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Overview

The recovery of the global economy continues, with strong output growth in developing countries and a weaker economic performance in developed countries. Higher energy and food prices have created upward pressure on inflation rates, underpinning monetary policy tightening especially in many developing countries. Employment trends have been improving, but major challenges such as rising long-term unemployment and high youth unemployment in a number of economies remain. World trade of goods and services expanded stronger than expected last year, marking a strong rebound from the severe contraction in 2009 with developing countries, particularly Asian economies with large shares in trade of manufactured goods, leading the recovery. At the same time, net private capital inflows to emerging economies continued to recover from their pronounced decline during the global financial crisis, a trend that is expected to continue as higher output growth and rates of return will attract more capital flows to emerging economies.

The baseline outlook for 2011 and 2012 is subject to a number of risks, including problems regarding the sustainability of public finances in developed economies, the remaining vulnerability of the private financial sector, continued high and volatile commodity prices and the possible collapse of the United States dollar. In the area of policy making, numerous challenges remain such as how to time the unwinding of fiscal support, the redesign of fiscal policy to promote employment and sustainable development, greater synergy between monetary and fiscal policy, the provision of sufficient funding to developing countries and more effective international policy coordination.

Global macroeconomic prospects

A still fragile recovery

The world economy continues to recover from the global economic crisis, but the pace remains uneven across countries. Output growth is strong among developing countries and feeble in many developed economies. While a number of legacies from the global financial crisis continue to weigh on global growth, the world economy is also facing new challenges. In the baseline outlook (see box 1), the world gross product (WGP) is expected to grow by 3.3 per cent in 2011 and 3.6 per cent in 2012 (see table 1), similar to the forecasts released in the *World Economic Situation and Prospects 2011* at the beginning of the year.

Box 1: Major assumptions for baseline forecast

The overall monetary policy stance in major developed economies will remain largely accommodative in 2011-2012. The United States Federal Reserve (Fed) has maintained its main policy interest rate, the federal fund rate, at its current range of 0-25 basis points (bps) since December 2008. Since 2009, it has also adopted a number of unconventional policies ("quantitative easing") of purchasing longer-term Treasury securities, agency debt and agency mortgage-backed securities (MBS) on the open market. It is assumed that this policy will not be extended again after the stated ending time of June 2011 and that the Fed will not unwind the holding of those purchased securities quickly. In terms of policy rate, it is assumed that the Fed will not adjust the federal fund rate until the end of 2011, followed by an increase to 2.50 per cent in 2012.

The European Central Bank (ECB) raised its main policy interest rate by 25 bps in April, to 1.25 per cent. Of the many unconventional policies pursued during the crisis, some of the exceptional re-financing arrangements are still utilized and are expected to go through at least July of this year. Purchases of sovereign bonds in the secondary markets for crisis affected countries are also still pursued. It is assumed that these remaining unconventional measures will be gradually phased out over 2011. The ECB is assumed to raise its main policy rate by 25 bps in May and again in December by 25 bps, bringing the Minimum Bid Rate to 1.75 per cent by the end of 2011. Further normalization of policy is assumed in 2012, bringing the main policy rate to 2.75 per cent.

Immediately after the earthquake, the Bank of Japan injected significant liquidity into markets and it will continue doing so until the situation stabilizes. In addition, it is expected to maintain an extremely accommodative monetary policy stance for the rest of 2011 in order to support the stabilization of the economy and the post-quake reconstruction. While the policy interest rate is expected to remain at near zero until the end of 2012, the Bank of Japan will mainly rely on its current account balance and asset purchases to adjust liquidity in the economy.

Given the evolution of interest rate differentials, over the course of the forecast period, the euro is expected to maintain its current strength against the United States dollar in the second and third quarters of 2011, supported by the ECB's tightening of policy, but held back by continuing tensions concerning the fiscal position of some of the euro area countries. However, by the fourth quarter, the beginning of policy normalisation in the United States will put downward pressure on the currency, which will continue into 2012 as more rapid tightening closes the differential. The United States dollar/euro exchange rate is assumed to be 1.38 in 2011 and 1.28 in 2012.

The exchange rate of the yen experienced an extraordinary volatility in the aftermath of the devastating earthquake in Japan. The surge in the exchange rate of the yen was considered to be driven by the repatriation of assets and foreign currencies by Japanese insurance firms, as well as the reversal of "carry-trade" positions. In the outlook, while the appreciation pressure from the repatriation will remain in the short run, the yen is expected to depreciate in the longer run due to an anticipated narrowing of Japan's current account surplus, both from disrupted exports and increased needs for imports in reconstruction, as well as the anticipated increase in public debt.

Brent crude oil prices are expected to average $99 per barrel in 2011 and $90 per barrel in 2012.

The recovery in most developed economies remains weak to the extent that at the current pace, it would take another 4-5 years to recover the number of jobs lost during the recession. Despite some progress in rebuilding balance sheets in the financial sector, many of the banks in major developed countries remain vulnerable. While many developed countries have stipulated medium-term plans for fiscal consolidation, heightened concerns about the sustainability of sovereign debt continue to loom in the outlook, weakening growth prospects.

Developing countries and economies in transition have contributed significantly to the post-crisis expansion of the world economy, led by the large emerging economies in Asia and Latin America, particularly China, India and Brazil. However, growth in these economies is also moderating due to a number of growing constraints. Facing persistently rising inflation and a rapid increase in capital inflows due to more attractive investment returns, many emerging economies have been tightening monetary policy, along with various measures of capital control. Moreover, weaker demand in the developed world at the time when stimulus measures in these emerging economies fade away, implies a weakening of aggregate demand.

Table 1: Growth of world output, 2005 – 2012 (annual percentage change)

	2005 - 2008 [a]	2009	2010[b]	2011[c]	2012[c]	Change from January 2011 forecast: 2011	Change from January 2011 forecast: 2012
World	3.3	-2.1	3.9	3.3	3.6	0.2	0.1
Developed economies	2.0	-3.7	2.5	2.0	2.4	0.1	0.1
United States of America	1.9	-2.6	2.9	2.6	2.8	0.4	0.0
Japan	1.3	-6.3	4.0	0.7	2.8	-0.4	1.4
European Union	2.2	-4.2	1.8	1.7	1.9	0.1	-0.1
EU15	2.0	-4.3	1.7	1.7	1.7	0.2	-0.2
New EU Members	5.3	-3.6	2.2	3.1	4.0	-0.1	-0.3
Euro zone	2.0	-4.1	1.7	1.6	1.6	0.3	-0.1
Other European	2.6	-1.8	1.5	2.0	2.0	-0.1	-0.2
Other developed countries	2.5	-0.8	2.7	2.8	2.7	-0.2	-0.3
Economies in transition	7.0	-6.7	4.3	4.4	4.6	0.4	0.4
South-Eastern Europe	5.1	-3.7	0.5	2.2	3.1	-0.3	-0.3
Commonwealth of Independent States and Georgia	7.2	-7.0	4.6	4.6	4.8	0.5	0.5
Russian Federation	6.9	-7.9	4.2	4.4	4.6	0.7	0.7
Developing economies	6.9	2.4	7.4	6.2	6.2	0.2	0.1
Africa	5.6	1.8	4.4	3.6	5.4	-1.4	0.3
North Africa	5.1	1.5	4.1	0.7	5.0	-4.3	-0.7
Sub-Saharan Africa	5.9	2.0	4.6	5.1	5.5	0.1	0.7
Nigeria	6.0	6.9	7.6	5.7	6.3	-0.8	0.5
South Africa	5.0	-1.8	2.8	3.7	4.8	0.5	1.6
Others	6.6	3.0	4.7	5.9	5.7	0.1	0.1
East and South Asia	8.2	5.1	8.7	7.2	7.2	0.1	-0.1
East Asia	8.4	5.0	9.1	7.3	7.2	0.1	-0.2
China	11.3	9.1	10.3	9.1	8.9	0.2	-0.1
South Asia	7.5	5.7	7.1	6.9	7.0	-0.1	-0.2
India	8.5	7.0	8.6	8.1	8.2	-0.1	-0.2
Western Asia	5.9	-0.6	5.8	5.8	4.2	1.1	-0.2
Latin America and the Caribbean	4.9	-2.2	5.9	4.5	4.9	0.4	0.6
South America	5.6	-0.4	6.4	5.0	5.2	0.5	0.4
Brazil	4.6	-0.6	7.5	5.1	5.3	0.6	0.1
Mexico and Central America	3.5	-5.9	5.3	3.8	4.3	0.4	0.8
Mexico	3.3	-6.5	5.5	3.7	4.3	0.3	0.8
Caribbean	7.1	0.9	3.7	4.0	4.7	0.9	1.3
Least developed countries	7.7	4.1	4.7	5.6	5.8	0.1	0.1
Memorandum items:							
World trade[d]	7.1	-11.1	11.9	7.1	6.8	0.5	0.3
World output growth with PPP-based weights	4.4	-0.8	4.8	4.1	4.4	0.1	0.0

Source: UN/DESA

a Average percentage change.

b Partly estimated.

c Forecast, based in part on Project LINK.

d Includes goods and services

Surging oil and food prices

New headwinds have also emerged in 2011 for the world economy. The earthquake, tsunami and nuclear crisis in Japan have caused gyrations in world financial markets and have disrupted global supply chains. While the impact on the world economy is expected to be concentrated over a time span of a few months, uncertainties remain, particularly associated with the leakage of radioactivity at a nuclear power plant in Japan. In addition, the political unrest in Western Asia and North Africa is not only affecting economic activity in the region, but also posing a wider risk for the world economy. Oil prices have increased by about 30 per cent since the unrests erupted at the beginning of December 2010, putting a dent into the strength of the economic recovery. A prolonged period of higher oil prices or any further substantial oil price increases could lead to a more pronounced negative impact on economic growth.

More jobs, but employment concerns remain

The labour market situation has shown some improvements. In the developed economies, unemployment rates have decreased in an increasing number of countries, with the recovery from the economic downturn feeding through to labour markets with some time lag. However, these developments need to be considered with a degree of caution. For example, long-term unemployment has increased in a number of developed countries, creating a problem more difficult to deal with than transitory short-term employment. At the same time, headline unemployment numbers also exclude those who have stopped looking for work. Positive employment trends have also emerged in the CIS, while labour market conditions remain problematic in South-eastern Europe. In the developing countries, labour market conditions have improved, which applies especially to East Asia. However, despite this improvement, major challenges related to employment still remain. In West Asia, for example, the confluence of demographic factors and structural economic weaknesses in the form of a lack of economic diversification continues to paint an overall dire employment picture and has been one factor in the recent political uprisings. In the global outlook, the still solid growth picture will in turn have a positive impact on employment.

Accelerating headline inflation

Inflation has increased on a global scale, driven by higher energy and food prices. However, in most economies, core inflation, which excludes food and energy prices, has so far remained stable, providing monetary policy makers the reason to show reluctance in tightening their policy stance. Nevertheless, for the vast number of poor people especially in developing countries, it is the price for food and energy that determines a disproportionately high share of their total expenditure. Consequently, any permanently higher level of prices for necessary goods can have devastating consequences for the poor due to the further erosion of their already low income in real terms. On the policy side, the emerging inflation pressures also further complicate the fiscal situation in numerous countries. While existing subsidy regimes would translate into even higher spending due to higher underlying subsidized prices, reducing subsidies is becoming politically even

more difficult because of the looming jump in prices and the possible negative consequences for social and political stability.

In the context of the uneven and incomplete recovery, as well as the new challenges, policy stances have become notably diverse between developed economies and developing countries, making policy coordination ever more necessary, but also ever more difficult. Progress has been made, but slowly, in agreeing on concrete steps towards the implementation of the G-20's *Framework for Strong, Sustainable, and Balanced Growth*, launched at the Pittsburgh Summit in 2009. Clear and verifiable targets will need to be laid out to put the global economy on a development path that is both more equitable and sustainable.

The international economic environment for developing countries

A strong increase in commodity prices

The upward movement in the prices of primary commodities so far in 2011 has been much steeper than anticipated in WESP 2011, mainly driven by the political unrest in Western Asia and North Africa, including the disruption to oil production in the Libyan Arab Jamahiriya. While global oil demand has been growing at a higher pace than global oil supply, oil inventory remains above the 5-year average. The spare capacity of OPEC also remains above the 5-year average. In the baseline outlook, by assuming no further major disruption to oil production in the OPEC members, oil prices are forecast to be $99 per barrel for 2011 and $90 per barrel for 2012. Food prices also soared in early 2011, although the prices of major grains, such as rice and wheat, are still substantially below the highs of 2008. A number of weather-related shocks have been driving prices higher, including droughts, wildfires and a strong La Niña weather pattern. Demand, meanwhile, has remained strong. In the outlook, food prices are expected to moderate in the second half of 2011 in light of improved supply conditions.

Trade flows have recovered

World trade, measured by the volume of exports, expanded by more than 14 per cent in 2010, from a decline of 12 per cent in 2009. By the end of 2010, the level of world total exports had fully recovered to the pre-crisis peak, although it remained markedly below its long-term trend. As in the recovery of GDP, developing countries, particularly Asian economies with large shares in the trade of manufactured goods, led the recovery. While the level of trade in volume for developing countries as a group has already surpassed the pre-crisis peak, the level for developed economies has not yet done so. Commodity-exporting developing countries have experienced a strong recovery in the value of exports, owing to a significant upturn in commodity prices, although the volume of their exports registered only little growth. In the outlook, the growth of world trade is expected to moderate to about 6.5 per cent in 2011 and 2012. While emerging economies are

expected to continue to see robust growth in trade, the recovery in major developed economies remains weak.

Emerging markets will continue to attract capital flows

Net private capital inflows to emerging economies continued to recover from their precipitous decline during the global financial crisis of 2008-2009. In the outlook for the rest of 2011 and 2012, economic fundamentals remain conducive to capital inflows to most emerging economies, as the economic performance of these economies is expected to be stronger than that of developed economies and the differentials in interest rates and in returns on investment will continue to be in favour of emerging economies. After totalling about $950 billion in 2010, net private inflows to emerging economies are expected to remain at the same level in 2011, with slight growth forecast for 2012. The current level is still about $300 billion below the pre-crisis peak registered in 2007 and the ratio of capital inflows to GDP of these economies stands at about 4 per cent, only about half of its peak level.

Although foreign direct investment (FDI) inflows remain the largest component, accounting for about 35 per cent of the total inflows, the post-crisis recovery in capital inflows featured a strong increase in inflows of portfolio equity, which are now at a historic peak, accounting for 20 per cent of the total. International bank lending to emerging economies also resumed after registering negative net flows in 2009, but is still only about 20 per cent of the pre-crisis peak level, reflecting the ongoing process of deleveraging by international banks headquartered in developed countries and the relatively easy domestic credit conditions in emerging economies. Non-bank lending has recovered vigorously, as both private and public sectors in emerging economies managed to increase issuance of bonds in developed countries by taking advantage of low interest rates. With the improved outlook in emerging markets and positive perceptions of investors, the external financing costs for emerging economies have fallen back to pre-crisis levels.

Emerging economies have also significantly increased their outward investments. Standing at above $500 billion in total, emerging economies in Asia account for half of the net private capital outflows. For example, direct investments from countries like China continued to increase to other developing countries in Latin America and Africa, destined especially towards production of energy and other primary commodities.

In addition, a major part of the capital outflows from emerging economies are still in the form of accumulation of foreign-exchange reserves. By the end of 2010, foreign-exchange reserves of emerging economies and other developing countries totalled about $6,000 billion, an increase of about $800 billion from 2009, with China holding the largest amount, more than $2,800 billion. These reserves will continue to increase in 2011, although at a slightly slower pace.

Official development assistance (ODA) flows in 2010 reached a record high of $128.7 billion, equivalent to 0.32 per cent of the total gross national income (GNI) of members

of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD). At the current rate of progress, donors are not expected to meet the long-standing United Nations target of providing 0.7 per cent of their GNI by 2015. While overall ODA in 2010 grew in real terms by 6.5 per cent, based on donor surveys the OECD predicts that bilateral aid from DAC members to core development programmes in developing countries between 2011 and 2013 will grow at just 1.3 per cent per year due to the current budgetary constraints in these countries.

The dollar has been on a downward trend

The dollar has remained on a downward trend against other major currencies (figure 1). Despite the lingering risks associated with the sovereign debt levels in some European economies, the euro appreciated against the dollar in the first quarter of 2011, partly buttressed by the expectation of faster monetary tightening in the euro area. This trend is expected to continue until early 2012, when the United States Federal Reserve (Fed) is expected to raise interest rates as well. The dollar/euro exchange rate is assumed to be 1.38 in 2011 and 1.28 in 2012. The yen had fluctuated around its high of about 82 yen/dollar since late 2010, but the earthquake in March triggered extraordinary volatility for the exchange rate until a joint intervention of the G-7 mitigated the situation. In the outlook, the yen is expected to depreciate in the longer run.

Figure 1: Volatile but declining United States dollar, 1 January 2001 – 5 May 2011
(Index of effective exchange rate against other major currencies, January 2008 = 100)

Source: JP Morgan; rebased by UN/DESA.

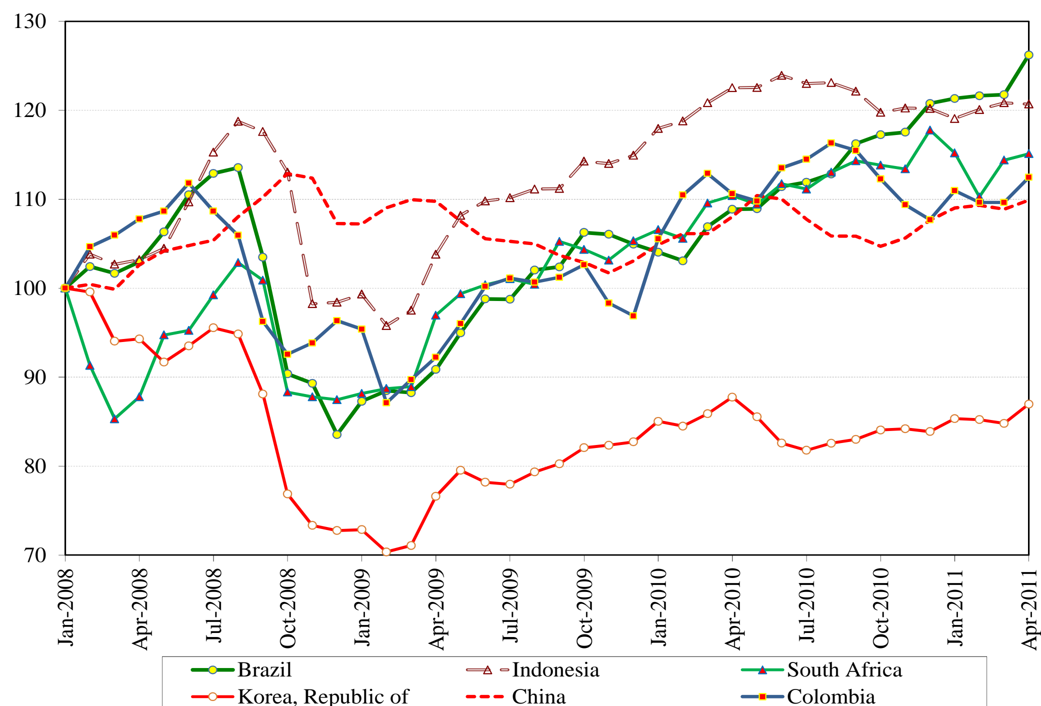
Emerging market currencies have been appreciating

The economic weaknesses in major developed countries have led to increased volatility in the exchange rates among major currencies and an overall depreciation of the dollar, the euro and the yen against other currencies, especially those of emerging economies

(figure 2). In the past two years, among the currencies of emerging economies, Brazil's real appreciated the most, by about 25 per cent in terms of the trade-weighted effective exchange rate, followed by the currencies of the Russian Federation, the Republic of Korea and South Africa. In the outlook, these currencies will continue to face appreciation pressure.

Figure 2: Appreciating exchange rates in selected developing countries, January 2008 – April 2011

(Trade-weighted effective nominal exchange rate index, January 2008=100)



Source: JP Morgan, rebased by UN/DESA.

Uncertainties and risks

The baseline outlook for 2011 and 2012 is subject to a number of risks. These include problems regarding the sustainability of public finances in developed economies, the remaining vulnerability of the private financial sector, continuously elevated or further increasing commodity prices and a renewed widening of global imbalances.

Sustainability of sovereign debt in developed economies is a major concern

With a slight improvement, fiscal deficits in 2010 remained sizeable in developed G-20 economies, averaging more than 8 per cent of GDP. This is more than twice as high as in emerging G-20 economies. A further decline in fiscal deficits is expected for most

developed economies in the outlook for 2011 and 2012. In the euro area, for instance, the deficit is expected to be reduced to 4.4 per cent of GDP in 2011. Notable exceptions are, however, Japan and the United States.

Significant concerns remain regarding the unsustainable trend of growing public debt in the medium and long run. The average level of public debt for developed economies has already surpassed 100 per cent of GDP in 2011. Such concerns have already triggered downgrades of debt ratings in several developed economies including Greece, Ireland, Japan, Portugal and Spain as well as, most recently, a downgrade of the outlook for the debt of the United States. Meanwhile, interest rates on government debt in Greece, Ireland and Portugal have been pushed to prohibitive levels despite the financial support from the European Financial Stability Facility (EFSF). By contrast, the trend of increasing levels of public indebtedness was reversed in emerging economies, such that in emerging G-20 economies, average levels of debt are now two-thirds below those of advanced G-20 economies.

