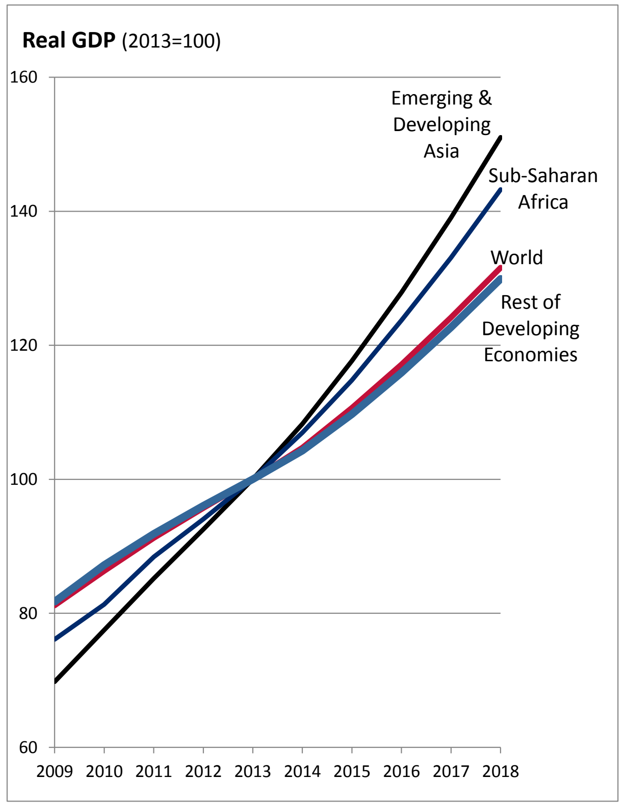
USAID FROM THE AMERICAN PEOPLE

EADS Snapshot on

World Economic Outlook

No. 91 June 2014

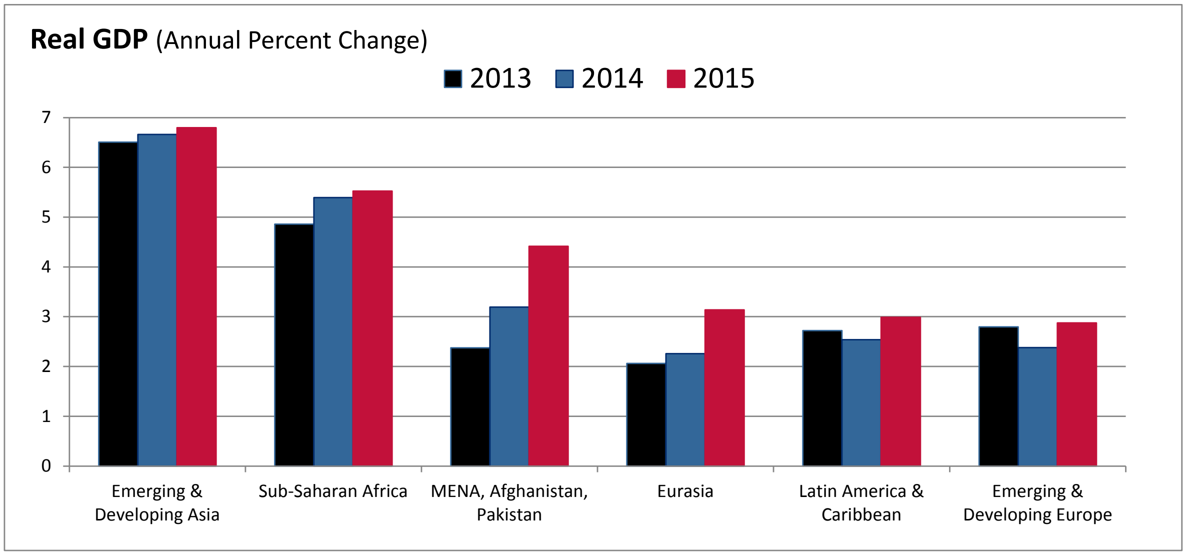
In April, the International Monetary Fund (IMF) released its semi-annual *World Economic Outlook* (WEO). Compared with the previous release six months earlier, the IMF now sees a world recovery becoming broader, with acute risks diminishing and a return to a "normalization" of monetary policy in many economies. Less welcome are the IMF assessments that financial reform is incomplete in many regions, the potential growth in many Advanced Economies is very low, and geopolitical risks have resurfaced. The IMF emphasizes that there is scope for structural reforms to overcome recent declines in potential growth in many emerging markets.



