Growing Beyond

Rapid-growthmarkets

EY Rapid-Growth Markets Forecast

February 2014

EY

Building a better working world

Published in collaboration with

OXFORD ECONOMICS

Contents

Published on 04 February 2014

Foreword
2

Highlights
4

Implications for businesses
6

Beyond uncertainty
To win share in rapid-growth markets, companies will need to offer affordable products and services, and embrace lower-cost technology and business models adapted to local cultures. Local management, research and development, and marketing will be essential – and must be able to react quickly to consumer trends.

2

"Increasingly assertive middle classes across rapid-growth markets will demand improvements in infrastructure, public services, health care and education – and new skills to help them succeed at the workplace."

Rajiv Memani,
Chairman of the Global Emerging Markets Committee

4

February 2014 forecast in brief
As a whole, the rapidly growing economies are set to recover over the course of this year, with growth over 5% in 2015. And, over the next decade, the rapid-growth markets will increasingly look to their own markets to drive demand, with a growing middle class buying a wider range of consumer products and services.

February 2014 Forecast

11

Growing middle class leading a change in consumption patterns

Across the rapid -growth markets (RGMs), there will be nearly 200 million households with incomes in excess of US$35,000 by 2022, much higher than in the US. To really capture the gains from this rising middle class and balance the pressures on scarce resources, many rapid-growth markets will need to invest in green technologies and public transport, and improve the environment for business. Over the medium term, RGMs hold many winning cards.

Forecast for rapid-growth markets

26

Detailed forecasts for the 25 rapidly growing economies.

Cross-country tables

54

Overview of the real GDP growth and CPI inflation figures for 2012–17 across the 25 rapidly growing economies.

Welcome

Rajiv Memani
Chairman of the Global Emerging Markets Committee

Best wishes for a happy and prosperous 2014.

A new year offers the prospect of taking a fresh look at opportunities with renewed vigor, and the energy to take on existing challenges with a different perspective. Looking into the crystal ball to see what the future holds for rapid-growth markets reveals opportunities and uncertainties in equal measure. And this reflects the reality that defines the global economy today.

Customize data from EY's *Rapid-Growth Markets Forecast* and *Eurozone Forecast*. Download the *EY Forecasts in focus* app at ey.com/rapidgrowth

Emerging markets remain center stage both for the potential they offer and the challenges they pose. Businesses and governments are taking a fresh look at opportunities that can shape the future of their markets and people. There is a renewed push on governance and job creation.

Following the modest slowdown in 2013, we expect overall growth in our 25 rapid-growth markets (RGMs) to rebound to 4.7% this year, and top 5% by 2015. But if markets react badly to the global monetary tightening that 2014 promises, capital flight and weakening currencies could mean that growth is limited to 3.7% this year and 2.8% in 2015.

Adding to the sketchiness of the 2014 growth picture is the growing divergence in the outlook for our RGMs. The liquidity that has underpinned strong growth in some of the RGMs over the past few years could dry up as the major advanced economies start to raise interest rates. However, before these rates rise, there is a window of opportunity for the RGMs to press on with key economic reforms.

These reforms can be funded by cheaper capital and the prospect of significant value creation. As countries struggle to balance expectations between developed and developing regions, and the divide in expectations between urban and rural markets, the task of predicting winners is very tough. So how are the regions faring? RGMs in the Americas are struggling to gather momentum, with tighter monetary policy weighing on growth in Brazil. However, energy reforms in Mexico will encourage private investment in the sector and could trigger faster growth this year. China's steady progress is pulling Asia's other RGMs along. Yet political tensions in Thailand pose a serious risk to growth — and uncertainty surrounds the outcome of elections in India that are expected in April or May. Meanwhile, as Germany drags the Eurozone out of recession, industrial production is strengthening in neighboring Poland and the Czech Republic. To take full advantage of Europe's recovery, firms will need access to funding. But with banks in the European emerging economies mostly foreign-owned, there is a danger that lack of access will prove a significant constraint on growth.

For those businesses seeking to establish, expand or maintain interests in emerging markets, little seems certain in 2014. But faced with these short-term uncertainties, such businesses should raise their sights to the longer term, and the serious prospect that their global position will be determined by these markets. This makes it a risk well worth taking.

We calculate that, in less than a decade, there will be 200 million RGM households with annual incomes exceeding US$35,000. In China alone, the number of households earning this amount will triple to almost 80 million by 2022. Brazil and Russia will each be home to 15 million such households, while Mexico, Turkey and India will each have more than 10 million. Together, the middle classes of the rapidly growing markets will be larger than that of the US. RGMs will increasingly look to their own markets to drive demand, with the growing middle class buying a wider range of goods and services.

The task for businesses today is to anticipate what goods these people will want to buy tomorrow, and to produce them at prices they are prepared to pay. This is a whole new paradigm that is causing newer leaders to emerge and many established players to fail.

Companies need to think now about how to develop products to serve these markets, and work out where to manufacture them and how to distribute them. And the potential is not limited to consumer goods. Increasingly assertive RGM middle classes will demand improvements in infrastructure, public services, health care and education — and new skills to help them succeed at the workplace. Growth in spending on communications, culture and recreation will soar. Urbanization, the requirements of business and the increase in leisure spending will put huge strain on infrastructure. Opportunities for infrastructure investment and green technologies should be plentiful.

Like the rest of the world economy, our RGMs will wait nervously to see how markets react to the prospect of tighter monetary policy in the US and elsewhere in 2014 — and the outcome of political events in some countries that will shape these markets in the next two quarters. But, as we have seen, they are not powerless against the winds of global economic forces. By taking steps to improve their business climate and attract investment, they can still shape their own destiny.

Businesses should not use short-term uncertainty among RGMs as an excuse for inaction. The opportunities created by long-term demographic and economic changes are here to stay. We just need to look beyond the next 12 months.

To learn more about RGMs, their business environments and local EY contacts, please visit ey.com/rapidgrowth.

Highlights

A young RGM population, growing in wealth, will drive a changing pattern of world consumption

- Rapid-growth markets (RGMs) will increasingly look to their own markets to drive demand, with a growing middle class buying a wider range of consumer products and services. In China, the number of households earning over US$35,000 in real terms will triple to almost 80 million by 2022. There will be more than 15 million households in Brazil and Russia with this income level, while Mexico, Turkey and India will have more than 10 million such households each.
- Across the RGMs, there will be nearly 200 million households with incomes in excess of US$35,000 by 2022, much more than in the US.
- Demand for health and education services is likely to expand significantly, and more skills added to the workforce. Spending on services such as communications, culture and recreation will grow at almost twice the pace of spending on food.
- The fast pace of growth and urbanization can place strains on public services and infrastructure. To really capture the gains from this rising middle class and balance the pressures on scarce resources, many RGMs will need to invest in green technologies and public transport, and improve the environment for business.

What to watch for over the course of 2014 and beyond in RGMs

- There are increasing divergences in short-term growth in RGMs. Those in the Americas are struggling to regain momentum, while steady growth in China boosts Asia.
- With industrial production surprisingly strong in Poland and the Czech Republic, emerging Europe is gaining strength and increasingly looking to the West, particularly as Germany leads the Eurozone out of recession.
- As a whole, RGMs are set to recover over the course of this year, with growth over 5% in 2015. But as the US begins its tapering of quantitative easing, and with many RGM currencies still under pressure, the risk of capital flight and a sharp slowdown has increased.
- Renewed capital flight could lead to RGM growth falling closer to 3% by 2015, with global repercussions. Growth in the US would slow below 2% and the Eurozone would stutter, growing by just 0.4% in 2015.
- Over the medium term, RGMs still hold many winning cards. Prospects appear brightest in those economies that are able to improve the environment for business and attract investment to lift their potential growth. Watch for the impact of Mexico's energy reforms and more financial liberalization within Shanghai's free-trade zone.
- If India is able to expand and diversify credit markets, ensuring businesses have access to the finance they need, growth could rise above 8% in 2016–20, much stronger than the 6%-7% we expect now. This would create more opportunities for businesses worldwide.

GDP growth

2013 ↘ 4.4%

2014 ↗ 4.7%

2015-17 ↗ 5.2%

CPI inflation

2013 ↘ 4.2%

2014 ↗ 4.3%

2015-17 ↗ 3.9%

A growing middle class

2022 **200** million

Across the RGMs, there will be nearly 200 million households with incomes in excess of **US$35,000** by 2022, much more than in the US.

- **China**
  80 million
- **Brazil and Russia**
  over 15 million each
- **India, Mexico, Turkey**
  more than 10 million each

Demand for health and education services is likely to expand significantly, also adding to the skills of the workforce.

Spending on services such as communications, culture and recreation will grow at almost twice the pace of spending on food.

Top five countries at risk

	Overall score
Turkey	20
Argentina	19
Ghana	19
Vietnam	18
India	17

RGM forecast by sector

	2014	2015
Manufacturing and utilities	5.2	5.7
Primary sector	2.1	2.0
Construction	5.9	6.1
Distribution	5.0	5.5
Financial and business services	4.2	5.0
Non-market services	5.0	5.1

Implications for businesses

Beyond uncertainty

Beyond uncertainty

Rapid-growth markets (RGMs) enter 2014 under a shadow. Global monetary tightening will shape investment flows and influence the growth rates of many in the years ahead. If all goes well, as we expect, the overall rate of economic expansion in our 25 RGMs will accelerate this year to 4.7%, after a modest slowdown during 2013. But there is a danger that markets will react badly and capital flows away from vulnerable countries, causing currencies to weaken further. If this should happen, the growth of our RGMs could be clipped to just 3.7% this year and 2.8% next.

Faced with increased uncertainty in the economies that now drive world growth, businesses need to refocus, looking to the medium and longer term. Company boards and executives should delve into the growing disparities between RGMs and identify those where reform and restructuring will deliver the best long-term prospects. And they need to extrapolate trends. In 10 years' time, we calculate, there will be nearly 200 million middle-class households in RGMs with incomes exceeding US$35,000 a year. What will these families want to buy? What sort of products should companies develop? Where should they make them? And what distribution channels should they put in place to serve a middle-class market that by 2022, whatever the short-term hiccups, will be bigger than that of the US? The rest of this decade will see the rise of the RGM consumer. To profit, companies must now plan and implement effective strategies to serve this maturing market.

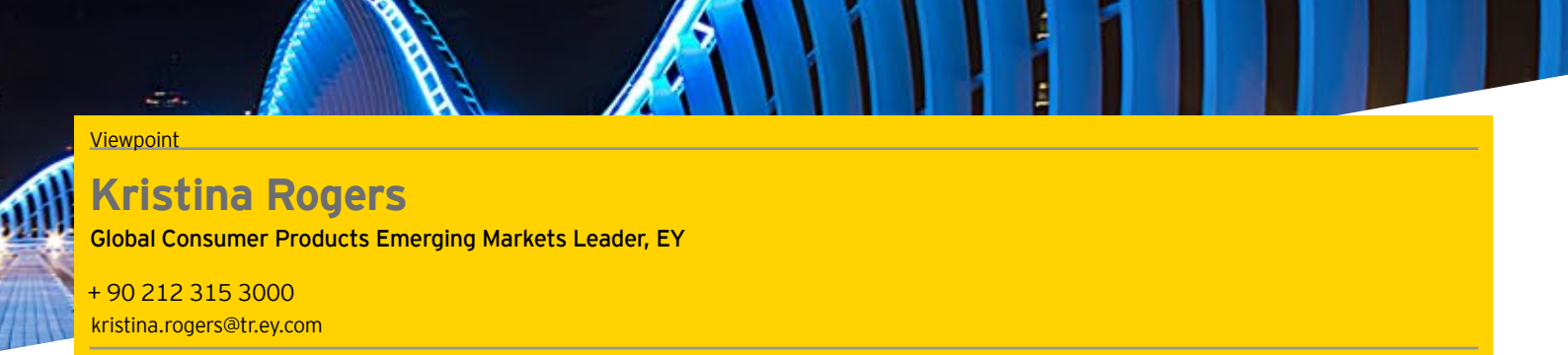
A shaky platform

This is the right time for an in-depth review of business strategies in RGMs. For many companies, emerging market performance last year was disappointing, triggering profit warnings in sectors such as consumer goods and brewing. Slowing or even falling demand was compounded by weakening currencies that undermined profits reported in dollars or euros. Indeed, we estimate that growth in our RGMs averaged 4.4% in 2013. This compares unfavorably with the 7.7% average in 2010 or the 6.4% of 2011.

Growth was held back for many reasons. Demand was weak in the developed economies that receive exports from many RGMs. Mass protests or political uncertainty have stymied investment confidence in Egypt, Nigeria, Russia and, more recently, Thailand and Ukraine. In response to higher inflation, which was due in part to currency weakness, interest rates have been rising, notably in Brazil, India, Indonesia and Turkey. These four, in particular, are seen as vulnerable to currency depreciation as the US Federal Reserve begins to scale back the monetary stimulus delivered through its bond purchases.

Counting the positives

But companies also need to factor the positives into their planning. Though the speed of growth slowed, some economies are picking up. As RGMs grow, the volume of new business opportunities swells ever faster. Slack trade growth will get a fillip following the December trade facilitation deal reached by World Trade Organization members in Bali. Cutting paperwork and border delays should reduce the cost of shipping goods by 10%–15% and boost global output by up to US$1t. China's Third Plenum outlined key economic reforms for the rest of this decade. Aircraft orders totaling US$206b announced at November's Dubai Air Show confirm the strong and steady growth of the Middle East and its re-emergence as a global hub for trade between Asia, Europe, Africa and North America. Though growth has been sluggish in



Viewpoint

Kristina Rogers

Global Consumer Products Emerging Markets Leader, EY

+ 90 212 315 3000
kristina.rogers@tr.ey.com

A tipping point has been reached for the world's consumer goods companies. While mature markets have stagnated for half a decade, consumers in emerging markets have developed a growing appetite for packaged food, shiny hair and premium spirits. Today, customers in RGMs provide 40%–70% of sales of the world's consumer goods champions.

And the tide is still rising. By 2017, Asia, Latin America, eastern Europe, the Middle East and Africa will account for 81% of the growth in consumer products sales. This compares with the 9% provided by North America and 8% by western Europe. And by 2022, RGMs will have more middle-class households than the US.

But getting it right in RGMs is tough. Many companies prioritized sales growth, but intense competition, value-focused consumers and rising costs are making it difficult to boost the bottom line. Amid rising volatility, companies must be more careful and strategic in how they approach these markets.

As identified by EY's recent study, *Profit or lose — Balancing the growth-profit paradox for global consumer products companies and retailers in Asia's emerging markets,* local knowledge, speed of decision-making and a willingness to adapt are key success factors. To prosper, companies need an intimate understanding of consumer tastes and habits. And this must be allied with data — collected at every level of the value chain — to identify what sells, what stays on the shelf, and why. Feed this into locally relevant business models that adapt to fast-changing market trends, and provide able, agile, autonomous yet accountable local leadership, and you have a recipe for success.

Those companies that have already traveled the learning curve now have significant advantages over newer entrants. Acquisition is no longer a quick route to market entry. One-time domestic competitors are evolving into global challengers. Some domestic companies now display the confidence and competence to buy mature-market assets, or demand leadership in partnerships. When it comes to deal-making today, it is often RGM assets that command the greater premium.

Innovation is critical, but companies must look beyond both product and themselves. Successful innovation occurs, rather, around ways of doing business, including engineering sustainable business models that deliver for society, supply chain and bottom-of-the-pyramid consumers alike.

Volatility remains higher in many RGMs than in mature markets. But for companies willing to work hard, adapt to rising costs and respond to rapid change, RGM consumer markets represent the biggest prize. Companies should seize today's opportunities to ensure they generate their fair share of both revenues and profits, today and in the future.

Latin America, Asian expansion remains broadly strong. Impelled by Germany's recovery, eastern Europe is reviving, while leading African economies such as Nigeria acquire scale and depth. Meanwhile, business opportunities, from minerals to manufacturing, are becoming more widespread.

Profiting from rising prosperity

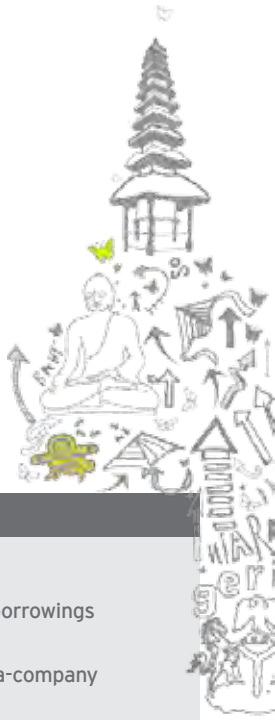
Our analysis shows that during the decade ahead, hundreds of millions of households in RGMs will achieve income levels which surpass their food, clothing, housing and energy costs. This will increase the scope for discretionary spending. Big markets for affordable health care, education and financial services will emerge. Simultaneously, spending on durable goods, from refrigerators to digital devices, will strengthen, along with consumption of entertainment, holidays and clothing. To win share in these markets, companies will need to offer affordable products and services, and embrace lower-cost technology and business models adapted to local cultures. Local management, research and development, and marketing will be essential — and must be able to react quickly to consumer trends. Manufacturing will need to be adaptable and adjacent to markets, with short supply chains.

Scanning for opportunities and risks

Governments will continue to open up — or close down — opportunities for business. Companies need to scan for policy changes that liberalize markets, reduce corruption or pave the way for increased investment, especially in power and transport infrastructure. Brazil is privatizing airports and infrastructure and Mexico is opening its energy market.

But companies also need to watch for worsening corruption, political paralysis and particular risks that develop progressively from policies that fail to adapt. These include deteriorating public finances, current account shortfalls, currency over-valuation and inflation.

Beyond uncertainty



Focusing on people

Companies committed to RGMs need to be extremely vigilant as they protect their brands and reputation. In-country staff need to imbibe and share the corporate culture and values that underpin intangible assets such as customer perception, brands and service standards. An ethical failure in an emerging market can devalue the brand everywhere. As RGMs grow more influential, the quality and commitment of local staff becomes more critical, and their voice needs to be louder in corporate decision-making. Recruitment, training, development and promotion issues must be addressed.

Protecting the bottom line

As RGMs mature, wages and operating costs rise, and competition often intensifies. Executives must be careful to ensure that investments are repaid and margins protected. Profitability must be preserved in reporting currencies too, implying the need to hedge input purchases and currencies where appropriate. Capital investments and acquisitions also weigh upon the balance sheet. Local borrowing can help protect the balance sheet against currency exposures. In the medium and long term, the appeal of RGMs continues to strengthen. But business models must be perfected to ensure they yield profits across the cycle.

Preparing for the future in RGMs

Today

- Ensure big currency risks are hedged and local borrowings protected against rising interest rates.
- Seek out natural hedges via purchasing and intra-company sourcing.
- Monitor rising RGM costs, salaries and inflation, and pre-empt disruption while ensuring profitability.
- Plan for contingencies, including possible currency devaluation in vulnerable economies.
- Assess ethical considerations of marketing, sourcing and quality strategies to protect brand and reputation.

Tomorrow

- Identify target markets, filter for political risk and develop flexible plans for growth.
- Study the competitive landscape closely and shape plans to ensure profitability.
- Become local. Develop appropriate products and services with marketing, research and development, and production close to customers.
- Ensure you have intimate knowledge of your RGM businesses and markets. Recruit and develop local staff, and ensure that they have a say in the development of products and strategy.
- Review the composition of the board and senior executives to ensure adequate RGM knowledge and experience.

Growing middle class leading a change in consumption patterns

Growing middle class leading a change in consumption patterns

Changing landscape in 2014

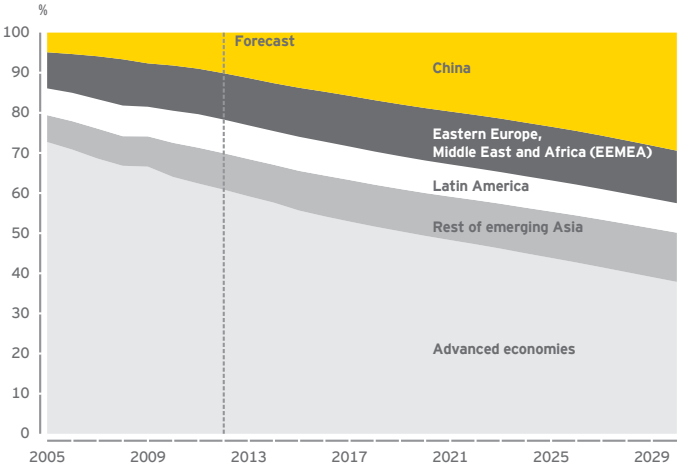
The picture for rapid-growth markets (RGMs) will start to change over the course of 2014, building on the shifting landscape of last year. The period of financial market uncertainty is not over. As the Fed begins to slow its purchases of assets, we may see further ramifications across RGMs. In addition, political developments will also affect economic prospects in many RGMs, such as India, Colombia, Brazil and Thailand.

Window of opportunity

Nevertheless, interest rates across the major advanced economies are not expected to rise before the end of 2015. RGMs have a window of opportunity to press ahead with key economic reforms, before the liquidity which has underpinned some of their phenomenal growth over the past few years is withdrawn gradually. We are likely to see more divergences between countries that are able to implement reforms and those that struggle to do so.

Figure 1

World: share of disposable household income



Source: Oxford Economics.

Rising wealth in RGMs

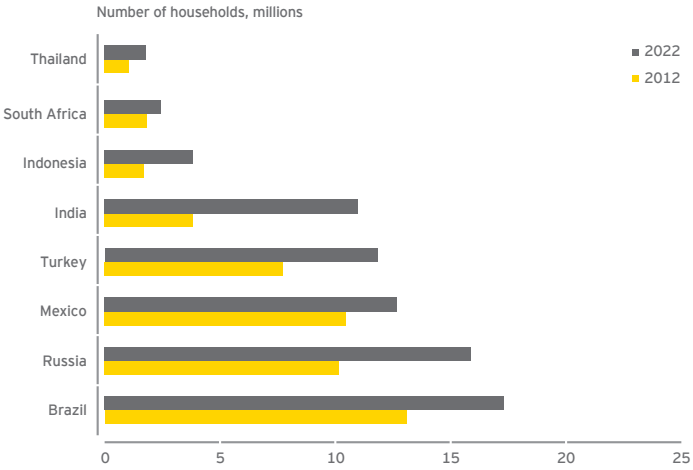
As we look to the year ahead, we have updated our projections for household incomes across a range of countries. Using Oxford Economics' Global Model and surveys on household income, the data allows us to look at the spending power of households and the way in which income is distributed in different countries. We can then map how this picture will change over the next decade. Change will be driven by patterns of:

- Population growth
- Urbanization
- Infrastructure
- Technology and innovation
- Redistribution and social safety nets

We see some dramatic trends in the spending power across some of the major RGMs. In China, the number of households earning over US$35,000 in real terms will triple to almost 80 million by 2022.[1] China will have more households with this earning power in 2022 than Japan. Across the RGMs, there will be more than 200 million households with this income level by 2022, much more than in the US.

Figure 2

Households with an income greater than US$35,000



Source: Oxford Economics; Haver Analytics.

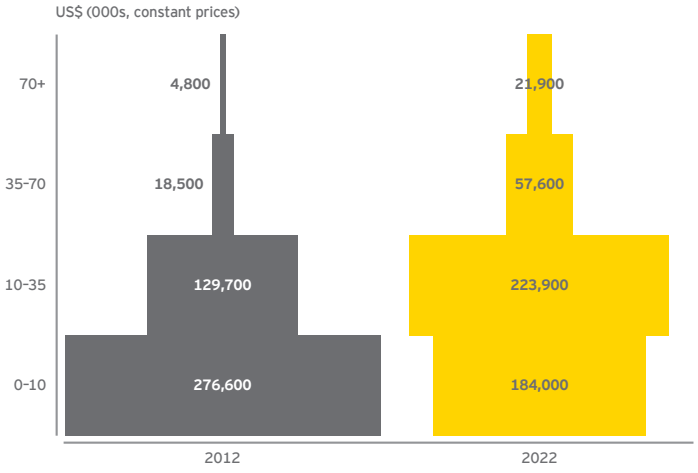
1 Our forecasts for household incomes are based on constant 2012 prices in US dollar terms.

Dramatic rise in spending power in China

In China, many lower-income households will become more significant consumers. Households with incomes below US$10,000 will no longer represent the majority. By 2022, nearly 80 million households will have incomes greater than US$35,000, and more than 220 million households will have a still considerable amount of disposable income of between US$10,000 and US$35,000 per year. Not only will these consumers be able to buy a wider range of goods and services, but demand for health and education services is likely to expand significantly, also adding to the skills of the workforce. New financial services will be needed to help the ageing population in China save for its retirement. In addition, the pressures on urbanization will lead to growing demand for green technologies.

