

Global growth is forecast at 3.5 percent in 2015 and 3.8 percent in 2016, with uneven prospects across the main countries and regions. Growth in emerging market economies is softening, reflecting an adjustment to diminished medium-term growth expectations and lower revenues from commodity exports, as well as country-specific factors. The outlook for advanced economies is showing signs of improvement, owing to the boost to disposable incomes from lower oil prices, continued support from accommodative monetary policy stances, and more moderate fiscal adjustment. The distribution of risks to near-term global growth has become more balanced relative to October 2014 but is still tilted to the downside. The decline in oil prices could boost activity more than expected. Geopolitical tensions continue to pose threats, and risks of disruptive shifts in asset prices remain relevant. In some advanced economies, protracted low inflation or deflation also pose risks to activity.

During the global financial crisis and in the years that followed, the principal global shocks—the 2008–09 subprime and Lehman Brothers crisis and the 2011–12 euro area crisis—had similar effects on all regions, albeit to varying degrees. But the forces that are now shaping the global outlook—most notably declining oil and commodity prices—are more redistributive in nature, benefiting some regions and countries while hurting others (Figure 2.1). Growth divergences among the major economies, and the resulting interest rate and currency adjustments, are also having varying effects across regions. These forces provide the backdrop for this chapter’s regional perspectives:

- Recent sharp declines in oil (and to a lesser extent, commodity) prices, although a net positive for the global economy and for oil- and commodity-importing regions, are weighing on the commodity-exporting countries of Latin America and the Caribbean, the Commonwealth of Independent States, the Middle East and North Africa, and sub-Saharan Africa.
- The diverging trajectories of the major economies—robust growth in the United States, the weaker

recoveries progressing in the euro area and Japan, and slowing growth in China—also have varying implications across regions and countries, boosting those with strong trade links with the United States, but hurting those more tightly linked with the other major economies.

- The strengthening of the U.S. dollar and the weakening of the euro and yen are also having a redistributive effect. Most obviously, they are a welcome boost to the tepid recoveries in the euro area and Japan and are a (so far manageable) headwind to the U.S. recovery. But they are also generating tensions between financial stability and competitiveness in regions and countries that have seen rising dollar-denominated indebtedness in recent years.

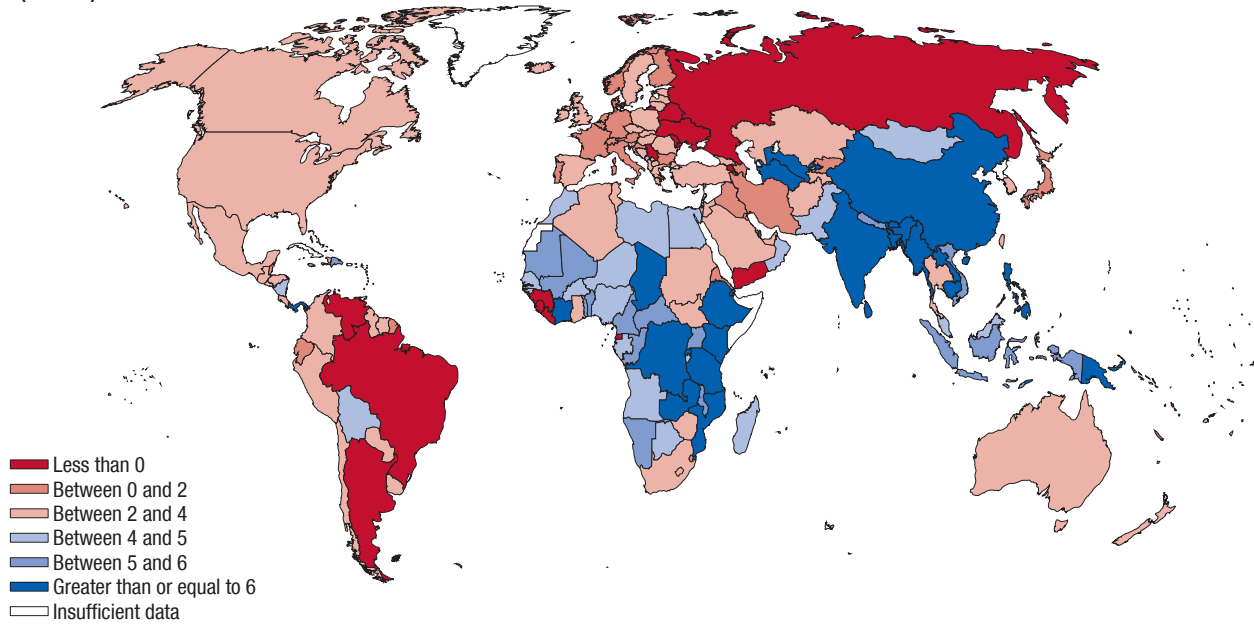
The United States and Canada: A Solid Recovery

Growth in the United States and Canada remains solid. However, while lower energy prices have boosted growth momentum in the United States, they pose downside risks to the Canadian economy owing to the relatively large size of its energy sector. In the United States, labor markets and business and consumer confidence have shown solid improvements. The economy has also so far been resilient to the weaker external conditions and the strengthening dollar. The next prominent policy challenge will be a smooth normalization of monetary policy. Building political consensus around a medium-term fiscal consolidation plan and supply-side reforms to boost medium-term growth—including simplifying the tax system, investing in infrastructure and human capital, and immigration reform—will continue to be a challenge. In Canada, continued monetary policy accommodation and gradual fiscal consolidation would help achieve growth that is more balanced and more broadly based.

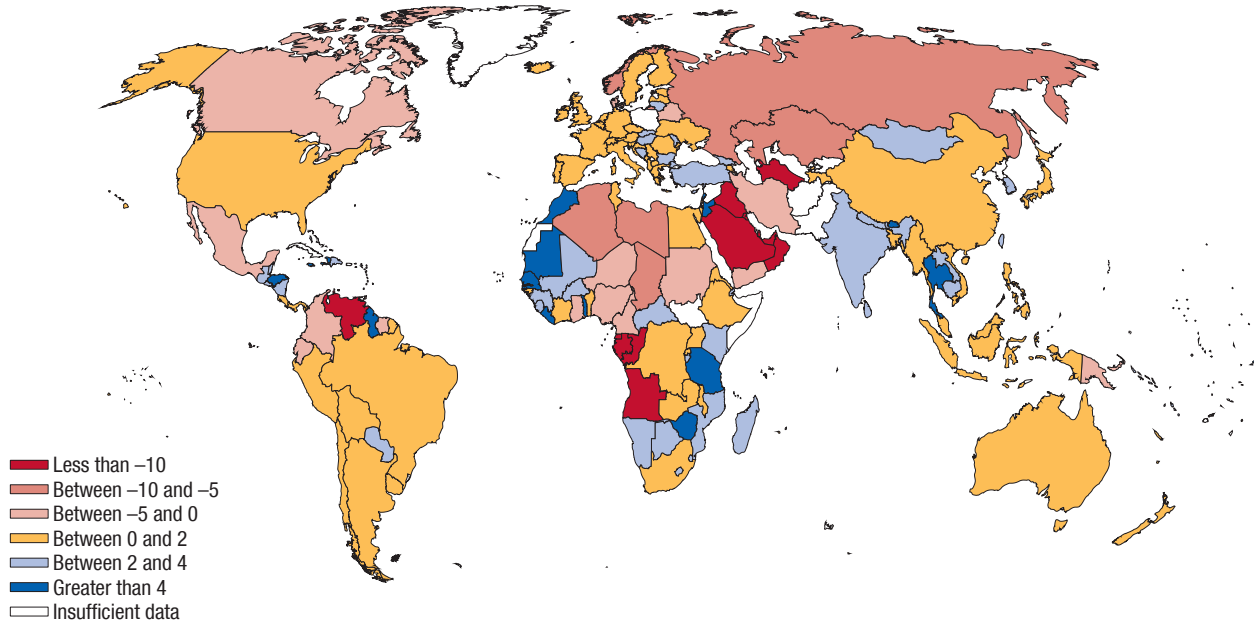
Growth in the United States has been energetic, averaging 3.9 percent annualized in the last three quarters of 2014. Consumption—the main engine of growth—has benefited from steady job creation and income growth, lower oil prices, and improved

Figure 2.1. 2015 GDP Growth Forecasts and the Effects of an Oil Supply Shock

**1. 2015 GDP Growth Forecasts¹
(Percent)**



**2. Oil Trade Balance, Pure Price Effects²
(Percent of GDP)**



Source: IMF staff estimates.

¹Data for Syria are excluded because of the uncertain political situation.

²The map shows the impact on the oil trade balance (as a percentage of GDP) of the projected decline in oil prices in 2015 relative to the oil price assumption underlying the October 2014 *World Economic Outlook* projections. The calculations assume unchanged volumes of oil exports and imports relative to projections in October.

consumer confidence. The unemployment rate reached 5.5 percent in February, 1.2 percentage points below its level of a year ago (Figure 2.2). Overall, nonresidential investment has supported growth, although lower oil prices have had a negative impact on energy sector investment.

Despite the recovery, there is little evidence of meaningful price and wage pressures. The core personal consumption expenditure price index in February was only 1.4 percent higher than a year before, with headline inflation even lower at 0.2 percent, largely reflecting falling energy prices. Real wages grew less than 1 percent in 2014, even as the labor market steadily strengthened.

Asset purchases by the Federal Reserve ended in October 2014, and the liftoff of policy interest rates from the zero bound is expected in the third quarter of this year, but policy rates are expected to rise only slowly. The Federal Reserve has clearly communicated that the timing of the liftoff will depend on progress toward its goals of maximum employment and 2 percent inflation. Long-term interest rates have further declined, mainly reflecting weaker external conditions, excess demand for safe assets, and expectations of future dollar strength.

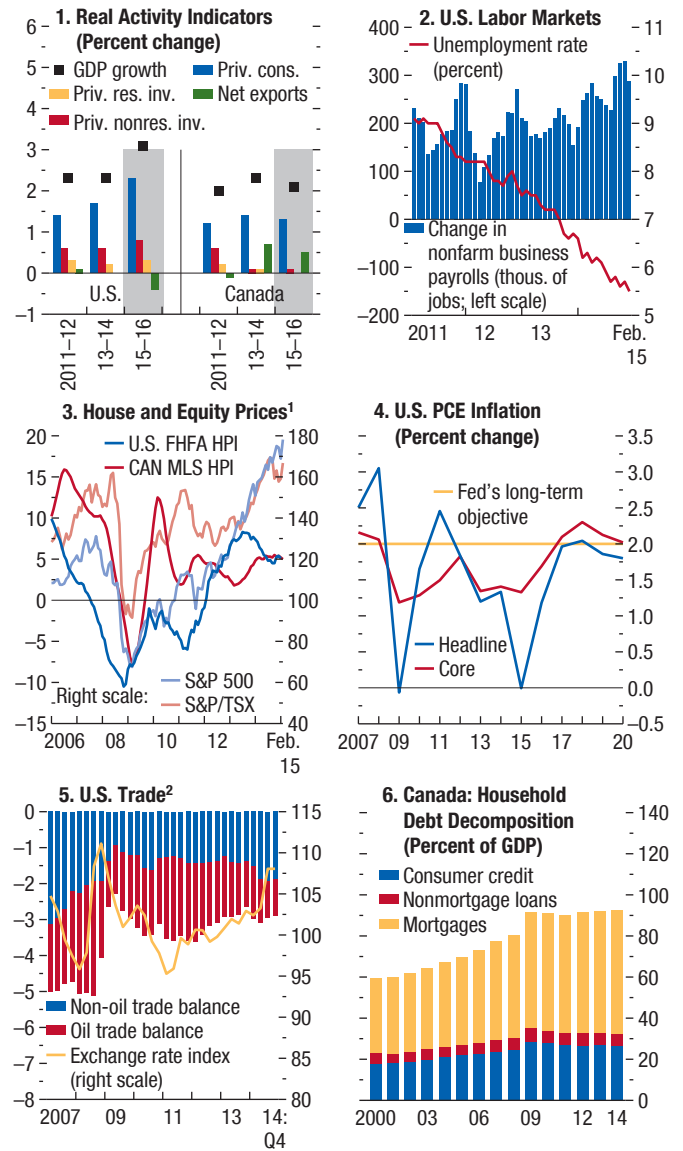
Conditions remain in place for robust U.S. economic performance in 2015. Markedly lower energy prices; tame inflation; an accommodative monetary policy stance; favorable financial conditions; reduced fiscal drag; strengthened household, corporate, and bank balance sheets; and an improving housing market will combine to maintain solid growth momentum. These forces are expected to more than offset the strengthening of the dollar. Growth is projected to reach 3.1 percent in 2015—as was projected in the October 2014 *World Economic Outlook* (WEO)—and to remain at 3.1 percent in 2016 (Table 2.1).

However, the picture over a longer horizon is less upbeat. Potential growth is estimated to be only about 2.0 percent, weighed down by an aging population and weak innovation and productivity growth (see Chapter 3).

Addressing the issue of potential growth will require implementation of an ambitious agenda of supply-side policies in a fractious political environment. Forging agreement on a credible medium-term fiscal consolidation plan is a high priority, to ensure that debt does not rise again with aging-related fiscal costs. Keeping debt in check will require efforts to lower the growth

Figure 2.2. United States and Canada: A Solid Recovery

In the United States, underlying growth is solid. Consumption is growing at a healthy pace, as improvements in labor markets have been strong, but investment still has much room to recover. Wage and price pressures remain subdued, partly because of lower energy prices. Canada's growth slowed in the first quarter of 2014 but rebounded strongly in the next two quarters, with exports benefiting from the U.S. recovery and a weaker currency. Housing market risks and the unfolding effects of the oil shock call for continued vigilance in Canada.



