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LINK Global Economic Outlook

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Acknowledgements

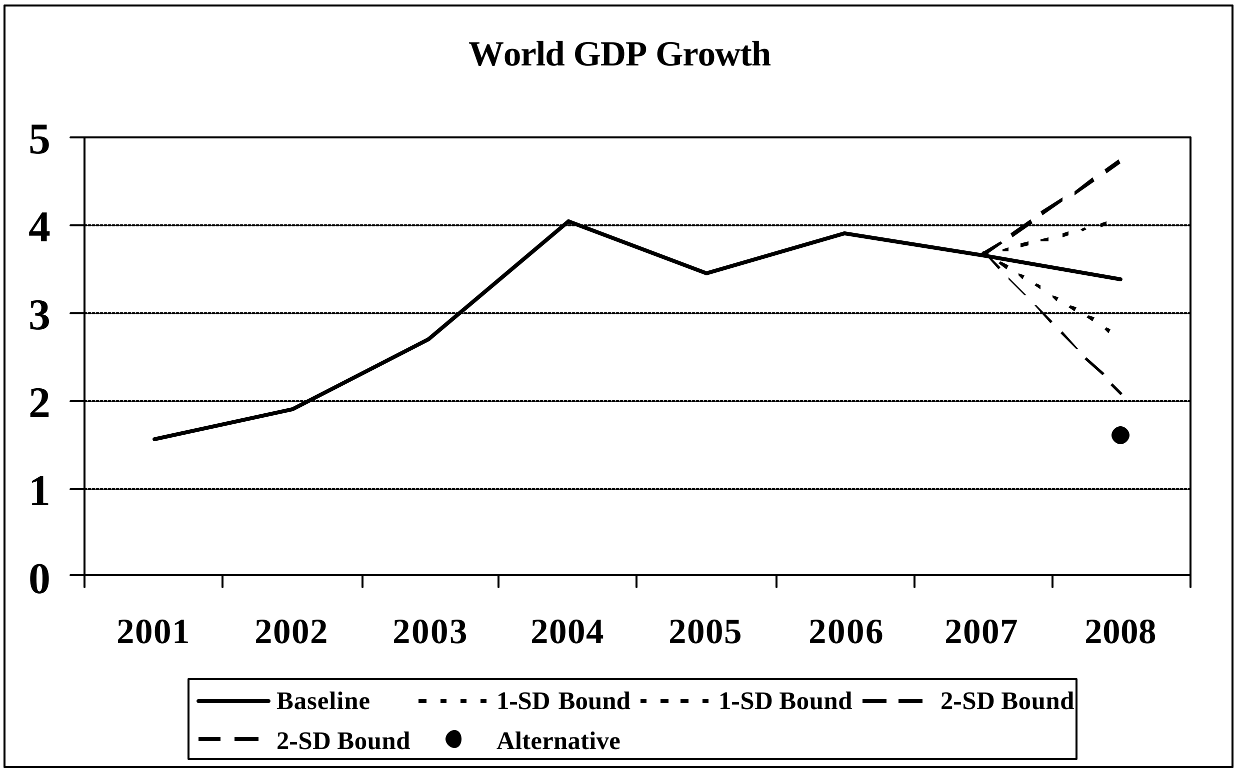
The present report summarizes the main short-term prospects for the global economy in 2008 and discusses the major risks and policy challenges in that regard. The report is prepared by staff of the Development Policy and Analysis Division of the United Nations Department of Economic and Social Affairs. The work was conducted under the general direction of Rob Vos, and the team preparing the report was led by Pingfan Hong. Team members contributing to the report included Grigor Agabekian, Clive Altshuler, Marva Corley, Oumar Diallo, Keiji Inoue, Matthias Kempf, Malinka Koparanova, Hung-Yi Li and Mariangela Parra. Ann D'Lima and Cordelia Gow provided statistical assistance. The report was peer reviewed by Alex Izurieta and copy-edited by June Chesney, with the assistance of Leah Kennedy. The views expressed herein do not necessarily represent those of the United Nations or its Member States.

The global economic forecast is based on inputs from national LINK centres and information from other sources as of 1 November 2007. Most of the LINK Country Reports, which contain detailed country forecasts and policy analyses submitted by the national LINK centres, are available on the websites of both the United Nations and the University of Toronto.[1]

[1] http://www.un.org/esa/analysis/link and http://www.chass.utoronto.ca/link.

Overview

The growth of the world economy moderated somewhat during 2007, from 3.9 per cent of 2006 to 3.7 per cent. After a few years of robust growth, the world economy is facing more challenges. The bursting of the housing bubble in the United States along with the still unfolding credit crisis, the declining value of the United States dollar vis-à-vis other major currencies, the pending large global imbalances, and the surging oil prices are all threatening the sustainability of the global economic growth in the years to come. The baseline forecast for 2008 is a further moderation in the growth of the world economy to a pace of 3.4 per cent (with the key assumptions in box 1), but there are a number of risk on the downside.



As cautioned in the previous LINK Global Economic Outlook, the major drag on the world economy continues to be a notable slowdown in the United States of America, driven by the slump in the housing sector. The deteriorating housing downturn in the United States, accompanied by a meltdown of sub-prime mortgages, eventually triggered a full-scale credit crunch that reverberated throughout the global financial system during the summer of 2007 (see Box 2). Central banks of the major economies have injected a large amount of liquidity into money markets and, in the case of the United States Federal Reserve Bank (Fed), lowered interest rates. These measures have largely attenuated the financial stress, but they did not address the more fundamental problems rooted in the global financial system and in the world economy, as discussed further below. The housing recession in the United States will likely continue in 2008, remaining one of the major downside risks for the growth prospects of the United States and the global economy.

Box 1 Major assumptions for the baseline global economic forecast for 2008

The United Nations global economic forecast is prepared with the help of the global modelling framework of Project LINK. For an evaluation of the quality of the LINK forecasts since the 1970s, see Annex 1 to this report.

To prepare the baseline scenario for the short-term macroeconomic outlook for a large number of countries in the world, a number of assumptions are made regarding the policy stance in the major economies and key international prices. The assumptions are summarized below and justified in the text.

The United States Federal Reserve is expected to maintain the federal funds rate at the level of 4.5 per cent throughout 2008; the European Central Bank is expected to maintain its current policy stance, with the minimum bid rate on refinancing operations at 4.0 per cent through 2008; and the Bank of Japan is expected to raise its main policy interest, the target Uncollateralized Overnight Call Rate, by 50 basis points during 2008, bringing it to a level of 1 per cent.

The assumptions regarding fiscal policy in individual countries are based mainly on official budget plans or policy statements.

The price of Brent crude oil is estimated to average $73.50 per barrel in 2007, up from $65.14 per barrel in 2006, and is expected to rise to $76.00 in 2008.

Prices of most agricultural commodities are expected to reach a plateau in 2008, while prices of metals and minerals are expected to retreat moderately after a substantial increase over the past few years.

The United States dollar is expected to depreciate against most other major currencies in 2008. The dollar/euro exchange rate is expected to average 1.44 for 2008, and the yen/dollar exchange rate is expected to average 112 for 2008, implying a yen/euro exchange rate of 161.

Significant spill-over effects of the financial turmoil originating in the sub-prime mortgage markets in the United States were found in major European countries and to a lesser extent, in Japan and other developed economies. The growth prospects of these economies for 2008 have also been downgraded, confirming that the growth in other major developed economies is not strong enough to replace the United States as the engine of global growth.

Most developing countries and the economies in transition felt the effects of the global financial turmoil mainly through increased volatility in their local equity markets and a measurable widening of the yield spreads on their external debts, but both of these adversities dissipated after a short period. The relative resilience of these economies in facing the financial turbulence is partly due to their improved macroeconomic conditions and their large accumulation of foreign exchange reserves, along with vigorous growth over the past few years. Part of that strength is also generated by the synergy within this group, driven by the sustained, rapid growth in the two most populous emerging economies, China and India. Nevertheless, the growth in most of these economies is far from self-propelling and remains highly dependent on the international economic environment, which in turn is largely determined by the economic performance and economic policies of the major developed countries. In the outlook for 2008, economic growth in most developing countries and the economies in transition is also expected to moderate, although with some considerable variance among them.

Table 1. Gross domestic product and world trade
(Annual percentage change)

	Observed		November 2007 forecast [a]		Change from May 2007 forecast for	
	2005 [b]	2006 [b]	2007	2008	2007	2008
Gross World Product (GWP)	3.4	3.9	3.7	3.4	0.3	-0.2
GWP- PPP weighted	4.8	5.4	5.3	4.9	0.4	0.0
Developed economies	2.4	2.8	2.4	2.2	0.1	-0.3
Canada	2.9	2.7	2.4	1.9	0.2	-0.9
Japan	1.9	2.2	2.0	1.7	-0.1	-0.2
United States	3.1	2.9	2.1	2.0	0.0	-0.8
European Union (EU27)	1.7	3.0	2.9	2.5	0.2	0.0
France	1.7	2.0	2.3	2.3	0.4	0.3
Germany	0.8	2.9	2.6	2.3	0.3	-0.3
Italy	0.1	1.9	1.7	1.4	-0.1	-0.1
United Kingdom	1.8	2.8	3.0	2.3	0.3	-0.2
Memo item : Euro Zone	1.5	2.8	2.6	2.3	0.2	0.0
Economies in transition	6.6	7.5	8.0	7.1	0.9	0.4
Russia	6.4	6.7	7.5	6.5	1.1	0.3
Developing countries and regions	6.5	7.0	6.9	6.5	0.5	0.3
Latin America and the Caribbean	4.7	5.7	5.2	4.8	0.4	0.4
Argentina	9.2	8.5	8.0	5.7	0.5	-0.3
Brazil	2.9	3.7	4.5	4.5	0.3	-0.3
Mexico	2.8	4.8	2.8	3.7	-0.1	0.2
Africa	5.2	5.7	5.8	6.2	-0.1	0.4
North Africa	4.5	5.8	5.6	6.0	-0.1	0.4
Sub-Saharan Africa [c]	5.9	6.1	7.0	7.7	-0.1	1.0
Nigeria	7.1	5.2	5.5	7.0	-0.5	-0.2
South Africa	5.1	5.0	4.8	4.5	0.0	0.0
East and South Asia	7.5	8.1	8.0	7.5	0.7	0.3
China	10.4	11.1	11.4	10.1	1.3	0.9
India	8.8	9.4	8.5	8.2	0.1	-0.1
Indonesia	5.6	5.6	6.2	6.0	0.2	-0.3
Korea, Republic of	4.2	5.0	4.9	5.0	0.5	0.2
Malaysia	5.2	5.9	5.7	5.8	-0.3	-0.1
Philippines	4.9	5.4	6.8	6.1	0.7	0.1
Thailand	4.5	5.0	4.5	4.8	0.5	0.2
Western Asia	6.4	4.6	5.7	5.2	0.6	0.3
Oil-exporting countries	6.6	4.1	6.1	5.5	1.1	0.8
Oil-importing countries	6.2	5.3	5.1	4.7	-0.1	-0.5
Memo: World Export volume	7.0	9.9	7.1	6.9	0.3	-0.3
Oil price (Brent, US$/pb)	54.4	65.4	73.5	76.0	13.5	12.5

Source: LINK Global Forecast.
[a] Pre-Meeting forecasts.
[b] Actual or most recent estimates.
[c] Excluding Nigeria and South Africa.

Box 2

Evolution of the global financial turmoil in the summer of 2007

The United States sub-prime mortgage market formed the eye of this global financial storm. Household mortgage debt has traditionally been considered a low-risk instrument, being backed by the home equity of creditworthy borrowers. In recent years, however, a growing share of mortgage loans has been granted to less creditworthy (sub-prime) borrowers. More and more mortgage loans with high loan-to-value ratios were supplied based on poor information gathering about homebuyers' financial conditions and the value of houses. United States sub-prime mortgage lending increased from $120 billion in 2001 to over $600 billion in 2006. Sub-prime mortgages offered at adjustable rates represented the major risk: borrowers availing themselves of adjustable-rate mortgages (ARMs) expected rising house prices which would enable them to refinance their mortgages before the lending rate was adjusted upward as scheduled, typically after two years.

Meanwhile, financial innovations fuelled this kind of high-risk mortgage lending by securitizing mortgage loans and bundling these derivatives with other securities, such as traditional bonds and commercial papers, to be sold to investors worldwide. For example, collateralized debt obligations (CDOs) offered one effective instrument to banks for selling off mortgages. The repackaged mortgages spread the risk to a broader array of investors, and the risks associated with these new financial products were typically underestimated by rating agencies and investors alike. At present, more than 50 per cent of mortgage loans in the United States are estimated to be securitized. In traditional mortgage markets, banks keep the loans they make on their own balance sheets, but under the new "originate-to-distribute" mechanisms of securitized loans, mortgage originators have much weaker incentives to underwrite prudently as they do not see their own capital and reputation as being at risk.

Since 2006, corporate debt also showed explosive growth in parallel with the expansion of mortgage lending. More than $300 billion in high-yield bonds and bank loans was scheduled to be issued in the second half of 2007, mainly to finance leveraged buyouts. In parallel with the CDOs for mortgage lenders, many private equity firms relied on similarly complicated investment pools, such as collateralized loan obligations (CLOs), to fund the buyouts. CLOs package the loans and divide them into financial instruments with different risk levels, which can then be bought by financial investors. Private equity firms bid up the prices and loosen loan terms for ever-larger leveraged buyouts, making the transactions increasingly risky. In the three months through July 2007, firms announced $254 billion in buyouts, as much as the combined total for 2004 and 2005.

Hedge funds further boosted the mortgage and buyout boom by investing in securitized sub-prime debt and loans used to fund buyouts. With high leverage and limited disclosure, hedge funds added another layer of risk and uncertainty to the already highly leveraged markets.

Although sub-prime mortgages form a relatively small fraction of the total mortgage market and an even smaller fraction of the total credit market, this complex financial system – with its overstretched leverage, lack of transparency and inadequate regulation – spread and multiplied the risks in sub-prime lending far beyond this market segment.

Despite the large increase in credit risk, credit spreads in most markets continued to narrow into early 2007, suggesting that market agents were myopic about all these risks. They found out the hard way. The delinquency rate on sub-prime mortgages reached an all-time high of 16 per cent in August 2007 and investors and lenders found themselves overleveraged with risky credits and falling asset prices. The complexity of the underlying financial mechanism led to an overshooting of the price adjustment: leveraged market participants were forced to liquidate their positions, while the downgrading of the status of sub-prime debt and derivatives by rating agencies led to a fire sale of these instruments by financial institutions required to hold only higher-grade debt. Furthermore, concerns that lenders and investors did not have accurate market information exacerbated the situation. As a result, liquidity dried up, prices of all securities fell and spreads widened.

During the financial turmoil, the pain was felt most in the market for asset-backed commercial papers (ABCPs), in which financial institutions issue commercial paper to finance a broad variety of assets including mortgage-backed securities. The concerns about mortgage-backed securities and other structured credit products greatly reduced the willingness of investors to rollover ABCPs. The problems intensified in August 2007 as some commercial paper issuers revoked the right to extend the maturity of their paper, and a few issuers defaulted. Investors fled to the safety and liquidity of Treasury bills, sparking a plunge in T-bill rates and a sharp widening in spreads on ABCPs. Meanwhile, issuance of CLOs and CDOs fell significantly. Demand for leveraged loans slowed sharply, reducing credit access for private equity firms and other borrowers seeking to finance leveraged buyouts.

The turmoil also spread to markets in which securitization plays a much smaller role, such as corporate bond markets and equity markets. Many of the largest banks also became concerned about the possibility that they might face large withdrawals of liquidity. They recognized that they might have to provide back-up funding to programmes that were no longer able to issue ABCPs. Many large banks might be forced to hold on to the assets they had planned to sell because of the disruption in the syndication market for leveraged loans and in the securitization market for the non-prime mortgages. These concerns prompted banks to become reluctant to lend, including to other banks. As a result, interbank lending rates rose notably, and the liquidity in interbank lending markets dried up.

Faced with financial turbulence and concerned with the systemic implications, central banks in major developed economies took a number of measures. Most increased daily operations to inject liquidity into money markets, but in mid-August, the United States Federal Reserve also cut the discount rate and, in mid-September, reduced the federal fund interest rate by a larger-than-anticipated 50 basis points.

The functioning of financial markets has improved somewhat since. Interest-rate spreads on ABCPs have fallen and issuance of outstanding commercial paper has edged up. Conditions in the interbank term money markets have improved modestly, though spreads remain unusually wide. Some pending buyout-related loans have been brought to market with stricter terms. Risk spreads in corporate bond markets have also narrowed. Volatility in many asset markets has declined towards more normal levels. However, conditions in the mortgage markets remain difficult, with little securitized sub-prime loans activity.

Employment growth continued and unemployment rates fell in a number of economies owing to strong output growth. In a few developed economies, strong employment gains have even been leading to some cases of tight labour-market conditions and increasing wages. However, a large number of developing economies, especially in Africa, have only had marginal improvements in their labour markets, as high unemployment and underemployment remain prevalent, despite the robust output growth of the past few years. In the outlook, it is expected that employment growth will retreat or remain modest in most economies in 2008 as output growth moderates.

Worldwide inflation has edged up over the past year. While higher international oil prices have been the main drivers in the majority of economies, rising food prices have also largely contributed to the increase in headline inflation in a number of developing economies. Core inflation measures – which exclude the influence of prices of energy and food – remained low and stable. In the outlook, inflation rates in 2008 are not expected to escalate.

On the policy front, the central banks in major developed economies have injected more liquidity and/or eased their monetary policy stance in response to the recent global financial turmoil, led by the Fed, which has cut the policy interest rate by 75 basis points. The monetary policy stance in most economies seems compatible with their current output and inflation prospects, but monetary authorities are facing more challenges in the outlook if the anticipated slowdown in output is accompanied by unexpectedly persistent inflationary pressures. Fiscal policy stance is neutral to slightly expansionary in most economies, as they have experienced a notable improvement in their fiscal positions as a result of robust growth over the past few years. As growth is expected to moderate, further cyclical improvement in fiscal revenues will be limited, while government expenditure may need to expand. In some countries, structural problems in government finance remain difficult to deal with in the medium to longer run.

The recent global financial turmoil has been a vivid reminder of serious downside risks for the world economy. Among these risks, the housing slump in the United States could undergo a much deeper and longer downturn than expected in the baseline forecast, while a similar risk is pertinent for a number of other economies that also experienced a substantial appreciation of house prices over the past decade. The United States dollar could face a "hard landing", namely a precipitous fall in the exchange value vis-à-vis other currencies, which in turn would trigger a disorderly adjustment of the global imbalances. Meanwhile, oil prices, which have recently surged to near $100 per barrel, could advance further amid possible supply-side shocks, including heightened geopolitical tensions. As illustrated in a more pessimistic outlook incorporating worst-case scenarios for some of these downside risks (see box 3), the growth of the world economy could slow to 1.6 per cent.

To mitigate these risks, macroeconomic policies worldwide should be flexible enough to prevent the current global slowdown from deteriorating into a substantial downturn. More importantly, to address the fundamental problems underlying these risks – such as the deficiency in the international monetary and reserve system, as well as the inconsistency in macroeconomic policies among individual countries inherently at the root of the global imbalances – would require international policy coordination, as argued in previous LINK Global Economic

Outlooks and the *World Economic Situation and Prospects 2007*.[2] The recent financial turmoil should be the warning signal to policy makers that such concerted action is ever so urgent and should be better taken now when the world economy is not yet into a full downswing.

Box 3: The pessimistic scenario: a hard landing of the dollar

A combination of a deep housing slump in the United States and a precipitous devaluation of the United States dollar could trigger an abrupt adjustment of the global imbalances, which would not only send the economy of the United States into a recession but also lead to a hard landing for the global economy as a whole. This box illustrates such a pessimistic scenario for the prospects of the world economy as an alternative to the baseline outlook discussed in the main text.[3]

The main assumptions include a steeper decline of the housing market in the United States and a much larger depreciation of the dollar than those incorporated in the baseline. Specifically, it is assumed that housing activity as reflected in residential investment would drop at an annual pace of 30 per cent in 2008, compared with a decline of about 16 per cent in the baseline, and the median prices of existing homes would fall by more than 10 per cent from the baseline levels.[4] It is also assumed that the dollar would depreciate by another 20 per cent vis-à-vis a basket of other currencies, in comparison with the 5 per cent depreciation in the baseline. These assumptions, although significantly deviating from the baseline, are certainly still within the range of probability based on historical events.

A sharper reversal in the housing boom would significantly depress household spending in the United States through various channels: income, wealth, the balance-sheet and consumer confidence. Housing and its related sectors had accounted for a large proportion of employment growth in the economy during the period of the housing boom. A deep housing contraction would directly reduce employment as well as income for many households. Meanwhile, given the initial conditions – a household saving rate of almost zero and the tightening terms for mortgage lending in face of the meltdown of the sub-prime mortgages – the indirect effects of falling house prices on consumer spending via households' wealth and the balance sheet would be larger than the historical average. For example, the substantial amount of mortgage equity withdrawal registered during the housing upturn would definitely wilt amid falling house prices and tightening scrutiny of mortgage loans. In addition, combined with a plunge in consumer confidence and the adverse income effects from the dollar devaluation, household consumption would come to a virtual standstill in this scenario, compared with a growth of 2.3 per cent in the baseline and 3 per cent on average for the past few years. Business capital spending would also be weaker. Despite most American companies being in good financial condition owing to high profit margins over the past few years, firms would reduce capital spending in response to a pessimistic outlook. Business investment would register an annual decline in this scenario compared with a modest growth in the baseline.

