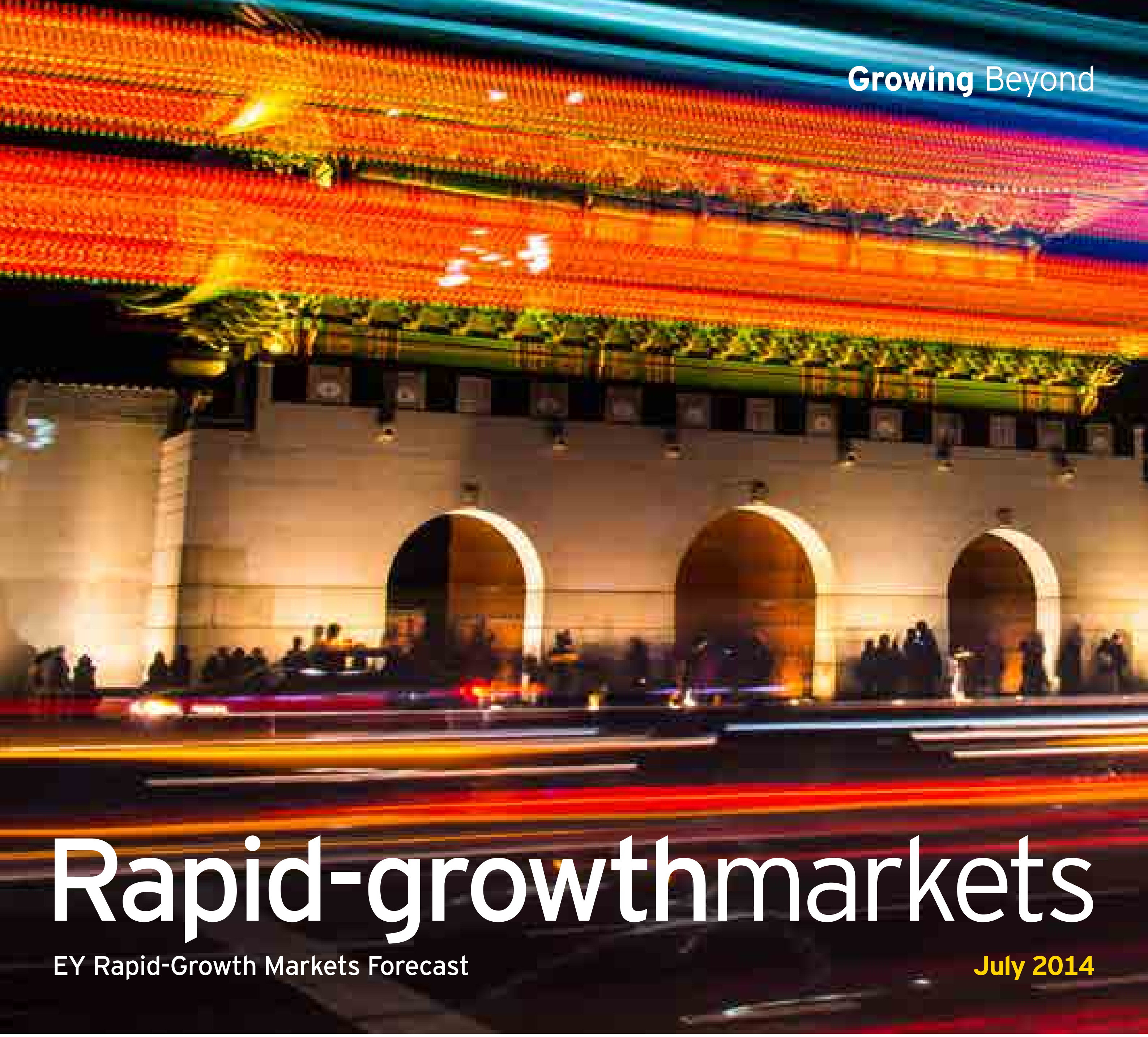

Growing Beyond

Rapid-growth markets

EY Rapid-Growth Markets Forecast

July 2014

EY

Building a better working world

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Contents

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July 2014 Forecast

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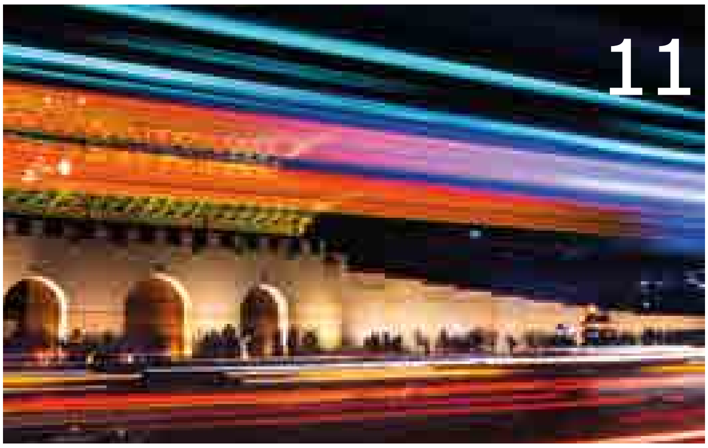
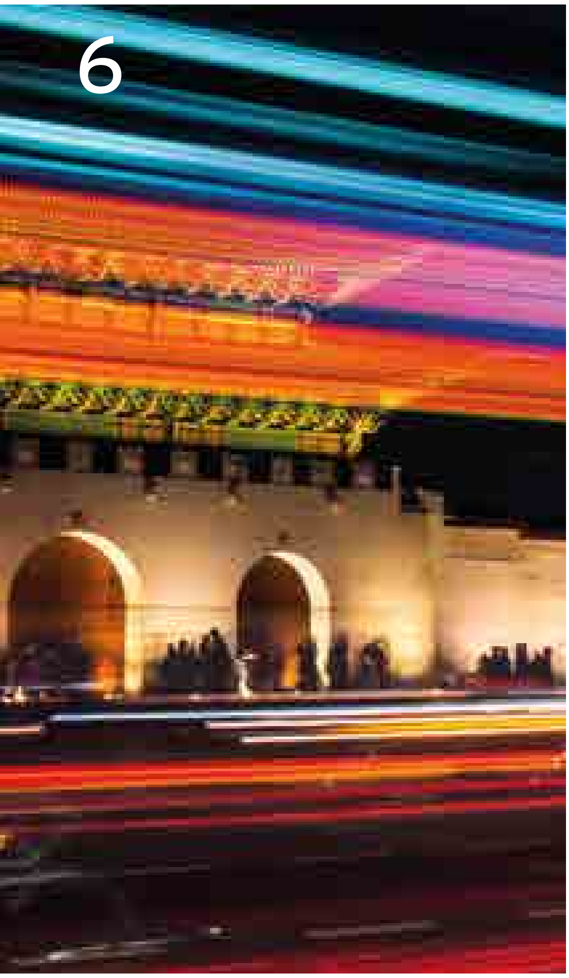
Rapid-growth market cities will be the powerhouses of global growth

By 2030, half of the world's top 50 cities will be in rapid-growth markets (RGMs), up from a third now. Asia will dominate the global landscape. For instance, the total GDP of China's 150 largest cities is expected to triple from US$8t today to US$25t by 2030.





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Overview of the real GDP growth and CPI inflation figures for 2012–17 across the 25 rapidly growing economies.

Welcome

Rajiv Memani
Chairman of the Global Emerging Markets Committee

Despite facing headwinds, the rapid-growth markets (RGMs) are recovering from the difficulties of the past few years. As a group, the 25 RGMs are growing faster, and they are expected to bring in changes that will improve global economic fundamentals and drive an acceleration in growth.

Customize data from EY's *Rapid-Growth Markets Forecast* and *Eurozone Forecast*. Download the *EY Forecasts in focus* app at ey.com/ rapidgrowth.

This growth is likely to be concentrated in those markets that successfully carry out ambitious reforms. This can be seen in countries such as in Mexico, India, Indonesia and China. To attract greater investment, these countries have embarked on wide-ranging reform programs focusing on:

- Improving infrastructure
- Promoting sustainable technologies
- Reforming tax policy
- Initiating measures to achieve macroeconomic balances
- Simplifying the processes for starting new businesses

An increase in the level of liquidity available around the world will help the cause further, allowing some of these markets to reap quick rewards for delivering market reforms.

Other factors contributing to the positive sentiment include clear and secure election mandates for new governments in countries such as India and Indonesia, which have promised growth and stability.

However, the immediate growth forecast for some of these economies will depend on how well they deliver reforms to build greater stability in their capital and financial markets. This may allow some winners to emerge based on their speed of execution and their ability to create a favorable economic climate.

What is clear is that one of the key drivers of growth in RGMs is urbanization. In the future, expanding RGM cities — particularly those in Asia — will fuel global trade. For example, by 2030, the economic output of China's 150 largest cities will have risen from US$8t to US$25t.

Coastal cities close to China's manufacturing hubs, such as Jakarta and Ho Chi Minh City, should see large increases in industrial employment. Others, such as Delhi and Hanoi, will benefit from their relatively competitive labor costs. And growth will not only come from manufacturing. Beijing, Lagos and Mumbai are among the cities that are set for a rapid expansion in financial services.

However, urbanization is not a one-way bet. As people are drawn to cities in countries with an ageing population, such as Russia, Poland and Korea, more pressure will be added to already-stretched health and social services. Meanwhile, overcrowding and congestion are bringing environmental problems to cities across Asia. To continue to thrive, cities must actively address these problems — for example, by adopting the best green technologies and by improving their infrastructure and built environment. By speeding up its adoption of green technologies, China could lift its potential growth by as much as 0.7% a year on average in 2025-30.

And there are a number of other challenges that RGMs will have to face in the near term. World trade remains subdued. Recovery in the US and the Eurozone has not brought with it the expected trade boost to RGMs, particularly in Asia. As a result, exports are still weak, and the current account balances of many RGMs continue to come under pressure, making them vulnerable to capital outflows. Many of the RGM countries have much work to do in strengthening their financial institutions and in improving their governance and delivery systems.

These challenges should not distract us from the opportunities in RGMs. Investors need to continually reassess their emerging market strategies. They must make sure that they adjust their presence in emerging markets to meet the changing situation. And they must hedge against risks and protect their local debts against rising interest rates.

For many RGMs, the most pressing challenges are presented by ongoing events. The military coup in Thailand, the ongoing conflict between Russia and Ukraine, and the escalation of violence in Iraq are all putting political risk in RGMs to the fore.

The impact of these situations extends across national borders, not least in the pressure put on oil and gas prices. Businesses must keep up to date with these developments and must limit their exposure to such geopolitical risks.

Another challenge for RGMs is the continuing increase in the global demand for energy. In recent years, the price of oil been kept in check by the low pace of economic growth. But ongoing geopolitical conflict and uncertainty has had an impact on supply, with oil prices generally exceeding US$100 per barrel. And growth in the emerging world will mean that energy demands continue to rise. This has important implications for the sector and for governments across the world. Inside, we take a look at some of the key risks and opportunities (see page 9).

Despite the political risks and economic headwinds, most RGMs are poised for strong growth. Those that harness urbanization, and other forces that are changing our world, by shifting to sustainable technologies and investing in infrastructure can expect to see a growth dividend in the future.

To learn more about RGMs, their business environments and local EY contacts, please visit ey.com/rapidgrowth.

Highlights

Reform-oriented RGMs are recovering from financial turmoil, but political risks cast a long shadow

- Rapid-growth markets (RGMs) have recovered somewhat from the financial turmoil in the second half of 2013 and early 2014. A gradual recovery will see growth above 4.5% next year, but political risks remain.
- The ongoing conflict in Ukraine is weighing heavily on growth prospects in emerging Europe. An escalation of tensions would lead to higher energy prices, further capital flight and lower trade flows, with Russia slipping into a deep recession. In addition, instability in Iraq has brought geopolitical risks to the fore and put pressure on oil prices.

High inflation and weak trade hamper near-term growth

- Some RGMs are still suffering from the aftermath of pressures on their currencies, which forced up interest rates in Turkey, Russia and India, driving up the cost of investment.
- World trade is still subdued, particularly in Asia. Recovery in the US and the Eurozone is not providing the expected boost to the more open RGMs. With exports weak, many RGMs continue to face pressures on their current account balances, making them more vulnerable to capital outflows.

RGMs that are driven by rising urbanization and new technologies have more growth potential

- Over the medium term, fast-growing populations and increasing productivity will lift growth in RGMs to close to 5.5%. Cities will be the powerhouses of global growth, with Asia dominating the global landscape.
- The economic output of China's 150 largest cities will triple from US$8t today to US$25t by 2030. Outside China, Jakarta, Istanbul and Sao Paulo will all rank among the world's top 20 cities in terms of economic output.
- Coastal cities close to China's manufacturing hubs, such as Jakarta and Ho Chi Minh City, are set to see large increases in industrial employment. Others, such as Delhi and Hanoi will benefit from their relatively competitive labor costs.
- Financial services will also expand rapidly. Beijing, Lagos and Mumbai are all expected to create more financial service sector jobs than London over the years to 2030.
- The growing number of lower-middle income households, with some disposable income, is set to exceed 30 million by 2030 in Africa and South Asia, helping to create markets of scale for mobile phone airtime cards and other consumer goods and services.

Urbanization adds to environmental pressures and growing demand for health and education services

- Aging populations will add to pressures on health services in countries such as Russia, Poland and Korea. And rising pollution and congestion are serious concerns in many Asian cities.
- Mexico, Indonesia, China and others are grasping the opportunity to push forward ambitious reforms. These include introducing more sustainable technology in an effort to shift their economies away from heavy manufacturing. Faster adoption of green technologies in China has the potential to lift its growth by 0.7% a year on average in 2025–30.

GDP growth

2014	↘ 4.1%
2015	↗ 4.7%
2016-18	↗ 5.3%

CPI inflation

2014	↗ 4.7%
2015	↘ 4.6%
2016-18	↘ 4.0%

Top five countries at risk

	Overall score
Turkey	20
Ukraine	19
Ghana	17
Argentina	16
Indonesia	15

Tremendous shifts between different sectors in RGM cities

Beijing, Lagos and Mumbai are all expected to create more financial service sector jobs than London over the years to 2030.

Manufacturing is forecast to expand in cities with more space to grow.

The financial services sector is expected to accelerate in cities such as Beijing, Mumbai and Lagos.

Asian cities will not only dominate jobs growth in industry, but also in finance and business services.

The powerhouses of growth

2030 **40% of the world's top cities will be in China**

By 2030, 40% of the 50 largest cities in the world in terms of constant-prices GDP will be in China.

By 2030, the total GDP of China's 150 largest cities is expected to triple to **US$25t, from US$8t** today.

By 2030, **China, Indonesia, Nigeria and Ghana** will have more than two-thirds of their populations living in cities.

Outside China, **Jakarta, Istanbul and Sao Paulo** will all rank among the world's top 20 cities in terms of economic output.

Growth is being driven by rapid urbanization and rising labor productivity across RGMs. At the same time, the pace of urbanization will lead to increasing pollution and pressures on infrastructure. Those cities that are able to adopt the best green technologies and maintain a better built environment will attract the best talent and succeed.

There is also much diversity in demographic and industrial trends across the RGMs and within them.

Implications for businesses

Realigning strategies

Realigning strategies

The majority of the rapid-growth markets (RGMs) have seen some recovery from the financial turmoil of the last few years. However, the recovery has been uneven. A few RGMs are still suffering from pressure on their currencies, high inflation and rising budget deficits. The Ukraine crisis is weighing heavily on economic growth in emerging Europe. The economies of Russia and Thailand are shrinking. On the other hand, countries such as China are benefiting from rapid urbanization, and risks are lower in Vietnam and India.

Markets, channels and consumer segments are at very different stages of development across emerging markets. A shift in emphasis is required. Businesses should move on from focusing on market share, and instead seek to understand the real drivers of growth and profitability at a local level in the RGMs.

Understanding divergence to realign strategies

A widening economic divergence among the RGMs has created new winners and losers in business. And risk profiles in the different RGMs are changing. As a result, companies need to update their plans for different geographies and sectors and realign their decision-making strategies. Today, there could be as much opportunity in Vietnam or Colombia as there is in Turkey or Argentina. Successful businesses will lay out roadmaps for the future, and ignore the distraction of past trends.

The split is not just between fast- and slow-growing economies. There is increased divergence between countries that are undertaking reforms and those that are not; those improving their business environments and those that have been slow to act; and those with stable political climates and those experiencing instability. Therefore, business strategy needs to take a holistic view, based on rigorous and detailed analysis. Governments' ability to deliver economic reforms should be considered. And understanding how the macro and political environment will evolve is an important part of forecasting performance.

It is also important to understand critical factors for business success before initiating operations in a particular market. For instance, this year's *EY attractiveness survey: Africa 2014* identified seven critical components of effective strategy in Africa: planning, portfolio, people, patience, perspective, partnership and purpose. These factors can be used as criteria to stress test strategic thinking and execution wherever an organization may be on its growth curve. After all, execution is more than just formulating a clear strategy, re-engineering processes and implementing new systems or structures.

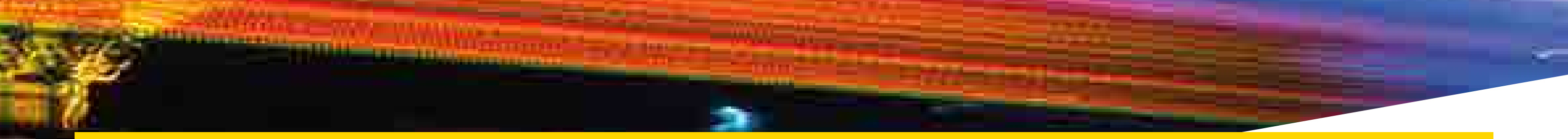
Spillover from geopolitical events

The Ukraine-Russia crisis has become a global issue. Tensions in Iraq have created uncertainty about its oil output and put pressure on global oil prices. And Thailand's army has seized control of the country. The impact of these events extends well beyond national borders.

Due to the knock-on effect of the Ukraine crisis, companies that have trade relations with Russia, especially those in emerging Europe, will face significant challenges and pressure on their supply chains. Importers of energy and commodities such as palladium, nickel, titanium and grain are already experiencing this. And finding alternative trade partners at such short notice is likely to be challenging. Furthermore, economic weakening in Russia is expected to result in a fall in consumer spending that could adversely affect consumer-driven companies. Similarly, energy companies in emerging markets will need to establish oil-import contingency plans swiftly, because the crisis in Iraq is hindering oil imports in various countries.

Businesses must always anticipate some level of risk from geopolitical instability — particularly those operating in emerging markets. The importance of innovative thinking in mitigating these risks cannot be overstated. For instance, there are now sector-specific, tailored insurance products available that offer protection against political risks. Such options can help to surmount many of the barriers encountered while operating in new markets.

Furthermore, in today's environment, having a contingency plan is essential. In addition to a robust risk management framework, companies must have a strategy that they can execute in a worst-case scenario. This backup plan must be rigorously thought through. Organizations should conduct cost-benefit analyses



Oil and gas perspectives

Once again, the global economy appears to be on the mend. However, progress is somewhat tentative in the case of the major advanced economies of the US, Japan and the Eurozone. The emerging economies appear to have weathered the economic storm, but growth is still slower than had been expected. The negative knock-on effects on the emerging markets of the tapering of the US Federal Reserve's stimulus program have been modest, but they have probably peaked.

While the sluggish economic growth of the last few years has restrained growth in the global demand for oil and gas, persistent geopolitical tensions and uncertainties have affected or threatened supply, keeping oil prices generally over US$100 per barrel. These tensions and uncertainties show few signs of diminishing over the medium term. Nonetheless, growth in emerging markets will nudge up global demand for oil and gas. This presents both risks and opportunities for oil and gas companies, and for countries.

Risks

EY's most recent *Business Pulse* report on the oil and gas sector, *Exploring dual perspectives on the top 10 risks and opportunities in 2013 and beyond*, is based on a survey of oil and gas executives, along with financial and government representatives. It concludes that health, safety and the environment (HSE) tops the oil and gas industry's risk agenda, reflecting a climate of zero tolerance for accidents, both within the industry and the stakeholder community. HSE has long been a top priority for the industry. However, regulation in this area is increasing, particularly with regard to bribery, corruption, financial reporting and transparency. There is now a strong linkage between HSE and regulatory compliance. This combined area of risk is likely to remain the top priority for the foreseeable future.

Other key risks cited by the report include price volatility, the increasing challenge associated with accessing reserves and markets, and the increasing scale and complexity of projects. The report sees a new entrant to the top 10 risks this year: IT security. The specific risk is the threat to companies' operations – or indeed, to country- or region-wide energy infrastructure – posed by cyber attacks or cyber theft of their intellectual property.

Opportunities

Our report cites rising emerging market demand as the number one opportunity, rising three places since the previous survey. As the world's emerging economies continue to expand, their demand for energy will also rise rapidly. The opportunity for oil and gas companies to take advantage of this is vast. Another key opportunity is new infrastructure to access or connect resources and markets. This reflects the increasing need for connectivity between remote supply and areas of high demand. A further opportunity is safety and risk management. The opportunity lies in companies identifying and including all relevant safety and risk management eventualities in third-party contracts, and then managing these terms proactively.

covering various issues, including when the contingency plan would be executed, how any necessary relocation would work, and how the bottom line would be protected.

City-level focus is crucial

Companies that have not thought about a city-level strategy in addition to a countrywide or regional approach should revisit their plans. Urbanization is giving birth to a new generation of megacities across the emerging world. And investment in these will bring huge opportunities for business.

However, the extent and nature of the opportunities available will vary from place to place. Having a nuanced understanding of urbanization in different locations will be the key to capitalizing on these opportunities. For instance, financial services providers will find opportunities in Beijing, Lagos and Mumbai. Meanwhile, there will be manufacturing opportunities in cities such as Jakarta, Delhi and Ho Chi Minh City, as East Asian cities move up the manufacturing value chain. Similarly, the opportunities for consumer-facing firms will vary in different cities. Many of these large new cities will have huge populations. However, this will not automatically open up opportunities for business. Consumption patterns and distribution channels will continue to vary widely. Therefore, understanding the dynamics of specific product demands in target cities will be important. For instance, urban centers in Africa and South Asia will be attractive markets for providers of low-cost goods and services. Elsewhere in the emerging world, there will be opportunities for providers of luxury goods and services.

Companies should also be on the lookout for emerging urban clusters, which generally form near upcoming transport and trade routes. In some cases, these clusters are also forming across national boundaries. For instance, the Greater Ibadan-Lagos-Accra urban corridor, with a population of more than 25 million people, could provide attractive opportunities for investors targeting West Africa.

Across the RGMs, cities with less-advanced transportation systems and infrastructure are often classified as tier-2 and tier-3 cities. These are hidden gems for businesses. Taking a strategic approach to identify and target them can provide early-mover benefits. Implementing such strategies will need the special focus and attention of top business leaders. Companies will need to consider revamping their organizational structures to focus on, for instance, urban areas rather than only regions, states or countries. Moreover, businesses will need to collaborate with local municipal authorities to understand the subtleties of doing business in cities, particularly tier-2 and tier-3 cities.

Green solutions will become more prominent

With rising urbanization, energy consumption is expected to increase substantially. As a result, green technology will become an important means of tackling growing business energy risks in emerging markets, as environmental concerns increase and the prices of renewables continue to fall.

According to EY's *From boiler room to boardroom: optimizing the corporate energy mix*, traditional methods of procuring renewable energy (tariffs on green energy, renewable energy certificates and carbon offsets) are giving way to direct procurement through power purchase agreements and direct investment in renewable energy assets. This is due to the environmental, financial and reputational benefits of direct procurement. An increasing number of large corporations are sourcing clean energy directly or investing in their own generating assets. This clearly indicates an energy transition that is driven by fundamental business need rather than subsidies. Moreover, from a societal perspective, renewable energy will help to boost the security of supply, particularly in markets that are heavily reliant on energy imports.

Today, customers and stakeholders are demanding environmental protection and seeking information about enhanced sustainability reporting and greenhouse gas emission cuts. Stakeholders are asking organizations to set goals to manage their environmental and social impact. Therefore, sustainable investments are likely to be a key differentiator for companies hoping to achieve a competitive advantage. Those that regularly revisit their sustainability records, implement green sales, make provisions for sustainable value chains, and create effective operational, reputational and regulatory risk-management frameworks are likely to create significant value in their businesses.

According to *Value of sustainability reporting*, a study by EY and the Boston College Center for Corporate Citizenship, integrated reporting is the next step for companies. It provides a comprehensive picture of value by taking into consideration their environmental, social and governance dimensions along with their financial performance. Furthermore, a resource-constrained world requires organizations to have a C-suite focus on resources and energy. For instance, the role of the chief resource and energy officer can include forecasting a company's current and future resources, energy requirements and risks, and, based on these forecasts, optimizing its procurement processes and consumption of resources.