Sources: Canadian Real Estate Association; Central Bank of Canada (BoC); Duke/*CFO Magazine* Global Business Outlook Survey; Haver Analytics; Statistics Canada; U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; and IMF staff estimates.

Note: Cons. = consumption; Fed = U.S. Federal Reserve; inv. = investment; FHFA = Federal Housing Finance Agency; HPI = Housing Price Index; MLS = Multiple Listing Service; nonres. = nonresidential; priv. = private; PCE = personal consumption expenditure; res. = residential; S&P = Standard & Poor's; thous. = thousands; TSX = Toronto Stock Exchange.

¹Year-over-year percent change for house prices; index, January 2005 = 100 for S&P and TSX.

²Percent of GDP for the non-oil and oil trade balances; trade-weighted index, January 1997 = 100, for the exchange rate.

Table 2.1. Advanced Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2014	Projections		2014	Projections		2014	Projections		2014	Projections	
		2015	2016		2015	2016		2015	2016		2015	2016
Advanced Economies	1.8	2.4	2.4	1.4	0.4	1.4	0.4	0.6	0.4	7.3	6.9	6.6
United States	2.4	3.1	3.1	1.6	0.1	1.5	-2.4	-2.3	-2.4	6.2	5.5	5.1
Euro Area ^{4,5}	0.9	1.5	1.6	0.4	0.1	1.0	2.3	3.3	3.1	11.6	11.1	10.6
Japan	-0.1	1.0	1.2	2.7	1.0	0.9	0.5	1.9	2.0	3.6	3.7	3.7
United Kingdom ⁴	2.6	2.7	2.3	1.5	0.1	1.7	-5.5	-4.8	-4.6	6.2	5.4	5.4
Canada	2.5	2.2	2.0	1.9	0.9	2.0	-2.2	-2.6	-2.3	6.9	7.0	6.9
Other Advanced Economies ⁶	2.8	2.8	3.1	1.4	1.1	1.9	4.8	4.9	4.3	4.7	4.7	4.6

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

¹Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Table A6 in the Statistical Appendix.

²Percent of GDP.

³Percent. National definitions of unemployment may differ.

⁴Based on Eurostat's harmonized index of consumer prices.

⁵Excludes Lithuania. Current account position corrected for reporting discrepancies in intra-area transactions.

⁶Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries but includes Lithuania.

of health care costs, reform social security, and increase tax revenues. Policies should also be targeted toward raising labor force participation (including removing disincentives in the tax system, providing child care support, and enacting skills-based immigration reform), encouraging innovation, strengthening productivity, and tackling poverty and long-term unemployment. The October 2014 WEO made a clear case that key infrastructure investments could be made in the United States at relatively modest near-term costs but with important benefits for long-term output.

The risks to the near-term outlook are broadly balanced. On the downside, a stronger dollar could suppress exports, and low oil prices could suppress investment in the oil sector by more than is currently projected. Moreover, the recent compression of term premiums could unwind, which would tighten lending conditions and jeopardize the housing market recovery. Uncertainty about fiscal prospects linked to political brinkmanship over the debt limit or the 2016 budget could also undermine confidence and damage growth. On the upside, lower energy prices could have a bigger effect than currently expected on consumption or on non-oil corporate investment. And labor markets could recover at a faster pace, boosting household incomes and confidence. Finally, improvements in mortgage availability resulting from recent policy efforts could catalyze a faster housing market recovery.

Canada's recent growth performance has been solid, alongside a stronger recovery in the United States, exchange rate depreciation, and high energy demand. These developments have led to a welcome pickup in

exports but have yet to translate into strong investment and hiring. The economy is expected to grow 2.2 percent in 2015 (broadly unchanged from the October WEO forecast), helped by a strengthening U.S. economy. But risks are tilted to the downside because the unusually large fall in oil prices could further weaken business investment in the energy sector and lower employment growth.

The Bank of Canada took preemptive action and cut its policy rate by 25 basis points in January as insurance against adverse effects of the oil price shock on the economy. Overall, maintaining monetary accommodation along with gradual fiscal consolidation at the general government level would be conducive to rebalancing growth away from household consumption and toward business investment to generate a broader, more durable recovery. Targeted macroprudential policies would help address high housing sector vulnerabilities.

Europe

Advanced Europe: Spillovers from a Fragile Euro Area Recovery

There are signs of a pickup and some positive momentum in the euro area, reflecting lower oil prices and supportive financial conditions, but risks of prolonged low growth and low inflation remain. The priority is to boost growth and inflation through a comprehensive approach that, in addition to quantitative easing, features the use of available fiscal space, especially for investment; productivity-enhancing structural reforms; and steps to

strengthen bank balance sheets. Growth is more robust in European advanced economies outside the euro area, but some of these economies may need to tighten macroprudential policies if housing-related risks do not subside.

In the euro area, activity was weaker than expected in the middle part of 2014 as private investment remained weak, except in Ireland, Spain, and Germany. Growth was stronger than expected in the fourth quarter, but uneven across countries. The slowdown in investment derives from persistent economic slack, declining growth expectations, ongoing political and policy uncertainty, geopolitical tensions, and tight credit conditions. In contrast, a smaller fiscal drag and improving consumption have benefited growth, as have net exports.

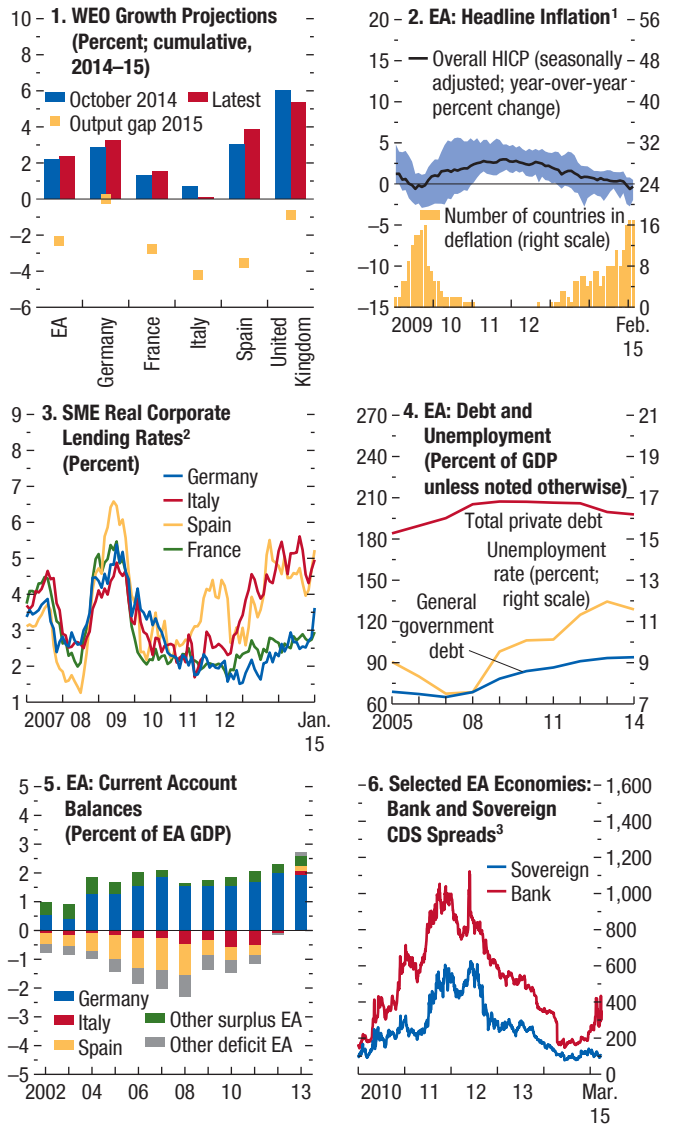
The European Central Bank (ECB) announced a decisive asset purchase program, including purchases of sovereign bonds, to address persistently low inflation in the euro area. Both core and headline inflation have been well below the ECB's medium-term price stability objective for some time (Figure 2.3), with headline inflation turning negative in December 2014. The larger-than-expected ECB asset purchase program has contributed to the depreciation of the euro, mainly against the U.S. dollar. In real effective terms, the exchange rate has depreciated more than 5 percent since October. Preliminary indications are that ECB action has stalled the decline in inflation expectations and led to even more supportive financial conditions.

A push forward on policies since late 2014 has included completion of the comprehensive assessment of banks, launch of the Single Supervisory Mechanism, announcement of plans for a European Fund for Strategic Investments using existing European Union funds and country contributions to catalyze private investment, and issuance of new guidance to enhance flexibility under the Stability and Growth Pact for countries undertaking structural reforms or investment. But there has been modest progress in key core economies with respect to a more accommodative fiscal stance and bringing down large current account surpluses.

The outlook for the euro area is broadly unchanged relative to the October 2014 WEO. Growth is expected to increase to 1.5 percent in 2015 from 0.9 percent in 2014. The higher growth in 2015 reflects stronger growth momentum at the end of 2014, supportive wage increases, a near-term boost from lower oil prices, and the ECB's actions that have helped

Figure 2.3. Advanced Europe: Spillovers from a Stagnant Euro Area

The euro area's recovery remains uneven across countries. The outlook is for modest growth. Widespread low inflation has raised real interest rates. Financial fragmentation, while improving, continues to be present. Debt and unemployment remain high, and current account surpluses have increased. Financial markets, pricing in ECB policy actions, have remained supportive.



Sources: Bloomberg, L.P.; European Central Bank (ECB); Eurostat; Haver Analytics; and IMF staff estimates.

Note: Euro area (EA) = Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia, Spain. CDS = credit default swap; HICP = Harmonised Index of Consumer Prices; SME = small and medium-sized enterprises.

¹Shaded area shows variation in the HICP across all euro area countries.

²Monetary and financial institutions' lending to corporations of less than €1 million, one to five years.

³Euro area countries (Greece, Ireland, Italy, Portugal, and Spain) with high borrowing spreads during the 2010–11 sovereign debt crisis. Bank and sovereign five-year CDS spreads in basis points are weighted by total assets and general government gross debt, respectively. Data are through March 30, 2015. Data for sovereign spreads exclude Greece.

improve financial conditions. Beyond 2015, euro area growth is expected to hover around 1½ percent, reflecting both demand- and supply-side constraints. Inflation is forecast to be about 0.1 percent in 2015 and is expected to remain below the ECB's medium-term price stability objective during the forecast period because of persistent slack.

The medium-term outlook of modest growth and subdued inflation in the euro area is driven largely by crisis legacies, notwithstanding the positive effects of the ECB's actions. High real debt burdens, impaired balance sheets, high unemployment, and investor pessimism about prospects for a robust recovery will continue to weigh on demand. The comprehensive assessment improved the transparency of bank balance sheets and confidence, but credit flows are likely to remain weak until bank balance sheets are strengthened and credit demand recovers. Uncertainty and pessimism regarding the euro area's resolve to address its economic challenges are likely to dampen confidence, as will national and global political developments (such as recent developments in Greece and in Russia and Ukraine). Despite some progress, deep-seated obstacles to productivity and competitiveness are likely to weigh on the region's medium-term growth potential.

Output growth is expected to be more robust in most other advanced European economies (Table 2.2). In the United Kingdom, lower oil prices and improved financial market conditions are expected to support continued steady growth. The robust recovery and outlook in Sweden are supported by consumption and double-digit housing investment. In Switzerland, however, the sharp exchange rate appreciation is likely to weigh on growth in the near term. Inflation has softened in all countries as a result of the oil price decline and—to varying degrees—because of the decline in euro area inflation. These countries have introduced macroprudential measures to mitigate financial stability concerns arising from their housing markets, but whether existing measures will be sufficient to contain risks is not yet clear.

For all advanced European economies, risks to the outlook are more balanced than in the October 2014 WEO. The most important downside risk stems from the possibility of stagnation and persistently low inflation in the euro area, which has been weighing on growth and inflation elsewhere in Europe. Economic shocks—from slower global growth, geopolitical events, faltering euro area reforms, political and policy uncertainty, and policy reversals—could lower infla-

tion expectations and trigger a debt deflation dynamic. Upside risks could come from a larger positive impact of lower oil prices and the ECB's actions. For Sweden, Switzerland, and the United Kingdom, containing financial stability risks from housing and mortgage markets remains important.

A comprehensive strategy is needed to reverse low inflation in the euro area and guard against stagnation. Such a strategy will require simultaneous action on many fronts, in addition to the ECB's actions to expand its balance sheet through sovereign asset purchases until there is a sustained adjustment in the path of inflation.

- Concerted efforts to address high nonperforming loans are vital to strengthening bank balance sheets and improving monetary transmission and credit growth. Stricter regulations on nonperforming loans and improvements to insolvency and foreclosure procedures would provide banks with stronger incentives to accelerate the disposal of these loans.
- A broadly neutral overall fiscal policy stance strikes a balance between supporting growth and fostering debt sustainability, but countries with fiscal space should do more to boost growth, including via infrastructure investment. Countries with limited space should use the new flexibility under the Stability and Growth Pact to undertake investments and structural reforms and pursue growth-friendly fiscal policies.
- Structural reforms must be implemented to raise productivity and medium-term growth, revive investment, encourage hiring, and promote rebalancing. The priorities include greater labor and product market flexibility, deregulation to remove barriers to investment, and progress toward a more integrated common market.

