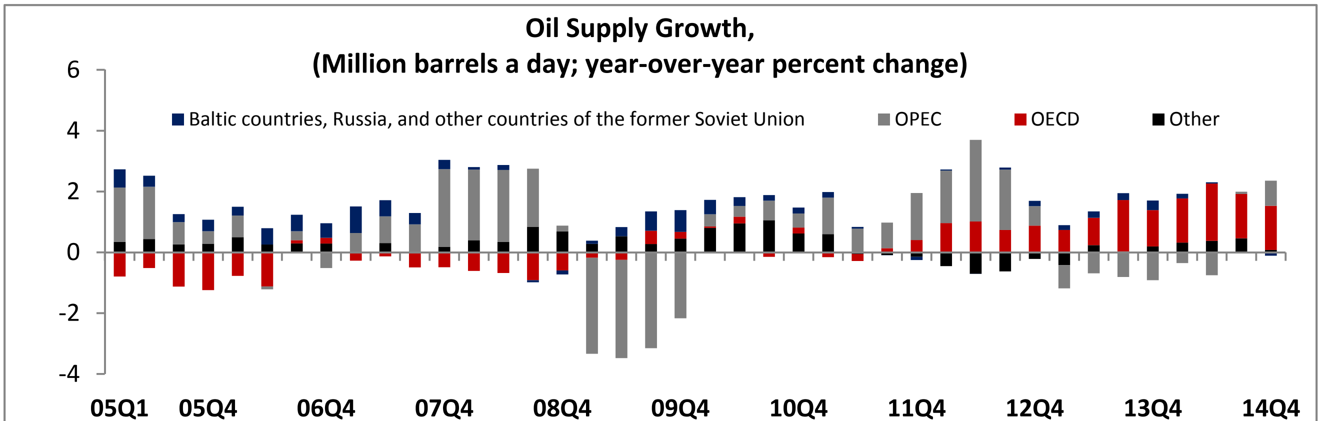
EADS Snapshot on
World Economic Outlook

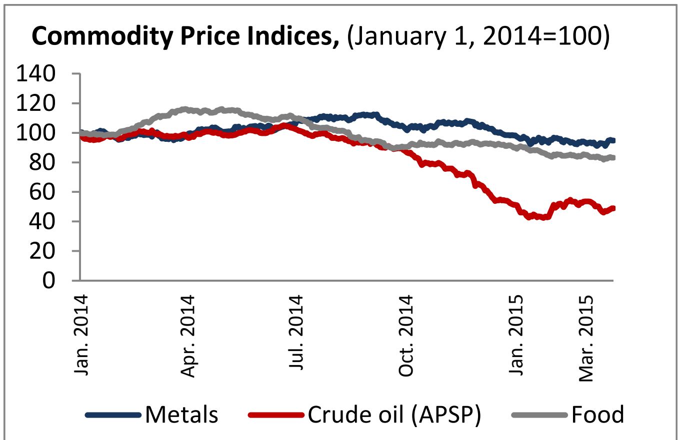
No. 98 June 2015

In April 2015, the International Monetary Fund (IMF) published the World Economic Outlook (WEO) report titled "Uneven Growth: Short- and Long-Term Factors". The report states that global growth remains moderate at 3.5 percent in 2015. The outlook of advanced economies is improving, though growth for emerging and developing economies is projected to be lower. The report emphasizes the importance of the drop in oil prices on the world economy, which provided an economic boost to oil importers but will weight on activity in oil exporting countries. Oil prices have declined 45 percent since September 2014 due to a rise in oil supply, weaker demand for oil, and weaker-than-expected global activity.



Sources: International Energy Agency; and IMF staff calculations

According to the report, for emerging market and developing economies commodity exporters, the impact of lower oil and other commodity prices on the terms of trade and real incomes is projected to take a toll on medium-term growth. For oil importers, lower oil prices will lessen inflation pressure and external vulnerabilities. For economies with oil subsidies, the drop in oil prices may provide some space to strengthen fiscal positions. Lastly, the report mentions that lower oil prices offer an opportunity for emerging market and developing economies to address structural reform agendas, such as energy subsidies and energy taxation.