Figure 3

China: household income distribution



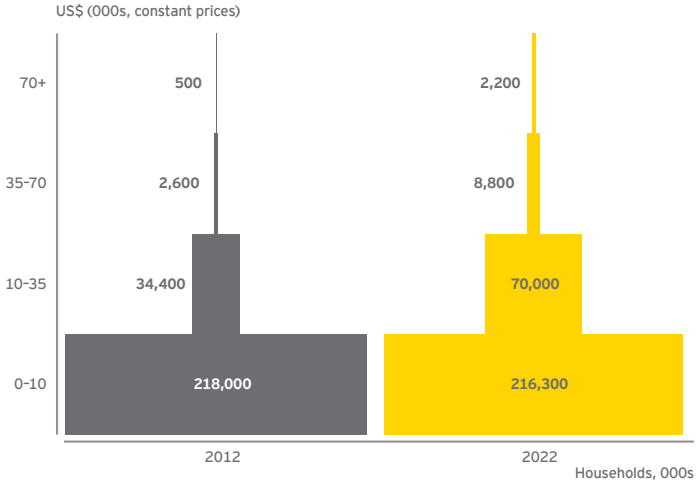
Source: Oxford Economics.

Search for sustainable consumption

The transformation is most dramatic in China, but there will be shifts across all the RGMs. By 2022, there will be more than 15 million households in Brazil and Russia with this income level, while Mexico, Turkey and India will each have in excess of 10 million such households. In Nigeria, the number of households earning more than US$10,000 will nearly double from 6 million in 2012 to just over 11 million in 2022. But what these households want may be very different from the consumer demands seen in previous periods of rapid economic development. For instance, in China the pace of economic change and concerns over food safety and air quality has prompted a move toward redefining a more sustainable consumption path for China. Businesses will need to tailor the products they offer to shifting local demands.

Figure 4

India: household income distribution



Source: Oxford Economics.

Higher demand for culture and communications

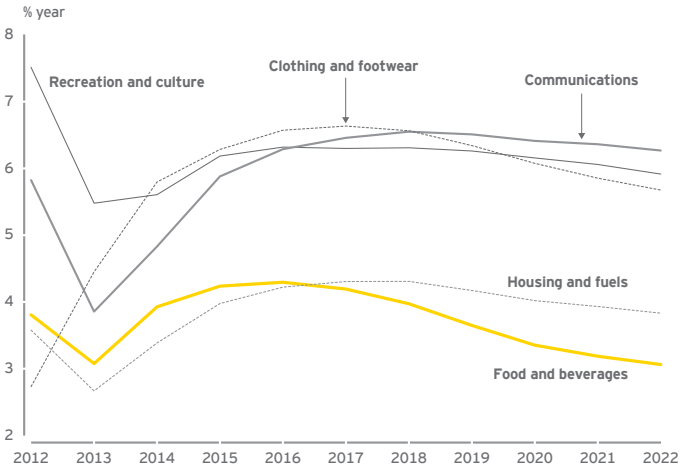
Over the past decades, sales of consumer durable goods have been dominated by the advanced economies. Penetration is still relatively low in many rapid-growth economies. But once household incomes approach US$10,000, demand for durable consumer goods picks up. Ten years ago, 28% of households in Thailand earned more than US$10,000 in real terms. Now almost 40% do. Refrigerator sales have doubled in this period. Last year in Indonesia, 40% of households earned more than US$10,000. By 2022 this share will have risen to 60%, as a result of favorable demographic trends and urbanization.

Growing middle class leading a change in consumption patterns

As more households in RGMs move into higher income bands, they will have more money to spend on discretionary items. Our forecasts for consumer spending by product, illustrated in the chart below, show that over the next 10 years we expect spending on discretionary items to grow at a faster pace than spending on essentials. Demand for services such as communications, culture and recreation will grow at almost twice the rate of spending on food.

Figure 5

Rapid-growth markets: spending by product



Source: Oxford Economics.

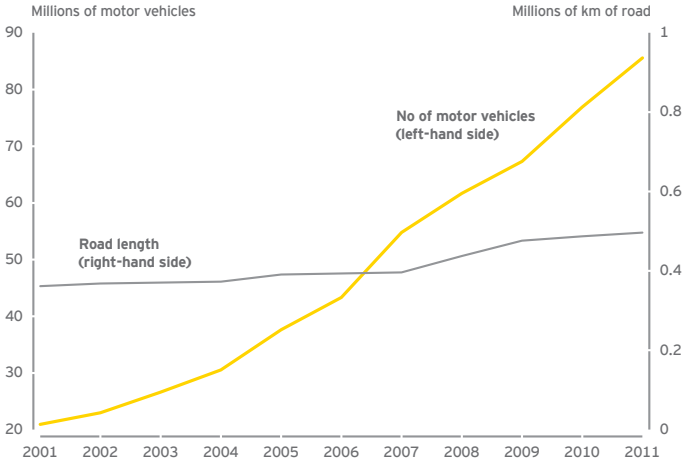
Urbanization increases the need for public services and infrastructure

But the fast pace of growth and urbanization can place strains on public services and infrastructure. To really capture the gains from this rising middle class and balance the pressures on scarce resources, many rapid-growth markets will need to invest in green technologies and public transport, and improve the business environment. In 2014, every BRIC country was ranked outside the top 80 in the world for the ease of doing business. Strains have been evident in protests for better public services, such as those in Brazil in June 2013 and in Turkey in May, sparked initially by urban development plans.

Other pressure points include rapidly rising property prices and air pollution. In recent years, many major fast-growth economies, including mainland China, Hong Kong and Malaysia, have introduced measures to curb house price growth. Infrastructure can face severe strains, with regular power cuts in India and a four-fold rise in the number of vehicles on Indonesian roads over the last 10 years. Smog has forced the temporary closure of major airports in China. And levels of air pollution in Beijing and Shanghai have at times been well above World Health Organization guidelines. To tackle air pollution, the authorities plan to spend CNY1t (US$163b) over the next five years to reduce the concentration of fine particulates by 25% in the Beijing area.

Figure 6

Indonesia: transport pressures



Source: Oxford Economics; CEIC.

Short-term challenges remain

Over the course of the next two years, we expect to continue to see more divergences in short-term growth in RGMs. Those in the Americas are struggling to regain momentum, while steady growth in China boosts Asia's RGMs. With industrial production surprisingly strong in Poland and the Czech Republic, emerging Europe is gaining strength, looking to the West, particularly as Germany leads the Eurozone out of recession. As a whole, RGMs are set to recover over the course of this year, with growth over 5% in 2015. But this recovery will be less vibrant in the near term than we expected in October.

Recovery in emerging Europe

Eurozone recovery should support GDP growth in emerging Europe ...

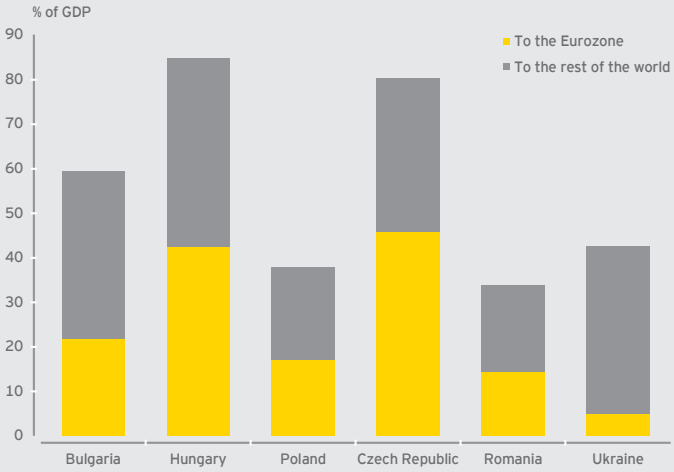
With the recovery in the Eurozone now more firmly established, and growth over 1% expected by the end of 2014, emerging Europe is set to benefit. GDP growth in central and eastern Europe (CEE) has become more closely linked to the Eurozone since the 2008-09 financial crisis. In the period 2004–08, the correlation between GDP growth in CEE countries (the Czech Republic, Hungary, Poland, Bulgaria and Romania) and the Eurozone ranged from 0.03 in Romania to 0.8 in the Czech Republic. Since 2008, correlations have risen to at least 0.85 in every case. In the Czech Republic, changes in GDP are almost perfectly correlated with the Eurozone. The Eurozone and CEE economic cycles have therefore become more similar in recent years. As a result, recovering economic activity in the Eurozone should aid growth in CEE countries. The support will come via two main channels: rising demand for exports and, to a lesser extent, improved flows from the banking system.

... through rising demand for exports ...

The Eurozone is the main export market for CEE countries. It accounts for the majority of exports from Poland (53%) and the Czech Republic (63%). The importance of the Eurozone market means that its recovery should translate into higher demand for exports from CEE countries.

Figure 7

Exports as a share of GDP: 2014



Source: Oxford Economics; Haver Analytics.

Rising demand for exports will boost GDP growth directly. But it will also have an indirect effect as exporters increase their demand for labor, investment goods and production inputs. How much each country will benefit depends on the overall importance of exports to their economies. We have estimated the benefits by looking at the ratio of real exports to GDP. The higher the share of exports, the stronger the positive multiplier effects. This suggests that among the RGMs in emerging Europe, domestic demand in the Czech Republic will benefit most from rising exports.

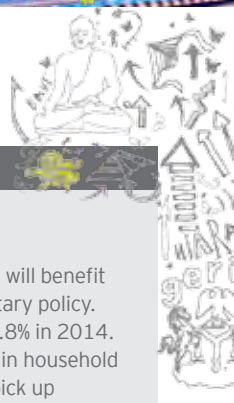
... and improved banking flows

Firms will need good access to funding to take advantage of the opportunities offered by rising demand in the Eurozone. So the health of the banking sector is also an important determinant of growth. Banks in the CEE are mostly foreign-owned, with the majority of parent banks located in the Eurozone. Foreign banks account for 70% of total bank assets in Poland (the lowest share in the CEE) and 86% in Hungary. This could become a significant constraint on growth. Eurozone banks in general are still restructuring their balance sheets in the wake of the financial crisis, and they face higher capital requirements and tighter regulations as a result of Basel III requirements. As a result, parent banks may not be able to accommodate the necessary expansion in their subsidiaries. They might also shift funds to their home markets, using them to increase their capital. Additional funds are most likely to be directed to countries with the healthiest banking systems and best growth prospects.

Czech Republic should reap the benefits of a Eurozone recovery

So, which countries are most likely to get the funding they need? We took the ratio of non-performing loans to total loans as an indicator of banking sector health in each country, and the loan-to-deposit ratio to show overall leverage and, therefore, dependence on parent-bank funding. The Czech Republic and Poland have the lowest ratios of non-performing loans to gross loans. In addition, the Czech Republic has a loan-to-deposit ratio below 100%, implying significant potential for expanding credit without requiring support from parent banks. Hungary has the weakest banking sector based on our proxies, with a high proportion of non-performing loans and loan-to-deposit ratios exceeding or approaching one.

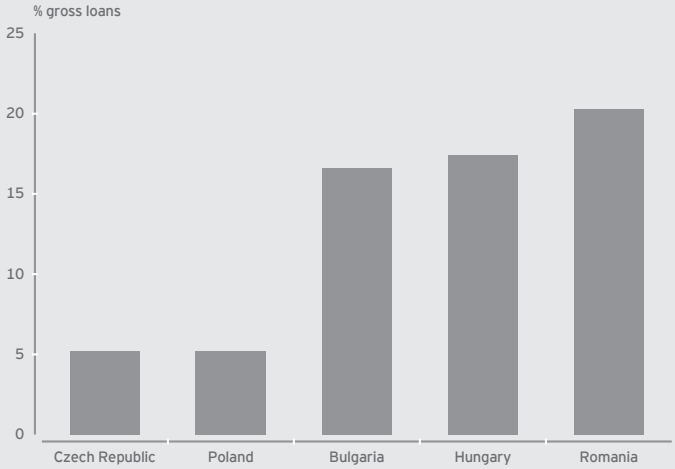
Growing middle class leading a change in consumption patterns



Recovery in emerging Europe (continued)

Figure 8

Non-performing loans in Q2 2013



Source: International Monetary Fund (IMF).

Our analysis suggests that the Czech Republic could, therefore, gain the most from a Eurozone recovery. Its banking sector is among the strongest and the economy is in a good position to benefit from a recovery in Eurozone demand. However, some of the gains will be offset by other factors. Possible tensions within the newly formed governing coalition might prolong political uncertainty, holding back business confidence and growth. Indeed, growth contracted very slightly in Q3 2013, with consumption relatively weak and strong imports detracting from growth. But with strong industrial production in October and a positive purchasing managers' index (PMI) survey, we expect growth to have returned in Q4 2013. The policy of unsterilized currency interventions by the Czech National Bank will support Czech exports. It will result in local firms gaining market share in key foreign markets in 2014. Stronger exports will stimulate domestic demand as firms expand capacity and increase their demand for labor. This will help the economy to grow annually by around 3% from 2015 to 2017.

Poland is also in a strong position

Poland also boasts a relatively healthy banking system, and will benefit from well-anchored inflation expectations and easier monetary policy. Rising exports should boost growth, with an expansion of 2.8% in 2014. A sustained period of low inflation is likely to support a rise in household real incomes and, therefore, consumption. Growth should pick up gradually to around 3.5% over the medium term.

While other CEE countries will also benefit from improving demand in the Eurozone, the effects will be partly offset by other factors. In Bulgaria, short-term growth will be held back by low investment resulting from significant spare capacity in the residential construction sector. We forecast annual investment growth of around 7% in 2014–17, supported by FDI and rising capacity utilization. This, combined with stronger external demand, will underpin annual GDP growth of around 4% from 2015–17. In Romania, we expect growth to be hampered by rising real wages eroding its competitiveness in the near term. From 2015-2017, we however expect Romanian growth to recover to around 3%, supported by firmer intra-European trade and stronger investment into industry and infrastructure.

Hungary is likely to see some of the positive effects of rising foreign demand mitigated by a weak banking system. In addition, sluggish investment in the aftermath of the global financial crisis has left it with an eroded capital stock, which will hold back growth. However, the stable political situation, the easing of fiscal policy and the National Bank's loan program should support business confidence.

In Ukraine, a return to growth is forecast in 2014 after the recession of 2013. The recovery will be led by exports to European countries. Industrial sales to the EU and Russia are on course to improve in 2014–15, as metal and chemical demand picks up gradually. In contrast to the main CEE countries, Russia is Ukraine's most important export partner, taking around a third of Ukraine's exports. Only around 5% of Ukraine's exports go to the Eurozone.

Russia is less closely linked to the Eurozone

Russia's prospects are tied more to the outlook for oil prices and the potential boost to trade growth to other markets from its recent accession to the WTO. Just 32% of its exports go to Eurozone countries. It is also the least open economy. In addition, domestically owned banks dominate the Russian market, with very few banks owned by Eurozone financial institutions. As a result, a pickup in Eurozone growth will have far less effect on Russian growth. Economic activity in 2014–15 will depend more on the improvement of general business sentiment and its terms of trade.

Sectoral outlook in RGMs

The subdued recovery in RGMs is reflected in a weaker outlook for financial and business services, with growth of around 4% this year and around 5% for manufacturing and utilities. In contrast, we expect a more robust pickup in construction and distribution, to around 6% next year. This is in keeping with the trends for more urbanization and greater demand for retail and other consumer services.

Forecast of rapid-growth markets by sector (annual percentage changes in gross added value)

	2012	2013	2014	2015	2016	2017
Manufacturing and utilities	5.1	4.8	5.2	5.7	5.8	5.9
Primary sector	1.6	1.8	2.1	2.0	2.0	2.0
Construction	4.9	5.3	5.9	6.1	6.3	6.2
Distribution	5.7	4.8	5.0	5.5	5.7	5.6
Financial and business services	4.3	3.9	4.2	5.0	5.3	5.5
Non-market services	4.4	5.1	5.0	5.1	5.2	5.2

Source: Oxford Economics.

China could provide a boost for the region

Steady growth in mainland China continues, with strong industrial production and retail sales, and a recovery in exports in Q4 2013. If this trend were to continue, it would provide a substantial boost to both regional and world trade. We now expect GDP to expand by 7.6% in 2013 and 7.3% this year, supported by a positive outlook for the domestic economy.

The policies highlighted at China's Third Plenum in November reinforced our view that the new leadership is determined to push through economic reform. Markets will be given an increasing role in state-owned enterprises and the banking sector. There will also be greater personal property and social security rights. This confirms our view that growth over the next few years will be driven by consumption and state spending aimed at improving living standards and rebalancing the economy.

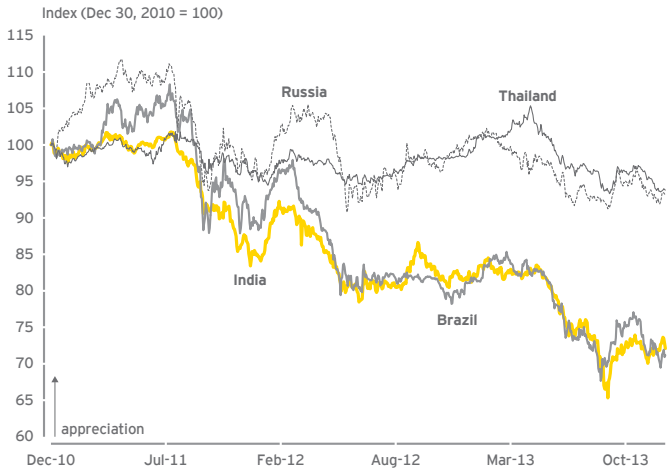
Mainland China's improved economic position has not yet been reflected so clearly in the rest of the region. Korea's trade pattern is still patchy, with exports down 5.1% on the month in November and flat in December after a surge in October. But prospects are improving, as indicated by the most recent purchasing managers' indices (PMI) for Korea, Indonesia and Taiwan. They all point to a expansion in the manufacturing sector. We now expect slightly better growth in Asia as a whole this year, with an expansion of 6.2%. This compares with 6.0% forecast in October.

Thailand protests could hit growth

Political tensions in Thailand rose toward the end of last year, increasing the risks to the forecast. This is a particular concern because tourism was such a strong contributor to growth last year. Political demonstrations in mid-November and the resignation of all opposition members of parliament prompted the Government to dissolve parliament and call an election to be held in February. The economy bounced back quickly from protests two years ago, but domestic and external conditions are less supportive this time round. So, increased turbulence and uncertainty could raise the downside risks. Fixed investment is already weak, reflecting poor business confidence and possibly the uncertain political landscape, and would be further hurt by increased tension. We expect GDP to expand by just 3.4% in 2014, and even this is dependent on tensions easing.

Figure 9

Rapid-growth markets: exchange rates vs. US$



Source: Haver Analytics.

Growing middle class leading a change in consumption patterns

India's positive growth surprise

GDP in India grew 4.8% in Q3, accelerating from 4.3% in Q2. This outcome was much better than expected, with consumer spending, investment and exports all making positive contributions. But inflation remains stubbornly high and, as a result, we no longer think the central bank will have any room to loosen monetary policy this year. Financial market volatility has reduced, export growth is likely to remain strong, a good monsoon should yield strong agricultural output and the manufacturing PMI has picked up notably in recent months. As a result, despite the less supportive monetary policy environment, we now expect GDP to grow by 4.9% in 2014. This is up from the 4.5% we forecast in October.

Sluggish growth in Latin America

The most recent data from Brazil continues to point to sluggish activity. PMI readings are in contraction territory and retail sales show little improvement. Growth in Q3 2013 was just 2.2% on the year, but inflation has slightly eased, staying below 6% in recent months. The policy interest rate was hiked again last November, to 10%, and we expect the tightening cycle to continue this year.

In contrast, Q3 growth in Mexico was slightly better than expected. Economic activity trends remain driven in large part by improved external demand conditions and a more flexible policy stance. Domestic demand is still a drag on growth, consumer confidence is weak and retail sales are declining. But activity should improve this year, with 2014 GDP forecast to rebound to 3.8% as a result of healthier external dynamics.

In December, Mexico's Congress approved the energy reform bill, which marks an important turning point for the Mexican economy.

Some of the key measures of the bill are:

- Removing the constitutional ban on private investments, both domestic and external, in the country's oil, gas, electricity and petrochemicals sectors.
- Improving the regulation and efficiency of Mexico's electricity distribution and gas pipelines.
- Creating a sovereign wealth fund, with the central bank acting as a trustee.

These measures should help to attract critical private sector investment and technology into the country's energy industry. This strengthens Mexico's outlook, and we expect growth to rise to 4% over the medium term.

Russia suffers from stubborn inflation

Industrial production in Russia fell in October and labor market conditions also deteriorated. We forecast growth of just 1.2% in 2013, rising to 1.9% in 2014. Stubbornly high inflation offers limited scope for monetary easing. We now expect just 75bp of cuts in the refinancing rate in 2014, rather than 100bp.

Capital outflows could derail recovery in some RGMs

With renewed instability in financial markets, some RGMs are still vulnerable to capital outflows and runs on their currencies. An update of our heatmap of vulnerability for the RGMs suggests that Turkey, Argentina and India remain vulnerable to capital outflows.[2]

2 When giving the overall score (first column in the table) we have added all seven ranking figures. However, we have normalized the total ranking figures between 1 and 20. The highest figure indicates the highest risk.
To give a few examples, in South Africa, credit markets are already relatively well developed, so credit markets are now growing slower than other RGMs and, as a result, are less of a concern (green). But low foreign reserves relative to imports and a substantial current account deficit are flagged as higher risks (red).
In Indonesia, Turkey and Vietnam fast growing credit markets must be monitored carefully (red).

Heatmap

	Overall score	Current account	External debt	Gov. debt	Inflation	Growth in credit to GDP	Import cover	Currency change over year
Turkey	20	26	19	13	21	26	16	21
Argentina	19	14	16	14	24	24	17	24
Ghana	19	25	13	20	26	10	22	16
Vietnam	18	13	22	18	18	23	25	8
India	17	22	6	19	25	17	13	20
Egypt	16	19	5	23	23	5	23	18
Czech Republic	16	20	21	15	6	18	21	10
Brazil	15	17	4	22	17	25	3	19
Poland	15	23	24	21	5	16	15	1
Indonesia	15	12	9	7	20	21	11	23
South Africa	14	18	11	12	15	1	20	22
Advanced*	14	10	26	24	3	6	14	15
Ukraine	13	24	25	10	1	3	24	4
Colombia	13	21	8	9	9	20	9	14
Mexico	13	15	7	11	14	19	18	6
Chile	12	16	18	2	7	13	12	17
Thailand	11	11	12	8	10	22	7	11
Kazakhstan	11	5	23	4	16	4	19	9
Malaysia	11	4	15	17	8	15	8	12
Russia	10	6	14	3	19	12	4	13
Korea	9	8	17	16	4	7	10	3
UAE	8	3	10	1	2	8	26	4
Qatar	8	1	20	1	12	11	5	4
Nigeria	7	7	1	6	22	2	6	7
China	6	9	2	5	11	14	2	2
Saudi Arabia	5	2	3	1	13	9	1	5

*Aggregate measure of Germany, Japan and the US.

Source: Oxford Economics.

What is displayed in each column

1. **Overall scores** are based on the addition of the seven rankings. We have then normalized the total rankings from 1 to 20. The highest figure indicates the highest risk.
2. **Current account balance** shows the strength of the current account balance in 2013.
3. **External debt** shows the level of external debt over GDP in 2012.
4. **Government debt** shows the level of government debt over GDP in 2012.
5. **Inflation** shows average inflation in 2013.
6. **Growth in credit market** shows the average growth of credit markets as a share of GDP from 2010 to 2012.
7. **Import cover** shows the ratio of foreign exchange reserves to imports in 2013.
8. **Currency change over year** shows the change in the currency against the US dollar over the 12 months to mid-December 2013.

Legend of colors used in first column (Overall score)

For each indicator, we have marked:

- In red: the eight countries with the highest risk
- In orange: the nine countries with medium risk
- In green: the nine countries with the lowest risk

Growing middle class leading a change in consumption patterns

In Turkey, the lira has come under renewed pressure, with a fall of 11% from the beginning of December to 28 January, as investors fear further political instability. The central bank has increased the policy rate to 10% in an attempt to stabilize financial markets. Risks in Ghana have increased. Sharp falls in the cedi in recent months have added to the foreign debt burden. A weakening in the current account deficit in the Czech Republic was a factor behind its move up the risk table, while improved portfolio flows helped to reduce risks in Indonesia and South Africa. We have also included an aggregate measure of Germany, Japan and the US to provide a benchmark. This shows that vulnerabilities among the advanced economies also persist, particularly given the high levels of government debt. In addition, while high levels of external debt can lead to financing pressures in the wake of currency depreciations, they are also a sign of more open and developed financial markets.

A generalized flight from risk could do damage across RGMs and their partners. To assess the impact of this risk, we have used Oxford Economics' Global Model to highlight a capital flight scenario for RGMs.

In this scenario, the Fed changes its forward guidance to a less dovish tone, following the Federal Open Market Committee meeting that will take place in March. This prompts investors to price in a rise in interest rates earlier than expected. This triggers a wave of risk aversion, leading to changes in portfolio allocations away from RGMs' assets.

