

Growing Beyond

# Rapid-growthmarkets

Ernst & Young Rapid-Growth Markets Forecast

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# Welcome

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At last, there are signs that stability could be returning to the global economy. As a result, the risks to growth are receding and we can be more confident about our baseline forecast for rapid-growth markets (RGMs). And as the world emerges from the financial crisis, it is more globalized than ever.

International trade will drive world growth over the coming decade, and RGMs are set to play an ever more influential role.

Mature markets have been the source of recent shocks to the world economy. But the most serious risks appear to be receding. In the US, the failure to reach a deal on the size of the federal budget has led to deep cuts in government spending. However, stronger consumer confidence and rising wages suggest that private spending will pick up the slack and keep growth levels stable in the medium term. In Europe, the breakup of the Eurozone looks less likely. The continent's growing sense of stability was tested in March, when the Cypriot debt crisis threatened to trigger another prolonged bout of turbulence, however markets remained calm and the major European economies proved to be fairly well insulated. Meanwhile, in Japan,

fiscal stimulus and a weakened yen have boosted growth prospects.

As we envisaged in the previous forecast, the early months of 2013 have seen RGMs start to recover after last year's downturn. We expect growth in the RGMs to accelerate from 4.7% in 2012 to 6.0% in 2014. This forecast is largely unchanged from three months ago, reflecting the more stable global backdrop.

RGMs from the same region often tell different growth stories. For example, in Latin America, Mexico and Chile are carrying strong momentum into the middle of the year, while Brazil's recovery is fragile. Meanwhile, weak demand from the Eurozone still hampers emerging Europe. As trade picks up, Turkey is benefiting from its strategic geographical position and economic integration is supporting activity in Africa. Middle Eastern emergers are expanding trade with other RGMs. In Asia, while recovery in Korea has been patchy, mainland China's growth should increase slightly in 2013 and again in 2014.

We are increasingly confident about our baseline forecast that emerging markets will rebound. The risk that we are too optimistic about our global outlook is the lowest for several years. Indeed, we believe that there is now a 15% chance that momentum in the RGMs will gather more quickly than we are anticipating, as accommodative policy feeds through and trade picks up.

Indeed, cross-regional and intra-regional trade is key to RGM prospects over

the next 10 years. These markets will increasingly trade with each other, and mature economies will also benefit as exports to RGMs become a rising source of growth. As the middle classes in RGMs get more prosperous, they will demand more banking, insurance and other financial services. And as these countries seek to capitalize on trading opportunities by upgrading infrastructure, they will demand more machinery and transport equipment. In recent years, Southeast Asia has benefited from lowered trade barriers. Regions that follow suit will facilitate both intra-regional and cross-regional trade, and boost their own prospects.

It is clear that the world economy that is emerging from the global crisis is different to the one that entered it. It is more globalized and more interconnected - and is increasingly influenced by RGMs. Countries and organizations that can exploit the new trading opportunities that arise will be best placed to secure strong and sustainable growth.

Our *Rapid-Growth Markets Forecast* offers timely analyses of emerging markets and the role they are playing in the global economy. By exploring how their progress affects the business landscape, we aim to help you identify opportunities in a world that is changing fast. To learn more about rapid-growth markets, their business environments and local contacts, please visit [www.ey.com/rapidgrowth](http://www.ey.com/rapidgrowth).

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# Highlights

## **The international environment is improving and risks to growth are receding**

- ▶ Our economic forecasts are following the same trends as predicted three months ago. We expect growth in the RGMs to accelerate from **4.7% in 2012 to 6.0% in 2014**.
- ▶ There are, however, concerns. Recent exchange rate volatility has raised a discussion about so-called currency wars among advanced economies.

## **The world economy is now more globalized than ever and international trade will drive world growth over the next 10 years**

- ▶ RGMs will play an increasing role in the world economy over the coming decade. Trade will grow between these markets, creating a wide range of new opportunities for them and advanced economies will also benefit, as exports to RGMs become a rising source of growth.
- ▶ The shipping industry will play a critical role in supporting the increase in trade.

## **As the RGM middle class expands, trade in services will rise sharply**

- ▶ Wealthier populations in RGMs will demand more banking, insurance and other financial services.
- ▶ The largest contribution to growth in goods trade will come from the machinery and transport equipment sector.

## **Lower trade barriers will boost both intra-regional trade and cross-regional trade, with Asia leading the way**

- ▶ We expect mainland China's GDP to grow by **8.2% this year and 8.5% in 2014**. In Korea, the recovery has been more patchy. Southeast Asia has lowered many trade barriers in recent years, improving prospects for the region.

## **Mexico and Chile weathered the global downturn well, but Brazil continues to struggle**

- ▶ Brazil's recovery is still fragile, with growth falling short of 1% last year. However, we expect the economy to pick up as the year progresses. Mexico and Chile grew more strongly last year and both carry strong momentum into 2013.
- ▶ More manufacturing trade will provide new channels for growth in Latin America and help to protect the region from commodity price fluctuations.

## **Weak Eurozone demand continues to weigh on emerging Europe, but Turkey is strong and economic integration is boosting activity in Africa**

- ▶ Middle Eastern countries are trading increasingly with other RGMs, reflecting the faster growth in RGM demand. Turkey is well set to make the most of its central location between Europe and Asia.

# Resurgence



**Business is steadily gaining momentum in rapid-growth markets (RGMs). Though still uneven, the pickup in activity that began there at the end of last year is becoming the driver of global recovery, even as developed economies continue to lag. For directors and executives charged with shaping investment policies, decisions are becoming more urgent. Only the very biggest global companies have the luxury of established global reach. Chiefs of other companies with international aspirations need to weigh where they should focus limited resources, and match carefully corporate potential with the very diverse opportunities offered by our selection of 25 rapid-growth markets.**

As events unfold, we are increasingly confident that our optimism about the pace of RGM growth is well-founded. Almost all of the RGMs we survey are growing, and many are accelerating. Their progress is powered by an expanding middle-class and the development of the private sector. Simultaneously, increasing trade – between neighboring countries, between RGMs, and between these markets and those of developed economies – is aiding economic growth everywhere. After growing almost four-fold in the decade to 2011, Eurozone exports to RGMs are now set to overtake trade within the currency bloc within 20 years.

Of course, the speed of growth varies, both between and within regions. Countries are at different stages of development, and each has its own economic heritage and stock of resources. A glance at Latin America confirms that factors such as commodity prices, the pace of economic liberalization and wage increases can influence heavily the pace of national economic expansion.

Looking at the big picture, though, there are good reasons for business to take heart. Though surprises remain frequent, many of the big risks are receding. China has successfully achieved a leadership transition. In the US, politicians failed to avert the introduction of substantial government spending cuts. Yet signs of a stronger-than-expected recovery in the private sector and in real estate, combined

with optimism arising from the shale-gas boom, have underpinned confidence in the US economic outlook. And in Japan, the new government, and the new leadership at the Bank of Japan, have triggered hopes that more aggressive monetary policy, fiscal stimulus, and pro-competitive measures will combine to produce overdue economic recovery.

Though the risk of a breakup of the Eurozone has diminished, overall we still think that the currency bloc is heading for a “lost decade” of low growth. Because it is a key trading partner for many RGMs, its lack of growth is weakening demand for RGM exports. Currency issues remain a concern everywhere. As our report details, shifting valuations attract ever more attention in a world where trade is of increasing importance to the prosperity of nations.

## Local motion

As one of the world’s most dynamic traders, and its new growth engine, China (including Hong Kong) is set to sustain double-digit export growth to many markets, especially other RGMs. Strong wage growth and government policies favor ongoing expansion of the domestic consumer market, and the focus on improving equality of income growth can only help.

Demand from China and accelerating Asia will suck in more South Korean exports, especially of branded consumer electronics, cars, and sophisticated ships that are needed for the exploration, production and transport of offshore oil. But in the near term, the Korean economy remains soft. We have also revised down our expectations for growth in India. But it is gently entering a cyclical upturn as inflation comes down, and falling interest rates should spur growth.

Meanwhile, Indonesia, Malaysia, Thailand and Vietnam continue to benefit from a mixture of resilient domestic demand and rising trade across Southeast Asia.



In Latin America, Brazil suffers from structural bottlenecks. Some economic inefficiencies constrain the benefits of low interest rates and tax cuts, but its economy should still grow 4.4% in 2014. Chile exports copper – so strong demand for the metal is keeping it on track. Meanwhile, Mexico continues to cement its role as a regional manufacturing hub. The region will perform better as other countries imitate Mexico's industrialization and balance commodity exports with manufactures.

Asian commodity demand is benefiting Africa too, especially oil producers Nigeria and Ghana. However, domestic activity in South Africa has weakened.

The Middle East continues to gather momentum as a commodity exporter, manufacturer and market, with growth more than doubling between 2012 and 2014. Turkey is also forging ahead as its pivotal trading location helps to drive growth. Eastern European countries covered in this report are still stymied by weakness in their Eurozone neighbors. Contraction is likely this year in the Czech Republic. Poland will grow but slowly and the Russian economy will remain softer.

### **Trading places**

Around the world, RGMs have learned to trade their way to growth. The economic transition they seek is rooted in the application of comparative advantage, whether founded on low-cost labor, fertile soils and sunlight, or sought-after minerals. Sluggish developed-world growth, and the growing weight of RGMs in the global economy, is spurring them to trade with each other. Today, exports from RGMs exceed 10% of world GDP – more than twice their share a decade ago. In another 20 years, their share will approach 20% – double that of the advanced economies.

Many governments in RGMs are negotiating away decades of trade barriers and market distortions in pursuit of larger markets, lower prices and entrepreneurial opportunity. At the same time, they are putting in place the infrastructure to help goods cross borders and reach, or arrive from, far-flung continents. Those that most successfully nurture the development of markets in this way often display some of the highest growth rates.

Meanwhile, the United States and the European Union have recognized the potential for a transatlantic trade deal to enliven their economies. In February, President Barack Obama and the European Commission said they would launch negotiations by the end of June on a Transatlantic Trade and Investment Partnership (TTIP). It is expected to cover half of the world's economic output and a third of all trade flows.

With tariffs between the two regions already low, the talks will focus on reducing complex non-tariff barriers. These include technical standards and other regulations affecting food, medical products and services, and electronics. Achieving a deal may take years. But the stakes are high. In 2012, the US exported goods worth US\$265b to the EU, while the EU exported goods worth US\$380b to the US. Freeing the transatlantic movement of goods and services could provide a significant boost to both US and EU economies.

A second substantial boost to trade is also expected when the US\$5b enlargement of the Panama Canal is completed in 2014. Today, more than 4% of world trade passes through the canal. That share is expected to double when bigger ships from Asia are able to reach America's east coast ports via the Canal, reducing shipping costs and spurring transpacific trade.

But it is the rising importance of RGM economies, and their increasing commitment to trade, that will shape profound changes in patterns of world production and demand.



#### Box 1

### Leading trends affecting international shipping

The United Nations Conference on Trade and Development's 2012 Review of Maritime Transport highlighted some leading trends that are affecting international shipping. The following developments will have particularly long-term implications:

- ▶ **Climate change:** 80% of world trade is carried by sea. Ports are crucial to global supply chains but they are necessarily located in coastal zones, low-lying areas and deltas – and are therefore vulnerable to the impacts of climate change. For example, coastal erosion can damage transport links and restrict access to docks. Therefore, the case for designing and implementing adaptation strategies is strong. It is also urgent, because transport infrastructure has a long lifespan, and swift action is required to avoid the costs of retrofitting.
- ▶ **Shifting economic and trade patterns:** The global economic crisis of 2008-09 accelerated the shift of economic power and influence from mature markets to developing countries. Developing countries' share of global trade flows has risen from about 30% in 1995 to an estimated 42% in 2010. Much of this growth is generated by South-to-South and intraregional trade. This shift – driven by supply chains, economic integration, regional concentration and technology – will reshape trade patterns and impact upon shipping infrastructure, services, equipment, operations and its legal and regulatory frameworks.
- ▶ **Rising fuel and operating costs:** Fuel costs are set to continue their rise. World energy consumption is forecast to grow 39% by 2030, with most growth generated by developing regions. So controlling costs and managing fuel consumption is essential for the shipping industry. Responses could include speed management, varying routes and deploying new technology.

### Riding the new trade wave

As the global recovery – driven by rapid-growth markets – gathers pace, attention everywhere is focusing upon the potential for trade to accelerate economic expansion. Countries in all regions are seeking to reduce barriers to trade. How can companies best benefit from the changes set in train?

Directors and executives need to note the huge disparities that exist between rapid-growth markets, and assess which offer the best opportunities for their own particular business activity. At the most profound level, they need to take note of demographics. Two pieces of data illustrate this well. First China's population of 1.35 billion offers both a hugely appealing market for many firms, and drives an economic powerhouse. Yet its labor pool shrank by 3.45 million workers in 2012, the first decline in almost 50 years, and the number of workers there is set to continue falling<sup>1</sup>.

Meanwhile, sub-Saharan Africa, with a population reckoned at 875 million, has some countries with exciting growth rates and a very different demographic story. According to the Financial Times<sup>2</sup>, the global population of 20 to 64-year-olds is expected to grow by about 900 million over the next 20 years, and 30% of the new workers will be in sub-Saharan Africa. The region will not only have a disproportionately young population, but also the potential to reap a demographic dividend.

Companies weighing where best to invest will need to give careful consideration not just to the nature of their customers, but also to their costs, and the extent to which the availability of labor might affect wages in the future.

1 Monks without a temple, *The Economist*, 16 March 2013.

2 Africa calling: rewarding patient investors, *Financial Times*, 15 February 2013.





## Resurgence

### Buying and selling

As RGMs grow richer, they suck in more imports. They acquire machinery and transport equipment to improve their infrastructure and manufacturing capacity. Companies also buy massive amounts of manufactured goods, from computers to paper, while consumers stock up on durables such as smartphones and TVs, as well as shoes, clothing, cars and sophisticated food.

Industrial and consumer markets will develop side by side, for both goods and services.

Exports from the developed economies will soar. But simultaneously, trade links are developing between Asia, the Middle East and Africa, as the more advanced RGMs procure commodities and supply manufactures in exchange. As RGM manufacturers climb the value chain, exports from Europe and the US face intensifying competition. Why import a German printing press to Senegal, if you can buy one cheaper from India? Why import Japanese cars, if Korean vehicles are better adapted to local needs?

Gaining in-depth knowledge of markets is the first step. Which offer the best prospects, and why? Once they have a clear view of where their best prospects lie, companies need to review their go-to-market strategies.

Is a traditional reliance on agents still appropriate? Is it time to buy the agent, set up in-house marketing, or even acquire local rivals to consolidate market share and win scale economies while procuring skills?

Do products need to be adapted or redesigned to optimize sales in a particular region? Are in-country innovation centers needed to reformulate for local needs? What are the best marketing channels, and are volumes now sufficient to support regional or even in-country manufacture?

Investors are not discouraged by the complexity of the current business environment, or the diversity displayed by RGMs. They understand that investing in RGMs requires careful study, time and effort.

### Making it here, making it there

Being successful in one country, with a particular business model, does not automatically qualify a company to succeed in its neighbor. And it does not mean that success can be automatically transferred to a different region in the world, even if, superficially, the markets seem alike.

Yes, similarities abound. Improving infrastructure and technological innovation are transforming the nature of opportunities in RGMs. Better roads create markets for vehicles as well as street lights and road paint. Railway construction and refurbishment doesn't just benefit manufacturers of rails, rolling stock and signaling equipment. It enables goods and people to move more easily, more safely, and often at lower cost, changing the shape of markets. Bigger, better airports – combined with the adoption of low-cost carrier models – are creating a bonanza for airliner-makers and potentially for airline founders. But at the same time, they facilitate business and leisure travel, and spur the development of the hospitality industry in RGMs. A new middle class is taking holidays, as well as spending more on health and education. Yet, as the successes of low-cost airlines in some countries – and their travails elsewhere – confirm, local factors can be critical to the success or otherwise of a particular business venture.

That said, while supplies of electricity and water sometimes remain inadequate, their improving availability and quality are changing the nature of business opportunities in RGMs. Better roads and power supplies make production viable in places where it was once impossible.

Meanwhile, technology is transforming the way people live their lives. Even where broadband capacity is scarce, mobile phone penetration is often high. Businesses and consumers now benefit from instantaneous communication. Mobile phone banking and payment systems help to overcome distance and trust issues, and are changing the nature of markets. Even in countries where education systems remain weak, a generation with foreign degrees – reinforced by returning diaspora members, especially in Africa, India and Latin America – bring skills, capital and a cross-over of ideas.



The interaction of improving infrastructure and information technology is making possible new kinds of business and marketing. Disruptive innovation is enhancing market efficiency. Online retailers are achieving more success in Russia and India, even when they have to develop innovative delivery networks and payment methods. Mobile phone apps developed in Africa enable users to call taxis, download movies, exchange information about crop prices, trade goods, develop mobile phone "store fronts" and more. Global technology companies are setting up labs across RGMs to help develop apps that respond to local needs.

A strong sign of RGMs' determination to increase their growth potential is the BRICS countries' decision to set up a new development bank. Though details remain sketchy, in time the BRICS bank could become an important contributor to global finance, helping a swathe of emerging economies to finance the development of their infrastructure<sup>3</sup>.

### **Cuddling customers**

How should companies respond? They need to recognize that the headlong transformation of RGMs offers both opportunities and threats. To identify the new opportunities that are becoming available, they need to constantly scan for changes that enable them – or their competitors – to operate more effectively, or at lower cost. They need to be close to RGMs' customers, whether businesses or consumers. And they also need to recognize ways in which logistical and technological changes facilitate new business models between countries and regions. Technology equips companies to communicate directly with consumers, or via an online marketplace, no matter where each is located. An express parcels company can deliver from Shenzhen, China, to a European address within days. Geographical barriers are diminishing.

As opportunities emerge, companies will need to review their go-to-market strategies, their marketing and, above all, their production and supply chain. In the new, connected RGMs, where is the best location for each part of the business activity? Are traditional business models appropriate? Might some RGMs move beyond the purchase of consumer durables to technology-enabled sharing or renting of vehicles, or procurement of services?

Against this backdrop, international subsidiaries, including those with (sometimes locally listed) subsidiaries in international markets need to ensure that their local operations have sufficient funding. As the rapid-growth markets draw increasing numbers of investors, established market leaders will often face stronger competition. They may need funds to expand geographically into neighboring countries, increase capacity, improve efficiency to stay ahead of newly-installed rivals, make acquisitions, or introduce new products as consumers become more sophisticated. Developed economy operations will have to compete still harder for funding.

### **Tailoring supplies**

Companies committed to rapid-growth markets do not have to succeed in a BRIC economy before rolling-out their products or services elsewhere. Indeed, there are many advantages to experimenting in a smaller country, and perfecting bottom-of-pyramid business models in smaller, more homogenous markets before seeking to scale them up or transfer them elsewhere.

Evidence of this is provided by the example of some RGM champions now expanding across borders in bricks and mortar retailing. A supermarket chain born in a rapidly growing market is already attuned to the needs of consumers with limited budgets and needs. Some RGMs have seen the development of no-frills retail chains that can be readily replicated in countries at an earlier or similar point on the development curve. By selling a range of just 500-600 items, made up of the most basic food and household products, at discount prices, some retailers have been able to achieve rapid expansion at home, and are now testing the formula elsewhere.

This kind of expansion is still dogged by difficult logistics, securing basic services such as power and water, and the challenge of finding sites and arranging leases or construction. Like manufacturers, international retailers also have to wrestle with unfamiliar laws and unpredictable, often inefficient, bureaucracies. But as they seek to persuade consumers to buy hundreds of very different products, they also need to gain a thorough understanding of culture and master local languages, and the issues they present.

<sup>3</sup> [www.brics5.co.za/statement-by-brics-leaders-on-the-establishment-of-the-brics-led-development-bank/](http://www.brics5.co.za/statement-by-brics-leaders-on-the-establishment-of-the-brics-led-development-bank/)



## Resurgence

In Africa, retail chains from South Africa and Kenya have already expanded successfully beyond their own borders, building on their understanding of African consumers and their expertise in handling bureaucracies and logistics.

In China, for example, Western retailers and fast-food chains increasingly find themselves confronted by sophisticated Asian challengers that offer competitive products at very affordable prices. Having developed effective business models in their local markets, some companies from Taiwan and Hong Kong are now replicating their success in mainland China.

### Box 2

#### Forecast in facts and figures

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- ▶ Overall, we now expect expansion of Gross Domestic Product (GDP) in the RGMs to accelerate from 4.7% in 2012 to 5.1% in 2013, and 6.0% in 2014 and 2015.
- ▶ The GDP of China, including Hong Kong, is now expected to rise from 7.5% in 2012 to 8.0% this year, reaching 8.3% in 2014.
- ▶ In Korea, our growth forecast for 2013 is now 2.2%. But we anticipate a rebound to nearly 5% next year.
- ▶ The growth expectation for India is 5.2% this year, down from the 6% previously forecast. But inflation is lower and falling interest rates should spur growth to 7.2% next year and 7.7% in 2015.
- ▶ Turkey's pivotal trading location will help drive growth from 3.5% in 2013 to 5.4% in 2014.
- ▶ Contraction is likely this year in the Czech Republic, and growth of just 1.5% is forecast for Poland. Russia should pick up to 4.0% growth in 2014.
- ▶ The resurgence will be underpinned by increasing trade both within regions and between RGMs, as their share of global trade overtakes that of the advanced economies.
- ▶ The RGMs' economic surge is far from homogenous.





One retail model that has achieved some success is growth by franchise. Working with local owners or managers in this way enables expanding international chains to channel domestic expertise in their target markets. Some South African retailers and restaurateurs, crowded by tough competition in their home market, are using franchising to expand across sub-Saharan Africa<sup>4</sup>.

Historically, international fast-food groups that expand in China have often preferred to own and manage their outlets. But one leading player is now seeking to accelerate its expansion by franchising, according to China Daily<sup>5</sup>.

Whether supplying goods or services, companies entering these markets should consider the need to educate customers to ensure that products are used properly and a good brand image develops. One Kenyan coffee producer sells its coffee in packaging that not only explains how to make a good cup of coffee, but that warns against re-heating or boiling coffee, or re-using coffee grounds. A sound understanding of markets is essential.

