



Rapid-growthmarkets

Ernst & Young Rapid-Growth Markets Forecast

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Welcome

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Markets Excellence Center



Optimism dawns naturally at springtime and there is plenty of substance in our third *Ernst & Young Rapid-Growth Markets Forecast* to nurture hopes of a reasonably positive outlook for business this year and next. Daily news headlines are, thankfully, helping to keep spirits up with reports of improving debt and

equity markets around the world. Caution must still be the watchword, but there are increasingly exciting opportunities to be identified and pursued in rapid-growth markets (RGMs).

Our forecasts for the RGMs have been very well received among our clients inside and outside the markets this report covers. This quarter's forecast is particularly rich with information and insights. Its broad overview tells us that growth prospects are holding up resiliently under the weight of negative impacts from the Eurozone's sovereign debt crisis. This will continue to hold back economic growth in the currency area to 1% next year (see our *Ernst & Young Eurozone Forecast Spring 2012* at www.ey.com/eurozone). It also largely explains the slowing in RGM growth from 6.2% in 2011 to 5.3% this year. However, many of these economies have a robust growth dynamic and the group as a whole should bounce back to 6.3% next year.

Looking further to the medium term, the report identifies very significant new trends. I would like to highlight three of them.

- ▶ Regional specialization will become increasingly important as RGM manufacturing in China and some other key countries moves up the value-added chain. China itself will account for half of the growth in IT trade over the next decade. Thailand is already an important hub for the production of hard disk drives. As wage and other production costs rise in China, different phases of production may move toward lower cost providers, regardless of location. Africa and the Middle East are well placed to succeed China as a key manufacturing hubs for low cost goods. As a result, our report expects the share of advanced economies in global trade to fall from over 80% in the 1990s to 55% by 2020.
- ▶ There will be a huge expansion of middle class populations, mostly in China and India. Our report expects Chinese households with a disposable income of US\$30,000 to US\$50,000 to mushroom from 1.6 million in 2010 to an estimated 26 million by 2020. In India, households in the US\$5,000 to US\$15,000 a year category will leap from 100 million to 150 million over the same period. In Mexico, households with annual disposable income above US\$50,000 will jump from 4.7 million to around 7.1 million and in Brazil from 6.2 million to around 9.4 million. As our report says: "This represents a tremendous increase in the demand not just for luxury consumer goods such as high-end cars, but also significant services such as insurance."
- ▶ Trade is set to expand mightily between RGMs as well as between RGMs and advanced economies. This will reflect the emergence of more manufacturing hubs in RGMs and their increasing power in

the global economy. By 2020, total value of trade between China and Europe will have climbed above US\$1t, outstripping Europe-US trade values. At the same time, Europe's exports to Africa and the Middle East will be around 50% larger than to the US.

These insights should be invaluable for strategic planners thinking about positioning their companies to take best advantage of the emerging new order in the global economy. Europe and the US will continue to be large and powerful economies. But their relations with many RGMs need to evolve into balanced partnerships based on a mutual interest in maintaining an open global trading system.

The "seismic shifts" in trade we refer to in our report point to the next stage in economic integration, in which many management skills will need to be taken up a level or two. High-quality political and financial risk assessment will be crucial, as will a capacity to interpret variable market signals amid the constant drive for technical and product innovation. Though the outlook for the quarter ahead offers good reason to be positive, there will be no lack of complexity for companies needing to grapple with the continuous transformations demanded by globalization.

I hope you find the information and insights in this report useful. By offering timely analyses of fast-growing markets around the globe, and providing our view on how their development affects business, we aim to contribute to business planning in a rapidly changing business environment. For more information on rapid-growth markets, the business environment and local contacts, please visit www.ey.com/rapidgrowth

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Overall resilience of rapid-growth markets through growing divergence

Our forecast identifies three main trends. First, there is an overall resilience among rapid-growth markets (RGMs) that is underpinned by robust consumption. Second is a growing divergence among RGMs, as they are shaped by different economic and political forces. And third, there is an expanding middle class in RGMs that, in the medium term, will provide a source of global growth and trade flows.

Emerging market economies are still offering good opportunities to companies and investors across a wide range of sectors. However not all regions share equally solid growth prospects. The latest *Ernst & Young Rapid-Growth Markets Forecast* reports that RGMs “are proving resilient” in the face of the debilitating impacts of the Eurozone crisis and Middle East tensions.

Our latest forecast expects a significant fall in RGM growth from 6.3% in 2011 to 5.3% this year. China and Hong Kong are expected to come in at 8.2% and India at 6.1%. A moderate recovery is in prospect for 2013, with growth at 6.3% - 0.4 percentage points below that forecast in January. Nevertheless, RGM economies are robust and business confidence is on the rise as labor market growth, rising consumption and expanding trade flows emerge as key growth drivers.

However, looked at nationally and regionally, significant growth differences are opening up this year between the 3.5% expected for the Americas, 4.2% for emerging Europe and the Middle East, and 7% for Asia. These numbers are less robust than those of 2010 or even last year, but they look much better than the 0.5% contraction followed by 1% growth in 2013, that was forecast in the spring edition of the *Ernst & Young Eurozone Forecast* (www.ey.com/eurozone).

Star RGM performers in 2013 are expected to be Brazil (+5%) and Chile (+4.8%) in the Americas, Kazakhstan (+7%) and Qatar (+7%) in Europe, the Middle East and Africa and India (+8.5%); and China and Hong Kong

(+8.6%) and Vietnam (+7.1%) in Asia. Notable negative developments to keep an eye on are the weakening of foreign direct investment (FDI) flows into Egypt and emerging Europe, the marked slowdown of growth in Poland and the Czech Republic; and the problems of high inflation (Vietnam, India and Egypt) and rising inflation (Turkey, Nigeria and Indonesia).

Inevitably, the Eurozone sovereign debt crisis bears an important responsibility for the softening in RGM growth prospects. Its most immediate impact is being felt in emerging Europe, where the region's banking is dominated by major Western European institutions that have tightened up on lending to protect and strengthen their capital bases. However, the impact of this squeeze on credit is also being felt in other RGM regions. With domestic demand in emerging Europe subdued, uncertainty will dampen exports and investment for some time. In addition, economic contraction and the consequent weaker demand in the Eurozone this year is reducing export volumes from both Asia and Africa.

By contrast, the strengthening US economy is beginning to deliver benefits to several Latin American countries, and will raise the region's overall growth performance from 3.5% this year to close to 4.5% in 2013.

More business opportunities and more complexity

Growth prospects, of course, have direct implications for business. If they are good, they attract investment, stimulate innovation and promote trade. The findings of this report are that the range of opportunities in RGMs is actually widening against the background of promising growth up to 2020. In positioning themselves, companies may have to examine a greater number of variables than in the past, encompassing transport and information and communication technology (ICT) infrastructures; wage and other production costs; trade liberalization policies; currencies management; technology transfers; investment and manufacturing partnerships; merger and acquisition opportunities; the quality of financial services; and government procurement policies.



Optimism about the RGMs' economic future is strengthened by the improving outlook for inflation – brought about by the waning impact of high oil and commodity prices. With overall inflation expected to moderate from 6% to 4.8% this year, prospects for further loosening of monetary policies are strengthened. This applies particularly to China, following the 50 basis points reduction in reserve requirements in February and the 75 basis points reduction in interest rates in Brazil in March.

In India, meanwhile, inflation peaked at close to 11% in 2010. By January of this year, it had fallen to 6.5% and the Reserve Bank of India began to lower reserve requirements.

However, the international oil price is a dark cloud that threatens the Chinese and Indian economies. Our report expects some price volatility this year – stoked by political tensions – even as demand may be somewhat weakened by the Eurozone crisis. Prices are forecast to average US\$112 a barrel this year, falling toward US\$105 per barrel by the end of the year, assuming political tensions subside, OPEC supplies increase and global demand is unchanged. Over the longer term, Ernst & Young sees demand from RGMs increasingly driving oil consumption while oil intensity falls in the developed economies. Prices will begin to climb toward an average of US\$135 per barrel by 2020.

Non-oil commodity prices are thought likely to fall by around 9% in 2011, which means that Latin American economies will receive less of a boost than in past years. Our report argues that they will need to look elsewhere for development and that investment in education and infrastructure, together with entrepreneurship, are needed to help to drive a shift toward manufactured goods and away from commodities.

But beneath the surface of macroeconomic statistics, there are other significant developments in the RGM world that are important for business.

Scope for flexibility

From the business point of view, our report strikes an encouraging note when it draws attention to the fact that many RGMs have created room for themselves to adjust policies if the outlook for economic growth worsens. Many RGMs governments now have more leeway to adjust policy to economic cycles and have developed more sophisticated strategies for coping with unexpected downturns. Mr. Felipe Larrain, Chile's Finance Minister, wrote recently in the *Financial Times* of the "new and important role" emerging markets could play if there is a renewed financial crisis.

He drew attention to the "sound macroeconomic policies" most were adopting. Chile, for example, runs fiscal policy according to a structural rule that sets spending in harmony with anticipated revenue. This depends on an independent committee's estimate of long-term copper prices and potential output growth. The result is that Chile has about US\$20 billion in sovereign wealth funds that can be used to deal with unexpected shocks.

Potential investors will be looking for evidence of this kind of prudent economic management. Many RGMs have learnt that political and economic stability sits close to the top of most investors' wish list. Creating contingency plans to deal with another financial crisis can significantly enhance a country's attractiveness as a place to invest.



Changing trade patterns

Strong growth in trade has done much for the emergence of many RGMs. Much of this has been around products destined for consumer markets in advanced economies. Our report issues a very straightforward alert: "... this trend is set to change quite radically." The enablers are developments in transport and communications technologies. These are making it possible to locate different stages of production in different places, allowing companies to identify and adopt the lowest cost provider regardless of location. As a result, the share of advanced economies in global trade is set to fall from over 80% in the 1990s to 55% by 2020, according to our report.

This process is steadily fostering regional specialization around trade hubs. Electronic products in Asia are one example. These symbolize a movement up the value-added chain that generally opens up opportunities for most businesses, not only global companies. Partnership agreements, manufacturing licenses and technology transfer arrangements can all be avenues to profit and growth in regions that are developing specialties in products or processes.

China's attractions are certainly being strengthened against this background. The country is starting to move on from its role of the "world's assembler" based on low-skilled, low wage labor. It is now applying itself to green technology and moving into product design – our report refers to designs of mobile handsets. Overall, China will account for half of the growth in IT trade over the next decade. This upward movement in added value will help carry China and India to just under one-fifth of global trade flows by 2020. In the process, there will be changes in trading partner hierarchies – "a seismic shift" says our report. For example, total value of trade between China and Europe will outstrip Europe-US trade values, with Chinese exports to Europe climbing above US\$1t. This would be twice as large as US exports to Europe. And in the same time period, Europe's exports to Africa and the Middle East will be around 50% larger than to the US.

There will be changes in other trade patterns: China has already overtaken the US to be Brazil's largest trade partner and its share of Brazil's total goods exports has mushroomed from just 2% in 2000 to 17% in 2011. Predictably, these changes have been driven by commodities, especially iron ore and soya. But Brazil is also importing basic consumer manufactures that China can produce more cheaply.

Some Chinese production to move offshore

While second-tier cities in the Chinese hinterland will retain China's advantages as a low-cost producer for some years to come, the impact of a 12% annual rise in wage costs in its coastal cities will gradually make itself felt elsewhere in the country. Companies alert to rising cost factors in China could very usefully look at Vietnam, Mexico and African countries as alternative producers of low-cost manufacturing. And, as budding assembly centers, these and other countries will be exporting to China. Overall exports from Africa and the Middle East are forecast to grow by more than 12% a year over the next decade. But businesses already operating there, as well as those looking out for new prospects, see a need for more investment in infrastructure and a lack of encouragement of entrepreneurship. RGMs need to look at China and learn from its fostering of small and medium-sized companies that are able to identify and occupy gaps in markets.



Overall resilience of rapid-growth markets through growing divergence

Expanding middle class populations

Rising middle classes in Asia, with increasing disposable income, are markedly hungry for consumer goods. If, as our report expects, Chinese households with a disposable income of between US\$30,000 and US\$50,000 grow from 1.5 million in 2010 to 26 million in 2020, the opportunities for certain providers of luxury, high-end goods and services will be unparalleled. In India, there will be a slightly less dramatic explosion of numbers from 100 million now to 150 million households, and in a lower income bracket of between US\$5,000 and US\$10,000.

The phenomenon, also extends to Latin America. Mexican households with an annual disposable income greater than US\$50,000 are expected to increase from 4.7 million in 2010 to around 7.1 million, and in Brazil from 6.2 million to around 9.4 million, over the next decade.

This is a time of great change in the global economy. The rapid-growth markets are at the forefront of this change, and we hope that the information and insight contained in this report provides a useful and authoritative basis for analysis, scenario planning and resource allocation.

Oil and gas perspectives

Geopolitical and financial uncertainties are weighing on the global economy. However, in the global oil markets, the supply implications of the geopolitical uncertainties have outweighed the downside demand pressures caused by the deteriorating financial conditions, keeping oil prices over US\$100 per barrel. Emerging market growth will keep energy demand high and oil supply concerns look likely to persist over the medium term, keeping prices relatively high, presenting both risks and opportunities, for companies as well as countries.

Risks ...

Our report *Turn risk and opportunities into results – oil and gas sector* (2011), based on a survey among oil and gas companies and governments, suggests that access to reserves is the number one risk for the oil and gas sector, particularly with regard to political constraints and competition for proven reserves. Uncertain energy policy is the number two risk and remains in a continued state of flux in many key geographies. As the industry moves into new territories and new forms of unconventional energy, there's been a lot of discussion about the need to maintain the license to operate. Safe operations, environmental safety and transparency are clearly critical for this to be maintained. In addition, high prices accelerate competition from new and alternative technologies.

... and opportunities

With regard to opportunities, frontier acreage was ranked number one. Areas previously regarded as too difficult, too expensive or too politically unstable to justify operations have become more economically viable given expectations of high energy demand, advances in technologies and business processes, and higher prices. Growing energy demand, alongside a tightening of access to conventional supply and advances in technology have made unconventional sources commercially viable. Other opportunities included rising emerging market demand, investing in innovation and alternative fuels. In terms of access to both new supply and new markets, particularly important for companies will be the building of relationships and the development of partnerships and alliances between international oil companies and national oil companies.

Learn more at www.ey.com/industries



Highlights

Rapid-growth markets are proving resilient ...

- ▶ While the global economy is still in a heightened state of uncertainty and trade flows are subdued, the RGMs as a whole are proving resilient. Output in Q4 2011 was stronger than expected in some major RGMs and more recent indications suggest that activity has picked up. As a result, RGMs will continue to contribute over one-half of global growth over the next three years.
- ▶ Consumption is proving robust across many RGMs, with indications so far being that domestic engines of demand will be enough to keep growth strong although at a more subdued pace than in 2011. We expect growth across RGMs as a whole of 5.3% in 2012, a significant moderation from 6.3% in 2011 although similar to the growth we expected in January's forecast. In 2013, global headwinds will push somewhat against growth in RGMs and we now expect a more moderate recovery of 6.3% in 2013, 0.4 percentage points (pp) slower than we expected in January, but still much faster than in the advanced economies.

... though more divergences are emerging among RGMs ...

- ▶ With the euro area crisis still unresolved and tensions in the Middle East continuing, we are beginning to see more of a divergence in the near-term outlook for RGMs. Political uncertainty is weighing on growth in Egypt and the prospects for economic reforms in the Middle East.
- ▶ The euro area crisis and the credit squeeze from European banks is limiting growth in emerging Europe and impacting on growth prospects through trade links to the Middle East and Africa. As a result, we now expect 2013 growth in the EMEIA region to be 5.4%, 0.6pp weaker than forecast in October.
- ▶ FDI flows to some of the larger RGMs, such as Brazil, Russia and China, have held up reasonably well, but flows to emerging Europe and countries in the Middle East, such as Egypt, have weakened substantially.
- ▶ Similarly, share prices in Egypt and emerging Europe have been among the worst performers over the past year, affecting consumer wealth and the ability of firms to invest.
- ▶ Some RGMs, notably Turkey, Nigeria and Argentina are still battling with rising inflation. Meanwhile, inflation in India, Vietnam and Egypt is still uncomfortably high, limiting the scope of these countries to cut interest rates or provide a boost through government spending.
- ▶ Over the medium term, oil and commodity prices are set to stay high, and rising tensions in the Middle East raise the prospects of further spikes in oil prices. This supports growth in oil exporters and resource-rich countries, but hampers oil importers such as China and India.

... but, with a growing middle class, they will become a source of global growth and trade flows, with stronger links between them

- ▶ The increase in the middle class in RGMs, particularly in Asia, will drive growth in consumer demand and trade flows between RGMs. For instance, the number of households in China with a real disposable income of US\$30,000 to US\$50,000 will increase from 1.6 million in 2010 to an estimated 26 million in 2020.
- ▶ As a result of changes in the costs of production and rising consumer demand, it is the trade between RGMs that will see the fastest growth over the next decade. Flows of goods from China to India are expected to grow by an impressive 22% per year over the next decade. Businesses will need to adapt their strategies to the new challenges and opportunities presented by these changing patterns of trade.
- ▶ We will see a seismic shift in trade patterns with the advanced economies also increasingly looking to their RGM neighbors. By 2020, China will become Europe's most important trading partner, far outpacing the US. Europe will also be looking to its neighbors in the south with Europe's exports to Africa and the Middle East around 50% larger than its exports to the US. For its part, the US will be looking with total exports to Latin America outpacing its exports to Europe.

Shift in trade patterns drives growing importance

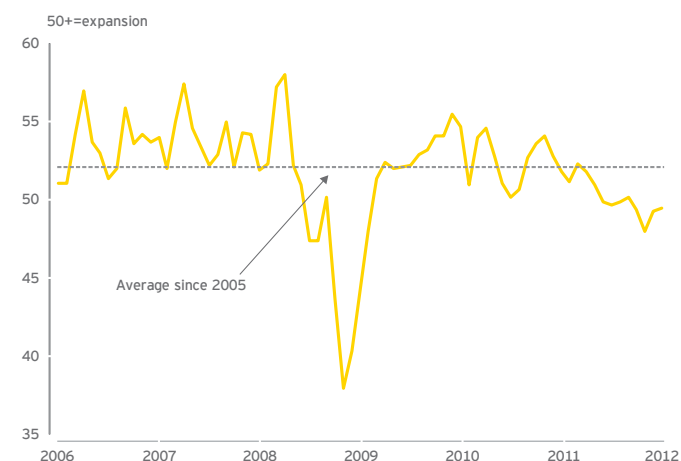
Activity bouncing back in some RGMs despite global turmoil ...

Despite all the continued turmoil in Europe, the 25 rapid-growth markets (RGMs) are proving quite resilient despite the gloomy prospects in advanced economies. After a strong buffeting toward the end of last year, output and growth appear to be picking up in many RGMs. Industrial production in many countries appears to have bottomed out and consumption is staying strong.

... and China's growth toward the end of last year surprisingly strong

GDP growth in China held up surprisingly well in Q4 2011, slowing only slightly to 8.9% from 9.1% in Q3. The moderation was more subdued than expected and, in 2011 as a whole, the economy expanded by an impressive 9.2%, despite the weakness in the global economy. However, manufacturing output appears to have bottomed out in China with the overall official Purchasing Managers' Index (PMI) picking up to 51.0 in February, up very slightly from January's 50.5 but still relatively low. With the outlook for exports subdued and investment weak, we expect industrial output growth to slow further in H1 2012. But consumption is set to expand further, picking up some of the slack from weaker investment. The momentum toward the end of last year is enough to lift growth this year in mainland China and Hong Kong to 8.2%, up from the 8% we forecast in January.

Figure 1
China: official PMI manufacturing overall



Source: National Bureau of Statistics.

Vulnerabilities remain in China ...

Nevertheless, the risk of a hard landing in China remains, with corporate profitability and the health of bank loans facing the potential double exposure of weak exports and a downturn in the property sector. While house prices across most major cities are moderating, the vulnerability of the construction sector persists, with knock-on implications for China and Asia as a whole. Nonetheless, with low central government debt and high reserves, China has plenty of resources to counteract any weakness, and the scope to use well-targeted fiscal transfers to support incomes and consumption.

... and in Russia, despite reasonable pace of growth

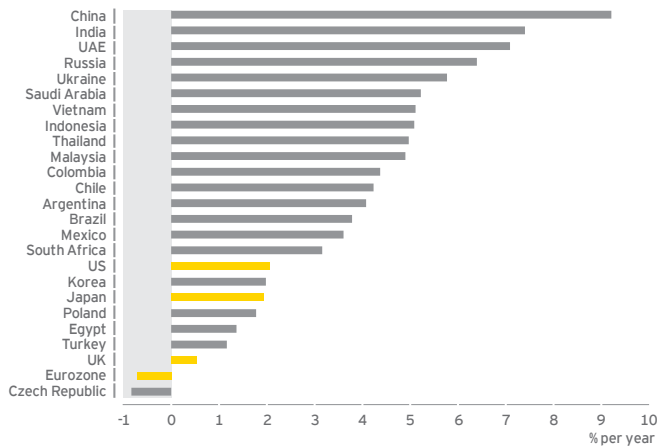
Russia's PMI surveys in January and February point to robust growth in the services sector but a fairly weak outlook in manufacturing. The economy is still receiving a boost from high oil prices, facilitating a fiscal stimulus, while real wage growth has been rapid in recent months and credit growth was very strong in December. But this generally positive background could easily be derailed by a surge in domestic political uncertainty or a sharp fall in the oil price.

Renewed resilience in India and Brazil ...

A few months ago, the news on Brazil was gloomy. But there has been a sharp pickup in business surveys from December to February. Similarly, both the Indian manufacturing and services PMIs have bounced back strongly during this period, reversing the sharp slide seen in mid-2011. While the recent monthly data has been more positive, it still seems likely that year-on-year GDP growth in India will only be around 6.1% in 2012. High interest rates and inflation, uncertainty, and weak global demand will keep growth below trend for the rest of this year.



