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LINK Global Economic Outlook

May 2007

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Acknowledgements

The present report summarizes the main short-term prospects for the global economy in 2007-2008 and discusses the major risks and policy challenges in that regard. The report and the global economic forecast were 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, Cornelia Kaldewei, Matthias Kempf, Malinka Koparanova, and Hung-Yi Li. Ann D'Lima and Cordelia Gow provided statistical assistance. The report was peer reviewed by Alex Izurieta and Mariangela Parra and copy-edited by June Chesney. 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 17 April 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

As projected in the previous *LINK Global Economic Outlook* of October 2006, the world economy has been decelerating measurably in early 2007. According to the latest LINK baseline forecast, the growth of world gross product (WGP) is expected to slow to a pace of 3.4 per cent for 2007 and to stabilize in 2008 at a pace of 3.6 per cent, in comparison with 4.0 per cent recorded in 2006 (table 1). The key assumptions underlying the global forecast for 2007 and 2008 are provided in box 1.

Box 1 Major assumptions for the baseline global economic forecast for 2007 and 2008

The United States Federal Reserve is expected to maintain the federal fund interest rate at 5.25 per cent until mid-2007 and to reduce it by 25 basis points in the second half of 2007, thereafter maintaining that rate for 2008; the European Central Bank is expected to raise its policy rate by another 25 basis points in the second quarter of 2007, bringing it to a level of 4.0 per cent, and to maintain that rate for 2008; the Bank of Japan is expected to raise its policy interest rate by 25 basis points in the second quarter of 2007 and by an additional 25 basis points in the fourth quarter, bringing it to a level of 1.0 per cent by the end of 2007, and to tighten it gradually by another 75 basis points during 2008.

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 expected to decrease by about 8 per cent from an average of $65.14 per barrel in 2006 to $60.00 in 2007, and to rise to $63.50 in 2008.

Prices of most agricultural commodities are expected to reach a plateau in 2007-2008, 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 2007-2008. The dollar/euro exchange rate is expected to average 1.35 for 2007 and 1.40 for 2008, compared with 1.26 in 2006. The yen/dollar exchange rate is expected to average 115 for 2007 and 107 for 2008, compared with 116 in 2006. The yen/euro exchange rate is expected to average 155 in 2007 and 150 in 2008, compared with 146 in 2006.

Currently, the major drag on the world economy is a notable slowdown in the United States of America, as its housing sector is falling into a recession. While the growth in other developed economies such as Europe and Japan appears to remain relatively strong, the growth in developing countries and the economies in transition also seems to be robust, driven by the dynamism in China, India and a few other emerging economies. However, it is premature to speak of a decoupling of economic growth in the rest of the world from that of the United States. The present divergence is more reflective of the specific conditions causing the slowdown in the United States than of any structural change in the global economic linkages. So far the weakness in the United States is primarily limited to a slump in housing activity, with house prices depreciating only slightly. Therefore, the adverse wealth and income effects on household spending have not yet manifested themselves, and import demand of the United States has only weakened marginally. As the United States accounts for 30 per cent of world output, and its imports account for 18 per cent of world trade, the impact of a full-scale recession in the United States on the world economy, should it occur, would still be significant.

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

	Observed		May 2007 forecast [a]		Change from October 2006 forecast for 2007
	2005[b]	2006[b]	2007	2008	
Gross World Product (GWP)	3.4	4.0	3.4	3.6	0.2
GWP - PPP weighted	4.7	5.4	4.9	4.9	0.4
Developed economies	2.4	3.0	2.3	2.5	0.1
Canada	2.9	2.7	2.2	2.8	-0.4
Japan	1.9	2.2	2.1	1.9	0.4
United States	3.2	3.3	2.1	2.8	-0.1
European Union (EU27)	1.6	3.0	2.7	2.5	0.3[c]
France	1.2	2.1	1.9	2.0	-0.4
Germany	0.9	2.7	2.3	2.6	0.6
Italy	0.0	1.9	1.8	1.5	0.6
United Kingdom	1.9	2.8	2.7	2.5	0.0
Memo item: Euro Zone	1.3	2.7	2.4	2.3	0.2
Economies in transition	6.6	7.5	7.1	6.7	0.6
Russia	6.4	6.7	6.4	6.2	0.6
Developing countries and regions	6.5	6.9	6.4	6.2	0.5
Latin America and the Caribbean	4.8	5.7	4.8	4.4	0.6
Argentina	9.2	8.5	7.5	6.0	1.4
Brazil	2.9	3.7	4.2	4.2	0.7
Mexico	3.0	4.8	2.9	3.5	-0.1
Africa	5.3	5.6	5.9	5.8	0.3
North Africa	4.5	5.7	5.7	5.6	0.2
Sub-Saharan Africa [d]	6.0	5.9	7.1	6.7	0.5
Nigeria	7.0	5.5	6.0	6.8	0.0
South Africa	5.1	5.0	4.8	4.5	0.7
South and East Asia	7.4	7.9	7.3	7.2	0.4
India	8.5	9.0	8.4	8.5	0.5
Indonesia	5.7	5.5	6.0	6.3	0.0
Korea, Republic of	4.2	5.0	4.4	4.8	0.1
Malaysia	5.3	5.9	6.0	5.9	0.0
Philippines	5.0	5.4	6.1	6.0	0.4
Thailand	4.5	5.0	4.0	4.6	-0.8
China	10.2	10.7	10.1	9.5	1.2
Western Asia	6.4	5.4	5.1	4.9	0.2
Oil-exporting countries	6.6	5.5	5.0	4.7	0.0
Oil-importing countries	6.2	5.3	5.2	5.2	0.5
Memo: World Export volume	7.5	9.3	6.8	7.2	-0.9
Oil price (Brent, US$/pb)	54.4	65.4	60.0	63.5	0.0

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

The recent economic expansion in Europe and Japan has been stronger than anticipated, but the potential growth in these two economies is not high enough to act as an alternative to the United States in terms of being the major engine for global growth. Meanwhile, the growth in both Europe and Japan remains largely dependent on external demand, despite a strengthening of their domestic demand.

Most developing countries and the economies in transition have experienced vigorous growth in the past few years - for some of them the most robust growth for decades. Part of the strength is indeed generated by the synergy within this group, particularly as a result of the sustained rapid growth in the two most populous emerging economies, China and India. The growth in most of these economies is, however, far from self-propelling and is still highly dependent on the international economic environment, which is largely determined by the economic performance and economic policies of the major developed countries. So far, this environment has been favourable for most developing countries, as they have been able to benefit from dynamic trade flows, high commodity prices, low external financing costs and ample availability of international liquidity. This environment could deteriorate should the economic conditions in the major developed countries, especially the United States, go awry. The increased volatility in the prices of commodities and in the equity markets of many emerging economies in mid-2006 and early 2007 should serve as a vivid reminder of their vulnerability.

Continued growth over the past few years has eventually led to a discernable improvement in the labour market of many developed countries, as reflected in lower unemployment rates and increased job creation. In the economies in transition and the developing economies, however, rapid economic growth has not had a significant impact on the employment situation, as most of these economies continue to face high rates of unemployment and/or large underemployment.

Worldwide inflation has edged up over the past year, although the fruit of a decade-long global trend of disinflation remains intact. While higher international oil prices have been the main drivers in the majority of economies, growing demand pressures were also present in the wake of strong economic growth. In a number of developing economies, rising food prices have also contributed to the increase in headline inflation. Core inflation measures - which exclude the influence of prices of energy and food - remained more stable. In the outlook, inflation rates in 2007 and 2008 are expected to ease somewhat.

On the policy front, a general trend of monetary tightening witnessed in the world economy over the past two years is expected to end during 2007. While a few central banks may continue to increase interest rates slightly during the year, most other central banks will pause, or in some cases they may even start to reduce interest rates. 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 cyclical slowdown in output is accompanied by unexpectedly persistent inflation pressures. The fiscal policy stance is neutral to slightly expansionary in most economies. Most economies 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. In general, macroeconomic policies worldwide should be flexible enough to prevent the current global slowdown from deteriorating into a substantial downturn.

The baseline forecast is premised on the assumption that weakness in the United States economy will be contained within its housing sector and have no significant ramifications regarding personal sector spending or foreign investors' sentiment. This implies that the growth slowdown in the United States will be moderate and the international repercussions limited. Such an optimistic scenario encompasses a number of downside risks, however.

The turmoil in the subprime mortgage market of the United States in early 2007 has heightened the risks for a longer and deeper slump in the housing sector and for a possible spread of the weakness to the overall economy. The near-term outlook for the housing sector remains uncertain: delinquencies are expected to rise further and banks are tightening lending standards. Sales and prices of houses will likely continue to be on a downturn before the housing market stabilizes. As illustrated by the alternative, pessimistic scenario for the global outlook presented in the previous LINK report, a more serious burst of the housing market bubble in the United States should be expected to have a strong impact on the growth of the United States economy and spill over to significantly lower growth in the rest of the world.

The robust growth of the world economy over the past few years has been accompanied by an increasing widening of the global imbalances, sowing the seeds of risk associated with the reversal of such imbalances. The current account deficit of the United States rose to about US$ 860 billion by the end of 2006, or 6.5 per cent of its gross domestic product (GDP), and its net foreign indebtedness increased to more than $3 trillion. While the imbalances are expected to narrow slightly during 2007 along with a slowdown in the United States and a continued depreciation of the dollar, the risks of an abrupt adjustment in the United States deficit accompanied by a precipitous fall of the dollar have by no means abated. Consequently, the complacency regarding an expected benign adjustment of the global imbalances based solely on the realignment of exchange rates is not warranted. Addressing the complex structural problems that are inherent in the imbalances would require a set of internationally coordinated policies by a large number of countries.

International economic conditions for developing countries and the economies in transition

The international economic environment for the developing economies and the economies in transition remain favourable by historical standards. Trade has continued to expand vigorously, primary commodity prices are high and external financing costs remain low. However, equity markets in many emerging market economies experienced considerable turmoil in mid-2006 and early 2007. Most markets quickly recovered from this turbulence, but both policy makers in the emerging market economies and international investors stand reminded of the risky and volatile nature of these markets.

World *trade* grew at the robust pace of about 9.3 per cent in 2006 (table A7) and is expected to moderate to a rate of about 7 per cent for 2007-2008, which is still more than twice the rate of growth of world output. Developing countries and the economies in transition continue to gain ground in world trade. The share of this group in world total trade increased from 35 per cent in 2000 to 42 per cent in 2006.[2] Asian economies led the dynamism in global trade, with exports of China and India increasing by about 20 percent in real terms.[3] In addition, many developing countries in Africa and Latin America have managed to expand their exports 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 2007-2008, an expected slowdown in import demand from the United States will lead to a moderation in the growth of world trade.

For the fourth consecutive year, the *terms of trade* of many primary commodity-exporting developing countries continued to improve in 2006; however, the prices of most commodities are expected to moderate in the outlook for 2007, along with increased volatility.

The *price of oil* in terms of Brent Crude reached an unprecedented annual average of $65 per barrel (pb) in 2006. Oil prices showed strong fluctuations, however, with prices ranging from a peak of nearly $80 pb to a nadir of less than $60 pb. Variable weather, Organisation of Petroleum Exporting Countries' (OPEC) supply restrictions, refinery outages and geopolitical tensions in the Islamic Republic of Iran and Nigeria have been and will continue to be the factors weighing on both the supply and demand side that will impact price movements. Oil prices are expected to average $60 pb for 2007, a drop of nearly 8 per cent from 2006, and to rise to $63.50 pb in 2008.

Since January 2007, oil prices have risen by more than 20 per cent, but levels still remain well below the peak of 2006. On the demand side, the unexpectedly cold weather in the United States, and to some extent also in Europe, boosted sales of heating fuels in the earlier part of the year; this coincided with an announcement by the United States to double the size of its Strategic Petroleum Reserve (SPR). On the supply side, oil markets began to tighten further after the trimming of crude oil supplies by OPEC, which by February 2007 had been reduced by 1.1 million barrels per day; the maritime incident between the Islamic Republic of Iran and the United Kingdom of Great Britain and Northern Ireland, which pushed prices to yearly highs of around $70 pb; and April's civil unrest in Nigeria in the aftermath of the presidential election, which spiked oil prices by almost 3 per cent. The global shortage in refinery capacity continues to be a cause of oil price volatility and this likely will remain an issue in the near term. With crude oil prices at such high levels, investment is more geared towards gas and oil exploration than the upgrading of processing equipment.

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

[3] China has managed to expand trade with almost all other regions in the world at a rapid pace. See, for example, the presentation made by Malinka Koparanova and Hung-Yi Li on the development of trade linkages between China and the Commonwealth of Independent States economies (*"Openness and reforms in the CIS and China: evidence from gravity panel data models")* at the LINK Spring meeting in Beijing, May 2007.

In the outlook, the upward trend in oil prices is expected to dampen in the second half of 2007. First, once inventory capacity has been reached, demand for petroleum products should subside. Second, weaker than normal demand is expected in the developed economies in the second half of the year. Beyond certain cyclical factors, some structural changes in the economies of North America, Europe and Japan have indicated a gradual switch to alternative fuel sources. For example, in Japan, demand for oil declined in 2006 despite a continued economic recovery. The shift to a de-linking of economic growth and oil demand is a result of stronger conservation and energy-saving efforts and a switch to mini-vehicles and hybrid cars, as well as to electricity and natural gas for heating. On the other hand, the likelihood of a large drop in oil prices in 2007-2008 is small because of restricted supplies and continued strong oil demand from the developing economies, particularly China, India and the Middle East due to strong economic activities. World oil demand increased by 1.0 per cent in 2006 to 84.1 million barrels a day, while oil supply fell. Volatility is also expected to continue as any shocks on the demand or supply side would have a rather strong impact on prices in view of tightness in supply.

Prices of base metals surged by more than 50 per cent in 2006, as stronger-than-expected demand from China and the recovery in Japan and Europe offset the weaker demand from the United States. On the supply side, prices were determined by several production interruptions which tightened the market further. In addition, prices have become more volatile and were impacted by increased financial inflows from various investment funds into metal futures markets. Prices of copper and zinc have, however, been sliding since mid-2006 and metal prices are expected to moderate in 2007-2008.

Prices of agricultural commodities have been diverging noticeably, with the prices of maize and wheat increasing markedly, whereas the prices of most other agricultural commodities have been flattening or even declining.

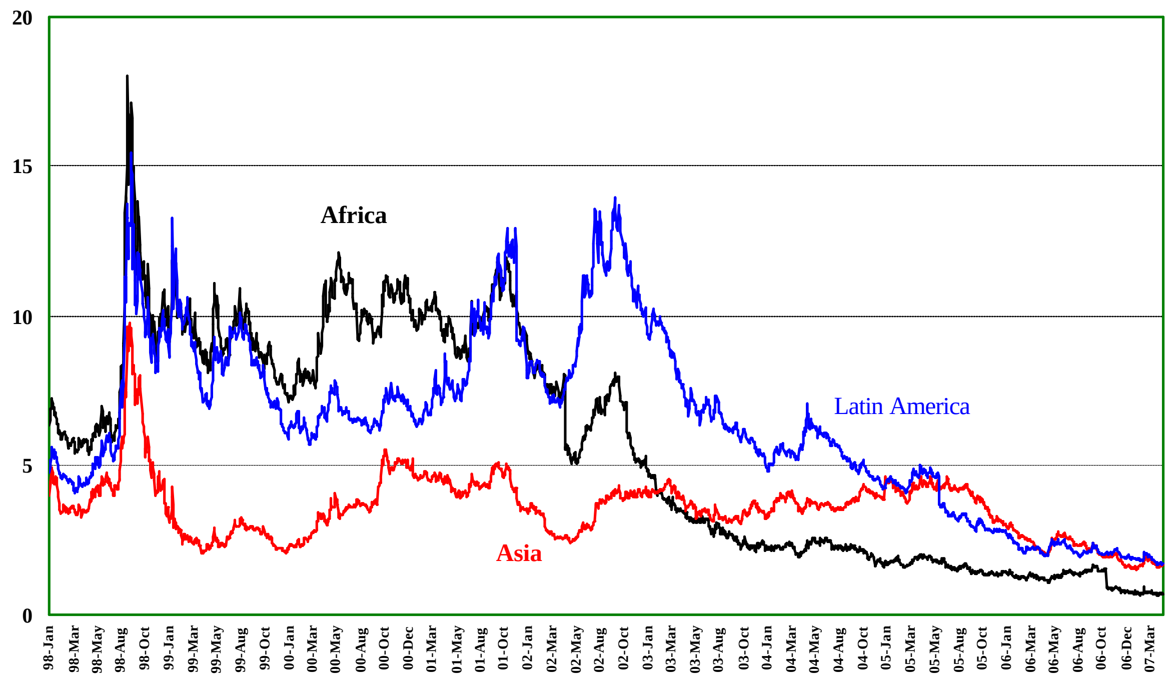
Prices of maize increased by some 15 per cent in 2006 against the backdrop of a fall in production in the United States, curbed exports from Argentina and an increased use of maize to produce biofuels such as ethanol. In the outlook, the production in the United States is expected to increase as farmers switch from less profitable soybeans to maize, and increases in production are also expected in other countries. The increased use of maize for biofuels, with subsidies for such use in some cases, should sustain higher maize prices for 2007-2008. *Prices of wheat* are also expected to be firm in 2007-2008. The noticeable increase in planting and an anticipated good harvest in 2007 will exercise some downward pressure on prices, but this may be overtaken by substitution effects which will keep wheat prices up. As prices of maize continue to increase, farmers are expected to increasingly switch to wheat for feeding livestock. Also, demand for wheat for biofuel production is expected to increase somewhat. The *price of rice* followed a smoother trajectory in 2006, increasing by 4 per cent on average. Policies to reduce global rice inventories will probably be phased out in 2007, and it is expected that prices will increase only modestly in 2007 and 2008.

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 April 2007 (figure 1).

Meanwhile, the benchmark interest rates underlying the external financing costs for emerging market economies are also low, despite monetary tightening in major developed countries over the past two years. Such favourable external financing conditions may not be sustainable, as the persistent current-account deficit of the United States, and a possible shift in the perception of the relative risk of different classes of investments, will eventually induce higher benchmark interest rates.

Figure 1

Yield spreads on emerging market bonds, January 1998-March 2007



Capital flows to emerging market economies in 2006 were uneven and slightly lower than in the previous year. Foreign direct investment (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. Many of these economies took advantage of very favourable market conditions during the previous year to pre-finance obligations due in 2006. In the aggregate, however, the outward trend from developing countries has been driven by the fact that surplus, middle-income countries have been financing external deficits of a handful of developed economies. In the outlook, net private capital flows to emerging markets will likely decline in 2007. Part of the decline will reflect the reduced demand for external financing, as many of these economies have been running current-account surpluses for several consecutive years and have accumulated vast amounts of foreign reserves, thus becoming less dependent on international capital, at least cyclically in the short run.

Official Development Assistance (ODA) declined in 2006: this was partly because the additional 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 Organisation for Economic Cooperation and Development (OECD) countries by 5.1 percent in constant dollars in 2006. The system of providing ODA is increasingly complex and fragmented and insufficiently coordinated. Moreover, the current governance of international aid is uneven and recipient countries have inadequate voice in the process. Aid is found to be significantly more volatile than fiscal revenue and tends to be pro-cyclical on average. More substantial reforms of the aid architecture are needed to improve aid's effectiveness.

