
World Economic Prospects

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Introduction

The eighth edition of World Economic Prospects (WEP) builds on and extends the approaches and methods used in earlier versions. The publication provides a detailed assessment of prospects in the world's largest economies (71 countries in all) and in seven regions. It looks at the key determinants of future performance, the major challenges which each country must overcome, and the types of repercussions that could result from various economic shocks and other disruptions in today's highly integrated world. Close attention is given to developments over the next few years but the timeframe for this exercise extends out to 2020.

The main aim of the publication is to examine the strategic options available to each country and to identify some of the benchmarks for future success that will be of use to analysts who must make decisions about tomorrow's economy today. The main questions that the report addresses include the following:

Which of the world's major economies will be the fastest growing in both the short term and long term and which are likely to perform relatively poorly?

What are the driving forces for growth in each country and what could be the major causes of poor performance? What are the key benchmarks or policy decisions to look for when assessing a country's economic future?

What is the likely pattern of growth in the world's major economies over the next two to ten years and how will economic hierarchies relating to per capita income, national income and other measures change over this period?

What are the political risks which might impede economic growth?

The first section of the report offers a unique set of Euromonitor International rankings showing the relative position for each of the 71 countries in terms of total and urban population, median age, total and per capita GDP, real GDP growth, and per capita disposable income, comparing results for the years 2009, 2013, 2017 and 2020.

Section Three comprises textual analysis which looks at the impact of the current world recession on economic performance globally, regionally and nationally, highlighting the winners and the losers.

Subsequent sections give a standardised analysis for each of the individual countries and regions, arranged by region. Both the country and regional sections include the following headings: Overview of the Economy, Economic Outlook, Economic Prospects, Political Stability and Risks and Evaluation of Market Potential.

Countries covered by region

Asia-Pacific

Azerbaijan; China; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; Malaysia; Pakistan; Philippines; Singapore; South Korea; Taiwan; Thailand; Turkmenistan; Vietnam.

Australasia

Australia; New Zealand.

Eastern Europe

Belarus; Bulgaria; Croatia; Czech Republic; Estonia; Hungary; Latvia; Lithuania; Poland; Romania; Russia; Slovakia; Slovenia; Ukraine.

Latin America

Argentina; Bolivia; Brazil; Chile; Colombia; Ecuador; Mexico; Peru; Venezuela.

Middle East & Africa

Algeria; Egypt; Israel; Jordan; Kuwait; Morocco; Nigeria; Saudi Arabia; South Africa; Tunisia; United Arab Emirates.

North America

Canada; USA.

Western Europe

Austria; Belgium; Denmark; Germany; Finland; France; Greece; Ireland; Italy; Netherlands; Norway; Portugal; Spain; Sweden; Switzerland; Turkey; United Kingdom.

Global Imbalances Pose Continuing Risk For Economic Recovery

Current account imbalances between export-based economies such as China and Germany, and consumption-led deficit economies, most notably the USA, contributed to the 2008 global financial crisis. The unwinding of imbalances in 2009 through reduced imports into deficit countries weakens global demand and constitutes a risk for recovery. Encouraging consumer demand in Asian and other emerging economies is the most likely path to narrowing imbalances, yet the process will be gradual.

Key points

- Global current account imbalances are seen as one of the underlying causes of the 2008 global financial crisis. Unsustainable consumption levels and housing bubbles in deficit countries such as the USA were funded by capital inflows from surplus countries such as China;
- With the onset of the global recession since 2008, deficit countries have cut consumption and imports dramatically. Trade deficits narrowed considerably, yet this has had a negative effect on global demand, putting the world's economic recovery at risk;
- Current account surplus economies were hit badly by falling global demand, because of their dependence on exports. Only massive government stimulus spending has helped to sustain these economies in the short-term;
- Narrowing global imbalances in a sustainable manner would demand reducing export dependency of surplus countries and boosting domestic demand. Yet this may be difficult to achieve in oil-exporting countries, or in ageing societies such as Japan;
- Emerging Asian economies such as China are the most likely candidates to increase domestic demand substantially, and contribute to narrowing global imbalances. Rebalancing the Asian growth model away from exports and towards consumption could make emerging Asia into the world's most promising consumer market, yet the transition would not be easy.