Source: IMF, World Economic Outlook - April 2015

Trends in USAID-assisted countries:

The rest of this snapshot will center on the 91 economies that received at least $2 million in USAID assistance in fiscal year 2013 and are not considered high-income by the World Bank using 2014 GNI per capita.

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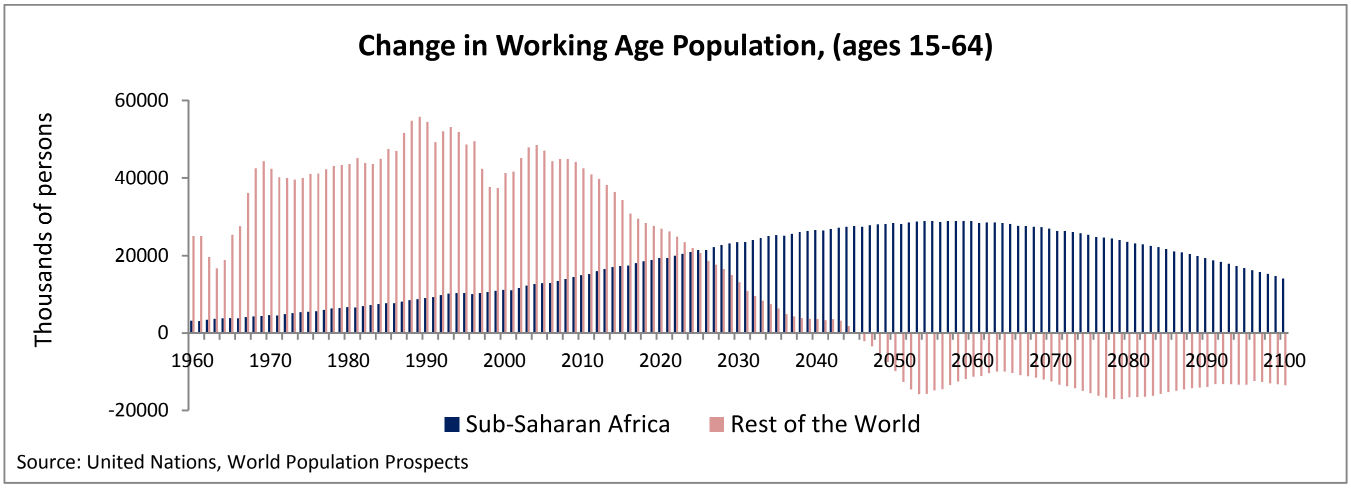
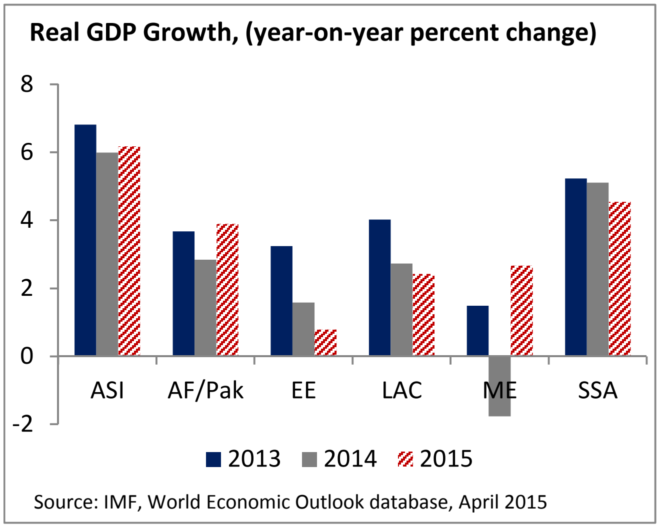
Sub-Saharan Africa

