CHAPTER III GLOBAL AND REGIONAL ECONOMIC PROSPECTS

The tragic events of September 11 came at a time when, with all major regions already slowing, the global economy was particularly vulnerable to adverse shocks. Indeed, recent data suggest that the world economy was weaker than earlier thought even before the terrorist attacks. Furthermore, these attacks—while affecting the United States most directly—can clearly be seen as a shock with global reach, given the worldwide impact on confidence, financial markets, and growth prospects.

The Global Outlook

Reflecting these developments, the IMF's projections for almost all regions of the world have been marked down compared with those in the October 2001 *World Economic Outlook* (whose projections were finalized before the terrorist attacks). These reductions are most apparent in the outlook for 2002, where the strengthening of activity that had previously been expected in late 2001—particularly among advanced economies—is now generally not expected until around the middle of 2002. Growth in the advanced economies is now expected to be only 0.8 percent in 2002, down from a weak 1.1 percent in 2001 (Table 3.1). The outlook for 2002 is 1¼ percentage points lower than projected in the October *World Economic Outlook*, including reductions of about 1½ percentage points in the United States, Japan, and Canada, 1 percentage point in the euro area, and over 2 percentage points in the newly industrialized Asian economies (see Table 1.1 in Chapter I). For developing countries as a whole, the growth projection for 2002 has been lowered by nearly 1 percentage point, with the largest reductions among countries of the Western Hemisphere—especially Argentina and Mexico—and also among the members of the Association of South East Asian Nations (ASEAN). Nevertheless, growth of close to 4½ percent is expected for the developing country group in 2002 compared with 4 percent in 2001, supported by relatively strong activity in China and India, a significant turnaround in Turkey's economic prospects, and reasonably firm growth in the transition economies and Africa.

The limited amount of data since the terrorist attacks against which to gauge economic prospects and the virtually unprecedented nature of these recent events inevitably imply a high level of uncertainty in the latest projections. Particular concerns are the prospective depth and duration of the general downturn in confidence and activity, the risk that existing weaknesses in some sectors (such as information technology) will be exacerbated, the addition of new sectoral pressures (e.g., in travel and tourism), and the vulnerabilities apparent in some systemically important countries. At a more general level, forecasters have not been particularly successful in capturing turning points in the cycle and the ensuing pace of activity, and this needs to be taken into account when policy responses are being considered. Over the past decade, however, the IMF's global growth forecasts have been generally unbiased—although with substantial variation in region-by-region performance—and the mean and standard deviation of the forecast errors for the Group of Seven countries are similar to those of private forecasters (Box 3.1).

United States and Canada

Almost all economic indicators in the United States have weakened in recent months. While part of this downturn reflects greater-than-expected weakness in the economy before September 11, the attacks and their aftermath led to further declines—including among indicators such as consumer spending and nondefense durable goods orders that had signaled a

Table 3.1. Advanced Economies: Real GDP, Consumer Prices, and Unemployment
(Annual percent change and percent of labor force)

	Real GDP				Consumer Prices				Unemployment			
	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
Advanced economies	**3.3**	**3.9**	**1.1**	**0.8**	**1.4**	**2.3**	**2.3**	**1.3**	**6.4**	**5.8**	**6.0**	**6.6**
Major advanced economies	3.0	3.5	1.0	0.6	1.4	2.3	2.2	1.1	6.1	5.7	6.0	6.6
United States	4.1	4.1	1.0	0.7	2.2	3.4	2.9	1.6	4.2	4.0	4.9	6.0
Japan	0.7	2.2	−0.4	−1.0	−0.3	−0.8	−0.7	−1.0	4.7	4.7	5.0	5.7
Germany	1.8	3.0	0.5	0.7	0.7	2.1	2.4	1.0	8.2	7.5	7.5	7.8
France	3.0	3.5	2.1	1.3	0.6	1.8	1.8	1.1	11.2	9.5	8.6	8.9
Italy	1.6	2.9	1.8	1.2	1.7	2.6	2.6	1.3	11.4	10.6	9.5	9.4
United Kingdom[1]	2.1	2.9	2.3	1.8	2.3	2.1	2.3	2.4	6.0	5.6	5.2	5.4
Canada	5.1	4.4	1.4	0.8	1.7	2.7	2.8	1.6	7.6	6.8	7.3	8.0
Other advanced economies	4.9	5.2	1.5	1.9	1.3	2.4	2.9	1.8	7.3	6.2	6.2	6.3
Spain	4.1	4.1	2.7	2.1	2.2	3.4	3.6	2.1	15.9	14.1	13.0	12.8
Netherlands	3.7	3.5	0.9	1.0	2.0	2.3	5.1	2.1	3.2	2.6	2.4	3.7
Belgium	3.0	4.0	1.2	0.7	1.1	2.7	2.4	0.5	8.8	7.0	6.9	8.1
Sweden	4.1	3.6	1.2	1.7	0.5	1.0	2.6	2.3	5.6	4.7	4.1	4.1
Austria	2.8	3.3	1.1	1.3	0.5	2.0	2.4	2.0	3.9	3.7	3.8	4.1
Denmark	2.1	3.2	1.3	1.7	2.5	3.0	2.4	2.7	5.6	5.2	5.2	5.3
Finland	4.0	5.7	0.7	1.8	1.3	3.0	2.6	1.7	10.3	9.8	9.4	9.9
Greece	3.4	4.3	4.1	3.0	2.2	2.9	3.6	2.9	12.0	11.4	10.9	10.9
Portugal	3.4	3.2	1.6	0.8	2.2	2.8	4.3	2.7	4.4	4.0	3.9	4.2
Ireland	10.9	11.5	6.1	3.0	2.5	5.3	3.9	2.8	5.6	4.3	3.8	4.5
Luxembourg	7.6	8.5	3.3	3.2	1.0	3.2	2.5	2.1	2.9	2.6	2.7	2.7
Switzerland	1.6	2.9	1.6	0.8	0.8	1.6	1.0	0.8	2.7	1.9	1.9	2.4
Norway	1.1	2.3	1.7	2.0	2.3	3.1	3.1	1.9	3.2	3.4	3.4	3.7
Israel	2.6	6.2	0.3	1.7	5.2	1.1	1.2	1.8	8.9	8.8	9.0	9.5
Iceland	4.1	3.6	1.9	0.5	3.4	5.1	6.5	6.7	1.9	1.4	1.4	2.0
Cyprus	4.5	5.1	4.0	3.0	1.8	4.1	2.0	1.8	3.6	3.4	3.6	3.8
Korea	10.9	8.8	2.6	3.2	0.8	2.3	4.3	2.0	6.3	4.1	3.8	3.5
Australia[2]	4.7	3.3	2.3	3.3	1.5	4.5	4.2	2.2	7.0	6.3	6.8	7.0
Taiwan Province of China	5.4	6.0	−2.2	0.7	0.2	1.3	−0.1	0.3	2.9	3.0	5.1	5.0
Hong Kong SAR	3.0	10.5	−0.3	1.0	−4.0	−3.7	−1.5	—	6.3	5.0	5.1	5.9
Singapore	5.9	9.9	−2.9	1.2	0.1	1.4	1.0	1.4	3.5	3.1	4.5	4.2
New Zealand[2]	3.8	3.8	2.6	1.9	1.1	2.7	2.7	2.2	6.8	6.0	5.3	5.5
Memorandum												
European Union	2.6	3.4	1.7	1.3	1.4	2.3	2.7	1.6	9.1	8.1	7.6	7.8
Euro area	2.6	3.4	1.5	1.2	1.1	2.4	2.7	1.4	10.0	8.9	8.3	8.6

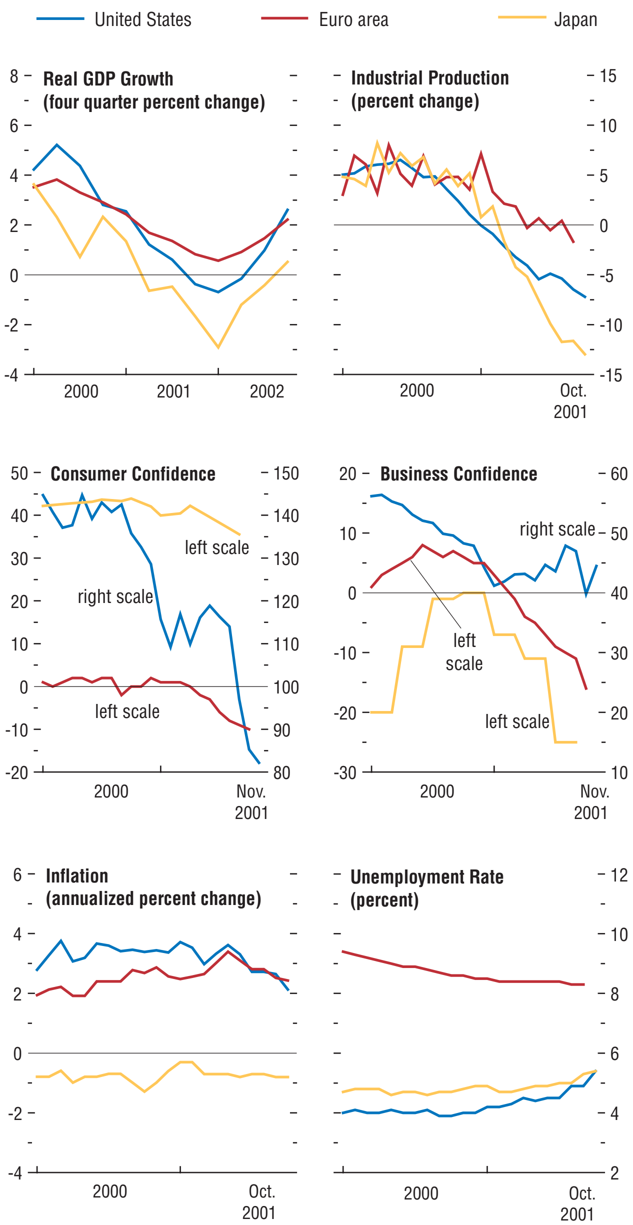
[1]Consumer prices are based on the retail price index excluding mortgage interest.
[2]Consumer prices excluding interest rate components; for Australia, also excluding other volatile items.

possible bottoming out of activity prior to the attacks. The initial sharp fall-off in some indicators has at least partially reversed since September—helped in the case of retail sales, for example, by significant sales incentives for automobiles—but most indicators of household and business activity continue to suggest that growth remains subdued in the latter part of 2001 (Figure 3.1). In the labor market, for example, job losses and new claims for unemployment benefits in October reached their highest levels since the early 1990s and, although slowing since then, point to further increases in the unemployment rate in the months ahead. The housing market appeared surprisingly robust through August, but recently released indicators suggest that a substantial slowing is in prospect. Moreover, some sectors, particularly travel and entertainment, have faced particularly severe financial difficulties since September 11 (see Chapter II).

Nevertheless, various forces should contribute to a strengthening recovery in 2002, although the speed and strength of their impact is difficult to anticipate. These forces include the recent reduction in energy prices, the ending of the inventory cycle downturn, the recovery in

Figure 3.1. Macroeconomic Indicators—Advanced Economies

Most indicators of economic activity and confidence have weakened sharply since 2000.



Sources: Thomson Financial for industrial production, inflation, unemployment, and consumer and business confidence for the United States and Japan; European Central Bank for euro area industrial production, inflation, and unemployment; European Commission for euro area consumer and business confidence.

equity prices, and somewhat stronger levels of consumer and business sentiment about the future compared to the present. Most important, there is now significant macroeconomic stimulus in the pipeline. On the monetary side, official interest rates have been reduced by 4¾ percentage points since the beginning of 2001, including 1¾ percentage points since September 11, and there is scope for additional easing if economic conditions weaken further. The easing to date has spurred a record surge in the refinancing of home mortgages, which should help sustain spending in the household sector, and further support to demand can be expected given the lags between interest rate cuts and their impact on activity. Fiscal policy has also been eased substantially during 2001, including in response to the events of September 11; rapid implementation of additional stimulus as currently under discussion—if carefully designed to strengthen consumer confidence and boost activity in the short run—would provide further helpful support for recovery (see Box 3.2). As the economy recovers, however, tax or spending measures may be needed to ensure that medium-term Social Security obligations can be met.

In the baseline projections for the United States, the decline in economic activity is expected to stabilize in early 2002, with a firmer pickup emerging in the second half of the year. Overall, the growth projection for 2002 has been marked down to 0.7 percent, 1½ percentage points lower than in the previous *World Economic Outlook* (whose projections were finalized before the attacks). Given the expected strengthening of activity during the year, however, growth would reach over 2½ percent in the fourth quarter of 2002 compared with the same quarter of 2001. Substantial uncertainty still surrounds this short-term outlook. A stronger and more rapid recovery could emerge if confidence rebounds rapidly, oil prices fall more than anticipated, or the inventory cycle downturn ends quickly. On the other side, concerns about personal security and rising unemployment, together with the sharp downturn in corporate profitability and the difficulties faced by some specific sectors, could

Box 3.1. The Accuracy of *World Economic Outlook* Growth Forecasts: 1991–2000

Each issue of the *World Economic Outlook* includes forecasts of economic growth for the world and for various country groupings. By their nature, forecasts are subject to uncertainty, which—as extensively discussed elsewhere in this issue—needs to be explicitly taken into account by policymakers when considering the implications for policy. This Box reports some indicators of the accuracy of the *World Economic Outlook* growth forecasts over the period 1991 through 2000.[1] It is important to stress, however, that the historical record with respect to the forecast accuracy of the *World Economic Outlook* is not necessarily a good guide to the future. For example, IMF forecasts—like those of outside analysts—tend to underestimate growth during booms and overestimate growth during recessions. Thus, as discussed further below, forecast accuracy depends importantly on the time period in question, and the specific events that occurred during it.

The first table presents the mean and standard deviation of the forecast error, defined as the difference between the growth forecast and the actual outturn, for various country groupings over the period 1991–2000.[2] The average error provides an indication of whether the forecast was subject to bias over the period—a positive value, for example, shows that growth was on average overestimated; the standard deviation of the error provides a measure of the degree of uncertainty in the forecast. The forecast errors are shown at four different points in

[1]The forecasts for the Group of Seven countries are evaluated over the period from 1985 through 2000.

[2]The outturn is taken from the October issue of the *World Economic Outlook* one year after the year in question.

World Economic Outlook: Estimates of GDP Growth Forecast Errors[1]

	Spring of Previous Year		Fall of Previous Year		Spring of Current Year		Fall of Current Year	
	Average error	Standard deviation	Average error	Standard deviation	Average error	Standard deviation	Average error	Standard deviation
World[2]	**0.4**	**0.9**	**0.2**	**0.9**	**–0.1**	**0.5**	**–0.1**	**0.3**
Advanced economies	0.4	1.2	0.2	1.1	–0.1	0.6	—	0.4
Major advanced economies	0.4	1.2	0.2	1.1	—	0.6	0.1	0.4
United States	–0.5	1.7	–0.5	1.5	–0.2	0.9	—	0.7
Japan	1.8	2.1	1.4	1.9	0.3	1.3	0.2	0.4
Germany	0.9	1.5	0.8	1.5	0.1	1.0	0.2	0.8
France	0.8	1.3	0.6	1.5	0.1	0.8	—	0.5
Italy	1.1	1.2	0.8	1.0	0.3	0.8	0.2	0.5
United Kingdom	0.7	1.6	0.5	1.5	–0.2	0.8	–0.2	0.4
Canada	0.9	2.2	0.6	1.8	0.2	1.2	0.1	0.7
Other advanced economies	0.3	1.4	0.1	1.5	–0.2	1.0	–0.2	0.5
Developing countries	0.2	1.4	—	1.1	–0.3	0.7	–0.2	0.4
Africa	1.9	1.2	1.6	1.0	1.2	0.7	0.6	0.5
Sub-Saharan	1.7	1.3	1.5	1.0	1.0	0.7	0.6	0.4
Developing Asia	–0.6	2.2	–0.7	2.0	–0.7	1.3	–0.3	0.7
ASEAN-4[3]	1.7	5.7	1.3	5.2	0.4	3.0	—	0.9
Middle East, Malta, and Cyprus	0.6	2.0	0.9	2.6	0.5	2.6	–0.2	1.3
Western Hemisphere	1.0	1.8	0.7	1.3	–0.4	1.1	–0.3	0.9
Memorandum								
World[4]	0.7	1.2	0.5	1.2	0.1	0.8	—	0.5
Countries in transition	6.0	6.6	4.5	6.3	2.6	6.4	–0.6	1.2

[1]Forecast errors are defined as forecast minus outturn. Sample period covers 1990 to 2000.
[2]Excludes countries in transition.
[3]Includes Indonesia, Malaysia, the Philippines, and Thailand.
[4]Includes countries in transition.

Box 3.1 *(concluded)*

Consensus Forecast: Estimates of GDP Growth Forecast Errors[1]

	Spring of Previous Year		Fall of Previous Year		Spring of Current Year		Fall of Current Year	
	Average errors	Standard deviation	Average errors	Standard deviation	Average errors	Standard deviation	Average errors	Standard deviation
Major advanced economies	**0.3**	**1.2**	**0.2**	**1.1**	**—**	**0.6**	**—**	**0.4**
United States	–0.5	1.7	–0.4	1.6	–0.2	0.8	–0.1	0.7
Japan	1.4	2.2	1.0	2.1	0.2	1.3	0.4	0.6
Germany	0.6	1.4	0.5	1.5	–0.1	1.0	–0.1	0.9
France	0.6	1.4	0.5	1.5	0.1	0.8	—	0.6
Italy	0.9	1.2	0.8	1.1	0.3	0.7	0.1	0.5
United Kingdom	0.5	1.8	0.4	1.7	–0.1	0.9	–0.2	0.4
Canada	0.5	1.9	0.4	1.8	0.2	1.1	0.1	0.7

[1]Forecast errors are defined as forecast minus outturn. Sample period covers 1990–2000.

time: (1) the May issue one year prior to the year in question; (2) the October issue one year prior to the year in question; (3) the May issue of the year in question; and (4) the October issue of the year in question. This methodology provides information on the accuracy of the *World Economic Outlook* growth forecasts at four different points in time leading up to the point when the growth outturn was realized. The sample of countries includes all member countries of the IMF, except the countries in transition (where forecast errors in the early part of the transition—a unique event—were very large, and would significantly bias the results).

The following points are worth noting:

- The average error for global growth is modestly positive for the one-year ahead forecasts, turning slightly negative in the current year forecast. The standard deviation of the global growth forecasts averages 0.9 percentage points in the one-year ahead forecast, falling to 0.3 to 0.5 percentage points in the current year.[3] Unsurprisingly, across almost all regions, the average forecast error (in absolute value) and the standard deviation declined the shorter the forecast period.
- The moderate overestimation of growth in world output in the one-year ahead forecast stems largely from the forecast errors in the advanced economies, most of which are associated with turning points. This was due to an underestimation of the extent of the recessions in the United States, Canada, and the United Kingdom in 1991; the euro area in 1993; and Japan during 1992–95 and 1997–99. Offsetting this positive error to some degree was an underestimation of growth in the United States in the second half of the 1990s, a period of surprisingly rapid productivity growth.
- As can be seen from the second table, the mean and standard deviation of the errors in the *World Economic Outlook* forecast for Group of Seven (G-7) countries are similar to those of private forecasters. While the average error of the consensus forecasts for most G-7 countries was slightly smaller for the one-year ahead forecasts compared to the *World Economic Outlook* forecasts, the standard deviation of the consensus forecast error was slightly higher. A more detailed comparison of consensus forecasts, *World Economic Outlook* forecasts, and OECD forecasts finds a high degree of similarity among all three, and concludes that it is difficult to say unambiguously which one is better (Loungani, 2000).
- For developing countries in the first table, the overall bias to the projections is generally small, but the forecasting experience differs significantly across regions, largely reflecting the differing shocks that each faced.

In *Africa*, the average forecasting error was significantly positive for the period (and in every individual year); in part this arises from

[3]Implying that the forecast was within these intervals over two-thirds of the time.

the obvious difficulties in predicting conflicts and natural disasters that have seriously affected growth during the decade, as well as a possible tendency to overestimate growth in the context of IMF programs.[4] Also, for many African countries, data are available with a longer lag and are subject to larger revisions than those for other countries.

In *developing Asia,* growth was on average underestimated, entirely reflecting an underestimation of growth in China (which has a large weight in the aggregate) during the overheating period in the first half of the 1990s. This was offset in part by an overestimation of growth in the ASEAN-4, primarily during the Asian Crisis in 1997 and 1998 (which also accounts for the very large standard deviation in the forecast for this group).

In the *Middle East*, the one-year ahead forecasts overestimated growth in the 1990s, mainly reflecting an overestimation of the speed of recovery from the Gulf War.

In the *Western Hemisphere*, the average error for the one-year ahead growth forecast growth was positive, mainly reflecting an overestimation of growth during the Mexican crisis in 1995 and the Brazil crisis in 1998–99. In the current year, however, forecast errors have been slightly negative, mainly reflecting an underestimation of pickups in Argentina and Brazil.

In conclusion, the above analysis suggests that, excluding the transition economies, the IMF's global growth forecasts have been relatively unbiased over the past decade. However, the experience varies substantially across regions, generally reflecting the particular shocks they have experienced. In particular, like outside forecasters, IMF forecasters have not been particularly successful in capturing major turning points and the ensuing impact on activity. This is, of course, particularly relevant at the present juncture, and while this tendency was recognized while making the forecast, it remains a source of potential downside risk. It is also likely, in the present situation, that the uncertainty around the forecast is larger than historical values of the standard deviation would tend to suggest. In some cases, notably Africa, there is evidence of more persistent overestimation of growth, in part for the structural reasons described above, a tendency that needs to be kept in mind in interpreting the forecasts and drawing the appropriate policy conclusions.

[4]IMF forecasts assume that programs are implemented.

delay the recovery of household and business confidence and push deferred spending—especially on business investment and household durables—further into 2002 than currently envisaged. Such tendencies could be aggravated by the legacy of high levels of business investment in the late 1990s and high levels of household debt.

In Canada, the slowdown has been sharper than earlier envisaged, mainly reflecting events in the United States. Real GDP growth has slowed substantially since late 2000, with growth of 1.4 percent now expected in 2001 and 0.8 percent in 2002. Economic activity is expected to turn around starting in the first half of 2002 and gradually gather pace during the year—supported by a similar strengthening of activity in the United States, easier monetary conditions (the Bank of Canada having lowered official interest rates by 3½ percentage points in 2001), fiscal stimulus stemming from the tax cuts legislated last year, and the workings of the automatic stabilizers. As elsewhere in the global economy, however, the heightened level of uncertainty makes the timing and pace of a rebound difficult to gauge.

Japan

The events of September 11 and their aftermath have exacerbated what was already a difficult and troubling economic situation in Japan.

Box 3.2. Fiscal Stimulus and the Outlook for the United States

Together with the substantial easing of monetary policy since January, the tax cuts enacted in June and emergency spending measures passed in the immediate aftermath of the September 11 attacks have ensured that a considerable stimulus is in the pipeline in the United States. These initiatives will provide $375 billion in fiscal stimulus over the 2002 to 2004 fiscal years (the 2002 U.S. fiscal year runs from October 2001 to September 2002; see the Table). This equals 1 percent of GDP for 2002 and nearly 1¼ percent of GDP in 2003 and 2004. The tax cuts enacted in June 2001 comprise $243 billion of the stimulus, while emergency spending authorized by Congress immediately following the September 11 terrorist attacks adds another $63 billion. This includes $38 billion for defense, $20 billion for disaster recovery, and $5 billion to aid the airline industry.

In addition, the Bush Administration has proposed a new fiscal stimulus package of $60 to $75 billion over fiscal years 2002 to 2004, while Congress is considering packages amounting to around $100 billion in fiscal year 2002 and around $210 billion total through 2004. The resulting stimulus could be smaller if the spending initiatives of $69 billion requested in the Administration's fiscal year 2002 Budget but not yet enacted were to be used instead to meet new spending requirements. Along with additional spending for national security expected to amount to around $50 billion over 2002 to 2004, a new fiscal package of $75 billion would result in a total fiscal stimulus during fiscal years 2002 to 2004 of around $500 billion, roughly 1½ percent of GDP for the period.

