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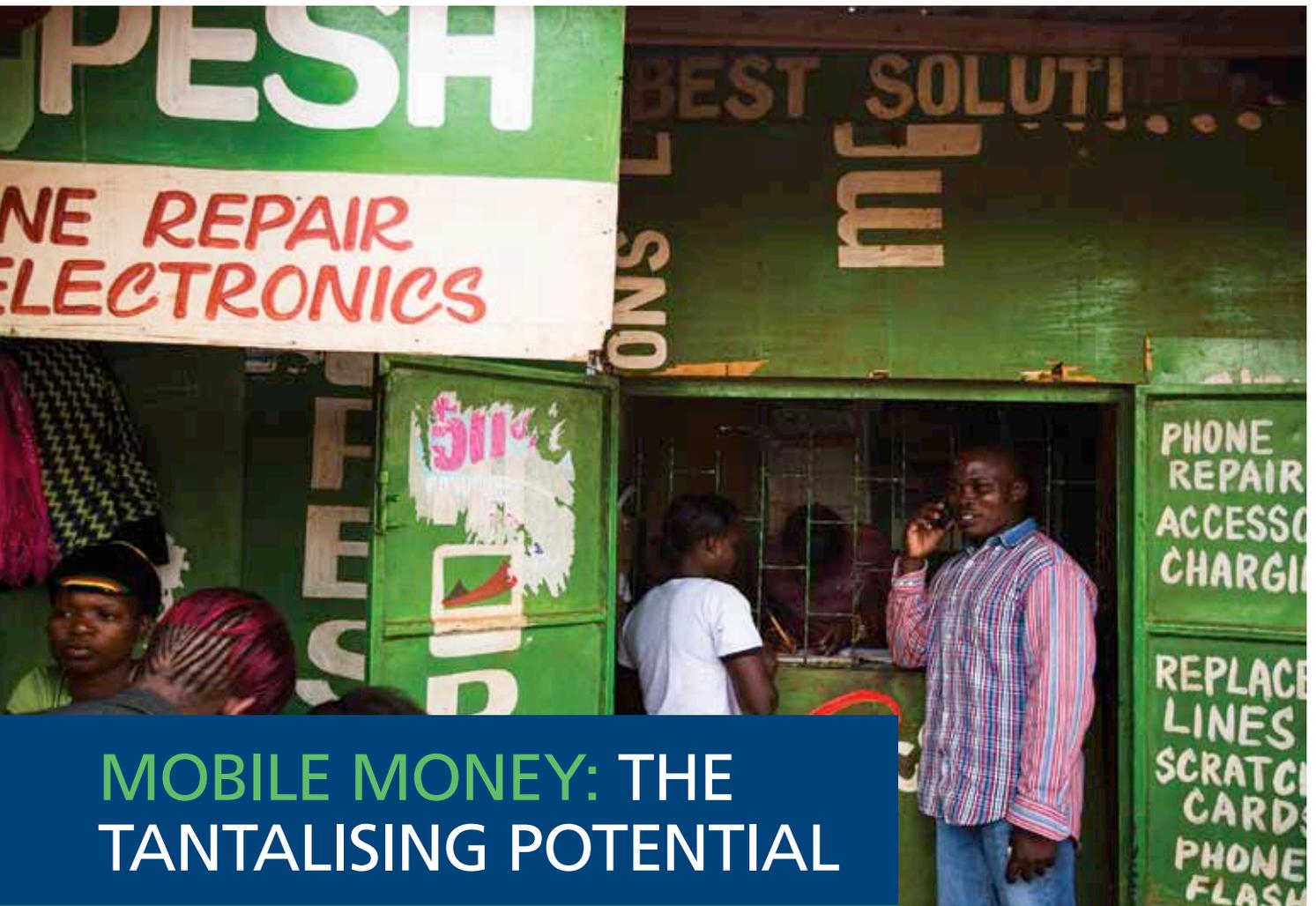
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MOBILE MONEY: THE TANTALISING POTENTIAL

It was a memorable experience in Malawi — on discovering that the hotel bill had to be paid in cash. No cheques, no transactions by credit cards accepted: just the Malawian Kwacha. And you got wads galore of Kwacha in exchange for American dollars — so many banknotes, in fact, that they were difficult to conceal. The exchange bureau looked dubious enough: the men lingering outside, decidedly ominous.

But all of this may be about to change — because sub-Saharan Africa offers a tantalising prospect for mobile financial investors.

