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Oxford Economics commands a high degree of professional and technical expertise, both in its own staff of over 70 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 sub-regions in Europe and Asia; economic impact assessments; policy analysis; and work on the economics of energy and sustainability.

Rapid-growthmarkets

Ernst & Young Rapid-Growth Markets Forecast

Autumn edition – October 2011

Ernst & Young

Quality In Everything We Do

Welcome

Published in collaboration with

OXFORD ECONOMICS

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Welcome to the first edition of *Ernst & Young's Rapid-Growth Markets Forecast*, which we are producing in cooperation with Oxford Economics (OE). Each year, we will cover 25 rapidly growing economies around the world, selected on three key criteria – they should be large, both in terms of GDF and demographics, they should be dynamic, rapidly growing countries and of strategic importance for business development.

We have well-established practices in 140 countries around the world and are particularly strong in the newly developing economies – both the new mega-economies of BRIC and the other smaller, but fast-growing, economies that are emerging. We are launching the forecast at this time, because of the growing importance of these economies to business throughout the world. These economies - many of which are well past emerging, and which we therefore prefer to term rapid-growth markets, have certainly emerged into the boardroom.

The growth agenda for business has long been global in all sectors and for most organizations. The pursuit of new customers is leading to more intense competition in different markets and with competitors from different countries. Operational agility must now accommodate the challenge of both speed and flexibility across different markets. The cost-competitive challenge must be met by each company but is set in a global environment, and stakeholders are present and aware of both the opportunities and the challenges of new markets. Even the public sector increasingly looks across borders for opportunities and comparisons.

But the recession of 2008-09 in much of the developed world has changed the dynamic of this process and amplified its impact. While it is possible for individual companies to thrive in slow-growth economies – even in recession – there is no doubt that it is critical to operate in these growing economies to achieve business growth.

All eyes are consequently turning to the markets that continue to grow – the "rapid-growth markets" as we term them. The opportunities, and the threats, from these markets impact all companies to some extent – such is the degree of interdependence that is built into the global economy. By 2020, rapid-growth markets will account for 50% of global GDP when measured at purchasing power parity. They will also account for 38% of world consumer spending and 55% of world fixed capital investment.

So business ignores these markets to its cost. We believe these are the sources of great opportunities. If you are not winning in rapid-growth markets, your competitor is. They will both require and largely fund the transformation of business.

These markets share growth but they differ in many ways. Political systems, culture, regulation, history, language and often currency all vary. There is no simple rapid-growth market, nor a single rapid-growth model, for success. We believe, however, that an objective source of comparable data can help management to assess both opportunities and risks. Working with OE, whose economic model is used by many of the central banks in these countries, we will report against a set of consistent key measures while also exploring specific issues that are common to many of these countries. Once a year, we will revise the list of countries to ensure that we have the top 25.

We hope you will find the forecast useful. For more information on these markets, the business environment and local contacts please go to our rapid-growth portal on www.ey.com/rapidgrowth

Contents

Rapid-growth markets: fast-tracking to global economic importance

The current global financial landscape is challenging and offers an unstable environment for the business community. Still, corporations looking for new sources of growth and profit have a wider choice of potential locations than might be assumed.

The 25 countries we have chosen to investigate in our *Rapid-Growth Markets Forecast* have been identified as significant rapid-growth markets (RGMs) with economies and populations of a certain size that display strong growth potential and are, or could be, strategically important for business. As well as Brazil, Russia, India, China and South Africa (BRICS), Eastern Europe and Latin America should already have joined Asia on companies' radars. Other countries included on the list, such as Ghana, Qatar and Vietnam, might not be as self-evident for all, but they have each comfortably met our criteria – proven strong growth, strategic importance for business and future potential, with a large enough economy and population.

Not surprisingly, Brazil, Russia, India and China are the largest rapid-growth markets and are among the 16 that would find their way into a list of the world's top 30 economies. But countries in the Middle East, emerging Europe and Africa have been among the fastest growing in the last 10 years. Taken together, the rapid-growth markets have grown by 5.4% per year over the last decade, more than three times as fast as the advanced economies.

Strong prospects and sound policies give companies more choices

Having a wider choice of potential locations means better prospects for businesses looking for new opportunities in rapid-growth economies such as China or Qatar. One option is to pick a country in the growth regions to gain a foothold for trade expansion. This is especially important at a time when growth in Europe and the US has slowed, and could come to a halt in 2012, if the Eurozone's sovereign debt crisis gets out of hand. Moreover, these advanced economies will increasingly need rapid-growth markets to sustain their growth rates — we expect them to be exporting more than US$17.6 trillion of goods to rapid-growth markets by 2020 — up from US$9.28 trillion today and accounting for an estimated 33% of all their exports.

There are several good reasons to be optimistic about the future growth of rapid-growth markets, illustrated by their large potential to catch up quickly with the advanced economies. Measured in purchasing power parity (PPP), GDP per capita in China is still only 16% of that in the US and in India it is only 7%. For rapid-growth markets as a whole, GDP per capita is still just 27% of that in the US and 39% of that for the Eurozone.

Present policies also feed optimism. Macroeconomic management has much improved and so has political stability in many of these countries. Most rapid-growth markets have avoided the excesses of the financial bubble that triggered the crisis beginning in 2008 and neither governments nor households are weighed down by debt burdens. Governments have margins for fiscal maneuver to sustain demand if there is a downturn in trade with advanced economies. Brazil has become emblematic, transforming itself from a country with bleak economic prospects, to a formidable force in the global economy enjoying growth rates above average world GDP growth in recent years. Our report says that a similar change pattern has emerged elsewhere — across sub-Saharan Africa and the Asia region, for example.

Rapid-growth markets are part of the global economy, not insulated from it. Although our report shows that rapid-growth markets will be able to weather the economic crisis, we would expect their overall growth rate to be halved in 2013 if the Eurozone were to enter into a recession after suffering sovereign debt defaults, causing further banking sector stress and leading to a stagnation of growth in the US. This may give companies considering new investments or raising their existing commitments to rapid-growth markets some reason to pause. Uncertainty about the economic outlook is unsettling for a boardroom. There is, however, comfort in our report's estimate that, though the rapid-growth markets would take a hit from this recession scenario in the advanced economies, they would achieve a 3.2% growth rate in 2013.

While planning to produce quarterly forecasts for the rapid-growth markets alongside our quarterly Eurozone forecasts, we don't see these countries as a cohesive political and economic bloc comparable to the Eurozone. No group of 25 countries that is expected to account for 50% of global GDP by 2020 (currently 40% at purchasing power parity) and that is spread over five continents, can be anything other than diverse in histories, economic structures, cultures and political traditions.

Rapid-growth markets differ but share common characteristics

But the rapid-growth markets do share a number of important characteristics: most have trodden a path of steady economic liberalization in recent years, have increasingly business-friendly policies and attitudes, and they all depend much more heavily on exports than the advanced economies — for around 50% of GDP compared with 13% in the US and 40% in the Eurozone. RGM are heavy consumers of commodities and export growth in some economies is highly dependent on commodities — such as oil in Saudi Arabia and Kazakhstan. This paper details new opportunities in commodities.

Indeed, the importance of the rapid-growth markets to the global economy — which now account for 60% of the world's population — is rising so steeply that few large companies cultivating ambitious visions of their futures can afford to exclude rapid-growth markets from their strategies. Statistics confirm corporate commitments are growing: total foreign direct investment (FDI) inflows to rapid-growth markets are 50% of the global total and have more than doubled from US$210 billion in 2000 to US$445 billion in 2010.

One important FDI driver is the expectation of an immense growth in middle-class consumers in rapid-growth markets. Manufacturers of consumer goods and providers of business and related services need to be close to their key markets so as to respond to fast-changing demands and preferences. As our report points out, the number of households in Asia with an income in purchasing power parity terms of between US$10 and US$100 a day is expected to triple from 2009–20 to 1.74 billion. Little wonder that the rapid-growth markets are expected to account for 38% of world consumer spending and 55% of world fixed capital investment in 2020, as well as 54% of world demand for motor cars and 48% of world production of consumer goods.

Demands for reform of financial institutions

At their summit in Brasilia earlier this year, the BRIC 4 (South Africa was not present) repeated an earlier call for reform of international financial institutions to reflect the balance of power in the global economy better. Moreover, their national development banks signed agreements allowing them to fund projects in one another's countries. China and Brazil have strengthened their growing ties with new trade agreements.

One of the issues addressed at the summit was "currency fluctuations." This was, and continues to be, a hot topic that is misleadingly narrowed down to a focus on the US dollar-Chinese renminbi exchange rate. Despite more recent falls in rapid-growth markets currencies since June, many rapid-growth markets have been watching their currencies appreciate in real terms over the past two years, under the impact of capital inflows brought about by low interest rates and measures to boost liquidity in the advanced economies.

Caveat investor

The impressive rapid-growth markets growth rates of recent years must not obscure the fact that these countries face severe challenges up to 2020. How they respond will help shape business conditions and, by implication, business decisions. Our report points out that whatever happens, their progress will not be smooth.

Companies that trade, invest or plan to invest would be well advised to analyze economic and political developments in countries relevant to them, so that they are aware of actual and potential impacts on their business strategies and models.

The challenges are both external and internal; some are beyond these countries' direct control, and those that are not require sound and consistent policy responses.

The main external challenge clearly identified in our report is:

Coping with the impact of the Eurozone sovereign debt crisis. If this were to enter the worst-case scenario of multiple defaults, failing banks and serious recession in Europe and the US, rapid-growth markets would need to adjust both monetary and fiscal policies. Many have the scope to do so, while some, such as Poland, are constrained by high government deficits. Rapid-growth markets are particularly vulnerable to a severe downturn in advanced economies because of their heavy dependence on exports of manufacturing and investment goods. Moreover, their financial markets tend to mirror the swings in the markets of advanced economies, while their interest rates have been pushed upward by rising demand pressures and high commodity prices.

Finally, many companies would be bound to react to a financial crisis in the advanced world by cutting back on their global investments. This would shrink FDI into the growth markets. Among rapid-growth markets, Eastern European countries would be in the eye of the storm because of their extensive economic integration with their EU neighbors. Severe impacts would also be felt by oil and commodity exporters, such as Russia, Brazil and Chile, as export prices fell and world demand weakened. China and India by contrast would be less bruised. They have large domestic markets to fall back on and would gain from lower oil and commodity prices.

Despite a weakening of anticipated growth rates, our report summarizes that we would expect such a scenario to be a temporary speed bump on the path to increased prosperity in rapid-growth markets — slowing growth in the near term but not undermining the supply-side fundamentals that underpin the rapid growth we expect in rapid-growth markets over the next decade.

The main internal challenges companies need to monitor closely are:

Maintaining competitiveness of manufacturing industries in the face of large capital inflows. This is a key factor for corporates with exporting activities in rapid-growth markets. It is a tough challenge whose intensity may vary through time as capital inflows rise and fall under the impact of global economic conditions. Clearly, exchange rates can be the first victim of unstable and speculative capital flows and some governments try to put a cap on currency appreciation. This year, markets have been volatile. Companies should scrutinize the priority governments are giving to competitiveness and how strongly it determines central banks' monetary policies.

Cutting domestic inflation rates. Brazil is one of several rapid-growth markets determined to lower domestic inflation; others include India, Brazil, Argentina and Vietnam. **Companies investing or doing business with these countries need to factor inflationary scenarios into their analyses so as to be able to assess possible outcomes for interest and exchange rates.**

Developing physical and human infrastructure. This can equally hinder or help a country achieve its growth potential and must be part of any assessment of rapid-growth market's future prospects. It is too easy to overlook the importance of educational assets as a basis for future growth, and countries anxious to climb higher in the value chain need to make education a priority. **Companies making direct investment in a rapid-growth market must be clear as to whether the host country wants to import skills and know-how by this route or whether it is looking to the foreign investor principally as a source of job creation. If the latter, investors have to try to employ as many locals as possible.**

Corruption. This is a familiar problem in many rapid-growth markets and **its significance for business relationships can only be assessed on a country-by-country basis.** However, Russia, Nigeria and Ukraine rank in the bottom one-fifth of Transparency International's world rankings of perceived corruption. Corruption is not, of course, a phenomenon limited to rapid-growth markets and is also manifested in advanced economies.

Political risk. This must also be assessed on a country-by-country basis with the help of experts. Corporates want to be assured of stability of policy if not of personnel. **They should look for evidence that business-friendly policies are not the source of sharp political conflict in a rapid-growth market — and are not threatened by potential changes of government.** The quality of public administration in many countries can be an important factor in assuring policy continuity, and companies need to take this into account in their calculations.

Highlights

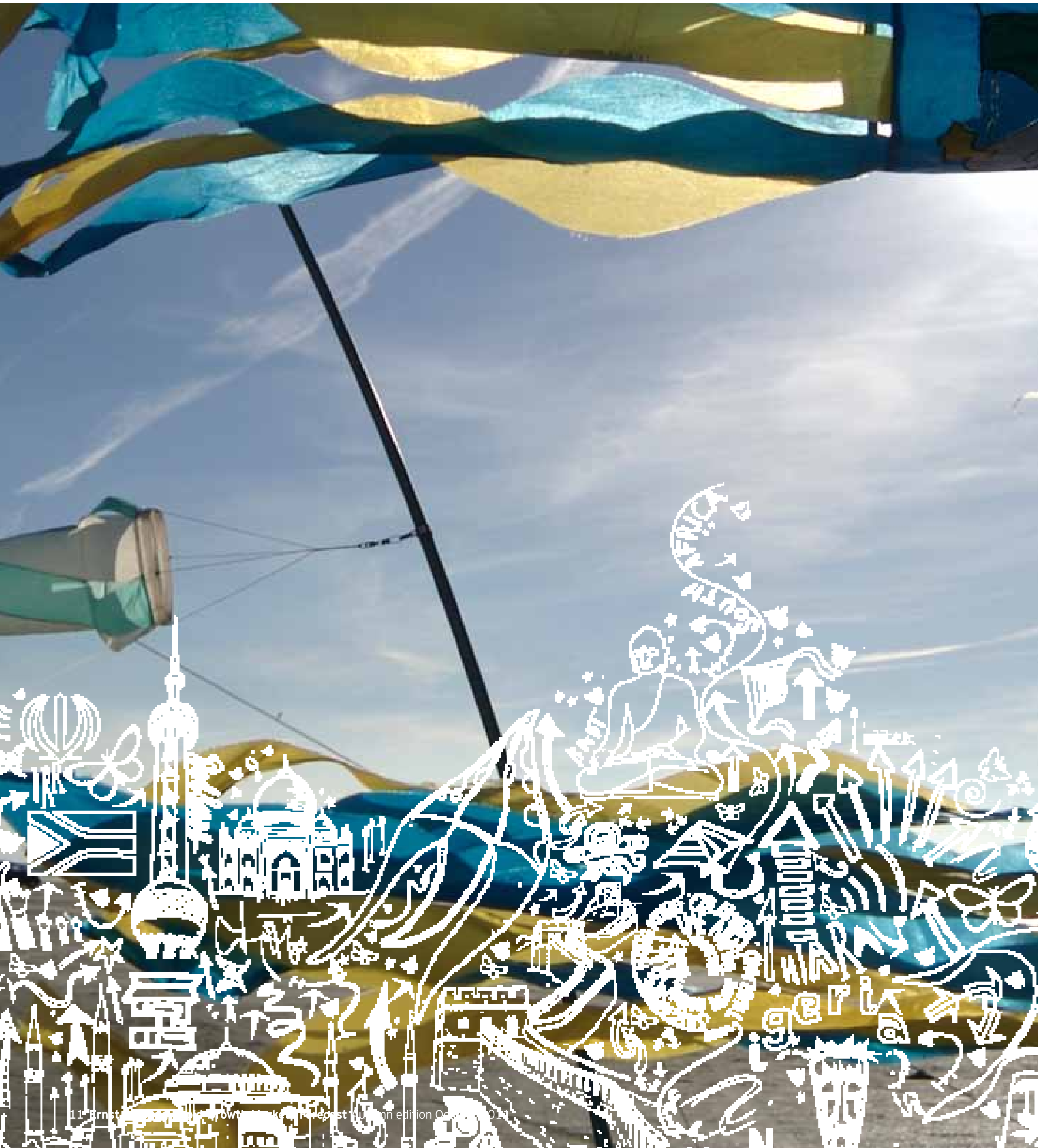
Rapid-growth markets set to define the decade ...

- The dynamics of the global economy have changed with a new set of fast-growing markets challenging the position of the established advanced economies. We have selected the top 25 of these rapid-growth markets or rapid-growth markets which are becoming more important in terms of both their overall weight in the world economy and their global influence.
- Taken together, the rapid-growth markets have grown on average by 5.8% a year over the last decade, over three times as fast as the advanced economies and this rapid pace of expansion is set to continue with growth in rapid-growth markets outpacing the advanced economies by over 3.5% over the 10 years to 2020.
- Rapid-growth markets will account for 50% of global GDP by 2020 when measured at purchasing power parity. They will also account for 38% of world consumer spending and 55% of world fixed capital investment.
- By 2020, we expect advanced economies to be exporting more than an estimated US$17.6 trillion of goods to rapid-growth markets, up from US$9.3 trillion today, accounting for an estimated 33% of all exports from advanced economies.

... and can weather a renewed recession in advanced economies

- While the overall outlook for the rapid-growth markets is positive, one thing is certain: their progress will not be smooth. The rapid-growth markets have to address a number of challenges – for example, avoiding inflationary pressures arising from overheating; managing the impact of capital inflows on the competitiveness of their manufacturing industries; and ensuring that their infrastructure (physical and human) is sufficient to support their long-term growth potential.
- Right now, though, the main concern is about the global economic outlook, with the threat of a renewed recession in advanced economies and a renewed financial crisis.
- The rapid-growth markets are far from decoupled from these risks. But our analysis shows that rapid-growth markets are well placed to weather the economic storm. In the face of a disorderly Eurozone debt crisis that leads to a prolonged recession in the Eurozone and a stagnation of growth in the US in 2012-13, our analysis suggests that GDP growth would be cut to 3.2% across the rapid-growth markets in 2013, much lower than the 6.8% we currently expect but still the envy of most advanced economies.
- Among the rapid-growth markets, Eastern Europeans would fare less favorably due to their links with their neighbors. But oil and commodity exporters such as Russia, Brazil and Chile would also be severely impacted, as the value of their principal exports are hit by lower prices as well as by weaker world demand. Those with greater trade and financial linkages, such as Korea and Singapore, would also be adversely affected. But we would expect countries such as China and India to be more modestly affected, partly reflecting the large size of their domestic markets and the beneficial effects of lower oil and commodity prices.
- While not good news for rapid-growth markets, such a scenario would, however, even further increase their weight in the global economy as the advanced economies decline. Moreover, we would expect such a scenario to be a temporary speed bump on the path to increased prosperity in rapid-growth markets – slowing growth in the near term but not undermining the supply side fundamentals that underpin the rapid growth we expect in rapid-growth markets over the next decade.

Rapid-growth markets are the key drivers of global growth



The dynamics of the global economy have changed, with a new set of fast-growing emerging market economies challenging the position of the established advanced economies. These economies — many of which are well past emerging, and which we therefore prefer to term rapid-growth markets (RGMs) — are becoming more important in terms of their overall weight in the world economy and their global influence.

Who are the rapid-growth markets?

We define this set of 25 rapid-growth markets on the basis of three key criteria:

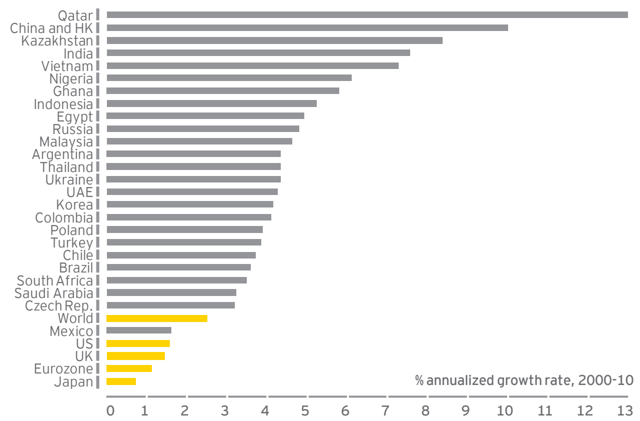
- Proven strong growth and future potential
- Size of the economy and population
- Strategic importance for business

The chart to the right shows the GDP growth of our 25 rapid-growth markets over the last 10 years, comparing these with the leading advanced economies. While China including Hong Kong, its special administrative region, and India are the Asian giants high up in this league table, Qatar has actually been the fastest growing economy with average growth of an impressive 13% over the past decade. But it is worth emphasizing that countries in both Emerging Europe and Africa have been among the world's fastest growing over the last 10 years. Taken together, the rapid-growth markets have grown on average by 5.8% a year over the last decade, more than three times as fast as the advanced economies.

The strong expansion enjoyed by rapid-growth markets in recent years, means that they already represent a significant proportion of the world economy. For example, they account for 31% of world GDP measured at market exchange rates and 40% when measured in PPP terms, which adjusts for differences in the relative cost of living. Clearly, the BRIC economies — Brazil, Russia, India and China — are by far the largest of our rapid-growth markets. But out of our 25 rapid-growth markets, 16 would make it into the top 30 of the world's largest economies measured at PPP, including Mexico, Korea, Indonesia, Turkey, and Poland within the top 20.

Figure 1

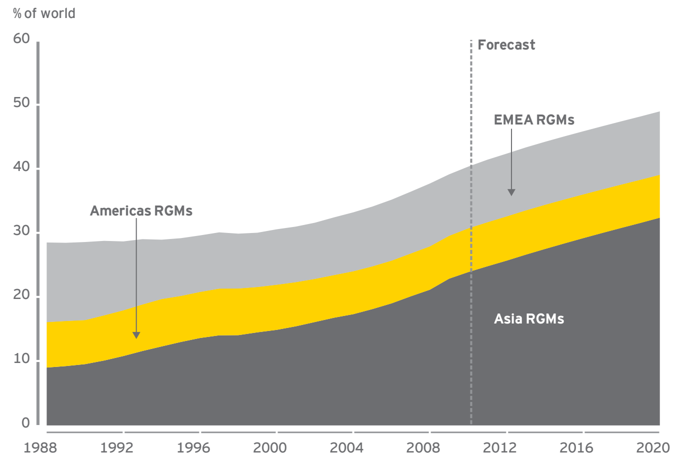
Real GDP growth 2000-10



Source: Oxford Economics

Figure 2

Share of world GDP in PPP terms



Source: Oxford Economics

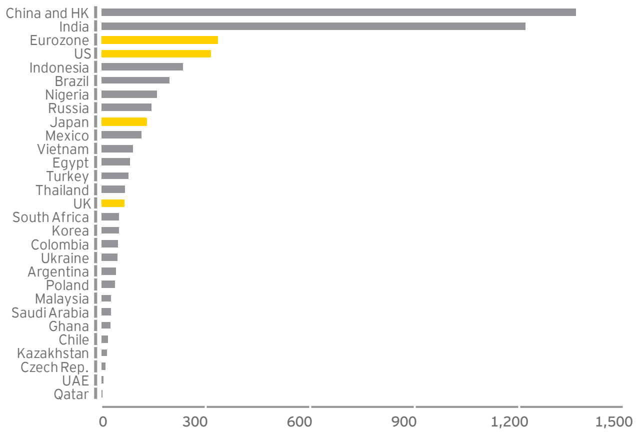
Rapid-growth markets are the key drivers of global growth

Rapid-growth markets are, of course, even more significant in terms of their share of the world's population. Altogether, 4.2 billion people live in our 25 rapid-growth markets, over 60% of the world's population. That underlines both their potential and their strategic importance to business. They represent a massive pool of labor for production while the advanced economies age, and they also represent a source of rising demand for goods and services as the middle class in these countries develops.