Figure 4
Real consumption growth in 2012

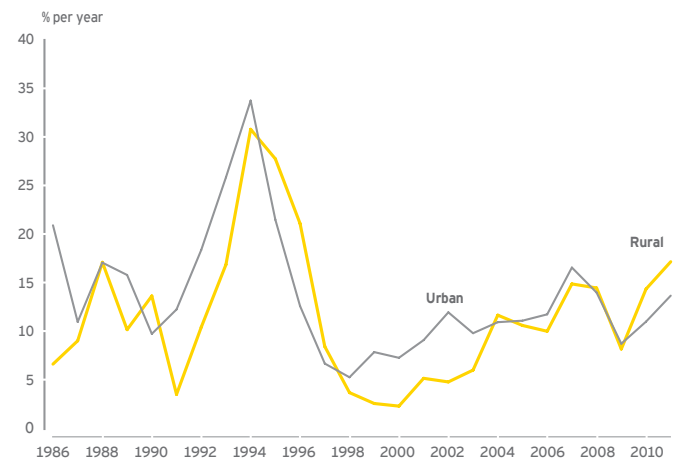


Source: Oxford Economics.

Furthermore, there are clear signs that China is beginning to rebalance its economy away from a dependence on investment and net exports toward rising consumption growth. For 2011 as a whole, consumption and investment contributed roughly equal amounts to overall growth, at 4.8pp and 5.0pp respectively. Net exports actually detracted from growth marginally, by 0.5pp. Retail sales were remarkably stable in 2011 at 14%.

Rising incomes, particularly more recently in rural areas, are helping to support consumption and drive the rebalancing of the economy in China. For the first time, at the end of 2011, the urban population of China exceeded the rural population. But there are also important shifts in income growth, with rural incomes in 2011 supported by strong agricultural output and government transfers. While the level of urban disposable income per household remains three times the level of rural households, growth in rural incomes significantly exceeded that of urban incomes in 2011 for the first time since 1996, rising 18% compared with 14% for urban households.

Figure 5
China: disposable income per capita



Source: Oxford Economics, CEIC.



Shift in trade patterns drives growing importance

Divergences among RGMs' near-term prospects

Eurozone weakness will weigh on emerging Europe's exports ...

The Eurozone faces a very challenging year with large amounts of public and private sector debt to be refinanced, tight credit conditions, further fiscal austerity and job losses. As the Eurozone falls back into recession, these economic conditions will test policy-makers' commitment and ability to preserve the Eurozone in its current form. After a fall of 0.5% this year, we expect Eurozone GDP to grow by just under 1% in 2013 before picking up to some 2% a year in 2015-16. This implies that the recovery will be slower than after any recession since the early 1970s. Subdued domestic demand and uncertainty will lower export growth from emerging Europe and impact on investment over the course of this year.

... and credit supply will continue to be squeezed ...

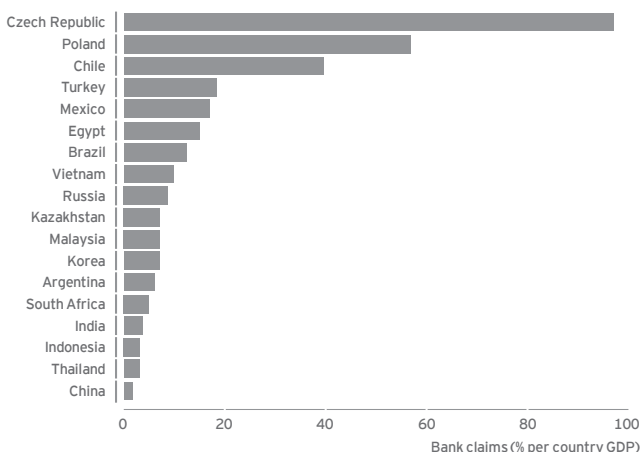
The ECB's Longer Term Refinancing Operations (LTROs), which include offering long-term funds to banks at 1% interest, and a significant easing of collateral requirements for loans, have helped to provide liquidity but have also probably come too late in the day to prevent a credit crunch in the Eurozone this year.

The combination of the crisis and new rules on capital requirements has led to the major European banks behaving much more cautiously, including the reduction of external funding of their substantial operations in emerging Europe. This could further squeeze credit supply in the region, which is already under pressure from the deterioration in economic prospects. To try to prevent this situation from getting out of hand, the major multilateral institutions have met with those banks with a major presence in emerging Europe to discuss measures to avoid a disorderly deleveraging. But it remains to be seen whether this risk can be avoided. From July to November 2011, banks pulled out €4.8b from Poland, in contrast with the heavy inflows they made in H1 and during 2010. A potential squeeze on credit by European banks would also have an impact on RGMs further afield, with European banks having a significant presence in countries as diverse as Chile, Turkey, Mexico, Egypt and Brazil.

Despite the weakening of the Eurozone economy during Q4 2011, the actual monthly data on production in emerging Europe showed a surprising degree of resilience, with Polish industrial output up 3.2% on the quarter in Q4, and that of the Czech Republic also up in October and November. However, this robustness is very unlikely to continue into 2012. Even though the latest surveys show some stabilizing in the Eurozone, the fall in orders that occurred there in the final few months of last year will feed through into lower exports and output in emerging Europe.

As we highlighted in the January forecast, the weaker outlook in the Eurozone and the potential for an escalation of the European sovereign debt crisis have impacts not just on emerging Europe but other RGMs through trade and financial linkages. With around a third of South Africa, Egypt and Ghana's exports destined for the Eurozone, the weaker outlook in Europe is also affecting growth prospects in African RGMs. In addition, capital markets are an important driver of growth in RGM economies as diverse as South Africa, Hong Kong and Chile, and increased volatility in financial markets from a further escalation of the crisis in the Eurozone would have a significant impact on growth in these economies.

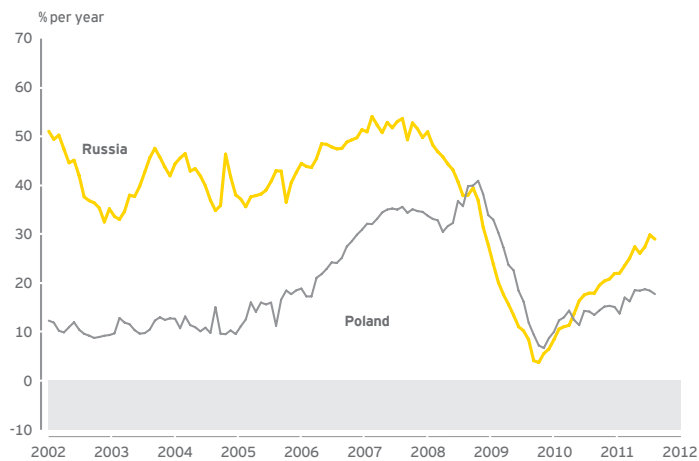
Figure 6
European (ex UK) bank lending to RGMs



Source: Oxford Economics, BIS.



Figure 7
Emerging Europe: bank lending



Source: Haver Analytics.

... while more buoyant US economy is bolstering growth in Latin America

In the US, the economy continues to improve – particularly the labor market and other indicators such as construction spending and durable goods orders. However, we continue to expect only moderate growth this year and next. This reflects concerns about the consumer, with confidence weak and the housing market still under pressure. Growth is expected to slow to 2%-2.5% over much of 2012. While it is expected to pick up in the second half, fiscal tightening is expected to take a toll in the first half of 2013. On an annual basis, the economy is expected to expand 2.3% in 2012 and 2.5% in 2013. The Federal Reserve continues to signal its readiness to step in with additional support. Its recent announcements include assurances that current low interest rates will remain in place and that it will maintain its balance sheet for the foreseeable future. And another round of quantitative easing remains a possibility. This provides a potential support to capital flows into RGMs, but could also add to inflationary pressures in countries with strong links to the dollar.

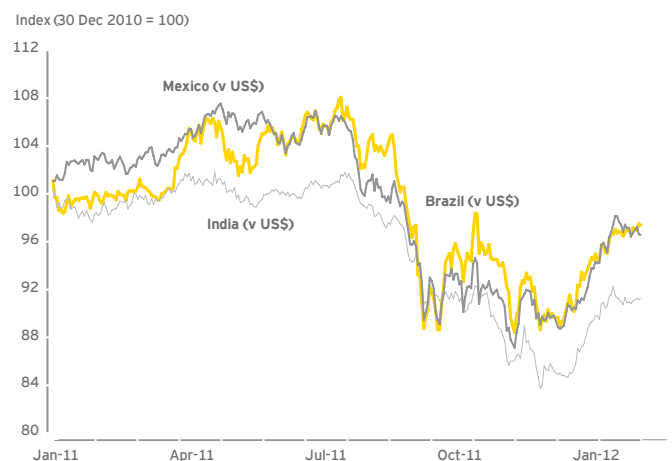
Mexico has fared better since the middle of 2011, with rising domestic demand in Q3 limiting the impact of stagnant exports. And exports may pick up soon if the improvement in the US persists, with a further boost from the sharp depreciation last year of the peso.

With the recovery in the US subdued but more established, growth in the Americas' RGMs is unchanged this year at 3.5%, but will gather momentum next year at close to 4.5%.

Investors are shaking off the gloom and becoming more discerning on prospects within RGMs

The positive mood among global investors at the start of 2012, aided by abundant liquidity in the developed economies, has led to significant rallies in many of the RGMs and currencies that had slumped during the last few months of 2011. If this trend persists, it should support business confidence and help to dampen inflation (though commodity prices have also picked up again).

Figure 8
Emergers: exchange rates



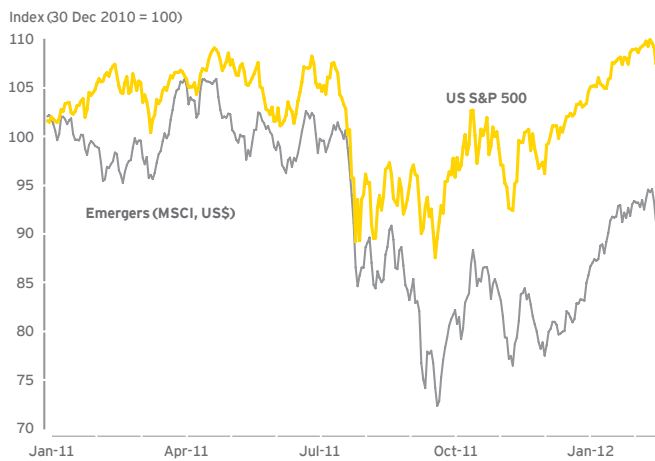
Source: Haver Analytics.



Shift in trade patterns drives growing importance

Since the end of last year, the Indian rupee and the Mexican peso, two of the RGM currencies worst hit by the global investor flight to safer assets have rallied by 5% or more. Improving financial conditions led to a decline in Turkey's market interest rates (which had climbed steeply over the previous three months). The improvement in global sentiment this year, aided by abundant liquidity and reassuring economic news in the US, has also triggered significant rallies in RGM equity markets, with several bouncing well over 10%. If – and it remains a big “if” given the unresolved state of the Eurozone debt crisis – these trends continue, they should support business confidence across the RGMs.

Figure 9
Emergers: equity markets

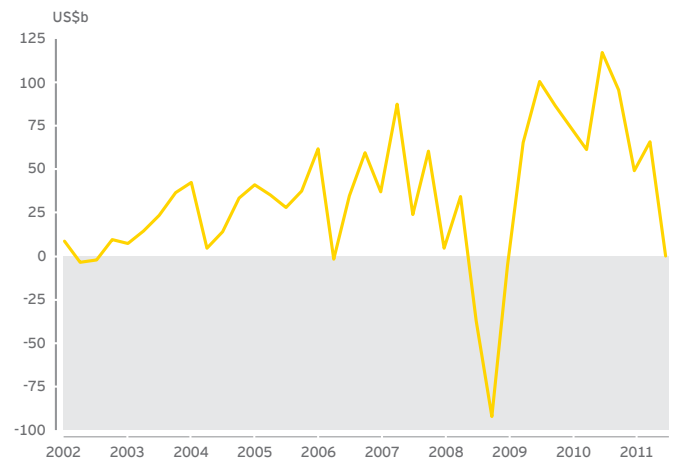


Source: Haver Analytics.

Foreign direct investment (FDI) flows to some of the larger emergers, such as Brazil, Russia and China, have held up reasonably well, but those to emerging Europe and countries in the Middle East, such as Egypt, have weakened substantially. Portfolio inflows to RGMs did, however, weaken significantly in the second half of last year.

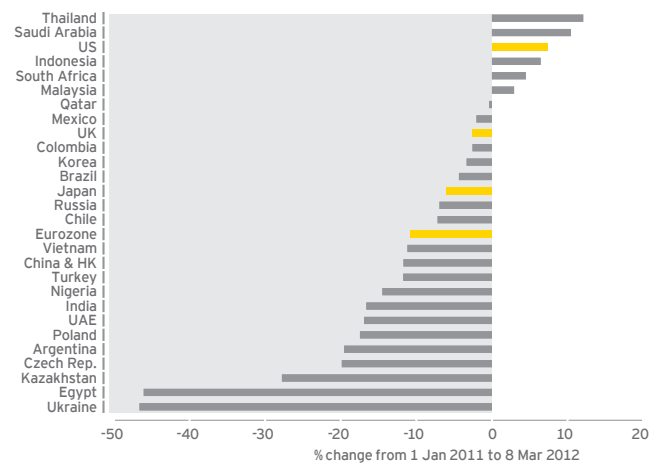
While we have seen some important recoveries in equity prices in RGMs in recent weeks, and also in some local currency bond markets, the level of share prices for many RGMs is still well below the level at the start of last year. Similarly, share prices in Egypt and emerging Europe have been the worst performers over the past year, affecting consumer wealth and the ability of firms to invest.

Figure 10
Emergers: portfolio inflows



Source: Haver Analytics, Oxford Economics.

Figure 11
Share price change since the start of 2011



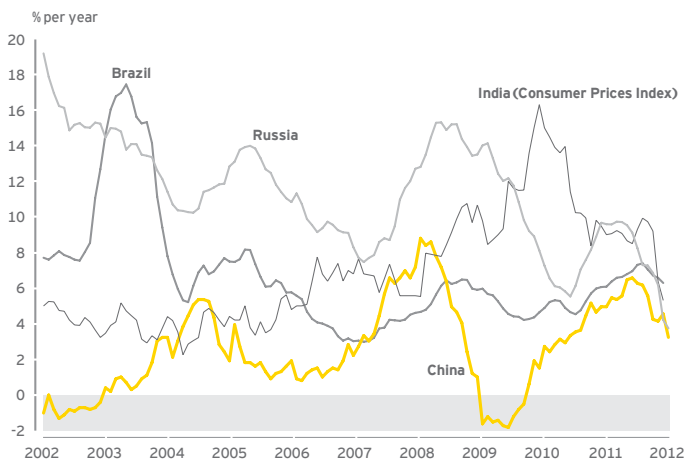
Source: Oxford Economics.



Easing inflation creates more room for maneuver for some RGMs, but not all

Inflation has eased for most RGMs from the peaks toward the middle of last year, as the impact of high oil and commodity prices has waned. The global slowdown has also led to more subdued inflationary pressure coupled with the impact of credit tightening from earlier interest rate rises. We expect inflation in RGMs as a whole to moderate from close to 6% last year to 4.7% this year.

Figure 12
BRICs: consumer prices



Source: Haver Analytics.

In China, headline Consumer Price Index (CPI) dropped to 3.2% in February from 4.5% in January, as food price inflation fell back. Non-food price inflation continued to ease. We expect inflation to continue to moderate, increasing the scope for a further easing in monetary policy in China. Reserve requirements were lowered by 50 basis points (bp) for large banks at the end of February, following on from the 50bp cut in November.

In Brazil, inflation has slowed somewhat to just over 6% from a peak over 7%, but with the economy grinding to a halt in Q3 2011, the central bank clearly sees the risks to growth as more prominent, and has cut interest rates significantly. The economy received another lift with a 75bp cut in rates in March but, with oil prices high, the balance of risks could shift back toward inflation.

In January, inflation in India made a welcome fall to 6.5%, much below the peak in early 2010 of 16%. At its January meeting, the Reserve Bank of India signaled that its policy tightening had come to an end by lowering bank reserve requirements. But it will not be in a position to cut interest rates until core inflation (excluding food) is on a clear downtrend, and that may still be some months off – particularly as the economy actually has gained considerable momentum recently.

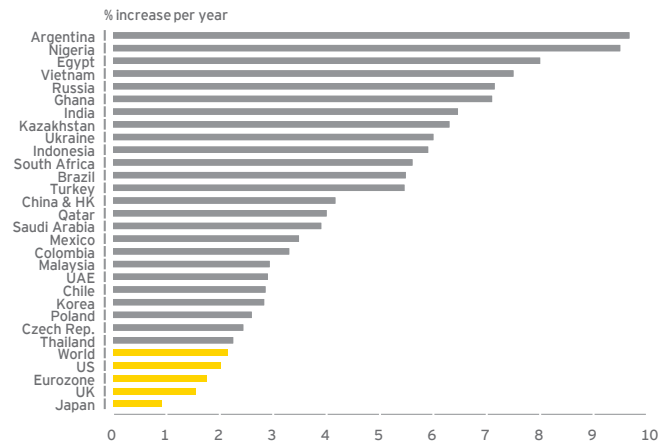
Overall, some RGMs, notably Turkey, Nigeria and Argentina are still battling with rising inflation. While inflation in India, Vietnam and Egypt is still uncomfortably high, limiting their scope to cut interest rates or provide a boost through government spending.



Shift in trade patterns drives growing importance

Figure 13

Inflation in 2012

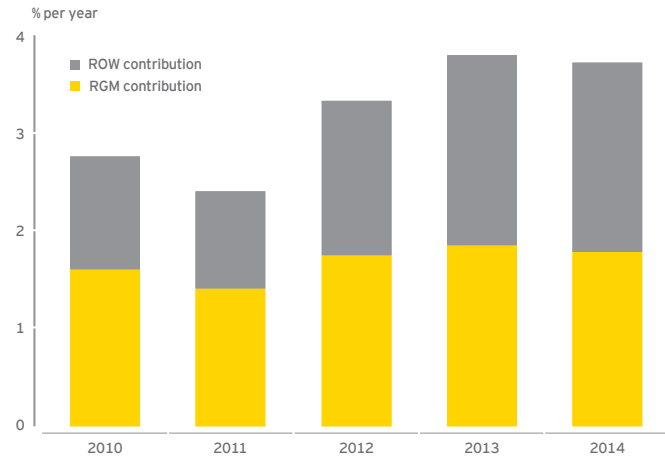


Source: Oxford Economics.

Nevertheless, growth in RGMs as a whole will continue to be driven by labor market growth, rising consumption, increasing trade flows between RGMs and a high capacity in many to use policy to counteract any global headwinds. As a result, they will continue to contribute almost one-half of global growth over the next three years.

Figure 14

RGM contribution to world GDP growth



Source: Oxford Economics.





Box 1

What will happen to oil and commodity prices over the next decade?

Renewed supply concerns push oil prices to high levels ...

Heightened geopolitical tensions and supply concerns have pushed oil prices to six-month highs. On 7 March, Brent crude oil was trading at US\$125 per barrel, heights not seen since April last year at the height of the Arab Spring and the turmoil in Libya. With global demand still quite weak, actual and potential disruptions to supply have helped to push oil prices higher.

Earlier in February, South Sudan shut down its oil production amid disagreement with Sudan over oil pipelines. At the same time, we have seen disrupted supply in Nigeria. Moreover, planned EU sanctions against Iran to be in force by the end of June have led to speculation of lower oil supply from Iran. Prices are likely to remain volatile in 2012 as heightened geopolitical tensions raise continued supply concerns while the ongoing Eurozone debt crisis weighs on oil demand prospects. The tightness of supply will also make the market more vulnerable to further surprises and we are more likely to see spikes in oil prices.

... placing pressure on oil importers ...

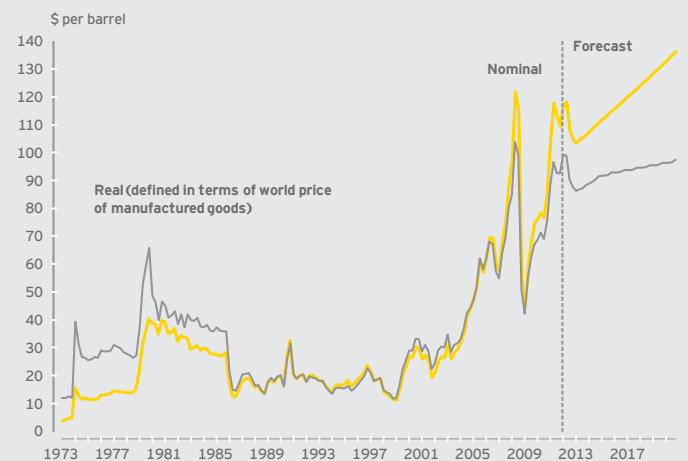
This has implications for RGMs, particularly the large oil importers such as India and China. In India's case, it has the potential to further dent growth significantly, as the central bank is only now signaling a hold in policy tightening after tackling the last bout of inflation. Other RGMs, such as Nigeria, Ghana, Saudi Arabia and Qatar, would see a boost to their growth prospects through higher oil prices improving export revenues and their fiscal balances.

We expect oil prices to average US\$112 per barrel in 2012, with the price falling from its current highs toward US\$105 by the end of the year, assuming geopolitical tensions subside, supply from the Organization of the Petroleum Exporting Countries (OPEC) increases and global demand remains subdued in the near term. Over the course of 2013, oil prices will start to rise again in nominal terms reaching an average of US\$135 per barrel in 2020.

... with strong RGMs' growth pushing up oil prices in the medium term

As we discussed in the January 2012 edition, on the demand side, the relatively strong growth from RGMs and greater oil intensity for many RGMs, is supporting the outlook for oil prices over the medium term. From 2013, oil prices are expected to climb steadily upward as world GDP growth accelerates. This upward movement in prices in the next couple of years will be tempered by increased oil output, particularly in the OPEC bloc.

Figure 15
World: oil price



Source: Oxford Economics.



Shift in trade patterns drives growing importance

Over the longer term, world oil demand will continue to grow at a steady pace. Global oil intensity will fall, partly because of government measures to curb oil demand, and this will affect oil demand growth. Oil demand in developed economies will be further impacted by saturation effects resulting in falling demand over the long term. As a result, world oil demand will increasingly be driven by RGMs. In particular, increasing car ownership will boost demand from the transport sector.