In most of the region, only a small population percentage — upper-income households — enjoy the convenience of card-based, online and mobile banking. Most consumers still pay with cash.

One study (see below) shows that more than 90% of retail transactions in parts of the region remain cash-based, and a Gallup* survey of 11 countries in sub-Saharan Africa found that more than 80% of adults make bill payments or remittances with cash.

Given the lack of digital-payment penetration, consumers, banks and governments in the region are still bearing the high cost of cash payments — costs associated with manual acceptance, record-keeping, counting, storage, security and transportation. So the economic incentives for change are compelling.

Moreover, two-thirds of adults in sub-Saharan Africa (a hugely significant proportion in developing countries) currently use mobile phones. In Kenya — the one, developed digital payments market in the region where M-Pesa** has become a success story — mobile-payment

penetration stands at 86% of households. 86%! Think of most places in the developed world, and that level of mobile-payment penetration is unheard of.

Already, regulators in sub-Saharan markets are paving the way for e-money and the entry of non-bank operators — making use of business models and systems for electronic remittances, both domestic and international, which have already been well tested in other markets around the globe.

Together, all these factors should make it easier for digital payments to leapfrog the costly development of formal banking. Mobile money promises a lower-cost, more scalable alternative to traditional banking. Why then have payment players hesitated to venture into these seemingly high-potential markets? Why have there been so few success stories to date?



These transaction flows represent a large untapped market for mobile providers, say the researchers. They are especially relevant because it is easier and less costly to make those payments electronically than with cash.



HURDLES TO MOBILE MONEY INVESTMENT

Partly, the lack of investment to date has resulted from uncertainty about whether Kenya is unique, or whether the potential for mobile payments in other markets is similarly robust.

As with most new business ventures across the continent, data on the nature and size of markets, the investment required, the risks involved, and, most importantly, the nature of customer needs and preferences is hard to nail down.

NEW RESEARCH & ANALYSIS

However, new research (by McKinsey & Company and the Bill & Melinda Gates Foundation) has explored 44 sub-Saharan African countries and incorporated Gallup survey data. The analysis examines remote domestic consumer payments in individual markets to identify significant cash-payment volumes made through informal channels. “These transaction flows represent a large untapped market for mobile providers,” say the researchers. “They are especially relevant because it is easier and less costly to make those payments electronically than with cash.”

The researchers examined several major payment categories, including person-to-person (P2P) payments, government-to-public payments, bill and formal-obligation payments, wages, and payments for goods and services. “These represent early-use cases in which the benefits of digital payments considerably outweigh those of cash, thus making it likely that digital payments will rapidly win consumer acceptance,” say the

researchers. P2P payments are the largest category, given the many migrant workers and informal networks of families and friends, who are often the primary source of family financing.

A key feature of the incorporated Gallup data is that it does not just focus on formal payment options (such as through banks, money transfers, or mobile devices) but also asks about payments made in cash through informal channels. This data allows researchers to estimate latent market demand for digital services.

MARKET POTENTIAL

To estimate each country’s market potential, the researchers first examined trends underlying Kenya’s rapid transition to mobile payments. These trends were applied to each country’s raw data to create baseline reference points which were used to develop individual market projections in the following scenarios:

- P2P payments are digitised across other sub-Saharan African countries, matching Kenya’s current penetration rate for long-distance digital payments (70%)
- Other types of long-distance payments (e.g. wages, government-to-public) are digitised to Kenya’s current level (70%)
- P2P payments maintain the 70% rate of digitisation and the total transaction volume grows at the same rate as seen in Kenya between 2006 and 2009, during the early expansion of M-Pesa.

Gallup data shows that currently, on average, 54% of adults in sub-Saharan Africa make one or more long-distance

payments in a given month, totalling approximately five billion transactions annually. The total volume of these flows is approximately USD 760 billion, and 50 to 60% of the transactions are in cash. Based on conservative estimates, this would result in annual revenues of about USD 6.6 billion annually from electronic payments. Other scenarios estimate USD 7.7 billion, USD 11 billion and USD 16 billion annually.

Nigeria alone, for example, could be worth USD 1.8 billion. More than 80 million Nigerians do not own bank accounts. Of the total adult population, 74% are ‘unbanked’ but the mobile penetration rate is 54%. This is especially significant because of the fact that 39% of Nigerians live in rural areas where financial institutions find it commercially unviable to operate.