With a new fiscal package comprised of temporary measures, the unified budget in the United States is now expected to be slightly in deficit in FY 2002 after surpluses from 1998 to 2001. Most of the decline relates to the impact of the fiscal policy initiatives, although the operation of the automatic fiscal stabilizers also has an impact. The cumulative surplus would be reduced from around $2.4 trillion to $2.2 trillion in fiscal years 2002 to 2011—a fairly modest change, as U.S. growth is expected to rebound strongly after 2002. If tax measures in the new stimulus package were permanent rather than temporary, the cumulative budget surplus would fall to $1.3 trillion over the fiscal years 2002 to 2011. If economic growth turned out to be even weaker than forecast, a $75 billion temporary stimulus package would likely result in the cumulative budget surplus over fiscal years 2002 to 2011 falling to less than $1.0 trillion.

Fiscal Stimulus Measures, Fiscal Years 2002 to 2004

(Billions of dollars for each fiscal year)

	2002	2003	2004	Total 2002–04
Total fiscal stimulus measures	176	184	140	500
(Percent of GDP)	1.7	1.7	1.2	1.5
Stimulus under current policies	100	137	138	375
Taxes				
2001 tax cut package	38	93	112	243
Spending				
Defense	22	16	1	38
Other	40	28	26	94
Additional stimulus	77	47	2	125
Taxes				
New fiscal stimulus package	60	15	0	75
Spending				
Defense	13	21	2	35
Other	4	12	0	15

Source: IMF Staff estimates. Columns may not sum to total due to rounding.

Assessment of a New Fiscal Stimulus Package

The economic and budgetary impact of a fiscal stimulus will depend crucially on the particular tax and spending initiatives enacted. The objective should be to structure a package that shores up consumer confidence and boosts activity, without unduly compromising the longer-term fiscal position.

Well-targeted spending increases are typically considered to have a larger multiplier impact on activity than tax reductions, and could thus yield a quick and effective boost to the economy. The Administration and Congress are considering such measures as extending the duration of unemployment insurance and providing grants to assist in financing health care coverage to unemployed workers and their families. While assistance to unemployed workers could help shore up confidence, there would likely be adverse effects on individuals' incentives to find employment, though this could be mitigated by ensuring that the assistance is explicitly temporary. A number of proposals are also being considered in the wake of the terrorist attacks to increase spending on transportation security and infrastructure, as well as other programs less obviously related to the events of September 11. As with any spending initiatives, the benefits of these programs must be weighed against long-term costs, including the possibility that a "piling on" of new programs could undermine fiscal discipline over the longer term, implying a permanently higher path of public spending.

Temporary income tax cuts would be likely to have only a limited near-term impact, unless they are targeted at "liquidity-constrained" individuals, who would have a higher propensity to spend such tax reductions. Corporate tax measures being considered—including the elimination of the corporate alternative minimum tax, and an increase in the carryback period for net operating income losses—would entail significant revenue losses, while potentially providing little short-term stimulus to the economy. Temporary incentives aimed at investment, such as proposed partial expensing of business investment (or accelerated depreciation) could be more useful in bringing forward private investment. Of course, reducing tax burdens can have salutary medium-term effects, and these measures should be considered in due course consistent with achieving medium-term fiscal objectives. Other measures under consideration include a reduction in the capital gains tax for individuals and an increase in the amount of capital losses that can be deducted from income. These proposals face the risk of a perverse effect of encouraging a sell-off in equities; the resulting decline in stock prices and household wealth would further affect consumption.

The "reversibility" of various policies is also an important consideration. Given the lags involved between the easing of fiscal and monetary policy and the impact on activity, it could become necessary to withdraw some of the stimulus as the U.S. economy rebounds. This would tend to favor using monetary policy for any further stimulus, since policy interest rates can be adjusted relatively rapidly. In contrast, in the event of a quick recovery in the middle of 2002, institutional and political considerations might make it more difficult to withdraw fiscal stimulus within the timeframe needed to avoid overheating. Among the risks would be that permanent tax measures that have a significantly adverse impact on the U.S. debt profile could lead to higher long-term interest rates and thus offset the stimulus from a shorter-lived policy. Looking forward, it will be important as well to take offsetting action by either tax or expenditure measures when the economy recovers so that the United States can achieve its medium-term objective of saving the surplus in the Social Security trust fund in order to begin dealing with the challenges associated with the aging of the U.S. population.

Household and business confidence have fallen further in recent months, while business conditions have continued to weaken—especially in the manufacturing sector, where indicators of excess capacity, employment, and inventories have all deteriorated. Weaker economic prospects and persistently low equity prices have added to concerns about financial system stability, particularly in view of writedowns in bank capital under mark-to-market accounting rules and uncertainties about the full extent of nonperforming loans.[1] The steep downturn in ex-

[1]Mark-to-market accounting rules came into effect at the beginning of April 2001 and are reflected for the first time in financial results for the half year ending in September 2001.

ports since 2000 also looks set to continue, especially given the prospect of delayed recoveries in the United States and Asia and the ongoing weakness in the global electronics market.

Reflecting these developments, the modest recovery that had been projected to emerge early in 2002 is now not expected until at least the second half of the year. In 2002 as a whole, the economy is expected to contract by 1 percent, accompanied by ongoing deflation. A high level of uncertainty and risk—predominantly on the downside—surrounds even this bleak outlook. A key concern is of a vicious cycle involving weakening growth, rising numbers of corporate bankruptcies, and increasing concerns about the health of the banking sector. With a gradual pickup later in 2002 expected to be driven by the external sector, greater-than-expected weakness in the global economy or a depreciation of the dollar against the yen—for example, as a result of heightened economic or security concerns in the United States—would imply additional downside risks for Japan.

The prospect of continuing and possibly intensified weakness in the Japanese economy highlights even more forcefully than before the need to implement an ambitious and coordinated strategy to tackle deep-seated economic weaknesses. This strategy has two key elements. First, persistent weaknesses in the banking sector need to be addressed, particularly through stronger loan classification and provisioning practices, disposal of nonperforming loans, and, where appropriate, targeted use of public funds through mechanisms that lead to substantive restructuring of the institutions involved.[2] In addition, corporate restructuring should be accelerated, with banks continuing to take the lead in restructuring their potentially viable borrowers, but under stronger incentives and clearer timetables for achieving results. Second, macroeconomic policies need to be supportive of this strategy, to help offset potential short-term impacts of structural reforms on real activity and to counteract deflationary pressures. In particular, a more ambitious monetary response is required: the Bank of Japan needs to make a clear commitment to end deflation within a reasonable timeframe and support this by further quantitative easing, even if such a policy were to result in some further depreciation of the yen. On the fiscal side, with near-term economic prospects weakening, the second supplementary budget will go a significant way toward avoiding a withdrawal of stimulus in 2002, and thereby reduce downside risks to activity. The budget will focus on priorities of the government that will aid structural reform, including public works spending on urban regeneration, information technology, and support for the elderly. At the same time, however, the authorities need to push ahead with measures that will support fiscal consolidation over the medium term, including health sector reforms and ending the earmarking of tax revenues.

Euro Area

Economic prospects in the euro area have also deteriorated over recent months, with the events of September 11 hitting economies that were already slowing as a result of regional and global shocks—including higher oil and food prices, the reassessment of the technology and telecommunications sectors, and the associated fall in equity prices. Indicators of industrial production, service sector activity, and business confidence have weakened throughout the area. The widely-followed IFO business confidence indicator in Germany has fallen to its lowest level since 1993, while the declines elsewhere have been less stark. Other leading indicators of business conditions have yet to show a turning point, making the timing of recovery uncertain. The fall in global confidence and activity is also significant, given the importance of trade and other international economic and financial linkages. For example, the large share of trade between the United States and Europe taking place between subsidiaries of multinational companies

[2]An emergency account amounting to 15 trillion yen is available to ensure the stability of the financial system in case of systemic threat.

(such "related party trade" accounted for around 65 percent of all U.S. imports from Germany in 2000) may tend to strengthen the balance sheet linkages associated with this trade channel. Consumer confidence has also been declining, probably reflecting international linkages in sentiment together with weak real income growth and rising unemployment, and appears likely to stay under pressure as a result of the increase in domestic and global uncertainty.

As a result, GDP growth for the euro area in 2002 is now projected at 1.2 percent, 1 percentage point lower than projected in October. Part of this downward revision reflects the carryover effect on growth in 2002 from recent data indicating growth was weakening even before September 11. Among the largest economies, the weakness in Germany—where growth is expected to be only 0.7 percent in 2002—is particularly marked and, given the strong economic linkages within Europe, will adversely affect growth in the region.[3] Growth in France and Italy is expected to be 1.2 to 1.3 percent in 2002, also well below potential.

A number of influences should tend to support activity in the period ahead. Inflation is expected to continue falling, particularly in response to lower energy and food prices, and this should help to unwind some of the downward pressures on real incomes and spending that were evident earlier in the year. Support for export activity should come from the continued favorable exchange rate for the euro. On the policy side, the European Central Bank has lowered official rates by 1½ percentage points since the beginning of the year, including 1 percentage point since September 11, and with inflationary pressures weakening there will be room for additional easing if necessary. With fiscal policy, the automatic stabilizers should be allowed to operate across the euro area but, beyond this, the scope for additional support varies across countries. Earlier tax reductions in Germany and France should continue to provide support to demand, and modest tax cuts are to occur in Italy in 2002. These countries though have little additional room for maneuver on the fiscal front, given the 3 percent deficit ceiling under the Stability and Growth Pact, and the only limited progress made in improving structural fiscal balances during the recent period of relatively strong growth (Table 3.2). Other countries, including Ireland, Finland, Netherlands, and Spain, appear to have greater scope for a cautious easing of fiscal policy if downward pressures on activity prevail.

More generally, while the euro area has less policy stimulus in the pipeline than the United States, it also appears less vulnerable in some respects than the United States to adverse shocks to confidence and activity: external balances are stronger; households are less indebted and less exposed to stock market developments; and concerns about overinvestment and overcapacity among firms appear to be lower. But, to underpin a robust recovery, it is critical—both for Europe and for the rest of the world—that such strengths are complemented by more aggressive structural reforms to labor, product and financial markets, and other areas that have been holding down Europe's potential growth rate and contributing, at least indirectly, to broader imbalances in the global economy. The historic introduction of euro notes and coins, beginning January 1, 2002, will further strengthen European integration and support the structural reform process—for example, by increasing the transparency of price differences within the euro area and reducing the costs of cross-border transactions.

As in other advanced economies, the prospective depth and duration of the downturn in household and business confidence represent a key uncertainty in the current outlook. While recovery could start earlier than envisaged, the key policy concern is clearly that of a more prolonged downturn. In addition to the impact of the global slowdown and of increased international tensions, a particular concern in Europe stems from the weaker labor market outlook—with unemployment again increasing from al-

[3]See Box 1.5 in the October 2001 *World Economic Outlook*.

Table 3.2. Major Advanced Economies: General Government Fiscal Balances and Debt[1]
(Percent of GDP)

	1985–94	1995	1996	1997	1998	1999	2000	2001	2002	2006
Major advanced economies										
Actual balance	–3.7	–4.1	–3.4	–2.0	–1.4	–1.1	–0.2	–1.3	–1.8	0.2
Output gap[2]	–0.5	–2.2	–2.0	–1.4	–1.2	–0.8	—	–1.4	–3.2	–0.2
Structural balance	–3.4	–3.2	–2.6	–1.3	–0.8	–0.7	–0.6	–0.8	–0.6	0.2
United States										
Actual balance	–4.7	–3.3	–2.4	–1.3	–0.1	0.6	1.5	0.3	–0.5	0.9
Output gap[2]	–1.3	–3.2	–2.8	–1.6	–0.5	0.4	1.4	–0.8	–3.1	—
Structural balance	–4.2	–2.3	–1.5	–0.7	0.1	0.5	1.0	0.5	0.5	0.9
Net debt	51.4	59.6	59.2	57.0	53.4	48.9	43.7	42.0	41.3	30.2
Gross debt	65.7	72.9	72.8	70.3	66.6	63.4	57.4	55.2	54.2	40.3
Japan										
Actual balance	0.6	–3.5	–4.2	–3.2	–4.5	–6.8	–7.9	–7.2	–7.1	–1.4
Excluding social security	–2.5	–6.3	–6.7	–5.8	–6.5	–8.6	–9.2	–7.9	–7.5	–2.4
Output gap[2]	1.1	–1.3	0.5	0.3	–2.4	–3.2	–2.5	–4.1	–6.2	–0.9
Structural balance	0.3	–3.2	–4.3	–3.4	–3.6	–5.8	–7.0	–5.6	–4.7	–1.2
Excluding social security	–2.9	–6.0	–6.9	–5.9	–6.0	–8.0	–8.7	–7.1	–6.2	–2.4
Net debt	13.5	12.7	16.0	17.5	29.5	35.8	42.9	50.1	57.7	61.7
Gross debt	70.6	87.1	92.4	96.9	110.2	120.3	129.7	140.8	152.5	153.5
Euro area										
Actual balance	–4.7	–5.0	–4.3	–2.6	–2.2	–1.3	0.2	–1.1	–1.4	0.1
Output gap[2]	–0.3	–1.2	–1.9	–1.8	–1.2	–1.0	–0.1	–0.9	–2.1	–0.2
Structural balance	. . .	–4.1	–3.0	–1.4	–1.3	–0.7	–0.7	–0.8	–0.6	0.1
Net debt	43.8	60.6	62.4	62.8	61.3	60.4	58.2	57.4	57.1	49.8
Gross debt	59.4	73.3	75.5	75.3	73.6	72.6	70.2	68.9	68.6	59.5
Germany[3]										
Actual balance[4]	–1.9	–3.3	–3.4	–2.7	–2.2	–1.6	1.2	–2.5	–2.5	—
Output gap[2]	–0.2	0.4	–0.7	–1.2	–1.1	–1.1	—	–1.2	–2.4	—
Structural balance	–1.5	–3.4	–2.8	–1.7	–1.3	–0.8	–1.3	–1.8	–1.2	—
Net debt	24.9	49.4	51.1	52.2	52.0	52.4	51.6	51.1	52.1	45.5
Gross debt	43.8	58.3	59.8	60.9	60.7	61.1	60.3	59.8	60.8	54.2
France										
Actual balance[4]	–3.3	–5.5	–4.1	–3.0	–2.7	–1.6	–1.4	–0.9	–2.1	—
Output gap[2]	–0.3	–2.7	–3.3	–3.1	–1.8	–1.2	–0.2	–0.6	–1.7	—
Structural balance	–2.9	–3.7	–1.9	–1.0	–1.5	–0.9	–1.2	–1.2	–1.4	—
Net debt	28.3	45.8	48.1	49.6	49.8	48.9	47.9	48.8	48.2	43.8
Gross debt	36.9	54.6	57.1	59.3	59.5	58.5	57.5	57.0	57.9	53.5
Italy										
Actual balance[4,5]	–10.5	–7.6	–7.1	–2.7	–2.8	–1.8	–0.3	–1.2	–1.0	–0.5
Output gap[2]	–0.1	–1.1	–2.0	–2.3	–2.4	–2.7	–1.8	–1.9	–2.6	—
Structural balance	–10.4	–7.0	–6.2	–1.7	–1.8	–0.6	–0.7	–0.5	–0.6	–0.5
Net debt	93.2	116.6	116.0	113.7	110.1	108.4	104.4	102.3	101.6	90.0
Gross debt	99.5	123.2	122.6	120.1	116.2	114.5	110.2	108.0	107.3	95.2
United Kingdom										
Actual balance[4]	–3.2	–5.4	–4.1	–1.5	0.3	1.5	3.9	0.5	–0.1	–0.8
Output gap[2]	0.4	–1.1	–1.3	–0.5	0.2	–0.5	0.1	—	–0.9	—
Structural balance	–2.5	–4.6	–3.3	–0.9	0.5	1.5	1.7	0.5	0.1	–0.7
Net debt	26.5	36.8	46.2	44.6	41.9	39.0	34.3	31.3	30.1	28.0
Gross debt	43.4	51.7	51.8	49.6	46.5	43.9	40.7	38.3	37.0	33.5
Canada										
Actual balance	–6.9	–5.3	–2.8	0.2	0.5	1.6	3.2	1.9	1.0	1.1
Output gap[2]	–1.8	–5.5	–6.5	–5.1	–3.9	–1.7	–0.1	–1.4	–3.2	—
Structural balance	–5.6	–2.8	—	2.1	2.5	2.5	3.3	2.6	2.7	1.1
Net debt	66.3	88.6	87.8	84.1	81.2	74.9	66.3	61.5	59.5	44.0
Gross debt	98.0	120.4	120.3	117.6	115.7	112.3	102.6	97.4	94.9	72.6

[1]Debt data refer to end of year; for the United Kingdom they refer to end of March.
[2]Percent of potential.
[3]Data before 1990 refer to west Germany. For net debt, the first column refers to 1988–94. Beginning in 1995, the debt and debt-service obligations of the Treuhandanstalt (and of various other agencies) were taken over by general government. This debt is equivalent to 8 percent of GDP, and the associated debt service to ½ to 1 percent of GDP.
[4]Includes one-off receipts from the sale of mobile telephone licenses equivalent to 2.5 percent of GDP in 2000 for Germany, 0.5 percent of GDP in 2001 for France, 1.2 percent of GDP in 2000 for Italy, and 2.4 percent of GDP in 2000 for the United Kingdom.
[5]Includes asset sales equivalent to 0.2 percent of GDP in 2001, 0.7 percent in 2002, 0.5 percent in 2003, and 0.1 percent in 2004.

ready high levels in the largest euro area economies. In addition, a further decline in economic prospects could lead to renewed weakness in stock prices, which are already down significantly since the beginning of the year. Although the significance of equity holdings differs among euro area economies, and as noted above is generally lower than in the United States, such a fall would add to downward pressures on household demand and on business investment spending.

Other Advanced Economies

The outlook for other advanced economies has also deteriorated, driven by the weakening prospects for trade and declining business and consumer confidence, but with important country-by-country differences. In the United Kingdom, economic activity has so far been more resilient to the global downturn than activity in other major advanced economies. Industrial output has continued to fall while exports weakened in the second quarter, influenced mainly by the shocks to the information technology (IT) sector and also by the strong exchange rate. Demand has been buoyed by strong private consumption growth and by already budgeted increases in government spending. However, the recent softening of business and consumer confidence as well as house prices and labor market indicators suggest that private consumption growth is likely to slow down. Reflecting this, growth projected for 2002 has been marked down to 1.8 percent (compared with 2.4 percent in the last *World Economic Outlook*). The Bank of England has lowered interest rates by 1 percentage point since the terrorist attacks and, provided the inflation outlook remains benign, there would be scope for further reductions if economic prospects deteriorate more than currently envisaged.

The 2002 outlook for the smaller European economies outside the euro area has also been marked down by varying degrees—by 0.3 points in Denmark and Norway, and 0.8 to 0.9 points in Sweden and Switzerland. In addition to poorer export market conditions in Europe and falling domestic confidence, these countries also face some more specific pressures. Norway, for example, is exposed to oil market developments; Switzerland has experienced some currency appreciation stemming from safe haven related capital inflows following September 11; and Sweden has faced persistent weakness in the krona, which should provide some support to exports. How these pressures unfold, together with the outlook for inflation and output more broadly, will determine the scope for further easings in monetary policy—each of these countries having already lowered interest rates in the aftermath of September 11.

Elsewhere, economic conditions in Australia and to a lesser extent New Zealand appear reasonably robust despite some recent weakening in confidence. Growth in Australia in 2002 is expected to reach 3.3 percent, stronger than in 2001 although ½ of a percentage point lower than projected in the October *World Economic Outlook,* while growth in New Zealand is projected to weaken somewhat to 1.9 percent. Export performance has been well-sustained in both countries in 2001—helped by weak currencies and, in New Zealand, by more favorable agricultural growing conditions—and this has contributed to sharp reductions in their current account deficits. External performance could still come under pressure, however, if global growth and commodity prices remain weak. Household spending has also held up quite well: house construction is up strongly in Australia, supported by lower interest rates and earlier homeowner incentives; and lower interest rates, rising rural incomes, and continued low unemployment are contributing to the resilience of demand in New Zealand.

Emerging Markets

Developing and transition economies are being hit on several fronts by the events of September 11 and their aftermath, with the result that projections for almost all regions have been marked down from those in the October *World Economic Outlook* (Table 3.3). This weaker outlook stems from several interrelated influ-

Table 3.3. Selected Developing and Transition Economies: Real GDP, Consumer Prices, and Current Account Balance

(Annual percent change unless otherwise noted)