[2] United Nations Publication No. E.07.II.C.2
[3] This scenario was partly based on the simulation of the existing LINK country models.
[4] See Global Insight *U.S. Executive Summary*, September 2007, for more details; however, the assumptions on the housing slump and the dollar depreciation are more severe in this scenario than the one in the Global Insight.

As shown in the table, GDP growth in the United States would drop below zero in this scenario into an outright recession, substantially below the growth of 2 per cent in the baseline.

The housing-led recession in the United States would significantly erode international confidence in the dollar, causing a recoiling of willingness in the rest of the world to hold the financial assets of the United States. As a result, the dollar would plummet, as assumed above, and interest rates on dollar-denominated assets would be pushed up.

The weakening of household consumption and business investment would translate directly into a curtailment of import demand in the United States for foreign goods and services, and that import demand would be further aggravated by the dollar depreciation, which would switch expenditure away from foreign goods. In this scenario, real imports of the United States would decline by 7 per cent, in comparison with a growth of about 3 per cent in the baseline.

The recession in the United States would be transmitted through trade linkages and other channels to the rest of the world. Imports of the United States account for about 15 per cent of total world trade, with some 44 per cent of its imports coming from other developed economies and more than 50 per cent from developing countries. The direct impact would be felt most strongly by those countries that have a large share of their exports in the United States market, particularly Canada (82 per cent of whose exports are destined for the United States), Latin America and the Caribbean (48 per cent) and Asia (17 per cent).

In addition, other adverse impacts on the economies of the rest of world would include a destabilization of the financial markets in many countries due to the sharp depreciation of the dollar. Countries with a large amount of dollar-denominated foreign reserve assets would incur substantial financial losses. The prices of many commodities would fall because of a weaker global aggregate demand, particularly in real purchasing terms – though less significant in nominal dollar terms – causing income losses for many commodity-exporting countries. In an increasingly integrated global economy, the initial weakness in the United States would spread and multiply throughout the global economy via various international linkages.

As shown in the table, world economic growth would drop to a pace of about 1.6 per cent, and the growth of world trade would be lowered by near 4 percentage points. Across regions, the impact for Europe and Japan would range from seven to nine tenths of a percentage point, showing that no other major developed economy could replace the United States as an alternative engine of global growth. While the growth for developing countries as a whole would be lowered by more than 2.3 percentage points, the adverse effects would vary among different sub-regions and countries. The direct trade and financial effects of the recession in the United States would be felt predominantly in many Asian economies and in some Latin American economies – such as Mexico and Central America – while economies in Africa and Western Asia and some South American countries would suffer mostly from weaker commodity prices and lower indirect trade flows. In general, despite an increasingly robust growth over the past few years for many developing countries, and in particular a sustained "super" growth in a few large emerging markets economies, such as China and India, developing countries as a group remain vulnerable to large adverse demand contraction and financial shocks originating from major developed countries.

In this scenario, the global imbalances in the current accounts across countries would narrow appreciably: the current-account deficit of the United States would be reduced by $200 billion compared to the baseline, along with a contraction in the economy. This pessimistic scenario assumes that there is no policy stimulus beyond what is implied in the existing policy rules in major developed economies. No extra policy stimuli are assumed in the rest of the world to counter the weaker demand in the United States. As a consequence, a weakening demand from the United States could not be partially offset by an expansion in the rest of the world.

In this context, this scenario also highlights the possible implications of a rebalancing of the global economy at the cost of a considerable slowdown of economic activity. It strengthens the case for internationally concerted macroeconomic policies to avert such risks.

Table in Box 3. An alternative scenario

Selected indicators	Alternative	Baseline
World output growth	1.6	3.4
Developed economies	0.5	2.2
United States	-0.1	2.0
Euro	1	2.5
Japan	0.7	1.7
Developing economies	4.2	6.5
Africa	4.0	6.2
East and South Asia	4.8	7.5
West Asia	3.9	5.2
Latin Am and the Carib	2.6	4.8
Economies in transition	5	7.1
World trade growth (volume)	4.0	7.7
US dollar exchange rate index (annual percentage change)	-20.0	-5.0
Interest rate on 10-year US treasury	6.0	4.5
US Current Account balance ($billion)	-510	-710

Source: Project LINK

Growth prospects

Among *developed economies*, a continued slump in the housing sector and the associated credit tightening are expected to lead the economy of the *United States* into another year of under-trend growth: Gross domestic product (GDP) is expected to grow at a rate of 2.0 per cent for 2008, slightly lower than the pace estimated for 2007. In the outlook, private consumption is expected to weaken as the housing downturn deteriorates further, while corporate investment spending and hiring will likely also decelerate. Exports remain relatively strong, offsetting in some degree the weakness in domestic spending, but the risks from a precipitous devaluation of the United States dollar and an abrupt adjustment in the large global imbalances pose a clear and present danger. Should they occur, growth in both the United States and the rest of the world would be derailed. Meanwhile, a slowdown in the average productivity growth over the past two years portends an additional challenge for the economy.

Growth in *Western Europe* is expected to slow in 2008 after an above-trend pace in 2007. For the euro area, GDP is expected to grow by 2.3 per cent in 2008, down from 2.6 per cent estimated for 2007, which was the strongest growth performance since 2000. Indicators of business and consumer confidence peaked in mid-2007 but have decelerated since, although in most cases these indicators remain well above historical averages. Private consumption spending strengthened during 2007. Employment growth and a gradual pickup in wages are expected to provide good support for consumption in 2008. Although decelerating over the past few months, consumer confidence remains well above its medium-term average. Investment spending is expected to provide only modest support for 2008, with housing investment representing a substantial drag on activities. High levels of capacity utilization and strong demand for capital goods from other regions, especially Asia and selected oil-exporting countries, should provide support for business investment in some countries in Europe. Risks to the outlook include the direct impact of the slowdown in the United States, as well as indirect effects via the rest of the world. The euro could appreciate even more than assumed. A few European countries that have experienced rapid appreciation in house prices, such as Spain, the United Kingdom of Great Britain and Northern Ireland, Ireland, Sweden and France, might also face a housing downturn.

Growth in the economies of the *new member countries of the European Union (EU)* is expected to slow to about 5.4 per cent in 2008, compared with the pace of about 6 per cent in 2007. Economic activity in these countries was buoyant during 2007, the only exception being Hungary, where the economy grew by a mere 2 per cent amid a process of fiscal consolidation. The vibrant activity in the region was, however, accompanied by weakening indicators of macroeconomic stability – such as mounting inflationary pressures, rapid expansion in domestic credit and escalating external imbalances in many countries – further exacerbating earlier concerns that some of the economies may be operating beyond their current capacity. Most economies in the region are facing capacity and other constraints, and the aggregate demand is expected to cool down in line with tightening credit and debt consolidation by households.

Growth in *Japan* is expected to reach 1.7 per cent in 2008, moderating from a pace of 2.0 per cent in 2007. Private consumption will continue to support economic growth, buttressed by improved labour-market conditions. Unemployment rate is at an historic low. Government consumption is expected to contract in 2008 for the first time in several years in a continued process of consolidating public finances to reduce public debt. Expansion of business investment is expected to moderate, partly related to an anticipated slowdown in the United States, which along with the expected appreciation of the yen and the elevated oil prices will also reduce trade surplus. On the other hand, continued strong demand from China and other Asian economies will sustain a fairly strong export performance, and solid returns on Japan's overseas investments will add income to the current account.

In *other developed economies*, growth in the economy of *Canada* has moderated since the second half of 2007 and is expected to remain subdued in 2008. A number of factors are expected to drag the growth: a continued upward pressure on the Canadian dollar; a weakening demand from the United States; the negative impact of lower employment growth; the fading of one-off fiscal transfer payments; and a weakening of the construction sector. Growth in *Australia* has been strong during 2007, driven by robust domestic demand. While the relatively small size of the subprime mortgage market has prevented the economy from a credit crisis as experienced in the United States, a more pronounced negative effect of the global liquidity crisis on real global growth and the Australian export sector constitutes a significant downside risk for the economic outlook. Growth in 2008 is expected to moderate to 3.6 per cent from the 4.2 per cent estimated for 2007. A slight moderation is also expected for *New Zealand*, from a growth of 3.0 per cent in 2007 to 2.9 per cent in 2008. Household spending remains solid, supported by a sound labour market and higher wages, as well as tax reduction, but households are expected to reduce their high-level debt in 2008.

Among the *economies in transition*, growth in the *Commonwealth of Independent States* (CIS) has maintained a strong pace of 8.2 per cent for 2007, but will moderate to a pace of about 7 per cent in 2008. While growth in the Russian Federation has accelerated, growth in smaller economies, such as Kyrgyzstan, Georgia, the Republic of Moldova and Uzbekistan has also gathered momentum. Higher international prices of primary commodities provided a favourable background, while domestic demand continued to strengthen. Manufacturing and construction have been the main drivers of growth in the Russian Federation, as well as in Ukraine. With the exception of Azerbaijan, fixed investment has been rapidly growing in the CIS, although the share of fixed investment in GDP is still low in comparison with other fast-growing emerging economies. The downside risks for the CIS include a steeper and more prolonged slowdown of the world economy that would lead to a sharp decline in export demand for primary commodities and a decline in commodity prices. Tightening global financing conditions would also dampen investment and consumption in these economies, and political uncertainty poses another risk for some countries in this group.

Growth strengthened further in the economies of *South-eastern Europe* during 2007 to a rate of 6.1 per cent, but some moderation is expected for 2008. Robust domestic demand, particularly private consumption and fixed investment, has remained the key driver. While real income has continued to rise in most economies in the group, a strong rebound in investment activity, underpinned by buoyant foreign direct investment (FDI) inflows, reflects improvements in macroeconomic stability and the business climate. An important change from previous years is that recent inward FDI targets include not only privatization deals but also an increasing number of greenfield projects, although the latter still remains limited. Manufacturing and tourism are key contributors to growth, but construction activity has surged recently. Downside risks are associated with a continued widening of the current-account deficit in most economies of this group.

Among *developing economies*, growth in *Africa* has strengthened in 2007, and the momentum is expected to be maintained in 2008 at a pace of above 6 per cent. The growth in the region has been driven largely by buoyant domestic demand, booming mining and gas production and a broadly based recovery in a number of countries from a long period of economic decline. Disparities remain significant among individual countries, however, as growth in a number of economies continues to be impeded by political and social tensions, limited access to external financing and sporadic adverse climate conditions.

Growth continues to be strong in Africa's five largest economies. Large cuts in income taxes and wealth effects from booming asset prices have provided a strong impetus to domestic demand and growth in Egypt, while in South Africa, increasing public spending on infrastructure has offset the temporary slowdown in consumer spending. Economic activity has picked up slightly in Algeria and Nigeria, driven in part by the strong performance of non-hydrocarbon sectors and rapidly growing public investment. On the other hand, GDP growth has decelerated markedly in Morocco, owing to the significant drop in agricultural output.

Booms in construction, manufacturing and services have contributed strongly to GDP growth in some of the agriculture-dominated economies, including Burkina-Faso, Ethiopia, Kenya, and the United Republic of Tanzania. Strong performance in agriculture has to some degree sustained economic recovery in mining-dependent Sierra-Leone and oil-producing Angola. In addition, a small increase in aid flows and growing investment have led a modest economic recovery in the Central African Republic (CAR). These factors are expected to strengthen further in 2008, yielding much stronger growth in CAR, Guinea and Togo. In Côte-d'Ivoire, the Ouagadougou peace accord signed in March 2007, if fully implemented, should improve the political and security situation, to restore confidence and boost private spending and GDP growth during 2008. By contrast, GDP has contracted in Chad and Zimbabwe as a result of the strained security and social situation in the former and continued socio-political tensions and unsustainable economic policies in the latter.

Growth in *East Asia* maintained a solid pace of 8.4 per cent in 2007, but is expected to slow to 7.8 per cent in 2008. Exports remain the main driver of growth for the region, but domestic demand also contributes significantly in most economies. Growing at a pace of 11.4 per cent, *China* continues to lead the growth in the region. Further tightening measures, combined with the expected deceleration in major developed economies, will likely slow the growth of Chinese economy in 2008. Growth in Viet Nam has also been outstanding. In contrast, growth in Thailand decelerated notably in the face of political uncertainty. Among the newly industrialized economies – Hong Kong Special Administrative Region (SAR) of China, the Republic of Korea, Singapore and Taiwan Province of China – only Singapore experienced a higher growth in 2007 than the previous year, but all, except the Republic of Korea, are expected to moderate in 2008. The impact of the mid-2007 global financial turmoil on the region has been limited, but most economies in the region would be vulnerable to a significant slowdown in demand from major developed countries.

Growth in *South Asia* decelerated during 2007, to a pace of 6.9 per cent, and is expected to moderate further in 2008 to 6.7 per cent. The growth in India slowed due to exchange-rate appreciation and capacity constraints. Rising wages has led the Central Bank to tighten monetary policy, while large capital inflows have also limited the degree of autonomy for monetary policy. The service sector has been a key driver for the growth of many economies in the region, such as Bangladesh, India, Pakistan and Sri Lanka. Information and communication technologies (ICT) and ICT-enabled services are expected to grow rapidly in the outlook. The manufacturing sector has shown renewed dynamism, while agriculture production is lagging behind, affected by adverse weather conditions. Meanwhile, elevated oil prices coupled with fiscal expansion continue to support growth in the Islamic Republic of Iran. Political instability and insecurity pose risks for the economic outlook for a number of countries in the region.

Economies in the *Western Asian* region continue to benefit from the favourable effects of higher oil prices, propelling growth to 5.7 per cent in 2007. A slower growth is expected for 2008. Growth accelerated in the Gulf Co-operation Council (GCC) economies during 2007, driven by rising oil revenues and the induced strength in consumption as well as by public and private investment. In Saudi Arabia and the United Arab Emirates, for instance, higher oil prices compensated for the reduction in oil production at the beginning year. Strong growth in the oil-exporting countries has also generated positive spillover benefits, such as increased FDI, worker remittances and tourism receipts, for the more diversified economies of Jordan, the Syrian Arab Republic and, to a lesser extent, Lebanon and Yemen. Israel grew at about 5.1 per cent during 2007, driven by strong export growth, increased investment and robust domestic consumption. Several indicators also suggest that tourism is recovering from the Israeli-Lebanon war of 2006. Growth in Turkey has rebounded in late 2007 along with a monetary easing. The risks in the prospects for the region are mainly associated with a possible substantial slowdown in the United States. A further weakening of the United States dollar would aggravate the already persistent inflationary pressure in the region, because the peg of the local currencies to the dollar. Uncertainties and risks are also associated with geopolitical tensions in the region, such as the escalating conflict between Turkey and Kurdish factions in Iraq.

Growth in *Latin America and the Caribbean* seems to have peaked after robust growth over the past four years. After growing at a rate of about 5 per cent in 2007, further moderation is expected for 2008, along with a slight weakening in macroeconomic conditions and a less favourable external economic environment: higher inflation, a smaller current-account surplus and a weaker fiscal position. From Panama to the southern tip of the continent, growth has benefited greatly from favourable terms of trade. Central America and Mexico have been more sensitive to the vicissitudes of growth in the United States. Much of the growth in the region can be attributed to a solid performance in Brazil, led by domestic demand, particularly a strong business investment and public investment in infrastructure, supported by the Growth Acceleration Programme adopted by the Government in January 2007. Growth in Venezuela has been much higher than expected, mostly supported by government transfers and social programmes fuelled by oil revenues. Investment in the oil sector has been weak in most oil-exporting countries in the region. While growth in Argentina has been balanced across all sectors, a stronger-than-expected growth in Chile has been due to higher copper prices as well as stimulatory macroeconomic policies. Growth in the countries of Central America decelerated in 2007. In the outlook, a further slowdown of the United States will pose risks for this region, affecting not only Mexico and Central America but also some countries in South America. At the same time, growing inflationary pressures in several countries may spur tightening policies to dampen economic activity, while expected lower fiscal revenues may also limit fiscal space.

International economic conditions for developing countries and the economies in transition

The international economic environment for the developing economies and the economies in transition has so far withstood the global financial turmoil that originated from the sub-prime debacle in the United States in mid-2007. While the trends in most indicators for international trade and finance remain favourable for these economies by historical standards, volatility has increased notably during 2007 in such indicators as international commodity prices, capital flows and yield spreads. Meanwhile, for this group of countries, the extremely low levels of the risk premiums on lending to this group of countries might suggest a considerable degree of myopia on the part of international investors. Should the financial market conditions in major developed economies worsen, and/or the large global imbalances undergo a disorderly adjustment, the international economic environment for the developing economies and the economies in transition would also face a significant risk of deterioration. Both policy makers in the emerging market economies and international investors stand reminded of the risky and volatile nature of these markets.

World *trade* flows grew at a slower pace during 2007 than in the previous year. The volume of world merchandise trade increased by about 7 per cent in 2007, down from 9.9 per cent in 2006 (table A.7). World trade continues to grow twice as fast as world output. The moderation in the growth of world trade in 2007 was largely due to a weakening in import demand in the United States. Developing countries and the economies in transition continue to penetrate world markets: their share in total world trade increased from 35 per cent in 2000 to more than 40 per cent in 2007.[5] Asian economies led the dynamism in global trade, with export volumes of China and India increasing by about 20 per cent annually for several years. In addition, many developing countries in Africa and Latin America have managed to expand their export values at double-digit rates owing to the strong global demand for raw materials. In parallel to this, exports of the major developed countries have also been robust, driven by global demand for capital goods, as business investment in many countries continues to recover from the low levels experienced since the last downturn at the beginning of the century. In the outlook for 2008, an expected further slowdown in import demand from the United States will likely keep growth of world trade at a moderate pace of about 7 per cent.

The *terms of trade* of many primary commodity-exporting developing countries continued to improve during 2007. However, prices of most primary commodities are expected to moderate and become more volatile in the outlook for 2008.

The *price of oil* in terms of Brent crude hovered at over $70 per barrel (pb) for the most part of 2007, but surged to near $100 pb in November. A weakening value of the United States dollar, geopolitical tensions in the proximity of major oil-production areas, variable weather, supply restrictions in the Organization of the Petroleum Exporting Countries (OPEC) and refinery constraints have been, and will continue to be, the factors outweighing those of demand in determining price movements. Oil prices are expected to average $76 pb for 2008, compared with an estimated average of $73.5 pb for 2007 (figure 2).

Prices of non-energy commodities have also continued their upward trend of the past few years (figure 3). While supply-side factors vary among individual commodities, a common factor on the demand side for the upward movement in these prices has been a continued robust global

[5] The share of developing countries would be even higher if intra-European trade were excluded from the world total.

demand, particularly from a number of emerging economies such as China. Meanwhile, higher oil prices also contribute to the upward pressure on the prices of a number of non-energy commodities, either directly in the form of higher production costs or through an indirect substitution effect. For example, higher oil prices have induced an expansion of biofuel production, and consequently the rise in the demand for and the prices of corn, soybeans and oil seeds. In the outlook, prices of most agricultural commodities are expected to reach a plateau, while prices of metals and minerals are expected to retreat moderately.

A weakening value of the United States dollar vis-à-vis other major currencies and a significant increase in the positions of investment funds in commodity markets (in search for higher returns) have also been among the factors driving up the prices of commodities in the past few years. These factors however, may also have sown the seeds for higher volatility in these prices in the outlook.