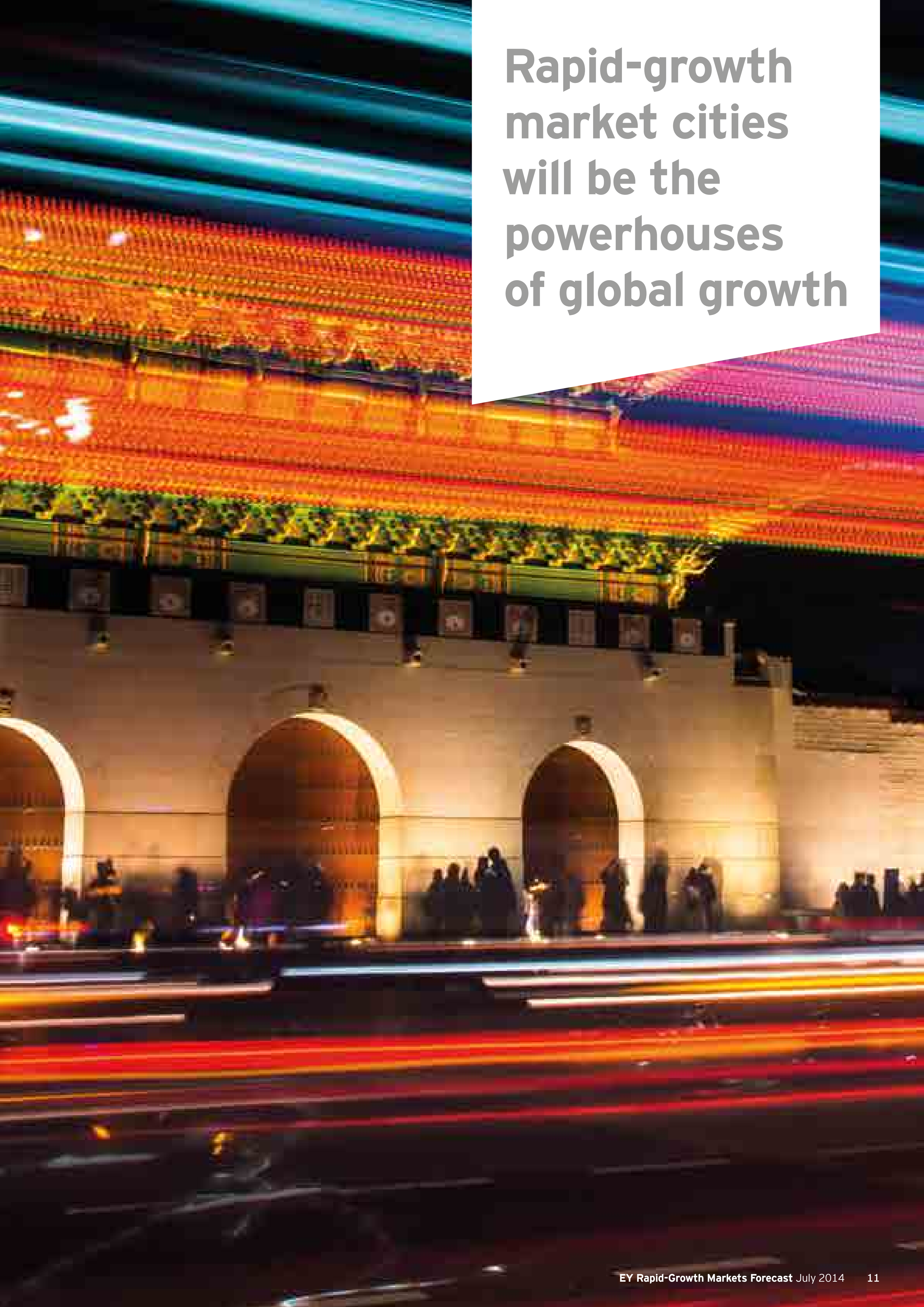
Key questions for businesses

Today

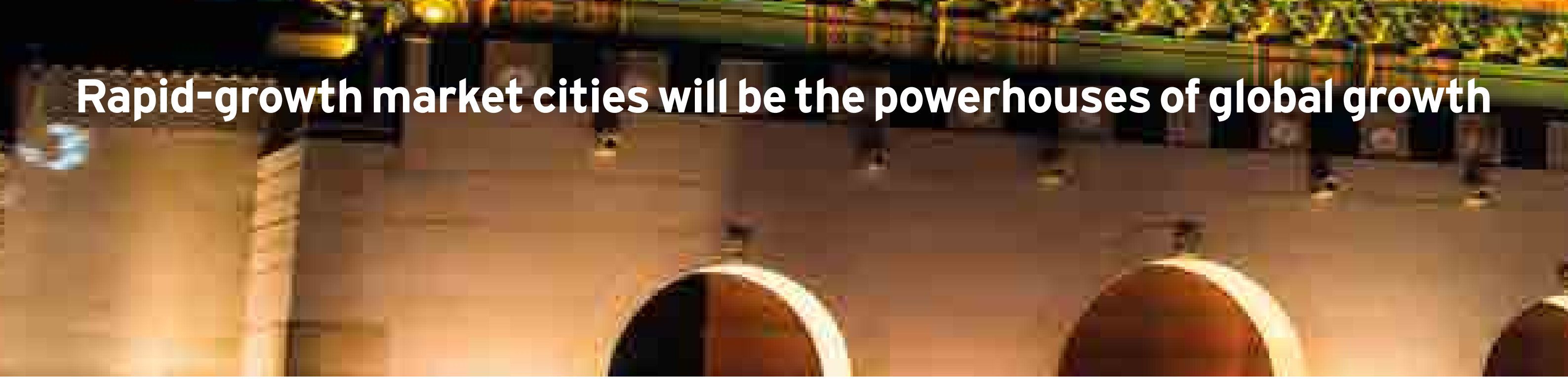
- Are your local debts protected against rising interest rates?
- Are your big currency risks hedged wherever possible?
- Have you thought of realigning your geographical concentration in RGMs, based on the widening divergence between these markets?
- Does your growth-forecasting model take into account the relative riskiness of different markets? For example, does it assess the potential impact of political and policy risks, increasing competition and rising costs in emerging markets? And is the model robust enough to understand categories and channel-related opportunities?
- Are you aware of the distinct and critical success factors in each of the RGMs?
- To what extent is your business exposed to current geopolitical events and what steps are you taking to reduce their impact on your supply chains and trade routes? Do you have a practical strategy in place to tackle worst-case scenarios?

Tomorrow

- Is your entry and expansion strategy confined to the country and regional level or does it extend to cities and urban areas?
- Have you gathered intelligence to understand the unique nature of opportunities in different RGM cities? Have you identified the cities that are the best suited to your business?
- Does your organizational structure include leaders focused solely on the city level?
- Have you categorized the leadership decisions that need to be taken at national, regional and urban levels?
- Is your business equipped to deal with the threat of inadequate infrastructure or the social pressures that come with urbanization?
- Are you aware of the financial and non-financial benefits that can accrue to your business through sustainability reporting?
- What is your strategy for increasing the use of green technology in your business operations?



Rapid-growth market cities will be the powerhouses of global growth



Rapid-growth market cities will be the powerhouses of global growth

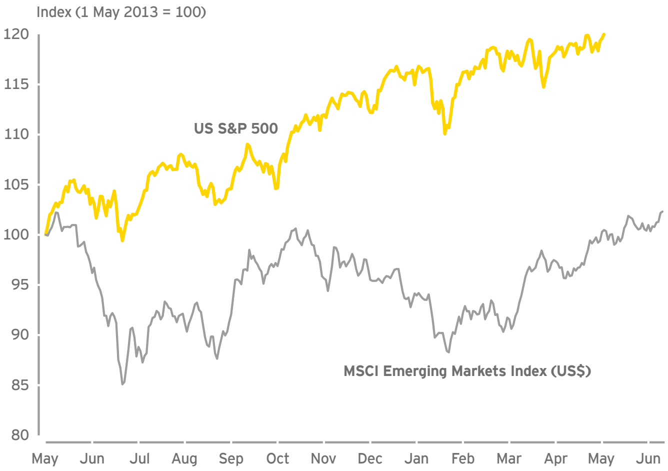
Recovery in the financial markets

The rapid-growth markets (RGMs) have recovered somewhat from the financial turmoil seen in the second half of 2013. Equity prices across most RGMs have climbed steadily since January and risk spreads on emerging market bonds have fallen. Fears that the US Federal Reserve's tapering of government bond and other assets purchases might have a negative impact on the RGMs have so far proved unfounded.

At the same time, political risks have risen sharply in some RGMs. And the economic fallout from the turbulence in RGMs last year is still being felt in some countries in the form of tighter policy. Meanwhile, others are grappling with high inflation and rising budget deficits, which is eroding the scope for implementing reforms to boost growth.

Figure 1

Emerging markets: equity markets



Source: Haver Analytics.

BRICS launch development bank to strengthen ties ...

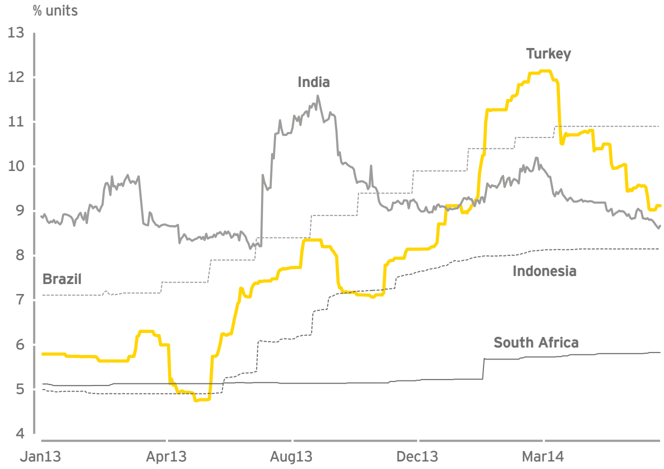
Brazil, Russia, India, China and South Africa have agreed to create a new US$100b development bank and emergency reserve fund to strengthen economic ties between the five geographically and economically diverse countries. India will hold the first rotating five-year presidency, and Shanghai will host its headquarters. Its members hope the bank will help to accelerate multilateral trade talks, while the emergency reserve fund will work together with the IMF to facilitate currency swaps. Together, the BRICS countries produce more than 20% of nominal global GDP but hold just 10.3% of the votes for IMF decisions. This new development bank should help to redress the balance of power and offer another source of funding for infrastructure development in rapid-growth markets.

... but inflation hampers growth

While the lira, real, rupiah have recovered somewhat since the start of the year, they still remain significantly below the levels seen in May 2013. Inflationary pressures remain high in India, Brazil and Turkey and interest rates have had to rise considerably.

Figure 2

Short-term interest rates



Source: Oxford Economics; Haver Analytics.

In Turkey, interest rates rose by 550 bps in late January as the central bank sought to support the lira and bring inflation under control. The strategy did help to stabilize the lira, but inflation remains well above target. In addition, high interest rates are weighing on domestic demand, with investment contracting sharply in Q1 2014 and consumption flat on the quarter. But strong export volumes boosted Q1 headline growth to 4.5% on the year, above expectations. In response, the central bank cut the main interest rate by 50 bps in May and by another 75bps in June. But the risks are skewed to the downside, and it is vital that the authorities continue to prioritize correcting the external imbalance.

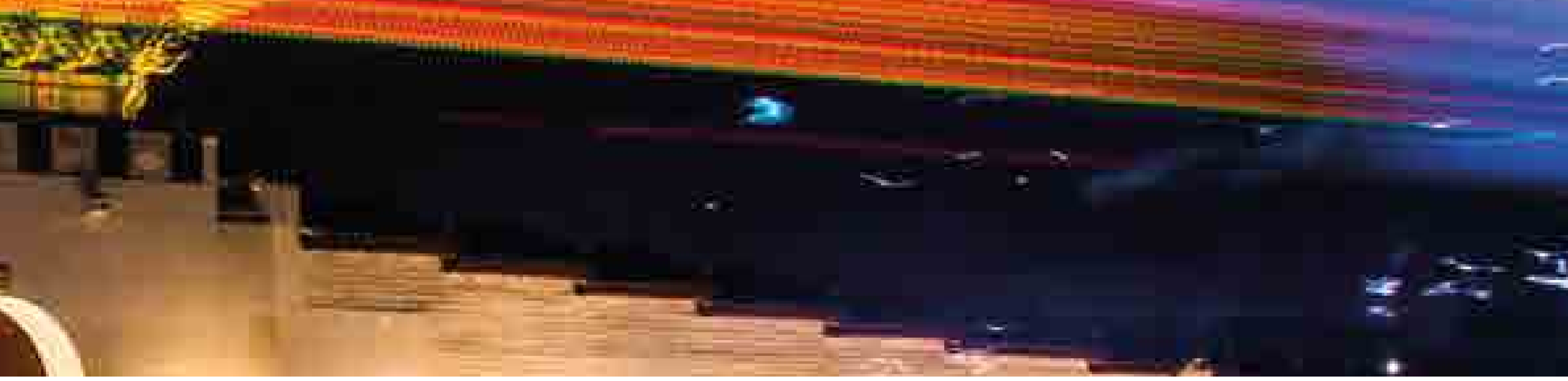
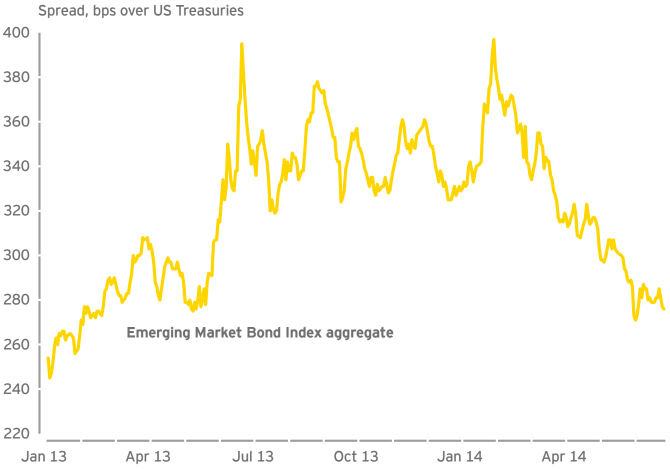


Figure 3

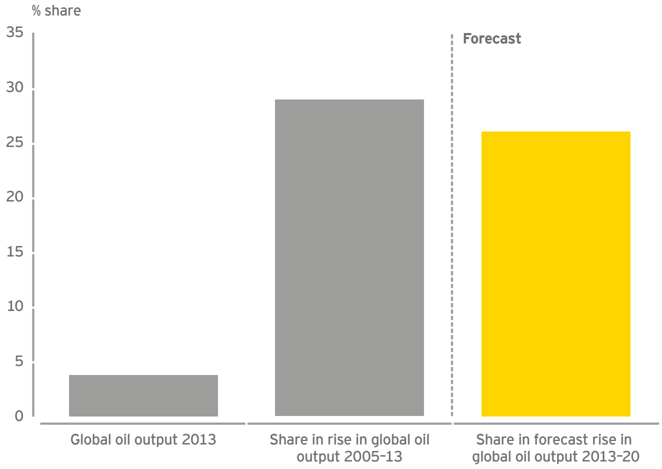
Emerging markets: sovereign risk spread



Source: JP Morgan; Haver Analytics.

Figure 4

Iraq: shares in world oil output



Source: Oxford Economics; Haver Analytics.

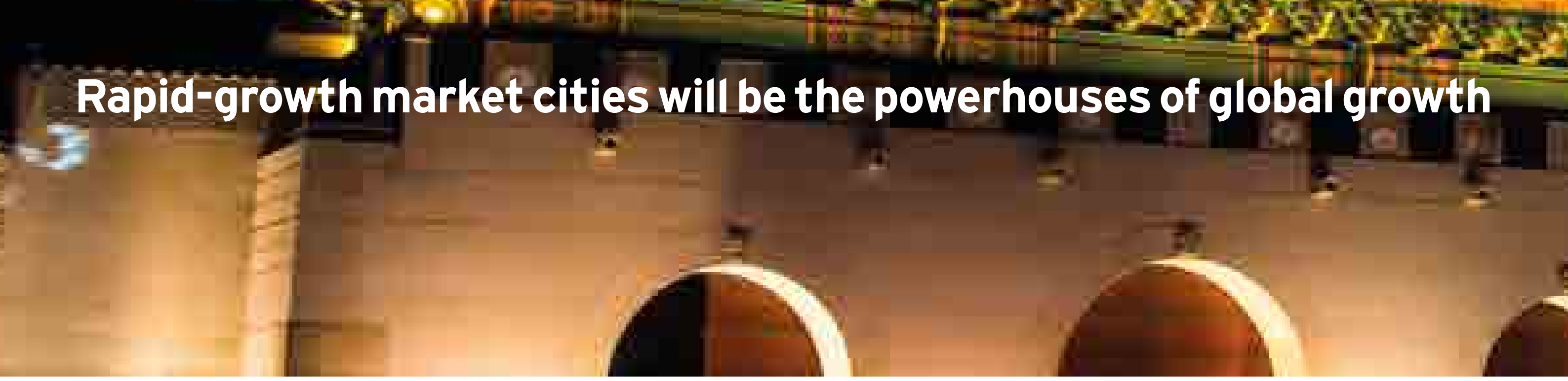
Iraq tensions causing oil price volatility

The latest developments in Iraq have threatened political stability in the country and created uncertainty over its oil output. This contributed to a spike in oil prices to US$115 in mid-June. Iraq has contributed over a third of the growth in world oil output over the past eight years, as its oil production has recovered from previous conflicts. Over the next eight years, Iraq is expected to contribute over a quarter of output growth. But greater political instability could affect current output levels and future investment in Iraqi oil production. Oil prices could spike further as a result. This would have implications across the world, most notably for oil-importing countries with large current account deficits.

Ukraine conflict has hit emerging Europe …

Political tensions between Russia and Ukraine have taken a major toll on both economies. Ukraine's hryvnia fell by around 30% in the year to the end of June. And in Q1, the rouble fell sharply as capital flowed out of Russia. Russia's central bank was forced to increase interest rates in March and again in May. The rouble has recovered somewhat since then, but Russia's economy is still suffering. Growth in Russia fell on the quarter in Q1 2014, we expect there was another contraction in Q2, and we now forecast growth close to flat for 2014 as a whole. This is much weaker than the expansion of close to 2%, which we forecast in February.

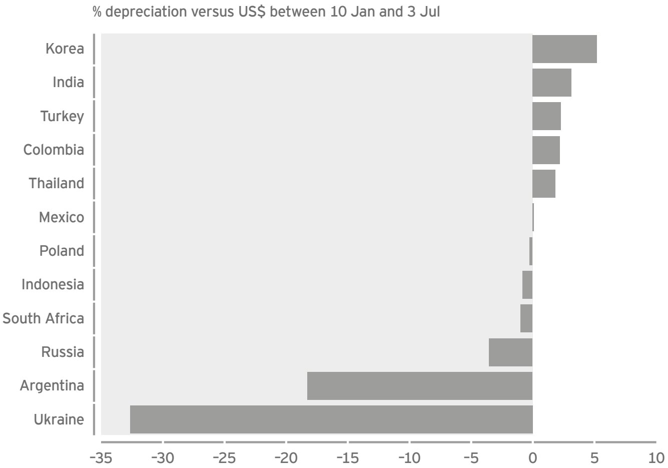
Difficult times may have brought RGMs closer together, with Russia and China finally signing a historic natural gas deal in May. The deal involves a new pipeline across Siberia that will see an estimated 38 billion cubic meters of natural gas supplied to China by 2018. It also includes closer trade and infrastructure links between the two countries and will help to lift Russia's growth over the medium term.



Rapid-growth market cities will be the powerhouses of global growth

Figure 5

Rapid-growth markets: currency performance



Source: Oxford Economics; Haver Analytics.

Ukraine's economy, damaged by the conflict with Russia and internal strife, is likely to fall into a deep recession this year. Despite Russia's agreement to respect Ukraine's election result and talk to newly elected president Petro Poroshenko, the recovery will be slow. The reform agenda will be set by the IMF, whose US$17b package is conditional on deep cuts to government spending in order to bring the budget deficit under control.

… and further conflict would be damaging

Ukraine depends on Russia for nearly a third of its gas supplies. And many other eastern European countries rely heavily on gas from Russia. Were the conflict to escalate, gas supplies would be affected and energy prices would be likely to increase sharply. In addition, we would see further capital outflows from Russia and Ukraine with pressures on their currencies. As a result, Russia would face a deep and prolonged recession. The impact on fuel prices and trade flows would be enough to push the Eurozone back into recession next year.

Thai economy beset by political instability

Thailand's army seized control of the country on 22 May, following more than six months of political turmoil. As a result, we now think that GDP will contract by 0.2% this year, sharply down from our February growth forecast of over 3%. More than US$15b of planned investments have been on hold since the end of 2013, but it should be possible for most of these projects to be restarted in the coming months. We expect the recovery to pick up speed toward the end of the year, helped by gradually improving confidence.

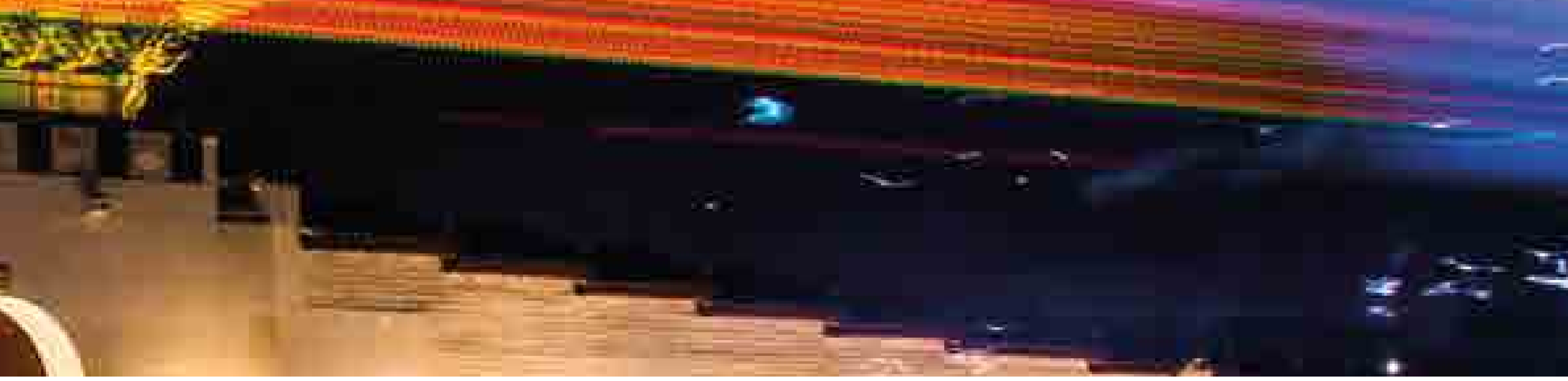
The big long-term concern for Thailand is that even if a new government is elected next year, as we expect, it is likely the country will remain deeply polarized. We think that further periodic bouts of tension are probable, undermining investment and dampening confidence in the economy's prospects. As a result, we have reduced our medium-term growth forecast to reflect these concerns.

Heatmap shows risks higher in Ukraine but easing in India and Vietnam

While political risks have risen and economic data for some RGMs has been disappointing, risk premia on their debts have fallen back to the low levels seen earlier this year. It may be that markets are underestimating some of the risks to RGM economies, particularly with high current account deficits persisting in some.

Accordingly, we have updated our heatmap, which measures the relative vulnerability of RGMs to capital outflows, based on indicators such as government debt, external liabilities and credit growth. Countries are then ranked on their relative vulnerability for each indicator, and these rankings are added together to give a total score.[1] A higher score indicates higher relative vulnerability to capital outflows and other economic shocks. To give a few examples, in South Africa, credit markets are already relatively well developed, so they are now growing more slowly than in other RGMs and, as a result, are less of a concern (indicated by green on the heatmap). But a substantial current account deficit is flagged as higher risk (red). In Indonesia, Turkey and Vietnam, fast-growing credit markets must be monitored carefully (red). In February, Ukraine was ranked 12th among the RGMs in our heatmap. In this edition, it has jumped to the second riskiest, driven by the sharp deterioration in the currency this year and the impact on inflation.

1 When giving the overall score (first column in the table) we have added up all seven ranking figures. However, we have normalized the total ranking figures between 1 and 20.



Heatmap

	Overall score	Current account	External debt	Gov. debt	Inflation	Growth in credit to GDP	Import cover	Currency change over year
Turkey	20	28	21	15	27	30	21	26
Ukraine	19	29	26	18	23	5	27	29
Ghana	17	30	17	20	29	9	25	10
Argentina	16	15	6	12	30	28	15	30
Indonesia	15	22	11	9	19	23	18	27
Brazil	15	25	4	25	21	29	4	17
Egypt	15	17	5	27	28	3	23	19
Kazakhstan	14	13	24	6	24	2	24	28
Czech Republic	14	18	22	19	1	21	19	20
Advanced*	14	16	27	28	6	9	23	11
India	14	21	7	24	26	20	5	14
Vietnam	14	6	12	22	18	24	22	13
Chile	14	24	18	5	17	14	13	25
South Africa	14	27	19	16	20	8	16	8
Mexico	13	19	10	17	16	22	17	11
Poland	13	16	25	23	2	19	20	3
Hong Kong	13	10	30	14	15	26	11	5
Thailand	12	14	16	10	8	25	9	21
Russia	12	11	14	4	22	18	7	24
Colombia	11	23	8	11	11	27	12	4
Malaysia	11	7	15	21	13	17	6	16
Korea	9	5	13	13	6	10	26	1
Nigeria	8	8	1	8	25	1	10	18
Qatar	8	1	20	1	14	15	8	6
China	7	9	2	7	7	16	2	15
Saudi Arabia	7	2	3	3	12	12	1	22
UAE	6	3	9	2	9	7	14	9

*Aggregate measure of Germany, Japan, the US and the UK.

Source: Oxford Economics.

What is displayed in each column

1. **Overall scores** are based on the addition of the seven rankings. We have then normalized the total rankings from 1 to 20. The highest figure indicates the highest risk.
2. **Current account balance** shows the strength of the current account balance in 2013.
3. **External debt** shows the level of external debt over GDP in 2012.
4. **Government debt** shows the level of government debt over GDP in 2012.
5. **Inflation** shows average inflation in 2013.
6. **Growth in credit market** shows the average growth of credit markets as a share of GDP from 2010 to 2012.
7. **Import cover** shows the ratio of foreign exchange reserves to imports in 2013.
8. **Currency change over year** shows the change in the currency against the US dollar over the 12 months to mid-December 2013.

Legend of colors used in first column (Overall score)

For each indicator, we have marked:

- In red: the eight economies with the highest risk
- In orange: the nine economies with medium risk
- In green: the nine economies with the lowest risk

Rapid-growth market cities will be the powerhouses of global growth

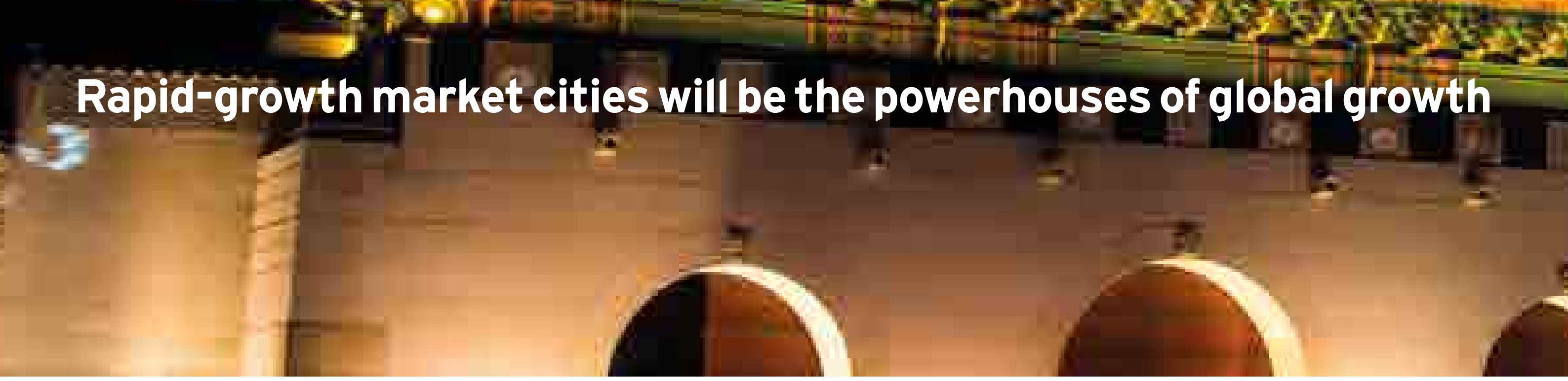
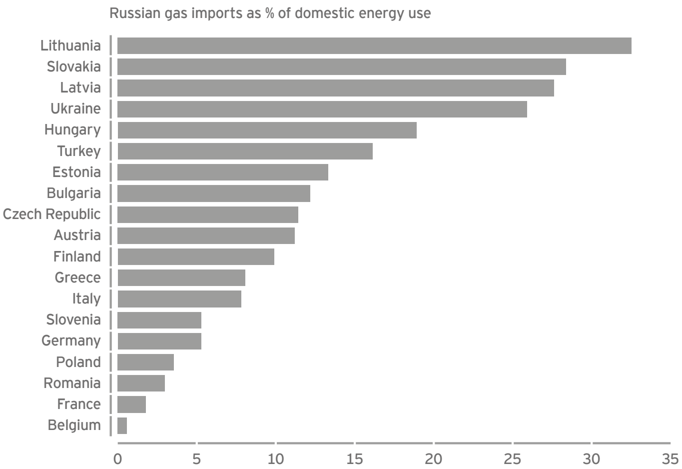


Figure 6

World: Russian gas dependence



Source: Eurostat; BP.