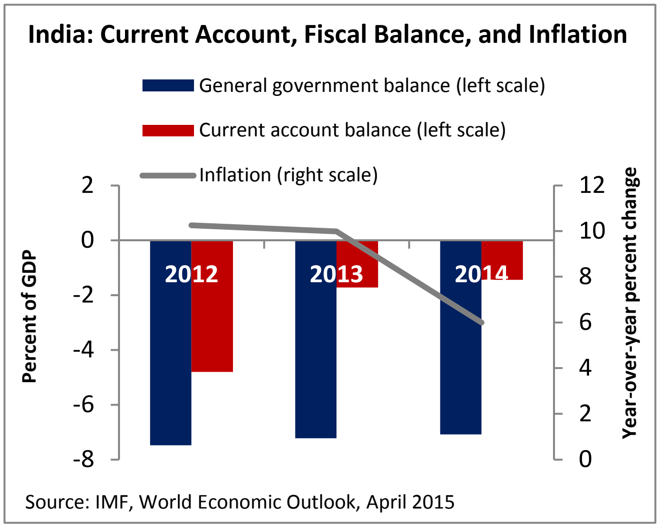
Sub-Saharan Africa (SSA) had solid economic performance in 2014 and is forecast to register another year of economic expansion at 5.5 percent in 2015 and 6.3 percent in 2016. Sierra Leone (-12.8 percent), Liberia (-1.4 percent), and Guinea (-0.27 percent) were the only SSA countries expected to regress in 2015. The decrease in GDP growth is mainly caused by the Ebola outbreak which continues to deeply affect their economic and social situations. According to the regional economic outlook "Sub-Saharan Africa – Navigation Headwinds", many SSA countries are benefiting from the drop in oil process but the benefit might be offset by the decline in the prices of other exported commodities.



SSA's working age population growth (15 to 64 year-olds) will exceed that of the rest of the world by 2035. According to the regional economic outlook, similar demographic transitions in other regions have been associated with higher saving and investment, raising potential and actual growth. The report emphasizes the importance of the speed of the demographic transition and policy choices, such as creating high-productivity jobs to absorb the new entrants in the labor force.

Asia



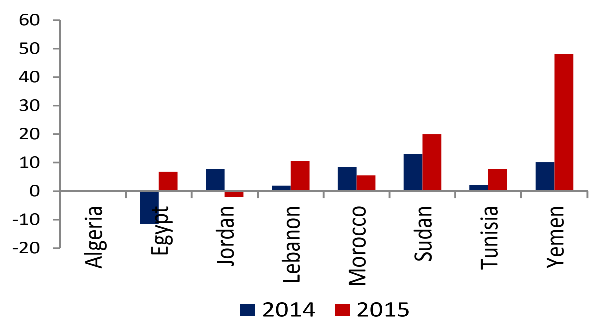


The Asia (ASI) region remains the global growth leader, with GDP projected to increase by 6.2 percent in 2015. The region – mainly composed of oil importers – is benefiting from the recent decline in world oil prices. According to the regional economic outlook "Asia and pacific – Stabilizing and Outperforming Other Regions", for net oil importers (Thailand, Korea, and Philippines) households and firms are the beneficiaries through higher real purchasing power. Moreover, net commodity exporters have been affected because non-oil commodities exports prices have also declined. Indonesia and Malaysia have improved their fiscal position by reducing spending on consumer fuel subsidies.

The report highlights the improvements in the Indian economy with GDP forecast to grow at 7.5 percent in 2015. Inflation decreased from 10 percent during 2012-13 to 5.2 percent in March 2015, which reflects tight monetary policy, lower global commodity prices, and government efforts to contain food inflation. The prime minister Narendra Modi's new government introduced economic reforms to create more flexible labor markets, enhance financial inclusion, and relax FDI limits in key sectors.