The economic success of rapid-growth markets reflects steps most have taken to liberalize their economies. Some of these economies – including Korea, Thailand, Malaysia, South Africa, Mexico and Saudi Arabia – are among the top 35 countries in the world for the ease of doing business as measured by the World Bank's 2011 *Doing Business* report. Others are becoming more business-friendly through better regulation and infrastructure, with Ghana and Kazakhstan, for example, among the top-10 most improved economies over the past five years according to the World Bank.

Figure 3

Population level in 2010, millions

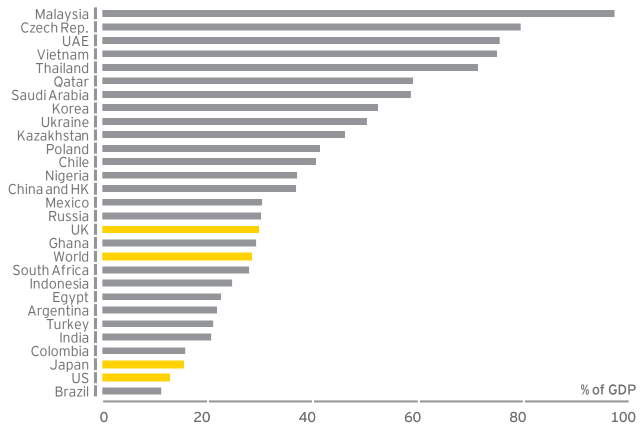


Source: Oxford Economics

Not surprisingly, openness to trade is one of the defining characteristics of Rapid-growth markets, particularly for many of the countries in Asia. Exports account for around 50% of GDP in the rapid-growth markets as a whole, compared with 13% in the US and 41% in the Euro area.

Figure 4

Exports as % of GDP in 2010



Source: Oxford Economics

Likewise, many rapid-growth markets have been very successful in attracting FDI. FDI inflows to all rapid-growth markets have risen from US$205 billion in 2000 to US$444 billion in 2010, and they now receive around 50% of global FDI inflows. Some countries have been particularly successful in attracting FDI inflows to spur their development – measured on a per capita basis, Qatar, Chile, the UAE, Saudi Arabia, the Czech Republic and Kazakhstan all stand out in this regard. But FDI is no longer a one-way street – Rapid-growth markets are themselves increasingly becoming major international investors in advanced economies, as their leading companies buy up Western competitors.

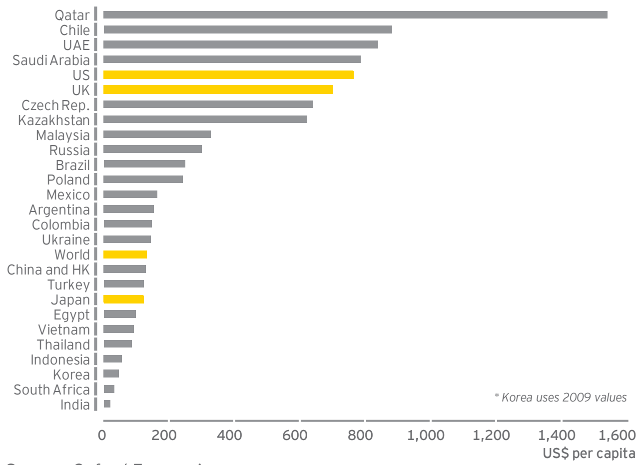
That said, many challenges still remain for rapid-growth markets. These differ from country to country but most need to improve their infrastructure to support their rapid growth; many are struggling to meet the demand for talent given weaknesses within their education systems; and many have a very unequal distribution of income, which can create social tensions. Corruption is also an issue in some Rapid-GMs, with Russia, Nigeria and Ukraine languishing around the bottom quarter of Transparency International's world rankings of perceived corruption.

The increasing economic importance of the rapid-growth markets

Our projections show rapid-growth markets continuing to grow rapidly over the next decade – with average growth expected to be even higher than over the last 10 years and again over three times faster than in the advanced economies.

Figure 5

FDI inflows per capita in 2010*



Source: Oxford Economics

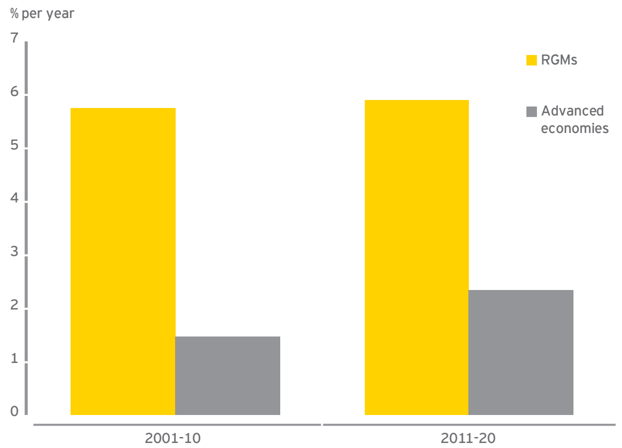
The strong prospective growth of rapid-growth markets means that their importance in the global economy will only increase over the next decade. By 2020, we expect them to account for 45% of world GDP at market exchange rates and 50% measured at PPP.

But that is only one part of the increasing significance of rapid-growth markets. By 2020, they will account for:

- 46% of world goods exports, up from 37% in 2010
- 38% of world consumer spending and 55% of world fixed capital investment
- 72% of global employment and 60% of the world's population
- 52% of world demand for cars, and 34% for machine tools
- 48% of world production of consumer goods, 72% of iron and steel production and 42% of car production

Figure 6

Comparison of GDP growth



Source: Oxford Economics

Critically, rapid-growth markets will also account for an even greater share of world demand for oil and other commodities by 2020. rapid-growth markets already account for around 40% of oil demand and around half of world demand for metals such as copper, well in excess of their share of world GDP. And they account for over 70% of global demand for gold and over 60% of world food consumption.

The commodity-intensity of RGM economies, combined with their rapid growth, has been a major factor putting upward pressure on commodity prices in recent years. And, while both governments and companies in rapid-growth markets are seeking to become more resource-efficient, their impact on world commodity markets is likely to increase even further through this decade and beyond. For example, by 2030 we expect the US and the EU to account for less than a quarter of world oil demand, down from nearly a third now.

Rapid growth of rapid-growth markets is therefore not all good news for advanced economies. The continuing boom in rapid-growth markets is likely to keep oil and other commodity prices high in real terms. But the pluses will more than outweigh the minuses. By 2020, given the rapid high growth and trade openness in rapid-growth markets, we expect advanced economies to be exporting more than an estimated US$17.6 trillion of goods to rapid-growth markets, up from an estimated US$9.3 trillion today, and accounting for 33% of all exports from advanced economies.

Box 1

Growth potential and risks for Asia's rapidly growing economies

Urbanization, productivity catch-up and rising prosperity will continue to drive strong growth in Asia. But for its potential to be fulfilled, particularly as the external engine of growth from Europe and the US stagger, the continent will need to tap into the high level of household savings and generate sustained consumption growth. Many savings rates in Asia are in excess of 25%, with China's overall savings rate closer to 40%. In order to rebalance these economies toward greater consumption and a higher standard of living, government policy will need to be directed toward greater public provision of social safety nets to reduce precautionary saving. For many of these countries, greater financial sector development is also needed with a higher return to savings and a wider range of financial instruments for households to save for their old age.

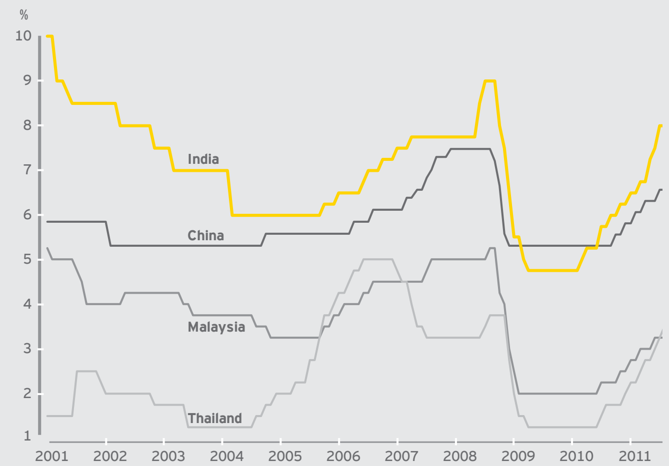
For strong productivity growth to be maintained, many countries will need greater infrastructure development, accompanied by a number of reforms to ease the cost of doing business, in order to attract more long-term investment flows. Indonesia has made significant improvements in its macro management and with the current level of government debt to GDP very low at 26%, it is hoping to achieve investment grade status this year. However, a reliance on short-term flows increases the vulnerability of the emerging Asian countries to any global market turmoil. Indonesia is gradually attracting longer-term investment and less short-term flows and FDI rose by almost 17% to US$2.9 billion in Q1 2011, up from US$2.5 billion while foreign portfolio investment decreased. Greater political stability should provide a boost to Thailand, and Malaysia's new 10-year plan sets out steps to attract greater FDI inflows.

The success of Asian economies has also led to rising inflation pressures, particularly in India where inflation rose to 10.9% in August. Central banks across Asia have increased interest rates (and reserve requirements in many cases) to tackle these pressures and we expect inflation in the region to moderate. But strong demand and capital inflows have also contributed to rising asset prices, particularly in commercial property in Asia. Property prices in Hong Kong have risen sharply, buoyed by strong demand from mainland China as investors seek a wider range of financial assets and to circumvent tighter restrictions on property investment in the mainland. Singapore has introduced several measures to cool the housing market but while the pace of inflation has slowed, prices continue to rise. In Kuala Lumpur, house prices rose by 7.1% on the quarter in Q1 while mortgage loans in Malaysia overall have almost doubled in the last five years.

Property prices in many cities in Asia could fall quite quickly if overcapacity or the global gloom leads to a reversal of investment flows. This would have knock-on effects on confidence, household wealth and the liabilities of banks. But high foreign reserves, low fiscal deficits and scope to loosen monetary policy provide plenty of ammunition to counter the effects of any bursting in asset prices bubbles.

Figure 7

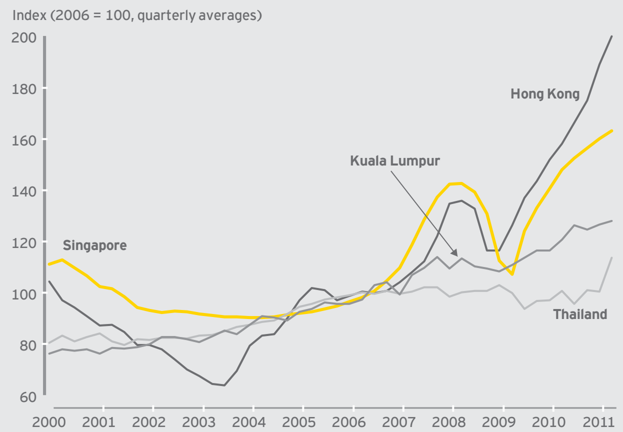
Emerging Asia: Short-term interest rates



Source: Haver Analytics

Figure 8

Emerging Asia: Residential property prices



Source: Haver Analytics

Why will rapid-growth markets remain rapidly growing?

The rapid-growth markets bounced back strongly from the global recession, with their GDP rising on average by 7.3% in 2010 — back to the boom rates that preceded the global financial crisis and much faster than growth had been prior to the mid-2000s. However, this rapid rebound — from a downturn that was mild in most rapid-growth markets compared with advanced economies — generated some rise in inflationary pressures. In part, these resulted from upward pressure that strong RGM demand put on oil, food and other commodity prices. But it also reflected domestic inflationary pressures as capacity utilization rates rose to above-normal levels in many countries and strong demand for labor put upward pressure on wages.

Policy-makers have responded to rising inflation risks by tightening monetary policy — both through higher interest rates and by raising the reserve requirements of banks. In addition, most RGM currencies have appreciated in real terms, as low interest rates and measures to boost liquidity in the advanced economies have encouraged substantial capital inflows (which some countries have sought to limit through various forms of capital controls). This tightening in monetary conditions, combined with the renewed weakness in demand in advanced economies, is expected to lead to a moderate slowing in growth in rapid-growth markets to 6.2% in 2011 as a whole.

The weak outlook for the advanced economies will inevitably continue to weigh on growth in the rapid-growth markets in 2012. The dependence of rapid-growth markets on trade with advanced economies has declined somewhat since the mid-2000s, reflecting both the relative decline of advanced economies and the strength of domestic demand growth in rapid-growth markets, which has fueled greater inter-regional trade. But even so, exports from rapid-growth markets to advanced economies are still equivalent to almost 15% of RGM GDP.

Our forecast, therefore, shows average GDP growth in the rapid-growth markets edging just under 6% in 2012. Within the rapid-growth markets, both the American and Asian countries have seen the most marked slowing in growth, reflecting their dependence on trade and policy tightening in their largest economies. The picture in EMEA is more mixed, with some resource-rich countries such as Saudi Arabia and Kazakhstan benefiting from high oil prices, while others like Turkey face a sharper downturn as credit conditions tighten.

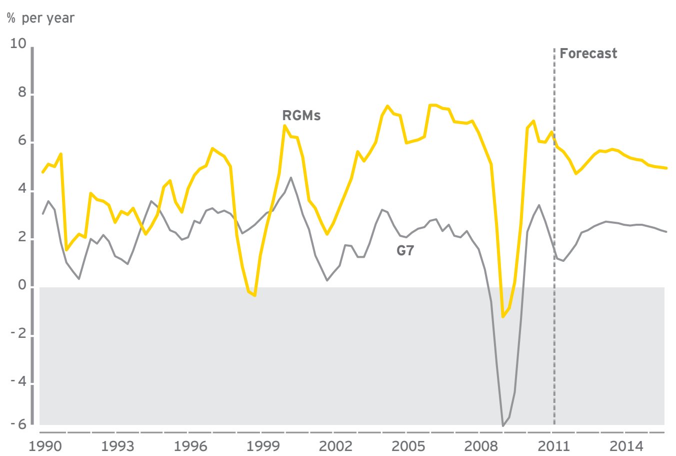
But it is important to see this slowdown in context. In part, it has been deliberately generated by RGM policy-makers to avoid a damaging inflationary spiral. It still leaves rapid-growth markets growing at a much faster rate than they have enjoyed by the standards of all but the very recent past. And — crucially — it does not alter the very positive longer-term prospect for rapid-growth markets.

There are many reasons to be optimistic about the growth potential of rapid-growth markets over the next decade:

- **Catch-up potential** — Despite the rapid growth that rapid-growth markets have seen in recent years, average living standards are still well below those in advanced economies. For example, measured in purchasing power parity, GDP per capita in China is only 16% of that in the US and in India it is only 7%. For rapid-growth markets as a whole, GDP per capita is just 27% of that in the US and 39% of that for the Eurozone. This suggests that there remains considerable scope for rapid-growth markets to grow strongly as they emulate advanced economies.
- **Continued industrialization and urbanization section** — Underlining the catch-up potential of rapid-growth markets, there are still massive populations in parts of Asia and Africa that are yet to move out of subsistence agriculture into the market economy. For example, 297 million people (22% of the population) in China work in agriculture, 233 million in India (20%) and 42 million (18%) in Indonesia. This compares with just 0.7% of the population employed in agriculture in the US and 2% in the Eurozone. Similarly, increased urbanisation is likely to be associated with continued economic growth in rapid-growth markets particularly in Asia — currently, the proportion of the population that live in urban areas in India is less than one-half of that in the US and Europe, while urbanisation in China is around two-thirds that in most advanced economies.
- **Strong population growth** — The working age population across all rapid-growth markets is expected to increase by 268 million (9.4%) between 2010 and 2020. This increase will occur despite a significant leveling off in the working age population in China from the middle of this decade, as the effects of the one-child policy have some impact on the labor supply. Moreover, rapid-growth markets do not face the same pressures as advanced economies in funding an aging population — dependency ratios (the ratio of children and retired people to the working age population) in most rapid-growth markets are only a fraction of those in Europe.

Figure 9

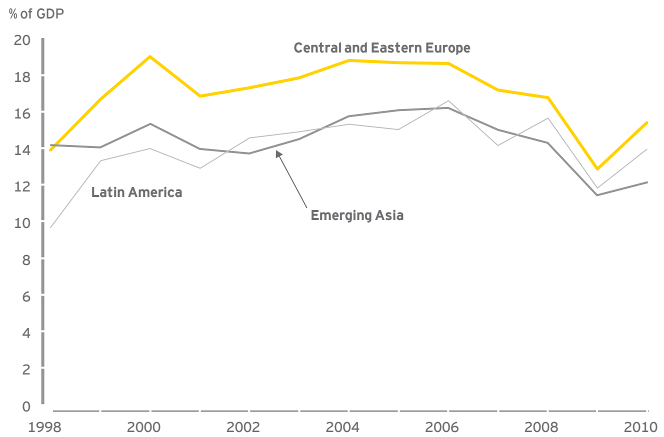
G7 and rapid-growth economies: GDP growth



Source: Oxford Economics

Figure 10

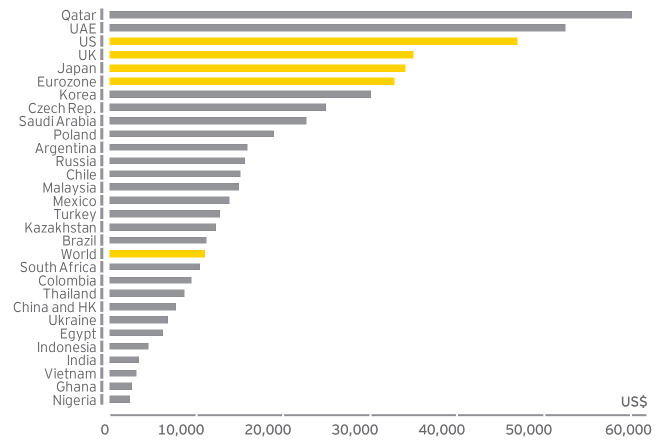
Exports to OECD



Source: Oxford Economics

Figure 11

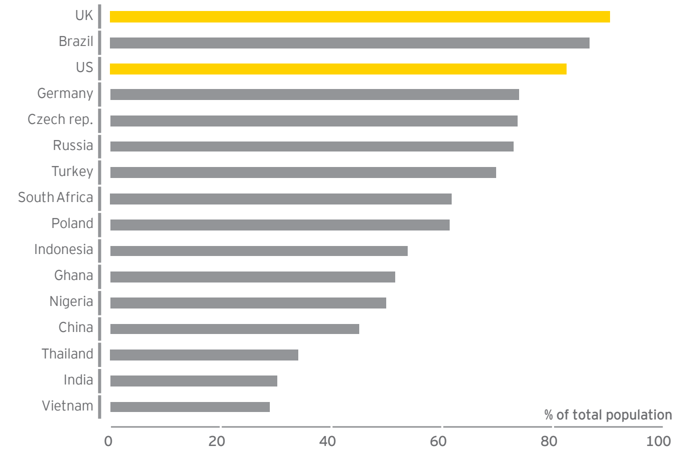
GDP (US$) per capita at PPP, nominal in 2010



Source: Oxford Economics

Figure 12

Urban populations: 2009



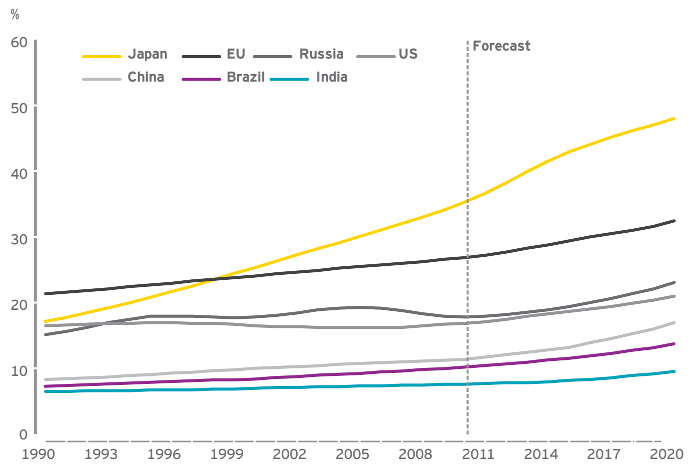
Source: World Bank

- **High investment and savings rates** — It is not only strong labor supply growth that will drive the productive potential of rapid-growth markets higher. So too will their high rates of saving and investment. This is most marked in Asia, with China investing more than 40% of its GDP. Strikingly, even India — which historically had relatively low saving and investment rates — is now investing over a third of its GDP a year. Investment rates are typically lower in Latin America and Eastern Europe, but still much higher than in the advanced economies. Domestic investment is also likely to be supported by strong FDI flows, as Western companies continue to look for growth in rapid-growth markets in the face of weak home markets.

- **Improved economic management and political stability** — Key to the recent success of rapid-growth markets are improved macroeconomic management and enhanced political stability. This is most striking in the case of a country, such as Brazil, which persistently underperformed through the post-war period, experiencing repeated crises and hyperinflation. But macro policy reforms that began over a decade ago have not only generated more stable growth but have contributed to Brazilian GDP significantly outpacing world GDP growth in recent years. A similar pattern has also been seen across sub-Saharan Africa. And it is to be hoped that the "Arab spring" will lead to a similar transition in countries such as Egypt. More generally, the full efficiency and productivity benefits of greater economic freedom across rapid-growth markets — and further reforms that are in the pipeline — have still to materialize.

Figure 13

Dependency ratio

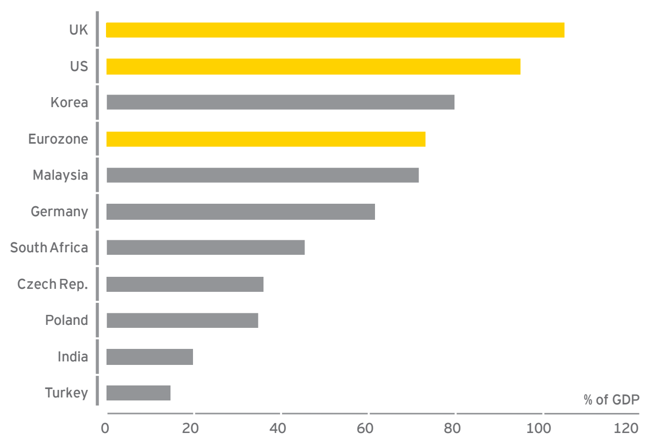


Source: United Nations

- **The avoidance of high debt** — A key advantage that rapid-growth markets now have over advanced economies is that most of them have avoided the excesses of the financial bubble. As a result, typically neither households nor governments are struggling under the high debt burdens faced by most advanced economies. This is particularly important in giving governments scope to use active fiscal and other measures to support their growth if necessary, and we would expect to see some fiscal stimulus introduced in many rapid-growth markets in 2012 in the event of a further downturn in trade with advanced economies. There are exceptions, though, among the rapid-growth markets. For example, some economies such as Poland have a relatively high government deficit, which gives less scope for expansive fiscal policy. And household debt is higher relative to incomes in South Korea than it is in the Eurozone

Figure 14

Household liabilities as a % of GDP: 2010

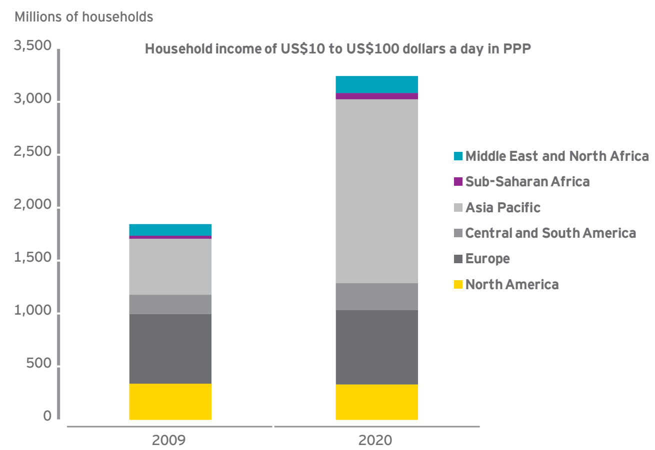


Source: Oxford Economics

- **Growth of the middle class** — Many rapid-growth markets have traditionally had an export-led model of growth. Their growing influence, however, has led to the emergence of a substantial middle class, which is creating domestic consumer markets of critical mass. The middle class population in rapid-growth markets, particularly in Asia, is expected to reach significant proportions. For example, the number of households in Asia with an income in PPP terms of between US$10 and US$100 a day is expected to triple between 2009 and 2020 to 1.75 billion. As a result, demand for consumer goods and services (including foreign holidays and financial services, as well as cars, electronics and other luxury products) is expected to boom. To illustrate, the number of international tourists traveling from China is forecast to almost double from 32 million in 2010 to 59 million by 2020.