Helped by a sustained move into current account surplus from 2011, and the stabilizing influence this has had on the currency and inflation, Vietnam has fallen from 4th riskiest in February to 11th in this edition. And India's score has also improved, reflecting the progress it has made in reducing its current account deficit.

Renewed hope for India

India's Bharatiya Janata Party (BJP) won an absolute majority in the 2014 general election, marking an end to coalition politics for the first time since 1984. This clear mandate for Narendra Modi, the new Prime Minister, provides a more secure platform for governance, and should help India drive forward economic reform. In a survey of 76 chief executive officers conducted by the Federation of Indian Chambers of Commerce and Industry, 82% expect their business and investment prospects to improve.

But in the near term, high inflation is preventing the central bank from loosening policy to boost growth and, over the medium term, India's large government deficit will limit the scope for increasing infrastructure spending. Reforming the tax system to increase government revenues will be an important step toward allowing India to invest in power generation and other infrastructure.

The Government's first budget, delivered less than two months after assuming office, affirmed its intention to address India's most pressing economic problems. The Finance Minister emphasized the need to tackle inflation, to develop infrastructure, to improve governance and, most importantly, to kick-start the investment cycle to revive growth. The budget contained measures to improve the investment environment, including raising the FDI cap for insurance and defense to 49%, recapitalizing public sector banks, and providing an investment allowance for small businesses. The development of infrastructure and real estate investment trusts, coupled with a range of tax incentives for these trusts, should boost funds for investment. The budget also highlighted the BJP's commitment to develop a stable and fair taxation regime. Much of the detail still needs to be worked out, but if the Government is able to follow through on its intentions, it could provide a substantial boost to the economy.

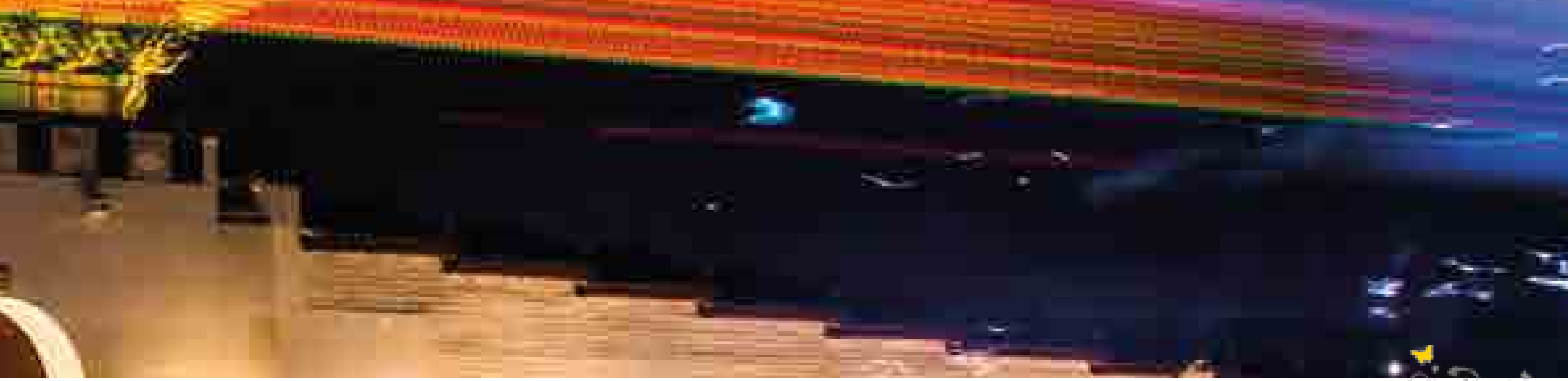
Brazil constrained by macro imbalances

With the current account deficit deteriorating to 5% in Q1 2014, Brazil continues to score highly on our heatmap, with macro imbalances impeding its near-term growth. Investment, consumer spending and export volumes all fell on the quarter in Q1, with only public spending keeping total GDP from contracting. The football World Cup should provide a boost to tourism during Q2 and beyond. Some of the hoped-for public spending on infrastructure, such as the high-speed train link between Rio de Janeiro and Sao Paulo, has not materialized, but the public debate has now shifted to the efficiency of government spending. This should help Brazil to improve its fiscal framework.

Over the medium term, Brazil needs to tackle its macro imbalances in order to attract more investment and improve its credit rating. We now expect a more modest recovery in growth to 2% next year. But Brazil has a large, well-educated population and incomes are rising. This increasing prosperity will help to boost growth above 3% by 2017.

China's urban development supports growth

Monthly data for Q2 to date has shown some modest improvement in activity in China, in line with our expectations, and the economy is likely to expand by more than 7% this year. In March, the Government set out an ambitious urban development plan for 2014–20. One major objective is to increase the number of urban residents under the *hukou* scheme, allowing them to access local health, education and social security. The reforms should provide additional stimulus to private consumption — a crucial aspect of economic rebalancing. The plan also includes significant infrastructure investment, with all cities with a population of more than 200,000 to be served by a regular rail transport system by 2020.

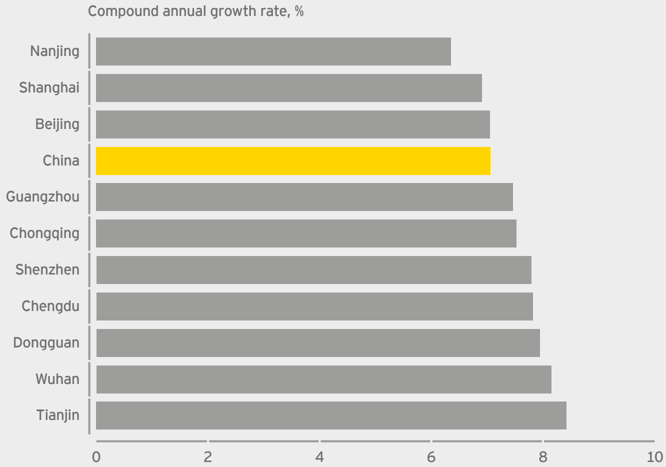


Rising to China's environmental challenges

China's rapid growth and urbanization over the past three decades have created growing environmental challenges. Managing them properly is vital if China is to maintain its growth potential and a good quality of life for its citizens. Rapid urbanization has placed a particular strain on resources in cities, as the incidence of smog and food quality scandals illustrates.

Figure 7

Growth in China and its 10 largest cities, 2012–22

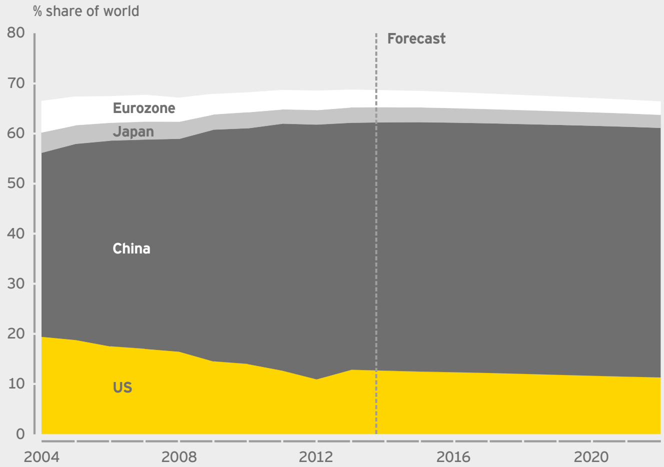


Source: Oxford Economics; Haver Analytics.

Using data from the WHO, the Health Effects Institute estimated that air pollution contributed to 1.3 million premature deaths in China in 2010. To tackle air pollution, the authorities plan to spend 1t yuan (US$163b) in 2014–19 to reduce the concentration of fine particulates by 25% in the Beijing area, including limiting the number of cars registered in the capital.

Figure 8

Demand for coal



Source: Oxford Economics; Haver Analytics.

According to the World Bank's *China 2030* report, written jointly with China's Development Research Centre of the State Council (NDRC), the country's environmental depletion and degradation cost 9% of gross national income (GNI) in 2009. This is over 10 times higher than the cost in Korea or Japan. Air pollution was the biggest problem. Its detrimental effects on health cost 2.8% of GNI.

What are the biggest challenges?

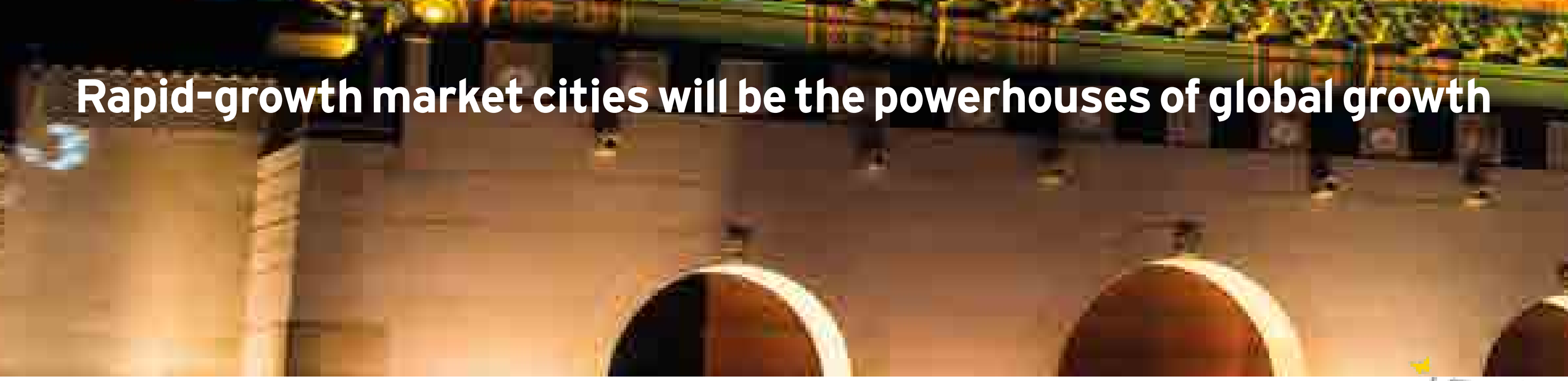
Air pollution

Smog frequently reaches harmful levels in Beijing, Shanghai and other major cities. Poor air quality affects the health of the population, with fine particulates especially damaging for respiratory health. In January 2014, the level of fine particulates in the air reached 40 times the daily safe limit in Beijing (based on World Health Organization (WHO) measures).

Water scarcity and water pollution

China has around 20% of the world's population, but just 7% of its fresh water, according to *The Economist*. Although the south of China has many lakes, much of the north is a virtual desert. Just 785 cubic meters per capita of fresh water is available in these areas, 200 cubic meters less than the international standard for "severe water stress." A 2012 report produced by the Chinese water authority indicated that around 40% of the rivers in North China are badly polluted. In 2010, the World Bank put the cost of China's water crisis at 2.3% of GDP, mostly through health damage. China plans to expand its output of shale gas rapidly, but water shortages will constrain this because most of the gas reserves lie in the driest parts of the country. The Ministry of Environmental Protection has set a target for 60% of China's surface waters to meet the top standards for water quality (Grades I-III) by 2020 (57% reached this target in 2009).

The People's Bank of China implemented a targeted cut in the reserve requirement ratio, aiming to increase lending to agriculture, small enterprises and consumers. This measure will provide some support to growth over the rest of the year. But regulatory measures to curb some of the risks from the growth in shadow banking – including higher capital requirements for lending to financial firms – are likely to lower the amount of credit available in the near term, consistent with the slowdown in investment we expect this year.



Rapid-growth market cities will be the powerhouses of global growth

Rising to China's environmental challenges (continued)

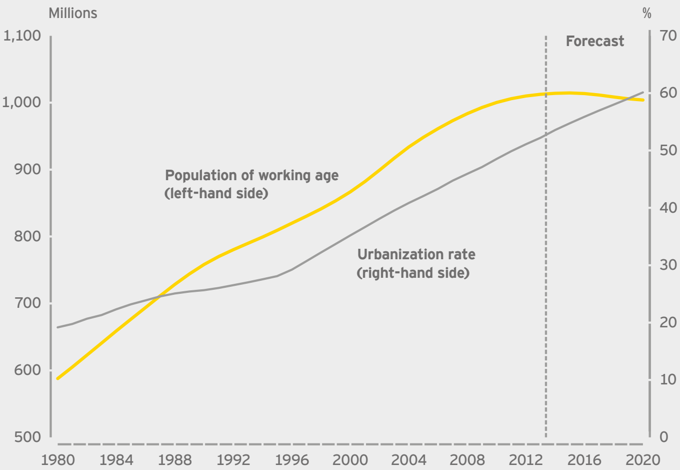
Energy intensity and carbon emissions

Although its energy efficiency has improved faster than any other country's over the past two decades, China is still one of the world's least-efficient energy users. This partly reflects the heavy-industrial mix of China's economy. While the carbon intensity of China's GDP has fallen in recent years, at 0.91 it is still more than twice as high as the average of the members of the OECD.

China fares better on carbon emissions. Although sharply higher over the last 10 years, China's carbon emissions of 6.2 tons per capita in 2010 were well below the 17.6 tons per capita produced by the US. The key to cutting China's carbon emissions is to reduce the dependency on coal by shifting its industrial base away from heavy machinery. The Government has determined that coal should account for no more than 65% of energy consumption in 2017 (compared with 70% in 2008–09).

Figure 9

China: population



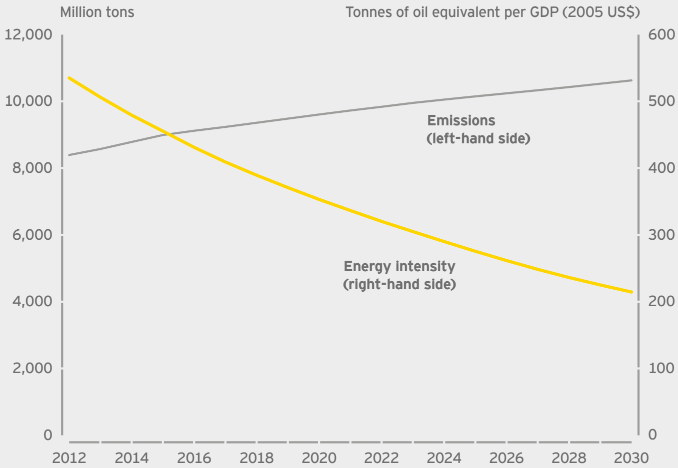
Source: Oxford Economics.

Adopting green technology

The speed of urban growth in China, high rates of investment, fast renewal of infrastructure and the size of the domestic market provide opportunities for the country to adopt green technologies quickly and adjust to more sustainable ways of living. According to the World Bank, China has the world's largest capacity for renewable energy generation. It is a leader in small hydroelectricity generation and has doubled its wind-driven turbine capacity every year since 2005. China is also the world's largest solar panel manufacturer. Adopting green technology is a key part of China's urban development plan for 2014–20.

Figure 10

China: CO_2 emissions and energy intensity

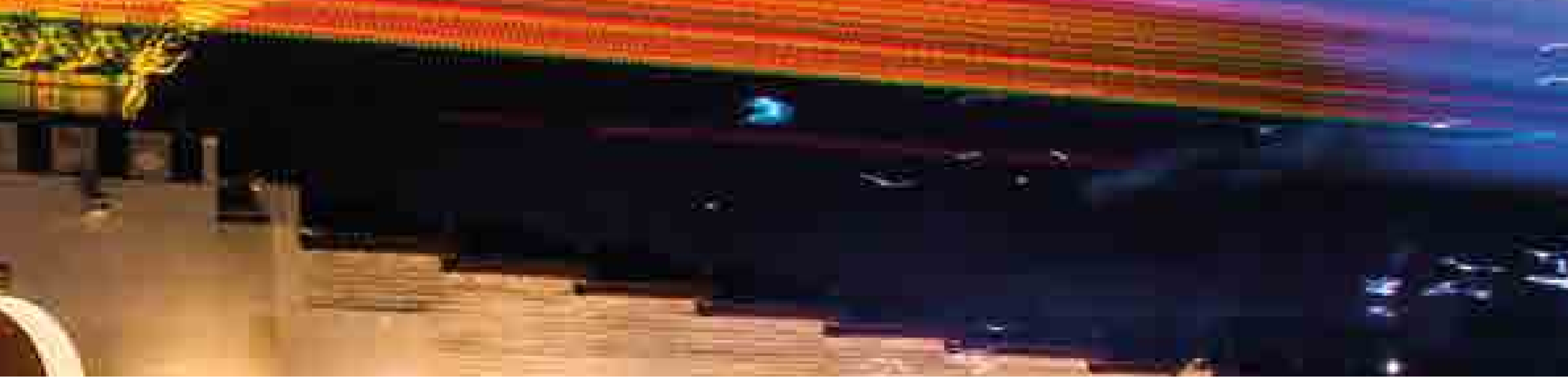


Source: Oxford Economics. Data from 2013 onward is forecast.

We assume that China will make moderate progress toward environmental targets over the course of the next 20 years, in line with the 12th Five-Year Development Plan (covering 2010–15) and the proposals set out in the World Bank-NDRC *China 2030* report. China's economy will continue to develop rapidly, and we expect it to take some steps toward a greener growth model:

- Non-fossil fuels to account for around 11% of primary energy consumption.
- Water consumption per unit of value-added industrial output to be cut by 30%.
- Energy consumption per unit of GDP to be cut by 16%.
- Carbon dioxide emission per unit of GDP to be cut by 17%.

If China were to go beyond the proposals outlined in the China 2030 report, it could increase the pace of economic growth and reduce its energy intensity more quickly. Measures might include introducing market-based systems, such as better pricing of water and other resources. Educating people in order to change consumer behavior, promote the adoption of new technologies and encourage innovation could also raise China's potential growth. This would allow the economy to decouple economic growth from resource intensity at a faster pace than we currently assume in our forecast. We estimate that such a set of policies has the potential to lift long-term growth by 0.7 percentage points a year, to around 7.3% in 2025–30, compared with the 6.6% we expect now. On the sector level, the focus of the economy would shift more toward energy-efficient green growth sectors, such as water management, and away from energy-intensive industries, such as heavy manufacturing.



China holding back intra-Asian trade

While trade growth in the advanced economies has gradually improved in H1 2014, the same cannot really be said for emerging Asia. There are signs that activity in mainland China is beginning to pick up, but import demand remains very subdued, with import values in terms of the US dollar falling in March and May. Trade in the rest of Asia also remains fragile, with exports from Taiwan to the states of the Association of Southeast Asian Nations falling in May. But recent data on global air freight, Hong Kong container shipments and US semiconductor orders offer signs of improvement, and we expect Asian trade flows to improve modestly in H2 2014. The world needs to get used to a slower pace of growth across RGMs than was seen over the past decade. However, a solid recovery will see growth close to 5% in 2015.

RGM cities are the powerhouses of growth

Prospects for the near term in our RGMs may be more subdued. But, over the medium term, they have strong growth potential. As a consequence, they are strategically important for businesses. Looking below the national level, it is the major cities within these countries that are becoming the powerhouses of global growth. And by the end of the next decade, it is China's cities that will dominate the global landscape. For instance, the total GDP of China's 150 largest cities is expected to triple from US$8t today, to US$25t by 2030. This trend is being driven by rapid urbanization and rising labor productivity across RGMs. At the same time, the pace of urbanization will lead to increasing pollution and pressures on infrastructure. Those cities which are able to adopt the best green technologies and maintain a better built environment will attract the best talent and succeed. There is also much diversity in demographic and industrial trends across the RGMs and within them. Drawing on Oxford Economics' *Global Cities 2030* report, we examine the implications of this for public services provision, consumer demand and industry.[2]

By 2030, half of the world's top 50 cities will be in RGMs, up from a third now

By 2030, China, Indonesia, Nigeria and Ghana will have more than two-thirds of their populations living in cities, with the population in Lagos increasing by a phenomenal 13 million. By this time, 40% of the 50 largest cities in the world in terms of constant-prices GDP will be in China. Outside China, Jakarta, Istanbul and Sao Paulo will all rank among the world's top 20 cities in terms of economic output.

Figure 11

Region global 750* urban aggregate: GDP

(US$t 2012 prices and exchange rates)

Source: Oxford Economics *Global Cities 2030*.

*750 of the world's largest and most strategically important cities.

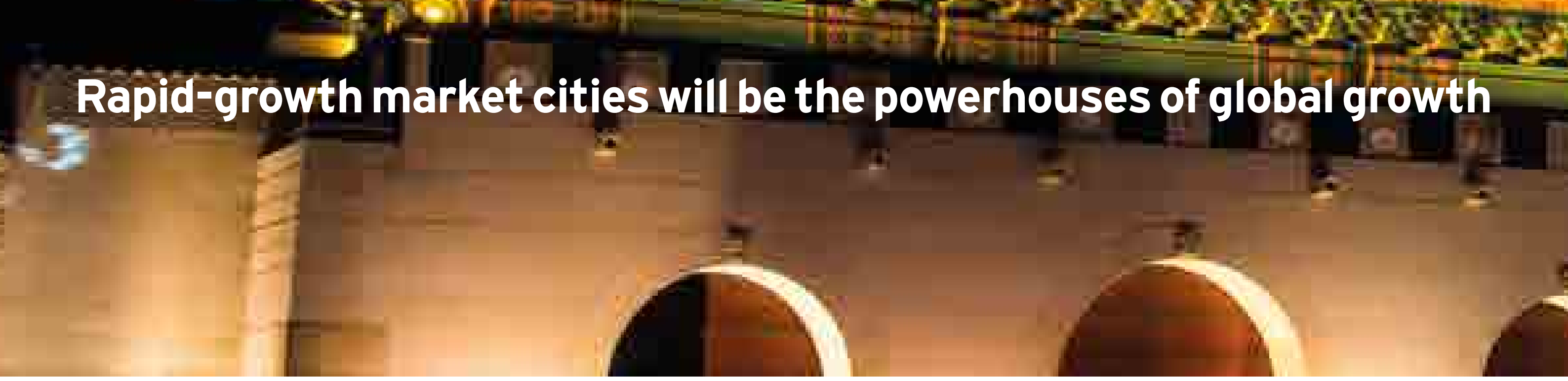
In Latin America, Mexico City will grow by more than 60% in terms of constant GDP from 2013 to 2030, faster than many European and Japanese cities. On pages 22 and 23, we examine the green economy reforms the Government is expected to sanction soon in Mexico. We expect these reforms to underpin medium-term growth of 4% a year. Curitiba, Brazil's sixth largest city, will be one of the fastest-growing cities in Brazil over the next 10 years, helped by urban-planning reforms that promote greater sustainability.

Rapidly growing urban populations bring opportunities ...

The fast growth in urban populations across the RGMs brings many opportunities for business, including rising demand for consumer goods and services, and the potential for companies to shift production to locations where employment, infrastructure and the investment climate are improving fast, but wages remain competitive.

The Oxford Economics *Global Cities 2030* forecast indicates that the number of high-income Chinese consumers will soar over the next two decades. Starting from a comparatively low base today, by 2030 China will have 45 million urban households with incomes of more than US$70,000, putting it well ahead of Europe. Shanghai will become the 8th city in the world in terms of the number of high-income households in 2030, up from its position of 69th at present.

2 *Global Cities 2030*, Oxford Economics, 2014, further information available at www.oxfordeconomics.com/cities/report, accessed 8 July 2014.



Rapid-growth market cities will be the powerhouses of global growth

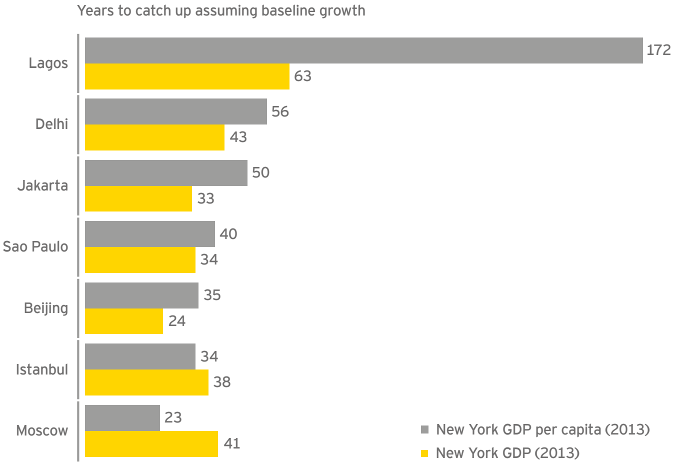
Rapid population growth in Africa and South Asia will lead to strong expansion in lower-income households. By 2030, there will be 30 million households in Africa with incomes above US$5,000 but below US$10,000. While these households will not be able to afford luxury goods, for providers of low-cost goods and services — such as mobile phone airtime cards and cheaply packaged products for home use, such as cooking oil and toothpaste — the volume of these low-income consumers in African and Asian cities offers significant potential. By 2030, Jakarta will have the largest working-age population of any global city, while Lagos will have the eighth largest. Mumbai and Delhi will also make the top 10. This will provide a source of strong employment growth for companies, as well as demand for their goods and services.

… but household incomes will be slow to catch up

Though the urban economies will grow rapidly in emerging and developing countries, they will continue to lag behind advanced cities in per capita terms, and therefore living standards will improve much more slowly. In terms of non-purchasing power parity, it will take Lagos over 150 years to reach New York's current GDP per capita level. This shows the extent to which there is still potential within RGM economies to adopt more productive technologies and for the more able cities to leapfrog those that are less innovative.

Figure 12

Selected global 750 cities: catch-up with New York



Source: Oxford Economics; Haver Analytics.

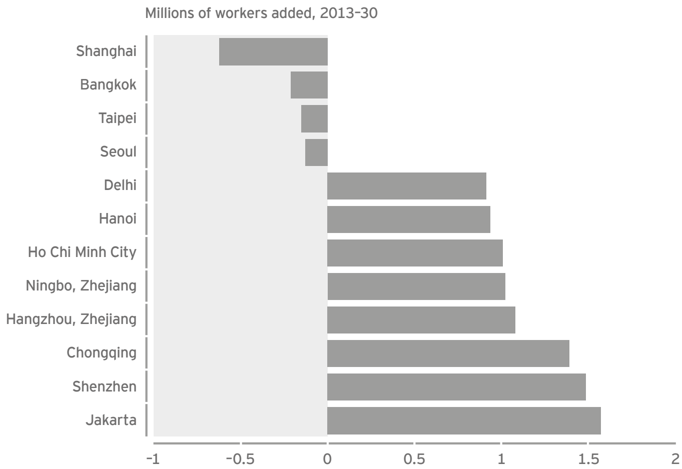
Although consumer spending in RGMs will gradually include a greater share of discretionary spending, it will take many decades before spending patterns in the RGMs match those in the advanced economies. The average consumer in Lagos in 2030 will still spend 35% on food and drink, compared with less than 10% in Tokyo. The share of spending on recreation, eating out and accommodation will be 7% in Lagos, compared with 25% in Tokyo.

