.

South Asia

The economic outlook for **South Asia** remains largely favourable, but some countries are facing significant turbulences. The positive aggregate picture is driven by India, which accounts for more than 70 per cent of regional GDP. The Indian economy is expected to continue expanding at a rapid pace of above 7.0 per cent in 2018 and 2019, amid vigorous private consumption, the recovery of gross fixed investment, and benefits from previous reforms. Public investment in infrastructure will also remain a priority, while monetary policy is gradually tightening to contain inflationary pressures. The Bangladesh economy is also set to continue expanding at a robust pace, in the near term, amid robust fixed investment and sound macroeconomic policies.

However, some smaller economies in the region are also facing increasing economic and financial difficulties. The economic outlook in the Islamic Republic of Iran is rapidly deteriorating, due to domestic weaknesses and the re-imposition of trade, investment and financial sanctions by the United States. The sanctions are expected to weaken the currency, exacerbate goods shortages and constrain productive capacity and export revenues. Thus, domestic demand is projected to deteriorate markedly in the near term, with the possibility of entering in a recession in 2019. In addition, s structural limitations, such as the prolonged period with restricted technology transfer, banking fragilities and financing restrictions, will continue to limit economic growth in the medium term.

Meanwhile, the economy of Pakistan is expanding rapidly, supported by large infrastructure initiatives under the China-Pakistan Economic Corridor. However, Pakistan is also facing significant vulnerabilities, amid large twin fiscal and current account deficits, a visible decline in international reserves, and mounting pressures on the domestic currency. The level of public debt is also relatively high, at close to 70 per cent of GDP, and the government may seek assistance from the IMF, for the second time in the last five years. Thus, while economic growth remains robust, downside risks have noticeably increased in 2018. Furthermore, these issues highlight some long-standing challenges faced by Pakistan. In order to promote a more sustainable medium-term growth, there is a need for policymakers to strike a balance between encouraging much-needed infrastructure investments to alleviate the chronic energy shortages, while addressing large external imbalances, particularly through promoting export growth. The economic outlook for Afghanistan remains fragile, amid the long-standing conflict affecting the country. The prolonged high uncertainty in the political environment and significant institutional weaknesses remain major impediments to progress. In addition, the lack of reforms will likely constrain investment in the near term.

Beyond these country-specific circumstances, there are crucial aspects that South Asia needs to address to unleash its growth potential and to encourage a more inclusive development trajectory in the medium term. First, strengthening job creation is major challenge, even more so given that the working-age population is projected to expand visibly in the next decade. Furthermore, employment rates are relatively low, and female employment rates have decline in several economies recently. Second, improving the fiscal accounts constitute a key challenge for most economies, amid low level of tax revenues, rigid public expenditures, and persistent structural deficits. Improved tax revenues are a critical aspect in building fiscal buffers and strengthening the capacity to implement countercyclical policies in the region. Third, South Asia needs to tackle large infrastructure gaps, particularly in energy, telecommunications, sanitation and water access, as well as transport and connectivity. The enduring infrastructure deficits in some of these areas not only limit productivity gains and economic growth, but also constraint further progress on poverty alleviation.

Country forecast summaries by LINK participants

India

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After overcoming two policy shocks in the form of demonetization as well as implementation of major tax policy reform in the form of GST (Goods and Services Tax), Indian economy appear to be stabilizing in the current year. For the year 2017-18, the economy registered a growth of 6.5 per cent and it was expected that it would recover in the current year. Monthly industrial production data do suggest that the there is a recovery in the overall economic activity in the current year (June 2018 data shows a growth of 7 per cent in the index of industrial production). The recent data on both wholesale and retail inflation also suggest some moderation. However, due to the policy measures such as increase in Minimum Support Prices (MSP) for the agricultural commodities at about 150 per cent of cost and shift in the government expenditure from capital to consumption is expected to retain the inflation expectations above the Central Bank's target of 4 per cent. In addition to this, prevailing higher international crude oil prices as well as sharp depreciation of exchange rate has increased inflation uncertainty in the medium term.

On the growth front, while government has taken many structural measures, private investments is yet to revive. India is still struggling with 'twin balance sheet' issues and, as the recent episodes suggest, resolving the Indian banking sector problems could take a longer time than expected. With the absence of private investments and with the emerging protectionist policies in the global economy, the growth prospects in India heavily dependent on government sector. (The central bank has already hiked the policy interest rates twice and expected to hike further, which could also discourage private investments to some extent). However, as the government is also constrained by the FRBM Act (Fiscal Responsibility and Budget Management Act) targets, the option of counter-cyclical fiscal policy measures is limited. Most importantly, although government appears to be maintaining the fiscal deficit targets, there seem to be risks due to the quality of fiscal adjustment, which could be contractionary. Overall, our model suggests that GDP growth in the current year would be 6.7 per cent and in 2019-20 the economy is expected to grow at 7.4 per cent. However, there are some downside risks for these forecasts. It depends on the assumptions on the monsoon and the external variables especially the oil prices and the exchange rate. The headline inflation is projected to be at 5.2 per cent for the year 2018-19 while it is expected to decline to 4.4 per cent in the subsequent year.

Nepal

Dilli Raj Khanal

Along with political stability after long transition, there are some positive developments in the Nepalese economy today. There has been some surge in average growth rate in the last two fiscal years as a result of revival and expansion of manufacturing, trade, tourism, finance and some other services sectors. Some slowdown in inflation rate has also taken place despite continued pressures by the petroleum prices. However, there are many areas where economy is facing deeper problems. One of the areas is banking system. Despite some ease in the liquidity problem of the banking system more recently, pressure in the interest rate is continuing with added adverse effect on stock market prices. Together with many structural and institutional bottlenecks, both financial and capital markets are constraining private sector investment. Major problem is witnessed in the government budgetary front. Amidst continued rise in current expenditure, the federal governance system introduced has further escalated such expenses with further pressures particularly on the capital budget. The mounting trade deficit amidst slowdown in remittances inflows has started widening current account deficit too. Thus, many macroeconomic problems escalating in parallel underscore on the need of deep rooted reforms for continued move toward higher growth trajectory.

Pakistan

Qazi Masood Ahmed

Pakistan has achieved a thirteen-year high growth rate of 5.8 percent in FY18 and the average CPI inflation was well below the 6.0 percent target. However, moving forward, the challenges to Pakistan's economy have further accentuated. First, the provisional SBP estimate for fiscal deficit in FY18 is 6.8 percent as opposed to 5.5 percent in 2018. The current account deficit has also increased to $ 16.0 billion during FY18 as opposed to $ 11.1 billion in the corresponding period last year. Second, the aggregate demand has proved to be higher than previously thought reflecting in the average headline inflation for FY19 is expected to cross the 6.0 percent annual target and core inflation numbers projections at around 7.0 percent. Third, on the external front, though both exports and workers' remittances are performing better, the sheer size of imports continues to pressurize foreign exchange reserves.

The real economic activity repeated its strong FY17 performance. However, towards the end of FY18, some challenges cast shadows on the capacity of the real sector to continue pacing this high growth path. In the agriculture sector, the most important concern is shortage of water, which is likely to constrain agriculture production below the target in FY19 but despite this concern the projection of FY19 GDP growth is expected to be around 5.5 – 6 percent. The picture is changing rapidly for the headline and core inflation is 6.0—7.0 percent for FY19 which is based on (i) higher fiscal deficit; (ii) food inflation reverting to its normal behavior;

(iii) unfavorable trend in international oil prices; and (iv) lagged pass-through of rupee depreciation.