	Real GDP				Consumer Prices[1]				Current Account Balance[2]			
	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
Developing countries	**3.9**	**5.8**	**4.0**	**4.4**	**6.8**	**5.9**	**6.0**	**5.3**	**–0.2**	**1.1**	**0.1**	**–1.2**
Africa	**2.5**	**2.8**	**3.5**	**3.5**	**11.6**	**13.5**	**12.8**	**8.3**	**–3.6**	**0.9**	**–0.8**	**–3.3**
Algeria	3.2	2.4	3.6	3.4	2.6	0.3	3.7	5.2	—	16.8	11.1	0.6
Ghana	4.4	3.7	4.0	4.0	12.4	25.2	33.0	15.9	–11.5	–9.1	–7.9	–5.8
Kenya	1.3	–0.2	1.1	1.4	6.1	7.1	5.0	5.0	–2.2	–2.1	–2.9	–4.0
Morocco	–0.7	0.8	6.1	4.4	0.7	1.9	2.5	2.3	–0.5	–1.7	–1.4	–0.4
Nigeria	1.1	3.8	4.2	1.8	6.6	6.9	19.3	15.2	–9.5	4.8	–4.1	–10.6
Tunisia	6.1	4.7	5.4	5.3	2.7	2.9	2.9	2.7	–2.1	–4.2	–4.2	–3.9
South Africa	1.9	3.1	2.2	2.3	5.2	5.4	5.8	4.5	–0.4	–0.3	0.5	1.0
Developing Asia	**6.2**	**6.8**	**5.6**	**5.6**	**2.5**	**1.9**	**2.8**	**3.0**	**2.2**	**2.1**	**1.1**	**0.2**
Bangladesh	5.4	6.0	4.7	3.2	6.4	2.3	1.8	4.0	–1.4	–1.6	–2.4	–2.4
China	7.1	8.0	7.3	6.8	–1.4	0.4	1.0	1.0	1.6	1.9	1.0	0.3
India	6.8	6.0	4.4	5.2	4.7	4.0	3.9	4.8	–0.7	–0.9	–0.6	–0.7
Indonesia	0.8	4.8	3.2	3.5	20.7	3.8	11.5	10.9	4.1	5.2	3.4	1.0
Malaysia	6.1	8.3	0.3	2.5	2.8	1.5	1.5	1.8	15.9	9.4	7.5	5.1
Pakistan	4.1	3.9	3.7	4.4	4.1	4.4	3.8	5.0	–2.8	–1.9	–2.1	–2.2
Philippines	3.4	4.0	2.9	3.2	6.6	4.3	6.1	5.0	10.0	12.1	4.9	2.8
Thailand	4.3	4.4	1.5	2.0	0.3	1.5	1.7	1.1	10.2	7.5	4.7	4.0
Vietnam	4.2	5.5	4.7	4.8	4.1	–1.7	0.8	4.9	4.5	2.1	1.7	–1.1
Middle East[3]	**3.0**	**5.5**	**4.5**	**3.8**	**12.1**	**9.2**	**9.4**	**9.0**	**3.0**	**11.6**	**6.0**	**–0.6**
Egypt	6.0	5.1	3.3	3.3	3.8	2.8	2.4	3.0	–1.9	–1.2	—	–1.6
Iran, Islamic Rep. of	3.1	5.8	5.0	4.8	20.4	12.6	16.0	13.0	6.4	13.0	4.1	1.6
Saudi Arabia	–0.8	4.5	2.3	1.6	–1.3	–0.6	–1.1	1.4	0.3	9.0	4.0	–6.4
Western Hemisphere	**0.1**	**4.1**	**1.0**	**1.7**	**8.8**	**8.1**	**6.3**	**5.2**	**–3.2**	**–2.5**	**–3.0**	**–2.9**
Argentina	–3.4	–0.5	–2.7	–1.1	–1.2	–0.9	–1.0	–0.5	–4.2	–3.2	–2.4	–1.2
Brazil	0.5	4.4	1.8	2.0	4.9	7.0	6.7	5.6	–4.8	–4.1	–4.7	–4.0
Chile	–1.1	5.4	3.3	3.0	3.3	3.8	3.7	3.3	–0.1	–1.4	–2.0	–1.9
Colombia	–4.1	2.8	1.4	2.4	10.9	9.2	8.0	7.6	0.2	0.4	–2.6	–3.4
Ecuador	–7.3	2.3	5.2	3.8	52.2	96.2	37.0	8.8	6.9	5.3	–4.6	–4.4
Mexico	3.7	6.9	—	1.2	16.6	9.5	6.5	5.0	–3.0	–3.2	–3.0	–3.5
Peru	0.9	3.1	0.2	3.7	3.5	3.8	2.1	1.8	–3.8	–3.1	–2.1	–2.3
Venezuela	–6.1	3.2	2.7	1.8	23.6	16.2	12.6	13.5	3.6	10.8	4.3	2.7
E.U. accession candidates	**—**	**4.8**	**0.2**	**3.4**	**25.3**	**24.4**	**21.5**	**18.1**	**–4.1**	**–5.2**	**–3.0**	**–3.9**
Bulgaria	2.4	5.8	4.5	3.8	2.6	10.4	7.2	4.2	–5.3	–5.8	–7.1	–5.7
Czech Republic	–0.4	2.9	3.3	3.1	2.1	4.0	3.9	3.8	–2.9	–4.8	–5.5	–5.2
Estonia	–0.7	6.9	4.5	4.1	3.3	4.0	5.7	3.0	–4.7	–6.4	–6.8	–6.8
Hungary	4.5	5.2	3.7	3.5	10.0	9.8	9.2	5.5	–4.3	–3.3	–2.2	–2.6
Latvia	1.1	6.6	7.0	4.5	2.4	2.6	2.5	3.0	–9.8	–6.9	–7.1	–7.0
Lithuania	–3.9	3.9	3.9	4.3	0.8	1.0	1.4	2.2	–11.2	–6.0	–6.0	–5.8
Poland	4.1	4.1	1.5	2.2	7.3	10.1	5.7	5.1	–7.5	–6.3	–4.0	–4.3
Romania	–2.3	1.6	4.8	4.6	45.8	45.7	34.1	25.9	–4.1	–3.7	–6.0	–5.6
Slovak Republic	1.9	2.2	2.7	3.1	10.7	12.0	7.5	4.1	–5.7	–3.7	–8.6	–7.7
Slovenia	5.2	4.6	3.0	3.0	6.2	8.5	6.5	6.0	–3.9	–3.2	–1.1	–2.5
Turkey	–4.7	7.2	–6.1	4.1	64.9	54.9	53.9	46.4	–0.7	–4.9	1.6	–1.4
Commonwealth of Independent States	**4.6**	**7.9**	**6.1**	**3.9**	**70.6**	**25.0**	**20.6**	**13.5**	**7.3**	**13.5**	**8.1**	**3.4**
Belarus	3.4	5.9	3.0	1.5	293.8	169.0	61.0	26.0	–1.6	–1.3	1.6	–0.4
Kazakhstan	2.8	9.4	9.0	7.0	8.4	13.3	8.5	7.0	–1.0	4.3	–4.7	–6.1
Russia	5.4	8.3	5.8	3.6	85.7	20.8	21.5	14.0	11.8	18.0	11.0	5.6
Ukraine	–0.2	5.8	8.2	5.0	22.7	28.2	11.9	9.0	2.6	4.7	3.0	1.2

[1]In accordance with standard practice in the *World Economic Outlook,* movements in consumer prices are indicated as annual averages rather than as December/December changes during the year, as is the practice in some countries.

[2]Percent of GDP.

[3]Includes Bahrain, Egypt, Islamic Rep. of Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, and Republic of Yemen.

ences: the further slowing now expected in the advanced economies and spillover effects on trade and confidence; the particularly strong impact of the slowdown on some sectors—notably information technology and tourism—to which some emerging markets are heavily exposed; financial market linkages with advanced economies, especially in view of increased market uncertainties and deterioration in external financing conditions since September 11; and downward pressures on prices of fuel and nonfuel commodities, many of which were already weak.

The relative significance of these channels varies from region to region, although they all tend to be relevant to some degree. Asia, for example, will probably be strongly affected through the trade channel, with both export prices and volumes shown to be sensitive to the advanced economy cycle.[4] Compounding this linkage is the heavy exposure of many Asian economies to the severe downturn in the global electronics cycle, and some will also be hit by the downturn in tourism. Trade ties are also a key determinant of the outlook elsewhere: for example, the steeper slowdown in the United States will weaken further the outlook for Mexico and other countries in Central America; and countries in Central Europe and the Baltics will be hurt by the rapid slowing in Western Europe.

The sharp reactions of advanced economy financial markets to the September 11 attacks were echoed and amplified in emerging markets, with falling stock prices, widening bond spreads, and weakening currencies. While these trends have subsequently reversed in many emerging market economies, countries with substantial external financing requirements remain vulnerable to potential reassessments of global or domestic economic prospects and to further shocks to international financial markets. These concerns are probably the strongest in Latin America—notably in Argentina, which is experiencing renewed financial turbulence, but also in other regional economies with persistently high current account deficits and large external debts. There have also been heightened concerns regarding the outlook for Turkey, where the exchange rate fell substantially in September and early October, although it has subsequently strengthened. The economies of Central and Eastern Europe and the Baltics could potentially be at risk from adverse developments in global financial markets, given the rather high current account deficits in most of these countries; however, indications so far suggest that they are attracting funding without significant difficulty, possibly reflecting increased discrimination among investors toward countries with stronger economic fundamentals.

Recent commodity price developments will have the most direct and sizable impact in the Middle East, among the Commonwealth of Independent States (CIS), and in Africa, where many countries are heavily dependent on a narrow base of fuel or nonfuel commodity exports. As discussed below, growth and current account prospects for 2002 have weakened among most oil exporters, although in some cases—including Russia—significant carryover effects from strong growth in 2001 are still present. Lower oil prices will also have an adverse impact on a number of emerging market debtor countries, including Indonesia and Venezuela. The growth outlook for many African economies is expected to be held back by falling prices of almost all nonfuel commodities, some of which—notably coffee and cotton—were already at very depressed levels, although the impact will be partly offset by the lower price of oil imports.

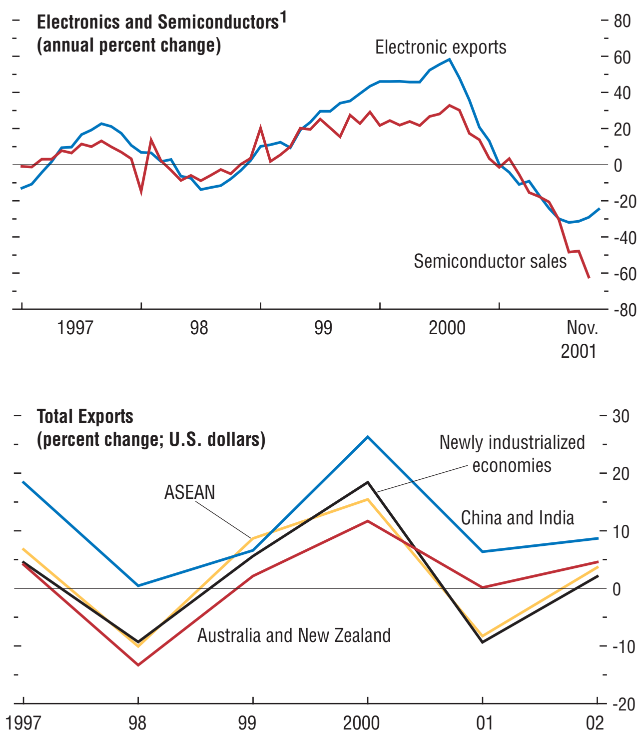
In the following sections, countries and regions are broadly grouped according to three themes: those most exposed to weaker external demand, those with large external financing requirements, and those highly dependent on commodity exports. It should be stressed, however, that these influences are interrelated to some degree and most regions will be affected by more than one; as a result, regional distinc-

[4]See Chapter II of the October 2001 *World Economic Outlook* for analysis of these linkages.

tions are not clear-cut. Moreover, the impact of these pressures is not necessarily symmetric across the regions concerned—for example, deteriorating external financing conditions may have much more serious consequences for emerging market borrowers with weak fiscal and structural conditions than for those borrowers whose fundamentals are strong.

Figure 3.2. Technology and Total Exports in Emerging Asia

Asian export growth has fallen significantly in 2001, largely as a result of the downturn in the global electronics cycle.



Source: IMF staff estimates.
[1]Three-month moving averages of 12-month percent change.

The Impact of Weakening External Demand

Weaker global growth is hampering the trade-dependent economies of Asia and Central America, the latter particularly influenced by the U.S. slowdown. In Asia, the marked weakening in the newly industrialized and ASEAN economies was driven initially by external influences—especially by lower growth in the United States and Europe, economic contraction in Japan, and the decline in the global electronics cycle (Figure 3.2). Particularly in a number of the newly industrialized economies, these pressures now appear to have been stronger than earlier thought, and have generally intensified since September 11. Furthermore, the slowdown has spread increasingly into domestic demand and into a broader range of nonelectronics and service sectors, including the tourism sector—of particular importance for Hong Kong SAR, Singapore, Thailand, and for a number of small island nations in the Asia-Pacific region.

In response to the slowdown, macroeconomic policies across the region have generally been eased. Most countries have lowered official interest rates since September 11, continuing the trend established before this date, and the weakening of most regional currencies (apart from those with fixed pegs) has also contributed to an easing of monetary conditions. In countries with low inflation and flexible exchange rates—such as Korea, Singapore, and Taiwan Province of China—there is still room for maneuver on the monetary front if necessary. On the fiscal side, the scope for adjustment varies considerably. Following widespread easing of fiscal policy earlier in the year, some countries—

including Hong Kong SAR, Malaysia, and Singapore—have eased further in recent months, and there remains room for stimulus in Korea and other countries with low public debt. But high public debt or deficits in some cases—particularly in India, Indonesia, and the Philippines—greatly constrain the scope for further fiscal support.

Reflecting the greater-than-expected slowing in external demand and the weakness evident in sectors of domestic activity, growth projections across Asia have been revised down from those in the October 2001 *World Economic Outlook,* with recovery delayed into 2002. The sharpest reductions are in the outlook for the newly industrialized economies: Hong Kong SAR, Singapore, and Taiwan Province of China are now expected to grow by only around 1 percent in 2002, while firmer growth of 3¼ percent is projected for Korea. Growth in the ASEAN economies is projected to reach just under 3 percent in 2002, with the outlook for Malaysia (which in addition has been hit by lower oil revenues) and Thailand much weaker than anticipated in October. Activity is expected to hold up relatively well in China, where growth of close to 7 percent is projected for 2002, and in south Asia, including India and Pakistan, where growth of 4½ to 5 percent is expected. The more robust activity among these countries reflects the fact that they are less exposed, although not completely immune, to the downturn in global trade and activity compared with most of the smaller Asian economies. The prospective winding down of the conflict in Afghanistan and provision of large-scale international assistance for recovery should contribute significantly to growth in that country and may also boost activity in the surrounding region.

The key uncertainty in the outlook for much of Asia is the strength of export demand—especially the pace of recovery in technology sectors—but there are also concerns about a broader-based deterioration in domestic activity and confidence. Further risks could arise from financial sector weakness in some countries, including Indonesia, Taiwan Province of China, and Thailand. More generally, the deterioration in external financing conditions since September 11 could affect capital flows, including direct investment, to Asia and other emerging markets—highlighting the importance of further structural reforms to strengthen financial and corporate sectors and hence to sustain external confidence. With still large current account surpluses and reserves, however, together with flexible exchange rates in many countries, Asia is relatively well placed to withstand external shocks. Lower world interest rates and lower oil prices should also help—although declining oil revenues will add to fiscal and external financing pressures in oil-exporting Indonesia.

The outlook for Central America and the Caribbean has been revised down sharply, largely reflecting the impact of weaker U.S. growth, falling remittances, and, for the Caribbean in particular, the downturn in tourism (see Box 3.3). The U.S. slowdown has led to a marked downturn of activity in Mexico, with growth of only 1¼ percent projected for 2002 compared with the 4 percent predicted in the October *World Economic Outlook.* However, the maintenance of firm fiscal and monetary policies has helped support investor confidence, as has the ongoing strengthening of the financial system. This has been reflected in the continued strength of the peso and a narrowing of bond spreads, following some weakening in the immediate aftermath of the September 11 attacks. The early passage of tax reform measures would further strengthen fiscal sustainability and flexibility over the medium term.

The smaller countries in Central America and the Caribbean are particularly vulnerable to recent developments. In Central America, exports to the United States account for almost 20 percent of GDP while, in the Caribbean, tourism accounts for 7 to 50 percent of GDP and by some estimates 25 percent of employment in the region (Box 3.3). Given the size of the external shock these countries are facing, domestic adjustment efforts—already under way in the Caribbean—will need to be complemented by additional external financing.

Table 3.4. Emerging Market Economies: Net Capital Flows[1]

(Billions of U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total[2]										
Private capital flows, net[3]	145.6	151.3	205.7	233.2	116.8	69.6	59.6	8.9	20.1	59.8
Private direct investment, net	54.1	81.4	96.5	119.6	145.2	155.4	153.4	146.2	162.4	142.6
Private portfolio investment, net	87.6	113.1	41.2	86.9	48.6	−4.2	31.0	−4.3	−13.0	13.7
Other private capital flows, net	3.9	−43.2	68.0	26.8	−77.0	−81.6	−124.8	−133.0	−129.4	−96.6
Official flows, net	46.3	3.7	26.6	0.1	62.6	54.3	5.1	−3.6	34.2	21.4
Change in reserves[4]	−63.9	−69.9	−117.1	−109.4	−62.5	−45.2	−87.9	−114.2	−98.0	−34.4
Memorandum										
Current account[5]	−116.5	−72.6	−93.1	−95.5	−69.6	−53.2	37.8	128.9	51.5	−47.5
Africa										
Private capital flows, net[3]	2.5	13.4	11.5	11.1	8.4	10.0	11.9	7.0	9.5	10.0
Private direct investment, net	3.2	3.3	2.9	4.8	8.4	6.9	9.0	7.2	21.4	11.0
Private portfolio investment, net	0.9	3.5	3.1	2.8	7.0	3.7	8.7	−1.8	−6.3	4.2
Other private capital flows, net	−1.6	6.6	5.6	3.4	−6.9	−0.7	−5.8	1.6	−5.8	−5.2
Official flows, net	4.4	3.2	4.1	−0.2	1.3	2.6	0.4	−2.7	−0.2	0.7
Change in reserves[4]	2.8	−5.8	−2.0	−9.5	−11.3	0.7	−4.3	−14.8	−11.2	−2.0
Memorandum										
Current account[5]	−11.1	−11.5	−16.6	−5.1	−7.0	−20.0	−15.4	3.8	−3.6	−14.2
Developing Asia[6]										
Crisis countries[7]										
Private capital flows, net[3]	30.8	35.0	55.2	74.1	−5.9	−31.9	−18.3	−20.9	−24.1	−10.5
Private direct investment, net	6.7	6.5	10.3	11.7	10.2	11.4	8.9	5.1	1.8	4.8
Private portfolio investment, net	25.0	13.3	18.6	27.6	8.8	−9.0	13.1	7.0	−0.9	2.6
Other private capital flows, net	−0.8	15.2	26.3	34.8	−25.0	−34.3	−40.3	−32.9	−25.0	−18.0
Official flows, net	3.2	1.1	9.0	−4.5	14.1	17.3	−3.3	3.0	−0.2	−1.6
Change in reserves[4]	−20.0	−6.5	−17.3	−5.3	39.4	−46.9	−39.3	−23.8	−5.7	−5.9
Memorandum										
Current account[5]	−13.5	−23.2	−40.4	−53.0	−25.5	69.7	62.9	45.7	31.9	23.3
Other Asian emerging markets										
Private capital flows, net[3]	22.5	35.1	37.4	50.5	22.9	−13.0	9.7	4.9	17.2	6.0
Private direct investment, net	26.4	38.2	39.6	45.6	49.6	48.5	43.0	41.7	41.9	36.9
Private portfolio investment, net	0.9	7.5	2.1	3.5	−0.1	−6.3	0.7	−3.3	−3.8	1.2
Other private capital flows, net	−4.7	−10.6	−4.3	1.3	−26.6	−55.1	−34.1	−33.5	−21.0	−32.1
Official flows, net	8.2	2.5	−3.7	−7.9	−7.3	−0.3	2.1	−9.1	−1.9	3.6
Change in reserves[4]	−16.8	−51.6	−25.4	−41.6	−46.8	−16.9	−38.7	−26.2	−41.9	−23.7
Memorandum										
Current account[5]	−7.2	18.3	8.0	15.0	51.2	41.6	37.9	41.7	29.5	16.1
Memorandum										
Hong Kong SAR										
Private capital flows, net[3]	—	—	—	—	11.7	−8.5	1.0	3.8	8.3	1.4
Middle East, Malta, and Turkey[8]										
Private capital flows, net[3]	30.7	16.0	8.5	8.8	17.7	11.8	−1.1	−22.4	−29.2	−0.7
Private direct investment, net	3.2	5.2	6.4	4.7	5.2	6.3	5.4	7.2	6.5	8.4
Private portfolio investment, net	6.7	7.7	2.0	0.7	−0.9	−13.2	−4.2	−15.1	−9.6	−5.2
Other private capital flows, net	20.8	3.1	0.1	3.4	13.4	18.6	−2.3	−14.6	−26.1	−3.8
Official flows, net	1.7	3.4	4.4	6.5	7.8	1.8	−1.0	−0.6	10.6	0.9
Change in reserves[4]	1.6	−4.7	−11.3	−22.0	−20.5	10.6	−6.2	−25.3	−13.4	8.9
Memorandum										
Current account[5]	−30.8	−6.3	−5.3	4.9	2.6	−24.7	11.4	59.4	39.3	−6.7
Western Hemisphere										
Private capital flows, net[3]	39.3	47.1	44.0	66.4	70.6	71.7	43.6	37.9	38.8	39.5
Private direct investment, net	8.7	22.8	24.2	40.3	56.1	60.7	63.8	62.5	64.1	50.0
Private portfolio investment, net	45.5	65.0	0.8	38.8	25.9	16.5	9.8	4.6	4.0	7.6
Other private capital flows, net	−14.8	−40.7	19.0	−12.7	−11.5	−5.5	−30.0	−29.2	−29.3	−18.0
Official flows, net	29.9	4.7	18.6	3.4	13.7	15.6	6.4	6.2	24.2	14.1
Change in reserves[4]	−20.7	4.0	−23.3	−29.0	−13.8	8.8	7.7	−2.9	−6.8	—
Memorandum										
Current account[5]	−46.0	−52.2	−36.5	−40.5	−67.1	−90.7	−56.9	−48.7	−56.0	−55.3

Table 3.4 *(concluded)*

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Countries in transition										
Private capital flows, net[3]	19.8	4.6	49.0	22.3	3.2	21.0	13.8	2.2	7.6	15.0
Private direct investment, net	6.0	5.3	13.1	12.4	15.6	21.6	23.4	22.5	26.7	31.5
Private portfolio investment, net	8.7	16.1	14.6	13.4	8.0	4.0	2.8	4.3	3.6	3.5
Other private capital flows, net	5.1	−16.8	21.3	−3.5	−20.4	−4.6	−12.4	−24.7	−22.7	−20.0
Official flows, net	−1.1	−11.2	−5.8	2.6	32.9	17.2	0.5	−0.4	1.1	3.0
Change in reserves[4]	−10.9	−5.3	−37.8	−2.0	−9.4	−1.6	−7.1	−21.5	−19.7	−12.5
Memorandum										
Current account[5]	−7.9	2.3	−2.2	−16.8	−23.9	−29.1	−2.1	27.0	13.2	−6.0
Memorandum										
Fuel										
Private capital flows, net[3]	25.4	19.4	23.0	−7.1	−18.1	−2.6	−23.4	−61.1	−41.4	−27.9
Nonfuel										
Private capital flows, net[3]	120.2	131.8	182.7	240.3	134.9	72.2	83.0	70.0	61.5	87.7

[1]Net capital flows comprise net direct investment, net portfolio investment, and other long- and short-term net investment flows, including official and private borrowing. Emerging markets include developing countries, countries in transition, Korea, Singapore, Taiwan Province of China, and Israel.
[2]Exludes Hong Kong SAR .
[3]Because of data limitations, “other net investment” may include some official flows.
[4]A minus sign indicates an increase.
[5]The sum of the current account balance, net private capital flows, net official flows, and the change in reserves equals, with the opposite sign, the sum of the capital account and errors and omissions.
[6]Includes Korea, Singapore, and Taiwan Province of China.
[7]Includes Indonesia, Korea, Malaysia, the Philippines, and Thailand.
[8]Includes Israel.

Countries with Substantial External Financing Requirements

The increased uncertainty in global financial markets since September 11 has added to already significant concerns about economic prospects for economies with sizable external financing requirements. These concerns have been most acute in Latin America—notably Argentina—given the particularly high level of external debt and external financing needs of this region (Table 3.4). Moreover, many of these countries face additional pressures: some will be hard hit by the downturn in commodity prices—especially oil and metals—and in tourism; and, more generally, they face weaker export markets and lower domestic confidence. As a result, growth projections for Latin America in 2002 have been sharply reduced compared with those in the October *World Economic Outlook*. The outlook for Turkey has similarly been marked down, largely reflecting increased financial market uncertainties, and Pakistan has also seen a large increase in its bond spread and external financing requirement in the aftermath of September 11. But countries in Central and Eastern Europe and the Baltics, which continue to run generally high current account deficits, have appeared better able to weather these uncertainties and meet their financing needs and are expected to show relatively robust growth in 2002.

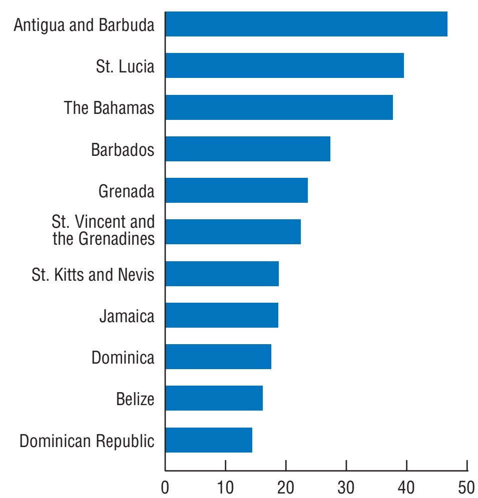
Economic developments in Latin America have been dominated by the financial crisis in Argentina, which in some respects has been brought to a head by the recent turbulence in global financial markets. As discussed in Box 3.4, measures introduced over the past year—including the $29.5 billion debt swap in June, tax reforms in late June that resulted in an effective depreciation of the peso for non-energy trade, the zero deficit law approved in July, and the augmentation of Argentina’s program with the IMF in August—failed to produce a sustained improvement in investor sentiment and reduction in interest rates spreads. Instead, the deteriorating economic outlook has heightened financial market concerns about the sustainability of current fiscal, exchange rate, and financing arrangements. Against this background, the

Box 3.3. The Effects of the September 11 Attacks on the Caribbean Region

The member countries of the Caribbean Community (CARICOM) are characterized mainly by small size and population, vulnerability to hurricanes, and high production costs in agriculture that stem from relatively high wages and low productivity.[1] Social indicators are generally favorable, although unemployment is high, with official rates ranging from 8 percent to 17 percent. Low productivity, and the impending reduction in preferential access for sugar and banana exports to the EU market, have contributed to a downturn in agriculture and increased reliance on tourism, which is the most important source of incomes and economic activity in most countries. The sector's contribution to economic activity ranges from about 7 percent in The Dominican Republic to near 50 percent in The Bahamas, and some estimates indicate that one in four jobs in the region depends on tourism. As a percentage of GDP, tourism earnings range from 15 percent in Belize and Dominica to more than 40 percent for Antigua and Barbuda and St. Lucia (see the figure).

