Global growth: marginal improvement in 2015-2016

-2 -1 0 1 2 3 4 5


4.3 1.8 3.0 2.4 2.5 2.6 3.1 3.3

WESP 2014

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Trends in the world economy for 2015-2016

- Global growth: a more moderate normal path?
- Employment: starting to improve
- Inflation: generally benign
- World trade: lack of momentum
- Commodity prices: on a downward trend
- International capital flows: volatile
- Exchange rates: US dollar appreciating
- Global imbalances: some new development

Low growth as the new normal?
Unemployment remaining elevated in some countries

Inflation remains benign in most parts of the world
Trade flows growing at sluggish pace, far below trends

Commodity prices trending downward
Net private capital inflows to EM moderating

External financing costs for EM remain low
Global imbalances narrowing

Uncertainties and risks

- Anticipated change in US interest rates
- Remaining fragility in the euro area
- Vulnerability in emerging economies
- Geopolitical tensions
Policy challenges

• High dependency on monetary policy
• Policies for strengthening jobs
• International trade needs a boost
• Promote infrastructure investment
• Coordination to mitigate spillovers
• International policy cooperation for:
  - tax matters
  - financial reforms
  - increased ODA to the LDCs

Developed economies: US leads the recovery
Developing countries: a more diverse growth picture

Economies in transition: subdued growth prospects
East Asia: robust growth outlook

• Stable growth projected for 2015/16
  – East Asia remains fastest-growing world region
  – Average GDP growth projected at 6.1% in 2014 and 2015 and at 6.0% in 2016
  – Gradual slowdown in China expected to be largely offset by stronger growth in other parts of region
  – Pick-up in growth in Indonesia and Viet Nam, moderate crisis recovery in Thailand and growth surge in Papua New Guinea
  – Lower-income countries continue to outpace the high-income economies

East Asia: robust growth outlook

• Domestic demand remains key driver of growth
  – Strong household consumption based on subdued inflation, robust labour markets and low real interest rates
  – Investment projected to generally strengthen, supported by Government programs
  – External demand remained fairly weak in 2014 – mild improvement expected for 2015/16
  – Fiscal policy remains mildly supportive of growth
  – Recent divergence in monetary policies – more tightening likely in later part of forecast period
East Asia: country growth outlook

Annual GDP Growth in 2014 and 2015, selected economies (in %)

<table>
<thead>
<tr>
<th>Economy</th>
<th>2014e</th>
<th>2015f</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>7.3</td>
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</tr>
<tr>
<td>Philippines</td>
<td>6.4</td>
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</tr>
<tr>
<td>East Asia</td>
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<td>Vietnam</td>
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<td>5.4</td>
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<td>Malaysia</td>
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<td>Taiwan</td>
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<td>Singapore</td>
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<td>Hong Kong SAR</td>
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<tr>
<td>Thailand</td>
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</tr>
</tbody>
</table>

East Asia: inflation has trended mostly lower

Consumer Price Inflation (y-o-y, in %)

- China
- Indonesia
- Republic of Korea
- Philippines
- Thailand
East Asia: downside risks

- Fragility of the global economy
  - Renewed crisis in euro area or Japan → lower external demand
  - Rise in US interest rates could lead to rapid adjustment in global liquidity and new financial turmoil
    → tighter domestic credit conditions, weaker internal demand
    → esp. relevant for countries with high household/corporate debt or property market bubbles

- Sharper-than-expected slowdown in China
  - Risks associated with shadow-banking and high leverage
  - Strongest impact on commodity exporters and major trading partners

South Asia: moderately optimistic outlook

- Regional growth projected to pick up in 2015/16
  - Average GDP growth projected to accelerate from 5.0% in 2014 to 5.3% in 2015 and 5.7% in 2016
  - Recovery expected to be led by India
  - Domestic demand supported by improved macroeconomic conditions (lower inflation, fiscal and current account deficits...)
  - External demand projected to be robust, but risks remain (Euro area, East Asia)
  - Cross-country differences continue to be large
South Asia: impediments to growth

• Despite recent progress, serious growth bottlenecks/macroeconomic imbalances remain
  – Energy and transport constraints
  – Political uncertainties and security concerns
  – Low productivity in agricultural and segments of service sector
  – Still sizeable fiscal and current account deficits in some countries

South Asia: country growth outlook

Annual GDP Growth in 2014 and 2015 (in %)

<table>
<thead>
<tr>
<th>Country</th>
<th>2014 (e)</th>
<th>2015 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sri Lanka</td>
<td>6.4</td>
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<tr>
<td>Bangladesh</td>
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<td>India</td>
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<td>South Asia</td>
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<tr>
<td>Islamic Republic of Iran</td>
<td>2.0</td>
<td>2.5</td>
</tr>
</tbody>
</table>
South Asia: inflation has decelerated considerably

![Graph showing Consumer Price Inflation (y-o-y, in %) for Bangladesh, India, Pakistan, and Sri Lanka from Jan-12 to Jul-14.]

South Asia: downside risks

- **Fragility of the global economy**
  - Renewed crisis in euro area or sharper-than-expected slowdown in China → lower external demand
  - Abrupt decline in global liquidity and new financial turmoil → tighter credit conditions, slower domestic demand

- **Regional and country-specific weaknesses**
  - Agricultural dependency on monsoon
  - Volatile security conditions (esp. Pakistan)
  - Uncertainties over political developments (e.g. Islamic Republic of Iran)
Thank you