# World Economic Situation and Prospects 2010


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# Executive Summary

## The global economic outlook

### *The global economy is on the mend …*

The world economy is on the mend. After a sharp, broad and synchronized global downturn in late 2008 and early 2009, an increasing number of countries have registered positive quarterly growth of gross domestic product (GDP), along with a notable recovery in international trade and global industrial production. World equity markets have also rebounded and risk premiums on borrowing have fallen.

### *… but recovery is fragile*

The recovery is uneven and conditions for sustained growth remain fragile. Credit conditions are still tight in major developed economies, where many major financial institutions need to continue the process of deleveraging and cleansing their balance-sheets. The rebound in domestic demand remains tentative at best in many economies and is far from self-sustaining. Much of the rebound in the real economy is due to the strong fiscal stimulus provided by Governments in a large number of developed and developing countries and to the restocking of inventories by industries worldwide. Consumption and investment demand remain weak, however, as unemployment and underemployment rates continue to rise and output gaps remain wide in most countries.

In the outlook, global economic recovery is expected to remain sluggish, employment prospects will remain bleak and inflation will stay low.

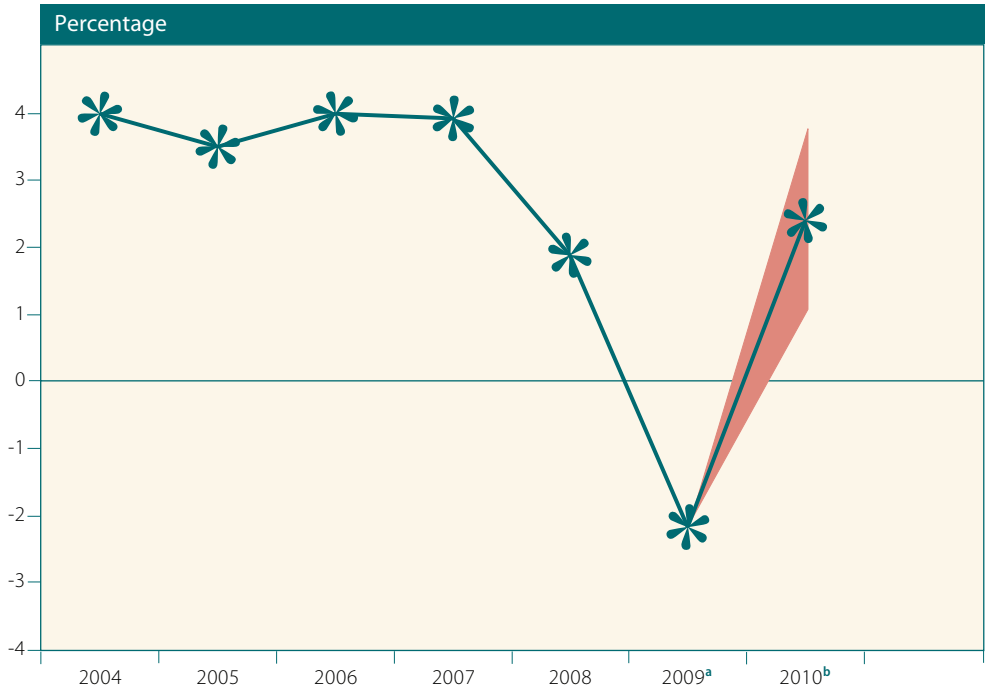
### *Global growth will be below potential …*

World gross product (WGP) is estimated to fall by 2.2 per cent for 2009, the first actual contraction since the Second World War. Premised on a continued supportive policy stance worldwide, a mild growth of 2.4 per cent is forecast in the baseline scenario for 2010. According to this scenario, the level of world economic activity will be 7 per cent below where it might have been had pre-crisis growth continued.

### *… with little impetus from developed economies*

In developed economies, consumer and investment demand remains subdued as a result of a continued rise in unemployment rates, efforts by households to restore their financial balances following the wealth losses incurred during the crisis, and the reluctance of firms to invest while capacity utilization rates are low and credit supplies remain tight. Furthermore, the impetus from the stimulus measures and the turn in the inventory cycle are expected to diminish over time. The major developed economies are not expected to provide a strong impulse to global growth in the near term, growing at a moderate 1.3 per cent on average in 2010 (a nonetheless visible rebound from the decline of 3.5 per cent in 2009).

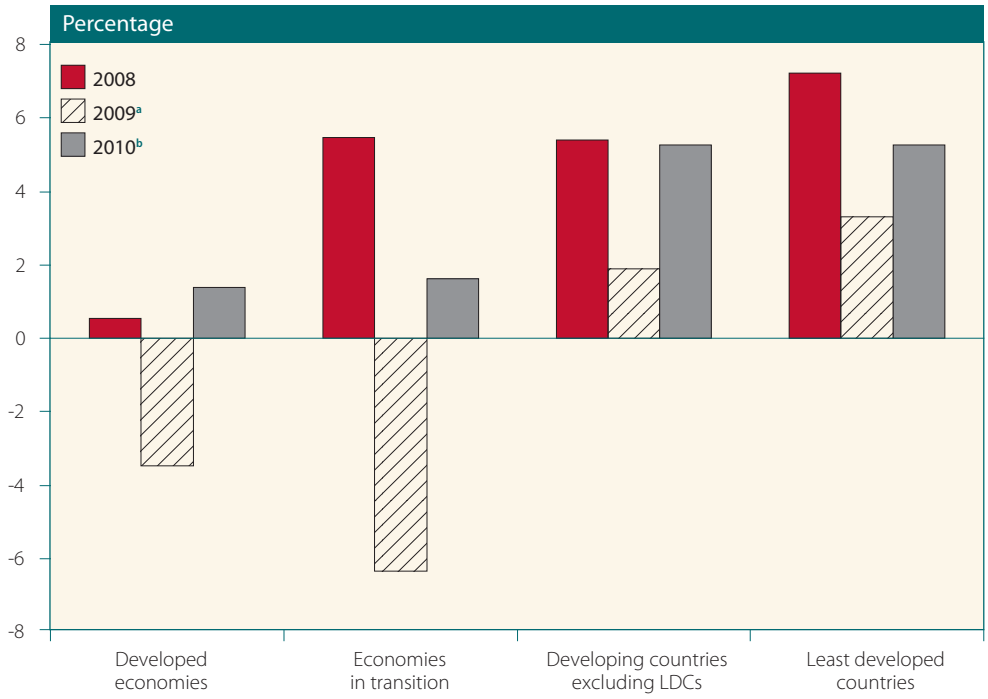
**World economic growth, 2004–2010**




Indicates the confidence interval at two standard deviations from historical forecast errors.

**Source:** UN/DESA.
**a** Partly estimated.
**b** United Nations forecast.

**Economic growth by region, 2008-2010**




**Source:** UN/DESA.
**a** Partly estimated.
**b** United Nations forecast.

### *The recovery is uneven among developing countries and the economies in transition*

Output growth in the developing countries, in contrast, is expected to recover at a faster pace but, at a projected 5.3 per cent in 2010, will remain well below the pre-crisis pace of more than 7 per cent per annum. Some developing economies have rebounded sooner than others. Fiscal stimulus and resumption of trade in manufactures pulled up economies in Asia in particular. Economies in transition are expected to see a turnaround from the steep decline (of 6.5 per cent) in 2009, but growth in the outlook for 2010 will be very weak, at 1.6 per cent.

Growth in most developing countries and economies in transition remains highly dependent upon movements in international trade, commodity prices and capital flows. These conditions have improved as part of the global recovery, but a further rebound will be strongly contingent upon the strength of the recovery in the developed countries. In the outlook, conditions for international trade and finance will remain challenging. This will affect the low-income countries in particular. While country-specific conditions differ markedly, the global crisis has undermined investments and, hence, the growth potential of their economies. Many of the least developed countries (LDCs) are expected to see a much slower economic performance in the years ahead compared with the robust growth they witnessed in the years before the crisis.

## The outlook for employment, poverty and inflation

### *Unemployment rates are still on the rise*

The number of unemployed is rising in most economies. Among developed economies, the number of unemployed has more than doubled in the United States of America since the beginning of the recession in December 2007. The unemployment rates in the euro area and Japan have also increased notably. The actual situation is even worse as it does not include unemployment data for discouraged workers who are unemployed but not currently looking for work because they believe no jobs are available for them. Unemployment rates in transition economies and developing countries have also moved higher, in particular in the Commonwealth of Independent States (CIS) and Central and South-eastern Europe.

### *Developing countries are seeing increases in vulnerable employment and working poverty*

In developing countries, while most job losses are in export sectors, a greater concern lies with the stark increase in vulnerable employment and working poverty. In East and South Asia, vulnerable employment affects about 70 per cent of the workforce and available data suggest that this share has increased significantly as a consequence of the crisis. Similarly, in sub-Saharan Africa, an important share of the region's labour force is engaged in subsistence agriculture and other low-productivity economic activities without any form of social protection. In the developing world at large, the share of working poor is estimated to have increased to 64 per cent in 2009, up from 59 per cent in 2007.

### *Social gaps in employment opportunities are widening*

The impact of the financial crisis on labour conditions is expected to aggravate social gaps in employment opportunities, in particular for women, who are more often involved in temporary employment and jobs in export-oriented manufacturing industries in developing countries. Worldwide, unemployment among youth (those 16-24 years of age) is expected to increase from a rate of 12.2 per cent in 2008 to about 14 per cent in 2009 on average. The rate of youth unemployment in the European Union (EU) increased by 4 percentage points in the past year, reaching 19.7 per cent, and in the United States it went up by 5 percentage points, reaching 18 per cent in 2009. In developed and developing countries alike, an increasing number of new college graduates continue to face enormous difficulties in finding employment.

### *Labour markets will remain weak in 2010*

Labour markets will remain weak in the outlook. The experience of previous recessions shows that employment recovery typically lags output growth by a significant margin, and this margin has been growing over time. The recovery from the present crisis has only just begun and large output gaps remain characteristic of the situation in most major economies. This will slow new hiring until output growth has become more robust.

The employment situation in developing countries is also expected to remain difficult in the outlook. In particular, jobs that were shed in export-oriented manufacturing sectors are expected to come back only very slowly. Workers who have shifted to informal sector jobs during the crisis in developing countries are expected to remain there for quite a long time. On top of vulnerable employment, social protection coverage is relatively limited in most developing countries, and working poverty levels will therefore increase. This will be difficult to reverse, as observed in previous crises.

### *The adverse impacts on poverty and human development could be long-lasting*

Between 47 and 84 million more people are estimated to remain poor or to have fallen into extreme poverty in developing countries than would have been the case had the crisis not occurred. Major setbacks in the progress towards the achievement of the other Millennium Development Goals (MDGs) are also to be expected, especially for the vulnerable populations in low-income countries. Despite the signs of economic recovery, many people are still facing declines in household incomes, rising unemployment and pressure on social services because of dwindling Government revenue. Where these adverse impacts cannot be countered because of weak social safety nets and lack of fiscal space to protect social spending and promote job creation, there are high risks of long-lasting setbacks in human development.

### *Inflationary pressures are expected to remain low*

The majority of countries have experienced significantly lower inflation rates (disinflation) in 2009, while a growing number of economies, mainly developed countries and a few emerging economies in Asia, actually experienced deflation as general price indices fell. The continued increase in unemployment rates and large output gaps suggest inflation is likely to remain low in the outlook despite continued expansionary monetary policies, as

aggregate demand should be expected to fall short of output capacity for some time to come. With only a moderate recovery in global demand, further increases in the prices of primary commodities are expected to be limited, while high unemployment rates and continued efforts by the business sector to curb costs will keep wage pressures down. Inflationary pressures as a consequence of the ballooning government deficits and the ample liquidity injected during the crisis, if they emerge, will be more of an issue in the medium run, after the recovery has become more solid, and should not be of immediate concern.

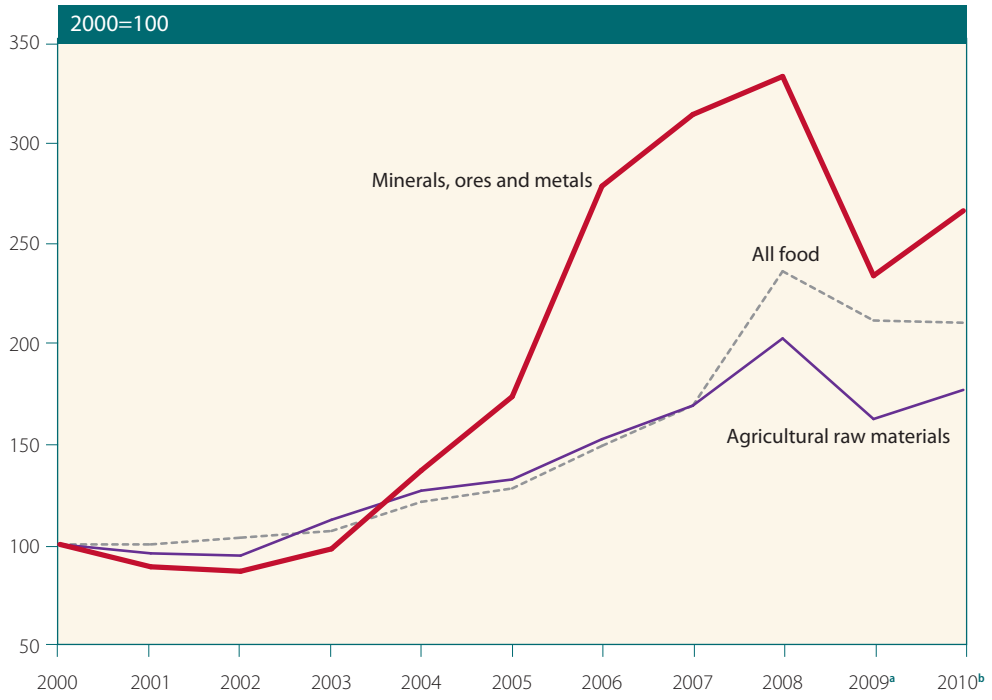
## Trade and financing conditions of developing countries

### *Trade volumes have rebounded after a free fall in early 2009*

The financial crisis caused a free fall in world trade volumes from the end of 2008 up to the second quarter of 2009, triggered especially by collapsing import demand in developed countries. Trade flows fell at annualized rates of between 30 and 50 per cent during that period, with Asian exporters being hit hardest. World trade rebounded somewhat thereafter, but for the year 2009 volume fell by almost 13 per cent. The severe decline in global aggregate demand was compounded by a considerable strain in global financial markets, resulting primarily in increased borrowing costs and a shortage of trade credits. Trade in services exhibited the same pattern as merchandise trade, with maritime transport and tourism being particularly hard hit.

A mild growth of 5 per cent in world trade volume is forecast for 2010 given the moderate recovery of global output.

**Commodity price trends and projections**




**Source**: UN/DESA, based on UNCTAD Commodity Price Statistics database.

**a** Partly estimated.
**b** United Nations projections.

### *Prices of commodities continue to be extremely volatile*

The financial crisis also caused a collapse in the prices of oil and non-oil primary commodities. By early 2009, oil prices plummeted by as much as 70 per cent from their peak levels of mid-2008 before rebounding to about $80 per barrel in November 2009 (which is still about 45 per cent below the high). During the same period, prices of metals declined even more sharply, to about one third of their peak levels. Prices of agricultural products, including basic grains, also declined significantly. The downward trend came to a halt in the first quarter of 2009 and rebounded thereafter. By mid-2009, real agricultural commodity prices were still high compared with the low levels sustained during much of the 1980s and 1990s. World food prices equally declined, then rebounded along with other primary commodities. With the measurable rebound in the prices of most primary commodities since March 2009, the room for further increase is limited in the outlook for 2010. The slack in supply of these commodities is not expected to close in the foreseeable future, and only a mild recovery in demand is likely. However, the close linkage between the prices of primary commodities and the financial markets, including the exchange rates of the United States dollar, will likely make these prices highly volatile.

### *Many developing countries experienced large swings in their terms of trade*

Many developing countries have suffered strong swings in their terms of trade. Net exporters of oil and minerals, in particular, felt very strong adverse export price shocks on top of the falloff in global demand as part of the recession, but some ground has been regained recently. Net importers of food and energy saw their import bills fall during the crisis, but, in general, the related terms-of-trade gain was more than offset by the steep drop in the demand for their exports at the height of the global recession. The more recent reversal in their terms of trade will slow their recovery. More generally, however, high terms-of-trade volatility makes macroeconomic management more challenging and enhances economic insecurity, all of which tends to be detrimental for long-term growth prospects.

### *Trade protectionism increased during the crisis*

In response to the current global crisis, many Governments have been tempted by sentiments of protectionism. Many fiscal and financial packages contain elements—such as direct State support to industries, bailouts, other subsidies and "buy/lend/invest/hire local" conditions—that favour spending on domestic goods and services. Several of these support measures may infringe upon fair trade practices, distort competitive conditions and influence decisions on the location of investment and production with implications for many years to come. Many developing countries that lack the capacity to engage such support measures may suffer undue losses in competitiveness as a consequence.

These protectionist measures were taken despite pledges, especially by the Governments of the Group of Twenty (G20) nations, to resist them. Thus far, however, these measures may be characterized as forms of "low-intensity" protectionism and remain far from the beggar-thy-neighbour responses that partly led to the Great Depression of the 1930s. In general, Governments have avoided resorting to widespread trade restrictions in their anti-crisis strategies.

### *New attempts are being made to revitalize the Doha Round*

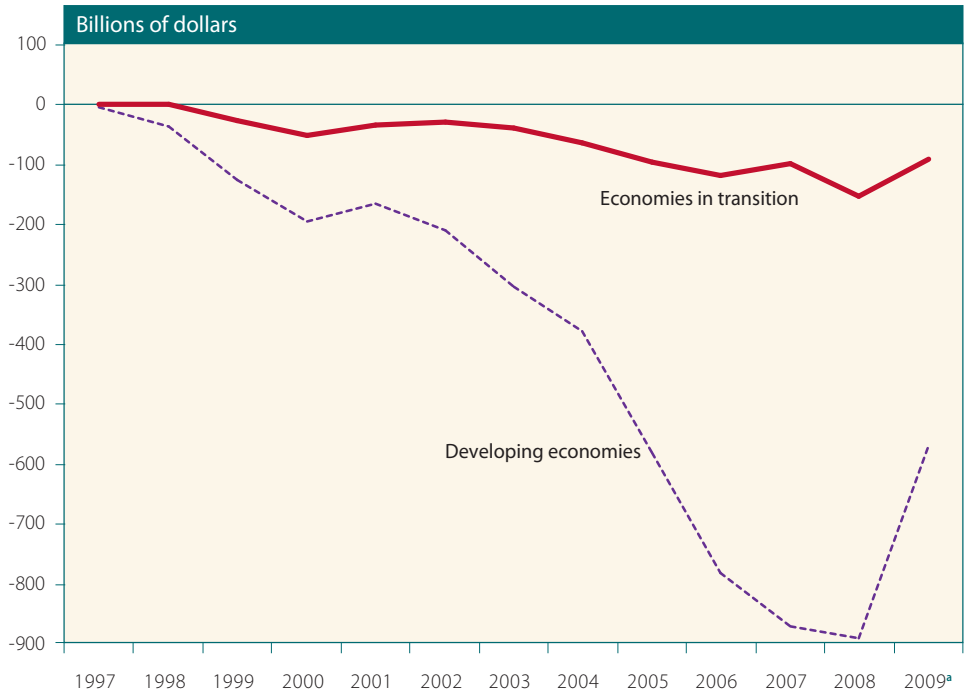
The attempts to re-energize the Doha Round of multilateral trade negotiations in mid-2008 failed over disagreements on various issues, especially on the special safeguard mechanism (SSM) for agriculture in developing countries. This preceded the financial crisis which sent global trade into a deep decline. In response to the crisis, countries have relied much more on safeguard mechanisms. Development-related deliverables that were originally expected of the Round (such as the SSM which aims to preserve the necessary policy space against adverse external shocks) should logically be accorded more focus in future negotiations.

G20 leaders at the Pittsburgh summit have promised they would pursue completion of the Doha Round in 2010 as part of their intent to strengthen concerted efforts towards a rebalancing of the global economy. But good intentions may not be enough. As the global economy starts to recover and the risks of proliferation of bilateral agreements re-emerge, trade negotiations in the context of the Doha Round should press ahead. However, a sustainable rebalancing of the global economy would require, inter alia, assurances that the outcomes of the new multilateral trading regime actually will be conducive to meeting the development objectives central to the conception of the Round. Furthermore, a shift to place greater focus on implementation, policy review and the enhancement of trade-related capacities would perhaps be necessary to avoid the risk of non-implementation and disputes.

### *Net financial resources continue to flow from poor to rich countries*

Developing countries as a group are expected to have continued to provide net financial transfers to developed countries in 2009 at a level of $568 billion. While still substantial,

**Net financial transfers to developing countries and economies in transition, 1997–2009**




**Sources**: UN/DESA, based on IMF, World Economic Outlook Database, October 2009; and IMF, Balance of Payments Statistics.

**Note:** Net financial transfers are defined as net capital inflows less net interest and other investment income payments abroad.

**a** Partly estimated.

this amount is notably lower than the all-time high of $891 billion reached in 2008. The estimated reduction in net transfers (defined as net capital flows less investment income payments) reflects the tentative narrowing of the global imbalances as a consequence of the ongoing global financial and economic crisis.

### *Private capital flows have declined sharply*

Private capital flows to developing countries declined sharply from the second half of 2008. The sharpest drop was in international bank lending, with a substantial net inflow to emerging and developing economies turning into a net outflow in 2009. The economies in transition experienced the most dramatic reversal, having been heavily dependent on bank financing and feeling the consequences of worldwide deleveraging as a consequence of the financial crisis. All other forms of private capital flows also declined, including foreign direct investment (FDI), which fell by 30 per cent in 2009. Countries with large current-account deficits, and therefore the most dependent on foreign capital, were hardest hit by the substantial tightening of credit conditions in international markets. But even middle-income countries with current-account surplus positions were substantially affected by the global financial crisis, since a sell-off in assets triggered a marked depreciation of exchange rates in a large number of economies.

These flows have recuperated markedly since March 2009, however, along with the rebound in stock markets in both developed and most emerging economies. In the outlook for 2010, FDI flows are expected to grow by about 20 per cent. Access to bank lending, however, is expected to remain limited for most developing countries and economies in transition in 2010 as global credit supply conditions are expected to remain tight. Given the sluggishness in the recovery of global output, there is also a fear that returning portfolio flows could reflect a renewed appetite for riskier assets. The speculative motives associated with this could become a source of increased volatility in exchange rates and assets prices and, hence, of renewed macroeconomic instability.

### *Delivery on development aid commitments continues to fall short*

Net official flows to a number of emerging and other developing countries have increased in 2009, especially after the International Monetary Fund (IMF) and other multilateral financial institutions significantly expanded their lending capacity and started to disburse lending. Emerging Europe received the lion's share of these additional resources in the form of emergency financing. Meanwhile, bilateral official, non-concessional flows also increased as central banks arranged foreign-exchange swaps to deal with the lack of international liquidity. Yet, in the aggregate, net official flows to developing countries are expected to remain negative in 2009 and 2010, continuing the trend of the past decade. Much of the outflow comes from developing Asia, while Africa and Latin America and the Caribbean are expected to be net recipients with positive inflows of about $14 billion and $27 billion, respectively, in 2009; in both cases substantial increases from 2008 levels.

Net official development assistance (ODA) to developing countries increased in 2008, but aid delivery still fell well short of international commitments. Net aid flows are expected to fall in absolute terms in 2009-2010 as the global crisis has put pressure on the aid budgets of major donors, several of which target ODA as a percentage of their gross national income (GNI). For low-income countries with weak fiscal space, in particular, more limited access to aid would not only make it more difficult for them to meet

the MDGs, it could also leave them with insufficient resources to address the crisis with counter-cyclical policies. This is recognized by the international donor community, which has pledged at various platforms during 2009 to honour existing commitments to substantially increase development assistance.

### *New challenges have presented themselves after notable progress on debt relief*

Since the adoption of the Monterrey Consensus in 2002, the international community has made notable progress in reducing the external debt burden of developing countries. The ratio of debt-service payments of the 35 post-decision-point heavily indebted poor countries (HIPCs)—those qualified for debt relief—declined from 3.2 per cent of GDP in 2001 to 1.1 per cent of GDP in 2008. Nevertheless, owing to the global financial crisis, a large number of developing countries are facing renewed fiscal stress and challenges: external financing conditions from public and private sectors tightened, revenues declined and currencies depreciated. All these factors pose serious risks to the debt sustainability of developing countries and their capacity to service or roll over external debt.

## Uncertainties and risks

Even the mild recovery, as projected in the baseline outlook, is subject to high risks and uncertainties, mainly on the downside.

### *A premature exit from the stimulus measures could cause a double-dip recession*

The first risk is associated with a premature exit from the strong stimulus measures that helped halt the free fall of the global economy and that are supporting the incipient rebound. A premature withdrawal of the stimulus and financial sector support measures could cut short the still feeble recovery. The stronger-than-expected rebound in equity prices worldwide may belie the fact that there are still problems remaining in financial sectors in major economies which continue to constrain credit availability and could lead to more failures of financial institutions in the near future. Furthermore, policymakers should be cautious in supposing that the recent rebound in trade and industry is sufficient evidence that strong recovery is on its way. In fact, levels of trade flows and industrial production are still well below the pre-crisis peaks and, as analysed in the present report, the rebound is related more to a turnaround in the global inventory cycle than to a recovery of private consumption and investment.

Understandably, there is increasing concern that the substantial widening of fiscal deficits and mounting public debt could become a drag on future growth, and fiscal consolidation may therefore be needed sooner rather than later. Such concerns are present particularly in developed countries, where the average public debt-to-GDP ratio is expected to exceed 100 per cent in 2010 and to move even higher thereafter.

While such concerns are justified, a premature withdrawal of the stimulus could prove to be counterproductive. The immediate concerns of policymakers should be focused on addressing the continued weakness in financial sectors, stimulating demand in order to reduce the persistent large output gaps and reversing the upward trend in

unemployment rates. If, instead, there were an early phasing out of stimulus measures during 2010, these weaknesses in the global economy could be exacerbated and a double-dip recession could emerge, leading equally to a rise in public debt ratios and further declines in GDP and tax revenue.

### *Renewed widening of the global imbalances could cause a hard landing of the dollar*

There is also a risk of a return to widening global imbalances. The global financial crisis and the worldwide recession have led to a recessionary adjustment of imbalances in current accounts across countries, with imports falling steeply in deficit countries (led by the United States) and export earnings collapsing in most surplus countries. However, as the financial crisis is abating and global growth tentatively recovers, the imbalances could widen again substantially. In most surplus countries, especially in developing Asia, growth continues to rely heavily on exports and high savings rates, leading to relatively weak domestic demand and high reserve accumulation. In the major deficit countries, particularly the United States, private savings have increased as consumers have become more cautious, but not by a sufficient margin to cover widening fiscal deficits and prevent mounting public indebtedness. The external deficit is therefore expected to widen again.

The level of external indebtedness of the United States has increased substantially, reaching $3.8 trillion in 2009, and is expected to increase further in 2010. Strong downward pressure on the dollar is thus anticipated to continue in the outlook. The value of the dollar had been on a downward trend since 2002, but it rebounded in the second half of 2008 through the end of the first quarter of 2009. This sharp appreciation of the dollar was mainly driven by flight to safety effects as the global financial crisis heightened risk aversion and caused a massive move of financial assets worldwide into United States Treasury bills. Since March 2009, however, the dollar has resumed its downturn as a result of the stabilizing conditions in global financial markets. This moderated the deleveraging process of major financial institutions as well as the flight to safety effects. At the same time, investors started to become increasingly concerned about the rise in the budget deficit and the worsening of the net foreign investment position of the United States. If this were to cause a gradual depreciation of the dollar, it could form part of an orderly rebalancing of the global economy. In all probability, however, such an adjustment would not be gradual and eroding confidence in the world's major reserve currency would first lead to substantial exchange-rate volatility which could subsequently escalate into more abrupt declines and a hard landing of the dollar.

## Policy responses and challenges

### *The response to the crisis has been bold and unprecedented, but may not have been enough*

Since the intensification of the financial crisis, Governments worldwide have taken bold actions. Massive public funding has been made available to recapitalize banks, taking partial or full Government ownership of ailing financial institutions and providing ample guarantees on bank deposits and other financial assets. Worldwide, publicly guaranteed funding for financial sector rescue operations is estimated to amount to about $20

trillion, or some 30 per cent of WGP. Furthermore, monetary and fiscal policy stances have been strongly counter-cyclical in most major economies, as has been reflected in the drastic cuts in policy interest rates and massive liquidity injections and fiscal stimulus packages totalling about $2.6 trillion (or 4.3 per cent of WGP) to be distributed during 2008-2010.

These policies have been effective to the extent that they have helped to stabilize global financial markets, support global effective demand and alleviate the economic and social impact of the crisis. Yet, these unprecedented responses have not been sufficient to induce a self-sustained process of recovery. As indicated, global demand recovery is expected to remain weak in the outlook even if the present stimulus measures are kept in place. Important financial fragilities still need to be addressed and many developing countries have not been able to implement significant counter-cyclical policies on their own.

### *The policy responses have been concerted to some extent*

The policy responses have been concerted to some extent among major economies, in particular at the level of the G20. At their London and Pittsburgh summits in April and September 2009, respectively, the leaders promised to continue the stimulus and other extraordinary measures as long as necessary. They further pledged to deliver on all aid and other international development commitments and fight off protectionist tendencies. World leaders have also facilitated a significant increase in resources for countries with external financing problems. The G20 by and large lived up to its promise to provide $1.1 trillion for this purpose, including through tripling the resources available to the IMF, facilitating additional lending by multilateral development banks and supporting trade finance. The IMF and the World Bank have in effect significantly stepped up lending operations.

At the Pittsburgh Summit, leaders also agreed to establish a policy coordination framework for "strong, sustainable and balanced growth" of the world economy. As part of this framework, G20 members with significant external deficits, mainly the United States, pledged to pursue policies to support private savings and to undertake fiscal consolidation. Surplus countries, including China, Germany and Japan, agreed to strengthen domestic sources of growth. These could constitute important steps towards effective policy coordination and a more balanced recovery of the global economy. However, more concrete details with clear policy targets and time horizons have yet to be worked out and the policy actions that have been undertaken thus far have by no means been fully concerted.

### *Continued fiscal stimulus is needed in the short run*

The immediate challenge for policymakers will be to determine how much longer the fiscal stimulus should continue. Given the risk of a double-dip recession resulting from a premature withdrawal, the stimulus should continue at least until there are clearer signals of a more robust recovery. It may be difficult, however, to determine when and whether the recovery has become robust. Substantial improvements in employment conditions and a reduction of output gaps will likely be meaningful indicators for establishing the turning point. Moreover, the framework for policy coordination should ensure that the timing for sustaining or unwinding counter-cyclical policy stances is determined not merely as a function of country-specific conditions but also in the context of containing international spillover effects and promoting sustainable global growth.

### *Sustainable global rebalancing needs to take place*

To avoid a return to the unsustainable pattern of growth that led to the global crisis and to sidestep the risks of a double-dip recession and a hard landing of the dollar, three forms of rebalancing of the global economy would need to take place over time. First, the pressure on Governments to hold up global demand would need to diminish over time through renewed impulses from private demand. Second, the composition of aggregate demand would need to rebalance to shift greater weight to investment in support of future productivity growth and the transformation of energy sectors and infrastructure required to meet the challenge of climate change. Third, demand across countries will need to be rebalanced. These three rebalancing acts will require close policy coordination as they are strongly interdependent.

Rebalancing across countries is needed because one of the key drivers of pre-crisis growth, consumer demand in the United States, is expected to remain sluggish in the outlook. Moreover, from the perspective of the problem of global imbalances, it would be undesirable to have to rely on this source of growth again for the recovery. Private investments are also expected to remain sluggish in the near future in the United States (as well as in other major developed economies) as rates of capacity utilization are at historic lows. If fiscal stimulus is to be phased out, net exports of the major deficit countries would need to increase. Rising exports by these countries would need to be absorbed by major surplus countries, starting with China and other parts of developing Asia. This could be achieved in part through a further strengthening of domestic demand by way of fiscal stimulus, which, along with a weaker United States dollar, would push up import demand in that part of the world. Since not all Asian trade is with the United States, other countries would also need to contribute to the rebalancing. Germany and Japan, other major surplus economies, could seek to strengthen investment and productivity growth in domestic production sectors, while major oil exporters could further step up domestic investment plans to diversify their economies. Additional financial transfers to developing countries with weak fiscal capacity would be needed to complete the rebalancing process and would enable these countries to increase domestic investment in infrastructure, food production and human development so as to support growth, poverty reduction and sustainable development. They would also encourage global import demand.

Stepping up public and private investment to address climate change could well be an integral part of the process. Large-scale investments in energy efficiency and renewable energy generation will need to be made now in order to achieve the scale effects needed to lower the cost of green technologies and effectively achieve low-emission growth paths. Such investments will also be needed in developing countries, where energy demand should be expected to increase starkly along with their efforts to reach higher levels of development. By leapfrogging to green technologies, they could contribute to emission reductions while sustaining high-growth development trajectories. Substantial investments will need to be made for climate change adaptation, especially in developing countries which are already being affected by adverse effects of global warming. As developed countries currently possess a comparative advantage in the development of green technologies and related capital goods, the increase in world demand for these goods should thus contribute to reducing the aggregate external deficit of these economies.

### *Strengthened policy coordination is needed*

Such a sustainable rebalancing of the world economy will by no means be easy to achieve and will require enhanced international cooperation. In particular, the need for effective international policy coordination to manage risks of global economic instability and to promote development has been reiterated in previous issues of the *World Economic Situation and Prospects*. It was also emphasized in the outcome document of the Conference on the World Financial and Economic Crisis and its Impact on Development, held at United Nations Headquarters in New York in June 2009.

A successful framework for international macroeconomic policy coordination should consist of at least four components: developing a consensus on common goals through international consultations with outside mediation; addressing commitment problems by issuing multi-year schedules for policy adjustments; enhancing the context for mediation and the perceived legitimacy of the mediator; and initiating systemic reforms in the field of international monetary and financial affairs.

In this context, the framework proposed by the G20 is a first step towards international policy coordination—at least among the major developed and emerging economies—to prevent a recurrence of the large global imbalances. The success of this framework, however, will depend not only on how to institutionalize the mechanism delineated above (which so far is still carried out on an ad hoc basis), but also on progress in the broad reforms of the international financial architecture and global economic governance.

### *Global governance should be strengthened on four fronts*

To support the enhanced framework for policy coordination, further progress on global economic governance reforms will need to be made on four related fronts. First, multilateral surveillance by the IMF will need to be extended well beyond the traditional emphasis on exchange rates, to address broader macrofinancial surveillance and also to monitor the "sustainable rebalancing" process of the global economy as outlined. Second, more pervasive progress on governance reform of the IMF will be needed to add legitimacy to the institution's enhanced role in this respect and also for mediating multi-annual agreements. Mediation to achieve consensus on the main targets for policy coordination is unlikely to be successful where doubts exist about the impartiality of the mediator. In this context, the reform of the governance of and representation in the IMF has become all the more urgent and important so that seats in the Executive Board and votes in the Fund better represent developing country interests in the decision-making process that is under way. Third, while the ongoing crisis has given strong impetus to macroeconomic policy coordination, there is no guarantee that all parties will remain committed to agreed joint responses. Having clear and verifiable targets for desired policy outcomes will help make parties accountable, and the possible loss of reputation through non-compliance should be an incentive to live up to policy agreements. Fourth, sustainable rebalancing of the global economy will require close coordination with other areas of global governance, including those related to development financing and the multilateral trading system, as well as with the United Nations Framework Convention on Climate Change. No specific mechanism for such coordination exists at present, and the creation of such a mechanism would need to be considered.

### *Urgent progress is also needed in reforming the global financial system*

The global financial crisis has further exposed major deficiencies in the international financial architecture, as well as failures of regulation and supervision at national levels. As the global economy recovers, more, rather than less, urgent efforts will be needed to spearhead reforms of international and national financial systems so as to prevent a similar crisis from recurring. The effectiveness of any international policy coordination mechanism would greatly benefit from overcoming these deficiencies, as tendencies towards excess risk-taking in financial markets would be reined in and the inherent tendency of the current system towards global imbalances and an unstable value of the major reserve currency would be addressed.

The risk of exchange-rate instability and a hard landing of the dollar could be reduced by having a global payments and reserve system which is less dependent on one single national currency. One way in which the system could naturally evolve would be by becoming a fully multi-currency reserve system. The present system has already more than one reserve currency, but the other currencies remain a secondary feature in a system where most reserve assets by far are held in dollars and where most of the world's trade and financial transactions are affected in the major reserve currency. The advantage of a multi-reserve currency arrangement is that it would provide countries with the benefit of diversifying their foreign-exchange reserve assets. However, it would not solve the problems of the tendency towards the emergence of important global imbalances and the related deflationary bias in the macroeconomic adjustment between deficit and surplus countries.

Such deficiencies could be more readily overcome by pursuing the transition to a reserve system based on a true form of international liquidity, such as by expanding the role of special drawing rights (SDRs). Doing so would, in fact, fulfil the objective included in the IMF Articles of Agreement of "making the special drawing right the principal reserve asset in the international monetary system" (Article VIII, Section 7, and Article XXII). The G20 decided, in April 2009, on a general SDR allocation equivalent to $250 billion in recognition of the need to boost international liquidity using an international reserve unit. Further advances could result from making SDR issuance automatic and regular, and linked to the demand for foreign-exchange reserves and the growth of the world economy. A key criterion for SDR issuance, withdrawal and allocation would be the provision of counter-cyclical finance. Thus, both key deficiencies of the present system—its deflationary bias and the inherent instability of the value of the reserve currency—could be overcome. An SDR-based reserve system would also provide a basis for a better pooling of international reserves, as international liquidity would be made available on a counter-cyclical basis, reducing the need for individual countries to hold costly amounts of reserves on their own.

There will be important practical hurdles to be overcome en route to such a system, and they will need to be discussed and addressed in conjunction with other reforms. A sustainable rebalancing of the world economy will not be possible without addressing the systemic flaws in the international financial architecture.

# Contents

## Statistical annex



## Boxes

# Figures

# Tables

# Explanatory Notes

**The following symbols have been used in the tables throughout the report:**

| | |
|---|---|
| .. | **Two dots** indicate that data are not available or are not separately reported. |
| – | **A dash** indicates that the amount is nil or negligible. |
| - | **A hyphen (-)** indicates that the item is not applicable. |
| - | **A minus sign (-)** indicates deficit or decrease, except as indicated. |
| . | **A full stop (.)** is used to indicate decimals. |
| / | **A slash** (/) between years indicates a crop year or financial year, for example, 2008/09. |
| - | **Use of a hyphen (-)** between years, for example, 2008-2009, signifies the full period involved, including the beginning and end years. |
| | **Reference to "dollars" ($)** indicates United States dollars, unless otherwise stated. |
| | **Reference to "billions"** indicates one thousand million. |
| | **Reference to "tons"** indicates metric tons, unless otherwise stated. |
| | **Annual rates** of growth or change, unless otherwise stated, refer to annual compound rates. |
| | Details and percentages in tables do not necessarily add to totals, because of rounding. |
| | **Project LINK** is an international collaborative research group for econometric modelling, coordinated jointly by the Development Policy and Analysis Division of the United Nations Secretariat and the University of Toronto. |

**The following abbreviations have been used:**

| | |
|---|---|
| **ASEAN** | Association of Southeast Asian Nations |
| **bps** | basis points |
| **BoE** | Bank of England |
| **BoJ** | Bank of Japan |
| **CDS** | credit default swaps |
| **CIS** | Commonwealth of Independent States |
| **CPI** | consumer price index |
| **DAC** | Development Assistance Committee (of the Organization for Economic Cooperation and Development) |
| **DSF** | Debt Sustainability Framework for Low-Income Countries |
| **ECA** | United Nations Economic Commission for Africa |
| **ECB** | European Central Bank |
| **ECE** | United Nations Economic Commission for Europe |
| **ECF** | Extended Credit Facility |
| **ECLAC** | Economic Commission for Latin America and the Caribbean |
| **EMBI** | Emerging Markets Bond Index |
| **ESCAP** | Economic and Social Commission for Asia and the Pacific |
| **ESCWA** | Economic and Social Commission for Western Asia |
| **ESF** | Exogenous Shocks Facility |
| **EU** | European Union |
| **FAO** | Food and Agriculture Organization of the United Nations |
| **FCL** | Flexible Credit Line |
| **FDI** | foreign direct investment |
| **Fed** | United States Federal Reserve |
| **FSAP** | Financial Sector Assessment Program (of the International Monetary Fund) |
| **FSB** | Financial Stability Board |
| **FSF** | Financial Stability Forum |
| **GCC** | Gulf Cooperation Council |
| **GDP** | gross domestic product |
| **GFF** | Global Forecasting Framework (of the United Nations) |
| **GHG** | greenhouse gas |
| **GNI** | gross national income |
| **GPM** | Global Policy Model (of the United Nations) |
| **HAPA** | High-Access Precautionary Arrangement |
| **HIPCs** | Heavily indebted poor countries |
| **IBRD** | International Bank for Reconstruction and Development |
| **IFF** | international financial facility |
| **IIF** | Institute of International Finance |
| **ILO** | International Labour Organization |
| **IMF** | International Monetary Fund |
| **IMFC** | International Monetary and Financial Committee (of the IMF) |
| **IT** | information technology |
| **LDCs** | least developed countries |
| **LIBOR** | London Interbank Offered Rate |
| **M&As** | mergers and acquisitions |
| **mbd** | Millions of barrels per day |
| **MDGs** | Millennium Development Goals |
| **MDRI** | Multilateral Debt Relief Initiative |
| **MFN** | most-favoured-nation status |
| **MICs** | middle-income countries |
| **NAB** | New Arrangements to Borrow |
| **NAMA** | non-agricultural market access |
| **NIEs** | newly industrialized economies |
| **NGOs** | non-governmental organizations |
| **NPV** | net present value |
| **ODA** | official development assistance |
| **OECD** | Organization for Economic Cooperation and Development |
| **OPEC** | Organization of the Petroleum Exporting Countries |
| **pb** | per barrel |
| **PPIP** | Public-Private Investment Program (United States Treasury) |
| **PPP** | purchasing power parity |
| **PRGF** | Poverty Reduction and Growth Facility |
| **PRGT** | Poverty Reduction and Growth Trust (fund) |
| **SDR** | Special Drawing Rights |
| **SDT** | special and differential treatment |
| **SGP** | Stability and Growth Pact |
| **SSM** | special safeguard mechanism |
| **SWFs** | sovereign wealth funds |
| **TARP** | Troubled Asset Relief Program |
| **TEU** | twenty-foot equivalent unit |
| **TNCs** | transnational corporations |
| **UNCTAD** | United Nations Conference on Trade and Development |
| **UNDCF** | United Nations Development Cooperation Forum |
| **UN/DESA** | Department of Economic and Social Affairs of the United Nations Secretariat |
| **UNFCCC** | United Nations Framework Convention on Climate Change |
| **UNWTO** | World Tourism Organization |
| **WGP** | world gross product |
| **WHO** | World Health Organization |
| **WTO** | World Trade Organization |

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The term "country" as used in the text of this report also refers, as appropriate, to territories or areas. Not all countries are listed owing to lack of comprehensive data.

**Data presented in this publication incorporate information available as of 30 November 2009.**

**For analytical purposes, the following country groupings and subgroupings have been used:**[a]

***Developed economies (developed market economies):***
Australia, Canada, European Union, Iceland, Japan, New Zealand, Norway, Switzerland, United States of America.

***European Union (EU):***
Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom of Great Britain and Northern Ireland.

***EU-15:***
Austria, Belgium, Denmark, Finland, France, Greece, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom of Great Britain and Northern Ireland.

***New EU member States:***
Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia.

***Economies in transition:***

***South-eastern Europe:***
Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia, the former Yugoslav Republic of Macedonia.

***Commonwealth of Independent States:***
Armenia, Azerbaijan, Belarus, Georgia,[b] Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

*Net fuel exporters:*
Azerbaijan, Kazakhstan, Russian Federation, Turkmenistan, Uzbekistan.

*Net fuel importers:*
All other CIS countries.

***Developing economies:***
Africa, Asia and the Pacific (excluding Australia, Japan, New Zealand and the member States of CIS in Asia), Latin America and the Caribbean.

***Subgroupings of Africa:***

*North Africa:*
Algeria, Egypt, Libyan Arab Jamahiriya, Morocco, Tunisia.

*Sub-Saharan Africa, excluding Nigeria and South Africa (commonly contracted to "sub-Saharan Africa"):*
All other African countries except Nigeria and South Africa.

*Southern Africa:*
Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe.

*East Africa:*
Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Seychelles, Somalia, Sudan, Uganda, United Republic of Tanzania.

*West Africa:*
Burkina Faso, Benin, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo.

*Central Africa:*
Cameroon, Chad, Congo, Gabon, Equatorial Guinea, Central African Republic, Sao Tome and Principe.

***Subgroupings of Asia and the Pacific:***

*Western Asia:*
Bahrain, Iraq, Israel, Jordan, Kuwait, Lebanon, Occupied Palestinian Territory, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Turkey, United Arab Emirates, Yemen.

*East and South Asia:*
All other developing economies in Asia and the Pacific (including China, unless stated otherwise). This group is further subdivided into:

*South Asia:*
Bangladesh, Bhutan, India, Iran (Islamic Republic of), Maldives, Nepal, Pakistan, Sri Lanka.

*East Asia:*
All other developing economies in Asia and the Pacific.

***Subgroupings of Latin America and the Caribbean:***

*South America:*
Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela (Bolivarian Republic of).

*Mexico and Central America:*
Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Mexico.

*Caribbean:*
Barbados, Cuba, Dominican Republic, Guyana, Haiti, Jamaica, Trinidad and Tobago.

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a For definitions of country groupings and methodology, see *World Economic and Social Survey 2004* (United Nations publication, Sales No. E.04.II.C.1, annex, introductory text).

b Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

**For particular analyses, developing countries have been subdivided into the following groups:**

*Fuel-exporting countries:*
Algeria, Bahrain, Bolivia (Plurinational State of), Brunei Darussalam, Cameroon, Colombia, Congo, Ecuador, Egypt, Gabon, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Mexico, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela (Bolivarian Republic of), Viet Nam.

*Fuel-importing countries:*
All other developing countries.

*Least developed countries:*
Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen, Zambia.

*Landlocked developing countries:*
Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia (Plurinational State of), Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao's People's Democratic Republic, Lesotho, Malawi, Mali, Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, the former Yugoslav Republic of Macedonia, Turkmenistan, Uganda, Uzbekistan, Zambia, Zimbabwe.

*Small island developing States:*
American Samoa, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, British Virgin Islands, Cape Verde, Commonwealth of Northern Marianas, Comoros, Cook Islands, Cuba, Dominica, Dominican Republic, Fiji, French Polynesia, Grenada, Guam, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Micronesia (Federated States of), Montserrat, Nauru, Netherlands Antilles, New Caledonia, Niue, Palau, Papua New Guinea, Puerto Rico, Samoa, Sao Tome and Principe, Seychelles, Singapore, Solomon Islands, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu, U.S. Virgin Islands, Vanuatu.

*Heavily indebted poor countries (countries that have reached their Completion Points or Decision Points):*
Afghanistan, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Togo, Uganda, United Republic of Tanzania, Zambia.

The designation of country groups in the text and the tables is intended solely for statistical or analytical convenience and does not necessarily express a judgement about the stage reached by a particular country or area in the development process.

# Chapter I
# Global outlook

## Macroeconomic prospects for the world economy

The global economy is recovering with the support of massive fiscal stimuli …

The world economic situation has been improving since the second quarter of 2009. Global equity markets have rebounded and risk premiums on lending have fallen. International trade and global industrial production have also been recovering noticeably, with an increasing number of countries registering positive quarterly growth of gross domestic product (GDP). The economic revival has been driven in no small part by the effects of the massive policy stimuli injected worldwide since late 2008. It also reflects strong cyclical inventory adjustment.

… but the recovery is uneven and conditions for sustained growth remain fragile

This is an important turnaround after the free fall in world trade, industrial production, asset prices and global credit availability which threatened to push the global economy into the abyss of a new great depression in early 2009. Yet, the recovery is uneven and conditions for sustained growth remain fragile. Credit conditions are still tight in major developed economies, where many major financial institutions need to continue the process of deleveraging and cleansing their balance sheets. The rebound in domestic demand remains tentative at best in many economies and is far from self-sustaining. High unemployment rates and the large output gap in most countries, along with a number of other factors, such as the possibility of a further spread of pandemic influenza A (H1N1) that could hurt economic activity, continue to pose challenges for policymakers worldwide. In addition, the global macroeconomic imbalances, which were part of the problem in the first instance, could widen again to form a source of renewed financial instability.

In 2010, global growth will remain below potential and unemployment will stay high

In the outlook, global economic recovery is expected to remain sluggish, unemployment rates will stay high and inflation will remain low. Developing countries, especially those in Asia, are expected to show the strongest recovery in 2010. Nonetheless, growth is expected to remain well below potential and the pre-crisis levels of performance in the developing world. As a consequence, it will take more time and greater efforts to make up for the significant setbacks in the progress towards poverty reduction and the fight against hunger, as well as the other Millennium Development Goals (MDGs). The crisis has impacted severely on low-income countries and the most vulnerable. Even given the signs of economic recovery, many are still facing declines in household incomes, rising unemployment, and the effects of dwindling government revenue on social services. Where these adverse impacts cannot be countered because of weak social safety nets and lack of fiscal space to protect social spending and promote job creation, there is a high risk of long-lasting setbacks in human development.

The most pressing policy challenges include maintaining the momentum towards recovery and rebalancing global growth

While necessary, the fiscal and monetary stimulus policies undertaken to counteract the crisis have at the same time become a source of concern. Some Governments fear that the rapid build-up of public debt could affect economic growth in the longer run and are calling for an exit of the policy stimuli. However, as global demand is still weak, a premature withdrawal of those measures could abort the incipient recovery. Going forward, the most pressing policy challenges over the near term include maintaining the momentum of economic recovery through economic stimulus measures and rebalancing global growth towards a more sustainable path so as to avoid a re-emergence of the global imbalances, while, at the same time, facilitating high growth, especially for developing

countries, and addressing the climate change challenge. Achieving all this may require even farther-reaching and unprecedented internationally concerted actions than those that have already been undertaken by the international community since October 2008.

## Growth prospects

Mild growth is forecast for 2010

After a sharp and synchronized global downturn—indeed the only contraction since the Second World War—the world economy is improving. An increasing number of economies showed positive growth in the second quarter of 2009, and momentum towards recovery continued to build in the third quarter. Nonetheless, because of the steep downturn at the beginning of the year, world gross product (WGP) is estimated to fall by 2.2 per cent for 2009. Premised on the assumption of a continued supportive policy stance worldwide (box I.1), a mild growth of 2.4 per cent is forecast in the baseline scenario for 2010 (table I.1 and figure I.1). According to this scenario, the level of world economic activity will be 7 per cent below where it might have been had pre-crisis growth continued.

The rebound was built around three factors

In most countries, the economic rebound has been built around three factors in particular. The first of these consists of the massive, and to some extent concerted, policy actions taken by the major economies, which effectively arrested a further erosion of confidence worldwide (for further discussion, see the section on policy responses below). The second relates to a change in the global inventory cycle. The early stages of the recession were characterized by panic-driven shedding of inventories accompanied by cutbacks in industrial production. Following some stabilization of financial markets and improvement in consumer and business confidence, companies started to resume production and restock inventories. This explains much of the rebound in global trade and industrial production. The third factor relates to the international repercussion effects of the first two.

Japan and developing Asia are leading the rebound

Consistent with this pattern, the strongest declines in export volumes and industrial production indices were seen among major manufacturing exporters, especially those in Asia. Following the turn in the inventory cycle, Japan and developing Asia are also leading the rebound in trade and production. The recovery in industrial production, in turn, has allowed for renewed growth in the demand for primary commodities and a rebound in world commodity prices. However, the pace of recovery is still rather uneven across countries. Furthermore, in so far as it is not also based on a resumption of growth in private investment and consumption, recovery may not be lasting.

Consumer and investment demand in developed economies remain subdued

In developed economies, consumer and investment demand remain subdued as a result of the continued rise in unemployment rates, the wealth losses incurred during the crisis and the desire of households and firms to rebuild balance sheets. Domestic demand is further constrained by continued tightness in credit supplies, despite more stable conditions in financial markets. Another important factor is that the impetus from the stimulus measures and the turn in the inventory cycle are expected to diminish over time. The economy of the United States of America is expected to grow by 2.1 per cent in 2010, following an estimated downturn of 2.5 per cent in 2009. Recovery in both the European Union (EU) and Japan is projected to be much weaker, reaching GDP growth of no more than 0.5 and 0.9 per cent, respectively, in 2010. At this pace of recovery, the major developed economies are not expected to provide a strong impetus to global growth in the near term.

A stronger recovery is expected in the developing countries

Output growth in the developing countries, in contrast, is expected to recover at a faster pace and to reach 5.3 per cent in 2010, up from 1.9 per cent in 2009, but will remain well below the pre-crisis pace of more than 7 per cent per annum. Some developing

Box I.1

## Main assumptions for the baseline forecast

The forecast presented in the text is based on the United Nations Global Forecasting Framework (GFF) in conjunction with Project LINK, a network of institutions and researchers supported by the Department of Economic and Social Affairs of the United Nations. It is informed by provisional individual country forecasts submitted by country experts, which are adjusted based on harmonized global assumptions and the imposition of global consistency rules (especially those of trade flows, by both volume and value) provided by the GFF. The main global assumptions are discussed below. The baseline forecast does not include any specific assumption about the international coordination of macroeconomic policies. It is also assumed that except for these assumptions there are no other exogenous shocks to the global economy. For alternative scenarios to the baseline, see the sections in the main text on risks and uncertainties and on policy challenges.

### *Monetary policy*

Given the complex structure of the monetary policy measures adopted by major economies during the global recession, the assumptions regarding policy interest rates are indicative only of the nature of the policy stance in the outlook. The United States Federal Reserve (Fed) is assumed to hold its main policy interest rate, the federal funds rate, at its current range of 0.0-0.25 per cent until the end of the third quarter of 2010, after which it embarks upon a slow process of policy normalization, with an increase of 50 basis points during the last quarter. The European Central Bank (ECB) is also assumed to hold its main policy rate, the interest rate on its main refinancing operations, at the current level of 1.00 per cent through the third quarter of 2010, and then raise it by 50 basis points in the fourth quarter. The Bank of Japan (BoJ) is assumed to hold its policy rate, the target Uncollateralized Overnight Call Rate, at its current 0.10 per cent until the end of 2010.

During the forecast period, the central banks in the major economies will continue to rely on adjusting the unconventional measures that are already in place to manage liquidity in their economies, and it is assumed they will initiate a gradual withdrawal of some of these measures in the second half of 2010 (see chapter IV for details at the country level).

### *Fiscal policy*

Fiscal assumptions are made at the country level by the LINK country experts, but they typically reflect currently announced packages and are assumed to be fully implemented. In the current situation, automatic stabilizers are assumed to operate unconstrained, except in those countries experiencing severe financial distress (see chapter IV for details at the country level).

### *Exchange-rate movements*

The United States dollar appreciated against the euro to about $1.25 in the first quarter of 2009, but has since depreciated significantly, averaging $1.43 per euro in the third quarter and hovering around $1.48 or higher since late September. The dollar also saw a rebound against the Japanese yen in the first quarter of 2009, but has similarly lost ground since. It averaged ¥94 per dollar in the third quarter and was close to ¥91 in September 2009. In the outlook, it is assumed that the dollar, while experiencing significant volatility, will stay in a trading range centred at $1.44 against the euro and close to ¥90 per dollar through 2010.

### *Oil and other commodity prices*

Brent oil prices are expected to average about $61 per barrel in 2009 and to rise on average to $72 for the year 2010, for reasons explained in chapter II. For non-oil commodity prices, detailed assumptions at the individual commodity level are made for a large group of commodities, based on individual market conditions and reflecting other global assumptions. The weighted dollar price index of these non-oil commodities is estimated to have fallen by 18.4 per cent in 2009 and is assumed to increase by a further 4.6 per cent in 2010.

Table I.1
**Growth of world output, 2004–2010**

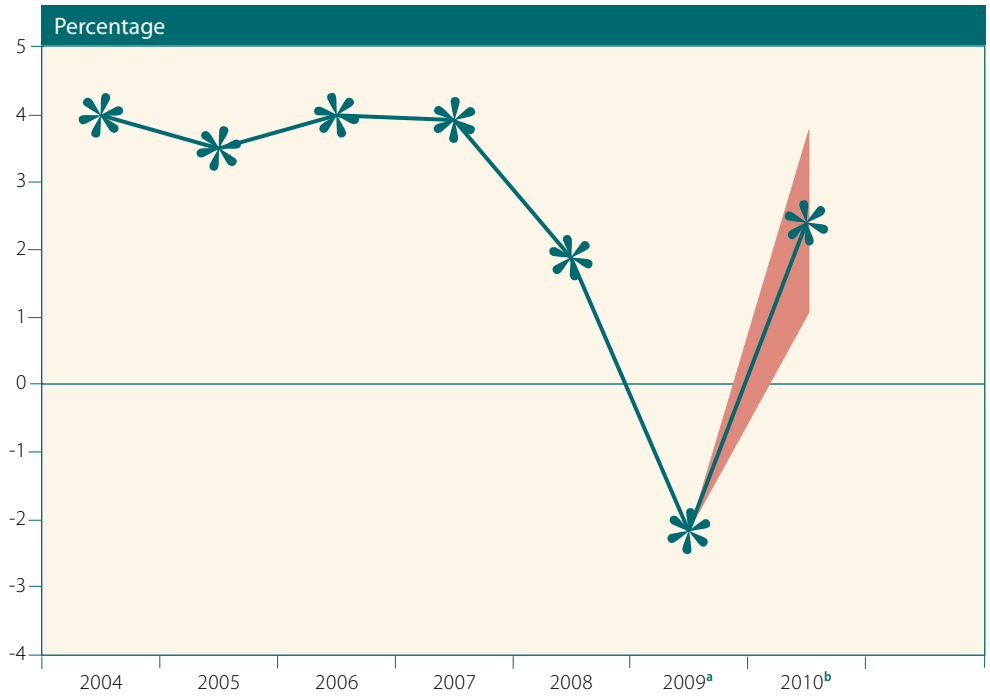
| Annual percentage change | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *Change from United Nations forecast of June 2009*[c] | |
| | *2004* | *2005* | *2006* | *2007* | *2008* | *2009*[a] | *2010*[b] | *2009* | *2010* |
| **World output**[d] | **4.0** | **3.5** | **4.0** | **3.9** | **1.9** | **-2.2** | **2.4** | **0.4** | **0.8** |
| ***of which:*** | | | | | | | | | |
| Developed economies | 3.0 | 2.5 | 2.8 | 2.6 | 0.5 | -3.5 | 1.3 | 0.4 | 0.7 |
| Euro zone | 2.2 | 1.7 | 3.0 | 2.7 | 0.7 | -4.1 | 0.4 | -0.4 | 0.5 |
| Japan | 2.7 | 1.9 | 2.0 | 2.3 | -0.7 | -5.6 | 0.9 | 1.5 | -0.6 |
| United Kingdom | 3.0 | 2.2 | 2.9 | 2.6 | 0.6 | -4.5 | 0.6 | -0.8 | 0.8 |
| United States | 3.6 | 3.1 | 2.7 | 2.1 | 0.4 | -2.5 | 2.1 | 1.0 | 1.1 |
| Economies in transition | 7.7 | 6.5 | 8.0 | 8.4 | 5.5 | -6.5 | 1.6 | -0.6 | 0.2 |
| Russian Federation | 7.2 | 6.4 | 7.7 | 8.1 | 5.6 | -7.0 | 1.5 | -0.2 | 0.0 |
| Developing economies | 7.3 | 6.7 | 7.3 | 7.6 | 5.4 | 1.9 | 5.3 | 0.5 | 1.0 |
| Africa | 6.5 | 5.9 | 5.9 | 6.0 | 4.9 | 1.6 | 4.3 | 0.7 | 0.3 |
| Nigeria | 10.6 | 5.4 | 6.2 | 7.0 | 6.0 | 1.9 | 5.0 | 2.4 | 0.3 |
| South Africa | 4.9 | 5.0 | 5.3 | 5.1 | 3.1 | -2.2 | 3.1 | -0.4 | 0.0 |
| East and South Asia | 7.8 | 7.7 | 8.6 | 9.3 | 6.3 | 4.3 | 6.4 | 1.1 | 0.8 |
| China | 10.1 | 10.4 | 11.6 | 13.0 | 9.0 | 8.1 | 8.8 | 0.5 | 0.6 |
| India | 8.3 | 9.3 | 9.7 | 9.1 | 7.3 | 5.9 | 6.5 | 0.9 | 0.2 |
| Western Asia | 8.7 | 6.9 | 6.1 | 5.0 | 4.6 | -1.0 | 3.6 | -0.3 | 0.7 |
| Israel | 5.0 | 5.1 | 5.2 | 5.4 | 4.1 | 0.1 | 2.0 | 1.0 | 1.2 |
| Turkey | 9.4 | 8.4 | 6.9 | 4.5 | 1.1 | -4.9 | 2.2 | -0.4 | 1.0 |
| Latin America and the Caribbean | 5.8 | 4.6 | 5.5 | 5.6 | 4.1 | -2.1 | 3.4 | -0.2 | 1.7 |
| Brazil | 5.7 | 3.2 | 4.0 | 5.7 | 5.2 | 0.0 | 4.5 | 0.6 | 2.0 |
| Mexico | 4.0 | 3.2 | 4.8 | 3.2 | 1.3 | -7.1 | 3.0 | -2.3 | 1.8 |
| ***of which:*** | | | | | | | | | |
| Least developed countries | 8.2 | 7.8 | 7.9 | 8.5 | 7.2 | 3.3 | 5.3 | 0.6 | 0.7 |
| ***Memorandum items:*** | | | | | | | | | |
| World trade | 11.0 | 7.8 | 9.3 | 6.7 | 2.9 | -12.5 | 5.4 | -1.4 | 1.8 |
| World output growth with PPP-based weights | 4.9 | 4.4 | 5.0 | 5.0 | 3.0 | -1.0 | 3.2 | 0.0 | 0.5 |

**Source:** UN/DESA.

**a** Partly estimated.
**b** Forecasts, based in part on Project LINK.
**c** See *World Economic Situation and Prospects: Update as of mid-2009*, available at http://www.un.org/esa/policy/wess/wesp2009files/wesp09update.pdf.
**d** Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.

economies have rebounded earlier than other countries. Fiscal stimulus and resumption of trade in manufactures lifted economies in Asia, in particular. Economies in transition are expected to see a significant turnaround from the decline of their combined GDP by 6.5 per cent in 2009. Growth in 2010 is projected to be positive but, at 1.6 per cent, signals a very weak recovery at best.

Figure I.1
**World economic growth, 2004–2010**




Indicates the confidence interval at two standard deviations from historical forecast errors.

**Source:** UN/DESA.

**a** Partly estimated.
**b** United Nations forecast.

Conditions for international trade and finance will remain challenging

Output growth in most developing countries and economies in transition remains strongly dependent upon movements in international trade, commodity prices and capital flows. Conditions in this regard have improved as part of the global recovery, but a further rebound will be strongly dependent upon the strength of the recovery in the developed countries. In the outlook, conditions for international trade and finance will remain challenging. This will affect the low-income countries in particular: while country-specific conditions differ markedly, the global crisis has undermined investments and, hence, the growth potential of their economies. Many of the least developed countries (LDCs) are expected to see a much slower economic performance in the years ahead compared with the robust growth they witnessed in the years before the crisis (box I.2).

Despite some rebound in the second half of 2009, most countries incurred welfare losses measured for the year as a whole. Of 160 countries for which data are available, 107 countries registered a decline in per capita income during 2009. These include most developed and about 60 developing countries (table I.2). In 2010, the number of developing countries with negative per capita income growth is expected to drop to 10, but at the same time only 21 developing countries are expected to achieve growth rates of 3 per cent or more (which is sometimes deemed to be the minimum rate needed to ensure substantial poverty reduction). In 2007, there were 68 developing countries with welfare increases above that threshold. In sub-Saharan Africa, this number has dropped from 23 in 2007 to 5 in 2009, and in 2010 no more than 7 countries in the region are expected to see per capita growth of more than 3 per cent.

Table I.2
**Frequency of high and low growth of per capita output, 2007–2010**

| | Number of countries monitored | Decline in GDP per capita | | | | Growth of GDP per capita exceeding 3 per cent | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | *2007* | *2008* | *2009*[a] | *2010*[b] | *2007* | *2008* | *2009*[a] | *2010*[b] |
| | | Number of countries | | | | | | | |
| **World** | **160** | **11** | **30** | **107** | **25** | **106** | **75** | **14** | **24** |
| ***of which:*** | | | | | | | | | |
| Developed economies | 35 | 0 | 15 | 34 | 15 | 20 | 6 | 0 | 0 |
| Economies in transition | 18 | 0 | 0 | 13 | 0 | 18 | 16 | 2 | 3 |
| Developing countries | 107 | 11 | 15 | 60 | 10 | 68 | 53 | 12 | 21 |
| ***of which:*** | | | | | | | | | |
| Africa | 51 | 9 | 9 | 23 | 7 | 27 | 22 | 6 | 8 |
| East Asia | 13 | 1 | 3 | 8 | 1 | 12 | 5 | 3 | 5 |
| South Asia | 6 | 0 | 0 | 1 | 0 | 5 | 5 | 2 | 3 |
| Western Asia | 13 | 1 | 1 | 9 | 0 | 7 | 8 | 1 | 2 |
| Latin America and the Caribbean | 24 | 0 | 2 | 19 | 2 | 17 | 13 | 0 | 3 |
| ***Memorandum items:*** | | | | | | | | | |
| Commonwealth of Independent States | 12 | 0 | 0 | 8 | 0 | 12 | 11 | 2 | 3 |
| Least developed countries | 39 | 6 | 7 | 17 | 6 | 20 | 17 | 4 | 6 |
| Sub-Saharan Africa[c] | 44 | 9 | 9 | 20 | 7 | 23 | 18 | 5 | 7 |
| Landlocked developing countries | 25 | 3 | 2 | 9 | 0 | 15 | 15 | 5 | 6 |
| Small island developing States | 17 | 1 | 4 | 10 | 2 | 12 | 9 | 0 | 0 |
| | *Share*[d] | Percentage of world population | | | | | | | |
| Developed economies | 15.3 | 0.0 | 10.3 | 14.8 | 2.7 | 2.6 | 1.2 | 0.0 | 0.0 |
| Economies in transition | 4.7 | 0.0 | 0.0 | 3.9 | 0.0 | 4.7 | 4.4 | 0.5 | 0.6 |
| Developing countries | 80.0 | 1.6 | 3.0 | 21.9 | 1.3 | 72.1 | 63.6 | 47.1 | 53.0 |
| ***of which:*** | | | | | | | | | |
| Africa | 14.3 | 1.2 | 1.3 | 6.5 | 0.6 | 10.6 | 8.2 | 2.1 | 2.8 |
| East Asia | 29.9 | 0.0 | 0.4 | 4.0 | 0.0 | 29.9 | 26.2 | 25.1 | 26.2 |
| South Asia | 24.3 | 0.0 | 0.0 | 1.2 | 0.0 | 24.6 | 24.3 | 21.1 | 21.7 |
| Western Asia | 3.0 | 0.4 | 1.1 | 2.4 | 0.0 | 1.5 | 0.8 | 0.1 | 0.5 |
| Latin America and the Caribbean | 8.5 | 0.0 | 0.2 | 8.0 | 0.6 | 6.3 | 5.2 | 0.0 | 3.4 |
| ***Memorandum items:*** | | | | | | | | | |
| Commonwealth of Independent States | 4.3 | 0.0 | 0.0 | 3.6 | 0.0 | 4.3 | 4.1 | 0.5 | 0.6 |
| Least developed countries | 11.1 | 0.6 | 0.7 | 3.0 | 0.6 | 8.4 | 7.7 | 3.8 | 4.9 |
| Sub-Saharan Africa[c] | 8.9 | 1.2 | 1.3 | 3.4 | 0.6 | 6.3 | 5.3 | 1.6 | 2.7 |
| Landlocked developing countries | 5.1 | 0.6 | 0.3 | 0.9 | 0.0 | 3.4 | 3.7 | 2.1 | 2.4 |
| Small island developing States | 0.8 | 0.0 | 0.3 | 0.3 | 0.0 | 0.6 | 0.5 | 0.0 | 0.0 |

**Source:** UN/DESA, including population estimates and projections from *World Population Prospects: The 2008 Revision*.

**a** Partly estimated.
**b** Forecast, based in part on Project LINK.
**c** Excluding Nigeria and South Africa.
**d** Percentage of world population for 2005.

Box I.2

## Prospects for the least developed countries[a]

Most economies in the group of the least developed countries (LDCs) experienced a marked slowdown in 2009 as a result of the global financial and economic crisis. Weighted average growth for the LDCs is estimated to be 3.3 per cent in 2009, following five consecutive years of growth above 7 per cent. For the same period, 17 LDCs registered a decline in per capita gross domestic product (GDP) and only 4 recorded a growth of 3 per cent or higher in per capita GDP, the minimum rate for achieving a meaningful reduction in poverty.

While the financial sectors in the LDCs were not directly affected by the global financial turmoil, most economies suffered from lower export demand and reduced foreign direct investment inflows. As illustrated in the figure below, oil- and mineral-exporting LDCs registered the sharpest economic downturn in 2009 as they suffered a double blow from worsening terms of trade and falling trade volumes. For instance, growth in Angola and Equatorial Guinea declined from an average of more than 16 per cent during 2004-2008 to 0.2 per cent and -3.4 per cent, respectively in 2009. In comparison, countries specialized in agricultural exports faced a less severe slowdown, with Liberia, Malawi and Uganda registering above-average growth.

Several LDCs in East and Southern Africa continued to be among the best performers in 2009, partly owing to successful macroeconomic reforms, improved governance and increased public expenditures, especially on infrastructure. The good macroeconomic performance contrasts with persistent food insecurity. Prolonged droughts have led to severe food shortages and widespread hunger in the countries in the Horn of Africa and East Africa. By contrast, most poor-performing countries, such as Haiti, Madagascar and Somalia, continued to experience political instability and fragile security conditions.

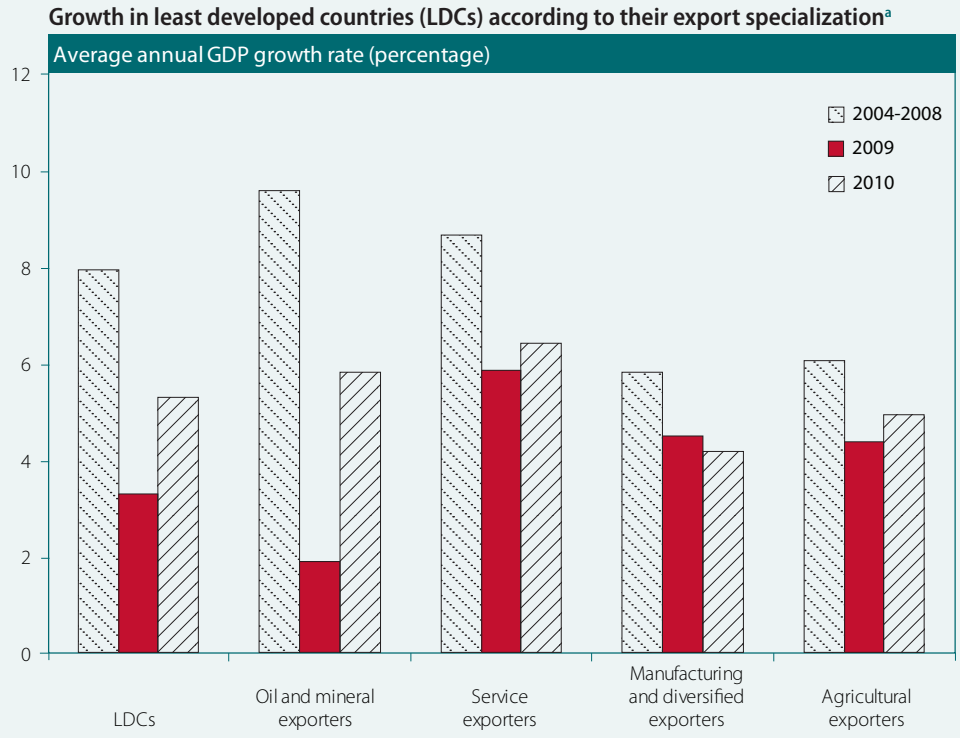
Despite the worsening external economic environment in general, a continued strong inflow of workers' remittances helped some LDCs sustain domestic demand, for example, in Bangladesh (the most populous country in the group), Nepal and Rwanda. In Bangladesh, remittances offset a significant decline in total aid disbursements, which fell by more than 40 per cent during the first eights months of 2009 compared with the same period a year earlier. Preliminary data suggest that official development assistance (ODA) flows to African LDCs may have increased moderately in 2009. However, there are concerns that flows may be lower in the coming years as many donor countries may curtail their aid budgets as a consequence of the crisis.

As food and oil prices dropped sharply in the second half of 2008, inflationary pressures in the LDCs began to abate. Average inflation in the LDCs declined from 13.5 per cent in 2008 to 8.8 per cent in 2009, and is forecast at 8.1 per cent in 2010. Food price inflation, however, remained elevated in many countries as lower international prices were only partially passed through to local markets and weak harvests constrained domestic supply, particularly in East Africa. Moreover, several Governments have phased out food subsidies that had been introduced to cushion the effects of escalating international prices.

In the outlook for 2010, average growth in the LDCs is expected to recover, but to remain considerably below the levels achieved in the years prior to the crisis. Driven by a rebound in oil and mineral exports, the group is forecast to grow by 5.3 per cent in 2010. Yet, the uncertainties regarding the strength of the recovery in developed and major developing economies pose significant downside risks for the LDCs. Continued slow growth in LDCs may aggravate the already deteriorating fiscal balances and the rising public debt. In addition, infrastructural deficiencies, low levels of human capital, political instability and domestic conflict continue to hamper economic development. Furthermore, natural disasters, unpredictable weather conditions and the effects of climate change continue to pose severe threats to most LDCs. Although several post-conflict African countries, such as Angola and Liberia, have benefited from improved political stability and security in recent years, drug trafficking in West Africa constitutes an increasing menace to governance, capacity-building and promotion of the rule of law.

a While the group of least developed countries (LDCs) includes 49 economies, this box covers only the 39 members for which macroeconomic data are available. For a more detailed definition of the LDCs, see http://www.un.org/esa/policy/devplan/profile/index.html.

**Box I.2 (cont'd)**




**Source:** UN/DESA.

**a** UNCTAD *Least Developed Countries Report, 2008* (UNCTAD, Geneva) p. xiii. Based on 2003-2005 trade data.

## Outlook for employment, inflation and global poverty

Unemployment rates are continuing to rise

The continued weakness of the world economy is manifest in the continued increase in unemployment. Through the end of 2009, the recovery will have been "jobless". Unemployment rates are expected to continue to rise well into 2010.

The number of unemployed has more than doubled in the United States since the beginning of the recession in December 2007. Those out of work totalled 15.7 million in October 2009, bringing the unemployment rate to 10.2 per cent, the highest in 26 years. The unemployment rates in the euro area are also estimated to have increased by more than 2 percentage points in 2009, with the largest increase in Ireland and Spain, by 12.5 and 9.5 percentage points, respectively. These figures would be even higher if they were to include discouraged workers, who are unemployed but not currently looking for work because they believe no jobs are available for them.

Unemployment rates in transition economies and developing countries have also moved higher, in particular in the Commonwealth of Independent States (CIS) and Central and South-eastern Europe, where the number of unemployed increased by as much as 35 per cent in 2009.

Developing countries are seeing increases in vulnerable employment and working poverty

In developing countries, while most job losses are in the export sectors, the greater concern lies in the stark increase in vulnerable employment and working poverty. In East and South Asia, vulnerable employment[1] affects about 70 per cent of the workforce and the scarce timely data suggest that this share has increased significantly. According

1 Vulnerable employment as defined by the International Labour Office refers to own-account workers and contributing family workers who, in developing countries, are less likely to have formal work arrangements.

to the International Labour Organization (ILO), informal employment has increased significantly in Indonesia and Thailand, for instance.[2] In Indonesia, the number of casual workers in non-agricultural sectors increased by about 7.3 per cent between February 2008 and February 2009, more than five times the rate of growth of formal sector wage earners. In Thailand, first quarter 2009 figures indicate that wage employment was stagnant, while the number of informal sector self-employed and family workers increased by 3.2 per cent. This suggests a significant increase in the number of workers with poor-quality jobs.

In sub-Saharan Africa, an important share of the region's labour force is engaged in subsistence agriculture and other low-productivity economic activities. The share of working poor (that is to say, those earning less than $1.25 per day in purchasing power parity (PPP)) is expected to increase to about 64 per cent in 2009, up from 59 per cent in 2007. In Latin America and the Caribbean, the rate of unemployment increased on average to 8.5 per cent in the first quarter of 2009 compared to 7.9 per cent in the first quarter of 2008, implying that over one million more workers could not find a job.

Social gaps in employment opportunities are widening

The impact of the financial crisis on labour conditions is expected to aggravate social gaps in employment opportunities, in particular for women, who are more often involved in temporary employment and jobs in export-oriented manufacturing industries in developing countries. Worldwide, unemployment among youth (those aged between 16 and 24 years) is expected to increase from a rate of 12.2 per cent in 2008 to about 14 per cent in 2009 on average. The rate of youth unemployment in the EU has increased by 4 percentage points in the past year, reaching 19.7 per cent, and in the United States it went up by 5 percentage points, reaching 18 per cent in 2009. In developed and developing countries alike, an increasing number of new college graduates continue to face enormous difficulties in finding a job.

Labour markets will remain weak in 2010

Labour markets will remain weak in the outlook. The experience of previous recessions shows that employment recovery typically lags output growth by a significant margin. During the last two recessions in the United States (in 1991 and 2001), for instance, output started to recover after eight months, while it took 30 and 48 months, respectively, before unemployment rates were back to pre-crisis levels. Recovery from the present crisis has only just begun and large output gaps remain characteristic of the situation in most major economies. This will slow new hiring until output growth has become more robust. In the countries of the euro zone, the drop in average hours worked has been faster than the increase in the number of unemployed, as—with government support—many workers have been allowed to keep their jobs while being forced into part-time employment. Firms are more likely to increase the working hours of current workers than to hire new ones.

Labour market conditions in developing countries are expected to remain difficult in the outlook for three main reasons. First, most of the 47 million new workers who enter labour markets worldwide each year will be searching for jobs in developing countries. In Asia alone, for instance, an estimated 51 million additional jobs will need to be created to absorb that region's growing labour force during 2010 and 2011.

Second, as in developed countries, employment creation in developing countries is expected to lag output recovery. Following the Asian financial crisis of 1997-1998, for instance, employment growth significantly lagged output growth by three years. However, the fiscal stimulus packages implemented by some developing countries could limit the retardation effect somewhat this time around. In several Asian countries, new public spending

2 See International Labour Office, "Protecting people, promoting jobs. A survey of country employment and social protection policy responses to the global economic crisis", Report to the G20 Leaders Summit, Pittsburgh, 24-25 September 2009, available at https://webdev.ilo.org/public/libdoc/jobcrisis/download/protecting_people_promoting_jobs.pdf.

on infrastructure is creating a substantial amount of new jobs in the construction sector.[3] Nonetheless, during the present crisis, most jobs in developing Asia were shed in export-oriented manufacturing sectors where the rehiring of workers is expected to remain slow as long as the recovery is driven mainly by the turn in the inventory cycle.

Third, the shift to informal sector jobs during the crisis will likely be long-lasting for many workers. This adds considerable pressure on earnings for those in vulnerable employment and will keep the level of working poverty high, especially in rural areas where job opportunities are already scarce. In addition, on top of vulnerable employment, as social protection coverage is relatively limited, working poverty levels will increase. This will be difficult to reverse, as observed in previous crises.

Inflationary pressures are expected to remain low throughout 2010

Worldwide, inflation rates have fallen. The majority of countries have experienced significantly lower inflation rates (disinflation) in 2009, while a growing number of economies, mainly developed countries and a few emerging economies in Asia, actually experienced deflation as general price indices fell. The continued increase in unemployment rates and large output gaps suggest that inflation is likely to remain low in the outlook despite continued expansionary monetary policies, as aggregate demand is expected to fall short of output capacity for some time to come. For most economies, cost-push pressures are likely to remain mild. With only a moderate recovery in global demand, further increases in the prices of primary commodities are expected to be limited (see below, and also chapter II), while high unemployment rates and continued efforts by the business sector to curb costs will keep wage pressures down. Deflation, rather than inflation, should be a policy priority for many countries in the near term. Inflationary pressures as a consequence of ballooning government deficits and the ample liquidity injected during the crisis, if they emerge, will be more of an issue in the medium run, after the recovery has become more solid, and should not be of immediate concern.

Progress towards poverty reduction has slowed considerably

The reduction in employment and income opportunities has led to a considerable slowdown in the progress towards poverty reduction and the fight against hunger. Estimates by the Department of Economic and Social Affairs of the United Nations (UN/DESA) suggest that, in 2009, between 47 and 84 million more people have remained poor or will have fallen into poverty in developing countries and economies in transition than would have been the case had pre-crisis growth continued its course (table I.3).[4] This setback was felt predominantly in East and South Asia, where between 29 and 63 million people were likely affected, of whom about two thirds were in India. By these estimates, the crisis has trapped about 15 million more people in extreme poverty in Africa and almost 4 million in Latin America and the Caribbean. In the outlook for 2010, the economic recovery is expected to encourage a resumption of the declining trend in global poverty in the years prior to the crisis. Nonetheless, as growth in income per capita is expected to fall well short of pre-crisis levels, poverty reduction will still be significantly less than it would have been under pre-crisis trends.

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3 In Malaysia, for instance, public projects constitute the bulk of the stimulus package's spending, and they will include low-cost home building and upgrading of urban transportation. China is spending over 86 per cent of its package on investments in infrastructure, low-rent houses, public transportation, power grids and water supply. India, Indonesia and the Republic of Korea have also allocated sizeable amounts of their packages to labour-intensive infrastructure projects.

4 It should be noted that the estimates presented here take into consideration the impact of the downturn only on growth in income per capita compared with continued pre-crisis trends. Hence, these should be interpreted in the first instance as a slowdown in poverty reduction owing to a drop in the mean per capita income of developing countries. For lack of additional information, the estimates do not take into account likely changes in income distribution.