Global imbalances

Global imbalances between surplus (exporting) and deficit (consuming) countries widened considerably between 2003 and 2008. Surplus economies comprised mainly of Asian emerging economies, Germany (the world's largest exporter) and oil and gas exporters, while deficit economies included advanced economies such as the USA, as well as emerging economies in Eastern Europe and elsewhere:

- Emerging Asian economies have pursued an export-based growth model, promoting industry and achieving large trade surpluses. China's current account balance grew from US\$45.9 billion in 2003 to US\$426 billion in 2008, the largest in the world;
- Germany, the world's largest exporter in 2008, had the second biggest current account surplus at US\$235 billion or 6.4% of GDP;

Africa and the Middle East**Annual inflation rates in Africa and the Middle East: 2008-2010***Table 3.1*

— %

| | 2008 | 2009 | 2010 |
|--------------|------|------|------|
| Nigeria | 11.6 | 12.0 | 8.8 |
| Egypt | 11.7 | 16.2 | 8.5 |
| South Africa | 11.5 | 7.2 | 6.2 |
| Kuwait | 10.5 | 4.6 | 4.4 |
| Saudi Arabia | 9.9 | 4.5 | 4.0 |
| Jordan | 14.9 | 0.2 | 4.0 |
| Algeria | 4.5 | 4.6 | 3.4 |
| Tunisia | 5.0 | 3.5 | 3.4 |
| UAE | 12.3 | 2.5 | 3.3 |
| Morocco | 3.9 | 2.8 | 2.8 |
| Israel | 4.6 | 3.6 | 2.0 |

Source: *Euromonitor International from IMF*

- Egypt will experience the highest inflation in the region in 2009, reaching 16.2%, as a result of ongoing energy price rises, owing to the partial elimination of subsidies in mid-2008 and mid-2009. However, this inflationary spike is expected to be short-lived, with the impact of the subsidy elimination passing through by 2010, to allow inflation to fall to 8.5% in 2010;
- The IMF has revised down its forecast for Nigeria's inflation in 2009, from 14.2% in its April 2009 forecast to 12.0%. This comes as a result of both moderating prices for Nigeria's food imports and sharply declining oil prices in H1 2009;
- Jordan is set to experience a major decline in inflation, falling from 14.9% in 2008 to 0.2% in 2009. This reflects the pass-through effects of the food and oil price spikes in H1 2008, as well as the economic slowdown over the period;
- The UAE will post a similar slowdown, from 12.3% in 2008 to 2.5% in 2009, partly as a result of the food and energy price declines, but largely as a result of the major slowdown in the country's property market, which has slumped in line with the economic downturn.

Eastern Europe

Overview of the Regional Economy

Economic profile: 2009-2020

Table 6.1

— US\$ at 2008 prices

| | 2009 | 2013 | 2017 | 2020 |
|--------------------------------|--------------|--------------|--------------|--------------|
| GDP (million) | 3,284,159.50 | 3,739,774.48 | 4,494,695.47 | 5,158,733.66 |
| GDP per capita | 9,928.49 | 11,414.62 | 13,859.21 | 16,039.85 |
| Private consumption (million) | 1,445,874.85 | 1,588,846.84 | 1,897,493.89 | 2,181,850.57 |
| Private consumption per capita | 4,371.09 | 4,849.51 | 5,850.85 | 6,783.94 |
| Disposable income (million) | 1,532,405.51 | 1,709,233.88 | 2,036,997.26 | 2,318,401.63 |
| Disposable income per capita | 4,632.69 | 5,216.96 | 6,281.00 | 7,208.52 |

Source: Euromonitor International from International Monetary Fund (IMF), International Financial Statistics, National statistics

In the western parts of the region, EU accession has led to gains in productivity and a greater willingness to provide assistance in the current period of economic difficulty. Although the region's exporters are hurting, they can expect a big boost in demand once the markets of the EU begin their own recovery. However, the effects of the financial crisis and the slowdown in world demand are evident throughout the region. Poverty remains widespread in many countries in the east and southeastern parts of the region.

Poland has enjoyed a pattern of balanced growth, growth of 5-7%, rising employment and a small current account deficit. Large transfers from the EU and greater integration with EU trading partners helped boost investment while rising wages boosted private consumption. A sharply lower rate of growth is expected in both 2009 and 2010, but the recession should be a mild one.