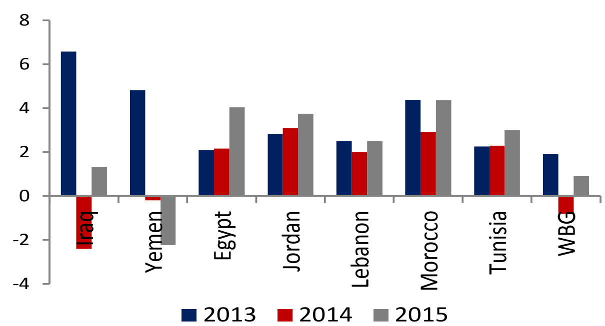
Middle East

Export volume of goods and services, annual % change



Source: IMF, World Economic Outlook, April 2015

Real GDP Growth, (year-on-year percent change)

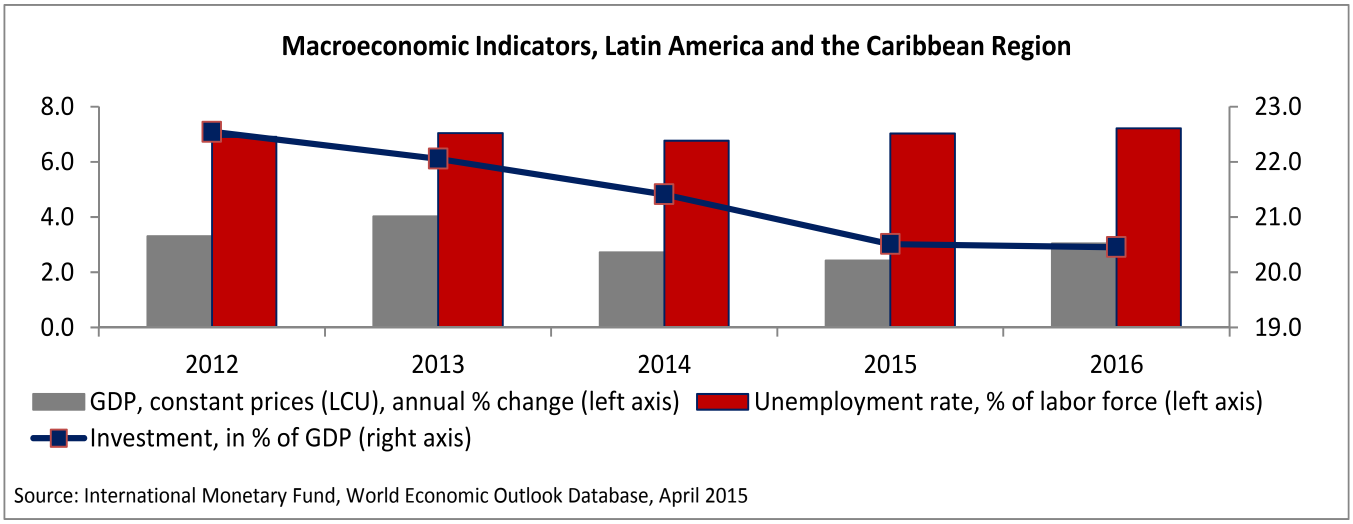


Source: IMF, World Economic Outlook, April 2015

Middle East (ME) oil-importing countries have been recovering very slowly. GDP regressed by 1.8 percent in 2014 but is forecasted to grow by 2.7 percent in 2015. Sluggish export growth, security issues, and unresolved supply-side bottlenecks were the main economic concerns in 2014. However, in 2015 exports are forecasted to increase mainly because of the recovery of the Euro area. Based on the regional economic outlook "Middle East and Central Asia", lower oil prices are likely to support confidence by helping fiscal and external vulnerabilities but may be offset by security risks and spillovers from conflicts. Households and firms in Lebanon will save most of the income gains from the shift in oil prices.