### **Making trade and investment pay**

As rapid-growth markets grow quickly, trade more freely, and exchange foreign direct investment, their relations with developed economies are changing. By and large, trade with developed economies, and investment inflows from them, continues to grow. But the efforts of policy-makers in developed markets to kick-start growth, particularly through monetary easing, are having consequences for companies.

Sterling and the Japanese yen have fallen markedly in recent months, and the US dollar remains weak by historic standards. A decline in the value of developed economy currencies, relative to those of RGMs, affects both trading and investment relationships.

Falling currencies in developed economies makes their exports more competitive. For example, sterling's 5% fall between January and March this year should have bolstered the profits of UK exporters, while making imports more expensive – or allowed UK exporters to compete more aggressively on price in overseas markets.

Companies using these currencies to invest in emerging markets find RGM assets or investments more expensive when measured in the currencies in which they keep their books. But revenues and profits earned overseas will be flattered when reported in pounds or yen.

However, for emerging market corporate champions looking to extend their global reach by acquiring or establishing operations in developed economies, the relative appreciation of their currencies gives them additional firepower to invest in rich markets. This can be a good time to acquire technology or tackle developed-economy companies on a more equal footing.

Yet rapid changes in currency values pose problems for policy-makers, companies and investors alike. Declining developed economy currencies can trigger financial flows seeking higher returns into RGMs, driving up currency values and undermining the competitiveness of producers there. Though there is little evidence yet of outright currency wars, businesses need to monitor the tensions carefully, in case any adverse policy responses result.

Across the RGMs this year, we expect monetary policy to be much less uniform than in previous years, even within regions. For example, while Mexico, India and Korea have been cutting rates in recent months to support growth, in Brazil and Southeast Asia we expect central banks to begin raising rates in the second half of this year to guard against inflation pressures. With monetary policy moving in different directions in different countries, and inflation pressures building in some countries, businesses must be careful to keep track of the country-specific drivers behind movements in real interest rates.

<sup>4</sup> South African Retailers Eye Continental Expansion, Ventures-africa.com 21 August 2012 – [www.ventures-africa.com/2012/08/south-african-retailers-eye-continental-expansion/](http://www.ventures-africa.com/2012/08/south-african-retailers-eye-continental-expansion/)

<sup>5</sup> Fast-food firm eyes southwest franchises, China Daily, 22 January 2013 – [www.chinadaily.com.cn/bizchina/2013-01/22/content\\_16152361.htm](http://www.chinadaily.com.cn/bizchina/2013-01/22/content_16152361.htm)



Box 3

**Foreign Direct Investments (FDIs) to the RGMs**

- ▶ The table on right-hand side shows that, in absolute terms, China, Hong Kong and the rest of the BRIC economies attract the most FDI among the RGMs.
- ▶ As a percentage of GDP, Chile, Kazakhstan, Vietnam and Ghana all attract FDI inflows equal to more than 5% of their GDP.

**Look out for new RGM attractiveness reports to be published over the coming months:**

- ▶ May 6: 2013 Africa attractiveness survey
- ▶ May 8: 2013 Turkey attractiveness survey
- ▶ May 22: 2013 Kazakhstan attractiveness survey
- ▶ June 21: 2013 Russia attractiveness survey

**FDI inflows, 2011**

	Total, US\$b	% of GDP
China	220.1	3.1
Hong Kong	83.2	33.7
Brazil	66.7	2.7
Russia	52.9	2.9
India	34.2	1.8
Mexico	20.8	1.8
Indonesia	19.2	2.3
Poland	18.7	3.7
Chile	17.3	6.9
Saudi Arabia	16.3	2.4
Turkey	16.0	2.1
Colombia	13.4	4.0
Kazakhstan	13.2	7.2
Malaysia	12.0	4.2
Nigeria	8.8	3.9
UAE	7.7	2.3
Thailand	7.5	2.2
Vietnam	7.4	6.0
Argentina	7.2	1.7
Ukraine	7.2	4.4
South Africa	5.7	1.4
Czech Republic	5.4	2.5
South Korea	4.8	0.4
Qatar	4.5	2.6
Ghana	3.2	8.2

Source: Oxford Economics.



# The future dominant force in global trade

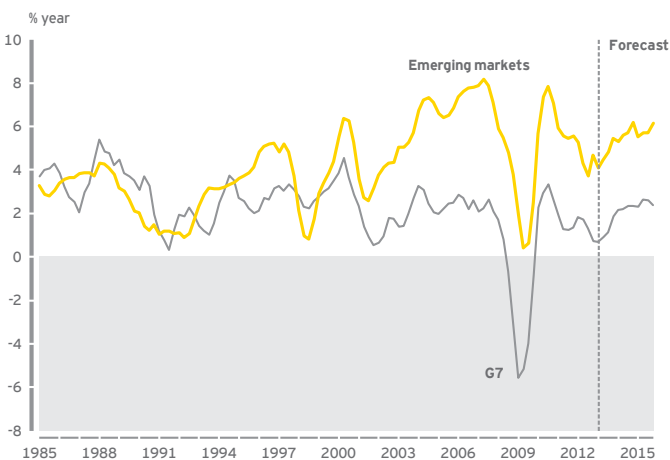
## The international environment is improving

The global economy is picking up and RGMs are gradually recovering from last year's downturn, much as predicted in our previous edition. As a result, our projections for growth in 2013 and 2014 follow the same trend as we forecast three months ago. We expect growth in the RGMs to accelerate from 4.7% in 2012 to 6.0% in 2014.

In the US, politicians failed to reach a budget deal in time to avoid large spending cuts on March 1. Even though a way of avoiding the sequester is not yet in sight, a strong rise in US non-residential investment, firmer consumer spending and reasonable growth in payrolls point to an upturn in private demand. This suggests that stronger private spending will offset the effects of fiscal austerity on growth in the medium term.

A weaker yen and greater fiscal stimulus have improved the growth outlook in Japan for 2013 and 2014. But we still think the Eurozone is heading for a "lost decade" of low growth, even though the risk of a breakup has diminished. We expect the Eurozone to contract by 0.5% this year.

Figure 1  
G7 and emerging markets: GDP growth



Source: Oxford Economics.

For RGMs, any swing in the exchange rates of advanced economies might be expected to affect export competitiveness, inflation rates and capital flows. But so far, the effects have been quite limited. Turn to page 23 for more on the impact of currency movements.

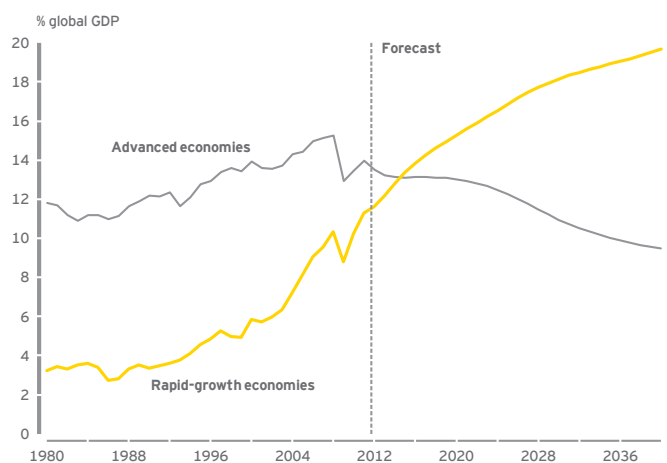
## Downside risks are gradually receding

As some of the more worrying risks recede – for example, the breakup of the Eurozone is much less likely – we are more confident about our baseline forecast of a rebound in emerging markets. The risk that we are too optimistic about our global outlook is the lowest for several years. Indeed, we believe that there is a 15% chance that momentum in the RGMs will build more quickly than we are anticipating, as trade picks up and accommodative policy feeds through.

## RGMs set to become the dominant force in global trade

RGMs will become an increasingly dominant force in global trade over the coming decade. The chart below shows that exports from RGMs now contribute more than 10% of world GDP, up from less than 5% 10 years ago. And in 20 years time, they will contribute almost 20% of world GDP. In comparison, exports from the advanced economies will contribute less than 10%.

Figure 2  
Exports as a % of global GDP



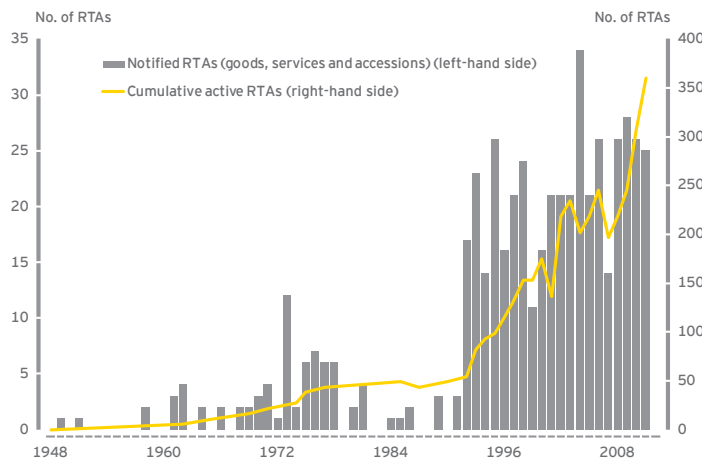
Source: Oxford Economics.



Trade will be increasingly focused around Asia, the Middle East and Africa. Indeed, according to Oxford Economics' forecasts for bilateral trade, Europe's exports to Africa and the Middle East are expected to be around 50% larger than its exports to the US by 2020. Companies will need to gain footholds in the RGMs early, while they still have the chance to establish a significant market presence.

The proliferation of trade agreements in recent years has lowered trade barriers and ushered in strong growth in both regional and cross-regional trade. The gradual easing of trade barriers should continue over the next 10 years, reshaping trade patterns across the world.

Figure 3  
**Evolution of Regional Trade Agreements (RTAs) in the world, 1948-2012**



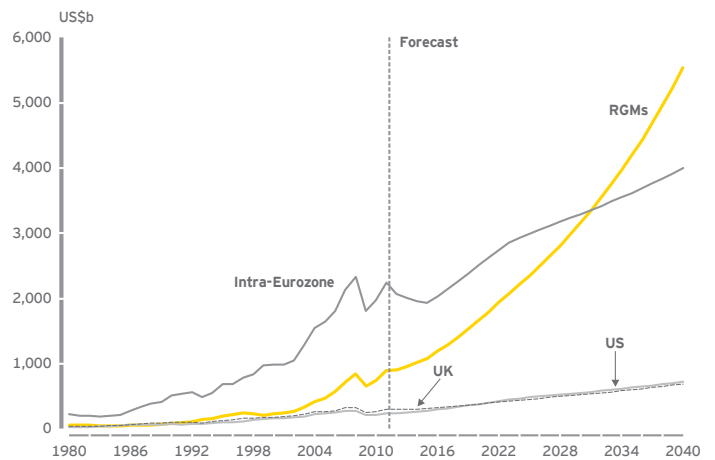
Source: World Trade Organization.

Our forecasts for trade flows show that, over the next decade, RGMs will become more dependent on each other and less dependent on developed economies. This will help them to become less vulnerable to periods of weak activity or financial market volatility in the advanced economies.

**Advanced economies will benefit from rising exports to the RGMs ...**

The advanced economies will also look increasingly to RGMs for growth. Eurozone exports to RGMs were worth US\$895b in 2011, up from US\$230b in 2000. And in 20 years time, they will have overtaken intra-Eurozone trade, as the chart below illustrates.

Figure 4  
**Exports from the Eurozone**



Source: Oxford Economics.

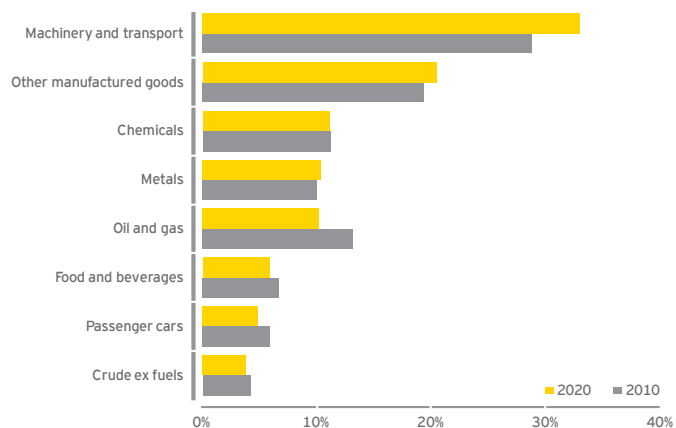


### ... particularly in the machinery and transport equipment sector

The machinery and transport equipment sector (which includes consumer electronics and durable goods, as well as industrial goods) will make the largest sectoral contribution to trade over the next 10 years. Information and communications technology (ICT) equipment will account for most of the growth. This reflects both the anticipated strong growth in demand for consumption and investment goods from the RGMs and the potential to fragment the supply chain. Advances in global transport and communications technology will make it easier to produce components anywhere in the world.

The shipbuilding industry is likely to benefit, supporting important suppliers such as South Korea. In contrast, exports of manufactured goods from Indonesia and Vietnam will be driven primarily by lower value-added products, including clothes and shoes.

Figure 5  
Sector share in world trade



Source: Oxford Economics.

### RGMs will be a key destination for services exports ...

It is not only trade in goods that will grow rapidly over the next 10 years. As the chart below shows, by 2020 Europe will be exporting more services to emerging Asia than to North America. And exports of services from the US to Latin America will also expand quickly, reflecting strong growth and increasing economic diversification in Latin America. The 1995 General Agreement on Trade in Services (GATS) has steadily reduced barriers to services trade, with further extensions to come.

Figure 6  
Exports of services

Total increase 2010-20, US\$b	
From the US to ...	
Emerging Asia	168.6
North America	164.4
Western Europe	157.2
Latin America	97.7
EMEA	71.9
Japan	45.4
From Europe to ...	
Western Europe	791.6
Emerging Asia	258.5
North America	257.6
EMEA	168.6
Latin America	51.4
Japan	22.6

Source: Oxford Economics.



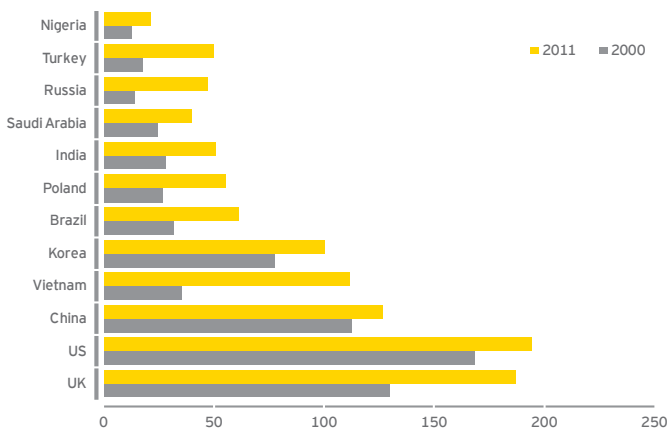


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**... including banking, insurance and other financial services**

Banking, insurance and other financial services sectors in the RGMs will grow as the economies mature and the middle classes expand, offering new opportunities for trade. Demand for more sophisticated financial services is already growing rapidly as wealth levels rise. The chart below illustrates the extent to which access to credit has widened in recent years.

Figure 7  
Lending to the domestic private sector as a % of GDP

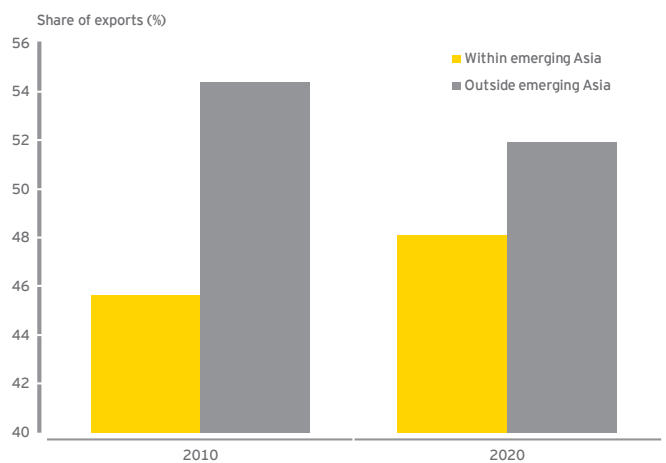


Source: Oxford Economics; World Bank.

**China and Korea will benefit from increasing trade within emerging Asia**

Asia is the most dynamic trading region in the world. As the chart below shows, trade between the emerging Asian economies is forecast to rise over the next decade. China's trade growth will remain strong, with double-digit export growth to many markets, especially other RGMs.

Figure 8  
The destination of Asian trade flows



Source: Oxford Economics.

Recent data suggests that the Chinese recovery is continuing, with stronger international trade supporting industrial activity. The pickup in momentum is likely to be broad-based, supporting growth of 8.2% this year and 8.5% in 2014. The new administration has now taken over and is expected to continue the process of economic reform. An income distribution plan, announced in January, includes raising the minimum wage, improving property rights and broadening the tax base. These measures are intended to encourage more equal income growth and should help to reduce the economy's reliance on investment. But more structural reforms are also needed to avoid growth's destabilizing effects.



We expect trade growth to enable South Korea to further strengthen its position in the region in the next few years, despite its already relatively high level of income and wages. The country has a competitive advantage in high-technology products, with established international brand names and open trade policies. Korea is well placed to serve the expanding market for consumer goods in Asia, which will help drive rapid export growth to markets in the region. Although perhaps best known for its electrical products, South Korea is also a world leader in the field of high-tech shipbuilding. It constructs sub-sea drilling vessels and ice-breaking oil tankers. The shipbuilding industry is set to play a major role as Korea's exports grow over the next decade. Korea will also be a fast-growing destination for exports from the rest of Asia.

However, in the near term, while Korean exports have picked up, the domestic economy remains quite subdued. We have become more cautious about the speed of the recovery, reducing our forecast for 2013 as a whole from 3.3% in the previous edition to just 2.2%. And as inflation is low, we expect one more interest rate cut to boost growth.

India's economy is slowly gaining momentum as it enters a cyclical upturn, with both domestic and external conditions beginning to improve. But growth at the end of last year was weaker than expected and the investment climate is also challenging. We now expect the economy to grow by 5.2% this year, rather than the 6.0% previously forecast. But lower inflation should give the Reserve Bank of India (RBI) scope to support the economy by reducing interest rates. The RBI cut the repo rate by 25bp in both January and March. But with inflation still uncomfortably high, the scope for further rate cuts is limited.

### **Lower trade barriers set to boost growth in Southeast Asia**

Lower trade barriers will boost exports and, ultimately, growth in Southeast Asia. One of the most important factors powering the development of global supply chains over the past two decades has been the proliferation of regional trade agreements, such as ASEAN (the Association of Southeast Asian Nations) in 1992. The 10 countries in the ASEAN bloc have made steady progress toward forming an economic community. In addition to the existing free trade agreement, such arrangements would allow capital, services and people to move freely across the region. However, progress has been slow, so establishing an economic community by the initial target date of 2015 now looks unlikely.

Last year, expansionary fiscal and monetary policies helped to protect Southeast Asian economies from the worst of the dip in global growth. The region's RGMs are expected to enjoy a firmer recovery this year, driven by exports and underpinned by domestic demand. Domestic activity has strong momentum in Southeast Asia, and it should support growth of over 5% this year and nearly the same in 2014. But with policy currently quite loose, we expect the region's central banks to begin raising rates to more normal levels toward the end of this year as they seek to contain any threat of rising inflation. In contrast, interest rates in Korea and India may have further to fall.

### **The Brazilian economy remains fragile but Chile and Mexico are stronger**

Despite record low interest rates and efforts to boost the economy with tax cuts and credit incentives, short-term growth prospects in Brazil are constrained by structural bottlenecks and lingering competitiveness challenges. With a slower pace of recovery than we had expected, we have cut our forecast for growth this year from 3.9% to 3.1%, and also slightly reduced our outlook for 2014 to 4.4%. There are some indications that both industrial activity and inflation are beginning to pick up and with inflation above target, the next interest rate move is likely to be up rather than down.

Prospects for Chile are brighter, with growth likely to be nearly 5.0% both this year and next. Growth is underpinned by the stable macroeconomic conditions and boosted by stronger world demand for copper, its main export.

Mexico has sharply lowered its trade barriers since the early 1990s, and last year its export sector was one of the strongest performers among the RGMs. We expect transport equipment and vehicle exports to expand rapidly as demand rises in the RGMs. This should help to reduce the country's reliance on exports to North America, which now accounts for almost 80% of total goods exports.

Although Mexican growth slowed toward the end of last year, we expect momentum to rebuild through 2014. Spare capacity in the economy should keep inflationary pressures down. The central bank cut the policy rate by 50bp to 4% in March to help support activity in the short term, as the US grapples with its spending cuts.



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Box 4

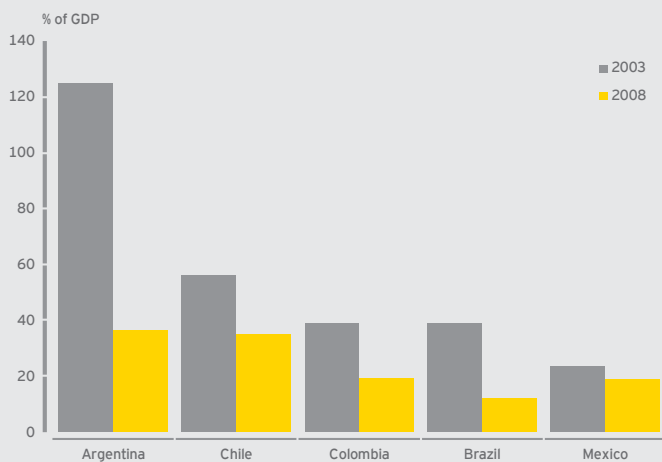
**Latin America: Reliance on commodity revenues brings opportunities as well as challenges**

Resource-rich countries in Latin America escaped relatively unscathed from the 2008-09 global financial crisis. This was thanks in part to rising commodity prices. But booming revenues bring challenges too, which can curb long-term growth if not adequately addressed. With good policies and appropriate resource management, these revenues can be used to boost overall economic and social development.