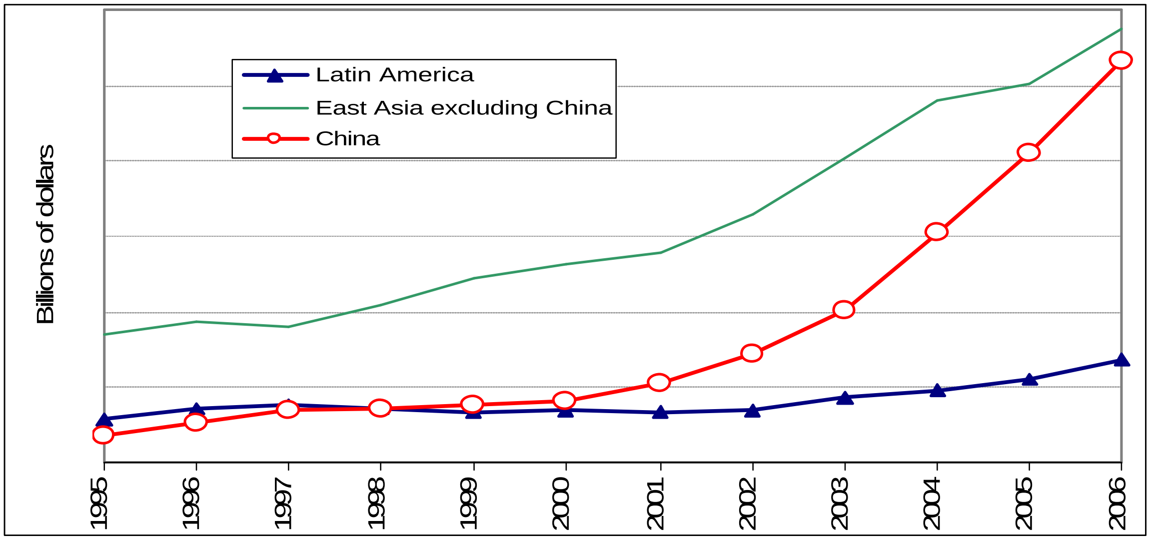
The massive accumulation of *official reserves* by developing countries has been continuing, totalling more than $3 trillion by this group in 2006. While the amassed foreign currency reserves have strengthened the capacity of these countries to deal with external shocks, they are also accompanied by a range of costs and challenges for these economies, as indicated in box 2.

Box 2 Accumulation of international reserves in emerging market economies

Many emerging market economies have experienced a strong increase in their foreign currency reserves during the past several years. As indicated in figure 1, by the end of 2006, reserves surged to more than US$1 trillion in China, accelerated significantly in other East Asian economies, and increased notably in Latin America. In relative terms, however, the increases in these reserves seem to be less significant, except for those in China which have been growing rapidly even in relative terms. For example, measured as a ratio to gross domestic product (GDP), reserves in East Asian countries have reached an average of about 50 per cent of GDP, up from about 30 per cent in the mid-nineties, while the levels of reserves in Latin America have remained at just above 10 per cent of GDP throughout the last decade. Measured in terms of number of months of imports, no identifiable upward trend has been found in recent years for either the East Asian economies (excluding China) or the Latin American economies, as the indicator has hovered within a range of 8-10 months worth of imports for both groups, suggesting that increases in foreign currency reserves in recent years have moved in tandem with the expansion of trade in most of these economies (figure 2).

Box 2 (continued)

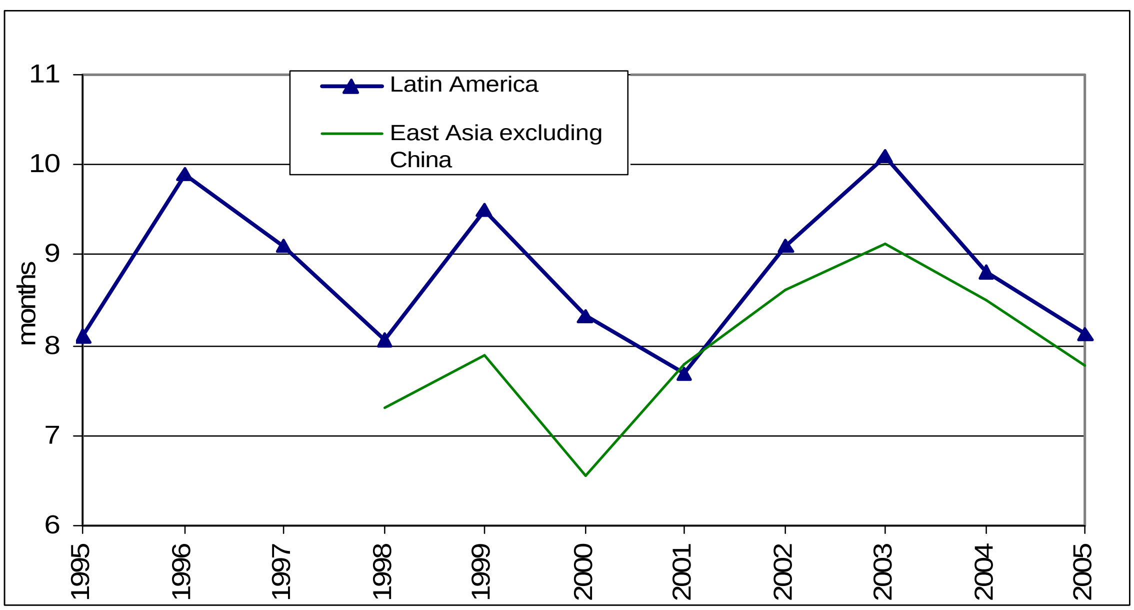
Figure 1 International reserve accumulation in emerging market economies, 1995-2006



Source: IMF *International Financial Statistics*

Note: Latin American countries include Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and the Bolivarian Republic of Venezuela; East Asian countries include Hong Kong Special Administrative Region of China, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan (Province of China) and Thailand.

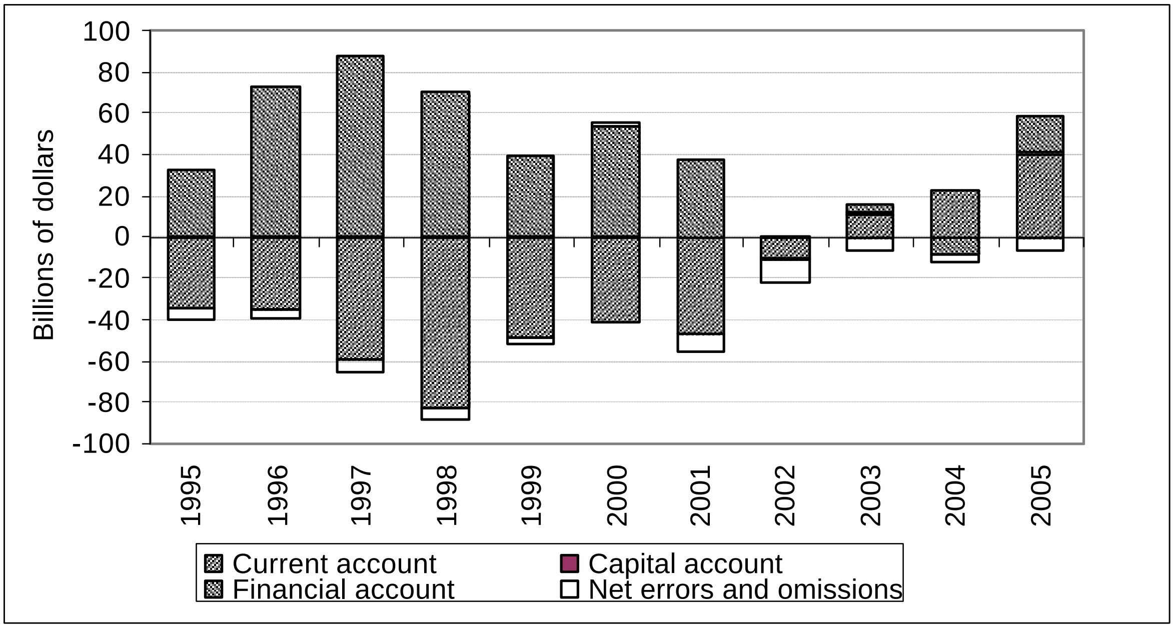
Figure 2 International reserves in average number of months of imports, 1995-2005



Box 2 (continued)

The origins of the reserve accumulation differ among those countries. As shown in figure 3, in Latin America, a persistent current-account deficit was balanced by a capital-account surplus for most of the past decade. Since 2003, however, the current account has turned into a surplus along with a reduced capital-account surplus. Within the region, reserve accumulation in Argentina, Brazil, Chile, Peru and Venezuela was derived mostly from a larger current-account surplus, while reserves in Colombia and Mexico relied more on large capital-account surpluses. Since the financial crisis in 1997, the East Asian region as a whole excluding China has run a capital-account deficit while registering continuous current-account surpluses (figure 4), while China has been running twin surpluses for several years.

Figure 3 Latin America: Components of balance of payments, 1995-2005

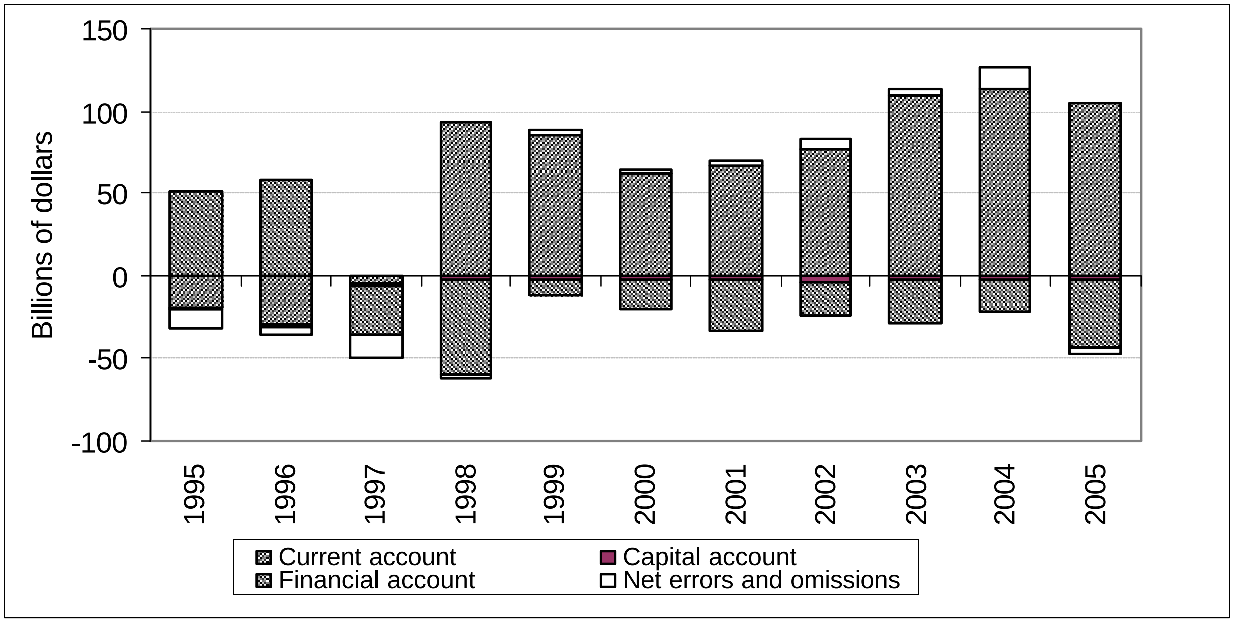


The level of reserves in most of these economies seems to have exceeded what is considered adequate as defined by conventional rules, such as the 3-6 month's worth of imports principle. However, based on lessons learned from the series of financial crises since the mid-1990s, these economies may have found that they required higher reserve holdings to cover the vulnerability associated with their financial liabilities in addition to whatever was necessary to cover their import demand.[4] Other explanations include the argument that the monetary authorities in these economies intended to protect their external competitiveness through intervention in the foreign-exchange market to keep their currencies from appreciating, thus leading to a significant rise in their reserves.

[4] For example, Joshua Aizenman,, "International Reserves" in *Princeton Encyclopedia of the World Economy*, Princeton University Press (forthcoming), and Dani Rodrik, "The Social Cost of Foreign Exchange Rate Reserves," paper presented at the American Economic Association Annual Meeting, Boston, January 2006.

Box 2 (continued)

Figure 4 East Asia excluding China: Components of balance of payments, 1995-2005



Regardless of the reasons, the increases of foreign-exchange reserves in these economies have indeed strengthened their external position and reduced their vulnerability to external shocks. However, large reserve holdings may also entail important economic costs and challenges for macroeconomic policy making in these economies.

First, there are opportunity costs, as foreign-exchange reserves are the financial resources set aside for precautionary needs, which could otherwise be used at the time for domestic consumption or investment. Incurring such costs is justifiable as long as they are smaller than the potential benefits of holding the reserves. These opportunity costs may outweigh the benefits when the accumulation of reserves goes beyond certain level, although it is difficult to define this optimal level in practice.

Second, direct financial costs are also rising along with the accumulation of reserves. For example, when monetary authorities sterilize excessive monetary expansionary effects associated with foreign-exchange reserves, domestic bonds or central bank papers are issued with higher interest rates than those on foreign reserve assets (such as United States Treasury notes). The higher the interest-rate differential, the larger the fiscal costs. This fiscal burden can become particularly acute in situations where economies are already under pressure to reduce fiscal deficits and consolidate their public finances. In this sense, accumulation of reserves can become inconsistent with fiscal policy objectives in some of these emerging market economies.

Box 2 (continued)

More generally, the accumulation of reserves can also create challenges for the broad macroeconomic policy framework in those economies. As described in the economic literature, macroeconomic policies in an open economy could be faced with a trilemma or impossible trinity, which says that policy makers must give up one of three goals: exchange rate stability through a fixed exchange rate, monetary independence, or free capital mobility. . In practice, however, the trilemma may be less stringent than in theory. Countries may be able to find some middle ground between these three dimensions of the policy regime. They may opt to imposing selective capital controls and intervene occasionally in foreign exchange markets to manage their exchange rate, etc. Even so, some policy inconsistencies may emerge from time to time, however. For example, if the domestic economy is overheating, policies for accumulating reserves and keeping the local currency from appreciating would be inconsistent with a tight monetary policy. In this case, the accumulation of reserves may generate excessive liquidity and may require full sterilization to prevent overheating. However, raising interest rates would at the same time increase the fiscal costs of sterilization. Moreover, higher domestic interest rates would attract more capital inflows, which in turn would put more pressure on currency appreciation and require further sterilization. Such a policy dilemma may enter into an unstable dynamics, leading to greater volatility in the exchange rate, inflation rates and output growth. East Asian economies seem to have fared better than Latin American economies since they have managed to keep interest rates lower and have kept a greater degree of freedom in adjusting the monetary stance.

Another challenge is that of how to manage large foreign-exchange reserves efficiently. The primary investment instruments when holding foreign reserves are government bonds of the issuers, but this strategy does not necessarily imply an optimal risk-reward profile from an asset-management perspective. In this context, China has recently announced its intention to set up an investment fund to allocate part of its reserves to a wider range of investment instruments.

The rapid accumulation of foreign currency reserves in most emerging market economies, to some extent, also reflects a need to review the long-run development strategy in these economies. The export-led development strategy pursued by a large number of developing countries has, in general, been successful in promoting higher GDP growth, but such a strategy should also be balanced with policies to stimulate the growth of domestic demand, and particularly to raise the living standards for the population at large. An export-led growth pattern may lead to excessive allocation of resources to the export sector and may not be sustainable in the longer run. In addition, prudence in the process of integrating financial markets into the global economy, combined with strengthening of the domestic financial system—so as to reduce the risks of financial crises—may also reduce the precautionary need for reserve accumulation.

More importantly, the tendency of accumulating vast amounts of foreign currency reserves in developing countries has its roots in more fundamental deficiencies of the international monetary and reserve system. The international monetary system, including the International Monetary Fund, needs to become more efficient in preventing international financial crises and in particular, should become more accessible to developing countries during crises, in order to allow individual countries to reduce their own needs for reserves by relying more on a common global insurance framework.

The reserve accumulation by developing countries is also the main mechanism through which developing countries continue to make net resource transfers to developed countries. *Net outward transfers* by developing countries reached $658 billion in 2006 and those by economies in transition $125 billion. This trend has been continuing for a decade and is part of the problem of the global imbalances as discussed further below.

Growth prospects for major economic regions

Developed economies

GDP in the *United States* is expected to grow at a sluggish pace of 2.1 per cent in 2007, a significant deceleration from the 3.3 per cent of 2006. In the baseline outlook, the weakness is expected to be limited largely within the housing sector and growth is projected to rebound to 2.8 per cent in 2008 (see tables A1 and A2 for growth of regions and individual countries).

The impact of the housing recession on the overall economy of the United States has mainly been reflected in a slump in housing construction: residential investment has been declining at an annual rate of close to 20 per cent in the past year, dragging down GDP growth by about one percentage point. The weakening of the housing market has, as yet, not affected household spending. This is partly because the average house prices have declined only modestly and thus there have not been any strong negative wealth effects that could drag consumer spending down. Also, the weakness in housing construction has been offset by the resilience of other sectors. Nevertheless, real consumer spending growth is projected to slow from 3.2 per cent in 2006 to 3.0 per cent in 2007 and to decline further in 2008. Consumers are expected to become more cautious in the outlook as home values decline, mortgage equity withdrawal diminishes and the ratio of household debt servicing to disposable income reaches a record high.

Business spending on capital equipment declined unexpectedly in the fourth quarter of 2006 and in early 2007. Much of the weakness has been in capital goods related to the construction and motor vehicle industries, but demand for other types of capital goods has also softened. In addition, inventory levels in some industries rose over the course of last year, leading some firms to cut production. In the outlook, business investment in equipment and software is expected to grow at a moderate pace in 2007, supported by high rates of profitability, strong business balance sheets and relatively low financing costs. Investment in non-residential structures should also continue to expand, although not at the unusually strong pace of 2006.

Should the housing sector continue to deteriorate more severely along with more substantial declines in house prices, both the wealth and income effects would become more significant and would likely lead to a stronger retrenchment of private consumption than expected in the baseline forecast. In addition to the risks associated with the housing slump and the large external deficit, another risk is emanating from a substantial decline in the growth of productivity, which dropped to 1.6 per cent in 2006 from an average of about 3 per cent over the past decade. Although part of the slowdown in productivity growth could be cyclical, major factors unfavourable to the trend of productivity growth include a sustained slower growth pace of business spending on technological and other capital equipment in the aftermath of the collapse of the tech stocks in 2000 and a slowing of the pace of technological innovation. The slowdown in productivity growth, if persistent, may pose the risk of a mild stagflation.

The upturn in *Western Europe* continues. While the outlook is for a mild deceleration in 2007 and 2008, growth is expected to remain above trend. In the euro area, GDP registered a growth of 2.7 per cent in 2006, marking the strongest growth performance since 2000. Growth was led by exports and investment, but consumption expenditure, which had been a major drag on growth in the past, also contributed significantly. In the outlook, most leading indicators remain well above the long-term averages, but a number of factors are likely to restrain growth over the outlook. The slowdown in the United States, coupled with the adverse effects of euro appreciation, will dampen exports. Fiscal policy for the euro area as a whole is slightly contractionary, especially so in some of the larger economies. Monetary policy continues to tighten, with current short-term rates now close to neutral and the effects of the past increases yet to fully feed through the economy. On the positive side, the strong momentum of 2006, the improvement in the labour markets and a much stronger performance by Germany will likely bolster the near-term outlook. GDP is expected to grow by 2.4 per cent in 2007 and 2.3 percent in 2008.

Consumption spending is expected to strengthen with the continuing improvements in labour market conditions. Strong employment growth has boosted real disposable income, while an anticipated modest pick-up in wages should provide further support. The fall in oil prices from their peak of 2006 has also provided a boost to real income. Consumer confidence has been on an upward trend and remains above its long-term average. However, the increase in the German value-added tax (VAT) at the beginning of 2007, as well as fiscal tightening in other countries, is expected to be a restraining factor.

Investment is expected to continue to support growth, albeit at a reduced pace. Rates of capacity utilization moved up during 2006 and are currently well above long-term averages. Corporate profits are strong and external financing conditions for firms remain favourable: corporate spreads remain narrow, stock prices continue to move higher and interest rates are not yet high enough to be restrictive - real short-term rates have increased substantially, although only to a point close to having a neutral impact, and long-term rates remain low.

Growth differentials among large economies in the area narrowed in the course of 2006, with a particularly vigorous and faster-than-average growth in Germany for the first time since the inception of the European Monetary Union (EMU). Growth in Italy also picked up far more than expected but remained substantially below the average, while growth in France, which for many years exceeded the average, diminished slightly. Growth in the United Kingdom of Great Britain and Northern Ireland remained vigorous.

Major downside risks for the region include a worse-than-projected slowdown in the United States and a more substantial appreciation of the euro and other European currencies. Oil prices continue to be a concern, particularly with the output gap nearly closed and inflation already near target. Stronger wage gains could lead to an acceleration in inflation and, consequently, to additional monetary tightening. The impact of fiscal consolidation could be greater than anticipated.

The *new members of the European Union (EU)* maintained strong momentum in 2006, some of these countries having registered record-high growth rates for more than a decade. Robust domestic demand was the main driving force. Increased wages, a rapid expansion of consumer credit (including mortgage lending), improved employment conditions, a rise in purchasing power via appreciated currencies and continued FDI inflows, in addition to EU aid, have all supported robust consumption as well as investment. A strong recovery continued in Poland, growth reached a record high in the Czech Republic and Slovakia, both Estonia and Latvia expanded at double-digit growth rates, and the economies of Bulgaria and Romania, which joined the Union at the beginning of 2007, also maintained robust economic growth. In the outlook, aggregate GDP of the region is expected to grow by 5.4 per cent in 2007, moderating slightly from the 6.1 per cent pace of 2006.

