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EAST ASIA and the PACIFIC

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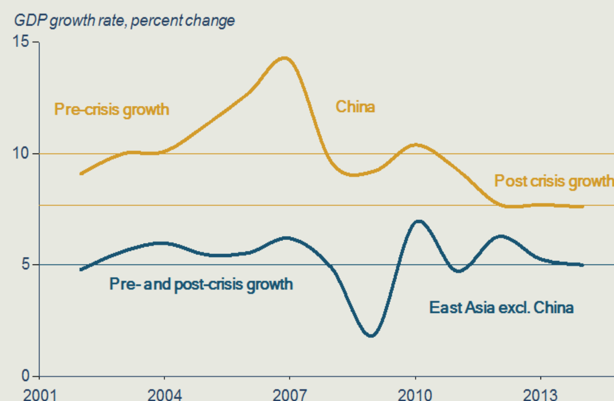
The region continues to adjust to more balanced growth, while dealing with accumulated imbalances. Growth is projected to ease to 7.0 percent in 2016 reflecting offsetting effects of moderation in China and pick-up in the rest of the region as adjustment in large ASEANs eases, exports firm and tensions subside in Thailand. Volatility and eventual tightening of global financing conditions related to policy normalization and the possibility of a sharp slowdown in China, represent major risks to the regional outlook.

Recent developments

Growth in the East Asia and Pacific region slowed in 2013 toward a more sustainable path. Regional output expanded by 7.2 percent in 2013, only slightly down from 7.4 percent in 2012. This reflected growth moderation in several large middle-income ASEAN economies including Indonesia and Malaysia as a result of policy tightening, and a sharp slowdown due to political turmoil in Thailand. Growth in the smaller economies of the region was slightly higher or broadly unchanged, buoyed by recovering exports (Cambodia), FDI inflows and robust remittances (Myanmar, Philippines and Vietnam) and expansionary fiscal and monetary policies (Lao People's Democratic Republic (PDR) and Mongolia).

In China, GDP grew 7.7 percent, unchanged from 2012. This reflected the offsetting influences of growth support measures introduced in mid-2013 to undo the first quarter slowdown that was associated with efforts to rein in credit and rebalance the economy from credit-fueled capital investment toward consumer demand. Nevertheless, this 7.7 percent growth rate was well off China's pre-crisis growth pace. Elsewhere in the region, trend growth has thus far been resilient to sharply slower Chinese growth in the post-crisis period (figure 2.1). This reflected a combination of the diversified structures of these economies, which allowed them to access new markets for their products and services, as well as strong policy buffers, which have been used to mitigate external headwinds.

Figure 2.1 Growth in East Asia has remained broadly unchanged despite a slowdown in China



Source: Haver Analytics; World Bank.

A stop-and-go pattern of growth in China in recent years resulted in uneven quarterly growth profile. Quarterly GDP growth in China has been characterized by periods of slowing growth (such as between 2013Q3 and 2014Q1) followed by stimulus-fueled accelerations such as that observed between 2013Q1 and 2013Q3. This stop-and-go pattern has reflected the tensions between short-term needs to sustain reasonably strong growth in order to assure the viability of outstanding loans and sustain employment, and more medium-term objective of rebalancing growth away from primary sectors and capital investment toward perhaps slower but more sustainable growth increasingly reliant on services, and consumer demand.

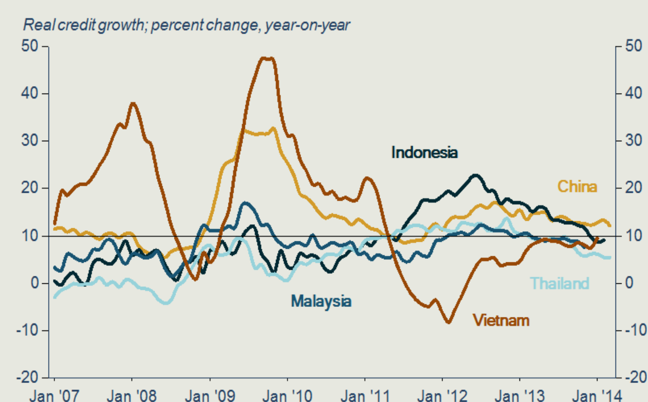
After a moderately slower annual growth in 2013, a slowdown of economic activity in the region continued into the first quarter of 2014. Quarterly output growth weakened across the region in the first quarter of 2014 and industrial production growth has remained subdued at around 2.4 percent in the three months to April. Barring the Philippines where GDP growth accelerated slightly in Q1, the pace of growth slowed in China, Indonesia, Mongolia and Malaysia and contracted sharply in Thailand. In addition to on-going rebalancing in China, this reflected a continued policy tightening in Indonesia and Malaysia, combined with depressed economic activity in Thailand due to ongoing political tensions as well as weaker than initially anticipated external demand. With the estimated 2.5 percent of GDP equivalent growth support measures announced in April of 2014 in China and additional targeted policy easing measures announced in May, an acceleration similar to that of recent years is expected in 2014Q2 and 2014Q3.

There are some signs of growth acceleration in the region. In China, industrial output growth picked-up recovered to 5.1 percent (3m/3m saar) in April, May PMIs rose to a five-month high and export growth also strengthened. Business confidence has improved in Indonesia reflecting easing price pressures, improved current account and easing of currency pressures. Export growth rebounded sharply in Malaysia and business sentiment continues to show solid expansion in Vietnam despite the recent unrest. Thailand, where political tensions have caused a sharp slide in industrial output at a 16.5 percent annualized pace in the three months to April, continues to remain the regional outlier.

Tighter policies in the larger economies of the region helped to slow credit growth across the region. Against the backdrop of still low real interest rates, policy actions implemented in the region have included monetary and fiscal tightening and some supply side measures**.** On average, the fiscal balance remained broadly stable for the region excluding China at just over 3 percent of GDP in 2013. Both Malaysia and Indonesia raised fuel prices, as part of broader fiscal consolidation in Malaysia and alongside other supply-side measures in Indonesia. Indonesia also tightened monetary policy between June and November, whereas Thailand delayed monetary policy tightening due to weak growth outcomes since it began fiscal consolidation. Real credit growth, which had been expanding at double digit rates since mid-2011, slowed to less than 6 percent in Thailand and halved in Indonesia (figure 2.2). In contrast, policy turned expansionary in several economies hit by negative terms of trade effects (Mongolia and Papua New Guinea). Fiscal imbalances in these economies and other smaller countries of the region (Lao, PDR) exceeded 5 percent of GDP in 2013. Reflecting a tight or neutral policy stance, combined with moderate commodity prices, inflation generally remained below the upper bounds of inflation targets among inflation-targeting countries (China, Thailand, the Philippines, Vietnam), with the notable exception of Mongolia. Quarterly inflation eased significantly in Indonesia, but annual inflation has remained above the central bank targeted rate reflecting a one-off level impact from fuel price increase.

The pace of credit growth in China has also eased, but remains rapid. In an effort to rein in credit growth, China has tightened regulations and instructed local governments to reduce their demand for new project financing. Banks have become reluctant to lend to firms in sectors with overcapacity and domestic bond issuance has slowed after widely publicized defaults. An intense anticorruption drive has also dampened spending (particularly on luxury items). By March of 2014,

Figure 2.2 **Policy and administrative tightening is helping to slow credit growth in the region**



Source: Haver Analytics. World Bank.

(banking sector) real credit growth eased by about 4 percentage points compared to October 2012 rates. However, the stock of aggregate financing remains high, of which about one quarter consists of shadow banking products. Moderate inflation and stable nominal policy rates implied that real interest rates in China have remained around 4 percent throughout 2013 and into 2014.

The drivers of growth are shifting away from investment and public consumption towards net exports with private consumption remaining resilient, reflecting domestic adjustment in the context of changing global conditions. Tightening financial conditions in much of 2013 prompted by deteriorating terms of trade, tighter global financing conditions and policy measures to rein in credit growth have contributed to a cyclical slowdown outside China, including a halving in investment growth for the region excluding China (to 4.8 percent in 2013, the lowest since 2009). In China, continued growth-support measures have delayed domestic rebalancing, with investment remaining the main driver of growth. Nevertheless, adjustment is underway with the investment contribution to output growth easing to around 53 percent in 2013 compared with a record high 88 percent in 2009.

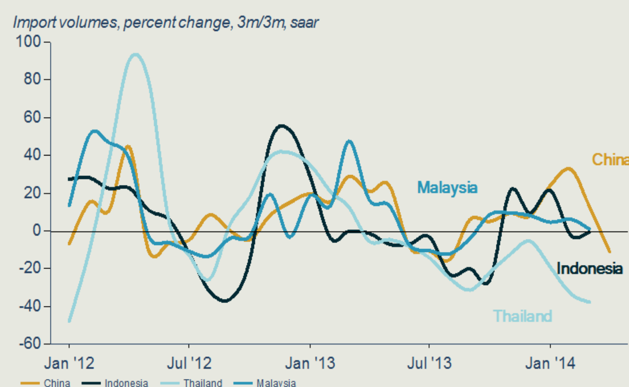
Regional consumption has proved to be resilient, with the notable exception of Thailand. In China, the contribution of consumption to GDP growth has continued to rise, despite a temporary set-back in 2013, with the trend particularly pronounced in the first quarter of 2014. Consumption growth also accelerated in Indonesia, where increased transfers partly compensated for real income losses due to a 33 percent increase in fuel prices. In Malaysia, robust income growth helped support household consumption, despite slowing credit growth and fiscal consolidation. Consumption growth inched down but remained robust in the Philippines, supported by remittances, which grew 7.4 percent from a year ago in 2013. In Thailand public and private consumption growth plummeted, reflecting deteriorating consumer sentiment combined with a reduction in budgetary outlays on consumer subsidies.

Net exports emerged as a positive contributor to regional output growth in 2013. Moderation of domestic demand combined with the upturn in high-income country growth, and currency depreciations in some countries in response to the turmoil during the May-July of 2013, turned net exports into a positive (although still small) contributor to regional growth. Import volume growth in the region excluding China slowed to the slowest pace observed since 2009. In China, import growth accelerated but still remained well below the double digit rates observed before the 2008 crisis (figure 2.3). Since the last quarter of 2013, regional exports expanded at double digit rates since the last quarter of 2013, led by a recovery in the Euro Area and the US. A sustained increase in the volume of manufactured exports partly compensated for the negative effects of declining commodity prices at the regional level except in some commodity exporters (Mongolia, Papua New Guinea).

The regional current account surplus has begun to stabilize after falling to its lowest level in 2013 in more than a decade (Table 2.1). The improvement which started in the third quarter of 2013 has been slow partly reflecting temporary dip in import demand in the US due to extreme weather conditions, as well as the correction of earlier over-invoicing of exports in China, and smoothing of Indonesia's export data which was flattered in the last quarter of 2013 due to front-loading of unprocessed mineral exports ahead of the January trade ban.

The tightening of global financial conditions and domestic policies in the wake of the financial market turbulence of May-July 2013 have helped reduce vulnerabilities. In particular, (i) current account balances have improved (Indonesia and Thailand), (ii) real credit growth has moderated towards more sustainable rates (across the region) and (iii) price pressures have eased (Indonesia). Partly as a result of these adjustments, regional economies were less affected than other emerging markets outside the region by the market sell-off that occurred in January-February 2014, triggered by concerns over default risks in China, a sharp devaluation in Argentina and escalating political tensions in Eastern Europe.

Figure 2.3 **Decline in domestic demand led to easing of demand for imports**



Source: IMF, IFS; World Bank.

Table 2.1 **Net capital flows to East Asia and the Pacific ($billions)**

	2008	2009	2010	2011	2012	2013e	2014f	2015f	2016f
Capital Inflows	193.1	309.5	627.4	621.2	476.9	664.2	699.5	701.9	701.9
Foreign direct investment	226.4	189.9	320.0	386.5	367.2	370.9	375.0	382.5	390.4
Portfolio investment	-14.7	51.3	90.3	39.6	114.2	83.3	111.1	108.9	106.3
Equity	-6.8	31.6	51.7	13.7	49.9	30.2	45.7	49.6	54.2
Debt instruments	-7.9	19.7	38.7	25.9	64.3	53.1	65.4	59.3	52.1
*Other investment**	-18.6	68.3	217.0	195.1	-4.5	210.0	213.4	210.5	205.2
o/w									
Bank lending	15.5	-4.1	17.2	24.4	28.6	41.2	38.6	41.9	44.3
Short-term debt flows	-13.3	65.0	148.9	145.1	56.7	62.8	83.4	94.3	102.4
Official inflows	-0.4	3.9	4.0	-0.4	3.3	11.1	-0.1	-1.3	-1.9
World Bank	1.2	2.2	2.7	0.9	1.0	0.2	..	..	..
IMF	0.0	0.1	0.0	0.0	-0.1	-0.3	..	..	..
Other official	-1.5	1.6	1.3	-1.3	2.3	0.5	..	..	..
Memo items (as a percentage of GDP)									
Current account balance	7.7	4.8	3.7	1.9	2.0	1.5	1.8	2.0	1.9
Capital inflows	3.3	4.9	8.3	6.7	4.8	6.1	5.9	5.4	5.0
Capital outflows	2.8	2.0	3.4	3.6	4.3	3.0	..	..	..

Source: World Bank.
* including short-term and long-term private loans, official loans, other equity and debt instruments, and financial derivatives and employee stock options.
Note: e = estimate, f = forecast.

Capital flows and risk appetite have recovered from earlier volatility and borrowing costs have fallen led by declining spreads. Following a sharp fall in February of 2014, capital flows have since rebounded strongly. Indonesian Rupiah and Thai Baht, two regional currencies that had been hardest hit during the financial market turbulence of May-July 2013, began recouping their earlier losses although they remain weaker than a year ago in both nominal and effective terms. The Thai Baht came under renewed pressures in mid-May of 2014 reflecting political uncertainty related to the political intervention by the Thai army. As the political situation began to settle, pressures on the Baht eased. Similarly, stock markets recovered in early 2014, but several remain well below their levels a year ago (especially Indonesia and Thailand) (figure 2.4). Recent political tensions have eroded a 7.3 percent gain of the first four months of 2014 in Vietnam, which reflected strong foreign inflows. Sovereign bond spreads in the region have declined reflecting improved fundamentals combined with renewed global risk appetite. (figure 2.5). Vietnam has seen the largest gains with spreads easing about 200bp below their early-2013 levels, reflecting lower inflation and financial stabilization, including the containment of non-performing loans. Recent political tensions, if continued, may however reverse recent improvements.

Outlook

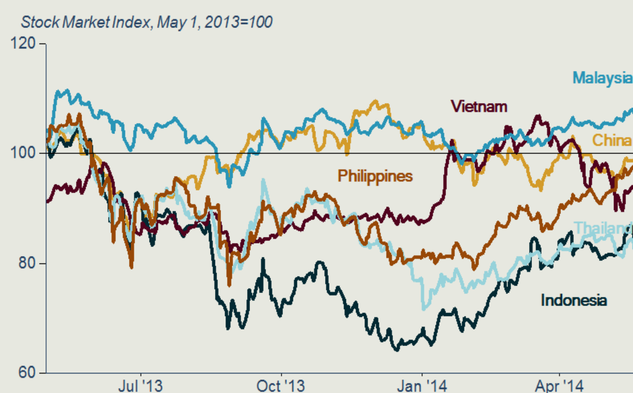
The outlook for the East Asia and the Pacific region remains influenced by the pace of rebalancing in China, volatility and the eventual tightening of external financing conditions as monetary policy is normalized in high-income countries, and a recovery in global demand for exports. Despite weak GDP growth in the first quarter of this year, improving global economic activity, growth supporting measures in China, easing policy adjustment in other large middle income economies of the region including Indonesia and Malaysia, and abating of tensions in Thailand are expected to provide support to growth in the region in the second half of 2014. Overall growth in the region is expected to slow marginally to around 7.0 percent toward the end of the forecast period (table 2.2). This is about 2 percentage points slower than during the pre-crisis years but broadly in line with the regional potential output, reflecting a gradual dissipation of large positive output gaps that had characterized the region in the aftermath of the global crisis. With demand still broadly in line with potential, there is little scope for a sharp and sustained acceleration in regional growth without re-generating potential imbalances. Moreover, large stocks of debt accumulated during the years of credit-fueled investment-led growth will continue to weigh on regional outlook.

Table 2.2 **East Asia and the Pacific forecast summary**
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
GDP at market prices[b]	8.0	9.6	8.3	7.4	7.2	7.1	7.1	7.0
	(Sub-region totals-- countries with full NIA + BOP data)[c]							
GDP at market prices[c]	8.0	9.6	8.3	7.4	7.2	7.1	7.1	7.0
GDP per capita (units in US$)	7.2	8.9	7.6	6.7	6.5	6.4	6.5	6.4
PPP GDP	7.8	9.5	8.1	7.4	7.1	7.0	7.0	6.9
Private consumption	5.9	7.3	9.1	7.6	6.8	7.3	7.5	7.6
Public consumption	7.4	9.6	8.8	8.4	7.5	7.4	7.4	7.5
Fixed investment	10.7	11.4	8.6	9.5	7.9	6.9	6.9	6.7
Exports, GNFS[d]	9.0	22.2	5.3	3.2	4.9	7.3	7.5	7.5
Imports, GNFS[d]	8.5	18.4	6.4	5.1	6.7	7.4	8.1	8.0
Net exports, contribution to growth	0.4	1.6	-0.1	-0.5	-0.4	0.1	0.0	0.0
Current account bal/GDP (%)	4.7	3.7	1.9	2.0	1.5	1.8	2.0	1.9
GDP deflator (median, LCU)	5.7	6.1	4.4	3.0	4.5	5.6	5.2	4.9
Fiscal balance/GDP (%)	-1.8	-1.6	-1.3	-1.8	-2.2	-2.1	-2.1	-2.1
Memo items: GDP								
East Asia excluding China	4.3	6.9	4.7	6.3	5.3	5.0	5.6	5.5
China	9.4	10.4	9.3	7.7	7.7	7.6	7.5	7.4
Indonesia	4.6	6.2	6.5	6.3	5.8	5.3	5.6	5.6
Thailand	3.5	7.8	0.1	6.5	2.9	2.5	4.5	4.5

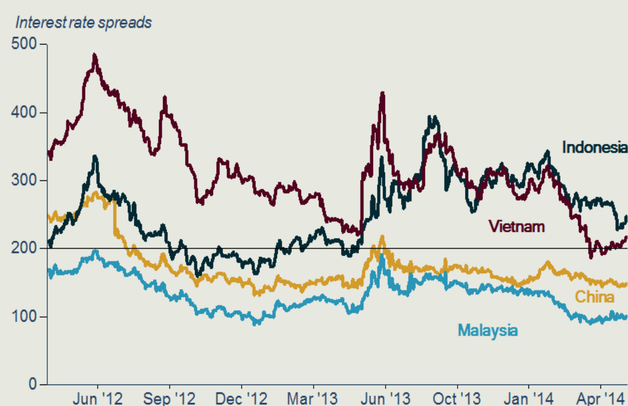
Source: World Bank.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. Sub-region aggregate excludes Fiji, Myanmar and Timor-Leste, for which data limitations prevent the forecasting of GDP components or Balance of Payments details.
d. Exports and imports of goods and non-factor services (GNFS).

Figure 2.4 **Despite some rebound, asset prices remain around or below early-2013 levels**



Source: Bloomberg. World Bank.

Figure 2.5 **Sovereign bond yields have narrowed recently**



Source: Bloomberg. World Bank.

Growth in China is expected to moderate, but the adjustment to more balanced growth will continue to pose challenges. Growth in China is expected to ease to 7.6 percent in 2014 and further to 7.5 percent in 2015 and 7.4 percent in 2016, reflecting the ongoing rebalancing of the economy. The process is expected to remain slow and volatile as adjustment-induced slowing is offset by loosening fiscal and monetary policies—aimed at meeting annual growth targets.

Outside of China, regional growth is projected to slow somewhat in 2014 as a result of domestic policies tightening and political tensions. In Indonesia, growth will ease to 5.3 percent in 2014 as the economy adjusts to tighter financing conditions, before stabilizing at 5.6 percent in 2015 and 2016 on the back of recovering exports. In Thailand, output growth is projected to slow further in 2014, and the outlook remains uncertain due to continued political tensions. In contrast, Vietnam is projected to continue to benefit from recovering global demand due to improved macroeconomic fundamentals, including improved price stability with GDP growth expected to increase modestly, but steadily to reach 5.8 percent by 2016. However recent political tensions have introduced some uncertainty to the outlook. A projected acceleration of growth in the Philippines, in 2015 reflects accelerated reconstruction efforts. Overall, aggregate growth for the region excluding China is projected to settle at around 5.5 percent by 2016 as external demand solidifies, the domestic adjustment process comes to an end and Thailand recovers from political crisis. In particular, growth in the ASEAN-4 is projected to track potential output.

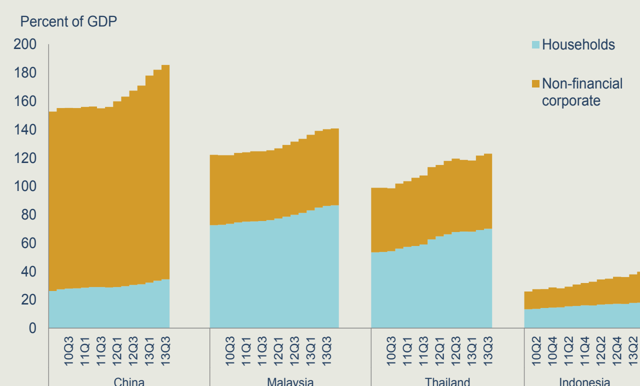
The smaller economies are expected to grow steadily, but face risks from domestic overheating and China's rebalancing. Growth in Cambodia and Myanmar is projected to remain stable, benefitting from higher global import demand and regional and global integration. The baseline forecasts for Lao, PDR projects a slight increase in growth, assuming strong reform efforts combined with the start of production of new power projects. Growth in Mongolia envisages a gradual slow-down to 7.4 percent by 2016 reflecting overdue policy tightening to unwind large domestic and external imbalances generated during the years of expansionary policies. Papua New Guinea faces a slowdown in the non-mineral sector as construction winds down on the huge liquefied natural gas project. The outlook for Timor-Leste's non-oil economy has moderated significantly as public spending plans have been brought down to more sustainable levels in order to curb inflation. In the smaller Pacific Island countries, growth is expected to be subdued and volatile.

Risks

The risks for the region are broadly balanced. Volatility and eventual tightening of financing conditions related to the normalization of monetary policy in the U.S., a bumpy recovery of global demand for imports, and a sharper than expected slowdown in China present three major risks to the regional outlook. Conversely, sharper-than-expected recovery of global demand for imports and successful adjustment in China represent upside risks for the regional outlook.

The current benign external financing environment may weaken incentives to implement domestic reforms. Although global financial conditions have eased considerably since September of last year, they are expected to eventually tighten as the recovery in the US and the Euro Area solidifies. This will weigh on the regional outlook through higher costs of capital and higher interest payments especially in the countries where outstanding stocks of debt remain high (Thailand, China, Malaysia) (figure 2.6). In addition, the benefits of economic flexibility in East Asia and Pacific that have supported growth over the past half-decade, will increasingly dissipate. Structural reforms are needed to rejuvenate potential growth (e.g. trade facilitation measures, removing impediments to foreign direct investment, especially in services sectors). As financial conditions ease in the short-term, political commitment to continue implementing policies that strengthen potential growth and reduce vulnerabilities could weaken.

Figure 2.6 **Large stocks of private sector debt represent the sources of financial vulnerability**



Source: BIS. IMF, IFS. World Bank. Bank Negara Malaysia. For Malaysia, annual household debt series are interpolated to get quarterly estimates.

While the smooth adjustment to eventual policy tightening remains the most likely outcome, bouts of capital flow reversals and other forms of financial market volatility remain a risk. Further episodes of volatility can be anticipated, as markets approach high-income monetary policy decision points, notably whether to embark on a more aggressive easing strategy in the Euro Area, and when to begin tightening conventional monetary policy in the United States. How well the regional economies will be able to navigate further episodes of volatility will depend on the strength of domestic economies and the robustness of policy buffers and flexibility of policy tools available to counter possible external shocks. While the adjustment that has occurred thus far has reduced vulnerabilities within the region, a domestic crisis elsewhere in the developing world could have regional consequences if contagion effects take hold. Similarly, domestic tensions like political impasse or electoral uncertainty could reinforce external shocks and contribute to greater fragility than warranted by economic fundamentals.