Monetary expansion in FY18 has been driven by government borrowing for budgetary support and healthy growth in credit to the private sector which showed growth of 14.8 percent. In FY19, private sector credit is expected to increase by almost the same amount at a growth rate of about 14 percent. This will be driven primarily by the rise in need for working capital at the back of gestation of lagged fixed investment into production and rising exports.

Due to the above mentioned points the government is introducing some measure to stabilize the economy. In order to curb aggregate demand and ensure near-term stability the State Bank has decided to increase the policy rate by 100 bps to 7.50 percent effective from 16 July 2018. Similarly, it is expected to take some measures on fiscal side after the new government assume power in September, 2018. Similarly, other fiscal and economic measures are expected to be introduce by the new government after assuming power in August 2018.

Western Asia

In **Western Asia**, Sharp depreciation of Turkish Lira casts a shadow of uncertainty. The value of the Turkish lira plunged in August after a few months of gradual depreciation. Nonetheless, the immediate impact on the real economy has been limited as the central bank managed to supply liquidity in both domestic and foreign currencies. However, the situation remains challenging as the rapidly expanding Turkish economy needs a careful soft landing.

The region is sensitive to a financial turmoil as the value of financial and property assets has weakened in recent years. Except for Iraq, Syria and Yemen, the region has witnessed a prolonged housing boom to varying extents. The wealth effect of the rising property values has been one of the drivers of domestic demand expansions. The weakening wealth effect slows the economic recovery of the member States of the Gulf Cooperation Council (GCC), namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates despite growing oil revenues. Weak property markets are also negatively impacting domestic demand growth in Jordan and Lebanon, where the Governments also face challenges in implementing fiscal reform measures to raise revenues. Growth in Israel remains robust, but the weakening property market is beginning to be recognized as a downside risk.

Meanwhile, more signs of economic stabilization are being observed in Iraq and Syria. However, the political and security situations remain fragile in both countries, hampering prompt economic reconstruction efforts. The crisis in Yemen remains dire for the ongoing conflict with deteriorating food security and balance-of-payments conditions.

Country forecast summaries by LINK participants

Turkey
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University of Pennsylvania

After a relatively high, and volatile growth of real GDP during the last two decades, the economy reached to a point of boil, and crisis. This episode was repeated several times in Turkey, ending with similar but not identical results including military takeovers. The goal of high growth may be the right one provided that financing is possible. If funds are not domestically created and borrowed in foreign currency, bubbles and bottlenecks will be typical results. This was repeated, especially, after the June 24th presidential and parliamentary elections. The Lira/dollar exchange rate, which was 4.71 on June 24th, is 6.55 on August 15th. The pressure on the currency was developing because of high foreign debt especially by the private sector coupled with interest rate hikes in the US. The burden on debt, which was attractive during the low interest period, globally. Those days are over and adjustments are needed. Higher tariffs are going to make growth and inflation prospects worse almost in any country. The Central Bank of Turkey took several measures such as lowering the required reserve ratios, but came short of raising policy rates. Both domestic and foreign participants expected rates to increase. Since that expectation was not realized, escape from the local currency started. High external debt makes all banks and other establishments vulnerable. The economy is expected to shrink in dollar terms.

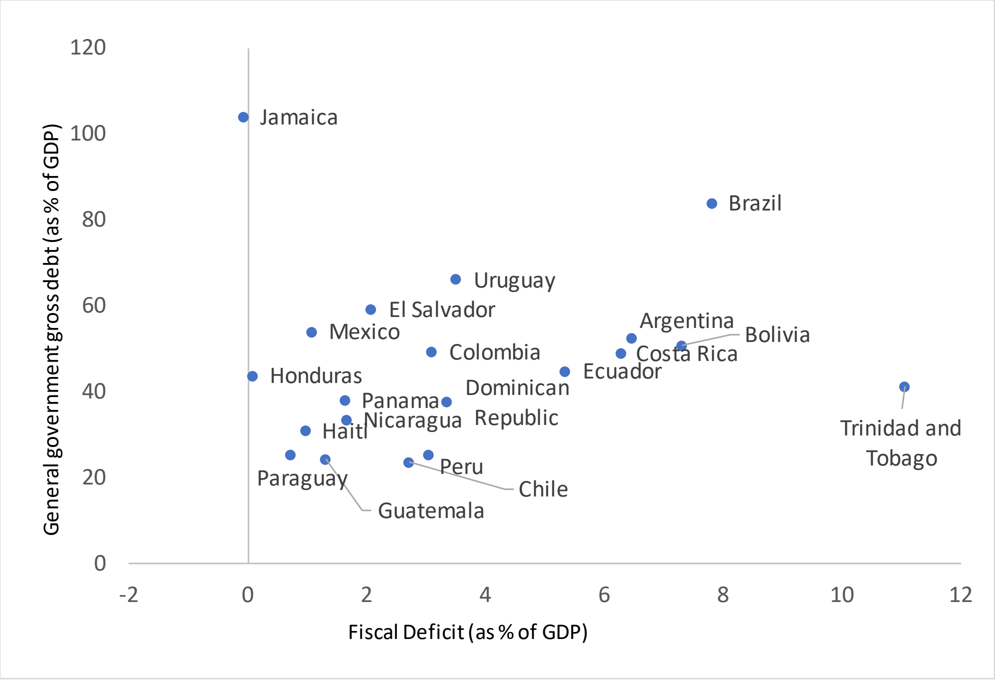
Latin America and the Caribbean

The economic recovery in Latin America and the Caribbean has lost momentum in the first half of 2018 amid renewed weakness in some of the region's large economies, notably Argentina and Brazil. Regional GDP is projected to expand by 1.7 per cent in 2018 and 2.2 per cent in 2019, compared to 1.0 per cent in 2017. This represents a marked downward revision from UN/DESA forecasts made in May. Moreover, amid rising global trade tensions and tighter financing conditions, risks to the regional outlook remain tilted to the downside. Of particular concern is the challenging fiscal situation in the region. In 2017, all of the region's economies except Jamaica recorded fiscal deficits, leading to a further increase in government debt (see figure 3.3).

The reduced growth projections for Brazil reflect the impact of a 10-day nationwide truckers' strike in May, lower business confidence, continuing political uncertainty, and a more challenging external environment. Argentina's short-term economic prospects have deteriorated even more sharply in recent months. Severe macroeconomic imbalances and financial vulnerabilities triggered a currency crisis in the second quarter. In response, Argentina's Government and the IMF agreed in June on a Stand-By Arrangement amounting to 50 billion dollars. The associated economic adjustment plan entails tighter monetary and fiscal policy in a bid to strengthen the fiscal position, reduce inflation and restore financial market confidence. As a result, GDP growth is expected to slow markedly in 2018 and recover only gradually in 2019-20.