Except for the mentioned European economies, financing costs for most developed economies remain low so far. For example, in France, Germany, Italy, Japan, the Netherlands and the United States, net interest costs in 2010 were actually lower than before the crisis, reflecting a combination of low interest rates and unconventional monetary policy in the form of large purchases of sovereign bonds. In the medium-term, debt-service costs are expected to be on the rise, partly as a result of higher interest rates driven by the gradual economic recovery and monetary authorities' unwinding of their holdings of government bonds. The risk is that such an increasing trend in debt-service cost may heighten the concerns about debt sustainability, leading to surges in interest rates for more developed countries and pushing them into a debt crisis.

To mitigate the concerns about debt sustainability and anchor the expectation of long-term interest rates, many developed economies have already committed to fiscal consolidation. For instance, fiscal consolidation in the United Kingdom will cut the deficit by an estimated 8 percentage points of GDP by 2015. Varying across countries, fiscal consolidation plans include austerity measures to cut government spending, measures to raise tax rates or broaden the tax basis and reforms of social welfare systems.

The risk of sovereign debt crises in developed economies stems from two sides of fiscal consolidation. On the one hand, if the commitment to fiscal consolidation is not credible enough to bring the trajectory of public debt to a sustainable level, financial markets will push up interest rates rapidly, heightening the risk of default. By contrast, if austerity measures are too drastic, derailing the recovery of output and employment, weakening the still fragile banking sector and undermining the medium-term prospects for GDP growth, the risk of default will equally increase. So far, it seems most European countries have focused on the first risk, while the United States has emphasized the second one.

Banking sector remains vulnerable in developed economies

Given the large-scale government bailout programmes over the past two years, risks in the private financial sector, particularly the banking sector, have been transferred to the public sector. Nevertheless, the banking sector in major developed economies remains vulnerable, which also exposes their economic recovery to a significant downside risk. For example, many banks in Europe will face increasing pressure in the coming months to ensure funding for the rollover of their debts. The increased interconnection between the balance sheets of banks and governments exacerbates the risks regarding sovereign debt as well as the vulnerability of the banking system. In the United States, a protracted slide in housing prices and a large number of foreclosures continue to put pressure on the banking system. In general, banks in the developed economies need to continue raising capital and strengthen their balance sheets. While many of these economies have just instituted financial reforms, the impact of these reform measures on the financial sector remains largely uncertain.

Risks associated with a further surge in commodity prices

In the baseline outlook, the prices of oil and other primary commodities will moderate in the second half of 2011 and 2012. However, the risk lies in an aggravation of the supply shocks such as those stemming from the situation in Western Asia and North Africa. Further supply shocks would push commodity prices even higher and reduce global economic growth compared to the baseline forecast.

In order to illustrate the possible consequences of higher oil prices on global output, a simulation was created based on the UN World Economic Forecasting Model using an alternative assumption for oil prices (table 2). In this scenario, oil prices (Brent) are assumed to stay at the current level in constant dollar terms until 2015 (implying a 3 per cent annual increase in nominal dollar terms), about $30 higher than in the prices in the baseline. As shown in table 2, with higher prices, WGP would be 0.7 percentage points lower than in the baseline. The impacts will vary across regions and countries. Oil intensity in developed economies has been on a decline over the past decades corresponding to a gradual shift of manufacturing industries from these economies to developing countries. As a result, developed economies have become less sensitive to higher oil prices than developing countries. The loss of GDP for developed economies from higher oil prices would be 0.4 percentage points in comparison of 1.2 percentage points for developing countries.

Global imbalances have become less of a concern

The large external deficit in the United States declined from its peak of 6 per cent of GDP before the recession to a trough of 2.7 per cent in 2009. Subsequently, the deficit widened slightly, to 3.2 per cent of GDP in 2010, and is expected to stay at about 3.5 per cent of GDP in 2011-2012. Correspondingly, the household savings rate in the United States increased notably, from about 2 per cent in 2007 to 5.9 per cent in 2009, and is expected to be around 5.5 per cent in the outlook, although the government deficit remains high.

Table 2: Loss in GDP due to higher oil prices (percentage)

		2010	2011	2012	2013	2014	2015
Oil prices in baseline $/bbl (per barrel)		79.6	99.0	90.0	92.7	95.5	98.3
Alternative oil prices $/bbl		79.6	118.8	121.5	125.1	128.9	132.8
Change in GDP from the baseline	World		0	-0.2	-0.4	-0.5	-0.7
	Developed economies		0	-0.2	-0.3	-0.4	-0.4
	Economies in transition		-0.2	-0.5	-0.6	-0.6	-0.6
	Developing economies		0	-0.2	-0.5	-0.8	-1.2

Source: UN/DESA

Among the major surplus countries, China's surplus declined from its peak of 10.6 per cent of GDP in 2007 to about 5 per cent in 2010, and is expected to narrow further to below 4 per cent in 2012. A combination of the accumulated appreciation of renminbi in the past few years and policies to support domestic consumption seem to show some effects. Germany's surplus has also narrowed slightly, but remained at about 6 per cent of GDP in 2010 and is expected to stay above 5 per cent in the outlook. However, the current account for the euro area as a whole is approximately in balance. Japan's surplus stood at about 3 per cent of GDP in 2010 and is expected to decline notably in 2011-2012. The surplus of oil-exporting countries in West Asia and North Africa decreased from more than 15 per cent of GDP in the years before 2008 to about 2 per cent in 2009. The surpluses have since recovered slightly but are expected to stay below 5 per cent in 2011-2012.

In the near-term outlook, it seems unlikely that the global imbalances will widen so as to reach the magnitude observed prior to the global financial crisis. However, further studies are required to ascertain whether the recent adjustment in the imbalances is cyclical or structural. Moreover, there is a need for more precise policy guidelines, both at the national and international level, to prevent large imbalances from reemerging, as this would again create the potential for a disorderly adjustment.

Policy challenges

Current policy stance

In response to the diverse performance in their economic recovery, individual countries have adopted different macroeconomic policy combinations. Major developed economies continue to combine monetary accommodation and fiscal consolidation, while many developing countries have pursued monetary tightening accompanied by a relatively accommodative fiscal stance. In the outlook for the rest of 2011 and for 2012, while notable policy differences across countries will remain, more economies are expected to unwind monetary and fiscal support measures.

In the field of *monetary policy*, the central banks of major developed economies have maintained low interest rates while relying mostly on quantitative measures to inject liquidity into the economy. In the outlook, the central banks are expected to adjust policy interest rates upward before they start to unwind the assets accumulated on their balance sheets through quantitative easing over the past two years. The overall monetary policy stance in major developed economies will remain largely accommodative in 2011-2012.

The United States Federal Reserve (Fed) is expected to maintain its federal fund rate in the current range of 0-25 basis points (bps) until the end of 2011, followed by a gradual increase in the rate in 2012, to the level of 2.50 per cent. The continued purchase of public debt has helped to keep long-term interest rates low; however it also resulted in additional downward pressure on the dollar, stronger capital flows especially into emerging markets due to higher yields, as well as further upward pressure on commodity prices that are denominated in dollars as investors seek to hedge against inflation. Nonetheless, the domestic liquidity effect of the asset purchases has been limited as banks tended to deposit their receipts instead of creating additional credits. The Fed is not expected to unwind its holdings of longer-term debt quickly.

Given the heightened concern over inflationary pressures, the European Central bank (ECB) started to raise its main policy rate by 25 bps in April. Further increases are expected to bring the rate to 1.75 per cent by the end of 2011 and 2.75 per cent in 2012. Of the many unconventional policies pursued during the crisis, some of the exceptional re-financing arrangements are still utilized and are expected to continue at least until July of 2011. The ECB is also still pursuing purchases of sovereign bonds in the secondary markets for those members under debt distress.

The Bank of Japan is expected to maintain an extremely accommodative monetary policy stance for the rest of 2011 in order to stabilize the economy and support the post-quake reconstruction. While the policy interest rate is expected to remain at near zero until the end of 2012, the Bank will continue to use quantitative measures to adjust liquidity in the economy.

Among developing countries and the economies in transition, as their economies recovered rapidly and faced increasing inflation pressure, many of these economies have reduced excess liquidity by raising interest rates from the low levels set during the global financial crisis. For example, Brazil, Chile, China, India, Indonesia, Malaysia, Peru, Thailand, Uruguay and the Russian Federation have all raised their interest rates, some of them by 200 basis points or more. Some countries such as Brazil, China, India, Indonesia, the Russian Federation and Turkey have also increased bank reserve requirement ratios. Given that real interest rates in many of these economies remain low, the general trend of monetary tightening will continue in the rest of 2011, although higher capital inflows will be a complicating factor for policy makers. However, the momentum of further monetary tightening is expected to moderate in late 2011, based on the assumption that some supply-side factors associated with weather conditions and geopolitical unrests behind the food and energy-driven inflation will start to taper off.

In the area of *fiscal policy*, some variation remains in the policy stance across developed countries, despite the uniform challenge of widened budget deficits and mounting public debts. Economies in Europe have already started tightening measures. Under tremendous debt distress, Greece, Ireland and Portugal have shifted towards significant fiscal contraction, while other European economies have also taken various austerity measures, including wage freezes, pension reforms, expenditure cuts and tax rate increases or tax base widening. The United Kingdom has adopted the largest adjustment among major developed economies, including a cut in real discretionary spending and an increase in the value added tax (VAT) rate.

By contrast, the fiscal stance in the United States has remained stimulatory, with another stimulus package adopted at the end of 2010 that included the extension of tax cuts and emergency unemployment benefits to support the still weak housing and labour markets. However, many local governments have already adopted tightening measures. In the outlook, fiscal tightening, with cuts in spending, is expected for 2012.

Japan had brought its fiscal stance to neutral before the earthquake of March 2011, but the Government has already adopted a supplementary budget to support the post-quake reconstruction and further similar budget measures are expected.

Most developing economies feature relatively small fiscal deficits, with India and a few others as the exception. With China maintaining a stimulatory stance, fiscal policy in other Asian developing countries has turned towards a neutral stance. Some economies in Latin America have started to slowly unwind fiscal support, including Brazil. Many low-income economies in Africa and other regions have also moderated their fiscal policy stance. In the outlook, more developing countries are expected to unwind fiscal support so as to rebuild their policy space for counter-cyclical policies.

The use of *capital control measures* has become a further hallmark of policy making. Relatively low interest rates in developed countries and ample liquidity have led to a surge in capital flows to emerging economies. The result has been increasing upward pressure on exchange rates, the spectre of asset bubbles as well as rising inflation. While the conventional policy reaction to address the latter would be higher policy interest rates, this would only exacerbate the problem in this case as it would attract even more capital inflows. Consequently, in a number of countries, policy makers have turned to unconventional measures in the form of capital controls in order to tame short-term capital inflows (see table 3). These measures have so far been largely moderate and led to a shift from short-term to longer-term investments instead of an outright decline in capital inflows.

Table 3: Selected capital control measures taken by developing countries (since 2009)

Instrument	Country	Policy Measure	Effective Date
Tax Measures and Fees	Korea, Republic of	Reintroduced a 14% withholding tax on interest income and 20% capital-gains tax on Korean government bonds (KTBs) and monetary stabilization bonds (MSBs).	January 2011
	Thailand	Removed a 15% tax exemption for foreigners on capital gains and interest payments earned from investing in domestic bonds.	October 2010
	Brazil	Raised tax on fixed-income foreign investment to 6% (introduced in October 2009 at 2%).	October 2010
	Peru	Increased fee on non-resident purchases of central bank certificates of deposit (CDs) from 10 basis points to 400 basis points.	August 2010
Quantitative Limits	Korea, Republic of	Instituted a cap on banks' holdings of foreign-exchange derivative contracts (250% of equity capital for foreign bank branches and 50% for domestic banks).	June 2010
		Reduced the limit on currency forward transactions from 125% to 100% of the real transactions being hedged.	June 2010
		Instituted a cap on derivative positions (in response to an options sell-off on 11 Nov 2010), limiting the number of speculative options and futures contracts an institutional investor can hold to a maximum of 10,000 per day (Previously, institutions could hold 7,500 futures, with no limit on options contracts).	January 2011
	Indonesia	Reintroduced a 30% cap on lenders' short-term overseas borrowing.	January 2011
	Taiwan, Province of China	Introduced a ban on foreign investors placing funds into time deposits.	November 2009
		Reactivated regulation that caps foreign investment in Taiwan government bonds and money market products at 30% of investors' total portfolio. (Previously, the 30% cap had only applied to debt maturing in less than 1 year).	November 2010
Minimum Investment Periods	Indonesia	Imposed a minimum 1-month holding period for Bank Indonesia Certificates (SBIs).	July 2010
Reserve Requirements	Indonesia	Raised the reserve requirement ratio for foreign currency deposits from 1% to 5% (proposed to increase to 8% in June 2011).	March 2011
	Brazil	Introduced requirement for local banks to deposit 60% of their short positions in U.S. dollars interest-free at the Central Bank after deducting 3 billion dollars or their capital base, whichever is smaller.	April 2011
	Peru	Increased the marginal reserve requirements for short-term domestic currency deposits to 120 per cent (from 65 per cent).	September 2011

Sources: Institute of International Finance (IIF) Research Note "Capital Flows to Emerging Countries", Jan 24 2011; International Monetary Fund "Recent Experiences in Managing Capital Inflows –Cross-Cutting Themes and Possible Policy Framework", Feb 14, 2011; national central banks and other agencies.

Policy challenges

Dealing with these risks and uncertainties poses serious policy challenges to Governments across the globe. All risks are cross-border and are by and large interdependent. Macroeconomic policies in most developed countries have shifted during 2010 and early 2011 towards a combination of monetary accommodation and fiscal austerity, while many developing countries have shifted to monetary tightening accompanied by relatively accommodative fiscal stances. In the outlook for the rest of 2011 and for 2012, more and more countries are expected to further unwind both monetary and fiscal support measures. Challenges differ across countries, warranting different policy stances. As previously indicated present national policy stances are far from satisfactory in addressing the risks to the global economy and, conversely, may only exacerbate such risks. In order to make the global economic recovery more robust, balanced and sustainable, the five policy directions discussed at some length in the *World Economic Situation and Prospects 2011* still apply.

First, developed countries in particular should be cautious not to embark prematurely on fiscal austerity policies given the still fragile state of the recovery and prevailing high levels of unemployment. Several continue to possess ample fiscal space for additional stimulus in the short run. Credible fiscal consolidation plans should focus on public debt sustainability in the medium run. Such action should be adequately coordinated among the major economies to ensure a reinvigoration of global growth that will also provide external demand for those economies which have exhausted their fiscal space. Absent a new net fiscal stimulus and faster recovery of bank lending to the private sector, growth is likely to remain anaemic in many countries in the foreseeable future. For many developing countries, the challenge is to avoid having rising food and commodity prices, as well as exchange rate appreciation caused by surging capital inflows, erode growth and lead their economies into another boom-bust cycle. Fiscal and, more broadly, macroeconomic policies will need to be embedded in a transparent countercyclical framework within which macro-prudential financial and capital controls can also be effective instruments to mitigate the impact of volatile capital inflows. Strengthened social policies would need to offer sufficient income protection to the poor and vulnerable against higher food and energy prices.

Second, fiscal policy, at the same time needs to be redesigned to strengthen its impact on employment and aid in the transition towards promoting structural change for more sustainable economic growth over the medium- and long-run. For both developed and developing countries, a prudent policy would be to target public investments with a view to alleviating infrastructure bottlenecks that hamper growth prospects and addressing ecological challenges, including accelerating the 'greening' of energy sectors by promoting technological innovation for enhancing energy efficiency and widespread diffusion of renewable low-carbon sources of energy.[1] For many developing countries,

1 For the related challenges and opportunities, see United Nations Environment Programme, Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication (Paris, United Nations, 2011) (http://www.unep.org/greeneconomy/Portals/88/documents/ger/GER_synthesis_en.pdf) and World Economic and Social Survey 2011: The Great Green Technological Transformation (United Nations publication, Sales No. E.11.II.C.1). Both reports suggest that at least 2 per cent of WGP would need to be spent towards green technology investments in order to overcome major global ecological

and least developed countries (LDCs) in particular, an additional priority is to invest in sustainable food agriculture and support economic diversification in order to improve food security and reduce vulnerability against shocks emanating from global markets over the medium-run.

The third challenge is to find greater synergy between fiscal and monetary stimulus, while counteracting damaging international spillover effects in the form of increased currency tensions and volatile short-term capital flows. This will require reaching a consensus at the international level about the magnitude, speed and timing of quantitative easing policies within a broader framework of targets to redress the global imbalances. This, in turn, will require stronger bilateral and multilateral surveillance, including more thorough assessment of spillover effects and systemic risks. While this need has been recognized by the G-20 and the International Monetary and Financial Committee of the International Monetary Fund (IMF), accelerated progress needs to be made to come to an operational framework to enable timely concerted action to be taken to address the present major risks in global currency and financial markets and signal when, for example, monetary policies in major developed countries are likely to influence the size and composition of flows to emerging and other developing countries. Cooperative policy solutions should therefore take precedence as they can achieve better outcomes for the global economy and offload pressure on developing countries to take strong measures to mitigate the impact of volatile capital flows. Such cooperative policy solutions should also comprise deeper reforms of (international) financial regulation, including those for addressing risks outside the traditional banking system (investment banks, hedge funds, derivatives markets, and so forth). Requiring higher reserve requirements and/or collateral on cross-border portfolio investments by non-banking institutions, and setting limits on positions that financial investors can take in commodity futures and derivatives markets may also help stem some of the volatility in capital flows and mitigate the influence of financial factors on commodity price volatility. Such measures will by no means provide enough safeguard against continued volatility in food, energy and other commodity prices. In order to achieve that, much more will need to be done to improve conditions for a more sustainable supply of those commodities. These sets of financial reforms will need to be complemented by deeper reforms of the global reserve systems in a direction of lesser dependence on the dollar as the single major reserve currency, as well as through better pooling of reserves internationally (e.g. through closer cooperation between the IMF and regional mechanisms of financial cooperation) and enhancing the role of special drawing rights (SDRs) as international liquidity, while expanding the basket of SDR currencies including those currencies from major developing countries.

The fourth challenge is to ensure that sufficient resources are made available to developing countries, especially those possessing limited fiscal space and facing large development needs. These resources will be needed, in particular, to accelerate progress towards the achievement of the Millennium Development Goals (MDGs) and for investments in sustainable and resilient growth, especially for the LDCs. Apart from

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challenges, including averting the catastrophic risk of climate change, making food production more sustainable, stopping loss of biodiversity and enhancing resilience against natural hazards.

delivering on existing aid commitments, donor countries should consider mechanisms to delink aid flows from their business cycles so as to prevent delivery shortfalls in times of crisis, when the need for development aid is most urgent.

The fifth challenge is to find ways to arrive at credible and effective policy coordination among major economies. In this regard, there is some urgency in making the G-20 framework for sustainable global rebalancing more specific and operational. Having clear and verifiable targets for desired policy outcomes would help make parties accountable, while the possible loss of reputation through non-compliance would be an incentive to live up to policy agreements.

Regional prospects

Developed economies

United States

Since the third quarter of 2009, the United States economy has remained on an uneven recovery path but managed to exceed the pre-recession level of GDP during the fourth quarter of 2010. Nevertheless, that level was still significantly lower than the output level implied by the trend that had prevailed over the past few decades.

Rebounding from a decline of 2.6 per cent in 2009, the economy expanded by 2.9 per cent in 2010. While net exports had a negative impact on growth for the first time since 2007, private investment, including stock-building of inventory, was the major contributor to the turn-around. In addition, private consumption also contributed significantly to the recovery, although its pace of growth was mild compared with the one typically observed at this stage of the economic cycle.

The strong position of corporate balance-sheets has underpinned strong business investment in equipment and software, which grew by more than 15 per cent in 2010 after a decline by more than 17 per cent over 2008 and 2009. Given that the manufacturing industry in the United States has lost more than 5 per cent of production capacity from 2007 to 2010, it may take this kind of pace of investment for several years to reach again the previous capacity level.

After declining by 4.3 per cent in 2009, the total nominal wage income of households increased by only 2.1 per cent in 2010 as a consequence of the slow recovery in employment. In 2010, the adjustment in consumption behavior did not intensify further and the household saving rate has remained at the same level as in 2009, which by itself was meaningfully higher than the pre-crisis level. The sustained recovery of households' net worth may have prompted this pause in the change in saving rates. Combined with the increase in other types of income, real personal consumption expenditure increased by 1.7 per cent in 2010.

If not for the prolonged weakening in the housing market, the recovery of households' net worth may have turned out even stronger. The downward trend of housing prices has resumed after the expiration of the home-buyer tax benefit programme in the first half of 2010 and prompted a continuous loss in the value of real estate assets for households.

Public expenditure has been curbed by the weak fiscal position of state and local governments. The 1.4 per cent reduction in spending at these two levels has cut the total government expenditure increase to only 1.0 per cent, even though the Federal Government managed to increase its expenditure by 4.8 per cent in real terms during 2010.