Latin America and the Caribbean

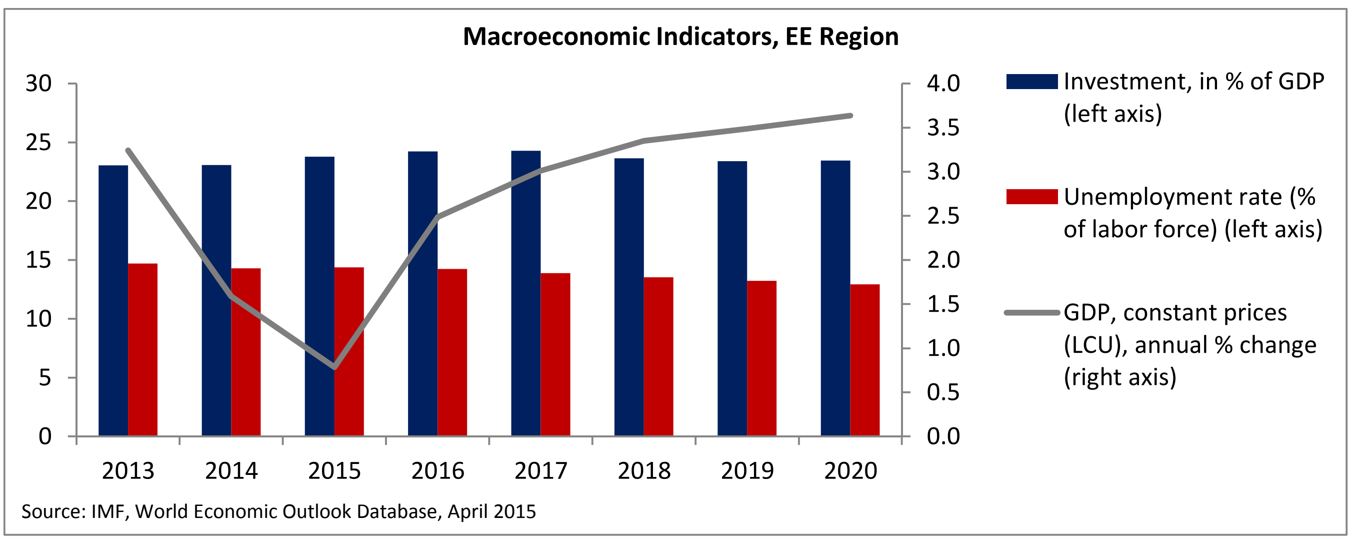
GDP growth is forecast to slow to 2.4 percent in 2015 from 2.7 percent in 2014. Output is expected to contract in Venezuela (-7 percent) and Brazil (-1 percent), while the Dominican Republic (5.1 percent), Nicaragua (4.6 percent), and Guatemala (4 percent) are expected to grow the most in the LAC region. Based on the regional economic outlook "Western Hemisphere – Northern Spring, Southern Chills", the impact of recent drops in commodity prices have important implications for the Latin America and the Caribbean's fiscal and external position. Mexico's GDP is forecast to grow by 3 percent in 2015, largely because of stronger external demand from United States, but domestic demand confidence has yet to perk up. On the other hand, Brazil's private investment is still weak, consumer sentiment has worsened, credit supply is tighter, and an emerging labor market is weakening.



Europe and Eurasia

Many of the Europe and Eurasia (EE) countries are expected to contract in 2015, such as Ukraine (-5.5 percent), Belarus (-2.3 percent), and Moldova (-1 percent). On the other hand, Montenegro (4.7 percent), Macedonia (3.8 percent), and Kosovo (3.3 percent) are expected to grow in 2015. The decline in economic activity in the eastern conflict zone is blamed for the forecasted recession in Ukraine. Ukraine's investment as percentage of GDP is expected to decrease to 11.4 percent from 21.7 percent in 2012.