In other advanced European economies, policies should focus on sustaining the recovery while ensuring financial stability. In the United Kingdom, monetary policy should stay accommodative for now, given currently weak inflation pressures. Some countries should consider further easing, including through foreign asset purchases (Switzerland) and additional quantitative easing (Sweden). Bank capital should be strengthened to mitigate financial sector vulnerabilities, and macroprudential measures should be tightened if housing-related risks are not checked. Should these measures prove insufficient, interest rate increases could be contemplated, with careful consideration given to the trade-off between damage to the real economy and the ultimate costs of financial vulnerabilities. Measures to increase housing supply are a

Table 2.2. European Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2014	Projections		2014	Projections		2014	Projections		2014	Projections	
		2015	2016		2015	2016		2015	2016		2015	2016
Europe	1.5	1.9	2.1	1.1	0.5	1.6	1.8	2.2	1.9	...	...	...
Advanced Europe	1.3	1.7	1.8	0.6	0.1	1.1	2.2	2.6	2.4	10.2	9.7	9.3
Euro Area ^{4,5}	0.9	1.5	1.6	0.4	0.1	1.0	2.3	3.3	3.1	11.6	11.1	10.6
Germany	1.6	1.6	1.7	0.8	0.2	1.3	7.5	8.4	7.9	5.0	4.9	4.8
France	0.4	1.2	1.5	0.6	0.1	0.8	-1.1	-0.1	-0.3	10.2	10.1	9.9
Italy	-0.4	0.5	1.1	0.2	0.0	0.8	1.8	2.6	2.5	12.8	12.6	12.3
Spain	1.4	2.5	2.0	-0.2	-0.7	0.7	0.1	0.3	0.4	24.5	22.6	21.1
Netherlands	0.9	1.6	1.6	0.3	-0.1	0.9	10.3	10.4	10.1	7.4	7.2	7.0
Belgium	1.0	1.3	1.5	0.5	0.1	0.9	1.6	2.3	2.4	8.5	8.4	8.2
Austria	0.3	0.9	1.6	1.5	1.1	1.5	1.8	1.9	1.8	5.0	5.1	5.0
Greece	0.8	2.5	3.7	-1.4	-0.3	0.3	0.9	1.4	1.1	26.5	24.8	22.1
Portugal	0.9	1.6	1.5	-0.2	0.6	1.3	0.6	1.4	1.0	13.9	13.1	12.6
Ireland	4.8	3.9	3.3	0.3	0.2	1.5	6.2	4.9	4.8	11.3	9.8	8.8
Finland	-0.1	0.8	1.4	1.2	0.6	1.6	-0.6	-0.3	-0.3	8.6	8.7	8.5
Slovak Republic	2.4	2.9	3.3	-0.1	0.0	1.4	0.2	0.4	0.4	13.2	12.4	11.7
Lithuania	2.9	2.8	3.2	0.2	-0.3	2.0	-0.4	0.2	-0.8	10.7	10.6	10.5
Slovenia	2.6	2.1	1.9	0.2	-0.4	0.7	5.8	7.1	6.5	9.8	9.0	8.3
Luxembourg	2.9	2.5	2.3	0.7	0.5	1.6	5.2	4.7	4.6	7.1	6.9	6.7
Latvia	2.4	2.3	3.3	0.7	0.5	1.7	-3.1	-2.2	-3.0	10.8	10.4	10.2
Estonia	2.1	2.5	3.4	0.5	0.4	1.7	-0.1	-0.4	-0.7	7.0	7.0	6.8
Cyprus	-2.3	0.2	1.4	-0.3	-1.0	0.9	-1.9	-1.9	-1.4	16.2	15.9	14.9
Malta	3.5	3.2	2.7	0.8	1.1	1.4	2.7	3.1	3.1	5.9	6.1	6.3
United Kingdom ⁵	2.6	2.7	2.3	1.5	0.1	1.7	-5.5	-4.8	-4.6	6.2	5.4	5.4
Switzerland	2.0	0.8	1.2	0.0	-1.2	-0.4	7.0	5.8	5.5	3.2	3.4	3.6
Sweden	2.1	2.7	2.8	-0.2	0.2	1.1	6.3	6.3	6.3	7.9	7.7	7.6
Norway	2.2	1.0	1.5	2.0	2.3	2.2	8.5	7.6	7.0	3.5	3.8	3.9
Czech Republic	2.0	2.5	2.7	0.4	-0.1	1.3	0.6	1.6	0.9	6.1	6.1	5.7
Denmark	1.0	1.6	2.0	0.6	0.8	1.6	6.3	6.1	5.5	6.5	6.2	5.5
Iceland	1.8	3.5	3.2	2.0	0.9	2.1	4.7	6.1	4.7	5.0	4.0	4.0
San Marino	-1.0	1.0	1.1	1.1	0.4	0.9	...	...	...	8.7	8.4	7.9
Emerging and Developing Europe⁶	2.8	2.9	3.2	3.8	2.7	3.7	-2.9	-2.4	-3.0	...	...	...
Turkey	2.9	3.1	3.6	8.9	6.6	6.5	-5.7	-4.2	-4.8	9.9	11.4	11.6
Poland	3.3	3.5	3.5	0.0	-0.8	1.2	-1.2	-1.8	-2.4	9.0	8.0	7.7
Romania	2.9	2.7	2.9	1.1	1.0	2.4	-0.5	-1.1	-1.5	6.8	6.7	6.7
Hungary	3.6	2.7	2.3	-0.3	0.0	2.3	4.2	4.8	4.1	7.8	7.6	7.4
Bulgaria ⁵	1.7	1.2	1.5	-1.6	-1.0	0.6	0.0	0.2	-0.8	11.5	10.9	10.3
Serbia	-1.8	-0.5	1.5	2.1	2.7	4.0	-6.0	-4.7	-4.7	19.7	20.7	22.0
Croatia	-0.4	0.5	1.0	-0.2	-0.9	0.9	0.7	2.2	2.0	17.1	17.3	16.9

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

¹Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A6 and A7 in the Statistical Appendix.

²Percent of GDP.

³Percent. National definitions of unemployment may differ.

⁴Excludes Lithuania. Current account position corrected for reporting discrepancies in intra-area transactions.

⁵Based on Eurostat's harmonized index of consumer prices.

⁶Includes Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, and Montenegro.

priority in Sweden and the United Kingdom. Internationally, the broader financial sector reform agenda should be completed, including reforms dealing with large and systemically important banks and those enhancing cross-border resolution mechanisms. Labor market reforms are needed in Sweden to accelerate and sustain the transition of vulnerable groups to employment.

Emerging and Developing Europe: Slower Growth amid Weak External Demand

Economic activity softened in emerging and developing Europe last year, and more countries slipped into deflation. Lower oil prices this year will boost growth somewhat but will add to disinflation pres-

Figure 2.4. Emerging and Developing Europe: Slower Growth amid Weak External Demand

Economic activity slowed in 2014, but it remained solid in Hungary and Poland, with private consumption becoming the key growth driver amid improving labor market conditions. Inflation declined further, except in Turkey, on low euro area inflation, remaining economic slack, and lower energy and food prices.

External demand remains subdued, and high corporate debt continues to weigh on investment. Monetary policy space, where available, should be used to support domestic demand, while countries with weak fiscal positions should shore up sustainability to counter risks of potential market volatility.

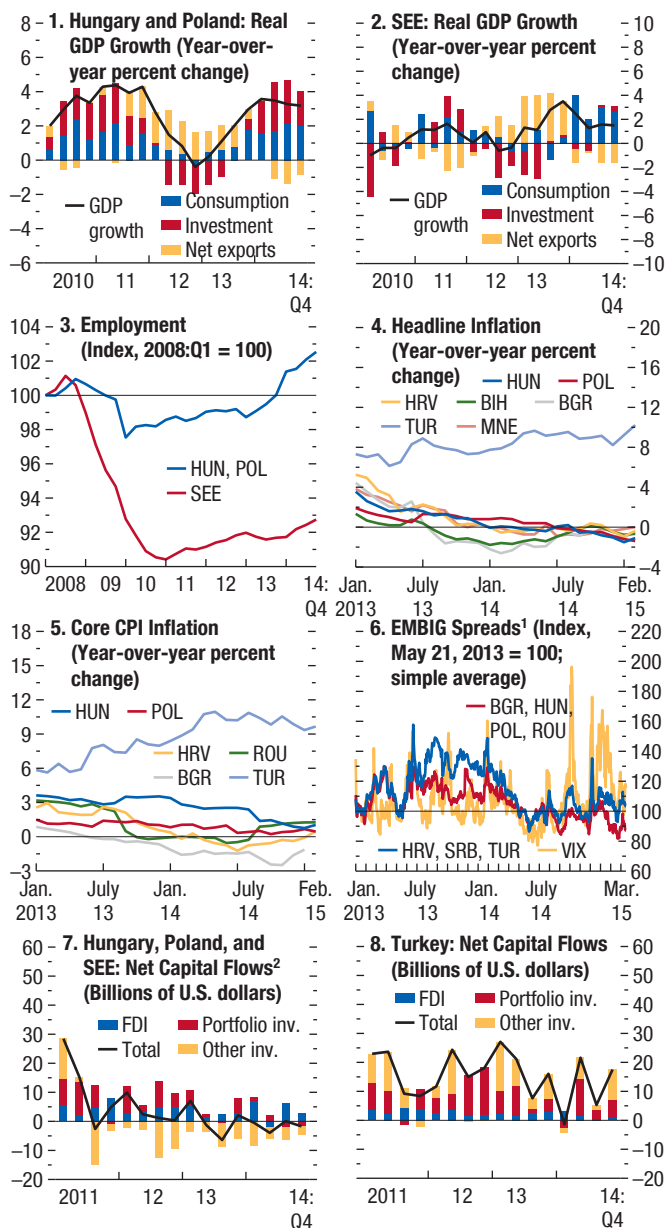
Economic growth slowed in Turkey and southeastern Europe (where some countries entered recession) last year, but remained strong in Hungary and Poland (Figure 2.4). Growth was generally driven by domestic demand (except in Turkey), largely reflecting stronger private consumption as labor market conditions improved and real wages rose with lower imported inflation.

Headline and core inflation continued to decline on account of very low inflation in the euro area, lower food and energy prices, and economic slack. Hungary and Poland joined other countries in deflation, but inflation remained high in Turkey as a result of exchange rate depreciation, monetary easing, and increased domestic food prices.

Lower oil prices are expected to provide a lift to the region, offsetting the effects of weak euro area growth, recession in Russia, and still-elevated corporate debt (Table 2.2):

- Growth in Hungary is forecast to soften in 2015 to 2.7 percent, on account of lower investment growth and less supportive fiscal conditions. Growth in Poland is projected to increase to 3.5 percent in 2015, supported by domestic demand and improved economic conditions in trading partners.
- Turkey's growth is expected to average 3.1 percent in 2015–16, up from 2.9 percent in 2014, as private consumption gets a lift from lower energy prices. The current account deficit will narrow further thanks to a substantial fall in the value of energy imports.
- Growth in southeastern Europe is projected to improve in 2015–16, driven by rebuilding of flood-damaged areas in Bosnia and Herzegovina and Serbia, and by employment gains elsewhere.

Risks remain tilted to the downside. A deeper recession in Russia or a slowdown in the euro area poses external demand risks, while sudden increases in the U.S. term premium and U.S. dollar fluctuations could trigger market volatility in countries whose fiscal and external deficits are still sizable. The ECB's quantitative easing could have a more positive effect if the impact on euro area growth and inflation is larger. Tailwinds from lower oil prices pose some upside risks to activity.



Sources: Bloomberg, L.P.; European Bank for Reconstruction and Development; Haver Analytics; and IMF staff calculations.
 Note: Southeastern Europe (SEE) includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, FYR Macedonia, Montenegro, Romania, and Serbia, wherever data are available. All country group aggregates are weighted by GDP valued at purchasing power parity as a share of group GDP, unless noted otherwise. Data labels in the figure use International Organization for Standardization (ISO) country codes. CPI = consumer price index; EMBIG = J.P. Morgan Emerging Markets Bond Index Global; FDI = foreign direct investment; inv. = investment.; VIX = Chicago Board Options Exchange Market Volatility Index.
¹Data are through March 27, 2015.
²Data for 2014:Q4 include Bulgaria, Hungary, FYR Macedonia, Montenegro, Poland (monthly), Romania, and Serbia.

Supporting domestic demand remains a priority, especially in countries with strong links to the euro area. Many economies need to maintain easy monetary conditions while fiscal buffers are gradually rebuilt.

- Monetary policy should remain accommodative in Poland and Romania, given the benign inflation outlook and quantitative easing in the euro area. Hungary, with output still below potential and persistent disinflation pressures, has scope for further cautious monetary policy easing. In Turkey, further easing of monetary conditions should be considered only once inflation expectations are anchored at the target rate and the real interest rate is clearly in positive territory.
- In a number of countries, elevated public debt and high fiscal deficits highlight the need for fiscal consolidation, including via spending restraint (Hungary, Serbia) and restructuring of key state-owned enterprises (Serbia). Public investment can be brought forward to offset the drag from planned near-term fiscal tightening, as envisaged in Poland and Romania, supported by higher absorption of European Union funds. A tighter fiscal stance in Turkey—as envisaged in the new medium-term program—will contribute to gradually narrowing external imbalances and will reduce pressure on monetary policy.
- Making progress in tackling the large stock of nonperforming loans is a priority for most countries. Improving legal and tax treatment of loan write-offs—as recently adopted in Albania—and further strengthening debt restructuring and bank resolution frameworks are crucial.

