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THE WORLD ECONOMY AT THE START OF 1995: WORLD RECOVERY SPREADS, AND INFLATION FALLS, BUT WITH UNEMPLOYMENT PROBLEMS LEFT IN THEIR WAKE*

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* This note is based on information available to the United Nations Secretariat as of 5 December 1994 and incorporates information received from the regional commissions, the Food and Agriculture Organization of the United Nations and the United Nations Conference on Trade and Development. Forecasts included in this report are based on exercises run on an interlinked set of large-scale models covering over 70 countries that are maintained by the International Research Group of Econometric Model Builders (Project LINK), headquartered in the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat (UN/DESIPA).

Forecasts are rounded to the nearest quarter percentage point in the tables and text and shown as fractions; estimates of current and past performance are rounded to the nearest tenth of a percentage point and shown as decimals.

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I. EXECUTIVE SUMMARY

1. The world economy begins 1995 in a broad expansion whose strength and depth have continued to surprise observers. The number of countries that have seen strong or accelerating economic growth has increased and their demand for imports has provided a significant stimulus to many of their trading partners. Yet, economic performance remains uneven, with per capita output still not rising in most of Africa and production undergoing large outright contractions in many transition economies.

2. Investment has begun to respond to the more buoyant situation and become a significant new source of demand in several countries, while promising additional growth in capacity and productivity in the years ahead. Moreover, the degree of inflation that is being observed is generally lower than that typically associated with current rates of growth of output or the present position in the business cycle.

3. On the policy front, as outright fiscal stimuli were not applied for the most part to boosting economies out of a recession, the pause in the reduction of the fiscal deficits caused by the recession is being widely seen as only that - a pause. In most countries, new rounds of fiscal consolidation seem to have prominent places in the policy agenda. Monetary policy in the major currency countries has turned largely from concern about recession to fear of prospective inflation; but, more generally, a prudent monetary stance is again the overwhelming preference of policy makers.

4. There is thus a broad convergence in macroeconomic policy stances around the world; however, there are economic and social challenges to which these policies are not expected to provide a solution. In particular, the unemployment and underemployment problems that had been severe even before the recession began will not be eliminated during the expansionary phase of the world cycle. In other words, although the recovery is reducing aggregate unemployment rates, it will still leave major employment problems in its wake in many developed, developing and transition economies.

Key features of the global economic panorama

5. The world is entering the second half of the 1990s with the decade’s strongest economic performance thus far. The 2.2 per cent growth of gross world product estimated for 1994 and the 3 per cent forecast for 1995 mean that the world has begun to pull away from the recession-dominated growth rates of the earlier 1990s (see table). 1/ The growth of world trade has also risen: there was 7 per cent growth in 1994, and the fact that such growth is likely to be repeated in 1995 would mean the return of the growth of trade to a dynamism not seen since the late 1980s (see annex table A.7).

Growth of the world economy, 1981-1995
(Annual percentage change)

	1981-1990	1991	1992	1993	1994	1995
World output	2.8	0.4	0.7	1.2	2.2	3
Developed market economies	2.8	0.8	1.5	1.1	2.6	2¾
Economies in transition	2.0	-8.8	-15.6	-8.6	-10.3 a/	-5 a/
Developing countries	3.1	3.4	4.9	5.1	4.8	5½
Of which						
Least developed countries	2.0	1.3	3.1	2.9	3.3	4
World trade b/	4.6	5.1	6.0	3.9	7.1	7
Memo items						
World output per capita	1.0	-1.2	-0.8	-0.4	0.7	1¼
World output weighted at PPP exchange rates c/	3.3	1.4	2.5	3.1	3.8	4¼

Source: UN/DESIPA.

Note: Data for 1994 are preliminary estimates and for 1995 forecasts, based on Project LINK.

a/ Estimate for 1994 is based on official data, which for the successor States of the former Union of Soviet Socialist Republics (USSR), in particular, report a much greater decline in gross domestic product (GDP) than is believed to have taken place. The forecast for 1995 assumes continuation of existing national accounting practices and thus should also be interpreted as a lower bound on actually expected performance.

b/ Average rate of growth of the volume of world exports and imports, excluding exports of transition economies (owing to insufficient information about their trade in recent years).

c/ In the light of the different opinions in the economics profession on the best ways to compare the size of national economies, the growth of world output is shown here using an alternative measure of relative size, one based on purchasing power parities (PPP) instead of exchange rates, as per the Penn World Tables, Mark 5.5.