Over the medium term, on the supply side, OPEC, and in particular the Middle East, will increase its share of world crude oil supply, as the bulk of proven oil reserves are located here. Saudi Arabia and Iraq are expected to increase production substantially. Investment in the Iranian oil industry is likely to continue to be hampered by sanctions for the next few years. Thus, production here is expected to grow at a slower pace than in the rest of OPEC. Outside OPEC, the share of unconventional sources of oil supply is likely to increase. Beyond 2015, oil demand will grow at a slightly quicker pace than oil supply causing real oil prices to rise gradually over the forecast period.

Demand from China supports non-oil commodity prices

Strong demand from China and other RGMs, as well as supply disruptions, drove phenomenal rises in commodity prices in 2009-10. The World Commodity Price Index rose by almost 80% from its low in Q4 2008 to its high in Q1 2011. Demand and supply factors were at play in all the major commodity markets – food, metals and raw agricultural products.

Extreme weather pushes up food prices

Although strong economic growth in RGMs has fueled food price increases over the past couple of years, temporary supply shocks have been the principal driver. In particular, the La Niña weather phenomenon – an abnormal cooling of waters in the Pacific Ocean – has produced some of the most extreme weather patterns in a decade. As a result, agricultural prices surged in the second half of 2010 following a series of crop failures in major producers. Extreme weather disturbances have caused shortfalls in a range of commodities including corn, coffee, rice, wheat and sugar.

There are also longer-term structural shifts in markets that are putting upward pressure on prices. For example, the Food and Agriculture Organization of the United Nations cites government-sponsored demand for biofuels as a significant source of ongoing price pressures in agricultural markets. Around 40% of the corn crop in the US is now earmarked for biofuels.

Supply fails to meet new demand for metals ...

Demand from China is dominant in driving the base metal markets (its share in global base metal consumption having doubled to about 40% over the past decade), although growth in RGMs more generally has also been important. On the supply side, there have recently been a number of disruptions (e.g., strikes in Chile's copper mines) that have led to a decline in inventory buffers. Growth in new supply has also been unable to match the pace of demand, with several major producers failing to deliver projects on time. In certain commodities, particularly copper, coal and iron ore, markets could tighten substantially over the next couple of years if there are further delays in these projects.

Another significant influence on metal prices, both precious and base metals, over the last year has been concern about inflation. Precious metals and increasingly, copper, are seen as hedges against inflation, so mounting inflationary pressures tend to push up metals' prices. Accommodative monetary policy around the globe has also supported metals prices as low interest rates make it more attractive for investors to move funds into the non-interest-bearing metals.



Box 1

What will happen to oil and commodity prices over the next decade? (continued)

... but commodity prices have fallen ...

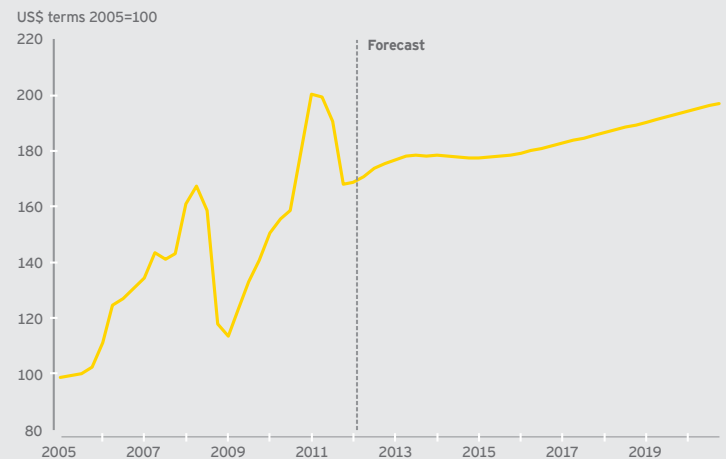
Over the course of last year, non-oil commodity prices fell from the peaks they reached in early 2011. This year, nonferrous metal prices will be supported by firm demand from China, while the potential for production cutbacks, should prices fall below marginal costs of production, will provide a floor for prices. On the supply side, closure of mines and falling ore grades are likely to provide support to some metals, such as copper and tin, in the near term. However, for metals such as zinc, lower investment at present will boost prices further out in the forecast period, around 2015-16. On the demand side, RGMs will increase their share of world consumption owing to faster-growing manufacturing and construction sectors. Overall, nonferrous metal prices are expected to continue to rise gradually over the forecast period.

In addition to natural disasters, world food prices have been boosted over the past few years by increasing demand from the biofuels sector and higher demand for feedstock driven by a growing middle class consuming more meat in RGMs. As the biofuels industry expands and living standards within RGMs improve further, food prices will come under increasing pressure. Thus food prices are expected to continue to rise over the forecast period at a quicker pace than world population owing to increased consumption by the biofuels industry and RGMs.

We expect non-oil commodity prices to fall by around 9% this year, followed by a period of moderate growth but, over the medium term, we expect commodity prices to rise in line with general inflation.

Figure 16

Non-oil commodity price index – nominal prices



Source: Oxford Economics, IMF.

... and any rises in the future could impact on RGMs

As metals prices are not a component of consumer price indices, there is no immediate feed through from higher metals prices to domestic inflation. Still, higher prices for metals can have an impact down the road as component and project costs increase. In this way, rising metals prices can restrict growth by acting as a “tax” on investment and consumer spending.

Rising food prices affect low-income countries more severely than developed markets as households in low-income economies spend more on food as a proportion of their income. In fact, for some RGMs, food is normally the single most important element of consumer spending.



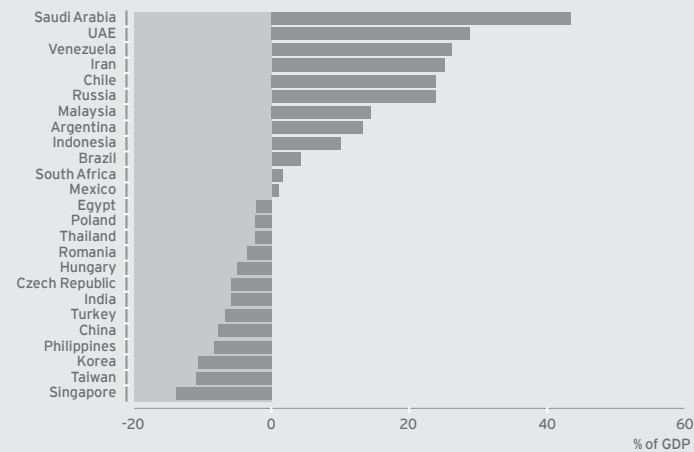
Shift in trade patterns drives growing importance

Should oil and commodity prices rise sharply, central banks in many RGMs will face a dilemma as rising prices hit real incomes and consumer spending, but also have the potential to feed through to higher wage and price inflation. In countries where inflation is already high, and fiscal deficits under pressure, the room for manoeuvre will be much less.

But new commodity exporters, such as Venezuela and Chile, would be set to benefit from the higher value of exports and revenues.

Figure 17

Net trade in commodities, 2009



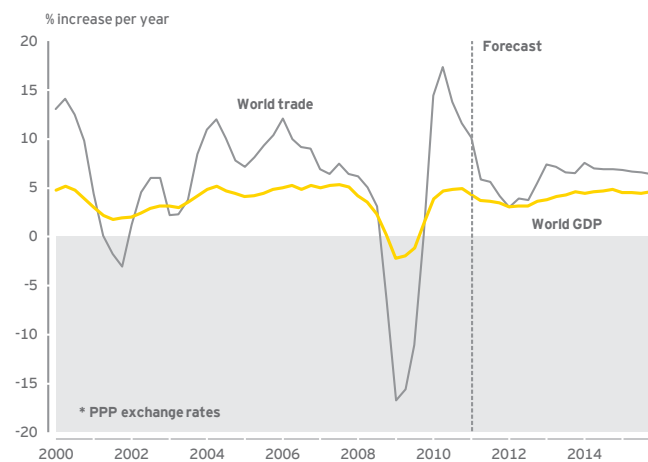
Source: Haver Analytics.





RGMs increasingly drive each others' growth as trade links intensify

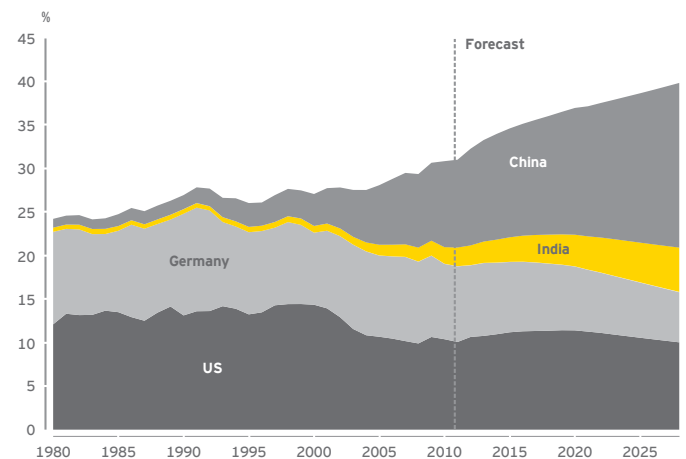
Figure 18
World: GDP and trade at purchasing power parity (PPP) exchange rates



Source: Oxford Economics.

Trade will once again drive development in RGMs

Figure 19
Share of world trade



Source: Oxford Economics.

The sharp slowdown and subsequent recovery of world trade was one of the main drivers of the dip in RGM prospects following the global financial crisis. Trade flows are currently subdued and this is weighing on RGM near-term growth but, over the course of H2 2012 and 2013, trade should pick up, boosting growth. In addition, long-term trends suggest RGMs stand to benefit greatly from further trade integration with each other and the advanced economies.

Strong growth in trade has been one of the driving forces in the emergence of many RGMs. For the most part, this has been associated with producing for consumers in advanced economies. But this trend is set to change quite radically.



Shift in trade patterns drives growing importance

Lower trade barriers help to drive specialization

Global trade was dominated by the advanced economies in the 1990s, accounting for over 80% of trade in goods. But trade liberalization, along with advances in transport and communications technology, has made it increasingly possible for different stages of production to take place in different places. This means companies can seek out the lowest cost provider, regardless of location. As a result, the share of advanced economies in global trade is set to decline to 55% by 2020.

As countries begin to specialize, not just in a particular good, but in different components, trade hubs are created, with Asia dominating the world production of electronics. For example, around one-quarter of the world's output of hard disk drives is produced in Thailand. China's accession to the World Trade Organization in 2001 was a catalyst for economic and trade policy reforms that helped it to become the world's largest exporter in 2009. With China's abundant workforce keeping labor costs low, Asia is now one of the world's most important trading hubs.

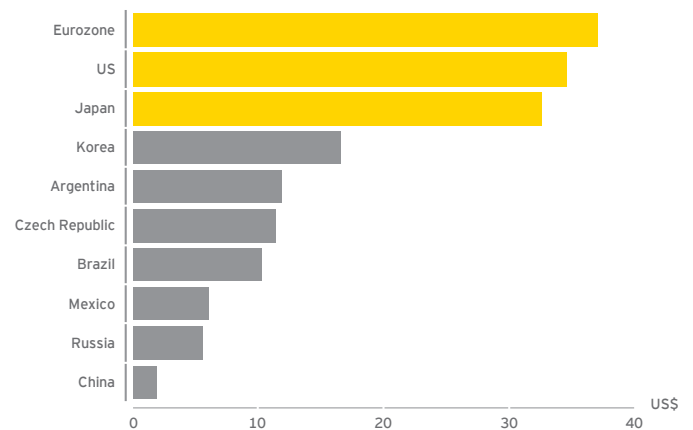
China's initial trade development used low-skilled, low-wage labor to put parts together and ship these to countries in the West, earning China the nickname, the "world's assembler." But China is already moving up the value-added chain, producing more sophisticated goods exemplified by China's edge in the production of green technology. Different stages of production are now taking place in China with the design of mobile handsets, for example, happening within the country rather than simply the assembly of components. Partly as a result, China and India alone will represent just under one-fifth of global trade flows by 2020.

Rising wages in China open up opportunities for other RGMs

While China is still very competitive, growth in prosperity in China will also open up opportunities for other RGMs. As wages in China's coastal cities continue to rise by more than 12% per year, companies will seek lower cost producers within China's second tier cities, but also in other locations in Asia and elsewhere.

Figure 20

All Employees: hourly compensation costs in US dollars in manufacturing in 2010 (estimated)



Source: Oxford Economics, US Bureau of Labour Statistic.



Vietnam, Mexico and countries in Africa will start to challenge China's dominance in low-cost manufacturing. This can already be seen clearly in the development of the textile industry in Bangladesh. As a result, China and other RGMs will be increasingly looking to other RGMs as sources of lower production costs. As an illustration, exports from Africa and the Middle East to China and India are set to grow by more than 12% per year over the next decade.

Africa and the Middle East are poised to capture the flow from China – with a fast-growing labor force, they have the potential to become the next world assembler – replacing China, as China specializes in higher-value added goods. But for this to happen, there will need to be an investment in infrastructure and the fostering of entrepreneurship. Much of what has driven China's growth in export markets has been the ability of small and medium-sized companies to spring up and develop, innovate and capture gaps in markets.

Technological advancements and the process of industrialization in the Middle East and Africa will lead to metals, chemicals and other "intermediate" goods becoming an increasingly important part of their exports as they seek to position themselves in the global supply chain. Exports to Russia from the region will show significant growth of close to 12% per year from sub-Saharan Africa and 14% from the Middle East and North Africa.

Asia's dominance as a trading hub in ICT set to continue, but opportunities for the advanced economies as well

The information, communications and technology (ICT) revolution is far from over and it will drive expansion in world trade. As Asia's trade hub intensifies and China continues its technological advancements, China will account for one-half of the growth in ICT trade over the next decade. The importance of trade to Europe's development is likely to continue, despite all the recent turmoil. Europe will remain a dominant player in world trade and will be able to tap into its already established routes to China and the rest of Asia. Indeed, it is Germany's relative success in exporting to emerging markets that has led to some of the trade imbalances within the euro area. If other European countries can follow Germany's example, trade could be what saves the economic potential of the euro area over the long term. Over the next decade, the US will also capitalize on its trade in ICT with Asia, and it is set to be one of the few advanced economies to increase its global trade share.

Growing middle class feeds development of consumer demand within RGMs ...

The growth of the middle class in RGMs, particularly in Asia, will see the development of final consumer demand. For instance, the number of households in China with a real disposable income of US\$30,000 to US\$50,000¹ will increase from 1.6 million in 2010 to an estimated 26 million in 2020. This represents a tremendous increase in the demand not just for luxury consumer goods such as high-end cars, but also significant services such as insurance. In India, the biggest development will be in the lower middle class with the number of households with disposal income of US\$5,000 to US\$15,000 rising to around 150 million in 2020 from just under 100 million now. In particular, this represents an opportunity for companies in the US and Europe, with their comparative advantage in financial services, to tap into the growth in demand for these as the middle class in RGMs develops.

¹ In constant 2010 prices and exchange rates.



Shift in trade patterns drives growing importance

... with fastest trade growth set to be among RGMs over next decade ...

As a result of changes in both the costs of production and the demand for goods, it is the trade between RGMs that will see the fastest growth over the next decade. We are also likely to see a rise in trade partnerships among RGM countries. Flows in goods from China to India are expected to grow by an impressive 22% per year over the next decade. And not only will we see fast growth in trade between RGMs, but the overall size of flows to advanced economies will become large enough to rival long-standing trade relationships such as the one between the US and Europe.

... replacing advanced economies as most important trading partners

Over the next decade, we will see a seismic shift in trade patterns with the advanced economies increasingly looking to their RGM neighbors. By 2020, China will become Europe's most important trading partner, far outpacing the US. China's exports to Europe, at over US\$1t, will be almost twice as large as US exports to Europe. This is a tremendous shift in economic integration.

Europe will also be looking to its neighbors in the south with Europe's exports to Africa and the Middle East expected to be around 50% larger than its exports to the US.

For its part, the US will be turning to the southern half of the American continent, with total exports to Latin America outpacing its exports to Europe.

Businesses will need to adapt to changing global trade map

Businesses will need to adjust their strategies to reflect these changing patterns of world trade.

Younger companies from emerging markets will become important players in global markets. As outlined in *Ernst & Young's Trading places* report, businesses should seek to get an early foothold in these RGMs, establish market presence and gain significant market share.

For more insight on trade patterns in rapid-growth markets, read *Trading places: the emergence of new patterns of international trade*, an Ernst & Young report that draws on research by Oxford Economics to model patterns of trade over the next decade.



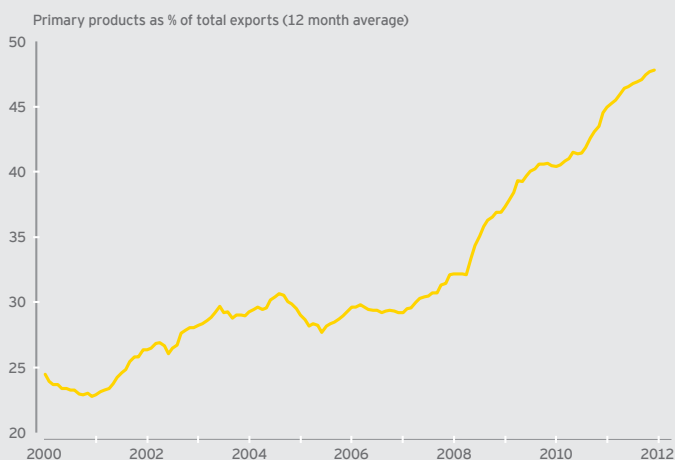


Box 2

Latin America strengthens ties across the Pacific and looks to develop high-end manufacturing

Over the past decade, many countries in Latin America have experienced fast growth as a result of the boom in oil and commodity prices. Trade with Asia and other RGMs has been part of this story and these trade flows are set to intensify. But while oil and commodity prices are set to remain high, they will provide less of a boost to growth, and Latin America will need to look to other areas for development. In terms of sectors, investment in education and infrastructure, along with a strong culture of entrepreneurship, will help to drive a shift toward manufactured goods away from commodities. But if this investment does not take place or entrepreneurship is not allowed to thrive, there is a risk that some economies in Latin America will not make the necessary transition to a more diverse economy as the commodities boom subsides.

Figure 21
Brazil: commodity exports as % of total



Source: Haver Analytics.

Brazil increasingly looks to the East ...

The rise in importance to the Brazilian economy of trade with China in recent years – which has made the latter Brazil’s largest individual trading partner, overtaking the US – is credited with providing a major boost for Brazil, not least in helping to promote expansion in the aftermath of the global crisis. China has become an increasingly important trading partner for Brazil and the speed of this transition is impressive. China’s share of Brazil’s total goods exports has risen from less than 2% in 2000 to over 17% in 2011.

... as commodities boom drives trade growth ...

Unsurprisingly, this strength in bilateral flows has been driven by commodities – in particular iron ore and soya. Brazil is also a significant importer from China, including a diverse range of basic consumer manufactures that China can often produce more competitively than many of Brazil’s own industries. But Brazil still runs a significant trade surplus with China – at some US\$11.5b in 2011, it was almost 39% of the country’s annual total trade surplus of US\$29.7b. It is also worth emphasizing that Brazil’s trade with the rest of Latin America is now substantial, accounting for US\$57b (over 22%) of its exports.

... but the US is still an important trading partner

China is much less important for other RGM economies with just over 1% of Mexico’s exports destined for China in 2010, 5% of Colombia’s and 9% of Argentina’s. But Latin America will continue to forge close trade links with Asia and, over the course of the next decade, the exports of goods to China and India from the Americas (excluding the US) will grow by around 13% per year.



Shift in trade patterns driving growing importance

While the East will be important, trade flows from the US will increasingly shift toward Latin America and flows in the other direction will continue to be important. The US is Mexico's largest trading partner by far, with over 80% of exports traveling over the country's northern border to the US, while over 43% of Colombia's exports are destined for the US.

Growing middle class will help to drive development ...

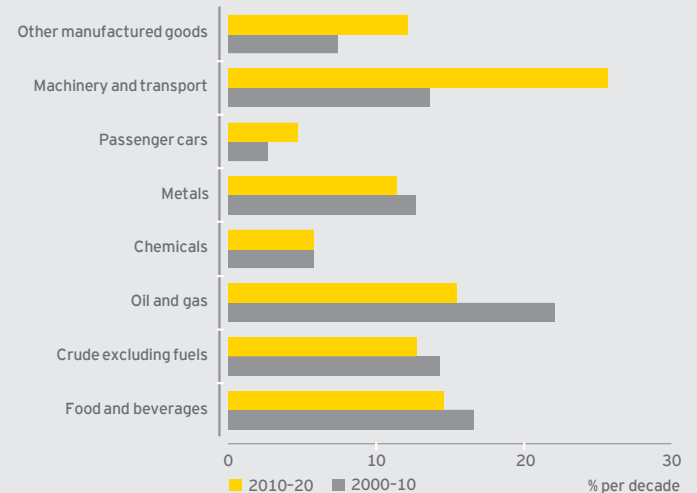
Continued growth of the middle class will also help to drive the development of both a more highly skilled labor force and the higher-end manufacturing and consumer products base in these countries. Over the next decade, we expect a significant increase in the number of middle class households in Latin America: the number of households in Mexico with an annual disposal income greater than US\$50,000 in real terms is expected to increase from 4.7 million in 2010 to 7.1 million by 2020; in Brazil, the same measure will increase from 6.2 million to 9.4 million. This represents an increase of over 50% in both cases.

... with a shift toward more manufactured goods

While around one-half of Argentina's and Brazil's exports are commodities, Colombia exports an even greater proportion of commodities – 65% of its exports – with fuel and mining products taking up one-half of its total exports. The manufacturing base in Mexico is much more developed, with over 70% of its exports being of manufactured goods, and commodities only representing 22%.

Figure 22

Sectoral contribution to growth in Latin American exports



Source: Oxford Economics.

But we should also see a shift in the type of goods that Latin America exports. Over the past decade, well over two-thirds of the contribution to growth in goods exports came from oil and other commodities. But over the next decade, with renewed investment in infrastructure and education, Latin America's exports of passenger cars, machinery and transport equipment and other manufactured goods is set to expand, with the contribution to growth set to be nearly one-half of the total growth in exports. Nevertheless, there is a risk that if investment in the right set of skills for the modern economy is lacking, or entrepreneurship is not allowed to thrive, some economies in Latin America will not make the necessary transition to a more diverse economy as the commodities boom subsides.