Figure 10

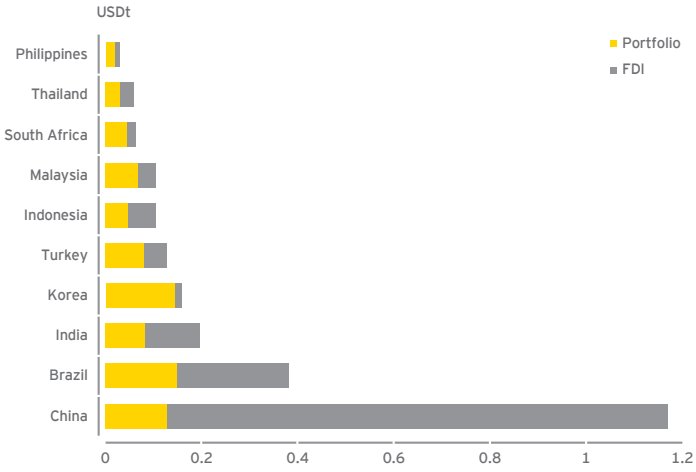
Reserve coverage ratio

Source: Oxford Economics; Haver Analytics.

Since the Asian crisis of the late 1990s, most rapid-growth economies have reduced their external imbalances by accumulating more foreign exchange reserves and reducing the share of US dollar-denominated bonds in overall government debt. Such measures have made these markets more resilient to abrupt changes in external financing, relative to how they were in 1997. Figure 10 shows that Brazil, the Philippines, Malaysia and Thailand have much higher reserves as a proportion of their short-term debt than they did before the Asian crisis. In addition, some countries such as China and Brazil have been relatively successful at attracting more stable FDI flows, as companies expand their operations in these countries. Others such as Turkey, however, are very dependent on portfolio flows to fund their current account deficit.

Figure 11

Composition of capital inflows, 2012



Source: Oxford Economics; Haver Analytics.

In our scenario, GDP growth in RGMs slows sharply in 2014-15 as a result of:

- **Capital flight:** rapid-growth economies that are dependent on portfolio flows to fund their current account deficit, such as India and Turkey, experience another round of sudden outflows of foreign capital. This is followed by a sharp depreciation of the exchange rate and deterioration in business confidence.
- **High inflation and interest rates:** inflation shoots up, prompting central banks to raise interest rates. This, in turn, amplifies the downturn.
- **Higher debt payments:** countries with higher consumer debt, such as Brazil, would be affected by higher household interest payments. Meanwhile, the Government would have lower revenues and higher payments on its debt.
- **Falls in share and house prices:** this scenario also incorporates the risk of a slump in China's property market in the light of recent sharp increases in prices and excess capacity in some larger cities.
- **Lower potential growth:** potential growth in rapid-growth economies also falls, compared with the baseline, as a result of a sharp reduction in companies' capital expenditure and a prolonged deterioration in labor market conditions.

Turkey and India would see the largest impact on their growth rates, as a result of sizeable capital flight and a sharp contraction in business confidence. Growth in India could slow to less than 3% over the next couple of years, before picking up to around 5% in 2016–17. Brazil would see large effects through the impact on domestic demand of higher inflation and interest rates. In addition, slower world growth would see oil and commodity prices drop. This would lower Brazil's export earnings and, as a result, growth could grind almost to a halt next year. Countries such as Qatar and Saudi Arabia, that have large current account surpluses, would be better insulated from capital flight. However, lower oil prices would affect their export earnings.

Growth in China could slow to around 4% in 2015 as the effects of a sharp correction in property prices are felt. In addition, the stress would likely trigger the need for the Government to recapitalize some smaller banks in China. While it has the resources to do this, it would lead to a sharp slowing in credit growth for investment.

Figure 12

China: GDP

Source: Oxford Economics; Haver Analytics.

Growing middle class leading a change in consumption patterns

In this scenario, GDP growth in RGMs falls to 3.7% and 2.8% in 2014 and 2015 respectively, compared with 4.7% and 5.1% in the baseline. As RGMs falter, growth in advanced economies also decelerates due to weaker external demand and increased volatility in financial markets. For instance, US GDP growth decreases to 2.6% and 1.7% in 2014 and 2015 respectively, compared with 3.1% and 3.2% in the baseline. World GDP growth falls to 2.4% and 1.8% in 2014 and 2015 respectively. This is quite a severe scenario, but it illustrates the potential effects of capital flight on RGMs.

Alternative GDP growth forecasts

Oxford forecast	2013	2014	2015	2016	2017
US	1.9	3.1	3.2	3.1	2.9
Eurozone	-0.5	0.9	1.4	1.6	1.7
Brazil	2.2	1.7	2.7	3.2	3.4
Mainland China	7.6	7.3	7.2	7.2	7.2
India	4.7	4.9	5.1	6.0	6.6
Russia	1.2	1.9	2.9	3.2	3.3
RGMs	4.4	4.7	5.1	5.3	5.3
World	2.2	2.9	3.2	3.2	3.3
Capital flight	**2013**	**2014**	**2015**	**2016**	**2017**
US	1.9	2.6	1.7	2.6	2.8
Eurozone	-0.5	0.6	0.4	1.0	1.6
Brazil	2.2	1.0	0.1	1.0	1.7
Mainland China	7.6	6.3	4.3	4.9	5.8
India	4.7	2.6	2.8	4.5	5.5
Russia	1.2	1.7	1.6	1.8	2.9
RGMs	4.4	3.7	2.8	4.1	4.9
World	2.2	2.4	1.8	2.5	3.1

Source: Oxford Economics.

What to watch out for in RGMs over the course of 2014 and beyond

- More divergences are expected in short-term RGM growth prospects. While the Americas struggle to regain momentum, steady growth in China continues, boosting the rest of Asia. With industrial production surprisingly strong in Poland and the Czech Republic, emerging Europe will gain strength, particularly as Germany leads the Eurozone out of recession.
- As a whole, RGMs are set to recover over the course of this year, with growth over 5% in 2015. But the risk of capital flight and a sharp slowdown has increased. Renewed capital flight could lead to RGM growth falling closer to 3% by 2015, with global repercussions. Growth in the US would slow below 2% and anemic growth, of 0.4% in 2015, would return in the Eurozone.
- RGMs will increasingly look to their own markets to drive demand. A growing middle class will buy a wider range of consumer products and services. Across the RGMs, there will be nearly 200 million middle-class households by 2022, many more than in the US.
- Over the medium term, RGMs still hold many winning cards. Prospects appear brightest in those economies that are able to improve the environment for business and attract investment to lift their potential growth. Watch out for the impact of Mexico's energy reforms and more financial liberalization within Shanghai's free-trade zone. Growth in India could exceed 8% if crucial reforms are implemented.

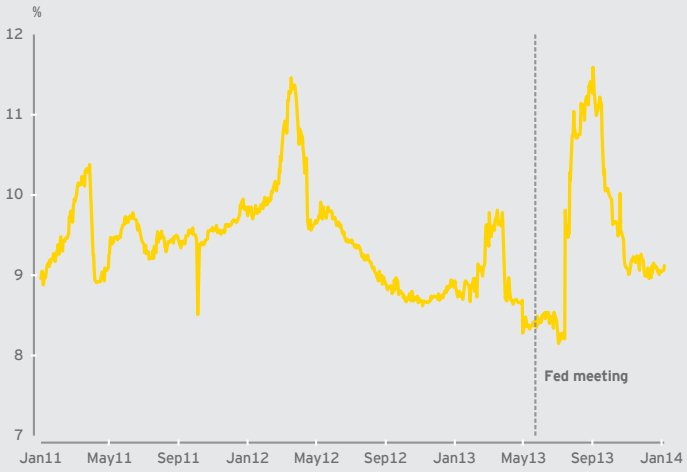
India at a crossroads

Investors reassess India's potential as era of cheap money draws to an end

In common with many other emerging markets, India has enjoyed rapid economic expansion over much of the last decade. Its GDP grew by an average of more than 8% a year between 2005 and 2012, supported partly by strong capital inflows. Foreign investment inflows grew from around US$20b in 2005 to more than US$50b by 2012. This was accompanied by an increase in Mumbai's Sensex stock exchange index of almost 150%. Other emerging markets experienced similar surges.

Figure 13

India: three-month interbank rate



Source: Oxford Economics; Haver Analytics.

But these strong trends masked a number of underlying economic weaknesses, not least the wide current account and fiscal deficits. This became apparent when the US Federal Reserve hinted at the possibility of scaling back its quantitative easing (QE) program in May last year. Where possible, investors moved out of riskier emerging market assets to safer US ones. Most emerging markets were affected, some more noticeably than others. India and Brazil saw their exchange rates depreciate by 20%–25% against the US dollar between May and August, and the Turkish lira fell 12%.

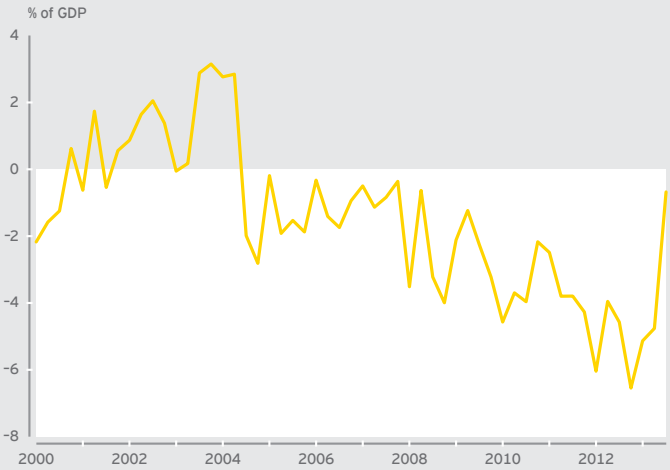
The Indian currency fell to a historic low. Growing risk aversion was also reflected in a jump in the three-month interbank rate of more than 300 bp to nearly 11.6% in August. India saw net capital outflows of US$10b between June and August, compared with net inflows of US$15b in the previous three months. This represents a swing of US$25b, or 1.4% of GDP.

India is vulnerable to external shocks

While financial markets have stabilized, India is still not out of danger. Although the current account deficit improved to 4% of GDP in H1 2013, from 5% in 2012, GDP growth was 4.8% in Q3 2013. This growth rate is about half that registered during the period before the global financial crisis. But as set out in our detailed focus on India (see page 36), growth in Q3 has surprised on the upside – and we now expect growth in 2014 to pick up to 5% in our baseline. Nevertheless, with growth still subdued, the economy remains vulnerable to capital outflows triggered by further rises in US bond yields or a flight from risk.

Figure 14

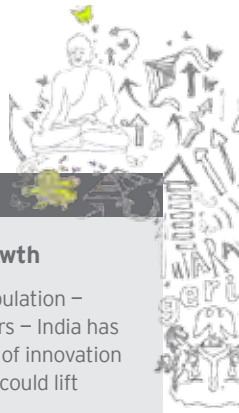
India: current account balance



Source: Oxford Economics; Haver Analytics.

As outlined earlier in this report (see page 20 and onwards), we have developed a risk scenario under which we see capital outflows from all of the major RGMs. In this scenario, foreign investment in India falls by around 20%, accompanied by a similar decline in share prices, causing the currency to depreciate by a further 15% against the US dollar. This would increase the price of imported goods, pushing up inflation and leading to higher interest rates. The combination of higher interest rates, high inflation and lower confidence would weigh on spending by households and businesses. While this risk scenario is fairly extreme, it highlights India's potential vulnerability and the need for effective policy action to avoid it.

Growing middle class leading a change in consumption patterns



India at a crossroads (continued)

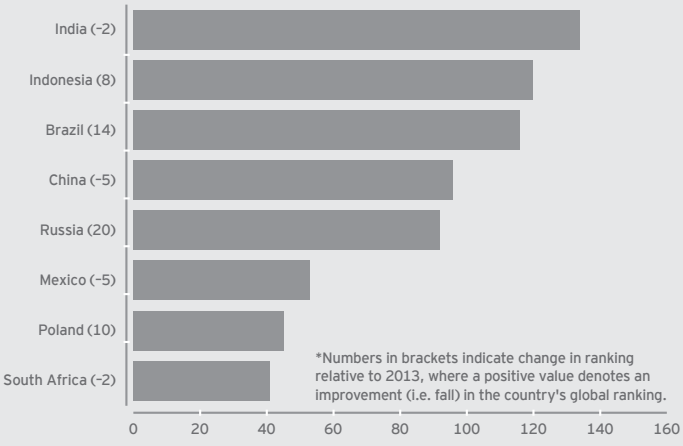
But short-term reforms have improved resilience

We do not think that short-term reforms will be enough to ensure the complete security of India's economic environment. But there is scope to minimize the negative impact of a confidence shock in the near future. Raghu Rajan, the new central bank governor, has already taken some encouraging steps in this regard. He has introduced measures to encourage the repatriation of funds by non-resident Indians. This has proved very successful and has already led to an estimated US$35b of capital inflows. He also raised the repo rate by 50bp over the past two months, while lowering the marginal standing facility rate by 150bp. His aim is to curb inflation and bring the monetary policy stance back to "normal", after the extraordinary measures taken in July.

While these measures are a step in the right direction, they need to be supplemented by Government action to reduce food and fuel subsidies, develop infrastructure, improve the business environment and make India more attractive for foreign investors. India currently ranks 134th in the World Bank's ease of doing business indicator. In our baseline forecast, we do not expect any significant improvement in the business environment over the coming months. In the run-up to this year's general election, the Government is eager to steer clear of more difficult economic reforms.

Figure 15

Rapid-growth markets: 2014 ease of doing business ranking*



Source: World Bank.

Bold reforms over the medium term would lift growth

But India is clearly at a crossroads. With a fast-growing population – which is expected to exceed China's within the next 20 years – India has the opportunity to change direction by improving the pace of innovation and the skills of its workforce. Some crucial reforms which could lift growth in India are:

- Reforms to the banking sector to improve access to liquidity, particularly for small- and medium-sized companies as well as for poorer households. One fifth of banking assets are controlled by the private sector, and Rajan has announced a "new era of competition" to open up financial services, providing more banking licenses to domestic and foreign companies.
- The Land Acquisition, Rehabilitation and Resettlement Act which last year replaced the 120-year-old Land Acquisition Act. The new legislation should make the process of buying and selling land more efficient. In the mining sector, reforms could include more liberalization of minerals policies, opening up the sector.
- Further liberalization of FDI, particularly in the insurance and multi-brand retail sectors, where the level of FDI is capped at around 50%.
- Improve infrastructure for the production and distribution of coal and electricity. This should also help to boost the manufacturing sector's share of overall GDP from 16%.
- According to the World Bank, only 63% of India's children attend secondary school and the literacy rate among women barely exceeds 50%. So there is plenty of scope to improve education and literacy. This will result in increased employment and greater productivity, and contribute to GDP growth.

If India were able to implement some of these reforms over the next three years, the improved skills of the workforce, higher investment and a faster pace of innovation could lift annual growth to well over 8% in 2016–20. This compares with the 6%-7% that we currently expect. While the obstacles to implementing some of these reforms are significant, the returns to India's population are clear.

Forecast for rapid-growth markets

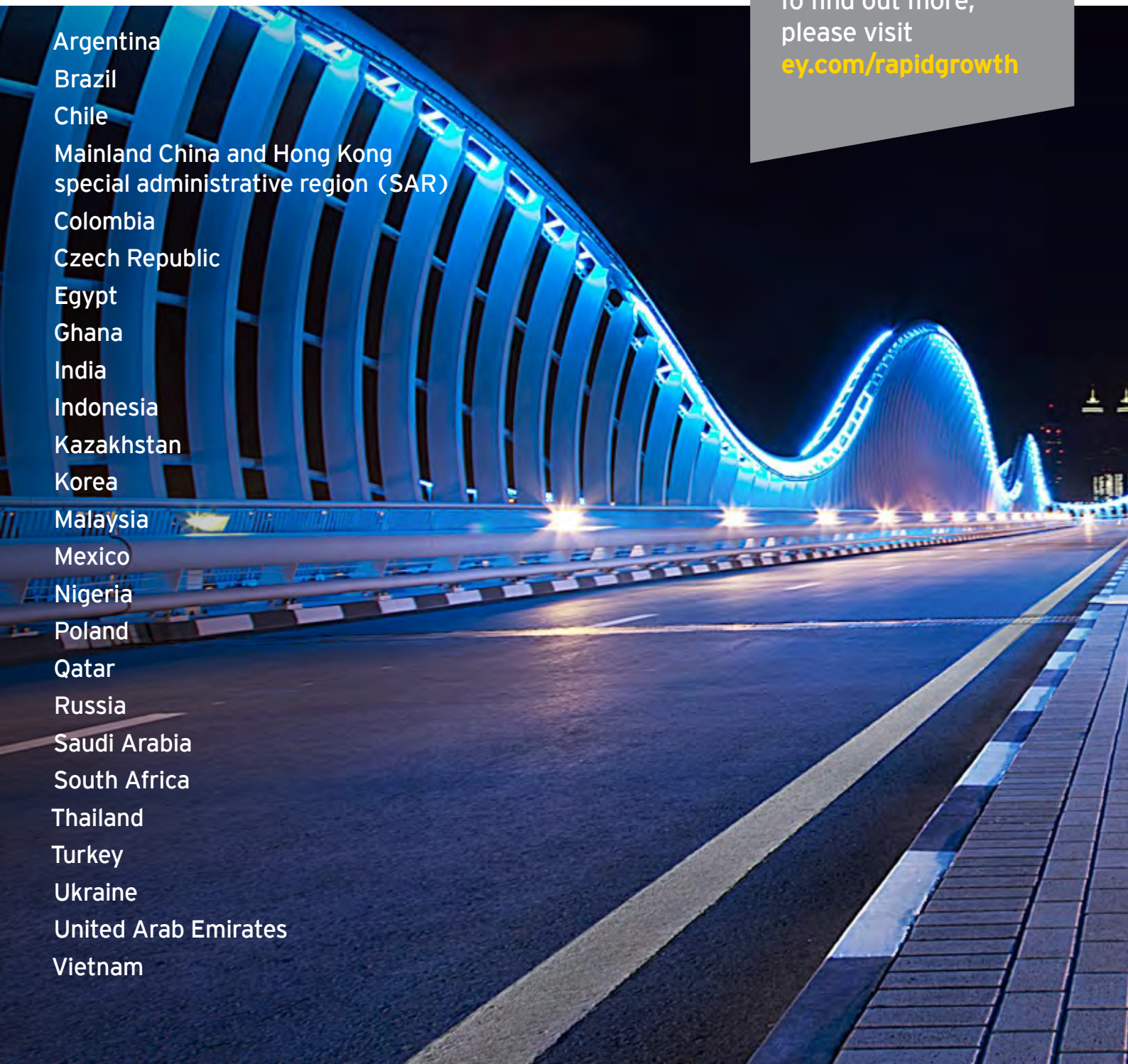
25 rapid-growth markets

We define rapid-growth markets on the basis of three key criteria:

- Proven strong growth and future potential
- Size of the economy and population
- Strategic importance for business

Figure 16 shows the GDP growth of our 25 RGMs over the last 10 years, comparing these with the leading advanced economies. Together, they represent a significant proportion of the world economy (Figure 17).

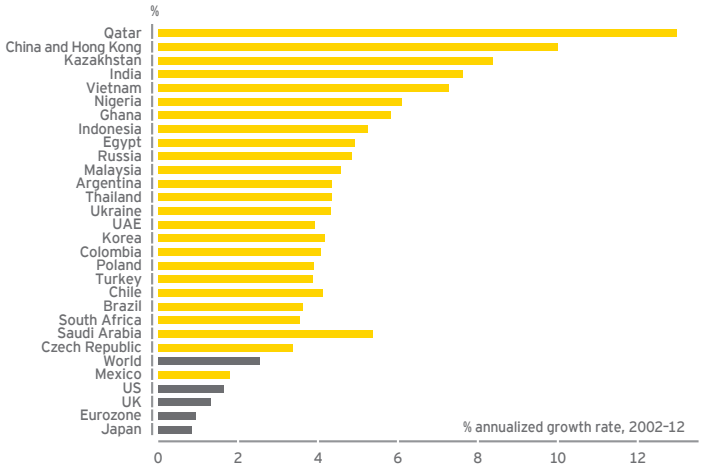
To find out more, please visit ey.com/rapidgrowth



Argentina
Brazil
Chile
Mainland China and Hong Kong special administrative region (SAR)
Colombia
Czech Republic
Egypt
Ghana
India
Indonesia
Kazakhstan
Korea
Malaysia
Mexico
Nigeria
Poland
Qatar
Russia
Saudi Arabia
South Africa
Thailand
Turkey
Ukraine
United Arab Emirates
Vietnam

Figure 16

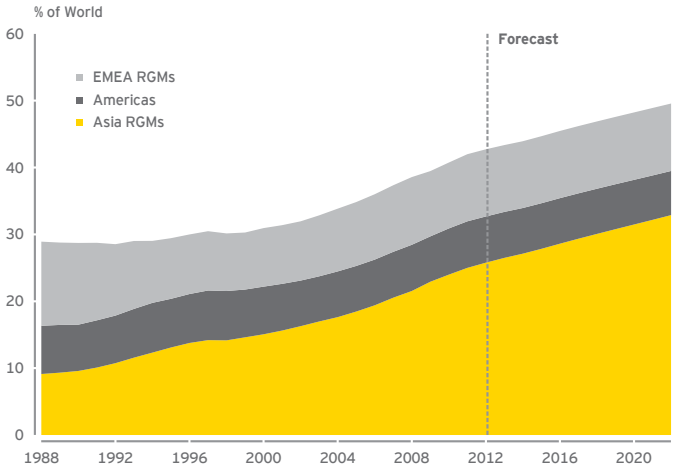
Real GDP growth 2002–12



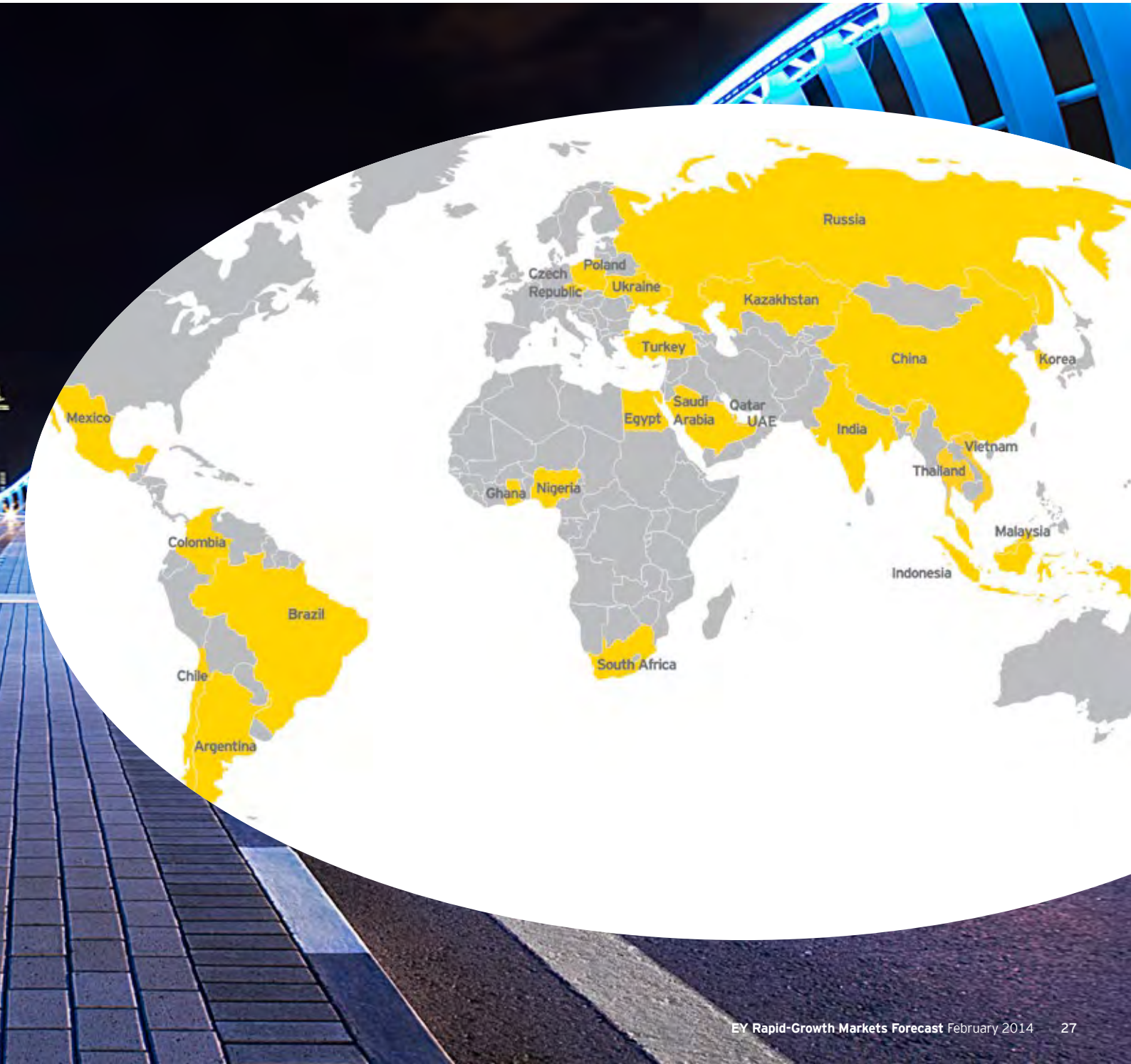
Source: Oxford Economics.