Growth in *Japan* remains robust by the standards of a mature developed economy, particularly in view of its sustained expansion of an average rate of 2.5 per cent since 2003. In the outlook, the economy is expected to expand by 2.1 per cent in 2007, compared with 2.2 per cent in the previous year. Solid corporate profits underpin investment in the replacement and expansion of production capacities, while improved conditions in the labour market are expected to buttress consumer confidence and household consumption. The external sector remains one of the main driving forces of growth. Continued technological improvements and productivity gains have sustained Japan's strong competitive position in global markets. In particular, productivity growth has enabled firms to maintain their profit margins amid exchange-rate fluctuations. Meanwhile, the relocation of labour-intensive production stages to other Asian economies has provided additional relative cost advantages for many Japanese firms. In 2008, higher interest rates and a stronger yen are expected to lead to a more moderate contribution of the external sector to economic growth and a slowdown in the growth rate to 1.9 per cent. A major downside risk lies in a larger-than-expected downturn in Japan's major trade partners.

In other developed economies, growth of the *Canadian* economy is forecast to moderate to 2.2 per cent in 2007, partly as a result of the slowdown in the United States as well as of more restrained household spending in view of deteriorating household balance sheets. Continued strength in the housing sector will partially offset these weaknesses, but residential construction activity is also likely to slow down over the year. In 2008, expansionary fiscal policies in the form of lower taxes and higher government spending, as well as the positive effects of strong corporate profits on business investment, will revive the growth. Growth in *Australia* showed a moderate pace of 2.7 per cent in 2006. While private consumption was robust as a result of tax cuts, and exports were strong, the latest drought is estimated to have reduced growth by three quarters of a percentage point. In the outlook for 2007 and 2008, growth is expected to recover to above 3 per cent, sustained by a strong external sector due to favourable prices of the commodities the country exports. *New Zealand* is also expected to strengthen from its mediocre growth of 2006, reaching a pace above 2 per cent.

Economies in transition

After a robust growth rate of 7.7 per cent in 2006, the *Commonwealth of Independent States* (CIS) is expected to maintain its strong pace in 2007. Firm prices of oil, gas, metals and cotton continue to support those commodity-exporting economies in the region. Rising real incomes continue to strengthen domestic demand throughout the region, coupled with a strong pick-up in investment. Growth is projected to moderate somewhat in 2008.

Investment is emerging as a key growth factor in many countries of the region. After a long period of underinvestment, gross fixed capital formation rebounded at a rate of about 14 per cent on average for the region in 2006, reaching a rate of over 50 per cent in Tajikistan and over 30 per cent in Armenia and Belarus. In some countries, such as the Russian Federation, high investment has already led to rising productivity. The region needs to maintain high investment over a longer period in order to diversify their economies and reach more sustainable growth paths.

Growth in the *Russian Federation* is expected to continue at a strong pace of over 6 per cent in 2007 and 2008, gradually shifting from an export-led to an investment-led growth pattern. The volume growth of oil exports slowed down in 2006, but in contrast investment and consumption grew briskly. Fixed investment accelerated further in January 2007 to reach a pace of above 20 per cent, although it was still concentrated in the energy sectors. In the outlook, additional investment is expected to take place, including in the area of transport infrastructure and power generation. Household consumption continues to grow as a result of growing real income (as real wages keep on growing). Growth in *Ukraine* rebounded at a pace of 7.1 per cent in 2006. The momentum is expected to sustain in the outlook, although uncertainties associated with the political turmoil in April 2007 pose some downside risks. A recovery has also been under way in Kyrgyzstan, driven by FDI inflows and strong exports to the Russian Federation and Kazakhstan. Vigorous growth has been maintained in the countries of Central Asia. After reaching a record rate of over 34 per cent in 2006, Azerbaijan is expected to register another strong rate of about 30 per cent in 2007. Other major oil exporters in the sub region, namely Kazakhstan, and Turkmenistan are also enjoying strong growth.

Growth remains as well vigorous in the economies of *South-eastern Europe.* After a growth of 5 per cent in 2006, a similar pace is forecast for 2007 and 2008. Strong domestic demand, especially investment, including residential and business construction as well as infrastructure, remains the key driving force for those economies. In addition, strong credit expansion, increased fiscal spending and a rise in the wages of the public sector are propelling robust consumption demand. Both exports and imports continued to increase, but external deficit widened. FDI inflows to the region have been strong although uneven across countries - leading to a strong expansion in the telecommunication, transport and services, but industrial production capacity still remains limited for most of the region. In comparison, the growth of industrial output is just one half of that in the new EU member states.

The prospect of joining the European Union is helping to lock in prudent macroeconomic policies in these countries, regardless of their status in the EU accession process. Widening external deficits are a source of concern with respect to stable growth. The situation around Kosovo may also poses some economic risks for the region.

Developing economies

Growth in *Africa* is expected to remain robust in 2007-2008 at a pace of about 6 per cent. Rising mining and hydrocarbon production, increased public consumption and investment, especially in infrastructure, will continue to bolster overall growth. The strength of Africa's GDP growth continues to stem largely from developments in a few big economies, namely, Algeria, Egypt, Morocco, Nigeria and South Africa. All these economies, except Morocco, will expand at almost 5 percent or more in 2007. In Algeria, buoyant consumption demand and public investment, as well as vigorous export earnings are supporting a recovery from a marked slowdown (caused by a temporary decline in hydrocarbon production) in the previous year. Similar factors are expected to sustain a much stronger growth in both Egypt and Nigeria. On the other hand, growth is expected to moderate owing to the levelling-off of agricultural output after the good harvest of 2006. In South Africa, weaker consumer spending is expected to be the main reason for slower economic growth in the outlook.

Elsewhere in Africa, oil-exporting countries continue to grow more strongly than oil-importing countries. One notable exception is Chad, where political tensions and the stagnation in oil production have significantly slowed economic activity. Other oil-exporting economies, such as Angola and Equatorial Guinea, continue to expand at a brisk pace, driven not only by rising oil production and increased public spending but also by the robust performance of non-oil sectors, such as mining and agriculture.

Some oil-exporting economies have also sustained a relatively high growth. Increased aid and/or continued political and economic reforms are expected to brighten outlook for such countries as Cape Verde, Ghana, Senegal, the United Republic of Tanzania, and Zambia to a growth of more than 6 percent in 2007. By contrast, while political and social tensions have constrained economic activity in Chad, Guinea and Zimbabwe, power outages have hampered the expansion of manufacturing output and GDP in Benin and Togo.

The outlook for Africa is subject to some downside risks of both a political and an economic nature. Parliamentary and presidential elections scheduled in a number of countries might weaken their already-volatile political situation, thus impairing economic activity. The continued political tensions and/or civil unrest in Chad and the Darfur region of the Sudan and their potential spillover effects on neighbouring countries are also posing risks. Adverse weather conditions present unpredictable risks for the agricultural sector and economic growth. Finally, economic activity in Africa remains heavily dependent on the strength of growth in the rest of the world.

Growth in *East Asia* accelerated to above 8 per cent in 2006, but some moderation is expected for 2007 and 2008. While China posted a growth of 10.7 per cent, growth also accelerated in all other countries in the region, except in Indonesia and Viet Nam. Exports remained the main driver of regional growth, but domestic demand also strengthened in most economies. In addition to a strong global demand, the buoyant Chinese economy continued to gain importance as an export destination for the other East Asian economies. In 2007, growth in China is expected to remain buoyant, supporting robust regional growth. Further tightening measures in China, as well as the expected deceleration in major developed economies will, however, cause regional growth to slow somewhat in 2007, to a more sustainable 7.5 per cent. Regional growth is expected to slow further in 2008 to 7.3 per cent, masking some renewed acceleration in several economies.

Investment and exports continued to be the major drivers for *China* during 2006. There was some deceleration in the later part of the year, partly as a result of tightening economic policies. In the first quarter of 2007, growth accelerated again and was higher than expected. Inflationary pressures increased. This likely will lead to more tightening measures in order to facilitate a soft landing. Similarly, the near doubling of the trade surplus in the first quarter of 2007 would indicate that efforts to rebalance the Chinese economy towards stronger domestic demand have so far remained ineffective. More encouragingly, however, increasing growth rates of retail sales point to some strengthening in household consumption bolstered by increased income and policies targeted towards the rural areas. While the recent reduction in tax rebates for exporters is likely to have contributed to a contraction in the monthly trade surplus in March, it still remains to be seen whether this will bring about a trend reversal. Assuming further effective tightening measures, growth for 2007 is expected to decelerate to 10.1 per cent and to below 10 per cent in 2008.

Growth in Hong Kong Special Administrative Region (SAR) of China, the Republic of Korea, Singapore and Taiwan Province of China is also expected to slow from 2006 levels as export growth weakens in line with the global slowdown. Domestic demand is expected to pick up part of the slack, mainly driven by private consumption. In the Republic of Korea, private investment will remain the main driver of growth, but private consumption is expected to stage a modest comeback after sluggish growth in the last quarter of 2006. In contrast, growth in Indonesia, Malaysia and the Philippines is expected to accelerate in 2007, as private consumption remains strong, and private and public investment is forecast to gather speed. Growth in Thailand is likely to decelerate in 2007, as planned increases in government spending cannot offset the weak consumer and investor sentiment in the face of continued political uncertainty, and also because of the slowdown in export growth.

South Asia maintained strong growth in 2006, but is expected to decelerate marginally in the outlook. Growth in *India* will slow to about 8.5 per cent after reaching 9 per cent in 2006, amid tight capacity, inflationary pressures and continued monetary tightening. Growth in the other economies is also forecast to slow from its peak performance in 2006. Only Nepal is expected to continue its slow recovery as the process of political reform and stabilization continues and development spending increases. The forecast for 2008 is a continued economic expansion in all countries at rates similar to those in 2007, a further modest acceleration in Nepal and continued deceleration in the Islamic Republic of Iran owing to stagnating oil prices and export volumes. This will bring the regional average to an estimated 6.7 per cent in 2008.

Growth in 2006 was broad based across economic sectors, with most countries experiencing a rebound in agriculture. This was most pronounced in Sri Lanka which was recovering from the tsunami-related losses of 2005. Manufacturing and services also posted buoyant growth, supported by both domestic and export demand. While demand for the region’s exports is expected to slow in 2007, domestic consumption and investment demand are likely to remain strong, driven by positive consumer and investor sentiment, increasing incomes and government spending. Growth in agricultural output is expected to slow from its 2006 level if normal weather conditions prevail. While services remain the main driver of growth in India, industrial output growth in this country has reached record highs in 2006, and steady increases in investment bode well for an even stronger contribution to growth in the future.

Growth in *Western Asia* remained strong in 2006, as higher-than-expected growth of non-construction and finance sectors offset the impact of lower oil revenues in the larger economies, Saudi Arabia and the United Arab Emirates. In the outlook for 2007, despite the expectations of a decline in oil revenues in the oil-exporting economies owing to constraints of oil production quotas and a decrease in average oil prices, private consumption and government spending should keep growth robust at about 5.1 per cent. Growth in 2008 is expected to maintain some of the previous momentum of about 4.9 per cent.

Growth in the oil-exporting economies in the region remained robust in 2006, even as some of the larger economies witnessed decreased oil production. In *Saudi Arabia* the significant reduction of crude oil production was the main factor behind the lower-than-expected growth. Growth in non-oil sectors such as manufacturing, construction, trade and financial services is likely to remain strong in 2007, boosted by an improved business climate and a strong fiscal stimulus. The economic outlook for the other oil-exporting countries continues to be positive as growth is supported by high government spending, strong private consumption and increased foreign investment in new projects.

Significant disparities in economic performance remain in the region. Among the oil importers, *Lebanon* is still recovering from the aftermath of the Lebanese-Israeli war as the economy declined by around 3.0 per cent in 2006. The prospects for 2007 are expected to improve, following a pledge of more financial aid and loans from the international community. However, ongoing political tensions in the country remain and may continue to hamper the implementation of the recently introduced reform programme. In contrast, broad-based economic growth in *Jordan* continues to be strong, particularly due to robust domestic consumption and investment demand, as well as to increased exports.

Growth in *Israel* was stronger than expected in 2006 owing to robust growth in the second half of the year, underpinned by resurgent export growth and a significant increase in private consumption. The economic effect of the Lebanese-Israeli war on the economy of Israel was relatively benign - about a half of one percentage point of GDP. Prospects for 2007 are favourable, but growth is expected to decline slightly to 4.8 per cent. In *Turkey*, a considerable fall in private consumption brought on by surging prices and tight monetary policy slowed GDP growth in 2006. Growth is expected to rebound in the outlook, but it is clouded by political tensions surrounding the upcoming presidential elections.

Growth in *Latin America and the Caribbean* was stronger than expected in 2006. Increased income over the past three years has boosted domestic demand, and the performance of the external sector remains robust. In the outlook for the region, the growth projection for 2007 has been revised upward from the previous forecast, although it will still be lower than in

2006 owing mainly to an anticipated weaker external demand and lower international prices of the region's main export commodities.

Most of the large economies in the region have fared well. *Mexico* registered a growth of 4.8 per cent in 2006, the highest pace since 2000. Strength in the construction and service sectors, as well as robust domestic demand, has offset the adverse effects from the slowdown in the United States. However, the Mexican economy has been moderating in early 2007 dragged by the sluggishness of the United States economy. In *Brazil*, both consumption and investment were stronger than expected in reacting to expansionary monetary policy, as indicated by the latest revision of data. Domestic demand is expected to remain strong while net exports are expected to recover in 2007. *Argentina* seems to have already graduated from its post-crisis recovery to a more sustained path. GDP grew 8.5 percent in 2006 as a result of stronger domestic demand, especially investment in public infrastructure and private construction, while consumption grew in tandem with GDP. The *Bolivarian Republic of Venezuela* benefited from higher oil prices, but the non-oil sectors, especially the financial and construction sectors, registered even higher growth, boosted partly by new public infrastructure projects. Continued fiscal expansion and favourable external conditions are expected to support a robust growth for 2007. Domestic demand has also been the main driving factor in *Colombia* and *Peru*. Growth in *Peru* exceeded expectations in 2006, mostly supported by strong investment in construction and equipment, as well as by private consumption. Favourable terms of trade, an extension of the Andean Trade Promotion and Drug Eradication Act (ATPDEA) - which gives preferential treatment to exports from the Andean region to the United States - and low inflation have all been accommodative.

Growth in *Chile*, in contrast, was below expectations, reaching 4 per cent in 2006, down from 5.7 per cent in 2005. The deceleration was the result of production losses in the mining sector caused by the collapse of an important mine and by prolonged worker strikes in the sector. For 2007, it is expected that the mining and cellulose industry will recover to normal production levels, although export prices will not be as favourable. Forecasts for *Ecuador* have also been revised downward to 3.5 per cent as oil output is weakening, limiting the fiscal policy space as revenues decline.

The outlook for employment and inflation

The *employment situation* has shown a mixed picture globally. In the developed economies, there are signs of improvements in the labour market in terms of lower unemployment rates as well as increased job creation. In the economies in transition and the developing economies, in spite of strong economic growth, the employment situation shows little improvement and remains characterized by high unemployment and underemployment.

In the United States, labour markets have continued to improve, with the unemployment rate dropping to 4.4 per cent by the first quarter of 2007, the lowest level in six years. Despite the downturn in the housing sector, employment in the construction sector has continued to grow, as new jobs in the non-residential sector have more than offset the losses in the residential sector. In the outlook, employment growth in the economy as a whole is expected to slow during 2007, with the unemployment rate edging up to nearly 5 per cent by year's end.

Unemployment in the euro area fell to 7.3 per cent in early 2007, the lowest level in more than a decade, as employment grew by 1.4 per cent in 2006 and 2 million new jobs were created. The main driving force has been the strong cyclical upswing coupled with restrained wage growth, while labour market reforms may have lowered the structural rate of unemployment. Strong economic growth in the EU-15 also benefited the new EU member countries as large outward labour migration from the new EU members contributed to the reduction in their unemployment rates. In addition, the creation of new jobs, especially in manufacturing, construction, real estate and catering services also improved the labour market scenario in the new EU member countries. Overall, the employment outlook remains positive throughout Europe as above-trend growth continues in Western Europe and the spillover effects of openness in the labour market begins to benefit workers in the new EU members.

In the economies of the Commonwealth of Independent States (CIS), employment growth remains limited, despite several consecutive years of rapid growth in the region. In South-eastern Europe there has been a revitalization in certain industrial sectors and noticeable growth in services, but the overall improvement in the labour market remains marginal. Unemployment rates are stubbornly high, especially in Bosnia and Herzegovina, and Serbia, where they are still as high as 30.0 and 20.8 per cent, respectively.

Rapid economic growth in the developing economies has also led to little improvement in the employment situation in most cases. High rates of labour force growth and insufficient new job creation continue to keep unemployment rates high. This is particularly the case in Africa where labour force growth continues to outstrip new job growth. In Western Asia, the growing number of young people entering the labour market must face an extremely competitive expatriate labour force, particularly in low skilled occupations. At the same time, the skills mismatch in higher skilled occupations, is causing unemployment rates of nationals to remain at double-digit levels in many of the economies in the region.

In East Asia, unemployment rates in the newly industrialized economies decreased in 2006, but a further improvement in the labour market is not likely, as overall economic growth in the region is expected to slow. Unemployment rates continued their downward trend in the Philippines and Thailand, but remained stubbornly high in Indonesia amidst political stalemate surrounding labour market reform. Some improvements have been recorded in Pakistan and Sri Lanka, where official unemployment rates show further declines in 2006, but this masks the broader problem of the underemployment that remains persistent in most developing economies and the lack of decent and productive employment for the fast-growing labour force.

In contrast to most other developing economies, a somewhat improved employment scenario has been unfolding in Latin America and the Caribbean, as strong output growth has led to the growth of newly created jobs. Relatively high GDP growth rates since 2004 have decreased regional unemployment rates to below 9 per cent as a result of record levels of employment. The demand-driven growth in the region has been met by a greater generation of employment in construction and services, while manufacturing was weakened by an increase in international competition. The outlook for 2007 is for a moderation of employment growth, as economic growth (though still high in relative terms) may not be sufficient to further improve the labour market situation of the region.

The employment situation in China highlights the challenge of promoting employment growth in developing countries. Over the period 1990 to 2005, China's GDP grew at an annual rate of 10.1 per cent, while employment registered an annual growth of just 1.1 per cent. Meanwhile, registered urban unemployment rates rose from 2.5 per cent in 1990 to 4.1 in 2006.[5] The rise in urban unemployment rates emanates from two simultaneous structural shifts in the Chinese economy. One is the shift of surplus labour from agriculture into the modern sectors, made possible by a relaxation of rural-urban migration policies; the other is the transition from a centrally planned economy to a more market-based economy with the emergence of competitive private foreign and domestic enterprises. Starting in the mid-1990s, the Government allowed State-owned enterprises to lay off workers in an attempt to reduce the bloated staff in many agencies. This, combined with a rapid pace of adaptation to new technology, led to increases in industrial labour productivity, especially in manufacturing, while at the same time driving laid-off workers into either open unemployment or informal low-productivity jobs. Although employment in the newly emerging private enterprises has been growing rapidly during the period, it has not been enough to offset the large number of layoffs. The rapid emergence of service sector employment since the 1990s is also partially caused by this dual transformation of the Chinese economy. Thus, one slightly positive aspect of the increase in the unemployment rate has been the movement of labour from underemployment, or disguised unemployment, into the labour force of the formal economy.

In the outlook, although the labour-shedding associated with the reform of the State-owned enterprises may have come to an end in China, the continued rural-urban migration and still high urban unemployment and urban informal employment will continue to be major policy challenges for policymakers. Some improvements in labour market regulation may be necessary to improve flexibility, but it is also important to strengthen productivity growth in the services sector to improve wages and create more and better quality employment. One way to improve productivity in services would be to institute better forward and backward linkages between informal activities in service industries and those in both formal services and industry. An increased policy focus on the service sector would also contribute to the aspired goal of rebalancing the Chinese economy towards more domestic-demand-based growth.