Table I.3
**Estimated impact of the crisis on extreme poverty, 2009[a]**

| | Change in extreme poverty (living below $1.25 a day) | | | |
|---|---|---|---|---|
| | Number of poor (millions) | | Change in poverty incidence (percentage) | |
| | *2009 vs. 2004-7* | *2009 vs. 2008* | *2009 vs. 2004-7* | *2009 vs. 2008* |
| **Economies in transition** | **1.0** | **1.0** | **0.3** | **0.3** |
| South-eastern Europe | 0.0 | 0.0 | 0.0 | 0.1 |
| Commonwealth of Independent States | 0.9 | 1.0 | 0.3 | 0.4 |
| **Developing economies** | **83.7** | **46.7** | **1.5** | **0.9** |
| Africa | 15.2 | 13.6 | 1.5 | 1.3 |
| North Africa | 0.2 | -0.3 | 0.1 | -0.2 |
| Sub-Saharan Africa | 15.0 | 13.9 | 1.8 | 1.7 |
| East and South Asia | 63.1 | 28.5 | 1.7 | 0.8 |
| East Asia | 22.8 | 9.1 | 1.2 | 0.5 |
| South Asia | 40.3 | 19.4 | 2.4 | 1.2 |
| Western Asia | 1.9 | 1.3 | 0.9 | 0.6 |
| Latin America and the Caribbean | 3.6 | 3.3 | 0.6 | 0.6 |
| South America | 2.6 | 2.5 | 0.7 | 0.6 |
| Mexico and Central America | 1.0 | 0.8 | 0.6 | 0.5 |
| Caribbean | 0.0 | 0.0 | 0.1 | 0.1 |

**Source:** UN/DESA, based on per capita GDP growth estimates and forecasts of the *World Economic Situation and Prospects 2010* and recent household survey data for 69 countries drawn from the World Bank's PovCalNet.

**Note:** The estimates are an update and revision of previous estimates published in the *World Economic Situation and Prospects: Update as of mid-2009*, available at http://www.un.org/esa/policy/wess/wesp2009files/wesp09update.pdf. The updated estimates show a smaller impact on poverty, caused by two main factors. First, new population projections were used, generally showing lower population estimates and growth rates, and, second, GDP growth figures for 2009 were revised upwards for some countries with large populations (for example, India).

**a** Estimates represent the shortfall in poverty reduction caused by the drop in per capita income growth in 2009 compared with the average growth in 2004-2007 and 2008, respectively. The poverty threshold is the international poverty line of $1.25 per person per day at purchasing power parity dollars. For the calculations, it was assumed that income distribution stays constant in all country cases.

## International economic conditions for developing countries and the economies in transition

The international economic environment for developing countries and the economies in transition has improved, but remains daunting

Following a sharp deterioration in late 2008 and early 2009, the international economic environment for developing countries and the economies in transition has been stabilizing and improving, but it remains daunting in the outlook. Certain categories of private capital flows are returning to some emerging economies, and external financing costs are normalizing, but the general external financing conditions for developing countries are expected to remain tight in 2010. Both global trade flows and world market prices of primary commodities rebounded during 2009, but the contribution of international trade to growth in developing countries is not expected to recover its full strength in the near term. In such an inauspicious international economic environment, recovery of growth in most developing countries and the economies in transition will have to rely more on domestic

than on external demand. Low-income developing countries will likely continue to face constraints in accessing private capital markets to finance widening current-account deficits and will be in need of greater support from official sources of international finance.

## International finance

Private capital inflows to emerging economies have started to recover

Net private capital inflows to emerging economies, which comprise some 30 large developing countries and the economies in transition, declined precipitously in late 2008 and early 2009, but have rebounded somewhat since. After peaking at about $1.2 trillion in 2007 before the crisis, the inflows halved in 2008, plunged further in 2009 to an estimated $350 billion, and are expected to recover to about $650 billion in 2010 (see chapter III for a more detailed discussion).

Emerging economies have experienced a sharp drop in bank credit

The sharpest drop was in international bank lending to emerging economies, with a total net inflow of $400 billion in 2007 turning into a net outflow of more than $80 billion in 2009. The economies in transition, especially the Russian Federation, Ukraine, and a few other countries in Central and Eastern Europe, experienced the most dramatic reversal in access to bank lending. Despite the recent stabilization in the banking sector worldwide, bank credits to emerging economies are expected to remain limited in the outlook given the general tightness in the global credit supply (figure I.2). Non-bank lending flows also declined notably during the crisis, but have rebounded since mid-2009 as more emerging economies managed to increase their issuance of bonds. Large outflows of net portfolio equity were registered in the second half of 2008 as international investors reacted aggressively to the sell-off in equity markets worldwide. These flows have recuperated markedly since March 2009, however, along with the rebound in stock markets in both developed and most emerging economies. However, the returning portfolio flows may also reflect a renewed appetite for riskier assets. The speculative motives associated with this could become a source of increased volatility in exchange rates and assets prices and, hence, of renewed macroeconomic instability. While foreign direct investment (FDI) flows tend to be less volatile than other components of private capital flows, they have also declined by more than 30 per cent in 2009. In the outlook for 2010, FDI flows are expected to grow by about 20 per cent.[5]

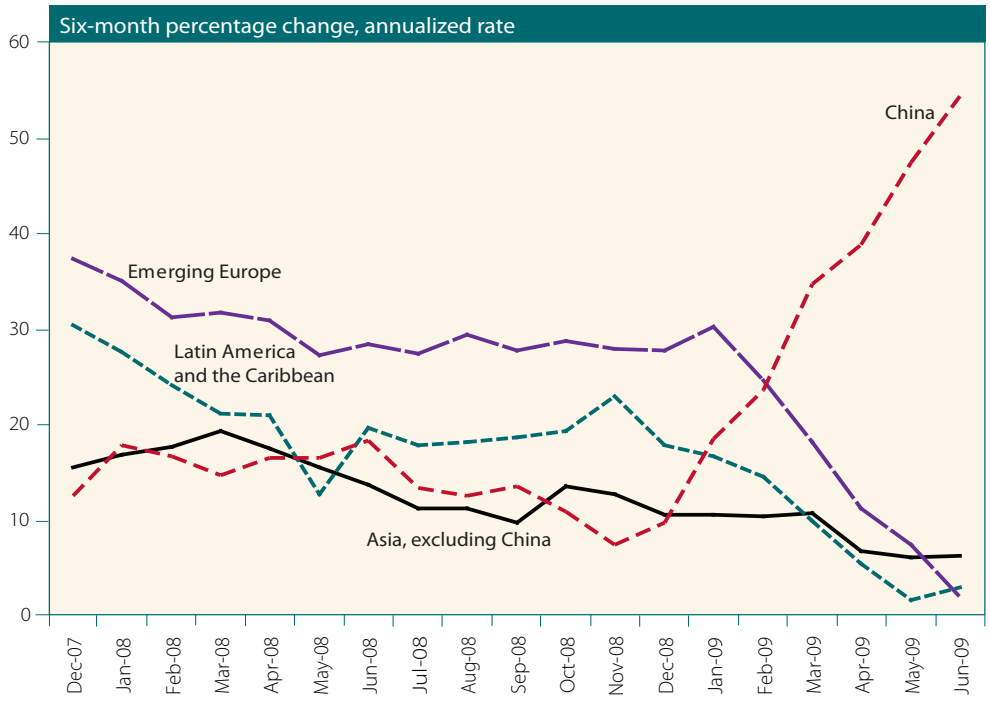
Spreads on emerging market bonds have been normalizing since March 2009

External financing costs for emerging market economies surged in late 2008, as measured through the Emerging Markets Bond Index (EMBI). Since March 2009, along with the stabilization of global financial markets, the spreads have been normalizing (figure I.3). Spreads across emerging markets have converged and have tended to move much more in tandem since 2007 when signs of the global financial turmoil first became apparent. This suggests significant contagion in these markets, weak capacity to discriminate risks by lenders, and consequent heavy rationing of available finance. Private sector access to credit in emerging markets has been heavily curtailed and this trend continued well into 2009. The exception has been China, where credit growth has boomed from the end of 2008 as the result of strengthened domestic demand. This, however, has also fuelled fears of a build-up of a new asset bubble in that part of the world.

Outflows of capital from emerging economies, particularly to other developing countries, which had gathered some momentum prior to the global financial crisis, have

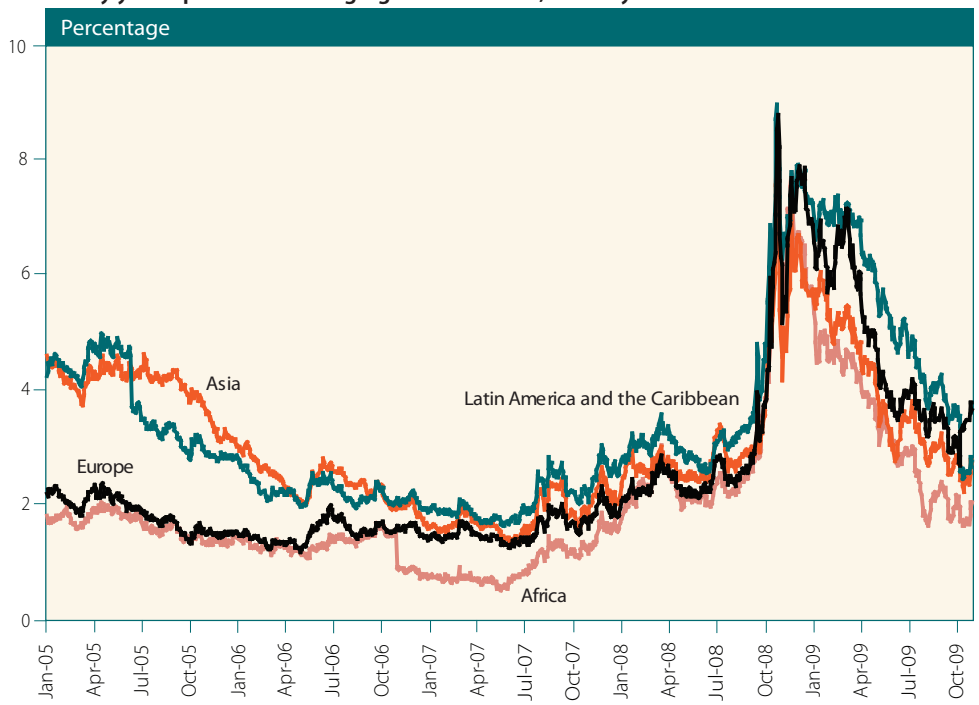
5 See United Nations Conference on Trade and Development, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (United Nations publication, Sales No. E.09.II.D.15).

Figure I.2
**Bank lending to the private sector in emerging markets, December 2007–June 2009**




**Source:** JPMorgan Chase.

Figure I.3
**Daily yield spreads on emerging market bonds, January 2005–October 2009**




**Source:** IMF, *Global Financial Stability Report*, October 2009.

also moderated during the past two years as investors in emerging economies recoiled along with those in developed economies. Bucking the trend, however, China's outward investment continued to surge, reaching an estimate of $150 billion in 2009. But exports of capital from oil-exporting developing countries declined notably along with the collapse in their oil revenues.

Net official flows to developing countries and economies in transition increased in 2009

Net official flows to developing countries and the economies in transition have increased in 2009, especially as the International Monetary Fund (IMF) and other multilateral financial institutions significantly expanded their financial resources and started to disburse lending. Emerging Europe received the lion's share of these net official flows. Meanwhile, bilateral official, non-concessional flows also increased as central banks arranged foreign-exchange swaps to deal with the lack of international liquidity. Yet, in the aggregate, net official flows to developing countries are expected to remain negative in 2009 and 2010, continuing the trend of the past decade (see chapter III for details). The return of net official flows (including official development assistance (ODA)) from poor to rich countries was about $120 billion per year during 2006-2008. That amount is expected to fall to about $20 billion in 2009, but could increase again to $66 billion in 2010 (see chapter III, table III.2). Much of the outflow comes from developing Asia, while Africa and Latin America and the Caribbean are expected to be net recipients, with positive inflows of about $14 billion and $27 billion, respectively, in 2009—in both cases, substantial increases from 2008 levels. Net ODA is expected to fall in absolute terms in 2009–2010 as a consequence of the global economic crisis, as many donor countries target their aid budgets to their level of gross national income (GNI). While ODA flows had increased visibly in 2008, they remained well below all international commitments. Especially for low-income countries with weak fiscal space, more limited access to aid would not only make it more difficult to meet the MDGs, it could also leave them with insufficient resources to address the crisis with counter-cyclical policies.

Remittance flows to developing countries have moderated, with large variations among countries

Remittance flows to developing countries have moderated. Remittances totalled a sizeable $338 billion in 2008, or almost three times the amount of ODA and more than half of the estimated level of FDI flows to developing countries. For several small economies, this source of revenue accounts for more than 20 per cent of their GDP. Remittance flows used to be relatively stable, thereby providing a counter-cyclical impulse during economic downturns. However, for some regions, these flows fell sharply as a consequence of the global crisis, most notably in Latin American countries with large numbers of workers abroad. Remittances to some CIS countries also declined steeply.[6] This trend has not been universal, however. Remittance flows continued to increase to countries in East and South Asia whose many migrant workers have continued to increase to abroad, albeit at a slower pace than in previous years. The difference can be explained by the fact that migrants from Latin America and the CIS are, respectively, mainly working in the United States and Western Europe (in particular Spain), and in the Russian Federation, whose labour markets have been much more severely impacted by the crisis than those of the oil-rich Gulf countries, which are major destinations for migrants from East and South Asia.

6 In Tajikistan, for instance, remittances declined by 22 per cent in the first half of 2009, and were one third lower in the Republic of Moldova. The impact of these declines is particularly significant for these economies as remittances account for more than 30 per cent of GDP in the Republic of Moldova and Tajikistan, and for more than 20 per cent in Kyrgyzstan.

## International trade

Recovery in global trade is largely driven by the turn in the inventory cycle

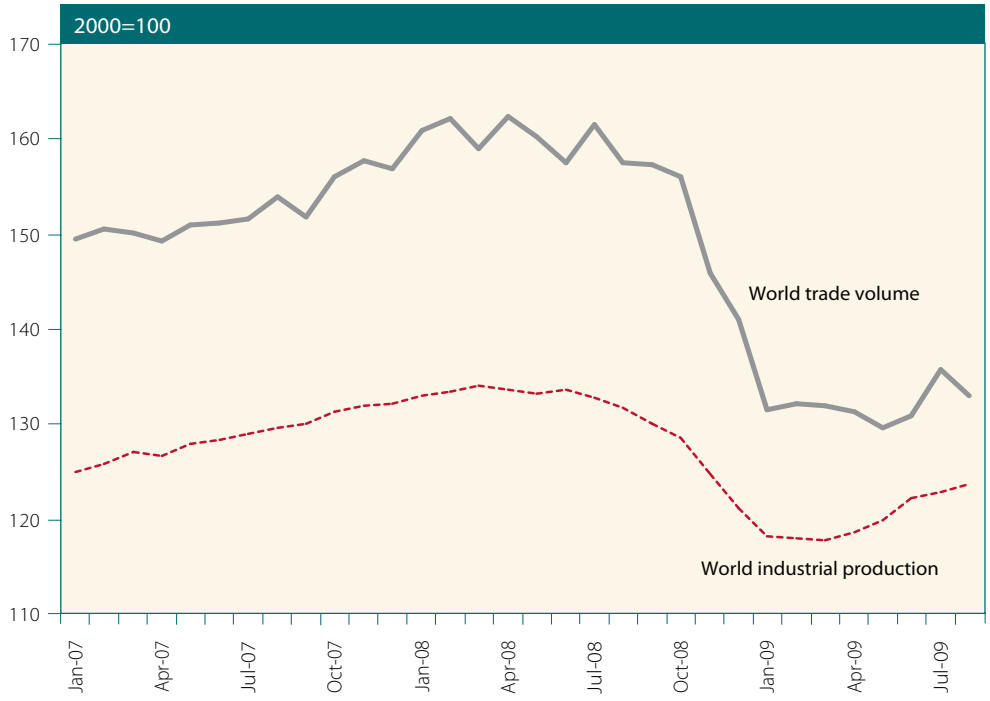
The financial crisis has also significantly affected world trade. Triggered by a retrenchment in import demand in major developed countries and more restricted access to trade financing, trade flows fell at an annualized rate of between 30 and 50 per cent in most economies in late 2008 and early 2009. Asian economies experienced the sharpest decline. Trade flows have recovered since the second quarter of 2009 (figure I.4). The rebound has been largely driven by the turn in the global inventory cycle discussed above, while import demand from consumption and business investment has remained weak (see chapter II for a more detailed discussion of trade patterns during the crisis).

Even given the recent rebound, trade flows for 2009 as a whole are still estimated to decline by more than 12 per cent. A mild growth of 5 per cent is forecast for the volume of world trade in 2010 along with the projected moderate recovery of global aggregate demand.

Prices of oil and non-oil primary commodities have rebounded since March 2009

The financial crisis has led to collapses in the prices of oil and non-oil primary commodities. The prices of primary commodities had been on an upward trend since 2002, with a significant surge in late 2007 and early 2008, but the intensification of the global financial crisis in mid-2008 abruptly broke this trend. By early 2009, oil prices had plummeted by as much as 70 per cent from their peak levels of mid-2008 before rebounding to about $80 per barrel in November 2009, which was still about 45 per cent below the peak. In the same period, prices of metals declined even more sharply to about one third of their peak levels. Prices of agricultural products, including basic grains, also declined significantly. The downward trend came to a halt in the first quarter of 2009 and rebounded thereafter. By mid-2009, real agricultural commodity prices were still high compared with the low levels sustained during much of the 1980s and 1990s. World food prices equally

Figure I.4
**Index of world trade volume and industrial production, January 2007–August 2009**




**Source:** UN/DESA, based on data from CPB Netherlands Bureau for Economic Policy Analysis.

declined, then rebounded along with other primary commodities. The covariant movement is explained in part by the drop in crude oil prices and the related fall in the demand for agricultural inputs for the production of biofuels. With the measurable rebound in the prices of most primary commodities since March 2009, room for further increase is limited in the outlook for 2010, as the slack in supply of these commodities is not expected to close in the foreseeable future and only a mild recovery in demand is likely. The only upward pressure will come from the risks associated with a further weakening of the United States dollar, in which the prices of almost all primary commodities are denominated.

Many developing countries have experienced large swings in their terms of trade

As a consequence, many developing countries have suffered strong swings in their terms of trade.[7] Net exporters of oil and minerals, in particular, felt very strong adverse export price shocks on top of the falloff in global demand as part of the recession, but some ground has been regained more recently. Net importers of food and energy saw their import bills fall during the crisis, but, in general, the related terms of trade gain was more than offset by the steep drop in demand for their exports at the height of the global recession. The more recent reversal in their terms of trade will slow their recovery. More generally, however, high terms of trade volatility makes macroeconomic management more challenging and enhances economic insecurity, all of which tends to be detrimental to long-term growth prospects.[8]

Trade protectionism has been on the rise since the onset of the crisis

Trade protectionism increased as the crisis evolved, making the international economic environment even less favourable. A sizeable number of countries, developed and developing alike, have raised tariffs and introduced new non-tariff measures in response to a sharp decline in production in certain industries. The fiscal stimulus packages and the financial measures adopted by many developed countries also contain certain protectionist elements through direct subsidies and support for domestic industries. A few countries also reintroduced export subsidies for some agricultural products that had been previously eliminated, including those for dairy products produced in the EU and the United States.[9] Meanwhile, the number of cases calling for use of a trade defence mechanism, including anti-dumping and safeguard clauses, have also been rising in 2008-2009. Although these protection measures have so far not led to pervasive and high-intensity protectionism, some domestic pressure remains, particularly in view of a further deterioration in the unemployment situation in many countries.

## Policy responses

Policy responses need to be better coordinated internationally

Since the intensification of the financial crisis, Governments worldwide have made massive public funding available (amounting to about $20 trillion, or some 30 per cent of WGP) to recapitalize banks, taking partial or full government ownership of ailing financial institutions and providing ample guarantees on bank deposits and other financial assets. Furthermore, monetary and fiscal policy stances have been strongly counter-cyclical in most major economies. Yet, these unprecedented measures may not have been far-reaching enough and need better coordination internationally.

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7 See chapter II for a decomposition analysis of the trade shocks affecting developing countries during the global recession.

8 See *World Economic and Social Survey 2008: Overcoming Economic Insecurity* (United Nations publication, Sales No. E.08.II.C.1) for further analysis.

9 See Report on G20 Trade and Investment Measures, issued on 14 September 2009 by the World Trade Organization, the Organization for Economic Cooperation and Development and the United Nations Conference on Trade and Development, available at http://www.unctad.org/en/docs/wto_oecd_unctad2009_en.pdf, p. 11.

## Financial sector rescue measures

Governments in developed economies took a wide range of measures to stabilize the financial sector

When the systemic risks threatening the global financial system intensified in late 2008, Governments, mainly in developed economies, took a wide variety of financial measures to stabilize the financial sector. The measures targeted the liquidity and solvency of specific institutions, as well as the functioning of financial markets. More than 20 countries introduced or increased guarantees on retail and commercial deposits, thus reducing the likelihood of bank runs. Government debt guarantees allowed eligible banks to issue new bonds backed by explicit government support in return for an annual fee paid by the issuer. The details of these measures varied across countries. For example, European banks faced higher costs for debt guarantees than banks in the United States. While the United States charged a flat rate to all borrowers regardless of rating, the cost of European guarantees was linked to past spreads on credit default swaps (CDS), making these more expensive for riskier borrowers. The risk on government-guaranteed bonds varies across countries, with some regulators treating them as risk-free from a capital perspective while others assign a 20 per cent capital charge.

Governments recapitalized banks with a view to reducing their financial leverage and increasing their solvency. Most Governments bought hybrid securities, such as preferred shares or mandatory convertible notes. Preferred shares were the most popular, as these instruments limit the risk of future losses to the taxpayer while providing a more attractive dividend stream than common shares. However, as preferred shareholders typically cannot vote at shareholder meetings, Governments have been constrained in their ability to influence the management of financial institutions. Nonetheless, Governments have managed to condition their capital injections. Many countries followed France's example and required banks receiving government support to extend new domestic loans with an associated reporting requirement. The United States and Germany imposed limits on the payment of common dividends, but the United Kingdom of Great Britain and Northern Ireland explicitly prohibited common dividends as long as the Government's preferred shares were still outstanding. Several rescue packages outlined general restrictions on executive pay, but Governments lacked the votes, the support of the banks' boards or the legal basis to block payouts.

A few Governments also purchased troubled assets from large financial institutions or provided insurance against losses on designated portfolios. For example, the Swiss National Bank (SNB) bought mortgage-related assets from UBS and placed them in a special investment vehicle. The United States Treasury set up the Public-Private Investment Program (PPIP) to value the troubled assets and to remove them through an auction mechanism. Under the PPIP, eligible private sector investors are invited to bid on troubled real estate assets held by banks. Some Governments offered asset insurance to a handful of banks subject to payment of an insurance premium. Governments in Iceland, Ireland, the United Kingdom and the United States took control of a number of insolvent financial institutions to protect depositors and prevent contagion to other financial institutions.

These rescue measures have had mixed effect. They seem to have helped to reduce interest-rate spreads on government bonds and CDS contracts, but by increasing a bank's capital ratio and providing a means to refinance existing debt, government rescue packages reduced the probability of default, thereby pushing down CDS premiums on average.

Concerns remain about the health of financial sectors in major economies

Despite positive signs, concerns remain regarding the health of the financial sectors in major economies. The risk of new speculative bubbles remains as long as regulatory reforms to rein in high risk-taking and operations in markets for financial derivatives

and other speculative instruments are not put in place. At present, an important number of banks still show signs of distress. Interest-rate spreads have remained elevated, especially for lending to borrowers that are not considered "triple A". Banks are also still experiencing difficulties in raising new capital from private investors, while—as discussed above—bank lending has remained highly restrictive during most of 2009. Moreover, government-assisted sales of failed banks have led to the creation of even larger financial institutions, possibly increasing systemic risks. Government guarantees and asset insurance have exposed taxpayers to potentially large losses and have become a concern as regards continued political support for financial rescue operations. In the United States, delinquency rates on mortgage loans are still increasing, reaching an historic high of more than 14 per cent in November 2009. Rising unemployment is the major factor explaining the increasing number of foreclosures and homeowners with payment arrears. Finally, the uncoordinated responses across countries have raised concerns about distortions to competition. In particular, national rescue packages have featured different conditions, coverage and costs, with some banks receiving support on more attractive terms than their competitors.

## Monetary policy

Central banks responded to the crisis with bold and unprecedented measures

Monetary policy responses to the crisis have been bold and unprecedented. Central banks have reduced their policy interest rates by a large margin, with a number of central banks in developed economies cutting their interest rates to close to zero: for instance, the United States Federal Reserve (Fed), the Bank of Japan (BoJ), the Bank of England, the Bank of Canada, Sveriges Riksbank, the SNB, and many others reduced their rates to historical lows. Only in a few cases, such as Hungary, Iceland and the Russian Federation, were central banks compelled to raise interest rates in the early stages of the crisis, as those countries faced sharp depreciations of their currencies. Interest rates were lowered again after they managed to stabilize their exchange rates.

While the magnitude and pace of easing policy interest rates were impressive, central banks of major developed countries took a further set of unconventional measures that were even bolder. First, measures were put in place to ensure that the market interest rates would come down along with the policy rate. To help anchor short-term market rates to the policy target, the Bank of England and the Fed reduced the width of the effective band on overnight rates by changing the rates applied on end-of-day standing facilities. Some central banks expanded their capacity to reabsorb excess reserves so as to neutralize the impact on overnight interest rates of the much-expanded operations. The Bank of England and the SNB issued central bank bills; the European Central Bank (ECB) and the Reserve Bank of Australia (RBA) increasingly relied on accepting interest-bearing deposits; and the Fed took in greater amounts of deposits from the Treasury and started to pay interest on reserves.

Second, interventions were made to alleviate strains in wholesale interbank markets by reducing interbank market spreads. Central banks provided more term funding so as to offset some of the shortfalls in market supply, and they also ensured a smooth distribution of reserves in the system and access to their funding. They relaxed eligible collateral and counterparty coverage, lengthened the maturity of refinancing operations, and established inter-central bank swap lines to alleviate mostly dollar funding pressures in offshore markets. In addition, many central banks introduced or eased conditions for lending out highly liquid securities, in particular government bonds, against less liquid market securities in order to improve funding conditions in the money market.

Third, monetary authorities provided large amounts of additional liquidity to keep financial institutions afloat and to reduce risk spreads in specific financial market segments through the purchase of commercial paper, asset-backed securities and corporate bonds. In addition, they made direct purchases of public sector securities to influence benchmark yields more generally. Some central banks also intervened in the foreign-exchange market to contain upward pressure on their currencies so as to reduce deflationary risks and loosen monetary conditions.

The balance sheets of many central banks have expanded substantially

As a result of these actions, central bank balance sheets expanded substantially and their composition changed significantly. The Fed focused heavily on non-bank credit markets as well as on operations involving private sector securities, for example, the Commercial Paper Funding Facility (CPFF) and the Term Asset-Backed Securities Loan Facility (TALF). The Bank of England initially concentrated its Asset Purchase Facility primarily on purchases of government bonds. The ECB emphasized banking system liquidity by conducting fixed-rate full-allotment refinancing operations with maturities of up to 12 months and by purchasing covered bonds. The BoJ directed substantial efforts at improving funding conditions for firms through various measures related to commercial paper and corporate bonds.

Monetary policy is expected to remain expansionary in 2010

In the outlook, most central banks may continue to keep their expansionary policy stance for much of 2010 as part of continued macroeconomic stimulus, but some may start to neutralize their policy rates sooner than others. For example, the RBA raised the policy interest rate by 25 basis points in October 2009. Elsewhere, pressure on monetary authorities to begin a gradual unwinding of the unconventional measures will increase.

Some unconventional policy measures are unwinding

Technically speaking, it should not be difficult to unwind these unconventional monetary measures. Indeed, short-term liquidity measures can unwind naturally as market conditions improve. For example, short-term lending to financial institutions by the Fed swelled from zero to more than $1 trillion by the end of 2008, but has since reduced to about $200 billion as financial markets improved. Assets purchased by the central banks can also be resold into markets, although it will take much longer to unwind some illiquid assets on some central bank balance sheets. However, the key challenges are, first, to find the right timing to start the unwinding without putting an early break on the macroeconomic stimulus and, second, to adequately coordinate the withdrawal of the monetary stimulus with fiscal policy and financial sector rescue operations.

## Fiscal policy

Many countries adopted sizeable fiscal stimulus measures to support aggregate demand

A large number of countries have implemented fiscal policy measures to support aggregate demand. Table I.4 summarizes most of the fiscal stimulus packages adopted by 59 economies since late 2008, totalling $2.6 trillion (or 4.7 per cent of the combined GDP of these countries and 4.3 per cent of WGP). Across countries, the magnitude of the stimuli ranges from less than 1 per cent to more than 10 per cent of GDP.

These packages consist of a wide range of measures, including increases in spending on public consumption and infrastructure investment and measures to boost disposable household income, through cutting taxes and increasing benefits and subsidies, as well as through tax cuts for businesses. The composition of the packages varies across countries and economies. For example, tax-related measures account for more than half of the size of the packages in many developed countries, the highest proportion being in New Zealand and

Table I.4
**Fiscal stimulus to address the global financial and economic crisis[a]**

| | *Share of GDP (percentage)* | *Fiscal stimulus (billions of US dollars)* | | *Share of GDP (percentage)* | *Fiscal stimulus (billions of US dollars)* |
|---|---|---|---|---|---|
| Argentina | 1.2 | 3.9 | Luxembourg | 3.6 | 2.0 |
| Australia | 4.7 | 47.0 | Malaysia | 5.5 | 12.1 |
| Austria | 4.5 | 18.8 | Mexico | 2.1 | 22.7 |
| Bangladesh | 0.6 | 0.5 | Netherlands | 1.0 | 8.4 |
| Belgium | 1.0 | 4.9 | New Zealand | 4.2 | 5.4 |
| Brazil | 0.2 | 3.6 | Nigeria | 0.7 | 1.6 |
| Canada | 2.8 | 42.2 | Norway | 0.6 | 2.9 |
| Chile | 2.4 | 4.0 | Peru | 2.6 | 3.3 |
| China | 13.3 | 585.3 | Philippines | 4.1 | 7.0 |
| Czech Republic | 1.8 | 3.9 | Poland | 2.0 | 10.6 |
| Denmark | 2.5 | 8.7 | Portugal | 1.2 | 3.0 |
| Egypt | 1.7 | 2.7 | Russian Federation | 1.2 | 20.0 |
| Finland | 3.5 | 9.5 | Saudi Arabia | 12.5 | 60.0 |
| France | 1.3 | 36.2 | Singapore | 5.8 | 10.6 |
| Georgia | 10.3 | 1.3 | Slovenia | 1.0 | 0.5 |
| Germany | 2.2 | 80.5 | South Africa | 1.5 | 4.2 |
| Honduras | 10.6 | 1.5 | Spain | 0.9 | 15.3 |
| Hong Kong SAR[b] | 5.2 | 11.3 | Sri Lanka | 0.2 | 0.1 |
| Hungary | 10.9 | 17.0 | Sweden | 2.8 | 13.4 |
| India | 3.2 | 38.4 | Switzerland | 0.5 | 2.5 |
| Indonesia | 1.4 | 7.1 | Taiwan Province of China | 3.9 | 15.3 |
| Israel | 1.4 | 2.8 | Thailand | 14.3 | 39.0 |
| Italy | 0.7 | 16.8 | Turkey | 5.2 | 38.0 |
| Japan | 6.0 | 297.5 | United Kingdom | 1.4 | 38.0 |
| Kazakhstan | 13.8 | 18.2 | United Republic of Tanzania | 6.4 | 1.3 |
| Kenya | 0.9 | 0.3 | United States | 6.8 | 969.0 |
| Korea, Republic of | 5.6 | 53.4 | Viet Nam | 9.4 | 8.4 |
| Lithuania | 1.9 | 0.9 | | | |
| | | | **All 55 economies** | **4.7** | **2,633** |
| | | | **World** | **4.3** | |

**Source:** UN/DESA, based on information from various sources. Note that the definition and contents of the policy measures vary from country to country and that the size of the packages may not be fully comparable across countries.

**a** This list of countries and economies is not exhaustive.
**b** Special Administrative Region of China.

the United Kingdom. In addition, while greater emphasis is placed on revenue-side measures in countries such as India, Indonesia and Thailand, in general, expenditure measures account for a larger part of the fiscal stimulus packages in developing countries.

Although the impact of discretionary fiscal policies would typically show effect later than automatic stabilizers and monetary policy, new evidence suggests that fiscal

policy in the form of government spending is most effective in the presence of market rigidities and liquidity constraints, as it can raise real wages and, hence, consumption. It is also a stylized fact that fiscal policy has the greatest effect when monetary policy is accommodative, as is the case in the current crisis.

Expenditure-side measures dominate stimulus packages in developing countries

Among developing countries that managed to launch fiscal stimulus packages, the main emphasis has been on increased expenditures, in part because of the limited scope for introducing tax breaks given that revenue-collection is generally weaker in these countries. The multiplier effects are likely greater for expenditure-side measures than for revenue measures, especially in times of great uncertainty.[10] New investments in infrastructure take up a large share of the public expenditure increase. This has been the case particularly in Argentina, China, Malaysia, the Republic of Korea, Saudi Arabia, Singapore and Taiwan Province of China. For instance, about 80 per cent of the fiscal stimulus package in China is related to infrastructure. In many countries, more than one quarter of the stimulus supports social protection measures.[11] Unlike in developed countries, where households may be more reluctant to increase consumption spending, income transfers to vulnerable populations in developing countries are more likely to have high expenditure effects given a high propensity for consumption.

Automatic stabilizers are stronger in developed countries

Relative to GDP, the size of the stimulus packages adopted by many developing countries seems to be larger than that of developed countries. The data in table I.4 do not take into account the effect of "automatic stabilizers", however, which tend to be stronger in developed countries with more extended social security and transfer systems. The size of the packages also greatly depends on resource availability. Most developed countries were able to finance stimulus packages by issuing government bonds, either domestically or in global capital markets, and a number of developing countries that had accumulated large amounts of foreign reserves prior to the crisis were also able to stipulate sizeable packages. These include, for instance, the resource-rich economies of the CIS, the Gulf countries and Chile, as well as countries which were able to rely on vast foreign-exchange reserves, such as several countries in developing Asia, and the Russian Federation. However, the fact that Russia's reserve fund is expected to be depleted by the end of 2010 owing to the use of funds for counter-cyclical measures points to the limitations of using reserves in some countries. Meanwhile, a majority of low-income countries were unable to adopt any fiscal stimuli because they had very limited resources for doing so.

Fiscal stimulus measures were critical in stabilizing the global economy

These stimulus packages, combined with monetary and financial measures, are considered to have been critical for stabilizing the global economy and leading the recovery of individual economies, although the precise impact is difficult to establish as yet. One difficulty lies in separating the effects of fiscal stimuli from those of other policies. Also, many countries have implemented only a relatively small part of the packages. For instance, the United States was estimated to have implemented only 25 per cent of the total size of its stimulus package by the third quarter of 2009. With this in mind, the IMF estimates that discretionary measures and automatic stabilizers in the G20 countries combined have increased growth by about 2 percentage points and may have decreased unemployment by

10 For example, in Organization for Economic Cooperation and Development (OECD) countries, the multipliers for expenditure are estimated to be greater than 1.0, compared with a range of between 0.2 and 0.8 for revenue measures. See OECD, "The Effectiveness and Scope of Fiscal Stimulus," in *OECD Interim Economic Outlook*, March 2009, ch.3, available at http:// www.oecd.org/dataoecd/3/62/42421337.pdf.

11 See Yanchun Zhang, Nina Thelen and Aparna Rao, Social Protection in Fiscal Stimulus Packages: Some Evidence, UNDP/ODS Working Paper (New York, Office of Development Studies, United Nations Development Programme, 2009).

1 percentage point when compared with a situation without fiscal stimulus.[12]

Fiscal deficits have widened substantially in most countries

The crisis and the policy responses have led to a substantial widening of fiscal deficits in most countries, resulting in most cases from a combination of declining tax revenue and rising spending. In low-income countries, however, declining government revenue has been the main factor.

The general government budget deficit in the euro area is forecast to reach 6.5 per cent of GDP in 2010, compared to a pre-crisis level of 0.6 per cent in 2007, with the deficits surging to 14.8 per cent in Ireland and 9.5 per cent in Spain. In other developed countries, budget deficits are forecast to reach 10.3 per cent of GDP in Japan in 2010, 11.6 per cent in the United Kingdom, and more than 10 per cent in the United States. Most developing countries have experienced a deterioration in their budget balance by about 3–5 per cent of GDP, but some, such as oil-exporting countries and countries in South Asia, have experienced much larger increases. In general, the policy space for a further increase in fiscal stimuli in the outlook is limited in most developing countries, unless they obtain access to more external financing.

Public debt ratios have soared, raising concerns about fiscal sustainability

Rapidly widening budget deficits are causing public debt ratios to soar, which in turn have raised concerns about fiscal sustainability. As a consequence, there is mounting political pressure in many countries to end the fiscal stimulus and start consolidating government finances. Such concerns are present particularly in developed countries, where the increase in public debt has aggravated the structural fiscal pressures from population ageing and other longer-term fiscal problems. The average public debt-to-GDP ratio in developed economies is expected to exceed 100 per cent in 2010 and to move even higher thereafter. Concerns about fiscal sustainability may also have an impact on the perceived risks of debt, which in turn would lead to a higher risk premium and thus set limits on future financing of fiscal deficits.

A premature withdrawal of the global fiscal stimulus measures could trigger a relapse into recession

The current challenge is how to balance the short-term need for continued policy support in order to strengthen the recovery with the longer-term need to consolidate public debt in order to maintain fiscal sustainability. A premature withdrawal of fiscal stimuli, however, could well pull the plug on the nascent recovery, as much of the rebound has been a direct result of the policy responses. A fall back into recession caused by early withdrawal could well lead to another widening of budget deficits resulting from a further drop in tax revenue and could trigger a downward spiral of pro-cyclical fiscal adjustment. Experience from past crises shows that countries that managed to sustain fiscal stimuli until strong growth recovery was reached did in fact "grow" out of a cyclical increase in the budget deficit and public debt, as was the experience of the United States in the 1990s. In contrast, countries that withdrew stimulus too soon found themselves in a quandary of growth stagnation and steadily rising public debt, as was the case in Japan in the 1990s and early 2000s.

## Have the policies worked?

International policy responses have been largely successful, but a concrete policy-coordination framework is lacking

In summary, the policies have been successful in restoring global confidence, stabilizing financial markets, supporting effective demand and alleviating the economic and social impact of the financial crisis.

Policy responses have been concerted to some extent among major economies at the level of the G20. At their London and Pittsburgh summits in April and September

12 See International Monetary Fund, "Global Economic Policies and Prospects," note by the staff of the International Monetary Fund at the Group of Twenty Meeting of the Ministers and Central Bank Governors, London, 13-14 March 2009.

of 2009, respectively, the leaders pledged to continue the stimulus and other extraordinary measures for as long as necessary. They also pledged to deliver on all aid and other international development commitments and fight off protectionist tendencies. At the Pittsburgh Summit, leaders also agreed to establish a policy coordination framework for balanced and sustainable growth of the world economy. These are clear signals that world leaders are committed to avoiding the beggar-thy-neighbour policies that hampered a quick recovery from the Great Depression of the 1930s. Yet, so far, actual policy coordination has been superficial at best and has lacked a more concrete framework with clear policy targets, sufficient consensus on the size and time horizon for continued stimuli, and mechanisms to make concerted actions binding.

Availability of emergency financing from multilateral institutions has improved

Concerted efforts have led to a significant increase in resources for countries with external financing problems. The G20 by and large lived up to its promise to provide $1.1 trillion for this purpose, including through tripling the resources available to the IMF to $750 billion (including a new special drawing rights (SDR) allocation of $250 billion), facilitating additional lending by multilateral development banks of at least $100 billion, and supporting trade finance to the tune of $250 billion. The IMF and the World Bank have, in effect, significantly stepped up lending operations. By November 2009, 18 countries received emergency financing through standby programmes of the IMF, totalling some $53 billion, of which about $25 billion was allocated to Iceland and countries in Eastern and Central Europe, $18 billion to economies in transition and only $10 billion to developing countries. Mexico and Colombia made use of the new Flexible Credit Line (FCL) for a combined amount of $39 billion. Low-income countries mainly relied on the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF), but new disbursements since the onset of the crisis have been small. The Fund has also taken steps to double its capacity for lending to low-income countries (to $17 billion), but still lacks the resources to reach this capacity. The World Bank has stepped up lending operations to $33 billion in 2009, up from $13.5 billion in the previous year. Nonetheless, as discussed above, the enhanced multilateral lending capacity has not prevented a negative net flow of official financing to developing countries as a group in 2009.

Global policy responses may be insufficient to induce a self-sustained process of recovery

All these actions may still not be enough to induce a self-sustained process of recovery. Global demand recovery is expected to remain weak in the outlook and important financial fragilities still need to be addressed, while, in addition, many developing countries have not been able to implement significant counter-cyclical policies on their own. At the same time, however necessary they may be in the crisis, these policies have redistributed risks from the financial sector to other sectors in the broad economy and have reallocated debts from private sector to public sector. They have also led to a substantial expansion of the balance sheet of the central banks (mainly in developed countries) and to considerable deterioration in government budget positions in many countries. These risks, if not addressed through further action, may pose a serious challenge to sustained recovery and global economic stability.

## Uncertainties and risks

The baseline outlook is subject to significant downside risks and uncertainties

Even the mild recovery projected in the baseline outlook is subject to high risks and uncertainties, mainly on the downside. Two of the main risks are closely related to how the crisis is being managed (see above discussion) and to the systemic flaws that led to this crisis. The first refers to the risk of a premature "exit" from both the stimulus measures

for demand recovery and the interventions to prevent further financial sector fallout. The second relates to the risk of a renewed widening of the global macroeconomic imbalances which were part of the problem in the first instance and which could erode confidence in the United States dollar and become a source of renewed financial instability. A further spread and intensification of the H1N1 influenza pandemic could also hurt economic activity worldwide, but its implications are as yet difficult to foresee. On the upside, there could be further moves towards strengthened international policy coordination and deeper international financial reform, which may succeed in forging greater global financial stability with the promise of more balanced and sustainable growth in the medium run (see the section on policy challenges below for further discussion).

## Risk of an early retreat from stimulus measures

A premature exit from the stimulus measures poses a major risk for the global recovery

A premature withdrawal of policy support poses a significant risk, as both the financial sector and the real economy continue on a fragile path. The stronger-than-expected rebound in equity prices worldwide may belie the fact that problems still remain in the financial sectors of major economies and that these problems continue to constrain credit availability and could lead to more failures of financial institutions in the near future. The rebound in trade and industry during the second and third quarters of 2009 could send a false signal that a strong recovery is on its way. In fact, levels of trade flows and industrial production are still well below pre-crisis peaks and, as analysed above, the rebound is to a large extent related to a turnaround in the global inventory cycle rather than to a recovery of private consumption and investment. These factors could lead to complacency vis-à-vis policy efforts to overcome the crisis.

Public support for massive government interventions is weakening in some countries

At the same time, in some major economies, political support for continued massive government stimulus appears to be weakening as public debt has risen steeply and/or as public discontent increases over perceptions that the massive financial sector bailouts may not have worked well enough to weed out bad banking practices. These factors undermine the belief that the stimulus and financial rescue measures are working and could be a motive for an early reversal in policy stance in the major economies.

However, while mounting public debt could become a drag on growth in the future, immediate concerns should be focused on the continued weakness in financial sectors, persistent large output gaps and continued rising unemployment rates, which signal that the recovery is far from robust. An early phasing-out of stimulus measures could therefore exacerbate these weaknesses in the global economy and abort the nascent recovery.

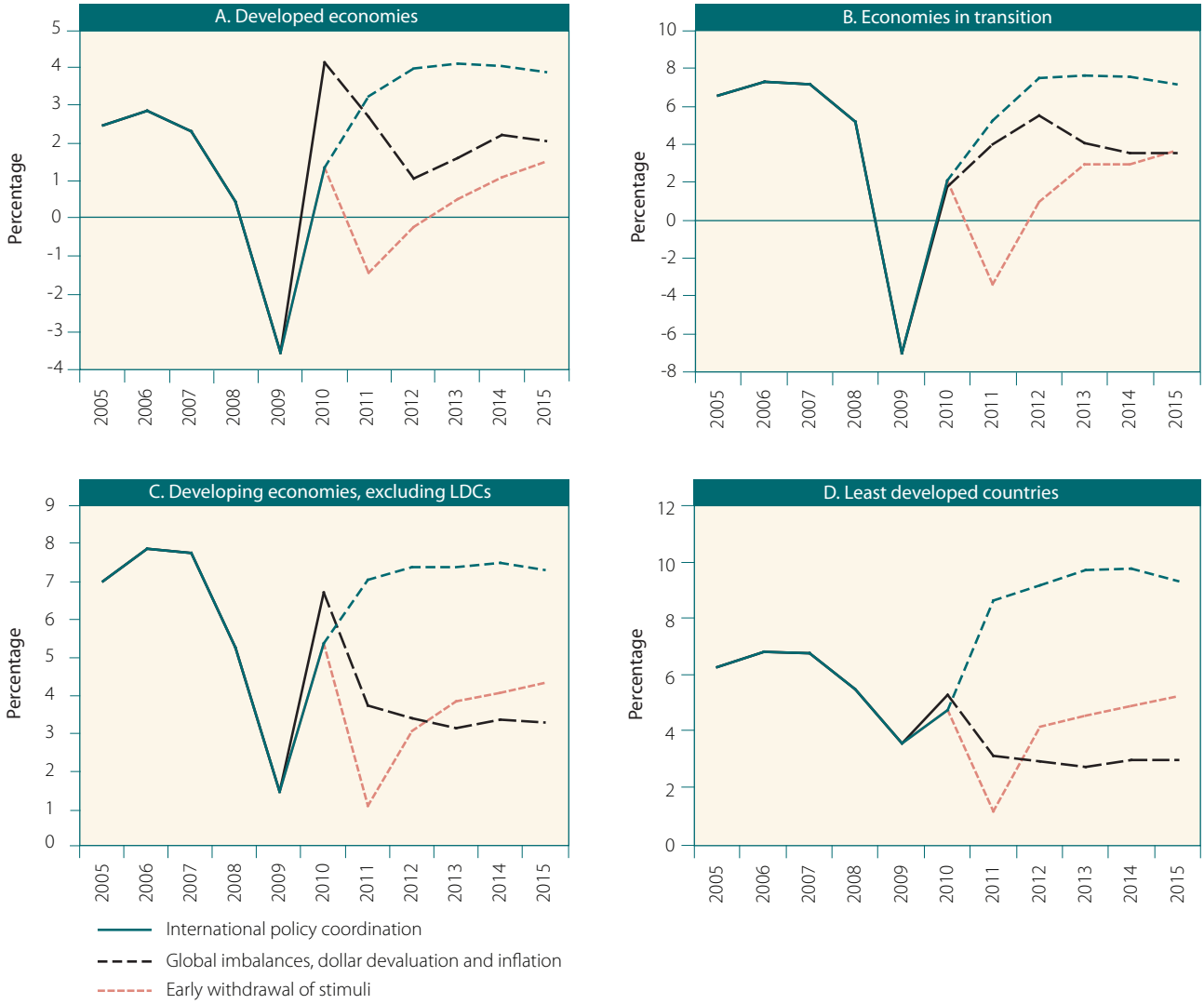
A premature exit could lead to a double-dip recession and further increases in public debt levels

Simulations using the United Nations Global Policy Model (GPM) suggest that an early withdrawal of the fiscal and monetary stimulus packages in the major economies could cause the world economy to dip into a double recession and sustain increases in public indebtedness. The policy scenario rests on two key assumptions.[13] The first is that current fiscal and monetary stances in major economies will by and large continue in 2010, but will reverse in 2011 over fears of mounting public sector debts and rising inflationary pressures. An unwinding of expansionary policies is assumed to be rapid and to have drastic effect in the developed countries and emerging Asia (except China and

13 There are valid reasons for thinking that the risk of an early withdrawal of policy measures could materialize as early as 2010, particularly in Europe. However, taking into consideration the continued high levels of unemployment expected for 2010 and continued tight credit supply conditions in many developed economies, it seems more plausible to assume that this withdrawal would become effective from 2011 onwards.

India), and to involve a fiscal contraction equivalent (ex ante) to the size of half of the fiscal stimulus to be implemented during 2009-2010. Withdrawal of fiscal stimulus in middle-income developing countries is assumed to be more moderate. In these cases, fiscal consolidation tapers off from 2012. China and India, in contrast, are assumed to shift to a neutral fiscal stance to avoid actual fiscal contraction. Monetary policy is assumed to be fully synchronized, thus leading to consistent rises in policy interest rates. The second major assumption is that current high unemployment and household indebtedness will remain a drag on private consumption and investment demand in the major economies into 2011, when the policy stimuli will be withdrawn. Likewise, deleveraging of financial institutions is assumed to continue in the initial years of the simulation period, keeping the global credit supply tight.

Figure I.5
**Gross domestic product growth under the Global Policy Model scenario simulations, 2005–2015[a]**




**Source:** UN/DESA.

**Note:** For a technical description of the Global Policy Model, see http://www.un.org/esa/policy/publications/ungpm.html.

**a** Data for 2009 are preliminary figures; data for 2010-2015 are simulation results.

A double-dip recession would be most marked in the developed economies and the economies in transition

The double-dip recession resulting from this scenario would be most marked for the developed economies and the economies in transition (figure I.5a-b). The subsequent recovery would be sub-par and slow. The recession caused by a premature withdrawal of stimuli would affect European countries the most, followed by Japan and the other developed economies. This would be the result not only of relatively stronger efforts towards fiscal consolidation but, even more importantly, of greater sluggishness of private demand in this scenario. Developing countries would be affected even more severely by a double-dip recession than they have already been as a consequence of the present crisis (figure I.5c-d). The reason for this is that, under this scenario, the cushion provided by the strong fiscal stimuli of major developing countries (especially China) would no longer be present. This would put a further drag on global aggregate demand, as well as on demand for commodities, and would put downward pressure on commodity prices, thereby affecting many other developing countries (see appendix table A.I.1). The model simulations suggest further that any attempts at fiscal consolidation amidst a recovery that is only nascent would be self-defeating. The double-dip recession would reduce government revenues even more, while the further fall in GDP would continue to push up debt-to-GDP ratios and affect private sector confidence (see appendix table A.I.5).

## Risks of widening global imbalances and dollar decline

The risk of a substantial widening of the large global imbalances is rising

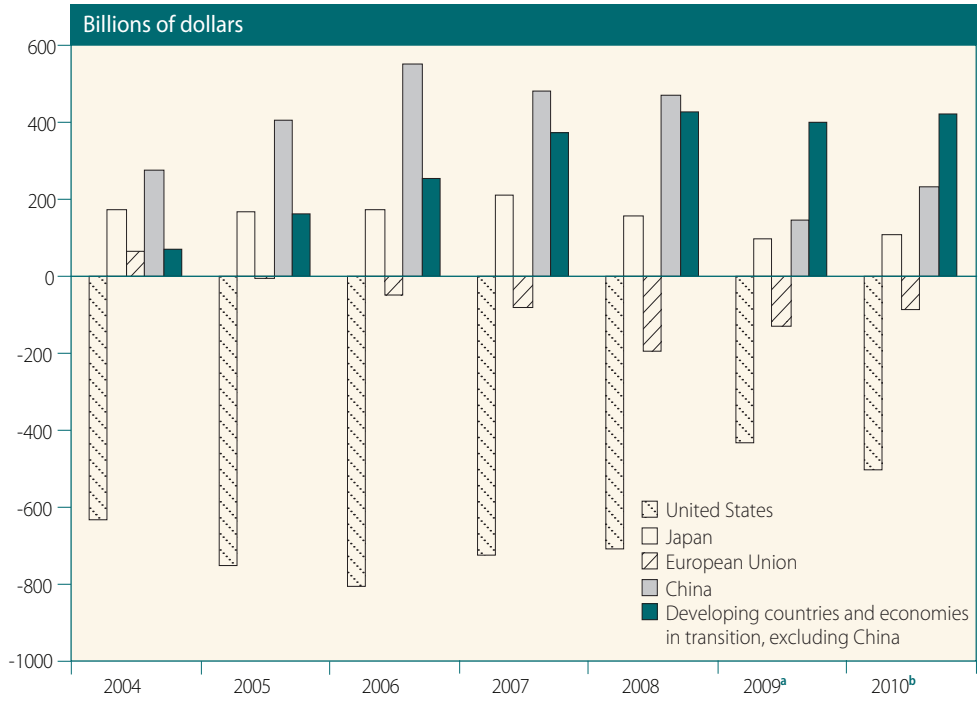
The global financial crisis and worldwide recession have led to a recessionary adjustment of imbalances in current accounts across deficit countries with steeply falling imports (led by the United States) and a collapse of export earnings in most surplus countries. However, as the financial crisis abates and global growth tentatively recovers, the risk of a substantial further widening of the imbalances also rises. In most surplus countries, especially those in developing Asia, growth continues to rely heavily on exports and high savings rates, leading to relatively weak domestic demand and high reserve accumulation. In the major deficit countries, particularly the United States, private savings have increased as consumers have become more cautious, but not by a sufficient margin to cover widening fiscal deficits and prevent mounting public indebtedness. The external deficit is therefore expected to widen again.

The current-account deficit of the United States narrowed considerably in 2009

The large external deficit of the United States narrowed from its peak of $800 billion in 2006, or more than 6 per cent of GDP, to an estimated $450 billion in 2009, or about 3 per cent of GDP. Among the original major surplus economies, the euro area has already moved into a deficit which is continuing to widen, while Japan's surplus has dropped since mid-2008 (although it has rebounded recently). The savings surpluses of the oil-exporting countries have also declined substantially, but the surplus in China has remained high, at above $400 billion in 2009 (figure I.6).

The narrowing of the current-account deficit in the United States since the eruption of the financial crisis has mainly been driven by a sharp downward adjustment in household consumption and residential and business investment, as well as by an increase in household savings. Consumption expenditure has turned from an average annual growth of about 3 per cent in the years prior to the crisis to a decline of 0.2 and 0.7 per cent in 2008 and 2009, respectively. Housing investment has declined by about 20 per cent annually from 2007 to 2009, and business investment has turned from a growth of about 7 per cent prior to the crisis to no growth in 2008 and to a decline of 17 per cent in 2009.

Figure I.6
**Current-account balances, 2004–2010**




**Sources:** Project LINK and UN/DESA, based on IMF Balance-of-Payments Statistics.

**a** Partly estimated.
**b** Projections by UN/DESA.

The household saving rate went up from 1.7 per cent in 2007 to about 4 per cent in 2009. On the other hand, the government deficit has increased. With the recession reducing government revenue and the stimulus measures increasing expenditure, the budget deficit of the United States has surged from $160 billion in 2007, or a little more than 1 per cent of GDP, to an estimated $1.5 trillion in 2009, or more than 10 per cent of GDP. This is much more than the expected rise in private savings; hence, a substantial widening of the external deficit of the United States is very likely.

**Different factors led to declining surpluses in Germany, Japan, and oil-exporting countries**

The corresponding reduction in the aggregate of the current account balance of major surplus economies has been driven by different factors. The savings surplus of most oil-exporting countries, for example, has dwindled as a consequence of declines in revenues of oil exports as the oil prices plunged, as well as increased government spending in stimulus packages to boost domestic demand. The drop in the exports of manufactured goods in Germany and Japan has been a major factor in the decline in the trading surplus of these countries, accompanied by lower domestic savings as a consequence of a deterioration of government savings and declines in consumption demand that have lagged behind the slump in GDP.

In the case of China, where the current-account surplus has continued to rise in terms of level but moderated slightly in terms of a percentage of GDP, the persistent surplus is a reflection of two factors. In the external sector, the large proportion of China's "processing trade", accounting for about 60 per cent of China's total trade, lay at the root of a synchronized decline in China's exports and imports: as the orders for China's exports dropped, China's orders for the imports of raw materials and intermediate goods, which are used as inputs for manufacturing the exports, also dropped. On the domestic front, the large stimulus package enacted as of late 2008 has indeed boosted domestic demand to offset some of the dragging effects from the weakening external demand. However, the

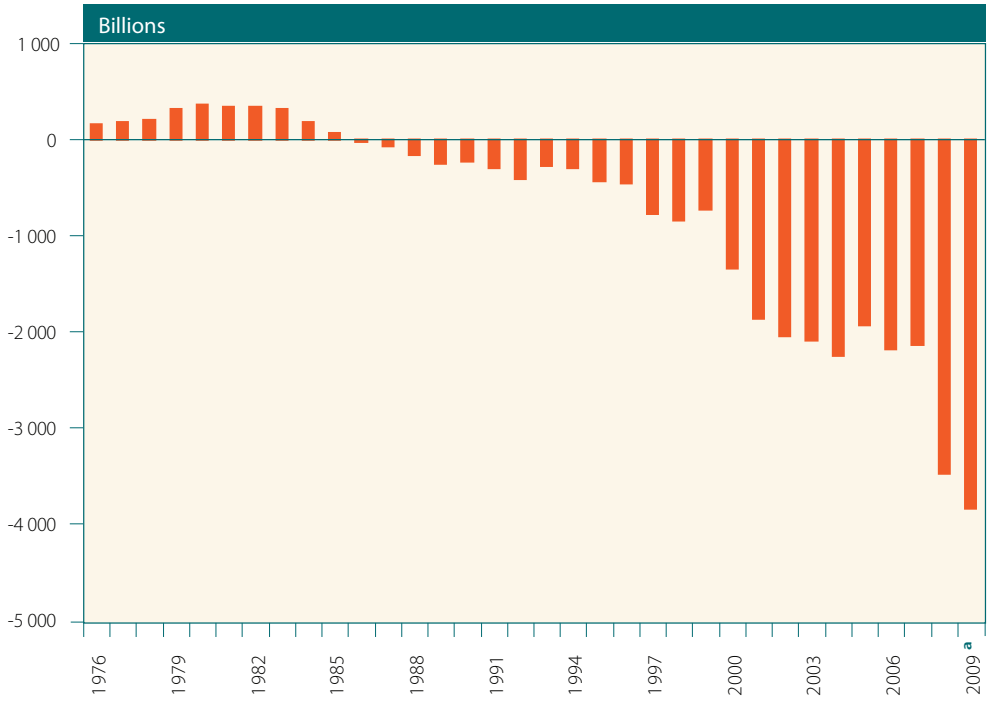
stimuli have had more of an effect on boosting fixed investment than household consumption, leaving the household consumption-to-GDP ratio at a low level, below 40 per cent. The budget deficit has nonetheless increased by between 2 and 3 percentage points of GDP from its original near-balanced position.

The net foreign investment position of the United States deteriorated significantly during the crisis

To add to the situation, the net foreign liability position of the United States has increased substantially over the past two decades, reaching $2.1 trillion in 2007 (figure I.7).[14] The position worsened further with the global financial crisis in 2008 and surged to $3.5 trillion by the end of 2008, or 25 per cent of GDP. The increment of about $1.4 trillion is approximately double the current-account deficit registered in 2008, implying that half of the increase can be explained by a revaluation of assets and liabilities to the disadvantage of United States investors and debt holders.

United States-owned assets abroad increased by $1.6 trillion to $19.9 trillion by the end of 2008, while foreign-owned assets in the United States increased by $2.9 trillion to $23.4 trillion. On both sides of the balance sheet, the increase was mainly on account of acquisitions of financial derivatives, while non-derivatives declined. Because of the plunge in equity prices and the writing off of sub-prime mortgage-related debts, the value of United States-owned overseas assets dropped by about $2 trillion, while the value of external liabilities declined by $1.2 trillion. Both the United States and foreign investors lost their appetite for private sector securities as a result of the increased risk aversion caused by the crisis. In contrast, foreign investors substantially increased holdings of United States Treasury bills in the approximate amount of $834 billion in 2008, reflecting a "flight to safety" into dollar assets in the wake of the crisis.

Figure I.7
**Net international investment position of the United States, 1976–2009**




**Sources:** United States Bureau of Economic Analysis, and Project LINK.

**a** Estimation by UN/DESA.

14 Elena L. Nguyen, "The international investment position of the United States at yearend 2008", Survey of Current Business, vol. 89, No. 7 (July 2009), pp. 10-19, available at http://www.bea.gov/scb/pdf/2009/07%20July/0709_iip.pdf.

The deepening of the financial crisis in early 2009 led to a further increase in the net external liability position of the United States to an estimated $3.8 trillion. With the rebound in equity markets and stabilization of financial markets, the revaluation effects should have moderated, but the steep rise in the United States budget deficit and the much weaker rise in private savings led to a renewed widening of the current-account deficit and a further increase in the net liability position. Consequently, the net foreign investment position of the United States has deteriorated substantially during the crisis.

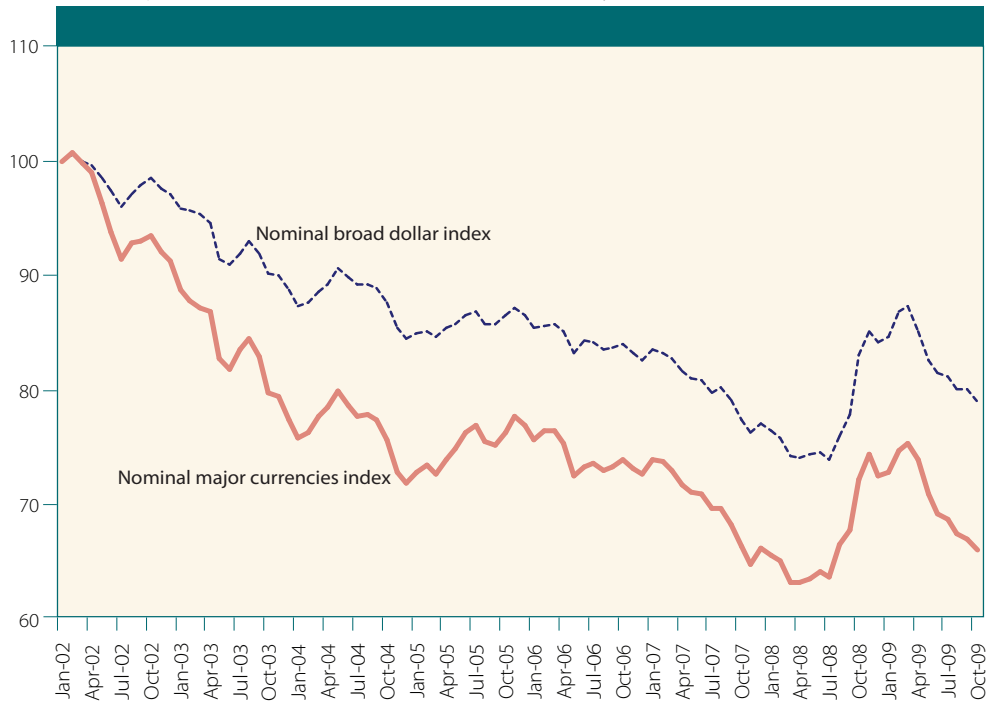
The United States dollar has resumed its downward trend after conditions in global financial markets stabilized

The abrupt adjustment of the global imbalances and the further worsening of the net foreign investment position of the United States are associated with the volatile and erratic movement of the exchange rate of the United States dollar vis-à-vis other major currencies. The value of the dollar had been on a downward trend since 2002, but rebounded in the second half of 2008 through the first quarter of 2009. This sharp appreciation of the dollar was mainly driven by the flight-to-safety effects as the global financial crisis heightened risk aversion in general and caused a massive move of financial assets worldwide into United States Treasury bills. Since March 2009, however, the dollar has resumed its downturn, as a result of the stabilizing conditions in global financial markets, which moderated the increased demand for dollars associated with the deleveraging process of major financial institutions and the flight to safety by investors; at the same time, investors started to become increasingly concerned about the rise in the budget deficit and the worsening of the net foreign investment position of the United States. The value of the dollar has dropped to the lowest level in history vis-à-vis other major currencies (figure I.8).

The risk of a hard landing of the world's main reserve currency remains high

Further rising external indebtedness of the United States following a renewed widening of the twin deficits will keep downward pressure on the dollar, and the risk of a hard landing of the world's main reserve currency will remain high.

Figure 1.8
**Exchange-rate indices[a] for the United States, January 2002-October 2009**




**Source:** United States Federal Reserve Board, rebased by UN/DESA.

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

A further simulation of such a scenario using the United Nations GPM shows that even a relatively mild dollar crisis could cause a double-dip recession, one that would be less severe but more lasting than in the case of an early withdrawal of policy stimuli. The central assumption is that the stimulus packages and a strong return of consumer and business confidence would lead to a return to the pre-crisis pattern of growth and to a renewed widening of the global imbalances, as discussed above. This, in turn, would lead to a projected rise in the United States current-account deficit of 6.4 per cent of GDP, up from 4.1 per cent in 2009. Such a return to "business as usual" would support a strong recovery of the world economy in 2010, but one that would not have a lasting effect (see figures I.5a-d above). Investor confidence would be affected by further rising public indebtedness and a drastic dollar devaluation. In the United States, public debt would rise to nearly 90 per cent of GDP in 2010, 20 points higher than a year earlier. The dollar would devalue by 28 per cent against the euro and 25 per cent against the yen in 2010, and would decline further in 2011. What happens next is driven largely by endogenous policy reactions as captured in the GPM. Inflation in the United States would accelerate from less than half of one per cent in 2009 to 4 per cent in 2010. This, in turn, would trigger a tightening of monetary policy, with policy interest rates increasing to 2 per cent in 2010 and further to 5 per cent in 2011. Fiscal consolidation would also follow, albeit with a lag. (see appendix tables A.I.3 and A.I.4). Yet, the continuing devaluation of the dollar would continue to exercise further inflationary pressure, requiring stronger policy responses. The process continues, with inflation reaching about 6.5 per cent despite the drastic policy action and abating only partially thereafter, when the dollar is found to be less than 50 per cent its value against the currencies of other developed economies. Though not explicitly modelled, this could precipitate a crisis of confidence in the dollar causing global financial instability farther down the line. The lead-up to a hard landing of the dollar would be a lasting slowdown of global economic activity. Commodity prices would nonetheless rise because of the dollar devaluation. Developing countries, including those experiencing terms-of-trade improvements, would be hurt by the global slowdown.

## Policy challenges

### Sustainable global rebalancing

Continued fiscal stimulus is needed to support global aggregate demand

Dealing with these risks will be challenging. Since growth is not expected to be strong enough to reduce unemployment until well into 2010, private consumption demand will remain sluggish. As financial sector fragilities still exist in major economies, the global credit supply may remain tight in the immediate period ahead. In addition, the inventory adjustment which supported the recovery in the second half of 2009 will be a temporary phenomenon. This implies that continued fiscal stimulus will be necessary to keep up global aggregate demand, and further pressure on financial institutions will be needed to cleanse their balance sheets, resume normal lending and avoid a return to pre-crisis excess.

The immediate challenge for policymakers will be to determine how much longer the fiscal stimulus should continue. Given the risk of a double-dip recession resulting from premature withdrawal, the stimulus should continue at least until there are clearer signals of a more robust recovery. It may be difficult, however, to establish when and whether the recovery has become robust. Substantial improvements in employment conditions and reduction of output gaps will likely be meaningful indicators for determining the turning point.

Three forms of rebalancing of the global economy are needed

To avoid a return to the unsustainable pattern of growth that led to the global crisis in the first place, three forms of rebalancing of the global economy would need to take place over time. First, the pressure on Governments to buoy global demand would need to diminish gradually through renewed impulses from private demand. Second, the composition of aggregate demand would need to be rebalanced to lend greater weight to investment in support of future productivity growth, and especially to initiate the transformative investments needed to meet the challenge of climate change. Third, demand across countries will need to be rebalanced. This would involve a shift towards external demand (net exports) in major deficit countries, such as the United States and a few other developing countries, and towards domestic demand in the major surplus countries, especially those in Asia.

Orderly rebalancing will only be achieved through close policy coordination

These three rebalancing acts will require close policy coordination as they are strongly interdependent. Rebalancing across countries is needed because one of the key drivers of pre-crisis growth, consumer demand in the United States, is expected to remain sluggish in the outlook. From the perspective of global imbalances, it would also be undesirable to have to rely again on this source of growth for the recovery. In any case, United States households have already increased savings to about 3 per cent of GDP during 2009 (from almost zero savings in the years prior to the crisis). Private investments are also expected to remain sluggish in the near future in the United States (as well as in other major developed economies) as rates of capacity utilization are at historic lows. If fiscal stimulus is to be phased out, net exports of the major deficit countries would need to increase. Rising exports by these countries would need to be absorbed by major surplus countries, starting with China and other parts of developing Asia. This could be achieved in part through a further strengthening of domestic demand through fiscal stimulus which, along with improved market access and an orderly devaluation of the United States dollar, would push up import demand in that part of the world. The fiscal stimulus measures that are in place are already supportive of this kind of rebalancing but are as yet not strong enough, and the change will only come gradually. GDP of the countries of emerging Asia is roughly half that of the United States, so they would need to lower their combined current-account surpluses by about 6 per cent of their combined GDP to lower the United States deficit by, say, 3 per cent of its GDP.

But not all of Asia's trade is with the United States and other countries would therefore need to contribute to the rebalancing. Germany and Japan, other major surplus economies, could seek to strengthen domestic investment and productivity growth in their production sectors, while major oil exporters could further step up domestic investment plans to diversify their economies also. Additional financial transfers to developing countries with weak fiscal capacity would be needed to complete the rebalancing process and would enable these countries to increase domestic investment in infrastructure, food production and human development so as to support growth, poverty reduction and sustainable development. They would also encourage global import demand.

Public and private investment to address climate change can be an integral part of the rebalancing efforts

Stepping up public and private investment to address climate change could well be an integral part of the process. The recession has led to a notable reduction in global greenhouse gas (GHG) emissions worldwide in 2008-2009 (see annex table A.22). However, as the world economy recovers, demand for energy will also increase, as will GHG emissions. In order to reach the required reductions in $CO_2$ emissions in a timely manner and avoid a destabilizing rise in global temperatures, large-scale and upfront investments will need to be made. As analysed in a recent United Nations study,[15] such

15 See United Nations, *World Economic and Social Survey 2009: Promoting Development, Saving the Planet* (United Nations publication, Sales No. E.09.II.C.1).

investments in energy efficiency and renewable energy generation need to be made now in order to achieve the scale effects needed to lower the cost of green technologies and effectively attain low-emission growth paths. These investments will also be required in developing countries, where energy demand would be expected to increase starkly along with their efforts to reach higher levels of development. By leapfrogging to green technologies, they could contribute to emission reductions while sustaining high-growth development trajectories. Substantial investments will need to be made towards climate change adaptation, especially in developing countries that are already being affected by the adverse effects of global warming. Estimates of the level of investments needed for climate change mitigation and adaptation vary, but there seems to be a growing consensus that they would be substantial but affordable, in the order of about 2 per cent of WGP per annum over the coming two decades.[16] New investments of this size are large enough to play a role in the required adjustment in the global macroeconomic imbalances. Since developed countries presently possess a comparative advantage in the development of green technologies and related capital goods, the increase in world demand for such products should thus contribute to a reduction in the aggregate external deficit of their economies.

Effective coordination of macroeconomic policies can lead to large welfare gains

Such a sustainable rebalancing of the world economy will by no means be easy to achieve and will require significantly enhanced international policy coordination. The macroeconomic feasibility of the three types of rebalancing was assessed through additional simulations using the GPM. The results, presented in figures 1.5a-d above as the "international policy coordination" scenario, suggest that a combination of manageable global imbalances, growth convergence between developed and developing countries and greater environmental sustainability is indeed possible. The key assumptions of this scenario are that countries effectively coordinate policies in pursuance of these goals. These policies are initially driven by higher public investments directed at promoting transformative investments in infrastructure and low-carbon emission energy production (including incentives for a crowding-in of private investment in such activity); financial transfers to developing countries to engage in investments in renewable energy; and climate change adaptation and economic diversification. As a result, fiscal policy stances remain expansionary in developing countries, but are phased out gradually in developed countries (see appendix table A.I.4). An additional assumption of the scenario is that developing countries are granted full market access for all their exports (agricultural and non-agricultural). This assumption ("trade not aid") would limit the amount of additional financial transfers that developing countries would need to receive in order to finance the sustainable development strategy, and over time should enable them to finance the investments through export growth and domestic resource mobilization (see appendix table A.I.2).

All countries and regions would reap growth benefits from increased coordination

All countries and regions would reap the benefits of growth in this scenario, not only from the increased multiplier effects of the policy impulses that are internationally coordinated, but also from more stable world commodity prices, as it is assumed that the global investment strategy would lead to a more stable energy supply and therefore greater energy security. More stable energy prices would also spill over to other commodity prices. Rebalanced global growth would narrow current-account surpluses and deficits across countries, and public indebtedness (appendix tables A.I.2 and A.I.3) would also fall over time with a higher growth and greater dynamism of private sector activity.

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16 See, United Nations, ibid., chap. VI; World Bank, *World Development Report 2009: Reshaping Economic Geography* (Washington, D. C.: The World Bank); and Nicholas Stern, *A Blueprint for a Safer Planet: How to Manage Climate Change and Create a New Era of Prosperity* (London: The Bodley Head, 2009).

Naturally, these benign outcomes may not come to pass smoothly and macroeconomic trade-offs could emerge (for instance, in the form of higher inflationary pressures—which could put upward pressure on interest rates) that could then offset some of the growth gains. This will consequently require an adequate platform and framework for global policy coordination.

## Strengthening policy coordination

The framework launched at the G20 Pittsburgh Summit is a step towards more balanced global growth

The framework for "strong, sustainable and balanced growth" launched by the G20 leaders at the Pittsburgh Summit could prove an important step in the right direction. As part of this framework, G20 members with significant external deficits, mainly the United States, have pledged to pursue policies to support private savings and to undertake fiscal consolidation while maintaining open markets and strengthening export sectors. Surplus countries, including China, Germany and Japan, have agreed to strengthen domestic sources of growth, through such measures (which will vary according to country-specific circumstances) as increasing investment, reducing distortions in financial markets, boosting productivity in service sectors, improving social safety nets, and lifting constraints on demand growth. Such actions would be broadly in line with the rebalancing strategy outlined above, although the necessary investments in the greening of the global economy would need to be brought more clearly into the equation.

G20 countries also agreed on the need for regular consultations, strengthened cooperation on macroeconomic policies, the exchange of experiences on structural policies, and mutual assessment. More specifically, they will set up a set of shared policy objectives towards which individual countries would orient their medium-term policy frameworks. They will also develop, with the assistance of the IMF, a forward-looking assessment of economic developments with a view to analysing patterns of demand and supply, credit, debt and reserves growth, and assessing the implications and consistency of fiscal and monetary policies, credit growth and asset markets, foreign-exchange developments, commodity and energy prices, and current-account imbalances. The monitoring of policy implementation is to take place through regular reporting to G20 members and the International Monetary and Financial Committee (IMFC). On that basis, policy adjustments, both individual and collective, may be proposed.

The need for effective international policy coordination to manage the risks of global economic instability and promote development has been reiterated in previous issues of the *World Economic Situation and Prospects (WESP).* It was also emphasized in the outcome document of the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development held in June 2009.[17]

A successful framework for international macroeconomic policy coordination should consist of at least four components

As elaborated in detail in the *World Economic Situation and Prospects 2007*,[18] a successful framework for international macroeconomic policy coordination should consist of at least four components: developing a consensus on common goals through international consultations with outside mediation, addressing commitment problems by issuing multi-year schedules for policy adjustments, enhancing the context for mediation and the perceived legitimacy of the mediator, and initiating systemic reforms in the field of international monetary and financial affairs.

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17 See United Nations General Assembly resolution 63/303 of 9 July 2009.

18 United Nations, *World Economic Situation and Prospects 2007* (United Nations publication, Sales No. E.07.II.C.2).

In this context, the framework proposed by the G20 has taken the first step towards international policy coordination—at least among the major developed and emerging economies—to prevent a recurrence of the large global imbalances. The success of this framework, however, will depend not only on how to institutionalize the mechanism delineated above (which is so far still carried out on an ad hoc basis) but also on progress in the broad reforms of the international financial architecture and global economic governance.

To strengthen global governance, further progress is needed on four fronts

To strengthen global governance, it would seem important to make further progress on four related fronts. First, multilateral surveillance by the IMF will need to be extended well beyond the traditional emphasis on exchange rates, to address broader macrofinancial surveillance (see chapter III), and also to monitor the "sustainable rebalancing" process of the global economy as outlined.

Second, more pervasive progress on governance reform of the IMF will be needed to add legitimacy to the institution's enhanced role in this respect and also for mediating multi-annual agreements. Mediation to achieve consensus on the main targets for policy coordination is unlikely to be successful where doubts exist about the impartiality of the mediator. In this context, the reform of the governance of and representation in the IMF has become all the more urgent and important so that seats in the Executive Board and votes in the Fund better represent developing country interests in the decision-making process.

Third, while the ongoing crisis has given strong impetus to macroeconomic policy coordination, there is no guarantee that all parties will remain committed to agreed joint responses. Having clear and verifiable targets for desired policy outcomes will help make parties accountable, and the possible loss of reputation through non-compliance should be an incentive to live up to policy agreements. The agreement could become more enforceable, however, if there were an actual cost attached to non-compliance. One possible mechanism that could be considered in this respect is for all major parties to commit a share of their allocation of SDRs to the agreement, which they would lose in the case of non-compliance. Such a mechanism could have the advantage of focusing agreements on targets in terms of policy *outcomes*, rather than in terms of adjusting specific policy *instruments*. The SDRs returned to the IMF as "penalties" for non-compliance could then, in the absence of effective implementation of the policy coordination framework, be used to complement compensatory financing available for developing countries that would be affected by continued global instability.

Fourth, sustainable rebalancing of the global economy will require close coordination with other areas of global governance, including those related to development financing and the multilateral trading system, as well as with the United Nations Framework Convention on Climate Change (UNFCCC). No specific mechanism for such coordination exists at present, and the creation of such a mechanism would seem worthy of consideration.

## Reforming the global reserve system

Reforms of international and national financial systems are needed to prevent a similar crisis from recurring

The global financial crisis has further exposed major deficiencies in the international financial architecture, as well as failures of regulation and supervision at national levels. As the global economy recovers, more, rather than less, urgent efforts will be needed to spearhead reforms of international and national financial systems so as to prevent a similar crisis from recurring. World leaders at meetings of the G20 and at the Conference on the

World Financial and Economic Crisis and its Impact on Development have recognized the need for farther-reaching reforms of the global financial system, as discussed in detail in chapter III. One key area of reform to be highlighted here is that of the global reserve system. Dealing with the deficiencies of the present system would significantly enhance the effectiveness of any international policy coordination mechanism, since it would also address the inherent tendency of the present system towards global imbalances and an unstable value of the major reserve currency.

The present global reserve system is suffering from a number of systemic flaws

The present global reserve system, which uses the United States dollar as its major reserve currency, suffers from a number of systemic flaws that have been well documented since its creation.[19] First, it suffers from the deflationary bias characteristic of any system in which the burden of macroeconomic adjustment falls on deficit countries. High debt ratios or lack of external financing typically puts greater external pressure on deficit countries to adjust than on surplus countries. As demand contraction in the deficit country tends to take the more typical form of asymmetric adjustment, it can be called a deflationary bias. The second flaw relates to the instabilities associated with the use of a national currency as an international currency. For other countries to accumulate reserves, the reserve currency country must run an external deficit. Over time, this may lead to an undesirable level of external indebtedness of the reserve-currency country, followed by an erosion of confidence in the value of that currency. The risk of a strongly weakening dollar in the outlook is indeed associated with this systemic flaw of the global reserve system. The accumulation of vast amounts of foreign-exchange reserves by developing countries was a response to the perceived need for increased "self-protection" against pro-cyclical capital flows in the aftermath of the Asian crisis and other crises in emerging market economies. The response was logical in the absence of more adequate collective insurance mechanisms to manage balance-of-payments crises. However, by contributing at the same time to the problem of significantly widening global imbalances, related volatility and weakening of the value of the major reserve currency, the response itself became a factor leading to the present crisis and the instability of the system.

One way in which the system could naturally evolve would be by becoming a fully multi-currency reserve system. The present system already has more than one reserve currency, but the other currencies remain a secondary feature in a system where most reserve assets by far are held in United States dollars and where most of the world's trade and financial transactions are effected in the major reserve currency. The advantage of a multi-reserve currency arrangement is that it would provide countries with the benefit of diversifying their foreign-exchange reserve assets. However, none of the other deficiencies of the present system would be addressed.

A reserve system based on SDRs would address the key deficiencies of the current system

A more viable option could be to pursue the transition to a reserve system based on a true form of international liquidity by expanding the role of SDRs. Doing so

19 See, for example, Peter B. Clark and Jacques J. Polak, "International liquidity and the role of the SDR in the international monetary system", *IMF Staff Papers,* vol. 51, No. 1 (2004), pp. 49-71; United Nations, *World Economic and Social Survey 2005: Financing for Development* (United Nations publication, Sales No. E.05.II.C.1); Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System, pp. 92-102, available at www.un.org/ga/president/63/interactive/financialcrisis/PreliminaryReport210509.pdf; Barry Eichengreen, *Out of the Box Thoughts about the International Financial Architecture,* IMF Working Paper WP/09/116 (Washington, D. C., May 2009); United Nations Conference on Trade and Development, *The Global Economic Crisis: Systemic Failures and Multilateral Remedies* (Geneva: UNCTAD, 2009); and José Antonio Ocampo, "Special drawing rights and the reform of the global reserve system", research paper for the Intergovernmental Group of Twenty-Four, October 2009, available at http://www.g24.org/jao0909.pdf.

would, in fact, fulfil the objective included in the IMF Articles of Agreement of "making the special drawing right the principal reserve asset in the international monetary system" (Article VIII, Section 7, and Article XXII). The G20 decided in April 2009 on a general SDR allocation equivalent to $250 billion in recognition of the need to boost international liquidity using an international reserve unit. Further steps forward could be to make SDR issuance automatic and regular and to link it to the demand for foreign-exchange reserves and the growth of the world economy. A key criterion for SDR issuance, withdrawal and allocation would be to provide counter-cyclical finance. In this way, both key deficiencies of the present system—its deflationary bias and the inherent instability of the value of the reserve currency—could be overcome. An SDR-based reserve system would also provide a basis for a better pooling of international reserves, as international liquidity would be made available on a counter-cyclical basis, reducing the need for individual countries to hold costly amounts of reserves on their own.

Important practical hurdles will need to be overcome en route to such a system, and they will need to be discussed and addressed in conjunction with other reforms (see chapter III). As the global economy recovers, the world community should not lose sight of the systemic flaws which were at the root of the global economic and financial crisis in the first place. A sustainable rebalancing of the world economy will not be possible without addressing the systemic flaws in the international financial architecture.