Figure 17

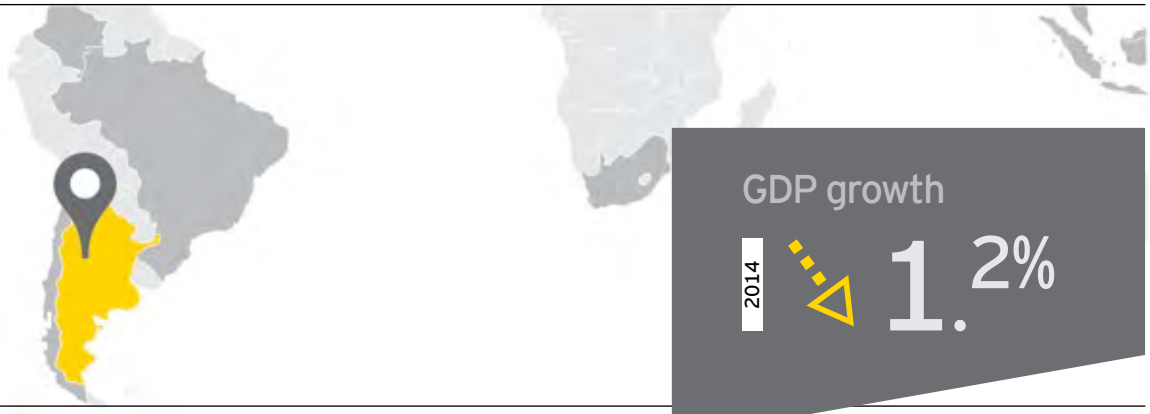
Share of world GDP in PPP terms



Source: Oxford Economics.



Argentina



Distortions hold back growth

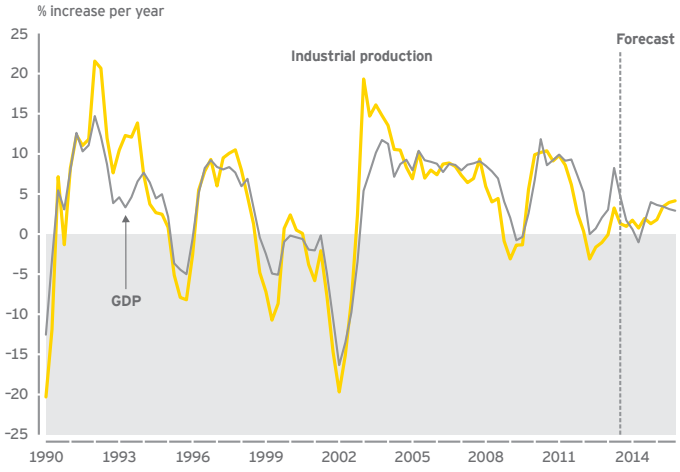
We forecast that the economy grew by 4.7% in 2013. Progress was helped by strong agriculture output and robust domestic consumption, which was supported by an expansionary fiscal stance and buoyant credit growth. But high frequency indicators of recent months show that the economy slowed in the second half of 2013. High inflation is damaging Argentina's international competitiveness, and we expect to see some weakening demand for exports in the coming months.

Policy-induced distortions – such as price controls (which make some industries less competitive on world markets), inflation and interventions – have progressively undermined the private sector. So GDP growth in 2014 is forecast to slip back to 1.2%.

Argentina faces several structural challenges that need to be overcome if it is to achieve its full growth potential. In the medium term, domestic activity will be held back by rising inflation and the impact of numerous policy-induced economic distortions. Some progress is being made, including new legislation for the oil sector that creates more flexible conditions for companies wishing to repatriate earnings. But while inflationary pressures and policy distortions remain, growth is unlikely to exceed 3.5% a year. Because the country is rich in natural resources and has a well-educated workforce, reform could raise potential growth above 4%.

Figure 18

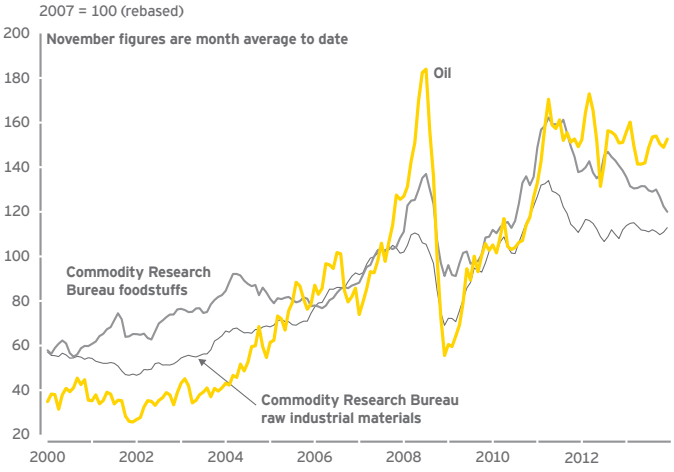
GDP and industrial production



Source: Oxford Economics.

Figure 19

World: commodity prices



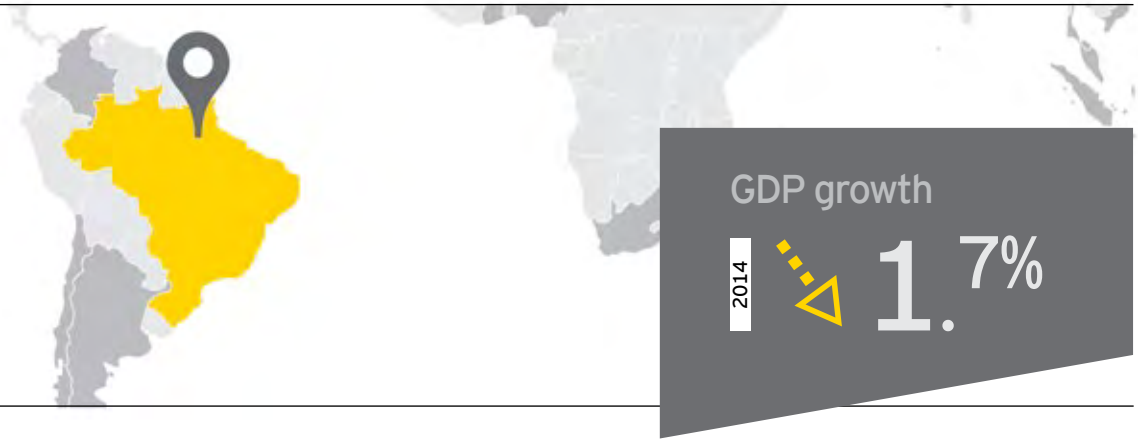
Source: Commodity Research Bureau; Haver Analytics.

Argentina

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	1.9	4.7	1.2	3.3	3.3	3.1
CPI inflation (% per year)	10.0	10.6	11.0	9.8	9.5	9.0
Current account balance (% of GDP)	0.0	-0.7	-0.3	-0.2	-0.2	-0.2
External debt total (% of GDP)	25.7	25.6	29.8	30.7	29.9	29.5
Short-term interest rate (%)	12.0	14.4	12.8	9.5	8.4	7.9
Exchange per US$ (year average)	4.6	5.5	6.7	7.2	7.5	8.0
Government balance (% of GDP)	-2.5	-1.8	-1.6	-1.2	-0.9	-0.7
Population (millions)	41.1	41.5	41.8	42.2	42.5	42.9
Nominal GDP (US$b)	475.1	481.7	436.0	460.8	499.8	526.8
GDP per capita (US$ current prices)	11,549.7	11,608.8	10,419.2	10,918.8	11,749.2	12,286.1

Source: Oxford Economics.

Brazil



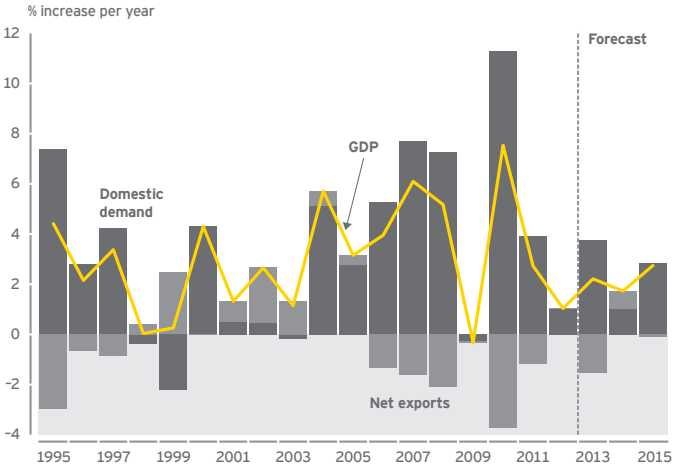
Infrastructure projects to spur medium-term growth

Brazil's economy contracted in Q3 for the first time since 2009, with GDP falling by 0.5% on the quarter. But the economy is expected to have picked up in Q4, with the economic activity index rising for the first time in three months in October. Therefore, we forecast GDP growth of 2.2% in 2013 and 1.7% in 2014.

Apart from a weaker outlook for growth, not much has changed from the previous edition. Inflation remains in the upper region of the target range, despite the Government's attempts to keep controlled prices at bay. And the central bank continues to tighten monetary policy. We expect the Selic rate to end the year at 10.25%, up from 7.25% at the start of 2013. This should help to keep inflation at 6% this year.

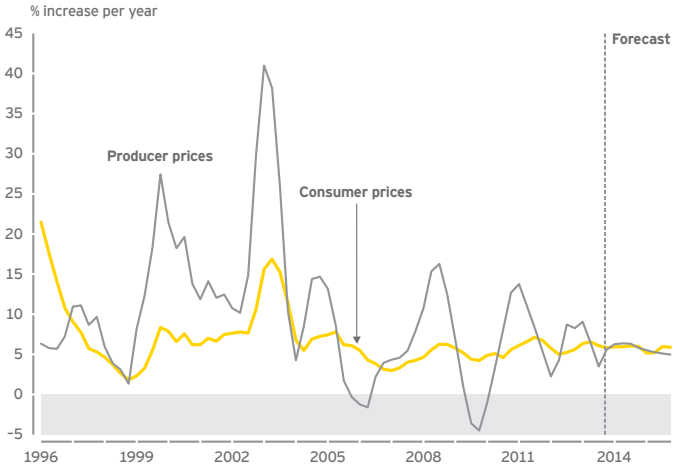
Looking further ahead, improvements in the business environment and infrastructure could help to lift growth to over 3% in the medium term. Last year, Brazil privatized a number of its major airports, successfully auctioned an important pre-salt oil field and improved regulation over the construction of private ports. These measures should allow significant investments to take place over the next few years and help to attract foreign direct investment. They could also help to raise productivity growth. As a result, medium-term growth rates could be boosted further.

Figure 20
Contributions to GDP growth



Source: Oxford Economics.

Figure 21
Prices and earnings



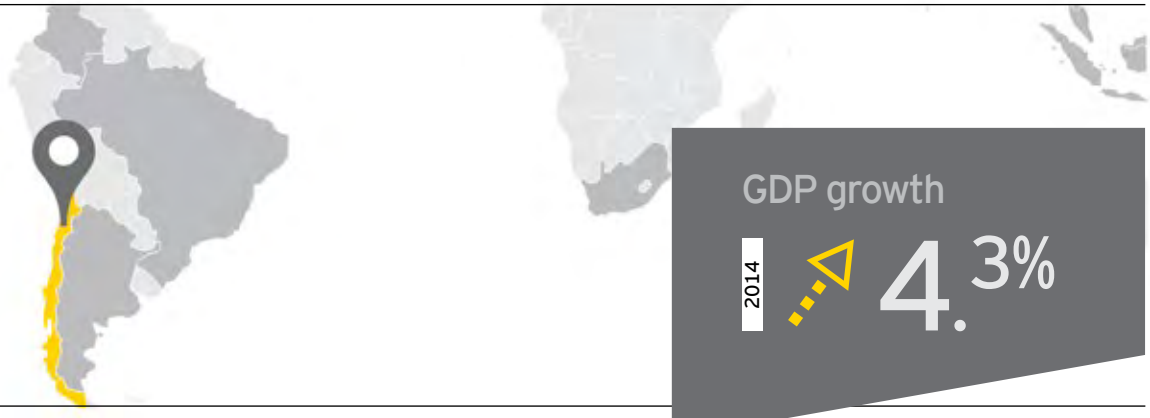
Source: Oxford Economics.

Brazil

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	1.0	2.2	1.7	2.7	3.2	3.4
CPI inflation (% per year)	5.4	6.2	6.0	5.6	5.6	5.3
Current account balance (% of GDP)	-2.4	-3.8	-3.3	-2.8	-2.7	-2.6
External debt total (% of GDP)	13.6	14.1	14.3	14.4	14.4	14.5
Short-term interest rate (%)	8.5	8.2	10.1	10.2	9.4	8.9
Exchange per US$ (year average)	2.0	2.2	2.4	2.5	2.5	2.6
Government balance (% of GDP)	-2.5	-3.6	-3.7	-3.4	-3.4	-3.7
Population (millions)	198.9	200.6	202.2	203.9	205.4	206.9
Nominal GDP (US$b)	2,249.3	2,231.0	2,136.4	2,292.6	2,427.3	2,530.4
GDP per capita (US$ current prices)	11,308.8	11,122.1	10,563.4	11,246.5	11,816.1	12,227.7

Source: Oxford Economics.

Chile



Growth set to edge up in 2014

After a relatively slow start, Chile's economy accelerated in H2 2013, with output expanding 1.3% on the quarter in Q3. Underpinning this was a bounce-back in the mining sector, which expanded by 3.9%, and continued strength in the service sector.

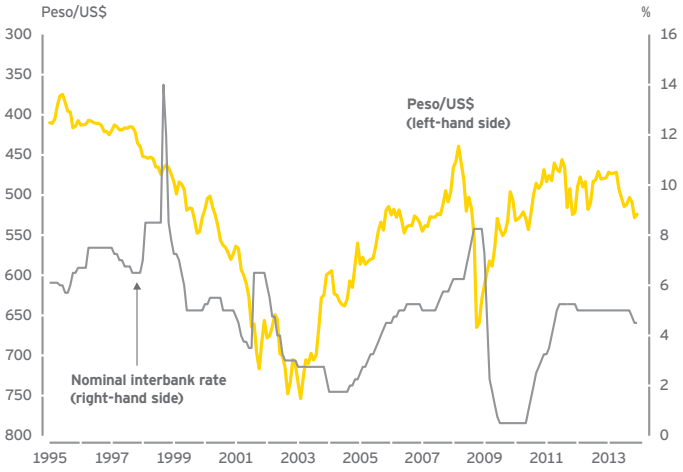
Moving into 2014, we expect the economy to continue to build momentum. Domestic demand is expected to accelerate, underpinned by low inflation, a strengthening labor market and looser monetary policy.

External conditions are also improving gradually, boosted by stronger demand in China. As a result, GDP growth is forecast to edge up from 4.2% in 2013 to 4.3% in 2014.

Inflation remains subdued, averaging less than 2% in October and November 2013. This has given the central bank room to loosen monetary policy in order to support the economy. We expect the policy rate to fall to 4.25% by early 2014 and remain there for the rest of the year.

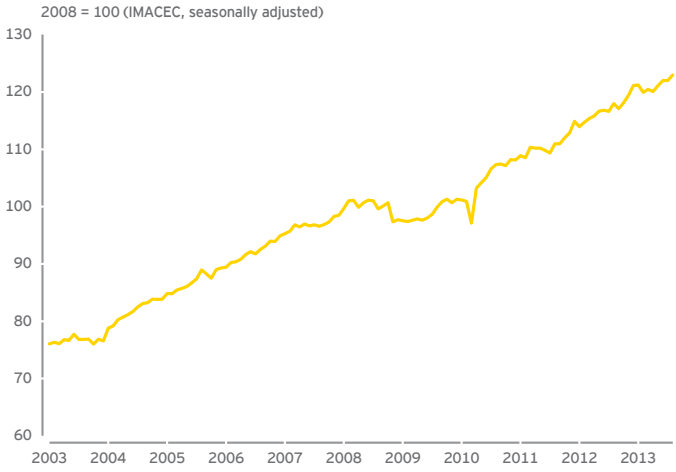
The medium-term outlook for Chile's economy is bright. Growth is expected to average more than 4.5% and will be underpinned by the country's institutional environment, macroeconomic stability and financial resilience. But progress relies on the Government tackling the energy sector, which is badly in need of investment to expand capacity.

Figure 22
Exchange and interest rates



Source: Banco Central de Chile; Haver Analytics.

Figure 23
Monthly indicator of economic activity



Source: Haver Analytics.

Chile

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	5.6	4.2	4.3	4.8	4.7	4.8
CPI inflation (% per year)	3.0	1.7	2.0	2.8	3.0	3.0
Current account balance (% of GDP)	-3.5	-3.0	-2.3	-2.1	-2.0	-1.8
External debt total (% of GDP)	37.5	38.1	39.0	36.9	35.8	34.4
Short-term interest rate (%)	5.0	4.9	4.3	4.3	4.3	4.3
Exchange per US$ (year average)	486.5	495.3	516.9	509.2	514.6	517.1
Government balance (% of GDP)	0.6	-0.5	-0.5	-0.1	0.3	0.2
Population (millions)	17.5	17.6	17.8	17.9	18.1	18.2
Nominal GDP (US$b)	268.3	280.3	287.3	315.9	338.0	363.5
GDP per capita (US$ current prices)	15,342.2	15,889.0	16,147.8	17,607.6	18,685.6	19,931.8

Source: Oxford Economics.

Mainland China and Hong Kong
special administrative region (SAR)

GDP growth

2014 7.3%

Steady growth in prospect

China's Third Plenum outlined key economic reforms for the rest of this decade. The markets will be given a "decisive role" in allocating resources, with the 50% limit on private ownership in state-owned enterprises likely to be lifted, and more private participation in the banking sector. There will be greater property and social security rights for rural residents, with changes to household registration, the so-called "hukou" system, and land reform.

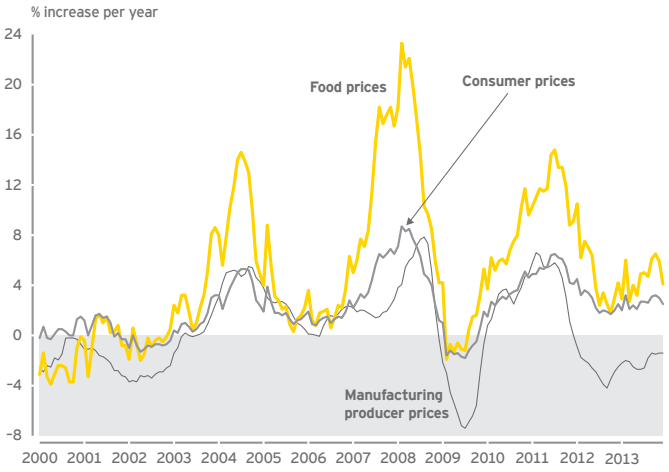
Steady growth has continued into Q4 2013, but investment remains the main driver. The key question is whether more of this investment is being generated by the private sector, which accounts for the majority of China's employment. Given the improved outlook for the domestic economy, we expect GDP growth of 7.3% in 2014. But as the economy shifts toward more consumption and less credit-fuelled investment, we expect annual growth to be 7.2% a year from 2015–17.

The financial sector has shown renewed signs of stress. The continued strong issuance of wealth management products means that there are still risks from property and shadow banking crises.

In Hong Kong, trade-related services will be constrained in the near term by a relatively weak global economy. Meanwhile, financial services will face head winds from a less expansionary US monetary policy. But domestic spending will offer support, and construction should improve in 2014. Furthermore, Chinese trade flows should pick up gradually.

Figure 24

Inflation



Source: China Bureau of Statistics; Haver Analytics.

Figure 25

Hong Kong: stock market

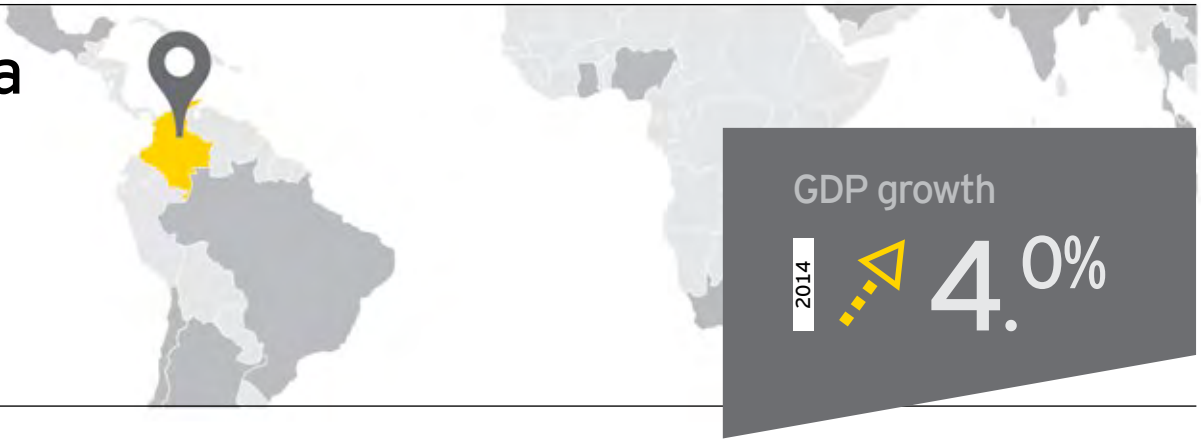
Source: Hang Seng Index Services Limited; Haver Analytics.

Mainland China

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	7.7	7.6	7.3	7.2	7.2	7.2
CPI inflation (% per year)	2.6	2.7	3.1	2.9	3.0	3.0
Current account balance (% of GDP)	2.3	2.6	3.1	3.0	2.9	2.8
External debt total (% of GDP)	9.1	9.0	8.8	8.6	8.4	8.3
Short-term interest rate (%)	4.6	5.0	4.9	4.5	4.8	5.0
Exchange per US$ (year average)	6.3	6.1	6.0	5.8	5.7	5.5
Government balance (% of GDP)	-0.8	-0.7	-1.5	-1.6	-1.5	-1.5
Population (millions)	1,372.3	1,380.8	1,389.1	1,397.0	1,404.6	1,412.1
Nominal GDP (US$b)	8,241.9	9,236.9	10,422.0	11,849.7	13,420.0	15,210.2
GDP per capita (US$ current prices)	6,006.0	6,689.6	7,502.9	8,482.5	9,554.2	10,771.5

Source: Oxford Economics.

Colombia



Growth to gather pace in 2014

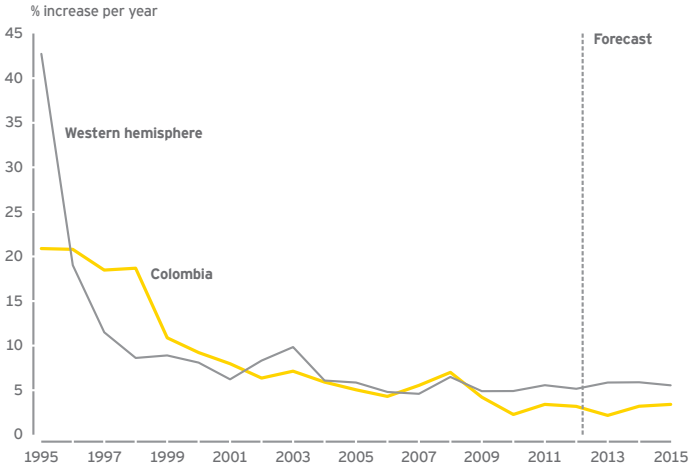
We expect Colombia's economy to have grown 3.7% in 2013, ahead of the average for the region but slightly slower than in 2012. Activity continues to be supported by expansionary fiscal and monetary policies that help solidify labor market trends and support credit growth. We forecast GDP growth to accelerate to 4.0% in 2014, driven by stronger investment activity. Domestic demand is set to remain resilient and net exports should continue to contribute to growth.

The current account deficit widened at the start of 2013, as the trade surplus declined, before stabilizing in the middle of the year. Colombia's terms-of-trade moved lower, but remain resilient overall as a result of better oil output. Export volumes slowed, but so did imports, which more than compensated. We expect the current account deficit to be 3.5% of GDP in 2013 and 2014, financed easily by FDI and positive portfolio activity.

In the longer term, we expect GDP growth of around 4% a year. Progress should be supported by a stable macroeconomic environment, a growing middle class and – possibly – a peace dividend if there are no major setbacks to current negotiations with the FARC guerrilla group. Foreign investment in mining is increasing, and this will fund more exploration and development. These activities account for two-thirds of exports. Therefore, they should help bolster the economy, especially as world trade begins to pick up later this year.