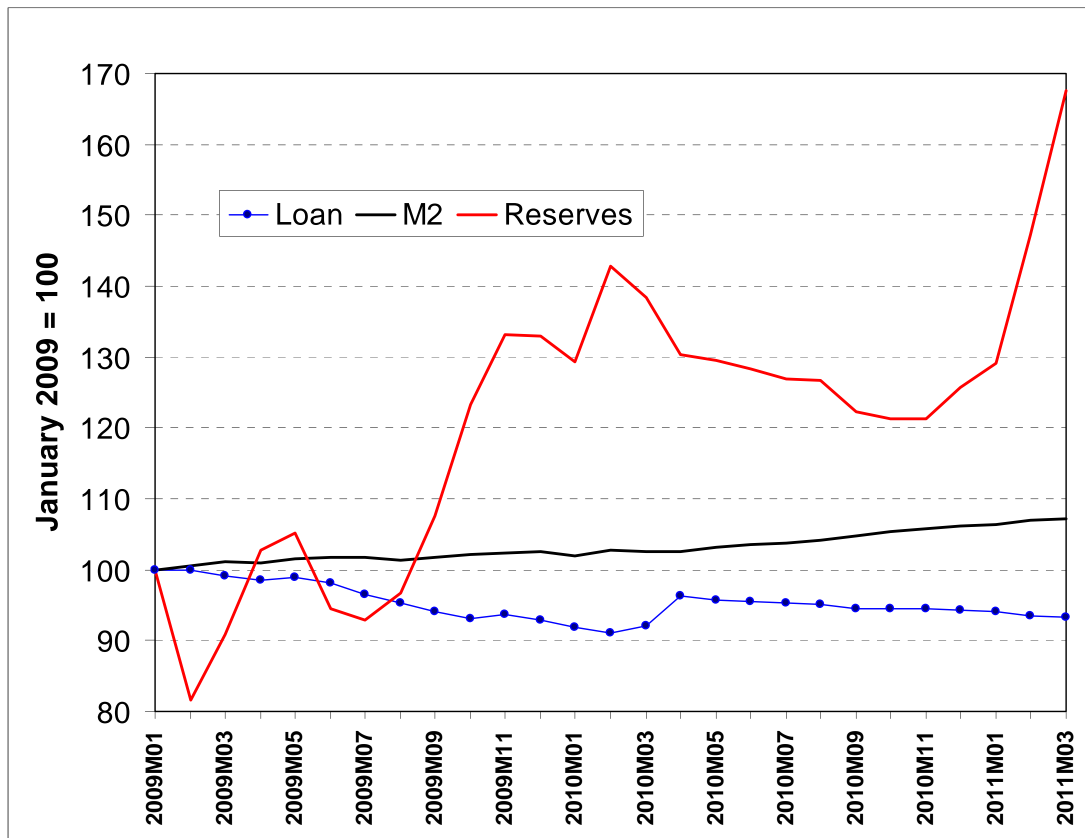
The United States Federal Reserve (Fed) has kept its policy rate (the federal fund rate) at a historically low level. Moreover, in November 2010, it started the second round of quantitative easing under which it planned to purchase $600 billion of long-term Treasury securities from the market by June 2011. In doing so, the Fed would increase the commercial banks' holdings of reserves against itself significantly. Under more normal circumstances, this would increase the money supply correspondingly. Nevertheless, the banks' prevailing preference has still been toward risk-aversion and they have provided only a small amount of new credit to the economy. For example, at the end of March 2011, the amount of loans and leases at all commercial banks was still about 8 per cent lower than the peak reached in late 2008 and the money supply had increased by only 2 per cent since the second round of quantitative easing was introduced (see figure 3).

Against this backdrop, the headline inflation rate had been feeble until the marked increase in energy and food prices earlier this year. However, core inflation, which excludes energy and food prices, has remained low. Given that the unemployment rate has only declined to 9 per cent in April 2011, significant slackness still exists in the labour market, which has constrained wage rate growth. The annual growth rate of hourly wages at private firms has been around 2 per cent since late 2010. In addition, firms have also been able to increase productivity and reduce production cost. For the last quarter of 2010, the labour cost per unit of output in the manufacturing industry was 2.7 per cent lower than a year ago, which helped to keep core inflation low.

On 18 April 2011, the credit-rating agency Standard & Poor's downgraded its outlook on United States sovereign debt. In support of its decision, Standard and Poor's argued that the United States is experiencing large budget deficits and rising government indebtedness, while the path towards addressing these issues remains unclear. Besides the unfunded entitlement programmes, it also cited the potential need to provide assistance to large players in the United States financial or other sectors as additional risks. While this event highlighted the importance for Government to set up a credible framework to deal with the deficit and public debt issues, it has also reduced the space for expansionary fiscal policy. In the outlook, it is assumed that government expenditure will be cut over the coming few years at all levels of government.

For monetary policy, it is assumed that the Fed will not introduce a new round of quantitative easing after June 2011 and will start to raise the policy rate early next year. On the other hand, the chance for the Fed to unwind the quantitative easing promptly is considered to be low. One benefit of this policy, among others, was the stabilization of the financing cost for public debt.

Figure 3: Development of major US monetary indicators (January 2008 = 100)



Source: UN/DESA

The economic growth rate is predicted to be 2.6 per cent for 2011 and 2.8 per cent for 2012, supported by private consumption and private investment. The gradual improvement in the labour market will be sustained, although the increase in employment will be only enough to bring down the average unemployment rate to 8.2 per cent in 2012. The corresponding improvement in wage income will be one driving force for growth.

The effective depreciation of the dollar that occurred over the past few years is assumed not to be fully reversed within the outlook period. The development of real net exports will be in favour of the United States, although higher oil prices will keep the current account deficit, measured at current prices, still more than $100 billion higher than the level in 2010.

The main risks for the United States include a further surge of oil prices and more severe problems in the public finance domain. Elevated oil prices can crowd out the purchasing power of households and also cause a blow to consumer confidence which may remove one of the key engines for growth. Regarding public finances, the immediate issue is the limit on government indebtedness, as the debt ceiling needs to be raised sometime this year to maintain a smooth treasury operation. The next focus will then be the budget for fiscal year 2012, which will begin in October 2011. Both issues are complex and will involve intensive political processes. On the economic front, one risk is that during the process, international financial market confidence in dollar-denominated securities could push up borrowing costs for those securities.

Japan

The strong earthquake in March 2011 and the subsequent tsunami and radiation leakage at a nuclear power plant have dealt a severe blow to the economy of Japan, with significant repercussions to the world economy. An estimated 27,000 people lost their lives or are still missing and an official estimate values the damage to buildings and infrastructure at 25 trillion yen (about $300 billion), equivalent to about 5 per cent of Japan's annual GDP.

These disasters hit Japan when its economy was still recovering from the global financial crisis. While GDP rebounded by 3.9 per cent in 2010 from a recession of 6 per cent in 2009, a contraction in the fourth quarter of 2010 underscored the remaining fragility, suggesting that a self-sustained recovery has not yet been established. The level of real GDP is still 4 per cent lower than the peak in 2008. The nominal GDP remains about 8 per cent lower than the peak in 1997 due to persistent deflation over the past decade.

The significant disruptions to Japan's economic activity are pushing the country into another contraction in the second quarter of 2011. However, the post-quake reconstruction will induce a recovery in the second half of the year and into 2012, with GDP growth expected to be 0.7 per cent in 2011 and 2.8 per cent in 2012.

Along with the disruptions to industrial production, both exports and imports are expected to register a decline in the first half of 2011. Exports are expected to grow by only 3 per cent for 2011 as a whole, a marked deceleration from the rebound by more than 20 per cent in 2010. Imports are expected to grow at a similar pace.

Large supplementary government budgets are needed for the reconstruction in the next three years. The first supplementary budget has been announced, totalling 4.015 trillion yen (0.8 per cent of GDP). This will add to the already high government debt of Japan, which is currently more than 200 per cent of GDP, the highest in developed countries. The current borrowing costs of Japan remain the lowest among developed economies, but a further increase in its debt may heighten the risk of a debt crisis in the years to come.

Immediately after the earthquake, the Bank of Japan offered to inject 15 trillion yen into the overnight call market, its largest single operation ever, to meet the significant increase

in banks' precautionary demand for liquidity. The large liquidity injection will likely continue until the situation stabilizes. In the outlook, the Bank of Japan is expected to maintain an extremely accommodative monetary policy stance for the rest of 2011 to support the stabilization of the economy and the post-quake reconstruction. While the policy interest rate is expected to remain near zero until the end of 2012, the Bank of Japan will mainly rely on its balance sheet and the asset purchasing programme to adjust liquidity in the economy.

Uncertainties remain for Japan's economy. In the short run, damage to the nuclear power plant has caused radiation leaks which have not been brought under control. In the longer run, other factors such as an aging and shrinking population, high fiscal deficits and debt as well as a lack of effective solutions to those problems will continue to curb domestic demand.

Australia and New Zealand

Australia suffered its worst flood in decades, as the eastern states experienced very high rainfall in the second half of 2010 and early 2011. Production and exports of coal and farm produce have particularly been disrupted, in addition to human casualties and the dislocation of a large number of households. As a result, GDP growth in the last quarter of 2010 and the first quarter of 2011 is estimated to be about a half percentage point lower than previously expected. The flood is, however, expected to have little impact on the economic prospects in the medium run, with GDP expected to grow by more than 3 per cent in 2011 and 2012. The economy continues to benefit from a global resources boom, with mining investment and high commodity prices providing substantial boosts to incomes in Australia. A downside of this is an unbalanced base of growth, as the related appreciation of the Australia dollar weighs on a number of other industries, such as tourism and manufacturing. Household spending and borrowing have remained subdued, as households have continued to increase their savings over the past years, with the saving ratio now back to around its high level in the mid 1980s. In the outlook, the saving ratio is expected to stabilise and household consumption will grow in line with solid growth in income.

Contrary to other developed economies, labour market conditions in Australia have been positive, with employment growing strongly and the unemployment rate declining, with the exception of the region of flooding where unemployment went up significantly. The flood led to a notable rise in inflation for a couple of quarters, but the medium-term inflation outlook remains unchanged, with CPI inflation expected to be in the range of about 3 per cent for 2011 and 2012. The Reserve Bank of Australia is expected to keep its policy interest rate at the current level of 4.75 per cent until the third quarter of 2011, to be followed by a couple of more tightening steps through 2012.

In New Zealand, the earthquake that occurred in February of 2011 in the Canterbury region caused significant damage to infrastructure and buildings, with an estimated economic loss of as high as 9 per cent of annual GDP. The earthquake also substantially

disrupted business activity in the region, sending the economy into a recession in the first quarter of 2011.

The economy was not strong even before the earthquake, recovering slowly from a prolonged recession caused by the global financial crisis. Domestic demand has been particularly weak. High debt levels of households and the persistently high unemployment rate have constrained consumption spending. Businesses have been reluctant to invest. The construction sector has been weak in a reflection of the state of the housing market, while the manufacturing sector has contracted further. Significant spare capacity seems to remain in the economy and inflation pressure is modest. The exporting sector has been relatively strong, especially for primary sector exporters, benefiting from an increase in international prices of commodities. In response to the impact of the earthquake, the Reserve Bank of New Zealand cut its policy interest rate by 50 basis points in March of 2011 and is expected to maintain the rate at 2.5 per cent until mid-2012. The GDP of New Zealand is expected to grow by 0.8 per cent in 2011 and by more than 3 per cent in 2012, assuming the reconstruction in the aftermath of the quake will boost growth.

Canada

In Canada, GDP growth is forecast to decline from 3.1 per cent in 2010 to 2.6 per cent in 2011 and 2.5 per cent for 2012. One reason for the slowdown is the expected weaker support from government expenditures. In a federal election held in May, the Progressive Conservatives party gained the majority for the first time after seven years of minority government. This provides a stronger mandate for the stated plan to balance the federal budget by fiscal year 2015. The plan also proposes expenditure cuts, especially in 2012. The inventory re-stocking will also slow down as inventories have returned to more normal levels in relative terms.

The exchange rate of the Canadian dollar against the currency of the United States, Canada's largest export market, is predicted to remain high due to different risk perceptions toward these two currencies and elevated prices for oil and other commodities. Exports of manufactured products will be hindered by this, enhancing the slowdown.

In annualized terms, in 2011, employment will exceed the pre-crisis level. However, given the continuous expansion of the labour force, the unemployment rate will still be higher than its 2008 annual level over the outlook period.

The Bank of Canada, raised its policy interest rate in September 2010. It has since then kept the rate steady over concerns regarding the stability of the recovery. The muted inflation dynamic, especially when measured by core inflation, which is the operational guide for the Bank, may justify this policy stance.

Western Europe

The recovery in Western Europe continues, although at a modest pace. Business confidence was high in the first quarter of 2011 and growth is expected to accelerate slightly from the fourth quarter of 2010, boosted in some countries by a rebound from the bad winter weather. But the rest of the year faces strong headwinds: slower external demand, higher inflation stemming from elevated oil and food prices, region-wide fiscal consolidation and tighter monetary policy. These headwinds, coupled with the extremely low growth carry over from 2010 (0.7 per cent for the Euro area), lead to a very subdued forecast, with GDP in the euro area growing by only 1.6 per cent in both 2011 and 2012. The aggregate figures, however, mask wildly differing performances within the region. Germany is expected to grow by 2.9 per cent in 2011, France by 1.6 per cent, Italy by 0.9 per cent and the United Kingdom by 1.7 per cent, while the countries affected by fiscal crises - Greece, Portugal, Ireland, and Spain - will either remain in recession or grow by only minimal amounts.

Industrial production has climbed fairly steadily from its low point in 2009, but remains more than 9 per cent below its pre-crisis peak reached 2 years earlier. Intermediate and capital goods production have shown the strongest rebound, with consumer durables and non-durables lagging. The construction sector, however, continues to decline with no significant signs of a turnaround.

Indicators of business sentiment moved steadily higher over the course of 2010 and into 2011, in some cases regaining pre-crisis peaks, but with some hesitation in March and April as the political situation in oil-producing countries and the multi-dimensional catastrophe in Japan weighed on confidence. The European Commission's Economic Sentiment Indicator was just below its pre-crisis peak in April, but there was great diversity amongst its components. While industrial confidence had reached its pre-crisis peak, construction confidence was well below its long-term average (since 1990). Meanwhile, services and consumer confidence were close to their long-term average. There was also great diversity across economies, with Germany experiencing the highest levels of business confidence in 20 years, but the countries hit by the sovereign debt crisis remaining well below historical averages.

The recovery has shown tentative signs of transitioning from an export-driven industrial rebound supported by strong fiscal and monetary policy measures to a more balanced profile with domestic demand providing more impetus. In the outlook, this shift is expected to continue.

Private consumption expenditure is expected to strengthen over the forecast period, although not enough to provide a major impetus to growth (at least for the majority of countries). Labour markets have stabilized and in some cases have begun to improve except in the crisis-affected countries, with employment and wages gradually picking up. Consumer confidence has increased to its long-term average and household savings rates have retreated from the highs experienced during the recession. But consumption

expenditure will be held back by higher inflation and the impact of fiscal consolidation measures. In the crisis-affected countries, consumption is expected to decline.

Investment in equipment is expected to gradually pick up over the forecast period and become an important driver of activity. Capacity utilization has been rising since mid-2009 and currently rests just below its long-term average for the euro area as a whole, but above long-term averages in Germany, Austria and Belgium. Order books continue to improve and are well above their long-term average. Business profits have also improved, financing conditions are stabilizing, and loans to non-financial corporations finally turned around, increasing in both January and February. Housing investment, however, will remain a major drag on economic activity, particularly in those countries that experienced a housing bubble and subsequent collapse of the housing market, such as Spain and the United Kingdom.

Exports are expected to decelerate from their robust performance of 2010 in line with the slowing of growth in emerging markets, but will remain strong, supported by the anticipated depreciation of regional currencies. Imports are expected to fall back from their heightened post-recession rebound to a more sustainable rate of growth.

Labour markets have either stabilized or are gradually improving in the region, save for the crisis-affected countries. In the euro area, the rate of unemployment hovered near 10 per cent for nearly all of 2010 and fell marginally to 9.9 per cent in early 2011. But there are tremendous differences across countries. Germany experienced a substantial decline, from a peak of 7.7 per cent in mid-2009 to 6.3 per cent in March 2011. Other countries such as Belgium, Finland and Sweden also saw significant declines. In many countries, however, unemployment remains high and in the crisis-affected countries exceptionally so. Unemployment in Spain exceeds 20 per cent, in Portugal it is 11 per cent, in Ireland nearly 15 per cent and in Greece 14 per cent. This divergence is explained both by relative growth performances (heightened by the tremendous fiscal consolidations going on in some countries), different degrees and types of labour market policies and structural differences. Going forward, this divergence is expected to continue as the crisis-affected countries will be held back by low levels of growth and continuing structural problems.

Headline inflation, as measured by the Harmonized Index of Consumer Prices (HICP), rose continuously during 2010, breaching 2 per cent in the euro area at the end of the year. It has subsequently climbed to 2.7 per cent in March. The main causes have been the sharp rise in energy prices and food and in some cases administered prices. Core inflation, which abstracts from energy, food, alcohol and tobacco, in an attempt to measure underlying inflationary pressures, is much lower but has been creeping up as well, reaching 1.3 per cent in March. Going forward, headline inflation is expected to remain above 2 per cent as commodity prices remain elevated, but the likelihood of any second-round effects, whereby a wage-price spiral begins to form, is low. Labour markets, while improving, are not robust in most countries, so that wage pressures will remain contained. The output gap is large and given the subdued growth outlook, it will narrow only slowly over the forecast horizon. The baseline forecast assumes that oil prices will fall back slightly in the second half of 2011 and into 2012 while other commodity prices will

stabilize, so that there will be no further inflationary impulse from these sources. Consequently, headline inflation is expected to peak in 2011, with most countries registering rates well above 2 per cent, but it will decelerate in 2012.

Fiscal policy turned quite dramatically from expansion to consolidation across the region during 2010, due to increasing concerns over deficits. The euro area deficit increased from 2.0 per cent of GDP in 2008 to 6.3 per cent in 2009 and dipped only slightly to 6.0 per cent in 2010. All members of the euro area, except Luxembourg and Finland and new member Estonia, registered deficits of more than 3 per cent of GDP in both 2009 and 2010, which is the limit enshrined in the Stability and Growth Pact (SGP). Under the Excessive Deficit Procedure (EDP), these countries had to submit stability programmes with explicit plans for bringing their deficits back to below 3 per cent. The situation was given heightened urgency when a sovereign debt crisis erupted, first in Greece, then in Ireland and more recently in Portugal, as investors demanded increasingly higher risk premiums for country debt and credit-rating agencies repeatedly downgraded debt issued by these countries. Eventually, these countries were forced to request assistance, which came in the form of a European financial stabilization mechanism worth 720 billion euro, with the requirement that the countries undertake stringent consolidation programmes. Most members of the euro area are consolidating their budgets, with a minimum requirement of an improvement in budget deficits of 0.5 per cent of GDP per annum, but substantially higher for the crisis-affected countries, and these consolidations are expected to take between two and four years to complete. The United Kingdom is also under pressure after its deficit rose sharply, and is pursuing a dramatic consolidation programme.

Until recently, the European Central Bank (ECB) has placed its conventional monetary policy on hold, leaving its main policy interest rate at 1.0 per cent. Further policy stimulus was undertaken via unconventional policies, mainly by supplying liquidity directly to the banking system as well as purchasing government bonds in secondary markets. It was thought that these latter policies would be phased out prior to the resumption of conventional policy, where policy interest rates would be brought back to a neutral level. However, the ECB strongly hinted in March and enacted in April a 25 bps increase in its main policy rate, with the expectation of more increases to follow. It was also explained that the unconventional policies were now being used almost exclusively to support banks and the sovereign debt of the crisis-affected countries. Going forward, it is assumed that the ECB will raise rates another 50 bps in 2011 and another 100 bps in 2012. Some other regional central banks have already started raising rates, but the Bank of England remains on hold.

Key risks to the forecast are weighted to the downside and include a greater than anticipated impact on growth from the fiscal consolidation programs, renewed banking sector difficulties from the sovereign debt crisis, negative impacts from the heightened oil and food prices and possible adverse currency movements.

The new EU members

The economic recovery, driven by exports and restocking, strengthened in the last quarter of 2010 in many of the new EU member states, leading to a better than expected GDP growth rate for the region of 2.2 per cent in 2010. The recovery continued in early 2011 and exports remained the key driver of growth and led to a surge in industrial production, with growth being expected to again be export-led in 2011. In contrast to 2010, however, a strong contribution to growth from the inventory cycle is not expected, as many companies have already rebuilt their stocks. The only exception to the export-led growth pattern is Poland, which continues to see a strong economic expansion largely based on domestic demand. For most of other new EU economies, all components of domestic demand remain weak, although in some countries the recovery is becoming more broad-based. Private consumption is constrained by slow wage growth, debt repayment by households, stagnant labour markets, higher indirect taxes and rising inflation. As Governments implement fiscal austerity measures to improve the sustainability of public finances, public spending will also be unable to provide a boost to those economies. Investment, in turn, is constrained by credit rationing by banks, although FDI into the region moderately increased. The aggregate GDP of the new EU members is expected to increase by 3.1 per cent in 2011 and by 4.0 per cent in 2012, provided domestic consumption and investment strengthen and absorption of EU funds improves.