The region's prospects, which already were being adversely affected by the slowdown in the U.S. economy by mid-2001, have worsened considerably following the September 11 attacks. The sharp drop in visitors after September 11 has led to a fall in economic activity and incomes, and increased unemployment and underemployment as some hotels have closed while others have reduced the length of the work week.[2] With a weakening of a significant proportion of the revenue base, fiscal and external positions have also begun to deteriorate. Preliminary estimates are that an external financing gap ranging from $1–2 billion (2 percent to 4 percent of GDP) for the region as a whole could emerge in 2002.

Gross Tourist Receipts in Selected Caribbean Countries, 2000
(Percent of GDP)



Source: IMF staff estimates.

The Region's Response

As the crisis developed, efforts were made to develop a prompt, coordinated regional response. In late September, member countries of the Eastern Caribbean Currency Union (ECCU)[3] agreed to:

- restrain the growth of public expenditure, and speed up public sector reforms aimed at greater efficiency;
- discontinue discretionary tax concessions that are widely used in the region to promote tourism and manufacturing; and

[1]Four countries, the Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago, account for about 80 percent of the region's population. The average population of the other 11 countries is about 250,000. These latter countries are the six independent member countries of the ECCU (see footnote 3 below), and The Bahamas, Barbados, Belize, Guyana, Suriname.

[2]Hotel occupancy rates in some countries have fallen to about 15 percent or less, compared with an average for September-October of about 60 percent.

[3]The union comprises Anguilla and Montserrat, which are British territories, and Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Monetary and exchange rate policies of the Union are administered by the Eastern Caribbean Central Bank (ECCB).

- convene meetings of labor, business, and government representatives to reach agreement on a framework for prices, wages, and employment.

Also, at the conclusion of an emergency meeting of the Caribbean Community (CARICOM) on October 12, the heads of government reached agreement on (1) approaching the IDB and the European Union (under the ACP-EU Convention), with proposals for emergency financing; (2) allocating additional budgetary resources for tourism promotion, mainly in the U.S., U.K., and Canadian markets; (3) strengthening airport security; and (4) implementing the recent UN Security Council resolution regarding the treatment of funds used to support terrorist activities. In addition, a number of governments in the region have begun approaching the Caribbean Development Bank, the Inter-American Development Bank, and the World Bank for financial assistance.

Governments in a number of countries have announced specific measures to address the deterioration of their economic situation. In many cases these measures comprise expenditure cuts, especially in low-priority capital projects, materials and supplies, government travel, some salaries, and overtime pay. Several countries have also announced freezes in civil service employment and a strengthening of revenue administration. In a few cases, governments have announced plans for a fiscal stimulus package, the relaxation of monetary policy, and borrowing from the international markets or the banking system. Other measures are likely to be announced in the context of the annual budget presentations for a number of countries that will be made in late 2001 and early 2002.

The Response of the IMF

The IMF, jointly with other institutions like the World Bank, the Caribbean Development Bank, and the ECCB, has focused its initial efforts on assessing the macroeconomic impact of the crisis, and working with countries to develop appropriate policy responses. These efforts will be supported by technical assistance from the IMF in fiscal and financial sector policies provided on an ongoing basis through the recently established Caribbean Center for Technical Assistance (CARTAC) that is based in Barbados. IMF staff have also begun to discuss possible financial support through the existing facilities, such as Stand-By Arrangements, and the Compensatory Financing Facility (CFF)—which is designed to provide assistance to cover shortfalls in export receipts (including from tourism) stemming from external shocks.

Argentine authorities have approached their creditors to negotiate a restructuring of debt. In tandem with appropriate macroeconomic policies, such an arrangement should be designed to restore fiscal solvency and lay the basis for a return to sustainable growth.

With indicators of production, spending, and confidence registering sharp declines in the third quarter, real GDP in Argentina is now expected to contract by 2¾ percent in 2001, including a fall of over 10 percent in investment spending, lower consumption, and a positive contribution to growth from net exports—largely because of declining imports. Consumer prices are expected to fall by 1 percent in the year as a whole, and producer prices by around 4 percent. Looking ahead, while the situation remains subject to great uncertainty, output is likely to fall in 2002, with deflation continuing (although at a slower rate than in 2001).

Contagion from the most recent financial turmoil in Argentina on other Latin American economies has generally been limited—in part because the latest round of difficulties was well anticipated by financial markets (see Chapter I, Appendix). In Brazil, interest rate spreads, equity markets, and the exchange rate deteriorated sharply immediately after the terrorist attacks in September but, thanks in part to continued strong policy implementation, these variables

Box 3.4. Argentina: An Uphill Struggle to Regain Confidence

After a decade of high growth, low inflation, and important progress in structural reform following the adoption of the convertibility regime in 1991, the performance of the Argentine economy deteriorated in 1999. This deterioration was partly the result of remaining domestic disequilibria, a weakening of policies, and a worsening of the external environment.

Argentina has continued to battle with a recession since then, reigniting doubts regarding the sustainability of the fiscal position and the exchange rate regime. In December 2000, the Argentine authorities put forward a revamped economic program that sought to bolster economic growth through a modest fiscal expansion and various structural measures, set in a framework that ensured medium-term fiscal sustainability. In support of the program, the IMF approved, in January 2001, an augmentation and front-loading of resources under the Stand-By Arrangement that was in place since March 2000.

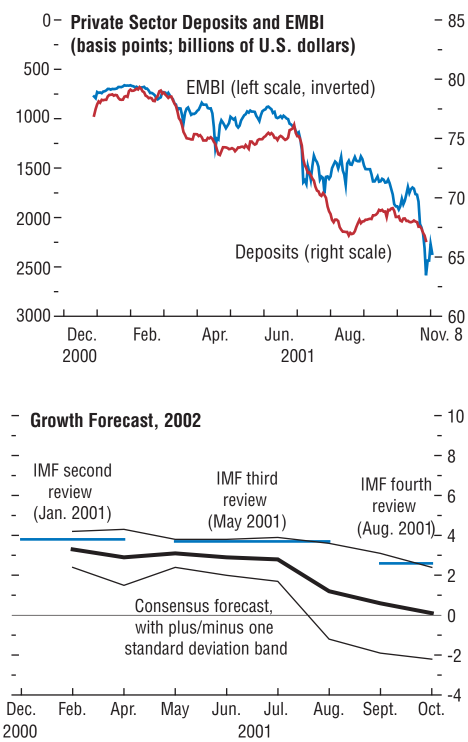
In the event, the December 2000 program proved unsuccessful in restoring market confidence in Argentina's capacity to grow and maintain fiscal solvency within the framework of the convertibility regime. The authorities took advantage of the favorable market conditions of early 2001 to accelerate the borrowings contemplated in their financing plan; however, clear signs of fiscal strain began to emerge in mid-February after press reports showed that there had been sizable revenue shortfalls and spending overruns in December and January. On March 2, 2001, Economy Minister Jose Luis Machinea resigned amidst strong political resistance to adhere to the fiscal targets agreed with the IMF.

A broadly similar pattern was repeated on several other occasions during the year, notably following the announcement of Economy Minister Ricardo Lopez-Murphy's plan of across-the-board budget cuts in mid-March, of Minister Domingo Cavallo's late March plan of selective tax concessions and higher import tariffs, of the late-May "mega swap," of the mid-June plan that included further tax cuts and a mechanism to compensate non-energy exporters and importers for the strength of the U.S. dollar vis-à-vis the euro, and of the "zero-deficit" plan of July 11. Each time, the Argentine authorities reiterated their commitment to fiscal prudence, the timely service of government debt, and the convertibility regime, and proposed or adopted measures aimed at bolstering the confidence of domestic and foreign investors, and of the public in general. Although there were reservations about some of the measures, the authorities' resolve to maintain the convertibility regime was supported by the official community, including through the provision of additional financial resources in early September to help dispel concerns about a debt default.

None of these plans, however, proved to be sufficient to restore market confidence on a lasting basis. Following the announcement of the "zero-deficit" plan on July 11, *Moody's* and *Standard & Poor's* lowered by one notch their sovereign rating for Argentina, and the country's EMBI spread widened more than 300 basis points (see the figure). The downrating fueled a large withdrawal of bank deposits that put enormous pressure on domestic interest rates and on tax revenues. The withdrawal continued through late August, when the IMF announced its plans to augment Argentina's Stand-By credit by $8 billion. Other confidence indicators also deteriorated during this period: *Moody's* lowered Argentina's debt rating one more notch on July 26, the consumer confidence index fell sharply, tax revenues plummeted, and private growth forecasts for 2001 were revised downward well into negative territory.

Despite the official backing from Congress to the "zero-deficit plan," the clear resolve of Finance Minister Cavallo and President de la Rua, progress in reducing discretionary expenditures, and the additional resources provided by the IMF, a recovery in confidence continued to prove elusive following the completion of the fourth review of the Stand-By arrangement on September 7. Although some $2.5 billion of private sector deposits returned to the banking system and domestic interest rates fell markedly, most indicators of confidence for the months of September and October did not show any im-

Confidence Indicators



Sources: BCRA (Argentine central bank); J.P. Morgan; Latin American Consensus Forecasts; and IMF staff estimates.

provement, and some of them, like the EMBI spread, continued to deteriorate, in part due to global risk aversion following the September 11 attacks. Tax revenues also declined further, in part reflecting declining growth and deteriorating domestic financial conditions. Days before the congressional elections of October 14, *Standard & Poor's* and *Moody's* downrated Argentina's debt once again. The outcome of the elections slowed agreement on the spending cuts needed to comply with the zero-deficit plan in the rest of 2001 and 2002, and on the reform of the revenue-sharing agreement with the provinces (although considerable progress was made subsequently). Faced with these constraints, on October 29 the Argentine government announced that it would seek a voluntary restructuring of all its bonded debt (about $100 billion), arguing that it was the only path left to restore fiscal solvency and revive economic growth. One week after the announcement, the EMBI had shot up 500 basis points and *Standard & Poor's* had placed Argentine debt on its "selective default" category; bank deposits, however, remained relatively stable.

In early November, the government announced that the restructuring of its bonded debt would proceed in two phases. The first phase, designed primarily for local bondholders (banks, pension funds, mutual funds) comprised the exchange of eligible bonds for domestic loans of a lower yield backed by earmarked tax revenues. Over $50 billion of government bonds (including from the provinces) were swapped for those loans on November 30. The government expects to complete the second phase of the restructuring within the next three months.

The authorities placed a cap on deposit interest rates in late November equivalent to the market average of 12 percent. A few days earlier, a projected fiscal outturn for 2001 that exceeded by more than $1 billion the end-year target contained in the IMF program was announced. The combination dealt another blow to confidence. During the last week of the month, deposit outflows resumed, bank liquidity dried up, interest rates skyrocketed, and the EMBI spread reached an all-time high of more than 3300 basis points. To arrest the outflow of deposits and avoid the collapse of the financial system, on December 1 the authorities introduced wide-ranging controls on banking and foreign exchange transactions. These included setting a monthly limit on withdrawals from individual bank accounts; prohibiting banks from granting loans in pesos and from operating in the peso market; putting a cap on interest rates on peso deposits; and introducing foreign exchange restrictions on travel and transfers abroad. The authorities stressed that all the measures were transitory and aimed at safe-

Box 3.4 *(concluded)*

guarding the convertibility of bank deposits, and said that they would be revoked after 90 days, when the next phase of the debt restructuring is finalized.

Given the large uncertainty surrounding Argentina's prospects, economic projections—notably of GDP growth—are particularly problematic. Few doubt that output will fall, for a third year in a row in 2001. At the time of the fourth review (in August), IMF staff projected a mild recovery in 2002 based on the pickup in confidence and bank credit that were to follow from the strict adherence to the zero deficit plan. The picture for 2002 is now much less clear, and the downside risks have increased. Correspondingly, the IMF staff and consensus forecast for 2002 growth in Argentina have been revised downward significantly (see Figure).

subsequently more than recovered their earlier losses, despite recent developments in Argentina. The continuing slowdown in the economy—with growth now projected to remain at around 2 percent in 2002—and the earlier depreciation of the *real* have begun to generate a sizable reduction in the external current account deficit, in turn helping to stabilize exchange rate expectations. Nevertheless, risks remain, both with respect to future developments in Argentina and uncertainties in the runup to next year's presidential election. Continued strong implementation of the policy program therefore remains crucial, including through the maintenance of tight fiscal and monetary policies and further progress with structural reform.

Elsewhere in Latin America, relatively high external financing requirements also remain the central vulnerability. These financing needs are typically linked to large public sector deficits and debt, a sizable share of which is linked to foreign currencies. Several countries are also exposed to commodity price risks—including Venezuela and Ecuador (oil), Chile (metals), and Colombia (coffee)—and to adverse developments in the region (Uruguay). While the potential risks vary substantially across countries, policies will need to be geared to maintaining investor confidence. These include a stronger adjustment effort in Venezuela, where the fiscal and external position will be hard hit by lower oil prices—although the oil stabilization fund will help to cushion these effects. Also needed are further progress in banking and fiscal reforms in Ecuador and fiscal tightening and accelerated structural reforms in Uruguay.

The countries of Central and Eastern Europe and the Baltics also face substantial external financing requirements, given the persistently high current account deficits in most of these countries. International economic and financial market sentiment toward these countries appears to have remained generally strong, however, as indicated by robust inflows of direct investment and of other external funding. While these inflows could still be at risk if there is prolonged weakness in global activity, the favorable reaction to date may stem from the general improvements in economic fundamentals among these countries, including through privatization, other structural reforms, and, in most cases, generally sound macroeconomic policies.

As a result, the outlook for this region may in practice be more strongly influenced by its strong trade linkages with Western Europe (Figure 3.3). For example, export growth in the Czech Republic and Hungary is slowing from strong rates earlier this year, and a more generalized slowdown in trade appears likely as the impact of weaker activity in the European Union takes hold. But several factors appear to be contributing to a somewhat more robust outlook for this region than in the advanced economies, although with important divergences among individual countries. On the trade side, for example, the strong competitive position of these economies has enabled them to preserve and gain market share. In addition, structural changes—including recent and continuing inflows of foreign direct investment—have diversified the export base of many countries in this region and may have made exports less cyclically sensitive.

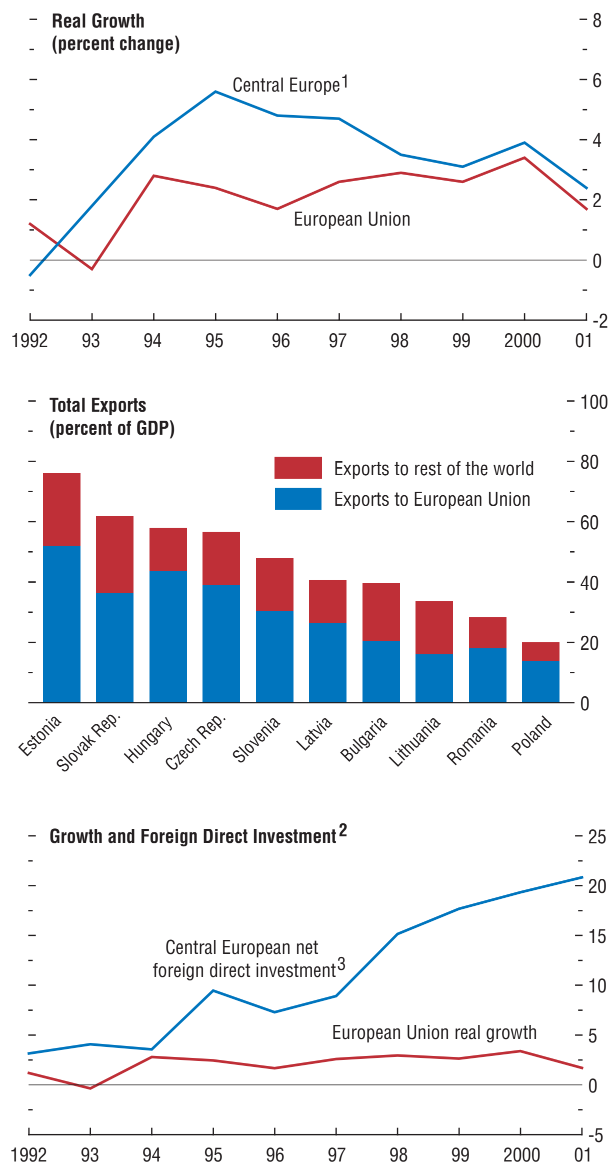
Domestic demand growth, supported in part by declining inflation across much of the region, should also help offset potential weaknesses in external trade. Reflecting this, growth of 3 to 3½ percent is expected in 2002 in much of central Europe, and of 4 to 4½ percent in southeastern Europe and the Baltics—only marginally weaker in many countries than in 2001. In Poland, by far the largest country in this region, the macroeconomic policy stance was tightened in 2001 to contain rising inflation pressures, and this contributed to relatively weak growth of 1½ percent this year. Monetary policy has been eased recently, however, and further relaxation is possible given the still high level of real interest rates. These steps are expected to help support a pickup in growth to around 2¼ percent in 2002.

Risks for the region as a whole appear tilted to the downside, however, especially in view of the general weakening of global growth. If activity should weaken sharply, there is only limited room for an easing of macroeconomic policies. As just noted, Poland—together with some other countries—has scope to ease monetary conditions, but inflation pressures remain of concern elsewhere (including in Hungary and Romania), and currency board arrangements in the Baltic countries and Bulgaria constrain their scope for independent monetary policy responses. The room for maneuver on fiscal policy is also quite limited, given rising deficits in some countries (Hungary and Poland, for example) and persistently high current account deficits in much of the region.

Economic prospects for Turkey—which had appeared to be improving from early August—have also been set back by the events of September 11 and their aftermath. While increases in interest rates and declines in prices immediately following the attacks have subsequently reversed, Turkey remains vulnerable to

Figure 3.3. Linkages Between Central and Western Europe[1]

There are close trade and growth linkages between central and western Europe, and foreign direct investment inflows to central Europe—much of this from the European Union—have been rising strongly.



Sources: *Direction of Trade Statistics*, IMF; and IMF staff estimates.
[1] Includes Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.
[2] Foreign direct investment in U.S. dollars; European Union growth rate in percent.
[3] Includes Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

further downturns in investor sentiment given its high domestic and external financing requirements. These financing concerns have been heightened by the prospect of lower access to international financial markets, an unfavorable climate for privatization, and weaker growth in export earnings, including from tourism. With economic recovery further delayed, the economy is now projected to contract even more severely in 2001—with output falling by 6 percent—and to pick up more slowly in 2002—with growth reaching around 4 percent. The disinflation process has been hampered in 2001 by a further depreciation of the exchange rate, which has weakened by over 50 percent against the dollar since the beginning of the year; in 2002 inflation is expected to decline but to be substantially higher than projected in the previous *World Economic Outlook*. In light of this deterioration, the authorities have taken additional measures to ensure that the 2002 fiscal targets are met, and intend to formulate a strengthened adjustment program for 2002 to 2004. This program will build on the progress already made in macroeconomic and financial stabilization, and be accompanied by decisive steps to complete banking sector reform, revitalize privatization and private sector development, and improve public sector governance and efficiency.

Commodity Exporting Countries

The third broad-based influence on economic prospects for many emerging markets comes from developments in commodity prices. The sharp weakening of the outlook for global growth in the aftermath of September 11 has led to a significant decline in oil prices and further falls in prices of most nonfuel commodities. The impact of lower commodity prices will vary significantly, depending on the structure of the economy and the previous stance of policies. In general, oil exporters are likely to be most severely affected, although in a number of countries—particularly in the Middle East—the impact will be cushioned as a result of the relatively conservative policies followed when prices were high. Among nonfuel commodity exporters, the adverse impact will be offset in part by lower oil prices, so that growth for the group as a whole is relatively well sustained. The impact on poverty may be more marked, however, with lower prices for agricultural goods having a particularly strong effect on the poor in rural areas.

Looking first at the oil exporting countries—particularly in the Middle East, Africa, and the Commonwealth of Independent States (CIS)—lower production and prices of oil have contributed to a general weakening of projected growth for 2001 and 2002 compared with the exceptionally strong performance experienced in most of these countries in 2000 (Figure 3.4). With the oil market weakening further since the events of September 11, the 2001–02 growth projections for a number of these countries have been marked down compared with those in the October 2001 *World Economic Outlook*; in other cases, though, new data or country-specific developments have led to upward revisions to the outlook.

In the Middle East, the outlook for Saudi Arabia and Kuwait has weakened further in the light of recent oil market developments, with Saudi Arabia expected to grow by just over 1½ percent in 2002 compared with 4½ percent in 2000. Growth in the Islamic Republic of Iran is expected to continue at a relatively firm pace of around 5 percent, however, supported in part by continued recovery in agriculture and strong performance in the construction and manufacturing sectors. The outlook for the Middle East, particularly for non-oil producing countries, is influenced by a range of other pressures. These include increased regional security concerns, which have contributed to a downturn in tourism (of particular importance for Egypt, Israel, and Jordan); continuing weakness in the information technology sector (affecting Israel); and fiscal and external financing difficulties, possibly aggravated by a downturn in remittances from overseas (key risks in Lebanon).

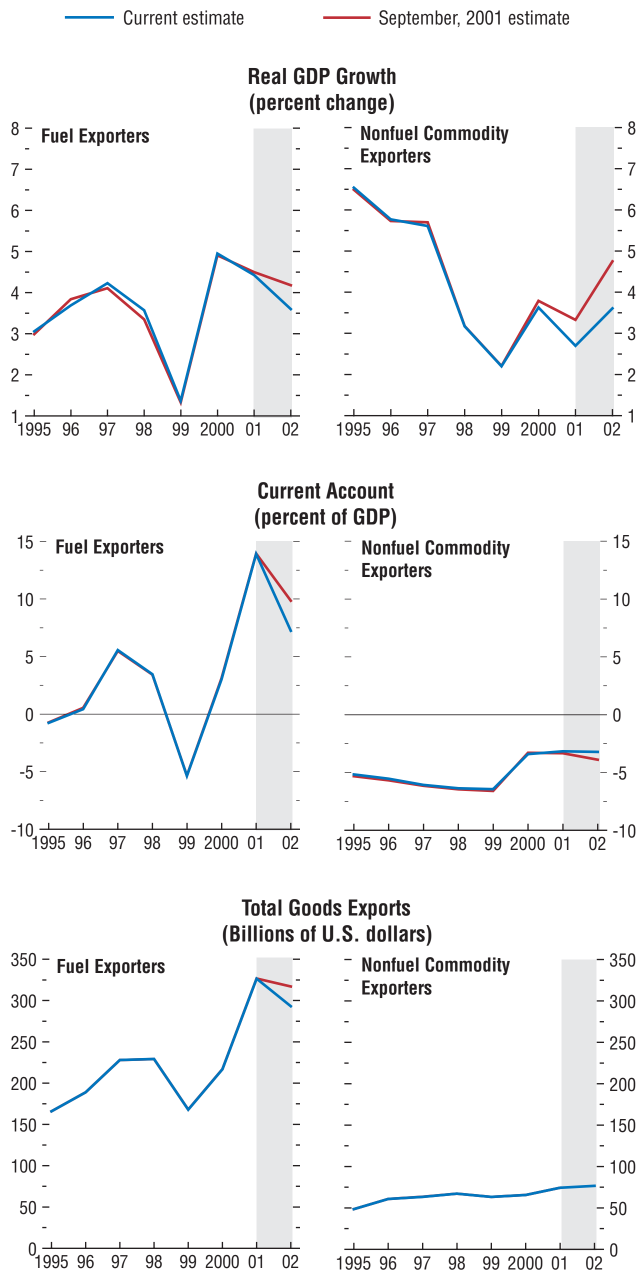
In the CIS, activity in Russia and Kazakhstan is expected to slow somewhat from the strong pace of 2000 and 2001, although it should remain reasonably healthy, with growth of 3½ percent still expected in Russia in 2002 and 7 percent in Kazakhstan. In Russia, the climate for foreign investment appears to have improved, investment spending—particularly on energy-related projects—has been even stronger than earlier expected, and consumer spending has also been strong. While Russia remains vulnerable to lower oil prices, the impact is expected to be manageable unless the decline proves to be significantly deeper and more prolonged than currently anticipated. With growth estimates for 2001 now revised up substantially, the carryover effects of these changes have supported the 2002 outlook as well. The strength of activity in Russia is also contributing to reasonably firm growth among non-oil producing countries in the CIS—especially among countries that are more advanced in the transition process, such as Ukraine.