6. The accelerating growth of the world economy largely reflects the spread of business-cycle recovery to an increasing number of the industrialized economies. Economic growth in the developing countries has continued to be strong at about 5 per cent and has become more widespread, while in many of the countries that are in transition from centrally planned to market economies, either the sharp contraction of economic activity is easing or output has begun to increase once again.

7. Recovery is not yet shared by all countries. Gross domestic product (GDP) may still be contracting in aggregate in the transition economies, as the table indicates, 2/ and it is falling as well in the countries that are in the midst of armed conflict. The overall growth rate of the 47 "least developed" countries - mostly in Africa - continues to be lower than the average of the developing countries, although this difference has diminished slightly, owing mainly to increasing dynamism in the Asian economies in the grouping.

8. There has been considerable progress on the inflation front. In most developing and transition economies, inflation rates have fallen, in some cases quite dramatically. In the industrialized economies, the recovery has thus far been accompanied by low and decelerating inflation. The rate of increase in consumer prices for the group as a whole is likely to be about the same in 1995 (forecast at 2½ per cent) as in 1994 (estimated at 2.3 per cent), and this is still about the lowest aggregate inflation rate in almost a decade. Although increases in the yields on bonds and other financial instruments during 1994 suggested a deep-seated nervousness about inflation prospects in the financial markets, the preponderance of the evidence points to at most a small increase in inflation over the year in 1995. Indeed, the annual increases in consumer prices in the seven major industrialized countries forecast for 1995 range from ½ per cent in Japan to under 4 per cent in Italy (see annex table A.4). 3/

9. Policy analysts around the world have become more sensitive to the need to gain and keep control over inflation and Governments have been increasingly successful in doing so. Thus, the monetary authorities in most recovering industrialized economies are focusing on holding back the growth of demand in order not to start off new inflationary cycles which, once under way, are so costly to rein in. Similarly, budgetary authorities are generally focusing on reducing government deficits.

10. Policy makers have also sought to boost the growth of productivity, both to hold down increases in production costs - and thus inflation - and to raise the growth of national income. A major strategy in recent years has been to stimulate competition through liberalization and privatization. Enterprises in many parts of the world seem to be rising to the competitive challenge, as private investment is on the increase, reflecting as well a renewed confidence in economic prospects.

11. An additional boost to that confidence was recently provided when the ratification process for the agreements under the Uruguay Round of multilateral trade negotiations began to pick up steam with the approval of the trade accord by the Congress of the United States of America. Governments are thereby increasingly accepting the challenge of reducing the barriers to foreign

competition in their home markets in order to become more productive and have a better opportunity to compete in foreign markets.

12. Trade remains, however, a politically sensitive subject in most countries. Much remains to be negotiated at the multilateral level and myriad individual disputes will surely arise and need to be settled according to agreed and enforceable "rules of the game". It is therefore especially important that the World Trade Organization as envisaged in the Uruguay Round Agreement Establishing the World Trade Organization come into being on 1 January 1995.

13. For those who participate successfully in the new dynamics of the world economy, the prospects are quite encouraging. However, as is underlined by the persistent low growth of output in Africa (see annex table A.6), many national economies have yet to take part. Moreover, it appears that significant groups of people - in particular, large numbers of the unemployed - have yet to be included, even in the countries where per capita incomes have been rising.

II. THE LIMITED EMPLOYMENT GAINS OF WORLD ECONOMIC RECOVERY

14. Among the industrialized countries, those that entered the cyclic upturn earliest have, naturally, made the greatest progress in reducing unemployment. By 1995, all the major economies (except Japan, which started its recovery in the second half of 1994) are expected to see a decline in their unemployment rate (see annex table A.3). Declining unemployment rates are also expected in the smaller industrialized economies, with the exception of Greece, Ireland, Portugal and Spain. Typically, there is a lag between the start of recovery and the beginning of the fall of the unemployment rate; but in the present cycle, as the recovery was unusually slow or halting in some countries, employment gains have taken an unusually long time to manifest themselves.