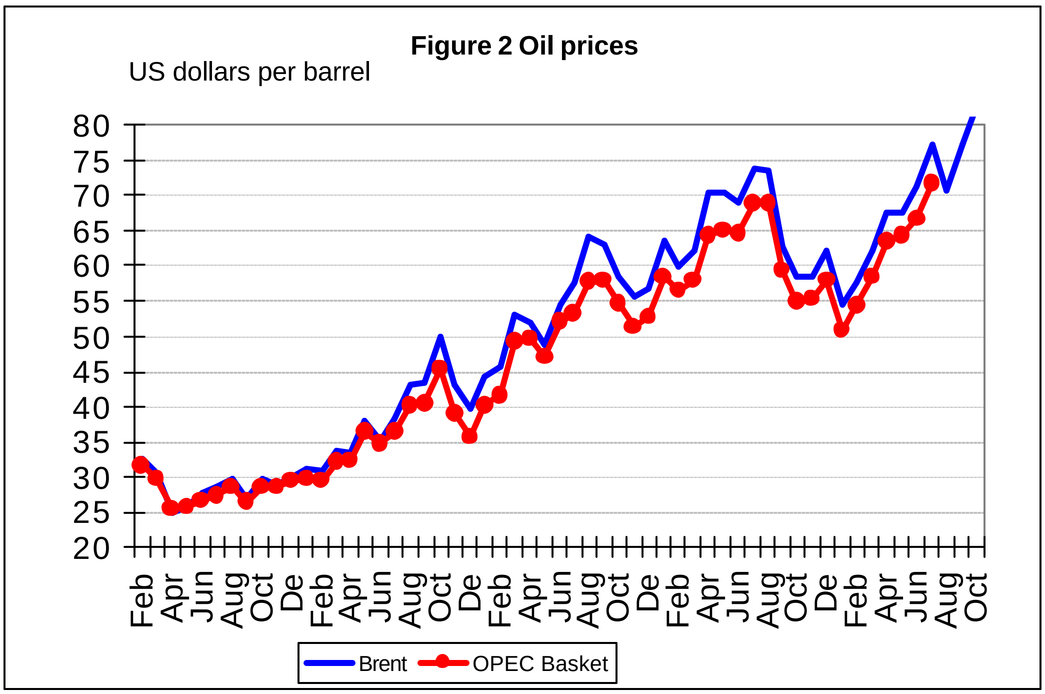
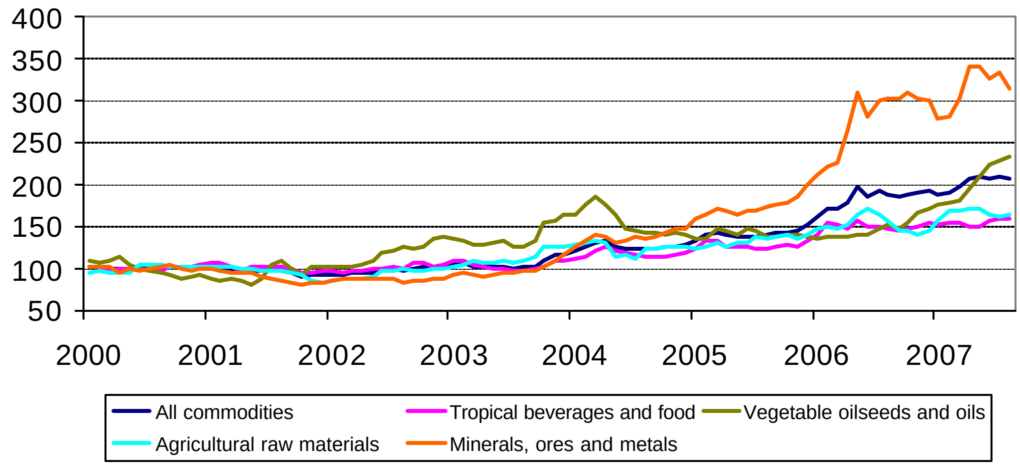
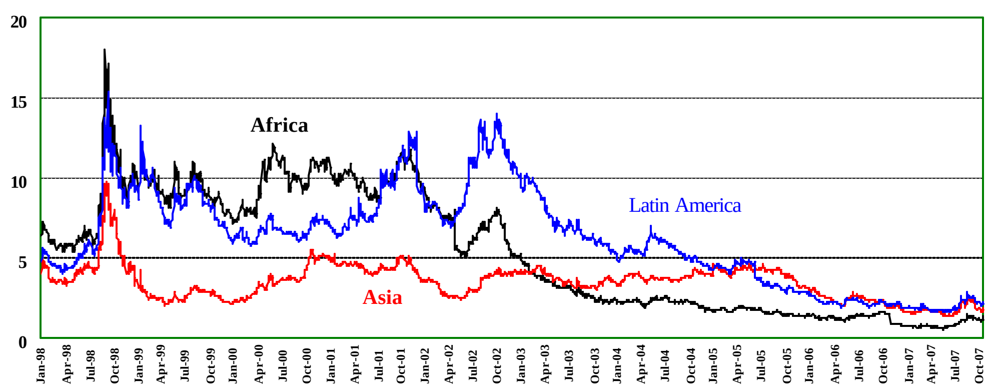


Figure 3. Price indices of non-oil commodities



The *external financing costs* for emerging market economies remain low. The spreads in the Emerging Markets Bond Index (EMBI) were at all-time lows in the first half of 2007, but widened notably during the mid-year global financial turmoil (figure 4). The spreads have since been narrowing along with the improvement in the financial market conditions in major developed economies. Meanwhile, the benchmark interest rates underlying the external financing costs for emerging market economies have been pushed downwards as a result of a "flight to safety" in the credit markets of the developed countries. However, such favourable external financing conditions may not be sustainable, particularly if the financial market conditions in the developed countries experience a relapse and the large current-account deficit of the United States undergoes an abrupt adjustment.

Figure 4. Yield spreads of Emerging Market Bonds
(percentage points)



Capital flows to emerging market economies in 2007 declined slightly in net terms from the previous year, but rose significantly in gross terms, reflecting an increase in outward investment from developing countries, such as China. FDI flows have continued to increase, although they are concentrated in a handful of emerging market economies. Official flows to this group of countries have continued to be largely negative as a result of increased net repayments to official creditors. On balance, however, emerging market economies are net lenders to the rest of the world, financing the external deficits of the United States and a handful of other developed economies with current account deficits. In the outlook, net private capital flows to emerging markets in 2008 will likely stay at the same level as 2007. As many of these economies have been running current-account surpluses for several consecutive years and have accumulated vast amounts of foreign reserves, they have become less dependent on international capital, at least cyclically in the short run.

Official Development Assistance (ODA) declined in 2006. New commitments made in 2005 were largely for debt relief and emergency assistance, and the lack of large debt-relief packages such as those approved in 2005 led to a fall in aid from the countries of the Organization for Economic Cooperation and Development (OECD) by 5.1 per cent in constant dollars in 2006. This has further distanced these donor countries from meeting their commitment to a target level of ODA of 0.7 per cent of their GNI by 2012. This could jeopardize the poorest countries in particular which are in need of enhanced foreign aid to enable them to finance their efforts towards achieving the millennium development goals. In addition, aid is found to be significantly more volatile than fiscal revenue and tends to be pro-cyclical on average. Multi-annual agreements between donors and recipient countries would enable aid flows to become more predictable and more counter-cyclical and this may help improve aid's effectiveness.

The massive accumulation of *official reserves* by developing countries has been continuing, totalling more than $3 trillion in 2007. Foreign exchange reserves of China alone reached $1.4 trillion in late 2007. The amassed foreign-currency reserves have strengthened the capacity of these countries to deal with external shocks, but they also entail costs and policy challenges for these economies. One particular challenge is how to manage large foreign exchange reserves efficiently. In this context, China launched a state investment fund to allocate part of its reserves to a wider range of financial assets, which, in turn, touched off a debate especially in developed countries regarding the future role played by sovereign wealth funds.

The tendency of accumulating vast amounts of foreign currency reserves in developing countries has also to some extent indicated the fundamental deficiencies of the international monetary and reserve system. The international monetary system, including the International Monetary Fund (IMF), would need to improve its mechanisms of multilateral surveillance and increase its capacity of liquidity provisioning in order to deal with international financial crises. This could also reduce pressure on individual countries to accumulate excessive reserves by allowing them to rely more on a common global insurance framework.

The outlook for employment and inflation

Employment trends

Amidst robust economic growth, the *employment* situation continued to register marked improvements in 2006 and 2007 in a large number of economies. In the developed and transition economies, as well as in a smattering of developing economies, strong employment gains were accompanied by declining unemployment rates leading to many instances of tight labour market conditions and increasing wages. In contrast, however, many other developing economies had marginal labour market improvements, as high unemployment and underemployment remained prevalent. In the outlook, it is expected that employment growth will retreat or remain modest in most economies in 2008 as a result of slower overall economic growth.

Among the developed economies, the trend of improvements in the labour markets of the United States lost momentum in the second half of 2007, as the growth of payroll employment decelerated from a pace of about 2.0 per cent in 2006 to about 0.5 per cent in the second half of 2007. Unemployment also reversed course after reaching 4.4 per cent in mid-2007, the lowest level in six years as a result of job losses primarily in the housing and related sectors, as well as in manufacturing. Employment growth is expected to remain sluggish in 2008, with the unemployment rate edging up to 5 per cent. Canada has also been experiencing lower employment growth in 2007. Tight labour market conditions prevail in Australia and New Zealand, which manifested in increasing wage levels. This is also the case in Japan, which is experiencing historically low unemployment rates. Employment growth remains strong in Western Europe with the rate of unemployment declining across the region, reaching 6.9 per cent on average in 2007. The labour market situation also continued to improve in the new EU member states, partially reflecting the ongoing outward labour migration to Western Europe, but also resulting from real gains in job growth within the new EU member states. Employment should continue to expand, albeit at a more moderate pace, and unemployment continue to fall throughout Europe in 2008.

Among the economies in transition, in the CIS, strong economic growth buoyed by recent industrial dynamism led to declines in unemployment rates across the region in 2007. In the Russian Federation, the unemployment rate fell to an estimated 6.5 per cent in 2007 from 7.2 per cent in 2006. Labour shortages have emerged in some countries, reflecting skill mismatches and barriers to labour mobility. In South-eastern Europe, strong output growth contributed to some improvements in the employment situation, especially in Croatia where the registered unemployment rate decreased. In general, however, unemployment is still precariously high in most of South-eastern Europe, especially in Bosnia and Herzegovina and The Former Yugoslav Republic of Macedonia.

In the developing economies, with the exception of Latin America and the Caribbean, the employment situation has witnessed only small improvements, and many economies remain plagued by high unemployment rates, rapid labour-force expansion and large informal economies.

In Africa, sustained high economic growth is believed to have triggered some employment benefits, yet high unemployment rates prevail in most countries as significant increases in the labour force continue to outstrip the limited employment gains. However, in Egypt and Morocco, robust expansion in agriculture and manufacturing has generated a significant number of jobs, and despite the growing labour force, there has been a substantial reduction in unemployment rates.

In Western Asia, the employment situation remains disparate despite strong economic growth, with widespread unemployment persisting among the domestic labour force as the policies of 'nationalization' have reached their zenith in most public sectors, which can no longer absorb new labour-market entrants. In the oil-exporting economies of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, the majority of the private sector – 60 per cent and above – is still composed of expatriate workers.

In East Asia and South Asia, marginal declines in unemployment rates are expected to continue in 2007, but will remain stubbornly high in many economies, despite strong economic growth. The unemployment rate in Indonesia will remain at a high level amidst the political stalemate of labour-market reform. In China, the structural transition from a State-controlled to a more market-oriented economy has kept registered urban unemployment rates stagnant at around 4 per cent; in India, unemployment rates are expected to decline from 7.6 per cent in 2006 to 7.2 in 2007, and further in 2008. These numbers, however, do not adequately reflect the high informality and low quality of employment opportunities in the region.

Unemployment has decreased to record lows in Latin America and the Caribbean, supported by sustained economic growth and a strengthening of the services sector in many countries. The decline over the past four years has brought unemployment rates down to single-digit levels. Notable reductions are observed in Argentina, Chile, Peru, Bolivarian Republic of Venezuela and several of the Central American and Caribbean countries. Employment growth is especially strong in the formal sector, where wages have increased only modestly. In the outlook, lower output growth prospects and structural issues may impede further substantial decreases in unemployment rates.

Diverging inflation trends

Global *inflation* is expected to recede from its relative peak registered in 2006 (see annex tables A.3 and A.4) in 2008, but this masks differences across regions. The global trend is dominated by the deceleration in the developed countries in the second half of 2007, while the economies in transition are expected to see an even more significant deceleration in 2008. Developing economies are expected to see a slight acceleration. Part of this can be explained by the impact of two key driving forces, energy and food prices, which owing to different consumption basket weights have a stronger impact on developing economies. But there is a more sobering dimension to the sustained increase in these two factors, namely that inflationary pressures may be of more concern than currently acknowledged. In the past, surges in oil prices (as well as in food prices) have reversed fairly quickly, that is to say, they have been temporary rather than permanent shocks; therefore, monetary authorities are more focused on monitoring "core" inflation than "headline" inflation. However, the current movements in oil and food prices have been sustained far longer than usual. In addition, food price shocks – which are not usually synchronized across countries, but rather are contingent upon regional weather conditions – are currently a major source of inflation in a large number of countries. Given that these factors have created a long-lasting wedge between headline and core inflation, and seem to have a more permanent dimension, core inflation may now understate the current risk to price stability in a number of countries.[6]

In the *developed economies*, inflation is expected to decelerate in 2008. Headline inflation in the *United States* had hovered above 3 per cent for two years, but moderated to about 2 per cent during 2007. The core personal consumption expenditures (PCE) deflator also finally dropped to the Fed's presumed 1-2 per cent tolerance band. With an anticipated slowing of economic growth, inflation is expected to remain tame for 2008, with a PCE rate of under 2 per cent. Similarly in *Canada*, the anticipated moderation in economic performance is expected to lead to a reduction in inflationary pressure.

Japan continues to struggle in its exit from the long period of deflation. While consumer prices are expected to remain flat in 2007, and far weaker than originally anticipated, inflation is expected to reach only 0.5 per cent in 2008. Inflation in *Australia* remains under control, but with significant upside pressure in view of tight labour market conditions and high rates of capacity utilization in some sectors. Similarly in *New* Zealand, while inflation remains in check, the overall picture points towards continued upward pressure on prices, notably in view of high rates of capacity utilization, strong labour market conditions and positive indicators regarding consumer and business confidence.

Inflation in *Western Europe* continues to be of concern to policy makers. In the euro area, after a long period where headline inflation was above the less than 2 per cent inflation target of the ECB, it has remained below this level for the majority of 2007. However, core inflation, excluding energy, food, alcohol and tobacco, while remaining well below headline inflation for most of 2004-2006, has risen considerably since then and has nearly converged with headline inflation. With inflation close to 2 per cent, GDP growth slightly above trend in the outlook and the output gap essentially closed, there are inflation risks. Unemployment has dropped to its lowest point in more than ten years, and wages are picking up. And there is a strong impulse from oil and food prices. However, stronger currencies mitigate some of the oil price pressure as well as other imported inflation, the growth outlook is not sufficiently robust to put significant upward pressure on prices, and so far wage settlements are within bounds, so that unit labour costs have not risen by much. Inflation is expected to rise slightly in 2008 but remain close to 2 per cent.

Inflationary pressures in the *New EU* countries, influenced by both demand-pull and cost-push factors, continued to rise in. Growing labour shortages in the most dynamic sectors, caused by a large outward migration and a mismatch of skills, have strengthened the bargaining power of employees and trade unions. The impact of strong real wage growth, which has outstripped gains in productivity, has been amplified by the ongoing expansion of credit, the increased costs of imported energy, higher regulated prices and excise taxes and the upward pressure on food prices from a drought in South-eastern Europe. While remaining relatively low in the Czech

[6] See JP Morgan Global Economic Research, Global Data Watch, 28 September 2007.

Republic, Poland and Slovakia, inflation jumped to 8 per cent in Hungary due to changes in regulated prices and the value-added tax (VAT) and the abolishment of State subsidies for natural gas. Inflation remained high in the Baltic States, reaching a double-digit number in Latvia, and may even accelerate against the backdrop of planned increases in regulated prices and indirect taxes, and higher prices for Russian natural gas. A significant disinflation in 2008 is unlikely.

In the *economies in transition*, the inflation picture is more mixed. Inflationary pressures have remained high throughout the *CIS*, owing to relatively loose fiscal and monetary policies and strong foreign exchange inflows. High food prices and increases in tariffs of regulated services have contributed further to the pro-inflationary tensions. In most countries, the growth of consumer prices accelerated, significantly overshooting the official inflation targets in many countries or preserving their rather high pace. The fastest growth was observed in Azerbaijan, where average inflation more than doubled in 2007 to exceed 15 per cent, as the impact of un-sterilized foreign exchange inflows was compounded by an overtly expansionist fiscal policy and an upward adjustment in administered prices. In Ukraine, inflation reached double digits, propelled by higher food prices. There was a slight moderation in the rate of price increases in the Russian Federation in the first half of 2007, but inflation accelerated later, exceeding by far the target for the year. Given robust demand growth and high energy prices, upward pressure on inflation in the short run will remain strong, and moderation of the existing levels will be a challenge to monetary policy in many of these economies. In addition, declining unemployment rates, rising wages and a consumer shift from saving to spending may threaten disinflation in the medium term.

In *South-eastern Europe*, in contrast, inflation decelerated further, despite strong growth in output in 2007, with the rate of consumer price inflation in the low single digits in most countries. Serbia, the only country where inflation is still relatively high, also witnessed a further moderation in the pace of price increases, which is expected to fall to single digits on an annual basis. Stable currency has been used as a nominal anchor for the monetary policy in Croatia and has helped to absorb inflationary pressures emanating from higher energy and commodity prices. The currency board in Bosnia and the informal peg in The Former Yugoslav Republic of Macedonia also helped to lower inflationary expectations. There are no signs of a possible reversal in the process of disinflation in 2008, although there are growing inflationary pressures from faster real wage growth and increasing producer prices, as well as from anticipated changes in regulated prices.

Inflation in the *developing economies* is expected to pick up slightly in 2008. In *Africa*, the recent gains in lowering inflation to relatively low levels have generally been sustained in most countries, despite episodic accelerations in consumer prices in a few countries. Rising insecurity and/or transport bottlenecks have caused supply shortages, thus generating significant inflationary pressures in Chad and Eritrea, while rapid increases in public spending have moderately pushed up consumer prices, especially those of non-traded goods, in Algeria, Equatorial Guinea, Gabon, Sao Tome and Principe and Sudan. The inflation outlook appears broadly favourable, although further reductions in petroleum subsidies and potential lower agriculture production, instigated by the inauspicious weather in the planting phases of the 2007/2008 crops, will cause some spikes in inflation in some countries.

In *Western Asia*, inflationary pressures are strong throughout the region, with a mix of imported and domestically generated inflation stemming from distributional and sectoral supply constraints. Yemen's 20 per cent inflation rate, spiking from the previous year's 15 per cent is in partly due to the elimination of the fuel subsidy and the introduction of a general sales tax. Iraq's 53 per cent inflation is due partly to turmoil and conflict, supply-side fuel shortages and the reduction of fuel subsidies impacting higher transport and household consumer costs. Qatar's 12 per cent inflation is partly driven by rising rents and greater demand for expatriate labour. In the highly open United Arab Emirates, where imports amount to 60 per cent of GDP, imported inflation is prevalent, yet domestically generated inflation is observed in housing. Furthermore, with most of the region's exchange rates fixed to the dollar, Western Asia is facing higher costs of euro-denominated and other non-dollar imports as the dollar declines. In response, there is pressure to re-examine exchange-rate regimes. Kuwait has recently switched to a basket of currencies instead a dollar-based fix, with the intent to reduce its 4.3 per cent rate of inflation stemming from imported textiles. Iraq has also revalued its currency directly vis-à-vis the dollar.

Inflation in the *South Asian* region is expected to decelerate in 2008. Inflation rates in the Islamic Republic of Iran and Sri Lanka are still the highest in the region, at 17 per cent and 15.5 per cent, respectively in 2007, while the remaining countries in the region have maintained one-digit rates of inflation since 2000. The need to further reduce subsidies on domestic fuel prices in order to curb increasing fiscal costs, as well as increasing unpredictable agriculture domestic and imported prices, especially in Bangladesh, India and Nepal, imply further inflationary pressures.

In *East Asia*, concerns about possible overheating in China heightened in the second half of 2007 as inflation accelerated. The consumer price index (CPI) rose at an annual rate above 5 per cent for a few months in mid-2007, also the highest in a decade, mainly driven by sharp increases in food prices, particularly meat prices. However, excluding the prices of food and energy, the so-called core inflation rate increased at a much more moderate pace, slightly above one per cent. This indicates that inflation has so far largely been a problem of the gaps between the demand and supply in certain sectors, particularly the food sector, rather than a general monetary problem for the overall economy, and it is expected that the new production cycle will resume in due course, helping to balance demand and supply and bring down the price. As a consequence, the inflation rate in China will decline in 2008, but the increasing upward pressures on wages and the implications of the recent large appreciation in the value of equity prices and real estate remain a concern.

Compared with recent years, inflation in the rest of the East Asian economies has been moderate. However, starting early this year, inflation accelerated, mainly caused by the higher energy and food prices. The softening of oil prices in the second half of 2006 and their rebound early this year have enlarged the wedge between headline and core CPI. Given the prevailing outlook for the international energy and commodity prices, for most economies in the region, the inflation rate for 2008 will be higher than 2007.

Average inflation rates in the *Latin American and Caribbean* region will remain at record low levels in 2007, but pressure from increasing costs of energy, transportation and food will be felt from 2008 onwards. Much of the recent containment of inflation is due to Brazil's lower inflation rates, aided by an appreciated currency. Mexico's inflation has been near the upper end of its Central Bank's target range due to supply shocks in some foodstuffs, but is lower than the regional average. Similarly, consumer prices in Colombia have been above target as domestic demand has strengthened. Prices in the Bolivarian Republic of Venezuela have been rising at double digit rates as high consumption rates confront shortages of consumer products. Many countries in Central America are also experiencing rising costs of fuel and other commodities, as they are net importers of such goods.

Macroeconomic policy stance

Monetary policy

The global financial turmoil during mid-2007 has to some extent altered *monetary policy* stance in major developed economies. It led to monetary easing in the United States and held back the anticipated tightening in some others. Monetary policy stance (table 2) remains roughly neutral in most economies relative to their output and inflation prospects. The benchmark interest rates in world capital markets are relatively low compared with historical averages in either nominal or real terms. In view of a combination of the anticipated slowdown in output growth and moderately increasing inflation pressures, the monetary authorities are facing a considerable challenge in the outlook: how to strike a balance between maintaining price stability and safeguarding a robust growth.

Among the *developed economies*, in the *United States*, after a two-year period of raising interest rates, the Fed had kept the federal funds rate at 5.25 per cent from mid-2006 until September 2007. In response to the turbulence in the financial markets and its implications for the stability and efficiency of the broader economy, the Fed, in addition to the liquidity injection through open market operations and the cut of the discount rate in earlier months, reduced the federal funds rate by 75 basis points. In the baseline outlook, the Fed is expected to hold the federal funds rate at 4.5 per cent for 2008, on the premise that the financial markets will not deteriorate further.