The Central Bank of Nigeria has granted mobile money operating licenses to 18 financial institutions and independent operators and also to six banks, including one microfinance bank Fortis MFB.

With a population of 170 million, 110 million active mobile phone subscribers, according to the Nigerian Communications Commission, and 25.4 million bank accounts, there is a huge potential for mobile money in Nigeria. However, it is clear that operators are struggling to make an impact in the country in terms of investment in agency network, technology and marketing, says Lawrence Etukakpan, UHY Maaji, UHY’s member firm in Nigeria. Challenges operators face are:

- Start-up technology problems
- Insufficient take-off capital for the country’s size
- Inadequate agency network.



Governments also gain when adopting digital payments. They not only reduce their payment costs but increase transparency.



DIGITISATION SPURS GROWTH

Digital-payment platforms are also expected to benefit stakeholders beyond the payment industry. In Kenya, for example, many start-ups are attempting to incorporate M-Pesa as part of their entrepreneurial business models. One small business uses it to help parents make more timely school-fee payments, while another uses it to establish informal savings groups. Even non-payment organisations are finding ways to use the new payment infrastructure. For instance, Bridge International Academies, a low-cost, for-profit educational franchiser, found that M-Pesa could help it obtain real-time financial data, which enabled it to become more trusting of franchisees and reduce record-keeping.

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When digital payments take hold, as they did in Kenya, consumers also eventually profit from related savings. The cost of making remittances via M-Pesa is about half that of other formal domestic-remittance services. Moreover, customers can instantly send payments from their mobile phones instead of travelling an hour or more to distant bank branches. Many customers in sub-Saharan Africa need bank services but simply live and work too far from a branch office.

Equally important is that electronic payments bring financial services to vast numbers of non-banking and under-banking families. They dramatically reduce transaction costs, greatly increase customer convenience, and minimise the need for expensive physical infrastructure, including branch networks.

IMPLICATIONS FOR PAYMENT PROVIDERS

Sub-Saharan Africa presents a number of opportunities for bank and non-bank financial service providers, mobile operators, and others seeking new markets.

An important first step in considering these markets is understanding the common financial flows in a typical household in sub-Saharan Africa — flows that differ significantly from those seen in more developed markets.

In sub-Saharan Africa fund sources are diverse — wages, crop income, remittance payments from family members, government payments, and donations. Typical expenses include food, utilities, school fees, health needs, basic retail purchases, and purchases associated with various life-stage ceremonies, such as weddings, funerals and holidays. Understanding where these flows are concentrated should enable the development of more effective market-entry strategies.

For example, say the researchers, a bank's relationships with employers, government agencies, and agricultural entities might best position it to digitise private and government wages, or farm payments. And mobile operators with far-reaching airtime networks might do best in the P2P-payment arena.

The region's small and medium-sized businesses — with high payment volumes — also send and receive a wide variety of payments. They receive payments from customers, middlemen and government agencies; they make payments to wholesalers, employees, landlords and service providers. Most of these payments are still made with cash. As such

enterprises are at the heart of customer and supplier networks, their uptake of mobile money would stimulate adoption both up and down the value chain.

CHALLENGES TO INVESTMENT

In developing economies, one of the greatest challenges is providing convenient options for cash deposits and withdrawals. ATMs (automated teller machines) and other point-of-service devices need to be conveniently located throughout a community. Apply that to remote communities, even to the less remote communities in cities, across sub-Saharan Africa and another reason why mobile money has not as yet taken off comes into view. Upfront investment required for such services is substantial if people are to be weaned off cash transactions.

THE OUTLOOK

Significant latent demand for digital payments in many markets of sub-Saharan Africa looks compelling, engendered by impressive and widespread consumer acceptance of mobile-communications technology. But who will make the first big move?

* News and market research company

** Mobile Pesa (pesa is Swahili for money) is a mobile-based money transfer process.

For details of UHY member firms in sub-Saharan Africa visit www.uhy.com

KEY INDUSTRY SECTORS FOR GLOBAL GROWTH

Which industry sectors will thrive over the next five years? Where are growth opportunities to be found around the globe for both local and foreign investors?

The biggest change for most global industries is that, at long last, Europe will be in recovery mode. For the automotive sector that signals an end to the five-year slump in car registrations. For consumer goods it means a rise in retail sales.

In the energy sector the US is competing with Russia as the top producer of hydrocarbons, thanks to the North American shale oil and gas boom.