A sharper than expected slowdown in China triggered by disorderly unwinding of imbalances, would generate substantial headwinds in the region. While trend growth in the region has not been affected by slowing growth in China, cyclical growth remains closely tied to developments in China. In the process of rebalancing the Chinese economy, an unexpectedly sharp adjustment of property prices and disorderly deleveraging could lead to a significant fall in investment rates, an abrupt slowdown in output growth, and substantial spillovers within the East Asia region, especially on commodity exporters (January 2013 GEP) .

Successful economic rebalancing in China presents an upside risk to the region. The Chinese authorities have announced their intention to implement reforms in labor, land and capital markets, and gradually unwind imbalances generated during the years of credit-fueled investment led growth. These reforms will eventually lead to improved resource allocation and higher productivity by increasing the role of market forces in the economy, containing the near-term risks to financial stability posed by rapid credit growth and high levels of debt, and helping China's transition to a slower, but more sustainable growth path. The baseline projection assumes that the domestic rebalancing from investment to consumption will be gradual and protracted. However, political pressures for sustainable growth may encourage a faster transformation (see EAP economic update, April 2014).

The recovery in advanced markets presents both upside and downside risks. Although the region is currently trading more with developing countries rather than advanced economies, the industrial countries remain major markets for the region's exports, with the United States, the Euro area, Japan, and Australia and New Zealand accounting for about two-fifths of the region's exports (EAP economic update, April 2014). In the baseline scenario, slowing import demand from China is expected to be more than offset by rising import demand from the US and the Euro Area. Every 1 percentage point increase in high income growth and a corresponding slowdown in China is expected to translate into an increase in growth by 0.22 percentage points in East Asia (excluding China). In the baseline scenario, growth in global trade volumes is expected to accelerate from 3.0 percent in 2013, to 4.4 percent this year, rising to about 5.0 per-cent in 2016 benefitting the manufacturing intensive economies of East Asia with close trade linkages to the U.S. and Euro Area. In value terms, this pick-up is considerably slower than in pre-crisis years, mainly reflecting the fall in global food prices and metal prices and broadly stable energy prices in recent years. A faster-than-expected recovery in advanced markets would accelerate the recovery in global trade whereas a slower-than-expected recovery or protectionist measures or tighter financial conditions, including inadequate trade finance, would have a negative impact on the regional outlook.

Food price risks are on the upside. Tensions in Eastern Europe combined with El Niño phenomenon, which appears increasingly likely this year, and could cause considerable damage on crop yields, exert pressures on food prices (see Chapter 1 and commodity Annex for more detailed discussion) and cause spikes in consumer price inflation. Meanwhile. robust supply and weakening Chinese demand will continue to weigh on metals prices, while increased supply from the Middle-East could exert downward pressure on energy prices benefitting energy importers, while generating further headwinds for metal and/or energy exporters (Mongolia, Papua New Guinea, Indonesia, Malaysia, Vietnam).

Table 2.3 East Asia and the Pacific country forecasts

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Cambodia								
GDP at market prices (% annual growth)[b]	7.4	6.0	7.1	7.3	7.4	7.2	7.0	7.0
Current account bal/GDP (%)	-4.5	-6.9	-7.9	-10.1	-9.4	-9.7	-10.0	-10.3
China								
GDP at market prices (% annual growth)[b]	9.4	10.4	9.3	7.7	7.7	7.6	7.5	7.4
Current account bal/GDP (%)	5.2	4.0	1.9	2.6	2.0	2.2	2.3	2.3
Fiji								
GDP at market prices (% annual growth)[b]	1.3	0.1	1.9	2.2	2.7	2.4	2.4	2.3
Current account bal/GDP (%)	-6.8	-4.0	-4.9	-1.0	-16.4	-6.3	-6.6	-6.9
Indonesia								
GDP at market prices (% annual growth)[b]	4.6	6.2	6.5	6.3	5.8	5.3	5.6	5.6
Current account bal/GDP (%)	2.2	0.7	0.2	-2.8	-3.3	-2.7	-2.1	-2.0
Lao PDR								
GDP at market prices (% annual growth)[b]	6.2	8.5	8.0	8.2	8.1	7.2	7.9	9.1
Current account bal/GDP (%)	-2.3	-8.4	-10.3	-15.0	-20.8	-19.9	-18.2	-16.4
Malaysia								
GDP at market prices (% annual growth)[b]	3.9	7.4	5.1	5.6	4.7	4.9	5.0	5.0
Current account bal/GDP (%)	12.6	10.9	11.6	6.1	3.8	3.5	5.1	5.1
Mongolia								
GDP at market prices (% annual growth)[b]	5.8	6.4	17.5	12.4	11.7	10.0	8.8	7.4
Current account bal/GDP (%)	-3.6	-14.3	-31.5	-32.8	-27.5	-16.5	-11.8	-10.4
Myanmar								
GDP at market prices (% annual growth)[b]	9.7	5.3	5.9	7.3	7.5	7.8	7.8	7.8
Current account bal/GDP (%)	-0.7	-1.3	-2.6	-4.1	-4.4	-4.8	-5.1	-4.8
Philippines								
GDP at market prices (% annual growth)[b]	4.0	7.6	3.6	6.8	7.2	6.6	6.9	6.5
Current account bal/GDP (%)	1.2	4.5	2.5	2.8	3.5	2.0	2.2	2.4
Papua New Guinea[c]								
GDP at market prices (% annual growth)[b]	3.0	8.0	9.0	8.7	4.4	10.0	20.0	4.0
Current account bal/GDP (%)	3.2	-6.7	-1.4	-51.0	-27.0	-2.0	12.3	9.3
Samoa								
GDP at market prices (2005 US$)[b]	2.8	0.5	1.4	2.9	-0.3	1.6	1.9	1.8
Current account bal/GDP (%)	-8.0	-7.6	-4.1	-9.2	-2.3	-6.1	-5.6	-5.0
Solomon Islands								
GDP at market prices (% annual growth)[b]	2.8	7.0	9.1	4.9	3.1	3.5	3.5	3.5
Current account bal/GDP (%)	-14.8	-31.0	-14.4	-15.0	-12.0	-13.0	-12.4	-11.9
Thailand								
GDP at market prices (% annual growth)[b]	3.5	7.8	0.1	6.5	2.9	2.5	4.5	4.5
Current account bal/GDP (%)	3.3	3.1	1.2	-0.4	-0.7	1.3	1.0	1.0
Timor-Leste[d]								
GDP at market prices (% annual growth)[b]	3.3	9.5	12.0	8.3	8.1	8.0	7.7	8.6
Current account bal/GDP (%)	17.1	39.8	40.4	43.5	34.3	32.1	27.0	27.7
Vanuatu								
GDP at market prices (2005 US$)[b]	2.8	1.6	1.2	1.8	2.8	3.2	3.2	3.2
Current account bal/GDP (%)	-3.1	-5.0	-7.3	-6.4	-4.4	-4.6	-4.9	-5.8
Vietnam								
GDP at market prices (% annual growth)[b]	5.9	6.4	6.2	5.3	5.4	5.5	5.6	5.8
Current account bal/GDP (%)	-10.0	-3.8	0.2	5.8	6.5	4.5	2.1	1.1

Source: World Bank.

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Samoa; Tuvalu; Kiribati; Democratic People's Republic of Korea; Marshall Islands; Micronesia, Federated States; N. Mariana Islands; Palau; and Tonga are not forecast owing to data limitations.

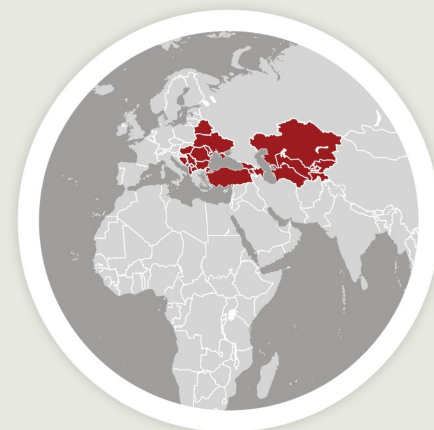
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.

b. GDP measured in constant 2010 U.S. dollars.

c. The start of production at Papua New Guinea Liquefied Natural Gas (PNG-LNG) is expected to boost GDP growth to 20 percent and shift the current account to a 9 percent surplus in 2015. The country's GDP deflators are expected to be updated in 2014 and the new GDP series is expected to be significantly different from the existing one.

d. Non-oil GDP. Timor-Leste's total GDP, including the oil economy, is roughly four times the non-oil economy, and highly volatile, subject to global oil prices and local production levels.

EUROPE and CENTRAL ASIA



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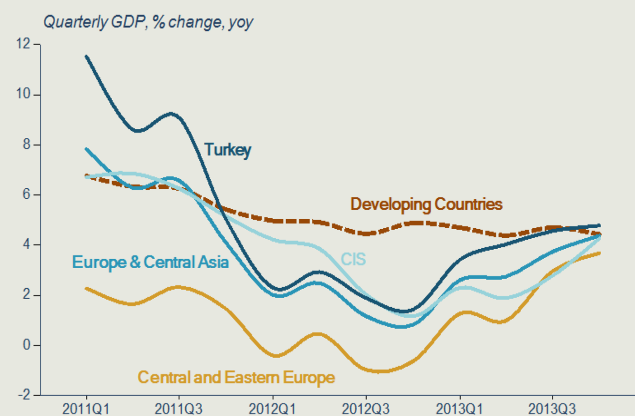
A diverging recovery is underway in the developing Europe and Central Asia region. The recovery in the Euro Area is boosting exports in Central and Eastern Europe. For the countries further east, which are highly exposed to weakening activity in Russia and declining commodity prices, near-term prospects have weakened. An escalation of political tensions between the EU and Russia is a key downside risk to the regional forecasts.

Recent developments

A modest, external demand-driven recovery is underway in developing Europe and Central Asia.[1] Growth in developing Europe and Central Asia picked up in 2013, averaging 3.6 percent, up from 1.9 percent in 2012 (table 2.4 and figure 2.7). Robust activity in core Euro Area countries and a winding down of earlier fiscal consolidation lifted growth in the developing Central and Eastern Europe sub-region[2] to 2.2 percent in 2013 from -0.3 percent in 2012. Good agricultural harvests provided additional momentum in Hungary, Moldova, Romania, and Serbia. In most countries in the sub-region, the pickup in growth narrowed substantially negative output gaps. Growth in the developing Commonwealth of Independent States[3] increased to 4.0 percent in 2013 from 3.4 percent in 2012, as solid energy prices supported growth in energy exporters and fiscal policy loosened in several countries. For the broader geographical region including recently-high-income countries,[4] average growth slowed to 2.2 percent in 2013 (from 2.3 percent in 2012) as the recovery in most countries suffered a setback from sluggish growth in domestic demand.

Figure 2.7 Growth in the developing Europe and Central Asia region continues to strengthen



Source: Datastream, World Bank.

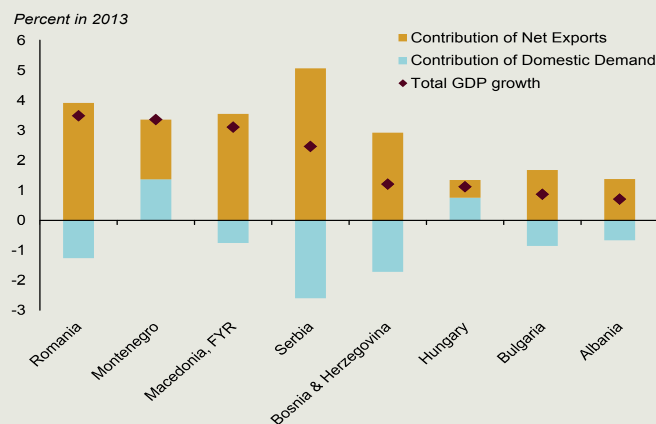
1. Countries in developing Europe and Central Asia region include only the low- and middle-income countries of the geographic region. See also footnote 2 and 3.

2. Countries in the developing Central and Eastern Europe sub-region are Albania, Bosnia and Herzegovina, Bulgaria, Georgia, Hungary, Kosovo, Macedonia FYR, Montenegro, Romania, and Serbia.

3. Countries in the developing Commonwealth of Independent States sub-region are Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

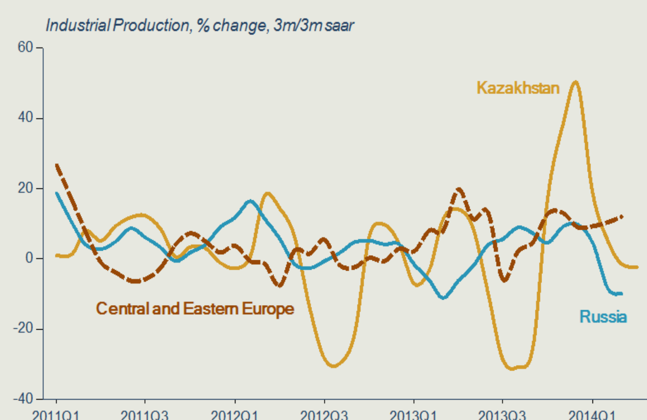
4. These include Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Russian Federation, Slovenia, and Slovak Republic.

Figure 2.8 Growth in developing Central and Eastern Europe has been export-driven



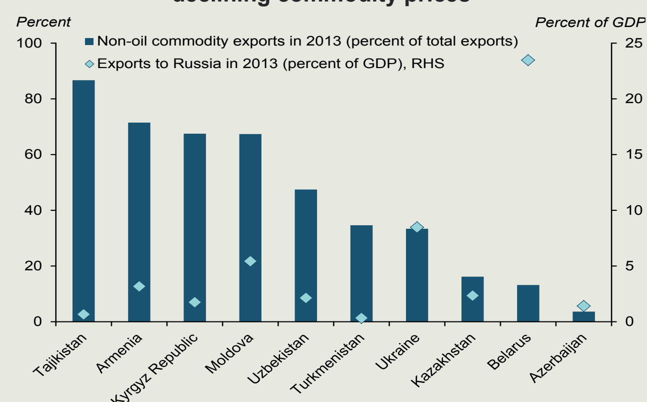
Source: Datastream, World Bank.

Figure 2.9 Industrial production is slowing in the developing Commonwealth of Independent States



Source: Datastream, World Bank.

Figure 2.10 Developing Commonwealth of Independent States are exposed to slowing Russia and declining commodity prices



Source: COMTRADE, IMF Direction of Trade.

In developing Central and Eastern Europe, growth is increasingly driven by the recovery in advanced Europe. In early 2014, industrial production and business sentiment generally pointed to strengthening activity across Central and Eastern Europe, as the recovery in Central Europe began to feed through the supply chain in Eastern Europe (figure 2.8). On average, rising import demand from advanced Europe contributed to export growth of 11.5 percent in March on a year-on-year basis, led by Hungary, Romania, and Turkey. Notwithstanding market concerns and significant monetary policy tightening in early 2014, Turkey's industrial output continued to expand in the first three months of the year, helped by strong export growth. But momentum has slowed, and slides in business and consumer confidence suggest softening of domestic demand ahead.

In contrast, among the developing Commonwealth of Independent States, trading partner slowdowns, geopolitical tensions, declining metal and mineral prices, and domestic capacity constraints have slowed growth in 2014. Monthly industrial production data for Kazakhstan, Ukraine, and Russia indicates sharp slowdowns in early 2014 (figure 2.9). Notwithstanding fiscal expansion and continued monetary accommodation, growth in Kazakhstan moderated as activity slowed in the country's main trading partners—Russia and China—and reflecting further delays in bringing additional oil production capacity onstream. In Ukraine, escalating tensions with Russia and domestic political instability contributed to a 12.5 percent (q/q saar) contraction in Q1 GDP (see Box 2.1). Elsewhere in the sub-region, terms of trade deteriorated substantially. In particular, prices of industrial metals and minerals declined by 4.4 percent since end-2013 and those of raw materials by 5.5 percent (energy prices were down by 0.5 percent). The net impact of terms of trade deteriorations are estimated to potentially reduce GDP in 2014 by 2.2 to 2.5 percent in Tajikistan and Kyrgyz Republic, and by 0.2 to 0.5 percent in Armenia and Kazakhstan (figure 2.10).

The generally accommodative monetary policy stance of 2013, with policy rates at historical lows in many countries, persisted through 2014 in most countries. Cuts in policy rates or the bottoming out of deflation have begun to reduce real policy rates in several countries. Exceptions were Georgia, Ukraine, and initially Turkey, where monetary policy tightened in early 2014 against the backdrop of rising credit growth, inflation and depreciation pressures. Turkey unexpectedly cut its benchmark interest rate in May by 50 basis points despite rising inflation (see below), based on the expectation that inflation should decelerate later this year because of slowing domestic demand.

The fiscal policy stance eased in many countries in the region. In developing Central and Eastern Europe, earlier fiscal tightening ended or was partially reversed in 2013. Modest fiscal consolidation continued in Bosnia and Herzegovina, Macedonia FYR, and Serbia where sizeable fiscal deficits have yet to be unwound. In the developing Commonwealth of Independent States, fiscal deficits generally increased despite robust real GDP growth (Azerbaijan, Tajikistan, Uzbekistan). In contrast, Georgia succeeded in containing the fiscal deterioration in 2013 despite a sharp growth slowdown.

Several countries have come under market pressure as a result of increasing investor concerns about high external debt and political tensions. The Turkish lira depreciated nearly 8 percent against the dollar in January, but an aggressive tightening of monetary policy in the same month has helped stabilize the currency. The Hungarian forint depreciated by 7 percent also in January amid continuing investor concerns about economic policies that discourage FDI compounded by pressures on emerging market currencies more broadly. The Ukrainian hryvnia depreciated by 40 percent during the first four months of 2014 as large current account deficits and high external debt amid escalating domestic political and geopolitical tensions undermined investor confidence. In part to avert a loss of competitiveness against their main trading partner's currency, both Kazakhstan—which is a member of the Eurasian Customs Union with Russia and Belarus—and Kyrgyzstan allowed double-digit devaluation and depreciations in February 2014.

Inflation has picked up in countries with substantial depreciations or domestic demand pressures, but remained well below target in countries with significant slack in labor markets. Masking diverging inflation trends within the region, average inflation in the region rose to 10.2 percent in the first four months of 2014 from 5.7 percent in a year earlier; however, this was driven by persistent high inflation in several large countries. In Turkey, in particular, inflation has risen sharply and reached 9.4 percent in April. Further rises are likely following the central bank's decision in late May to cut its main policy rate by 50 basis points. In Belarus, Kyrgyz Republic, Uzbekistan and Ukraine, inflation also remained high driven by fiscal pressures and high credit and real-wage growth (Belarus, Uzbekistan) and the pass-through of recent depreciations (Kyrgyz Republic, Ukraine). The opposite was the case in much of high-income and developing Central and Eastern Europe where negative output gaps and labor market slack helped keep inflation well below target levels or even negative on a year-on-year basis. Slowing food price inflation helped dampen inflation in a number of smaller economies in the developing Commonwealth of Independent States (e.g., Armenia and Tajikistan).

Capital flows in developing Europe and Central Asia declined especially among the larger countries in the region. Gross capital flows to developing Europe and Central Asia fell by 42 percent to $26 billion during the first five months of 2014 compared to the same period a year earlier. Although several countries succeeded in placing modest-sized bond issues in the first five months of 2014, issuance was down sharply, especially in Kazakhstan, Turkey, and Ukraine. Equity issuance dried up entirely in early 2014, as the weakness of 2013 persisted. Syndicated bank lending halved to $8 billion, with the drop in banking flows to Turkey (and, to a lesser extent, Kazakhstan) accounting for the bulk of the reduction. Anecdotal evidence suggests that outflows from Russia (estimated at $64 billion during the first quarter) may be diverted into other developing economies, in particular Turkey.

Remittance inflows from Russia were resilient and helped finance current accounts and domestic activities in a number of countries in developing Commonwealth of Independent States. A resilient labor market despite the growth slowdown in Russia helped generate an increase in aggregate remittance flows from Russia to the sub-region by 16.8 percent in Q4 2013 year-on-year. Average year-on-year growth rates of 20-25 percent were maintained in most recipient countries (Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, and Turkmenistan)—except in Ukraine where remittances from Russia dropped from the equivalent of US$900mn in the previous year to near-zero in Q3 2013.

Outlook

After expanding by an estimated 3.6 percent in 2013, GDP growth for the region is projected to temporarily weaken in 2014 owing to a sharp slowdown in a number of large economies in the region, including Turkey, Kazakhstan, and the Ukraine. Growth in 2014 is expected to average 2.4 percent before picking up again to 3.7 and 4.0 percent in 2015-16. The slowdown in 2014 will be more marked in developing Commonwealth of Independent States, driven by weaker growth of the two largest economies (Kazakhstan and Ukraine) as a result of slowdowns in Russia and China—the sub-region's important trading and investment partners—and a weakening trend in key commodity prices.

Developing countries in Central and Eastern Europe are expected to see recoveries in growth in 2014 as they continue to benefit from strengthening import demand from the Euro Area.

Table 2.4 **Europe and Central Asia forecast summary**
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
GDP at market prices[b]	4.0	5.9	6.2	1.9	3.6	2.4	3.7	4.0
	(Sub-region totals-- countries with full NIA + BOP data) [c]							
GDP at market prices[c]	4.0	6.0	6.3	1.9	3.6	2.3	3.6	3.9
GDP per capita (units in US$)	3.6	5.2	5.5	1.2	2.8	1.6	3.0	3.3
PPP GDP	4.3	5.8	6.0	2.0	3.5	2.2	3.7	3.9
Private consumption	4.7	4.4	7.0	1.4	4.8	1.9	3.5	4.1
Public consumption	3.0	0.4	2.9	4.3	2.9	4.3	4.7	3.7
Fixed investment	5.0	11.1	10.3	-0.7	3.2	-0.2	7.3	7.9
Exports, GNFS[d]	5.0	8.3	8.7	4.0	2.2	4.2	5.5	5.3
Imports, GNFS[d]	5.3	12.5	11.3	1.5	4.9	2.5	6.1	6.8
Net exports, contribution to growth	-0.1	-1.5	-1.1	0.9	-1.1	0.6	-0.4	-0.8
Current account bal/GDP (%)	-3.7	-3.2	-4.2	-3.7	-4.3	-3.3	-3.8	-3.9
GDP deflator (median, LCU)	9.4	8.5	8.6	3.4	2.8	5.0	5.5	4.5
Fiscal balance/GDP (%)	-4.5	-2.6	0.4	-0.5	-1.3	-1.4	-1.6	-1.5
Memo items: GDP								
Broader geographic region (incl. recently high income countries)e	4.0	4.7	4.9	2.3	2.2	1.7	2.7	3.2
Central and Eastern Europe[f]	3.4	0.3	2.0	-0.3	2.2	2.5	2.9	2.8
Commonwealth of Independent States[g]	6.6	6.1	6.0	3.4	4.0	2.2	4.6	4.9
Kazakhstan	7.5	7.3	7.5	5.0	6.0	5.1	5.9	6.0
Turkey	3.0	9.2	8.8	2.1	4.0	2.4	3.5	3.9
Romania	4.4	-0.9	2.3	0.4	3.5	2.8	3.2	2.9

Source: World Bank.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. Sub-region aggregate excludes Bosnia and Herzegovina, Kosovo, Montenegro, Serbia, Tajikistan and Turkmenistan. Data limitations prevent the forecasting of GDP components or Balance of Payments details for these countries.
d. Exports and imports of goods and non-factor services (GNFS).
e. Recently high-income countries include Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland, Russian Federation, and Slovak Republic.
f. Central and Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Georgia, Kosovo, Lithuania, Macedonia, FYR, Montenegro, Romania, Serbia.
g. Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

GDP growth in the sub-region is expected to reach 2.5 percent in 2014 and 2.8-2.9 percent in 2015-16, up from -0.3 percent in 2013. External demand will remain the key driver of growth in Bulgaria, Bosnia and Herzegovina, Macedonia FYR, and Serbia where consumer and business confidence remain low over lingering political uncertainty, chronically high unemployment, and still fragile banking systems saddled with high nonperforming loans (NPLs). Confidence and domestic demand are further curtailed by severe weather affecting a large area of Southeastern Europe, especially Serbia and Bosnia and Herzegovina, causing floods and landslides, dislocating several thousand people, and inundating mines, agricultural lands, energy and production facilities.

In Hungary and Romania, in contrast, there are clearer signs that stronger external demand is spilling over into improvements in the labor market and recoveries in domestic demand. In general across the region, low inflation will allow central banks to maintain accommodative policies to support the recoveries in domestic demand.