Monetary policy continued to tighten in *Western Europe* during 2007. The European Central Bank (ECB) in its latest move in June 2007 raised its main policy interest rate, the minimum bid rate, by 25 basis points, to a level of 4.0 per cent, a cumulative 175 basis points increase since the tightening cycle started in 2005. Currently, policy is very close to a neutral stance, with the real short-term interest rates close to 2 per cent. A number of factors could argue for further tightening. Growth, while decelerating in the outlook, is still expected to be close to or slightly above trend over the forecast period, and the output gap is estimated to have nearly closed. Labour markets are increasingly tight as the unemployment rate is now at "multi-year" lows, and wage pressures may be building. Capacity utilization is well above its long-term average and very close to its last cyclical peak. Money supply growth remains very strong. On the other hand, many other factors argue for a halt to further policy tightening. The appreciation of the euro during the year has further tightened overall monetary conditions. In addition, the full effects of the past policy tightening have yet to feed through fully into activity. The financial crisis itself has tightened credit conditions by raising the spread between the minimum bid rate and the market-determined 3-month Euro Interbank Offered Rate (Euribor) to 80 basis points as opposed to the usual 20 basis points. Meanwhile, substantial downside risks stem from the financial crisis and slowdown in the United States, which could well lead to a much slower outlook for Western Europe, and thus argue for caution. In the outlook, it is assumed that the ECB will maintain its current policy stance throughout 2008. Monetary policy in the *United Kingdom* is expected to ease slightly in the outlook

Table 2. Monetary policy stance: policy interest rates (percentage)

	October 2007	Change from Jun 04 (bp)	Direction in recent change
Australia	6.50	125	+
Brazil	11.25	-475	-
Canada	4.50	250	+
Chile	5.75	400	+
China	7.29	198	+
Czech Republic	3.25	100	+
Hong Kong SAR[a]	6.25	375	-
Hungary	7.50	-400	-
India	7.75	175	+
Indonesia	8.25	91	-
Japan	0.50	50	+
Korea, Republic of	5.00	125	+
Malaysia	3.50	80	+
Mexico	7.25	75	+
New Zealand	8.25	250	+
Norway	5.00	325	+
Philippines	5.75	-100	-
Poland	4.75	-50	+
Slovakia	4.25	-75	-
South Africa	10.50	250	+
Sweden	3.75	175	+
Switzerland	2.75	225	+
Taiwan Province of China	3.25	188	+
Thailand	3.25	200	-
Turkey	16.75	-525	-
United Kingdom	5.75	125	+
United States	4.50	325	-

Source: JP Morgan Chase Bank.
a Special Administration Region of China.

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Monetary policy in the *new EU member States* has taken different directions. While Slovenia became the first country among the new EU members to join the Economic and Monetary Union (EMU) by transferring its monetary policy decisions to the ECB, Cyprus and Malta are set to adopt the euro in 2008. The currency boards in the Baltic States and Bulgaria constrain independent conduct of monetary policy, with interest rates in these countries closely following the moves of the ECB. The countries with flexible exchange-rate regimes have to make a choice between containing inflationary pressures and avoiding further appreciations of their currencies. To meet respective inflation targets, interest rates have been raised in the Czech Republic and Poland, while policy was relaxed in Hungary, Romania and Slovakia. In the outlook, although further tightening is possible in the Czech Republic and Poland, policy should remain accommodative to allow expansion in domestic credit to a moderate degree.

Monetary policy is expected to tighten in *Japan*. Inflation continues to hover around zero, but the risk of slipping back into deflation is small, given the expectation of a continued recovery. However, the Bank of Japan is likely to be very cautious in implementing its desired policy of gradually bringing its policy rate to a more neutral stance. The policy rate is expected to increase to 0.75 per cent in 2008.

In other developed economies, *Canada's* interest rates are expected to be reduced to 4 per cent during 2008, as inflation is expected to remain under control in view of a relative slowdown in aggregate demand, along with a tightening monetary condition via the appreciation of the Canadian dollar. The reserve banks of both *Australia* and *New Zealand* have been tightening aggressively during 2007 as core inflation edged up, but in the outlook they are expected to keep the monetary stance at current levels for 2008.

Among the *economies in transition*, a shift from generally accommodative monetary policy to a more cautious stance has been under way in some *CIS* countries during 2007. Large capital inflows in the region, along with inflexible exchange-rate regimes, have posed great constraints on monetary policy in these countries. During the mid-2007 global financial turmoil, temporary capital outflows occurred and currencies depreciated in some countries, notably Kazakhstan. Central banks, particularly those of the Russian Federation and Kazakhstan, injected liquidity and temporarily reduced the reserve requirement ratios. In the outlook, monetary policy in most of these economies will likely shift to a tightening stance to focus more on price dynamics, leaving more flexibility for exchange rates.

In *South-eastern Europe***,** monetary policy is mostly devoted to maintaining formal or informal currency pegs, with little independence from the policy moves of the ECB. In a few countries with independent monetary policies, those policies are constrained by a large share of cash in circulation outside of the banking system and foreign currency in transactions. The central banks in Albania and Serbia raised policy interest rates in 2007, while the Croatian National Bank reverted to various administrative restrictions on the growth of credit extended by commercial banks.

Among developing countries, in *Africa*, monetary policies have been broadly restrictive, although the pace and sequence of the tightening have varied across the region. Many African oil-producing countries have adopted firm monetary tightening to deal with the growing excess liquidity, fuelled by increased export revenues and capital inflows, amid concerns about inflation. Under similar conditions, South Africa's Reserve Bank raised its policy interest rates twice between April and August 2007 when inflation breached the ceiling of the targeting band of 3-6 per cent. The tightening, however, has been somewhat gradual and cautious in Egypt, Morocco and Tunisia, so as not to hinder private investment growth and the strong economic growth needed to reduce high unemployment rates in these economies. With excess liquidity declining and inflationary pressures subsiding, the two central banks of the 15 CFA Franc zone countries have paused, diverging slightly from the policy move of the ECB, which is the institutional anchor of the CFA Franc. On the contrary, a positive outlook for inflation and exchange-rate stability prompted a continued monetary easing in Mozambique and Ghana.

In *East Asia*, differing inflation and growth outlooks are leading to a variety of monetary policy stances. In view of inflationary pressures and renewed fears of overheating, monetary policy in *China* has been on a steady tightening during 2007, with continued interest rate hikes, as well as increases in the reserve requirements. A gradual acceleration of the appreciation rate of the renminbi may help to mitigate overheating pressures, but too rapid an appreciation could also destabilize the economy. The central banks in Indonesia, the Philippines and Thailand have cut policy interest rates during 2007, while the monetary authorities in the Republic of Korea and Taiwan POC have increased theirs. Most monetary authorities in the region seem to have become more tolerable of an appreciation of the national currencies vis-à-vis the United States dollar, which to some extent buffered the pass-through of higher international prices of commodities to overall inflation. In the outlook, the central banks of China and Indonesia may continue to tighten, while most others will likely maintain their current stance.

In the light of continuing inflationary pressures in *South Asia*, monetary policy has been tightened in most economies during 2007. Policy rates may stay at the current stance for most economies in the outlook for 2008 as inflation pressures abate. Interest rate differentials have attracted further capital inflows in India. Currency appreciation has helped to curb inflation but may imply a negative effect on exports and quasi-fiscal costs of sterilization that will soon have to be taken into consideration in the policy stance. However, in Sri Lanka the government target of bringing down inflation to single-digit level may not be achieved, requiring further tightening. The Islamic Republic of Iran will have to adopt a stricter monetary policy in order to curb inflation, which is accompanied by a rapid growth in public expenditure financed from higher oil revenues. Administrative measures to control inflation in Bangladesh seem to be ineffective and may imply further tightening in the near future.

In *Western Asia*, since most economies peg their currency to the United States, monetary policy closely follows that country's. Monetary policy stance remains accommodative in the region, with the economies facing increased money demand as well as growing supply from large surpluses in the balance of payments and fiscal accounts. Monetary authorities are subsequently faced with the challenge of using indirect monetary instruments to mop up excess liquidity while at the same time trying to maintain a proper alignment of domestic interest rates with that of the United States, given the fixed peg.

In *Latin America and the Caribbean*, monetary policy has been varying across countries as these countries are facing different inflationary and growth scenarios. For example, the central bank of Brazil continued to cut policy interest rates during 2007, as inflation stayed below target. In contrast, the Central Bank of Mexico has raised its policy interest rate under inflationary pressure. In general, monetary policy stance in the region has been accommodative during 2007 as real interest rates remain low. In the outlook for 2008, monetary policy will tend to be more precautionary as inflation pressures increase.

Fiscal policy

The fiscal policy stance in most economies is neutral to slightly expansionary. Except for a small number of economies in Central and Eastern Europe, many have experienced a notable improvement in their fiscal position as a result of robust growth over the past few years. As growth is expected to moderate, further cyclical improvement in fiscal revenues is unlikely to continue in many economies and government expenditure may need to expand. In some countries, structural problems in government finance remain difficult to deal with in the medium-to-longer run. Meanwhile, for a number of developing countries that are striving hard to fulfil the Millennium Development Goals (MDGs), more fiscal policy space is needed to scale up activities.

Among the *developed economies*, the fiscal position in the *United States* has benefited from robust revenues, with the federal budget deficit narrowing to about $160 billion during 2007. Real government expenditure grew below the pace of GDP for about two years, but increased during the second half of 2007 and is expected to rise further during 2008. The fiscal stance is expected to be modestly stimulatory in 2008. In *Western Europe*, fiscal balances improved significantly across the region in 2007, stemming both from growth performance and revenue windfalls, along with expenditure cuts in some countries. In the euro area, fiscal policy has been moderately contractionary in those countries with excessive deficits in line with the Stability and Growth Pact (SGP), while other countries have pursued either neutral or expansionary policies. A neutral policy stance is expected for 2008 in general, with major differences across countries. Among the *new EU members*, fiscal policies remained pro-cyclical, with public spending increasing along with stronger GDP growth. Most budget plans in this group of countries are based on an optimistic estimate of revenues for 2008, and it remains questionable whether the targets set in the National Convergence Programmes will be met. In the Baltic States and Bulgaria, strong external imbalances will prevent any fiscal stimulus in 2008.

Among the *economies in transition*, fiscal positions of commodity-exporting countries improved through higher export prices. In the *CIS*, fiscal policies will continue to follow an expansionary stance, with more spending on infrastructure, education, health, salaries in the public sector and pensions. The budget surplus in the Russian Federation is expected to narrow as export revenues slow down and the implementation of various investment programmes starts. In *South-eastern Europe*, the process of fiscal consolidation, which has been under way for a number of years, continued in 2007. None of the economies in this region are expected to have a general government fiscal deficit larger than 3 per cent of GDP.

Among the *developing countries*, fiscal positions of most commodity-exporting economies have significantly improved, while fiscal stances continue to vary across the regions. A majority of *African* countries continues to use the increased fiscal space afforded by growing government domestic revenue and/or significant aid flows to scale up public spending. Additional spending has largely targeted infrastructure and social sectors, in order to ease structural supply constraints and achieve the MDGs. Besides addressing these challenges, South Africa is planning to establish a wide social security system, which would be financed by a payroll tax.

In *East Asia*, after general improvements in the region's fiscal balances in recent years, fiscal stances differ among countries. Higher public spending growth has been found in China, Malaysia and Thailand, with an increased focus on rural incomes and on health and education spending. In the *newly industrialized economies*, with the exception of the Republic of Korea, fiscal stances are expected to remain cautious, but may be loosened if the downturn in economic growth turns out to be steeper than expected. In the Republic of Korea, investments in infrastructure could lead to a boost in government spending.

In *South Asia*, fiscal policies in the region remain broadly expansionary, given the need for increased spending in the infrastructure, education and health sectors. At the same time, budget deficits are expected to decrease in India, Pakistan and Sri Lanka, owing mainly to increased revenues following their continued strong economic growth. Expansionary fiscal policy continues in the Islamic Republic of Iran.

In *Western Asia*, owing to increased government spending, the fiscal surpluses of the oil-exporting countries are expected to narrow in 2008, but nonetheless remain large by historical standards.

In *Latin America*, expansionary fiscal policy is expected to continue in a number of countries. Fiscal balances have improved steadily during the past several years as revenues have increased from higher export commodity prices and greater tax revenues. In the light of the positive economic climate, Governments have been able to increase much needed public infrastructure investment, thereby positively affecting aggregate demand in many countries. In 2008, the weakening of economic activity and the expectation of lower export commodity prices will limit the expansionary fiscal stance in some countries.

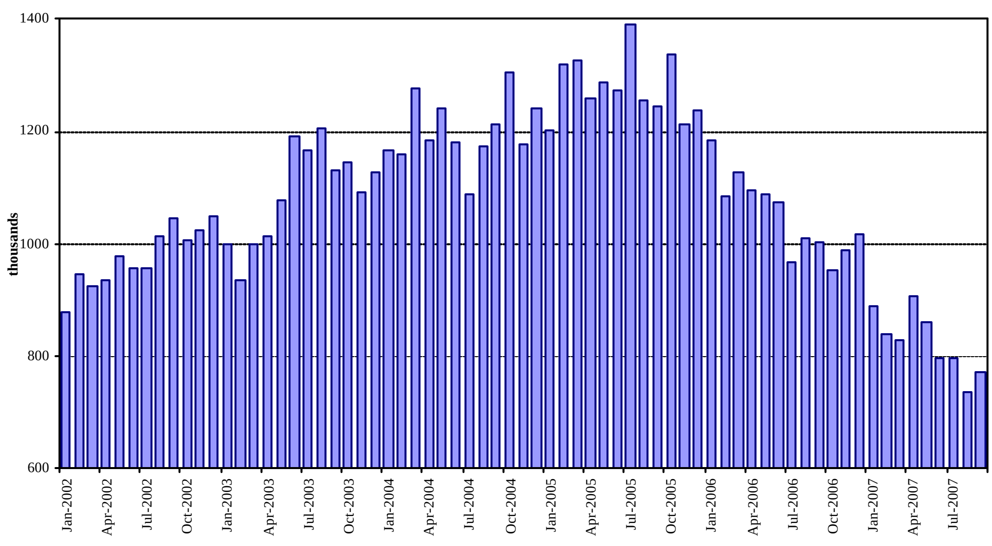
Uncertainties and risks

The financial turmoil during the third quarter of 2007 has once more pointed at the downside risks to the global outlook. It revealed that the problems in the United States housing market are closely associated with the problem of the global imbalances and the lack of adequate supervision and regulation of financial markets that are increasingly integrated but also increasingly less transparent. The main risks originate in the United States where, in particular, a deeper and longer slump in the housing market in the United States and a "hard landing" of the value of the United States dollar could trigger a worldwide recession and disorderly adjustment of the global imbalances. Further risk factors are a new oil price hike, a possible outbreak of avian influenza, as well as possible heightening in geopolitical tensions. These risks are not new, but the recent global financial turmoil has heightened them, particularly the two risks discussed below.

A deeper and longer housing recession in the United States

The downturn in the housing sector of the United States has accelerated during the course of 2007, and the prospects for 2008 remain bleak. In the second half of 2007, new home sales plunged to their lowest level in seven years (figure 5), and existing home sales also dropped to their lowest level in eight years. Homebuilders have been aggressively curtailing construction: during 2007 starts of new houses fell by about 30 per cent from the previous year, that is to say, to their lowest level since 1993, and builder confidence dropped to a two-decade all-time low, as measured by the National Association of Home Builders index. Despite the steep fall in supply, the inventory of unsold homes now stands at a level of more than twice the average of the past few years. While the median prices of new home sales declined significantly from the previous year, those of existing home sales stagnated, putting an end to the period of booming housing prices during 1996-2005.

Figure 5 New Home Sales in the United States (seasonally adjusted annual rate)



Source: United States Census Bureau. (updated on the 5 November 2007)

In the baseline outlook, housing activity in the United States is expected to shrink further, with resident investment declining by another 18 per cent in 2008, and house prices are expected to register a decline of about 6 per cent as measured by the Office of Federal Housing Enterprise Oversight (OFHEO) index. Such a continued housing downturn would likely reduce the growth rate of the United States economy by about one percentage point and have a modest impact on world economic growth. However, risks remain for a much deeper correction of house prices. Real house prices, adjusted by the consumer price index (CPI), rose about 90 per cent in the United States between the nadir of 1996 and the recent peak of 2006, compared with an increase of 10-20 per cent in the previous housing cycles. Based on past events, some analysts argue that much steeper declines in real house prices are possible, that is to say, by more than the 15 per cent registered in the previous cycle of 1989-1996 and by as much as 50 per cent in some cities.[7]

Should a deeper and more protracted housing slump occur, the impact on the economy of the United States, as well as on the global economy, would not be inconsequential, with a destabilization of the financial markets, and a depression of household consumption, leading to broad and deep economic stress.

In effect, the impact of the housing downturn on the financial markets already manifested itself during the summer of 2007, as the debacle in the sub-prime mortgage loan sector triggered a full-blown global financial turmoil.

The sub-prime mortgage market serves clients with poor credit histories or insufficient financial resources who are not qualified for conventional mortgages. When house prices rose, the sub-prime mortgage market expanded rapidly. New sub-prime loans in the United States increased from $120 billion in 2001 to more than $600 billion in 2006. Financial gains on the part of lenders encouraged an excessive easing of underwriting standards. An increasing number of mortgage loans were made with high loan-to-value ratios, poor information about the borrower's financial condition and lax assessments of the value of the home to be financed.

The sub-prime adjustable-rate mortgages (ARMs), typically with an initial two-year introductory interest rate, represented the major concern. These borrowers were counting on rising house prices to refinance their mortgages before the financing cost was reset to a higher rate after the two-year period. When house prices failed to appreciate, both delinquency rates and foreclosures increased sharply.

Although sub-prime mortgages are a relatively small fraction of the total mortgage market (about 20 per cent) and an even smaller fraction of the total credit market, a complex financial system with overstretched leverage, lack of transparency and inadequate regulation served to spread and multiply the risk beyond the sub-prime market. Financial innovations, such as collateralized debt obligations (CDOs), fuelled mortgage lending by securitizing mortgage loans and bundling them with other securities, such as traditional bonds and commercial paper, to sell to investors. The risk of these financial products was often underestimated by both the rating agencies and the investors. When the rate of delinquencies for sub-prime mortgages reached an all-time high of 16 per cent in the summer of 2007, panic among investors and lenders led to an abrupt adjustment in the price for credit instruments. Downgrades of sub-prime-related debt by the rating agencies also triggered a sell-off by institutions that were required to hold only higher-grade debt. As a result, liquidity in the credit markets in the United States and a few other major developed countries dried up and spreads widened.

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[7] See, for example, Robert Shiller, "Understanding recent trends in house prices and home ownership", Cowles Foundation for Research in Economics Discussion Paper, No. 1630, September 2007, New Haven, Connecticut: Yale University, available from http://cowles.econ.yale.edu/P/cd/d16a/d1630.pdf.

The responses by the central banks of the major economies have helped to calm financial markets, but conditions in mortgage markets remain difficult in late 2007. A large share of sub-prime mortgage loans provided during the period from the end of 2005 throughout 2006 was subject to lowered underwriting standards. These loans will experience their first interest-rate resets in late 2007 or during 2008. Tightening terms and standards in the mortgage markets, especially in the non-prime markets, is therefore likely to intensify the housing downturn in 2008, while further declines in house prices will in turn exacerbate the financial predicament of those sub-prime borrowers who are expected to face a reset to much higher interest rates in 2008. Delinquencies on these mortgages are, therefore, expected to increase further, implying more stress in financial markets at large.

A protracted housing recession should significantly affect the real economy. The direct losses from the decline in housing construction and other related activity, such as mortgage banking and real estate brokerage, were estimated to be about three quarters of one percentage point of GDP for the United States in 2007. Wealth effects from lower house prices and balance-sheet effects from tightening credit terms on household spending have not visibly affected domestic spending thus far. This can likely be explained by the fact that the decline in average house prices has been only modest so far and the related loss in household wealth has been offset by the appreciation of other assets, such as equities.

The classic life-cycle consumption theory supports the view that changes in house prices, like changes in the prices of other assets, should have a measurable impact on household spending, as implied by a long-run marginal propensity to consume out of wealth. For example, Catte and others find that the elasticity of consumption with respect to increases in net household wealth range from 0.01 to 0.07 for the OECD countries. The elasticity for the United States is 0.03.[8] Some analysts believe that consumer demand responds more strongly to changes in housing wealth than to changes in wealth held as financial assets. Case and others find that the consumption elasticity with respect to an increase in the value of homes is between 0.11 and 0.17, compared to only 0.02 with respect to an increase in financial household wealth.[9] Others, however, believe that the effects of housing prices on consumption are uncertain: higher house prices could even reduce current consumption for those planning to buy a house if they think they would need to save more for that purpose.[10]

The balance-sheet effects of changes in house prices on consumption refer to the fact that changes in home equity value would change the credit constraints on households for financing consumer spending. Some analysts believe that during the last housing boom in the United States, mortgage equity withdrawals played an important role in boosting consumption spending

[8] Pietro Catte, Nathalie Girouard, Robert Price and Christophe André, "Housing markets, wealth, and the business cycle," OECD Economics Department Working Paper, No. 394, June 2004, Paris: Organization for Economic Co-operation and Development.
[9] Karl E. Case, John M. Quigley and Robert J. Shiller, "Comparing wealth effects: the stock market versus the housing market," Cowles Foundation for Research in Economics Discussion Paper, No. 1335, October 2001, New Haven, Connecticut: Yale University, available from http://cowles.econ.yale.edu/P/cd/d13a/d1335.pdf.
[10] See, for example, Frederic S. Mishkin, "Housing and the monetary transmission mechanism", NBER Working Paper, No. 13518, October 2007, Cambridge, Massachusetts: National Bureau of Economic Research, available from http://www.nber.org/papers/w13518.pdf.

while lowering the household saving rate by 2.5-5 percentage points.[11] Such effects would translate into a direct boost to GDP growth of about 0.3 percentage points annually on average for the recent 10-year long housing boom cycle, with even larger effects in 2005-2006 when mortgage equity withdrawals surged.

