Unedited

United Nations
Department of Economic and Social Affairs

LINK Global Economic Outlook 2016-2017

New York
October 2015

Acknowledgements

This report presents the short-term prospects for the global economy in 2016-2017, including major risks and policy challenges.

The report draws on the analysis of staff in the Global Economic Monitoring Unit (GEMU) of the Development Policy and Analysis Division (DPAD), United Nations Department of Economic and Social Affairs (DESA), and on inputs from the experts of Project LINK. UNCTAD provided input to the section on commodity prices. United Nations Regional Commissions (ECA, ECE, ECLAC, ESCAP and ESCWA) worked jointly with DESA on respective regional outlooks.

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Hamid Rashid, Chief, GEMU coordinated the publication of this report under the overall guidance of Pingfan Hong, Director, DPAD.

This report is prepared for the DESA Expert Group Meeting on the World Economy (Project LINK) to be held on 21-23 October 2015 in New York. The views expressed herein do not necessarily represent those of the United Nations or its Member States.

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Overview

The world economy stumbled in 2015, amid weak aggregate demand, falling commodity prices and increasing financial market volatility in major economies. The world gross product is projected to grow by a mere 2.3 per cent in 2015, a significant downward revision from the 2.8 per cent forecast in the *World Economic Situation and Prospects as of mid-2015*. More than seven years after the global financial crisis, policymakers around the world still face enormous difficulties in restoring robust and balanced global growth. In developed economies, most of the burden of promoting growth has fallen on central banks, which has led to an unprecedented level of monetary accommodation in recent years. Nonetheless, real investment and productivity growth have remained weak since the global financial crisis, despite inexpensive and readily available finance, reflecting a growing disconnect between financial and real sector activities. A modest recovery is expected, starting next year, with global growth reaching 3.0 per cent and 3.2 per cent in 2016 and 2017, respectively. The projected recovery is predicated on stabilization of commodity prices, no further escalation of geopolitical risks in Southern Europe and the Middle East, an easing of deflationary pressures in developed economies, gradual adjustment in policy rates and reduced volatility in financial markets.

While developing countries, and China in particular, have been the locomotive of global growth since the financial crisis, the pivot of global growth is starting to shift towards the developed economies, particularly the United States of America. As the economic conditions in the United States have improved, the United States Federal Reserve (Fed) has clearly signalled its intention to begin normalizing interest rates by the end of 2015, after seven years of near zero interest rates. There remains a considerable degree of uncertainty about both the anticipated path of interest rate increases and the reaction of global financial markets and the real economy to the move. The uncertainty has contributed to heightened volatility in commodity, currency, bond and stock markets. Significant levels of net capital outflows have already occurred in many developing economies in anticipation of the move, and there is a risk that these withdrawals could increase further, drying up liquidity. Such a shock may be difficult to absorb in the many developing economies and economies in transition that are already facing an economic slowdown or recession.

A steady decline in global commodity prices, including a dramatic drop in the oil price, has been associated with the slowdown in the Chinese economy. The combination of commodity price movements and the widening differential between the monetary stance of the United States and most of the rest of the world has been connected to sharp exchange-rate realignments and heightened volatility in foreign-exchange markets. The terms of trade of commodity exporters have deteriorated significantly, limiting their ability to demand goods and services from the rest of the world. This has had second order effects on non-commodity exporting economies, unleashing a downward spiral in the value of global trade. The sharp decline in commodity prices and exchange-rate realignments will also have a significant impact on fiscal balances, particularly in the commodity-dependent developing and transition economies. Many of these economies have seen a steep drop in commodity-related revenue, while dramatic exchange-rate realignments pose a challenge for countries with foreign-currency-denominated borrowing, as it entails a steep rise in debt servicing costs. This limits the capacity to offset the economic slowdown in many developing economies and economies in transition through a more expansive fiscal stance.

The anaemic global growth— should it persist beyond the forecast horizon—will undermine global efforts for realizing the 2030 Sustainable Development Agenda that the Member States of the United Nations adopted in September 2015. The universal and comprehensive 2030 Agenda underscores the importance of economic growth—sustained, inclusive and sustainable—in generating full and productive employment and decent work for all and delivering sustainable development worldwide. Revitalizing investment and productivity growth, and strengthening the labour intensity of growth, will be critical for putting the world economy on the trajectory of sustainable development. This will require extensive policy coordination— both within and across countries— to ensure that the financial sector facilitates and stimulates long-term and productive investment.

Section I: Prospects for the world economy

Global growth stumbles

The world economy stumbled in 2015, amid weak aggregate demand, falling commodity prices and increasing financial market volatility in major economies. The world gross product is projected to grow by a mere 2.3 per cent in 2015 (table 1), marking a downward revision from 2.8 per cent forecast in the *World Economic Situation and Prospects as of mid-2015*. The growth rates of gross fixed capital formation and household final consumption expenditures continue to remain subdued (figure 1). A modest recovery is expected, starting next year, with global growth reaching 3.0 per cent and 3.2 per cent in 2016 and 2017 respectively. The projected recovery is predicated on stabilization of commodity prices, no further escalation of geopolitical risks in Southern Europe and the Middle East, easing of deflationary pressures in developed economies, gradual adjustment in policy rates and asset prices and reduced volatility in financial markets.

Since the onset of the global financial crisis, developing countries generated much of the global output growth (figure 2). China, in particular, became the locomotive of global growth, contributing nearly one third of world output growth during 2011-2012. As the largest trading nation, China sustained the global growth momentum during the post-crisis period, maintaining strong demand for commodities and boosting export growth. With a much anticipated slowdown in China and persistently weak economic performances in other large developing economies, the pivot of global growth is likely to shift again to the developed economies. The developed economies, particularly the United States, are expected to contribute more to global growth in the near-tem, provided they manage to escape deflationary expectations, restore business and consumer confidences and stimulate investments and aggregate demand.

The anaemic global growth, should it persist beyond the forecast horizon, will undermine global efforts for realizing the 2030 Sustainable Development Agenda that the Member States of the United Nations adopted in September 2015. The universal and comprehensive 2030 Agenda underscores the importance of economic growth—sustained, inclusive and sustainable—in generating full and productive employment and decent work for all and delivering sustainable development worldwide.

Increasing growth volatility

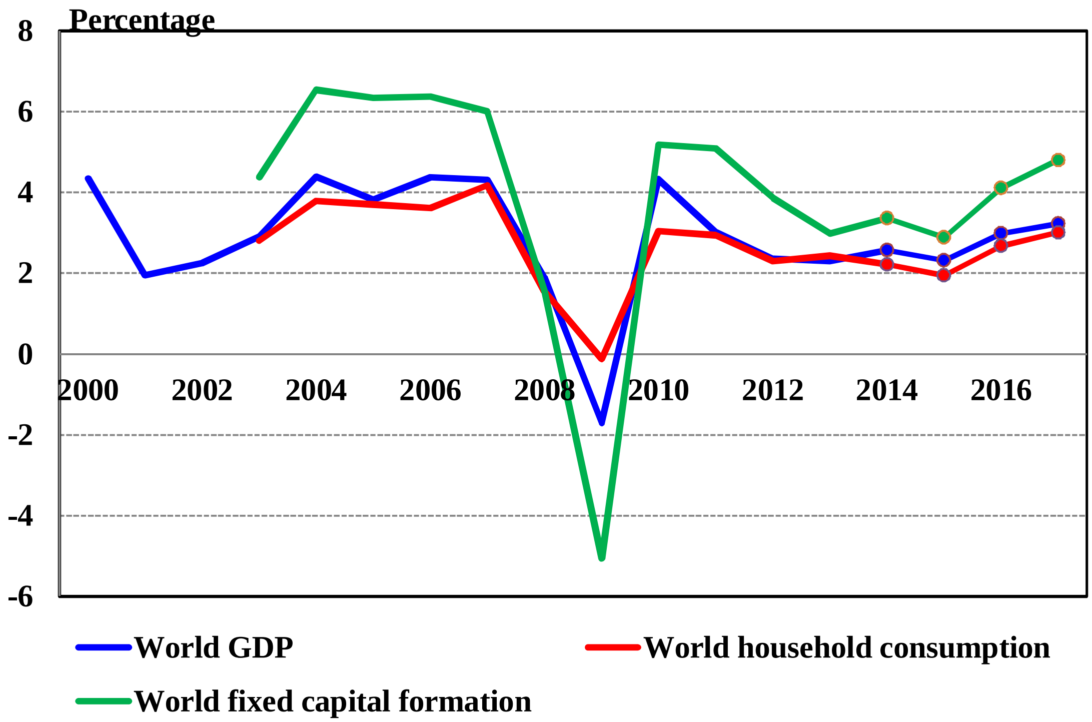
The volatility in GDP growth has been trending upward in most of the economies around the world. Growth volatility, measured in terms of the coefficient of variation in quarterly GDP growth, increased during the past 12 quarters (Q3 2012 through Q2 2015) compared to the previous 12 quarters (Q3 2009 through Q2 2012) in almost all major economies (Table 2). While the quarterly growth volatility is still low relative to the levels observed during the financial crisis (Q3 2006 through Q2 2009), it is significantly higher than the levels of volatility observed during the pre-crisis period.

Table 1: Growth of world output, 2014-2017

	2014	2015 [a]	2016 [b]	2017 [b]	Change from WESP2015 Update forecast 2015	Change from WESP2015 Update forecast 2016
World	2.6	2.3	3.0	3.2	-0.5	-0.1
Developed economies	1.7	1.8	2.3	2.3	-0.2	0.1
United States of America	2.4	2.4	2.6	2.9	-0.2	-0.1
Japan	-0.1	0.5	1.6	0.7	-0.5	0.5
European Union	1.4	1.7	2.2	2.3	-0.2	0.1
EU-15	1.2	1.6	2.1	2.2	-0.2	0.1
New EU Members	2.7	3.0	3.3	3.3	0.2	0.1
Euro area	0.9	1.4	2.0	2.1	-0.2	0.1
Other European	2.0	1.0	1.5	2.1	0.5	0.2
Economies in transition	0.8	-2.8	0.8	1.8	-0.9	-0.2
South-Eastern Europe	0.1	1.7	2.7	2.9	0.3	0.2
Commonwealth of Independent States and Georgia	0.8	-3.0	0.7	1.8	-0.9	-0.2
Russian Federation	0.6	-3.8	0.0	1.2	-0.8	-0.1
Developing economies	4.3	3.7	4.3	4.8	-0.7	-0.5
Africa	3.1	3.7	4.4	4.4	-0.3	-0.4
North Africa	0.6	3.5	4.1	4.1	0.7	0.1
East Africa	7.0	6.2	6.8	6.6	-0.4	0.2
Central Africa	3.5	3.4	4.3	4.2	0.0	0.0
West Africa	5.7	4.4	5.2	5.3	-1.4	-1.0
Southern Africa	2.4	2.5	3.0	3.3	-0.4	-0.7
East and South Asia	6.1	5.7	5.9	5.8	-0.5	-0.2
East Asia	6.1	5.6	5.6	5.6	-0.4	-0.4
China	7.3	6.8	6.4	6.2	-0.1	-0.4
South Asia	6.2	6.0	6.9	7.0	-0.6	0.0
India [c]	7.1	7.2	7.5	7.6	-0.4	-0.2
Western Asia	2.1	1.9	2.2	3.0	-1.1	-1.4
Latin America and the Caribbean	1.0	-0.6	0.7	2.7	-1.1	-1.0
South America	0.4	-1.7	-0.2	2.5	-1.3	-1.3
Brazil	0.1	-2.9	-0.9	2.3	-1.8	-1.4
Mexico and Central America	2.4	2.4	3.1	3.3	-0.6	-0.1
Caribbean	3.2	3.3	3.6	3.3	0.2	-0.1
Least developed countries	5.1	4.5	5.6	5.6	-0.3	-0.1
***Memorandum items*:**						
World trade [d]	3.3	2.6	4.4	5.0	-1.2	-0.5
World output growth with PPP-	3.4	3.0	3.7	3.9		

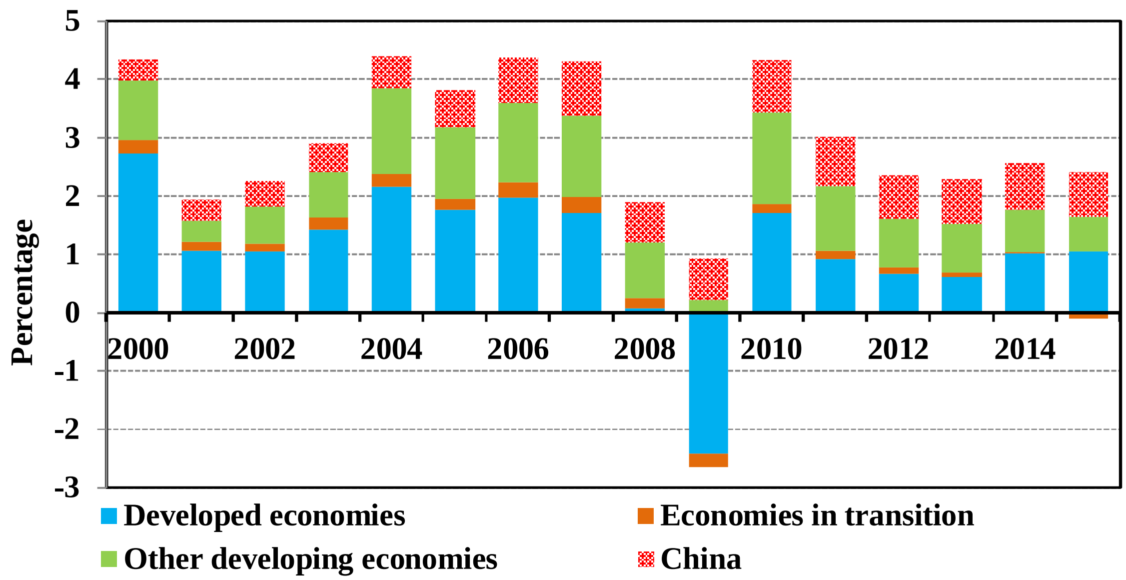
a Estimated.
b Forecast, based in part on Project LINK.
c Based on expenditure side of national accounts with 2011-2012 base year.
d Includes goods and services.
e Based on 2011 benchmark.

Figure 1: Growth rate of world gross product, investment and consumption, 2000-2017



Source: UN/DESA.

Figure 2: Contributions to global growth: 2000 -2015



Source: UN/DESA.

Table 2: Volatility* in quarterly GDP growth in selected economies

	Q3 2012-Q2 2015	Q3 2009-Q2 2012	Q3 2006-Q2 2009	Q3 2003-Q2 2006
France	1.56	0.86	10.82	1.42
Germany	1.76	1.18	14.20	0.57
Italy	2.56	38.53	2.74	0.84
Japan	6.41	2.50	4.98	1.22
Spain	2.57	1.49	7.20	0.20
United Kingdom	0.45	0.82	5.83	0.45
United States	0.87	0.73	7.82	0.45
Brazil	1.32	1.24	2.57	0.50
Chile	1.04	0.99	2.01	0.76
China	0.12	0.16	0.41	0.21
India	0.20	0.53	1.09	0.44
Mexico	1.24	0.35	9.23	0.63
Russian Federation	4.32	0.46	4.23	0.24
South Africa	1.25	0.46	1.69	0.37

Source: UN/DESA, based on data from OECD and national accounts data on selected economies.
* Represented by the coefficient of variation of the quarterly growth rate.

There is also growing divergence in the observed growth volatility across economies. During the financial crisis, volatility was more pronounced in developed economies. But during the recent 12 quarters, growth volatility has been increasing faster in developing economies, underscoring their sensitivity to the sharp declines in commodity prices, capital flows and exchange-rate movements. In particular, large commodity exporting economies—Brazil, South Africa, Chile, Mexico, the Russian Federation—are experiencing increased volatility in their quarterly growth rates. The upward trend in growth volatility underpins growing uncertainty in the global economy, with potential dampening effect on business confidence and investment. This will have a further drag on the global economy.

Global growth prospects face considerable headwinds that are both cyclical and structural in nature. The near-term outlook of the global economy and its long-term prospects are influenced by:

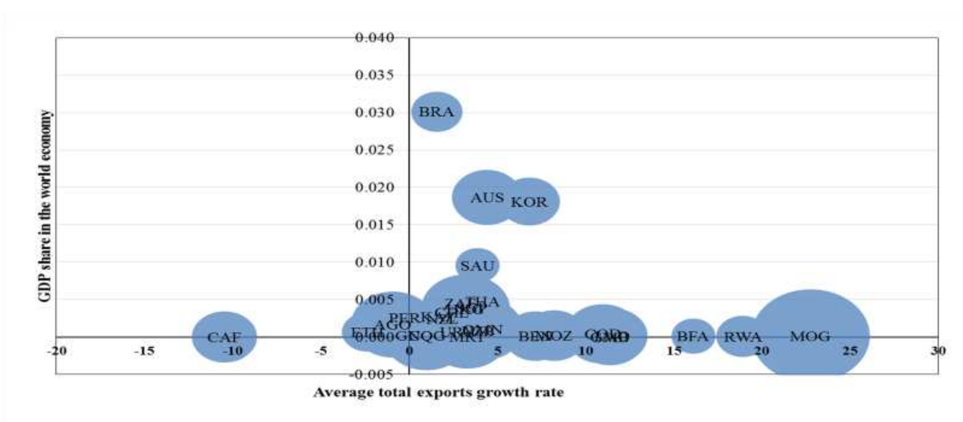
- Declining trade flows
- Stagnant investment
- Diminishing productivity growth
- Growing disconnect between finance and real sector activities

Trade losing steam….

In aftermath of the financial crisis, international trade played a critical role in sustaining global output, particularly for developing economies. During 2009-2012, high commodity prices and early signs of recovery sustained the export income of large emerging and developing economies in Asia, Africa and Latin America. The downward trends in commodity prices since 2011 and sharp decline in oil prices since mid-2014 have altered the trade dynamics of many commodity exporting developing countries. The decline in commodity prices largely explains the divergence in the value and volume of global trade flows, with volume showing persistence while the value of global trade has dropped sharply. The commodity price declines have generally deteriorated the terms of trade of commodity exporters, limiting their ability to demand goods and services from the rest of the world. This apparently has had second-order effects on non-commodity exporting economies, unleashing a downward spiral in the value of global trade.

Global trade flows have significantly slowed in recent months, with total volumes of imports and exports projected to grow by only 2.6 per cent in 2015. Chinese exports, for example, are projected to contract this year, after growing by over 7.5 per cent per annum during 2003-2014. Chinese imports, on the other hand, should grow only slightly, by 1.3 per cent in 2015, down from 7.0 per cent during 2013-2014. The anticipated slowdown of the Chinese economy will have significant adverse effects on the growth prospects of many economies. Figure 3 highlights 29 countries that are particularly exposed, as China is the number one export destination for these economies.[1] These include both commodity-exporting economies—Brazil, Chile, Australia, Angola, Mongolia, etc. —as well as a few more developed economies, including Korea. Exports to China account for more than 25 per cent of total exports in the case of 11 of these economies, making them particularly vulnerable to the slowdown of the Chinese economy. A larger than expected slowdown of growth is likely to have further adverse effect on global trade, reducing aggregate demand and slashing global growth.

Figure 3: Share of exports to China in country's total exports,* 2011-2014



Source: UN/DESA, based on IMF Direction of Trade database.
* Size of the bubble represents China's share in total exports.

[1] Mauritania, Democratic Republic of the Congo, Republic of Congo, Gambia, Angola, Oman, Australia, Central African Republic, Republic of Korea, Chile, Uzbekistan, Brazil, Burkina Faso, Rwanda, Kazakhstan, Uruguay, Equatorial Guinea, Peru, New Zealand, Benin, Saudi Arabia, Ethiopia, Mozambique, Thailand, South Africa, Lao People's Democratic Republic, Mongolia and Hong Kong, SAR of China.

Investment remains subdued

Notwithstanding the debates as to whether the lack of aggregate demand or the absence of structural reforms and improved business environment inhibit new investments, it remains clear that global investment has been subdued since the onset of the financial crisis. After an early recovery in 2009, the growth rates of fixed capital formation have sharply slowed since 2012, exerting downward pressures on productivity, employment and growth. Investment rates are likely to witness a moderate increase during the forecast period. Investment has been predominant in dwelling and intangible assets, as evident in the data from many developed economies, although growth rates of investments in dwellings have generally declined in many developing economies. According to OECD data on fixed capital formation, investments in intangible and intellectual property assets together represent the largest share of fixed capital formation in the United States (42.3 per cent), Germany (47.2 per cent) and the European Union (EU) 28 (42.8 per cent) in 2014. Acquisition of intangible assets—such as trademarks, copyrights, patents—may increase financial returns to firms without necessarily increasing labour productivity. In emerging economies, investments in dwellings dominated fixed capital formation, which is also not linked to productivity growth. Alongside capital investment, growth rates of capital services also declined in a majority of developed economies during the post-crisis-period (table 3). However, capital services growth increased in larger developing economies, including China and India.

The large share of fixed investment in real estate makes both the household and financial sectors susceptible to an abrupt adjustment in asset prices, as the leverage ratio may quickly increase and default risks may intensify. Banks in a number of countries—particularly in large developing economies, including China—remain particularly exposed to downward adjustments in real estate prices. Boosting productive investments (i.e., enhancing labour and total factor productivity in the near term) will remain critical for generating decent work and reaching a higher trajectory of global growth.

Declining productivity growth

Alongside declines in investment, productivity growth has also slowed significantly in recent years across a large group of economies (Table 4). During the pre-crisis period, the United States and euro area countries registered healthy growth in labour productivity, with labour—both quality and quantity—accounting for more than one third of their total GDP growth. There have been also significant improvements in total factor productivity during this period in both developed and developing economies, accounting for nearly half of global growth rates during 2002-2007.

Table 3: Average growth rates of capital services, pre- and post-crisis

	Average growth rates of total capital services	
	2001-2007	2009-2013
Australia	5.2	4.9
Austria	2.9	2.1
Belgium	3.5	1.9
Canada	4.0	2.4
Denmark	3.4	1.1
Finland	2.4	0.7
France	2.9	1.7
Germany	1.6	0.8
Ireland	7.2	2.9
Italy	2.7	0.4
Japan	2.0	0.2
Korea, Republic of	5.3	4.2
Netherlands	3.2	1.6
New Zealand	5.2	3.2
Spain	6.0	2.2
Sweden	3.1	2.0
Switzerland	3.3	2.4
United Kingdom	3.1	2.2
United States	3.8	1.8
China	5.3	5.6
India	4.9	6.7

Source: UN/DESA, based on data from OECD and Asian Productivity Organization.

Table 4: Growth of labour productivity,* pre- and post-crisis

	Average percentage change per year	
	2001-2007	2009-2014
France	1.5	0.9
Germany	1.3	1.2
Japan	1.6	1.2
United Kingdom	2.2	0.3
United States	2.0	0.9
China	9.5	7.4
India	4.4	7.0
Russian Federation	5.4	2.0
South Africa	3.1	1.5

Source: UN/DESA, based on data from OECD and Asian Productivity Organization.
* Measured as real GDP per hour worked.

Labour productivity growth decelerated in a majority of the world economies following the global financial crisis. Declining trends in labour productivity can be partly explained by stagnant and diminishing capital investment. This has resulted in a declining share of labour income in many developed economies. Productivity growth has also slowed down in developing economies. This underscores the need for structural reforms—improving corporate governance, the business environment, and competitiveness—in many developing economies to boost productivity.

At the global level, declining trends in productivity growth, coupled with weak fixed capital formation, means that much of the growth must come from intensive use of existing capital stocks. While investment rates remained stagnant or fell in many economies, the contribution of capital to total growth has increased worldwide during the post-crisis period. The contribution of capital to total output includes capital services rendered by existing capital stocks in the form of depreciation and depletion, and also new capital investments. A composite growth accounting framework for 128 economies (representing over 90 per cent of the world economy) shows that contribution of labour quality, labour quantity and total factor productivity to total global growth declined from 52.5 per cent in 2002-2007 to 16.8 per cent during 2009-2014, marking a commensurate sharp increase in capital intensity of growth, (figure 4a). In 26 developed economies, the contribution of these three factors declined from 44.9 per cent to 10.8 per cent, with the quantity of labour contributing negatively—-9.2 per cent—to output growth in these economies (figure 4b). With both labour inputs (quality and quantity of employment) and new investments falling since the global financial crisis, existing capital stock bore the burden of sustaining growth worldwide.

Reversing the trends in labour inputs and total factor productivity growth rates will be critical for putting the world economy on a trajectory of sustained, inclusive and sustainable growth, as envisaged in the 2030 Sustainable Development Agenda. This will require extensive policy coordination, both within and across countries, to ensure the financial sector facilitates and stimulates long-term and productive investment.

Persistent disconnect between finance and real sector activities.

The total stock of financial assets worldwide is estimated at $256 trillion at the end of 2014, increasing from $184 trillion at the end of 2008 (figure 5).[2] Since 2009, the global stock of financial assets grew at a rate faster than the growth in investment or trade flows. This underscores a growing disconnect between finance and the real economy. The total stock of global financial assets is nearly 3.3 times larger than world gross product and almost 20 times larger than global fixed capital formation in 2014. In 2007, before the crisis, the value of the stock of financial asset reached as high as 3.6 times the global GDP and fell to 2.9 times the global GDP at the end of 2008. Total financial assets in the world, measured in terms of all debt securities outstanding, equities and the stock of bank credit, exceeded the pre-crisis level as early as 2010 (table 5).

[2] All dollar amounts are expressed in United States dollars, unless otherwise specified.

Figure 4: Growth accounting at the global level *

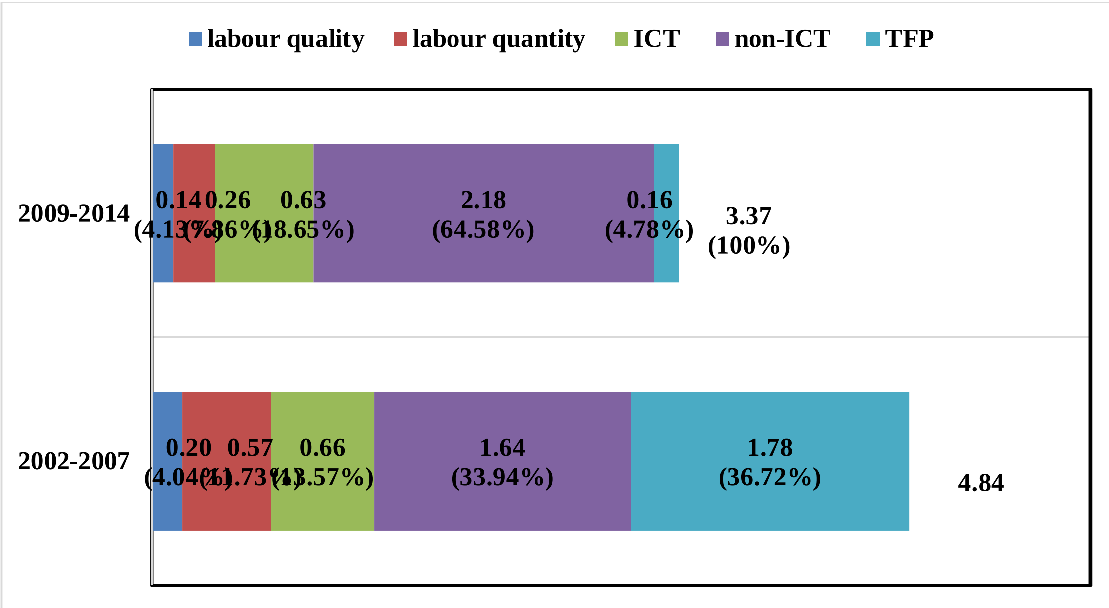


Figure 4a

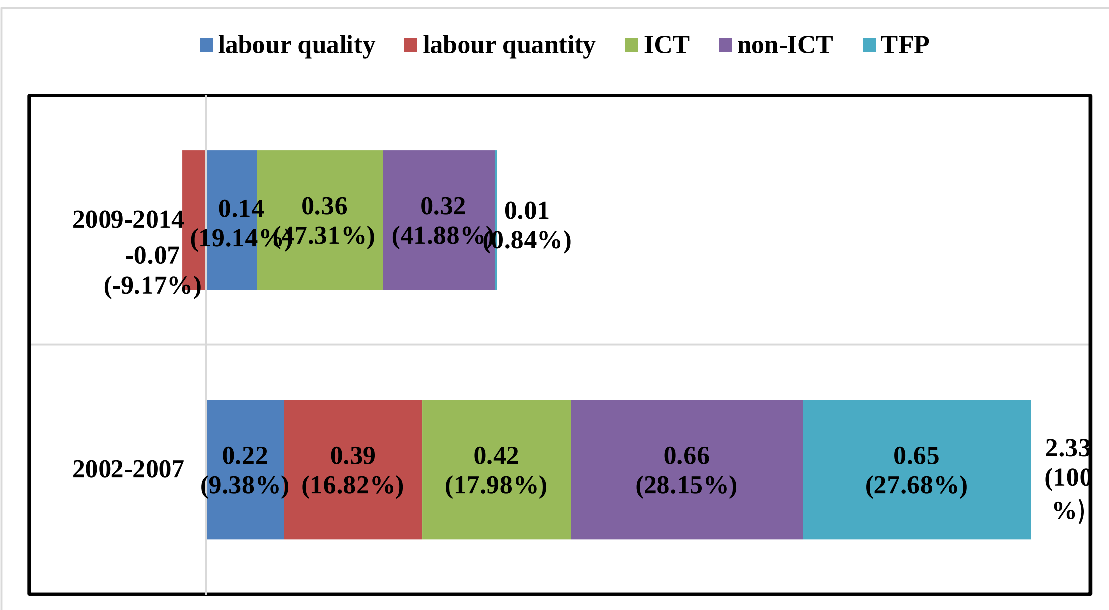
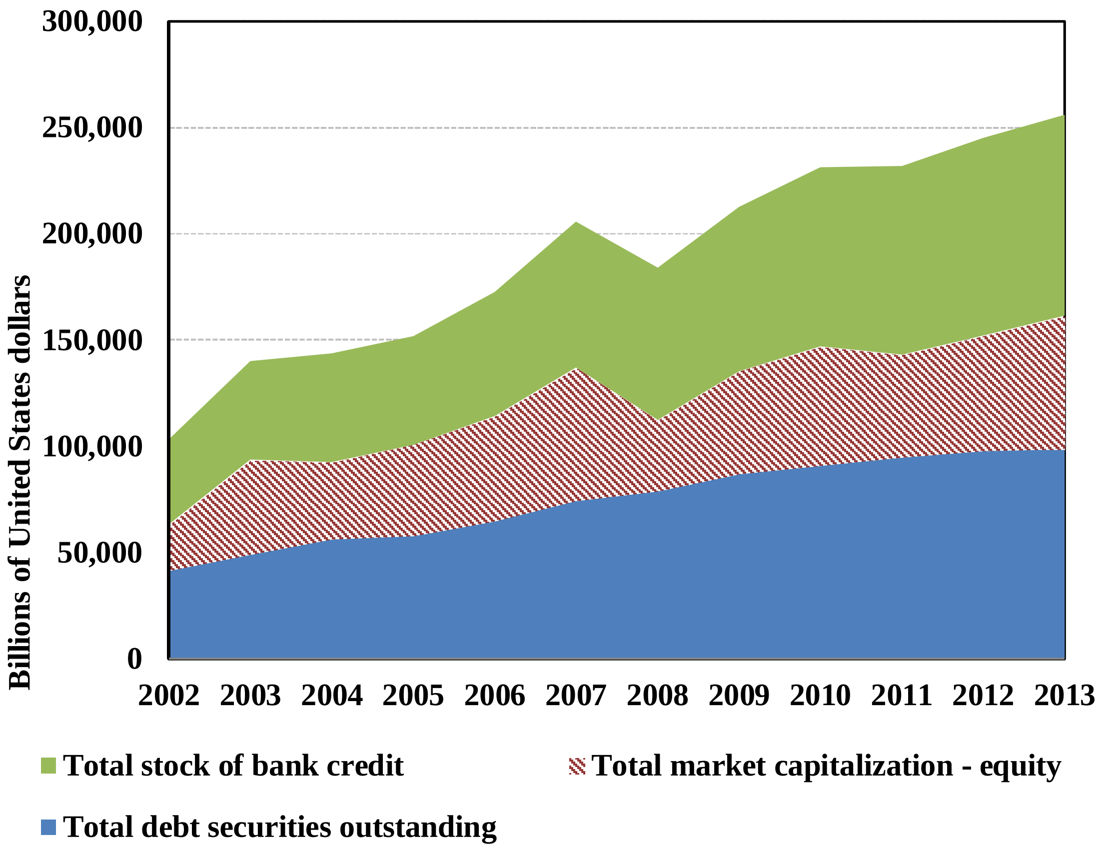


Figure 4b

Source: UN/DESA, based on the productivity data from the Conference Board Total Economy Database.

* The composite contribution to world output is weighted by each country's share of GDP in the world economy. The data in parentheses show the absolute contribution (%) to global growth during the period.

Figure 5: The stock of financial assets, 2002-2013



Source: UN/DESA, using the BIS data on debt securities, World Federation of Exchanges data on market capitalization and the Bankscope data on the stock of bank credit.

Table 5: Global debt securities outstanding

Billions of United States dollars	Q4 2002	Q4 2008	Q4 2014
Total debt securities	42,426	76,532	92,867
issued by:			
Financial corporations	19,664	38,998	36,629
Nonfinancial corporations	5,585	7,226	11,211
General government	17,001	29,950	44,743
of which: International debt securities	7,374	17,648	19,763

Source: UN/DESA, based on BIS debt securities data.

A sudden and disorderly adjustment in asset prices, prompted by the anticipated hike in the United States policy rate or further slowdown of the global economy, could increase financial market volatility and have significant negative wealth effect on households and corporations, reducing investment and aggregate demand and pushing the world economy towards an even weaker growth trajectory than currently anticipated.

Employment outlook

Unemployment declines but job quality is a growing concern

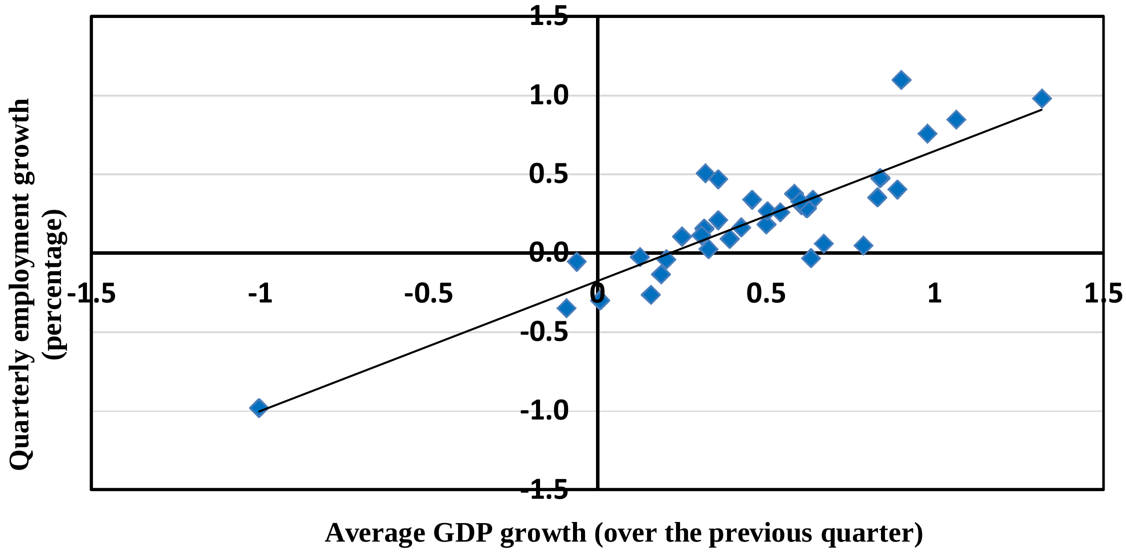
The global employment situation remains challenging. The moderate pace of global growth, in an environment of weak investment and heightened uncertainty, has failed to create a sufficient number of jobs to close the gap in the employment rate (employment-to-population ratio) that opened during the global financial crisis. The average rate of job creation has slowed to about 1.4 per cent per annum since 2011, compared to an average annual growth rate of about 1.7 per cent rate in pre-crisis years. As a result, unemployment figures remain high in many regions, even though they have improved in several developed economies. Global employment growth is expected to continue at the relatively modest pace during the forecast period.

Employment growth generally weakened in 2015, associated with the weak aggregate demand in the global economy. After some improvements in 2014, the growth rate of employment decelerated in the majority of developed economies during the first half of 2015. Employment growth has been also softening in a number of large developing economies.

The employment elasticity of growth, defined as the percentage change in employment associated with a 1 per cent change in GDP, has increased in recent quarters (figures 6 and 7). An increase in the employment elasticity of growth may be associated with either an increase in the labour intensity of production, which puts the economy on a stronger footing, or a slowdown in GDP growth that is associated with a deceleration in productivity growth, pointing to a weaker economic trajectory. The increase observed since the global financial crisis appears to be of the latter type. As discussed in the previous section, the relative contribution of labour inputs (both quality and quantity of employment) and total factor productivity to output growth have declined relative to capital inputs. This underscores the imperative of increasing the employment intensity of growth to ensure that economic growth also leads to improvements in both the quality and quantity of employment.