Forecast for rapidly growing countries

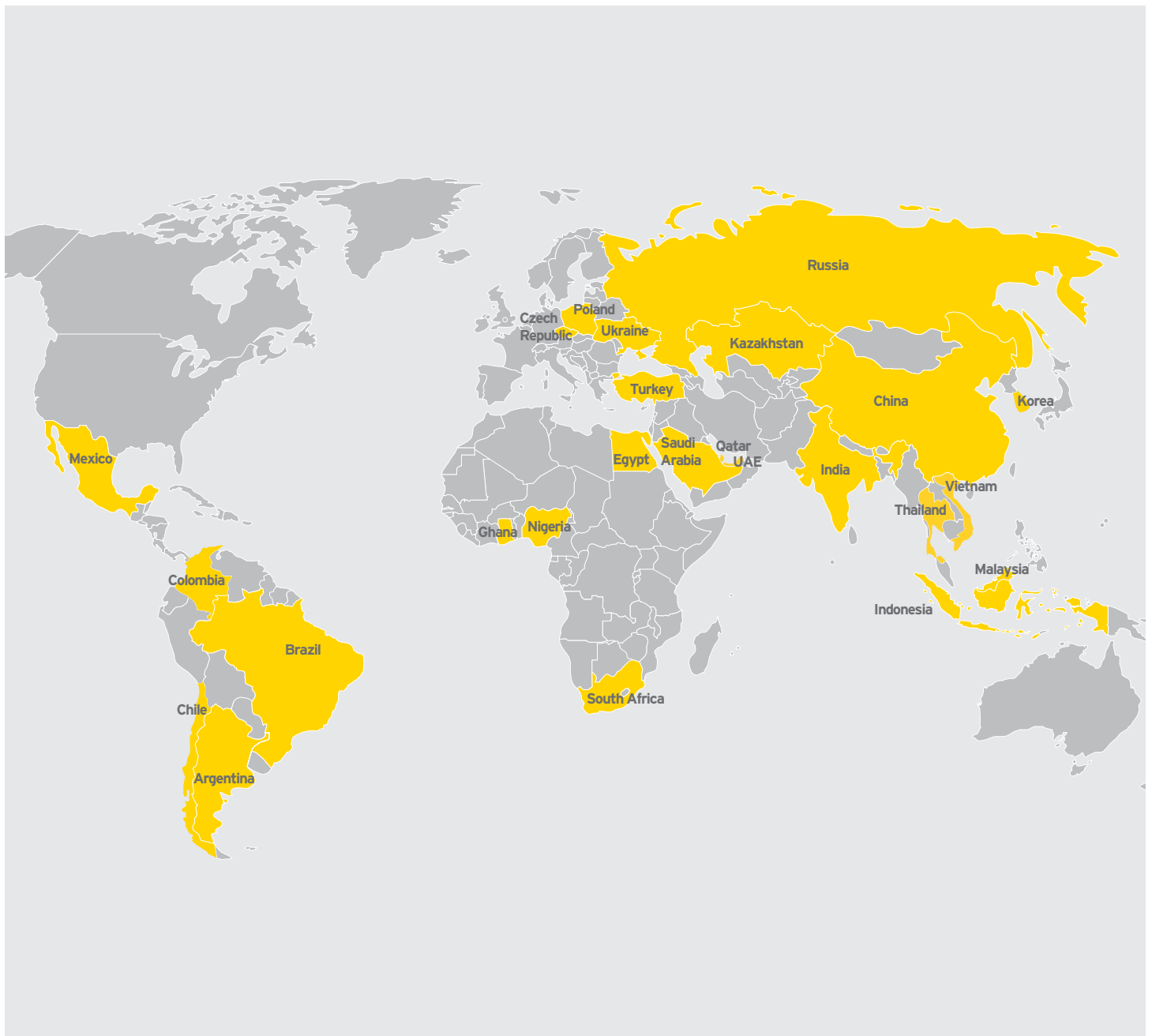


Argentina
Brazil
Chile
Mainland China and Hong Kong special administrative region (SAR)
Colombia
Czech Republic
Egypt
Ghana
India
Indonesia
Kazakhstan
Korea
Malaysia
Mexico
Nigeria
Poland
Qatar
Russia
Saudi Arabia
South Africa
Thailand
Turkey
Ukraine
United Arab Emirates
Vietnam

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 slows as weak world outlook outweighs strong consumption

GDP growth was 9.3% in Q3 and is likely to have averaged close to 8.9% in 2011 overall, driven by vigorous consumer spending, high commodity prices and generally buoyant demand from Brazil and China. As a result of the continued robust growth, the jobless rate fell to 7.2% in Q3 from 7.5% a year earlier.

But the slowdown in Brazil and the global financial woes of H2 2011 have started to dampen the pace of activity. The annual rise in the seasonally adjusted industrial output indicator slowed to 1.4% in December from 3.5% in October and 8% in Q2. And the building activity indicator has shown similar signs of a slowdown.

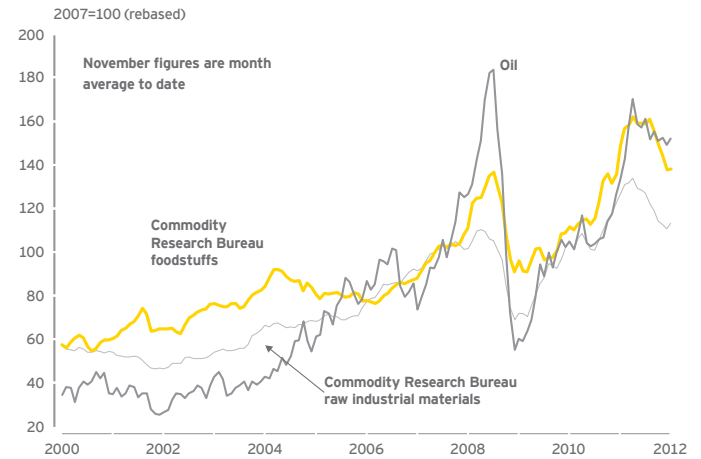
For 2012 we forecast a relatively soft landing with GDP growth of 3.9% – close to the January forecast but below the official projection of over 5%. Our forecast assumes more subdued Brazilian demand, declining competitiveness and mounting supply constraints. And with both a weaker currency and a reduction in energy subsidies expected, inflation is likely to rise to over 12% by the end of 2012, up from 9.8% in 2011. Over the medium term, growth is expected to average around 4% p.a.

Figure 23
GDP and industrial production



Source: Oxford Economics.

Figure 24
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	8.9	3.9	4.0	4.2	3.2
CPI inflation (% per year)	10.4	9.8	11.4	9.7	6.1	4.6
Current account balance (% of GDP)	0.7	-0.2	-0.6	-0.4	-0.1	-0.2
External debt total (% of GDP)	34.0	29.8	28.5	26.6	24.8	23.7
Short-term interest rate (%)	9.2	10.7	14.1	14.0	11.3	9.0
Exchange rate per US\$ (year average)	3.9	4.1	4.5	4.8	5.0	5.2
Government balance (% of GDP)	0.2	-1.6	-2.1	-1.8	-1.2	-0.9
Population (millions)	40.5	40.8	41.2	41.5	41.9	42.2
Nominal GDP (US\$b)	370.0	441.8	462.3	496.3	530.9	554.9
GDP per capita (US\$ current prices)	9,145.0	10,827.1	11,229.4	11,953.2	12,678.0	13,143.7

Economy to gather renewed momentum in 2012

After a brief pause in Q3, the Brazilian economy returned to growth in the final months of last year as domestic spending rebounded in response to lower interest rates and government stimulus measures, including tax cuts. With policy rates forecast to reach a trough of 9.25% in April and the Government also planning to push ahead with additional fiscal stimulus, we expect the economy to continue strengthening over the course of 2012. Growth for the year as a whole is forecast at 3.1%, with an acceleration to 5.0% expected in 2013.

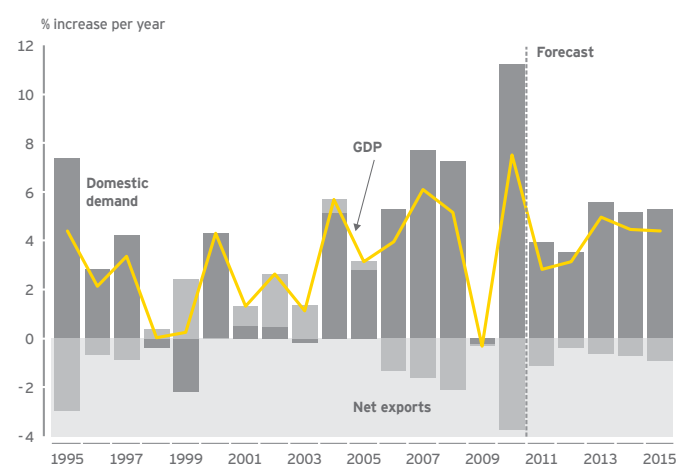
The risks to this forecast now appear more balanced rather than skewed to the downside. Although Brazil remains exposed to the fallout from a

more pronounced deterioration in global economic conditions than we currently envisage, on the upside, there is the potential for growth to accelerate more rapidly than expected given the counter-cyclical policy measures in the pipeline.

Achieving the Government's ambitious goals for economic growth over the medium term requires a shift in focus away from using fiscal policy to stimulate demand and toward investment in infrastructure and education, which are the biggest constraints facing the economy. Without this investment, GDP growth is forecast to average only around 4% per annum during 2015-20.

Figure 25

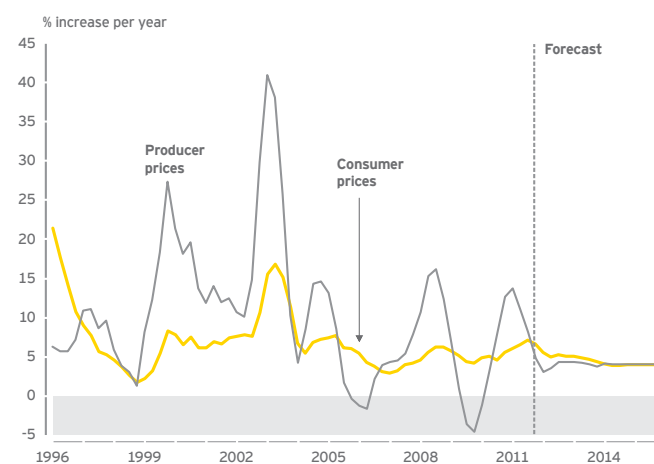
Contributions to GDP growth



Source: Oxford Economics.

Figure 26

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	2.7	3.1	5.0	4.5	4.4
CPI inflation (% per year)	5.0	6.6	5.5	4.8	4.0	4.1
Current account balance (% of GDP)	-2.2	-2.1	-2.7	-2.4	-2.2	-2.1
External debt total (% of GDP)	11.0	11.4	11.1	10.9	10.9	10.8
Short-term interest rate (%)	9.8	11.7	9.7	9.5	9.3	8.8
Exchange rate per US\$ (year average)	1.8	1.7	1.8	1.9	2.1	2.2
Government balance (% of GDP)	-2.5	-2.6	-1.6	-1.5	-1.5	-1.5
Population (millions)	195.2	196.9	198.6	200.3	201.9	203.5
Nominal GDP (US\$b)	2,146.3	2,476.4	2,343.7	2,467.0	2,474.1	2,551.7
GDP per capita (US\$ current prices)	10,997.3	12,577.6	11,801.3	12,317.8	12,253.3	12,539.8

Chile

Global outlook to weigh on growth

GDP is estimated to have grown by 6.2% in 2011, driven by robust domestic demand and export growth of around 7%. However, higher interest rates, saturation in the labor market and uncertainty surrounding the global outlook are likely to weigh on growth in 2012, which we forecast at 3.8%.

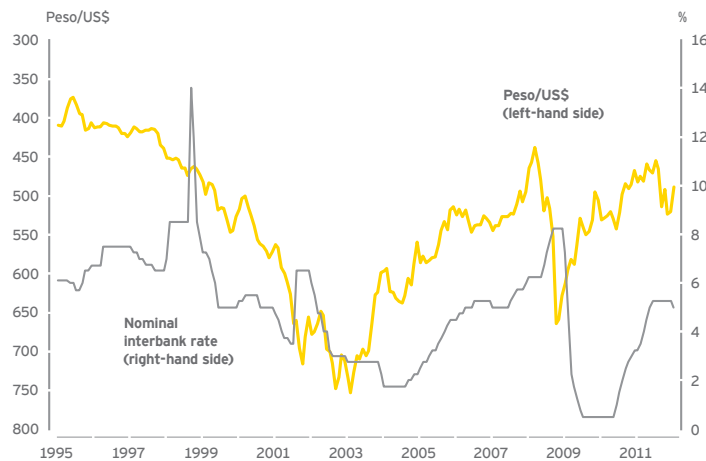
Stronger than expected economic activity in December may have contributed to the central bank's decision to hold interest rates at 5% on 14 February, after a 25bp cut in the preceding month. However, we expect another 25 bp cut by July, helping to support growth and dampen inflation. We expect CPI inflation to average 3.1% in 2012, just above the central bank target of 3%.

Tight supply and a surge in Chinese imports helped to underpin a revival in copper prices at the start of 2012. Coinciding with the conclusion of a program of foreign exchange intervention by the Chilean central bank, the Chilean peso has appreciated sharply since the start of the year. This could put pressure on non-copper exports. We expect the current account to remain in a small deficit in 2012, before entering into surplus from 2013 onward.

Growth will recover in 2013 to nearly 5% with the strong outlook for commodities helping to support growth of over 4% in the medium term.

Figure 27

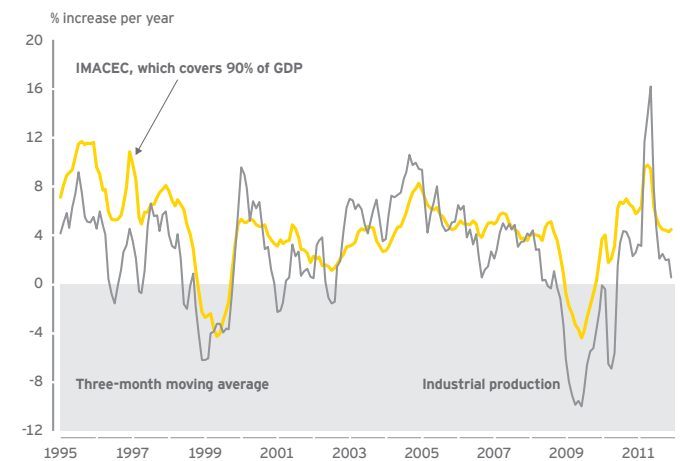
Exchange and interest rates



Source: Banco Central de Chile; Haver Analytics.

Figure 28

Industrial and economic activity indices



Source: Instituto Nacional de Estadísticas; 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	6.2	3.8	4.8	4.7	4.4
CPI inflation (% per year)	1.4	3.3	3.1	2.9	3.0	3.0
Current account balance (% of GDP)	1.9	-1.6	-0.4	0.8	1.5	1.9
External debt total (% of GDP)	40.0	38.4	39.5	39.5	38.5	37.3
Short-term interest rate (%)	1.9	4.9	4.9	6.0	6.1	6.1
Exchange rate per US\$ (year average)	510.2	483.8	497.6	507.9	512.0	512.9
Government balance (% of GDP)	-0.2	1.6	1.0	1.5	1.1	0.9
Population (millions)	17.1	17.3	17.4	17.6	17.7	17.9
Nominal GDP (US\$b)	203.8	233.3	241.3	256.5	275.6	296.6
GDP per capita (US\$ current prices)	11,895.4	13,495.2	13,835.4	14,580.3	15,536.3	16,585.1

Mainland China and Hong Kong special administrative region (SAR)

Consumption maintains momentum

GDP growth in China held up surprisingly well in Q4 2011, slowing only slightly to 8.9% from 9.1% in Q3. In terms of output, Q4 growth was supported by a strong showing for agriculture, which rose by 5.6%, while the manufacturing and services sectors saw a modest slowing in growth. In 2011 as a whole, consumption and investment contributed roughly equal amounts to overall growth at 4.8% points and 5.0% points respectively, while net exports detracted from growth, by just 0.5% points.

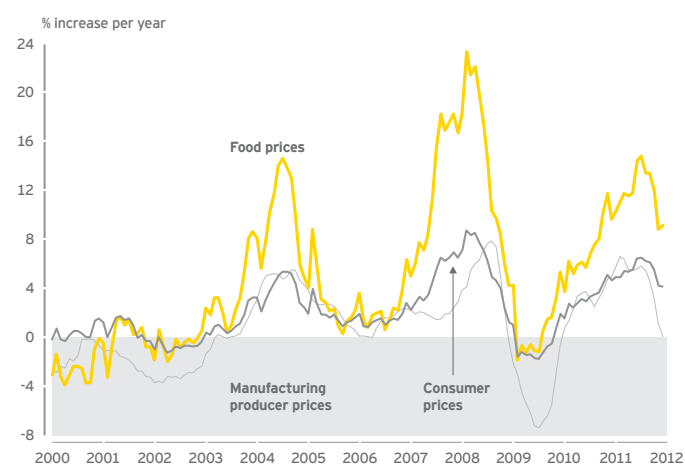
With house prices falling in 48 out of 70 cities in January, we remain concerned about the risk of a sharp slowing in the property market

leading to a hard landing for growth. But central government finances are strong so fiscal transfers could provide a significant cushion in the event of a significant property fall.

As expected, industrial production slowed at the start of this year, rising by 11.3% in January-February compared with the same two months last year, down from a growth rate of 12.8% in Q4 2011. With the outlook for exports subdued and investment weak, we expect industrial output growth to moderate further in H1 2012. But consumption appears to be taking up the slack and fiscal policy is set to be supportive. As a result, we only expect a relatively modest slowing in growth in 2012, to 8.4% from 9.2% in 2011.

Figure 29

Mainland China: inflation



Source: China Bureau of Statistics; Haver Analytics.

Figure 30

Hong Kong: stock market



Source: Hang Seng Index Services Limited; Haver Analytics.

Table 4
Mainland China

Source: Oxford Economics.

	2010	2011	2012	2013	2014	2015
Real GDP growth (%/year)	10.4	9.2	8.4	8.8	8.8	8.3
CPI inflation (% per year)	3.3	5.4	3.5	2.6	3.0	3.0
Current account balance (% of GDP)	5.0	2.7	2.8	3.4	3.5	2.9
External debt total (% of GDP)	8.7	8.3	7.7	7.5	7.3	7.1
Short-term interest rate (%)	2.7	5.3	5.1	3.9	3.8	4.0
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	-1.0	-1.1	-1.1	-1.2
Population (millions)	1,355.2	1,363.7	1,372.3	1,380.8	1,389.1	1,397.0
Nominal GDP (US\$b)	5,942.6	7,311.7	8,768.8	9,997.6	11,487.9	13,001.8
GDP per capita (US\$ current prices)	4,385.0	5,361.7	6,390.0	7,240.5	8,270.3	9,307.2

Colombia

Growth in 2011 stronger than expected

After GDP rose 4.3% in 2010, expansion was even faster in 2011 and recent data for Q3 shows an unexpected rise in GDP growth to 7.7%, with mining and construction posting double-digit rises.

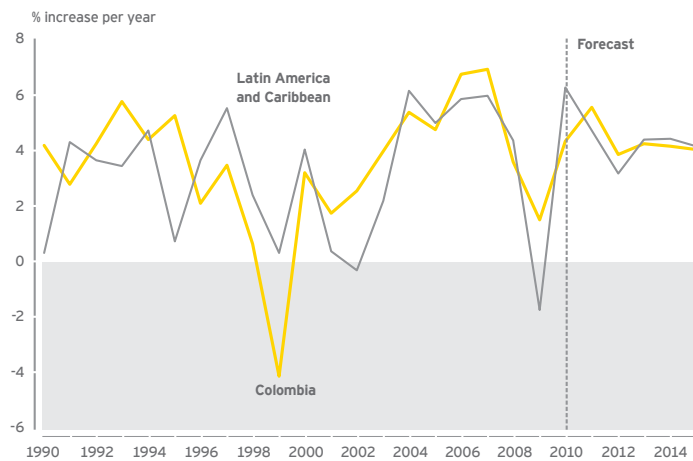
On the back of strong mining and construction output, we have revised our forecast for GDP growth in 2011 up from 4.9% in our January Forecast to 5.5%. But given the more difficult global backdrop, we expect growth to slow to about 4% this year, especially if the central bank opts to raise the key policy rate in a bid to bring inflation closer to the middle of the 2% to 4% target range. CPI has shown signs of easing and slowed to 3.7% at the end of 2011.

Strong growth and rising imports have lifted the current account deficit despite robust exports. The deficit was US\$6.8b in the first nine months of 2011 compared with US\$6b in the equivalent 2010 period, despite the boost from energy exports. We expect a 2011 deficit of almost US\$10b rising to US\$11b in 2012, offset in 2011 by FDI inflows of about US\$13b. Colombia is now enjoying greater political stability which is improving the outlook for both domestic and foreign investment.

The strong outlook for oil and commodity prices will keep growth close to 4% over the medium term.

Figure 31

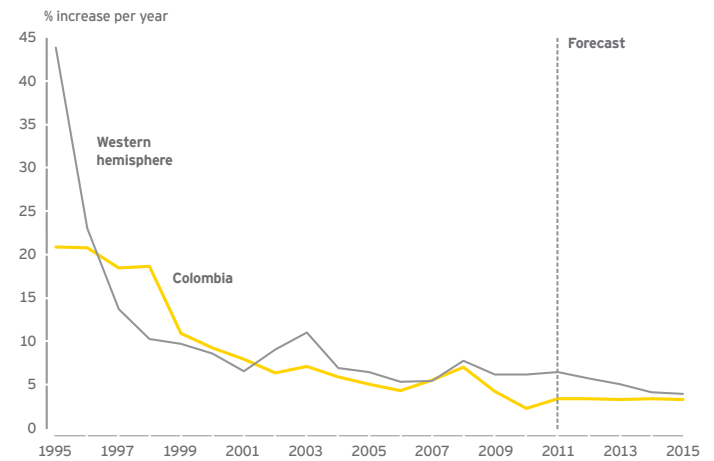
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 32

Inflation



Source: Oxford Economics; Haver Analytics.