Figure 15

Global middle class

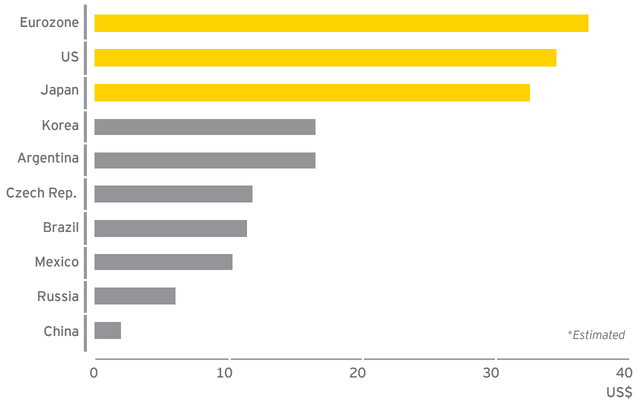


Source: Oxford Economics

- **Competitiveness and moving up the value chain** – Many rapid-growth markets have developed initially by offering a low-cost production base for manufacturing, and this is likely to remain critical to the growth of many such economies particularly Mexico and Vietnam. But as wage rates rise, some rapid-growth markets are looking to move up the value chain into higher value-added activities. This is, for example, an explicit intention of the Chinese in their new five-year economic plan. But, more generally, we are seeing a shift up-market across rapid-growth markets. One clear indication of this is their increased investment in R&D. South Korea invests more in R&D as a proportion of GDP than the US, and the Czech Republic and China now invest over 1.5% of their GDP in R&D, not far behind the UK and the Eurozone average.

Figure 16

All employees: hourly compensation costs in US$ in manufacturing in 2010*

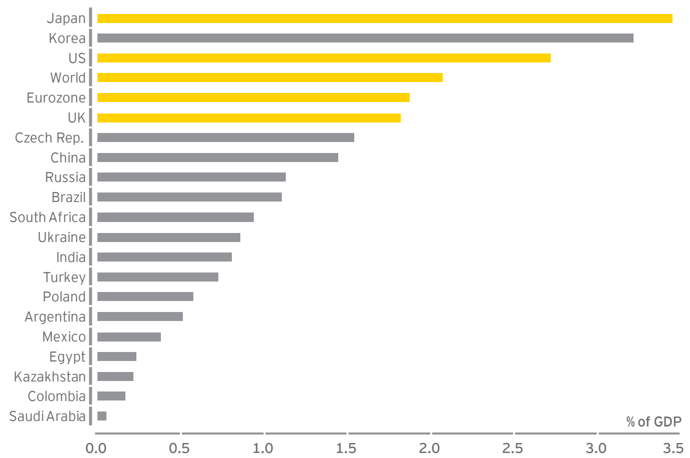


Source: Oxford Economics

- **High real commodity prices** – A number of the rapid-growth markets are very dependent on exports of oil and other commodities. With countries such as China and India – which are big net commodity importers – expected to continue to grow rapidly, and new sources of supply likely to be limited for oil and most metals, we expect commodity prices to remain high in real terms over the next decade and beyond. This means that countries such as Russia, Kazakhstan, Saudi Arabia, Chile and Nigeria will benefit from continued strong export revenues. And some rapid-growth markets that have more recently begun to exploit significant commodity assets – for example off-shore oil in Ghana, and coal deposits in Indonesia – will also benefit. The challenge for such economies is to avoid the so-called "resource curse" and ensure healthy development of their non-resource economies as well.

Figure 17

R&D expenditure as % of GDP in 2007



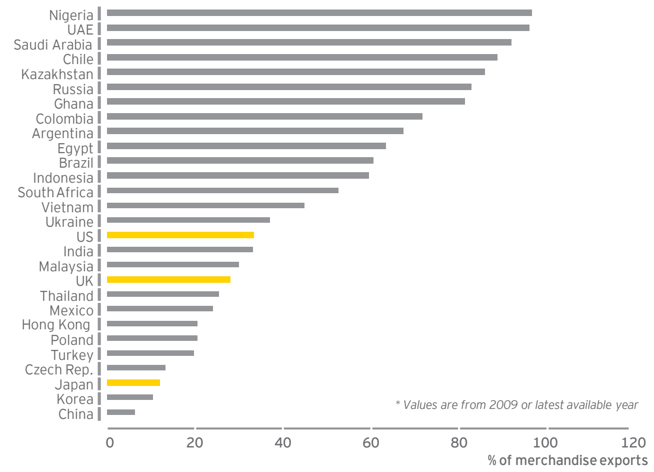
Source: World Bank

Clearly, there are also factors that will constrain growth in rapid-growth markets, and risks to the economic outlook that will impact their development, which we discuss in the next section. But even taking these into account, our forecasts show the level of real GDP in US$ terms across the rapid-growth markets rising by 76% between 2010 and 2020, equivalent to average growth of 6% a year.

Within the rapid-growth markets, Asia will lead the way, with GDP up 95% by the end of this decade (average growth of 7.1% pa). Latin American rapid-growth markets are expected to expand by 48% by 2020 (4.3% p.a), rapid-growth markets in the Europe, Middle East and Africa region by 55% (4.5% p.a).

Figure 18

Export commodities in 2009*



Source: Oxford Economics

What could go wrong for the rapid-growth markets?

While the overall outlook for the rapid-growth markets is positive, one thing is certain – their progress will not be smooth. As highlighted already, the rapid-growth markets have to address a number of challenges to fulfil their potential. The boxes on pages 25 and 29 highlight some of the domestically generated risks facing economies in different regions within the rapid-growth markets.

Right now, though, the main concern is about macroeconomic risks, in particular as a result of the concerns about the strength of the recovery in advanced economies, the escalating Eurozone sovereign debt crisis and the associated financial turmoil.

Rapid-growth markets are vulnerable to a severe downturn in advanced economies for a number of reasons:

(i) Trade links are still large

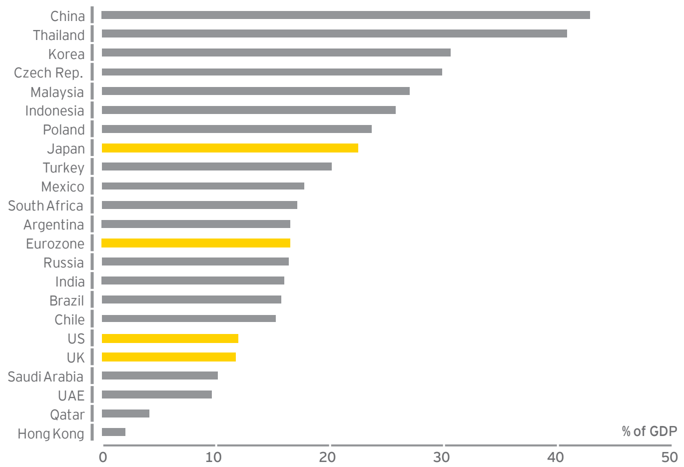
As already highlighted, exports to advanced economies account for one-sixth of rapid-growth markets GDP. That means that, for example, a 5% fall in exports to advanced economies would cut GDP growth in rapid-growth markets directly by around 0.75% points.

But rapid-growth markets exposure to a downturn in trade with advanced economies is even greater than such figures imply. That is because rapid-growth markets are generally very dependent on the most volatile components of international trade, i.e:

- **Manufacturing** – Industrial production is much more cyclical than the service sector, in particular because of the impact of big swings in inventory holdings. For most rapid-growth markets – especially those in Asia and Eastern Europe – manufacturing is a much bigger share of their GDP than it typically is in advanced economies.
- **Investment goods** – Within manufacturing, the investment goods cycle is generally much more marked than that for, say, consumer goods, since it is driven by "big-ticket" purchase decisions that companies can quickly put on hold when economic conditions deteriorate. Again, many rapid-growth markets have significant reliance on investment goods production, due to their dependence on the electronics or motor vehicles sectors.

Figure 19

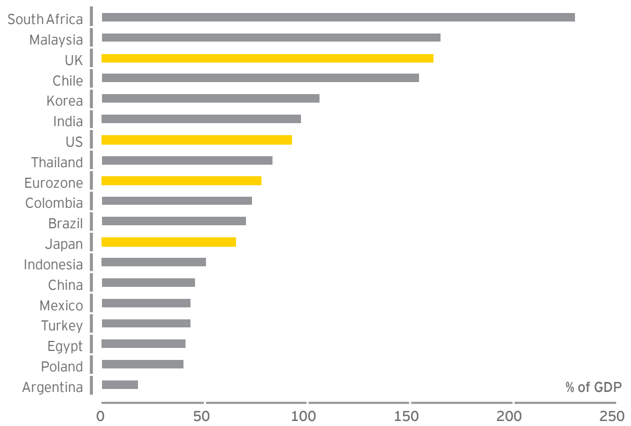
Manufacturing in 2010



Source: Oxford Economics

Figure 20

Equity market capitalization in 2010



Source: Oxford Economics; Haver Analytics

A downturn in advanced economies is therefore likely to have a magnified impact on RGM trade, which is likely to knock on to trade within rapid-growth markets given their highly inter-connected supply chains.

(ii) Financial linkages are also substantial

Financial markets in rapid-growth markets are obviously closely coupled to those in the advanced economies. The recent collapse in equity markets in advanced economies has been broadly mirrored in most rapid-growth markets. Similarly, concerns about the stability of the financial system and access to credit, which has driven swings in yields on both government and corporate bonds in advanced economies, are also impacting on interest rates for rapid-growth markets.

While rapid-growth markets are generally less sensitive to the financial sector than advanced economies, such effects still matter. For example, equity market capitalization is higher relative to GDP in South Africa and Malaysia than in the US and UK. And it is higher in India, Korea, Brazil and Chile than it is in the Eurozone.

In addition, a collapse in financial markets in advanced economies is normally associated with a fall in FDI flows to emerging markets. And an increase in risk aversion generally triggers a reversal of more speculative flows into rapid-growth markets, which further destabilizes their financial markets and can trigger sharp currency swings. Such a shift would be very dangerous at present for an economy like Turkey, for example, which is reliant on external financing to fund its large current account deficit.

(iii) Consumer and business confidence is influenced by global events

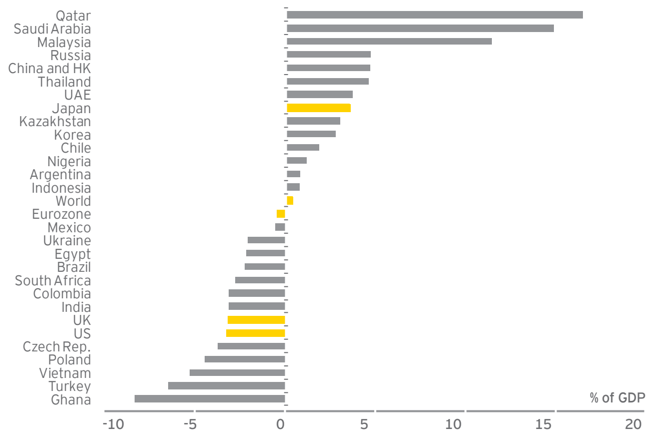
Similarly, consumer and business confidence in rapid-growth markets is impacted when there is increased uncertainty about prospects in the advanced economies. This leads to more cautious behavior by consumers and businesses, who delay spending decisions until prospects are clearer. This effect is most marked currently in Eastern European rapid-growth markets, where there has been a particularly clear decline in confidence measures in recent months, reflecting the exposure of these economies to the troubles in the Eurozone.

(iv) Oil and commodity price impacts

The effect of a downturn in advanced economies on oil and commodity prices has mixed impacts on rapid-growth markets. For those that are net exporters, it obviously worsens their terms of trade. But for net importers, it can help mitigate the impact of weaker trade and financial flows. Strikingly, however, the recent concern about a renewed downturn in advanced economies has done relatively little so far to bring down commodity prices. This, in turn, underlines that demand for most commodities is now driven primarily by rapid-growth markets.

Figure 21

Current account as % of GDP in 2010



Source: Oxford Economics

Box 2

Managing inflation and capital inflows in Latin America

Most of the rapidly growing economies in the Americas have been tightening monetary policy over the past 12 months, in order to tackle rising inflation. Mexico suffered a much deeper recession in the aftermath of the financial crisis and as result, with capacity utilization much lower, its central bank has kept rates on hold at 4.5% during 2011. But more recently, with the weakening in the global outlook, we have seen a pause in rates, notably for Chile and Colombia, with Brazil even lowering its rate by 50 basis points (bp) in a surprise move at the end of August to 12%.

Despite the threat of renewed recession in advanced economies, inflation remains a concern for some of the Latin American economies, notably Brazil where headline CPI rose to 7.2% in August. During 2010 and 2011 H1, with strong growth and relatively high rates of return, there has been a significant rise in capital inflows into these economies.

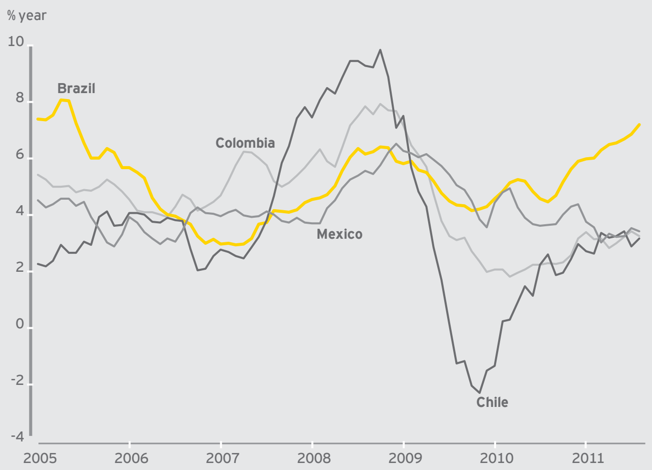
While much of this is welcome and is a signal of the higher potential growth in these economies, it also put upward pressure on the value of their currencies. The Brazilian real and the Chilean peso were given a further major impetus from the surge in commodity prices since 2009. Argentina and Mexico saw sharp rises in their equity prices over the same period, adding to concerns over asset price bubbles. While some of these pressures have abated in recent months, with financial market volatility and a flight from risk, the prospect of renewed quantitative easing in the US poses additional dilemmas for some economies in Latin America.

Brazil has tried to tackle this through capital controls, with limited success. In the medium term, much more of the burden of the fight against inflation in Brazil needs to be carried by a structurally tighter fiscal policy, which would allow lower interest rates and in turn reduce the upward pressure on the BRL. At the same time, many countries in the Americas need to improve their competitiveness through a variety of supply side reforms, improving the workings of the labor market, boosting their infrastructure and reducing the complexity of their tax systems.

Improving infrastructure investment and ensuring the right skill levels of the labor force will be important to ensure production and exports are broad-based and less reliant on energy and other commodities. This, in turn, will help to attract more sustainable and diversified FDI flows and to ensure that the region is not vulnerable to the swings in market sentiment that have led to debt and currency crises in the region in the past.

Figure 22

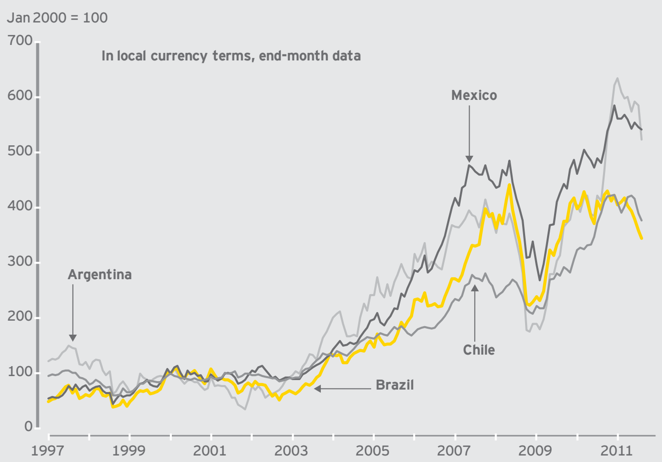
Latin America: Consumer prices



Source: Oxford Economics

Figure 23

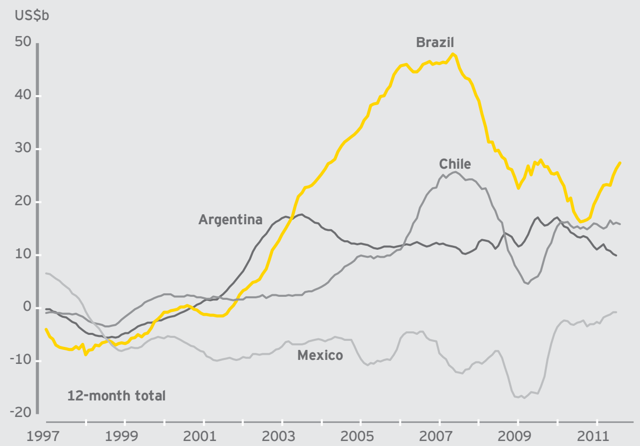
Latin America: Equity markets



Source: Haver Analytics

Figure 24

Latin America: Trade balance



Source: Haver Analytics

An alternative scenario – the rapid-growth markets in the face of a Eurozone crisis

As highlighted in the *Ernst & Young Eurozone Forecast Autumn 2011*, the Eurozone sovereign debt crisis shows no sign of abating and there is a significant probability that the Eurozone slips back into recession. A severe escalation of the Eurozone sovereign debt crisis would likely lead to a renewed recession in advanced economies and, as a result, have a significant impact on the rapid-growth markets. We have used Oxford Economics' Global Model to highlight the international repercussions of a severe escalation of the Eurozone sovereign debt crisis.

In this scenario, the Eurozone authorities' incremental management of the sovereign debt crisis becomes insufficient and a wildfire of financial contagion ensues. The harsh fiscal measures announced for peripheral Eurozone countries prove to be intolerable, potentially triggering bigger and less orderly defaults in Greece, Portugal and Ireland, with heightened fears about Italy and Spain. This would not only hit banks hard in the crisis countries but also across the Eurozone, particularly in Germany and France, with uncertainty about asset quality resulting in a large rise in counterparty risk — similar to that seen in the global financial crisis. Global equity markets would also fall further. The consequent increase in borrowing costs and plunging consumer and business confidence would push the Eurozone back into recession. Financial stress would affect the US to a more limited extent, but even so the economy would be likely to fall back into recession in 2013.

Table 1 on page 60 below shows the implications of this scenario for the rapid-growth markets. It shows:

- GDP growth would be cut by over a half to 3.2% across the rapid-growth markets in 2013 but this would still be well above most advanced economies.
- Among the rapid-growth markets, Eastern Europe would be hit through links with their neighbors. But oil and commodity exporters such as Russia, Brazil, and Chile would also be severely impacted as the value of their principal exports are hit by lower prices as well as weaker world demand with Russia nearing recession. Those with greater trade and financial linkages, such as Korea and Singapore, would also be heavily hit. But we would expect economies such as China and India to be more modestly impacted, partly reflecting the scale of their domestic markets and the beneficial effects of lower oil and commodity prices.

The impact of such a scenario on rapid-growth markets would be cushioned by the policy response we would anticipate in many of these economies. With fewer financial overhangs from the recent global crisis, we would expect to see a reversal of the recent monetary policy tightening implemented in many countries. And, indeed, many could also raise government spending, cut taxes or adopt both of these measures to support demand.

While not good news for rapid-growth markets, such a scenario would, however, further increase their weight in the global economy, as the advanced economies decline. Moreover, we would expect such a scenario to be a temporary speed bump on the path to increased prosperity in rapid-growth markets — slowing growth in the near term but not undermining the supply side fundamentals that underpin the rapid growth we expect in rapid-growth markets over the next decade.

Conclusions

The global economic outlook remains uncertain, with the risks of a renewed recession in advanced economies and of potential widespread financial crisis growing.

The rapid-growth markets are far from decoupled from these risks. But our analysis shows that rapid-growth markets are well placed to weather the economic storm. These countries are increasingly developing their own critical economic mass and most have the financial means, if necessary, to help support growth and protect their banking sectors.

There are also domestically generated challenges that rapid-growth markets must face — for example, avoiding inflationary pressures arising from overheating; managing the impact of capital inflows on the competitiveness of their manufacturing industries; and ensuring that their infrastructure (physical and human) is sufficient to support their long-term growth potential.

Nevertheless, our projections show rapid-growth markets accounting for 50% of world GDP measured at PPP by 2020. We expect advanced economies to be exporting more than US$17.6 trillion of goods to rapid-growth markets, almost twice the current level. These new reports will map out the progress of rapid-growth markets along this path and highlight the opportunities and challenges for Western companies in doing business with rapid-growth markets.

Box 3

Recovery and risks in Emerging Europe

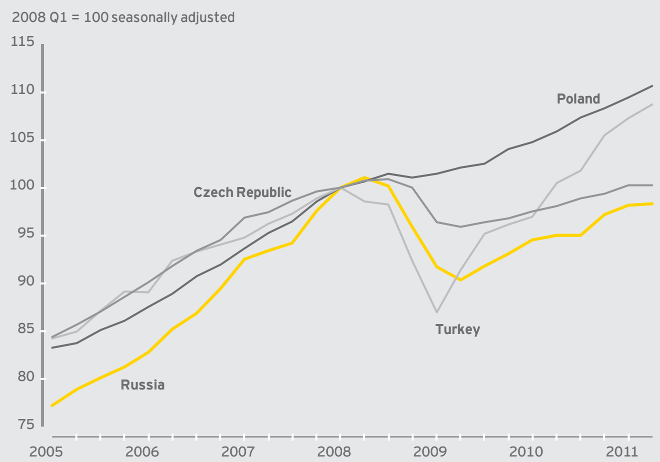
Compared to the recoveries in emerging Asia and Latin America since the global financial crisis, that in Emerging Europe has been lackluster. Many countries have yet to regain 2008 peak levels of activity and this largely disappointing performance continued in 2011 Q2. The recovery in Poland and Turkey has been more robust, relative to its peers. With Turkey recovering rapidly since being more severely affected in late 2008, Poland had only a mild recession and a steady recovery. But for many, the economic environment has become more difficult in Q3 given the financial market turmoil triggered by the deepening Eurozone debt crisis and the sluggish nature of growth in the US.