Manufacturing expands in Asia's coastal cities

There will be tremendous shifts between different sectors in RGM cities. Manufacturing is forecast to expand in cities with more space to grow, and growth in the financial services sector is expected to accelerate in cities such as Beijing, Mumbai and Lagos. Industrial output in more space-constrained cities, such as Hong Kong, Shanghai, Seoul, Bangkok and Sao Paulo, with relatively more-expensive land and labor costs, will grow much more slowly than in cities such as Jakarta. In more developed urban areas, we will see much slower industrial employment growth because of the loss of competitiveness. These older cities are becoming increasingly expensive and space-constrained locations for land-hungry industrial activities.

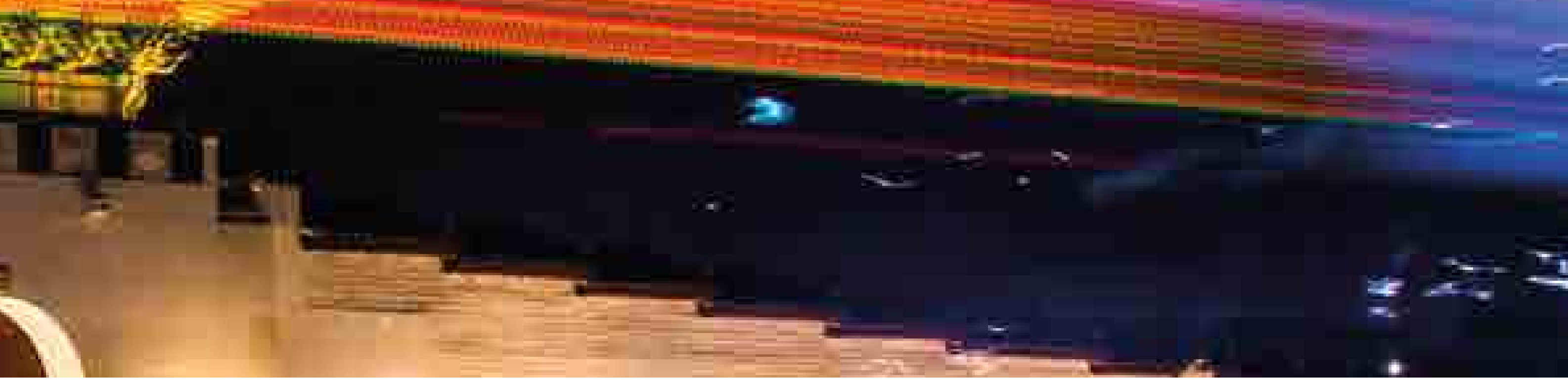
Figure 13

Rapid-growth markets: industrial employment



Source: Oxford Economics; Haver Analytics.

The coastal cities near to China's manufacturing hubs are set to benefit most. These include Jakarta and Ho Chi Minh City. A number of Chinese cities, such as Chongqing, will also continue to enjoy employment growth in the industrial sector, as facilities move

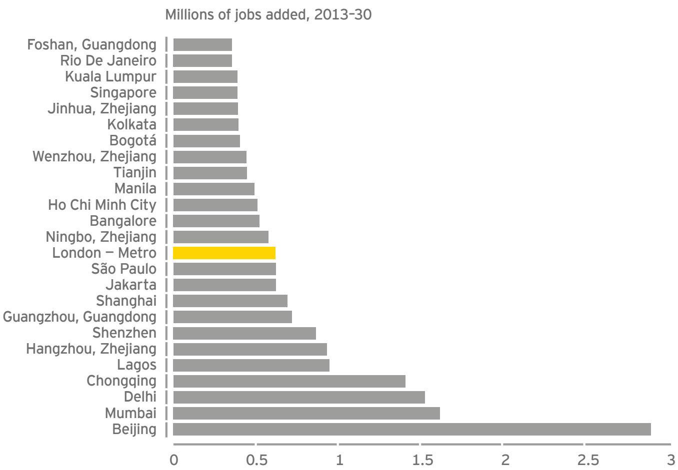


inland and to cheaper locations, and as China continues to attract industry and investment. Figure 13 illustrates this trend from 2013–30. Data for the past 10 years shows that Chongqing, Shenzhen and Jakarta each added more than 2 million manufacturing jobs between 2003 and 2013, while Seoul and Bangkok lost manufacturing jobs.

Asian cities will not only dominate jobs growth in industry, but also in finance and business services — the key drivers of the real estate office sector. In 2030, Beijing will have more financial and business services jobs than any other global city, ahead of even London, Tokyo and New York. Some of the big movers up the global league table will include Mumbai, Delhi, Lagos, Shenzhen, Hangzhou and Guangzhou. As the chart below shows, these cities will all add more financial services jobs than London will over the next 15 years.

Figure 14

Rapid-growth markets vs. London: financial services jobs



Source: Oxford Economics; Haver Analytics.

The nature of financial and business services employment growth will vary across cities because of the broad nature of the sector. Lower value-added activities, such as outsourced services, will grow faster in emerging cities. In the more advanced RGM cities, although overall growth will be weaker, there will be a transformation within the sector and faster growth in higher value-added activities, such as head offices, legal services and advertising.

Aging and strains on infrastructure bring challenges

Varying demographic trends in cities across the RGMs bring both challenges and opportunities. For countries such as Russia, Poland, Korea and China there will be fewer than five workers supporting each elderly person by 2030. In contrast, India, Indonesia, Egypt and South Africa will still have almost 10 workers for each elderly person.

For all the RGMs, this presents a challenge for the provision of urban public services. Mumbai's working age population is forecast to expand by a third by 2030, while Tokyo's will shrink by 7%.

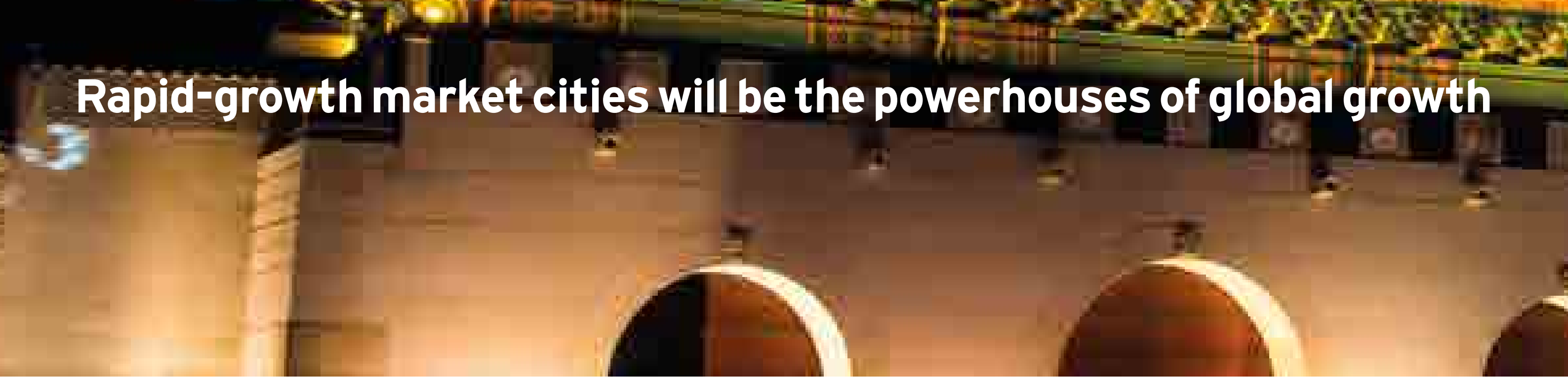
In Mumbai, the challenge is to ensure growth is supported by health and education services, and by reliable infrastructure.

As part of the recent budget, the Indian Government announced a US$1.2b investment in smart cities over the next year. These cities will be located where there are already optical fiber networks and next generation infrastructure. The proposal focuses on ways of using information and communications technology to help urban areas function efficiently. The initiative is already underway, with many smart cities already planned or in the process of being built.

In Jakarta, the number of cars is forecast to rise to 5 million within the next 10 years, from under 3 million today, putting substantial pressure on the already busy road network. In Egypt, the Government is planning to build new cities in the desert to accommodate the growing population. Millions of Egyptians live in informal settlements on the edge of cities and lack basic infrastructure, but the Government is committed to providing better urban living conditions.

Key messages

- The world order is changing. Growth is, and will continue to be, led by cities in emerging markets, especially in Africa and Asia.
- Economic development in rapid-growth market cities will be associated with significant growth in financial and business services and consumer services.
- Each city has unique economic characteristics, so growth disparities will occur within countries and continents, as well as between them.
- Europe's cities are set to grow more slowly than their counterparts in developed and developing countries as a result of aging populations and slower productivity growth.



Rapid-growth market cities will be the powerhouses of global growth

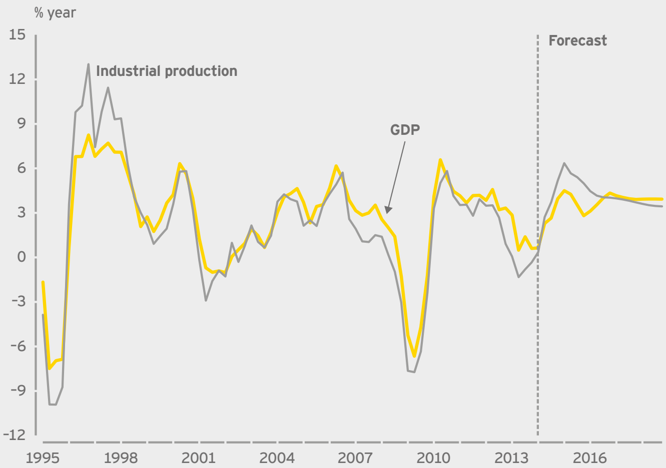
Mexico leads the way in adoption of green technologies in Latin America

Mexico is making rapid progress toward the liberalization of its telecommunications and energy industries. In addition, it has emerged as a regional leader in promoting its green economy. Brazil hosted the United Nations Conference on Sustainable Development in June 2012. The governments of Colombia and Guatemala proposed that UN members should set goals toward sustainable development, to be adopted after the Millennium Goals expire in 2015. These goals will be drafted this year.

The embodiment of Mexico's green economy program is found in the Federal Government's National Development Program 2013–18. This program consists of a series of structural reforms across sectors throughout the Mexican economy. The reform efforts aim to deepen Mexico's economic and social development and boost economic potential by opening up key industries to private investment. Much of the agenda centers on a commitment to green growth. We believe Mexico's commitment to reform and to the green economy will underpin growth of around 4% from 2015–18, far outpacing Brazil and Argentina.

Figure 15

Mexico: GDP and industrial production



Source: Oxford Economics.

Mexico is reducing its greenhouse gas emissions

As a principal partner in the Global Green Growth Institute, Mexico is aiming to cut its greenhouse gas (GHG) emissions by 30% by 2020, and by 50% by 2050. To meet these targets, Mexico has to generate at least 35% of its electricity from renewable resources by 2025. The scope and range of recently approved energy and electricity reforms could provide Mexico with important tools with which to work toward these targets.

Energy and electricity are the key sectors

With the energy and electricity sectors together accounting for over 70% of the nation's GHGs, the recently approved reforms should result in the development of stricter controls on emissions and carbon usage.

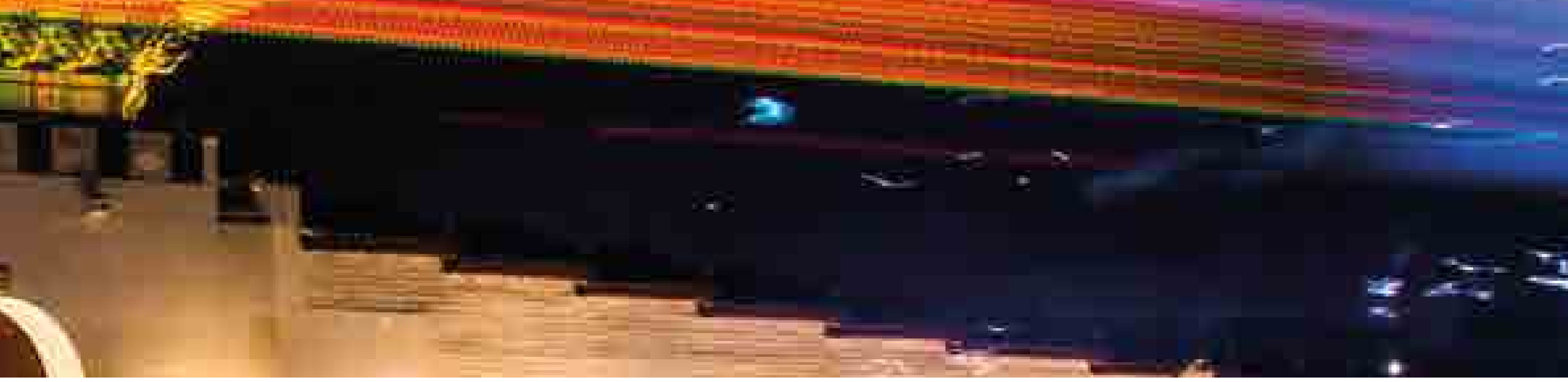
In addition, the energy reform proposals provide a new legal basis for the recognition, exploration and exploitation of geothermal resources. (Mexico is the fourth-largest generator of geothermal energy in the world.)

The purpose of the electricity sector reforms is to open up the nation's grid to private power generators and enable them to compete with the state electricity company, Comision Federal de Electricidad (CEF). The aim is to increase energy supply, reduce costs and ensure the expansion and maintenance of the national electricity infrastructure. The Government intends that the adjustments to the electricity system, together with the climate-based legislation approved several years ago, will help to drive wind, solar and other renewable power generation sources that support Mexico's green-growth development.

From national to local

While the current agenda is focused on establishing a green-driven economic framework at the national level, the Government is also focused on developing its mainstream green growth agenda and climate change policy at the state and local levels. Earlier this year, the Government unveiled the Megalopolis Environmental Commission of the Central Region of Mexico (CAMe). This is a multi-jurisdictional entity with a mandate to oversee environmental policies in five states and the Mexico City Federal District. These areas account for about a third of the country's population and a similar share of GDP.

CAMe has already tasked some states with establishing low-emissions zones. A number of cities are already implementing restrictions and incentives that shift mobility away from older and more polluting private vehicles toward newer and cleaner ones and public transport. In addition, CAMe is considering the introduction of green license plates and other economic incentives to encourage people to choose less carbon intensive and polluting transport options. These initiatives will ultimately reduce greenhouse gas emissions, local pollution and congestion throughout Mexico.



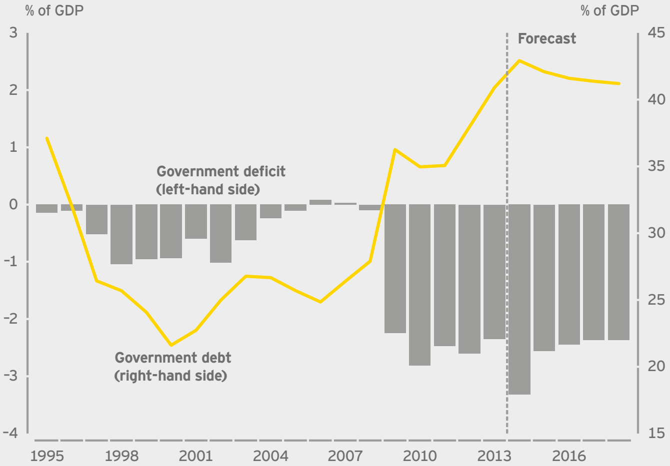
Reform agenda gathers momentum

Implementation of these reforms promises to boost Mexico's long-term growth potential. After legislative approval late last year, implementation of the secondary laws – the last step in making the reforms operational – had been progressing slower than we expected in H1 2014. Only the laws relating to the Federal Competition bill and to some small scale measures relating to the national electoral council had been approved. But earlier this month, the Chamber of Deputies approved the secondary laws, so making the telecommunications reform (which was approved last year) operational. The approval included some minor changes to the original proposal, but the vote points to strong support from parliament for the measures.

Mexico's reform agenda now has strong momentum, and we believe this could speed up the approval of the remaining outstanding reforms. The final approval for the energy and electricity reforms is likely to come before the end of the year. Unlike constitutional reforms, which required two-thirds support, secondary law approvals only need a simple majority (50% plus one vote) in both houses of Congress. Ultimately, the reforms are simply too important to delay any further, and political support is inevitable. We are forecasting 4% growth in Mexico from 2015-18, underpinned by these reforms.

Figure 16

Mexico: Government deficit and debt



Source: Oxford Economics.

Brazil is also making progress

Brazil has the fourth-largest urban population in the world, after China, India, and the US. As such, it requires sustainable urban development planning. Brazil's National Plan on Climate Change was launched by the Government in September 2008. The plan's key objectives are to:

- Encourage the efficient use of natural, human, technological and scientific resources.
- Promote and increase the use of biofuels.
- Achieve a sustainable reduction in deforestation, particularly in the Amazon region. The specific aim is to reduce the rate of deforestation by 70% over the next three years. It is estimated that this would reduce greenhouse gas emissions by 4.8 billion tons.
- Eliminate illegal deforestation.
- Eliminate net loss of forest coverage by 2015.
- Increase energy efficiency and reduce electricity consumption by 10% by 2030.
- Ensure that a high proportion of Brazil's electricity supply comes from renewable sources.

The state of São Paulo has launched a green economy program. The program covers a variety of economic sectors and areas. Curitiba, the capital of Parana State and the sixth-largest city in Brazil in terms of economic output, already offers a good example of integrated urban planning. Curitiba has the highest rate of public transport use in Brazil. According to the United Nations Environment Program (UNEP), 45% of journeys in the city were taken by public transport in 2009. It also has one of the lowest rates of urban air pollution in the country. Curitiba's fuel usage is 30% lower than that of Brazil's other major cities, according to UNEP. The city has also promoted waste management infrastructure and public awareness on waste separation and recycling. UNEP estimates that 70% of the city's residents are recycling. As a result, 13% of solid waste is recycled in Curitiba, compared with 1% in Sao Paulo. Oxford Economics' forecasts suggest that Curitiba will be Brazil's second fastest growing city in the period 2014–23, behind Brasilia.

Forecast for rapid-growth markets

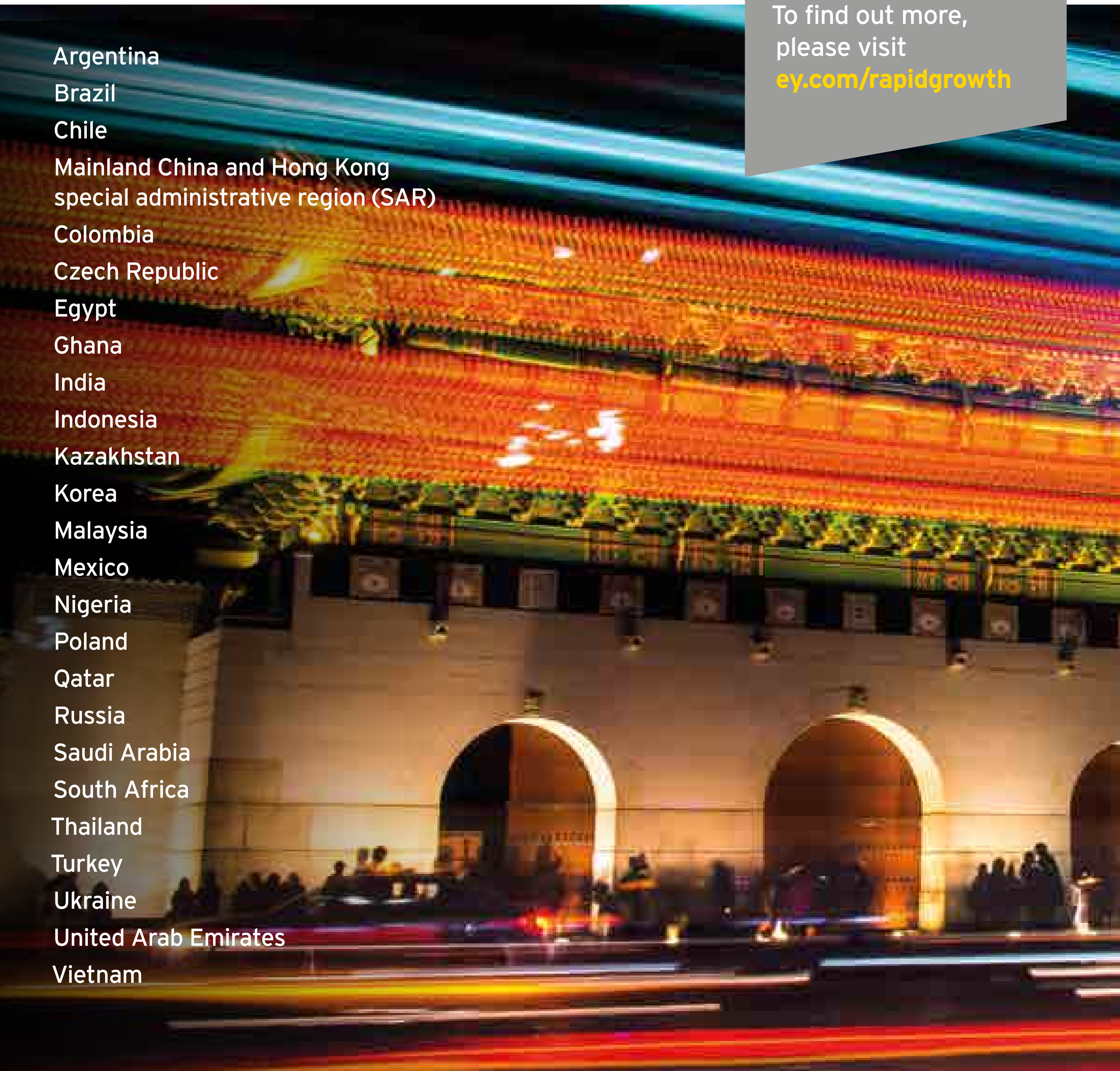
25 rapid-growth markets

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

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

Figure 17 shows the GDP growth of our 25 RGMs over the last 10 years, comparing these with the leading advanced economies. Together, they represent a significant proportion of the world economy (Figure 18).

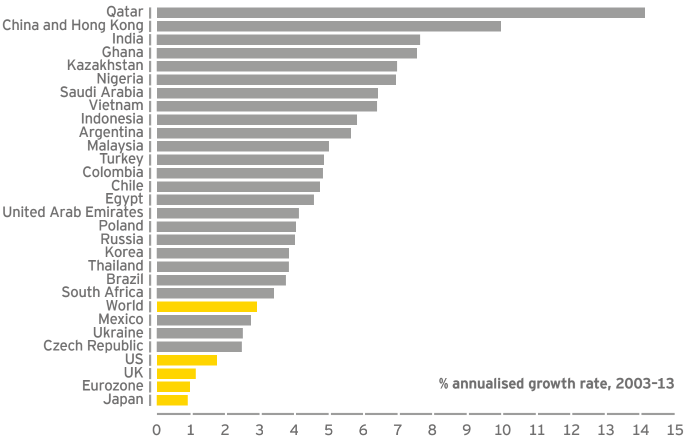
To find out more, please visit **ey.com/rapidgrowth**



- 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

Figure 17

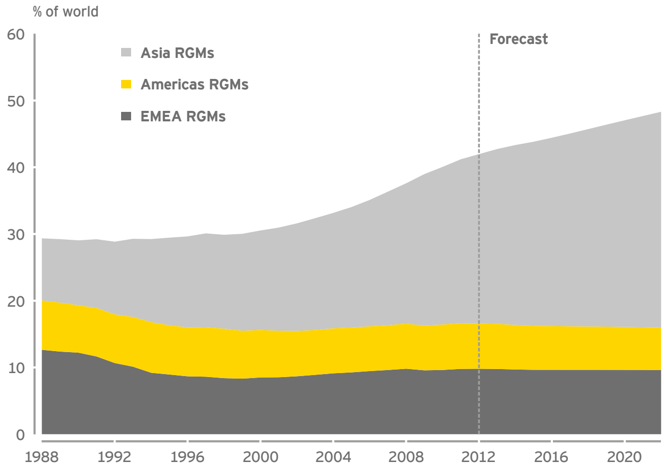
Real GDP growth: 2003-13



Source: Oxford Economics.

Figure 18

Share of world GDP in PPP terms



Source: Oxford Economics.

Argentina

GDP growth

2014 **-1.5%**

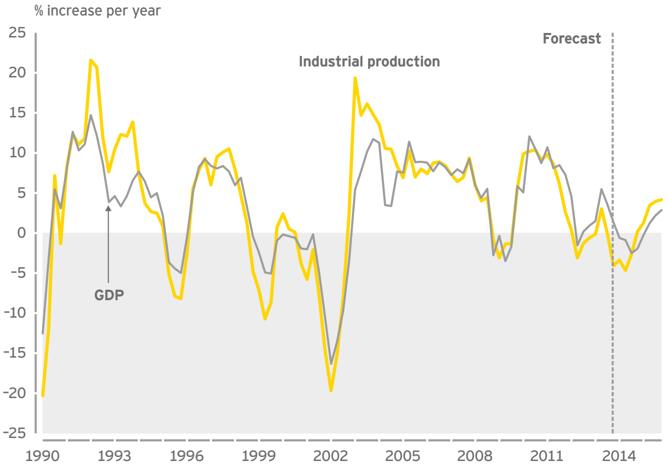
Recessionary risks on the rise

Moderate policy changes were made earlier in the year: the peso was devalued, interest rates rose and data reporting was improved. These measures have helped to stabilize foreign exchange reserves and keep capital from flowing out, while cushioning the peso and improving investor confidence. We now expect a contraction in GDP of 1.5% this year, as continued controls and regulations, intrusive government policies and unaddressed macro distortions continue to undermine the limited potential for a recovery. However, renewed uncertainty over policy ahead of next year's general election raises the risk that Argentina could experience more than one year of contracting activity and high inflation.

The unpredictability of policy remains the most significant barrier to economic progress. Recent moves toward more stable policy have been welcomed, and have helped to assuage concerns. But Argentina needs policy-making that can effectively address the systematic imbalances that are continuing to hinder its economic development.

Figure 19

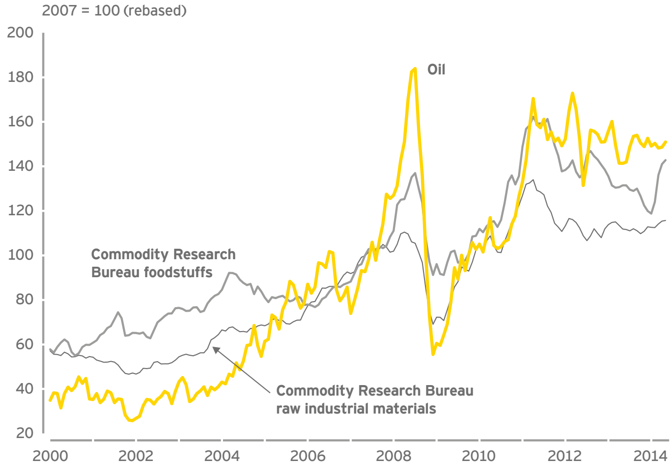
GDP and industrial production



Source: Oxford Economics.