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	4.3	5.5	3.8	4.2	4.1	4.0
CPI inflation (% per year)	2.3	3.4	3.5	3.3	3.4	3.3
Current account balance (% of GDP)	-3.1	-2.8	-3.4	-3.4	-3.3	-3.4
External debt total (% of GDP)	21.8	22.6	24.3	27.1	29.2	31.0
Short-term interest rate (%)	3.2	4.2	4.5	6.0	6.9	6.9
Exchange rate per US\$ (year average)	1,898.6	1,847.0	1,900.0	2,046.2	2,162.8	2,249.6
Government balance (% of GDP)	-3.5	-2.1	-2.1	-1.7	-1.6	-1.6
Population (millions)	46.3	46.9	47.6	48.2	48.8	49.4
Nominal GDP (US\$b)	288.8	325.1	339.5	339.4	345.6	357.0
GDP per capita (US\$ current prices)	6,237.9	6,930.7	7,140.5	7,045.9	7,085.9	7,230.6

Czech Republic

Exports provided support in 2011 but growth set to slow this year

The Czech economy expanded for the second successive year in 2011 – by an estimated 1.6% – thanks to a strong recovery in its export sector. In Q3 2011 exports in real terms were 13.5% above their pre-crisis peak. However, the export-led recovery is expected to come to a halt in 2012, given the weak external outlook, and short-term indicators pointing to a contraction of economic activity at the start of 2012. In particular, the PMI remained below the 50-mark that separates expansion from contraction for the third consecutive month in January.

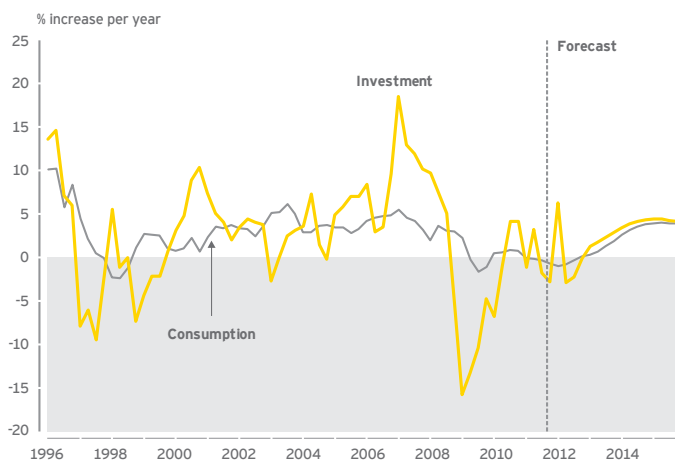
But more positively, Czech banks' low reliance on external funding, a strong deposit base and robust capitalization may help the economy

avoid a credit crunch due to capital outflows triggered by problems in the Eurozone – in spite of the central role played by foreign institutions in the country.

However, domestic demand will continue to be weighed down by the Government's attempts to rein in the large fiscal deficit that opened up in 2009. Meanwhile, although inflation will rise to around 3% in 2012 in response to a VAT hike in January, the central bank is expected to keep the policy rate stable at 0.75% until Q1 2013. Overall, we expect GDP to contract by 0.3% in 2012 and then regain momentum in the medium term – rising to 1.5% in 2013-15 in line with the improvements in external conditions.

Figure 33

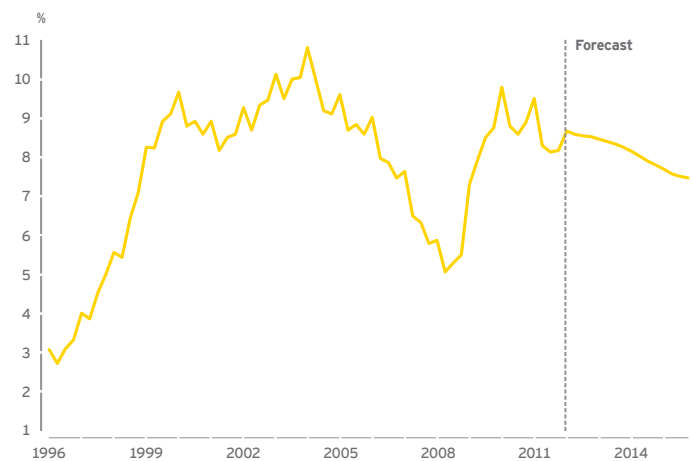
Consumption and investment



Source: Oxford Economics.

Figure 34

Unemployment



Source: Oxford Economics.

Table 6
Czech Republic

Source: Oxford Economics.

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	2.6	1.6	-0.3	1.5	3.1	3.2
CPI inflation (% per year)	1.5	1.9	3.2	2.4	2.3	2.5
Current account balance (% of GDP)	-3.1	-2.8	-3.0	-2.9	-3.1	-3.0
External debt total (% of GDP)	45.3	47.4	53.6	54.5	55.6	56.2
Short-term interest rate (%)	1.3	1.2	1.1	1.4	3.1	4.4
Exchange rate per US\$ (year average)	19.1	17.7	20.1	20.5	21.2	21.9
Government balance (% of GDP)	-4.1	-3.7	-3.7	-3.3	-3.1	-2.6
Population (millions)	10.5	10.5	10.5	10.6	10.6	10.6
Nominal GDP (US\$b)	197.8	216.4	193.5	197.8	201.3	206.8
GDP per capita (US\$ current prices)	18,798.8	20,532.0	18,349.6	18,744.2	19,063.9	19,588.4

Egypt

Growth to rebound when political uncertainties are resolved

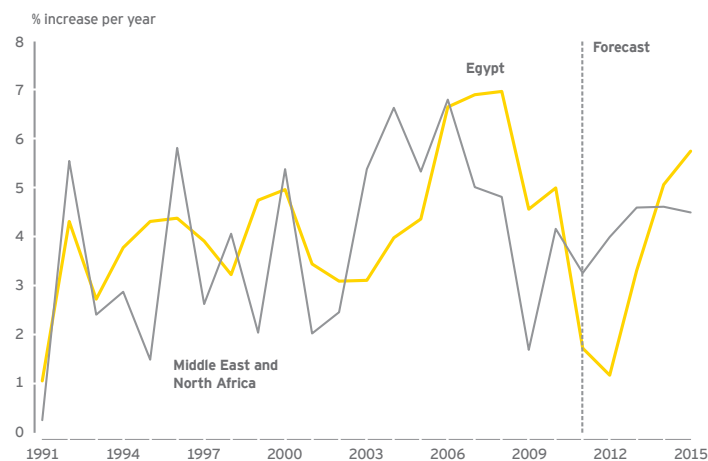
With political tensions still running high and FDI and tourism very weak, near-term growth prospects remain subdued. Year-on-year GDP growth was just 0.4% in the final quarter of the 2010-11 fiscal year (July to June), giving full-year growth of 1.8%, and the pace slowed to 0.2% in the opening quarter of 2011-12. We now forecast growth of just 1.2% in 2011-12, down from 2.1% in the January forecast and the risks to our forecast of 3.5% in 2012-13 are on the downside.

The political uncertainty also continues to take a heavy toll on the external accounts. Although weaker tourism, down 13% in 2010-11,

was partly offset by a lower trade deficit and rising workers' remittances, sharply lower FDI inflows led to a US\$10b balance of payments deficit in 2010-11. And with the current account deficit rising to over US\$2b in Q1 2011-12, foreign exchange reserves plunged to just US\$16.3b in January 2012 from over US\$35b at the end of 2010. More encouragingly, it now seems that the authorities are ready to agree new funding with the IMF, having turned down the offer of a US\$3b facility in June 2011. However, the threat of further credit rating downgrades remains.

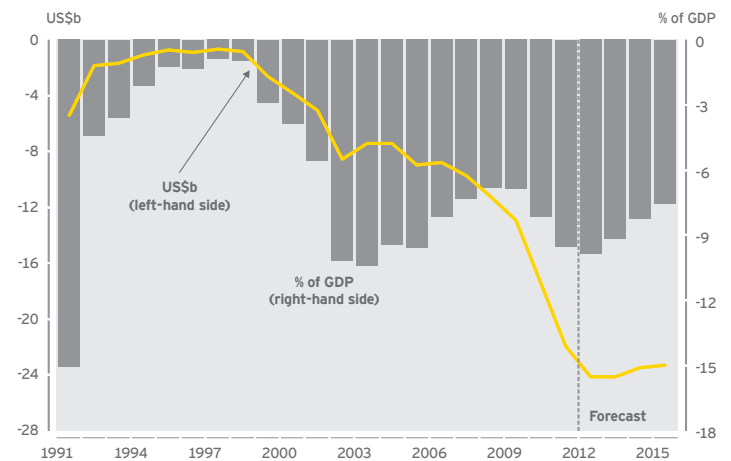
Growth is expected to return to over 5% p.a. over the medium term as the political situation stabilizes and investor confidence recovers.

Figure 35
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 36
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	1.2	3.4	5.2	5.9
CPI inflation (% per year)	11.3	10.2	9.4	8.0	6.3	5.5
Current account balance (% of GDP)	-2.1	-2.0	-1.9	-1.6	-1.2	-0.9
External debt total (% of GDP)	16.2	15.5	15.6	15.6	15.3	14.8
Short-term interest rate (%)	9.3	12.3	11.8	10.3	9.5	8.0
Exchange rate per US\$ (year average)	5.6	5.9	6.2	6.5	6.7	6.9
Government balance (% of GDP)	-8.1	-9.5	-9.9	-9.2	-8.3	-7.6
Population (millions)	81.1	82.5	83.9	85.4	86.8	88.2
Nominal GDP (US\$b)	214.6	230.7	245.0	262.9	284.2	308.9
GDP per capita (US\$ current prices)	2,645.7	2,795.7	2,918.1	3,080.3	3,275.6	3,503.0

Oil drove growth of about 15% in 2011 but pace to slow this year

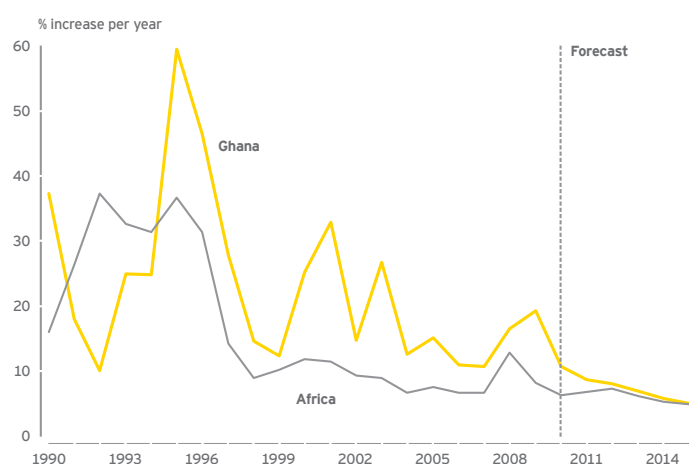
After GDP growth of 7.7% in 2010, the pace picked up to almost 20% in Q1 2011 as oil production started. The rate slowed to 12% in Q3 but even so full-year 2011 growth is put at 15%. A slowdown is inevitable in 2012, as the big boost at the start of last year drops out of the calculations, with growth forecast at about 8%. While Ghana will only be a small oil producer, its production has boosted medium-term growth prospects as well as helping the public finances and the balance of payments, in spite of higher state spending.

Despite an increase in domestic fuel prices, inflation was in single digits throughout 2011 and averaged 8.7%. This was the first year of single-digit inflation since 1971. With interest rates still positive in real terms, and the budget deficit expected to fall a little further, inflation is forecast to continue to drift lower.

A strong rise in imports saw the balance of payments weakening in 2010 despite high gold and cocoa prices. But oil revenues meant that the current account deficit fell in 2011, with a further decline forecast in 2012, although high imports will start to limit the improvement.

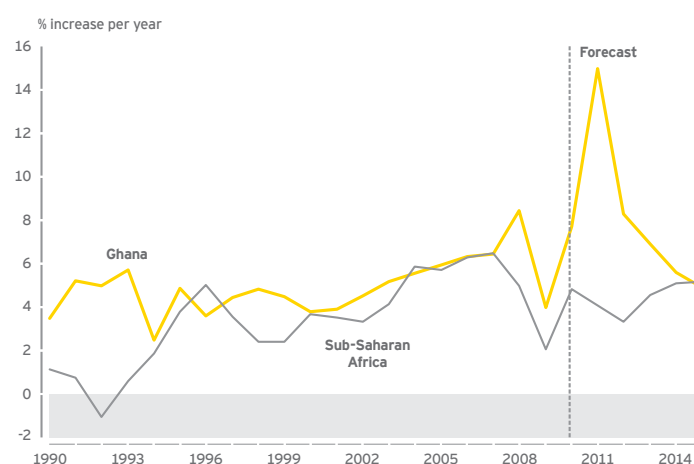
We expect growth of about 7% in 2013 and then between 5% and 5.5% in 2014-15.

Figure 37
Inflation



Source: Oxford Economics; Haver Analytics.

Figure 38
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	15.0	8.3	6.9	5.6	4.9
CPI inflation (% per year)	10.7	8.7	8.9	7.1	6.0	5.0
Current account balance (% of GDP)	-8.4	-7.7	-4.9	-3.9	-3.8	-3.9
External debt total (% of GDP)	25.6	28.3	30.1	29.6	29.8	30.5
Short-term interest rate (%)	-	-	-	-	-	-
Exchange rate per US\$ (year average)	1.4	1.5	1.7	1.7	1.7	1.7
Government balance (% of GDP)	-6.3	-5.0	-4.9	-4.4	-4.0	-3.9
Population (millions)	24.4	25.0	25.5	26.1	26.7	27.3
Nominal GDP (US\$b)	32.3	37.4	40.5	45.8	50.7	55.1
GDP per capita (US\$ current prices)	1,324.5	1,497.7	1,583.6	1,752.8	1,897.2	2,018.3

India

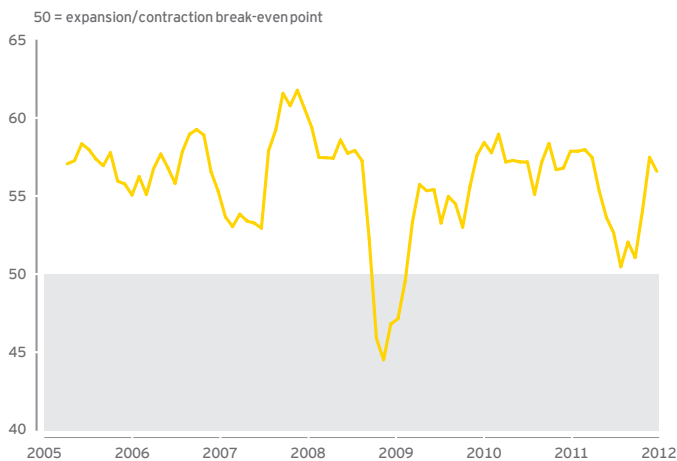
Sub-trend growth in 2011 but some positive news in recent data

Both the PMI surveys and car sales data in January and February have hinted at a stronger growth dynamic. However, the headwinds of persistent high inflation and interest rates (even if they are now easing somewhat) and weak global demand will keep growth below trend for the rest of this year. We now expect GDP growth of 6.1% in calendar 2012, similar to the pace recorded in Q4 2011. But provided the global economy does not experience a further shock, growth should be picking up in H2 2012.

Wholesale price inflation should trend down through 2012 to about 5% in Q4, reflecting the lagged impact of the weaker economy and lower food prices. This should not only boost consumers' purchasing power but also give the Reserve Bank (RBI) some scope to ease policy – although after a long period of high inflation we expect the RBI to proceed very cautiously.

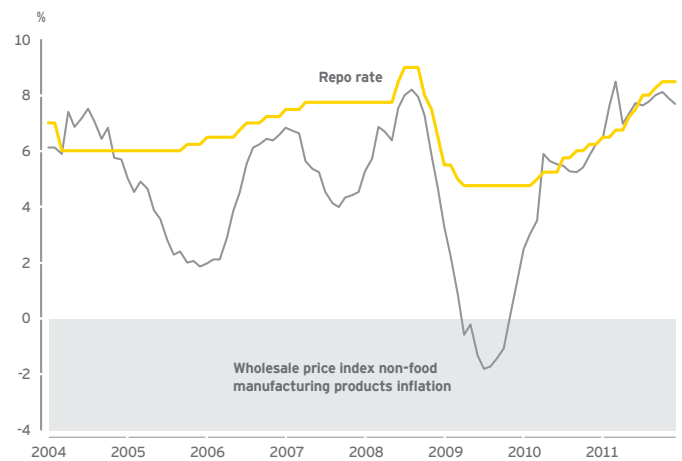
Over the medium term, we expect a strong recovery in investment which will help lift overall GDP growth over 9% by 2014. According to Ernst & Young's *India attractiveness survey*, India is increasingly becoming a destination for FDI in manufacturing. To support this expansion and India's overall potential growth, investment in infrastructure and improved governance will be needed.

Figure 39
HSBC Manufacturing Purchasing Managers' Index (PMI)



Source: Markit.

Figure 40
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)	8.5	7.1	6.1	8.5	9.2	8.6
WPI inflation (%)	9.6	9.4	6.0	5.0	4.4	4.3
Current account balance (% of GDP)	-3.3	-3.1	-3.5	-3.5	-3.8	-3.7
External debt total (% of GDP)	17.1	16.8	16.4	14.5	13.2	12.3
Short-term interest rate (%)	5.6	7.8	8.3	7.6	7.5	7.5
Exchange rate per US\$ (year average)	45.7	46.7	49.4	48.4	48.7	49.6
Government balance (% of GDP)	-3.8	-6.8	-6.3	-5.2	-4.2	-3.5
Population (millions)	1,216.5	1,232.8	1,249.0	1,265.0	1,280.7	1,296.1
Nominal GDP (US\$b)	1,613.8	1,839.5	1,961.9	2,287.2	2,592.3	2,880.9
GDP per capita (US\$ current prices)	1,326.6	1,492.1	1,570.8	1,808.1	2,024.2	2,222.7

Indonesia's investment grade status will help drive growth

With overall growth at 6.5% in 2011, Indonesia grew at its fastest pace in 15 years. But while domestic demand should maintain strong momentum this year, underpinning expected growth of 6.2%, exports slowed sharply in Q4 2011. Nevertheless, the authorities have scope to support the economy with additional stimulus if the global economy deteriorates further.

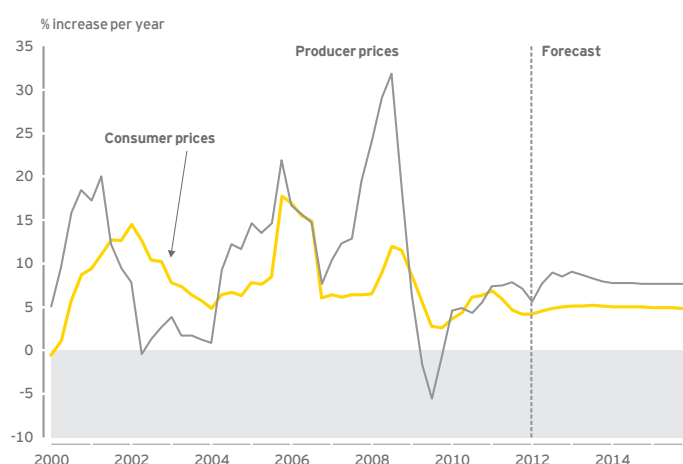
And after cutting the interest rate in October and November, the central bank unexpectedly cut it again in February. Despite strong domestic activity, the bank remains concerned about the impact of the European

debt crisis and modest growth in the US. Although inflation has eased below 4% in recent months, there are concerns that it could pick up again later this year.

Having downgraded Indonesia's credit rating during the Asian crisis in the late 1990s, Fitch Ratings restored it to investment grade status in December and Moody's followed suit in January. This should support investment sentiment as Indonesian bonds can now be included in a wider range of funds – an important boost given the continuing repercussions of the Eurozone crisis.

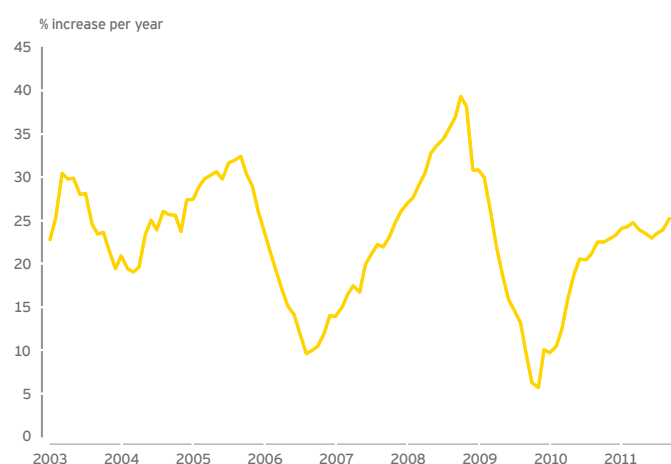
We expect growth to accelerate in 2013 before settling at a pace close to 6% in 2014-15.

Figure 41
Inflation



Source: Oxford Economics.

Figure 42
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)	6.2	6.5	6.2	6.7	5.9	5.7
CPI inflation (% per year)	5.1	5.4	4.9	5.9	5.0	4.9
Current account balance (% of GDP)	0.7	0.3	0.6	0.4	0.1	-0.3
External debt total (% of GDP)	26.9	26.1	23.1	20.6	18.8	17.4
Short-term interest rate (%)	6.9	6.5	5.9	7.1	7.5	7.5
Exchange rate per US\$ (year average)	9,085.0	8,789.4	8,968.6	8,960.8	9,051.1	9,193.6
Government balance (% of GDP)	-0.5	-1.1	-0.5	0.3	0.4	0.3
Population (millions)	232.8	235.3	237.7	240.0	242.3	244.5
Nominal GDP (US\$b)	709.0	845.4	923.4	1,043.6	1,149.2	1,253.7
GDP per capita (US\$ current prices)	3,045.0	3,593.1	3,885.1	4,348.3	4,743.6	5,128.5

Kazakhstan

Infrastructure spending will support growth close to 7% in the medium term

GDP growth is forecast to slow to 5.8% in 2012 from an estimated 7.0% in 2011. The worsening global environment is dampening growth in key export markets and weighing on commodity prices and capital inflows. Oil prices are forecast to rise by less than 1% and metal prices to fall by 9% this year, with weak global growth. But strong growth from China and other RGMs will boost the outlook for commodity prices.