The rise in commodity prices between 2004 and 2007 increased the value of Latin American exports and improved the balance of payments. This caused real exchange rates to appreciate, enabling most Latin American economies to reduce their external indebtedness substantially.

Figure 9

**RGMs in Latin America: external debt**



Source: Oxford Economics.

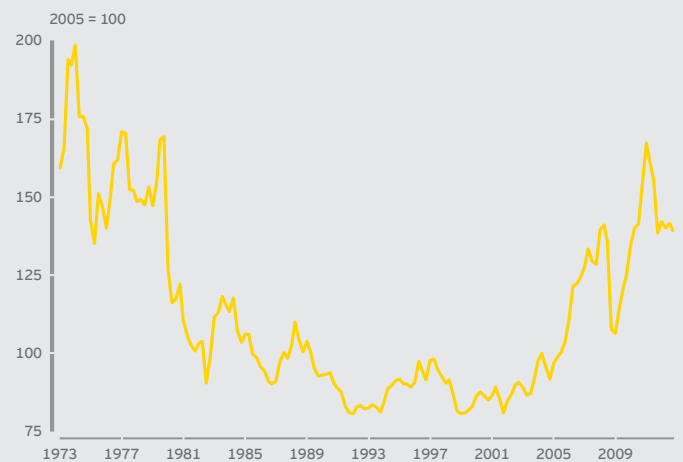
So by the time the 2008-09 crisis hit, most countries in the region had reduced external debt and held large capital buffers in the form of foreign reserves. Therefore, they could fund counter-cyclical macroeconomic policies to offset slower growth without compromising financial and macroeconomic stability. This explains much of their relatively resilient economic performance since 2009.

**Yet commodity prices are volatile ...**

Commodities prices are subject to large cyclical swings over time, and can fall as well as rise.

Figure 10

**Real non-fuel commodity prices**



Source: Oxford Economics; IMF and Haver Analytics.



Box 4

**Latin America: Reliance on commodity revenues brings opportunities as well as challenges** (continued)

Over-reliance on commodities can, therefore, be detrimental to growth prospects. As commodity prices tend to respond more aggressively than manufacturing prices to fluctuations in the business cycle, commodity-based economies are prone to large swings in capital flows and exchange rates. This discourages investment and can lead to sharp reversals in fiscal revenues, thereby exacerbating fiscal crises during downturns – when government expenditure often remains high as revenues collapse. Therefore, resource-rich countries must develop policies to protect their economies from such volatility.

**... and “Dutch Disease” is a risk ...**

Reliance on commodities can bring problems even when prices are booming. High prices encourage domestic resources to be channeled into fast-growing commodity-related sectors, to the detriment of other manufacturing activities. And exchange rate appreciation makes the domestic industrial sector even less competitive, causing it to be crowded out by cheaper imported goods. This phenomenon has become known as “Dutch disease”.

The experience of many Latin American countries suggests that industrial groups have resisted “Dutch disease” by demanding government intervention to protect their industries rather than passively accepting a reduction in their relative importance in the economy. In Brazil, for example, the government has raised import tariffs on cars produced outside the Mercosur free trade area, and Mexico has awarded tax breaks for domestically-produced consumer durables. But government protection of industries must be handled carefully to avoid holding back the economy by distorting the advantages of different channels of growth.

**... so careful revenue management is key**

Some of these problems can also be mitigated by appropriate resource management. Sovereign wealth funds (SWF) enable governments to invest a substantial portion of commodity export revenues in foreign assets. This allows them to protect fiscal revenues from political pressure, corruption and waste. Diversification into overseas assets may also help to contain currency appreciation. The returns from these investments can support fiscal spending or be used to manage exchange rate volatility. Ultimately, such funds allow countries to adopt counter-cyclical policies to avoid both the excesses of prosperity in boom times and the depths of depression when prices collapse.

Figure 11  
**Sovereign Wealth Funds (SWFs)**

Assets under management, US\$b, February 2013		
Country	US\$b	% of GDP
UAE	763.5	209%
Saudi Arabia	538.1	74%
China	647.6	7.9%
Chile	20.9	7.9%
Brazil	11.3	0.5%
Mexico	6.0	0.5%

Source: Sovereign Wealth Fund Institute.

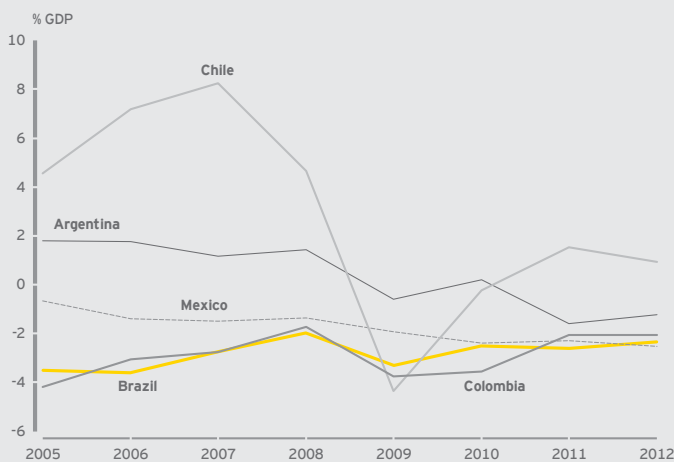


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Chile's SWFs are a prime example. The authorities established two funds in 2006-07 to achieve macroeconomic stability (by funding fiscal deficits and reducing public debt) and improve social protection. The total market value of these funds now exceeds US\$20b (8% of Chile's GDP), and has enabled the government to run counter-cyclical fiscal policies. Chile was one of the few countries in Latin America to run fiscal surpluses during boom times. Therefore, it was able to pay for reconstruction after a major earthquake struck in 2010. Growth in Chile has outperformed most other RGMs in Latin America over the past few years.

Mexico created an Oil Revenues Stabilization Fund in 2000, and Brazil established its own SWF in 2008. These are not as large, however, because neither government has made the sizeable contributions that Chile did. The authorities still have some way to go before they can implement effective counter-cyclical policies.

Figure 12  
RGMs in Latin America: fiscal balance



Source: Oxford Economics.

Beyond SWFs: infrastructure and business investment

SWFs alone are no substitute for sound macroeconomic policies, however. In order to avoid becoming too dependent on commodity-related sectors, governments must support the business environment and implement policies to improve the competitiveness of the non-commodity sector. One obvious challenge for RGMs in Latin America is the high cost of labor in non-commodity sectors. The combination of an overvalued exchange rate and high labor costs is a particular challenge for industry in Brazil, which is struggling to compete internationally. Further development of infrastructure, education and R&D may also help to support emerging industries and facilitate competition in global markets.

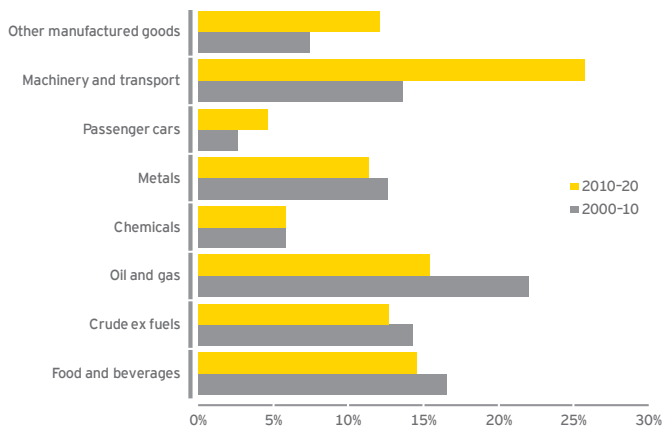
If implemented successfully, policies such as these should help the RGMs to diversify their economies and reduce the risk of over-reliance on commodities. By following this path, the huge endowment of natural resources in Latin America should prove to be a blessing rather than a curse.



### Greater trade in manufactured goods will help protect Latin America from commodity price fluctuations

The chart below illustrates our expectation that the sectoral pattern of exports from Latin America will become more balanced in coming years. There will be a shift away from the reliance on commodities that characterized export growth from 2000-10, toward more manufactured products.

Figure 13  
**Latin America and Caribbean: % contribution to change in total exports**

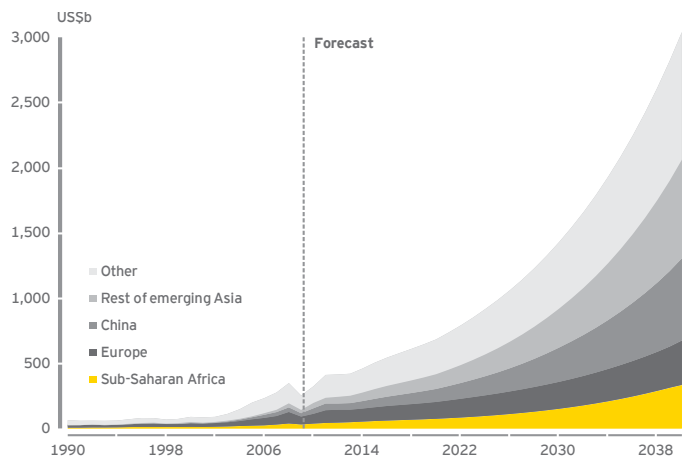


Source: Oxford Economics.

### Economic integration is slowly making it easier to do business in Africa

A drive to enhance economic integration is beginning to erode some of the difficulties of doing business in Africa. We expect the continent's influence on the world economy to grow over the next 20 years, as the chart below shows. Although the African Union is unlikely to meet its ambitious target for a pan-African free trade agreement by 2017, regional economic integration should gradually enhance the attractiveness of investing in Africa.

Figure 14  
**Exports from sub-Saharan Africa to ...**



Source: Oxford Economics.

Africa is also set to benefit from high Asian demand for its commodities. We expect this to support fast growth of around 6% in Nigeria and Ghana both this year and next. Meanwhile, in South Africa civil unrest and concerns over the government's commitment to reform have prompted credit rating downgrades. This has hit confidence and weakened domestic activity. But in the medium term, we expect South Africa to grow annually by around 4%, underpinned by favorable economic fundamentals.



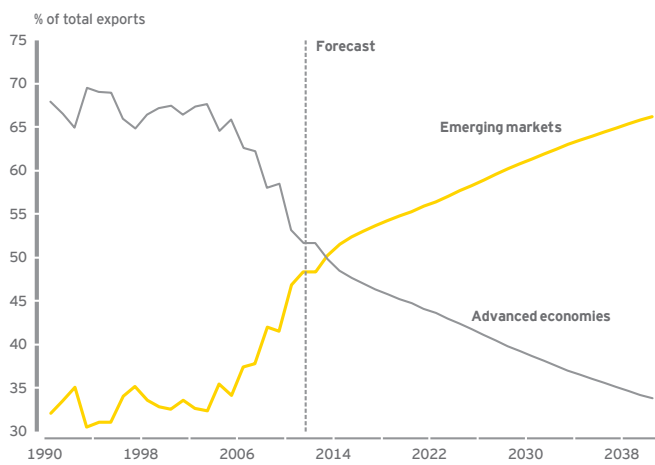
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### Middle Eastern countries are trading increasingly with other RGMs

As the chart below shows, Middle Eastern RGMs are trading more with other RGMs rather than with the advanced economies. They supply the commodities and intermediate goods that are needed by these fast-growing economies. The Middle East also represents a key source of final demand for products manufactured in other RGMs.

Figure 15

#### Middle East: share of exports to ...



Source: Oxford Economics.

Growth in the Middle East is expected to pick up to 3.5% in 2013, and then 4.4% in 2014. Although a relaxing of tensions in the Middle East is expected to allow oil prices to fall a little, thus reducing revenues, this will largely be offset by expansionary monetary and fiscal policy, the high absolute level of oil prices and rising oil output in some regions.

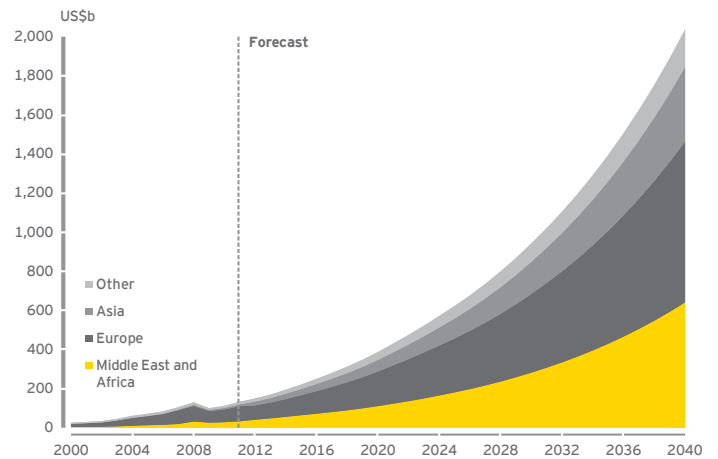
### Turkey set to make the most of its location at the crossroads of Europe and Asia

Turkey will benefit from its close proximity to the Middle East and its position between Europe and Asia. Strong East-West trade growth will boost Turkey's economy, and we expect the country's GDP growth to accelerate to 3.5% in 2013 and 5.4% in 2014. Growth should broaden out and exceed 5% in the medium term, as long as the large external deficits continue to be funded and domestic inflation is kept under control.

Turkey is gradually improving its links with the Middle East, a region that took around a quarter of the country's exports last year. This has helped to offset weaker demand from Europe.

Figure 16

#### Turkey: exports to ...



Source: Oxford Economics.

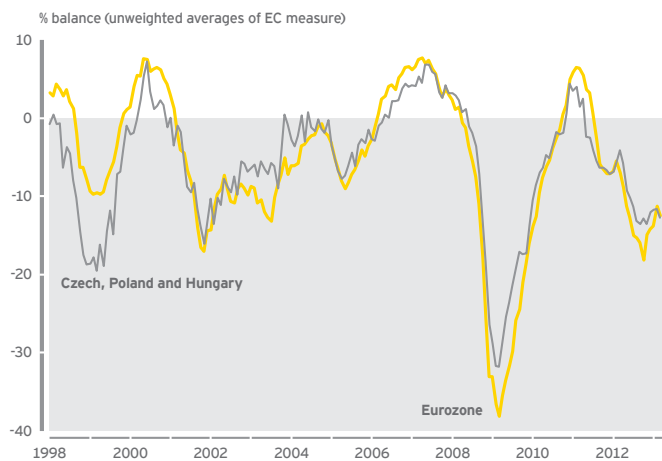


### Eastern Europe remains constrained by weakness in the Eurozone

However, RGMs elsewhere in Europe have been hit by ongoing woes in the Eurozone. Poland, with its large internal market, is less dependent on trade with Europe than many of its neighbors. But its economy has still been hit badly in recent months, prompting a series of interest rate cuts since November. We have nudged our forecast down slightly since the previous edition, and we now expect growth of 1.5% in 2013 and 2.8% in 2014.

Figure 17

#### Central and Eastern Europe: industrial confidence



Source: Haver Analytics.

We have also lowered slightly our 2013 forecast for GDP growth in Russia to 3.5% (from 3.6% in the last edition), following weaker than expected GDP growth in 2012. Recent data suggests that growth remains slightly under par, but we expect the economy to gather momentum gradually over the course of 2013 as external conditions improve.

### Conclusion

Our outlook for RGMs has changed little in the past three months. However, we think that the environment has improved and the risks are now more balanced than they have been for several years:

- ▶ We expect growth in the RGMs to accelerate from 4.7% in 2012 to 6.0% in 2014.
- ▶ Bright spots include Turkey and Southeast Asia – where strong trade prospects should support a firm recovery – as well as Chile and Mexico.
- ▶ Mainland China's growth should slightly increase this year and next, this should drive an improvement in global trade flows
- ▶ Activity in Brazil, India and Korea remains subdued.
- ▶ Growth in Poland and the Czech Republic continues to be held back by the Eurozone's weakness.





## The future dominant force in global trade

Box 5

### Currency fluctuations and the impact on the RGMs

Recent exchange rate volatility has initiated a discussion about competitive devaluation and so-called currency wars. Regardless of motivation, loose monetary policy – with the aim of stimulating domestic growth by reducing the cost of borrowing – tends to result in currency depreciation. This is illustrated by the recent experience of the US dollar, the sterling and the yen. The post-crisis experiment in quantitative easing (QE) that has been conducted by some developed-world countries is a new phenomenon. But the exchange rate swings it has prompted might be expected to affect export competitiveness, inflation rates and capital flows in RGMs. So far, however, the recent volatility has been mostly a developed world problem, with more limited effects seen on currencies in the RGMs.

#### The yen, the US dollar and sterling are depreciating, partly because of quantitative easing ...

Little more than a year ago, emerging market currencies were hit by weakening commodity prices and the sudden risk aversion of many global investors. Governments around the world were worried about the effects of currencies sliding – in some cases, like Indonesia, the authorities intervened to prop up the exchange rate.

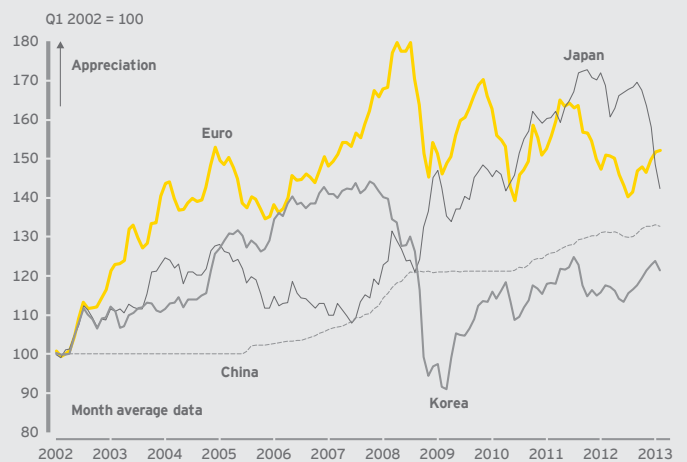
Now, the opposite is more likely to be the case. As industrialized economies have tried to boost growth prospects through monetary easing, their currencies have depreciated. Between January and March this year, for example, sterling has fallen over 5% against a trade-weighted basket of currencies.

In recent months, this effect has been particularly noticeable in Japan. Once it became apparent that the Japanese Government would instigate a program of quantitative easing, the yen began to fall. It shed nearly 14% of its trade-weighted value in just four months from November, prompting concern from some of Japan's trade competitors. But as figure 18 shows, the yen's recent devaluation – while sharp – only goes a little way toward correcting

its climb since 2007. We expect it to depreciate further, reaching around JPY100 to the US\$ by early 2015 (from JPY94 now).

Figure 18

#### Emerging Asia: exchange rates vs. US\$



Source: Haver Analytics.

#### ... but the fall-out for emerging markets has been limited so far

The US dollar has also fallen on a trade-weighted basis since the US Federal Reserve initiated QE in late 2008, reaching a low point in July 2011. Since then, it has recovered some of the lost ground. But as figure 19 shows, this is just a short interlude in a much longer downward trend that is also associated with more accommodative monetary conditions. However, from the perspective of emerging economies, these trends and volatilities are far less marked.

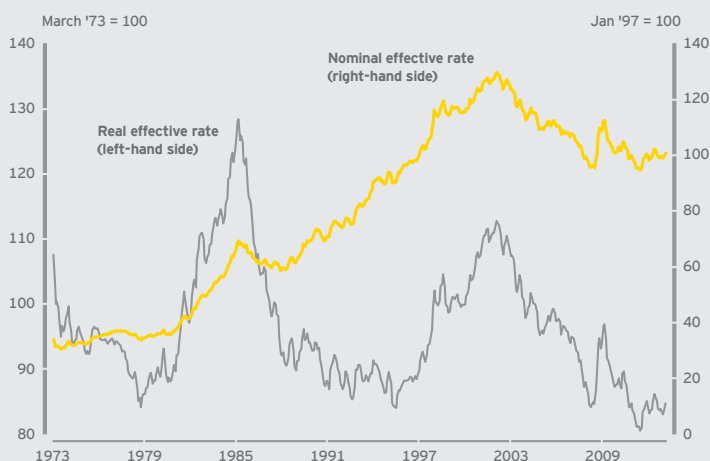


Box 5

### Currency fluctuations and the impact on the RGMs (continued)

Figure 19

US: Real and nominal effective exchange rates



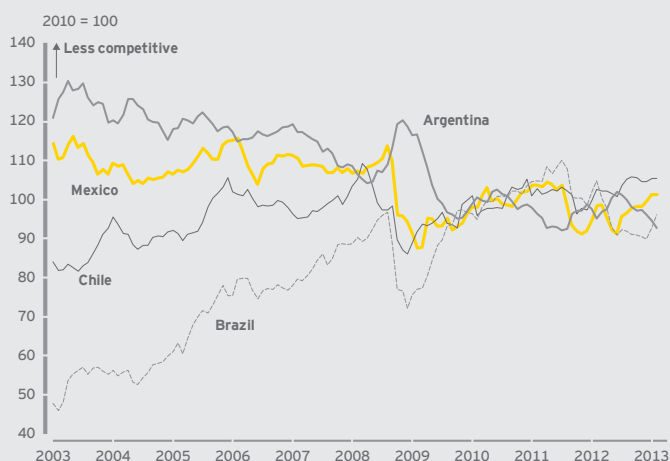
Source: Oxford Economics; Haver Analytics.

Among the BRIC economies, Russia's exchange rate has moved roughly in line with the euro, while China's and India's have responded to domestic factors (including intervention) rather than just appreciating as the yen and dollar fell. But Brazil, which has been suffering from an uncompetitive currency for some years, has seen another bout of appreciation, prompting renewed accusations of currency wars. Even with interest rates at a record low in Brazil, rates are still higher than in the majority of the RGMs, attracting international investors seeking the highest return. And Brazil's commodities offer further attractions.

The high exchange rate goes some way to explaining why growth in Brazil was only 0.9% last year, and why the economy continues to struggle compared with some of its neighbors such as Mexico.