Among African oil-producing countries, the 2002 outlook for Algeria and Nigeria has been revised down compared with the October *World Economic Outlook*. In Algeria, the oil stabilization fund built up during the recent period of high oil prices will help cushion the downturn, and growth is expected to be relatively well sustained at around 3½ percent. Weaker growth of under 2 percent is expected in Nigeria, where the economy continues to be dominated by oil and where an effective stabilization mechanism to smooth the effects of oil price fluctuations has not been put in place. Angola is expected to grow by around 11 percent in 2002, supported by a sizable increase in oil production from new offshore fields.

Not surprisingly, the reduction in oil prices has led to a general weakening of current account positions among oil exporters (Figure 3.4). While surpluses are still expected in Russia, Algeria, and Venezuela in 2002—albeit much reduced from their recent levels and from earlier projections for 2002—lower oil prices have led to the emergence of external deficits in Saudi Arabia and Kazakhstan rather than previously projected surpluses. Of much more concern is Nigeria, where the current account deficit is now expected to reach over 10 percent of GDP in

Figure 3.4. Fuel and Nonfuel Commodity Exporting Countries

The outlook for growth, current account positions, and exports has weakened among fuel exporting countries since September. For nonfuel exporters, growth is projected to pick up in 2002, but to be lower than expected earlier.



2002—more than double what is expected in 2001 and what was projected earlier for 2002.

Turning to nonfuel commodities, the further weakening in global economic activity and prospects since September 11 has pushed down the prices of most metals and agricultural commodities—many of which, including coffee, cotton, and copper, were already at depressed levels. These trends have weakened the outlook for many of the poorest countries—mainly in Africa—whose overall economic prospects are often closely tied to export earnings from a small range of nonfuel commodities. At the same time, however, lower oil prices are helping to offset the terms of trade deterioration among energy-importing countries and limiting the increase in their external financing requirements. In particular, while recent commodity price shocks imply additional terms of trade losses equivalent to around 5 to 10 percent of GDP in most of the main oil exporting countries, the impact on nonfuel exporters is much lower—generally in the range of –1 to 1 percent of GDP (see Chapter II).[5]

Reflecting these developments, growth of 3½ percent is projected for the oil importing countries of Africa in 2002, nearly 1 percentage point lower than in the October *World Economic Outlook*, but up from growth of 3¼ percent expected in 2001.[6] These countries' current account deficits are expected to deteriorate modestly to just under 3 percent of GDP, compared with 2.4 percent in 2001. Prospects for individual countries in this group vary widely, however, reflecting not only their particular mix of commodity trade but also economic policy developments and other country-specific influences. In South Africa, growth is expected to remain at around 2¼ percent, with inflation coming down and the current account in surplus. While the rand has weakened further as a result of regional and domestic factors, the country's vulnerability to external shocks has generally diminished—reflecting strong macroeconomic fundamentals, continuing reductions in the central bank's net open forward position (now at its lowest level in over a decade), and a healthy banking system. Elsewhere, relatively healthy growth in the range of 4 to 6 percent is expected in Cameroon, Ghana, Tanzania, and Uganda, and around 8 percent in Mozambique—countries where macroeconomic and structural policies have generally been sound. In contrast, weaker growth is expected to persist in Kenya, where policy implementation has been mixed; and the ongoing turmoil in Zimbabwe continues to undermine economic activity, with GDP expected to contract by around 6 percent in 2002.

Appendix: Alternative Scenario—Impact of a More Gradual Increase in Confidence and Risk Appetite

The baseline projections envisage that the global economy will start to recover during next year, based in part on an expected rebound in confidence and risk appetite over the course of 2002. However, the world economic outlook is still subject to considerable uncertainty, reflecting both the effects of the September 11 attacks and existing financial inbalances. In particular, policymakers need to consider the outcome if the synchronized slowing in output continues through 2002, reflecting a slower-than-anticipated rebound in consumer and business confidence and a more prolonged period of difficult financial market conditions for emerging market economies.

To illustrate some of the downside risks attached to the baseline projections, the alternative scenario assesses the implications if consumer and business confidence and risk appetite do not recover during 2002, using the IMF's multicountry macroeconometric model,

[5]Specifically, these are the terms of trade gains or losses arising under the commodity price baseline used in this interim *World Economic Outlook* relative to those arising in the baseline used in the October 2001 *World Economic Outlook*.

[6]As noted in the October *World Economic Outlook*, however, the IMF's projections for Africa have tended to be too optimistic, with outturns often lower than expected as a result of adverse shocks, including conflict, and shortfalls in policy implementation (see also Box 3.1).

MULTIMOD. In addition, results are reported for a separate block that is currently under development for emerging market economies.[7] The key assumptions underlying the scenario are that:

- *The lack of recovery in confidence* is modeled as a reduction in the propensity to consume relative to baseline that sum to around half of the estimated total impact on GDP if confidence were to remain depressed (see Chapter II), while the other half of the impact is already contained in the baseline scenario as confidence and financing conditions recover only gradually over 2002. In the United States, the marginal propensity to consume is assumed to drop relative to baseline by 1 percent in 2002 and by ½ percent in 2003, before reverting to baseline in 2004. In other industrial countries, the downward corrections to consumption are assumed to be half this size.
- The more gradual increase in global risk appetite is assumed to reduce equity prices in industrial countries by raising the discount rate on future profits as well as prolong the period during which emerging market economies face elevated risk premia and a curtailment of capital flows relative to the baselines. As a result, the discount rate is assumed to rise by ½ percentage point in the United States and ¼ percentage point elsewhere in 2002, then taper off. In emerging markets the risk premium is assumed to increase by 1 percentage point in 2002 compared to the baseline, equal to about half of the current impact, as measured by the widening in the EMBI+ spread between September 11 and early November. The risk premium is assumed to be ½ percent above baseline in 2003, before reverting to baseline in 2004.

In the alternative scenario, oil prices are assumed to fall in line with weakening demand. In addition, monetary authorities in both industrial countries and emerging economies are assumed to follow a forward-looking Taylor rule, responding to changes in expected inflation and the current output gap, so that nominal interest rates fall in response to the adverse shocks described above. In Japan, where nominal interest rates are close to their floor, some quantitative easing is also assumed. Finally, fiscal authorities allow automatic stabilizers to operate, but are not assumed to initiate discretionary policies.

The slower reversion of consumer and investor confidence is estimated to reduce global output relative to baseline by about ¾ percent in 2002 and about ¼ percent in 2003 (Table 3.5). In industrial countries, the fall in output is almost 1 percent in 2002, with the distribution across countries and regions depending on the size of the shock and on the room for maneuver on monetary policy. In particular, in Japan, where nominal interest rates are at their floor, deflation accelerates and increases real interest rates by more than ¾ percentage points relative to baseline in 2002, leading to an appreciation of Japan's real effective exchange rate (Figure 3.5). Altogether, the loss in output in 2002 relative to baseline due to the slower rebound in confidence is about 1 percent in the United States, ½ to ¾ percent in the euro area and other industrial country regions, and almost 1½ percent in Japan, even though the initial shock to Japan's domestic demand was assumed to be only half of that in the United States. The impact of weaker domestic demand in industrial countries and tighter foreign financing constraints would reduce output in developing countries as a whole by ¼ percent relative to baseline in 2002 and domestic demand by over 1 percent.

The failure of global risk appetite to recover and the fall in external demand from industrial countries is likely to have a particularly significant impact on emerging market economies.

[7]The emerging market block uses the results from the MULTIMOD simulation to provide the global environment. The feedback from the new block to the MULTIMOD simulation, however, is limited to the impact on capital flows to developing countries.

Table 3.5. Alternative Scenario: Delayed Strengthening in Consumer Confidence and Risk Appetite
(Percent deviation from baseline unless otherwise specified)

	2002	2003	2004	2005	2006
World real GDP	–0.7	–0.2	0.3	0.2	0.1
United States					
Real GDP	–0.9	–0.2	0.5	0.3	0.2
Domestic demand	–0.9	–0.2	0.5	0.3	0.2
Real effective exchange rate	–2.4	–1.2	–0.1	. . .	0.1
Current account ($billion)	1.0	36.9	38.9	17.2	11.5
CPI Inflation (percentage points)	–0.7	–0.7	–0.2	0.1	0.1
Short-term interest rate (percentage points)	–1.8	–1.2	–0.3	–0.1	–0.1
Short-term real interest rate (percentage points)	–1.2	–0.8	–0.2	–0.2	–0.2
Euro area					
Real GDP	–0.6	0.1	0.5	0.2	0.1
Domestic demand	–0.1	0.3	0.4	0.2	0.1
Real effective exchange rate	0.5	0.4	0.1	. . .	. . .
Real U.S. dollar exchange rate	2.3	1.2	0.1	–0.1	–0.1
Current account ($billion)	–7.6	–6.7	3.6	–3.4	–4.3
CPI inflation (percentage points)	–0.9	–0.7	–0.1	0.3	0.2
Short-term interest rate (percentage points)	–1.4	–0.8	–0.0	0.1	0.1
Short-term real interest rate (percentage points)	–0.8	–0.5	–0.1	–0.1	–0.1
Japan					
Real GDP	–1.4	–0.7	0.2	. . .	. . .
Domestic demand	–1.1	–0.5	–0.1	. . .	. . .
Real effective exchange rate	3.5	1.4	0.4	0.3	0.1
Real U.S. dollar exchange rate	4.5	1.9	0.4	0.2	. . .
Current account ($billion)	5.4	–10.9	–8.3	–7.2	–5.4
CPI inflation (percentage points)	–0.8	–0.6	–0.2	. . .	. . .
Short-term interest rate (percentage points)	. . .	–0.1	–0.2	0.1.	0.2
Short-term real interest rate (percentage points)	0.8	0.3	. . .	0.1	0.2
Other industrial economies					
Real GDP	–0.7	. . .	0.4	0.2	0.2
Real domestic demand	–0.2	0.2	0.3	0.2	0.1
Current account ($billion)	–21.2	–20.3	–5.6	–3.1	–3.4
Industrial countries					
Real GDP	–0.9	–0.2	0.4	0.2	0.1
Real domestic demand	–0.6	. . .	0.4	0.2	0.1
Current account ($billion)	–22.4	–1.1	28.6	3.5	–1.5
Developing countries					
Real GDP	–0.3	–0.1	0.1	0.1	0.1
Real domestic demand	–1.2	–0.6	0.3	0.1	0.1
Current account ($billion)	22.4	1.1	–28.6	–3.5	1.5
Memorandum					
Price of oil	–14.9	–16.2	–9.2	–1.5	–1.4

This issue is examined in more detail in Table 3.6, which is based on a new block for emerging market economies currently under development, and can be thought of as a model for emerging Latin American and Asian economies, with the important exceptions of China and India.[8] The higher risk premium reduces capital inflows to these countries by about $23 billion in 2002 and causes the exchange rate to depreciate. The rise in real interest rates, increase in the value of foreign currency denominated debt, and decline in the stock prices of domestic firms reduce wealth relative to the baseline, which in turn reduces private consumption and investment. However, the impact of the contraction in domestic demand on output is partially offset by

[8]The group comprises about one-third of developing countries‘ GDP.

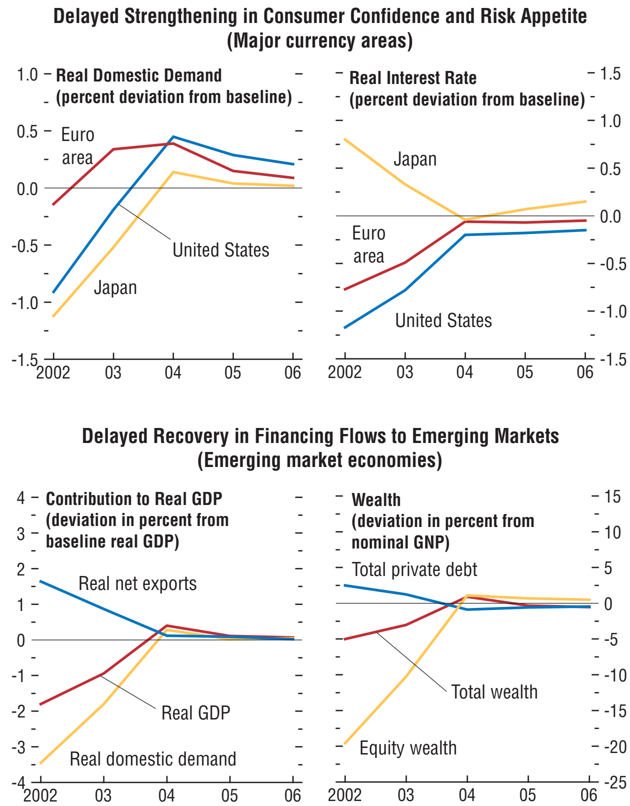
an increase in the external balance as imports are reduced and exports boosted. Altogether, the delayed fall in the risk premium would reduce output in emerging market economies by almost 2 percent relative to baseline in 2002 and domestic demand by around 3½ percent (Figure 3.5).[9] Such an outcome would reduce global output compared to that reported in the earlier MULTIMOD scenario.

Given the large uncertainties surrounding the alternative scenario, it may be useful to provide ready reckoners of the individual shocks that comprise the overall scenario, so that the likely impact of alternative assumptions can be constructed. Table 3.7 provides such a breakdown for the three main components of the alternative scenario: lower consumer confidence, higher risk aversion, and a fall in the oil price (the endogenous impact of lower oil prices has been eliminated from the other two ready reckoner calculations). The fall in consumer confidence relative to baseline has a substantial impact on output in 2002, particularly in the United States and Japan, which is then largely reversed in 2003—hence this is best thought of as a large temporary disturbance focused on the industrial countries. By contrast, higher risk aversion has a smaller but more persistent impact in most industrial countries, with the important exception of Japan. The simulation using the emerging market economies block also indicates that it could also have a substantial impact on parts of Asia and Latin America that are relatively open to trade and capital flows. Finally, lower oil prices provide mild support for global activity. Indeed, the effect could be somewhat larger than the simulation indicates, as MULTIMOD does not capture the impact of changes in prices of other energy products, such as gas, which tend to follow the price of oil.

These scenarios should be regarded as illustrative of the potential downside risks facing the

Figure 3.5. Impact of a Delayed Reversion in Global Confidence and Risk Appetite

If global confidence and risk appetite reverse more slowly than assumed in the baseline, real domestic demand and growth will also be lower than expected in all major economies.



Source: IMF staff estimates.

[9]In addition, a change in the risk premium could also have supply-side, credit rationing effects if banks experience a large increase in nonperforming foreign loans.

Table 3.6. Alternative Scenario: Delayed Recovery in Financing Flows to Emerging Markets
(Percent deviation from baseline unless otherwise specified)

	2002	2003	2004	2005	2006
Emerging Market Borrowers					
Real GDP	–1.8	–0.9	0.4	0.1	0.1
Domestic demand	–3.4	–1.8	0.3	. . .	. . .
Real exports	1.4	0.7	0.1	. . .	. . .
Real imports	–3.8	–1.9	–0.2	–0.2	–0.1
Nominal effective exchange rate	–4.7	–2.4	–0.3	0.1	0.2
Real competitiveness index	–2.7	–1.3	–0.2	. . .	. . .
Current account ($billion)	22.9	14.0	0.9	3.9	2.7
Total wealth	–2.2	–1.2	0.5	0.1	. . .
Market value of capital stock	–8.4	–4.4	0.4	0.2	0.1
Real capital stock	–0.3	–0.1	–0.3	–0.2	–0.2
Domestic private debt (percentage points of GNP)	0.3	0.2	–0.7	–0.4	–0.3
Foreign private debt (percentage points of GNP)	2.1	1.1	–0.2	–0.2	–0.2
CPI inflation (percentage points)	0.6	0.3	–0.1	–0.1	–0.1
Short-term interest rate (percentage points)	0.6	0.3	–0.4	–0.1	. . .
Short-term real interest rate (percentage points)	0.5	0.3	–0.5	–0.1	. . .
Yields on domestic private debt (percentage points)	2.3	1.1	–0.3	–0.1	–0.1
Yields on foreign private debt (percentage points)	1.2	0.6	. . .	. . .	. . .

Table 3.7. Ready Reckoners of Individual Shock[1]
(Percent deviation from baseline)

	Real GDP					
	Higher risk aversion lower confidence reduces U.S. consumption by 1 percent and ½ percent elsewhere[2]		Reduces U.S. investment by ½ percent and ¼ percent elsewhere[3]		Oil prices lower by 10 percent in 2002 and by 5 percent in 2003	
	2002	2003	2002	2003	2002	2003
Global economy	–0.4	–0.1	–0.3	–0.2	. . .	0.1
Industrial countries	–0.5	–0.2	–0.3	–0.2	. . .	0.1
United States	–0.6	–0.2	–0.3	–0.2	0.1	0.1
Euro area	–0.3	–0.1	–0.2	–0.1	0.1	0.1
Japan	–0.6	–0.3	–0.7	–0.3	. . .	. . .
Developing countries	–0.1	. . .	–0.1	–0.1	. . .	0.1
Memorandum						
Emerging markets	–0.1	. . .	–1.8	–0.9	0.1	0.1

[1]These results are generated using a version of MULTIMOD that contains a linear relationship between inflation and demand conditions.
[2]In the United States, lower confidence is assumed to reduce the marginal propensity to consume by 1 percent in 2002 and by ½ percent in 2003, before reverting to baseline in 2004. In the other industrial countries, the negative shock to consumption is assumed to be half this size. Developing and emerging economies are not assumed to suffer any direct shock to domestic consumption.
[3]In the United States, the flight to quality is assumed to increase the risk premium on equities in the United States by ½ percent in 2002 and by ¼ percent in 2003, before reverting to baseline in 2004. In the other industrial countries, the increase in the risk premium is assumed to be half this size. Developing economies are not assumed to suffer any direct shock to risk aversion. Emerging markets face a rise in default risk by 1 percent in 2002 and by ½ percent in 2003.

world economy if the recent deterioration in confidence and increase in global risk aversion are maintained through 2002. The implication is that global growth could fall below 2 percent in 2002, similar to levels experienced in 1975, 1981, and 1991.

References

Loungani, Prakash, 2000, "How Accurate Are Private Sector Forecasts—Cross-Country Evidence from Consensus Forecasts of Output Growth," IMF Working Paper No. 00/77 (Washington: International Monetary Fund).

ANNEX SUMMING UP BY THE ACTING CHAIR

The following remarks by the Acting Chair summarize the Executive Board's discussion of the Interim World Economic Outlook*, which took place on December 11, 2001.*

Directors observed that at the time of the October 2001 *World Economic Outlook* update, the global economic outlook in the near term was being affected by a sharp slowdown in growth in almost all major regions of the world, accompanied by a marked decline in trade growth, significantly lower commodity prices, and deteriorating financing conditions in emerging markets. Nevertheless, in the immediate period prior to the terrorist attacks of September 11, there appeared to be a reasonable prospect of recovery in late 2001. However, more recent data, on which the interim *World Economic Outlook* revisions are based, indicate that the situation before the attacks was in fact weaker than earlier projected in many regions, including the United States, Europe, and Japan. Directors accordingly concluded that the tragic events of September 11 had exacerbated an already very difficult situation in the global economy.

Impact of September 11

Directors observed that, in the aftermath of the September 11 attacks, consumer and business confidence weakened further across the globe. There was a significant initial impact on demand and activity, particularly in the United States, although there are signs that this is now beginning to stabilize. Turning to financial markets, Directors observed that there had been an initial generalized shift away from risky assets in both mature and emerging markets, including a substantial deterioration in financing conditions for emerging market economies. Between end-September and early December 2001, however, financial markets generally strengthened, as equity markets recovered and the earlier flight to quality began to reverse. A few Directors cautioned that this recovery in financial markets may reflect an overreaction following the attacks and the subsequent monetary response, and should not be seen as indicating that a recovery is in sight. Movements in major exchange rates on net have been moderate, while commodity prices have fallen back further, especially for oil, as the outlook for global growth has weakened.

Directors expressed particular concern about the synchronicity of the slowdown across nearly all regions, reflected, among other things, in the recent data on employment declines and the softening in labor markets. They noted that, to a considerable extent, this synchronicity is the result of common shocks, including the initial increase in oil prices and the bursting of the information technology bubble. Increased international linkages, particularly in the financial and corporate sectors, have also played a role.

Directors noted that the more pronounced economic slowdown and worsening financing conditions have adversely affected many emerging markets through trade and confidence channels, constraining capital flows, including foreign direct investment. Countries with substantial external financing requirements remain vulnerable to potential reassessments of global and domestic economic prospects and to further shocks to international capital markets. Nevertheless, Directors considered that recently most emerging markets have become more resilient to external shocks as a result of improved macroeconomic management, broad-based structural reforms, and flexible exchange rates. They also noted signs of increased investors' discrimination across countries, which was helping to limit contagion risks.

Directors observed that developing countries and, in particular, the poorest countries are being hurt by weaker external demand and falling commodity prices, with oil exporters particularly affected. Nonfuel commodity exporters will also be affected by further weakness in already depressed prices, although for some the benefits from lower oil prices will limit the increase in external financing requirements. Thus, while growth is projected to be relatively well sustained for the group as a whole, the outlook for individual countries varies widely. Directors were also concerned that this overall outlook may mask the true impact on poverty, as lower prices for agricultural goods will hurt rural areas, while the benefits of lower oil prices tend to accrue in relatively more prosperous urban areas.

Outlook for 2002

Directors considered that the current outlook remains subject to considerable uncertainty, reflecting in part the inherent unpredictability of changes in confidence and financial market sentiment, and evidenced for example by the sharp increase in dispersion in private sector forecasts. Notwithstanding these uncertainties, they observed that a number of factors should help to support recovery in 2002. *First,* policymakers have generally moved quickly to support activity, and, with much of the resulting stimulus still in the pipeline, significant support will be provided to activity in the course of 2002. *Second*, oil prices have weakened sharply as a result of weakening demand, which could provide support for global activity, although there are clearly negative effects for oil producers, including a number of highly indebted countries. *Third*, the completion of ongoing inventory corrections will provide support to demand. *Finally*, the strengthening of economic fundamentals in many countries in recent years—notably lower inflation, generally improved fiscal positions, stronger external financial positions in many emerging market economies, especially in Asia, and the shift toward more flexible exchange rates—has increased the room for policy maneuver and resilience to external shocks.

Risks to Recovery

Directors acknowledged that the above factors may support the possibility that recovery in 2002 could come more rapidly than presently expected, particularly if the policy stimulus in the pipeline produces a faster or stronger impact and if confidence revives more sharply than assumed. Nevertheless, Directors believed that the possibility of a worse outcome still remains the major global policy concern, and identified three interlinked areas of risk. *First*, confidence and activity *in the United States* may pick up more slowly than currently expected, possibly as a result of the imbalances accumulated in the past. There are also downside risks to activity in the other major currency areas. These could reinforce the already synchronized downturn, with negative consequences for developing countries through a reduced desire for risk taking in financial markets and lower commodity prices. *Second,* the outlook for many emerging market economies will continue to depend on developments in global risk aversion; while recent developments have been encouraging, market access for many countries remains limited. *Third,* many Directors noted that the imbalances in the global economy remain an important source of risk. All Directors agreed that, against this background, the economic situation merits continued close monitoring.