Also weighing on the regional outlook are the socio-economic crises in the Bolivarian Republic of Venezuela and Nicaragua and subdued prospects of the Mexican economy. Amid ongoing political turmoil, the Bolivarian Republic of Venezuela is mired in its fifth year of recession. Since oil production continues to plummet and massive macroeconomic imbalances persist, a further sharp economic contraction is projected for 2018 and 2019. In Nicaragua, political instability and violent unrest are expected to weigh heavily on economic activity in the outlook period. The tourism sector is particularly hard hit by the protests, but agriculture, transport and construction are also strongly affected. In Mexico, monetary policy tightening, downward pressure on the peso and uncertainty related to trade tensions and NAFTA negotiations have led to a small downward revision in growth prospects to about 2 per cent in 2018 and 2019.

Figure 3.3 Fiscal Balances and Government Debt in Latin America and the Caribbean, 2017



Source: IMF

Conversely, positive news has come from several other South American countries. In Chile, Colombia and Peru, GDP growth has picked up pace thanks to strong consumer spending and recovering investment. The short-term outlook for these economies remains largely favourable. However, a slowdown of China's economy, coupled with tighter global financial conditions, poses a significant downside risk.

Meanwhile, in the Caribbean, Suriname and Trinidad and Tobago are finally recovering from prolonged recessions, which were triggered by the commodity price shock of 2014-2015. Aggregate GDP for the subregion is forecast to rise by 1.7 per cent in 2018, following a contraction of 0.3 per cent in 2017. Short-term prospects for the subregion, however, remain constrained by fiscal adjustment programmes in several countries, as the region is plagued by high levels of public debt. Barbados, where the public debt to GDP ratio is among the highest in the world, requested balance of payments assistance from the IMF in June.

Country forecast summaries by LINK participants

Brazil

Leonardo Carvalho and Eustáquio Reis

IPEA/DIMAC

The economy remains subdued surrounded by all kinds of political uncertainties. The first round of presidential elections together with the choice of Legislative representatives and State governors will be held on October 7. Ex-President Lula is in jail waiting for judicial decisions but plays the role of Kagemusha leading by far the electoral polls. If his candidacy is denied, electoral chances are pretty much dispersed among five presidential candidates spanning all the ideological spectrum.

The recovery remains extremely weak and social security reforms were postponed for the next government. GDP is projected to grow 1.5% this year. The teamster strike last May was the coup de grace to the consumption led recovery started last year. Consumption growth vanished, idle capacity reached record high levels and unemployment rate remains above 12% of the labor force. Fiscal policy was emasculated by legislation approved last year which imposed a zero growth ceiling on real government expenditures. The social security deficit compressed other government expenditures, including government investment which dropped to merely 0.5% of GDP. On top of that, liberalization of the labor legislation amidst recession only brought additional uncertainty to consumption decisions. Finally, monetary policy played a passive role paying little attention to unemployment rates. Interest rates, now close to 6.5% p.a., lagged behind the recession induced decline of inflation rate which is expected to be a bit above 4.0% by the end of this year.

Projections for the next few years are for a mild recovery and inflation stability in a fiscal adjustment environment. But projections are extremely sensitive to the scenarios forecasted for election results and the unfoldings of the present political crisis. If one of the leftist/labor candidates are elected they will probably undo much of the economic reforms approved by the present administration and implement expansionist fiscal and credit policies to boost the economy out of recession. Structural reforms will be postponed. In this scenario, growth and inflation will be higher in the short run. On the other hand, if one of the center/liberal candidates are elected they will probably deepen the fiscal, social security as well as other structural reforms but temporary relief of fiscal ceiling will be unavoidable. This scenario implies lower growth and inflation under control. Finally, the election of the right/conservative candidate poses a scary enigma and will most probably aggravate economic and political instability.

Costa Rica

Juan-Rafael Vargas
Escuela de Economía, Universidad de Costa Rica

In summary, the first semester of 2018 was characterized by a private market of changes with greater liquidity with respect to the same periods of previous years and that has been compensated by the greater demand by SPNB. As a result, the exchange rate has shown a stable behavior, although with a tendency towards appreciation. Unlike 2017, there have been no episodes of significant volatility or movements inconsistent with the evolution of macroeconomic determinants, so that the stabilization operations required have been smaller.

The Costa Rica's macroeconomic performance at best has could converge to 3% in the forecast period. The growth slowly diminishes in years one and two of the Alvarado Administration, but there is room for higher trend. Consumption could smooth out and grow at a higher rate and infrastructural investment should begin to pay off. Core inflation will be under control. The Central Bank begins to understand better the mechanism behind expectation and it is a consensus goal for Board to keep a close look at its working. Taxes (one way or the other) and exchange rates could trigger a doubling of the price path.

Mexico (1)

Eduardo Loria
Center for Modeling and Economic Forecast, UNAM

Mexico has been going through a period of slow expansion since the early 90s (an annual average of 2.5%), when economic growth was resumed after the "lost decade" during the 80s. Numerous structural reforms have been implemented but they have not managed to raise the potential growth.

On December 1, 2018, for the first time in history a populist leftist government will take office. Its focus will be on raising growth to 4% by taking the following steps: a) fighting corruption, b) investing in social programs, c) investing in highly inefficient state-owned energy companies (PEMEX and CFE), d) repealing the recently implemented structural reforms, in particular the energy and education reforms, e) relocating the federal governance structure across the country, and f) substantially raising the minimum wage. All of the above will be done while lowering the primary fiscal balance.

The forecast we are presenting for 2018-2020 is inertial (baseline scenario) and it assumes no drastic changes in the domestic policy or the current form of NAFTA. We work with the assumption that the policy will continue to focus on maintaining fundamentals in check. Furthermore, we estimate that the recovery of the U.S. industrial sector and that of the rest of the economy will continue, as will its positive effect on the production and exports of Mexican manufacturing.

Given these assumptions, we forecast a stable GDP growth rate at around 2.5% for the forecast horizon, which will be characterized by low unemployment rates and sound fundamentals.

Mexico (2)

Alfredo Coutiño
Center for Economic Forecasting of Mexico, Philadelphia, PA. U.S.A.

In the following three years, Mexico's economy will be immersed in the ups and downs of the business cycle, a traditional pattern determined by the political cycle every six years of change of government. In 2018 the economy will report a little higher growth because of the expansionary effects of the political cycle in a year of presidential election. In 2019 the economy will lose strength and decelerate in the first year of the new administration, when the delay in the execution of the federal budget also affects investment decisions. In the medium term, with reforms increasing production capacity, the economy will advance at a slightly higher rate. However, the country's capacity to grow could be affected if the U.S. takes more permanent measures to restrict trade and investment, as well as if Mexico's new leftist government takes actions that threaten private investment and property rights.

During the first half of 2018 the economy is benefiting from the expansionary effects of the political cycle, with extra spending to finance the election process and political campaigns. However, the still-low investment ratio remains a drag, despite the series of structural reforms in place. Mexico is already affected by the anti-trade rhetoric of the Trump administration, in terms of the delay and postponement of some investments, but it is even more affected by the implementation of policies against trade and immigration by the ongoing government. Inflation has moderated during the year, after a strong rebound in 2017 that put it at more than twice the 3% target. The peso remains depreciated, since it has suffered a correction rather than a transitory adjustment. However, the currency has recovered some ground after the convincing election results. Nevertheless, financial markets remain nervous regarding trade negotiations with the U.S. and the normalization of U.S. monetary conditions.