Asia and Pacific: Moderating but Still Outperforming Other Regions

Asia's growth is forecast to hold steady in 2015, and the region is expected to continue outperforming the rest of the world over the medium term. While the Chinese economy is shifting to a more sustainable pace, growth is projected to pick up elsewhere in the region. This reflects the boost from lower world oil prices, strengthening external demand, and still-accommodative financial conditions despite some recent tightening. Risks are two sided, but downside risks dominate. Elevated household and corporate debt amid higher real interest rates and a strong U.S. dollar could amplify shocks. Growth risks from within the region are also on the rise, and realignments of the major reserve currencies

could create an uncomfortable trade-off between financial stability and competitiveness. Policymakers should maintain prudent frameworks and build buffers to enhance resilience, and implement reforms to support demand rebalancing and relieve bottlenecks to growth.

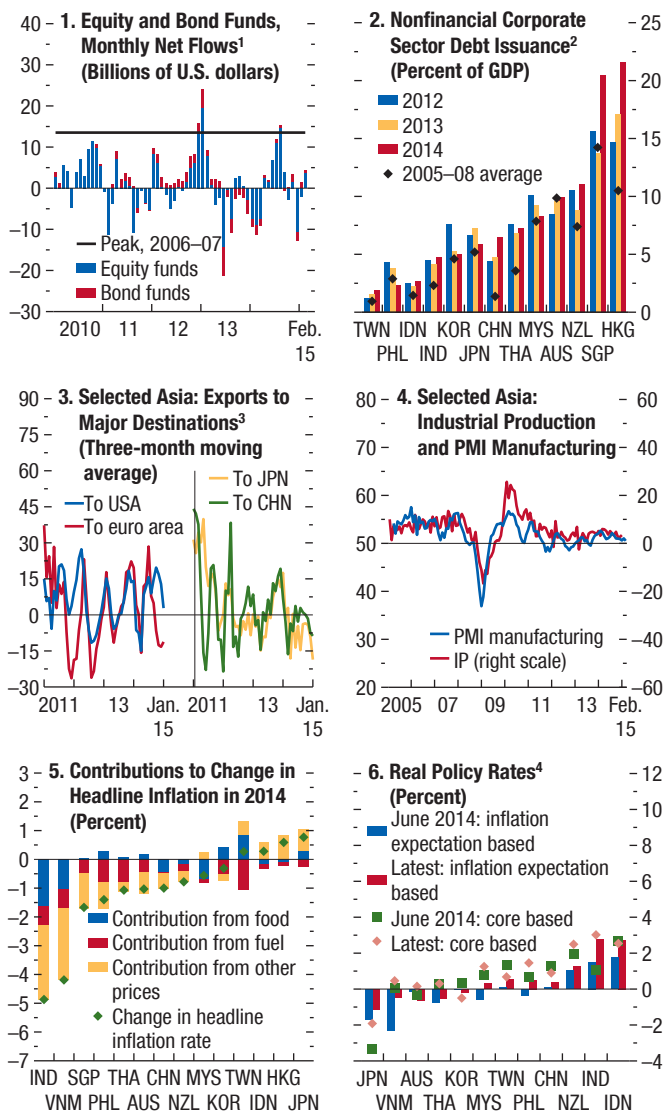
Although the Asia and Pacific region remained the world's growth leader, activity in the region slowed modestly in 2014, responding to the drag from within and outside the region. Growth decelerated last year to 5.6 percent, from 5.9 percent in 2013. While growth picked up across much of the region, slowdowns in several large economies, including China, Indonesia, and Japan, provided a counterweight. Export volume growth declined, reflecting soft demand in China, the euro area, and Japan, which more than offset buoyancy in the United States (Figure 2.5). Investment was generally slower, especially in China, where the correction in real estate gathered pace. Consumption, which remained relatively robust except in Japan, was the primary growth driver across most of the region.

In 2015, the sharp fall in world commodity prices will support GDP growth across the region. With the region being a net oil importer, the drop in oil prices will generate a windfall spur to purchasing power of about 1.7 percent of regional GDP in 2015, providing support to domestic spending and raising current accounts. Exporters of commodities (Australia, Indonesia, Malaysia, New Zealand) will see a drop in foreign earnings and a drag on growth, although currency depreciation will offer some cushion. Headline inflation—already on a downward trend on cooling growth and stronger trade-weighted exchange rates—is expected to moderate further as the recent oil price decline is felt at the pump, although core inflation has eased only modestly.

Accommodative financial conditions have begun to tighten. Private-credit-to-GDP ratios are significantly above trend in some countries. Sizable portfolio outflows, slower corporate debt issuance (especially in emerging Asia), and rising short-term market interest rates since the last quarter of 2014 are in line with global trends and reflect expectations of higher policy rates in the United States. In addition, real short-term interest rates have risen marginally with easing core inflation, while U.S. dollar appreciation has increased debt service costs for the region's unhedged issuers of foreign-exchange-denominated corporate bonds. For households, higher real debt service costs could crimp consumption spending. Bank lending is expanding at a somewhat slower pace (albeit a still-buoyant one in

Figure 2.5. Asia and Pacific: Moderating but Still Outperforming

Asia is forecast to remain the global growth leader, although the region's growth momentum is moderating. Financial conditions have only recently started to tighten and have supported domestic demand, but exports have slowed. Inflation has dropped on the back of lower fuel and food prices, and high-frequency indicators point to a moderation in growth.



Sources: CEIC; Dealogic; Haver Analytics; and IMF staff estimates.
 Note: IP = industrial production; PMI = purchasing managers' index. Data labels in the figure use International Organization for Standardization (ISO) country codes.
¹Data include exchange-traded fund flows and mutual fund flows for Australia, emerging Asia, Hong Kong SAR, Korea, New Zealand, Singapore, and Taiwan Province of China.
²Data include both bond issuance and syndicated loan issuance. Data are compiled on residency basis.
³Selected Asia comprises East Asia (China, Hong Kong SAR, Korea, Taiwan Province of China), Japan, Malaysia, the Philippines, Singapore, and Thailand. Indonesia and Vietnam are excluded because of data lags.
⁴Data are as of March 2015. Core inflation used for the latest core-based rate is as of February 2015 or latest available.

major economies), with rising loan-to-deposit ratios possibly portending additional slowing.

Despite the tailwind from oil prices, Asia's near-term growth outlook has been marked down slightly. Downward growth revisions for major emerging markets outside Asia will soften the external contribution to Asia's growth, as will the further tightening of international financial conditions. A slower but more sustainable growth path in China will exert additional drag. Relative to the October 2014 WEO, Asia's growth forecast has been trimmed very modestly to 5.6 and 5.5 percent in 2015 and 2016, respectively, but with diverse performances across the region (Table 2.3):

- In China, growth fell to 7.4 percent in 2014 and is expected to fall further to 6.8 percent in 2015 (0.3 percentage point lower than the October 2014 WEO forecast) as previous excesses in real estate, credit, and investment continue to unwind. Ongoing implementation of structural reforms and lower commodity prices are expected to expand consumer-oriented activities, partially buffering the slowdown.
- In Japan, activity disappointed following the mid-2014 consumption tax hike, which caused a sharper-than-predicted contraction in consumption. GDP growth is projected to pick up to 1 percent in 2015 (above potential and broadly unchanged from the October 2014 WEO forecast) from -0.1 percent in 2014. This increase reflects support from the weaker yen, higher real wages, and higher equity prices due to the Bank of Japan's additional quantitative and qualitative easing, as well as lower commodity prices. By 2016, with output above potential, the pace of growth is expected to help push up underlying price and wage inflation.
- India's growth is expected to strengthen from 7.2 percent in 2014 to 7.5 percent in 2015. Growth will benefit from recent policy reforms, a consequent pickup in investment, and lower oil prices. Lower oil prices will raise real disposable incomes, particularly among poorer households, and help drive down inflation.
- The downturn in the global commodity cycle is continuing to hit Australia's economy, exacerbating the long-anticipated decline in resource-related investment. However, supportive monetary policy and a somewhat weaker exchange rate will underpin nonresource activity, with growth gradually rising in 2015–16 to about 3 percent (broadly as projected in the October 2014 WEO).

Table 2.3. Asian and Pacific Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2014	Projections		2014	Projections		2014	Projections		2014	Projections	
		2015	2016		2015	2016		2015	2016		2015	2016
Asia	5.6	5.6	5.5	3.2	2.6	2.8	1.6	2.4	2.2	...	...	...
Advanced Asia	1.6	2.2	2.4	2.2	1.2	1.6	2.2	3.1	2.8	3.8	3.9	3.9
Japan	-0.1	1.0	1.2	2.7	1.0	0.9	0.5	1.9	2.0	3.6	3.7	3.7
Korea	3.3	3.3	3.5	1.3	1.5	2.5	6.3	7.1	5.2	3.5	3.6	3.5
Australia	2.7	2.8	3.2	2.5	2.0	2.3	-2.8	-4.0	-3.7	6.1	6.4	6.2
Taiwan Province of China	3.7	3.8	4.1	1.2	0.7	1.3	12.3	12.4	11.7	4.0	4.0	4.0
Singapore	2.9	3.0	3.0	1.0	0.0	1.7	19.1	20.7	18.8	2.0	2.0	2.0
Hong Kong SAR	2.3	2.8	3.1	4.4	3.2	3.4	1.6	2.0	2.2	3.2	3.2	3.1
New Zealand	3.2	2.9	2.7	1.2	0.8	2.1	-3.5	-4.8	-5.2	5.4	5.3	5.2
Emerging and Developing Asia	6.8	6.6	6.4	3.5	3.0	3.1	1.3	2.1	2.0	...	...	...
China	7.4	6.8	6.3	2.0	1.2	1.5	2.0	3.2	3.2	4.1	4.1	4.1
India	7.2	7.5	7.5	6.0	6.1	5.7	-1.4	-1.3	-1.6	...	...	...
ASEAN-5	4.6	5.2	5.3	4.7	4.1	4.2	1.3	1.1	0.6	...	...	...
Indonesia	5.0	5.2	5.5	6.4	6.8	5.8	-3.0	-3.0	-2.9	6.1	5.8	5.6
Thailand	0.7	3.7	4.0	1.9	0.3	2.4	3.8	4.4	2.4	0.8	0.8	0.8
Malaysia	6.0	4.8	4.9	3.1	2.7	3.0	4.6	2.1	1.4	2.9	3.0	3.0
Philippines	6.1	6.7	6.3	4.2	2.1	2.8	4.4	5.5	5.0	6.8	6.2	6.0
Vietnam	6.0	6.0	5.8	4.1	2.5	3.2	5.4	4.8	4.9	2.5	2.5	2.5
Other Emerging and Developing Asia⁴	6.4	6.7	6.7	5.9	5.5	5.7	-2.5	-2.7	-2.7	...	...	...
<i>Memorandum</i>												
Emerging Asia ⁵	6.8	6.6	6.4	3.4	2.9	3.0	1.4	2.2	2.1	...	...	...

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

¹Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A6 and A7 in the Statistical Appendix.

²Percent of GDP.

³Percent. National definitions of unemployment may differ.

⁴Other Emerging and Developing Asia comprises Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, Kiribati, Lao P.D.R., Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nepal, Palau, Papua New Guinea, Samoa, Solomon Islands, Sri Lanka, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

⁵Emerging Asia comprises the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam) economies, China, and India.

- Korea's growth momentum has stalled somewhat, reflecting fragile household and investor sentiment. The projected growth of 3.3 percent this year rests on the assumption that supportive monetary and macroprudential policies and more favorable terms of trade spur a rebound in aggregate demand.
- Trends within the Association of Southeast Asian Nations will continue to diverge. Indonesia's growth is forecast to remain broadly unchanged in 2015 (though this is lower than previously projected), but to rise in 2016 as reforms are implemented. Malaysia's growth is expected to slow this year (to 4.8 percent) on weaker terms of trade. Thailand's outlook is expected to improve on greater clarity on near-term policies, and growth in the Philippines has been revised upward to 6.7 percent in 2015 on stronger consumption from the oil price windfall.
- As a group, Asia's other emerging and developing economies are projected to see a pickup in growth, but

with variation across countries. In Papua New Guinea, the coming on stream of a large natural gas project will provide a one-time boost to growth. Activity in the Pacific island countries and other small states is also expected to be robust. On the other hand, low commodity prices will curtail Mongolia's growth.

Downside risks continue to dominate the growth outlook, including the following:

- *Slower growth in China and Japan*—Significantly slower growth than currently projected for China or Japan would also affect the rest of the region and the world economy given these economies' large size and deep trade and financial linkages with other nations. For China, the main risk is failure to implement the reform agenda to address financial risks, rebalance the economy, and tap new sources of growth. In Japan, the challenge is to implement structural reforms to boost medium-term growth prospects while balancing near-term fiscal stimulus with a convincing medium-term consolidation plan. Asia's medium-term growth

prospects are also critically dependent on the success of these reform strategies.

- *Persistent U.S. dollar strength against the euro and yen*—Sustained realignments of the major reserve currencies brought about by asynchronous monetary policies could pose a growth risk to Asia through trade and balance sheet channels. Asian emerging markets whose firms borrowed heavily in U.S. dollars may need to find an appropriate balance between preserving financial stability (via moving their currency in tandem with the U.S. dollar) and maintaining external competitiveness (by stabilizing their exchange rate against major trade partners and competitors). This process could also trigger a cascade of disruptive adjustments.
- *Side effects from global financial conditions*—Increased leverage by households and firms within Asia spurred by accommodative global financial conditions increases sensitivity to changes in monetary policy abroad. Higher debt-servicing costs and reduced rollover rates would affect corporate profitability and investment and could pose a significant drag on household consumption, particularly if accompanied by a drop in house prices.