In Turkey, the growth outlook has deteriorated in light of tighter global financial conditions and reduced emerging market capital flows. Whereas recent activity indicators have pointed to surprise resilience in the economy mainly thanks to buoyant export demand, consumer confidence and domestic demand are slowing with higher inflation and the depreciated lira

Table 2.5 **Net capital flows to Europe and Central Asia ($billions)**

	2008	2009	2010	2011	2012	2013e	2014f	2015f	2016f
Capital Inflows	277.3	60.2	95.4	125.6	118.1	118.3	132.1	151.5	158.5
Foreign direct investment	164.0	45.7	18.3	69.4	60.4	41.3	39.2	44.3	49.5
Portfolio investment	-6.9	-0.4	44.0	33.5	51.4	47.8	44.5	43.7	41.8
Equity	-0.4	3.7	3.7	-0.7	8.1	2.1	4.3	5.2	6.4
Debt instruments	-6.5	-4.0	40.3	34.1	43.4	45.7	40.2	38.5	35.4
Other investment /a	120.3	14.8	33.1	22.7	6.3	29.2	48.4	63.5	67.2
o/w									
Bank lending	132.3	14.2	-18.9	33.0	8.0	16.0	15.3	19.7	22.7
Short-term debt flows	5.7	-9.9	41.6	14.1	9.0	13.1	19.5	24.5	30.4
Official inflows	24.6	49	28	6.9	-6.9	5.1	13.0	15.0	10.0
World Bank	1.2	3.4	3.9	2.9	2	3.1	..	..	..
IMF	12.8	25.5	9	-1	-13	-4	..	..	..
Other official	10.6	20.2	15.1	5.1	4	6	..	..	..
Memo items (as a percentage of GDP)									
Current account balance	-5.2	-2.4	-3.6	-4.6	-4.0	-4.8	-3.6	-4.1	-4.2
Capital inflows	18.5	4.9	6.7	7.9	7.3	6.9	8.0	8.4	8.0
Capital outflows	9.9	1.4	1.4	2.6	3.2	1.8	..	..	..
Memo items: capital inflows including recently transitioned to high income economies ($ billions) /b									
Capital Inflows	459.6	122.1	218.2	246.8	249.9	279.6	255.1	265.1	284.4
Foreign direct investment	275.5	106.4	91.0	152.5	131.8	125.1	120.4	127.3	138.5
Portfolio investment	-38.2	33.7	88.2	49.1	108.2	63.8	69.6	69.5	73.4
Equity	-16.7	8.8	6.8	-7.4	12.6	-2.8	11.1	9.3	10.2
Debt instruments	-21.5	24.9	81.4	56.5	95.5	66.6	58.5	60.2	63.2
Other investment /a	222.4	-18.1	39.0	45.3	10.0	90.7	65.1	68.3	72.5

Source: World Bank.
/a including short-term and long-term private loans, official loans, other equity and debt instruments, and financial derivatives and employee stock options.
/b including Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland, Russia Federation, and Slovak Republic
Note: e = estimate, f = forecast.

constraining private consumption and investment. Slower domestic demand, however, should help narrow current account deficit to 6.0 percent of GDP.

Growth in the developing Commonwealth of independent States sub-region is projected to slow in the near-term. Growth for 2014 is forecast at 2.2 percent, down from an estimated 4.0 percent in 2013, before rising again to an average 4.6 and 4.9 percent in 2015-16. The slowdown in the near-term is led by weaker growth of the two largest economies in the sub-region, Kazakhstan and Ukraine and spillovers from a slowdown in Russia (see Box 2.1).

Growth in resource-rich countries in the sub-region (Azerbaijan, Kazakhstan, Uzbekistan) will continue to be above the regional average, supported by still relatively high oil and gas prices, robust government investments, and generous social transfers. While oil prices are expected to remain high at $103 a barrel on average in 2014 (1 percent below the 2013 average), oil output in Azerbaijan and Kazakhstan is expected to stagnate as capacity expansion is delayed until 2015-16. Non-oil sector growth is also set to decelerate in both countries because of tighter fiscal policy (Azerbaijan) and slower credit growth (Kazakhstan). In Uzbekistan, buoyant natural gas exports will continue to drive strong growth, but with its two other key export commodities (cotton and gold) well below 2010-13 levels and its major export markets (including Russia, Turkey, Ukraine, and China) set to decelerate, projected growth is lower than what it has seen in the past decade (averaging 8 percent).

Among the non-energy exporting Commonwealth of Independent States, growth is expected to remain sluggish with significant downside risk from a slowdown in Russia and a deeper recession in Ukraine. Belarus is particularly exposed, as it trades heavily with both Ukraine (8.8 percent of its total trade) and Russia (47.5 percent). Armenia, Tajikistan, Kyrgyz

Republic, and Moldova are vulnerable to dislocations in the Russian labor market because remittances from Russia account for a large part of GDP (see also Box 2.1). While the currently available forecast does not project material weakening in remittances—remittances to the Commonwealth of Independent States are projected to increase by 8.3 percent in 2014—there are substantial downside risks.

Risks

Heightened tensions between the EU and Russia are a key downside risk to the regional forecasts. Tensions between Russia and Ukraine have so far resulted in limited sanctions by the US and the EU, such as interruption of trade negotiations, non-participation in G8, freezing of assets and visa bans on a limited number of former Ukrainian and Russian officials. Commodity markets and financial markets (outside these two countries) have thus far shown little response. However, should tensions further escalate, more intrusive sanctions, possibly interrupting trade and banking flows, cannot be ruled out. Given the close economic interdependence between the EU and Russia (see Box 2.1), the escalation of sanctions would likely impose large economic costs, damaging recoveries in both. For instance, in Russia, oil revenues represent 9 percent of GDP and 25 percent of government revenues, and a loss of EU export markets could reduce government revenues by 10 or more percent of GDP. In Central and Southeastern Europe (e.g., Germany, Italy, Hungary, and Poland), especially, Russia accounts for up to 80 percent of gas imports. If the current consumption of Russian natural gas was to be replaced by global imports (assuming a ready supply could be found without raising global prices), the EU's costs of natural gas import could rise temporarily by 50 percent (or about 0.15 percent of GDP). More dependent countries would see higher increases in gas cost. For example, costs in Hungary and Poland could rise by 1.4 and 0.4 percent of GDP, respectively. Such large costs on both the EU and Russia could significantly derail the economic recoveries in both, with ramifications for the entire region.

Disorderly adjustments to higher global interest rates—due to anticipated or actual monetary policy tightening or increases in risk aversion—continue to be a risk. The initial reaction to the start of tapering in early January was calm, but subsequent bouts of market volatility reflect greater investor sensitivity to global monetary and risk conditions. There remains a risk that market reaction to the further withdrawal of extraordinary monetary measures in the US could be less orderly than is currently anticipated.

Despite broadly encouraging recent data, downside risks to a sustained recovery in the developing Central and Eastern Europe sub-region remain substantial. Especially in Southern Europe (Albania, Bulgaria, Bosnia and Herzegovina, Macedonia FYR, Montenegro, Serbia), there are clear downside risks to domestic demand growth, relating in the near term to devastating floods (notably in Serbia and Bosnia and Herzegovina), and in the medium term to still high unemployment, high private sector debt, and the slow recovery in bank lending amid high and in some cases rising NPLs. Even though the high levels of NPLs have not caused serious instability of the financial sector so far, as these loans appear to be well-provisioned and backed by adequate bank capital, not tackling this risk head-on may further destabilize the fragile banking sector and threaten credit recovery and growth prospects. At the same time, lack of progress in fiscal consolidation and insufficient effort in tackling remaining structural problems (e.g., large public sector wage bill, expensive and poorly-targeted social transfers, restructuring of the state-owned enterprises) leave little fiscal room for bold policy action to counter lingering deflation threats and to increase growth-promoting investments.

Downside risks to commodity prices and potential weakening of remittance inflows from Russia represent a major source of uncertainty for countries among developing Commonwealth of Independent States. Most countries in the sub-region are heavily exposed to one or a few commodity exports—including Azerbaijan, Armenia, Kazakhstan, Tajikistan, and Uzbekistan (figure 2.10)—which increase their susceptibility to volatile commodity prices. In addition, Russia is the most important export market for majority of the sub-region as well as the most important source of inward remittances and FDIs. What's more, the Commonwealth of Independent States are heavily integrated with each other—other Commonwealth of Independent States are their major trading partners as well as sources of labor remittances (figure B2.1.2)—implying that there is a significant potential for a negative feedback loop whereby a downturn in the region becomes self-reinforcing.

Box 2.1 **Ukraine crisis and impact on the ECA region**

Recent developments

The tensions with Russia have heightened at a time when Ukraine's economy was already showing strains from mounting external and internal imbalances. Growth was anemic in 2013, with consolidated fiscal deficit and current account deficit reaching 7 and 9 percent of GDP, respectively, and short-term external debt exceeding $35bn (more than 30 percent of total external debt). Sharp depreciation of hryvnia in early month of 2014 created further pressure on foreign reserves, sovereign default risks, and liquidity crisis in the already struggling banking sector (with non-performing loans exceeding 38 percent in 2013). An emergency financing from the international community, including $17.1bn (of which $3.2bn available immediately) from the IMF and $1.5bn from the World Bank, will help Ukraine avert economic and financial collapse but its success will be contingent on the new government undertaking significant stabilization and structural reforms, including adjustment of energy prices and social outlays.

Outlook

Ukraine's GDP is expected to shrink by 5.0 percent in 2014, taking into account several key developments that have worsened the outlook since January, including the loss of access to its biggest export market (Russia), sharp rises in the price of imported gas, and declines in commodity prices for steel and wheat—two of the country's key exports. Currency depreciation, shocks to Russian gas imports, and removal of domestic fuel subsidies will accelerate inflation, eroding household incomes and depressing consumption. The weak banking sector will also constrain credit growth and investment even if an outright banking crisis was avoided. While the country's exports could theoretically benefit from a weaker hryvnia, given the disruption of present trade linkages—as much as a third of Ukraine's total exports had gone to Russia and the members of the Eurasian Customs Union countries in 2013 (mainly consisting of heavy machinery, iron and steel, and nuclear reactors)—redirection of the country's exports to the West may not be easy over the short term. We therefore forecast only a slow and gradual recovery in 2015-16 (2.5 and 4.0 percent, respectively).

Impact on Europe and Central Asia

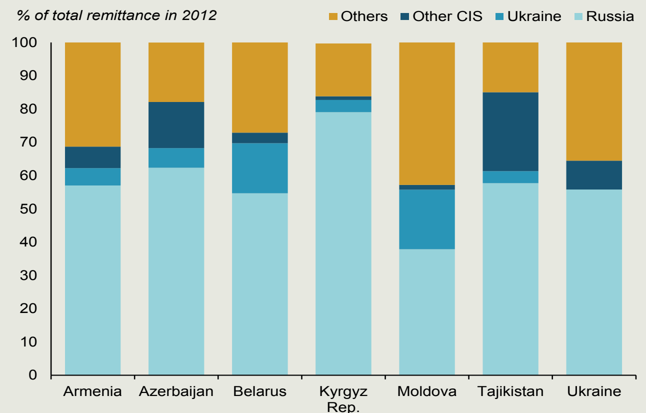
As the fifth largest country in developing Europe with close trade and financial links with the rest of the region, a deeper recession in Ukraine will have a negative impact on neighboring countries via trade and financial links. However, the impact on the region will depend on Russia as it is the largest export market and the major source of remittances for many countries especially in Central Asia, as well as the major supplier of oil and gas to both developing and developed Europe.

a. Trade link—Several countries are heavily exposed to both Russia and Ukraine via trade links (figure B2.1.1). Belarus, Georgia, Moldova have the tightest trade links with Ukraine (both export and import). Belarus is the most exposed, as it trades heavily with both Ukraine (7.8 percent of its total trade) and Russia (49.5 percent). Georgia has close trade links with Ukraine (7.5 percent of total trade) but relatively small exposures to Russia (5.1 percent), having increased its trade with Europe. Moldova, Armenia, and Kazakhstan rely on Ukraine mostly for their imports but all of them are heavily exposed to Russia for their exports (20, 19, and 12 percent of total exports, respectively). Baltic countries also have significant Russian exposures of between 10-20 percent of total exports. In contrast, developing Central and Eastern European economies only send between 0-8 percent of total exports to both Russia and Ukraine.

Figure B2.1.1 **Several countries are heavily exposed to Russia and Ukraine via trade links**

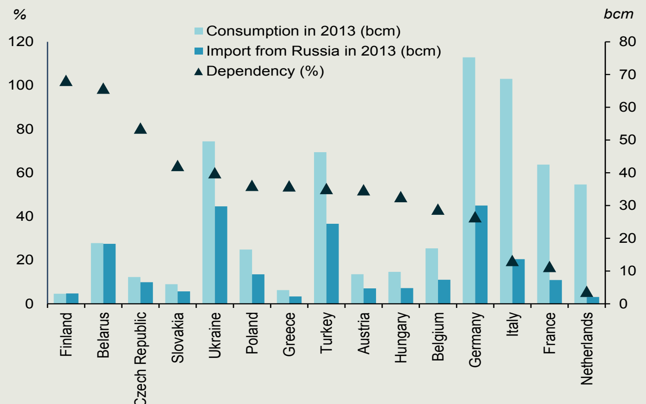
Source: IMF Direction of Trade.

Figure B2.1.2 **Russia and Ukraine are important sources of remittances in the Commonwealth of Independent States**



Source: World Bank Bilateral Remittance Matrix 2012.

Figure B2.1.3 **Dependency on imported gas from Russia varies across countries in the region**



Source: BP Statistical Review of World Energy and BMI.

b. Financial link—Compared to US banks, EU banks are relatively heavily exposed to Russia, and in particular Russian corporates, and to a lesser extent to Ukraine. Total EU bank exposure to Ukraine is estimated to be around US$ 23bn (around 0.1 percent of the total exposure of reporting banks on ultimate risk basis). Austrian and Italian banks are the most exposed to Ukraine. EU bank exposure to Russia is $165bn (about 1.0 percent), with France, Italy, and German banks among the most exposed. The US bank exposure to Russia is estimated to be $32bn (about 1.1 percent). Data for Russian banks' exposure to Ukraine is not readily available but four Russian banks (Gazprombank, Sberbanks, the majority-state-owned VTB, and the state development bank VEB) are reported to hold between them an estimated $28bn of *assets* in Ukraine.

c. Remittance link—Based on the World Bank's estimates of bilateral remittance matrix in 2012, remittances from Ukraine represent sizeable share of total in Moldova (18 percent) and Belarus (15 percent), while those from Russia represent major shares among most developing Commonwealth of Independent States, (40-79 percent) and particularly high in Kyrgyz Republic (79 percent) (figure B2.1.2). Given the high share of remittances to GDP in general, Tajikistan (52 percent), Kyrgyz Republic (31 percent), Moldova (25 percent) are among the most vulnerable to transmission of shocks through this link. While the resilience of remittance flows from Russia so far despite its growth deceleration is reassuring, deeper recession in Russia (and Ukraine) could slow and reverse the significant rising trends in remittance inflows which, given their importance, would have a major impact on these countries' current account balance, household consumption, and poverty dynamics.

d. Energy link—Russia supplies 30 percent of the natural gas consumed in Europe. Dependency on imported gas from Russia varies across the member states (figure B2.1.3) from a low of 20 percent in Italy to a high of over 100 percent in Latvia, although the dependency ratio tends to be higher among smaller consumers of natural gas. In 2012, Poland depended on Russia for nearly 50 percent of its natural gas consumption, and Lithuania, over 90 percent. Since Russia's economy relies heavily on revenue from gas exports to Europe (9 percent of GDP, a quarter of government revenues, and nearly two-thirds of export revenues), the mutual dependency in energy markets, we believe, will likely contain the chance of sharp escalation of tensions between the EU and Russia although it cannot be ruled out.

Table 2.6 Europe and Central Asia country forecasts

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Albania								
GDP at market prices (% annual growth)[b]	4.9	3.8	3.1	1.3	0.4	2.1	3.3	3.5
Current account bal/GDP (%)	-8.5	-10.1	-13.3	-10.3	-10.6	-10.3	-12.4	-14.8
Armenia								
GDP at market prices (% annual growth)[b]	7.7	2.2	4.7	7.2	3.5	5.0	5.0	5.0
Current account bal/GDP (%)	-8.8	-14.2	-11.4	-12.0	-10.5	-8.7	-7.7	-7.0
Azerbaijan								
GDP at market prices (% annual growth)[b]	14.4	4.9	0.1	2.2	5.8	5.2	4.1	3.6
Current account bal/GDP (%)	3.2	28.4	26.0	22.5	16.5	12.6	8.1	5.6
Belarus								
GDP at market prices (% annual growth)[b]	6.6	7.7	5.5	1.7	0.9	-0.5	1.5	1.0
Current account bal/GDP (%)	-4.3	-15.0	-7.9	-2.9	-10.2	-8.4	-9.8	-7.6
Bosnia and Herzegovina								
GDP at market prices (% annual growth)[b]	4.0	0.7	1.3	-1.1	1.8	2.0	3.5	3.5
Current account bal/GDP (%)	-13.3	-5.6	-8.8	-9.6	-7.5	-6.6	-6.3	-6.1
Bulgaria								
GDP at market prices (% annual growth)[b]	4.0	0.4	1.8	0.6	0.9	1.7	2.4	2.8
Current account bal/GDP (%)	-11.3	-1.5	0.1	-0.8	1.9	-0.5	-1.4	-1.6
Georgia								
GDP at market prices (% annual growth)[b]	5.6	6.3	7.2	6.2	3.2	5.0	5.5	6.0
Current account bal/GDP (%)	-11.2	-10.3	-12.5	-11.9	-5.9	-8.1	-7.8	-7.6
Hungary								
GDP at market prices (% annual growth)[b]	1.8	1.3	1.6	-1.7	1.1	2.4	2.5	2.5
Current account bal/GDP (%)	-6.8	0.2	0.4	0.4	2.8	2.5	2.0	1.8
Kazakhstan								
GDP at market prices (% annual growth)[b]	7.5	7.3	7.5	5.0	6.0	5.1	5.9	6.0
Current account bal/GDP (%)	-2.0	1.0	5.4	-0.4	-0.1	1.0	1.5	1.6
Kosovo								
GDP at market prices (% annual growth)[b]	5.8	3.9	4.5	2.7	3.0	3.5	3.5	4.0
Current account bal/GDP (%)	-7.3	-12.0	-13.8	-7.6	-6.5	-7.4	-7.2	-7.3
Kyrgyz Republic								
GDP at market prices (% annual growth)[b]	4.2	-0.5	6.0	-0.1	10.5	6.5	5.4	5.3
Current account bal/GDP (%)	-5.1	-6.4	-6.0	-15.0	-13.5	-15.7	-14.5	-12.6
Moldova								
GDP at market prices (% annual growth)[b]	4.9	7.1	6.8	-0.7	8.9	3.0	3.8	4.5
Current account bal/GDP (%)	-8.3	-7.7	-11.3	-6.8	-4.8	-6.7	-6.9	-7.1
Macedonia, FYR								
GDP at market prices (% annual growth)[b]	2.3	2.9	2.8	-0.4	3.1	3.0	3.5	3.7
Current account bal/GDP (%)	-6.0	-2.1	-2.5	-3.1	-1.9	-3.3	-4.1	-5.0
Montenegro								
GDP at market prices (2005 US$)[b]	..	2.5	3.2	-2.5	3.5	3.2	3.5	3.3
Current account bal/GDP (%)	-11.4	-22.9	-17.7	-18.7	-14.6	-16.9	-19.0	-20.0
Romania								
GDP at market prices (% annual growth)[b]	4.4	-0.9	2.3	0.4	3.5	2.8	3.2	2.9
Current account bal/GDP (%)	-8.0	-4.4	-4.6	-4.4	-1.1	-2.0	-1.8	-2.1
Serbia								
GDP at market prices (% annual growth)[b]	3.6	1.0	1.6	-1.5	2.5	1.0	1.5	2.5
Current account bal/GDP (%)	-9.7	-6.7	-9.1	-10.7	-5.0	-4.8	-4.6	-5.3

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Tajikistan								
GDP at market prices (% annual growth)[b]	-	-	-	7.5	7.4	6.3	6.2	5.8
Current account bal/GDP (%)	-4.8	-1.2	-4.7	-1.3	-2.7	-2.5	-2.0	-2.0
Turkey								
GDP at market prices (% annual growth)[b]	3.0	9.2	8.8	2.1	4.0	2.4	3.5	3.9
Current account bal/GDP (%)	-3.2	-6.2	-9.7	-6.1	-7.9	-6.0	-6.2	-6.8
Turkmenistan								
GDP at market prices (% annual growth)[b]	12.6	9.2	14.7	11.1	10.1	10.0	10.0	10.1
Current account bal/GDP (%)	7.4	-10.6	2.0	0.0	-3.4	-1.7	-1.5	-1.5
Ukraine								
GDP at market prices (% annual growth)[b]	3.9	4.1	5.2	0.3	0.0	-5.0	2.5	4.0
Current account bal/GDP (%)	2.0	-2.6	-6.3	-8.1	-9.2	-4.6	-4.3	-3.9
Uzbekistan								
GDP at market prices (% annual growth)[b]	6.1	8.5	8.3	8.2	8.0	7.0	6.7	6.7
Current account bal/GDP (%)	5.2	6.2	6.2	5.8	1.2	2.1	1.8	0.7

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Recently transitioned to high income countries [c]								
Croatia								
GDP at market prices (% annual growth)[b]	2.7	-2.3	-0.2	-1.9	-1.0	-0.5	1.2	1.8
Current account bal/GDP (%)	-5.6	-1.1	-0.9	-0.1	1.3	2.0	2.0	1.8
Czech Republic								
GDP at market prices (% annual growth)[b]	3.1	2.5	1.8	-1.0	-0.9	2.0	2.4	2.9
Current account bal/GDP (%)	-3.6	-3.8	-2.8	-2.4	-2.4	-1.5	-0.9	-1.8
Estonia								
GDP at market prices (% annual growth)[b]	3.2	2.6	9.6	3.9	0.8	2.0	3.0	4.0
Current account bal/GDP (%)	-9.1	2.8	1.8	-1.8	-1.0	-1.9	-2.1	-1.8
Latvia								
GDP at market prices (% annual growth)[b]	3.7	-0.3	5.3	5.0	4.1	3.8	4.0	4.6
Current account bal/GDP (%)	-10.1	3.0	-2.2	-2.5	-0.8	-1.9	-2.4	-2.4
Lithuania								
GDP at market prices (% annual growth)[b]	4.2	1.3	6.0	3.7	3.3	3.3	4.0	4.2
Current account bal/GDP (%)	-7.2	0.0	-1.4	-0.2	0.1	-0.4	-0.8	-1.2
Poland								
GDP at market prices (% annual growth)[b]	3.5	4.1	4.5	1.8	1.6	3.3	3.5	3.8
Current account bal/GDP (%)	-4.3	-5.1	-5.0	-3.7	-1.6	-2.5	-2.8	-3.2
Russian Federation								
GDP at market prices (% annual growth)[b]	4.4	4.5	4.3	3.4	1.3	0.5	1.5	2.2
Current account bal/GDP (%)	9.2	4.4	5.1	3.6	1.6	2.8	2.0	1.2
Slovak Republic								
GDP at market prices (% annual growth)[b]	4.3	4.2	3.0	1.8	0.9	2.2	3.1	3.4
Current account bal/GDP (%)	-4.6	-3.7	-2.1	2.2	2.0	1.9	2.3	2.2

Source: World Bank.
World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
Bosnia and Herzegovina, Turkmenistan are not forecast owing to data limitations.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. GDP measured in constant 2010 U.S. dollars.
c. The recently high-income countries are based on World Bank's reclassification from 2004 to 2014.

LATIN AMERICA and the CARIBBEAN

GLOBAL ECONOMIC PROSPECTS

June 2014

Chapter 2

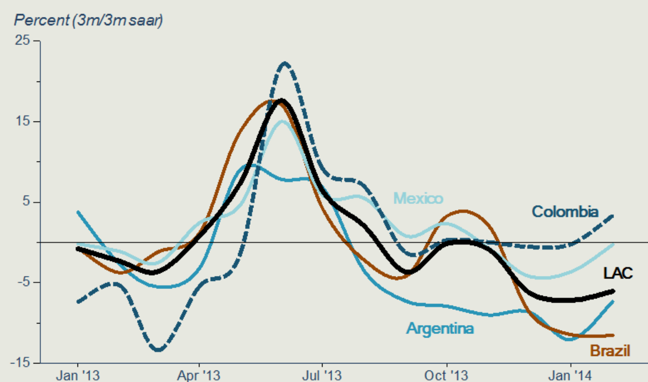
Activity in the Latin America and the Caribbean region has been weak reflecting stable or declining commodity prices, the drop in first quarter U.S. GDP growth and domestic challenges. Firming regional exports on the continued recovery among advanced countries and strong capital inflows should lift regional GDP growth from 1.9 percent in 2014, to 2.9 percent in 2015 and 3.5 percent in 2016. The region faces a major risk of slower longer term growth unless productivity enhancing reforms are stepped up.