Figure 26

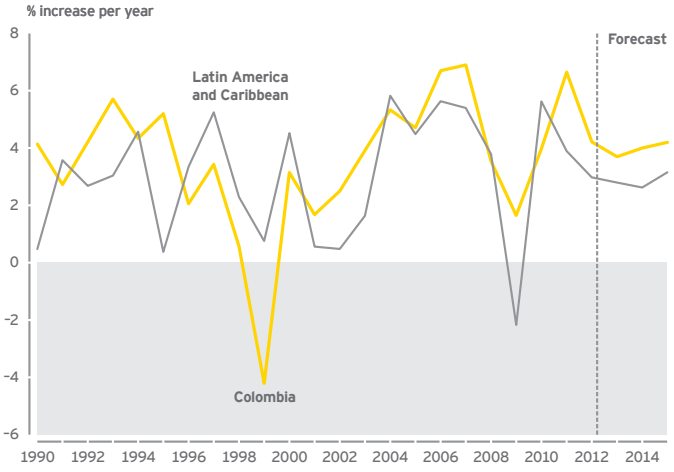
Inflation



Source: Oxford Economics; Haver Analytics.

Figure 27

Real GDP growth



Source: Oxford Economics; World Bank.

Colombia

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	4.2	3.7	4.0	4.2	4.0	4.0
CPI inflation (% per year)	3.2	2.2	3.2	3.4	3.3	3.3
Current account balance (% of GDP)	-3.3	-3.5	-3.5	-3.9	-4.2	-4.1
External debt total (% of GDP)	21.7	24.6	27.3	29.9	32.3	34.3
Short-term interest rate (%)	5.0	3.4	4.0	4.3	4.8	5.0
Exchange per US$ (year average)	1,796.9	1,919.1	2,052.3	2,164.8	2,252.4	2,317.2
Government balance (% of GDP)	-1.9	-2.8	-2.6	-2.4	-2.2	-2.0
Population (millions)	47.7	48.3	48.9	49.5	50.1	50.7
Nominal GDP (US$b)	370.5	367.6	368.9	376.8	389.1	406.3
GDP per capita (US$ current prices)	7,770.9	7,611.0	7,542.1	7,608.1	7,766.1	8,018.8

Source: Oxford Economics.

Czech Republic

Foreign exchange intervention set to boost growth

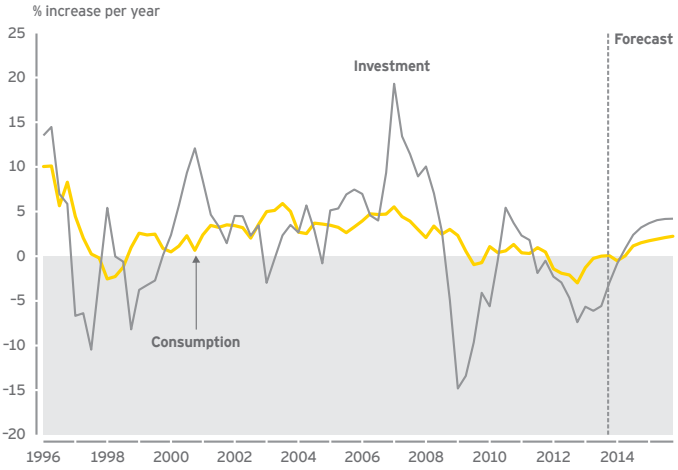
Due to an unexpected quarterly fall in Q3, we now expect GDP to have contracted by 1.4% in 2013, worse than the 1% drop previously forecast. With other economic indicators such as the PMI and industrial output pointing to expansion, the drop was caused mainly by imports rising more strongly than exports. With these other indicators remaining strong, we expect the economy to have returned to growth in Q4.

We have raised our growth forecast for 2014 from 1.9% to 2.2%, due to the positive effect of the Czech National Bank's (CNB) new policy of unsterilized foreign exchange intervention. We believe that this move, which aims to keep the exchange rate at CZK27 to the euro, will support Czech exports and result in local firms gaining market share in key foreign markets this year. Stronger exports will stimulate domestic demand as firms expand capacity and increase their demand for labor. This will help the economy to grow by around 3% from 2015 to 2017.

The weaker Czech koruna will also prevent inflation from falling too far. We expect average inflation of 1.7% in 2014, despite recently announced cuts in regulated prices. This will reduce real interest rates, encouraging firms and households to raise their investment and consumer spending. We believe that it will not be until early 2015 that the CNB starts to remove this stimulus gradually, as inflationary pressures will remain low in 2014.

Figure 28

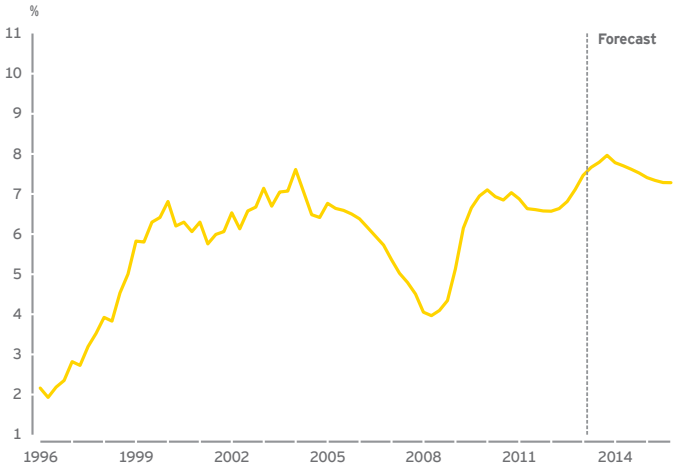
Consumption and investment



Source: Oxford Economics.

Figure 29

Unemployment



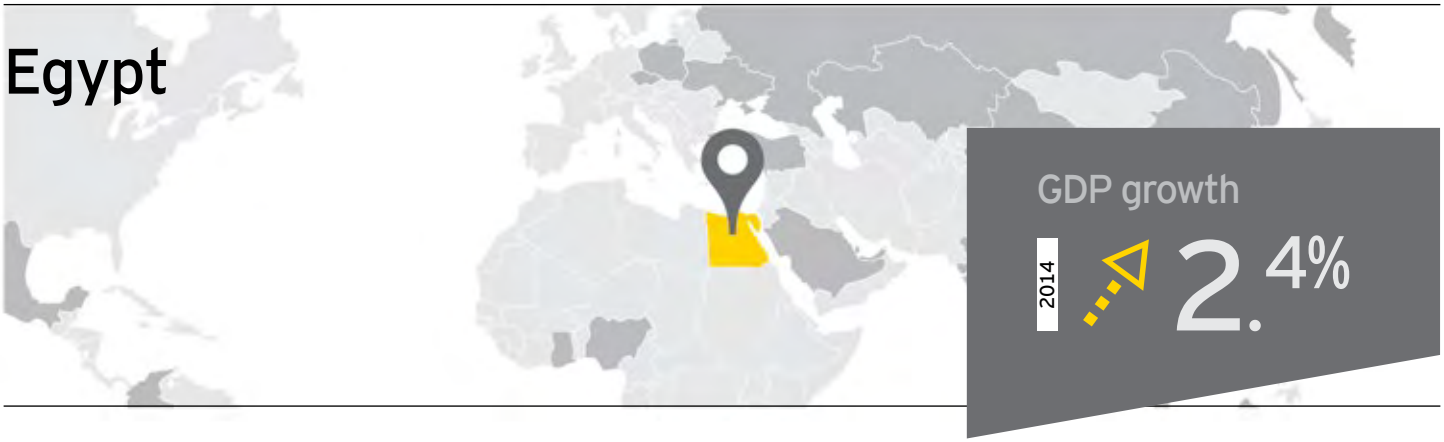
Source: Oxford Economics.

Czech Republic

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	-0.9	-1.4	2.2	2.9	3.0	2.9
CPI inflation (% per year)	3.3	1.4	1.7	1.9	1.9	1.9
Current account balance (% of GDP)	-2.4	-1.8	-1.8	-1.9	-2.0	-1.8
External debt total (% of GDP)	50.6	51.8	53.6	52.2	51.7	50.9
Short-term interest rate (%)	1.0	0.5	0.6	0.9	1.5	1.9
Exchange per US$ (year average)	19.6	19.6	20.8	21.0	21.2	21.6
Government balance (% of GDP)	-2.6	-2.9	-2.9	-2.8	-2.6	-2.3
Population (millions)	10.5	10.5	10.5	10.5	10.5	10.5
Nominal GDP (US$b)	196.5	196.8	192.1	198.6	206.0	212.8
GDP per capita (US$ current prices)	18,696.0	18,710.5	18,264.3	18,885.4	19,618.7	20,286.6

Source: Oxford Economics.

Egypt



Rise in business optimism signals modest activity boost

Despite headline and core inflation consistently staying above 10% throughout 2013, the Central Bank of Egypt surprised the markets in December by cutting key interest rates by 50bp. This followed cumulative cuts of 100bp in August and September. While the authorities remain concerned about inflation, given the depreciation of the Egyptian pound and supply bottlenecks, they clearly take comfort from the broadly flat trend in global food prices. But serious concerns remain about the strength of the domestic recovery.

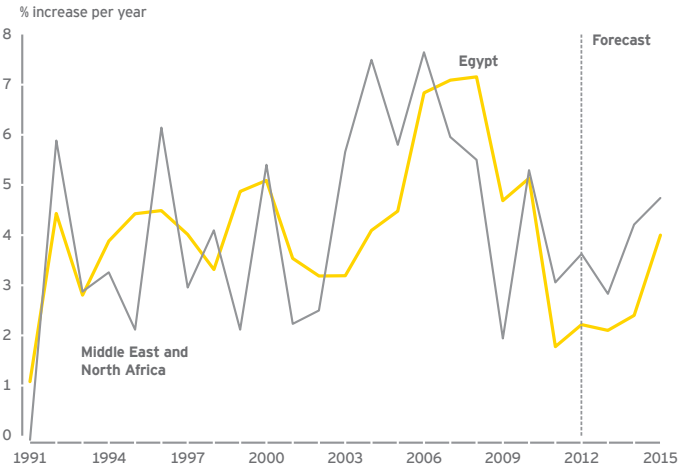
These concerns, together with the continuing uncertainty about the global economy, probably triggered the rate move.

The Government's prioritizing of growth is also seen in its fiscal policy. It has largely eschewed IMF advice on fiscal austerity and postponed any decision on an IMF loan as aid from the Gulf Cooperation Council (GCC) fills the void. Egypt has launched an economic stimulus package worth some US$4.3b, focused on investment, including transport and utility infrastructure. Over US$1b of this has already been spent. However, as a result, the budget deficit is forecast to fall only modestly from 13.7% of GDP in 2012–13 to 11.8% in 2013–14, despite the GCC aid.

Growth should rise only modestly to 2.4% in 2013–14, before accelerating to 4% in 2014–15. Nevertheless, business optimism is rising. Encouraged by policy stimulus and less political instability, November's PMI rose to 52.5, exceeding 50 points for the first time in 13 months.

Figure 30

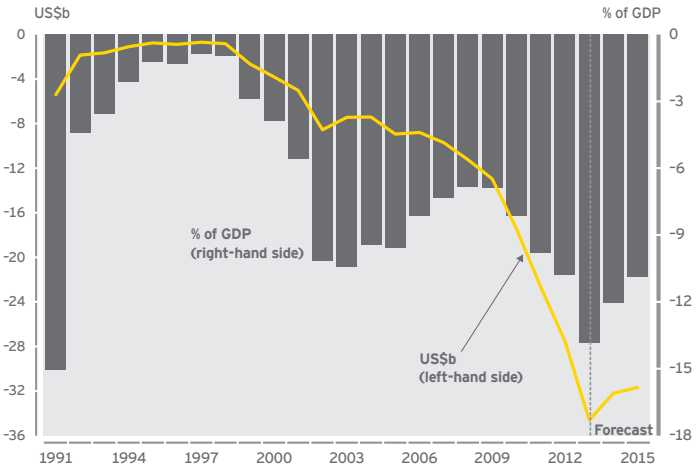
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 31

Government budget balance



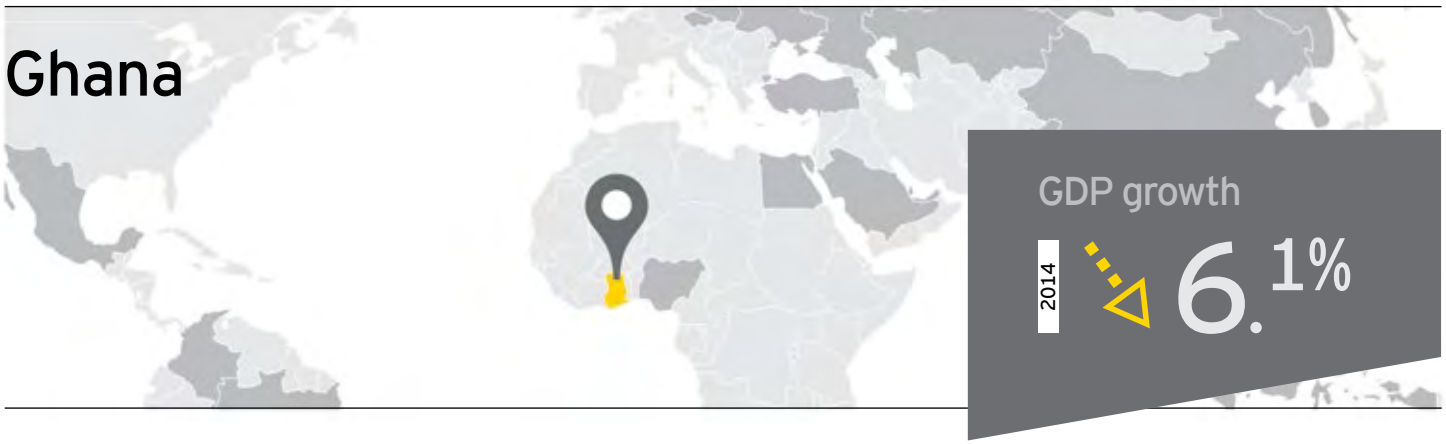
Source: Oxford Economics.

Egypt

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	2.2	2.1	2.4	4.0	5.9	5.6
CPI inflation (% per year)	7.1	9.5	10.5	8.5	6.0	6.0
Current account balance (% of GDP)	-2.7	-1.1	-2.1	-2.5	-2.4	-2.6
External debt total (% of GDP)	14.7	16.1	15.9	15.3	14.7	14.0
Short-term interest rate (%)	13.0	12.3	11.5	10.0	9.0	8.0
Exchange per US$ (year average)	6.1	6.9	7.3	7.5	7.7	7.9
Government balance (% of GDP)	-10.6	-13.7	-11.8	-10.6	-9.9	-9.4
Population (millions)	80.7	82.1	83.4	84.7	86.0	87.2
Nominal GDP (US$b)	260.2	254.8	273.5	297.8	325.6	355.2
GDP per capita (US$ current prices)	3,222.6	3,105.8	3,279.9	3,515.3	3,787.4	4,071.0

Source: Oxford Economics.

Ghana



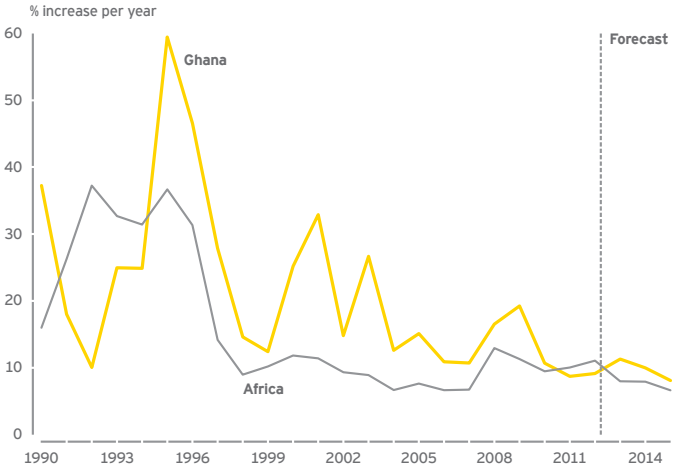
Boost from oil fades, but 2014 growth still set to top 6%

The big boost to activity from the start of oil production continues to fade. As a result, GDP growth slowed to 6.1% in Q2 2013, down from about 8% in 2012 and 15% in 2011. More moderate gains in oil output and lower world gold prices may drag on activity in 2014, but this should be offset by strong services and agricultural growth. We forecast GDP growth of just over 6% in 2014.

Inflation remains stubbornly high, up to over 13% in October and November 2013. This is due to a weaker Ghanaian cedi and the lasting impact of heavy pre-election spending in 2012. With spending still high, the budget deficit may be close to 9% of GDP in 2013. This has now prompted some cuts in subsidies. Having raised the key interest rate to 16% in May 2013, the central bank has since left rates on hold. But it remains concerned about inflationary pressures following recent fuel and transport price rises.

Strong imports, as well as rising income and services payments, lifted the current account deficit to almost US$5b in 2012 – nearly 12% of GDP. This gap will remain high in 2014, because of weaker prices for some exports, especially gold and oil. It should then shrink in 2015-16 as increases in oil output and commodity prices drive up export growth. Ghana runs deficits on its public finances and current account. Financing them represents an increasing threat to growth prospects.

Figure 32
Inflation



Source: Oxford Economics; Haver Analytics.

Figure 33
Real GDP growth

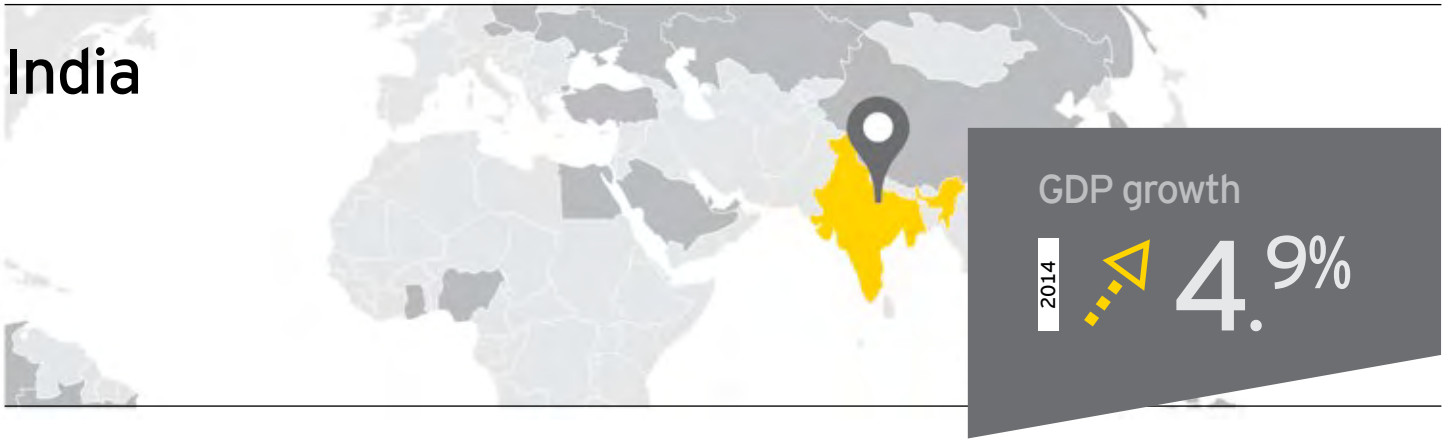
Source: Oxford Economics; World Bank.

Ghana

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	7.9	6.4	6.1	5.7	5.4	5.0
CPI inflation (% per year)	9.2	11.3	10.0	8.1	6.5	5.5
Current account balance (% of GDP)	-11.7	-12.3	-11.2	-7.7	-5.0	-3.6
External debt total (% of GDP)	34.8	41.9	47.8	49.5	49.4	48.4
Short-term interest rate (%)	-	-	-	-	-	-
Exchange per US$ (year average)	1.8	2.0	2.2	2.3	2.4	2.5
Government balance (% of GDP)	-4.7	-8.5	-7.2	-5.9	-4.8	-4.1
Population (millions)	25.6	26.1	26.7	27.3	27.9	28.5
Nominal GDP (US$b)	40.7	42.3	44.9	49.4	53.8	58.4
GDP per capita (US$ current prices)	1,592.5	1,619.2	1,680.4	1,806.7	1,926.6	2,048.1

Source: Oxford Economics.

India



Economic conditions stabilize temporarily

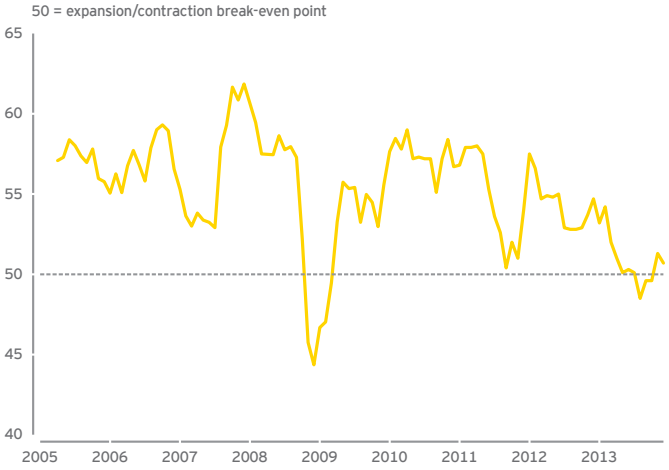
India's GDP increased by 4.8% year-on-year in Q3 2013, accelerating from growth of 4.3% in Q2. This outcome was stronger than expected, given the high degree of volatility in financial markets during the period.

Therefore, we have nudged up our growth forecast for 2013 and 2014. This is partly due to better-than-expected growth in Q3, but also because the slowdown in growth is unlikely to be as sharp as we first estimated. Financial markets have calmed down considerably in Q4 2013. Export growth is likely to remain strong, helped by the weaker currency, and a good monsoon should yield a strong agricultural output. FDI should also pick up, helped by reforms to liberalize some sectors. We now expect GDP to increase by 4.7% in 2013 and 4.9% in 2014, up from our previous forecast of 4.1% and 4.5% respectively.

However, the improved growth forecast is mainly due to temporary factors. The underlying economy is still weak. Inflation has been increasing continuously and the monetary policy environment is expected to remain tight for the next couple of years. These factors will damage domestic demand. India continues to suffer from structural deficiencies, and policy paralysis constrains reform. Without addressing these issues, India is less likely to achieve the Government's target growth rate of 8% a year over the medium to long term.

Figure 34

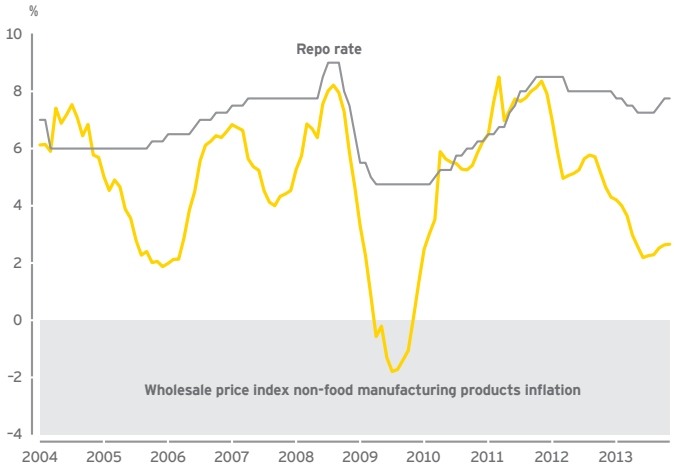
HSBC manufacturing purchasing managers' index (PMI)



Source: Markit.

Figure 35

Interest rate and wholesale price index inflation



Source: Oxford Economics.

India

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	5.1	4.7	4.9	5.1	6.0	6.6
Wholesale price index (% per year)	7.5	6.4	7.0	5.3	4.9	4.9
Current account balance (% of GDP)	-5.0	-3.8	-3.6	-3.4	-3.1	-2.6
External debt total (% of GDP)	19.4	19.8	19.1	17.3	15.5	14.1
Short-term interest rate (%)	9.5	9.3	8.4	8.0	7.8	7.7
Exchange per US$ (year average)	53.5	58.6	64.0	64.8	64.6	65.7
Government balance (% of GDP)	-5.6	-5.3	-4.1	-3.3	-2.7	-2.2
Population (millions)	1,249.0	1,265.0	1,280.7	1,296.1	1,311.2	1,326.2
Nominal GDP (US$b)	1,827.2	1,871.7	1,975.2	2,213.3	2,527.3	2,826.2
GDP per capita (US$ current prices)	1,463.0	1,479.7	1,542.3	1,707.6	1,927.4	2,131.1

Source: Oxford Economics.

Indonesia

GDP growth

2014 5.4%

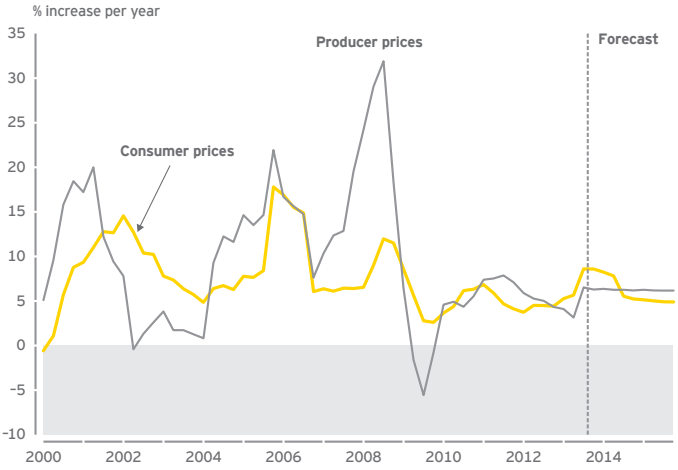
Exports improve as currency slide continues

Policy-makers face an awkward range of challenges ahead of elections in 2014. They must consider how to address slowing growth, high inflation (in excess of 8% since July, following fuel subsidy cuts), a falling currency and the current account deficit. As a result, even though annual GDP growth has been slowing for five straight quarters, the central bank raised interest rates five times in 2013.