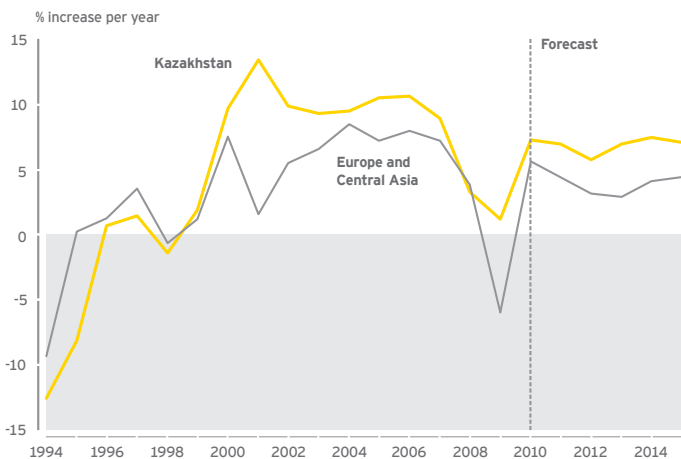
But downside risks are significant, given the dependence on commodity exports and close links with the Eurozone and international financial markets as well as remaining vulnerability of the banking system.

Consumer prices increased by just 0.3% on the month in January, bringing the annual inflation rate down to 5.8% from 7.4% in December, the fifth consecutive monthly decline. While external factors are the main reason behind lower inflation, domestic factors have also contributed.

The current account surplus is forecast to narrow this year. Merchandise exports are projected to rise just 1% due to lower oil and metal prices and weak growth in major markets. Imports are likely to rise by 16% on strong state spending. Fiscal spending and a number of large projects will help to support growth of at least 7% over the medium term.

Figure 43

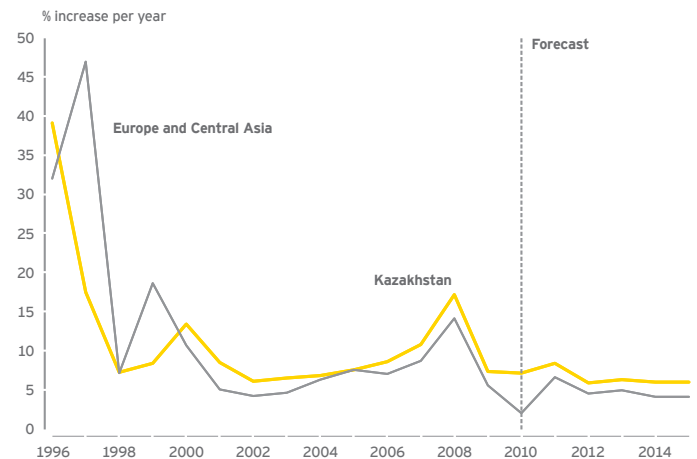
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 44

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	7.0	5.8	7.0	7.5	7.1
CPI inflation (% per year)	7.1	8.4	5.9	6.3	6.0	6.0
Current account balance (% of GDP)	2.1	7.8	5.8	3.1	3.6	3.9
External debt total (% of GDP)	83.9	70.8	63.2	54.7	47.0	40.6
Short-term interest rate (%)	3.7	3.7	4.6	5.6	6.6	7.0
Exchange rate per US\$ (year average)	147.4	146.6	152.5	157.1	161.8	166.6
Government balance (% of GDP)	-3.2	-2.6	-1.0	-0.6	-0.8	-1.1
Population (millions)	16.0	16.2	16.4	16.6	16.7	16.9
Nominal GDP (US\$b)	141.5	173.6	183.3	202.4	223.9	246.8
GDP per capita (US\$ current prices)	8,826.5	10,711.1	11,187.4	12,228.5	13,392.6	14,615.2

Modest exports and fragile consumers constrain growth

Consumer spending fell 0.4% on the quarter in Q4 2011, the first drop since Q1 2009, despite a still fairly healthy labor market. While we assume that this was a one-off decline, it does suggest a greater degree of fragility in the domestic economy than we had previously forecast. We now expect consumption will grow only 2% in 2012.

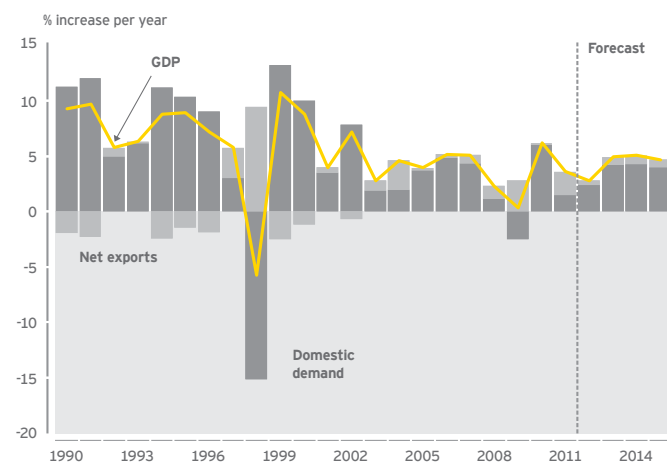
Moreover Q4 2011 also saw a quarterly fall in export volumes. And the Eurozone crisis will keep the external background sluggish in H1 2012. However, the monthly trade data in January and February suggest a reasonable export performance in Q1 2012 and the February manufacturing PMI survey moved into expansion territory for the first time since July.

The economy should receive a lift from higher infrastructure spending this year and, given its budget surplus last year, the Government could boost the economy further if necessary – by cutting taxes for example. In contrast, with high oil prices likely to keep inflation above target for a longer period than previously expected, the central bank has little room for policy flexibility.

Looking forward, growth should accelerate as the headwinds ease, with GDP now forecast to expand 2.8% in 2012 before averaging 4.9% in 2013-14.

Figure 45

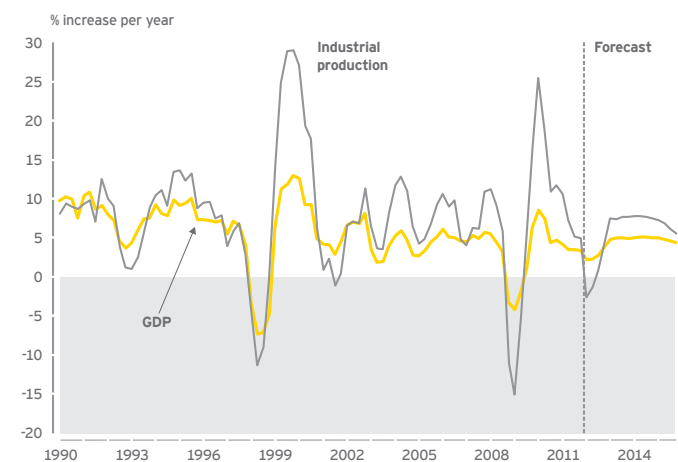
Contributions to GDP growth



Source: Oxford Economics.

Figure 46

GDP and industrial production



Source: Oxford Economics.

Table 12
South Korea

Source: Oxford Economics.

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	6.2	3.6	2.8	4.9	4.9	4.6
CPI inflation (% per year)	2.9	4.0	3.1	2.8	2.7	2.6
Current account balance (% of GDP)	2.8	2.5	2.1	1.8	1.4	1.1
External debt total (% of GDP)	35.4	35.3	32.9	30.2	28.2	26.4
Short-term interest rate (%)	2.7	3.4	3.7	4.5	5.2	5.2
Exchange rate per US\$ (year average)	1,156.5	1,108.2	1,098.8	1,082.8	1,087.9	1,090.9
Government balance (% of GDP)	1.4	1.6	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)	1,014.5	1,116.3	1,183.7	1,289.2	1,378.3	1,470.7
GDP per capita (US\$ current prices)	20,908.5	22,934.5	24,249.4	26,340.1	28,093.6	29,913.5

Malaysia

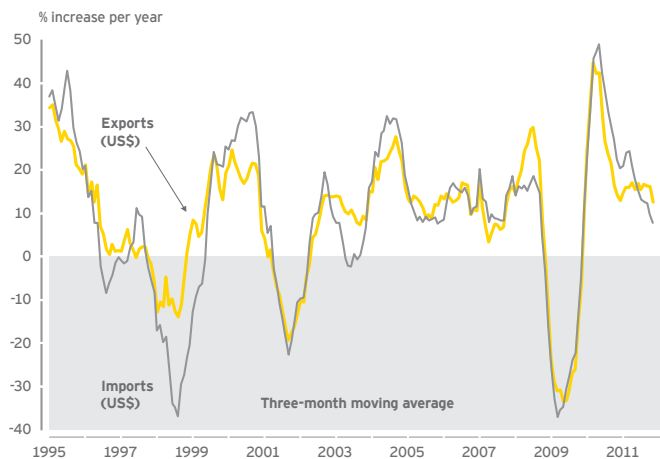
Domestic demand has strong momentum but external risks are high

The economy maintained solid momentum in Q4 2011, growing by 5.2% on the year thanks to strong domestic demand. Private spending grew by 7.1% on the year in Q4, the seventh straight quarter in excess of 6%, while investment picked up to 8.5% on the year, a four-quarter high.

2011 marked the start of a new five-year plan and government spending accelerated strongly, rising by 22.8% on the year in H2. We expect this fiscal boost to continue given the uncertainties surrounding global demand and our expectation that a general election will be called later this year. The 2012 budget included a number of measures to help potential voters.

Figure 47

Exports and imports



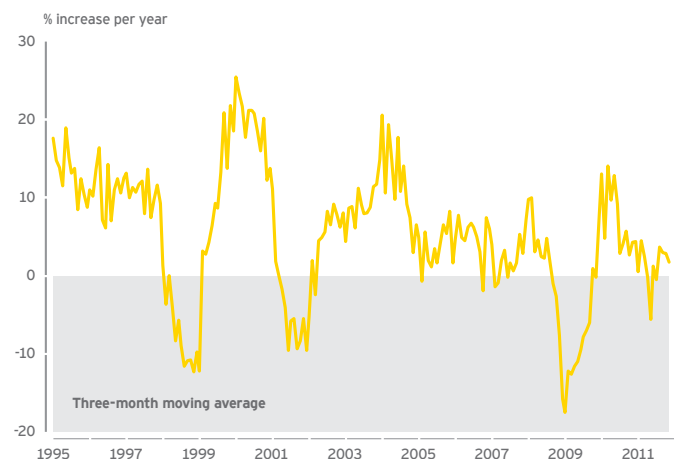
Source: Department of Statistics.

We expect the central bank to leave interest rates on hold in H1 2012, but downside risks to growth are high and raise the possibility of rate cuts.

Strong domestic demand and government spending will support growth close to 5% this year and in 2013. But Malaysia is very dependent on global demand (exports are equal to around 100% of GDP) and the downside risks have increased in recent months. Exports held up reasonably well in Q4 but this was largely due to strong shipments of natural gas and palm oil.

Figure 48

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	5.1	4.8	5.1	4.8	4.6
CPI inflation (% per year)	1.8	3.1	2.8	2.9	2.9	3.0
Current account balance (% of GDP)	11.5	11.5	11.1	11.4	10.9	10.2
External debt total (% of GDP)	31.8	24.5	23.9	22.5	21.3	20.1
Short-term interest rate (%)	2.4	2.9	3.1	3.9	4.1	4.1
Exchange rate per US\$ (year average)	3.2	3.1	3.0	3.0	3.0	3.0
Government balance (% of GDP)	-5.6	-4.8	-5.2	-4.7	-4.2	-3.9
Population (millions)	28.0	28.4	28.8	29.3	29.7	30.1
Nominal GDP (US\$b)	238.4	278.9	294.8	320.9	346.2	372.9
GDP per capita (US\$ current prices)	8,525.4	9,817.6	10,222.4	10,967.0	11,664.3	12,392.3

Domestic demand to remain firm

The seasonally adjusted economic activity indicator rose by 0.2% on the month in November and by 3.3% on the year. The services sector helped drive growth through the second half of the year, and retail sales remained buoyant during the same period. Annual inflation rose to 4.1% in January from 3.8% in December, although core inflation remained unchanged from the previous month at 3.3%. A continued appreciation of the Peso, which increased by 9.3% against the dollar in the year to 14 February, should help to contain inflation in the coming months.

The trade deficit narrowed to US\$1.2b in 2011 from US\$3b in 2010, helped by higher oil prices. In contrast, the current account deficit is

expected to have risen to close to US\$10b (0.9% of GDP) last year from a US\$5.7b shortfall in 2010. For 2012, we forecast deficits of US\$4.6b and US\$11.5b (1% of GDP) on the trade and current accounts respectively.

Our 2012 GDP growth forecast remains at 3.8%, marginally lower than the 4% expansion in 2011. Growth will be supported by domestic consumer demand, forecast to rise by 3.6%, policy stimulus and the moderate 2.3% rise in GDP in the US. We expect growth to pick up substantially in Mexico in 2013-14 to close to 5% as the recovery in the US picks up steam.

Figure 49

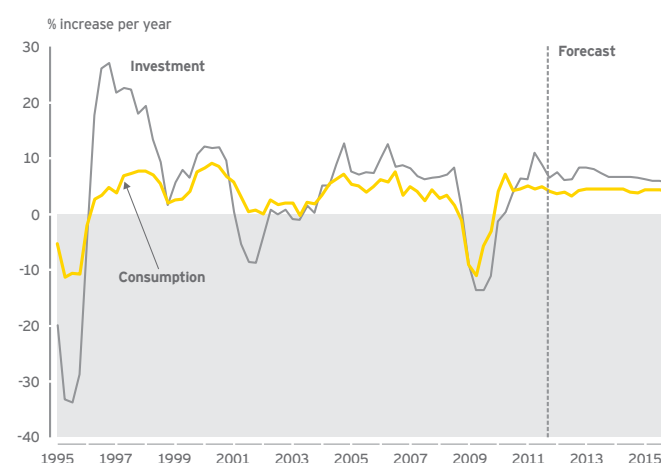
Merchandise trade: US vs. Mexican growth



Source: Oxford Economics.

Figure 50

Consumption and investment



Source: Oxford Economics.

Table 14

Mexico

Source: Oxford Economics.

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	5.5	4.0	3.8	4.0	5.1	4.5
CPI inflation (% per year)	4.2	3.4	3.9	3.5	3.5	3.0
Current account balance (% of GDP)	-0.5	-0.9	-0.9	-0.9	-0.7	-0.4
External debt total (% of GDP)	18.3	17.7	17.2	16.2	15.3	14.5
Short-term interest rate (%)	4.6	4.4	4.7	4.7	5.0	4.9
Exchange rate per US\$ (year average)	12.6	12.4	12.9	12.9	13.1	13.2
Government balance (% of GDP)	-2.4	-2.0	-1.5	-1.0	-0.6	-0.5
Population (millions)	113.6	115.0	116.3	117.6	118.9	120.2
Nominal GDP (US\$b)	1,035.8	1,156.9	1,214.8	1,307.1	1,398.5	1,492.1
GDP per capita (US\$ current prices)	9,118.5	10,063.8	10,445.2	11,110.9	11,757.4	12,412.1

Nigeria

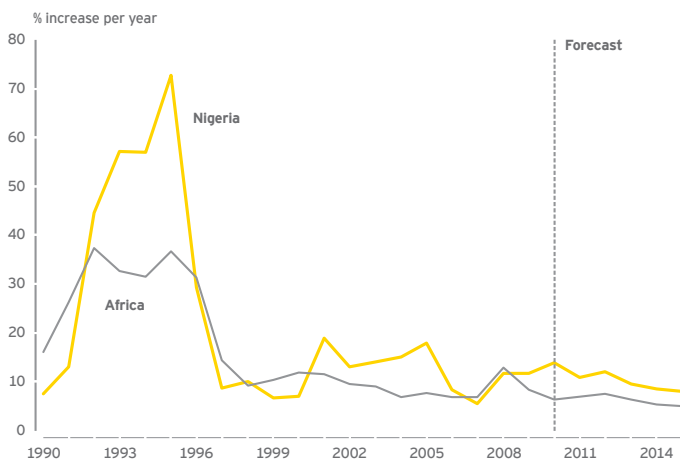
Strong growth to continue, helped by high oil prices

Growth remains strong despite some political tensions. GDP growth accelerated to 8.7% in Q4 2011, giving full-year growth of 7.7%, only slightly down from 2010. The non-oil sector remains the main driver of growth, but production in the oil sector recovered in Q4, with International Energy Agency (IEA) figures showing a rise of some 5% for the year as a whole. With non-oil sector growth likely to ease due to the weaker global economy (and the impact of a national strike in January following the removal of fuel subsidies), and oil output rising slowly, we expect growth in 2012 to be just below the 7.2% target.

In response to double-digit inflation, the Central Bank of Nigeria (CBN) raised interest rates sharply in July to October 2011 and has kept them on hold since then. But inflation was still 10.3% in December and, with core inflation close to 11% and higher fuel prices to come following the cut in subsidies, it will rise further in 2012.

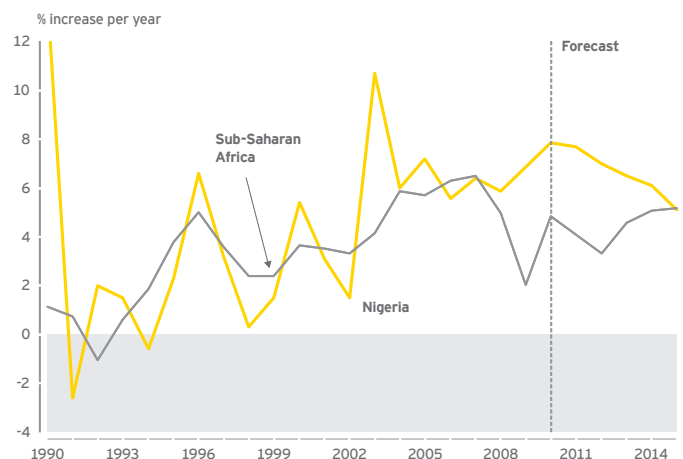
With oil prices surging by 40%, exports rose sharply in 2011. We still expect a current account surplus of US\$25b for 2011, equal to about 10% of GDP, while reserves have risen to US\$35b. Lower oil prices and rising imports are likely to erode the surplus in 2012-15, but the external position should remain solid. Despite higher oil prices in 2012, rising imports GDP growth is forecast to slow to around 6% p.a. in the period 2013-15.

Figure 51
Inflation



Source: Oxford Economics; Haver Analytics.

Figure 52
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	7.7	7.0	6.5	6.1	5.1
CPI inflation (% per year)	13.7	10.8	12.0	9.5	8.5	8.0
Current account balance (% of GDP)	1.2	10.4	6.7	4.5	2.8	1.9
External debt total (% of GDP)	3.8	3.6	3.4	3.2	3.0	2.9
Short-term interest rate (%)	4.0	7.5	7.5	7.5	7.0	7.0
Exchange rate per US\$ (year average)	150.3	154.9	160.0	161.1	163.1	166.2
Government balance (% of GDP)	-5.3	-2.9	-2.5	-2.4	-2.0	-1.3
Population (millions)	158.4	162.5	166.6	170.9	175.3	179.8
Nominal GDP (US\$b)	208.0	240.9	279.5	323.7	368.2	410.2
GDP per capita (US\$ current prices)	1,313.0	1,482.9	1,677.5	1,893.9	2,100.7	2,281.4

Poland set to weather the Eurozone storm

Real GDP rose by 1.1% on the quarter in Q4, a more resilient performance than we had anticipated. Investment has remained extremely robust, helped by infrastructure projects linked to the staging of Euro 2012, although consumer spending growth has slowed noticeably in H2 2011.

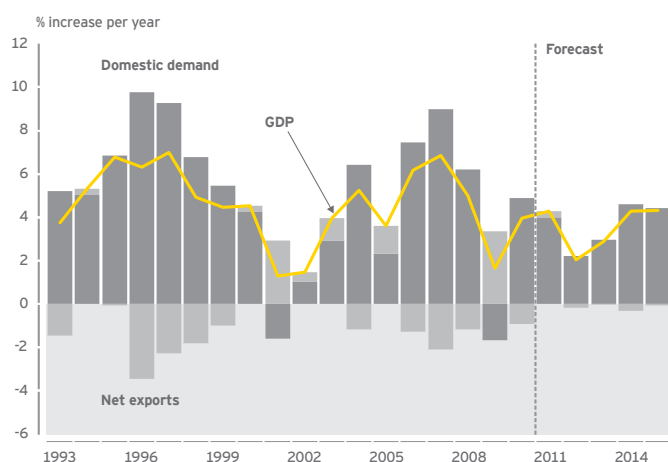
Since *Rapid-Growth Markets Forecast* – Winter edition – January 2012, we have made a further downgrade to our real GDP forecast for 2012, based on weaker external conditions (the Eurozone is now projected to contract by 0.5%). We now expect growth of 2.4% compared with 2.5%

in our January forecast, although this would still mark Poland out as the “growth star” of the CEE region. In the medium term, we expect growth to pick up to over 4% in 2014-15 as external conditions improve.

We currently see material risks to the current forecast in both directions. On the downside, a disorderly sovereign default in the Eurozone could trigger a much deeper recession in Poland’s key trading partners. However, on the upside, recent high frequency data has provided little evidence of the significant loss of momentum, implied by the baseline forecast. For example, industrial production continues to surprise on the upside, having risen at an annualised rate of 13.2% in the six months to January.

Figure 53

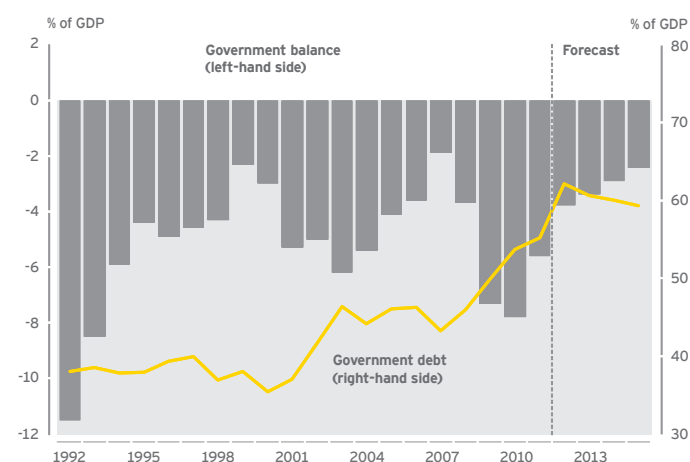
Contributions to GDP growth



Source: Oxford Economics.