Headline inflation rates rose notably in most countries during 2006. While higher international oil prices were the main drivers in the majority of economies, growing demand pressures were also present in the wake of several years of strong global economic growth. In a number of developing economies, rising food prices also contributed to the increase in headline inflation. Core inflation measures—excluding the prices of energy and food—remained more stable. Looking forward, inflation rates in 2007 and 2008 are expected to ease somewhat, in line with a levelling off of oil prices and the expected slowdown in global demand growth. However, inflationary pressures will persist in many countries, supported by the delayed pass-through

[5] The actual unemployment rate could be a few percentage points higher than the official rate owing to a narrow statistical base used for the official rate, which excludes some of the layoffs from the State-owned enterprises.

effects of previous increases in oil prices and other commodities, and continued strong economic growth, as well as by rising unit labour costs in some economies.

Among the *developed economies*, headline inflation in the *United States*, as measured by the annual change of the consumer price index (CPI) has remained above 3 per cent per year since 2005. While core inflation remained lower, it was still above the presumed 1-2 per cent tolerance band of the Federal Reserve. Nevertheless, inflationary expectations of financial market agents appear to remain stable. The measure for this is the spread between the yield on the 10-year Treasury note and that of the Treasury Inflation Protected Securities of the same term. This spread has stabilized around 2.4 per cent. In 2007, the anticipated slowdown of the economy and the easing of international oil prices is expected to cause headline inflation to decelerate to about 2 per cent. In *Western Europe*, with a relatively strong growth outlook for 2007, inflation remains a concern for the monetary authorities in spite of easing international energy prices. Wages are starting to pick up along with decreasing unemployment, and unit labour costs are expected to rise throughout the forecast period. Although declining from the 2005 and 2006 levels of 2.2 per cent, inflation in the euro area as measured by the harmonised index of consumer prices (HICP), is expected to remain at the upper boundary of the European Central Bank's target of about 2 per cent in 2007 and 2008. In the *EU-10*, upward pressure on prices will also persist, owing in part to increases in the price of imported Russian natural gas, as well as to further upward adjustments in administered prices and indirect taxes. Inflation in *Canada* is expected to remain benign in 2007. The continued recovery of domestic demand in *Japan* has finally pushed the economy out of its deflationary spiral, and inflation indicators are expected to be above zero in 2007 and 2008. In contrast, inflationary pressures call for heightened vigilance in *Australia* and *New Zealand*.

In the *economies in transition*, inflation is also expected to decelerate gradually from its peak in 2006. In the *CIS*, some deceleration is expected in average inflation rates in 2007 and 2008 after the peak in 2006, which was caused in part by increases in the price of imported gas from the Russian Federation. In the energy-producing countries in particular, inflationary pressures are expected to decline as oil revenues weaken in 2007 and 2008. In some countries, however, consumer price inflation is expected to continue on an upward trend in 2007. Ukraine is a case in point, where continued strong consumer spending, growing production costs and political turmoil are all expected to contribute to a further rise in inflation from the 2006 level of 9.1 per cent. In *South-eastern Europe*, inflationary pressures in the past year stemmed mainly from higher energy prices, rapid credit growth and increases in real wages, resulting in average regional inflation as above 3 per cent. The introduction of VAT in Bosnia resulted in a 6.9 per cent increase in consumer prices in that country. Similar to the situation in the EU-10 , planned increases in controlled prices, as well as prospective increases in the prices of imported electricity, will result in average inflation of about 3 per cent in 2007 and 2008.

Inflation rates in the *developing countries* also witnessed measurable average increases in 2006, although they remain at low levels compared with those of past decades. A notable exception was *Latin America and the Caribbean*, where inflation actually decreased to historical lows. This decline was mainly the result of cautious monetary and fiscal policies, as well as of an incomplete pass-through of higher international oil prices to domestic fuel prices. In addition, imported inflation remained low, owing to an appreciation of national currencies against the

United States dollar in some countries and the consequent decrease in the prices of manufactured imports. Across all other regions in the developing world, increases in domestic fuel and food prices, as well as strong consumption demand were the main drivers of inflation in 2006.

Inflation in the developing world is not expected to decelerate in 2007, and a notable easing of inflation rates is not apparent in the forecast until 2008. *Africa* is an exception in that inflation is forecast to slow down in 2007. However, this progress may be fragile, especially in Angola and Burundi, where the decline in inflation is attributable mostly to a decline in imported inflation, owing to nominal appreciations of the national currencies. In *East Asia*, inflation in 2007 and 2008 is expected to remain broadly subdued at levels similar to those of 2006, when it reached 2.9 per cent. Consumer prices will accelerate somewhat in the newly industrialized economies, following a strengthening of domestic demand, but will decelerate in some Association of Southeast Asian (ASEAN) economies from a slightly higher level, as international oil prices and domestic food prices recede. Inflation is expected to decline markedly in Indonesia, where it averaged about 13 per cent in 2006 after the lifting of the control of domestic fuel prices in late 2005. In China, inflation is forecast to increase to about 2.5 per cent in 2007 as food prices continue to rise and domestic liquidity continues to expand. In *South Asia*, regional average inflation is expected to increase marginally from its 2006 level of 9.9 per cent, owing to a continued pass-through of international oil prices to domestic fuel prices, as well as to increases in food prices caused by production shortfalls in some countries and disruptions in food distribution in others. Growth in domestic demand and high liquidity will also continue to add to inflationary pressures, most notably in India, which is also experiencing rapid house price inflation. In 2008, the lagged effects of a continued tightening of monetary policy in most countries, as well as an easing in the growth of food and domestic fuel prices, will allow regional inflation to decline. Inflation in *Western Asia* is also forecast to increase further in 2007, driven mainly by the continuation of strong inflationary pressure in Turkey, where higher food and tobacco prices have exerted upward pressure on consumer prices. In the oil-exporting countries, some inflationary easing is expected for 2007 as the housing supply increases, causing prices to decelerate moderately. Meanwhile, in the Gulf Cooperation Council (GCC) countries (whose national currencies are pegged to the United States dollar), there remains a risk of increased imported inflation as national currencies depreciate against the euro. In *Latin America and the Caribbean*, average regional inflation is forecast to increase in both 2007 and 2008 from its historic low.

Macroeconomic policy stance

Monetary Policy

The 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 still relatively low compared with historical averages in either nominal or real terms, and ample liquidity is still evident in the world economy. In view of a combination of the anticipated cyclical slowdown in output 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.

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

	April 2007	Change from June 2004 (basis points)	Direction in recent change
Australia	6.25	100	+
Brazil	12.50	-350	-
Canada	4.25	225	+
Chile	5.00	325	-
China	6.39	108	+
Czech Republic	2.50	25	+
Hong Kong SAR[a]	6.75	425	+
Hungary	8.00	-350	+
India	7.75	175	+
Indonesia	9.00	166	-
Japan	0.50	50	+
Korea, Republic of	4.50	75	+
Malaysia	3.50	80	+
Mexico	7.25	75	+
New Zealand	7.75	200	+
Norway	4.00	225	+
Philippines	7.50	75	+
Poland	4.25	-100	-
Slovak Republic	4.25	-75	-
South Africa	9.00	100	+
Sweden	3.25	125	+
Switzerland	2.25	175	+
Taiwan Province of China	2.87	150	+
Thailand	4.00	275	-
Turkey	17.50	-450	+
United Kingdom	5.25	75	+
United States	5.25	425	+

Source: JP Morgan Chase Bank.
[a] Special Administrative Region of China.

Among the *developed economies*, in *the United States*, after a two-year period of raising interest rates, the Federal Reserve Bank (Fed) has kept the federal funds rate at 5.25 per cent since mid-2006. Although inflation rates have persistently been above the Fed's presumed 1-2 per cent tolerance band, the economy has witnessed a notable slowdown. In the outlook, the Fed is expected to hold the Federal Funds rate at 5.25 until mid-2007, to be followed by a cut of 25 basis points, with no further change in policy expected in 2008.

Monetary policy continues to tighten in *Western Europe*. The European Central Bank (ECB) raised its main policy interest rate by another 25 basis points in March 2007, bringing it to

3.75 per cent, a cumulative 175 basis points since the tightening cycle began in December 2005. Currently, policy is very close to a neutral stance, with the real short-term rate close to 2 per cent, but one further increase is assumed in the first half of 2007, bringing the policy rate to 4 per cent. In 2008, it is assumed that policy will remain on hold. A number of factors lie behind this anticipated neutral stance. First, inflation remains close to the 2 per cent upper bound of the ECB's inflation target. Second, above potential GDP growth, although expected to gradually decelerate over the forecast period, will close the output gap. Third, the unemployment rate is at its lowest point since the early 1990's and is expected to fall further; as a result real wage growth is expected to pick up but labour productivity is expected to remain firm so that unit labour cost will be contained. Finally, money supply growth remains very strong. These factors argue for caution, but significant tightening is not expected, as the full effects of past monetary tightening have yet to impact economic activity and the euro is continuing to appreciate, tightening overall monetary conditions. In *the United Kingdom*, policy is expected to tighten further as inflation has moved above the upper bound of the Bank of England's inflation target.

In the *new EU member States*, overall monetary conditions remain accommodative, as domestic credit growth outpaces output growth. In some countries, interest rates were cut in early 2007, but there are signals that monetary policy will be tightened in response to growing inflationary pressures and the tightening by the ECB. In Bulgaria, lending restrictions imposed earlier were removed in January as credit growth slowed. As Romania liberalized its capital account, it has become vulnerable to speculative capital inflows. In order to fight currency appreciation, interest rates have already been cut twice this year. In January, Slovenia became the first of the new EU member countries to join the euro area, transferring its monetary policy decisions to the ECB.[6]

It is assumed that monetary policy will tighten further in *Japan* but at a very gradual pace. Inflation continues to hover near 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 stand at 1.00 per cent at the end of 2007 and 1.75 per cent by the end of 2008.

In other developed economies, *Canada's* interest rates are expected to stay at their current level of 4.25 per cent in the second half of 2007, as inflation is expected to remain under control in view of relatively stable energy prices and the absence of more pronounced wage pressure. The Reserve Bank of *Australia* continues to signal a tightening bias as core inflation remains near the upper end of the central bank's target range, but further tightening will be gradual in view of its potential negative impact on household solvency. In *New Zealand*, the central bank raised its policy rate to 7.75 per cent in April. Despite more pronounced inflationary trends, monetary policy will remain on hold for the rest of the year, and a cut in interest rates by 25 basis points is assumed for the first half of 2008.

[6] Although the Baltic States retain their participation in the ERM-2, high inflation rates will postpone adoption of the euro for at least two years.

Among the economies in transition, after generally accommodative monetary policies in 2006, a shift to a more cautious stance is under way in some *CIS* countries. In oil-exporting countries, the monetary authorities have continued to sterilize their intervention in the foreign-exchange markets to reduce liquidity related to oil revenues and curb appreciation of their national currencies. Additional cuts in refinancing rates were implemented in some countries, such as the Russian Federation and Ukraine. In contrast, in Belarus and Kazakhstan, the refinancing rate has risen in the expectation of higher price levels. To offset the surge in reserves and broad money, monetary policy has been tightened in Uzbekistan as well, including through the newly created Fund for Reconstruction and Development, and is expected to remain so in the forecast period. In the light of the expected lower liquidity as oil revenues in a number of countries slow down, the central banks will gradually move to inflation targeting combined with more flexible exchange-rate policies in the short-run outlook.

In *South-eastern Europe*, monetary policy is devoted to maintaining formal or informal currency pegs, although in Serbia, which has been facing disinflation, policy has shifted to targeting core inflation. Currency pressures in many of the region's economies led to interest rate reductions in 2006 and early 2007, but excessive credit growth in some cases required measures to curb lending growth. Policy is expected to remain accommodative in the outlook.

Among developing countries, in *Africa*, monetary policies will remain relatively tight, or at best neutral, as many countries try to limit the potential inflationary pressures associated with buoyant domestic demand and/or attempts to synchronize their monetary policies with those of countries whose currencies are used as pegs. Uganda, the United Republic of Tanzania and many oil-producing countries, including Algeria, Angola and Nigeria, will continue to target modest growth for broad money and their monetary bases, by increasing the discount rates, raising reserve requirements on demand deposits and boosting foreign-exchange sales. The two regional central banks of the 15 CFA franc zone countries may tighten monetary conditions slightly to respond to growing excess liquidity in some of the member countries and to align themselves with the policy stance of the ECB, the institutional anchor of the CFA franc. Following the aggressive monetary tightening of the last semester of 2006 and the increasing evidence of a slowdown in domestic demand, the South African Reserve Bank may keep its key rate unchanged for the rest of 2007. With their currencies pegged to the South African Rand, Malawi, Lesotho and Swaziland are expected to follow suit, thus adopting a neutral stance.

In *East Asia*, differing inflation outlooks are leading to a variety of monetary policy stances. In view of inflationary pressures and renewed fears of overheating, monetary policy in *China* will maintain its tightening bias in 2007, with continued interest rate hikes, as well as increases in the reserve requirement, and further sector-specific measures as required. A gradual acceleration of the appreciation rate of the renmimbi may help to mitigate overheating pressures, but too rapid of an appreciation could also destabilize the economy. In the newly industrialized economies, reserve banks will maintain their vigilant stance, as inflation is on a modest upward trend. Towards the end of the year, however, there may be room for some easing. With the exception of Malaysia, monetary easing already began in 2006 and early 2007 in the ASEAN-4 countries. This trend is expected to continue throughout the year. In Malaysia, some easing is possible towards the end of the year and into 2008.

In the light of continuing high inflation in *South Asia*, monetary policy tightening will remain in place in most economies. Notable exceptions are the Islamic Republic of Iran and Pakistan. In the latter, earlier tightening measures have shown some results and inflation is expected to ease somewhat. Consequently, policy rates may decline in late 2007 as the economy slows. In 2008, with inflation coming under control, some monetary easing is expected throughout the region.

In many countries in *Latin America and the Caribbean*, monetary authorities are wary of a return of inflationary pressures, but at the same time they are faced with an expected slowing of economic activity. Since inflation rates are at relatively low levels and a slowdown in economic activity seems more imminent in most countries, monetary policy easing is expected to be more prevalent, as in the case of Brazil, Chile and Peru. In Mexico, inflation, while low by historical standards is above the central bank's target, yet its monetary stance also remains relatively accommodative, as the central bank is more concerned with downside risks to growth due to the sluggishness of the United States economy. In contrast, countries such as Argentina and Colombia are expected to focus more on price stability, as their growth outlooks is more robust.

Fiscal Policy

The fiscal policy stance is neutral to slightly expansionary in most economies. Most economies, except for a small number of economies in Central and Eastern Europe, have experienced a notable improvement in their fiscal position as a result of robust growth over the past four years. As growth is expected to moderate, further cyclical improvement in fiscal revenues is unlikely to continue in many economies as 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 fulfill the Millenium Development Goals (MDG), 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 $248 billion during 2006. Real government expenditure has been growing below the pace of GDP for about two years, but is expected to rise slightly during 2007, and the fiscal stance is expected to remain modestly stimulatory in 2008. In *Western Europe*, fiscal balances improved significantly across the region in 2006, stemming both from growth performance and revenue windfalls, along with expenditure cuts in some countries. In the euro area, fiscal policy in 2006 continued to be moderately contractionary in those countries with excessive deficits according to the Stability and Growth Pact (SGP), while other countries pursued either neutral or expansionary policies. This pattern is expected to hold in 2007 and 2008, with a slightly contractionary aggregate position. Germany is undertaking a major fiscal consolidation including a rise in its VAT; a consolidation is also expected in Italy and, to a lesser extent in France. Fiscal policy is expected to be broadly neutral in the United Kingdom. In the *new EU members*, fiscal policies remained pro-cyclical in 2006 and, with the exception of Bulgaria and the Baltic States, the deficits increased. Strong GDP growth and inflation facilitated in meeting the revenue targets, delaying necessary structural reforms. Additional social spending and an increase in public sector wages pushed deficits in most of Central Europe above the 3 per cent threshold of the SGP. Japan will continue its fiscal consolidation by adopting restrictive spending policy.

Among the *economies in transition*, fiscal positions in those commodity-exportering countries improved through higher export prices. In the *CIS*, fiscal policies will continue to follow an expansionary stance in 2007 as more spending is allocated towards infrastructure, education, health, salaries in the public sector and pensions. In 2008, as a result of the expected slower growth in expenditures in many countries, in line with the projected moderation in economic growth, fiscal policy is set to tighten. In *South-eastern Europe*, many countries ran fiscal surpluses in 2006, facilitated by higher privatisation receipts and indirect taxes, but fiscal positions may deteriorate slightly in 2007 because of higher social spending and the implementation of infrastructure investment plans.

Among the *developing countries*, fiscal balances have also significantly improved in most commodity-exporting economies, while fiscal stances continue to vary across the regions. In *Africa*, in spite of increased public spending, many countries continue to post fiscal surpluses or moderate fiscal deficits, reflecting improved domestic revenue collection and increased current grants. The policies are expected to be relatively accommodative in most countries as governments step up efforts aimed at achieving MDGs and addressing pressing infrastructure needs. South Africa is expected to record a fiscal surplus in 2007 as revenue growth is expected to outpace spending growth. The same is true for many oil-exporting countries in the region. In *East Asia*, after general improvements in the region's fiscal balances over recent years, fiscal stances differ among countries in 2007. Higher public spending growth is expected 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 infrastructure investments could lead to a boost in government spending. In *South Asia*, fiscal policies in the region will remain broadly expansionary in 2007, as in 2006, given the need for increased spending in 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. Bangladesh's deficit is expected to increase, given the necessary outlays for changes in the electoral process and planned infrastructure investment by the transitional government. The net fiscal deficit of the Islamic Republic of Iran is also likely to rise, in spite of slower spending growth, as growth in oil revenues will decline progressively. In *Western Asia*, owing to increased government spending, the fiscal surpluses of the oil-exporting countries are expected to narrow in 2007, nonetheless remain large by historical standards. In *Latin America*, 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, which has positively affected aggregate demand in many countries. However, in 2007, the weakening of economic activity and the expectation of lower export commodity prices will limit the previously prevalent expansionary fiscal stance in most countries.

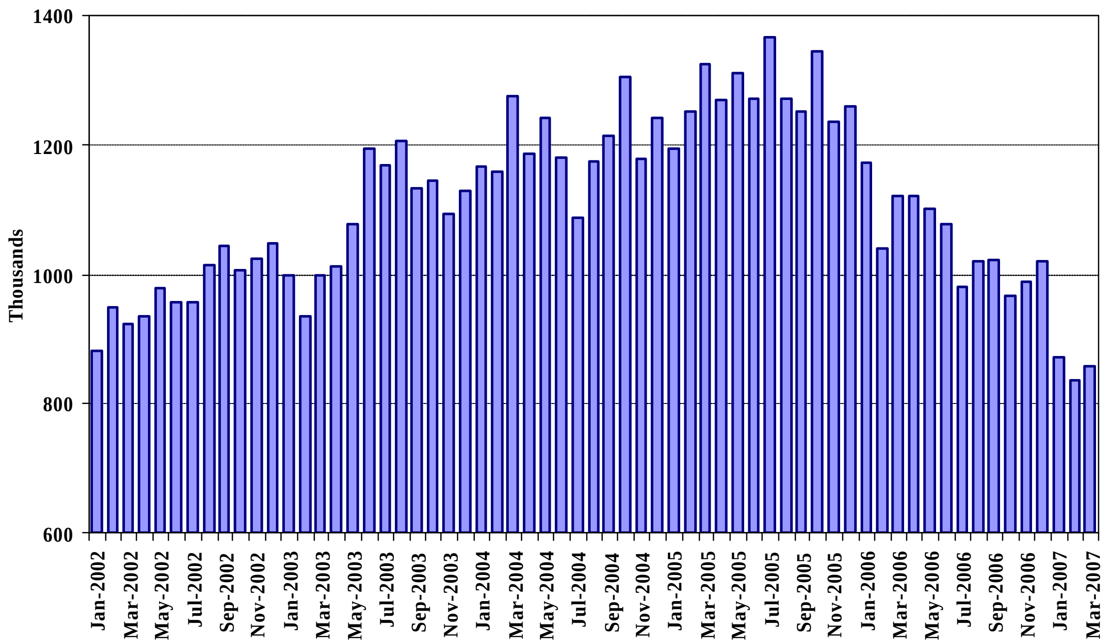
Uncertainties and risks

The outlook for the global economy encompasses a number of uncertainties and important risks, mainly on the downside: First, there is the risk of a more severe downturn due to the ongoing corrections in the housing markets in a number of economies, particularly the United States. Second, the risk of a disorderly adjustment of the global imbalances remains looming over the stability of the world economy. Third, other risks include that of a new oil price hike, a possible outbreak of avian influenza, as well as possible geopolitical shocks. Most of these risks have been analysed at some length in previous issues of the LINK outlook. In the below, an update is presented of the latest developments associated with the housing sector and the global imbalances.