Policies should remain focused on maintaining prudent frameworks and boosting resilience and potential growth:

- Monetary policy should not respond to the decline in headline inflation from the drop in oil prices. However, loosening is called for if the effect of lower oil prices is transmitted to core inflation or inflation expectations. To date, moderating prices are apparent only in narrow categories of the consumer basket. However, in economies in which output gaps are currently negative (Australia, Japan, Korea, Thailand), policymakers may need to act to prevent a persistent decline in inflation expectations.
- On the fiscal policy front, and following the lead of India, Indonesia, and Malaysia, countries should seize the opportunity provided by the current low fuel and food prices to further reform or phase out subsidies, which tend to be poorly targeted. Doing so would improve spending efficiency and shield public spending from future oil price fluctuations. Countries with elevated public debt (Japan, Malaysia) should continue to consolidate, with the conduct of fiscal policy attuned to economic conditions and prospects. Asian emerging markets with large infrastructure gaps should consider giving public

investment spending priority over easing monetary policy.

- Exchange rates should be permitted to respond to shifts in balance of payments flows due to changes in commodity prices and capital flows, including from asynchronous monetary policies in advanced economies. Foreign exchange intervention should remain in the toolkit to address disorderly market conditions, especially in cases in which overshooting threatens financial stability.
- In addition to strong regulation and supervision, protecting financial stability may also require proactive use of macroprudential policies to tame the effects of the financial cycle on asset prices, credit, and aggregate demand.
- Structural reforms are needed to restart productivity gains across the region. In China, financial and state-owned enterprise reforms are needed to increase the efficiency of resource allocation. Reforms in the pension system and other social safety net areas will help shift the composition of growth toward domestic consumption, which is likely to prove more sustainable in the long term. In Japan, policy initiatives to raise services productivity and labor force participation should be further implemented. For other countries, including India, members of the Association of Southeast Asian Nations, and most other emerging market and developing economies, addressing supply bottlenecks by expanding essential infrastructure and raising productivity would increase near-term demand and support resilience to realignments of reserve currencies.

Latin America and the Caribbean: Another Year of Subpar Growth

Growth in Latin America and the Caribbean slowed to 1.3 percent in 2014 and is projected to soften to an even lower rate in 2015. The downturn in global commodity markets remains the main drag on activity in South America, even though lower oil prices and a solid U.S. recovery provide a boost to other parts of the region. Low business and consumer confidence in Brazil and the intensifying economic crisis in Venezuela weigh further on the near-term outlook. Flexible exchange rates can play a critical role in adapting to tougher external conditions, but policymakers will also need to ensure prudent fiscal positions are in place and catch up on structural reforms to raise investment and productivity.

Growth in Latin America and the Caribbean declined for the fourth consecutive year, to 1.3 percent in 2014, coming close to the October 2014 WEO projection (Figure 2.6). Investment continued to lead the downturn, as subdued external demand and worsening terms of trade caused companies to curtail capital budgets, notably in South America. In some countries, policy uncertainties intensified weak private sector sentiment. Falling commodity prices also prompted further widening of external current account deficits in most commodity-exporting economies, although net importers benefited from the sharp decline in oil prices.

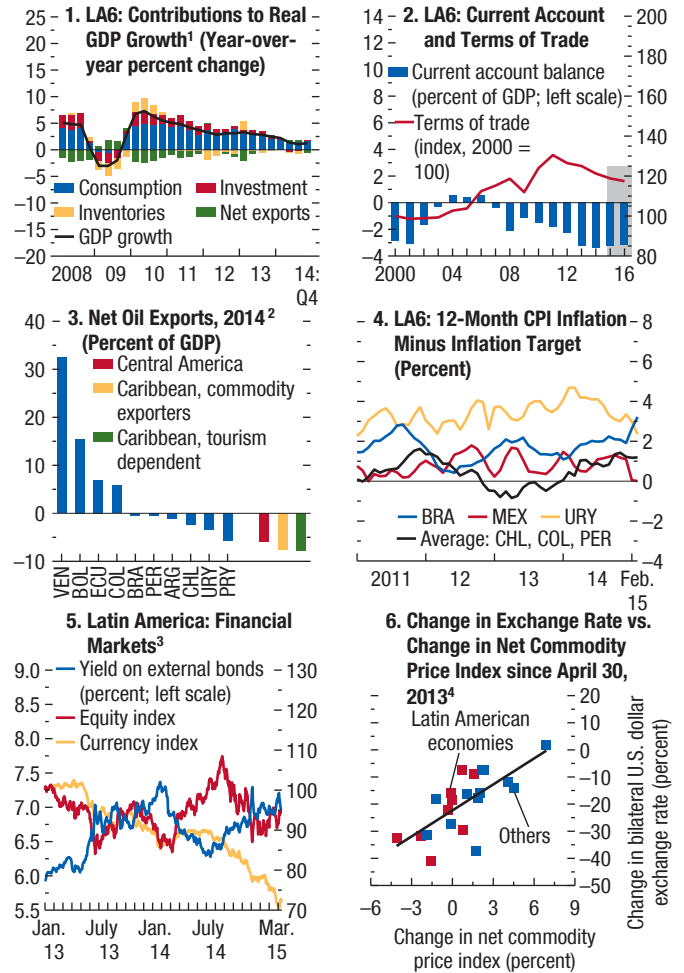
Currencies in countries with flexible exchange rates reacted quickly to the shifting external outlook and weaker domestic conditions, depreciating by about 10 percent on average in trade-weighted terms since the end of August 2014 and in some cases by as much as 15–20 percent. Equity markets fell and external credit spreads widened. Corporate bond issuance generally held up, but companies exposed to the commodity market have started to face tighter financing conditions. Credit growth has continued to slow.

With no apparent impulse for a near-term pickup in activity and the prospect of persistently lower commodity prices and reduced policy space in many economies, regional growth is now projected to dip below 1 percent in 2015 (about 1¼ percentage points lower than projected in the October 2014 WEO), well below the 4.1 percent average growth observed during 2004–13 (Table 2.4). Downward revisions are concentrated among South American commodity exporters. Meanwhile, output remains close to potential, as evidenced by still-low unemployment in many economies.

- Brazil’s economy is projected to contract by 1 percent in 2015—almost 2½ percentage points below the October 2014 WEO forecast. Private sector sentiment has remained stubbornly weak, even since election-related uncertainty dissipated, reflecting the risk of near-term electricity and water rationing, unaddressed competitiveness challenges, and fallout from the Petrobras investigation. The Brazilian authorities’ renewed commitment to rein in the fiscal deficit and reduce inflation will help restore confidence in Brazil’s macroeconomic policy framework, but it will further curb near-term demand.
- Projections for the Andean economies are comparatively favorable but have also been pared down since October—projected growth this year for Chile, Colombia, and Peru is ½ to 1.3 percentage points lower than in October. In Chile, uncertainty over

Figure 2.6. Latin America and the Caribbean: Persistent Weakness

Growth in Latin America and the Caribbean has slowed further as falling commodity prices have hit the region’s commodity exporters. External current account deficits have continued to widen in most countries in the region, although the recent collapse in oil prices has provided relief to net importers, notably in Central America and the Caribbean. Lower oil prices should also assist disinflation, but their effects will be partly offset by weaker exchange rates, which are playing a crucial role in facilitating external adjustment.



Sources: Bloomberg, L.P.; Haver Analytics; national authorities; and IMF staff estimates.
 Note: CPI = consumer price index; LA6 = Brazil, Chile, Colombia, Mexico, Peru, Uruguay. Country group aggregates are weighted by purchasing-power-parity GDP as a share of group GDP, unless noted otherwise. Data labels in the figure use International Organization for Standardization (ISO) country codes.
¹Seasonally adjusted, purchasing-power-parity-weighted average. Inventories include statistical discrepancies.
²Data for Bolivia include natural gas exports. Simple average for Central America (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama); Caribbean, commodity exporters (Guyana, Suriname, Trinidad and Tobago); and Caribbean, tourism dependent (The Bahamas, Barbados, Eastern Caribbean Currency Union countries, Jamaica).
³Yield on external bonds is based on the J.P. Morgan Emerging Markets Bond Index for Latin America. Equity index is the MSCI Emerging Markets Latin America equity local net total return index. Currency index is the Bloomberg J.P. Morgan Latin America Currency Index. Both indices are rebased to January 2, 2013 = 100. Data are through March 26, 2015.
⁴Net commodity price index is based on Gruss 2014. Data are through the end of February 2015.

Table 2.4. Western Hemisphere Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2014	Projections		2014	Projections		2014	Projections		2014	Projections	
		2015	2016		2015	2016		2015	2016		2015	2016
North America	2.4	3.0	3.0	1.9	0.5	1.7	-2.3	-2.3	-2.4	...	...	...
United States	2.4	3.1	3.1	1.6	0.1	1.5	-2.4	-2.3	-2.4	6.2	5.5	5.1
Canada	2.5	2.2	2.0	1.9	0.9	2.0	-2.2	-2.6	-2.3	6.9	7.0	6.9
Mexico	2.1	3.0	3.3	4.0	3.2	3.0	-2.1	-2.2	-2.2	4.8	4.3	4.0
South America⁴	0.7	-0.2	1.3	...	...	...	-2.9	-3.5	-3.2	...	...	...
Brazil	0.1	-1.0	1.0	6.3	7.8	5.9	-3.9	-3.7	-3.4	4.8	5.9	6.3
Argentina ^{5,6}	0.5	-0.3	0.1	...	18.6	23.2	-0.9	-1.7	-1.8	7.3	7.0	8.1
Colombia	4.6	3.4	3.7	2.9	3.4	3.0	-5.0	-5.8	-4.9	9.1	9.0	8.9
Venezuela	-4.0	-7.0	-4.0	62.2	96.8	83.7	4.3	-4.7	-0.8	8.0	12.8	16.1
Chile	1.8	2.7	3.3	4.4	3.0	3.0	-1.2	-1.2	-2.0	6.4	7.2	7.0
Peru	2.4	3.8	5.0	3.2	2.5	2.0	-4.1	-4.6	-4.3	6.0	6.0	6.0
Ecuador	3.6	1.9	3.6	3.6	3.2	3.0	-0.8	-3.3	-3.0	5.0	5.0	5.0
Bolivia	5.4	4.3	4.3	5.8	5.1	5.0	0.7	-2.8	-4.2	4.0	4.0	4.0
Uruguay	3.3	2.8	2.9	8.9	7.9	7.5	-4.7	-3.8	-4.1	6.5	6.8	7.0
Paraguay	4.4	4.0	4.0	5.0	3.6	4.5	0.1	-1.7	-2.2	5.5	5.5	5.5
Central America⁷	4.0	4.2	4.3	3.4	2.6	3.3	-5.9	-5.0	-5.2	...	...	...
Caribbean⁸	4.7	3.7	3.5	4.0	3.3	4.2	-3.1	-2.4	-2.7	...	...	...
<i>Memorandum</i>												
Latin America and the Caribbean ⁹	1.3	0.9	2.0	...	...	...	-2.8	-3.2	-3.0	...	...	...
Excluding Argentina	1.4	1.0	2.2	7.9	9.0	7.6	-3.0	-3.4	-3.1	...	...	...
Eastern Caribbean Currency Union ¹⁰	1.7	2.0	2.1	0.8	0.7	1.6	-15.8	-13.9	-14.5	...	...	...

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

¹Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A6 and A7 in the Statistical Appendix.

²Percent of GDP.

³Percent. National definitions of unemployment may differ.

⁴Includes Guyana and Suriname. See note 6 regarding consumer prices.

⁵The GDP data for Argentina are officially reported data as revised in May 2014. On February 1, 2013, the IMF issued a declaration of censure, and in December 2013 called on Argentina to implement specified actions to address the quality of its official GDP data according to a specified timetable. On December 15, 2014, the Executive Board recognized the implementation of the specified actions it had called for by end-September 2014 and the initial steps taken by the Argentine authorities to remedy the inaccurate provision of data. The Executive Board will review this issue again as per the calendar specified in December 2013 and in line with the procedures set forth in the Fund's legal framework.

⁶Consumer price data from December 2013 onwards reflect the new national CPI (IPCNU), which differs substantially from the preceding CPI (the CPI for the Greater Buenos Aires Area, CPI-GBA). Because of the differences in geographical coverage, weights, sampling, and methodology, the IPCNU data cannot be directly compared to the earlier CPI-GBA data. Because of this structural break in the data, the average CPI inflation for 2014 is not reported in the April 2015 *World Economic Outlook*. Following a declaration of censure by the IMF on February 1, 2013, the public release of a new national CPI by end-March 2014 was one of the specified actions in the IMF Executive Board's December 2013 decision calling on Argentina to address the quality of its official CPI data. On December 15, 2014, the Executive Board recognized the implementation of the specified actions it had called for by end-September 2014 and the steps taken by the Argentine authorities to remedy the inaccurate provision of data. The Executive Board will review this issue again as per the calendar specified in December 2013 and in line with the procedures set forth in the Fund's legal framework.

⁷Central America comprises Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

⁸The Caribbean comprises Antigua and Barbuda, The Bahamas, Barbados, Dominica, the Dominican Republic, Grenada, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

⁹Latin America and the Caribbean comprises Mexico and economies from the Caribbean, Central America, and South America. See also note 6.

¹⁰Eastern Caribbean Currency Union comprises Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines as well as Anguilla and Montserrat, which are not IMF members.

the impact of policy reforms appears to be weighing on investment, although there are signs that growth has started to recover. In the case of Peru, weak exports and investment caused a sharp slowdown in 2014, but concerted policy action and new mining operations should support a rebound this year. In Colombia, lower oil prices will cause growth to dip below 4 percent.

- Argentina's growth is projected to be slightly negative in 2015, with stronger public spending and higher private consumption partly offsetting falling

investment and exports. In Venezuela, the oil price collapse has compounded an already difficult situation. Pervasive administrative controls and other policy distortions have intensified shortages of basic goods, driven up inflation to above 60 percent in 2014, and caused a deep recession.