Recent developments

Growth remained broadly flat on average in 2013, with considerable cross-country divergence as soft export growth was offset to varying degrees by domestic demand growth. On average across the region, GDP growth edged down by 0.1 percentage point to 2.4 percent (y/y) in 2013, with diverging trends among the sub regions. Developing North and Central America experienced a sharp slowdown led by Mexico amid slower global demand and a downturn in the construction sector. On the other hand, led by Argentina, Brazil and Paraguay, growth in South America strengthened on bumper harvests and a rebound in investment. The Caribbean economies also saw growth accelerate modestly on the back of the U.S. recovery in the second half of 2013. Regional export growth in 2013 was weak, dampened by easing growth in China, falling commodity prices (Brazil, Colombia, Costa Rica, Jamaica, Mexico, Peru), and a growth slowdown in tourist arrivals (Caribbean and Central America). Monetary tightening in Brazil to contain inflationary pressures continued through the second half of 2013, and contributed to the ongoing slowdown and dampened growth in regional trading partners. In many countries, fiscal and monetary policies remained accommodative in an effort to support growth. Nevertheless, regional growth slowed to 1.4 percent (q/q saar) in Q4 2013, and further to 0.9 percent in Q1 2014, reflecting weak Q1 readings in Brazil, Mexico and Peru amid a tax hike in Mexico, a more challenging export environment and increasingly binding supply side constraints, as the region overall was close to full employment in 2013.

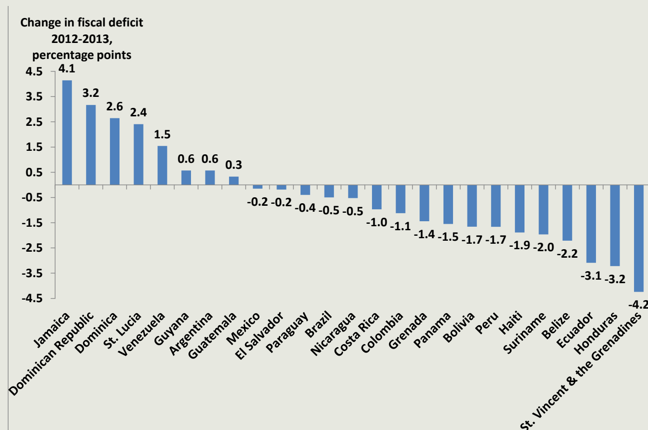
Export growth continues to be weak in early 2014 in much of the region. Weather related weakness in the U.S., a policy-induced slowdown in China, and weak growth in Argentina have continued to weigh on merchandise exports in a number of countries in the region. In Argentina, in particular, exports fell more than 50 percent (3m/3m saar) in the three months to March, partly reflecting a slowdown in China combined with a still overvalued real exchange rate. First quarter exports were also weak in Brazil, reflecting declining competitiveness as a result of rising costs and wages, and infrastructure bottlenecks. In contrast and as an exception in the region, Bolivian exports surged as a result of strong gas exports that have benefitted from stable prices and production increases amid firm demand from Argentina and Brazil.

Figure 2.11 **Regional industrial production has picked up in recent months**



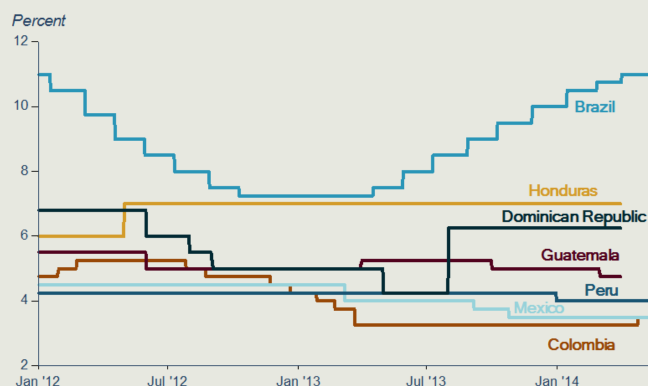
Source: Datastream, Haver Analytics.

Figure 2.12 **Many countries loosened fiscal policy in 2013**



Source: IMF 2014 WEO database.

Figure 2.13 **Central bank policy rates have remained low**



Source: Datastream, Haver Analytics.

Despite weak Q1 GDP outturns, industrial activity in early 2014 suggest a pickup in growth. Industrial production across the region has picked up modestly since end-2013 (figure 2.11). In a lagged response to the U.S. recovery in the second half of 2013, growth in industrial production in Mexico re-gained momentum following weakness in late 2013. Likewise, higher domestic demand growth raised industrial production in Colombia, which saw production grow in 40 of its 44 sectors.

Fiscal policy loosened in much of the region in 2013. With the majority of the countries in the region loosening in 2013, the fiscal deficit at the regional level widened from 3.6 percent in 2012 to around 4 percent of GDP in 2013. For example, Brazil's fiscal deficit increased 0.5 percentage points to 3.3 percent of GDP in 2013 as the government implemented counter-cyclical measures such as tax breaks and an expansion of public lending to stem the growth slowdown (figure 2.12). Similarly, Ecuador saw its fiscal deficit widen by 3.1 percentage points to more than 4 percent of GDP on healthcare and education reforms. In contrast, a cyclical upturn and/or consolidation measures reduced deficits and improved fiscal sustainability in Argentina, Venezuela and several Caribbean countries (Dominica, Dominican Republic, Jamaica, St. Lucia). In particular, Jamaica saw the largest fiscal improvement in the region going from a deficit of more than 4 percent in 2012 to a surplus of 0.1 percent of GDP in 2013. Spending restraint, higher tax revenue, and lower interest and amortization payments on restructured domestic debt, together with assistance from multilaterals supported this remarkable fiscal improvement.

Monetary policy continues to be generally accommodative, with some notable exceptions. Regional central bank policy rates in most countries remained below 2 percent in real terms and below potential growth. In 2014, policy rates were cut further in both Peru and Guatemala to support economic growth (figure 2.13). In contrast, citing concerns about supply bottlenecks and inflation as a result of a drought, rapid minimum wage growth and pass-through of recent currency depreciation, the central bank of Brazil has been tightening, since April 2013 increasing the key Selic interest rate 375 basis points to 11.0 percent. Similarly to contain inflation in an improving economy, the central bank of Colombia increased the benchmark interest rate by 25 basis points to 3.5 percent in April 2014.

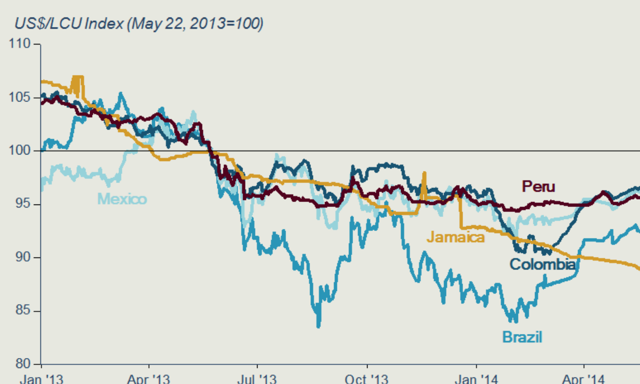
Currency depreciations in the wake of May 2013 tapering announcement have generally persisted. The first announcement of tapering intentions of asset purchases by the Federal Reserve Bank in May 2013 triggered

substantial depreciations across the region on a reassessment of growth prospects. These have generally persisted. To date, the Brazilian real, Colombian peso, Jamaican dollar, Mexican peso, and Peruvian Nuevo sol on average remained around 6 percent more depreciated than their levels in April 2013, with largest cumulative depreciations in Jamaica and Brazil as investors were concerned about rising external imbalances (figure 2.14). Giving way to mounting currency pressures as international reserves dwindled, Argentina devalued its currency in late January by 18 percent. In contrast, the announcement of budget cuts in February in conjunction with continued monetary tightening, along with political speculation, has generated some appreciation in Brazil.

Currency depreciation and accommodative fiscal and monetary policies have added to inflation pressures in some countries in the region. With the median at around 3.5 percent (y/y) in March, consumer price inflation in the region is generally low. However, inflation pressures have increased in several countries due to recent currency depreciations, accommodative fiscal and monetary policies and country-specific domestic factors (figure 2.15). For example, the weakened Jamaican dollar temporarily raised inflation to reach nearly 10 percent (y/y) in 2013, but pressures have since eased with inflation at around 4.5 percent (3m/3m saar) in the three months to April 2014. In Venezuela, inflation rates were near 50 percent in the three months to March, reflecting a rapidly growing money supply and acute shortages of essential foodstuffs and industry inputs. In contrast, fiscal and monetary tightening and softer imported commodity prices, helped contain inflation pressures in Colombia where inflation declined below 2 percent in late 2013.

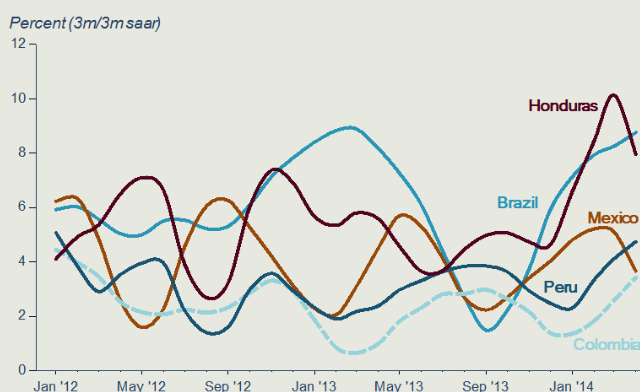
Capital flows to the region have been volatile but on average robust, especially into domestic bond markets. Despite volatility following May 2013 tapering concerns, gross capital flows to the region increased 18.8 percent (y/y) for 2013 as a whole (figure 2.16). Moreover, year-to-date flows have increased 15.8 percent over the same period in 2013. Although equity issuance and bank flows slowed in the second half of 2013 and early 2014, corporate bond issuance expanded sharply, especially in Brazil and Mexico. In Q1 2014 alone, corporate bond issuance in the region amounted to US$ 43.4 billion. Just under half (46 percent) was issued by the oil and gas industry (compared to 14 percent in 2010). While energy prices are broadly stable in 2014, they are projected to decline 2.8 percent in 2015, which may present headwinds to continued issuance by these corporates.

Figure 2.14 Regional currencies remain depreciated below mid 2013 levels despite recent appreciation



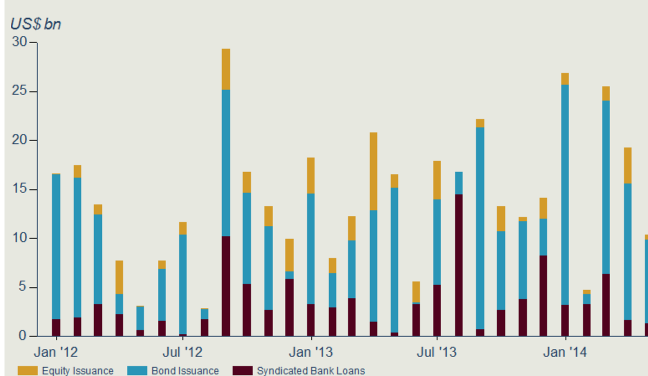
Source: Datastream, Haver Analytics.

Figure 2.15 Inflation pressures are rising in a number of countries



Source: Datastream, Haver Analytics.

Figure 2.16 Gross capital flows have rebounded in recent months after sliding in February



Source: World Bank.

Table 2.7 **Latin America and the Caribbean forecast summary**
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
GDP at market prices[b]	2.9	5.9	4.1	2.6	2.4	1.9	2.9	3.5
	(Sub-region totals-- countries with full NIA + BOP data)[c]							
GDP at market prices[c]	2.9	6.0	4.1	2.6	2.5	1.9	2.9	3.5
GDP per capita	1.7	4.7	3.0	1.5	1.3	0.8	1.9	2.4
PPP GDP	2.7	6.0	4.3	2.8	2.6	2.0	3.1	3.6
Private consumption	3.3	5.7	5.2	3.9	3.0	1.6	2.4	2.8
Public consumption	2.9	4.2	3.0	4.1	2.7	2.6	2.3	2.6
Fixed investment	3.8	11.7	8.2	2.1	2.7	1.2	4.1	5.0
Exports, GNFS[d]	2.0	9.5	7.1	3.1	1.1	1.9	4.4	5.5
Imports, GNFS[d]	3.8	21.8	11.1	4.8	2.6	1.4	3.1	4.1
Net exports, contribution to growth	-0.2	-1.9	-0.8	-0.4	-0.3	0.1	0.2	0.2
Current account bal/GDP (%)	-0.4	-1.4	-1.4	-1.7	-2.5	-2.7	-2.7	-2.5
GDP deflator (median, LCU)	6.6	5.0	6.8	4.4	2.4	3.8	3.6	3.7
Fiscal balance/GDP (%)	-2.5	-3.4	-3.0	-3.6	-4.1	-4.4	-4.3	-4.2
Memo items: GDP								
Broader geographic region (incl. recently high income countries)[e]	2.9	5.9	4.2	2.8	2.5	1.9	3.0	3.5
South America[f]	3.4	6.3	4.1	2.1	2.8	1.6	2.7	3.3
Developing Central and North America[g]	1.5	5.0	4.1	4.1	1.5	2.6	3.6	4.0
Caribbean[h]	3.2	4.4	3.9	3.0	3.3	3.4	3.6	3.9
Brazil	2.9	7.5	2.7	0.9	2.3	1.5	2.7	3.1
Mexico	1.3	5.1	4.0	4.0	1.1	2.3	3.5	4.0
Argentina [i]	2.9	9.1	8.6	0.9	3.0	0.0	1.5	2.8

Source: World Bank.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. Sub-region aggregate excludes Cuba, Grenada, and Suriname, for which data limitations prevent the forecasting of GDP components or Balance of Payments details.
d. Exports and imports of goods and non-factor services (GNFS).
e. Recently high-income countries include Chile, Trinidad and Tobago, and Uruguay.
f.South America: Argentina, Bolivia, Brazil, Colombia, Ecuador, Guyana, Paraguay, Peru, Venezuela
g. Developing Central & North America: Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Panama, El Salvador.
h. Caribbean: Belize, Dominica, Dominican Republic, Haiti, Jamaica, St. Lucia, St. Vincent and the Grenadines.
i. Preliminary for long-term average. Data was recently rebased; missing data up to 2003 was spliced with the earlier data.

Declining commodity prices have weighed on current account and fiscal balances. Key commodity price indices, with the exception of energy, declined significantly in 2013, and are expected to ease further in 2014. The prices of agriculture products, metals and precious metals (in U.S. dollars) declined by 7.2, 5.5 and 16.9 percent, respectively, in 2013, and are expected to decline another 1.0, 5.1 and 11.4 percent in 2014. The resulting declines in export and tax revenues weakened current account among commodity exporters in 2013 (Belize, Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru). At the regional level, the current account deficit from 1.7 percent to 2.5 percent in 2013.

Outlook

With positive output gaps largely closed in 2013, regional growth will grow broadly in line with potential GDP over the medium term. Regional growth is expected to strengthen steadily from 1.9 percent in 2014, to 2.9 percent in 2015 and 3.5 percent in 2016 (table 2.7). While the recovery that is underway in advanced countries will increasingly support external demand growth in the region, tightening financing conditions (at least in 2014) and lower commodity prices will dampen domestic demand growth

Table 2.8 **Net capital flows to Latin America and the Caribbean ($billions)**

	2008	2009	2010	2011	2012	2013e	2014f	2015f	2016f
Capital Inflows	153.5	166.7	342.0	299.4	294.6	323.6	334.5	355.5	371.5
Foreign direct investment	121.9	71.7	111.7	145.6	152.1	174.3	166.5	175.2	187.6
Portfolio investment	-5.1	67.0	129.0	71.4	118.0	105.2	106.8	110.8	110.5
Equity	-11.6	41.2	39.3	2.9	19.6	15.7	19.3	25.4	32.1
Debt instruments	6.5	25.8	89.8	68.5	98.4	89.5	87.5	85.4	78.4
*Other investment**	36.7	28.0	101.3	82.5	24.5	44.1	61.2	69.5	73.4
o/w									
Bank lending	35.1	-4.7	19.2	45.6	37.7	35.2	34.8	37.3	42.1
Short-term debt flows	2.6	-7.9	45.9	-5.9	12.3	15.4	22.7	18.1	20.5
Official inflows	6.4	17.2	22.6	4.9	11.8	5.1	6.0	7.0	7.0
World Bank	2.5	6.2	8.3	-2.9	3.6	3.1	..	..	..
IMF	0	0.4	1.3	0.2	-0.1	-4	..	..	..
Other official	3.9	10.6	13	7.6	8.4	6	..	..	..
Memo items (as a percentage of GDP)									
Current account balance	-0.9	-0.8	-1.4	-1.4	-1.7	-2.5	-2.7	-2.7	-2.5
Capital inflows	3.7	4.3	7.1	5.5	5.4	5.9	5.8	5.8	5.5
Capital outflows	2.0	2.2	3.5	2.2	2.2	2.6	..	..	..

Source: World Bank.
* including short-term and long-term private loans, official loans, other equity and debt instruments, and financial derivatives and employee stock options.
Note: e = estimate, f = forecast.

and keep growth around potential. With largely closed output gaps and limited excess capacity, there is little scope for sharp and sustained accelerations in growth without generating macroeconomic imbalances.

The recovery taking hold in advanced economies will strengthen export demand. While there are substantial compositional differences between the export baskets to China and to advanced countries, declines in Chinese demand for the region's exports will be partially offset by additional demand associated with recoveries in the advanced countries. More specifically, increased exports to the United States and the Euro Area, along with increased tourism receipts and remittances from these advanced economies, will support regional exports growth in the medium term. In addition, depreciated local currencies in much of the region may help countries gain markets share as global trade growth accelerates. Overall, regional export growth is projected to accelerate from 1.1 percent in 2013 to more than 5 percent in 2016. However, even with the significant projected acceleration, export growth will be still substantially below that during the commodity boom era of 2008 to 2012.

Capital flows are expected to slow initially as monetary tightening in the U.S. gets underway but are expected to resume their growth in 2015/16. Growth in net capital flows is expected to slowdown to 3.6 percent in 2014 after surging 9.9 percent in 2013 (table 2.8). The unusually large increase in 2013 was due to a 14.6 percent surge in FDI, mainly due to the Belgian company Anheuser-Busch InBev's purchase of the Mexican brewery, Modelo, that contributed an additional $13 billion flowing into Mexico. From 2015 onwards, however, sustained increases in foreign direct investment will lead net capital flows to the region to grow by 6.3 percent in 2015 and a further 4.5 percent in 2016. These flows will fuel regional domestic demand, especially fixed investment, which will grow 1.2 percent in 2014 and a further 5.0 percent in 2016.

Central banks in a handful of countries will tighten monetary policy to contain creeping inflationary pressures and will soften domestic demand growth. While regional inflation rates are still generally low, depreciated regional currencies, together with the continued loose policy environment will add some inflationary pressures in the region. Estimates of the pass-through of exchange rate depreciations to inflation are detailed in Special Topic; they suggest that recent currency depreciations ceteris paribus are likely to temporarily increase the regional inflation rate by around 1 percentage point in 2014, but these pressures will subside thereafter. As such, the baseline forecast assumes regional central banks, in particular those with noticeably depreciated currencies, will tighten monetary policies by

modestly raising interest rates this year to keep inflation in check, which will provide an additional drag on growth.

A continued decline especially in non-energy commodity prices will weigh on growth. With few exceptions, non-energy commodity prices are projected to continue their downward trend in the medium term, yielding negative terms-of-trade developments for the majority of the region's commodity exporters along with decreases in export and government revenue. Countries such as Guyana and Paraguay, where commodity exports make up a large share of total merchandise exports, will see a deterioration of export revenues and current account balances.

Performance across individual countries will vary. With the benefits of a stronger global economy being partially offset by softer domestic demand due to weak business confidence and tighter credit conditions, Brazil is expected to grow at 1.5 percent in 2014, but will accelerate to 2.7 percent and 3.1 percent for 2015 and 2016, respectively. However in the longer term, structural impediments to growth such as poor infrastructure, burdensome tax and labor regulations and an insufficiently skilled workforce will need to be addressed before Brazil can see a sustained level of higher growth. The Mexican economy is expected to increasingly benefit from the recovery in the U.S. and the increased investment resulting from recently implemented reforms. Growth is expected to average 3.3 percent over the 2014-2016 period. Increasing U.S. tourism is anticipated to strengthen growth in the Caribbean economies from 3.4 percent in 2014 to 3.9 percent in 2016. Similarly, driven by steady flow of foreign direct investment, large mining projects coming on stream and a broad public transportation investment program, Colombia, Peru and Panama, respectively, are projected to lift regional growth rates in the near and medium term. In contrast, as external and internal imbalances and economic distortions unwind, Venezuela is projected to undergo a period of low investment growth and weak GDP growth.

Risks

Disorderly slowdown in the region's largest economies. Venezuela is currently experiencing high inflation rates along with a number of other macroeconomic imbalances and microeconomic distortions, and could see investment contract and slow sharply. Argentina has an uncertain economic outlook but the recent agreements on Paris Club debt, settlement with Repsol, and efforts to strengthen national statistics introduce upside risks to the outlook. From a more stable condition, Brazil, the region's largest economy, with its tighter credit conditions, weakened investor confidence and microeconomic structural impediments, is expected to remain in a low but still positive growth environment in the short-run. The baseline forecast assumes a soft slowdown in growth for these systemic economies this year, and a gradual improvement in 2015 and 2016. Given the systemic nature of these economies in the region, a sharper-than-expected slowdown in one or more of these three economies would have a ripple effect on growth across the region.

Sharper-than-expected decline in commodity prices. The baseline also assumes a moderate decline in commodity prices. Given that China accounts for 40 percent of global metals demand, a sharper-than-expected or protracted slowdown in China is likely to lead to more severe declines in commodity prices, which could further erode export and government revenues of regional commodity exporters, and potentially aggravating current account imbalances. Investment, notably into mining industries, would fall, providing an additional drag on overall economic growth.

Slower longer-term growth— the new normal? More than a cyclical downturn, the key concern for the region is that slower long-term growth – around 3 percent per annum – becomes the new normal. With the end of the double tailwind era of a booming commodity market supported by a surging China, and economies near or at full employment and domestic credit growing at slower rates, the region must turn to sustained productivity growth in order to boost long-term GDP growth. While the region has made great strides in enhancing macroeconomic stability and hence investor confidence, in investing more in infrastructure and in improving security, there still remains much to be done in terms of upgrading the quality of the workforce especially in the informal sector, fostering research and development and innovation, and nurturing a more competitive environment especially in the service sector. Even if the right policies are implemented today, raising productivity will take time before benefits can be realized. However, this is a necessary path if the region is to prevent mediocre growth from becoming the new normal, and maintain the remarkable social progress achieved during the last decade. According to World Bank estimates, the incidence of poverty in the region was more than halved from 2002 to 2010, whereby some 70 million Latin Americans left poverty. Such progress could stall and may even reverse in a longer-term low-growth environment.