Burst of the housing bubble in the the United States

The downturn in the housing sector of the United States has accelerated since the second half of 2006, and the prospects for 2007 remain uncertain. New home sales, which had been on a steady rise for several years, declined in 2006 by about 20 per cent from the previous year and continued to drop in the first quarter of 2007, falling to the level of 2002 (see figure 2). Homebuilders have been aggressively curtailing construction: starts of new houses have fallen sharply, and residential investment declined by nearly 20 per cent during 2006. Despite such a rapid reduction in the supply, the inventory of unsold homes has risen steadily to a level of more than double the average of the past few years. Meanwhile, the pace of house-price appreciation dropped substantially during 2006, with some measures of housing prices already showing outright declines, albeit to moderate degrees.

Figure 2 New home sales in the United States, 2002-2007[a] (seasonally adjusted annual rate)



The turmoil in the subprime mortgage market at the beginning of 2007 has further heightened the risks for a longer and deeper slump in the housing sector and for a possible spread of the weakness to the overall economy. The meltdown of the subprime mortgage market is to a large extent the result of various bubbles in the housing sector over the past decade. The subprime mortgage market serves clients with poor credit histories or with insufficient financial resources, who are not qualified for conventional mortgages. When house prices rose, the subprime mortgage market expanded rapidly. New subprime 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 subprime adjustable-rate mortgages (ARMs), typically with an initial two-year introductory interest rate, represent 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. The delinquency rates in the subprime market rose to above 13 per cent in the fourth quarter of 2006, causing a panic among subprime lenders in early 2007–some filed for bankruptcy, others sought buyers or closed operations.

So far, the financial stress has been limited to the subprime market only, which has accounted for about 20 per cent of all mortgage originations over the last three years. Mortgages to prime borrowers and fixed-rate mortgages to all classes of borrowers continue to perform well, with low rates of delinquency. So far, there is no general credit crunch in the economy: credit spreads have widened outside of the mortgage market only slightly and the financial system at large is in much better shape than during the last housing crisis in the late 1980s and early 1990s. Nevertheless, the near-term outlook for the housing sector has undoubtedly been aggravated by the problems in the subprime market. Delinquencies are expected to rise further and banks are tightening lending standards not only to subprime borrowers but to other categories of borrowers as well. As a result, sales and prices of houses will likely continue to slow before the housing sector stabilizes.

The impact of the housing recession on the overall economy of the United States has so far mainly been reflected in the slump in construction activity, which dragged down GDP growth by about one percentage point over the past year. By contrast, there has yet to be an impact on household spending. This is partly because average house prices have declined only modestly, producing little impact on consumer wealth, and also because the weakness in housing construction has been offset by resilience in other sectors—for example, job losses in housing construction have been compensated by new jobs in non-residential construction and in services—thus mitigating the negative income effects on household spending. However, 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 become more significant, leading eventually to a retrenchment of private consumption.

In the baseline outlook, the correction in the housing sector of the United States is expected to continue during 2007 and remain of a magnitude similar to that of 2006, trimming another one percentage point off GDP. However, the risks for a much more severe adjustment in housing prices are not negligible. Since 1997, housing prices in the United States have appreciated by about 80 per cent in real terms (adjusted for inflation) -- in comparison to a real appreciation of just 10-20 per cent in previous booms -- implying more room for a downward adjustment.

As illustrated by a simulated alternative scenario in the LINK Outlook of October 2006, a further weakening in the demand for residential homes by 15 per cent could slow the growth rate of the United States economy to 0.5 per cent and this in turn would slow world economic growth.[7] Household spending in the United States would fall as mortgage equity withdrawal would stagnate amidst falling house prices, rising interest rates and tightening scrutiny for mortgage loans. As a result, the import demand of the United States would be curtailed and the willingness of the rest of the world to hold the financial assets of the United States would decline sharply, causing a large dollar depreciation vis-à-vis other currencies and increases in long-term interest rates. Weaker demand in the United States would be transmitted through trade linkages to the rest of the world. The direct impact would be strongest in those countries with the largest export shares to the United States market, but the rest of the world would also be greatly

[7] For a detailed discussion of this scenario, see *LINK Global Economic Outlook, October 2006*, http://www.un.org/esa/policy/link

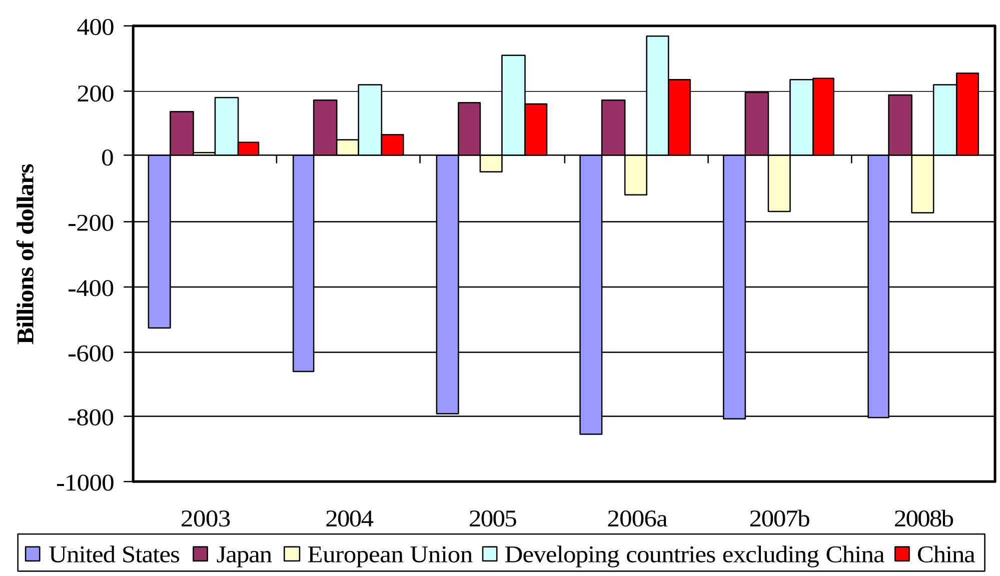
impacted through indirect effects. In this scenario, world economic growth would drop by more than one percentage point compared to the baseline.

There is an inextricable linkage between the increase in housing prices and global imbalances: the negative saving rates and the large external deficit of the United States are closely correlated with the housing boom of the past few years. Therefore, a burst in housing prices will likely increase the risk for an abrupt and contractionary adjustment of global imbalances.

Global imbalances

After a further widening during 2006, current-account imbalances across countries are expected to narrow slightly in 2007 (see figure 3). The deficit of the United States had risen to about $860 billion by the end of 2006, or 6.5 per cent of its GDP, and is expected to fall to $800 billion in 2007. Developed economies as a whole registered a current-account deficit of above $600 billion and that deficit is expected to be of a similar magnitude in 2007. While Germany is expected to maintain a sizeable surplus of about $120 billion, the euro area as a whole has fallen into a slight deficit position, but is expected to register a small surplus in 2007. Japan's surplus will continue to rise in 2007 and remains the largest amongst developed countries, at about $190 billion. Most developing regions are running surpluses. The surplus in the group of oil-exporting countries increased the most in 2006, reaching about $500 billion, but that surplus is expected to moderate in 2007 along with an anticipated decline in the average prices of oil. The surplus in developing Asia reached above $200 billion, mostly in China and will remain on the same scale in 2007. Latin America has managed to run a small surplus for an unprecedented four consecutive years, while Africa is almost in a balanced position. While the surplus in the CIS has surpassed $100 billion, mainly because of the Russian Federation, the other economies in transition in Europe are running a substantial deficit relative to GDP.

Figure3. Current-account balances, 2003-2008



Worldwide, the phenomenon of a pervasive "investment anaemia", underlying the global imbalances over the past few years,[8] seems to have lessened somewhat. Investment rates are expected to improve further in most surplus countries during 2007.In both Europe and Japan, investment has been accelerating moderately, but the growth rates of investment in most developed countries remain below the average rates of the late 1990s. In the United States, investment is expected to decelerate markedly in 2007 as an outright recession in residential investment is accompanied by a notable cyclical slowdown in business capital spending. Among developing countries, some improvement in investment has been witnessed, but the trend is divergent across countries. In East Asia (excluding China), a recovery in the investment rate from the early years after the Asian financial crises of the late 1990s is continuing, but investment rates in a number of countries remain below the pre-crises level, even though the utilization rates have regained their pre-crises levels. China, on the other hand, continues to register strong investment growth, maintaining an extremely high investment rate of above 40 per cent of GDP. Among other developing regions and the economies in transition, investment growth has further strengthened in most oil- and commodity-exporting countries, fuelled by increased revenues and driven by the strong demand for infrastructure and new production capacity.

The worsening current-account deficit in the United States during 2006, about $60 billion more than the previous year, was mainly mirrored by a decline in private savings. Government savings increased and the fiscal deficit decreased by about $70 billion during 2006, owing to strong tax revenues. The household saving rate continued to be negative, falling to -0.6 per cent of disposable income. In the outlook for 2007, the expected slight improvement in the current-account deficit will reflect –from the trade side– a weakening of import demand combined with relatively stronger export performance. From the perspective of the savings-investment balance, it is expected to reflect a slowdown in the growth of domestic investment.

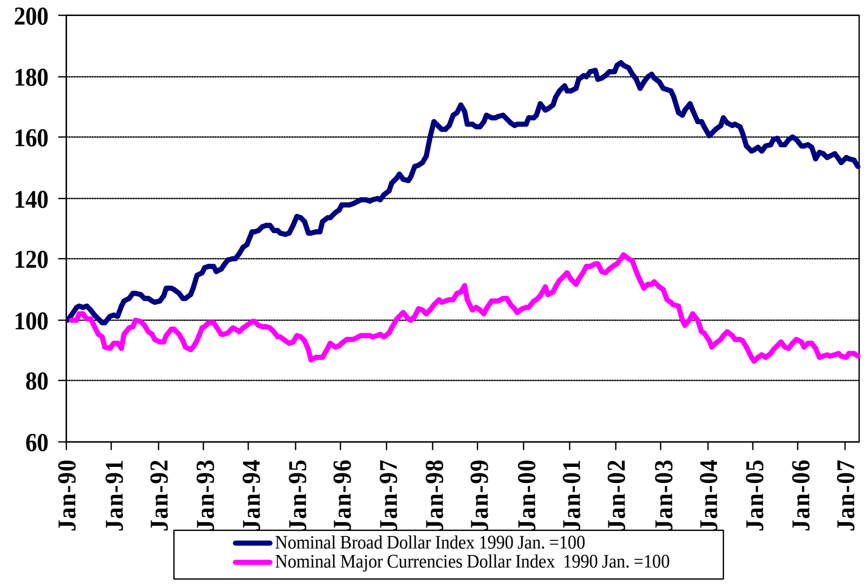
Despite the projected small narrowing of the current-account deficit in the United States, the risks for a disorderly adjustment remain, as the indebtedness of the United States continues to deepen. As a result of the chronic current-account deficits over the past decade, the net international investment position of the United States is estimated to have exceeded $3 trillion by the end of 2006. In recent years, valuation adjustments in the United States-owned assets abroad and in the foreign-owned assets of the United States would almost always be in favour of the United States, making the increment in the net debt position of the United States measurably smaller than the accumulation of the current-account deficit. An expected depreciation of the United States dollar vis-à-vis other major currencies in 2007 will, ceteris paribus, again lead to a downward adjustment in the valuation of the foreign-owned assets in the United States and an appreciation of the United States-owned assets abroad; however, another deficit of $800 billion in its current account will still add a few hundred billion to the net debt position of the United States, making it less sustainable.

The unsustainable debt position of the United States was a significant factor in the depreciation of the United States dollar in 2006 and early 2007. As indicated by figure 4, since its peak of 2002, the dollar has depreciated vis-à-vis other major currencies by about 35 per cent, and by 25 per cent against a broader range of other currencies. The dollar depreciated the most

[8] See *World Economic Situation and Prospects 2006*, United Nations publication, Sales no. E.06.II.C.2.

against the euro, as the euro rose to an all-time high of above $1.36/euro in April 2007. 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 differentials between the interest rates of the United States and Japan have attracted a large amount of carry trades. In the outlook, the dollar is expected to continue the trend of depreciation against most other currencies.

Figure 4. 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 market economies into the other index. A decline in the index represents a depreciation of the dollar.

a/ Until April 2007.

The risk for a sharp depreciation of the dollar in association with an adjustment of its large current-account deficit has increased: since 2002, the trend of the depreciation of the dollar 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 in 2007 these favourable differentials for the dollar are expected to narrow substantially.

A realignment of exchange rates is needed to adjust the global imbalances; however, a benign adjustment of the global imbalances cannot rely on the foreign-exchange market alone, because such realignment would likely be excessively volatile, leading to a destabilization of the world economy and involving, in particular, large asymmetrical costs on the part of the developing countries.[9]

[9] 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.

Ideally, the unwinding of the imbalances would entail combined measures on the part of both the deficit and the surplus countries. For example, the United States should reduce its external deficit through fiscal consolidation, including tax reforms designed to encourage household saving, and the surplus economies in Asia, including China (see box 3) and the oil-exporting countries, should stimulate their domestic demand by boosting public expenditure, while Europe could loosen monetary policy. More importantly, these policies should be coordinated at the international level to minimize their adverse spill over effects while maximizing positive policy externalities.[10]

Box 3 China's role in global rebalancing

A confluence of institutional, structural and cyclical factors in the world economy can be found at the root of the large global imbalances. In order to mitigate the risk of an abrupt adjustment of these imbalances, which could derail the world economy, a global rebalancing should rely on internationally coordinated policies among both the surplus and the deficit countries, rather than on any unilateral or bilateral actions. Under such a coordinated framework, the United States, as both the major issuer of international reserve currency and a country with a large external deficit, should take primary responsibility for consolidating its twin deficits. Meanwhile, China, as the world's largest emerging economy with a growing external surplus and a rapid accumulation of foreign-exchange reserves, can also make an important contribution to the adjustment of the global imbalances.

China has accumulated US$1.2 trillion in foreign exchange reserves (as per the first quarter of 2007), resulting from the surpluses in both its current and capital accounts over the past few years. China's current account registered a surplus of about $250 billion in 2006, accounting for about one fifth of the total external surpluses run by some twenty of countries, and equivalent to about one quarter of the external deficit of the United States. While these numbers definitely do not support the simplistic assertion that ascribes the global imbalances and the deficit of the United States exclusively or predominantly to China's undervalued currency, the size of China's reserves and surplus does reflect some growing structural imbalances within the Chinese economy against the broad background of the large global imbalances. In this context, China can, therefore, make crucial contributions towards the rebalancing of the world economy by redressing its own structural imbalances.

The strong performance of China's external sector has largely been the result of decades-long policies to promote exports and to attract foreign direct investment (FDI) flows, combined successfully with other reforms and coupled favourably with China's comparative advantage in abundance of labour. Nevertheless, more exports, higher foreign-exchange reserves and faster output growth are not necessarily always good indicators of a more efficient and sustainable growth path for the economy. Such an export-led growth pattern may lead over time to escalating

[10] See *World Economic Situation and Prospects 2007* (United Nations publication, Sales no. E.04.II.C.2) for a thorough discussion of international policy coordination for redressing the global imbalances.

Box 3 (Continued)

costs, including social and environmental ones, although many social and environmental problems are the broad development issues at large.

The prodigious amount of the reserves has undoubtedly strengthened China's position to cushion terms-of-trade shocks or sudden reversals of foreign capital flows. By most conventional measures, however, China's foreign-exchange reserves seem to have significantly exceeded what is justified by the needs of economic fundamentals,[11] and the costs associated with such rapid reserve accumulation are rising. These costs include the opportunity costs of setting aside a huge amount of financial resources that could otherwise be used for financing domestic demand, rather than for financing the deficit of the United States; the costs of sterilization related to reserve accumulation;[12] the growing constraints on the autonomy and the effectiveness of monetary policy; and the potential losses associated with a substantial depreciation of the major reserve currency.

China's large current-account surplus reflects a number of structural problems in the economy, such as an excessively high investment rate and an even higher savings rate; a lopsided allocation of resources between the exporting sector and the domestic sector, and between manufacturing and other industries; an inflexible exchange-rate regime; and an underdeveloped financial system relative to the development of the overall economy. As a developing economy with a comparatively large labour force and a relatively low level of income, in the medium to long run, China would be better off running a current-account deficit that matches a capital-account surplus, rather than a surplus on both accounts.

In rebalancing China's current-account surplus, the Reminbi needs to appreciate, but only gradually and only in concert with other policy measures. These measures include fiscal stimuli to domestic consumption, phasing-out of certain preferential policies for the exporting sector and foreign companies, and continuation of reforms and development of the financial system.

The decades-long pegging of China's the Reminbi to the United States dollar ended in mid-2005 when the peg was replaced by a basket with more flexibility to float. Since then, there has been an appreciation of the Reminbi vis-à-vis the dollar at about 4-5 per cent annually. Further appreciation of the Reminbi seems to be needed to reallocate resources between the exporting sector and the domestic sector. The appreciation should, however, be gradual, as too large and too rapid an appreciation would substantially destabilize the financial system and contract economic output. More efforts are needed in developing China's foreign-exchange market so that trade companies and investors could use various market instruments to balance the benefits and costs associated with a more flexible exchange rate.

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[a] For example, about $300-400 billion would be adequate for China's foreign-exchange reserves to meet any precautionary needs related to import demand and the servicing of the short-term debt (3 months worth of imports plus short-term debt).

[12] China's domestic interest rates, which to a large extent are still set by the authorities, are not much higher than those of the major reserve-currency issuing countries. Therefore, the explicit fiscal costs of sterilization in China are relatively low compared with many other emerging economies, but this means a large implicit financial burden of sterilization rests on the banking sector and on the individual depositors.

Box 3 (continued)

Meanwhile, a package of fiscal measures to stimulate domestic consumption could mitigate some of the contractionary effects of the Reminbi appreciation and, more importantly, bring down the excessively high domestic savings rate, which has been at the root of the imbalance in the current account. For about a decade, consumption in China has been growing more slowly than the pace of GDP by a few percentage points each year. The share of consumption in GDP has diminished to just above 50 per cent, compared with a range of about 60-70 per cent in many other countries. As a result, the savings rate in China has been rising to nearly 50 per cent. Households have increased their precautionary savings for their needs in such areas as education, medicine and retirement, partly because the reforms in these areas have over time shifted much of the financial burden from the Government to households. At the same time, government savings have also been on the rise. In the fiscal package, spending should be increased in particular on health, education, social security, poverty reduction and public services, as well as on environmental protection. More specifically, the Government could allocate a certain amount of the foreign-exchange reserves to set up special funds in these areas.[13] These fiscal-stimulus measures would not only add directly to aggregate consumption demand, but would also crowd in more autonomous household consumption, as it would reduce household need for precautionary savings. The Government has ample policy space for such fiscal stimuli: the share of government revenue in GDP has been on a steady rise since 2000; the budget deficit has been narrowed to about a mere 1 per cent of GDP in 2006; and government debt stands at about 16 per cent of GDP.

Many preferential policies stipulated in the earlier years to promote exports and attract foreign investment can be gradually phased out so as to rebalance the allocation of resources—including labour, capital, energy and land—to the exporting sector. The authorities have indeed recently started to reduce tax rebates for certain exports and have unified corporate income tax rates for both foreign and national companies, but more can be done. If necessary, a specific tax on the energy usage and pollution could be levied on some exports.

Also important for redressing the imbalances in the Chinese economy are further development and reform of the financial sector. Despite some progress in the reform of a few large State-owned banks, the financial sector in general remains underdeveloped and inefficient in China compared to its overall level of economic development. In addition, the non-banking financial sector, such as the insurance sector, is also extremely underdeveloped; rural areas, as well as small and medium-sized enterprises, have difficulties in accessing financial resources; credit markets for consumers are very limited; and there is a paucity of financial instruments—for example, even the regular commercial bond issuance represents only a very small share of GDP. As income grows over time, households will be unable to rely on financial markets to smooth their consumption over the life cycle and to hedge their uncertainties. Meanwhile, an inefficient financial system also means low returns on domestic savings. These factors largely

13 Facing the challenges of managing the trillion dollar foreign exchange reserves, the Chinese Government has recently been establishing an investment fund to invest part of the reserves in international assets with higher returns, but this measure would only improve the management of the reserves and would not resolve the problems of imbalance.