# Appendix

Table A.I.1
**Rates of growth of major countries and world regions under three model-based policy scenario simulations,[a] 2009–2015**

| Percentage | | | | | | | |
|---|---|---|---|---|---|---|---|
| | *2009* | *2010* | *2011* | *2012* | *2013* | *2014* | *2015* |
| **World** | | | | | | | |
| Early withdrawal of stimuli | -2.2 | 2.4 | -0.8 | 0.8 | 1.5 | 2.0 | 2.4 |
| Global imbalances, dollar devaluation and inflation | -2.2 | 4.8 | 3.0 | 1.8 | 2.1 | 2.5 | 2.4 |
| International policy coordination | -2.2 | 2.4 | 4.4 | 5.1 | 5.2 | 5.2 | 5.1 |
| **United States** | | | | | | | |
| Early withdrawal of stimuli | -2.5 | 2.1 | -0.4 | 0.5 | 1.0 | 1.5 | 2.0 |
| Global imbalances, dollar devaluation and inflation | -2.5 | 5.4 | 5.5 | 1.1 | 2.4 | 3.9 | 3.7 |
| International policy coordination | -2.5 | 2.1 | 3.4 | 4.5 | 5.0 | 4.9 | 4.7 |
| **Western Europe** | | | | | | | |
| Early withdrawal of stimuli | -4.1 | 0.5 | -2.5 | -0.6 | 0.4 | 1.0 | 1.5 |
| Global imbalances, dollar devaluation and inflation | -4.1 | 2.4 | 0.6 | 1.9 | 1.5 | 0.8 | 0.3 |
| International policy coordination | -4.1 | 0.5 | 2.5 | 3.5 | 3.7 | 3.5 | 3.4 |
| **Japan** | | | | | | | |
| Early withdrawal of stimuli | -5.6 | 0.9 | -1.8 | -1.5 | -1.0 | -0.5 | -0.3 |
| Global imbalances, dollar devaluation and inflation | -5.6 | 4.5 | 0.4 | -0.9 | -0.2 | 1.1 | 1.6 |
| International policy coordination | -5.6 | 0.9 | 3.9 | 3.3 | 2.3 | 2.5 | 2.2 |
| **Other developed economies** | | | | | | | |
| Early withdrawal of stimuli | -1.2 | 2.1 | -1.9 | 0.3 | 1.8 | 2.4 | 2.8 |
| Global imbalances, dollar devaluation and inflation | -1.2 | 4.0 | 1.9 | 0.4 | 0.5 | 0.9 | 1.1 |
| International policy coordination | -1.2 | 2.1 | 4.2 | 5.0 | 5.4 | 5.2 | 5.0 |
| **Commonwealth of Independent States** | | | | | | | |
| Early withdrawal of stimuli | -6.7 | 1.7 | -3.4 | 1.0 | 2.9 | 3.0 | 3.7 |
| Global imbalances, dollar devaluation and inflation | -6.7 | 1.8 | 4.0 | 5.5 | 4.1 | 3.6 | 3.5 |
| International policy coordination | -6.7 | 1.7 | 5.2 | 7.5 | 7.7 | 7.6 | 7.2 |
| **Western Asia** | | | | | | | |
| Early withdrawal of stimuli | -1.0 | 3.6 | -0.7 | 2.4 | 4.7 | 4.1 | 4.6 |
| Global imbalances, dollar devaluation and inflation | -1.0 | 4.8 | 2.4 | 4.9 | 3.0 | 3.0 | 2.9 |
| International policy coordination | -1.0 | 3.6 | 5.7 | 7.2 | 7.4 | 7.4 | 6.6 |
| **Newly industrialized East Asia** | | | | | | | |
| Early withdrawal of stimuli | -2.6 | 3.7 | -0.9 | 0.0 | 2.2 | 3.4 | 4.0 |
| Global imbalances, dollar devaluation and inflation | -2.6 | 7.0 | 6.0 | 1.8 | 2.2 | 3.0 | 3.4 |
| International policy coordination | -2.6 | 3.7 | 8.2 | 6.4 | 6.0 | 5.4 | 5.7 |
| **China** | | | | | | | |
| Early withdrawal of stimuli | 8.1 | 8.8 | 4.7 | 5.5 | 5.1 | 5.0 | 4.9 |
| Global imbalances, dollar devaluation and inflation | 8.1 | 9.4 | 5.1 | 5.4 | 4.7 | 4.7 | 4.2 |
| International policy coordination | 8.1 | 8.8 | 8.0 | 8.0 | 7.6 | 8.1 | 7.9 |
| **East Asia, middle-income, excluding China** | | | | | | | |
| Early withdrawal of stimuli | -2.4 | 3.6 | -1.8 | 2.0 | 3.9 | 4.6 | 5.2 |
| Global imbalances, dollar devaluation and inflation | -2.4 | 4.7 | 2.1 | 1.7 | 2.0 | 2.7 | 3.0 |
| International policy coordination | -2.4 | 3.6 | 5.0 | 6.3 | 6.6 | 7.3 | 7.6 |

Table A.I.1 (cont'd)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| **India** | | | | | | | |
| Early withdrawal of stimuli | 5.9 | 6.5 | 2.9 | 3.8 | 4.4 | 4.6 | 4.8 |
| Global imbalances, dollar devaluation and inflation | 5.9 | 7.0 | 6.4 | 3.7 | 3.8 | 3.7 | 3.8 |
| International policy coordination | 5.9 | 6.5 | 10.2 | 10.4 | 10.8 | 10.6 | 10.5 |
| **South Asia, excluding India** | | | | | | | |
| Early withdrawal of stimuli | 4.8 | 2.3 | 0.6 | 2.9 | 4.0 | 4.4 | 4.8 |
| Global imbalances, dollar devaluation and inflation | 4.8 | 3.7 | 2.8 | 2.5 | 2.9 | 3.3 | 3.5 |
| International policy coordination | 4.8 | 2.3 | 6.8 | 8.0 | 8.7 | 8.7 | 8.7 |
| **East Asia, low-income** | | | | | | | |
| Early withdrawal of stimuli | 3.9 | 4.8 | 0.8 | 4.1 | 4.7 | 5.0 | 5.2 |
| Global imbalances, dollar devaluation and inflation | 3.9 | 4.8 | 3.9 | 2.1 | 1.9 | 2.1 | 2.0 |
| International policy coordination | 3.9 | 4.8 | 8.7 | 8.9 | 9.2 | 8.9 | 8.4 |
| **Mexico, Central America and the Caribbean** | | | | | | | |
| Early withdrawal of stimuli | -6.4 | 2.9 | -2.1 | 1.7 | 2.9 | 3.4 | 4.0 |
| Global imbalances, dollar devaluation and inflation | -6.4 | 5.6 | 0.6 | 1.1 | 1.6 | 2.2 | 2.6 |
| International policy coordination | -6.4 | 2.9 | 4.9 | 7.1 | 7.6 | 7.4 | 7.2 |
| **South America** | | | | | | | |
| Early withdrawal of stimuli | -0.2 | 3.8 | -1.0 | 1.5 | 2.0 | 2.1 | 2.5 |
| Global imbalances, dollar devaluation and inflation | -0.2 | 4.6 | 0.9 | 1.4 | 1.4 | 1.5 | 1.5 |
| International policy coordination | -0.2 | 3.2 | 4.8 | 5.5 | 5.9 | 6.1 | 5.8 |
| **Africa, middle-income** | | | | | | | |
| Early withdrawal of stimuli | 1.3 | 3.6 | 1.0 | 4.5 | 5.0 | 5.3 | 5.7 |
| Global imbalances, dollar devaluation and inflation | 1.3 | 5.3 | 3.5 | 4.4 | 4.0 | 4.0 | 3.9 |
| International policy coordination | 1.3 | 3.6 | 8.0 | 8.5 | 8.6 | 8.8 | 8.0 |
| **Africa, low-income** | | | | | | | |
| Early withdrawal of stimuli | 1.9 | 4.6 | 1.8 | 5.1 | 4.8 | 5.2 | 5.6 |
| Global imbalances, dollar devaluation and inflation | 1.9 | 7.0 | 2.5 | 4.2 | 3.5 | 3.6 | 3.6 |
| International policy coordination | 1.9 | 4.6 | 10.0 | 10.4 | 10.9 | 11.5 | 10.7 |
| ***Memorandum items:*** | | | | | | | |
| **Oil price, world average, USD per barrel** | | | | | | | |
| Early withdrawal of stimuli | 61.0 | 80.1 | 67.8 | 73.5 | 81.6 | 89.1 | 96.8 |
| Global imbalances, dollar devaluation and inflation | 61.0 | 95.7 | 109.5 | 126.5 | 147.5 | 167.5 | 178.2 |
| International policy coordination | 61.0 | 80.1 | 82.0 | 82.0 | 83.1 | 92.6 | 97.9 |
| **Primary commodity prices, world average, USD-denominated index** | | | | | | | |
| Early withdrawal of stimuli | 76.4 | 76.0 | 66.2 | 63.3 | 63.1 | 64.4 | 66.2 |
| Global imbalances, dollar devaluation and inflation | 76.4 | 82.6 | 96.0 | 105.6 | 112.9 | 118.3 | 118.8 |
| International policy coordination | 76.4 | 76.0 | 80.0 | 85.7 | 92.2 | 99.4 | 104.4 |
| **Growth of volume of world merchandise exports** | | | | | | | |
| Early withdrawal of stimuli | -12.6 | 5.5 | 1.4 | 4.5 | 6.6 | 6.8 | 6.9 |
| Global imbalances, dollar devaluation and inflation | -12.6 | 4.0 | 7.2 | 8.8 | 9.5 | 9.7 | 9.5 |
| International policy coordination | -12.6 | 5.5 | 7.9 | 8.8 | 9.2 | 8.8 | 9.0 |

**Source:** UN/DESA Global Policy Model.

**a** See text for the assumptions underlying each scenario.

Table A.I.2
**Current account of major countries and world regions under three model-based policy scenario simulations,[a] 2009-2015**

| Percentage of each country or region's GDP | | | | | | | |
|---|---|---|---|---|---|---|---|
| | *2009* | *2010* | *2011* | *2012* | *2013* | *2014* | *2015* |
| **United States** | | | | | | | |
| Early withdrawal of stimuli | -4.1 | -4.8 | -4.2 | -4.5 | -4.9 | -5.2 | -5.4 |
| Global imbalances, dollar devaluation and inflation | -4.1 | -6.4 | -5.3 | -3.7 | -2.2 | -1.0 | 0.1 |
| International policy coordination | -4.1 | -4.8 | -4.8 | -4.5 | -4.2 | -4.1 | -3.9 |
| **Western Europe** | | | | | | | |
| Early withdrawal of stimuli | -0.6 | -0.5 | 0.0 | -0.1 | -0.2 | -0.3 | -0.3 |
| Global imbalances, dollar devaluation and inflation | -0.6 | 0.2 | 0.1 | -0.5 | -1.0 | -1.4 | -1.7 |
| International policy coordination | -0.6 | -0.5 | -0.4 | -0.2 | 0.0 | 0.1 | 0.4 |
| **Japan** | | | | | | | |
| Early withdrawal of stimuli | 2.1 | 1.5 | 1.5 | 1.5 | 1.8 | 2.3 | 2.7 |
| Global imbalances, dollar devaluation and inflation | 2.1 | 2.0 | 0.8 | 0.1 | -0.2 | -0.2 | 0.0 |
| International policy coordination | 2.1 | 1.5 | 1.3 | 1.2 | 1.2 | 1.4 | 1.6 |
| **Other developed economies** | | | | | | | |
| Early withdrawal of stimuli | -2.7 | -2.5 | -3.7 | -3.7 | -3.4 | -3.2 | -3.0 |
| Global imbalances, dollar devaluation and inflation | -2.7 | -2.1 | -2.7 | -3.3 | -3.7 | -4.1 | -4.4 |
| International policy coordination | -2.7 | -2.5 | -2.5 | -2.3 | -2.0 | -1.7 | -1.4 |
| **Commonwealth of Independent States** | | | | | | | |
| Early withdrawal of stimuli | 3.5 | 6.1 | 4.4 | 5.7 | 6.5 | 6.7 | 6.7 |
| Global imbalances, dollar devaluation and inflation | 3.5 | 8.5 | 6.9 | 5.7 | 5.4 | 5.4 | 5.0 |
| International policy coordination | 3.5 | 6.1 | 6.0 | 4.8 | 3.5 | 3.1 | 2.4 |
| **Western Asia** | | | | | | | |
| Early withdrawal of stimuli | 1.5 | 5.2 | 3.1 | 4.6 | 5.3 | 5.5 | 5.5 |
| Global imbalances, dollar devaluation and inflation | 1.5 | 7.5 | 6.1 | 5.0 | 4.9 | 4.8 | 4.2 |
| International policy coordination | 1.5 | 5.2 | 5.1 | 4.0 | 2.7 | 2.6 | 2.0 |
| **Newly industrialized East Asia** | | | | | | | |
| Early withdrawal of stimuli | 7.1 | 4.8 | 7.2 | 7.9 | 7.9 | 7.3 | 6.4 |
| Global imbalances, dollar devaluation and inflation | 7.1 | 5.5 | 4.6 | 4.0 | 3.0 | 1.9 | 1.2 |
| International policy coordination | 7.1 | 4.8 | 4.3 | 4.4 | 4.4 | 4.1 | 3.9 |
| **China** | | | | | | | |
| Early withdrawal of stimuli | 10.8 | 10.7 | 9.4 | 7.9 | 6.6 | 5.5 | 4.6 |
| Global imbalances, dollar devaluation and inflation | 10.8 | 9.3 | 8.1 | 7.0 | 6.2 | 5.5 | 4.9 |
| International policy coordination | 10.8 | 10.7 | 9.6 | 8.2 | 6.7 | 5.3 | 3.9 |
| **East Asia, middle-income, excluding China** | | | | | | | |
| Early withdrawal of stimuli | 9.0 | 8.7 | 7.5 | 6.8 | 6.5 | 6.3 | 6.2 |
| Global imbalances, dollar devaluation and inflation | 9.0 | 8.2 | 7.8 | 7.0 | 6.1 | 5.3 | 4.6 |
| International policy coordination | 9.0 | 8.7 | 7.8 | 6.8 | 5.7 | 4.7 | 3.9 |
| **India** | | | | | | | |
| Early withdrawal of stimuli | -3.4 | -4.1 | -3.5 | -3.9 | -4.1 | -4.2 | -4.1 |
| Global imbalances, dollar devaluation and inflation | -3.4 | -5.1 | -4.8 | -4.6 | -4.7 | -4.8 | -4.8 |
| International policy coordination | -3.4 | -4.1 | -3.8 | -2.9 | -1.8 | -1.3 | -0.7 |

Table A.I.2 (cont'd)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| **South Asia, excluding India** | | | | | | | |
| Early withdrawal of stimuli | -2.9 | -3.3 | -2.8 | -3.0 | -3.2 | -3.1 | -3.1 |
| Global imbalances, dollar devaluation and inflation | -2.9 | -4.2 | -3.4 | -3.0 | -3.0 | -3.0 | -3.0 |
| International policy coordination | -2.9 | -3.3 | -3.0 | -2.3 | -1.5 | -1.2 | -0.8 |
| **East Asia, low-income** | | | | | | | |
| Early withdrawal of stimuli | -1.3 | -1.7 | -2.9 | -2.4 | -1.3 | -0.2 | 0.8 |
| Global imbalances, dollar devaluation and inflation | -1.3 | -1.0 | -1.3 | -1.1 | -0.4 | 0.2 | 0.6 |
| International policy coordination | -1.3 | -1.7 | -1.7 | -1.3 | -0.7 | 0.1 | 0.6 |
| **Mexico, Central America and the Caribbean** | | | | | | | |
| Early withdrawal of stimuli | -2.6 | -2.7 | -2.4 | -2.0 | -1.6 | -1.5 | -1.4 |
| Global imbalances, dollar devaluation and inflation | -2.6 | -2.7 | -2.3 | -2.7 | -3.1 | -3.6 | -4.0 |
| International policy coordination | -2.6 | -2.7 | -1.8 | -1.3 | -0.9 | -0.9 | -0.8 |
| **South America** | | | | | | | |
| Early withdrawal of stimuli | -0.5 | -0.3 | -1.2 | -1.0 | -0.6 | -0.1 | 0.3 |
| Global imbalances, dollar devaluation and inflation | -0.5 | 0.2 | -0.1 | -0.4 | -0.6 | -0.6 | -0.8 |
| International policy coordination | -0.5 | -0.3 | -0.2 | 0.0 | 0.1 | 0.3 | 0.4 |
| **Africa, middle-income** | | | | | | | |
| Early withdrawal of stimuli | -2.8 | -2.6 | -3.5 | -1.9 | -0.3 | 1.1 | 2.1 |
| Global imbalances, dollar devaluation and inflation | -2.8 | -1.5 | -1.7 | -1.2 | -0.2 | 0.7 | 1.3 |
| International policy coordination | -2.8 | -2.6 | -2.4 | -2.2 | -1.7 | -0.7 | 0.0 |
| **Africa, low-income** | | | | | | | |
| Early withdrawal of stimuli | -3.3 | -0.5 | -2.2 | -1.1 | 0.3 | 1.3 | 2.1 |
| Global imbalances, dollar devaluation and inflation | -3.3 | 1.4 | 0.5 | 0.2 | 0.6 | 1.1 | 1.2 |
| International policy coordination | -3.3 | -0.5 | -0.9 | -1.6 | -2.1 | -1.9 | -2.0 |

**Source:** UN/DESA Global Policy Model.

**a** See text for the assumptions underlying each scenario.

Table A.I.3
**Changes in policy interest rates,[a] by country or region, under three model-based policy scenario simulations,[b] 2010-2015**

| Basis points, difference over previous year | | | | | | |
|---|---|---|---|---|---|---|
| | *2010* | *2011* | *2012* | *2013* | *2014* | *2015* |
| **United States** | | | | | | |
| Early withdrawal of stimuli | 19 | 193 | 101 | -17 | -64 | -22 |
| Global imbalances, dollar devaluation and inflation | 202 | 275 | 111 | 60 | 41 | -53 |
| International policy coordination | 19 | 103 | 175 | 232 | 150 | 32 |
| **Western Europe** | | | | | | |
| Early withdrawal of stimuli | 15 | 214 | 68 | -6 | -11 | 39 |
| Global imbalances, dollar devaluation and inflation | 198 | -71 | 25 | 96 | 105 | 0 |
| International policy coordination | 15 | 123 | 157 | 230 | 188 | 70 |
| **Japan** | | | | | | |
| Early withdrawal of stimuli | 36 | 146 | 23 | -29 | -108 | -49 |
| Global imbalances, dollar devaluation and inflation | 219 | -111 | -42 | -12 | 14 | -40 |
| International policy coordination | 36 | 116 | 154 | 95 | 86 | -35 |
| **Other developed economies** | | | | | | |
| Early withdrawal of stimuli | 20 | 209 | 39 | -32 | -40 | 32 |
| Global imbalances, dollar devaluation and inflation | 110 | -21 | -25 | -4 | 11 | -16 |
| International policy coordination | 20 | 120 | 174 | 229 | 149 | 53 |
| **Commonwealth of Independent States** | | | | | | |
| Early withdrawal of stimuli | 139 | -161 | -468 | 63 | 104 | 124 |
| Global imbalances, dollar devaluation and inflation | -378 | -233 | 189 | 230 | 276 | 81 |
| International policy coordination | 139 | 280 | -227 | -14 | 94 | -36 |
| **Western Asia** | | | | | | |
| Early withdrawal of stimuli | 134 | 281 | -90 | -5 | 54 | 73 |
| Global imbalances, dollar devaluation and inflation | 68 | 204 | 47 | 57 | 72 | -17 |
| International policy coordination | 134 | 72 | 179 | 199 | 127 | 52 |
| **Newly industrialized East Asia** | | | | | | |
| Early withdrawal of stimuli | 15 | 221 | 24 | -49 | -78 | 16 |
| Global imbalances, dollar devaluation and inflation | 137 | -16 | 11 | 27 | 19 | -64 |
| International policy coordination | 15 | 86 | 172 | 221 | 114 | -44 |
| **China** | | | | | | |
| Early withdrawal of stimuli | 284 | 188 | -41 | 18 | -109 | -5 |
| Global imbalances, dollar devaluation and inflation | 262 | -100 | 92 | 73 | 49 | 29 |
| International policy coordination | 284 | 19 | 11 | 40 | 44 | 30 |
| **East Asia, middle-income, excluding China** | | | | | | |
| Early withdrawal of stimuli | -3 | 150 | -67 | -135 | -109 | 8 |
| Global imbalances, dollar devaluation and inflation | -78 | -190 | -120 | -32 | 35 | -3 |
| International policy coordination | -3 | -76 | 43 | 166 | 161 | 7 |
| **India** | | | | | | |
| Early withdrawal of stimuli | 112 | 105 | -55 | -212 | -238 | -92 |
| Global imbalances, dollar devaluation and inflation | 146 | -127 | -130 | -118 | -96 | -97 |
| International policy coordination | 112 | -24 | 71 | 139 | 97 | 1 |

Table A.I.3 (cont'd)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| **South Asia, excluding India** | | | | | | |
| Early withdrawal of stimuli | 4 | 94 | -13 | -136 | -169 | -27 |
| Global imbalances, dollar devaluation and inflation | 14 | -167 | -116 | -60 | -27 | -12 |
| International policy coordination | 4 | -32 | 77 | 159 | 113 | 37 |
| **East Asia, low-income** | | | | | | |
| Early withdrawal of stimuli | 10 | 215 | 17 | -85 | -97 | 35 |
| Global imbalances, dollar devaluation and inflation | -10 | -25 | -67 | -71 | -36 | -17 |
| International policy coordination | 10 | -5 | 147 | 137 | 109 | 47 |
| **Mexico, Central America and the Caribbean** | | | | | | |
| Early withdrawal of stimuli | 46 | 103 | -42 | -106 | -92 | -30 |
| Global imbalances, dollar devaluation and inflation | -86 | -136 | -90 | -5 | 56 | -35 |
| International policy coordination | 46 | -92 | 94 | 267 | 247 | 28 |
| **South America** | | | | | | |
| Early withdrawal of stimuli | -42 | 125 | -57 | -85 | -44 | 4 |
| Global imbalances, dollar devaluation and inflation | 110 | -42 | -233 | -151 | -61 | -76 |
| International policy coordination | -42 | 69 | 118 | 192 | 63 | 7 |
| **Africa, middle-income** | | | | | | |
| Early withdrawal of stimuli | -1 | 297 | -33 | -151 | -171 | -33 |
| Global imbalances, dollar devaluation and inflation | 3 | 19 | -75 | -51 | -28 | -54 |
| International policy coordination | -1 | 71 | 141 | 200 | 99 | 3 |
| **Africa, low-income** | | | | | | |
| Early withdrawal of stimuli | 66 | 257 | -6 | -35 | -37 | 80 |
| Global imbalances, dollar devaluation and inflation | 60 | -23 | -75 | 14 | 66 | 50 |
| International policy coordination | 66 | -100 | 207 | 191 | 29 | 12 |

**Source:** UN/DESA Global Policy Model.

**a** Regional rates are weighted by GDP.

**b** See text for the assumptions underlying each scenario.

Table A.I.4
**Ex ante fiscal stimuli, by major country or region, under three model-based policy scenario simulations,[a] 2008-2015**

| Percentage of GDP | | | | | | |
|---|---|---|---|---|---|---|
| | *Estimated effective stimuli 2008-2010* | *2011* | *2012* | *2013* | *2014* | *2015* |
| **United States** | | | | | | |
| Early withdrawal of stimuli | 5.4 | -2.3 | -1.7 | -1.2 | -0.9 | -0.7 |
| Global imbalances, dollar devaluation and inflation | 5.6 | 0.2 | -1.7 | -1.8 | -1.4 | -1.2 |
| International policy coordination | 5.4 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 |
| **Western Europe** | | | | | | |
| Early withdrawal of stimuli | 2.1 | -1.7 | -1.3 | -1.0 | -0.7 | -0.5 |
| Global imbalances, dollar devaluation and inflation | 2.2 | 0.2 | 0.1 | -0.1 | -0.7 | -1.1 |
| International policy coordination | 2.1 | 0.3 | 0.1 | 0.1 | 0.0 | 0.0 |
| **Japan** | | | | | | |
| Early withdrawal of stimuli | 4.0 | -1.6 | -1.2 | -0.9 | -0.7 | -0.5 |
| Global imbalances, dollar devaluation and inflation | 4.0 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| International policy coordination | 4.0 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| **Other developed economies** | | | | | | |
| Early withdrawal of stimuli | 2.6 | -2.1 | -1.5 | -1.2 | -0.9 | -0.6 |
| Global imbalances, dollar devaluation and inflation | 2.6 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 |
| International policy coordination | 2.6 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 |
| **Commonwealth of Independent States** | | | | | | |
| Early withdrawal of stimuli | 2.5 | -1.3 | -1.0 | -0.8 | -0.6 | -0.4 |
| Global imbalances, dollar devaluation and inflation | 2.5 | 0.4 | 0.2 | 0.1 | 0.0 | 0.0 |
| International policy coordination | 2.5 | 0.6 | 0.5 | 0.6 | 0.7 | 0.7 |
| **Western Asia** | | | | | | |
| Early withdrawal of stimuli | 3.6 | -0.4 | -0.3 | -0.2 | -0.2 | -0.1 |
| Global imbalances, dollar devaluation and inflation | 3.6 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| International policy coordination | 3.6 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Newly industrialized East Asia** | | | | | | |
| Early withdrawal of stimuli | 3.7 | -2.1 | -1.6 | -1.2 | -0.9 | -0.7 |
| Global imbalances, dollar devaluation and inflation | 3.7 | 0.5 | 0.0 | 0.1 | 0.0 | 0.0 |
| International policy coordination | 3.7 | 0.5 | 0.0 | 0.1 | 0.0 | 0.0 |
| **China** | | | | | | |
| Early withdrawal of stimuli | 9.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Global imbalances, dollar devaluation and inflation | 9.3 | 0.8 | 0.4 | 0.2 | 0.0 | 0.0 |
| International policy coordination | 9.3 | 0.8 | 0.4 | 0.2 | 0.0 | 0.0 |
| **East Asia, middle-income, excluding China** | | | | | | |
| Early withdrawal of stimuli | 3.1 | -1.6 | -1.2 | -0.9 | -0.7 | -0.5 |
| Global imbalances, dollar devaluation and inflation | 3.1 | 0.4 | 0.2 | 0.1 | 0.0 | 0.0 |
| International policy coordination | 3.1 | 1.0 | 1.0 | 1.2 | 1.2 | 1.3 |
| **India** | | | | | | |
| Early withdrawal of stimuli | 6.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Global imbalances, dollar devaluation and inflation | 6.4 | 0.7 | 0.4 | 0.2 | 0.0 | 0.0 |
| International policy coordination | 6.4 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 |

Table A.I.4 (cont'd)

| | *Estimated effective stimuli 2008-2010* | *2011* | *2012* | *2013* | *2014* | *2015* |
|---|---|---|---|---|---|---|
| **South Asia, excluding India** | | | | | | |
| Early withdrawal of stimuli | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Global imbalances, dollar devaluation and inflation | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International policy coordination | 0.9 | 1.3 | 1.3 | 1.4 | 1.5 | 1.5 |
| **East Asia, low-income** | | | | | | |
| Early withdrawal of stimuli | 1.4 | -0.1 | -0.1 | -0.1 | -0.1 | 0.0 |
| Global imbalances, dollar devaluation and inflation | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International policy coordination | 1.4 | 1.2 | 1.3 | 1.3 | 1.2 | 1.2 |
| **Mexico, Central America and the Caribbean** | | | | | | |
| Early withdrawal of stimuli | 1.3 | -0.9 | -0.7 | -0.5 | -0.4 | -0.3 |
| Global imbalances, dollar devaluation and inflation | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International policy coordination | 1.3 | 0.7 | 0.7 | 0.8 | 0.9 | 0.8 |
| **South America** | | | | | | |
| Early withdrawal of stimuli | 0.8 | -0.5 | -0.4 | -0.3 | -0.2 | -0.2 |
| Global imbalances, dollar devaluation and inflation | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International policy coordination | 0.8 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| **Africa, middle-income** | | | | | | |
| Early withdrawal of stimuli | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Global imbalances, dollar devaluation and inflation | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International policy coordination | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| **Africa, low-income** | | | | | | |
| Early withdrawal of stimuli | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Global imbalances, dollar devaluation and inflation | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International policy coordination | 0.9 | 1.3 | 1.4 | 1.5 | 1.4 | 1.5 |

**Source:** UN/DESA Global Policy Model.

**a** See text for the assumptions underlying each scenario.

Table A.I.5
**Estimated government[a] debt of major countries and world regions under three model-based policy scenario simulations,[a] 2009-2015**

| Percentage of each country or region's GDP | | | | | | | |
|---|---|---|---|---|---|---|---|
| | *2009* | *2010* | *2011* | *2012* | *2013* | *2014* | *2015* |
| **United States** | | | | | | | |
| Early withdrawal of stimuli | 71.0 | 80.9 | 89.5 | 95.1 | 98.5 | 99.5 | 99.0 |
| Global imbalances, dollar devaluation and inflation | 71.0 | 79.0 | 81.1 | 81.1 | 79.3 | 76.0 | 72.0 |
| International policy coordination | 71.0 | 80.9 | 87.4 | 89.0 | 86.5 | 81.9 | 77.2 |
| **Western Europe** | | | | | | | |
| Early withdrawal of stimuli | 70.5 | 80.7 | 91.9 | 100.9 | 107.5 | 110.6 | 111.6 |
| Global imbalances, dollar devaluation and inflation | 70.5 | 79.2 | 83.3 | 85.5 | 86.5 | 86.9 | 88.2 |
| International policy coordination | 70.5 | 80.7 | 87.9 | 90.5 | 89.0 | 85.3 | 81.7 |
| **Japan** | | | | | | | |
| Early withdrawal of stimuli | 171.8 | 179.6 | 185.8 | 192.4 | 199.5 | 204.7 | 209.7 |
| Global imbalances, dollar devaluation and inflation | 171.8 | 172.5 | 159.8 | 155.3 | 156.3 | 158.2 | 160.6 |
| International policy coordination | 171.8 | 179.6 | 177.2 | 170.6 | 162.4 | 153.8 | 147.7 |
| **Other developed economies** | | | | | | | |
| Early withdrawal of stimuli | 55.7 | 57.7 | 62.2 | 65.7 | 67.7 | 67.6 | 66.4 |
| Global imbalances, dollar devaluation and inflation | 55.7 | 55.9 | 53.3 | 52.7 | 53.7 | 55.6 | 58.3 |
| International policy coordination | 55.7 | 57.7 | 58.6 | 57.4 | 54.3 | 50.3 | 46.6 |
| **Commonwealth of Independent States** | | | | | | | |
| Early withdrawal of stimuli | 17.0 | 18.6 | 21.8 | 26.3 | 30.3 | 32.4 | 33.1 |
| Global imbalances, dollar devaluation and inflation | 17.0 | 18.9 | 23.6 | 27.5 | 29.5 | 29.8 | 29.3 |
| International policy coordination | 17.0 | 18.6 | 20.8 | 22.7 | 23.7 | 23.4 | 22.6 |
| **Western Asia** | | | | | | | |
| Early withdrawal of stimuli | 28.0 | 27.7 | 30.9 | 33.5 | 34.3 | 34.1 | 33.6 |
| Global imbalances, dollar devaluation and inflation | 28.0 | 26.3 | 23.9 | 22.7 | 22.3 | 22.5 | 23.6 |
| International policy coordination | 28.0 | 27.7 | 28.4 | 28.4 | 28.3 | 27.8 | 27.9 |
| **Newly industrialized East Asia** | | | | | | | |
| Early withdrawal of stimuli | 12.8 | 12.7 | 12.8 | 13.2 | 13.9 | 14.5 | 15.2 |
| Global imbalances, dollar devaluation and inflation | 12.8 | 12.5 | 11.5 | 10.7 | 11.8 | 13.9 | 16.0 |
| International policy coordination | 12.8 | 12.7 | 12.7 | 12.2 | 11.7 | 11.3 | 11.1 |
| **China** | | | | | | | |
| Early withdrawal of stimuli | 17.5 | 22.3 | 28.0 | 33.3 | 37.9 | 41.7 | 45.0 |
| Global imbalances, dollar devaluation and inflation | 17.5 | 22.1 | 26.3 | 31.0 | 35.8 | 40.5 | 45.3 |
| International policy coordination | 17.5 | 22.3 | 27.2 | 31.2 | 33.9 | 35.2 | 35.7 |
| **East Asia, middle-income, excluding China** | | | | | | | |
| Early withdrawal of stimuli | 34.3 | 37.2 | 42.9 | 48.0 | 51.3 | 52.6 | 52.6 |
| Global imbalances, dollar devaluation and inflation | 34.3 | 36.1 | 35.6 | 37.2 | 39.9 | 42.9 | 46.3 |
| International policy coordination | 34.3 | 37.2 | 39.7 | 41.2 | 41.6 | 41.0 | 40.5 |
| **India** | | | | | | | |
| Early withdrawal of stimuli | 54.6 | 56.5 | 62.1 | 68.5 | 74.2 | 78.4 | 81.3 |
| Global imbalances, dollar devaluation and inflation | 54.6 | 55.7 | 52.0 | 52.1 | 54.4 | 57.9 | 62.1 |
| International policy coordination | 54.6 | 56.5 | 57.7 | 57.4 | 55.1 | 51.9 | 49.0 |

Table A.I.5 (cont'd)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| **South Asia, excluding India** | | | | | | | |
| Early withdrawal of stimuli | 47.7 | 47.3 | 49.4 | 52.4 | 55.2 | 57.3 | 58.9 |
| Global imbalances, dollar devaluation and inflation | 47.7 | 46.7 | 39.5 | 35.8 | 34.5 | 34.7 | 36.0 |
| International policy coordination | 47.7 | 47.3 | 46.4 | 45.0 | 42.6 | 39.9 | 37.8 |
| **East Asia, low-income** | | | | | | | |
| Early withdrawal of stimuli | 19.5 | 17.1 | 15.4 | 13.9 | 12.1 | 9.9 | 7.5 |
| Global imbalances, dollar devaluation and inflation | 19.5 | 16.6 | 12.0 | 9.0 | 7.0 | 5.4 | 4.2 |
| International policy coordination | 19.5 | 17.1 | 14.1 | 10.8 | 7.8 | 5.2 | 3.1 |
| **Mexico, Central America and the Caribbean** | | | | | | | |
| Early withdrawal of stimuli | 26.9 | 29.3 | 33.8 | 37.6 | 40.2 | 41.3 | 41.8 |
| Global imbalances, dollar devaluation and inflation | 26.9 | 27.9 | 26.3 | 26.2 | 27.1 | 28.5 | 30.6 |
| International policy coordination | 26.9 | 29.3 | 31.2 | 31.2 | 29.8 | 27.6 | 26.0 |
| **South America** | | | | | | | |
| Early withdrawal of stimuli | 31.2 | 30.8 | 33.1 | 35.4 | 37.2 | 38.1 | 38.5 |
| Global imbalances, dollar devaluation and inflation | 31.2 | 29.8 | 27.5 | 26.8 | 27.2 | 28.0 | 29.2 |
| International policy coordination | 31.2 | 30.8 | 30.9 | 30.6 | 29.7 | 28.4 | 27.3 |
| **Africa, middle-income** | | | | | | | |
| Early withdrawal of stimuli | 24.8 | 22.5 | 22.6 | 23.9 | 24.6 | 24.8 | 24.6 |
| Global imbalances, dollar devaluation and inflation | 24.8 | 21.6 | 19.0 | 17.6 | 16.7 | 16.0 | 15.6 |
| International policy coordination | 24.8 | 22.5 | 21.3 | 20.8 | 20.0 | 19.0 | 18.2 |
| **Africa, low-income** | | | | | | | |
| Early withdrawal of stimuli | 46.8 | 46.8 | 50.2 | 52.1 | 52.2 | 50.6 | 48.0 |
| Global imbalances, dollar devaluation and inflation | 46.8 | 44.0 | 37.2 | 33.6 | 31.4 | 30.1 | 29.7 |
| International policy coordination | 46.8 | 46.8 | 45.9 | 43.5 | 41.5 | 38.5 | 36.7 |

**Source:** UN/DESA Global Policy Model.

**a** Refers to the stock of gross government debt, not taking into account adjustments owing to the exchange-rate and other revaluation effects. Historical data on government accounts in the Global Policy Model are based on IMF Government Finance Statistics, supplemented by OECD and Eurostat sources. National currency data have been converted to United States dollars. In some cases, missing data for recent years had to be extrapolated and may not coincide with the latest releases of data from national or international sources.

**b** See text for the assumptions underlying each scenario.

# Chapter II
# International trade

## Merchandise trade in times of crisis

World trade growth has fallen more than 20 per cent below its trend

In 2009, world trade volume contracted by almost 13 per cent, that is to say, more than 20 percentage points below its annualized 8.6 per cent trend growth during the period 2004-2007. Furthermore, international trade had already seen a deceleration to 3 per cent in 2008. In the outlook, a modest recovery of world trade of 5 per cent is projected for 2010, assuming that global recovery sets in. Given this projection, the total loss of world trade during the period 2008-2010, compared to what it would have been at trend growth and without the crisis, will be equivalent to nearly $5 trillion, in other words, about 8 per cent of the annual world gross product (WGP).

Changes in world income have led to dramatic fluctuations in trade, especially in manufacturing

Global trade activity follows the evolution of world income in a pronounced manner. A similar pattern is observed in the fluctuations of imports in the main regions of the world with respect to each region's growth of gross domestic product (GDP) (figure II.1a-e). In 2008, demand growth in developed countries decelerated to 0.5 per cent, down from an annual average of 2.7 per cent between 2004 and 2007. In 2009, developed-country GDP contracted by 3.5 per cent. As a result of the 4 percentage point decline in the growth rate, the volume of imports by developed countries showed a sharp reduction of about 12 per cent in 2009. GDP growth for developing countries (excluding East Asia) dropped by 6 percentage points (from about 5 per cent in 2008 to -1 per cent in 2009), while import demand fell by 17 per cent in real terms. In developing East Asia, the decline in import volume was 8 per cent, but since GDP growth dropped by only 2 percentage points, a higher implicit income elasticity of import demand is evident, the result of a greater weight of exports of manufactures with a high import content. More generally, trade in manufactures showed the greatest swings during the global crisis, being characterized by a higher income elasticity than trade in other commodities. Developed countries are the main importers of manufactures; hence the deep recession in these countries spread quickly, first to countries specializing in exports of manufactures (especially in East Asia) and subsequently to those countries providing industrial inputs and raw materials. Yet, the decline in export volumes during 2009 was greater among those regions with higher specialization in manufactures. Many Asian exporters, such as Indonesia, Japan, the Philippines and Taiwan Province of China, were among the hardest hit and saw their merchandise export revenues decline by 30 per cent or more year on year during the first quarter of 2009. Industrial production fell in tandem with trade, causing declines in demand for commodities and other industrial inputs, in turn affecting exports of developing countries and economies in transition.

Higher borrowing costs severely affected trade and production costs, particularly in developing countries

The severe fall in global aggregate demand, which shocked trade activity and prices, was compounded by a considerable strain in global financial markets, resulting primarily in increased borrowing costs and a shortage of trade credits. There is an acute lack of data on the availability of trade financing, but some recent surveys and anecdotal evidence suggest that many countries experienced severe curtailment of access to trade credits, especially in the initial stages of the global crisis, a factor that most likely contributed to the

Figure II.1a
**Growth of world income and of imports, 2001-2010**

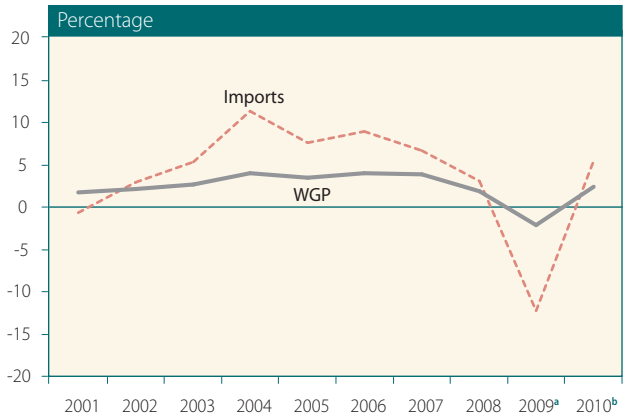



Figure II.1b
**Growth of gross domestic product and import volume: developed economies, 2001-2010**

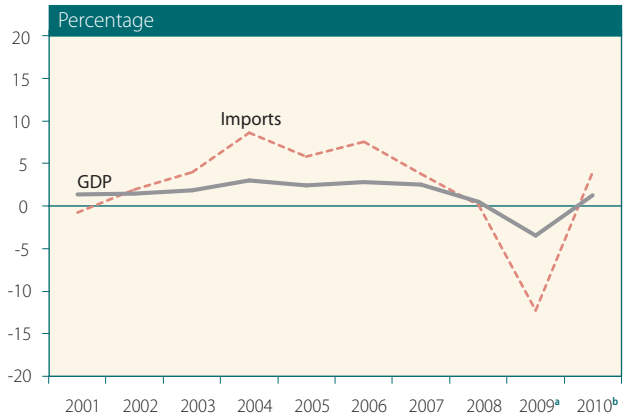



Figure II.1c
**Growth of gross domestic product and of import volume: economies in transition and developing economies (excluding East Asia), 2001-2010**

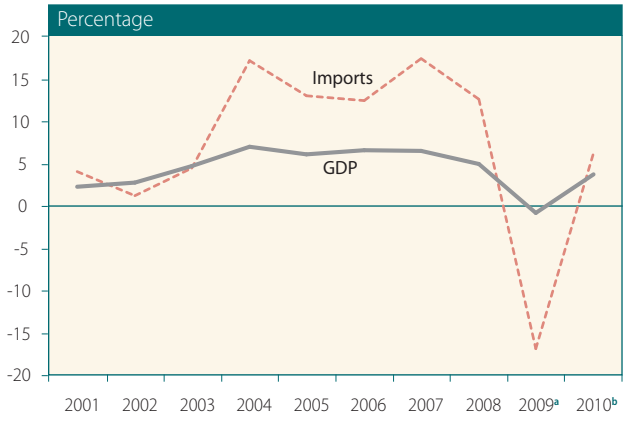



Figure II.1d
**Growth of gross domestic product and import volume: East Asian developing economies, 2001-2010**

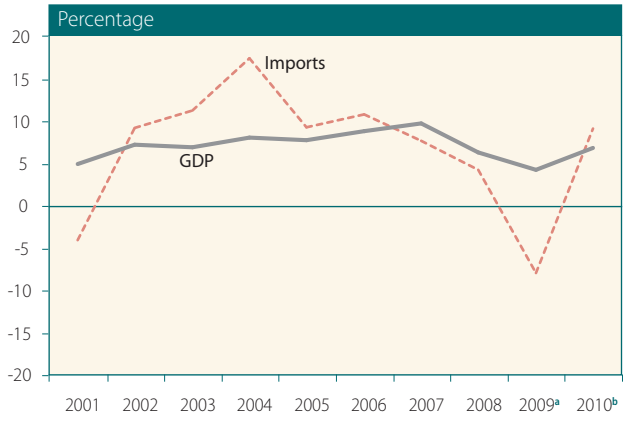
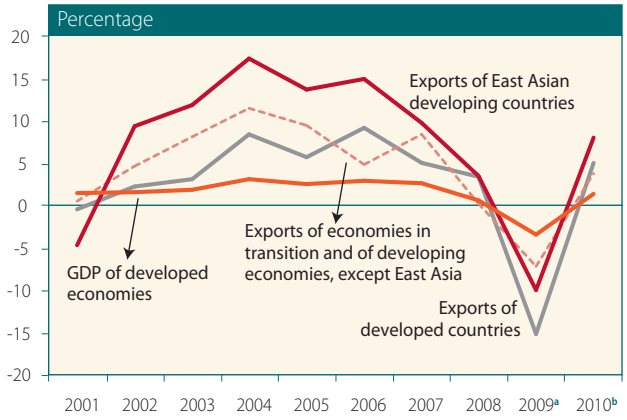



Figure II.1e
**Growth of gross domestic product of developed economies and of exports per region, 2001-2010**




**Source:** UN/DESA and Project Link.

**Note:** Imports and exports are expressed in constant 2000 United States dollars.

**a** Partly estimated.
**b** Projections based on Project LINK.

decline in world trade in late 2008 and early 2009.[1] Steep increases in borrowing costs have equally affected trade. In India, for example, the spread over the six-month London Interbank Offered Rate (LIBOR) for trade credits increased from 50 to 150 basis points towards the end of 2008. Spreads increased even more for countries like Turkey and Brazil in the fourth quarter of 2008, severely affecting trade and production costs.

The decline in global import demand has caused large swings in world commodity prices

As discussed in more detail below, the decline in global import demand was accompanied by large swings in world commodity prices. Depending on the nature of trade dependence, some countries saw declines in export volumes compensated by improvements in their terms of trade, while others suffered even greater trade shocks because of unfavourable relative price shifts. Table II.1 shows a decomposition of trade shocks by country group.[2]

The *demand shock*, shown in the first row, reflects the fall in the *volume* of exports, estimated at about 3.5 per cent of WGP in 2009. No country or region was spared the adverse demand shock. The economies in transition, the European Union (EU)-15, Japan and countries in East and South Asia experienced demand shocks greater than 4 per cent of their GDP. The developed countries and the dynamic exporters in developing Asia felt most of the impact through the fall in demand for their manufacturing exports, as indicated above. Meanwhile, such falls in exports, and thus in industrial production in developing countries, were transmitted into falls in energy imports from the economies in transition. These are considerable when measured as a share of GDP of those economies that rely heavily on exports of oil and natural gas. Notably, the least developed countries (LDCs) were least affected by a decline in the demand for their exports, possibly owing to the relatively low income elasticity of demand for primary export products.[3] Nonetheless, the contraction in demand for LDC exports averaged about 1.6 per cent of GDP in 2009 and contributed to the substantial run-up of trade deficits amounting to 10 per cent of the combined GDP of the poorest countries.

*Terms-of-trade* shocks are calculated as the net effect of the annualized change in a country's export and import prices. Net importers of food and energy products generally witnessed positive terms-of-trade shocks in 2009. This holds true, on average, for the developed countries and developing countries in East and South Asia, as well as for some African countries, Mexico and most countries in Central America and the Caribbean. In contrast, energy and other primary commodity exporters suffered severe negative price shocks. For instance, Western Asia and the economies in transition experienced negative terms-of-trade shocks of 8.8 per cent and 5.7 per cent of their respective GDP. Half of these countries experienced an adverse price shock of greater than 10 per cent of GDP; in one third of the countries concerned it was even greater than 20 per cent of GDP. Some

1 See, for example, the 2009 Trade Finance Survey conducted by the Bankers' Association for Finance and Trade (BAFT), in cooperation with the International Monetary Fund, available at http://baft.org/content_folders/Issues/IMFBAFTSurveyResults20090331.ppt. These and similar surveys stress that the major trigger for the global contraction of trade was the rapidly shrinking demand for imports worldwide.

2 The trade shock decomposition was developed as part of the World Economic Vulnerability Monitor of UN/DESA. The trade decomposition analysis is a detailed account of volume and price fluctuations for about 170 countries for all merchandise trade disaggregated up to the three-digit Standard International Trade Classification (SITC) (covering about 250 products and product groups). See http://www.un.org/esa/policy/publications/dpad_wespwevm.html for a description of the decomposition methodology and for more detailed results.

3 A number of least developed countries (LDCs) could not be included in this study owing to a lack of data, most notably Angola, a country representing a significant share of the combined GDP of the LDCs.

Table II.1
**Trade shocks and changes in trade balances per country/region**

Percentage of gross domestic product

| | | *Demand shock: change in export volume* | *Terms-of-trade shock: net value change* | *Total trade shock* | *Change in import volume* | *Total change in trade balance* |
|---|---|---|---|---|---|---|
| World | 2008 | 0.5 | 0.0 | 0.5 | 0.5 | 0.0 |
| | 2009 | -3.5 | 0.0 | -3.5 | -3.5 | 0.0 |
| Developed economies | 2008 | 0.2 | -0.7 | -0.5 | -0.3 | -0.1 |
| | 2009 | -3.5 | 0.8 | -2.7 | -3.7 | 1.0 |
| United States | 2008 | 0.5 | -1.1 | -0.6 | -0.5 | -0.1 |
| | 2009 | -1.3 | 1.2 | -0.1 | -2.6 | 2.5 |
| Japan | 2008 | 0.1 | -1.3 | -1.2 | -0.1 | -1.2 |
| | 2009 | -4.4 | 1.5 | -2.9 | -2.1 | -0.8 |
| EU-15 | 2008 | -0.2 | -0.6 | -0.8 | -0.6 | -0.2 |
| | 2009 | -4.4 | 0.7 | -3.7 | -4.3 | 0.6 |
| Economies in transition | 2008 | 2.3 | 4.7 | 7.0 | 2.0 | 5.0 |
| | 2009 | -5.1 | -5.7 | -10.8 | -5.3 | -5.5 |
| Developing countries | 2008 | 2.1 | 1.1 | 3.2 | 2.6 | 0.6 |
| | 2009 | -3.3 | -1.1 | -4.4 | -2.7 | -1.7 |
| Africa | 2008 | 2.1 | 2.9 | 5.0 | 4.2 | 0.8 |
| | 2009 | -2.2 | -3.3 | -5.5 | -2.1 | -3.4 |
| East and South Asia | 2008 | 2.9 | -0.6 | 2.3 | 2.4 | -0.1 |
| | 2009 | -4.2 | 0.9 | -3.3 | -2.2 | -1.1 |
| Western Asia | 2008 | 3.4 | 7.7 | 11.1 | 4.9 | 6.2 |
| | 2009 | -3.3 | -8.8 | -12.2 | -2.3 | -9.9 |
| Latin America and the Caribbean | 2008 | -0.4 | 1.0 | 0.7 | 1.4 | -0.7 |
| | 2009 | -1.7 | -0.6 | -2.3 | -4.1 | 1.8 |
| Least developed countries | 2008 | 1.4 | -2.1 | -0.7 | 3.6 | -4.3 |
| | 2009 | -1.6 | 1.3 | -0.2 | -2.2 | 1.9 |

**Source:** UN/DESA, World Economic Vulnerability Monitor, based on Comtrade and UNCTAD data.

exporters of food and agricultural materials fared better to the extent that the decline in agricultural commodity prices was (more than) offset by the lower prices of their energy imports. This was the case in many of the LDCs.

All regions have suffered adverse trade shocks …

Each of the country groups in table II.1 suffered adverse total trade shocks in 2009. The total trade shock is the combined effect of the decline in export volume and the terms-of-trade effect. Relative to their GDP, the net energy exporters among the economies in transition and in Western Asia were the most severely hit. The cumulative trade shock over the period 2008-2009 was also negative for all regions. The developed-country regions had seen a negative total trade shock as early as 2008 as a consequence of the economic slowdown that had already started in the United States, and this deepened as the financial crisis unravelled. In contrast, all other regions still benefited from a buoyant demand for their exports throughout most of 2008. This was not the case for LDCs, however, which, on average, suffered most from the steep rise in oil and food prices in the first half of 2008.

The reaction of import volume to the total trade shocks outlined above varied by country. In most developed countries, import volumes fell by more than the combined loss in export volumes and terms-of-trade effect to yield an improvement in the merchandise trade balance. Import adjustments in Latin America and the Caribbean were also stronger than the adverse export shock. LDCs also saw a narrowing of merchandise trade deficits or larger surpluses as imports contracted by more than their relatively mild adverse trade shock, suggesting that limited access to external finance might have led to an overshooting of the impact of the trade shocks into the growth of domestic demand. In other regions, import adjustment has been weaker than the trade shock, in some cases on account of a lagging response to shocks or greater rigidity of spending patterns supported by the use of accumulated foreign-exchange reserves (or support of domestic demand through strong fiscal stimuli, as in the case of China and a number of other Asian countries in particular).

… but in some cases there was a greater contraction in imports, leading to improvements in the trade balance

It is worth noting that "improvements" in the trade balances of particular regions or countries driven by strong import adjustments are not necessarily positive developments. Even though these shifts have helped reduce the global imbalances, the adjustment has been recessionary (see chapter I for further discussion). The impending recovery in parts of the world could lead to a resumption of those imbalances and the world may still be positioned for a continued "bumpy ride" in the period ahead.

Contractionary improvements in the trade balance during the crisis threaten the potential for global recovery

## Regional trends

The steep decrease in merchandise imports by the *United States of America*, which started in August 2008, appears to have bottomed out over the second quarter of 2009. However, the first-semester level is more than 30 per cent lower year on year. The significant fall in oil prices accounted for about 40 per cent of the reduction in import expenditures. However, a further reason was the drop in demand from households and businesses. While exports had been declining since mid-2008, they picked up in the third quarter of 2009. Since the decline of imports moved significantly faster, the trade deficit was shrinking to about $40 billion per month, down from about $75 billion in early 2008. *Canada*, which was additionally hit as an exporter of energy and minerals, experienced a deterioration in its trade balance of about 2 per cent of GDP, although it managed to preserve a small trade surplus overall.

United States imports decreased, aided by low oil import values

*Japanese* imports and exports picked up slightly in the second quarter of 2009, after collapsing by about 40 per cent in late 2008 and early 2009. Reflecting the pace of recovery among different regions of the world, exports to Asia led the rebound, followed by exports to the United States and the EU. Real exports, however, remain 30 per cent below last year. Japanese exports will likely continue to rise in 2010, albeit at a moderate pace, curbed by the appreciation of the yen and domestic deflation. The rebound in imports was driven by information technology (IT)-related and consumer goods, as well as by raw materials and foodstuffs, but capital goods continued to decline.

After collapsing by about 40 per cent in late 2008 and early 2009, Japanese imports and exports started to improve slightly

Trade flows in *Australia* and *New Zealand* have dropped from an annual growth of about 30-40 per cent in the first half of 2008 to a decline of about 25 per cent in early 2009, showing a gradual turnaround in the second half of 2009. A strong Australian dollar and a large drop in contracted prices for some categories will curb export revenues in the outlook.

Trade collapsed in *Western Europe* as world demand plummeted and is only recently showing tentative signs of stabilization. In the euro area, exports fell in real terms by 7 per cent (quarter over quarter) in the fourth quarter of 2008 and by 9.2 per cent in the

Export volumes in Western Europe remain far below the previous year even though the pace of decline is moderating substantially

first quarter of 2009, and patterns were similar in the rest of the region. Even though the pace of decline moderated substantially in the second quarter, export volumes stood 17.7 per cent lower than the year before. Import volumes displayed similar behaviour, with a lag effect; in the second quarter of 2009, they stood 14.4 per cent lower than a year earlier, but more recent declines have been more substantial than those of exports. In United States dollar value terms, exports over the first six months of 2009 were 32 per cent lower than a year earlier, with energy, machinery and vehicles registering the largest declines. Imports declined by a similar amount, energy and crude materials being the most predominant. Going forward, trade is expected to pick up gradually through the rest of 2009 and into 2010, but not to robust levels, and in some cases will be held back by stronger exchange rates.

Merchandise export revenues of the new *EU member States* shrunk by 25 per cent in 2009 owing to weaker import demand from the EU-15. This was also the case for the Baltic States, who, in addition, saw weak demand from the Russian Federation. The automotive and capital goods industries experienced major shocks, partially mitigated by the car-scrapping schemes in the EU-15. Depressed domestic demand, strong import content of exports and lower prices of energy have led to a fall of about 30 per cent in imports. In the outlook, exports from the region may recover slowly, but will perhaps lag behind a 3-4 per cent recovery of imports. However, in the Baltic States further economic contraction is projected.

In *South-eastern Europe*, export revenues declined by about 25 per cent in 2009 as industrial sales declined, prices and demand for minerals fell and competition by some Asian industries increased. Meanwhile, imports contracted by about 30 per cent owing to weaker demand and slower credit growth, along with falls in the price of energy. Going forward, a slight recovery of exports may be hindered by formal or informal pegs to an appreciating euro, undermining export competitiveness outside the euro area. Import growth is expected to resume, but at a slow pace.

Trade in the Commonwealth of Independent States is likely to resume slowly in 2010

Nominal exports and imports in the *Commonwealth of Independent States (CIS)* have contracted significantly in 2009, but are forecast to increase in 2010. Lower commodity prices and exchange-rate depreciations have contributed to a significant decline in the region's terms of trade. Export losses are likely to exceed $250 billion in 2009 and will be only partially offset by lower imports. In the Russian Federation, the trade surplus will decline by more than 46 per cent to an estimated $96 billion in 2009. It is expected to contract by 50 per cent to $16.5 billion in Kazakhstan. Meanwhile, despite collapsing steel and manufacturing exports and relatively higher prices for gas imports, Ukraine's trade deficit will likely decline by 80 per cent in 2009, to $3.4 billion, reflecting the impact that the deep contraction of the economy is having on import demand.

China's trade surplus declined by 20 per cent year on year during the first eight months of 2009

Exports of *East Asian* economies declined precipitously between October 2008 and January 2009, but started to recover in the second quarter of 2009 as demand for high- and medium-technology manufactured goods picked up. A likely improvement in access to trade finance may have played its part. Yet, export revenues have remained far below the levels reached a year ago. In most economies, except China, the decline in export earnings in 2009 will be more than offset by lower import bills. Trade balances will therefore improve markedly in many countries, including Indonesia and the Republic of Korea. In China, by contrast, the trade surplus declined by 20.3 per cent year on year during the first eight months of 2009. In 2010, import bills are forecast to rise considerably as domestic demand strengthens and energy prices move up. Thus, trade surpluses may shrink despite higher export earnings.

Export sectors across *South Asia* have also been hard hit. Indian export earnings fell by 26 per cent year on year during the first eight months of 2009. However, exports started to recover in several South Asian economies during the third quarter of 2009—a trend that is likely to continue in 2010. Overall, trade and current-account balances improved everywhere in 2009 except in the Islamic Republic of Iran, where oil revenues declined sharply. The decline in global energy and food prices, combined with the slowdown in domestic demand, led to sharply lower import bills, while remittance inflows to the region continued to increase substantially.

Oil exports from Western Asia will probably continue to increase

In *Western Asia*, oil exporters saw a pronounced drop in exports in 2009 owing to lower global demand and prices. Imports have been shrinking, partially offsetting the contractionary effect on trade balances. The expected sustained upward trend in oil prices will again underpin solid trade surpluses in 2010. In oil importing countries, the severe drop in global trade has hit the manufacturing sector especially hard. Meanwhile, imports have shown even more dramatic falls, resulting in improved trade balances in 2009.

Trade accounts have narrowed in most of the larger African economies

While many *African* oil and mineral exporters were hit severely by the sharp drop in the value of their exports in late 2008 and early 2009, they experienced an export rebound in the second quarter of 2009. On aggregate, exports declined faster than imports. Hence, African trade and current accounts are expected to switch into deficit in 2009 and, conceivably, 2010. However, specific situations in some countries diverge from the regional patterns. For instance, South Africa switched from deficit to surplus between the first and second quarter, as merchandise imports declined sharply. Food-importing countries also experienced a reduction of their import expenditures as food prices declined by around 20 per cent from 2008.

Oil and mineral exporters in Latin America have experienced great adversity

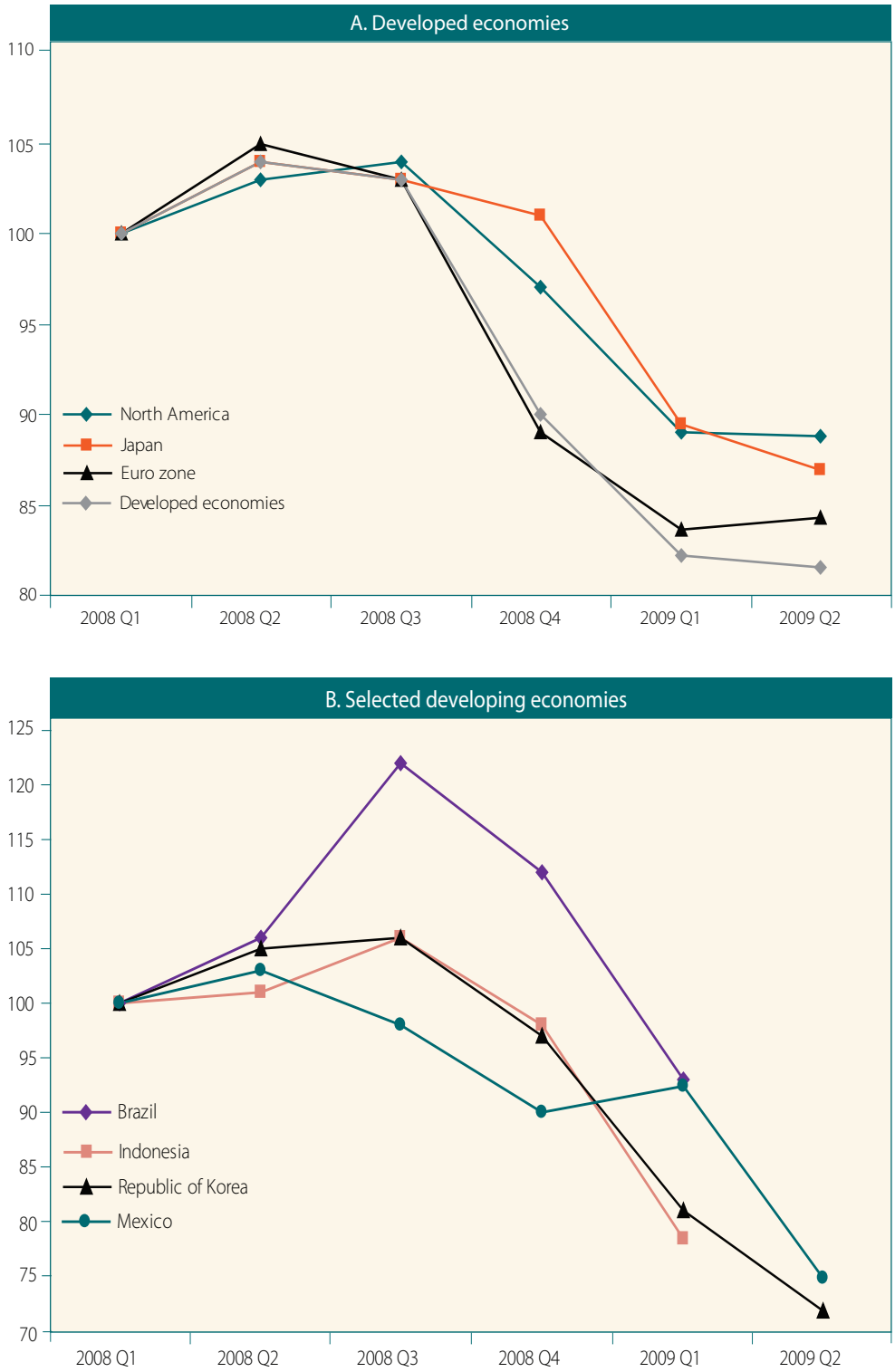
Export earnings in *Latin America and the Caribbean* have suffered a severe downturn in 2009. The most affected are energy exporters such as Bolivia, Ecuador, Trinidad and Tobago and Venezuela (Bolivarian Republic of), with losses greater than 6 per cent of their GDP. Similar losses were experienced by Chile, and to a lesser degree Peru, both mineral exporters. Yet, other countries such as Colombia, Mexico and Suriname, which are more diversified towards manufactures, were hit due to their trade links with the United States and other developed economies. Trade deficits in goods are expected to narrow in the region as a whole, however. Imports decreased at a somewhat stronger pace than total shocks in Mexico, Brazil and a few South American countries which promptly adjusted expenditures, while for many other countries the improved trade balances were triggered by significantly lower prices for imports. For 2010, the expected global economic recovery and higher commodity prices will help increase export volumes and prices, in particular for commodity exporters.

## Trade in services

Trade in services has bottomed out after declining sharply in late 2008

World trade in services more than tripled in value terms between 1990 and 2008, reaching $3.7 trillion. In the years immediately prior to the crisis, services trade worldwide continued a fast pace of growth, rising sharply by 11 per cent in 2008, year on year. Exports of services from developing countries were up by 15 per cent and those from developed countries by 8.5 per cent. However, as shown in figure II.2 there was a clear turnaround in the third quarter of 2008 and a rather precipitous decline from the last quarter of 2008 onwards. Total services exports of developed countries dropped by 13 per cent in the fourth quarter of 2008 from their peak in the third quarter. The largest declines were in the euro area in the fourth quarter of 2008 (about 14 per cent) and Japan in the first

Figure II.2
**Service export performance, first quarter 2008–second quarter 2009**




**Source:** OECD StatExtracts, Balance of Payments (Main Economic Indicators).
**Note:** 2008Q1=100

quarter of 2009 (11 per cent). Services exports from several developing countries also fell notably during that time. For example, Brazil, Indonesia, Mexico and the Republic of Korea experienced declines of about 8 per cent in the last quarter of 2008, with all except Mexico falling by more than 16 per cent in the first quarter of 2009. Going beyond the first quarter of 2009, it appears that such dramatic declines in exports of services may have started to bottom out for developed countries and may have become smaller for selected developing countries.

The share of services in total world trade has fallen slightly since the growth of global trade in services in pre-crisis years had not risen nearly as fast as that of merchandise trade. Table II.2 shows that developing countries and economies in transition showed a more pronounced fall, whereas developed countries actually increased their share.

The geographic distribution of services trade among developing countries continues to remain quite concentrated

As suggested by table II.3, the geographic distribution of services trade among developing countries continues to remain quite concentrated, with the first five exporters representing 50 per cent of total trade and 60 per cent of trade for the 25 highest ranking countries. China and India have become the largest exporters of services in less than two decades, leaving behind the newly industrialized economies (NIE) of East Asia.

The decline in services trade during the crisis may be partly associated with the evolution of foreign direct investment

The decline in services trade during the crisis may be partly associated with the evolution of foreign direct investment (FDI). Worldwide, the services sector represents a larger and growing share of global FDI stocks and flows, while the share of manufacturing has continued to decline. As a consequence of the global economic crisis, FDI inflows to both developed and developing countries declined by 15 per cent in 2008, to about $1.6 trillion (see chapter III). This sharp decrease marks the end of a growth cycle which lasted four years. Further decline of FDI in services is anticipated for 2009, especially for flows to developing countries.[4] Another affected subsector is that of financial services associated with utilities, such as telecommunications and energy. Similarly, IT-related services seem to have felt the impact of the virtual halt of construction activities in many countries.

Table II.2
**Exports of services: share in total trade in goods and services, 2003-2008**

| Percentage | | | | | | |
|---|---|---|---|---|---|---|
| | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* |
| **World** | **20.1** | **19.9** | **19.6** | **19.2** | **19.7** | **19.4** |
| Developed economies | 22.5 | 22.7 | 22.8 | 22.6 | 23.2 | 23.3 |
| Economies in transition | 15.9 | 14.9 | 13.7 | 13.2 | 13.7 | 13.2 |
| Developing economies | 15.0 | 14.7 | 14.2 | 13.7 | 14.1 | 13.7 |
| Africa | 20.0 | 18.5 | 16.5 | 15.6 | 16.2 | 14.2 |
| Latin America and the Caribbean | 14.2 | 13.3 | 13.3 | 12.5 | 12.8 | 12.8 |
| Asia | 14.5 | 14.5 | 14.0 | 13.7 | 14.1 | 13.7 |
| Oceania | 35.2 | 34.2 | 33.0 | 29.8 | 27.9 | 29.0 |
| ***Memorandum items:*** | | | | | | |
| Least developed countries | 16.0 | 14.9 | 12.5 | 11.6 | 11.1 | 9.7 |
| Landlocked developing countries | 17.5 | 15.9 | 14.1 | 12.0 | 12.0 | 9.6 |
| Small island developing States | 45.4 | 44.3 | 39.8 | 34.3 | 35.1 | 32.3 |

**Source:** UNCTAD GlobStat.

4 See United Nations Conference on Trade and Development, "Assessing the impact of the current financial and economic crisis on global FDI flows", study prepared by UNCTAD, Division on Investment and Enterprise, UNCTAD/DIAE/IA/2009/3, April 2009.

Table II.3
**Top 25 exporters of services among developing countries, 1990, 2000, 2007 and 2008**

| | 1990 | | | 2000 | | | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Value of exports (in billions of dollars)* | *Share (percentage)* | *Rank* | *Value of exports (in billions of dollars)* | *Share (percentage)* | *Rank* | *Value of exports (in billions of dollars)* | *Share (percentage)* | *Rank* | *Value of exports (in billions of dollars)* | *Share (percentage)* | *Rank* |
| **Developing economies[a]** | **150** | **18.1** | | **348** | **22.8** | | **865** | **25.3** | | **981** | **25.4** | |
| China | 5.9 | 0.7 | 9 | 30.4 | 2.0 | 3 | 122.2 | 3.6 | 1 | 129.5 | 3.4 | 1 |
| India | 4.6 | 0.6 | 10 | 16.7 | 1.1 | 7 | 89.7 | 2.6 | 2 | 104.0 | 2.7 | 2 |
| Hong Kong SAR[b] | 18.1 | 2.2 | 1 | 40.4 | 2.7 | 1 | 83.6 | 2.4 | 3 | 91.4 | 2.4 | 3 |
| Singapore | 12.8 | 1.5 | 2 | 28.2 | 1.8 | 4 | 69.8 | 2.0 | 4 | 83.1 | 2.2 | 4 |
| Korea, Republic of | 9.6 | 1.2 | 3 | 30.5 | 2.0 | 2 | 63.0 | 1.8 | 5 | 79.3 | 2.1 | 5 |
| Taiwan Province of China | 7.0 | 0.8 | 6 | 20.0 | 1.3 | 5 | 31.3 | 0.9 | 6 | 33.9 | 0.9 | 7 |
| Thailand | 6.4 | 0.8 | 7 | 13.9 | 0.9 | 9 | 30.4 | 0.9 | 7 | 33.7 | 0.9 | 8 |
| Turkey | 8.0 | 1.0 | 5 | 19.5 | 1.3 | 6 | 28.9 | 0.8 | 8 | 34.8 | 0.9 | 6 |
| Malaysia | 3.9 | 0.5 | 11 | 13.9 | 0.9 | 8 | 28.3 | 0.8 | 9 | 30.2 | 0.8 | 10 |
| Brazil | 3.8 | 0.5 | 12 | 9.5 | 0.6 | 12 | 24.0 | 0.7 | 10 | 30.4 | 0.8 | 9 |
| Egypt | 6.0 | 0.7 | 8 | 9.8 | 0.6 | 11 | 19.9 | 0.6 | 11 | 25.1 | 0.6 | 11 |
| Mexico | 8.1 | 1.0 | 4 | 13.8 | 0.9 | 10 | 17.7 | 0.5 | 12 | 18.2 | 0.5 | 12 |
| Macao SAR[b] | 1.5 | 0.2 | 23 | 3.6 | 0.2 | 18 | 14.4 | 0.4 | 13 | 17.4 | 0.5 | 13 |
| South Africa | 3.4 | 0.4 | 13 | 5.0 | 0.3 | 14 | 13.6 | 0.4 | 14 | 12.5 | 0.3 | 16 |
| Lebanon | .. | .. | .. | .. | .. | .. | 12.5 | 0.4 | 15 | 16.3 | 0.4 | 14 |
| Indonesia | .. | .. | .. | .. | .. | .. | 12.5 | 0.4 | 16 | 13.6 | 0.4 | 15 |
| Morocco | 2.0 | 0.2 | 18 | 3 | 0.2 | 22 | 12.2 | 0.4 | 17 | 12.5 | 0.3 | 17 |
| Argentina | 2.4 | 0.3 | 17 | 4.9 | 0.3 | 15 | 10.3 | 0.3 | 18 | 12.4 | 0.3 | 18 |
| Kuwait | 1.3 | 0.2 | 26 | 1.8 | 0.1 | 32 | 9.6 | 0.3 | 19 | 10.6 | 0.3 | 20 |
| Chile | 1.8 | 0.2 | 19 | 4.1 | 0.3 | 17 | 8.8 | 0.3 | 20 | 10.8 | 0.3 | 19 |
| Philippines | 3.2 | 0.4 | 14 | 3.4 | 0.2 | 19 | 8.4 | 0.2 | 21 | 10.2 | 0.3 | 21 |
| Cuba | 0.5 | 0.1 | 40 | 3.1 | 0.2 | 21 | 8.2 | 0.2 | 22 | 9.2 | 0.2 | 22 |
| Saudi Arabia | 3.0 | 0.4 | 15 | 4.8 | 0.3 | 16 | 7.9 | 0.2 | 23 | 8.2 | 0.2 | 23 |
| Nigeria | 1.0 | 0.1 | 33 | 1.8 | 0.1 | 31 | 7.3 | 0.2 | 24 | na | na | na |
| United Arab Emirates | .. | .. | .. | 1.8 | 0.1 | 25 | 7.3 | 0.2 | 25 | 8.2 | 0.2 | 24 |

**Source:** UNCTAD GlobStat.

**a** In order of 2007 ranking.

**b** Special Administrative Region of China.

The decline in services trade is particularly visible in maritime transport and tourism

The decline in services trade is particularly visible in maritime transport and tourism. Data on port traffic provide additional information on the downturn in containerized trade. Activity in the world's largest container port, Singapore, was down by 19 per cent in January 2009 (year on year). In Hong Kong Special Administrative Region (SAR) of China, port traffic had fallen by 23 per cent, in Long Beach (United States) by 14 per cent and in Le Havre (France) by 25 per cent. These sharp declines tapered off later in the year, however, as is evident from annual data for other related indicators. These data show that, between July 2008 and July 2009, the number of vessels in operation had fallen by 10.1 per cent, the total twenty-foot equivalent unit (TEU) carrying capacity of ships by

3 per cent, and the number of shipping companies by 7.8 per cent. Only the maximum vessel size continued to increase (by 11.6 per cent), as new and larger vessels are being delivered by the world's shipyards. Many of these larger ships have replaced smaller vessels, leading to a significant reduction in the average number of vessels per country. For the first time since the United Nations Conference on Trade and Development (UNCTAD) has been recording these data, the average TEU container-carrying capacity assigned per country has fallen.[5] Meanwhile, the financial crisis and rising unemployment have had a toll on international tourism. World Tourism Organization (UNWTO) data show that statistics for international tourist arrivals flattened or exhibited negative growth in each of the last six months of 2008, and declined by 8 per cent between January and June 2009.[6] On the other hand, this trend appears to have been slowly bottoming out throughout July, August and September, so far showing a smaller decline of 3 per cent.

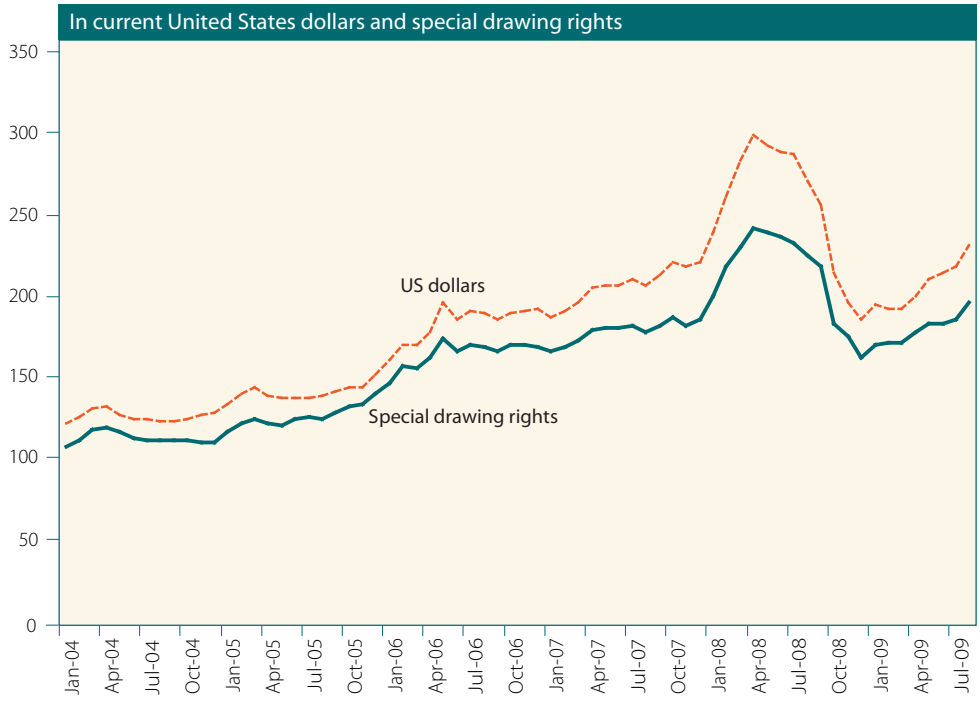
## Trends in primary commodity prices

### Non-oil primary commodities

The year 2008 marked one of the most dramatic episodes in the history of commodity-price cycles

The year 2008 marked one of the most dramatic episodes in the history of commodity-price cycles (figure II.3). After reaching an historic peak in mid-2008—in both nominal

Figure II.3
**Trend in the non-oil primary commodity price index, all groups, January 2004–June 2009**




**Source:** UNCTAD Commodity Price Statistics.

5 United Nations Conference on Trade and Development connectivity database, derived from Containerisation International Online.

6 Various World Tourism Organization (UNWTO) press releases, and UNWTO *World Tourism Barometer*, vol. 7, No. 1 (January 2009); vol. 7, No. 2 (June 2009); vol. 7, No. 3 (October 2009), available at http://www.unwto.org/facts/eng/barometer.htm.

and in some cases real terms—commodity prices fell sharply as a consequence of the global economic and financial crisis, and hit a trough at the beginning of 2009. During the first quarter of 2009, prices of many commodities started to recover. The future dynamics of non-oil commodity prices remain highly uncertain.

The pre-crisis commodity boom was caused by a complex mix of demand, exchange-rate variations and speculative activity

The long-lasting commodity-price boom in the years prior to the crisis was due in part to the strong growth in demand for commodities worldwide, particularly to the demand in fast-growing emerging economies. Increased demand was met with a lag in supply response due to underinvestment in primary commodity production during the preceding two decades (which provides a further explanation of the strong price increases). Other factors also played a role, including the increased financialization of commodity markets and the depreciation of the United States dollar. There had been an extraordinary increase in speculative investments in commodity derivatives as financial asset classes, which attracted swings in short-term portfolio investments. The financial turmoil of 2007 and continued dollar depreciation led many investors to seek higher returns in commodity market derivatives, causing prices to deviate further from their trend levels. On the eve of the global financial crisis, from July 2008, financial investors started to pull out of commodity markets and prices started to fall sharply. The precipitous decrease in international commodity prices continued until the first quarter of 2009, as further reversals of portfolio investments in commodity markets took place in the process of deleveraging resulting from the global financial crisis, the related appreciation of the United States dollar and the fall in global demand.[7]

Non-oil primary commodity prices rebounded from the second quarter of 2009, showing a rise of 20 per cent in the composite index between April and August 2009. The recovery was stronger for minerals, ores and metals, whose price index rose by 38 per cent between March and August 2009, but weaker in the case of food and tropical beverages, which showed world price increases of 11 per cent and 15 per cent, respectively, in the same period. The "China factor" explains most of the influence on the recovery in global demand for commodities and the reversal of the downward trend in commodity prices. The resumption of the trend towards dollar depreciation and the slowdown of the deleveraging process in financial markets are likely to have strengthened the rebound in commodity prices.

### *Minerals and metals*

A sharp contraction of industrial demand contributed to severe setbacks for mineral and metal producers

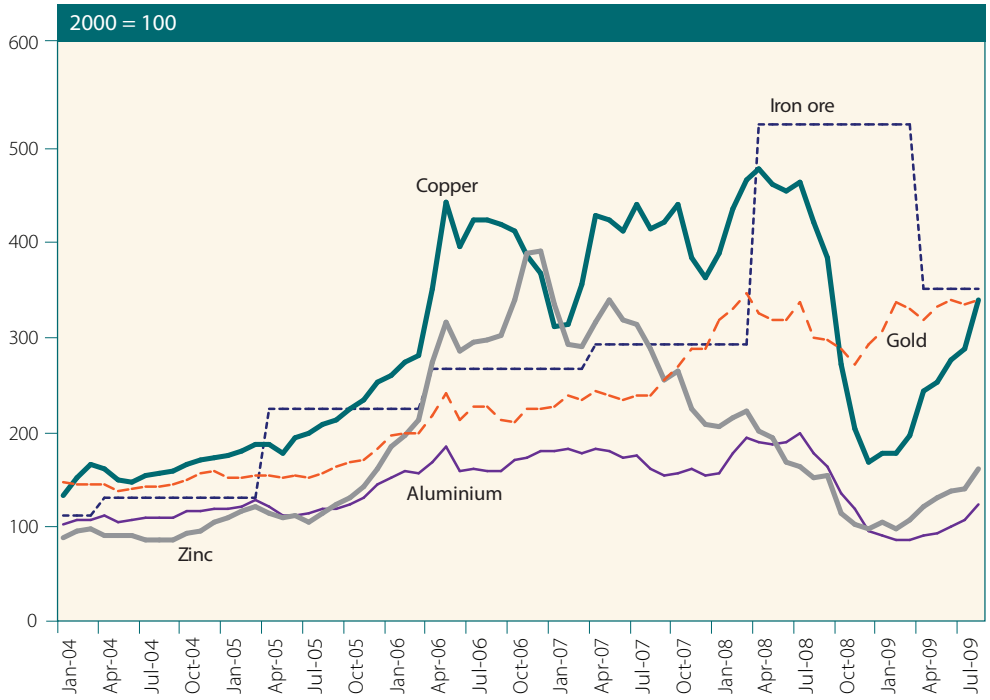
During the first quarter of 2009, the sharp contraction in industrial production and in the demand for metals in developed countries caused a further dramatic fall in the prices for most minerals, ores and metals. The steep price declines recorded since the second half of 2008 (figure II.4) have led to massive cutbacks in production and the closure of many mines and refineries, as well as postponement or cancellation of new investments in mining.

The relatively early boost of China's demand for major base metals supported the significant rebound in the second quarter

The drop in demand caused a stark rise in international stocks for most base metals. The first signs of an economic recovery in the second quarter of 2009 helped to reverse the downward trend in prices, possibly prompting investors who were left with large stocks to sell at positive profit margins. The prices of some metals, such as *copper* and *nickel,* almost doubled during the first eight months of 2009, while *lead* and *zinc* prices started to recover as early as February 2009, eventually showing increases of 72 and 64 per cent, respectively, between February and August of 2009. An additional factor for these

7 See *World Economic Situation and Prospects: Update as of mid-2009,* available from http://www.un.org/esa/policy/wess/wesp.html, and United Nations Conference on Trade and Development, *Trade and Development Report 2009* (United Nations publication, Sales No. E.09.II.D.16), chap. II.

Figure II.4
**Price indices for selected metals, United States dollars, January 2004–August 2009**




**Source:** UNCTAD Commodity Price Statistics.

**Note:**

Iron ore: Australia to Japan, 64% Fe content, Hamersley, freight on board (FOB) (US cent/Fe unit)

Aluminium: High grade, London Metal Exchange (LME), cash (US dollar/ton)

Copper: Grade A, electrolytic wire bars/cathodes, LME, cash (US dollar/ton)

Zinc: Special high grade, virgin zinc, LME, cash settlement (US dollar/ton)

Gold: 99.5% fine, afternoon fixing London, average of daily rates (US dollar/troy ounce).

price increases was the relatively early boost of China's demand for major base metals, which had most likely acted upon the opportunity of securing good prices for inputs it expects to need as the policy stimuli work their way through. Between January and April 2009, Chinese imports increased by a staggering 641 per cent in the case of lead and 596 per cent in the case of zinc. Prices of *aluminium* recovered later in the year, but jumped by 16 per cent in July-August 2009.

In this period of uncertainty, the price of gold remains at historic highs

While showing substantial volatility, the price of *gold* has remained at historic highs during the past three years, averaging $921.82 per troy ounce. Gold prices tend to respond to two forces of opposite sign. On the one hand, demand for gold for industrial purposes reflects the general economic environment and thus prices follow the trends of other minerals. This may explain the decline through mid-2008. On the other hand, gold is seen as a safe haven for investors during times of crisis and financial uncertainty, thus explaining the upward trend in its price following the intensification of the financial crisis that began in late 2008.