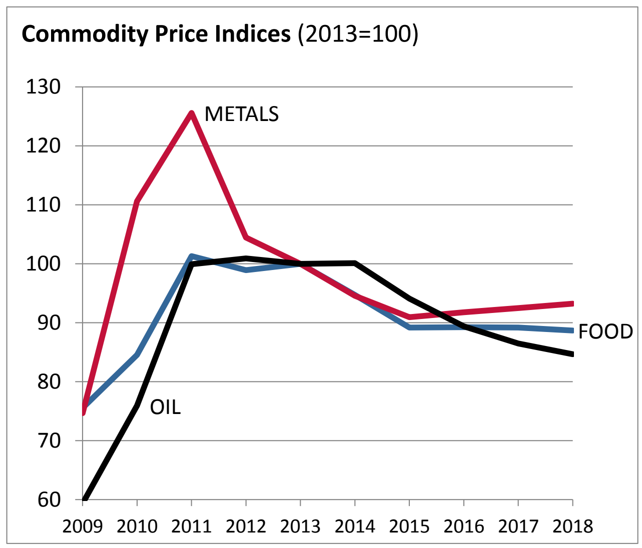
In global terms, economic growth is projected to rise to 3.6 percent in 2014, up from 3.0 percent in 2013, with a modest quickening to 3.9 percent in 2015. Advanced, Emerging, and Developing Economies in general terms will grow at a higher rate in the projection period. Faster growth in the Emerging and Developing Economies will be boosted by stronger external demand from Advanced Economies, as seen in the projected growth of import volumes by Advanced Economies of 4.5 percent in 2015, notably faster than the estimated 1.2 percent growth in 2013. Faster growth in Emerging and Developing Economies, however, will be tempered by tight financial conditions. Among the Advanced Economies, risks are increasingly evident that are associated with very low inflation and possible deflation.

During the projection period, some regional patterns of economic growth will echo the performance seen in the last five years. Emerging and Developing Asia will continue to grow the fastest of any region, with Sub-Saharan Africa also continuing to grow noticeably faster than the World average. Economic growth in the rest of the Developing Economies will track closely with the World average.

Looking more specifically at regional growth rates, output growth in Emerging and Developing Asia will remain the highest of any region, but the pickup in the pace during 2013-2015 is modest, from 6.5 percent last year to 6.8 percent in 2015. Sub-Saharan Africa output growth is also fairly robust, at 4.9 percent in 2013 and 5.5 percent in 2015. The Middle East, North Africa, Afghanistan, and Pakistan area is a region of modest, but rising, buoyancy, where the growth rate will nearly double from 2.4 percent in 2013 to 4.4 percent in 2015. Eurasia (the Commonwealth of Independent States, or former Soviet Union countries) is also quickening the pace of expansion, from 2.1 percent in 2013 to 3.1 percent in 2015. Growth in Latin America and the Caribbean (LAC) is lackluster, with an estimated 2.7 percent rate in 2013 only rising to 3.0 percent in 2015.