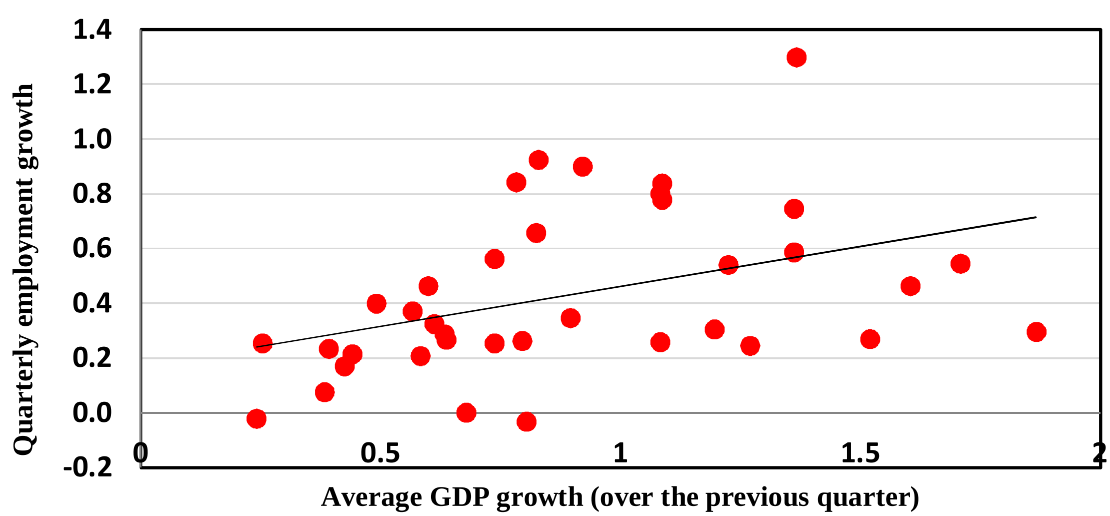
Real wages have remained stagnant or declined in a majority of the large economies, including in developing economies, signalling an overall worsening of labour market conditions worldwide. The quality of the jobs created has become another source of concern, both in developed and developing economies. Several indicators point to a transformation in the type of jobs created, with an increase in part-time and temporary jobs, especially in developed economies, and a gradual shift from salaried work to self-employment in some developing regions, such as in Latin America and the Caribbean. This transformation represents a shift away from the full-time and stable employment model, leading to economic insecurity at the household level and underemployment, which are also associated with weaker productivity growth.

Figure 6: GDP growth and employment growth, Q3 2009–Q2 2015



Source: UN/DESA, based on OECD employment data.

Figure 7: GDP growth and employment growth, Q3 2002–Q2 2008



Source: UN/DESA, based on OECD employment data.

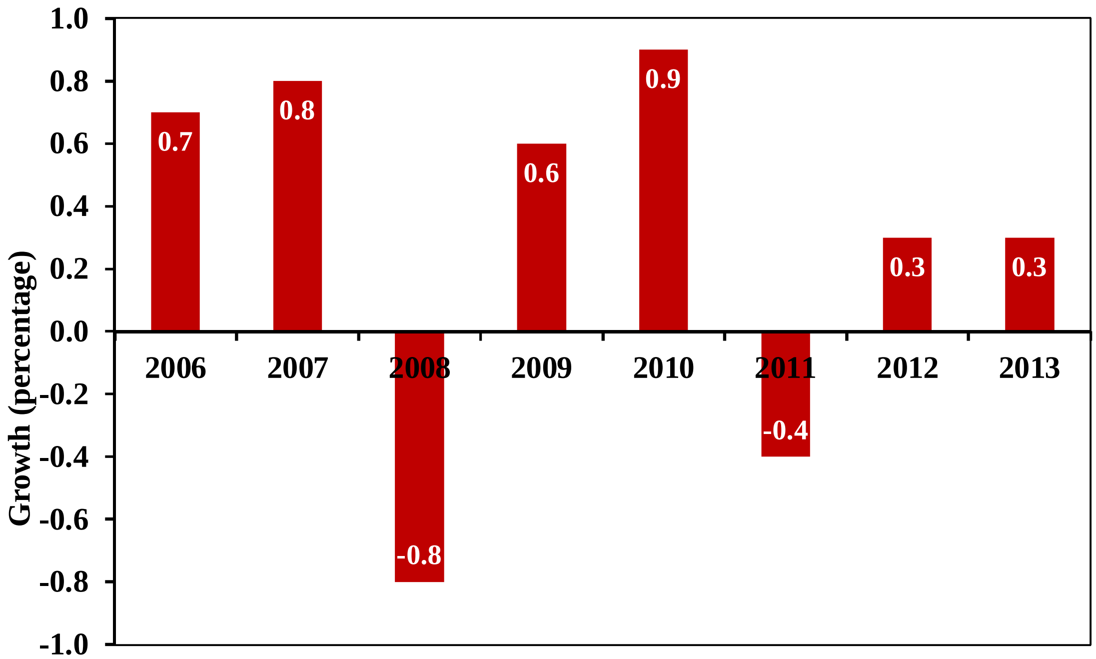
In developed economies, the job recovery has varied widely across labour markets and remains overall insufficient to compensate for the losses from the financial crisis. Consequently, unemployment in developed economies remains well above the pre-crisis level, despite recent improvements. In OECD as a whole, it is estimated that more than 44 million workers were unemployed in 2015, about 12 million more than in 2007.

As a result of the Great Recession, the duration of unemployment has been abnormally long in many economies (see *World Economic Situation and Prospects 2015*), bringing long-term unemployment rates to record highs, including among youth. In OECD countries as a whole, in the last quarter of 2014, one third of unemployed individuals had been out of work for 12 months or more. This corresponds to a 77.2 per cent increase in the number of long-term unemployed since prior to the financial crisis. In the euro area, where long-term unemployment tends to be higher than in other developed regions, the long-term unemployment rate in 2014 was as high as 73.0 per cent in Greece, 67.3 per cent in Slovakia, and 61.1 per cent in Italy. In the United States, the long-term unemployment rate is lower, but remained at 22.6 per cent in 2014, two times more than the pre-crisis rate. The main concern regarding long-term unemployment is the risk of becoming structural unemployment and increasing the number of discouraged workers dropping out of the labour force. Ultimately, long-term unemployment affects social cohesion and hinders economic growth.

In addition to slow employment growth and high unemployment rates, wages and earnings were also affected by the financial crisis (figure 8). In OECD countries, the annual real wage growth was about 0.5 per cent between 2008 and 2014, significantly slower than the 1.8 per cent between 2000 and 2007. On the one hand, wage adjustments may have avoided higher job losses during the financial crisis and facilitated job creation in some countries more recently. At the same time, wage adjustments, which were predicated on slowing productivity growth, increased the hardship at the household level and weakened aggregate demand. In several countries, recent measures have been taken, such as introducing or increasing the minimum wage (see *World Economic Situation and Prospects as of mid-2015*), or by expanding income tax relief for lower income groups, with the hope of reducing working poverty and supporting aggregate demand.

In developed economies, the patterns of work have been changing considerably towards more part-time and insecure status since the onset of the global crisis, generally reflecting the lack of better employment opportunities, rather than voluntary decisions. The Great Recession has accentuated this longer-term trend of low quality job opportunities, offering low hours and low wages, affecting in particular immigrants, women, and youth. Even though unemployment seems to be declining in several developed economies, the incidence of part-time employment has reached historically high levels, including involuntary part-time employment. The main concern with involuntary part-time employment is its repercussions on the working poor and low long-term earnings.

Figure 8: Real wage growth in G20 developed economies, 2006-2013



Source: ILO.

In the euro area, part-time employment represented 21.9 per cent of total employment in the second quarter of 2015, 3.0 percentage points higher than the pre-crisis level. In the vast majority of the countries, the increase in part-time jobs occurred in parallel with the decrease in full-time jobs, and according to OECD data, the bulk of the increase in part-time work is involuntary. Certain countries in the euro area that have been experiencing low unemployment rates, such as Austria and Germany, have a relatively high incidence of part-time employment, 26.9 per cent and 26.5 per cent respectively. Part-time work has also been on the rise in other developed economies, such as in Japan and the United States, even though the incidence is less pronounced. In Japan, part-time work increased from 17.0 per cent in 2007 to 20.1 in 2014, while in the United States it increased from 16.0 per cent to 17.7 per cent in 2014. In many cases, part-time and temporary employment arrangements are further evidence of employers' uncertainty over future prospects and hesitation in expanding their firms to create better employment opportunities.

In developing countries and economies in transition, the employment situation has started to become more challenging, as growth decelerates in many regions. In the emerging economies within the G20,[3] employment growth slowed from an average of 1.4 per cent per annum

[3] G20 emerging economies include: Argentina, Brazil, China, India, Indonesia, Russian Federation, Saudi Arabia, South Africa and Turkey.

between 1999 and 2007, to 1.0 per cent between 2009 and 2014. This is partly a reflection of the slowdown in average GDP growth in these countries since 2009, but also points to a decline in the employment intensity of growth since the financial crisis. This may be partly associated with a changing pattern in the manufacturing sector, increasing automation and capital intensity and reducing employment demand.

Despite slower employment growth, unemployment figures remained relatively stable in developing countries in 2014, with the exception of Latin America and the Caribbean. The relatively stable unemployment figures in developing economies are also partially explained by declining labour force participation, particularly among women and youth. In general, this can be attributable to a decline in female employment opportunities and to more young people enrolling in longer educational programmes. It is also important to bear in mind that the real transition from employment to unemployment is not always reflected in the unemployment rate, as the informal sector continues to be predominant in many developing economies. In the developing world as a whole, employment opportunities are expected to have deteriorated in 2015, given the sharp economic slowdown in several economies. Unemployment rates in most countries are expected to stabilize or recede only modestly in 2016 and 2017, in light of the moderate outlook for GDP growth.

Inflation outlook

Deflationary expectations still persist

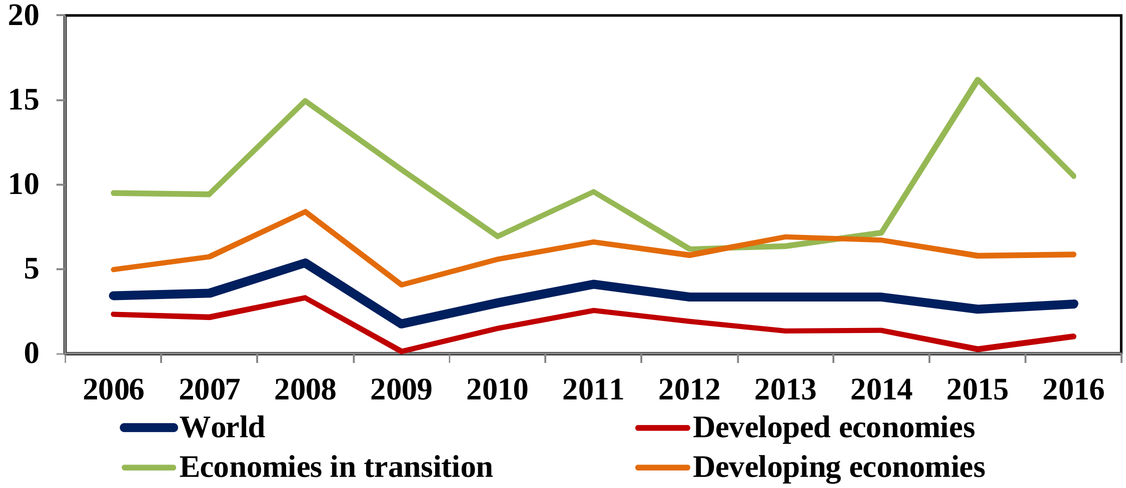
Average global inflation continues to decline, amid persistently subdued economic activity, modest wage growth and lower commodity prices. In 2015, global consumer price inflation is projected to fall to 2.6 per cent, the lowest level since 2009, owing to renewed downward pressures from oil and food prices (figure 9).[4] Nevertheless, this picture encompasses a wide range of specific situations across regions and countries.

Risks of deflation still persist in developed countries, mainly in Japan and the euro area, and to a lesser degree in the United States, where average inflation hovered around 0.2 per cent during the past four quarters. Across a large number of economies, low quarterly inflation is associated with higher levels of volatility in quarterly growth (figure 10), which raises the question whether low inflation or the prospect of deflation contributes to uncertainty, and hence growth volatility, in these economies. This perhaps suggests that price stability alone—as manifested in persistently low levels of inflation—is neither a necessary nor a sufficient condition for reducing volatility in real activity and stimulating economic growth. While average quarterly inflation fell relative to the pre-crisis period in almost all major economies,

[4] Inflation figures in this section exclude the recent sharp increase on inflation in the Bolivarian Republic of Venezuela. For 2015 and 2016, inflation in the Bolivarian Republic of Venezuela is projected to rise above 150 per cent.

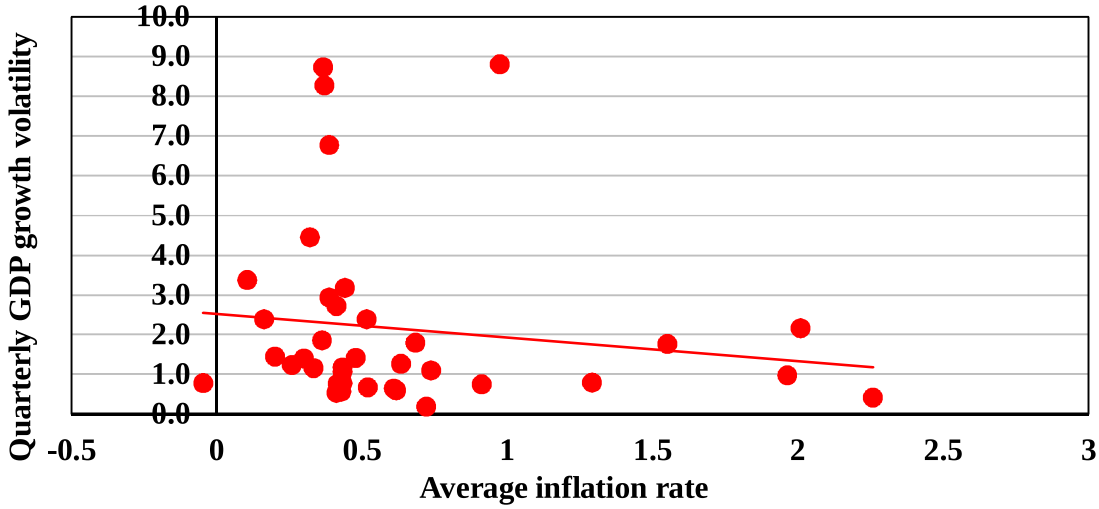
GDP growth volatility increased in 27 out of 39 countries during the post-crisis period (figure 11).[5]

Figure 9: Global consumer price inflation, 2006-2016*
(Percentage)



Source: UN/DESA.
* Figures for 2015 are partly estimated and figures for 2016 are forecast. Figures exclude inflation figures for the Bolivarian Republic of Venezuela.

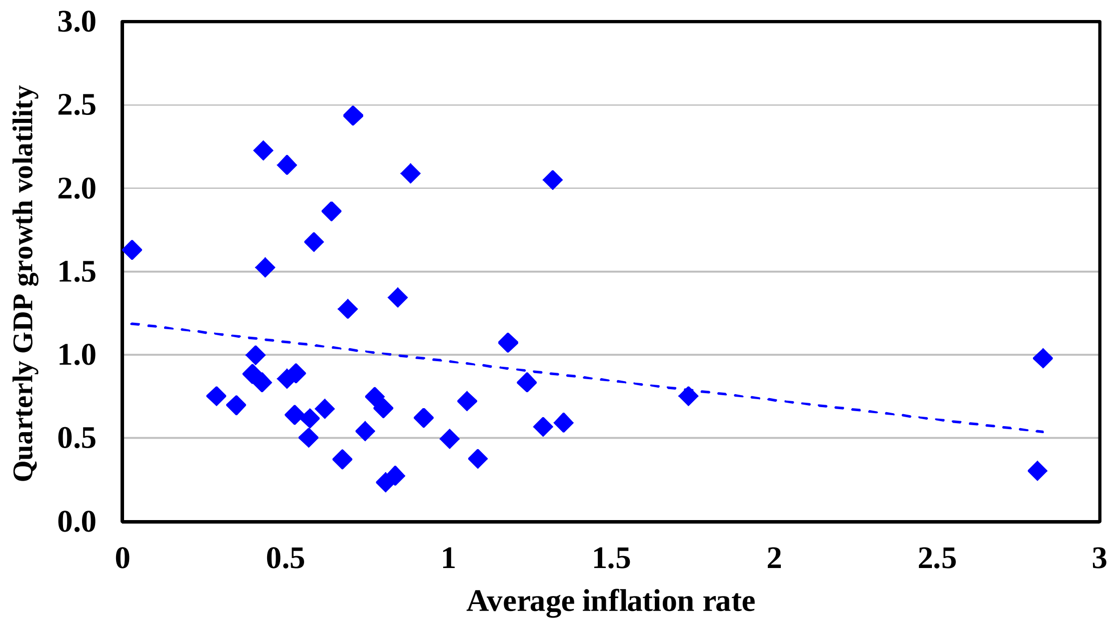
Figure 10: Inflation and growth volatility, Q3 2009 - Q2 2015



Source: UN/DESA calculations based on OECD and data from national statistical offices.

[5] The chart includes all OECD and BRICS economies. Inflation volatility declined.

Figure 11: Inflation and growth volatility: Q3 2002 - Q2 2008



Source: UNDESA calculations based on OECD and data from national statistical offices.

In developed countries, while core inflation has remained relatively stable and below central bank's targets, headline inflation fell close to zero by mid-2015. In the United States, average inflation is expected to decline to 0.2 per cent this year, before accelerating to 1.6 per cent in 2016 as the effects of the dollar appreciation and lower commodity prices recede. However, labour market developments are unlikely to intensify inflationary pressures, as employment-to-population ratio and wage growth remain subdued. In the euro area, consumer price inflation has also remained feeble, about 0.2 per cent on average in 2015. For 2016, inflation is expected to rise gradually to 0.9 per cent, as economic growth strengthens. Nevertheless, deflation risks have not receded entirely, and further declines in commodity prices or lower-than-expected growth might affect inflation dynamics considerably. In Japan, deflationary pressures have resurfaced more strongly. In particular, headline inflation is projected to fall from 2.6 per cent in 2014 to 0.6 and 0.5 per cent in 2015 and 2016, respectively, as the impact of the higher consumption tax vanishes.

By contrast, inflation rose significantly in economies in transition, driven by idiosyncratic factors in some of the CIS countries. For instance, inflation in the Russian Federation and Ukraine is projected to rise to 16 and 48 per cent in 2015, respectively, fuelled by exchange-rate depreciations and domestic imbalances. Meanwhile, inflation in South-Eastern Europe continues to remain very low, about 1.1 per cent in 2015, with Bosnia and Herzegovina and Croatia experiencing no changes on their consumer price levels. In 2016, inflation in transition economies is projected to decline significantly, as the impact of currency depreciations fades out gradually and, in some cases, because of weak domestic demand.

In developing countries, lower oil and food prices have generally reduced inflationary pressures, but some of the effects have been offset by large exchange-rate depreciations, especially in commodity exporters. As a result, consumer price inflation in developing countries is expected to decrease from 6.7 in 2014 to 5.8 per cent in 2015, and to remain relatively stable in the near term. For instance, inflation in South Asia is expected to decline by about 2.0 percentage points to 6.0 per cent in 2015, with visible reductions in India, Pakistan and Sri Lanka. Moreover, some deflationary concerns have emerged in East Asia, as average inflation is projected to fall below zero in Singapore, Thailand and Taiwan Province of China. In China, inflation has decreased more moderately to 1.4 per cent in 2015, owing to the appreciation of the renminbi's effective exchange rate and slower domestic demand. Inflation figures in East and South Asia are expected to slightly increase in 2016.

In Western Asia, inflation is expected to continue in a downward trend, with inflation projected to drop to 8.3 per cent in 2015 and then to 7.0 per cent in 2016. The exceptions are the Syrian Arab Republic and Yemen, where consumer price inflation is expected to remain relatively high. Meanwhile, consumer price inflation in Africa is projected to decrease somewhat, from 7.5 per cent in 2015 to 6.7 per cent in 2016. However, this forecast is subject to a high degree of uncertainty, due to weather shocks and other supply disruptions. Inflation in Africa is also sensitive to exchange-rate movements. In 2015, inflation was highest in West Africa, partly driven by the depreciation of the euro, which is linked to the CFA franc, and also the depreciation of the naira in Nigeria, which is sensitive to the oil price. Finally, inflation in Latin America and the Caribbean will continue to diverge. In Mexico and Central America inflation will remain low and declining, below 4 per cent, while in South America inflation is expected to continue relatively higher. The most extreme case is the Bolivarian Republic of Venezuela, where consumer price inflation is projected to rise above 150 per cent in 2015 and 2016, fuelled by domestic macroeconomic imbalances. In Brazil, consumer price inflation is estimated to decrease in the near term, amid a severe recession and monetary tightening, but to remain above the central bank's target.

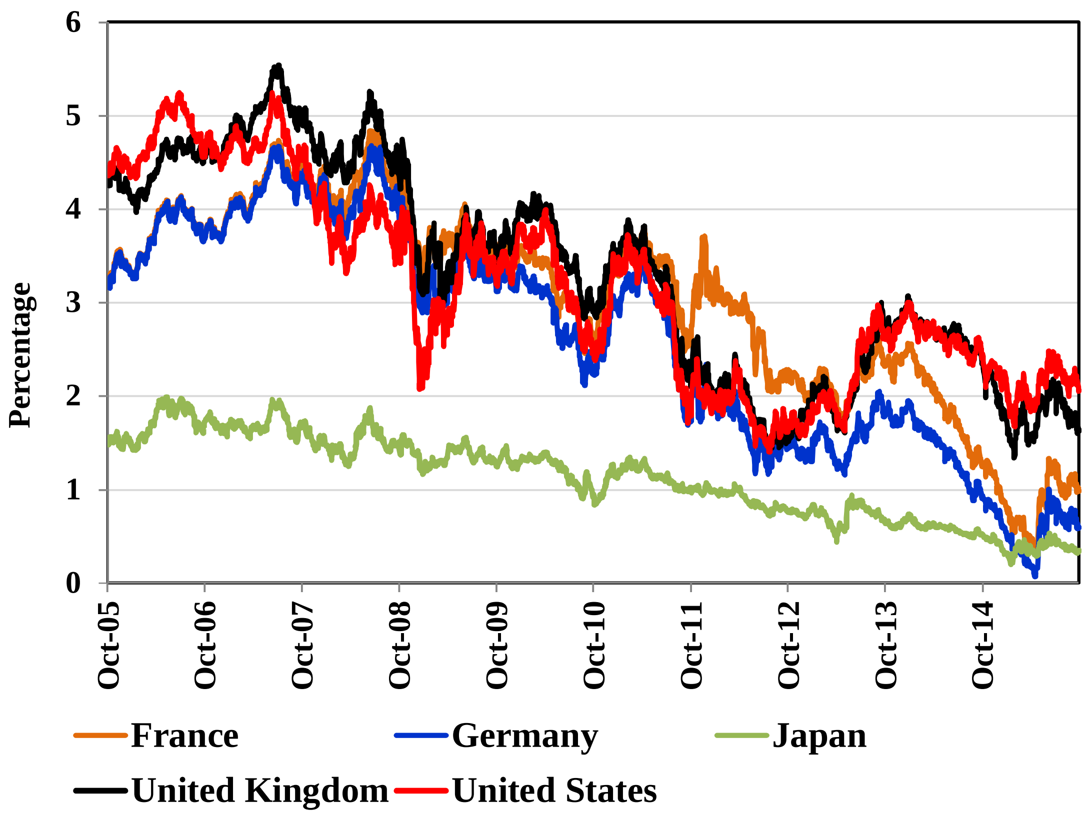
Monetary and fiscal policy stances

Monetary easing prevented the worst possible outcomes but…

Global monetary policy has remained highly accommodative in the face of weakening growth and subdued inflationary pressures in many parts of the world. The developed economies continued to rely on accommodative monetary policy in 2015 –(i.e., asset purchases in euro area and Japan and near-zero policy rates across developed economies) to deliver growth. There is, however, a growing understanding among policymakers that monetary easing is not sufficient for stimulating real economic activity. While accommodative monetary policy stances helped avert a financial sector meltdown and prevent a prolonged recession, they have not been as effective as expected in stimulating investment and growth.

Monetary policy stances during the post-crisis period clearly kept the cost of borrowing at historically low levels. From a historical perspective, both short- and long-term interest rates in developed economies are still very low. Figure 12 shows 10-year government bond yields for a number of large developed economies (France, Germany, Japan, the United States and the United Kingdom of Great Britain and Northern Ireland) since October 2005.

Figure 12: 10-Year government bond yields in selected developed economies, Oct. 2005–Sept. 2015



Source: UN/DESA, based on data from JPMorgan.

While monetary conditions in most developed economies remain loose, the policy stances of the Fed and other major central banks have diverged over the past year. The Fed has moved closer to its first interest-rate hike since 2006 as the US labour market continued to improve gradually. However, amid concerns over the impact of global economic weakness on domestic activity and inflation, the Fed delayed the interest rate hike at its September meeting. The first move is now expected to occur in December 2015, but could be pushed into 2016 in the case of weaker-than-expected employment or inflation data. After the initial lift-off, the pace of interest-rate normalization by the Fed is likely to be slow and highly sensitive to inflation and job market developments.

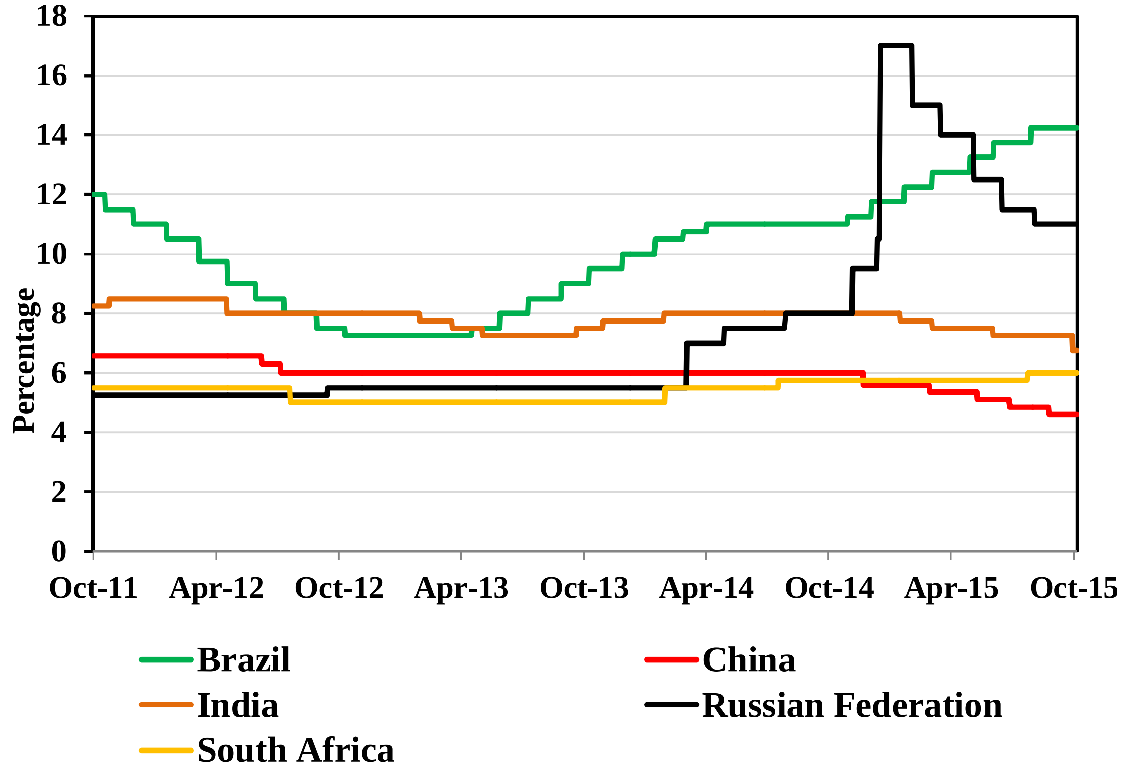
Unlike the Fed, other developed-country central banks, including the European Central Bank (ECD) and the Bank of Japan, are still easing monetary policy. The ECB continues to implement its expanded asset purchase programme, which was launched in March 2015 in an attempt to steer inflation closer to the 2 per cent target. The monthly asset purchases of public and private sector securities amount to an average of 60 billion euro and are expected to be carried out until the end of September 2016. While the programme has supported the recovery of the euro area, a downgrading of the inflation forecast has opened the door for further stimulus. A first interest-rate increase by the ECB is not expected until late 2017 or 2018. The Bank of Japan has maintained the pace of asset purchases under its quantitative and qualitative monetary easing (QQE) programme, targeting an increase in the monetary base at an annual pace of about 80 trillion yen. The authorities have not specified an end-date for the programme, indicating that it will continue until inflation is stable at 2 per cent. The likelihood of a further expansion of the programme has increased in recent months as headline and core inflation once again declined and economic activity weakened.

Among other developed economies, the monetary authorities of Australia, Canada, Denmark, Hungary, New Zealand, Norway, Poland, Sweden and Switzerland further lowered their benchmark rates in 2015. In largely unprecedented moves, the Swiss National Bank (SNB), the ECB, Danmarks Nationalbank (DNB), and the Swedish Riksbank, have introduced negative policy rates. The goals of pushing short-term interest rates below the "zero lower bound" vary from country to country, ranging from reductions in capital inflows and appreciation pressures (SNB, DNB) to supporting aggregate demand and pushing up inflation (ECB, Riksbank). Over the forecast period, the vast majority of central banks in developed countries are expected to maintain their highly accommodative monetary policies. One possible exception, besides the Fed, is the Bank of England, which could implement a first rate hike in 2016.

Against the backdrop of weakening growth, rising financial market volatility, sharp exchange-rate depreciations and increasing portfolio capital outflows, monetary policies in developing and transition economies have shown some divergence in 2015 (figure 13). Many Asian central banks cut their policy rates in 2015, responding to declining inflation and seeking to support growth. The People's Bank of China has reduced its lending rate five times since November 2014, lowering the rate from 6 per cent to 4.6 per cent. The authorities have also used other measures, such as reserve requirement cuts and targeted lending facilities, to inject liquidity into the economy. The Reserve Bank of India cut its main policy rate four times in 2015, by a total of 125 basis points. Other Asian central banks (for example in Indonesia, the Republic of Korea, Pakistan, Taiwan Province of China and Turkey) as well as the Central Bank of Russia also reduced interest rates over the past year, although concerns over capital outflows and currency depreciations have limited the room for rate cuts. For most of these economies, especially those with open capital accounts, the monetary policy stance over the next two years will not only depend on growth and inflation trends, but also on potential spillover effects of policy changes in the United States.

In several South American and African countries, including Brazil, Colombia, Kenya and South Africa, monetary policy has recently been tightened in a bid to halt rising inflation, significant capital outflows and large currency depreciations. For most of these countries, the monetary tightening is expected to further drag down growth, which has been hit by the drop in commodity prices and a range of domestic factors.

Figure 13: Central bank policy rates in the BRICS, Oct. 2011–Oct. 2015



Source: National central banks.

Fiscal space contracts in many developing economies

The sharp decline in commodity prices and exchange-rate realignments witnessed in 2014-2015 will have a significant impact on fiscal balances, particularly in the developing and transition economies. Commodity exporters have seen a steep drop in commodity-related revenue, while oil importers in many instances have benefited from cost savings related to the provision of energy subsidies. Dramatic exchange-rate realignments pose a challenge for countries with foreign-currency-denominated borrowing, as it entails a steep rise in debt servicing costs. The anticipated normalization of monetary policy in the United States will also affect the terms of public borrowing, requiring fiscal prudence even among developed economies.

Most of the developed economies (whose fiscal deficits and public debt levels are averaging about 3 per cent and 100 per cent of GDP, respectively) have gradually transitioned since 2013 from post-crisis consolidation of public finances to a more neutral fiscal stance. With few exceptions, no significant fiscal drag is expected in 2015-2016 in developed countries.

In the United States, the federal budget deficit has improved by 7 percentage points (of GDP) since 2009, supported by stronger economic growth in 2014-2015. Following several years of austerity, the stance of fiscal policy has become more neutral and this is expected to continue in the near term. Real federal government consumption expenditure is expected to remain at 2015 levels in both 2016 and 2017, but given the moderate improvement in the state and local government fiscal positions, real government expenditure at this level will grow by about 1 per cent in both 2016 and 2017. A key factor determining the fiscal outlook is the political procedure for passing the federal budget and raising the debt ceiling to ensure that there is no shutdown of federal government operations or suspension of the issuance of federal debt securities. Among the countries of the European Union, fiscal policy stances diverge, although for the EU as a group, the impact of fiscal policy in 2015-2016 should be neutral. Several EU members, including France, run budget deficits exceeding 3 per cent of GDP and have to consolidate their public finances, being subject to the Excessive Deficit Procedure of the EU. Most of the EU countries, with the notable exception of Greece, enjoy low sovereign borrowing costs, supported by the ongoing sovereign bond purchases by the ECB. While this mitigates the costs of financing deficits, policymakers will continue to struggle to find a balance between supporting growth and employment and adhering to their commitments under the Stability and Growth Pact. This may become more challenging if deflation in the euro area persists, which may inflate fiscal deficits and public debt to GDP ratios.

In Japan, the Government conducts a flexible fiscal policy, but is pursuing medium-term fiscal consolidation, aiming to achieve a primary budget deficit of 1 per cent of GDP by 2018 and a primary budget surplus by 2020. However it decided to postpone the planned consumption tax increase from October 2015 to April 2017 and to implement additional stimulus measures. The Government also intends to reduce the corporate tax rate in April 2016. The country's public debt-to-GDP ratio stands at over 220 per cent and may become unsustainable in the long run, but as most of this debt is held domestically, default risks are relatively small compared to countries that face large external and foreign-currency-denominated debt burdens.

Among the major developing countries, fiscal policy in China is expected to be moderately expansionary in the medium term and the consolidated government deficit may reach historically high levels, mostly because of large and growing indebtedness of the regional governments. The central Government's support to the regions may increase to prevent the excessive reliance of local governments on commercial borrowing. The ongoing debt-restructuring programme is expected to reduce financial risks at the local level. In Brazil, by contrast, the Government is tightening its fiscal stance, in part by curbing subsidized public lending, in order to reduce public debt and to restore the country's investment grade. Among the economies in transition, the Government of the Russian Federation had to revise its 2015 budget against the backdrop of the fall in oil prices and weaker economy, and foresee a wider than initially anticipated budget deficit. However, a significant fiscal tightening in the near term is unlikely; instead, the Government intends to draw from its Reserve Fund and to expand its tax base.

International trade and finance

Trade flows remain weak

In 2015, world trade growth declined by 0.6 percentage points to 2.6 per cent, the lowest level since the Great Recession. Although the import demand from developed economies has increased mildly from 2014, it was more than compensated for by the weakened growth in imports demanded by developing economies and the sharp reduction in transition-economy imports. In the outlook period, world import demand is expected to grow by 4.4 per cent and 5.0 per cent in 2016 and 2017, respectively. Falling commodity prices, weakening growth in many emerging economies, including in China, and increasing exchange-rate volatility continue to exert downward pressures on trade flows. On the other hand, a strong dollar and rebound in Europe may boost import demand, contributing to an overall modest improvement in trade flows.

Developed economies have recorded stronger import growth in 2015, while export growth remained flat. The rise in import demand was mainly driven by the United States and the EU countries. In the former, the strong appreciation of the dollar since mid-2014 and relatively solid economic growth have accelerated import demands. Gradual improvement in the euro area economies has, likewise, prompted import growth. On the other hand, in 2015, imports into Japan slowed significantly compared to recent years, due to sluggish growth and a depreciation of the Japanese yen. Over the outlook period, import demand from developed economies is expected to expand at a somewhat higher speed than in 2015.

Exports from developed economies expanded by 3.6 per cent in 2015, similar to the 2014 performance. While US export growth decelerated in 2015, reflecting the dollar appreciation, EU countries observed an acceleration of export growth. For the outlook, growth in the exports from developed economies is expected to gather pace as the global economy improves.

Economies in transition have experienced the most dramatic development in terms of international trade. Imports into the Commonwealth of Independent States (CIS) countries started to decline in 2014, under the impacts of geopolitical tension and declining oil revenue. This decline further accelerated in 2015 and is expected to persist in 2016. Exports from CIS countries also exhibited a similar profile of decline, although of a much smaller magnitude. On the other hand, trade in South Eastern Europe has remained on a stable expansionary path. In aggregate, exports from economies in transition are expected to decline by about 3 per cent in 2015, while imports are projected to fall by 14 per cent.

Trade activities in developing economies also experienced a rapid slowdown in 2015; export and import growth declined by 2.3 and 1.6 percentage points, respectively. It is expected that over the outlook period, both exports and imports for developing economies will grow about 4.5-5.0 per cent annually.

International trade for Africa remained relatively stable in 2015. Exports expanded by an estimated 4.2 per cent while imports expanded by about 3.4 per cent. Recoveries in exports from North Africa and Central Africa and imports to North Africa and East Africa were the key factors for the improvement over 2014. It is predicted that this dynamic will be sustained in the outlook period. For 2016, exports and imports are expected to grow by 4.8 per cent and 4.3 per cent, respectively.

Among the subregions of developing economies, East Asia recorded the most significant drop in trade activity, with China being the most import factor. As growth in China becomes slower, import growth has slowed sharply from the double-digit rates recorded for most of the last two decades. Total East Asia imports grew by an estimated 0.9 per cent in 2015, after a still weak 3.3 per cent in 2014. East Asia exports decreased by 0.1 per cent in 2015 as many other countries in that region also observed slower or reduced trade activity. International trade in East Asia is expected to resume the expansion in 2016 again; it is predicted to grow about 4.5 per cent per annum on average over 2016 and 2017. A similar growth pattern has appeared in South Asia, where exports and imports are both predicted to expand by 5.5 to 6.0 per cent per annum in 2016 and 2017.

Latin America and the Caribbean registered exports growth of 2.5 per cent in 2015 and is expected to grow at somewhat higher speed of 3.9 per cent in 2016. However, imports declined by 0.5 per cent in 2015 owing to the sharp drop of South America imports by 4.4 per cent. For the outlook, trade is expected to grow again in 2016 by 3.9 per cent and 3.2 per cent for exports and imports, respectively.