On a seasonally adjusted basis, Russian GDP increased by just 0.2% on the quarter in Q2, with reasonable recovery in domestic demand according to monthly indicators. Moreover, with global oil prices little different from those in May and June, the impact of the recent global financial turbulence on Russia's export prospects has been modest compared with other Emerging Europe economies that rely on selling manufactures to the EU. In addition, with Russian inflation now moderating (8.2% in August), real wage growth is running at a much healthier pace than earlier in the year, while the recent loosening of fiscal policy will also support consumer spending in 2012. Finally, bank lending growth is also growing at a robust pace, up 19.7% year-on-year in July. As a result, these factors suggest that Russia should be reasonably well placed to withstand the impact of weaker global growth, with growth likely to exceed 4% next year. The major risk is if the developed economies slump back into recession and cause a sharp fall in the oil price — which would quickly undermine Russia's fiscal and external positions.

As has been the case since 2008, Poland was the star performer among the Emerging Europe economies in Q2 2011, with GDP rising 1.1% on the quarter, a pace also achieved in three of the previous four quarters. Moreover, this expansion was broad based, with consumer spending increasing by 0.9%, investment by 1.9% and export volumes up 4.5%. However, the intensification of the external headwinds will inevitably slow growth over the next year, even though the economy is much less reliant on exports than most of its neighbors. The level of seasonally adjusted industrial output in July was lower than the average in Q2, while August's Purchasing Managers Index (PMI) was the second-weakest since January 2010, albeit still in expansion territory. In addition, retail sales also slipped in July (though were still over 4% up on the year). Notwithstanding these developments, we still expect Polish growth to average over 3% growth in 2012. Moreover, if the external environment becomes much worse, the central bank has the scope to cut interest rates if necessary (having raised them 100bp to 4.5% earlier in 2011), although the scale of the adjustment would be influenced by the performance of inflation and the exchange rate.

Figure 25

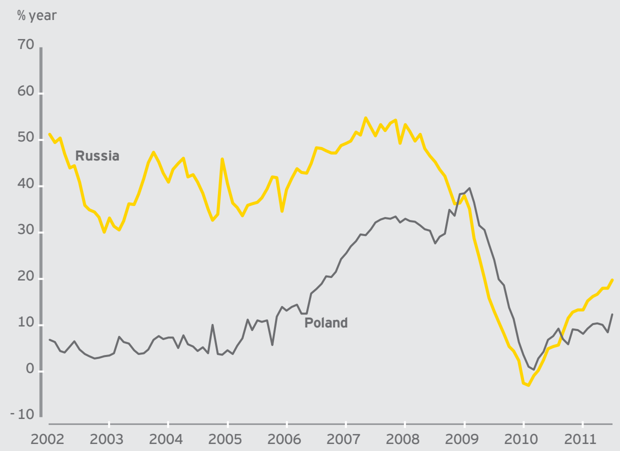
Emerging Europe: Real GDP



Source: Haver Analytics, Oxford Economics

Figure 26

Emerging Europe: Bank lending



Source: Haver Analytics

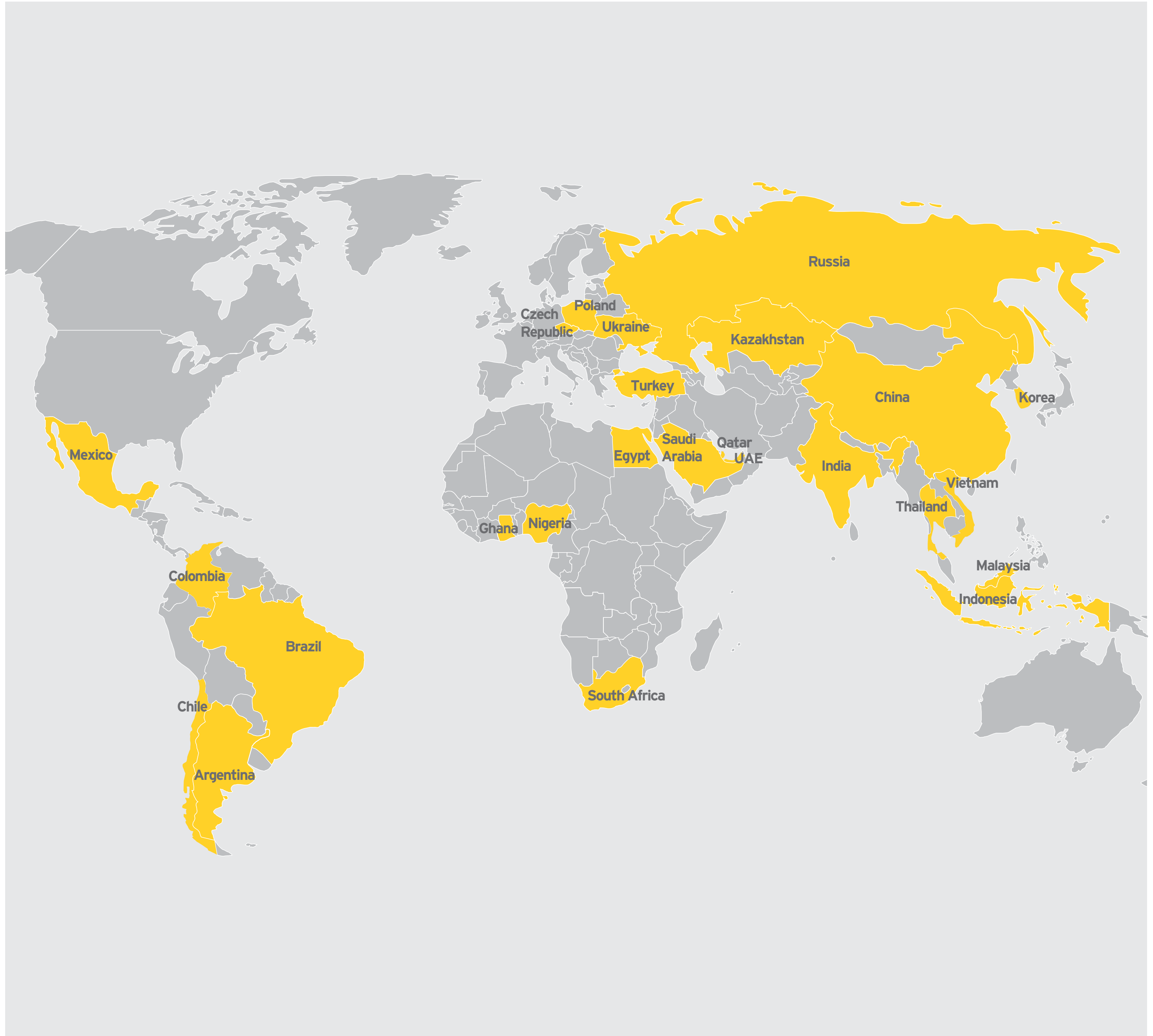
Forecast for rapidly growing countries

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

25 rapid-growth markets

Please visit our dedicated rapid-growth markets website for access to additional information on the *Ernst & Young Rapid-Growth Markets Forecast* and content related to the 25 individual countries, such as thought leadership pieces and insights, and also to learn more about Ernst & Young's competencies in rapid-growth markets. The site contains the full version of our report as well as a series of additional perspectives and, soon, the webcast and further news items.

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



Argentina

Growth to remain solid in 2011, despite global deterioration

The seasonally adjusted economic activity indicator fell 1.2% on the month in July, after a modest 0.4% gain in June, while in annual terms activity expanded 8.5% in July. Meanwhile, industrial production slowed to 5.2% on the year in August, further indicating that activity is beginning to cool.

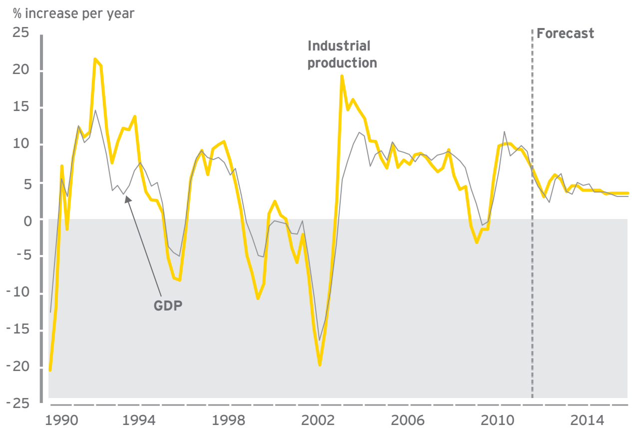
We expect GDP growth of 7.3% as a whole this year, down from 9.2% in 2010. The deterioration in private domestic demand should be partially offset by supportive fiscal policy. For 2012, we are expecting growth of 4.3%. The impact on Argentina of the recent deterioration in the global outlook, should remain quite modest unless world food prices start to plunge.

The trade surplus narrowed to US$4b in Q2 2011, from US$5.3b in Q2 2010. Exports rose 20.2% on the year, the result of higher prices rather than rising volumes, while imports soared 37.8%, mainly due to higher volumes.

According to the official CPI, the monthly rise in prices picked up slightly to 0.8% in July from 0.7% in June, while the annual inflation rate was unchanged at 9.7%. Our forecast for official inflation at the end of 2011 is just under 11%.

Figure 27

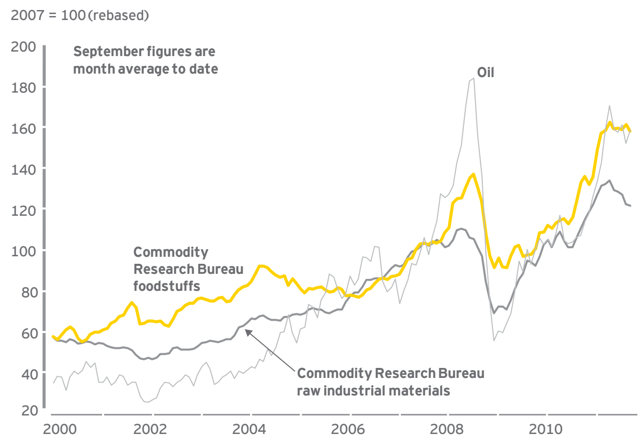
GDP and industrial production



Source: Oxford Economics

Figure 28

World: Commodity prices



Source: Commodity Research Bureau; Haver Analytics

Table 1

Argentina

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	9.2	7.3	4.3	4.2	3.9	3.2
CPI inflation (%)	10.4	10.3	11.0	8.0	5.8	4.1
Current account balance (% of GDP)	0.8	0.2	-0.4	-0.2	-0.1	-0.1
External debt total (% of GDP)	32.6	28.0	25.4	23.4	22.0	21.1
Short-term interest rate (%)	9.2	9.5	9.4	9.1	8.9	8.8
Exchange rate per US$ (year average)	3.9	4.1	4.3	4.5	4.6	4.8
Government balance (% of GDP)	0.2	-1.4	-0.8	-0.7	-0.6	-0.6
Population (millions)	40.5	40.8	41.2	41.5	41.9	42.2
Nominal GDP (US$b)	370.0	430.9	473.8	514.9	548.0	570.0
GDP per capita (US$ current prices)	9,145.0	10,559.4	11,510.8	12,402.4	13,086.2	13,501.6

Brazil

Cooling economy and debate around rate cuts

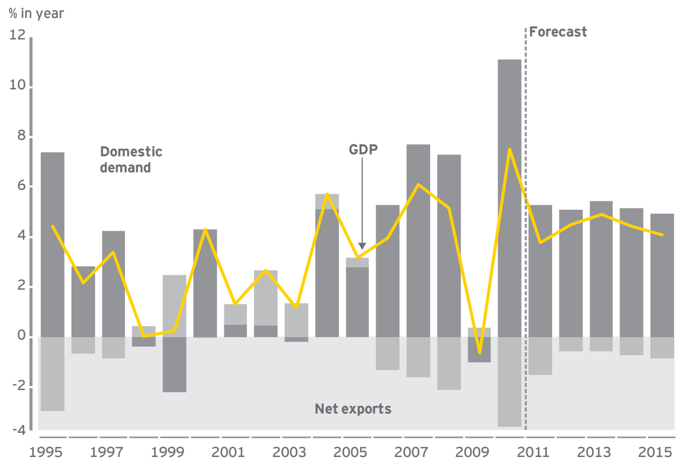
Renewed weakness in the developed world is expected to accelerate the cooling of Brazil's economy, leaving GDP growth at 3.8% this year. This represents a sharp slowdown from last year's 7.6% rate of expansion. Growth should recover somewhat to 4.5% in 2012, as the impact from previous tightening in monetary policy eases and growth in its trading partners recovers.

Amid concern over the sharp deterioration in global economic and financial conditions, Brazil unexpectedly cut interest rates by 50 basis points to 12.0% at the end of August. The move followed close on the heels of a tightening cycle, that saw the central bank raising rates as recently as its last meeting in July – to combat mounting price pressures.

There is a debate as to whether the rate cut was premature. Although growth prospects have clearly deteriorated, there remains sufficient uncertainty regarding the outlook. Crucially, inflation remains at elevated levels and could lead to a further de-anchoring of inflation expectations. Although the market has priced in additional cuts in the near term, we expect rates to be on hold over the coming year unless there is a further marked deterioration in economic conditions.

Figure 29

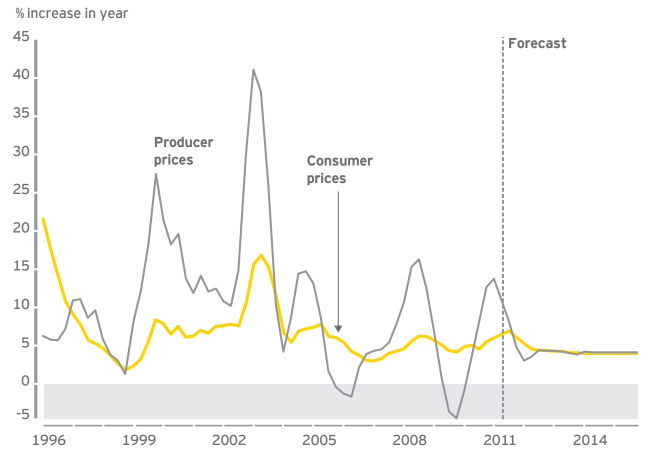
Contributions to GDP growth



Source: Oxford Economics

Figure 30

Prices and earnings



Source: Oxford Economics

Table 2

Brazil

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	7.5	3.8	4.5	4.9	4.4	4.1
CPI inflation (%)	5.0	6.4	4.7	4.2	4.0	4.0
Current account balance (% of GDP)	-2.3	-2.1	-2.2	-2.0	-1.9	-1.8
External debt total (% of GDP)	11.3	11.1	10.7	10.8	10.8	10.7
Short-term interest rate (%)	9.8	11.9	12.0	11.4	10.4	9.4
Exchange rate per US$ (year average)	1.8	1.7	1.7	1.9	2.1	2.2
Government balance (% of GDP)	-2.6	-2.3	-1.5	-1.4	-1.5	-1.5
Population (millions)	195.2	196.9	198.6	200.3	201.9	203.5
Nominal GDP (US$b)	2,092.0	2,476.0	2,550.3	2,537.0	2,520.2	2,590.9
GDP per capita (US$ current prices)	10,719.0	12,575.6	12,841.2	12,667.3	12,481.7	12,732.5

Chile

Strong growth begins to moderate

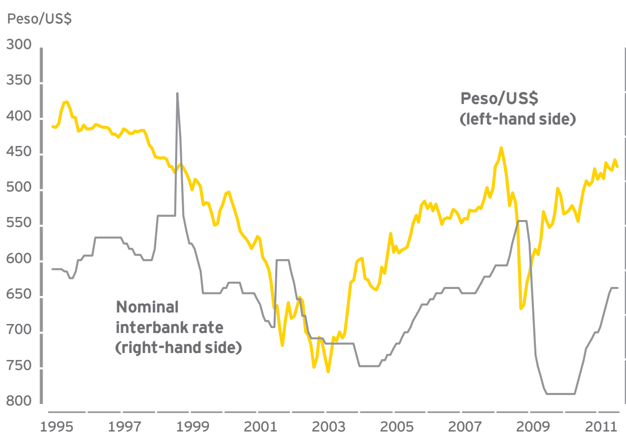
GDP growth slowed to 1.4% on the quarter in Q2 2011, from 1.6% in Q1, subdued by weakening domestic demand. Private consumption slowed to just 1% on the quarter, while investment growth also fell. The continued improvement in labor market conditions since the end of 2009 has finally subsided, with the unemployment rate in the three months to July rising to 7.5%, from 7.2% in June. GDP is expected to increase by 6.3% this year, before slowing to 4.2% in 2012.

Growth is likely to have been affected by tightening monetary policy, which has increased by 325 basis points since August 2010. However, the main policy rate has remained at 5.25% since June, and further rate rises are now looking unlikely for the remainder of 2011. This is due to a subdued outlook for CPI inflation, which stood at 3.2% in August, and a weaker outlook for growth.

Export volumes remained buoyant in Q2, up 4% on the quarter, while imports increased by 4.6% during the same period. Export values remained especially high, underpinned by surging copper prices. Supply-side disruptions have helped to sustain copper prices which, in turn, have helped to strengthen the Chilean peso (CLP). However, a deteriorating global outlook has contributed to a fall in both copper prices and the exchange rate in recent weeks, with the CLP down from CLP463 per US$ in July, to CLP509 per US$ on 28 September.

Figure 31

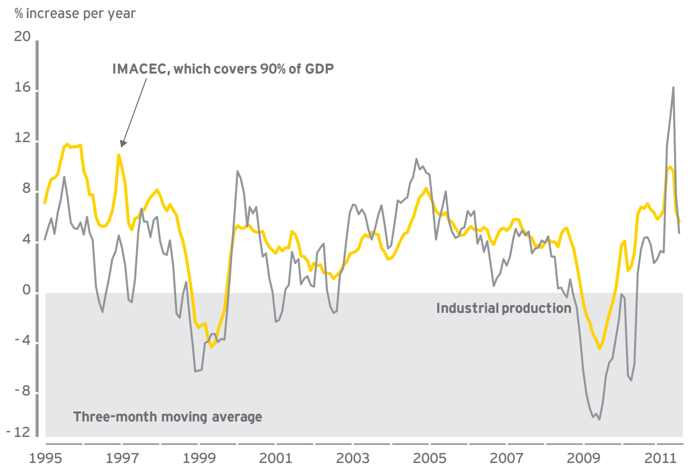
Exchange and interest rates



Source: Banco Central de Chile; Haver Analytics

Figure 32

Industrial and economic activity indices



Source: Instituto Nacional de Estadíticas; Banco Central de Chile; Haver Analytics

Table 3

Chile

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	5.1	6.3	4.2	4.9	4.7	4.5
CPI inflation (%)	1.4	3.2	2.9	3.0	3.0	3.0
Current account balance (% of GDP)	1.9	-0.2	-0.2	-0.6	0.1	1.0
External debt total (% of GDP)	41.3	37.3	37.1	36.9	35.4	33.7
Short-term interest rate (%)	1.9	5.1	7.0	7.6	6.4	5.8
Exchange rate per US$ (year average)	510.2	477.5	495.0	507.9	512.0	512.9
Government balance (% of GDP)	-0.2	1.8	1.3	0.9	0.6	0.5
Population (millions)	17.1	17.3	17.4	17.6	17.7	17.9
Nominal GDP (US$b)	203.8	238.8	247.4	256.2	274.9	298.1
GDP per capita (US$ current prices)	11,895.4	13,811.8	14,186.0	14,561.9	15,496.2	16,668.2

China and Hong Kong special administrative region

Growth outlook weaker, taking the pressure off overheating concerns

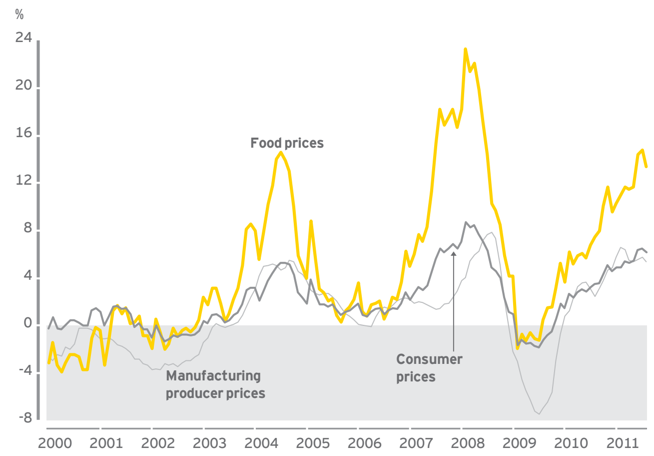
GDP growth in China was a robust 9.5% in Q2 2011. Expansion in China over the past six months has been driven by domestic demand: investment contributed 5.1% points, while consumption contributed 4.6% points. Net exports were a small drag of -0.1%. But the global gloom has cast a shadow on China's prospects and we now expect growth to slow somewhat below trend over the coming quarters, with overall growth of 8.8% this year, and 8.3% in 2012. But growth should pick up over the course of next year, to 9.2% in 2013, as the effects of the tightening in credit ease.

Exports held up surprisingly well in August, with annual growth rising to 24.5% (from 20.5% in July). Import growth bounced back even more – to 30.2% (from 23.8% in July), suggesting that domestic demand on the Mainland remains robust – and lowering the trade surplus to US$17.8b.

Headline CPI inflation moderated slightly to 6.2% in August from 6.5% in July, driven by an expected easing in food price inflation and the Government's price control measures. Share prices in Hong Kong have been hit by the financial market gloom and, while domestic property prices eased, commercial property price inflation rose by a robust 37% in July. Nevertheless, with its reserves of US$3.2 trillion, China has more ammunition than its Western counterparts to weather further global storms.

Figure 33

China: Inflation



Source: China Bureau of Statistics; Haver Analytics

Figure 34

Hong Kong: Stock market

Source: Hang Seng Index Services Limited; Haver Analytics

Table 4

China

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (%year)	10.3	8.8	8.3	9.2	8.8	8.3
CPI inflation (%)	3.3	5.5	3.3	3.0	3.0	3.0
Current account balance (% of GDP)	4.7	4.2	4.2	4.1	3.7	3.2
External debt total (% of GDP)	8.0	7.6	7.6	7.3	7.0	6.8
Short-term interest rate (%)	2.7	4.4	3.4	3.2	3.2	3.5
Exchange rate per US$ (year average)	6.8	6.5	6.2	6.0	5.7	5.6
Government balance (% of GDP)	-0.5	-0.1	0.5	0.6	0.7	0.7
Population (millions)	1,355.2	1,363.7	1,372.3	1,380.8	1,389.1	1,397.0
Nominal GDP (US$b)	5,890.3	6,936.4	7,847.6	9,120.6	10,547.6	12,059.5
GDP per capita (US$ current prices)	4,346.4	5,086.4	5,718.6	6,605.3	7,593.3	8,632.7

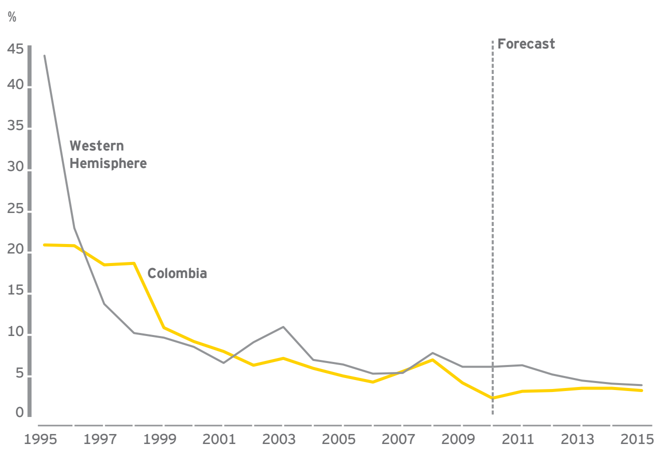
Colombia

Domestic demand should limit impact from weaker world economy

Good growth has been sustained after GDP rose 4.3% in 2010. In Q1 2011, GDP was up 4.7% on a year earlier. The central bank expects 2011 growth around the midpoint of a 4.5% to 6.5% range. We expect growth of 4.7% this year, with a similar expansion over the medium term. Industry output growth eased in Q2 2011 – and this may signal wider slowdown. The central bank raised its key interest rate by 25 basis points each month from February to July, to 4.5%, as inflation held above the midpoint of the 2% to 4% target range, owing to higher food and energy prices. But there was a pause in the rate hikes in August, while inflation eased to 3.3%.