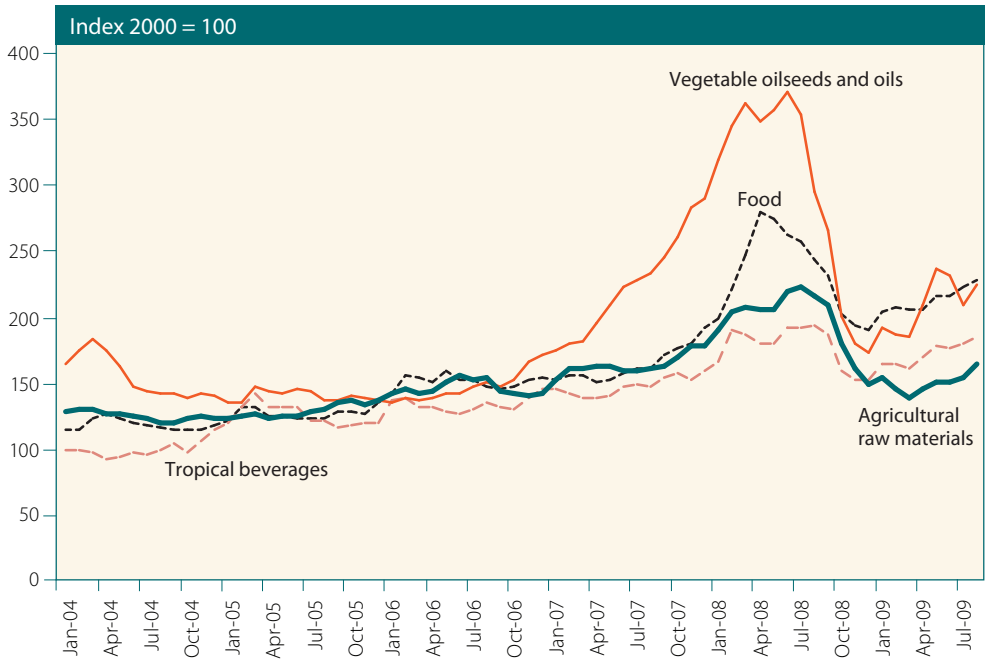
The outlook for world prices of metals and minerals is uncertain. A gradual recovery of the world economy would support a continued upward trend, although it seems likely that prices will increase at a much slower pace. The initial upward trend of China's import demand will likely, if it continues, lead to a more gradual trend, and thus more moderate world prices in the near future.

### *Agricultural commodities*

Despite the drastic fall in the second half of 2008, prices of agricultural commodities remain well above the levels of the 1980s and 1990s

World prices of agricultural commodities also declined dramatically in the second half of 2008 (figure II.5). The downward trend came to a halt in the first quarter of 2009 and rebounded thereafter. By mid-2009, real agricultural commodity prices were still high compared with the low levels sustained during much of the 1980s and 1990s. This holds

Figure II.5
**Price indices of agricultural commodities, United States dollars, January 2004–August 2009**




**Source:** UNCTAD Commodity Price Statistics.

true in particular for prices of *vegetable oilseeds and oils* and *food* commodities, which by mid-2009 were still 30 and 50 per cent above pre-boom levels. By contrast, prices of *agricultural raw materials* as a group have fallen below their pre-boom levels.

The decline in prices of food commodities during the first semester of 2009 is explained in part by the drop in crude oil prices and the related fall in demand for agricultural inputs for the production of *biofuels*. A large number of ethanol plants were closed in 2009. Biofuel production is exercising an increasing influence on fluctuations in world prices of food commodities. Wheat prices, for example, are set to continue their upward trend as a result of the expected increase in the demand for wheat used for ethanol production in the EU, China and India. Growing concerns over energy security and the climate change implications of rapidly rising fossil fuel utilization have led Governments to subsidize biofuel production, which, as a result, tripled worldwide between 2000 and 2007. Most available studies suggest that, with the exception of ethanol produced from sugar cane in Brazil, these subsidies are needed in order to make biofuels generated from food crops competitive.[8] Despite increasing doubts about the net contribution these biofuels make to climate change mitigation and concerns over their production's adverse impact on food security, the total utilization of coarse grains for the production of ethanol is estimated to increase from 110 million tons in 2007/08 to 119 million tons in 2009/10.

Weather conditions remain a factor in price volatility of agricultural exports …

Prices of agricultural products remain vulnerable to weather changes and harvest cycles. In 2008/09, record harvests for some commodities in some regions were not fully offset by crop losses in other parts of the world suffering adverse weather conditions,

8 For examples of ethanol studies, see http://e85.whipnet.net/outlook/resource.html; http://www.pureenergysystems.com/news/2005/04/12/6900080_Acetone_and_Ester/Ethanol_Mandates_Subsidies.doc; and David Pimentel, "Ethanol fuels: Energy balance, economics, and environmental impacts are negative", *Natural Resources Research*, vol. 12, No. 2 (June 2003), pp. 127-134. It should be noted that other studies have suggested that ethanol production could be profitable where the price of oil is between $40 and $60 per barrel.

on balance putting downward pressure on world market prices. For example, despite dry conditions reducing crop prospects in China and Argentina, the Food and Agriculture Organization of the United Nations (FAO) forecasts that world production of coarse grains will reach 1,098 million tons by the end of the 2009 *maize* harvest season. After last year's record, this would constitute the second-largest crop in history. As a result, the price for United States corn fell by about 15 per cent through the summer, down from $185 per ton in May-June. Similarly, despite unfavourable climatic conditions in some Asian countries, including India, Pakistan, the Republic of Korea, Taiwan Province of China and Thailand, FAO estimates that *rice* production in 2009 would be second only to the record level of about 668 million tons reached in 2008.[9]

*Tropical beverages* have also been affected by unstable weather conditions, with prices moving in various directions depending on the crop. The increase in *coffee* prices was exacerbated by stock shortages as opening stocks in exporting countries were at their lowest historical level in 2008/09 owing to crop failures the previous season. At the same time, coffee consumption continued its upward trend despite the economic meltdown. Weather-related supply shortages are also expected to influence prices in the *tea* and *cocoa* markets. Similarly, world *sugar* production had initially been anticipated to reach about 149 million metric tons in 2008/09 as a result of support measures (see discussion below), but successive projections have been revised downwards owing to weather factors affecting output in India and Brazil, the two largest sugar producers in the world. Sugar production is also expected to be down in China, Mexico and the Russian Federation. As a result, sugar prices have increased by about 90 per cent since December 2008, reaching $22.4 per pound, the highest level since 1981, and making it the year's best performing soft commodity.

In summary, the supply of agricultural commodities seems to be vulnerable to increasingly unpredictable weather conditions such as droughts, floods and hurricanes. Although there is no conclusive evidence, the increased frequency and intensity of such weather shocks are generally seen to be associated with climate change caused by global warming.

Going forward, for some products and regions, positive supply effects are expected to result from government support measures for targeted commodities in developing countries. These support measures were introduced after decades of relative neglect of the agricultural sector. Sugar has been one of the most neglected sectors over the past 30 years, with underinvestment leading to low levels of supply as farmers have faced low prices. Renewed interest in the rice sector has led to the implementation of public support measures, including input subsidies, public investment programmes and producer price incentives in many countries in Africa, such as Madagascar, Mali, Mozambique and Nigeria. Although such measures have led to an expansion of cultivated areas and are expected to alleviate domestic demand constraints, they may not have immediately perceptible effects on world markets because of the low export volume of rice from these countries.

… but, at present, the fragility of world economic activity presents a greater factor of uncertainty

In the immediate future, the fragility of global economic activity is a stronger determinant for world markets of agricultural products than either weather or government support to increase supply, particularly with regard to agricultural raw materials. The drop in global demand has affected industrial production worldwide and with it also demand for and prices of agricultural inputs. World market prices for *cotton* experienced an initial sharp drop of 10.8 per cent between January and March of 2009 but have recovered somewhat since July, stabilizing at around 63 cents per pound. Despite the price rebound, the cotton sector has been hard hit, with global consumption declining by 10 per cent in

9 United States Department of Agriculture estimates are lower, at 436 million tons.

2008/09 to an historic low of 23,015 million tons. *Rubber* prices have also suffered from the global recession, especially from the decline in automobile production, which generates two thirds of world demand for rubber.

## The oil market

### *Demand*

Oil demand declined in OECD countries, while it continues to rise in emerging economies

Global demand for crude oil is highly dependent upon overall economic activity. In view of the contraction of the global economy in 2009, global oil demand is expected to have decreased from 86.3 million barrels per day (mbd) in 2008 to 84.4 mbd in 2009.[10] This decline of 2.2 per cent follows the small drop of 0.2 per cent in 2008 and is associated with the dramatic collapse in trade and industrial production that occurred at the height of the crisis. This has also led to a reduction in transportation activity which in turn has a strong impact on energy demand: transportation fuels such as gasoline, kerosene and diesel constitute almost 60 per cent of total oil demand.

Reduced demand for energy in countries of the Organization for Economic Cooperation and Development (OECD) in particular has remained a drag on oil consumption. The corresponding data suggest that the slowdown was most severe in Japan, followed by the United States and Europe.

By contrast, the non-OECD economies have continued to see increases in the demand for oil, albeit at a more modest pace in 2009 than in preceding years. Oil demand in China and India increased by 4.6 per cent and 3.8 per cent, respectively, in 2009.

### *Supply*

In reaction to the drop in oil demand, OPEC has had several rounds of output cuts since September 2008 …

The sharp drop in global oil demand in the light of the global economic and financial crisis left producers with the prospect of a growing excess supply. Among the Organization of the Petroleum Exporting Countries (OPEC), this has set off several rounds of agreed output cuts since September 2008, resulting in a target of cumulative output reduction of 4.2 mbd. In effect, by August 2009, OPEC had reduced production by 2.8 mbd, equivalent to a compliance rate of 67 per cent against agreed supply cuts.[11] However, the renewed run-up in crude prices gave individual members of OPEC the incentive to deviate from the agreed target for production cuts in order to capitalize on the potential for additional revenue, and total OPEC output amounted to 28.5 mbd in the second quarter of 2009.[12] As the mirror image of the tighter supply conditions among its members, spare capacity in OPEC stood as high as 6.5 mbd in August, of which 3.4 mbd belonged to Saudi Arabia alone. Non-OPEC supplies stood at 50.8 mbd in the second quarter of 2009 and are expected to reach 51.0 mbd in 2009 as a whole, up from 50.6 mbd in 2008.

… but crude stocks remain at elevated levels

In line with weaker global demand, crude stocks remain at elevated levels. Total OECD stocks amounted to 97 days of forward demand coverage in the second quarter of 2009, compared to 88 days the year before. Among the non-OECD countries, China has seen a significant build-up of inventories of crude oil since the beginning of 2008, to about 280 million barrels or 33 days of forward coverage in July.

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10 Data for both demand and supply are from the International Energy Agency and based on UN/DESA calculations.

11 This refers to OPEC-11, which does not include Iraq.

12 This refers to output in crude oil and excludes output in natural gas liquids equivalent to 5 million barrels of crude per day.

### *Prices*

After reaching a low of $33.97 per barrel (pb) in 30 December 2008, Brent crude oil prices moved sideways to fluctuate between $40 pb and $50 pb until the second half of March. In early January 2009, crude prices rose to almost $50 pb following a spell of cold weather, the gas dispute between the Russian Federation and Ukraine, and the conflict in the Gaza Strip. However, excess supply quickly pushed prices back to slightly more than $40 pb towards the end of February. This increased the incentive among producers to hold back supplies. At the same time, refinery demand showed clear weakness as a result of contracting economic activity, especially in the United States. Crude prices subsequently remained rangebound, as lower OPEC output offset weaker demand.

In late March, crude prices broke out of their trading range by moving beyond the $50 pb mark, as the announcement of a series of stimulus measures by individual Governments and central banks gave rise to more optimistic sentiment in financial markets regarding a recovery in global economic growth. Crude prices then continued on an upward trend, influenced by optimism driven by rebounding equity markets as well as by a depreciation of the United States dollar. The crude oil price temporarily peaked at $71.55 pb in mid-June 2009. Market fundamentals also played a role in sustaining the upward trend in oil prices. These included a resumption in the demand from oil refineries after shutdowns in the second quarter of 2009, expectations of higher demand for gasoline during the summer holiday season in the northern hemisphere, as well as a decrease in floating stocks due to a narrower spread between futures prices and the spot crude price.

Yet, while continuing to be highly volatile, the oil price fell back to about $59 pb in the first half of July resulting from an initial greater pessimism vis-à-vis the economic outlook, continued high inventories and overall weaker demand. Subsequently, however, the price reversed course again and increased by 25 per cent to about $75 pb at the beginning of August, in view of renewed optimism over the recovery of the global economy. From August through October 2009, the offsetting effects of greater optimism about the economic outlook and continued high levels of inventories appear to have kept crude oil prices at about $70 pb (figure II.6).

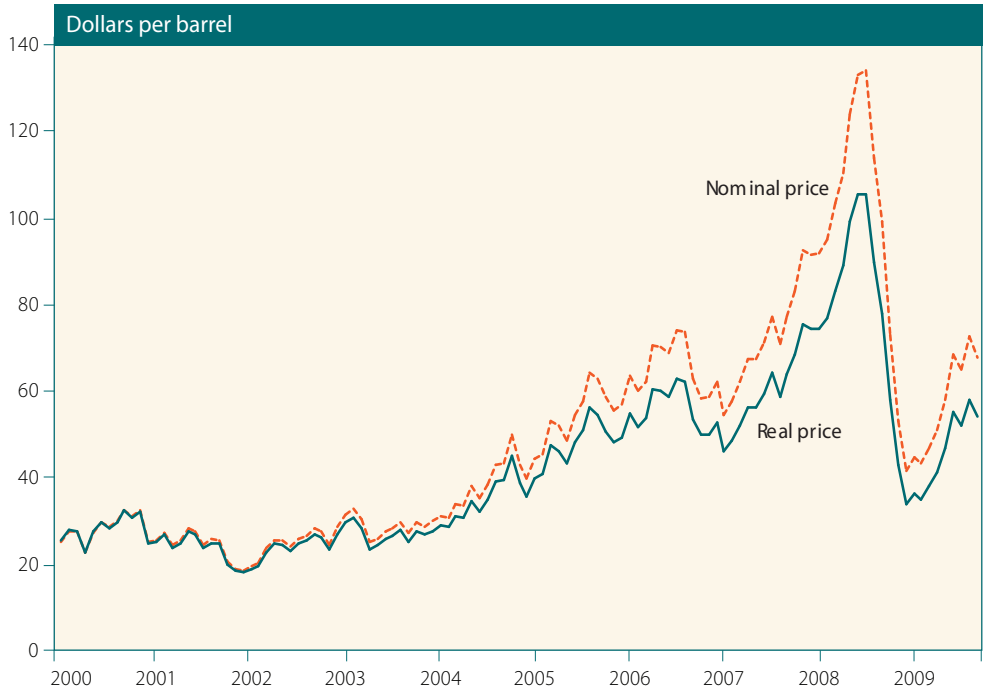
### *The outlook for oil markets*

The outlook for oil markets in 2010 will greatly depend on the timing and shape of any global economic recovery. Based on the baseline scenario of moderate global economic growth in 2010, global oil demand is expected to increase by 1.5 per cent in 2010, to 85.7 mbd. The stabilization of the OECD economies is forecast to result in unchanged oil demand from those countries, which will represent 53.0 per cent of global demand. By contrast, oil demand from non-OECD countries is expected to show an increase by 3.3 per cent in 2010 to 40.3 mbd, driven in particular by emerging economies such as China. Moreover, increases in regulated oil-product prices tend to cause a hoarding effect, making it difficult to ascertain whether any increase in demand in fact stems from stronger underlying economic activity.

The outlook for oil markets in 2010 will greatly depend on the timing and shape of the economic recovery

Demand for crude is also expected to remain solid on the part of financial investors. The current global environment of low interest rates should sustain strong incentives to seek higher returns in a variety of asset classes, including crude oil. Moreover, expectations by some market participants of an uptick in inflation in the wake of the significant fiscal and monetary stimulus measures provide a motive for investing in oil as a hedge against inflation. This rationale acquires an even greater relevance in view of the

Figure II.6
**Nominal and real Brent crude oil prices, January 2000–April 2009**




**Source:** IMF, *International Financial Statistics*.
**Note:** The real price is deflated by the United States Consumer Price Index.

expected continued weakening of the dollar, which implies higher import prices for the United States and those economies with a currency pegged to the dollar.

On the supply side, non-OPEC production is forecast to increase to 51.5 mbd in 2010. At the height of the crisis, there were fears of a significant negative impact on non-OPEC supplies stemming from lower oil prices and tighter credit conditions, making oil exploration and production less profitable and more difficult to finance. However, with the recovery in oil prices and the expectation of a normalization in credit markets, these more pessimistic forecasts for non-OPEC supplies are slowly giving way to a more stable outlook supported by solid investment activity. In addition, significant new oil discoveries, for example in the Gulf of Mexico and off the coast of southern Brazil, have provided a vivid illustration of the continued potential for companies to achieve relatively high replacement ratios of production through successful exploration projects.

Oil prices may average $72 per barrel in 2010

In the outlook, Brent crude prices are projected to average $72 pb in 2010, underpinned by the recovery in global economic activity, falling inventories and continued efforts by OPEC to support prices. While the current crude supply of 84.3 mbd in the second quarter of 2009 remains sufficient to cover the current demand of 84.1 mbd, the market is expected to become increasingly tight moving into 2010. Demand will reach about 85.5 mbd at the beginning of 2010, based on a more positive outlook for economic growth as well as the seasonal winter effect in the northern hemisphere, leaving the market undersupplied at current output levels. Consequently, although stocks will provide some cushion against more abrupt upward price pressure from any uptick in demand, the demand-supply relationship points to the emergence of increased upward pressure on prices from the fundamental side starting in the first quarter of 2010. However, the actual price effect will then depend to a large extent on how OPEC will move, especially with respect to making use of its considerable spare capacity.

### *Risks and uncertainties*

The outlook for oil prices remains subject to a number of risks. For example, the combination of tighter-than-expected supply by OPEC and a stronger recovery in economic activity could lead to a more pronounced increase in crude prices. Another source of uncertainty relates to developments in currency markets. A more drastic fall in the value of the dollar would increase the upward pressure on oil prices by increasing the demand for oil as a hedge against inflation. With regard to geopolitical factors, the international dispute regarding the Islamic Republic of Iran's nuclear programme holds the potential to also affect the oil market. With an output level of 3.9 million barrels of crude per day in 2008, the Islamic Republic of Iran represents the second-largest producer within OPEC after Saudi Arabia, raising the spectre of unexpected supply disruptions in the case of escalating tensions. A resurgence of financial instability remains a further risk, although one with a potentially more ambiguous effect on oil prices. While this could increase the demand for oil as a real asset, it also has the potential to cause a sharp drop in oil demand through a renewed weakening in economic activity.

## Evolution of the terms of trade for developing countries[13]

Exporters of manufactures faced more stable terms of trade than commodity exporters

The fall in global demand during the economic and financial crisis exerted deflationary pressures on all markets, with the prices of primary commodities experiencing their steepest falls from peak levels in 2008.[14] As noted above, after hitting bottom in the first quarter of 2009, prices for most primary commodities rebounded. These global price movements have led to huge shifts in terms of trade, strongly driven by the changes in the prices of primary commodities. By contrast, terms of trade faced by countries specializing in exports of manufactures either remained flat (those with a relatively even composition of exports and imports of manufactures and low dependency on energy or commodities) or improved. In the aggregate, exporters of manufactures witnessed relatively stable terms of trade.

Terms of trade for oil exporters remained positive in 2008 despite declines in the second half of the year

As figure II.7 shows, even though primary commodity prices began to decline in the second half of 2008, the previous rally had been so impressive that annual averages generally remained well above 2007 levels. As a consequence, annualized data for the terms of trade in 2008 show a continuation of the trends since 2003, with all developing and transition economies, except those in East and South Asia, benefiting from improved terms of trade. Also when classified by trade specialization, a continuation of past trends can be observed in 2008, with clear gains for oil exporters and a deterioration for exporters of manufactures and (low-income) net food importers (except those countries that are also net fuel exporters). Mining and mineral exporters form the only cases in which a reversal in the terms of trade is already visible on average for 2008. Meanwhile, terms-of-trade reversals in 2009 are widespread compared with the trends experienced from 2002-2007.

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13 This section discusses the specific changes in net barter terms of trade per region according to trade structure, rather than in prices of individual commodities (as in the previous section) or in the effect of terms-of-trade shocks in the value of the trade balance of each region (as in the first section of this chapter).

14 See United Nations Conference on Trade and Development, *Trade and Development Report 2009*, op. cit. The influence of the financialization of commodity markets and its unwinding as deleveraging was taking place was apparent in both the upward and downward movement of prices.

While prices of oil and commodities remain high compared with long-term trends, it is doubtful whether such gains can be sustained

The size of the terms-of-trade shocks strongly depends on the structure of commodity trade. Low-income countries that are net importers of food and energy experienced improved terms of trade in the second half of 2008 and in early 2009 as world market prices for these commodities fell steeply. Yet, those prices remain high compared with levels at the beginning of the decade, and the continued high volatility in food and energy prices is characteristic of the high vulnerability of these economies to swings in global markets. More generally, it remains unclear whether developing countries that have gained from improved terms of trade during the present decade, such as countries in Western Asia, parts of Africa, and Latin America and the Caribbean, as well as many of the economies in transition, will see benefits in the near future. The vulnerability of economies strongly dependent on exports of primary commodities has been repeatedly underscored in the economic development literature up until very recently, although the debate appears to have faded away with the substantial terms-of-trade gains during the present decade. The current global crisis should be a warning that commodity price booms tend to be temporary and that, in order to avoid the long-lasting negative consequences of severe trade shocks, countries should engage counter-cyclical macroeconomic policy rules to protect their domestic economy from such adversity and invest in greater economic diversification to reduce vulnerability over time.[15]

## Trade policy developments

### The Doha Round

A proven resistance to recur to beggar-thy-neighbour policies could be a positive stimulus for a return to negotiations on the Doha Round

The most recent major attempt to re-energize the Doha Round of multilateral trade negotiations was at an informal ministerial meeting of the World Trade Organization (WTO) in July 2008. This attempt failed over disagreements on various issues, but especially on the special safeguard mechanism (SSM) for agriculture in developing countries. Since then, the world has been severely hit by the global economic crisis. A natural, expected reaction to economic turmoil is the use of trade barriers to dampen the negative impact on domestic producers. During the Great Depression of the 1930s, protectionism spread rapidly and caused irreparable economic and political damage. As discussed below, there were wide concerns that a similar—albeit perhaps more timid—protectionist trend might emerge as the current crisis deepened. To counteract this, there have been numerous calls by world leaders, including at the G20 summits, to conclude the Doha Round before the end of 2010 as a credible multilateral policy response to the crisis. According to WTO estimates, the successful conclusion of the Round would provide a global stimulus and welfare gains of about $150 billion. While small in relation to WGP and the fiscal stimulus measures, such gains would be an incentive not to recur to the beggar-thy-neighbour policies that characterized the initial responses during the Great Depression.[16]

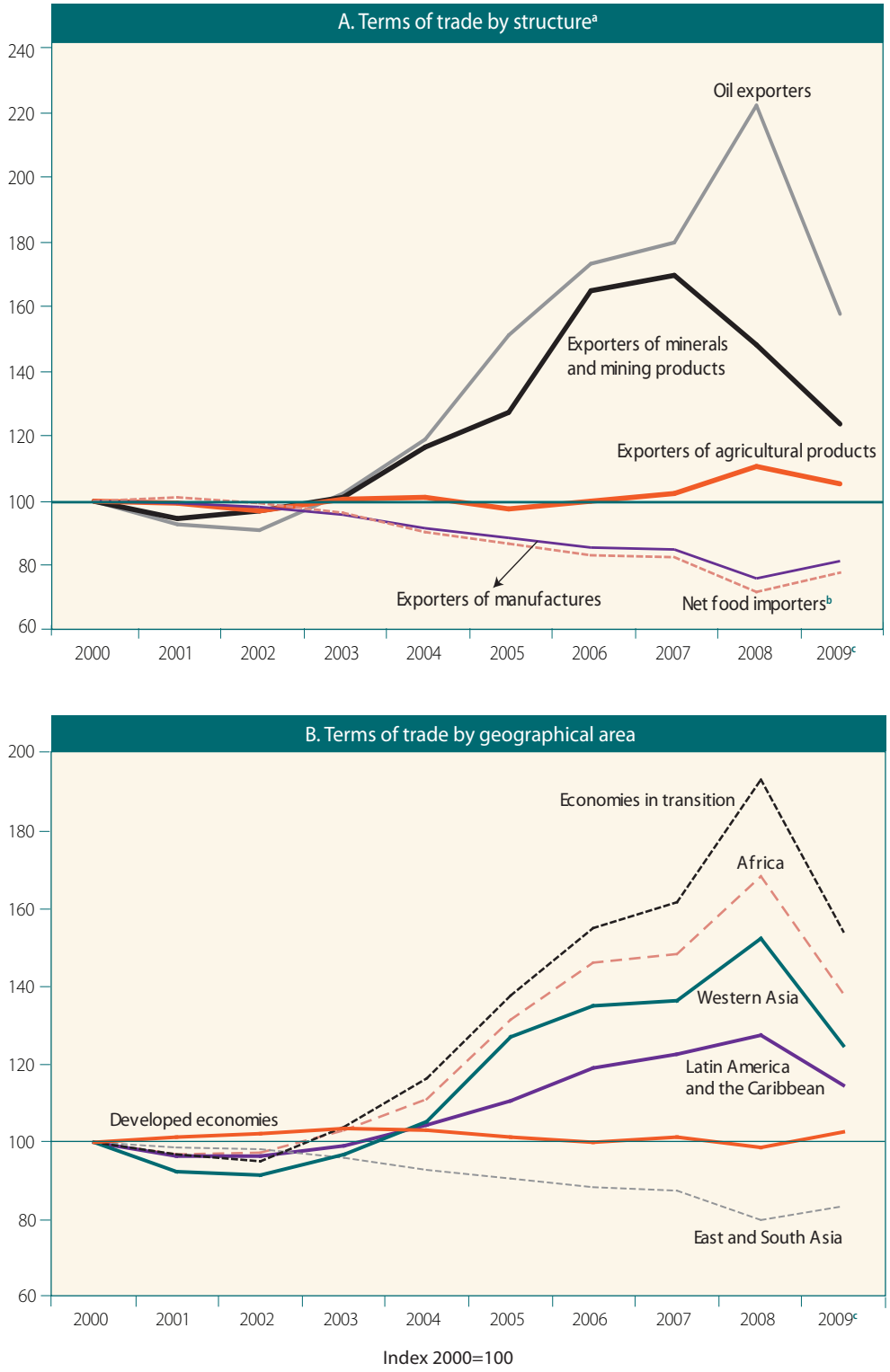
A meaningful development content of the Round's final package could make a significant contribution to a sustained recovery

The road towards a successful completion of the Doha Round is yet to be found. There is no doubt that the success of trade negotiations embracing the concerns of all countries would send a positive signal that countries were committed to multilateralism after

15 See, for instance, *World Economic and Social Survey 2008: Overcoming Economic Insecurity* (United Nations publication, Sales No. E.08.II.C.1).

16 See Report on G20 Trade and Investment Measures, issued on 14 September 2009 by the World Trade Organization, the Organization for Economic Cooperation and Development and the United Nations Conference on Trade and Development, available at http://www.unctad.org/en/docs/wto_oecd_unctad2009_en.pdf.

Figure II.7
**Net barter terms of trade, selected countries, 2000–2009**




**Sources:** UNCTAD Secretariat calculations, based on UNCTAD Handbook of Statistics Online; UNCTAD, *Commodity Prices Bulletin*; United Nations Commodity Trade Statistics Database; United States Department of Labor Statistics; Japan Customs; IMF, International Financial Statistics database; and ECLAC, Balance of Payments Statistics database.

**a** Selected developing economies and economies in transition.

**b** Net food importers are low-income food-deficit countries, excluding exporters of fuel, minerals and mining products.

**c** Partly estimated.

an economic and financial crisis that, in part, was precipitated by a lack of international regulatory coordination. More significantly, given that the crisis has also underscored the importance of proactive government policy action, a meaningful development content of the Round's final package would be seen as the key to maximizing the contribution of coordinated policy action for the recovery and post-crisis development, particularly for the LDCs.

It may be recalled that the Doha Round's original focus was on redressing development-related imbalances and asymmetries in the WTO agreements by placing development objectives at its centre. In practice, the protracted negotiations have gradually shifted away from a defined development agenda. In particular, the establishment of a strengthened and more operational special and differential treatment (SDT) in favour of developing countries and, more generally, the resolution of development-related issues which had been identified during the implementation of the Uruguay Round were essentially downgraded. The shift away from the development agenda was also manifest in the draft modalities on agriculture and non-agricultural market access (NAMA), by which the diverse capacities, needs and interests of developing countries were addressed through a de facto differentiation among developing countries, departing from the traditional approach to SDT based on non-discrimination among developing countries.

It is critical that effective safeguard mechanisms in trade negotiations be strengthened

The crisis has also underscored the vital importance of strengthening countries' resilience to exogenous shocks, in particular through effective safeguard mechanisms. Therefore, development-related deliverables that were originally expected of the Round (such as the special safeguard mechanism (SSM) in agriculture which aims to preserve the necessary policy space against adverse external shocks) should logically be stressed in the negotiations.

While the above-mentioned developmental issues and safeguard mechanisms should not be disregarded, perceptions of poor prospects for a successful conclusion of the Doha Round in the foreseeable future seem to have provided incentives for establishing regional and bilateral preferential trade agreements. Nonetheless, the global economic crisis appears to have slowed the emergence of such trade arrangements outside WTO disciplines, but this may be temporary, and the trend could be revived after recovery.

A shift towards greater focus on implementation could avoid obstacles to trade negotiations

Therefore, as the global recovery takes hold and the risks of proliferation of bilateral agreements re-emerge, the modus operandi of the multilateral trading system should stay firmly aligned with the development concerns that were at the centre of the conception of the Doha Round. A shift to place greater focus on implementation, policy review and the enhancement of trade-related capacities would perhaps be necessary to avoid the risk of non-implementation and disputes.

Consolidation of Aid for Trade programmes remains indispensable

Consolidating enhanced and predictable Aid for Trade programmes, delivered both at the bilateral and multilateral levels, would form an indispensable ingredient to support such a process. Similarly, as part of broader national development strategies, consideration should be given to enhancing the space for developing countries to conduct development and industrial policies aimed at improving productivity, export competitiveness and diversification of trade and production. In order to strengthen the capacity of developing countries to cope with large adverse external shocks, certain use of legitimate trade defence instruments should be permitted, such as the (temporary) use of tariffs, safeguards, anti-dumping and other countervailing measures.

Finally, defining the future boundaries of the trading system is likely to be a formidable challenge, as the global economic and financial crisis has highlighted the weakness of having multilaterally agreed rules in one area (trade) even as another area (finance) is left largely unregulated.

## Low-intensity protectionism in response to the crisis

Policy responses to the crisis tend to favour spending on domestic goods and services

In their response to the current global crisis, many Governments have been tempted by sentiments of economic nationalism and protectionism. Although the fiscal and financial packages that have been introduced are widely considered to be indispensable policy measures for economic stability and recovery, many contain elements—such as direct State support to industries, bailouts, other subsidies and "buy/lend/invest/hire local" conditions—that favour spending on domestic goods and services at the expense of imports and, hence, of global trade. In addition, several of those support measures may infringe upon fair trade practices, distort competitive conditions and influence decisions on the location of investment and production, with implications for many years to come. Developing countries that lack the capacity to engage such support measures may suffer undue loss in competitiveness as a consequence.

Outright trade protection in one country could lead to generalized beggar-thy-neighbour policies

Increased trade protection in one country is likely to lead to retaliation by other countries in the presence of a global negative shock, which could lead to generalized beggar-thy-neighbour policies. The sum of these actions will likely have negative welfare implications for the world as a whole and most likely no country will stand to gain in the end. Bearing this in mind, at the latest G20 Summit in Pittsburgh, world leaders emphasized that "[i]t is imperative we stand together to fight against protectionism ... to refrain from raising barriers or imposing new barriers to investment or to trade in goods and services, imposing new export restrictions or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports and commit to rectify such measures as they arise."[17]

"Contingency protection" measures are allowed under the current WTO agreements

Nonetheless, trade defence or "contingency protection" measures are allowed under the current WTO agreements and need not be inconsistent with a feasible multilateral trading system. Their application would be regulated within an agreed multilateral framework. These contingency protection measures are designed to provide (temporary) relief for specific sectors of the domestic economy and are considered important elements of national policy space for all countries. Unfortunately, many of these measures (for example, safeguards, anti-dumping and other countervailing measures) are at present considered to be too murky and complex to implement in practice.

The poorer developing countries could benefit from increased contingency protection in coping with adverse external shocks

The poorer developing countries, and the LDCs in particular, could benefit from such measures in coping with adverse external shocks. Most of these economies have a weak capacity for implementing counter-cyclical policies. Their economies tend to be heavily dependent upon exports of a few commodities and they are bound to search for external financial sources to mitigate the consequences of adverse external shocks. Contingency protection measures could facilitate the continuation of diversification policies (as discussed above) during crises and severe adverse external shocks. It will be equally important, however, to ensure early implementation of the duty-free, quota-free treatment for the exports of LDCs, as agreed in Hong Kong SAR in 2005. This would be a tangible confidence-building measure demonstrating that the poorest countries are indeed supported directly by providing them full and duty-free market access for their exports. Another supporting policy could be an assurance by developed countries to keep their generalized system of preferences (GSP) schemes free of new restrictions and conditions. Such preferential schemes can provide an important stimulus for encouraging trade growth in developing countries, thus partially compensating for their limited ability to put in place policy stimuli on the scale of developed countries.

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17 See Leaders' Statement: The Pittsburgh Summit 2009, available at http://www.pittsburghsummit.gov/mediacenter/129639.htm.

## Headroom for tariff protection in developing countries

There is still room for tariff protection in developing countries as a part of national economic responses to the crisis

Since the existence of the WTO, its members, and especially developing countries, have reduced tariffs to well below the legally bound rates belonging to the most-favoured-nation (MFN) status. This has provided some space to increase applied tariffs, if necessary. The difference between applied and bound tariff rates is often called "tariff water". Recent estimates show that the world's tariff water amounts to 11 percentage points, while it is close to zero in the United States and China, and higher than 70 percentage points in many LDCs and small island developing States.[18] Further evidence indicates that there is also quite significant variance across commodities, with the world's tariff water for agricultural products amounting to about 27 percentage points, while the tariff water for manufactures is about 9 percentage points. Countries with "positive water" (that is, with lower applied rates than the MFN-bound rates) could actually increase tariffs to protect domestic industries.

In response to the current crisis, large countries have been more inclined to increase tariffs than small countries. WTO studies report several instances in which developing countries and economies in transition have raised import tariffs well within their bound limits.[19] Developed countries, on the other hand, have closely approached their bound limits, but no instances have been reported so far of attempts to raise their tariffs above them, probably because this would require renegotiation of existing WTO rules. At the same time, several Governments have also decreased tariffs. Thus, there is no clear trend towards an increased use of import tariffs.

### *Non-tariff measures*

Equally, there is so far no evidence pointing to the widespread use or systematic increases in non-tariff barriers in the wake of the global crisis. Fragmentary data suggest more incidental use of such trade restrictions in a limited number of countries, including the introduction of stricter import licensing requirements for some sensitive goods like steel. Safeguards and anti-dumping measures have been applied by some developed and developing countries, but with no clear indication of any significantly increasing trend. Anti-dumping measures can be very disruptive to trade and the rise in the use of such measures remains an issue that Governments will watch keenly.

### *Subsidies*

Subsidies are actionable under WTO rules and can be countervailed

Governments of mostly developed and the larger developing countries have increased the use of subsidies as a part of national economic stimulus packages in response to the crisis. Subsidies can be highly distortive to trade. As is the case for tariffs, they can artificially improve the competitiveness of those producers receiving the subsidy not only domestically but also in international markets. By supporting companies that would have been unable to compete, the subsidies may put otherwise healthy companies in an uncompetitive position, forcing even more subsidies. Subsidies are actionable under WTO rules and can be countervailed. Furthermore, they may in turn generate a chain of retaliatory measures and increased protection.

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18 See Liliana Foletti, Marco Fugazza, Alessandro Nicita and Marcelo Olarreaga, "Smoke in the (Tariff) Water" in *The fateful allure of protectionism: Taking stock for the G8*, Simon J. Evenett, Bernard M. Hoekman and Olivier Cattaneo, eds. (London, United Kingdom, Centre for Economic Policy Research, 2009).

19 See World Trade Organization, Report to the TPRB from the Director-General on the financial and economic crisis and trade-related developments, JOB(09)/30, 26 March 2009.

The conclusion of the Doha Round should be debated on the basis of its merits for development and not as a means to avert protectionist measures

The recent joint WTO-OECD-UNCTAD report[20] indicates that a number of Governments have resorted to various policy measures in 2009 to protect domestic industries and employment affected by the global crisis.[21] It is perceived that by using their existing national policy space, countries can respond to the current economic crisis by increasing temporary protection against imports. Measures which are consistent with the multilateral trade rules may not warrant the label of "protectionism". The concern should be with any excessive use or abuse of such measures by trading partners outside of the multilateral framework.[22] Thus far, however, it seems that despite some policy slippage, Governments have avoided resorting to widespread trade restrictions in their anti-crisis strategies. This desire to avoid beggar-thy-neighbour responses might also work as an incentive to conclude the Doha Round based on careful attention to development concerns that have strongly come to the fore during the current crisis.

20 See Report on G20 Trade and Investment Measures, op. cit.

21 There are also a number of initiatives by non-governmental organizations and the academic community which trace "protectionist signs" worldwide at various levels of detail (for example, see "Global trade alert" trade policy discussion at www.voxeu.org). These studies and opinions are informative and also help maintain vigilance towards averting a rising tide of protectionism and retaliation. However, the approach of such studies may be too narrow in so far as most of them do not manage to distinguish between rescue measures that Governments undertake legitimately to support full employment in their own countries and measures of a beggar-thy-neighbour nature that are sanctioned by the existing international legal framework.

22 See Jagdish Bhagwati and Arvind Panagariya, "Legal trade barriers must be kept in check", *Financial Times*, 11 June 2009.

# Chapter III
# Financial flows to developing countries

## Net resource transfers from poor to rich countries

Net resource transfers from poor to rich countries remain high despite a decline resulting from the global contraction of output and employment

Developing countries as a group are expected to have continued to provide net financial resources to developed countries in 2009 at a level of $568 billion. While still substantial, this amount is notably lower than the all-time high of $891 billion reached in 2008 (table III.1). The forecast reduction reflects the tentative narrowing of the global imbalances as a consequence of the ongoing global economic and financial crisis. The structure of flows underlying the substantial negative financial transfers in 2008 and those preliminarily estimated for 2009 indicates that, for the most part, a disorderly unwinding of accumulated global imbalances is under way, a prospect the *World Economic Situation and Prospects (WESP)* has been flagging in recent issues.

Only East and South Asia saw an increase in negative net transfers

The ongoing global financial crisis affected net financial transfers from developing countries in all regions of the developing world in 2009. Western Asia experienced the strongest decline in net resource flows, driven in particular by much lower oil prices and also by countries in the region having to draw on international reserves to compensate for the fall in external demand. Latin America and the Caribbean experienced lower outward investment on a net basis as the value of their export earnings declined in line with the contraction of world trade in goods. East and South Asia are the only regions where,

Table III.1
**Net transfer of financial resources[a] to developing economies and economies in transition, 1997-2009**

| Billions of dollars | *1997* | *1998* | *1999* | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* | *2009*[b] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Developing economies** | **-3.6** | **-37.1** | **-126.2** | **-195.0** | **-163.8** | **-208.2** | **-302.3** | **-378.0** | **-581.0** | **-781.9** | **-870.3** | **-890.7** | **-567.7** |
| Africa | -7.0 | 13.0 | 1.5 | -32.2 | -16.8 | -5.1 | -19.0 | -35.4 | -63.9 | -87.2 | -98.7 | -91.4 | 20.8 |
| Sub-Saharan Africa (excluding Nigeria and South Africa) | 7.4 | 12.2 | 8.5 | 2.6 | 6.8 | 4.8 | 6.5 | 4.1 | 0.8 | -9.6 | -5.6 | -1.0 | 27.3 |
| East and South Asia | -32.1 | -128.2 | -139.4 | -124.8 | -121.0 | -147.7 | -173.5 | -181.1 | -262.5 | -383.6 | -518.4 | -478.9 | -497.2 |
| Western Asia | 12.4 | 34.5 | 2.7 | -35.3 | -29.7 | -23.2 | -46.7 | -76.9 | -145.4 | -175.8 | -150.0 | -259.5 | -52.4 |
| Latin America and the Caribbean | 23.2 | 43.7 | 8.9 | -2.8 | 3.7 | -32.2 | -63.2 | -84.6 | -109.3 | -135.4 | -103.2 | -60.9 | -38.8 |
| **Economies in transition** | **1.6** | **0.7** | **-25.1** | **-51.5** | **-32.9** | **-27.9** | **-38.0** | **-62.4** | **-95.7** | **-117.1** | **-98.3** | **-153.0** | **-89.7** |
| ***Memorandum items:*** | | | | | | | | | | | | | |
| Heavily indebted poor countries (HIPCs) | 7.2 | 8.4 | 9.8 | 8.5 | 8.5 | 10.9 | 13.1 | 15.6 | 20.4 | 18.6 | 28.0 | 43.4 | 45.7 |
| Least developed countries[c] | 10.3 | 13.6 | 11.4 | 6.2 | 9.1 | 7.3 | 8.9 | 6.0 | 2.9 | -7.4 | -4.9 | -0.7 | 20.3 |

**Sources**: UN/DESA, based on IMF, World Economic Outlook Database, October 2009; and IMF, Balance of Payments Statistics.

**a** Net financial transfers are defined as net capital inflows less interest and other investment income payments abroad.

**b** Partly estimated.

**c** Cape Verde graduated in December 2007 and is not included in the calculations.

in the aggregate, negative net transfers increased moderately in 2009. Despite a narrowing of current-account surpluses, reserve accumulation has resumed at a strong pace. Net transfers from countries with economies in transition decreased from $153 billion in 2008 to $90 billion in 2009, owing mainly to the economic downturn in the Russian Federation, where the sharp decline in commodity prices and the pronounced reduction in global demand for manufactured goods in the first half of 2009 required strong government intervention in the form of counter-cyclical fiscal measures.

The fall in exports creates severe problems in developing countries

In developing countries, the drastic downward adjustment of export sectors is imposing severe and potentially long-lasting hardships on women and the poor. Significant declines in public sector revenues in developing countries as a consequence of the fall in exports are setting off fiscal deficits and new pressures to borrow, thus increasing the prospect of a resurgence of debt-servicing defaults farther down the road. Since private flows are highly cyclical, foreign direct investment (FDI) and portfolio flows to developing countries have fallen sharply from a net value of $403 billion in 2007 to $71 billion in 2008 (table III.2).

Table III.2
**Net financial flows to developing countries and economies in transition, 1996-2010**

Billions of dollars

| | *Average annual flow* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *1996-1999* | *2000-2005* | *2006* | *2007* | *2008* | *2009*[a] | *2010*[b] |
| **Developing Countries** | | | | | | | |
| Net private capital flows | 120.1 | 109.1 | 104.4 | 403.0 | 70.6 | 54.7 | -30.0 |
| Net direct investment | 130.6 | 156.5 | 196.2 | 309.3 | 323.1 | 233.7 | 209.5 |
| Net portfolio investment[c] | 49.6 | -32.4 | -96.8 | 20.8 | -132.8 | -128.2 | -215.2 |
| Other net investment[d] | -60.1 | -15.1 | 5.0 | 72.9 | -119.7 | -50.7 | -24.2 |
| Net official flows | 16.4 | -37.0 | -126.5 | -121.9 | -118.0 | -21.5 | -65.6 |
| Total net flows | 136.5 | 72.1 | -22.1 | 281.1 | -47.5 | 33.1 | -95.6 |
| Change in reserves[e] | -73.5 | -274.6 | -615.8 | -1 073.1 | -733.5 | -474.5 | -513.7 |
| **Africa** | | | | | | | |
| Net private capital flows | 5.3 | 8.2 | 7.7 | 25.1 | 15.3 | 21.5 | 48.1 |
| Net direct investment | 7.0 | 19.7 | 27.7 | 42.8 | 52.2 | 34.5 | 40.8 |
| Net portfolio investment[c] | 2.8 | 1.1 | 17.3 | 12.1 | -34.1 | -8.4 | 5.0 |
| Other net investment[d] | -4.6 | -12.6 | -37.4 | -29.8 | -2.8 | -4.6 | 2.3 |
| Net official flows | 3.0 | 4.3 | 8.2 | 6.3 | 4.6 | 14.6 | 14.9 |
| Total net flows | 8.3 | 12.5 | 15.8 | 31.4 | 19.9 | 36.1 | 63.0 |
| Change in reserves[e] | -6.8 | -24.7 | -77.6 | -86.9 | -76.4 | 11.8 | -35.3 |
| **East and South Asia** | | | | | | | |
| Net private capital flows | 30.3 | 65.6 | 33.2 | 160.8 | -7.7 | -36.4 | -157.6 |
| Net direct investment | 60.7 | 68.5 | 93.6 | 132.7 | 138.1 | 88.3 | 58.2 |
| Net portfolio investment[c] | 25.5 | -12.7 | -109.1 | 8.1 | -68.2 | -114.7 | -223.0 |
| Other net investment[d] | -55.9 | 9.8 | 48.7 | 20.0 | -77.6 | -9.9 | 7.2 |
| Net official flows | 3.1 | -17.1 | -20.9 | -47.7 | -25.1 | -19.3 | -20.5 |
| Total net flows | 33.4 | 48.5 | 12.3 | 113.1 | -32.8 | -55.7 | -178.1 |
| Change in reserves[e] | -55.3 | -202.7 | -384.5 | -688.3 | -464.5 | -429.3 | -377.4 |

Table III.2 (cont'd)

| | Average annual flow | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1996-1999 | 2000-2005 | 2006 | 2007 | 2008 | 2009[a] | 2010[b] |
| **Western Asia** | | | | | | | |
| Net private capital flows | 16.5 | 2.6 | 26.7 | 104.9 | -4.0 | 44.7 | 39.1 |
| Net direct investment | 6.3 | 12.8 | 45.4 | 47.2 | 42.3 | 39.7 | 40.5 |
| Net portfolio investment[c] | -0.8 | -11.0 | -16.5 | -37.7 | -9.9 | 11.4 | -2.2 |
| Other net investment[d] | 11.0 | 0.7 | -2.2 | 95.4 | -36.4 | -6.5 | 0.8 |
| Net official flows | 2.3 | -22.7 | -70.2 | -79.6 | -101.1 | -44.2 | -67.6 |
| Total net flows | 18.8 | -20.2 | -43.5 | 25.3 | -105.0 | 0.5 | -28.5 |
| Change in reserves[e] | -8.5 | -31.7 | -103.4 | -164.8 | -141.2 | -37.7 | -83.0 |
| **Latin America and the Caribbean** | | | | | | | |
| Net private capital flows | 68.0 | 32.7 | 36.9 | 112.2 | 67.0 | 24.8 | 40.4 |
| Net direct investment | 56.5 | 55.5 | 29.5 | 86.6 | 90.4 | 71.1 | 70.1 |
| Net portfolio investment[c] | 22.1 | -9.7 | 11.5 | 38.4 | -20.6 | -16.5 | 4.9 |
| Other net investment[d] | -10.6 | -13.0 | -4.1 | -12.8 | -2.9 | -29.7 | -34.6 |
| Net official flows | 8.0 | -1.5 | -43.6 | -0.9 | 3.6 | 27.5 | 7.6 |
| Total net flows | 76.0 | 31.2 | -6.8 | 111.3 | 70.5 | 52.3 | 48.0 |
| Change in reserves[e] | -2.9 | -15.4 | -50.3 | -133.1 | -51.5 | -19.3 | -18.1 |
| **Economies in transition** | | | | | | | |
| Net private capital flows | 1.6 | 12.6 | 73.4 | 142.5 | -79.6 | -90.3 | -9.9 |
| Net direct investment | 6.2 | 9.9 | 30.6 | 39.1 | 58.9 | 22.6 | 31.9 |
| Net portfolio investment[c] | 1.3 | -0.1 | 12.6 | 16.8 | -32.4 | 2.6 | 6.6 |
| Other net investment[d] | -6.0 | 2.8 | 30.2 | 86.5 | -106.1 | -115.6 | -48.4 |
| Net official flows | -6.7 | -7.1 | -30.2 | -0.8 | -24.3 | 21.3 | 18.6 |
| Total net flows | -5.1 | 5.5 | 43.2 | 141.7 | -103.9 | -69.0 | 8.7 |
| Change in reserves[e] | 1.7 | -37.7 | -137.3 | -169.9 | 35.8 | 19.8 | -76.7 |

**Source**: IMF, World Economic Outlook Database, October 2009.

**a** Partly estimated.
**b** Forecasts.
**c** Including portfolio debt and equity investment.
**d** Including short- and long-term bank lending, and possibly some official flows owing to data limitations.
**e** Negative values denote increases in reserves.

In order to achieve a more orderly and—in human terms—less costly reduction of international financial transfers from poor to rich countries, faster demand growth in developing countries would be required. However, most developing countries have limited monetary and fiscal space to maintain domestic demand. This space is being further constricted by the crisis. Additional resources for developing countries have been made available through decisions by leaders of the G20 through lending by the international financial institutions (IFIs), especially the International Monetary Fund (IMF). The disbursement of these resources so far has been restrained as, in many cases, they remain subject to restrictive policy conditionality, despite the recent reforms on conditionality by the IMF. The conditionality reforms have not yet addressed the issue of the counter-cyclical policy space required by developing countries in both periods of normalcy and in times of crisis.

Current policies could lead to a renewed increase in global imbalances

As discussed in chapter I, the structural problems underlying the emergence of exploding global imbalances have not been removed, and present policy efforts for recovery could well cause a re-emergence of macroeconomic imbalances in the absence

of a practical international counter-cyclical framework. The substantial surge in the government deficit of the United States of America will likely exert renewed impetus on its external deficit. In Asia in particular, conditions of high dependence on exports for growth (a dependence that will take significant time and investment to reduce) and relatively weak domestic demand have not fundamentally changed.

Exchange-rate instability is a major risk

The potential return of global imbalances in the context of a recession and mounting public indebtedness in the major economies increases the risks of exchange-rate instability and strong downward pressure on the dollar. As the world economy shows its first signs of recovery, financial investors have rediscovered an appetite for risk in high-yielding currencies and emerging market equities. This has not only diminished the appeal of the United States dollar as a safe-haven currency but, owing to the anticipation of investors that current United States interest rates will be kept on hold for the foreseeable future, has caused the dollar to become the de facto carry-trade currency. The restored dominance of speculative motives for investment over fundamentals is reflected in the fact that, despite uncertainty about the sustainability of the current recovery in many emerging markets, financial investors are showing a widespread appetite for a huge variety of high-yielding asset classes. The sizeable amounts of speculative capital in emerging markets add new policy management challenges for Governments, as currencies have come under pressure to appreciate. Emerging economy authorities have been responding to the substantial increase in capital inflows by accumulating reserves or, as in the case of Brazil, by attempting to tax capital inflows in order to avoid currency appreciation. There also remains the possibility of a destabilizing reversal in portfolio flows should United States interest rates begin to increase, bursting asset bubbles in emerging markets and inducing a rapid drain on their foreign-exchange reserves.

## Private capital flows

### Private capital flows to developing countries

The total value of financial assets has fallen sharply

The global financial crisis and worldwide recession imposed a sudden stop on nearly three decades of expansion in international capital markets. From 1980 through 2007, the world's financial assets—including equities, private and public debt, and bank deposits—nearly quadrupled in size relative to world gross product (WGP). Similarly, global capital flows surged. But the upheaval in financial markets in 2008 broke this trend. The total value of the world's financial assets in 2008 fell by $16 trillion, to $178 trillion, the largest setback on record.[1]

All components of private capital flows have declined …

In developing countries, which have been attracting high and growing levels of private capital flows since 2002, the trend reversed sharply in the second half of 2008. Across the board, all components of private capital flows registered significant declines. (table III.2) One of the most salient features of the financial turmoil was a steep and simultaneous fall-off in all cross-border capital flows, including FDI, foreign equities, debt securities and cross-border lending. The sharp correction in cross-border lending was the biggest contributor to the contraction in capital flows, exerting severe funding pressures on developing countries. Countries with large current-account deficits, and therefore the most dependent on foreign capital, were hardest hit by the substantial tightening of credit conditions in international

1 McKinsey & Company, "Global capital markets: Entering a new era", McKinsey Global Institute report, September 2009.

markets. But even middle-income countries with current-account surplus positions were substantially affected by the global financial crisis, as a sell-off in assets triggered a marked depreciation of exchange rates in a large number of economies.

… but signs of stabilization have occurred in various parts of the financial market

The reversal continued through the first quarter of 2009, with net capital flows to developing countries shifting further downwards on an annualized basis. However, as a result of stimulus packages and other policy measures to recapitalize financial institutions, signs of stabilization have become noticeable in various parts of the financial market. Positive macroeconomic news, as well as encouraging earnings announcements by private corporations, has gradually improved the sentiment of financial investors since the second quarter of 2009. Surprisingly, several large commercial banks in major economies not only reported strong earnings in the second quarter of 2009 but outperformed other types of financial institutions in both credit and equity markets.[2] Equity prices worldwide have rebounded strongly and, owing to government stabilization support of major financial institutions, interbank lending conditions have generally been improving. Improvements were also visible in credit markets, even though important segments continue to rely on central bank support.

Equity markets have rebounded in emerging markets

In particular, prices of equities in emerging markets have increased along with those in developed countries. In emerging Asia, the current upswing in external financing is predominantly driven by equity-related flows. The spread on JPMorgan's Emerging-Market Bond Index (EMBI) reached 800 basis points at the height of the crisis in October 2008 but significantly declined to 300 basis points in October 2009. This spread, which reflects how much more yield investors demand to hold emerging market debt compared to safe-haven United States Treasuries, has declined to almost pre-crisis levels. Consequently, the cost and availability of debt financing in emerging countries has improved, and financial investors have rediscovered an appetite for risk in high-yielding currencies and emerging market equities. The IMF refers to this development in its latest *Global Financial Stability Report*,[3] warning that the decline in sovereign debt spreads has been driven almost entirely by an improved global appetite for risk and core market liquidity, despite underlying economic fundamentals' continuing to deteriorate in many countries. This creates renewed exposure of emerging countries to sudden shifts in investor sentiment in the coming months.

Credit default swaps are a better indicator of sovereign risk

As also suggested in previous issues of *WESP,* credit default swap (CDS) spreads are a better indicator of sovereign risk than the EMBI in periods of crisis. CDS spreads represent the marginal cost of debt, while the EMBI for a country is more representative of the average cost of traded debt. During distress, it is the marginal cost that is often more relevant; although CDS spreads are a derivative of the cash bond market, their volatility and absolute levels may lead to a sell-off in the underlying bonds. This distinction is important since EMBI spreads, being the weighted average of all bonds, reflect a market risk perception of longer duration. Sovereign CDS spreads are usually quoted for no longer than a five years; hence, they reflect a much shorter loan maturity than bonds.

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2 Bank for International Settlements, "International banking and financial market developments", *BIS Quarterly Review*, September 2009.

3 See International Monetary Fund, *Global Financial Stability Report* (Washington D. C.: IMF, October 2009). The World Bank comes to a similar conclusion in its updated forecast for the Asia and Pacific Region, arguing that although a stronger rebound in equity prices in East Asia is to be expected given perceptions about growth and the region's much increased role in the global economy, the speed of the increase has led to renewed concerns about speculative bubbles (World Bank, *Transforming the Rebound into Recovery*, a World Bank economic update for the East Asia and Pacific region (Washington D. C.: World Bank, November 2009)).

Sovereign bankruptcy risks have decreased, but remain high in some countries

As can be seen in table III.3, at the end of October 2009, the bankruptcy risk of emerging market Governments decreased substantially compared with much higher default probabilities in the last quarter of 2008. In our sample, Ukraine still has the highest CDS premium (10.6 percentage points), followed by the Bolivarian Republic of Venezuela (9.7 percentage points). The higher premium in these countries can be explained by the specific challenges to their economies and is to a lesser extent due to global conditions. Ukraine, which has been confronted with a sharp contraction in economic activity, has very limited access to resources for meeting its mounting financing needs. It has lost access to international financial markets, and this situation is reinforced by additional political and economic uncertainties that seem to be feeding on each other. The Bolivarian Republic of Venezuela is expected to continue to register high inflation rates of about 30 per cent (see chapter IV), driven by higher taxes and a shortage of essential products, and this is reflected in higher CDS spreads.

Liquidity conditions have improved

Capital inflows to developing countries have rebounded, leading to improved liquidity conditions. The Institute of International Finance (IIF) predicts that the current upswing in emerging economies will mainly be based on equity-related flows and will thus lead to an important rotation in the debt-equity mix in external financing for at least the next few years.[4] Portfolio equity flows, which are at the cutting edge of this debt-equity rotation, have shown a dramatic turnaround in 2009. For a group of 30 emerging markets, the IIF projects that net inflows of portfolio equity in 2009 should reach $82 billion, compared with net outflows of the same amount in 2008. However, given the fact that some of the returning portfolio flows may well be speculative, bouts of volatility and a potential partial reversal of portfolio flows could make countries vulnerable to setbacks in economic performance.

Bank lending has registered the sharpest decline among flows of private capital

Bank lending to emerging economies showed the sharpest decline among all components of private capital flows in 2008 and banks continued to trim their exposures in 2009, whereas a slow rebound can be expected in 2010 at the earliest. Interestingly,

Table III.3
**Credit default swap spreads and annual probabilities of default in selected emerging market countries**

| | ***CDS spreads*** *(basis points)* | | ***Annual probabilities of default***[a] *(percentage)* | |
|---|---|---|---|---|
| | *23 October 2008* | *23 October 2009* | *23 October 2008* | *23 October 2009* |
| Brazil | 571 | 130 | 6.3 | 1.7 |
| Hungary | 574 | 201 | 6.4 | 2.5 |
| Korea, Republic of | 620 | 92 | 6.8 | 1.2 |
| Mexico | 580 | 160 | 6.4 | 2.0 |
| Russian Federation | 1 056 | 180 | 10.1 | 2.3 |
| Turkey | 777 | 182 | 8.1 | 2.3 |
| Ukraine | 2 535 | 1 129 | 16.3 | 10.6 |
| Venezuela (Bolivarian Republic of) | 2 224 | 990 | 15.5 | 9.7 |

**Source**: UN/DESA, based on data of Deutsche Bank Research, available at http://www.dbresearch.com.

**a** Calculated at a recovery rate assumption of 25 per cent.

4 Institute of International Finance, *Capital Flows to Emerging Economies* (Washington, D.C.: October 2009).

most of the registered reductions in the outstanding stock affected international claims, while positions in local currencies remained relatively stable during this period. Non-bank lending flows also declined markedly during the crisis, but have rebounded notably since mid-2009, as net external bond issuance by emerging markets has increased in recent months. This trend is expected to increase in 2010.

Significant risks remain with regard to future net private capital flows

Amid the current improvements in financial sectors, any forecast of net private flows in 2010 is subject to downside risks and uncertainties in the world economy. The stronger-than-expected rebound in equity prices worldwide belies the fact that credit channels are still impaired and the economic recovery is likely to be slow. Investor sentiment largely driven by an improved global appetite for risk for high-yielding assets rather than based on underlying economic fundamentals can redirect herding behaviour against renewed optimism, creating new bouts of volatility. The emergence of large capital inflows also carries with it the risk of new asset price bubbles, thereby complicating macroeconomic policy responses. While stronger bank earnings are currently supporting capital levels, additional writedowns of impaired assets will be necessary in the coming months and this will affect lending capabilities. Since the real sector is lagging behind the rebound in the financial sector, and is expected to remain subdued in 2010, excess capacity remains high. Therefore, Governments need to be mindful of the risks of a premature withdrawal of stimulus, given the large output gaps as well as concerns that developed countries are converging towards a slower growth path than prior to the crisis. Downside risks include a double dip in economic activity, in particular in the advanced countries, as effects of stimulus measures and inventory restocking wear off.

The impact on Africa has been limited

From a regional perspective, the impact of the global financial turmoil on Africa has been limited, as risks in the majority of financial markets in the region were uncorrelated with those in mature economies. FDI inflows to Africa reached another record level despite the global financial crisis in 2008, but are likely to decline in 2009.[5] The recovery of commodity prices in the second quarter of 2009 has helped stimulate economic growth in the region, albeit at a much lower pace than prior to the crisis. Economic growth in sub-Saharan Africa is estimated to expand by just 1 per cent in 2009, compared to 6.5 per cent between 2002 and 2007. Recovery in South Africa is expected only in 2010, since that country experienced not only negative growth rates that continued into most of 2009, but also severe capital outflows. This pattern reversed itself in the latter part of 2009 since South Africa was able to finance its large current-account deficit with increasing net inflows that were boosted by improved credit market conditions and strong portfolio equity flows.

East and South Asia have benefited from strong portfolio inflows

East and South Asia are experiencing the most significant rebound in private capital flows in 2009. The dramatic reversal in portfolio equity flows reflects the net buying of equities by foreign investors. As growth prospects have improved in the region, portfolio inflows have more than compensated for the decline in bank lending that still remain subdued in 2009. Policymakers in Asia have been successful in using international reserves and swap facilities to increase credit flows, support domestic liquidity and stimulate demand. The boost in portfolio flows has been particularly pronounced in the Republic of Korea and India, which together have accounted for almost the entire turnaround in emerging Asia in 2009.[6] Continued large capital inflows, combined with strong

5 United Nations Conference on Trade and Development, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (United Nations publication, Sales No. E.09. II.D.15).

6 Institute of International Finance, "Capital flows to emerging market economies", *IIF Research Note*, 3 October 2009.

domestic credit growth and higher commodity prices could not only enlarge asset bubbles but also create inflationary pressures in some countries. As a result, monetary authorities might consider it essential to tighten monetary policies much earlier than originally anticipated, thereby creating adverse impacts on the real sector of the economy and the path to recovery.

Western Asia has seen a sharp reversal in credit flows

The massive increase in credit flows to Western Asia during 2007 was followed by a sharp reversal in 2008 and inflows remained weak in 2009. Along with the global credit crunch, Saudi Arabia and the United Arab Emirates in particular have experienced net outflows in 2009 in the form of net repayments to banks. However, as both the Governments and the central banks in oil-exporting countries were in strong financial positions, tighter credit conditions had only a limited effect on real investment activities in the region. Governments actively stimulated domestic credit expansion and private investment. With the recovery of oil prices in the second quarter of 2009, asset growth has picked up again in oil-exporting countries and has stimulated the accumulation of international reserves.

Latin America and the Caribbean have also seen an upswing based on equity-related flows

Economic growth prospects have improved in Latin America and the Caribbean, since a sharper deceleration of external demand during the height of the crisis had been prevented in several countries with active counter-cyclical policies. While net private inflows in 2009 have been lower in the aggregate than in 2008, Brazil has already taken the lead in the region by attracting increased capital inflows. Similar to the development in Asia, the upswing is mainly dominated by equity-related flows, showing a sharp rebound in portfolio investment. Bank credit growth in Latin America and the Caribbean has stabilized in recent months, suggesting that policy actions have been successful in halting the deterioration in financial conditions. However, since banks remain cautious amid uncertainty about the recovery, credit growth remains sluggish. Oil-exporting countries in the region, such as Ecuador, Mexico and Venezuela (Bolivarian Republic of), have so far only benefited to a lesser extent by the rise in commodity prices. The space for additional counter-cyclical measures in these countries might be significantly reduced in 2010 owing to budgetary constraints and high debt levels.

Oil prices and equity markets have been driving the performance of the economies in transition

The rise in oil prices and improvements in equity markets, despite a continuing pullback in net bank lending and deteriorating trade balances, have been critical to the recent performance of the economies in transition. Most significantly, the current-account surplus of the Russian Federation will turn to a deficit in 2009. Given that budget deficits have been allowed to increase rapidly to finance generous stimulus measures, the Russian Federation could face further financing challenges in 2010.

## Trends in foreign direct investment

FDI inflows will recover slowly in 2010

At the global level, FDI inflows are expected to fall from $1.7 trillion in 2008 to below $1 trillion in 2009, and show a slow recovery in 2010 (see table III.4).

The global economic slowdown has had a variety of impacts on FDI inflows. The decline was more distinct in developed countries, while several developing markets were still continuing to experience increasing FDI inflows in 2008 despite the financial turmoil. Thus, the crisis has changed the FDI landscape:[7] investments to developing and transition economies surged, increasing their share in global FDI flows to 43 per cent in 2008. In Africa, inflows rose to a record level, the fastest increase being in West Africa.

7 United Nations Conference on Trade and Development, *World Investment Report 2009*, op. cit.

Table III.4
**Inflows of foreign direct investment and cross-border mergers and acquisitions, by region and major economy, 2008-2009**

Billions of dollars

| | Foreign direct investment inflows | | | Cross-border mergers and acquisitions, net sales[b] | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2008 | | 2009 | Growth rate (percentage) |
| | 2008 | 2009[a] | Growth rate (percentage) | First 10 months | Full year | First 10 months | First 10 months only |
| **World** | **1 697.4** | **1 039.0** | **-38.8** | **571.4** | **673.2** | **204.4** | **-64.2** |
| ***Developed economies*** | 962.3 | 543.7 | -43.5 | 452.8 | 551.8 | 172.3 | -62.0 |
| Europe | 518.3 | 403.8 | -22.1 | 232.9 | 245.7 | 114.4 | -50.9 |
| United States | 316.1 | 98.7 | -68.8 | 150.4 | 225.8 | 42.9 | -71.5 |
| Japan | 24.4 | 13.6 | -44.5 | 8.3 | 9.2 | -6.4 | -177.8 |
| ***Developing economies*** | 620.7 | 428.6 | -31.0 | 98.1 | 100.9 | 30.2 | -69.2 |
| Africa | 87.6 | 74.7 | -14.7 | 20.8 | 20.9 | 6.0 | -71.1 |
| Latin America and the Caribbean | 144.4 | 87.4 | -39.5 | 12.4 | 15.2 | -4.8 | -138.5 |
| Asia and Oceania | 388.7 | 266.5 | -31.4 | 64.9 | 64.7 | 29.0 | -55.3 |
| Western Asia | 90.3 | 53.5 | -40.7 | 14.1 | 14.7 | 1.8 | -87.4 |
| South, East and South-East Asia | 297.6 | 204.1 | -31.4 | 50.7 | 50.8 | 27.2 | -46.4 |
| ***Economies in transition*** | 114.4 | 66.7 | -41.7 | 20.5 | 20.5 | 1.9 | -90.7 |

**Source:** UNCTAD.

**Note:** World FDI inflows are projected on the basis of 134 economies for which data are available as of 19 November 2009. Data are estimated by annualizing available data, in most cases for the first two quarters of 2009. The proportion of inflows to these economies in relation to total inflows to their respective region or subregion in 2008 is used to extrapolate the 2009 data.

**a** Preliminary estimates.

**b** Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). The data covers only those deals that involved an acquisition of an equity stake of more than 10 per cent.

This constituted a 27 per cent rise over 2007, and a large portion of these flows were mainly attracted by producers of natural resources. In Latin America and the Caribbean, FDI inflows increased by 13 per cent, continuing the upward trend of the preceding years. Inflows to South, East and South-East Asia witnessed a 17 per cent expansion, while FDI to Western Asia continued to grow for the sixth consecutive year in 2008. FDI inflows to South-eastern Europe and the CIS rose for the eighth year running. However, in 2009 FDI flows to all regions will suffer from a decline.

FDI was severely affected by the crisis

FDI has been the most stable component of cross-border private capital flows during the past few years, buoyed by strong economic growth and improvements in the investment climate in a number of countries. In the first half of 2008, developing countries weathered the incipient global financial crisis better than developed countries, as their economic growth remained robust, supported by rising commodity prices. However, in the second part of the year and into 2009, as a result of the deep contraction in world economic activity, FDI inflows were severely affected. Given that an increasing proportion of these flows came in the form of reinvested earnings, the level of investment collapsed in the downturn of the business cycle. According to the United Nations Conference on Trade and Development (UNCTAD), lower profits by foreign affiliates drove down reinvested earnings, contributing to the 46 per cent drop in FDI outflows from the developed countries in the first quarter of 2009.

FDI was also dragged down by weaker merger and acquisitions activity

The increase in FDI flows in 2008 was fuelled by cross-border mergers and acquisitions (M&As), which declined with the worsening of the financial turmoil in developed country financial markets in the second half of 2008. With the sharp deterioration in banking-related flows, it became more difficult for investors to finance M&A activities. UNCTAD reports that in the aggregate for 2008 only the primary sector witnessed growth of 17 per cent in the value of M&A sales, whereas manufacturing and services—which account for the largest proportion of world inward FDI stocks—reported declines of 10 per cent and 54 per cent, respectively. In conclusion, despite the decline in commodity prices, long-term trends in M&As continued to hold in times of crisis. While the services sector still accounts for the largest share of global FDI flows, there has been a significant increase in FDI flows to the primary sector, mainly to extractive industries. The share of manufacturing in global FDI flows has continued to decline. The share of transnational corporation (TNC) investments in extractive industries has more than doubled since the 1990s. These industries account for a significant share of total FDI inflows in some economies and for the bulk of inward FDI in a number of low-income mineral rich countries.

The impact on FDI by special funds varied

The economic and financial crisis had varying impacts on FDI undertaken by special funds, such as sovereign wealth funds (SWFs) or private equity funds. Private equity firms, which account for one fifth of global cross-border M&As, are highly dependent on bank loans and therefore became severely limited in their financing options in 2008. Consequently, cross-border M&As by these firms fell by 38 per cent in 2008. SWFs, on the other hand, recorded a rise in FDI in 2008, even despite a fall in commodity prices, whose export earnings often provide these funds with financing. The value of SWF-related cross-border M&As increased in 2008 by 18 per cent.

The crisis in business cycle-sensitive industries reduced FDI

Many business cycle-sensitive industries, such as automotives and transport materials, metal and non-metal products, chemicals, and, more generally, the manufacturing sector as a whole, have been among the worst affected by the crisis, and thus had a direct negative impact on future FDI plans of TNCs. On the other hand, some less cyclically-sensitive activities that rely on less income-elastic elements of domestic demand (such as agro-food and many services) or on supplying markets with quick growth prospects in the medium term (such as pharmaceuticals) have been less affected. Furthermore, in terms of preferred regions for FDI, East, South and South-East Asia remains the most favoured destination. The majority of respondents to a recent UNCTAD survey consider the growth of markets in this region—and, to a very limited extent, the availability of affordable labour costs—the main criterion for their investment decisions.

FDI is expected to remain weak in 2009

Global FDI is set to remain weak for 2009, as corporations might remain hesitant and bearish about expanding their international operations. UNCTAD estimates[8] that after a slow recovery in 2010, inflows are expected to reach $1.8 trillion in 2011, that is to say, almost the same level as in 2008.

# International financial cooperation

## Official development assistance

The crisis puts further pressure on aid budgets

Measured against international commitments, aid delivery had been falling short even before the onset of the global economic crisis. The crisis will now put further pressure on aid budgets of donors and on the economic and social conditions of many developing countries. This

8 Ibid.

new problem is well understood by the international community and several pronouncements have been made to mitigate the impact. In April 2009, G20 leaders reaffirmed their commitment to achieve their official development assistance (ODA) pledges and agreed to provide additional financial support to low-income countries. Subsequently, the Development Committee of the IMF and World Bank urged all donors not only to accelerate the delivery of their aid commitments but also to consider going beyond existing ones. At the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions in April 2009 and the High Level Meeting of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) in May 2009, donors reiterated their determination to fulfil their ODA commitments, despite their domestic financial difficulties. Members of the DAC reaffirmed their existing ODA commitments, especially those for Africa.

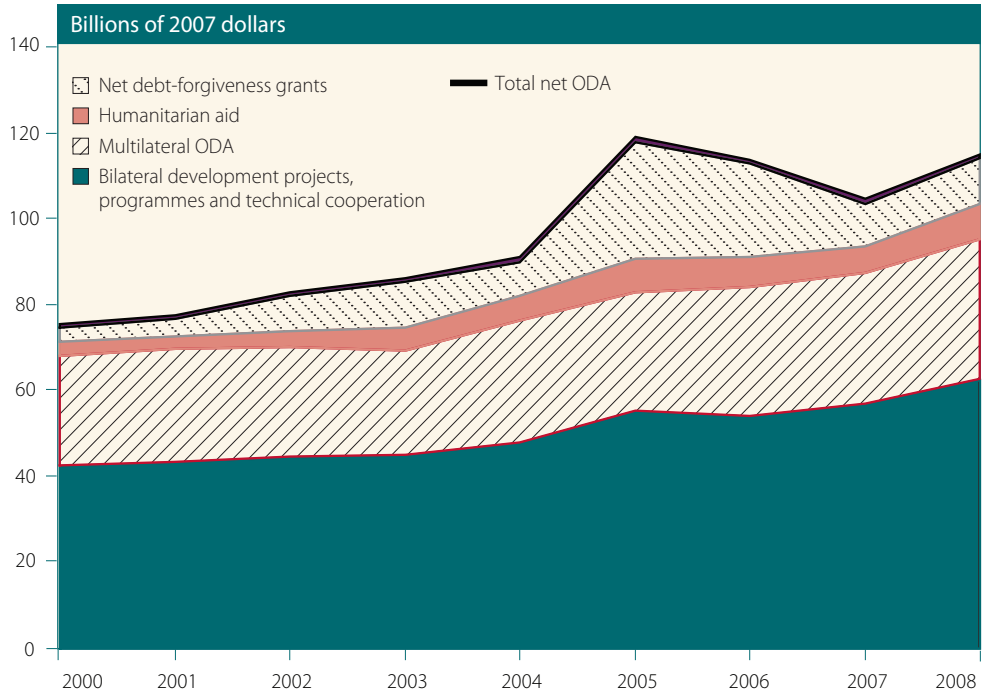
Total net ODA from the DAC members peaked in 2008

In 2008, total net ODA from the DAC member countries rose by 10.2 per cent in real terms and, excluding debt relief, reached its highest ever recorded level of $119.8 billion (figure III.1).[9] Donors increased their bilateral development projects by 12.5 per cent.[10] Among the DAC member countries, the largest donors in 2008 were the United States ($26.0 billion), Germany ($13.9 billion), the United Kingdom of Great Britain and Northern Ireland ($11.4 billion), France ($11.0 billion) and Japan ($9.4 billion).

ODA by DAC member countries remains below its target level

Net ODA reached 0.30 per cent of the DAC member countries' combined gross national income (GNI) in 2008, a marginal increase from the 2007 level of 0.28

Figure III.1
**Total ODA flows from DAC countries by component, 2000–2008**




**Source:** UN/DESA, based on data of the OECD/DAC database, available at http://www.oecd.org/document/33/0,2340,en_2649_34447_36661793_1_1_1_1,00.html#dac.

9 Organization for Economic Cooperation and Development, "Development aid at its highest level ever in 2008", *OECD News*, 30 March 2009, available at https://www.oecd.org, table 1.

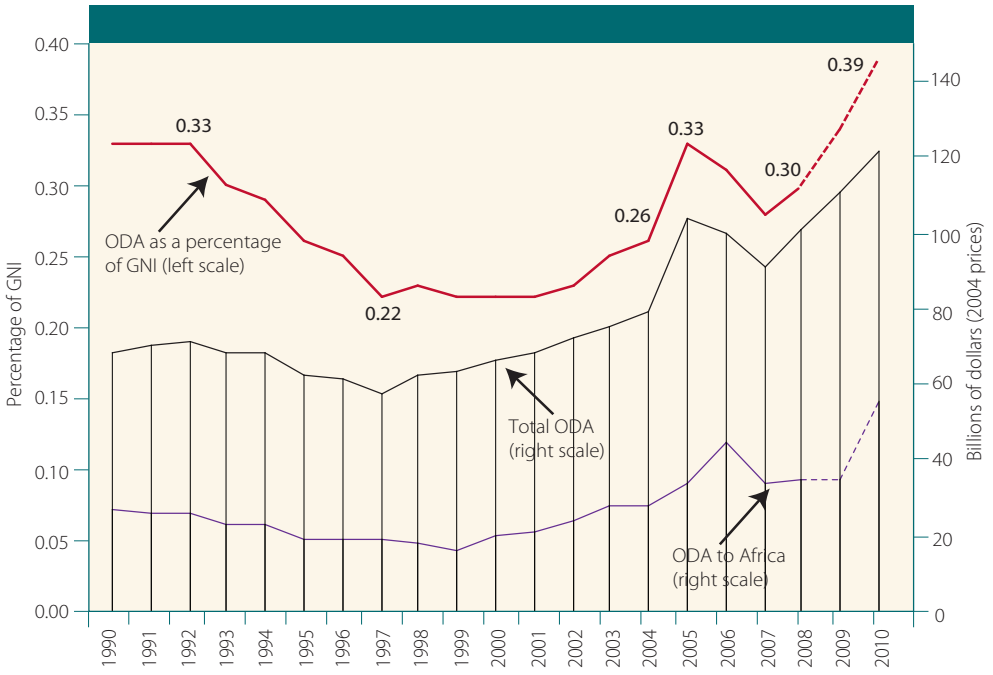
10 United Nations, *The Millennium Development Goals Report 2009* (United Nations publication, Sales No. E.09.I.12), p. 48.

per cent (figure III.2). This figure, however, remains significantly below the 0.7 per cent target reaffirmed in the Monterrey Consensus adopted at the United Nations International Conference on Financing for Development in March 2002, although Denmark, Luxembourg, the Netherlands, Norway and Sweden have been exceeding the target for many years now.

Non-DAC actors are becoming more relevant

Among the non-DAC countries, whose contributions are now estimated to reach 8-10 per cent of global aid flows, the 31.5 per cent increase in net ODA in 2008 from the Republic of Korea was the most notable, exceeding the ODA levels of Greece, New Zealand and Portugal.[11] The Republic of Korea increased its contributions to regional development banks and funds in 2008 and expects to become a DAC member in 2010. China, India, Saudi Arabia and Venezuela (Bolivarian Republic of) are emerging as major donors from the South. Brazil and Thailand are also increasing their contributions.[12] The importance of development assistance from non-governmental organizations (NGOs) and the private sector is gaining recognition. It is estimated that private giving towards development amounted to close to $20 billion in 2007, even given the substantial possibility of underreporting.[13] The presence of non-DAC actors creates competitive pressures and increases choice among the types of aid and donors. Traditional donors

Figure III.2
**Net ODA of DAC members, 1990–2008, and DAC secretariat simulations to 2009 and 2010**




**Source:** OECD/DAC database, available at http://www.oecd.org/dataoecd/47/57/42458739.pdf.

**Note:** Dollar values are in 2004 prices.

11 Organization for Economic Cooperation and Development, "Development aid at its highest level ever in 2008", op. cit.

12 Lama Hammad and Bill Morton, "Non-DAC donors and reform of the international aid architecture", *Issues Brief*, July 2009 (Development Cooperation Series, The North-South Institute).

13 Mathew Martin and Jonathan Steve, "Key challenges facing global development cooperation", discussion paper prepared for the 2007 United Nations Development Cooperation Forum, Geneva, 5 July 2009, p. 21.

have expressed concern that the entry of other donors could undermine progress on aid effectiveness.[14]

There is a shortfall in ODA from DAC members

A March 2009 OECD/DAC survey of future spending plans indicates that total net ODA from DAC members in 2010 would be about $121 billion (in 2004 prices), which still falls short of the target $130 billion.[15] In 2008 prices and exchange rates, OECD/DAC estimates the total delivery gap towards the 2010 target to be $35 billion, of which $10 billion would be the required increase on top of the planned ODA budgets by 2010.

Increased aid to Africa is mainly the result of relief contributions to Nigeria

Africa was the largest ODA recipient, receiving $42 billion, or 35 per cent of global ODA in 2008. Excluding debt relief, bilateral ODA to Africa rose by 11 per cent. ODA to sub-Saharan Africa more than doubled from 2000 to 2007. Despite this progress, however, aid to Africa needs to increase more rapidly since increases in the overall levels are accounted for mainly by relief contributions provided to Nigeria. At 2004 prices, the gap between delivery and the 2010 target is $17 billion ($21 billion at 2008 prices). The shortfall in ODA flows to Africa accounts for 60 per cent of the shortfall between the delivery in 2008 and the 2010 global commitments.[16]

LDCs receive relatively high but unevenly distributed ODA per capita

Since the adoption of the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010 in May 2001, ODA flows to least developed countries (LDCs) have increased from less than $14 billion in 2001 to a record level of $32 billion in 2007.[17] Aid flows to 49 LDCs account for one third of global ODA. While the share of ODA in GNI from the DAC countries to the LDCs is increasing (0.05 per cent in 2001 to 0.09 per cent in 2007), it remains short of the target rate of 0.15-0.20 per cent. All donor countries, except Portugal, increased or maintained the proportion of their GNI allocated as ODA to the LDCs between 2000 and 2007. The number of DAC countries that met the target of 0.15 per cent increased from five to eight during the same period. Greece and the United States, however, allocated less than 0.05 per cent of their GNI as ODA to the LDCs in 2007.[18] LDCs receive much higher ODA per capita than other developing countries, but the distribution among them is quite uneven. About one sixth of LDCs (or eight countries, accounting for 16 per cent of the group's population) received more than half of the total ODA allocated to this group in 2006-2007. In the case of multilateral ODA, the channelling of resources towards poor countries improved between 2000 and 2006, but considerable scope remains for achieving a more equitable distribution of bilateral ODA between higher- and lower-income developing countries.

Aid budgets are expected to decrease

Absolute levels of ODA flows in 2009 are likely to fall in response to the global economic contraction. The impact of negative shocks in the current year may also

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14 From the viewpoint of traditional donors, non-DAC donor aid programmes fall short of long-term social development dimensions, applying less conditionality and higher levels of tied aid. Also, non-DAC aid is often directed to Governments with poor track records in human rights as a means to pursue the donor Government's short-term foreign policy objectives. Some traditional donors are also apprehensive that the availability of easily accessible loans by donors from the South may lead to a new debt crisis and reverse the progress in ongoing debt relief efforts (see Hammad and Morton, 2009).

15 Organization for Economic Cooperation and Development, "Development aid at its highest level ever in 2008", op. cit.

16 United Nations, *MDG Gap Task Force Report 2009: Strengthening the Global Partnership for Development in a Time of Crisis* (United Nations publication, Sales No. E.09.I.8), p. 8.

17 Loc. cit.

18 Loc. cit.

lead to a long-term contraction in aid budgets.[19] Cutting aid from major donors at this point in time would not only create additional fiscal burdens on developing countries but could also reverse some of the progress already made towards meeting the Millennium Development Goals (MDGs). How aid can play a counter-cyclical role to help respond to the sharp reversal in overall financial flows to developing countries presents an important policy challenge.

Greater aid effectiveness requires stronger commitments and better coordination

Aid effectiveness continues to be the main focus of DAC donor countries, as principal proponents of the Paris Declaration and the Accra Agenda for Action. Ensuring that aid can play a positive role in a time of economic downturn requires a stronger commitment from Governments and better coordination at global and national levels. Demonstrating improved effectiveness can facilitate domestic political support in trying economic times. The OECD DAC Working Party on Aid Effectiveness has begun selectively measuring performance at the country level. While it may be tautological to state that improved effectiveness ensures that each aid dollar has greater impact, the act of realizing this goal demands significant political and bureaucratic effort on the part of recipient countries. Countries that already have more effective political systems and bureaucracies can be expected to perform better when it comes to aid effectiveness, as they do in other aspects of development policy. In the context of the asymmetries inherent in donor-recipient interactions, mobilizing and monitoring the political and bureaucratic contributions to this effort on the part of the DAC donors themselves should logically be deemed a priority.