In 2011, the prospects for the tradable sector of the new EU members are favourable, as import demand among the major trading partners remains strong. The countries should not face difficulties in securing external finance and their commitment to fiscal consolidation has improved portfolio investors' perception. On the other hand, those countries which had received international assistance during the financial crisis are completing their respective IMF programmes and will have to start repayments to the IMF and the EU. The banking sectors of the new EU countries remain stable and the share of non-performing loans appears to have peaked. In order to secure access to commercial borrowing, Poland has obtained an extension of the IMF's Flexible Credit Line until the end of 2012, although the Government does not intend to draw from those funds. The new EU countries should receive more EU funding in 2011, although the fiscal retrenchment may complicate the required co-financing of the EU-related projects.

Driven by higher fuel and food prices, inflation accelerated among the new EU members in late 2010, and in the first months of 2011, some countries recorded relatively high inflation rates (especially Bulgaria and Romania). Increases in indirect taxes, already undertaken or planned by Governments to strengthen fiscal revenue and to compensate for earlier reductions in personal income taxes, contributed to inflationary pressure as well. It is expected that weak domestic demand will offset those factors and subdued wage growth will constrain inflation in the second half of the year. However, a much sharper increase in producer prices in early 2011 (by double-digits in some cases) will keep monetary authorities vigilant.

Governments across the region are trying both to address the cyclical deterioration in their budgets (for example, the deficits in Latvia and Lithuania exceeded 7 per cent of

GDP in 2010) and also to introduce structural changes in public finances, in particular by reforming pension systems, aiming at a gradual reduction of the deficits to 3 per cent of GDP in the medium-term and greater fiscal sustainability. Most of the Governments are planning to reduce wages and cut employment in the public sector. On the revenue side, among other measures, the Government of Hungary introduced in 2010 extra taxes on financial institutions and large corporations and de-facto diverted private pension savings into the state-run system. This may lead to a one-off budget surplus in 2011, but may constrain bank lending and worsen investor sentiment.

The central banks of the new EU members intend to keep policy rates low in order to restart commercial lending and avoid an increase in speculative capital inflows. However, in Hungary and Poland, the monetary policy stance was reversed in late 2010 and early 2011 and policy rates increased to counter rising inflation. Other central banks in the region may follow suit, which may endanger the still fragile recovery.

Following Slovakia and Slovenia, which joined the euro zone earlier, Estonia has adopted the single currency in January 2011 and in line with ECB rules has drastically reduced mandatory reserve requirements for commercial banks. The liquidity released as a result of this was used to repay foreign debt of commercial banks rather than to extend new credit. Although not facing liquidity constraints, the banks in the new EU countries still remain reluctant to lend. Lower house values have led to negative equity for many mortgage borrowers and have eroded banks' assets. In early 2011, the capital adequacy ratio for many banks in the new EU has somewhat improved, but private credit has yet to recover.

The recovery in the region's labour markets is clearly lagging, although the rate of unemployment started to decline in mid-2010 in many countries. The most noticeable improvement took place in the Baltic States. In Latvia, for example, the unemployment rate, which had reached 19.7 per cent in the fourth quarter of 2009, declined to 14.3 per cent in December 2010. On the other hand, in the countries of Central Europe, the progress is slow. At the beginning of 2011, the unemployment rate even increased in some countries, which can reflect seasonal factors. The planned cuts in the public workforce will prevent a significant improvement in 2011 and only in 2012 are labour markets set for a gradual recovery. The high rates of unemployment act as a drag on economic performance. In particular, a rise in structural unemployment would affect potential output in the long-run. Many Governments are trying to address those issues, for example, by launching public works programmes, and also aiming to deal with the skill mismatch in labour markets, but the lack of fiscal space is an impediment to conducting adequate pro-labour policies. In April 2011, the remaining countries in the EU-15, which still retained restrictions on the free movement of labour from the new EU members, have abolished those constraints. To which extent the possible outward migration of workers to those countries will alleviate the unemployment situation in the region still remains to be seen.

The current accounts of the Baltic States moved into surplus in 2010, but a gradual pick-up in imports and higher commodity prices, together with a deficit on investment income,

may shift them back into negative territory. In many other new EU member states, current account deficits may further increase against the backdrop of rising import costs, but this should not endanger macroeconomic stability provided there is no reversal in capital inflows. Hungary may register a current account surplus in 2011, which will mitigate the country's external financing needs.

The outlook for the region is subject to a number of downside risks. A sovereign debt crisis in the periphery of the euro zone would complicate refinancing of external debt obligations of the new EU members. Fiscal austerity may constrain growth not only in the short-run, but have more far-reaching consequences. Although the banking sector appears stable, the possibility of an outflow of funds cannot be discounted if parent banks from the EU-15 come under pressure in their home countries.

Economies in transition

South-eastern Europe

Although the economies of South-eastern Europe, with the exception of Croatia, returned to growth in 2010, a solid recovery in the region has yet to materialize. Strong exports, boosted by increased demand and higher prices for commodities, in particular metals, together with a satisfactory performance of the tourism sector and a modest recovery in remittances pulled the region out of recession in 2010. For most of the South-eastern European countries, GDP increased by 1 to 2 per cent in 2010.

In early 2011, exports continued to perform well, driving an increase in industrial output, while domestic demand still has to recover. A modest acceleration of growth in 2011 is again expected to be export-led. Following a contraction in 2010, private consumption may strengthen, but only by about 1 to 2 per cent, as wage and credit growth is lagging and consumer confidence remains weak. The Governments in the region have limited policy space due to austerity measures, although they are trying to increase capital expenditure and to support businesses. The countries are expected to register positive investment growth against the low base of 2010, but FDI will be much below the pre-crisis level and sluggish investment is delaying the reindustrialization of those economies. The aggregate GDP of South-eastern Europe is expected to expand by 2.2 per cent in 2011 and growth may accelerate to 3.1 per cent in 2012, assuming a modest recovery in domestic demand. Overall, economic performance of the region in the short-term depends on whether strong exports will outweigh the effect of austerity policies.

As global energy and food prices surged, inflation picked-up in the region in late 2010 and in early 2011, leaving Governments to deal with both the macroeconomic and social consequences. Due to the relatively large share of food in the consumption basket of those countries, the increase in food prices had a stronger impact on consumer price inflation than in the EU. On the other hand, slow wage growth and weak consumer confidence should cap inflationary pressure and for most of the region average annual inflation in 2011 should stay in the low single digits. The only exception is Serbia, where

consumer prices may increase by over 10 per cent in 2011. To deal with the consequences of higher food prices, the Government of Bosnia and Herzegovina has utilized its commodity reserves and the Government of Serbia has introduced a temporary ban on wheat exports.

For Governments across the region, fiscal consolidation remains a priority after enacting countercyclical policies during the crisis. In Bosnia and Herzegovina and in Serbia (both of which are under IMF agreements), public expenditure will shrink in 2011 by 2 to 3 per cent to meet the deficit targets agreed with the IMF. By contrast, the Government of Croatia is refraining from reducing its budget deficit any further to avoid social repercussions and has so far been successful in tapping the bond market. In Albania, planned public spending on infrastructure is likely to lead to a higher deficit in 2011. In reducing public expenditure, Governments in the region primarily aim at current expenditure. On the other hand, they try to increase capital expenditure and also business lending to diversify their economies. However, the progress in utilization of those funds has been slow. Meanwhile, the region is increasingly relying on external financing. For example, the Government of Serbia obtained in April a four-year 800 million dollar loan from the World Bank to support budget spending and invest in infrastructure and another 100 million dollar loan to support low-income families. The Government of the former Yugoslav Republic (FYR) of Macedonia has decided to withdraw funds from the IMF's precautionary credit line due to difficulties in issuing a Eurobond on favourable terms.

The monetary authorities in the region maintain an accommodative monetary stance in order to restart credit to the private sector. The central banks in Bosnia and Herzegovina and Croatia reduced mandatory reserve requirements for commercial banks in order to free liquidity, which will be made available for business loans. By contrast, in Serbia, the Central Bank reversed its accommodative policy stance in late 2010 and several times increased its key policy rate in 2010 and early 2011 in order to meet the inflation target, with further tightening seen as possible. Credit growth in the region has been slow, with the exception of Albania, and both demand for credit and banks' willingness to lend still need to be strengthen.

The region's labour markets noticeably worsened in early 2011. Croatia and Serbia were especially hard hit, with registered unemployment in both countries exceeding 19 per cent. Bosnia and Herzegovina and the FYR of Macedonia have even higher unemployment rates, in spite of the modest improvement in the latter in late 2010.

The current account deficits in the region may slightly widen in 2011 in response to higher energy and food prices and stronger imports of capital and consumer goods. On the other hand, reducing the high current account deficit of Montenegro remains one of the policy priorities and the deficit, which has reached about 25 per cent of GDP in 2010, is expected to shrink considerably in 2011.

The region is subject to some risks from the crisis in Greece due to the heavy presence of Greek banks and possible spillovers through the financial sector. Albania, the FYR of

Macedonia and Montenegro can be especially affected by such a crisis through a decline in remittances and weaker exports.

Commonwealth of Independent States (CIS)

Following the sharp contraction by 7 per cent in 2009, output in the CIS bounced back in 2010, with growth of the region reaching 4.6 per cent. Growth is expected to remain at this level in 2011, before increasing somewhat in 2012. The general improvement in the external environment and stronger domestic demand contributed to strong increases in industrial production in 2010. The region also benefited from higher commodity prices, in particular for oil and metals. In most countries, stronger performance in industry and, to a lesser extent, in services was, however, counteracted by weak performance in agriculture as adverse weather conditions (drought, wild fires and flooding) impacted large parts of the region in the third quarter of 2010. Tajikistan and Uzbekistan are notable exceptions to this trend, each seeing strong growth in agriculture of close to 7 per cent in 2010. However, growth in overall economic output weakened in the region in the second half of 2010 and is expected to remain below potential in 2011, largely due to the slowdown of the global economy.

Despite the economic slowdown towards the end of 2010 and its impact on labour markets, the overall economic recovery in 2010 contributed to a decline in unemployment for the year as a whole of close to one percentage point in the Russian Federation, Kazakhstan and Ukraine. As these economies are important destinations for migrant workers in the region, labour market pressures consequently have eased in a number of smaller economies, notwithstanding the fact that overall weaker agriculture sectors have dampened employment growth. In Azerbaijan and Uzbekistan, growth of construction has contributed to a further recovery of labour markets, whereas in Kyrgyzstan, a significant decline of more than 20 per cent in construction resulted from the social upheaval in the first half of 2010. This trend is, however, likely to be reversed in 2011.

Responding to the poor performance of agriculture in the second half of 2010, inflationary pressures have increased sharply. Mainly as a result from sharp increases in food prices, the declining trend in inflation that many countries had experienced since 2009 has been reversed. Having reached 7.3 per cent for the region in 2010, compared to 11.3 per cent in 2009, annual inflation is forecast to accelerate to 9.9 per cent in 2011, before subsiding in 2012. Indeed, responding to the decline in agriculture and to heightened concerns regarding food security, Ukraine and the Russian Federation limited exports of certain agricultural produce, either through export bans or by introducing export quotas. These measures are expected to be maintained, at least throughout the first half of 2011. Other factors that have contributed and will continue to contribute to inflationary pressures, particularly in net fuel importers, are higher fuel costs and adjustments in utility prices.

Higher commodity prices, an improved global economy and the economic rebound have contributed to a widening of the current account surplus for the region as a whole in 2010.

In the Russian Federation, the current account surplus widened almost by 50 per cent to $72 billion in 2010, while Kazakhstan registered a surplus of $4.3 billion, compared to a deficit of an equal amount in 2009. Further improvements in the current account balances for these economies should continue during the remainder of 2011. In contrast, a marked deterioration was observed in several countries. For instance, although Kyrgyzstan benefited from higher commodity export prices (gold, in particular), the social upheaval dampened exports, while higher import prices in 2010 contributed to a further deterioration in the external balance. The elimination on 1 January 2011, of an export tax levied by Russian authorities on fuel exports (of $230 per ton) to Kyrgyzstan will, however, ease pressures in the outlook. In Belarus, Moldova and Ukraine, greater domestic demand for both non-energy and energy goods contributed to a widening of the current account deficit, reaching 16 per cent of GDP in Belarus. These trends are largely expected to continue in 2011.

Despite the improved economic performance in 2010 and the abundance of capital in the developed economies, which led to surging capital inflows into many emerging economies, capital continued to be withdrawn from this region. While net capital outflows in 2010 declined substantially compared to 2008 and 2009, they exceeded $38 billion in the Russian Federation in 2010. Moreover, in the first quarter of 2011, net capital outflows continued unabated, reaching $21 billion from the Russian Federation alone, notwithstanding a general abundance of investment opportunities, particularly in the extractive and hydrocarbon sectors. Overall, the combination of weaker growth prospects compared to the region's potential, a fragile investment climate and uncertainty surrounding the 2012 presidential elections in the Russia Federation implies that a reversal of these trends is unlikely in the immediate outlook.

In contrast, however, several of the smaller economies have seen significant increases in financial inflows, mainly as a result of higher remittance flows, which increased on average by 23 per cent in 2010 in Armenia, Kyrgyzstan, Tajikistan and Uzbekistan. Nevertheless, a number of resource-poor countries, such as Armenia, Belarus, Kyrgyzstan, Tajikistan, Ukraine and Moldova, remain dependent on external support, mainly from the IMF.

The loose monetary policy stance that characterized the region in 2009 was largely maintained in 2010, but came under pressure in the second half of the year due to higher inflationary pressures. Interest rates and reserve requirements were first raised in Georgia in September 2010. Most countries in the region followed suit in the last quarter of 2010 and the first quarter of 2011 in tightening their policy stance.

In several countries, the strengthening of national currencies that accompanied the economic recovery in 2010 allowed central banks to significantly increase reserves. In the second quarter of 2011, reserves in the Russian Federation exceeded $500 billion for the first time since the onset of the crisis. In Kazakhstan, they have since doubled to $37 billion. Greater levels of reserves, stronger currencies and higher interest rates have induced authorities to increase exchange rate flexibility, in part to counter carry trades. In the Russian Federation and Kazakhstan, for instance, trading bands of the rouble and

tenge, respectively, were widened in the first quarter of 2011. In contrast, reserves have come under severe pressure in Belarus. Despite an increase in interest rates and a tightening of foreign exchange restrictions, the rouble continued to depreciate, forcing the authorities to widen the exchange-rate corridor. Towards the end of May 2011, authorities devalued the Belarusian rouble by more than 50 per cent. While this will ease the current account deficit, it will significantly increase inflationary pressures in the outlook and could increase social tensions.

The improved economic situation contributed to a recovery in bank deposits, which have reached pre-crisis levels in a number of countries. However, despite low rates of interest in 2010, credit growth has remained feeble across the region, notwithstanding exceptions, such as Armenia and Georgia, where credit increased by more than 20 per cent, or Belarus, where credit growth reached almost 40 per cent in 2010. Banks' unwillingness to lend is largely due to the fact that the banking sector crisis, in the region's larger economies, notably in Kazakhstan, Ukraine and in the Russia Federation, has not yet been entirely overcome. With asset quality slowly improving, credit growth is expected to strengthen in 2011.

Fiscal deficits declined in the region in 2010 as the economic recovery boosted revenues, particularly in the net-energy exporting countries which benefited particularly from the surge in oil and gas prices. However, in Kyrgyzstan, the fiscal deficit widened in response to the social upheaval. In Belarus, a combination of higher import prices of energy and increased expenditure in the run-up to the presidential elections in December 2010 contributed to a continued fiscal deterioration. Fiscal deficits were largely financed domestically in Kazakhstan and Armenia, while being externally financed in Georgia. Overall, Governments will continue their fiscal retrenchment programmes in 2011.

The recovery in 2010 highlights how growth in the region is driven by the performance of the larger economies, particularly the Russian Federation, which in turn crucially depends on external circumstances, in particular the price of oil. Meanwhile, the weak outlook for growth in 2011 in the European Union, which is the destination for more than half of the Russian Federation's exports, will be a drag on growth in the region, underlining the region's vulnerability to external events. Efforts to diversify from natural resources and hydrocarbons need to be strengthened, while the continued fragile state of the financial sector must be addressed to enable a strengthening of domestic demand.

Developing countries

Africa

A generally positive economic outlook for Africa has become subject to an increased degree of uncertainty. In North Africa, public protests have already led to significant changes in political governance, opening up the prospect for more systemic changes that could unleash undiscovered growth potential, such as through the redefinition of the role of the state in the business sector and a greater emphasis on a competitive market

structure. At the same time, however, increased internal tensions and the inherent risks and uncertainties associated with the transition to any reformed governance system bear the potential to cause sudden major disruptions to economic activity.

In both Egypt and Tunisia, where protests led to the removal of the respective governments, economic growth will slow this year. This is especially due to the immediate negative effect of the political unrest on core economic sectors such as banking and tourism, although a relatively quick stabilization of the situation has helped to also rejuvenate economic activity. This stays in contrast to the situation in the Libyan Arab Jamahiriya, where initial protests have evolved into a military conflict. This has caused a sharp increase in global benchmark oil prices, displaced many people, especially migrant workers, and led to major uncertainties regarding the supply of the population with food and medical goods.

In sub-Saharan Africa, many countries will see continued strong economic growth. Expansionary fiscal policies and infrastructure investments, also through the private sector, remain important driving factors in this regard. However, a large number of elections make fiscal policies prone to structurally less justifiable initiatives, with the risk that what appears as a boost to economic headline growth only constitutes a one-off blip whose short-term benefit is outweighed by the negative impact on the long-term sustainability of fiscal positions. At the same time, many countries benefit from a recovery in workers' remittances on the back of the recovery in developed economies. Nigeria, Sudan and Kenya, which are the three biggest recipients of remittance inflows in the region, have seen an increase in remittances of more than 4 per cent in 2010, a trend that is expected to continue in 2011, albeit moderated by the turmoil in North Africa.

The biggest economies of the region will see robust growth in 2011 and 2012. In South Africa, growth will accelerate to 3.8 per cent this year on the back of stronger business investment stemming from improved confidence in the strength of the economic recovery. Despite the high unemployment rate, consumption will also expand at a solid pace, driven by low interest rates and inflation as well as higher wages. Moreover, fiscal spending, particularly in infrastructure, will help drive growth both this year and in 2012. Higher oil prices will benefit oil exporters such as Nigeria and Angola, but with significant caveats. Nigeria will see growth of around 7 per cent in 2011 and 2012, but electricity shortages and political unrest in the Niger Delta prevent a stronger performance. At the same time, institutional shortages and corruption remain a significant drag on economic activity. In Angola, what appears as a positive performance in light of headline growth of 7.5 per cent in 2011 remains flawed by a lack of any meaningful broader linkages from the oil sector into other types of private economic activity. Corruption and the overarching role of the state in economic affairs prevent the emergence of stronger and more diverse private business activities.

Growth performances will vary considerably across the region. At the lower end, Côte d'Ivoire will see its economy contract on the back of a violent internal military conflict, which has displaced many people and crippled economic activity, especially in significant areas such as cocoa farming and banking. Meanwhile, Zimbabwe will see

growth of 3 per cent this year in a continuation of its limited recovery from a virtual economic collapse, but the political impasse remains a serious obstacle to a full economic recovery. In particular, foreign capital inflows remain low, the agricultural sector suffers from the displacement of farmers and the lack of inputs, and a general sense of uncertainty regarding government policies has gripped the business sector. At the other end of the spectrum, Ghana will see growth of 9 per cent in 2011. While the start of oil production will be a major driving force for growth, the economic expansion remains relatively broad-based, with agriculture, the service sector and mining all expected to face favourable conditions.

The generally positive growth outlook in sub-Saharan Africa will also translate into higher income per capita in 2011 and 2012. However, given the current significant income shortfalls, even the projected solid growth rates remain too low to have any meaningful impact in terms of poverty reduction. For the latter to materialize, even higher growth would have to be sustained over a longer time span, coupled with more significant changes in the institutional and policy-making arena.

Greater inflationary pressure will emerge across the region on the back of higher food and energy prices, expansionary fiscal spending and strong demand. In North Africa, higher inflation, especially on food, has played an important contributing role in the political unrest in a number of countries. The lowest inflation rates in the region are forecast for the Franc Zone due to relatively normal harvest patterns and the limiting effect of the currency peg to the euro on imported inflation. By contrast, Central and West Africa will see the highest inflation rates in the region. In Nigeria, tighter monetary policy will help reduce the inflation rate moderately compared to 2010. However, higher food and fuel prices, strong government spending and political uncertainty will still underpin inflation of around 11.5 per cent in 2011 and 2012. Similarly, Ghana will see only a slight decrease in inflation, as tighter fiscal policy and lower food prices due to strong harvests are offset by the inflation-inducing effect of lower energy subsidies and liquidity created by the start of oil production.

The trade picture continues to encompass a number of facets. Oil exporters benefit from the higher level of crude oil prices, although the effect on external accounts will be limited by higher imports due to stronger domestic demand as well as higher commodity prices. Non-oil exporters will see the reverse picture, with increasing downward pressure on their external balances in light of higher oil and commodity prices in the short run being partly offset by a continued global recovery in export markets. Looking at external accounts in a broader context, tourism is expected to experience a downward dent this year in Egypt and Tunisia because of the negative impact of the political turmoil, although the sector is expected to recover fairly quickly if the security situation remains stable. At the same time, other African countries such as Kenya and Republic of Tanzania will continue to benefit from a strengthening tourism sector due to the lingering uncertainty regarding North African destinations as well as the growing importance of non-traditional markets such as India.