Some features of the world economy that provide a context for economic growth are changing. In the several years prior to 2013, commodity prices were relatively volatile and on an upswing. Oil prices were up sharply over a two year period (2009-2010), while metals prices spiked in 2010-2011 before falling 2012-2013. The IMF anticipates lower commodity prices 2014-2018 along with relative stability. Both food and metals prices will be down for 2014-2015 and then mostly flat until 2018. Oil prices will be flat for 2014, and then drift downward. For countries dependent upon food and energy imports, the easing of prices is a welcome respite and potential spur to growth. For developing countries who are commodity exporters, the price trend is unfavorable.



Trends in USAID-assisted countries

The remainder of this snapshot will focus on low and middle income countries that received at least $2 million in USAID assistance in fiscal year 2012, referred to as USAID-assisted countries. The median real GDP growth rate of USAID-assisted countries in 2014 is expected to be 5.0 percent, slightly higher than the average growth projection for all Emerging and Developing Economies of 4.9 percent. The rate projected for 2014 for USAID-assisted countries is also 5.0 percent for 2015. Over the past decade, the median growth rate for USAID-assisted countries averaged 5.3 percent. While individual country growth rates vary widely, the overall pattern of growth in USAID-assisted countries is in line with recent experience.

Regional Economic Development and Forecast

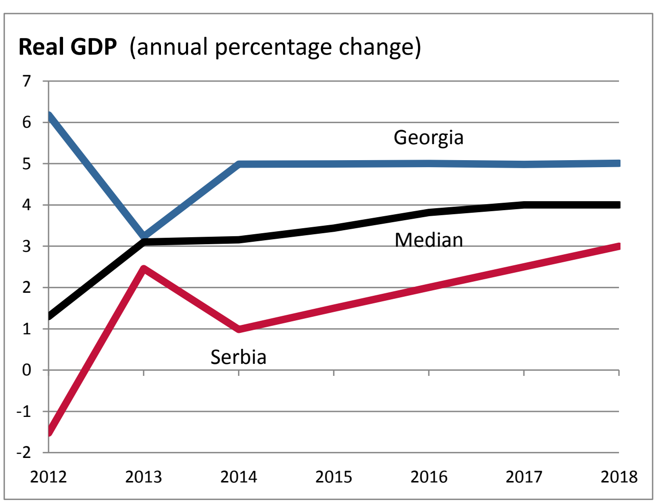
This section examines the current economic situations of USAID-assisted countries by five world regions: Europe and Eurasia, Asia, the Middle East and North Africa, Latin America and the Caribbean and Sub-Saharan Africa. The graphs displayed below illustrate the projected best and worst performers and the regional median across the 2013-2018 time period. The "best" and "worst" performers for each indicator are based on the combined 2014 and 2015 projected rates.

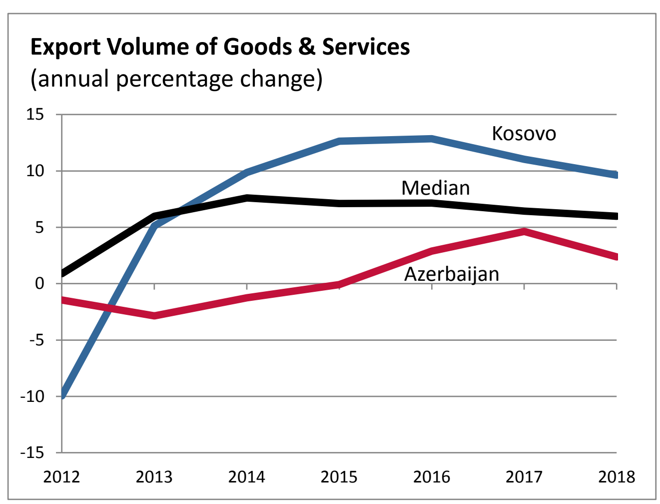
Europe and Eurasia

With median growth rates around three percent in 2013, 2014, and again in 2015, the Europe and Eurasian region is not a haven of robust activity among USAID-assisted economies. Although some of the countries in the region rebounded from a contraction in 2012 to post modest growth in 2013, others posted slower growth in 2013. External demand, particularly in the euro zone, is a positive factor behind the growth rates, but problems addressing nonperforming loans, persistent unemployment, and fiscal consolidation all offset that impetus. Political uncertainties in Ukraine are a damper on regional economic expansion.