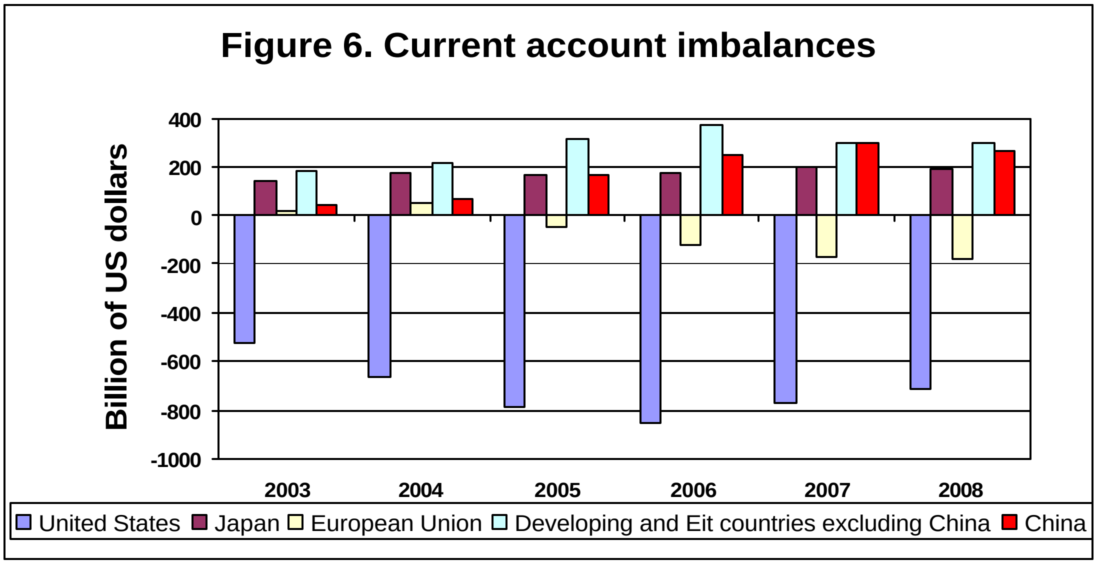
Despite differing views regarding the significance for consumption of the wealth and balance-sheet effects from changes in house prices, most empirical studies conclude that there is a fairly strong correlation between housing prices and consumption spending. If a continued deterioration in the housing sector were to lead to a substantial fall in house prices, both the wealth and income effects would come into play, leading eventually to a retrenchment of private consumption, as well as to a recession for the overall economy (see box 2 for an alternative scenario).

Risks of a hard landing of the dollar and a disorderly unwinding of the imbalances

There seems to be an inextricable linkage between the housing boom in a number of countries and the constellation of the global imbalances over the past decade: most economies that experienced a substantial appreciation of house prices also witnessed a widening deficit in their current account, as well as falling saving rates. This suggests that the housing boom in those countries, particularly the United States, was partially and indirectly financed by other countries who were running a surplus in their current account. Now that the housing cycle is making a downturn, the imbalances across countries may also start to reverse. However, the risks for a disorderly unwinding of the global imbalances may have increased due to the sharp downturn of the housing market in the United States, along with the unfolding credit crisis associated with the debacle in the sub-prime mortgage market.

Current-account imbalances across countries indeed narrowed somewhat in 2007 and are expected to narrow further in 2008 (figure 6). The deficit of the United States is estimated to be about $770 billion in 2007, a slight reduction from the $810 billion gap of 2006, and is expected to fall further to $720 billion in 2008. Developed economies as a whole registered a current-account deficit of about $600 billion in 2007 and that deficit is expected to be of a similar magnitude in 2008. The euro area as a whole has turned from a surplus position into a deficit, and this deficit is expected to widen further in 2008. Japan is expected to sustain its large surplus. Most developing regions are running surpluses. Developing Asia and oil-exporting developing countries contribute most to this savings surplus. China's external surplus increased further in 2007, to a level of about $300 billion from $250 billion in 2006. The surplus in the group of oil-exporting countries reached about $500 billion. Latin America has managed to run a surplus for an unprecedented five consecutive years, although it is declining. Africa as a whole has a more or less balanced current account. With regard to the economies in transition, the surplus in the CIS has surpassed $100 billion, mainly because of the Russian Federation; economies in transition in Europe are running substantial deficits relative to the size of their economies, however.

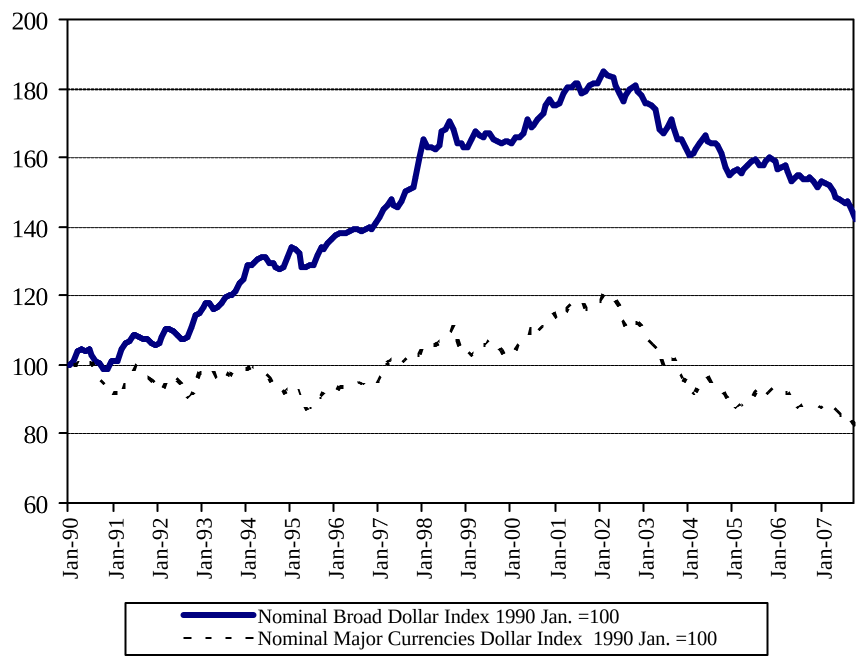
[11] Jan Hatzius, "Housing holds the key to Fed policy", Global Economics Paper, No. 137, February 2006, New York: Goldman Sachs.



The narrowing current-account deficit in the United States during 2007 was mirrored in a decline in the government deficit, which decreased by about $80 billion during 2007 to a level of $160 billion, owing to increasing tax revenues. The household saving rate continued to be low, close to zero per cent of disposable income. In the outlook for 2008, the anticipated further improvement in the current-account deficit will reflect a weakening of import demand combined with a relatively stronger export performance (from the trade side) and a weakening in domestic investment and a replenishment of household savings (from the perspective of the savings-investment balance).

Despite the projected narrowing of the current-account deficit in the United States, the risks for a disorderly adjustment remain as the indebtedness of the United States continues to deepen. As a result of the chronic current-account deficits over the past decade, the net international investment position of the United States reached over $2.5 trillion by the end of 2006 and is estimated to be near $3 trillion in 2007. Over several years, appreciation in the value of United States-owned assets abroad and depreciation in the value of United States-based assets have produced favourable valuation effects for the United States on its net debt position. For example, during 2006 (for which the latest accounting data are available), a deficit in the current account of more than $800 billion was substantially offset by approximately the amount of the valuation adjustment of $350 billion from changes in the prices of assets and about $220 billion from exchange-rate changes, resulting in an increment of only around $300 billion to the net international investment position of the United States. A depreciation of the United States dollar seems to be an "effective" approach for the United States to write off its foreign debt position: a privilege for the issuer of the international reserve currency. Nevertheless, these favourable valuation effects are not nearly large enough to outweigh the adverse trend associated with the large current-account deficit. In the outlook for 2008, the net foreign debt position of the United States will likely exceed $3 trillion, that is to say, about 25 per cent of GDP. Despite the sizable valuation effects in recent years, the net debt position of the United States will continue to rise, making it less and less sustainable, unless the current-account deficit is halved from the current level. The large current-account deficit and perceptions that the United States debt position is approaching unsustainable levels have been among the major factors underlying the depreciation of the United States dollar since 2002. As indicated by figure 7, since its peak of 2002, the dollar has depreciated vis-à-vis other major currencies by about 30 per cent, having reached the lowest point in more than two decades. The dollar depreciated the most against the euro, as the euro rose to an all-time high of above $1.46/euro in the second half of 2007, amid the sub-prime-related financial turmoil. Among the major currencies, the only exception is the Japanese yen, which has weakened against the dollar over the past year, partly because the large differential between the interest rates of the United States and Japan has attracted a large amount of carry trades. The dollar has also depreciated against most currencies in developing countries: the Chinese renminbi, for instance, has appreciated by more than 10 per cent vis-à-vis the dollar since its de-pegging from the dollar in July 2005.

Figure 7. Exchange-rate index for the United States, 1990-2007[a]



Source: United States Federal Reserve Board.

Note: The major currencies index contains currencies of most developed countries; the broad index incorporates currencies of emerging economies into the other index. A decline in the index represents a depreciation of the dollar.

a/ Until October 2007

In the outlook for 2008, the dollar is expected to continue the trend of depreciation against most other currencies, by about 5 per cent. But the risk for a much sharper depreciation of the dollar in association with an adjustment of its large current-account deficit has heightened. Since 2002, the trend of dollar depreciation has been interspersed by periodic rebounds as the differentials in the interest rates and GDP growth rates among the major economies have been in favour of the dollar, thereby offsetting the depreciation pressures stemming from the concerns surrounding the current-account deficit; but these favourable differentials for the dollar have narrowed substantially in 2007 and will continue to do so in 2008.

A realignment of exchange rates is needed as one of the ingredients for adjusting the global imbalances. The question is thus not so much whether one should expect a further depreciation of the dollar – a trend that will continue; the greater concern is that the adjustment may not be gradual and that the dollar could decline abruptly. A hard landing could be serious. It would likely trigger a disorderly adjustment of the global imbalances and destabilize the global financial system with strong adverse effects on global economic growth. A steep fall of the dollar would immediately depress United States demand for goods from the rest of the world. A weaker dollar would eventually be expansionary by boosting exports, but existing estimates suggest a lag of two or more years before the full effect of depreciation is seen on trade flows. Because of the enormous size of the trade deficit, however, the increase in net exports (that is to say, exports minus imports) may take longer than usual because there needs to be a massive shift of resources into export activities. In addition, since many developing countries are holding a large amount of foreign reserves in dollar-denominated assets, a sharp depreciation of the dollar would entail substantial financial losses for these countries.[12]

[12] For a detailed discussion on the effectiveness of currency realignment on the adjustment of external imbalances, see *World Economic Situation and Prospects 2004* (United Nations publication, Sales no. E.04.II.C.2).

Annex 1: Evaluation of the LINK forecasts of world economic growth

Since the early 1970s, the United Nations Secretariat has published forecasts for the world economy every year based on the global model framework and expert opinions of Project LINK.[13] How accurate are these forecasts in terms of bias and efficiency?

In the analysis below, we compare the forecasts for gross domestic product (GDP) growth rates for main country groupings for year **t**, made at the beginning of the year (one-year-ahead forecasting) with the observed growth estimates based on officially released data by year **t+2**.

Figures A.1 to A.3 show the forecasts, observed data and errors for the world, developed and developing countries, respectively.

No systematic bias is found in the forecasts for the growth rates for any of the three country groups.[14] In other words, the forecasts have neither been systematically too optimistic or too pessimistic, and the forecasts generally have been efficient in terms of making adequate use of the information available at the time the forecasts were produced.[15]

The analysis shows further that forecasting errors are not found to be significantly different across the sub-samples of each of three decades (1972-1983, 1984-1994, 1995-2005) in terms of the means and the standard deviations of the errors. This finding suggests that the model framework and expert opinion of Project LINK successfully adapted to the structural changes that have taken place in the world economy over the past three decades. In some years, however, rather large differences between the forecast and observed GDP growth can be observed, especially for 2001 when the deceleration of world GDP growth caused by the bursting of the investment bubbles associated with information and communication technologies (ICT) stocks was not foreseen in the forecast.

Generally, the forecasting errors for GDP growth in developing countries tend to be larger than those for the group of developed countries, with the standard deviation of the errors for the former almost twice as large as that of the latter. One obvious reason for the poorer forecasting performance for developing countries is inextricably attributable to the much lower quality of available economic data for these countries. Other reasons include the fact that many developing countries have experienced periods of high volatility in their GDP growth over the past three decades, such as those during the debt crisis for Latin America in the early 1980s and the Asian financial crisis in the late 1990s. As indicated in figure A.3, the United Nations forecasts for developing countries have either underestimated or missed the adverse impact of these crises on the growth of these economies.

[13] The forecasts were published in part one of the *World Economic and Social Survey* before 2000 and have since been published in the *World Economic Situation and Prospects*.

[14] The means and the medians of the errors are not statistically significant from zero. For technical discussion of the methodology, see for example, Alberto Musso and Steven Phillips "Comparing projections and outcomes of IMF-supported programmes", *IMF Staff Papers*, Vol. 49 (1), 2002

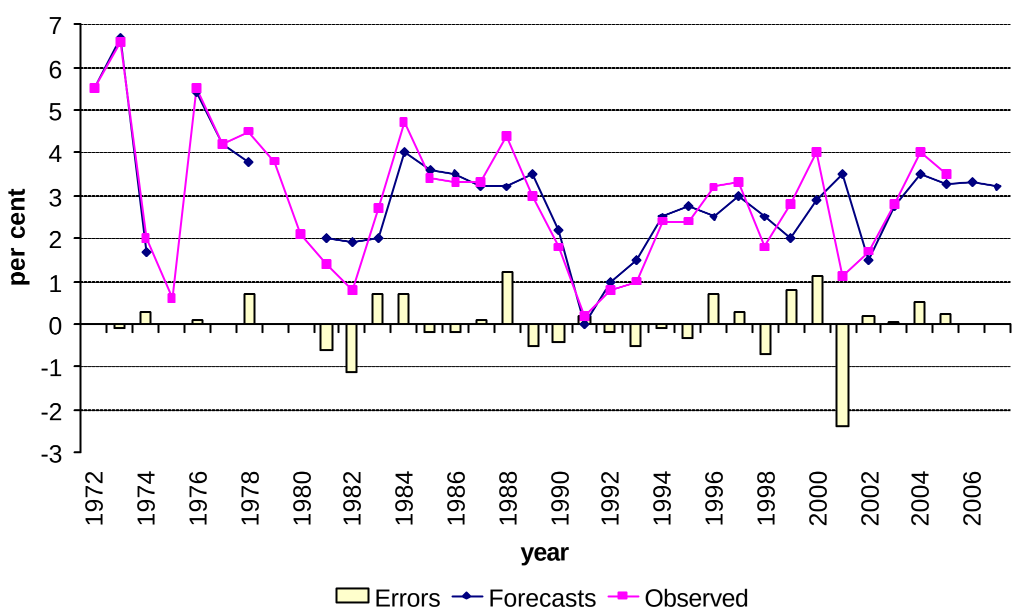
[15] This is suggested by the fact that no serial correlation (first order) in the forecasting errors for each of the country groups is found to be significant.

Forecasting errors tend to be larger for periods of adverse shocks and sudden downswings of the world economy. Such shocks are difficult to predict in general, but the macro-econometric models used to produce the United Nations forecasts are also not well-suited to predicting the timing and severity of financial and trade shocks. However, once a financial crisis has occurred, these models seem to perform relatively well in forecasting output growth in the aftermath by incorporating the observed shocks, as well as the policy responses.

An alternative approach to evaluating the forecasts is to compare them with estimates that would assume that GDP growth can be predicted by a random-walk process. Doing this shows that the conditional (model-based) United Nations forecasts are always superior to forecasts generated by a random-walk process.[16]

In addition, after considering more sophisticated evaluation techniques, it can be concluded that the United Nations forecasts are generally unbiased and fairly efficient, despite their weakness in predicting the impact of particular shocks to commodity or financial markets for developing countries.

Figure A.1. Forecasting errors for world GDP growth



[16] That is to say, one would systematically find smaller values for the means and standard deviations of forecasting errors in the former case. For instance, the mean value of the forecasting errors for the world GDP growth from the United Nations forecasts is about 0.5 in comparison with the mean of 1.3 from the random-walk forecast, and the standard deviation is about 0.7 in comparison with 1.7.

Figure A.2. forecasting errors for GDP growth in developed countries

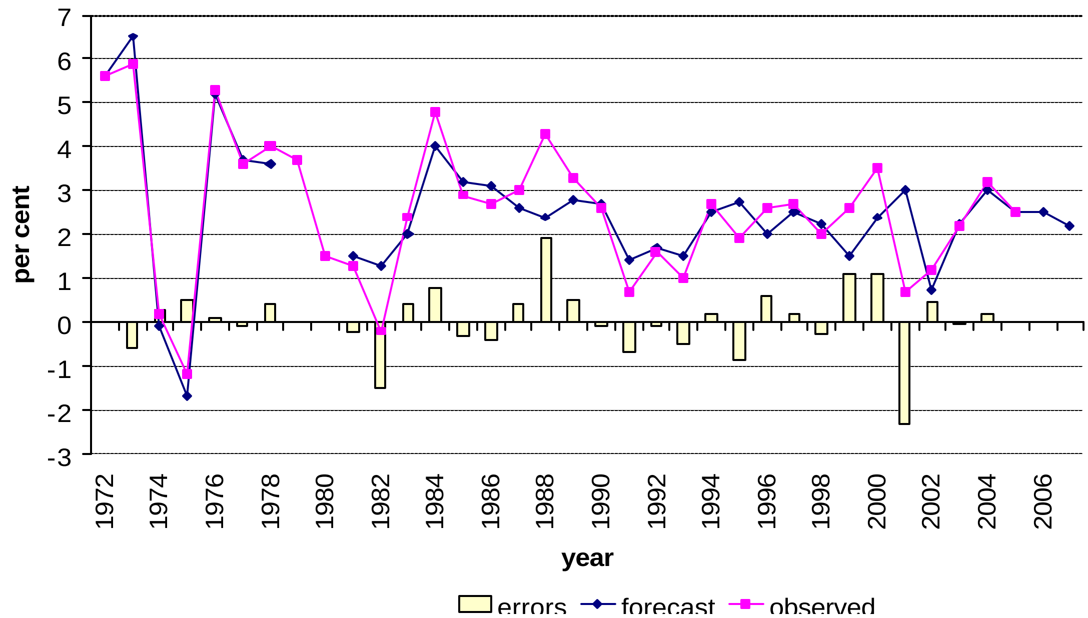


figure A.3. forecasting errors for GDP growth in developing countries

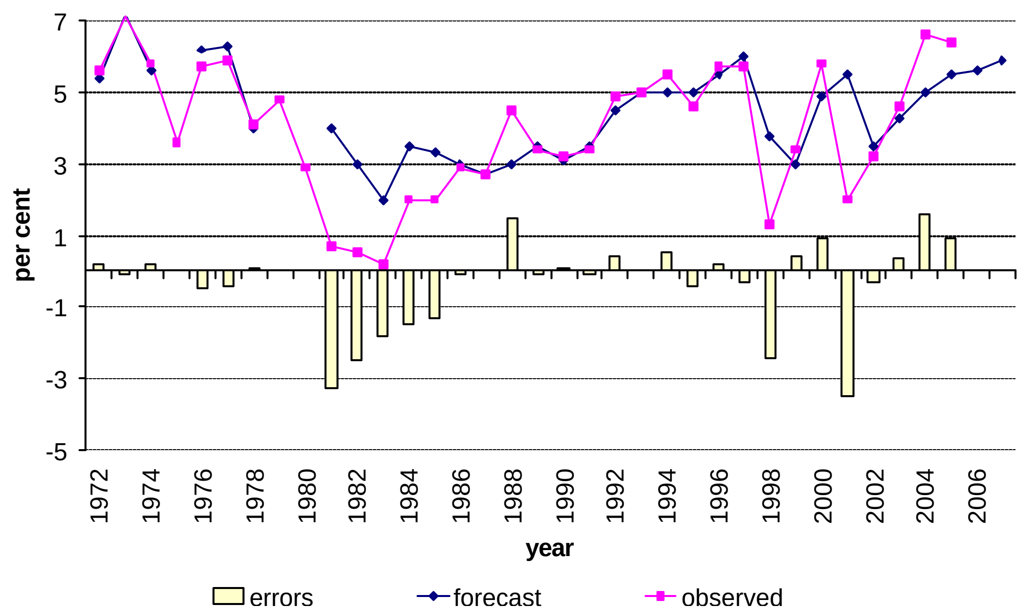


Table A.1
World and regions: rates of growth of real GDP, 2001-2008
(Annual percentage change[a])