Fiscal budgets will show increasing strains in North Africa. The political turmoil has provided an additional incentive for governments to increase fiscal spending, for example in the form of higher wages in the public sector, while at the same time the disruption to economic activity has put further pressure on revenues. Consequently, Egypt, Algeria and Tunisia, for example, will see marked increases in their budget deficits this year, with the largest shortfall forecast to occur in Egypt with 12 per cent of GDP. In sub-Saharan Africa, fiscal policies will remain supportive of economic growth, especially with a focus on removing significant infrastructure bottlenecks. While numerous elections will have some accentuating effect on fiscal spending in 2011, uncertainty regarding funding from developed countries remains a major obstacle on the revenue side for many countries. In this context, the issuance of long-term local debt will become an increasingly attractive instrument for financing national budgets.

East Asia

After recovering vigorously from the global recession, East Asia's economies are expected to register solid growth in 2011 and 2012. While average GDP growth is projected to moderate from 9.1 per cent in 2010 to 7.3 per cent in 2011 and 7.1 per cent in 2012, East Asia will continue to be the fastest-growing region in the world. The projected deceleration in growth reflects a tightening of monetary conditions, especially in China, and a higher comparison base due to the rebound in activity in 2010, combined with ongoing subdued demand in developed economies.

East Asia's economic rebound in 2010 was not only faster than the recovery from previous crises, but also exceptionally well-balanced and broad-based. Almost all economies experienced full-year growth of at least 6 per cent, with China (10.3 per cent), Taiwan Province of China (10.8 per cent) and Singapore (14.5 per cent) recording the highest rates. Moreover, all expenditure components of GDP expanded at a strong pace. In the early stages of the recovery, growth was mainly driven by a rebound in investment and manufacturing exports, supported by very loose macroeconomic policies. In recent quarters, private consumption has gained strength, becoming the main engine of growth in many economies. In China, for instance, consumption contributed 60.3 per cent to growth in the first quarter of 2011, compared with 44.1 per cent for investment and -4.3 per cent for net exports. Countries with large domestic demand bases, such as China and Indonesia, are expected to see no or only a minor growth slowdown in 2011 and 2012. By contrast, countries with a high share of manufacturing exports in GDP, for example Malaysia, Singapore and Taiwan Province of China, are likely to experience a more pronounced deceleration.

Unlike in other regions, labour markets in East Asia have mostly recovered from the crisis. Throughout the past year, strong output growth has boosted employment, both in services and in the manufacturing sector, which had recorded the largest job losses in 2009. Unemployment rates are now near or slightly above the multi-year lows of 2007 and 2008, while labour force participation rates are also broadly back to pre-crisis levels. Taiwan Province of China and Hong Kong Special Administrative Region of China - the two economies that had seen the biggest jump in unemployment in late 2008 and early

2009 - have recorded a significant drop in unemployment over the past two quarters. By contrast, unemployment rates have increased slightly since October 2010 in the Republic of Korea and Malaysia, mainly as a result of higher rates of labour force participation. With economic growth forecast to remain robust in 2011 and 2012, unemployment is expected to show little change. Real wages and salaries increased in 2010 on the back of significant productivity gains, especially in economies with lower per-capita income such as China, Indonesia and Viet Nam. However, higher than previously expected inflation will likely reduce wage gains in 2011.

Consumer price inflation across East Asia has accelerated markedly since mid-2010 owing to a surge in food and energy prices and strong domestic demand in the wake of accommodative monetary and fiscal policies. After averaging 3.2 per cent in 2010, inflation is projected to increase to 3.8 per cent in 2011, before dropping to 3.4 per cent in 2012. Inflationary pressures differ across East Asia, with average consumer price inflation in 2010 ranging from 1 per cent in Taiwan Province of China to 9.2 per cent in Viet Nam. Moreover, full-year figures mask a stark upturn in inflation during the last quarter of 2010, which continued in early 2011. In the first quarter of 2011, consumer price inflation averaged 4.4 per cent in the Republic of Korea, 5.2 per cent in China and 6.8 per cent in Indonesia, well above the target rates of the respective central banks. Much of the upturn can be attributed to higher food price inflation, which has reached double-digit levels in several countries. The surge in food prices reflects a combination of global and country-specific factors. In China, for instance, bad weather and supply bottlenecks led to a strong rise in vegetable prices; in Indonesia, a prolonged rainy season adversely affected the rice harvest; and in Viet Nam, a sharp devaluation of the dong increased the costs of imported food. Rising real wages, rapid credit growth and substantial capital inflows have also contributed to higher inflationary pressures. Going forward, inflationary pressures are expected to decline gradually as tighter monetary conditions weaken demand pressures and food price inflation eases.

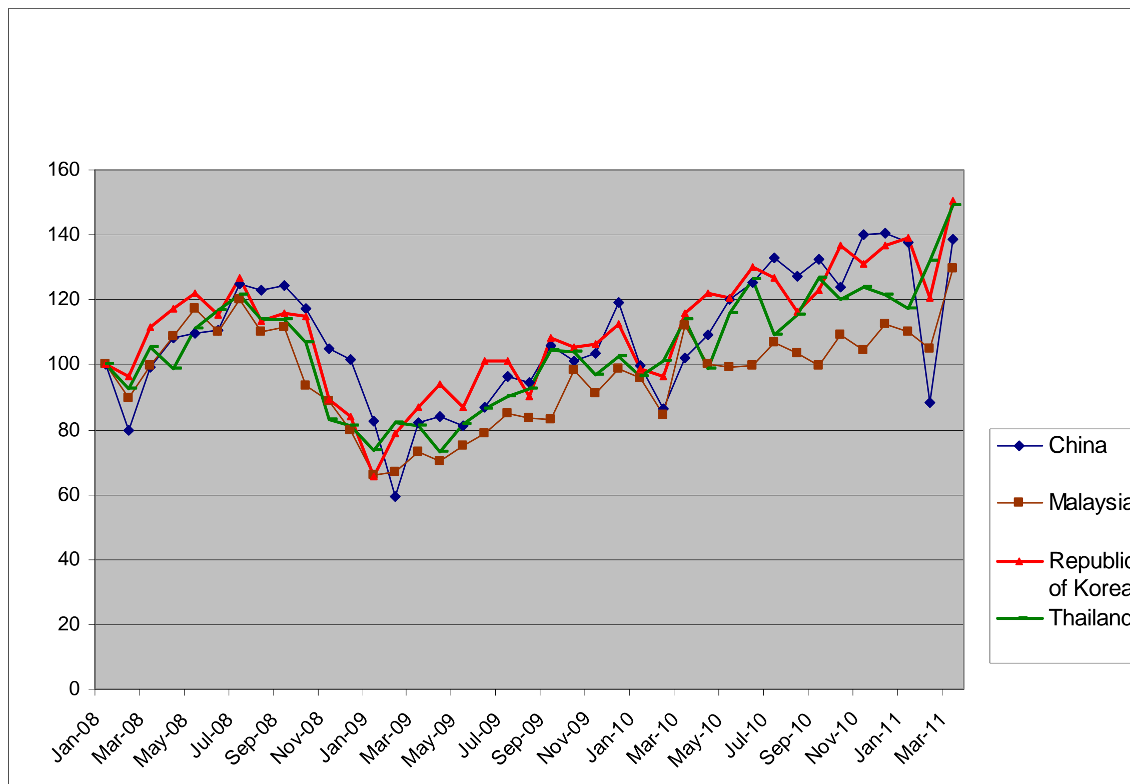
In response to rising consumer price inflation, central banks across East Asia have shifted to a tighter monetary policy stance in recent months. Throughout 2010, monetary conditions had remained fairly accommodative despite strong growth and a gradual build-up of inflationary pressures. Concerns about the robustness of the recovery in developed countries, coupled with fears that interest rate hikes could trigger further short-term capital inflows, made central banks reluctant to tighten monetary policy. As a result, real interest rates were very low and domestic credit expanded vigorously in several economies. After consumer price inflation picked up strongly in late 2010 and early 2011, central banks started to tighten monetary policy more aggressively by hiking policy rates as well as reserve requirements. The People's Bank of China increased its main interest rates three times (by a total of 75 basis points) between October 2010 and April 2011, while raising the reserve requirement ratio seven times during the same period (by a total of 350 basis points). In March 2011, the Philippine Central Bank became the region's last major central bank to begin raising interest rates. This trend of accelerated monetary tightening is expected to continue as long as inflationary pressures remain elevated.

The fiscal balances of East Asian countries improved significantly in 2010 as the region's strong economic recovery boosted tax and other revenues. In most economies, government consumption expenditure continued to rise, although at a more moderate pace than in 2009, when Governments started to implement a wide range of fiscal stimulus measures. The positive trends are expected to continue in the outlook period owing to robust GDP growth and prudent fiscal policies. Fiscal balances are projected to improve further and public debt levels as a ratio of GDP will generally remain low.

In China, nominal fiscal expenditure (in yuan) grew by 17.4 per cent in 2010 owing to continuing spending on stimulus-related infrastructure projects and higher expenditures on education, healthcare and housing. Fiscal revenues, in turn, increased by 21.3 per cent, mostly due to higher tax receipts, which rose by 23 per cent. This includes a sharp increase in customs revenues from tariffs and import fees, which were 36 per cent higher than in 2009. The positive trend continued in the first quarter of 2011, when nominal fiscal revenues surged by 33.1 per cent over the previous year. China's budget deficit for 2010 is estimated at 1.6 per cent of GDP, notably lower than in 2009 and well below the level in developed economies. Most other East Asian economies also recorded small budget deficits or even surpluses as was the case in the Republic of Korea and Singapore. Malaysia and Viet Nam, the two countries that had the biggest deficits in recent years, achieved some progress in fiscal consolidation. In both countries, the deficit declined from about 7 per cent of GDP in 2009 to 5.5 per cent in 2010.

East Asia is expected to see robust growth of exports and imports in 2011 and 2012, following the strong trade rebound since mid-2009. In 2010, the region's total export receipts (in dollar) were up by about 30 per cent (see figure 4), primarily owing to the recovery in the manufacturing sector, which was driven by the restocking of inventories and rapidly expanding import demand from China. In most economies, import spending increased at an even faster rate than export earnings as domestic demand grew rapidly and international commodity prices went up. Trade and current account surpluses have generally remained substantial, although in several cases they have declined as a share of GDP. These trends are likely to continue in 2011 and 2012 as domestic demand, especially for consumption goods, becomes a main driver of growth. In China, the current account surplus has declined from a peak of 10.6 per cent in 2007 to 5.2 per cent in 2010. In the first quarter of 2011, China recorded its first quarterly trade deficit since 2004 and the full-year current account surplus in 2011 is projected at below 4 per cent of GDP. Meanwhile, net capital flows to East Asian countries reached a record in 2010 as both portfolio capital and foreign direct investment inflows increased rapidly. The large portfolio capital flows have pushed up nominal exchange rates and asset prices in many countries. In real effective terms, the Chinese renminbi and the Malaysian ringgit recorded the strongest gains between October 2010 and March 2011, each of which appreciating by about 4 per cent. In addition to allowing a more flexible exchange rate system, China has undertaken a series of trade finance and capital account measures to promote the internationalization of the renminbi (see box 2).

Figure 4: Exports of selected East Asian countries ($ values, Jan-08 = 100)



Source: UN/DESA

Box 2: China: Internationalization of Renminbi

Since the onset of the global financial crisis, China has gradually stepped up efforts to reform its exchange rate system. In June 2010, the authorities resumed a more flexible and market-based exchange rate regime, allowing for a gradual appreciation against the dollar. In addition, the authorities have undertaken a series of trade finance and capital account measures to promote the internationalization of the renminbi (RMB). The RMB internationalization process essentially consists of three stages: first, the currency will be more widely used for pricing and settlement of China's bilateral trade, especially with developing countries; second, a growing number of RMB-denominated investment instruments will be developed; and third, the RMB will be increasingly used as reserve currency.

In the area of trade, the Chinese Government has significantly expanded the scope of its cross-border RMB trade settlement program, which was launched in mid-2009. The program now covers more than 67,000 exporters, compared to only 365 at the start. As a result, RMB-denominated cross-border trade increased to CNY 440 billion (approximately $66.9 billion) in the second half of 2010, more than six times the volume of the first half of the year. While RMB-denominated trade represented only about 2.5 per cent of China's total trade in 2010, this figure is expected to rise sharply over the next

few years. As a way to promote RMB cross-border trade as well as investment, China has also signed bilateral currency swap agreements with eight countries between December 2008 and July 2010.[2]

The expansion of the use of RMB in trade settlement has been accompanied by the development of the offshore RMB bond market in Hong Kong Special Administrative Region (SAR) of China, which serves as a testing ground for the opening of China's mainland capital market. In July 2010, the last restrictions on Hong Kong's RMB interbank market were lifted, opening up new ways in which foreign investors can hold RMB offshore. As China's trade activities surged and expectations of further RMB appreciation mounted, the RMB deposit base in Hong Kong SAR grew rapidly, from CNY 103.7 billion in July 2010 to CNY 407.7 billion in February 2011. This, in turn, has sparked strong demand for RMB-denominated investment products, especially low-risk dim sum bonds.[3] The total value of newly issued RMB bonds in Hong Kong SAR reached CNY 41.4 billion in 2010, up from CNY 16 billion in 2009. The RMB offshore bond market is expected to enjoy rapid growth in coming years as more products become available. Parallel to developing the offshore RMB market, in April 2011 China launched onshore trading of RMB options for hedging purposes.

While slowly opening up the domestic capital market to inflows, authorities have also started to liberalize the tightly controlled capital outflows. Since January 2011, selected Chinese enterprises are allowed to settle overseas direct investment in RMB.

Looking ahead, RMB-denominated trade and investment activities are likely to expand rapidly and RMB asset markets are expected to become deeper and more liquid. However, since capital market reform is still at an early stage, the RMB is unlikely to become a main reserve currency in the foreseeable future.

The recent upturn in inflation, mainly driven by higher food prices and strong domestic demand, poses major challenges for policymakers across East Asia. Many central banks, including those in China, Indonesia and the Republic of Korea, are likely to tighten monetary conditions more aggressively than over the past year in order to rein in credit growth. Such moves could lead to a stronger than expected slowdown of growth in 2011 and 2012, while also possibly further pushing up portfolio capital inflows and volatility in asset markets. An unexpectedly severe deceleration of growth in China would likely have a significant adverse impact on economic activity in other East Asian countries.

<u>South Asia</u>

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[2] Conversely, the main purpose of the agreements signed in 2001-03 had been the provision of emergency liquidity.

[3] Dim sum bonds were introduced in 2007 and can be issued by organizations that operate in China. So far, the market has been tapped by the Chinese Government, commercial banks (e.g. Bank of China), supranational organizations (e.g. the World Bank) and multinational enterprises (e.g. McDonald's, Unilever).

Led by strong growth in India and Sri Lanka, South Asia's GDP expanded by 7.1 per cent in 2010, up from 5.7 per cent in 2009. The overall growth momentum is expected to remain robust in the outlook period, with GDP forecast to increase by 6.9 per cent in 2011 and 7.0 per cent in 2012. Private consumption and investment continue to be the main growth drivers. A recovery in export revenues and a further expansion of government spending have also contributed positively to growth over the past year. Agricultural production has been boosted by favourable weather conditions and reached multi-year highs in several countries. The aggregate picture, however, masks stark differences at the country level, with growth in 2011 projected to range from about 3 per cent in the Islamic Republic of Iran to about 8 per cent in India and Sri Lanka.

India's growth momentum has moderated in recent months, following strong investment-driven growth in the aftermath of the global financial crisis. Tighter monetary policy, combined with volatile energy and commodity prices, has led to a slowdown in investment and industrial production. Full-year growth is projected to decline from 8.6 per cent in 2010 to 8.1 per cent in 2011 and 8.2 per cent in 2012. Sri Lanka's economy continues to reap the benefits of the end to the civil war. Amidst buoyant domestic demand, GDP growth rose from 3.5 per cent in 2009 to a three-decade high of 8.0 per cent in 2010 and the prospects for 2011 and 2012 remain positive. Other economies in the region, in particular the Islamic Republic of Iran and Pakistan, experienced moderate growth recoveries in 2010. However, long-standing structural factors such as weak policy implementation and insufficient investment continue to be major obstacles to growth and development. Economic activity in Pakistan was also adversely affected by the worst flooding in the history of the country and by ongoing security problems. Going forward, Pakistan is expected to experience a slight upturn in growth mainly due to a recovery in investment. In the Islamic Republic of Iran, the Government's programme to phase out all subsidies by 2014 will weigh on private consumption and growth in the outlook period.

South Asia's improved growth performance since mid-2009 has been accompanied by employment gains, especially in the region's most vibrant economies, India and Sri Lanka. According to International Labour Organization (ILO) estimates, the average unemployment rate in the region declined slightly in 2010 and is close to its pre-crisis level. Based on an employment survey for the fiscal year 2009/10 (April 2009 – March 2010), India's average unemployment rate is estimated at 9.4 per cent, with female unemployment standing at 14.6 per cent. The rural unemployment rate is estimated at 10.1 per cent, well above urban unemployment (7.3 per cent). A recent report on employment in selected manufacturing industries in India shows significant gains in 2010, especially in the sectors "Information Technology and Business Process Outsourcing", "Automobiles" and "Textiles/Apparels". Sri Lanka's unemployment rate declined to a decade-low of 4.5 per cent in the fourth quarter of 2010 amidst buoyant economic conditions. Despite the recent gains, South Asia's economies continue to face major labour market challenges, including very high youth unemployment. The region also has the highest share of vulnerable employment among all developing regions, estimated at 78.5 per cent of total employment in 2009. India's employment survey indicates that in rural areas, about 9 in 10 persons are either self-employed or employed as casual labour.

After moderating in the first half of 2010, inflation in South Asia has moved up again and remains a major concern for policymakers. For 2010 as a whole, consumer price inflation averaged 11.2 per cent, ranging from 5.9 per cent in Sri Lanka to 13.9 per cent in Pakistan. The upturn in inflation in recent months has largely been the result of a sharp increase in food and energy prices. In India, Pakistan and Sri Lanka, severe floods in major food-producing areas damaged crops and disrupted transportation, causing a spike in the prices of some basic staples, especially vegetables. While food prices are projected to gradually ease in the course of 2011, the recent increases may further drive up inflationary expectations. In India, Pakistan and Sri Lanka, inflation has been fuelled further by aggregate demand pressures. The reduction of fuel subsidies and deregulation of fuel prices is an additional factor that has pushed up inflation in India, the Islamic Republic of Iran and Pakistan. In the remainder of 2011, consumer price inflation is expected to moderate in India and Pakistan, mainly owing to lower food price inflation and tighter monetary policies. By contrast, inflation is forecast to further accelerate in the Islamic Republic of Iran as a result of fuel subsidy reductions as well as in Sri Lanka, where monetary conditions remain accommodative despite strong output growth. Average inflation in South Asia is estimated to decline to 10.2 per cent in 2011 and 8.6 per cent in 2012.

With inflation picking up again, several central banks in South Asia have further tightened monetary conditions since mid-2010. Yet, despite recent policy rate hikes in Bangladesh, Pakistan and India in particular, real interest rates have remained very low or negative. While additional tightening of monetary policy is expected in the months ahead, lower inflationary pressure may allow central banks to keep policy rates on hold later in the outlook period.

The Reserve Bank of India raised its main policy rates nine times between March 2010 and May 2011, lifting the repurchase rate from 4.75 per cent to 7.25 per cent and the reverse repurchase rate from 3.25 per cent to 6.25 per cent. Central bank officials in India continue to focus on upside inflation risks, emphasizing the need to limit the feed-through of food and commodity prices into overall inflation. Monetary authorities in Bangladesh and Pakistan have also tightened their policy in an attempt to reduce inflationary pressures. In Bangladesh, the main policy rates were increased by 100 basis points in March 2011, following a similar move in August 2010. The State Bank of Pakistan raised its main policy rate three times between July and December 2010 as high inflation - in part owing to government borrowing from the central bank - was perceived as a main risk to macroeconomic stability and sustainable growth. Unlike other monetary authorities in the region, the Central Bank of Sri Lanka eased its monetary policy stance further in 2010, assuming that increased inflationary pressures were primarily the result of temporary supply-side disruptions. However, as growth continued to strengthen and demand pressures were building up, Sri Lanka's monetary authorities have started to move to a less accommodative policy stance, raising the mandatory reserve ratio for commercial banks by 100 basis points in April 2011.

Fiscal spending continued to grow significantly in most South Asian countries in 2010 as both development and non-development expenditure - such as civil service pay and interest payments - increased. However, despite higher government spending, budget deficits have been narrowing in the fast-growing economies of India and Sri Lanka, which in 2009 had the largest deficits (as a share of GDP) in the region. In Sri Lanka, the deficit declined from 9.9 per cent in 2009 to 7.9 per cent in 2010 as a surge in domestic economic activity and a rebound in imports led to a sharp increase in revenues. India's budget deficit for the fiscal year 2010/11 (which ended on 31 March) is estimated to have declined to 5 per cent of GDP, down from 6.6 per cent in the previous year and below earlier projections. The main factors for India's shrinking deficit are higher tax revenues as a result of rapid economic growth, a reform of the fuel subsidy programme and proceeds from the sale of third-generation (3G) telecommunications licenses. In both countries, fiscal deficits are expected to narrow further in the outlook period, although at a slower pace than during the past year. The fiscal position is more serious in Pakistan, where the deficit for the fiscal year 2010/11 (which will end on 30 June) is estimated at 6.5 per cent of GDP, significantly exceeding the IMF target of 4.7 per cent. Progress in fiscal consolidation was impeded by expenditures on post-flood reconstruction work, higher military spending, increased energy-related subsidies and delayed implementation of the Reformed General Sales Tax (RGST). While these factors will likely remain a drag on fiscal balances in the coming years, a gradual increase in fiscal revenues is expected to lead to a narrowing of the deficit.