Commodity prices are expected to stabilize

The depressed level of oil and non-oil primary commodity prices is projected to extend into 2016, before seeing modest recovery for some commodities as downward pressures recede in the later part of the forecast period. The global oil market continues to be oversupplied, as changes in demand and supply dynamics have not corrected the overall unbalanced market. Demand growth is not expected to accelerate in 2016, in line with the overall weak global economic conditions, especially in China and other emerging economies, which have been the main oil demand drivers in the past decade. On the supply side, US oil production has been extremely resilient so far, although growing financial pressure on shale operators and a sharp fall in the number of active rigs will have their toll on production in 2016. In parallel, OPEC producers, Saudi Arabia in particular, seem determined to continue increasing production, despite low oil prices, in order to gain higher market shares. Iran's production will contribute to global supply—especially in the second half of 2016, given the delay in lifting sanctions—as a deal was reached with the P5+1 during the second half of 2015. Thus, considering that the gap between oil demand growth and oil supply growth will continue in 2016, the average Brent oil price is expected to drop slightly to $51 per barrel on average in 2016, from $53 per barrel on average in 2015, before recovering to a higher equilibrium price of $62 per barrel in 2017.

The multi-year downward trend of non-oil commodity prices continued in the first 8 months of 2015 (figure 14). The fall in price among base metals was most pronounced, but with some varying trends. Nickel prices dropped by 30.1 per cent from January to August—the most among all base metals, whereas lead prices dropped 7.6 per cent. Overall, the UNCTAD nominal price index of minerals, ores and metals dropped 14.8 per cent, and the food price index dropped by 11.1 per cent. On the other hand, the agricultural raw materials price index witnessed some moderation in its downward trend in the second quarter. It is projected that prices will keep declining for most non-oil commodities in 2016. Base metal prices will continue to experience downward pressure from the slowdown of large emerging economies, especially China, which consumes about half of the world's base metal. The continued subdued energy prices will help to lower costs for mining and refining, suggesting metal supply is less likely to be cut significantly during the forecast period. Downward pressure on food prices will be coming mainly from the supply side, as agricultural stockpiles remain high and good harvest of multiple agricultural commodities are expected this year. Low oil prices have made biofuels less attractive as an alternative energy source, which reduces the demand on grains, soybeans, and other agricultural products for industrial activities. However, as the agricultural stockpiles will gradually be absorbed and plantings being scaled down in response to low prices, agricultural commodity prices could see some stabilization toward 2017.

Capital inflows to emerging economies decline sharply

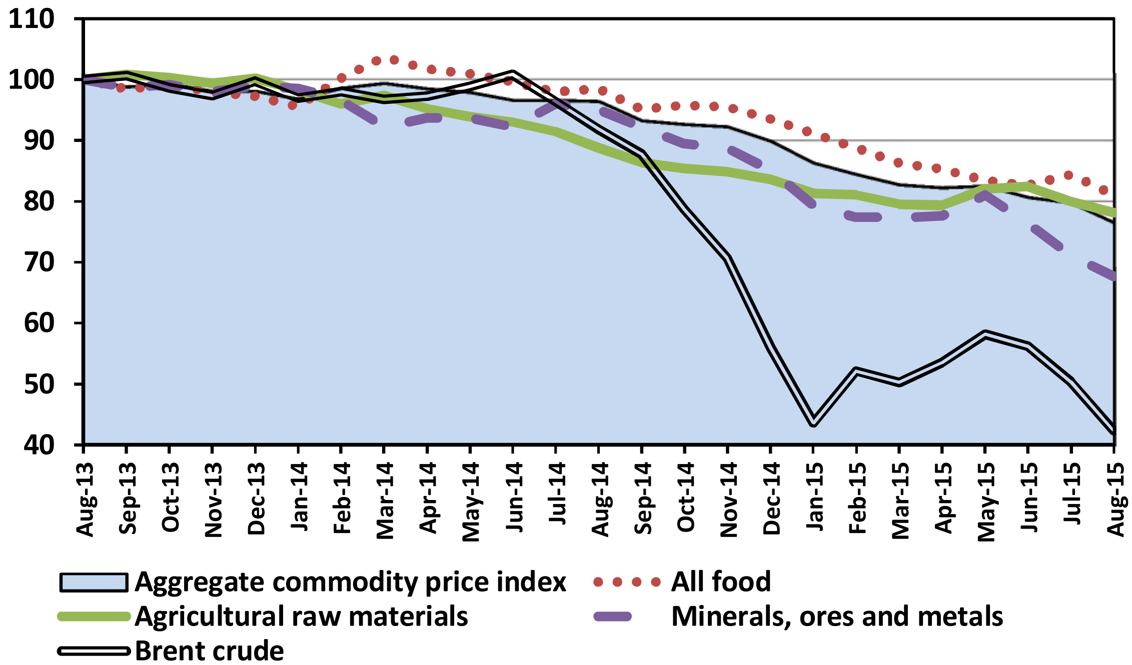
Expectations over the looming increase on interest rates in the United States; the growing divergences in the monetary policy stances of the United States, Japan and the EU; and the mounting concerns over the growth outlook and financial vulnerabilities on several large emerging economies (particularly China) have led to financial market turmoil in recent months. As a result, financial volatility has raised markedly, with the VIX index —a measure of the expected short-term volatility in the US stock market— escalating in August to its highest level since 2011, after a major adjustment in the Chinese stock market triggered a global sell-off in equities. Unexpected shocks are likely to fuel investors' risk aversion, with potential consequences on global liquidity and spillover effects on the real economy, which so far have remained limited.

Against this backdrop, capital inflows to developing countries have continued to decline noticeably, particularly as the impacts of domestic vulnerabilities and lower commodity prices fully materialize on the medium-term growth, risk profile and investment prospects for these countries. In 2015, net capital inflows to emerging economies are projected to be negative for the first time since 2008, reaching minus $541 billion, with gross inflows halving to $548 billion and gross outflows posting a record high of $1,089 billion (figure 15).[6] This downward trend on capital inflows, which began in 2013, has led to a significant depreciation

[6] Institute for International Finance (2015a), "Capital Flows to Emerging Markets", October. The data of capital inflows encompasses 30 emerging economies: Argentina, Brazil, Bulgaria, Chile, China, Colombia, Czech Republic, Ecuador, Egypt, Hungary, India, Indonesia, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Peru, Philippines, Poland, Republic of Korea, Romania, Russian Federation, Saudi Arabia, South Africa, Thailand, Turkey, Ukraine, United Arab Emirates and Venezuela (Bolivarian Republic of).

of domestic currencies across a large number of emerging economies, including Brazil, Indonesia, Mexico, Thailand, South Africa and Turkey, with some of them also experiencing visible declines in equity prices and international reserves.

Figure 14: Price indices of selected groups of commodities, August 2013-August 2015
Index August 2013=100

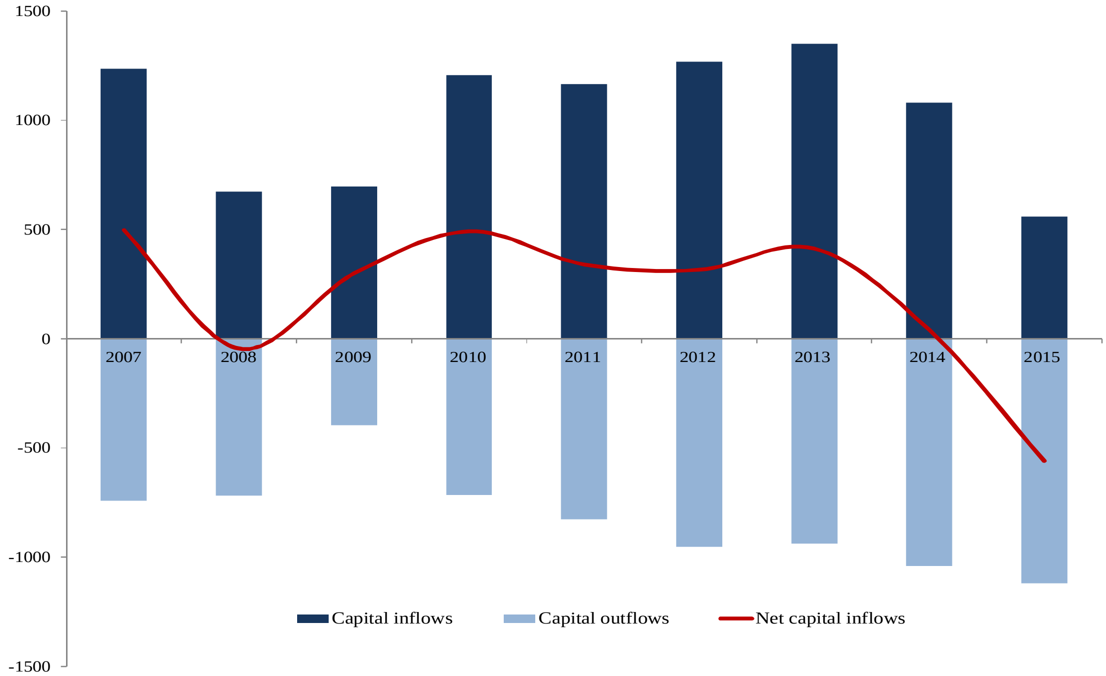


Source: UNCTADStat.

Across different types of flows, portfolio inflows have seen the sharpest declines in countries such as Brazil, Turkey and Thailand, particularly in commodity sectors. For instance, during the third quarter of 2015, portfolio net outflows reach a record of $40 billion,[7] the largest contraction since 2008. Preliminary data suggest that the reduction in corporate bond flows has been more restrained, with the spreads of dollar-denominated bonds widening moderately so far in 2015. However, a further reduction in bond flows is expected in the near term, as the deteriorating economic conditions in some emerging economies become more tangible on corporate earnings and credit quality. Moreover, a sharp reversal of bond flows is a risk, particularly in those economies where bond debt flows were driven by global liquidity rather than economic fundamentals in recent years. In fact, corporate debt over GDP in emerging economies increased more than 4 times in the last decade,[8] with much of this denominated in US dollars, and many large companies will face a heavy debt servicing schedule with an appreciated dollar in the next few years.[9]

[7] Institute for International Finance (2015b), “EM Portfolio Tracker and Flows Alert”, September.
[8] Institute for International Finance (2015). “Capital Markets Monitor, Key Issues”, September 2015.
[9] Institute for International Finance (2015). “Capital Markets Monitor, Key Issues”, September 2015.

Figure 15: Capital inflows to emerging economies, 2007-2015*(billions of dollars)



Source*:* Institute for International Finance (2015). "Capital Markets Monitor, Key Issues", September 2015.

* The sample of countries includes 30 large emerging economies. Data for 2014 are estimates, and data for 2015 are projections.

Meanwhile, cross-border bank lending to emerging economies, which remains highly volatile, has also shown signs of weakness. During the first quarter of 2015, cross-border bank lending declined for two consecutive quarters, posting meagre growth of only 0.5 per cent over a year.[10] For instance, cross-border bank lending in emerging Asia has almost stagnated, after several years of sustained growth. In emerging Europe, cross-border claims continued to decline, particularly in the Russian Federation and Ukraine by mid-2014, although at a slower pace than in previous quarters. More stable capital inflows such as foreign direct investments (FDI) have also declined, in some Latin American countries, for example. According to official data until August, net FDI inflows to Brazil and Colombia fell by 33 and 23 per cent, respectively. In addition, preliminary data point to a significant decline in greenfield projects in several economies, including the Philippines, Malaysia, Nigeria and Peru.[11] A sharp plunge in FDI flows could become a source of external distress in some countries, considering the role it has played in financing current-account deficits in recent years.

[10] *BIS Quarterly Report* (2015). "International Banking and Financial Market Developments", Bank of International Settlements, September.
[11] fDi Markets (2015). Cross Border Investment Monitor, Financial Times. http://www.fdimarkets.com/.

The retrenchment on capital inflows to emerging economies and developing countries seems to be even larger than during the financial crisis. However, the underlying reasons are much more related to domestic factors, with the potential risk of an even larger reversal. *In the short term*, portfolio liquidity could dry up and financing costs might rise abruptly in response to the anticipated interest-rate raises of the Fed, and macroeconomic fundamentals will provide little protection against additional impacts on exchange rates, equity prices and international reserves. Such a scenario will intensify the difficulties many economies are facing in reinvigorating investment, particularly considering that high levels of capital inflows and very open capital markets tend to amplify the financial and real business cycles.[12] *In the medium term*, the adjustment in emerging economies to the new global conditions, including lower liquidity and commodity prices, will create non-trivial challenges for monetary, fiscal and exchange-rate policies.

Exchange rates

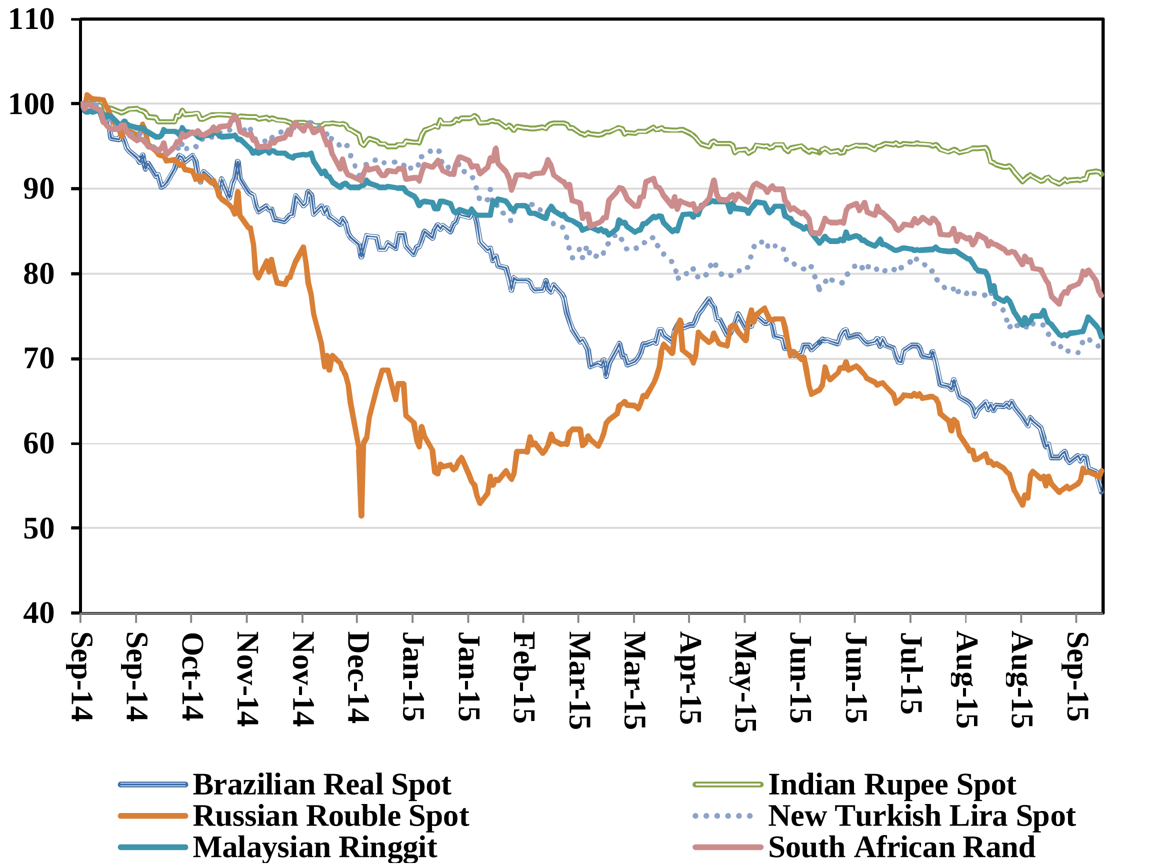
Large swings in exchange rates with currencies in EM depreciating

Against the backdrop of falling commodity prices, shifts in global growth patterns and diverging monetary policies, international currency movements have recently become more pronounced. Global exchange-rate volatility has risen considerably since mid-2014, while many emerging-market currencies have plunged amid the significant portfolio capital outflows discussed above. The downward pressure on emerging-market currencies reflects a deteriorating outlook in most of these economies, coupled with expectations of rising US interest rates. As illustrated in figure 16, the weakness of emerging-market currencies against the dollar (and other developed-market currencies) has been broad-based, but the size of the depreciations has varied substantially. The Brazilian real and the Russian rouble have recorded the largest losses as both countries remain mired in severe recessions, accompanied by elevated inflation. The sharp declines of emerging-market currencies against the dollar have contributed to concerns over the high level of dollar-denominated debt of many non-financial corporations in emerging markets. In the case of a sudden currency depreciation or increase in interest rates, the number of corporate defaults could rise significantly.

Against developed-market currencies (including the euro, the yen and the British pound sterling), the dollar has traded largely sideways since April 2015, after appreciating sharply in the previous six months. From July 2014 to March 2015, the dollar index, which measures the value of the dollar against a basket of six major currencies, had gained about 25 per cent. The Fed's decision in June and September to delay its first rate hike has, at least temporarily, reduced the upward pressure on the dollar. However, a further widening of the policy gap between the Fed and other central banks, notably the ECB and the Bank of Japan, is expected to lead to a renewed strengthening of the dollar in 2016.

[12] Claessens, S. and S. Ghosh (2013). "Capital Flow Volatility and Systemic Risk in Emerging Markets: The Policy Toolkit", in *Dealing with the Challenges of Macro Financial Linkages in Emerging Markets*, The World Bank Publications.

Figure 16: Exchange rates of selected emerging market currencies vis-à-vis the US dollar, 1 Sep 2014 - 23 September 2015 (Index: 1 Sep 2014=100)

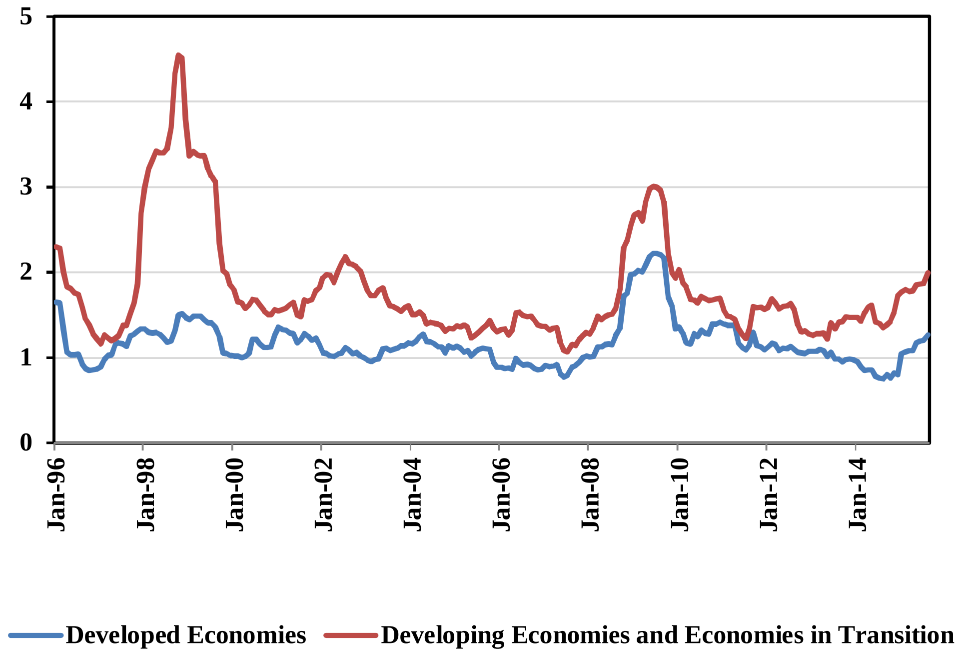


Source: UN/DESA, based on data from JPMorgan.

In line with the large movements in nominal exchange rates, real effective exchange rates (REER) have changed significantly over the past year. Since September 2014, the dollar has appreciated by 13 per cent in real effective terms. Currencies tied to the dollar, such as the Saudi riyal and the United Arab Emirates dirham, have appreciated by similar amounts. The People's Bank of China recently adjusted the mechanism for setting the renminbi's daily reference rate—a move that resulted in a 3 per cent depreciation of the renminbi against the dollar. Despite this decline, the renminbi is still about 10 per cent stronger in real effective terms than it was in September 2014. On the other hand, the euro and the yen have depreciated by about 6 per cent, while the currencies of Brazil, Colombia and the Russian Federation have fallen by about 25 per cent in real effective terms.

These REER adjustments have been accompanied by rising exchange-rate volatility. Figure 17 shows a measure of REER volatility for two groups of countries: 36 developed economies and 24 developing economies and economies in transition.[13] Average exchange-rate volatility has increased significantly since mid-2014, in particular for the group of developing countries and economies in transition. While volatility is still much lower than during the global financial crisis and the emerging market crises of 1997/98, it is relatively high for a non-crisis period.

Figure 17: Real effective exchange rate volatility, Jan 1996–Aug 2015



Source: UN/DESA, based on BIS real exchange-rate database.

A key question is how the large movements in real exchange rates will impact international trade flows over the next few years. According to some recent studies, the rising importance of global value chains has resulted in a weakening of the relationship between real exchange rates and exports and imports (see for example, OECD, 2015 and World Bank, 2015). However, new IMF analysis suggests that exchange-rate movements still tend to have strong effects on real trade volumes. This is expected to lead to a significant redistribution of real net exports from the United States to Japan and the euro area. At the same time, it provides a silver lining for some of the hard-hit emerging economies.

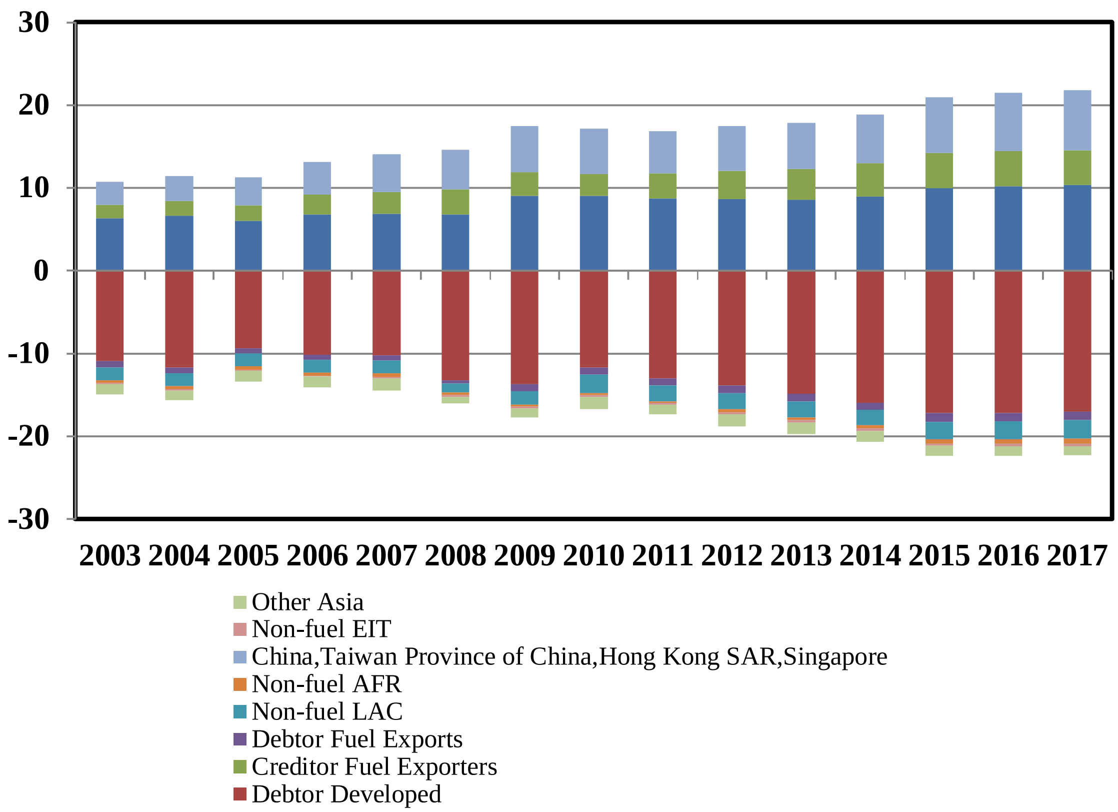
Global imbalances

[13] The figure is based on monthly BIS data for real effective exchange rates for a total of 60 countries. The volatility is calculated as the standard deviation over a rolling twelve-month period of the first difference of the logarithms of the exchange rate. The resulting monthly standard deviations are weighted by the respective country's 2012 share in global trade (exports + imports).

Global imbalances adjust with changes in commodity prices and exchange rates

Current-account balances are shaped by the patterns of trade, capital flows, commodity price movements and exchange rates discussed above. While the dispersion of global current-account deficits and surpluses has narrowed somewhat from the peaks leading up to the global financial crisis, a significant degree of imbalance in global current accounts persists. A current-account deficit is financed by selling domestic financial assets—such as government bonds—abroad, whereas a current-account surplus allows a country to accumulate foreign assets through capital outflows. Persistent current-account imbalances, therefore, are associated with corresponding shifts in net external debt positions. Global imbalances in net external debt holdings have continued to widen since 2011, as illustrated in figure 18. At the global level, a persistent current-account imbalance of about 1.5 per cent of world GDP can be expected to stabilise with a net external debt imbalance of about 25 per cent of world GDP[14]. Without any additional narrowing of the global current account imbalance, global imbalances in net external debt can be expected to continue to widen beyond the end of this decade.

Figure 18: Net external asset positions as a percentage of world GDP, 2003 -2017 *



Source: UN/DESA, based on IMF *International Financial Statistics* and *World Economic Outlook* database, and Milesi-Feretti database.

* Data for 2015-2017 are projections.

[14] This approximation is based on the stock-flow relationship between the current-account balance and debt and an assumption of average annual global GDP growth in nominal terms of about 6 per cent.

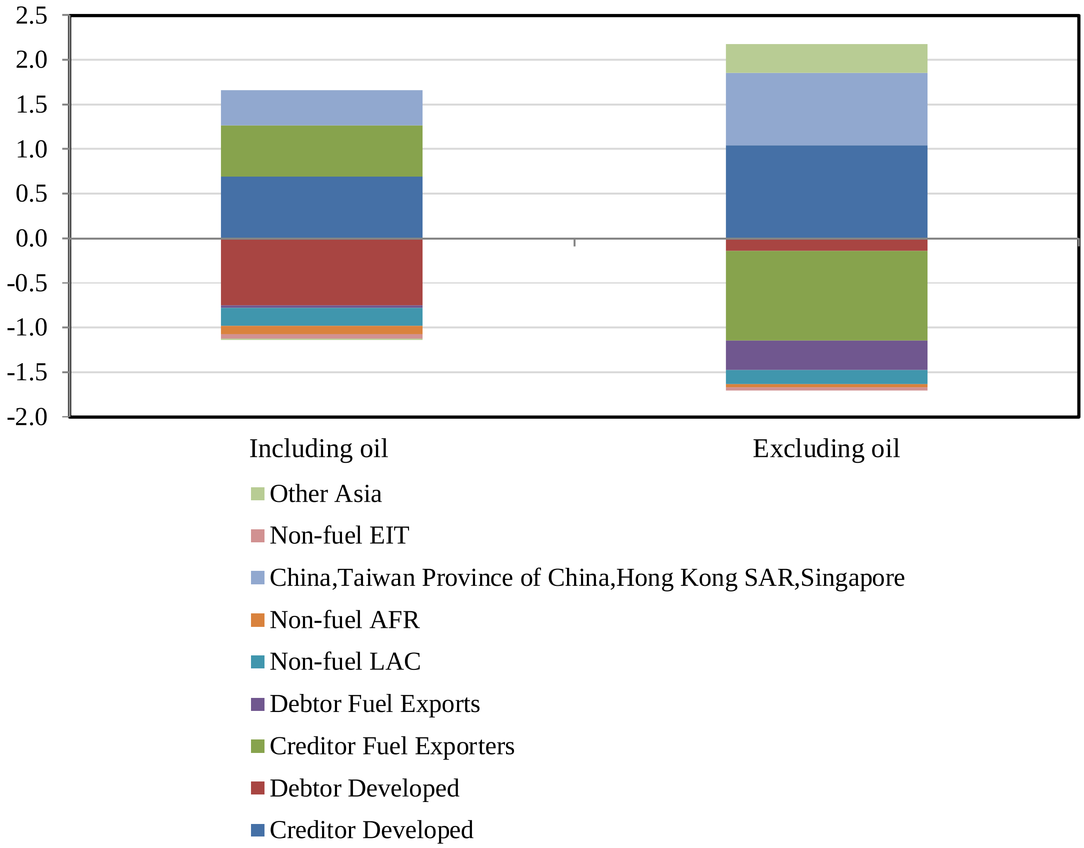
Major debtor economies include the United States, Spain, Brazil, Australia and the United Kingdom, while systemically important creditor countries include Japan, China, Germany, Taiwan Province of China, Switzerland, Hong Kong Special Administrative Region (SAR) of China, Saudi Arabia and Norway. With the exception of some fuel-exporting economies, the vast majority of other developing economies and economies in transition are net debtor countries, reflecting a historical tendency to run current-account deficits. Running a current-account deficit may be a normal part of the development process, as capital inflows can help finance productive investment and expand capacity. However, net external debt must be serviced via factor income payments on the current account, and as net external debt imbalances widen these financing costs become more sensitive to small changes in the relative rates of return on assets and liabilities. Current-account balances are closely monitored by policymakers and financial markets, as the external debt accumulated to finance the deficit can pose a risk to macroeconomic stability and a sharp deterioration of the balance of payments has often acted as a precursor to financial crises.

Two of the key factors interacting with the recent evolution and outlook for global imbalances are the sharp exchange-rate realignments and the deterioration of commodity prices, especially the oil price. The pace of net debt accumulation has moderated significantly in recent years, with the US current-account balance narrowing from 5.8 per cent of GDP in 2006 to 2.2 per cent in 2014. The real appreciation of the dollar highlighted above can be expected to unwind some of this improvement, although at the global level this deterioration may be partially offset by narrowing surpluses in creditor countries with currencies that are closely tied to the dollar. The dollar's appreciation has coincided with heightened volatility and sharp depreciations for many developing economies and economies in transition. This can be expected to lead to a significant increase in external debt financing costs and the burden of external debt relative to domestic income, as the majority of developing economies and economies in transition hold external debt denominated in foreign currency.[15]

IMF (2006) highlighted the role played by rising oil prices in exacerbating global imbalances in the lead up to the financial crisis. By contrast, the recent drop in oil prices should help to improve imbalances at the global level. The vast majority of net debtor countries are fuel importers, while the majority of fuel exporters have tended to run persistent current-account surpluses. Figure 19 illustrates aggregate global current-account imbalances including and excluding trade in oil in 2013. Excluding trade in oil, the aggregate current account for the net debtor developed economies would have been close to balance in 2013. At the global level, current-account imbalances would be even wider, as the high level of fuel revenues in fuel-exporting economies mask wide deficits in trade in other goods and services.

[15] World Bank Quarterly External Debt Statistics.

Figure 19: Global current-account imbalances as a percentage of world GDP, including and excluding oil, 2013



Source: UN/DESA, based on IMF *International Financial Statistics* and *World Economic Outlook* database and UNCTADSTAT.

The direct valuation impact of the decline in the oil price since mid-2014 should improve the US current-account balance by nearly 1 per cent of GDP, and worsen that of Saudi Arabia more than 20 per cent of GDP. Secondary demand and financial effects can be expected to partially offset these shifts over time. The sharp deterioration of current-account deficits in fuel-exporting economies will largely be financed by drawing down reserves in countries that have historically run large current-account surpluses. Financing will be particularly difficult in fuel-exporting economies that were net debtor countries before the decline in the oil price, which includes Columbia, Ecuador, Indonesia, Viet Nam, Angola, Cameroon, Chad, Democratic Republic of the Congo, Cote D'Ivoire, Egypt, Nigeria, Kazakhstan, Equatorial Guinea.

Section II: Prospects by region

Developed economies

The United States

Gross domestic product (GDP) growth in the United States is expected to remain stable at 2.4 per cent in 2015, the same rate as in 2014. With the exception of the external sector, the contributions of the components of GDP to growth in 2015 were also very similar to that in 2014. Private consumption expanded by 2.7 per cent in 2014 and an estimated 2.6 per cent in 2015. Private fixed investment increased by 5.2 per cent in 2014 and is estimated to have expanded by 5.3 per cent in 2015. However, export growth decelerated from 3.4 per cent in 2014 to 2.6 per cent in 2015, while import growth accelerated from 3.8 per cent to 5.5 per cent over the same period.

For the outlook, GDP is expected to grow by 2.6 per cent and 2.9 per cent in 2016 and 2017, respectively. This tepid improvement will be supported by a somewhat stronger expansion in government consumption, private fixed investment. On the other hand, growth in private consumption shows no signs of accelerating, held back by weak growth in labour income. This reflects a modest outlook for employment growth, while nominal wages are expected to rise more or less in line with inflation.

The expected increase in government consumption is concentrated at the state and local level, while government consumption at the federal level is likely to remain flat. All necessary political procedures to keep the regular operation of federal government are expected to be cleared in a timely manner, preventing a shutdown of the Government and ensuring normal cash flow for the United States Treasury during 2015-2016. In total, government consumption is assumed to increase by 0.6 per cent in 2016 and 1.0 per cent in 2017. The projected levelling of federal government consumption implies that the federal government deficit will remain generally stable relative to GDP.

The sharp appreciation of the US dollar vis-à-vis almost all major currencies that started in mid-2014 has stabilized over the past few quarters; no significant reversal of the appreciation is expected for the outlook period. As a consequence, growth of real imports is projected to remain higher than growth in real export growth. Meanwhile, the appreciation of the US dollar has led to a significant drop in the dollar value of non-oil merchandise goods; for example, the non-oil import price declined by more than 2.5 per cent for the first nine months of 2015. Given lower oil prices and import volumes of crude oil, the current-account balance is expected to remain stable relative to GDP.

The labour market conditions continue to improve. By September 2015, the unemployment rate declined to 5.1 per cent, while the improvement in employment levels has slowed. Growth in the wage rate has slightly declined compared to the previous year. This is possibly the key challenge for the Fed, while taking monetary policy decisions. The belief that reduced slack in the economy (including labour) would cause higher inflation has served as the foundation for monetary policy decision for a long period. The most recent observations do not fully support this relationship, particularly when wages do not rise with falling unemployment. In the outlook period, the unemployment rate is expected to remain on a downward path, declining from 5.1 per cent during the last quarter of 2015 to 5.0 per cent in 2016 and 2017.

Inflation has been weak in 2015 as a result of the decline in the prices for oil and imported goods. However, with the relative stabilization of both the oil price and the dollar exchange rate, year-over-year inflation has become slightly positive again over the second quarter of 2015. Average consumer price inflation in 2015 is estimated at 0.2 per cent, and is expected to accelerate to 1.6 per cent and 2.3 per cent in 2016 and 2017, respectively.

Canada

Growth in the Canadian economy slowed down to 1.2 per cent in 2015, the lowest level since the Great Recession. The sharp decline in private fixed capital formation in the oil-production sector, which was primarily caused by the drop in the crude oil price, explains the weak economic performance. Total private fixed investment fell by 3.5 per cent in 2015 despite the continuous growth in residential investment. For 2016 and 2017, GDP growth is expected to be 1.9 per cent and 2.6 per cent, respectively.

The recovery in 2016 and 2017 is expected to be broad-based. Private consumption will expand by about 1.9 per cent on average in 2016 and 2017. The drag from non-residential investment on growth is expected to fade out in 2016. Residential investment expansion, however, is expected to slow down and may even contract slightly in 2016, owing to a correction of the oversupply in condominium buildings in some urban areas. Export growth is expected to increase from the estimated 3.0 per cent growth of 2015. The sharp depreciation of the Canadian dollar vis-à-vis the US dollar and sustained growth in United States are expected to support exports.

The decline in the crude oil price has reversed the improving trend in the current-account balance. Given the assumption of an almost flat oil price for 2016 and 2017, the current-account balance will remain in the range of 2.5 to 3.0 per cent of GDP.

Consumer price inflation declined to 1.2 per cent in 2015 from 1.9 per cent in the previous year. This is higher than in most other developed countries, including the United States and almost all euro area countries. One explanatory factor was the stronger depreciation of the Canadian dollar relative to the euro. Inflation is predicted to increase to about 2 per cent in both 2016 and 2017 as the oil price ends its downward trend.

Employment growth is predicted to outpace labour force growth, leading to a slight reduction in the unemployment rate from 6.8 per cent in 2015. The wage rate is also expected to increase by close to 3 per cent per year during the outlook period, exerting upward pressure on inflation.

Western Europe

Despite a broad deterioration in global economic activity, economic prospects in Western Europe have generally improved, after a protracted and uneven recovery from the global financial crisis. The European Union (EU) is one of the few major global regions, where the forecast for the 2015 GDP growth has not been downgraded from the growth rate projected in 2014. The European policy environment has become more supportive, with expansive monetary stimulus programmes and some easing of the pressure for fiscal consolidation. Meanwhile, the unexpected drop in energy prices has boosted household spending and reduced production costs. This has supported solid retail sales and rising confidence indicators. Despite a widespread slowdown in world trade, European exports have remained strong for the most part, protected by the high level of intraregional trade and supported by competitiveness gains relative to the United States. Bank lending conditions have softened and the demand for news loans is rising. While uncertainty related to the crisis in Greece overshadowed the broad-based improvement during the first three-quarters of 2015, an agreement reached in August on a third bailout programme for Greece dissipated the risk of a Greek withdrawal from the European Monetary Union.