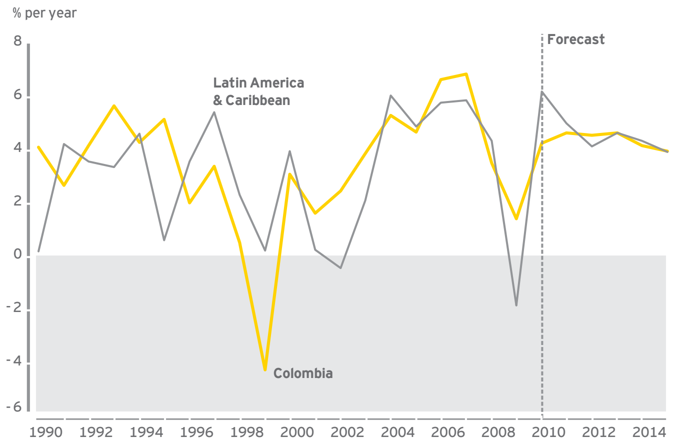
In 2010, the trade surplus fell to about US$2b (from US$2.5b in 2009), and the current account deficit rose 75% to almost US$9b or 3% of GDP. Despite strong export growth and a trade surplus of US$2.2b in H1, we expect a current account deficit of US$9.6b this year, as imports rise and the services deficit widens. Inflows of FDI have been substantial this year, at an estimated US$8.6b in January to July, up 61% from the same period of 2010, helped by upgrades to low investment-grade status by Moody's (in May) and S&P (in March), as well as US$1.3b of foreign investment in coal projects announced on 18 August 2011.

Figure 35
Inflation



Source: Oxford Economics; Haver Analytics

Figure 36
Real GDP growth



Source: Oxford Economics; World Bank

Table 5
Colombia

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	4.3	4.7	4.6	4.7	4.2	4.0
CPI inflation (%)	2.3	3.2	3.3	3.5	3.5	3.3
Current account balance (% of GDP)	-3.1	-3.0	-2.7	-2.3	-2.0	-1.9
External debt total (% of GDP)	22.1	22.0	24.1	25.6	26.4	26.9
Short-term interest rate (%)	3.2	4.0	5.5	6.9	6.9	6.9
Exchange rate per US$ (year average)	1,898.6	1,832.0	1,969.2	2,098.4	2,192.8	2,269.6
Government balance (% of GDP)	-3.5	-2.0	-1.9	-1.6	-1.2	-1.2
Population (millions)	46.3	46.9	47.6	48.2	48.8	49.4
Nominal GDP (US$b)	288.8	324.7	326.4	331.9	342.5	355.5
GDP per capita (US$ current prices)	6,237.9	6,918.4	6,863.3	6,890.6	7,022.9	7,201.7

Czech Republic

Export outlook weakens while domestic demand stays sluggish

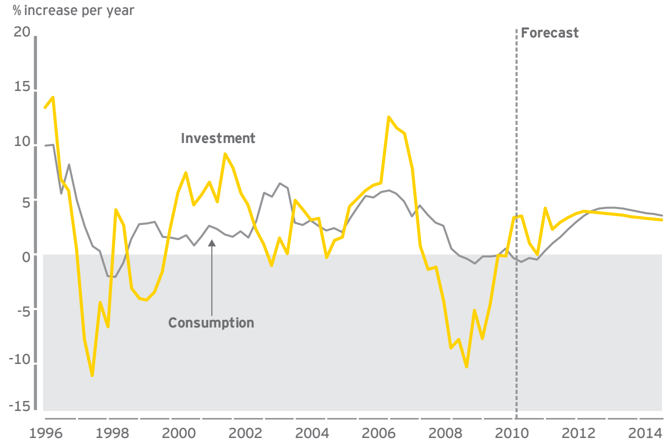
Czech economic growth lost momentum in Q2 2011, as GDP increased by just 0.1% on the quarter, after 0.9% in Q1. Moreover, the external environment has deteriorated markedly in recent months and foreign demand is expected to be very subdued in H2 2011. As a result, we expect GDP to expand by 2.0% in 2011 and 2.1% in 2012.

Lower export growth has been mirrored by a slowdown of industrial output growth, while confidence in the sector has slipped, and capacity utilization dropped. As a result, we expect investment to rise by only 2.0% in 2011.

Unemployment fell for the seventh successive month in July, according to seasonally adjusted estimates, but rose in August. Overall, it is expected to be broadly stable in H2, and to average 8.6% in 2011 as a whole – down from 9.0% in 2010. But retail sales volumes showed no sign of improvement in Q2 2011, and consumer confidence was nearly as depressed in August as in Q1 2009.

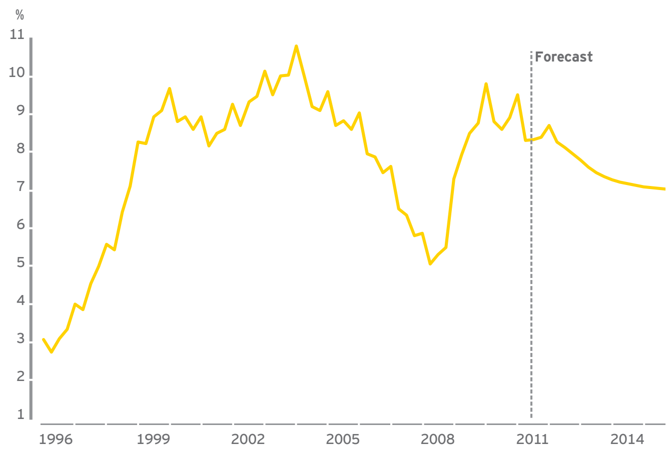
So far this year, the budget deficit has narrowed, and Czech government bond yields continued to decline in July and August. We expect the deficit to shrink to 4.4% of GDP in 2011 and to below 4% of GDP in 2012.

Figure 37
Consumption and investment



Source: Oxford Economics

Figure 38
Unemployment



Source: Oxford Economics

Table 6
Czech Republic

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	2.2	2.0	2.1	3.4	3.1	2.8
CPI inflation (%)	1.5	1.8	3.0	2.7	2.6	2.5
Current account balance (% of GDP)	-3.2	-2.9	-2.3	-2.4	-2.8	-2.8
External debt total (% of GDP)	46.6	43.5	44.3	46.8	49.6	50.5
Short-term interest rate (%)	1.3	1.2	1.4	3.4	4.1	4.1
Exchange rate per US$ (year average)	19.1	17.3	18.2	19.6	21.1	21.8
Government balance (% of GDP)	-4.3	-4.4	-3.8	-3.4	-2.9	-2.4
Population (millions)	10.5	10.5	10.5	10.5	10.5	10.5
Nominal GDP (US$b)	192.2	217.1	217.0	213.6	209.1	213.4
GDP per capita (US$ current prices)	18,279.0	20,630.0	20,602.7	20,267.0	19,835.7	20,236.0

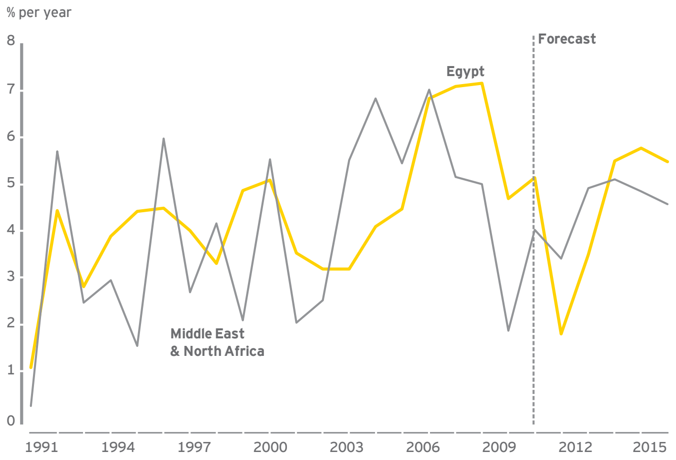
Egypt

Signs of a slow recovery amid political uncertainty

Uncertainty about the political outlook will continue to weigh on the economy, though there are now signs of a slow recovery. With tourism and foreign investment very weak, GDP fell by over 4% on the year in Q1 2011, but there was a 0.4% rise on the year in Q2, which delivered overall 2010–11 GDP growth of 1.8% – a little better than seemed likely at one stage. Assuming no further serious unrest, and with tourism starting to pick up slowly, GDP growth is expected to recover to about 3.5% in 2011–12, though the risks are on the downside in the near term. But the economy's underlying potential remains intact and we expect growth above 5.5% over the medium term.

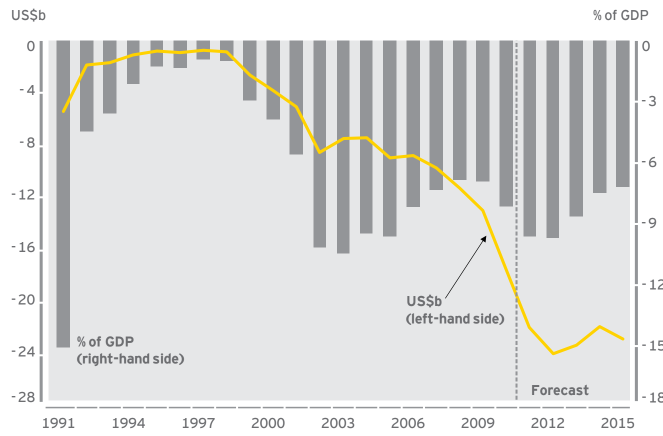
Over the course of this year, economic activity will remain constrained by tight monetary policy. Inflation is still high, although it slowed sharply in August to 8.5%, from 10.4% in July. The Central Bank of Egypt again left interest rates on hold on 25 August, noting that although international price pressures were subsiding, food shortages posed an upside risk to the inflation outlook (food price inflation was 17% in July). Also of concern is the fiscal deficit, which widened to just below 10% of GDP in the fiscal year 2010–11. The Government hopes to cut the deficit to 8.6% of GDP in 2011–12 via lower spending and higher taxes, but this looks ambitious given slow GDP growth.

Figure 39
Real GDP growth



Source: Oxford Economics; World Bank

Figure 40
Government budget balance



Source: Oxford Economics

Table 7
Egypt

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	5.1	1.8	3.5	5.5	5.8	5.5
CPI inflation (%)	11.3	10.5	9.0	7.7	6.3	5.5
Current account balance (% of GDP)	-2.1	-1.4	-1.6	-1.2	-0.9	-0.8
External debt total (% of GDP)	16.2	16.0	15.9	15.5	14.9	14.4
Short-term interest rate (%)	9.3	11.5	10.0	8.5	7.5	6.5
Exchange rate per US$ (year average)	5.6	6.0	6.2	6.5	6.7	6.9
Government balance (% of GDP)	-8.1	-9.6	-9.7	-8.6	-7.5	-7.2
Population (millions)	81.1	82.5	84.0	85.4	86.8	88.2
Nominal GDP (US$b)	214.6	228.1	247.0	269.7	293.1	317.4
GDP per capita (US$ current prices)	2,645.7	2,763.8	2,941.6	3,159.0	3,377.6	3,599.0

Ghana

Oil output to deliver 14% growth this year, with inflation slowing

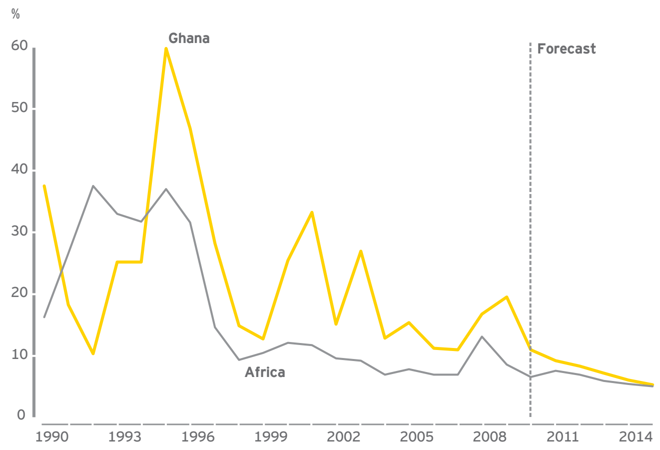
After solid growth of 7.7% in 2010, the start of oil production at the end of 2010 is expected to lift GDP growth to around 14% this year. While Ghana will only be a small producer in global terms – with output at 120,000 barrels per day (b/d) this year – there will be a sizeable impact on its public finances and balance of payments. And with a record cocoa harvest expected and surging gold prices, coupled with ongoing oil-related FDI inflows, growth is expected to remain buoyant in 2012, albeit slowing somewhat to about 8%.

A 30% rise in fuel prices in January lifted inflation to 9.2% in February, but price pressures have been more muted than expected. The annual rate eased to 8.4% in July, and 2011 should now be the first year of single-digit inflation since 1971.

With the arrival of oil revenues, the fiscal situation is improving – despite a 20% rise in public sector pay and some ambitious spending plans, the budget deficit could fall to around 5% of GDP. The IMF program remains intact, but there is some concern that oil revenues might trigger a spending spree and push up inflation again.

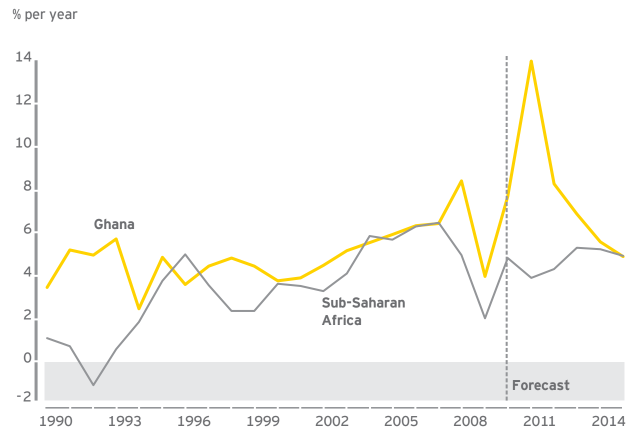
The decline in inflation enabled the central bank to cut interest rates by 50 basis points in both May and July, to 13.5%. Further gradual easing may be possible if inflation stays below 10%.

Figure 41
Inflation



Source: Oxford Economics; Haver Analytics

Figure 42
Real GDP growth



Source: Oxford Economics; World Bank

Table 8
Ghana

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	7.7	14.0	8.3	6.9	5.6	4.9
CPI inflation (%)	10.7	8.9	8.1	6.9	5.8	5.0
Current account balance (% of GDP)	-8.4	-4.0	-2.1	-2.4	-2.4	-2.8
External debt total (% of GDP)	21.6	21.1	20.2	20.0	20.1	20.7
Short-term interest rate (%)	–	–	–	–	–	–
Exchange rate per US$ (year average)	1.4	1.5	1.6	1.6	1.6	1.6
Government balance (% of GDP)	-6.3	-4.8	-4.2	-3.8	-3.6	-3.6
Population (millions)	24.4	25.0	25.5	26.1	26.7	27.3
Nominal GDP (US$b)	32.3	37.9	43.2	48.4	53.3	57.9
GDP per capita (US$ current prices)	1,324.6	1,517.6	1,691.4	1,851.7	1,995.1	2,120.6

India

Will slowing growth put the lid on interest rate hikes?

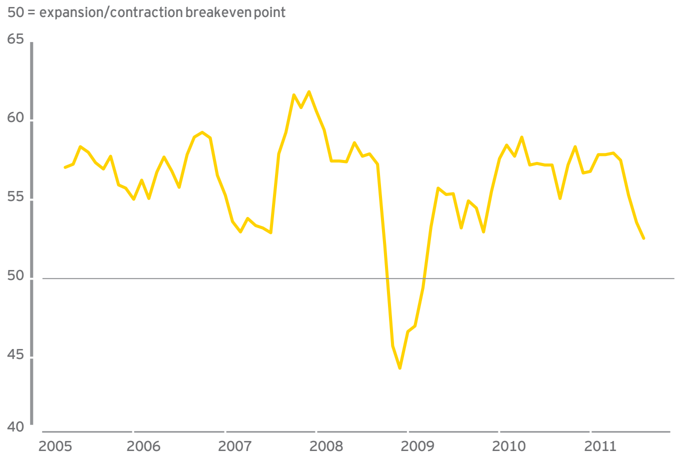
The Reserve Bank of India (RBI) continued with its tightening of monetary policy in September, raising the key repo rate by another 25 basis points to 8.25%. Against a background of persistently high inflation, it remains very concerned about the risk of rising inflationary expectations. Moreover, these worries may have been reinforced by global oil prices holding relatively well, despite the financial turmoil of the last two months, and the rupee sliding sharply.

However, the RBI may soon start to place greater emphasis on the growth outlook. The marked deterioration in the global situation threatens exports — which were a key driver of growth in H1 2011 — while the domestic economy is showing clear signs of a loss of momentum (weakening surveys and falling car sales), under the pressure of rising interest rates and high inflation. We expect GDP growth to slow below 7% during H2 2011, before recovering modestly next year to 8.0%.

Provided inflation does start to fall back by the end of this year, and the US and EU economies do not slip back into recession, the "soft patch" for Indian growth should be relatively short-lived. Once inflation is in check, and interest rates are no longer rising, consumers will be more willing to spend, supporting a general improvement in the business environment, with growth steadily accelerating during 2012. But there are medium-term risks — including stubbornly high food price inflation and an uncertain outlook for investment.

Figure 43

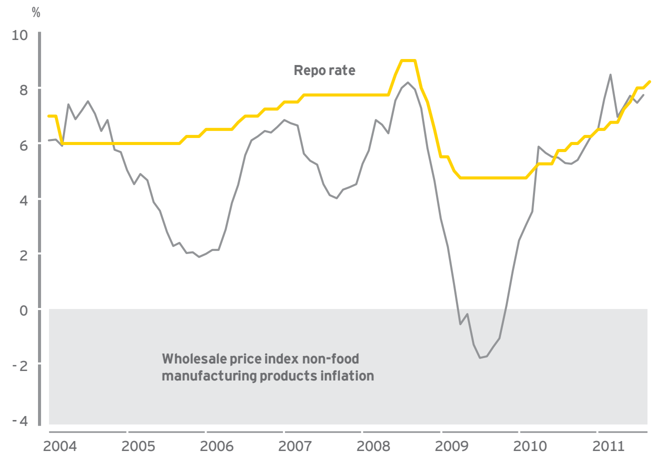
HSBC Manufacturing Purchasing Managers' Index (PMI)



Source: Markit

Figure 44

Interest rate and wholesale price index inflation



Source: Oxford Economics

Table 9

India

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	8.9	7.2	8.0	9.5	9.0	8.3
CPI inflation (%)	12.1	8.5	5.8	4.8	4.4	4.1
Current account balance (% of GDP)	-3.2	-2.7	-2.6	-2.8	-3.0	-3.0
External debt total (% of GDP)	16.1	15.5	14.4	13.0	12.0	11.2
Short-term interest rate (%)	5.6	7.7	8.1	7.6	7.5	7.5
Exchange rate per US$ (year average)	45.7	45.7	46.9	47.1	47.8	49.1
Government balance (% of GDP)	-3.8	-6.2	-5.0	-4.1	-3.4	-3.0
Population (millions)	1,216.5	1,232.8	1,249.0	1,265.0	1,280.7	1,296.1
Nominal GDP (US$b)	1,646.7	1,915.1	2,134.1	2,435.8	2,731.2	2,998.1
GDP per capita (US$ current prices)	1,353.6	1,553.4	1,708.6	1,925.6	2,132.6	2,313.2

Indonesia

Strong domestic activity will underpin robust growth

The economy expanded by 6.5%, year on year, in Q2 2011, maintaining strong momentum after growing by the same rate in Q1. Although imports remained firm, exports picked up strongly, causing net exports to contribute positively to growth while domestic demand stayed robust.

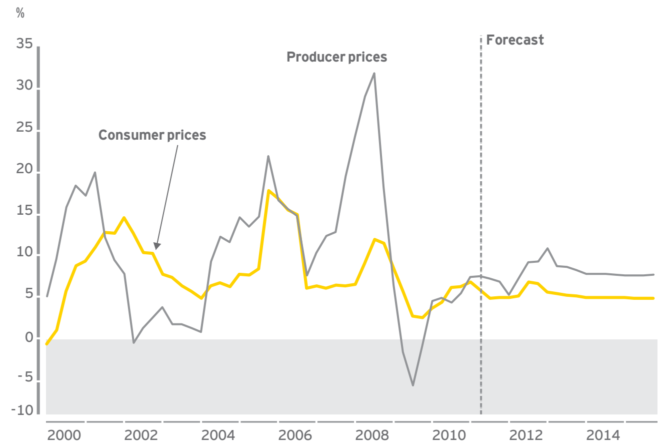
Greater global uncertainty, following the recent sovereign rating downgrade for the US and increasing concerns over the Eurozone debt crisis, has contributed to a sharp fall in the stock market. The president has called a series of emergency cabinet meetings to assess the situation, but said that the country is better prepared for a global crisis than in 2008. The central bank has said that it will monitor market developments closely.

Headline inflation (CPI) picked up to 4.8% in August, but this is still within the central bank's target range, and Bank Indonesia left the interest rate on hold for a seventh successive month in September. However, with domestic demand strong, and the possibility of cuts to fuel subsidies next year, CPI is likely to pick up, prompting higher rates.

Despite the marked deterioration in the global situation, Indonesia has a large domestic market and fewer export linkages to the developed economies than other Asian economies. So we still expect the economy to expand by 6.3% this year.