The Paris Declaration has become a national priority in several countries

In some recipient countries, such as Burkina Faso, Ghana, Mozambique and Viet Nam, the Paris Declaration has been made a national priority and its principles have been actively implemented.[20] In Ghana, Uganda, the United Republic of Tanzania and Zambia, joint assistance strategies have been developed to move from projects to programme-based and sector-wide approaches. Yet, the pace and depth of these efforts are not consistent across donor programmes and there is no one-size-fits-all strategy.

Expectations are high regarding the work of the UNDCF

In 2009 and 2010, the United Nations Development Cooperation Forum (UNDCF)[21] is expected to focus on a series of interrelated and mutually reinforcing activities to promote national development and the achievement of MDGs in: (a) mutual accountability and aid transparency; (b) South-South and triangular cooperation; and (c) aid policy coherence, with a view to moving from aid to more long-term sources of development financing. A special focus will be given to issues of quality and impact of aid in the area of gender equality and the empowerment of women. High expectations are placed on the DCF, especially from non-DAC donors, and the outcomes of phase II of its activities will determine its future role in this area.

## Innovative sources of development financing

ODA instruments have become more diversified

Since the Monterrey Conference on Financing for Development in 2002, international development assistance has seen noticeable diversification in the set of instruments for achieving specific development objectives. Innovative financing mechanisms have shown

19 Emmanuel Frot, "Aid and the financial crisis: shall we expect development aid to fall?" 13 May 2009, available at www.voxeu.org.

20 Organization for Economic Cooperation and Development, *Managing Aid: Practices of DAC Member Countries* (Paris: OECD Better Aid series, 2009), p. 77.

21 Established in 2008 as the focal point within the United Nations system and as a principal forum for global dialogue and policy review on the effectiveness and coherence of international development cooperation.

some, while as yet limited, potential for complementing traditional development aid to achieve the MDGs by raising about $2.5 billion since 2006.[22] The innovative financing for development framework has a strong element of public-private partnership, joint design and decision-making among developing and developed countries in terms of raising the resources, while the traditional approach emphasizes the partnership only in relation to the use of resources. A new modality containing efforts and initiatives for collecting revenues for sector-specific international development cooperation through innovative channels has drawn continued attention from the international community, as there is an expectation that such funds can play a greater role in terms of raising revenues and addressing particular issues more effectively than traditional ODA.

Three groups—the High-Level Taskforce on Innovative International Financing for Health Systems, the Leading Group on Innovative Financing for Development and the I-8 Group/L.I.F.E. (Leading Innovative Financing for Equity)—have been influential in the work on innovative financing for development:

- The High-Level Taskforce on Innovative International Financing for Health Systems, whose first meeting was held in Doha in November 2008, explores and recommends actions for strengthening international assistance by advocating the protection of social sector investments regardless of the economic situation. The members of the Taskforce include the British Prime Minister, high government officials from European countries as well as from Ethiopia and Liberia, the President of the World Bank and the Director-General of the World Health Organization (WHO).
- The Leading Group on Innovative Financing for Development, working closely with the United Nations, serves as a platform for different initiatives and new ideas. The Group has brought together countries, international organizations and NGOs to strengthen international solidarity and facilitate international cooperation in this area by making possible the preparation of new initiatives and coordinating the channelling of funds.
- The newly formed I-8 Group/L.I.F.E consolidates eight existing and very promising innovative financing initiatives, including UNITAID,[23] the

22 See the report of the Secretary-General entitled, "Progress report on innovative sources of development finance", United Nations General Assembly, 29 July 2009 (document A/64/189).

23 A Geneva-based organization founded in September 2006—under a hosting agreement with the World Health Organization (WHO)—to buy medications in high volume and negotiate lower prices of drugs, tests and treatments for HIV/AIDS, tuberculosis and malaria by using funds collected from airline ticket levies in participating countries. This organization is governed by a board composed of donors and recipient Governments (including Brazil, Chile, France, Norway and the United Kingdom of Great Britain and Northern Ireland) and representatives of African and Asian countries, some non-governmental organizations (NGOs) and the Bill and Melinda Gates Foundation. By financing UNITAID, donors can support its activities to negotiate 25-50 per cent rebates on the price of drugs and dispatch them across the world to countries that need them most. UNITAID also pays an important role in influencing manufacturers to invest in the research and development of drugs that otherwise would not be produced. Since 2006, UNITAID has raised and committed more than $730 million to support 16 projects in 93 countries. Furthermore, UNITAID is expected to become a principal recipient of funds raised by the Millennium Foundation, whose start-up capital was provided by UNITAID in November 2008. The Millennium Foundation was established to achieve three health-related Millennium Development Goals (MDGs) by developing and implementing innovative financing mechanisms, and is governed by a board of representatives of donors and recipient Governments (including Brazil, Chile, France, Norway and the United Kingdom), NGOs and the Bill and Melinda Gates Foundation.

International Finance Facility for Immunisation (IFFIm)[24] and Debt2Health,[25] works closely linked with the United Nations system. Its mission is to reinforce the initiatives put forward by the High-Level Taskforce and the Leading Group and prepare the ground for new initiatives.

Expanding the number of players involved in this framework is currently an important priority for these groups, as is identifying a variety of realistic proposals for voluntary contributions and implementing them.

Tailoring ODA instruments to specific needs remains important

The innovative sources of financing for development today include voluntary contributions, taxes, equity investments, bonds, loans and guarantees. Tailoring these instruments to the specific needs and vulnerabilities of developing countries remains the major challenge. Visible progress has been made—especially in improving acute health problems in developing countries—through initiatives using the air-ticket solidarity levy, the advance market commitment (AMC) and the international financial facility (IFF). Many proposals are also emerging on climate change and illicit financial transfers.[26]

Levies on foreign-exchange transactions offer significant revenue potential

With reference to the persistent gap between the pledges made by developed country leaders and actual delivery of ODA, the Special Envoy of the United Nations Secretary-General on Innovative Financing has highlighted the enormous potential as a new source of financing for development of levies on foreign-exchange transactions (which are currently untaxed and whose volume has been facilitated by globalization).[27] A globally coordinated levy of 0.005 per cent on transactions of the most widely traded currencies (the United States dollar, the euro, the pound sterling and the Japanese yen) would raise at least $33 billion every year without curbing the demand for such currencies. One possibility is that proceeds of this levy can be managed and disbursed effectively by one of the I-8 Group/L.I.F.E. members that have demonstrated high standards of performance records.

The role of innovative financing is also recognized by the G8

To tackle the challenges of the recent global economic crisis and to mitigate its negative impacts on development, the Group of Eight (G8) Development Ministers' meeting in Rome on 11 and 12 June 2009 recognized innovative financing as a critical element in raising the necessary development resources alongside traditional ODA, and

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24 A British charity foundation created in January 2006 with the financial support of Italy, France, Norway, Spain, Sweden and the United Kingdom (and the World Bank serving as its treasury manager) to fund immunization programmes and strengthen health systems in developing countries. South Africa joined as a donor in 2007, and Brazil is considering joining. Under this initiative, funds are raised by issuing bonds with donors' pledges. The first issuance of a vaccine bond in November 2006 raised $1 billion. So far, $2 billion has been raised. By issuing an additional $4 billion worth of bonds, IFFIm projects an increase in its spending by $500 annually until 2015 to finance vaccination programmes via the Global Alliance for Vaccines and Immunisation (GAVI) Fund, which manages and allocates resources to immunization projects. The scheme also intends to assist developing country Governments in budgeting and planning for their own immunization programmes.

25 Debt2Health, launched in September 2007, is an innovative financing initiative of the Global Fund to Fight Aids, Tuberculosis and Malaria. Under this initiative, a donor government cancels a certain amount of debt owed by a developing country with high debt and high disease burden. To date, two agreements have been signed: between Germany and Indonesia (September 2007), by which Germany cancelled €50 million and Indonesia would invest the equivalent of €25 million in health through approved Global Fund programmes; and between Germany and Pakistan (December 2008), by which Germany cancelled €40 million and Pakistan would invest €20 million in Global Fund-approved domestic programmes. In May 2009, Australia joined the initiative and offered an $A 75 million Debt2Health swap to Indonesia to fight tuberculosis. Further information is available at http://www.theglobalfund.org/documents/innovativefinancing/Factsheet_d2h_en.pdf.

26 Report of the Secretary-General, United Nations General Assembly, op. cit.

27 Philippe Douste-Blazy, "A tiny tax could do a world of good", *The New York Times*, 24 September 2009.

proposed acceleration of scale and speed in the implementation of innovative financing mechanisms.[28] The G8 ministers further noted that the functioning of such mechanisms should be consistent with the principles of the Paris Declaration and the Accra Agenda for Action and should maximize their effectiveness, and endorsed the work undertaken by the three influential groups mentioned above.

Innovative financing needs to be scaled up

A genuine need exists to scale up innovative financing as a complementary, more stable and predictable source of development finance. Building on the experiences of existing mechanisms, the international community can pursue a variety of feasible innovative mechanisms and maximize their impact on development. Closer collaboration with international and regional organizations in monitoring existing mechanisms may be imperative in this respect.

## Debt relief

Despite notable progress on debt relief, risks remain

Since the adoption of the Monterrey Consensus in 2002, the international community has made notable progress in reducing the external debt burden of developing countries.[29] The ratio of debt-service payments of the 35 post-decision-point heavily indebted poor countries (HIPCs) (those qualified for debt relief) declined from 3.2 per cent of gross domestic product (GDP) in 2001 to 1.1 per cent of GDP in 2008.[30] As a result, these 35 countries have increased their spending on health, rural infrastructure and education (or "poverty-reducing expenditure") on average from 6.3 per cent of their GDP to 8.2 per cent of GDP in 2008.[31] Nevertheless, owing to the global financial crisis, a large number of developing countries are facing renewed fiscal stress and challenges. In addition to lower revenues and currency depreciation, external financing conditions from public and private sectors tightened. All these factors pose serious risks to the debt sustainability of developing countries and their capacity to service or roll over external debt.

Various factors are at play in affecting the external debt situation of developing countries

The ratio of external debt to export revenues fell further to 4.1 per cent in 2008 (compared to 12.7 per cent in 2001) for the 35 post-decision-point HIPCs (figure III.3). However, the global economic slowdown has affected the external debt situation of developing countries through a variety of channels. Many developing countries, including those that benefited from the current debt-relief initiatives, face enormous pressures on external payments and fiscal budgets. The situation has been particularly severe for the commodity-exporting countries. The fall in foreign-exchange earnings is expected to exacerbate the burden of existing debt-servicing obligations. Moreover, the reduction in export revenues, followed by higher costs for imported food and fuel have also contributed to overall balance-of-payments difficulties in many developing countries.

Fiscal positions have deteriorated

The weakened external payments' position has been accompanied by the deterioration in fiscal positions. Currency depreciations have increased the domestic cost of servicing external debt, and the fall in exports has reduced not only hard currency earnings but also tax revenues from export-related activities and import duties. While countries with large foreign reserves or fiscal stabilization funds may be able to cushion

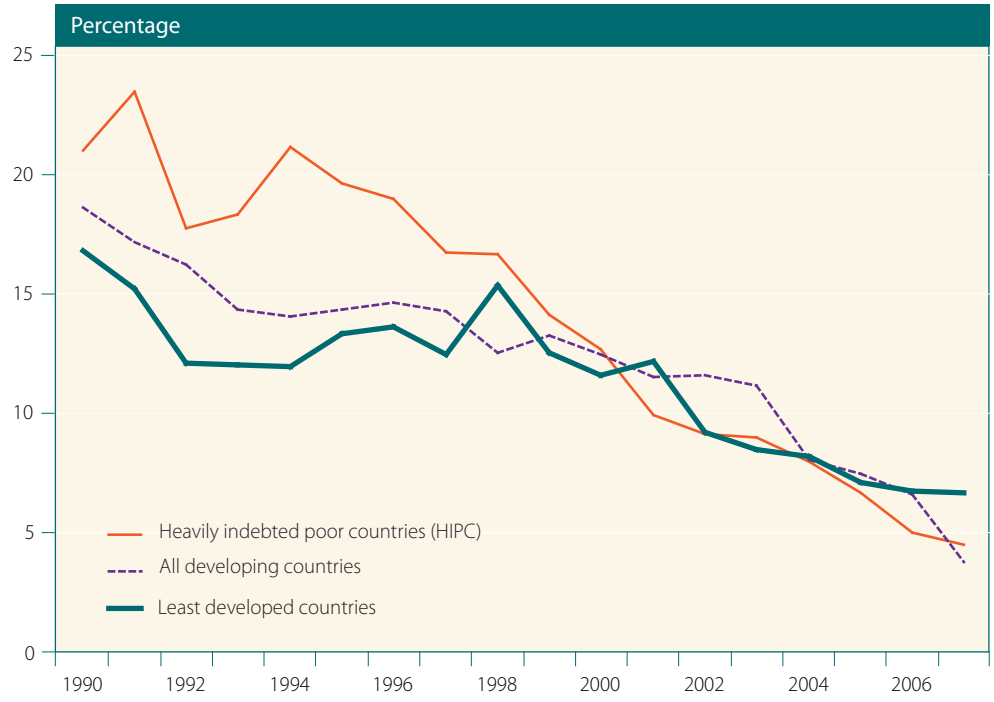
28 See "Chair's Summary: G8 Development Ministers' Meeting", Rome, Italy, 12 June 2009, available at http://www.canadainternational.gc.ca/g8/ministerials-ministerielles/2009-06-11_Rome-DevtMin.aspx.

29 United Nations, *MDG Gap Task Force Report 2009*, op. cit.

30 International Development Association and International Monetary Fund, "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI): Status of implementation", report prepared by the staff of IDA and IMF, 15 September 2009, table 1.

31 Ibid.

Figure III.3
**Debt-service payments as a proportion of export revenues, 1990–2007**




**Sources:** UN/DESA, based on data from Millennium Development Goals Indicators, available at http://mdgs.un.org, and World Bank Global Development Finance database.

the effects of a decline in fiscal revenues, many other countries will face greater difficulties in securing public expenditures for development activities unless additional resources are forthcoming. As at March 2009, the debt levels of almost 30 countries exceeded 60 per cent of their GDP.[32]

Even countries with less severe debt problems faced problems in rolling over their debt

The crisis has also aggravated the external debt situation of a large number of countries that have not received debt relief and has compromised the progress made under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). Even those without serious debt-servicing problems faced problems in rolling over their stock of existing private sector debt.[33]

Forty countries are eligible for debt relief under the HIPC Initiative

At the end of July, 40 countries were eligible or potentially eligible for the HIPC Initiative.[34] Of these, 26 are receiving full debt relief from the IMF and other creditors by virtue of having reached the completion point, and some of the 9 countries that have reached their decision points are receiving interim debt relief. In 2008 year-end net present value (NPV) terms, the total amount of debt relief available for these 35 countries is estimated at $85.7 billion, of which $57.3 billion falls under the HIPC Initiative and $28.5 billion under the MDRI.[35] The cost of the remaining five pre-decision-point HIPCs is estimated at $17 billion, most of which will be delivered to the Sudan and Somalia. With respect to the MDRI, almost 85 per cent of the total debt relief has already been delivered to the 26 post-completion-point countries. After full delivery of debt relief, it is expected that the debt burden of these 40 countries will be reduced by 80 per cent.

32 International Monetary Fund (IMF), *The Implications of the Global Financial Crisis for Low-Income Countries* (Washington, D. C.: IMF, March 2009), p. 25.

33 United Nations, *MDG Gap Task Force Report 2009*, op. cit., p. 41.

34 The number of HIPCs declined from 41 to 40 after Nepal withdrew from the debt-relief initiatives in February 2009.

35 International Development Association and International Monetary Fund, loc. cit., tables 2 and 3.

Eligible countries need to receive debt relief from all creditors

Many of the countries that have not yet completed the requirements for full debt relief share some common challenges (preserving peace and stability, improving governance and the delivery of basic services, for example). Addressing these challenges will require extreme efforts by these countries as well as support from the international community. Another challenge is to ensure that eligible countries receive full debt relief from all their creditors. Progress in the delivery of debt relief by non-Paris Club bilateral creditors, representing 13 per cent of the total cost, remains low. The delivery of debt relief by commercial creditors, representing 6 per cent of the total cost, has improved through significant debt relief provided to two HIPCs receiving interim assistance.

Debt relief is not sufficient to achieve debt sustainability

Reducing debt-service payments, however, is not sufficient to avoid the risk of debt distress. The World Bank noted the need to manage expectations of what debt relief can realistically achieve. Debt sustainability analyses show that the debt situations of a number of HIPCs that have reached the completion point remain highly vulnerable to external shocks because many of them continue to be heavily dependent upon commodity exports. Even prior to the global economic crisis, only about 40 per cent of the post-completion-point HIPCs had a low risk of future debt distress, and the number of countries with a high risk of debt distress had increased from one to four.

The G20 agreed on a number of initiatives to assist developing countries

At the G20 London Summit in April 2009, leaders reached agreement on a number of initiatives to increase the external financing available to developing countries, including a $1.1 trillion package to meet the immediate financial needs arising from the financial crisis and to boost global economic activity. Through this initiative, the IMF was expected to triple its resources to $750 billion, but the actual use of these resources has been limited. The Conference on the World Financial and Economic Crisis and Its Impact on Development, held at United Nations Headquarters in New York from 24-26 June 2009, underlined the legitimate right of developing countries, as a last resort, to negotiate agreements on debt standstills to help mitigate the adverse effects of the crisis.

Other low- and middle-income countries will face problems in renewing their debt

It is also important to highlight the problem of low- and middle-income countries not regarded as HIPCs but with longstanding external debt problems, only a few of whom have managed to address their predicament in the past decade. Many non-HIPCs managed to reduce their reliance on multilateral financing by drawing on private sector credit prior to the 2008 financial crisis, and a large portion of such loans is expected to be renewed in 2009 and beyond. Owing to the higher cost of borrowing, these countries are likely to face difficulties.

Servicing external debt should not take precedence over the MDGs

Particularly in this period of crisis, it is useful to emphasize the underlying international consensus that servicing external debt should not take precedence over the effort to achieve the MDGs. The international community should therefore avail itself of the opportunity presented by the crisis to address long-neglected deficiencies in external debt arrangements, including the resolution of sovereign debt, as part of the global effort to strengthen the international financial system.

## Reconstructing the global financial system

Progress is needed in five key areas

The global scale of the economic crisis is attributable to known deficiencies in the international financial regime which the international community has hitherto been unable to address and which have been proliferating since the breakdown of the Bretton Woods system in 1971. The necessary reforms require difficult international political rearrangements, often in conflict with the commercial interests of the financial sectors of mature

economies. The parties most severely affected by the global financial regime are severely underrepresented in reform discussions. The series of developing country debt crises since the 1980s and the Asian financial crisis in the late 1990s could be regarded as dress rehearsals for the current crisis and as an unheeded warning of the need to reform the international financial system and architecture, including the mandate, scope, governance, responsiveness and development orientation of key mechanisms. There are five key areas in which progress is urgently needed: international financial regulation, multilateral surveillance, IMF lending and resources, the international system of payments and reserves, and governance reforms in the Bretton Woods institutions.

## International cooperation on financial regulation

The crisis has again shown the need for international regulations and more transparency

The crisis has demonstrated the urgent need to introduce international regulatory oversight of a globalized financial system, with sufficient transparency for investors and regulators. This would ensure that financial leverage levels do not endanger the stability of the system as a whole and would create less volatile financial flows for innovation, risk-taking and investing in employment, production and development.

In the Declaration on Strengthening the Financial System,[36] adopted at the London Summit on 2 April 2009, the G20 countries declared their common intention to reshape regulatory systems so as to identify and take account of macroprudential risks; expand the perimeter of regulation and oversight to all systemically important financial institutions, instruments and markets; mitigate pro-cyclicality in prudential regulation; strengthen capital and risk management; implement new principles on executive remuneration; and improve standards on valuation and provisioning.

Successful reforms require international coordination

In a financially integrated world, where most of the key players have developed into large, complex multilateral firms, such reforms will be successful only if coordinated at the international level. Although of critical importance, the effort to achieve sufficient coordination and harmonization of national regulatory policies is a difficult undertaking, since, in the foreseeable future, most countries will find it difficult to delegate decisions regarding the supervision and regulation of their financial institutions or national financial system to external bodies, thereby giving up national sovereignty over a key issue of economic policy.

Current institutional arrangements remain inadequate

Heretofore, efforts to strengthen cooperation through the deliberations of the Financial Stability Forum (FSF)—recently reorganized following a G20 decision as the Financial Stability Board (FSB)—the Basel Committee on Banking Supervision (BCBS) and colleges of supervisors have proved inadequate in confronting the current financial crisis. Current institutional arrangements for ensuring that national decisions regarding regulation appropriately take into consideration both external and domestic consequences clearly remain inadequate. The effort at the G20 Pittsburgh Summit to agree on compensation standards in the financial sector presents an example of the need to rise above the variety of inconsistencies and incoherence among regulatory systems across countries, which offer potentially dangerous opportunities for arbitrage and evasion. A clear tendency remains to put domestic interests first without considering possible adverse international

36 See, "Declaration on Strengthening the Financial System", The London Summit, 2 April 2009, available at www.g20.org.

spillovers. The difficulties of better aligning national and global interests, as well as other structural, political, cultural and legal constraints, have significantly hampered effective cross-border supervision.

Fragmentation and regulatory protectionism have to be avoided

Enhanced cross-border coordination and cooperation must be accompanied by a clear commitment to avoid fragmentation and regulatory protectionism resulting from actions taken at national and regional levels to address the crisis and its aftermath. Nonetheless, the process of building up national (or regional) controls is already under way in many countries. Some observers believe that this has already had adverse international effects resulting in fragmentation of the global financial system. It will likely continue unless much better structures for international cooperation and coordination are developed to ensure a level playing field in global finance.[37]

The crisis has demonstrated the harm inflicted by regulatory loopholes and regulatory arbitrage. There appears to be an agreement, in principle, that given the national scope of regulation and the global nature of the financial markets, the coordination of regulators should be strengthened in key aspects of prudential regulation. As a first step, the international community must articulate and affirm essential principles governing financial market regulation in all countries and across borders, and provide for continuous oversight of progress in coordination and cooperation.

Bank insolvency frameworks remain incompatible

Another important gap is incompatibility among bank insolvency frameworks, especially in the case of inconsistencies between the home and host countries of financial institutions. There is broad international agreement that existing frameworks do not allow for the orderly resolution of cross-border failures of large complex banking organizations. Current frameworks focus on individual institutions rather than on financial groups or financial systems as a whole, and have proven problematic even at the national level.

No country on its own can establish an effective resolution framework in a globally integrated financial system. At the Pittsburgh Summit, the G20 leaders called for addressing, in an internationally consistent manner, cross-border resolutions for systemically important financial institutions by the end of 2010. This includes the development by financial firms of contingency and resolution plans; the establishment by authorities of crisis-management groups and a legal framework for crisis interventions; more intensive supervision; and additional capital and liquidity requirements for systemically important institutions.[38] One of the most important and difficult matters in this regard is burden-sharing. [39] To be credible, burden-sharing arrangements should be legally binding and based on objective criteria that ensure an equitable distribution of costs.

Better coordination is also needed regarding depositor and investor protection schemes

Better coordination is also needed to ensure more consistency in depositor and investor protection schemes across countries. Explicit coordination principles should help mitigate destabilizing capital flows, including deposits, from one country to another during periods of market stress and uncertainty. For instance, it has been noted that during the current crisis, the introduction of protection of domestic banks' assets and liabilities with government guarantees by some developed countries puts pressure on less protected systems in neighbouring countries, exposing them to risks of deposit runs. The network

37 See, for instance, "Seven lessons from the last three years", speech delivered by John Gieve, Deputy Governor of the Bank of England, at the London School of Economics, London, 19 February 2009, available at www.bis.org.

38 See, "Leaders' Statement", The Pittsburgh Summit, 24-25 September 2009, available at www.g20.org.

39 In the case of recent developing country debt crises, for example, the burden fell fully on Governments of debtor countries, even for privately contracted debt.

of government support in advanced countries also puts pressure on emerging-market banks.[40]

Cross-border information-sharing needs to be improved

Cross-border information flows have been inconsistent, lacking both complete data on cross-border risk exposure and an adequate appreciation of systemic connections among financial institutions, thereby providing poor guidance to the management of crisis responses. In this regard, it has been suggested that supervisors in different countries should have prior agreements on the kind of information relevant for systemic stability that all authorities should collect and share among themselves. There should be a system of unambiguous legal obligations and powers to share this information with external authorities.

While there is broad agreement on the need to improve cooperation and communication across regulators, there are quite different views on how international cooperation can be reinforced. The approach of the G20 has been to strengthen existing arrangements by requesting the FSB, with its recently expanded membership, to set standards and the IMF to assess whether national regulation meets these standards. This will expand the surveillance role of the IMF to the hitherto overlooked intersection between national macroeconomic policies and the supervision of individual financial institutions and national financial systems. In the context of the recent performance of its assigned surveillance duties, doubts about the Fund's legitimacy, accountability and effectiveness have been raised.

A more formal global regulatory framework may be needed

The most ambitious alternatives are proposals for new institutions or approaches to regulation implemented through a world financial organization, an international bank charter, and an international insolvency mechanism. According to proponents of a world financial organization, the current informal arrangements comprising numerous bodies, which have sometimes been moving on a divergent, rather than convergent, path and have no legal power, may not be enough. Thus there may be a case for exploring the need for a more formal global regulatory framework, with legal powers of enforcement similar to the World Trade Organization (WTO). The new body would establish principles for prudential supervision, define obligations for its members, appoint independent panels of experts to determine whether countries were in compliance with those obligations, and authorize the imposition of sanctions against countries that failed to comply.

A less ambitious version of the world financial organization proposal is the creation of a global regulatory coordinating council, under the aegis of the FSB.[41] Said council would be mandated to reinforce operational cooperation between the IMF and the FSB and strengthen global efforts towards harmonization and coordination.

An international bank charter could help in assessing risks

A key issue in a cross-border harmonized bank resolution framework is the division of costs among public authorities involved in such efforts. In this regard, there have been proposals for an international bank charter which would spell out the procedures for joint risk assessment, remedial action and burden-sharing across countries. There have also been calls for a universal venue, guided by international law, where cross-border insolvencies of internationally active financial institutions can be administered.

"Colleges of supervisors" are an alternative approach

A less bold approach to cooperation is the "colleges of supervisors" mechanism promoted by the G20. These colleges have been established for all the large complex financial groups that the FSB has identified as being in need of them. The colleges, consisting

40 International Monetary Fund, "Initial Lessons of the Crisis for the Global Architecture and the IMF", paper prepared by the IMF Strategy and Policy Review Department, 18 February 2009, p. 7, available at www.imf.org.

41 Letter to his Excellency Dr. Youssef Boutros-Ghali, Chairman of the International Monetary and Financial Committee, from Charles Dallara, Managing Director of the Institute of International Finance,13 April 2009, available at www.iif.org.

of home and host supervisors, are collectively responsible for the effective supervision of large cross-border institutions, including assessing risk concentration and major strengths and weaknesses, as well as deciding on firms' permissible activities. One of the key issues on the supervisory college agenda is to agree on concrete steps to codify closer home-host collaboration, including explicit agreement on actions to address vulnerabilities at an early stage. Also, in the absence of the above-mentioned bank charter, colleges could be an arbiter for home and host supervisors on bank resolution.

More coordination may be needed even within individual countries

It is also worth noting that the fragmented nature of domestic regulation in many countries also requires more coordination and cooperation. Indeed, even within national boundaries there remains the potential for jurisdictional conflict and miscommunication between competing laws and regulatory bodies.

## Multilateral surveillance and policy coordination

The design and implementation of surveillance needs to be improved

Surveillance remains the key crisis prevention tool of the IMF. But progress still needs to be made in its design and implementation. Since it is indisputable that the global financial crisis requires global solutions, the world economy, now more than ever, needs a credible IMF with a governance structure that is more representative of developing country interests, and one that can exercise strong policy leadership.

IMF surveillance can only be effective to the extent that members are cooperative and responsive in implementing recommendations. Indeed, many of the imbalances that led to the crisis had been identified by the IMF and other international organizations. However, there was a failure to act on available information. The challenge is to ensure that, going forward, the relevant information is used proactively to mitigate future crises.

A broader approach to surveillance is needed

While the Fund's traditional emphasis has been on exchange rates,[42] the crisis has pushed macrofinancial and microprudential issues onto centre stage in IMF surveillance. In this regard, more attention should be given to financial risks, including asset price bubbles, leverage, risk concentration in large banks, and hidden or off-balance sheet exposures. A key aspect here is the integration of macroeconomic and financial sector surveillance, the focus on the linkage between the macroeconomy and the financial markets and the soundness of the financial sector of member countries, especially those that are systemically important. The challenge for policymakers at both national and international levels is the lack of an agreed conceptual framework to guide international cooperation on these other, but intimately related, dimensions of policy.

A joint IMF-FSB early-warning exercise may help to streamline surveillance

The IMF, as a global institution with substantial analytical capacities, is to play an important role in helping to reach consensus on these issues and in implementing the resulting arrangements. To this end, a joint IMF-FSB early-warning exercise may help establish a less fragmented and more pointed surveillance system. Indeed, the exercise will combine the Fund's macrofinancial expertise with the regulatory experience of the Board to produce a more systematic view of evolving global risks. The final outcome of the early-warning exercise is expected to constitute policy advice for mitigating these risks.

The FSAP needs to be made more focused

In addition, the Financial Sector Assessment Program (FSAP) of the IMF and World Bank needs to be made more focused, risk-based and forward-looking, and have greater emphasis on external links and spillover effects. As regards FSAP implementation, it is worth noting that all G20 members are committed to participating in the Program.

42 See *World Economic Situation and Prospects 2009* (United Nations publication, Sales No. E.09.II.C.2), pp. 83-84.

There is an agreement that financial sector surveillance should be embedded more effectively as an element of the Fund's Article IV consultations and its results integrated into the broader macroeconomic surveillance work. Moreover, there has been agreement on the necessity of reassessing the Fund's surveillance mandate to cover the full range of macroeconomic and financial sector policies.[43]

The macroeconomic implications of fiscal measures need to be evaluated

G20 leaders called on the Fund to assess regularly the actions taken and actions required to revive global growth. It is also important to evaluate the costs and impact of the large fiscal stimulus measures as well as their long-term macroeconomic implications. The peer-review approach announced by the G20 will be serviced by IMF staff, but the enforceability of the outcomes of this makeshift mechanism is still to be tested. For many advanced economies, there is an urgent need for medium-term policy frameworks to anchor expectations and reassure markets of the long-term solvency of fiscal positions.

Moving beyond resolution of the current crisis, enhanced international cooperation should aim at identifying and implementing policies that are conducive to a rebalancing of global sources of growth and to a sustainable reduction of savings-investment gaps, as suggested in chapter I. In this regard, there have been serious concerns that policymakers may be currently sowing the seeds of future boom and bust episodes by taking actions that may slow, or possibly prevent, necessary global adjustments, by providing "too much" demand stimulus.

In this regard, the International Monetary and Financial Committee of the IMF (IMFC) called on the Fund to develop, by the time of its spring meeting in 2010, principles for orderly, cooperative and consistent exit strategies and policies. There is consensus that a premature withdrawal of monetary and fiscal stimuli by individual countries with a view to an "orderly exit" would pose a significant risk. Thus, an exit strategy should retain a counter-cyclical policy framework, with the phasing out of stimulus measures after unemployment rates have come down to acceptable levels.

Enhanced surveillance has to focus on reducing imbalances

The primary long-term goal of enhanced surveillance must be the reduction of global imbalances, including those that contributed to the current crisis. This can only be accomplished if key systemically important countries take a coordinated approach to fiscal and monetary policy with the aim of shifting aggregate demand from deficit to surplus countries.

A political agreement on coordination is part of the solution to the crisis

The current crisis has brought to light important weaknesses in international cooperation and coordination. In this regard, it has been stressed that even where the problems were well understood, there was no agreement on responsibilities or means for enforcing the necessary cooperative actions.[44] Consequently, it is necessary to build an effective framework for enhanced multilateral surveillance and policy coordination against the backdrop of planned governance reform in the IMF and other global institutions.

Without a political agreement in this area any solution to the present crisis would only be partial and inadequate. Moreover, if such a framework or forum for policymakers having an authority to respond to global systemic concerns is not established, the enhanced resources and mandate of the Fund will likely not be enough to forestall future crises. There is a need to promote an adequate level of coordination, be it under the auspices of the IMF or not, aimed at having mutually compatible policies on fiscal, monetary and exchange-rate issues, including mechanisms to address accountability and enforceability in the application of these policies.

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43 Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund, Washington, D. C., 4 October 2009, available at www.imf.org.

44 See, for instance, Amar Bhattacharya, "A Tangled Web", *Finance & Development*, March 2009, p. 42.

At the Pittsburgh Summit, leaders put forward the G20 as the premier forum for international economic cooperation, and launched a Framework for Strong, Sustainable and Balanced Growth aimed at ensuring that the fiscal, monetary, trade and structural policies of their countries are collectively consistent with the Framework's objective, including the reduction of development imbalances. It was also decided that the IMF would assist the G20 members in the mutual assessment of how their policies fit together.

Swift action by the G20 helped avoid an economic collapse

The crisis has shown that international cooperation can be mobilized if the interests of major economic powers are under threat. Indeed, swift and decisive policy actions by G20 countries and, at their request, by multilateral financial institutions might have helped avoid an outright global economic and financial collapse. The G20 has also become a significant locus for multilateral economic discussion, but its effectiveness will be truly tested in the coming global effort to address international imbalances in trade, finance, and the public-private economic mix.

More universal venues for economic coordination and reform, such as the United Nations—particularly in a global system of mechanisms specializing in such distinct areas as trade, development finance and macroeconomic cooperation—could still prove to be indispensable in the long run. But the agility of small groupings such as the G20 is an advantage in a crisis situation. It will be necessary for the G20 process to develop greater legitimacy, especially as it begins to deal with a broader set of issues, including through allowing variable membership configurations depending on the issues under discussion, forging stronger institutional linkages with non-member States and achieving responsiveness of more universal international bodies to G20 decisions.[45]

The crisis presents an opportunity to strengthen multilateral collaboration

The ongoing crisis has given new and strong impetus to improving policy coordination on economic and financial issues. National authorities have pronounced a rejection of beggar-thy-neighbour type policies but do not have a secure international context in which to moderate domestic pressures towards unilateral policies. The crisis should be seen as an opportunity to strengthen multilateral collaboration in a significant way. To that end, however, a whole spectrum of world economic governance issues needs to be urgently addressed.

## IMF lending and resources

Since the onset of the crisis, the IMF has been providing large-scale financing to a small group of countries. An important characteristic of new IMF lending arrangements has been their exceptionally large size in relation to the country's quota. The conditions of the recent loans have been fewer and more targeted than in the past. However, these conditions continue to place at their core standard IMF-type elements such as public sector spending reductions and prohibitions on capital-account restrictions whose role in the current situation has raised some concern.

The IMF has made changes to its lending toolkit

Along with meeting immediate country needs, the Fund has moved to overhaul its lending toolkit and conditionality framework to increase the effectiveness of its crisis prevention and resolution efforts. It has doubled all loan access limits, including those for low-income countries, and the surcharge framework has been simplified.

Moreover, in March 2009, the Flexible Credit Line (FCL), a crisis prevention instrument, was established. The main objective of the FCL is to provide assurance to

45 See, for instance, statement by the representative of Singapore at the eighth meeting of the Second Committee, United Nations General Assembly, 12 October 2009 (press release GA/EF/3244).

members with strong economic policies and a proven track record of rapid, large and upfront access to Fund resources in case of need, with no ex post conditionality. Colombia, Mexico and Poland have already signed up for this new facility for an amount totalling $78 billion. The Fund has also indicated that it is committed to providing larger amounts and more upfront financing across a wide range of its facilities.

For other middle-income countries which may need a large precautionary arrangement, but which have yet to go through policy adjustment, there is a new High-Access Precautionary Arrangement (HAPA), also characterized by large and frontloaded access, but imposing ex post performance requirements. The existence of two precautionary facilities has raised some concerns, however, as the choice between an FCL and a HAPA would inevitably require potentially controversial judgements regarding the strength of underlying policies, economic fundamentals and the track record of member countries, often leading to arbitrary differentiations among them. This conundrum exposes the underlying deficiency of an approach that is meant to provide unconditional financing for truly external shocks, but access to which is based on meeting a set of prior conditionality indicators derived from standard IMF criteria which have not proven robust in previous episodes (such as in the Asian crisis).

The current arrangements can only be a first step

The introduction of the FCL and HAPA can only be seen as a first step in the effort to prevent and resolve crises, if even that, since the instruments being introduced take as given the existing international regulatory regime over private capital flows. For example, one could view these enormous publicly provided resources as an implicit guarantee for private sector investments in emerging markets, thereby creating an unacceptable moral hazard. The IMFC, at its twentieth meeting on 4 October 2009, asked the Fund, by the time of the 2010 Annual Meetings, to study and report on the latter's future financing role, including the possibility of offering credible alternatives to self-insurance. The crisis has highlighted the need for very large liquidity buffers to deal with fast and sizeable capital market shocks. Accordingly, a much larger precautionary facility that reduces the need for self-insurance against crisis and is available for a vast majority of countries may be needed. A more representative and legitimate IMF could become an important provider of reliable emergency financing, gradually taking over the role of international lender of last resort that is now assumed by some of the major national central banks through swap arrangements.

Many of the recent changes in lending facilities have been focused on precautionary arrangements. However, there is also scope for further innovation with regard to how resources in drawing programmes are deployed. Amidst unprecedented crisis, it is important to take a fresh look at the ways in which the IMF provides its support.

The focus of conditionality has shifted

As of 1 May 2009, structural performance criteria were discontinued for all IMF loans, including programmes with low-income countries. The focus of conditionality is shifting to an ex ante and review-based approach. Structural reforms will continue to be part of IMF-supported programmes, but only when they are considered critical to a country's recovery, in contrast to the previous approach, which always included a panoply of structural reform conditionalities, including requirements unrelated to the problems at hand. As identified in many studies, including research by Bretton Woods institutions' staff,[46] structural reforms tend to enhance pro-cyclicality, while macroeconomic reforms have a deflationary bias, constricting public investment and social expenditures critical to sustainable long-term development.

46 See, for example, the background report dated 6 April 2009, entitled "Fiscal Policy for Growth and Development: An Interim Report", submitted to the Development Committee Meeting of the IMF and the World Bank on 23 April 2009, available at http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20890698/DC2006-0003(E)-FiscalPolicy.pdf.

Reducing the policy stigma of seeking IMF support is considered vital

Strong, credible policy frameworks are necessary, and there is an urgent need for greater clarity regarding which policies are actually effective, given that the current situation has raised many questions about the standard framework. In fact, there is now often a stigma attached to seeking support from the Fund, signalling underlying policy weaknesses which can be exacerbated in the course of the Fund's programme. Reducing this political stigma is considered vital to increasing use of the Fund by its members, thus enabling it to play a greater role in recovery from the global crisis.

## IMF support to developing countries

Counter-cyclical measures should be emphasized

For example, despite pronounced intentions, many recent IMF country programmes contain pro-cyclical conditions that can unnecessarily exacerbate an economic downturn in a number of developing countries. Indeed, amid sharply falling global demand, the Fund has been advocating belt-tightening for many developing programme countries. At the same time, it has been praising advanced economies for their unprecedented efforts in borrowing and spending their way out of recession. The IMF should expand the use of its resources to help support counter-cyclical measures in those developing countries that have sustainable public finances in the medium-term but are impeded in this effort by adverse market conditions. This would be consistent with ongoing concerted efforts to stimulate global demand.

The IMF and the World Bank are reviewing debt sustainability

During the global slowdown, many countries may need to borrow more to support output recovery and maintain social spending. To ensure that the developing countries are not unduly constrained by policy arrangements from taking on more debt to support recovery efforts, the IMF and the World Bank are reviewing the Debt Sustainability Framework for Low-Income Countries (DSF), as had been requested by the G20. The DSF should be sufficiently flexible to take into account each country's circumstances while still performing its role in preventing a renewed build-up of unsustainable debt burden.

There have also been suggestions for the IMF and other international financial institutions to take an unorthodox stance and use their financing to address problems in the corporate and banking sectors, including support for bank recapitalization or facilitation of the rollover of private external debt.[47] The Fund's financing of member Governments has traditionally been used for the replenishment of foreign-exchange reserves, sovereign debt repayment or intervention in the foreign-exchange market. However, in the current crisis, Governments and their central banks, in both developed and developing countries, have used foreign-exchange reserves and new borrowing to help their domestic financial institutions and corporations repay international creditors. With the ongoing globalization of finance, these needs are likely to increase further. The IMF should play an important role in meeting them.

IMF lending needs to be more flexible

There is a consensus that the Fund's lending to low-income countries should be more flexible in the light of long-recognized diverse country needs and growing exposure to global volatility. In July 2009, the IMF announced a new concessional lending framework to enhance its usefulness to low-income countries. In addition to the doubling of average loan access limits for low-income countries mentioned above, the Fund's concessional lending capacity was boosted to up to $17 billion through 2014, of

47 See, for instance, statement by Alistair Darling, Chancellor of the Exchequer, United Kingdom, at the nineteenth meeting of the International Monetary and Financial Committee, International Monetary Fund, Washington, D. C., 25 April 2009, available at www.imf.org.

which $8 billion is to be delivered in the first two years. This exceeds the call by the G20 for $6 billion in new lending over two-to-three years. The new measures include a new unified facility for low-income countries under a new Poverty Reduction and Growth Trust (PRGT) fund. The framework comprises three new concessional lending facilities: an Extended Credit Facility (ECF), successor to the PRGF, to provide medium-term support; a Stand-by Credit Facility (SCF), similar to the Stand-By Arrangement, to address short-term and precautionary needs; and a Rapid Credit Facility (RCF), to offer emergency support with limited conditionality. In addition, interest payments for low-income countries have been temporarily suspended.

G20 leaders pledged to increase the lending capacity of the IMF

In the context of lending reform and sharply higher demand for Fund financing, G20 leaders pledged to triple the lending capacity of the IMF to $750 billion and, as mentioned above, at least double its capacity for concessional lending to low-income countries. To bolster the Fund's resources as quickly as possible, it was decided to negotiate temporary bilateral credit arrangements with the IMF totalling $250 billion, to increase New Arrangements to Borrow (NAB) by up to $500 billion and to expand the participation in NAB to additional, financially strong IMF members. There was also an agreement to implement the 2008 quota agreement as quickly as possible—thereby increasing IMF quota resources by 12 per cent—and complete the next review of IMF quotas by January 2011, accelerating the process by two years.

Fund borrowing cannot replace quota increases

Bilateral borrowing arrangements and the expansion of NAB are likely the most viable options for mobilizing liquidity in a timely manner. However, they are considered by many IMF members to be a temporary bridge to a permanent increase of resources through a general quota review. They are also potentially harmful in that they could create conflicts of interest for an institution mandated to undertake surveillance over all members. Consequently, Fund borrowing cannot be seen as a substitute for a substantial quota increase in terms of maintaining IMF decision-making structure or legitimacy. Over the medium term, it is important from both governance and balance-sheet perspectives that the quota be restored as the primary basis of IMF lending. The next review of IMF quotas, envisaged for January 2011, comes at an appropriate moment in this regard.

## The global reserve system

The G20 decided on a general SDR allocation

In April 2009, the G20 decided on a general special drawing rights (SDR) allocation by the IMF equivalent to $250 billion as part of the package to raise official lending capacity in response to the crisis. By so doing, the world leaders, for the first time since the late 1960s, recognized the need to significantly boost international liquidity using an international reserve unit. The proposed general allocation was approved by the Fund's Board of Governors and came into effect in August 2009. Also, in August 2009, the Fourth Amendment to the IMF Articles of Agreement adopted in 1997—which corrects for the fact that countries which joined the Fund after 1981 have never received an SDR allocation—entered into force. The special one-time allocation of about $33 billion was made in September 2009. With the two fresh allocations totalling roughly $283 billion, the outstanding stock of SDRs increased nearly tenfold from about $33 billion to about $316 billion.

The crisis has illustrated the deficiencies of the status quo

The ongoing financial crisis has brought to the fore the deficiencies of the present international monetary system, in which a national currency (the United States dollar) serves as a dominant source of international foreign-exchange reserves. These deficiencies include growing global imbalances, exchange-rate instability and the possibility

of an erosion of confidence in the dollar as a reserve currency (see chapter I). The spread of greater exchange-rate flexibility did not produce changes that reduced trade and financial imbalances; in fact, it contributed to the inherent instability of the system. Exchange-rate adjustments were not quantitatively sufficient and often progressed in the wrong direction, owing to the fact that the United States dollar, as a reserve currency, serves as a benchmark for many other currencies and an anchor for international asset prices.

In the era of globalization, the use by all countries of a widely accepted national reserve currency has its clear benefits owing to network externalities. However, the costs of such an arrangement in terms of systemic instability may have started to exceed the benefits. Similarly, the costs to the United States as supplier of global reserves may also be rising. Increased imbalances have had an adverse effect on United States domestic demand and on external demand for United States products as well as, more generally, on the country's potential ability to maintain economic policy autonomy.

Using a multicurrency system could add further instability

There have been suggestions for a move away from the almost exclusive reliance on the United States dollar towards a system based on multiple, competing national reserve currencies. However, the experience of the interwar period specifically suggests that such a system adds another element of instability: that associated with exchange-rate volatility among currencies used as reserve units, stemming from the possibility of sharp shifts of demand from one international currency to the other, since they are likely to be close substitutes.[48] In addition, such a move would not solve the inherent inequity in the current system, as reserve assets would still be provided by industrial countries. Moreover, developed countries issuing reserve currencies are likely to account for an increasingly limited share of the world economy. Hence, the demand for international reserves will likely grow faster than the capacity of these countries to provide a smooth supply.

A truly global reserve currency would be more equitable

Discussions concerning wider use of a truly international currency have been gaining momentum. The international community should seize this opportunity to start deliberations on the feasibility and desirability of the creation of a new, more stable and equitable international monetary system. While, unlike in the late 1960s, the provision of global liquidity is not an issue, the current problems are associated with the control of global liquidity, and significant equity issues regarding access by developing countries to such liquidity.[49] Moreover, a system based on a truly global reserve currency would create a more equitable method of sharing the seigniorage derived from providing global liquidity.

A more realistic approach may be to broaden SDR arrangements

The introduction of a full-fledged international reserve currency, based, for instance, on the proposal by John Maynard Keynes, may take a long time as it requires extraordinary political will, vision and courage, all of which are still lacking. In this regard, it has been argued that a more realistic way of reform may be to broaden existing SDR arrangements which, perhaps, over time could evolve into a new and widely accepted world reserve currency.[50]

Making SDR issuance automatic and regular could be a first step forward. It has been suggested that the size of the issues could be linked to the estimated additional demand for foreign-exchange reserves resulting from the growth of the world economy. There have

48 See, for instance, Barry Eichengreen, "Out of the Box Thoughts about the International Financial Architecture", IMF Working Paper, No. WP/09/116, May 2009, p. 10, available at www.imf.org.

49 For an extensive discussion of the global reserve system and possible ways to reform it, see, for instance, Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System, pp. 92-102, available at www.un.org/ga/president/63/interactive/financialcrisis/PreliminaryReport210509.pdf.

50 Zhou Xiaochuan, "Reform the international monetary system", 23 March 2009, available at www.bis.org.

also been calls to issue SDR in counter-cyclical fashion to finance world liquidity and provide official support to developing countries during crises. One version of the proposal to use SDR in a counter-cyclical manner envisages the development of an appropriate mechanism to withdraw SDR should global liquidity become excessive or inflationary. It is worth noting that the procedure under which countries holding 85 per cent of the IMF voting power must agree before SDRs can be issued may not be appropriate if the Fund were authorized to provide additional SDR liquidity in periods of shortage. Rather, it must be able to act more like a global central bank and international lender of last resort.

SDR allocation is closely linked to the reform of IMF quotas

Because the current mechanism of SDR allocation is based on IMF quotas, such new allocations of SDR would provide developing countries with additional liquidity of only about $110 billion. This suggests that the issue of the SDR allocation should be closely linked to the reform of IMF quotas. Besides, as not all members need an increase of their international reserves, the Fund should explore mechanisms to redistribute SDR to countries most in need.

A revival of the substitution account may need to be considered

It has been suggested also that the international community revive the idea of the substitution account put forward in 1971. Under this proposal,[51] official dollar holders could deposit part of their reserves in a special account in the IMF denominated in SDRs. The centralized management of a part of member countries' reserves by the IMF would help promote both a greater role for the SDR as a reserve currency and more effective reserve management at the global level, as it would allow central banks to diversify out of dollars without causing sharp exchange-rate swings and, probably, use some excessive reserves for domestic development. A more ambitious version of the proposal calls for an open-ended SDR-denominated fund set up by the IMF, allowing subscription and redemption in the existing reserve currencies by various investors as desired. This arrangement is thought to form the basis for promoting the development of SDR-denominated assets and partially allowing the management of global liquidity in the form of existing reserve currencies.

SDRs would need to be commercialized

It is widely recognized that making the SDR an attractive unit in which to hold central bank reserves requires deep and liquid markets in SDR claims. To achieve this, the issuance and use of SDRs by the IMF, Governments, banks and non-financial firms need to reach a certain critical mass. In other words, it will be necessary to overcome the coordination problem (prospective issuers should have evidence that others would act in like manner). In the past, all attempts to commercialize SDR have been unsuccessful.

A settlement system would need to be established between SDRs and national currencies

Another important issue is a settlement system between the SDR and national currencies to make the unit an acceptable means of payment in international trade and financial transactions. Such a system should be able to facilitate the direct exchange of SDR claims not only into dollars but into all constituent currencies. In order to accommodate the expected increase in the volume of SDR transactions resulting from new allocations, the IMF has called for an expansion of the capacity of voluntary arrangements to ensure adequate liquidity in the SDR market. Several countries, including China and the United States, have already committed themselves to establishing a new arrangement or expanding the capacity of their existing arrangements in the light of the new allocations.

To gain global prominence, the number of currencies that constitute the SDR would have to increase

Furthermore, SDRs are currently valued against a basket of currencies consisting of the euro, the Japanese yen, the pound sterling and the United States dollar. To gain

51 Peter B. Kenen, "Revisiting the Substitution Account", paper presented at the conference "Towards a World Reserve System" held by the Initiative for Policy Dialogue of Columbia University on 6 November 2009.

global prominence, the number of constituent currencies of the SDR would have to be increased to include monetary units of both developed and developing countries.

## Global governance and the Bretton Woods institutions

The IMF needs a reformed governance structure

Strengthening the resource base of the Fund and improving its lending toolkit to address the global crisis should proceed together with longer-term reforms to boost its governance and legitimacy. The IMF needs a more representative, responsive and accountable governance structure to ensure that it remains at the centre of the international monetary system and reflects the realities of the twenty-first century. The reform of governance is therefore a necessary prerequisite for all other changes involving the role of the Fund.

Changes in voting power have so far been insignificant

The changes in voting power have thus far been insignificant compared with the changes that have occurred in the global economy. The 2008 quota and voice reform will basically lead to a realignment of existing shares primarily through a redistribution among the group of emerging market and developing countries, a step back from the agreement of September 2006, which premised these reforms in terms of increasing the overall voice of developing countries. The understanding that providing ample voting weight to potential users of Bretton Woods institutions' resources would help guarantee these institutions' effectiveness—a principle enshrined in the original 1944 allocation of voting weights when European countries were the prospective users—should guide vote reallocation and reforms in voting procedures. Consequently, the next realignment of quotas in favour of emerging market and developing countries should go far beyond the initial modest agreement achieved during the 2008 Spring Meetings, which has yet come into force.

IMFC and the Development Committee agreed to shift at least 5 per cent of aggregate quota shares in the IMF and 3 per cent in the World Bank from developed to developing and transition countries at the next quota review, scheduled to be completed in January 2011. Many developing countries, however, emphasized that a shift of at least 7 per cent in the IMF and at least 6 per cent in the World Bank has been committed to by the G20 Pittsburgh Summit and should not be further delayed.[52]

There is a proposal to lower the voting threshold on critical decisions

To further democratize the voting procedure and ensure that decisions affecting key aspects of the institution have the support of the majority of members, a proposal has been made to amend the Articles of Agreement to lower the voting threshold on critical decisions from 85 per cent to between 70 and 75 per cent. To better balance the interests of large and small countries, consideration should also be given to applying double majority mechanisms to a wider range of decisions. At present, a double majority (support by three fifths of the members having 85 per cent of the total voting power) is required to amend the Articles of Agreement.

Another important issue is the composition of the Executive Board. In this regard, there have been proposals to reduce the size of the Board from 24 to 22 chairs by 2010 and to 20 chairs by 2012, while preserving the existing number of emerging market and developing country chairs.[53]

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52 Communiqué of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development, Istanbul, Turkey, 3 October 2009, available at www.g24.org.

53 Statement by Timothy Geithner, Secretary of the United States Treasury, at the nineteenth meeting of the International Monetary and Financial Committee, Washington, D. C., 25 April 2009, available at www.imf.org.

A more democratic distribution of voting power on the Board has been called for

The objective of ensuring greater involvement of the Fund's Governors in providing strategic direction to the IMF and in increasing its accountability can only be achieved under a more democratic distribution of voting power on the Board. As a possible immediate step, there have been calls to transform the IMFC into a council, as envisaged by Article XII of the Articles of Agreement. Some consider that a council, consisting of ministers and governors, would provide a forum for coordination and take strategic decisions critical to global stability.[54]

It has been emphasized, however, that before activation of a council, a substantial and far-reaching reform of quota and voice should be accomplished. Otherwise, with prevailing voting shares, the developing countries would have even less influence in the IMF. Indeed, unlike the present consensus-based IMFC, the council's decision-making rule, as contained in the Articles of Agreement, would be the same as that of the Executive Board.[55]

The G20 has agreed on the appointment process for leadership positions

The G20 has also agreed that the heads and senior leadership of the international financial institutions should be appointed through an open, transparent and merit-based selection process, with due regard to gender equality and geographical and regional representation. In order to ensure the legitimacy of the Fund and the World Bank as truly global institutions, it is important to achieve greater diversity among staff members and to avoid the disproportionate representation of only a few specific regions.

World Bank reform should be even more ambitious

It has been claimed that the reform of the World Bank should be even more ambitious and, given its development mandate, not simply mimic the IMF in all respects. For instance, in its report on World Bank governance,[56] a high-level commission led by former Mexican President Ernesto Zedillo suggested that the historic link between IMF quotas and International Bank for Reconstruction and Development (IBRD) shareholding and voting power allocation should be abandoned, and called for the development of Bank-specific principles and formulas for shareholding. The Commission also recommended that the balance in voting power in the Bank should be evenly split between developed and developing countries.

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54 See Final Report of the Committee on IMF Governance Reform, 24 March 2009, available at https://www.imf.org/external/np/omd/2009/govref/032409.pdf.

55 International Monetary Fund, "Executive Board Report to the IMFC on Reform of Fund Governance", 3 October 2009, available at www.imf.org.

56 See, "Repowering the World Bank for the 21st Century", Report of the High-Level Commission on Modernization of World Bank Group Governance, October 2009, available at www.worldbank.org.

# Chapter IV
# Regional developments and outlook

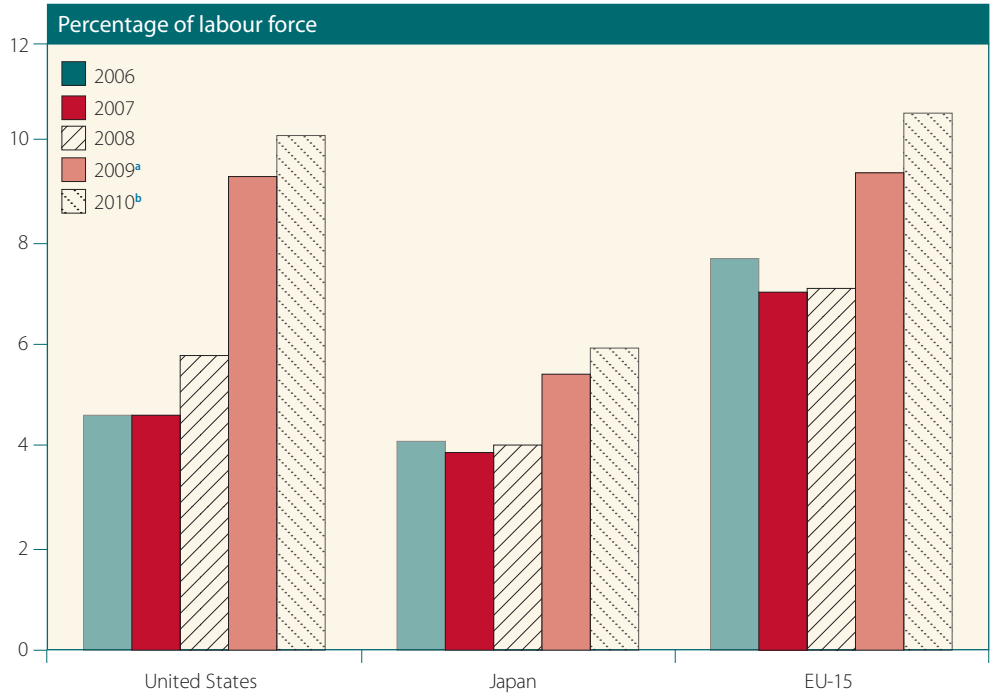
## Developed market economies

The developed market economies have finally exited their deepest recession since the 1930s, but the current situation is highly dependent upon policy stimuli and short-term factors, and the medium-term outlook points to subdued rates of growth with significant downside risks.

Unemployment has increased dramatically across the region, posing a number of risks, both short and long term (see figure IV.1). In the short term, the transition to sustained growth will require a durable improvement in private consumption expenditure, which would be jeopardized by continuing high unemployment. In the medium run lies the danger posed by the growing number of persons without a job who could transition from short- to long-term unemployment, a difficult problem in itself, but also a factor generating lower long-run growth potential.

Fiscal and monetary policies have played key roles in stabilizing activity, but the unwinding of these stimuli will be a delicate task. On the fiscal side, government deficits have increased enormously and, given current trajectories, are in many cases not sustainable (see figure IV.2). But premature consolidation would be disastrous, risking a return to recession, as discussed in chapter I. Similarly, monetary policy must withdraw the massive

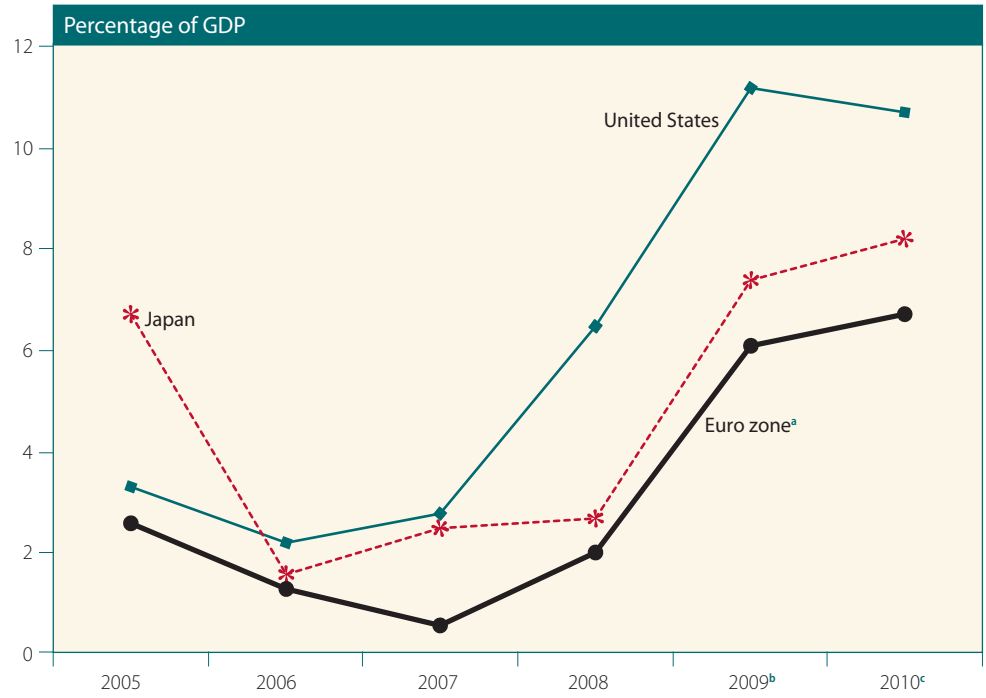
Figure IV.1
**Unemployment in the developed regions, 2006-2010**




**Sources:** Project LINK and UN/DESA, based on data of the Organization for Economic Cooperation and Development (OECD).

**a** Estimated.
**b** Forecasts.

Figure IV.2
**General government financial deficit, 2005-2010**




**Source:** OECD, *Economic Outlook*, November 2009.
**a** Excluding Cyprus, Malta and Slovenia.
**b** Estimated.
**c** Forecasts.

stimulus provided by unconventional measures and return interest rates to more neutral levels without disturbing the recovery. Some degree of policy coordination may be necessary in this process to mitigate the impact of changing interest-rate differentials on currencies.

## North America: growth resumes in the United States but downside risks are high

The economy of the United States of America has moved beyond the trough of its worst recession since the Second World War as, after four quarters of decline, gross domestic product (GDP) resumed growth in the third quarter of 2009; the developments of many high-frequency indicators are consistent with continued growth in the coming quarters. With a slump in the first half of the year, the growth rate for 2009 as a whole is expected to be -2.5 per cent (see annex table A.1). A mild recovery of 2.1 per cent is forecast for 2010, as private consumption is expected to remain weak owing to high unemployment and the need to rebuild the household wealth that was lost during the financial crisis.

The housing market is stabilizing

The recession was mainly caused by the bubble-bust cycle of the housing sector and the associated credit crisis. By the time the housing market reached its trough in May 2009, the level of new home sales had dropped by 74 per cent from its peak in 2006. The Standard and Poor's Case-Shiller Home Price Index for twenty cities declined by 32 per cent in the same period. Builders, in an effort to reduce the supply of new homes, pushed housing starts to a level which was 79 per cent lower than the peak level of 2006, their lowest in history. These factors have triggered a continuous decline in residential investment since 2006. However, in mid-2009, signs of a turnaround emerged in the housing sector, especially in construction activity and housing prices, and further stabilization is expected going forward.

Households are saving more

During the crisis, the reduced value of real estate assets held by households and the simultaneous lower market value for their financial assets significantly reduced the net wealth of households and, as a consequence, the ratio of total debt to financial assets soared (see figure IV.3). In order to rebuild their balance sheets, households adjusted their consumption behaviour in the form of a higher saving ratio. Households also increased their savings as a buffer against income uncertainty following the surge in unemployment. The ratio of personal saving to disposable household income increased from 1.2 per cent for the first quarter of 2008 to 4.9 per cent in the second quarter of 2009.

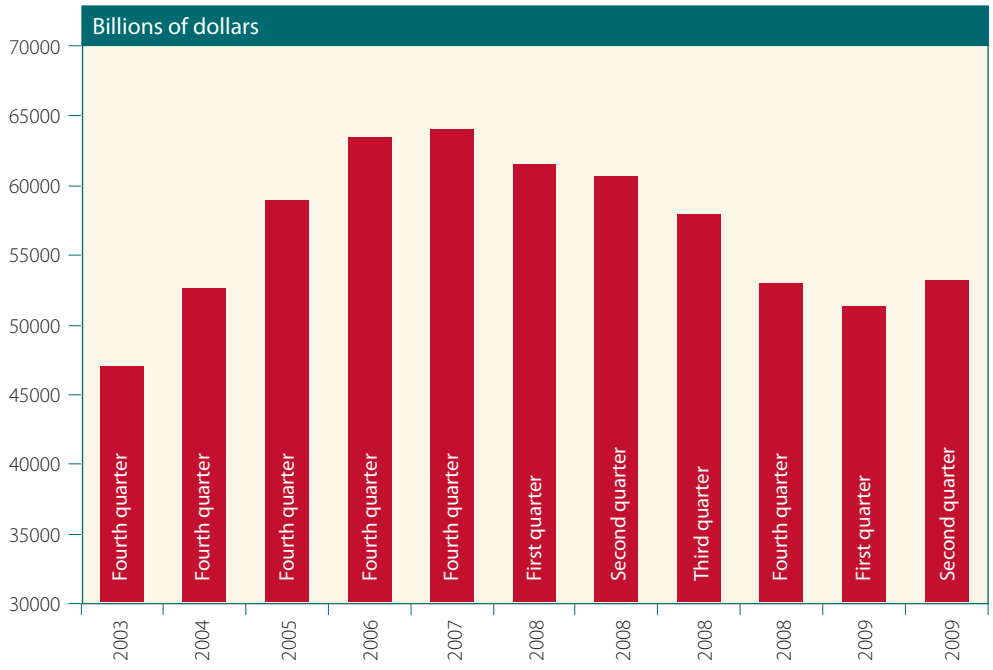
The predicted stabilization of the housing market is expected to help the recovery of private consumption. However, given the headwinds faced by households, this recovery is expected to be weak, with private consumption contracting in 2009 before increasing by a modest 1.5 per cent in 2010.

Business investment suffered a shock of a magnitude similar to that of residential investment. Capital spending on equipment and software items started to decline from the beginning of 2008, while business spending on construction joined the downturn in the second half of 2008. Credit tightening, falling equity prices and declining corporate profits have all led to a sharp decline in business fixed investment. Although the fall in capital goods orders may have bottomed out in mid-2009, business construction is expected to remain weak for an extended period, dragged down by the general weakness in the economy, the inventory overhang and the difficulty in financing. In summary, fixed capital formation is expected to decline by another 18 per cent in 2009 but will increase by 2.3 per cent in 2010.

High unemployment may be a drag on the recovery

Labour-market conditions have been deteriorating since 2008, with the level of employment on a continuous decline. By the end of 2009, more than eight million people had lost their jobs, pushing the unemployment rate up to more than 10 per cent. Over the same period, average working hours also declined. Going forward, this provides

Figure IV.3
**Net worth[a] of assets of United States households and non-profit organizations, fourth quarter of 2003-second quarter of 2009**




**Source:** United States Federal Reserve Board, Flow of Funds Account, available at http://www.federalreserve.gov/releases/z1/.

**a** Net worth at the end of each quarter, not seasonally adjusted.

firms with the possibility of increasing output without new hiring. Given the relatively weak recovery, employment is not expected to pick up until the latter half of 2010 causing the rate of unemployment to peak by mid-year before it eases back (see annex table A.7).

Headline inflation peaked at 5.6 per cent in July 2008 and has been declining steadily ever since, reaching a low of -2.1 per cent in July 2009; it is estimated to average -0.4 per cent for the year as a whole (see annex table A.4). This swing in inflation mainly reflects the volatility in the prices for energy and certain commodities over the 2008-2009 period. Core inflation has been running just below 2 per cent throughout 2009, decelerating slightly towards the end of the year, and is expected to remain subdued in 2010. Cost pressures, as measured by unit labour costs, are expected to remain weak. The growth rate (year on year) in hourly wages declined from 3.7 per cent in January 2009 to 2.4 per cent in October 2009 and is expected to remain stable in 2010 (close to the rate of core consumer price index (CPI) inflation), while labour productivity growth is expected to increase slightly. Moderate core inflation, coupled with the assumption of another rise in energy and other commodity prices, is likely to keep headline inflation low, at a projected 1.4 per cent on average for 2010.

The external deficit has declined

The external balances of the United States have undergone a significant adjustment over the past few years. After reaching its peak in mid-2006, the trade deficit is estimated to have fallen by more than half in nominal terms by the end of 2009. In volume terms, the growth of imports started to slow down or even turn negative in late 2006 and has fallen by about 14 per cent in 2009. The growth of exports (in volume terms) started to increase in 2007 and reached a rate of 5.4 per cent in 2008. However, the global recession in 2009 led to a collapse in trade, with the exports of the United States falling by 10.4 per cent. In addition, the drop in fuel prices after the summer of 2008 has helped to reduce the import bill by about $80 billion for 2009. The lower trade deficit has also reduced the current-account deficit, but it is expected to increase again in 2010 with the sharp rise in the fiscal deficit and insufficient increase in private savings.

The Federal Reserve is expected to keep interest rates down

On the policy front, the United States Federal Reserve (Fed) is assumed to keep the federal funds rate within the current range of 0.00–0.25 per cent until the third quarter of 2010. It is also assumed that the $700 billion that was authorized for the Troubled Asset Relief Program (TARP) will be fully utilized. Of all the announced elements of TARP, the Public-Private Investment Program (PPIP) is the most recent one to have been put into operation and only part of the amount committed has been allocated as of late 2009. It is assumed that it will be fully implemented and will further relieve the credit constraints encountered by businesses and households.

Public debt will rise to worrisome levels

In February, the Government enacted the American Recovery and Reinvestment Act of 2009 which planned to disburse $787 billion over ten years to provide economic stimulus. Through the Act, the Government aims to provide direct relief to households through tax cuts, expanded unemployment benefits and social welfare provisions. It also envisages increased government expenditure and investment. Nevertheless, this package, together with the cost of bailing out financial institutions and the reduced revenue owing to the recession, has jointly pushed the federal budget deficit to $1.4 trillion for the 2009 fiscal year, equal to 9.9 per cent of GDP. The current government budget is anticipated to post an even higher deficit for the 2010 fiscal year. On the level of State and local governments, reduced revenue has restrained their capability to provide additional stimulus. In some instances, State and local governments even had to cut expenditures and raise taxes.

Risks include the possibility of a resumption of a downward spiral in financial markets, a continuation of the housing slump, a further increase in unemployment rates, and a continuation of the drop in business capital spending. The tremendous increase in government debt, combined with the fact that the Fed is now holding huge amounts of public debt securities, presents another risk that could trigger concerns about the value of the United States dollar, as discussed in chapter I.

Canada's growth was dragged down by the United States economy

After a very weak growth of 0.4 per cent in 2008, the Canadian economy is expected to recover from its decline of 2.6 per cent in 2009 and to expand again by 2.6 per cent in 2010. Since the financial system in Canada was much less exposed to toxic assets and far less leveraged than that of the United States, the banks have been able to navigate the financial crisis without receiving capital injections from the Government. Yet, the extremely close economic ties with the United States have provoked a severe downturn through trade channels. Merchandise exports are more than 75 per cent dependent upon United States markets and fell by about 25 per cent in the first half of 2009 following the economic downturn south of Canada's border. Weak private consumption and fixed investment demand have amplified the downturn originating in the external sector.

In 2010, the Canadian economy is expected to recover, aided by a fiscal stimulus in the form of both tax cuts and higher government expenditure, as well as by the incipient economic recovery in the United States and the turn in the global inventory cycle. The expected recovery of prices for oil and other commodities will also provide some growth impetus as primary products make up an important share of Canadian exports. As employment growth typically lags the growth of production, the unemployment rate will likely stay in the range of between 9.5 and 10 per cent for an extended period.

## Developed Asia and the Pacific: high dependency on a global recovery

The economy of Japan is tentatively recuperating from its worst recession in three decades. Since the second quarter of 2009, exports and industrial production have rebounded, leading to an improvement in business sentiment. A mild recovery of 0.9 per cent is expected for 2010, compared with an estimated slump of almost 6 per cent in 2009 (see annex table A.1).

Growth is highly dependent upon export performance

After collapsing by about 40 per cent in late 2008 and early 2009, Japanese exports started to rebound in the second quarter of 2009, but the momentum has moderated recently, reflecting in part the cyclical nature of the global inventory adjustment. Exports will continue to grow in 2010, but only at a moderate pace (see figure IV.4).

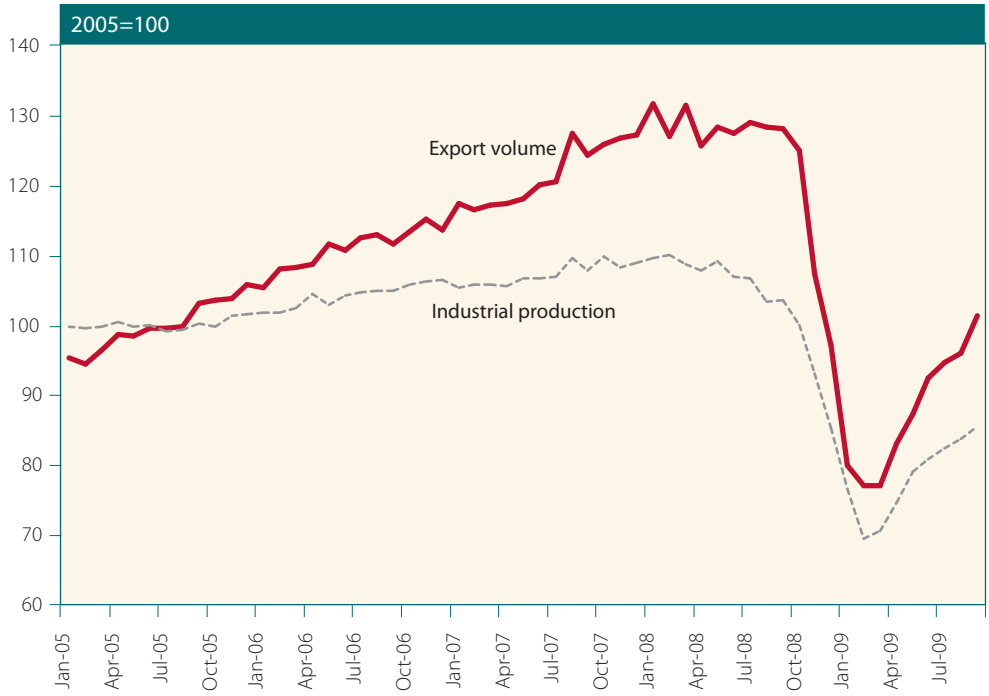
Business investment remains weak but public investment has become an engine of growth

Domestic demand remained weak in the second half of 2009, despite a rebound in industrial production. Business investment continued to decline, although at a moderated pace. Corporate financing conditions have improved, as the premium for corporate bond issuance narrowed and funding for the private sector in general has increased, albeit slowly. However, corporate profits have continued to decline substantially. Given the excess in industrial capacity, business investment is expected to remain weak in the outlook. Public investment, in contrast, has increased, especially public construction, and is expected to remain elevated in the outlook along with the continued implementation of various stimulus measures.

Private consumption is constrained by high unemployment

Demand for durable consumption goods has rebounded, but aggregate private consumption remains weak. A key drag in this respect is the increasingly deteriorating employment situation. In the labour market, the ratio of job offers to applicants

Figure IV.4
**Japan's export volume and industrial production, January 2005-September 2009**




**Source:** UN/DESA, based on data from the Bank of Japan and the Japanese Ministry of Economics, Trade and Industry.

has continued to decline. Despite some monthly fluctuations, the unemployment rate is at an historical high of about 5.5 per cent. At the same time, the nominal wage rate is continuing to decline and employee income has decreased significantly. Under these circumstances, private consumption will continue to be severely constrained in the outlook. Deflation continues to characterize economic conditions in general.

No change is expected in monetary policy measures

The Bank of Japan (BoJ) has taken a number of monetary policy measures in three main areas by reducing the policy interest rate, ensuring stability in financial markets and facilitating corporate financing. So far, these measures have improved financial market conditions and have lowered the costs of corporate finance. Given the persistent sizeable output gap and continued weak domestic demand, the BoJ is assumed to maintain the policy interest rate at close to zero and to keep in place the various unconventional expansionary monetary and financial measures taken in response to the crisis, at least until mid-2010.

Public debt is rising to record levels

A series of fiscal stimulus packages have been launched since mid-2008, including additional government spending totalling about 5 per cent of GDP. Despite a change in Government, the stimulus package is expected to be implemented as envisaged in the outlook. The government deficit is estimated to reach about 6.5 per cent of GDP on average during 2009-2010, putting further upward pressure on the already large public debt, which could surpass 200 per cent of GDP, making it among the highest in the world.

Australia is avoiding recession amidst a turbulent global environment, but risks remain

The economy of Australia has managed to avoid falling into a recession amidst the global financial crisis. Aggressive stimulus measures have supported household consumption and business investment, offsetting the severe external shocks. GDP is expected to grow by about 1.3 per cent in 2010, compared with an estimated 0.8 per cent in 2009. Downside risks remain as rising unemployment and depressed asset prices continue to weigh on domestic demand, particularly when the effects of the policy stimuli start to weaken.

In response to the global economic downturn, Australia has adopted drastic monetary and fiscal measures. The Reserve Bank of Australia had reduced interest rates by a total of 425 basis points (bps), but with activity picking up, it raised the policy rate by 50 bps during October and November 2009, thereby becoming the first major developed-country central bank to raise rates in the current cycle. In addition to major tax cuts in its regular budget for 2008/2009, the Australian Government also adopted two fiscal stimulus packages, totalling about 5 per cent of GDP. As a result, the Government budget will be turning from a surplus into a projected deficit of 4.5 per cent of GDP in 2010.

These stimulus measures have supported disposable income, buttressing the growth in private consumption when household net worth fell and unemployment rose. Despite benefiting from low interest rates and tax cuts, business investment is relatively weak amidst reduced profitability due to depressed sales, which is also keeping capacity utilization rates low. Business confidence has strengthened recently, as increased government spending, including outlays on infrastructure projects, is expected to further support domestic demand.

New Zealand is ending its prolonged recession

New Zealand showed positive GDP growth in the second quarter of 2009, for the first time since the end of 2007, ending its most prolonged recession since the 1970s. While net exports made a solid contribution, both household consumption and business investment also increased, driven by record-low interest rates. Consumer and business confidence continued to improve, pointing to a further recovery. GDP is expected to grow by 2 per cent in 2010, recovering from a decline of -1.3 per cent in 2009.

The Reserve Bank of New Zealand has reduced interest rates by 575 basis points in little more than six months, taking them to 2.5 per cent. The Government has so far adopted fiscal stimuli to the tune of 4.3 per cent of GDP.

Declines in international commodity prices, reduced demand for many of New Zealand's manufactured exports and declining numbers of foreign tourists have been accompanied by difficulties experienced by banks in securing offshore funding. As a result, firms have been cutting back in investment and reducing labour demand. The deteriorating employment outlook is weighing on consumer confidence, and households have already been scaling back spending in response to falling housing and financial wealth.

## Western Europe: emerging from recession, but the recovery will lack vigour

Western Europe is emerging from its worst recession of the post-war period. Economic activity plummeted in the final quarter of 2008 and continued its descent in the first quarter of 2009 as exports dropped sharply following the severe deceleration in world demand, investment spending collapsed from both the multiple shocks emanating from the financial crisis and the greatly diminished future demand outlook, and firms embarked on a massive round of inventory destocking. The second quarter of the year displayed signs of a stabilization of activity as GDP fell only slightly in most economies and positive growth returned to France and Germany. For the euro area as a whole, growth finally returned in the third quarter, marking the end of five consecutive quarters of decline, but the economies of Spain and the United Kingdom of Great Britain and Northern Ireland continued to contract, albeit at marginal rates.

Leading indicators, such as the European Commission's Economic Sentiment Indicator (ESI), began to signal a possible turning point in March, but for the most part

remained well below their historical averages. Industrial production in the euro area turned upwards in May for the first time since the beginning of the crisis but was still 13 per cent below its level of September 2008. In the outlook, growth is expected to strengthen somewhat over the forecast period, but will remain sub par. Given the very strong negative carryover from the end of 2008 and beginning of 2009, GDP for the European Union (EU)-15 will fall sharply, by 4.2 per cent in 2009, and is expected to recover by a mere 0.5 per cent in 2010 (see annex table A.1). The recovery will be led by exports, which will rebound along with global aggregate demand and inventory restocking. Domestic demand will be supported mainly through government policy measures. Activity is expected to moderate in the first half of 2010 as policy stimuli and short-term factors fade, before a more durable pickup sets in during the second half of 2010. Stronger recovery will require further normalization of credit conditions and a pickup in global demand that could induce a resumption of business investment and employment growth. This, in turn, would underpin stronger private consumption demand. Such a rebound would assume that macroeconomic stimulus would not be prematurely abandoned, as discussed in chapter I.

Consumption has declined, but has still been a moderating factor during the downturn

Consumption contracted in most economies in the region in 2009, but despite the dramatic fall in consumer confidence, it was at a much slower pace generally than the decline in GDP, and thus acted as a moderating factor during the downturn.[1] Automatic stabilizers and discretionary government spending, especially the labour-market support programmes and car-scrapping schemes,[2] have bolstered consumption spending. In addition, the fall in real disposable income has been dampened by the sharp decline in inflation coupled with lags in the deterioration in labour-market conditions.[3] Consumption is expected to decline further in 2010, though only to a slight degree. Consumer confidence has risen significantly from its trough at the beginning of 2009 and inflation is expected to remain extremely low. But there are significant headwinds: savings rates will likely stay up as consumers need to rebuild their balance sheets (particularly in countries strongly affected by the housing and financial crises), lending conditions are expected to remain significantly tighter than they were before the crisis, and labour-market conditions are not expected to improve much in 2010.

Investment spending will remain sluggish in the near term

The precipitous decline in investment, close to 11 per cent for the EU-15, was a major driver of the recession and its revival will be key to the sustainability of the recovery. Investment in equipment suffered from a combination of collapsing foreign demand leading to a sharp drawdown in inventories and a decrease in capacity utilization to near record low levels, coupled with the multiple negative impacts from the global financial crisis that increased both the cost and conditions of external financing. Foreign demand has picked up and the inventory cycle is turning. Capacity utilization should therefore begin to rise, but with financing conditions remaining tight, a turnaround in investment is not expected until the second half of 2010. Residential investment was hit by the collapse of the housing

1 The exceptions are Denmark and Spain, while Ireland and the United Kingdom experienced outsized drops (but less than the drop in GDP). These economies were mostly affected by collapsing housing markets and/or financial sectors.

2 Car-scrapping schemes promote the replacement of old, fuel-inefficient cars with new, low-emission ones. The incentive schemes are being implemented or are under consideration in at least nine Western European countries, including all of the major economies. See http://en.wikipedia.org/wiki/Scrappage_program#Approaches_by_country; and Nelson D. Schwartz, "In Europe, 'Cash for Clunkers' Drives Sales", *The New York Times*, 31 March 2009, available at http://www.nytimes.com/2009/04/01/business/global/01refunds.html?_r=1.

3 Wage growth reached its cyclical peak in the third quarter of 2008 and moderated only slightly in the fourth quarter before slowing substantially in the first half of 2009, while employment did not start its decline until the third quarter of 2008.

market and the associated financial crisis and is likely to take considerable time to recover as financing conditions for real estate have experienced the most severe tightening.