15. Even with these and subsequent improvements in aggregate employment rates, however, substantial unemployment problems of a structural nature will remain. In the United States, for example, the share of temporary lay-offs in total job losses has been falling for over 25 years, meaning that search for a new job has been increasingly necessary for re-employment. Such a search can be an uncertain and anxiety-producing prospect. In the present recovery, low- and semi-skilled workers - especially older male workers - appear to have had relatively greater difficulty in being reabsorbed into regular, full-time employment comparable with their previous jobs. One reason is the increasing mismatch between existing skills and new job needs. In addition, the unemployment rates of various social groups continue to differ markedly. The proportion of members of disadvantaged minority groups, especially males, who drop out of the labour force permanently has also been rising. Even when employed, the individuals from disadvantaged groups tend to be represented disproportionately in job categories whose members have lower-level skills, receive lower earnings and are more unemployment-prone.

16. Structural unemployment has also been a major concern in Europe; and it is a nascent one in Japan. Despite growth of output of 2.4 per cent in 1994 and 3 per cent in 1995, the unemployment rate in the European Union (EU) as a whole is forecast to be only half a percentage point lower in 1995 than the peak rate

of 11.2 per cent in 1994 (see annex table A.3). In Japan, which has a "lifetime employment" tradition that is unique among the developed market economies, the present rate of unemployment (3 per cent) is higher than the average of the previous 15 years (2.5 per cent). Indeed, between 1953 and July 1994 there had been only three months in which the Japanese unemployment rate reached 3 per cent. Given the substantial corporate restructuring under way in Japan, the unemployment rate is, even with continuing economic recovery, expected to remain at 3 per cent for several years.

17. Unemployment has come to constitute a major dimension of the structural transformation in the transition economies. In many of the successor States of the Soviet Union in particular, open unemployment is expected to mushroom. It has already grown rapidly in eastern Europe. By the summer of 1994, unemployment rates reached 11 per cent in Hungary, almost 15 per cent in Slovakia and 17 per cent in Poland, as large-scale enterprises have been shedding excess labour that in earlier periods would have been retained on the payrolls. This is because the very nature of enterprises, which under central planning constituted social institutions as well as economic entities, is being transformed as these countries move to the market-economy model, under which such enterprises seek economic returns more exclusively. In the transition period, however, enterprises still provide much of the social safety net that in developed market economies is provided by the Government; thus the disconnection of workers from their enterprises through open unemployment has entailed a relatively high social cost.

18. Even though the growth of output has accelerated in Latin America and the Caribbean, it is still not fast enough in most countries to provide numbers of full-time jobs in the "formal" (largely urban) economy sufficient both to absorb the increments to the labour force and to reduce the number of unemployed - this despite the fact that open unemployment rates in some Latin American countries have fallen significantly from their peaks in the mid-1980s. The problem is that the number remaining in the pool of unemployed and underemployed is still unacceptably high and the social safety valve (and a source of foreign exchange remittances) for many Latin American and Caribbean countries - migration, whether legal or illegal, to the industrialized countries - less and less assured.

19. In much of Africa, where the social safety net is mainly provided by families that have themselves limited resources to share, open unemployment is especially burdensome. In almost all countries, the number of job opportunities is far below that which would be adequate to employ the full labour force, and prospects for migrating to the industrialized countries or the oil-exporting countries of the Persian Gulf are no longer encouraging. Absorption of Africa’s unemployed into appropriately productive jobs is thus difficult to envisage except in the context of a more rapid and sustained rate of economic growth in the region, which is not yet on the horizon.

