

UN-LINK Global Economic Outlook

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Abstract

After a measurable slowdown in 2005, the world economy is expected to continue a modest expansion of 3.0% in 2006. Employment growth is pervasively unsatisfactory and dealing with high unemployment and underemployment remains a key policy challenge, particularly for many developing countries. While headline inflation has been edging up worldwide—mainly due to higher oil prices—core inflation remains tame and inflation expectation is still well anchored in a majority of countries. The international economic environment facing most developing countries continues to be auspicious. However, many of the factors that determine these relatively favourable conditions are subject to change, including expected policy shifts in major developed economies which may tighten fiscal and monetary stances. Major downside risks for the world economy are primarily associated with the large and ever widening global imbalances, and the tight oil supply capacity, as well as the possible reversal of the appreciated house prices in a number of economies. The global imbalances, dominantly featured by the large external deficit of the United States, are inextricably linked to a global business investment anemia, rather than a global saving glut. Macroeconomic policies in most economies should remain accommodating and countercyclical (rather than tightening per se) to prevent global growth from weakening and global imbalances from widening further. Meanwhile, in order to mitigate risks of an abrupt and disorderly global rebalancing, more intense and broader international policy coordination is needed.

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

	Observed 2004 ^b	November 2005 forecast ^a		May 2005 forecasts	
		2005	2006	2005	2006
Gross World Product (GWP)	3.9	3.0	3.0	2.9	3.0
GWP - PPP weighted	4.6	3.7	3.6	3.6	3.5
Major developed economies					
Canada	2.9	2.7	2.6	1.6	2.8
Japan	2.6	2.1	1.9	0.7	1.5
United States	4.2	3.1	3.1	3.1	3.1
European Union (EU25)	2.4	1.6	2.2	2.0	2.4
France	2.3	1.5	2.1	2.0	2.2
Germany	1.6	0.8	1.2	1.0	1.8
Italy	1.0	-0.2	0.9	1.1	1.5
United Kingdom	3.1	1.7	2.3	2.7	2.5
<i>Memo item: Euro Zone</i>	2.0	1.2	1.9	1.6	2.1
Russia	7.2	5.8	5.5	6.0	5.2
Developing countries and regions					
<i>Latin America and the Caribbean</i>	6.1	4.7	4.1	4.5	4.2
Argentina	9.0	7.5	4.0	6.5	4.0
Brazil	5.2	3.5	4.0	3.8	4.1
Mexico	4.4	3.0	3.5	3.5	4.5
<i>Africa</i>	4.9	5.1	5.4	5.2	5.2
North Africa	4.8	5.1	5.7	5.1	5.0
Sub-Saharan Africa ^c	5.5	5.6	5.3	5.4	5.8
Nigeria	6.0	5.0	6.0	7.0	5.2
South Africa	3.7	4.5	4.4	4.0	3.8
<i>South and East Asia</i>	6.7	6.1	6.0	6.2	6.1
India	7.0	6.8	6.8	7.0	7.1
Indonesia	5.1	5.4	5.3	5.4	5.5
Korea, Republic of	4.6	4.0	4.3	4.0	4.3
Malaysia	7.1	5.5	5.6	6.3	6.4
Philippines	6.1	5.3	5.7	5.0	4.7
Thailand	6.1	4.0	4.2	5.5	5.7
China	9.5	9.4	8.8	8.8	8.3
<i>Western Asia</i>	6.5	5.3	5.1	5.3	5.0
Oil-exporting countries	6.0	5.9	5.5	5.8	5.4
Oil-importing countries	7.0	4.6	4.7	4.7	4.5
<i>Memo: World export volume</i>	10.8	7.1	7.4	7.2	8.1
Oil price (Brent, US\$/pb)	38.3	55.6	59.3	46.0	37.0

Source: LINK Global Forecast.

^a Pre-Meeting forecasts.

^b Actual or most recent estimates.

^c Excluding Nigeria and South Africa.