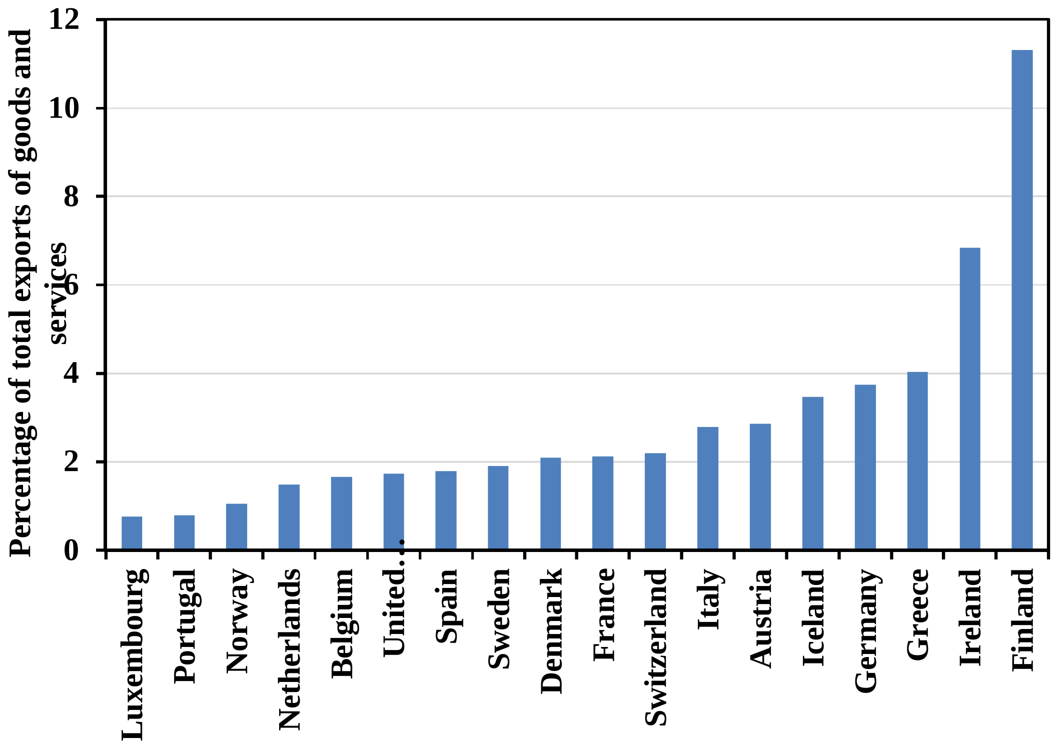
Against this backdrop, GDP growth in the EU-15 is expected to accelerate from 1.6 per cent in 2015, to 2.1 per cent in 2016 and 2.2 per cent in 2017. Solid household consumption growth underpins the EU-15 recovery, with some revival of business investment also becoming apparent. Destocking of inventories in the first half of 2015 suggests that the acceleration in demand exceeded expectations, supporting prospects for solid growth in the coming quarters. The source of growth has been fairly broad-based across countries. While Germany and the United Kingdom of Great Britain and Northern Ireland were at the forefront of the recovery, there has also been strong rebound in Denmark, Ireland, the Netherlands, Spain and Sweden. Even the beleaguered Greek economy expanded at an annualized rate of 3.2 per cent in the second quarter of 2015. However, given the severe political and economic turmoil that ensued, including a three-week closure of Greek banks and the imposition of stringent capital controls, much of this apparent rebound was reversed in the third quarter of the year.

The growth performance of Austria, Finland, France and Italy lagged behind other EU-15 members, partly reflecting the overhang of bank fragility in the aftermath of the financial crisis. Existing fragilities have been accentuated by bank exposure to the Russian Federation. Austrian banks have the highest relative level of exposure, while French, Italian, and Swedish banks are also relatively more exposed compared to banks from other developed economies;[16] Finland's exposure to the Russian Federation is instead through the trade channel, with more than 10 per cent of Finnish exports destined for the Russian Federation

[16] IMF 2014 Spillovers Report.

(figure 20). This has left Finland highly exposed to the economic sanctions and deep recession in the Russian Federation, compounding the loss of Nokia as an engine of growth and increased competition from Asia in the paper pulp industry. These factors have kept the Finnish economy mired in its fourth consecutive year of recession.

Figure 20: Share of exports to the Russian Federation in total exports, 2012



Source: UN/DESA, based on data from UNCTAD and Eurostat.

In contrast, outside the EU, Norway and Switzerland have experienced a sharp slowdown in economic activities. In Switzerland, the decision in January 2015 to abandon the lower bound for the Swiss franc vis-à-vis the euro led to a shock appreciation of 16 per cent against the US dollar and 18 per cent against the euro over a two-day period. While much of the sudden adjustment was subsequently corrected, the Swiss franc remains nearly 10 per cent stronger against the euro, which is its biggest trading currency, and net exports impeded growth in 2015. In Norway, the slowdown reflects the low oil price, which has hit export revenues and stalled investment in the oil sector.

While GDP growth is recovering in many European countries, the prolonged period of below-trend growth since 2008 leaves a legacy of an elevated level of unemployment in Europe. The unemployment rate in the EU-15 stood at 10 per cent in mid-2015, compared to an average of 7.1 per cent in 2007. The aggregate figures mask stark differences across countries, reflecting the uneven pace of economic recovery, with double-digit unemployment rates in France, Greece, Italy, Portugal and Spain, compared to just 4.5 per cent in Germany, a new low since reunification. The economic rebound in Spain has allowed the unemployment rate to recede by more than 2 percentage points relative to a year ago, although more than 22 per cent of the labour force still remains unemployed. France, on the other hand, has seen the unemployment rate edge up in recent months. The job vacancy rate in the EU is at its highest level since 2008, pointing to improving labour market opportunities going forward. However, opportunities remain unequal across countries, with job openings concentrated in Belgium, Germany and the United Kingdom. For the EU-15 as a whole, the unemployment rate is expected to fall to 8.5 per cent as GDP growth accelerates in 2016 and 2017, but will remain uncomfortably high in many parts of Europe.

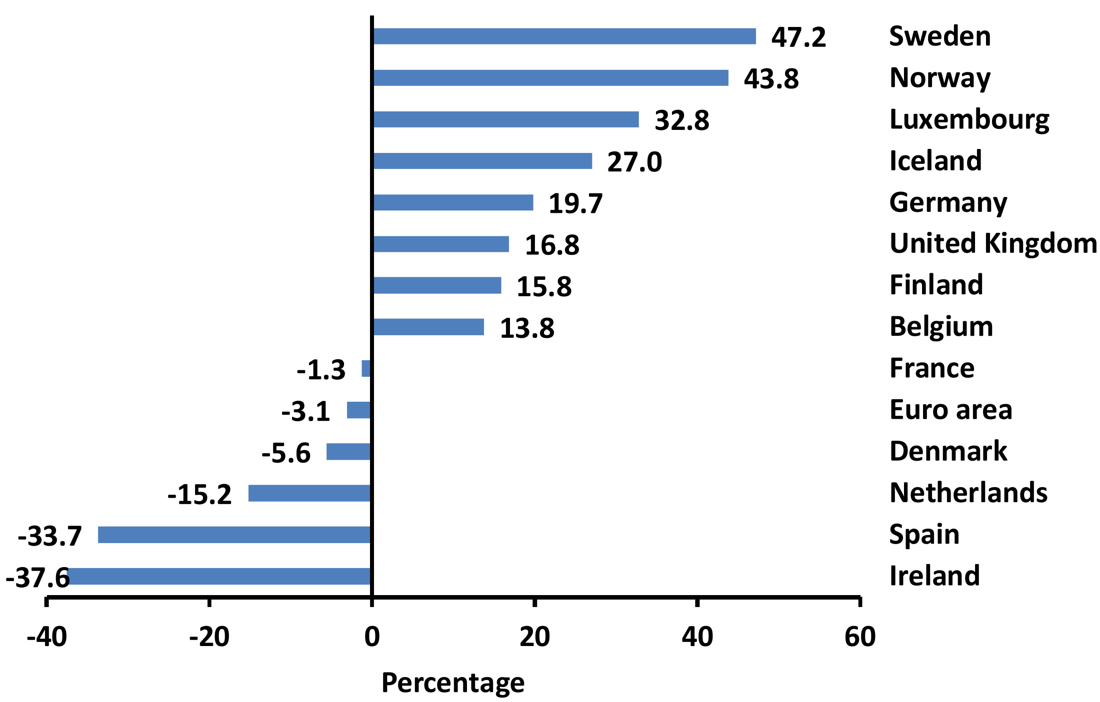
While relatively modest employment growth contributed to boosting demand, real household incomes have been supported by the unexpectedly sharp drop in energy prices, and consumer spending is expected to continue to grow in 2016. In early 2015, fears of a deflationary spiral began to emerge, as the euro area recorded year-on-year deflation for 4 consecutive months, and core inflation excluding energy drifted down to 0.6 per cent. While euro area inflation dipped below zero again in September, core inflation has edged up to 1 per cent, and labour cost inflation has accelerated relative to 2014. In Germany, the euro area's largest economy, stronger wage growth reflects both the low rate of unemployment and the introduction of a minimum wage at the start of the year. Higher wage settlements have already been agreed across a broad range of industries for forthcoming wage rounds in 2016. If global oil prices do not fall further, the impact of low energy prices on inflation will become more muted by early 2016, and deflation is unlikely to become entrenched in expectations. Nonetheless, we forecast inflation of just 0.9 per cent in the euro area in 2016, well below the ECB inflation target.

Responding to prolonged economic weaknesses and deflation risks, the ECB announced a significant loosening of the monetary stance in January 2015, introducing the Expanded Asset Purchase Programme, with the combined purchases of public and private sector securities amounting to €60 billion per month until September 2016. While the ECB has indicated its readiness to increase or extend the programme if necessary, it is unlikely to be needed unless economic prospects deviate significantly from the current forecast. However, policy interest rates are expected to remain at near-zero levels for at least a year after the expanded asset buying programme comes to an end, continuing an accommodative monetary stance during the forecast period.

The ECB quantitative easing programme appears to have provided a moderate stimulus to the economy. The latest Bank Lending Survey by the ECB suggests that there has been some pass-through to easier bank lending conditions and an increasing demand for new loans from both enterprises and households. Financial markets reacted as expected initially: the euro depreciated, asset prices rose, and yields on government bonds fell to historic lows, all of which contributed to the economic rebound. While some of these initial market reactions partially reversed, the efficacy of monetary policy must be viewed in a global context, as it is the domestic monetary policy stance relative to that in the rest of the world that drives financial market reactions. The euro began depreciating against the US dollar in June 2014, following the introduction of a negative interest rate target by the ECB. Roughly half of the depreciation over the following year can be attributed to the looser stance held by the ECB and half to the anticipation of interest-rate increases in the United States. The delay of interest rate rises in the United States narrowed the expected interest rate differential vis-à-vis the euro area over the next 18 months, partly reversing the depreciation of the euro.

With a view to reviving growth, the central bank of Norway has cut interest rates three times since December 2014 and is prepared to cut rates further if the oil price remains low, to counteract the negative effects of oil prices on the oil-reliant economy. The Swedish Riksbank has also cut interest rates three times, with the repo rate now set at -0.35 per cent, and has also expanded its purchases of government bonds and intimated that additional easing measures are likely if inflation does not rise towards the target rate of 2 per cent. This aggressive monetary loosening has allowed the Swedish krona to depreciate by more than 8 per cent against the euro since the start of the year, and has fuelled growth in real estate prices, which have been the strongest in the EU-15 since 2007, as illustrated in figure 21. The growth of house prices in Ireland was also very strong in the first half of 2015, but this reflects only a modest recovery from the depths of the housing market collapse during the financial crisis. The persistently weak performance of Finland, France and Italy can be partly attributed to the protracted corrections in the housing market, as house prices continued to decline in the first half of 2015 and the construction sectors remain deep in recession.

Figure 21: House prices in 2015H1 relative to 2007



Source: Eurostat.

Weakness in the construction sector is particularly evident in France, but remains widespread across Europe, as economies have yet to fully correct the housing market bubbles that developed in many economies in the period leading up to the financial crisis. At the EU level, housing investment remains more than 20 per cent below its 2007 level, and has deteriorated further since 2011. Business investment, on the other hand, has edged up gradually since the start of 2014, primarily owing to investment in transport equipment and intellectual property products.

Government investment also remains restrained in many European economies, due to commitments under the Stability and Growth Pact and Fiscal Compact to balance public finances. However, the pressure to consolidate has eased significantly in most countries, and in aggregate the fiscal stance in the EU is expected to be broadly neutral in 2015 and 2016, with additional corrective measures postponed until 2017 in most cases. However, the Excessive Deficit Procedures (EDP) will remain ongoing in France, Greece, Spain and the United Kingdom next year. Despite the weak economy, France remains under pressure to cut spending next year in order to comply with EDP guidelines, which will hold back prospects of revival of the French economy. Finland, despite the economy's extended recession, has elected to pursue a tighter fiscal stance in 2016, in order to prevent falling under the EDP as a result of the fiscal deterioration generated by the extended downturn. In Greece, an agreement was finally reached on a third bailout programme in August, which is conditional on a stringent economic adjustment programme. However, the net impact of the programme in 2016, in conjunction with targeted funding mobilized by the European Commission to support investment, is expected to be broadly neutral. However, the enormous overhang of government debt in Greece is far from sustainable, and at some stage a discussion on debt restructuring will become necessary.

New EU member countries

Most of the new EU members have retained their economic momentum in the first three quarters of 2015. As in 2014, exports remained robust, not least because of the strength of manufacturing, which is strongly integrated with the production cycle of the EU-15. However, during the second half of 2015, some moderation was observed in export-oriented industries. Lower oil prices helped to mitigate production costs in the region and support competitiveness. In Central Europe, the key automotive sector continued to expand in the Czech Republic, Hungary and Slovakia. Although the Russian food import ban (and the weakness of the Russian economy in general) had an adverse impact on some of the new EU members, especially the Baltic States, stronger domestic demand was able to compensate for weaker exports and sustain their growth, albeit at a moderate level.

The economic expansion in 2015 remained broad-based. Growing real wages—bolstered by low or negative inflation—and improving labour market conditions in Central Europe strengthened the recovery in private consumption. At the same time, the continuing quantitative easing by the ECB mitigated the pressure on public finances and facilitated the revival of cross-border capital flows. Bank deleveraging, which was one of the most critical constraints on growth for the region's countries, is almost complete. In some new EU member countries, the size of foreign-currency-denominated debt held by households still remains a problem, aggravated by the strengthening of the Swiss franc in 2015. Measures were adopted in Croatia and Hungary to relieve the households by converting most of the loans into domestic currency loans and a similar legislation is under consideration in Poland. Investment remained robust as the countries strived to access remaining funding from the EU's 2007-2013 budget, although in some cases, such as Hungary, investment growth was less impressive than a year ago. However, a strong recovery in the private credit markets has yet to materialize and in some cases such as Bulgaria, they continue to stagnate.

All countries in the group are expected to register positive GDP growth rates in 2015, including Croatia, where the economy will eventually emerge from its six-year recession. The Czech Republic is on track to register an impressive growth of 4 per cent. Poland and Romania, two large economies in the region, may also approach that benchmark. In the aggregate, GDP of the new EU member States will expand by 3.0 per cent in 2015 and 3.3 per cent in 2016.

Lower energy and food prices—the Russian food import ban has led to an oversupply in domestic markets—drove annual inflation[17] into negative territory in several countries (Lithuania, Poland, Slovakia and Slovenia) of the region and to near-zero figures in the others. In 2016, inflation may slightly accelerate, following stronger domestic demand and some further weakening of the euro, but should remain in low single digits. The deflation in parts of the region has so far not had an adverse impact on consumer purchases, thanks to the rising real incomes and the moderation in household deleveraging. However, the long-run risks of deflation still cannot be discounted.

Labour markets in the new EU members continued to improve in 2015, with increasing employment figures in Central Europe; however, this improvement remains uneven. Positive trends continued in the Czech Republic, Poland and Slovakia. On the other hand, the situation remains more precarious in Croatia, which has the highest unemployment rate in the region. The decline in Croatia's registered unemployment rate to about 18 per cent in the first half of 2015 from over 20 per cent in the same period a year ago is, however, a positive development. In some cases, headline employment figures may be somewhat misleading, as jobs created through public work programmes are often being paid at below the minimum wage levels and do not address structural labour market problems. In other cases, the size of the labour force may have declined in 2014-2015 because of outward migration, as recent entrants to the EU, such as Croatia, gradually gain access to the EU-15 labour market.

Monetary conditions among the new EU members remain accommodative, as the central banks continue to provide ample liquidity. Estonia, Latvia, Lithuania,[18] Slovakia and Slovenia are members of the euro area and follow the policies of the ECB. Policy rates remain at record-low levels in the Czech Republic, Hungary, Poland and Romania. In

[17] EU harmonized measure of inflation.
[18] Lithuania joined the euro area in January 2015.

addition, the Czech National Bank is committed to foreign-exchange interventions to maintain export competitiveness, if necessary, until the second half of 2016. In Hungary, the "Funding for Growth" scheme has been extended until the end of 2015. Nevertheless, the recovery in credit demand is still slow and credit rationing by the banks remains a widespread practice.

On the fiscal policy side, lower energy prices provided the countries with additional fiscal space. However, some countries in the region are still subject to the excessive deficit procedure of the EU and have to reduce their budget deficit to below 3 per cent of GDP. Nevertheless, even in those countries any serious near-term fiscal drag is unlikely and public investment programmes should continue.

The region faces several risks including the possibility of another slowdown in the EU-15 economies. The prospective monetary tightening by the Federal Reserve may lead to an increase in the debt-servicing cost for countries that have a considerable amount of dollar-denominated debt, such as Poland. However, higher US interest rates should not significantly alter capital flows to the region, which predominantly come from Europe. On the other hand, continued unfolding of the political conflict between the Russian Federation and Ukraine may put the region's energy supply at risk. Europe's migrant crisis has created additional challenges. Spending by migrants passing through new EU member countries may somewhat strengthen aggregate demand and stimulate output, but increased domestic security-related expenditures may divert much needed funds from social programmes. As the new EU members significantly depend on intra-industry trade, any disruptions in the free flow of goods between them and their partners in Europe could curb growth prospects.

Japan

The Japanese economy slumped in mid-2014, owing to the introduction of higher consumption tax in April 2014. Recovery since then was not smooth; GDP declined again in mid-2015 owing to strong drops in both private consumption and exports. Although it is expected that quarter-over-quarter growth will resume in 2015, the growth rate for 2015 as a whole is expected to be only 0.6 per cent. Growth is projected to increase to 1.6 per cent and 0.7 per cent in 2016 and 2017, respectively.

The most important factor preventing the Japanese economy from stronger growth is the feeble private consumption expansion. After two years of continuous decline, it is predicted to grow by only 0.5 per cent and 0.1 per cent in 2016 and 2017, respectively. Growth of household employment income has been slow, although the general situation in the labour market has been solid. Employment has been growing at a slow pace since 2013. An even slower expansion of the labour force has helped to bring down the unemployment rate gradually to 3.5 per cent in 2015 from the peak of 5.1 per cent in 2009. The growth of nominal wage has, however, been persistently low. Specifically, it has not been enough to compensate for the increase in the cost-of-living triggered by the higher consumption tax rate. For the outlook, the planned hike of consumption tax rate from 8 per cent to 10 per cent in

2017 is expected to reduce private consumption growth and deliver lower GDP growth in 2017.

Japanese merchandise exports have yet to recover their pre-crisis level, and in late 2015 were even lower than they were before the Great Earthquake in March 2011. The strong exchange rate of the yen until late 2013 and the erosion of production capacity for some key sectors of the manufacturing industry can largely explain this weakness. A short-lived economic expansion started in early 2014, but lost its momentum in early 2015, as a result of slowdown in many of Japan's export markets, including China. At the annual level, export growth is expected to be only 1.8 per cent in 2015, in contrast to 8.4 per cent in 2014. For the outlook, it is expected to grow by 3.4 per cent in both 2016 and 2017.

For many years, the Japanese Government underscored the importance of achieving a balanced budget. The Government decided to increase the consumption tax rate largely to improve its fiscal balance. The 2014 hike in consumption tax contributed to increasing revenue, allowing the Government to increase spending, while issuing much less debt. It is assumed that real government consumption will grow a little bit faster than GDP growth in the period of 2015-2017.

Private fixed capital formation has been expanding since 2011, although the pace has diminished in recent months. While corporate profits remained strong, actual investment in the expansion of domestic production capacities has been relatively mild. Large Japanese corporations instead have expanded their production facilities overseas since 2011. Domestic fixed capital formation is expected to grow by about 1.5 per cent on average during 2015 to 2017.

The accommodative monetary policy of the Bank of Japan and the increase in consumption tax helped the headline consumer price index (CPI) escape deflation in 2014, with annual inflation reaching 2.7 per cent. However, as the base effect of the tax hike faded out in the second quarter of 2015, the inflation rate has receded to a very low level. For the year as a whole, inflation is predicted to be 0.6 per cent and will decline marginally to 0.5 per cent for 2016.

Australia

After five years of relatively solid growth, GDP growth is expected to slow down to 1.6 per cent in 2015, but is also expected to recover to 2.8 per cent in both 2016 and 2017. The deceleration of exports growth, mainly caused by slower growth in China, and increase in imports for 2015 contributed significantly to the reduction in GDP growth of 1.1 percentage point. Exports are expected to grow, while import growth is projected to slow down further in 2016 and 2017.

Investment in the mining industry has peaked and started to decline, which has caused total fixed capital formation to decline for three years in a row. For the outlook period, fixed investment is expected to increase very mildly. Private consumption is expected to grow at the speed of about 2.0 per cent per annum in 2015-2017 and sustain GDP growth. Government consumption growth is expected to remain below 2 per cent as efforts to balance the budget are ongoing.

Even with the strong depreciation of Australian dollar vis-à-vis the US dollar, CPI inflation declined to about 1 per cent in 2015 from 2.5 per cent in the previous year. Inflation is expected to remain at lower than 2 per cent in 2016 and 2017, due to the depressed energy price and weak growth in wages. During 2015-2017, employment is expected to remain stable. As the economy will not be in a position to absorb all the expansion of labour force, the unemployment rate is predicted to increase slightly and restrain wage growth.

Economies in transition

Commonwealth of Independent States (CIS) and Georgia

The economies of the CIS faced a challenging external environment in 2015. The fall in international oil prices since the second half of 2014, the expectations of a prolonged period of low prices, the military conflict in the East of Ukraine and the associated geopolitical tensions, the extension of economic sanctions against the Russian Federation until January 2016, all weighed heavily on the region's economic prospects. Lower export revenues, sharp currency depreciations and high inflation depressed private consumption and raised the share of non-performing loans, amplifying banking sector risks. Macroeconomic policies aimed at protecting national currencies or avoiding a build-up of unsustainable fiscal imbalances also had a contractionary impact on output.

The aggregate GDP of the CIS and Georgia is expected to contract by 3.0 per cent in 2015, pulled down by the recessions in the Russian Federation and Ukraine, and to expand only modestly by 0.7 per cent in 2016 and 1.8 per cent in 2017. The establishment of the Eurasian Economic Union of Armenia, Belarus, Kazakhstan, Kyrgyzstan[19] and the Russian Federation on the basis of the former Customs Union in January 2015, which requires further economic harmonization, should bolster intraregional economic ties, although many aspects of the regional integration are yet to be agreed.

The economy of the Russian Federation is estimated to decline by 4 per cent in 2015. Economic growth in the Russian Federation had already been on a downward trajectory before the fall in international oil prices. The combination of drastically cut export revenues and restricted access to the international capital markets exerted significant downward pressures on the Russian economy in 2015. Private consumption considerably weakened, as high inflation (caused by the sharp currency depreciation and the food import ban) eroded disposable incomes, nominal wages were often cut or paid with arrears, and the access to credit tightened. As the business sentiment remains weak, the annual contraction in

[19] Kyrgyzstan joined the Eurasian Economic Union in May 2015.

investment—one of the key factors contributing to GDP decline—may reach 10 per cent. Despite some stabilization of the currency and a partial reversal of the drastic monetary tightening enacted in late 2014, the cost of capital remains high, further restraining investment prospects. Policies aimed at import substitution and push for local contents have had mixed outcomes. In agricultural and food processing sectors, import substitution effects were visible, while in other areas such as manufacturing it has yet to materialize. Given that the obsolete capital stock in many industrial sectors remains a serious constraint to growth, the Russian economy will require a significant boost in investment in the near term, but the revival in business confidence will depend primarily on developments concerning the EU and US sanctions. In 2016, fiscal policy will act as a drag on growth and GDP is expected to remain flat. The weaker currency meanwhile is likely to exacerbate financial sector risks, inflating its foreign-exchange liabilities. On the positive side, the partial disengagement from international capital markets may somewhat shelter the Russian economy from the spillover effects of monetary tightening by the Fed.

In 2015, growth is estimated to have slowed to about1 per cent in Kazakhstan, another oil-exporting economy. The postponement of commercial output from the Kashagan oil field and weakness in China (an important trading partner) will keep growth in 2016-2017 below 3 per cent. In Azerbaijan, however, growth reached 4.2 per cent in the first eight months of 2015 thanks to the non-energy sector and public investment. Strong growth was recorded in Turkmenistan and Uzbekistan following robust public spending.

The economy of Ukraine, devastated by the internal military conflict, registered GDP contractions of 17.2 and 14.2 per cent in the first two quarters of 2015, as consumer spending and investment declined by double-digit figures. There are signs, however, that the economy has reached the bottom and could return to growth in 2016-2017. As the prices for steel and wheat—the key Ukrainian exports—remain subdued, growth is expected to remain on a low trajectory for the forecast period. Much will depend on the improvement in the business environment and the ability to attract FDI flows and to benefit from the Association Agreement signed with the EU in 2014.

Ukraine heavily depends on external financial assistance. The recent deal with the international creditors involving a 20 per cent write-off of its public debt and the transfer of the second tranche of the IMF stand-by loan should mitigate balance of payment pressures and unlock further external funding. The weaknesses in the Russian and Ukrainian markets have led to a recession in Belarus, where the economy is likely to contract by about 3 per cent in 2015. Some of the smaller CIS economies, such as Armenia, Kyrgyzstan and Tajikistan, have registered stronger than anticipated growth in the first half of 2015; however, this may be related to one-off factors such as base effects or abundant agricultural output.

For the smaller CIS economies, the partial loss of the Russian market and the squeeze in remittance inflows curbed exports and private consumption, while the return of migrant workers increased pressure in their domestic labour markets. Nevertheless, according to the official figures, a number of economies in the region managed to register decent growth rates in the first half of 2015. It is, however, not clear if such growth is sustainable, especially against the backdrop of slowing activity in China and weaker global demand.

In contrast to many European countries, which are battling deflationary pressures, the CIS remains a high-inflation region. Most of the CIS currencies have either been devalued or weakened in 2014 and 2015, in some cases significantly, and inflation often reached double-digit figures. In the Russian Federation, the restrictions imposed on food imports contributed to soaring consumer prices. In 2016, the Russian rouble may depreciate further as the central bank is focused on rebuilding its foreign-exchange reserves; this would slow the expected easing of inflation to low single-digits. In Ukraine, inflation was driven by the sharp currency depreciation and supply disruptions; it accelerated to over 50 per cent in mid-2015, but is expected to decline to 25 per cent in 2016. A group of other CIS economies also ran double-digit inflation in 2015. For most of the region, inflation is expected to subside in 2016-2017, but will still remain above the levels desired by the central banks.

The economic slowdown has adversely affected CIS labour markets. After reaching a historical low of 5.2 per cent in 2014, the unemployment rate in the Russian Federation has climbed to 5.6 per cent in 2015, despite the preference for cutting wages, rather than labour, in the public sector. In Ukraine, the unemployment rate has increased considerably, from less than 9 per cent in 2014 to over 11 per cent in 2015. The reversal of labour migration to the Russian Federation has led to deteriorated labour market conditions of smaller CIS economies, such as Armenia, Kyrgyzstan, Moldova, Uzbekistan and Tajikistan. Slow recovery prospects will limit labour market improvements in the near term.

Monetary policies in the CIS remain tight, despite some loosening in the Russian Federation and Ukraine. The weakening of the Russian rouble, which fell to a historically low level versus the dollar in August 2015, had a spillover effect on other currencies in the CIS; the National Bank of Kazakhstan moved to a freely floating exchange rate in August and the currency significantly lost in value. In the Russian Federation, the central bank conducted a series of interest rate cuts over the course of 2015 after its drastic rate hike in late 2014; at the current policy rate of 11 per cent, the cost of capital is still high. The National Bank of Ukraine in March 2015 increased its policy rate to 30 per cent, with reduction to 22 per cent later. Policy rates were also increased in Armenia, Georgia, Kazakhstan, Kyrgyzstan and Moldova. Although high inflation renders real policy rates negative, commercial banks are reluctant to lend, especially to businesses.

Lower energy revenues and the weakening tax base have forced CIS energy-exporters to adjust their fiscal policies, although weaker currencies have partially offset some of the losses related to export revenue. In the Russian Federation, the official budget rule limiting government expenditure (adopted in 2013) has been suspended, as the Government now expects the budget deficit to widen from less than 1 per cent of GDP in 2014 to about 3 per cent of GDP in 2015 and beyond. Real fiscal expenditure is projected to decline. To compensate for the revenue shortfall, CIS energy-exporters are planning to spend from their sovereign wealth funds. Among the energy-importers, fiscal policy has been sharply tightened in Ukraine in compliance with the condition of the IMF stand-by loan; public sector wages and pensions have been cut and utility tariffs for households have been increased. In the outlook period, despite some stimulus programmes (for example, in Kazakhstan) the impact of fiscal policy stances are likely to have somewhat contractionary effects in both energy-exporting and energy importing economies.

The CIS region is confronted with considerable risks and uncertainties. The major ones are related to the outlook for energy prices and the prolongation of the economic sanctions against the Russian Federation. A long-drawn conflict in Ukraine may lead to negative repercussions for the entire region. The banking sector in several CIS countries remains a weak spot.

South-Eastern Europe

The economic situation in South-Eastern Europe is improving after the damaging floods in 2014. The region has benefited in 2015 from the stronger economic sentiment in the EU, lower energy prices and a strengthening in FDI flows. Exports continued to expand despite weaknesses in the South of Europe and in the Russian Federation. In combination with the more robust investment activity (partially linked to the reconstruction efforts after the devastating floods), the solid export performance should help sustain moderate growth levels in 2015. The largest regional economy, Serbia, is expected to return to growth after a 1.8 per cent contraction in 2014, although fiscal austerity linked to the terms of the IMF stand-by agreement will prevent the pace of expansion from exceeding 1 per cent.

The aggregate GDP of South-Eastern Europe is expected to grow by 1.7 cent in 2015 and by 2.7 per cent in 2016. The pace of economic growth remains constrained by structural impediments such as an obsolete capital stock, precariously high unemployment and low labour force participation rates. Other factors constrain growth too: the distance from the key European industrial centres, infrastructure bottlenecks, weak regional integration despite the formal Central European Free Trade Agreement (CEFTA) agreement, underdeveloped financial markets, and obstacles in the business environment. Europe’s migrant crisis has posed new challenges, in particular for the former Yugoslav Republic of Macedonia and Serbia, by incurring additional fiscal spending and disrupting trade flows with the EU.

In Serbia, industrial production is rebounding after the detrimental floods a year earlier; a major construction project in the capital should boost the construction sector and have broader spillover effects. The introduction of new tax breaks and tax exemptions facilitated inflows of export-oriented FDI, which may reach 4 per cent of GDP in 2015. By contrast, in the former Yugoslav Republic of Macedonia, growth has slowed in 2015 because of base effects (in 2014, a rebound in investment has led to a 3.8 per cent GDP increase) and the political uncertainty related to the parliamentary elections in early 2016, which have weighed on household consumption and private investment. Thanks to higher social spending in the second half of 2015 and the expanding export base, growth should nevertheless strengthen in 2016. Bosnia and Herzegovina, also affected by severe floods in 2014, saw acceleration in economic activity in 2015. The economy of Montenegro has benefited from a surge in tourism revenue during the summer season, after the less successful summer of 2014. In the outlook period, growth in most of the region may reach a 3 per cent trajectory in the medium term, following stronger activity in the EU and gradually improving metal prices.

Against the background of lower fuel and food prices, inflation in South-Eastern Europe mostly remained near zero in 2015 and should stay in low single digits in 2016. In Serbia, which historically ran higher inflation than its neighbours, inflation has reached record lows, remaining below the official target range despite the rise in electricity tariffs in August.

The situation in the region's labour markets remains precarious, despite some improvement in the former Yugoslav Republic of Macedonia. The unemployment numbers are difficult to assess because of large divergences between the registered unemployment rates and the figures from labour force surveys. The planned privatizations in Serbia and cuts in the public sector will negatively affect domestic labour markets in the near term.

Fiscal policies in South-Eastern Europe focus on the sustainability of public finances. In Serbia, the Government reduced subsidies to state-owned enterprises and cut employment in the public sector. As the Government intends to reduce the budget deficit to 2.5 per cent in the medium term, the impact of fiscal policy on the economy will be contractionary. The successful revenue intake in the former Yugoslav Republic of Macedonia allowed the Government to adopt a supplementary budget in mid-2015, mostly directed towards wage increases and social spending. In Albania, the Government aims at reducing its budget deficit (estimated at over 6 per cent of GDP in 2014) gradually, in order not to stifle the modest upturn in the economy.

Fixed exchange-rate regimes in Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia and the euroization in Montenegro limit the room for conducting an independent monetary policy. As inflation in Serbia persistently remained below the official target and the currency maintained stability versus the euro, the National Bank of Serbia continued to cut its policy rate in 2015. In Albania, the central bank also continued its monetary easing, bringing the policy rate to a record-low level. As the Greek banks control about 20 per cent of the banking assets in the former Yugoslav Republic of Macedonia and about 15 per cent in Albania and Serbia, the region's monetary regulators became concerned about the possible spillover effect of the Greek crisis. To prevent an outflow of capital to Greece, the central banks in the former Yugoslav Republic of Macedonia and Serbia introduced limits on capital transfers to Greece, while in Albania, the central bank increased capital adequacy ratios for the Greek-owned banks.

Major risks for the region are associated with the economic outlook for the EU; in addition, some countries in South-Eastern Europe have strong links with the Greek economy and banking sector. Although as a result of the Greek crisis the importance of Greece as a major export destination for the region has been gradually diminishing, it still remains an important source of remittances. The high current-account deficits in Bosnia and Herzegovina and

Montenegro (reaching 15 per cent of GDP in the latter) and the persistent reliance on external financing may also pose macroeconomic challenges.

Developing economies

East Asia

Given the only mild economic recovery in most developed countries, domestic demand in East Asian economies continues to play an important role in driving growth. In 2015, consumer spending in China and investment in South-East Asian economies fell short of filling the gap in exports, resulting in lower-than-forecast GDP growth. With policy support, primarily from the fiscal side, GDP growth is projected to accelerate in 2016 in most of the region's major economies, while China continues on a slower growth path as it seeks to achieve more sustainable growth. Consumer price inflation is at a multi-year low for major economies in the region, with the most notable exception of Indonesia, and a mild pickup is foreseen for 2016. As reflected in wider budget deficits, fiscal policy has become more expansionary, except in Malaysia, with scaled-up health and infrastructure spending and stimulus focused on jobs and SMEs. Further monetary support is expected to remain limited due to already-low policy rates and anticipated increases in the US interest rates. Financial market and exchange-rate volatility increased in August 2015, owing to concerns about China's outlook as well as the US interest-rate hike expectations. The weakening of the region's currencies against the US dollar poses risks for external debt, particularly external corporate debt,[20] and so far has done little to lift the region's exports.[21] Capital outflows could lead to further volatility in asset markets, but bank capital and foreign-currency reserves in most economies seem adequate, based on Basel standards and import cover.[22]

East Asian economies are expected to grow by 5.6 per cent in 2016, similar to 2015, but down from the annual average of 6.3 per cent in 2012-2014. Excluding China, however, growth is expected to rebound to 4.1 per cent in 2016, from an estimated 3.4 per cent in 2015.

China's economy is estimated to have grown by 6.8 per cent in 2015, down from 7.3 per cent in 2014. Growth is likely to have further moderated in the second half of the year owing to weaker exports and restrained investment as the country is working through the excess inventories in the property market and overcapacity of the heavy industries. Local government spending has also been constrained by fiscal drag resulting from the restrictions on bank lending to local government financing vehicles and the lowered land sales revenue (even though revenue has shown signs of recovery in the second half of 2015). Consumer

[20] ESCAP (2016) Economic and Social Survey of Asia and the Pacific, forthcoming.

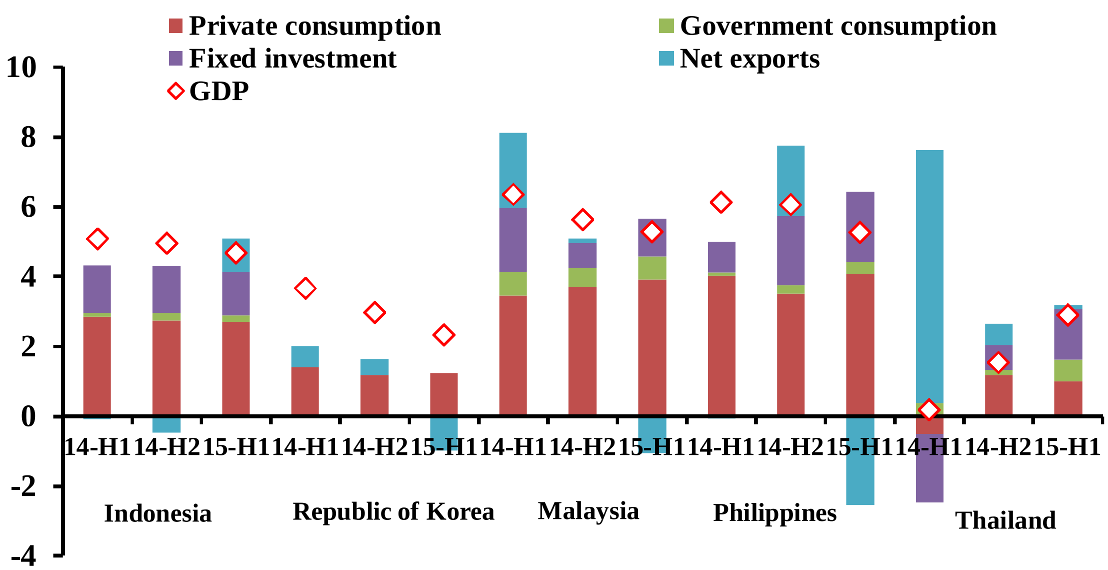
[21] Some studies suggest that the rise of global value chains has weakened the link between exchange rates and trade. IMF (2015) "Exchange rates and trade flows: disconnected?" Chapter 3 of World Economic Outlook, October.