Our Baseline scenario outlines an economy with further improvement this year, although 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 around 2.3% this year (after 2.0% in 2017), decelerating to 1.5% in 2019 as a result of the political change, and reaccelerating to 2.5% in 2020 as the new government is settled down. In the medium term, the economy will advance at rates determined by the increase in production capacity, between 3% and 3.5%.

Appendix A. Statistics tables

Table A.1
Developed economies: rates of growth of real GDP, 2016-2020

Annual percentage change					
	2016	*2017*	*2018*[b]	*2019*[c]	*2020*[c]
Developed economies	**1.6**	**2.3**	**2.2**	**2.0**	**2.1**
United States	1.5	2.3	2.6	2.3	2.4
Canada	1.4	3.0	2.0	2.2	2.4
Japan	1.0	1.7	1.0	1.5	1.2
Australia	2.6	2.2	3.1	2.1	1.9
New Zealand	4.1	3.0	2.9	2.6	3.0
European Union	**2.0**	**2.4**	**2.2**	**2.0**	**2.1**
EU-15	1.9	2.2	2.0	1.9	2.0
Austria	1.5	3.0	2.9	1.9	1.8
Belgium	1.4	1.7	1.5	1.6	1.6
Denmark	2.0	2.2	1.6	1.9	1.8
Finland	2.3	2.7	2.3	1.5	2.6
France	1.2	2.2	1.9	1.8	2.0

Germany	2.2	2.2	2.2	2.0	2.0
Greece	-0.2	1.4	1.8	1.9	1.5
Ireland	5.1	7.8	3.8	4.4	4.2
Italy	0.9	1.5	1.2	1.2	1.0
Luxembourg	3.1	2.3	3.1	3.1	3.1
Netherlands	2.2	2.9	2.6	2.5	2.8
Portugal	1.6	2.7	1.7	1.3	1.9
Spain	3.3	3.1	2.7	2.3	2.1
Sweden	3.2	2.3	2.7	2.2	2.6
United Kingdom	1.8	1.7	1.4	1.5	2.2
EU-13	3.1	4.6	4.1	3.6	3.4
Bulgaria	3.9	3.7	3.9	4.5	4.5
Croatia	3.2	3.2	2.7	2.7	2.6
Cyprus	3.4	3.9	3.0	2.0	3.2
Czech Republic	2.5	4.3	3.6	3.0	3.0
Estonia	2.1	4.9	3.5	3.5	2.3
Hungary	2.2	4.0	4.1	3.3	2.7
Latvia	2.2	4.5	4.2	3.8	3.3
Lithuania	2.3	3.9	3.6	3.9	3.4
Malta	5.3	6.4	2.9	2.9	3.6
Poland	3.0	4.6	4.6	3.8	3.8
Romania	4.8	6.8	4.5	4.0	3.5
Slovakia	3.3	3.4	3.8	4.0	3.6
Slovenia	3.1	5.0	4.2	3.8	3.2
Other Europe	**1.3**	**1.5**	**1.7**	**1.9**	**2.9**
Iceland	7.5	3.6	3.5	3.2	4.0
Norway	1.1	1.9	1.8	2.0	3.2
Switzerland	1.4	1.1	1.7	1.7	2.7
Memorandum items:					
North America	1.5	2.4	2.6	2.2	2.4
Developed Asia and Pacific	1.4	1.9	1.4	1.7	1.4
Europe	1.9	2.4	2.1	2.0	2.2
Major developed economies	1.4	2.1	2.0	2.0	2.0
Euro area	1.9	2.4	2.1	2.0	2.0

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, 2016-2020

Annual percentage change					
	2016	*2017*	*2018*[b]	*2019*[c]	*2020*[c]
Economies in transition	**0.4**	**2.1**	**2.1**	**2.1**	**2.8**
South-Eastern Europe	***3.0***	***2.3***	***3.6***	***3.7***	***3.6***
Albania	3.4	3.8	4.4	4.0	3.8

Bosnia and Herzegovina	3.1	3.0	2.7	3.0	3.0
Montenegro	2.9	4.0	4.5	4.5	4.0
Serbia	2.8	1.9	4.2	4.0	4.0
The former Yugoslav Republic of Macedonia	2.9	0.0	1.5	3.0	3.0
Commonwealth of Independent States and Georgia[d]	***0.3***	***2.0***	***2.1***	***2.0***	***2.7***
Commonwealth of Independent States and Georgia - net fuel exporters	***0.2***	***2.0***	***1.9***	***1.9***	***2.6***
Azerbaijan	-3.1	0.1	1.0	1.8	2.0
Kazakhstan	0.8	4.6	4.0	4.0	4.0
Russian Federation	-0.1	1.5	1.5	1.5	2.3
Turkmenistan	6.2	5.9	6.0	5.0	5.0
Uzbekistan	6.0	5.3	5.2	6.0	5.5
Commonwealth of Independent States and Georgia - net fuel importers	***1.4***	***2.9***	***3.9***	***3.3***	***3.5***
Armenia	1.0	1.1	7.4	4.0	4.0
Belarus	-2.5	2.4	4.5	3.0	3.0
Georgia[d]	2.8	5.0	4.8	4.0	3.6
Kyrgyzstan	3.8	4.6	3.5	4.0	4.0
Republic of Moldova	4.3	4.9	4.0	4.6	4.6
Tajikistan	6.6	6.6	6.9	6.0	5.5
Ukraine[e]	2.4	2.5	3.1	2.9	3.5

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, 2016-2020

Annual percentage change					
	2016	*2017*	*2018[b]*	*2019[c]*	*2020[c]*
Developing countries [d]	3.9	4.5	4.5	4.5	4.9
Africa	1.7	3.5	3.5	3.8	3.9
North Africa	3.0	5.7	4.4	4.7	4.1
Algeria	3.3	2.8	2.7	2.2	2.8
Egypt[e]	4.3	5.6	6.0	5.4	4.7
Libya	-2.8	26.7	17.2	12.8	11.5
Mauritania	1.7	3.8	3.2	5.1	6.9
Morocco	1.1	4.1	3.2	3.9	4.5