Figure 45

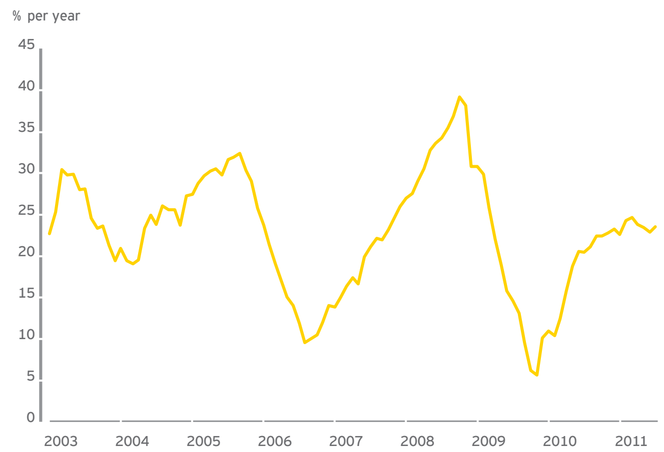
Inflation



Source: Oxford Economics

Figure 46

Bank lending growth



Source: Bank Indonesia; Haver Analytics

Table 10

Indonesia

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	6.1	6.3	6.4	6.7	5.9	5.7
CPI inflation (%)	5.1	5.6	5.9	5.4	5.0	4.9
Current account balance (% of GDP)	0.8	1.0	1.2	0.8	0.7	0.6
External debt total (% of GDP)	27.0	25.6	22.9	20.9	19.2	17.7
Short-term interest rate (%)	6.7	7.1	7.5	7.5	7.5	7.5
Exchange rate per US$ (year average)	9,085.0	8,685.4	8,772.9	8,953.0	9,051.1	9,193.6
Government balance (% of GDP)	-0.5	-1.0	-0.3	0.3	0.5	0.4
Population (millions)	232.8	235.3	237.7	240.0	242.3	244.5
Nominal GDP (US$b)	707.5	837.2	930.2	1024,6	1127,4	1229,9
GDP per capita (US$ current prices)	3,038.7	3,558.4	3,913.9	4,269.1	4,653.4	5,031.1

Kazakhstan

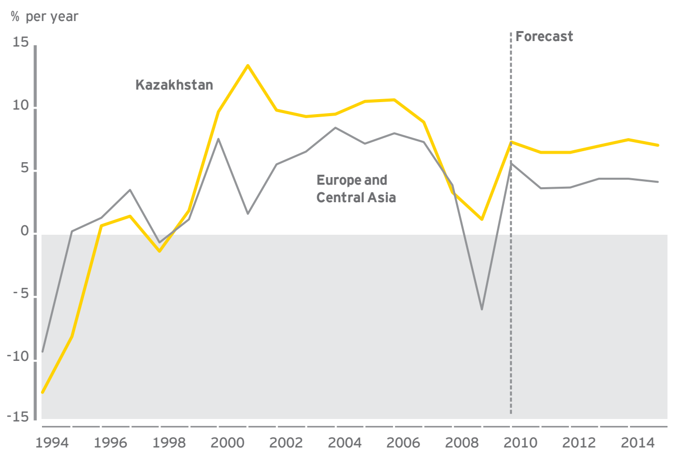
Solid growth expected this year

The economy is still growing strongly on the back of rising oil and metal prices, high government spending and accommodative monetary policy. But there are now signs of a modest slowdown, with the short-term economic indicator up 6.1% in the first eight months of 2011, compared with a GDP rise of 7.1% in H1. This partly reflects less favorable base effects, but also weaker data. Even so, some sectors – notably trade, transport and communications and manufacturing – continue to grow strongly. Taking into account the weaker data, the expected trend in oil and metals prices and the global economy, we now expect GDP to grow by 6.5% both this year and in 2012, compared with 7.3% in 2010.

Consumer prices rose just 0.3% in August due to a 0.2% fall in food costs, which have been the primary driver of higher inflation recently. Nevertheless, inflation increased to 9.1%, its highest level since December 2008. Interest rates will probably not be raised, given their relative ineffectiveness and likely adverse effect on competitiveness and growth. The central bank is talking about raising the 6%-8% inflation target range, with inflation still forecast to be above 8% at the end of the year. The current account surplus is expected to climb further this year to some US$14b, or 8.1% of GDP. Other forecasts for this year include goods exports rising 37%, driven by higher oil and metals prices.

Figure 47

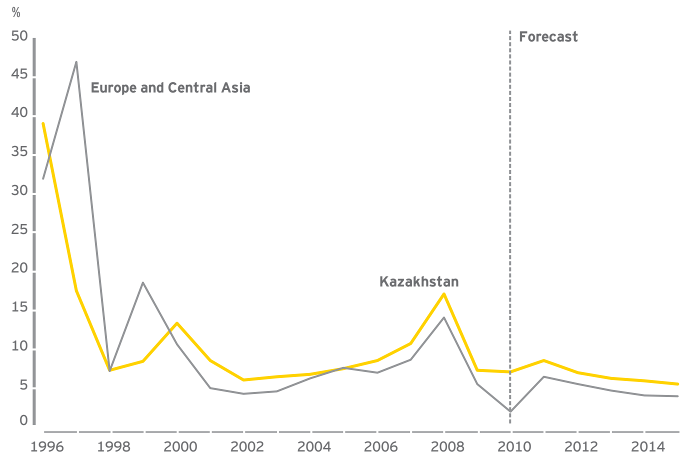
Real GDP growth



Source: Oxford Economics; World Bank

Figure 48

Inflation



Source: Oxford Economics; World Bank

Table 11

Kazakhstan

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	7.3	6.5	6.5	7.0	7.5	7.1
CPI inflation (%)	7.1	8.6	7.0	6.3	5.9	5.5
Current account balance (% of GDP)	3.1	8.1	8.0	8.1	8.5	9.3
External debt total (% of GDP)	81.9	65.0	57.6	49.7	42.6	36.8
Short-term interest rate (%)	3.7	4.0	5.2	6.2	7.0	7.0
Exchange rate per US$ (year average)	147.4	146.2	151.3	155.9	160.5	165.3
Government balance (% of GDP)	-3.2	2.4	3.8	4.2	4.0	3.7
Population (millions)	16.0	16.2	16.4	16.6	16.7	16.9
Nominal GDP (US$b)	141.5	173.7	187.4	206.9	228.7	250.9
GDP per capita (US$ current prices)	8,826.5	10,715.2	11,438.9	12,502.0	13,679.2	14,857.5

Korea

Solid export performance set to lose momentum

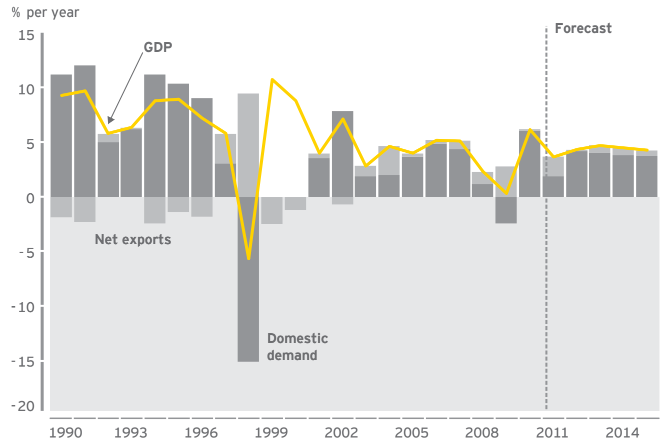
Despite the competitiveness of its exporters, the benefits of a diverse product mix and exposure to many fast-growing economies, the sharp deterioration in the global economic outlook has dampened Korean export prospects. The manufacturing PMI slipped into contraction territory in August, and a rise in the inventory to shipments ratio will also exert downward pressure on output in H2 2011. We expect GDP to grow by 3.6% this year and by 4.3% in 2012.

But, provided the US and Eurozone avoid recession and Chinese domestic demand growth stays solid, the downside risks should be limited. Exports should continue to grow, albeit much more slowly than over the last 18 months, while consumer spending growth is forecast to remain reasonable. Additionally, construction investment should start to recover from the slump of the last year. In the event of a more severe global downturn, the Government has the scope to support the economy with a substantial fiscal boost.

Inflation remains a significant concern, rising to 5.3% in August; however, the trend should turn in the near future. Given the worsening in global conditions, it seems unlikely that the central bank will raise interest rates further this year; although, once the global "soft patch" has passed, we would expect policy tightening to resume.

Figure 49

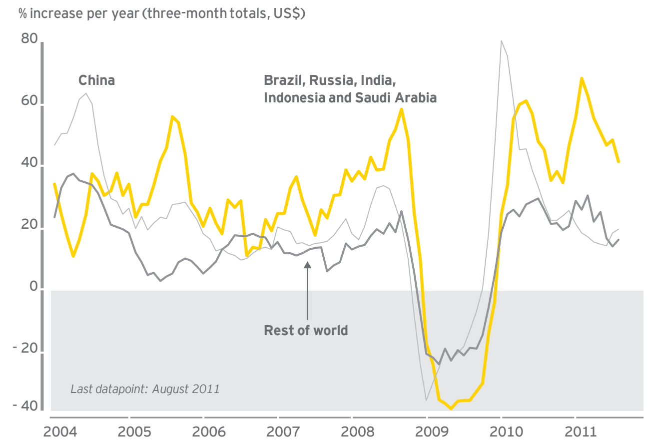
Contributions to GDP growth



Source: Oxford Economics

Figure 50

Exports



Source: Korea Customs Service; Oxford Economics

Table 12

South Korea

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	6.2	3.6	4.3	4.7	4.5	4.2
CPI inflation (%)	3.0	4.3	3.0	2.8	2.7	2.6
Current account balance (% of GDP)	2.7	1.9	1.5	0.7	0.2	0.2
External debt total (% of GDP)	35.4	33.9	31.2	29.4	27.6	26.0
Short-term interest rate (%)	2.7	3.4	3.9	4.9	5.1	5.1
Exchange rate per US$ (year average)	1,156.5	1,084.0	1,071.1	1,082.8	1,087.9	1,090.9
Government balance (% of GDP)	1.3	0.6	-0.1	0.0	0.1	0.1
Population (millions)	48.5	48.7	48.8	48.9	49.1	49.2
Nominal GDP (US$b)	1014,5	1158,8	1251,9	1326,9	1412,6	1501,6
GDP per capita (US$ current prices)	20,907.9	23,807.9	25,645.9	27,110.7	28,791.9	30,542.4

Malaysia

Activity maintained momentum in Q2 but is very exposed to the West

The economy maintained solid momentum in Q2 2011, growing 4.0% on the year after 4.9% in Q1. Export volumes were held back in Q2 by supply disruptions, caused by the disaster in Japan and continued weakness in electronics demand, though demand for commodities remained strong. The industrial sector struggled but consumption stayed robust, up 6.4% on the year.

Unemployment fell to 3.0% in Q2 2011, and bank lending has grown at a double-digit pace for the last 16 months. Together with rising rural incomes as a result of high commodity prices, these factors should underpin strong consumer spending throughout this year.

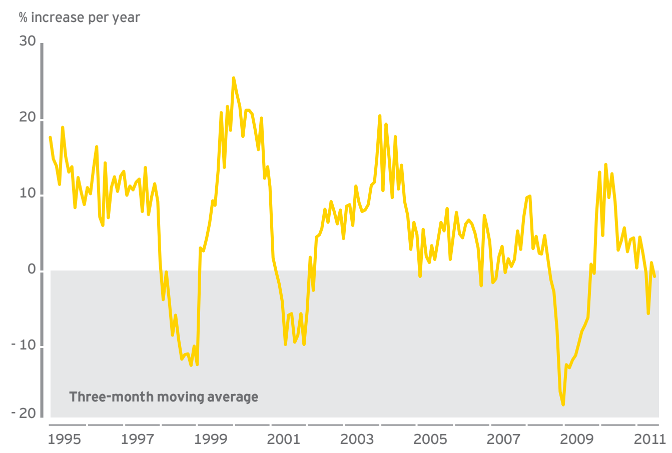
Domestic demand should boost growth, but weaker external demand is likely to keep growth below 5% this year. Thereafter, growth should rise closer to trend, averaging 5% in 2012-13.

Having raised interest rates in May for the first time since last July, the central bank left the key rate on hold in July and September. We expect the bank to leave rates on hold to the end of the year as it will want to take some time to assess the deterioration in the global outlook.

Figure 51
Exports and imports

Source: Department of Statistics

Figure 52
Industrial production



Source: Department of Statistics

Table 13
Malaysia

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	7.2	4.7	5.0	5.1	4.8	4.6
CPI inflation (%)	1.8	3.2	2.7	3.0	3.0	3.0
Current account balance (% of GDP)	11.5	10.3	10.8	11.0	10.2	9.4
External debt total (% of GDP)	28.2	24.7	23.9	22.6	21.3	20.1
Short-term interest rate (%)	2.4	2.8	3.8	4.1	4.1	4.1
Exchange rate per US$ (year average)	3.2	3.0	3.0	3.0	3.0	3.0
Government balance (% of GDP)	-5.6	-5.6	-5.4	-5.0	-4.4	-4.1
Population (millions)	28.0	28.4	28.8	29.3	29.7	30.1
Nominal GDP (US$b)	238.4	276.5	293.9	319.8	345.9	372.7
GDP per capita (US$ current prices)	8,525.4	9,734.9	10,193.0	10,927.9	11,654.0	12,383.8

Mexico

Major headwinds from the US but still set for reasonable growth

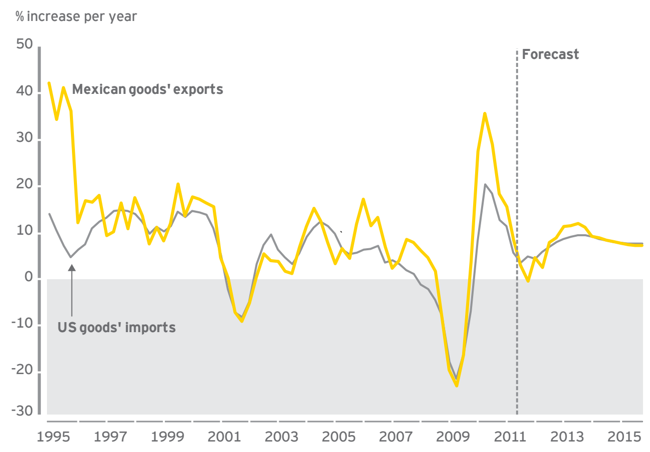
GDP data for Q2 2011 confirmed the moderate slowdown that started in Q1. On a seasonally adjusted basis, Q2 GDP rose 1.1% on the quarter and 3.6% on the year. But we have seen a loss of momentum in Q3 as industrial activity, the main driver in recent months, struggled to make much progress in June and July.

Given the weaker US outlook, we are more cautious about Mexican growth in H2 2011 and expect GDP to grow by 3.8% in 2011.
This figure is now at the bottom of the latest central bank forecast range of 3.8%-4.8%.

Looking further ahead, we now expect GDP growth to accelerate modestly to 4.3% in 2012, underpinned by domestic demand, and then to peak at over 5% in 2013 in line with the projected strengthening in the US economy.

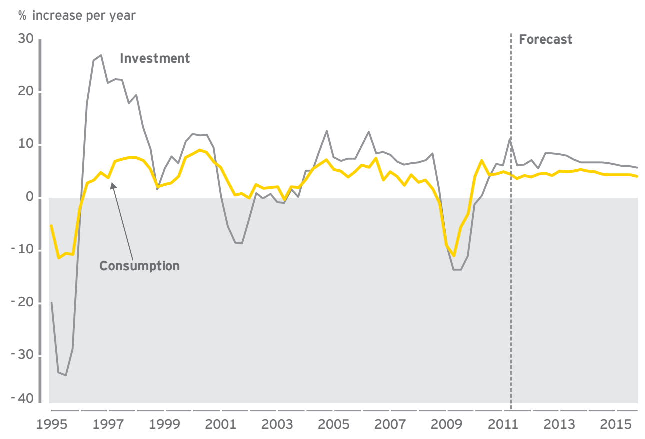
With inflation still subdued at 3.4% in August, it is likely that interest rates will be kept on hold at 4.5% well into next year. But if the growth outlook were to deteriorate further, it might prompt a cut in rates later this year. The peso has been hit by the increasing gloom surrounding the US economy, but should not trigger inflation concerns.

Figure 53
Merchandise trade: US vs. Mexican growth



Source: Oxford Economics

Figure 54
Consumption and investment



Source: Oxford Economics

Table 14
Mexico

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	5.4	3.8	4.3	5.1	4.8	4.0
CPI inflation (%)	4.2	3.4	3.9	3.6	3.4	3.0
Current account balance (% of GDP)	-0.5	-0.8	-1.6	-1.4	-0.9	-0.5
External debt total (% of GDP)	19.1	17.7	17.4	16.8	16.0	15.4
Short-term interest rate (%)	4.6	4.5	4.7	4.9	4.9	4.8
Exchange rate per US$ (year average)	12.6	12.2	12.6	12.9	13.1	13.2
Government balance (% of GDP)	-2.4	-2.1	-1.6	-1.1	-0.6	-0.5
Population (millions)	113.6	115.0	116.3	117.6	118.9	120.2
Nominal GDP (US$b)	1,034.7	1,163.6	1,212.4	1,281.6	1,365.9	1,450.1
GDP per capita (US$ current prices)	9,109.2	10,122.6	10,424.3	10,894.0	11,483.1	12,062.4

Nigeria

High oil prices and prospects for reform underpin solid growth

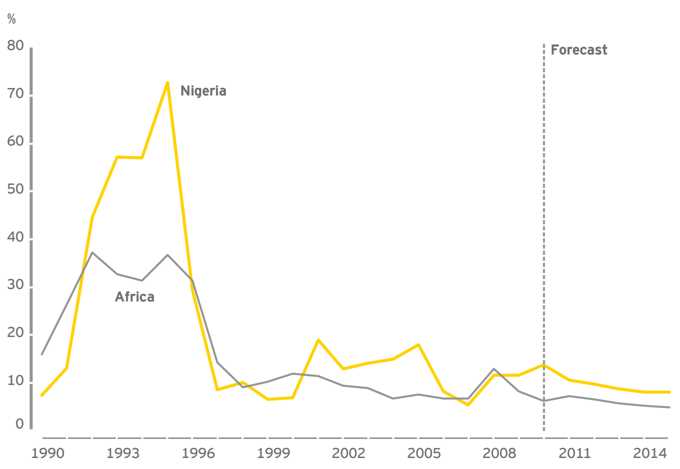
GDP growth accelerated to 7.9% in 2010, with 8.3% posted in Q4. The pace slowed in Q1 this year, but we still forecast 2011 growth of about 7%, with oil output rising by 10% and the expected 37% climb in oil prices leading to booming revenues, enabling high government spending.

Despite a fall in inflation to 10.2% in June, the Central Bank of Nigeria tightened monetary policy again in July, raising rates by 75 basis points amid mounting concern about loose fiscal policy. Inflation has since fallen further, to 9.4% in July, but is still expected to average over 10% next year.

IMF data shows the current account surplus fell to just US$2.5b in 2010 as imports surged. We expect high oil revenues to deliver a surplus of some US$30b this year.

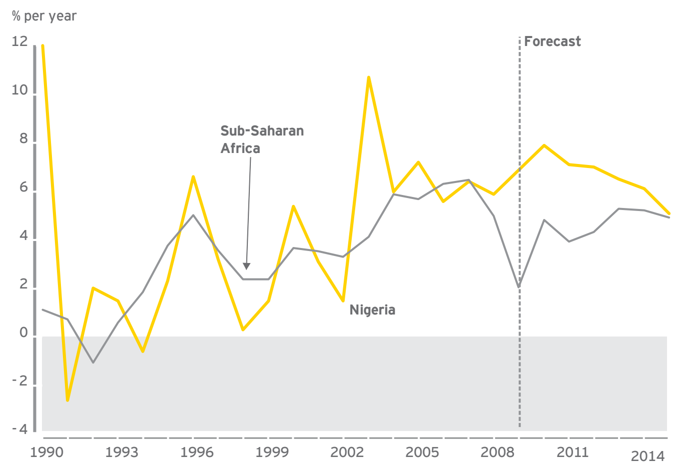
To support growth over the medium term of around 6%, Nigeria will need to pursue structural reforms — such as improving the efficiency of the oil and gas industry, including privatization of state-owned power companies in an attempt to end Nigeria's chronic power shortages. This, in turn, will help to bolster investor confidence, despite some security concerns following the bomb attack on the UN building in Abuja.

Figure 55
Inflation



Source: Oxford Economics; Haver Analytics

Figure 56
Real GDP growth



Source: Oxford Economics; World Bank

Table 15
Nigeria

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	7.9	7.1	7.0	6.5	6.1	5.1
CPI inflation (%)	13.7	10.5	9.8	8.8	8.0	8.0
Current account balance (% of GDP)	1.2	13.3	9.7	6.9	4.5	3.5
External debt total (% of GDP)	4.5	4.2	3.8	3.6	3.4	3.3
Short-term interest rate (%)	4.0	10.0	8.0	7.5	7.0	7.0
Exchange rate per US$ (year average)	150.3	153.0	153.0	154.1	156.1	159.2
Government balance (% of GDP)	-5.3	-3.0	-2.5	-2.5	-2.0	-1.4
Population (millions)	158.4	162.5	166.6	170.9	175.3	179.8
Nominal GDP (US$b)	208.1	241.9	284.2	326.9	370.0	411.8
GDP per capita (US$ current prices)	1,313.6	1,489.1	1,705.8	1,912.9	2,110.8	2,290.4

Poland

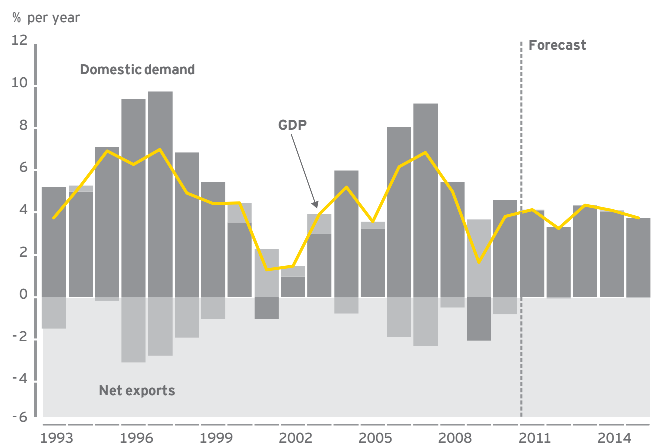
Growth weaker as global outlook deteriorates

The sharp deterioration in market sentiment in recent months, and the weaker global outlook, will weigh on Poland's near-term growth profile. Consumption, and particularly investment, are also likely to suffer through lack of confidence, while exports are likely to be less strong than previously expected on the back of weaker demand.

Given Poland's relatively limited dependence on trade and sound internal fundamentals, we expect the slowdown to be relatively modest, with annualized growth in H2 2011 of around 3% — compared with 4.4% in H1. Overall, we forecast real GDP growth of 4.1% this year, with a softening in growth next year to 3.3%. Thereafter, growth should recover to around 4% over the medium term.

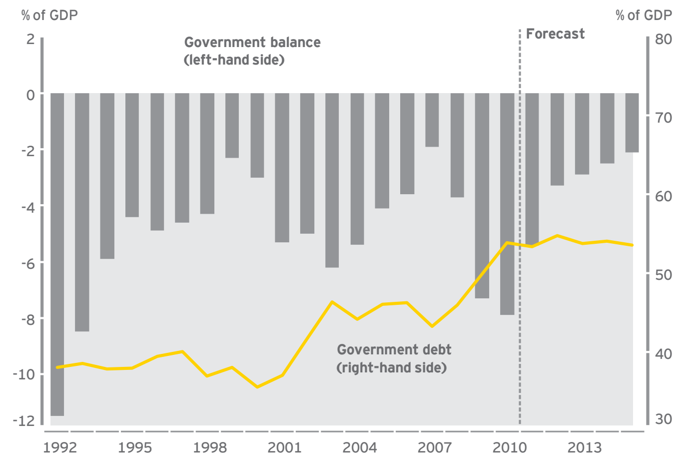
Although Poland proved to be very resilient to the impact of the financial crisis in 2008–09, there are reasons to be more cautious should the current turmoil escalate. First, fiscal space is currently more limited than in 2008, with the Government committed to an austerity plan that is scheduled to accelerate in 2012. Second, in 2009, exporters benefited substantially from the depreciation of the PLN against the euro, something that is unlikely to be repeated to the same extent, since the Eurozone is at the center of the current tensions.