[22] For further discussion on reserve adequacy, see IMF (2011) "Assessing reserve adequacy" and BIS (2005) "Foreign exchange reserves – how much is enough?"

spending continues to expand, despite corrections in real estate and equity markets. Retail sales growth remains at double-digit rates in 2015, but has slowed down compared to previous years. GDP growth is expected to ease further to 6.4 per cent in 2016.

The Republic of Korea's economy is estimated to have grown by 2.6 per cent in 2015, down from 3.3 per cent in 2014, as net exports have declined significantly (figure 22). The decline in exports is closely linked to the slowdown of the Chinese economy given the Republic of Korea's high trade exposure to China.[23] Consumer and business sentiment began to improve in the second half of the year. This trend, together with a $20 billion fiscal stimulus announced in July 2015 and a record-low 1.5 per cent policy rate, is expected to lift GDP growth to 3.2 per cent in 2016.

Figure 22: Demand-side contributions to real GDP growth, percentage points



Source: CEIC.
Note: Excludes change in inventories.

Indonesia's economy is estimated to have grown by 5.1 per cent in 2015, about the same as in 2014, as commodity exports and investment remain subdued and consumer spending was hit by higher-than-expected inflation. Investment began to improve in the second half of the year, led by public infrastructure outlays as well as private investments. This trend, together with lower inflation, is expected to lift GDP growth to 5.4 per cent in 2016.

Thailand's economy is estimated to have grown by 2.5 per cent in 2015, up from 0.9 per cent in 2014 when growth stalled amidst political unrest. Prolonged weakness in exports (except in tourism, which rebounded) held back growth even as government expenditures rebounded. Consumer spending was constrained by household debt, which has doubled as a share of

[23] With a quarter of its exports headed to China, Republic of Korea's trade exposure to China is more than twice that of Indonesia, Malaysia, Philippines or Thailand.

GDP since 2007, and by lower farm incomes due to drought. A fiscal stimulus package announced in September 2015, together with large infrastructure projects, is expected to lift GDP growth to 3.7 per cent in 2016.

Malaysia's economy is estimated to have grown by 4.5 per cent in 2015, down from 6 per cent in 2014, as exports fell, largely in the commodities sectors, and private investment growth slowed. Consumer spending held up well, despite softening after April 2015 when a new goods and services tax came into effect. A modest recovery in exports, together with ongoing investments aimed at upgrading industry and infrastructure, is expected to sustain GDP growth of 5.3 per cent in 2016.

The Philippines economy is estimated to have grown by 5.8 per cent in 2015, as consumer spending and investment remained robust. Weak exports of goods were partially offset by exports of services, including business process outsourcing. Government spending picked up in the second quarter after half a year of slow budget disbursement from a Supreme Court ruling. Continued strong domestic demand, boosted by elections-related spending, is expected to lift growth to 6.4 per cent in 2016.

Among lower-income economies, Viet Nam is estimated to have expanded by 6.4 per cent in 2015 as consumer spending recovered and manufacturing exports remained strong. Myanmar is estimated to have grown by 8.3 per cent in 2015, driven by new investments, rapid credit growth and higher government spending. Papua New Guinea is estimated to have grown by 9.4 per cent in 2015 from liquefied natural gas (LNG) exports. Similar levels of GDP growth are foreseen for 2016, except for Papua New Guinea where weaker exports and fiscal tightening are expected to cut growth by more than a half.

Among higher-income economies, Singapore is estimated to have grown by 2.3 per cent in 2015 as services and construction growth partly offset manufacturing contraction. Hong Kong Special Administrative Region (SAR) of China is also estimated to have grown by 2.3 per cent in 2015 as consumer spending and construction offset weak exports and inventory drawdown. Brunei Darussalam saw a milder contraction of 1.5 per cent in 2015, compared to 2.4 per cent in 2014, as production of crude oil and LNG began to improve. Modest improvements in GDP growth are foreseen for 2016 in these economies.

Among major economies, the official unemployment rate is generally low—in the range of 1 to 4 per cent, except in Indonesia and the Philippines where it stands near or above 6 per cent. The jobless rates for those aged 25 to 29 are much higher, ranging from 4.5 per cent in Thailand to 21.5 per cent in Indonesia. The share of unpaid family workers and own-account workers in total employment remains high, ranging from 21.3 per cent in the Republic of Korea to 61.5 per cent in Viet Nam, based on ILO estimates. Reflecting low wages as well as low productivity, two thirds of the employed in Indonesia and the Philippines earn below $4 a day. For East Asian economies to rebalance towards domestic demand (without relying too heavily on debt), it is important to improve labour's share in total income, which had declined in the 2000s (for example in China) or remains low (for example in the Philippines and Thailand).[24]

Consumer price inflation is expected to pick up to 2.2 per cent in 2016 from an estimated multi-year low of 1.5 per cent in 2015, in line with stronger economic activity in the majority of the region's economies and a modest rise in global oil prices. In 2015, economies such as Singapore, Taiwan Province of China and Thailand experienced mild headline deflation. Inflation was below the central bank's target band in many major economies, with Indonesia being a notable exception. Low global oil and commodity prices have had a prominent impact on headline inflation. In addition, core inflation declined in the Philippines, albeit from a high base, and Thailand, in line with weak domestic demand, although it was stable in China and the Republic of Korea since the beginning of 2015 (figure 23). In contrast, inflation remained relatively high in Indonesia and accelerated in Malaysia, owing to the phase out of fuel subsidies, sharp depreciations against the US dollar, plus import restrictions in the former and a new consumption tax in the latter.

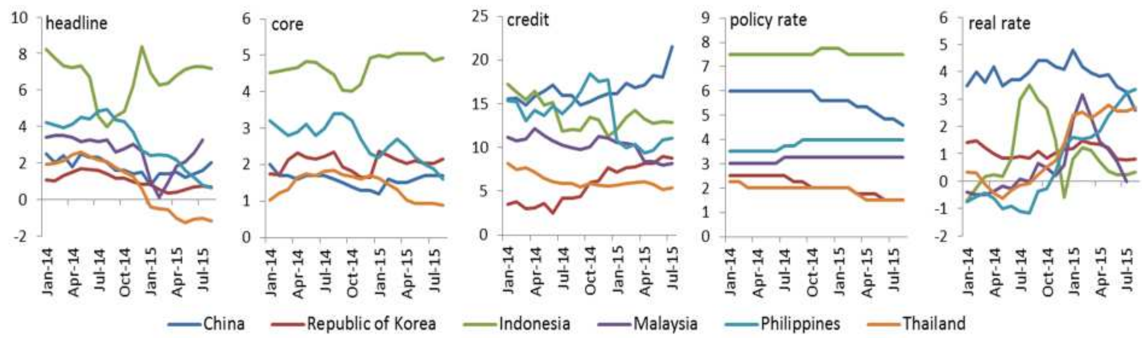
Monetary policy has been generally accommodative, although real interest rates have returned to positive territory in all countries owing to low inflation (figure 23). In response to weakening domestic demand, the central banks of China, the Republic of Korea and Thailand lowered their policy rates more than once in the first half of 2015; in the latter two countries, policy rates are now at a record low of 1.5 per cent. In addition, China reduced reserve requirements and injected liquidity into the banking system through open market operations and refinancing facilities to support liquidity, which has roughly offset the decline of foreign-exchange deposits, a major source of liquidity. After a hike in response to the fuel subsidy cut announcement, Indonesia's central bank returned its policy rate to 7.5 per cent, while loosening macroprudential measures to support lending for housing and car purchases.[25] Central banks in Malaysia, the Philippines and Viet Nam kept their benchmark rates unchanged in 2015. Further monetary easing is expected to be limited due to anticipated increases in the US interest rates as well as already low policy rates. Real interest rates, however, imply that there is some room for further easing. Other constraining factors include high household debt in the Republic of Korea, Malaysia and Thailand and asset market speculation in several economies in the region.

Fiscal policy stances have become more expansionary amid slowing economic growth, and there is room to do so as public debt levels are relatively low. Indonesia, the Republic of Korea and Thailand introduced stimulus packages or countercyclical measures in 2015. All major economies except Malaysia had wider budget deficits in 2015 compared to 2014 due to higher social and infrastructure spending, although the deficits also reflected weaker natural resource revenues and, in some cases, general taxation revenues. Both Indonesia and the Philippines increased their deficit targets in 2015 to accommodate higher infrastructure

[24] ESCAP (2016) Economic and Social Survey of Asia and the Pacific, forthcoming. See also ILO (2013) Global Wage Report 2012/13: Wages and equitable growth.
[25] Bank Indonesia (2015) "Bank Indonesia loosens macroprudential policy" Press release no. 17/51/DKom, 24 June. http://www.bi.go.id/en/ruang-media/siaran-pers/Pages/sp_175115.aspx

investment and social service spending, although budget disbursements during the year were often delayed. In contrast, the fiscal deficit narrowed in Malaysia, in line with its target to balance the budget and lower debt by 2020. Regardless of the fiscal stance, countries are re-prioritizing expenditures, as seen in recent fuel subsidy reforms in Indonesia and Malaysia. Countries are also strengthening their tax revenues. Malaysia introduced a 6 per cent goods and services tax in April 2015, to broaden the tax base. Thailand will introduce an inheritance tax in early 2016, while keeping VAT rates low until the economy recovers. China is introducing the VAT to more sectors—replacing the existing turnover tax—and plans to introduce a nationwide residential real estate tax, which would strengthen local government finances.

Figure 23: Inflation, credit growth and interest rate, percentage

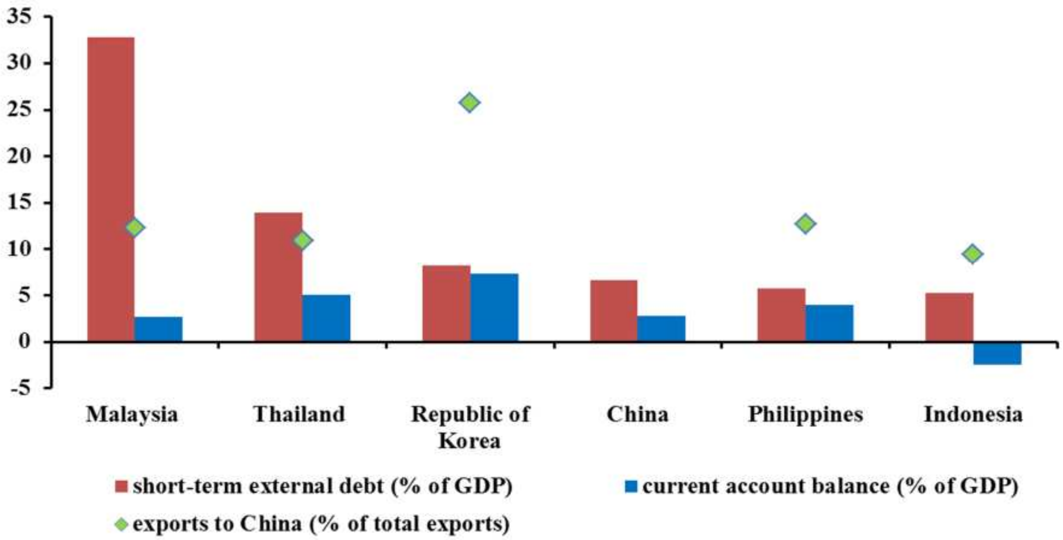


Source: CEIC.

Note: Consumer price inflation. Credit = y-o-y change in domestic credit. Real rate = policy interest rate minus headline inflation.

East Asia's trade and current-account surpluses have narrowed since the global financial crisis that started in 2008. In 2015, exports remained weak, given the persistently moderate economic recovery in most developed countries and the continued slowdown in China—a top export destination, particularly for the Republic of Korea. Net exports weighed on GDP growth in most of the region's bigger economies. Lower global oil prices have substantially reduced oil and gas revenues in Brunei, Indonesia, Malaysia and Papua New Guinea. Regional currencies depreciated further against the US dollar, with the ringgit losing 16 per cent and the rupiah 11 per cent between January and early September 2015. The strengthening of the US dollar poses risks for external debt, particularly external corporate debt, but has so far done little to lift the region's exports. Short-term external debt is particularly high in Malaysia, at 33 per cent of GDP as of end-2014 (figure 24). This poses risks, especially in the context of much narrower current-account surpluses and tighter global financing conditions. Larger capital outflows could lead to volatility in asset markets, but regional banks are well capitalized and foreign-currency reserves are adequate. In addition to the Chiang Mai multilateral swap arrangement of ASEAN+3 members, East Asia has a number of bilateral swaps, which in the case of Indonesia and Malaysia are equivalent to about a third to nearly half of their own reserves.[26]

Figure 24: Selected vulnerability indicators



Source: Trademap and CEIC.
Note: Exports and current-account balance based on 2014-Q3 to 2015-Q2 data; external debt as of end-2014.

Risks to the regional forecast remain largely on the downside. One key risk is the possible acceleration of the slowdown of the Chinese economy. Ensuring a gradual slowdown of China's economy would require the Government to address challenges such as the rapidly rising private debt and the need to rebalance the economy towards consumption. From a longer-term perspective, the ageing population and the fact that China is now crossing the Lewis Turning Point—meaning that room for productivity gains through rural-urban migration is increasingly limited—will also pose considerable challenges. The direct impact of a sharper-than-expected slowdown in China on East Asia would be mainly felt through the trade channel and the investment channel, given the rising Chinese investment in the region. Another key risk is the possibility of excessive market reactions to the pending rate hike in the United States, which could result in further deprecations of East Asia's currencies, significant capital outflows, and tightening of the liquidity conditions in the region. However, since the market has already internalized some of the anticipated interest-rate differentials in 2016 and the rate rise is expected to be modest, the short-term impact of the rate hike is likely to be limited.

South Asia

Economic growth in South Asia is projected to accelerate in 2016 and 2017, contingent upon steady progress in domestic policy reforms. South Asia is expected to grow by 6.8 per cent in

[26] ESCAP (2015) Report of the Working Group on Regional Financial Cooperation, forthcoming.

2016, up from an estimated growth of 6.0 per cent in 2015.[27] The improved outlook is likely to be broad-based. For most economies in the region, including Bangladesh, India, Pakistan and Sri Lanka, strong private consumption will continue to be the main driver of growth, offsetting relatively tight fiscal policies and subdued exports. Consumer spending will be supported by low commodity prices, moderate inflation, steady employment growth (especially in the service sector), and rising workers' remittances. Growth is also expected to be lifted by some country-specific factors. In the Islamic Republic of Iran, the removal of nuclear-related sanctions will boost economic activity in the forecast period. In Nepal, growth is projected to recover following reconstruction efforts after the devastating earthquake of April 2015. And in Bhutan, economic growth is expected to strengthen thanks to the construction of large-scale hydropower projects. A significant downside risk for the region is deteriorating market confidence should progress on policy reforms fall short of expectations. Since most South Asian economies have limited room for expansionary fiscal policy responses, any adverse shock, such as lower-than-average monsoon rainfalls, could have a sizable negative impact on output growth.

South Asia's estimated growth of 6.1 per cent in 2015 is slightly lower than the 2014 growth of 6.2 per cent, but well above the average growth rate of 4.9 per cent recorded in 2011-2013. As in recent years, growth in 2015 has been led by domestic demand, particularly private consumption. Exports, which account for a relatively small proportion of GDP in most countries, performed poorly in most countries. India's economy is projected to grow by 7.5 per cent in 2016 and 7.6 per cent in 2017, slightly up from an estimated 7.2 per cent in 2015. The macroeconomic environment in India has improved notably over the past two years, helped by the sharp decline in the prices of oil, metals and food. Consumers and investors have become more optimistic about the country's economic outlook even, as the Government faces difficulties in implementing its wide-ranging reform agenda. While the authorities managed to ease restrictions on FDI and introduce online government services to enhance the business environment, they stepped back from reforms that aim at facilitating land acquisition for industrial use. The Government also faces delays in introducing a goods and services tax that is expected to increase the tax-to-GDP ratio. In other economies such as Bangladesh, Pakistan and Sri Lanka, robust consumer spending resulted in a strong expansion of service sectors, in particular domestic trade activities. Output growth in the agricultural sector, which still employs about 40 per cent of total workers in these countries, was moderate.

Available data point to generally stable labour markets in South Asia although high-frequency data is limited. Moreover, official data does not accurately reflect labour market developments across the region since vulnerable employment—defined as unpaid family workers and own-account workers—is as high as 80 per cent in Bangladesh and India and 60 per cent in Pakistan. In India, official labour market surveys indicate significant employment gains in the industrial sector in the second half of 2014, driven by strong performances in the textile and information technology sectors. In Sri Lanka, total employment expanded by 1.7

[27] The regional averages for GDP growth and consumer price inflation are based on data for the following countries: Bangladesh, India, the Islamic Republic of Iran, Nepal, Pakistan and Sri Lanka.

per cent in the first half of 2015 year on year, while the unemployment rate remained relatively low at 4.5 per cent. During this period, average real wages rose by about 4 per cent, with even faster gains for agricultural workers. By contrast, in Bangladesh and Nepal, nominal wages increased at about the same rate as consumer prices, resulting in a stagnation of real wages. In the Islamic Republic of Iran, the unemployment rate has been in double-digits for the past several years and stood at 10.8 per cent in mid-2015. For all countries with available data, unemployment rates were significantly higher among women than men. This is a concern given that the labour force participation rate is already much lower among women.

As a net oil-importing region, South Asia has seen reduced inflationary pressures due to the sharp decline in international oil prices. Average consumer inflation in the region slowed from 8.2 per cent in 2014 to 6.1 per cent in 2015, the lowest level in more than a decade. All of the region's economies recorded a decline in inflation. The reduction in inflationary pressures can in part be attributed to the sharp drop in international oil prices, but also reflects domestic factors such as robust harvests, some easing of supply-side bottlenecks and decelerations in rural wage growth. The relative importance of these factors varies from country to country, as does the extent of the decline in inflation. In India, Pakistan and Sri Lanka, inflation rates have fallen significantly and upward price pressures are expected to remain limited in the short run. Bangladesh and Nepal, by contrast, have experienced more moderate disinflation, partly as a result of persistent supply-side constraints and energy subsidy policies. Over the coming year, regional inflation is expected to pick up again in most of the region's economies as energy prices start to recover and demand pressures increase. Annual CPI inflation is projected to average 6.5 per cent in 2016. There are significant risks of a more pronounced acceleration in inflation, including weak monsoon rains and a stronger-than-expected rebound in international oil prices.

Lower inflation has allowed monetary policy easing in several economies. The policy interest rates have been lowered by between 50-300 basis points in India, Nepal, Pakistan and Sri Lanka in the first three quarters of 2015. The Reserve Bank of India reduced the policy rate by 125 basis points between January and September 2015, but this translated into much smaller decreases in the base interest rate of the country's major banks. This may help to explain why commercial loan growth has not increased during the same period. Meanwhile, available data suggests stable bank asset quality, even as non-performing loans in Bangladesh and Pakistan remained relatively high at slightly over 10 per cent of total loans. Going forward, the room for further monetary policy easing is constrained by an expected pickup in inflation as well as concerns that rate cuts could further weaken the domestic currencies and push up the external debt burden.

Fiscal deficits narrowed to about 3-5 per cent of GDP in most economies in 2015. This improvement reflects lower oil prices, stronger economic activity and rationalization of fuel subsidies in some economies. In particular, India abolished diesel subsidies, while Bangladesh, India, the Islamic Republic of Iran and Nepal reduced subsidies on fuel and/or electricity. These policy reforms should help to enhance the fiscal space in the region.

Nonetheless, fiscal positions in most economies remain fundamentally weak owing to the small tax base, poor tax administration, and large spending needs to close the infrastructure and energy gaps and maintain internal security. In Pakistan, capital expenditure is largely financed by domestic borrowing, which tends to reduce financing available to the business sector. Meanwhile, Bhutan and Afghanistan continue to rely heavily on foreign aid, which accounts for 30 and 70 per cent of total government spending, respectively.

Merchandise exports were generally weak, owing to subdued demand in developed economies. Intraregional trade is limited since between 30 and 75 per cent of total exports in Bangladesh, India, Pakistan and Sri Lanka is destined to Europe and the United States. Most economies in the region experienced export declines in the first seven months of 2015, with drops of up to 16 per cent in India and 6 per cent in Pakistan. Nonetheless, the trade deficits narrowed in several economies as import bills fell more sharply due to lower oil prices. The performance of service exports, particularly tourism, was mixed. Growth in overseas visitors to India and Sri Lanka decelerated, while arrivals in Bhutan were more buoyant. Meanwhile, workers' remittances continued to increase in all countries where remittances account for a sizeable proportion of GDP, namely, Bangladesh, Pakistan, Nepal and Sri Lanka. Remittance growth in the first eight months of 2015 was, however, somewhat lower than the 2014 average, but weaker exchange rates in these economies (except Bangladesh) should help to support household incomes in local currencies. Given improved trade balances and steady remittance growth, the current-account balances in South Asia generally improved in 2015. The deficit remained large in Bhutan, however, owing to imports of construction materials for hydropower projects.

While the economic prospects for South Asia have improved over the past year, there are still considerable downside risks for the region. At the international level, the region would not escape unscathed from a sharper-than-expected slowdown of China's economy or a deterioration in global financial conditions in the face of rising US interest rates. At the national level, lack of further progress on policy reforms as well as poor weather conditions and a worsening of the security situation could result in significantly lower-than-expected growth during the forecast period.

Western Asia

One main factor influencing the region's economies during the past year has been the slump in oil prices. This has created very different prospects for countries, depending on whether they are net oil exporters or importers. For the region as a whole, given the weight of oil exporters in regional output, the overall effect of lower oil prices is negative. Average GDP growth in the region is thus expected to be weak, estimated at 1.9 per cent in 2015 and 2.2 per cent in 2016. These GDP figures are the weakest of the past decade, excluding the year of 2009.

Given the expectations of persistently low oil prices, growth prospects in oil-exporting countries will largely depend on non-oil activities. Despite low oil prices, a moderate domestic demand expansion is projected in some Gulf Cooperation Council (GCC) economies. Substantial fiscal spending on infrastructure and the solid economic expansion in South Asia will provide support, especially for the non-oil sector. Particularly in Qatar and Saudi Arabia, where financial reserves are sufficiently large, fiscal spending will continue to support GDP growth in 2015 and to some extent in 2016. However, fiscal consolidation is still expected in most economies, especially in 2016, as revenues plummet along with lower oil prices. This will lead to a slower economic expansion during the forecast period.

The negative outlook for GCC countries is also reflected in the stock market performance during 2015. In the first nine months of 2015, the region's most important indices have decreased, ranging from a 1 per cent decline in Abu Dhabi's ADSMI to 11.1 per cent in Saudi Arabia's Tadawul or 14 per cent in Iraq's ISX. Liquidity and banking sector profitability have also decreased, especially in the Gulf, despite some key positive milestones such as the opening of Saudi Arabia's Tadawul to foreign investors in June 2015.

In the more diversified economies, macroeconomic prospects are mixed, despite the positive effect of lower oil prices. In Turkey, GDP growth is expected to slow down to 2.9 per cent in both 2015 and 2016, owing to efforts to consolidate fiscal spending, limited monetary policy space, weaker domestic demand, capital outflows, and current political instability. Conversely, economic prospects are expected to improve in Jordan and Lebanon throughout the forecast period, even though these economies will continue to be constrained by the conflict in the Syrian Arab Republic. In Jordan, large infrastructural projects that are already under way and expansionary monetary policies will stimulate domestic demand. In Lebanon, the tourism sector will continue to be an important economic driver, as long as the security situation does not deteriorate. These economies are also benefiting from positive spillover effects related to the dynamic non-oil sectors in GCC countries, where many national emigrants are employed and continue to send remittances and transfer capital, helping to sustain domestic demand.

Geopolitical turmoil, armed conflict and humanitarian crises remain a heavy burden for the economies of the Syrian Arab Republic, Iraq and Yemen. In particular, the Syrian Arab Republic and Iraq are engulfed in a conflict against the Islamic State of Iraq and the Levant that has led to substantial destruction of their economic structures. The consequences on public finances (through increased spending), foreign direct investments and tourism are being felt across the region. For instance, tourist arrivals in Jordan were 62,000 during August 2015, significantly below the average of 79,180 per month during the period 2006-2015. In terms of social capital, the high cost of the conflict has translated into large amounts of refugees fleeing to Europe.

Besides oil, the continued decline in commodity prices, particularly of food items, has eased inflationary pressures in the region, especially in Jordan and Lebanon. The main driver of inflation in GCC countries remains real estate assets. Inflation has also been contained in Iraq despite the armed conflict. Conversely, hyperinflation continued in the Syrian Arab Republic in 2015 as a direct consequence of the current foreign-exchange constraints. Yemen has also seen high inflationary pressures as the armed conflict intensified. For 2016, the upward shift in real estate prices in GCC countries is expected to taper off, moderately lowering consumer price inflation. Inflation in the Syrian Arab Republic and Yemen is expected to remain high, owing to foreign-exchange constraints and ongoing socio-political instability which negatively affects supply chains.

Monetary policies in GCC countries have remained unchanged, as most countries have their currencies pegged to the US dollar and their monetary policies thus mirror that of the United States Federal Reserve. The funding cost in terms of three-month interbank money market rates in GCC countries stayed at about 1.0 percent, although it started to rise slowly in the first half of 2015. Given that United States interest rates are projected to rise by the end of 2015, the monetary stance is expected to change accordingly. Falling international commodity prices have created sizeable policy space for monetary easing in Jordan and Lebanon: the Central Bank of Jordan took monetary easing measures in February and July 2015, while the Lebanese central bank has also used monetary stimulus measures to boost domestic demand. In Turkey, monetary policy is expected to tighten further during the forecast period, given relatively high inflation and the persistent depreciation of the Turkish lira (TRY). Between January and September 2015, the TRY lost more than 25 per cent against the dollar.

In oil-exporting countries, fiscal revenues have plummeted as oil prices dropped, leading to a process of fiscal readjustment, spending cuts and even reforms of subsidy policies. In parallel, fiscal consolidation in some countries has also entailed issuance of debt securities. For instance, Saudi Arabia issued in July 2015 its first sovereign bonds since 2007. Conversely, low oil prices have alleviated balance-of-payment and fiscal constraints in non-oil-exporting countries, notably Jordan, Lebanon and Turkey. However, revenue prospects remain generally weak. For some of these countries, direct and indirect external assistance has become essential to maintain their capital spending levels.

With the exception of Kuwait and Qatar, countries are estimated to display current-account deficits in 2015. Import levels in GCC countries are sustained by the growing non-oil sector, while exports from GCC countries have weakened, owing to lower oil prices. The current-account deficits of Iraq and Yemen are estimated to deteriorate significantly because of the continuing armed conflicts. The Syrian Arab Republic continues to be under severe foreign-exchange constraints, as the Syrian Pound slid under SYP 300/$ by the end of the third quarter of 2015. At the same time, the current-account deficits are estimated to edge down in Jordan and Lebanon amid improving trade balances and increasing remittance inflows.

There are downside risk factors to this outlook. The first is the expansion of conflicts beyond Iraq, the Syrian Arab Republic and Yemen. The breakdown of social capital due to the increasing displaced population, as well as the destruction of economic capital, are fundamental concerns regarding the long-term economic prospects. The second factor is an abrupt decline in demand for crude oil. Despite the low level of oil prices, global demand for oil has been slightly growing. Concerns are growing about the Chinese economy slowdown, which could inhibit oil demand further. This would impact GCC countries' already weak fiscal positions, as well as the region's business confidence. The third factor is the effect of US monetary tightening, which can take two interrelated forms: First, countries may suffer capital outflows as investors leave riskier markets in search of rising returns in the US. With fiscal and current-account deficits, Turkey looks especially vulnerable. Second, as many countries have their currency pegged to the US dollar, higher interest rates may hinder growth via lower investment.

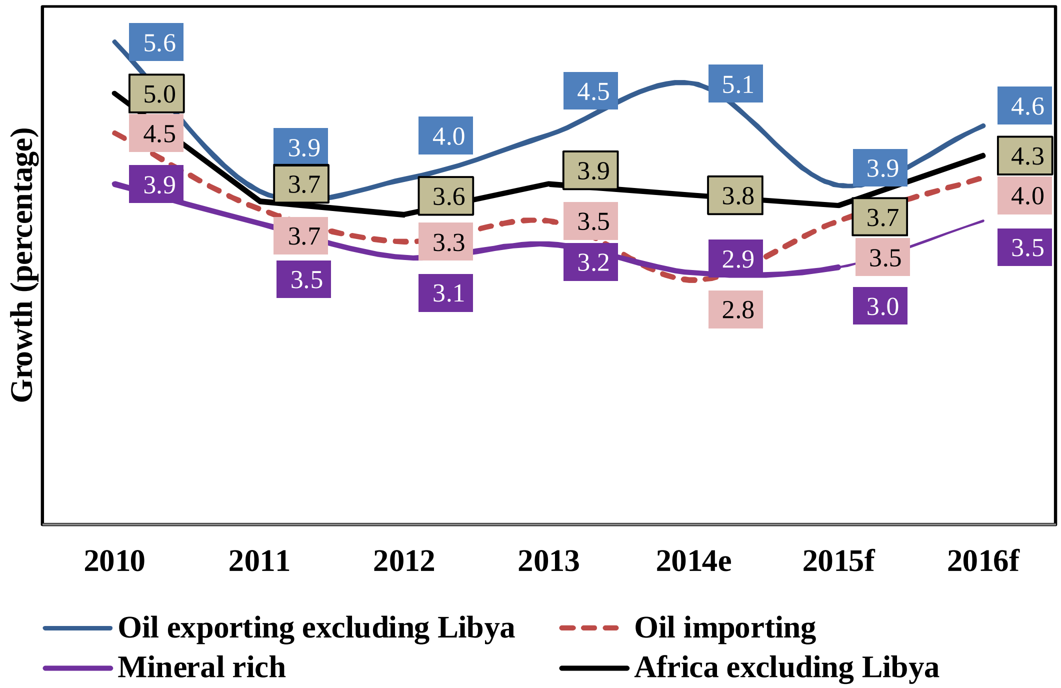
Africa

Economic growth in Africa has reached 3.7 per cent in 2015, about the same level as in the previous year (excluding Libya), underpinned by private consumption and investment. Private consumption is being driven by increased domestic demand due to increased consumer confidence and an expanding middle class, while investment is driven mainly by an improved business environment and lower costs of doing business on the continent. Continued government spending, in particular on infrastructure projects, has also been positively contributing to growth over the period. However, the external balance has negatively impacted growth in 2015 because of weak and volatile commodity prices, although this impact is expected to soften in 2016. With forecasted growth of 4.4 per cent, the prospects for Africa for 2016 look favourable, despite the uncertainty in the global economy and the weakening of oil and commodity prices. Growth momentum is set to continue, underpinned by increasing domestic demand, coupled with an improving regional business environment, improving macroeconomic management, increasing public investment especially in infrastructure, a buoyant services sector and increasing trade and investment ties with emerging economies. These factors are also expected to extend their contribution to economic growth at the same pace in 2017. Despite the continued decline in oil prices, oil-exporting countries continue to perform well compared to both oil-importing and mineral-rich countries, with an average growth forecast of 3.9 per cent, 3.5 per cent and 3.0 per cent, respectively (figure 25).

East Africa maintained the highest growth rate in the region, at 6.2 per cent in 2015, with a projected increase to 6.8 per cent in 2016. Growth decreased relative to 2014 as a consequence of lower growth in Ethiopia and the Democratic Republic of the Congo. Ethiopia's net exports suffered owing to low commodity prices and an increase in imports of capital goods and construction-related services. Political uncertainties in the Democratic Republic of the Congo continued to weigh on growth. The increase in the growth rate is expected to be mainly driven by the increased inflow of foreign direct investment (FDI), increased public spending on infrastructure and growing domestic markets. However, the political uncertainties and instabilities in South Sudan and Burundi, and terrorism threats in Kenya and Somalia have weighed on the subregion's growth.

Growth in West Africa decreased to 4.4 per cent in 2015, based on a more pronounced lower growth rate in Nigeria following a weaker oil sector and the uncertainty caused by the elections of March 2015. The consequences of the Ebola outbreak in the most affected countries, namely Guinea, Liberia and Sierra Leone, also impacted their growth potential, despite Guinea and Liberia returning to positive growth. West Africa's growth is projected to increase to 5.2 per cent and 5.3 per cent in 2016 and 2017, respectively, driven mainly by the improving economic performance of Nigeria, with its emphasis on the growing non-oil sectors.

Figure 25: GDP growth by economic group, 2010-2016



Source: ECA.

Note: Data for 2014 are estimated; data for 2015 are forecast.

The overall growth rate decreased slightly from 3.5 per cent in 2014 to 3.4 per cent in 2015 in the Central Africa subregion, despite improved performance in the mining sector. While most countries in the subregion maintained a relatively high growth path, security concerns in the Central African Republic and the decrease in oil production in Equatorial Guinea led to a decline in the subregion's GDP growth. The subregion is expected to experience a rise in its average growth rate to 4.3 per cent in 2016, mainly driven by investment in energy and infrastructure, strong performance of the service sector (in Cameroon), an increase in oil production (in Chad and the Democratic Republic of the Congo), solid performance of the service sector and robust public investment (in Chad) and investment in infrastructure and manufacturing (in the Democratic Republic of the Congo).

Growth in North Africa accelerated from 2.8 per cent to 3.6 per cent over the 2014-2015 period (excluding Libya), and is projected to increase further to 4.1 per cent in 2016. The positive developments have been helped by improved political and economic stability in the subregion, and the subsequent increase in business confidence, especially in Egypt and Tunisia. The gradual recovery of export markets and improved security should support growth, especially through tourism. Algeria's oil production increased for the first time in eight years and is boosting growth together with the non-oil sectors. Mauritania continues to achieve the highest and steadiest growth in the region, supported by favourable macroeconomic and structural policies. This was mainly boosted by developments in the mining and construction sectors, as well as increased private consumption and investment. The exceptionally high total investment of about 45 per cent of GDP bodes well for future growth. Continuing political challenges in Libya continue to negatively impact both political and economic governance in the subregion.

Southern Africa's growth increased from 2.4 per cent in 2014 to 2.5 per cent in 2015 and a further increase to 3.0 per cent and 3.3 per cent is forecast for 2016 and 2017, respectively. The relatively lower growth performance in the subregion was driven by the relatively poor growth in the subregion's biggest economy, South Africa. Weak export demand and low commodity prices for its key raw materials, as well as electricity shortages, contributed to the subdued performance. In Angola, GDP growth remained strong despite low oil prices, as the government embarks on investing in strategic non-oil sectors such as electricity, construction and technology. Mozambique and Zambia recorded the highest growth in the region, driven by large infrastructure projects and FDI in the mining sector, respectively.

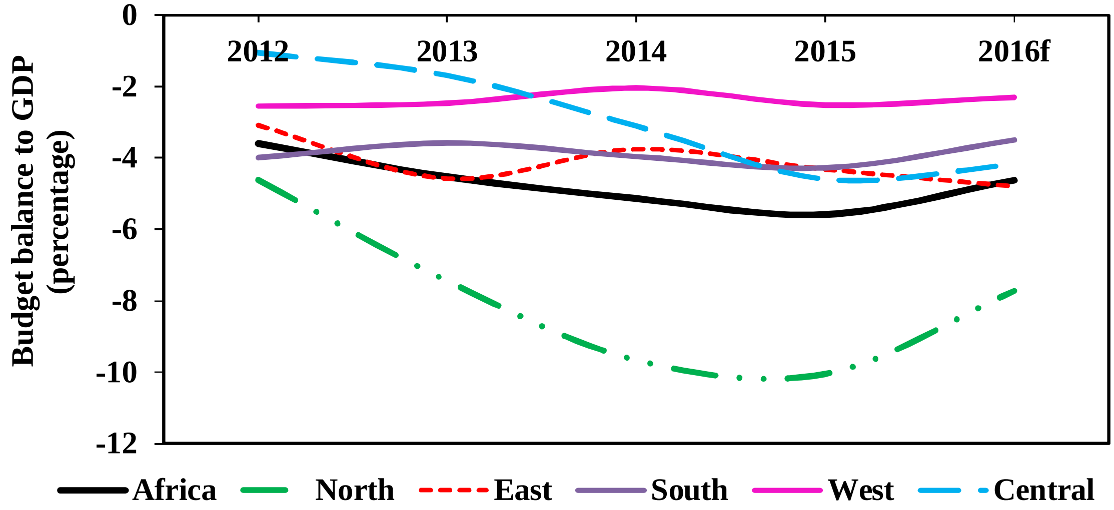
Regional inflation reached 7.5 per cent in 2015, but is forecast to decrease to 6.7 per cent in 2016 and 6.3 per cent in 2017. A number of factors have created a mixed picture on inflation. Inflationary pressure was reduced by lower global oil prices and the continuing fall of food prices (estimated to be 14 per cent for 2015),[28] while currency depreciations have increased the risk of imported inflation. Prudent monetary policy in countries such as South Africa and Kenya has also created a moderating impact on inflation rates in the region.

Inflation was highest in 2015 in West Africa, at 8.6 per cent, up from 7.5 per cent in the previous year. This was partly driven by the depreciation of the euro, leading to the depreciation of the CFA franc. Public spending in Nigeria in the lead-up to the elections also contributed to the inflationary pressure in the subregion, together with the pressure on the naira caused by the lower oil prices. Inflation is expected to remain at about 8.4 per cent in 2016 and 2017. In other subregions except North Africa, inflation rates increased in 2015 as well, driven by weather-related shocks, currency depreciations and the removal of subsidies. A moderating trend is expected for 2016 and 2017 in view of lower food and energy prices, improved security situations and diminishing impacts from subsidy cuts in 2014.

The fiscal deficit of Africa increased from 5.1 per cent of GDP in 2014 to 5.6 per cent of GDP in 2015 (figure 26). The continued decline of oil prices and volatile commodity prices reduced fiscal revenue in most of the African countries, while high spending on infrastructure and higher spending in the lead-up to elections contributed to increased expenditure in some countries. The fiscal deficit is expected to narrow in 2016 to 4.6 per cent of GDP in view of more solid oil prices, restraint in public expenditure and more sound public finances (for instance in Nigeria and South Africa).