Sudan[e]	3.0	4.2	4.1	4.2	4.1
Tunisia	1.1	1.9	2.4	3.4	3.6
East Africa	5.4	5.9	6.2	6.2	6.3
Burundi	1.7	-3.6	1.0	1.6	2.2
Comoros	2.2	2.8	3.0	3.6	5.3
Democratic Republic of the Congo	2.4	3.7	4.2	4.4	4.5
Djibouti	6.3	6.8	6.8	6.7	4.8
Eritrea	3.7	3.2	3.6	3.8	5.8
Ethiopia	7.6	8.3	8.0	7.5	7.7
Kenya	5.6	4.9	5.9	6.0	6.0
Madagascar	4.2	4.3	4.5	4.8	5.0
Rwanda	5.9	5.1	6.0	6.8	6.3
Somalia	2.6	2.5	3.3	3.9	3.6
Uganda	2.3	6.1	6.0	6.0	6.8
United Republic of Tanzania	7.0	7.1	6.8	6.9	6.6
Central Africa	-0.5	-0.6	1.7	2.9	3.8
Cameroon	4.5	3.0	4.1	4.6	4.4
Central African Republic	4.5	4.0	4.3	4.6	4.5
Chad	-3.4	-5.6	3.7	4.3	4.4
Congo	-2.8	-4.6	4.3	2.1	3.3
Equatorial Guinea	-8.9	-2.5	-8.5	-2.7	1.7
Gabon	3.2	0.9	2.5	3.6	4.1
Sao Tome and Principe	0.1	4.5	5.0	5.4	5.0
West Africa	0.2	2.4	3.0	3.3	3.7
Benin	5.0	5.4	6.1	6.2	4.9
Burkina Faso	5.9	6.3	7.1	6.1	6.3
Cabo Verde	3.8	4.0	3.8	4.1	3.5
Côte D'Ivoire	8.8	8.5	8.6	7.8	7.6
Gambia	2.2	3.0	4.0	4.3	4.1
Ghana	3.7	8.5	7.5	7.4	6.5
Guinea	6.6	6.6	6.4	6.2	5.8
Guinea Bissau	5.1	5.7	6.1	5.2	4.9
Liberia	-0.5	2.5	3.8	4.8	4.8
Mali	7.9	5.1	5.1	5.3	5.6
Niger	5.0	4.9	5.2	5.6	5.2
Nigeria	-1.6	0.8	1.6	2.0	2.7
Senegal	6.5	7.2	7.0	6.7	6.5
Sierra Leone	6.1	3.8	5.8	6.4	7.4
Togo	5.0	4.4	4.9	5.5	5.4
Southern Africa	0.7	1.5	1.8	2.3	2.7
Angola	-0.8	0.7	2.2	2.4	3.0
Botswana	4.3	2.4	4.4	4.0	4.1
Lesotho	2.9	2.9	3.6	3.8	4.2
Malawi	2.5	4.0	4.4	5.1	4.9
Mauritius	2.7	3.9	3.7	3.9	3.2

Mozambique	3.8	3.7	3.4	3.4	4.1
Namibia	1.1	-0.8	3.2	3.2	5.4
South Africa	0.6	1.3	1.2	1.9	2.1
Swaziland	0.0	1.0	1.9	1.6	3.3
Zambia	3.8	4.1	4.2	4.1	3.8
Zimbabwe	0.7	1.8	1.5	1.0	6.9
Africa - net fuel exporters	1.0	3.4	3.3	3.6	3.6
Africa - net fuel importers	2.6	3.6	3.7	4.1	4.3
East and South Asia	6.1	6.1	5.9	5.7	5.8
East Asia	5.7	6.0	5.9	5.7	5.7
Brunei Darussalam	-2.5	1.3	2.3	2.7	3.0
Cambodia	7.0	6.8	7.1	7.0	6.7
China	6.7	6.8	6.6	6.3	6.3
Fiji	0.4	4.2	3.5	3.3	3.4
Hong Kong SAR[f]	2.1	3.8	3.8	3.7	3.6
Indonesia	5.0	5.1	5.2	5.4	5.3
Kiribati	4.2	3.3	2.1	2.0	2.3
Lao People's Democratic Republic	7.0	6.9	7.3	7.2	7.1
Malaysia	4.2	5.9	5.3	5.7	5.5
Mongolia	1.4	5.2	6.0	5.3	5.7
Myanmar[e]	5.7	7.3	7.2	7.3	7.1
Papua New Guinea	2.5	2.2	2.6	2.4	3.8
Philippines	6.9	6.7	7.0	7.0	7.1
Republic of Korea	2.9	3.1	2.9	2.7	3.3
Samoa	5.8	2.9	1.8	2.2	3.0
Singapore	2.4	3.6	3.0	2.8	3.3
Solomon Islands	3.2	3.0	2.8	3.2	3.7
Taiwan Province of China	1.4	2.9	2.7	2.3	2.4
Thailand	3.3	3.9	3.8	3.6	4.5
Timor-Leste	5.0	-3.0	0.5	5.0	5.9
Vanuatu	4.0	4.2	3.8	3.5	3.9
Viet Nam	6.2	6.8	6.5	6.5	6.2
South Asia	7.9	6.2	5.9	6.0	6.3
Afghanistan[e]	3.6	2.9	3.4	3.1	2.8
Bangladesh[e]	7.1	7.2	7.1	7.2	6.9
Bhutan	8.0	6.9	7.1	7.3	7.2
India[e]	7.1	6.5	7.1	7.4	6.9
Iran (Islamic Republic of)[e]	13.4	6.8	2.2	1.5	4.3
Maldives	6.2	6.9	6.6	6.4	4.8
Nepal[e]	0.4	7.9	5.5	5.7	7.5
Pakistan[e]	5.7	5.7	5.4	5.0	5.0
Sri Lanka	4.5	3.3	4.0	4.7	5.0
East and South Asia - net fuel exporters	6.6	5.8	4.4	4.0	5.1

East and South Asia - net fuel importers	6.1	6.1	6.0	5.9	5.9
Western Asia	3.3	2.3	2.8	2.1	2.8
Net fuel exporters	3.3	-0.4	2.6	2.4	3.8
Bahrain	3.5	3.8	3.5	2.1	3.1
Iraq	11.0	-0.8	4.6	2.3	5.7
Kuwait	2.9	-3.5	3.1	2.9	4.5
Oman	5.4	-0.3	2.9	2.1	3.5
Qatar	2.2	1.7	3.3	2.9	4.7
Saudi Arabia	1.7	-0.8	1.9	2.1	3.0
United Arab Emirates	3.0	0.8	2.5	2.6	3.4
Yemen	-9.8	-9.5	-4.9	1.8	7.3
Net fuel importers	3.1	6.1	3.1	1.8	1.4
Israel	4.0	3.3	3.5	3.2	3.7
Jordan	2.0	2.0	2.4	2.3	4.1
Lebanon	2.0	2.0	2.6	2.8	3.7
Syrian Arab Republic	-3.4	-2.0	2.7	4.7	8.4
Turkey	3.2	7.4	3.1	1.4	0.5
Latin America and the Caribbean	-1.3	1.0	1.4	2.1	3.1
South America	-2.9	0.5	1.0	2.0	3.1
Argentina	-1.8	2.9	-0.3	1.5	2.5
Bolivia (Plurinational State of)	4.3	4.2	4.3	4.0	3.7
Brazil	-3.5	1.0	1.6	2.5	3.0
Chile	1.3	1.5	3.9	3.6	3.7
Colombia	2.0	1.8	2.7	2.9	3.4
Ecuador	-1.6	3.0	1.5	1.7	2.4
Paraguay	4.0	4.8	4.4	4.2	4.1
Peru	4.0	2.5	3.6	3.7	3.9
Uruguay	1.7	2.7	2.3	3.0	4.1
Venezuela (Bolivarian Republic of)	-16.5	-14.7	-12.0	-8.5	4.0
Mexico and Central America	3.1	2.3	2.4	2.2	3.1
Costa Rica	4.2	3.2	3.3	3.3	3.0
Cuba	0.5	1.5	1.5	2.0	4.4
Dominican Republic	6.6	4.6	5.4	5.3	5.5
El Salvador	2.6	2.3	2.4	2.4	2.8
Guatemala	3.1	2.8	2.9	3.4	3.4
Haiti	1.4	1.3	1.7	2.6	2.6
Honduras	3.8	4.8	3.9	3.8	3.6
Mexico	2.9	2.0	2.1	1.8	2.8
Nicaragua	4.7	4.9	0.5	2.0	5.7
Panama	5.0	5.4	5.2	5.2	5.2
Caribbean	-2.4	-0.3	1.7	2.2	2.7
Bahamas	-1.7	1.4	2.6	2.1	3.7
Barbados	2.0	0.6	0.0	1.2	1.6
Belize	-0.5	0.7	2.6	2.2	3.1