The rate of Chinese growth will remain crucial for many global industries, particularly in the telecoms sector, where China Mobile, the big state-owned Chinese telecoms company, will continue to dominate.

In the healthcare sector, landmark healthcare reforms in the US, the one market that still dominates the sector, are opening up significant opportunities.

AUTOMOTIVE SECTOR

The end of Europe's slump and a slowdown in emerging markets will mean a mixed period ahead for the automotive sector.

As the European Union's vehicle market returns to growth, Western Europe's motor industry will expand, along with those in the transition economies of

Eastern Europe. The US market will remain strong, while India and Russia will recover momentum after recent slumps. The Chinese market is likely to slow, however, while the Brazilian market may well disappoint and Japan could well carry on contracting.

Much depends on interest rates as economies recover. However, global vehicle markets should stop being as uneven as they have been of late.

The long-term shift for car makers is towards new-growth, heavily-populated markets and away from more established, mature markets. In 2014, Asia is expected to account for 43% of the global car market, up from less than 30% just six years ago. North America will account for 25% and Latin America, and other emerging markets, up to 15%. But it is Europe's fall, from 26% in 2009 to less than 17% in 2014, that will continue to force a shift in production capacity.

So far, investment in new plants in fast-growing markets has outpaced downsizing in slower ones. Despite

shutting plants in Europe and North America, the industry will still need to tackle over-capacity, even as demand recovers.

China (the world's largest manufacturer and buyer of vehicles), for example, will soon be capable of making 30 million cars per annum, while national sales will take several more years to reach that level of demand. Auto manufacturing plants are therefore seeking out new export markets. So far, the Chinese have focused on markets in the Middle East and Africa, where safety and emission standards appear less stringent. In the future, as standards improve, they will target developed markets too — the day when Chinese car imports make serious inroads into US and European Union markets is not far away.

In some markets, including China and Indonesia, manufacturers are also coping with the threat of more ownership restrictions, as governments try to combat rising pollution and congestion. Indonesia and some Indian cities are contemplating licensing restrictions, while congestion



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charging and other measures are being used in cities such as London, UK. "Several Chinese cities already have licensing restrictions, and more are likely to be introduced," says Kurt Lee, Zhonghua CPAs, UHY's member firm in China. "In fact, recent vehicle sales in China — which reached nearly 22 million units in 2013 — have been, in part, due to anxiety about impending licensing limits."

Meanwhile, in the world's biggest auto market, the Chinese government is fostering development of low-energy vehicles through subsidies of up to 60,000 yuan for all-electric vehicles and up to 35,000 yuan for plug-in hybrids. Low-energy vehicle sales totalled 17,600 in China in 2013, mostly all-electric vehicles — still, however, way below the government's goal of 500,000 cumulative low-energy vehicles by 2015 and five million by 2020.

CONSUMER GOODS SECTOR

Consumer goods are in transition, as retailers address changing consumers and changing channels to market.

Trends, such as e-commerce, will become mainstream as consumption patterns from before the global financial crisis resume, particularly in Europe as incomes recover. Accelerated use of mobile devices is the key driver of e-commerce growth. The biggest swing in fortunes will take place in Western Europe, but the biggest regional growth potential remains in Asia.

China and India continue to merit close monitoring. For India, opening the retail sector to foreign direct investment (FDI) will remain the burning issue. While a liberalisation of single-brand retail investment has been relatively successful, multi-brand investment has been more

troublesome. Despite receiving government approval in 2012, legislation has been diluted by opposition, bureaucracy and unworkable clauses. Outcomes from the 2014 elections may dictate what happens next: pre-election some opposition parties had been threatening to reverse concessions granted by the government.

"This has not, however, impacted the FDI inflow which remains steady during 2013-14," says Sunil Hansraj, Chandabhoy & Jassoobhoy, one of UHY's member firms in India. "While FDI in multi-brand retail remains a debatable issue, political parties across the spectrum recognise the need for significant increase to the FDI inflow."

In China, retail volumes are forecast to grow by 9% in 2014, driven largely by e-commerce and rising demand from emerging cities in the interior. Luxury firms and retailers such as WalMart are continuing to unveil ambitious store openings, while goods suppliers have invested in improvements to production and distribution processes.

Uncertainty over China and India will give other fast-growing markets an opportunity to step out of the shadows. Africa, seen as the 'final frontier' in many long-term retail investment strategies, is moving up the retail and fast-moving consumer goods agenda.