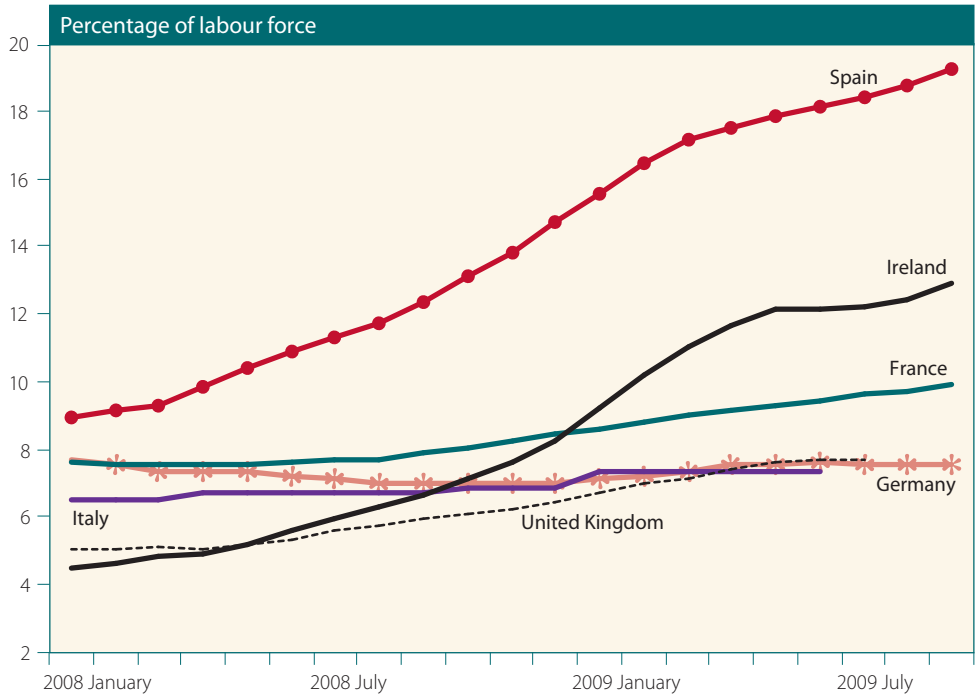
Collapsing exports were a devastating external shock but are now leading the upturn

The other major factor driving the recession was the collapse of exports as world demand plummeted. Some countries were hit particularly hard because of their product specialization and the geographic orientation of their exports. Germany, a major exporter of capital goods, suffered from the steep fall in industrial production in Asia as well as from the decline in import demand from oil-producing countries. Germany's export decline had knock-on effects across Europe. With the rebound in global trade, foreign orders are on the rise again and are supporting output recovery. The revaluation of many regional currencies, however, is dampening the rebound in exports. Imports also collapsed during the downturn, to the extent that in the second quarter of 2009 net export growth actually contributed positively to aggregate demand. Import volumes are expected to register positive growth in 2010 as activity rebounds and is boosted further by the appreciation of European currencies.

Increasing unemployment is a key concern

Average unemployment rates in the euro area have drifted up from 7.2 per cent in March 2008 to 9.7 per cent in September 2009, but employment conditions vary greatly across countries. In Spain, unemployment reached 19.3 per cent in September following an increase of 9 percentage points since March 2008, while Germany registered 7.6 per cent, an increase of only 0.4 per cent (see figure IV.5). This divergence reflects in part differences in the severity and nature of the economic downturn, with the housing market collapse playing a large role in Spain for example, but in part it also reflects differences in labour-market adjustments. In several European countries, the main adjustment was not undertaken through shedding jobs, but rather through labour hoarding by firms, aided in some cases by government policy measures, such as subsidized programmes of shortened

Figure IV.5
**Unemployment in selected Western European economies, January 2008-September 2009**




**Source:** OECD Main Economic Indicators.

working hours (the *Kurzarbeitergeld* programme in Germany, for instance). Labour-saving adjustment is readily visible in decreases in the average number of hours worked and declines in productivity. With growth expected to remain anaemic in the outlook, however, such labour-hoarding measures will reach their limits, causing stronger increases in unemployment rates. In the outlook, unemployment is expected to continue to rise in Western Europe through 2010 (see annex table A.7).

Inflation remains extremely low

Headline inflation has fallen from a high of just over 4 per cent in mid-2008 to negative rates from June to October 2009. This is not necessarily indicative of a deflationary environment, but is mostly the result of strong negative base effects caused by last year's high oil prices. These will reverse their impact in the months ahead. The impact of the recession can be more clearly seen in core inflation, which had been close to 2 per cent in the second half of 2008, but which subsequently drifted down to 1.2 per cent in September and October. A widening output gap as demand falls short of supply, coupled with a strengthened exchange rate in some cases, continues to exert downward pressure on prices. As demand recovers, core inflation should begin to rise, but both core and headline inflation are expected to remain well below 2 per cent in the forecast period (see annex table A.4).

Fiscal policy is key to supporting demand

Discretionary fiscal policy and the workings of automatic stabilizers have played major roles in combating the recessionary forces gripping the region. Significant stimulus packages were enacted by many countries under the auspices of the European Economic Recovery Plan.[4] Budgetary positions have worsened significantly not only because of the stimulus measures but also because revenues fell more than usual, as the tax base has been reduced through the decline in real estate and financial wealth and falling corporate profits. Recent estimates from the European Commission put the general government fiscal balance for the euro area at -6.4 per cent of GDP in 2009 compared with -2.0 per cent in 2008, with a further deterioration expected in 2010. The increase in budget deficits, coupled with the numerous financial bailouts, have led to sharply higher debt positions, with the government debt ratio in the euro area rising from 69.3 per cent of GDP in 2008 to an estimated 78.2 per cent in 2009, and continuing to rise in 2010.[5] This sharp rise in indebtedness limits the possibilities for further discretionary stimulus, if needed, and raises questions regarding the timing and degree of future budget consolidations. In the outlook, it is assumed that current policies will be maintained, with no new ones enacted.

Monetary policy has been extremely active and has resorted to unconventional measures

Monetary policy has also been very active. The European Central Bank (ECB) brought rates down from 4.25 per cent in July 2008 to the current 1.00 per cent in May 2009, for a cumulative cut of 325 bps. The Bank of England (BoE), as well as all of the other central banks in the region, has also brought rates down dramatically, in many cases to nearly zero. But policy moved quickly to more unconventional measures, as the scale of the slowdown and its characteristics became apparent. The ECB moved from a variable rate tender with fixed allotment of liquidity to a fixed rate tender with unlimited allotment of liquidity, and subsequently extended the lending maturity to one year. The BoE adopted quantitative easing through the Asset Purchase Facility, whereby it purchased domestic government securities (gilts) in the secondary market as well as high-quality private sector assets, including commercial paper and corporate bonds. These and other types of

4 The European Commission estimates that the total amount of discretionary measures undertaken by euro area member States amounted to 1.3 per cent of GDP for 2009, with an additional 1.2 per cent expected in 2010. See "European Economic Forecast-Autumn 2009", European Commission Staff Working Document, *European Economy*, vol. 10 (3 November 2009), Brussels, p. 30.

5 Ibid., pp. 30-31.

unconventional policy measures are expected to be gradually withdrawn over the forecast period while interest-rate policy remains on hold until the final quarter of 2010.

Downside risks are prevailing

Downside risks to the forecast remain significant. If labour markets were to deteriorate more substantially before recovery is ensured, consumption could falter, leading to a renewed downturn. Similarly, a premature removal of fiscal stimuli or a tightening of monetary policy could lead to a renewed downturn. Investment may not recover if the record low capacity utilization lingers due to too slow a pace of recovery in demand, or if credit availability continues to be difficult. The labour-market situation poses another risk if the short-term unemployed begin to move into the ranks of the long-term unemployed, a far more intractable problem and one which could reduce potential output. Finally, further appreciation of the euro and other regional currencies against the United States dollar could stall the improvement in exports and lead to a renewed downturn.

## The new European Union member States:[6] the crisis is over but the upturn is lagging

The crisis has had a profound impact on the region

The new EU member States were among the hardest hit by the global economic crisis. Their combined GDP contracted by 3.7 per cent in 2009 after more than a decade of strong and continuous growth (see annex table A.1). The economic downturn was driven by collapsing export demand and impaired financial systems resulting from frozen international capital markets and rising non-performing domestic loans. With the exception of Poland, which has less of an export-oriented economy and benefits from a relatively healthy financial sector, all new EU member States saw their GDP declining in 2009. The output declines in the Baltic States were particularly steep, falling by about 15 per cent and sweeping away years of dynamic growth.

Although quarterly economic indicators suggest that by the end of 2009 the situation in most economies will have stabilized, the prospects for 2010 remain uncertain. The recession in the Baltic States is likely to continue and only a marginal rebound is expected in Central Europe. Growth is therefore expected to reach only 1.2 per cent for the region in 2010. A return to a foreign credit-fuelled growth pattern is unlikely in the foreseeable future. Moving forward, these economies will have to rebalance and rely more on domestic savings and export growth.

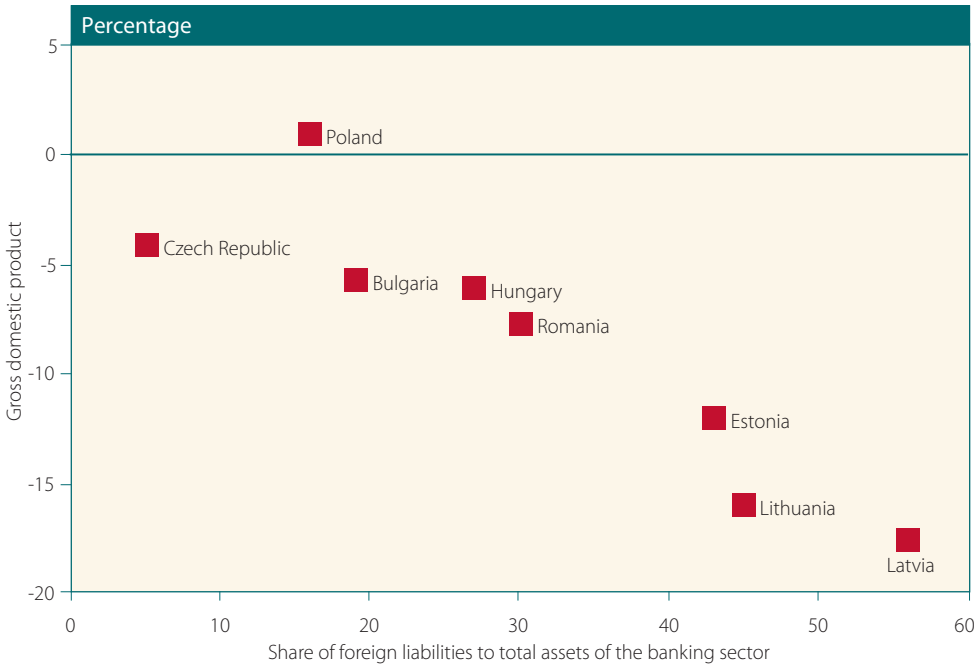
Current-account balances are improving

In the Baltic States, weak domestic demand has substantially reduced imports, resulting in a dramatic turnaround in their current-account balances from double-digit deficits in 2008 (as a share of GDP) to surpluses in 2009. On the one hand, this was due both to significant declines in import demand and to the declining income payments to foreign investors from falling profitability and writeoffs of asset values, and, on the other, to increasing transfers from the EU. In the countries of Central Europe, the current-account deficits as a share of GDP also declined by about 2 percentage points for similar reasons.

The heavy reliance on foreign capital inflows turned from a boon to a source of instability. The banking systems of most new EU member States obtained a large share of funds from foreign parents and international capital markets (see figure IV.6). When global capital markets seized up, the financial systems in these economies were no longer able to finance investment projects or real estate loans or even provide working capital to support normal business activities. In the Baltic States and Bulgaria, economies with currency

6 This subsection mainly refers to the new EU member States in Central and Eastern Europe.

Figure IV.6
**External indebtedness of the banking sector, December 2009, and economic performance of selected new EU member States, 2009**




**Source:** The European Central Bank.

boards or fixed exchange-rate regimes and a high proportion of foreign-currency denominated debt, monetary authorities, fearing an adverse impact on debt-servicing obligations and private and public-sector balance sheets, refrained from devaluing their exchange rate in order to adjust external imbalances.

Actions have been taken to prevent a collapse of the financial sector

In response to the crisis, Governments and central banks did implement extraordinary measures, including recapitalizing the banking sectors and nationalizing some financial institutions, increasing deposit insurance, reallocating resources to private credit and negotiating international assistance packages. International assistance, led by the EU and the International Monetary Fund (IMF), played a critical role in stabilizing the region; recipients included Latvia and Hungary in 2008 and Romania in 2009. In addition, Poland negotiated a precautionary Flexible Credit Line facility with the IMF in 2009 to facilitate rolling over its short-term debt.

By the end of 2009, the new EU member States in Central and Eastern Europe were able to return to international capital markets and, as a result of the international assistance packages, the possibility of a systematic meltdown of their financial systems had subsided. Overall credit growth remains subdued, however. In 2010, private consumption will be restrained owing to a combination of factors, including weak consumer confidence, high unemployment, cuts in public sector wages, increased savings as households attempt to consolidate their finances, and increases in the value added tax undertaken to increase budget revenues. Investment, including foreign direct investment (FDI), is likely to remain depressed, undermining the region's productive capacity in the long run. The speed of economic recovery will depend not only on the external environment, but on the flexibility of their internal markets, including the ability of their banking sectors to restore lending.

Fiscal policy options are limited

The Governments in the region have little room for counter-cyclical fiscal spending, especially under the constraints of the Stability and Growth Pact (SGP). Facing serious revenue shortfalls in 2009, the fiscal authorities had to revise budgets repeatedly, cutting expenditures and increasing indirect taxes. This was the case particularly for countries (such as Hungary or Latvia) that received financial assistance from the IMF and the EU, which is conditional on fiscal austerity. Economic stimulus in the region was mostly limited to lowering direct taxes, undertaking efforts to promote exports and FDI and improving absorption of the regular stream of EU funding. In countries of Central Europe, exchange-rate flexibility has permitted a slight depreciation against the euro, which has helped the export sectors remain competitive. In the Baltic States, where the recession is deepest, fiscal policy remains pro-cyclical, as the Governments are committed to the eventual adoption of the euro and must meet strict fiscal criteria. Governments therefore decided on considerable fiscal retrenchment.

Monetary conditions are being loosened, but the effect is still to be seen

Cyprus, Malta, Slovakia and Slovenia have become members of the euro zone and, as a result, have had very low interest rates.[7] Elsewhere, and especially in the Czech Republic, Hungary, Poland and Romania, central banks had to maintain higher interest rates but were able to lower them gradually as their currencies stabilized and inflationary pressures subsided in the second half of 2009. Nevertheless, the banking sectors are facing rising non-performing loans and a cautious private sector will constrain credit growth.

The trend in inflation reversed in 2009

In 2009, inflation subsided among the new EU member Sates as a result of lower food and energy prices and the abrupt weakening of domestic demand. Sluggish labour markets contributed to lower wage pressures, turning core inflation negative in a number of countries. The decline in inflation rates was more pronounced in countries with fixed exchange rates, while periods of currency depreciation in countries with flexible exchange-rate regimes contributed to imported inflation. In 2010, inflation in the region is expected to remain at low, single-digit levels and may stay close to zero in the Baltic States.

The decline in exports and domestic demand, along with other factors, has led to an increase in unemployment in the region, despite active policies to support labour markets. In the Baltic States, unemployment rates increased to about 15 per cent from a low of 4 per cent in 2008. In other countries, the unemployment rate increased by 2-3 percentage points to an average of 10 per cent. Further increases, by a few percentage points, are possible in 2010 and in the longer run may contribute to the rise of structural unemployment in the region.

## Economies in transition

Economies in transition have seen divergent performance during the crisis

In 2009, the shock waves of the global economic and financial crisis proliferated throughout the transition economies. While the direct effects of the global financial turmoil struck those countries with relatively higher exposure to international financial markets, a large number of the transition economies experienced strong secondary and indirect negative shocks.

After more than a decade of strong economic growth, aggregate GDP in the transition economies dropped by 6.5 per cent on average in 2009, the decay being much stronger in the Commonwealth of Independent States (CIS) (a decline of 6.7 per cent) than in South-eastern Europe (3.7 per cent). The recession has been deepest in the larger economies (notably, the Russian Federation and Ukraine). A number of smaller economies managed to avoid slipping into recession during 2009.

7 Slovakia joined the Economic and Monetary Union (EMU) on 1 January 2009.

The divergent outcomes to some extent reflect the heterogeneity of the transition economies in terms of the extent to which their market reform processes have been completed and the degree and nature of their integration into the global economy. Countries with weaker integration into global trade and financial markets have been more insulated from the global economic downturn and financial turmoil. In the outlook, economic recovery also seems to be on its way in the economies in transition, but there are important downside risks related to the overall course of recovery in the global economy.

## South-eastern Europe: recession on the back of the slowdown in Western Europe

Most economies are in the midst of a recession

With the exception of Albania, the economies in transition in South-eastern Europe slipped into a recession in 2009. Their combined GDP declined by 3.7 per cent (see annex table A.2) on the back of a strong contraction in external demand (predominantly from the EU), shrinking capital inflows and declining remittances. In Albania, GDP growth remained positive, supported by heavy government spending. The Albanian economy is relatively closed, showing an especially low degree of trade openness. The other economies in South-eastern Europe are more open and their growth is export-oriented. Consequently, they were strongly hit by the crisis through trade channels. In Serbia, manufacturing production dropped by nearly 20 per cent (year on year) in the first half of 2009. Similarly, in Croatia, a steep fall in export demand caused a double-digit drop in manufacturing output. The pace of the downturn decelerated in the second half of 2009 in these and other countries of the subregion. A return to positive GDP growth rates is expected in 2010.

Current-account deficits have narrowed

The downturn has triggered sharp reductions in trade and current-account deficits throughout South-eastern Europe. These deficits mirror dwindling FDI and other capital inflows. The main adjustment has been undertaken through a steep decline in imports, as merchandise exports, tourism revenues, remittances and other transfers have all dropped considerably. The contraction of import demand was linked to falling consumer and investor confidence and the decline in economic activity. FDI inflows are not likely to recover to previous heights any time soon and, consequently, a further narrowing of current-account deficits is expected in 2010.

Inflation is low, but unemployment is expected to stay high

Cost-push and demand-pull inflationary pressures in South-eastern Europe have subsided since the second half of 2008. Given the weak global demand, imported inflation has also been low, if not negative. As a result, inflation rates have remained low in 2009 and are expected to stay subdued in 2010 (see annex table A.5). Unemployment rates were already high before the crisis and have been pushed up further during 2009 (see annex table A.8). The rise in unemployment has lagged behind the drop in output, however, as enterprises were slow to dismiss labour. Such lags are expected to affect unemployment during the recovery as well, and jobless rates are expected to continue to rise in 2010.

The crisis has triggered emergency policy responses

The recession has led to a severe drop in government revenue, thus affecting budget execution. Most countries have been forced to adopt emergency anti-crisis measures. Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, and Montenegro undertook major budgetary revisions involving a significant downward revision of projected revenues and planned reductions in the public sector wage bill, as well as attempts to redirect public funds to capital investment. Bosnia and Herzegovina

and Serbia also had to revert to emergency borrowing from the IMF to maintain macroeconomic stability. Owing to relatively tight fiscal policies in the years preceding the crisis, only a few of the South-eastern European countries were able to afford fiscal stimulus measures (the former Yugoslav Republic of Macedonia, which has a low level of public debt amounting to about 20 per cent of GDP, being a case in point). Despite subsiding inflationary pressures, anti-crisis responses through monetary policies have been relatively limited. The policy space in some of the South-eastern European economies is partly constrained by explicit or implicit currency pegs to the euro. The surge in fiscal deficits and the rise in non-performing loans during the crisis prevented the central banks from significant monetary loosening out of fear that these conditions would fuel inflationary expectations and undermine currency stability. Serbia, which has a flexible exchange rate, is probably the only country in the subregion that facilitated significant monetary easing.

## The Commonwealth of Independent States:[8] a severe economic slump

After a sharp contraction in 2009, prospects for recovery remain uncertain

Output declined sharply in the CIS in 2009 owing to multiple shocks. In the Russian Federation, the initial disruption created by the lack of access to international financing was compounded by sharp falls in world commodity prices. The decline of the Russian economy dampened economic performance throughout the CIS. The output decline was steepest in Ukraine, which faced a strongly adverse terms-of-trade shock and severe external financing constraints, and Armenia, where the remittance-fuelled construction boom ended abruptly. Less open economies, which possessed the fiscal space to implement stimulus packages, such as Turkmenistan and Uzbekistan, continued to expand despite the global recession. Turkmenistan did suffer a setback, however, caused by disruptions to the pipeline for gas exports to the Russian Federation. Other economies, such as Kyrgyzstan and Uzbekistan, found a buffer in rising gold prices and gains from renegotiated agreements with the Russian Federation regarding natural gas exports. The CIS economies are expected to recover in 2010, supported by stronger worldwide demand and improved financial conditions. The rebound will be subdued, however, as a consequence of continued fragility of the banking sector and some planned fiscal consolidation. After contracting by 6.7 per cent in 2009, the combined GDP of the CIS is expected to expand by about 1.7 per cent in 2010.

Falling domestic demand drove the contraction

The larger CIS countries suffered double-digit declines in domestic investment. The drop was particularly large in Ukraine. In contrast, continued foreign interest in the exploitation of natural resources kept up investment demand in Kazakhstan and the smaller energy-producing economies. Growth of public consumption contained the fall of domestic demand in the Russian Federation and other countries with the ability to provide fiscal support during the crisis. The construction sectors, which had shown dynamic growth before the crisis, went into decline in all economies, especially the smaller, low-income countries of the CIS. Sharply falling real estate prices, lack of bank lending and falling remittances explain why construction activity suffered disproportionately during the downturn.

8 Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

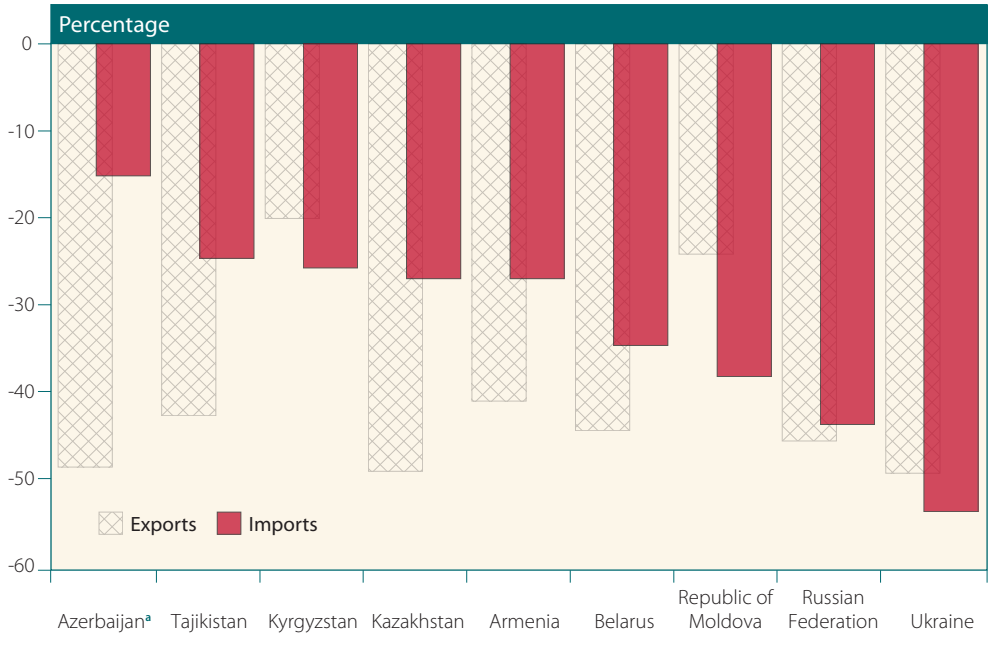
Current-account trends diverged but overall surplus declined

The economic downturn has been accompanied by a sharp fall in both import and export trade volumes (see annex table A.16). The decline in the terms of trade further accentuated the nominal decline in export earnings (see figure IV.7) but the CIS countries were still able, despite considerable narrowing, to post a combined current-account surplus. Ukraine displayed the largest swing, with a small surplus in 2009 as output collapsed and the currency depreciated. The current-account surplus of the Russian Federation fell sharply while the current-account balance in Kazakhstan turned into deficit as lower commodity prices drove exports down and strong FDI and expansive fiscal policies contained the fall of imports. In Belarus, the collapse in demand and prices for oil products reduced exports while the cost of imports was increased by lower energy subsidies. Low-income non-energy exporting countries continued to post large current-account deficits. In Armenia and Tajikistan, the deficit widened further as lower remittances offset the impact of falling imports.

Unemployment is rising

Unemployment rates have increased starkly in most CIS countries as well as in Georgia (see annex table A.8). Unlike during previous episodes of severe economic disruption, wage payment arrears were not the first recourse taken by firms in the Russian Federation in a bid to survive; rather, the adjustment was undertaken through the shedding of workers. Armenia, Moldova and Ukraine also witnessed a significant deterioration in labour-market indicators. Moreover, the return of migrant workers who had lost their jobs in the Russian Federation caused a further increase in unemployment as well as social tensions in their home countries, especially the low-income CIS countries. In Kazakhstan, employment growth stagnated in 2009, but did not affect the rate of unemployment because of low population growth, government employment programmes and net migratory outflows.

Figure IV.7
**Declines in imports and exports (freight on board) in selected countries of the Commonwealth of Independent States, January-September 2009 relative to January-September 2008**




**Source:** UN/DESA, based on data from CIS Interstat Statistical Committee, available at www.cisstats.com.

**a** First half of 2009 relative to the first half of 2008.

Inflation trends are down but significant differences have emerged

Weak domestic demand and falling energy and food prices have dampened inflation throughout the CIS (see annex table A.5). The pass-through effect has been modest in the Russian Federation and Belarus, however, as a consequence of rigidities in price adjustments. In Ukraine, the rate of inflation remained high as the impact of weaker demand and commodity prices was offset by the sharp exchange-rate devaluation and higher tariffs on utilities agreed upon with the IMF. By contrast, inflation decelerated sharply in the smaller economies of the CIS, as well as in Georgia, where the impact of currency depreciations was weaker.

Monetary policy is supporting financial stability

As commodity prices declined and capital flows reversed, strong downward pressures on exchange rates emerged in a number of countries. While administrative restrictions were introduced to limit foreign-currency demand in Ukraine, the contagion of the devaluation of the Russian rouble in early 2009 also forced exchange-rate adjustments in other CIS countries. During the first half of 2009, after commodity prices had started to rebound and inflation concerns had receded owing to weak domestic demand, monetary policy shifted towards preserving financial stability and supporting economic activity. The space for monetary policy responses remains severely limited as a result of the precarious external situation and, in some countries, the increase in the de facto dollarization of their economies. Increased currency substitution has been a response to the ongoing exchange-rate volatility. As access to foreign financing will continue to be limited in the near future and confidence in the economy stays weak, the concerns of monetary policymakers will need to be focused on the impact of liquidity injections on the exchange rate.

Active fiscal policies seek to offset contractionary forces

Fiscal deficits have increased as tax revenues declined, social spending increased and large amounts of resources were earmarked to rescue the ailing banking sectors of the larger CIS economies. Low-income countries were able to sustain higher spending pressures with the support of the IMF; Tajikistan, for instance, obtained resources through a three-year Poverty Reduction and Growth Facility and Kyrgyzstan was given access to the Exogenous Shocks Facility. In some cases, however, especially Ukraine, external emergency financing was insufficient and had to be complemented by tax increases, thereby limiting the effect of automatic fiscal stabilizers. By contrast, some commodity producers with large fiscal reserves, such as Azerbaijan, Kazakhstan and the Russian Federation, engaged in extensive stimulus packages (see box IV.1). This has played an important role in sustaining economic activity. Although a premature withdrawal of stimulus measures must be avoided, CIS countries will soon face the challenge of adopting and implementing medium-term fiscal consolidation plans and redefining spending priorities.

Prospects are uncertain

Despite the projected recovery in output (an albeit muted one), the CIS economies face major uncertainties in the outlook. A further weakening of commodity prices and continued difficulties in accessing international capital markets could colour economic prospects, particularly for countries with large external financing needs. Bank lending will remain depressed given continued financial fragility. Although energy-rich economies were able to deploy reserves for counter-cyclical measures, their policy space has narrowed in the outlook as significant amounts of reserves have already been spent and as fiscal consolidation will be needed in the medium term. Moreover, in the case of the Russian Federation, substantial financing gaps have already emerged and will pose difficulties in covering projected public spending. Despite the robust economic performance prior to the crisis, the current downturn highlights the risks associated with too heavy a reliance on only a few commodity exports and a low degree of economic diversification.

**Box IV.1**

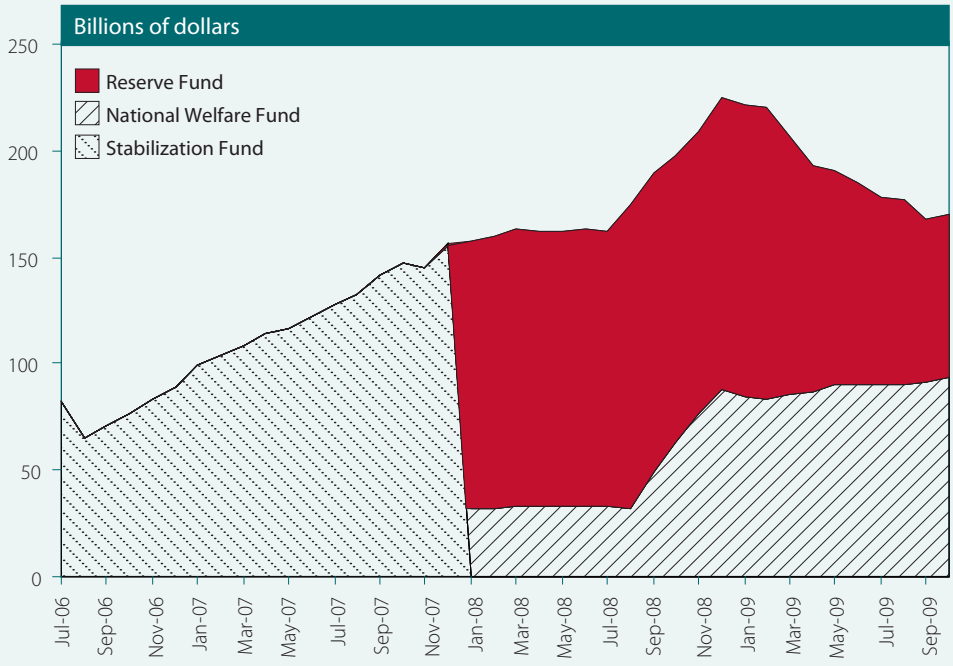
## Public finances in resource-dependent economies during the crisis: the case of the Commonwealth of Independent States

Fiscal policy in resource-dependent economies faces specific challenges owing to the fact that public revenues are closely associated with cyclical fluctuations in world commodity markets. This has been the situation in many economies of the Commonwealth of Independent States (CIS) in which commodities still account for a large share of exports. Resource-rich economies can partly address cyclicality by establishing stabilization funds which are replenished during an upturn and can be used to smooth public expenditure during a downturn. The situation is, however, more precarious for resource-dependent economies that are not so richly endowed.

The global economic crisis has had a significant impact on public finances throughout the CIS region, both as a result of the fall in revenues and, in some cases, the increase in counter-cyclical discretionary spending. Countries started the current downturn with very different fiscal positions, and significant fiscal space for anti-crisis measures existed only in oil-producing countries, which had accumulated relatively large reserves in stabilization funds during times of high commodity prices.

The rules determining the accumulation and use of resources differ across countries but, broadly speaking, there has been a convergence towards a model that combines stabilization and saving functions to varying degrees (the offsetting of short-term volatility of hydrocarbon prices and the accumulation of resources on a long-term basis for intergenerational sharing). The reform of the Russian Federation's Stabilization Fund in 2008 explicitly recognized these two roles by splitting the resources into a Reserve Fund and a National Welfare Fund, with holdings reaching 9.7 per cent and 6.2 per cent of gross domestic product (GDP), respectively, by the end of that year (see figure A). In other countries in the region, these different functions are implicit in the rules defining the accumulation and use of resources in a single fund. By the end of 2008, the National Fund of Kazakhstan held assets equivalent to 20.6 per cent of GDP (see figure B), while the resources held at the State Oil

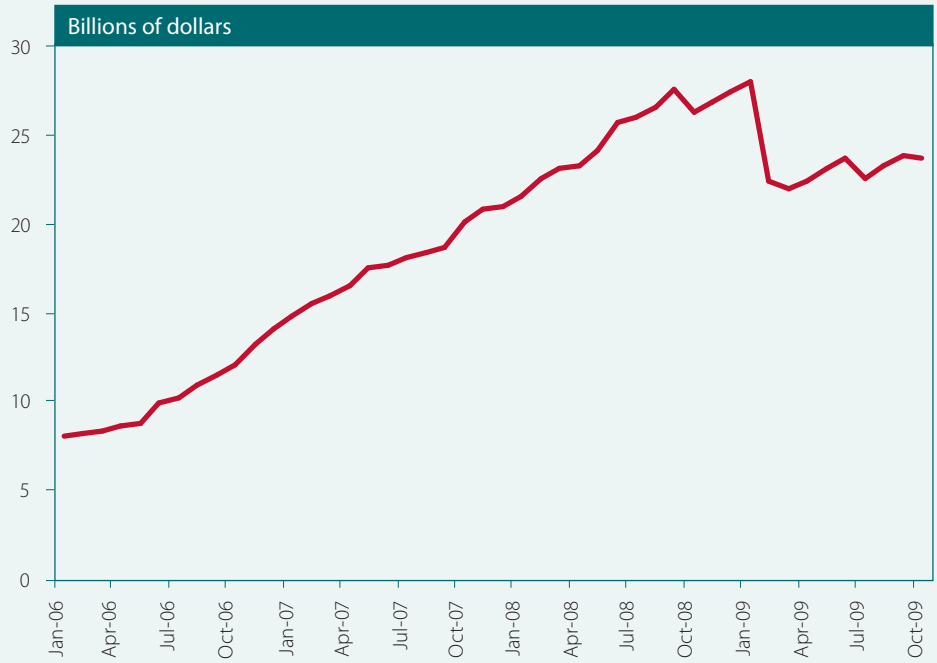
Figure A
**Russian Federation: Oil funds assets, July 2006-September 2009**




**Source:** Ministry of Finance of the Russian Federation.

**Box IV.1 (cont'd)**

Figure B
**Kazakhstan: National Fund assets, January 2006-October 2009**




**Source:** National Bank of Kazakhstan.

Fund of Azerbaijan reached 23.6 per cent of GDP. The larger size of the funds in these two countries reflects not only that they were created earlier but also that they had different sources and rules for the accumulation of resources.

During the years of high prices and fast output growth, saving part of the oil and gas receipts reduced overheating pressures and strengthened the capacity of public finances to deal with a possible downturn. However, buoyant oil and gas prices leading to rapid expansion also encouraged capital inflows, which, unlike current revenues, were not sterilized by the oil funds operating in CIS countries. These funds, by design, were effective in dampening appreciating pressures only on exchange rates associated with large current-account surpluses but not those related to capital inflows.

Reluctance to let the exchange rate appreciate fully as a result of large capital inflows created expectations of future appreciation that encouraged further inflows. Despite the support provided by cautious fiscal policies, loose monetary policies contributed to entrenched inflation. The strength of public finances, resulting in sovereign credit-rating upgrades, and the confidence-boosting effect of the oil funds, facilitated borrowing by the private sector in international capital markets. The reliance of the private sector on external financing became a growing source of vulnerability and the initial channel for the transmission of the worldwide financial crisis to Kazakhstan and the Russian Federation.[a]

Considering the existing fiscal space relative to the size of their economies, the countercyclical responses adopted by Kazakhstan and the Russian Federation were among the largest in the world. In Kazakhstan, the National Fund provided $10 billion, or 7.4 per cent of 2008 GDP, in 2008-2009 to finance the government's stimulus package. In the Russian Federation, the fiscal measures introduced in 2008 and those announced in 2009 were equivalent to about 7 per cent of GDP. For the first time since 2000, a budget deficit will emerge in both countries in 2009.

The future dynamics of these countries' budget deficits will depend on the evolution of oil prices, the robustness of the economic recovery and the policy decisions regarding maintenance or withdrawal of fiscal stimulus. Given the starting position—the 2009 shortfall of the federal budget

**a** See *World Economic Situation and Prospects 2009* (United Nations publication, Sales No. E.09.II.C.2), chapter IV, box IV.1, pp. 104-106.

**Box IV.1 (cont'd)**

deficit in the Russian Federation is projected at about 9 per cent of GDP—budget deficits will persist in the coming years. The necessary financing of these deficits will be a radical departure from the pre-crisis environment, where the Government had practically withdrawn from capital markets. Official projections envisage the depletion of the Russian Reserve Fund by the end of 2010. Net foreign financing in 2010 is initially estimated at $16 billion and similarly large amounts will need to be raised over the subsequent two years.

The projected reliance on foreign capital markets introduces a new source of vulnerability and emphasizes the need to put in place financial and institutional reforms that facilitate the mobilization of domestic resources. In this context, the potential contribution of privatization initiatives may be discussed. The willingness of investors to finance these deficits will depend on the credibility of the plans put forward to return public finances to more sustainable levels. They will need to be anchored in medium-term plans that envisage fiscal consolidation as the situation improves. The current difficulties have, however, unwound progress that has been made in putting in place a formal system of fiscal rules.

Fiscal balances have deteriorated in virtually all CIS economies as a result of lower economic growth, declining trade and falls in the prices of other commodities. Given the absence of fiscal reserves and the difficulties in financing those deficits, many countries have been unable to let automatic fiscal stabilizers work fully and have been forced to cut public expenditures, despite some official financing. In Ukraine, International Monetary Fund (IMF) support envisaged a tightening of fiscal policy, excluding the costs of domestic banking recapitalization. In Belarus, the agreement with the IMF did not leave space for counter-cyclical fiscal stimulus, although it did leave support to the banking sector outside fiscal ceilings. In the poorest countries in the region, the low degree of financial development has spared them from the costs of a banking crisis. However, external official financing represents the only way to offset the sharp falls in fiscal revenues and avoid the need for dramatic compression in expenditure.

## Developing economies

Average growth in developing countries slowed considerably from 5.4 per cent in 2008 to 1.9 per cent in 2009, corresponding to only 1 per cent in per capita terms. Overall, developing countries were hit hard through financial and, especially, trade channels, with the magnitude of the impact varying according to openness and export dependence. Countries whose growth depends strongly on exports of energy, minerals and manufactured goods were the most severely affected. By contrast, China and India, whose growth is less export-led, showed resilience, mainly owing to strong fiscal and monetary policy interventions and the large size of their domestic markets. Together with other economies in East Asia, both countries are expected to be drivers of a global recovery. Over the next year, economic activity is expected to gain momentum across all developing regions. Many developing countries in Africa, Western Asia and Latin America and the Caribbean are expected to experience significant turnarounds as demand for oil and minerals strengthen. While average growth for developing countries is forecast to accelerate to 5.3 per cent in 2010, it still remains far below its potential.

Overall, the economic slowdown and the deterioration of labour markets had strong and very likely long-lasting adverse effects on poverty reduction and other development goals. As the global recovery still appears to be fragile and slow, developing countries face major challenges in achieving robust and sustainable growth.

## Africa: signs of recovery, but concerns remain

Some signs of recovery are beginning to appear …

There seems to be a growing sentiment in Africa that the worst of the economic and financial crisis has passed as signs of recovery begin to appear. The future of many mineral and oil exporters in the region looks brighter than in early 2009 as the prices and the demand for these commodities rebounded sharply at the end of the first quarter and general economic activities started to resume.

… but the crisis will likely have long-lasting effects on development and poverty reduction

However, economic growth in almost all African countries will remain well below potential. Aggregate growth in Africa is estimated to be 1.6 per cent in 2009, down from an average of about 5.7 per cent during the period 2002-2008. Average GDP per capita for the region contracted by 0.7 per cent in 2009. The richer African countries faced stronger declines in per capita income than low-income countries owing to greater economic linkages with the rest of the world (figure IV.8). As all groups registered a growth of GDP per capita below 3 per cent, which is considered the minimum rate for achieving a meaningful reduction in poverty, 2009 marked an unfortunate reversal and offset part of the hard-earned social and economic gains that had been made in reducing both poverty and the large gap which still separates Africa from its Millennium Development Goals (MDGs). In addition, considerable economic difficulties remain, as seen in the two largest sub-Saharan African economies. In South Africa, manufacturing activities and the labour market remain depressed. In Nigeria, the banking system is experiencing severe distress. More worrisome, hunger levels have soared in the Horn of Africa and in East Africa, owing to prolonged droughts and are exacerbated by increased insecurity in some countries.

Southern Africa registered the strongest contraction, while East and North Africa were more resilient

At the subregional level, Southern Africa contracted by 1.7 per cent in 2009, the worst regional performance on the continent. South Africa recorded its first recession since the collapse of the apartheid regime. This slowdown also spilled over to its neighbours, particularly Lesotho, Swaziland and Namibia. West Africa grew by 2.4 per cent in

Figure IV.8
**Growth of per capita GDP in Africa,[a] by income group, 2006-2010**


**Source:** UN/DESA.

**a** Excluding Seychelles and Swaziland, owing to lack of data.

**b** Estimated.

**c** Forecasts.

2009. Nigeria, the second-largest sub-Saharan economy, grew by 1.9 per cent, as declines in the industrial sector and crude oil production were offset by increases in agriculture. Meanwhile, other food exporters of the region proved to be quite resilient as the demand and prices for commodities like cocoa, coffee and bananas remained robust. North Africa, with an average growth of 3.5 per cent in 2009, was also more resilient, owing to robust domestic consumption and excellent harvests in Algeria and Morocco. In Morocco, the unemployment rate even decreased from 9.6 to 8.0 per cent between the first and second quarters of 2009. East Africa recorded the highest subregional growth rate in 2009: owing to the dynamism in Ethiopia and in the five member countries of the East African Community, it expanded by 3.8 per cent. However, the significance of such a positive headline figure appears questionable in view of severe problems in satisfying the basic needs of a large number of those countries' citizens. More specifically, prolonged droughts and variations in rainfall, accentuated in some cases by conflicts and political turmoil, continue to have a devastating impact on a region where more than 20 million people are affected by severe hunger.

Vulnerable employment rates have increased further

Unemployment and underemployment remain a major concern in Africa, especially among women and youth. Moreover, Africa has a very high rate of vulnerable employment,[9] which is expected to rise from 73 to 78 per cent in sub-Saharan Africa and from 37 to 42 per cent in North Africa between 2008 and 2009.

Inflation will decline, except in countries facing a food crisis

Weighted average inflation decreased to 8.1 per cent in 2009 as food and oil prices declined from their peak in 2008, although subregional levels remain diverse. In the Communauté financière africaine (CFA) zone, inflation is forecast at approximately 4 per cent in 2009. In North and Southern Africa, it is expected to be about 6 and 8 per cent, respectively, while it is likely to remain at about 15 per cent in East Africa. In the outlook, as prices are expected either to decline slightly further or to remain stable at their October 2009 level, inflation is forecast to be about 6 per cent in 2010. However, food prices will likely soar in many East African countries as the food crisis affecting their populations intensifies.

While most financial systems were not adversely affected, the Nigerian banking system is experiencing severe distress

Many of Africa's biggest central banks have reduced their main interest rates by between 3 and 5 percentage points since the last quarter of 2008. While most African countries' financial systems have not been adversely affected by the crisis, the Central Bank of Nigeria injected $2.6 billion into five troubled banks in August 2009 before injecting an additional $1.3 billion into four other banks at the beginning of October.

Fiscal balances have deteriorated in 2009, forcing several oil exporters to revise their budgets downwards

Due to prudent management of public finances during periods of robust growth, many African countries entered the current crisis in a better fiscal position than in past crises. Some countries, such as Egypt, Mauritius, Nigeria and South Africa, embarked on fiscal stimulus packages, primarily in infrastructure. Nevertheless, the economic crisis has strained budgets in the region. With the exception of Ghana and a few other countries, almost all African countries experienced a deterioration of their fiscal balances in 2009. In oil-importing middle-income countries (MICs), this decline can be mainly explained by increased government expenditure, while in most of the energy-exporting MICs, the main factor was the decline in government revenues. The crisis also forced most of the major oil exporters to switch from fiscal surplus to deficit this year. While most of their Governments entered the crisis in strong budget positions after the prices of their exports skyrocketed in 2008, some of these countries, such as Angola, Chad and Nigeria, revised their budgets downwards for 2009 after oil prices fell below $40 per barrel (pb). Nevertheless, near-term prospects look brighter as oil prices have rebounded to $70-$80 pb, and this may be reflected in the upcoming budgets.

9 Vulnerable employment as defined by the International Labour Office is calculated as the ratio between the sum of own-account and contributing family workers to total employment.

African trade and current accounts switched into deficit as oil revenues dropped

Regarding trade, aggregate exports declined faster than imports owing to the sharp drop in the prices of oil and minerals. Hence, the aggregate African trade and current-account balances, which are mainly determined by the price of oil, switched into deficit in 2009 and will probably remain so in 2010. However, this aggregate picture contrasts dramatically with some country-specific situations. For instance, South Africa's trade balance moved into surplus in the second quarter of 2009 following a sharp decline in its volume of merchandise imports.

FDI is likely to decline as projects have been interrupted

Preliminary data suggest that FDI flows to Africa declined in 2009, following five years of uninterrupted growth. Natural-resource producers, which attract a large share of the region's inflows, suffered particularly as some projects were interrupted. Rwanda, whose FDI went up sharply during the first half of 2009, constitutes one of the few exceptions.

All African currencies depreciated by an average of 10 per cent compared with 2008

In comparing the average monthly levels for African currencies between January and September 2009 with the 2008 average, all African currencies had depreciated vis-à-vis the dollar as that currency had recorded a significant rebound in the second half of 2008 and early 2009 owing to flight-to-safety effects (see chapter I). While the average depreciation had been about 10 per cent up until September 2009, the currencies of the Democratic Republic of the Congo, Ghana, Seychelles and Zambia had depreciated by more than 30 per cent.

African growth continues to rely heavily on agriculture and commodity exports, but progress has been made in improving governance

The global economic crisis and adverse weather shocks have undoubtedly complicated efforts to restructure those African economies that continue to rely heavily on agriculture and commodity exports. However, while significant threats to political stability persist in several countries, modest progress has been observed in terms of improvements in economic governance and public sector management.[10] This progress may have helped some African countries to mitigate the worst social and economic consequences of the global crisis. Moreover, several African countries have continued to implement long-term reforms to improve their business environment and investment climate, despite the challenges presented by the crisis.

Although Africa's future looks bright, growth will remain below potential over the next few years

While African countries have taken a number of initiatives to lessen the impact of the economic downturn, their recovery will mainly depend on the revival of the global economy. Moreover, many African countries are expected to remain below their growth potential during the next few years, as the economic crisis will have long-lasting effects. As global demand recovers, Africa is projected to grow by 4.3 per cent in 2010. In addition, African countries are expected to benefit from plans to boost domestic demand and from a gradual recovery in FDI and other private flows.

However, numerous downside risks to economic growth remain. A key structural element relates to the continued high dependence of most African economies on primary commodity exports, which are subject to strong fluctuations in demand and prices. Other downside risks include the possibility of prolonged global recession, failure of donors to meet aid commitments, fragility of domestic financial sectors, limited access to foreign borrowing, erratic weather conditions and political instability in some countries. To mitigate these risks, Africa needs to make greater efforts, with the help of donors and international financial institutions, to implement long-term reforms and strategies in order to reduce vulnerability to external shocks, improve mechanisms of transparent and effective public administration, strengthen private sector development and promote investment, employment generation and poverty reduction.

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10 Economic Commission for Africa, *African Governance Report II,* Oxford University Press, Oxford, United Kingdom, 2009.

## East Asia: leading the global recovery

East Asia has rebounded after experiencing a sharp economic slowdown

The East Asian economies rebounded in the course of 2009 after suffering severe downturns in the aftermath of the Lehman Brothers bankruptcy, when exports, industrial production and domestic investment weakened sharply. Driven by a strong performance of China's economy, average regional growth in 2009 is estimated at 4.1 per cent, down from 6.2 per cent in 2008 (see annex table A.3). Economic activity in East Asia is expected to gain further momentum in 2010 as exports and private sector demand continue to recover, with average growth forecast at 6.7 per cent.

Expansionary monetary and fiscal policies are driving the recovery

In many East Asian economies, strongly expanding government expenditures on consumption and investment drove the recovery. At the same time, aggressive monetary easing and fiscal policy measures, such as tax rebates and the extension of credit lines to households and firms, supported private sector demand. Since the second quarter of 2009, export sectors have recovered gradually as demand for manufactured goods stabilized, trade finance improved and inventories were built up. Overall, growth disparities within the region were wider in 2009 than in previous years although most countries benefited from strong macroeconomic fundamentals at the onset of the crisis. Viet Nam and the region's less export-dependent economies of China and Indonesia showed remarkable resilience on the back of buoyant domestic demand, which had been spurred by rapid credit growth and sizeable fiscal stimulus measures. In fact, much of East Asia's growth in 2009 is accounted for by China, where GDP expanded by 8.1 per cent compared to 9.0 per cent in 2008. In 2010, growth in China is forecast to accelerate to 8.8 per cent as economic policies remain expansionary. The smaller, heavily export-dependent economies of the region were much harder hit by the global recession, with rapidly falling exports triggering severe declines in investment. Several of these economies, for instance Hong Kong Special Administrative Region (SAR) of China and Singapore will experience full-year contractions of GDP in 2009. However, they did rebound strongly in the course of the year and are likely to benefit the most from the expected recovery of global demand and trade activity in 2010.

Government measures have helped stabilize labour markets

Across East Asia, labour markets started to improve in the second half of 2009 after deteriorating markedly at the beginning of the year, when the manufacturing industries in the region suffered dramatic contractions. Government measures, such as direct wage subsidies, tax reductions, easier access to credit and higher infrastructure spending, played a key role in alleviating an emerging employment crisis. In 2010, labour markets are expected to see further modest improvements owing to the recovery of export industries and continued government stimulus in support of domestic demand. In the heavily export-dependent economies, unemployment rates are now much higher than in recent years. In Taiwan Province of China, for instance, the unemployment rate reached 6.1 per cent in August 2009, the highest level since record-keeping began in 1978. In some of the more populous countries of the region, including China, Indonesia and the Philippines, the impact of the current crisis on unemployment levels has been relatively muted. However, since in many countries, labour surveys are conducted only infrequently and underemployment is often not adequately recorded, the actual employment situation may be weaker than suggested by officially reported data. Several countries, for instance Indonesia and Thailand, registered an increase in informal and vulnerable employment as weak social protection systems and widespread poverty have forced people to take whatever work is available.

Inflationary pressures remain low, mainly owing to excess capacities

Average consumer price inflation in East Asia declined from 6.0 per cent in 2008 to 0.6 per cent in 2009 owing to weaker domestic demand, significant excess production capacity and, most importantly, lower oil and commodity prices in world markets. Several economies, including China, Taiwan Province of China and Thailand, experienced deflationary pressures. However, these pressures started to ease in the third quarter as the base effect of the surge in energy and commodity prices in 2008 began to wane and economic activity across the region recovered. Inflation is expected to rise mildly in the course of 2010, mainly as a result of shrinking output gaps and higher global commodity prices. Nonetheless, in most countries, inflation will likely remain low during 2010, except in Viet Nam, where pressures are expected to be high.

Monetary policy will remain accommodative in 2010, though some central banks may start raising interest rates

Central banks across the region eased monetary policy aggressively between October 2008 and April 2009 to increase credit flows, support domestic liquidity and stimulate demand. During the rest of 2009, interest rates were kept at record lows in most countries as inflationary pressures continued to be subdued. The easing of liquidity stimulated credit expansion and domestic spending: for instance, domestic credit in China, Indonesia and Malaysia continued to record double-digit growth in 2009, fuelling concerns of asset bubbles. The People's Bank of China started to implement measures to rein in liquidity and bank lending, while thus far refraining from interest-rate hikes. In general, monetary authorities are expected to maintain an accommodative policy stance until a sustained recovery is ensured or inflationary pressures increase considerably. An early and decisive tightening of monetary policy is also complicated by the fact that it would likely fuel the appreciation of the domestic currency against the currencies of major trading partners, thus weakening the domestic export sector. Nevertheless, some East Asian central banks are expected to start raising interest rates from their current lows in the first half of 2010.

Some Governments will gradually remove the extraordinary stimulus measures

Most East Asian Governments responded to the sharp economic slowdown in the second half of 2008 by announcing large fiscal stimulus packages with a view to strengthening domestic demand, supporting the business sector and mitigating the impact of the crisis on the vulnerable and the poor. Overall, discretionary support during the course of 2009 has been stronger than in most other regions as East Asian economies benefited from healthy fiscal positions at the onset of the crisis. In addition, automatic stabilizers, such as welfare payments and unemployment insurance are relatively weak. In 2010, fiscal policy will remain expansionary overall, but many Governments will start to remove some of the extraordinary stimulus measures put in place in 2009 and will gradually move towards a more neutral policy stance. In China, the Government indicated that it would continue to implement its proactive fiscal policy. The increase in government spending led to a marked deterioration of fiscal balances in 2009. Nonetheless, budget deficits remained relatively moderate in most countries, ranging from 2.5 per cent to 5 per cent of GDP. Malaysia and Viet Nam have been outliers, registering deficits of more than 8 per cent, adding to concerns about fiscal sustainability.

Exports have started to recover after contracting sharply in early 2009

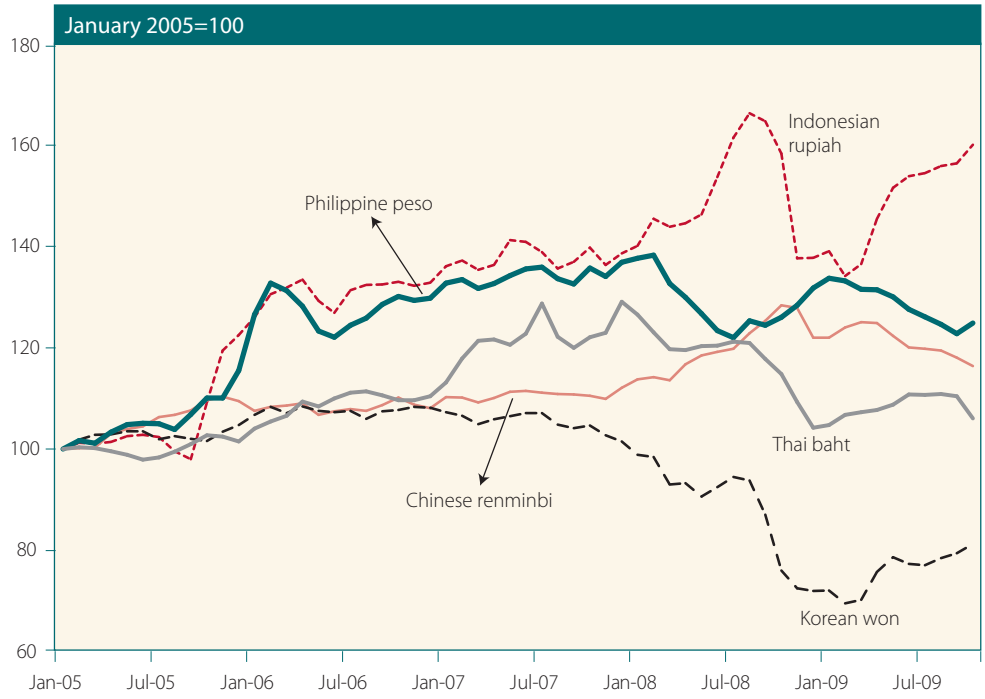
The current crisis has illustrated the dependence of many East Asian economies on exports as their engine of growth. In the final months of 2008 and at the beginning of 2009, East Asia's merchandise exports and imports declined precipitously as the impact of lower final demand from developed economies was compounded by the high import content of the region's manufactured exports. Since the second quarter of 2009, exports and imports recovered gradually owing to improved trade finance, restocking of inventories and stabilizing final demand for manufactured goods. In most East Asian

economies, the decline in export earnings in 2009 was more than offset by reduced import bills, resulting in improved trade balances, most notably in Indonesia, the Republic of Korea and Thailand. The main exception is China, whose trade and current-account surpluses shrank markedly—a trend that seems unlikely to continue in 2010. Import bills will rise considerably in 2010 as domestic demand recovers and international energy prices move up. Trade surpluses may therefore start to narrow in many countries despite growth in export earnings. In several East Asian economies, particularly in the Republic of Korea, export sectors benefited from significant real depreciations of the national currencies in 2008 and early 2009 (see figure IV.9). However, since then, some currencies, such as the Indonesian rupiah, have appreciated markedly as a result of massive capital inflows, raising concerns among policymakers (see also box IV.2). Meanwhile, China faces mounting international pressure to allow the renminbi to appreciate and contribute more significantly to a global rebalancing.

The timing of the monetary and fiscal exit strategies poses a key policy challenge

While the overall outlook for East Asia is favourable, the region faces several major policy challenges and downside risks, including a premature exit or sharp reversal of the expansionary monetary and fiscal policy measures that were put in place over the past year. In some countries, continued large capital inflows, combined with strong domestic credit growth and sharply higher international commodity prices, might fuel asset bubbles and increase inflationary pressures. Central banks may therefore see the need to tighten monetary policy more aggressively than currently anticipated, thus hampering the fragile economic recovery. Besides, a possible escalation of the influenza A (H1N1) pandemic may undermine consumer confidence and harm the tourism sector, which is important for several East Asian economies.

Figure IV.9
**Real effective exchange rates in selected East Asian countries, 2005-2009**




**Source:** UN/DESA, based on data from JPMorgan.

**Note:** An increase in the value indicates a real effective appreciation of the currency (see annex table A.13 for details).

Box IV.2

## Progress in monetary and financial cooperation in Asia and the Pacific

The global financial and economic crisis has again directed the attention of policymakers to the lack of financial tools and policies available at the regional level over and above those in the hands of national governments. While most countries had built up sufficient reserves to protect their balance of payments, other countries, most notably Pakistan and Sri Lanka, were severely impacted by capital outflows and did not have recourse to regional sources of assistance.

So far, the potential for monetary and financial cooperation in the region has only been marginally tapped. A pressing policy gap for the region, which has been highlighted by the recent crisis, is the lack of mechanisms for coordinating exchange-rate policies. Such mechanisms could be particularly important during the economic recovery phase as pressure on countries to maintain exchange-rate competitiveness increases. The Asian Clearing Union, which was established in 1974 at the initiative of the Economic and Social Commission for Asia and the Pacific (ESCAP), remains limited to the clearing of settlements and does not deal with exchange-rate stability for intraregional trade. The development of an Asian bond market, another regional initiative, could also be accelerated. At present, it remains at the preparatory stage, with discussions among Governments relating to issues such as regulation and harmonization. Integration and credibility of regional bonds could be encouraged through the issuance of debt denominated in Asian Currency Units or a similar basket of currencies.

The current crisis presents the region with a window of opportunity to press forward with a truly effective regional crisis-response fund. Such a window also opened immediately after the 1997 crisis but the relatively rapid return to economic growth resulted in a loss of policy urgency.

As agreed at the Fifteenth Summit of the Association of Southeast Asian Nations (ASEAN) held in Hua Hin, Thailand, from 23 to 25 October 2009, the ASEAN Plus Three Chiang Mai Initiative reserve pool—known as the Chiang Mai Initiative Multilateralization (CMIM)—will be implemented by the end of 2009. The agreement paves the way for the conversion of the existing system of bilateral swap agreements between ASEAN Plus Three countries, amounting to $80 billion, to a multilateral pool of $120 billion. Eighty per cent of the new funds will be provided by the Plus Three countries, China, Japan and the Republic of Korea. Japan will contribute $38.4 billion to the pool (it has also extended $60 billion worth of yen-denominated swap facilities separately), as will China (including Hong Kong Special Administrative Region (SAR) of China), while the Republic of Korea will contribute $19.2 billion. Within ASEAN, the contributions of member economies will be made primarily by Indonesia, Malaysia, Thailand, Singapore (each contributing $4.76 billion) and the Philippines ($3.68 billion). The reserve pool could evolve into a truly effective first line of defence in situations of balance-of-payments difficulties or banking sector pressures. However, it appears at present that the same restrictive conditions attached to the Chiang Mai Initiative remain in place, most importantly the fact that only 20 per cent of borrowing is unrestricted, while 80 per cent is tied to IMF conditionality.

Many other issues still need to be resolved before this agreement can fulfil its function as a defence mechanism in the event of a balance-of-payments crisis. For the agreement to become a first line of defence during a crisis, its geographical coverage, size and functions will need to be expanded. To be effective in preventing systemic crises, a regional crisis fund should attempt to include as many systemically important countries in the region as possible. The quantum of resources placed in the fund should be sufficient for it to act as the lender of first resort in the event of macroeconomic difficulties. Within its remit, the fund should also ideally include support to domestic financial sectors by Governments, in addition to balance-of-payments support, similar to the lending provided by the IMF to countries in difficulty. Critically, for the fund to be operational, an institutional structure must be set up and would include revising the relationship with the IMF. The fund would require a physical infrastructure with a well-qualified and independent secretariat that would engage in monitoring economies prior to and during crises as well as in designing and monitoring the terms associated with lending to regional Governments.

## South Asia: resilience to the global crisis

South Asia has shown considerable resilience in the face of the global crisis

The global economic crisis adversely affected South Asia through weakening export demand and reduced capital inflows, but the slowdown in growth has been less severe than in other developing regions. Average growth decelerated moderately from 6.5 per cent in 2008 to 4.7 per cent in 2009. Overall, South Asian economies showed considerable resilience as domestic demand was supported by strong remittance inflows, lower inflationary pressures, accommodative monetary policies and sizeable fiscal stimulus measures. In 2010, regional growth is expected to pick up, to 5.5 per cent, as exports recover and domestic demand remains strong (see annex table A.3).

Robust growth, particularly in India, is supported by increased public spending

India continues to lead the growth momentum of the region and its economy expanded by 5.9 per cent in 2009, down from 7.3 per cent in 2008. Growth was underpinned by a large increase in public expenditures. Private consumption and investment also continued to expand—although at a lower pace than in previous years—owing to tax cuts and the easing of credit delivery to specific economic sectors. In 2010, growth is forecast to accelerate to 6.5 per cent on the back of stronger private consumption and investment and a moderate recovery of exports. The long-term growth prospects of the Indian economy remain promising given the high rates of domestic savings and investment and the improved macroeconomic policy environment.

Pakistan and Sri Lanka have received support from the IMF after suffering from large budgetary and external imbalances, which had resulted in a sharp deceleration of economic growth. However, Pakistan's outlook continues to be fragile owing to the volatile security situation and the ongoing violence, even though a slight recovery is projected in 2010. The prospects for Sri Lanka's economy, by contrast, have improved as the 25-year-long civil war ended in May 2009. In Bangladesh and Nepal, economic activity has so far been only mildly impacted by the global crisis. In both countries, private consumption has remained buoyant on the back of robust growth in workers' remittances and strong agricultural output. The Islamic Republic of Iran experienced a sharp economic slowdown since mid-2008 owing to lower oil prices and declining oil production, but a moderate recovery is expected in 2010.

Export-oriented industries saw significant job losses in 2009

Labour markets in South Asia continue to be characterized by a large informal sector and a heavy dependence on agriculture. While the impact of the economic crisis on official unemployment rates has been less pronounced than in other developing regions, labour-market pressures have intensified over the past year. Recent surveys in India and Sri Lanka show that the economic slowdown adversely affected employment levels, particularly in export-oriented industries, as well as the quality of employment. In India, the textile sector saw large job losses in 2009 as it suffered from weaker demand in developed economies and price cuts by Bangladeshi competitors. By contrast, employment levels in Indian firms catering to the domestic market have been largely unaffected by the slowdown. Moreover, the 2006 National Rural Employment Guarantee Act (NREGA), by which adults living in rural areas are guaranteed at least 100 days of wage employment per year, helped to mitigate the effect of slowing output growth. In Sri Lanka, unemployment increased to 6.2 per cent in the second quarter of 2009, up from 5.3 per cent a year ago, while the labour force participation rate declined to its lowest level in over a decade.

Food price inflation remains elevated despite lower commodity prices

Inflation in most South Asian countries slowed in 2009 owing to the drop in commodity prices and the softening of aggregate demand pressures. Regional average inflation declined from its decade high of 12.6 per cent in 2008 to 10.9 per cent in 2009. However, in India, the Islamic Republic of Iran, Nepal and Pakistan, inflation—

particularly food price inflation—has remained persistently high due to a variety of factors, including large nominal exchange-rate depreciations, the reduction of fuel and other subsidies, the upward revision of minimum support prices for agricultural crops, as well as poor harvests owing to late monsoon rains in 2009. Unless international oil and commodity prices rise more quickly than expected in 2010, inflation is likely to slow in most countries, the regional average being forecast at 9.8 per cent.

Most central banks are expected to maintain their accommodative monetary policy stance

Most South Asian central banks eased monetary policy in 2009, following a long period of monetary tightening in the region. Reduced inflationary pressures allowed for interest-rate cuts and other accommodative measures in order to provide greater liquidity to financial institutions and stimulate domestic economic activity. Most importantly, the monetary authorities tried to ensure adequate credit flows to productive sectors by directly influencing credit supplies. An example is the agricultural-cum-rural credit policy and programme in Bangladesh. The quick and aggressive moves by the Reserve Bank of India (RBI) helped to stabilize the financial sector and cushion the impact of the global crisis on the domestic economy. Other central banks eased monetary policy more slowly as inflationary concerns persisted. In the near term, most central banks are expected to maintain their accommodative policy stance as growth remains below potential and inflation continues to decline. However, the RBI is expected to tighten monetary policy in the course of 2010 as the focus is expected to shift gradually towards addressing inflationary fears.

Expansionary fiscal policies have led to sizeable budget deficits

Faced with challenging global conditions and slowing domestic economies, most South Asian Governments pursued expansionary fiscal policies in 2009, which resulted in further increasing budget deficits. Bangladesh, India and Sri Lanka implemented fiscal stimulus packages that included, for instance, special support for the sectors that were most severely affected by the crisis, additional spending on infrastructure and social programmes and—in the case of India—sizeable tax cuts. While fiscal expenditures increased significantly, revenue growth weakened over the past year. Therefore, most economies experienced sharply deteriorating fiscal balances in 2009, with deficits in Bangladesh, India and Sri Lanka ranging from 6 to 9 per cent of GDP. Several Governments, most notably that of India, are expected to wind down the stimulus measures in 2010 with a view to reducing the budget deficits.

Current-account balances have improved despite sharply lower export revenues

Despite a drop in export revenues, trade and current-account balances improved in all South Asian economies in 2009 except in the Islamic Republic of Iran. Exports sectors were hard hit as demand from developed countries declined sharply, particularly for manufactured goods. The Islamic Republic of Iran, India and Pakistan registered the most severe contractions, with annual export earnings falling by more than 17 per cent. However, exports started to recover in several South Asian economies in the second half of 2009—a trend that is likely to continue in 2010. The decline in global energy and food prices, combined with the slowdown in domestic demand, led to sharply lower import bills, while remittance inflows continued to increase substantially. Current-account deficits narrowed markedly as a share of GDP in India, Pakistan and Sri Lanka. Bangladesh is expected to report a larger surplus than in 2008. Meanwhile, pressures on the domestic currencies of India, Pakistan and Sri Lanka eased in the course of 2009 following sharp depreciations earlier.

Slowing remittance inflows and higher inflation may harm domestic demand

In the near term, a sharper-than-expected slowdown in remittance inflows, renewed weakness in exports and lower agricultural output may drag economic growth in South Asian countries. Most economies continue to be highly vulnerable to weather conditions owing to insufficient irrigation and extensive subsistence farming. Lower agricultural output, combined with a marked rise in energy prices, may also push up inflation,

which has remained elevated in several countries. This may constrain household spending, one of the drivers of growth in recent years. In the medium term, considerable risks are associated with the high fiscal deficits of many countries.

## Western Asia: improving global conditions will underpin a return to positive growth

Economic sentiment has improved from pessimism to cautious optimism

With the world economy starting to see a recovery from recession through the second and third quarters of 2009, the economic sentiment in Western Asia has improved from pessimism to cautious optimism. As the region comprises the major crude oil exporters, the strong recovery of prices for crude oil to about $80 per barrel has contributed to the optimistic projection for 2010. Nevertheless, Western Asia is estimated to experience an economic contraction by 1.0 per cent in 2009, down from a positive growth rate of 4.6 per cent in 2008 (see annex table A.3). The regional contraction is mainly driven by those economies characterized by a stronger international economic linkage with the United States and Europe. A fall in external demand and lower fund inflows from developed countries, especially in terms of private foreign capital, contributed to lower net exports and a slowdown in investment projects. However, as in the case of Saudi Arabia, for example, resilient domestic demand, backed not least by fiscal stimulus measures, helped to prevent an even sharper fall in economic growth. In 2010, the region is forecast to experience a rebound in economic growth to 3.6 per cent, underpinned by a solid performance of the oil-exporting economies in the light of higher oil prices.

Trade surpluses will increase again with rebounding oil prices

External demand conditions, which in many respects led the region into the downturn, will also determine the extent and speed of the recovery. Oil exporters will benefit from the recovery in oil prices from their trough at the end of 2008, which was driven by more optimistic expectations regarding global growth and its effect on oil demand, by the fall in the value of the dollar and, at least in part, by a significant production cut by the Organization of the Petroleum Exporting Countries (OPEC) that became effective at the beginning of 2009. In Saudi Arabia, for example, after a sharp contraction by more than 50 per cent in 2009 compared with the previous year, the trade surplus will move up again by about 37 per cent to $103 billion in 2010. At the same time, non-oil exporters have been suffering from a sharp drop in global demand across virtually all product groups. However, with imports having contracted even more severely, countries such as Israel and Turkey will experience narrowing trade deficits in 2009. They are, however, expected to widen again in 2010 following the stabilization of domestic demand and higher import bills.

Fiscal stimulus is upholding domestic demand

Meanwhile, domestic demand conditions varied widely among the countries in the region. Private consumption has suffered from generally weaker consumer sentiment in the course of the crisis. At the same time, personal disposable incomes are also under pressure from rising unemployment. In Turkey, government stimulus measures have helped to avoid a sharp contraction in private consumption. Similarly, Kuwait, Saudi Arabia and the United Arab Emirates are expected to experience continued growth in domestic demand in 2009, despite the contraction in real GDP and thanks to expansionary fiscal policies.

Inflation has been decreasing, but is forecast to pick up moderately in 2010

Consumer price inflation peaked in the second half of 2008. As a general trend, the rate of consumer price inflation has been declining since then in several countries in view of weaker demand and lower commodity prices. In this context, in the oil-exporting economies, the lower oil price has removed upward price pressures both on the

supply and the demand sides, as lower revenues have curtailed overall demand. The decline in inflation has been particularly pronounced in Qatar, with the estimated consumer price inflation declining from 15.0 per cent in 2008 to -1.4 per cent in 2009 owing to lower commodity prices and a considerably weaker housing market. A similar scenario has been playing out in the United Arab Emirates, with inflation dropping from 12.3 per cent in 2008 to 1.5 per cent in 2009. In 2010, inflation is forecast to pick up moderately owing to the impact of the decline in the value of the dollar in those economies with a currency peg and low base effects.

While widespread reverse migration from the Gulf Cooperation Council countries has not occurred so far, unemployment is rising elsewhere

The once-feared reverse mass migration of expatriate workers from the member countries of the Gulf Cooperation Council (GCC)[11] did not take place (see box IV.3) as the labour markets showed resilience. However, labour markets remained weaker in other parts of the region. For example, the unemployment rate of Jordan rose to 14.0 per cent in the third quarter of 2009, from 12.0 per cent in the same period of the previous year, while Turkey's unemployment rate increased to 12.8 per cent in July 2009, compared with 9.9 per cent in July 2008.

**Box IV.3**

### The early impact of the financial crisis on expatriate workers in the Gulf Cooperation Council countries

At the onset of the current global financial crisis, one of the major economic and social concerns in the Western Asia region, besides the abrupt plunge in crude oil prices, was the state of expatriate workers in the region's major oil-exporting countries, namely the member States of the Gulf Cooperation Council (GCC).[a] Despite active efforts to promote employment of national citizens in the private sector, the GCC member countries have remained dependent upon expatriate workers, implying a significant influx of foreign workers during the economic boom. This led to a pronounced expansion in the foreign workforce of the GCC countries, with the share of foreign nationals in the total population reaching 49 per cent in Bahrain (2007), 69 per cent in Kuwait (2008), 29 per cent in Oman (2007), 27 per cent in Saudi Arabia (2008) and 81 per cent in the United Arab Emirates (2008), and the share of foreign nationals 15 years of age and older reaching 89 per cent in Qatar (2006). As the global financial crisis initially had a particular impact on the region's core activities in the private sector, namely finance and construction, there had been fears of massive job losses and an exodus of expatriate workers from the GCC countries, leading to possible severe repercussions for both the host countries and the labour-exporting countries in the Arab and Asia regions.

However, up to the third quarter of 2009, there has been no sign of a large-scale exodus of expatriate workers. A case in point is Lebanon, which is significantly dependent upon employment opportunities in the GCC member countries as well as workers' remittances from these countries, and where no appreciable number of returning expatriates has been reported. The picture is similar for other major labour-exporting countries for which data are available. For example, workers' remittances from the GCC member countries to Pakistan have been increasing and remittances to the Philippines were stable until the second quarter of 2009. Meanwhile, remittances to Egypt decreased in the first quarter of 2009, but showed a recovery in the second quarter (see figure). Assuming that informal remittance flows are correlated to the officially recorded flows by central banks, these data suggest that outflows of workers' remittances from the GCC member countries have remained fairly stable despite the financial crisis.

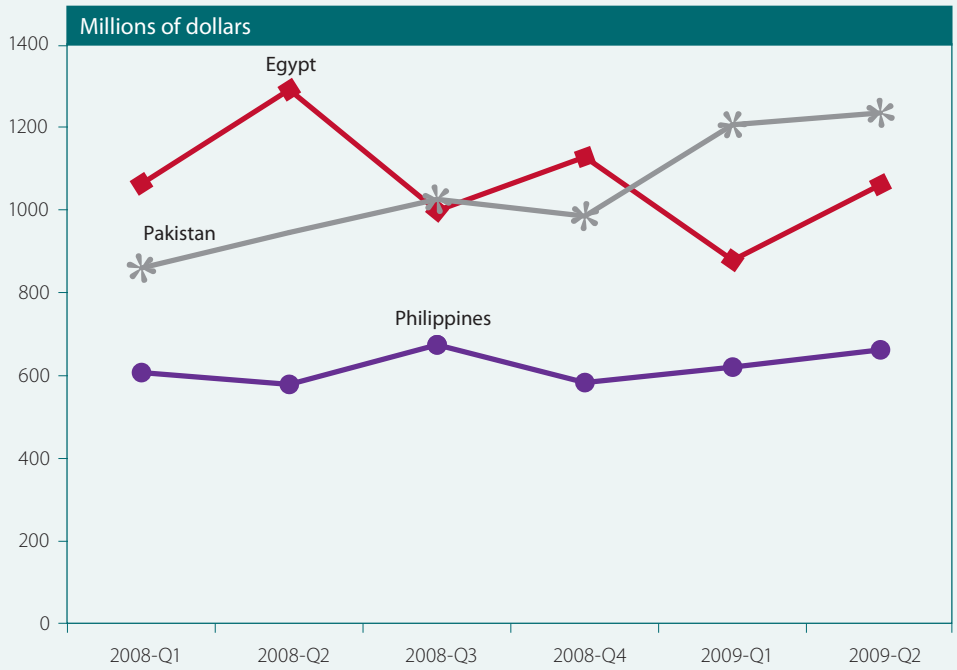
The GCC countries manage the hiring and firing of expatriate workers under a sponsorship system, whereby a transfer of expatriate workers from one employer to another is restricted. Once laid off and losing the sponsoring employer, an expatriate worker mostly must leave the host country. The system's influence is reflected in official unemployment figures. In 2008, the unemployment rate

a The Gulf Cooperation Council comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

11 Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

## Box IV.3 (cont'd)

**Workers' remittances from the Gulf Cooperation Council countries, first quarter 2008-second quarter 2009**




**Sources:** Central Bank of Egypt, State Bank of Pakistan and Bangko Sentral ng Pilipinas.

for nationals in Saudi Arabia stood at 9.8 per cent, while that for foreigners stood at 0.4 per cent. In the United Arab Emirates, the unemployment rate for the national workforce was 13.8 per cent, whereas that for foreigners was 2.6 per cent. The GCC countries have been actively engaged in labour-market reforms in recent years. Although the job security of nationals became an urgent policy challenge only when economies slowed, reforms regarding the employment of expatriate workers have been ongoing. Bahrain, Kuwait, Qatar and Saudi Arabia had all taken measures to reform the sponsorship system by the third quarter of 2009. In particular, in May, Bahrain decided to allow expatriate workers to shift jobs without the sponsor's permission. This was the first significant relaxation of the sponsorship system in the GCC member countries. The decision was enforced in August, and, in the same month, Kuwait followed Bahrain's lead.

There are four possible explanations for the relatively stable employment situation of expatriate workers in the GCC member countries. First, despite a possible contraction of GDP in major crude oil-exporting countries, domestic demand continued to expand moderately on the back of active fiscal measures that lessened the impact on the employment situation (all GCC countries had committed to an active fiscal policy for the year 2009). Second, employers might be expecting an imminent upturn in economic activity and so maintained their pool of expatriate workers to avoid possible high costs of new recruitment in the future. In fact, in the debate on sponsorship system reform, those against relaxing the rule of employee transfers cited higher recruitment costs as a major concern. Third, within the GCC countries, expatriate workers are relocating to areas less affected by the financial crisis. For example, the remittance data of the State Bank of Pakistan in 2009 shows an increase of remittances from Abu Dhabi and a decrease from Dubai. Anecdotal evidence also shows a move of expatriate workers to Qatar and Saudi Arabia. Fourth, flexible wage adjustments may take place to the mutual benefit of employers and employees. This argument is supported by the absence of any second-round effects of the inflation in 2007-2008, and the rapid decline in consumer inflation rates in 2009.

Investment flows have recovered and have also become more selective

International and intraregional investment flows have taken on a more selective nature in the wake of the crisis, not least due to increased risk aversion. At the height of the crisis, the drying-up of international credit markets and the sharp contraction in crude oil prices severely curtailed investment levels. However, the normalization in credit markets and the recovery in oil prices have also revived investment flows, although there is a stronger risk awareness attached to them. In addition, government stimulus measures have also helped to underpin investment levels.

Exchange rates have been resilient

Exchange rates in the region stayed stable as of the end of the third quarter of 2009, with the new Israeli shekel and the Turkish lira showing a slight appreciation against the dollar for 2009. Signs of fragility have been observed in Yemen, whose national currency has gradually depreciated against the dollar. Despite a positive decision at the GCC summit in December 2008, the goal of creating a GCC currency union in January 2010 has been facing further challenges as the United Arab Emirates has opted not to participate in the currency union from its inception.

Monetary policy is likely to tighten later in 2010

A series of reductions in policy interest rates have been observed in the region since October 2008, together with the reduction in commercial banks' reserve requirements and the provision of extra liquidity facilities. Owing to falling general price levels, the region's monetary authorities are expected to maintain a supportive stance focused on stabilizing economic growth, although this room for manoeuvre will diminish more noticeably in the second half of 2010 in view of the expected rise in inflation. With Israel having already seen the first hike in its policy interest rate in the light of inflation that is running slightly above the policymakers' target range, more economies are expected to follow suit in 2010.

Fiscal balances are facing a multitude of pressures

Fiscal policies remain dominant in stimulating economic activity in many economies in the region. However, fiscal balances are being squeezed from different directions. In the oil-exporting countries, revenue will be lower in 2009 compared to 2008 owing to lower average oil prices, while non-oil-exporting countries in the region will see lower tax revenue as a result of weaker domestic demand. On the expenditure side, while lower average oil prices in 2009 will reduce subsidies on domestic energy prices, this fiscal gain is expected to be outweighed by increased spending in an effort to create jobs and, in the case of the oil-exporting countries, to diversify the structure of their economies. Taken as a whole, supportive fiscal policies will generate sizeable budget deficits in virtually all economies in the region. This will include even more extreme swings in fiscal positions, such as in Saudi Arabia, which is forecast to see a fall in its budget balance from a surplus of 33.0 per cent of GDP in 2008 to a deficit of 9.0 per cent in 2009. However, oil exporters will be in the relatively more comfortable position of being able to sustain deficit spending measures by drawing on the fiscal reserves that they have accumulated since 2002.

Risks include a sharper correction in oil prices and unexpected fiscal austerity measures

The fragility in crude oil prices represents the main downside risk in Western Asia. Crude oil prices are an indicator not only for the oil-exporting countries' income and wealth, but they also constitute an important determinant of economic sentiment that influences forward-looking economic behaviour in the majority of countries in the region. In this respect, an unexpected sharp fall in oil prices could again set off a more severe contraction in economic activity in the region. In addition, unexpected fiscal austerity measures could dent domestic demand, subjecting the economic recovery in the region to renewed uncertainty.

## Latin America and the Caribbean: policy stimulus and rebounding commodity prices improve the outlook for 2010

After five consecutive years of GDP growth above 4 per cent, Latin America and the Caribbean contracted by 2.1 per cent in 2009, as growth across the region fell sharply in the first half of the year. Mexico, whose economy contracted by 9.2 per cent in the first semester, and Central American countries are among the economies expected to register the lowest growth figures this year. In 2010, the regional economy, which has already presented signs of recovery in the third quarter of 2009, is forecast to return to positive growth of 3.4 per cent (see annex table A.3).

A rebound in the second half of 2009 is expected to be followed by a recovery in 2010

Latin American and Caribbean economies suffered primarily from a decrease in external demand and low commodity prices for their exports. In addition, a rapid contraction of private consumption and investment aggravated the economic outlook for 2009. The contraction of private consumption was exacerbated by a sharp reduction in migrants' remittances to Mexico, Central America and the Caribbean, where double-digit falls were registered between the second quarter of 2008 and the second quarter of 2009.

In several countries, active counter-cyclical policies, including a significant increase in government consumption, prevented more severe contractions. By the third quarter of 2009, economic activity had stopped falling in most countries, consumer confidence had improved, and signs of recovery had emerged. In 2010, the region as a whole is expected to recover, owing mainly to the rebound of commodity prices and higher external demand.

The pace of recovery is expected to vary across the region. In South America, the recovery will be faster, led by Brazil and sustained by the expansion of domestic consumption and the improvement of external demand, in particular from China. According to the United Nations baseline forecast, the Brazilian economy is expected to grow by 4.5 per cent in 2010. In contrast, the recovery in Mexico and the Central American and Caribbean countries depends on a better performance of the United States economy. Mexico's economy is forecast to grow by 3.0 per cent in 2010, recovering from a decline of 7 per cent in 2009.

Unemployment rates are stabilizing, but poverty is expected to increase

In the first half of 2009, there were massive job losses, especially in manufacturing sectors. This pushed up both unemployment rates and informal sector employment. About 2.5 million more urban workers became unemployed in the region in 2009, pushing up total urban unemployment to 18.4 million. Fiscal stimulus measures have prevented greater employment losses. Increasing unemployment rates started to decelerate in the second quarter of 2009. The average unemployment rate for the region is expected to increase to 8.5 per cent in 2009, up from 7.5 per cent in 2008. The rate would have been much higher, had the participation rate not declined as much as it did in the first half of 2009. Despite a projected economic recovery in the region, unemployment rates are expected to remain at their elevated levels in 2010.

Rising unemployment poses serious risks to economic recovery. In addition, the shrinking formal job sector has pushed many more people into low productivity informal sector jobs and into poverty, so that the deeper social impact of the economic crisis may not become more evident until 2010. In several countries, this could pose an additional challenge for public spending, as greater pressures could be exerted on Governments to increase compensatory social transfers.

Inflation pressures have eased

In most Latin American and Caribbean countries, inflationary pressures eased in 2009. Average inflation is estimated to reach 6.2 per cent in 2009, down from 7.8 per

cent in 2008. The deceleration of inflation was more pronounced in Chile, Colombia, Ecuador and Peru. Two factors explain the reduction in inflationary pressures. First, higher unemployment and lower domestic demand have reduced pressure on domestic prices. Second, falling commodity prices reduced cost-push pressures, especially in countries that are net importers of food and energy. These factors were of less importance in the Bolivarian Republic of Venezuela where inflation rates have continued to be high, at about 30 per cent, driven by higher taxes and a shortage of essential products. In 2010, despite higher oil prices, inflation is expected to remain subdued as domestic demand growth will be limited in most countries and exchange rates are expected to strengthen along with the weakening of the United States dollar.