Guyana	3.4	2.2	3.0	3.7	4.7
Jamaica	1.4	0.5	1.3	1.9	2.1
Suriname	-5.1	1.5	2.7	2.5	2.2
Trinidad and Tobago	-6.0	-2.3	1.5	2.3	2.6
Latin America and the Caribbean - net fuel exporters	-5.6	-3.6	-1.8	-0.2	3.4
Latin America and the Caribbean - net fuel importers	-0.6	1.8	1.9	2.4	3.1
Memorandum items:					
Least Developed Countries	4.2	4.7	5.3	5.5	5.6
Africa (excluding Libya)	1.8	3.2	3.3	3.7	3.8
North Africa (excluding Libya)	3.2	4.9	3.8	4.2	3.6
East Asia (excluding China)	3.7	4.3	4.2	4.2	4.4
South Asia (excluding India)	7.9	6.2	4.0	3.1	4.9
Western Asia (excluding Israel and Turkey)	3.2	-0.4	2.6	2.4	3.9
Arab States[g]	3.1	1.3	3.1	3.1	3.9
Landlocked developing countries	2.8	4.4	4.6	4.6	4.8
Small island developing States	2.2	3.0	3.0	3.0	3.7

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, 2016-2020

Annual percentage change[a]	*2016*	*2017*	*2018[b]*	*2019[c]*	*2020[c]*
Developed economies	**0.7**	**1.7**	**1.9**	**2.1**	**2.1**
United States	1.3	2.1	2.4	2.3	2.3
Canada	1.4	1.6	2.2	2.2	2.1
Japan	-0.1	0.5	0.9	1.4	1.5
Australia	1.3	1.9	1.7	2.8	3.3
New Zealand	0.6	1.9	2.0	2.1	2.1
European Union	**0.3**	**1.7**	**1.8**	**2.1**	**2.1**
EU-15	0.4	1.7	1.8	2.1	2.1
Austria	0.9	2.1	2.0	2.4	2.4
Belgium	1.8	2.2	1.9	2.2	2.2
Denmark	0.0	1.1	1.0	1.6	1.8

Finland	0.4	0.8	1.4	2.1	2.5
France	0.3	1.2	1.6	2.0	2.0
Germany	0.4	1.7	1.7	1.9	1.9
Greece	0.0	1.1	0.7	2.0	2.2
Ireland	-0.2	0.3	0.7	1.1	1.9
Italy	-0.1	1.4	1.9	1.9	1.9
Luxembourg	0.0	2.1	1.5	2.6	3.3
Netherlands	0.1	1.3	1.5	2.0	2.1
Portugal	0.6	1.6	1.3	2.0	2.0
Spain	-0.3	2.0	1.4	1.8	1.8
Sweden	1.1	1.9	2.2	2.6	2.6
United Kingdom	0.7	2.7	2.5	2.6	2.4
EU-13	-0.2	1.8	2.5	2.8	2.6
Bulgaria	-0.8	2.1	2.9	2.5	2.6
Croatia	-1.1	1.1	1.6	1.8	2.2
Cyprus	-1.7	0.5	0.6	1.5	1.8
Czech Republic	0.7	2.4	2.3	2.1	1.8
Estonia	0.8	3.7	3.5	2.7	2.0
Hungary	0.5	2.4	2.7	3.2	3.3
Latvia	0.1	2.9	2.4	2.6	2.3
Lithuania	0.7	3.7	2.5	2.4	2.0
Malta	0.6	1.4	1.9	2.4	2.3
Poland	-0.2	1.6	2.0	3.0	2.5
Romania	-1.5	1.3	3.9	4.1	4.0
Slovakia	-0.5	1.4	2.6	2.2	2.2
Slovenia	-0.2	1.6	2.7	3.1	3.0
Other European countries	**1.4**	**1.1**	**1.4**	**1.4**	**1.5**
Iceland	0.8	-1.6	1.7	3.1	3.6
Norway	3.9	1.8	2.1	1.5	1.1
Switzerland	-0.5	0.6	0.8	1.3	1.7
Memorandum items:					
North America	1.3	2.1	2.3	2.3	2.3
Developed Asia and Pacific	0.2	0.8	1.1	1.7	1.9
Europe	0.4	1.7	1.8	2.1	2.1
Major developed economies	0.7	1.7	2.0	2.1	2.1
Euro area	0.2	1.5	1.7	2.0	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, 2016-2020

Annual percentage change[a]	*2016*	*2017*	*2018[b]*	*2019[c]*	*2020[c]*
Economies in transition	**7.8**	**5.1**	**3.9**	**4.4**	**4.4**
South-Eastern Europe	0.5	2.3	1.9	2.1	2.1
Albania	1.3	2.0	2.3	2.4	2.6
Bosnia and Herzegovina	-1.1	1.2	1.5	1.5	1.5

Montenegro	-0.3	2.4	2.6	2.8	2.2
Serbia	1.1	3.1	2.0	2.2	2.3
The former Yugoslav Republic of Macedonia	-0.2	1.3	1.8	2.2	2.1
Commonwealth of Independent States and Georgia [d]	8.1	5.2	4.0	4.5	4.4
Commonwealth of Independent States and Georgia - net fuel exporters	7.7	4.5	3.4	4.1	4.1
Azerbaijan	12.4	12.9	3.0	4.0	4.0
Kazakhstan	14.4	7.4	6.9	6.0	5.0
Russian Federation	7.0	3.7	2.9	3.8	4.0
Turkmenistan	-4.8	5.6	5.7	4.8	4.0
Uzbekistan	8.9	14.4	10.3	8.1	6.4
Commonwealth of Independent States and Georgia - net fuel importers	11.5	10.9	8.7	8.0	7.1
Armenia	-1.4	1.0	3.0	3.5	3.5
Belarus	11.8	6.0	5.4	5.0	4.5
Georgia[d]	2.1	6.0	2.5	2.5	2.4
Kyrgyzstan	0.4	3.2	3.0	3.0	3.0
Republic of Moldova	6.4	6.6	3.5	4.0	3.6
Tajikistan	6.0	7.1	3.5	5.0	5.0
Ukraine[e]	13.9	14.4	11.5	10.4	9.1

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, 2016-2020

Annual percentage change[a]	*2016*	*2017*	*2018*[b]	*2019*[c]	*2020*[c]
Developing countries by region[d]	**5.1**	**4.3**	**4.2**	**4.0**	**3.8**
Africa	***11.9***	***13.6***	***10.1***	***8.4***	***7.2***
North Africa	**11.6**	**18.3**	**10.7**	**7.8**	**5.9**
Algeria	6.4	5.6	3.9	2.9	2.2
Egypt	13.8	29.5	11.2	10.8	8.9
Libya	26.7	28.4	12.8	9.6	7.6
Mauritania	1.5	2.3	3.0	5.4	6.5
Morocco	1.6	0.8	2.1	2.8	3.0
Sudan	17.6	32.6	48.5	19.5	9.2
Tunisia	3.7	5.3	6.4	3.9	2.7
East Africa	**6.0**	**8.3**	**6.9**	**6.2**	**5.7**