Table 2.9 Latin America and the Caribbean country forecasts

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Argentina [b]								
GDP at market prices (% annual growth)[c]	2.9	9.1	8.6	0.9	3.0	0.0	1.5	2.8
Current account bal/GDP (%)	2.2	-0.2	-0.4	0.0	-0.7	-2.0	-2.2	-2.2
Belize								
GDP at market prices (% annual growth)[c]	3.7	3.9	2.3	5.3	0.7	2.5	3.7	4.1
Current account bal/GDP (%)	-13.0	-3.3	-1.3	-2.0	-3.6	-3.7	-3.5	-3.2
Bolivia								
GDP at market prices (% annual growth)[c]	3.4	4.1	5.2	5.2	6.5	5.3	4.3	3.9
Current account bal/GDP (%)	3.9	4.4	2.2	7.9	3.7	2.5	2.1	2.0
Brazil								
GDP at market prices (% annual growth)[c]	2.9	7.5	2.7	0.9	2.3	1.5	2.7	3.1
Current account bal/GDP (%)	-0.7	-2.2	-2.1	-2.4	-3.6	-3.9	-3.8	-3.6
Colombia								
GDP at market prices (% annual growth)[c]	3.7	4.0	6.6	4.1	4.3	4.6	4.5	4.4
Current account bal/GDP (%)	-1.4	-3.1	-2.9	-3.2	-3.4	-3.6	-3.7	-3.6
Costa Rica								
GDP at market prices (% annual growth)[c]	3.8	5.0	4.4	5.1	3.5	3.7	4.3	4.6
Current account bal/GDP (%)	-5.8	-3.5	-5.4	-5.3	-5.1	-5.2	-5.3	-5.3
Dominica								
GDP at market prices (% annual growth)[c]	3.1	1.0	-0.3	-1.7	0.8	1.7	2.6	2.9
Current account bal/GDP (%)	-18.6	-17.3	-14.7	-11.5	-17.2	-18.4	-19.2	-18.7
Dominican Republic								
GDP at market prices (% annual growth)[c]	4.5	7.8	4.5	3.9	4.1	4.0	4.2	4.5
Current account bal/GDP (%)	-3.1	-8.4	-7.9	-6.8	-4.2	-3.8	-3.4	-2.9
Ecuador[d]								
GDP at market prices (% annual growth)[c]	3.8	3.5	7.8	5.1	4.5	4.3	4.2	5.1
Current account bal/GDP (%)	0.9	-2.4	-0.3	-0.2	-1.3	-1.5	-2.0	-1.0
El Salvador								
GDP at market prices (% annual growth)[c]	1.7	1.4	2.2	1.9	1.7	2.1	2.6	2.8
Current account bal/GDP (%)	-4.2	-2.7	-4.9	-5.3	-6.5	-5.9	-5.7	-5.5
Guatemala								
GDP at market prices (% annual growth)[c]	3.0	2.9	4.2	3.0	3.7	3.4	3.5	3.6
Current account bal/GDP (%)	-4.6	-1.5	-3.4	-2.6	-2.7	-2.6	-2.8	-2.8
Guyana								
GDP at market prices (% annual growth)[c]	1.0	4.4	5.4	4.8	4.9	4.4	3.5	3.6
Current account bal/GDP (%)	-10.0	-6.9	-14.5	-14.1	-17.8	-20.7	-20.2	-19.3
Honduras								
GDP at market prices (% annual growth)[c]	3.7	3.7	3.8	3.9	2.6	3.0	3.5	4.0
Current account bal/GDP (%)	-6.9	-4.3	-8.0	-8.6	-8.9	-7.5	-7.3	-7.0
Haiti								
GDP at market prices (% annual growth)[c]	0.6	-5.4	5.6	2.8	4.3	3.6	3.2	3.0
Current account bal/GDP (%)	1.0	-2.5	-4.1	-3.7	-6.0	-5.8	-5.6	-5.4
Jamaica								
GDP at market prices (% annual growth)[c]	0.7	-1.5	1.7	-0.5	0.2	1.1	1.3	1.7
Current account bal/GDP (%)	-10.2	-8.6	-13.3	-12.9	-10.0	-9.3	-8.0	-7.1
Mexico								
GDP at market prices (% annual growth)[c]	1.3	5.1	4.0	4.0	1.1	2.3	3.5	4.0
Current account bal/GDP (%)	-1.5	-0.4	-1.1	-1.3	-2.1	-2.0	-2.2	-2.2

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Nicaragua [b]								
GDP at market prices (% annual growth)[c]	2.5	3.3	5.7	5.0	4.6	4.5	4.4	4.4
Current account bal/GDP (%)	-13.1	-9.6	-12.8	-12.7	-11.4	-9.0	-7.8	-6.8
Panama								
GDP at market prices (% annual growth)[c]	5.6	7.5	10.8	10.7	8.0	6.8	6.2	6.4
Current account bal/GDP (%)	-4.8	-11.6	-15.9	-10.5	-11.2	-10.7	-10.5	-9.0
Peru [b]								
GDP at market prices (% annual growth)[c]	4.6	8.5	6.5	6.0	5.8	4.0	5.6	6.0
Current account bal/GDP (%)	-0.7	-2.4	-1.9	-3.3	-4.5	-5.7	-5.6	-5.1
Paraguay								
GDP at market prices (% annual growth)[c]	2.2	13.1	4.3	-1.2	13.9	4.8	4.3	4.0
Current account bal/GDP (%)	1.7	-0.3	0.4	-0.9	2.1	1.8	0.9	0.1
St. Lucia								
GDP at market prices (% annual growth)[c]	2.2	0.4	1.3	0.5	-0.9	0.9	2.2	2.8
Current account bal/GDP (%)	-18.7	-16.8	-19.4	-14.9	-15.6	-15.0	-13.8	-12.9
St. Vincent and the Grenadines								
GDP at market prices (% annual growth)[c]	3.2	-2.8	0.1	2.3	2.1	1.7	2.8	3.9
Current account bal/GDP (%)	-18.8	-30.9	-28.9	-30.3	-30.0	-29.1	-28.5	-26.7
Venezuela, RB								
GDP at market prices (% annual growth)[c]	3.3	-1.5	4.2	5.6	1.3	0.0	1.0	1.9
Current account bal/GDP (%)	9.7	2.2	7.7	2.9	3.0	2.7	1.9	1.7

Source: World Bank.
World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
Cuba, Grenada, St. Kitts and Nevis, are not forecast owing to data limitations.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. Preliminary for long-term average. Data was recently rebased; missing earlier data was spliced with the previous series.
c. GDP measured in constant 2010 U.S. dollars.
d. Ecuador's 2016 GDP growth in 2016 is expected to accelerate, and the current account to improve, as some of the ongoing hydroelectric and energy projects begin to come on stream.

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Recently transitioned to high income countries [c]								
Chile								
GDP at market prices (% annual growth)[b]	3.3	5.8	5.9	5.6	4.2	3.3	4.5	5.0
Current account bal/GDP (%)	0.8	1.5	-1.3	-3.5	-3.4	-3.3	-3.1	-2.9
Trinidad and Tobago								
GDP at market prices (% annual growth)[b]	5.6	0.2	-1.6	1.5	1.5	2.3	2.8	3.4
Current account bal/GDP (%)	16.0	20.2	12.3	16.0	14.5	13.8	13.0	12.7
Uruguay								
GDP at market prices (% annual growth)[b]	2.1	8.9	6.5	3.9	4.2	3.1	3.4	4.0
Current account bal/GDP (%)	-1.2	-1.9	-2.9	-5.3	-5.9	-6.3	-6.1	-5.7

Source: World Bank.
World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
Cuba, Grenada, St. Kitts and Nevis, are not forecast owing to data limitations.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. GDP measured in constant 2010 U.S. dollars.
c. The recently high-income countries are based on World Bank's country reclassification from 2004 to 2014.

MIDDLE EAST and NORTH AFRICA

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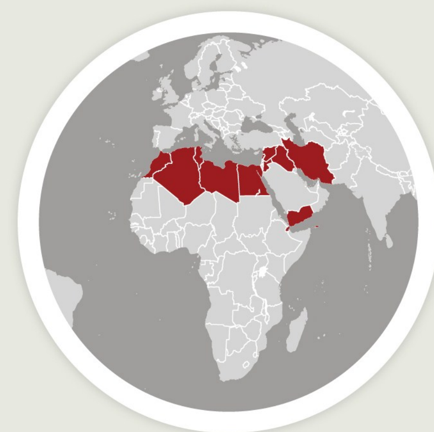


Activity in oil-importing countries remains weak, but is exhibiting signs of an uptick. Oil-exporting countries have seen their oil output recover too, albeit not to pre-2011 levels. Political transitions continue to unfold with a number of elections being held in 2014, delaying measures to address persistent structural challenges. Meanwhile, fiscal and external balances remain weak. Overall, growth in developing economies is expected to pick up to 1.9 percent in 2014 and strengthen to about 3.5 percent by 2016.

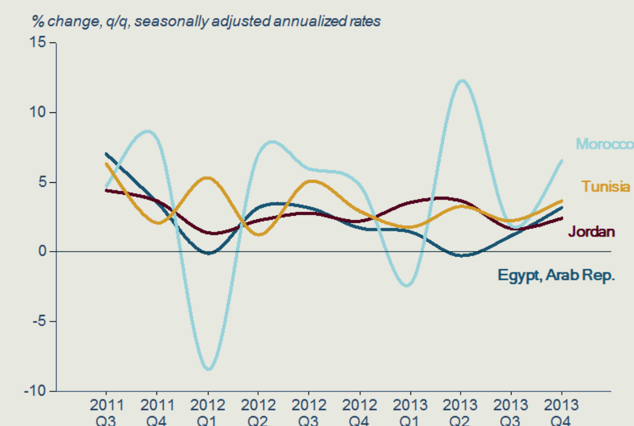
Recent developments

Following a stagnation in 2013, the developing countries of the Middle East and North Africa[1] region are experiencing a recovery. Developing economies of the region experienced a 0.1 percent contraction in 2013, on the back of domestic and regional turmoil and weak external demand, but are off to a more promising start in 2014. Recovery in oil production as well as manufacturing and exports is contributing to the pick-up in growth. This modest upturn, however, remains fragile and well below the region's potential as structural reforms needed to spur growth, reduce unemployment and alleviate poverty remain unaddressed. While some countries have made strides in their political transitions, notably Tunisia, others remain mired. Security challenges in several countries are a key source of instability. Fiscal and external accounts remain weak and are benefiting from the exceptional official support from the high-income Gulf Co-operation Council (GCC) countries.

In oil-importing developing countries, economic activity is stabilizing, but the recovery remains fragile. Strong growth in the first half of 2013 was offset by a sharp drop in the second half such that growth in oil-importers rose, on average, by just 0.2 percentage points to 2.7 percent in 2013. After plunging in second and third quarter of 2013 in the wake of renewed bouts of political instability, real GDP growth rebounded to 4 percent (q/q, seasonally adjusted annualized rate or saar), on average, in 2013Q4, up from 1.7 percent in 2013Q3 (figure 2.17). High-frequency indicators suggest a continued, though fragile, recovery in the oil-importing countries of the region. A strong rebound in industrial production in Egypt from a low base (figure 2.18)—driven by growth in manufacturing, oil-extraction, and a stimulus package—had pushed up the average for these countries to 38 percent (q/q, saar) in 2014Q1. However, already in February and March industrial production growth leveled off again. Sentiment in Egypt remains downbeat, with the Purchasing Managers' Index (PMI) dipping back below 50 for the first five months of 2014, after two months above the contraction/expansion threshold at the end of 2013, signaling a slower pace of growth going forward and reflecting still severe supply-side and security constraints.

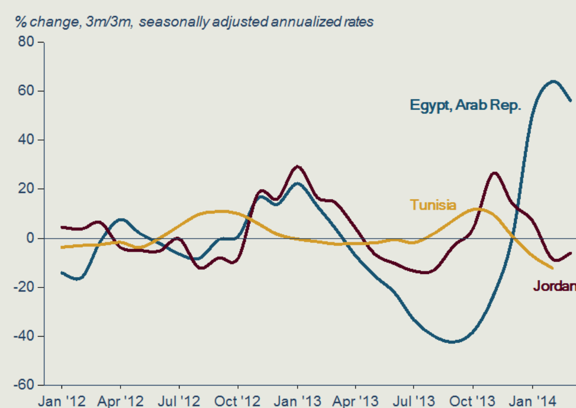
1. This chapter covers low- and middle-income countries of the Middle East and North Africa region while high-income Gulf Cooperation Council (GCC) countries are excluded. The developing countries are further divided into two groups; oil importers and oil exporters.
Developing oil importers are: Djibouti, Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, and West Bank and Gaza.
Developing oil exporters are: Algeria, the Islamic Republic of Iran, Iraq, Libya, the Syrian Arab Republic, and the Republic of Yemen.

Figure 2.17 GDP growth for oil-importing countries is picking up in 2013Q4



Source: Haver, World Bank.

Figure 2.18 Industrial production is volatile but exhibiting signs of recovery



Source: Haver, World Bank.

While no comparable data is available for Tunisia, Jordan and Morocco, trade data indicates strengthening non-agricultural activity, in part buoyed by the recovery in the Euro Area. In Tunisia, the successful adoption of a new constitution, reduced security tensions and pre-election reforms seem to have bolstered confidence. In Lebanon, however, activity, exports and sentiment remain depressed, reflecting spillovers from the conflict in Syria and unsettled domestic political conditions. There are now more than 1 million refugees living in Lebanon or more than 20 percent of the population. The Lebanese PMI for May pointed to a contraction in business activity for the 11th consecutive month, with security issues weighing heavily on tourism arrivals and in turn impacting domestic wholesale and hospitality industries. Merchandise exports, which fell 37 percent during 2013, contracted further by 13 percent annualized pace during the 2014Q1.

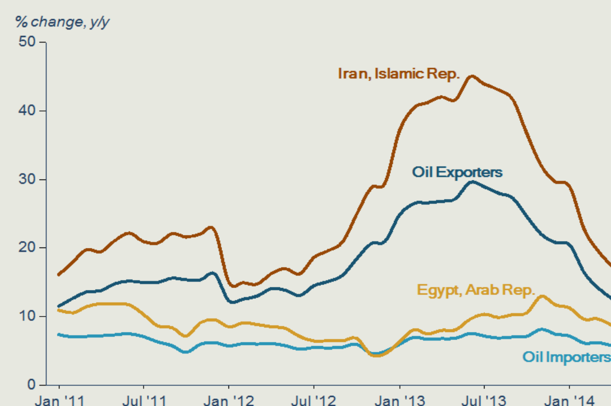
In oil-exporting developing countries, output is recovering as well. Growth has been highly volatile among developing oil exporters, and GDP contracted by 1.8 percent in 2013, reflecting production setbacks in Libya and Iraq, sanctions in Iran, and civil war in Syria. However, oil output now appears to be recovering, averaging 7.7 million barrels per day (mb/d) in 2014Q1, due to rebounding production in Iraq—the region's largest producer—though still below the 2013 average output and the pre-Arab Spring average (figure 2.19). In Iraq, crude production surged to an average of 3.3 mb/d in Q1 2014, of which 80 percent were exported as long-standing bottlenecks were removed in the southern oil-producing region as well as at the oil export terminals in the Gulf. February's output was the country's highest level of production since 1979. Iran's output also grew in 2014Q1 to an average of 2.7 mb/d following the so-called "Joint Plan of Action" between the permanent five UN Security Council members plus Germany and Iran signed in November 2013. The Joint Plan of Action is designed to be temporary and the two sides have set a July deadline to reach a comprehensive permanent agreement. Output in Libya has been cut to a fifth since November 2013 amid persistent unrest and protest by separatist militias seeking a greater share of the country's oil wealth. Negotiations between national authorities and regional militias have been intensifying in order to resume the oil output and exports, but with limited success so far.

Ongoing political transitions and planned elections in 2014-16 may delay the implementation of needed structural reforms. A new constitution was approved in Tunisia and amendments to the 2012 constitution were approved in Egypt. While the Tunisian transition has been praised for its inclusiveness, the Egyptian transition is proceeding according to the political roadmap presented in the wake of the overthrow of the Morsi government, but at the expense of a more inclusive democratic process. Interim governments will govern in both countries until elections are held in the latter half of 2014. A new government was also appointed in Lebanon after nearly a year of political vacuum, but its duration is uncertain as the parliament is supposed to elect a new president in May 2014. Regularly scheduled elections were held in Iraq and Algeria as well in 2014. Political transition remains at an early stage in Yemen with election expected in late 2015 or early 2016. Libya's transition is highly volatile

Figure 2.19 **Oil production in the developing oil-exporting countries has begun to pick up**

Source: Bloomberg, Energy Intelligence Group, World Bank.

Figure 2.20 **Inflation is subsiding in developing countries of the region**



Source: Haver, World Bank.

and uncertain with elections for a new transitional parliament scheduled for June 2013. In this election environment, structural reforms needed to address slowing growth and growing unemployment and poverty will likely be postponed.

Fiscal balances remain weak, with much of the financing provided by official transfers from Gulf Cooperation Council (GCC) countries. Fiscal deficits have grown across the board in the wake of the Arab Spring and have now exceeded 7 percent of regional GDP for two years in a row. Revenues have been falling as growth has slowed, while expenditures on public sector wages and general subsidies—two dominant categories in government expenditure—have increased rapidly partly to limit further social discontent. Facing fiscal pressures and in order to sustain priority spending, oil-importers have cut investment spending, borrowed from domestic banks and benefited from $22 billion in exceptional official financing from the GCC countries. Egypt has announced two fiscal stimulus packages amounting to 3.4 percent of GDP financed by $17 billion in GCC aid in order to support slowing growth. In Jordan, GCC grants in the amount of $5 billion are financing a capital investment program starting in 2014. IMF programs in Jordan, Tunisia and Morocco continue to provide buffers against possible external shocks. Oil-exporters have seen deficits emerge and widen in almost all cases as production declined or was disrupted. The fiscal deterioration was most acute in Libya and Yemen where deficits have grown to 8 percent of GDP in 2013 as insurgencies have sharply curtailed oil output and revenues.

Subsidies in the region remain large, growing and inefficient. Attempts are underway in Egypt, Iran, Jordan, Morocco and Tunisia to reform food and fuel subsidies, which amount to 5 percent of GDP in Tunisia, more than 9 percent in Egypt and Yemen and 11 percent in Libya. Historically subsidies have been motivated as a tool of social protection but there is growing evidence that they are disproportionally benefiting the well-off segments of the population, while adding to both fiscal and current account pressures (among countries that import food and fuel). Accordingly, reforming subsidies is crucial to better serve the needy and improve macroeconomic fundamentals and long term fiscal sustainability in the region (see discussion in the special topic of chapter 1). Weak growth and concerns about raising prices pose challenges to the reform process. For example, although Egypt will double natural gas prices in 2014 for consumers connected to the gas distribution network, electrical generation facilities and bakeries will be exempt from the hike, eliminating the bulk of natural gas users from the reform. As a result fiscal savings will be negligible. In Iran, the authorities have increased rationed gasoline prices by 75 percent and non-rationed gasoline prices by 45 percent. The hikes in gasoline prices were announced in April after inflation had fallen below 20 percent (y/y) in March for the first time in 18 months (figure 2.20). Despite these reforms, more needs to be done. Energy prices in region remain among the lowest in the world, and far below international prices.

Private capital inflows to the developing countries of the region declined in the first five months of 2014 by $2.1 billion (a

Table 2.10 Net capital flows to Middle East and North Africa ($ billions)

	2008	2009	2010	2011	2012	2013e	2014f	2015f	2016f
Capital Inflows	27.2	46.3	40.6	8.5	29.8	26.7	22.6	25.3	28.8
Foreign direct investment	27.6	23.3	18.6	10.8	14.6	13.4	12.3	15.3	17.8
Portfolio investment	-5.2	2.3	11.0	-10.6	-1.9	-0.4	0.3	1.6	1.8
Equity	0.4	1.2	2.0	-0.6	-1.3	0.1	0.1	0.5	1.1
Debt instruments	-5.6	1.1	9.0	-10.0	-0.6	-0.5	0.2	1.1	0.7
*Other investment**	4.8	20.7	10.9	8.3	17.1	13.7	10.0	8.4	9.2
o/w									
Bank lending	-1.7	-2.2	-1.8	-0.8	0.1	-0.5	-0.2	0.5	1.4
Short-term debt flows	-1.9	3.0	4.5	-2.6	4.0	4.3	2.3	1.4	1.1
Official inflows	-1.7	2.5	1.3	1.2	4.8	9.1	6.1	5.1	4.4
World Bank	-0.3	0.9	0.8	0.9	0.8	0.8	..	..	..
IMF	-0.1	-0.1	0	-0.1	0.5	0	..	..	..
Other official	-1.4	1.6	0.5	0.3	3.5	8.3	..	..	..
Memo items (as a percentage of GDP)									
Current account balance	4.6	-0.9	1.6	2.7	-0.7	-3.4	-3.3	-3.6	-3.7
Capital inflows	2.8	4.8	3.7	0.7	2.3	2.2	1.7	1.8	1.8
Capital outflows	1.1	0.6	1.3	0.2	0.2	0.4	..	..	..

Source: World Bank.
* including short-term and long-term private loans, official loans, other equity and debt instruments, and financial derivatives and employee stock options.
Note: e = estimate, f = forecast.

decline of 38 percent) from last year, as bond flows almost halved. This reflects the fact that access to international capital markets is still limited due to lingering political and economic uncertainty. Only three developing countries in the region raised funds in international debt markets during the first five month of the year: Egypt raised $776 million through a syndicated loan for trade financing purposes and Morocco, Lebanon, and Egypt raised $2.6 billion combined through four new bond issues. With limited access to external finances, Egypt is planning to issue a near-record 205 billion Egyptian pounds ($29 billion) in domestic debt in the second quarter and raise government tax on capital gains in an effort to finance its growing budget deficit.

Strong official inflows have helped compensate for weak private flows. Net capital flows to the developing countries of the region dropped in 2013 and are estimated at $26.7 billion (1.8 percent of GDP), down from $29.8 billion (2.1 percent of GDP) in 2012 (table 2.10) and remain well below the average for all developing countries (5.6 percent of GDP in 2013). However, strong official inflows in the form of aid from the Gulf countries have helped the region buffer the drop-off in private flows. The decline in private flows is a result of a drop in net FDI flows, primarily into Egypt and Tunisia, because of political turmoil. Overall, net FDI levels remain well below pre-Arab Spring inflows and are projected to recover to those levels only late in the forecast period.

Compounding the tight financial environment, foreign currency earnings from remittances to the developing countries of the region declined in 2013 by 2 percent to about $46 billion. While growth in remittances is expected to pick up to 5-6 percent annually over the forecast period, it will remain well below the 12 percent annual average recorded during 2010-12 period. Some 85 percent of remittance inflows go to the oil-importing countries of the region, with Egypt being the largest recipient ($17.5 billion in 2013, compared with $19.2bn in 2012). Accordingly much of the expansion during 2010-12 and the subsequent decline has been accounted for by Egypt. The drop in 2013 was due in large part to more stringent enforcement of labor regulations and an end to an amnesty period in Saudi Arabia, which hosts a third of all Egyptian migrants. This resulted in a departure of some 300,000 migrants back to Egypt in the second half of 2013. Remittances to Lebanon, Jordan and Morocco, other large recipients in the region, recovered in 2013, after flat or negative growth in 2012.

Table 2.11 **Middle East and North Africa forecast summary**
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
GDP at market prices, geographic region[b, c]	4.2	4.5	2.5	2.7	1.9	2.9	3.8	3.8
GDP at market prices, developing countries[c]	4.1	4.7	-0.8	0.6	-0.1	1.9	3.6	3.5
	(Sub-region totals-- countries with full NIA + BOP data)[d]							
GDP at market prices, developing countries[c]	4.4	4.6	1.8	-1.8	0.1	2.1	2.6	3.1
GDP per capita (units in US$)	2.8	3.0	0.2	-3.3	-1.4	0.6	1.2	1.7
PPP GDP[e]	4.4	4.5	1.7	-1.3	0.4	2.2	2.7	3.1
Private consumption	4.1	3.5	2.1	1.2	0.8	2.2	3.3	3.5
Public consumption	4.3	1.4	3.1	3.3	2.9	3.7	3.8	3.8
Fixed investment	6.7	4.4	-1.8	-0.9	1.5	0.7	2.1	3.3
Exports, GNFS[f]	4.1	7.0	-4.1	-6.6	-1.1	3.7	4.2	4.5
Imports, GNFS[f]	7.4	4.0	1.1	3.5	2.7	3.2	4.8	5.0
Net exports, contribution to growth	-0.7	0.8	-1.6	-3.0	-1.2	-0.1	-0.4	-0.5
Current account bal/GDP (%)	5.2	1.6	2.7	-0.7	-3.4	-3.3	-3.6	-3.7
GDP deflator (median, LCU)	6.0	8.4	6.4	5.8	4.8	3.7	3.9	4.0
Fiscal balance/GDP (%)	-0.5	-1.9	-1.7	-7.4	-7.3	-6.6	-6.1	-6.2
Memo items: GDP								
Developing countries, ex. Syria	4.1	4.8	-0.6	1.7	0.8	2.2	3.8	3.6
High Income Oil Exporters[g]	4.4	4.3	6.3	5.0	3.9	4.1	4.0	4.1
Developing Oil Exporters	3.9	5.2	-2.6	-0.5	-1.8	1.3	3.7	3.5
Developing Oil Importers	4.5	3.8	2.6	2.5	2.7	2.7	3.4	3.6
Egypt	4.4	3.5	2.0	2.2	2.3	2.6	3.1	3.2
Fiscal Year Basis	4.3	5.1	1.8	2.2	2.1	2.4	2.9	3.2
Iran	4.6	5.9	2.7	-5.6	-1.7	1.5	2.0	2.3
Algeria	3.6	3.6	2.6	3.3	2.7	3.3	3.5	3.6

Source: World Bank.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. Geographic region includes the following high-income countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.
c. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
d. Sub-region aggregate excludes Djibouti, Iraq, Libya, and West Bank and Gaza, for which data limitations prevent the forecasting of GDP components or Balance of Payments details.
e. GDP measured at PPP exchange rates.
f. Exports and imports of goods and non-factor services (GNFS).
g. High Income Oil Exporting Countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

Outlook

Growth in the Middle East and North Africa region is expected to strengthen gradually but to remain weak during the forecast period. Nominal oil prices (World Bank average) underpinning the forecasts are expected to average $103/bbl during 2014 (down slightly from $104/bbl in 2013) and decline to $99/bbl and $98/bbl in 2015 and 2016 respectively. Egypt, Morocco, Tunisia, Jordan, and to lesser extent Lebanon, appear to be entering the period of stable recovery from a period of volatility and uncertainty. Other countries in the region, such as Libya, Yemen and Syria are not. Consequently, growth in the developing countries of the region is projected to pick up gradually to 1.9 percent in 2014 to around 3.5 percent in 2016, helped by a rebound in oil production among oil exporters and a modest recovery among oil importing economies (table 2.11).