Interest rates are expected to remain low

Central banks, in particular those in Brazil, Chile, Mexico and Peru, started to ease monetary policy aggressively in the last quarter of 2008 in response to emerging liquidity shortages. In addition, several central banks, in particular those of Argentina and Brazil, lowered the legal reserve requirements in order to prevent a liquidity crisis. The Central Bank of Brazil also opened several lines of credit to banks and specific sectors of the economy, and, in July 2009, the supply of bank credit in Brazil was already 20 per cent higher than in June 2008. In the course of 2009, risk premiums on lending to emerging market economies fell and many Latin American countries regained access to international capital markets and managed to issue new sovereign and corporate bonds.

Interest rates are expected to remain low in 2010, at least until the recovery is perceived to be more solid and as long as inflation rates remain stable. If growth turns out to be weaker than expected and inflationary pressures stay low, several central banks may consider a further easing of monetary policies.

There is limited room for additional counter-cyclical fiscal policies

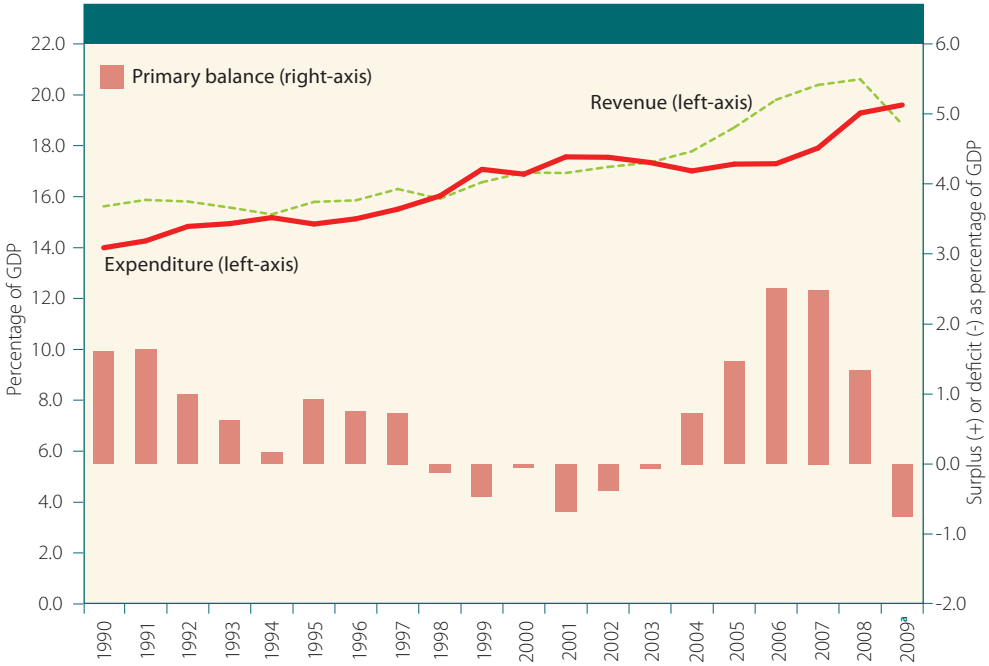
In many countries, Governments actively implemented counter-cyclical fiscal policies. This was the case in particular in countries (such as Brazil, Chile, Panama and Peru) that had been able to sustain fiscal surpluses in previous years and that had accumulated ample foreign-exchange reserves. Enhanced social programmes made up an important part of the fiscal stimulus packages in some countries. In Brazil, these programmes played an important role in mitigating the impact of the financial crisis on private consumption. Tax breaks further stimulated domestic demand in Brazil and already helped move the economy out of its recession in the second quarter of 2009.

The space for additional counter-cyclical measures in 2010 is limited in many countries, in particular in countries whose public spending largely depends on oil-export revenues. In the case of Mexico, the challenge is particularly great, since an accelerating fall in oil output is not expected to be compensated by high prices, as in previous years. For Latin America and the Caribbean as a whole, public revenues are expected to fall by about 1.8 percentage points of GDP, leading to a primary deficit of 0.9 per cent of GDP in 2009 (see figure IV.10). Mexico's Government had to cut spending in 2009 even before the economy reached bottom, as oil revenues had dropped significantly in the first half of the year. Caribbean economies also face limited room for counter-cyclical policies because of falling government revenues and already high levels of public indebtedness (see box IV.4). Therefore, several countries, in particular Caribbean and Central American countries, will need access to external resources from international financial institutions to finance their public policies in the context of a slow economic recovery and higher unemployment and poverty levels.

The region will sustain a small current-account deficit in 2009

The aggregate current-account balance is estimated to record a small deficit in 2009, showing little change compared with that in 2008. Countries that had recorded large trade surpluses in previous years, such as the Bolivarian Republic of Venezuela, saw strong decreases in export earnings, but import demand in the region contracted strongly

Figure IV.10
**Revenue, expenditure and primary balances of central Governments in Latin America and the Caribbean, 1990-2009**




**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).
**a** Estimated.

**Box IV.4**

## Challenges for exchange-rate management in the English-speaking Caribbean countries and Suriname

Most of the countries in the English-speaking Caribbean and Suriname have fixed or quasi-fixed nominal exchange-rate regimes, which have become a valuable instrument for anchoring expectations and reducing inflation. During 2008, as shown in the figure below, some of these regimes have faced challenges in keeping their real exchange rates competitive, as is evident from the significant and sustained appreciation of their currencies against the United States dollar.

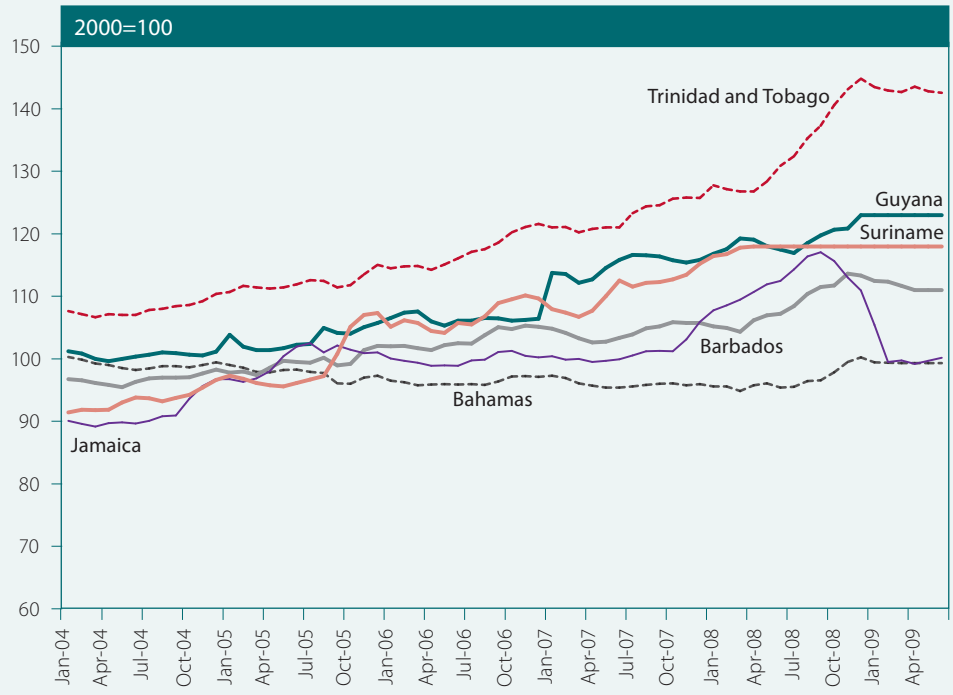
As a consequence of the financial crisis, inflationary pressures started to subside in all English-speaking Caribbean countries, leading to a progressive narrowing of the inflation differentials with the United States and limiting further appreciation of their real exchange rates. Unlike other countries in the region, Jamaica operates a managed floating exchange-rate regime. As a consequence, its currency experienced a marked depreciation of 16.9 per cent in real terms against the dollar between September 2008 and June 2009.

The stabilization of real exchange rates has helped stem further losses of export competitiveness which had affected the tourism sectors in particular. Yet, balance-of-payments problems emerged during the crisis as capital inflows dried up and remittance earnings fell. In Jamaica, for instance, both private capital inflows and remittances fell sharply, the latter falling by 13 per cent in July 2009 compared with July 2008. The fact that several of these countries are reporting large current-account deficits, high levels of public debt and low international reserves makes them more vulnerable to the drying up of financial inflows.

As a consequence of the crisis, several Caribbean countries, including the Dominican Republic, Guyana, Saint Lucia and Saint Vincent and the Grenadines, are facing severe balance-of-payments problems and a policy dilemma in managing their exchange rates. An eventual devaluation

**Box IV.4 (cont'd)**

**Bilateral real exchange rates versus the dollar, selected countries, 2004-2009**




**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

would make imports more expensive and exports more competitive, which could help reduce the current-account deficit. However, given that several of these countries have high import dependence, the potential benefits from changing the parity are unlikely to be significant. In addition, the short- to medium-term costs of such an adjustment would be much higher debt-servicing obligations (in terms of national currency), and this in turn would push up government deficits and costs to firms with sizeable foreign debts. Moreover, the exchange-rate peg has offered a strong anchor for price expectations, which have contributed to financial deepening and economic development in the region.

In the case of countries with abundant natural resources, such as Suriname and Trinidad and Tobago, which in recent years have posted surpluses on both the fiscal and external accounts and have accumulated vast international reserves, the situation is less dramatic. They have thus been better placed to sustain their quasi-fixed exchange-rate regimes. By contrast, Barbados, Belize, Guyana and several countries of the Eastern Caribbean Currency Union (ECCU) are dependent upon accessing external financing in order to maintain their fixed exchange rates. Jamaica, which has already received external financing from multilateral financial institutions but needs more funding, has started negotiations with the International Monetary Fund for emergency financing to cover debt-service payments on the country's large public debt and avoid a severe exchange-rate crisis.

with the decline in domestic demand. South American countries saw a significant deterioration in their terms of trade owing to the correction in international commodity prices. Central American countries and other net energy importers, in contrast, saw their trade deficits narrow, as the relative price of their imports decreased substantially. In 2010, an expected global economic recovery and higher commodity prices will help increase export volumes and prices, improving the regional trade balance and current accounts.

The inflow of remittances also fell markedly in the region since the beginning of 2009, putting pressure on the current transfers account. These flows are not expected

to increase in 2010, as labour markets in developed economies will take time to recover. By contrast, foreign direct investment flows to the region have already started to pick up, in particular to Brazil. The region's stock of international reserves is growing again, after falling 9.9 per cent between September 2008 and February 2009. This is particularly the case for Brazil, which had already rebuilt its international reserves in July 2009, achieving a new record of $209 billion.

After concerns of national currency depreciation in late 2008 in some economies, the weakening of the dollar is now a major concern for several South American countries, as their currencies appreciated in nominal terms. This reflects improved expectations and credit conditions, as well as increased concerns about the long-term value of the United States dollar. In contrast, Mexico and some Central American countries continued to register nominal depreciations of their currencies.

Downside risks to the forecast remain

A weaker-than-expected global recovery would limit demand for exports from the region, which is still highly dependent upon commodity prices and demand from the United States, in particular for manufactured products. On the domestic side, if labour-market conditions continue to deteriorate, they would affect consumer confidence and domestic demand, limiting a quick economic recovery in 2010. As fiscal positions have deteriorated significantly, many countries in the region face limited room for additional counter-cyclical policies which remain crucial to sustaining the economic recovery and alleviating social costs.

# Statistical annex

# Annex

## List of tables

Table A.1
**Developed economies: rates of growth of real GDP, 2000-2010**

| Annual percentage change | 2000-2008[a] | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[b] | 2010[c] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Developed economies** | **2.2** | **3.9** | **1.4** | **1.4** | **1.8** | **3.0** | **2.5** | **2.8** | **2.6** | **0.5** | **-3.5** | **1.3** |
| United States | 2.4 | 4.1 | 1.1 | 1.8 | 2.5 | 3.6 | 3.1 | 2.7 | 2.1 | 0.4 | -2.5 | 2.1 |
| Canada | 2.6 | 5.2 | 1.8 | 2.9 | 1.9 | 3.1 | 3.0 | 2.9 | 2.5 | 0.4 | -2.6 | 2.6 |
| Japan | 1.4 | 2.9 | 0.2 | 0.3 | 1.4 | 2.7 | 1.9 | 2.0 | 2.3 | -0.7 | -5.6 | 0.9 |
| Australia | 3.2 | 3.5 | 2.1 | 4.0 | 3.4 | 3.2 | 3.1 | 2.6 | 4.2 | 2.3 | 0.8 | 1.3 |
| New Zealand | 3.0 | 3.8 | 2.4 | 4.7 | 4.3 | 4.4 | 2.8 | 2.7 | 2.9 | -1.1 | -1.3 | 2.8 |
| **European Union** | **2.2** | **3.9** | **2.0** | **1.3** | **1.3** | **2.5** | **2.0** | **3.2** | **2.9** | **0.8** | **-4.1** | **0.5** |
| ***EU-15*** | 2.1 | 3.9 | 2.0 | 1.2 | 1.2 | 2.4 | 1.8 | 3.0 | 2.6 | 0.6 | -4.2 | 0.5 |
| Austria | 2.3 | 3.7 | 0.5 | 1.6 | 0.8 | 2.5 | 2.5 | 3.5 | 3.5 | 2.0 | -3.8 | 1.0 |
| Belgium | 2.0 | 3.7 | 0.8 | 1.4 | 0.8 | 3.2 | 1.8 | 2.8 | 2.9 | 1.0 | -3.5 | 0.4 |
| Denmark | 1.5 | 3.5 | 0.7 | 0.5 | 0.4 | 2.3 | 2.4 | 3.3 | 1.6 | -1.2 | -3.0 | 1.1 |
| Finland | 3.1 | 5.1 | 2.7 | 1.6 | 1.8 | 3.7 | 2.8 | 4.9 | 4.2 | 1.0 | -7.0 | 0.0 |
| France | 1.9 | 3.9 | 1.9 | 1.0 | 1.1 | 2.5 | 1.9 | 2.2 | 2.3 | 0.4 | -2.2 | 0.7 |
| Germany | 1.5 | 3.2 | 1.2 | 0.0 | -0.2 | 1.2 | 0.8 | 3.2 | 2.5 | 1.3 | -4.8 | 1.2 |
| Greece | 4.1 | 4.5 | 4.2 | 3.4 | 5.6 | 4.9 | 2.9 | 4.5 | 4.0 | 2.9 | -0.6 | -0.4 |
| Ireland | 5.0 | 9.4 | 5.7 | 6.5 | 4.4 | 4.6 | 6.2 | 5.4 | 6.0 | -3.0 | -7.8 | -2.3 |
| Italy | 1.2 | 3.7 | 1.8 | 0.5 | 0.0 | 1.5 | 0.7 | 2.0 | 1.6 | -1.0 | -5.3 | 0.1 |
| Luxembourg | 4.2 | 8.4 | 2.5 | 4.1 | 1.5 | 4.4 | 5.4 | 5.6 | 6.5 | 0.0 | -4.5 | 0.4 |
| Netherlands | 2.1 | 3.9 | 1.9 | 0.1 | 0.3 | 2.2 | 2.0 | 3.4 | 3.6 | 2.0 | -4.7 | 0.0 |
| Portugal | 1.3 | 3.9 | 2.0 | 0.8 | -0.8 | 1.5 | 0.9 | 1.4 | 1.9 | 0.0 | -3.5 | 0.1 |
| Spain | 3.3 | 5.0 | 3.6 | 2.7 | 3.1 | 3.3 | 3.6 | 4.0 | 3.6 | 0.9 | -3.8 | -0.9 |
| Sweden | 2.6 | 4.4 | 1.1 | 2.4 | 1.9 | 4.1 | 3.3 | 4.2 | 2.6 | -0.2 | -5.0 | 1.5 |
| United Kingdom | 2.5 | 3.9 | 2.5 | 2.1 | 2.8 | 3.0 | 2.2 | 2.9 | 2.6 | 0.6 | -4.5 | 0.6 |
| ***New EU member States*** | 4.6 | 4.1 | 2.9 | 3.1 | 4.3 | 5.6 | 4.8 | 6.5 | 6.2 | 3.9 | -3.7 | 1.2 |
| Bulgaria | 5.6 | 5.4 | 4.1 | 4.5 | 5.0 | 6.6 | 6.2 | 6.3 | 6.2 | 6.0 | -5.7 | 2.0 |
| Cyprus | 3.7 | 5.0 | 4.0 | 2.1 | 1.9 | 4.2 | 3.9 | 4.1 | 4.4 | 3.7 | -0.5 | 1.0 |
| Czech Republic | 4.2 | 3.6 | 2.5 | 1.9 | 3.6 | 4.5 | 6.3 | 6.8 | 6.1 | 2.5 | -4.0 | 1.0 |
| Estonia | 6.9 | 10.0 | 7.5 | 7.9 | 7.6 | 7.2 | 9.4 | 10.0 | 7.2 | -3.6 | -12.0 | -3.0 |
| Hungary | 3.6 | 5.2 | 4.1 | 4.4 | 4.3 | 4.7 | 3.9 | 4.0 | 1.2 | 0.6 | -6.0 | 0.5 |
| Latvia | 7.2 | 6.9 | 8.0 | 6.5 | 7.2 | 8.7 | 10.6 | 12.2 | 10.0 | -4.6 | -17.5 | -4.0 |
| Lithuania | 6.9 | 3.3 | 6.7 | 6.9 | 10.2 | 7.4 | 7.8 | 7.8 | 9.8 | 2.8 | -15.9 | -3.8 |
| Malta | 2.2 | 5.0 | -1.6 | 2.6 | -0.3 | 0.4 | 4.1 | 3.8 | 3.7 | 2.1 | -3.8 | -0.6 |
| Poland | 4.2 | 4.3 | 1.2 | 1.4 | 3.9 | 5.3 | 3.6 | 6.2 | 6.8 | 5.0 | 1.1 | 2.5 |
| Romania | 5.8 | 2.4 | 5.7 | 5.1 | 5.2 | 8.5 | 4.2 | 7.9 | 6.3 | 7.1 | -7.6 | 0.1 |
| Slovakia | 5.7 | 1.4 | 3.4 | 4.8 | 4.7 | 5.2 | 6.5 | 8.5 | 10.4 | 6.4 | -4.5 | 1.2 |
| Slovenia | 4.3 | 4.4 | 2.8 | 4.0 | 2.8 | 4.3 | 4.5 | 5.8 | 6.8 | 3.5 | -5.5 | 1.5 |
| **Other Europe** | **2.3** | **3.5** | **1.6** | **0.9** | **0.4** | **3.2** | **2.8** | **3.1** | **3.4** | **1.9** | **-2.0** | **0.7** |
| Iceland | 4.1 | 4.3 | 3.9 | 0.1 | 2.4 | 7.7 | 7.5 | 4.3 | 5.6 | 1.3 | -6.3 | 0.5 |
| Norway | 2.4 | 3.3 | 2.0 | 1.5 | 1.0 | 3.9 | 2.7 | 2.3 | 3.1 | 2.1 | -1.2 | 2.1 |
| Switzerland | 2.1 | 3.6 | 1.2 | 0.4 | -0.2 | 2.5 | 2.6 | 3.6 | 3.6 | 1.8 | -2.5 | -0.4 |
| ***Memorandum items:*** | | | | | | | | | | | | |
| North America | 2.4 | 4.2 | 1.1 | 1.9 | 2.4 | 3.5 | 3.1 | 2.7 | 2.2 | 0.4 | -2.5 | 2.1 |
| Western Europe | 2.2 | 3.9 | 2.0 | 1.2 | 1.3 | 2.6 | 2.0 | 3.2 | 2.9 | 0.8 | -4.0 | 0.5 |
| Asia and Oceania | 1.7 | 3.0 | 0.5 | 0.8 | 1.7 | 2.8 | 2.1 | 2.1 | 2.6 | -0.3 | -4.6 | 1.0 |
| Major developed economies | 2.0 | 3.8 | 1.2 | 1.3 | 1.7 | 2.9 | 2.3 | 2.6 | 2.2 | 0.3 | -3.6 | 1.5 |

**Source**: UN/DESA, based on OECD, *Main Economic Indicators* and individual national sources.

**Note**: Country groups are calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.

**a** Average percentage change.
**b** Partly estimated.
**c** Baseline scenario forecasts, based in part on Project LINK.

Table A.2
**Economies in transition: rates of growth of real GDP, 2000-2010**

| Annual percentage change | 2000-2008[a] | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[b] | 2010[c] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Economies in transition** | **7.0** | **8.8** | **5.7** | **5.0** | **7.3** | **7.7** | **6.5** | **8.0** | **8.4** | **5.5** | **-6.5** | **1.6** |
| ***South-eastern Europe*** | 4.8 | 4.3 | 3.7 | 4.4 | 4.0 | 5.7 | 4.7 | 5.3 | 6.3 | 4.5 | -3.7 | 0.7 |
| Albania | 6.2 | 6.7 | 7.9 | 4.2 | 5.8 | 5.7 | 5.8 | 5.5 | 6.2 | 8.0 | 3.0 | 2.5 |
| Bosnia and Herzegovina | 5.0 | 5.4 | 2.0 | 4.9 | 3.8 | 6.3 | 3.9 | 6.9 | 6.6 | 5.4 | -3.5 | 1.0 |
| Croatia | 4.3 | 3.0 | 3.8 | 5.4 | 5.0 | 4.2 | 4.2 | 4.8 | 5.5 | 2.5 | -5.0 | 0.1 |
| Montenegro | 4.8 | 3.1 | 1.1 | 1.9 | 2.5 | 4.4 | 4.2 | 8.6 | 10.7 | 7.0 | -4.5 | 1.0 |
| Serbia | 5.4 | 5.3 | 5.6 | 3.9 | 2.4 | 8.3 | 5.6 | 5.2 | 6.9 | 5.5 | -4.0 | 0.8 |
| The former Yugoslav Republic of Macedonia | 2.9 | 4.5 | -4.5 | 0.9 | 2.8 | 4.1 | 4.1 | 4.0 | 5.9 | 4.9 | -3.0 | 1.0 |
| ***Commonwealth of Independent States*** | 7.2 | 9.3 | 5.9 | 5.1 | 7.6 | 7.9 | 6.6 | 8.3 | 8.6 | 5.6 | -6.7 | 1.7 |
| ***Net fuel exporters*** | 7.2 | 9.9 | 5.6 | 5.0 | 7.4 | 7.4 | 6.9 | 8.3 | 8.5 | 5.6 | -6.0 | 1.8 |
| Azerbaijan | 16.3 | 11.1 | 9.9 | 10.6 | 11.2 | 10.2 | 26.4 | 34.5 | 25.1 | 10.8 | 6.0 | 7.0 |
| Kazakhstan | 9.4 | 9.8 | 13.5 | 9.8 | 9.3 | 9.6 | 9.7 | 10.7 | 8.9 | 3.3 | -2.0 | 2.0 |
| Russian Federation | 6.9 | 10.0 | 5.1 | 4.7 | 7.3 | 7.2 | 6.4 | 7.7 | 8.1 | 5.6 | -7.0 | 1.5 |
| Turkmenistan | 7.0 | 5.5 | 4.3 | 0.3 | 3.3 | 4.5 | 13.0 | 11.4 | 11.6 | 9.8 | 4.0 | 8.0 |
| Uzbekistan | 6.4 | 4.0 | 4.5 | 4.2 | 4.4 | 7.7 | 7.0 | 7.3 | 9.5 | 9.0 | 7.0 | 7.0 |
| ***Net fuel importers*** | 7.4 | 5.8 | 8.0 | 5.5 | 9.1 | 11.6 | 4.7 | 7.9 | 8.9 | 5.2 | -11.3 | 0.9 |
| Armenia | 11.4 | 5.9 | 9.6 | 15.0 | 14.0 | 10.5 | 13.9 | 13.2 | 13.8 | 6.8 | -15.0 | 1.0 |
| Belarus | 8.0 | 5.8 | 4.7 | 5.0 | 7.0 | 11.4 | 9.4 | 10.0 | 8.6 | 10.0 | -3.0 | 1.5 |
| Georgia[d] | 6.9 | 1.8 | 4.8 | 5.5 | 11.1 | 5.9 | 9.6 | 9.4 | 12.3 | 2.1 | -4.0 | 2.0 |
| Kyrgyzstan | 4.8 | 5.4 | 5.3 | 0.0 | 7.0 | 7.0 | -0.2 | 3.1 | 8.5 | 7.6 | 1.0 | 3.0 |
| Republic of Moldova | 5.8 | 2.1 | 6.1 | 7.8 | 6.6 | 7.4 | 7.5 | 4.8 | 3.0 | 7.2 | -8.0 | 1.5 |
| Tajikistan | 8.8 | 8.3 | 9.6 | 10.8 | 11.1 | 10.3 | 6.7 | 6.6 | 7.7 | 7.9 | 2.0 | 3.0 |
| Ukraine | 7.1 | 5.9 | 9.2 | 5.2 | 9.6 | 12.1 | 2.7 | 7.1 | 8.9 | 3.2 | -15.0 | 0.4 |

**Source**: UN/DESA, based on data of the Economic Commision for Europe.

**Note**: Country groups are calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.

**a** Average percentage change.
**b** Partly estimated.
**c** Baseline scenario forecasts, based in part on Project LINK.
**d** Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

Table A.3
**Developing economies: rates of growth of real GDP, 2000-2010**

| Annual percentage change | 2000-2008[a] | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[b] | 2010[c] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Developing countries[d]** | **5.8** | **5.8** | **3.0** | **4.3** | **5.3** | **7.3** | **6.7** | **7.3** | **7.6** | **5.4** | **1.9** | **5.3** |
| ***Africa*** | 5.3 | 3.4 | 4.3 | 5.4 | 5.3 | 6.5 | 5.9 | 5.9 | 6.0 | 4.9 | 1.6 | 4.3 |
| North Africa | 4.6 | 2.7 | 3.9 | 3.3 | 6.6 | 4.9 | 5.8 | 5.4 | 4.8 | 4.4 | 3.5 | 3.9 |
| Sub-Saharan Africa (excluding Nigeria and South Africa) | 5.9 | 2.8 | 4.9 | 4.4 | 4.1 | 8.1 | 7.1 | 7.0 | 7.9 | 6.6 | 2.3 | 5.2 |
| Net fuel exporters | 5.6 | 3.4 | 4.2 | 7.7 | 7.4 | 6.3 | 6.0 | 5.1 | 5.5 | 4.5 | 2.7 | 4.5 |
| Net fuel importers | 5.1 | 3.3 | 4.3 | 4.0 | 4.0 | 6.6 | 5.8 | 6.5 | 6.4 | 5.2 | 0.9 | 4.1 |
| ***East and South Asia*** | 7.2 | 6.8 | 4.8 | 6.5 | 7.0 | 7.8 | 7.7 | 8.6 | 9.3 | 6.3 | 4.3 | 6.4 |
| East Asia | 7.4 | 7.7 | 4.8 | 7.1 | 6.8 | 7.9 | 7.6 | 8.7 | 9.6 | 6.2 | 4.1 | 6.7 |
| South Asia | 6.6 | 3.8 | 4.6 | 4.5 | 7.8 | 7.4 | 8.0 | 8.5 | 8.3 | 6.5 | 4.7 | 5.5 |
| Net fuel exporters | 5.5 | 3.5 | 4.4 | 7.0 | 6.9 | 4.9 | 5.4 | 6.5 | 7.4 | 3.9 | 1.8 | 3.3 |
| Net fuel importers | 7.3 | 7.0 | 4.8 | 6.5 | 7.0 | 7.9 | 7.8 | 8.7 | 9.4 | 6.4 | 4.4 | 6.6 |
| ***Western Asia*** | 4.9 | 6.4 | -0.6 | 2.4 | 5.3 | 8.7 | 6.9 | 6.1 | 5.0 | 4.6 | -1.0 | 3.6 |
| Net fuel exporters | 5.4 | 5.9 | 1.8 | 1.3 | 6.1 | 9.4 | 6.6 | 6.0 | 5.2 | 6.5 | 0.5 | 4.6 |
| Net fuel importers | 4.4 | 7.0 | -3.4 | 3.9 | 4.2 | 7.9 | 7.2 | 6.2 | 4.9 | 2.2 | -2.9 | 2.3 |
| ***Latin America and the Caribbean*** | 3.7 | 4.4 | 0.8 | 0.5 | 1.8 | 5.8 | 4.6 | 5.5 | 5.6 | 4.1 | -2.1 | 3.4 |
| South America | 3.9 | 3.3 | 1.0 | 0.0 | 1.8 | 7.0 | 5.1 | 5.5 | 6.5 | 5.3 | -0.1 | 3.7 |
| Mexico and Central America | 2.9 | 6.2 | 0.1 | 1.0 | 1.6 | 4.0 | 3.4 | 5.0 | 3.6 | 1.7 | -6.4 | 2.9 |
| Caribbean | 5.2 | 5.0 | 2.3 | 3.4 | 3.5 | 3.8 | 8.2 | 10.3 | 6.7 | 3.9 | 0.2 | 2.5 |
| Net fuel exporters | 3.4 | 4.7 | 0.1 | -1.6 | 1.9 | 6.3 | 5.2 | 6.2 | 5.1 | 3.0 | -4.2 | 2.7 |
| Net fuel importers | 3.9 | 4.0 | 1.4 | 2.6 | 1.8 | 5.4 | 4.2 | 4.9 | 6.0 | 5.2 | -0.1 | 4.1 |
| ***Memorandum items:*** | | | | | | | | | | | | |
| Least developed countries | 6.7 | 7.7 | 6.9 | 5.0 | 4.7 | 8.2 | 7.8 | 7.9 | 8.5 | 7.2 | 3.3 | 5.3 |
| East Asia (excluding China) | 4.8 | 7.1 | 2.0 | 5.4 | 3.9 | 5.8 | 4.9 | 5.6 | 5.8 | 2.9 | -0.8 | 3.8 |
| South Asia (excluding India) | 5.3 | 3.3 | 3.4 | 5.8 | 6.7 | 5.7 | 5.5 | 6.2 | 6.8 | 4.8 | 2.3 | 3.4 |
| Western Asia (excluding Israel and Turkey) | 5.3 | 5.7 | 2.0 | 1.3 | 5.9 | 9.1 | 6.5 | 5.8 | 5.3 | 6.5 | 0.7 | 4.5 |
| Landlocked developing economies | 7.1 | 4.9 | 6.7 | 5.7 | 6.1 | 7.8 | 8.4 | 9.3 | 8.9 | 6.0 | 1.3 | 4.4 |
| Small island developing economies | 5.1 | 7.1 | 0.4 | 3.6 | 3.6 | 6.1 | 7.2 | 8.5 | 7.0 | 2.9 | -0.9 | 3.1 |
| **Major developing economies** | | | | | | | | | | | | |
| Argentina | 3.7 | -0.8 | -4.4 | -10.9 | 8.8 | 9.0 | 9.2 | 8.5 | 8.7 | 7.2 | 0.5 | 3.0 |
| Brazil | 3.7 | 4.3 | 1.3 | 2.7 | 1.1 | 5.7 | 3.2 | 4.0 | 5.7 | 5.2 | 0.0 | 4.5 |
| Chile | 4.2 | 4.5 | 3.4 | 2.2 | 3.9 | 6.0 | 5.6 | 4.3 | 5.1 | 3.0 | -1.5 | 3.7 |
| China | 10.0 | 8.4 | 8.3 | 9.1 | 10.0 | 10.1 | 10.4 | 11.6 | 13.0 | 9.0 | 8.1 | 8.8 |
| Colombia | 4.4 | 2.9 | 2.2 | 2.5 | 4.6 | 4.7 | 5.7 | 6.9 | 7.5 | 2.5 | 0.0 | 2.5 |
| Egypt | 4.9 | 3.5 | 3.2 | 4.1 | 4.1 | 4.5 | 6.8 | 7.1 | 7.2 | 3.6 | 4.7 | 4.5 |
| Hong Kong SAR[e] | 4.9 | 8.0 | 0.5 | 1.8 | 3.0 | 8.5 | 7.1 | 7.0 | 6.4 | 2.4 | -3.6 | 2.9 |
| India | 7.2 | 4.0 | 5.2 | 3.8 | 8.4 | 8.3 | 9.3 | 9.7 | 9.1 | 7.3 | 5.9 | 6.5 |
| Indonesia | 5.1 | 4.9 | 3.6 | 4.5 | 4.8 | 5.0 | 5.7 | 5.5 | 6.3 | 6.0 | 4.3 | 5.0 |
| Iran, Islamic Republic of | 5.2 | 2.8 | 3.8 | 7.2 | 7.0 | 4.4 | 4.9 | 6.2 | 7.5 | 3.5 | 1.0 | 2.5 |
| Israel | 3.8 | 8.9 | -0.4 | -0.7 | 1.8 | 5.0 | 5.1 | 5.2 | 5.4 | 4.1 | 0.1 | 2.0 |
| Korea, Republic of | 4.8 | 8.5 | 4.0 | 7.2 | 2.8 | 4.6 | 4.0 | 5.2 | 5.1 | 2.2 | -0.1 | 3.8 |

Table A.3 (cont'd)

| | *2000-2008*[a] | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* | *2009*[b] | *2010*[c] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Malaysia | 5.5 | 8.9 | 0.5 | 5.4 | 5.8 | 6.8 | 5.3 | 5.8 | 6.3 | 4.5 | -3.6 | 3.0 |
| Mexico | 2.8 | 6.6 | 0.0 | 0.8 | 1.4 | 4.0 | 3.2 | 4.8 | 3.2 | 1.3 | -7.1 | 3.0 |
| Nigeria | 8.8 | 5.3 | 8.2 | 21.2 | 10.3 | 10.6 | 5.4 | 6.2 | 7.0 | 6.0 | 1.9 | 5.0 |
| Pakistan | 5.5 | 2.0 | 3.2 | 4.8 | 7.4 | 7.7 | 6.2 | 6.0 | 6.0 | 6.0 | 2.4 | 3.3 |
| Peru | 5.6 | 3.0 | 0.2 | 5.0 | 4.0 | 5.0 | 6.8 | 7.7 | 8.9 | 9.8 | 1.0 | 4.2 |
| Philippines | 5.1 | 6.0 | 1.8 | 4.4 | 4.9 | 6.4 | 5.0 | 5.4 | 7.2 | 4.6 | 1.5 | 3.2 |
| Saudi Arabia | 3.9 | 4.9 | 0.5 | 0.1 | 7.7 | 5.3 | 5.6 | 3.2 | 3.4 | 4.4 | -0.8 | 3.1 |
| Singapore | 5.4 | 10.1 | -2.4 | 4.1 | 3.8 | 9.3 | 7.3 | 8.4 | 7.8 | 1.1 | -2.7 | 4.0 |
| South Africa | 4.1 | 4.2 | 2.7 | 3.7 | 3.1 | 4.9 | 5.0 | 5.3 | 5.1 | 3.1 | -2.2 | 3.1 |
| Taiwan Province of China | 3.6 | 5.8 | -2.2 | 4.6 | 3.5 | 6.2 | 4.2 | 4.8 | 5.7 | 0.1 | -3.8 | 3.9 |
| Thailand | 5.0 | 4.8 | 2.2 | 5.3 | 7.1 | 6.3 | 4.6 | 5.2 | 4.9 | 4.8 | -3.5 | 3.1 |
| Turkey | 4.7 | 6.8 | -5.7 | 6.2 | 5.3 | 9.4 | 8.4 | 6.9 | 4.5 | 1.1 | -4.9 | 2.2 |
| Venezuela, Bolivarian Republic of | 4.4 | 3.7 | 3.4 | -8.9 | -7.8 | 18.3 | 10.3 | 9.9 | 8.9 | 4.9 | -1.4 | 1.0 |

**Sources**: UN/DESA, based on data of the Statistics Division; IMF, *International Financial Statistics*.

**Note**: Country groups are calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.

**a** Average percentage change.
**b** Partly estimated.
**c** Baseline scenario forecasts, based in part on Project LINK.
**d** Covering countries that account for 98 per cent of the population of all developing countries.
**e** Special Administrative Region of China.

Table A.4
**Developed economies: consumer price inflation, 2000-2010**

| Annual percentage change[a] | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[b] | 2010[c] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Developed economies** | **2.5** | **2.3** | **1.6** | **1.8** | **2.0** | **2.2** | **2.3** | **2.1** | **3.3** | **0.1** | **1.3** |
| United States | 3.4 | 2.8 | 1.6 | 2.3 | 2.7 | 3.4 | 3.2 | 2.9 | 3.8 | -0.4 | 1.4 |
| Canada | 2.7 | 2.5 | 2.3 | 2.8 | 1.9 | 2.2 | 2.0 | 2.1 | 2.4 | 0.3 | 2.1 |
| Japan | -0.7 | -0.8 | -0.9 | -0.2 | 0.0 | -0.3 | 0.2 | 0.1 | 1.4 | -1.0 | 0.3 |
| Australia | 4.5 | 4.4 | 3.0 | 2.8 | 2.3 | 2.7 | 3.5 | 2.3 | 4.4 | 1.3 | 1.8 |
| New Zealand | 2.6 | 2.6 | 2.7 | 1.8 | 2.3 | 3.0 | 3.4 | 2.4 | 4.0 | 3.0 | 1.7 |
| **European Union** | **2.6** | **2.7** | **2.2** | **2.0** | **2.1** | **2.1** | **2.1** | **2.3** | **3.4** | **0.7** | **1.4** |
| ***EU-15*** | 2.0 | 2.3 | 2.0 | 1.9 | 1.9 | 2.0 | 2.0 | 2.1 | 3.2 | 0.6 | 1.3 |
| Austria | 2.3 | 2.7 | 1.8 | 1.4 | 2.1 | 2.3 | 1.4 | 2.2 | 3.2 | 1.2 | 1.5 |
| Belgium | 2.5 | 2.5 | 1.6 | 1.6 | 2.1 | 2.8 | 1.8 | 1.8 | 4.5 | 0.0 | 0.8 |
| Denmark | 2.9 | 2.4 | 2.4 | 2.1 | 1.2 | 1.8 | 1.9 | 1.7 | 3.4 | 1.2 | 2.0 |
| Finland | 3.0 | 2.6 | 1.6 | 0.9 | 0.2 | 0.6 | 1.6 | 2.5 | 4.1 | 1.7 | 1.3 |
| France | 1.7 | 1.6 | 1.9 | 2.1 | 2.1 | 1.7 | 1.7 | 1.5 | 2.8 | 0.2 | 1.0 |
| Germany | 1.5 | 2.0 | 1.4 | 1.0 | 1.7 | 1.6 | 1.6 | 2.3 | 2.6 | 0.0 | 1.1 |
| Greece | 3.2 | 3.4 | 3.6 | 3.6 | 2.9 | 3.6 | 3.2 | 2.9 | 4.2 | 1.8 | 1.8 |
| Ireland | 5.6 | 4.9 | 4.6 | 3.5 | 2.2 | 2.4 | 3.9 | 4.9 | 4.1 | -2.7 | -0.8 |
| Italy | 2.5 | 2.8 | 2.5 | 2.7 | 2.2 | 2.0 | 2.1 | 1.8 | 3.3 | 1.0 | 1.4 |
| Luxembourg | 3.2 | 2.7 | 2.1 | 2.0 | 2.2 | 2.5 | 2.7 | 2.3 | 3.4 | 0.5 | 1.2 |
| Netherlands | 2.4 | 4.2 | 3.3 | 2.1 | 1.2 | 1.7 | 1.2 | 1.6 | 2.5 | 0.7 | 1.0 |
| Portugal | 2.9 | 4.4 | 3.6 | 3.3 | 2.4 | 2.3 | 3.1 | 2.5 | 2.6 | -1.0 | 0.3 |
| Spain | 3.4 | 3.6 | 3.1 | 3.0 | 3.0 | 3.4 | 3.5 | 2.8 | 4.1 | -0.7 | 0.7 |
| Sweden | 0.9 | 2.4 | 2.2 | 1.9 | 0.4 | 0.5 | 1.4 | 2.2 | 3.4 | -0.2 | 0.6 |
| United Kingdom | 0.8 | 1.2 | 1.3 | 1.4 | 1.3 | 2.0 | 2.3 | 2.3 | 3.6 | 2.1 | 2.3 |
| ***New EU member States*** | 12.7 | 9.3 | 5.2 | 3.7 | 5.1 | 3.4 | 3.2 | 4.1 | 6.1 | 3.2 | 2.7 |
| Bulgaria | 10.3 | 7.4 | 5.8 | 2.2 | 6.4 | 5.0 | 7.3 | 8.4 | 12.4 | 2.5 | 2.0 |
| Cyprus | 4.2 | 2.0 | 2.8 | 4.1 | 2.3 | 2.6 | 2.5 | 2.4 | 4.7 | 1.0 | 2.0 |
| Czech Republic | 3.9 | 4.7 | 1.8 | 0.1 | 2.8 | 1.9 | 2.6 | 3.0 | 6.3 | 1.0 | 1.5 |
| Estonia | 4.0 | 5.7 | 3.6 | 1.3 | 3.0 | 4.1 | 4.4 | 6.6 | 10.4 | -0.5 | 1.0 |
| Hungary | 9.8 | 9.1 | 5.3 | 4.7 | 6.7 | 3.6 | 3.9 | 8.0 | 6.0 | 4.5 | 4.1 |
| Latvia | 2.6 | 2.5 | 1.9 | 3.0 | 6.2 | 6.7 | 6.5 | 10.1 | 15.4 | 3.0 | 1.0 |
| Lithuania | 1.0 | 1.4 | 0.3 | -1.1 | 1.1 | 2.7 | 3.7 | 5.7 | 11.1 | 5.0 | 1.5 |
| Malta | 2.4 | 2.9 | 2.2 | 1.3 | 2.8 | 3.0 | 2.8 | 1.3 | 4.7 | 2.5 | 2.0 |
| Poland | 9.9 | 5.4 | 1.9 | 0.7 | 3.4 | 2.2 | 1.3 | 2.5 | 4.2 | 3.8 | 3.0 |
| Romania | 45.7 | 34.5 | 22.5 | 15.3 | 11.9 | 9.0 | 6.6 | 4.8 | 7.8 | 5.5 | 3.6 |
| Slovakia | 12.0 | 7.3 | 3.1 | 8.6 | 7.5 | 2.7 | 4.5 | 2.8 | 3.9 | 1.0 | 2.0 |
| Slovenia | 8.9 | 8.4 | 7.5 | 5.6 | 3.6 | 2.5 | 2.5 | 3.6 | 5.5 | 0.5 | 1.7 |
| **Other Europe** | **2.3** | **2.0** | **1.0** | **1.5** | **0.7** | **1.4** | **1.7** | **0.8** | **3.3** | **1.0** | **1.1** |
| Iceland | 5.1 | 6.4 | 5.2 | 2.1 | 3.2 | 4.0 | 6.7 | 5.1 | 12.7 | 12.0 | 7.0 |
| Norway | 3.1 | 3.0 | 1.3 | 2.5 | 0.5 | 1.5 | 2.3 | 0.7 | 3.8 | 2.3 | 1.7 |
| Switzerland | 1.6 | 1.0 | 0.6 | 0.6 | 0.8 | 1.2 | 1.1 | 0.7 | 2.4 | -0.6 | 0.4 |
| **Memorandum items:** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Major developed economies | 2.1 | 1.9 | 1.2 | 1.7 | 1.9 | 2.2 | 2.2 | 2.1 | 3.1 | -0.1 | 1.3 |
| Euro zone | 2.3 | 2.6 | 2.2 | 2.1 | 2.1 | 2.0 | 2.0 | 2.1 | 3.1 | 0.2 | 1.1 |

**Sources**: UN/DESA, based on OECD, *Main Economic Indicators*; Eurostat; and individual national sources.

**a** Data for country groups are weighted averages, where weights for each year are based on GDP in 2005, in United States dollars.
**b** Partly estimated.
**c** Baseline scenario forecasts, based in part on Project LINK.

Table A.5
**Economies in transition: consumer price inflation, 2000-2010**

| Annual percentage change[a] | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[b] | 2010[c] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Economies in transition[d]** | **25.0** | **21.4** | **13.8** | **12.1** | **10.1** | **11.8** | **9.2** | **9.1** | **14.7** | **11.9** | **7.3** |
| ***South-eastern Europe[d]*** | 23.4 | 30.3 | 7.2 | 4.0 | 4.3 | 6.8 | 6.0 | 3.7 | 7.8 | 4.7 | 3.7 |
| Albania | 0.0 | 3.1 | 5.5 | 2.6 | 2.3 | 2.4 | 2.4 | 2.9 | 3.4 | 2.5 | 3.0 |
| Bosnia and Herzegovina | 1.7 | 1.8 | 0.9 | 0.2 | -0.3 | 3.0 | 6.1 | 1.5 | 7.4 | 1.0 | 2.0 |
| Croatia | 4.6 | 3.8 | 1.7 | 1.8 | 2.0 | 3.3 | 3.2 | 2.9 | 6.1 | 3.0 | 3.0 |
| Montenegro | .. | 22.6 | 18.3 | 6.7 | 2.2 | 2.6 | 3.0 | 4.3 | 8.6 | 4.0 | 2.0 |
| Serbia | 71.1 | 95.0 | 19.5 | 10.0 | 11.1 | 16.2 | 11.8 | 6.1 | 11.6 | 10.5 | 6.1 |
| The former Yugoslav Republic of Macedonia | 6.6 | 5.2 | 2.3 | 1.1 | 0.9 | 0.2 | 3.3 | 3.6 | 8.3 | 0.5 | 2.0 |
| ***Commonwealth of Independent States*** | 25.2 | 20.7 | 14.5 | 12.8 | 10.7 | 12.3 | 9.5 | 9.5 | 15.3 | 12.6 | 7.7 |
| ***Net fuel exporters*** | 20.0 | 20.3 | 15.0 | 13.1 | 10.6 | 12.3 | 9.6 | 9.3 | 14.4 | 12.2 | 7.3 |
| Azerbaijan | 1.8 | 1.6 | 2.8 | 2.1 | 6.7 | 9.6 | 8.2 | 16.6 | 20.8 | 2.7 | 4.8 |
| Kazakhstan | 13.2 | 8.4 | 5.8 | 6.4 | 6.9 | 7.6 | 8.6 | 10.8 | 17.1 | 8.2 | 7.3 |
| Russian Federation | 20.8 | 21.5 | 15.8 | 13.7 | 10.9 | 12.7 | 9.7 | 9.0 | 14.1 | 12.7 | 7.3 |
| Turkmenistan | 7.0 | 8.2 | 15.0 | 15.3 | 10.0 | 12.0 | 9.0 | 6.4 | 12.0 | 10.0 | 9.0 |
| Uzbekistan | 25.0 | 26.6 | 21.6 | 19.0 | 14.2 | 15.0 | 10.5 | 12.3 | 12.0 | 10.0 | 8.0 |
| ***Net fuel importers*** | 60.0 | 23.6 | 11.0 | 10.9 | 11.1 | 12.0 | 8.4 | 11.4 | 21.8 | 15.3 | 10.5 |
| Armenia | -0.8 | 3.2 | 1.1 | 4.7 | 7.0 | 0.6 | 2.9 | 4.4 | 9.0 | 4.2 | 6.0 |
| Belarus | 168.9 | 61.4 | 42.8 | 28.5 | 18.3 | 10.4 | 7.0 | 8.3 | 14.8 | 14.3 | 8.0 |
| Georgia[e] | 4.2 | 4.6 | 5.7 | 4.9 | 5.7 | 8.2 | 9.2 | 9.2 | 9.9 | 1.0 | 1.3 |
| Kyrgyzstan | 19.7 | 6.9 | 2.1 | 3.0 | 4.1 | 4.4 | 5.6 | 10.2 | 24.5 | 7.9 | 5.2 |
| Republic of Moldova | 31.3 | 9.8 | 5.3 | 11.8 | 12.5 | 12.0 | 12.8 | 12.4 | 12.8 | 1.0 | 3.0 |
| Tajikistan | 32.8 | 38.6 | 12.2 | 16.3 | 7.2 | 7.2 | 10.0 | 13.4 | 20.9 | 7.8 | 9.5 |
| Ukraine | 28.2 | 12.0 | 0.8 | 5.2 | 9.0 | 13.5 | 9.1 | 12.8 | 25.2 | 17.2 | 12.0 |

**Source**: UN/DESA, based on data of the Economic Commission for Europe.

**a** Data for country groups are weighted averages, where weights for each year are based on GDP in 2005, in United States dollars.
**b** Partly estimated.
**c** Baseline scenario forecasts, based in part on Project LINK.
**d** Excluding Montenegro before 2001.
**e** Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

Table A.6
**Developing economies: consumer price inflation, 2000-2010**

| Annual percentage change[a] | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[b] | 2010[c] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Developing countries by region:** | **6.9** | **6.3** | **5.9** | **5.8** | **4.9** | **4.6** | **4.4** | **5.2** | **8.1** | **4.3** | **4.8** |
| ***Africa*** | 18.2 | 13.0 | 9.3 | 8.9 | 6.1 | 6.4 | 5.7 | 6.1 | 10.9 | 8.1 | 6.1 |
| North Africa | 1.1 | 1.1 | 0.7 | 2.3 | 4.7 | 2.6 | 4.2 | 5.3 | 9.2 | 5.9 | 4.3 |
| Sub-Saharan Africa (excluding Nigeria and South Africa) | 53.1 | 30.6 | 17.6 | 17.1 | 9.9 | 9.8 | 8.4 | 7.4 | 13.1 | 10.2 | 7.4 |
| Net fuel exporters | 26.2 | 17.1 | 11.6 | 12.5 | 10.6 | 8.5 | 6.0 | 6.2 | 10.9 | 8.4 | 6.4 |
| Net fuel importers | 12.2 | 9.9 | 7.6 | 6.1 | 2.7 | 4.8 | 5.4 | 6.1 | 10.8 | 7.9 | 5.9 |
| ***East and South Asia*** | 2.0 | 2.7 | 2.1 | 2.7 | 4.1 | 3.6 | 3.7 | 4.9 | 7.4 | 2.8 | 4.2 |
| East Asia | 1.0 | 2.1 | 1.0 | 1.9 | 3.5 | 2.8 | 2.8 | 4.0 | 6.0 | 0.6 | 2.6 |
| South Asia | 5.6 | 5.0 | 5.8 | 5.9 | 6.2 | 6.5 | 7.1 | 8.5 | 12.6 | 10.9 | 9.8 |
| Net fuel exporters | 10.6 | 8.4 | 11.5 | 13.1 | 12.8 | 11.9 | 10.6 | 14.7 | 24.2 | 12.0 | 10.1 |
| Net fuel importers | 1.6 | 2.4 | 1.6 | 2.2 | 3.7 | 3.2 | 3.4 | 4.5 | 6.7 | 2.3 | 3.9 |
| ***Western Asia*** | 19.9 | 19.9 | 17.4 | 8.6 | 4.0 | 4.5 | 5.8 | 5.9 | 9.9 | 4.4 | 5.2 |
| Net fuel exporters | -0.4 | -0.2 | 0.3 | 1.1 | 1.4 | 2.4 | 3.7 | 5.2 | 10.6 | 3.7 | 4.2 |
| Net fuel importers | 38.5 | 38.4 | 33.0 | 15.5 | 6.3 | 6.5 | 7.7 | 6.6 | 9.3 | 5.0 | 6.1 |
| ***Latin America and the Caribbean*** | 8.9 | 6.6 | 8.7 | 10.8 | 6.9 | 6.3 | 5.1 | 5.3 | 7.8 | 6.2 | 5.4 |
| South America | 8.8 | 6.7 | 10.8 | 13.8 | 7.0 | 7.2 | 5.7 | 5.8 | 8.7 | 6.9 | 6.4 |
| Mexico and Central America | 9.1 | 6.4 | 5.1 | 4.6 | 4.9 | 4.4 | 3.9 | 4.3 | 5.8 | 5.1 | 3.4 |
| Caribbean | 6.9 | 7.8 | 5.3 | 18.8 | 30.4 | 7.2 | 8.2 | 7.1 | 12.8 | 4.0 | 6.3 |
| Net fuel exporters | 13.2 | 8.4 | 7.7 | 8.4 | 7.0 | 5.7 | 5.1 | 6.1 | 9.0 | 8.5 | 6.8 |
| Net fuel importers | 5.5 | 5.3 | 9.5 | 12.6 | 6.9 | 6.7 | 5.2 | 4.7 | 7.0 | 4.5 | 4.3 |
| ***Memorandum items:*** | | | | | | | | | | | |
| Least developed countries | 52.2 | 30.4 | 20.0 | 18.7 | 11.3 | 10.6 | 9.0 | 9.4 | 13.5 | 8.8 | 8.1 |
| East Asia (excluding China) | 1.6 | 3.5 | 2.9 | 2.6 | 3.2 | 3.9 | 4.0 | 3.1 | 6.2 | 1.9 | 3.0 |
| South Asia (excluding India) | 8.9 | 7.4 | 8.8 | 9.9 | 11.0 | 10.9 | 9.8 | 12.8 | 21.1 | 12.2 | 9.8 |
| Western Asia (excluding Israel and Turkey) | -0.2 | 0.2 | 0.7 | 1.5 | 1.8 | 2.8 | 4.0 | 5.3 | 10.9 | 3.7 | 4.5 |
| **Major developing economies** | | | | | | | | | | | |
| Argentina | -0.9 | -1.1 | 25.9 | 13.4 | 4.4 | 9.6 | 10.9 | 8.8 | 8.6 | 6.0 | 7.0 |
| Brazil | 7.0 | 6.8 | 8.5 | 14.7 | 6.6 | 6.9 | 4.2 | 3.6 | 5.7 | 4.8 | 4.1 |
| Chile | 3.8 | 3.6 | 2.5 | 2.8 | 1.1 | 3.1 | 3.4 | 4.4 | 8.7 | 1.9 | 2.5 |
| China | 0.3 | 0.7 | -0.7 | 1.1 | 3.8 | 1.8 | 1.6 | 4.8 | 5.9 | -0.7 | 2.3 |
| Colombia | 9.2 | 8.0 | 6.4 | 7.1 | 5.9 | 5.0 | 4.3 | 5.5 | 7.0 | 4.5 | 4.0 |
| Egypt | 2.7 | 2.3 | 2.7 | 4.5 | 11.3 | 4.9 | 7.6 | 9.3 | 18.3 | 10.1 | 6.2 |
| Hong Kong SAR[d] | -3.8 | -1.6 | -3.1 | -2.5 | -0.4 | 0.9 | 2.0 | 2.0 | 4.3 | 0.1 | 2.7 |
| India | 4.0 | 3.8 | 4.3 | 3.8 | 3.8 | 4.2 | 5.8 | 6.4 | 8.3 | 10.3 | 9.8 |
| Indonesia | 3.7 | 11.5 | 11.9 | 6.8 | 6.1 | 10.5 | 13.1 | 6.4 | 10.2 | 5.1 | 5.5 |
| Iran, Islamic Republic of | 14.5 | 11.3 | 14.3 | 16.5 | 14.8 | 13.4 | 11.9 | 17.2 | 25.5 | 14.0 | 11.0 |
| Israel | 1.1 | 1.1 | 5.7 | 0.7 | -0.4 | 1.3 | 2.1 | 0.5 | 4.6 | 3.1 | 3.0 |
| Korea, Republic of | 2.3 | 4.1 | 2.7 | 3.6 | 3.6 | 2.8 | 2.2 | 2.5 | 4.7 | 2.8 | 2.8 |
| Malaysia | 1.5 | 1.4 | 1.8 | 1.0 | 1.5 | 3.0 | 3.6 | 2.0 | 5.4 | 0.9 | 2.5 |
| Mexico | 9.5 | 6.4 | 5.0 | 4.5 | 4.7 | 4.0 | 3.6 | 4.0 | 5.1 | 5.3 | 3.3 |
| Nigeria | 6.9 | 18.9 | 12.9 | 14.0 | 15.0 | 17.9 | 8.2 | 5.4 | 11.6 | 11.5 | 8.5 |

Table A.6 (cont'd)

| | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* | *2009*[b] | *2010*[c] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Pakistan | 4.4 | 3.1 | 3.3 | 2.9 | 7.4 | 9.1 | 7.9 | 7.6 | 20.3 | 14.2 | 10.5 |
| Peru | 3.8 | 2.0 | 0.2 | 2.3 | 3.7 | 1.6 | 2.0 | 1.8 | 5.8 | 3.2 | 2.0 |
| Philippines | 3.9 | 6.8 | 3.0 | 3.6 | 5.9 | 7.6 | 6.3 | 2.8 | 9.3 | 3.0 | 4.3 |
| Saudi Arabia | -1.1 | -1.1 | 0.2 | 0.6 | 0.3 | 0.7 | 2.2 | 4.2 | 9.9 | 4.5 | 4.0 |
| Singapore | 1.4 | 1.0 | -0.4 | 0.5 | 1.7 | 0.4 | 1.0 | 2.1 | 6.5 | 0.4 | 1.8 |
| South Africa | 5.3 | 5.7 | 9.5 | 5.7 | -0.7 | 2.1 | 3.2 | 6.2 | 10.1 | 7.2 | 6.1 |
| Taiwan Province of China | 1.3 | 0.0 | -0.2 | -0.3 | 1.6 | 2.3 | 0.6 | 1.8 | 3.5 | -0.6 | 1.4 |
| Thailand | 1.6 | 1.6 | 0.7 | 1.8 | 2.8 | 4.5 | 4.6 | 2.2 | 5.5 | -1.2 | 1.8 |
| Turkey | 54.9 | 54.4 | 45.0 | 21.6 | 8.6 | 8.2 | 9.6 | 8.8 | 10.4 | 5.9 | 7.0 |
| Venezuela, Bolivarian Republic of | 16.2 | 12.5 | 22.4 | 31.1 | 21.7 | 16.0 | 13.7 | 18.7 | 30.4 | 30.0 | 28.0 |

**Source**: UN/DESA, based on IMF, *International Financial Statistics*.

**a** Data for country groups are weighted averages, where weights are based on GDP in 2005 prices and exchange rates.
**b** Partly estimated.
**c** Baseline scenario forecasts, based in part on Project LINK.
**d** Special Administrative Region of China.

Table A.7
**Developed economies: unemployment rates, [a,b] 2000-2010**

| Percentage of labour force | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[c] | 2010[d] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Developed economies** | **6.5** | **6.7** | **7.3** | **7.4** | **7.1** | **6.8** | **6.3** | **5.7** | **6.1** | **8.6** | **9.4** |
| United States | 4.0 | 4.7 | 5.8 | 6.0 | 5.5 | 5.1 | 4.6 | 4.6 | 5.8 | 9.3 | 10.1 |
| Canada | 6.8 | 7.2 | 7.7 | 7.6 | 7.2 | 6.8 | 6.3 | 6.0 | 6.1 | 9.1 | 9.6 |
| Japan | 4.7 | 5.0 | 5.4 | 5.3 | 4.7 | 4.4 | 4.1 | 3.9 | 4.0 | 5.4 | 5.9 |
| Australia | 6.3 | 6.8 | 6.4 | 5.9 | 5.4 | 5.0 | 4.8 | 4.4 | 4.2 | 6.2 | 7.3 |
| New Zealand | 6.1 | 5.4 | 5.3 | 4.8 | 4.0 | 3.8 | 3.8 | 3.7 | 4.2 | 6.9 | 7.8 |
| **European Union** | **8.7** | **8.5** | **8.9** | **9.0** | **9.1** | **8.9** | **8.2** | **7.1** | **7.0** | **9.2** | **10.2** |
| ***EU-15*** | 7.7 | 7.3 | 7.6 | 8.0 | 8.1 | 8.1 | 7.7 | 7.0 | 7.1 | 9.3 | 10.6 |
| Austria | 3.6 | 3.6 | 4.2 | 4.3 | 4.9 | 5.2 | 4.8 | 4.4 | 3.9 | 5.6 | 6.6 |
| Belgium | 6.9 | 6.6 | 7.5 | 8.2 | 8.4 | 8.5 | 8.3 | 7.5 | 7.0 | 7.9 | 9.1 |
| Denmark | 4.3 | 4.5 | 4.6 | 5.4 | 5.5 | 4.8 | 3.9 | 3.8 | 3.4 | 5.7 | 7.1 |
| Finland | 9.6 | 9.1 | 9.1 | 9.1 | 8.8 | 8.3 | 7.7 | 6.9 | 6.4 | 9.2 | 10.6 |
| France | 9.0 | 8.3 | 8.6 | 9.0 | 9.2 | 9.3 | 9.3 | 8.3 | 7.9 | 9.1 | 9.6 |
| Germany | 7.5 | 7.6 | 8.4 | 9.3 | 9.8 | 10.6 | 9.8 | 8.4 | 7.3 | 8.6 | 10.1 |
| Greece | 11.2 | 10.7 | 10.3 | 9.7 | 10.5 | 9.9 | 8.9 | 8.3 | 7.7 | 9.0 | 8.7 |
| Ireland | 4.4 | 3.9 | 4.5 | 4.8 | 4.5 | 4.4 | 4.5 | 4.6 | 6.0 | 12.0 | 14.1 |
| Italy | 10.2 | 9.1 | 8.6 | 8.5 | 8.0 | 7.7 | 6.8 | 6.1 | 6.8 | 8.7 | 10.1 |
| Luxembourg | 2.2 | 1.9 | 2.6 | 3.8 | 5.0 | 4.6 | 4.6 | 4.2 | 4.9 | 5.5 | 6.1 |
| Netherlands | 2.8 | 2.2 | 2.8 | 3.7 | 4.6 | 4.7 | 3.9 | 3.2 | 2.8 | 3.9 | 6.2 |
| Portugal | 4.0 | 4.0 | 5.1 | 6.4 | 6.7 | 7.7 | 7.8 | 8.1 | 7.8 | 10.0 | 10.6 |
| Spain | 11.1 | 10.4 | 11.1 | 11.1 | 10.6 | 9.2 | 8.5 | 8.3 | 11.4 | 17.1 | 18.2 |
| Sweden | 5.6 | 5.9 | 6.1 | 6.8 | 7.6 | 7.7 | 7.0 | 6.1 | 6.2 | 8.9 | 11.0 |
| United Kingdom | 5.4 | 5.0 | 5.1 | 5.0 | 4.7 | 4.8 | 5.4 | 5.3 | 5.6 | 7.8 | 9.1 |
| ***New EU member States*** | 12.2 | 13.0 | 13.7 | 12.9 | 12.9 | 11.9 | 10.0 | 7.6 | 6.5 | 8.6 | 8.8 |
| Bulgaria | 16.4 | 19.5 | 18.2 | 13.7 | 12.1 | 10.1 | 9.0 | 6.9 | 5.6 | 8.1 | 8.0 |
| Cyprus | 4.9 | 3.8 | 3.6 | 4.1 | 4.7 | 5.3 | 4.6 | 4.0 | 3.6 | 4.8 | 5.0 |
| Czech Republic | 8.7 | 8.0 | 7.3 | 7.8 | 8.3 | 7.9 | 7.1 | 5.3 | 4.4 | 8.5 | 8.8 |
| Estonia | 12.8 | 12.4 | 10.3 | 10.0 | 9.7 | 7.9 | 5.9 | 4.7 | 5.5 | 14.5 | 15.0 |
| Hungary | 6.4 | 5.7 | 5.8 | 5.9 | 6.1 | 7.2 | 7.4 | 7.4 | 7.8 | 10.8 | 11.2 |
| Latvia | 13.7 | 12.9 | 12.2 | 10.5 | 10.4 | 8.9 | 6.8 | 6.0 | 7.5 | 16.0 | 17.0 |
| Lithuania | 16.4 | 16.5 | 13.5 | 12.5 | 11.4 | 8.3 | 5.6 | 4.3 | 5.8 | 14.0 | 15.0 |
| Malta | 6.7 | 7.6 | 7.5 | 7.6 | 7.4 | 7.2 | 7.1 | 6.4 | 5.9 | 7.0 | 7.0 |
| Poland | 16.1 | 18.3 | 20.0 | 19.7 | 19.0 | 17.8 | 13.9 | 9.6 | 7.1 | 8.0 | 8.0 |
| Romania | 7.3 | 6.8 | 8.6 | 7.0 | 8.1 | 7.2 | 7.3 | 6.4 | 5.8 | 6.4 | 6.4 |
| Slovakia | 18.8 | 19.3 | 18.7 | 17.6 | 18.2 | 16.2 | 13.4 | 11.2 | 9.6 | 12.0 | 12.3 |
| Slovenia | 6.7 | 6.2 | 6.3 | 6.7 | 6.3 | 6.5 | 6.0 | 4.9 | 4.4 | 6.0 | 6.0 |

Table A.7 (cont'd)

| | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* | *2009*[c] | *2010*[d] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Other Europe** | 2.8 | 2.8 | 3.4 | 4.2 | 4.3 | 4.4 | 3.7 | 3.2 | 3.1 | 4.2 | 4.3 |
| Iceland[e] | 1.3 | 1.4 | 2.5 | 3.4 | 3.1 | 2.0 | 1.3 | 1.0 | 1.6 | 8.0 | 7.4 |
| Norway | 3.2 | 3.4 | 3.7 | 4.2 | 4.3 | 4.5 | 3.4 | 2.6 | 2.5 | 3.4 | 3.1 |
| Switzerland | 2.6 | 2.6 | 3.2 | 4.3 | 4.4 | 4.4 | 4.0 | 3.6 | 3.5 | 4.5 | 4.8 |
| ***Memorandum items:*** | | | | | | | | | | | |
| Major developed economies | 5.6 | 5.8 | 6.5 | 6.6 | 6.3 | 6.2 | 5.8 | 5.4 | 5.9 | 8.3 | 9.2 |
| Euro zone | 8.5 | 8.0 | 8.4 | 8.8 | 9.0 | 9.0 | 8.3 | 7.5 | 7.5 | 9.7 | 10.9 |

**Source**: UN/DESA, based on data of the Organization for Economic Cooperation and Development (OECD) and Eurostat.

**a** Unemployment data are standardized by the OECD and Eurostat for comparability among countries and over time, in conformity with the definitions of the International Labour Organization (see OECD, *Standardized Unemployment Rates: Sources and Methods* (Paris, 1985)).

**b** Data for country groups are weighted averages, where labour force is used for weights.

**c** Partly estimated.

**d** Baseline scenario forecasts, based in part on Project LINK.

**e** Not standardized.

Table A.8
**Economies in transition and developing economies: unemployment rates,[a] 2000-2009**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[b] |
|---|---|---|---|---|---|---|---|---|---|---|
| **South-eastern Europe** | | | | | | | | | | |
| Albania[c] | 16.8 | 16.4 | 15.8 | 15.0 | 14.4 | 14.1 | 13.8 | 13.5 | 12.5 | 12.8 |
| Bosnia and Herzegovina | .. | .. | .. | .. | .. | .. | 31.1 | 29.0 | 23.4 | 24.5 |
| Croatia | 16.1 | 15.8 | 15.1 | 13.9 | 13.7 | 12.6 | 11.1 | 9.6 | 8.4 | 9.2 |
| Montenegro | 37.4 | 36.6 | 36.5 | 33.4 | 31.1 | 27.3 | 22.3 | 18.0 | 15.9 | 13.9 |
| Serbia | 12.1 | 12.2 | 13.3 | 14.6 | 18.5 | 20.8 | 20.9 | 18.1 | 14.0 | 15.9 |
| The former Yugoslav Republic of Macedonia | 32.2 | 30.5 | 31.9 | 36.7 | 37.2 | 37.3 | 36.0 | 34.9 | 33.8 | 32.0 |
| **Commonwealth of Independent States** | | | | | | | | | | |
| ***Net fuel exporters*** | | | | | | | | | | |
| Azerbaijan[c] | 1.2 | 1.3 | 1.3 | 1.3 | 1.3 | 1.4 | 1.3 | 1.2 | 1.0 | .. |
| Kazakhstan | 12.8 | 10.4 | 9.3 | 8.8 | 8.4 | 8.1 | 7.8 | 7.3 | 6.6 | 6.5 |
| Russian Federation | 9.8 | 8.9 | 7.9 | 8.2 | 7.8 | 7.2 | 7.2 | 6.1 | 6.2 | 8.2 |
| Turkmenistan[c] | 2.4 | 2.6 | 2.5 | 2.5 | .. | 3.7 | .. | 3.6 | .. | .. |
| Uzbekistan[c] | 0.4 | 0.4 | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| ***Net fuel importers*** | | | | | | | | | | |
| Armenia[c] | 10.9 | 9.8 | 10.5 | 10.2 | 9.4 | 7.6 | 7.4 | 7.1 | 6.3 | 6.9 |
| Belarus[c] | 2.1 | 2.3 | 3.0 | 3.1 | 1.9 | 1.5 | 1.2 | 1.0 | 0.8 | 1.0 |
| Georgia[d] | 10.3 | 11.1 | 12.6 | 11.5 | 12.6 | 13.8 | 13.6 | 13.3 | 16.5 | 18.0 |
| Kyrgyzstan[c] | 3.1 | 3.2 | 3.1 | 2.9 | 2.9 | 3.3 | 3.5 | 3.3 | 2.9 | 2.8 |
| Republic of Moldova[c] | 8.5 | 7.3 | 6.8 | 8.0 | 8.2 | 7.3 | 7.4 | 5.1 | 4.0 | 6.8 |
| Tajikistan[c] | 2.7 | 2.3 | 2.6 | 2.3 | 2.0 | 2.1 | 2.3 | 2.5 | 2.1 | 2.1 |
| Ukraine | 11.6 | 10.9 | 9.6 | 9.1 | 8.6 | 7.2 | 7.4 | 6.9 | 6.9 | 10.0 |
| **Africa** | | | | | | | | | | |
| Algeria | .. | 27.3 | 25.9 | 23.7 | 17.7 | 15.3 | 12.3 | 13.8 | 11.3 | .. |
| Botswana | 15.8 | 19.6 | .. | 23.8 | .. | .. | 17.6 | .. | .. | .. |
| Egypt | 9.0 | 9.2 | 10.2 | 11.9 | 10.3 | 11.2 | 10.7 | 9.0 | 8.7 | 9.4 |
| Mauritius | 6.7 | 6.8 | 7.2 | 7.7 | 8.4 | 9.6 | 9.1 | 8.5 | 7.2 | 8.1 |
| Morocco | 13.6 | 12.5 | 11.6 | 11.9 | 10.8 | 11.0 | 9.7 | 9.5 | 9.6 | 8.8 |
| South Africa | 26.0 | 27.9 | 30.0 | 29.8 | 27.0 | 26.6 | 25.5 | 24.3 | 23.2 | 23.9 |
| Tunisia | 15.7 | 15.1 | 15.3 | 14.5 | 14.2 | 14.2 | 14.3 | 14.1 | 14.2 | .. |
| **Developing America** | | | | | | | | | | |
| Argentina[e, f] | 15.1 | 17.4 | 19.7 | 17.3 | 13.6 | 11.6 | 10.2 | 8.5 | 8.2 | 8.6 |
| Barbados | 9.4 | 9.9 | 10.3 | 11.0 | 9.6 | 9.1 | 8.7 | 7.4 | 8.1 | 10.0 |
| Bolivia[e] | 7.5 | 8.5 | 8.7 | 9.2 | 6.2 | 8.1 | 8.0 | 7.7 | .. | .. |
| Brazil[g, h] | 7.1 | 6.2 | 11.7 | 12.3 | 11.5 | 9.8 | 10.0 | 9.3 | 7.9 | .. |
| Chile | 9.7 | 9.9 | 9.8 | 9.5 | 10.0 | 9.2 | 7.7 | 7.1 | 7.8 | 9.8 |
| Colombia[i] | 17.3 | 18.2 | 17.6 | 16.7 | 15.4 | 13.9 | 13.0 | 11.4 | 11.5 | 13.2 |
| Costa Rica | 5.3 | 5.8 | 6.8 | 6.7 | 6.7 | 6.9 | 6.0 | 4.8 | 5.0 | 7.8 |
| Dominican Republic | 13.9 | 15.2 | 16.1 | 16.4 | 17.0 | 18.4 | 16.4 | 15.6 | 14.0 | 14.9 |
| Ecuador[j] | 14.1 | 10.4 | 8.6 | 9.8 | 9.7 | 8.5 | 8.1 | 7.4 | 8.2 | .. |
| El Salvador | 6.5 | 7.0 | 6.2 | 6.2 | 6.5 | 7.3 | 5.7 | .. | 5.9 | .. |
| Guatemala | .. | .. | 5.4 | 5.2 | 4.4 | .. | .. | .. | .. | .. |

Table A.8 (cont'd)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[b] |
|---|---|---|---|---|---|---|---|---|---|---|
| Honduras | .. | 5.9 | 6.1 | 7.6 | 8.0 | 6.5 | 4.9 | 4.0 | .. | .. |
| Jamaica | 15.5 | 15.0 | 14.2 | 11.4 | 11.7 | 11.3 | 10.4 | 9.9 | 10.6 | .. |
| Mexico | 3.4 | 3.6 | 3.9 | 4.6 | 5.3 | 4.7 | 4.6 | 3.7 | 4.0 | 5.5 |
| Nicaragua | 7.8 | 11.3 | 11.6 | 10.2 | 9.3 | 7.0 | 7.0 | 6.9 | 6.1 | .. |
| Panama | 15.2 | 17.0 | 16.5 | 15.9 | 14.1 | 12.1 | 10.4 | 7.8 | 6.5 | 6.6 |
| Paraguay[e] | 10.0 | 10.8 | 14.7 | 11.2 | 10.0 | 7.6 | 8.9 | 7.2 | 7.4 | .. |
| Peru[e,k] | 8.5 | 9.3 | 9.4 | 9.4 | 9.4 | 9.6 | 8.2 | 8.4 | 8.4 | 10.3 |
| Trinidad and Tobago | 12.2 | 10.8 | 10.4 | 10.5 | 8.4 | 8.0 | 6.2 | 5.5 | 4.6 | 5.1 |
| Uruguay[e] | 13.6 | 15.3 | 17.0 | 16.9 | 13.1 | 12.2 | 11.4 | 9.6 | 8.2 | 7.5 |
| Venezuela, Bolivarian Republic of | 13.9 | 13.3 | 15.8 | 18.0 | 15.3 | 12.4 | 10.0 | 8.5 | 7.4 | 8.0 |
| **Developing Asia** | | | | | | | | | | |
| China | 3.1 | 3.6 | 4.0 | 4.3 | 4.2 | 4.2 | 4.1 | 4.0 | 4.0 | .. |
| Hong Kong SAR[l] | 4.9 | 5.1 | 7.3 | 7.9 | 6.8 | 5.6 | 4.8 | 4.0 | 3.6 | 5.2 |
| India | 4.3 | .. | .. | .. | 5.0 | .. | .. | .. | .. | .. |
| Indonesia | 6.1 | 8.1 | 9.1 | 9.5 | 9.9 | 11.2 | 10.4 | 9.4 | 8.4 | 8.1 |
| Iran (Islamic Republic of) | .. | .. | 12.8 | .. | 10.3 | 11.5 | .. | 10.5 | .. | .. |
| Israel | 8.8 | 9.4 | 10.3 | 10.7 | 10.4 | 9.0 | 8.4 | 7.3 | 6.1 | 7.08 |
| Jordan | 13.7 | 14.7 | 14.4 | 14.8 | 12.5 | 14.8 | 14.0 | 13.1 | 12.7 | 13.5 |
| Korea, Republic of | 4.4 | 4.0 | 3.3 | 3.6 | 3.7 | 3.7 | 3.5 | 3.2 | 3.2 | 3.7 |
| Malaysia | 3.1 | 3.5 | 3.5 | 3.6 | 3.6 | 3.6 | 3.3 | 3.2 | 3.3 | 3.8 |
| Pakistan | 7.8 | 7.8 | 8.3 | 8.3 | 7.7 | 7.7 | 6.2 | 5.3 | 5.2 | .. |
| Palestinian Occupied Territory | 14.1 | 25.2 | 31.3 | 25.6 | 26.8 | 23.5 | 23.6 | 21.5 | 25.7 | 29.3 |
| Philippines[m, n] | 10.1 | 9.8 | 10.2 | 10.2 | 10.9 | 7.8 | 7.9 | 7.3 | 7.4 | 7.6 |
| Saudi Arabia | 4.6 | 4.6 | 5.3 | 5.6 | 5.8 | 6.1 | 6.3 | 5.6 | .. | .. |
| Singapore | 2.7 | 2.7 | 3.6 | 4.0 | 3.4 | 3.1 | 2.7 | 2.3 | 2.3 | 3.3 |
| Sri Lanka[o] | 7.6 | 7.9 | 8.8 | 8.1 | 8.1 | 7.2 | 6.5 | 6.0 | 5.2 | 6.0 |
| Taiwan Province of China | 3.0 | 4.6 | 5.2 | 5.0 | 4.4 | 4.1 | 3.9 | 3.9 | 4.1 | 5.8 |
| Thailand | 3.6 | 3.3 | 2.4 | 2.2 | 2.1 | 1.8 | 1.5 | 1.4 | 1.4 | 1.7 |
| Turkey | 6.5 | 8.4 | 10.3 | 10.5 | 10.3 | 10.3 | 9.9 | 9.9 | 10.2 | 13.4 |
| Viet Nam[e] | 6.4 | 6.3 | 6.0 | 5.8 | 5.6 | 5.3 | 4.8 | 4.6 | 4.7 | .. |

**Sources:** UN/DESA, based on data of Economic Commission for Europe (ECE); ILO LABORSTAT database and KILM 6th edition; Economic Commission for Latin America and the Caribbean (ECLAC); national sources.

**a** As a percentage of the labour force.
**b** Partly estimated.
**c** End-of-period registered unemployment data (as a percentage of the labour force).
**d** Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.
**e** Urban areas.
**f** Break in series: new methodology starting in 2003.
**g** Six main cities.
**h** Break in series: new methodology starting in 2002.
**i** Thirteen main cities.
**j** Covers Quito, Guayaquil and Cuenca from 2000.
**k** Metropolitan Lima.
**l** Special Administrative Region of China.
**m** Philippines definition: this partly adopts the ILO definition, that is to say, it does not include one ILO criterion, which is "currently available for work".
**n** Break in series: new methodology starting in 2005.
**o** Excluding Northern and Eastern provinces.

Table A.9
**Major developed economies: quarterly indicators of growth, unemployment and inflation, 2007-2009**

Percentage

| | 2007 quarters | | | | 2008 quarters | | | | 2009 quarters | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *I* | *II* | *III* | *IV* | *I* | *II* | *III* | *IV* | *I* | *II* | *III* |
| | **Growth of gross domestic product[a]** *(percentage change in seasonally adjusted data from preceding quarter)* | | | | | | | | | | |
| Canada | 3.6 | 4.2 | 2.1 | 1.1 | -0.7 | 0.3 | 0.4 | -3.7 | -6.2 | -3.1 | 0.4 |
| France | 3.0 | 1.6 | 2.7 | 1.2 | 1.9 | -1.7 | -1.0 | -5.9 | -5.5 | 1.1 | 1.1 |
| Germany | 1.3 | 1.3 | 3.2 | 0.5 | 6.5 | -2.2 | -1.3 | -9.4 | -13.4 | 1.8 | 2.9 |
| Italy | 1.2 | 0.4 | 0.8 | -2.0 | 2.2 | -2.2 | -3.1 | -8.0 | -10.5 | -1.9 | 2.4 |
| Japan | 5.7 | 0.1 | -2.3 | 4.1 | 4.0 | -2.9 | -6.5 | -11.5 | -12.2 | 2.7 | 4.8 |
| United Kingdom | 2.9 | 2.6 | 2.0 | 2.2 | 2.4 | -0.3 | -2.9 | -6.9 | -9.6 | -2.3 | -1.2 |
| United States | 1.2 | 3.2 | 3.6 | 2.1 | -0.7 | 1.5 | -2.7 | -5.4 | -6.4 | -0.7 | 2.8 |
| Major developed economies | 3.6 | 4.2 | 2.1 | 1.1 | -0.7 | 0.3 | 0.4 | -3.7 | -6.2 | -3.1 | 0.4 |
| Euro zone | 3.0 | 1.6 | 2.7 | 1.2 | 1.9 | -1.7 | -1.0 | -5.9 | -5.5 | 1.1 | 1.1 |
| | **Unemployment rate[b]** *(percentage of total labour force)* | | | | | | | | | | |
| Canada | 6.2 | 6.1 | 6.0 | 5.9 | 5.9 | 6.1 | 6.1 | 6.4 | 7.6 | 8.4 | 8.6 |
| France | 8.8 | 8.5 | 8.2 | 7.9 | 7.6 | 7.6 | 7.9 | 8.3 | 8.9 | 9.4 | 9.8 |
| Germany | 8.8 | 8.5 | 8.3 | 8.0 | 7.6 | 7.4 | 7.1 | 7.1 | 7.3 | 7.6 | 7.6 |
| Italy | 6.0 | 5.9 | 6.2 | 6.4 | 6.6 | 6.8 | 6.8 | 6.9 | 7.4 | 7.4 | .. |
| Japan | 4.0 | 3.8 | 3.8 | 3.8 | 3.9 | 4.0 | 4.0 | 4.0 | 4.5 | 5.2 | 5.5 |
| United Kingdom | 5.5 | 5.3 | 5.3 | 5.1 | 5.1 | 5.3 | 5.8 | 6.3 | 7.0 | 7.7 | .. |
| United States | 4.5 | 4.5 | 4.7 | 4.8 | 4.9 | 5.4 | 6.0 | 6.9 | 8.1 | 9.2 | 9.6 |
| Major developed economies | 5.5 | 5.4 | 5.4 | 5.4 | 5.4 | 5.7 | 6.0 | 6.4 | 7.2 | 8.0 | .. |
| Euro zone | 7.7 | 7.5 | 7.5 | 7.3 | 7.2 | 7.4 | 7.6 | 8.0 | 8.8 | 9.3 | 9.6 |
| | **Change in consumer prices[c]** *(percentage change from preceding quarter)* | | | | | | | | | | |
| Canada | 3.9 | 6.0 | 0.0 | -0.1 | 1.3 | 8.5 | 4.3 | -5.9 | -1.3 | 3.5 | 0.4 |
| France | 0.4 | 4.3 | 0.9 | 3.8 | 2.9 | 5.7 | 0.7 | -2.0 | -1.6 | 2.2 | -0.2 |
| Germany | 3.5 | 3.1 | 2.2 | 3.3 | 3.0 | 3.1 | 2.9 | -2.2 | -0.4 | 0.8 | 0.9 |
| Italy | 1.6 | 2.6 | 2.3 | 2.8 | 4.5 | 4.6 | 4.0 | -1.7 | -0.8 | 2.1 | 1.0 |
| Japan | -2.1 | 1.9 | 0.8 | 1.6 | -0.4 | 3.5 | 4.0 | -2.8 | -4.9 | 0.0 | -1.2 |
| United Kingdom | 0.7 | 4.2 | -0.5 | 4.2 | 1.8 | 8.3 | 5.2 | 0.5 | -1.6 | 4.6 | 2.4 |
| United States | 3.9 | 7.9 | 1.1 | 3.0 | 4.5 | 9.1 | 4.8 | -10.9 | -1.8 | 4.1 | 2.9 |
| Major developed economies | 2.2 | 5.4 | 1.1 | 2.8 | 3.0 | 6.9 | 4.1 | -6.2 | -2.1 | 2.8 | 1.5 |
| Euro zone | 0.8 | 5.5 | 0.0 | 5.5 | 2.3 | 6.9 | 1.1 | -1.1 | -2.9 | 3.8 | -1.1 |

**Source:** UN/DESA, based on Eurostat, Organization for Economic Cooperation and Development (OECD) and national sources.