Figure 20

World: commodity prices



Source: Commodity Research Bureau; Haver Analytics.

Argentina

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	3.0	-1.5	1.5	2.7	2.8	2.9
CPI inflation (% per year)	10.6	31.2	30.6	21.8	13.9	8.6
Current account balance (% of GDP)	-0.7	-0.2	-0.1	-0.1	-0.1	-0.1
External debt total (% of GDP)	19.4	21.5	18.4	15.9	15.0	14.7
Short-term interest rate (%)	12.7	14.7	14.2	13.7	13.1	12.6
Exchange per US$ (year average)	5.5	8.3	9.2	9.5	10.0	10.5
Government balance (% of GDP)	-1.8	-1.1	-0.7	-0.4	-0.3	-0.3
Population (millions)	41.5	41.8	42.2	42.5	42.9	43.2
Nominal GDP (US$b)	611.9	522.0	626.4	756.6	839.7	889.8
GDP per capita (US$ current prices)	14,747.1	12,472.9	14,844.8	17,785.5	19,583.3	20,590.2

Source: Oxford Economics.

Brazil

GDP growth

2014 **1.4%**

Investment could boost medium-term prospects

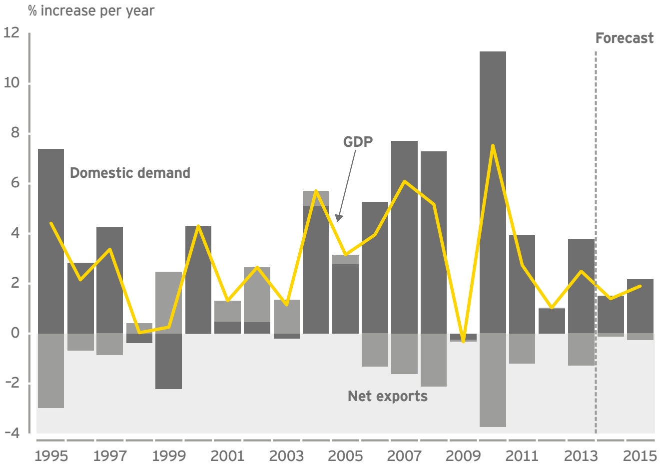
Brazil's GDP increased by 0.2% on the quarter in Q1, leaving output just 1.9% higher than a year earlier. Were it not for the strong performance of public consumption and the accumulation of stocks, the economy would have contracted in Q1. As a result, we now expect GDP growth of 1.4% for 2014 as a whole.

The central bank decided to pause its rate hike cycle in May 2014 — leaving the Selic rate at 11% — even though inflation remains close to the upper limit of the target range. High interest rates will weigh on domestic demand, but a recovery in exports should lift growth toward 2% next year.

Over the medium term, Brazil needs to tackle its relatively high government budget deficit and current account imbalance, in order to attract more investment and improve its credit rating. But Brazil has a large, well educated population. By 2022, we expect more than 17 million Brazilian households to have an income of more than US$35,000, up from around 10 million in 2012. This increasing prosperity will help to boost growth above 3% by 2017. If Brazil is able to improve its infrastructure, expand its manufacturing sector and raise its productivity, growth could well exceed 3.5% over the medium term.

Figure 21

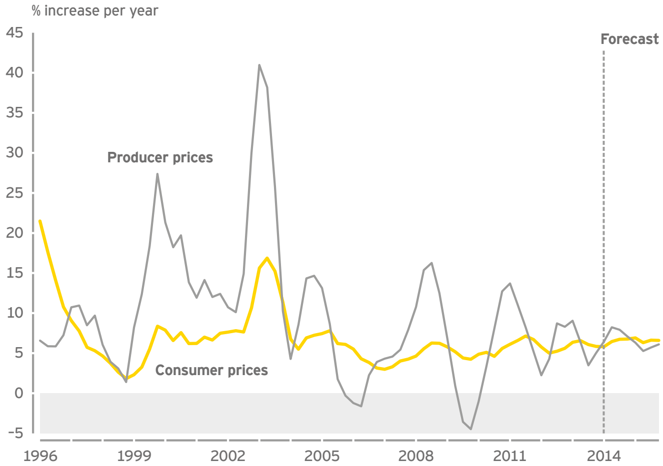
Contributions to GDP growth



Source: Oxford Economics.

Figure 22

Prices



Source: Oxford Economics.

Brazil	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	2.5	1.4	1.9	2.5	3.3	3.4
CPI inflation (% per year)	6.2	6.4	6.6	5.8	5.3	4.9
Current account balance (% of GDP)	-3.6	-3.7	-3.0	-3.0	-2.9	-2.8
External debt total (% of GDP)	14.0	14.0	14.3	14.4	14.5	14.6
Short-term interest rate (%)	8.2	10.7	11.7	10.7	9.9	9.9
Exchange per US$ (year average)	2.2	2.3	2.4	2.5	2.6	2.7
Government balance (% of GDP)	-3.3	-4.0	-3.6	-3.7	-3.6	-3.6
Population (millions)	200.6	202.2	203.9	205.4	206.9	208.4
Nominal GDP (US$b)	2,248.0	2,254.1	2,389.3	2,506.7	2,613.9	2,727.1
GDP per capita (US$ current prices)	11,206.7	11,145.2	11,720.4	12,203.0	12,630.8	13,084.2

Source: Oxford Economics.

Chile

GDP growth

2014 **2.9%**

Economy rebounds, but consumer spending weakens

After the surprise contraction in Q4 2013, Chile's economy grew 0.8% on the quarter in Q1, exceeding expectations. Underpinning this growth was a bounce-back in investment. However, consumer spending showed signs of weakness, rising by just 0.5% – the slowest pace since the recession of 2009.

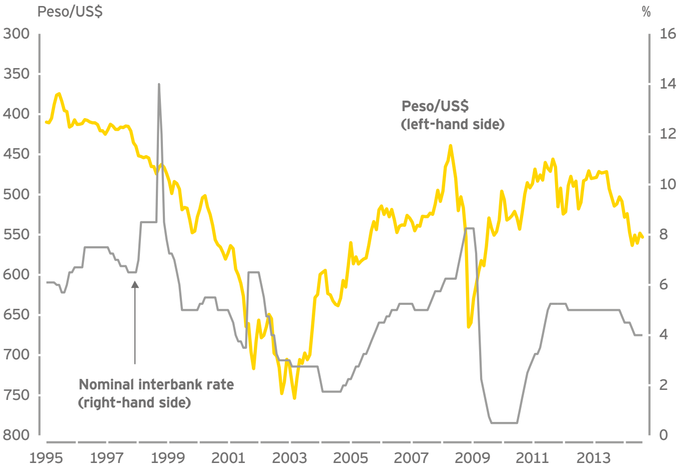
Momentum should build steadily during the rest of this year. External conditions are set to improve, as developed economies recover and the fiscal stimulus package feeds through in China. And with inflation expected to fall back in H2, household spending should pick up toward the end of the year. Overall, we expect the economy to grow 2.9% in 2014.

The pass-through of the depreciation of the Chilean peso and recent wage rises have put upward pressure on prices. Inflation reached 4.7% in May, well above the central bank's 3% +/− 1% target. Inflationary pressure is expected to ease in the coming months as the impact of currency depreciation lessens. But we don't expect the rate to return to target until H2 2015.

Since 2009, the high copper price (even after the falls of the last couple of years, the current price is nearly double that of 2005) and steady growth have provided the Government with a healthy fiscal position. We expect this to persist for the next few years. But if Chile is to grow at more than 4.5%, it will need to ensure that it can meet a rising demand for energy.

Figure 23

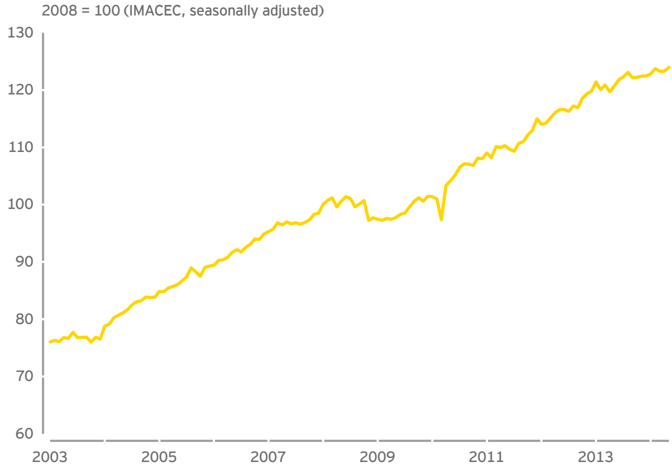
Exchange and interest rates



Source: Banco Central de Chile; Haver Analytics.

Figure 24

Monthly indicator of economic activity



Source: Haver Analytics.

Chile

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	4.2	2.9	4.8	4.7	4.6	4.4
CPI inflation (% per year)	1.9	4.1	3.3	3.0	3.0	3.0
Current account balance (% of GDP)	-3.4	-2.5	-2.9	-2.5	-2.1	-1.8
External debt total (% of GDP)	38.5	42.1	39.2	36.3	34.6	33.2
Short-term interest rate (%)	5.1	4.1	4.2	4.5	4.9	4.9
Exchange per US$ (year average)	495.3	556.5	539.2	518.7	517.6	519.5
Government balance (% of GDP)	-0.6	-0.6	-0.2	0.0	0.1	0.1
Population (millions)	17.6	17.8	17.9	18.1	18.2	18.4
Nominal GDP (US$b)	277.2	265.5	297.4	334.1	361.2	387.6
GDP per capita (US$ current prices)	15,713.1	14,924.0	16,573.3	18,468.4	19,804.9	21,084.8

Source: Oxford Economics.

Mainland China and Hong Kong
special administrative region (SAR)

GDP growth
2014 **7.1%**

Consumption grows as economy rebalances

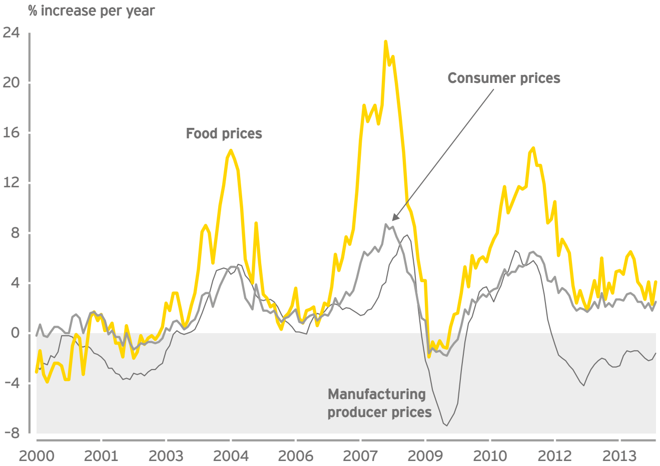
China's economy is likely to grow by more than 7% this year. Premier Li Keqiang announced a new economic package in April, including extensions to existing tax breaks on small businesses. The package also draws attention to some of the infrastructure spending measures set out in China's urban development plan.

The People's Bank of China implemented a broader cut in the reserve requirement ratio, in a bid to increase lending to agriculture, small enterprises and consumers. But regulatory measures to curb some of the risks from the growth in shadow banking – including higher capital requirements for lending to financial firms – should lower the amount of credit available in the near term. This is consistent with the slowdown in investment we expect in 2014.

Growth in China over the next few years will be driven by consumption, with rising real wages and state spending aimed at improving living standards. And financial sector reform should provide greater returns for households' pensions and boost household wealth.

The rebalancing of the Chinese economy and the relatively subdued global economy will likely continue to weigh on Hong Kong's re-export trade and trade-related services. But while we expect net exports to be a drag on growth in 2014–15, private consumption should support growth due to a tight labor market and rising wages.

Figure 25
Inflation



Source: China Bureau of Statistics; Haver Analytics.

Figure 26
Hong Kong: stock market

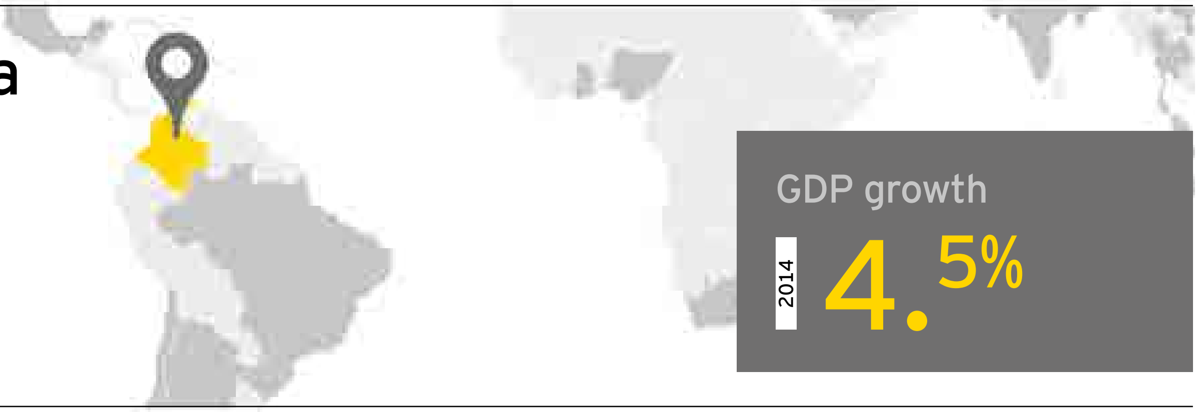
Source: Hang Seng Index Services Limited; Haver Analytics.

Mainland China

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	7.7	7.1	6.9	7.1	7.1	7.1
CPI inflation (% per year)	2.6	2.3	2.5	2.8	3.0	3.0
Current account balance (% of GDP)	2.1	2.2	1.2	0.8	0.5	0.3
External debt total (% of GDP)	9.0	9.1	9.3	9.3	9.2	9.2
Short-term interest rate (%)	5.0	5.8	5.3	5.0	5.0	5.0
Exchange per US$ (year average)	6.2	6.2	6.2	6.1	6.0	6.0
Government balance (% of GDP)	-1.0	-1.7	-1.6	-1.5	-1.4	-1.5
Population (millions)	1,386.7	1,394.9	1,402.5	1,409.6	1,416.4	1,422.7
Nominal GDP (US$b)	9,193.6	10,068.1	11,021.6	12,223.9	13,646.7	15,227.5
GDP per capita (US$ current prices)	6,629.9	7,217.9	7,858.6	8,671.7	9,634.9	10,703.3

Source: Oxford Economics.

Colombia



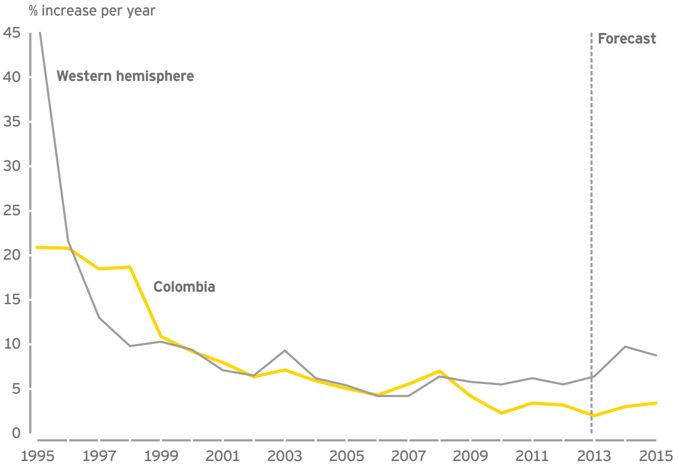
Stability rewarded as growth surges

The economy is on pace to grow at a lofty 4.5% this year, with upside risks that put Colombia as a clear regional outperformer. Much of the momentum is being driven by strength in construction (amid a more expansive fiscal stance) and agriculture. And several industrial sectors have started to show marked improvement in recent months. Domestic demand conditions – driven by healthier labor market dynamics and robust pre-election investment spending – have also helped to support the recovery.

Inflationary pressures should be kept at bay, with headline CPI set to meet the central bank's 3.0% mid-point target this year. However, the BanRep has moved to tighten monetary policy in recent months. A faster-than-expected narrowing of the output gap raises the risk of a more aggressive rate-hike cycle that could potentially stifle the recovery.

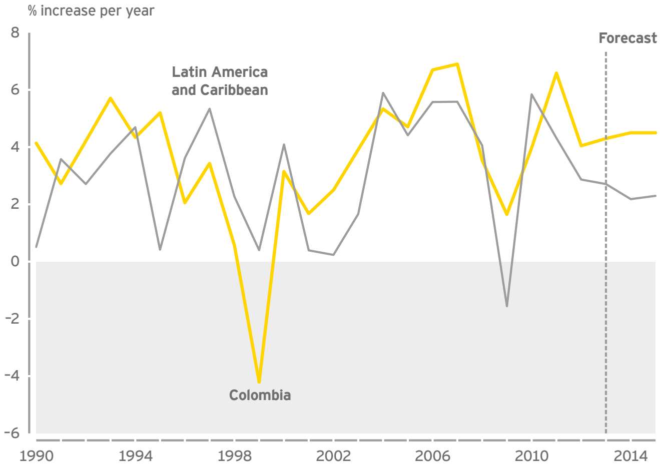
Over the medium term, we expect annual GDP growth of around 4.5%, supported by a stable macroeconomic environment, a growing middle class, sound fiscal dynamics and a possible improvement in the domestic security climate. Key drivers of longer-term growth include strong FDI and stable macroeconomic policy. With the re-election of President Juan Manuel Santos, we don't expect a major deviation in economic policy management.

Figure 27
Inflation



Source: Oxford Economics; Haver Analytics.

Figure 28
Real GDP growth



Source: Oxford Economics; World Bank.

Colombia	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	4.3	4.5	4.5	4.7	4.6	4.4
CPI inflation (% per year)	2.0	3.0	3.4	3.3	3.3	3.3
Current account balance (% of GDP)	-3.4	-3.7	-3.8	-4.0	-4.1	-4.0
External debt total (% of GDP)	23.6	26.0	28.4	30.9	33.2	35.3
Short-term interest rate (%)	3.4	4.0	4.3	4.8	5.0	5.0
Exchange per US$ (year average)	1,868.8	1,970.0	2,080.0	2,190.0	2,300.2	2,392.5
Government balance (% of GDP)	-2.2	-2.1	-1.9	-1.7	-1.4	-1.3
Population (millions)	48.3	48.9	49.5	50.1	50.7	51.2
Nominal GDP (US$b)	378.9	386.8	395.9	406.7	418.3	433.8
GDP per capita (US$ current prices)	7,844.5	7,908.6	7,992.8	8,117.0	8,256.5	8,465.4

Source: Oxford Economics.

Czech Republic

GDP growth

2014 **2.6%**

Outlook brightens as recovery takes hold

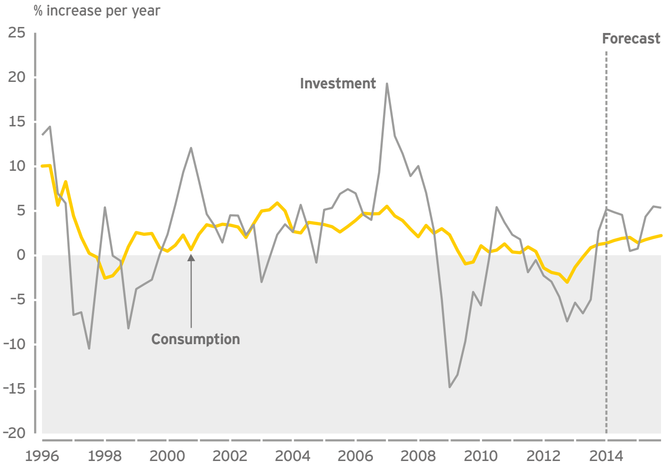
We have upgraded our forecast for 2014 GDP growth from 2.2% to 2.6%, due to strong growth in the final quarter of 2013 and the first quarter this year. GDP grew by 0.4% quarter-on-quarter in Q1, up from the initial reading of no change. All components of GDP (except stockbuilding) contributed positively to growth. This indicates that the recovery is broad-based and economic activity is likely to accelerate in coming quarters. Foreign exchange interventions by the Czech National Bank, low inflation, rising demand for exports and supportive fiscal policy will underpin growth this year.

Despite these positive developments, some factors will be a drag on growth. The unemployment rate under the International Labour Organization definition still remains high, at 6.5% in April. It is unlikely to fall significantly before 2015, when the recovery should have more momentum.

In 2015-18, we expect GDP growth of just under 3% a year, markedly lower than before the crisis. This reflects sluggish growth in the Eurozone, the Czech Republic's key trading partner. Moreover, the manufacturing sector will face slowing labor productivity growth due to lower FDI inflows than before the financial crisis. In addition, an ageing population will be a drag on labor supply growth and make it more difficult for firms to expand.

Figure 29

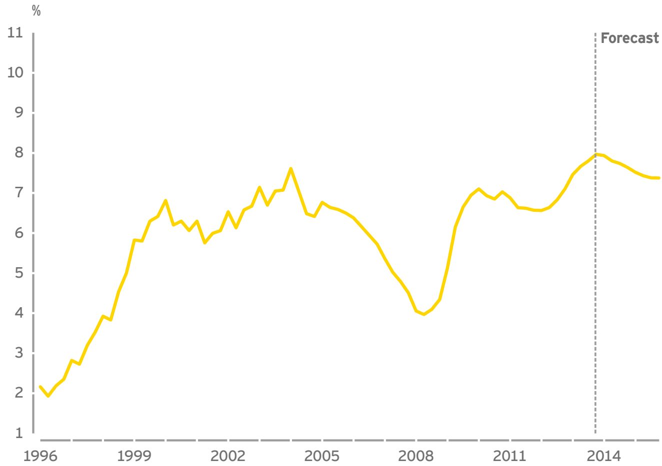
Consumption and investment



Source: Oxford Economics.

Figure 30

Unemployment



Source: Oxford Economics.

Czech Republic

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	-0.9	2.6	2.8	3.0	2.9	2.9
CPI inflation (% per year)	1.4	0.5	1.8	1.9	2.0	2.0
Current account balance (% of GDP)	-1.4	-1.7	-1.8	-1.8	-1.6	-1.4
External debt total (% of GDP)	52.5	53.3	50.9	50.5	49.8	48.9
Short-term interest rate (%)	0.5	0.4	0.6	1.4	1.8	2.1
Exchange per US$ (year average)	19.6	20.1	19.9	19.8	19.9	20.1
Government balance (% of GDP)	-2.1	-2.2	-2.0	-1.8	-1.5	-1.3
Population (millions)	10.5	10.5	10.5	10.5	10.5	10.5
Nominal GDP (US$b)	198.5	203.7	215.5	225.9	235.7	245.8
GDP per capita (US$ current prices)	18,857.1	19,346.0	20,468.2	21,466.0	22,406.7	23,375.0

Source: Oxford Economics.

Egypt

GDP growth
2014
1.9%

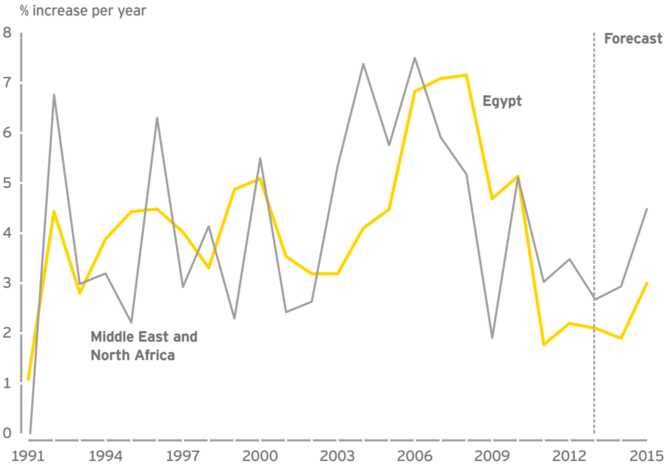
Near-term outlook cloudy, but brightness on the horizon

Presidential elections were conducted at the end of May, with the new President, Abdel Fattah el-Sisi, winning nearly 97% of the vote. However, voter participation was just 47%. The new administration's plans are vague, but the centerpiece is state-built cities in the desert to cope with a surging population. This should help Egypt grow by 4.5%–5.5% in 2017–18.

In the short term, the economy will be underpinned by continuing inflows of Gulf Cooperation Council funds, which have so far reached US$20b. There are plans for a donor conference to meet the mounting external financing needs. But Q1 data was weak. Falling tourist arrivals and lower natural gas production more than offset strong construction and manufacturing output to leave production down 8.6%. GDP is forecast to grow 3% in 2014–15 after growth of just 1.9% in 2013–14.

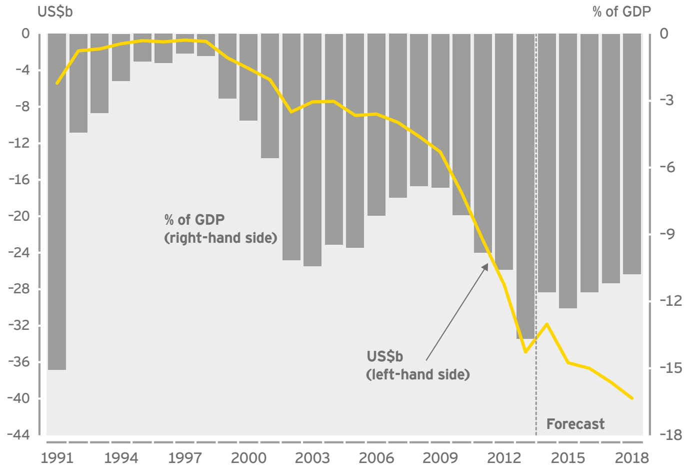
The Egyptian pound (EGP) depreciated further in May to an all-time low of EGP7.15 to the US$, after an exceptional central bank sale of US$1.1b to enable importers to buy essential foodstuffs. We expect further EGP weakness due to continuing dollar shortages and the need to raise competitiveness and lift growth. At the same time, the black market rate has appreciated to some EGP7.35 to the US$. Loose monetary policy, shortages, possible cuts in fuel subsidies and continued depreciation mean that inflation is likely to average 9.4% this year.

Figure 31
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 32
Government budget balance



Source: Oxford Economics.