Figure 20

Latin America: Real effective exchange rates



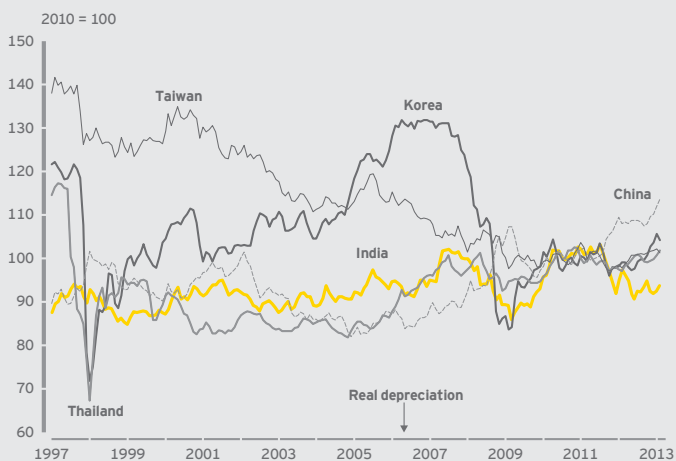
Source: Haver Analytics; Bank of International Settlements.

Asian RGMs are likely to be affected more by the recent weakness in the yen, particularly if they have close trading links with Japan or if they compete with Japanese companies in export markets. As figure 21 shows, the yen's weakness has damaged competitiveness in several countries, particularly South Korea and China. However, it is hard to identify the extent of the impact, given that most currencies were already on an upward trend. If these trends continue – and particularly if QE persists in the developed world after growth begins to pick up – we would expect to see more marked policy responses.



## The future dominant force in global trade

Figure 21  
**Emerging Asia: Real effective exchange rates**



Source: Haver Analytics; Bank of International Settlements.

### Persistent exchange rate appreciation would encourage policy responses

Most countries intervene from time to time to smooth exchange rate fluctuations or to control their currencies. Rising foreign exchange reserves tend to be a sign that the authorities are selling their local currency in an attempt to push down the exchange rate.

Weaker developed market currencies increase the attraction of emerging markets for foreign capital. Many RGMs have seen asset prices rising fast. But this pushes exchange rates up, eroding competitiveness and creating a policy dilemma. Tighter policy might contain growth, but it also makes the currency even more attractive to international investors. However, not tightening policy risks asset

price bubbles and inflation. This is particularly clear in the case of Brazil, where portfolio inflows have risen sharply, the currency has appreciated and this has held back the export sector – all at a time when world demand is already quite subdued.

A more stable approach is to encourage longer-term investment. Some RGMs have made good progress in this direction over the last decade. Indonesia has attracted high levels of private investment in recent years, enabling it to reduce its debt burden substantially and putting it in a much stronger fiscal position.

Other than in emerging Eastern Europe, we think there is little room for more policy easing without fueling inflation. The authorities in Brazil have cut interest rates to record lows and inflation is starting to pick up. In India, the central bank had to delay cutting rates until the start of this year, despite slower growth, because inflation was well above its target band. And the Russian authorities raised the policy rate last year in response to rising inflation pressures.

# Forecast for rapidly growing countries



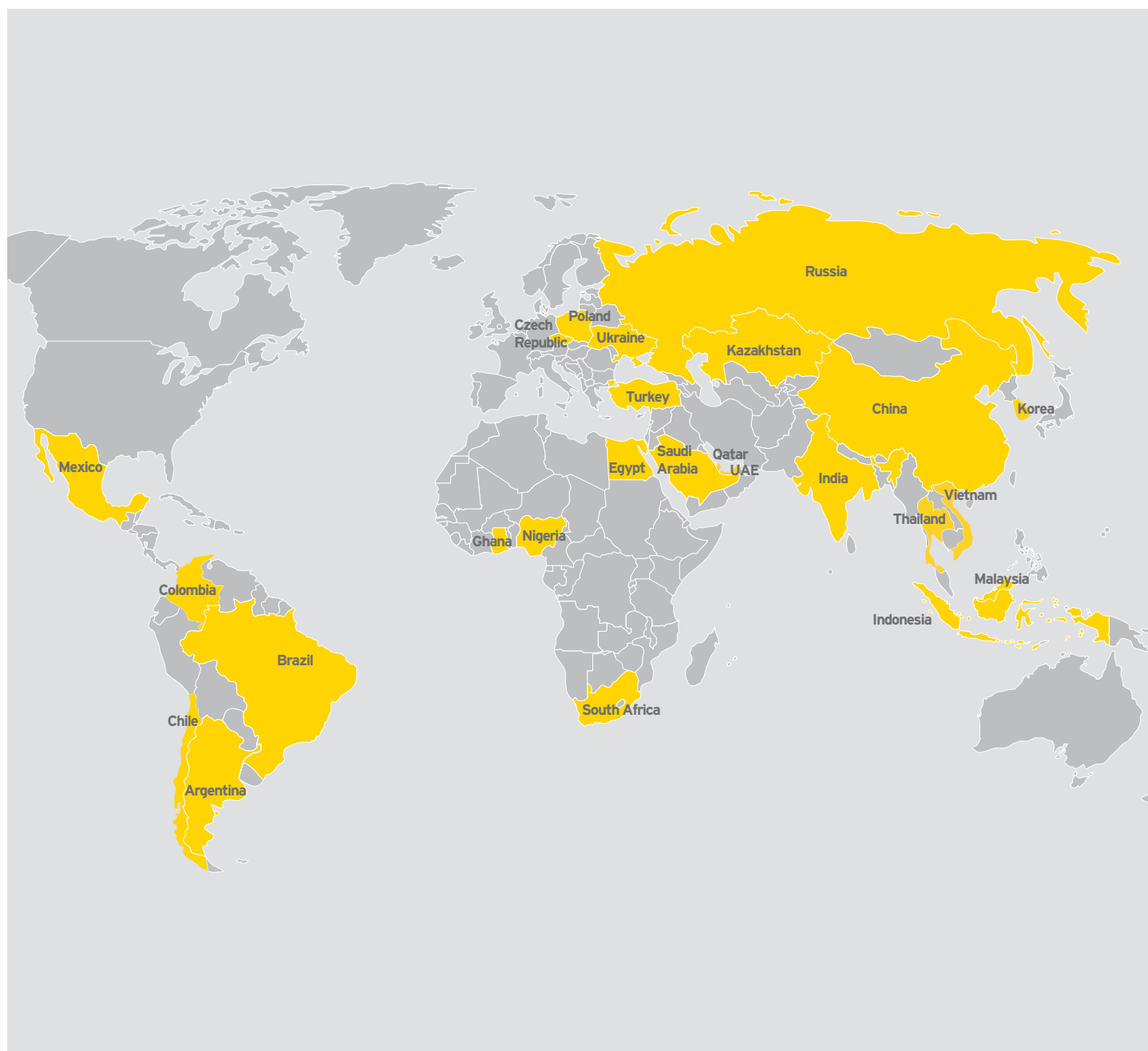
**Argentina**  
**Brazil**  
**Chile**  
**Mainland China and Hong Kong special administrative region (SAR)**  
**Colombia**  
**Czech Republic**  
**Egypt**  
**Ghana**  
**India**  
**Indonesia**  
**Kazakhstan**  
**Korea**  
**Malaysia**  
**Mexico**  
**Nigeria**  
**Poland**  
**Qatar**  
**Russia**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

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# Argentina

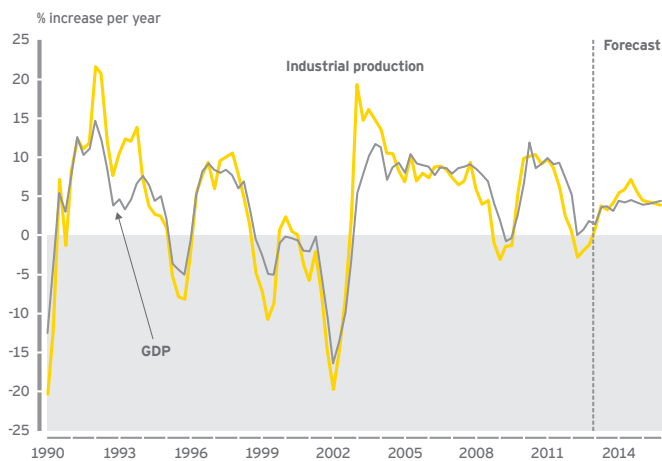
## Moderate pickup expected this year

Sales of agricultural products are expected to increase. The auto industry should also strengthen, as it benefits from exports to Brazil. It shrank last year as domestic demand cooled and import rules delayed the entry of foreign-made parts.

We expect GDP growth to pick up to 3% this year, from an estimated 1.9% in 2012. This is little changed from our view in the last edition. Our forecast assumes a better outlook for world growth and, in particular, faster expansion in Brazil, Argentina's main trading partner. This should result in a pickup in exports. We also expect investment to recover as confidence improves. In the medium term, GDP growth should be close to 4%.

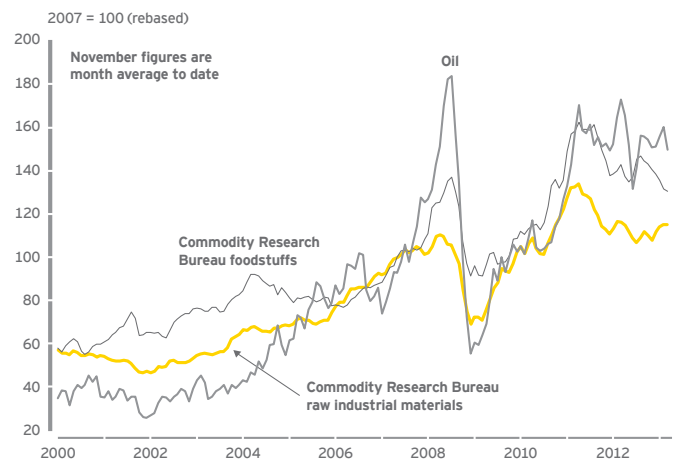
The opportunities for longer-term growth in Argentina depend in part on the ability of the authorities to contain high rates of inflation. The official CPI inflation rate averaged 10% last year and we expect it to remain over 10% both this year and next. Wages are struggling to keep up, which is holding back consumer demand. Argentina is rich in natural resources and has a well-educated workforce. So the outlook would improve if remedial measures can be put in place.

Figure 22  
GDP and industrial production



Source: Oxford Economics.

Figure 23  
World: commodity prices



Source: Commodity Research Bureau; Haver Analytics.

Table 1  
Argentina

Source: Oxford Economics.

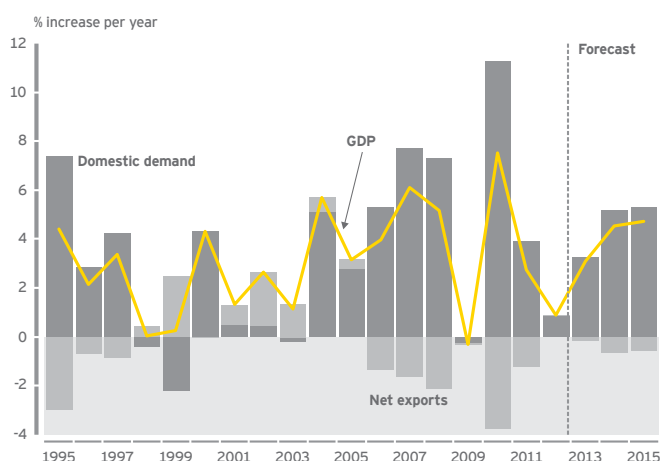
	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	8.9	1.9	3.1	4.1	4.4	3.8
CPI inflation (% per year)	9.8	10.0	11.0	10.2	9.7	9.5
Current account balance (% of GDP)	-0.4	0.1	0.2	-0.1	-0.1	-0.1
External debt total (% of GDP)	31.1	29.9	31.1	30.5	29.7	28.9
Short-term interest rate (%)	10.7	12.0	13.5	11.7	9.2	8.4
Exchange per US\$ (year average)	4.1	4.6	5.2	5.7	6.2	6.7
Government balance (% of GDP)	-1.6	-2.5	-1.8	-1.3	-0.9	-0.6
Population (millions)	40.8	41.2	41.5	41.9	42.2	42.6
Nominal GDP (US\$b)	444.7	475.1	473.7	494.6	521.2	547.5
GDP per capita (US\$ current prices)	10,897.6	11,540.7	11,409.4	11,812.0	12,344.0	12,863.9

## Time to rise to structural challenges

National accounts data reveals that the Brazilian economy grew by just 0.9% in 2012. We have downgraded our forecast for GDP growth in 2013 to 3.1% (previously 3.9%). Despite record low interest rates and efforts to boost the economy with tax cuts and credit incentives, companies remain reluctant to invest. The main barriers are high labor costs, an overvalued exchange rate and structural bottlenecks. Growth is therefore more likely to be promoted by reforms that enhance productivity than by additional demand stimulus.

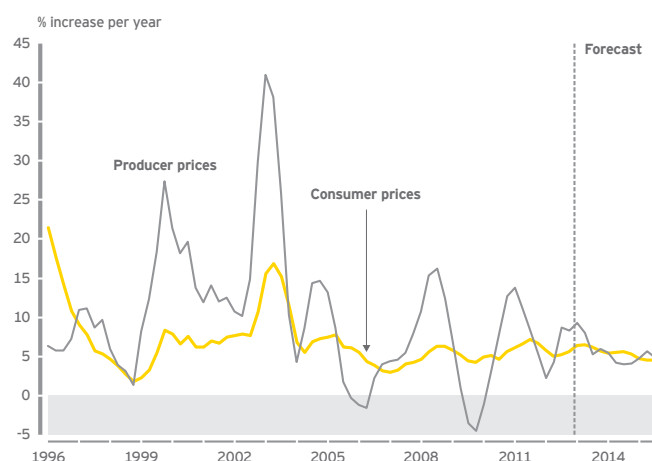
In the medium term, we expect the economy to grow by more than 4.5%. However, this rate of expansion is significantly slower than that expected in other large emerging market economies such as China and India. This reflects the structural challenges facing Brazil that need to be addressed by the authorities. But we are cautiously optimistic that the required shift in economic policy is under way. Recent measures include efforts to reduce the burden of taxation on private sector companies and the announcement that the Government will auction concessions for a series of new infrastructure projects this year. The Government needs to implement an effective program that attracts the investment required to address Brazil's infrastructure needs. If it does so, the prospects for larger, sustainable growth over the medium term will be stronger.

Figure 24  
Contributions to GDP growth



Source: Oxford Economics.

Figure 25  
Prices and earnings



Source: Oxford Economics.

Table 2  
Brazil

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	2.7	0.9	3.1	4.4	4.6	4.3
CPI inflation (% per year)	6.6	5.4	6.2	5.4	4.5	4.5
Current account balance (% of GDP)	-2.1	-2.4	-2.5	-2.3	-2.4	-2.3
External debt total (% of GDP)	11.8	13.4	13.1	13.2	13.2	13.2
Short-term interest rate (%)	11.7	8.5	7.9	8.7	8.7	8.7
Exchange per US\$ (year average)	1.7	2.0	2.0	2.0	2.2	2.3
Government balance (% of GDP)	-2.6	-2.5	-2.0	-1.9	-1.9	-2.0
Population (millions)	196.9	198.6	200.3	201.9	203.5	205.0
Nominal GDP (US\$b)	2,476.4	2,255.0	2,435.6	2,633.5	2,681.8	2,775.9
GDP per capita (US\$ current prices)	12,577.6	11,354.7	12,161.3	13,043.0	13,179.2	13,540.7

## Firm demand drives growth

Foreign capital is forecast to boost investment growth in the short term, while low inflation should buoy the real purchasing power of consumers. This, combined with ongoing employment growth, should mean that private consumption stays robust.

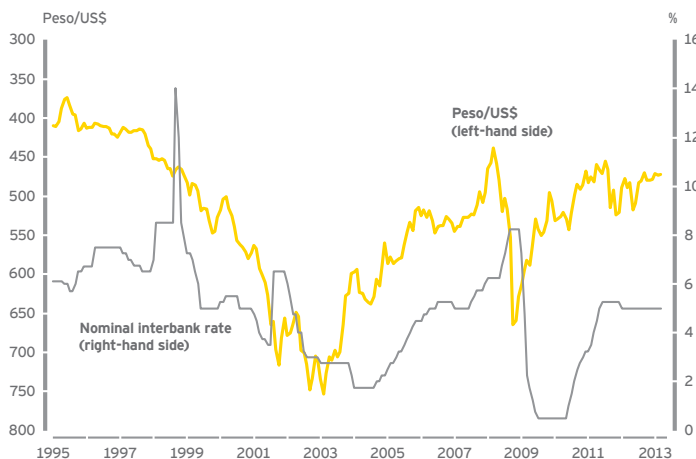
While inflation was just 1.5% in March, however, it was up from February – and we expect it to rise further toward the end of the year. This should prompt the central bank to raise interest rates from 5% in Q3 2013 to 5.75% by the middle of 2014.

We expect growth to become more balanced this year, with stronger demand from other rapid-growth markets supporting solid export growth (after a weak performance in 2012) and a moderate expansion in domestic demand. GDP is expected to rise by 4.9% this year and 4.6% in 2014, following estimated growth of 5.5% in 2012.

In the medium term, we expect growth to be underpinned by strong emerging market demand for Chile's exports, particularly copper, as well as the stable macroeconomic environment – which should help boost investment, productive capacity and living standards. But energy infrastructure bottlenecks could constrain economic growth in the long run, while the reliance on copper leaves the economy exposed to commodity price volatility in the near term.

Figure 26

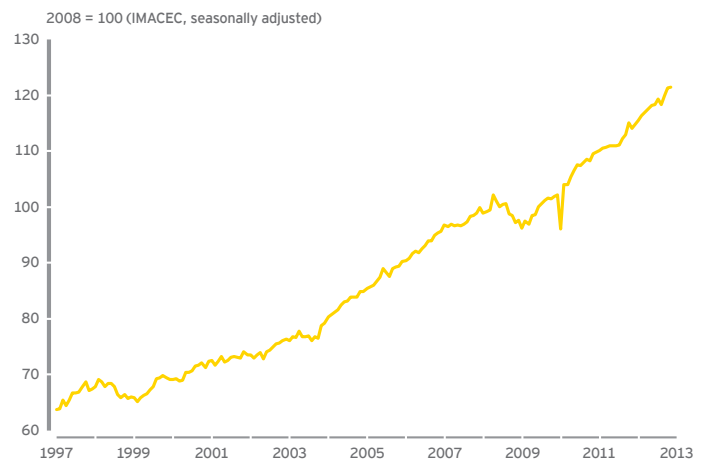
### Exchange and interest rates



Source: Banco Central de Chile; Haver Analytics.

Figure 27

### Monthly indicator of economic activity



Source: Haver Analytics.

Table 3  
Chile

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	5.9	5.5	4.9	4.6	4.5	4.2
CPI inflation (% per year)	3.3	3.0	2.6	3.3	3.0	3.0
Current account balance (% of GDP)	-1.3	-3.5	-3.5	-1.6	-0.2	0.3
External debt total (% of GDP)	36.1	37.5	35.7	35.2	34.7	34.0
Short-term interest rate (%)	4.9	5.0	5.0	5.6	5.7	5.8
Exchange per US\$ (year average)	483.7	486.5	475.5	489.9	500.5	508.4
Government balance (% of GDP)	1.5	0.6	0.9	0.7	0.5	0.4
Population (millions)	17.3	17.4	17.6	17.7	17.9	18.0
Nominal GDP (US\$b)	251.2	268.3	299.3	317.2	336.1	356.0
GDP per capita (US\$ current prices)	14,528.1	15,381.6	17,009.4	17,880.4	18,794.2	19,749.5



# Mainland China and Hong Kong special administrative region (SAR)

## Broad-based recovery gains momentum

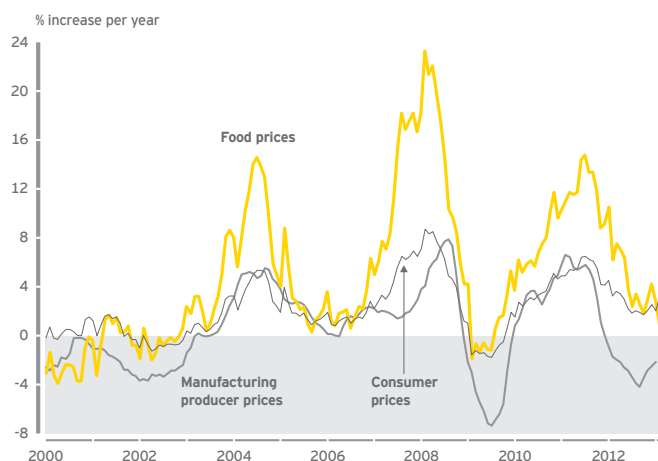
The latest data suggests that mainland China's economy carried high growth rates into 2013. Exports were up 23.6% year-on-year in January and February combined, with shipments to the EU and US improving sharply. International trade seems to be supporting industrial activity; the manufacturing Purchasing Managers Indexes (PMIs) remain in expansion territory.

We expect the new administration to maintain an accommodative fiscal and monetary policy to support the recovery. The government has announced US\$150b of infrastructure projects, which we expect to be implemented in 2013 and 2014. Last year's cuts in interest rates

and bank reserve requirements are leading to a gradual pickup in lending, and we expect the central bank to continue to limit the rate of appreciation of the renminbi.

The gain in momentum through 2013 is likely to be broad-based. The external sector is set to provide increased impetus. Exports to the EU, in particular, have been a drag on the economy. But, with prospects stabilizing in Europe and optimism rising in the US and the Asia-Pacific region, growth in China's key markets is likely to increase. This will boost exports and the industrial sector. We expect the economy to grow by more than 8% in the medium term.

Figure 28  
Mainland China: inflation



Source: China Bureau of Statistics; Haver Analytics.

Figure 29  
Hong Kong: stock market



Source: Hang Seng Index Services Limited; Haver Analytics.

