January 20, 2014

European Press Conference for the Launch of the UN World Economic Situation and Prospects 2014

Robert C. Shelburne, United Nations Economic Commission for Europe
World Economic Situation and Prospects 2014

Global Economic Outlook and Regional Prospects

Presented by
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Jan 20, 2014
Global Macroeconomic Trends

• Continued slow recovery
• More favourable prospects for 2014/2015
• Developing countries have backstopped growth moderation
• Inflation remains benign in most of the world
• World trade continues to be sluggish
• Commodity prices remain high but have flattened out
Global economy still on slow and bumpy recovery

Forecast made in WESP 2013

Forecast made in WESP 2014
A shift in growth contributions?

Share of Contribution to WGP Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Developed economies</th>
<th>Economies in transition</th>
<th>Developing economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>45%</td>
<td>3%</td>
<td>52%</td>
</tr>
<tr>
<td>2011</td>
<td>36%</td>
<td>4%</td>
<td>60%</td>
</tr>
<tr>
<td>2012</td>
<td>38%</td>
<td>3%</td>
<td>58%</td>
</tr>
<tr>
<td>2013</td>
<td>32%</td>
<td>2%</td>
<td>65%</td>
</tr>
<tr>
<td>2014</td>
<td>44%</td>
<td>3%</td>
<td>53%</td>
</tr>
<tr>
<td>2015</td>
<td>47%</td>
<td>3%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Developed economies
Economies in transition
Developing economies

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Developed economies: healing slowly
Developing countries backstop growth moderation

-4 -2 0 2 4 6 8 10 12

Africa East Asia South Asia Western Asia Latin America and the Caribbean


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Inflation remains benign in most of the world.
World trade growing at a sluggish pace

Index, Jan 2007 = 100

- World
- Advanced economies
- Emerging economies

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Commodity prices

Index, 2000 = 100

- All food
- Agricultural raw materials
- Minerals, ores and metals
- Oil price (Brent)

Forecast period

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Increase in external financing costs for emerging markets

Yield spreads over US treasury bonds for developing economies bonds (%) 2007- Nov

Africa
Europe
Asia
Latin America

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Capital flows to emerging markets are very unstable
Uncertainties and risks

- Unwinding of the QE
- Impacts of financial instability
- Renewed slowdown for emerging economies
- Remaining fragility in the euro area
- Fiscal policy in the United States
- Geopolitical risks
- Environmental disasters
Real GDP growth in Europe and the CIS

-7 -5 -3 -1 1 3 5 7

CIS SEE NMS EU-15 World


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Many European countries rising out of recession

GDP Growth in Selected European Economies 2007-2015

source: UN-DESA/Project LINK

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Inflation in the euro area has fallen below the target level.
Unemployment remains high in EU-15 and may have peaked; but declines will be slow.
Reversal of capital flows: The core of the problem in the eurozone, the NMS, the EiT; and in the years ahead a major challenge for much of the developing world.

Sources and uses of external financial resources in the NMS+EiT. Average per cent of GDP before and after the crisis.

<table>
<thead>
<tr>
<th>Sources</th>
<th>Capital Inflows</th>
<th>CA Balance</th>
<th>Uses</th>
<th>Capital Outflows</th>
<th>Reserve Accumulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-2012</td>
<td>4.7%</td>
<td>1.0%</td>
<td>2005-2007</td>
<td>14.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>4.4%</td>
<td>6.1%</td>
<td></td>
<td>8.1%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

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New EU members (NMS)

Quaterly GDP growth in the new EU

Real GDP growth year on year, per cent

2012Q4 2013Q1 2013Q2 2013Q3

Bulgaria
Croatia
Czech Republic
Estonia
Hungary
Latvia
Lithuania
Poland
Slovakia
Slovenia
Record low inflation rates in the NMS by the end of 2013
Record low central bank policy rates and with low inflation increases are unlikely.
Macroeconomic situation in NMS

- Expansion in the second half of 2013 driven predominantly by net exports
- Private consumption remains dampened
- Investment has been slow to recover
- Less austere fiscal policy in 2014
- Monetary policy remains the main macroeconomic tool
- Credit growth nevertheless stagnant
- Non-performing loans are high and present a vulnerability
Share of non-performing loans

Selected new EU member States

<table>
<thead>
<tr>
<th>Country</th>
<th>per cent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>2</td>
</tr>
<tr>
<td>Hungary</td>
<td>16</td>
</tr>
<tr>
<td>Latvia</td>
<td>11</td>
</tr>
<tr>
<td>Lithuania</td>
<td>13</td>
</tr>
<tr>
<td>Poland</td>
<td>9</td>
</tr>
<tr>
<td>Slovakia</td>
<td>4</td>
</tr>
<tr>
<td>Slovenia</td>
<td>17</td>
</tr>
</tbody>
</table>

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Return to growth for South Eastern Europe – but at very low rates
High CA deficits still a source of vulnerability

CA deficit as a share of GDP, percent

Average CA def. for 2004-2008 2011 2012 2013

Albania Bosnia and Herzegovina FYR Macedonia Montenegro Serbia
Growth in 2013 driven by exports
Current growth rates low to address reindustrialization and unemployment problems
Policy options limited
Serious inflows of FDI, better business environment needed
Economic growth in the CIS area showed divergent trends.
Real GDP growth in Caucasus and Central Asia higher than in European CIS

Caucasus and Central Asia

-20.0
-15.0
-10.0
-5.0
0.0
5.0
10.0
15.0
20.0
2008 2009 2010 2011 2012 ... GDP growth, per cent
Armenia
Azerbaijan
Georgia
Kazakhstan
Kyrgyzstan
Tajikistan
Turkmenistan
Uzbekistan

Real GDP growth in Caucasus and Central Asia is higher than in European CIS.
Inflation has declined significantly since the crisis; rates diverge.
Current account balances of the CIS energy-exporting countries

- **Current account balance as a share of GDP**

- **2008**
- **2009**
- **2010**
- **2011**
- **2012**
- **2013 (f)**

- Azerbaijan
- Kazakhstan
- Russian Federation
- Turkmenistan

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Thank you