Georgia stands out as a top performer in the region, with annual growth of about five percent 2014-2015. That pace, however, is a fall off from the rapid expansion in Georgia from 2005 to 2012. Georgia's policy record is mixed, with chronic unemployment stubbornly high but high inflation nicely tamed. The top performing exporter, Kosovo, is also posting relatively faster real GDP growth rates. Domestic demand in Kosovo is driven by remittances from elsewhere in Europe, while efforts at becoming more competitive and success in controlling inflation are bearing fruit with robust export demand.

The low performers among USAID-assisted European and Eurasian countries are Serbia and Azerbaijan. Serbian economic growth will be around one percent annually 2014-2015, with the IMF recommending that wide-ranging reforms to ease structural bottlenecks are needed to speed up growth. In Azerbaijan, export volumes are projected to decline this year by 1.3 percent and an additional 0.1 percent next year while the country grapples with declining oil production and depleted reserves. The Azerbaijani government has been saving part of its oil revenue in a transparent and well-managed oil fund, which will facilitate its evolution to becoming a more diversified exporter.



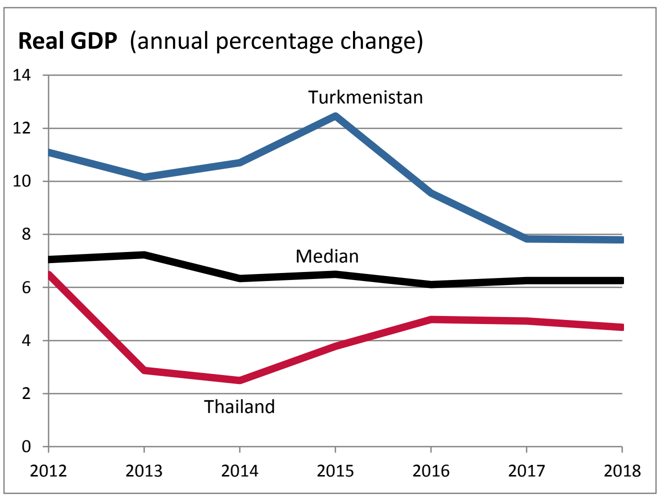


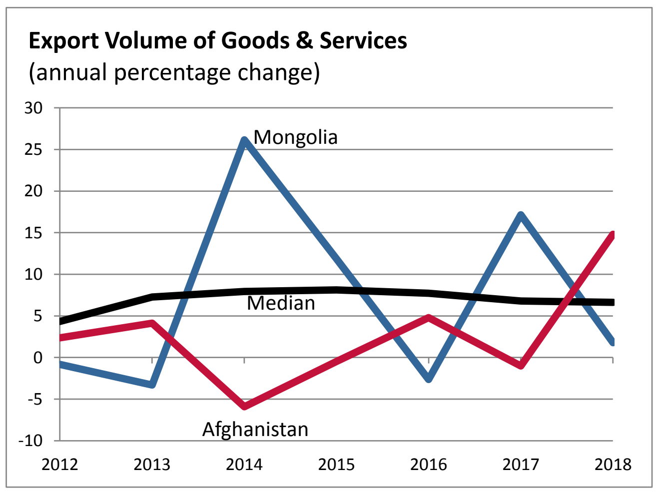
Asia

Most Developing and Emerging Economies in Asia have strengthened their expansion during the past year, with an export recovery and robust domestic demand driving growth. With respect to USAID-assisted Asian economies, the median growth rate for real GDP will be lower during 2014-2015 than in 2012-2103, as modest prospects in Thailand, Pakistan, and Afghanistan temper the overall outlook. Real GDP growth rates in India, Vietnam, and Indonesia are all expected to be above five percent in both 2014 and 2015, but will be below the median value. Interest rate hikes in India and Indonesia will attenuate vulnerabilities while limiting growth rates.