[28] ECA calculation based on EIU (2015).

Figure 26: Average budget balance as a percentage of GDP by subregion, 2012-2016

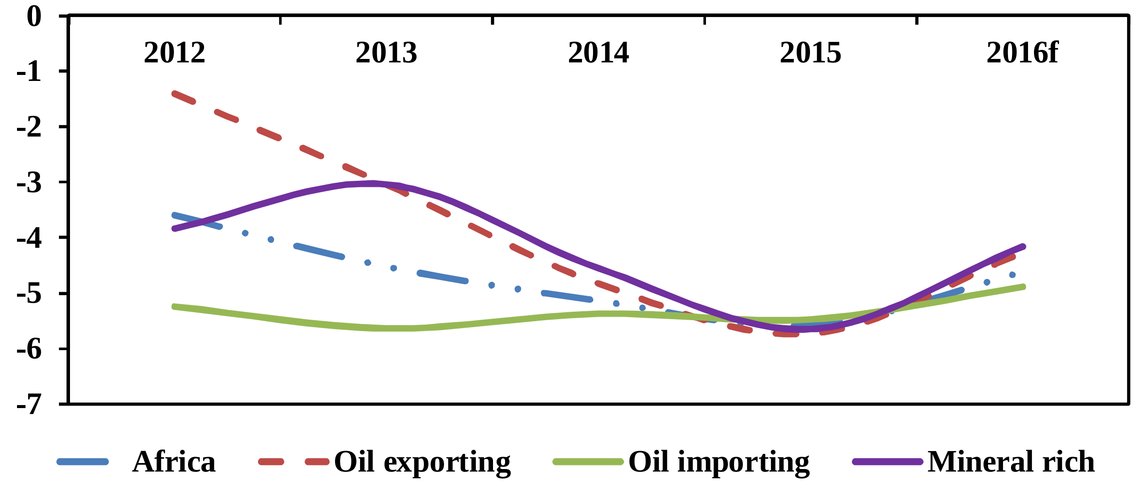


Source: ECA calculations based on EIU (2015).

The deficit was the largest in North Africa, widening from 9.7 per cent of GDP in 2014 to 10.0 per cent of GDP in 2015. The low oil prices have reduced public revenue in oil exporting countries such as Algeria, Angola, Nigeria and Sudan. At the same time, increased spending for large public investments, continued subsidies for basic goods, for example in Morocco and Tunisia, and election-related expenditure in Morocco have continued to exert pressure on public expenditure. In West Africa, the deficit widened from 2.0 per cent in 2014 to 2.5 per cent in 2015, driven by the deterioration of fiscal balances mainly in Nigeria and Ghana. In Nigeria, the impact of low oil prices on fiscal balances is limited because of the use of buffers from oil-revenue savings and improved performance of non-oil sectors. In Southern Africa, the deficit moved from 4.0 per cent to 4.3 per cent, exacerbated by the low commodity prices. In East Africa, the deficit increased from 3.8 per cent to 4.6 per cent mainly owing to expansionary fiscal policies in Ethiopia, Kenya, Madagascar, Tanzania and Uganda. The deterioration of the fiscal balance was greatest in Central Africa, where the deficit widened from 3.1 per cent to 4.6 per cent, driven by expansionary fiscal policies, including infrastructure development in Cameroon, Chad, Democratic Republic of the Congo and Equatorial Guinea, as well as election spending in Chad and Democratic Republic of the Congo.

Fiscal deficits are expected to improve in 2016 in all the subregions except East Africa, where it is forecast to widen to 4.8 per cent, despite efforts to mobilize tax revenues and restraint on expenditure in Rwanda. Largely driven by lower oil prices, the fiscal deficits of oil-exporting countries reached 5.7 per cent, the highest since 2012, while those for oil-importing countries remained relatively unchanged at 5.4 per cent (figure 27). The fiscal balance is projected to improve to 4.3 per cent in 2016. For oil-importing countries, the fiscal deficit is estimated to be 5.5 per cent in 2015, improving slightly to 4.9 per cent in 2016.

Figure 27: Average budget balance as a percentage of GDP by economic groups, 2012-2016



Source: ECA calculations based on EIU (2015).
Note: Data for 2016 are projections.

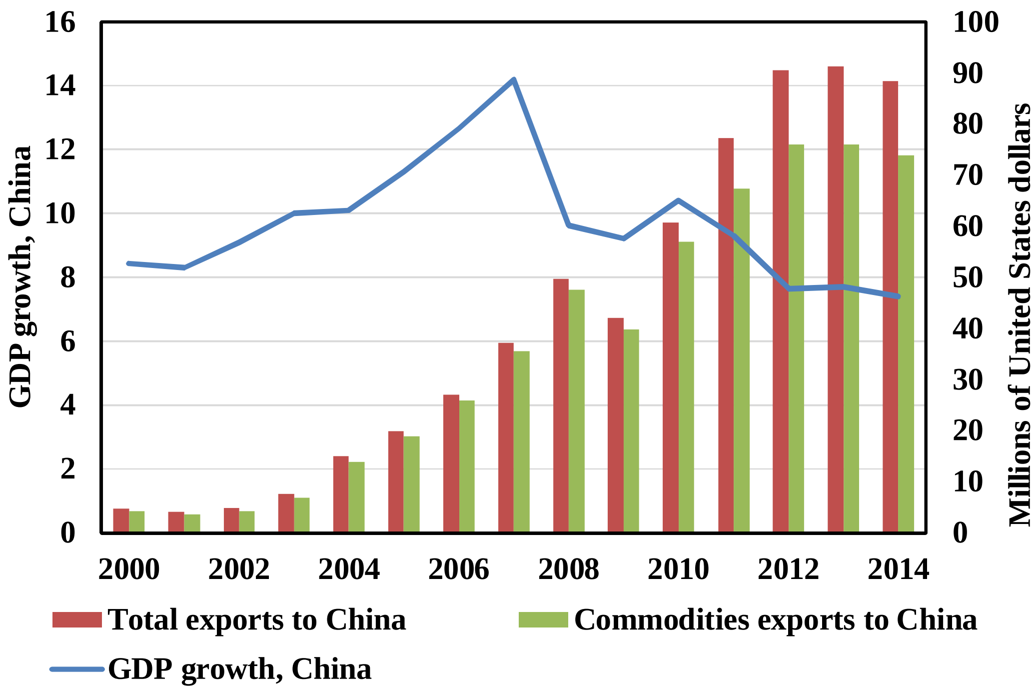
Current-account balances in 2015 decreased to -5.0 per cent of GDP for Africa, with all economic groupings and subregions reporting a current-account deficit. This was driven to a certain extent by the declining oil prices, which led the oil-exporting African countries to record the first current-account deficit in 2014 of 2.1 per cent since 2009, with a subsequent increase to 5.1 per cent in 2015. For oil importers, the low oil prices led to a narrowing of the deficit. Among the subregions, the current-account deficit was the largest for Central Africa (8.1 per cent), followed by East Africa (7.4 per cent) and Southern Africa (5.7 per cent).

The expected improvement in the economic performance of the euro area will have a positive influence on current-account balances of African countries in 2016 and 2017. The depreciation of major currencies will also assist in promoting exports. However, the reliance of many African countries on imports (particularly capital goods), and the faster rate of growth of imports relative to exports represents a risk to external balances.

The slowdown in China’s growth has also been a concern for African countries, given the increasing importance of the Chinese market. Africa’s exports to China are still dominated by commodities, though manufacturing exports have increased in importance in the last five years (figure 28). While exports to China have plateaued together with the GDP growth rate since 2012, the fall of the growth rate to single digits was still accompanied by a rise in exports to China, suggesting that the Chinese “new normal” may not translate into a sharp decline in export demand for African goods by China.

The falling oil and commodity prices also drew down the international reserves of African countries, to 15.8 per cent of GDP in 2015 from 17.1 per cent in 2014. The oil price decline also impacted the net debt of Africa, which increased from 5.8 per cent in 2014 to 9.9 per cent of GDP in 2015, relative to 2.9 per cent in 2013. This was driven by a considerable fall in net lending of countries in North Africa and the oil-exporting countries. Central Africa also saw a net debt increase from 4 per cent in 2014 to 12 per cent of GDP in 2015, mainly driven by the doubling of net debt as percentage of GDP in Cameroon and Gabon, and the fall of net lending to a third from 2014 for Congo. Over the period, total debt for Africa increased from 22.9 per cent to 25.7 per cent of GDP.

Figure 28: Africa's exports to China, 2000-2014



Source: UNCTADStat (2015).

The weak recovery of the global economy continues to pose a challenge for Africa's economic performance through its impact on trade, investment and remittances. In addition to the slowdown of growth in China, the subdued (though improving) performance of the euro are, Africa's main trading partner (especially North Africa), is a concern. At the same time, however, solid performance by India and Africa itself, the most dynamic export markets for African countries, may buffer the impact on trade. Low commodity prices continue to pose a challenge, especially for oil-exporting countries, although they provide benefits and advantage for oil importers. The depreciation of major African currencies, while possibly beneficial for exports, puts pressure on monetary stability through imported inflation.

While FDI flows are expected to remain steady at about 3 per cent of GDP, monetary policy decisions by the Fed present a risk in the medium term. The low interest rates and therefore returns in both the United States and the European countries have increased investors' appetite for emerging markets. The likely rate increase by the Fed may divert investment flows from emerging markets back to developed countries, also negatively affecting the African economies. This presents a risk, particularly for those countries that have introduced sovereign bonds as an alternative source of finance, such as South Africa, Ghana and Ethiopia.

At the regional level, economic performance continues to be hampered by weather related-shocks. Droughts in East Africa in particular remain a challenge to the agricultural sector, which is still the main employer on the continent. As a consequence, low harvests will also increase the risk of inflation through higher food prices in the drought- or flood-affected countries. Security in some African countries also remains an issue. Security concerns in Egypt and Tunisia have already had a negative impact on income from tourism. The continuing presence of Boko Haram in West Africa and political unrest in countries such as Burkina Faso and Burundi can be a source of domestic disruption and instability, leading to a decrease in investment in these countries.

Latin America and the Caribbean

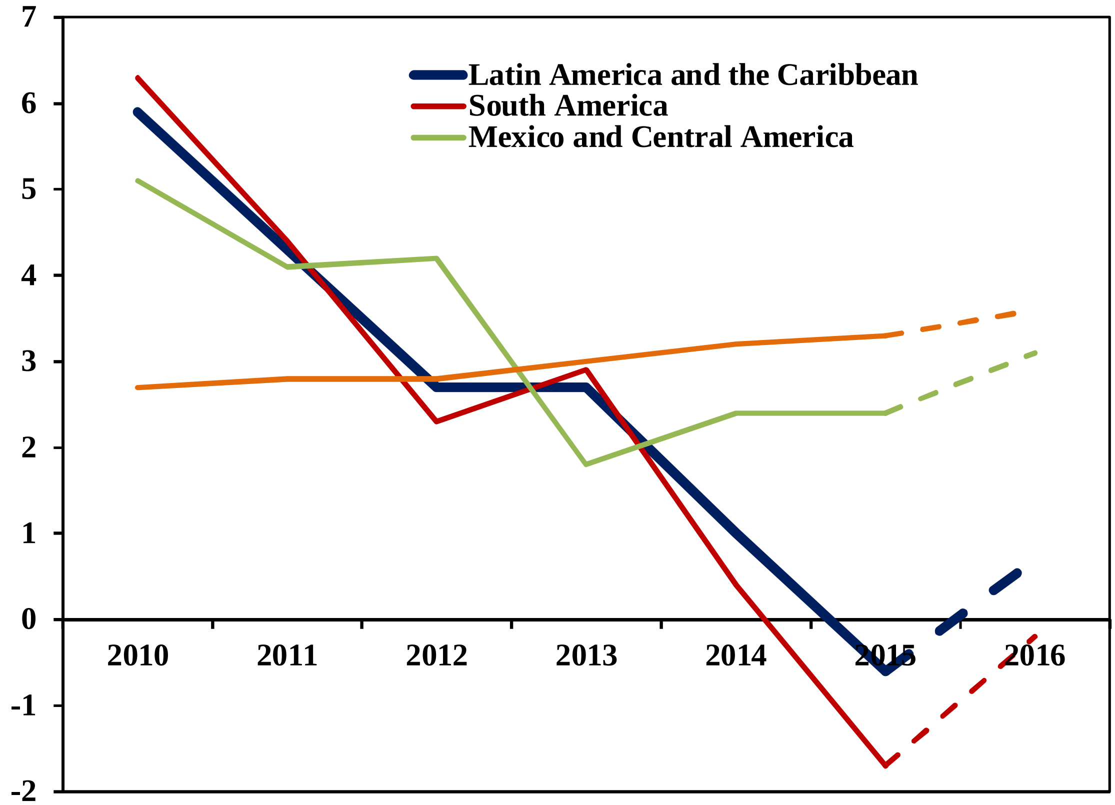
Latin America and the Caribbean has entered into a period of significant economic difficulty, amid domestic weaknesses and a less supportive external context, including lower commodity prices and slower growth in China. After experiencing robust growth during the commodity boom period—with average regional growth above 4.0 per cent between 2004 and 2013—economic growth has sharply fallen to 1.0 per cent in 2014 and is turning into an economic contraction of 0.6 per cent in 2015 (figure 29). In the outlook, the region is expected to grow by only 0.7 per cent in 2016, before accelerating gradually to 2.7 per cent in 2017, but subject to significant downside risks.

This aggregate picture, however, encompasses divergent subregional situations. The economies of Mexico and Central America are forecast to expand by 3.1 per cent in 2016, up from 2.4 per cent in 2015, benefiting from stronger domestic demand and the recovery in the United States. By contrast, South American economies—which experienced an economic contraction of 1.7 per cent in 2015—are expected to shrink more moderately—by 0.2 per cent in 2016—with considerable difficulty in narrowing the output gap afterwards. Meanwhile, the Caribbean economies are expected to expand by 3.6 per cent in 2016, slightly above previous years, benefiting from the strengthening tourism activity.

Among the largest countries, GDP growth in Mexico is expected to accelerate from 2.2 per cent in 2015 to 2.9 per cent in 2016, owing to a recovery in investment demand and the strengthening of the United States. In South America, the Brazilian economy is expected to remain in recession and to shrink by 0.9 per cent in 2016, with continuing weaknesses on investment demand and enduring fiscal and monetary conditions. Argentina is expected to grow by 1.3 per cent in 2016, while facing strong pressures to implement a fiscal adjustment. Shockingly, the economy of the Bolivarian Republic of Venezuela is expected to contract by more than 6 per cent in 2015 and 2016, amid serious domestic imbalances and extremely high inflation. Other economies such as Panama, Costa Rica, Honduras, Nicaragua, Paraguay, the

Plurinational State of Bolivia, Dominican Republic and Guyana are projected to continue registering relatively robust economic growth rates in 2016, above 4 per cent.

Figure 29: GDP growth rates in Latin America and the Caribbean, 2010-2016 *
(Percentage)



Source: UN/DESA.
*Figures for 2015-2016 are forecast.

The slackening aggregate demand in the region has been driven by the continuing fall in investment and, to a lesser degree, private consumption. In fact, the contribution of gross capital formation to GDP growth, which had been in gradual decline since 2011, fell even more sharply since the second quarter of 2013. In 2014, regional gross fixed capital formation contracted by 1.9 per cent, and in the first quarter of 2015 investment continued to decline significantly. This investment pattern is alarming because of its adverse impacts on the dynamics of the business cycle and on the medium- and long-term growth prospects in the region.

The economic slowdown has had little impact on unemployment so far in most economies, with some notable exceptions, such as Brazil. In fact, at the regional level the drop in the employment rate in 2014 was not mirrored by a rise in the unemployment, which actually edged down from 6.2 per cent to 6.0 per cent. However, preliminary data for the first half of 2015 indicate that persistently weak job creation is set to push up the regional unemployment rate from 6.0 per cent to 6.5 per cent in 2015, and to increase even further in 2016. This upward trend in unemployment will be driven by South American economies. In Brazil, the rise in unemployment started to become visible by early 2015 and strengthened afterwards. Real wages are continuing to rise modestly in most countries, which together with the expected rise in unemployment will likely constrain household consumption. Preliminary data also point to a gradual deterioration on the quality of employment in the region, illustrated in an emerging shift from salaried work towards self-employment.

The capacity of Latin America and the Caribbean to stimulate aggregate domestic demand is contingent on the space available for the adoption of countercyclical policies. It seems that both fiscal and monetary authorities still have room to maneuver, but external shocks are reducing the space. The fiscal accounts in the region have deteriorated slightly on average in 2015. At the central government level, the fiscal deficit for 2015 is projected to increase to 2.9 per cent of GDP, marginally higher than the deficit of 2.8 per cent in 2014. This is explained by the sharp fall in fiscal revenues in several Latin American countries in 2015, owing to the decline in commodity prices. In fact, countries such as Ecuador, Colombia, Brazil and Mexico have implemented important adjustments in public budgets for 2015 and 2016. Meanwhile, tax revenues are showing signs of recovery in the wake of reforms implemented by some countries in the last few years. In the Caribbean, the public sector deficit has improved significantly recently, thanks to small rises in fiscal revenues and larger reductions in public spending.

Importantly, the higher deficits have not led to an increase in the central government debt burden in Latin American economies, which was around 33.6 per cent of GDP in 2015. However, the public debt levels continue to differ greatly across countries. For instance, the public debt in Brazil is the highest in Latin America, close to 65 per cent of GDP in 2015, and it has continued to rise owing to the significant deterioration of economic conditions. At the other extreme, Chile, Paraguay and Peru have debt levels that represent less than 20 per cent of their GDP. It is important to note, however, that public debt in the non-financial public sector has increased strongly in some countries in recent years, especially among public sector firms. Despite the recent improvements in fiscal deficits in the Caribbean, public debt continues relatively high, about 80 per cent of GDP in 2015.

In terms of monetary policy, several countries in the last two years adopted a countercyclical approach in an attempt to reinvigorate economic activity. Then, in the first eight months of 2015, authorities of Colombia, Chile and Mexico kept their benchmark rates unchanged, while Brazil continued to raise interest rates successively in order to contain increasing inflation pressures and capital outflows. Countries such as Peru and Colombia have also raised interest rates moderately to adjust to a less favourable external environment. Countries that use monetary aggregates as their main policy instrument in Central and South America experienced a faster growth in their monetary base since the second half of 2014. Given this stance in monetary policy, total domestic lending in the region continued to grow in 2015, albeit at lower rates than in previous years. In the near term, Latin America and the Caribbean, particularly South American economies, will likely face progressively complex dilemmas regarding their monetary policies, considering the growth slowdown and the looming interest-rate hike in the United States, which could increase financial volatility and further reduce capital inflows.

Overall, the countercyclical monetary policy stance has been made possible by the relatively low regional inflation. However, since the second half of 2014 inflation patterns have greatly diverged among subregions. In Mexico and Central American countries, inflation remains stable and relatively low. By contrast, inflation in South American economies has visibly accelerated, mainly because of the significant depreciation of domestic currencies in countries such as Chile, Colombia and Peru. In Brazil, inflation remains relatively high and well above the central bank's target, and is expected to slow down gradually through 2016. The most extreme case is the Bolivarian Republic of Venezuela, where inflation is expected to rise above 150 per cent in 2015 and 2016.

During 2015, the severe regional slowdown together with the expectations over the increase on interest rates in the United States, lower commodity prices, and the sharp contraction of capital inflows have induced the depreciation trend in exchange rates across a number of economies. For instance, the depreciation of domestic currencies during the first nine months in Brazil, Chile, Colombia and Mexico was above 15.0 per cent. As a result, international reserves have declined by about 3.0 per cent so far in 2015, a widespread trend across the region. The sharpest declines in reserves have been observed in Uruguay, Venezuela (Bolivarian Republic of) and Trinidad and Tobago.

In 2015, lower commodity prices in the region were slightly compensated by an increase in export volumes, while imports remained moderately stable compared to 2014, mainly due to the fall in regional investment rate and lower dynamism of household consumption. As consequence, the region's trade surplus will deteriorate even further in 2015. However, the performance was heterogeneous across subregions. In Mexico and Central American countries, exports edged up, benefiting from the recovery in the United States. By contrast, South American commodity exporters have been seriously affected by the slowdown in China and the lower price for mineral and metals. For instance, in the first six months of 2015, Colombian exports to China tumbled by more than 70 per cent, while Brazilian exports fell by almost 20 per cent. Overall, the regional current-account balance, which in 2014 remained about 2.7 per cent of GDP, is expected to worsen to 3.0 per cent in 2015.

The projected mild recovery of regional growth in 2016 will be driven by different elements. On the external front, the continued recovery of the United States economy will benefit goods exports and migrant remittances, particularly in Mexico and Central American countries. This will also have a positive contribution to the strengthening of the tourism sector in the Caribbean. On the domestic front, slight recovery in the regional growth rate will depend on the capacity of Governments to revive investment demand through domestic reforms and the implementation of large public investment projects. In addition, it is expected that the observed depreciation of the regional currencies against the dollar will contribute to increasing the external competiveness of regional exports. Downside risks to the baseline scenario are a lower-than-expected growth in developed economies, particularly in the United States, a sharper slowdown in China, and additional declines in commodity prices. An escalation of global financial volatility, involving a sharp increase in external financing costs, might also affect the growth outlook for Latin America and the Caribbean.

Section III: Uncertainties and risks

Normalization of US policy rate delayed, increasing uncertainty

The onset of the normalization of US interest rates, expected in late 2015, has been clearly signalled by the Federal Open Market Committee (FOMC) of the United States Federal Reserve (Fed) and anticipated by financial markets since at least May 2015. As such, it cannot be considered an unexpected shock to the global financial system. Nonetheless, there remain some uncertainties about both the anticipated path of interest rates and, after seven years of near-zero interest rates, the reaction of global financial markets and the real economy to the shift in policy rate. A rise in debt servicing costs will necessarily be associated with the US interest rate normalization, both domestically and in the many developing economies and economies in transition that hold debt denominated in the US dollars. However, there is a significant degree of uncertainty surrounding the magnitude of that rise over the next 12-24 months, which makes financial planning for households, firms and also governments, difficult. In addition, as the rates of return on United States assets normalize, a sudden change in risk appetite could trigger a collapse of capital flows to developing economies and economies in transition or sharp exchange-rate realignments, as experienced following the Federal's announcement in 2013 that it would soon begin tapering its quantitative easing programme. Significant levels of net capital outflows have already occurred in many developing economies in anticipation of the move,[29] and there is a risk that these withdrawals could increase further, drying up liquidity in many developing economies. Such a shock may be difficult to absorb in the many developing economies and economies in transition that are already facing an economic slowdown or recession.

The baseline forecast assumes a gradual rise in US interest rates, reaching 0.75-1 per cent by end-2016 and 1.75-2 per cent by end-2017. This is broadly in line with current financial market expectations and at the lower end of expectations expressed by the 17 participants of the FOMC in September. However, the dispersion of interest-rate expectations expressed by the FOMC range from 0.875 to 2.875 per cent by end-2016, indicating the significant degree of uncertainty even within this small group of decision makers. For a firm borrowing $1 million at a variable rate of interest linked to the federal fund rate, the 25-basis-point rise in interest rates expected at the end of this year will entail an additional $2500 in debt servicing costs in 2016. If the monetary stance is neutral, the average borrower would expect to recoup these additional costs through higher sales revenues. On the other hand, if the average borrower has to recover these additional costs through cost-cutting measures, it could potentially reduce aggregate demand. The broad range of views expressed by the FOMC on the appropriate level of interest rates at the end of 2016 poses a challenge to financial planning, as the hypothetical borrower described above would need to allow for between $5000 and $25,000 in additional debt-servicing costs over the course of 2017. The FOMC

[29] For details see the discussion on capital flows above.

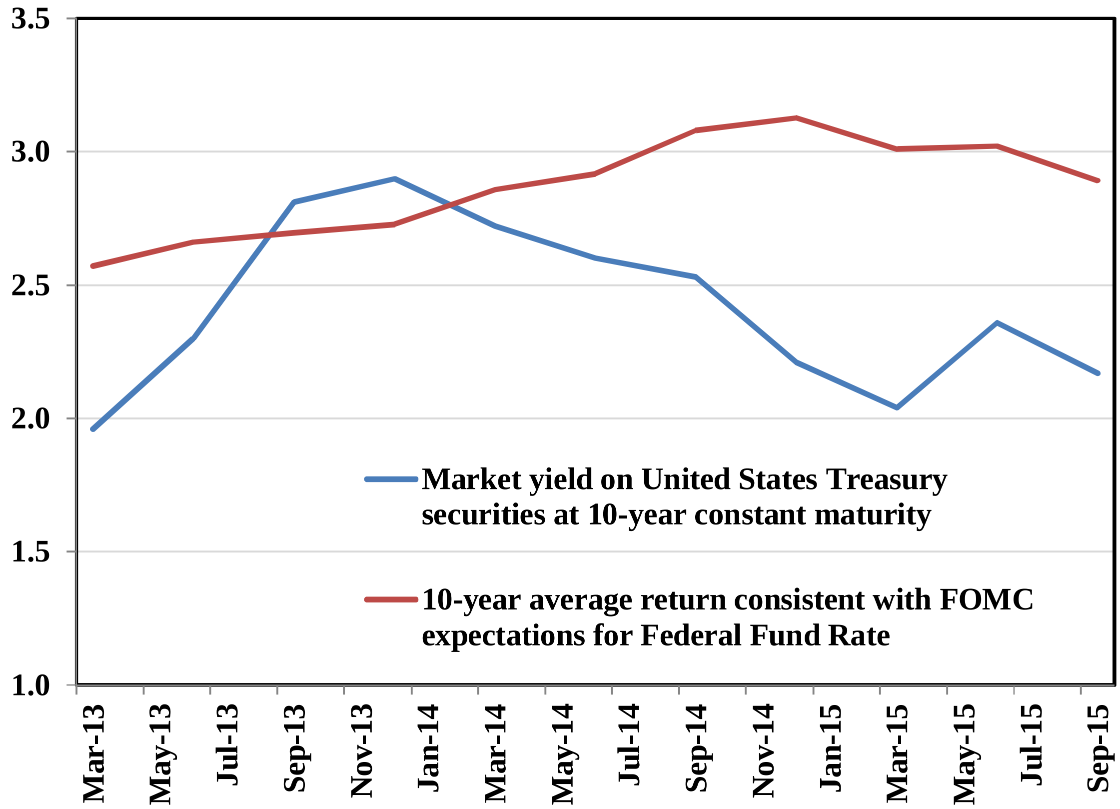
will aim for an interest rate path that is broadly neutral, but there is a risk that it could stifle economic growth and lead to job losses if revenue does not rise fast enough to meet the higher financing costs.

These risks are higher outside the United States of America, where economic conditions are not a direct input into the FOMC decision-making process. The discussion on capital flows above highlighted the recent rise in private sector debt in many developing economies, much of which is denominated in US dollars. Even if borrowing is at a fixed rate of interest, debt-servicing costs will rise if the domestic currency depreciates relative to the US dollar. As the rates of return in the United States rise, this can be expected to direct capital flows towards the United States and put upward pressure on the US dollar. This may lead to a depreciation of many developing-country exchange rates, or pressure them to raise interest rates to prevent capital outflows. Countries that hold a large stock of net external debt are particularly exposed to the associated rising costs of debt servicing.

On top of this level of debt-servicing risks, there is a considerable degree of uncertainty regarding the reaction of long-term borrowing costs to the move in the federal fund target. Long-term borrowing rates are often more closely linked to the market yields on government bonds than to the short-term bank funding costs targeted by the Fed. There appears to be a significant negative-term premium on the level of 10-year government bond yields currently (figure 30), and if this is corrected abruptly the rise in debt-servicing cost could be sharper than anticipated.

In an ideal scenario, which is viewed as an upside risk in our baseline forecast, financial markets have already priced in the expected rise in interest rates by the Fed, and will follow a smooth and predictable arbitrage path to the repricing and reallocation of financial assets across global financial markets, with little impact on global growth. However, an alternative scenario is that this adjustment could happen more abruptly and restrain global growth in the short term. This view is consistent with the significant decline in capital inflows to developing and transition economies already observed in 2015. As a downside risk to the outlook, financial markets could overreact and overshoot the adjustment, or exhibit a sudden change in risk appetite, leading to heightened financial market volatility, an even sharper withdrawal of capital from developing markets, and a more significant slowdown in global growth. Given the recent volatility in global financial markets and the recent build-up of more volatile short-term private sector equity inflows into many developing economies, the risks around the normalization of US interest rates are heavily weighted to the downside.

Figure 30: Implied term premium on United States 10-year government bonds



Source: UN/DESA calculations from the United States Federal Reserve for 10-year government bond yield and FOMC average interest-rate expectations.

Vulnerabilities in large emerging economies increase

A larger-than-expected slowdown in China—the second largest economy in the world—is likely to have substantial ripple effect on the rest of the global economy. The hardest hit would be China's immediate neighbours— Lao People's Democratic Republic, Mongolia, Republic of Korea, and to a lesser extent, Japan—who have strong trade ties with China. Also, large commodity-exporting economies like Australia and Brazil will also be adversely affected by a further slowdown of the Chinese economy. Other commodity exporters—Angola, Equatorial Guinea and Mauritania in Africa, and Chile and Peru in Latin America—are also likely to be adversely affected by a larger-than-anticipated slow-down of the Chinese economy.

Lower commodity prices, and accompanying depreciation of domestic currencies, have already significantly worsened the fiscal position of many commodity-dependent developing economies and exacerbate their external debt burden. The risk of debt default—although still relatively low for small commodity exporting economies—can intensify if commodity prices decline further. The increased risk of debt unsustainability may compel investors to move their capital—both equity and debt—to relatively safer investment environment, and exacerbate capital outflows and further undermine the economic health of commodity exporting economies. The vicious cycle of low growth, depressed revenue prospects, increased risk perceptions, capital outflows, reduced liquidity and increased borrowing costs and further reduction in growth may become mutually re-enforcing. This may have a cascading, contagious effect on a range of developing economies, both commodity exporters and others, leading to a broader debt crisis reminiscent of that of the late 1980s.

Developing economies in general would need to find new sources of growth domestically to escape the potential downward spiral, emanating from commodity-price- and exchange-rate-related shocks. This would require Governments to pursue comprehensive structural reform and industrial policies that would mobilize domestic savings and investment, improve institutions and corporate governance and reduce transaction costs and increase competitiveness. This will facilitate a shift from capital-intensive and factor-accumulation-based economic growth models—pervasive in many developing countries—to more productivity driven economic growth. Sustained and sustainable improvement in labour productivity will allow many developing countries create more decent jobs, increase labour share of income and reduce income inequality, both within and between countries.

Geopolitical risks cloud regional economic prospects

The near-term global economic forecast remains susceptible to a number of geopolitical tensions and risks. These include the situations in Afghanistan, Iraq, the Syrian Arab Republic and Ukraine, and the refugee crisis that has engulfed various neighbouring countries of some of these crisis spots as well as Europe.

The intermittent geopolitical crisis around Ukraine presents a risk to the economic outlook, at least at the regional level. Despite the ceasefire agreement reached in February 2015, the conflict in the East of Ukraine continues. The mutual economic sanctions between the Russian Federation and many OECD economies, including the United States and the EU, were extended in July 2015. As a result, many leading Russian companies and banks remain cut off from the major international capital markets, and cooperation with a number of Russian enterprises is under embargo. The Government of the Russian Federation, on its side, extended for one year the ban on imports of food products from those countries that are participating in the sanctions. Together with the fall in oil prices, the sanctions have imposed a toll on the Russian economy, leading to outflow of capital and a contraction in investment. As many of the smaller CIS economies significantly depend on remittance inflows from Russia, the downturn in the Russian economy has had a negative spillover effect on the region, which is set to continue in 2016. The weaker Russian import demand also had a knock-on effect in some countries in the EU-15, while the food import ban has had a sectoral impact in some of the new EU member States, in particular in the Baltic States, Hungary and Poland, and also has affected transit trade revenues for these economies. The sanctions were only one of the factors leading to the drastic depreciation of the Russian currency in 2015. A further escalation of the conflict may lead to interruption of the Russian natural gas flow through Ukraine, which would be especially damaging for Eastern Europe, while the increased defence expenditure in the EU-15 may weigh on the public finances.

Violent conflicts continue in Afghanistan, Iraq and the Syrian Arab Republic, with significant spill over effects on the regional economies. The lack of any prospect for political stability in the near term, particularly in the Syrian Arab Republic, has led to a sharp increase in the number of refugees. An increasing number of citizens have been fleeing from the Syrian Arab Republic to neighbouring Turkey, Lebanon and Jordan. The presence of large numbers of refugees is likely to increase political and financial strains in the host economies, with the potential for contagion of the conflict to spread beyond the Syrian Arab Republic and reach the door-step of Europe. There is also mounting pressure from refugees trying to enter Western Europe in search of a better livelihood. This has created new challenges for a number of transit and destination countries, both in logistical and financial terms. In addition, in a number of destination countries, issues regarding the integration of refugees into society and the labour market are likely to create additional policy challenges.

Section IV: Policy challenges, options and coordination

Monetary policy challenges are likely to intensify

More than seven years after the global financial crisis, policymakers around the world still face enormous difficulties in restoring robust and balanced global growth. In developed countries, most of the burden of promoting growth has fallen on central banks, which have used a wide range of conventional and unconventional policy tools, including various large-scale asset purchase programmes (quantitative easing), forward guidance and negative nominal interest rates. These measures have led to an unprecedented degree of monetary accommodation in recent years, with monetary bases soaring and short- and long-term interest rates falling to historically low levels. Preliminary assessments suggest that these extraordinary monetary policy measures have partly succeeded in achieving their domestic goals, providing some support for the recovery in developed countries (see for example IMF (2013) Unconventional Monetary Policies – Recent Experience and Prospects).

At the same time, however, the over-reliance on monetary policy, coupled with the use of previously untested monetary measures, has contributed to a number of intertwined challenges that complicate policymaking today. First, despite ultra-loose monetary conditions, developed-country growth has remained low across countries and sectors. In many economies, real investment and productivity growth since the global financial crisis have been weak in spite of cheap and readily available finance (see, for example, Banerjee et al. (2015[30]). Second, loose monetary conditions and abundant supply of global liquidity have given rise to wide swings in capital flows to emerging markets. Third, financial stability risks have increased amid concerns over excessive build-up of financial assets, commensurate asset price bubbles and balance sheet vulnerabilities, especially in emerging markets. Volatility in commodity, currency, bond and stock markets has moved up since mid-2014, partly as a result of monetary policy adjustments and uncertainties over future policy moves.

Against this backdrop, the monetary authorities in developed countries face the task of balancing the need for continued monetary accommodation with the goal of limiting the risks to global financial stability. In this context, macroprudential policies have become increasingly important since the onset of the global financial crisis. The ultimate goal of macroprudential tools—such as capital requirements for banks and other financial institutions, limits on loan-to-value and debt-to-income ratios, and limits on banks' foreign-exchange exposure—is to temper the financial cycle and contain systemic risks (see speech by Vitor Constancio, European Central Bank (ECB)[31]). In principle, this can create a separation between tools and objectives: macroprudential instruments are used to smooth the credit cycle, rather than as countercyclical interventions, whereas monetary policy focuses exclusively on its primary mandate (price stability, employment, economic activity).

[30] Banerjee, R., Kearns, J., Lombardi, M., '(Why) Is investment weak?', BIS Quarterly Review, March 2015.
[31] Available from http://www.ecb.europa.eu/press/key/date/2015/html/sp151015.en.html.

However, experience with the use of macroprudential tools has, so far, been very limited, and it is therefore questionable whether such a strict separation (as according to the principle "one objective, one tool") should be maintained.

For developed-country central banks, the main challenge over the coming years is how to normalize monetary policy without crushing asset prices, causing major financial instability and potentially threatening the expected recovery. At present, the international focus is on the United States Federal Reserve (Fed), which is the first major central bank to start the monetary tightening cycle. The ECB, the Bank of Japan and most other central banks are expected to maintain their monetary easing stances at least until the end of 2016. While the Fed's decision-making is guided by its dual mandate—promoting maximum stable employment and price stability—global economic and financial developments, including the slowdown in China, the effects of the sharp commodity price decline, and increased financial market volatility, have played a role in the decision to delay the first interest-rate hike. By keeping the Fed fund rate at the zero lower bound, the Fed has also temporarily prevented a widening of the monetary policy gap with other central banks and a further strengthening of the dollar. Going forward, the challenge for the Fed is not only to get the timing of interest-rate hikes right, but also to adequately prepare financial markets for the moves via effective communication of its plans.

In developing countries and economies in transition, the current global economic and financial environment poses major challenges for monetary and exchange-rate policies. Economic growth in most countries has slowed significantly over the past few years amid declining commodity prices and domestic weaknesses.[32] Employment growth has also weakened and unemployment and underemployment rates have started to increase in some countries. Although potential growth is likely lower than before the global financial crisis, sizeable negative output gaps have opened up in many countries. These gaps would call for considerable monetary loosening. However, for many central banks the room for monetary easing is constrained by a number of factors. First, although global inflation remains subdued, numerous countries, particularly in Africa, South America and the CIS, have seen considerable inflationary pressures. Second, in several cases, policy rates have not returned to pre-financial crisis levels, which limit the scope for interest-rate cuts. And third, many countries, especially those with open capital markets and macroeconomic vulnerabilities, have experienced massive capital outflows and large currency depreciations since mid-2014 amid expectations of gradual monetary policy normalization in the United States of America. These constraints are accompanied by concerns that rising US interest rates and a further strengthening of the dollar could trigger a wave of emerging-market corporate defaults over the coming years.

[32] Average growth in developing countries for 2015 is estimated at 3.7 per cent. In the past 25 years, average annual growth has only been lower during acute crisis episodes: the Asian crisis in 1998, the financial crises in Argentina and Turkey in 2001 and the global financial crisis in 2009. Economies in transition are estimated to contract by an average rate of 2.8 per cent in 2015.