	2001	2002	2003	2004	2005	2006[b]	2007[c]	2008[c]
World	1.6	1.9	2.7	4.0	3.4	3.9	3.7	3.4
Developed economies	1.2	1.3	1.9	3.0	2.4	2.8	2.4	2.2
North America	0.8	1.7	2.5	3.6	3.1	2.9	2.1	2.0
Asia and Oceania	0.5	0.5	1.7	2.8	2.0	2.2	2.2	1.9
Europe	1.9	1.2	1.2	2.5	1.8	3.0	2.9	2.5
European Union	1.9	1.2	1.3	2.4	1.7	3.0	2.9	2.5
EU-15	1.9	1.1	1.2	2.3	1.6	2.8	2.7	2.3
New EU Members	2.8	2.8	4.2	5.5	4.2	6.2	6.0	5.4
Other Europe	1.5	0.9	0.3	3.2	2.6	3.1	3.1	2.6
Memorandum items:								
Euro Zone	1.9	0.9	0.8	2.0	1.5	2.8	2.6	2.3
Major developed economies (G-7)	0.9	1.1	1.8	3.0	2.3	2.6	2.2	2.0
OECD	1.1	1.4	1.9	3.1	2.5	2.9	2.5	2.3
Economies in transition	5.8	5.0	7.2	7.6	6.6	7.5	8.0	7.1
South-eastern Europe	4.2	4.2	3.4	4.5	4.4	5.0	6.1	5.3
Commonwealth of Independent States	6.0	5.1	7.6	8.0	6.8	7.7	8.2	7.3
Net fuel exporters	5.6	5.1	7.4	7.4	7.1	7.7	8.3	7.3
Net fuel importers	7.9	5.5	9.2	11.2	5.0	7.9	7.4	7.1
Developing countries	2.7	3.9	5.2	7.0	6.5	7.0	6.9	6.5
Africa	3.7	3.4	4.6	4.8	5.2	5.7	5.8	6.2
North Africa	3.5	3.3	5.2	4.8	4.5	5.8	5.6	6.0
Sub-Saharan Africa[d]	4.8	4.0	3.3	5.8	5.9	6.1	7.0	7.7
Net fuel exporters	3.0	3.5	5.8	4.7	5.9	5.9	6.6	7.4
Net fuel importers	4.2	3.4	3.5	4.9	4.7	5.5	5.1	5.3
East and South Asia	4.5	6.5	6.8	7.8	7.5	8.1	8.0	7.5
East Asia	4.5	7.0	6.8	8.0	7.6	8.3	8.4	7.8
South Asia	4.3	5.0	7.0	7.1	7.1	7.5	6.9	6.7
Net fuel exporters	4.2	6.7	7.2	5.6	5.0	5.5	5.1	4.7
Net fuel importers	4.5	6.5	6.8	8.0	7.8	8.4	8.3	7.8
Western Asia	-0.4	3.1	4.7	6.9	6.4	4.6	5.7	5.2
Net fuel exporters	2.6	2.1	5.1	6.6	6.6	4.1	6.1	5.5
Net fuel importers	-4.2	4.4	4.2	7.2	6.2	5.3	5.1	4.7
Latin America and the Caribbean	0.3	-0.8	2.2	6.2	4.7	5.7	5.2	4.8
South America	0.3	-1.9	2.4	7.4	5.4	5.8	6.0	5.1
Mexico and Central America	0.2	0.9	1.6	4.1	3.0	4.9	3.2	3.9
Caribbean	2.3	2.9	2.9	3.9	8.8	10.2	7.1	5.6
Net fuel exporters	-0.6	-3.0	2.5	6.7	5.4	6.6	5.2	4.7
Net fuel importers	1.4	1.9	1.8	5.5	4.0	4.7	5.1	4.8
Memorandum items:								
Least developed countries	6.6	6.3	6.6	7.9	8.4	8.1	6.7	6.9
East Asia (excluding China)	1.7	5.3	4.2	6.2	5.2	5.7	5.5	5.3
South Asia (excluding India)	3.7	6.0	6.8	5.8	5.3	5.6	5.3	4.9
Western Asia (excluding Israel and Turkey)	2.7	2.2	5.0	6.5	6.3	3.9	5.9	5.4
Landlocked developing economies	5.5	4.6	4.5	6.8	7.1	8.5	8.4	8.0
Small island developing economi	0.2	3.4	3.1	6.2	7.1	8.3	7.4	6.2

a Calculated as a weighted average of individual country growth rates of gross domestic p
where weights are based on GDP in 2000 prices and exchange rates.
b Partly estimated.
c Forecasts, based in part on Project LINK.
d Excluding Nigeria & South Africa.

Table A.2
Rates of growth of real GDP, 2001-2008
(Annual percentage change)

	2001	2002	2003	2004	2005	2006[a]	2007[b]	2008[b]
Developed economies								
North America								
Canada	1.8	2.9	1.8	3.3	2.9	2.7	2.4	1.9
United States	0.8	1.6	2.5	3.6	3.1	2.9	2.1	2.0
Asia and Oceania								
Australia	3.8	3.2	4.1	2.7	2.8	2.7	4.2	3.6
Japan	0.2	0.3	1.4	2.7	1.9	2.2	2.0	1.7
New Zealand	3.5	4.6	3.6	5.0	2.6	1.9	3.0	2.9
European Union								
EU-15								
Austria	0.8	0.9	1.2	2.3	2.0	3.3	3.2	2.6
Belgium	0.8	1.5	1.0	3.0	1.1	3.2	2.4	2.5
Denmark	0.7	0.5	0.4	2.1	3.1	3.5	2.2	1.1
Finland	2.6	1.6	1.8	3.7	2.9	5.0	4.4	3.1
France	1.8	1.0	1.1	2.5	1.7	2.0	2.3	2.3
Germany	1.2	0.0	-0.2	1.1	0.8	2.9	2.6	2.3
Greece	4.5	3.9	4.9	4.7	3.7	4.3	3.8	3.0
Ireland	5.9	6.4	4.3	4.3	5.9	5.7	4.7	3.5
Italy	1.8	0.3	0.0	1.2	0.1	1.9	1.7	1.4
Luxembourg	2.5	3.8	1.3	3.6	4.0	6.2	5.0	3.4
Netherlands	1.9	0.1	0.3	2.2	1.5	3.0	2.7	2.6
Portugal	2.0	0.8	-0.7	1.5	0.5	1.3	1.8	2.1
Spain	3.6	2.7	3.1	3.3	3.6	3.9	3.9	2.8
Sweden	1.1	2.0	1.7	4.1	2.9	4.2	3.6	3.8
United Kingdom	2.4	2.1	2.8	3.3	1.8	2.8	3.0	2.3
New EU members								
Bulgaria	4.1	4.9	4.5	5.7	5.5	6.1	6.5	5.6
Cyprus	4.1	2.1	1.9	3.8	3.8	3.8	3.8	3.4
Czech Republic	2.6	1.5	3.7	4.6	6.1	6.4	5.6	5.0
Estonia	6.5	7.2	6.7	7.8	10.5	11.2	8.0	6.0
Hungary	4.1	4.3	4.1	4.9	1.5	3.9	2.1	3.0
Latvia	8.0	6.4	7.2	8.5	10.3	11.9	9.8	7.6
Lithuania	6.4	6.8	10.5	7.0	7.5	7.5	8.0	6.6
Malta	0.2	1.1	-2.1	0.2	0.8	3.3	3.5	3.2
Poland	1.0	1.4	3.8	5.3	3.2	5.8	6.6	5.8
Romania	5.7	5.1	5.2	8.3	4.2	7.7	6.0	5.5
Slovak Republic	3.8	4.6	4.5	5.5	6.1	8.3	9.0	6.8
Slovenia	2.7	3.5	2.6	4.4	4.0	4.8	5.3	5.1
Other Europe								
Iceland	3.9	-0.1	2.7	7.6	7.2	4.2	1.8	2.1
Norway	2.0	1.5	1.0	3.9	2.7	2.8	3.5	3.7
Switzerland	1.2	0.4	-0.2	2.5	2.4	3.2	2.9	1.9
Economies in transition								
South-eastern Europe								
Albania	7.2	3.4	6.0	6.0	5.6	5.2	5.6	6.0
Bosnia and Herzegovina	4.5	3.7	3.2	4.0	5.3	5.5	6.0	6.0
Croatia	4.4	5.2	4.3	3.8	3.2	4.8	6.0	4.8
Montenegro	-0.2	1.8	2.3	4.2	4.0	6.5	6.0	5.0
Serbia	4.8	4.2	2.5	8.4	6.2	5.7	7.0	6.0
The former Yugoslav Republic of Macedonia	-4.5	0.9	3.4	2.5	4.0	3.1	4.5	4.5
Commonwealth of Independent States								
Armenia	9.6	13.2	14.0	10.5	13.9	13.3	12.0	10.0
Azerbaijan	9.9	10.6	11.2	10.2	26.4	34.5	29.0	25.0
Belarus	4.7	5.0	7.0	11.4	9.4	9.9	8.0	7.0
Georgia	4.8	5.5	11.1	5.9	9.6	9.4	11.0	9.0
Kazakhstan	13.5	9.8	9.3	9.6	9.7	10.6	9.0	8.3
Kyrgyzstan	5.3	0.0	7.0	7.0	-0.2	2.7	7.8	7.5

Republic of Moldova	6.1	7.8	6.6	7.4	7.5	4.0	7.0	6.0
Russian Federation	5.1	4.7	7.3	7.2	6.4	6.7	7.5	6.5
Tajikistan	9.6	10.8	11.0	10.3	6.7	7.0	7.4	7.0
Turkmenistan	4.3	0.3	3.3	4.5	9.6	9.0	8.0	7.0
Ukraine	9.2	5.2	9.6	12.1	2.7	7.1	6.5	6.7
Uzbekistan	4.2	4.0	4.4	7.7	7.0	7.3	8.6	7.3
Developing countries								
Africa								
Algeria	2.1	4.0	6.8	5.2	5.3	3.0	4.8	5.0
Angola	3.0	14.3	3.3	11.2	20.6	18.6	21.0	25.0
Benin	6.2	4.4	3.9	3.1	2.9	3.6	5.0	6.0
Botswana	1.7	9.6	3.1	9.2	-0.8	5.4	4.8	4.5
Burkina Faso	6.8	4.6	8.0	4.6	7.1	6.1	6.0	6.5
Burundi	3.0	4.1	-1.0	4.8	0.8	4.2	3.2	4.4
Cameroon	4.5	4.0	4.2	3.6	2.0	3.8	3.9	5.1
Cape Verde	6.1	5.3	4.7	4.4	5.8	6.5	7.0	7.5
Central African Republic	1.5	0.3	-7.6	1.3	2.2	3.8	4.5	4.7
Chad	11.8	8.5	14.7	33.6	7.9	0.5	-0.5	3.5
Comoros	3.3	4.1	2.5	-0.2	4.2	1.2	1.0	3.0
Congo	3.7	4.6	0.8	3.5	7.8	6.1	4.0	7.3
Côte d'Ivoire	0.1	-1.6	-1.7	1.5	1.8	1.8	2.0	4.5
Democratic Republic of the Congo	-2.1	3.5	5.8	6.7	6.5	5.0	6.5	8.1
Djibouti	2.0	2.7	3.3	2.8	3.3	4.8	5.0	5.8
Egypt	3.2	4.1	3.2	4.1	4.5	6.8	7.0	7.1
Equatorial Guinea	78.2	20.9	11.6	31.7	6.7	-5.2	10.0	7.0
Eritrea	9.2	0.7	6.0	1.9	0.5	2.0	2.0	2.0
Ethiopia	7.9	0.0	-3.1	12.3	8.7	10.6	9.5	8.0
Gabon	2.0	0.0	2.4	1.1	3.0	1.2	4.9	4.2
Gambia	5.8	-3.2	6.9	2.4	5.1	6.5	7.0	6.5
Ghana	4.2	4.6	5.3	5.8	6.0	6.2	6.5	6.3
Guinea	3.8	4.2	1.2	2.7	3.3	2.2	1.5	4.5
Guinea-Bissau	0.2	-7.1	0.6	3.2	3.8	1.8	4.7	6.0
Kenya	4.7	0.4	2.9	4.7	5.8	6.0	6.1	5.8
Lesotho	3.3	3.6	3.2	2.7	1.3	6.2	3.0	5.3
Liberia	22.0	31.8	-31.3	2.6	5.3	7.8	9.5	10.5
Libyan Arab Jamahiriya	3.4	1.1	7.1	5.4	5.6	5.8	5.5	5.3
Madagascar	6.0	-12.7	9.8	5.3	4.6	4.9	6.4	7.1
Malawi	-5.0	2.9	6.1	7.1	2.5	7.9	8.5	4.9
Mali	11.9	4.3	7.6	2.2	6.1	5.0	5.4	5.5
Mauritania	2.9	1.1	5.6	5.2	5.4	11.4	1.0	5.0
Mauritius	2.9	1.6	4.4	4.8	2.3	5.0	5.0	5.1
Morocco	6.3	3.2	6.1	5.2	2.4	7.9	3.0	5.0
Mozambique	13.1	8.2	8.0	7.4	7.7	7.9	7.5	7.0
Namibia	2.4	6.7	3.5	6.6	4.2	4.6	4.8	4.7
Niger	5.8	5.8	3.8	-1.0	7.0	3.5	4.0	5.0
Nigeria	3.1	1.5	10.7	4.0	7.1	5.2	5.5	7.0
Rwanda	6.7	9.4	1.0	4.0	6.0	5.3	4.8	5.0
Sao Tome and Principe	4.4	3.5	4.1	4.0	6.0	8.0	6.5	8.0
Senegal	5.6	1.2	6.7	5.6	5.5	3.1	5.4	5.5
Sierra Leone	18.2	27.5	9.3	7.4	7.2	7.3	6.5	6.0
Somalia	2.0	4.0	2.5	-0.2	4.2	1.2	-3.5	2.0
South Africa	2.7	3.6	2.8	3.7	5.1	5.0	4.8	4.5
Sudan	6.2	6.4	5.0	5.2	8.6	11.8	11.0	8.0
Togo	2.0	3.5	2.0	-0.8	0.8	1.5	2.9	5.5
Tunisia	4.9	1.7	5.6	6.0	4.2	5.4	6.0	6.0
Uganda	6.1	6.8	4.4	5.7	6.6	5.4	6.0	6.3
United Republic of Tanzania	6.2	7.2	7.1	6.7	6.8	5.9	7.0	7.2
Zambia	4.9	3.3	5.1	5.4	5.2	5.8	5.5	6.1
Zimbabwe	-2.5	-4.3	-10.4	-3.8	-5.3	-4.8	-2.5	-2.0
East and South Asia								
Bangladesh	4.8	4.8	5.8	6.1	6.2	6.3	6.2	6.4
Brunei Darussalam	2.7	3.9	2.9	0.5	0.4	5.1	2.1	3.0

China	8.3	9.1	10.0	10.1	10.4	11.1	11.4	10.1
Hong Kong, Special Administrative Region of China	0.5	1.8	3.0	8.5	7.1	6.8	6.1	5.7
India	5.0	4.0	7.1	8.5	8.8	9.4	8.5	8.2
Indonesia	3.6	4.5	4.8	5.1	5.6	5.6	6.2	6.0
Iran, Islamic Republic of	4.0	6.7	7.2	5.5	4.7	5.2	4.8	4.4
Korea, Republic of	3.8	7.0	3.1	4.7	4.2	5.0	4.9	5.0
Malaysia	0.3	4.4	5.4	7.3	5.2	5.9	5.7	5.8
Myanmar	11.3	12.0	13.8	13.6	13.6	12.7	4.2	3.3
Nepal	2.7	1.2	3.5	3.3	2.9	2.7	2.6	3.3
Pakistan	3.1	4.6	6.1	7.5	7.7	6.6	6.5	6.3
Papua New Guinea	-0.1	-0.2	2.9	2.9	3.4	2.6	5.2	4.5
Philippines	1.8	4.4	4.9	6.4	4.9	5.4	6.8	6.1
Singapore	-2.4	4.2	3.1	8.8	6.6	7.9	8.5	7.2
Sri Lanka	-1.5	4.0	6.0	5.4	6.0	7.3	6.2	6.3
Taiwan, Province of China	-2.2	4.6	3.5	6.2	4.1	4.7	4.6	4.4
Thailand	2.2	5.3	7.1	6.3	4.5	5.0	4.5	4.8
Viet Nam	6.9	7.1	7.3	7.8	8.4	8.2	8.3	8.1
Western Asia								
Bahrain	4.6	5.2	7.2	5.4	7.8	7.1	6.5	6.4
Iraq	4.0	-5.7	-44.3	46.5	3.7	6.2	6.3	7.0
Israel	-0.6	-0.9	1.5	4.8	5.2	5.1	5.1	4.3
Jordan	5.3	5.7	4.1	7.7	5.0	6.3	5.7	5.6
Kuwait	0.7	5.1	13.4	10.5	10.0	6.1	5.7	5.8
Lebanon	1.4	2.0	3.0	5.0	-0.1	-3.2	2.0	3.0
Oman	7.5	2.3	1.9	6.1	3.8	-28.3	16.0	-8.6
Qatar	6.3	7.3	3.3	9.3	6.1	6.9	7.5	10.0
Saudi Arabia	0.5	0.1	7.7	5.3	6.6	4.3	5.0	5.2
Syrian Arab Republic	5.1	5.9	1.1	2.0	3.5	4.6	4.2	4.0
Turkey	-7.5	7.9	5.8	8.9	7.4	6.1	5.3	5.0
United Arab Emirates	3.5	1.8	11.9	7.4	9.5	8.9	8.5	8.6
Yemen	4.7	3.9	4.2	3.1	3.1	4.0	3.7	3.8
Latin America								
Argentina	-4.4	-10.9	8.8	9.0	9.2	8.5	8.0	5.7
Barbados	-3.4	-0.4	2.2	4.8	4.1	3.8	4.0	4.0
Bolivia	1.5	2.8	2.5	4.2	4.1	4.6	4.2	4.5
Brazil	1.3	1.9	1.1	5.7	2.9	3.7	4.5	4.5
Chile	3.4	2.2	3.9	6.0	5.7	4.0	6.0	5.0
Colombia	1.5	1.9	4.1	4.0	5.1	6.8	6.5	5.5
Costa Rica	1.1	2.9	6.4	4.1	5.9	7.9	6.0	5.5
Cuba	3.0	1.5	2.9	5.4	11.8	12.5	8.0	6.0
Dominican Republic	2.3	5.0	-0.4	2.7	9.5	10.7	7.5	6.0
Ecuador	5.3	4.2	3.6	8.0	6.0	3.9	3.4	3.0
El Salvador	1.7	2.2	2.3	1.8	2.8	4.2	4.5	4.0
Guatemala	2.3	2.3	2.1	2.7	3.5	4.9	5.5	4.5
Guyana	3.4	-1.1	0.7	1.6	-2.0	4.7	5.0	4.0
Haiti	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.5	3.5
Honduras	2.6	2.7	3.5	5.0	4.1	6.0	5.5	5.0
Jamaica	1.5	1.1	2.3	1.1	1.4	2.6	2.8	3.0
Mexico	0.0	0.8	1.4	4.2	2.8	4.8	2.8	3.7
Nicaragua	3.0	0.8	2.5	5.3	4.3	3.7	3.5	4.0
Panama	0.6	2.2	4.2	7.6	6.9	8.1	8.5	8.0
Paraguay	2.1	0.0	3.8	4.1	2.9	4.2	4.0	3.5
Peru	0.2	4.9	3.8	5.2	6.4	8.0	7.3	6.0
Trinidad and Tobago	4.3	6.8	12.6	6.5	8.9	12.0	8.0	6.0
Uruguay	-3.3	-11.2	2.1	11.8	6.6	7.0	5.2	4.5
Venezuela, Bolivarian Republic of	3.4	-8.9	-7.8	18.3	9.3	10.3	8.7	6.5

a Partly estimated.

b Forecasts, based in part on Project LINK.