South Asia's export sectors rebounded in 2010 as global economic conditions improved. At the same time, rising fuel prices and resurgent domestic demand pushed up import spending, leading to a slight widening of trade and current account deficits in most countries - a trend that is expected to continue in 2011 and 2012. The value of India's merchandise exports rose by 31.1 per cent in 2010, driven by a surge in the exports of engineering goods and petroleum. Exports to Western Asia, North Africa, the ASEAN countries and Latin America registered the strongest expansions. The positive trend continued in the first quarter of 2011, when exports increased by 42.5 per cent. Bangladesh, Pakistan and Sri Lanka also experienced a strong recovery of export revenues in 2010 in the wake of a rebound in the textile and garment sector. Strong commodity demand and higher international oil prices boosted import spending in South Asia. India's merchandise import value rose by 25.5 per cent in 2010. Due to the higher base of imports, the country's merchandise trade deficit grew slightly to about $106.5 billion. The increase in trade deficits has been partly balanced by larger surpluses in the current transfer balances owing to continuing growth in workers remittances. Total remittance inflows to South Asia are estimated to have increased by 10 per cent in 2010 in dollar value terms. However, owing to the appreciation of local currencies and elevated inflation, the real local currency value of remittance flows contracted in several countries.

Governments and central banks across South Asia face the challenge of bringing inflation back to more sustainable levels in the context of high food and energy prices and domestic supply constraints. Moreover, a further increase in international commodity prices would not only complicate fiscal consolidation efforts and monetary policy

decisions, but also lead to a widening of current account deficits. In addition, an unexpectedly severe slowdown in India, caused by aggressive monetary tightening and a deterioration of global conditions, would adversely affect growth in other South Asian countries, most notably Nepal.

Western Asia

Western Asia experienced a regionally balanced recovery in 2010, with most economies of the region growing by more than 4 per cent. Economic prospects for 2011 and 2012 appear more contrasted, as uncertainties created by continuing political unrest and higher oil prices are enhancing the economic performance of fuel exporters and highlighting the vulnerabilities of fuel importers. Increased political risks pushing up borrowing costs as well as rising food and commodity prices will further constrain growth in the region.

Oil exporters have benefited from recovering world demand in 2010 and will continue to grow in 2011 and 2012. However, limited global trade and financial links will keep their growth performance heavily dependent on the trajectory of oil prices. After oscillating around $80 per barrel in 2010, in line with market fundamentals, the price of oil increased by 50 per cent during the first half of 2011, following speculations about the consequences of spreading political unrest in the Middle East. The oil price is expected to drop below $99 per barrel later this year when threats to a continuing and stable oil supply dissipate. Against this background, oil exporters will register strong growth rates in 2011, further enhanced by government and private spending, but these engines of growth will weaken in 2012. In Saudi Arabia, for example, the King announced two extraordinary spending packages worth a combined 30 per cent of GDP in an attempt to quench claims for domestic political reform. As a result, government and private consumption as well as public investment will be strong drivers of growth this year, but actual spending may decrease with threats of public protests vanishing. In Qatar, the start-up of new liquefied natural gas exporting facilities will provide a one-time increase in GDP by 15 per cent in 2011. However, in Qatar as well as in Saudi Arabia and Kuwait, the resumption of the implementation of economic diversification strategies that had been interrupted during the global crisis, will contribute to making economic growth less dependent on developments in the oil and gas markets. In Yemen, prolonged protests and general strike movements are negatively affecting economic activity. In Iraq, multinational corporations will continue to assist the government in developing the lucrative energy and telecommunication sectors that should contribute to sustained growth over the next few years.

Fuel importers are forecast to see continued growth on sometimes shaky grounds. Economic support measures announced in Syria or Jordan will stimulate private consumption on the back of growing budget deficits, making those countries more dependent on international assistance and financial markets. At the same time, the aggressive repression of protests in Syria is also affecting neighbouring countries by disrupting trade and tourism. Jordan and Lebanon will be most affected by the observed decline in tourism, as this activity is estimated to directly account for 7 and 9 per cent of employment and indirectly for 18 and 32 pre cent of GDP, respectively. Lebanon is

expected to be most affected because of its reliance on European tourists, representing around 40 per cent of total visitors, four times more than in Jordan. Declining tourism revenue is weighing on employment and household income, but it could also negatively affect real estate investment and construction activity if this trend were to persist. In Turkey, where counter-cyclical monetary and fiscal policies led to a strong recovery and an increase in GDP of 8 per cent in 2010, fixed capital investment, private consumption and exports are expected to keep growth at around 5 per cent in 2011 and 2012. In Israel, while the Government played a less active role in the recovery, a similar though more modest growth pattern is expected over the next two years.

Recent political unrest is highlighting the poor employment situation as well as common problematic features of many labor markets in the region. Female economic participation rates are extremely low, with women accounting for barely one fifth of the labor force in Jordan and Saudi Arabia. Despite curtailed economic participation, unemployment rates in the region are among the highest in the world, especially among educated youth, while migrant workers represent on average more than 70 per cent of the labour force in Gulf Cooperation Council (GCC) countries. These outcomes point at persisting poor coordination of education and economic, as well as, industrial policies. In Turkey, after a jump to above 14 per cent in 2009, the unemployment rate is now oscillating around 11 per cent. Likewise, in Israel, after reaching 7.6 per cent in 2009, unemployment may stabilize below the 7 per cent mark in 2012.

Inflation is on the rise in all countries of the region on the back of increasing food and energy prices as well as government and private consumption. In Yemen, where almost one half of the population lives in poverty and spends 60 per cent of income on food, the transmission of higher international food prices to households is having severe consequences. Food subsidies may temper imported inflation, but will not compensate for a lack of production capacity in the long term. In countries that announced public sector wage increases in reaction to political unrest, second-round effects are expected to further nurture inflation later this year and in 2012. In Turkey, expanding private consumption and investment are further pushing up prices. Higher housing prices are a concern in Israel, where authorities are having trouble meeting their inflation target in 2011.

Monetary policy in the region will focus on reining in inflation. In the countries of the GCC that are pegging their currency to the dollar, interest rates will trace the hikes of the Fed that are expected at the end of 2011. While some central bankers might be tempted to anticipate those hikes to address issues related to rising inflation, their scope for action is limited by the risk of fostering carry trade. In Israel, the central bank is expected to continue hiking its policy rate at regular intervals as long as inflation remains above its target zone in order to keep inflation expectations under control. As low interest rates and timid growth perspectives in developed countries continue to translate into rising capital flows towards emerging markets, the Central Bank of Turkey has increased capital requirement ratios, instead of interest rates, in an attempt to slow credit growth without causing further capital inflows and appreciation of the Turkish lira. It is so far uncertain whether acting on loan growth will be enough to curb inflation, and interest rates hikes may have to be used as a complementary tool later this year.

Although Western Asia’s Governments remained prudent in their budget planning, spreading political unrest forced many of them to announce a series of economic support measures such as food price subsidies, public sector wage increases and more extensive unemployment benefits, hinting at fault lines existing within those societies. While additional government spending may be sustainable in oil-exporting current-account-surplus countries, it is putting others in a delicate situation. Yemen will fail to reduce its fiscal deficit below 3.5 per cent of GDP, an objective for which it was granted a $369 million extended credit facility by the IMF last year. After the announcement of further spending by the Jordanian Government that will boost the fiscal deficit from 6 per cent of GDP in 2010 to 10 per cent in 2011, several rating agencies downgraded its debt, reinforcing its dependence on foreign development assistance and complicating its access to international financial markets. Consequently, outstanding public debt and the implied interest payments will remain significant factors limiting fiscal room to manoeuvre.

External balances in fuel-exporting countries will show solid surpluses in 2011 in light of the combination of higher oil prices and slightly increased output. Rising returns on their stock of assets accumulated abroad by recycling petrodollars will further improve their external positions. Their current account will, however, be negatively affected by the region-wide repricing of risk that is raising borrowing costs as a consequence of spreading political unrest. Non-oil exporters will benefit from a recovery in their main export markets, but rising oil and commodity prices will push up import bills, deteriorating their trade balance in 2011. Remittances from GCC countries and Europe will continue to limit their current account deficit. In the case of Israel, however, strong exports of business services, including computer software, will continue to ensure a solid current-account surplus.

Political unrest spreading to Saudi Arabia, or to countries producing more oil than Saudi Arabia’s spare capacity can compensate for, represents a major although distant risk. In case of a further sharp rise of the oil price, even oil exporters would be negatively affected by the negative consequences to the world economy. In Dubai, a renewed economic slowdown may further weaken the position of banks that already hold above-average proportions of non-performing loans. At the same time, the above-average adequacy ratios required in Dubai, and in other areas of the region, temper such a risk, and the prospects for the region’s major international debtors are fair with respect to achieving balance-sheet adjustments through debt rescheduling. In the long run, inaction in relation to the dire employment situation and, more broadly, the failure to devise and implement a more inclusive development paradigm represent major risks to political stability and economic performance.

Latin America and the Caribbean

After a strong economic recovery in 2010, triggered by the synergy between policy stimulus and recovering world trade, a moderation of growth will predominate in the region during 2011. Average GDP growth of the region reached 6.0 per cent in 2010, after contracting by 2.1 per cent in 2009. In 2011, economic growth is expected to remain

strong, despite a deceleration to 4.75 per cent as policy stimulus measures fade away. This trend will be further compounded by tightening policy responses in some countries. Growth in 2012 will be relatively more vigorous, reaching 5 per cent, conditional upon a stronger recovery in developed economies.

Among the main players of the region, Brazil is expected to grow by 4.8 and 5.0 per cent in 2011 and 2012, respectively, a slowdown from 7.5 per cent in 2010. Similarly, Argentina will grow by about 6.4 per cent in 2011 and 2012, after reaching strong growth of 9.2 per cent in 2010. Relatively strong growth in Argentina over the last decade has been mainly driven by net exports favoured by nominal depreciations as well as robust household demand sustained by employment and wage policies. The growth performance of 5.3 per cent in Mexico during 2010 may give way to a more moderate expansion by 3.3 per cent in 2011 and 4.6 in 2012. This reflects a relatively weaker export environment in 2011 for the manufacture industries, which indirectly benefited from one-time stimulus measures in the United States during 2010, as well as currency appreciation due to capital inflows and rises in food and commodity prices.

Other economies of South America rebounded strongly in 2010, with the notable exception of Venezuela which is slowly overcoming supply bottlenecks. The outlook for the sub-region remains resilient but moderate, while the converse applies to Venezuela (Bolivarian Republic of), where the rebound is only starting. Meanwhile, the economies of Central America, which had contracted by less than one per cent in 2009, achieved a mild recovery of about 3.5 per cent in 2010. However, the strength of their main growth drivers, export revenues and remittance flows, may sputter as labour markets and aggregate demand in the United States continue to face challenges.

As output growth continues at a milder pace in the region and fiscal stimuli fade away, the pace of job creation will likely weaken and the average rate of unemployment will remain around the 7.8 per cent achieved in 2010. On aggregate, the improvement from the crisis period is still insufficient to reach rates of unemployment during the pre-crisis period, which also masked a high degree of vulnerable and informal employment. The situation is more acute in Colombia, Paraguay and Jamaica, where unemployment rates have been in the range of 10-13 per cent. By contrast, Brazil has achieved a steady reduction of unemployment since 2004, with an unemployment rate of 6.7 per cent in 2010 and 6.4 per cent for the month of February 2011. Although many countries yield single-digit unemployment rates, the region’s structural problem is how to reduce the levels of vulnerable and informal employment, which often reaches over 50 per cent of the economically active population and is pervasive especially in the services sector.

Inflation in the region is projected to increase to 6 per cent in 2011, driven by higher food and fuel prices and strong domestic demand. Inflation in Colombia could reach 3.6 per cent in 2011, up from 2.4 per cent in 2010. The impact of higher food prices on the purchasing power in Colombia is expected to sharpen because the country is already coping with reduced food supplies due to flooding in late 2010 and food represents 28 per cent of the country's consumer price basket. The projected inflation in Peru for 2011 is 3.3 per cent, yet a higher outcome may prevail in the context of the continuing rise of

food and commodity prices in a country that is a net food and fuel importer and high economic growth that has been partly based on internal demand growth. Consumer price inflation in Mexico is likely to stay around 4.2 per cent in 2011, as the Central Bank would be ready to increase interest rates if largely unutilized capacity narrows.

Inflation exercises a negative influence on spending. Higher imported food and fuel prices in the Plurinational State of Bolivia have put strain on subsidies for basic staples such as sugar, while inflation is expected to reach 8.4 per cent in 2011, up from 7.2 per cent in 2010. In Central America, household spending and investment are threatened by the rise of food and energy prices, as most countries are net importers in this respect. In Nicaragua and El Salvador, food subsidies and public investment in infrastructure are at risk by the demands implied by the price hike for food and energy. In the Dominican Republic, authorities have turned to a reduction in government spending and a moderate reduction in subsidies for electricity in order to contain the public sector deficit.

Stringent monetary policies are being implemented in a number of countries with the potential to curtail excessive investment and consumption demand. Colombia, Mexico, Peru and Chile have tightened monetary policies in order to reduce overheating of their economies and rising commodity price pressures. Lending rates are expected to increase in Colombia from 12 per cent in 2010 to 13 per cent in 2011 and in Mexico from 6.5 per cent in 2010 to 7 per cent in 2011. In Peru, the lending rate will reach 4.8 per cent in 2011, much higher than the level of 3 per cent in 2010. In Chile, inflationary pressure has prompted the Central Bank to raise interest rates from 3.25 per cent in 2010 to 3.5 per cent in February 2011, with expectations that rates would reach 5.5 and 5.75 per cent in 2011 and 2012, respectively. The added risk is that rate hikes could encourage larger capital inflows, exerting upward pressure on exchange rates and a reduction in net exports. Accordingly, Brazil has opted for macro-prudential regulatory measures such as a tax on foreign borrowing.

Pressures towards fiscal consolidation and monetary tightening, at times exacerbated by external constraints in the balance of trade, stand as difficult policy trade-offs vis-à-vis the need for public investment and social protection in most countries. While the Bolivian external debt, amounting to 11 per cent of GDP, may allow some space for additional lending to sustain social protection programmes and investment on infrastructure, this avenue is more challenging for countries such as El Salvador and Ecuador, with the latter currently being under strain from international financial institutions as they litigate over debt legitimacy issues.

The regional balance of trade will likely suffer amidst the macroeconomic configuration laid out above. Currency appreciation in Uruguay, Mexico, Costa Rica, Colombia and Chile does not favour improved external performances, which are already shaken by adverse terms of trade for net importers of commodities and energy. In Mexico, with no real attempt to control capital inflows, the balance of trade in 2011 is likely to suffer as real appreciation trends upward. The deterioration in terms of trade is problematic for Nicaragua, El Salvador, Paraguay and Panama, which largely depend on food and energy imports. Additionally, domestic demand-driven economic growth in economies largely

dependent on imports has heightened the likelihood of worsening trade deficits in 2011 and 2012. This situation is rather a short-term issue for more diversified countries such as Argentina, Brazil, Chile, Costa Rica and Uruguay. In these cases, monetary policies, if successful in reverting domestic price inflation, will partially help to contain real exchange rate appreciation and a worsening of trade performances. For countries such as Bolivia, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica and Peru, however, trade deficits are often a manifestation of structural bottlenecks due to a lack of specialization and vulnerability to external shocks.

Annex tables

Table A.1
World and regions: rates of growth of real GDP, 2005-2012
(Annual percentage change[a])

	2005	2006	2007	2008	2009	2010[b]	2011[c]	2012[c]
World	3.6	4.1	4.0	1.6	-2.1	3.9	3.3	3.6
Developed economies	2.5	2.8	2.5	0.1	-3.7	2.5	2.0	2.4
North America	3.1	2.7	2.0	0.0	-2.6	2.9	2.6	2.7
Asia and Oceania	2.2	2.1	2.7	-0.7	-5.0	3.7	1.1	2.8
Europe	2.0	3.2	3.0	0.5	-4.1	1.8	-1.8	1.9
European Union	2.0	3.2	3.0	0.5	-4.2	1.8	1.7	1.9
EU-15	1.8	3.0	2.8	0.3	-4.3	1.7	1.7	1.7
New EU Members	4.7	6.5	6.2	4.0	-3.6	2.2	3.1	4.0
Other Europe	2.8	3.1	3.3	1.4	-1.8	1.5	-2.0	2.0
Memorandum items:								
Euro Zone	1.7	3.0	2.8	0.4	-4.1	1.7	1.6	1.6
Major developed economies (G-7)	2.3	2.6	2.2	-0.1	-3.8	2.8	2.1	2.5
OECD	2.6	3.0	2.6	0.2	-3.6	2.8	2.2	2.5
Economies in transition	6.5	8.0	8.3	5.4	-6.7	4.3	4.4	4.6
South-eastern Europe	4.7	5.1	6.1	4.3	-3.7	0.5	2.2	3.1
Commonwealth of Independent States and Georgia	6.6	8.3	8.5	5.5	-7.0	4.6	4.6	4.8
Developing countries	6.9	7.6	7.9	5.4	2.4	7.4	6.2	6.2
Africa	5.5	6.0	6.0	5.0	1.8	4.4	3.6	5.4
North Africa	5.8	5.4	4.7	4.6	1.5	4.1	0.7	5.0
Sub-Saharan Africa	5.4	6.4	6.6	5.2	2.0	4.6	5.1	5.5
East and South Asia	8.0	9.0	9.8	6.2	5.1	8.7	7.2	7.2
East Asia	8.1	9.2	10.2	6.4	5.0	9.1	7.3	7.2
South Asia	8.0	8.3	8.5	5.4	5.7	7.1	6.9	7.0
Western Asia	7.4	6.5	5.1	4.7	-0.6	5.8	5.8	4.2
Latin America and the Caribbean	4.6	5.5	5.6	4.1	-2.2	5.9	4.5	4.9
South America	5.0	5.5	6.6	5.4	-0.4	6.4	5.0	5.2
Mexico and Central America	3.4	5.0	3.8	1.8	-5.9	5.3	3.8	4.3
Caribbean	8.1	10.3	6.5	3.5	0.9	3.7	4.0	4.7
Memorandum items:								
Least developed countries	7.7	7.5	8.1	7.3	4.1	4.7	5.6	5.8
Sub-Saharan Africa (excluding Nigeria and South Africa)	6.3	6.5	7.4	6.1	3.0	4.7	5.9	5.7
East Asia (excluding China)	5.0	5.7	5.9	2.8	0.0	7.6	4.9	4.8
South Asia (excluding India)	5.9	6.1	6.2	3.7	2.8	3.9	4.0	4.2
Western Asia (excluding Israel and Turkey)	7.1	6.5	5.4	7.5	1.6	4.8	6.8	4.0

Source : Project LINK

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

Table A.2
Rates of growth of real GDP, 2005 -2012
(Annual percentage change)