Figure 54

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)	3.9	4.4	2.4	2.7	4.2	4.1
CPI inflation (% per year)	2.7	4.2	3.8	2.6	3.3	2.8
Current account balance (% of GDP)	-4.6	-4.1	-4.7	-4.1	-4.3	-4.6
External debt total (% of GDP)	61.4	67.5	79.0	74.9	76.2	77.9
Short-term interest rate (%)	3.7	4.3	4.5	4.2	4.6	4.7
Exchange rate per US\$ (year average)	3.0	3.0	3.3	3.0	3.0	3.1
Government balance (% of GDP)	-7.8	-5.4	-3.3	-3.0	-2.6	-2.1
Population (millions)	38.2	38.2	38.2	38.2	38.2	38.2
Nominal GDP (US\$b)	469.4	515.1	490.5	560.8	592.5	619.5
GDP per capita (US\$ current prices)	12,290.7	13,485.3	12,842.3	14,683.4	15,513.8	16,224.7

Qatar

Fiscal spending to support growth

Nominal GDP data for the first nine months of last year are consistent with another strong growth performance; we still expect GDP to have risen by 16.3% in real terms in 2011. The economy has been insulated from adverse global trends by a number of factors, including rising hydrocarbon output (oil, Liquefied Natural Gas (LNG) and other gas), high oil prices and strong government spending.

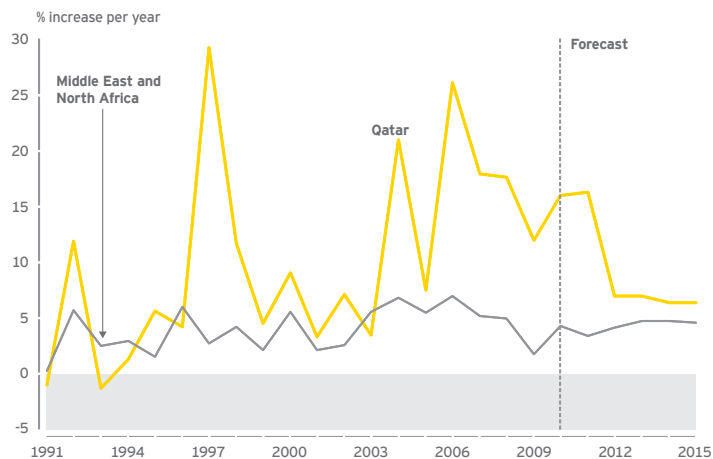
The annual inflation rate slowed to 1.4% in January, the lowest since December 2010. Prices were depressed by the continuing weakness of rents as well as by lower food costs. Despite the stabilisation in global food prices and the continued weakness in rental costs, we expect 2012 inflation to average 2.8%.

The current account surplus is expected to have widened to US\$47.3b (25.7% of GDP) in 2011. This reflects a 36% climb in regional oil prices, a 17% rise in oil export volumes and a 27% surge in gas shipments. The surplus is forecast to narrow somewhat in 2012 to around 19.8% of GDP.

The self-imposed moratorium on raising LNG production in 2012-14, together with less favorable oil price and output trends, will see GDP growth slow to single digits in the near term. But growth is still forecast at 7% in 2012, thanks to expectations of robust government spending and exports focused on Asia.

Figure 55

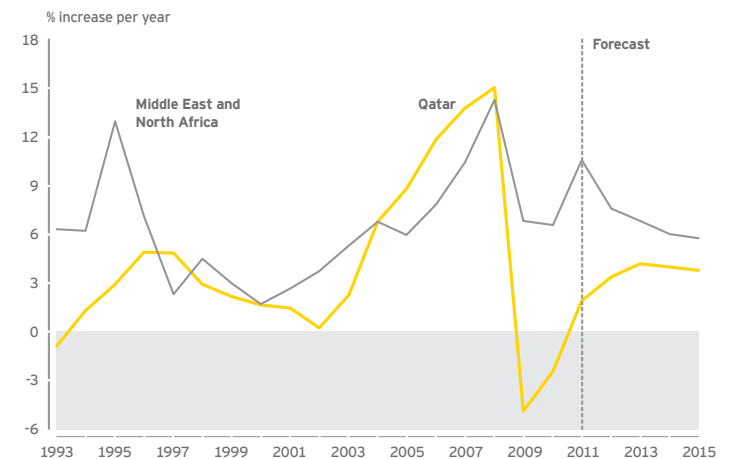
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 56

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	16.3	7.0	7.0	6.4	6.4
CPI inflation (% per year)	-2.4	1.9	2.8	4.0	4.0	3.8
Current account balance (% of GDP)	16.5	25.7	19.8	17.5	17.7	17.1
External debt total (% of GDP)	56.2	43.3	43.9	39.7	34.5	30.9
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	6.7	3.6	5.0	6.6	6.4
Population (millions)	1.8	1.8	1.9	1.9	2.0	2.0
Nominal GDP (US\$b)	127.3	183.6	193.2	213.9	241.2	263.9
GDP per capita (US\$ current prices)	72,388.9	101,223.4	103,366.7	111,200.5	121,905.8	129,804.2

Soft landing in prospect for 2012

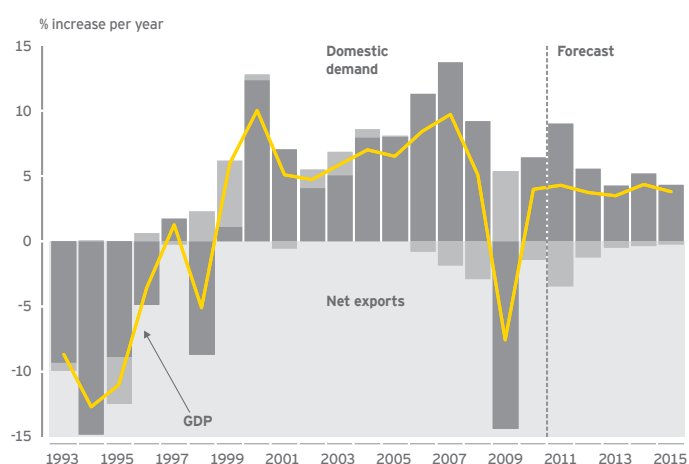
The preliminary estimate for 2011 full-year real GDP of 4.3% suggests that growth accelerated to 1.6% on the quarter in Q4 2011. Retail sales data supports the view that growth is again likely to have been largely driven by private consumption while the sharp depreciation of the RUB will have encouraged expenditure switching toward domestically-produced goods.

Prospects for Q1 2012 appear solid despite the economic malaise in Europe. Inflation has slowed sharply this year falling to 3.7% in February, boosting consumer purchasing power which had already benefited from

generous public sector wage increases. On the other hand, industrial production data in Q4 2011 indicated a significant loss of momentum, with the manufacturing sector more exposed to external headwinds.

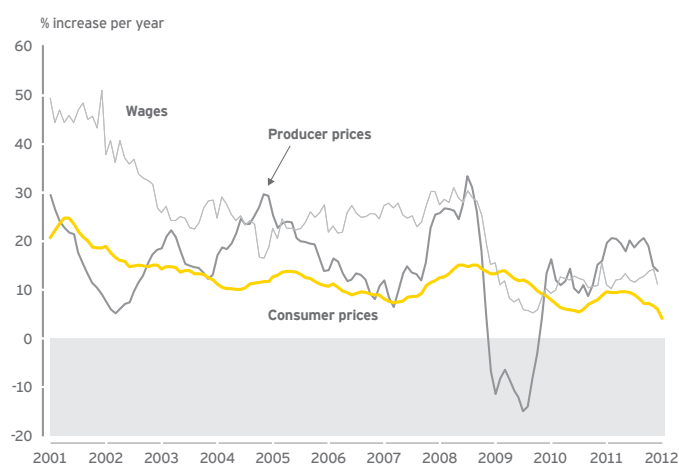
We have raised our forecast for real GDP growth in 2012 to 4.0% from January's forecast of 3.7%. This is based partly on a stronger outlook for oil prices. Over the medium term, growth is set to accelerate to almost 4.5% in 2014 as the euro area recovers. Risks to the forecast are probably skewed to the downside, with the potential for the European sovereign debt crisis to trigger a much deeper contraction in economic activity, which would quickly transmit to Russia through lower commodity prices and a surge in capital flight.

Figure 57
Contributions to GDP growth



Source: Oxford Economics.

Figure 58
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	4.3	4.0	3.3	4.3	3.7
CPI inflation (% change year-on-year)	6.8	8.5	5.6	7.2	5.2	5.3
Current account balance (% of GDP)	5.0	4.9	3.3	2.5	1.5	0.6
External debt total (% of GDP)	32.2	29.4	31.8	33.7	36.2	38.4
Short-term interest rate (%)	5.1	5.5	7.4	7.4	7.4	7.4
Exchange rate per US\$ (year average)	30.4	29.4	30.0	30.1	31.5	32.8
Government balance (% of GDP)	-3.2	2.1	-0.6	-0.9	-1.0	-0.8
Population (millions)	142.9	142.8	142.7	142.5	142.4	142.2
Nominal GDP (US\$b)	1,478.7	1,805.4	1,928.0	2,109.2	2,230.2	2,344.9
GDP per capita (US\$ current prices)	10,344.7	12,643.7	13,514.3	14,798.5	15,663.3	16,489.7

Saudi Arabia

Non-oil activity to remain robust

GDP growth has been confirmed at 6.8% in 2011, the highest rate since 2003. Growth was driven partly by a 6.3% increase in crude oil production and partly by a 23% surge in state spending, the result of higher oil output and a 36% rise in oil prices. And the PMI rose to a six-month high of 60.0 in January, underpinned by a number of large infrastructure projects. Oil output also rose a little further, to close to 10 million barrels per day (b/d).

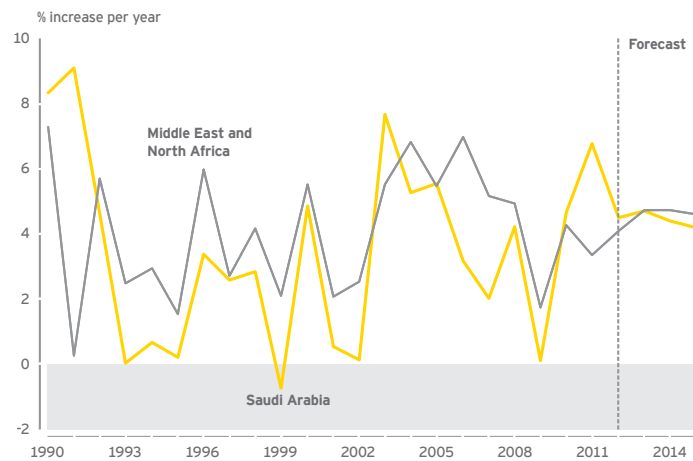
But we expect that GDP growth will slow to 4.5% in 2012. Oil production is expected to stabilize and then fall a little, while any increase in government spending is likely to be modest. But non-oil private sector

activity is likely to remain firm and strong labor force growth will help to support GDP growth above 4% over the medium term.

The inflation rate remained unchanged at 5.3% in January. Lower food and gold prices were largely offset by large rises in housing and utilities as well as clothing and footwear. We forecast inflation will fall marginally to 4.8% in 2012 reflecting more favorable external factors – lower non-fuel commodity prices and a stronger US\$ – to which the SAR is pegged. But still-rising rental costs, low interest rates, strong domestic demand and government spending will keep inflation relatively high.

Figure 59

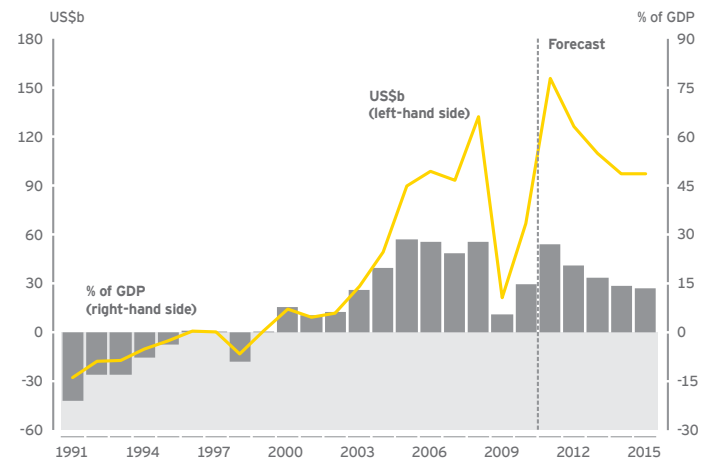
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 60

Current account balance



Source: Oxford Economics.

Table 19
Saudi Arabia

Source: Oxford Economics.

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	4.6	6.8	4.5	4.7	4.4	4.2
CPI inflation (% per year)	5.3	5.0	4.8	3.9	3.5	3.5
Current account balance (% of GDP)	14.8	27.0	23.4	16.8	14.1	13.3
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)	5.2	12.8	11.3	4.4	3.3	2.3
Population (millions)	27.4	28.1	28.7	29.3	29.9	30.5
Nominal GDP (US\$b)	450.8	576.8	619.1	653.3	688.2	731.1
GDP per capita (US\$ current prices)	16,423.5	20,552.4	21,582.8	22,293.8	23,002.0	23,940.4

South Africa

Consumption helps to support growth

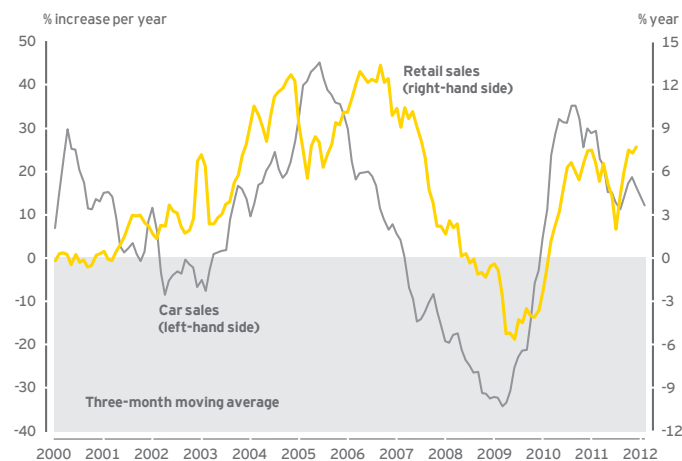
Supported by domestic demand, GDP grew by 0.8% quarter-on-quarter in Q4. And the outlook for domestic demand remains broadly positive, with retail sales volumes remaining buoyant and growing by 7.5% year-on-year in December.

In contrast, external demand is continuing to weaken as a result of the deteriorating global economic climate. Goods exports in US\$ terms grew by just 4% year-on-year in January (after two months of falls), with demand from Europe (South Africa's second-largest market) contracting by 2.1% respectively.

Consumer price inflation rose to 6.3% in January, outside of the South African Reserve Bank (SARB's) 3% to 6% target range. Price pressures are expected to increase during the first half of 2012, as the depreciation of the ZAR in H2 2011 and rising wages and fuel prices feed through. As a result, inflation is expected to average 6.4% in 2012.

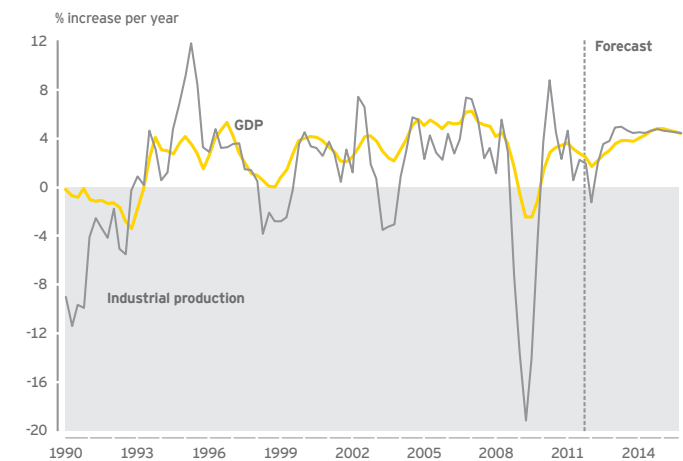
Although domestic demand has remained steady, the deterioration of conditions in Europe means we have downgraded GDP growth this year from 2.7% to 2.5%. As the global economy picks up, growth is expected to rise to 3.9% in 2013 and average 4.1% over the next decade. But this is well short of the 7% to 8% annual growth needed to tackle the chronically high rate of unemployment.

Figure 61
Retail and car sales



Source: Statistics South Africa; Haver Analytics.

Figure 62
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)	2.9	3.1	2.5	3.9	4.6	4.7
CPI inflation (% per year)	4.3	5.0	6.4	5.6	4.9	4.8
Current account balance (% of GDP)	-2.8	-3.7	-4.9	-4.6	-4.5	-4.5
External debt total (% of GDP)	12.2	11.6	12.3	12.2	11.9	11.8
Short-term interest rate (%)	6.5	5.6	5.6	6.8	7.6	7.5
Exchange rate per US\$ (year average)	7.3	7.3	7.9	8.0	8.2	8.4
Government balance (% of GDP)	-4.8	-4.1	-4.9	-4.6	-3.6	-3.2
Population (millions)	50.2	50.5	50.8	51.0	51.2	51.5
Nominal GDP (US\$b)	364.7	407.5	407.0	437.2	470.9	505.1
GDP per capita (US\$ current prices)	7,268.6	8,069.0	8,017.5	8,573.0	9,192.5	9,815.1

Thailand

Recovery from floods under way

The economy contracted by 10.7% on the quarter in Q4 in seasonally adjusted terms, the worst drop on record. In September, before the flooding escalated, we expected growth of more than 4% in 2011. But while the economy grew by 3.2% on the year in the first nine months of the year, the impact of the flooding led to a 9% annual drop in Q4, cutting growth in 2011 overall to just 0.1%.

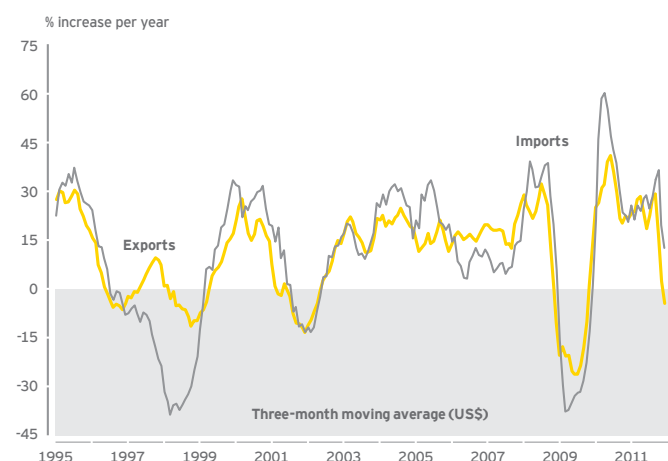
By December, the heavy rainfall had stopped and the authorities were able to get the worst affected areas under control. Consumer confidence rose in December and January and the central bank expects consumer spending to improve further in Q1 this year due to pent-up demand.

So far, the Government estimates the flood damage at THB1.3t (US\$41.5b) and we expect the fiscal deficit to rise to over 4% of GDP in 2012. The central bank has cut the key interest rate by 25bp at its last two meetings and will distribute THB300b in low-interest loans to individuals and small businesses starting next month.

GDP is forecast to grow by 4.9% in 2012, supported by strong reconstruction spending and boosted in H2 by the comparison with 2011's low base. But with the global outlook weak and political tensions heightened by the flooding disruption, the risks are on the downside.

Figure 63

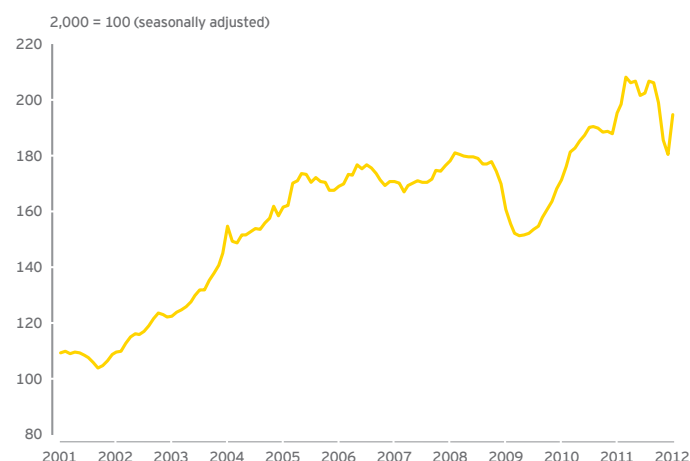
Exports and imports



Source: Customs Department; Haver Analytics.

Figure 64

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	0.1	4.9	7.3	5.7	5.5
CPI inflation (% per year)	3.3	3.8	2.9	2.2	2.3	2.3
Current account balance (% of GDP)	4.1	3.4	1.7	1.2	1.6	1.3
External debt total (% of GDP)	20.8	17.8	17.2	16.9	16.9	16.8
Short-term interest rate (%)	1.5	2.9	3.2	4.6	5.6	5.6
Exchange rate per US\$ (year average)	31.7	30.5	31.1	32.8	35.0	36.7
Government balance (% of GDP)	-0.9	-0.4	-4.1	-3.3	-2.4	-2.0
Population (millions)	68.2	68.6	68.9	69.3	69.6	70.0
Nominal GDP (US\$b)	319.3	346.0	362.4	376.7	382.7	393.1
GDP per capita (US\$ current prices)	4,682.3	5,046.0	5,255.5	5,436.1	5,494.9	5,617.1

Rise in lending interest rates will lead to slowdown

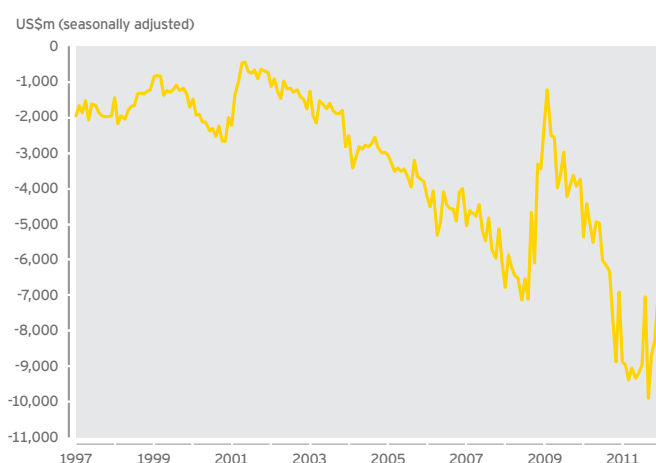
Despite the weaker global background, Turkish manufacturing performed strongly in Q4 2011, helped by the more competitive TRY. However, the downward pressures on the overall economy remain and these, over time, will slow GDP growth to around 2% in 2012 from over 8% in 2011. Consumers' purchasing power will be constrained by inflation and slower employment growth, while their desire to borrow to support spending will be curbed by the jump in lending interest rates (up 700bp) over the last year. This latter development, together with the weak global outlook, is likely to result in a slowdown in investment.