Burundi	5.6	16.1	6.9	10.7	13.3
Comoros	7.6	2.2	0.4	0.9	1.2
Democratic Republic of the Congo	2.9	13.2	11.0	7.1	4.6
Djibouti	2.7	0.6	1.6	1.5	1.2
Eritrea	21.9	7.5	5.9	4.3	3.6
Ethiopia	7.3	9.8	11.4	10.0	9.6
Kenya	6.3	8.0	5.1	4.6	4.3
Madagascar	6.7	8.3	6.5	6.2	5.8
Rwanda	7.2	8.3	2.4	3.6	4.2
Somalia	-3.6	2.2	0.8	1.3	1.5
Uganda	5.7	5.2	3.9	4.7	5.2
United Republic of Tanzania	5.2	5.3	4.6	4.9	4.6
Central Africa	**14.3**	**1.8**	**2.5**	**2.7**	**2.5**
Cameroon	0.9	0.6	1.6	1.9	1.8
Central African Republic	5.6	21.7	11.0	7.9	5.3
Chad	-0.5	-1.7	1.1	2.4	2.5
Congo	95.2	4.0	3.4	2.8	2.2
Equatorial Guinea	1.4	0.7	3.1	3.3	3.4
Gabon	2.1	3.9	2.7	2.6	2.4
Sao Tome and Principe	5.4	5.7	5.7	3.8	2.3
West Africa	**13.4**	**13.9**	**13.5**	**12.1**	**10.2**
Benin	-0.8	0.1	2.2	2.2	1.5
Burkina Faso	-0.2	0.4	2.0	2.2	1.9
Cabo Verde	-1.4	0.8	1.3	2.1	1.9
Côte D’Ivoire	0.7	0.7	2.2	3.2	3.4
Gambia	7.2	8.6	4.1	4.0	4.0
Ghana	17.5	12.4	8.3	12.2	12.0
Guinea	8.2	8.9	9.2	7.4	7.1
Guinea Bissau	1.6	1.4	1.8	2.4	2.4
Liberia	8.8	12.4	11.2	6.5	3.9
Mali	-1.8	1.8	2.4	2.7	2.5
Niger	0.2	2.4	4.1	3.5	2.6
Nigeria	15.7	16.5	16.2	14.0	11.6
Senegal	0.8	1.3	1.7	2.3	2.1
Sierra Leone	10.9	18.2	11.7	9.1	7.8
Togo	0.9	-0.8	1.3	1.6	1.6
Southern Africa	**12.3**	**10.8**	**8.2**	**7.4**	**7.0**
Angola	32.4	31.7	21.0	14.8	13.1
Botswana	2.8	3.3	3.6	4.2	4.5
Lesotho	6.6	5.3	5.3	4.9	4.5
Malawi	21.7	12.2	11.0	8.2	7.0
Mauritius	1.0	3.7	3.8	3.8	3.7
Mozambique	17.4	15.1	4.5	5.6	6.7
Namibia	6.7	6.1	4.6	4.6	4.7
South Africa	6.6	5.2	4.8	5.6	5.4
Swaziland	7.8	6.2	5.1	4.7	4.4
Zambia	17.9	6.6	8.3	7.1	6.8
Zimbabwe	-1.6	0.9	2.1	2.6	3.6
Africa - net fuel exporters	**16.0**	**19.2**	**13.6**	**10.6**	**8.5**
Africa - net fuel importers	**6.2**	**5.7**	**5.2**	**5.4**	**5.2**
East and South Asia	***2.6***	***2.4***	***2.7***	***2.8***	***2.9***
East Asia	**1.9**	**1.8**	**1.9**	**2.1**	**2.3**

Brunei Darussalam	-0.7	-0.2	0.4	0.9	1.2
Cambodia	3.0	2.9	2.7	3.1	3.0
China	2.0	1.6	1.7	1.9	2.0
Fiji	3.9	3.4	3.2	3.1	3.0
Hong Kong SAR[e]	2.4	1.5	2.5	2.6	2.7
Indonesia	3.5	3.8	3.5	3.8	3.8
Kiribati	0.7	2.1	2.2	2.4	2.1
Lao People's Democratic Republic	1.6	0.8	1.7	2.2	2.6
Malaysia	2.1	3.9	2.1	2.7	3.1
Mongolia	1.1	4.1	5.1	4.8	5.0
Myanmar	7.0	4.6	5.5	6.1	6.4
Papua New Guinea	6.7	5.9	7.0	5.1	3.5
Philippines	1.3	2.9	3.9	3.5	3.0
Republic of Korea	1.0	1.9	1.7	2.1	2.2
Samoa	1.3	1.6	2.1	2.5	2.7
Singapore	-0.5	0.6	0.8	1.4	1.7
Solomon Islands	0.5	0.5	2.2	2.5	2.6
Taiwan Province of China	1.4	0.0	1.6	1.6	1.6
Thailand	0.2	0.7	1.1	1.7	2.0
Timor-Leste	-1.3	0.6	2.3	2.3	2.4
Vanuatu	0.8	2.6	3.0	3.2	3.1
Viet Nam	3.2	3.5	3.5	4.2	4.7
South Asia	**5.6**	**5.1**	**6.3**	**5.7**	**5.7**
Afghanistan	4.4	5.0	3.9	5.4	5.5
Bangladesh	5.4	5.8	5.7	5.8	5.1
Bhutan	4.3	3.9	5.1	4.8	4.6
India	4.9	3.3	5.5	4.6	4.7
Iran (Islamic Republic of)	8.6	10.5	10.3	9.9	9.7
Maldives	0.5	2.7	1.6	2.8	3.1
Nepal	8.8	3.2	4.8	5.5	5.8
Pakistan	3.8	4.1	3.8	4.2	4.6
Sri Lanka	4.0	7.7	4.2	4.3	4.4
East and South Asia - net fuel exporters	**5.2**	**6.1**	**5.9**	**5.9**	**5.9**
East and South Asia - net fuel importers	**2.3**	**2.0**	**2.3**	**2.4**	**2.5**
Western Asia	***4.4***	***4.1***	***5.1***	***4.8***	***5.1***
Net fuel exporters	**2.7**	**0.9**	**2.0**	**2.6**	**3.3**
Bahrain	2.8	1.4	2.8	3.0	2.9
Iraq	0.5	0.2	-2.8	0.2	2.3
Kuwait	3.2	2.2	1.0	2.7	4.1
Oman	1.1	1.6	1.1	1.3	1.5
Qatar	2.9	0.4	0.8	3.1	4.6
Saudi Arabia	3.5	-0.2	2.1	3.2	3.9
United Arab Emirates	1.6	2.0	4.1	1.6	1.1
Yemen	11.9	12.8	13.8	13.5	12.4
Net fuel importers	**6.7**	**8.6**	**9.6**	**7.9**	**7.7**
Israel	-0.5	0.2	1.2	1.6	1.7
Jordan	-0.8	3.3	4.1	2.3	1.5
Lebanon	-0.8	4.3	5.1	2.4	1.8
Syrian Arab Republic	47.7	15.9	10.2	7.8	6.9
Turkey	7.7	11.1	12.4	10.2	10.0