In the baseline scenario, only a gradual improvement in the political uncertainty that has plagued the region for the past three years is expected. As a result, although growth will pick up, the recovery is not expected to be sufficiently forceful to make deep inroads into spare capacity and

unemployment. According to World Bank estimates, the region needs to create 28 million jobs in the next 7 years—or about 4 million per year—just to keep the unemployment rate from rising. Historically, the region created 3.5 million jobs at an average growth rate of 5 percent. Of course, if political tensions ease (or deteriorate) more quickly than anticipated outcomes could be substantially better (or worse).

Among oil exporters, growth is expected to firm to about 3.5 percent by the end of the forecast period as oil prices are expected to remain relatively high, and as mitigation or resolution of infrastructure problems and security setbacks improves oil output. In turn, this will underpin a gradual improvement in fiscal outturn support domestic demand. Importantly, the baseline outlook for Iran assumes a partial easing of the sanctions in line with steps taken to date.

Among oil importers, aggregate growth is expected to remain weak and below potential at 2.7 percent in 2014 as performance will not improve dramatically in the forecast period unless there is a credible restoration of political stability and return of confidence. In addition, without tackling the long -overdue structural problems, growth cannot return to full potential. Aggregate growth for the sub-region is expected to slowly pick up to about 3.6 percent in 2016, closer to—but still well below—potential growth. Consumption will be underpinned by large public outlays on wages and subsidies, while public investment will likely be constrained in the forecast period by large fiscal deficits.

Risks

The region's outlook is subject to significant downside risks that are mostly internal to the region. A further escalation of violence in Syria and spillovers to other countries (mainly Lebanon, Jordan and Iraq) could adversely affect growth. Over 2.1 million Syrian refugees are hosted in the region, with refugees in Lebanon and Jordan amounting to 21 and 8 percent of populations there. Economic, social, and fiscal pressures are high for these countries and could be exacerbated further should the civil war in Syria intensify.

Countries in political transition have benefited from large official transfers from the Gulf economies. While these are expected to continue, the associated debt will become increasingly burdensome; also, the larger the assistance, the larger the rollover and refinancing risk for recipients. Already, public debt levels have increased in oil-importing countries from 74 to 87 percent of the sub-regional GDP in the 2011-2013 period. They may be approaching unsustainable levels as debt servicing costs account for an ever larger share of the expenditures, especially in the domestic debt markets.

Setbacks in political transitions and/or further escalation of violence in Egypt, Iraq, Libya, Tunisia and Yemen would further undermine confidence and delay the structural reforms or reduce oil output. On the upside, restoration of political stability and policy certainty that leads to sustained attention to structural reforms could substantially boost confidence and return growth to the long-run potential.

External risks are more balanced. European growth could disappoint the already modest recovery projected, but it could also do better, supporting exports, tourism, remittances and capital flows in North Africa. In addition, risks from a tightening of global financial conditions could lead to a rise in risk premiums for developing countries and lead to lower FDI.

A severe escalation of tensions in the Ukraine could pose acute risks for the region, particularly oil and food importers. In addition to sharp impacts on global confidence which could dent the global recovery, a disruption in grain and energy supplies—Russia and Ukraine account for 16 percent of global wheat exports, while Russia is the largest global oil producer—and sharp price hikes could severely weaken already stretched current and fiscal account deficits in the region. Importantly, the baseline outlook assumes no physical disruptions to the commodities markets as a result of tensions in Ukraine.

On the flip side, a sharper-than-projected decline in commodity prices could lead to a significant deterioration in external and fiscal accounts of the oil-exporting countries although benefiting more vulnerable importers in the region. This scenario could happen, for example, if Iran and Libya return some 2 million barrels per day of idled capacity to the market at a time of a surging Iraqi and non-OPEC production (unconventional North American production). Economic impacts of a sharp decline in oil prices would be significant. For example, as presented in June 2013 edition of the GEP, under a scenario where oil prices decline to $80/barrel in real terms in one year, GDP growth would be reduced by 1.4 percentage point (pp) in the developing oil exporters of the region. Current account balances would deteriorate by 3.5 pp of GDP and fiscal balances would weaken by 2.1 pp of GDP on average in the first year of the decline. While this would benefit the developing oil-importers of the region, the impact would not be as economically significant. Their growth would improve by 0.5 pp on average while current and fiscal accounts would improve by 0.5 and 0.2 pp of GDP on average respectively.

Table 2.12 Middle East and North Africa country forecasts

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Algeria								
GDP at market prices (% annual growth)[b]	3.6	3.6	2.6	3.3	2.7	3.3	3.5	3.6
Current account bal/GDP (%)	22.4	7.5	9.7	6.4	1.4	0.7	-1.7	-3.4
Djibouti								
GDP at market prices (% annual growth)[b]	3.5	3.5	4.5	4.8	5.0	6.0	6.5	6.5
Current account bal/GDP (%)	..	-5.4	-14.1	-12.3	-13.1	-15.2	-13.0	-12.8
Egypt, Arab Rep.								
GDP at market prices (% annual growth)[b]	4.4	3.5	2.0	2.2	2.3	2.6	3.1	3.2
Fiscal Year Basis	4.3	5.1	1.8	2.2	2.1	2.4	2.9	3.2
Current account bal/GDP (%)	1.1	-2.0	-2.6	-3.4	-1.9	-0.9	-1.5	-2.0
Iran, Islamic Rep.								-
GDP at market prices (% annual growth)[b]	4.6	5.9	2.7	-5.6	-1.7	1.5	2.0	2.3
Current account bal/GDP (%)	6.3	6.5	10.3	4.7	0.3	0.2	0.1	0.0
Iraq								
GDP at market prices (% annual growth)[b]	-1.0	5.9	10.2	10.3	4.2	5.9	6.7	8.2
Current account bal/GDP (%)	..	3.0	12.0	6.7	0.0	1.0	1.2	1.4
Jordan								
GDP at market prices (% annual growth)[b]	6.1	2.3	2.6	2.7	2.8	3.1	3.5	4.0
Current account bal/GDP (%)	-4.4	-7.1	-12.0	-18.4	-15.8	-13.7	-12.4	-11.3
Lebanon								
GDP at market prices (% annual growth)[b]	4.4	7.0	3.0	1.4	0.9	1.5	2.5	3.0
Current account bal/GDP (%)	-16.6	-20.3	-12.1	-3.9	-6.3	-6.8	-7.0	-7.2
Libya								
GDP at market prices (% annual growth)[b]	3.8	5.0	-62.1	104.5	-9.4	-9.7	28.8	9.0
Current account bal/GDP (%)	..	22.5	9.2	29.1	-5.5	-28.0	-19.4	-18.0
Morocco								
GDP at market prices (% annual growth)[b]	4.6	3.6	5.0	2.7	4.4	3.0	4.4	4.5
Current account bal/GDP (%)	-0.1	-4.3	-8.1	-9.9	-8.7	-7.9	-6.8	-5.8
Syrian Arab Republic								
GDP at market prices (% annual growth)[b,c]	4.6	3.2	-3.4	-21.8	-22.5	-8.6	-6.2	1.7
Current account bal/GDP (%)	2.8	-0.6	-16.0	-18.7	-22.0	-16.8	-12.5	-8.6
Tunisia								
GDP at market prices (% annual growth)[b]	4.2	3.0	-2.0	3.6	2.6	2.7	3.5	4.0
Current account bal/GDP (%)	-2.7	-4.7	-7.3	-8.1	-8.4	-7.5	-7.1	-6.3
Yemen, Rep.								
GDP at market prices (% annual growth)[b]	3.5	7.7	-12.6	2.4	4.0	5.9	4.2	3.8
Current account bal/GDP (%)	1.1	-3.7	-4.2	-0.9	-3.0	-3.4	-3.7	-4.2
West Bank and Gaza								
GDP at market prices (% annual growth)[b]	2.4	9.2	12.2	5.9	1.5	2.5	2.7	2.9
Current account bal/GDP (%)	..	-24.3	-32.0	-36.4	-29.5	-30.4	-29.6	-29.4

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Recently transitioned to high-income economies [d]								
Oman								
GDP at market prices (% annual growth)[b]	4.3	5.6	0.3	5.8	4.8	4.5	4.0	4.0
Current account bal/GDP (%)	9.1	9.6	9.1	8.0	7.6	4.0	1.2	0.9
Saudi Arabia								
GDP at market prices (% annual growth)[b]	4.6	7.4	8.6	5.1	4.0	4.1	4.2	4.3
Current account bal/GDP (%)	15.3	11.9	23.6	22.0	17.3	15.8	13.5	10.7

Source: World Bank.

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.

b. GDP measured in constant 2010 U.S. dollars.

c. The estimates for GDP decline in Syria in 2012 and 2013 are subject to significant uncertainty.

d. The recently high-income countries are based on World Bank's country reclassification from 2004 to 2014.

SOUTH ASIA

South Asia's GDP grew 4.7 percent in 2013, about 2.6 percentage points below average growth in 2003-12, mainly reflecting weak manufacturing performance and slowing investment in India. Growth is expected to pick up modestly in 2014, and then rise to about 6 percent in 2015 and 2016, with firming global demand and easing domestic constraints offsetting a tightening of international financial conditions. Key risks include weak monsoon rains and stressed banking sectors.

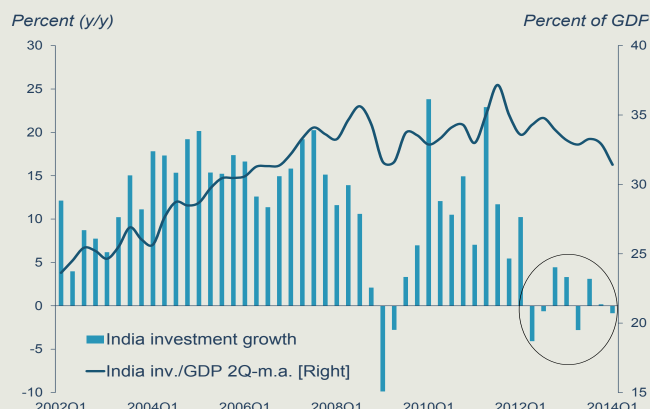
Recent developments

South Asian regional GDP measured at market prices grew an estimated 4.7 percent in 2013, down from 5.0 percent in 2012. Growth in both years was more than 2 percentage points lower than the average growth of the preceding decade. South Asia's sub-par growth performance in recent years can be mainly attributed to subdued growth in India, the largest regional economy, where growth fell-off sharply after a stimulus-induced cyclical rebound following the 2008-09 global financial crisis. Since 2012, investment growth has slowed sharply in India (figure 2.21) amidst high inflation and weakened business confidence. The effect of slowing investment and weak manufacturing performance on GDP growth in 2013 was partially offset by robust agricultural growth and a positive contribution to growth from net exports. India's GDP growth (measured at factor cost) of 4.7 percent in the 2013-14 fiscal year ending in March was a modest improvement on the 4.5 percent growth in the previous fiscal year.

Among other South Asian countries, growth in Pakistan, the second largest economy, remains below the regional average but improving, with GDP (measured at factor cost) in the 2013-14 fiscal year estimated to have grown 3.7 percent, broadly stable from previous fiscal year, but significant in the context of fiscal adjustment required to overcome the threat of a balance of payment crisis. Pakistan's weaker growth relative to its peers mainly reflects significantly lower investment rates (as a share of GDP), in part due to energy-supply bottlenecks and security uncertainties. Growth in Bangladesh averaged 6.3 percent during 2010-2013, but slowed to an estimated 5.4 percent during the fiscal year ending in June 2014, adversely affected by social unrest and disruptions prior to national elections in January, and by capacity constraints that have resulted in persistent inflationary pressures. Domestic demand in Bangladesh has been supported partly by robust agricultural harvests and migrant remittances. By contrast, Sri Lanka's annual growth picked up to a 7.3 percent pace in 2013 from 6.3 percent the previous year, led by services, stronger manufacturing activity and a pickup in domestic demand (in part reflecting easing of monetary policy), and robust agricultural growth.

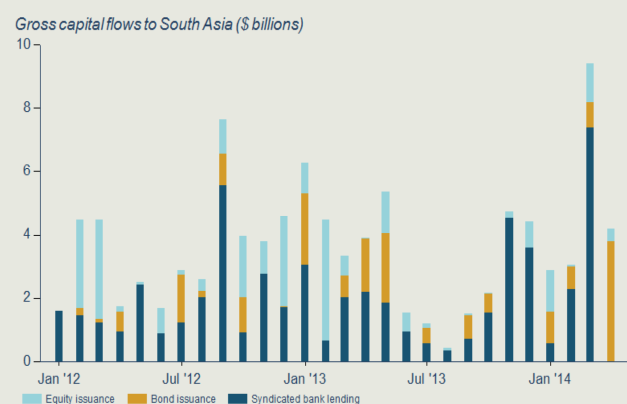
Currency depreciation and firming high-income demand supported regional exports and activity in the second half of 2013, but the momentum of exports waned by Q1 2014. Regional industrial production and exports posted modest gains in the second half of 2013. India's exports received a temporary boost from steep currency depreciation during the second half of

Figure 2.21 Fixed investment growth in India slowed markedly since 2012



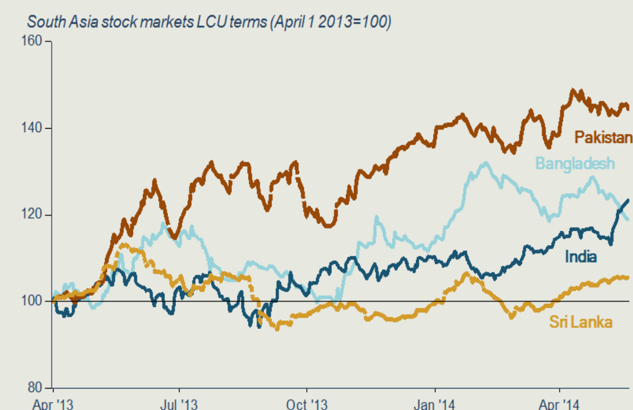
Source: Datastream, Haver Analytics, World Bank.
Note: Does not include acquisition of valuables such as gold.

Figure 2.22 Gross private capital flows to South Asia have strengthened since Q4 2013



Source: Dealogic, World Bank.

Figure 2.23 Equity markets in South Asia gained significantly since Q4 2013



Source: Datastream, Haver Analytics, World Bank.

2013 following the U.S Federal Reserve's "tapering talk" in late May, and from firming demand in high income countries. A large current account deficit of 5 percent of GDP in 2012 and openness to portfolio capital flows had made India (along with Brazil, Indonesia, South Africa, and Turkey) vulnerable to slowing of capital flows during the mid-2013 turmoil. Measures to curb gold imports and policy tightening helped to achieve a sharp current account adjustment in the second half of 2013 (to less than 1 percent of Q4 2013 GDP). By Q1 2014, the rupee appreciated and export momentum waned—but exports picked up again in April. Industrial production momentum in India picked up to a 3.4 percent annualized pace in Q1 2014 (q/q saar) after contracting in the previous quarter, but industrial output in March was still 0.5 percent lower (y/y) than the level a year earlier, reflecting a number of structural constraints. Business sentiment in India improved modestly in May reflecting increases in both domestic and export orders, suggesting that industrial activity could strengthen further.

As demand from the Euro Area and U.S improved in the second half of 2013, exports in Bangladesh and Sri Lanka grew rapidly. Bangladesh's export growth, however, slowed in Q1 2014, partly due to the lagged effect of disruptions caused by political unrest. Pakistan's export growth slowed more sharply in the first months of 2014 (with a decline in exports in April), reflecting in part pervasive electricity and natural gas shortages. In parallel, Pakistan's industrial production growth decelerated from 11.2 percent (y/y) at end-2013 to a 2.6 percent decline in March.

Capital flows have performed strongly since Q4 2013, reflecting reduced vulnerabilities and improved growth expectations. Mainly due to reduced inflows during the mid-2013 financial market turmoil, annual capital flows to the region are estimated to have fallen by 28 percent to $91 billion in 2013 from $127 billion in 2012—led by a 71 percent decline in portfolio investment (mainly bond) flows and 33 percent fall in bank lending (table 2.13). Equity flows fell by a smaller 12 percent, while foreign direct investment was relatively resilient, rising by 16 percent in 2013. Through the first four months of 2014, gross private capital flows to South Asia have been robust, despite the start of U.S tapering and emerging market financial tensions in January (figure 2.22). Pakistan issued $2 billion of international bonds in April, while Sri Lanka raised $1 billion and $500 million respectively in January and April. Stock markets in the region have risen strongly since Q4 2013 despite some short-lived reversals in early 2014 (figure 2.23). This better performance of capital flows and equity markets may be due to reduced external vulnerability (after current account adjustment in India), expectations of improved growth performance in future,

Table 2.13 Net capital flows to South Asia ($ billions)

	2008	2009	2010	2011	2012	2013e	2014f	2015f	2016f
Capital Inflows	67.7	67.2	115.0	98.7	126.5	90.6	115.3	123.7	131.6
Foreign direct investment	50.9	39.5	31.3	40.4	27.5	32.0	35.3	38.1	43.6
Portfolio investment	-15.7	17.0	36.9	3.6	32.6	9.5	29.8	33.5	33.7
Equity	-15.8	24.1	29.9	-4.3	23.3	20.4	23.7	25.7	27.4
Debt instruments	0.1	-7.1	7.0	7.9	9.3	-10.9	6.1	7.8	6.3
*Other investment**	32.6	10.7	46.8	54.7	66.4	49.1	50.2	52.1	54.3
o/w									
Bank lending	11.2	10.8	13.2	18.5	22.7	15.2	12.5	15.7	16.2
Short-term debt flows	7.9	2.6	11.7	22.7	13.4	13.1	15.4	16.7	19.2
Official inflows	8.9	11	10.8	6.6	4	5.9	5.1	4.7	3.8
World Bank	1.4	2.4	3.3	2	0.9	0.5	..	..	..
IMF	3.2	3.6	2	0	-1.5	0.5	..	..	..
Other official	4.2	4.9	5.6	4.5	4.6	4.9	..	..	..
Memo items (as a percentage of GDP)									
Current account balance	-3.2	-1.7	-2.7	-3.1	-4.1	-2.2	-2.0	-2.2	-2.5
Capital inflows	4.4	4.2	5.7	4.4	5.6	3.9	4.5	4.5	4.4
Capital outflows	1.4	1.2	2.0	1.5	1.6	1.0	..	..	..

Source: World Bank.
* including short-term and long-term private loans, official loans, other equity and debt instruments, and financial derivatives and employee stock options.
Note: e = estimate, f = forecast.

and continued accommodative policies in high income countries and a search for yield.

Remittance growth moderated in 2013. The pace of increase in regional migrant remittances (which are an important source of foreign currency in several countries) moderated to 2.3 percent in 2013 ($111 billion) from 12.1 percent the previous year, mainly reflecting slower growth in annual flows to India (although quarterly flows have picked up again since Q2 2013) and a decline in flows to Bangladesh. A part of investment-related remittances to India were likely diverted to non-resident bank deposits, which have surged after efforts to mobilize capital since the mid-2013 turmoil. In Bangladesh, restrictions imposed by countries in the Gulf on the intake of Bangladesh migrants have resulted in reduced remittances. Nevertheless, remittances provide a vital source of revenues to the smaller countries, for instance, accounting for a quarter of Nepal's GDP and financing more than three-quarters of its goods imports.

Notwithstanding slower growth and modest policy tightening, inflation remains persistently high. Regional inflation peaked in Q4 2013 and declined in subsequent months, helped by: declining international commodity prices; monetary tightening in India and Pakistan (partly in response to external pressures); robust domestic agricultural harvests; and a gradual fading of the pass-through effects of the mid-2013 currency depreciation on inflation (see discussion in Special Topic). After peaking at 11.2 and 10.9 percent (y/y) respectively in India and Pakistan in November 2013, retail inflation fell to about 8 percent in both countries in February, but most recently shows signs of having picked up again. Inflation in Bangladesh declined during the second and third quarters of 2013, but picked up since Q4 2013, partly due to disruptions caused by political unrest. Nepal's inflation rate was close to 9 percent in Q1 2014. Region-wide, retail inflation continues to be influenced heavily by food inflation. Sharp seasonal price fluctuations (especially for vegetables and proteins) mostly reflect inefficient supply-chains and weak storage infrastructure, while price increases in grains have been driven in part by increases in official minimum support prices. Earlier loose policies have contributed to entrenching inflationary expectations at high levels, which influence price- and wage-setting behavior. By contrast, despite acceleration in growth, Sri Lanka's inflation fell from 6.7 percent in October 2013 to 3.2 percent in May, (partly due to base effects) although inflation momentum is starting to pick up.

Despite some fiscal consolidation, more remains to be done in South Asia. India's fiscal deficits grew rapidly during the global financial crisis of 2008-09, supporting a sharp post-crisis

rebound in GDP growth. This stimulus has been withdrawn gradually—although India's general government deficit in 2013 is estimated to be more than 2 percentage points of GDP higher than in 2007, indicating that depleted fiscal buffers have yet to be fully restored. In Pakistan, after the fiscal deficit ballooned to over 8 percent of GDP in FY2011-12, fiscal restraint is estimated to have reduced it to about 6 percent of GDP in FY2013-14. Sri Lanka's deficit has also fallen in recent years, while Nepal's fiscal balance moved into surplus in 2013, partly because of delays caused by insufficient capacity for public expenditure on capital projects. However, sustaining fiscal consolidation could prove challenging for various reasons. With the exception of Nepal and Maldives, all countries in South Asia face significant revenue shortfalls vis-à-vis budgeted amounts. South Asian economies raise less tax revenue, relative to GDP, than would be expected given their level of economic development (World Bank *South Asia Economic Focus* Oct. 2013 and Apr. 2014). This in part stems from frequent tax exemptions and rampant tax evasion. Further pressures could arise on the expenditure side if there are demands to provide stimulus to support weak growth or there is a failure to reform subsidies (fuel, food and fertilizer subsidies accounted for an estimated 2.2 percent of India's GDP in FY2013-14). A projected decline in international crude oil prices in 2014-16 (see chapter 1) could provide governments in the region with an opportunity to gradually reduce subsidies without big hits to household pocket books. Measures to simplify the tax system, broaden the tax base, and improve compliance can help to raise tax revenues as a share of GDP and help in fiscal consolidation.

Outlook

Together with a projected firming of global growth, regional investment is expected to rise helping to gradually boost regional growth to 5.3 percent in 2014 and to about 6 percent in 2015 and 2016. A substantially weaker than average carry-over and a weak start to the year in India, the largest regional economy, means that even though its quarterly growth is expected to pick up during the course of the 2014 calendar year, the level of annual GDP growth for India, and in turn, for South Asia, would rise only modestly in 2014 (table 2.14). Over the medium-term, regional GDP is forecast to strengthen to 5.9 percent in 2015 and 6.3 percent in 2016 (with the acceleration focused mainly on India), supported by a gradual pickup of domestic investment and stronger demand in the U.S. and Euro Area. But a variety of domestic factors—including supply-side constraints in physical infrastructure and human capital, electricity and natural gas shortages, a weak business and regulatory environment, and high inflation—as well as tightening of international financial conditions are likely to act as headwinds. Reforms to alleviate these structural constraints and to improve productivity would help to raise the region's underlying growth potential. Continued fiscal consolidation would create additional space for private investment, while maintaining monetary policy credibility (together with a gradual easing of supply-side constraints) would help to reduce entrenched inflationary pressures.