- Mexico's economy is projected to grow by 3 percent this year—a solid prospect, though lower than previously expected, as lingering sluggishness in domestic demand and a tighter fiscal stance dampen the positive spillovers from stronger U.S. growth.

- On the bright side, lower oil prices and the robust U.S. recovery have improved the outlook for Central America. Remittances grew 9 percent in 2014 and, together with stronger exports, will continue to underpin domestic activity and facilitate the important task of strengthening fiscal positions in a number of countries.
- Similarly, the tourism-dependent economies of the Caribbean have started to see a recovery in tourist arrivals. Nonetheless, long-standing competitiveness gaps, high public debt, and financial sector fragilities remain pressing concerns.

Risks around this subdued outlook are considerable and somewhat weighed to the downside. Activity in the region's commodity exporters might weaken further in the face of adverse shocks, notably a sharper-than-expected investment slowdown in China. To be sure, further declines in commodity prices would bolster net importers, especially in Central America and the Caribbean. The caveat is that many of these economies currently obtain concessional financing from Venezuela on part of their oil imports. A possible curtailment of this Petrocaribe support could put pressure on public finances in some of these countries.

Lackluster economic prospects, along with an impending rise in U.S. interest rates, might also restrict the availability of external funding and cause further corrections in financial markets. This scenario could put strains on some corporate borrowers, especially in sectors facing sharply lower earnings and elevated leverage. On the upside, strong U.S. growth could provide a larger-than-expected lift to trading partners in the region.

A key risk in the medium term is protracted weakness in investment that would further reduce the region's potential growth. Misguided efforts to address the current slowdown with excessive policy stimulus, rather than by tackling supply-side bottlenecks and competitiveness problems, could also undermine countries' hard-won macroeconomic stability.

The principal challenge for the region, therefore, is to manage the adjustment to a new external environment while preserving sound fundamentals and raising potential growth.

Exchange rate flexibility can play a critical role in absorbing adverse terms-of-trade shocks and rebalancing demand. The room for easing monetary policy is limited: inflation generally exceeds midpoint targets, and depreciating currencies will at least partly offset the benign effect of lower commodity prices. Nonethe-

less, countries with well-anchored inflation expectations still have some flexibility to fine-tune their policy stances in response to weak incoming data.

The weakening of public finances since the global financial crisis constrains fiscal policy options in many of the region's countries. Commodity exporters with solid buffers can still afford to smooth the ongoing slowdown but will also need to avoid a lasting rise in deficits. Many commodity importers, in turn, have gained relief from declining fuel subsidy burdens and should seize the opportunity to secure these gains by moving toward market-based pricing.

Beyond such adjustments, the difficult current outlook underscores the urgency of supply-side reforms. Enhancing growth prospects and sustaining poverty reduction in a more challenging external environment will require determined efforts to improve the business environment, raise productivity, and increase saving and investment.

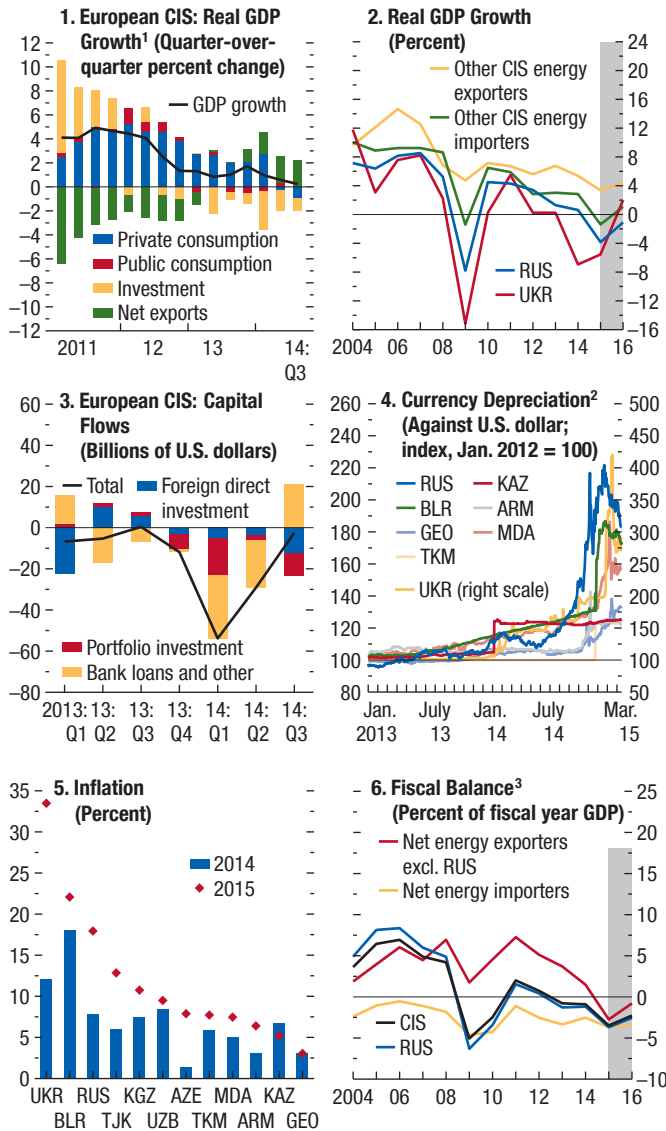
Commonwealth of Independent States: Oil Price Slump Worsens Outlook

The Commonwealth of Independent States region is projected to slide into recession in 2015. For oil exporters, sharply lower oil prices and the significant contraction in Russia imply a much weaker outlook. For oil importers, the benefits from lower oil prices will likely be more than offset by domestic economic weaknesses and spillovers from the contraction in Russia through remittances, trade, and foreign direct investment.

The European economies of the Commonwealth of Independent States slowed further in the second half of 2014, with the contribution from private consumption turning negative (Figure 2.7). Falling oil prices on top of international sanctions compounded Russia's underlying structural weaknesses, undermining confidence and resulting in a significant depreciation of the ruble, which added to inflation pressures. In response, the Central Bank of Russia hiked its policy rate by 750 basis points to 17 percent in December, and the Russian authorities announced various measures to normalize market conditions. Contagion from ruble depreciation also spread to other Commonwealth of Independent States countries. The recession in Ukraine deepened in 2014, largely reflecting the economic impact of the conflict in the east. Since last October, pressure on the hryvnia has increased substantially, contributing to

Figure 2.7. Commonwealth of Independent States: Coping with Geopolitical Risks and Lower Oil Prices

Russia and Ukraine are entering into recession amid high inflation as geopolitical tensions and the oil price slump take their toll. Other Commonwealth of Independent States (CIS) economies are also experiencing slowing growth and a deteriorating fiscal stance on account of negative spillovers, particularly from Russia.



Sources: Bloomberg, L.P.; Haver Analytics; and IMF staff estimates.
 Note: European CIS = Belarus, Moldova, Russia, Ukraine; non-European CIS = Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan. Net energy exporters excl. Russia = Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan; net energy importers = Armenia, Belarus, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Ukraine. Data labels in the figure use International Organization for Standardization (ISO) country codes.

¹Moldova is excluded because of data limitations.
²Data are through March 27, 2015.
³Non-oil primary deficit for Russia, overall balance for net energy importers, and general government net lending/borrowing for both CIS and net energy exporters excluding Russia.

a drop in foreign exchange reserves and accelerating inflation.

The outlook for the Commonwealth of Independent States has deteriorated markedly, with a 2.6 percent contraction now projected in 2015 (about 4 percentage points below the October 2014 WEO forecast) and double-digit inflation projected in many countries (Table 2.5). Growth in the Caucasus and Central Asia is also expected to drop—from 5.3 percent in 2014 to 3.2 percent in 2015, a downward revision of 2.4 percentage points relative to the October 2014 WEO. The decline is projected as a result of spillovers from Russia (through remittances, trade, and foreign direct investment) and lower export prices for oil, metals, and minerals.

- The oil price slump, tighter financial conditions, international sanctions, and weaker confidence are projected to result in a recession in Russia in 2015. Output is expected to contract by 3.8 percent, a downward revision of about 4¼ percentage points compared with the October WEO forecast. In 2016, the output contraction is projected to ease to 1.1 percent as falling inflation and some import substitution contribute to a modest recovery in demand.
- Despite a recently announced government stimulus in Kazakhstan, lower oil prices and production delays in the Kashagan oil field, as well as weakness in the global economy, are expected to keep growth at 2.0 percent in 2015 (a downward revision of almost 3 percentage points) and 3.1 percent in 2016.
- Ukraine's economy is expected to bottom out in 2015 as activity stabilizes with the recovery in consumer and investor confidence and the commencement of reconstruction work. Output is still projected to decline by 5.5 percent in 2015, marking some improvement from the 6.8 percent contraction in 2014.
- Armenia and Belarus are projected to enter into recession in 2015, and Georgia's growth will slow. In all three economies, the downward turns reflect spillovers from Russia. In Moldova, lower credit growth together with lower exports and remittances will result in a small GDP contraction this year.

Risks to the outlook are largely on the downside. A prolonged period of uncertainty and the imposition of more sanctions on Russia could further weaken investment. Deterioration in bank and corporate balance sheets owing to the recent sharp depreciation of national currencies across the region could pose financial stability risks. An earlier-than-expected rebound

Table 2.5. Commonwealth of Independent States Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2014	Projections		2014	Projections		2014	Projections		2014	Projections	
		2015	2016		2015	2016		2015	2016		2015	2016
Commonwealth of Independent States⁴	1.0	-2.6	0.3	8.1	16.8	9.4	2.2	2.5	3.7	...	...	...
Net Energy Exporters	1.5	-2.4	0.1	7.5	15.6	9.1	3.1	3.4	4.6	...	...	...
Russia	0.6	-3.8	-1.1	7.8	17.9	9.8	3.1	5.4	6.3	5.1	6.5	6.5
Kazakhstan	4.3	2.0	3.1	6.7	5.2	5.5	1.6	-4.1	-3.1	5.2	5.2	5.2
Uzbekistan	8.1	6.2	6.5	8.4	9.5	9.8	0.1	0.2	0.2	...	...	...
Azerbaijan	2.8	0.6	2.5	1.4	7.9	6.2	15.3	5.3	8.2	6.0	6.0	6.0
Turkmenistan	10.3	9.0	9.2	6.0	7.7	6.6	-5.9	-11.1	-6.7	...	...	...
Net Energy Importers	-2.6	-3.7	1.6	12.3	25.2	11.4	-5.7	-5.2	-4.2	...	...	...
Ukraine ⁵	-6.8	-5.5	2.0	12.1	33.5	10.6	-4.0	-1.4	-1.3	10.5	11.5	11.0
Belarus	1.6	-2.3	-0.1	18.1	22.1	17.4	-6.1	-7.0	-4.2	0.5	0.5	0.5
Georgia	4.7	2.0	3.0	3.1	3.0	5.0	-9.6	-11.5	-12.0	...	...	...
Armenia	3.4	-1.0	...	3.1	6.4	4.0	-9.2	-8.6	-8.6	18.0	17.9	17.7
Tajikistan	6.7	3.0	4.1	6.1	12.8	6.3	-9.1	-7.1	-5.8	...	...	...
Kyrgyz Republic	3.6	1.7	3.4	7.5	10.7	8.6	-13.7	-17.0	-15.2	7.6	7.5	7.4
Moldova	4.6	-1.0	3.0	5.1	7.5	6.3	-5.5	-4.5	-5.4	4.0	4.5	4.3
<i>Memorandum</i>												
Caucasus and Central Asia ⁶	5.3	3.2	4.2	5.8	6.9	6.6	1.7	-3.4	-2.0	...	...	...
Low-Income CIS Countries ⁷	6.7	4.2	5.0	6.9	8.7	8.2	-4.2	-3.8	-3.6	...	...	...
Net Energy Exporters Excluding Russia	5.4	3.4	4.4	5.9	6.9	6.7	3.0	-2.6	-1.2	...	...	...

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

¹Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Table A7 in the Statistical Appendix.

²Percent of GDP.

³Percent. National definitions of unemployment may differ.

⁴Georgia, Turkmenistan, and Ukraine, which are not members of the Commonwealth of Independent States (CIS), are included in this group for reasons of geography and similarity in economic structure.

⁵Starting in 2014 data exclude Crimea and Sevastopol.

⁶Caucasus and Central Asia comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

⁷Low-Income CIS Countries comprise Armenia, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan.

in oil prices confers some upside risks for oil exporters and also, via the beneficial impact on the Russian economy, for oil importers in the Commonwealth of Independent States.

With worsening economic conditions and significant downside risks, a key priority is to preserve macroeconomic stability. For Russia, monetary policy tightening and the central bank's move to a floating exchange rate regime ahead of schedule were appropriate. With monetary policy constrained by above-target inflation and financial stability concerns, and in light of Russia's large fiscal buffers, a limited loosening of the non-oil structural balance in 2015 would be warranted. For Ukraine, bolstering reserves and a tighter fiscal stance remain appropriate. For Belarus, greater exchange rate flexibility combined with tight macroeconomic policies and deep structural reforms is needed to durably curb inflation and reduce external imbalances.