Against this backdrop, monetary and financial policies in developing countries and economies in transition should aim at supporting real sector activities, while ensuring external stability and managing balance sheet risks. This requires the effective use of a broad range of policy instruments, including macroprudential tools and targeted capital account management measures.

Thanks to the exceptionally favourable terms of access to capital markets, most of the developed countries do not face significant near-term risks to the sustainability of their public finances. However, public debt levels in some of them (most notably in Japan) still remain elevated, and questions about the structure of public spending remain on the agenda. The lower oil prices in 2015 facilitated fiscal expenditure in energy-importers, but, on the other hand, they have led to a very low or even negative inflation (especially in the euro area), which technically may complicate deficit or debt reduction. The favourable fiscal situation may change abruptly with increases in government bond yields, which are currently at historically low levels. The anticipated normalization of monetary policy in the United States may affect the terms of public borrowing and increase their debt financing costs, requiring fiscal prudence even among developed economies.

Compared with the advanced economies, developing countries and economies in transition generally have smaller budget deficits and public debt levels. Nevertheless, they face several challenges in the near term, among them: a protracted period of lower commodity prices; the upcoming interest-rate hike in the US; and weaker growth outlook. Lower commodity revenues and generally uncertain investor sentiment have already led to a noticeable depreciation of many emerging markets' currencies. Higher interest rates in the United States and subsequent capital outflows from developing countries would lead to investor aversion and higher refinancing costs, which may be difficult to handle for the countries with significant short-term debt refinancing needs, especially if their currencies weaken further. Although weaker currencies may facilitate meeting fiscal targets among commodity exporters, less optimistic medium-term growth prospects and weaker revenue intake may necessitate rebuilding fiscal buffers. In oil exporters, lower revenues will be partially offset by spending from their sovereign wealth funds, mitigating the pressure on public debt, but persistently low oil prices should eventually compel public finance reforms, including discretionary spending, combined with policies targeting economic diversification.

More targeted policies needed to improve labour market conditions

Despite recent modest improvements, labour market conditions (see section on labour market trends) continue to be held back by the moderate pace of economic growth, heightened levels of uncertainty, the extended period of weak investment and changing employment patterns. In many economies, employment has been growing slowly and in many cases jobs have taken the form of part-time, low-wage or temporary contracts, limiting income at the household level and aggregate demand, while aggravating income inequalities. In addition, a decline in the employment intensity of growth, mainly in developing economies, has also been leading to less inclusive economic growth in recent years.

Against this backdrop, policymakers face serious challenges in restoring full employment and decent labour conditions. There is the need for policies that address both the demand and supply sides of labour markets, while improving aggregate demand for more sustained economic and employment growth. First, more supportive macroeconomic policies can play a central role in fostering employment creation and reducing both unemployment and underemployment. Second, current income disparities and low wage growth can be addressed by well-designed training policies and stronger collective bargaining mechanisms that can improve workers' employability and income distribution. Third, considering that labour force participation is low and long-term unemployment extremely high, more active labour market policies may be considered as a complement to unemployment benefits to make labour markets more inclusive. Fourth, efforts to enhance access to credit for small and medium enterprises can play a significant role in investment recovery and job creation.

The declining labour share of total income has been identified as a main underlying factor limiting aggregate demand and ultimately output growth. This is in part the result of a long-term trend, which has led to a widening gap between wage growth and productivity growth (see *World Economic Situation and Prospects as of mid-2015*). In addition, as has been underscored by several international organizations (OECD, ILO, IMF, UN/DESA), the weakening workers' bargaining power is another important factor underpinning the declining labour share of total income. Wages have been flat for a decade in many developed economies, leading to higher levels of working poverty and income inequality.

Measures to address the diminishing labour share of total income include introducing or increasing minimum wages (see *World Economic Situation and Prospects as of mid-2015*). Minimum wages can directly help those at the bottom of the income distribution, but they can also secure fair pay and increase tax revenues. As a complementary policy, collective bargaining mechanisms can be designed to realign wage growth with productivity growth, rendering economic growth more inclusive and equitable. Evidence shows that Governments that have introduced new measures to increase minimum wages, as well as collective bargaining, were able to curb working poverty and income inequality, while supporting aggregate demand.

More progressive taxation policies, including income tax reliefs for lower-income groups, are also effective in addressing working poverty and income inequalities, with potential benefits for growth and employment creation. Particularly in developing economies, where the informal sector is larger, well designed tax systems can encourage formal employment creation, in general, but they can also target more disadvantaged social groups. In addition, since working poverty is also often associated with low-skilled labour, training policies targeting low-skilled workers should be considered. Such policies can help address income disparities between groups of workers by increasing labour productivity and reducing working poverty. According to OECD,[33] wage inequalities are lower in countries where skills are more equally distributed. At the same, training programmes for low-skilled workers can

[33] OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing, Paris.

also stimulate discouraged workers to re-enter the labour market and reduce long-term unemployment.

As labour force participation and long-term unemployment remain two major challenges in the aftermath of the financial crisis, the extension of unemployment benefits, coupled with active labour market policies, should be contemplated, as conventional policies to stimulate aggregate demand will not be sufficient to reintegrate those who are progressively pushed to the margins of labour markets. In many cases, Governments may need to extend unemployment benefit schemes to minimize individual losses for those who face higher risks of structural unemployment and poverty. As observed in several OECD economies, unemployment benefits play also a role in the long term, by securing individuals' careers.

In addition, specific activation strategies, implemented at national and local levels, can help matching labour supply with employers' needs. These policies include job search assistance and training programmes, as well as institutional reforms to better coordinate unemployment schemes with employment services. They are particularly relevant to help workers who are suffering from a chronic skill mismatch caused by technological changes or industrial geographical reallocation. They can also create incentives for individuals to continue seeking employment, while increasing their employability. Wage subsidies are another effective tool to encourage employers to hire specific social groups, such as women or youth.

Policy coordination becomes even harder

Greater policy coordination is needed—between monetary, exchange rate, fiscal policies and longer-term policies pursuing growth and sustainable development—to break the vicious cycle of weak aggregate demand, under-investment, low productivity and low growth performance of the global economy. Equally critical is the coordination of monetary and macroprudential policy objectives to ensure that finance indeed supports the real economy and that the world economy does not lapse into yet another financial crisis. Furthermore, economic, social and environmental policies need to be coordinated to realize the comprehensive and universal 2030 Agenda for Sustainable Development. There also needs to be stronger international coordination of various domestic and national level policies, taking into account the possible spillover effects on the rest of the economy.

Policy coordination, however, has become increasingly harder, against the backdrop of ever increasing complexity of the financial market, persistent and growing disconnect between the financial sector and the real economy, and the chronic misalignment and incentive incompatibility of various policy objectives pursued by different stakeholders at national and international levels. At the domestic level, policies are often designed and implemented in compartments, with little integration and coordination of different policy objectives.

In the aftermath of the global financial crisis, the Group of Twenty (G20) took up concrete measures to improve policy coordination at the global level. However, a quick but shallow recovery of global growth in 2011-2012 rendered the measures less imperative. Against the backdrop of a prolonged period of slow growth and the global commitment to the 2030 Agenda for Sustainable Development, the international community, including the G20, needs to renew their efforts to improve policy coordination at national, regional and international levels.

International policy coordination will become critically important for realizing the ambitious, comprehensive and universal 2030 Agenda for Sustainable Development and achieving its associated goals and targets. First and foremost, more effective policy coordination at the international level would be needed to revive global growth and put the world economy on a new path of sustained, equitable and sustainable growth. A successful conclusion of the trade negotiations—reducing barriers to market access, especially for developing economies—will provide the much needed impetus to global growth, will facilitate redistribution of global income and will reduce both within- and between-country income inequalities. The imperative of international policy coordination is most evident in the area of climate change and environment. The successful conclusion of UNFCCC COP 21 in Paris later this year, leading to binding commitments to reduce emission levels, will pave the way for more effective international policy coordination for sustainable development in all three dimensions—economic, social and environmental.

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Appendix

A. Baseline forecast assumptions

B. Statistics tables

Appendix A: Baseline forecast assumptions

This appendix summarizes the key assumptions underlying the baseline forecast, including monetary and fiscal policies for major economies, exchange rates for major currencies and the international prices of oil. It also assesses the sensitivity of the baseline forecast to these assumptions, using the World Economic Forecasting Model (WEFM). WEFM is a large-scale global macroeconomic model, covering 160 countries, which is used to ensure the global consistency of the forecasts presented in this report.

Monetary policy

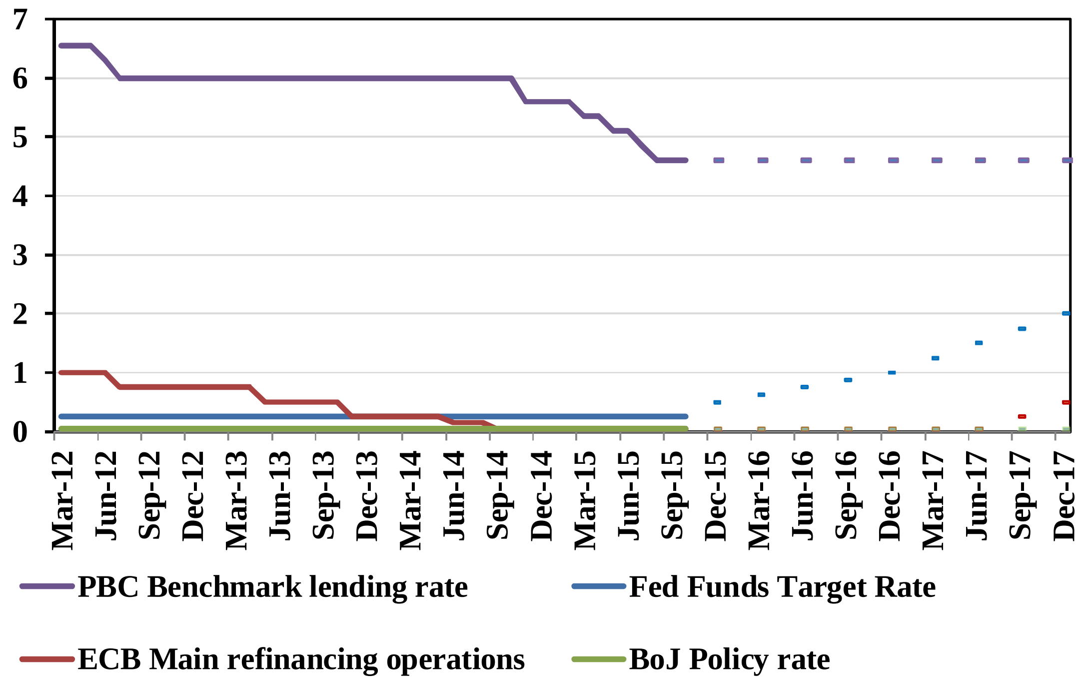
The United States *Federal Reserve* Board (Fed) is expected to raise its key policy rate by 25 basis points by the end of 2015. The target for the federal funds rate will then increase gradually, by 50 basis points and 100 basis points in 2016 and 2017, respectively (figure A1). The Fed terminated its asset purchase programme in October 2014, which has so far not driven a strong rebound of long-term government bond yields in the United States of America. Until the end of 2017, the Fed is expected to maintain its policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction", broadly maintaining the size of its balance sheet (figure A2).

The *European Central Bank* (ECB) significantly loosened its monetary stance in 2015, introducing an expanded asset purchase programme, with monthly purchases of public and private sector securities amounting to €60 billion. This policy is assumed to continue until September 2016, bringing the size of the ECB balance sheet roughly back to its level in 2012. After cutting interest rates twice in 2014, the ECB is expected to maintain policy interest rates at current levels for one year following the termination of the asset purchase programme, and raise interest rates by 50 basis points by end-2017.

The *Bank of Japan* (BoJ) increased the scale of its asset-purchase programme in October 2014 from 60-70 trillion to 80 trillion yen per annum. The BoJ is expected to keep the scale of asset purchases at this level until at least the end of 2017, and to maintain its policy interest rate at current levels of 0-10 basis points.

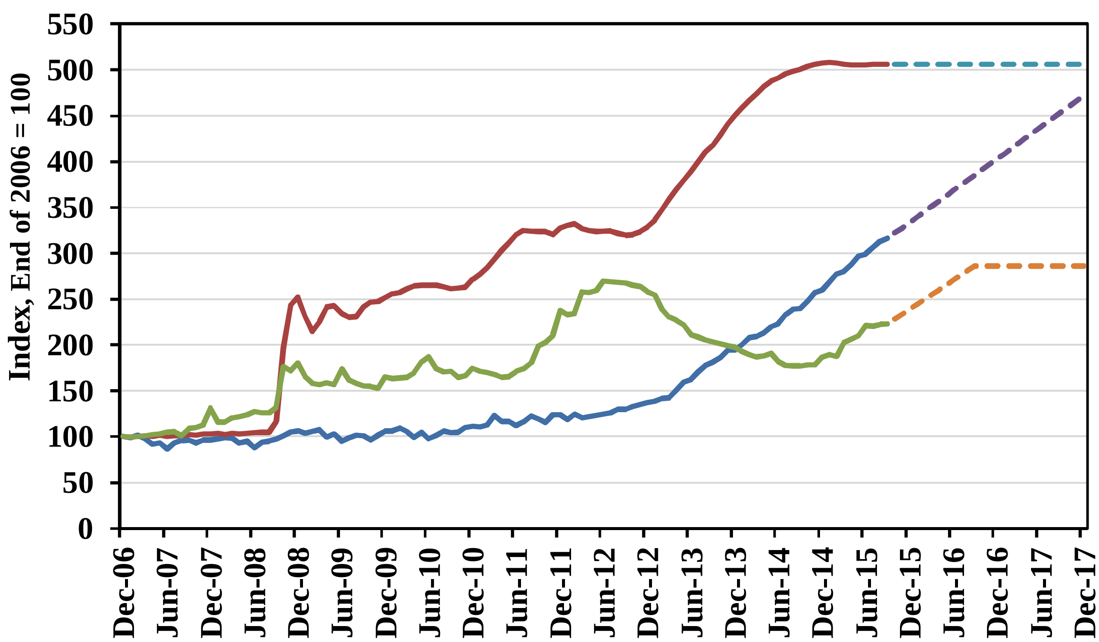
The *People's Bank of China* (PBOC) is expected to continue to carry out targeted measures, including further cuts to the reserve requirement ratio and targeted lending facilities, to inject liquidity into the economy. These measures will roughly offset the decline of foreign-exchange deposits—a major source of liquidity—and the overall monetary condition will remain neutral during the forecast period.

Figure A1: Key policy rate: Recent data and assumptions



Source: UN/DESA based on data from relevant central banks.

Figure A2: Total assets of major central banks, Dec 2006 - Dec 2017 [*]



Source: UN/DESA, based on data from relevant central banks.

* UN/DESA projections from October 2015 onward.

Fiscal policy

Fiscal policy in the *United States* is expected to remain marginally restrictive. Real federal government consumption expenditure is expected to remain at 2015 levels in both 2016 and 2017, and there will be no major change in the tax system. Given the moderate improvement in the state and local government fiscal conditions, real government expenditure at this level will grow by about 1 per cent in both 2016 and 2017. We assume that there will be no shutdown of federal government operations related to the political procedure of raising the debt ceiling, and the issuance of federal debt securities will not be interrupted.

In aggregate, the fiscal stance in the *European Union* is neutral in 2015, and is expected to be broadly neutral or marginally expansionary in 2016. A slightly tighter stance is planned for 2017. Excessive Deficit Procedures remain ongoing in 9 European Union countries, which will entail tightening measures of at least ½ per cent of GDP per annum.

In *Japan*, the scheduled date for the second increase in the consumption tax rate was delayed from October 2015 to April 2017, and we assume that this rise will take place as currently scheduled. The corporation tax rate will be cut in April 2016 from 32.1% to 31.3%. Government outlays are expected to increase during the fiscal year starting April 2016.

China is expected to intensify its proactive fiscal policy, and the official fiscal policy stance will remain mildly expansionary during the forecast period. The ratio of local government debt to total fiscal capacity is expected to reach about 86 per cent by end-2015, but will remain below the 100 per cent ceiling over the forecast period.

Exchange rates among major currencies

The dollar/euro exchange rate is assumed to average 1.117 in 2015, and to depreciate in line with the widening differential between ECB and Fed interest rates to 1.094 in 2016 and 1.042 in 2017.

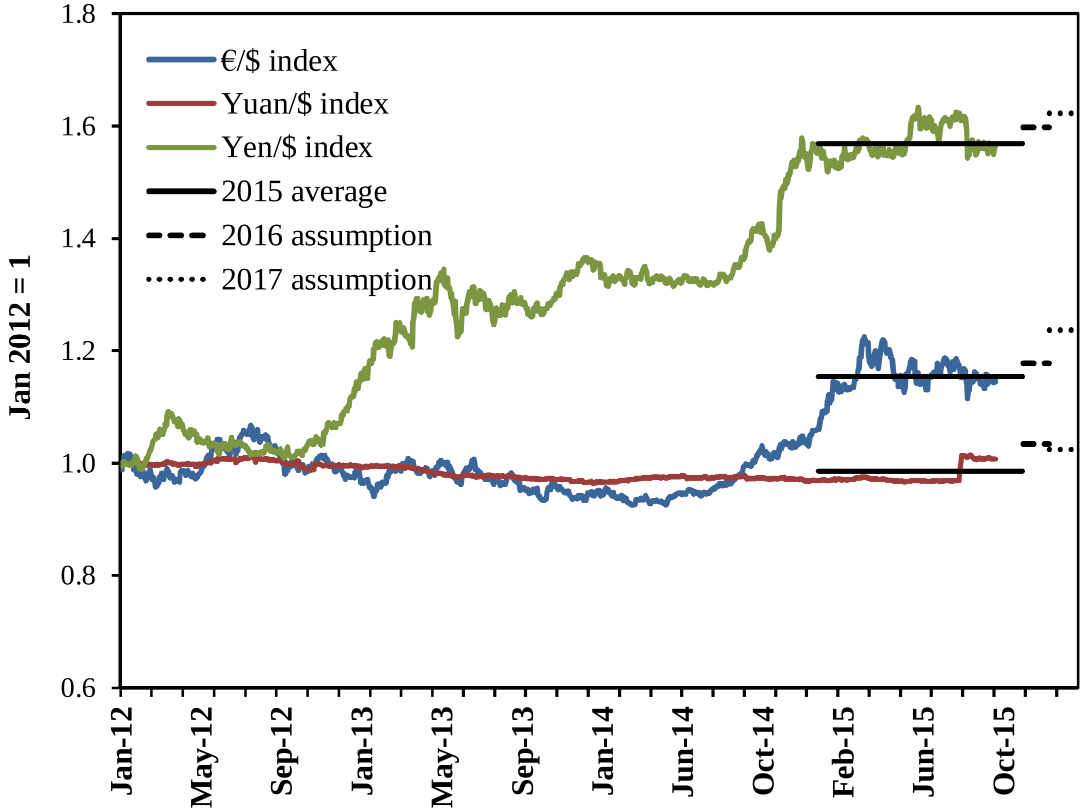
The yen/dollar exchange rate is assumed to average 120.75 in 2015, 122.98 in 2016 and 124.80 in 2017.

The renminbi/dollar exchange rate is assumed to average 6.225 CNY/dollar in 2015 and 6.53 in 2016 and 6.47 in 2017.

Oil price

The price of Brent oil is expected to average $53 per barrel in 2015, $51 per barrel in 2016 and $62 per barrel in 2017.

Figure A3: Data and assumptions on major currency exchange rates

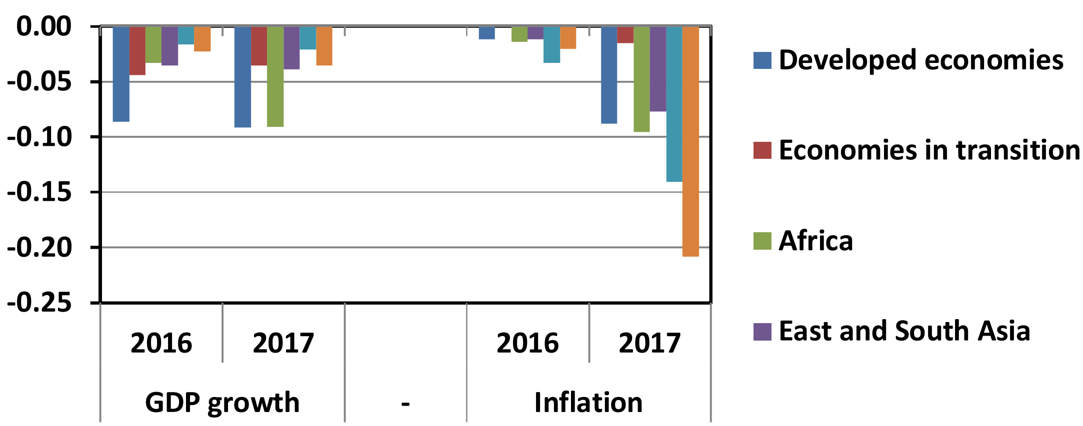


Source: Source: UN/DESA, based on data from JPMorgan and WEFM working assumption.

Forecast sensitivities to key assumptions

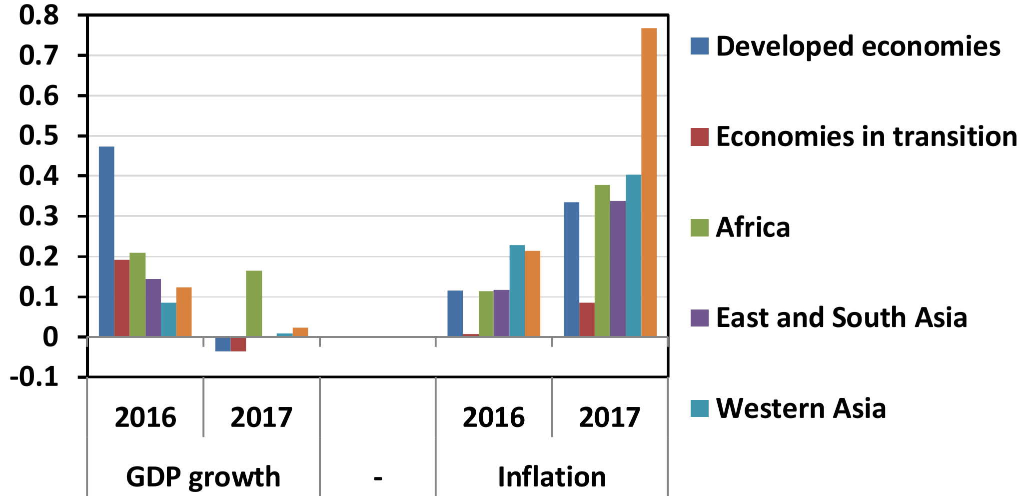
Below we show illustrative sensitivities of forecasts for the major global regions to some of the key underlying assumptions of the forecast, based on simulations using WEFM.

Figure A4: Impact of a 1 percentage point rise in US interest rates (Percentage change from baseline)



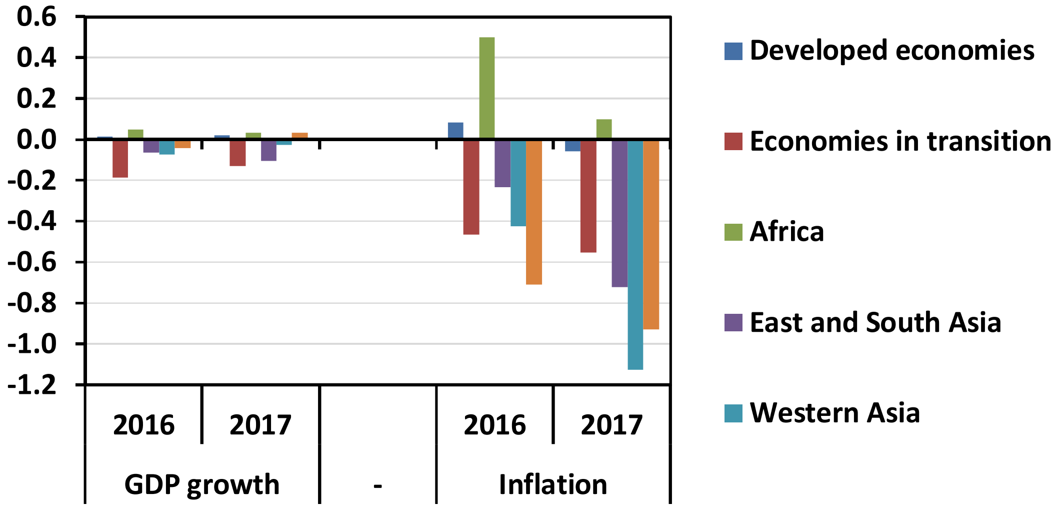
Source: WEFM simulation.

Figure A5: Impact of a 1 per cent of GDP increase in US government spending (Percentage change from baseline)



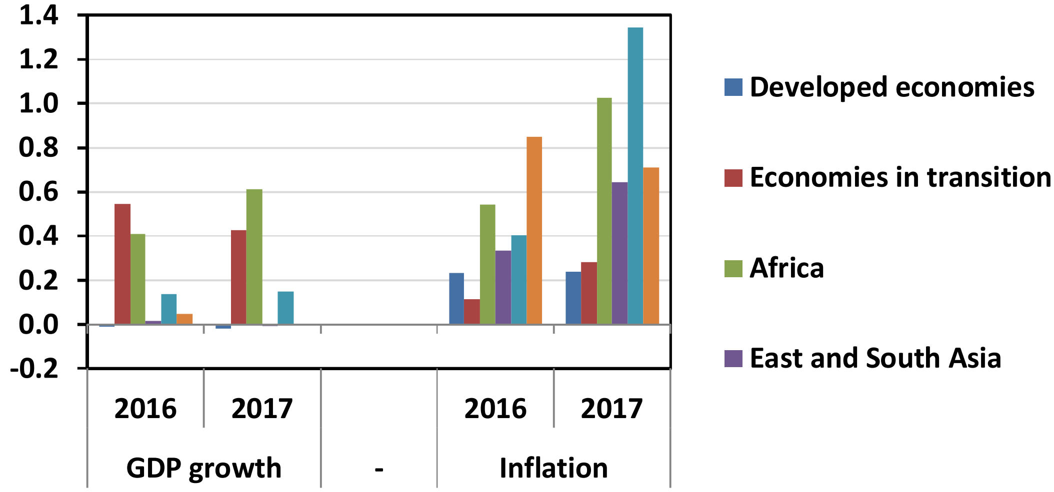
Source: WEFM simulation.

Figure A6: Impact of a 5 per cent depreciation of the euro/$ rate (Percentage change from baseline)



Source: WEFM simulation

Figure A7: Impact of a 10 per cent rise in the oil price (Percentage change from baseline)



Source: WEFM simulation.

Appendix B: Statistics tables

Table B.1
World and regions: rates of growth of real GDP, 2010-2017
(Annual percentage change [a])

	2010	2011	2012	2013	2014	2015 [b]	2016 [c]	2017 [c]
World	4.3	3.0	2.4	2.3	2.6	2.3	3.0	3.2
Developed economies	2.7	1.5	1.1	1.0	1.7	1.8	2.3	2.3
North America	2.6	1.7	2.2	1.5	2.4	2.3	2.6	2.9
Asia and Oceania	4.2	0.1	2.1	1.7	0.5	0.8	1.9	1.2
Western Europe	2.1	1.7	-0.4	0.2	1.4	1.7	2.2	2.3
European Union	2.1	1.7	-0.5	0.2	1.4	1.7	2.2	2.3
EU15	2.1	1.6	-0.6	0.1	1.2	1.6	2.1	2.2
New EU members	2.0	3.0	0.6	1.3	2.7	3.0	3.3	3.3
Euro area	2.1	1.6	-0.8	-0.3	0.9	1.4	2.0	2.1
Other European countries	1.9	1.5	1.8	1.4	2.0	1.0	1.5	2.1
Economies in transition	4.8	4.6	3.3	2.2	0.8	-2.8	0.8	1.9
South-Eastern Europe	1.5	1.7	-0.7	2.4	0.1	1.7	2.7	2.9
Commonwealth of Independent States and Georgia	4.9	4.7	3.5	2.2	0.8	-3.0	0.7	1.8
Developing economies	7.6	5.9	4.6	4.6	4.3	3.7	4.3	4.8
Africa	5.2	0.9	5.3	3.4	3.1	3.7	4.4	4.4
North Africa	4.2	-5.9	7.3	1.0	0.6	3.5	4.1	4.1
East Africa	7.9	6.7	5.9	7.0	7.0	6.2	6.8	6.6
Central Africa	5.5	3.2	5.2	2.0	3.5	3.4	4.3	4.2
West Africa	7.2	4.9	5.0	5.6	5.7	4.4	5.2	5.3
Southern Africa	3.7	3.8	3.3	3.2	2.4	2.5	3.0	3.3
East and South Asia	9.2	7.2	5.8	6.1	6.1	5.7	5.9	5.8
East Asia	9.4	7.4	6.3	6.3	6.1	5.6	5.6	5.6
South Asia	8.3	6.3	3.6	4.8	6.2	6.1	6.9	7.0
Western Asia	6.2	6.4	2.4	2.4	2.1	1.9	2.2	3.1
Latin America and the Caribbean	5.9	4.3	2.7	2.7	1.0	-0.6	0.7	2.7
South America	6.3	4.4	2.3	2.9	0.5	-1.7	-0.2	2.5
Mexico and Central America	5.1	4.1	4.2	1.8	2.4	2.4	3.1	3.3
Caribbean	2.7	2.8	2.8	3.0	3.2	3.3	3.6	3.3
Least developed countries	5.9	3.6	4.8	5.4	5.1	4.5	5.6	5.6
Memorandum items:								
Major developed economies (G7)	3.0	1.5	1.3	1.2	1.6	1.7	2.2	2.3
OECD	3.0	1.7	1.2	1.1	1.8	1.8	2.3	2.4

Source: UN/DESA

[a] Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2010 prices and exchange rates.

[b] Actual or the most recent estimate.

[c] Forecasts, based in part on Project LINK.

Table B.2
Rates of growth of real GDP, 2010-2017
(Annual percentage change)

	2010	2011	2012	2013	2014	2015 [a]	2016 [b]	2017 [b]
Developed Economies								
North America								
Canada	3.4	3.0	1.9	2.0	2.4	1.1	2.0	2.5
United States	2.5	1.6	2.2	1.5	2.4	2.4	2.6	2.9
Asia and Oceania								
Australia	2.3	2.6	3.7	2.0	2.7	1.5	2.8	2.9
Japan	4.7	-0.5	1.7	1.6	-0.1	0.5	1.6	0.7
New Zealand	2.0	1.4	2.9	2.5	3.3	2.6	2.9	2.5
European Union								
EU-15								
Austria	1.9	2.8	0.8	0.3	0.4	0.5	1.9	1.9
Belgium	2.5	1.6	0.1	0.3	1.1	1.0	2.1	2.1
Denmark	1.6	1.2	-0.7	-0.5	1.1	1.7	2.2	2.3
Finland	3.0	2.6	-1.4	-1.1	-0.4	0.1	1.2	1.4
France	2.0	2.1	0.2	0.7	0.2	1.1	1.6	1.6
Germany	4.1	3.7	0.4	0.3	1.6	1.6	2.3	2.4
Greece	-5.4	-8.9	-6.6	-3.9	0.8	-2.4	-1.2	2.8
Ireland	0.4	2.6	0.2	1.4	5.2	5.6	5.0	4.0
Italy	1.7	0.6	-2.8	-1.7	-0.4	0.6	1.4	1.6
Luxembourg	5.1	2.6	-0.2	2.0	5.6	3.1	3.6	2.5
Netherlands	1.4	1.7	-1.1	-0.5	1.0	1.8	2.7	2.3
Portugal	1.9	-1.8	-4.0	-1.6	0.9	1.5	1.6	1.4
Spain	0.0	-0.6	-2.1	-1.2	1.4	3.0	2.6	2.6
Sweden	6.0	2.7	-0.3	1.3	2.3	2.5	3.0	2.5
United Kingdom	1.9	1.6	0.7	1.7	3.0	2.4	2.5	2.7
New EU Member								
Bulgaria	0.7	2.0	0.5	1.1	1.7	1.7	2.7	3.5
Croatia	-1.7	-0.3	-2.2	-0.9	-0.4	0.4	1.3	2.0
Cyprus	1.4	0.3	-2.4	-5.4	-2.3	1.2	1.8	1.9
Czech Republic	2.3	2.0	-0.9	-0.5	2.0	3.7	2.8	3.1
Estonia	2.5	8.3	4.7	1.6	2.1	1.8	2.9	3.2
Hungary	0.8	1.8	-1.5	1.5	3.6	2.3	2.5	2.6
Latvia	-2.9	5.0	4.8	4.2	2.6	1.9	3.1	3.1
Lithuania	1.6	6.1	3.8	3.3	2.9	1.8	3.0	3.1
Malta	3.5	2.2	2.0	2.5	3.6	3.9	3.0	2.2
Poland	3.7	4.8	1.8	1.7	3.4	3.4	3.6	3.5
Romania	-0.8	1.1	0.6	3.5	2.8	3.7	4.1	4.0
Slovak Republic	4.8	2.7	1.6	1.4	2.4	2.9	3.6	3.7
Slovenia	1.2	0.6	-2.7	-1.1	3.0	2.7	3.7	2.8
Other European								
Iceland	-2.9	2.1	1.1	3.5	1.8	5.0	4.0	3.7
Norway	0.6	1.0	2.7	0.7	2.2	1.3	1.3	2.3
Switzerland	3.0	1.8	1.1	1.8	1.9	0.7	1.6	1.9
Economies in transition								
South-Eastern Europe								
Albania	3.7	2.5	1.6	1.3	2.1	3.1	3.2	3.8
Bosnia and Herzegovina	0.8	1.0	-1.2	2.5	0.8	1.9	2.6	2.5
Montenegro	2.5	3.2	-2.5	3.5	1.8	2.7	3.3	3.0
Serbia	0.6	1.4	-1.0	2.6	-1.8	0.7	2.2	3.0
The former Yugoslav Republic of Macedonia	3.4	2.3	-0.5	2.7	3.8	3.1	3.9	2.5
Commonwealth of Independent States								
Armenia	2.2	4.7	7.2	3.5	3.5	1.4	2.2	3.0
Azerbaijan	4.6	-1.6	2.1	6.0	2.0	3.9	2.6	2.8
Belarus	7.7	5.5	1.7	0.9	1.6	-4.1	0.3	2.0
Kazakhstan	7.3	7.5	5.0	6.0	4.0	1.6	2.1	2.7
Kyrgyzstan	-0.5	6.0	-0.1	10.5	3.6	3.9	5.1	4.2
Republic of Moldova	7.1	6.8	-0.7	8.9	4.6	1.4	2.9	2.9
Russian Federation	4.5	4.3	3.4	1.3	0.6	-3.8	0.0	1.2
Tajikistan	6.5	2.4	7.5	7.4	6.7	3.3	4.8	5.9
Turkmenistan	9.2	14.1	11.1	10.2	11.2	9.0	9.7	8.8
Ukraine	4.1	5.4	0.2	3.2	-6.8	-10.6	-0.1	2.1
Uzbekistan	8.5	8.3	8.2	7.0	8.1	8.1	7.1	6.8
Georgia	6.3	7.2	6.2	3.2	4.8	2.4	2.2	2.7

Table B.2
Rates of growth of real GDP, 2010-2017 (*continued*)
(Annual percentage change)

	2010	2011	2012	2013	2014	2015 [a]	2016 [b]	2017 [b]
Developing Economies								
Africa								
Algeria	3.6	2.8	3.3	2.8	3.8	3.1	3.4	3.3
Angola	3.5	3.9	5.2	5.1	3.9	3.2	4.2	4.2
Benin	2.6	3.3	5.4	5.6	4.4	5.1	4.8	4.7
Botswana	8.6	6.1	3.7	6.5	4.8	4.6	4.5	4.9
Burkina Faso	8.4	6.6	8.0	6.7	1.1	4.5	5.9	5.8
Burundi	15.7	4.2	4.2	4.6	4.7	4.4	5.7	5.2
Cameroon	3.3	4.1	4.6	5.6	5.1	4.6	5.0	5.0
Cabo Verde	1.5	4.0	1.2	0.5	2.4	2.5	3.1	3.0
Central African Republic	3.6	2.0	2.9	-36.0	2.3	3.9	3.8	4.0
Chad	13.2	0.6	9.1	3.4	4.1	5.1	5.9	5.8
Comoros	2.0	2.6	3.0	3.6	2.0	0.9	3.8	3.5
Congo	8.7	3.4	3.8	3.3	0.0	6.8	7.0	6.8
Côte d'Ivoire	2.4	-4.7	9.8	9.0	9.0	7.2	7.5	6.6
Democratic Republic of the Congo	7.1	6.9	7.1	8.5	9.2	6.7	7.4	7.1
Djibouti	4.5	4.5	4.8	5.0	6.0	5.3	6.3	5.6
Egypt	5.1	1.8	2.2	2.1	2.2	4.2	4.4	4.2
Equatorial Guinea	1.3	-0.6	5.3	-4.8	1.5	-2.5	-1.6	-2.0
Eritrea	2.2	8.7	7.0	1.3	3.2	3.5	4.0	4.0
Ethiopia	12.6	11.1	8.7	10.4	10.3	7.3	7.4	7.0
Gabon	6.8	7.1	5.3	5.6	5.0	2.1	4.1	4.2
Gambia	6.5	-4.3	6.1	5.6	4.2	1.6	2.3	3.3
Ghana	7.3	15.0	8.8	7.1	4.0	3.3	5.0	5.0
Guinea	1.9	3.9	3.9	2.5	-0.8	1.2	5.1	4.8
Guinea-Bissau	4.4	5.3	-1.5	0.3	-0.4	3.0	3.6	3.5
Kenya	7.7	4.5	5.6	6.0	5.3	6.4	7.0	6.9
Lesotho	7.1	2.8	6.5	5.8	7.1	4.9	4.6	4.7
Liberia	10.8	5.8	8.2	8.1	-0.5	3.5	7.5	7.0
Libya	4.3	-61.3	104.5	-16.2	-24.0	1.2	6.1	6.4
Madagascar	0.4	1.3	2.7	2.0	3.3	3.1	4.8	4.4
Malawi	6.9	2.9	1.9	5.4	5.9	4.1	5.1	5.3
Mali	5.8	2.7	0.0	1.7	2.3	5.4	5.2	5.1
Mauritania	3.5	4.4	6.0	6.7	6.9	4.6	7.0	5.4
Mauritius	4.1	3.9	3.3	3.3	2.8	3.6	3.5	3.5
Morocco	3.6	5.0	2.7	4.4	2.4	4.6	4.2	4.6
Mozambique	7.1	7.4	7.1	7.4	6.1	7.3	7.4	7.4
Namibia	6.6	6.0	6.7	4.4	3.1	4.4	4.9	4.7
Niger	8.4	2.3	11.1	4.1	2.7	5.7	5.6	5.2
Nigeria	7.8	4.9	4.3	5.4	6.3	4.3	5.1	5.3
Rwanda	6.3	6.8	8.8	4.7	6.9	6.4	7.3	7.4
Sao Tome and Principe	4.6	4.5	4.0	4.3	4.1	4.0	5.1	4.9
Senegal	4.2	1.7	3.4	2.4	2.0	4.6	4.5	4.7
Sierra Leone	5.3	6.0	15.2	20.1	-2.3	-3.8	5.2	4.8
South Africa	3.0	3.2	2.2	2.2	1.5	1.8	2.2	2.6
Togo	4.0	4.9	5.8	5.1	-0.1	5.8	5.5	5.5
Tunisia	3.0	-1.9	3.9	2.3	2.3	0.9	3.3	3.9
Uganda	9.7	4.4	3.3	4.5	4.8	5.0	5.7	5.8
United Republic of Tanzania	5.8	9.5	5.1	8.2	7.0	6.7	7.4	7.0
Zambia	7.6	6.8	7.3	6.5	6.0	4.6	6.3	6.4
Zimbabwe	11.4	11.9	10.6	4.5	3.0	3.2	4.1	4.0