Box 3 (continued)

explain the otherwise unnecessarily high savings rate. Moreover, further development and strengthening of the financial sector could also provide better support for adopting more flexible exchange rates and reducing the need for foreign-exchange reserves (since part of the reserves are considered to be for the prevention of financial crises).

The authorities have already adopted some policies in line with what is discussed above, but they may need to strengthen the policy stance. If these measures are well managed, a benign rebalancing of China's external sector should feature an increase in imports — instead of a massive depression of exports — along with a gradual structural change in the economy: some resources will be redirected from the exporting sector to domestic consumption, and from manufacturing to services; savings rates, as well as investment rates, will be lowered to more sustainable levels; and international competitiveness will be enhanced, rather than weakened, as the exporting sector will be forced to move up the technological ladder, instead of relying solely on cost-competitive labour. The growth rate of GDP may moderate somewhat for the initial period, but the overall economic welfare can improve through gains in efficiency and an increase in the quality of living standards.

LINK Global Economic Outlook

May 2007

Annex Table

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	4.1	3.4	4.0	3.4	3.6
Developed economies	1.2	1.3	1.9	3.1	2.4	3.0	2.3	2.5
North America	0.8	1.7	2.5	3.9	3.2	3.3	2.1	2.8
Asia and Oceania	0.5	0.5	1.7	2.8	2.0	2.2	2.2	2.0
Europe	1.9	1.2	1.2	2.4	1.7	3.0	2.7	2.5
European Union	2.0	1.2	1.3	2.4	1.6	3.0	2.7	2.5
EU-15	1.9	1.1	1.1	2.2	1.5	2.8	2.5	2.4
New EU Members	2.8	2.8	4.2	5.5	4.5	6.1	5.4	5.0
Other Europe	1.5	0.8	0.4	3.0	2.2	2.8	2.7	2.3
Memorandum items:								
Euro Zone	1.9	0.9	0.8	1.9	1.3	2.7	2.4	2.3
Major developed economies (G-7)	0.9	1.1	1.8	3.1	2.3	2.8	2.1	2.4
OECD	1.1	1.4	1.9	3.2	2.5	3.1	2.4	2.6
Economies in transition	5.8	5.1	7.2	7.6	6.6	7.5	7.1	6.7
South-eastern Europe	4.2	4.2	3.4	4.5	4.4	5.0	5.0	5.0
Commonwealth of Independent States	6.0	5.2	7.6	8.0	6.8	7.7	7.3	6.9
Net fuel exporters	5.6	5.1	7.4	7.4	7.1	7.7	7.4	7.0
Net fuel importers	7.9	5.6	9.2	11.2	4.9	7.9	6.4	6.2
Developing countries	2.7	3.9	5.2	7.1	6.5	6.9	6.4	6.2
Africa	3.8	3.5	4.5	5.2	5.3	5.6	5.9	5.8
North Africa	3.9	3.4	4.9	4.7	4.5	5.7	5.7	5.6
Sub-Saharan Africa[d]	4.6	4.1	3.3	5.9	6.0	5.9	7.1	6.7
Net fuel exporters	3.3	3.5	5.7	5.0	6.0	5.8	6.8	6.4
Net fuel importers	4.1	3.4	3.6	5.3	4.7	5.4	5.1	5.2
East and South Asia	4.5	6.4	6.9	7.8	7.4	7.9	7.3	7.2
East Asia	4.6	6.9	6.8	8.0	7.6	8.1	7.5	7.3
South Asia	4.3	5.0	7.0	7.2	6.8	7.2	6.8	6.7
Net fuel exporters	4.2	6.7	7.2	5.7	4.8	5.2	5.0	4.5
Net fuel importers	4.5	6.4	6.8	8.0	7.7	8.1	7.6	7.4
Western Asia	-0.4	3.1	4.7	6.9	6.4	5.4	5.1	4.9
Net fuel exporters	2.6	2.1	5.1	6.6	6.6	5.5	5.0	4.7
Net fuel importers	-4.2	4.4	4.2	7.2	6.2	5.3	5.2	5.2
Latin America and the Caribbean	0.3	-0.5	2.2	6.1	4.8	5.7	4.8	4.4
South America	0.3	-1.5	2.4	7.3	5.4	5.8	5.4	4.7
Mexico and Central America	0.2	0.9	1.6	4.2	3.2	4.9	3.1	3.6
Caribbean	2.3	2.9	2.9	3.4	7.5	9.2	6.8	5.6
Net fuel exporters	-0.6	-3.0	2.5	6.7	5.6	6.6	4.8	4.4
Net fuel importers	1.4	2.4	1.8	5.5	3.9	4.6	4.8	4.5
Memorandum items:								
Least developed countries	6.5	6.3	6.5	7.9	8.2	6.6	7.0	6.3
East Asia (excluding China)	1.8	5.2	4.2	6.2	5.2	5.6	5.0	5.1
South Asia (excluding India)	3.7	6.0	6.8	5.9	5.1	5.3	5.1	4.6
Western Asia (excluding Israel and Turkey)	2.7	2.2	5.0	6.5	6.3	5.2	5.0	4.7
Landlocked developing economies	5.3	4.7	4.6	6.8	7.3	8.2	8.2	7.7
Small island developing economies	0.2	3.4	3.1	6.0	6.6	7.9	6.1	5.3

a Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), 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	2.2	2.8
United States	0.8	1.6	2.5	3.9	3.2	3.3	2.1	2.8
Asia and Oceania								
Australia	3.8	3.2	4.1	2.7	2.8	2.7	3.2	3.5
Japan	0.2	0.3	1.4	2.7	1.9	2.2	2.1	1.9
New Zealand	3.5	4.6	3.6	5.0	2.0	1.5	2.5	2.7
European Union								
EU-15								
Austria	0.8	0.9	1.1	2.4	2.0	3.2	2.9	2.6
Belgium	0.8	1.5	1.0	3.0	1.1	2.6	2.2	2.0
Denmark	0.7	0.5	0.4	2.1	3.1	4.2	2.1	1.1
Finland	2.6	1.6	1.8	3.5	2.9	5.5	3.0	2.7
France	1.9	1.0	1.1	2.3	1.2	2.1	1.9	2.0
Germany	1.2	0.0	-0.2	1.3	0.9	2.7	2.3	2.6
Greece	4.5	3.9	4.9	4.7	3.7	4.4	3.6	3.5
Ireland	5.7	6.0	4.3	4.3	5.5	6.0	5.0	4.1
Italy	1.8	0.3	0.0	1.1	0.0	1.9	1.8	1.5
Luxembourg	2.5	3.8	1.3	3.6	4.0	5.3	4.3	4.8
Netherlands	1.9	0.1	0.3	2.0	1.5	3.0	2.8	2.8
Portugal	2.0	0.8	-1.1	-2.9	-3.1	1.3	1.6	2.1
Spain	3.6	2.7	3.0	3.2	3.5	3.9	3.7	2.5
Sweden	1.1	2.0	1.7	4.1	2.9	4.4	3.9	3.4
United Kingdom	2.4	2.1	2.7	3.3	1.9	2.8	2.7	2.5
New EU members								
Bulgaria	4.1	4.9	4.5	5.6	5.6	5.8	5.6	5.4
Cyprus	4.1	2.1	1.9	3.8	3.8	3.6	3.6	3.6
Czech Republic	2.6	1.5	3.7	4.6	6.1	6.1	5.4	4.8
Estonia	6.5	7.2	6.7	7.8	10.5	11.4	8.3	6.4
Hungary	4.1	4.3	4.1	4.9	4.2	3.9	2.6	3.8
Latvia	8.0	6.4	7.2	8.5	10.3	12.0	9.0	7.1
Lithuania	6.4	6.8	10.5	7.0	7.5	7.5	6.0	6.0
Malta	0.2	1.1	-2.1	0.2	0.8	2.9	3.0	3.0
Poland	1.0	1.4	3.8	5.3	3.2	5.8	5.5	5.3
Romania	5.7	5.1	5.2	8.3	4.1	7.6	6.2	4.6
Slovak Republic	3.8	4.6	4.5	5.5	6.1	8.3	8.0	6.8
Slovenia	2.7	3.3	2.5	4.6	4.0	5.2	4.0	4.0
Other Europe								
Iceland	3.9	-0.1	2.7	7.6	7.2	2.6	1.3	2.7
Norway	2.0	1.5	1.0	3.9	2.4	2.9	3.3	2.6
Switzerland	1.0	0.3	-0.2	2.3	1.9	2.7	2.4	2.0
Economies in transition								
South-eastern Europe								
Albania	7.2	3.4	6.0	6.0	5.6	5.2	5.6	5.6
Bosnia and Herzegovina	4.5	3.7	3.2	4.0	5.3	5.5	5.5	5.5
Croatia	4.4	5.2	4.3	3.8	3.2	4.8	4.7	4.6
Serbia and Montenegro	5.5	3.8	1.0	6.0	6.0	5.8	5.5	5.5
The former Yugoslav Republic of Macedonia	-4.5	0.9	3.4	2.5	4.0	3.0	3.8	4.5
Commonwealth of Independent States								
Armenia	9.6	15.1	13.9	10.0	13.9	13.4	9.5	7.0
Azerbaijan	9.9	10.6	11.2	10.2	26.4	34.5	29.0	22.0
Belarus	4.7	5.0	7.0	11.4	9.2	9.9	7.5	5.5
Georgia	4.8	5.5	11.1	5.9	9.3	8.6	6.8	7.0
Kazakhstan	13.5	9.8	9.3	9.6	9.5	10.6	9.5	8.3
Kyrgyzstan	5.3	0.0	7.0	7.0	-0.6	2.7	4.5	5.5
Republic of Moldova	6.1	7.8	6.6	7.4	7.1	4.6	5.0	5.0
Russian Federation	5.1	4.7	7.3	7.2	6.4	6.7	6.4	6.2
Tajikistan	9.6	10.8	11.0	10.3	6.7	7.0	7.0	7.5
Turkmenistan	4.3	0.3	3.3	4.5	9.6	9.0	10.0	10.0
Ukraine	9.2	5.3	9.6	12.1	2.7	7.1	5.8	6.3
Uzbekistan	4.5	4.2	4.4	7.7	7.0	7.3	7.4	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	15.0	25.5	15.5
Benin	5.0	6.0	3.9	2.7	2.9	4.0	4.5	4.5
Botswana	1.5	9.5	3.4	8.4	5.5	4.7	4.7	6.0
Burkina Faso	5.9	4.4	6.5	4.6	7.1	5.5	6.5	5.0
Burundi	3.0	4.1	-1.0	4.8	0.8	3.2	4.0	4.3
Cameroon	4.5	4.0	4.2	3.6	2.5	4.0	4.1	4.5
Cape Verde	6.1	5.3	4.7	4.4	5.8	6.0	6.5	6.8
Central African Republic	1.5	0.3	-4.6	1.8	2.6	3.8	4.5	4.7
Chad	11.8	8.5	15.5	33.2	8.6	1.3	0.0	7.4
Comoros	3.3	4.1	2.5	-0.2	4.2	1.2	3.0	3.0
Congo	3.7	4.6	0.7	3.6	7.7	6.1	5.2	5.0
Côte d'Ivoire	0.1	-1.6	-1.7	1.8	1.8	2.4	2.7	3.6
Democratic Republic of the Congo	-2.1	3.5	6.0	6.7	6.5	5.0	7.1	6.0
Djibouti	2.0	2.7	3.3	2.8	3.3	4.2	5.0	5.0
Egypt	3.2	4.1	3.2	4.2	4.5	6.8	6.4	5.6
Equatorial Guinea	78.2	20.9	13.6	32.8	6.0	-1.0	9.0	15.5
Eritrea	9.2	0.7	3.0	1.1	2.1	2.0	2.1	2.1
Ethiopia	8.8	2.0	-3.9	12.5	8.9	8.3	7.1	5.7
Gabon	2.0	0.0	2.4	1.4	2.9	2.2	1.5	1.5
Gambia	5.8	-3.2	6.9	6.9	5.1	6.4	7.0	6.0
Ghana	4.2	4.5	5.2	5.8	5.8	6.1	6.0	6.0
Guinea	3.8	4.2	1.2	2.7	3.2	2.2	1.5	4.0
Guinea-Bissau	0.2	-7.1	-0.6	2.2	3.2	4.5	5.1	5.0
Kenya	4.7	0.4	2.9	4.7	5.8	5.5	5.4	5.1
Lesotho	3.3	3.6	3.2	2.7	1.3	3.0	3.5	4.0
Liberia	22.0	31.8	-34.0	2.6	5.3	7.7	7.8	8.0
Libyan Arab Jamahiriya	5.9	1.4	5.9	5.0	6.3	5.6	7.0	7.0
Madagascar	6.0	-12.7	9.8	5.3	4.7	4.8	5.3	5.6
Malawi	-5.0	2.9	6.1	6.7	2.1	6.9	3.5	4.2
Mali	1.3	3.2	3.5	3.3	2.3	1.2	4.5	5.0
Mauritania	2.9	1.1	5.6	5.2	5.4	14.0	6.4	7.0
Mauritius	2.9	1.6	4.4	4.8	2.3	4.7	4.9	5.2
Morocco	6.3	3.2	5.5	4.2	1.7	7.3	3.6	5.0
Mozambique	13.1	8.2	8.0	7.4	7.7	8.4	6.9	6.8
Namibia	2.4	6.7	3.5	6.6	4.2	4.6	4.8	5.0
Niger	7.1	3.0	4.5	-0.7	6.8	3.5	4.2	4.5
Nigeria	3.1	1.5	10.7	6.0	7.0	5.5	6.0	6.8
Rwanda	6.7	9.4	1.0	4.0	6.0	4.3	4.8	5.0
Sao Tome and Principe	4.0	4.1	4.0	3.8	6.0	8.0	7.0	7.0
Senegal	4.7	1.1	6.5	5.6	5.5	3.0	5.5	5.0
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	-1.0	2.0
South Africa	2.7	3.6	3.1	4.8	5.1	5.0	4.8	4.5
Sudan	6.2	6.4	5.0	5.2	8.0	12.0	10.5	9.2
Togo	1.8	2.7	2.0	4.2	1.0	4.2	3.0	4.3
Tunisia	4.9	1.7	5.6	6.0	4.2	5.3	5.5	5.7
Uganda	6.1	6.8	4.3	5.7	6.6	5.3	5.8	6.0
United Republic of Tanzania	6.2	7.2	7.1	6.7	6.8	5.8	7.2	6.5
Zambia	4.9	3.3	5.1	5.4	5.2	6.0	6.1	6.1
Zimbabwe	-2.5	-4.3	-7.4	-3.6	-4.1	-1.9	0.6	2.2
East and South Asia								
Bangladesh	4.8	4.8	5.8	6.1	6.3	6.4	6.0	6.0
Brunei Darussalam	3.0	2.8	3.8	1.7	0.4	3.8	2.6	3.0
China	8.3	9.1	10.0	10.1	10.2	10.7	10.1	9.5
Hong Kong, Special Administrative Region of China	0.6	1.8	3.2	8.6	7.5	7.5	5.2	4.6
India	5.0	4.0	7.1	8.5	8.5	9.0	8.4	8.5
Indonesia	3.8	4.4	4.7	5.1	5.7	5.5	6.0	6.3
Iran, Islamic Republic of	4.0	6.7	7.2	5.5	4.5	4.9	4.7	4.1
Korea, Republic of	3.8	7.0	3.1	4.7	4.2	5.0	4.4	4.8
Malaysia	0.3	4.4	5.4	7.1	5.3	5.9	6.0	5.9
Myanmar	11.3	12.0	13.8	13.6	13.2	7.0	5.5	4.0
Nepal	2.7	1.2	3.5	3.3	2.4	2.1	2.6	3.3
Pakistan	3.1	4.6	6.1	7.7	7.1	6.4	6.3	5.9
Papua New Guinea	-0.1	-0.2	2.2	2.7	3.3	3.7	4.3	3.7
Philippines	3.0	4.5	4.9	6.2	5.0	5.4	6.1	6.0
Singapore	-2.4	4.2	3.1	8.8	6.6	7.9	6.1	5.3
Sri Lanka	-1.5	4.0	6.0	5.4	6.0	7.2	5.9	6.1

Taiwan, Province of China	-2.2	4.2	3.4	6.1	4.0	4.6	4.2	4.6
Thailand	2.2	5.3	7.1	6.3	4.5	5.0	4.0	4.6
Viet Nam	6.9	7.1	7.3	7.8	8.4	8.2	8.3	8.5
Western Asia								
Bahrain	4.6	5.2	7.2	5.4	7.8	7.0	6.5	6.3
Iraq	4.0	-5.7	-44.3	46.5	3.7	8.0	7.5	7.0
Israel	-0.6	-0.9	1.5	4.8	5.2	5.1	4.8	4.3
Jordan	5.3	5.7	4.1	7.7	5.0	6.1	5.8	5.8
Kuwait	0.7	5.1	13.4	10.5	10.0	6.1	5.5	4.8
Lebanon	1.4	2.0	3.0	5.0	-0.1	-3.2	5.5	5.7
Oman	7.5	2.3	1.9	6.1	3.8	6.2	5.0	5.3
Qatar	6.3	7.3	3.3	9.3	6.1	7.0	7.4	6.5
Saudi Arabia	0.5	0.1	7.7	5.3	6.6	4.4	4.2	4.0
Syrian Arab Republic	5.1	5.9	1.1	2.0	3.5	3.2	3.0	3.0
Turkey	-7.5	7.9	5.8	8.9	7.4	6.1	5.5	5.7
United Arab Emirates	3.5	1.8	11.9	7.4	9.5	8.9	7.2	6.5
Yemen	4.7	3.9	4.2	3.1	3.1	3.7	3.0	2.5
Latin America								
Argentina	-4.4	-10.9	8.7	9.0	9.2	8.5	7.5	6.0
Barbados	-3.4	-0.4	2.2	4.8	3.9	3.8	4.0	4.0
Bolivia	1.5	2.8	2.5	3.6	4.1	4.6	4.0	3.5
Brazil	1.3	2.7	1.1	5.7	2.9	3.7	4.2	4.2
Chile	3.4	2.2	3.9	6.2	5.7	4.0	5.5	5.0
Colombia	1.5	1.9	4.1	4.0	5.1	6.8	5.5	5.0
Costa Rica	1.1	2.9	6.4	4.1	5.9	7.9	4.5	4.5
Cuba	3.0	1.5	2.9	4.2	8.5	10.0	8.0	6.0
Dominican Republic	2.3	5.0	-0.4	2.7	9.5	10.7	7.0	6.0
Ecuador	5.3	4.2	3.6	7.6	4.7	4.1	3.5	3.0
El Salvador	1.7	2.2	2.3	1.8	2.8	4.2	4.5	4.5
Guatemala	2.3	2.3	2.1	2.7	3.5	4.9	5.0	4.0
Guyana	3.4	-1.1	0.7	1.6	-3.0	4.7	4.5	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	4.8	4.0	4.0
Jamaica	1.5	1.1	2.3	1.1	1.4	2.6	3.0	3.0
Mexico	0.0	0.8	1.4	4.2	3.0	4.8	2.9	3.5
Nicaragua	3.0	0.8	2.5	5.1	4.0	3.7	4.0	4.0
Panama	0.6	2.2	4.2	7.6	6.9	8.1	7.0	6.0
Paraguay	2.1	0.0	3.8	4.1	2.9	4.0	3.5	3.0
Peru	0.2	4.9	3.8	4.8	6.4	8.0	7.0	5.5
Trinidad and Tobago	4.3	6.8	12.6	6.5	8.9	12.0	7.0	6.0
Uruguay	-3.4	-11.2	2.1	11.8	6.6	7.0	5.0	4.5
Venezuela, Bolivarian Republic of	3.4	-8.9	-7.7	18.3	10.3	10.3	6.5	4.0