The top performing USAID-assisted economies in Asia are Turkmenistan and Mongolia. Turkmenistan is expected to record double-digit growth each year from 2011 to 2015, with the launch of new gas processing plants and large public investments setting the pace. The IMF urges Turkmenistan, along with the other energy exporters in the region, to adopt reforms for stronger fiscal frameworks and more effective monetary policies. Rapid credit growth and high current account deficits remain a risk to the expansion in Mongolia.

The laggards in the region are Thailand, where economic growth will average just over three percent 2014-2015, and Afghanistan, where export volumes of goods and service will decline each of those two years. Thailand's investment spending is beset by political uncertainties, prompting the IMF to cut its forecast for growth in 2014 by half in April. Although Afghanistan has been able to boost exports in some sectors over the past few years, many obstacles remain: lack of access to finance, inadequate infrastructure, and inability to meet international quality standards among them.



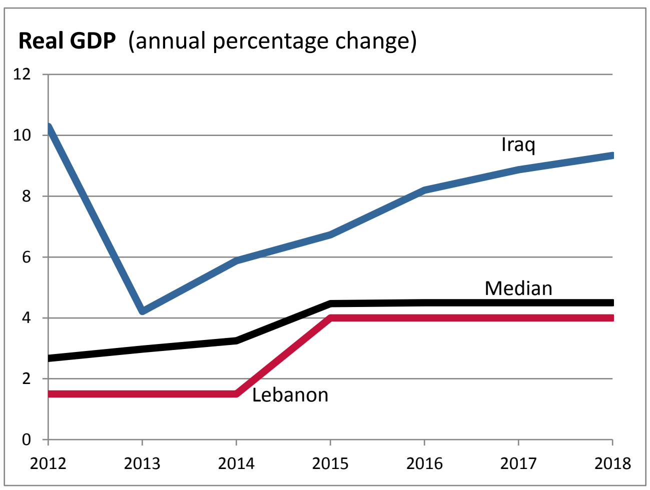


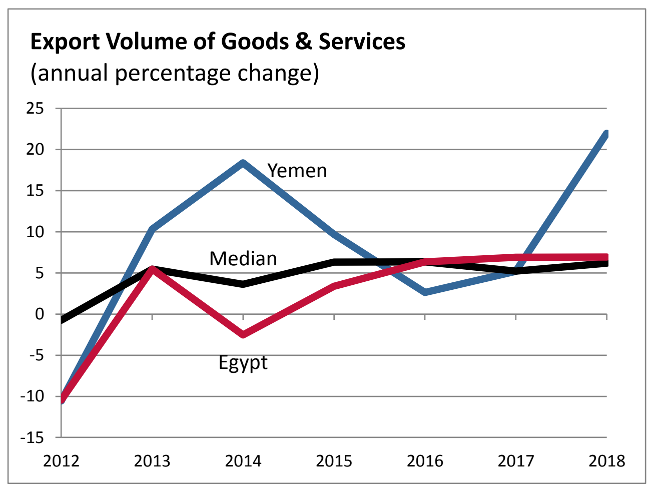
The Middle East and North Africa

Growth rates in the Middle East and North Africa region are not relatively high, but they are rising. Economic growth has been restrained by political transitions and weak private investment, despite increases in public investment spending. In recent years, growth in the region has been stuck at around three percent, which the IMF notes is only about half what is needed to drive down unemployment rates. The median growth rate in 2015 is projected to be 4.5 percent, a welcome gain in growth. Part of the uptick relies upon stronger demand for imports in Europe, a key destination for MENA exports.