Although growth in South Africa — where WalMart purchased local player Massmart — is modest, it is expected to provide a springboard into other markets further north. Carrefour's investment in West Africa reflects a similar strategy. Asian markets such as Thailand, Vietnam, Indonesia and Malaysia will also become more prominent.





Combating climate change is, however, only one reason for the renewables expansion – equipment prices have fallen, governments prefer to support domestic equipment-manufacturers, and governments need to shore up energy security through alternative supplies.



ENERGY SECTOR

The energy sector is set for a period of revolution and rapid growth in individual sub-sectors. Global energy use will continue to grow as emerging markets make up for sluggish old-world demand.

Oil production will continue to rise as prices remain high and ever-expanding car fleets in emerging markets guzzle more fuel. Gas has been the less desirable hydrocarbon, but demand is now rocketing, while pipelines and investors in liquefied natural gas (LNG) facilities rush to catch up.

Low North American gas prices will play a big part, supported by policies to tilt electricity utilities away from coal power. The dirtiest fuel is nonetheless proving resilient, as developing countries such as China — the world's largest energy consumer — and India struggle to extend their power grids. One difficulty they face is incorporating cleaner but less dependable sources of electricity, such as solar and wind power.

Despite this, renewables are on a steep upwards trajectory. China will generate much of the growth, thanks to its targets and incentives in a mounting campaign against air pollution. The US and Germany will also boost capacity.

Combating climate change is, however, only one reason for the renewables expansion — equipment prices have fallen, governments prefer to support

domestic equipment-manufacturers, and governments need to shore up energy security through alternative supplies.

Such motivations also help the other main non-fossil fuel. Global nuclear capacity will edge up, thanks partly to Russian and Indian reactor building. But China is again the main dynamo — four new reactors are coming online, and still more are in the pipeline.

Although some analysts warn that global oil output cannot keep rising for much longer, new activity will centre on the US, Canada, Brazil and Iraq (where security risks linger, but output is finally set for steady growth).

The biggest revolution, however, is taking place in the US, which is poised to displace Russia as the top producer of hydrocarbons, thanks to the North American shale oil and gas boom. Production in the major Bakken shale plant in North Dakota is topping one million barrels a day.

For the US, the implications run deep: its net oil-import dependency is edging towards scarcely one-half of its 2005 peak of 60%. Pressure to lift the ban on US oil exports will intensify.

US regulators also face tough decisions on turning the country's shale-gas wealth into LNG for sale overseas, as demand from Asia grows quickly. The US has a chance to capitalise on its early-mover advantage. Regulators must balance the case for exports against

fears of pushing up prices at home by constraining supply.

Yet, it is Australia that leads the charge against Qatar's pre-eminence in LNG exports. Two giant liquefaction facilities, Queensland Curtis LNG and Gorgon LNG, will boost Australian capacity by 24 million tonnes — as much as the total annual capacity of Malaysia, another significant LNG player. Like future exports from North America, cargoes will mainly be destined for Asia.

Capacity expansion among low-carbon fuels will be limited by surging supplies of cheap natural gas. In the US, for example, the Vermont Yankee atomic plant is expected to close, partly because of low gas prices. Power from coal will also go out of fashion as stringent carbon-emissions standards for new US power plants are finalised and rules for existing plants follow. However, so far, these moves have barely dented US coal production, thanks to vast overseas demand. China, the source of almost half of the world's coal supply and consumption, is once again pivotal.

A UHY study on the pump prices of petrol, diesel and liquefied petroleum gas has examined differing costs around the world, and how they are affected by local taxes and subsidies. To receive a copy of the study please email Dominique Maeremans: d.maeremans@uhy.com

TELECOMS SECTOR

Operators are seeing their investments in 4G and superfastbroadband pay off. 4G revenues are up and specialised content, such as pay-TV, is helping operators reduce churn and compete directly with cable firms.

As operators monetise their 4G investments, industry group the GSMA (<http://www.gsma.com/connectedliving/>) says that in developed countries where 4G has been deployed, average revenues per user are rising by between 10% and 40%.

The Chinese 4G rollout has begun in earnest — China Mobile, the state-backed operator and the country's largest, with 750 million subscribers, will benefit the most. The company has committed RMB 20 billion (USD 3.2 billion) to creating what will be the world's largest 4G network.

China, along with India and Brazil, are expected to take the largest slice of revenue growth from the telecoms market over the next few years.