***Latin America and the Caribbean*[d]**	***9.8***	***6.1***	***5.6***	***5.1***	***4.3***
South America[d]	**12.5**	**6.4**	**6.0**	**5.3**	**4.3**
Argentina	41.0	24.3	20.2	15.3	8.0
Bolivia (Plurinational State of)	3.6	2.8	3.0	3.5	3.6
Brazil	8.7	3.4	4.1	4.0	4.0
Chile	3.8	2.2	2.1	2.6	2.7
Colombia	7.5	4.3	3.3	3.2	2.8
Ecuador	1.7	0.4	0.1	1.5	2.5
Paraguay	4.1	3.6	4.1	3.8	3.6
Peru	3.6	2.8	1.3	2.1	2.4
Uruguay	9.6	6.2	6.9	6.7	6.6
Venezuela (Bolivarian Republic of)	254.9	18019.3	2894.6	10.9	8.0
Mexico and Central America	**2.9**	**5.5**	**4.5**	**4.4**	**4.3**
Costa Rica	0.0	1.6	2.4	3.5	4.4
Cuba	6.9	5.2	4.7	4.4	4.0
Dominican Republic	1.6	3.3	3.9	3.9	4.2
El Salvador	0.6	1.0	1.3	1.4	1.5
Guatemala	4.4	4.4	4.3	4.0	3.8
Haiti	13.8	14.7	12.9	12.0	10.1
Honduras	2.7	3.9	4.2	4.0	3.9
Mexico	2.8	6.0	4.8	4.6	4.4
Nicaragua	3.5	3.9	4.9	4.5	4.9
Panama	0.7	0.9	0.8	1.4	1.8
Caribbean	6.1	4.1	2.6	3.2	3.6
Bahamas	-0.3	1.5	2.0	2.3	2.5
Barbados	1.3	4.7	2.6	2.5	2.4
Belize	0.7	1.2	0.3	1.4	2.1
Guyana	0.8	1.9	1.4	2.0	2.5
Jamaica	2.3	4.4	4.1	4.0	4.0
Suriname	55.5	22.0	8.5	7.5	6.5
Trinidad and Tobago	3.1	1.9	1.2	2.6	3.7
Latin America and the Caribbean - net fuel exporters	**6.1**	**3.4**	**2.6**	**2.9**	**2.9**
Latin America and the Caribbean - net fuel importers	**10.2**	**6.4**	**5.8**	**5.3**	**4.4**
Memorandum items:					
Least Developed Countries	11.3	12.3	11.5	8.4	7.1
East Asia (excluding China)	1.7	2.2	2.3	2.6	2.7
South Asia (excluding India)	6.7	8.1	7.7	7.6	7.5
Western Asia (excluding Israel and Turkey)	3.5	1.3	2.2	2.7	3.3
Arab States[f]	5.9	6.4	4.7	4.2	4.1
Landlocked developing countries	8.2	7.0	5.7	5.4	5.0
Small island developing States	2.1	2.4	2.4	2.7	2.8

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, 2016-2020

Annual percentage change[a]	*2016*	*2017*	*2018[b]*	*2019[c]*	*2020[c]*
Dollar value of exports					
World	-1.4	9.2	6.6	5.5	7.9
Developed economies	**0.1**	**8.1**	**5.4**	**5.7**	**8.3**
North America	-2.4	6.1	6.3	5.3	7.2
Europe	0.6	8.5	5.2	5.9	8.8
Developed Asia and Pacific	3.3	10.4	4.7	5.3	7.1
Economies in transition	**-11.6**	**21.6**	**15.2**	**1.9**	**6.7**
South-Eastern Europe	9.4	13.6	5.5	7.7	7.8
Commonwealth of Independent States and Georgia[d]	-12.8	22.1	15.9	1.5	6.7
Developing economies	**-2.6**	**9.8**	**7.6**	**5.5**	**7.6**
Latin American and the Caribbean	-7.8	12.8	11.5	4.6	7.6
Africa	-8.2	15.7	15.4	4.0	8.0
East Asia	-0.8	7.9	5.8	6.0	7.6
South Asia	1.5	14.5	1.7	7.9	7.3
Western Asia	-6.5	11.6	12.7	3.9	7.1
Dollar value of imports					
World	-5.3	8.8	6.1	5.5	7.8
Developed economies	**-0.7**	**8.1**	**6.4**	**5.8**	**8.0**
North America	-2.1	6.6	8.2	5.4	8.1
Europe	0.6	8.6	5.4	6.1	8.3
Asia and Oceania	-4.5	9.4	8.2	5.1	6.1
Economies in transition	**-4.8**	**19.6**	**7.4**	**5.8**	**7.3**
South-Eastern Europe	5.3	12.6	7.0	7.7	10.5
Commonwealth of Independent States and Georgia[d]	-5.7	20.3	7.5	5.6	7.0
Developing economies	**-10.8**	**9.0**	**5.5**	**5.0**	**7.5**
Latin American and the Caribbean	-43.2	9.5	4.8	3.5	6.7
Africa	-7.7	8.4	11.1	4.8	7.7
East Asia	-1.0	8.7	5.9	5.2	7.8
South Asia	-2.8	14.2	4.1	9.3	11.3
Western Asia	-5.7	7.4	1.9	3.0	3.7
Volume of exports					
World	3.0	4.9	4.1	3.9	4.3
Developed economies	**2.5**	**4.6**	**4.2**	**4.0**	**4.1**
North America	-0.1	2.9	3.7	3.6	4.7

Europe	3.2	4.9	4.3	4.2	4.0
Developed Asia and Pacific	3.0	5.7	4.1	3.6	3.4
Economies in transition	**2.8**	**5.1**	**2.6**	**1.9**	**2.3**
South-Eastern Europe	10.4	9.5	4.8	4.1	5.1
Commonwealth of Independent States and Georgia[d]	2.5	4.9	2.5	1.8	2.2
Developing economies	**3.8**	**5.4**	**4.1**	**3.9**	**4.6**
Latin American and the Caribbean	1.3	2.3	2.8	2.7	4.8
Africa	4.0	6.7	3.8	3.7	4.1
East Asia	4.5	6.4	4.5	4.1	4.9
South Asia	10.9	5.5	4.4	6.3	4.3
Western Asia	-0.2	3.1	3.5	3.2	3.8
Volume of imports					
World	2.9	5.3	4.0	3.8	4.1
Developed economies	**2.6**	**4.2**	**4.0**	**4.0**	**4.0**
North America	0.9	3.9	5.2	3.9	4.9
Europe	4.0	4.2	3.5	4.2	3.9
Developed Asia and Pacific	-1.0	4.6	4.3	2.7	2.2
Economies in transition	**0.3**	**12.4**	**6.3**	**4.1**	**3.1**
South-Eastern Europe	9.4	8.6	5.2	5.8	5.9
Commonwealth of Independent States and Georgia[d]	-0.6	12.8	6.4	3.9	2.9
Developing economies	**3.3**	**6.3**	**3.9**	**3.5**	**4.2**
Latin American and the Caribbean	-3.2	4.2	2.8	2.2	3.9
Africa	2.6	5.4	3.3	3.5	3.8
East Asia	4.9	6.8	4.2	3.7	4.6
South Asia	4.3	12.0	7.6	7.9	7.9
Western Asia	3.1	3.1	1.0	1.0	0.3

Source: UN/DESA

a Includes goods and non-factor services.

b Partly estimated.

c Baseline forecast, based in part on Project LINK.

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.