Table 4  
Mainland China

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	9.3	7.8	8.2	8.5	8.2	8.0
CPI inflation (% per year)	5.4	2.6	3.0	3.6	3.6	3.2
Current account balance (% of GDP)	2.7	2.5	3.3	2.9	2.8	2.7
External debt total (% of GDP)	8.9	9.1	8.9	8.6	8.4	8.3
Short-term interest rate (%)	5.4	4.6	4.2	4.2	4.3	4.8
Exchange per US\$ (year average)	6.5	6.3	6.2	6.0	5.8	5.7
Government balance (% of GDP)	0.1	-1.8	-1.8	-1.1	-1.2	-1.2
Population (millions)	1,363.7	1,372.3	1,380.8	1,389.1	1,397.0	1,404.6
Nominal GDP (US\$b)	7,335.6	8,239.5	9,512.2	10,880.4	12,333.1	13,951.6
GDP per capita (US\$ current prices)	5,379.1	6,004.2	6,888.9	7,832.9	8,828.5	9,932.7

## Recovery in prospect as cyclical low passes

The authorities have trimmed policy interest rates regularly since the middle of last year (to 3.25% at the beginning of April). And with annual inflation remaining well under control, there is scope for further cuts if necessary to stimulate the economy. We also expect fiscal policy to be supportive in the run-up to presidential elections in 2014. The government may extend policy support to the industrial and construction sectors.

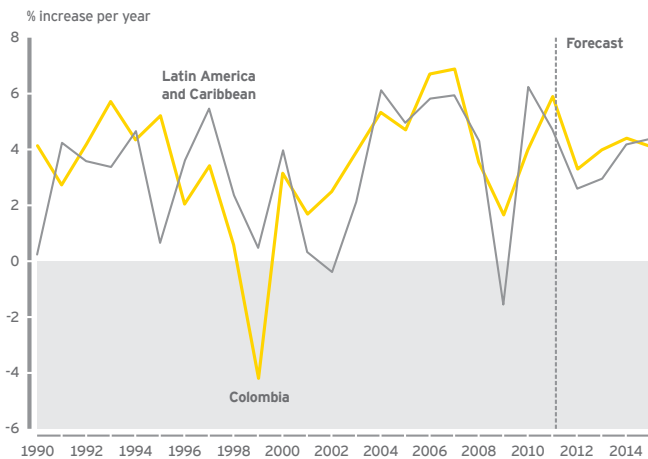
FDI flows to the energy and mining sectors reached over US\$13b last year, and should help ensure expansion in the longer term as the global outlook improves. Opportunities for growth from trade have also increased with the signing of a free trade agreement with South Korea this month and the prospect of one with the EU soon.

A prompt, successful outcome to peace negotiations between the Government and the FARC guerilla group would boost output and confidence – and attract more inward investment.

The pace of growth in Colombia has slowed over the past year as export growth was sluggish and industrial activity fell sharply in Q4. But we think the economy has now reached a cyclical low and will begin to pick up again during 2013, with growth averaging around 4%.

Figure 30

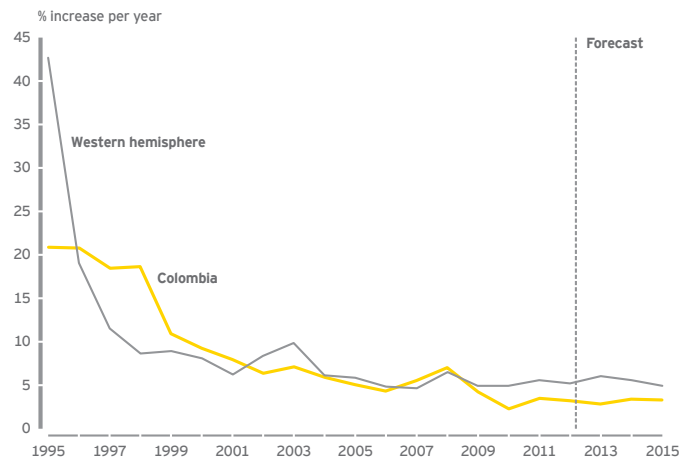
### Real GDP growth



Source: Oxford Economics.

Figure 31

### Inflation



Source: Oxford Economics.

Table 5  
Colombia

Source: Oxford Economics.

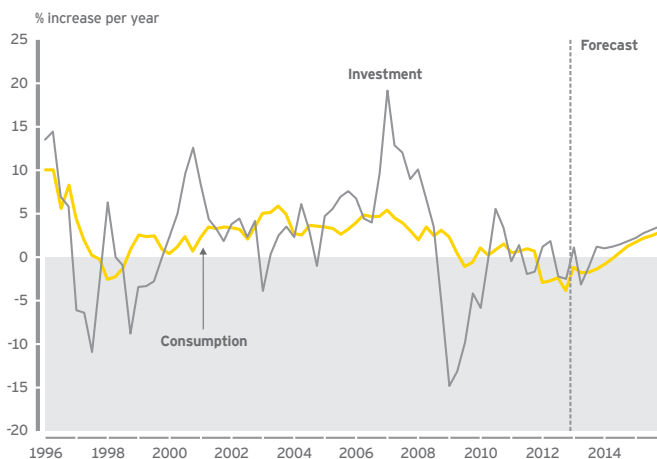
	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	6.6	4.0	4.0	4.4	4.1	4.0
CPI inflation (% per year)	3.4	3.2	2.4	3.2	3.3	3.3
Current account balance (% of GDP)	-3.0	-3.4	-3.9	-4.0	-3.8	-3.5
External debt total (% of GDP)	23.1	22.2	24.5	27.2	30.1	32.3
Short-term interest rate (%)	4.0	5.0	3.5	4.5	5.5	6.5
Exchange per US\$ (year average)	1,848.1	1,798.1	1,850.2	1,952.8	2,089.6	2,195.0
Government balance (% of GDP)	-2.1	-1.9	-1.7	-1.6	-1.5	-1.5
Population (millions)	46.9	47.5	48.1	48.8	49.4	49.9
Nominal GDP (US\$b)	333.2	369.8	382.7	390.7	392.6	401.6
GDP per capita (US\$ current prices)	7,102.2	7,781.3	7,950.8	8,013.7	7,953.3	8,042.3

## Rebalancing required as GDP decline continues

GDP fell 1.7% year-on-year in Q4 2012. This corresponds to a 1.2% decline for the full year and is in line with our expectations. Domestic demand will remain weak in 2013 due to ongoing government austerity and weak household spending. On a more positive note, we think that recovering demand from emerging markets and Eurozone countries will boost Czech exports later this year, partly offsetting the continued weakness in domestic demand. As a result, we think that GDP will fall by just 0.5% in 2013. However, the impact of government austerity could be more severe than anticipated. The Czech National Bank (CNB) has very limited scope to offset the negative impact of austerity measures because its key interest rate is zero.

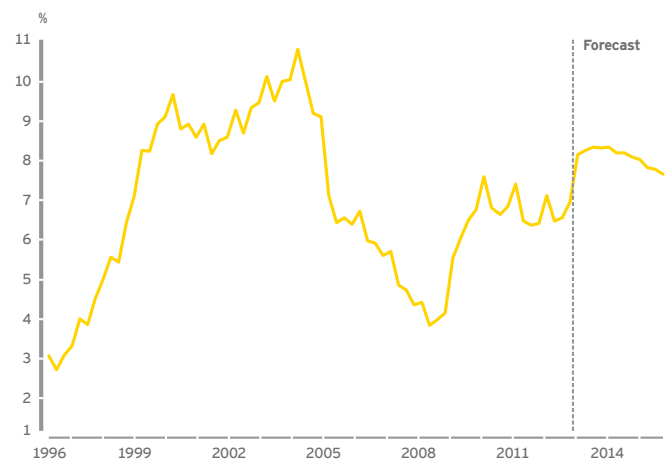
By 2015-16, we expect GDP growth to be about 3% – below the IMF projection of 3.4% growth – with this pace likely to be broadly maintained through the rest of the decade. The main constraint on expansion is the ageing population, which will cause the labor supply to decline and slow productivity growth. In addition, we believe that the current growth model of the Czech economy is very dependent on the external sector – exports, export-related investment and external financing – and the Czech economy needs to rebalance in the medium term. However, given the weak growth in the Eurozone, neither exports nor foreign direct investment are expected to return to pre-crisis growth rates in the medium term.

Figure 32  
Consumption and investment



Source: Oxford Economics.

Figure 33  
Unemployment



Source: Oxford Economics.

Table 6  
Czech Republic

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	1.9	-1.2	-0.5	1.9	2.7	3.0
CPI inflation (% per year)	1.9	3.3	2.2	1.9	2.2	2.1
Current account balance (% of GDP)	-2.7	-2.5	-2.3	-3.3	-3.5	-3.3
External debt total (% of GDP)	45.9	50.6	47.2	122.8	521.2	513.9
Short-term interest rate (%)	1.2	1.0	0.5	0.7	1.0	1.0
Exchange per US\$ (year average)	17.7	19.6	20.1	21.3	22.1	22.1
Government balance (% of GDP)	-3.7	-2.6	-1.9	-2.8	-2.4	-2.0
Population (millions)	10.5	10.5	10.5	10.5	10.5	10.5
Nominal GDP (US\$b)	217.2	196.4	192.2	187.2	189.6	199.8
GDP per capita (US\$ current prices)	20,691.1	18,693.6	18,290.6	17,807.7	18,051.3	19,044.5

## Uncertainty clouds economic outlook

The economic and political situation in Egypt continues to worsen. April's parliamentary election is unlikely to secure the political consensus that is needed to implement austerity policies. Such measures would eventually strengthen fiscal and external finances by winning IMF support and renewed aid inflows.

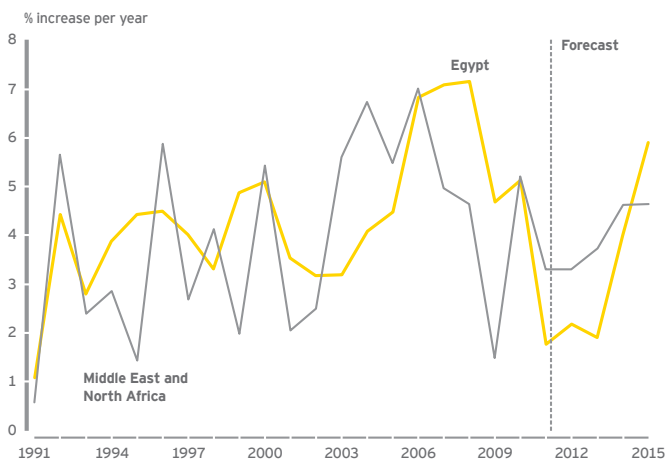
Foreign reserves are being drained by currency intervention, as well as by capital flight and negligible FDI flows. They are now below the critical level of three-month import cover.

Weak growth, high government spending and the lack of a political consensus continue to undermine public finances. Following the publication of new data, we now expect the budget deficit to widen to some 12% of GDP in 2012-13, from 10.7% in 2011-12. In the absence of fiscal consolidation, and given weak growth and high interest rates, debt sustainability is becoming an increasingly significant concern.

GDP grew by just 2.2% in Q4 2012. We expect growth of 1.7% in 2012-13 and 2.0% in 2013-14. These rates are well below the pace needed to reduce unemployment and stabilize public debt. We expect growth to exceed 5% in the medium term, but there are a number of risks to this forecast.

Figure 34

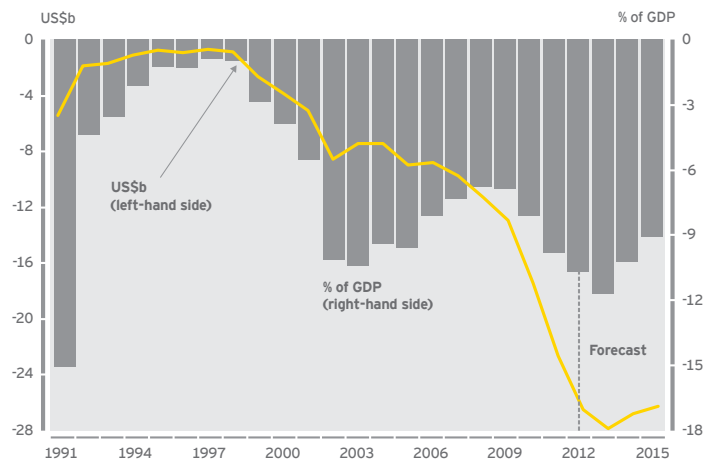
### Real GDP growth



Source: Oxford Economics.

Figure 35

### Government budget balance



Source: Oxford Economics.

Table 7

### Egypt

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	1.8	2.2	1.7	2.0	4.5	5.9
CPI inflation (% per year)	10.1	7.1	8.5	9.7	7.0	5.5
Current account balance (% of GDP)	-3.3	-2.0	-2.2	-1.9	-1.8	-1.6
External debt total (% of GDP)	15.5	15.5	17.2	16.9	16.3	15.7
Short-term interest rate (%)	14.0	12.2	10.5	9.5	8.0	7.5
Exchange per US\$ (year average)	5.9	6.1	7.0	7.2	7.4	7.6
Government balance (% of GDP)	-9.8	-10.7	-12.0	-11.6	-10.5	-9.8
Population (millions)	82.5	83.9	85.4	86.8	88.2	89.5
Nominal GDP (US\$b)	231.1	247.6	238.3	257.4	280.0	304.8
GDP per capita (US\$ current prices)	2,799.9	2,949.6	2,792.4	2,966.9	3,175.4	3,404.9

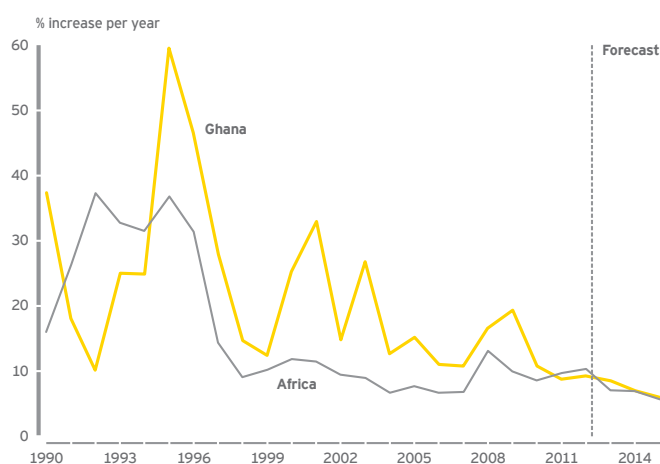
## Oil output to drive 7% GDP growth this year ahead of slight slowdown

Although under much better control than in the past, inflation has risen slightly since mid-2011. It has been driven by high world oil prices and cuts in fuel subsidies. In February 2013, inflation was close to 10%. High spending ahead of December 2012 elections lifted the budget deficit to about 7% of GDP last year. Together with surging imports and the depreciating currency, this may prevent any further decline in inflation. The Bank of Ghana raised interest rates by 250p in H1 2012 and has kept them unchanged since then.

The current account deficit climbed to almost US\$5b in 2012 as the trade deficit widened. But despite continued high import growth, we expect the deficit to fall this year as oil revenues build, with further declines seen in the next few years.

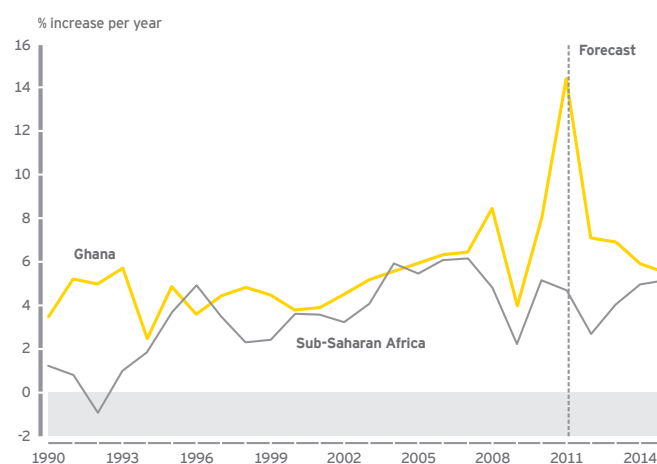
With the onset of oil production boosting activity, GDP growth rose to over 14% in 2011. The year-on-year rate peaked at over 20%. The pace has slowed since mid-2011 as the big boost to activity from oil dropped out of the calculations. But growth was still over 7% in 2012, and may be revised up as oil output surpassed expectations in Q4. As the increase in oil production slows, we forecast GDP growth of 6.9% in 2013 and then about 5% annually in 2014-16.

Figure 36  
Inflation



Source: Oxford Economics.

Figure 37  
Real GDP growth



Source: Oxford Economics.

Table 8  
Ghana

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	14.4	7.1	6.9	5.9	5.5	5.0
CPI inflation (% per year)	8.7	9.2	9.0	7.3	6.0	5.2
Current account balance (% of GDP)	-8.9	-12.6	-9.0	-4.7	-2.3	-2.3
External debt total (% of GDP)	28.8	36.9	40.0	39.5	37.5	36.2
Short-term interest rate (%)	-	-	-	-	-	-
Exchange per US\$ (year average)	1.5	1.8	1.9	2.0	2.0	2.1
Government balance (% of GDP)	-3.1	-12.0	-9.2	-6.9	-4.8	-4.2
Population (millions)	25.0	25.6	26.1	26.7	27.3	27.9
Nominal GDP (US\$b)	39.2	38.6	41.6	45.7	50.3	54.9
GDP per capita (US\$ current prices)	1,569.3	1,509.2	1,591.5	1,709.0	1,842.6	1,967.6

## Slow growth set to follow short-term slowdown

India's economy slowed further in Q4 2012. Annual growth was 4.5% year-on-year, down from 5.3% in Q3. Held back by weak external and domestic demand, the manufacturing sector grew by just 2.5%, while the pace of services expansion also slowed markedly, to 6% from 7.1% in Q3.

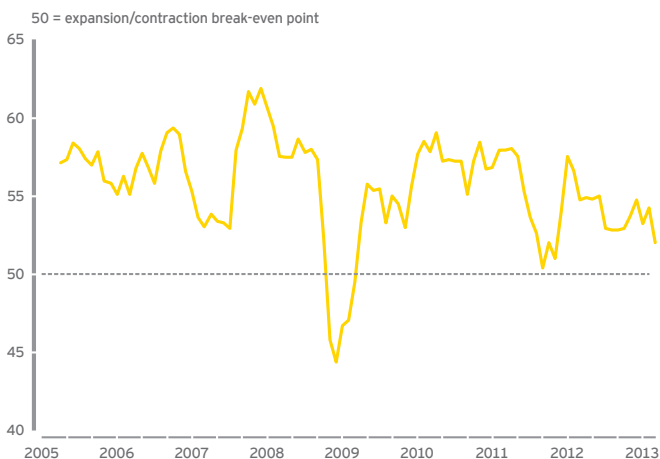
Looking ahead, we still expect momentum to build slowly this year. External demand is forecast to recover, with growth in the US and China set to increase. And domestic demand will benefit from a moderation in inflation and lower interest rates. The Indian Reserve Bank cut rates by 25bp at each of its last two monetary policy

meetings. But a challenging investment climate coupled with the weak finish to 2012 means that we now expect growth of 5.2% in 2013 – a downgrade from our previous forecast of 6%.

The pace of growth should accelerate over the medium term, supported by India's favorable demographics and the government's recent reforms, which will allow foreign firms access to the retail, airline and financial sectors. But strong political and interest group opposition may result in these reforms stuttering. More infrastructure investment is required and delivery mechanisms need to be made more efficient. If all of this can be achieved, annual trend growth could rise to at least 8%, up from our current forecast of 7%. p.a.

Figure 38

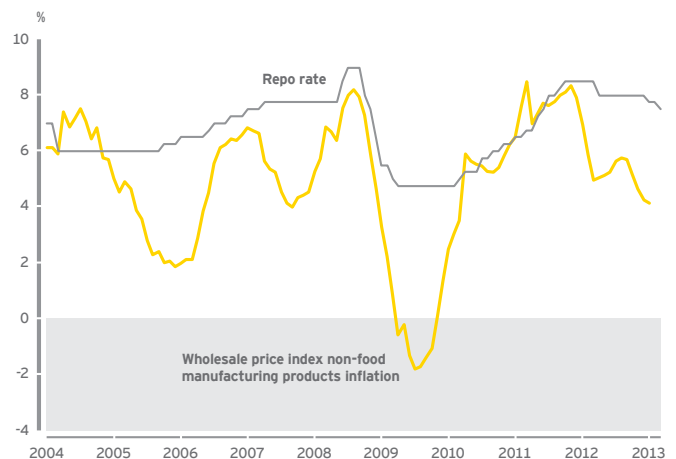
### HSBC manufacturing Purchasing Managers' Index (PMI)



Source: Markit.

Figure 39

### Interest rate and wholesale price index inflation



Source: Oxford Economics.

Table 9  
India

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	7.5	5.0	5.2	7.2	7.7	7.6
Wholesale price index (% per year)	9.5	7.5	5.0	4.4	4.3	4.2
Current account balance (% of GDP)	-3.4	-5.1	-4.9	-4.8	-4.9	-4.6
External debt total (% of GDP)	17.1	19.4	18.0	16.3	15.1	14.2
Short-term interest rate (%)	9.5	9.5	8.8	8.3	7.9	7.8
Exchange per US\$ (year average)	46.7	53.5	54.2	53.1	52.5	52.8
Government balance (% of GDP)	-6.7	-5.6	-5.7	-4.8	-4.1	-3.4
Population (millions)	1,232.8	1,249.0	1,265.0	1,280.7	1,296.1	1,311.2
Nominal GDP (US\$b)	1,864.2	1,826.9	2,052.0	2,349.7	2,666.9	2,963.4
GDP per capita (US\$ current prices)	1,512.2	1,462.7	1,622.2	1,834.7	2,057.7	2,260.0

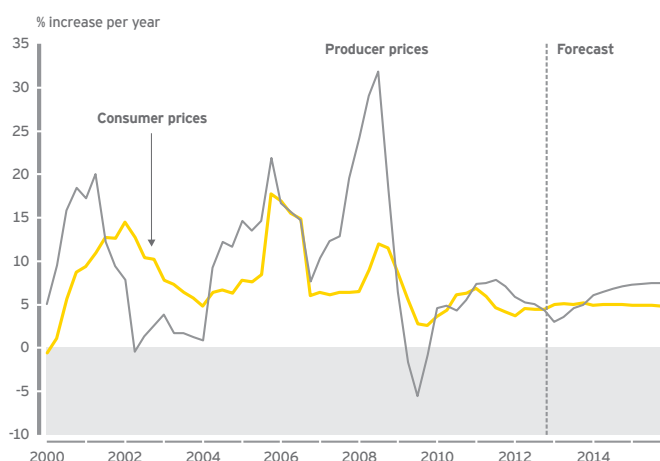
## Consumer confidence keeps economy on course

Annual GDP growth was 6.1% in Q4 2012, little-changed from 6.2% in Q3. Trade volumes picked up in line with the rest of East Asia, and we expect GDP growth of 6.1% in 2013, similar to last year.