Egypt

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	2.1	1.9	3.0	4.0	4.5	5.4
CPI inflation (% per year)	9.5	9.4	8.4	7.0	6.0	5.5
Current account balance (% of GDP)	-1.3	-1.4	-1.9	-1.9	-2.1	-2.1
External debt total (% of GDP)	16.1	15.9	15.6	15.1	14.6	14.0
Short-term interest rate (%)	12.3	11.5	10.0	9.0	8.0	7.5
Exchange per US$ (year average)	6.9	7.1	7.5	7.7	7.9	8.1
Government balance (% of GDP)	-13.7	-11.6	-12.3	-11.6	-11.2	-10.8
Population (millions)	82.1	83.4	84.7	86.0	87.2	88.5
Nominal GDP (US$b)	255.2	274.5	292.9	316.5	341.7	370.4
GDP per capita (US$ current prices)	3,110.1	3,292.3	3,458.1	3,680.9	3,916.1	4,184.9

Source: Oxford Economics.

Ghana

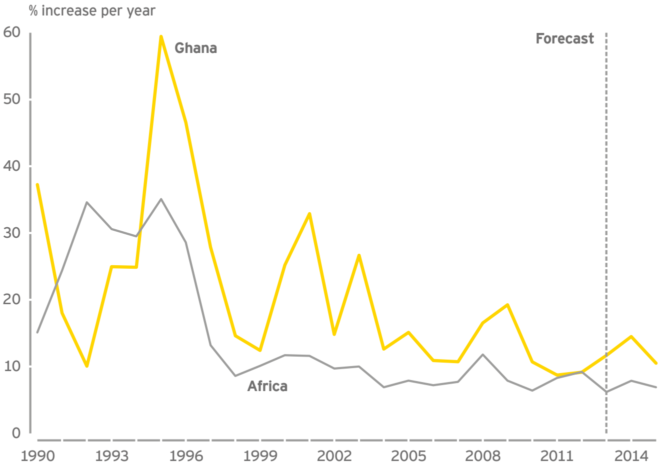
Oil boost fades but growth remains solid

A rebound in Q4 last year lifted overall GDP growth in 2013 to 7.1%, down only modestly from the revised 8.8% increase in 2012. But the big boost to activity from the start of oil output continues to fade. As a result, we still forecast a further slowdown in growth, to about 6.5% this year, 5.7% in 2015 and then 5%-5.5% in 2016-18.

Strong growth in recent years has led to rising inflation. Price growth moved back into double digits last year due to heavy pre-election spending in 2012 and a steady weakening of the Ghanaian cedi (GHC). And with the GHC slide accelerating in 2014, inflation rose to 14.8% in May. Interest rates were last raised in February, with a 200bps hike taking the policy rate to 18%. But further tightening is possible given the weak GHC and the large budget deficit, which rose to 10.8% of GDP in 2013 (on central bank figures).

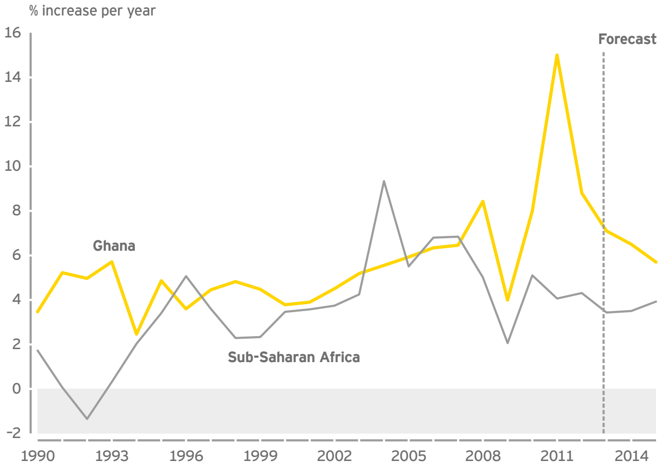
As the fiscal deficit has widened, the external deficit has also surged. Rising services payments, lower transfers and exports reduced by lower commodity prices lifted the current account deficit to US$5.7b in 2013 — over 12% of GDP. And the gap may widen further this year, because of the weaker gold price, before shrinking in 2015-18 as higher oil output and rising commodity prices lift export growth. Despite the impact of oil-related FDI inflows, reserves fell to just US$4.7b in March, covering just 2.6 months' imports.

Figure 33
Inflation



Source: Oxford Economics; Haver Analytics.

Figure 34
Real GDP growth



Source: Oxford Economics; World Bank.

Ghana

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	7.1	6.5	5.7	5.4	5.0	4.7
CPI inflation (% per year)	11.7	14.5	10.5	8.0	6.3	5.5
Current account balance (% of GDP)	-12.6	-16.3	-12.6	-7.6	-4.5	-4.5
External debt total (% of GDP)	36.3	54.2	59.4	60.0	58.2	56.8
Short-term interest rate (%)	-	-	-	-	-	-
Exchange per US$ (year average)	2.0	2.7	2.9	3.0	3.1	3.1
Government balance (% of GDP)	-8.3	-7.3	-6.1	-5.0	-4.3	-4.1
Population (millions)	26.1	26.7	27.3	27.9	28.5	29.1
Nominal GDP (US$b)	45.1	39.1	42.7	47.0	51.7	56.5
GDP per capita (US$ current prices)	1,726.0	1,463.0	1,564.2	1,684.7	1,812.0	1,938.7

Source: Oxford Economics.

India

Decisive election outcome should prompt fresh wave of reforms

India's electorate delivered a clear verdict at the 2014 general election, with the pro-business Bharatiya Janata Party (BJP) winning a resounding majority. As a result, uncertainty and political risk will diminish.

As set out in its first Union Budget in early July, the new Government is set to focus on fiscal consolidation, governance, simplifying the tax system and reducing infrastructure bottlenecks to attract investments. Risks have tempered considerably since last year, with the current account deficit narrowing sharply and the fiscal situation improving.

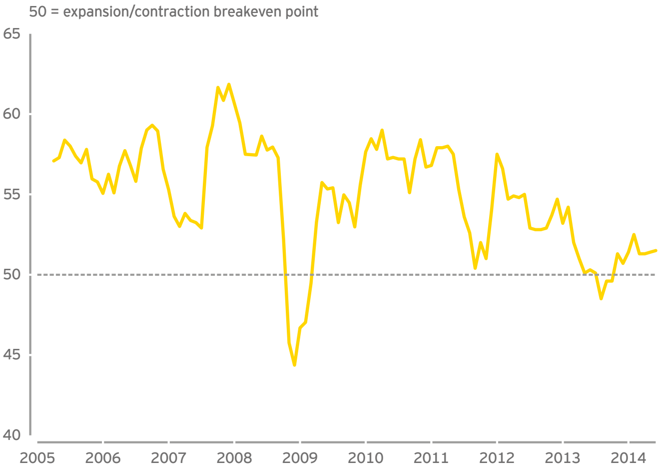
However, the economy will take time to improve. Growth was lower than expected in Q1, rising by 4.6% year-on-year, after the manufacturing sector contracted for a second consecutive quarter. In light of this data, we expect the economy to grow by 4.8% in 2014.

While sentiment is buoyant, our forecast for 2015 is relatively cautious. The Government still needs to push through the second generation of reforms, capital flows that are necessary to kick start growth must materialize and domestic demand must pick up.

With the manufacturing PMI improving recently, we forecast a strong recovery in 2016. We expect growth of 6.1% in 2016 and approaching 7% in 2018. If the new Government fully achieves all the reforms it has laid out, medium-term growth could reach the 8% target.

Figure 35

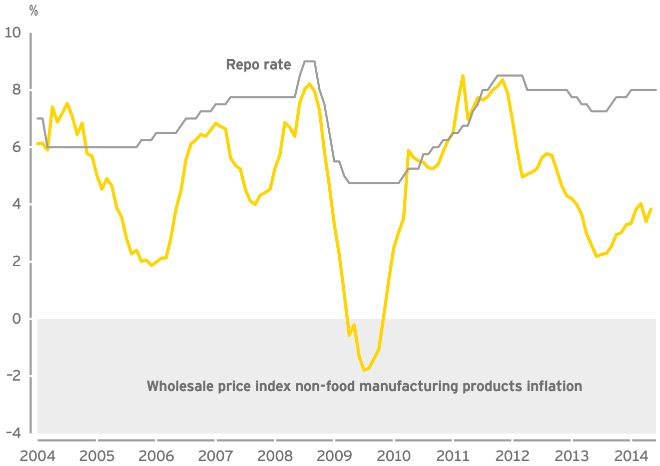
HSBC Manufacturing PMI



Source: Markit.

Figure 36

Interest rate and wholesale price index inflation



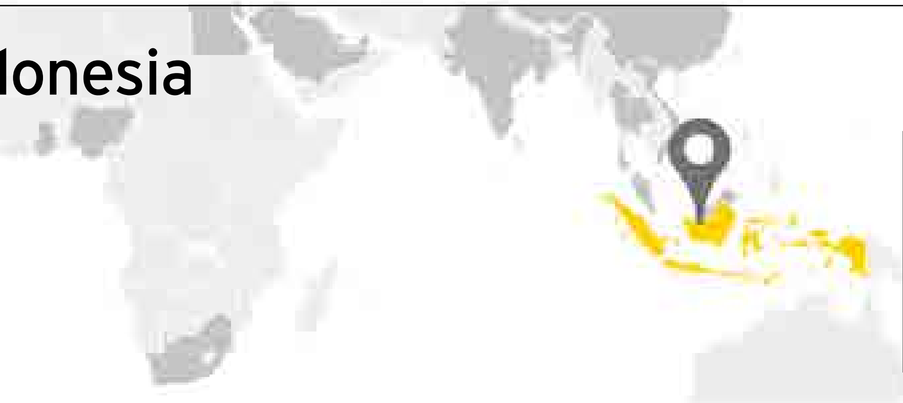
Source: Oxford Economics.

India

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	4.7	4.8	5.1	6.1	6.6	6.9
Wholesale price index (% per year)	6.3	5.3	4.9	4.8	4.6	4.4
Current account balance (% of GDP)	-2.8	-1.9	-2.4	-2.1	-1.7	-1.7
External debt total (% of GDP)	21.1	20.0	18.6	17.6	16.8	16.1
Short-term interest rate (%)	9.3	8.9	8.0	7.8	7.7	7.6
Exchange per US$ (year average)	58.6	60.4	61.5	63.5	65.6	68.5
Government balance (% of GDP)	-5.6	-4.3	-4.3	-3.9	-3.5	-3.2
Population (millions)	1,265.0	1,280.7	1,296.1	1,311.2	1,326.2	1,340.8
Nominal GDP (US$b)	1,747.6	1,877.9	2,081.4	2,282.7	2,503.6	2,721.5
GDP per capita (US$ current prices)	1,381.6	1,466.4	1,605.9	1,740.9	1,887.8	2,029.8

Source: Oxford Economics.

Indonesia



GDP growth

2014 **5.2%**

Strong domestic activity makes up for export dip

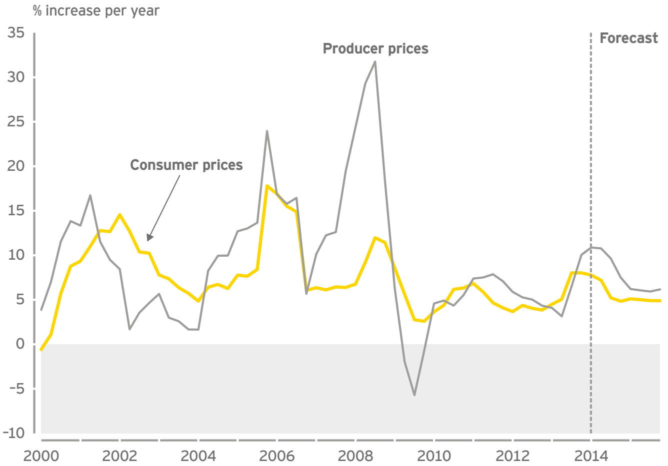
GDP growth in Q1 2014 was slightly weaker than we had expected, slowing to 5.2% on the year from 5.7% in Q4 2013. The key source of weakness was a 0.8% annual decline in export volumes, reflecting lower exports of minerals, crude oil and oil products. However, both consumer spending and fixed investment have strong momentum, rising by more than 5% on the year in Q1. We also expect public spending to be solid in election year.

Inflation eased to 7.3% in April and May, having peaked at 8.2% in January. We forecast that CPI inflation will fall below the 5.5% upper target in H2 2014. This is a result of favorable base effects from July onward, as last year's fuel price hike drops out of the comparison. Lower inflation should help private spending to maintain momentum.

The rupiah has recovered some ground this year after the current account deficit narrowed in Q4 2013 and Q1 2014. We expect the deficit to continue to shrink, helping to stabilize the rupiah.

We expect domestic activity to underpin medium-term growth, with GDP growth recovering to reach almost 6% by 2015-16. Deeper reform is required, but with opinion divided, the new President, Joko Widodo, may struggle to win a strong mandate for reform. This would result in a less secure consensus, slowing the reforms and limiting 2017-18 growth to nearer 5%.

Figure 37
Inflation



Source: Oxford Economics.

Figure 38
Bank lending growth

Source: Bank Indonesia; Haver Analytics.

Indonesia

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	5.8	5.2	5.7	5.7	5.4	5.3
CPI inflation (% per year)	6.4	6.2	5.0	4.7	4.5	4.5
Current account balance (% of GDP)	-3.3	-2.7	-2.2	-2.0	-1.7	-1.6
External debt total (% of GDP)	29.8	30.4	26.7	24.3	22.3	20.5
Short-term interest rate (%)	5.9	7.8	7.8	7.8	7.8	7.8
Exchange per US$ (year average)	10,419.7	11,517.9	11,367.5	11,343.6	11,438.6	11,491.7
Government balance (% of GDP)	-2.3	-2.1	-1.7	-1.3	-1.0	-1.0
Population (millions)	250.2	253.2	256.1	258.9	261.7	264.4
Nominal GDP (US$b)	873.9	879.2	988.3	1,096.2	1,198.0	1,311.9
GDP per capita (US$ current prices)	3,492.5	3,472.7	3,859.4	4,234.0	4,578.1	4,961.5

Source: Oxford Economics.

Kazakhstan

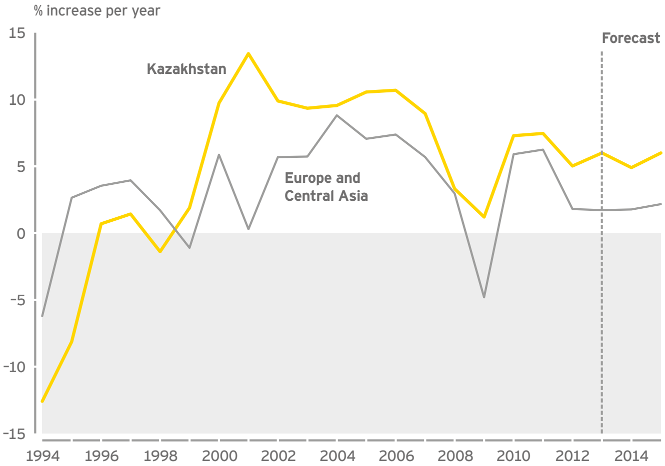
Oil delays trim forecasts as current account surplus surges

GDP growth slowed from 6.7% in Q4 2013 to just 2.9% in Q1, the weakest result since Q3 2009. This marked deceleration reflected a 1.9% fall in crude oil production and a 27% plunge in copper output. Data for April is more promising, with a pickup in both oil and agricultural output.

The current account surplus surged to US$5.5b in Q1, thanks to a near 11% rise in goods exports and a 7% decline in imports. We forecast the surplus for the full year to be US$4.5b, equal to 2.5% of GDP. This compares with a small deficit in 2013 and partly reflects the impact of the Kazakhstani tenge's devaluation.

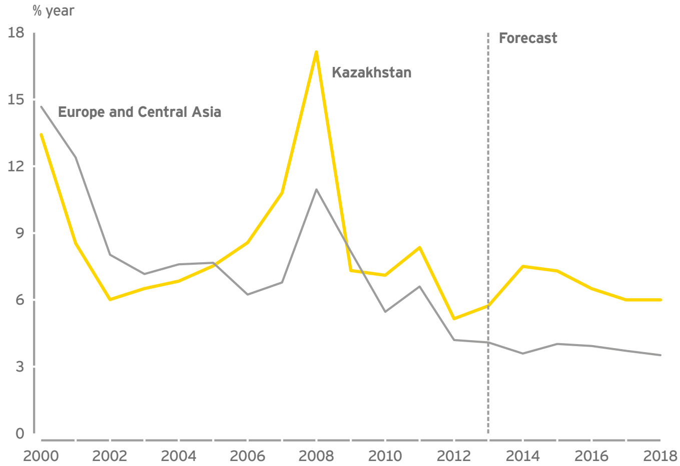
However, the growth outlook for 2014 and 2015 has weakened again. We now expect GDP to grow by 4.9% this year and 6% in 2015, below the forecasts of the IMF and the Asian Development Bank. This downgrade reflects a further setback to the Kashagan oil project. Following an announcement that some 200km of pipeline is to be replaced, the Government has said that the project will not only fail to produce oil this year but that it could be delayed until 2016. Our forecast now assumes the latter. But growth will still be supported by strong rises in public spending on infrastructure, agriculture and social welfare.

Figure 39
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 40
Inflation



Source: Oxford Economics; World Bank.

Kazakhstan

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	6.0	4.9	6.0	7.0	7.0	6.0
CPI inflation (% per year)	5.7	7.5	7.3	6.5	6.0	6.0
Current account balance (% of GDP)	-0.1	2.5	2.0	2.3	2.1	2.5
External debt total (% of GDP)	60.0	60.0	51.5	43.5	36.7	31.3
Short-term interest rate (%)	3.5	4.7	5.7	6.5	7.0	7.0
Exchange per US$ (year average)	152.1	179.5	184.0	185.0	185.0	185.0
Government balance (% of GDP)	-2.1	-2.8	-2.4	-2.6	-2.8	-2.8
Population (millions)	16.5	16.7	16.9	17.0	17.2	17.4
Nominal GDP (US$b)	217.1	206.3	228.9	259.4	294.2	330.6
GDP per capita (US$ current prices)	13,121.7	12,341.2	13,553.9	15,218.7	17,101.8	19,039.8

Source: Oxford Economics.

Korea

GDP growth

2014 3.5%

Growth set to rise despite export difficulties

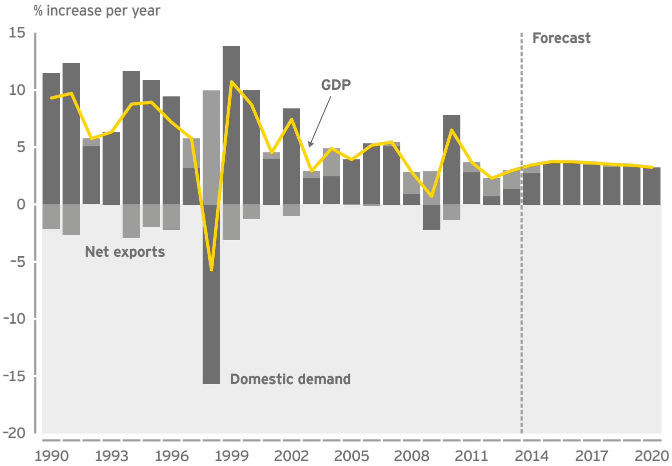
Korea posted another quarter of strong growth in Q1 2014, with GDP up 0.9%. Residential investment and net exports were the main contributors to growth, but private consumption slowed.

The external environment remains challenging. The slowing GDP growth rate in China, Korea's main export partner, will curb export demand. And the Korean won has rallied so far this year against the currencies of key trading partners, squeezing the competitiveness of exporters. Although these factors will constitute headwinds for the crucial export-oriented manufacturing sector this year, we still expect GDP growth to accelerate to 3.5% for 2014 as a whole, up on last year's 3%. This is higher than our February edition forecast of 3.0% and is a result of stronger-than-expected growth in Q1.

By 2015, world trade should have gained further momentum. In addition, the scale of monetary easing in competitor economies, such as Japan, is likely to have lessened. Meanwhile, gradually improving domestic demand will pull in more imports and reduce the current account surplus over time. With a brighter external backdrop from 2015 onward, businesses should in turn regain confidence to ramp capital spending back up to normal levels. Thus from 2015, GDP growth should settle at its medium-run rate of just above 3.5%.

Figure 41

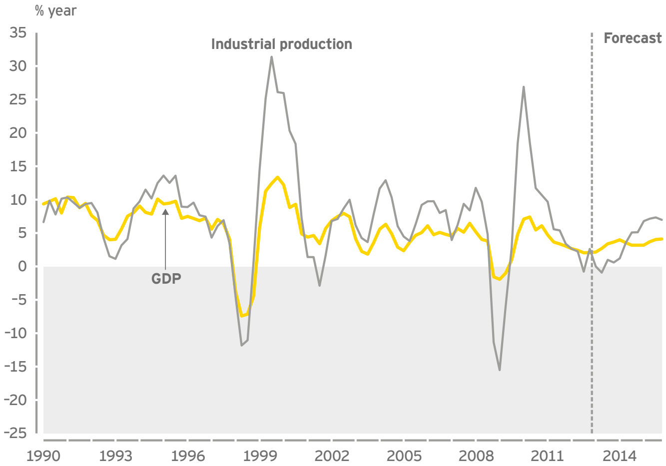
Contributions to GDP growth



Source: Oxford Economics.

Figure 42

GDP and industrial production



Source: Oxford Economics.

South Korea

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	3.0	3.5	3.8	3.7	3.6	3.5
CPI inflation (% per year)	1.3	1.9	2.7	2.6	2.5	2.4
Current account balance (% of GDP)	6.1	5.6	3.7	2.6	2.1	1.8
External debt total (% of GDP)	31.6	29.6	27.9	26.3	24.7	23.2
Short-term interest rate (%)	2.7	2.7	3.5	4.5	4.7	4.7
Exchange per US$ (year average)	1,095.0	1,041.3	1,035.5	1,030.2	1,023.3	1,017.2
Government balance (% of GDP)	0.9	-1.6	-0.7	-0.3	-0.2	-0.1
Population (millions)	49.3	49.5	49.8	50.0	50.2	50.4
Nominal GDP (US$b)	1,305.1	1,435.6	1,523.8	1,620.3	1,725.6	1,835.3
GDP per capita (US$ current prices)	26,477.9	28,977.3	30,611.5	32,405.4	34,366.9	36,404.9

Source: Oxford Economics.

Malaysia

GDP growth

2014 4.8%

The economy's stable footing gives grounds for cautious optimism

The Malaysian economy expanded by 6.2% year-on-year in Q1 2014, up from 5.1% in Q4 2013. This was the fastest annual pace since the end of 2012 and was in line with our expectations. We expect GDP growth of 4.8% this year.

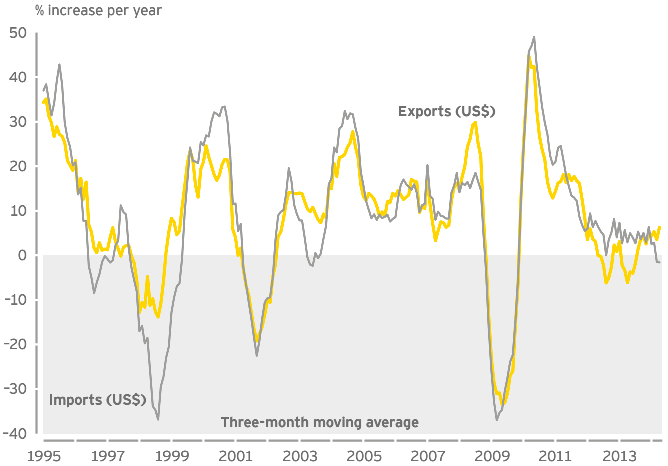
The outlook for domestic and external demand is improving, as illustrated by indicators of business and consumer confidence. However, relatively high inflation and household indebtedness are expected to curb consumer spending growth to 4.1% in 2014. Stronger demand from the US and Europe, particularly for electronics, has boosted export growth. This should continue to improve in H2 2014.

Bank Negara raised the overnight policy rate earlier this month. Rates had been on hold since May 2011, but strong economic growth and higher inflation (averaging 3.2% this year compared with 2.1% last year) prompted the central bank to move rates. Government efforts to rein in the public finances may affect investment in the short term. We expect private investment to increase by 4.8% in 2014 after growth of 8.5% in 2013.

Malaysia has generally been regarded as one of Asia's success stories. But high levels of public debt and rising external debt suggest that it remains vulnerable to external shocks. We expect solid medium-term growth of 4-4.5%. But if there is more rapid progress in improving the public finances and curbing household and external debt, then growth closer to 5% might be achievable.

Figure 43

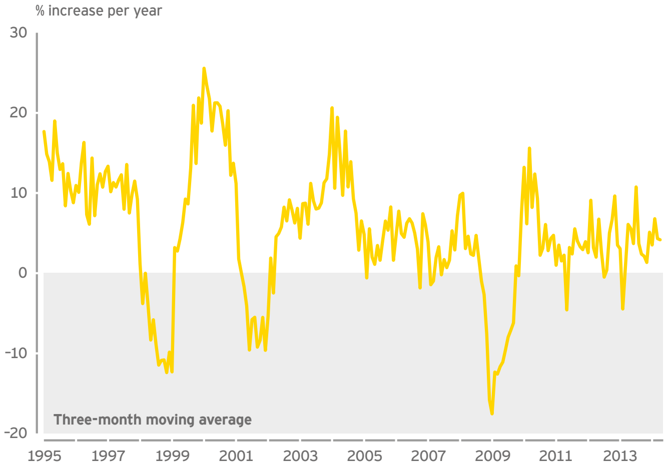
Exports and imports



Source: Department of Statistics.

Figure 44

Industrial production



Source: Department of Statistics.

Malaysia

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	4.7	4.8	4.1	4.5	4.3	4.2
CPI inflation (% per year)	2.1	3.2	2.8	3.0	3.0	3.0
Current account balance (% of GDP)	4.0	4.6	4.3	4.4	4.6	4.6
External debt total (% of GDP)	35.3	36.5	35.6	35.7	35.8	35.7
Short-term interest rate (%)	3.0	3.2	3.7	3.6	3.6	3.6
Exchange per US$ (year average)	3.2	3.2	3.1	3.1	3.1	3.1
Government balance (% of GDP)	-3.0	-3.4	-2.6	-2.7	-2.7	-2.8
Population (millions)	29.3	29.7	30.1	30.5	30.9	31.3
Nominal GDP (US$b)	313.0	332.4	371.0	400.9	429.9	461.6
GDP per capita (US$ current prices)	10,697.8	11,199.7	12,327.4	13,142.7	13,910.5	14,749.7

Source: Oxford Economics.

Mexico

Growth forecast lowered but medium-term prospects remain bright

The Mexican economy grew just 1.3% last year, in line with our forecast. Much of the slowdown observed in Q4 2013 spilled over into Q1 2014 (real GDP of +0.64% y/y). We are now forecasting a 2014 GDP growth rate of 2.4% — well below the 3.8% forecast at the beginning of the year. The downgrade is a result of the underperforming construction sector, the weather-related slump in the US economy, the fiscal drag from the tax reform observed in January 2014 and delayed government spending.