Policy Challenges Ahead

Directors believed that the primary challenge faced by policymakers is how best to support the prospects for recovery and to limit the risks attendant on a deeper and longer downturn. Given the synchronicity of the slowdown, policies in both advanced and developing countries must be viewed in a global perspective to ensure that there is adequate global demand. *Monetary policy*—the most flexible instrument—has appropriately played the primary role to date, and most Directors agreed that there remains room for further easing if weakness persists, including through a more aggressive approach to monetary easing in Japan.

Turning to fiscal policy, given the limitations of monetary policy in the current environment of weak confidence and excess capacity, most Directors agreed that *fiscal policy* should also play a role, particularly through the operation of the automatic stabilizers, although the room for maneuver will depend on each country's medium-term consolidation objectives. Additional stimulus presently under consideration *in the United States* could be helpful if implemented sufficiently rapidly while demand is still weak, and should be carefully designed to shore up consumer confidence and boost activity in the short run, without exacerbating medium-term fiscal pressures. *In Europe*, some Directors thought that the automatic stabilizers should be allowed to operate in full, and a few Directors saw room for well-designed moderate discretionary policies in some countries in the region. *In Japan,* the recent supplementary budget has gone a significant way toward avoiding a withdrawal of stimulus in the current recessionary environment. Structural reforms in Europe and, particularly, in Japan, remain crucial, both to improve growth potential and boost confidence, and to help reduce global imbalances over the longer term.

In developing and emerging markets, there is generally considerably less room for policy maneuver to support growth, although where it exists it should be used. In particular, Directors were of the view that, in the difficult external environment, many emerging market economies have little alternative but to implement even much deeper reforms to strengthen (or even restore) their economic fundamentals, and ensure future access to finance at acceptable spreads so as to sustain growth. More generally, domestic policies should be geared to achieving early external adjustment where necessary, accompanied by structural reforms—particularly of the financial and corporate sectors—to help reduce vulnerability.

For its part, the international community should provide strong support for such efforts, through the international financial institutions and other channels, and due attention will need to be paid to the appropriate mix between adjustment and financing. For the poorest countries, additional concessional financing may be required. A few Directors reiterated the call for improved market access to industrial country markets, as well as for a rapid increase in official development assistance toward the U.N. target of 0.7 percent of GNP.

Finally, there remains an important question as to the potential long-term impact of increased security concerns and other related issues, including transportation costs on economic activity. While it is impossible to estimate their size with any precision at this stage, and there will be a short-term impact on productivity, Directors noted that such costs are likely to be concentrated in a few industries, and, at this stage, it is not anticipated that they will be large enough or long lasting to have a significant impact on medium- and long-term growth trends, although a few Directors considered that more widespread effects remain possible. Nonetheless, this reinforces the need to press forward with structural and other reforms designed to increase long-run productive potential. Directors underlined, in this connection, that the agreement reached at the World Trade Organization meetings in Doha in November to launch new trade negotiations is of particular importance, as they can be expected to contribute substantially to global economic growth over the medium term.

STATISTICAL APPENDIX

Eight statistical tables are included in this appendix. They focus on global developments and represent a subset of the traditional 46 Statistical Appendix tables in the *World Economic Outlook*. Data in these tables have been compiled on the basis of information available through early December 2001.

Assumptions

Key assumptions underlying the estimates for 2001 and beyond are:

- Real effective *exchange rates* for the advanced economies are assumed to remain constant at their average levels during the period September 17–October 16, 2001, except for the currencies participating in the European exchange rate mechanism II (ERM II), which are assumed to remain constant in nominal terms relative to the euro. These assumptions imply an average U.S. dollars/SDR conversion rate of 1.277 in 2001 and 1.285 in 2002.
- Established *policies* of national authorities are assumed to be maintained.
- It is assumed that the *price of oil* will average $24.25 a barrel in 2001 and $18.50 a barrel in 2002; thereafter, the oil price assumption is based on market information on long-term futures and swaps.
- With regard to *interest rates*, it is assumed that the London interbank offered rate (LIBOR) on six-month U.S. dollar deposits will average 3.8 percent in 2001 and 2.8 percent in 2002.

For a full description of *World Economic Outlook* data and conventions, as well as the classification of countries in the various groups presented in the following tables, see the October 2001 *World Economic Outlook*, pp. 181–92.

List of Tables

Table 1. World Output[1]
(Annual percent change)

	Average 1983–92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
World	**3.5**	**2.3**	**3.7**	**3.6**	**4.0**	**4.2**	**2.8**	**3.6**	**4.7**	**2.4**	**2.4**
Advanced economies	**3.3**	**1.4**	**3.4**	**2.7**	**3.0**	**3.4**	**2.7**	**3.3**	**3.9**	**1.1**	**0.8**
Major advanced economies	3.2	1.3	3.1	2.3	2.8	3.2	2.8	3.0	3.5	1.0	0.6
United States	3.4	2.7	4.0	2.7	3.6	4.4	4.3	4.1	4.1	1.0	0.7
Japan	3.9	0.5	1.0	1.4	3.6	1.8	–1.0	0.7	2.2	–0.4	–1.0
Germany	3.1	–1.1	2.3	1.7	0.8	1.4	2.0	1.8	3.0	0.5	0.7
France	2.2	–0.9	1.8	1.9	1.1	1.9	3.5	3.0	3.5	2.1	1.3
Italy	2.3	–0.9	2.2	2.9	1.1	2.0	1.8	1.6	2.9	1.8	1.2
United Kingdom	2.5	2.5	4.7	2.9	2.6	3.4	3.0	2.1	2.9	2.3	1.8
Canada	2.6	2.4	4.7	2.8	1.6	4.3	3.9	5.1	4.4	1.4	0.8
Other advanced economies	3.9	1.9	4.6	4.3	3.8	4.3	2.2	4.9	5.2	1.5	1.9
Memorandum											
European Union	2.6	–0.3	2.8	2.5	1.7	2.6	2.9	2.6	3.4	1.7	1.3
Euro area	2.7	–0.8	2.3	2.3	1.4	2.3	2.9	2.6	3.4	1.5	1.2
Newly industrialized Asian economies	8.2	6.5	7.7	7.5	6.3	5.8	–2.4	7.9	8.2	0.4	2.0
Developing countries	**4.7**	**6.4**	**6.7**	**6.1**	**6.5**	**5.8**	**3.6**	**3.9**	**5.8**	**4.0**	**4.4**
Regional groups											
Africa	2.0	0.4	2.3	3.0	5.5	3.1	3.5	2.5	2.8	3.5	3.5
Developing Asia	7.3	9.4	9.7	9.0	8.3	6.5	4.0	6.2	6.8	5.6	5.6
Middle East, Malta, and Turkey	3.5	3.5	0.3	4.2	5.1	5.1	4.1	1.1	5.9	1.8	3.9
Western Hemisphere	2.3	4.0	5.0	1.8	3.6	5.3	2.3	0.1	4.1	1.0	1.7
Analytical groups											
By source of export earnings											
Fuel	2.6	0.6	0.1	3.1	3.7	4.2	3.6	1.4	4.9	4.4	3.6
Nonfuel	5.0	7.1	7.4	6.5	6.8	5.9	3.6	4.2	5.8	3.9	4.5
By external financing source											
Net debtor countries	4.8	6.5	6.9	6.3	6.6	5.9	3.6	4.0	5.8	4.0	4.5
of which, official financing	2.6	1.6	2.4	5.4	5.3	4.2	3.9	3.7	3.8	4.2	4.0
Net debtor countries by debt-servicing experience											
Countries with arrears and/or rescheduling during 1994–98	2.7	3.6	4.6	5.2	5.0	4.4	–0.4	2.0	4.5	3.2	3.4
Countries in transition	**0.2**	**–8.9**	**–8.6**	**–1.4**	**–0.6**	**1.6**	**–0.8**	**3.6**	**6.3**	**4.9**	**3.6**
Central and eastern Europe	. . .	–0.3	3.0	5.6	3.9	2.6	2.3	2.0	3.8	3.0	3.2
CIS and Mongolia	. . .	–12.6	–14.6	–5.5	–3.3	1.1	–2.8	4.6	7.8	6.1	3.9
Russia	. . .	–13.0	–13.5	–4.2	–3.4	0.9	–4.9	5.4	8.3	5.8	3.6
Excluding Russia	. . .	–11.8	–17.0	–8.6	–3.1	1.5	1.6	2.8	6.8	6.8	4.6
Memorandum											
Median growth rate											
Advanced economies	3.2	0.7	4.1	2.9	3.0	3.7	3.4	3.7	3.8	1.6	1.3
Developing countries	3.4	3.1	3.8	4.3	4.6	4.4	3.7	3.5	3.9	3.3	3.2
Countries in transition	. . .	–8.1	–3.0	2.1	3.0	3.7	3.8	3.3	5.1	4.5	4.1
Output per capita											
Advanced economies	2.9	0.8	2.7	2.1	2.3	2.8	2.1	2.8	2.5	0.5	0.3
Developing countries	2.4	4.4	4.9	4.5	4.8	4.2	1.9	2.3	4.3	2.5	3.0
Countries in transition	. . .	–9.0	–8.6	–1.4	–0.3	2.0	–0.5	4.1	6.1	5.2	4.0
World growth based on market exchange rates	**3.1**	**1.1**	**2.9**	**2.8**	**3.2**	**3.5**	**2.3**	**3.0**	**4.0**	**1.4**	**1.2**
Value of world output in billions of U.S. dollars											
At market exchange rates	23,863	24,442	26,234	29,095	29,818	29,680	29,487	30,550	31,362	31,117	31,920
At purchasing power parities	22,806	30,467	32,170	33,996	36,032	38,227	39,652	41,585	44,549	47,473	50,612

[1]Real GDP.

Table 2. Employment and Unemployment in Advanced Economies
(Percent)

	Average[1] 1983–92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Growth in employment											
Advanced economies	**1.3**	**–0.1**	**1.1**	**1.2**	**1.0**	**1.5**	**1.0**	**1.3**	**1.4**	**0.4**	**0.2**
Major advanced economies	1.2	–	1.0	0.8	0.8	1.4	1.0	1.1	1.2	0.1	–0.1
United States	1.8	1.5	2.3	1.5	1.5	2.3	1.5	1.5	1.3	–0.2	0.2
Japan	1.3	0.2	0.1	0.1	0.4	1.1	–0.7	–0.8	–0.2	–0.7	–1.2
Germany	0.9	–1.4	–0.2	0.1	–0.3	–0.2	1.1	1.2	1.6	0.1	–0.2
France	0.2	–1.2	0.1	0.8	0.1	0.5	1.4	1.4	2.4	1.7	—
Italy	0.4	–4.1	–1.6	–0.6	0.5	0.4	1.1	1.3	1.9	1.5	0.3
United Kingdom	0.5	–0.9	1.0	1.4	1.1	2.0	1.1	1.3	1.0	0.6	0.4
Canada	1.5	0.8	2.0	1.9	0.8	2.3	2.7	2.8	2.6	1.0	0.8
Other advanced economies	1.4	–0.4	1.3	2.2	1.7	1.5	1.0	2.1	2.1	1.2	0.9
Memorandum											
European Union	0.6	–1.9	–0.2	0.8	0.7	0.9	1.9	1.7	2.0	1.0	0.3
Euro area	0.6	–1.8	–0.5	0.5	0.5	0.8	1.6	1.7	2.0	1.1	0.2
Newly industrialized Asian economies	2.5	1.5	2.8	2.5	2.1	1.6	–2.7	1.5	1.3	1.2	1.4
Unemployment rate											
Advanced economies	**7.0**	**7.5**	**7.4**	**7.1**	**7.1**	**6.9**	**6.8**	**6.4**	**5.8**	**6.0**	**6.6**
Major advanced economies	6.9	7.2	7.0	6.7	6.8	6.6	6.3	6.1	5.7	6.0	6.6
United States[2]	6.8	6.9	6.1	5.6	5.4	5.0	4.5	4.2	4.0	4.9	6.0
Japan	2.5	2.5	2.9	3.2	3.4	3.4	4.1	4.7	4.7	5.0	5.7
Germany	7.3	7.6	8.1	7.9	8.6	9.5	8.9	8.2	7.5	7.5	7.8
France	9.8	11.7	12.3	11.7	12.3	12.3	11.8	11.2	9.5	8.6	8.9
Italy[3]	10.7	10.1	11.1	11.6	11.6	11.7	11.8	11.4	10.6	9.5	9.4
United Kingdom	9.0	10.4	9.7	8.7	8.2	7.1	6.3	6.0	5.6	5.2	5.4
Canada	9.7	11.4	10.4	9.4	9.6	9.1	8.3	7.6	6.8	7.3	8.0
Other advanced economies	7.2	8.6	8.7	8.2	8.1	7.8	8.1	7.3	6.2	6.2	6.3
Memorandum											
European Union	9.4	10.6	11.1	10.7	10.8	10.5	9.8	9.1	8.1	7.6	7.8
Euro area	9.7	10.8	11.5	11.3	11.5	11.5	10.8	10.0	8.9	8.3	8.6
Newly industrialized Asian economies	2.8	2.4	2.2	2.1	2.2	2.5	5.4	5.3	3.8	4.3	4.2

[1]For employment, compound annual rate of change; for unemployment rate, arithmetic average.
[2]The projections for unemployment have been adjusted to reflect the new survey techniques adopted by the U.S. Bureau Labor Statistics in January 1994.
[3]New series starting in 1993, reflecting revisions in the labor force surveys and the definition of unemployment to bring data in line with those of other industrial countries.

Table 3. Inflation
(Percent)

	Average 1983–92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP deflator											
Advanced economies	**4.5**	**2.7**	**2.2**	**2.3**	**1.9**	**1.7**	**1.4**	**0.9**	**1.4**	**1.7**	**1.4**
Major advanced economies	3.7	2.3	1.8	1.9	1.6	1.5	1.1	0.9	1.2	1.5	1.3
United States	3.3	2.4	2.1	2.2	1.9	1.9	1.2	1.4	2.3	2.3	2.1
Japan	1.8	0.5	0.1	–0.3	–0.8	0.3	–0.1	–1.4	–1.9	–1.5	–1.5
Germany	2.8	3.7	2.5	2.0	1.0	0.7	1.1	0.5	–0.4	1.4	1.5
France	4.4	2.4	1.8	1.7	1.4	1.2	0.9	0.3	0.8	1.6	1.3
Italy	8.3	3.9	3.5	5.0	5.3	2.4	2.7	1.6	2.2	2.6	1.6
United Kingdom	5.6	2.6	1.4	2.6	3.3	2.9	2.9	2.6	1.7	1.6	2.3
Canada	3.6	1.4	1.2	2.3	1.7	1.1	–0.4	1.4	3.7	1.5	0.7
Other advanced economies	7.9	4.4	3.8	3.9	3.0	2.5	2.3	0.8	1.8	2.3	1.7
Memorandum											
European Union	5.5	3.5	2.7	3.1	2.6	1.9	2.0	1.5	1.5	2.2	1.8
Euro area	5.5	1.9	2.0	2.4	2.9	–0.2	1.2	1.7	1.3	2.3	1.7
Newly industrialized Asian economies	5.4	6.0	5.5	4.7	3.7	2.9	3.2	–2.3	–1.9	0.7	0.9
Consumer prices											
Advanced economies	**4.6**	**3.1**	**2.4**	**2.6**	**2.4**	**2.1**	**1.5**	**1.4**	**2.3**	**2.3**	**1.3**
Major advanced economies	3.9	2.8	2.2	2.2	2.2	2.0	1.3	1.4	2.3	2.2	1.1
United States	4.0	3.0	2.6	2.8	2.9	2.3	1.5	2.2	3.4	2.9	1.6
Japan	1.8	1.3	0.7	–0.1	0.3	1.7	0.7	–0.3	–0.8	–0.7	–1.0
Germany	2.3	4.5	2.7	1.7	1.2	1.5	0.6	0.7	2.1	2.4	1.0
France	4.4	2.1	1.7	1.8	2.1	1.3	0.7	0.6	1.8	1.8	1.1
Italy	7.4	4.6	4.1	5.2	4.0	1.9	2.0	1.7	2.6	2.6	1.3
United Kingdom[1]	5.3	3.0	2.4	2.8	3.0	2.8	2.7	2.3	2.1	2.3	2.4
Canada	4.4	1.8	0.2	1.9	1.6	1.6	1.0	1.7	2.7	2.8	1.6
Other advanced economies	7.7	4.2	3.3	3.8	3.2	2.3	2.4	1.3	2.4	2.9	1.8
Memorandum											
European Union	5.1	3.8	2.6	2.9	2.5	1.8	1.5	1.4	2.3	2.7	1.6
Euro area	5.0	3.9	3.0	2.7	2.3	1.6	1.2	1.1	2.4	2.7	1.4
Newly industrialized Asian economies	4.3	4.6	5.7	4.6	4.3	3.4	4.4	—	1.2	2.0	1.2
Developing countries	**46.4**	**49.2**	**55.4**	**23.2**	**15.4**	**9.9**	**10.5**	**6.8**	**5.9**	**6.0**	**5.3**
Regional groups											
Africa	22.1	39.0	54.7	35.3	30.2	14.2	10.6	11.6	13.5	12.8	8.3
Developing Asia	9.9	10.8	16.0	13.2	8.2	4.8	7.7	2.5	1.9	2.8	3.0
Middle East, Malta, and Turkey	22.9	29.4	37.3	39.1	29.6	27.7	27.6	23.3	19.1	19.1	17.4
Western Hemisphere	170.2	194.6	200.3	36.0	21.2	12.9	9.8	8.8	8.1	6.3	5.2
Analytical groups											
By source of export earnings											
Fuel	15.3	29.2	36.2	42.6	35.1	19.4	17.2	16.2	12.9	13.0	11.8
Nonfuel	51.6	51.8	57.7	21.3	13.5	8.9	9.9	5.9	5.3	5.4	4.8
By external financing source											
Net debtor countries	48.4	51.2	57.5	23.8	15.8	10.2	10.8	6.9	6.1	6.2	5.4
Net debtor countries by debt-servicing experience											
Countries with arrears and/or rescheduling during 1994–98	109.8	200.7	221.8	40.1	21.0	11.9	18.3	13.3	11.0	11.4	8.6
Countries in transition	**42.4**	**635.8**	**274.2**	**133.8**	**42.5**	**27.4**	**21.8**	**43.9**	**20.1**	**16.0**	**11.0**
Central and eastern Europe	. . .	79.9	45.6	24.7	23.2	41.8	17.1	10.9	12.8	9.3	7.3
CIS and Mongolia	. . .	1,246.1	508.1	235.6	55.9	19.1	25.0	70.4	25.0	20.6	13.5
Russia	. . .	878.8	307.5	198.0	47.9	14.7	27.8	85.7	20.8	21.5	14.0
Excluding Russia	. . .	2,440.9	1,334.5	338.8	75.5	29.7	19.3	41.8	34.6	18.4	12.2
Memorandum											
Median inflation rate											
Advanced economies	4.7	3.0	2.4	2.5	2.2	1.8	1.7	1.5	2.7	2.6	1.9
Developing countries	9.4	9.7	10.6	10.0	7.3	6.2	5.8	4.0	4.2	4.2	4.4
Countries in transition	95.8	472.3	132.1	40.1	24.1	14.8	10.0	8.0	10.0	7.3	5.3

[1]Retail price index excluding mortgage interest.

Table 4. Fiscal Indicators

(Percent of GDP)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Advanced economies										
Central government balance										
Advanced economies	−4.3	−3.7	−3.3	−2.7	−1.5	−1.7	−0.9	0.3	−0.6	−1.0
United States	−4.2	−3.0	−2.6	−1.8	−0.6	0.5	1.3	2.2	1.0	0.3
Japan	−2.6	−3.4	−3.9	−4.2	−3.9	−8.9	−7.9	−7.5	−6.3	−5.5
Germany	−2.1	−1.5	−1.4	−2.2	−1.7	−1.5	−1.3	1.3	−1.4	−1.1
France	−4.6	−4.6	−4.2	−4.6	−3.6	−3.7	−3.0	−2.4	−1.9	−2.8
Italy	−9.9	−9.1	−7.1	−6.8	−2.9	−2.8	−1.4	−1.0	−2.1	−2.4
United Kingdom	−8.1	−6.9	−5.4	−4.1	−1.5	0.3	1.4	4.0	0.6	−0.1
Canada	−5.4	−4.5	−3.9	−2.0	0.7	1.0	0.9	1.8	0.5	0.5
General government balance										
Advanced economies	−4.7	−4.0	−3.8	−3.1	−1.7	−1.3	−0.9	0.2	−0.9	−1.4
United States	−5.1	−3.8	−3.3	−2.4	−1.3	−0.1	0.6	1.5	0.3	−0.5
Japan	−1.6	−2.2	−3.5	−4.2	−3.2	−4.5	−6.8	−7.9	−7.2	−7.1
Germany[1]	−3.1	−2.4	−3.3	−3.4	−2.7	−2.2	−1.6	1.2	−2.5	−2.5
France[1]	−6.0	−5.5	−5.5	−4.1	−3.0	−2.7	−1.6	−1.4	−0.9	−2.1
Italy[1,2]	−9.4	−9.1	−7.6	−7.1	−2.7	−2.8	−1.8	−0.3	−1.2	−1.0
United Kingdom[1]	−7.7	−6.8	−5.4	−4.1	−1.5	0.3	1.5	3.9	0.5	−0.1
Canada	−8.7	−6.7	−5.3	−2.8	0.2	0.5	1.6	3.2	1.9	1.0
General government structural balance[3]										
Advanced economies	−4.0	−3.4	−3.3	−2.5	−1.3	−0.8	−0.6	−0.5	−0.6	−0.5
United States	−3.8	−2.8	−2.3	−1.5	−0.7	0.1	0.5	1.0	0.5	0.5
Japan	−1.5	−1.9	−3.2	−4.3	−3.4	−3.6	−5.8	−7.0	−5.6	−4.7
Excluding social security	−4.6	−4.7	−6.0	−6.9	−5.9	−6.0	−8.0	−8.7	−7.1	−6.2
Germany[4]	−3.1	−2.5	−3.4	−2.8	−1.7	−1.3	−0.8	−1.3	−1.8	−1.2
France[4]	−3.5	−3.5	−3.7	−1.9	−1.0	−1.5	−0.9	−1.2	−1.2	−1.4
Italy[4]	−8.2	−7.8	−7.0	−6.2	−1.7	−1.8	−0.6	−0.7	−0.5	−0.6
United Kingdom[4]	−6.4	−5.7	−4.6	−3.3	−0.9	0.5	1.5	1.7	0.5	0.1
Canada	−4.3	−3.8	−2.8	—	2.1	2.5	2.5	3.3	2.6	2.7
Developing countries										
Central government balance										
Weighted average	−3.3	−2.8	−2.6	−2.1	−2.4	−3.8	−4.2	−3.0	−3.8	−3.7
Median	−4.2	−3.8	−3.3	−2.4	−2.4	−3.1	−3.4	−2.9	−3.7	−3.4
General government balance										
Weighted average	−3.4	−3.7	−3.3	−3.3	−3.5	−5.0	−5.2	−3.9	−4.8	−4.5
Median	−3.7	−3.4	−3.3	−2.6	−2.4	−3.1	−3.2	−2.9	−3.3	−3.0
Countries in transition										
Central government balance	−6.2	−7.4	−4.6	−4.6	−4.7	−3.5	−2.0	—	−0.2	−1.5
General government balance	−6.8	−7.5	−4.7	−5.9	−5.4	−4.9	−2.2	0.2	−0.8	−2.3

[1]Includes one-off receipts from the sale of mobile telephone licences equivalent to 2.5 percent of GDP in 2000 for Germany, 0.5 percent of GDP in 2001 for France, 1.2 percent of GDP in 2000 for Italy, and 2.4 percent of GDP in 2000 for the United Kingdom.

[2]Includes asset sales equivalent to 0.2 percent of GDP in 2001, 0.7 percent in 2002, 0.5 percent in 2003, and 0.1 percent in 2004.