In Russia, the long period of stellar growth came to an end during 2008 and GDP is contracting in 2009. This will be the first recession in a decade. As the economy slumps, unemployment is soaring. Russia has huge amounts of natural resources – including the world's fifth largest gold reserves – but the state has reasserted control over these and driven off foreign investors.

Demographic profile: 2009-2020

Table 6.2

— As stated

| | 2009 | 2013 | 2017 | 2020 |
|---------------------------------|------------|------------|------------|------------|
| Total Population ('000) | 330,781.27 | 327,630.21 | 324,310.99 | 321,619.74 |
| Population aged 0-14 ('000) | 49,215.11 | 50,060.46 | 51,852.66 | 52,412.92 |
| Population aged 15-64 ('000) | 232,956.80 | 229,869.10 | 221,223.14 | 214,969.03 |
| Population aged 65+ ('000) | 46,428.45 | 45,409.98 | 48,835.48 | 51,754.31 |
| Urban Population ('000) | 224,634.46 | 224,511.73 | 224,489.68 | 224,789.34 |
| Number of households ('000) | 125,430.26 | 125,591.21 | 125,049.37 | 124,389.19 |
| Average household size (number) | 2.64 | 2.61 | 2.59 | 2.59 |

Source: Euromonitor International from national statistics/UN

Major cities by population: 2009-2020

Table 9.11

— Number (ordered by 2020)

| | 2009 | 2013 | 2017 | 2020 |
|--------------|-----------|-----------|-----------|-----------|
| New York | 8,415,466 | 8,652,292 | 8,946,753 | 9,188,410 |
| Los Angeles | 3,859,934 | 3,977,079 | 4,118,279 | 4,232,639 |
| Chicago | 2,850,390 | 2,861,283 | 2,910,786 | 2,963,828 |
| Houston | 2,274,493 | 2,400,601 | 2,525,205 | 2,616,340 |
| Phoenix | 1,596,667 | 1,705,754 | 1,808,131 | 1,880,655 |
| San Antonio | 1,375,057 | 1,465,872 | 1,551,760 | 1,612,911 |
| Dallas | 1,340,025 | 1,407,606 | 1,476,145 | 1,527,043 |
| Philadelphia | 1,443,017 | 1,438,843 | 1,456,864 | 1,479,678 |
| San Diego | 1,288,464 | 1,329,066 | 1,377,289 | 1,416,089 |
| Detroit | 910,188 | 910,642 | 924,244 | 939,916 |

Source: National statistical offices/UN/Euromonitor International

Economic Outlook

The IMF expects the economy to contract by 2.8% in 2009. However, the central bank has raised its own forecasts and in July predicted a contraction of 1-1.5% for the year. The Congressional Budget Office expects a slow recovery in 2010 with growth of just 1.5%.

The central bank expects unemployment to reach 10.1% in 2010. The number of jobless should remain at unusually high levels until 2011. The poor performance of the jobs market could slow the pace of growth in consumption.

The fiscal stimulus approved by Washington includes the direct purchases of goods and services by the federal government, transfers to state and local governments for infrastructure and other purposes, payments to individuals and temporary tax reductions for individuals and businesses. Total cost is US\$787 billion.

Washington is taking several steps to strengthen financial markets. The main ones include the Troubled Assets Relief Programme (TARP), which will cost US\$700 billion, and the Term Asset-Backed Security Loan Facility (TALF) involving more than US\$1 trillion in financing.

Funding for Medicare is expected to be exhausted by 2017. Funding for social security will last longer but these needs must also be addressed. Progress on the reform of healthcare is slow.

Most forecasters expect further declines in house prices (as much as an additional 14%) during 2009. Housing inventories should fall during 2009, boosting hopes for a recovery in 2010.

Economic Prospects

The IMF expects the economy to contract by 2.8% in 2009 as domestic demand remains under more pressure from the financial markets and the continued weakness of the housing market. However, the central bank has raised its own forecasts and in July predicted a contraction of 1-1.5% for the year. The Congressional Budget Office predicts a slow recovery in 2010 with growth of just 1.5%.

Prior to the recession, the national saving rate was near zero. It rose to around 5% of after-tax income in 2009 but this is still far below the long-term average.