However, we expect the coming quarterly releases to be stronger than Q1. Our assumptions are led by expectations that stronger external demand (i.e., recovery in the US) will continue to drive manufacturing activity which, in turn, will gradually lift services. Construction should strengthen steadily in the coming quarters, given the eventual economic lift and, more importantly, the positive impact of government stimulus.

As expected, the Chamber of Deputies has approved the secondary laws (with some minor changes), making the telecommunications reform operational.

Attention is focused on the Government's ability to begin executing the approved reform program. Swift implementation should enable the economy to grow 4% over the medium term.

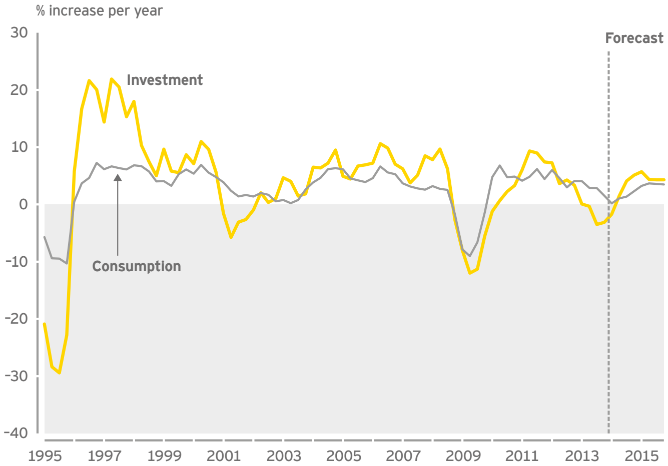
Figure 45

Merchandise trade: US vs. Mexican growth

Source: Oxford Economics.

Figure 46

Consumption and investment



Source: Oxford Economics.

Mexico

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	1.3	2.4	3.8	3.8	4.0	3.9
CPI inflation (% per year)	3.8	3.9	3.5	3.3	3.2	3.1
Current account balance (% of GDP)	-2.0	-2.0	-1.8	-2.1	-2.1	-2.1
External debt total (% of GDP)	28.8	28.7	26.6	25.7	25.5	25.3
Short-term interest rate (%)	3.8	3.1	3.0	4.3	5.2	5.4
Exchange per US$ (year average)	12.8	12.8	12.3	12.2	12.4	12.7
Government balance (% of GDP)	-2.3	-3.3	-2.5	-2.4	-2.3	-2.3
Population (millions)	122.5	124.0	125.4	126.8	128.2	129.5
Nominal GDP (US$b)	1,262.2	1,320.8	1,481.4	1,595.8	1,674.3	1,753.2
GDP per capita (US$ current prices)	10,302.0	10,652.8	11,812.2	12,585.2	13,064.2	13,538.6

Source: Oxford Economics.

Nigeria

Rebasing boost lifts Nigeria to top of continental table

The recent rebasing of Nigeria's national accounts means that the country's economy is some 75% larger than previously estimated. The rebasing gives greater prominence to fast-growing sectors, such as financial services and telecoms.

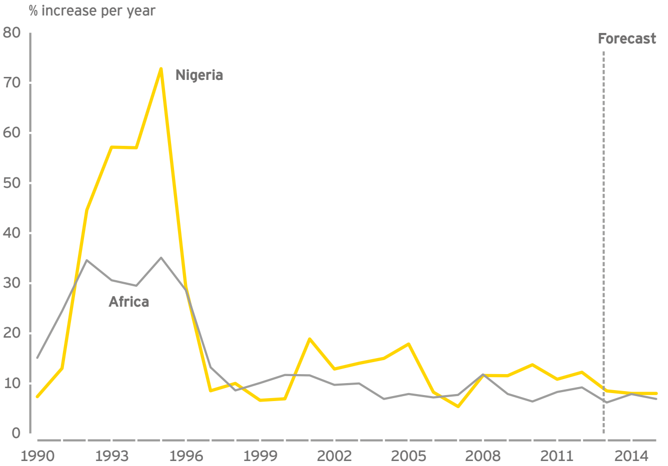
The size of Nigeria's economy in 2013 is now put at US$510b. This makes it the largest economy in Africa, overtaking South Africa by a large margin, and raises its GDP per capita to about US$2,700. The rebasing puts growth in 2013 at 7.4%. However, until full data is available, we continue to estimate growth on the previous basis. This shows GDP growth of 6.9% in 2013, a little above the rate in 2012.

With the oil sector subdued by the rise of shale oil and gas abroad, we expect growth to slow to 6.5% this year, below the budget assumption of 6.8%. We forecast annual growth of 5%–5.5% a year in 2015–18, as the implementation of reforms slows ahead of elections in February 2015 and lower oil revenues weigh on activity.

The current account surplus rose to US$20b in 2012. But lower world oil prices and faster import growth are expected to have cut the surplus last year, and further declines are forecast in 2014–17. Lower capital inflows saw foreign reserves fall to US$38b in mid-April, down 13% so far this year (albeit still equal to almost eight months' imports). Ahead of the elections, reserves may deplete further, especially if FDI inflows remain weak.

Figure 47

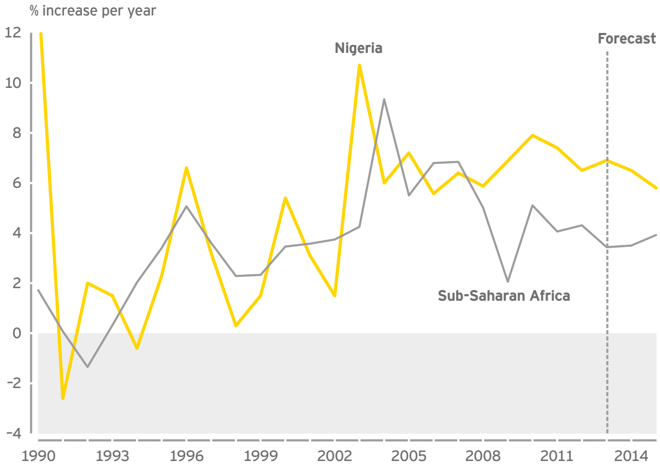
Inflation



Source: Oxford Economics; Haver Analytics.

Figure 48

Real GDP growth



Source: Oxford Economics; World Bank.

Nigeria

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	6.9	6.5	5.8	5.5	5.2	5.1
CPI inflation (% per year)	8.5	8.0	8.0	8.0	8.0	8.0
Current account balance (% of GDP)	3.1	1.4	-0.1	-0.2	-0.4	-0.3
External debt total (% of GDP)	3.8	3.9	4.1	4.0	3.9	3.7
Short-term interest rate (%)	11.5	9.5	8.0	7.0	7.0	7.0
Exchange per US$ (year average)	159.8	166.0	172.4	178.1	183.4	189.8
Government balance (% of GDP)	-4.1	-4.1	-3.0	-1.9	-0.9	-0.1
Population (millions)	171.2	175.5	179.8	184.6	189.4	194.2
Nominal GDP (US$b)	304.5	337.2	371.2	409.4	451.6	495.4
GDP per capita (US$ current prices)	1,778.4	1,921.3	2,064.4	2,217.6	2,384.0	2,550.5

Source: Oxford Economics.

Poland

Strong fundamentals usher in solid growth prospects

Real GDP growth accelerated sharply to a seasonally adjusted 1.1% on the quarter in Q1 2014. The recovery in growth has been led by a concerted rebound in investment and a temporary boost from the turn in the stock cycle.

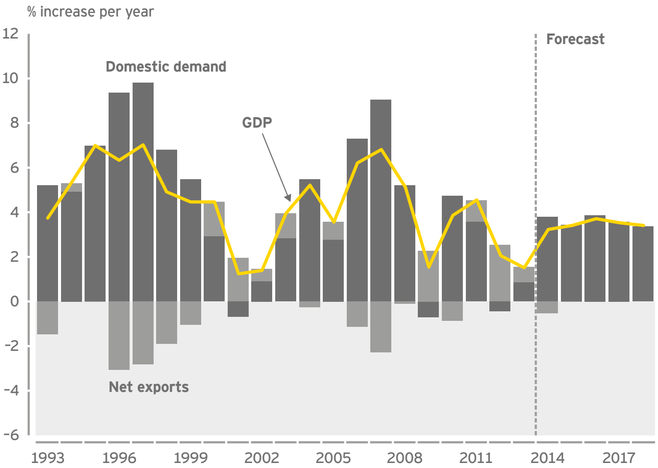
Since February 2014, we have upgraded our forecast for growth this year from 2.8% to 3.3%, with risks skewed to the upside. This reflects the strength of growth in Q1 and encouraging indicators of activity in Q2.

Looking ahead, we expect growth to broadly maintain its current pace next year. The economy should continue to benefit from loose monetary policy, with a tightening cycle not forecast to commence until Q1 2015.

We expect growth to pick up gradually to around 3.5% in the medium term. The economy's sound fundamentals should compensate for the projected decline in the working-age population. Our baseline case is that the output gap will have largely closed by the end of next year, suggesting that growth is being driven by structural rather than cyclical factors.

Figure 49

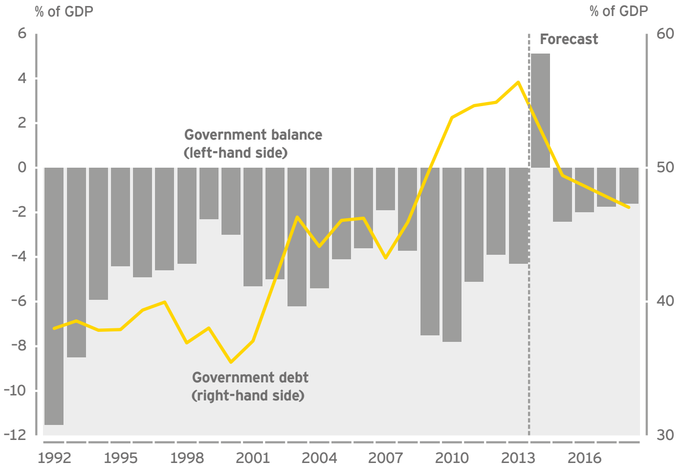
Contributions to GDP growth



Source: Oxford Economics.

Figure 50

Government budget balance and debt



Source: Oxford Economics.
Note: the strong general government balance in 2014 reflects the part-nationalization of private pension fund assets.

Poland

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	1.6	3.3	3.4	3.7	3.6	3.4
CPI inflation (% per year)	0.9	0.9	2.0	2.5	2.5	2.5
Current account balance (% of GDP)	-1.3	-1.7	-2.1	-2.3	-2.4	-2.4
External debt total (% of GDP)	71.1	68.1	66.7	64.0	61.3	60.3
Short-term interest rate (%)	2.8	2.6	3.5	4.6	4.7	4.7
Exchange per US$ (year average)	3.2	3.1	3.1	3.0	3.0	3.0
Government balance (% of GDP)	-4.3	5.1	-2.4	-2.0	-1.7	-1.6
Population (millions)	38.5	38.6	38.6	38.6	38.6	38.6
Nominal GDP (US$b)	517.8	559.1	583.4	626.4	680.6	722.3
GDP per capita (US$ current prices)	13,434.8	14,499.8	15,122.1	16,233.5	17,640.6	18,727.5

Source: Oxford Economics.

Qatar

GDP growth

2014 **6.5%**

Infrastructure underpins steady growth

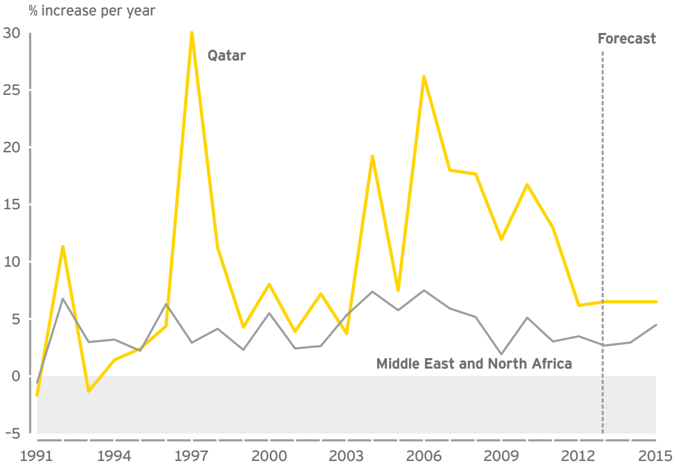
With oil production showing only small gains and the liquefied natural gas North Field moratorium remaining in place, the hydrocarbon sector will continue to make only small contributions to growth in 2014 and 2015. But the oil sector has received a boost from the announcement that the Government will invest US$11b in redeveloping the Bul-Hanine offshore oil field. The focus on upstream oil expansion will continue, with the US$3b Idd e Shargi North Dome megaproject expansion due to begin tendering at the end of 2014.

GDP is still forecast to grow 6.5% this year and next. Activity will be driven by continued double-digit expansion in the non-oil sector, helped by high government capital spending and the impact of surging population growth. The Government has announced that US$182b will be invested in infrastructure projects over the next five years, most notably a metro system in Doha and the development of Hamad International Airport.

We expect inflation to continue to rise, averaging 3.5% this year and 4.5% in 2015. But, on balance, we still do not expect inflation to get out of control, given significant housing construction and dampening external factors.

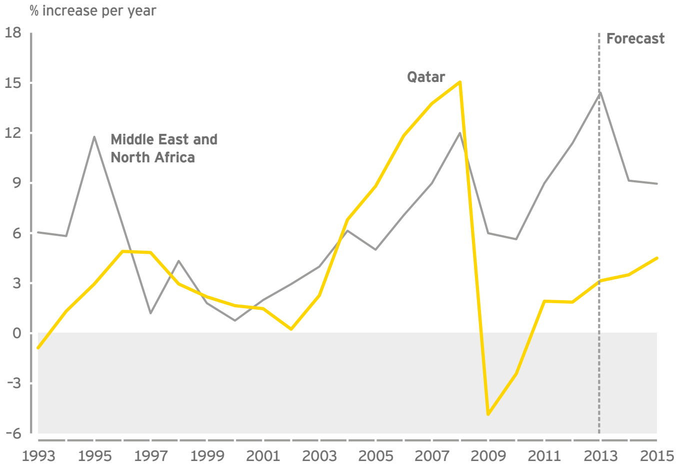
From an estimated 9% of GDP in 2013–14, we expect the budget surplus to narrow to 7.8% in 2014–15 and 7% in 2015–16. This will reflect both declining revenues due to lower oil prices, and rising capital spending.

Figure 51
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 52
Inflation



Source: Oxford Economics; World Bank.

Qatar

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	6.5	6.5	6.5	6.5	6.5	6.3
CPI inflation (% per year)	3.1	3.5	4.5	4.5	4.5	4.0
Current account balance (% of GDP)	30.9	26.1	23.4	21.5	20.4	19.4
External debt total (% of GDP)	41.9	38.8	35.2	32.3	29.5	27.0
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)	9.0	7.8	7.0	6.0	6.0	6.6
Population (millions)	2.1	2.2	2.4	2.4	2.4	2.5
Nominal GDP (US$b)	202.5	214.5	231.8	247.0	265.1	284.7
GDP per capita (US$ current prices)	95,920.6	96,147.8	98,589.2	103,386.0	109,177.2	115,434.0

Source: Oxford Economics.

Russia

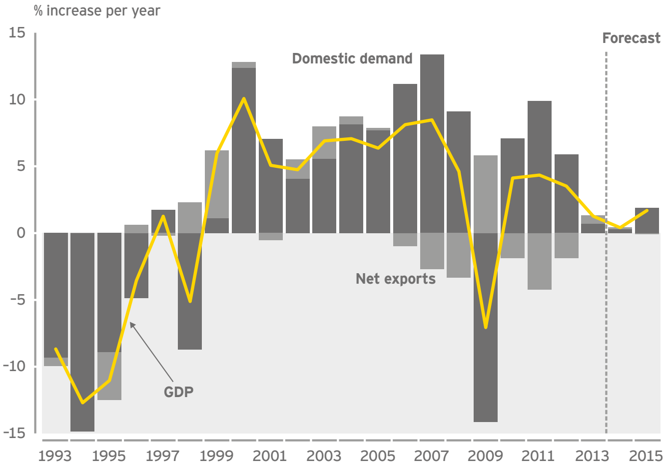
Rising downside risks hamper growth prospects

Growth stagnated at 0.9% on the year in Q1, which corresponds to a quarterly decline. We expect Q2 GDP growth to pick up in comparison with Q1, as capital outflow slows and industrial production rises. Nonetheless, downside risks have increased notably since tensions with Ukraine escalated. So we have downgraded our forecast for growth this year from 1.9% in the February edition to just 0.2%.

Inflation in April and May stood at 7.3% and 7.6% respectively, higher than we had expected. This was due in large part to depreciation of the rouble. Since the rouble seems to have stabilized, inflationary pressures should ease in H2 2014. However, high inflation is likely to prevent the central bank from cutting policy rates before 2015.

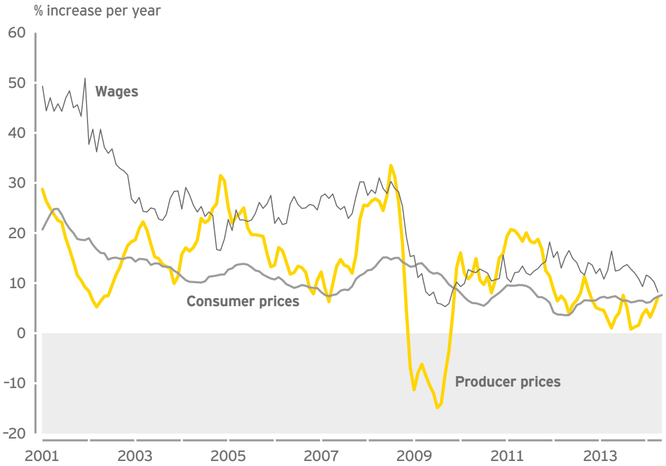
In the medium term, the economy's poor demographic profile and slow pace of reform will constrain real GDP growth to around 3.3%. A deal that will involve significant investment (around US$55b in total) in gas pipelines has led us to increase our medium-term forecast from 3% to 3.3%.

Figure 53
Contributions to GDP



Source: Oxford Economics.

Figure 54
Inflation



Source: Federal State Statistics Service; Haver Analytics.

Russia

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	1.4	0.2	1.8	3.3	3.3	3.3
CPI inflation (% per year)	6.8	6.9	5.3	5.0	4.8	4.4
Current account balance (% of GDP)	1.6	1.8	0.7	0.5	-0.3	-0.4
External debt total (% of GDP)	34.0	39.0	40.0	41.7	42.5	42.5
Short-term interest rate (%)	7.5	8.9	7.9	6.8	6.3	6.1
Exchange per US$ (year average)	31.8	34.9	34.7	35.0	35.2	35.5
Government balance (% of GDP)	-1.0	-0.8	-1.4	-1.3	-1.4	-1.3
Population (millions)	142.8	142.4	142.1	141.7	141.3	140.9
Nominal GDP (US$b)	2,093.4	2,012.4	2,169.6	2,329.3	2,500.9	2,679.5
GDP per capita (US$ current prices)	14,663.3	14,130.4	15,273.4	16,439.7	17,698.9	19,018.8

Source: Oxford Economics.

Saudi Arabia

GDP growth

2014 3.7%

Slow oil output and fiscal consolidation hamper growth prospects

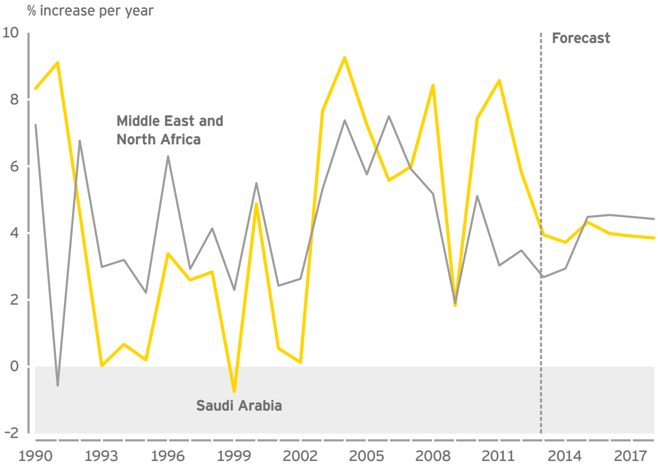
The pace of economic activity in Saudi Arabia will slow in the next four years. Headline GDP growth is forecast to average around 4% a year over the period 2014–18, compared with over 6% in 2010–12. We have cut our forecast for 2014 growth from 4.3% in the February edition to 3.7% now, after growth in oil output and public spending slowed.

On the oil front, ample global supply prospects will limit Saudi's oil-related output growth to around 2% a year on average during 2014–18. The projected increase in unconventional (shale) oil production, the recovery in Libyan production and an expected pickup in Iranian exports will all contribute to a lower call on Saudi production.

Meanwhile, three key factors will contribute to a slowing of non-oil growth to around 4.5% over the next five years. First, concerns over sliding into a fiscal deficit, amid falling oil prices and limited production increases, will lead to much slower government spending growth than in recent years. As a result, there will be more emphasis on the private sector to drive growth, with fiscal policy used counter-cyclically when the private sector is weak. Second, the recent crackdown on illegal expatriate labor will hamper growth as it implies a smaller workforce. Third, Saudi will be affected by disappointing growth in key trading partners such as China and Japan.

Figure 55

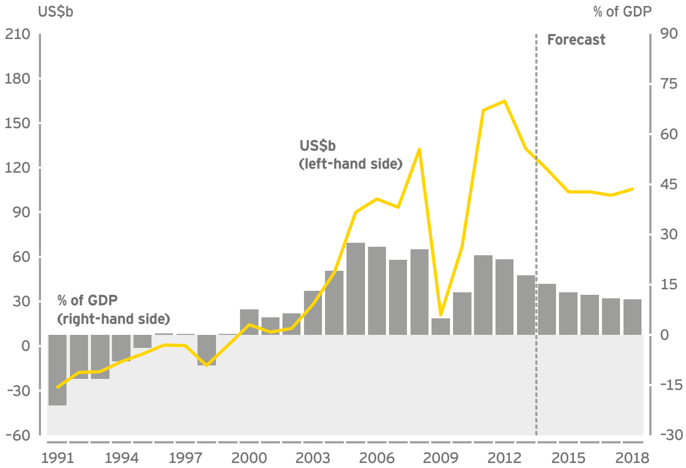
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 56

Current account balance



Source: Oxford Economics.

Saudi Arabia

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	4.0	3.7	4.3	4.0	3.9	3.9
CPI inflation (% per year)	3.5	3.1	3.7	3.8	3.5	3.5
Current account balance (% of GDP)	17.7	15.2	12.7	11.9	10.9	10.6
External debt total (% of GDP)	11.1	10.5	9.8	9.0	8.3	7.6
Short-term interest rate (%)	1.0	1.0	1.2	1.8	2.7	4.2
Exchange per US$ (year average)	3.8	3.8	3.8	3.8	3.8	3.8
Government balance (% of GDP)	6.4	4.6	2.2	0.9	1.0	1.0
Population (millions)	28.8	29.4	29.9	30.4	30.9	31.4
Nominal GDP (US$b)	745.3	781.4	818.6	874.6	933.9	998.2
GDP per capita (US$ current prices)	25,839.8	26,604.9	27,380.9	28,781.0	30,247.1	31,826.1

Source: Oxford Economics.

South Africa

GDP growth

2014 **1.2%**

Growth forecasts slashed as domestic strife continues

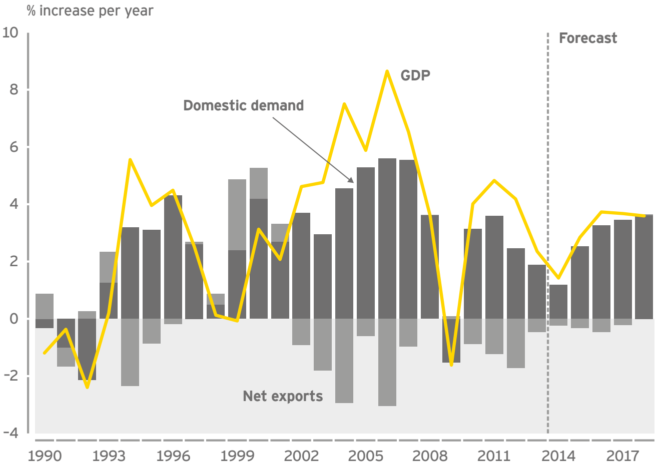
The economy has fared worse than we feared at the start of this year, with GDP shrinking by 0.2% on the quarter in Q1. This is the first contraction since the 2009 recession. The fall was largely caused by declining mining (down 7% on the quarter) and manufacturing output, as strikes at the world's top three producers of platinum continue to cripple one of South Africa's main export industries.

On the demand side, household spending remains constrained by very high unemployment, stubborn inflation, slowing credit extension and poor consumer sentiment. Meanwhile, investment is being undermined by strikes, tightening monetary policy and the volatility of the rand. Given these obstacles and the very poor start to the year, we have cut our growth forecasts substantially. We now forecast GDP growth of just 1.2% this year and 2.5% in 2015, down from 2.8% and 3.5% respectively in our last report.

Despite these weak growth forecasts, there is still a risk that they might have to be further downgraded. South Africa's twin deficits leave the South African rand very vulnerable should sentiment about global markets drop sharply or perceptions about South Africa get even gloomier. However, South Africa would be well-placed to benefit from increased trade if world growth were to pick up more than we currently expect. Meanwhile, a legacy of underinvestment provides scope for the economy to catch up if short-term obstacles can be overcome and meaningful reforms implemented.

Figure 57

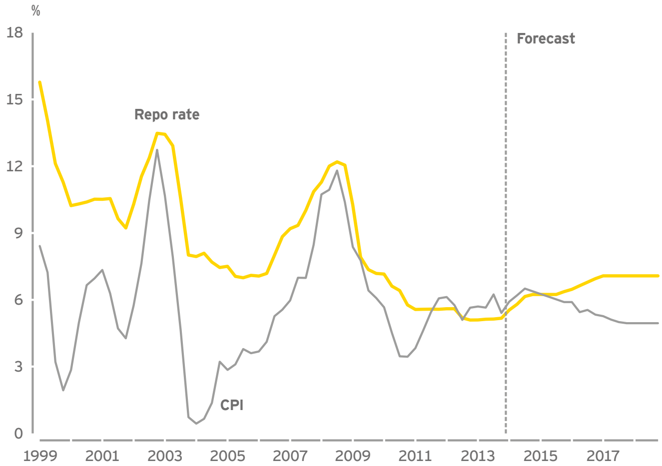
Contributions to GDP



Source: Oxford Economics.

Figure 58

Interest rate and consumer price inflation (CPI)



Source: Oxford Economics.