HEALTHCARE SECTOR

The world appears set for a seemingly inexorable rise in healthcare spending, in many cases despite governments pushing through far-reaching reforms, some of which are designed to squeeze costs.

Developing markets are narrowing the gap in spending with developed markets. Pharmaceutical companies are bearing the brunt of cost-cutting.

Yet, there is one big upswing in the market that continues to dominate the sector — the US has implemented its landmark healthcare reforms. Americans

are obliged to take out health insurance or face a fine. Up to seven million new customers have been brought into the healthcare insurance system, helped by tax credits and the expansion of Medicaid.

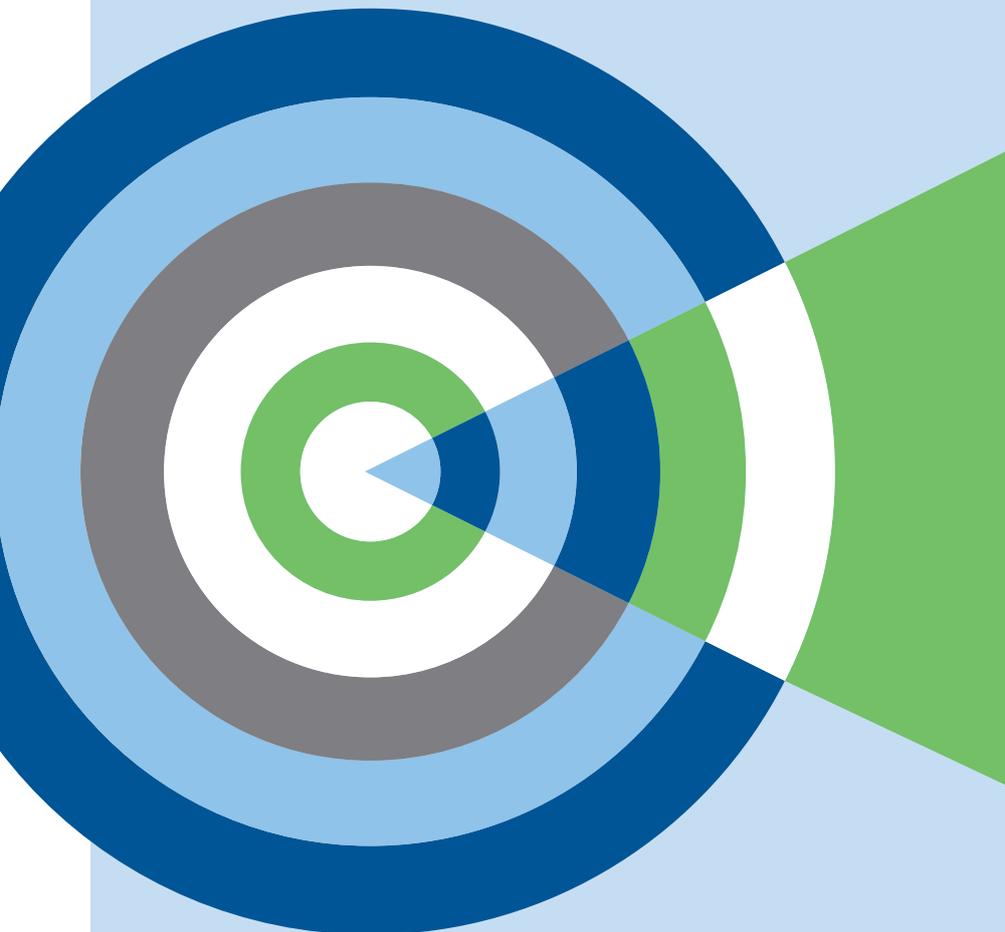
Healthcare spending in the US is set to increase by nearly 5% in 2014 alone.

Healthcare spending globally is also on the rise, not just because of US reforms, but also due to better access to healthcare in developing markets. Global pharmaceutical sales are likely to benefit as transition economies get into gear. Growth will also be driven by rising populations, increasing life expectancy and expanding urban wealth.

Pharmaceutical companies in emerging markets are becoming more assertive in international markets. Rising global demand has seen Indian companies press into Latin America and the Middle East. India is also stepping up its investment into research, in a bid to generate more lucrative original drugs. Other countries, such as China and Brazil, are following the same route, often with help from international health operators keen to diversify.

Government policies are also playing a role, not just in the US. Developing healthcare markets — including in China, India, South Africa, Brazil and the United Arab Emirates — are expanding insurance systems, easing access to drugs, and rolling out universal healthcare systems. Several countries are also trying to step up investment in healthcare, not just for their own populations but also to attract medical tourism.