Iraq, with growth averaging more than six percent 2014-2015, is benefiting from an expansion of oil production as well as non-oil growth from high public spending and strong credit expansion. Yemen's exports are rising sharply this year and next, with the strength coming from the non-oil sector. In fact, pipeline sabotage in Yemen is undercutting its gains from oil exports.

Lebanon's economic growth has been hit hard by the Syrian civil war, with tourism and investment in decline. After real GDP average growth of nine percent 2009-2010, the Lebanese economy is now stuck in a one percent annual expansion. In Egypt, the political tensions have undermined tourism and investment, with export volumes in decline for 2014 before a modest rebound in 2015.



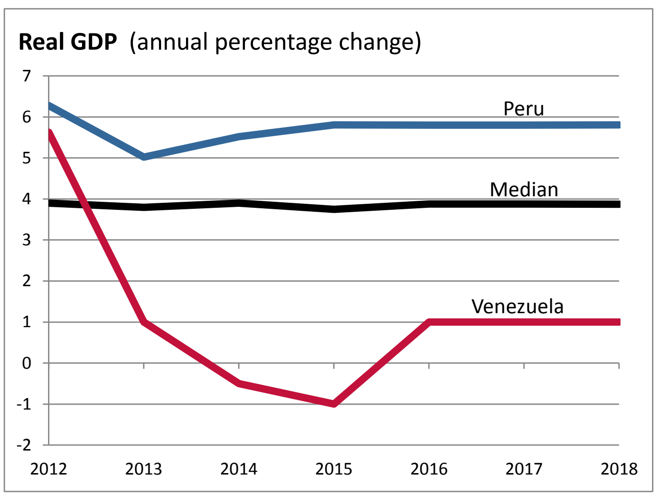


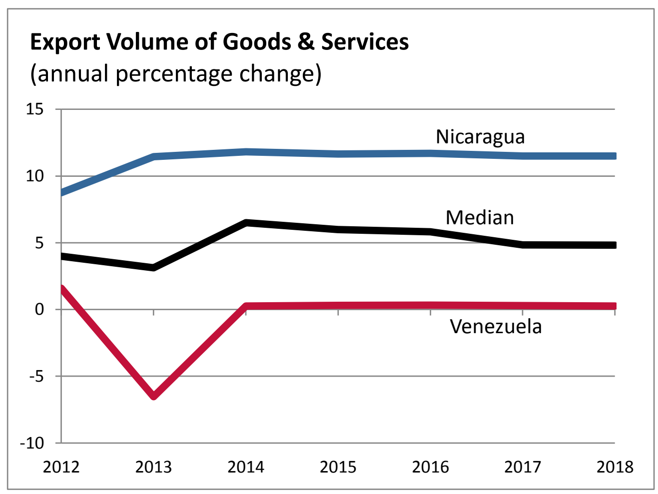
Latin America and the Caribbean

As a region, Latin America and the Caribbean economic growth and trade expansion remain stuck in low gear. The factors keeping a lid on growth range from the country-specific (fiscal imbalances, financial fragilities, adverse coffee crops, and declining investment) to the more generally applicable (modest demand from the United States, tighter financial conditions, supply-side constraints, and infrastructure deficiencies). There are, however, pockets of dynamism during the projection period.

The Peruvian economy, the top performer during 2014-2015, can attribute its success to prudent macroeconomic policies, extensive structural reforms, and a positive response to the external environment. Unemployment has fallen to historical lows for Peru. Signs of a moderating economy in the past year have been addressed by accommodative monetary and fiscal policies.

Export volumes of goods and services are rising fastest in Nicaragua during 2014-2015, one of several favorable economic trends in that country. The IMF cites recent policy changes and regulatory reforms for boosting growth and attracting large-scale investments. Nicaraguan exports are growing as the traditional commodity sectors (such as coffee, gold, and sugar) perform well and the foreign-owned free trade zones set record levels for exports.