Figure 57
Contributions to GDP growth



Source: Oxford Economics

Figure 58
Government budget balance and debt



Source: Oxford Economics

Table 16
Poland

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	3.8	4.1	3.3	4.3	4.1	3.7
CPI inflation (%)	2.7	4.1	2.6	3.3	2.9	2.5
Current account balance (% of GDP)	-4.4	-4.1	-4.1	-3.4	-3.6	-3.9
External debt total (% of GDP)	61.4	66.4	70.8	70.9	74.6	76.6
Short-term interest rate (%)	3.7	4.4	4.5	4.3	4.3	4.3
Exchange rate per US$ (year average)	3.0	2.9	2.9	2.9	3.0	3.1
Government balance (% of GDP)	-7.9	-5.4	-3.3	-2.9	-2.5	-2.1
Population (millions)	38.2	38.2	38.2	38.1	38.1	38.1
Nominal GDP (US$b)	469.4	522.6	547.1	592.3	604.9	629.9
GDP per capita (US$ current prices)	12,300.5	13,698.1	14,341.2	15,526.1	15,856.9	16,517.7

Qatar

Strong growth set to continue

We expect GDP growth of 15% in 2011, close to the five-year national development plan target of 15.7%. Apart from public spending (up 22%), the hydrocarbon sector will drive growth. But the self-imposed moratorium on raising Liquified Natural Gas (LNG) production in 2012–14 will contribute to a slowing in growth over the medium term to above 6%.

With strong growth prospects and inflationary pressures relatively modest, the authorities have scope to increase public spending. In September, the Government announced substantial increases in salaries, pensions and benefits for all state and military employees.

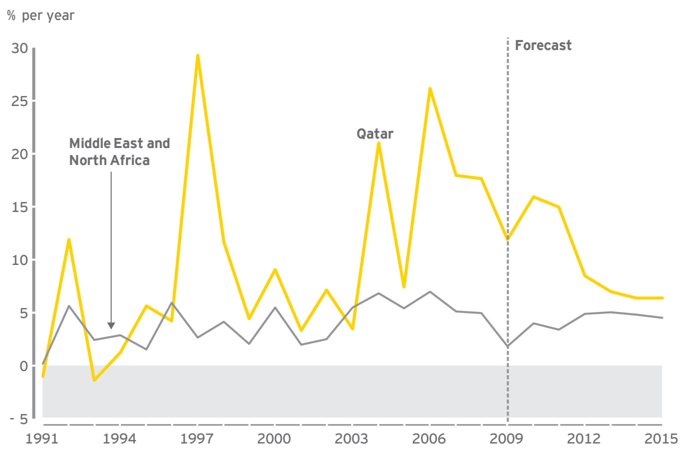
And it is also committed to spending more than US$125b over the next five years on construction and energy projects.

Annual inflation edged up further to 1.9% from 1.8% in June. We expect it to continue to rise over the next 18 months, reflecting strong domestic activity, the lingering impact of higher global food prices and a slowdown in the fall of rental costs. Inflation is forecast to average 2% this year, rising to 3.4% in 2012.

The current account surplus is expected to widen further in 2011, to 23.6% of GDP from 16.5% of GDP in 2010. This reflects a large increase in the price of Qatar's oil.

Figure 59

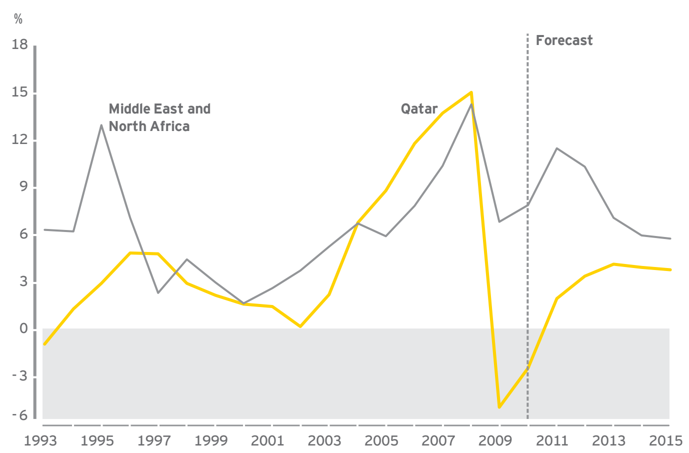
Real GDP growth



Source: Oxford Economics; World Bank

Figure 60

Inflation



Source: Oxford Economics; World Bank

Table 17

Qatar

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	16.0	15.0	8.5	7.0	6.4	6.4
CPI inflation (%)	-2.4	2.0	3.4	4.2	4.0	3.8
Current account balance (% of GDP)	16.5	23.6	21.9	17.9	15.7	14.6
External debt total (% of GDP)	56.2	46.6	43.6	40.2	36.2	32.5
Short-term interest rate (%)	–	–	–	–	–	–
Exchange rate per US$ (year average)	3.6	3.6	3.6	3.6	3.6	3.6
Government balance (% of GDP)	2.9	6.2	10.8	11.0	10.3	9.8
Population (millions)	1.8	1.9	1.9	2.0	2.0	2.0
Nominal GDP (US$b)	127.3	170.8	194.8	210.9	230.0	250.7
GDP per capita (US$ current prices)	72,388.9	91,327.3	100,450.2	106,688.9	114,811.8	123,302.5

Russia

Growth weaker as global outlook deteriorates

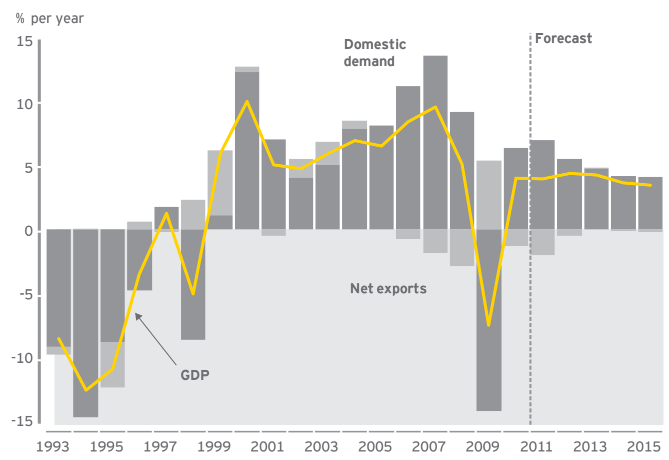
The noticeable increase in financial stress across global markets, and the heightened sense of risk aversion during July, have manifested themselves in a deep sell-off of Russian equities and a sharp depreciation of the rouble (RUB) against the bi-currency basket. However, crucially, there has been a less pronounced impact on oil prices, partly due to Hurricane Irene and tight OPEC capacity. Our baseline forecast for oil prices is for a gradual decline in H2 2011.

Moreover, there remain grounds for optimism regarding growth in Russia over the next 12 months. Inflationary pressures continue to recede, boosting real wages, while last month's budget set out plans for a considerable near-term fiscal boost, set to peak in Q1 2012.

Given these supporting factors, we still expect growth to accelerate markedly in H2 2011. However, due to the marked slowdown in Q2 2011, real GDP growth will be constrained this year to 4.0%, accelerating to 4.4% in 2012. Risks are skewed to the downside, with the current turmoil in the Eurozone having the potential to spill over into something much more serious, which would spark a more dramatic fall in oil prices and rise in capital outflows than is currently assumed in the forecast — with significant implications for Russia's resources.

Figure 61

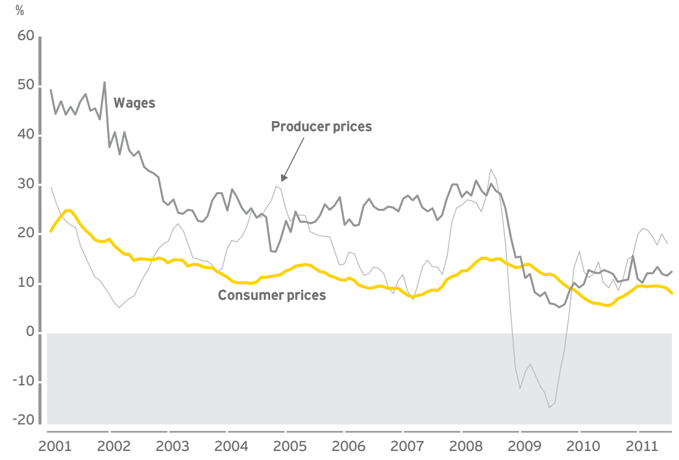
Contributions to GDP growth



Source: Oxford Economics

Figure 62

Inflation



Source: Federal State Statistics Service; Haver Analytics

Table 18

Russia

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	4.0	4.0	4.4	4.3	3.6	3.5
CPI inflation (%)	6.9	8.7	8.0	6.1	5.2	5.3
Current account balance (% of GDP)	5.1	5.1	3.0	2.5	2.2	1.9
External debt total (% of GDP)	32.2	29.8	31.6	34.6	37.3	39.1
Short-term interest rate (%)	5.1	4.9	6.6	7.4	7.4	7.4
Exchange rate per US$ (year average)	30.4	28.8	29.4	30.8	32.1	33.0
Government balance (% of GDP)	-3.2	-0.1	-1.8	-1.2	-0.9	-0.7
Population (millions)	142.9	142.8	142.7	142.5	142.4	142.2
Nominal GDP (US$b)	1,478.3	1,810.1	1,942.0	2,050.9	2,166.7	2,303.6
GDP per capita (US$ current prices)	10,342.0	12,676.5	13,612.3	14,388.9	15,217.5	16,198.9

Saudi Arabia

Strong growth losing momentum

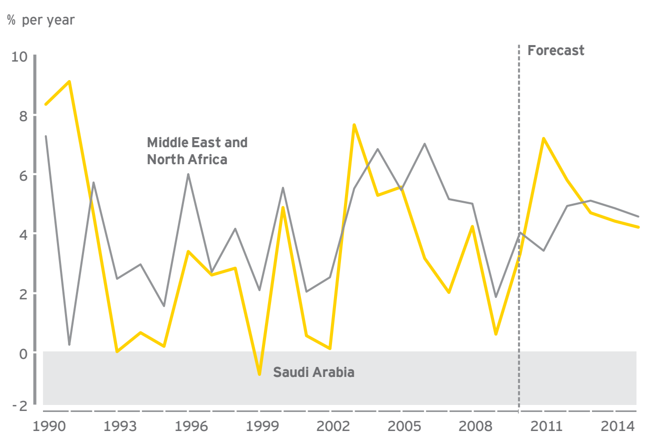
The pace of non-oil private sector activity continues to slow with August's Purchasing Managers' Index (PMI) down to an 18-month low of 57.9. Nevertheless, banking data, albeit for July, was much more positive with point-of-sale volumes up 3.7% on the month and 26% on the year; and growth in bank lending to the private sector rising to 8.8%. Crude oil production increased to 9.8 million b/d in August compared with a downwardly revised 9.7 million b/d in July. Oil output is forecast to rise by 6.4% in 2011, with natural gas liquids (NGLs) up 9.5%. With government spending expected to surge by nearly 30% this year, mainly due to infrastructure, health care and social policy, GDP growth is forecast to rise by 7.2%.

July saw consumer prices jump 1.2%, the largest monthly rise since October 2008. This reflected a combination of seasonal factors, rising commodity prices and the continuing increase in housing costs. Inflation rose to 4.9%, a level not exceeded since January. Near-term inflation will remain close to 5%, but we expect inflation to fall back further, due to falling commodity prices and, eventually, rising housing supply.

The current account surplus doubled in Q1 2011 compared with Q1 2010, to US$36b, reflecting a 35% increase in merchandise exports. For 2011 as a whole, we forecast a US$132b surplus, equivalent to 23% of GDP. This will be driven by higher oil prices and oil export volumes.

Figure 63

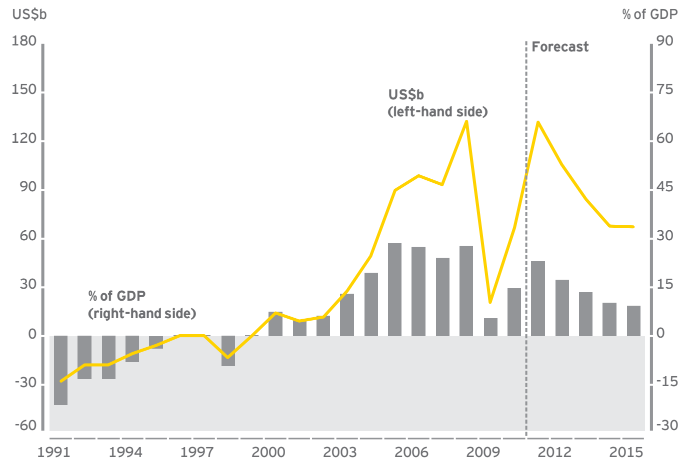
Real GDP growth



Source: Oxford Economics; World Bank

Figure 64

Current account balance



Source: Oxford Economics

Table 19

Saudi Arabia

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	3.3	7.2	5.8	4.7	4.4	4.2
CPI inflation (%)	5.3	4.8	4.5	3.7	3.3	3.0
Current account balance (% of GDP)	14.9	23.0	17.4	13.6	10.4	9.5
External debt total (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0
Short-term interest rate (%)	2.0	2.5	4.0	4.5	4.5	4.5
Exchange rate per US$ (year average)	3.8	3.8	3.8	3.8	3.8	3.8
Government balance (% of GDP)	6.5	11.2	6.1	2.0	-1.8	-3.4
Population (millions)	27.4	28.1	28.7	29.3	29.9	30.5
Nominal GDP (US$b)	447.8	573.5	608.7	621.2	656.5	708.2
GDP per capita (US$ current prices)	16,313.1	20,420.4	21,204.3	21,187.8	21,936.6	23,189.6

South Africa

Growth slows as domestic demand weakens

Consumer spending, the key driver of growth in South Africa, has weakened significantly over the last two months. Retail sales volumes grew by just 1.3% month on month in July, and domestic vehicle sales contracted by 3.7% year on year in August. The weak data and the deteriorating economic outlook mean we expect consumption to grow by 4.4% in 2011, and 3.6% in 2012.

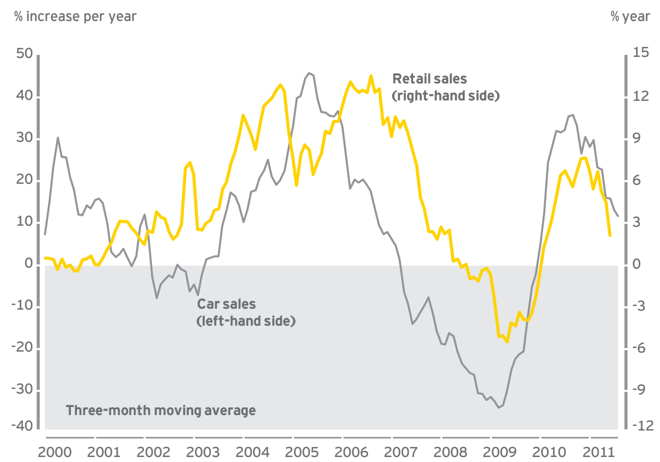
The slowdown in global growth has weakened international demand for South Africa's goods, with exports in US dollars estimated to have contracted by 7.8% month on month in July. Export growth is likely to be subdued for the rest of the year – with overall growth of 4.5% in 2011 – before recovering to 8.6% in 2012.

As a result of slowing demand and strikes in several industrial sectors, the supply side of the economy weakened considerably at the start of Q3 2011, with manufacturing and mining production contracting by 6% and 4.3% respectively month on month in July. Coupled with this, the Manufacturing Purchasing Managers' Index (PMI) remained below 50 at 46.2 in August, indicating that the sector is still contracting.

As a result of weak domestic demand and the deterioration in the global outlook, we expect GDP to grow by 2.9% in both 2011 and 2012.

Figure 65

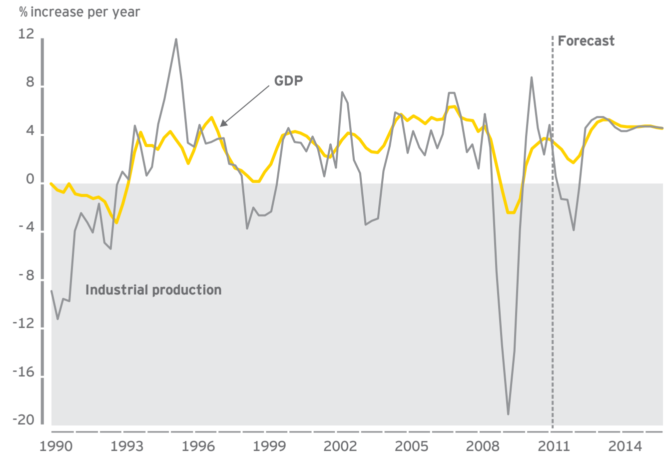
Retail and car sales



Source: Statistics South Africa; Haver Analytics

Figure 66

GDP and industrial production



Source: Oxford Economics

Table 20

South Africa

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	2.8	2.9	2.9	5.2	4.7	4.7
CPI inflation (%)	4.3	4.9	5.7	5.0	4.8	4.8
Current account balance (% of GDP)	-2.9	-3.4	-3.6	-3.4	-3.4	-3.4
External debt total (% of GDP)	14.5	13.9	15.0	14.1	13.9	13.7
Short-term interest rate (%)	6.5	5.5	6.1	7.2	7.3	7.4
Exchange rate per US$ (year average)	7.3	7.2	8.1	8.3	8.4	8.6
Government balance (% of GDP)	-4.8	-3.6	-4.9	-5.1	-4.9	-4.5
Population (millions)	50.2	50.5	50.8	51.0	51.2	51.5
Nominal GDP (US$b)	365.1	405.1	381.7	412.7	444.1	476.3
GDP per capita (US$ current prices)	7,276.2	8,022.3	7,518.7	8,091.8	8,668.9	9,254.8

Thailand

Infrastructure spending will provide boost to activity

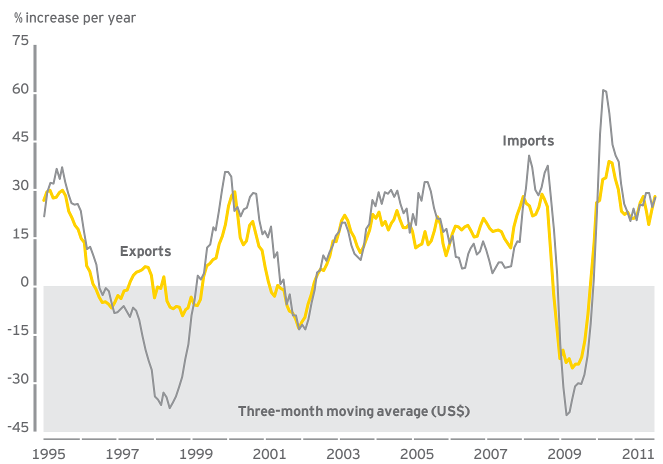
Q2 2011 GDP fell 0.2% on the quarter on a seasonally adjusted basis, as manufacturing was sharply disrupted by the aftermath of the Japan earthquake. Quarterly expansion in seasonally adjusted fixed investment slowed from 7.2% in Q1 2011 to 0.7% in Q2, while on the same basis, consumer spending slowed from 0.8% to 0.2%. Although we expect manufacturing activity to improve in H2, overall growth in 2011 will be subdued, with an expansion of 3.8%. We expect growth to recover next year to 4.8%, as the impact of credit tightening eases and trade in Asia picks up.

The manufacturing sector is expected to perform better in Q3 than it did in the first half of the year despite the weaker global outlook, as the supply disruptions from Japan are now largely resolved. However, producers still face high costs and uncertain demand, whilst much of Thailand has been hit by severe flooding, which will affect Q4 production. This creates significant uncertainty around existing growth forecasts.

The new Government has promised a THB1.5 trillion (US$50b) four-year spending program, including higher minimum wages and many other policies to improve living standards and infrastructure. The 25 basis points policy interest rate rise to 3.5% in August was the ninth such hike since July 2010. However, the sharp deterioration in the global outlook over the last couple of months is likely to make the central bank pause on policy for a few months to assess the situation.

Figure 67

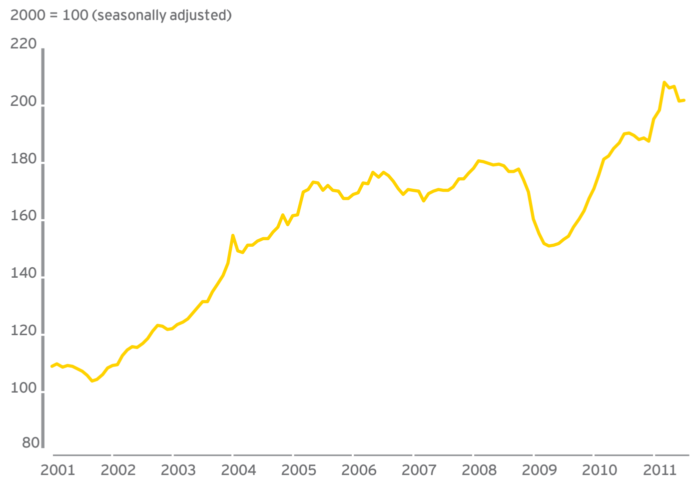
Exports and imports



Source: Customs Department; Haver Analytics

Figure 68

Private investment indicator



Source: Bank of Thailand; Haver Analytics

Table 21

Thailand

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	7.8	3.8	4.8	5.0	5.0	4.9
CPI inflation (%)	3.3	3.9	2.6	2.2	2.5	2.6
Current account balance (% of GDP)	4.6	3.4	2.0	1.3	1.5	1.2
External debt total (% of GDP)	19.0	17.1	16.7	16.6	16.8	16.7
Short-term interest rate (%)	1.5	3.1	4.3	5.3	5.6	5.6
Exchange rate per US$ (year average)	31.7	30.3	31.1	32.8	35.0	36.7
Government balance (% of GDP)	-0.9	-2.3	-2.3	-1.5	-1.3	-1.3
Population (millions)	68.2	68.6	68.9	69.3	69.6	70.0
Nominal GDP (US$b)	319.3	359.8	375.1	381.7	386.0	395.2
GDP per capita (US$ current prices)	4,682.2	5,246.1	5,440.7	5,508.4	5,541.6	5,647.4

Turkey

Growth set to slow but medium-term prospects are positive

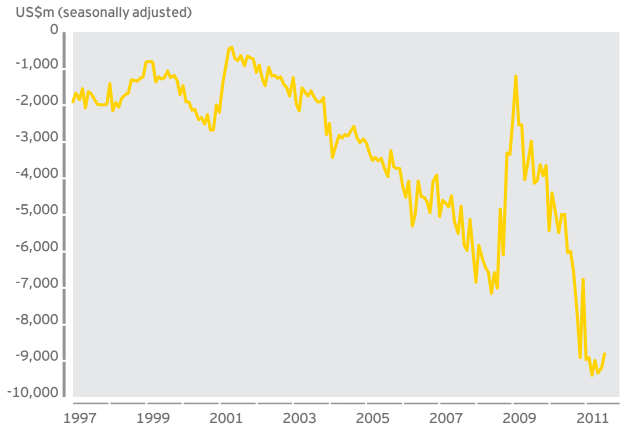
Turkish GDP grew by a fairly strong 1.3% on the quarter in Q2, with continued buoyant investment and the first positive contribution from net exports in a year more than offsetting an initial weakening in consumer spending. However, a marked slowdown is still expected over the next year.

The central bank's decision to cut the policy rate by 50 bp on 4 August 2011 — to counter the impact of increasingly fierce global headwinds — was a major surprise. Although the economy has slowed somewhat to annual growth of 8.8% in Q2 2011 (from 11.6% in Q1), there are still concerns about the extent of the inflation risks overhanging from the period of very strong growth earlier in the year and in 2010, the pass-through of this year's commodity price rises and a steadily weakening exchange rate.

However, global financial conditions and Turkish banks' requirement for external funding are probably now more important than official policy in determining actual credit conditions in the economy. Average lending rates rose by 150bp in July and a further 50bp in August and are unlikely to fall back in the short term because of the policy rate cut. This will check lending and demand growth in H2 and dampen overheating risks. We expect a significant deceleration in growth to 2.5% next year. But, over the medium term, growth should accelerate to over 5.5%. Nevertheless, Turkey's large current account deficit presents a significant risk to this outlook, particularly given recent volatility in financial markets.