Table B.2
Rates of growth of real GDP, 2010-2017 (*continued*)
(Annual percentage change)

	2010	2011	2012	2013	2014	2015 [a]	2016 [b]	2017 [b]
East and South Asia								
Bangladesh	6.3	6.5	6.3	6.1	6.3	6.4	6.5	6.3
Brunei Darussalam	2.6	3.4	0.9	-1.8	-2.4	-1.5	2.6	3.7
China	10.4	9.3	7.7	7.7	7.3	6.8	6.4	6.2
Hong Kong, Special Administrative Region of China	6.8	4.8	1.5	3.1	2.5	2.3	2.7	2.9
India	10.1	7.3	5.1	6.4	7.1	7.2	7.5	7.6
Indonesia	6.2	6.5	6.3	5.8	5.0	5.1	5.4	5.6
Iran, Islamic Republic of	5.4	3.2	-4.6	-3.0	2.7	0.5	4.8	5.4
Korea, Republic of	6.5	3.7	2.3	2.9	3.3	2.6	3.2	3.1
Malaysia	7.4	5.1	5.6	4.7	6.0	4.5	5.3	5.1
Myanmar	10.2	5.4	7.6	7.5	8.2	8.3	8.7	8.4
Nepal	4.3	3.9	4.4	4.7	5.3	3.3	4.6	4.7
Pakistan	2.2	3.4	5.1	4.6	5.1	5.1	5.0	5.0
Papua New Guinea	7.6	11.3	7.7	5.1	7.1	9.4	4.5	5.6
Philippines	7.6	3.6	6.8	7.2	6.1	5.8	6.4	5.5
Singapore	15.1	6.0	1.9	4.1	2.9	2.3	2.9	3.5
Sri Lanka	8.0	8.2	6.4	7.2	4.5	6.1	7.0	6.8
Taiwan, Province of China	10.6	3.8	2.1	2.2	3.7	1.1	2.7	3.3
Thailand	7.4	0.6	7.1	2.9	0.9	2.5	3.7	3.8
Viet Nam	6.8	6.2	5.2	5.4	6.0	6.4	6.8	6.5
Western Asia								
Bahrain	4.3	2.1	3.6	5.3	4.5	2.8	2.2	3.0
Iraq	5.5	10.2	10.3	4.2	-2.1	0.0	3.0	5.0
Israel	5.7	4.6	3.4	3.3	2.5	2.1	2.6	3.2
Jordan	2.3	2.6	2.7	2.8	3.1	3.0	3.5	4.0
Kuwait	-6.0	10.2	8.3	1.1	-1.6	-1.0	0.5	2.1
Lebanon	8.0	0.9	2.8	3.0	2.0	1.8	2.8	3.2
Oman	4.8	0.9	5.8	4.8	3.0	2.3	2.1	2.9
Qatar	16.7	13.0	6.1	6.5	4.0	4.5	4.4	5.0
Saudi Arabia	7.4	8.6	5.8	4.0	3.5	3.4	2.0	3.1
Turkey	9.2	8.8	2.1	4.1	2.9	2.8	2.9	3.4
United Arab Emirates	1.6	4.9	4.7	5.2	4.6	2.9	2.8	2.8
Yemen	5.7	-12.8	2.0	4.8	0.0	-9.9	2.0	4.4
Latin America and the Caribbean								
Argentina	9.1	8.6	0.9	2.9	0.5	0.9	1.3	2.5
Barbados	0.3	0.8	0.0	-0.3	-0.5	0.2	1.2	1.8
Bolivia, Plurinational State of	4.1	5.2	5.2	6.8	5.5	4.3	4.4	4.2
Brazil	7.5	2.7	1.0	2.5	0.1	-2.9	-0.9	2.3
Chile	5.8	5.8	5.4	4.1	1.9	1.9	2.5	2.9
Colombia	4.0	6.6	4.0	4.3	4.6	2.5	2.9	3.9
Costa Rica	5.0	4.5	5.1	3.5	3.5	2.8	4.1	4.0
Cuba	2.4	2.8	3.0	2.7	1.1	3.0	3.5	3.5
Dominican Republic	7.8	4.5	3.9	4.1	7.3	4.9	4.9	3.9
Ecuador	3.5	7.9	5.2	4.6	3.8	0.1	0.5	2.4
El Salvador	1.4	2.2	1.9	1.7	2.0	2.1	2.7	2.2
Guatemala	2.9	4.2	3.0	3.7	4.2	3.5	4.0	3.1
Guyana	4.4	5.4	4.8	5.3	3.9	3.9	4.4	3.9
Haiti	-5.5	5.5	2.9	4.3	2.7	2.4	2.7	2.7
Honduras	3.7	3.8	3.9	2.6	3.1	3.3	4.1	3.6
Jamaica	-1.5	1.7	-0.6	0.6	0.5	1.6	2.2	2.2
Mexico	5.2	3.9	4.0	1.4	2.1	2.2	2.9	3.2
Nicaragua	3.3	5.7	5.0	4.6	4.7	3.9	4.6	4.2
Panama	7.4	10.9	10.8	8.4	6.2	5.6	5.9	5.2
Paraguay	13.1	4.3	-1.2	13.0	4.4	3.8	4.3	4.3
Peru	8.5	6.5	6.0	5.6	2.4	2.4	3.6	3.9
Trinidad and Tobago	-2.5	-1.6	1.5	2.8	1.8	2.0	2.0	2.0
Uruguay	8.4	7.3	3.7	4.4	3.5	2.7	3.4	3.3
Venezuela, Bolivarian Republic of	-1.5	4.2	5.6	1.3	-4.0	-8.0	-6.0	0.4

Source: UN/DESA

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

Table B.3
World and regions: consumer price inflation, 2010-2017
(Annual percentage change [a])

	2010	2011	2012	2013	2014	2015 [b]	2016 [c]	2017 [c]
World	3.0	4.1	3.3	3.3	3.3	3.3	3.7	3.5
Developed economies	1.5	2.6	1.9	1.3	1.4	0.3	1.0	1.9
North America	1.7	3.1	2.0	1.4	1.6	0.3	1.6	2.3
Asia and Oceania	0.0	0.5	0.3	0.8	2.7	0.7	-0.3	1.5
Western Europe	1.9	2.8	2.4	1.5	0.6	0.2	1.0	1.7
European Union	1.9	3.0	2.6	1.5	0.6	0.1	1.0	1.7
EU15	1.9	2.9	2.5	1.5	0.6	0.2	1.0	1.7
New EU members	2.7	3.8	3.7	1.5	0.5	0.0	1.1	2.1
Euro area	1.6	2.7	2.5	1.4	0.4	0.2	1.0	1.7
Other European countries	1.4	0.6	-0.2	0.9	0.8	0.3	1.0	1.6
Economies in transition	6.9	9.6	6.2	6.4	7.1	16.2	10.5	7.1
South-Eastern Europe	4.1	7.2	4.8	4.4	1.1	1.1	2.1	2.5
Commonwealth of Independent States and Georgia	7.1	9.7	6.2	6.4	7.4	16.8	10.8	7.3
Developing economies [d]	5.6	6.6	5.8	6.9	6.7	7.8	8.2	6.0
Africa [d]	7.6	8.7	9.1	7.2	7.0	7.5	6.7	6.3
North Africa	6.8	8.3	9.3	8.3	8.5	8.3	6.9	5.8
East Africa	6.0	17.3	13.3	5.9	5.3	5.9	6.0	5.7
Central Africa	2.8	2.3	5.0	3.0	2.5	2.8	3.1	3.0
West Africa	11.6	9.7	10.6	7.7	7.5	8.6	8.4	8.3
Southern Africa [d]	6.1	6.6	6.7	6.5	5.9	6.6	5.7	5.6
East and South Asia	5.0	6.3	4.6	5.3	3.5	2.5	3.1	3.3
East Asia	3.3	5.1	2.7	2.8	2.3	1.5	2.2	2.6
South Asia	11.5	11.1	12.2	15.1	8.2	6.1	6.5	6.3
Western Asia	4.8	4.9	7.8	12.0	11.7	8.4	7.0	6.3
Latin America and the Caribbean	6.7	7.3	6.5	8.1	11.7	20.1	21.4	12.2
South America	7.5	8.5	7.2	9.6	14.3	26.1	27.5	15.1
Mexico and Central America	4.1	3.7	4.1	3.8	4.0	2.6	3.8	3.9
Caribbean	7.9	7.6	5.5	5.4	4.3	3.1	4.1	4.2
Least developed countries	8.9	12.1	11.7	9.9	9.5	8.4	6.8	7.1
Memorandum items:								
Major developed economies (G7)	1.3	2.5	1.8	1.3	1.6	0.3	1.0	2.0
OECD	1.7	2.7	2.1	1.5	1.6	0.5	1.2	2.0

Source: UN/DESA

[a] Calculated as a weighted average of individual country growth rates of consumer price index (CPI), where weights are based on GDP in 2010, in the United States dollar.

[b] Actual or the most recent estimate.

[c] Forecasts, based in part on Project LINK.

[d] Excluding Zimbabwe.

Table B.4
Consumer price inflation, 2010-2017
(Annual percentage change)

	2010	2011	2012	2013	2014	2015 [a]	2016 [b]	2017 [b]
Developed Economies								
North America								
Canada	1.8	2.9	1.5	0.9	1.9	1.2	1.8	2.2
United States	1.6	3.2	2.1	1.5	1.6	0.2	1.6	2.3
Asia and Oceania								
Australia	2.9	3.3	1.8	2.5	2.5	0.9	1.3	1.7
Japan	-0.7	-0.3	0.0	0.4	2.7	0.6	-0.8	1.5
New Zealand	2.3	4.0	1.1	1.1	1.2	0.7	1.8	2.1
European Union								
EU-15								
Austria	1.7	3.6	2.6	2.1	1.5	0.8	1.5	2.0
Belgium	2.3	3.4	2.6	1.2	0.5	0.2	1.3	1.9
Denmark	2.2	2.7	2.4	0.5	0.3	0.4	1.4	1.9
Finland	1.7	3.3	3.2	2.2	1.2	-0.1	0.7	1.5
France	1.7	2.3	2.2	1.0	0.6	0.1	0.6	1.5
Germany	1.2	2.5	2.1	1.6	0.8	0.4	1.1	1.8
Greece	4.7	3.1	1.0	-0.9	-1.4	-0.8	0.2	0.8
Ireland	-1.6	1.2	1.9	0.5	0.3	0.1	1.0	1.5
Italy	1.6	2.9	3.3	1.3	0.2	0.1	0.9	1.6
Luxembourg	2.3	3.4	2.7	1.7	0.6	0.2	0.8	1.4
Netherlands	0.9	2.5	2.8	2.6	0.3	0.4	1.1	1.7
Portugal	1.4	3.6	2.8	0.4	-0.2	0.6	1.9	2.5
Spain	2.0	3.1	2.4	1.5	-0.2	-0.3	1.0	1.8
Sweden	1.9	1.4	0.9	0.4	0.2	0.1	1.0	1.5
United Kingdom	3.3	4.5	2.8	2.6	1.5	0.0	1.0	1.8
New EU members								
Bulgaria	2.4	4.2	3.0	0.9	-0.3	0.0	2.0	3.1
Croatia	1.0	2.3	3.4	2.2	-0.3	0.0	1.1	2.3
Cyprus	2.4	3.3	2.4	-0.4	-1.4	-2.2	0.3	2.4
Czech Republic	1.2	2.1	3.5	1.4	0.4	1.0	2.0	2.0
Estonia	2.7	5.1	4.2	3.3	0.5	0.6	2.0	3.0
Hungary	4.7	3.9	5.7	1.7	0.0	0.0	1.5	2.9
Latvia	-1.1	4.4	2.3	0.0	2.2	0.4	1.9	2.1
Lithuania	1.3	4.1	3.1	1.0	1.8	-1.2	1.4	2.1
Malta	1.5	2.7	2.4	1.4	0.3	1.2	1.4	1.7
Poland	2.7	3.9	3.7	0.8	0.1	-0.1	1.0	2.0
Romania	6.1	5.8	3.3	4.0	2.5	-0.5	-0.2	1.5
Slovak Republic	0.7	4.1	3.7	1.5	-0.1	-0.2	0.9	1.9
Slovenia	2.1	2.1	2.8	1.9	0.4	-0.2	1.0	1.4
Other Europe								
Iceland	5.4	4.0	5.2	3.9	2.1	0.0	1.5	1.6
Norway	2.3	1.3	0.4	2.0	1.9	2.0	2.0	2.0
Switzerland	0.6	0.1	-0.7	0.1	0.0	-1.0	0.2	1.2
Economies in transition								
South-eastern Europe								
Albania	3.6	3.5	2.0	1.9	2.9	0.8	2.5	2.5
Bosnia and Herzegovina	2.2	3.7	2.0	-0.1	0.1	0.0	1.0	1.6
Montenegro	0.7	3.1	3.6	2.2	-0.2	1.0	1.5	2.4
Serbia	6.1	11.1	7.3	7.7	1.4	2.0	2.7	3.0
The former Yugoslav Republic of Macedonia	1.5	3.9	3.3	2.8	0.2	0.0	1.2	2.1
Commonwealth of Independent States								
Armenia	8.2	7.7	2.6	5.8	3.4	6.1	4.8	2.9
Azerbaijan	5.7	7.9	1.0	2.4	4.0	5.0	3.5	3.5
Belarus	7.7	53.2	59.2	18.3	19.8	17.9	14.0	11.1
Kazakhstan	7.1	8.3	5.1	5.8	6.1	5.8	6.5	4.5
Kyrgyzstan	8.0	16.5	2.7	6.6	7.9	8.9	7.8	3.6
Republic of Moldova	7.4	7.6	4.6	4.6	6.5	7.0	6.9	4.9
Russian Federation	6.8	8.4	5.1	6.8	7.1	15.9	10.5	7.1
Tajikistan	6.5	12.4	5.8	5.0	6.6	9.4	6.5	5.1
Turkmenistan	4.4	5.3	5.3	6.8	9.1	8.0	8.3	8.0
Ukraine	9.4	8.0	0.6	-0.3	7.6	48.5	22.2	13.2
Uzbekistan	9.4	12.8	12.1	11.2	10.0	11.0	9.9	8.0
Georgia	7.1	8.5	-0.9	-0.5	4.3	4.8	5.6	3.0

Table B.4
Consumer price inflation, 2010-2017 (continued)
(Annual percentage change)

	2010	2011	2012	2013	2014	2015 [a]	2016 [b]	2017 [b]
Developing economies								
Africa								
Algeria	3.9	4.5	8.9	3.3	2.9	4.2	4.0	3.4
Angola	14.5	13.5	10.3	8.8	7.5	11.0	6.8	6.9
Benin	2.3	2.7	6.8	1.0	-1.1	1.2	1.0	1.5
Botswana	6.9	8.5	7.5	5.9	4.4	3.0	4.4	4.1
Burkina Faso	-0.8	2.8	3.8	0.5	-0.2	1.0	1.7	2.1
Burundi	6.4	9.7	18.0	8.0	4.4	7.4	6.2	5.0
Cameroon	1.3	2.9	2.9	1.9	2.5	2.4	2.6	2.5
Cabo Verde	2.1	4.5	2.5	1.5	-0.2	1.3	2.7	2.8
Central African Republic	1.5	1.3	5.8	1.5	2.2	5.1	4.5	4.2
Chad	-2.1	-3.7	14.0	0.1	1.7	2.6	2.9	3.0
Comoros	3.9	2.2	5.9	1.6	1.3	2.0	2.2	2.2
Congo	5.0	1.3	3.9	6.0	0.1	1.9	2.0	2.0
Côte d'Ivoire	1.7	4.9	1.3	2.6	1.1	2.2	2.6	2.4
Democratic Republic of the Congo	7.1	15.3	9.7	1.6	1.0	1.0	1.7	2.5
Djibouti	4.0	5.1	3.7	2.4	2.9	3.0	3.5	2.5
Egypt	11.3	10.1	7.1	9.4	10.1	11.0	8.9	7.0
Equatorial Guinea	7.8	6.9	6.1	6.4	3.1	4.5	5.0	4.9
Eritrea	17.0	15.7	12.3	12.6	11.7	10.6	12.2	12.2
Ethiopia	8.1	33.2	22.8	8.1	7.4	10.0	9.0	8.3
Gabon	1.5	1.3	2.7	0.5	4.7	2.6	2.7	2.6
Gambia	5.0	4.8	4.3	5.7	5.9	5.3	5.2	5.0
Ghana	10.7	8.7	9.2	11.6	17.0	13.1	12.5	12.5
Guinea	15.5	21.4	15.2	11.9	9.7	8.9	9.0	8.5
Guinea-Bissau	2.5	5.0	2.1	1.2	-1.5	1.2	1.9	1.8
Kenya	4.0	14.0	9.4	5.7	6.9	6.3	5.9	5.0
Lesotho	3.6	5.0	6.1	4.9	5.3	5.2	5.0	4.9
Liberia	3.6	2.5	18.2	7.6	9.0	7.9	7.5	7.5
Libya	2.8	15.5	6.1	2.6	2.8	8.0	9.2	6.0
Madagascar	9.2	9.5	6.4	5.8	6.1	6.1	7.6	7.4
Malawi	7.4	7.6	21.3	27.3	24.4	11.5	10.2	10.0
Mali	1.1	2.9	5.4	-0.6	0.9	1.5	2.0	2.0
Mauritania	6.3	5.6	4.9	4.1	3.5	3.6	4.3	4.6
Mauritius	2.9	6.5	3.9	3.5	3.2	3.1	3.3	3.1
Morocco	1.0	0.9	1.3	1.9	0.4	1.5	2.0	2.0
Mozambique	12.7	10.4	2.7	4.3	2.6	4.5	4.4	4.2
Namibia	4.9	5.0	6.7	5.6	5.3	4.3	4.1	4.0
Niger	0.8	2.9	0.5	2.3	-0.8	0.7	1.2	1.5
Nigeria	13.7	10.8	12.2	8.5	8.1	9.6	9.3	9.2
Rwanda	2.3	5.7	6.3	8.0	1.3	2.1	4.3	5.0
Sao Tome and Principe	13.3	12.0	8.0	8.7	7.0	3.0	2.5	4.0
Senegal	1.2	3.4	1.4	0.7	-1.1	1.2	1.6	1.5
Sierra Leone	16.6	16.2	12.9	10.3	7.3	8.2	7.5	7.4
Somalia	2.1	2.2	2.0	-5.0	-3.0	-1.0	1.0	1.0
South Africa	4.1	5.0	5.8	5.8	5.3	5.9	5.4	5.4
Togo	1.8	3.6	2.6	1.8	0.2	0.8	1.8	1.9
Tunisia	4.4	3.5	5.1	5.8	4.9	5.0	4.0	3.9
Uganda	4.0	18.7	14.0	5.5	4.3	5.7	6.5	5.9
United Republic of Tanzania	6.2	12.7	16.0	7.9	6.1	6.1	5.6	5.9
Zambia	8.5	6.4	6.6	7.0	7.8	7.2	7.7	7.3
Zimbabwe	4	5.4	8.2	8.6	0.8	3.0	2.8	2.9

Table B.4

Consumer price inflation, 2010-2017 (continued)
(Annual percentage change)

	2010	2011	2012	2013	2014	2015 [a]	2016 [b]	2017 [b]
East and South Asia								
Bangladesh	8.1	10.7	6.2	7.5	7.0	6.2	6.0	5.9
Brunei Darussalam	0.4	2.0	0.5	0.4	-0.2	-0.2	0.2	0.2
China	3.3	5.5	2.6	2.7	2.0	1.4	2.0	2.3
Hong Kong, Special Administrative Regio	2.3	5.3	4.1	4.4	4.4	2.9	3.3	3.1
India	12.0	8.9	9.3	10.9	6.3	4.9	5.6	5.4
Indonesia	5.2	5.4	4.3	6.4	6.4	6.7	5.0	4.8
Iran, Islamic Republic of	10.1	20.6	27.4	39.3	17.2	13.4	11.8	10.5
Korea, Republic of	2.9	4.0	2.2	1.3	1.3	0.7	1.8	2.3
Malaysia	1.7	3.2	1.7	2.1	3.1	2.2	3.4	2.7
Myanmar	7.7	5.0	1.5	5.5	5.5	-1.8	0.9	10.0
Nepal	9.3	9.3	9.5	9.0	8.4	7.4	7.8	7.5
Pakistan	13.9	11.9	9.7	7.7	7.2	2.9	4.5	5.3
Papua New Guinea	6.0	4.4	4.5	5.0	4.7	4.9	5.1	5.1
Philippines	3.8	4.6	3.2	3.0	4.1	1.8	2.8	3.5
Singapore	2.8	5.3	4.5	2.4	1.0	-0.5	1.4	2.4
Sri Lanka	6.2	6.7	7.5	6.9	3.3	0.8	3.0	4.1
Taiwan, Province of China	1.1	1.1	1.1	0.6	0.3	-0.6	0.3	1.8
Thailand	3.3	3.8	3.0	2.2	1.9	-0.8	1.2	2.8
Viet Nam	8.9	18.7	9.1	6.6	4.1	1.1	3.9	5.1
Western Asia								
Bahrain	2.0	-0.4	2.8	3.2	2.7	2.0	2.4	2.4
Israel	2.7	3.5	1.7	1.6	0.5	-0.5	0.8	1.4
Jordan	5.0	4.4	4.8	5.5	2.9	-0.3	3.0	3.2
Kuwait	4.5	4.9	3.2	2.7	2.9	3.3	3.5	3.5
Oman	3.2	4.1	2.9	1.2	1.0	0.5	2.3	3.0
Qatar	-2.4	1.9	1.9	3.1	3.1	1.7	3.0	3.7
Saudi Arabia	5.4	5.8	2.9	3.5	2.7	2.2	2.8	3.5
Turkey	8.6	6.5	8.9	7.5	8.9	7.4	7.2	5.4
Yemen	11.2	19.5	9.9	11.0	11.7	22.0	15.0	10.0
Latin America and the Caribbean								
Argentina	10.5	9.8	10.0	10.6	23.9	16.5	21.6	18.0
Barbados	5.8	9.4	4.5	1.8	2.1	2.4	2.3	2.2
Bolivia, Plurinational State of	2.5	9.8	4.6	5.7	5.8	4.2	4.5	5.0
Brazil	5.0	6.6	5.4	6.2	6.3	8.8	6.6	4.9
Chile	1.4	3.3	3.0	1.8	4.4	4.4	4.4	3.2
Colombia	2.3	3.4	3.2	2.0	2.9	4.3	3.9	3.7
Costa Rica	5.7	4.9	4.5	5.2	4.5	1.4	4.2	4.6
Dominican Republic	6.3	8.5	3.7	4.8	3.0	0.8	3.0	3.4
Ecuador	3.6	4.5	5.1	2.7	3.6	4.2	4.4	4.7
El Salvador	0.9	5.1	1.7	0.8	1.9	2.0	2.2	2.4
Guatemala	3.9	6.2	3.8	3.4	3.4	2.3	3.1	3.3
Guyana	2.1	5.0	2.4	1.8	0.8	1.5	2.6	2.9
Haiti	5.7	8.4	6.3	5.9	4.6	8.5	6.1	5.8
Honduras	4.7	6.8	5.2	6.1	6.1	4.2	5.5	5.5
Jamaica	12.6	7.5	6.9	9.3	8.3	4.3	6.2	5.4
Mexico	4.2	3.4	4.1	3.8	4.0	2.7	3.8	3.9
Nicaragua	5.5	8.1	7.2	7.1	6.0	4.4	6.1	6.2
Panama	3.5	5.9	5.7	4.0	2.6	0.6	3.9	3.8
Paraguay	4.7	8.3	3.7	2.7	5.0	2.9	4.4	3.9
Peru	1.5	3.4	3.7	2.8	3.2	3.6	3.5	3.1
Trinidad and Tobago	10.5	5.1	9.3	5.2	5.7	6.8	5.4	5.4
Uruguay	6.7	8.1	8.1	8.6	8.9	8.6	8.0	7.8
Venezuela, Bolivarian Republic of	28.2	26.1	21.1	40.6	68.1	175.5	195.2	89.8

Source: UN/DESA

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

Table B.5
World trade: growth in trade value of goods and non-factor services, by major country group, 2010-2017
(Annual percentage change)

Region	Flow	2010	2011	2012	2013	2014	2015 [a]	2016 [b]	2017 [b]
World	Exports	19.6	18.1	1.3	2.6	1.3	-7.7	3.2	7.4
	Imports	19.2	18.4	1.2	2.5	1.0	-6.9	3.9	8.4
Developed economies	Exports	14.1	15.4	-1.5	3.1	2.4	-4.3	4.7	6.3
	Imports	14.5	16.2	-1.8	1.5	2.2	-5.3	4.8	8.2
North America	Exports	17.4	14.3	3.7	2.4	3.1	-1.6	5.0	7.1
	Imports	19.7	13.6	3.0	0.1	2.9	-3.3	5.9	7.8
Asia and Oceania	Exports	31.3	11.6	-2.5	-6.8	0.9	-9.8	2.8	4.0
	Imports	24.1	23.1	5.5	-5.4	1.0	-10.4	0.3	7.9
Europe	Exports	10.7	16.4	-3.0	4.9	2.3	-4.4	4.9	6.3
	Imports	11.1	16.2	-5.0	3.4	2.1	-5.3	5.0	8.3
European Union	Exports	10.1	15.9	-3.1	4.8	3.2	-4.1	4.8	6.2
	Imports	10.9	15.6	-5.1	3.0	2.8	-5.3	5.0	8.5
EU-15	Exports	9.7	15.5	-3.2	4.6	3.0	-3.7	4.8	6.1
	Imports	10.5	15.3	-5.2	2.9	2.6	-5.2	5.1	8.5
New EU Members	Exports	13.9	19.1	-2.5	6.3	4.7	-7.1	4.7	6.4
	Imports	14.0	18.3	-4.4	3.9	4.6	-6.4	4.6	8.4
Other Europe	Exports	17.8	21.9	-1.4	6.6	-7.8	-8.2	5.9	8.0
	Imports	14.9	24.7	-3.9	8.0	-7.3	-6.0	4.5	6.2
Euro area	Exports	9.4	15.7	-3.4	5.2	3.2	-3.9	4.8	5.9
	Imports	10.2	15.8	-6.1	3.3	2.4	-5.6	4.8	8.6
Economies in transition	Exports	27.8	30.8	3.3	-0.6	-8.9	-37.1	-7.0	13.2
	Imports	22.2	28.2	8.1	3.4	-10.2	-22.5	-3.6	9.3
South-Eastern Europe	Exports	13.7	21.6	-6.6	16.2	5.1	-10.5	4.3	5.3
	Imports	2.3	19.9	-6.7	5.2	3.1	-8.9	5.6	9.2
Commonwealth of Independent States	Exports	28.4	31.2	3.7	-1.1	-9.5	-38.3	-7.8	13.8
	Imports	24.1	28.8	9.2	3.3	-11.1	-23.5	-4.4	9.3
Developing countries	Exports	27.5	20.7	4.8	2.4	0.9	-9.4	1.8	8.6
	Imports	27.0	21.0	5.0	3.8	0.4	-7.7	3.1	8.8
Africa	Exports	27.3	16.3	7.2	-9.0	-4.1	-22.2	0.3	12.3
	Imports	11.8	15.4	4.1	2.6	1.8	-5.5	3.1	8.3
North Africa	Exports	16.8	-6.4	16.1	-8.3	-1.0	-19.9	-0.1	11.4
	Imports	5.3	0.8	17.8	-3.2	0.6	-5.0	3.6	8.2
East Africa	Exports	26.3	18.9	5.9	4.6	6.2	1.6	7.0	9.2
	Imports	19.8	16.5	9.0	4.6	4.7	-2.1	4.2	9.7
Central Africa	Exports	26.2	25.3	-0.9	-2.0	-6.6	-35.5	-1.8	19.7
	Imports	7.3	15.7	1.3	9.6	1.4	-7.3	1.0	10.4
West Africa	Exports	50.3	37.4	9.0	-23.6	-6.4	-33.3	-5.7	13.3
	Imports	21.3	30.1	-16.3	10.9	3.0	-6.5	1.4	6.6
Southern Africa	Exports	27.5	25.5	0.1	-1.5	-6.9	-19.9	2.3	12.5
	Imports	12.9	23.3	3.3	3.1	1.5	-6.3	3.5	8.7
East and South Asia	Exports	28.2	19.0	4.0	4.3	2.3	-5.4	2.5	7.9
	Imports	31.3	22.1	4.7	3.2	0.1	-8.6	3.7	9.3
East Asia	Exports	28.4	18.3	4.6	4.0	3.0	-4.6	2.4	7.5
	Imports	32.8	21.7	4.8	3.7	0.6	-8.2	4.3	9.1
South Asia	Exports	25.9	24.8	-0.8	6.9	-3.1	-11.8	3.8	11.5
	Imports	22.6	24.7	4.4	0.1	-2.9	-11.5	-0.7	10.7
Western Asia	Exports	20.8	34.9	9.9	2.1	-2.1	-21.0	-1.6	12.3
	Imports	15.2	20.7	6.5	6.6	3.7	-1.4	1.4	7.1
Latin America and the Caribbean	Exports	31.0	17.9	1.4	0.0	0.0	-10.0	2.3	7.0
	Imports	28.4	19.7	5.6	4.7	-1.9	-10.3	2.5	8.5
South America	Exports	35.7	17.9	-0.7	-2.2	-3.8	-13.4	0.9	4.7
	Imports	31.6	20.9	6.5	6.8	-5.3	-15.5	0.3	8.1
Mexico and Central America	Exports	25.6	17.6	5.9	2.8	5.6	-5.6	4.2	9.9
	Imports	25.5	18.2	5.0	1.9	3.7	-2.7	5.2	9.0
Caribbean	Exports	9.6	20.0	-6.0	8.4	1.9	-5.1	1.0	6.5
	Imports	12.8	17.9	-2.8	-0.4	-2.7	-7.9	4.2	8.1
Least developed countries	Exports	24.9	27.7	5.6	3.9	-2.9	-18.5	4.0	13.6
	Imports	10.2	21.5	7.0	6.9	5.2	-3.7	4.6	9.4

Source: UN/DESA

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

Table B.6

World trade: growth in trade volume of goods and non-factor services, by major country group, 2010-2017

(annual percentage change)

Region	Flow	2010	2011	2012	2013	2014	2015 [a]	2016 [b]	2017 [b]
World	Exports	12.0	6.4	3.0	3.1	3.6	2.5	4.3	4.8
	Imports	13.0	7.0	2.8	3.0	2.9	2.6	4.5	5.1
Developed economies	Exports	11.4	5.6	2.4	2.6	3.7	3.6	4.5	5.3
	Imports	10.7	4.9	1.0	1.7	3.8	4.6	4.8	4.9
North America	Exports	10.8	6.4	3.3	2.6	3.8	2.3	4.2	4.8
	Imports	12.9	5.5	2.5	1.1	3.5	4.7	5.0	4.4
Asia and Oceania	Exports	18.9	-0.2	1.4	2.4	7.8	2.0	4.2	4.7
	Imports	12.0	7.1	5.4	2.0	5.2	1.4	1.5	3.8
Europe	Exports	10.5	6.3	2.2	2.6	3.1	4.3	4.7	5.6
	Imports	9.7	4.4	-0.3	2.0	3.7	5.1	5.3	5.3
European Union	Exports	10.6	6.5	2.3	2.1	3.7	4.6	4.7	5.6
	Imports	9.8	4.2	-0.3	1.4	4.4	5.4	5.4	5.4
EU-15	Exports	10.3	6.3	2.1	1.9	3.5	4.5	4.7	5.6
	Imports	9.5	3.8	-0.4	1.2	4.1	5.3	5.5	5.4
New EU Members	Exports	13.2	8.8	3.9	3.8	6.1	4.8	5.3	5.6
	Imports	12.1	6.8	0.7	2.4	7.5	5.9	4.7	5.5
Other Europe	Exports	8.6	3.1	1.2	9.7	-4.2	1.1	4.1	4.6
	Imports	8.1	7.7	-0.9	10.7	-5.2	2.0	4.6	3.9
Euro area	Exports	11.2	6.5	2.6	2.1	3.9	4.7	4.7	5.7
	Imports	9.9	4.2	-1.0	1.3	4.2	5.3	5.2	5.5
Economies in transition	Exports	6.8	2.9	1.2	2.7	-1.1	-2.9	0.3	1.7
	Imports	16.7	16.4	8.4	2.6	-8.0	-14.2	-2.7	6.5
South-Eastern Europe	Exports	15.7	7.6	0.2	12.9	5.5	5.8	5.7	5.5
	Imports	3.5	6.1	0.8	4.3	4.4	4.3	5.7	6.0
Commonwealth of Independent States	Exports	6.4	2.7	1.3	2.3	-1.4	-3.4	0.0	1.5
	Imports	18.0	17.2	9.0	2.5	-8.9	-15.6	-3.5	6.6
Developing countries	Exports	13.3	7.9	4.0	3.9	3.8	1.5	4.3	4.4
	Imports	16.4	9.3	5.0	4.9	2.6	1.0	4.4	5.3
Africa	Exports	10.1	1.3	3.7	-6.2	2.6	4.2	4.8	4.3
	Imports	7.5	1.5	6.8	3.9	3.5	3.4	4.3	5.1
North Africa	Exports	3.4	-15.6	10.9	-4.1	2.4	8.2	8.2	5.2
	Imports	3.4	-7.9	15.9	-0.5	2.5	5.2	4.9	5.1
East Africa	Exports	3.6	11.7	0.3	9.9	1.2	2.1	3.2	4.5
	Imports	17.6	9.7	4.1	5.8	6.2	6.1	5.4	5.8
Central Africa	Exports	2.5	-0.9	-3.9	-1.7	4.3	10.0	6.3	4.1
	Imports	7.6	4.4	13.0	6.1	1.8	-0.4	1.9	8.0
West Africa	Exports	38.8	21.8	0.1	-28.1	5.5	1.2	1.6	2.7
	Imports	11.3	3.7	-7.5	9.6	4.3	1.8	2.9	3.6
Southern Africa	Exports	5.8	4.9	2.3	4.8	1.2	1.6	3.4	4.3
	Imports	7.2	8.3	6.2	4.8	3.3	2.1	4.3	5.2
East and South Asia	Exports	16.5	8.3	3.7	6.2	4.2	-0.3	3.8	4.4
	Imports	18.0	9.3	4.6	5.4	2.6	0.5	4.9	5.5
East Asia	Exports	17.1	7.7	3.7	6.3	4.5	-0.1	3.5	4.2
	Imports	19.3	8.4	4.4	6.6	3.3	0.9	4.9	5.5
South Asia	Exports	12.3	13.1	3.4	6.0	2.1	-1.8	5.7	6.0
	Imports	10.1	14.9	5.6	-1.6	-1.6	-2.1	4.8	5.8
Western Asia	Exports	6.0	11.4	7.4	1.3	4.1	7.7	7.0	4.3
	Imports	9.2	11.7	6.7	5.9	4.7	3.9	3.5	4.4
Latin America and the Caribbean	Exports	8.5	6.7	2.5	1.0	1.8	2.5	3.9	4.7
	Imports	21.2	11.6	4.4	2.4	0.5	-0.5	3.2	5.5
South America	Exports	4.1	5.7	0.8	0.5	-1.2	0.4	2.8	4.5
	Imports	24.2	13.4	4.6	3.3	-2.1	-4.4	2.0	5.1
Mexico and Central America	Exports	18.0	8.8	6.1	1.3	6.3	5.3	5.3	5.1
	Imports	19.2	9.5	4.9	1.2	4.7	5.0	4.8	6.2
Caribbean	Exports	0.3	2.1	-6.9	8.5	6.3	5.1	7.2	5.1
	Imports	0.8	6.4	-3.7	0.6	-0.4	4.3	4.2	3.8
Least developed countries	Exports	4.9	5.1	3.0	4.7	2.1	3.9	5.1	5.1
	Imports	11.7	6.1	5.9	5.9	6.3	3.3	5.5	6.0

Source: UN/DESA

a Actual or the most recent estimate.

b Forecast, based in part on Project LINK.