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	1.7	1.7
North America	2.8	1.6	2.3	2.6	3.3	3.2	2.1	1.9
Asia and Oceania	-0.3	-0.6	0.0	0.2	0.0	0.5	0.4	0.7
Europe	2.5	2.0	1.9	1.9	2.1	2.1	1.9	1.9
European Union	2.6	2.1	1.9	2.0	2.1	2.1	2.0	1.9
EU-15	2.3	2.0	1.8	1.8	2.0	2.0	1.9	1.9
New EU Members	8.4	4.7	3.2	4.7	3.5	3.2	3.3	3.1
Other Europe	1.9	1.0	1.4	0.7	1.4	1.7	0.3	1.5
Memorandum items:								
Euro Zone	2.5	2.1	2.0	2.0	2.1	2.0	1.8	1.8
Major developed economies (G-7)	1.8	1.1	1.6	1.8	2.1	2.2	1.6	1.6
OECD	2.5	1.7	1.9	2.0	2.2	2.3	1.8	1.8
Economies in transition	21.2	13.6	11.9	10.0	11.7	9.1	8.3	7.3
South-eastern Europe	26.6	6.5	3.3	3.5	5.9	5.9	3.4	3.4
Commonwealth of Independent States	20.6	14.4	12.8	10.7	12.3	9.5	8.8	7.7
Net fuel exporters	20.4	15.2	13.3	10.7	12.4	9.6	8.5	7.5
Net fuel importers	21.7	10.1	10.2	10.7	11.6	8.5	10.8	9.4
Developing countries[d]	5.8	6.5	6.4	5.3	5.0	5.2	5.3	5.2
Africa[d]	10.2	6.7	7.0	6.4	5.7	6.2	5.6	4.7
North Africa	0.9	0.6	2.5	5.6	3.0	5.2	4.3	3.3
Sub-Saharan Africa (Excluding Nigeria & South Africa)[d]	26.4	12.2	12.7	7.9	9.7	8.6	6.9	5.6
Net fuel exporters	10.2	5.9	8.1	9.8	5.9	6.4	5.9	4.5
Net fuel importers[d]	10.3	7.4	6.0	3.5	5.6	6.1	5.4	4.9
East and South Asia	3.2	3.1	3.6	4.6	4.2	4.6	4.8	4.6
East Asia	2.1	1.5	2.0	3.4	2.9	2.9	3.0	3.2
South Asia	6.4	7.9	8.4	8.3	8.1	9.9	10.0	9.0
Net fuel exporters	10.1	13.2	15.1	14.0	12.8	14.9	15.0	14.5
Net fuel importers	2.4	2.0	2.4	3.6	3.3	3.5	3.7	3.5
Western Asia	16.8	14.9	8.3	3.7	4.5	5.9	6.1	5.2
Net fuel exporters	0.3	0.5	0.7	1.9	3.1	4.6	4.3	3.2
Net fuel importers	33.3	29.3	15.8	5.4	5.8	7.3	7.9	7.2
Latin America and the Caribbean	5.9	10.2	11.1	6.8	6.6	5.7	5.9	6.4
South America	5.6	12.9	14.1	7.0	7.7	6.5	6.5	7.8
Mexico and Central America	6.4	5.1	4.6	4.9	4.4	3.9	4.6	3.8
Caribbean	7.9	5.4	18.9	29.1	7.9	8.4	6.9	6.7
Net fuel exporters	8.0	7.8	8.7	7.2	5.8	5.2	6.6	6.9
Net fuel importers	4.4	11.9	12.8	6.5	7.1	6.1	5.4	6.1
Memorandum items:								
Least developed countries	24.1	20.0	17.3	8.8	10.3	12.3	13.1	11.6
East Asia (excluding China)	3.3	3.2	2.7	3.0	3.7	3.9	3.5	3.4
South Asia (excluding India)	9.1	11.3	12.9	12.7	12.0	13.6	13.6	12.6
Western Asia (excluding Israel and Turkey)	0.6	0.8	1.0	2.2	3.4	5.1	4.5	3.4

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	1.9	1.8
United States	2.8	1.6	2.3	2.7	3.4	3.2	2.1	1.9
Asia and Oceania								
Australia	4.4	3.0	2.8	2.3	2.7	3.5	1.9	2.3
Japan	-0.8	-0.9	-0.2	0.0	-0.3	0.2	0.3	0.5
New Zealand	2.6	2.7	1.8	2.3	3.0	3.8	2.0	2.1
European Union								
EU-15								
Austria	2.7	1.8	1.4	2.1	2.3	1.5	1.6	1.6
Belgium	2.5	1.6	1.6	2.1	2.8	1.8	1.7	1.7
Denmark	2.4	2.4	2.1	1.2	1.8	1.9	1.8	1.9
Finland	2.6	1.6	0.9	0.2	0.6	1.6	2.0	1.8
France	1.6	1.9	2.1	2.1	1.7	1.7	1.4	2.0
Germany	2.0	1.4	1.0	1.7	2.0	1.7	1.8	1.5
Greece	3.4	3.6	3.6	2.9	3.6	3.2	2.9	2.9
Ireland	4.9	4.6	3.5	2.2	2.4	3.9	4.8	2.8
Italy	2.8	2.5	2.7	2.2	2.0	2.1	1.7	1.9
Luxembourg	2.7	2.1	2.1	2.2	2.5	2.7	2.5	2.7
Netherlands	4.2	3.3	2.1	1.2	1.7	1.2	1.2	1.3
Portugal	4.4	3.6	3.3	2.4	2.3	3.1	2.2	2.0
Spain	3.6	3.1	3.0	3.0	3.4	3.5	2.6	2.5
Sweden	2.7	2.3	1.5	0.1	0.1	1.0	1.7	2.2
United Kingdom	1.2	1.3	1.4	1.3	2.1	2.3	2.3	2.0
New EU members								
Bulgaria	7.4	5.8	2.2	6.3	5.0	7.1	5.1	4.3
Cyprus	2.0	2.8	4.1	1.9	2.0	2.5	2.5	2.3
Czech Republic	4.8	2.0	-0.1	2.8	1.9	2.6	2.2	3.6
Estonia	5.8	3.6	1.3	3.0	3.6	4.4	5.1	5.6
Hungary	9.1	5.3	4.6	6.7	3.5	3.6	6.0	2.9
Latvia	2.5	1.9	2.9	6.2	6.9	6.6	5.8	5.0
Lithuania	0.3	0.4	-1.2	1.2	2.7	3.8	4.0	4.0
Malta	2.9	2.2	1.3	2.8	3.0	3.0	2.0	2.0
Poland	5.4	1.9	0.7	3.4	3.5	2.4	2.3	2.9
Romania	34.5	22.5	15.3	11.9	6.6	4.9	5.8	4.1
Slovak Republic	7.3	3.2	8.6	7.5	2.7	4.5	2.5	1.9
Slovenia	8.4	7.5	5.6	3.6	2.8	2.5	2.2	1.9
Other Europe								
Iceland	6.4	5.2	2.1	3.2	4.0	6.7	5.0	4.6
Norway	3.0	1.3	2.5	0.5	1.5	2.3	0.3	1.9
Switzerland	1.0	0.6	0.6	0.8	1.2	1.1	0.1	1.1
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	7.0	3.0	3.0
Croatia	3.7	1.7	1.8	2.1	3.0	3.2	2.5	2.5
Serbia and Montenegro	98.4	19.3	9.6	9.8	16.1	12.7	6.0	6.0
The former Yugoslav Republic of Macedonia	5.2	2.3	1.1	-0.4	0.0	3.0	2.6	2.5
Commonwealth of Independent States								
Armenia	3.2	1.0	2.7	8.1	0.6	2.9	3.0	3.0
Azerbaijan	1.6	2.8	2.1	6.7	9.6	8.3	15.5	11.5
Belarus	61.4	42.8	28.5	18.3	10.4	7.0	10.5	12.5
Georgia	4.6	5.6	4.8	5.7	8.2	9.2	7.0	6.0
Kazakhstan	8.5	6.0	6.4	6.9	7.6	8.6	8.3	7.0
Kyrgyzstan	6.9	2.1	3.0	4.1	4.4	5.6	5.5	4.5
Republic of Moldova	9.8	5.3	11.7	12.5	12.0	12.7	11.5	10.0
Russian Federation	21.5	15.7	13.7	10.9	12.7	9.7	8.3	7.3
Tajikistan	38.6	12.2	16.3	7.2	7.2	11.9	10.0	9.5
Turkmenistan	8.2	15.0	15.3	10.0	12.0	9.0	7.5	10.0
Ukraine	12.0	0.7	5.2	9.1	13.5	9.1	12.0	9.3
Uzbekistan	26.6	21.6	19.0	14.2	15.0	10.5	10.5	9.5
Developing countries								

Africa								
Algeria	4.2	1.4	2.6	3.6	1.6	3.5	4.0	3.5
Angola	169.7	95.6	98.2	43.5	24.8	13.3	10.2	6.0
Benin	4.0	2.5	1.5	0.9	5.4	4.0	2.4	3.0
Botswana	6.6	8.0	9.2	6.9	8.6	11.5	6.4	4.7
Burkina Faso	5.0	2.2	2.0	-0.4	6.4	3.1	2.0	2.0
Burundi	9.2	-1.3	10.7	8.4	13.0	11.0	8.5	8.0
Cameroon	4.4	2.8	0.6	0.2	2.0	4.6	3.1	2.2
Cape Verde	3.4	1.9	1.2	-1.9	0.4	5.0	3.0	3.0
Central African Republic	3.8	2.3	4.1	-2.1	2.9	2.0	2.0	2.0
Chad	12.4	5.2	-1.8	-5.4	7.9	8.1	4.0	3.0
Comoros	5.4	3.5	3.8	4.5	3.6	3.8	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	3.0	2.6	2.7
Democratic Republic of the Congo	313.7	38.1	12.9	4.0	21.3	18.2	13.0	9.0
Djibouti	1.8	0.6	2.0	3.1	3.1	3.0	3.0	3.0
Egypt	2.3	2.7	4.5	11.3	4.9	7.6	5.6	3.5
Equatorial Guinea	8.8	7.6	7.3	4.2	5.0	5.2	4.8	5.0
Eritrea	12.4	17.4	12.3	18.2	15.0	14.2	11.8	11.0
Ethiopia	-8.2	1.7	17.8	3.3	11.6	12.3	8.0	7.5
Gabon	2.1	0.0	2.2	0.4	0.0	1.5	3.0	2.3
Gambia	4.4	8.6	17.0	14.2	3.2	1.5	3.2	3.5
Ghana	32.9	14.8	26.7	12.6	15.1	10.9	9.5	8.9
Guinea	5.4	3.0	12.9	17.5	31.1	27.0	25.0	20.0
Guinea-Bissau	3.3	3.3	-3.5	0.9	3.3	2.3	2.3	3.0
Kenya	5.7	2.0	9.8	11.6	10.3	14.5	9.0	7.0
Lesotho	-9.6	33.8	6.7	5.0	3.4	5.0	4.8	4.3
Liberia	12.1	14.2	10.3	3.6	7.0	7.5	7.0	7.0
Libyan Arab Jamahiriya	-8.8	-9.9	-2.1	-2.2	2.0	3.4	3.5	3.5
Madagascar	6.9	15.9	-1.2	13.8	18.5	11.2	10.0	8.2
Malawi	22.7	14.7	9.6	11.4	15.4	11.0	9.0	9.0
Mali	5.2	5.0	-1.3	-3.1	6.4	5.0	4.8	4.4
Mauritania	4.7	3.9	5.2	10.4	12.1	6.3	8.7	6.0
Mauritius	5.4	6.5	3.9	4.7	4.9	8.9	6.0	4.5
Morocco	0.6	2.8	1.2	1.5	1.0	3.0	2.1	2.5
Mozambique	9.1	16.8	13.4	12.7	7.2	13.2	5.9	6.0
Namibia	9.3	11.3	7.2	4.1	2.3	5.1	5.9	4.5
Niger	4.0	2.6	-1.6	0.3	7.8	0.1	2.0	2.0
Nigeria	18.8	13.0	14.0	19.4	13.5	8.7	10.3	9.0
Rwanda	3.0	2.3	7.1	12.0	9.1	5.5	5.0	5.0
Sao Tome and Principe	9.2	10.1	9.6	13.0	16.5	20.0	18.6	19.5
Senegal	3.1	2.2	0.0	0.5	1.7	2.1	2.8	3.0
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	4.8	4.7
Sudan	5.8	8.3	7.7	8.4	8.5	7.1	9.2	6.5
Togo	3.9	3.1	-1.0	0.4	6.8	3.0	2.5	2.5
Tunisia	2.0	2.7	2.7	3.6	2.0	4.5	3.7	3.0
Uganda	2.0	-0.3	7.8	3.3	8.2	6.6	6.4	6.2
United Republic of Tanzania	5.1	1.0	3.5	0.0	8.6	5.8	5.6	5.5
Zambia	21.4	22.2	21.4	18.0	18.3	9.1	8.0	5.0
Zimbabwe	76.7	140.1	365.0	350.0	237.8	1016.7	2879.5	6470.8
East and South Asia								
Bangladesh	2.0	3.3	5.7	9.2	7.0	6.9	7.0	5.8
Brunei Darussalam	0.6	-2.3	0.3	0.8	1.2	0.5	1.2	1.2
China	0.5	-0.8	1.2	4.0	1.8	1.5	2.5	2.8
Hong Kong, Special Administrative Region of China	-1.6	-3.1	-2.5	-0.4	0.9	1.8	1.3	1.6
India	3.7	4.4	3.8	3.8	4.2	6.2	6.4	5.3
Indonesia	11.5	11.9	6.6	6.2	10.5	13.1	6.2	6.1
Iran, Islamic Republic of	11.3	14.3	16.5	14.8	13.4	15.8	16.0	15.5
Korea, Republic of	4.1	2.8	3.5	3.6	2.8	2.2	2.7	2.7
Malaysia	1.4	1.8	1.1	1.5	3.0	3.6	3.0	2.8
Myanmar	21.1	57.1	36.6	4.5	9.4	26.3	37.5	35.0
Nepal	2.7	3.0	5.7	2.8	6.8	7.6	6.7	6.0
Pakistan	3.1	3.3	2.9	7.4	9.1	7.9	7.4	5.5
Papua New Guinea	9.3	11.8	14.7	2.2	1.7	3.5	4.3	4.0
Philippines	6.8	3.0	3.5	6.0	7.6	6.2	4.5	3.5
Singapore	1.0	-0.4	0.5	1.7	0.5	1.0	1.3	1.3
Sri Lanka	14.2	9.6	6.3	7.6	11.6	13.7	13.2	6.8

Taiwan, Province of China	0.0	-0.2	-0.3	1.6	2.3	0.6	1.6	1.7
Thailand	1.6	0.6	1.8	2.8	4.5	4.6	2.2	2.6
Viet Nam	-0.4	3.8	3.1	7.8	8.3	7.5	6.8	6.3
Western Asia								
Bahrain	-1.2	-0.5	1.6	2.4	2.6	3.0	3.0	2.8
Israel	1.1	5.6	0.7	-0.4	1.3	2.1	0.6	3.3
Jordan	1.8	1.8	1.6	3.4	3.5	6.3	5.7	4.0
Kuwait	1.3	0.9	1.0	1.2	4.1	3.0	2.7	2.5
Oman	-0.8	-0.3	0.2	0.8	1.9	4.0	4.2	3.5
Qatar	1.4	0.2	2.3	6.8	8.8	11.8	10.0	8.5
Saudi Arabia	-1.1	0.2	0.6	0.3	0.7	2.2	2.5	2.0
Syrian Arab Republic	3.0	1.0	0.5	4.6	7.2	9.4	8.0	5.0
Turkey	54.4	45.0	25.3	8.6	8.2	9.6	12.0	9.3
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	11.0	10.0	12.0
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	4.5	6.0	5.0
Brazil	6.8	8.5	14.7	6.6	6.9	4.2	3.5	4.0
Chile	3.6	2.5	2.8	1.1	3.1	3.4	2.9	3.0
Colombia	8.0	6.3	7.1	5.9	5.0	4.3	4.6	4.5
Costa Rica	11.2	9.2	9.4	12.3	13.8	11.5	14.0	10.0
Dominican Republic	8.9	5.2	27.5	51.5	4.2	7.6	5.5	6.0
Ecuador	37.7	12.5	7.9	2.7	2.4	3.0	3.0	3.4
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	6.3	6.0
Guyana	2.6	5.3	6.0	4.7	6.3	7.2	5.5	5.0
Haiti	14.2	9.9	39.3	22.8	15.7	12.9	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	4.3	3.5
Nicaragua	7.4	4.0	5.2	8.4	9.4	9.1	9.5	7.5
Panama	0.3	1.0	0.1	0.4	3.3	2.5	2.0	1.8
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	1.4	2.0
Trinidad and Tobago	5.5	4.1	3.8	3.7	6.9	8.3	8.5	7.0
Uruguay	4.4	14.0	19.4	9.2	4.7	6.4	6.4	5.5
Venezuela, Bolivarian Republic of	12.5	22.4	31.1	21.8	16.0	13.6	19.5	26.0

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	6385	6134	6429	7469	9075	10400	12084	13413	14728
	Imports	6530	6294	6523	7591	9261	10569	12219	13564	15023
Developed economies	Exports	4144	4027	4173	4803	5666	6188	7043	7871	8658
	Imports	4502	4341	4469	5185	6173	6902	7868	8625	9423
	Balance	-358	-313	-296	-382	-507	-714	-826	-754	-765
North America	Exports	1061	991	950	997	1123	1267	1450	1565	1678
	Imports	1488	1395	1417	1529	1775	2031	2251	2323	2451
	Balance	-427	-404	-467	-532	-652	-764	-801	-759	-773
Asia and Oceania	Exports	556	481	496	560	672	722	805	895	1034
	Imports	465	426	425	491	587	666	783	821	953
	Balance	91	54	71	69	85	56	21	74	81
Europe	Exports	2526	2556	2727	3246	3870	4199	4788	5411	5945
	Imports	2548	2519	2627	3165	3811	4205	4834	5480	6019
	Balance	-22	36	100	81	59	-7	-46	-69	-73
European Union	Exports	2389	2416	2578	3075	3668	3968	4517	5129	5653
	Imports	2435	2407	2508	3027	3649	4026	4633	5265	5797
	Balance	-46	9	70	48	19	-58	-116	-135	-144
EU-15	Exports	2253	2265	2405	2853	3372	3607	4097	4604	5065
	Imports	2258	2216	2295	2756	3298	3598	4142	4662	5133
	Balance	-5	50	111	96	74	8	-46	-58	-68
New EU Members	Exports	136	151	172	222	296	361	420	525	589
	Imports	178	191	213	271	352	428	491	602	664
	Balance	-41	-40	-41	-49	-56	-67	-71	-77	-76
Other Europe	Exports	137	139	149	171	202	231	271	282	292
	Imports	113	112	120	138	162	179	201	216	221
	Balance	24	27	30	33	41	52	71	66	70
Euro Zone	Exports	1842	1878	2000	2394	2847	3039	3433	3900	4290
	Imports	1816	1796	1854	2249	2696	2949	3373	3841	4226
	Balance	26	82	146	145	152	90	60	59	64
Economies in transition	Exports	154.2	153.1	162.7	205.8	282.6	392.9	503.8	527.0	550.7
	Imports	99.4	114.3	128.2	161.3	207.6	271.6	353.2	418.0	478.8
	Balance	54.8	38.8	34.5	44.5	75.1	121.4	150.6	109.0	71.9
South-eastern Europe	Exports	8.8	9.1	9.6	11.6	15.3	19.5	23.6	27.1	30.0
	Imports	17.9	20.3	24.5	29.1	35.5	41.7	48.6	55.3	60.0
	Balance	-9.1	-11.3	-14.8	-17.5	-20.2	-22.2	-25.0	-28.2	-30.0
Commonwealth of Independent States	Exports	145.4	144.0	153.1	194.2	267.3	373.4	480.2	500.0	520.7
	Imports	81.5	93.9	103.8	132.2	172.1	229.9	304.6	362.7	418.8
	Balance	63.9	50.1	49.3	62.0	95.2	143.5	175.6	137.2	101.9
Net fuel exporters	Exports	120.8	117.5	124.0	157.2	216.2	317.7	416.0	428.4	438.6
	Imports	55.3	66.2	73.6	92.2	119.7	167.9	225.9	271.6	314.3
	Balance	65.5	51.3	50.4	65.0	96.5	149.8	190.2	156.8	124.3
Net fuel importers	Exports	24.6	26.5	29.1	37.0	51.1	55.7	64.2	71.6	82.2
	Imports	26.2	27.7	30.2	40.0	52.4	62.1	78.8	91.2	104.6
	Balance	-1.6	-1.3	-1.1	-3.0	-1.3	-6.3	-14.6	-19.6	-22.4
Developing countries	Exports	2087.0	1953.5	2093.3	2460.3	3126.5	3818.7	4537.8	5014.3	5519.0
	Imports	1928.8	1839.2	1926.0	2245.1	2880.4	3395.2	3997.5	4521.3	5121.1
	Balance	158.3	114.3	167.3	215.2	246.2	423.5	540.3	493.0	397.9
Africa	Exports	147.7	136.1	140.0	173.1	226.6	310.7	366.3	391.9	415.4
	Imports	128.2	131.7	135.0	163.5	208.3	254.4	294.6	318.1	339.4
	Balance	19.5	4.4	5.0	9.6	18.3	56.3	71.8	73.9	76.0
North Africa	Exports	53.1	48.0	48.1	62.3	80.0	116.0	139.6	152.4	160.4
	Imports	47.9	47.7	52.0	55.4	75.8	93.8	109.8	126.0	139.0
	Balance	5.2	0.3	-3.9	6.9	4.2	22.2	29.8	26.4	21.4
Sub-Saharan Africa	Exports	43.7	41.6	47.1	54.4	69.5	95.3	118.1	133.9	147.0
(Excluding Nigeria & South Africa)	Imports	41.9	44.1	46.2	56.1	70.1	84.3	98.1	107.6	116.8
	Balance	1.8	-2.5	0.9	-1.7	-0.6	11.0	20.0	26.3	30.2
Net fuel exporters	Exports	76.2	64.1	64.2	82.5	112.5	176.1	217.4	236.5	254.3
	Imports	42.9	45.2	45.4	50.7	69.4	88.3	107.1	122.9	138.1
	Balance	33.3	18.9	18.8	31.8	43.2	87.8	110.3	113.5	116.2
Net fuel importers	Exports	71.5	72.0	75.8	90.6	114.1	134.6	148.9	155.5	161.2
	Imports	85.3	86.5	89.6	112.8	138.9	166.1	187.4	195.1	201.3
	Balance	-13.8	-14.5	-13.9	-22.2	-24.8	-31.5	-38.5	-39.7	-40.2
East and South Asia	Exports	1296.8	1207.9	1327.1	1571.8	2001.3	2373.2	2827.6	3248.0	3665.0
	Imports	1211.0	1125.9	1225.5	1469.0	1898.2	2221.4	2599.1	2981.6	3449.0
	Balance	85.8	82.0	101.5	102.8	103.1	151.8	228.5	266.4	216.0
East Asia	Exports	1207.6	1120.0	1229.7	1457.1	1856.4	2186.8	2604.0	2999.3	3377.5
	Imports	1118.4	1032.6	1121.9	1339.2	1724.4	1993.5	2319.8	2651.8	3053.0
	Balance	89.2	87.4	107.7	117.9	132.0	193.3	284.2	347.5	324.6
South Asia	Exports	89.2	87.8	97.4	114.7	144.9	186.4	223.6	248.7	287.5
	Imports	92.6	93.3	103.6	129.8	173.7	228.0	279.3	329.8	396.0
	Balance	-3.4	-5.5	-6.2	-15.1	-28.9	-41.6	-55.7	-81.1	-108.6