Details of UHY member firms operating in the countries mentioned in this article are available at www.uhy.com



SHIFT IN THE GLOBAL ECONOMIC BALANCE

The economic balance between developed and emerging economies is shifting, reversing trends of the past five years. While the rate of growth in non-OECD (Organisation for Economic Co-operation and Development) economies is expected to still outpace those of the OECD countries, the gap between them has shrunk since the global financial crisis.

Investors are responding to this shift — and rediscovering that, in real terms, the US adds more dollars' worth of GDP to the global economy than China; Canada adds more than Brazil; and France more than Nigeria.

Nowhere is this rebalancing becoming more apparent than in Asia, where investors' concerns have been heightened by slowing growth and plummeting currencies, which have exposed economic weaknesses in some emerging economies, such as in India and Indonesia.

Yet, economies under threat from a decline in investment funds are already fighting back — led by Asian tigers as they return from the ballot boxes, having replaced economically redundant governments with more invigorated administrations.

MONEY GOES WEST

The shift began when governments in many Asian countries, particularly in **India** and **Indonesia**, manipulated markets in 2012-13, leading to a variety of distortions, from state-directed lending to capital controls, trade protectionism and import substitution.

India has been quicker than Indonesia to renew its commitments to a more liberal reform agenda, but a region-wide move towards greater market openness has not been quick, and investors will need convincing.

The shift has grown stronger as emerging market growth has been tempered by capital outflows to rich countries, largely because of the US Federal Reserve's move to begin the lengthy process of normalising monetary policy by winding down quantitative easing (QE).

This movement of capital from riskier Asian assets into European and US investments has diminished the prospect of asset bubbles emerging in Asia. But there are areas that still merit concern. For example, analysts from the Economist Intelligence Unit (EIU) forecast a slump in property prices in **Hong Kong** in 2015 (although they say the downturn could

begin at any time), despite government interventions to cool the market. Fast growth in property prices is also emerging once again as a risk in **Australia** (although this is countered by a dramatic increase in the saving rate since the global financial crisis), **New Zealand**, **Singapore** and particularly in **Malaysia**, where household debt has risen alarmingly.

Meanwhile, the EIU's expectation for accelerated GDP growth — projecting the world economy's best performance since 2011 — is led by progress in the 'rich countries', such as the **US**. The first synchronised economic expansion in four years in the **US**, **Japan** and the **Euro Zone** is expected to have positive spillover effects for the rest of the developed world.

The EIU expects world GDP to grow by 3.6% in 2014. If this forecast is realised, it would not only be an improvement on the 2.9% rate of growth in 2013, but would also mark an improving outlook for the 'rich world'.

The **US**, the **Euro Zone** and **Japan** collectively account for close to half of global output, and their combined expansion in 2014, as forecast by the EIU, would push overall growth in the OECD to 2.2%, a full percentage point higher than in 2013.



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INFLUENCE OF THE US

Leading the pack, the **US** is strengthening its economy and real GDP is growing. Employers have been creating almost 200,000 net new jobs per month, and consumer and business sentiment has been buoyant. Car sales are surging — in the US in particular a strong indicator that favourable economic times are returning. The EIU expects economic growth in the US to accelerate to 2.6% in 2014, up from 1.7% in 2013.

Yet, the prospect of gradually tighter monetary policy in the US is the one significant risk to the global recovery that looms in the next few years, says the EIU.

After pumping more than USD 3 trillion into the US and global economies since the financial crisis of 2008-09, the US Federal Reserve is reversing course and fading out its QE programme.

“This will not, in itself, constitute a tightening of monetary policy so much as a reduction in stimulus,” say EIU analysts. Nonetheless, the whole transition has major implications given that economies and financial markets have become accustomed to cheap money in recent years.

The mere hint that a ‘tapering’ of the Fed’s USD 85 billion-a-month bond-buying programme was being put together prompted the big sell-off in emerging-market assets and currencies, and pre-empted possible further world market shocks when QE ‘tapering’ begins in earnest.

IMF FORECASTS

Meanwhile, predictions from the International Monetary Fund (IMF) follow suit. The IMF — while predicting ‘uneven’ global growth, yet nevertheless net global growth of 3.6% for 2014 — has highlighted the prospect of financial

turbulence in emerging markets and still more big capital outflows.