	2005	2006	2007	2008	2009	2010[a]	2011[b]	2012[b]
Developed economies								
North America								
Canada	3.0	2.8	2.2	0.5	-2.5	3.1	2.6	2.4
United States	3.1	2.7	1.9	0.0	-2.6	2.9	2.6	2.8
Asia and Oceania								
Australia	3.5	2.4	4.8	2.4	1.4	2.3	3.3	3.1
Japan	1.9	2.0	2.4	-1.2	-6.3	4.0	0.7	2.8
New Zealand	3.1	2.1	3.4	-0.8	0.1	2.0	0.8	3.0
European Union								
EU-15								
Austria	2.5	3.6	3.7	2.2	-3.9	2.0	2.3	2.1
Belgium	1.7	2.7	2.9	1.0	-2.8	2.0	1.7	1.6
Denmark	2.4	3.4	1.6	-1.1	-5.2	2.1	1.8	1.6
Finland	2.9	4.4	5.3	0.9	-8.0	3.1	3.9	2.7
France	1.9	2.2	2.4	0.2	-2.6	1.5	1.6	1.5
Germany	0.8	3.4	2.7	1.0	-4.7	3.6	2.9	2.4
Greece	2.3	4.5	4.3	1.3	-2.3	-4.5	-4.0	0.3
Ireland	6.0	5.3	5.6	-3.5	-7.6	-0.8	-1.3	1.3
Italy	0.7	2.0	1.5	-1.3	-5.0	1.0	0.9	0.9
Luxembourg	5.4	5.0	6.6	1.4	-3.7	3.4	3.0	3.1
Netherlands	2.0	3.4	3.9	1.9	-3.9	1.7	1.8	1.5
Portugal	0.8	1.4	2.4	0.0	-2.5	1.4	-1.0	-0.4
Spain	3.6	4.0	3.6	0.9	-3.7	-0.1	0.6	0.8
Sweden	3.2	4.3	3.3	-0.6	-5.3	5.5	4.2	3.1
United Kingdom	2.2	2.8	2.7	-0.1	-4.9	1.3	1.5	2.2
New EU Member								
Bulgaria	6.4	6.5	6.4	6.2	-4.9	0.2	2.6	3.6
Cyprus	3.9	4.1	5.1	3.6	-1.7	1.0	0.9	2.3
Czech Republic	6.3	6.8	6.1	2.5	-4.1	2.3	2.3	2.9
Estonia	9.4	10.6	6.9	-5.1	-13.9	3.1	4.0	3.6
Hungary	3.2	3.6	0.8	0.8	-6.7	1.2	2.6	3.6
Latvia	10.6	12.2	10.0	-4.2	-18.0	-0.3	3.4	3.8
Lithuania	7.8	7.8	9.8	2.9	-14.7	1.3	2.6	3.0
Malta	4.0	3.6	3.7	2.6	-2.1	3.8	2.0	2.4
Poland	3.6	6.2	6.8	5.1	1.7	3.7	4.1	5.1
Romania	4.2	7.9	6.3	7.3	-7.1	-1.3	1.5	3.5
Slovak Republic	6.7	8.5	10.5	5.8	-4.8	4.0	3.4	3.9
Slovenia	4.5	5.9	6.9	3.7	-8.1	1.2	2.4	3.6
Other European								
Iceland	7.5	4.6	6.0	1.0	-6.8	-3.5	1.0	1.8
Norway	2.7	2.3	2.7	0.8	-1.4	0.5	2.1	2.9
Switzerland	2.6	3.6	3.6	1.9	-1.9	2.6	2.0	1.3
Economies in transition								
South-eastern Europe								
Albania	5.8	5.4	6.0	7.8	2.8	3.4	4.0	3.8
Bosnia and Herzegovina	3.9	6.1	6.2	5.7	-2.9	1.0	2.5	3.0
Croatia	4.2	4.7	5.5	2.4	-5.8	-1.2	1.3	2.4
Montenegro	4.2	8.6	10.7	6.9	-7.0	1.5	2.8	4.0
Serbia	5.6	5.2	6.9	5.5	-3.1	1.7	2.8	4.0
The former Yugoslav Republic of Macedonia	4.1	4.0	6.1	5.0	-0.7	0.8	2.3	3.0
Commonwealth of Independent States								
Armenia	13.9	13.2	13.7	6.9	-14.1	2.6	4.0	4.5
Azerbaijan	26.4	34.5	25.1	10.8	9.3	5.0	3.0	4.0
Belarus	9.4	10.0	8.6	10.2	0.2	7.6	6.7	5.2
Kazakhstan	9.7	10.6	8.7	3.3	1.2	7.0	5.8	5.6
Kyrgyzstan	-0.2	3.1	8.5	8.4	2.3	-1.5	5.0	6.0
Republic of Moldova	7.5	4.8	3.0	7.8	-6.5	6.9	4.5	4.7
Russian Federation	6.4	7.7	8.1	5.6	-7.9	4.2	4.4	4.6
Tajikistan	6.7	6.7	7.6	7.9	3.4	6.5	5.5	6.0
Turkmenistan	13.0	11.4	11.6	10.5	4.1	9.0	9.0	10.0
Ukraine	2.7	7.3	7.9	2.0	-15.1	4.2	4.0	4.6
Uzbekistan	7.1	7.4	9.6	9.0	7.0	8.5	8.0	8.0
Georgia	9.6	9.4	12.3	2.3	-3.9	6.4	4.5	4.7

	2005	2006	2007	2008	2009	2010[a]	2011[b]	2012[b]
Developing economies								
Africa								
Algeria	5.1	1.8	3.0	3.0	2.2	4.1	3.2	4.3
Angola	20.6	18.6	20.3	14.8	-0.4	1.7	6.7	8.1
Benin	2.9	3.8	4.6	5.0	2.5	3.1	4.8	5.5
Botswana	1.6	5.1	4.8	3.1	-3.7	8.5	5.5	5.8
Burkina Faso	8.7	5.5	3.6	5.2	3.2	4.4	4.7	5.5
Burundi	0.9	5.1	3.6	4.5	3.5	4.0	4.5	4.2
Cameroon	2.3	3.2	3.3	2.9	2.0	2.8	3.0	4.3
Cape Verde	6.5	10.1	8.7	5.6	4.1	4.3	5.8	3.2
Central African Republic	2.4	3.8	3.7	2.2	1.2	2.7	4.1	5.4
Chad	7.9	0.2	0.2	-0.4	-1.6	4.4	3.9	5.5
Comoros	4.2	1.2	0.5	1.0	1.8	2.3	1.5	2.0
Congo	7.8	6.2	-1.6	5.6	7.6	12.0	7.5	5.5
Côte d'Ivoire	1.9	0.7	1.6	2.3	3.8	3.0	4.0	4.5
Democratic Republic of the Congo	7.8	5.6	6.3	6.2	2.8	5.8	4.3	3.5
Djibouti	3.2	4.8	4.8	5.8	5.0	4.5	5.4	6.3
Egypt	6.8	7.1	7.2	4.7	5.0	5.1	4.1	4.6
Equatorial Guinea	9.7	1.3	21.4	10.7	5.3	1.1	2.3	2.4
Eritrea	2.6	-1.0	1.3	1.0	-4.3	2.7	2.9	3.2
Ethiopia	11.8	10.8	11.1	11.3	8.7	6.2	9.7	8.9
Gabon	3.0	1.2	11.8	2.7	-1.4	5.3	4.9	3.4
Gambia	0.3	3.4	6.0	6.3	5.6	5.0	5.2	4.8
Ghana	5.9	6.4	5.7	7.2	4.1	5.7	15.0	8.0
Guinea	3.0	2.5	1.8	4.9	-0.3	3.5	5.0	3.8
Guinea-Bissau	5.0	2.2	0.2	3.6	3.0	3.5	4.1	4.3
Kenya	5.9	6.3	7.0	1.5	2.6	5.0	5.4	5.7
Lesotho	1.1	6.5	2.4	4.5	1.6	3.8	2.4	3.2
Liberia	5.3	7.8	9.4	7.1	4.6	6.3	7.0	6.1
Libyan Arab Jamahiriya	10.3	6.7	5.1	6.7	1.7	3.3	-16.0	10.2
Madagascar	4.6	5.0	6.2	7.1	-3.7	0.9	4.4	4.1
Malawi	2.6	7.7	5.8	8.8	8.0	7.4	5.4	5.5
Mali	6.1	5.3	4.3	5.0	4.4	5.1	6.3	5.3
Mauritania	5.4	11.4	1.0	3.7	-1.1	4.6	5.2	5.4
Mauritius	1.5	3.9	5.4	5.0	2.5	4.9	6.4	6.6
Morocco	3.0	7.8	2.7	5.6	-5.9	3.2	3.6	4.4
Mozambique	8.7	6.3	7.3	6.7	6.3	6.5	7.5	7.7
Namibia	2.5	7.1	5.4	4.3	-0.8	4.0	4.5	3.6
Niger	8.4	5.8	3.4	8.7	-0.9	2.3	3.4	3.3
Nigeria	3.4	7.5	6.9	6.0	6.9	7.6	5.7	6.3
Rwanda	9.4	9.2	5.5	11.2	4.1	7.6	5.8	6.3
Sao Tome and Principe	5.7	6.7	6.0	5.8	5.2	4.5	6.0	5.4
Senegal	5.6	2.4	5.0	3.2	2.2	4.0	3.5	4.0
Sierra Leone	7.2	7.3	6.4	5.5	3.2	4.8	5.5	6.0
South Africa	5.3	5.6	5.5	3.7	-1.8	2.8	3.7	4.8
Sudan	6.3	11.3	10.2	6.8	4.5	4.8	5.5	5.0
Togo	1.2	3.7	1.9	2.2	3.1	1.9	3.3	3.4
Tunisia	4.0	5.5	6.3	4.6	2.1	3.4	2.3	3.5
Uganda	10.0	7.0	8.1	9.2	7.1	6.4	7.0	7.4
United Republic of Tanzania	7.4	6.7	7.1	7.4	6.2	6.9	7.1	7.5
Zambia	5.3	6.2	6.2	5.7	6.3	5.7	5.9	6.4
Zimbabwe	-4.0	-3.7	-3.7	-12.6	3.7	6.0	4.5	4.3
East and South Asia								
Bangladesh	6.3	6.5	6.3	6.1	5.8	5.8	6.0	6.2
Brunei Darussalam	0.4	4.4	0.2	-1.9	-0.5	0.5	1.6	1.3
China	11.3	12.7	14.2	9.6	9.1	10.3	9.1	8.9
Hong Kong, Special Administrative Region of China	7.1	7.0	6.4	2.3	-2.7	6.8	5.1	4.9
India	9.1	9.4	9.6	6.2	7.0	8.6	8.1	8.2
Indonesia	5.7	5.5	6.3	6.0	4.5	6.1	6.2	6.4
Iran, Islamic Republic of	5.2	5.9	7.8	3.5	1.9	3.0	2.9	3.2
Korea, Republic of	4.0	5.2	5.1	2.3	0.3	6.2	4.3	4.2
Malaysia	5.3	5.8	6.2	4.6	-1.7	7.2	5.1	5.0
Myanmar	13.6	13.1	12.0	10.1	4.8	5.1	5.0	5.1
Nepal	3.3	3.5	3.7	4.9	3.8	3.9	4.3	4.6
Pakistan	6.9	5.9	3.8	2.4	2.7	3.6	4.0	4.2
Papua New Guinea	3.9	2.3	7.2	6.7	4.5	7.1	7.8	5.8
Philippines	5.0	5.3	7.1	3.8	0.9	7.3	5.0	5.2
Singapore	7.6	8.7	8.2	1.4	-2.0	14.5	5.0	4.9
Sri Lanka	6.2	7.7	6.8	6.0	3.5	8.0	7.8	7.4
Taiwan, Province of China	4.7	5.4	6.0	0.7	-1.9	10.8	4.9	4.6
Thailand	4.6	5.1	4.9	2.5	-2.3	7.8	4.2	4.4
Vietnam	8.4	8.2	8.5	6.2	5.3	6.8	5.9	6.1

	2005	2006	2007	2008	2009	2010[a]	2011[b]	2012[b]
Western Asia								
Bahrain	7.9	6.6	8.4	6.3	3.1	4.3	3.7	4.7
Iraq	-0.7	6.2	1.5	9.5	4.2	5.0	5.5	6.4
Israel	5.1	5.3	5.2	4.0	0.5	4.6	3.2	3.0
Jordan	8.1	8.1	8.9	7.1	2.3	3.2	3.5	3.7
Kuwait	10.2	5.2	4.4	6.4	-2.7	2.4	4.2	1.4
Lebanon	1.0	0.6	7.5	9.3	8.0	7.3	3.1	5.1
Oman	4.0	5.5	6.8	12.8	3.4	4.3	4.9	4.7
Qatar	6.1	18.6	26.8	25.4	8.6	15.8	18.1	6.2
Saudi Arabia	5.6	3.2	2.0	4.3	0.1	3.8	7.2	3.4
Syrian Arab Republic	4.5	5.1	4.3	5.2	4.0	5.6	6.0	5.3
Turkey	8.4	6.9	4.7	0.7	-4.7	8.0	4.8	5.0
United Arab Emirates	13.1	13.0	6.2	7.4	1.3	2.2	3.6	4.5
Yemen	5.9	3.8	4.4	4.7	3.9	6.0	2.9	2.8
Latin America and the Caribbean								
Argentina	9.2	8.5	8.7	6.8	0.9	9.2	6.4	6.3
Barbados	3.9	3.2	3.4	0.5	-4.5	-0.5	1.5	3.0
Bolivia, Plurinational State of	4.4	4.8	4.6	6.1	3.4	4.1	4.8	5.3
Brazil	3.2	4.0	6.1	5.1	-0.6	7.5	5.1	5.3
Chile	5.6	4.6	4.6	3.7	-1.5	5.2	5.4	5.2
Colombia	4.7	6.7	6.9	3.5	1.5	4.2	4.4	4.8
Costa Rica	5.9	8.8	7.9	2.8	-1.1	4.2	4.7	5.2
Cuba	11.2	12.1	7.3	4.1	1.5	3.0	4.0	5.0
Dominican Republic	9.3	10.7	8.5	5.3	3.5	7.5	5.2	5.7
Ecuador	6.0	3.9	2.5	6.5	0.4	3.2	3.4	4.2
El Salvador	3.3	4.2	4.3	2.4	-3.5	1.6	2.4	3.4
Guatemala	3.3	5.4	6.3	3.3	0.6	2.8	3.6	2.9
Guyana	-2.0	5.1	7.0	2.0	3.3	4.0	5.0	5.5
Haiti	1.8	2.3	3.3	0.8	2.9	-5.0	5.5	6.0
Honduras	6.1	6.6	6.3	4.2	-2.1	2.1	2.5	2.7
Jamaica	1.0	2.7	1.5	-1.0	-3.0	-1.1	2.0	2.5
Mexico	3.3	4.8	3.4	1.5	-6.5	5.5	3.7	4.3
Nicaragua	4.3	4.2	3.1	2.8	-1.5	4.0	3.5	3.5
Panama	7.2	8.5	12.1	10.7	2.4	6.7	6.1	5.5
Paraguay	2.9	4.3	6.8	5.8	-3.8	13.7	5.3	4.7
Peru	6.8	7.7	8.9	9.8	0.9	8.9	5.8	5.4
Trinidad and Tobago	6.2	13.5	4.6	2.3	-3.4	2.2	2.3	3.0
Uruguay	7.5	4.3	7.5	8.5	2.6	8.4	6.2	5.2
Venezuela, Bolivarian Republic of	10.3	9.9	8.2	4.8	-3.3	-1.4	1.9	3.1

Source: Project LINK

a Partly estimated.
b Forecasts, based in part on Project LINK.

Table A.3
World and regions: consumer price inflation, 2005-2012
(Annual percentage change[a])

	2005	2006	2007	2008	2009	2010[b]	2011[c]	2012[c]
World	3.1	3.0	3.1	4.7	1.3	2.4	3.2	2.6
Developed economies	2.3	2.3	2.2	3.3	0.0	1.3	2.1	1.7
North America	3.3	3.1	2.8	3.7	-0.2	1.7	2.6	1.9
Asia and Oceania	0.2	0.8	0.4	1.8	-1.5	-1.0	-0.2	0.2
Europe	2.1	2.2	2.2	3.5	0.8	1.9	2.5	2.0
European Union	2.2	2.2	2.2	3.5	0.8	1.9	2.6	2.0
EU-15	2.1	2.2	2.1	3.3	0.7	1.9	2.5	2.0
New EU Members	3.4	3.2	4.1	6.1	3.2	2.9	3.6	2.8
Other Europe	1.4	1.8	0.8	3.1	0.9	1.5	1.4	1.3
Memorandum items:								
Euro Zone	2.2	2.2	2.1	3.3	0.3	1.6	2.1	2.0
Major developed economies (G-7)	2.3	2.3	2.1	3.1	-0.2	1.2	2.0	1.6
OECD	2.4	2.4	2.3	3.4	0.3	1.5	2.2	1.8
Economies in transition	11.8	9.3	9.2	14.6	10.8	6.9	9.5	7.8
South-eastern Europe	6.5	5.8	3.6	7.5	3.4	2.8	4.8	3.4
Commonwealth of Independent States and Georgia	12.3	9.7	9.7	15.2	11.5	7.3	9.9	8.2
Developing countries[d]	4.6	4.5	5.2	8.2	4.3	5.5	5.9	4.8
Africa[d]	6.2	5.5	6.0	10.8	7.9	6.4	7.3	6.6
North Africa	2.6	4.1	5.2	9.1	6.0	5.3	7.5	5.9
Sub-Saharan Africa[d]	5.9	5.8	6.7	11.7	8.2	5.5	6.0	6.0
East and South Asia	3.7	3.7	4.9	7.5	2.9	4.9	5.9	4.6
East Asia	2.9	2.7	3.9	6.0	0.6	3.1	4.7	3.5
South Asia	6.5	7.1	8.5	12.7	11.2	11.2	10.2	8.6
Western Asia	4.8	6.1	6.2	10.0	4.8	6.1	4.1	2.7
Latin America and the Caribbean	6.2	5.1	5.3	7.8	6.1	6.2	6.2	5.5
South America	7.1	5.7	5.8	8.8	6.7	7.3	7.2	6.2
Mexico and Central America	4.4	3.9	4.2	5.8	5.1	4.2	4.4	4.3
Caribbean	7.4	8.2	7.2	13.0	4.3	7.9	6.6	5.5
Memorandum items:								
Least developed countries	10.1	8.9	9.4	13.6	8.7	7.9	8.5	7.7
Sub-Saharan Africa [d] (Excluding Nigeria and South Africa)	9.3	8.1	7.1	13.1	9.0	6.7	7.3	6.7
East Asia (excluding China)	3.9	3.9	3.1	6.1	1.8	3.0	4.4	3.5
South Asia (excluding India)	11.0	9.8	12.8	21.3	11.9	10.8	14.4	11.8
Western Asia (excluding Israel and Turkey)	2.7	3.9	5.3	11.0	3.8	4.8	2.9	-0.4

Source: Project LINK

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

Table A.4
Consumer price inflation, 2005-2012
(Annual percentage change)

	2005	2006	2007	2008	2009	2010[a]	2011[b]	2012[b]
Developed economies								
North America								
Canada	2.2	2.0	2.1	2.4	0.3	1.8	2.4	2.3
United States	3.4	3.2	2.9	3.8	-0.3	1.6	2.6	1.9
Asia and Oceania								
Australia	2.7	3.5	2.3	4.4	1.7	1.9	2.8	3.8
Japan	-0.3	0.2	0.1	1.4	-2.1	-1.5	-0.8	-0.5
New Zealand	3.0	3.4	2.4	4.0	2.0	2.3	4.4	3.0
European Union								
EU-15								
Austria	2.1	1.7	2.2	3.2	0.4	1.9	2.7	2.3
Belgium	2.5	2.3	1.8	4.5	0.0	2.4	2.6	2.3
Denmark	1.7	1.8	1.7	3.6	1.1	2.2	2.4	1.9
Finland	0.8	1.3	1.6	3.9	1.6	1.7	2.9	2.2
France	1.9	1.9	1.6	3.2	0.1	1.7	2.0	1.6
Germany	1.9	1.8	2.3	2.8	0.2	1.1	2.5	2.4
Greece	3.5	3.3	3.0	4.2	1.4	4.7	1.8	-0.5
Ireland	2.2	2.7	2.9	3.1	-1.7	-1.6	-1.0	-0.7
Italy	2.2	2.2	2.0	3.5	0.8	1.8	1.5	2.4
Luxembourg	2.5	2.7	2.3	3.4	0.4	2.8	2.6	2.6
Netherlands	1.5	1.7	1.6	2.2	1.0	0.9	2.0	2.0
Portugal	2.1	3.0	2.4	2.7	-0.9	1.4	2.5	1.1
Spain	3.4	3.6	2.8	4.1	-0.2	2.0	2.3	1.8
Sweden	0.8	1.5	1.7	3.4	1.9	1.2	3.2	2.2
United Kingdom	2.1	2.3	2.3	3.6	2.2	3.3	4.3	2.0
New EU members								
Bulgaria	5.0	7.3	8.4	12.3	2.8	3.0	4.0	2.5
Cyprus	2.6	2.5	2.3	4.7	0.4	2.6	3.2	2.8
Czech Republic	1.9	2.5	3.0	6.3	1.0	1.2	2.3	2.0
Estonia	4.1	4.4	6.6	10.4	-0.1	3.0	4.4	2.7
Hungary	3.5	3.9	8.0	6.1	4.2	4.7	3.9	3.2
Latvia	6.7	6.5	10.1	15.4	3.5	-1.2	3.0	2.5
Lithuania	2.7	3.7	5.8	10.9	4.4	1.3	3.2	2.3
Malta	3.0	2.8	1.3	4.2	2.1	2.0	3.0	3.1
Poland	2.2	1.3	2.4	4.2	3.8	2.7	3.4	2.8
Romania	8.9	6.6	4.8	7.9	5.6	6.1	5.8	3.5
Slovak Republic	2.7	4.5	2.8	4.6	1.6	0.7	3.6	2.5
Slovenia	2.5	2.5	3.6	5.6	0.8	2.0	2.4	2.8
Other Europe								
Iceland	4.0	6.7	5.1	12.7	5.4	2.5	4.0	-0.9
Norway	1.5	2.5	0.7	3.4	2.3	2.5	1.8	1.5
Switzerland	1.2	1.1	0.7	2.4	-0.5	0.7	0.9	1.2
Economis in transition								
South-eastern Europe								
Albania	2.4	2.4	2.9	3.3	2.3	3.6	3.8	3.5
Bosnia and Herzegovina	3.6	6.1	1.5	7.4	-0.3	2.0	2.5	2.5
Croatia	3.3	3.2	2.9	6.0	2.4	1.1	2.3	2.7
Montenegro	2.7	3.0	4.3	9.0	3.8	0.5	3.0	2.9
Serbia	16.3	11.8	6.1	11.6	8.2	6.0	10.5	5.1
The former Yugoslav Republic of Macedonia	-0.7	3.3	2.8	7.2	-0.5	1.6	5.0	2.7
Commonwealth of Independent States								
Armenia	0.6	2.9	4.4	8.9	3.4	8.2	9.5	6.5
Azerbaijan	9.5	8.2	16.6	20.8	1.4	5.6	10.5	8.0
Belarus	10.4	7.0	8.2	14.9	12.9	7.7	13.0	10.0
Kazakhstan	7.5	8.6	10.8	17.1	7.3	7.4	9.3	6.5
Kyrgyzstan	4.4	5.6	10.1	24.5	6.9	7.7	14.0	8.0
Republic of Moldova	12.0	12.8	12.3	12.8	-0.1	7.4	7.7	7.0
Russian Federation	12.7	9.7	9.0	14.0	11.7	6.9	9.5	8.2
Tajikistan	7.2	10.0	13.4	20.9	6.4	6.5	9.0	6.0
Turkmenistan	10.7	8.2	6.3	14.5	-2.7	4.8	9.0	8.0
Ukraine	13.5	9.1	12.8	25.2	15.9	9.4	11.5	8.0
Uzbekistan	16.5	27.1	23.9	10.0	14.1	16.0	17.0	14.0
Georgia	8.2	9.2	9.2	9.9	1.8	7.1	12.0	8.0