[3]Percent of potential GDP.

[4]Excludes mobile telephone license receipts.

Table 5. World Trade
(Annual percent change)

	Average 1983–92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Trade in goods and services											
World trade[1]											
Volume	5.4	3.6	8.8	9.8	6.8	10.3	4.2	5.4	12.4	1.0	2.1
Price deflator											
In U.S. dollars	2.2	–3.9	2.7	8.9	–1.3	–5.9	–4.9	–1.6	–0.8	–3.0	0.2
In SDRs	–0.3	–3.1	0.2	2.8	3.1	–0.7	–3.5	–2.3	2.9	0.3	–0.4
Volume of trade											
Exports											
Advanced economies	5.8	2.9	8.6	8.4	6.1	10.5	3.9	5.2	11.6	–0.3	0.5
Developing countries	5.9	9.4	11.3	10.9	9.3	13.3	4.9	4.7	15.0	3.4	4.5
Imports											
Advanced economies	6.5	1.3	9.4	8.7	6.4	9.3	5.9	7.7	11.5	–0.3	1.4
Developing countries	3.3	10.7	6.8	19.6	9.4	10.6	–1.4	1.7	16.1	5.0	6.5
Terms of trade											
Advanced economies	1.1	0.8	0.1	0.2	–0.2	–0.5	1.4	–0.3	–2.3	0.1	0.7
Developing countries	–2.7	–1.7	0.9	3.0	1.8	–1.3	–7.3	3.9	7.5	–2.6	–3.0
Trade in goods											
World trade[1]											
Volume	5.6	4.2	10.0	10.5	6.4	10.5	4.6	5.6	12.8	0.2	1.7
Price deflator											
In U.S. dollars	2.0	–4.6	2.7	9.3	–1.3	–6.2	–5.8	–1.5	0.3	–2.7	0.1
In SDRs	–0.4	–3.7	0.1	3.1	3.2	–1.0	–4.4	–2.3	4.0	0.5	–0.5
Volume of trade											
Exports											
Advanced economies	6.1	3.2	9.6	9.1	5.7	10.8	4.3	5.1	11.8	–0.9	0.4
Developing countries	6.0	9.2	11.8	12.3	9.1	12.6	4.8	4.7	15.4	2.3	3.5
Imports											
Advanced economies	6.8	2.1	11.0	9.3	5.8	9.9	5.9	8.5	11.8	–1.0	1.1
Developing countries	3.4	12.0	7.9	20.1	9.7	10.0	0.5	0.8	16.4	3.5	5.7
World trade prices in U.S. dollars[2]											
Manufactures	4.7	–5.7	3.1	10.3	–3.1	–8.0	–1.9	–1.8	–5.1	–1.7	1.9
Oil	–5.2	–11.8	–5.0	7.9	18.4	–5.4	–32.1	37.5	56.9	–14.0	–23.7
Nonfuel primary commodities	0.8	1.7	13.4	8.4	–1.3	–3.0	–14.7	–7.0	1.8	–5.5	1.7
Terms of trade											
Advanced economies	1.1	1.6	0.5	0.3	–0.8	–0.6	1.6	—	–2.6	–0.2	0.9
Developing countries	–3.2	–3.3	1.4	2.2	2.8	–0.9	–6.6	4.7	7.0	–3.0	–3.3
Fuel exporters	–7.5	–7.0	–1.5	6.1	17.3	0.2	–26.2	30.4	40.5	–10.9	–15.7
Nonfuel exporters	–0.5	–1.6	2.4	2.1	–0.8	–1.1	–1.3	–0.5	–1.3	–0.5	0.4
Memorandum											
World exports in billions of U.S. dollars											
Goods and services	2,877.6	4,725.9	5,286.9	6,266.0	6,587.2	6,852.4	6,768.9	6,970.9	7,746.4	7,556.6	7,689.1
Goods	2,306.8	3,725.1	4,206.1	5,038.3	5,272.0	5,475.9	5,379.1	5,549.5	6,253.3	6,064.0	6,147.9

[1]Average of annual percent change for world exports and imports. The estimates of world trade comprise, in addition to trade of advanced economies and developing countries (which is summarized in the table), trade of countries in transition.

[2]As represented, respectively, by the export unit value index for the manufactures of the advanced economies; the average of U.K. Brent, Dubai, and West Texas Intermediate crude oil spot prices; and the average of world market prices for nonfuel primary commodities weighted by their 1987–89 shares in world commodity exports.

Table 6. Payments Balances on Current Account
(Billions of U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Advanced economies	**66.6**	**24.5**	**47.7**	**30.5**	**77.0**	**28.0**	**–139.5**	**–253.7**	**–199.6**	**–197.7**
Major advanced economies	17.0	–14.3	–1.9	–12.8	12.4	–61.8	–221.8	–338.9	–280.6	–272.1
United States	–82.5	–118.2	–109.9	–120.9	–139.8	–217.5	–324.4	–444.7	–392.0	–393.8
Japan	132.0	130.6	111.4	65.8	94.1	121.0	106.8	116.9	90.8	105.7
Germany	–9.8	–23.9	–20.7	–7.9	–2.7	–6.7	–17.9	–19.4	–0.5	13.8
France	9.2	7.4	10.9	20.5	39.4	37.6	37.2	23.8	25.1	20.5
Italy	7.8	13.2	25.1	40.0	32.4	20.0	6.3	–5.7	–1.3	–2.2
United Kingdom	–17.9	–10.4	–14.2	–13.6	–2.8	–8.0	–30.9	–27.9	–24.3	–30.8
Canada	–21.8	–13.0	–4.4	3.4	–8.2	–8.3	1.1	18.1	21.6	14.7
Other advanced economies	49.6	38.8	49.6	43.3	64.6	89.9	82.3	85.2	81.0	74.4
Memorandum										
European Union	8.9	10.1	46.2	77.2	107.8	63.4	6.6	–28.0	0.9	2.7
Euro area[1]	24.7	17.0	53.6	81.3	102.5	64.4	26.1	–8.7	14.2	21.3
Newly industrialized Asian economies	20.8	16.1	5.9	–0.9	10.7	68.0	66.1	50.6	44.1	39.0
Developing countries	**–118.2**	**–85.5**	**–97.1**	**–74.0**	**–58.5**	**–86.7**	**–11.6**	**61.5**	**4.6**	**–69.0**
Regional groups										
Africa	–11.1	–11.5	–16.6	–5.1	–7.0	–20.0	–15.4	3.8	–3.6	–14.2
Developing Asia	–33.0	–19.0	–43.8	–38.8	8.9	47.2	46.2	45.7	24.2	6.2
Middle East, Malta, and Turkey	–28.2	–2.9	–0.2	10.3	6.6	–23.2	14.5	60.8	40.0	–5.8
Western Hemisphere	–46.0	–52.2	–36.5	–40.5	–67.1	–90.7	–56.9	–48.7	–56.0	–55.3
Analytical groups										
By source of export earnings										
Fuel	–23.7	–3.3	2.2	31.4	20.6	–29.7	18.4	97.8	50.9	–0.3
Nonfuel	–94.6	–82.2	–99.2	–105.4	–79.1	–57.0	–30.0	–36.2	–46.3	–68.8
By external financing source										
Net debtor countries	–103.1	–78.1	–99.1	–86.9	–69.7	–71.3	–24.9	4.2	–30.0	–67.9
of which, official financing	–8.0	–9.8	–11.6	–8.7	–4.9	–10.1	–6.5	3.9	–0.9	–10.8
Net debtor countries by debt-servicing experience										
Countries with arrears and/or rescheduling during 1994–98	–28.2	–18.6	–47.3	–41.5	–49.4	–58.4	–23.5	8.5	–17.2	–34.1
Countries in transition	**–7.9**	**2.3**	**–2.2**	**–16.8**	**–23.9**	**–29.1**	**–2.1**	**27.0**	**13.2**	**–6.0**
Central and eastern Europe	–8.1	–3.2	–3.0	–15.0	–16.9	–20.2	–23.1	–19.7	–19.8	–20.7
CIS and Mongolia	0.2	5.5	0.8	–1.9	–7.0	–8.9	21.0	46.7	32.9	14.7
Russia	2.6	8.2	4.9	3.8	–0.4	–1.6	22.7	45.3	33.8	18.0
Excluding Russia	–2.4	–2.7	–4.1	–5.7	–6.6	–7.3	–1.7	1.5	–0.8	–3.3
Total[2]	–59.5	–58.7	–51.6	–60.3	–5.4	–87.8	–153.2	–165.1	–181.9	–272.8

[1]Calculated as the sum of the balances of individual euro area countries.
[2]Reflects errors, omissions, and asymmetries in balance of payments statistics on current account, as well as the exclusion of data for international organizations and a limited number of countries.

Table 7. Summary of Balance of Payments, Capital Flows, and External Financing
(Billions of U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Developing countries										
Balance of payments[1]										
Balance on current account	–118.2	–85.5	–97.1	–74.0	–58.5	–86.7	–11.6	61.5	4.6	–69.0
Balance on goods and services	–93.9	–56.0	–56.6	–43.7	–35.0	–53.7	24.9	111.5	54.7	–14.9
Income, net	–52.6	–57.7	–73.6	–68.1	–69.1	–74.5	–81.5	–97.5	–98.3	–101.9
Current transfers, net	28.2	28.2	33.1	37.8	45.6	41.5	44.9	47.6	48.2	47.7
Balance on capital and financial account	140.4	114.4	122.7	107.6	116.7	112.8	29.6	–45.6	10.9	78.1
Balance on capital account[2]	5.7	5.5	8.1	9.5	13.4	7.6	8.8	4.7	6.9	8.2
Balance on financial account	134.7	108.9	114.6	98.1	103.3	105.2	20.8	–50.4	4.0	70.0
Direct investment, net	48.0	75.3	85.1	107.6	129.7	130.5	126.1	118.3	134.9	109.5
Portfolio investment, net	103.8	99.2	21.8	72.8	42.2	4.8	19.0	–14.4	–18.9	17.6
Other investment, net	22.3	–15.1	74.3	12.4	–11.9	–35.6	–92.4	–93.6	–46.0	–43.3
Reserve assets	–39.5	–50.4	–66.6	–94.7	–56.7	5.4	–31.8	–60.7	–66.0	–13.8
Errors and omissions, net	–22.1	–28.9	–25.6	–33.6	–58.2	–26.1	–18.0	–15.9	–15.5	–9.1
Capital flows										
Total capital flows, net[3]	174.2	159.3	181.2	192.8	160.0	99.8	52.6	10.3	70.0	83.7
Net official flows	45.0	20.9	33.5	4.1	19.7	32.7	22.1	8.1	47.8	30.8
Net private flows[4]	129.2	138.4	147.7	188.7	140.4	67.0	30.5	2.3	22.2	53.0
Direct investment, net	48.0	75.3	85.1	107.6	129.7	130.5	126.1	118.3	134.9	109.5
Private portfolio investment, net	73.6	93.6	15.2	60.8	36.2	–4.3	11.1	–19.7	–17.0	10.0
Other private flows, net	7.5	–30.4	47.4	20.2	–25.6	–59.3	–106.6	–96.4	–95.7	–66.5
External financing[5]										
Net external financing[6]	187.8	174.4	213.9	239.5	251.0	202.8	165.4	155.2	187.6	185.9
Nondebt-creating flows	93.2	100.5	113.6	150.3	168.6	145.0	142.0	145.9	144.2	134.1
Capital transfers[7]	5.7	5.5	8.1	9.5	13.4	7.6	8.8	4.7	6.9	8.2
Foreign direct investment and equity security liabilities[8]	87.5	95.0	105.6	140.8	155.2	137.4	133.2	141.2	137.3	126.0
Net external borrowing[9]	94.6	73.9	100.2	89.1	82.4	57.8	23.4	9.3	43.4	51.7
Borrowing from official creditors[10]	44.4	21.7	31.9	8.8	11.9	28.5	27.3	9.1	43.5	25.4
Of which,										
Credit and loans from IMF[11]	–0.1	–0.8	12.6	–2.9	0.8	8.5	1.3	–6.7	. . .	. . .
Borrowing from banks[12]	19.3	–28.2	20.3	19.8	25.9	28.1	–3.5	8.0	–2.0	7.7
Borrowing from other private creditors	30.8	80.4	48.0	60.5	44.5	1.2	–0.4	–7.8	1.9	18.6
Memorandum										
Balance on goods and services in percent of GDP[13]	–2.5	–1.4	–1.3	–0.9	–0.7	–1.1	0.5	2.1	1.0	–0.3
Scheduled amortization of external debt	122.7	127.2	154.7	197.0	240.8	245.1	278.2	276.7	260.9	239.4
Gross external financing[14]	310.5	301.6	368.5	436.5	491.8	447.9	443.6	431.9	448.6	425.2
Gross external borrowing[15]	217.3	201.1	254.9	286.1	323.2	302.9	301.6	285.8	304.3	291.1
Exceptional external financing, net	34.1	20.1	20.5	20.3	16.3	20.1	24.0	19.7	25.5	7.6
Of which,										
Arrears on debt service	4.1	–14.1	–2.4	–0.2	–8.3	3.6	12.9	–22.8	. . .	. . .
Debt forgiveness	1.8	1.3	1.9	5.1	14.3	1.6	2.0	3.7	. . .	. . .
Rescheduling of debt service	22.5	25.1	20.3	15.3	10.4	6.1	11.1	41.4	. . .	. . .
Countries in transition										
Balance of payments[1]										
Balance on current account	–7.9	2.3	–2.2	–16.8	–23.9	–29.1	–2.1	27.0	13.2	–6.0
Balance on goods and services	–8.6	1.2	–5.1	–17.8	–19.0	33.8	3.7	32.2	16.2	–1.2
Income, net	–5.5	–3.1	–1.9	–4.8	–10.8	–73.1	–13.8	–13.2	–13.3	–14.8
Current transfers, net	6.2	4.2	4.7	5.8	5.9	10.1	8.0	8.1	10.2	10.0
Balance on capital and finalcial account	10.3	–1.7	5.8	24.1	27.0	37.0	7.3	–19.7	–11.0	5.5
Balance on capital account[2]	2.5	10.2	0.4	1.2	0.3	0.4	0.2	—	0.1	0.1
Balance on financial account	7.8	–11.9	5.4	22.9	26.6	36.6	7.1	–19.7	–11.1	5.4
Direct investment,net	6.0	5.3	13.1	12.4	15.6	21.6	23.4	22.5	26.7	31.5
Portfolio investment, net	8.7	16.1	14.6	13.4	24.4	12.2	1.8	6.2	6.3	6.5
Other investment, net	4.0	–28.0	15.5	–0.9	–3.9	4.4	–11.0	–27.0	–24.4	–20.0
Reserve assets	–10.9	–5.3	–37.8	–2.0	–9.4	–1.6	–7.1	–21.5	–19.7	–12.5
Errors and omissions, net	–2.4	–0.6	–3.6	–7.2	–3.1	–7.8	–5.3	–7.4	–2.1	0.5

Table 7 *(concluded)*

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Capital flows										
Total capital flows, net[3]	18.7	–6.6	43.1	24.9	36.1	38.2	14.2	1.8	8.6	18.0
Net official flows	–1.1	–11.2	–5.8	2.6	32.9	17.2	0.5	–0.4	1.1	3.0
Net private flows[4]	19.8	4.6	49.0	22.3	3.2	21.0	13.8	2.2	7.6	15.0
Direct investment, net	6.0	5.3	13.1	12.4	15.6	21.6	23.4	22.5	26.7	31.5
Private portfolio investment, net	8.7	16.1	14.6	13.4	8.0	4.0	2.8	4.3	3.6	3.5
Other private flows, net	5.1	–16.8	21.3	–3.5	–20.4	–4.6	–12.4	–24.7	–22.7	–20.0
External financing[5]										
Net external financing[6]	19.0	13.4	32.1	35.4	74.8	56.9	42.8	24.8	29.1	42.9
Nondebt-creating flows	9.8	16.3	14.8	14.7	21.4	24.5	24.4	25.8	29.5	34.6
Capital transfers[7]	2.5	10.2	0.4	1.2	0.3	0.4	0.2	—	0.1	0.1
Foreign direct investment and equity security liabilities[8]	7.2	6.1	14.3	13.5	21.1	24.2	24.2	25.9	29.5	34.5
Net external borrowing[9]	9.2	–2.9	17.3	20.7	53.4	32.4	18.4	–1.1	–0.4	8.3
Borrowing from official creditors[10]	2.0	–5.8	–2.5	2.9	32.9	17.2	0.4	–0.4	1.0	3.0
Of which,										
Credit and loans from IMF[11]	3.7	2.4	4.7	3.7	2.5	5.5	–3.6	–4.2	. . .	. . .
Borrowing from banks[12]	5.6	3.8	–0.8	4.6	4.5	5.2	–1.5	—	1.2	2.2
Borrowing from other private creditors	1.7	–0.9	20.6	13.2	16.0	9.9	19.4	–0.6	–2.6	3.1
Memorandum										
Balance on goods and services in percent of GDP[13]	–1.8	0.2	–0.7	–2.0	–2.1	4.2	0.5	4.4	1.9	–0.1
Scheduled amortization of external debt	25.3	22.4	26.7	25.6	19.3	23.1	27.4	29.2	28.2	29.1
Gross external financing[14]	44.3	35.7	58.8	61.0	94.1	80.0	70.2	53.9	57.3	72.0
Gross external borrowing[15]	34.5	19.5	44.0	46.3	72.7	55.5	45.8	28.1	27.7	37.4
Exceptional external financing, net	20.4	17.3	14.9	13.6	–20.8	7.8	7.7	5.2	0.8	0.4
Of which,										
Arrears on debt service	0.5	3.8	–0.5	1.1	–24.8	5.0	1.8	1.6	. . .	. . .
Debt forgiveness	2.1	—	0.9	0.9	—	—	—	—	. . .	. . .
Rescheduling of debt service	1.4	13.3	13.9	9.9	3.3	2.4	4.7	3.7	. . .	. . .

[1]Standard presentation in accordance with the 5th edition of the International Monetary Fund's *Balance of Payments Manual* (1993).
[2]Comprises capital transfers—including debt forgiveness—and acquisition/disposal of nonproduced, nonfinancial assets.
[3]Comprise net direct investment, net portfolio investment, and other long- and short-term net investment flows, including official and private borrowing. In the standard balance of payments presentation above, total net capital flows are equal to the balance on financial account minus the change in reserve assets.
[4]Because of limitations on the data coverage for net official flows, the residually derived data for net private flows may include some official flows.
[5]As defined in the *World Economic Outlook* (see footnote 6). It should be noted that there is no generally accepted standard definition of external financing.
[6]Defined as the sum of—with opposite sign—the goods and services balance, net income and current transfers, direct investment abroad, the change in reserve assets, the net acquisition of other assets (such as recorded private portfolio assets, export credit, and the collateral for debt-reduction operations), and the net errors and omissions. Thus, net external financing, according to the definition adopted in the *World Economic Outlook*, measures the total amount required to finance the current account, direct investment outflows, net reserve transactions (often at the discretion of the monetary authorities), the net acquisition of nonreserve external assets, and the net transactions underlying the errors and omissions (not infrequently reflecting capital flight).
[7]Including other transactions on capital account.
[8]Debt-creating foreign direct investment liabilities are not included.
[9]Net disbursement of long- and short-term credits, including exceptional financing, by both official and private creditors.
[10]Net disbursement by official creditors, based on directly reported flows and flows derived from information on external debt.
[11]Comprise use of International Monetary Fund resources under the General Resources Account, Trust Fund, and Poverty Reduction and Growth Facility (PRGF).
[12]Net disbursement by commercial banks, based on directly reported flows and cross-border claims and liabilities reported in the International Banking section of the International Monetary Fund's *International Financial Statistics*.
[13]This is often referred to as the "resource balance" and, with opposite sign, the "net resource transfer."
[14]Net external financing plus amortization due on external debt.
[15]Net external borrowing plus amortization due on external debt.

Table 8. External Debt and Debt Service

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
					Percent of exports of goods and services					
External debt[1]										
Developing countries	**212.8**	**199.6**	**181.3**	**168.0**	**161.0**	**186.1**	**178.0**	**142.3**	**144.3**	**144.4**
Regional groups										
Africa	271.9	281.0	253.1	228.2	216.0	243.6	228.4	177.2	177.8	185.2
Developing Asia	157.3	140.1	127.5	121.7	116.8	126.3	123.4	98.7	99.2	95.2
Middle East, Malta, and Turkey	195.5	192.3	174.6	154.2	155.7	206.3	187.3	144.8	156.0	174.8
Western Hemisphere	288.0	272.3	251.5	236.6	224.2	257.6	253.8	209.7	207.3	201.3
Analytical groups										
By external financing source										
Net debtor countries	239.1	221.2	200.2	186.1	176.3	197.6	191.5	156.1	156.9	153.0
of which, official financing	381.1	396.8	339.9	297.7	260.6	286.4	260.1	194.8	195.3	204.0
Net debtor countries by debt-servicing experience										
Countries with arrears and/or rescheduling during 1994–98	343.6	329.6	305.1	280.7	264.4	311.6	298.4	235.5	239.5	243.5
Countries in transition	**130.6**	**125.1**	**106.6**	**106.6**	**104.2**	**115.5**	**130.7**	**107.6**	**104.1**	**103.6**
Central and eastern Europe	136.4	120.6	100.6	103.7	98.5	91.0	115.0	105.9	100.2	97.3
CIS and Mongolia	125.7	129.2	112.2	109.3	109.7	150.6	149.8	109.4	108.3	111.4
Russia	171.1	166.1	134.2	132.4	130.6	181.3	170.3	122.1	121.4	126.6
Excluding Russia	32.7	35.5	58.0	55.9	63.4	85.0	105.5	80.7	81.2	83.1
Debt-service payments[2]										
Developing countries	**23.0**	**22.5**	**23.1**	**23.9**	**24.2**	**26.3**	**28.0**	**21.9**	**21.5**	**20.4**
Regional groups										
Africa	27.6	27.5	27.6	23.7	21.3	21.8	20.3	17.3	17.1	18.4
Developing Asia	17.9	17.3	16.5	15.3	15.0	17.8	19.0	13.3	13.4	12.0
Middle East, Malta, and Turkey	12.1	14.0	15.0	17.1	14.4	16.5	15.4	12.2	13.6	14.1
Western Hemisphere	39.4	36.9	40.2	46.1	51.6	51.2	59.0	49.7	46.2	42.7
Analytical groups										
By external financing source										
Net debtor countries	26.0	24.5	25.3	25.9	26.6	28.2	30.6	24.3	23.6	21.9
of which, official financing	34.9	36.9	33.1	24.4	20.2	19.3	17.0	13.9	14.5	13.9
Net debtor countries by debt-servicing experience										
Countries with arrears and/or rescheduling during 1994–98	32.1	29.7	33.5	32.2	36.7	44.3	50.2	33.8	33.1	32.8
Countries in transition	**10.1**	**9.8**	**11.5**	**11.2**	**11.1**	**15.8**	**16.7**	**14.5**	**13.9**	**13.4**
Central and eastern Europe	13.9	15.6	15.8	16.1	15.8	15.5	18.4	19.2	17.0	15.4
CIS and Mongolia	6.9	4.7	7.5	6.8	6.5	16.2	14.7	9.7	10.4	10.9
Russia	9.4	5.6	6.7	6.7	5.7	18.7	15.2	8.5	11.0	12.0
Excluding Russia	1.7	2.4	9.3	7.0	8.1	11.0	13.4	12.3	9.1	9.0
					Billions of U.S. dollars					
Memorandum										
External debt										
Developing countries	1,605.3	1,729.9	1,876.1	1,950.3	2,031.6	2,180.4	2,243.5	2,204.0	2,194.8	2,210.9
Countries in transition	236.3	253.0	275.9	299.1	308.6	360.4	358.4	358.9	364.6	372.9
Debt-service payments										
Developing countries	173.6	194.8	239.5	277.8	305.5	308.0	352.7	339.0	327.6	313.6
Countries in transition	18.2	19.8	29.7	31.4	32.8	49.4	45.8	48.3	48.6	48.2

[1] Total debt at year-end in percent of exports of goods and services in year indicated.
[2] Debt-service payments refer to actual payments of interest on total debt plus actual amortization payments on long-term debt. The projections incorporate the impact of exceptional financing items.