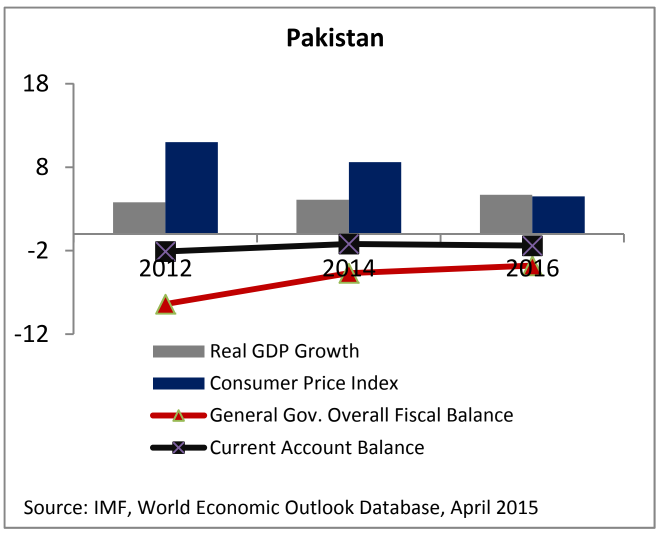
Macedonia, Bosnia and Herzegovina, Serbia, Armenia, Albania, and Ukraine had more than 10 percent unemployment in 2014. Unemployment is projected to stay high for the upcoming two years in these countries.

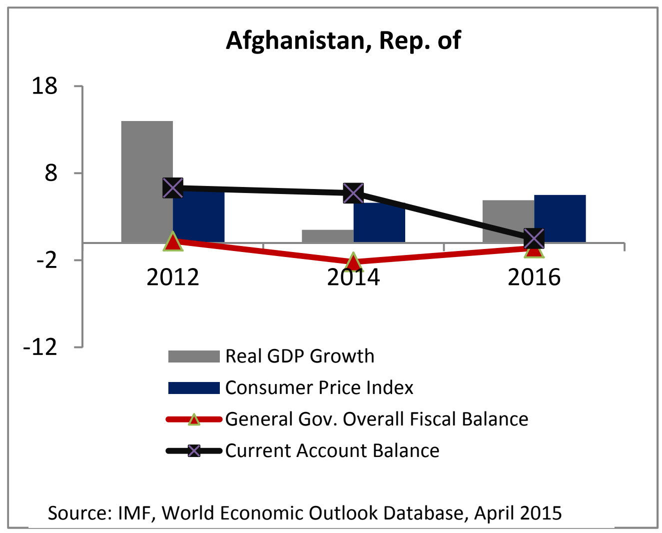


Afghanistan and Pakistan:

According to the IMF Press Release No. 15/206 , Pakistan's economy is improving because of macroeconomic stability, lower oil prices, robust remittances, and higher supply of gas and electricity. The IMF expects GDP growth to rise to 4.3 percent in 2015 from 4.1 percent in 2014. Due to the drop in oil prices, Pakistan's consumer price index is forecasted to fall by nearly a half from 8.6 percent in 2014 to 4.5 percent in 2015. The press release emphasizes the importance of a low oil price environment as an opportunity to continue strengthening public finances and overcome obstacles for higher investment, jobs, and growth.

In Afghanistan, the IMF projects GDP to grow by 3.5 percent in 2015, up from 1.5 percent in 2014. Unlike Pakistan, inflation in not expected to decrease by half but would stay low at 3.7 percent in 2015 from 4.6 percent in 2014. The IMF emphasizes that security conditions, political uncertainty, and weak institutions continue to constrain growth and weigh on social outcomes.





Additional Information
For questions or more information, please contact the author, Georges Fadel, at gefadel@usaid.gov **World Economic Outlook Data:** To access the entire WEO dataset or other IMF publications, please visit the Economic and Social Database (ESDB) at https://eads.usaid.gov/esdb/. DISCLAIMER The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development (USAID) or the United States Government.