The size of some developing countries’ current account deficits is also a cause for IMF concern. Forecasts for the BRICS nations, of **Brazil, Russia, India, China** and **South Africa**, have been either reduced or unchanged by the IMF. By comparison, the IMF has upgraded its growth projections for the **UK, Germany, France, Spain** and **Canada**.

Japan, meanwhile, has been bucking the trend and is the one major advanced economy to be downgraded by the IMF (to 1.4% from 1.7%). Analysts have raised concerns that a rise in Japan’s sales tax may hamper growth. The IMF has also raised concern about the effect on Japan of a drop in emerging market GDPs.

FIGHTBACK FOR PROMINENCE

Signs of stabilisation in **China’s** economy — which saw growth accelerate to 7.8% year on year in the third quarter of 2013, scotching concerns about a hard landing — are triggering the fightback in Asia. The world’s second-largest single economy is expected to continue its structural slowdown in 2014, but Chinese demand for imports remains robust, albeit weakened.

Chinese growth is expected to continue easing, from 7.7% in 2013 to 7.3% in 2014, according to the EIU, as the authorities tighten credit and as a secular shift towards more sustainable rates of economic growth continue.

In **India**, the outlook is showing signs of improvement after a difficult couple of years. The economic revival is being supported by buoyant export growth, partly as a result of the weak rupee. EIU analysts forecast real GDP growth of 6% in fiscal year 2014-15, up from 4.9%.

The transition economies of **Eastern Europe** had another difficult year in the run-up to 2014. GDP growth is expected to fade to 1.4% as a marked slowdown in **Russia**, following political upheaval in **Ukraine**, compounds still-weak conditions in east and central Europe.

But a broad-based, if muted, improvement across the region is in prospect. Stronger demand in **Germany** and the **Euro Zone** is expected to boost Eastern Europe’s exports. Fiscal policy will also support recovery as the need for austerity becomes less acute (most of the biggest adjustments have already been made). In Russia, lower inflation should enable the central bank to cut interest rates, spurring a pick-up in GDP growth. Taken together, the EIU predicts these factors will push regional growth up to 2.9% in 2014.





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Latin America endured an economic slowdown in 2013, on the back of less-favourable conditions in capital markets and weak demand in Europe and China, which has hit South American commodity exports. **Brazil**, the region's largest economy, is also paying the price for inadequate investment, say EIU analysts. But elections and the football World Cup should boost Brazil's economy in 2014.

In the region as a whole, the EIU forecasts that GDP growth will accelerate to 3.2% in 2014, lifted by stronger global conditions.

Political unrest and instability continue to hamper economic growth in the **Middle East** and **North Africa** region.

The **Syrian** civil war shows all the signs of being prolonged, leading to long-term economic damage.

More positively, the deal agreed between **Iran** and the permanent members of the UN Security Council plus Germany reinforces the slightly improved outlook for the Iranian economy. However, the fact that key oil and financial sanctions remain in place, combined with the difficulty of restarting oil production, means that the Iranian economy will remain weak, despite returning to growth in 2014.

The EIU expects regional growth to recover to 3.7% in 2014, aided by oil revenue in **Saudi Arabia** and the **Gulf states**, but the medium-term economic outlook remains uncertain given the scale of current political unrest.

Sub-Saharan African growth is expected to pick up from 3.7% in 2013 to 4.5% in 2014, accelerating to 6% by 2018, on the back of stronger global demand, mining investment and the expansion of the middle class. That said, the mixed outlook for commodity prices could affect future investment levels, potentially jeopardising growth.

ECONOMIC SHIFT OUTLOOK

Exchange rates will provide one of the clearest triggers for global economic trends during 2014-15. Many emerging-market currencies have been volatile against the US dollar since the Federal Reserve first hinted at a reduction in its monthly bond purchases — and that volatility has returned as improving US economic data has renewed investor anticipation of QE tapering.

Indeed, currencies in countries with fiscal or current-account woes, especially **India, Brazil, Indonesia, Turkey** and **South Africa**, are said by analysts to be held hostage to the Federal Reserve's shifting views on the future of its bond-buying programme.

On balance, the immediate future seems set for investors to continue their new-found acquaintance with the world's reliable GDP generators — but investors' memories will inevitably fade over time as they seek better returns, and their compulsion towards riskier endeavour returns. After all — there's nothing like an emerging market to get the blood racing.

A full list of UHY member firms in all countries mentioned in this article is available on the UHY website at www.uhy.com



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