The only substantial impetus to growth is likely to come from a significant contribution from net exports. More positively, this slowdown should start to bring inflation down in late 2012 and through 2013.

But there is some level of uncertainty surrounding Turkey's economic prospects. Given the pace of growth of the last two years, the sharp rise in inflation during 2011 to over 10% and a tight labour market, there is a risk that inflation expectations take off, forcing the central bank to push interest rates even higher and slowing down growth. And because of its external financing requirement Turkey remains vulnerable were the Eurozone crisis to end disastrously.

Figure 65

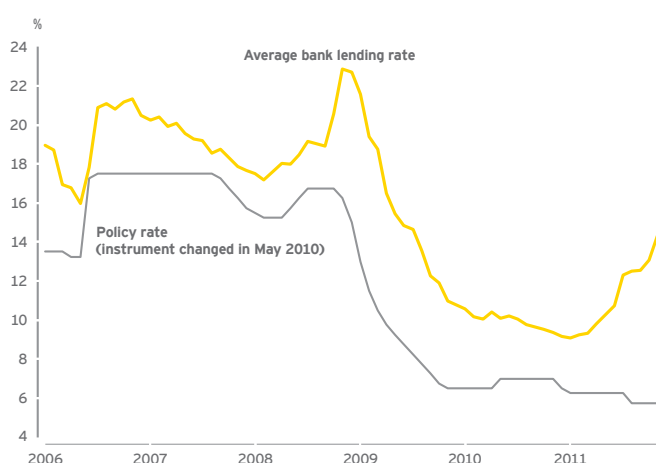
Monthly trade balance



Source: Turkish Statistical Institute; Haver Analytics.

Figure 66

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	8.3	2.2	5.0	5.9	5.6
CPI inflation (% per year)	8.6	6.4	9.4	5.5	4.4	4.0
Current account balance (% of GDP)	-6.3	-9.9	-8.1	-6.7	-6.5	-6.5
External debt total (% of GDP)	39.0	40.1	40.3	36.5	35.1	34.0
Short-term interest rate (%)	7.0	8.4	9.3	10.5	10.5	10.4
Exchange rate per US\$ (year average)	1.5	1.7	1.8	1.8	1.8	1.9
Government balance (% of GDP)	-3.7	-1.4	-2.1	-1.7	-1.2	-1.2
Population (millions)	72.9	73.7	74.6	75.5	76.3	77.1
Nominal GDP (US\$b)	737.4	776.0	780.1	887.6	953.0	1,017.6
GDP per capita (US\$ current prices)	10,120.0	10,522.5	10,456.3	11,762.8	12,490.8	13,197.9

Ukraine

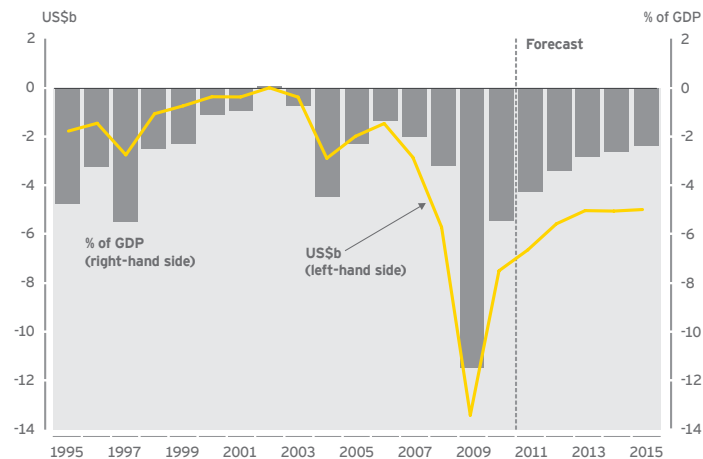
External funding constraints may curb growth in the near term

Growth prospects for 2012 have deteriorated further as debt problems have worsened in the Eurozone and as Russia has attached strong conditions to gas import price cuts. We now expect growth of 3.1% in 2012, down from 5.1% in 2011 and the risks are on the downside, as stalling Eurozone growth dampens export prospects (exports contribute over 50% of GDP and more than one-quarter of exports go to the EU). Further ahead, growth is forecast to recover to close to 5% in 2013 and then to about 6% p.a. in 2014 and 2015, as the outlook for gas exports improves and recovering European demand boosts exports and capital flows.

Rising energy costs and weakening export markets widened the current account deficit sharply to 6% of GDP in 2011. But external financing remains difficult with IMF funding still suspended – the IMF continues to demand a reduction in household energy subsidies that cannot be delivered until gas import costs are reduced. Moreover, the 2012 budget deficit is likely to stay above the official target of 2.5% of GDP because of slower than expected growth. As a result of these strains, inward investment will remain subdued. The external deficit may also pose a risk to the UAH stability that has underpinned a gradual decline in inflation in the last two years.

Figure 67

Government budget balance



Source: Oxford Economics.

Figure 68

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	5.1	3.1	4.8	5.9	5.9
CPI inflation (% per year)	9.4	8.0	6.5	6.0	5.5	5.5
Current account balance (% of GDP)	-2.2	-6.0	-7.0	-6.5	-6.0	-5.3
External debt total (% of GDP)	84.7	82.9	85.9	84.8	82.1	80.1
Short-term interest rate (%)	7.8	7.8	7.3	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	-4.2	-3.3	-2.8	-2.6	-2.3
Population (millions)	45.4	45.2	45.0	44.7	44.5	44.2
Nominal GDP (US\$b)	137.9	156.0	165.4	178.3	195.5	211.5
GDP per capita (US\$ current prices)	3,035.0	3,450.1	3,678.2	3,987.4	4,397.6	4,783.4

United Arab Emirates

Weaker exports and government spending will slow growth

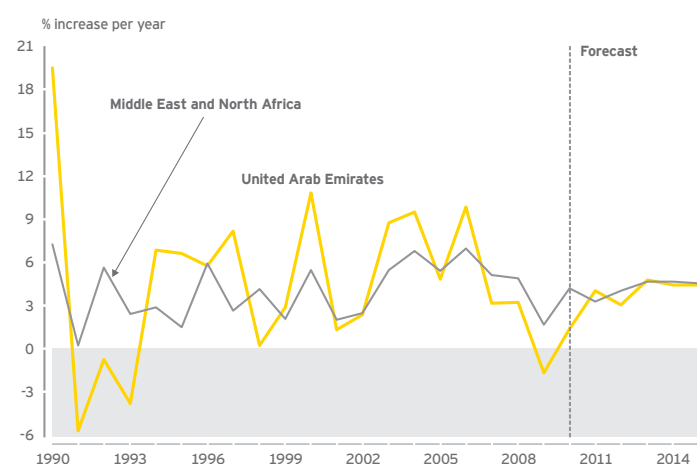
New export order growth slowed to an 18-month low in December, the result of a deteriorating global economy. And the PMI reading fell to a four-month low of 51.7 during the same month. Nevertheless, GDP growth is thought to have risen to 4.1% in 2011, driven by favorable oil trends, high government spending and the revival in Dubai's economy. The current account surplus is estimated to have widened to 14.2% of GDP in 2011. Merchandise export growth is put at 25%, driven by higher oil output and prices, as well as the revival of non-oil trade, mainly in Dubai.

Consumer prices increased by just 0.2% in December and 0.9% in 2011 as a whole. Prices were held down by falling food costs and a continued lack of domestic price pressures. Inflationary pressures will remain under control, aided by significant excess capacity in the economy and housing oversupply. Inflation picked up to 0.7% in January and we expect it to average 1.7% in 2012 due to loose monetary policy and rises in pensions and wages.

Growth is forecast to slow to 3.1% in 2012, lower than the 3.5% we projected in January, because of weaker growth in global trade and activity, stable oil prices and a more cautious approach to public spending in Abu Dhabi. We expect this to pick up to 4.8% in 2013 and average around 4.5% in the three years to 2016.

Figure 69

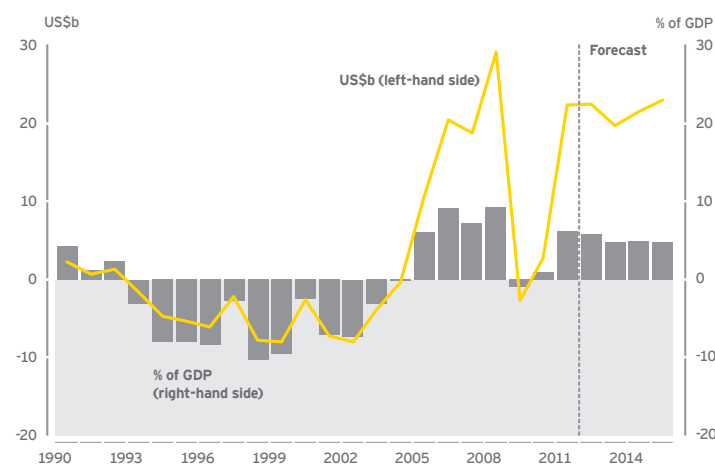
Real GDP growth



Source: Oxford Economics.

Figure 70

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	4.1	3.1	4.8	4.5	4.5
CPI inflation (% per year)	0.9	0.9	1.4	2.9	3.0	3.0
Current account balance (% of GDP)	3.8	14.2	13.1	8.3	7.3	7.1
External debt total (% of GDP)	43.7	32.8	27.8	24.5	20.6	18.1
Short-term interest rate (%)	2.2	1.7	1.7	1.7	1.8	2.3
Exchange rate per US\$ (year average)	3.7	3.7	3.7	3.7	3.7	3.7
Government balance (% of GDP)	0.9	7.4	7.6	6.3	6.4	6.4
Population (millions)	4.7	4.8	4.9	5.0	5.1	5.2
Nominal GDP (US\$b)	297.6	365.9	396.1	408.8	437.8	469.6
GDP per capita (US\$ current prices)	63,235.2	76,064.4	80,646.1	81,670.6	85,852.2	90,434.8

Vietnam

Growth moderating, inflation high

The economy grew by just under 6% in Q4, giving full-year 2011 growth of 5.9%, slightly better than expected given the budget cuts and interest rate rises made necessary by above target inflation. But there will be little change this year, as European markets stay weak in H1 and continued inflation slows relaxation of monetary policy.

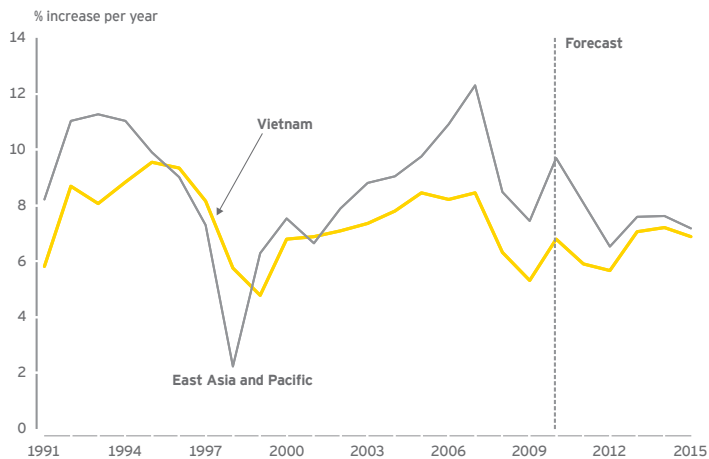
Exports rose more strongly than forecast in 2011 but rapid import growth meant that VND devaluations did more to prolong inflation than to narrow the trade gap. This will strengthen official determination to slow the VND depreciation in 2012-13. An ongoing requirement to expand foreign reserves in line with import needs will also restrain the rate at which interest rates can fall.

The central bank is working toward more targeted credit growth curbs and better restraints on borrowing for speculative investment. However, political pressure to maintain the credit flow to state-owned firms remains strong and is impeding the reduction in their debt.

Although growth should recover above the medium-term target of 6.5% as the EU crisis abates, risks to near-term growth remain mostly on the downside. VND weakness could return if progress on reducing inflation and the trade and fiscal deficits is less than forecast, and regional security concerns could also hit investor confidence.

Figure 71

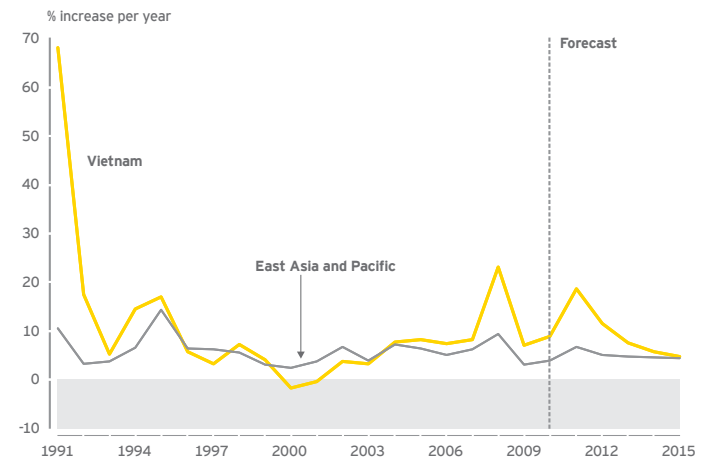
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 72

Inflation



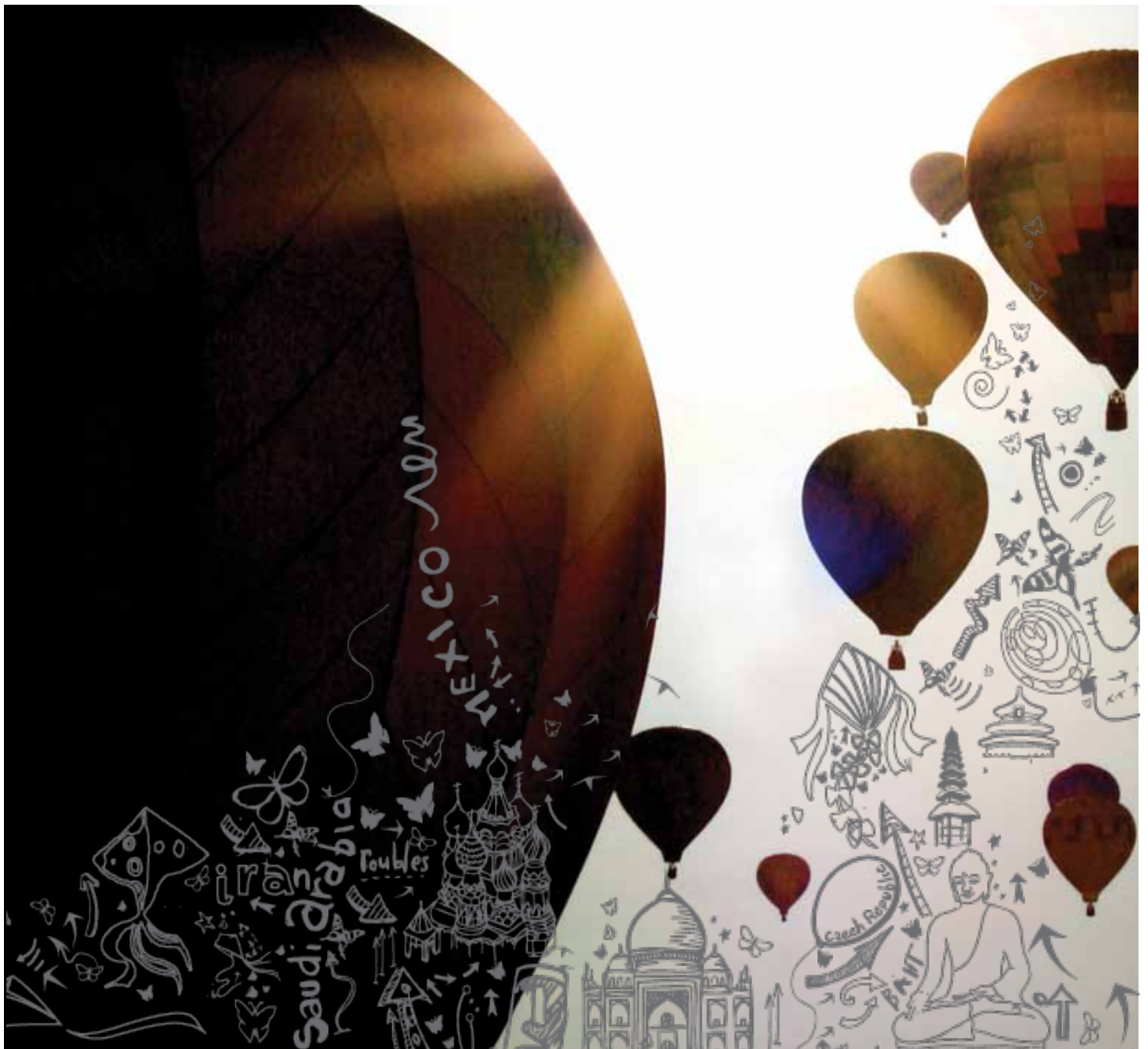
Source: Oxford Economics; World Bank.

Table 25
Vietnam

Source: Oxford Economics.

	2010	2011	2012	2013	2014	2015
Real GDP growth (% per year)	6.8	5.9	5.7	7.1	7.2	6.9
CPI inflation (% per year)	8.9	18.6	11.0	7.5	5.7	4.8
Current account balance (% of GDP)	-4.0	-2.2	-1.4	-0.8	-0.1	0.2
External debt total (% of GDP)	33.0	29.6	26.9	24.4	21.8	19.5
Short-term interest rate (%)	9.0	9.0	8.3	7.0	6.0	6.0
Exchange rate per US\$ (year average)	18,612.9	20,586.0	21,679.4	22,438.2	22,999.1	23,422.3
Government balance (% of GDP)	-5.6	-4.9	-4.7	-4.3	-4.0	-3.7
Population (millions)	87.8	88.8	89.7	90.6	91.5	92.4
Nominal GDP (US\$b)	106.4	120.9	134.6	149.7	165.6	182.1
GDP per capita (US\$ current prices)	1,211.5	1,362.0	1,501.2	1,652.6	1,809.0	1,969.7

Detailed tables





Cross-country tables

Real GDP growth						
	2010	2011	2012	2013	2014	2015
Americas	6.6	4.2	3.5	4.5	4.7	4.3
Argentina	9.2	8.9	3.9	4.0	4.2	3.2
Brazil	7.5	2.7	3.1	5.0	4.5	4.4
Chile	5.1	6.2	3.8	4.8	4.7	4.4
Colombia	4.3	5.5	3.8	4.2	4.1	4.0
Mexico	5.5	4.0	3.8	4.0	5.1	4.5
EMEIA	5.5	6.0	4.2	5.4	6.1	5.8
Czech Republic	2.6	1.6	-0.3	1.5	3.1	3.2
Egypt	5.1	1.8	1.2	3.4	5.2	5.9
Ghana	7.7	15.0	8.3	6.9	5.6	4.9
India	8.5	7.1	6.1	8.5	9.2	8.6
Kazakhstan	7.3	7.0	5.8	7.0	7.5	7.1
Nigeria	7.9	7.7	7.0	6.5	6.1	5.1
Poland	3.9	4.4	2.4	2.7	4.2	4.1
Qatar	16.0	16.3	7.0	7.0	6.4	6.4
Russia	4.0	4.3	4.0	3.3	4.3	3.7
Saudi Arabia	4.6	6.8	4.5	4.7	4.4	4.2
South Africa	2.9	3.1	2.5	3.9	4.6	4.7
Turkey	9.0	8.3	2.2	5.0	5.9	5.6
Ukraine	4.2	5.1	3.1	4.8	5.9	5.9
United Arab Emirates	1.4	4.1	3.1	4.8	4.5	4.5
Asia	9.0	7.4	7.0	7.7	7.6	7.2
China and Hong Kong	10.3	8.9	8.2	8.6	8.6	8.1
Indonesia	6.2	6.5	6.2	6.7	5.9	5.7
Korea	6.2	3.6	2.8	4.9	4.9	4.6
Malaysia	7.2	5.1	4.8	5.1	4.8	4.6
Thailand	7.8	0.1	4.9	7.3	5.7	5.5
Vietnam	6.8	5.9	5.7	7.1	7.2	6.9
Total	7.3	6.3	5.3	6.3	6.6	6.2

Cross-country tables

CPI inflation						
	2010	2011	2012	2013	2014	2015
Americas	4.9	5.4	5.2	4.6	3.9	3.6
Argentina	10.4	9.8	11.4	9.7	6.1	4.6
Brazil	5.0	6.6	5.5	4.8	4.0	4.1
Chile	1.4	3.3	3.1	2.9	3.0	3.0
Colombia	2.3	3.4	3.5	3.3	3.4	3.3
Mexico	4.2	3.4	3.9	3.5	3.5	3.0
EMEIA	7.0	7.1	6.0	5.3	4.6	4.4
Czech Republic	1.5	1.9	3.2	2.4	2.3	2.5
Egypt	11.3	10.2	9.4	8.0	6.3	5.5
Ghana	10.7	8.7	8.9	7.1	6.0	5.0
India (WPI inflation (%))	9.6	9.4	6.0	5.0	4.4	4.3
Kazakhstan	7.1	8.4	5.9	6.3	6.0	6.0
Nigeria	13.7	10.8	12.0	9.5	8.5	8.0
Poland	2.7	4.2	3.8	2.6	3.3	2.8
Qatar	-2.4	1.9	2.8	4.0	4.0	3.8
Russia (% change year-on-year)	6.8	8.5	5.6	7.2	5.2	5.3
Saudi Arabia	5.3	5.0	4.8	3.9	3.5	3.5
South Africa	4.3	5.0	6.4	5.6	4.9	4.8
Turkey	8.6	6.4	9.4	5.5	4.4	4.0
Ukraine	9.4	8.0	6.5	6.0	5.5	5.5
United Arab Emirates	0.9	0.9	1.4	2.9	3.0	3.0
Asia	3.4	5.2	3.6	2.9	3.1	3.1
China and Hong Kong	3.3	5.4	3.6	2.6	3.0	3.0
Indonesia	5.1	5.4	4.9	5.9	5.0	4.9
Korea	2.9	4.0	3.1	2.8	2.7	2.6
Malaysia	1.8	3.1	2.8	2.9	2.9	3.0
Thailand	3.3	3.8	2.9	2.2	2.3	2.3
Vietnam	8.9	18.6	11.0	7.5	5.7	4.8
Total	4.9	5.9	4.8	4.1	3.8	3.6



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