Net fuel exporters	Exports	45.1	43.6	47.5	57.3	72.4	95.2	114.0	118.6	130.9
	Imports	30.7	34.1	41.0	52.5	66.1	78.2	95.5	105.6	117.2
	Balance	14.4	9.5	6.6	4.9	6.3	17.0	18.5	12.9	13.7
Net fuel importers	Exports	1251.7	1164.3	1279.5	1514.4	1928.9	2278.0	2713.6	3129.5	3534.1
	Imports	1180.3	1091.9	1184.6	1416.6	1832.1	2143.3	2503.6	2876.0	3331.8
	Balance	71.4	72.4	95.0	97.9	96.8	134.7	210.0	253.4	202.3
Western Asia	Exports	281.6	262.0	279.3	332.8	426.9	564.7	652.8	658.2	686.5
	Imports	214.4	214.4	229.3	266.7	351.2	418.7	496.1	563.2	621.6
	Balance	67.2	47.6	50.0	66.1	75.7	146.0	156.6	95.0	64.8
Net fuel exporters	Exports	215.8	195.0	208.3	246.1	316.9	435.1	502.0	491.4	503.8
	Imports	115.4	122.9	129.8	148.1	190.8	224.4	259.9	285.8	311.2
	Balance	100.4	72.1	78.5	97.9	126.1	210.7	242.1	205.6	192.5
Net fuel importers	Exports	65.9	67.0	71.0	86.7	110.0	129.5	150.7	166.9	182.7
	Imports	99.1	91.5	99.5	118.5	160.5	194.3	236.2	277.5	310.4
	Balance	-33.2	-24.5	-28.5	-31.8	-50.5	-64.8	-85.5	-110.6	-127.7
Latin America and the Caribbean	Exports	360.8	347.6	347.0	382.7	471.7	570.2	691.2	716.2	752.1
	Imports	375.1	367.2	336.1	346.0	422.7	500.6	607.7	658.3	711.0
	Balance	-14.3	-19.6	10.9	36.7	49.1	69.6	83.5	57.8	41.1
South America	Exports	161.3	156.5	158.6	182.9	243.4	310.2	387.8	400.9	413.1
	Imports	146.0	144.1	118.4	124.0	166.2	208.4	267.1	297.7	320.8
	Balance	15.3	12.4	40.3	58.9	77.2	101.7	120.7	103.3	92.3
Mexico and Central America	Exports	189.4	181.3	180.0	185.4	211.0	240.2	281.4	291.9	314.0
	Imports	202.3	197.3	198.5	200.7	231.5	261.5	303.9	321.0	348.0
	Balance	-12.9	-16.0	-18.6	-15.4	-20.6	-21.2	-22.5	-29.2	-34.1
Caribbean	Exports	10.1	9.8	8.3	14.4	17.4	19.8	22.0	23.4	25.0
	Imports	26.8	25.9	19.2	21.2	25.0	30.7	36.7	39.7	42.2
	Balance	-16.7	-16.1	-10.9	-6.8	-7.6	-10.9	-14.6	-16.3	-17.2
Net fuel exporters	Exports	247.3	233.2	234.7	244.6	290.3	349.6	405.5	416.2	437.3
	Imports	236.4	230.5	215.2	219.3	266.1	312.2	368.5	395.2	423.9
	Balance	10.9	2.7	19.5	25.3	24.3	37.5	37.0	21.0	13.4
Net fuel importers	Exports	113.5	114.4	112.2	138.1	181.4	220.5	285.7	300.0	314.8
	Imports	138.7	136.8	120.9	126.7	156.6	188.4	239.2	263.1	287.1
	Balance	-25.2	-22.4	-8.6	11.5	24.8	32.1	46.5	36.9	27.7

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	21.5	14.6	16.2	11.0	9.8
	Imports	-3.6	3.6	16.4	22.0	14.1	15.6	11.0	10.8
Developed economies	Exports	-2.8	3.6	15.1	18.0	9.2	13.8	11.8	10.0
	Imports	-3.6	3.0	16.0	19.1	11.8	14.0	9.6	9.2
North America	Exports	-6.6	-4.2	5.0	12.6	12.8	14.4	7.9	7.2
	Imports	-6.2	1.5	7.9	16.1	14.4	10.9	3.2	5.5
Asia and Oceania	Exports	-13.6	3.2	12.8	20.1	7.4	11.4	11.2	15.5
	Imports	-8.3	-0.3	15.4	19.7	13.5	17.6	4.8	16.1
Europe	Exports	1.2	6.7	19.0	19.2	8.5	14.0	13.0	9.9
	Imports	-1.1	4.3	20.5	20.4	10.3	14.9	13.4	9.8
European Union	Exports	1.1	6.7	19.3	19.3	8.2	13.8	13.6	10.2
	Imports	-1.2	4.2	20.7	20.5	10.3	15.1	13.6	10.1
EU-15	Exports	0.6	6.2	18.6	18.2	7.0	13.6	12.4	10.0
	Imports	-1.9	3.6	20.1	19.6	9.1	15.1	12.6	10.1
New EU Members	Exports	10.6	14.2	29.0	33.0	22.2	16.2	25.0	12.1
	Imports	7.6	11.4	27.2	29.7	21.7	14.7	22.7	10.3
Other Europe	Exports	1.8	7.2	14.3	18.7	14.1	17.5	3.8	3.6
	Imports	-0.7	6.5	15.3	17.5	10.6	12.1	7.5	2.6
Euro Zone	Exports	2.0	6.5	19.7	19.0	6.7	13.0	13.6	10.0
	Imports	-1.1	3.2	21.3	19.9	9.4	14.4	13.9	10.0
Economies in transition	Exports	-0.7	6.3	26.5	37.3	39.0	28.2	4.6	4.5
	Imports	15.0	12.2	25.8	28.7	30.9	30.1	18.3	14.5
South-eastern Europe	Exports	3.1	6.4	20.3	32.0	27.3	21.0	14.7	10.9
	Imports	13.9	20.2	19.1	21.9	17.5	16.6	13.8	8.5
Commonwealth of Independent States	Exports	-1.0	6.3	26.9	37.6	39.7	28.6	4.1	4.1
	Imports	15.2	10.5	27.4	30.2	33.6	32.5	19.1	15.5
Net fuel exporters	Exports	-2.7	5.5	26.8	37.5	46.9	31.0	3.0	2.4
	Imports	19.6	11.2	25.3	29.8	40.2	34.5	20.2	15.7
Net fuel importers	Exports	7.7	10.0	27.0	38.1	9.2	15.1	11.6	14.8
	Imports	6.0	8.9	32.4	31.0	18.5	27.0	15.7	14.7
Developing countries	Exports	-6.4	7.2	17.5	27.1	22.1	18.8	10.5	10.1
	Imports	-4.6	4.7	16.6	28.3	17.9	17.7	13.1	13.3
Africa	Exports	-7.9	2.9	23.7	30.9	37.1	17.9	7.0	6.0
	Imports	2.7	2.5	21.1	27.4	22.1	15.8	8.0	6.7
North Africa	Exports	-9.7	0.2	29.7	28.3	45.0	20.4	9.2	5.2
	Imports	-0.4	9.0	6.6	36.7	23.7	17.1	14.8	10.3
Sub-Saharan Africa	Exports	-4.7	13.2	15.5	27.7	37.2	24.0	13.4	9.8
(Excluding Nigeria & South Africa)	Imports	5.4	4.7	21.4	25.0	20.3	16.3	9.7	8.5
Net fuel exporters	Exports	-16.0	0.2	28.4	36.4	56.5	23.5	8.8	7.5
	Imports	5.3	0.5	11.6	36.9	27.3	21.3	14.8	12.3
Net fuel importers	Exports	0.7	5.2	19.6	25.9	17.9	10.6	4.4	3.7
	Imports	1.4	3.6	25.8	23.2	19.6	12.8	4.1	3.2
East and South Asia	Exports	-6.9	9.9	18.4	27.3	18.6	19.1	14.9	12.8
	Imports	-7.0	8.8	19.9	29.2	17.0	17.0	14.7	15.7
East Asia	Exports	-7.3	9.8	18.5	27.4	17.8	19.1	15.2	12.6
	Imports	-7.7	8.7	19.4	28.8	15.6	16.4	14.3	15.1
South Asia	Exports	-1.5	10.9	17.7	26.3	28.7	20.0	11.2	15.6
	Imports	0.8	11.0	25.3	33.8	31.2	22.5	18.1	20.1
Net fuel exporters	Exports	-3.3	9.0	20.6	26.3	31.5	19.7	4.0	10.4
	Imports	10.8	20.3	28.1	26.0	18.3	22.2	10.6	11.0
Net fuel importers	Exports	-7.0	9.9	18.4	27.4	18.1	19.1	15.3	12.9
	Imports	-7.5	8.5	19.6	29.3	17.0	16.8	14.9	15.8
Western Asia	Exports	-7.0	6.6	19.1	28.3	32.3	15.6	0.8	4.3
	Imports	0.0	7.0	16.3	31.7	19.2	18.5	13.5	10.4
Net fuel exporters	Exports	-9.6	6.8	18.1	28.8	37.3	15.4	-2.1	2.5
	Imports	6.5	5.6	14.1	28.8	17.7	15.8	9.9	8.9
Net fuel importers	Exports	1.7	6.0	22.1	26.9	17.7	16.4	10.7	9.5
	Imports	-7.7	8.7	19.1	35.4	21.1	21.6	17.5	11.9
Latin America and the Caribbean	Exports	-3.7	-0.2	10.3	23.3	20.9	21.2	3.6	5.0
	Imports	-2.1	-8.5	2.9	22.2	18.4	21.4	8.3	8.0
South America	Exports	-3.0	1.4	15.3	33.1	27.4	25.0	3.4	3.0
	Imports	-1.3	-17.9	4.8	34.0	25.4	28.2	11.4	7.8
Mexico and Central America	Exports	-4.3	-0.7	3.0	13.8	13.9	17.1	3.7	7.6
	Imports	-2.5	0.6	1.1	15.3	12.9	16.2	5.6	8.4
Caribbean	Exports	-3.1	-15.1	73.3	20.2	13.9	11.4	6.2	7.1
	Imports	-3.5	-25.8	10.7	17.6	23.0	19.4	8.1	6.4
Net fuel exporters	Exports	-5.7	0.7	4.2	18.7	20.4	16.0	2.6	5.1
	Imports	-2.5	-6.6	1.9	21.3	17.3	18.0	7.3	7.3
Net fuel importers	Exports	0.8	-1.9	23.1	31.3	21.6	29.5	5.0	4.9
	Imports	-1.4	-11.6	4.8	23.6	20.3	26.9	10.0	9.1

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	-0.6	4.6	6.2	11.4	7.5	9.3	6.8	7.1
	Imports	-0.5	4.0	6.9	12.3	7.8	9.1	6.5	8.0
Developed economies	Exports	-0.9	2.2	2.5	8.2	5.2	8.9	5.5	7.1
	Imports	-0.6	2.5	4.6	9.1	6.3	7.2	4.3	6.2
North America	Exports	-5.5	-2.4	0.5	6.8	6.9	8.2	6.8	7.4
	Imports	-3.6	3.2	4.7	10.4	7.3	5.1	3.2	4.5
Asia and Oceania	Exports	-6.6	6.8	7.9	12.1	4.8	9.2	5.5	9.4
	Imports	0.3	3.2	7.0	8.0	3.4	11.4	3.1	10.4
Europe	Exports	2.3	3.1	2.1	7.9	4.7	9.1	4.9	6.4
	Imports	1.0	2.0	4.0	8.6	6.4	7.8	5.2	6.3
European Union	Exports	2.1	3.2	2.3	8.1	4.7	9.1	4.9	6.6
	Imports	1.1	2.3	4.3	8.6	6.1	7.7	5.2	6.5
EU-15	Exports	1.6	2.9	1.5	7.4	4.2	8.9	4.4	6.3
	Imports	0.5	1.9	3.7	7.8	5.7	7.4	4.9	6.3
New EU Members	Exports	10.4	8.3	12.9	17.6	10.4	11.7	10.5	9.3
	Imports	8.2	7.3	10.5	16.5	10.0	10.5	8.3	7.9
Other Europe	Exports	5.0	0.8	-0.1	4.7	3.8	8.4	5.0	2.8
	Imports	-0.1	-4.2	-1.1	8.8	11.8	8.6	5.2	2.0
Euro Zone	Exports	1.8	3.4	1.8	8.5	4.2	8.2	5.8	6.3
	Imports	0.5	1.6	3.6	8.3	6.2	6.1	6.3	6.4
Economies in transition	Exports	3.8	7.9	13.4	16.2	3.2	6.7	4.5	4.8
	Imports	15.0	12.0	16.6	19.8	11.9	17.5	12.8	11.2
South-eastern Europe	Exports	5.5	5.3	7.7	19.1	17.0	14.5	9.5	7.7
	Imports	15.6	16.9	3.7	9.2	10.0	10.1	6.2	4.9
Commonwealth of Independent States	Exports	3.6	8.0	13.7	16.0	2.4	6.2	4.2	4.5
	Imports	14.9	10.9	19.6	22.0	12.2	18.8	13.9	12.2
Net fuel exporters	Exports	3.0	8.0	13.8	15.6	4.6	7.4	4.0	4.3
	Imports	20.3	11.9	19.7	25.0	16.4	21.1	15.6	13.1
Net fuel importers	Exports	6.6	8.0	13.6	17.8	-7.8	0.2	5.3	6.1
	Imports	3.5	8.3	19.1	14.1	0.6	11.6	8.1	8.7
Developing countries	Exports	-0.3	8.9	12.4	16.4	11.5	10.1	8.9	7.4
	Imports	-1.0	6.9	11.4	18.6	10.2	11.9	10.0	11.0
Africa	Exports	-1.6	1.7	9.5	9.4	12.5	5.1	10.9	6.5
	Imports	5.9	3.2	10.0	12.0	9.8	12.5	7.8	7.1
North Africa	Exports	-1.8	-0.1	20.8	4.5	16.3	6.5	11.7	5.6
	Imports	0.6	10.1	6.3	20.1	9.4	14.1	11.6	10.1
Sub-Saharan Africa	Exports	3.1	8.9	3.7	9.8	11.9	6.3	14.6	5.7
(Excluding Nigeria & South Africa)	Imports	9.3	4.0	8.8	12.6	12.7	10.0	6.7	6.5
Net fuel exporters	Exports	-9.1	1.5	18.1	9.1	19.5	6.2	13.9	7.6
	Imports	6.2	3.2	13.0	18.5	17.6	16.4	12.1	11.0
Net fuel importers	Exports	6.5	1.9	1.8	9.7	5.3	3.7	7.2	5.0
	Imports	5.8	3.2	8.5	8.6	5.3	10.0	4.9	4.2
East and South Asia	Exports	-1.0	12.6	15.7	20.2	13.0	12.6	10.3	8.3
	Imports	-2.7	11.2	15.2	20.5	10.8	11.8	11.0	12.6
East Asia	Exports	-1.5	12.5	16.5	21.0	13.1	12.8	10.2	8.0
	Imports	-3.4	11.2	15.2	20.4	9.9	11.5	10.6	12.1
South Asia	Exports	6.1	12.7	5.1	9.6	11.7	9.0	11.4	13.2
	Imports	5.6	11.1	14.9	20.9	21.4	14.8	14.1	17.1
Net fuel exporters	Exports	7.7	8.3	8.1	3.4	2.7	4.2	9.1	7.6
	Imports	16.6	21.4	18.8	15.2	11.0	16.4	6.7	8.0
Net fuel importers	Exports	-1.3	12.7	16.0	20.8	13.3	12.8	10.3	8.3
	Imports	-3.2	10.9	15.0	20.6	10.8	11.6	11.1	12.8
Western Asia	Exports	3.0	6.0	5.8	5.6	3.8	1.9	5.2	2.3
	Imports	2.8	7.3	7.1	18.9	10.6	11.1	8.4	8.2
Net fuel exporters	Exports	2.2	5.8	3.3	2.8	2.3	-2.4	4.0	-2.0
	Imports	10.8	5.8	4.4	16.4	10.3	9.6	5.5	5.7
Net fuel importers	Exports	5.4	6.8	13.5	13.4	7.8	12.4	7.8	11.1
	Imports	-6.5	9.3	10.7	21.9	10.9	12.9	11.7	10.9
Latin America and the Caribbean	Exports	0.1	1.1	6.2	11.9	9.8	6.8	4.1	6.6
	Imports	-0.3	-5.4	0.8	13.3	7.5	12.6	7.4	7.5
South America	Exports	4.0	3.4	5.9	14.5	18.9	5.4	3.2	5.2
	Imports	0.1	-11.8	1.6	18.7	10.9	15.4	9.0	7.6
Mexico and Central America	Exports	-3.3	-0.2	3.8	9.6	1.6	9.1	5.0	8.0
	Imports	-0.5	1.8	0.0	10.3	4.3	10.6	6.5	7.6
Caribbean	Exports	2.5	-10.5	59.0	8.6	-2.3	-2.6	6.2	7.8
	Imports	-0.7	-25.2	4.2	8.3	15.5	12.3	4.8	5.0
Net fuel exporters	Exports	-1.7	0.7	1.8	11.0	11.6	7.1	4.2	5.8
	Imports	-1.0	-5.2	0.4	15.1	8.9	13.6	7.8	7.4
Net fuel importers	Exports	4.1	2.0	15.1	13.5	6.7	6.1	4.0	8.0
	Imports	0.9	-5.8	1.6	10.3	5.1	10.8	6.8	7.5

a Partly estimated.

b Forecasts, based in part on Project LINK.