GDP expanded by 5.6% over the year in Q3 – the slowest pace since 2009 – as financial market volatility hit investment and export demand remained weak. On the other hand, private spending expanded by a robust 5.5% over the year, despite high inflation. And lower inflation in 2014 should boost purchasing power. Real Government spending rose strongly in Q3 as some infrastructure projects were brought forward. And we expect strong Government spending to continue, particularly in light of the upcoming elections and the redirection of funds previously spent on fuel subsidies to infrastructure projects.

In 2014, we expect GDP growth to further slow to 5.4%. Export growth, however, should be very solid, supported by the weaker currency. The rupiah has been trading above IDR12,000 to the US$ since mid-December, and the central bank has accepted that this weaker level is broadly in line with fundamentals.

Figure 36
Inflation



Source: Oxford Economics.

Figure 37
Bank lending growth

Source: Bank Indonesia; Haver Analytics.

Indonesia

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	6.2	5.7	5.4	5.9	5.6	5.4
CPI inflation (% per year)	4.3	7.0	6.3	5.0	4.7	4.5
Current account balance (% of GDP)	-2.8	-3.6	-3.1	-2.8	-2.7	-2.3
External debt total (% of GDP)	27.5	29.2	29.1	25.4	22.9	21.1
Short-term interest rate (%)	4.7	5.9	7.7	7.8	7.8	7.8
Exchange per US$ (year average)	9,403.2	10,504.5	11,825.4	11,460.9	11,343.6	11,438.6
Government balance (% of GDP)	-1.8	-1.9	-1.5	-1.1	-0.7	-0.6
Population (millions)	237.7	240.0	242.3	244.5	246.6	248.6
Nominal GDP (US$b)	876.4	871.6	865.6	992.4	1,108.5	1,211.4
GDP per capita (US$ current prices)	3,687.5	3,631.5	3,572.9	4,059.5	4,495.7	4,872.7

Source: Oxford Economics.

Kazakhstan

Growth constrained by oil production setback

Inflation in December fell to a 14-month low of 4.7%, aided by lower price rises for food, fuel and education. CPI inflation is forecast at 5.9% for 2013 and 2014. There is unlikely to be any change in monetary policy following the appointment of a new central bank governor.

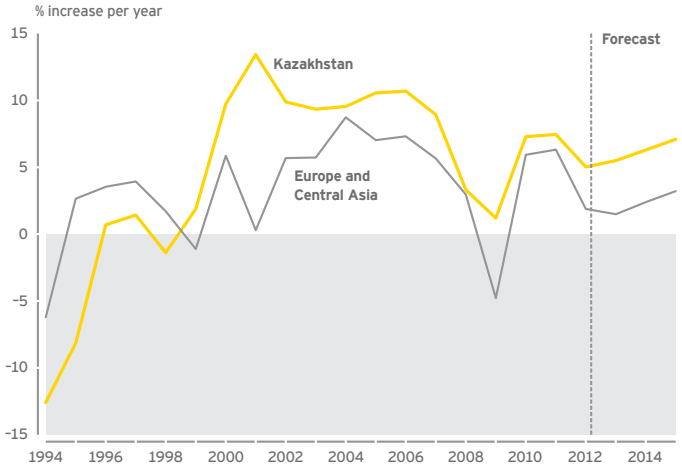
We expect GDP to have risen by 5.5% in 2013, helped by stronger industrial output. Indeed, production rose by about 4% on the year and by a little over 3% in July–October, compared with just 1.8% in H1.

Oil production at Kashagan – which has seen more than US$40b invested over more than a decade by the consortium of oil companies operating the field – had exceeded 75,000 barrels per day (b/d) by the time of the latest setbacks. Oil may not flow again from the Kashagan oilfield until early 2014 because of a number of problems, such as gas leaks.

The news will have little impact on growth in 2013, but will affect 2014. As a result, we have lowered our GDP forecast for 2014 from 6.5% to 6.3%.

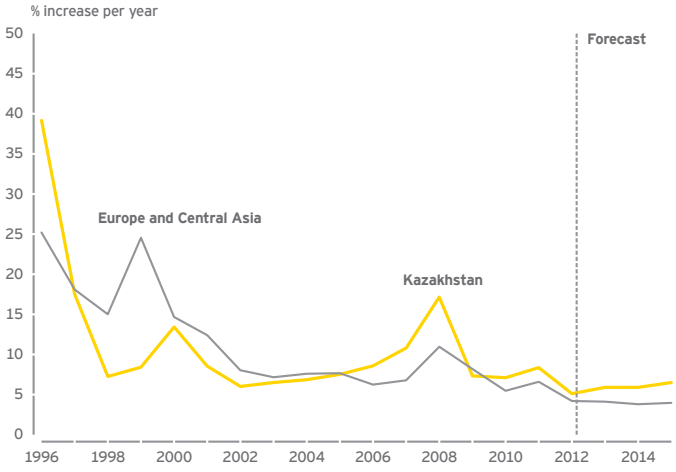
The aim is to raise production to 370,000 b/d by 2015 and ultimately to 1.5m b/d.

Figure 38
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 39
Inflation



Source: Oxford Economics; World Bank.

Kazakhstan

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	5.0	5.5	6.3	7.1	6.7	6.3
CPI inflation (% per year)	5.1	5.9	5.9	6.5	6.2	6.0
Current account balance (% of GDP)	0.3	0.2	0.7	0.8	0.9	1.2
External debt total (% of GDP)	68.3	60.5	53.1	45.7	39.7	34.8
Short-term interest rate (%)	2.4	3.5	4.7	5.7	6.5	7.0
Exchange per US$ (year average)	149.1	152.2	158.0	162.7	167.6	172.7
Government balance (% of GDP)	-3.0	-2.6	-2.3	-2.3	-2.4	-2.5
Population (millions)	16.4	16.5	16.7	16.9	17.0	17.2
Nominal GDP (US$b)	200.5	215.1	233.2	258.2	284.2	311.0
GDP per capita (US$ current prices)	12,246.9	13,000.5	13,952.6	15,293.6	16,676.3	18,074.9

Source: Oxford Economics.

Korea

GDP growth

2014 3.0%

Loose monetary policy brightens growth outlook

GDP growth was stronger than expected in Q3 2013, rising 1.1% on the quarter. This was driven by solid gains in consumption spending and construction. Therefore, we expect GDP to have grown by around 2.6% in 2013 as a whole.

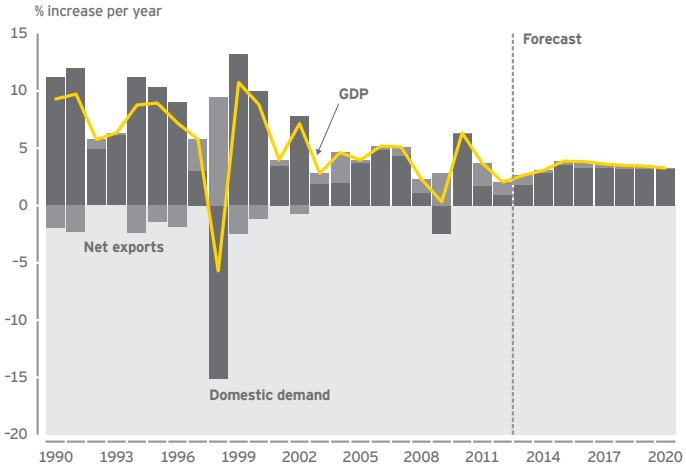
The underlying rate of expansion in economic activity is forecast to improve through 2014 and 2015. Growth should reach 3.0% this year and 3.9% in 2015 despite the presence of adverse head winds.

The external background remains relatively tepid. In particular, Chinese GDP growth of less than 8% is weighing on Korean exports, which fell by 1.3% in Q3 2013. However, recoveries in the US and the Eurozone should help compensate for this over the next couple of years. Additionally, the growth rates seen in 2013 were flattered by a substantial fiscal stimulus, the impetus from which is unlikely to last into 2014. Continued loose monetary policy will help fill the gap by stimulating an upturn in corporate capital spending.

However, there are risks that the Korean economy will not accelerate as much as anticipated in 2014–15. If the currency continues to appreciate strongly against the yen, or if SME deleveraging is more protracted than expected, then exports and corporate investment may disappoint and prevent GDP growth from rising much above 3%.

Figure 40

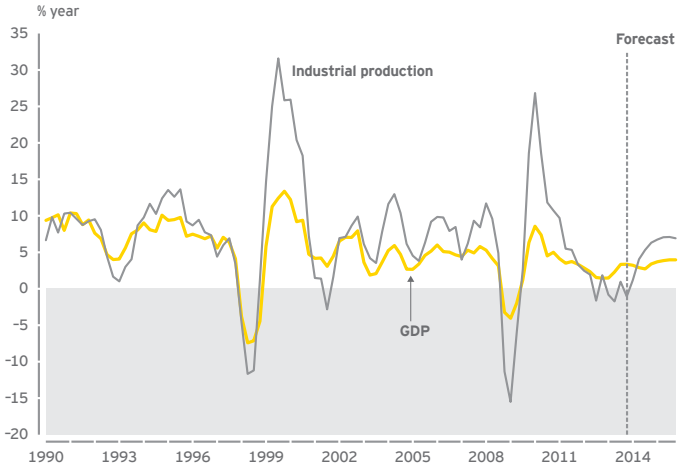
Contributions to GDP



Source: Oxford Economics.

Figure 41

GDP and industrial production



Source: Oxford Economics.

South Korea

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	2.0	2.6	3.0	3.9	3.8	3.6
CPI inflation (% per year)	2.2	1.3	2.0	2.7	2.6	2.5
Current account balance (% of GDP)	4.3	5.6	4.4	2.9	2.0	1.4
External debt total (% of GDP)	36.5	34.0	32.2	30.7	28.8	27.0
Short-term interest rate (%)	3.3	2.7	2.7	3.5	4.5	4.7
Exchange per US$ (year average)	1,126.8	1,095.0	1,077.6	1,086.7	1,079.7	1,072.4
Government balance (% of GDP)	1.4	-0.2	-1.1	-0.7	-0.4	-0.2
Population (millions)	48.8	48.9	49.1	49.2	49.3	49.3
Nominal GDP (US$b)	1,129.8	1,205.4	1,279.0	1,343.3	1,431.6	1,524.3
GDP per capita (US$ current prices)	23,144.3	24,628.3	26,070.1	27,323.1	29,066.8	30,900.7

Source: Oxford Economics.

Malaysia

GDP growth

2014 4.8%

Domestic activity remains solid as export demand picks up

GDP grew by 5% year-on-year in Q3, up from 4.4% in Q2. Growth was driven by a rebound in exports and solid private sector activity. In contrast, Government spending slowed and inventories fell, although the latter may prove temporary.

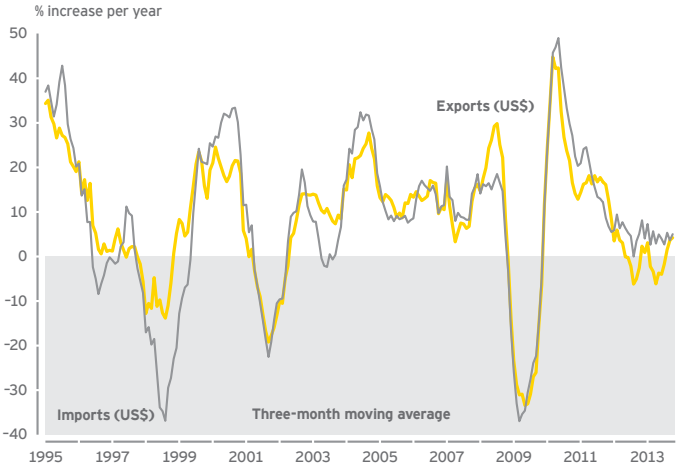
With Q3 GDP in line with our forecast, our estimates for 2013 and 2014 GDP growth are little changed from the previous edition, at 4.5% and 4.8% respectively. But the postponement of the introduction of the goods and services tax to 2015 has led us to raise our outlook for household spending this year. However, this is at the expense of lower growth in residential investment and a slower pace of Government spending.

Meanwhile, a firmer recovery in the advanced economies will boost exports. But the recovery in world trade is set to be modest compared with previous cyclical upturns.

Against a gradually improving global backdrop and a forecast rise in inflation in 2014, Bank Negara, the Malaysian central bank, is expected to begin tightening monetary policy in H2 2014. In the medium term, growth will be driven by strong investment that is underpinned by the various economic programs underway. The Government must now push forward with its reform agenda. This is crucial if the economy is to achieve growth of 4% a year over the longer term.

Figure 42

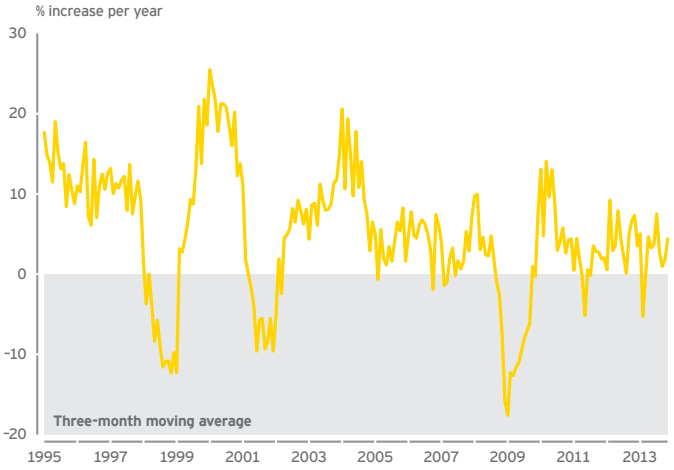
Exports and imports



Source: Department of Statistics.

Figure 43

Industrial production



Source: Department of Statistics.

Malaysia

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	5.6	4.5	4.8	4.4	4.5	4.3
CPI inflation (% per year)	1.7	2.0	2.9	3.2	3.0	3.0
Current account balance (% of GDP)	6.1	3.7	4.1	4.0	4.3	4.3
External debt total (% of GDP)	32.9	37.7	38.9	37.5	37.6	37.9
Short-term interest rate (%)	3.0	3.1	3.2	3.7	3.6	3.6
Exchange per US$ (year average)	3.1	3.2	3.2	3.1	3.1	3.1
Government balance (% of GDP)	-3.2	-4.1	-2.5	-2.6	-2.7	-2.7
Population (millions)	28.8	29.3	29.7	30.1	30.5	30.9
Nominal GDP (US$b)	304.8	310.6	328.7	370.9	400.8	429.8
GDP per capita (US$ current prices)	10,568.3	10,613.5	11,075.9	12,326.2	13,141.5	13,909.3

Source: Oxford Economics.

Mexico

Recovery gains momentum as reforms continue

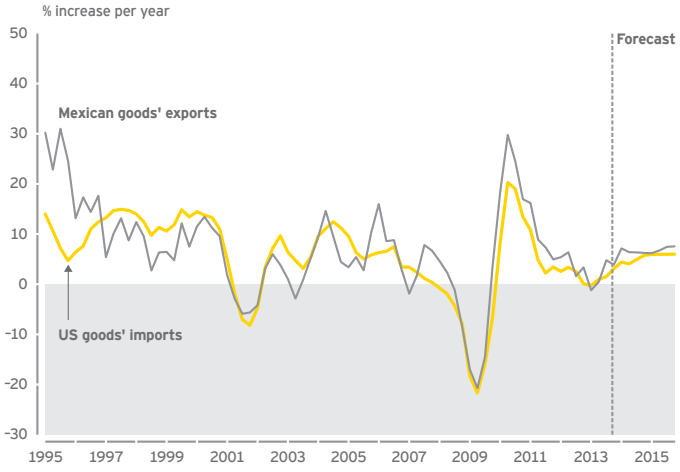
Improved external demand conditions, coupled with weather-related reconstruction efforts and a more expansive fiscal stance, have set the foundations for solid growth. Real GDP rose 0.8% quarter-on-quarter in Q3 2013, reversing the 0.7% contraction seen in Q2 2013. Nevertheless, weak domestic demand trends continue to constrain growth. Since the previous edition, we have revised up our forecast of 2013 growth from 1.2% to 1.3%, but have nudged down our forecast for 2014 growth from 3.9% to 3.8%.

However, we still expect a sustained rebound in activity in 2014. Strengthening external demand – mainly a result of the improvement in the US business cycle – is beginning to feed through to exports and manufacturing. As such, a lift will eventually trickle over into the service sector. Moreover, a more supportive fiscal stance should help cushion potential sluggishness in private consumption. Inflation stayed moderate at 4.0% in December, but further monetary easing is unlikely as expansionary fiscal policy should offer sufficient support to the economy.

The reform program continues to progress. Fiscal and energy reforms have been approved recently, and plans to reform education, the labor market and the telecoms sector are under way. These reforms could allow the economy to grow by more than 4.0% a year over the medium term.

Figure 44

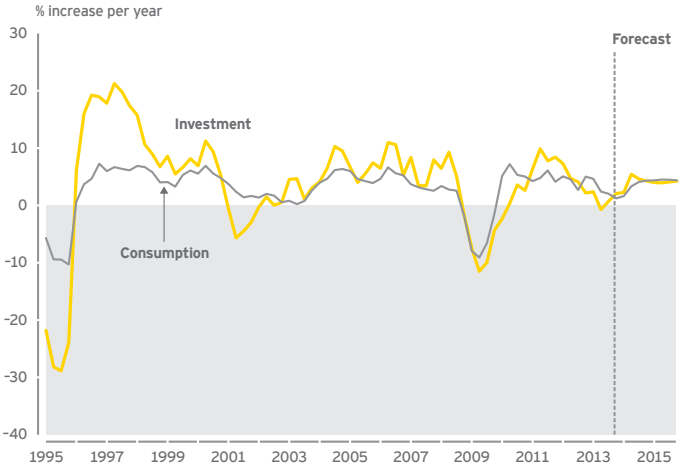
Merchandise trade: US vs. Mexican growth



Source: Oxford Economics.

Figure 45

Consumption and investment



Source: Oxford Economics.

Mexico

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	3.7	1.3	3.8	4.2	4.1	4.0
CPI inflation (% per year)	4.1	3.7	3.3	3.4	3.2	3.1
Current account balance (% of GDP)	-1.2	-1.7	-1.3	-1.7	-2.0	-1.9
External debt total (% of GDP)	27.8	24.4	24.0	23.3	23.1	22.7
Short-term interest rate (%)	4.4	3.8	3.6	4.2	5.1	5.7
Exchange per US$ (year average)	13.2	12.8	12.8	12.9	13.2	13.4
Government balance (% of GDP)	-2.2	-1.9	-2.5	-2.6	-2.7	-2.8
Population (millions)	121.0	122.5	124.0	125.4	126.8	128.2
Nominal GDP (US$b)	1,185.4	1,259.6	1,337.5	1,427.8	1,501.6	1,586.4
GDP per capita (US$ current prices)	9,794.3	10,281.0	10,788.1	11,384.9	11,842.3	12,378.4

Source: Oxford Economics.

Nigeria

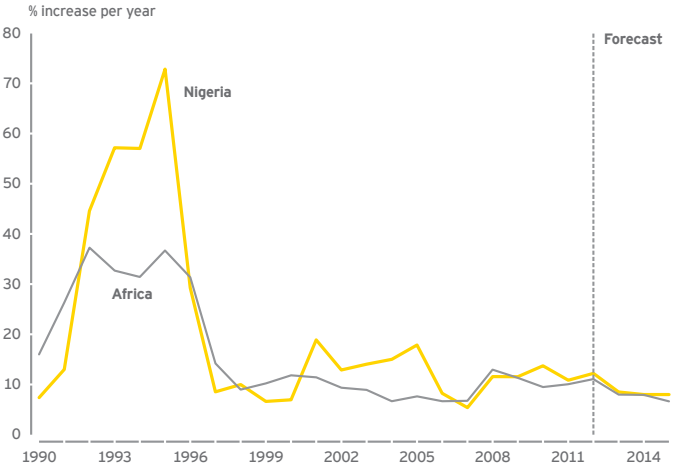
Buoyant non-oil sector to keep growth above 6% in 2014

Annual GDP growth accelerated to 6.8% in Q3 2013, up from an average of 6.2% in H1. This progress reinforces expectations that the full-year growth will be around 6.5%. The non-oil sector is still the main driver of growth. Led by agriculture, services, and wholesale and retail trade, it rose 8% on the year in Q3. But the oil sector also picked up, posting growth of 12.5%. We expect GDP growth to slow to just over 6% in 2014. We forecast further easing in 2015–17, as the Government struggles to implement reforms and subdued oil prices weigh on activity. The imminent rebasing of GDP will see the size of the economy raised by as much as 40%, although growth rates should change little.

Inflation slowed to 7.9% in November. But scope for the Central Bank of Nigeria to cut interest rates remains constrained by concerns about rising Government spending in the run-up to elections in 2015. The budget deficit is forecast to rise to about 4% of GDP in 2013.

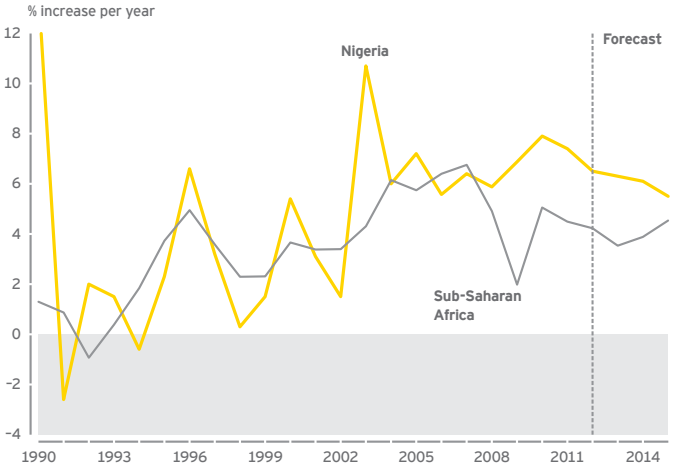
The current account surplus rose in 2012, buoyed by higher oil prices. But prices fell in 2013 and they are expected to remain low this year. As a result, the surplus should fall over the next few years. However, the overall balance of payments remains solid. Foreign reserves are close to US$45b, providing around 10 months' import cover. However, in due course, lower surpluses may put pressure on reserves and the naira, the country's currency.

Figure 46
Inflation



Source: Oxford Economics; Haver Analytics.

Figure 47
Real GDP growth



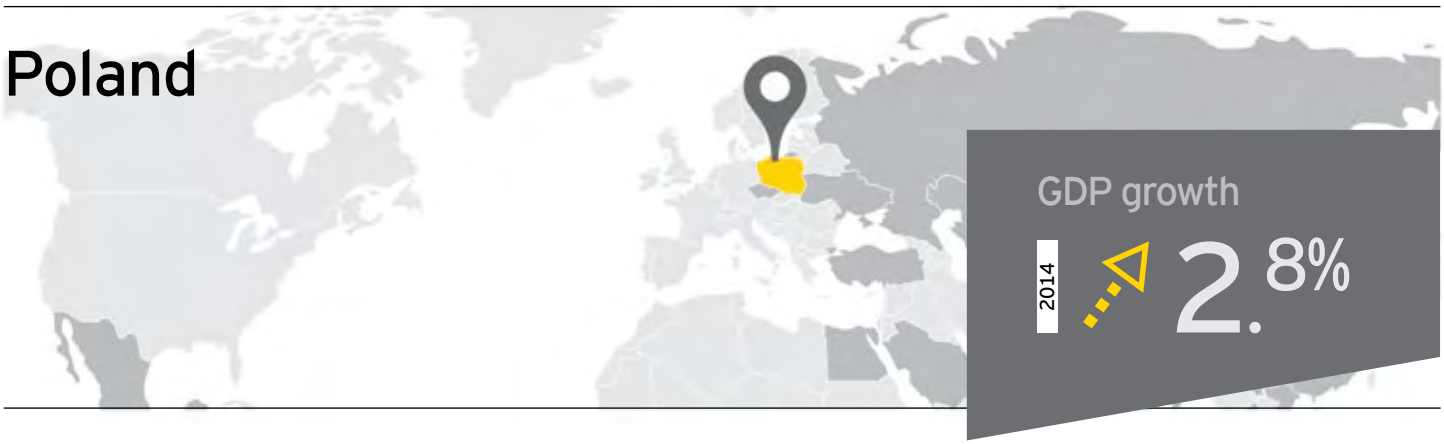
Source: Oxford Economics; World Bank.