Consumer spending has solid momentum, rising 5.4% on the year in Q4, while import volumes rose by 6.8% on the same basis. Consumer confidence was high in January, and we expect spending to remain buoyant.

In January, exports were lower than a year earlier. But they have since improved markedly, helped by stronger demand from the rest of Asia. Demand in Europe, though still very subdued, has also picked up in recent months.

Figure 40  
Inflation



Source: Oxford Economics.

Inflation rose to a 22-month high of 5.9% in March. Despite expectations that this year's harvest will be a good one, and will ease the pressure on food prices, broader inflationary concerns are likely to build as the economy picks up momentum. Having left rates on hold at its latest meeting in March, we expect the central bank to start raising interest rates in Q3 2013. And with commodity prices not expected to surge, the current account is likely to stay in deficit.

We expect the economy to grow by 6.0% in 2014, with strong domestic fundamentals supporting medium-term growth above 5.5%.

Figure 41  
Bank lending growth



Source: Bank Indonesia; Haver Analytics.

Table 10  
Indonesia

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	6.5	6.2	6.1	6.0	5.6	5.5
CPI inflation (% per year)	5.4	4.3	5.1	5.0	4.9	4.8
Current account balance (% of GDP)	0.2	-2.8	-2.2	-2.1	-1.7	-1.6
External debt total (% of GDP)	26.1	27.5	26.3	23.1	20.7	19.2
Short-term interest rate (%)	6.5	4.7	5.1	6.8	7.5	7.5
Exchange per US\$ (year average)	8,789.4	9,403.2	9,672.7	9,443.9	9,426.3	9,600.5
Government balance (% of GDP)	-1.1	-1.8	-1.7	-1.7	-1.4	-1.1
Population (millions)	235.3	237.7	240.0	242.3	244.5	246.6
Nominal GDP (US\$b)	844.9	876.4	950.8	1,083.3	1,201.7	1,304.6
GDP per capita (US\$ current prices)	3,591.0	3,687.5	3,961.8	4,471.6	4,915.6	5,290.8

# Kazakhstan

## High metal prices and ongoing fiscal stimulus support strong recovery

GDP growth is forecast to accelerate to 6% this year from about 5% in 2012. Activity will be supported by a small improvement in key export markets in China and the Eurozone, and by more favorable movements in metal prices. In addition, continued fiscal stimulus will also support domestic demand.

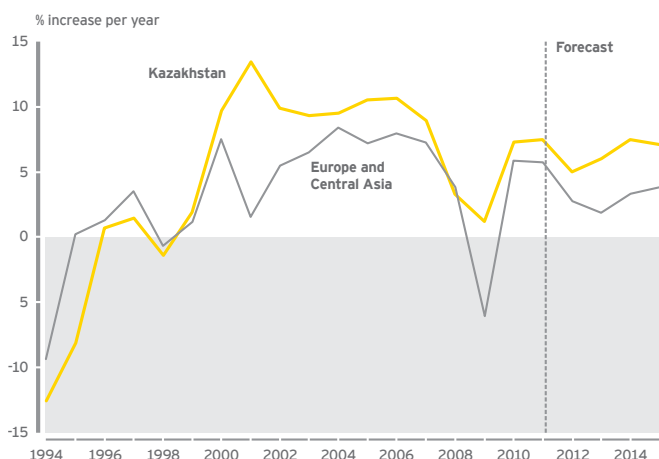
The current account surplus is forecast to fall further this year to less than 2% of GDP from 4.4% in 2012. Goods exports are forecast to rise by just 3.5% due to a 4.8% decline in the oil price. Import growth will remain more resilient at 13%. A small current account surplus is expected over the forecast period, underpinned by higher oil output.

Inflation is expected to edge up further this year on looser fiscal and monetary policy and gently rising global food prices.

Growth is expected to accelerate further to 7.5% in 2014 and to an average of 7% in 2014-16. This pickup will reflect a further strengthening in the global economy as well as output from the large Kashagan oil field. More modest rises in government spending and a more tightly regulated banking sector will keep growth below levels seen in 2000-07.

Figure 42

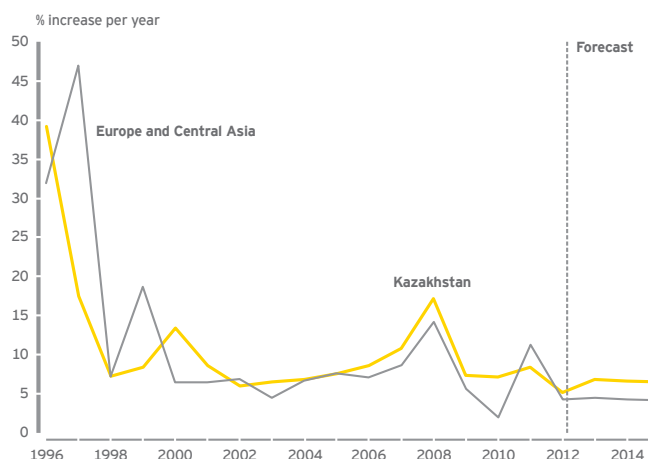
### Real GDP growth



Source: Oxford Economics.

Figure 43

### Inflation



Source: Oxford Economics.

Table 11

### Kazakhstan

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	7.5	5.0	6.0	7.5	7.1	6.7
CPI inflation (% per year)	8.3	5.1	7.1	7.0	6.5	6.3
Current account balance (% of GDP)	7.4	4.4	1.7	1.5	2.2	2.2
External debt total (% of GDP)	67.9	64.8	58.2	50.8	43.8	38.0
Short-term interest rate (%)	1.9	2.4	3.7	4.7	5.7	6.5
Exchange per US\$ (year average)	146.6	149.1	152.0	160.7	165.5	170.5
Government balance (% of GDP)	-3.3	-3.5	-3.1	-3.3	-3.5	-3.8
Population (millions)	16.2	16.4	16.5	16.7	16.9	17.0
Nominal GDP (US\$b)	183.1	200.7	219.0	238.3	263.9	290.5
GDP per capita (US\$ current prices)	11,304.3	12,259.1	13,240.4	14,258.6	15,629.0	17,042.1



## Modest recovery set to pick up through 2013

Our GDP growth forecast for 2013 is now 2.2%. This down from the 3.3% we predicted in the last forecast. The recovery in exports is still patchy and the domestic economy remains subdued.

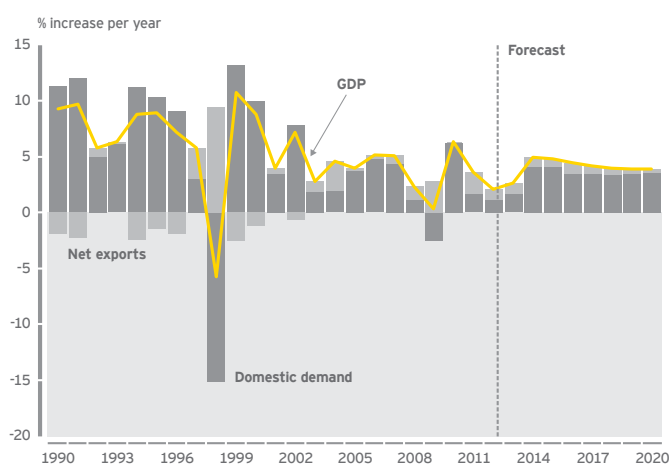
However, we continue to expect more robust growth during the remainder of the year and into 2014. Regional and global recoveries should gain momentum and encourage firms and households to raise their spending after a period of caution. Moreover, relaxed monetary and fiscal policies are likely to support the economy.

After two years of sub-trend 2%-3% growth, Korea is expected to expand annually by over 4% during 2014-16. This reflects the forecast improvement in the wider global economy, Korea's strong trading links with China, and its exporters' wide range of products and penetration of key markets.

However, the forecasts for 2014-16 are also more cautious than before, reflecting concerns about the lack of vigor in the domestic economy in recent years. And the actual outturns could still disappoint if consumers focus on reducing high debt levels, or ultra-loose monetary policy in the advanced economies leads to a significant appreciation in the South Korean Won.

Figure 44

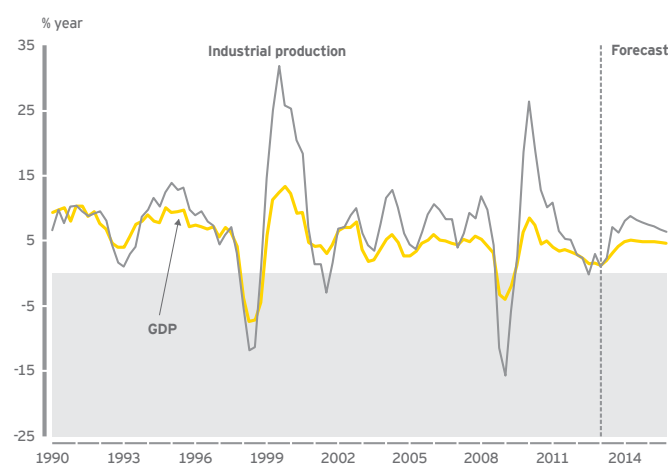
### Contributions to GDP growth



Source: Oxford Economics.

Figure 45

### GDP and industrial production



Source: Oxford Economics.

Table 12

### South Korea

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	3.7	2.0	2.2	4.6	4.2	4.1
CPI inflation (% per year)	4.0	2.2	2.0	2.7	2.6	2.6
Current account balance (% of GDP)	2.3	3.8	3.1	1.9	1.3	1.1
External debt total (% of GDP)	35.4	36.8	34.7	32.2	30.3	28.6
Short-term interest rate (%)	3.4	3.3	2.7	3.3	4.7	4.9
Exchange per US\$ (year average)	1,108.2	1,126.8	1,100.4	1,090.2	1,090.8	1,094.0
Government balance (% of GDP)	1.5	0.4	-0.6	-0.2	0.0	0.0
Population (millions)	48.7	48.8	48.9	49.1	49.2	49.3
Nominal GDP (US\$b)	1,115.0	1,129.8	1,199.7	1,292.2	1,373.3	1,454.3
GDP per capita (US\$ current prices)	22,907.7	23,144.8	24,512.0	26,339.1	27,932.6	29,526.5

## Domestic activity robust as export demand improves

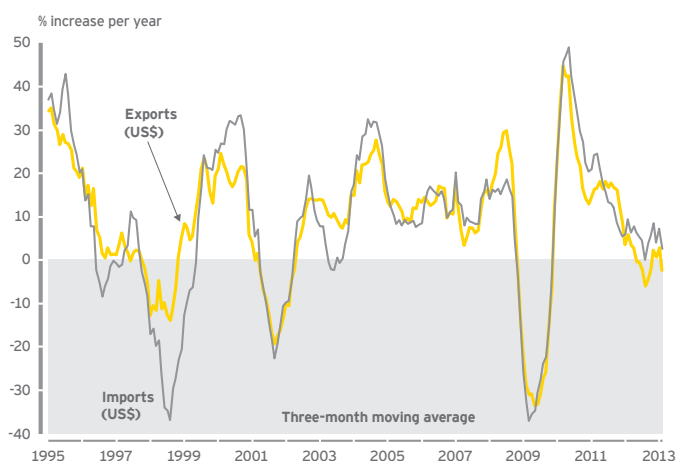
We now expect a more pronounced recovery in the second half of the year, so we have raised our 2013 GDP growth forecast from 4.3% to 5.0%. With China recovering, external demand will start to pick up. Meanwhile, the domestic side of the economy remains robust even though the pace of spending growth will be slower than that seen in 2012.

An election is due to be called before the end of April. The current Prime Minister has been a strong advocate of reform, but more remains to be done, including addressing the budget deficit.

Inflation has been very moderate in recent months, but if the external threats recede further and price pressures begin to pick up, we expect the bank to start tightening policy during H2 2013.

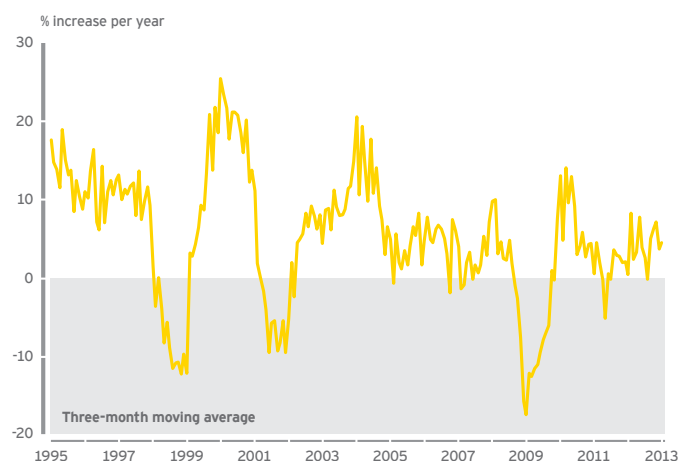
Recently, unemployment has fallen below 3%. A healthy labor market and robust average earnings growth should ensure that strong consumer spending and domestic demand drive medium-term growth of at least 4.5%.

Figure 46  
Exports and imports



Source: Department of Statistics.

Figure 47  
Industrial production



Source: Department of Statistics.

Table 13  
Malaysia

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	5.1	5.6	5.0	5.1	4.6	4.5
CPI inflation (% per year)	3.2	1.7	2.0	2.8	3.0	3.0
Current account balance (% of GDP)	11.0	6.4	4.5	3.9	4.0	4.0
External debt total (% of GDP)	31.6	34.5	35.7	35.7	36.0	36.2
Short-term interest rate (%)	2.9	3.0	3.1	3.4	3.6	3.6
Exchange per US\$ (year average)	3.1	3.1	3.1	3.0	3.0	3.0
Government balance (% of GDP)	-4.7	-5.1	-4.3	-3.4	-3.1	-3.0
Population (millions)	28.4	28.8	29.3	29.7	30.1	30.5
Nominal GDP (US\$b)	288.1	303.9	328.3	357.2	385.6	415.7
GDP per capita (US\$ current prices)	10,143.8	10,537.4	11,218.1	12,033.8	12,812.3	13,629.3

## Momentum set to build in 2013

Momentum in Mexico's economy has slowed in recent months, with exports falling 4.9% on the month in January and industrial production dropping 2.1% in December. The slowdown in the economy, combined with the US sequester and falling core inflation, prompted the central bank to cut its policy rate by 50bp in March – the first cut since 2009. However, we now expect GDP to grow by 3.5% this year.

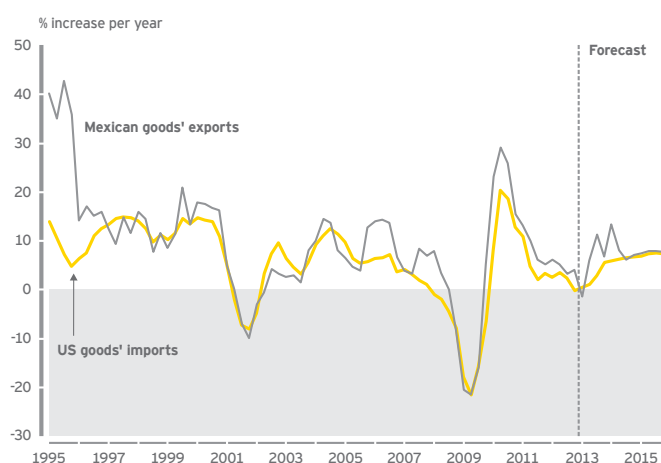
The gentle acceleration of growth this year will be driven by a steady improvement in both external and domestic demand. Despite the enactment of the sequester, demand in the US is expected to build momentum, and Mexico's exports will also be supported by the

competitive level of the exchange rate. Growth in consumer spending is also expected to accelerate, helped by low inflation and an expected improvement in the labor market.

President Nieto's Government has already begun to introduce wide-ranging reforms to improve the functioning of the labor market and break up the monopoly in the telecoms sector. It also plans to widen the tax base and open up the oil sector. Mexico's medium-term prospects are bright, with favorable demographics and the country's high level of openness to trade set to stimulate spending and growth. Indeed, Standard and Poor's ratings agency recently upgrading its outlook for Mexico from stable to positive.

Figure 48

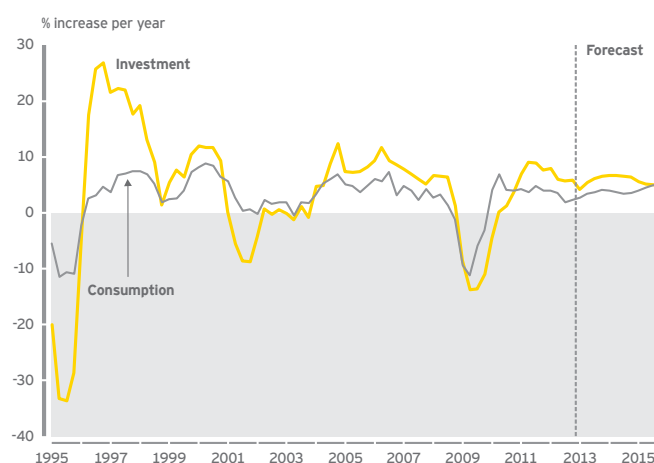
### Merchandise trade: US vs. Mexican growth



Source: Oxford Economics.

Figure 49

### Consumption and investment



Source: Oxford Economics.

Table 14  
Mexico

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	3.9	3.9	3.5	4.8	4.5	4.3
CPI inflation (% per year)	3.4	4.1	3.7	3.6	3.4	3.2
Current account balance (% of GDP)	-0.8	-0.8	-1.2	-1.0	-1.0	-1.1
External debt total (% of GDP)	23.4	25.1	23.2	22.5	22.2	21.9
Short-term interest rate (%)	4.4	4.4	4.1	4.5	4.9	5.3
Exchange per US\$ (year average)	12.4	13.2	12.5	12.6	12.9	13.2
Government balance (% of GDP)	-1.9	-2.2	-2.3	-2.4	-2.4	-2.5
Population (millions)	115.0	116.3	117.6	118.9	120.2	121.4
Nominal GDP (US\$b)	1,160.3	1,177.5	1,329.9	1,425.0	1,503.2	1,582.0
GDP per capita (US\$ current prices)	10,093.5	10,124.3	11,305.0	11,980.5	12,504.6	13,026.5

# Nigeria

## GDP growth to stay close to 6.5% in 2013 as oil sector struggles

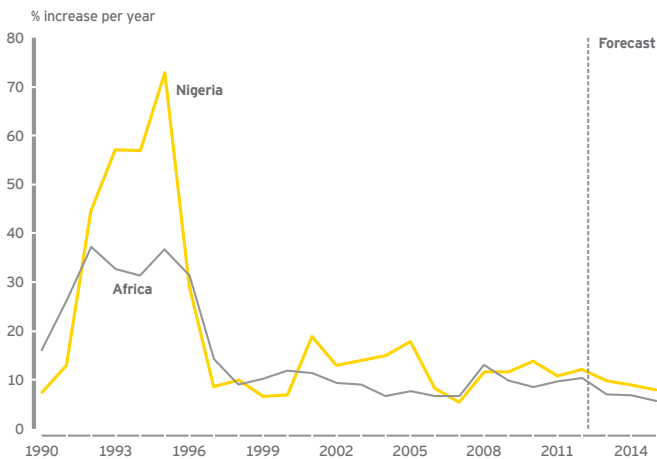
GDP growth was 7% in Q4 2012, a little lower than the corresponding quarter in 2011. Overall growth in 2012 was 6.5%. The non-oil sector remains buoyant, rising 8.2% on the year in Q4. But the oil sector posted a decline of about 4% in 2012, as it suffered from the worst flooding in 50 years. Oil output is expected to maintain current levels in 2013, as it is limited by weak global demand and an expected 5% drop in price. GDP growth is forecast to remain at 6.5%.

Inflation remained high in 2012, averaging 12.2% – with core inflation close to 14%. Although the headline rate dipped to 9.6% in February, the Central Bank of Nigeria again kept interest rates on hold at its

January policy meeting. The decision reflected concerns about high spending by the states and the uncertain global backdrop.

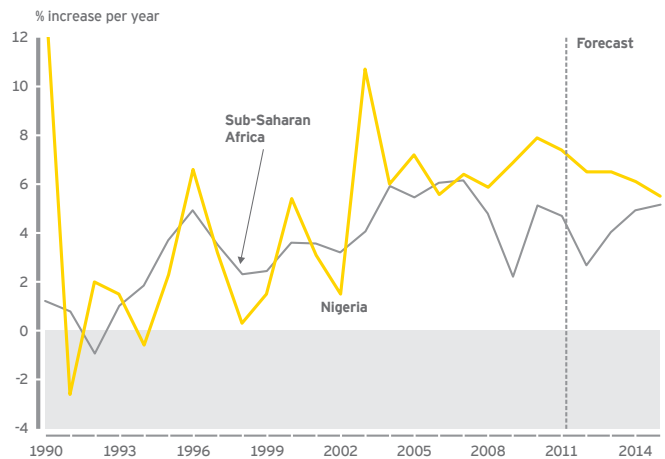
Despite the flooding, strong oil exports still helped to lift the current account surplus to about US\$10b in 2012, despite rising imports and heavy income and services outflows. With world oil prices expected to ease and imports continuing to rise, the surplus is forecast to fall back in 2013. But reserves have risen to over US\$47b. The external position should remain solid, as it is underpinned by high oil revenues. In turn, annual GDP growth should reach 5%-6% over the medium term.

Figure 50  
Inflation



Source: Oxford Economics.

Figure 51  
Real GDP growth



Source: Oxford Economics.