South Africa

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	1.9	1.2	2.5	3.3	3.5	3.6
CPI inflation (% per year)	5.8	6.3	6.1	5.6	5.1	5.0
Current account balance (% of GDP)	-5.8	-5.6	-4.8	-4.5	-4.1	-3.7
External debt total (% of GDP)	39.8	43.6	45.0	45.2	46.2	47.5
Short-term interest rate (%)	5.1	5.9	6.3	6.7	7.1	7.1
Exchange per US$ (year average)	9.6	10.6	10.3	10.1	10.1	10.3
Government balance (% of GDP)	-4.7	-5.8	-5.3	-4.9	-4.5	-4.2
Population (millions)	52.8	53.2	53.5	53.9	54.2	54.5
Nominal GDP (US$b)	351.5	346.2	386.8	432.9	469.8	500.7
GDP per capita (US$ current prices)	6,657.1	6,510.5	7,224.9	8,033.8	8,664.9	9,180.6

Source: Oxford Economics.

Thailand

GDP growth

2014 **-0.2%**

Growth grinds to halt after military coup, but investment promises recovery

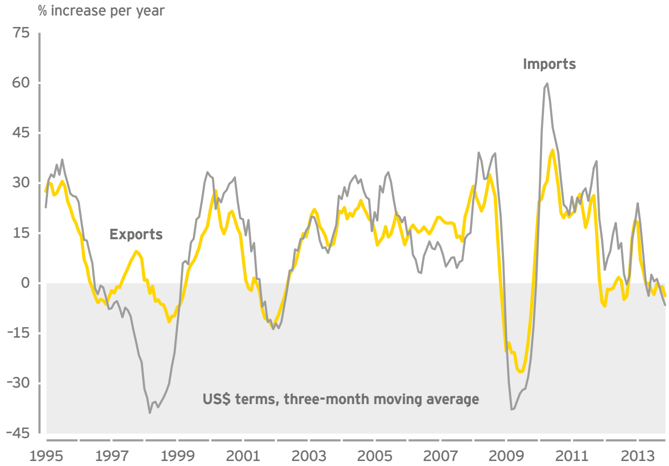
The army seized control of Thailand on 22 May. The military expects to spend at least 15 months restoring stability before holding elections. It has vowed to boost economic activity by speeding up capital spending and attempting to cap prices for fuel and other consumer products. The authorities have already resumed payments to farmers under the disrupted rice-pledging program.

We think that GDP will contract by 0.2% this year. This is down sharply on our February forecast for growth of 3.4%, and is a direct result of the political instability. GDP fell in Q1 2014 and the slide is set to continue in Q2. More than US$15b of planned investments were on hold in H1 2014, but we assume that these projects will be restarted by Q1 2015. Imports are likely to stay weak, so net exports will be the sole source of growth for much of the year, partly offsetting the drop in domestic activity.

Military leaders have announced the appointment of financial and economic advisers to help revive growth, and we expect domestic activity to start picking up again from H2 2014. But Thailand will remain deeply polarized and this is likely to continue to dampen confidence in the economy's long-term prospects. In recent months, we have reduced our medium-term growth forecast to reflect these concerns.

Figure 59

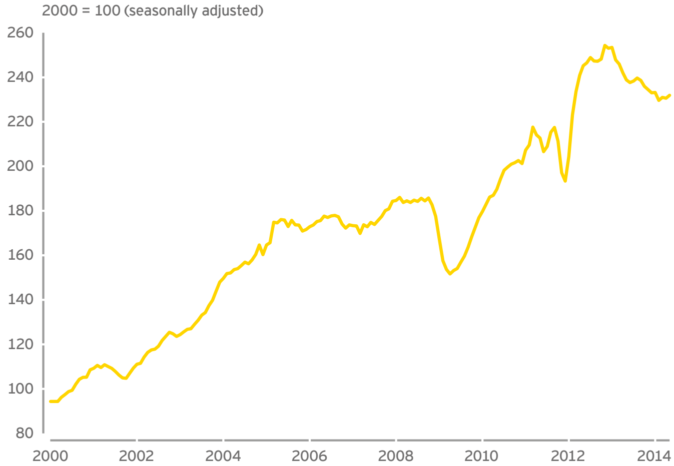
Exports and imports



Source: Customs Department; Haver Analytics.

Figure 60

Private investment indicator



Source: Bank of Thailand; Haver Analytics.

Thailand

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	2.9	-0.2	5.2	4.7	4.5	4.5
CPI inflation (% per year)	2.2	2.3	2.5	2.6	2.7	2.7
Current account balance (% of GDP)	-0.7	2.9	2.3	1.7	1.4	1.4
External debt total (% of GDP)	36.1	40.3	39.7	40.2	40.7	41.6
Short-term interest rate (%)	2.7	2.3	2.8	4.3	5.6	5.6
Exchange per US$ (year average)	30.7	32.6	33.5	34.4	35.2	35.9
Government balance (% of GDP)	-2.2	-3.3	-4.0	-4.2	-4.1	-4.1
Population (millions)	66.4	66.6	66.8	67.1	67.3	67.4
Nominal GDP (US$b)	387.5	372.4	391.1	408.5	428.5	451.5
GDP per capita (US$ current prices)	5,834.0	5,588.9	5,851.6	6,092.3	6,371.4	6,697.2

Source: Oxford Economics.

Turkey

Growth exceeds expectations, but lira remains vulnerable

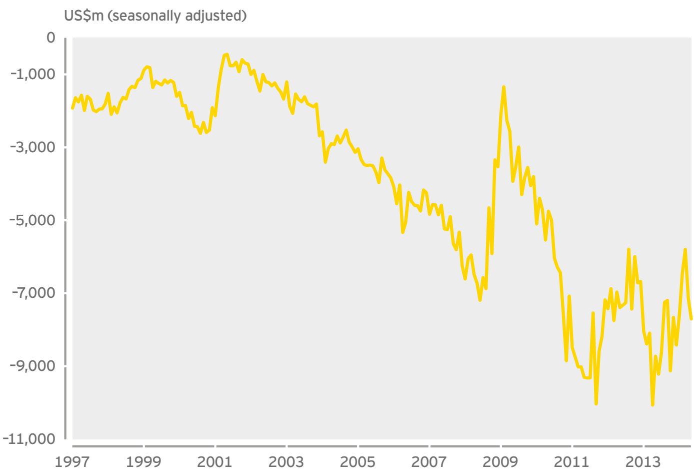
The economy expanded by 1.7% on the quarter in Q1, well above expectations. Growth was driven by net external trade, but private domestic demand fell. The former was driven by the impact of the much more competitive Turkish lira and the gradual pickup in growth in the European Union and the Middle East. The latter reflected the response to January's sharp tightening of monetary policy.

The lira has stabilized since January, and the Central Bank of the Republic of Turkey (CBT) faced political pressure to ease monetary policy in Q2 2014. In response, the CBT cut the main interest rate by 50bps in May and by another 75bps in June. With this strong start to the year and a looser-than-expected monetary policy stance through 2014, we now expect growth of 2.8% this year.

Despite recent developments, the economic risks are skewed to the downside. While Turkey will make considerable progress in narrowing its bloated current account deficit this year — to 5.5% of GDP from nearly 8% in 2013 — the deficit is still sufficiently large to leave Turkey exposed if global investor sentiment deteriorates again. And there are domestic risks too. If inflation turns out higher than the CBT currently forecasts, the bank's credibility would be tarnished further, possibly triggering a plunge in the lira.

Figure 61

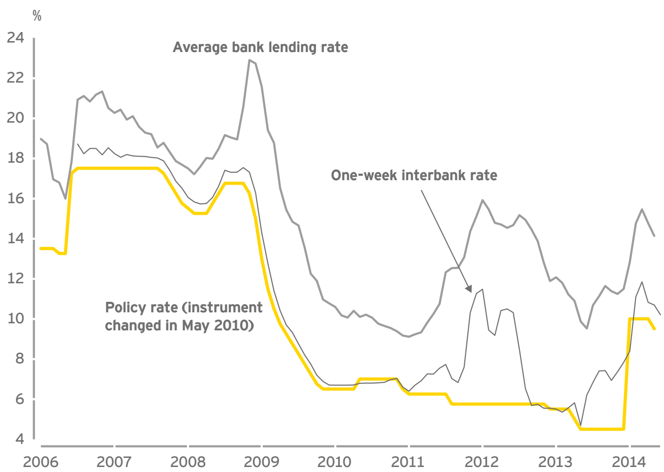
Monthly trade balance



Source: Turkish Statistical Institute; Haver Analytics.

Figure 62

Interest rates



Source: Haver Analytics; Oxford Economics.

Turkey

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	4.0	2.8	3.2	4.7	4.8	4.7
CPI inflation (% per year)	7.5	8.6	7.8	6.8	5.8	5.0
Current account balance (% of GDP)	-7.9	-5.5	-4.4	-4.0	-3.7	-3.4
External debt total (% of GDP)	45.7	50.6	48.5	47.8	46.6	45.9
Short-term interest rate (%)	6.8	10.3	9.3	8.1	8.0	7.9
Exchange per US$ (year average)	1.9	2.1	2.1	2.1	2.1	2.2
Government balance (% of GDP)	-1.2	-1.5	-1.2	-1.1	-1.1	-0.9
Population (millions)	75.0	75.9	76.8	77.6	78.3	79.0
Nominal GDP (US$b)	820.7	799.2	891.0	965.0	1,052.2	1,131.6
GDP per capita (US$ current prices)	10,936.8	10,523.9	11,603.0	12,439.9	13,436.8	14,323.1

Source: Oxford Economics.

Ukraine

Economy hit by political crisis

Separatist movements in eastern Ukraine and tensions with Russia are taking a major toll on the economy. The 1.1% GDP fall in Q1 2014 probably understates the damage done by separatist protests, which worsened in Q2. We now forecast a 5% GDP decline in 2014.

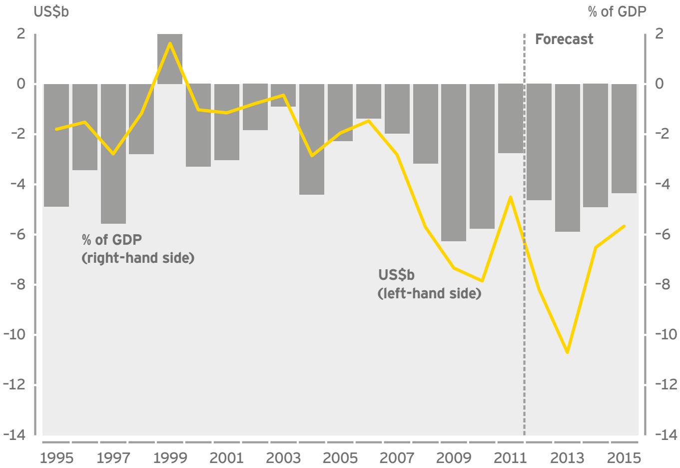
Despite Russia's agreement to respect Ukraine's election result and talk to newly-elected President Petro Poroshenko, the recovery will be slow. We now expect growth of just 0.5% in 2015 before a pickup to 3.6% in 2016. This forecast reflects the shared interest of the European Union, the IMF and Russia in reviving Ukraine's economy so that it can repay external public and private debts.

The reform agenda will be set by the IMF, whose US$17b package is conditional on deep budget cuts, sharp energy price rises, public-sector wage freezes and the removal of controls that could see the Ukrainian hryvnia (UAH) fall sharply and interest rates increase. These adjustments will lead to a sharp rise in inflation and prolong the downturn in investment.

Risks to our new forecast are evenly balanced. A faster upturn is possible in 2015 if political divisions are overcome quickly and exports respond well to the depreciation of the UAH. But there may be further setbacks if pro-Russian protests spread, energy price inflation is not contained, IMF disbursements are interrupted, or the Russian or Eurozone economies falter badly.

Figure 63

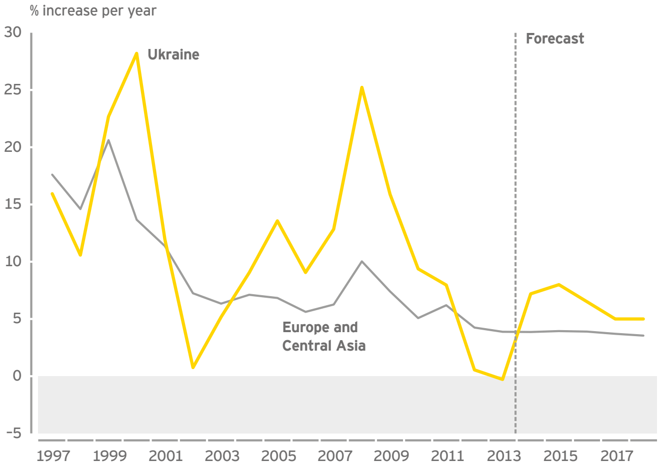
Government budget balance



Source: Oxford Economics.

Figure 64

Inflation



Source: Oxford Economics; World Bank.

Ukraine

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	0.1	-5.0	0.5	3.6	5.3	5.2
CPI inflation (% per year)	-0.3	7.2	8.0	6.5	5.0	5.0
Current account balance (% of GDP)	-8.9	-5.9	-3.9	-3.3	-3.5	-3.9
External debt total (% of GDP)	78.0	111.8	116.6	109.7	103.1	96.8
Short-term interest rate (%)	6.5	6.9	7.3	7.4	7.3	7.4
Exchange per US$ (year average)	8.0	11.2	12.3	12.5	12.6	12.6
Government balance (% of GDP)	-5.9	-4.9	-4.3	-3.4	-2.5	-2.0
Population (millions)	45.2	44.9	44.6	44.3	44.1	43.8
Nominal GDP (US$b)	182.0	132.6	130.7	142.3	155.7	171.3
GDP per capita (US$ current prices)	4,026.4	2,951.0	2,927.1	3,208.5	3,533.8	3,915.7

Source: Oxford Economics.

United Arab Emirates

GDP growth

2014 **4.6%**

Oil output growth to slow, but non-oil sector boosted by Expo

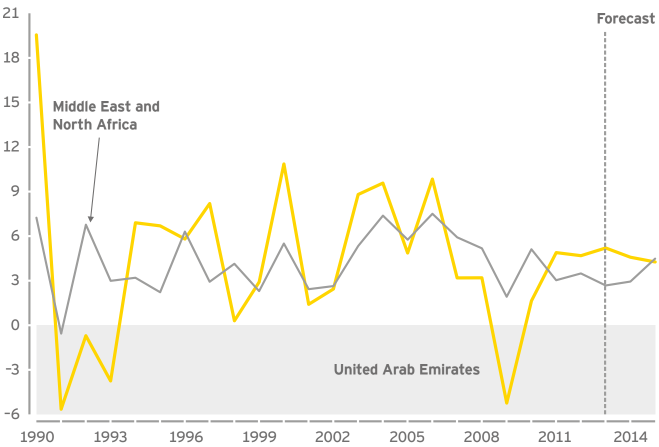
With oil production levels already high and global supply prospects strong, growth in the UAE's hydrocarbon economy will soften in the coming years. Instead, GDP growth will be driven primarily by the non-oil sector — and, in particular, the private non-oil sector, as fiscal stimulus is gradually scaled down in an attempt to consolidate the fiscal position.

As a result, we are forecasting overall GDP growth of 4.6% this year, with oil-related growth at just 1.8% and non-oil growth at a much punchier 5.9%. Relatively mild price pressures, low interest rates and rising confidence after Dubai was chosen to host the World Expo trade convention in 2020 are bolstering both consumption and investment.

Looking further ahead, Expo-related spending will help keep non-oil growth above 5.5% over the next five years. Dubai's construction and hospitality sectors are likely to be key beneficiaries of the Expo win. Abu Dhabi and Sharjah will also see positive spill-overs as a result of higher tourism and business flows, as well as confidence effects. However, the Expo win is not without risks. Excessive government and government-related entity indebtedness, and a renewed asset price bubble in Dubai are the key risks to monitor.

Figure 65

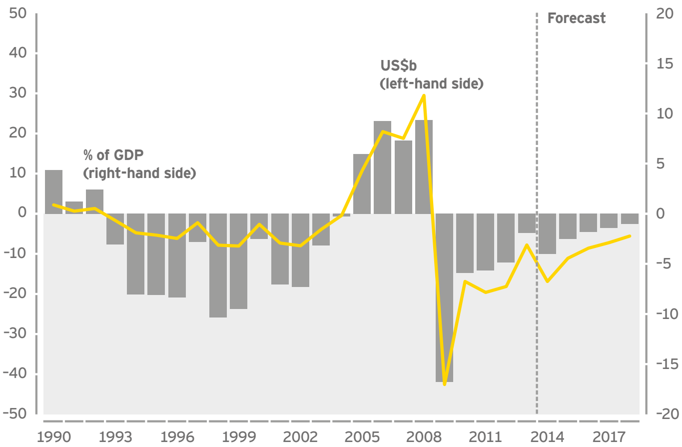
Real GDP growth



Source: Oxford Economics.

Figure 66

Government budget balance



Source: Oxford Economics.

United Arab Emirates

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	4.1	4.6	4.3	4.2	4.0	3.6
CPI inflation (% per year)	1.1	2.5	3.2	3.3	3.3	3.2
Current account balance (% of GDP)	16.3	12.5	10.8	9.3	8.6	8.0
External debt total (% of GDP)	25.2	21.7	19.5	17.1	14.9	13.0
Short-term interest rate (%)	1.0	1.0	1.5	2.1	3.2	4.9
Exchange per US$ (year average)	3.7	3.7	3.7	3.7	3.7	3.7
Government balance (% of GDP)	5.6	6.2	6.7	6.6	6.3	5.9
Population (millions)	9.1	9.4	9.6	9.8	10.0	10.2
Nominal GDP (US$b)	396.1	414.0	436.0	468.4	503.1	538.7
GDP per capita (US$ current prices)	43,420.0	44,274.5	45,526.9	47,881.3	50,379.0	52,853.9

Source: Oxford Economics.

Vietnam

GDP growth

2014 **5.6%**

Stable prices and currency support solid medium-term growth

Vietnam's growth prospects remain relatively subdued. This outlook reflects our slightly more cautious view of intra-Asian trade and renewed territorial disputes with China, whose businesses were targeted by unusually large nationalist protests.

We have lowered our projection for GDP growth in 2015 from 6.4% to 6.0%. However, the medium-term outlook remains for annual growth of 6%–7% a year in 2016–17, fueled by ongoing inward investment and continued strong export growth.

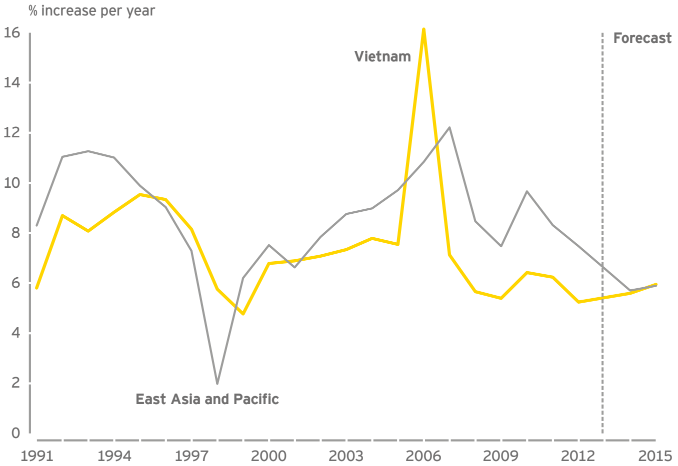
Improvement in US relations, helped by China's quest for oil in disputed waters, may boost trade prospects by sealing a Trans-Pacific Partnership deal with safeguards for Asian producers.

Changing FDI composition confirms expansion into higher-value clothing lines and non-textile manufacturing, where exports are less price sensitive. The main investment risks are from internal party resistance to reforms that scale back state-owned enterprises and ease credit constraints facing private firms.

Inflation is subsiding from last year's 6.6% and greater confidence in price stability has subdued fears of a renewed wage-price spiral. The gradual reduction of inflation in 2014–18 is underpinned by the continued external surplus (allowing only gradual depreciation of the Vietnamese dong) and less frequent energy shortages.

Figure 67

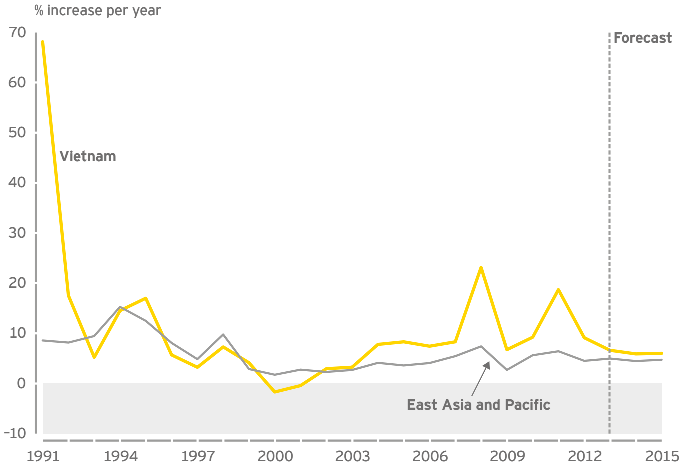
Real GDP growth



Source: Oxford Economics; World Bank.

Figure 68

Inflation



Source: Oxford Economics; World Bank.

Vietnam

	2013	2014	2015	2016	2017	2018
Real GDP growth (% per year)	5.4	5.6	6.0	6.5	7.0	6.5
CPI inflation (% per year)	6.6	5.9	6.0	5.5	5.0	4.5
Current account balance (% of GDP)	5.0	2.7	1.3	0.0	-0.2	-0.3
External debt total (% of GDP)	30.5	24.8	21.6	19.7	18.2	16.9
Short-term interest rate (%)	7.0	7.0	6.0	6.0	6.0	6.0
Exchange per US$ (year average)	20,933.4	21,100.9	21,834.1	22,436.5	22,944.9	23,429.0
Government balance (% of GDP)	-4.4	-4.5	-4.2	-3.7	-3.5	-3.4
Population (millions)	91.7	92.5	93.4	94.1	94.9	95.6
Nominal GDP (US$b)	171.2	193.7	211.7	231.6	254.4	277.2
GDP per capita (US$ current prices)	1,868.2	2,093.9	2,267.4	2,461.0	2,681.5	2,900.2

Source: Oxford Economics.

Cross-country tables

Cross-country tables

Real GDP growth

	2013	2014	2015	2016	2017	2018
Americas	2.5	1.6	2.7	3.1	3.6	3.6
Argentina	3.0	-1.5	1.5	2.7	2.8	2.9
Brazil	2.5	1.4	1.9	2.5	3.3	3.4
Chile	4.2	2.9	4.8	4.7	4.6	4.4
Colombia	4.3	4.5	4.5	4.7	4.6	4.4
Mexico	1.3	2.4	3.8	3.8	4.0	3.9
EMEIA	3.2	2.7	3.6	4.6	4.8	4.8
Czech Republic	-0.9	2.6	2.8	3.0	2.9	2.9
Egypt	2.1	1.9	3.0	4.0	4.5	5.4
Ghana	7.1	6.5	5.7	5.4	5.0	4.7
India	4.7	4.8	5.1	6.1	6.6	6.9
Kazakhstan	6.0	4.9	6.0	7.0	7.0	6.0
Nigeria	6.9	6.5	5.8	5.5	5.2	5.1
Poland	1.6	3.3	3.4	3.7	3.6	3.4
Qatar	6.5	6.5	6.5	6.5	6.5	6.3
Russia	1.4	0.2	1.8	3.3	3.3	3.3
Saudi Arabia	4.0	3.7	4.3	4.0	3.9	3.9
South Africa	1.9	1.2	2.5	3.3	3.5	3.6
Turkey	4.0	2.8	3.2	4.7	4.8	4.7
Ukraine	0.1	-5.0	0.5	3.6	5.3	5.2
United Arab Emirates	4.1	4.6	4.3	4.2	4.0	3.6
Asia	6.6	6.1	6.3	6.4	6.4	6.3
China and Hong Kong	7.5	7.0	6.8	7.0	7.0	7.0
Indonesia	5.8	5.2	5.7	5.7	5.4	5.3
Korea	3.0	3.5	3.8	3.7	3.6	3.5
Malaysia	4.7	4.8	4.1	4.5	4.3	4.2
Thailand	2.9	-0.2	5.2	4.7	4.5	4.5
Vietnam	5.4	5.6	6.0	6.5	7.0	6.5
Total	4.6	4.1	4.7	5.2	5.4	5.4

Source: Oxford Economics.

Cross-country tables

CPI inflation

	2013	2014	2015	2016	2017	2018
Americas	5.6	8.2	8.0	6.6	5.4	4.6
Argentina	10.6	31.2	30.6	21.8	13.9	8.6
Brazil	6.2	6.4	6.6	5.8	5.3	4.9
Chile	1.9	4.1	3.3	3.0	3.0	3.0
Colombia	2.0	3.0	3.4	3.3	3.3	3.3
Mexico	3.8	3.9	3.5	3.3	3.2	3.1
EMEIA	5.6	5.6	5.3	5.0	4.7	4.4
Czech Republic	1.4	0.5	1.8	1.9	2.0	2.0
Egypt	9.5	9.4	8.4	7.0	6.0	5.5
Ghana	11.7	14.5	10.5	8.0	6.3	5.5
India	6.3	5.3	4.9	4.8	4.6	4.4
Kazakhstan	5.7	7.5	7.3	6.5	6.0	6.0
Nigeria	8.5	8.0	8.0	8.0	8.0	8.0
Poland	0.9	0.9	2.0	2.5	2.5	2.5
Qatar	3.1	3.5	4.5	4.5	4.5	4.0
Russia	6.8	6.9	5.3	5.0	4.8	4.4
Saudi Arabia	3.5	3.1	3.7	3.8	3.5	3.5
South Africa	5.8	6.3	6.1	5.6	5.1	5.0
Turkey	7.5	8.6	7.8	6.8	5.8	5.0
Ukraine	-0.3	7.2	8.0	6.5	5.0	5.0
United Arab Emirates	1.1	2.5	3.2	3.3	3.3	3.2
Asia	2.8	2.7	2.8	2.9	3.0	3.0
China and Hong Kong	2.7	2.4	2.6	2.7	2.9	2.9
Indonesia	6.4	6.2	5.0	4.7	4.5	4.5
Korea	1.3	1.9	2.7	2.6	2.5	2.4
Malaysia	2.1	3.2	2.8	3.0	3.0	3.0
Thailand	2.2	2.3	2.5	2.6	2.7	2.7
Vietnam	6.6	5.9	6.0	5.5	5.0	4.5
Total	4.3	4.7	4.6	4.3	4.0	3.8

Source: Oxford Economics.

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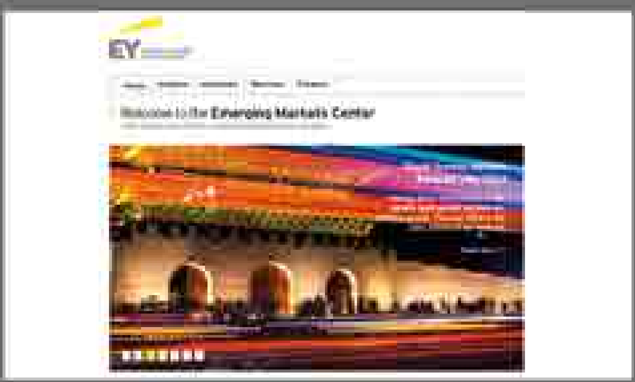

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