Figure 69

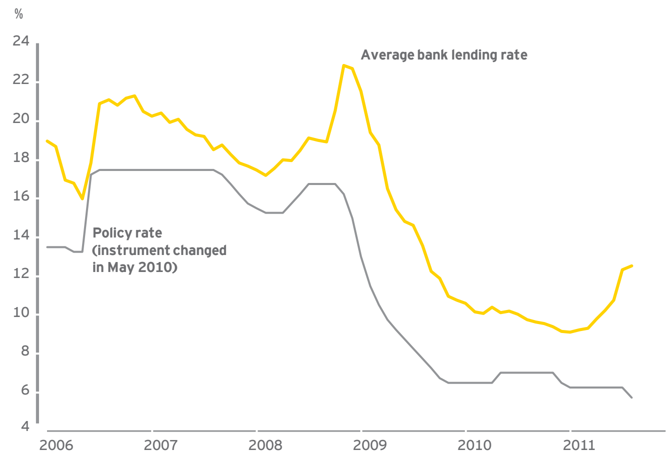
Monthly trade balance



Source: Turkish Statistical Institute; Haver Analytics

Figure 70

Interest rates



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

Table 22

Turkey

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	9.0	7.5	2.5	5.7	6.0	5.5
CPI inflation (%)	8.6	5.9	6.7	5.0	4.3	4.0
Current account balance (% of GDP)	-6.4	-10.3	-8.4	-7.3	-7.0	-6.7
External debt total (% of GDP)	35.3	36.6	35.8	33.4	32.9	32.0
Short-term interest rate (%)	7.0	7.5	9.3	10.3	10.5	10.4
Exchange rate per US$ (year average)	1.5	1.6	1.7	1.7	1.8	1.9
Government balance (% of GDP)	-3.7	-1.8	-2.4	-1.8	-1.2	-1.2
Population (millions)	75.8	76.7	77.6	78.4	79.2	80.1
Nominal GDP (US$b)	737.4	784.5	815.7	900.3	949.3	1012,5
GDP per capita (US$ current prices)	9,725.9	10,230.0	10,518.0	11,482.4	11,979.8	12,645.8

United Arab Emirates

Strong growth begins to moderate

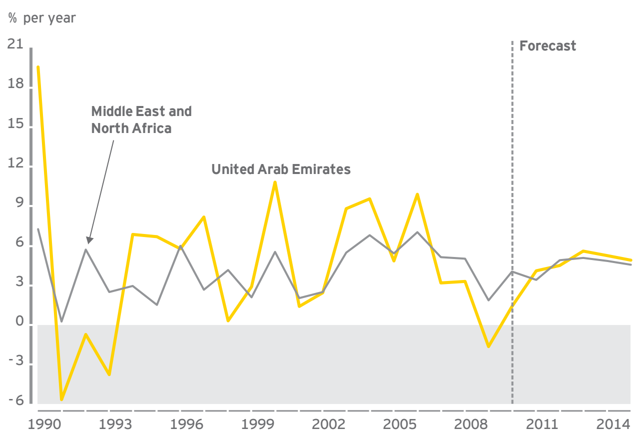
Economic activity is slowing in line with other Gulf Cooperation Council (GCC) countries — and more generally the emerging markets — reflecting lower oil prices, reduced economic confidence and greater caution. The PMI fell for the fifth consecutive month in August and at 50.9 was the lowest for 15 months. Government spending continues to support growth, but an increasing number of infrastructure projects are being canceled or downsized as concern grows about the large debt burden, given the uncertain global backdrop.

Oil production remains a major driver of growth, with crude oil output up some 8.1% in the first seven months of 2011. We expect GDP to grow by 4.4% this year. Over the medium term, growth should accelerate above 5% in 2013–14.

Consumer prices fell for the second month in a row in August, by 0.1%, and annual inflation fell to 0.6%, its lowest level since February 2010. We expect inflation to average just 1.1% this year, rising to 2.8% in 2012.

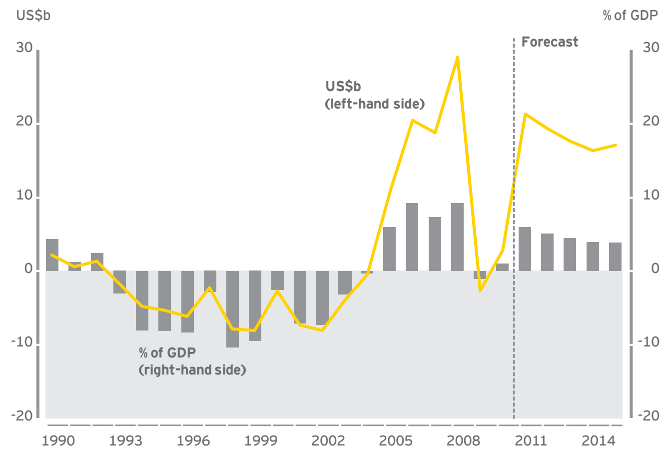
With oil revenues booming, we forecast that the 2011 current account surplus will widen to 11.4% of GDP — from 3.8% of GDP in 2010. Merchandise exports are forecast to rise by 25%, with merchandise imports accelerating more modestly — by about 11%.

Figure 71
Real GDP growth



Source: Oxford Economics

Figure 72
Government budget balance



Source: Oxford Economics

Table 23
United Arab Emirates
Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	1.4	4.4	4.7	5.6	5.3	4.9
CPI inflation (%)	0.9	1.1	2.8	3.0	3.0	3.0
Current account balance (% of GDP)	3.8	11.4	7.9	3.9	2.3	2.6
External debt total (% of GDP)	43.7	33.9	29.7	25.3	21.2	18.6
Short-term interest rate (%)	1.0	3.0	4.6	4.6	4.6	4.6
Exchange rate per US$ (year average)	3.7	3.7	3.7	3.7	3.7	3.7
Government balance (% of GDP)	1.3	5.9	5.1	4.2	4.0	3.9
Population (millions)	7.5	7.9	8.1	8.2	8.3	8.4
Nominal GDP (US$b)	297.6	353.8	369.9	394.8	423.6	458.2
GDP per capita (US$ current prices)	39,623.0	44,840.5	45,635.1	48,102.2	51,177.3	54,711.6

Ukraine

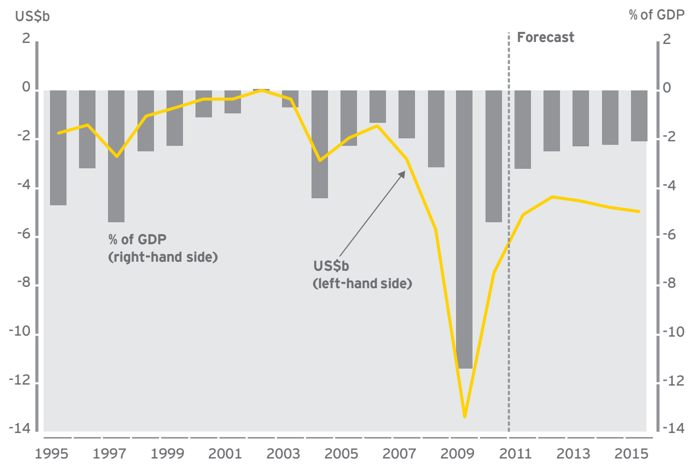
Recovery on course but risk of export slowdown

While GDP growth could still be close to 5% this year, downside risks are rising as main export markets slow and gas import prices continue to rise. With over a quarter of the Ukraine's exports destined for the EU, it remains particularly exposed to an escalation of the European sovereign debt crisis. The external deficit is now widening again, forcing monetary restraint to maintain UAH stability and potentially unsettling investors if the next IMF standby tranche is delayed further. Nevertheless, over the medium term, growth should accelerate above 6%.

The IMF has delayed its decision until October, after a slowdown in implementation of pension reforms and energy price rises, prompted by public protests. While the Government has switched its depiction of the next tranche from essential to optional, pointing to other sources of funds, a widening of the current account deficit could result in financing problems if the standby is not unfrozen by year-end.

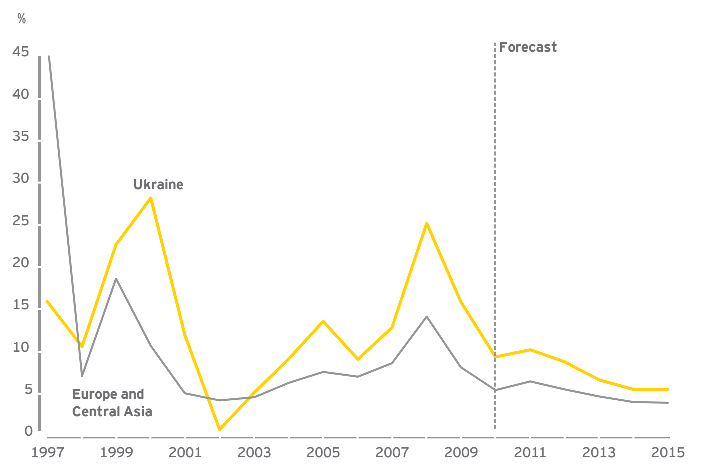
Delay in administered price rises, and food price reductions from a better harvest, restricted seven-month inflation to around 4%. But this will accelerate in Q4 to keep the full-year rate close to 10%, as more of the recent energy price increase is passed on to consumers.

Figure 73
Government budget balance



Source: Oxford Economics

Figure 74
Inflation



Source: Oxford Economics; World Bank

Table 24
Ukraine
Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	4.2	4.8	5.9	7.5	6.5	6.3
CPI inflation (%)	9.4	10.2	8.8	6.7	5.5	5.5
Current account balance (% of GDP)	-2.1	-3.6	-3.2	-3.2	-3.2	-3.0
External debt total (% of GDP)	77.5	71.2	66.3	62.1	58.9	56.6
Short-term interest rate (%)	7.8	7.5	7.0	7.0	7.0	7.0
Exchange rate per US$ (year average)	7.9	8.0	8.3	8.5	8.7	8.9
Government balance (% of GDP)	-5.4	-3.2	-2.5	-2.3	-2.2	-2.1
Population (millions)	45.4	45.2	44.9	44.7	44.5	44.2
Nominal GDP (US$b)	137.9	158.0	176.6	196.5	216.8	235.4
GDP per capita (US$ current prices)	3,035.0	3,496.8	3,928.6	4,397.2	4,876.3	5,323.1

Vietnam

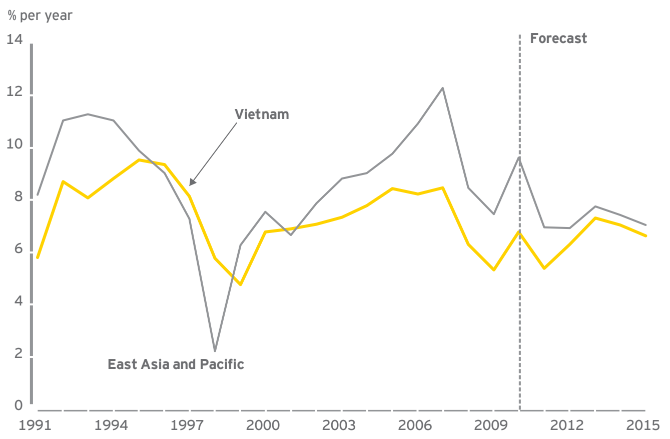
Deteriorating global picture adds to problem of very high inflation

A worsening inflation overshoot, to 23% in August, has forced further tightening of monetary policy alongside promises to cut the fiscal deficit (though the Finance Ministry is pushing for tax cuts to support investment). Exports performed strongly in H1 2011 but deteriorated in August and will come under pressure from the weaker global outlook.

Inflation should start to subside soon, and should fall sharply in 2012, but several VND devaluations have amplified the increase in costs of energy and raw material imports. While the trade gap narrowed and reserves recovered in Q2, capital inflows are also down and external financing strains remain.

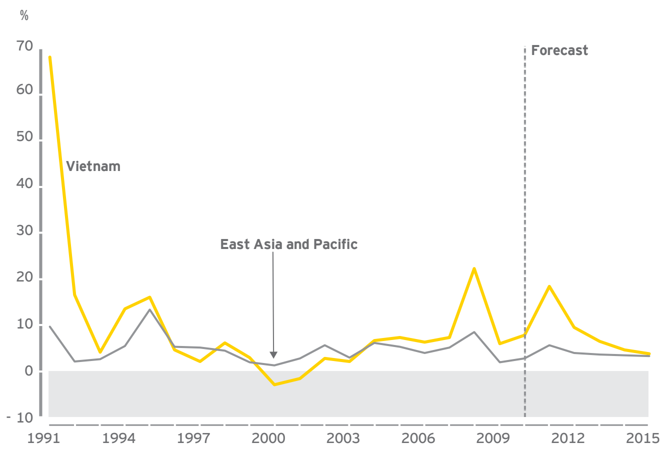
The outlook is still for a return toward 6.5% trend growth in 2012; but there are increasing risks of a longer fall below trend as property prices decline and banks' bad debts worsen. In addition, the renewed dollarization of lending adds to currency risks and highlights monetary control problems. But over the medium term, Vietnam is set to benefit from its relatively low labor costs, and strong export growth should contribute to overall GDP growth above 7% in 2013–14.

Figure 75
Real GDP growth



Source: Oxford Economics; World Bank

Figure 76
Inflation



Source: Oxford Economics; World Bank

Table 25
Vietnam

Source: Oxford Economics

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	6.8	5.4	6.3	7.3	7.0	6.6
CPI inflation (%)	8.9	19.2	10.5	7.5	5.7	4.8
Current account balance (% of GDP)	-4.0	-4.7	-3.3	-2.2	-1.7	-1.3
External debt total (% of GDP)	28.5	28.0	26.6	25.2	23.8	22.7
Short-term interest rate (%)	9.0	9.5	8.3	7.0	6.0	6.0
Exchange rate per US$ (year average)	18,612.9	20,899.4	21,735.4	22,496.1	23,058.6	23,482.8
Government balance (% of GDP)	-6.2	-6.1	-5.5	-4.9	-4.4	-4.2
Population (millions)	89.0	90.0	90.9	91.8	92.7	93.6
Nominal GDP (US$b)	106.4	119.1	134.5	149.9	165.5	181.6
GDP per capita (US$ current prices)	1,195.4	1,323.8	1,480.0	1,632.8	1,784.9	1,939.2

Detailed tables and charts

Alternative scenarios for Ernst & Young's 25 rapid-growth markets: Autumn 2011

Alternative GDP growth forecasts

	2010	2011	2012	2013
Oxford Economics forecast				
US	3.0	1.6	2.2	3.3
Eurozone	1.7	1.6	0.6	1.8
Brazil	7.5	3.8	4.5	4.9
China	10.3	8.9	8.2	9.2
India	8.9	7.2	8.0	9.5
Russia	4.0	4.4	4.3	3.6
Rapid-Growth Economies	7.3	6.2	5.9	6.8
World	4.5	3.7	3.8	4.7
Eurozone disorderly debt crisis				
US	3.0	1.6	0.9	-0.2
Eurozone	1.7	1.6	-1.1	-1.4
Brazil	7.5	3.8	3.4	1.9
China	10.3	8.8	6.3	4.9
India	8.9	7.2	5.9	7.6
Russia	4.0	4.0	2.2	-0.3
RGEs	7.3	6.1	4.1	3.2
World	4.5	3.7	2.4	1.7

Cross-country tables

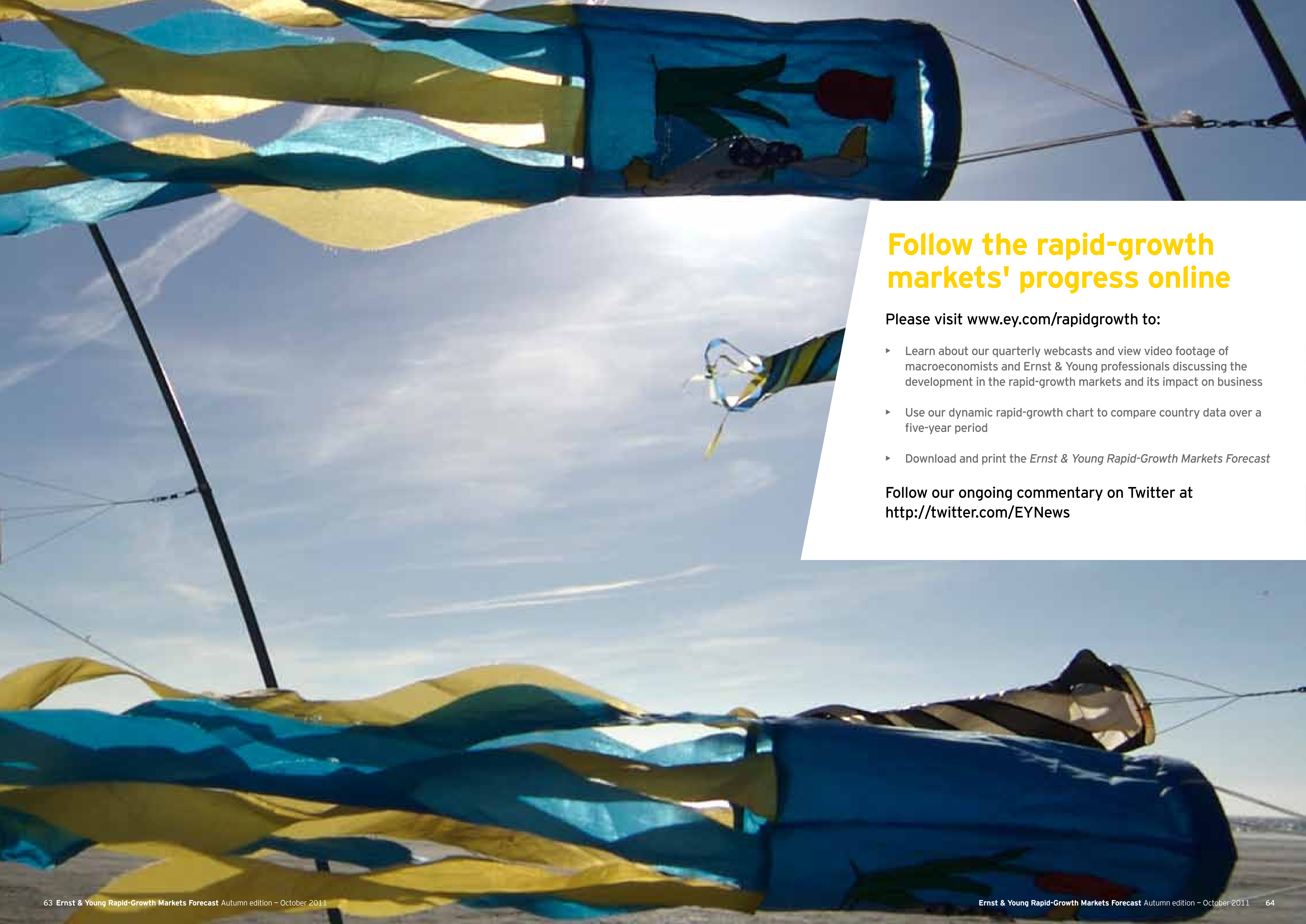
Real GDP growth

	2010	2011	2012	2013	2014	2015
Americas	**6.5**	**4.3**	**4.4**	**4.9**	**4.5**	**4.0**
Argentina	9.2	7.3	4.3	4.2	3.9	3.2
Brazil	7.5	3.8	4.5	4.9	4.4	4.1
Chile	5.1	6.3	4.2	4.9	4.7	4.5
Colombia	4.3	4.7	4.6	4.7	4.2	4.0
Mexico	5.4	3.8	4.3	5.1	4.8	4.0
EMEA	**4.5**	**5.3**	**4.3**	**5.2**	**4.9**	**4.6**
Czech Republic	2.2	2.0	2.1	3.4	3.1	2.8
Egypt	5.1	1.8	3.5	5.5	5.8	5.5
Ghana	7.7	14.0	8.3	6.9	5.6	4.9
Kazakhstan	7.3	6.5	6.5	7.0	7.5	7.1
Nigeria	7.9	7.1	7.0	6.5	6.1	5.1
Poland	3.8	4.1	3.3	4.3	4.1	3.7
Qatar	16.0	15.0	8.5	7.0	6.4	6.4
Russia	4.0	4.0	4.4	4.3	3.6	3.5
Saudi Arabia	3.3	7.2	5.8	4.7	4.4	4.2
South Africa	2.8	2.9	2.9	5.2	4.7	4.7
Turkey	9.0	7.5	2.5	5.7	6.0	5.5
Ukraine	4.2	4.8	5.9	7.5	6.5	6.3
United Arab Emirates	1.4	4.4	4.7	5.6	5.3	4.9
Asia	**8.9**	**7.3**	**7.2**	**8.2**	**7.8**	**7.3**
China and Hong Kong	10.1	8.7	8.0	9.0	8.6	8.1
India	8.9	7.2	8.0	9.5	9.0	8.3
Indonesia	6.1	6.3	6.4	6.7	5.9	5.7
Korea	6.2	3.6	4.3	4.7	4.5	4.2
Malaysia	7.2	4.7	5.0	5.1	4.8	4.6
Thailand	7.8	3.8	4.8	5.0	5.0	4.9
Vietnam	6.8	5.4	6.3	7.3	7.0	6.6
Total	**7.3**	**6.2**	**5.9**	**6.8**	**6.4**	**6.0**

Cross-country tables

CPI inflation

	2010	2011	2012	2013	2014	2015
Americas	**4.9**	**5.3**	**4.8**	**4.2**	**3.9**	**3.6**
Argentina	10.4	10.3	11.0	8.0	5.8	4.1
Brazil	5.0	6.4	4.7	4.2	4.0	4.0
Chile	1.4	3.2	2.9	3.0	3.0	3.0
Colombia	2.3	3.2	3.3	3.5	3.5	3.3
Mexico	4.2	3.4	3.9	3.6	3.4	3.0
EMEA	**6.0**	**6.2**	**6.1**	**5.1**	**4.5**	**4.4**
Czech Republic	1.5	1.8	3.0	2.7	2.6	2.5
Egypt	11.3	10.5	9.0	7.7	6.3	5.5
Ghana	10.7	8.9	8.1	6.9	5.8	5.0
Kazakhstan	7.1	8.6	7.0	6.3	5.9	5.5
Nigeria	13.7	10.5	9.8	8.8	8.0	8.0
Poland	2.7	4.1	2.6	3.3	2.9	2.5
Qatar	-2.4	2.0	3.4	4.2	4.0	3.8
Russia	6.9	8.7	8.0	6.1	5.2	5.3
Saudi Arabia	5.3	4.8	4.5	3.7	3.3	3.0
South Africa	4.3	4.9	5.7	5.0	4.8	4.8
Turkey	8.6	5.9	6.7	5.0	4.3	4.0
Ukraine	9.4	10.2	8.8	6.7	5.5	5.5
United Arab Emirates	0.9	1.1	2.8	3.0	3.0	3.0
Asia	**4.9**	**5.9**	**3.9**	**3.4**	**3.3**	**3.2**
China and Hong Kong	3.3	5.5	3.3	3.0	3.0	3.0
India	2.4	5.6	3.2	2.8	2.6	2.4
Indonesia	12.1	8.5	5.8	4.8	4.4	4.1
Korea	5.1	5.6	5.9	5.4	5.0	4.9
Malaysia	3.0	4.3	3.0	2.8	2.7	2.6
Thailand	1.8	3.2	2.7	3.0	3.0	3.0
Vietnam	3.3	3.9	2.6	2.2	2.5	2.6
Total	**5.2**	**5.9**	**4.6**	**4.0**	**3.7**	**3.6**



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