	2005	2006	2007	2008	2009	2010[a]	2011[b]	2012[b]
Developing economies								
Africa								
Algeria	1.6	2.5	3.5	4.4	5.7	3.9	4.8	4.3
Angola	23.0	13.3	12.2	12.5	13.7	14.5	14.8	12.8
Benin	5.4	3.8	1.3	7.9	2.2	2.5	2.8	2.8
Botswana	8.6	11.6	7.1	12.7	8.0	6.9	6.6	6.5
Burkina Faso	6.4	2.3	-0.2	10.7	2.6	2.3	2.0	2.0
Burundi	13.5	2.8	8.3	24.1	11.0	6.8	6.4	7.8
Cameroon	2.0	5.1	0.9	5.3	3.0	3.0	2.7	2.7
Cape Verde	0.4	5.4	4.4	6.8	1.0	1.3	2.0	1.3
Central African Republic	2.9	6.7	0.9	9.3	3.5	2.0	2.9	2.5
Chad	7.9	8.0	-9.0	10.3	10.0	6.0	3.0	3.0
Comoros	3.0	3.4	4.5	4.8	4.8	2.5	2.9	3.3
Congo	3.1	6.5	2.7	7.3	5.0	4.0	3.0	3.0
Côte d'Ivoire	3.9	2.5	1.9	6.3	1.0	1.7	1.9	2.8
Democratic Republic of the Congo	21.3	13.1	16.9	17.3	46.2	9.0	8.0	8.0
Djibouti	3.1	3.5	5.0	12.0	1.7	3.0	4.0	3.5
Egypt	4.9	7.6	9.3	18.3	11.8	11.1	15.2	11.3
Equatorial Guinea	5.6	4.4	2.8	6.6	7.2	7.0	6.2	6.3
Eritrea	12.5	15.1	9.3	19.9	38.9	19.0	14.0	13.0
Ethiopia	11.6	12.3	17.2	44.4	8.4	11.6	24.8	22.5
Gabon	3.7	-1.4	5.0	5.3	1.9	7.5	9.0	10.5
Gambia	4.8	2.1	5.4	4.5	4.6	4.0	3.8	4.0
Ghana	15.1	10.9	10.7	16.5	19.3	10.4	9.0	8.0
Guinea	31.4	34.7	22.9	18.4	4.7	16.0	14.5	11.2
Guinea-Bissau	3.3	2.0	4.6	10.5	-1.7	1.2	2.0	1.8
Kenya	10.3	14.5	9.8	26.2	9.2	4.0	6.5	5.5
Lesotho	3.4	6.0	8.0	10.7	7.2	6.1	6.5	5.7
Liberia	6.9	7.2	13.7	17.5	7.4	7.4	6.9	8.0
Libyan Arab Jamahiriya	2.7	1.5	6.3	10.4	2.4	2.5	6.8	5.2
Madagascar	18.5	10.8	10.3	9.2	9.0	6.5	3.7	3.7
Malawi	15.4	14.0	8.0	8.7	8.4	8.0	6.3	5.8
Mali	6.4	1.5	1.4	9.2	2.2	2.1	2.6	2.8
Mauritania	12.1	6.2	7.3	7.3	2.2	4.8	4.8	5.0
Mauritius	4.9	8.9	8.8	9.7	2.6	2.5	2.5	3.6
Morocco	1.0	3.3	2.0	3.7	1.0	1.4	3.0	2.7
Mozambique	7.2	13.2	8.2	10.3	3.3	15.0	8.0	5.6
Namibia	2.3	5.1	6.7	10.4	8.8	4.8	4.1	3.0
Niger	7.8	0.0	0.1	11.3	4.3	6.7	3.5	3.5
Nigeria	17.9	8.2	5.4	11.6	12.4	13.5	12.3	11.1
Rwanda	9.0	8.9	9.1	15.4	10.4	6.1	5.8	5.4
Sao Tome and Principe	17.2	23.1	18.5	26.1	17.0	7.5	-1.6	8.0
Senegal	1.7	2.1	5.9	5.8	-1.1	-2.6	-2.4	-0.9
Sierra Leone	12.1	9.5	11.7	4.8	9.3	15.5	7.8	8.7
Somalia	12.0	14.0	15.0	30.0	25.0	25.0	25.0	25.0
South Africa	2.0	3.2	6.2	10.1	7.2	4.1	4.6	5.3
Sudan	8.5	7.2	8.0	14.3	11.2	10.0	9.0	9.0
Togo	6.8	2.2	1.0	8.7	2.0	1.9	2.5	1.9
Tunisia	2.0	4.5	3.1	4.9	3.9	4.4	2.2	2.1
Uganda	8.4	7.3	6.1	11.6	13.4	3.7	11.9	9.1
United Republic of Tanzania	5.0	7.3	7.0	10.3	12.1	3.7	8.1	5.0
Zambia	18.3	9.0	10.7	12.4	13.4	8.2	7.5	6.5
Zimbabwe	302.1	1096.7	24411.0	0.0	0.0	5.0	5.0	5.0
East and South Asia								
Bangladesh	7.0	6.8	9.1	8.9	5.4	8.1	8.2	7.6
Brunei Darussalam	1.2	0.2	1.0	2.1	1.0	-6.0	2.9	2.5
China	1.8	1.5	4.7	5.9	-0.7	3.3	5.0	3.5
Hong Kong, Special Administrative Region	0.9	2.1	2.0	4.3	0.6	2.4	4.2	3.8
India	4.2	5.8	6.4	8.3	10.9	11.4	8.1	7.0
Indonesia	10.5	13.1	6.5	10.2	4.4	5.1	6.6	5.5
Iran, Islamic Republic of	13.4	11.9	17.2	25.5	13.5	10.1	19.0	15.0
Korea, Republic of	2.8	2.2	2.5	4.7	2.8	2.9	4.4	3.4
Malaysia	3.0	3.6	2.0	5.4	0.6	1.7	2.9	2.5
Myanmar	9.4	20.0	35.0	26.8	1.5	7.3	8.2	7.6
Nepal	6.8	7.6	6.1	10.9	11.6	10.0	9.2	7.9
Pakistan	9.1	7.9	7.6	20.3	13.6	13.9	11.6	9.8
Papua New Guinea	1.8	2.4	0.9	10.8	6.9	6.2	8.1	7.8
Philippines	7.6	6.2	2.8	9.3	3.2	3.8	4.7	4.1
Singapore	0.4	1.0	2.1	6.5	0.6	2.8	4.3	2.9
Sri Lanka	11.6	10.0	15.8	22.6	3.4	5.9	8.0	6.7
Taiwan, Province of China	2.3	0.6	1.8	3.5	-0.9	1.0	2.0	1.9
Thailand	4.5	4.6	2.3	5.4	-0.9	3.3	3.4	3.1
Viet Nam	8.3	7.4	8.3	23.1	7.1	8.9	13.5	8.0

	2005	2006	2007	2008	2009	2010[a]	2011[b]	2012[b]
Western Asia								
Bahrain	2.6	2.0	3.3	3.5	2.8	2.7	3.5	3.0
Israel	1.3	2.1	0.5	4.6	3.3	2.7	3.5	3.2
Jordan	3.5	6.3	5.4	14.9	-0.7	5.0	6.2	5.5
Kuwait	4.1	3.1	5.5	10.6	4.0	4.1	5.6	3.9
Oman	1.9	3.2	6.0	12.1	3.9	3.2	4.0	-1.3
Qatar	8.8	11.8	13.8	15.1	-4.9	0.9	4.0	3.9
Saudi Arabia	0.7	2.2	4.2	9.9	5.1	5.3	1.5	-3.2
Syrian Arab Republic	7.2	10.0	3.9	15.7	2.9	4.3	4.0	4.8
Turkey	8.2	9.6	8.8	10.4	6.3	8.6	5.6	6.0
Yemen	11.8	10.8	7.9	19.0	5.4	8.0	8.0	8.0
Latin America and the Caribbean								
Argentina	9.6	10.9	8.8	8.6	6.3	10.5	11.0	10.5
Barbados	6.1	7.3	4.0	8.1	3.7	5.0	3.5	3.0
Bolivia, Plurinational State of	5.4	4.3	8.7	14.0	3.3	2.5	8.0	5.5
Brazil	6.8	4.2	3.6	5.6	4.9	5.9	5.6	4.6
Chile	3.1	3.4	4.4	8.7	0.3	-1.5	3.0	4.0
Colombia	5.0	4.3	5.5	7.0	4.2	2.3	3.5	4.2
Costa Rica	13.8	11.5	9.4	13.4	7.8	5.8	5.5	5.0
Dominican Republic	4.2	7.6	6.1	10.6	1.4	6.2	5.8	5.5
Ecuador	2.4	3.0	2.3	8.4	5.2	3.6	4.6	2.0
El Salvador	4.7	4.0	4.6	6.7	1.1	2.1	4.5	4.2
Guatemala	8.4	6.4	6.5	12.6	1.9	3.9	6.1	3.4
Guyana	6.9	6.6	12.3	8.1	3.0	4.0	5.5	6.0
Haiti	15.7	13.1	8.5	15.5	3.0	4.0	6.0	7.5
Honduras	8.8	5.6	6.9	11.4	5.5	5.0	6.5	7.5
Jamaica	15.3	8.6	9.3	22.0	9.6	12.0	9.0	6.0
Mexico	4.0	3.6	4.0	5.1	5.3	4.3	4.2	4.2
Nicaragua	9.6	9.1	11.1	19.8	3.0	6.0	7.5	7.5
Panama	3.2	2.1	4.2	8.8	2.4	4.0	5.3	5.0
Paraguay	6.8	9.6	8.1	10.2	2.6	5.6	8.0	4.5
Peru	1.6	2.0	1.8	5.8	2.9	1.5	2.5	3.0
Trinidad and Tobago	6.9	8.3	7.9	12.0	7.0	10.5	7.5	5.0
Uruguay	4.7	6.4	8.1	7.9	7.1	6.7	7.2	6.5
Venezuela, Bolivarian Republic of	16.0	13.7	18.7	31.4	28.6	28.0	22.5	17.5

Source: Project LINK

a Partly estimated.
b Forecasts, based in part on Project LINK.

Table A.5
World trade: changes in trade value of goods and non-factor services, by major country group, 2005-2012
(annual percentage change)

Region	Flow	2005	2006	2007	2008	2009[a]	2010[b]	2011[b]	2012[b]
World	Exports	13.5	15.1	15.8	14.4	-20.0	12.1	8.3	8.9
	Imports	13.1	14.3	15.2	15.3	-21.6	10.5	6.9	8.6
Developed economies	Exports	9.2	12.4	15.1	11.1	-20.2	10.0	7.1	7.7
	Imports	11.2	12.6	12.9	11.2	-22.0	7.8	6.1	8.0
North America	Exports	11.0	11.5	11.7	9.8	-17.3	13.1	10.6	9.7
	Imports	13.0	10.6	6.6	7.5	-22.5	12.8	9.7	10.6
Asia and Oceania	Exports	8.5	8.6	11.1	14.0	-23.8	25.9	10.0	5.5
	Imports	12.7	9.6	10.5	21.8	-24.1	12.0	6.2	5.0
Europe	Exports	8.7	13.3	16.8	11.0	-20.6	6.8	5.5	7.4
	Imports	10.1	14.0	16.2	11.3	-21.5	5.1	4.6	7.2
European Union	Exports	8.3	13.3	16.8	10.5	-20.8	6.7	5.7	7.8
	Imports	10.0	14.1	16.1	11.3	-21.8	4.9	4.7	7.5
EU-15	Exports	7.9	12.8	16.1	10.0	-20.7	6.5	5.6	7.7
	Imports	9.8	13.6	15.4	10.6	-21.6	4.8	4.4	7.2
New EU Members	Exports	16.6	21.9	26.5	18.6	-21.2	9.4	7.1	9.8
	Imports	13.3	22.9	26.5	20.7	-25.3	6.0	8.6	12.0
Other Europe	Exports	14.6	13.8	16.8	18.6	-18.1	8.5	2.9	1.5
	Imports	12.4	10.9	18.0	11.7	-15.5	9.3	3.1	2.5
Euro Zone	Exports	7.7	12.4	17.7	10.9	-20.3	7.0	5.4	7.5
	Imports	9.6	13.6	16.8	12.1	-21.1	4.1	4.1	7.1
Economies in transition	Exports	28.7	24.6	21.0	33.9	-39.6	9.8	1.4	4.3
	Imports	23.3	26.2	34.4	30.2	-31.1	1.7	-1.1	3.7
Developing countries	Exports	20.9	19.3	16.6	18.2	-17.6	15.4	10.6	10.8
	Imports	17.0	17.1	18.5	22.3	-20.0	15.9	8.6	9.8
Africa	Exports	28.0	25.5	12.4	22.9	-30.2	19.0	11.3	8.8
	Imports	20.1	19.7	25.1	20.9	-17.7	18.3	10.4	9.6
North Africa	Exports	32.3	15.0	19.8	22.3	-31.0	14.7	8.0	6.3
	Imports	20.6	15.8	29.2	23.9	-13.4	18.7	7.8	7.8
Sub-Saharan Africa	Exports	24.9	33.6	7.5	23.3	-29.7	22.1	13.5	10.4
	Imports	19.7	22.0	22.9	19.1	-20.3	18.1	12.1	10.8
Sub-Saharan Africa	Exports	29.3	26.1	10.9	16.7	-21.0	18.8	11.1	9.7
(Excluding Nigeria & South Africa)	Imports	18.9	15.4	20.5	18.2	-12.0	19.2	10.5	10.0
East and South Asia	Exports	18.3	18.6	18.1	14.9	-14.5	20.0	12.8	12.7
	Imports	16.1	16.1	16.3	22.6	-19.8	16.8	8.5	10.7
East Asia	Exports	17.5	18.5	17.9	15.2	-14.8	20.0	12.7	12.5
	Imports	14.7	15.7	15.6	23.6	-20.1	17.0	8.5	10.7
South Asia	Exports	27.1	19.6	20.1	11.6	-11.1	19.4	13.6	14.1
	Imports	27.7	19.5	21.0	15.7	-17.6	15.3	8.6	10.7
Western Asia	Exports	30.5	19.2	16.4	33.5	-20.2	-0.9	1.7	5.6
	Imports	18.6	19.9	26.0	23.7	-22.0	7.5	5.7	7.6
Latin America and the Caribbean	Exports	20.3	18.9	12.7	15.9	-21.3	9.6	6.9	5.9
	Imports	18.5	18.1	19.2	20.2	-20.6	17.2	9.7	7.7
South America	Exports	25.7	20.8	15.7	22.9	-23.4	5.3	8.4	5.1
	Imports	25.5	21.8	27.7	29.0	-20.8	14.9	13.7	9.3
Mexico and Central America	Exports	13.8	15.3	9.5	6.0	-17.6	16.6	4.6	7.0
	Imports	12.7	14.7	11.0	10.2	-20.3	20.3	4.3	5.1
Caribbean	Exports	21.0	37.1	1.4	9.5	-23.6	7.9	10.4	9.4
	Imports	16.1	14.7	11.2	14.8	-21.6	16.3	12.6	10.2
Least developed countries	Exports	30.9	29.6	10.5	13.2	-19.2	14.3	11.8	10.4
	Imports	20.2	17.1	20.6	15.5	-11.7	16.5	10.7	10.4

Source: UN/DESA

a Partly estimated.
b Forecasts, based in part on Project LINK.

Table A.6
World trade: changes in trade volume of goods and non-factor services, by major country group, 2005-2012
(annual percentage change)

Region	Flow	2005.0	2006.0	2007.0	2008.0	2009[a]	2010[b]	2011[b]	2012[b]
World	Exports	7.7	9.2	7.1	2.6	-10.7	11.5	7.0	6.8
	Imports	8.3	9.3	7.0	2.7	-11.2	12.3	6.9	6.8
Developed economies	Exports	5.6	8.5	6.0	1.9	-12.3	10.8	6.8	6.0
	Imports	6.2	7.7	4.5	0.4	-12.8	10.1	5.6	5.4
North America	Exports	5.5	6.9	7.4	3.7	-10.6	10.6	9.2	8.4
	Imports	6.3	5.9	3.2	-2.0	-13.9	12.8	6.0	6.0
Asia and Oceania	Exports	5.9	8.3	7.4	1.7	-17.5	16.9	3.2	5.7
	Imports	6.3	4.5	4.0	4.0	-14.0	10.4	4.0	7.2
Europe	Exports	5.6	9.0	5.3	1.4	-12.1	10.0	6.6	5.3
	Imports	6.2	9.0	5.2	1.0	-12.1	9.1	5.6	5.0
European Union	Exports	5.7	9.2	5.2	1.3	-12.5	10.4	6.9	5.5
	Imports	6.1	9.1	5.1	1.1	-12.4	9.2	5.7	5.0
EU-15	Exports	5.5	8.8	4.8	1.0	-12.7	10.0	6.7	5.3
	Imports	6.1	8.6	4.6	0.7	-11.8	8.8	5.2	4.6
New EU Members	Exports	9.7	15.9	12.4	5.7	-10.7	14.1	8.8	7.2
	Imports	6.2	16.1	13.1	5.8	-16.2	12.9	9.1	8.1
Other Europe	Exports	4.8	5.8	6.9	2.5	-6.4	4.6	1.2	1.8
	Imports	7.9	7.3	6.7	0.5	-8.0	7.3	3.7	3.5
Euro Zone	Exports	5.1	8.6	6.2	1.0	-13.2	11.0	6.6	5.0
	Imports	5.8	8.5	5.6	1.0	-12.0	8.9	5.3	4.7
Economies in transition	Exports	3.8	6.5	6.9	1.2	-7.3	7.1	3.5	5.5
	Imports	12.2	17.4	23.3	12.2	-25.8	17.9	8.1	6.9
Developing countries	Exports	11.9	10.8	9.0	4.0	-8.6	13.0	7.7	8.0
	Imports	12.6	12.2	11.1	6.3	-7.1	15.3	8.9	8.8
Africa	Exports	14.6	6.9	7.6	2.7	-8.6	4.8	-1.1	7.2
	Imports	10.3	13.4	15.8	8.9	-2.2	9.9	7.0	7.9
North Africa	Exports	9.2	8.3	9.5	-2.1	-2.2	1.1	-11.6	8.5
	Imports	11.0	12.3	15.9	9.8	5.7	5.6	2.3	7.2
Sub-Saharan Africa	Exports	19.1	5.9	6.2	6.6	-13.2	7.9	6.8	6.4
	Imports	9.8	14.0	15.7	8.4	-7.1	13.0	10.2	8.4
Sub-Saharan Africa	Exports	14.2	5.8	7.9	6.8	-9.8	4.8	5.0	4.0
(Excluding Nigeria & South Africa)	Imports	10.8	4.0	13.0	7.2	-2.3	8.2	7.4	6.2
East and South Asia	Exports	13.2	13.3	10.4	6.1	-8.3	15.6	9.0	9.0
	Imports	12.6	11.7	9.2	6.6	-5.8	14.9	9.3	9.1
East Asia	Exports	13.2	13.1	11.2	5.8	-9.1	16.2	8.9	9.0
	Imports	11.0	11.0	9.6	4.8	-6.5	15.8	9.4	9.2
South Asia	Exports	13.6	15.3	2.1	8.9	-0.5	9.5	10.5	9.7
	Imports	27.1	17.6	6.2	20.3	0.0	7.8	8.5	8.7
Western Asia	Exports	8.6	5.7	6.5	-4.5	-8.8	7.7	6.5	4.4
	Imports	16.3	12.0	16.6	-2.6	-7.7	15.3	6.7	9.4
Latin America and the Caribbean	Exports	7.9	6.6	5.9	2.3	-10.1	10.3	6.6	6.2
	Imports	11.2	13.7	13.3	10.1	-15.1	21.1	10.0	7.2
South America	Exports	8.4	4.3	5.3	3.0	-8.3	5.9	7.4	7.5
	Imports	15.0	17.5	19.2	14.8	-13.6	24.3	12.3	9.4
Mexico and Central America	Exports	6.9	10.5	6.7	1.2	-13.5	19.6	5.5	4.5
	Imports	8.2	11.9	7.6	4.8	-17.5	17.6	6.7	4.0
Caribbean	Exports	15.2	-5.1	3.8	7.8	-5.1	-6.4	3.5	3.1
	Imports	5.3	-18.1	9.4	10.2	-10.3	5.8	6.0	4.1
Least developed countries	Exports	17.6	7.4	11.8	8.5	-10.8	5.2	5.8	5.3
	Imports	12.4	4.3	15.2	6.0	-0.1	8.1	6.9	6.7

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b Forecasts, based in part on Project LINK.