Investment growth is expected to pick up during the forecast horizon conditional on easing of structural constraints and continued reform momentum. A large number of projects, particularly in the infrastructure, steel, and energy sectors, have been stalled in recent years in India. These have contributed to a slowing of investment growth and a rise in stressed loans of banks. As these investment projects come on stream during the forecast period (2014-16), overall investment activity should pick up. In Pakistan, after declining for several years, the country's investment rate is projected to rise during the forecast period. The projected gradual revival of regional investment growth will depend to a large extent on credible efforts to reduce infrastructure and energy supply bottlenecks, create a predictable regulatory environment, implement labor market reforms, and continue fiscal consolidation.

A projected strengthening of external demand will contribute to a pickup in regional exports. South Asia's exports led by India are expected to accelerate during the forecast period, in line with strengthening global import demand, particularly in the U.S and the Euro Area (the two largest markets for South Asian exports). In Pakistan, preferential market access by the EU (GSP Plus) could help export performance, but energy supply shortages may hamper exporters. In Bangladesh, exports are projected to improve after short-lived effects of political turmoil and transition to better compliance with factory safety standards and working conditions. But upward wage pressures in absence of productivity gains could erode its competitiveness in global markets.

Consumption growth is expected to rise during the forecast period, but the near term outlook is dependent on monsoon rains. A projected gradual increase in regional consumption growth reflects increased income growth as overall growth picks up, and a modest reduction in inflation helped by a projected decline in international non-oil commodity and crude oil prices. The fall in inflation will depend on whether monetary credibility is maintained, fiscal consolidation continues, and there are resolute efforts to address supply-side constraints. In the baseline forecasts for 2014, agricultural production

Table 2.14 **South Asia forecast summary**
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
GDP at market prices[b,e]	5.9	9.7	7.3	5.0	4.7	5.3	5.9	6.3
GDP per capita (units in US$)	4.4	8.2	5.8	3.5	3.3	3.9	4.5	5.0
PPP GDP[c]	5.8	9.6	7.3	4.9	4.7	5.3	5.9	6.3
Private consumption	5.2	6.8	9.0	5.4	4.1	5.3	5.9	6.2
Public consumption	5.6	6.9	6.0	7.5	4.7	5.3	5.6	5.8
Fixed investment	8.9	14.7	10.7	4.4	-0.3	2.9	6.0	7.1
Exports, GNFS[d]	11.6	13.3	17.9	7.2	5.5	6.7	6.6	7.0
Imports, GNFS[d]	9.4	15.5	16.0	9.4	-0.1	4.1	6.3	7.0
Net exports, contribution to growth	-0.2	-1.4	-0.7	-1.2	1.4	0.4	-0.3	-0.4
Current account bal/GDP (%)	-0.6	-2.7	-3.1	-4.1	-2.2	-2.0	-2.2	-2.5
GDP deflator (median, LCU)	6.5	9.7	8.9	7.4	7.4	6.4	6.2	6.3
Fiscal balance/GDP (%)	-7.4	-7.8	-7.5	-7.2	-6.9	-6.7	-6.6	-6.4
Memo items: GDP at market prices[e]								
South Asia excluding India	4.4	4.3	5.1	5.5	5.3	4.9	5.1	5.2
India (at factor cost)	7.3	8.9	6.7	4.5	4.7	5.5	6.3	6.6
Pakistan (at factor cost)	4.9	2.6	3.6	3.8	3.7	3.7	3.9	4.0
Bangladesh	5.2	6.1	6.7	6.2	6.0	5.4	5.9	6.2

Source: World Bank.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services (GNFS).
e. National income and product account data refer to fiscal years (FY) for the South Asian countries, while aggregates are presented in calendar year (CY) terms. The fiscal year runs from July 1 through June 30 in Bangladesh, Bhutan, and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Bhutan, Nepal, and Pakistan report FY2012/13 data in CY2013, while India reports FY2012/13 in CY2012.

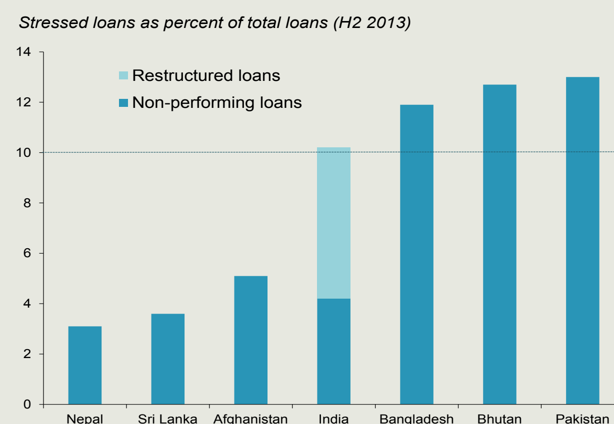
growth is expected to be marginally lower than the longer-term average, with limited impact on consumption and GDP growth. However, if rains are well below average due to El Niño weather conditions, it could significantly moderate agricultural and overall GDP growth (see below).

Capital flows are expected to remain below 2012 levels as a share of regional GDP, as international financial conditions tighten. After falling by more than a quarter in 2013, capital flows to South Asia are forecast to rebound by 27 percent in USD terms in 2014 to $115 billion (4.5 percent of GDP). In the medium-term, flows would rise broadly in line with GDP to 4.5 percent of GDP in 2016—below the level of 5.6 percent of GDP in 2012, mainly reflecting tighter international financial conditions. Incentives of international investors to repatriate capital will maintain pressure on emerging market financial assets and exchange rates. A credible monetary policy stance and gradual reduction of fiscal deficits would help to reduce both external vulnerabilities and inflationary pressures.

Overall, GDP in most South Asian countries is expected to expand in line with underlying potential. GDP growth in the largest regional economy India (measured at factor cost) is projected to rise to 5.5 percent in the 2014-15 fiscal year, after remaining below 5 percent for two consecutive years, as investment and exports pick up during the course of 2014. India's growth is projected to accelerate to 6.3 percent in FY2015-16 and 6.6 percent in FY2016-17. This forecast assumes that reforms are undertaken to ease supply-side constraints (particularly in energy and infrastructure), improve productivity, and strengthen the business environment, and that fiscal consolidation continues and a credible monetary policy stance is maintained. Medium-term growth in Pakistan and Nepal is projected at about 4 percent, and in Bangladesh at about 6 percent, broadly in line with potential growth. In Sri Lanka, where output is currently above potential, annual growth is forecast to remain broadly stable at 7.2 percent in 2014, and over time, to moderate to about 6.7 percent by 2016, slightly higher than estimates of medium-term potential growth for the country.

In Afghanistan, uncertainty surrounding the political and security transition in 2014 is expected to see growth remain weak at 3.2 percent in 2014. Assuming a smooth transition on both fronts, agriculture, services, and the mining sector would contribute to a pickup in growth to 4.6 percent by 2016. Bhutan's growth eased to 5.6 percent in FY2012-13 from 6.5 percent the previous fiscal year, in part due to policy efforts to moderate credit expansion and a rupee shortage. Growth is projected to pick up to a 6.8 percent pace in FY2013-14 and then rise to 8 percent by FY2015-16, supported by investment in hydropower projects. Maldives' outlook is positive, with growth projected at 4.5 percent in 2014. This will be driven by strong tourist arrivals, particularly by robust growth in the Chinese tourist segment. In the medium term, the economy is projected to grow at a more sustainable pace of about 4 percent annually, as tourism revenues from Europe pick up.

Figure 2.24 **Stressed loans are more than 10 percent of loans in four South Asian countries**



Source: IMF, World Bank estimates based on national sources.

Risks

El Niño is a key near-term risk for regional growth prospects. Weak monsoon rains can have significant impacts on agricultural production, consumption, and GDP growth. Although the share of agriculture in GDP has declined progressively in recent decades, its large share of overall employment in the region implies that weaker than average monsoons, perhaps triggered by El Niño weather conditions, could reduce regional GDP growth by half a percentage point or more (as of May, the likelihood of El Niño conditions in 2014-15 was assessed at 60-70 percent). Strong El Niño conditions resulting in deficient rainfalls or drought can have more significant impacts. Although ample grain stocks should mitigate adverse effects on food security, weak agricultural performance could keep food inflation, and in turn, retail inflation, high—perhaps necessitating a tighter monetary policy stance than otherwise, which may have adverse implications for investment and growth.

Domestic downside risks include stressed banking sectors, slow pace of reforms, and security uncertainties. Weak economic growth in recent years has taken a toll on corporate and bank balance sheets. Stressed bank loans (including restructured loans) exceed 10 percent of loans in Bangladesh, Bhutan, India, and Pakistan (figure 2.24). Non-performing loans (NPLs) in Bangladesh are concentrated in state-owned banks, which account for about a third of banking sector assets. NPLs as a share of total loans were the lowest in Nepal at 3.1 percent, although there is anecdotal evidence of substantial "ever-greening" of problem loans by banks. Recognizing restructured and problem loans as NPLs in South Asian countries would increase capital needs (with possible need for fiscal support), but is essential for the banking system to provide adequate financing for a resumption of the investment cycle. Institutional reforms, including strengthening human resources, systems, and NPL management and capitalization—including in India where state-owned banks account for close to three-quarters of banking assets—would also help to improve financial intermediation and availability of credit for the private sector. Other domestic risks to the outlook include a slow pace of reforms in the region and security uncertainties in Afghanistan and, to a lesser extent, in Pakistan.

External risks include both geopolitical and financial risks. Given the reliance of the South Asia region on imported crude oil, it remains vulnerable to political developments in Ukraine and Russia that could result in tighter international oil supplies. An escalation of geopolitical tensions that cause crude oil prices to spike can significantly impact current account sustainability in the region. Financial market volatility on the path to monetary policy normalization in high income countries represents another external risk for the region. A disorderly adjustment to policy normalization in the U.S. can cause capital flows to fall sharply, with adverse effects on exchange rates, perhaps necessitating a tightening of monetary policy. A sharp slowdown in China's growth would represent a risk for the global economy, and in turn, for regional growth prospects.

Table 2.15 South Asia country forecasts

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Calendar year basis [b]								
Afghanistan								
GDP at market prices (% annual growth)[c]	11.9	8.4	6.1	14.4	3.6	3.2	4.2	4.6
Current account bal/GDP (%)	-0.3	2.8	3.1	3.9	3.6	3.0	-0.5	-2.0
Bangladesh								
GDP at market prices (% annual growth)[c]	5.2	6.4	6.5	6.1	5.7	5.7	6.1	6.2
Current account bal/GDP (%)	0.6	1.8	-0.1	1.9	2.1	0.9	0.6	0.3
Bhutan								
GDP at market prices (% annual growth)[c]	8.2	11.7	8.6	4.6	6.5	7.2	7.8	8.0
Current account bal/GDP (%)	-12.7	-26.5	-25.3	-22.5	-22.2	-21.6	-20.7	-19.8
India								
GDP at factor cost (% annual growth)[c]	7.4	9.3	7.7	4.8	4.7	5.3	6.1	6.6
Current account bal/GDP (%)	-0.5	-3.2	-3.4	-5.0	-2.6	-2.2	-2.5	-2.9
Maldives								
GDP at market prices (% annual growth)[c]	6.3	7.1	6.5	3.4	3.7	4.5	4.2	4.1
Current account bal/GDP (%)	-14.4	-9.2	-19.1	-23.0	-20.5	-19.5	-19.0	-18.5
Nepal								
GDP at market prices (% annual growth)[c]	3.4	4.1	4.1	4.2	4.0	4.4	4.3	4.3
Current account bal/GDP (%)	0.6	-0.8	1.4	3.4	3.7	2.8	2.0	1.1
Pakistan								
GDP at factor cost (% annual growth)[c]	4.9	2.2	3.1	4.0	4.1	3.8	3.9	4.0
Current account bal/GDP (%)	-1.3	-0.7	-1.0	-1.0	-1.9	-1.8	-1.7	-1.5
Sri Lanka								
GDP at market prices (% annual growth)[c]	4.4	8.0	8.2	6.3	7.3	7.2	6.9	6.7
Current account bal/GDP (%)	-3.4	-2.2	-7.8	-6.6	-3.9	-3.8	-3.5	-3.3
Fiscal year basis [b]								
Bangladesh								
GDP at market prices (% annual growth)[c]	5.2	6.1	6.7	6.2	6.0	5.4	5.9	6.2
Bhutan								
GDP at market prices (% annual growth)[c]	8.2	9.3	10.1	6.5	5.6	6.8	7.6	8.0
India								
GDP at factor cost (% annual growth)[c]	7.3	8.9	6.7	4.5	4.7	5.5	6.3	6.6
Nepal								
GDP at market prices (% annual growth)[c]	3.4	4.8	3.4	4.9	3.6	4.5	4.3	4.3
Pakistan								
GDP at factor cost (% annual growth)[c]	4.9	2.6	3.6	3.8	3.7	3.7	3.9	4.0

Source: World Bank.
World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. National income and product account data refer to fiscal years (FY) for the South Asian countries with the exception of Afghanistan, Maldives and Sri Lanka, which report in calendar year (CY). The fiscal year runs from July 1 through June 30 in Bangladesh, Bhutan, and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Bhutan, Nepal, and Pakistan report FY2012/13 data in CY2013, while India reports FY2012/13 in CY2012. GDP figures presented in calendar years (CY) terms for Bangladesh, Nepal, and Pakistan are calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity. Historical GDP data in CY terms for India are the sum of GDP in the four calendar quarters and for Bhutan are actual calendar year data, while forecasts in CY terms for these two countries are based on average growth rates of corresponding fiscal years.
c. GDP measured in constant 2010 U.S. dollars.

SUB-SAHARAN AFRICA

GLOBAL ECONOMIC PROSPECTS | June 2014 | Chapter 2

Sub-Saharan Africa's GDP grew 4.7 percent in 2013 led by robust domestic demand, and is set to continue to rise. Despite emerging challenges, the medium-term outlook remains positive. Supported by investment in the resource sector, public infrastructure, and agriculture, GDP growth is projected to remain stable at 4.7 percent in 2014 and to rise to 5.1 percent in 2015 and 2016. The outlook is sensitive to downside risks from lower commodity prices, tightening global financial conditions, and political instability.

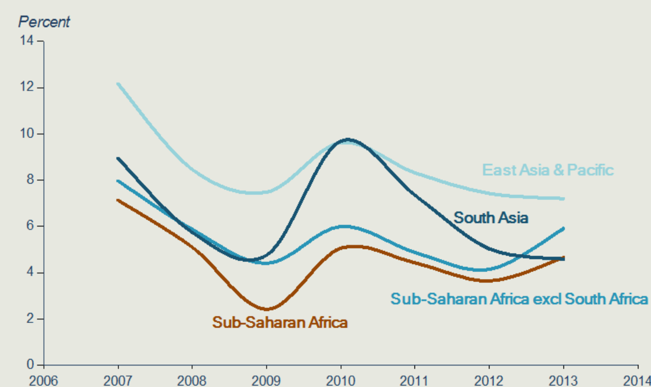
Recent developments

Sub-Saharan Africa experienced robust economic growth in 2013 and looks set to continue to expand against the backdrop of the global recovery but faces significant headwinds. GDP growth in the region strengthened to 4.7 percent in 2013 after rising 3.7 percent in 2012.[1] Growth was broad-based with more than a third of the countries in the region expanding by 5.0 percent or more. However, due to conflict, economic activity contracted sharply in the Central African Republic. South Sudan's oil economy was disrupted by the civil war that erupted toward the end of the year. In South Africa, the region's second largest economy, growth slowed notably owing to structural bottlenecks, tense labor relations, and low consumer and investor confidence. Excluding South Africa, average GDP growth for the rest of the region in 2013 was 6.0 percent, second only to developing East Asia and Pacific at 7.2 percent (figure 2.25).

1. Regional aggregates are based on Nigeria's old national accounts. They will be updated to reflect the rebasing of Nigeria's GDP in the next edition of the Global Economic Prospects report.

Robust investment in the resource sector and public infrastructure supported growth in the region. Capital inflows to the region remained strong in 2013, at 5.8 percent of regional GDP, but were less than the 6.4 percent of regional GDP in 2012 due to a decrease in portfolio debt inflows to South Africa. After declining by 8.6 percent in 2012, net foreign direct investment inflows to the region grew by 10.7

Figure 2.25 Real GDP growth strengthened in Sub-Saharan Africa in 2013



Source: World Bank.

Table 2.16 **Net capital flows to Sub-Saharan Africa ($billions)**

	2008	2009	2010	2011	2012	2013e	2014f	2015f	2016f
Capital Inflows	47.0	59.4	44.9	68.2	82.5	75.9	72.2	77.4	83.8
Foreign direct investment	33.6	30.2	24.0	31.5	28.8	31.9	32.5	35.6	38.4
Portfolio investment	-6.4	14.7	19.0	13.0	30.3	23.8	20.8	22.3	22.3
Equity	-5.7	10.5	8.2	-1.0	9.4	13.5	13.7	14.8	15.1
Debt instruments	-0.7	4.1	10.9	14.0	20.9	10.2	7.1	7.5	7.2
*Other investment**	19.8	14.6	2.0	23.7	23.4	20.2	18.9	19.5	23.1
o/w									
Bank lending	2.5	1.7	1.2	3.5	4.6	5.7	5.5	6.1	7.4
Short-term debt flows	1.9	-5.5	3.0	1.6	8.0	6.2	5.8	4.1	4.5
Official inflows	5	10.2	13.5	12.8	11	10.1	10.6	11.4	11.0
World Bank	1.9	3.1	4	3.2	3.9	3.5	..	..	..
IMF	0.7	2.2	1.2	1.4	0.9	0.5	..	..	..
Other official	2.5	4.9	8.3	8.2	6.2	6.1	..	..	..
Memo items (as a percentage of GDP)									
Current account balance	-1.5	-3.9	-1.3	-1.1	-2.4	-3.0	-3.2	-3.9	-4.1
Capital inflows	4.9	6.5	4.1	5.5	6.4	5.8	5.2	5.3	5.4
Capital outflows	2.3	1.8	3.0	3.1	2.7	2.8	..	..	..

Source: World Bank.
* including short-term and long-term private loans, official loans, other equity and debt instruments, and financial derivatives and employee stock options.
Note: e = estimate, f = forecast.

percent to $31.9 billion in 2013 (table 2.16), boosted in part by new hydrocarbon discoveries in several countries including Mozambique and Tanzania. In addition to FDI flows, governments across the region continued to expand public infrastructure investment including in roads, energy and ports. Gross fixed capital formation expanded by an estimated 5.1 percent in 2013, reaching 23.5 percent of GDP.

Increased remittances and low interest rates continued to boost the consumer sector in most low-income countries in the region. After remaining broadly stable in 2012, remittance flows to the region grew 3.5 percent to $32 billion in 2013, exceeding the record of $30 billion reached in 2011. Meanwhile, owing in part to lower international food and fuel prices, inflation in the region slowed to 7.8 percent in 2013 from 10.7 percent in 2012 (figure 2.26). This prompted central banks in many countries to lower interest rates. Private consumption increased by an estimated 4.8 percent in 2013, contributing to an expansion of domestic demand.

Fiscal deficits widened across the region and remain a source of vulnerability for many countries. Ambitious public investment programs, large increases in public wages, and rising transfers and subsidies, coupled with weak revenues, contributed to a deterioration of fiscal balances in many countries, resulting in low fiscal buffers that have limited the scope for policy response in the event of exogenous shocks. In Zambia, for example, the government increased civil servants' salaries by 45 percent in 2013, putting public finances on an unsustainable path.

Partly as a result of rising fiscal deficits the debt to GDP ratios remained elevated in many countries as government borrowing rose. To finance rising levels of expenditure, many countries in the region borrowed heavily on the domestic market, issuing short-term treasury bills at high interest rates (Ghana, Mozambique, Senegal). Several of these countries also issued dollar-denominated government bonds, increasing their reliance to non-concessional debt (Ghana, Mozambique). Among low-income countries, government debt rose to 43.3 percent of GDP in Mozambique and to 82.1 percent of GDP in the Gambia in 2013. Among middle-income countries, public debt rose to 45.9 percent of GDP in Senegal, 60.1 percent of GDP in Ghana, and 95.0 percent of GDP in Cabo Verde, raising concerns about debt sustainability and highlighting the need for fiscal consolidation to reduce vulnerabilities to external headwinds.

The fall in commodity prices negatively affected the region's net export performance contributing to a widening of current account deficits. Most non-energy commodity price

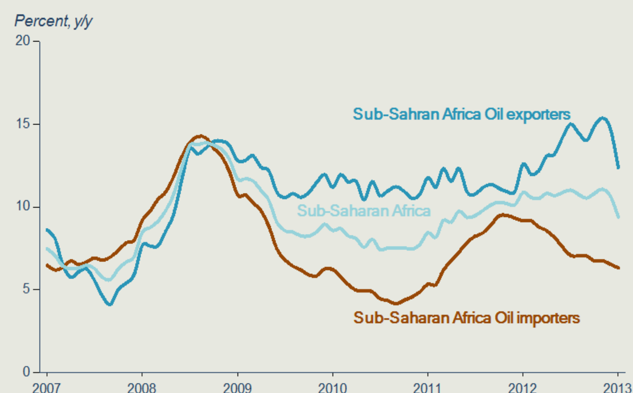
indices fell in 2013 (figure 2.27). A large drop was observed in the prices of precious metals (-17 percent), agriculture (-7.2 percent), and metals (-5.5 percent) while crude oil prices remained broadly unchanged. The fall in commodity prices combined with weak external demand, particularly from China, weighed on export receipts even though on a volume basis exports increased in many countries. Meanwhile, imports rose strongly, driven by robust demand for capital goods, as governments across the region ramped up spending on infrastructure investment. As a result, the regional current account deficit widened from 2.7 percent of GDP in 2012 to 3.4 percent of GDP in 2013. These aggregate figures mask larger deficits in many countries, including in Tanzania and Ghana where the current account deficits were in double digits. The contribution of net exports to growth in the region was significantly reduced in 2013 (table 2.17).

The tourism sector grew at a robust pace in 2013, helping to support the balance of payments of many countries in the region. Data from the UN World Tourism Organization shows that international tourist arrivals in Sub-Saharan Africa grew by 5.2 percent in 2013 to a record 36 million, up from 34 million in 2012. This increase was above the average world growth of 5.0 percent, but less than the 6.2 percent growth achieved in 2012. Demand was strong throughout the year, with a moderate slowdown in the second quarter. Leading growth in 2013 were destinations in Rwanda (+13.8 percent), Zimbabwe (+12.5 percent), Seychelles (+10.8 percent), and Cabo Verde (+5.3 percent).

Two bouts of market volatility in mid-2013 and early 2014 highlighted the need for further efforts to contain fiscal and external imbalances. In May 2013, following the Federal Reserve's announcement of the tapering of asset purchases, numerous low-income countries in the region experienced currency depreciations, and some frontier countries with significant foreign investment in local securities markets sustained capital outflows. Sovereign spreads rose sharply (figure 2.28) and interest rates increased in Eurobond markets, prompting many countries to postpone the issuance of Eurobonds planned for end-2013. Over this period several countries, including Ghana and Zambia, saw their sovereign ratings downgraded by international credit agencies on concerns about their weakening fiscal position due to rising government spending.

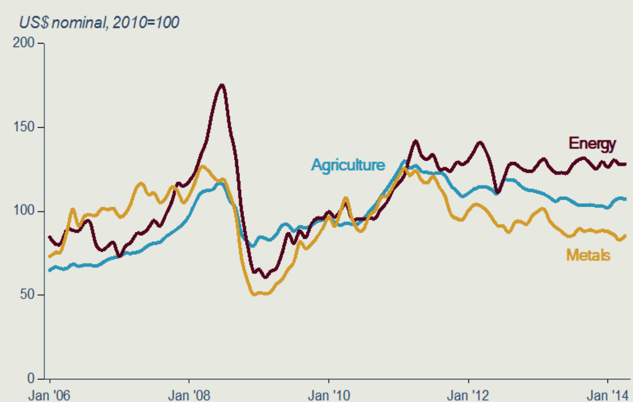
In the second bout of capital market volatility at the beginning of 2014, the currencies of middle-income countries with higher current account deficits and external financing needs came under

Figure 2.26 Inflation eased in the region in 2013



Source: World Bank.

Figure 2.27 Non-energy commodity prices fell in 2013



Source: World Bank.