Nigeria

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	6.5	6.5	6.1	5.5	5.3	5.1
CPI inflation (% per year)	12.2	8.5	8.0	8.0	8.0	8.0
Current account balance (% of GDP)	7.6	3.2	1.4	0.6	0.4	0.3
External debt total (% of GDP)	3.8	3.8	3.9	4.0	3.9	3.7
Short-term interest rate (%)	14.2	11.5	9.5	8.0	7.0	7.0
Exchange per US$ (year average)	156.8	159.8	163.1	166.2	170.5	175.8
Government balance (% of GDP)	-3.1	-4.1	-4.1	-3.0	-1.9	-0.9
Population (millions)	167.0	171.2	175.5	179.8	184.6	189.4
Nominal GDP (US$b)	267.6	303.4	340.8	381.1	422.3	465.0
GDP per capita (US$ current prices)	1,602.9	1,771.7	1,941.7	2,119.5	2,287.6	2,454.6

Source: Oxford Economics.

Poland



Outlook brightens as economy emerges from slowdown

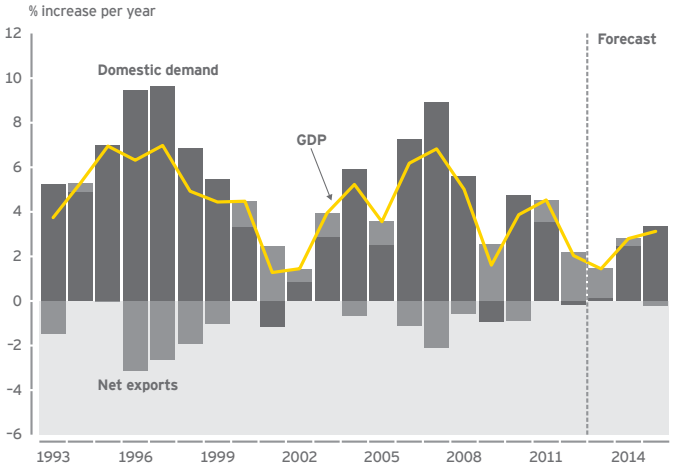
Real GDP rose by 0.6% on the quarter in Q3 2013, on a seasonally and working-day adjusted basis. The expenditure breakdown suggests that growth is beginning to become more broad-based, with the initial upturn having been highly dependent on external demand.

Since October 2013, we have upgraded our forecast for 2013 real GDP growth to 1.4% (previously 1.1%). The move reflects stronger monthly activity through H2 and revisions to the historical path of real GDP, both of which have created stronger base effects.

We have also upgraded our forecast for real GDP growth in 2014, from 2.4% to 2.8%. This is due largely to the stronger base effects. Leading indicators point to a modest acceleration in activity over the next six months. The economy should continue to benefit from loose monetary policy, as spare capacity helps to limit inflationary pressure. Elsewhere, the Government's planned overhaul of the pension system should provide a one-off boost to the fiscal position of close to 9% of GDP in 2014.

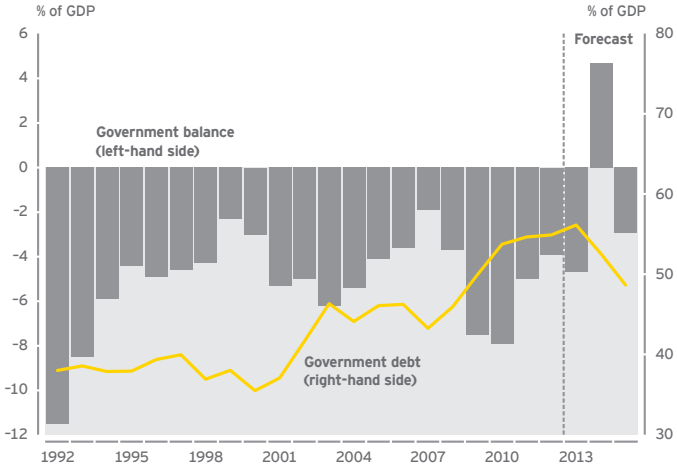
We expect growth to pick up gradually to around 3.5% in the medium term. This reflects a combination of sound fundamentals and the existence of spare capacity following the prolonged slowdown.

Figure 48
Contributions to GDP growth



Source: Oxford Economics.

Figure 49
Government budget balance and debt



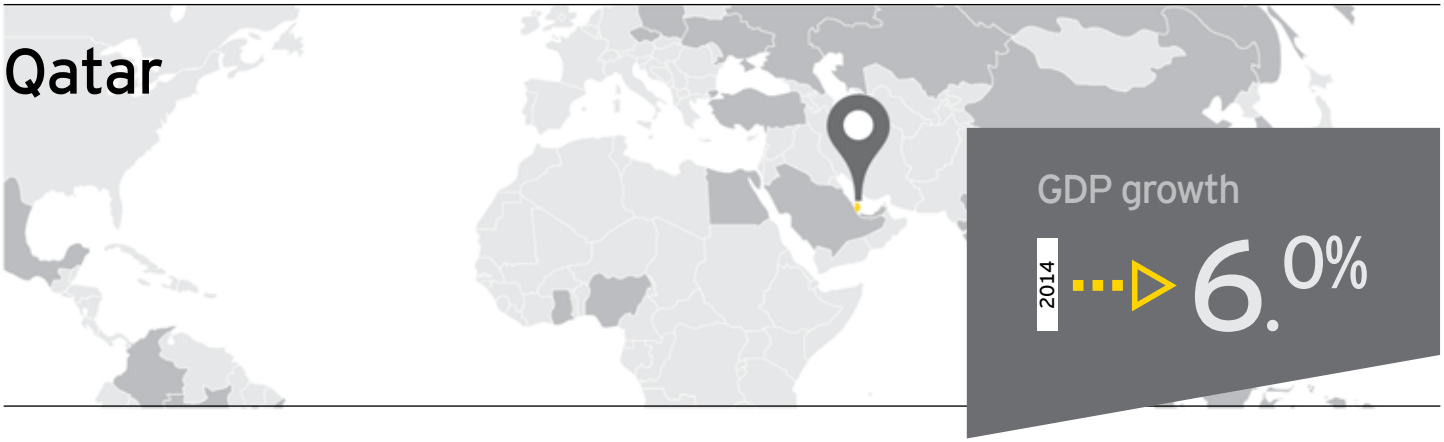
Source: Oxford Economics.

Poland

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	2.0	1.4	2.8	3.1	3.5	3.5
CPI inflation (% per year)	3.7	1.2	2.1	2.8	2.5	2.5
Current account balance (% of GDP)	-3.7	-1.5	-1.6	-2.0	-2.5	-3.1
External debt total (% of GDP)	71.6	71.2	70.8	70.9	71.1	70.9
Short-term interest rate (%)	4.7	2.8	2.7	3.7	4.2	4.2
Exchange per US$ (year average)	3.3	3.2	3.1	3.1	3.2	3.2
Government balance (% of GDP)	-3.9	-4.7	4.6	-2.9	-2.5	-2.2
Population (millions)	38.5	38.6	38.6	38.6	38.6	38.7
Nominal GDP (US$b)	489.8	516.6	548.4	578.4	611.2	643.7
GDP per capita (US$ current prices)	12,710.1	13,394.8	14,202.0	14,970.0	15,814.8	16,655.1

Source: Oxford Economics.

Qatar



Infrastructure spending to drive stronger growth in 2014 and beyond

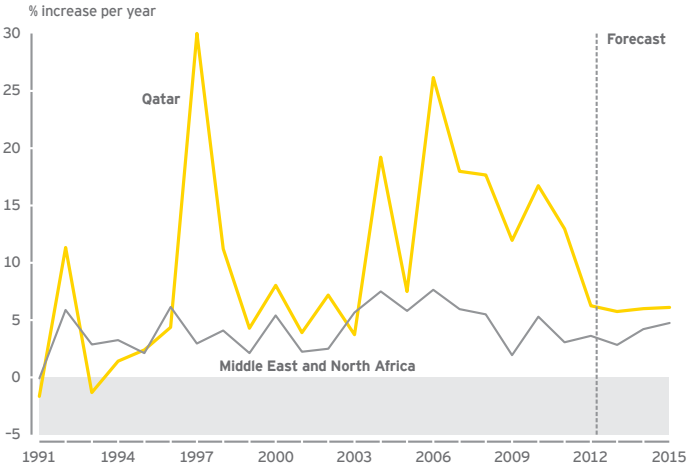
We remain optimistic that the economy will grow at 6% in 2013 and 2014. While the hydrocarbon sector will remain stagnant, the non-oil sector is growing strongly and will see growth in excess of 10% in both years. Large infrastructure projects, such as the Doha metro and Hamad International Airport, are driving growth, while a rapidly expanding population is boosting domestic consumption.

Inflation edged up to 2.8% in October on the back of higher food costs and rising rental and fuel prices. In his first major economic policy speech since taking office, the new Emir has pledged to use all available tools to contain inflation. Nonetheless, we expect strong infrastructure spending and rapid population growth to drive inflation beyond 4% in 2014-15.

The current account surplus widened in H1 2013 as a result of a 9% fall in merchandise imports and lower outflows of workers' remittances. For 2013 as a whole, we forecast a current account surplus of some US$66b, equal to over 31% of GDP. The surplus is expected to fall gradually from 2014 as import growth accelerates and oil and gas exports remain sluggish.

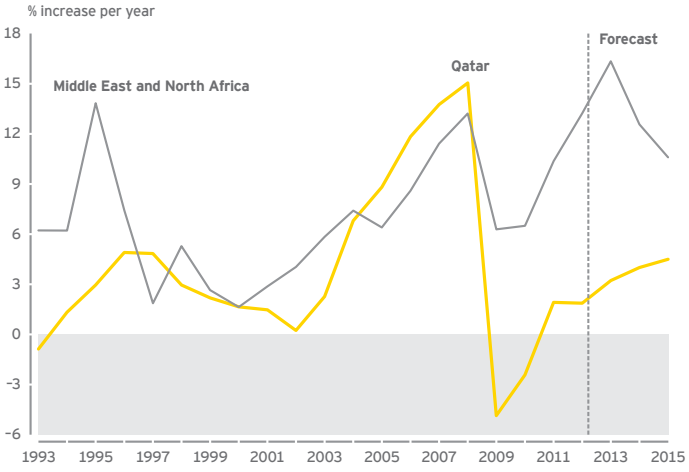
We expect the economy to grow by 6.0% in 2015-17, helped by stronger global demand and continued buoyant infrastructure spending.

Figure 50
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 51
Inflation



Source: Oxford Economics; World Bank.

Qatar

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	6.2	6.0	6.0	6.1	6.0	6.0
CPI inflation (% per year)	1.9	3.2	3.9	4.5	4.5	4.5
Current account balance (% of GDP)	32.0	31.2	27.7	25.7	23.9	22.7
External debt total (% of GDP)	44.1	40.2	37.8	34.8	32.0	29.2
Short-term interest rate (%)	-	-	-	-	-	-
Exchange per US$ (year average)	3.6	3.6	3.6	3.6	3.6	3.6
Government balance (% of GDP)	11.8	8.7	7.6	7.0	6.3	5.9
Population (millions)	2.0	2.1	2.2	2.4	2.4	2.4
Nominal GDP (US$b)	192.4	210.9	220.3	234.2	249.6	267.8
GDP per capita (US$ current prices)	96,665.2	99,942.6	98,746.2	99,633.6	104,457.6	110,301.1

Source: Oxford Economics.

Russia

GDP growth

2014 1.9%

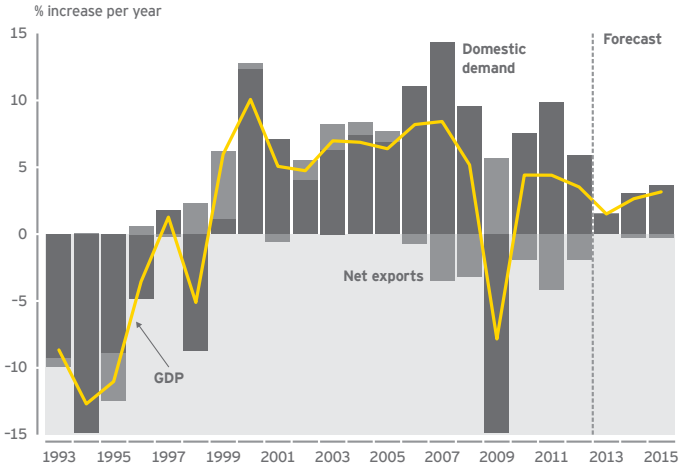
Continued stagnation raises concerns about growth model

Growth stagnated at 1.2% on the year in Q3, in a further sign that the economy's growth model is in need of rejuvenation. The outcome was broadly in line with our expectations, and our forecast for real GDP growth in 2013 is revised down slightly at 1.2%.

Inflation has been stubbornly high recently, leading us to downgrade our estimate of the existing level of spare capacity in the economy. As a result, we expect counter-inflationary pressures to be weaker, with CPI inflation forecast to average 5.6% in 2014. Given this, and the recent hawkish tone of central bank communiqués, we now expect a less concerted monetary easing cycle. As a result, we have revised down our forecast for real GDP growth to 1.9% in 2014, from 2.8% in the previous edition.

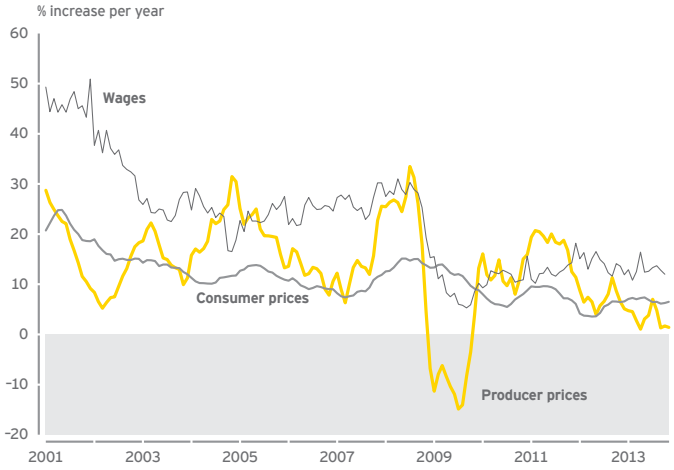
In the medium term, the economy's poor demographic profile and slow pace of reform will constrain real GDP growth to just over 3%. We think that the risks to our forecast are now broadly balanced, with a deep-rooted reform program capable of pushing trend growth beyond 4%.

Figure 52
Contributions to GDP



Source: Oxford Economics.

Figure 53
Inflation



Source: Federal State Statistics Service; Haver Analytics.

Russia

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	3.4	1.2	1.9	2.9	3.2	3.3
CPI inflation (% per year)	5.1	6.8	5.6	5.3	5.1	4.8
Current account balance (% of GDP)	3.8	1.7	0.9	0.0	-0.4	-0.6
External debt total (% of GDP)	29.4	33.5	35.6	36.3	36.5	36.6
Short-term interest rate (%)	7.2	7.5	6.9	6.7	6.2	6.2
Exchange per US$ (year average)	31.1	31.8	33.0	33.2	33.3	33.6
Government balance (% of GDP)	0.8	-0.7	0.0	-0.6	-1.2	-1.3
Population (millions)	143.1	142.8	142.4	142.1	141.7	141.3
Nominal GDP (US$b)	2,012.2	2,127.6	2,199.0	2,363.2	2,546.9	2,734.5
GDP per capita (US$ current prices)	14,063.1	14,903.2	15,440.8	16,636.4	17,975.8	19,352.5

Source: Oxford Economics.

Saudi Arabia

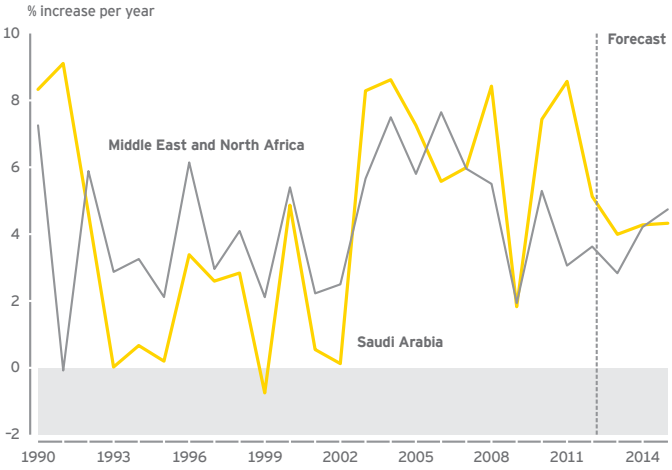
Non-oil growth slowing but still strong

Non-oil growth in Saudi Arabia is expected to average 4.7% over the years 2014–17. Although robust, this nevertheless reflects a slowing in the pace of expansion in the non-oil sector, which averaged 7.5% in the years 2010–12.

Several factors account for this slowdown. First, in the short term, growth is likely to be constrained by the recent crackdown on illegal expatriate labor. Second, and more fundamentally, the next few years are unlikely to see repeats of the double-digit increases in state spending. The North American shale oil boom and the recovery of production in Libya and Iraq raise the prospect of stagnant or falling oil revenues for Saudi Arabia. In this context, we expect lower state-sponsored project activity in the medium term compared with the recent past.

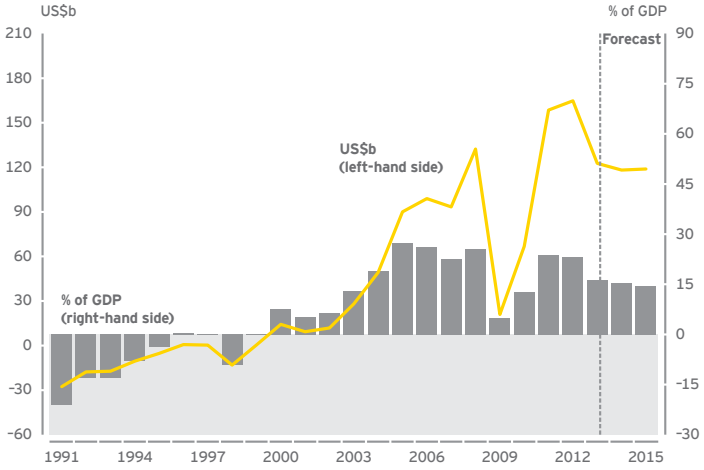
Nevertheless, we expect the non-oil private sector to perform well in the face of less expansionary fiscal policy. Improved infrastructure and education – a result of recent spending – should help drive growth. Furthermore, fears of a significant uptick in inflation have receded, and modest rises in commodity prices are expected over the next couple of years. Finally, confidence remains high, with the stock market close to a five-year high in mid-January 2014.

Figure 54
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 55
Current account balance



Source: Oxford Economics.

Saudi Arabia

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	5.1	4.0	4.3	4.3	4.0	3.9
CPI inflation (% per year)	2.9	3.6	3.7	3.8	3.8	3.5
Current account balance (% of GDP)	23.2	16.4	15.4	14.4	13.4	12.2
External debt total (% of GDP)	11.7	11.1	10.6	9.8	9.0	8.2
Short-term interest rate (%)	0.9	1.0	1.0	1.0	1.5	2.0
Exchange per US$ (year average)	3.8	3.8	3.8	3.8	3.8	3.8
Government balance (% of GDP)	14.0	8.3	5.5	2.8	1.1	1.2
Population (millions)	28.3	28.8	29.4	29.9	30.4	30.9
Nominal GDP (US$b)	711.0	748.8	773.9	823.9	879.1	938.4
GDP per capita (US$ current prices)	25,113.0	25,962.2	26,351.1	27,558.4	28,908.6	30,353.4

Source: Oxford Economics.

South Africa

Economy to grow 2.8% in 2014, supported by a brighter global outlook

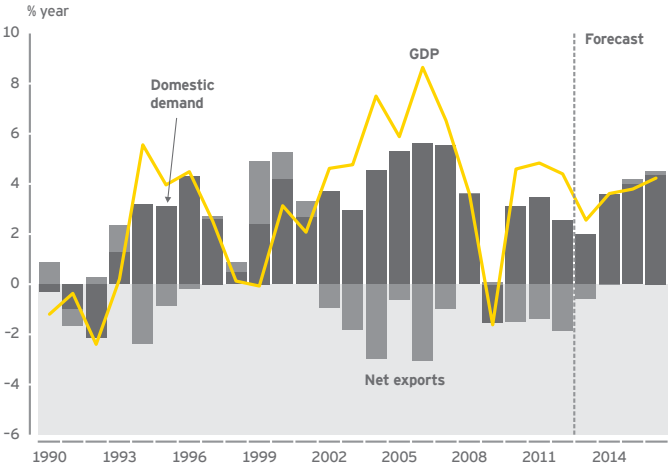
Although the economy has experienced a period of sluggishness, inflation remains stubbornly high as a result of a depreciating rand and sharp wage increases. We expect inflation to remain high over the next few years, hitting household incomes and limiting consumer spending, which we expect to grow by about 2.4% this year.

The investment environment is currently challenging, with fractious labor relations, sharp wage increases and currency volatility deterring investors. Given these factors, we expect investment growth to be modest – at 3.3% this year.

We forecast that the economy will pick up speed to around 2.8% growth in 2014, supported by a stronger global economy and modest growth in domestic spending. However, growth should be at a slightly more moderate pace than we expected in the previous edition.

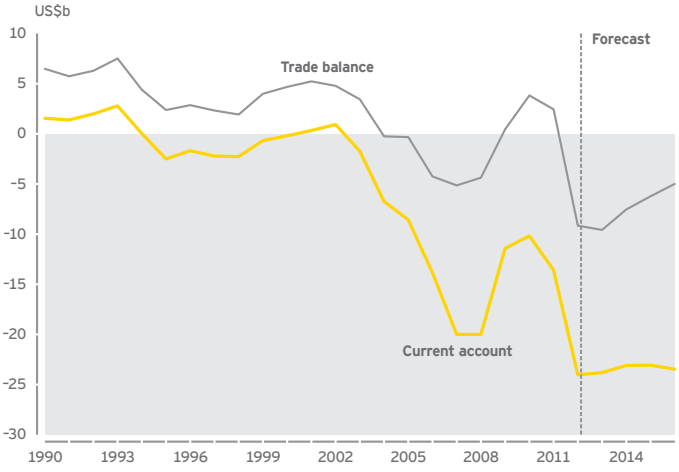
Looking further ahead, growth is set to gather pace. But any recovery is likely to be relatively modest and susceptible to downside risks, given some of the structural challenges facing the country. Risks stem from the country's bloated current account deficit. Concerns over the sustainability of this deficit, particularly in the context of the Federal Reserve's anticipated tapering of its asset purchases, are resulting in periodic bouts of severe currency weakness. This further raises inflation and undermines investment.

Figure 56
Contributions to GDP



Source: Oxford Economics.

Figure 57
Current balance



Source: Oxford Economics.

South Africa

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	2.5	1.8	2.8	3.5	3.8	4.0
CPI inflation (% per year)	5.7	5.7	5.4	5.4	5.3	5.0
Current account balance (% of GDP)	-5.2	-6.2	-6.7	-6.2	-5.6	-5.4
External debt total (% of GDP)	33.8	40.7	46.1	46.0	44.7	44.0
Short-term interest rate (%)	5.4	5.1	5.3	6.3	7.2	7.6
Exchange per US$ (year average)	8.2	9.6	10.7	10.4	10.2	10.2
Government balance (% of GDP)	-4.8	-5.3	-4.5	-4.2	-3.4	-2.5
Population (millions)	52.4	52.8	53.2	53.5	53.9	54.2
Nominal GDP (US$b)	383.0	352.4	345.6	384.0	427.6	463.8
GDP per capita (US$ current prices)	7,306.3	6,673.0	6,498.8	7,171.9	7,934.9	8,554.1

Source: Oxford Economics.

Thailand

GDP growth

2014 3.4%

Recovery expected in 2014 despite political uncertainty

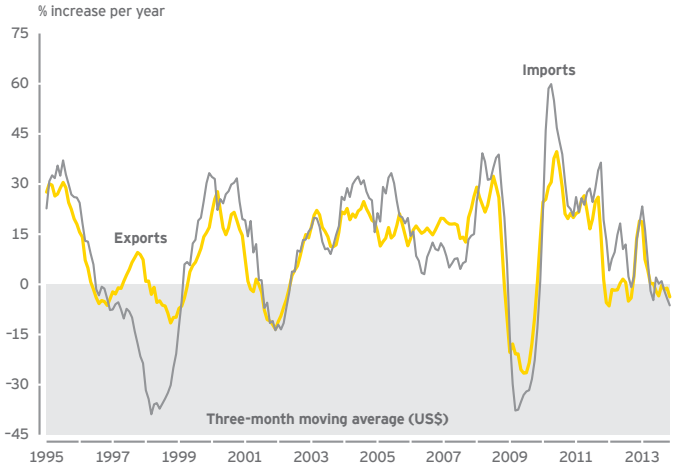
Quarterly growth picked up over the course of 2013 to reach a seasonally adjusted 1.3% in Q3, 2.6% higher than a year ago. This headline rate, however, masks a notable divergence between weak domestic spending and stronger tourism. While services exports have risen more than 25% on the year since H2 2012, private spending has fallen for the past three quarters.

Political tensions have risen sharply since November 2013, increasing the pressures facing the already weak domestic economy. Political demonstrations in mid-November and the resignation of all opposition Members of Parliament prompted the Government to dissolve parliament and call an election for February 2014. Given that the political situation is still uncertain, risks remain elevated. Fixed investment is already very weak, reflecting poor business confidence and, possibly, the uncertain political landscape. It would be weakened further by increased or prolonged tension.