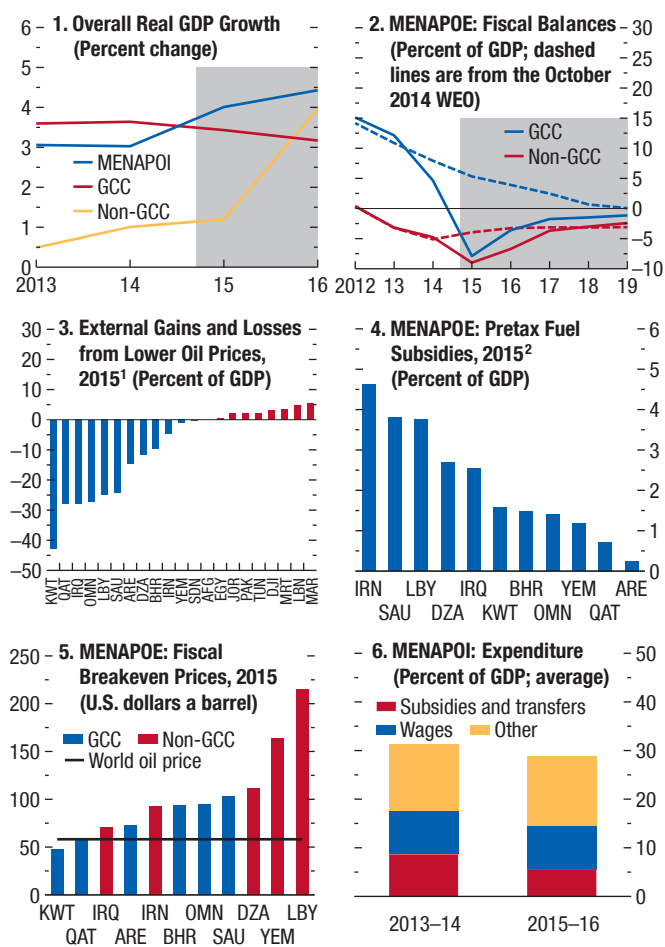
Faced with adverse spillovers from Russia, countries in the Caucasus and Central Asia should implement

countercyclical fiscal policy if fiscal space, available financing, and the external position permit. These countries should generally allow greater exchange rate flexibility supported by appropriate macroeconomic and structural policies and, if necessary, further depreciation to minimize loss of reserves and the erosion of competitiveness. Increased exchange rate flexibility over time would also help economies adjust to adverse shocks. Tighter monetary policy may be needed to address inflation pressure resulting from currency depreciation.

In the medium term, most oil exporters will need to recalibrate their fiscal consolidation plans, since the oil shock is expected to persist. Priority should go to reining in hard-to-reverse current expenditures, widening tax bases, and strengthening tax administration. Growth-enhancing spending on infrastructure, health, and education as well as targeted social assistance should be preserved where possible. Oil importers should resume fiscal consolidation to rebuild buffers as soon as cyclical conditions allow. Structural reforms in governance, cor-

Figure 2.8. Middle East, North Africa, Afghanistan, and Pakistan: Oil, Conflicts, and Transitions

Growth remained tepid across the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) in 2014 amid declining oil prices, intensifying conflicts, and continued policy uncertainty. The steep decline in oil prices has weakened the external and fiscal balances of the region's oil exporters, while providing much-needed breathing room for the oil importers. Across the region, lower oil prices provide an opportunity for structural and subsidy reforms, which would create fiscal space for growth-enhancing investments, improve competitiveness, and support jobs and inclusive growth.



Sources: Haver Analytics; IMF, Information Notice System; International Energy Agency; national authorities; and IMF staff estimates.

Note: Gulf Cooperation Council (GCC) = Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates; MENAP oil exporters (MENAPOE) = Algeria, Bahrain, Islamic Republic of Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, United Arab Emirates, Yemen; MENAP oil importers (MENAPOI) = Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, Tunisia. Data labels in the figure use International Organization for Standardization (ISO) country codes. Data from 2011 onward exclude Syria.

¹External losses (gains) from lower oil prices are calculated as the projected difference in the U.S. dollar value of net oil exports in 2015, using the 2015 oil price assumptions in the April 2015 and October 2014 *World Economic Outlooks*, and the volume of net oil exports in the latter, with adjustments for idiosyncratic country-specific factors.

²The size of the subsidy bill is estimated using 2013 data. Calculations are based on a price-gap analysis following Clements and others 2013 and Sdrlevich and others 2014.

ruption, education, and the financial sector need to be stepped up to diversify economies, improve the business climate, and enhance financial intermediation.

The Middle East, North Africa, Afghanistan, and Pakistan: Oil, Conflicts, and Transitions

Growth remained tepid across the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) in 2014 amid declining oil prices, raging conflicts, and continued policy uncertainty. Only modest strengthening is expected this year, and substantial downward revisions to regional growth projections can be traced to the region's oil exporters. Risks remain to the downside. Faced with large losses from lower oil prices, most oil exporters need to recalibrate their medium-term fiscal consolidation plans. Across the region, lower oil prices create conditions for continuing subsidy reforms to build fiscal space for growth-enhancing spending. Structural reforms are also needed to raise prospects in a sustainable and inclusive manner.

Oil-Exporting Economies

As a result of the steep decline in oil prices, oil exporters in MENAP are experiencing large losses of export and fiscal revenues (Figure 2.8). Most of the region's oil exporters are expected to avoid sharp cuts in spending by drawing on their large buffers and using available financing.

Growth is now projected to remain broadly unchanged in 2015, at 2.4 percent, reflecting a downward revision of 1½ percentage points relative to the October 2014 WEO, and pick up to 3.5 percent in 2016 (Table 2.6). More specifically:

- Growth forecasts for Saudi Arabia have been marked down to 3.0 percent in 2015, 1½ percentage points downward relative to the October 2014 WEO, and to 2.7 percent in 2016. About half of the revisions are due to a rebasing of real GDP data.¹ With the decline in oil prices, the fiscal balance in Saudi Arabia will move into substantial deficit in 2015 and 2016.
- Growth in the Islamic Republic of Iran is projected to be 0.6 percent in 2015 and 1.3 percent in 2016, a downward revision from the October 2014 WEO

¹The rebasing to 2010 has resulted in a higher share of oil GDP (43 percent compared with 21 percent previously) and, consequently, lower real GDP growth rates in 2013–14, when oil GDP growth was subdued.

Table 2.6. Middle East and North African Economies, Afghanistan, and Pakistan: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2014	Projections		2014	Projections		2014	Projections		2014	Projections	
		2015	2016		2015	2016		2015	2016		2015	2016
Middle East, North Africa, Afghanistan, and Pakistan	2.6	2.9	3.8	6.7	6.1	6.2	6.4	-1.9	-0.1	...	...	...
Oil Exporters⁴	2.4	2.4	3.5	5.6	5.6	6.0	10.0	-1.0	1.7	...	...	...
Saudi Arabia	3.6	3.0	2.7	2.7	2.0	2.5	14.1	-1.0	3.7	5.5	...	...
Iran	3.0	0.6	1.3	15.5	16.5	17.0	3.8	0.8	1.2	11.2	12.3	13.2
United Arab Emirates	3.6	3.2	3.2	2.3	2.1	2.3	12.1	5.3	7.2	...	...	...
Algeria	4.1	2.6	3.9	2.9	4.0	4.0	-4.3	-15.7	-13.2	10.6	11.8	11.9
Iraq	-2.4	1.3	7.6	2.2	3.0	3.0	-3.5	-9.6	-3.6	...	...	...
Qatar	6.1	7.1	6.5	3.0	1.8	2.7	25.1	8.4	5.0	...	...	...
Kuwait	1.3	1.7	1.8	2.9	3.3	3.6	35.3	15.7	19.3	2.1	2.1	2.1
Oil Importers⁵	3.0	4.0	4.4	9.2	7.0	6.6	-4.0	-4.2	-4.5	...	...	...
Egypt	2.2	4.0	4.3	10.1	10.3	10.5	-0.8	-3.3	-4.3	13.4	13.1	12.5
Pakistan	4.1	4.3	4.7	8.6	4.7	4.5	-1.2	-1.3	-1.4	6.7	6.5	6.1
Morocco	2.9	4.4	5.0	0.4	1.5	2.0	-5.8	-3.4	-3.3	9.1	9.0	8.9
Sudan	3.4	3.3	3.9	36.9	19.0	10.5	-5.2	-4.2	-3.9	13.6	13.3	13.0
Tunisia	2.3	3.0	3.8	4.9	5.0	4.1	-8.9	-6.4	-5.2	15.3	15.0	14.0
Lebanon	2.0	2.5	2.5	1.9	1.1	2.8	-24.9	-22.2	-21.7	...	...	...
Jordan	3.1	3.8	4.5	2.9	1.2	2.5	-7.0	-7.6	-6.6	11.9	...	...
<i>Memorandum</i>												
Middle East and North Africa	2.4	2.7	3.7	6.5	6.2	6.4	7.0	-2.0	0.0	...	...	...
Israel ⁶	2.8	3.5	3.3	0.5	-0.2	2.1	3.0	4.5	4.4	6.0	5.5	5.3
Maghreb ⁷	1.0	3.3	5.6	2.5	3.3	3.6	-8.1	-14.6	-11.6	...	...	...
Mashreq ⁸	2.2	3.9	4.2	8.9	8.9	9.3	-4.7	-6.2	-6.8	...	...	...

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

¹Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A6 and A7 in the Statistical Appendix.

²Percent of GDP.

³Percent. National definitions of unemployment may differ.

⁴Includes Bahrain, Libya, Oman, and Yemen.

⁵Includes Afghanistan, Djibouti, and Mauritania. Excludes Syria because of the uncertain political situation.

⁶Israel, which is not a member of the economic region, is included for reasons of geography. Note that Israel is not included in the regional aggregates.

⁷The Maghreb comprises Algeria, Libya, Mauritania, Morocco, and Tunisia.

⁸The Mashreq comprises Egypt, Jordan, and Lebanon. Syria is excluded because of the uncertain political situation.

of about 1½ percentage points and 1 percentage point, respectively. The revisions reflect the impact of lower oil prices and continued uncertainty regarding progress toward a full agreement with the P5+1.²

- Growth in Iraq is projected to be 1.3 percent in 2015, supported by increased oil production, but non-oil activity is expected to stay flat because of difficult security conditions and fiscal spending cuts in response to lower oil prices.
- Growth in Algeria is expected to slow from 4.1 percent in 2014 to 2.6 percent in 2015, as lower oil prices exacerbate the economy's existing fiscal and external vulnerabilities.

Oil production and prices, as well as continued conflicts in the region, constitute important risks to

the outlook. Heightened uncertainty in the oil market persists, with oil price volatility at historically high levels and risks for oil production skewed to the downside. Downside risks to non-oil growth also arise from the possibility that fiscal adjustment will be stronger than currently expected or private investment will be affected by declining confidence. Deepening conflicts and security disruptions in a number of oil-exporting countries could further undermine economic activity, delay reforms, and dampen confidence.

Policymakers need to prepare for a sustained period of lower oil prices and reassess their medium-term spending plans accordingly. Countries need to address fiscal vulnerabilities from rapidly eroding buffers and high break-even oil prices and to save equitable amounts of their nonrenewable oil wealth for future generations. To limit the drag on growth, fiscal consolidation plans should focus on reining in current

²The P5+1 are the five permanent members of the United Nations Security Council and Germany.

expenditures, including by limiting growth of public wage bills and reducing generalized energy subsidies, which remain large in many countries despite lower oil prices. Prioritizing capital expenditure and raising non-oil revenue collection should accompany efforts to contain spending.

In tandem with fiscal consolidation, significant structural reforms are needed to move away from past growth models driven by oil-backed government spending and raise productivity in the non-oil private sector. The challenge will be to promote diversification toward tradable activities and enable the private sector to become a more self-reliant engine of growth, while encouraging private sector job creation.

Oil-Importing Economies

In the region's oil importers, a weak recovery continued in 2014. The impetus provided by increased political stability and initial reforms was dampened by intensified regional conflicts and continued sociopolitical and security tensions. Weak growth in the euro area and deteriorating competitiveness from a strengthening U.S. dollar (against which some countries peg their exchange rates) also weighed on economic activity. However, signs of nascent improvement in confidence have emerged, reflected, among other things, in a rating upgrade for Egypt's and Pakistan's first international bond issues in seven years.

Growth is expected to rise from 3.0 percent last year to 4.0 percent in 2015 and 4.4 percent in 2016 (Table 2.6). Domestic demand should strengthen with improved confidence, monetary easing, and reduced fiscal drag. Recovery in Europe will support export growth, offsetting adverse effects from slower growth in the oil-exporting countries of the region. Lower oil prices are reducing vulnerabilities, but their growth impact is limited as governments will save much of the oil windfalls. Moreover, intensified security challenges and regional spillovers will constrain reform prospects. Country-specific factors are also at play:

- Egypt's macroeconomic stabilization plans and wide-ranging structural reforms are expected to increase confidence, and growth is expected to rise to 4 percent this year.³ Nevertheless, continued fiscal consolidation, steady implementation of reforms,

and external financing are needed to maintain macroeconomic stability and generate sustainable growth and jobs.

- In Morocco, steadfast policy implementation (including elimination of energy subsidies) has helped stabilize the economy. Improved external demand, strengthened domestic confidence, and recovery of agricultural production should boost growth to 4.4 percent in 2015 and 5 percent in 2016, but continued structural reforms, including to the business environment, are needed to improve competitiveness and employment.
- Pakistan's economy has stabilized, with a 4.3 percent growth forecast for 2015 and gradually improving fiscal and external positions. Further bold reforms are critical to solidify this progress and counter adverse effects on economic activity of falling cotton prices and security and political tensions.
- Confidence and growth in Tunisia are expected to return with the completion of the political transition, but widening external imbalances, lingering banking vulnerabilities, and security tensions will weigh on economic activity. In Jordan, lower oil prices and further reforms should contribute to higher growth this year. Lebanon's economy is weighed down by the political impasse and spillovers from the conflict in Syria. And Sudan is still adjusting to lower oil revenues due to the secession of South Sudan, in the context of a volatile regional environment, sanctions, and a heavy debt burden.