Table 15  
Nigeria

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	7.4	6.5	6.5	6.1	5.5	5.1
CPI inflation (% per year)	10.8	12.2	9.7	9.0	8.0	8.0
Current account balance (% of GDP)	3.8	4.0	1.4	0.7	0.6	0.5
External debt total (% of GDP)	5.8	5.0	4.6	4.3	4.0	3.8
Short-term interest rate (%)	10.6	14.2	11.5	9.5	8.0	7.0
Exchange per US\$ (year average)	154.7	156.8	159.8	163.1	166.2	170.5
Government balance (% of GDP)	-3.1	-3.1	-3.9	-3.1	-2.2	-1.3
Population (millions)	162.7	167.0	171.2	175.5	179.8	184.6
Nominal GDP (US\$b)	227.0	267.6	306.7	347.7	388.8	430.0
GDP per capita (US\$ current prices)	1,395.2	1,602.7	1,791.0	1,981.0	2,162.4	2,329.5

## Lower rates support growth but outlook remains challenging

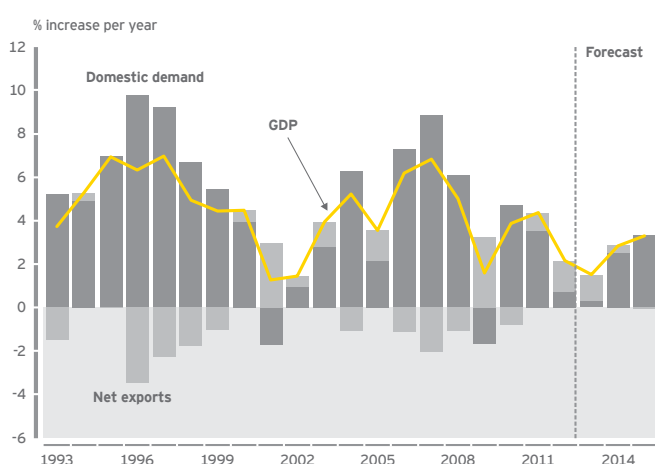
Real GDP rose by 0.2% on the quarter in Q4 2012, on a seasonally and working-day adjusted basis, in line with our forecast. Growth was again underpinned by net trade, with domestic demand still very weak as both consumption and fixed investment contracted further.

Since our last edition, we have marginally downgraded our forecast for 2013 real GDP growth to 1.5% (previously 1.6%). The move reflects slightly weaker base effects following revisions to the national accounts, with the quarterly growth profile this year unchanged. Recent data releases suggest that activity is beginning to pick up.

But we expect the recovery this year to be gradual, reflecting both the very modest rebound in Eurozone growth and structural factors that will undermine domestic demand.

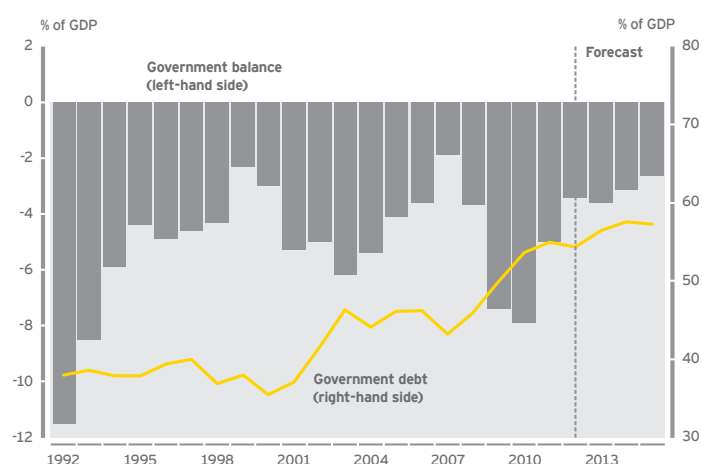
In the medium term, we expect growth to gradually pick up to just over 3.5%. This reflects a combination of sound fundamentals, particularly in the banking sector, and the existence of spare capacity following the recent slowdown. In contrast to the pre-2008 period, persistent deleveraging by foreign parent banks will drag on the availability of credit. However, the scope for domestic deposit growth remains significant.

Figure 52  
Contributions to GDP growth



Source: Oxford Economics.

Figure 53  
Government budget balance and debt



Source: Oxford Economics.

Table 16  
Poland

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	4.4	2.2	1.5	2.8	3.3	3.6
CPI inflation (% per year)	4.2	3.7	1.7	2.5	2.5	2.5
Current account balance (% of GDP)	-4.9	-3.5	-2.5	-2.8	-3.2	-3.3
External debt total (% of GDP)	66.9	71.4	77.5	82.2	83.6	82.0
Short-term interest rate (%)	4.3	4.7	3.4	3.5	3.7	4.2
Exchange per US\$ (year average)	3.0	3.3	3.2	3.3	3.4	3.3
Government balance (% of GDP)	-5.0	-3.4	-3.6	-3.1	-2.7	-2.2
Population (millions)	38.5	38.6	38.6	38.6	38.6	38.6
Nominal GDP (US\$b)	514.9	490.2	513.9	526.3	553.0	599.1
GDP per capita (US\$ current prices)	13,362.8	12,713.3	13,321.0	13,632.2	14,324.9	15,523.6

## Growth set to rebound after weak 2013

Another year of weaker growth is in store for 2013, with GDP forecast to rise 5%. This compares with an estimated 6% in 2012. Strong government spending will continue to drive the non-oil sector, albeit at a slower pace. Heavy infrastructure investment and high recurrent spending will increase significantly. Growth is expected to rise to 6% in 2014, mainly because of higher liquefied natural gas production.

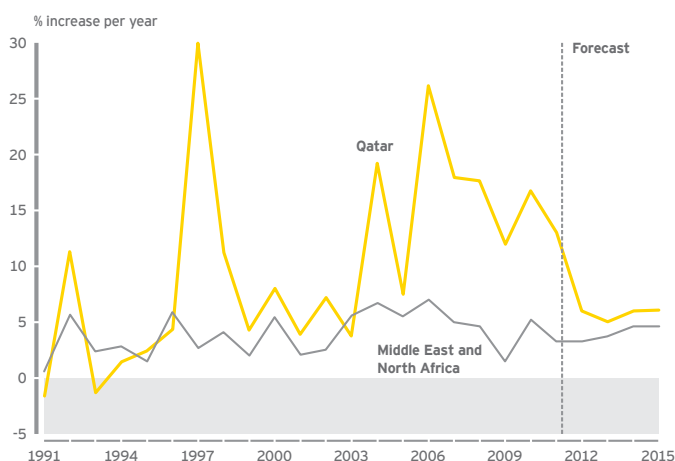
The budget surplus in July-September was surprisingly large, as revenues jumped 74%. We now expect the fiscal surplus to be just over 10% of GDP in 2012-13, well above the consensus. Even so, the surplus is forecast to narrow to 5.5% of GDP in 2013-14, due to strong infrastructure spending and less favorable hydrocarbon trends.

Consumer prices jumped 0.7% in January on the back of another large rise in rentals. This pushed annual inflation up to 3.4%. Inflation is forecast to average 3.7% this year and 4.2% in 2014, fuelled by further rises in rentals and higher food prices.

Annual GDP growth is set to average 6% over the medium to long term. The main risks relate to failure to control potential overheating in the real estate market, high government spending and potential large falls in hydrocarbon prices.

Figure 54

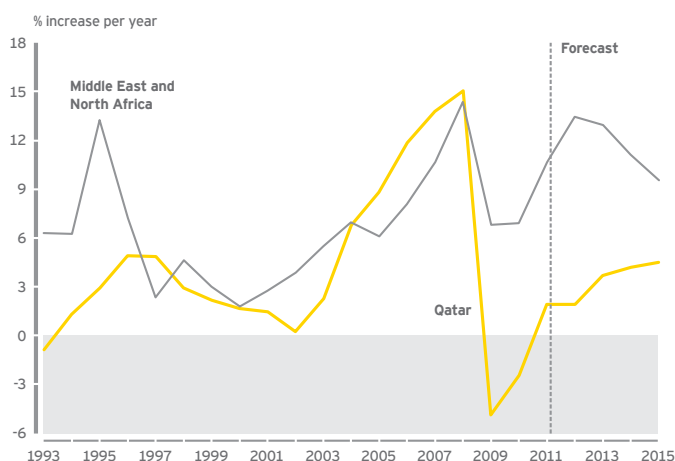
### Real GDP growth



Source: Oxford Economics.

Figure 55

### Inflation



Source: Oxford Economics.

Table 17

### Qatar

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	13.0	6.0	5.0	6.0	6.1	6.0
CPI inflation (% per year)	1.9	1.9	3.7	4.2	4.5	4.0
Current account balance (% of GDP)	30.0	28.1	24.2	21.3	20.0	18.6
External debt total (% of GDP)	50.4	41.0	37.8	34.5	31.3	28.5
Short-term interest rate (%)	-	-	-	-	-	-
Exchange per US\$ (year average)	3.6	3.6	3.6	3.6	3.6	3.6
Government balance (% of GDP)	8.6	10.2	5.7	5.1	5.1	6.5
Population (millions)	1.8	1.9	1.9	2.0	2.0	2.1
Nominal GDP (US\$b)	173.5	206.9	224.4	240.9	260.7	280.8
GDP per capita (US\$ current prices)	95,666.0	110,708.7	116,689.7	121,752.1	128,255.3	135,886.3

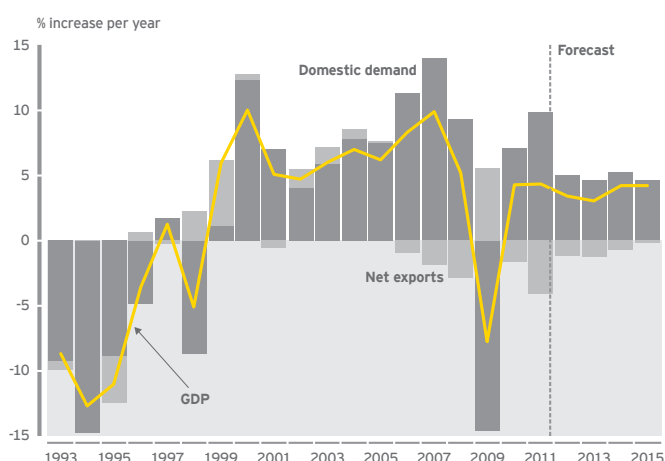
## Weak data trims expectations

The first estimate indicates full-year real GDP growth of 3.4% in 2012. We have slightly revised down our forecast for real GDP growth this year to 3.5% from the 3.6% envisaged in the previous edition. In addition to the disappointing Q4 growth figures, industrial production and retail sales data in January were both surprisingly weak. However, the strength of Purchasing Managers Index (PMI) readings casts some doubt over the validity of the industrial production figures.

Our baseline forecast remains that growth will pick up gradually throughout the year, reflecting improvements in the global economic outlook. We think that risks remain skewed to the downside, although the tail risk associated with a Eurozone break-up has receded since the last forecast.

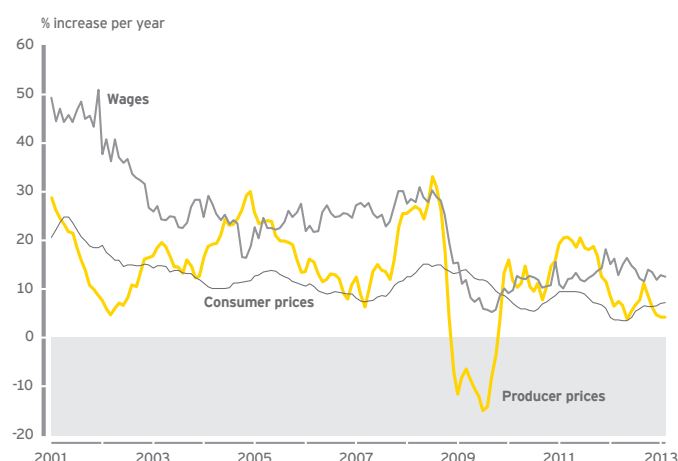
In the medium term, the economy's poor demographic profile together with a fairly limited pace of policy reform will constrain real GDP growth to around 4%. We think that the risks are broadly balanced. However, if a more ambitious modernization program is implemented, the pace of medium-term growth could be faster.

Figure 56  
Contributions to GDP growth



Source: Oxford Economics.

Figure 57  
Inflation



Source: Federal State Statistics Service; Haver Analytics.

Table 18  
Russia

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	4.3	3.4	3.5	4.0	4.1	4.1
CPI inflation (% per year)	8.4	5.1	6.2	5.4	5.7	5.4
Current account balance (% of GDP)	5.3	3.9	1.8	1.4	0.9	0.2
External debt total (% of GDP)	28.1	29.8	32.5	34.2	35.5	36.4
Short-term interest rate (%)	5.6	7.2	8.0	8.1	7.4	7.3
Exchange per US\$ (year average)	29.4	31.1	31.1	31.9	32.5	33.1
Government balance (% of GDP)	2.1	-0.1	-0.5	-0.7	-0.8	-0.8
Population (millions)	142.8	142.7	142.5	142.4	142.2	142.0
Nominal GDP (US\$b)	1,897.2	2,012.3	2,129.9	2,294.6	2,465.6	2,654.6
GDP per capita (US\$ current prices)	13,286.5	14,105.2	14,943.7	16,115.7	17,338.2	18,693.6

# Saudi Arabia

## Oil output downgraded, but non-oil growth still robust

We now expect GDP growth to slow to 4.3% this year from close to 7% in 2012. This downgrade is largely attributable to lower oil output. Production of oil has slowed in Saudi as a result of subdued growth in global demand and additional supply coming online from Libya, Iraq and North Korea.

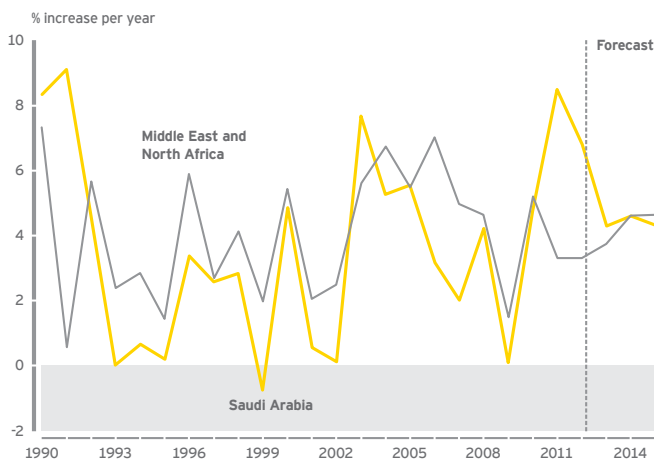
Alongside the fall in oil output, a 6.5% decline in regional oil prices in 2013 will contribute to a narrowing current account surplus – to 17% of GDP in 2013, from over 25% of GDP in 2012. Oil GDP is expected to bounce back in 2014, as global demand strengthens and rises in natural gas production and energy-related investment take effect. In

the medium term, Saudi Arabia will benefit from an upward trend in oil prices and rapid growth in energy-intensive emergers. But price volatility continues to be a key concern, especially where fiscal balances are concerned.

For the non-oil sector, our growth forecasts remain unchanged at 6% for 2013 and 4.6% for 2014. Stability is supported by accommodative fiscal and monetary policy. Given these factors, inflation is a medium-term risk, though new rental regulations and increased housing supply should prevent it from taking off in the near term.

Figure 58

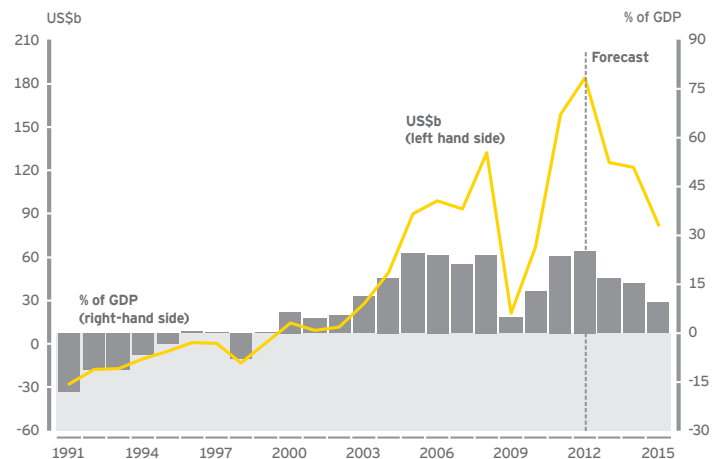
### Real GDP growth



Source: Oxford Economics.

Figure 59

### Current account balance



Source: Oxford Economics.

Table 19

### Saudi Arabia

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	8.5	6.8	4.3	4.6	4.3	4.0
CPI inflation (% per year)	5.0	4.5	4.1	4.0	3.8	3.8
Current account balance (% of GDP)	23.7	24.7	16.9	15.1	14.0	13.4
External debt total (% of GDP)	13.0	12.3	12.1	11.1	10.1	9.2
Short-term interest rate (%)	0.7	0.9	0.7	0.8	1.0	1.5
Exchange per US\$ (year average)	3.8	3.8	3.8	3.8	3.8	3.8
Government balance (% of GDP)	11.6	13.7	8.4	5.3	2.7	1.0
Population (millions)	28.1	28.7	29.3	29.9	30.5	31.1
Nominal GDP (US\$b)	669.5	727.3	746.5	802.6	868.1	927.0
GDP per capita (US\$ current prices)	23,854.7	25,355.8	25,475.5	26,826.4	28,426.6	29,770.6



## Domestic activity drives growth but external sector picks up

GDP growth surprised slightly on the upside in Q4, rising 0.5% on the quarter. Continuation of a reasonable rate of domestic demand growth and a modest increase in exports is expected to result in 2.8% GDP growth for 2013, up from 2.5% in 2012.

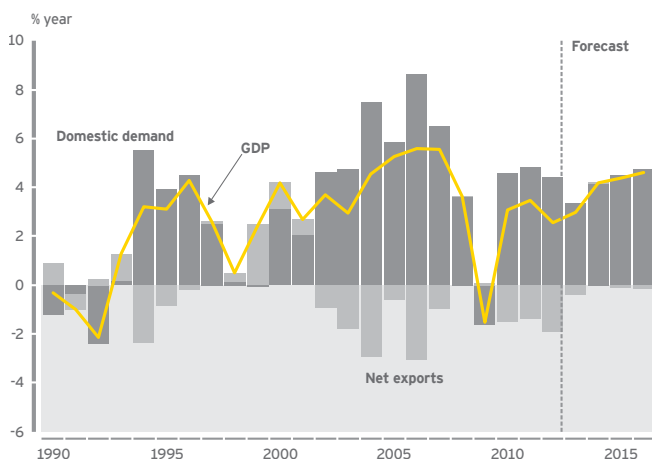
Domestic demand will remain the key driver of GDP growth in 2013 and 2014, though signs of softening are visible. Retail sales struggled to make any headway in Q4 2012, and domestic vehicle sales have eased in recent months. Higher inflation this year, compared with 2010 and 2011, will continue to weigh on consumption by

undermining disposable income. Recent labor unrest and credit rating downgrades will also keep private investment spending restrained.

Regarding the external sector, we expect net exports to exert a smaller drag on growth in 2013 than in 2012. A weak exchange rate, a rebound in the mining sector from last year's strikes and the improved global economy should boost sales.

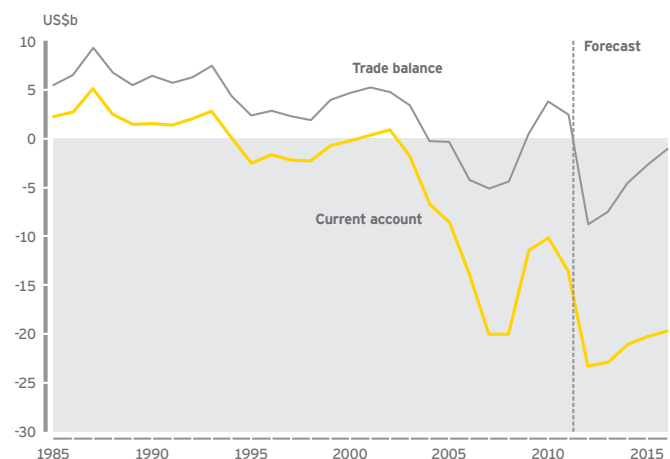
However, this could be threatened by a weaker than expected recovery in key trading partners, resulting in a stubbornly high external deficit. If sizeable external financing is continually required to fund the deficit, the South African Rand could weaken further, pushing inflation further above our baseline. Risks also come from recurrence of labor unrest in mining, which constitutes around a third of exports.

Figure 60  
Contributions to GDP growth



Source: Oxford Economics.

Figure 61  
Current balance



Source: Oxford Economics.

Table 20  
South Africa

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	3.5	2.5	2.8	4.0	4.4	4.6
CPI inflation (% per year)	5.0	5.7	6.0	5.5	4.9	4.8
Current account balance (% of GDP)	-3.4	-6.3	-6.2	-5.4	-4.9	-4.4
External debt total (% of GDP)	27.2	33.0	39.9	40.1	38.4	35.9
Short-term interest rate (%)	5.6	5.4	5.1	5.4	6.3	7.2
Exchange per US\$ (year average)	7.3	8.2	9.4	9.3	9.1	8.9
Government balance (% of GDP)	-4.0	-5.3	-5.4	-3.9	-3.5	-3.3
Population (millions)	50.5	50.8	51.0	51.2	51.5	51.7
Nominal GDP (US\$b)	403.1	384.9	373.7	413.5	464.2	521.3
GDP per capita (US\$ current prices)	7,982.7	7,582.2	7,327.2	8,072.8	9,020.2	10,082.9

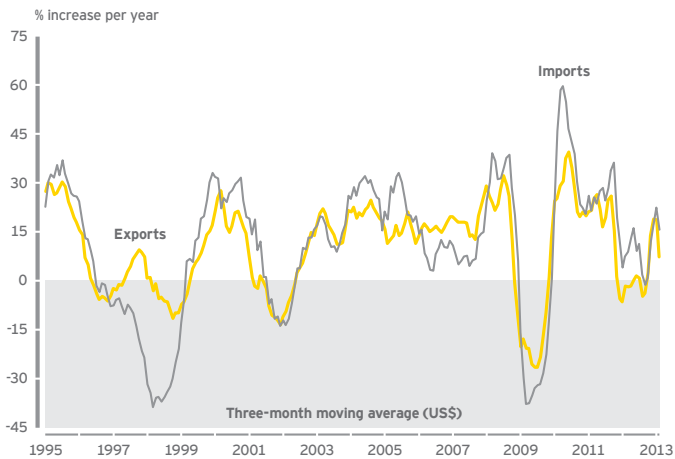
## Strong domestic activity drives growth and exports pick up

The economy expanded much more than expected in Q4 2012, with seasonally adjusted GDP rising by 3.6% on the quarter. Consumption gathered further pace, helped by high confidence and wage growth, and low unemployment. Stock building also increased sharply. As a result, we expect a relatively flat start to 2013 before an export-led acceleration through the year.