We expect GDP to expand by 3.4% in 2014. This is down from the 4.4% predicted in the previous edition, and reflects the uncertain political situation. Domestic spending is expected to pick up, supported by accommodative monetary policy and solidly expanding bank lending. The labor market is also fairly strong and wages remain robust, helped by a higher minimum wage.

Figure 58

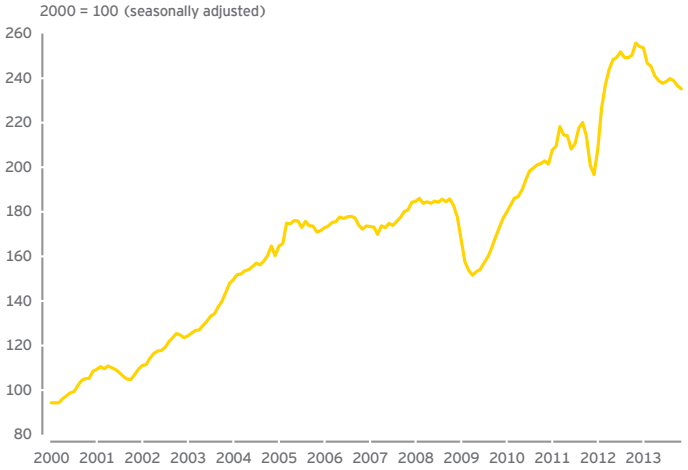
Exports and imports



Source: Customs Department; Haver Analytics.

Figure 59

Private investment indicator



Source: Bank of Thailand; Haver Analytics.

Thailand

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	6.5	2.6	3.4	5.6	5.2	4.8
CPI inflation (% per year)	3.0	2.2	2.5	2.5	2.5	2.7
Current account balance (% of GDP)	-0.4	-2.0	-1.0	0.6	1.3	0.9
External debt total (% of GDP)	33.1	36.6	38.9	38.2	38.5	38.8
Short-term interest rate (%)	3.1	2.6	2.6	3.7	4.7	5.6
Exchange per US$ (year average)	31.1	30.7	32.7	33.5	34.4	35.2
Government balance (% of GDP)	-3.6	-2.5	-3.2	-3.0	-3.0	-3.0
Population (millions)	68.9	69.3	69.6	70.0	70.3	70.6
Nominal GDP (US$b)	366.1	387.1	385.1	406.9	426.6	449.2
GDP per capita (US$ current prices)	5,309.3	5,585.3	5,530.1	5,814.3	6,068.6	6,361.3

Source: Oxford Economics.

Turkey

Growth set to slow in 2014, but then leap forward

The economy continues to grow despite the deterioration in financial conditions since mid-2013. Seasonally adjusted GDP grew by 0.9% on the quarter in Q3. In addition, the latest business and consumer surveys remain fairly robust, while car output was up 24% year-on-year in November.

But despite this, the need for large amounts of external financing – to cover the current account deficit at a time when foreign investors are less willing to take risks – has meant that the Turkish lira has continued to fall. This has pushed up import prices and prompted the central bank to raise its main policy rate to 10%. Against a background of higher inflation and more costly credit, households and firms will be more cautious in the short term. Overall, we expect 3.3% GDP growth in 2014 after a 4.2% expansion in 2013.

Provided the impact of US tapering is not too great, Turkish growth should benefit from the expected global recovery, particularly with the exchange rate now at a more competitive level. Given this, and the still high level of domestic confidence in the economy's long-term prospects, GDP growth is forecast to rise by around 5% in 2015 and 2016, while inflation will moderate. But, equally, the current account deficit will remain a persistent concern, at more than 7% of GDP throughout the forecast period.

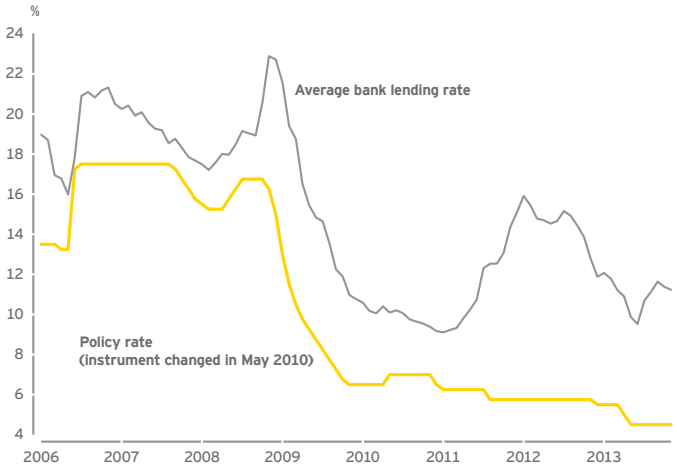
Figure 60

Monthly trade balance

Source: Turkish Statistical Institute; Haver Analytics.

Figure 61

Interest rates



Source: Oxford Economics; Central Bank of Turkey; Haver Analytics.

Turkey

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	2.2	4.2	3.3	4.9	5.0	4.8
CPI inflation (% per year)	8.9	7.5	6.6	5.4	4.7	4.3
Current account balance (% of GDP)	-6.2	-7.6	-8.0	-7.5	-7.2	-7.1
External debt total (% of GDP)	41.3	42.8	46.9	43.2	41.4	39.6
Short-term interest rate (%)	8.7	6.8	8.3	9.0	9.5	9.5
Exchange per US$ (year average)	1.8	1.9	2.2	2.1	2.1	2.2
Government balance (% of GDP)	-2.1	-1.6	-2.1	-1.6	-1.3	-1.3
Population (millions)	74.1	75.0	75.9	76.8	77.6	78.3
Nominal GDP (US$b)	789.9	820.4	794.4	901.9	976.7	1,053.2
GDP per capita (US$ current prices)	10,658.8	10,932.8	10,460.1	11,745.1	12,591.3	13,449.6

Source: Oxford Economics.

Ukraine

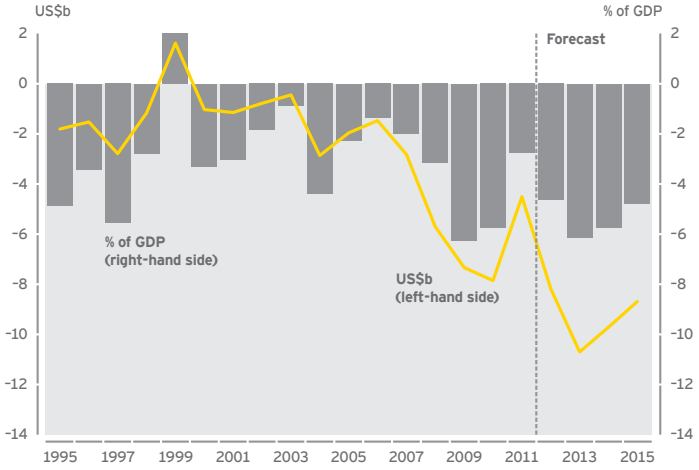
Growth set to return despite geopolitical uncertainty

A return to growth is forecast in 2014, led by a recovery in exports to European countries. But risks have moved to the downside as tensions rose in November after the Government decided at the Eastern Partnership summit to postpone finalizing an EU association agreement. And in recent weeks tensions have escalated. These tensions reflect fears about short-term disruption to trade with Russia, despite the promise of longer-term gains from EU links. The agreement will be reviewed at a summit scheduled to take place in the first half of 2014. We now forecast GDP growth of 1.5% in 2014 and then a pickup to 3.0%–3.7% in 2015–16. Continuing unrest and political uncertainty ahead of the presidential elections in early 2015 may dampen short-term prospects.

Inflation is set to jump to 5% in 2014 as budget constraints force the withdrawal of subsidies, especially on energy. Rising prices, low reserves, a current account deficit of 8% of GDP and a fiscal deficit of more than 6% are all major concerns.

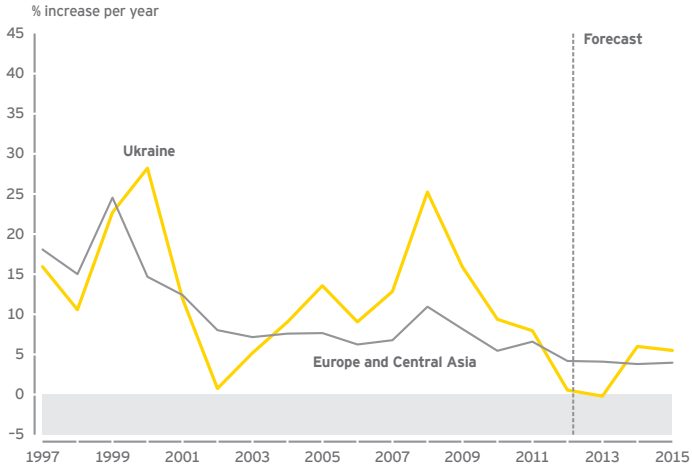
In December, Ukraine secured US$15b in loans from Russia and a cut of around a third in the price it pays for natural gas from Russia. Short-term risks will recede even more if the Government can secure assistance on external deficit financing from the IMF or bilateral lenders. But an IMF deal would still require budget cuts and state enterprise reform, curbing growth and raising inflation in 2014–15.

Figure 62
Government budget balance



Source: Oxford Economics.

Figure 63
Inflation



Source: Oxford Economics; World Bank.

Ukraine

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	0.2	-1.0	1.5	3.0	3.7	4.0
CPI inflation (% per year)	0.6	-0.3	5.0	5.0	5.0	5.0
Current account balance (% of GDP)	-8.1	-9.0	-8.5	-7.1	-6.2	-5.8
External debt total (% of GDP)	76.6	81.3	86.5	89.1	89.6	87.9
Short-term interest rate (%)	7.5	7.0	6.9	6.8	6.7	6.7
Exchange per US$ (year average)	8.0	8.0	8.4	8.7	9.0	9.1
Government balance (% of GDP)	-4.6	-6.1	-5.8	-5.4	-4.3	-3.0
Population (millions)	45.5	45.2	44.9	44.6	44.3	44.1
Nominal GDP (US$b)	176.3	174.1	177.6	184.3	194.0	208.8
GDP per capita (US$ current prices)	3,875.9	3,851.0	3,952.3	4,128.2	4,374.2	4,740.6

Source: Oxford Economics.

United Arab Emirates

Dubai's World Expo win brings growth boost and risks

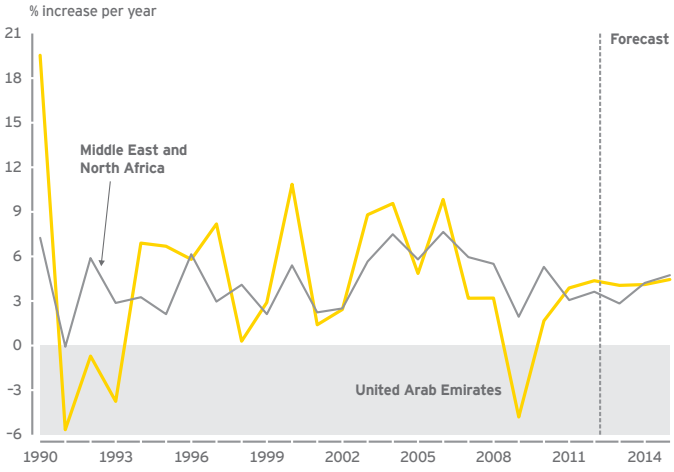
In late November, Dubai was chosen to host the World Expo trade convention in 2020.

Dubai's Expo win does raise some risks to the UAE's economic outlook. First, there is the potential of high confidence contributing to asset and credit price bubbles. This is particularly the case for real estate, which is already seeing resurgence. A fresh construction boom could throw off the balance of supply and demand, risking another drop in prices further down the line.

Second, increased domestic activity is likely to drive up prices, though current inflationary pressures in the UAE are very mild compared with regional peers. Third, spending on preparation for the Expo is likely to add to the debt of the Government of Dubai and its related entities, which are already heavily indebted.

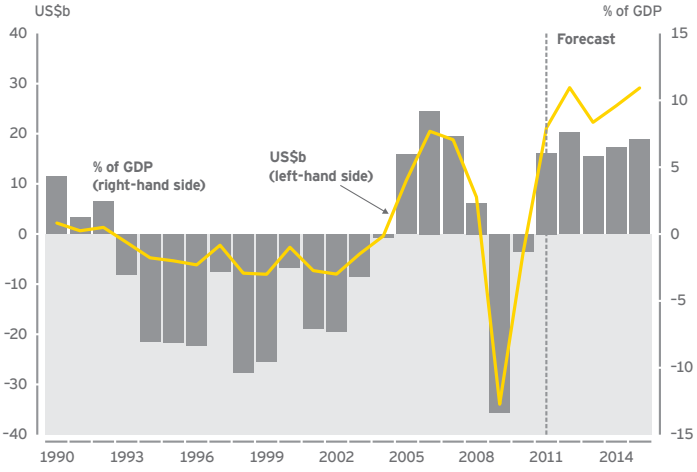
Nonetheless, this development has prompted us to upgrade our growth forecast for the UAE as a whole in the medium term. Winning the hosting rights is likely to stimulate investment expenditure in the Emirate, starting in 2015. In particular, construction, tourism and hospitality are likely to be boosted in the run-up to the Expo. Although the benefits will be concentrated in Dubai, we expect spillovers to the other emirates, and now expect total non-oil growth to average 5.5% a year across 2014-17.

Figure 64
Real GDP growth



Source: Oxford Economics.

Figure 65
Government budget balance



Source: Oxford Economics.

United Arab Emirates

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	4.4	4.1	4.1	4.4	4.3	4.2
CPI inflation (% per year)	0.7	1.1	2.4	3.1	3.3	3.3
Current account balance (% of GDP)	17.3	12.2	8.3	6.5	5.3	4.8
External debt total (% of GDP)	28.7	26.1	22.9	20.6	18.2	15.8
Short-term interest rate (%)	1.4	1.4	1.4	1.9	2.3	3.5
Exchange per US$ (year average)	3.7	3.7	3.7	3.7	3.7	3.7
Government balance (% of GDP)	7.6	5.8	6.5	7.1	7.0	6.7
Population (millions)	8.9	9.1	9.4	9.6	9.8	10.0
Nominal GDP (US$b)	383.8	383.7	393.6	412.6	440.7	474.8
GDP per capita (US$ current prices)	43,142.9	42,058.4	42,098.4	43,086.3	45,048.7	47,544.5

Source: Oxford Economics.

Vietnam

GDP growth

2014 5.4%

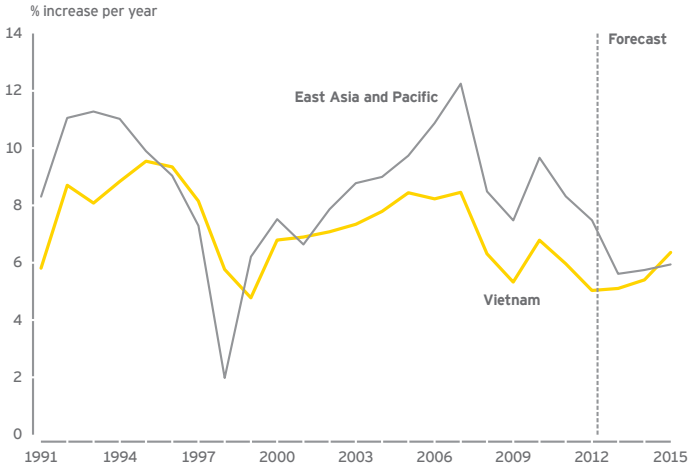
Cautious recovery supported by FDI, with 7% growth expected by 2016

With growth held down to about 5% in 2012 and 2013, policy makers will target faster expansion from 2014. They are gradually reducing the fiscal deficit and using lower inflation to bring down borrowing costs. The growth rate is set to pick up to the 7% target by 2016. But the upturn will be slow this year, with rising imports offsetting the impact of stronger export growth, and public sector inefficiency blunting the investment recovery.

A strong rebound in FDI commitments will underpin the financing of the external deficit that is expected to reappear from 2015. This will calm concerns about the stability of the Vietnamese dong (VND) that have resulted from low reserves. FDI will promote a shift away from textiles and agriculture, the decline of which lie behind the widening trade gap in Q4 2013.

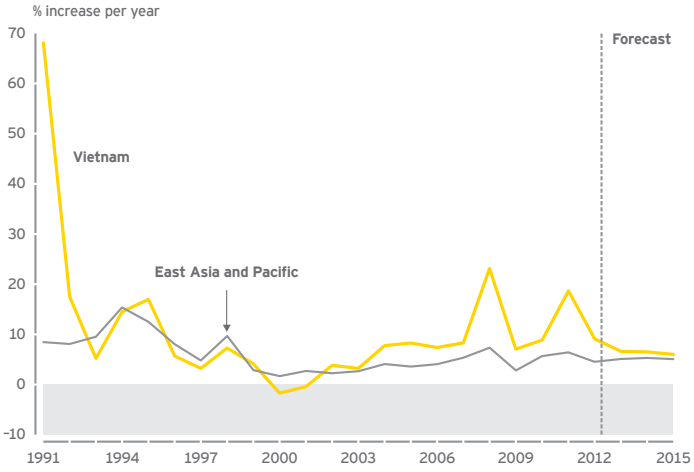
With capital inflows stabilizing the VND, inflation will continue to subside, ensuring a return to real wage growth in 2014–17. This will strengthen domestic demand and ease social tensions. However, the investment recovery will be slowed this year because interest rates will fall only gradually, reflecting lingering inflation fears and banks' caution as they continue to build up bad-debt provisions.

Figure 66
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 67
Inflation



Source: Oxford Economics; World Bank.

Vietnam

	2012	2013	2014	2015	2016	2017
Real GDP growth (% per year)	5.0	5.1	5.4	6.4	7.0	6.8
CPI inflation (% per year)	9.1	6.6	6.5	6.0	5.5	5.0
Current account balance (% of GDP)	6.5	4.1	1.6	-0.6	-2.0	-2.3
External debt total (% of GDP)	36.3	29.4	25.5	23.5	23.0	22.8
Short-term interest rate (%)	9.0	8.3	7.0	6.0	6.0	6.0
Exchange per US$ (year average)	20,828.0	21,016.0	21,508.2	21,997.3	22,489.3	22,998.8
Government balance (% of GDP)	-4.7	-4.6	-3.9	-3.6	-3.3	-3.1
Population (millions)	89.7	90.6	91.5	92.4	93.2	94.0
Nominal GDP (US$b)	139.5	154.8	169.8	187.2	206.6	226.7
GDP per capita (US$ current prices)	1,554.9	1,709.0	1,855.6	2,025.2	2,216.4	2,411.0

Source: Oxford Economics.

Cross-country tables

Cross-country tables

Real GDP growth	2012	2013	2014	2015	2016	2017
Americas	**2.6**	**2.4**	**2.8**	**3.6**	**3.7**	**3.8**
Argentina	1.9	4.7	1.2	3.3	3.3	3.1
Brazil	1.0	2.2	1.7	2.7	3.2	3.4
Chile	5.6	4.2	4.3	4.8	4.7	4.8
Colombia	4.2	3.7	4.0	4.2	4.0	4.0
Mexico	3.7	1.3	3.8	4.2	4.1	4.0
EMEIA	**3.7**	**3.2**	**3.7**	**4.3**	**4.7**	**4.8**
Czech Republic	-0.9	-1.4	2.2	2.9	3.0	2.9
Egypt	2.2	2.1	2.4	4.0	5.9	5.6
Ghana	7.9	6.4	6.1	5.7	5.4	5.0
India	5.1	4.7	4.9	5.1	6.0	6.6
Kazakhstan	5.0	5.5	6.3	7.1	6.7	6.3
Nigeria	6.5	6.5	6.1	5.5	5.3	5.1
Poland	2.0	1.4	2.8	3.1	3.5	3.5
Qatar	6.2	6.0	6.0	6.1	6.0	6.0
Russia	3.4	1.2	1.9	2.9	3.2	3.3
Saudi Arabia	5.1	4.0	4.3	4.3	4.0	3.9
South Africa	2.5	1.8	2.8	3.5	3.8	4.0
Turkey	2.2	4.2	3.3	4.9	5.0	4.8
Ukraine	0.2	-1.0	1.5	3.0	3.7	4.0
United Arab Emirates	4.4	4.1	4.1	4.4	4.3	4.2
Asia	**6.3**	**6.2**	**6.2**	**6.3**	**6.3**	**6.3**
China and Hong Kong	7.3	7.4	7.1	7.0	7.0	7.0
Indonesia	6.2	5.7	5.4	5.9	5.6	5.4
Korea	2.0	2.6	3.0	3.9	3.8	3.6
Malaysia	5.6	4.5	4.8	4.4	4.5	4.3
Thailand	6.5	2.6	3.4	5.6	5.2	4.8
Vietnam	5.0	5.1	5.4	6.4	7.0	6.8
Total	**4.6**	**4.4**	**4.7**	**5.1**	**5.3**	**5.3**

Source: Oxford Economics.

Cross-country tables

CPI inflation

	2012	2013	2014	2015	2016	2017
Americas	**5.1**	**5.2**	**5.1**	**4.8**	**4.8**	**4.6**
Argentina	10.0	10.6	11.0	9.8	9.5	9.0
Brazil	5.4	6.2	6.0	5.6	5.6	5.3
Chile	3.0	1.7	2.0	2.8	3.0	3.0
Colombia	3.2	2.2	3.2	3.4	3.3	3.3
Mexico	4.1	3.7	3.3	3.4	3.2	3.1
EMEIA	**5.8**	**5.5**	**5.6**	**5.0**	**4.7**	**4.5**
Czech Republic	3.3	1.4	1.7	1.9	1.9	1.9
Egypt	7.1	9.5	10.5	8.5	6.0	6.0
Ghana	9.2	11.3	10.0	8.1	6.5	5.5
India	7.5	6.4	7.0	5.3	4.9	4.9
Kazakhstan	5.1	5.9	5.9	6.5	6.2	6.0
Nigeria	12.2	8.5	8.0	8.0	8.0	8.0
Poland	3.7	1.2	2.1	2.8	2.5	2.5
Qatar	1.9	3.2	3.9	4.5	4.5	4.5
Russia	5.1	6.8	5.6	5.3	5.1	4.8
Saudi Arabia	2.9	3.6	3.7	3.8	3.8	3.5
South Africa	5.7	5.7	5.4	5.4	5.3	5.0
Turkey	8.9	7.5	6.6	5.4	4.7	4.3
Ukraine	0.6	-0.3	5.0	5.0	5.0	5.0
United Arab Emirates	0.7	1.1	2.4	3.1	3.3	3.3
Asia	**2.8**	**2.8**	**3.1**	**3.0**	**3.0**	**3.0**
China and Hong Kong	2.7	2.7	3.1	2.9	2.9	2.9
Indonesia	4.3	7.0	6.3	5.0	4.7	4.5
Korea	2.2	1.3	2.0	2.7	2.6	2.5
Malaysia	1.7	2.0	2.9	3.2	3.0	3.0
Thailand	3.0	2.2	2.5	2.5	2.5	2.7
Vietnam	9.1	6.6	6.5	6.0	5.5	5.0
Total	**4.3**	**4.2**	**4.3**	**4.0**	**3.9**	**3.8**

Source: Oxford Economics.

EY Forecasts in focus: macroeconomic data and analysis at your fingertips

App

EY Forecasts in focus gives you swift access to the data and analysis from EY's *Rapid-Growth Markets Forecast* and *Eurozone Forecast* on your tablet.

- Compare economic indicators for the 25 rapid-growth markets and 17 Eurozone countries.
- Create tailored charts and tables for a broad range of economic indicators based on data from 2000 to the present, and make forecasts up to 2017.
- Use the app to improve your own business planning and share customized information with clients.

Download the *EY Forecasts in focus* app at ey.com/rapidgrowth

Web

- Find economic highlights, data and other information from the *Rapid-Growth Markets Forecast*.

Other EY publications

- *Eurozone Forecast*

- *EY Eurozone Forecast: Outlook for financial services*

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2014 EYGM Limited.
All Rights Reserved.

EYG no. AU2137

EMEIA Marketing Agency
1000759

ED None

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

About Oxford Economics

Oxford Economics was founded in 1981 to provide independent forecasting and analysis tailored to the needs of economists and planners in government and business. It is now one of the world's leading providers of economic analysis, advice and models, with over 500 clients including international organizations, government departments and central banks around the world, and a large number of multinational blue-chip companies across the whole industrial spectrum.

Oxford Economics commands a high degree of professional and technical expertise, both in its own staff of over 80 professionals based in Oxford, London, Belfast, Paris, the UAE, Singapore, New York and Philadelphia, and through its close links with Oxford University and a range of partner institutions in Europe and the US. Oxford Economics' services include forecasting for 190 countries, 85 sectors, and over 2,500 cities and sub-regions in Europe and Asia; economic impact assessments; policy analysis; and work on the economics of energy and sustainability.

The forecasts presented in this report are based on information obtained from public sources that we consider to be reliable but we assume no liability for their completeness or accuracy. The analysis presented in this report is for information purposes only and Oxford Economics does not warrant that its forecasts, projections, advice and/or recommendations will be accurate or achievable. Oxford Economics will not be liable for the contents of any of the foregoing or for the reliance by readers on any of the foregoing.