Risks to the outlook for the region are tilted to the downside. Intensified tensions and setbacks in political transitions could further undermine trade, confidence, reform efforts, and macroeconomic stability. Lower-than-expected growth in Europe, the member countries of the Cooperation Council for the Arab States of the Gulf, or emerging markets could slow tourism and exports, and with some lag, remittances and financing support. On the upside, greater-than-expected windfalls from lower oil prices could further bolster growth.

Increasing economic prospects and job creation will require multifaceted structural reforms. Business climate and governance reforms, better access to finance, and improved labor market efficiency and infrastructure are critical to lowering firms' operating costs and creating new jobs. Fostering worker talent through education aligned with private sector needs, adopting the latest technologies and management techniques, striving for greater trade integration, and recalibrating the role of the government toward supporting the pri-

³ Projections do not incorporate the potential impact of the investment agreements reached at the March 2015 Egypt Economic Development Conference.

vate sector will promote productivity and innovation. International support through financing, access to key export markets, technical assistance, and policy advice would bolster these reform efforts.

Macroeconomic policies can support these growth- and equity-enhancing reforms while ensuring macroeconomic stability. The decline in oil prices creates favorable conditions for accelerating subsidy reforms and increasing energy taxes. Where fiscal and external sustainability is a concern, windfall gains should be saved. Where there is space, freed resources could be spent on growth-enhancing infrastructure, health care, and education. Given uncertainties surrounding the persistence of the oil price decline, countries should avoid entering into irreversible spending commitments, including increases in public sector wage spending. Increased reserves and low inflation provide an opportunity to enhance exchange rate flexibility to improve competitiveness—especially following the appreciation of the U.S. dollar—and the ability to adjust to shocks.

Sub-Saharan Africa: Resilience in the Face of Headwinds

Growth in sub-Saharan Africa remains strong, although it is expected to slow in 2015 in the face of headwinds from declining commodity prices and the epidemic in Ebola-affected countries. Key downside risks include further downgrades to growth in major trade partners, a sharper-than-expected tightening of global financing conditions, and mounting domestic security threats and policy uncertainty ahead of elections. Oil-exporting countries should enact prompt fiscal adjustments, while oil importers' policy stances should strike the right balance between promoting growth and preserving stability.

Sub-Saharan African growth for 2014 as a whole remained solid at 5.0 percent, albeit lower than the 5.2 percent growth in 2013. Growth in South Africa fell from 2.2 percent in 2013 to 1.5 percent in 2014, on account of mining strikes and electricity supply constraints. Elsewhere in the region, growth, driven by strong investment in mining and infrastructure and by private consumption, held up well, especially in the region's low-income countries. Exceptions were Guinea, Liberia, and Sierra Leone, where growth declined sharply as a result of the Ebola epidemic, which caused severe disruptions in agriculture and services and the postponement of mining development projects.

The region's oil-exporting countries, especially those with limited buffers (Chad, Nigeria), started to adjust to the decline in oil prices. This adjustment led to lower growth than was previously expected. By contrast, growth in the region's oil-importing countries was broadly in line with previous projections, although with considerable variation across countries.

Fiscal and current account balances worsened significantly in the region's oil-exporting countries, reflecting ambitious infrastructure investment agendas financed with shrinking oil revenues (Figure 2.9). Fiscal balances also deteriorated in other parts of the region, reflecting continued fiscal strains in the Ebola-affected countries and strong exceptional spending in Mozambique. By contrast, consolidation efforts led to improvement in fiscal balances in Ghana and Zambia. Weak oil and food prices have helped reinforce the region's generally low-inflation environment, which could allow countries dealing with lower growth to adopt more accommodative monetary policy stances. The dollar has appreciated recently, and this could undermine the competitiveness of some countries that are broadly pegged to the dollar.

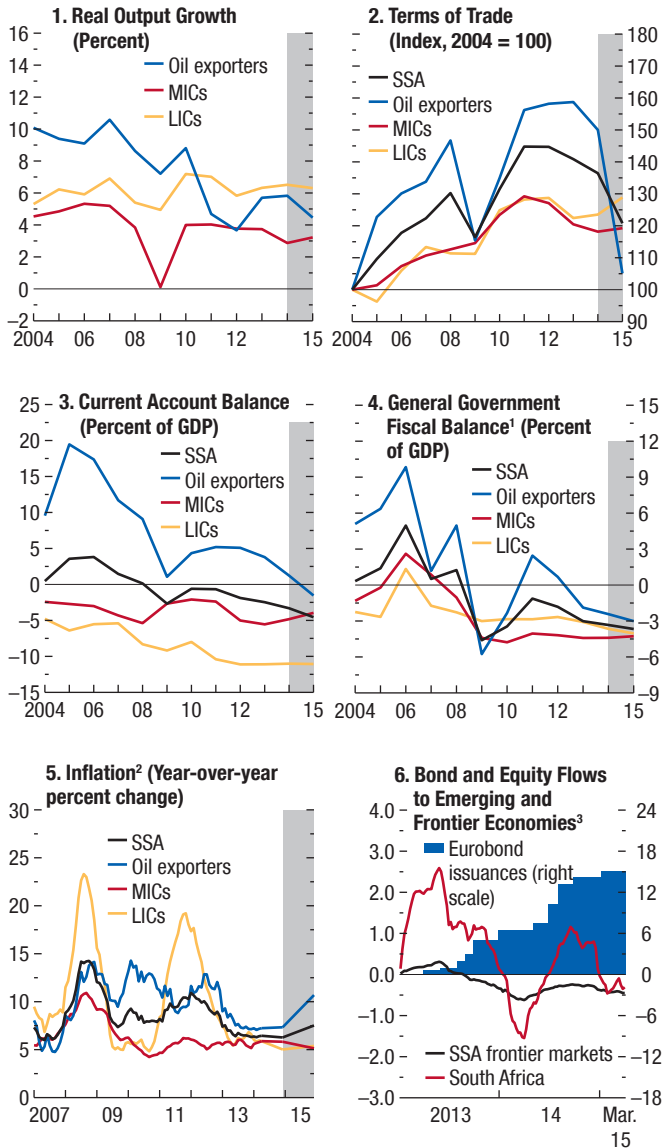
Favorable global financing conditions for most of the year encouraged a surge in sovereign bond issuance from \$6.5 billion in 2013 to \$8.7 billion in 2014, with maiden issuances by Côte d'Ivoire, Ethiopia, and Kenya. However, financing conditions have tightened considerably since December, and yields on the region's bonds have been trending up, especially in Ghana (owing to a high fiscal deficit) and Gabon and Nigeria (owing to lower oil prices).

Sub-Saharan Africa is projected to experience solid growth in 2015–16, but given the weaker global outlook, its economic prospects have been revised downward relative to earlier expectations (Table 2.7). In 2015, growth in sub-Saharan Africa is projected to fall to 4.5 percent—a substantial downward revision of 1¼ percentage points relative to the October 2014 WEO—before rebounding to 5.1 percent in 2016. Oil exporters in the region will be severely affected, with growth in 2015 marked down by almost 2½ percentage points. By contrast, growth in the region's oil importers in 2015–16 is expected to average 4¾ percent, a downward revision of 0.3 percentage point relative to the October 2014 WEO prediction, as the favorable impact of lower oil prices will be offset to a large extent by lower commodity export prices.

This outlook for the region is subject to significant downside risks. Recent episodes of volatility sug-

Figure 2.9. Sub-Saharan Africa: Resilience in the Face of Headwinds

Sub-Saharan African growth will remain solid notwithstanding a significant adverse shock from the decline in oil prices. Oil exporters will be faced with a formidable challenge to cope with the shock. For the rest of the region, lower oil prices represent a favorable development, which will be offset in some cases, however, by lower prices for other commodity exports.



Sources: EPFR Global; Haver Analytics; IMF, International Financial Statistics database; and IMF staff estimates.
 Note: LIC = low-income country (SSA); MIC = middle-income country (SSA); SSA = sub-Saharan Africa. Oil exporters refer only to SSA oil exporters. See Table 2.7 for country groupings and the Statistical Appendix for country group aggregation methodology.
¹General government includes the central government, state governments, local governments, and social security funds.
²Because of data limitations, Eritrea is excluded from LICs, Zimbabwe from LICs before December 2009, and South Sudan from oil exporters before June 2012.
³Bond and equity data refer to cumulative flows since January 2013 in billions of U.S. dollars. Frontier economies = Botswana, Democratic Republic of the Congo, Côte d'Ivoire, Gabon, Ghana, Kenya, Malawi, Mauritius, Namibia, Nigeria, Zambia, and Zimbabwe.

gest that frontier market economies and oil exporters planning to cover their financing needs through international markets could be vulnerable to a reversal in investor sentiment, especially in a tighter U.S. monetary policy environment. Further weakening of growth in Europe or in emerging markets, in particular in China, could reduce demand for exports, further depress commodity prices, and curtail foreign direct investment in mining and infrastructure. Failure to implement appropriate policies, most notably where large fiscal adjustments are needed, could also weaken macroeconomic stability. Risks originating within the region include stronger persistence and regional impact of the Ebola epidemic, rising security concerns, and political uncertainty ahead of key elections (for example, in Nigeria and Tanzania).

In view of their limited buffers, most oil exporters in the region will need to undertake prompt fiscal adjustment to address the persistent terms-of-trade shock that they are facing. Where feasible, such adjustment should be combined with increased exchange rate flexibility. Elsewhere, to sustain high and inclusive growth, policies will need to continue to strike the right balance between scaling up public investment and preserving debt sustainability and rebuilding fiscal buffers. The current environment of low oil prices provides a unique opportunity to undertake politically difficult reforms to eliminate remaining fuel subsidies. In anticipation of possible surges in the volatility of exchange rates and capital flows, countries should also carefully monitor their financial sectors, and those planning Eurobond issues may need to prepare contingency plans.

Table 2.7. Sub-Saharan African Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2014	Projections		2014	Projections		2014	Projections		2014	Projections	
		2015	2016		2015	2016		2015	2016		2015	2016
Sub-Saharan Africa	5.0	4.5	5.1	6.3	6.6	7.0	-3.3	-4.6	-4.1	...	...	...
Oil Exporters⁴	5.8	4.5	5.2	7.3	9.2	9.6	1.2	-1.5	-0.3	...	...	...
Nigeria	6.3	4.8	5.0	8.1	9.6	10.7	2.2	0.7	1.3	...	...	...
Angola	4.2	4.5	3.9	7.3	8.4	8.5	-0.8	-6.3	-4.2	...	...	...
Gabon	5.1	4.4	5.5	4.5	2.5	2.5	11.2	-2.3	0.9	...	...	...
Chad	6.9	7.6	4.9	1.7	3.2	2.9	-8.7	-10.5	-8.3	...	...	...
Republic of Congo	6.0	5.2	7.5	0.9	3.0	2.9	-6.2	-11.3	-3.1	...	...	...
Middle-Income Countries⁵	2.9	3.2	3.6	6.0	4.8	5.3	-4.8	-4.0	-4.1	...	...	...
South Africa	1.5	2.0	2.1	6.1	4.5	5.6	-5.4	-4.6	-4.7	25.1	25.1	24.9
Ghana	4.2	3.5	6.4	15.5	12.2	10.2	-9.2	-7.0	-6.2	...	...	...
Côte d'Ivoire	7.5	7.7	7.8	0.4	1.2	1.5	-3.3	-2.3	-1.7	...	...	...
Cameroon	5.1	5.0	5.0	1.9	2.0	2.1	-4.2	-4.8	-4.8	...	...	...
Zambia	5.4	6.7	6.9	7.9	7.7	6.5	-0.2	0.3	0.9	...	...	...
Senegal	4.5	4.6	5.1	-0.5	1.5	1.4	-10.3	-7.6	-7.3	...	...	...
Low-Income Countries⁶	6.5	6.3	6.9	5.1	4.8	5.2	-11.0	-11.1	-11.0	...	...	...
Ethiopia	10.3	8.6	8.5	7.4	6.8	8.2	-9.0	-6.6	-6.3	...	...	...
Kenya	5.3	6.9	7.2	6.9	5.1	5.0	-9.2	-7.7	-7.4	...	...	...
Tanzania	7.2	7.2	7.1	6.1	4.2	4.5	-10.2	-10.0	-9.5	...	...	...
Uganda	4.9	5.4	5.6	4.7	4.9	4.8	-7.5	-8.8	-9.0	...	...	...
Madagascar	3.0	5.0	5.0	6.1	7.6	6.9	-2.3	-3.2	-3.4	...	...	...
Democratic Republic of the Congo	9.1	9.2	8.4	1.0	2.4	3.5	-9.6	-10.7	-9.5	...	...	...
<i>Memorandum</i>												
Sub-Saharan Africa Excluding South Sudan	5.0	4.5	5.0	6.4	6.4	7.0	-3.3	-4.5	-4.1	...	...	...

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

¹Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Table A7 in the Statistical Appendix.

²Percent of GDP.

³Percent. National definitions of unemployment may differ.

⁴Includes Equatorial Guinea and South Sudan.

⁵Includes Botswana, Cabo Verde, Lesotho, Mauritius, Namibia, Seychelles, and Swaziland.

⁶Includes Benin, Burkina Faso, Burundi, the Central African Republic, Comoros, Eritrea, The Gambia, Guinea, Guinea-Bissau, Liberia, Malawi, Mali, Mozambique, Niger, Rwanda, São Tomé and Príncipe, Sierra Leone, Togo, and Zimbabwe.

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