Strong expansion in the electronics and automotive sectors led to robust export growth in Q4 2012. This bodes well for 2013. These sectors represent the two largest export industries by value. Recent improvements in the global economy and in emerging Asian trade should support export growth this year.

Figure 62

### Exports and imports



Source: Customs Department; Haver Analytics.

The decision to keep monetary policy very accommodating reflects lingering concerns about the state of the global recovery. However, we now see these risks as much more balanced than a few months ago. And with consumer spending set to stay robust as household incomes rise, we think that the central bank will need to tighten policy in H2 2013 to prevent the building of inflationary pressures.

Robust domestic activity, combined with stronger export demand, should enable the economy to grow by more than 5.0% in the medium term.

Figure 63

### Private investment indicator



Source: Bank of Thailand; Haver Analytics.

Table 21

### Thailand

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	0.1	6.4	5.3	4.9	5.5	5.0
CPI inflation (% per year)	3.8	3.0	3.1	2.4	2.2	2.4
Current account balance (% of GDP)	1.7	0.7	0.6	0.8	0.7	0.7
External debt total (% of GDP)	23.2	23.6	24.6	27.4	29.5	31.4
Short-term interest rate (%)	3.1	3.1	3.1	4.0	5.0	5.6
Exchange per US\$ (year average)	30.5	31.1	29.6	31.0	32.0	32.9
Government balance (% of GDP)	-1.6	-4.5	-3.8	-2.4	-2.0	-1.8
Population (millions)	68.6	68.9	69.3	69.6	70.0	70.3
Nominal GDP (US\$b)	346.1	366.0	416.9	427.1	445.9	466.3
GDP per capita (US\$ current prices)	5,046.3	5,309.0	6,016.2	6,132.2	6,371.3	6,632.3

## Growth set to pick up soon

The Turkish central bank is seeking to avoid excessive volatility in domestic credit and exchange rates caused by capital flows, while at the same time reducing inflation to 5%. In January and February, the bank lowered its interest rate corridor slightly to help limit capital inflows. But it raised banks' reserve requirements to prevent lending growth from rising too rapidly.

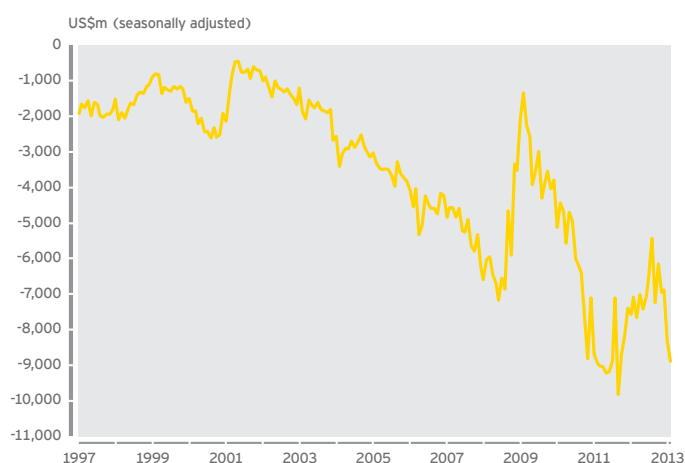
So far, the bank seems to have got the balance right. However, assessing the correct stance may become difficult as the economy picks up speed, and interest rates in the US and the Eurozone stay near zero – encouraging capital flows to the emergers.

The latest data and surveys are still patchy and contradictory. But actual lending rates to firms and households have fallen significantly since the middle of 2012, and this should spur both consumer spending and investment. Meanwhile, lower inflation this year and healthy employment growth will also support consumer spending, and the lessening in global tensions will help to drive a turnaround in investment – although some of the rise in demand will leak out into higher imports. We now expect GDP growth of 3.5% this year, following the 2.2% recorded in 2012.

Provided inflation and the current account deficit are kept in check and the global background remains reasonable, annual GDP growth should exceed 5% in the medium term.

Figure 64

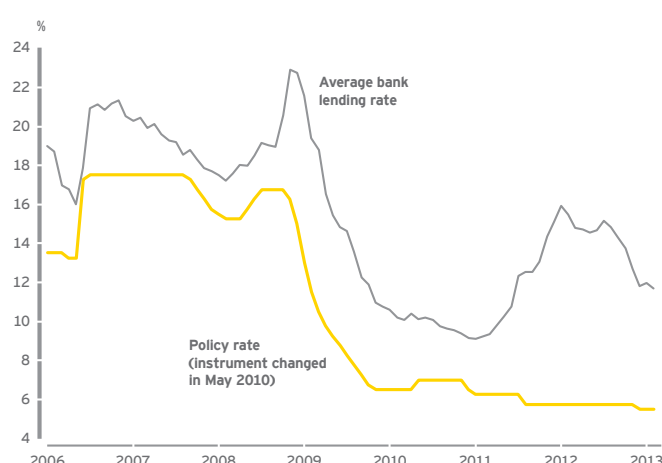
### Monthly trade balance



Source: Turkish Statistical Institute; Haver Analytics.

Figure 65

### Interest rates



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

Table 22

### Turkey

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	8.8	2.2	3.5	5.4	5.2	5.2
CPI inflation (% per year)	6.5	8.9	6.7	5.4	5.0	4.6
Current account balance (% of GDP)	-9.7	-6.0	-7.0	-7.0	-6.9	-6.7
External debt total (% of GDP)	39.2	41.2	39.4	38.5	37.9	36.1
Short-term interest rate (%)	8.4	8.4	6.2	8.4	9.5	9.5
Exchange per US\$ (year average)	1.7	1.8	1.8	1.9	2.0	2.0
Government balance (% of GDP)	-1.4	-2.1	-1.8	-1.2	-1.3	-1.3
Population (millions)	73.7	74.6	75.5	76.3	77.1	77.9
Nominal GDP (US\$b)	777.2	790.5	858.3	906.2	952.7	1,031.4
GDP per capita (US\$ current prices)	10,539.4	10,595.2	11,374.7	11,877.5	12,355.9	13,242.3

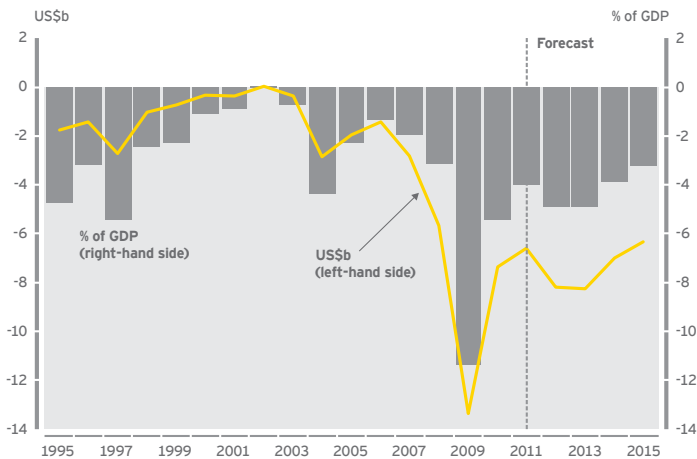
## Absence of gas deal limits growth this year, but exports set to drive pickup from 2014

The recession caused by industrial decline has continued into the first quarter of this year, and recovery will only begin when EU markets regain strength. As a result, we now anticipate GDP growth of just 1.1% this year (down from 2.4% in the previous edition), little changed from 2012. The large current account deficit and a need to roll over foreign debt will require new external loans and more FDI inflows. But in the absence of a gas deal with Russia (agreement proved elusive at talks in early March), a new IMF loan may require energy price rises that further delay the economic recovery.

The virtual elimination of inflation has avoided a further cost shock from currency depreciation. But delayed price rises (requiring subsidies that have widened the budget deficit to about 5% of GDP) have stored up pressures that will lift inflation to around 7% by the end of 2013.

Growth is forecast to pick up to around 4% in 2014-16 as EU markets recover. And the outturn could be better if improved dialogue allows an EU free trade deal to proceed or if Russia agrees to cut gas prices on terms that do not damage EU relations. But this is balanced by downside risks of currency depreciation and temporary capital controls if an IMF standby or alternative bilateral loans cannot be secured in time.

Figure 66  
Government budget balance



Source: Oxford Economics.

Figure 67  
Inflation



Source: Oxford Economics.

Table 23  
Ukraine

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	5.2	0.1	1.1	4.4	4.3	3.9
CPI inflation (% per year)	8.0	1.7	5.0	6.0	5.5	5.5
Current account balance (% of GDP)	-6.3	-8.7	-7.8	-7.5	-6.9	-6.2
External debt total (% of GDP)	82.3	88.1	93.5	93.1	91.0	88.7
Short-term interest rate (%)	7.8	7.5	7.0	7.1	7.0	7.0
Exchange per US\$ (year average)	8.0	8.0	8.4	8.7	8.7	8.8
Government balance (% of GDP)	-4.0	-4.9	-4.9	-3.9	-3.2	-2.4
Population (millions)	45.2	45.0	44.7	44.5	44.2	44.0
Nominal GDP (US\$b)	163.4	165.8	167.5	179.8	195.9	213.1
GDP per capita (US\$ current prices)	3,615.3	3,688.4	3,746.3	4,044.3	4,430.6	4,843.8

# United Arab Emirates

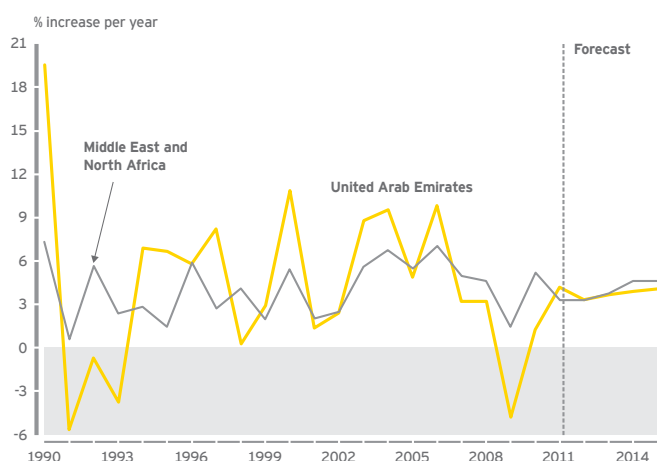
## Pickup expected in 2013-14

We expect average growth of around 3.7% in 2013-14, which is up from the estimated figure of 3.3% in 2012. This will be driven by a mixture of domestic and external factors: the ongoing recovery of key sectors (such as financial services and construction), accommodating fiscal policy, an increase in oil output and generally brighter trade prospects.

Dubai, which accounts for 75% of the UAE's non-oil trade, is expected to benefit the most from more favorable external trends. It is likely to outpace Abu Dhabi in 2013. Growth in Abu Dhabi will remain respectable, but will be tempered by lower regional oil prices, which we see dipping below US\$100pb in H2 2013, compared with US\$109pb in 2012.

Figure 68

### Real GDP growth

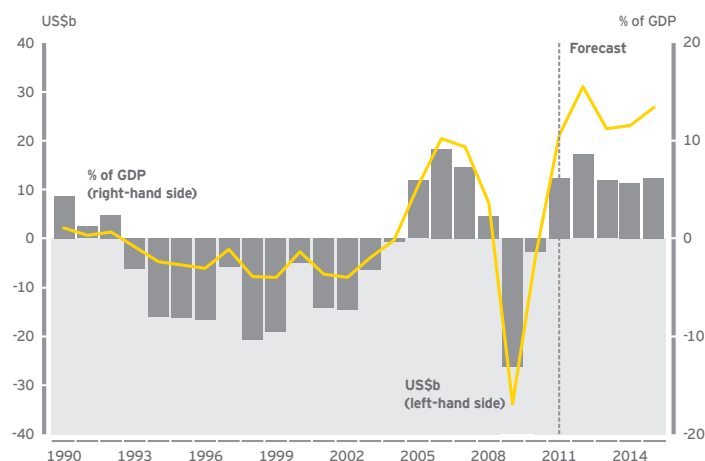


Source: Oxford Economics.

In the medium term, a significant boost to the UAE's diversification efforts could be provided if the country is able to secure prized emerging market status in the Morgan Stanley Capital International (MSCI) grading system. Such status would bring greater flows of inward investment. However, current company law, which caps foreign ownership outside of designated "free zones" at 49%, is likely to preclude such an upgrade. In our opinion, any reform is likely to be piecemeal. So this is likely to be an area to monitor for some time to come.

Figure 69

### Government budget balance



Source: Oxford Economics.

Table 24

### United Arab Emirates

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	4.2	3.3	3.7	3.9	4.1	3.8
CPI inflation (% per year)	0.9	0.7	2.0	2.7	3.0	3.0
Current account balance (% of GDP)	9.1	8.6	5.9	5.2	5.5	5.3
External debt total (% of GDP)	35.4	30.5	26.3	22.0	19.3	17.0
Short-term interest rate (%)	1.7	1.4	1.4	1.4	1.5	2.0
Exchange per US\$ (year average)	3.7	3.7	3.7	3.7	3.7	3.7
Government balance (% of GDP)	6.2	8.7	5.9	5.7	6.1	6.1
Population (millions)	7.7	7.9	8.0	8.2	8.4	8.5
Nominal GDP (US\$b)	338.7	360.4	379.6	409.4	440.8	469.8
GDP per capita (US\$ current prices)	44,075.0	45,874.0	47,273.8	49,913.7	52,633.4	55,048.0

## Policy supports steady recovery this year

Last year's inflation slowdown will enable monetary and fiscal relaxation in 2013. This should lift growth from about 5% last year toward the 6.5%-7% target range by 2014. However, an overhang of bad debt will hold back the pickup in private sector credit, tilting the recovery toward public sector investment and sharply reducing export growth. The consequent return to current account deficit in 2014 will leave growth more dependent on the recovery of inward investment.

There is a risk of reigniting inflation if the Government opts to promote exports by accelerating the Vietnamese Dong's depreciation. However, the requirement to service foreign debt and the import needs of industry will keep monetary policy focused on currency stability.

Inward investment is set to revive sufficiently fast to finance the re-opening current account deficit in 2015. But to attract investors, the Government must upgrade infrastructure and skills to promote higher-tech industry, as textile and basic assembly FDI shifts toward lower-cost neighbors.

With the growing internal market boosting FDI, tourism and agricultural exports helping to finance industrial upgrades, and new power plants ending the perennial energy shortages, GDP growth of at least 6.5% remains sustainable in the medium term.

Figure 70

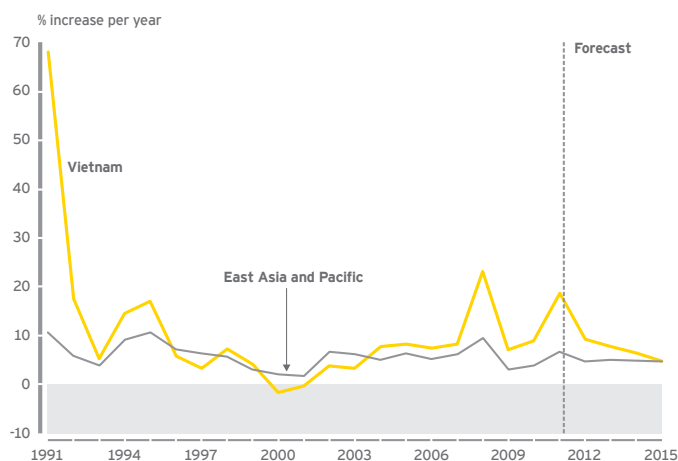
### Real GDP growth



Source: Oxford Economics.

Figure 71

### Inflation



Source: Oxford Economics.

Table 25

### Vietnam

Source: Oxford Economics.

	2011	2012	2013	2014	2015	2016
Real GDP growth (% per year)	6.0	5.0	5.5	6.9	7.1	6.6
CPI inflation (% per year)	18.7	9.1	7.7	6.4	4.8	4.5
Current account balance (% of GDP)	0.2	4.7	2.7	0.8	-0.1	0.0
External debt total (% of GDP)	46.8	37.8	31.9	28.2	25.8	23.7
Short-term interest rate (%)	15.0	8.3	7.0	6.0	6.0	6.0
Exchange per US\$ (year average)	20,509.8	20,858.9	21,402.3	21,995.1	22,497.6	22,900.3
Government balance (% of GDP)	-2.8	-3.5	-3.7	-3.7	-3.4	-3.2
Population (millions)	88.8	89.7	90.6	91.5	92.4	93.2
Nominal GDP (US\$b)	123.6	139.2	154.2	170.7	187.3	204.9
GDP per capita (US\$ current prices)	1,392.4	1,552.6	1,702.1	1,865.2	2,025.9	2,197.8



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# Detailed tables







## Cross-country tables

Real GDP growth						
	2011	2012	2013	2014	2015	2016
<b>Americas</b>	<b>4.2</b>	<b>2.6</b>	<b>3.4</b>	<b>4.5</b>	<b>4.5</b>	<b>4.2</b>
Argentina	8.9	1.9	3.1	4.1	4.4	3.8
Brazil	2.7	0.9	3.1	4.4	4.6	4.3
Chile	5.9	5.5	4.9	4.6	4.5	4.2
Colombia	6.6	4.0	4.0	4.4	4.1	4.0
Mexico	3.9	3.9	3.5	4.8	4.5	4.3
<b>EMEIA</b>	<b>6.2</b>	<b>3.8</b>	<b>3.8</b>	<b>5.1</b>	<b>5.3</b>	<b>5.3</b>
Czech Republic	1.9	-1.2	-0.5	1.9	2.7	3.0
Egypt	1.8	2.2	1.7	2.0	4.5	5.9
Ghana	14.4	7.1	6.9	5.9	5.5	5.0
India	7.5	5.0	5.2	7.2	7.7	7.6
Kazakhstan	7.5	5.0	6.0	7.5	7.1	6.7
Nigeria	7.4	6.5	6.5	6.1	5.5	5.1
Poland	4.4	2.2	1.5	2.8	3.3	3.6
Qatar	13.0	6.0	5.0	6.0	6.1	6.0
Russia	4.3	3.4	3.5	4.0	4.1	4.1
Saudi Arabia	8.5	6.8	4.3	4.6	4.3	4.0
South Africa	3.5	2.5	2.8	4.0	4.4	4.6
Turkey	8.8	2.2	3.5	5.4	5.2	5.2
Ukraine	5.2	0.1	1.1	4.4	4.3	3.9
United Arab Emirates	4.2	3.3	3.7	3.9	4.1	3.8
<b>Asia</b>	<b>7.5</b>	<b>6.4</b>	<b>6.8</b>	<b>7.4</b>	<b>7.1</b>	<b>7.0</b>
China and Hong Kong	9.1	7.5	8.0	8.3	8.0	7.9
Indonesia	6.5	6.2	6.1	6.0	5.6	5.5
Korea	3.7	2.0	2.2	4.6	4.2	4.1
Malaysia	5.1	5.6	5.0	5.1	4.6	4.5
Thailand	0.1	6.4	5.3	4.9	5.5	5.0
Vietnam	6.0	5.0	5.5	6.9	7.1	6.6
<b>Total</b>	<b>6.4</b>	<b>4.7</b>	<b>5.1</b>	<b>6.0</b>	<b>6.0</b>	<b>5.9</b>

## Cross-country tables

CPI inflation						
	2011	2012	2013	2014	2015	2016
<b>Americas</b>	<b>5.4</b>	<b>5.1</b>	<b>5.3</b>	<b>4.9</b>	<b>4.5</b>	<b>4.4</b>
Argentina	9.8	10.0	11.0	10.2	9.7	9.5
Brazil	6.6	5.4	6.2	5.4	4.5	4.5
Chile	3.3	3.0	2.6	3.3	3.0	3.0
Colombia	3.4	3.2	2.4	3.2	3.3	3.3
Mexico	3.4	4.1	3.7	3.6	3.4	3.2
<b>EMEIA</b>	<b>7.1</b>	<b>6.0</b>	<b>5.2</b>	<b>4.8</b>	<b>4.7</b>	<b>4.5</b>
Czech Republic	1.9	3.3	2.2	1.9	2.2	2.1
Egypt	10.1	7.1	8.5	9.7	7.0	5.5
Ghana	8.7	9.2	9.0	7.3	6.0	5.2
India	9.5	7.5	5.0	4.4	4.3	4.2
Kazakhstan	8.3	5.1	7.1	7.0	6.5	6.3
Nigeria	10.8	12.2	9.7	9.0	8.0	8.0
Poland	4.2	3.7	1.7	2.5	2.5	2.5
Qatar	1.9	1.9	3.7	4.2	4.5	4.0
Russia	8.4	5.1	6.2	5.4	5.7	5.4
Saudi Arabia	5.0	4.5	4.1	4.0	3.8	3.8
South Africa	5.0	5.7	6.0	5.5	4.9	4.8
Turkey	6.5	8.9	6.7	5.4	5.0	4.6
Ukraine	8.0	1.7	5.0	6.0	5.5	5.5
United Arab Emirates	0.9	0.7	2.0	2.7	3.0	3.0
<b>Asia</b>	<b>5.2</b>	<b>2.8</b>	<b>3.1</b>	<b>3.5</b>	<b>3.4</b>	<b>3.1</b>
China and Hong Kong	5.4	2.7	3.1	3.6	3.5	3.1
Indonesia	5.4	4.3	5.1	5.0	4.9	4.8
Korea	4.0	2.2	2.0	2.7	2.6	2.6
Malaysia	3.2	1.7	2.0	2.8	3.0	3.0
Thailand	3.8	3.0	3.1	2.4	2.2	2.4
Vietnam	18.7	9.1	7.7	6.4	4.8	4.5
<b>Total</b>	<b>5.9</b>	<b>4.4</b>	<b>4.2</b>	<b>4.2</b>	<b>4.0</b>	<b>3.8</b>



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