Table A.3
World and regions: consumer price inflation, 2001-2008
(Annual percentage change[a])

	2001	2002	2003	2004	2005	2006[b]	2007[c]	2008[c]
Developed economies	2.1	1.3	1.7	1.9	2.2	2.2	1.9	1.7
North America	2.8	1.6	2.3	2.6	3.3	3.2	2.6	1.8
Asia and Oceania	-0.3	-0.6	0.0	0.2	0.0	0.5	0.2	0.9
Europe	2.5	2.0	1.9	1.9	2.1	2.1	2.0	2.0
European Union	2.6	2.1	1.9	2.0	2.1	2.1	2.0	2.0
EU-15	2.3	2.0	1.8	1.8	2.0	2.0	1.9	2.0
New EU Members	8.4	4.7	3.2	4.7	3.8	3.3	3.8	3.6
Other Europe	1.9	1.0	1.4	0.7	1.4	1.7	1.0	2.0
Memorandum items:								
Euro Zone	2.5	2.1	2.0	2.0	2.1	2.0	1.9	2.0
Major developed economies (G-7)	1.8	1.1	1.6	1.8	2.1	2.2	1.8	1.6
OECD	2.5	1.7	1.9	2.0	2.3	2.3	2.0	1.8
Economies in transition	21.2	13.6	11.9	10.0	11.7	9.1	9.1	8.5
South-eastern Europe	26.6	6.5	3.3	3.5	5.9	5.7	3.4	3.6
Commonwealth of Independent States	20.6	14.4	12.8	10.7	12.3	9.5	9.8	9.1
Net fuel exporters	20.4	15.2	13.3	10.7	12.4	9.6	9.6	8.8
Net fuel importers	21.7	10.1	10.2	10.7	11.6	8.5	11.1	10.5
Developing countries[d]	5.8	6.5	6.5	5.3	5.1	5.0	5.6	5.4
Africa[d]	10.2	6.7	6.9	6.0	6.1	6.1	6.3	5.5
North Africa	0.9	0.6	2.5	5.6	3.0	4.9	5.4	4.3
Sub-Saharan Africa (Excluding Nigeria & South Africa)[d]	26.4	12.3	12.7	7.9	9.7	8.8	7.8	6.5
Net fuel exporters	10.2	5.9	8.1	9.0	6.8	6.1	6.3	5.5
Net fuel importers[d]	10.3	7.4	6.0	3.5	5.5	6.2	6.2	5.5
East and South Asia	3.2	3.1	3.6	4.6	4.2	4.3	5.5	4.9
East Asia	2.1	1.5	2.0	3.4	2.9	2.9	4.1	3.6
South Asia	6.4	7.9	8.4	8.3	8.1	8.4	9.9	8.9
Net fuel exporters	10.1	13.2	15.1	14.0	12.8	11.5	16.0	14.7
Net fuel importers	2.4	2.0	2.4	3.6	3.3	3.5	4.4	3.8
Western Asia	16.8	14.8	8.9	4.2	5.1	6.0	5.1	5.8
Net fuel exporters	0.3	0.2	2.0	1.8	3.1	4.7	5.0	4.3
Net fuel importers	33.3	29.3	15.8	6.6	7.0	7.3	5.3	7.3
Latin America and the Caribbean	5.9	10.2	11.1	6.8	6.6	5.7	5.6	6.3
South America	5.6	12.9	14.1	7.0	7.7	6.5	6.3	7.4
Mexico and Central America	6.4	5.1	4.6	4.9	4.4	4.0	4.3	4.2
Caribbean	7.9	5.4	18.9	29.1	7.9	8.4	7.1	6.9
Net fuel exporters	8.0	7.8	8.7	7.2	5.8	5.2	6.2	6.5
Net fuel importers	4.4	11.9	12.8	6.5	7.1	6.1	5.2	6.2
Memorandum items:								
Least developed countries	24.1	20.1	17.3	8.8	10.3	12.5	15.7	12.2
East Asia (excluding China)	3.3	3.2	2.7	3.0	3.7	4.0	3.5	3.4
South Asia (excluding India)	9.1	11.3	12.9	12.7	12.0	10.9	14.5	13.0
Western Asia (excluding Israel and Turkey)	0.6	0.6	2.2	2.2	3.4	5.2	5.2	4.5

a Calculated as a weighted average of individual country growth rates of consumer price index (CPI), where weights are based on GDP in 2000, in United States dollars .

b Partly estimated.

c Forecasts, based in part on Project LINK.

d Excluding Zimbabwe.

Table A.4
Consumer price inflation, 2001-2008
(Annual percentage change)

	2001	2002	2003	2004	2005	2006[a]	2007[b]	2008[b]
Developed economies								
North America								
Canada	2.5	2.3	2.8	1.8	2.2	2.0	2.3	1.6
United States	2.8	1.6	2.3	2.7	3.4	3.2	2.7	1.8
Asia and Oceania								
Australia	4.4	3.0	2.8	2.3	2.7	3.5	2.4	3.7
Japan	-0.8	-0.9	-0.2	0.0	-0.3	0.2	0.0	0.7
New Zealand	2.6	2.7	1.8	2.3	3.0	3.4	2.5	2.6
European Union								
EU-15								
Austria	2.7	1.8	1.4	2.1	2.3	1.4	1.8	1.6
Belgium	2.5	1.6	1.6	2.1	2.8	1.8	1.6	1.5
Denmark	2.4	2.4	2.1	1.2	1.8	1.9	1.8	2.3
Finland	2.6	1.6	0.9	0.2	0.6	1.6	2.6	2.7
France	1.6	1.9	2.1	2.1	1.7	1.7	1.5	2.0
Germany	2.0	1.4	1.0	1.7	2.0	1.7	1.6	1.6
Greece	3.4	3.6	3.6	2.9	3.6	3.2	2.6	2.5
Ireland	4.9	4.6	3.5	2.2	2.4	3.9	4.9	3.0
Italy	2.8	2.5	2.7	2.2	2.0	2.1	1.8	2.0
Luxembourg	2.7	2.1	2.1	2.2	2.5	2.7	2.1	2.0
Netherlands	4.2	3.3	2.1	1.2	1.7	1.2	1.8	2.1
Portugal	4.4	3.6	3.3	2.4	2.3	3.1	2.4	2.0
Spain	3.6	3.1	3.0	3.0	3.4	3.5	2.7	2.6
Sweden	2.7	2.3	1.5	0.1	0.1	1.1	2.2	2.5
United Kingdom	1.2	1.3	1.4	1.3	2.1	2.3	2.4	1.9
New EU members								
Bulgaria	7.4	5.8	2.2	6.3	5.0	7.1	8.3	7.5
Cyprus	2.0	2.8	4.1	1.9	2.0	2.2	1.9	3.0
Czech Republic	4.8	2.0	-0.1	2.8	1.9	2.1	2.4	3.6
Estonia	5.8	3.6	1.3	3.0	3.6	4.4	5.8	6.5
Hungary	9.1	5.3	4.6	6.7	3.5	4.0	8.0	4.2
Latvia	2.5	1.9	2.9	6.2	6.9	6.6	9.5	6.8
Lithuania	0.3	0.4	-1.2	1.2	2.7	3.8	5.5	4.8
Malta	2.9	2.2	1.3	2.8	3.0	2.8	1.0	2.0
Poland	5.4	1.9	0.7	3.4	3.5	2.4	2.5	2.9
Romania	34.5	22.5	15.4	12.0	9.0	6.6	5.0	5.0
Slovak Republic	7.3	3.2	8.6	7.5	2.7	4.5	2.5	2.1
Slovenia	8.4	7.5	5.6	3.6	2.5	2.5	3.0	2.2
Other Europe								
Iceland	6.4	5.2	2.1	3.2	4.0	6.7	4.9	4.0
Norway	3.0	1.3	2.5	0.5	1.5	2.3	0.8	2.7
Switzerland	1.0	0.6	0.6	0.8	1.2	1.1	1.0	1.4
Economies in transition								
South-eastern Europe								
Albania	3.1	7.8	0.5	2.3	2.4	2.4	2.5	2.5
Bosnia and Herzegovina	1.8	0.9	0.2	-0.3	3.0	6.0	2.0	2.3
Croatia	3.7	1.7	1.8	2.1	3.0	3.2	2.5	2.8
Montenegro	22.6	18.3	6.8	2.2	2.7	2.9	3.5	3.0
Serbia	95.0	19.5	9.9	11.1	16.1	11.7	6.5	6.5
The former Yugoslav Republic of Macedonia	5.2	2.3	1.1	-0.4	0.0	3.0	2.3	2.5
Commonwealth of Independent States								
Armenia	3.2	1.0	2.7	8.1	0.6	2.9	5.0	4.5
Azerbaijan	1.6	2.8	2.1	6.7	9.6	8.3	17.5	16.5
Belarus	61.4	42.8	28.5	18.3	10.4	7.0	8.5	10.0
Georgia	4.6	5.6	4.8	5.7	8.2	9.2	9.5	8.5
Kazakhstan	8.5	6.0	6.4	6.9	7.6	8.6	8.5	7.5
Kyrgyzstan	6.9	2.1	3.0	4.1	4.4	5.6	6.5	7.0

Republic of Moldova	9.8	5.3	11.7	12.5	12.0	12.7	12.0	10.0
Russian Federation	21.5	15.7	13.7	10.9	12.7	9.7	9.4	8.7
Tajikistan	38.6	12.2	16.3	7.2	7.2	11.9	18.5	15.0
Turkmenistan	8.2	15.0	15.3	10.0	12.0	9.0	7.0	8.5
Ukraine	12.0	0.7	5.2	9.1	13.5	9.1	12.5	11.2
Uzbekistan	26.6	21.6	19.0	14.2	15.0	10.5	12.2	10.0
Developing countries								
Africa								
Algeria	4.2	1.4	2.6	3.6	1.6	2.6	4.1	4.0
Angola	169.7	95.6	98.2	43.5	24.8	13.3	12.6	13.4
Benin	4.0	2.5	1.5	0.9	5.4	3.0	0.2	1.0
Botswana	6.6	8.0	9.2	6.9	8.6	11.5	7.2	6.8
Burkina Faso	5.0	2.2	2.0	-0.4	6.4	2.8	1.1	2.0
Burundi	9.2	-1.3	10.7	8.4	13.0	2.7	5.3	5.7
Cameroon	4.4	2.8	0.6	0.2	2.0	5.0	2.0	2.8
Cape Verde	3.4	1.9	1.2	-1.9	0.4	5.4	3.0	2.5
Central African Republic	3.8	2.3	4.1	-2.1	2.9	6.7	3.0	2.5
Chad	12.4	5.2	-1.8	-5.4	7.9	7.9	4.0	3.0
Comoros	5.4	3.5	3.8	4.5	3.0	3.4	3.0	3.0
Congo	0.0	3.7	2.3	1.0	5.3	5.5	3.5	3.0
Côte d'Ivoire	4.3	3.1	3.3	1.4	3.9	2.6	2.5	2.7
Democratic Republic of the Congo	313.7	38.1	12.9	4.0	21.3	13.2	17.8	9.0
Djibouti	1.8	0.6	2.0	3.1	3.1	3.5	3.5	3.5
Egypt	2.3	2.7	4.5	11.3	4.9	7.6	8.4	5.7
Equatorial Guinea	8.8	7.6	7.3	4.2	5.7	4.5	6.1	6.0
Eritrea	12.4	17.4	22.7	25.1	12.5	17.3	23.5	26.0
Ethiopia	-8.2	1.7	17.8	3.3	11.6	13.5	14.5	12.0
Gabon	2.1	0.0	2.2	0.4	0.0	4.0	5.6	3.0
Gambia	4.4	8.6	17.0	14.2	3.2	1.4	4.5	5.0
Ghana	32.9	14.8	26.7	12.6	15.1	11.7	10.9	9.8
Guinea	5.4	3.0	12.9	17.5	31.1	34.7	24.0	14.0
Guinea-Bissau	3.3	3.3	-3.5	0.9	3.3	1.9	1.4	2.1
Kenya	5.7	2.0	9.8	11.6	10.3	14.5	9.3	7.4
Lesotho	-9.6	33.8	6.7	5.0	3.4	6.1	7.5	8.1
Liberia	12.1	14.2	10.3	3.6	7.0	7.2	11.1	10.0
Libyan Arab Jamahiriya	-8.8	-9.9	-2.1	-2.2	2.0	2.7	3.3	3.5
Madagascar	6.9	15.9	-1.2	13.8	18.5	10.8	10.0	8.0
Malawi	22.7	14.7	9.6	11.4	15.4	14.0	8.6	6.2
Mali	5.2	5.0	-1.3	-3.1	6.4	1.2	0.3	2.5
Mauritania	4.7	3.9	5.2	10.4	12.1	6.2	7.7	7.5
Mauritius	5.4	6.5	3.9	4.8	4.9	8.9	8.9	6.3
Morocco	0.6	2.8	1.2	1.5	1.0	3.4	2.1	2.5
Mozambique	9.1	16.8	13.4	12.7	7.2	13.2	13.2	5.9
Namibia	9.3	11.3	7.2	4.1	2.3	5.1	6.6	4.9
Niger	4.0	2.6	-1.6	0.3	7.8	0.4	0.6	1.5
Nigeria	18.9	12.9	14.0	15.0	17.9	8.2	6.5	7.6
Rwanda	3.0	2.3	7.1	12.3	9.0	8.8	8.0	7.5
Sao Tome and Principe	9.2	10.1	9.9	13.8	17.1	23.6	15.0	13.0
Senegal	3.1	2.2	0.0	0.5	1.7	1.9	1.4	2.0
Sierra Leone	2.1	-3.3	7.6	14.2	12.1	9.5	8.5	8.0
Somalia	10.0	10.0	12.0	12.0	12.0	14.0	15.0	10.0
South Africa	5.7	9.2	5.9	1.4	3.4	4.6	6.0	5.7
Sudan	5.8	9.8	6.5	8.3	8.5	7.2	9.0	8.6
Togo	3.9	3.1	-1.0	0.4	6.8	2.0	1.1	2.5
Tunisia	2.0	2.7	2.7	3.6	2.0	4.5	3.0	3.0
Uganda	2.0	-0.3	7.8	3.3	8.2	6.6	5.8	5.5
United Republic of Tanzania	5.1	1.0	3.5	0.0	8.6	7.3	5.8	5.2
Zambia	21.4	22.2	21.4	18.0	18.3	9.1	9.5	7.8
Zimbabwe	76.7	140.1	365.0	350.0	237.8	1016.7	6840.0	4182.0
East and South Asia								
Bangladesh	2.0	3.3	5.7	9.2	7.0	6.7	8.8	7.8
Brunei Darussalam	0.6	-2.3	0.3	0.8	1.1	0.2	-0.1	0.3

China	0.5	-0.8	1.2	3.9	1.8	1.5	4.9	3.8
Hong Kong, Special Administrative Region of China	-1.6	-3.1	-2.5	-0.4	0.9	2.1	1.4	1.4
India	3.7	4.4	3.8	3.8	4.3	6.0	5.2	4.7
Indonesia	11.5	11.9	6.6	6.2	10.5	13.1	6.5	5.8
Iran, Islamic Republic of	11.3	14.3	16.5	14.8	13.4	12.0	17.0	15.5
Korea, Republic of	4.1	2.8	3.5	3.6	2.8	2.2	2.4	2.8
Malaysia	1.4	1.8	1.0	1.5	3.0	3.6	2.1	2.6
Myanmar	21.1	57.1	36.6	4.5	9.4	27.5	46.5	32.6
Nepal	2.7	3.0	5.7	2.8	6.8	7.6	6.7	6.0
Pakistan	3.2	3.3	2.9	7.4	9.1	7.9	6.9	6.2
Papua New Guinea	9.3	11.8	14.7	2.2	1.7	2.7	4.8	2.7
Philippines	6.8	3.0	3.5	6.0	7.6	6.2	2.8	3.5
Singapore	1.0	-0.4	0.5	1.7	0.5	1.0	1.6	1.8
Sri Lanka	14.2	9.6	6.3	7.6	11.6	13.7	15.5	8.2
Taiwan, Province of China	0.0	-0.2	-0.3	1.6	2.3	0.6	1.4	2.0
Thailand	1.6	0.6	1.8	2.8	4.5	4.6	2.2	2.4
Viet Nam	-0.4	3.8	3.1	7.8	8.3	7.7	7.9	7.7
Western Asia								
Bahrain	-1.2	-0.5	1.6	2.4	2.6	3.0	2.9	2.8
Israel	1.1	5.6	0.7	-0.4	1.3	2.1	0.5	4.4
Jordan	1.8	1.8	1.6	3.4	3.5	6.3	5.5	5.0
Kuwait	1.3	0.9	1.0	1.3	4.1	3.0	4.0	3.5
Oman	-0.8	-0.3	0.2	0.8	1.9	3.2	3.5	3.2
Qatar	1.5	0.2	2.3	6.8	8.8	11.7	12.7	8.0
Saudi Arabia	-1.1	0.2	0.6	0.3	0.7	2.2	3.2	3.0
Syrian Arab Republic	3.0	-0.1	5.8	4.4	7.2	10.0	8.0	7.0
Turkey	54.4	45.0	25.3	10.6	10.1	9.6	7.7	8.8
Yemen	11.9	12.2	10.8	12.5	11.8	21.6	13.1	12.5
Latin America								
Argentina	-1.1	25.9	13.4	4.4	9.6	10.9	8.9	11.7
Barbados	2.6	0.1	1.6	1.4	6.1	7.3	7.0	6.0
Bolivia	1.6	0.9	3.3	4.4	5.4	4.3	8.5	8.5
Brazil	6.8	8.4	14.7	6.6	6.9	4.2	3.6	4.0
Chile	3.6	2.5	2.8	1.1	3.1	3.4	3.9	4.1
Colombia	8.0	6.3	7.1	5.9	5.0	4.3	5.5	4.6
Costa Rica	11.2	9.2	9.5	12.3	13.8	11.5	9.5	8.5
Dominican Republic	8.9	5.2	27.5	51.5	4.2	7.6	6.0	6.5
Ecuador	37.7	12.5	7.9	2.7	2.4	3.3	2.1	2.5
El Salvador	3.8	1.9	2.1	4.5	4.7	4.0	4.5	4.0
Guatemala	7.6	8.0	5.5	7.4	8.4	6.6	6.5	6.5
Guyana	2.6	5.3	6.0	4.7	6.3	7.2	8.0	8.0
Haiti	14.2	9.9	39.3	22.8	15.7	13.0	9.0	8.5
Honduras	9.7	7.7	7.7	8.1	8.8	5.6	5.7	5.5
Jamaica	7.0	7.1	10.3	13.6	15.3	9.0	8.0	7.5
Mexico	6.4	5.0	4.5	4.7	4.0	3.6	4.0	4.0
Nicaragua	0.0	3.8	5.3	8.5	9.6	9.1	9.5	8.5
Panama	0.3	1.0	0.1	0.4	3.3	2.5	4.0	3.5
Paraguay	7.3	10.5	14.2	4.3	6.8	9.6	10.0	10.0
Peru	2.0	0.2	2.3	3.7	1.6	2.0	1.5	2.5
Trinidad and Tobago	5.5	4.1	3.8	3.7	6.9	8.3	8.0	7.0
Uruguay	4.4	14.0	19.4	9.2	4.7	6.4	8.0	7.0
Venezuela, Bolivarian Republic of	12.5	22.4	31.1	21.8	16.0	13.7	17.6	20.8

a Partly estimated.

b Forecasts, based in part on Project LINK.

Table A.5

World trade: value of exports and imports, by major country group, 2000-2008

(billions of dollars)

Region	Flow	2000	2001	2002	2003	2004	2005	2006[a]	2007[b]	2008[b]
World	Exports	6402	6151	6448	7493	9079	10389	12021	13890	15612
	Imports	6538	6307	6538	7601	9272	10541	12127	13990	15822
Developed economies	Exports	4144	4027	4173	4803	5667	6191	7003	8084	9122
	Imports	4502	4341	4469	5185	6185	6912	7850	8923	9972
	Balance	-358	-313	-296	-382	-518	-720	-847	-838	-850
North America	Exports	1061	991	950	997	1123	1266	1445	1646	1834
	Imports	1488	1395	1417	1529	1779	2034	2252	2429	2616
	Balance	-427	-404	-467	-532	-657	-767	-807	-783	-782
Asia and Oceania	Exports	556	481	496	560	672	722	805	925	1056
	Imports	465	426	425	491	587	666	783	927	1082
	Balance	91	54	71	69	85	56	21	-1	-27
Europe	Exports	2528	2557	2728	3245	3870	4200	4750	5507	6225
	Imports	2550	2520	2627	3164	3816	4206	4805	5556	6260
	Balance	-22	37	100	81	55	-6	-55	-49	-35
European Union	Exports	2389	2416	2578	3075	3670	3971	4488	5201	5895
	Imports	2435	2407	2508	3027	3657	4033	4614	5333	6015
	Balance	-46	9	70	48	13	-61	-126	-132	-120
EU-15	Exports	2253	2265	2405	2853	3374	3610	4071	4677	5286
	Imports	2258	2216	2295	2756	3305	3605	4116	4716	5304
	Balance	-5	50	111	96	69	5	-45	-39	-18
New EU Members	Exports	136	151	172	222	296	362	417	524	609
	Imports	178	191	213	271	352	428	497	617	711
	Balance	-41	-40	-41	-49	-56	-66	-81	-93	-102
Other Europe	Exports	137	139	149	171	202	231	265	312	336
	Imports	113	112	120	138	162	179	200	234	258
	Balance	24	27	30	33	41	52	65	77	79
Euro Zone	Exports	1842	1878	2000	2394	2849	3043	3425	4011	4533
	Imports	1816	1796	1854	2249	2704	2956	3379	3948	4435
	Balance	26	82	146	145	146	87	45	63	99
Economies in transition	Exports	154.2	153.1	162.7	205.8	280.7	385.3	494.6	583.9	641.5
	Imports	101.4	115.7	129.6	162.3	208.4	263.6	342.7	460.9	565.5
	Balance	52.8	37.3	33.1	43.5	72.3	121.7	151.9	123.0	76.0
South-eastern Europe	Exports	8.8	9.1	9.6	11.6	15.3	19.5	23.6	27.8	31.9
	Imports	17.9	20.3	24.5	29.1	35.5	41.7	48.0	57.6	64.4
	Balance	-9.1	-11.3	-14.8	-17.5	-20.2	-22.2	-24.4	-29.8	-32.5
Commonwealth of Independent States	Exports	145.4	144.0	153.1	194.2	265.4	365.8	471.0	556.2	609.6
	Imports	83.6	95.4	105.2	133.2	172.9	221.9	294.7	403.3	501.1
	Balance	61.8	48.6	47.9	61.0	92.5	143.8	176.3	152.8	108.5
Net fuel exporters	Exports	120.8	117.5	124.0	157.2	214.3	315.8	413.3	487.4	530.8
	Imports	57.4	67.6	75.0	93.4	120.7	168.7	227.2	318.9	401.7
	Balance	63.5	49.9	49.0	63.8	93.6	147.2	186.1	168.6	129.1
Net fuel importers	Exports	24.6	26.5	29.1	37.0	51.1	49.9	57.8	68.7	78.8
	Imports	26.2	27.7	30.2	39.8	52.2	53.3	67.5	84.5	99.4
	Balance	-1.6	-1.3	-1.1	-2.9	-1.1	-3.3	-9.7	-15.7	-20.6
Developing countries	Exports	2104.5	1970.9	2111.9	2484.5	3130.9	3812.8	4523.4	5221.2	5849.0
	Imports	1935.3	1850.4	1938.8	2253.7	2878.1	3365.7	3934.4	4605.8	5284.7
	Balance	169.2	120.5	173.1	230.8	252.8	447.1	589.0	615.4	564.3
Africa	Exports	147.5	135.4	140.0	172.9	224.7	301.1	355.4	409.4	451.8
	Imports	128.3	132.6	137.6	164.5	209.8	250.0	294.4	333.4	364.6
	Balance	19.2	2.8	2.4	8.4	14.9	51.1	61.0	76.0	87.2
North Africa	Exports	53.1	48.0	48.1	62.3	78.2	108.2	130.8	151.2	161.3
	Imports	48.0	48.1	54.0	56.6	76.4	88.9	103.7	121.6	135.8
	Balance	5.1	-0.1	-6.0	5.8	1.8	19.2	27.1	29.5	25.5
Sub-Saharan Africa	Exports	43.5	40.9	47.1	54.1	69.3	95.2	115.0	137.4	152.8
(Excluding Nigeria & South Africa)	Imports	41.9	44.7	46.7	55.9	70.9	85.9	100.2	114.4	125.0
	Balance	1.5	-3.8	0.4	-1.8	-1.6	9.4	14.7	23.0	27.8
Net fuel exporters	Exports	76.0	63.9	64.0	82.2	110.6	169.4	204.1	236.5	266.5
	Imports	43.0	45.6	47.4	51.8	69.9	88.1	103.7	121.8	138.0
	Balance	33.0	18.3	16.6	30.4	40.7	81.3	100.4	114.8	128.4
Net fuel importers	Exports	71.5	71.5	76.0	90.6	114.1	131.7	151.3	172.8	185.3
	Imports	85.4	87.0	90.1	112.6	139.9	161.9	190.7	211.7	226.6
	Balance	-13.9	-15.5	-14.1	-22.0	-25.7	-30.2	-39.4	-38.8	-41.3
East and South Asia	Exports	1314.6	1225.8	1345.5	1596.1	2007.0	2379.5	2818.9	3314.3	3802.8
	Imports	1217.5	1136.1	1235.8	1476.6	1894.5	2212.0	2569.9	3009.7	3471.7
	Balance	97.1	89.7	109.7	119.4	112.5	167.6	248.9	304.6	331.1
East Asia	Exports	1222.9	1135.3	1245.8	1477.7	1859.3	2188.9	2593.8	3061.8	3520.0
	Imports	1122.8	1042.2	1134.7	1353.0	1727.6	1994.7	2300.4	2677.6	3088.2
	Balance	100.1	93.1	111.0	124.6	131.7	194.2	293.4	384.2	431.9
South Asia	Exports	91.7	90.5	99.7	118.4	147.7	190.6	225.0	252.6	282.8
	Imports	94.6	93.9	101.0	123.6	166.8	217.3	269.5	332.1	383.5
	Balance	-3.0	-3.4	-1.3	-5.2	-19.1	-26.7	-44.5	-79.5	-100.8