**a** Expressed as an annualized rate. Major developed economies is calculated as a weighted average, where weights are based on annual GDP valued in 2005 prices and exchange rates.

**b** Seasonally adjusted data as standardized by OECD.

**c** Expressed as an annualized rate. Major developed economies is calculated as a weighted average, where weights are based on 2005 GDP in United States dollars.

Table A.10
**Selected economies in transition: quarterly indicators of growth and inflation, 2007-2009**

Percentage

| | 2007 quarters | | | | 2008 quarters | | | | 2009 quarters | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *I* | *II* | *III* | *IV* | *I* | *II* | *III* | *IV* | *I* | *II* | *III* |
| | **Rates of growth of gross domestic product[a]** | | | | | | | | | | |
| Armenia | 11.5 | 11.6 | 15.6 | 14.6 | 9.1 | 11.0 | 11.0 | -1.2 | -5.5 | -23.1 | .. |
| Azerbaijan | 28.7 | 24.3 | 24.6 | 24.7 | 8.4 | 11.0 | 11.3 | 11.7 | 4.1 | .. | .. |
| Belarus | 9.2 | 9.4 | 9.1 | 7.1 | 11.2 | 10.5 | 11.2 | 7.5 | 1.1 | -0.4 | .. |
| Croatia | 9.2 | 7.4 | 3.3 | 2.6 | 7.6 | 4.4 | 0.0 | -2.0 | -6.7 | -6.3 | .. |
| Georgia | 10.7 | 13.0 | 13.7 | 11.7 | 9.1 | 8.3 | -3.9 | -2.5 | -5.9 | -10.7 | .. |
| Kazakhstan | 10.6 | 8.9 | 9.0 | 5.0 | 6.1 | 5.2 | 1.1 | 0.7 | -2.2 | .. | .. |
| Kyrgyzstan | 9.3 | 10.9 | 8.0 | 6.8 | 4.7 | 5.7 | 5.1 | 13.8 | 0.2 | 0.5 | .. |
| Republic of Moldova | 17.5 | 24.2 | 4.5 | .. | 5.3 | 7.3 | 10.0 | .. | -6.9 | -8.9 | .. |
| Russian Federation | 7.5 | 8.0 | 7.7 | 9.0 | 8.7 | 7.5 | 6.0 | 1.2 | -9.8 | -10.9 | .. |
| The former Yugoslav Republic of Macedonia | 6.8 | 4.3 | 4.2 | 5.2 | 5.6 | 6.7 | 5.8 | 2.0 | -0.9 | .. | .. |
| Ukraine | 8.7 | 8.7 | 6.2 | 7.3 | 6.1 | 6.1 | 6.2 | -7.7 | -20.4 | -17.9 | .. |
| | **Change in consumer prices[a]** | | | | | | | | | | |
| Armenia | 4.8 | 4.3 | 2.2 | 6.4 | 7.9 | 10.1 | 11.2 | 6.8 | 2.0 | 3.3 | .. |
| Azerbaijan | 16.5 | 15.3 | 15.9 | 18.7 | 16.6 | 23.8 | 24.1 | 18.7 | 8.2 | -0.7 | -1.0 |
| Belarus | 7.5 | 6.9 | 8.1 | 10.7 | 12.8 | 15.4 | 16.2 | 14.7 | 15.6 | 13.9 | 12.4 |
| Bosnia and Herzegovina | 0.8 | 0.3 | 1.0 | 4.0 | 6.4 | 8.4 | 9.4 | 5.5 | 1.6 | -1.0 | -1.4 |
| Croatia | 1.6 | 2.1 | 2.9 | 4.9 | 5.9 | 6.6 | 7.4 | 4.5 | 3.8 | 2.8 | 1.2 |
| Georgia | 10.4 | 7.5 | 7.6 | 11.2 | 11.2 | 11.4 | 11.0 | 6.3 | 2.8 | 2.3 | -0.8 |
| Kazakhstan | 8.0 | 7.8 | 9.8 | 17.2 | 18.7 | 19.5 | 19.5 | 11.5 | 8.7 | 8.2 | .. |
| Kyrgyzstan | 4.7 | 4.8 | 9.8 | 21.3 | 22.4 | 28.7 | 29.2 | 18.5 | 16.2 | 9.1 | .. |
| Republic of Moldova | 11.8 | 10.6 | 13.2 | 13.7 | 14.9 | 16.3 | 11.9 | 8.4 | 3.1 | -0.9 | -1.7 |
| Russian Federation | 7.7 | 7.9 | 8.9 | 11.4 | 12.9 | 14.9 | 14.9 | 13.7 | 13.7 | 12.4 | .. |
| The former Yugoslav Republic of Macedonia | 1.7 | 1.7 | 2.8 | 5.1 | 8.2 | 8.6 | 7.1 | 5.1 | 1.0 | -0.4 | -1.0 |
| Ukraine | 10.2 | 11.4 | 14.1 | 15.5 | 22.5 | 30.2 | 25.8 | 22.6 | 20.4 | 15.1 | 15.3 |

**Source:** UN/DESA, based on data of Economic Commission for Europe and national sources.

**a** Percentage change from the corresponding period of the preceding year.

Table A.11
**Major developing economies: quarterly indicators of growth, unemployment and inflation, 2007-2009**

Percentage

| | 2007 quarters | | | | 2008 quarters | | | | 2009 quarters | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *I* | *II* | *III* | *IV* | *I* | *II* | *III* | *IV* | *I* | *II* | *III* |
| | **Rates of growth of gross domestic product[a]** | | | | | | | | | | |
| Argentina | 8.0 | 8.6 | 8.8 | 9.1 | 8.5 | 7.8 | 6.9 | 4.1 | 2.0 | -0.8 | .. |
| Brazil | 5.3 | 5.8 | 5.4 | 6.1 | 6.1 | 6.2 | 6.8 | 1.3 | -1.8 | -1.2 | .. |
| Chile | 5.9 | 5.5 | 3.6 | 3.8 | 3.4 | 4.6 | 4.6 | 0.2 | -2.4 | -4.7 | -1.6 |
| China | 11.7 | 11.9 | 11.5 | 11.2 | 10.6 | 10.1 | 9.0 | 6.8 | 6.1 | 7.9 | 8.9 |
| Colombia | 8.4 | 7.6 | 6.0 | 8.2 | 4.2 | 3.9 | 2.8 | -1.1 | -0.5 | -0.5 | .. |
| Ecuador | 1.6 | 1.1 | 1.4 | 5.8 | 6.5 | 8.3 | 8.0 | 3.4 | 1.5 | -1.1 | .. |
| Hong Kong SAR[b] | 5.6 | 6.1 | 6.8 | 6.9 | 7.3 | 4.1 | 1.5 | -2.6 | -7.8 | -3.6 | -2.4 |
| India | 9.8 | 9.2 | 9.0 | 8.8 | 8.6 | 7.8 | 7.7 | 5.8 | 5.8 | 6.1 | 7.9 |
| Indonesia | 6.1 | 6.4 | 6.5 | 6.3 | 6.1 | 6.6 | 6.6 | 4.8 | 4.6 | 4.0 | 4.1 |
| Israel | 4.7 | 4.3 | 6.0 | 5.7 | 5.6 | 5.1 | 4.1 | 2.1 | -0.1 | -0.8 | -0.4 |
| Korea, Republic of | 4.5 | 5.3 | 4.9 | 5.7 | 5.5 | 4.3 | 3.1 | -3.4 | -4.2 | -2.2 | 0.6 |
| Malaysia | 5.5 | 5.8 | 6.4 | 7.2 | 7.4 | 6.6 | 4.8 | 0.1 | -6.2 | -3.9 | -1.2 |
| Mexico | 3.0 | 3.0 | 3.5 | 3.7 | 2.6 | 2.9 | 1.7 | -1.6 | -7.9 | -10.1 | -6.2 |
| Philippines | 6.9 | 8.3 | 6.8 | 6.3 | 3.9 | 4.2 | 4.6 | 2.9 | 0.6 | 0.8 | 0.8 |
| Singapore | 7.6 | 8.6 | 9.5 | 5.5 | 6.7 | 2.5 | 0.0 | -4.2 | -9.5 | -3.3 | 0.6 |
| South Africa | 6.5 | 5.5 | 5.1 | 4.9 | 4.1 | 5.1 | 3.8 | 1.9 | -0.8 | -2.6 | -2.1 |
| Taiwan Province of China | 4.5 | 5.7 | 7.1 | 6.5 | 6.9 | 5.4 | -0.8 | -7.1 | -9.1 | -6.9 | -1.3 |
| Thailand | 4.6 | 4.5 | 5.3 | 5.3 | 6.4 | 5.2 | 2.9 | -4.2 | -7.1 | -4.9 | -2.8 |
| Turkey | 8.1 | 3.8 | 3.2 | 4.2 | 7.2 | 2.8 | 1.0 | -6.5 | -14.3 | -7.0 | .. |
| Venezuela, Bolivarian Republic of | 8.7 | 7.8 | 9.0 | 7.2 | 4.9 | 7.2 | 3.8 | 3.5 | 0.5 | -2.4 | -4.5 |
| | **Unemployment rate[c]** | | | | | | | | | | |
| Argentina | 9.8 | 8.5 | 8.1 | 7.5 | 8.4 | 8.0 | 7.8 | 7.3 | 8.4 | 8.8 | 9.1 |
| Brazil | 9.8 | 10.0 | 9.3 | 8.1 | 8.4 | 8.1 | 7.8 | 7.3 | 8.6 | 8.6 | 7.9 |
| Chile | 6.4 | 6.8 | 7.5 | 7.4 | 7.4 | 8.0 | 8.1 | 7.5 | 8.6 | 10.2 | 10.6 |
| Colombia | 12.8 | 11.2 | 10.8 | 9.5 | 11.9 | 11.4 | 11.3 | 10.5 | 13.8 | 12.4 | 12.5 |
| Hong Kong SAR[b] | 4.4 | 4.2 | 4.0 | 3.4 | 3.3 | 3.3 | 3.4 | 4.1 | 5.2 | 5.4 | 5.3 |
| Israel | 7.7 | 7.6 | 7.3 | 6.7 | 6.1 | 5.9 | 6.1 | 6.5 | 7.6 | 8.0 | 7.8 |
| Korea, Republic of | 3.6 | 3.3 | 3.1 | 3.0 | 3.4 | 3.1 | 3.1 | 3.1 | 3.8 | 3.8 | 3.6 |
| Malaysia | 3.4 | 3.4 | 3.1 | 3.0 | 3.6 | 3.5 | 3.1 | 3.1 | 4.0 | 3.6 | .. |
| Mexico | 4.0 | 3.4 | 3.9 | 3.5 | 4.0 | 3.5 | 4.2 | 4.3 | 5.1 | 5.2 | 6.2 |
| Philippines | 7.8 | 7.4 | 7.8 | 6.3 | 7.4 | 8.0 | 7.4 | 6.8 | 7.7 | 7.5 | 7.6 |
| Singapore | 2.7 | 2.3 | 1.7 | 1.7 | 1.9 | 2.2 | 2.3 | 2.5 | 3.3 | 3.3 | 3.4 |
| Taiwan Province of China | 3.8 | 3.9 | 4.0 | 3.9 | 3.9 | 3.9 | 4.2 | 4.7 | 5.6 | 5.8 | 6.1 |
| Thailand | 1.6 | 1.6 | 1.2 | 1.1 | 1.7 | 1.4 | 1.2 | 1.3 | 2.1 | 1.8 | 1.2 |
| Turkey | 11.4 | 8.9 | 9.2 | 10.5 | 11.5 | 9.5 | 10.3 | 12.6 | 15.8 | 13.8 | .. |
| Uruguay | 9.9 | 9.5 | 9.0 | 8.1 | 8.5 | 7.5 | 7.6 | 6.6 | 7.5 | 8.0 | 7.1 |
| Venezuela, Bolivarian Republic of | 10.3 | 8.2 | 8.4 | 6.8 | 8.3 | 7.5 | 7.4 | 6.1 | 8.2 | 7.7 | 8.3 |

| Table A.11 (cont'd) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 quarters | | | | 2008 quarters | | | | 2009 quarters | | |
| | *I* | *II* | *III* | *IV* | *I* | *II* | *III* | *IV* | *I* | *II* | *III* |
| | Change in consumer prices[a] | | | | | | | | | | |
| Argentina | 9.5 | 8.8 | 8.6 | 8.5 | 8.5 | 9.1 | 8.9 | 7.8 | 6.6 | 5.5 | 5.9 |
| Brazil | 3.0 | 3.3 | 4.0 | 4.3 | 4.6 | 5.6 | 6.3 | 6.2 | 5.7 | 5.2 | 4.4 |
| Chile | 2.7 | 2.9 | 4.8 | 7.2 | 8.0 | 8.9 | 9.3 | 8.6 | 5.6 | 3.1 | -0.6 |
| China | 2.7 | 3.6 | 6.1 | 6.7 | 8.0 | 7.9 | 5.3 | 2.6 | -0.6 | -1.5 | -1.3 |
| Colombia | 5.2 | 6.2 | 5.3 | 5.4 | 6.1 | 6.4 | 7.7 | 7.8 | 6.6 | 4.8 | 3.2 |
| Ecuador | 2.1 | 1.7 | 2.5 | 2.8 | 5.3 | 9.1 | 10.0 | 9.3 | 7.9 | 5.5 | 3.5 |
| Hong Kong SAR[b] | 1.7 | 1.3 | 1.7 | 3.5 | 4.6 | 5.7 | 4.6 | 2.2 | 1.8 | -0.1 | -0.9 |
| India | 7.0 | 6.3 | 6.7 | 5.5 | 6.3 | 7.8 | 9.0 | 10.2 | 9.4 | 8.9 | 11.7 |
| Indonesia | 6.4 | 6.0 | 6.5 | 6.7 | 7.7 | 10.3 | 11.9 | 11.1 | 7.6 | 4.7 | 2.7 |
| Israel | -0.6 | -1.1 | 0.9 | 2.8 | 3.6 | 5.0 | 5.1 | 4.6 | 3.4 | 3.2 | 3.2 |
| Korea, Republic of | 2.0 | 2.4 | 2.3 | 3.4 | 3.8 | 4.8 | 5.5 | 4.5 | 3.9 | 2.8 | 2.0 |
| Malaysia | 2.6 | 1.5 | 1.8 | 2.2 | 2.6 | 4.9 | 8.4 | 5.9 | 3.7 | 1.3 | -2.3 |
| Mexico | 4.1 | 4.0 | 4.0 | 3.8 | 3.9 | 4.9 | 5.5 | 6.2 | 6.2 | 6.0 | 5.1 |
| Philippines | 2.9 | 2.4 | 2.5 | 3.3 | 5.6 | 9.7 | 12.2 | 9.6 | 6.9 | 3.2 | 0.3 |
| Singapore | 0.5 | 1.0 | 2.7 | 4.1 | 6.6 | 7.5 | 6.6 | 5.5 | 2.1 | -0.5 | -0.3 |
| South Africa | 5.1 | 6.0 | 6.2 | 7.2 | 8.9 | 10.1 | 11.2 | 10.1 | 8.8 | 8.0 | 6.4 |
| Taiwan Province of China | 1.0 | 0.3 | 1.5 | 4.5 | 3.6 | 4.2 | 4.5 | 1.9 | 0.0 | -0.8 | -1.3 |
| Thailand | 2.5 | 1.9 | 1.7 | 2.9 | 5.0 | 7.5 | 7.3 | 2.1 | -0.2 | -2.8 | -2.2 |
| Turkey | 10.3 | 9.5 | 7.1 | 8.2 | 8.8 | 10.3 | 11.7 | 10.9 | 8.4 | 5.7 | 5.3 |
| Venezuela, Bolivarian Republic of | 19.1 | 19.5 | 16.1 | 20.1 | 26.2 | 31.0 | 34.7 | 33.4 | 29.5 | 28.2 | 28.7 |

**Sources:** IMF, *International Financial Statistics,* and national sources.

**a** Percentage change from the corresponding quarter of the previous year.
**b** Special Administrative Region of China.
**c** Reflects national definitions and coverage. Not comparable across economies.

Table A.12
**Major developed economies: financial indicators, 2000-2009**

| Percentage | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* | *2009*[a] |
| | **Short-term interest rates**[b] | | | | | | | | | |
| Canada | 5.7 | 4.0 | 2.6 | 3.0 | 2.3 | 2.8 | 4.2 | 4.6 | 3.3 | 0.8 |
| France[c] | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 | 2.2 | 3.1 | 4.3 | 4.6 | 1.4 |
| Germany[c] | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 | 2.2 | 3.1 | 4.3 | 4.6 | 1.4 |
| Italy[c] | 4.4 | 4.3 | 3.3 | 2.3 | 2.1 | 2.2 | 3.1 | 4.3 | 4.6 | 1.4 |
| Japan | 0.2 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.2 | 0.7 | 0.7 | 0.4 |
| United Kingdom | 6.1 | 5.0 | 4.0 | 3.7 | 4.6 | 4.7 | 4.8 | 6.0 | 5.5 | 1.4 |
| United States | 6.5 | 3.7 | 1.7 | 1.2 | 1.6 | 3.5 | 5.2 | 5.3 | 3.0 | 0.7 |
| | **Long-term interest rates**[d] | | | | | | | | | |
| Canada | 5.9 | 5.5 | 5.3 | 4.8 | 4.6 | 4.1 | 4.2 | 4.3 | 3.6 | 3.2 |
| France | 5.4 | 4.9 | 4.9 | 4.1 | 4.1 | 3.4 | 3.8 | 4.3 | 4.2 | 3.7 |
| Germany | 5.3 | 4.8 | 4.8 | 4.1 | 4.0 | 3.4 | 3.8 | 4.2 | 4.0 | 3.2 |
| Italy | 5.6 | 5.2 | 5.0 | 4.3 | 4.3 | 3.6 | 4.0 | 4.5 | 4.7 | 4.0 |
| Japan | 1.7 | 1.3 | 1.3 | 1.0 | 1.5 | 1.4 | 1.7 | 1.7 | 1.5 | 1.3 |
| United Kingdom | 5.3 | 4.9 | 4.9 | 4.5 | 4.9 | 4.4 | 4.5 | 5.0 | 4.6 | 3.6 |
| United States | 6.0 | 5.0 | 4.6 | 4.0 | 4.3 | 4.3 | 4.8 | 4.6 | 3.7 | 3.2 |
| | **General government financial balances**[e] | | | | | | | | | |
| Canada | 2.9 | 0.7 | -0.1 | -0.1 | 0.9 | 1.5 | 1.6 | 1.6 | 0.0 | -5.0 |
| France | -1.5 | -1.5 | -3.1 | -4.1 | -3.6 | -2.9 | -2.3 | -2.7 | -3.4 | -8.3 |
| Germany | 1.3 | -2.8 | -3.7 | -4.0 | -3.8 | -3.3 | -1.6 | 0.2 | 0.0 | -3.4 |
| Italy | -0.8 | -3.1 | -2.9 | -3.5 | -3.5 | -4.3 | -3.3 | -1.5 | -2.7 | -5.3 |
| Japan[f] | -7.6 | -6.3 | -8.0 | -7.9 | -6.2 | -6.7 | -1.6 | -2.5 | -2.7 | -7.8 |
| United Kingdom | 3.6 | 0.5 | -2.0 | -3.3 | -3.4 | -3.4 | -2.7 | -2.7 | -5.0 | -12.1 |
| United States | 1.6 | -0.4 | -3.8 | -4.8 | -4.4 | -3.3 | -2.2 | -2.9 | -5.9 | -10.4 |

**Sources**: UN/DESA, based on IMF, *International Financial Statistics*; OECD *Economic Outlook*; and Eurostat.

**a** Average for the first nine months.
**b** Three-month Interbank Rate.
**c** From January 1999 onwards, represents the three-month Euro Interbank Offered Rate (EURIBOR), which is an interbank deposit bid rate.
**d** Yield on long-term government bonds.
**e** Surplus (+) or deficit (-) as a percentage of nominal GNP or GDP. Estimates for 2009.
**f** Deferred tax payments on postal savings accounts are included in 2000 and 2001.

Table A.13
**Selected economies: real effective exchange rates, broad measurement,[a] 2000-2009**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[b] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Developed economies** | | | | | | | | | | |
| Australia | 100.0 | 95.7 | 99.7 | 110.9 | 120.2 | 126.8 | 132.2 | 140.8 | 140.4 | 125.9 |
| Bulgaria | 100.0 | 107.9 | 112.2 | 120.6 | 125.3 | 127.8 | 135.5 | 143.2 | 149.5 | 168.3 |
| Canada | 100.0 | 96.5 | 94.7 | 102.4 | 104.5 | 108.0 | 111.7 | 112.5 | 103.3 | 93.8 |
| Czech Republic | 100.0 | 106.5 | 118.4 | 117.1 | 121.3 | 129.3 | 133.4 | 138.9 | 156.8 | 148.9 |
| Denmark | 100.0 | 102.5 | 106.7 | 113.8 | 114.4 | 111.9 | 109.8 | 109.8 | 110.5 | 117.3 |
| Euro zone | 100.0 | 101.7 | 105.2 | 117.0 | 121.1 | 119.8 | 120.9 | 125.7 | 131.4 | 124.8 |
| Hungary | 100.0 | 107.1 | 113.5 | 115.1 | 119.0 | 119.2 | 115.6 | 119.8 | 122.1 | 119.2 |
| Japan | 100.0 | 88.7 | 82.8 | 82.8 | 83.4 | 79.0 | 72.0 | 67.2 | 73.7 | 84.0 |
| New Zealand | 100.0 | 99.4 | 111.5 | 130.5 | 140.3 | 147.3 | 135.9 | 146.3 | 134.6 | 125.2 |
| Norway | 100.0 | 102.8 | 108.8 | 108.3 | 110.5 | 117.1 | 122.8 | 131.9 | 134.3 | 127.7 |
| Poland | 100.0 | 110.7 | 107.3 | 99.2 | 101.9 | 111.2 | 113.5 | 117.4 | 126.0 | 108.8 |
| Romania | 100.0 | 107.8 | 113.0 | 117.0 | 126.8 | 153.5 | 171.2 | 190.7 | 181.0 | 173.3 |
| Slovakia | 100.0 | 102.1 | 104.1 | 112.5 | 116.9 | 117.1 | 118.3 | 128.5 | 131.8 | 142.1 |
| Sweden | 100.0 | 91.3 | 93.5 | 97.3 | 96.2 | 93.3 | 94.2 | 97.5 | 91.8 | 89.3 |
| Switzerland | 100.0 | 103.1 | 109.4 | 111.2 | 109.0 | 104.9 | 100.3 | 95.5 | 97.4 | 105.6 |
| United Kingdom | 100.0 | 97.2 | 98.3 | 95.6 | 99.6 | 97.3 | 97.1 | 99.0 | 87.1 | 79.4 |
| United States | 100.0 | 106.0 | 106.2 | 98.0 | 91.9 | 89.3 | 86.9 | 82.8 | 79.6 | 89.1 |
| **Economies in transition** | | | | | | | | | | |
| Croatia | 100.0 | 105.5 | 106.6 | 109.8 | 113.6 | 114.5 | 115.4 | 116.7 | 124.3 | 126.9 |
| Russian Federation | 100.0 | 120.8 | 126.8 | 131.1 | 140.6 | 154.6 | 170.5 | 180.4 | 193.0 | 181.5 |
| **Developing economies** | | | | | | | | | | |
| Argentina | 100.0 | 105.0 | 56.1 | 62.4 | 60.8 | 60.0 | 58.5 | 57.8 | 58.9 | 57.5 |
| Brazil | 100.0 | 90.2 | 89.7 | 98.6 | 105.8 | 129.7 | 140.8 | 155.6 | 175.1 | 165.5 |
| Chile | 100.0 | 94.7 | 93.0 | 91.9 | 100.1 | 111.7 | 118.0 | 117.3 | 122.8 | 127.2 |
| China | 100.0 | 105.5 | 103.0 | 97.9 | 96.0 | 98.2 | 101.1 | 103.3 | 112.3 | 113.2 |
| Colombia | 100.0 | 100.4 | 99.1 | 88.1 | 94.8 | 104.9 | 102.8 | 110.4 | 114.4 | 107.9 |
| Ecuador | 100.0 | 102.5 | 111.0 | 114.3 | 114.7 | 121.2 | 130.7 | 125.9 | 136.6 | 109.0 |
| Egypt | 100.0 | 91.1 | 81.6 | 65.5 | 66.2 | 72.0 | 74.2 | 76.4 | 86.5 | 84.0 |
| Hong Kong SAR[c] | 100.0 | 101.8 | 101.5 | 95.0 | 89.9 | 86.4 | 84.1 | 80.1 | 75.7 | 80.6 |
| India | 100.0 | 102.5 | 99.1 | 98.4 | 99.1 | 102.3 | 99.3 | 106.6 | 100.9 | 96.0 |
| Indonesia | 100.0 | 96.3 | 116.6 | 123.2 | 113.5 | 113.8 | 142.0 | 149.3 | 162.6 | 161.2 |
| Israel | 100.0 | 99.7 | 89.8 | 87.5 | 85.4 | 86.4 | 86.9 | 87.9 | 98.0 | 97.4 |
| Korea, Republic of | 100.0 | 90.6 | 93.5 | 92.8 | 95.0 | 104.9 | 110.0 | 107.6 | 90.6 | 77.7 |
| Kuwait | 100.0 | 107.5 | 109.3 | 102.4 | 94.9 | 96.3 | 95.3 | 93.2 | 99.0 | 105.4 |
| Malaysia | 100.0 | 103.9 | 101.6 | 98.7 | 100.7 | 103.3 | 107.0 | 112.7 | 115.6 | 111.5 |
| Mexico | 100.0 | 107.9 | 109.5 | 100.0 | 98.2 | 103.1 | 106.0 | 106.0 | 105.9 | 90.7 |
| Morocco | 100.0 | 97.8 | 98.6 | 98.8 | 97.3 | 94.7 | 94.7 | 93.6 | 94.0 | 100.4 |
| Nigeria[d] | 100.0 | 111.1 | 111.0 | 103.1 | 107.8 | 124.3 | 133.3 | 130.7 | 144.7 | 138.8 |
| Pakistan | 100.0 | 95.5 | 100.1 | 101.0 | 100.4 | 102.3 | 105.8 | 105.6 | 105.5 | 103.1 |
| Peru | 100.0 | 104.2 | 104.1 | 100.0 | 99.5 | 99.3 | 99.4 | 99.7 | 106.6 | 105.8 |
| Philippines | 100.0 | 107.6 | 112.5 | 107.6 | 100.7 | 107.1 | 129.5 | 136.0 | 130.7 | 130.4 |

Table A.13 (cont'd)

| | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* | *2009*[b] |
|---|---|---|---|---|---|---|---|---|---|---|
| Saudi Arabia | 100.0 | 103.6 | 102.3 | 94.4 | 87.6 | 84.9 | 84.1 | 81.9 | 83.2 | 92.9 |
| Singapore | 100.0 | 97.8 | 95.9 | 95.5 | 102.2 | 106.8 | 112.2 | 119.5 | 125.3 | 115.3 |
| South Africa | 100.0 | 90.6 | 80.6 | 105.7 | 115.3 | 117.7 | 113.5 | 109.3 | 100.0 | 104.4 |
| Taiwan Province of China | 100.0 | 96.1 | 93.9 | 89.6 | 90.8 | 89.2 | 89.0 | 87.8 | 84.6 | 76.4 |
| Thailand | 100.0 | 97.0 | 101.2 | 100.3 | 100.1 | 102.7 | 111.6 | 124.9 | 121.1 | 111.1 |
| Turkey | 100.0 | 87.5 | 100.7 | 110.6 | 116.1 | 124.5 | 120.6 | 127.8 | 126.0 | 116.4 |
| Venezuela, Bolivarian Republic of | 100.0 | 109.4 | 92.6 | 93.5 | 98.8 | 99.2 | 107.9 | 119.7 | 138.6 | 187.7 |

**Sources:** JPMorgan Chase and IMF, *International Financial Statistics*.

**a** Indices based on a "broad" measure currency basket of 46 currencies (including the euro). The real effective exchange rate, which adjusts the nominal index for relative price changes, gauges the effect on international price competitiveness of the country's manufactures owing to currency changes and inflation differentials. A rise in the index implies a fall in competitiveness and vice versa. The relative price changes are based on indices most closely measuring the prices of domestically produced finished manufactured goods, excluding food and energy, at the first stage of manufacturing. The weights for currency indices are derived from 2000 bilateral trade patterns of the corresponding countries.

**b** Average for the first ten months.

**c** Special Administrative Region of China.

**d** Data is from International Financial Statistics (IFS) only. Data for 2009 is until July.

Table A.14
**Indices of prices of primary commodities, 2000-2009**

| | Non-fuel commodities | | | | | Combined index | | Manufactured export prices | Real prices of non-fuel commodities[a] | *Memorandum item:* Crude petroleum[b] |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Food* | *Tropical beverages* | *Vegetable oilseeds and oils* | *Agricultural raw materials* | *Minerals and metals* | *Dollar* | *SDR* | | | |
| 2000 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100.0 |
| 2001 | 103 | 79 | 94 | 96 | 89 | 96 | 100 | 98 | 98 | 83.8 |
| 2002 | 102 | 89 | 117 | 94 | 87 | 97 | 99 | 99 | 98 | 88.3 |
| 2003 | 104 | 94 | 137 | 112 | 98 | 105 | 99 | 108 | 97 | 101.8 |
| 2004 | 119 | 100 | 155 | 127 | 137 | 126 | 113 | 117 | 108 | 130.6 |
| 2005 | 127 | 126 | 141 | 132 | 173 | 141 | 126 | 120 | 117 | 183.5 |
| 2006 | 151 | 134 | 148 | 152 | 278 | 184 | 165 | 123 | 149 | 221.3 |
| 2007 | 164 | 148 | 226 | 169 | 313 | 207 | 179 | 133 | 156 | 250.4 |
| 2008 | 234 | 178 | 298 | 202 | 332 | 257 | 214 | 139 | 185 | 342.2 |
| | | | | | | | | | | |
| 2006 I | 151 | 136 | 137 | 144 | 220 | 167 | 153 | 119 | 140 | 209.0 |
| II | 155 | 129 | 141 | 150 | 285 | 186 | 167 | 123 | 151 | 234.6 |
| III | 148 | 133 | 149 | 150 | 301 | 188 | 168 | 125 | 151 | 238.4 |
| IV | 151 | 139 | 164 | 142 | 304 | 190 | 169 | 127 | 150 | 203.1 |
| | | | | | | | | | | |
| 2007 I | 155 | 143 | 179 | 158 | 288 | 191 | 169 | 129 | 148 | 198.0 |
| II | 154 | 142 | 209 | 162 | 336 | 206 | 180 | 131 | 157 | 235.5 |
| III | 165 | 150 | 236 | 161 | 322 | 209 | 181 | 133 | 157 | 259.0 |
| IV | 183 | 157 | 278 | 175 | 307 | 219 | 184 | 138 | 159 | 308.1 |
| | | | | | | | | | | |
| 2008 I | 223 | 182 | 342 | 201 | 358 | 261 | 216 | 141 | 185 | 335.2 |
| II | 273 | 184 | 358 | 211 | 381 | 293 | 239 | 145 | 202 | 425.7 |
| III | 244 | 191 | 305 | 216 | 355 | 271 | 225 | 141 | 192 | 411.3 |
| IV | 195 | 155 | 185 | 163 | 236 | 199 | 173 | 130 | 153 | 190.3 |
| | | | | | | | | | | |
| 2009 I | 206 | 164 | 188 | 146 | 200 | 193 | 171 | 126 | 153 | 155.5 |
| II | 213 | 175 | 226 | 150 | 231 | 208 | 181 | 129 | 161 | 212.0 |
| III | 228 | 186 | 215 | 164 | 270 | 227 | 192 | .. | .. | 245.3 |

**Sources:** UNCTAD, *Monthly Commodity Price Bulletin*; United Nations, *Monthly Bulletin of Statistics*; and *Middle East Economic Survey*, available at http://www.mees.com/Energy_Tables/basket.htm.

**a** Combined index of non-fuel commodity prices in dollars deflated by manufactured export price index.

**b** The new OPEC reference basket, introduced on 16 June 2005, currently has 12 crudes.

Table A.15
**World oil supply and demand, 2001-2010**

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[a] | 2010[b] |
|---|---|---|---|---|---|---|---|---|---|---|
| **World oil supply[c,d]** (millions of barrels per day) | **77.1** | **76.9** | **79.8** | **83.3** | **84.3** | **85.0** | **85.4** | **86.1** | **84.0** | **85.4** |
| Developed economies | 18.3 | 18.3 | 17.8 | 17.4 | 16.5 | 16.3 | 16.4 | 16.2 | 16.2 | 16.1 |
| Economies in transition | 8.7 | 9.6 | 10.5 | 11.6 | 12.0 | 12.4 | 12.9 | 12.9 | 13.3 | 13.6 |
| Developing economies | 48.3 | 47.3 | 49.7 | 52.5 | 54.0 | 54.4 | 53.9 | 54.8 | 52.3 | 53.4 |
| OPEC[e] | 30.4 | 28.8 | 30.8 | 33.1 | 34.2 | 34.3 | 34.9 | 35.9 | 33.4 | 34.2 |
| Non-OPEC | 17.9 | 18.5 | 18.9 | 19.4 | 19.8 | 20.1 | 19.0 | 18.9 | 18.9 | 19.2 |
| Processing gains[f] | 1.7 | 1.8 | 1.8 | 1.9 | 1.9 | 1.9 | 2.2 | 2.2 | 2.3 | 2.2 |
| **World total demand[g]** | **77.3** | **77.7** | **79.3** | **82.5** | **83.8** | **85.1** | **86.5** | **86.3** | **84.4** | **85.7** |
| Oil prices (dollars per barrel) | | | | | | | | | | |
| OPEC Basket[h] | 23.12 | 24.36 | 28.10 | 36.05 | 50.64 | 61.08 | 69.08 | 94.45 | 58.70 | 69.60 |
| Brent Oil | 24.42 | 24.97 | 28.85 | 38.30 | 54.43 | 65.39 | 72.70 | 97.64 | 61.00 | 72.00 |

**Sources**: United Nations, World Bank, International Energy Agency, U.S. Energy Information Administration, and *Middle East Economic Survey*, available at http://www.mees.com/Energy_Tables/basket.htm.

**a** Partly estimated.
**b** Baseline scenario forecasts.
**c** Including crude oil, condensates, natural gas liquids (NGLs), oil from non-conventional sources and other sources of supply.
**d** Totals may not add up due to rounding.
**e** Includes Angola and Ecuador as of January 2007 and December 2007, respectively.
**f** Net volume gains and losses in the refining process (excluding net gain/loss in the economies in transition and China) and marine transportation losses.
**g** Including deliveries from refineries/primary stocks and marine bunkers, and refinery fuel and non-conventional oils.
**h** The new OPEC reference basket, introduced on 16 June 2005, currently has 12 crudes.

Table A.16
**World trade: changes in value and volume of exports and imports, by major country group, 2000-2010**

| Annual percentage change | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009[a] | 2010[b] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | **Dollar value of exports** | | | | | |
| **World** | 13.4 | -3.9 | 4.8 | 16.6 | 21.3 | 14.8 | 15.6 | 15.8 | 15.3 | -23.9 | 10.6 |
| ***Developed economies*** | 7.3 | -2.8 | 3.6 | 15.3 | 18.1 | 9.4 | 12.7 | 14.4 | 12.4 | -22.7 | 9.0 |
| North America | 13.4 | -6.6 | -4.2 | 4.9 | 12.2 | 12.8 | 11.7 | 10.1 | 10.5 | -24.1 | 11.3 |
| EU plus other Europe | 3.5 | 1.1 | 6.7 | 19.5 | 19.5 | 8.7 | 13.4 | 16.5 | 12.5 | -21.4 | 7.8 |
| Developed Asia | 14.0 | -13.6 | 3.1 | 12.8 | 20.1 | 7.4 | 10.1 | 9.2 | 15.6 | -27.5 | 13.1 |
| ***Economies in transition*** | 34.2 | -0.7 | 6.3 | 26.4 | 35.3 | 35.4 | 28.4 | 26.2 | 36.4 | -44.6 | 13.9 |
| South-eastern Europe | 16.6 | 3.1 | 6.5 | 21.4 | 23.2 | 15.1 | 23.6 | 31.9 | 25.5 | -26.9 | 12.0 |
| Commonwealth of Independent States | 37.7 | -1.0 | 6.3 | 27.0 | 36.7 | 37.6 | 28.8 | 25.8 | 37.4 | -46.0 | 14.5 |
| ***Developing economies*** | 27.3 | -6.3 | 7.2 | 18.3 | 26.2 | 22.6 | 19.1 | 16.8 | 17.0 | -22.7 | 12.4 |
| Latin America and the Caribbean | 19.7 | -3.6 | 1.0 | 9.2 | 23.8 | 20.5 | 19.6 | 12.2 | 14.9 | -31.0 | 9.9 |
| Africa | 26.1 | -8.2 | 3.4 | 22.6 | 31.6 | 37.0 | 17.7 | 18.2 | 28.7 | -30.9 | 15.3 |
| Western Asia | 81.4 | -7.0 | 5.0 | 22.5 | 30.6 | 33.8 | 19.8 | 19.0 | 26.3 | -33.7 | 17.3 |
| East and South Asia | 19.2 | -6.7 | 9.9 | 19.4 | 25.4 | 19.1 | 19.0 | 17.3 | 13.8 | -16.6 | 11.6 |
| | | | | | | **Dollar value of imports** | | | | | |
| **World** | 12.9 | -3.5 | 3.7 | 16.1 | 22.0 | 14.1 | 14.8 | 15.5 | 16.0 | -23.6 | 10.7 |
| ***Developed economies*** | 10.3 | -3.6 | 3.0 | 15.6 | 19.2 | 12.1 | 13.4 | 13.0 | 12.4 | -24.1 | 9.2 |
| North America | 17.6 | -6.2 | 1.5 | 7.9 | 16.1 | 14.5 | 10.0 | 6.0 | 7.0 | -26.7 | 14.6 |
| EU plus other Europe | 5.3 | -1.2 | 4.3 | 19.8 | 20.6 | 10.8 | 15.3 | 16.8 | 13.3 | -22.5 | 7.5 |
| Developed Asia | 17.8 | -8.3 | -0.3 | 15.4 | 19.7 | 13.5 | 11.8 | 9.5 | 22.2 | -26.9 | 6.8 |
| ***Economies in transition*** | 14.8 | 14.1 | 12.0 | 26.6 | 27.8 | 26.6 | 30.2 | 38.9 | 31.3 | -40.2 | 11.0 |
| South-eastern Europe | 12.9 | 13.9 | 20.2 | 26.1 | 17.5 | 18.2 | 18.0 | 28.0 | 21.6 | -30.2 | 11.0 |
| Commonwealth of Independent States | 15.6 | 14.1 | 10.3 | 26.7 | 30.0 | 28.3 | 32.3 | 40.6 | 32.7 | -42.3 | 11.2 |
| ***Developing economies*** | 19.7 | -4.4 | 5.0 | 16.5 | 28.0 | 17.3 | 16.4 | 18.5 | 21.3 | -20.5 | 12.5 |
| Latin America and the Caribbean | 15.8 | -2.1 | -7.0 | 3.7 | 22.1 | 18.3 | 19.3 | 18.9 | 21.2 | -25.1 | 12.2 |
| Africa | 1.0 | 0.2 | 3.4 | 20.6 | 26.1 | 22.1 | 16.6 | 26.0 | 33.1 | -19.5 | 11.3 |
| Western Asia | 21.7 | 0.0 | 7.2 | 17.3 | 36.8 | 13.5 | 12.1 | 31.0 | 28.0 | -26.6 | 7.0 |
| East and South Asia | 20.6 | -6.7 | 8.7 | 19.5 | 28.2 | 17.2 | 16.4 | 15.4 | 18.5 | -18.2 | 13.8 |
| | | | | | | **Volume of exports** | | | | | |
| **World** | 13.2 | -1.1 | 4.4 | 5.6 | 10.6 | 8.0 | 9.6 | 6.6 | 2.8 | -12.6 | 5.5 |
| ***Developed economies*** | 12.6 | -0.9 | 2.2 | 3.0 | 8.3 | 5.6 | 9.0 | 4.9 | 3.3 | -15.2 | 4.9 |
| North America | 14.0 | -5.5 | -2.4 | 0.7 | 6.6 | 7.1 | 7.3 | 5.5 | 4.3 | -13.5 | 7.6 |
| EU plus other Europe | 11.9 | 2.3 | 3.1 | 2.9 | 8.0 | 5.2 | 9.3 | 4.4 | 2.6 | -13.2 | 2.6 |
| Developed Asia | 12.7 | -6.6 | 6.6 | 7.9 | 12.1 | 4.8 | 10.7 | 6.4 | 4.8 | -26.1 | 11.5 |
| ***Economies in transition*** | 15.2 | 3.8 | 7.9 | 13.3 | 14.2 | 0.7 | 7.6 | 9.5 | 2.6 | -9.6 | 1.9 |
| South-eastern Europe | 13.5 | 5.5 | 5.2 | 8.7 | 11.8 | 8.3 | 13.2 | 21.6 | 9.8 | -20.2 | 5.0 |
| Commonwealth of Independent States | 15.4 | 3.6 | 8.0 | 13.8 | 14.5 | -0.2 | 6.9 | 8.1 | 1.6 | -8.0 | 1.5 |
| ***Developing economies*** | 14.5 | -1.9 | 8.6 | 9.8 | 14.6 | 12.7 | 10.7 | 9.1 | 2.1 | -8.9 | 6.5 |
| Latin America and the Caribbean | 4.6 | -0.1 | 1.7 | 4.9 | 11.9 | 7.2 | 8.6 | 5.2 | -0.4 | -11.1 | 4.2 |
| Africa | -9.2 | -2.0 | 4.7 | 8.3 | 14.6 | 29.0 | -6.9 | 10.9 | 3.4 | -2.4 | 5.8 |
| Western Asia | 37.2 | 3.0 | 4.5 | 8.2 | 7.6 | 5.2 | 4.0 | 9.1 | -2.3 | -6.3 | 3.0 |
| East and South Asia | 15.3 | -3.5 | 12.0 | 11.5 | 16.7 | 13.7 | 14.4 | 9.7 | 3.1 | -9.4 | 7.6 |

| Table A.16 (cont'd) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* | *2009*[a] | *2010*[b] |
| | **Volume of imports** | | | | | | | | | | |
| **World** | 13.8 | -0.5 | 4.1 | 5.3 | 11.4 | 7.5 | 8.9 | 6.7 | 3.1 | -12.3 | 5.4 |
| ***Developed economies*** | 11.0 | -0.6 | 2.5 | 4.0 | 8.6 | 5.8 | 7.5 | 3.7 | 0.1 | -12.3 | 3.9 |
| North America | 12.3 | -3.6 | 3.2 | 0.2 | 7.2 | 7.8 | 4.3 | -0.6 | -4.1 | -12.7 | 9.1 |
| EU plus other Europe | 10.7 | 1.0 | 2.0 | 5.7 | 9.3 | 5.0 | 9.7 | 6.4 | 1.0 | -11.7 | 2.0 |
| Developed Asia | 9.0 | 0.3 | 3.1 | 6.3 | 8.8 | 4.5 | 4.8 | 1.1 | 7.1 | -14.7 | 1.5 |
| ***Economies in transition*** | 21.8 | 14.0 | 11.8 | 12.2 | 14.1 | 15.9 | 23.1 | 27.7 | 14.8 | -35.9 | 12.1 |
| South-eastern Europe | 17.4 | 15.3 | 17.0 | 9.9 | 6.2 | 11.3 | 11.4 | 15.8 | 7.9 | -23.0 | 3.9 |
| Commonwealth of Independent States | 23.9 | 13.8 | 10.7 | 12.7 | 15.7 | 16.8 | 25.2 | 29.6 | 16.0 | -32.7 | 4.6 |
| ***Developing economies*** | 20.8 | -0.9 | 7.4 | 7.9 | 17.4 | 10.5 | 10.6 | 10.7 | 7.5 | -10.1 | 7.4 |
| Latin America and the Caribbean | 17.5 | -0.4 | -4.1 | -2.2 | 13.7 | 12.1 | 13.5 | 11.5 | 8.1 | -14.9 | 7.5 |
| Africa | 1.8 | 6.3 | 5.0 | 7.1 | 14.3 | 15.9 | 10.4 | 16.3 | 17.5 | -7.9 | 6.1 |
| Western Asia | 22.9 | 2.4 | 7.3 | 5.7 | 23.3 | 5.7 | 6.1 | 22.2 | 13.1 | -15.7 | 1.7 |
| East and South Asia | 20.3 | -2.4 | 11.4 | 11.1 | 17.7 | 10.4 | 10.7 | 8.2 | 5.2 | -8.0 | 8.6 |

**Sources**: UN/DESA Statistics Division, ECA, ECE, ECLAC, ESCAP, ESCWA and IMF.

**a** Partly estimated.

**b** Baseline scenario forecasts, based in part on Project LINK.

Table A.17
**Balance of payments on current accounts, by country or country group, summary table, 2000-2008**

| Billions of dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* |
| **Developed economies** | **-324.1** | **-282.5** | **-287.4** | **-319.9** | **-337.5** | **-522.3** | **-603.1** | **-551.2** | **-702.9** |
| Japan | 119.6 | 87.8 | 112.6 | 136.2 | 172.1 | 165.7 | 170.4 | 211.0 | 157.1 |
| United States | -417.4 | -398.3 | -459.1 | -521.5 | -631.1 | -748.7 | -803.5 | -726.6 | -706.1 |
| Europe[a] | -28.4 | 20.4 | 64.3 | 86.6 | 143.8 | 89.8 | 61.5 | 17.7 | -103.5 |
| EU-15 | -61.0 | -8.2 | 36.8 | 45.3 | 108.1 | 29.9 | 8.6 | 9.2 | -84.2 |
| New EU member States | -22.4 | -18.5 | -19.9 | -27.6 | -42.6 | -37.3 | -57.3 | -92.3 | -112.5 |
| **Economies in transition[b]** | **47.0** | **31.0** | **25.3** | **30.3** | **56.2** | **80.0** | **87.5** | **56.1** | **86.4** |
| South-eastern Europe | -1.3 | -2.1 | -5.0 | -5.5 | -7.3 | -7.5 | -8.5 | -15.3 | -22.4 |
| Commonwealth of Independent States[c] | 48.5 | 33.4 | 30.6 | 36.2 | 63.9 | 88.2 | 97.2 | 73.5 | 111.7 |
| **Developing economies** | **91.4** | **70.5** | **120.1** | **213.4** | **275.0** | **461.6** | **688.3** | **767.7** | **778.5** |
| Net fuel exporters | 79.3 | 34.1 | 27.5 | 76.0 | 132.2 | 268.6 | 375.1 | 351.5 | 461.4 |
| Net fuel importers | 12.1 | 36.4 | 92.6 | 137.4 | 142.7 | 193.0 | 313.3 | 416.2 | 317.2 |
| ***Latin America and the Caribbean*** | -47.3 | -52.8 | -15.2 | 10.5 | 23.1 | 36.7 | 50.2 | 15.9 | -27.2 |
| Net fuel exporters | -14.1 | -21.1 | -0.6 | 12.4 | 14.0 | 26.6 | 34.9 | 18.7 | 31.1 |
| Net fuel importer | -33.2 | -31.7 | -14.6 | -1.9 | 9.0 | 10.1 | 15.3 | -2.8 | -58.3 |
| ***Africa*** | 8.6 | -2.1 | -12.6 | -6.4 | 0.5 | 10.7 | 47.6 | 33.4 | 35.1 |
| Net fuel exporters | 26.5 | 13.3 | -1.9 | 12.6 | 27.0 | 50.1 | 95.7 | 94.1 | 118.9 |
| Net fuel importers | -17.8 | -15.4 | -10.7 | -19.0 | -26.5 | -39.4 | -48.0 | -60.7 | -83.8 |
| ***Western Asia*** | 36.7 | 31.7 | 21.1 | 41.0 | 72.8 | 148.3 | 190.7 | 166.1 | 246.1 |
| Net fuel exporters[d] | 50.3 | 32.5 | 24.6 | 49.0 | 88.1 | 170.8 | 217.8 | 205.3 | 292.2 |
| Net fuel importers | -13.6 | -0.8 | -3.5 | -8.1 | -15.3 | -22.4 | -27.1 | -39.2 | -46.1 |
| ***East and South Asia*** | 93.4 | 93.7 | 126.8 | 168.4 | 178.7 | 265.9 | 399.8 | 552.3 | 524.6 |
| Net fuel exporters | 16.6 | 9.4 | 5.4 | 2.0 | 3.1 | 21.1 | 26.7 | 33.3 | 19.2 |
| Net fuel importers | 76.8 | 84.4 | 121.4 | 166.4 | 175.5 | 244.7 | 373.1 | 519.0 | 505.4 |
| **World residual[e]** | **-185.6** | **-181.0** | **-141.9** | **-76.2** | **-6.2** | **19.2** | **172.7** | **272.6** | **162.0** |

**Sources:** IMF, *World Economic Outlook*, October 2009; and IMF, *Balance of Payments Statistics*.

**a** Europe consists of the EU-15, the new EU member States and Iceland, Norway and Switzerland.
**b** Includes Georgia.
**c** Excludes Georgia, which left the Commonwealth of Independent States on 18 August 2009.
**d** Iraq data not available prior to 2005.
**e** Statistical discrepancy.

Table A.18
**Balance of payments on current accounts, by country or country group, 2000-2008**

| Billions of dollars | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **Developed economies** | | | | | | | | | |
| Trade balance | -297.6 | -262.6 | -262.5 | -312.6 | -426.0 | -641.0 | -790.8 | -784.3 | -880.1 |
| Services, net | 82.5 | 77.1 | 97.0 | 115.3 | 168.3 | 206.8 | 278.8 | 386.8 | 429.9 |
| Income, net | 27.7 | 40.5 | 18.8 | 45.9 | 123.0 | 154.2 | 146.4 | 132.9 | 72.5 |
| Current transfers, net | -136.7 | -137.5 | -140.6 | -168.5 | -202.7 | -242.3 | -237.5 | -286.7 | -325.2 |
| Current-account balance | -324.1 | -282.5 | -287.4 | -319.9 | -337.5 | -522.3 | -603.1 | -551.2 | -702.9 |
| **Japan** | | | | | | | | | |
| Trade balance | 114.93 | 69.17 | 92.46 | 103.99 | 128.46 | 93.85 | 81.12 | 105.09 | 38.43 |
| Services, net | -45.89 | -42.71 | -40.71 | -31.44 | -34.25 | -24.08 | -18.17 | -21.20 | -20.81 |
| Income, net | 60.40 | 69.22 | 65.78 | 71.21 | 85.72 | 103.50 | 118.17 | 138.63 | 152.56 |
| Current transfers, net | -9.83 | -7.88 | -4.92 | -7.51 | -7.85 | -7.58 | -10.68 | -11.55 | -13.10 |
| Current-account balance | 119.6 | 87.8 | 112.6 | 136.2 | 172.1 | 165.7 | 170.4 | 211.0 | 157.1 |
| **United States** | | | | | | | | | |
| Trade balance | -454.69 | -429.90 | -482.83 | -549.01 | -671.83 | -790.85 | -847.26 | -830.99 | -840.25 |
| Services, net | 74.85 | 64.39 | 61.23 | 53.97 | 61.84 | 75.58 | 86.90 | 129.57 | 144.32 |
| Income, net | 21.05 | 31.72 | 27.41 | 45.30 | 67.22 | 72.36 | 48.08 | 90.85 | 118.23 |
| Current transfers, net | -58.65 | -64.48 | -64.95 | -71.80 | -88.36 | -105.77 | -91.27 | -116.00 | -128.37 |
| Current-account balance | -417.4 | -398.3 | -459.1 | -521.5 | -631.1 | -748.7 | -803.5 | -726.6 | -706.1 |
| **Europe[a]** | | | | | | | | | |
| Trade balance | 1.4 | 49.1 | 96.5 | 107.7 | 86.1 | 20.8 | -56.5 | -83.4 | -116.9 |
| Services, net | 56.6 | 59.6 | 79.2 | 98.1 | 147.7 | 164.3 | 221.2 | 295.3 | 331.3 |
| Income, net | -17.2 | -22.0 | -40.5 | -30.1 | 15.9 | 32.2 | 31.1 | -36.7 | -134.9 |
| Current transfers, net | -69.2 | -66.3 | -70.8 | -89.1 | -105.9 | -127.5 | -134.4 | -157.4 | -183.0 |
| Current-account balance | -28.4 | 20.4 | 64.3 | 86.6 | 143.8 | 89.8 | 61.5 | 17.7 | -103.5 |
| ***EU-15*** | | | | | | | | | |
| Trade balance | 8.2 | 52.9 | 95.2 | 106.8 | 83.1 | 8.3 | -63.2 | -72.0 | -123.5 |
| Services, net | 28.3 | 32.9 | 52.6 | 67.7 | 113.3 | 123.6 | 171.3 | 229.8 | 251.5 |
| Income, net | -28.5 | -28.2 | -40.7 | -38.9 | 18.7 | 23.2 | 36.1 | 11.2 | -30.1 |
| Current transfers, net | -69.0 | -65.8 | -70.4 | -90.3 | -107.1 | -125.3 | -135.6 | -159.8 | -182.2 |
| Current-account balance | -61.0 | -8.2 | 36.8 | 45.3 | 108.1 | 29.9 | 8.6 | 9.2 | -84.2 |
| ***New EU member States*** | | | | | | | | | |
| Trade balance | -29.8 | -26.7 | -25.5 | -29.1 | -34.3 | -35.2 | -51.0 | -72.4 | -86.6 |
| Services, net | 9.4 | 9.7 | 8.8 | 8.3 | 9.4 | 13.0 | 15.5 | 21.9 | 26.0 |
| Income, net | -7.3 | -7.9 | -10.9 | -16.6 | -28.1 | -26.5 | -35.3 | -56.5 | -67.5 |
| Current transfers, net | 5.2 | 6.3 | 7.6 | 9.8 | 10.3 | 11.5 | 13.6 | 14.8 | 15.6 |
| Current-account balance | -22.4 | -18.5 | -19.9 | -27.6 | -42.6 | -37.3 | -57.3 | -92.3 | -112.5 |
| **Economies in transition[b]** | | | | | | | | | |
| Trade balance | 53.7 | 37.8 | 34.4 | 43.1 | 71.3 | 106.6 | 128.5 | 110.2 | 166.4 |
| Services, net | -4.3 | -7.2 | -8.3 | -7.1 | -10.7 | -12.7 | -11.8 | -18.4 | -22.0 |
| Income, net | -9.6 | -6.8 | -8.9 | -16.3 | -17.1 | -28.5 | -44.9 | -52.2 | -79.4 |
| Current transfers, net | 7.2 | 7.2 | 8.2 | 10.6 | 12.8 | 14.5 | 15.8 | 16.5 | 21.5 |
| Current-account balance | 47.0 | 31.0 | 25.3 | 30.3 | 56.2 | 80.0 | 87.5 | 56.1 | 86.4 |

Table A.18 (cont'd)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **South-eastern Europe** | | | | | | | | | |
| Trade balance | -9.0 | -10.9 | -14.1 | -18.7 | -22.6 | -23.1 | -25.5 | -34.0 | -42.3 |
| Services, net | 2.6 | 3.5 | 3.5 | 6.2 | 6.5 | 7.1 | 8.0 | 9.7 | 11.7 |
| Income, net | 0.2 | 0.1 | 0.0 | -0.3 | -0.3 | -1.0 | -1.2 | -1.9 | -3.2 |
| Current transfers, net | 4.9 | 5.2 | 5.6 | 7.3 | 9.1 | 9.5 | 10.1 | 10.9 | 11.4 |
| Current-account balance | -1.3 | -2.1 | -5.0 | -5.5 | -7.3 | -7.5 | -8.5 | -15.3 | -22.4 |
| **Commonwealth of Independent States[c]** | | | | | | | | | |
| Trade balance | 63.2 | 49.2 | 49.0 | 62.4 | 94.8 | 130.9 | 156.0 | 147.2 | 212.5 |
| Services, net | -7.0 | -10.8 | -11.9 | -13.4 | -17.3 | -19.8 | -20.0 | -28.3 | -33.7 |
| Income, net | -9.7 | -6.8 | -8.9 | -16.0 | -16.9 | -27.6 | -43.9 | -50.3 | -76.1 |
| Current transfers, net | 2.1 | 1.8 | 2.3 | 3.1 | 3.3 | 4.6 | 5.1 | 4.9 | 9.0 |
| Current-account balance | 48.5 | 33.4 | 30.6 | 36.2 | 63.9 | 88.2 | 97.2 | 73.5 | 111.7 |
| **Developing economies** | | | | | | | | | |
| Trade balance | 199.6 | 171.9 | 214.6 | 285.5 | 343.0 | 525.5 | 711.0 | 772.3 | 811.4 |
| Services, net | -50.8 | -57.1 | -57.0 | -56.4 | -50.1 | -59.9 | -68.3 | -75.9 | -109.2 |
| Income, net | -117.4 | -111.2 | -115.9 | -117.6 | -134.9 | -154.3 | -140.3 | -140.9 | -156.4 |
| Current transfers, net | 60.1 | 66.9 | 78.5 | 101.8 | 117.0 | 150.2 | 186.0 | 212.2 | 232.7 |
| Current-account balance | 91.4 | 70.5 | 120.1 | 213.4 | 275.0 | 461.6 | 688.3 | 767.7 | 778.5 |
| **Net fuel exporters** | | | | | | | | | |
| Trade balance | 164.3 | 112.2 | 114.6 | 164.8 | 226.2 | 369.9 | 465.9 | 461.2 | 628.1 |
| Services, net | -51.5 | -48.0 | -51.3 | -55.7 | -62.6 | -73.5 | -93.6 | -117.1 | -154.6 |
| Income, net | -28.2 | -25.4 | -33.8 | -37.5 | -40.6 | -49.7 | -30.8 | -25.2 | -36.6 |
| Current transfers, net | -5.3 | -4.7 | -2.1 | 4.5 | 9.3 | 21.9 | 33.6 | 32.5 | 24.4 |
| Current-account balance | 79.3 | 34.1 | 27.5 | 76.0 | 132.2 | 268.6 | 375.1 | 351.5 | 461.4 |
| **Net fuel importers** | | | | | | | | | |
| Trade balance | 35.3 | 59.7 | 99.9 | 120.7 | 116.9 | 155.6 | 245.1 | 311.0 | 183.4 |
| Services, net | 0.7 | -9.1 | -5.8 | -0.6 | 12.5 | 13.6 | 25.3 | 41.2 | 45.4 |
| Income, net | -89.2 | -85.8 | -82.1 | -80.1 | -94.3 | -104.6 | -109.5 | -115.7 | -119.8 |
| Current transfers, net | 65.3 | 71.7 | 80.6 | 97.3 | 107.6 | 128.3 | 152.4 | 179.7 | 208.2 |
| Current-account balance | 12.1 | 36.4 | 92.6 | 137.4 | 142.7 | 193.0 | 313.3 | 416.2 | 317.2 |
| **Latin America and the Caribbean** | | | | | | | | | |
| Trade balance | 1.6 | -5.5 | 21.9 | 43.8 | 59.3 | 82.2 | 101.4 | 72.1 | 45.6 |
| Services, net | -14.3 | -17.6 | -12.7 | -11.9 | -12.4 | -16.8 | -17.7 | -23.4 | -28.9 |
| Income, net | -56.0 | -56.0 | -54.1 | -59.1 | -68.5 | -81.8 | -97.3 | -98.7 | -109.4 |
| Current transfers, net | 21.5 | 26.3 | 29.8 | 37.7 | 44.8 | 53.1 | 63.8 | 65.9 | 65.6 |
| Current-account balance | -47.3 | -52.8 | -15.2 | 10.5 | 23.1 | 36.7 | 50.2 | 15.9 | -27.2 |
| **Africa** | | | | | | | | | |
| Trade balance | 20.0 | 6.6 | -0.6 | 7.3 | 19.5 | 38.0 | 56.2 | 56.5 | 75.1 |
| Services, net | -5.4 | -5.7 | -7.8 | -7.6 | -8.9 | -13.1 | -14.4 | -24.5 | -37.5 |
| Income, net | -21.7 | -19.3 | -21.7 | -26.8 | -35.2 | -44.8 | -41.8 | -52.7 | -63.7 |
| Current transfers, net | 15.7 | 16.2 | 17.5 | 20.8 | 25.0 | 30.7 | 47.7 | 54.0 | 61.2 |
| Current-account balance | 8.6 | -2.1 | -12.6 | -6.4 | 0.5 | 10.7 | 47.6 | 33.4 | 35.1 |

Table A.18 (cont'd)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **Western Asia[d]** | | | | | | | | | |
| Trade balance | 67.5 | 64.5 | 61.9 | 83.4 | 114.2 | 187.2 | 238.2 | 229.8 | 350.5 |
| Services, net | -19.9 | -20.6 | -23.4 | -21.8 | -24.6 | -27.9 | -46.0 | -61.0 | -85.1 |
| Income, net | 2.7 | -2.2 | -6.4 | -9.3 | -5.3 | -3.0 | 11.6 | 16.6 | 8.7 |
| Current transfers, net | -8.2 | -9.9 | -11.0 | -11.4 | -11.5 | -8.0 | -13.2 | -19.2 | -28.0 |
| Current-account balance | 36.7 | 31.7 | 21.1 | 41.0 | 72.8 | 148.3 | 190.7 | 166.1 | 246.1 |
| **East Asia** | | | | | | | | | |
| Trade balance | 119.7 | 117.6 | 139.2 | 166.3 | 180.3 | 255.4 | 366.8 | 474.3 | 450.8 |
| Services, net | -11.9 | -13.9 | -13.9 | -16.9 | -10.8 | -12.7 | -6.2 | 9.6 | 12.7 |
| Income, net | -29.5 | -27.2 | -26.4 | -14.4 | -18.6 | -14.6 | -4.6 | 1.5 | 17.4 |
| Current transfers, net | 9.0 | 9.8 | 14.3 | 19.5 | 24.9 | 33.4 | 38.2 | 51.5 | 63.3 |
| Current-account balance | 87.3 | 86.4 | 113.2 | 154.5 | 175.8 | 261.5 | 394.3 | 536.9 | 544.1 |
| **South Asia** | | | | | | | | | |
| Trade balance | -9.2 | -11.3 | -7.8 | -15.3 | -30.3 | -37.2 | -51.6 | -60.5 | -110.6 |
| Services, net | 0.8 | 0.8 | 0.8 | 1.9 | 6.6 | 10.6 | 15.9 | 23.4 | 29.7 |
| Income, net | -7.6 | -6.6 | -7.3 | -7.9 | -7.2 | -10.0 | -8.2 | -7.5 | -9.3 |
| Current transfers, net | 22.1 | 24.6 | 27.9 | 35.2 | 33.8 | 41.0 | 49.5 | 60.0 | 70.6 |
| Current-account balance | 6.1 | 7.4 | 13.7 | 13.9 | 2.9 | 4.4 | 5.6 | 15.4 | -19.6 |
| **World residual[e]** | | | | | | | | | |
| Trade balance | -44.3 | -52.9 | -13.6 | 16.0 | -11.7 | -8.9 | 48.6 | 98.2 | 97.7 |
| Services, net | 27.4 | 12.8 | 31.6 | 51.7 | 107.5 | 134.2 | 198.7 | 292.5 | 298.7 |
| Income, net | -99.3 | -77.6 | -106.0 | -87.9 | -29.1 | -28.5 | -38.8 | -60.2 | -163.3 |
| Current transfers, net | -69.5 | -63.3 | -53.9 | -56.0 | -73.0 | -77.6 | -35.8 | -58.0 | -71.1 |
| Current-account balance | -185.6 | -181.0 | -141.9 | -76.2 | -6.2 | 19.2 | 172.7 | 272.6 | 162.0 |

**Sources**: IMF, *World Economic Outlook*, October 2009; and IMF, *Balance of Payments Statistics*.

**a** Europe consists of EU-15, new EU member States plus Iceland, Norway and Switzerland.
**b** Includes Georgia.
**c** Excludes Georgia, which left the Commonwealth of Independent States on 18 August 2009.
**d** Iraq data not available prior to 2005.
**e** Statistical discrepancy.

Table A.19
**Net ODA from major sources, by type, 1988-2008**

| Donor group or country | Growth rate of ODA (2007 prices and exchange rates) | | ODA as a percentage of GNI | Total ODA (millions of dollars) | Percentage distribution of ODA by type, 2008 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Bilateral | | | | Multilateral | | |
| | | | | | | Grants | | | | | |
| | *1988-1997* | *1998-2007* | *2008* | *2008* | *Total (Grants & Loans)* | *Total* | *of which: Technical cooperation* | *Loans* | *Total (United Nations & Other)* | *United Nations* | *Other* |
| **Total DAC countries** | **-0.68** | **5.57** | **0.30** | **119 759** | **71.1** | **72.2** | **12.8** | **-1.1** | **28.9** | **4.6** | **24.2** |
| **Total EU** | **0.41** | **5.25** | **0.42** | **70 168** | **63.9** | **62.9** | **14.7** | **1.0** | **36.1** | **4.9** | **31.2** |
| Austria | 4.79 | 11.63 | 0.42 | 1 681 | 71.7 | 72.0 | 11.4 | -0.2 | 28.3 | 2.2 | 26.0 |
| Belgium | -0.66 | 6.70 | 0.47 | 2 381 | 58.0 | 59.2 | 15.8 | -1.2 | 42.0 | 3.2 | 38.8 |
| Denmark | 3.59 | 0.09 | 0.82 | 2 800 | 65.2 | 66.1 | 3.5 | -0.9 | 34.8 | 12.4 | 22.4 |
| Finland | -3.99 | 7.07 | 0.43 | 1 139 | 60.1 | 58.8 | 22.3 | 1.3 | 39.9 | 9.9 | 30.0 |
| France[a] | 0.58 | 2.39 | 0.39 | 10 957 | 59.6 | 55.1 | 24.0 | 4.5 | 40.4 | 2.3 | 38.2 |
| Germany | 0.63 | 4.46 | 0.38 | 13 910 | 64.4 | 66.9 | 29.8 | -2.5 | 35.6 | 2.3 | 33.4 |
| Greece | … | 6.42 | 0.20 | 693 | 45.8 | 45.8 | 28.3 | .. | 54.2 | 2.0 | 52.2 |
| Ireland | 9.05 | 14.41 | 0.58 | 1 325 | 68.3 | 68.3 | 2.0 | .. | 31.7 | 11.8 | 19.9 |
| Italy | -7.93 | 5.12 | 0.20 | 4 444 | 40.0 | 41.8 | 2.0 | -1.8 | 60.0 | 4.6 | 55.4 |
| Luxembourg | 15.01 | 9.41 | 0.92 | 409 | 68.6 | 68.6 | 1.2 | .. | 31.4 | 14.3 | 17.1 |
| Netherlands | 0.83 | 3.06 | 0.80 | 6 993 | 76.3 | 77.7 | 8.0 | -1.7 | 23.7 | 8.1 | 15.7 |
| Portugal | 11.92 | 1.82 | 0.27 | 614 | 59.6 | 37.5 | 24.0 | 22.1 | 40.4 | 2.0 | 38.4 |
| Spain | 15.37 | 8.17 | 0.43 | 6 686 | 68.9 | 64.3 | 7.7 | 4.6 | 31.1 | 4.4 | 26.7 |
| Sweden | -0.04 | 7.28 | 0.98 | 4 730 | 68.3 | 67.1 | 2.8 | 1.2 | 31.7 | 10.9 | 20.8 |
| United Kingdom | 0.88 | 9.19 | 0.43 | 11 409 | 65.2 | 62.7 | 8.2 | 2.5 | 34.8 | 4.1 | 30.7 |
| | | | | | | | | | | | |
| Australia | -0.44 | 4.14 | 0.34 | 3 166 | 75.4 | 75.5 | 36.5 | -0.1 | 24.6 | 1.8 | 22.8 |
| Canada | -1.93 | 3.56 | 0.32 | 4 725 | 70.0 | 70.8 | 12.3 | -0.8 | 30.0 | 4.7 | 25.3 |
| Japan | 0.14 | 1.45 | 0.18 | 9 362 | 70.9 | 82.7 | 20.8 | -11.8 | 29.1 | 5.8 | 23.2 |
| New Zealand | 0.13 | 5.01 | 0.30 | 346 | 80.6 | 80.6 | 19.4 | .. | 19.4 | 9.7 | 9.7 |
| Norway | 0.95 | 3.57 | 0.88 | 3 967 | 77.3 | 74.9 | 15.2 | 2.4 | 22.7 | 11.7 | 11.0 |
| Switzerland | 2.55 | 4.73 | 0.41 | 2 016 | 76.9 | 76.2 | .. | 0.7 | 23.1 | 7.5 | 15.6 |
| United States | -4.81 | 10.20 | 0.18 | 26 008 | 88.9 | 92.4 | 2.5 | -3.5 | 11.1 | 2.6 | 8.5 |

**Source**: UN/DESA, based on data of the OECD online database, available at http://stats.oecd.org/Index.aspx.

**a** Excluding flows from France to the Overseas Departments, namely Guadeloupe, French Guiana, Martinique and Réunion.

Table A.20
**Total net ODA flows from OECD Development Assistance Committee countries, by type of flow, 1996-2008**

| | *1996-1997 average* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* |
|---|---|---|---|---|---|---|---|
| | **Net disbursements at current prices and exchange rates** *(millions of dollars)* | | | | | | |
| **Official Development Assistance** | 52 028 | 69 065 | 79 432 | 107 078 | 104 369 | 103 487 | 119 759 |
| Bilateral grants and grant-like flows | 33 925 | 50 888 | 57 246 | 83 432 | 79 443 | 75 326 | 86 436 |
| ***of which***: | | | | | | | |
| Technical co-operation | 13 515 | 18 352 | 18 672 | 20 732 | 22 242 | 14 779 | 15 306 |
| Humanitarian aid | 1 783 | 4 360 | 5 193 | 7 121 | 6 751 | 6 278 | 8 568 |
| Debt forgiveness | 3 260 | 8 317 | 7 134 | 24 999 | 18 600 | 9 624 | .. |
| Bilateral loans | 1 818 | -1 153 | -2 942 | -1 008 | -2 531 | -2 437 | -1 265 |
| Contributions to multilateral institutions[a] | 16 286 | 19 330 | 25 127 | 24 653 | 27 457 | 30 598 | 34 572 |
| | **Share of total net flows** *(percentage)* | | | | | | |
| **Official Development Assistance** | 27 | 55 | 50 | 35 | 34 | 23 | .. |
| Bilateral grants and grant-like flows | 18 | 41 | 36 | 28 | 26 | 17 | .. |
| ***of which:*** | | | | | | | |
| Technical co-operation | 7 | 15 | 12 | 7 | | 3 | .. |
| Humanitarian aid | 1 | 3 | 3 | 2 | 2 | 1 | .. |
| Debt forgiveness | 2 | 7 | 4 | 8 | 6 | 2 | .. |
| Bilateral loans | 1 | -1 | -2 | 0 | -1 | -1 | .. |
| Contributions to multilateral institutions[a] | 9 | 15 | 16 | 8 | 9 | 7 | .. |

**Source**: UN/DESA, based on OECD, *The DAC Journal of Development Co-operation Report 2008* and DAC online database, available at http://www.oecd.org/dac/stats/idsonline.

**a** Grants and capital subscriptions. Does not include concessional lending to multilateral agencies.

Table A.21
**Commitments and net flows of financial resources, by selected multilateral institutions, 1999-2008**

| Millions of dollars | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Resource commitments[a]** | **65 568** | **63 085** | **72 177** | **95 292** | **67 593** | **55 895** | **71 712** | **64 738** | **74 493** | **135 247** |
| Financial institutions, excluding IMF | 42 770 | 36 882 | 41 787 | 38 523 | 43 053 | 45 678 | 51 385 | 55 700 | 66 620 | 76 074 |
| Regional development banks[b] | 19 437 | 16 235 | 19 349 | 16 751 | 20 393 | 21 468 | 23 039 | 23 088 | 31 330 | 36 119 |
| World Bank Group[c] | 22 899 | 20 238 | 22 004 | 21 382 | 22 230 | 23 743 | 27 677 | 31 901 | 34 691 | 39 352 |
| International Bank for Reconstruction and Development (IBRD) | 13 789 | 10 699 | 11 709 | 10 176 | 10 572 | 10 792 | 13 611 | 14 195 | 12 829 | 13 468 |
| International Development Association (IDA) | 5 691 | 5 861 | 6 859 | 8 040 | 7 550 | 8 387 | 8 696 | 9 506 | 11 867 | 11 235 |
| International Financial Corporation (IFC) | 3 419 | 3 678 | 3 436 | 3 166 | 4 108 | 4 564 | 5 370 | 8 200 | 9 995 | 14 649 |
| International Fund for Agricultural Development (IFAD) | 434 | 409 | 434 | 390 | 430 | 467 | 669 | 711 | 599 | 602 |
| IMF (billions of dollars) | 19 | 22 | 26 | 52 | 18 | 3 | 13 | 1 | 2 | 49 |
| United Nations operational agencies[d] | 4 198 | 3 803 | 4 690 | 4 569 | 6 740 | 7 617 | 7 708 | 8 345 | 6 255 | 10 481 |
| **Net flows** | **-7 450** | **-10 859** | **14 931** | **2 001** | **-11 655** | **-20 235** | **-39 609** | **-25 864** | **-6 772** | **40 733** |
| Financial institutions, excluding IMF | 5 150 | -59 | 1 431 | -11 199 | -14 755 | -10 235 | 835 | 5 208 | -11 403 | 21 824 |
| Regional development banks[b] | 4 229 | 327 | 1 696 | -3 904 | -8 025 | -6 570 | -1 668 | 2 965 | 5 940 | 21 174 |
| World Bank Group[c] | 921 | -386 | -265 | -7 295 | -6 730 | -3 665 | 2 503 | 2 243 | 5 463 | 650 |
| International Bank for Reconstruction and Development (IBRD) | -3 019 | -4079 | -4 570 | -12 126 | -11 241 | -8 930 | -2 898 | -5 087 | -1 767 | -6 176 |
| International Development Association (IDA) | 3 940 | 3 693 | 4 432 | 4 831 | 4 511 | 5 265 | 5 401 | 7 330 | 7 230 | 6 826 |
| IMF (billions of dollars) | -13 | -11 | 14 | 13 | 3 | -10 | -40 | -31 | -18 | 19 |
| ***Memorandum item:*** *(in units of 2000 purchasing power)[e]* | | | | | | | | | | |
| Resource commitments | 62 446 | 63 085 | 73 650 | 97 237 | 62 586 | 47 774 | 59 760 | 54 863 | 56 010 | 97 300 |
| Net flows | -7 095 | -10 859 | 15 236 | 2 042 | -10 792 | -17 295 | -33 008 | -21 919 | -5 091 | 29 304 |

**Sources:** Annual reports of the relevant multilateral institutions, various issues.

**a** Loans, grants, technical assistance and equity participation, as appropriate; all data are on a calendar-year basis.

**b** African Development Bank (AfDB), Asian Development Bank (ADB), Caribbean Development Bank (CDB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IaDB) (including Inter-American Investment Corporation (IaIC)) and the International Fund for Agricultural Development (IFAD).

**c** Data is for the fiscal year.

**d** United Nations Development Program (UNDP), United Nations Population Fund (UNFPA), United Nations Children's Fund (UNICEF), and the World Food Programme (WFP).

**e** Totals deflated by the United Nations index of manufactured export prices (in dollars) of developed economies: 2000=100.

Table A.22
**Greenhouse gas emissions[a] of Annex 1 Parties to the United Nations Framework Convention on Climate Change, 1990-2010**

Teragram $CO_2$ equivalent

| | *1990* | *2000* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008[b]* | *2009[b]* | *2010[c]* | *Annual growth rate 1990-2010* | *Cumulative change between 1990 and 2010* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 416 | 495 | 516 | 522 | 525 | 534 | 541 | 541 | 532 | 526 | 1.2 | 26.5 |
| Austria | 79 | 81 | 93 | 92 | 93 | 92 | 88 | 87 | 79 | 78 | -0.1 | -1.5 |
| Belarus | 129 | 71 | 71 | 76 | 77 | 81 | 80 | 78 | 69 | 62 | -3.6 | -51.6 |
| Belgium | 143 | 145 | 146 | 146 | 142 | 137 | 131 | 129 | 120 | 117 | -1.0 | -18.2 |
| Bulgaria | 118 | 69 | 72 | 71 | 71 | 72 | 76 | 78 | 68 | 65 | -2.9 | -44.3 |
| Canada | 592 | 717 | 741 | 741 | 731 | 718 | 747 | 751 | 700 | 703 | 0.9 | 18.7 |
| Croatia | 31 | 26 | 30 | 30 | 30 | 31 | 32 | 33 | 31 | 30 | -0.2 | -3.8 |
| Czech Republic | 195 | 147 | 146 | 147 | 146 | 149 | 151 | 155 | 147 | 144 | -1.5 | -25.9 |
| Denmark | 70 | 69 | 75 | 69 | 65 | 72 | 68 | 63 | 58 | 55 | -1.2 | -21.2 |
| Estonia | 42 | 18 | 20 | 20 | 20 | 19 | 22 | 15 | 13 | 10 | -6.8 | -75.7 |
| Finland | 71 | 70 | 85 | 80 | 69 | 80 | 78 | 74 | 69 | 67 | -0.3 | -5.2 |
| France | 565 | 561 | 556 | 556 | 558 | 546 | 536 | 524 | 496 | 483 | -0.8 | -14.6 |
| Germany | 1 215 | 1 008 | 1 007 | 997 | 969 | 980 | 956 | 924 | 844 | 817 | -2.0 | -32.8 |
| Greece | 106 | 127 | 131 | 131 | 132 | 128 | 132 | 131 | 130 | 127 | 0.9 | 19.8 |
| Hungary | 99 | 78 | 81 | 80 | 80 | 79 | 76 | 74 | 66 | 63 | -2.2 | -36.4 |
| Iceland | 3 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 0.7 | 14.1 |
| Ireland | 55 | 69 | 69 | 69 | 70 | 70 | 69 | 62 | 52 | 46 | -1.0 | -17.7 |
| Italy | 516 | 550 | 570 | 574 | 574 | 563 | 553 | 545 | 511 | 507 | -0.1 | -1.9 |
| Japan | 1 270 | 1 346 | 1 360 | 1 355 | 1 358 | 1 342 | 1 374 | 1 355 | 1 263 | 1 261 | 0.0 | -0.7 |
| Latvia | 27 | 10 | 11 | 11 | 11 | 12 | 12 | 10 | 7 | 6 | -7.2 | -77.5 |
| Liechtenstein | — | — | — | — | — | — | — | — | — | — | 0.9 | 20.7 |
| Lithuania | 49 | 19 | 21 | 22 | 23 | 23 | 25 | 23 | 17 | 16 | -5.4 | -67.1 |
| Luxembourg | 13 | 10 | 12 | 13 | 13 | 13 | 13 | 12 | 10 | 10 | -1.6 | -27.2 |
| Monaco | — | — | — | — | — | — | — | — | — | — | -1.0 | -18.0 |
| Netherlands | 212 | 214 | 217 | 218 | 212 | 209 | 208 | 200 | 184 | 177 | -0.9 | -16.6 |
| New Zealand | 62 | 71 | 76 | 75 | 77 | 78 | 76 | 74 | 72 | 72 | 0.8 | 17.0 |
| Norway | 50 | 53 | 54 | 55 | 54 | 53 | 55 | 55 | 53 | 53 | 0.3 | 5.8 |
| Poland | 459 | 389 | 384 | 384 | 387 | 399 | 399 | 388 | 363 | 344 | -1.4 | -25.2 |
| Portugal | 59 | 82 | 84 | 86 | 89 | 85 | 82 | 85 | 84 | 84 | 1.8 | 41.7 |
| Romania | 243 | 136 | 154 | 155 | 149 | 154 | 152 | 153 | 133 | 125 | -3.3 | -48.7 |
| Russian Federation | 3 319 | 2 030 | 2 098 | 2 113 | 2 118 | 2 186 | 2 193 | 2 218 | 1 987 | 1 939 | -2.7 | -41.6 |
| Slovakia | 73 | 48 | 50 | 50 | 49 | 49 | 47 | 43 | 35 | 30 | -4.4 | -59.6 |
| Slovenia | 19 | 19 | 20 | 20 | 20 | 21 | 21 | 21 | 20 | 20 | 0.3 | 7.0 |
| Spain | 288 | 386 | 410 | 426 | 441 | 433 | 442 | 455 | 436 | 430 | 2.0 | 49.4 |
| Sweden | 72 | 68 | 70 | 70 | 67 | 67 | 65 | 63 | 58 | 56 | -1.2 | -22.1 |

Table A.22 (cont'd)

| | *1990* | *2000* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008*[b] | *2009*[b] | *2010*[c] | *Annual growth rate 1990-2010* | *Cumulative change between 1990 and 2010* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Switzerland | 53 | 52 | 52 | 53 | 54 | 53 | 51 | 51 | 49 | 47 | -0.5 | -10.0 |
| Turkey | 170 | 280 | 286 | 297 | 312 | 333 | 373 | 380 | 358 | 366 | 3.9 | 115.0 |
| Ukraine | 926 | 390 | 411 | 411 | 418 | 437 | 436 | 443 | 370 | 364 | -4.6 | -60.7 |
| United Kingdom | 774 | 677 | 664 | 662 | 656 | 651 | 640 | 604 | 541 | 500 | -2.2 | -35.4 |
| United States | 6 084 | 6 975 | 6 957 | 7 047 | 7 082 | 7 006 | 7 107 | 6 962 | 6 638 | 6 612 | 0.4 | 8.7 |
| **All Annex 1 Parties** | **18 670** | **17 560** | **17 804** | **17 928** | **17 947** | **17 959** | **18 112** | **17 861** | **16 666** | **16 415** | **-0.6** | **-12.1** |

**Source**: UN/DESA, based on data of the United Nations Framework Convention on Climate Change (UNFCCC) online database available at http://unfccc.int/ghg_emissions_data/ghg_data_from_unfccc/time_series_annex_i/items/3814.php.

**Note**: Based on the historical data provided by the UNFCCC for the GHG emissions of the Annex 1 Parties up to 2007, DESA/DPAD extrapolated the data to 2010. The extrapolation is based on the following procedure:

- GHG/GDP intensity for each country is modelled using time-series regression techniques, to reflect the historical trend of GHG/GDP. While the trend for each individual country would usually be a complex function of such factors as change in structure of the economy, technology change, emission mitigation measures, as well as other economic and environmental policies, the time-series modelling could be considered a reduced form of a more complex structural modelling for the relations between economic output and GHG emissions.
- GHG/GDP intensity for each country is extrapolated for the out-of-sample period (i.e., 2008-2010), using parameters derived from the time-series regression model.
- In some cases, the extrapolated GHG/GDP intensity for individual countries was adjusted to take account of announced emission control measures taken by Governments.
- The projected GHG emissions were arrived at using GDP estimates in accordance with the *World Economic Situation and Prospects 2010* baseline forecast and the extrapolated GHG/GDP intensity.

**a** Without land use, land-use change and forestry.
**b** Estimated.
**c** Baseline scenario forecasts.

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