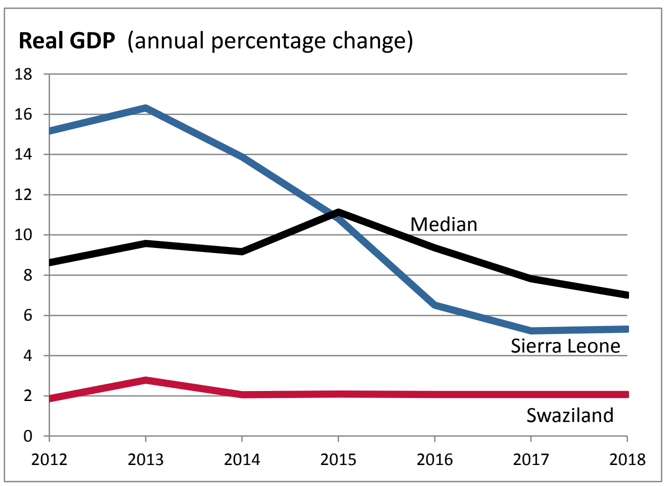


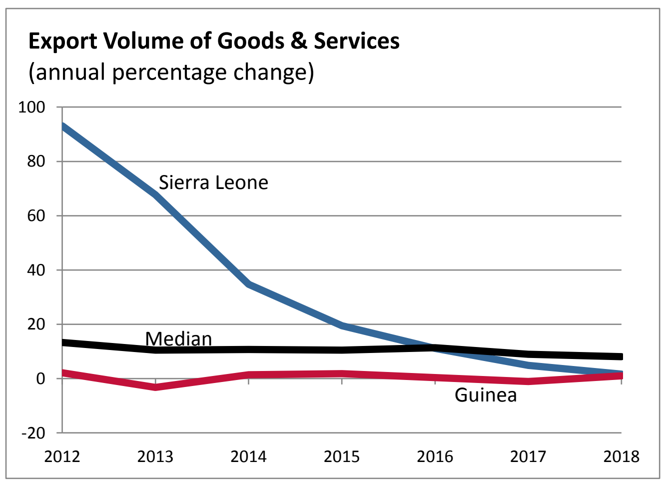
Sub-Saharan Africa

The main drivers of increased economic growth in Sub-Saharan Africa remain in place, but some of the vulnerabilities, both global and domestic, are also lurking. The commodity boom of a decade ago, along with lower interest rates globally, has placed many African economies on a sustained growth upswing. Agricultural production remains favorable and countries are increasing investment in natural resources and infrastructure. The top performing economy among USAID-assisted countries is currently Sierra Leone, leading the group in both real GDP and exports growth. As recent investments in iron ore projects become operational, Sierra Leone will achieve double-digit growth rates in both GDP and exports. Favorable monetary policies have pushed inflation in Sierra Leone down into the single digits.

African economies remain vulnerable to a slowdown in the Advanced Economies or a steep drop in commodity prices, although not all commodity price collapses would have a negative impact on growth prospects. They also remain vulnerable to macroeconomic policy missteps, security and stability issues, and political uncertainties in advance of elections. At the moment, several fragile states (including Mali, DRC, Niger, and Mozambique) are increasing their growth rates by large increases in infrastructure spending, improving political stability, or by having large projects mature.

Swaziland, despite a windfall from Southern African Customs Union (SACU) revenues, continues to have one of the lowest real GDP growth rates on the continent. Structural bottlenecks and low levels of investment are hindering growth and Swaziland remains highly vulnerable to exogenous shocks. For Guinea, the African country with the slowest growth rate of exports of goods and services during 2014-2015, recent political uncertainties and declining investment in mining has undermined potential growth and exports.





Additional Information

For questions or more information, please contact the author, Michael Shea, at mshea@devtechsys.com.

World Economic Outlook Data: To access the entire WEO dataset or other IMF publications, please visit the Economic and Social Database (ESDB) at http://esdb.eads.usaidallnet.gov/.