Figure 2.28 Sovereign spreads rose sharply in early 2014, but have begun to decline

Source: World Bank.

Table 2.17 **Sub-Saharan Africa forecast summary**
(annual percent change unless indicated otherwise)

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
GDP at market prices[b]	4.5	5.2	4.5	3.7	4.7	4.7	5.1	5.1
	(Sub-region totals-- countries with full NIA + BOP data)[c]							
GDP at market prices[c]	4.5	5.2	4.5	3.7	4.7	4.7	5.1	5.1
GDP per capita (units in US$)	2.2	2.6	1.9	1.1	2.1	2.1	2.5	2.6
PPP GDP[c]	4.7	5.7	4.9	4.0	5.3	5.2	5.4	5.3
Private consumption	5.4	2.2	4.0	0.6	4.8	4.6	4.3	4.4
Public consumption	5.9	7.0	13.3	2.7	5.8	5.2	4.9	4.8
Fixed investment	7.8	6.6	8.6	7.2	5.1	4.4	5.3	4.8
Exports, GNFS[d]	3.9	20.6	16.6	0.4	4.7	4.9	5.8	5.7
Imports, GNFS[d]	7.0	10.0	15.7	-2.4	4.7	4.3	4.4	3.9
Net exports, contribution to growth	-0.7	3.1	0.5	1.1	0.1	0.3	0.7	0.8
Current account bal/GDP (%)	-0.1	-1.0	-0.7	-2.7	-3.4	-3.6	-4.3	-4.4
GDP deflator (median, LCU)	6.5	7.2	6.9	5.3	4.4	6.1	5.5	5.7
Fiscal balance/GDP (%)	-0.4	-3.7	-1.3	-2.8	-3.0	-2.7	-2.5	-2.5
Memo items: GDP								
SSA excluding South Africa	5.2	6.1	5.0	4.2	6.0	5.8	5.9	5.7
Broader geographic region (incl. recently high income countries)[e]	4.6	5.1	4.5	3.6	4.6	4.6	5.0	5.0
Oil exporters[f]	5.7	6.0	4.0	3.0	6.2	6.0	6.0	5.7
CFA countries[g]	3.8	4.9	2.5	5.3	3.9	5.0	5.0	4.5
South Africa	3.2	3.1	3.5	2.5	1.9	2.0	3.0	3.5
Nigeria	5.7	7.8	6.8	6.5	7.0	6.7	6.5	6.1
Angola	10.9	3.4	3.9	6.8	4.1	5.2	6.5	6.8

Source: World Bank.
a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.
c. Sub-region aggregate excludes Liberia, Chad, Somalia, Central African Republic, and São Tomé and Principe. Data limitations prevent the forecasting of GDP components or Balance of Payments details for these countries.
d. Exports and imports of goods and non-factor services (GNFS).
e. Recently high-income countries include Equatorial Guinea.
f. Oil Exporters: Angola, Cote d Ivoire, Cameroon, Congo, Rep., Gabon, Nigeria, Sudan, Chad, Congo, Dem. Rep.
g. CFA Countries: Benin, Burkina Faso, Central African Republic, Cote d Ivoire, Cameroon, Congo, Rep., Gabon, Equatorial Guinea, Mali, Niger, Senegal, Chad, Togo.

more pressure, indicating that markets were already differentiating between countries on the basis of political risks (South Africa, Zambia), macroeconomic imbalances (Ghana), and the pace of reforms (South Africa). The South African rand, Ghanaian cedi, and Zambian kwacha sustained further losses in January. The Nigerian naira also depreciated rapidly, reflecting concerns about policy uncertainty. Currency depreciations and inflation worries prompted the central bank in these countries to hike interest rates, by 50 basis points in South Africa, 200 basis points in Ghana, and 50 basis points in Zambia. In Nigeria, the central bank continued its tight monetary policy, leaving the policy rate unchanged at 12 percent.

With global liquidity conditions tightening, capital flows fell sharply in the first quarter of 2014 compared with last year, suggesting changing investors' sentiment toward the region. Sovereign spreads rose again at the beginning of the year in frontier countries but not as sharply as during the May-June episode, and then fell steadily to their pre-crisis level (figure 2.28). In this environment, Zambia undertook Sub-Saharan Africa's first sovereign debt issuance of the year, raising US$1.0 billion through the sale of 10-year dollar denominated bonds priced at 8.625 percent, compared with 5.342 percent on its maiden bond issuance in 2012. The increased cost of borrowing reflected country-specific risks, including concerns about the country's rising budget deficit.

Outlook

Despite emerging challenges, medium-term growth prospects for Sub-Saharan Africa remain favorable. Domestic demand, underpinned by investment in the resource sector and infrastructure and expansion in the agriculture sector, will continue to drive growth in most countries in the region. External demand is also expected to be supportive of growth in the region. The strengthening recovery in high-income countries bodes well for export demand and investment flows. For the majority of countries in the region, the impact of tighter global financing conditions is likely to be limited partly because foreign direct investment, the dominant type of capital inflows for the region, tends to be less sensitive to global interest rate hikes than short-term portfolio flows. Still, owing to weaker commodity prices and slower growth in emerging markets, FDI flows are expected to slow. In this environment, FDI flows in the region are projected to rise moderately to $32.5 billion in 2014, which would nevertheless support growth in many countries. Besides FDI, the continued focus on expanding public infrastructure to ease supply bottlenecks and improved agricultural production are expected to provide further impetus to growth. Overall, GDP growth in the region is projected to remain broadly stable at 4.7 percent in 2014 and to rise moderately to 5.1 percent in 2015 and 2016.

Private consumption is projected to remain robust in most countries in the region, underpinned by a growing population, improving real per capita incomes, and continued price stability. Improved agricultural production and stable exchange rates are expected to help contain inflationary pressures in low-income countries. Prices are trending higher in several middle income countries due in part to lagged pass-through effects from currency depreciations. In Ghana, inflation rose to 14.7 percent year-on-year in April, and further increases are expected in view of the vulnerability of the cedi. In South Africa, consumer price inflation breached the central bank's 6.0 percent upper limit in April. Nevertheless, the outlook is for prices to remain broadly stable across the region owing to lower commodity prices, which should help to keep interest rates low. Combined with steadily rising remittances, projected to reach $35.0 billion in 2014, these effects should stimulate private consumption and permit a robust expansion of domestic demand.

Government consumption is projected to rise at a moderate pace. Governments in many countries, including Ghana, Zambia and Senegal, are planning to carry out fiscal consolidation measures to bring public expenditures to sustainable levels and restore fiscal buffers. After rising by 5.8 percent in 2013, public consumption is projected to slow to 5.0 percent on average in 2014-16. Reflecting these trends, the regional fiscal deficit is projected to narrow to 2.5 percent of GDP over the forecast horizon.

The contribution of net exports to GDP growth is projected to rise over the forecast horizon. On the export side, commodity prices are projected to remain low in 2014. Notably, the prices of metals and precious metals are projected to fall further, by 6½ percent for copper and by more than 11½ percent for gold. Overall export prices are projected to fall by 1.0 percent on average in the region. Partly as a result of these factors, export growth is expected to slow in 2014. On the import side, prices are projected to fall marginally, with import demand remaining buoyant despite sharp currency depreciations in some countries. The terms of trade are projected to decline in most countries in the region in 2014, especially in base and precious metal producing countries, leading to a widening of the trade deficit in these countries. The contribution of next exports to growth in the region is projected to remain modest in 2014 but to improve thereafter as exports expand, buoyed by a strengthening of external demand from high income countries and emerging markets, and import growth slows as investment projects mature. This improvement will not, however, be sufficient to rein in current account deficits, projected to rise to 4.4 percent of regional GDP by 2016.

Growth in the region is projected to be led not just by resource-rich countries, but also by low-income countries and fragile countries that have improved political and security stability. At the sub-regional level, growth is projected to be strong in East Africa, increasingly supported by FDI flows into offshore natural gas resources in Tanzania, and the onset of oil production in Kenya and Uganda. Ethiopia is projected to be among the fastest growing countries, with growth underpinned by strong public investment supporting agriculture and infrastructure. Tight monetary policy combined with labor strikes and deficient electricity supply will keep growth subdued in South Africa. In Angola, following a slowdown in 2013, growth is projected to pick up moderately in 2014 supported by a rebound in oil production. In Nigeria, which became the region's largest economy following the rebasing of its GDP (box 2.2), growth is projected to remain robust led by the non-oil sectors.

Overall, real GDP growth in the region is projected to remain stronger than in many other developing regions, allowing for some gains in real per capita incomes. Poor physical infrastructure will, however, continue to limit the region's growth potential. While fixed investment has increased in recent years, a further scaling up of infrastructure spending is needed in most countries in the region if they are to achieve a lasting transformation of their

Box 2.2 New GDP figures show that Nigeria's economy is almost twice as big as previously estimated

Past calculations used value weights and a base year for prices from almost 25 years ago, now updated to reflect the current (2010) structure of the economy. As a result of these changes, nominal GDP for 2013 is now estimated at US$509 billion, 89 percent larger than previously thought, making Nigeria the largest economy in Sub-Saharan Africa and the world's 26th largest economy (measured at market exchange rates). The rebasing brought into focus the extent of economic transformations in Nigeria over the past two decades. For example, at 21.5 and 16.4 percent of GDP, respectively, crop production and trade are now individually larger than oil production (at 15.6 percent of GDP). The revision has positive implications for income-per-capita and debt-to-GDP ratios but reduces the estimate of the GDP share of fiscal income. In 2010, Ghana conducted a similar exercise that showed that its economy was 63 percent larger, resulting in its reclassification as a low middle income country. The size of the Zambian economy, Africa's second-largest copper producer, also increased by 25 percent following data revisions in February. Kenya will soon conclude its own review possibly resulting in its reclassification to middle income status. These revisions have important policy ramifications and could consolidate investors' confidence, but do not lessen current concerns regarding growth bottlenecks, weak governance and macroeconomic imbalances.

economies. The region's infrastructure deficit is most acute in energy and road sectors. Addressing these needs in a sustainable manner will require increasing both revenue and the efficiency of public investment. Improving the public investment management system will be critical to ensure that resources are allocated to productive public investments. Concerns about the quality of public infrastructure investments and the capacity to implement them highlight the need to strengthen ongoing public financial management reforms in the region aimed at enhancing project appraisal, and monitoring of project execution as well as transparency and accountability in the use of public resources.

Risks

The risks to the region's outlook are significant and stem from both external and domestic factors. External factors include lower commodity prices brought on by weaker growth in emerging markets, and increased market volatility accompanying the tightening of global monetary conditions. Political instability, conflicts, and inflation are among the major domestic risks.

Lower commodity prices: Weaker demand combined with increased supply could lead to a sharper decline in commodity prices than assumed in the baseline forecast. In particular, if Chinese demand, which accounts for some 45 percent of global copper demand and a large share of global demand for precious metals, remains weaker than in recent years and supply continues to grow robustly, the decline in the price of copper and precious metals could be more pronounced than forecast with significant negative consequences for metal producing countries.

Tighter monetary conditions: Increased capital market volatility associated with the tapering of quantitative easing in the U.S. remains a significant downside risk to the regional outlook. Capital flow volatility has already led to sharp policy adjustments in emerging and frontier market countries in the region. A rapid and disorderly rise in interest rates or reversal of capital flows remains a concern for these countries. Simulations conducted for the January 2014 Global Economic Prospects Report suggest that a sudden 100 basis points increase in U.S. bond yields could lower capital inflows to developing countries by about 50 percent, which could lead to lower investment and growth.

On the domestic front, higher inflation presents a significant downside risk as it could lead to further policy tightening in many countries. Prices are on the rise in many countries, triggered in part by lagged pass-through from large currency depreciations stemming from fiscal and external imbalances, and also by higher food prices. Larger currency depreciations and higher food prices than anticipated could result in higher inflation across the region than assumed in the baseline, prompting central banks to raise interest rates that could curtail demand.

Domestic risks associated with social and political unrest as well as emerging security problems remain a major threat to the economic prospects of a number of countries in the region. In South Sudan, for example, violence has continued to disrupt the oil economy. With the outlook for a political settlement remaining poor, the conflict could spread and disrupt trade in the sub-region. In Nigeria, the national, state and local elections that will take place in 2015 are increasing policy uncertainty, which could slow private investment; while the Islamist insurgency in the north may spur violence across the sub-region.

Table 2.18 Sub-Saharan Africa country forecasts

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Angola								
GDP at market prices (% annual growth)[b]	10.9	3.4	3.9	6.8	4.1	5.2	6.5	6.8
Current account bal/GDP (%)	5.0	9.1	12.6	11.5	8.6	8.8	5.8	3.8
Benin								
GDP at market prices (% annual growth)[b]	3.6	2.6	3.5	5.4	4.0	4.5	4.4	4.3
Current account bal/GDP (%)	-7.0	-8.1	-7.1	-7.4	-5.4	-5.8	-5.7	-3.8
Botswana								
GDP at market prices (% annual growth)[b]	3.5	7.3	5.1	4.2	4.2	4.1	4.0	4.2
Current account bal/GDP (%)	8.0	-2.1	-2.1	-6.9	-1.4	-1.1	-0.9	-0.1
Burkina Faso								
GDP at market prices (% annual growth)[b]	5.2	7.9	4.2	9.5	6.6	6.7	6.5	6.3
Current account bal/GDP (%)	-9.5	-2.0	-0.1	-1.1	-1.3	-2.4	-2.7	-2.0
Burundi								
GDP at market prices (% annual growth)[b]	2.9	3.8	4.2	4.0	4.5	4.0	3.7	3.0
Current account bal/GDP (%)	-4.6	-14.8	-12.0	-10.3	-10.9	-9.7	-8.9	-7.9
Cabo Verde								
GDP at market prices (% annual growth)[b]	6.0	3.7	4.5	2.5	1.7	2.5	2.2	4.0
Current account bal/GDP (%)	-10.0	-13.4	-16.3	-11.5	-8.3	-5.2	-3.2	0.0
Cameroon								
GDP at market prices (% annual growth)[b]	2.9	3.3	4.1	4.6	4.7	4.9	5.1	5.0
Current account bal/GDP (%)	-2.4	-3.8	-3.0	-3.8	-3.6	-2.9	-2.3	-1.8
Chad								
GDP at market prices (2005 US$)[b]	9.1	13.6	2.4	4.6	3.6	8.5	7.7	6.4
Current account bal/GDP (%)	-13.5	-32.2	-13.0	-19.5	-18.2	-10.2	1.9	1.9
Comoros								
GDP at market prices (% annual growth)[b]	1.8	2.1	2.2	3.0	3.3	3.5	3.5	3.2
Current account bal/GDP (%)	-11.9	10.1	14.7	-46.2	-12.8	-12.3	-11.9	-10.9
Congo, Dem. Rep.								
GDP at market prices (% annual growth)[b]	4.2	7.2	6.9	7.2	6.5	6.0	5.0	4.4
Current account bal/GDP (%)	0.6	-16.5	-8.2	-9.9	-10.5	-10.6	-11.4	-11.6
Congo, Rep.								
GDP at market prices (% annual growth)[b]	3.8	8.8	3.4	3.8	3.5	5.9	7.4	4.9
Current account bal/GDP (%)	-4.9	-34.4	25.7	-2.0	-0.1	0.5	1.5	0.6
Cote d Ivoire								
GDP at market prices (% annual growth)[b]	0.8	2.4	-4.7	9.5	8.7	7.4	5.9	4.0
Current account bal/GDP (%)	1.8	2.0	1.1	-1.8	-3.3	-4.3	-3.5	-2.9
Equatorial Guinea								
GDP at market prices (% annual growth)[b]	15.0	-1.7	4.9	2.5	-4.9	-4.3	-2.0	-0.1
Current account bal/GDP (%)	11.2	-24.7	-14.6	-13.5	-10.7	-4.1	0.5	4.2
Eritrea								
GDP at market prices (% annual growth)[b]	0.7	2.2	8.7	7.0	3.6	3.5	3.0	2.0
Current account bal/GDP (%)	-20.9	-5.5	3.3	11.9	5.5	2.7	4.8	4.8
Ethiopia								
GDP at market prices (% annual growth)[b]	7.6	12.6	11.2	8.7	9.7	7.4	7.0	6.6
Current account bal/GDP (%)	-5.1	-1.3	-1.9	-5.5	-6.1	-7.1	-7.0	-7.0
Gabon								
GDP at market prices (% annual growth)[b]	1.3	6.7	7.1	5.6	3.5	3.6	3.7	3.7
Current account bal/GDP (%)	14.9	5.8	11.3	14.0	7.4	6.6	3.6	3.5

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Gambia, The								
GDP at market prices (% annual growth)[b]	3.2	6.5	-4.3	5.3	6.2	6.5	6.0	5.0
Current account bal/GDP (%)	-2.3	5.9	12.2	6.5	0.8	-1.4	-3.9	2.6
Ghana								
GDP at market prices (% annual growth)[b]	5.0	8.0	15.0	7.9	7.1	5.0	7.3	7.5
Current account bal/GDP (%)	-13.8	-11.0	-10.9	-11.7	-13.4	-12.5	-10.5	-8.8
Guinea								
GDP at market prices (% annual growth)[b]	2.4	1.9	3.9	3.9	2.6	4.6	5.2	5.5
Current account bal/GDP (%)	-6.9	-6.9	-22.9	-18.5	-20.3	-18.3	-22.5	-39.2
Guinea-Bissau								
GDP at market prices (% annual growth)[b]	2.3	1.7	4.8	-6.7	0.3	2.5	2.7	2.7
Current account bal/GDP (%)	0.1	-8.5	-1.4	-5.0	-4.9	-4.8	-4.5	-3.3
Kenya								
GDP at market prices (% annual growth)[b]	3.6	5.8	4.4	4.6	4.7	5.0	4.7	4.0
Current account bal/GDP (%)	-2.4	-7.4	-11.4	-10.4	-7.7	-8.1	-8.0	-8.2
Lesotho								
GDP at market prices (% annual growth)[b]	3.3	7.9	3.7	4.0	4.1	4.2	4.4	4.1
Current account bal/GDP (%)	4.8	-18.4	-18.2	-24.1	-12.1	-8.9	-6.7	-4.0
Madagascar								
GDP at market prices (% annual growth)[b]	2.5	0.5	1.9	3.1	2.8	4.0	4.5	4.5
Current account bal/GDP (%)	-11.8	-7.9	-4.1	-3.9	-5.8	-9.2	-11.2	-7.5
Malawi								
GDP at market prices (% annual growth)[b]	3.8	-9.5	4.3	1.9	4.2	4.4	4.6	4.7
Current account bal/GDP (%)	-10.5	-14.6	-13.6	-19.0	-17.1	-16.7	-16.2	-14.5
Mali								
GDP at market prices (% annual growth)[b]	5.4	5.8	2.7	-0.4	1.8	6.6	5.8	5.7
Current account bal/GDP (%)	-8.1	-12.6	-6.1	-3.6	-8.6	-9.0	-9.0	-8.9
Mauritania								
GDP at market prices (% annual growth)[b]	4.5	5.1	4.0	7.6	5.7	4.4	3.7	3.1
Current account bal/GDP (%)	-10.9	-5.9	-1.8	-25.3	-28.1	-27.9	-26.0	-25.5
Mauritius								
GDP at market prices (% annual growth)[b]	3.4	4.1	3.9	3.2	3.2	3.7	4.1	4.2
Current account bal/GDP (%)	-2.7	-10.3	-13.4	-11.4	-10.2	-9.2	-8.4	-8.4
Mozambique								
GDP at market prices (% annual growth)[b]	7.1	7.1	7.3	7.4	7.1	8.1	8.6	8.4
Current account bal/GDP (%)	-14.0	-15.6	-23.8	-43.5	-43.1	-41.1	-38.7	-36.8
Namibia								
GDP at market prices (% annual growth)[b]	3.9	6.3	5.7	5.0	4.2	3.4	3.5	3.3
Current account bal/GDP (%)	4.7	1.0	-1.2	0.6	-4.0	-2.6	-2.2	-0.4
Niger								
GDP at market prices (% annual growth)[b]	3.7	8.4	2.3	10.8	3.6	6.2	6.0	5.6
Current account bal/GDP (%)	-9.6	-19.9	-26.7	-20.6	-20.8	-20.8	-20.3	-19.1
Nigeria								
GDP at market prices (% annual growth)[b]	5.7	7.8	6.8	6.5	7.0	6.7	6.5	6.1
Current account bal/GDP (%)	14.4	6.3	5.1	7.8	5.4	4.2	1.0	0.8
Rwanda								
GDP at market prices (% annual growth)[b]	7.2	7.2	8.2	8.0	5.0	7.2	7.4	7.4
Current account bal/GDP (%)	-5.3	-7.4	-7.5	-11.6	-8.1	-6.7	-4.9	-3.2

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Senegal								
GDP at market prices (% annual growth)[b]	3.7	4.3	2.1	3.5	3.7	4.1	4.3	4.2
Current account bal/GDP (%)	-8.0	-4.6	-7.9	-10.0	-9.3	-8.3	-7.9	-7.2
Seychelles								
GDP at market prices (% annual growth)[b]	1.4	5.9	7.9	2.8	3.7	3.7	2.9	2.8
Current account bal/GDP (%)	-15.4	-22.1	-26.5	-25.1	-17.8	-14.4	-13.1	-9.1
Sierra Leone								
GDP at market prices (% annual growth)[b]	5.9	5.4	6.0	15.2	13.3	14.1	10.5	9.2
Current account bal/GDP (%)	-4.9	-22.7	-65.1	-28.5	-22.3	-13.7	-10.6	-9.4
South Africa								
GDP at market prices (% annual growth)[b]	3.2	3.1	3.5	2.5	1.9	2.0	3.0	3.5
Current account bal/GDP (%)	-3.0	-1.9	-2.4	-5.2	-5.3	-5.9	-4.7	-5.0
South Sudan								
GDP at market prices (% annual growth)[b]	6.2	4.2	1.6	-42.1	27.0	8.0	8.5	9.0
Current account bal/GDP (%)	9.6	26.2	33.1	-40.2	-34.5	-32.3	-31.2	-28.7
Sudan								
GDP at market prices (% annual growth)[b]	5.5	3.5	-3.3	-10.1	4.0	3.2	3.0	3.0
Current account bal/GDP (%)	-7.8	-2.5	-1.9	-11.5	-15.6	-17.3	-15.5	-14.3
Swaziland								
GDP at market prices (% annual growth)[b]	2.9	1.9	0.3	-1.5	1.5	1.6	1.8	2.0
Current account bal/GDP (%)	-2.6	-9.7	-8.3	4.5	11.7	8.4	4.9	-16.2
Tanzania								
GDP at market prices (% annual growth)[b]	6.2	7.0	6.4	6.9	7.0	7.2	7.2	7.1
Current account bal/GDP (%)	-4.7	-8.6	-16.7	-12.9	-15.8	-16.0	-15.6	-15.3
Togo								
GDP at market prices (% annual growth)[b]	1.6	4.2	4.9	5.7	4.0	3.7	3.5	3.4
Current account bal/GDP (%)	-9.2	-6.4	-4.2	-6.5	-9.0	-11.3	-13.8	-16.1
Uganda								
GDP at market prices (% annual growth)[b]	6.9	6.2	5.0	4.7	6.5	7.0	6.8	6.8
Current account bal/GDP (%)	-3.8	-8.1	-9.8	-3.0	-3.5	-3.5	-2.1	-2.8
Zambia								
GDP at market prices (% annual growth)[b]	4.8	7.6	6.8	7.2	6.4	7.0	6.8	6.5
Current account bal/GDP (%)	-7.4	7.4	3.6	0.0	0.4	-0.1	-0.6	-1.1
Zimbabwe								
GDP at market prices (% annual growth)[b]	-5.8	9.6	10.6	4.4	2.9	2.0	1.0	0.6
Current account bal/GDP (%)	-12.2	-10.3	-25.0	-18.5	-20.0	-16.3	-13.6	-18.0

	00-09[a]	2010	2011	2012	2013e	2014f	2015f	2016f
Recently transitioned to high-income countries [c]								
Equatorial Guinea								
GDP at market prices (% annual growth)[b]	15.0	-1.7	4.9	2.5	-4.9	-4.3	-2.0	-0.1
Current account bal/GDP (%)	11.2	-24.7	-14.6	-13.5	-10.7	-4.1	0.5	4.2

Source: World Bank.
World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
Liberia, Somalia, Sao Tome and Principe are not forecast owing to data limitations.
a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.
b. GDP measured in constant 2010 U.S. dollars.
c. The recently high-income countries are based on World Bank's reclassification from 2004 to 2014.