WORLD ECONOMIC OUTLOOK AND *STAFF STUDIES FOR THE WORLD ECONOMIC OUTLOOK*, SELECTED TOPICS, 1992–2001

I. Methodology—Aggregation, Modeling, and Forecasting

	World Economic Outlook
The Accuracy of *World Economic Outlook* Projections for the Major Industrial Countries	May 1992, Annex VIII
Revised Weights for the *World Economic Outlook*	May 1993, Annex IV
Structural Budget Indicators for Major Industrial Countries	October 1993, Annex I
The New *Balance of Payments Manual*	May 1994, Box 13
The Difficult Art of Forecasting	October 1996, Annex I
World Current Account Discrepancy	October 1996, Annex III
Alternative Exchange Rate Assumptions for Japan	October 1997, Box 2
Revised Purchasing Power Parity Based Weights for the *World Economic Outlook*	May 2000, Box A1
The Global Current Account Discrepancy	October 2000, Chapter I, Appendix II
How Well Do Forecasters Predict Turning Points	May 2001, Box 1.1
The Information Technology Revolution: Measurement Issues	October 2001, Box 3.1
Measuring Capital Account Liberalization	October 2001, Box 4.1
The Accuracy of *World Economic Outlook* Growth Forecasts: 1991–2000	December 2001, Box 3.1

	Staff Studies for the World Economic Outlook
An Extended Scenario and Forecast Adjustment Model for Developing Countries *Manmohan S. Kumar, Hossein Samiei, and Sheila Bassett*	December 1993
How Accurate Are the *World Economic Outlook* Projections? *Jose M. Barrionuevo*	December 1993
Purchasing Power Parity Based Weights for the *World Economic Outlook* *Anne Marie Gulde and Marianne Schulze-Ghattas*	December 1993
How Accurate Are the IMF's Short-Term Forecasts? Another Examination of the *World Economic Outlook* *Michael J. Artis*	December 1997
IMF's Estimates of Potential Output: Theory and Practice *Paula R. De Masi*	December 1997
Multilateral Unit-Labor-Cost-Based Competitiveness Indicators for Advanced, Developing, and Transition Countries *Anthony G. Turner and Stephen Golub*	December 1997

II. Historical Surveys

	World Economic Outlook
The Postwar Economic Achievement	October 1994, Chapter VI
Non-Oil Commodity Prices	October 1994, Box 10
The Rise and Fall of Inflation—Lessons from Postwar Experience	October 1996, Chapter VI
The World Economy in the Twentieth Century	May 2000, Chapter V
The Monetary System and Growth During the Commercial Revolution	May 2000, Box 5.2

	Staff Studies for the World Economic Outlook
Globalization and Growth in the Twentieth Century *Nicholas Crafts*	May 2000
The International Monetary System in the (very) Long Run *Barry Eichengreen and Nathan Sussman*	May 2000

III. Economic Growth—Sources and Patterns

	World Economic Outlook
Convergence and Divergence in Developing Countries	May 1993, Chapter IV
Trade as an Engine of Growth	May 1993, Chapter VI
New Theories of Growth and Trade	May 1993, Box 9
Why Are Some Developing Countries Failing to Catch Up?	May 1994, Chapter IV
The Postwar Economic Achievement	October 1994, Chapter VI
Business Cycles and Potential Output	October 1994, Box 5
Economic Convergence	October 1994, Box 11
Saving in a Growing World Economy	May 1995, Chapter V
North-South R&D Spillovers	May 1995, Box 6
Long-Term Growth Potential in the Countries in Transition	October 1996, Chapter V
Globalization and the Opportunities for Developing Countries	May 1997, Chapter IV
Measuring Productivity Gains in East Asian Economies	May 1997, Box 9
The Business Cycle, International Linkages, and Exchange Rates	May 1998, Chapter III
The Asian Crisis and the Region's Long-Term Growth Performance	October 1998, Chapter III
Potential Macroeconomic Implications of the Year 2000 Computer Bug	May 1999, Box 1.2
Growth Divergences in the United States, Europe, and Japan: Long-Run Trend or Cyclical?	October 1999, Chapter III
How Can the Poorest Countries Catch Up?	May 2000, Chapter IV
Trends in the Human Development Index	May 2000, Box 5.1
Productivity Growth and IT in the Advanced Economies	October 2000, Chapter II
Transition: Experience and Policy Issues	October 2000, Chapter III
Business Linkages in Major Advanced Countries	October 2001, Chapter II
How Do Macroeconomic Fluctuations in the Advanced Countries Affect the Developing Countries	October 2001, Chapter II
Confidence Spillovers	October 2001, Box 2.1
Channels of Business Cycle Transmission to Developing Countries	October 2001, Box 2.2
The Information Technology Revolution	October 2001, Chapter III
Has the IT Revolution Reduced Output Volatility	October 2001, Box 3.4
The Impact of Capital Account Liberalization on Economic Performance	October 2001, Box 4.2
How Has September 11 Influenced the Global Economy?	December 2001, Chapter II
The Long-Term Impact of September 11	December 2001, Box 2.1

	Staff Studies for the World Economic Outlook
How Large Was the Output Collapse in Russia? Alternative Estimates and Welfare Implications *Evgeny Gavrilenkov and Vincent Koen*	September 1995
Deindustrialization: Causes and Implications *Robert Rowthorn and Ramana Ramaswamy*	December 1997

IV. Inflation and Deflation; Commodity Markets

	World Economic Outlook
Asset Price Deflation, Balance Sheet Adjustment, and Financial Fragility	October 1992, Annex I
Monetary Policy, Financial Liberalization, and Asset Price Inflation	May 1993, Annex I
Price Stability	May 1993, Box 2
Oil Demand and Supply in the Medium Term	May 1993, Box 5
Hyperinflation and Chronic Inflation	October 1993, Box 8
The Rise and Fall of Inflation—Lessons from Postwar Experience	October 1996, Chapter VI
World Oil Market: Recent Developments and Outlook	October 1996, Annex II
Inflation Targets	October 1996, Box 8
Indexed Bonds and Expected Inflation	October 1996, Box 9
Effects of High Inflation on Income Distribution	October 1996, Box 10
Central Bank Independence and Inflation	October 1996, Box 11
Recent Developments in Primary Commodity Markets	May 1998, Annex II
Japan's Liquidity Trap	October 1998, Box 4.1
Safeguarding Macroeconomic Stability at Low Inflation	October 1999, Chapter IV
Global Liquidity	October 1999, Box 4.4
Cycles in Nonfuel Commodity Prices	May 2000, Box 2.2
Booms and Slumps in the World Oil Market	May 2000, Box 2.3
Commodity Prices and Commodity Exporting Countries	October 2000, Chapter II
Developments in the Oil Markets	October 2000, Box 2.2
The Decline of Inflation in Emerging Markets: Can It Be Maintained?	May 2001, Chapter IV
The Global Slowdown and Commodity Prices	May 2001, Chapter I, Appendix 1
Why Emerging Market Countries Should Strive to Preserve Lower Inflation	May 2001, Box 4.1
Is There a Relationship Between Fiscal Deficits and Inflation?	May 2001, Box 4.2
Inflation Targeting in Emerging Market Economies: Implementation and Challenges	May 2001, Box 4.3
How Much of a Concern is Higher Headline Inflation?	October 2001, Box 1.2
Primary Commodities and Semiconductor Markets	October 2001, Chapter I, Appendix 1

	Staff Studies for the World Economic Outlook
"Boom and Bust" in Asset Markets in the 1980s: Causes and Consequences *Garry J. Schinasi and Monica Hargraves*	December 1993
Prices in the Transition: Ten Stylized Facts *Vincent Koen and Paula R. De Masi*	December 1997

V. Fiscal Policy

	World Economic Outlook
Structural Budget Indicators for Major Industrial Countries	October 1993, Annex I
Economic Benefits of Reducing Military Expenditure	October 1993, Annex II
Structural Fiscal Balances in Smaller Industrial Countries	May 1995, Annex III

VI. Monetary Policy; Financial Markets; Flow of Funds

Staff Studies for the World Economic Outlook

VII. Labor Market Issues

	World Economic Outlook
Fostering Job Creation, Growth, and Price Stability in Industrial Countries	May 1994, Chapter III
Capital Formation and Employment	May 1995, Box 4
Implications of Structural Reforms Under EMU	October 1997, Annex II
Euro-Area Structural Rigidities	October 1998, Box 5.3
Chronic Unemployment in the Euro Area: Causes and Cures	May 1999, Chapter IV
Labor Market Slack: Concepts and Measurement	May 1999, Box 4.1
EMU and European Labor Markets	May 1999, Box 4.2
Labor Markets—An Analytical Framework	May 1999, Box 4.3
The OECD Jobs Study	May 1999, Box 4.4
The Effects of Downward Rigidity of Nominal Wages on (Un)employment: Selected Simulation Results	October 1999, Box 4.1

	Staff Studies for the World Economic Outlook
Unemployment and Wage Dynamics in MULTIMOD *Leonardo Bartolini and Steve Symansky*	December 1993
Evaluating Unemployment Policies: What Do the Underlying Theories Tell Us? *Dennis J. Snower*	September 1995
Institutional Structure and Labor Market Outcomes: Western Lessons for European Countries in Transition *Robert J. Flanagan*	September 1995
The Effect of Globalization on Wages in the Advanced Economies *Matthew J. Slaughter and Phillip Swagel*	December 1997
International Labor Standards and International Trade *Stephen Golub*	December 1997
EMU Challenges European Labor Markets *Rüdiger Soltwedel, Dirk Dohse, and Christiane Krieger-Boden*	May 2000

VIII. Exchange Rate Issues

	World Economic Outlook
Interim Assessment (Focus on Crisis in the European Monetary System)	January 1993
Recent Changes in the European Exchange Rate Mechanism	October 1993, Chapter III
Chronology of Events in the Recent Crisis in the European Monetary System	October 1993, Box 3
Striving for Stability: Realignment of the CFA Franc	May 1994, Box 8
Currency Arrangements in the Former Soviet Union and Baltic Countries	May 1994, Box 10
Exchange-Rate-Based Stabilization	May 1994, Box 11
Exchange Market Reforms in Africa	October 1994, Box 3
Currency Convertibility	October 1994, Box 7
Currency Substitution in Transition Economies	October 1994, Box 8
Exchange Rate Effects of Fiscal Consolidation	October 1995, Annex
Exchange Rate Arrangements and Economic Performance in Developing Countries	October 1997, Chapter IV
Asymmetric Shocks: European Union and the United States	October 1997, Box 4

Currency Boards	October 1997, Box 5
The Business Cycle, International Linkages, and Exchange Rates	May 1998, Chapter III
Evaluating Exchange Rates	May 1998, Box 5
Determining Internal and External Conversion Rates for the Euro	October 1998, Box 5.4
The Euro Area and Effective Exchange Rates	October 1998, Box 5.5
Recent Dollar/Yen Exchange Rate Movements	December 1998, Box 3.1
International Financial Contagion	May 1999, Chapter III
Exchange Rate Crashes and Inflation: Lessons for Brazil	May 1999, Box 2.1
Recent Experience with Exchange-Rate-Based Stabilizations	May 1999, Box 3.1
The Pros and Cons of Dollarization	May 2000, Box 1.4
Why Is the Euro So Undervalued?	October 2000, Box 1.1
Convergence and Real Exchange Rate Appreciation in the EU Accession Countries	October 2000, Box 4.4
What Is Driving the Weakness of the Euro and the Strength of the Dollar?	May 2001, Chapter II
The Weakness of the Australian and New Zealand Currencies	May 2001, Box 2.1
How Did the September 11 Attacks Affect Exchange Rate Expectations?	December 2001, Box 2.4

	Staff Studies for the World Economic Outlook
Multilateral Unit-Labor-Cost-Based Competitiveness Indicators for Advanced, Developing, and Transition Countries *Anthony G. Turner and Stephen Golub*	December 1997
Currency Crises: In Search of Common Elements *Jahangir Aziz, Francesco Caramazza and Ranil Salgado*	May 2000
Business Cycle Influences on Exchange Rates: Survey and Evidence *Ronald MacDonald and Phillip Suragel*	May 2000

IX. External Payments, Trade, Capital Movements, and Foreign Debt

	World Economic Outlook
Trade as an Engine of Growth	May 1993, Chapter VI
New Theories of Growth and Trade	May 1993, Box 9
Is the Debt Crisis Over?	October 1993, Box 5
The Uruguay Round: Results and Implications	May 1994, Annex I
The Recent Surge in Capital Flows to Developing Countries	October 1994, Chapter IV
Currency Convertibility	October 1994, Box 7
Trade Among the Transition Countries	October 1995, Box 7
World Current Account Discrepancy	October 1996, Annex III
Capital Inflows to Developing and Transition Countries—Identifying Causes and Formulating Appropriate Policy Responses	October 1996, Annex IV
Globalization—Opportunities and Challenges	May 1997
Moral Hazard and IMF Lending	May 1998, Box 2
The Current Account and External Sustainability	May 1998, Box 8
Review of Debt-Reduction Efforts for Low-Income Countries and Status of the HIPC Initiative	October 1998, Box 1.1
Trade Adjustment in East Asian Crisis Countries	October 1998, Box 2.2
Are There Dangers of Increasing Protection?	May 1999, Box 1.3

Trends and Issues in the Global Trading System	October 1999, Chapter V
Capital Flows to Emerging Market Economies: Composition and Volatility	October 1999, Box 2.2
The Global Current Account Discrepancy	October 2000, Chapter I, Appendix II
Trade Integration and Sub-Saharan Africa	May 2001, Chapter II
Sustainability of the U.S. External Current Account	May 2001, Box 1.2
Reducing External Balances	May 2001, Chapter I, Appendix 2
The World Trading System: From Seattle to Doha	October 2001, Chapter II
International Financial Integration and Economic Performance: Impact on Developing Countries	Ocober 2001, Chapter IV
Potential Welfare Gains From a New Trade Round	October 2001, Box 2.3
Critics of a New Trade Round	October 2001, Box 2.4
Foreign Direct Investment and the Poorer Countries	October 2001, Box 4.3
Country Experiences with Sequencing Capital Account Liberalization	October 2001, Box 4.4
Contagion and Its Causes	December 2001, Chapter I, Appendix

	Staff Studies for the World Economic Outlook
Foreign Direct Investment in the World Economy *Edward M. Graham*	September 1995

X. Regional Issues

	World Economic Outlook
The Maastricht Agreement on Economic and Monetary Union	May 1992, Annex II
Interim Assessment (Focus on Crisis in the European Monetary System)	January 1993
Economic Performance and Financing Needs in Africa	October 1993, Box 6
Stabilization and Economic Reform in the Baltic Countries	October 1993, Box 7
Adjustment and Recovery in Latin America and the Caribbean	May 1994, Annex III
European Economic Integration	October 1994, Annex I
Adjustment in Sub-Saharan Africa	May 1995, Annex II
Macroeconomic and Structural Adjustment in the Middle East and North Africa	May 1996, Annex II
Stabilization and Reform of Formerly Centrally Planned Developing Economies in East Asia	May 1997, Box 10
EMU and the World Economy	October 1997, Chapter III
Implications of Structural Reforms Under EMU	October 1997, Annex II
The European Union's Stability and Growth Pact	October 1997, Box 3
Asymmetric Shocks: European Union and the United States	October 1997, Box 4
Interim Assessment (Focus on Crisis in Asia—Regional and Global Implications)	December 1997
The Asian Crisis and the Region's Long-Term Growth Performance	October 1998, Chapter III
Economic Policy Challenges Facing the Euro Area and the External Implications of EMU	October 1998, Chapter V
Economic Policymaking in the EU and Surveillance by EU Institutions	October 1998, Chapter V, Appendix
Chronic Unemployment in the Euro Area: Causes and Cures	May 1999, Chapter IV

Growth in Sub-Saharan Africa: Performance, Impediments, and Policy Requirements	October 1999, Chapter VI
The Regional Economic Impact of the Kosovo Crisis	October 1999, Box 1.5
Counting the Costs of the Recent Crises	October 1999, Box 2.6
Africa and World Trends in Military Spending	October 1999, Box 6.1
The Economic Impact of HIV/AIDS in Southern Africa	October 2000, Box 1.4
Accession of Transition Economies to the European Union: Prospects and Pressures	October 2000, Chapter IV
The IMF and the Transition Economies	October 2000, Box 3.1
Previous EU Enlargements	October 2000, Box 4.2
The Enhanced HIPC Initiative in Africa	May 2001, Box 1.4
Large Current Account Defecits in EU Accession Countries	May 2001, Box 1.5
Africa's Trade and The Gravity Model	May 2001, Box 2.2
The Implications of the Japanese Economic Slowdown for East Asia	October 2001, Box 1.4
Relative Euro-Area Growth Performances: Why are Germany and Italy Lagging Behind France?	October 2001, Box 1.5
Economic Growth, Civil Conflict, and Poverty Reduction in Sub-Saharan Africa	October 2001, Box 1.7
Information Technology and Growth in Emerging Asia	October 2001, Box 3.3
The IT Slump and Short-Term Growth Prospects in East Asia	October 2001, Box 3.5
The Effects of the September 11 Attacks on the Caribbean Region	December 2001, Box 3.3

	Staff Studies for the World Economic Outlook
The Design of EMU *David Begg*	December 1997
The Great Contraction in Russia, the Baltics and Other Countries of the Former Soviet Union: A View from the Supply Side *Mark De Brodck and Vincent Koen*	May 2000

XI. Country-Specific Analyses

	World Economic Outlook
Voucher Privatization in the Czech and Slovak Federal Republic	October 1992, Box 2
Currency Reform in Estonia	October 1992, Box 3
Economic Reforms, Growth, and Trade in China	May 1993, Box 4
Economic Arrangements for the Czech-Slovak Breakup	May 1993, Box 6
India's Economic Rebound	October 1993, Box 1
Japan's Trade Surplus	October 1993, Box 2
The Treuhandanstalt	October 1993, Box 9
Adjustment and Recovery in Latin America and the Caribbean	May 1994, Annex III
Poland's Economic Rebound	May 1994, Box 9
Foreign Direct Investment in China	October 1994, Box 6
Factors Behind the Financial Crisis in Mexico	May 1995, Annex I
New Zealand's Structural Reforms and Economic Revival	May 1995, Box 3
Brazil and Korea	May 1995, Box 5
The Output Collapse in Russia	May 1995, Box 8
Foreign Direct Investment in Estonia	May 1995, Box 9

Staff Studies for the World Economic Outlook

World Economic and Financial Surveys

This series (ISSN 0258-7440) contains biannual, annual, and periodic studies covering monetary and financial issues of importance to the global economy. The core elements of the series are the *World Economic Outlook* report, usually published in May and October, and the annual report on *International Capital Markets*. Other studies assess international trade policy, private market and official financing for developing countries, exchange and payments systems, export credit policies, and issues discussed in the *World Economic Outlook*. Please consult the IMF *Publications Catalog* for a complete listing of currently available World Economic and Financial Surveys.

World Economic Outlook: A Survey by the Staff of the International Monetary Fund

The *World Economic Outlook*, published twice a year in English, French, Spanish, and Arabic, presents IMF staff economists' analyses of global economic developments during the near and medium term. Chapters give an overview of the world economy; consider issues affecting industrial countries, developing countries, and economies in transition to the market; and address topics of pressing current interest.

ISSN 0256-6877.
$42.00 (academic rate: $35.00); paper.
2001. (Oct.). ISBN 1-58906-073-3. **Stock #WEO EA 0022001.**
2001. (May). ISBN 1-58906-032-6. **Stock #WEO EA 0012001.**
2000. (Oct.). ISBN 1-55775-975-8. **Stock #WEO EA 0022000.**
2000. (May). ISBN 1-55775-936-7. **Stock #WEO EA 012000.**
1999. (Oct.). ISBN 1-55775-839-5. **Stock #WEO EA 299.**
1999. (May). ISBN 1-55775-809-3. **Stock #WEO-199.**

Official Financing for Developing Countries

by a staff team in the IMF's Policy Development and Review Department led by Anthony R. Boote and Doris C. Ross

This study provides information on official financing for developing countries, with the focus on low-income countries. It updates the 1995 edition and reviews developments in direct financing by official and multilateral sources.

$25.00 (academic rate: $20.00); paper.
2001. ISBN 1-58906-038-5. **Stock #WEO EA 0132001.**
1998. ISBN 1-55775-702-X. **Stock #WEO-1397.**
1995. ISBN 1-55775-527-2. **Stock #WEO-1395.**

Exchange Rate Arrangements and Currency Convertibility: Developments and Issues

by a staff team led by R. Barry Johnston

A principle force driving the growth in international trade and investment has been the liberalization of financial transactions, including the liberalization of trade and exchange controls. This study reviews the developments and issues in the exchange arrangements and currency convertibility of IMF members.

$20.00 (academic rate: $12.00); paper.
1999. ISBN 1-55775-795-X. **Stock #WEO EA 0191999.**

World Economic Outlook Supporting Studies

by the IMF's Research Department

These studies, supporting analyses and scenarios of the *World Economic Outlook*, provide a detailed examination of theory and evidence on major issues currently affecting the global economy.

$25.00 (academic rate: $20.00); paper.
2000. ISBN 1-55775-893-X. **Stock #WEO EA 0032000.**

International Capital Markets: Developments, Prospects, and Key Policy Issues

by a staff team led by Donald J. Mathieson and Garry J. Schinasi

This year's *International Capital Markets* report assesses recent developments in mature and emerging financial markets and analyzes key systemic issues affecting global financial markets. The report discusses the main risks in the period ahead; identifies sources of, and possible measures to avoid, instability in OTC derivatives markets; reviews initiatives to "involve"the private sector in preventing and resolving crises, and discusses the role of foreign-owned banks in emerging markets.

$42.00 (academic rate: $35.00); paper
2001. ISBN 1-58906-056-3. **Stock #WEO EA 0062001.**
2000. (Sep.). ISBN 1-55775-949-9. **Stock #WEO EA 0062000**
1999. (Sep.). ISBN 1-55775-852-2. **Stock #WEO EA 699.**
1998. (Sep.). ISBN 1-55775-770-4. **Stock #WEO-698**

Toward a Framework for Financial Stability

by a staff team led by David Folkerts-Landau and Carl-Johan Lindgren

This study outlines the broad principles and characteristics of stable and sound financial systems, to facilitate IMF surveillance over banking sector issues of macroeconomic significance and to contribute to the general international effort to reduce the likelihood and diminish the intensity of future financial sector crises.

$25.00 (academic rate: $20.00); paper.
1998. ISBN 1-55775-706-2. **Stock #WEO-016.**

Trade Liberalization in IMF-Supported Programs

by a staff team led by Robert Sharer

This study assesses trade liberalization in programs supported by the IMF by reviewing multiyear arrangements in the 1990s and six detailed case studies. It also discusses the main economic factors affecting trade policy targets.

$25.00 (academic rate: $20.00); paper.
1998. ISBN 1-55775-707-0. **Stock #WEO-1897.**

Private Market Financing for Developing Countries

by a staff team from the IMF's Policy Development and Review Department led by Steven Dunaway

This study surveys recent trends in flows to developing countries through banking and securities markets. It also analyzes the institutional and regulatory framework for developing country finance; institutional investor behavior and pricing of developing country stocks; and progress in commercial bank debt restructuring in low-income countries.

$20.00 (academic rate: $12.00); paper.
1995. ISBN 1-55775-526-4. **Stock #WEO-1595.**

Available by series subscription or single title (including back issues); academic rate available only to full-time university faculty and students. For earlier editions please inquire about prices.

The IMF *Catalog of Publications* is available on-line at the Internet address listed below.

Please send orders and inquiries to:
International Monetary Fund, Publication Services, 700 19th Street, N.W.
Washington, D.C. 20431, U.S.A.
Tel.: (202) 623-7430 Telefax: (202) 623-7201
E-mail: publications@imf.org
Internet: http://www.imf.org