Net fuel exporters	Exports	45.2	43.5	47.7	57.3	73.3	95.3	112.5	128.2	139.1
	Imports	30.7	34.3	41.7	52.9	67.8	76.9	88.7	105.2	120.1
	Balance	14.4	9.3	6.0	4.5	5.5	18.4	23.8	22.9	19.0
Net fuel importers	Exports	1269.4	1182.3	1297.8	1538.7	1933.7	2284.3	2706.4	3186.2	3663.7
	Imports	1186.7	1101.8	1194.1	1423.8	1826.7	2135.1	2481.2	2904.5	3351.6
	Balance	82.7	80.5	103.7	115.0	107.0	149.2	225.1	281.7	312.1
Western Asia	Exports	281.6	262.0	279.3	332.8	426.9	560.6	670.6	733.4	780.6
	Imports	214.4	214.4	229.3	266.7	351.2	402.6	472.4	561.5	658.3
	Balance	67.2	47.6	50.0	66.1	75.7	158.0	198.2	171.9	122.3
Net fuel exporters	Exports	215.8	195.0	208.3	246.1	316.9	435.1	523.8	548.9	576.8
	Imports	115.4	122.9	129.8	148.1	190.7	232.6	266.3	303.7	333.5
	Balance	100.4	72.1	78.5	97.9	126.1	202.6	257.5	245.1	243.3
Net fuel importers	Exports	65.9	67.0	71.0	86.7	110.0	125.5	146.7	184.5	203.8
	Imports	99.1	91.5	99.5	118.5	160.5	170.0	206.1	257.7	324.8
	Balance	-33.2	-24.5	-28.5	-31.8	-50.5	-44.5	-59.3	-73.2	-121.1
Latin America and the Caribbean	Exports	360.8	347.7	347.1	382.8	472.3	571.5	678.5	764.1	813.8
	Imports	375.1	367.2	336.1	346.0	422.6	501.2	597.7	701.2	790.1
	Balance	-14.3	-19.5	11.0	36.8	49.7	70.4	80.9	62.9	23.8
South America	Exports	161.3	156.6	158.8	183.0	243.9	311.4	376.8	446.8	478.9
	Imports	146.0	144.1	118.4	124.0	166.1	208.7	259.6	338.7	405.3
	Balance	15.3	12.5	40.4	59.0	77.8	102.8	117.3	108.0	73.6
Mexico and Central America	Exports	189.4	181.3	180.0	185.4	211.0	240.4	279.3	292.9	309.6
	Imports	202.3	197.3	198.5	200.7	231.5	261.6	302.0	321.7	341.5
	Balance	-12.9	-16.0	-18.6	-15.4	-20.5	-21.2	-22.7	-28.8	-31.8
Caribbean	Exports	10.1	9.8	8.3	14.4	17.4	19.7	22.4	24.4	25.4
	Imports	26.8	25.9	19.2	21.2	24.9	30.9	36.1	40.8	43.3
	Balance	-16.7	-16.1	-10.9	-6.8	-7.5	-11.2	-13.7	-16.4	-18.0
Net fuel exporters	Exports	247.3	233.2	234.7	244.6	290.4	349.7	407.4	430.7	453.7
	Imports	236.4	230.5	215.2	219.3	266.1	312.4	369.4	413.6	450.0
	Balance	10.9	2.7	19.5	25.3	24.3	37.3	38.0	17.1	3.6
Net fuel importers	Exports	113.5	114.5	112.4	138.3	181.9	221.8	271.1	333.4	360.2
	Imports	138.7	136.8	120.9	126.7	156.5	188.8	228.3	287.6	340.1
	Balance	-25.2	-22.2	-8.5	11.6	25.4	33.0	42.9	45.8	20.1

a Partly estimated.

b Forecasts, based in part on Project LINK.

Table A.6
World trade: changes in value of exports and imports, by major country group, 2001-2008
(annual percentage change)

Region	Flow	2001	2002	2003	2004	2005	2006[a]	2007[b]	2008[b]
World	Exports	-3.9	4.8	16.2	21.2	14.4	15.7	15.5	12.4
	Imports	-3.5	3.7	16.3	22.0	13.7	15.0	15.4	13.1
Developed economies	Exports	-2.8	3.6	15.1	18.0	9.2	13.1	15.4	12.8
	Imports	-3.6	3.0	16.0	19.3	11.7	13.6	13.7	11.8
North America	Exports	-6.6	-4.2	5.0	12.6	12.8	14.1	13.9	11.4
	Imports	-6.2	1.5	7.9	16.4	14.3	10.7	7.9	7.7
Asia and Oceania	Exports	-13.6	3.2	12.8	20.1	7.4	11.4	14.9	14.1
	Imports	-8.3	-0.3	15.4	19.7	13.5	17.6	18.3	16.8
Europe	Exports	1.1	6.7	19.0	19.3	8.5	13.1	15.9	13.0
	Imports	-1.2	4.3	20.4	20.6	10.2	14.3	15.6	12.7
European Union	Exports	1.1	6.7	19.3	19.3	8.2	13.0	15.9	13.3
	Imports	-1.2	4.2	20.7	20.8	10.3	14.4	15.6	12.8
EU-15	Exports	0.6	6.2	18.6	18.3	7.0	12.8	14.9	13.0
	Imports	-1.9	3.6	20.1	19.9	9.1	14.2	14.6	12.5
New EU Members	Exports	10.6	14.2	29.0	33.0	22.3	15.3	25.7	16.2
	Imports	7.6	11.4	27.2	29.7	21.7	16.2	24.0	15.3
Other Europe	Exports	1.8	7.2	14.3	18.7	14.1	14.9	17.5	7.8
	Imports	-0.7	6.5	15.3	17.5	10.6	11.9	16.9	9.9
Euro Zone	Exports	2.0	6.5	19.7	19.0	6.8	12.6	17.1	13.0
	Imports	-1.1	3.2	21.3	20.2	9.3	14.3	16.8	12.3
Economies in transition	Exports	-0.7	6.3	26.5	36.4	37.2	28.4	18.1	9.9
	Imports	14.1	12.0	25.2	28.4	26.5	30.0	34.5	22.7
South-eastern Europe	Exports	3.1	6.4	20.3	32.0	27.3	21.0	17.6	14.9
	Imports	13.9	20.2	19.1	21.9	17.5	15.2	20.0	11.8
Commonwealth of Independent States	Exports	-1.0	6.3	26.9	36.7	37.8	28.8	18.1	9.6
	Imports	14.1	10.3	26.7	29.8	28.3	32.8	36.9	24.2
Net fuel exporters	Exports	-2.7	5.5	26.8	36.3	47.3	30.8	17.9	8.9
	Imports	17.9	10.9	24.6	29.3	39.7	34.7	40.3	26.0
Net fuel importers	Exports	7.7	10.0	27.0	38.1	-2.2	15.7	19.0	14.6
	Imports	6.0	8.9	31.9	31.1	2.0	26.7	25.1	17.7
Developing countries	Exports	-6.3	7.2	17.6	26.0	21.8	18.6	15.4	12.0
	Imports	-4.4	4.8	16.2	27.7	16.9	16.9	17.1	14.7
Africa	Exports	-8.2	3.4	23.5	30.0	34.0	18.0	15.2	10.4
	Imports	3.3	3.7	19.6	27.6	19.2	17.8	13.2	9.4
North Africa	Exports	-9.7	0.2	29.7	25.5	38.2	21.0	15.6	6.7
	Imports	0.2	12.3	4.7	35.0	16.4	16.6	17.3	11.6
Sub-Saharan Africa	Exports	-5.9	15.1	14.9	28.0	37.4	20.7	19.5	11.2
(Excluding Nigeria & South Africa)	Imports	6.5	4.5	19.7	26.9	21.0	16.7	14.1	9.3
Net fuel exporters	Exports	-16.0	0.2	28.5	34.5	53.2	20.5	15.9	12.7
	Imports	6.0	4.1	9.3	34.9	26.0	17.7	17.4	13.4
Net fuel importers	Exports	0.0	6.2	19.3	25.9	15.4	14.9	14.3	7.2
	Imports	2.0	3.5	25.0	24.2	15.7	17.8	11.0	7.0
East and South Asia	Exports	-6.7	9.8	18.6	25.7	18.6	18.5	17.6	14.7
	Imports	-6.7	8.8	19.5	28.3	16.8	16.2	17.1	15.4
East Asia	Exports	-7.2	9.7	18.6	25.8	17.7	18.5	18.0	15.0
	Imports	-7.2	8.9	19.2	27.7	15.5	15.3	16.4	15.3
South Asia	Exports	-1.2	10.1	18.7	24.7	29.0	18.1	12.2	12.0
	Imports	-0.8	7.6	22.3	35.0	30.2	24.1	23.2	15.5
Net fuel exporters	Exports	-3.6	9.6	20.2	27.8	30.1	18.1	13.9	8.5
	Imports	11.5	21.7	26.7	28.2	13.5	15.4	18.6	14.1
Net fuel importers	Exports	-6.9	9.8	18.6	25.7	18.1	18.5	17.7	15.0
	Imports	-7.2	8.4	19.2	28.3	16.9	16.2	17.1	15.4
Western Asia	Exports	-7.0	6.6	19.1	28.3	31.3	19.6	9.4	6.4
	Imports	0.0	7.0	16.3	31.7	14.6	17.3	18.9	17.2
Net fuel exporters	Exports	-9.6	6.8	18.1	28.8	37.3	20.4	4.8	5.1
	Imports	6.5	5.6	14.1	28.8	21.9	14.5	14.1	9.8
Net fuel importers	Exports	1.7	6.0	22.1	26.9	14.0	17.0	25.7	10.4
	Imports	-7.7	8.7	19.1	35.4	5.9	21.2	25.0	26.0
Latin America and the Caribbean	Exports	-3.6	-0.2	10.3	23.4	21.0	18.7	12.6	6.5
	Imports	-2.1	-8.5	2.9	22.1	18.6	19.3	17.3	12.7
South America	Exports	-2.9	1.4	15.3	33.3	27.7	21.0	18.6	7.2
	Imports	-1.3	-17.9	4.8	33.9	25.6	24.4	30.5	19.6
Mexico and Central America	Exports	-4.3	-0.7	3.0	13.8	14.0	16.2	4.9	5.7
	Imports	-2.5	0.6	1.1	15.4	13.0	15.4	6.5	6.2
Caribbean	Exports	-3.1	-15.1	73.3	20.6	13.1	13.7	9.0	4.0
	Imports	-3.5	-25.8	10.7	17.5	23.9	16.7	13.2	6.2
Net fuel exporters	Exports	-5.7	0.7	4.2	18.7	20.4	16.5	5.7	5.3
	Imports	-2.5	-6.6	1.9	21.4	17.4	18.2	12.0	8.8
Net fuel importers	Exports	0.9	-1.9	23.0	31.6	21.9	22.2	22.9	8.0
	Imports	-1.4	-11.6	4.8	23.5	20.6	20.9	26.0	18.2

a Partly estimated.
b Forecasts, based in part on Project LINK.

Table A.7
World trade: changes in volume of exports and imports, by major country group, 2001-2008
(annual percentage change)

Region	Flow	2001	2002	2003	2004	2005	2006[a]	2007[b]	2008[b]
World	Exports	-1.1	4.4	5.8	10.7	7.0	9.9	7.2	7.1
	Imports	-0.5	4.1	6.6	11.0	7.3	9.3	7.0	7.3
Developed economies	Exports	-0.9	2.2	2.5	8.3	5.3	9.5	5.8	6.1
	Imports	-0.6	2.5	4.6	9.3	6.3	7.8	4.7	5.7
North America	Exports	-5.5	-2.4	0.5	6.8	6.9	7.8	7.0	6.7
	Imports	-3.6	3.2	4.7	10.8	7.2	5.2	3.3	4.0
Asia and Oceania	Exports	-6.6	6.8	7.9	12.1	4.8	9.2	8.4	5.8
	Imports	0.3	3.2	7.0	8.0	3.4	11.4	10.7	9.7
Europe	Exports	2.3	3.1	2.1	8.0	4.8	10.2	4.7	6.0
	Imports	1.0	2.0	4.0	8.8	6.4	8.6	4.3	5.8
European Union	Exports	2.1	3.2	2.2	8.2	4.9	10.3	4.5	6.1
	Imports	1.1	2.3	4.2	8.8	6.2	8.4	4.2	5.8
EU-15	Exports	1.6	2.9	1.5	7.5	4.4	10.1	3.9	5.7
	Imports	0.5	1.9	3.7	8.1	5.7	7.9	3.4	5.3
New EU Members	Exports	10.3	8.1	12.6	17.7	10.8	12.1	11.9	9.8
	Imports	8.2	7.2	10.4	16.4	10.7	13.8	11.5	9.5
Other Europe	Exports	5.0	0.8	-0.1	4.7	3.8	8.0	8.3	4.8
	Imports	-0.1	-4.2	-1.1	8.8	11.8	12.9	6.3	6.9
Euro Zone	Exports	1.8	3.4	1.8	8.6	4.3	10.3	6.1	5.8
	Imports	0.5	1.6	3.6	8.5	6.2	7.8	5.4	5.3
Economies in transition	Exports	3.8	7.9	13.4	15.4	-0.2	6.5	6.6	5.3
	Imports	14.0	11.7	15.9	19.6	8.2	20.4	21.9	15.0
South-eastern Europe	Exports	5.5	5.3	7.7	17.6	15.8	9.6	11.1	11.3
	Imports	15.3	16.6	3.3	9.1	10.3	10.0	8.9	5.5
Commonwealth of Independent States	Exports	3.6	8.0	13.7	15.3	-1.1	6.3	6.3	4.9
	Imports	13.8	10.7	18.8	21.7	7.8	22.3	24.1	16.3
Net fuel exporters	Exports	3.0	8.0	13.8	14.7	2.4	7.2	6.1	4.6
	Imports	18.5	11.6	18.8	24.5	14.9	25.2	27.4	17.9
Net fuel importers	Exports	6.6	8.0	13.6	18.3	-17.6	0.9	7.7	6.7
	Imports	3.5	8.3	18.6	14.5	-12.3	11.5	10.3	8.7
Developing countries	Exports	-1.9	8.5	11.3	14.5	10.3	10.9	9.4	8.7
	Imports	-0.9	7.5	10.6	14.1	9.3	11.5	10.4	9.5
Africa	Exports	-2.0	2.3	9.3	8.7	11.3	4.6	7.9	8.8
	Imports	6.3	4.2	8.6	12.1	8.8	13.6	9.0	7.7
North Africa	Exports	-1.8	-0.1	20.8	2.4	16.7	6.9	8.7	4.9
	Imports	1.2	13.3	4.2	18.8	7.7	12.4	10.7	9.2
Sub-Saharan Africa	Exports	1.8	11.1	3.0	10.1	12.0	4.2	8.2	6.9
(Excluding Nigeria & South Africa)	Imports	9.8	3.6	7.1	14.4	13.3	11.6	6.6	5.3
Net fuel exporters	Exports	-9.2	1.5	18.1	7.6	14.5	4.1	8.2	8.6
	Imports	6.6	6.5	10.2	17.2	15.6	13.4	12.2	10.4
Net fuel importers	Exports	5.7	3.0	1.4	9.8	8.0	5.1	7.6	8.9
	Imports	6.2	3.1	7.8	9.4	4.9	13.7	6.9	5.9
East and South Asia	Exports	-3.5	11.8	14.0	17.6	12.0	13.0	12.0	10.5
	Imports	-2.4	12.1	12.6	15.0	9.5	11.1	11.4	10.2
East Asia	Exports	-4.1	12.0	14.4	18.2	12.1	13.4	12.5	10.5
	Imports	-2.9	12.5	12.7	14.4	8.6	10.5	11.0	10.2
South Asia	Exports	5.2	9.6	8.6	9.1	11.5	7.3	5.4	9.9
	Imports	3.0	7.4	11.5	21.6	20.2	17.4	14.8	10.4
Net fuel exporters	Exports	7.5	8.9	7.7	4.7	1.7	3.1	7.0	6.6
	Imports	15.6	22.2	16.1	16.2	5.8	10.4	11.4	9.5
Net fuel importers	Exports	-3.8	12.0	14.2	18.0	12.4	13.3	12.1	10.6
	Imports	-2.9	11.7	12.4	14.9	9.6	11.1	11.4	10.3
Western Asia	Exports	3.0	6.0	5.8	5.6	3.3	6.4	-0.6	1.7
	Imports	2.4	7.0	7.0	18.9	7.1	12.6	7.1	9.8
Net fuel exporters	Exports	2.2	5.8	3.3	2.8	2.3	2.3	-4.2	0.0
	Imports	10.0	5.4	4.3	16.4	14.1	9.5	5.8	4.3
Net fuel importers	Exports	5.4	6.8	13.5	13.4	6.0	16.6	7.3	5.1
	Imports	-6.5	9.3	10.7	21.9	-1.3	16.8	8.8	16.6
Latin America and the Caribbean	Exports	-0.1	1.0	6.1	11.8	7.8	6.9	4.7	4.4
	Imports	-0.4	-5.4	6.2	7.9	10.0	11.7	9.2	7.2
South America	Exports	3.7	3.1	5.4	13.8	10.0	6.1	7.4	3.6
	Imports	0.1	-11.7	16.2	3.0	10.6	15.2	18.6	11.6
Mexico and Central America	Exports	-3.5	-0.3	4.1	10.2	6.5	8.3	1.9	5.5
	Imports	-0.6	1.8	0.0	11.4	9.1	9.4	2.7	4.1
Caribbean	Exports	2.5	-10.5	59.0	8.9	-3.0	-0.8	6.3	2.0
	Imports	-1.0	-25.2	4.0	8.0	15.8	10.5	6.4	1.7
Net fuel exporters	Exports	-2.1	0.5	1.7	10.8	8.3	7.1	1.3	4.2
	Imports	-1.0	-5.3	0.4	16.1	12.9	12.0	7.3	5.9
Net fuel importers	Exports	4.2	2.0	15.1	13.7	7.0	6.4	10.7	4.8
	Imports	0.8	-5.7	15.9	-4.1	5.0	11.2	12.8	9.5

a Partly estimated.

b Forecasts, based in part on Project LINK.