20. In many parts of Asia and the Pacific, unemployment and underemployment are also major concerns. However, unemployment is a less salient issue in the region’s newly industrialized economies (NIEs). Indeed, the experience of those economies underlines the vital importance of sustained economic growth for reducing unemployment, as their GDP per capita grew 5.4 per cent a year on

average in the first half of the 1990s. 4/ In 1995, when the growth of output in Africa and Latin America is forecast to be the highest in a decade, GDP per capita is expected to rise not even half a per cent in Africa and to grow less than 2 per cent in Latin America. 5/

21. Bringing about a faster, yet sustainable, trend in the rate of growth of GDP in slowly growing economies is perhaps the major economic policy challenge that Governments face, especially in the developing and transition economies. It potentially entails a full panoply of structural and institutional reforms, not to mention macroeconomic stabilization, and the investment of substantial portions of the increments of GDP once growth accelerates, including in infrastructure and other areas usually falling within the domain of the public sector. It also entails a supportive international environment in regard to export opportunities and access to foreign capital inflows on terms that are appropriate to the debt-carrying capacity of each economy.

22. However - as is underlined by the situation in some of the industrialized countries - adequate reduction of unemployment also requires policies specifically aimed at improving the functioning of labour markets and equipping workers with the appropriate skills and education to compete in a rapidly evolving world economy. Thus, reaching full employment is seen as falling only partially within the scope of overall economic management. 6/

23. There is a danger, moreover, that the macroeconomic imperatives of overall policy could inadvertently hamper the adoption of appropriate employment-enhancing policies. Owing to the fact that macroeconomic policy is increasingly being seen as requiring cuts in government expenditures for the purpose of achieving a sustainable budget position and allowing a reduction in the tax burden on households and enterprises. While some employment-enhancing policies need not have budgetary implications, it is in the nature of others, particularly investments in labour, to have them.

24. From one perspective, the expenditures in question entail "social policy": an effort to improve national equity by preventing a significant part of the population from being excluded from economic development. From another perspective, such expenditures would constitute crucial investments in national productivity - and thus long-run capacity for economic growth itself - hence it would be self-defeating to fund them inadequately.

III. STRENGTH OF INTERNATIONAL TRADE AND COMMODITY PRICES

25. The stronger growth of world output - and thus real income - in 1994 and as forecast for 1995 is bringing about a higher growth in the demand for imports. The import volume of the industrialized countries rose 6 per cent in 1994 and a similar rate of increase is forecast for 1995 (see annex table A.7). The developing countries, which account for less than 30 per cent of world trade, include the most dynamic trading nations in the world, both as suppliers and as purchasers. On the strength of those economies' performance, the volume of total developing-country imports rose an estimated 11.5 per cent in 1994 and is forecast to rise 9 per cent in 1995.

26. A more dynamic world economy also helped animate international commodity markets in 1994. In the second half of 1993, the index of non-oil commodity prices (weighted by developing-country export shares) began to recover from a long downward trend. By the third quarter of 1994, the index had risen 21 per cent above that of the same period the year before (see annex table A.8). The index reflects changes measured in dollars, whose purchasing power fluctuates in international currency markets. A "real" variant of the index, in which prices are measured in terms of a basket of the manufactured exports of the developed market economies, shows that by the third quarter of 1994 real prices had regained their level at the beginning of 1990.

27. The rise in prices in 1994 has been broad-based, with some very dramatic surges in individual commodities, such as coffee, copper and aluminium. Other factors also helped raise prices, including shortfalls in production and, in some cases, producer restraints on supply. In addition, it appears that speculators were increasingly attracted to certain commodity markets and helped push up prices in those markets. One attraction was that many equity markets were considered overvalued, and prices of equity shares indeed fell in most major stock markets during the year.

28. Commodity prices are expected to remain firm in 1995, although generally not to rise by more than an additional 2 per cent. The higher prices are encouraging new investment in capacity expansion. In the cases of cocoa and coffee, for example, the sharply higher prices are stimulating rehabilitation of producing trees, in particular in certain African countries where they were neglected and in some cases uprooted owing to the earlier low prices. By adding to global supply, however, this may hasten the day when prices move back down.

29. In contrast to non-fuel prices, crude petroleum prices continued to fall in early 1994, although they began to strengthen in the second quarter of the year (see annex table A.8). A relatively high demand for oil and other energy sources around the world, combined with some production disruptions caused by a strike of Nigerian oil workers, triggered the rise in prices. However, higher oil exports from the successor States of the Union of Soviet Socialist Republics and increased North Sea supplies attenuated the rise in prices by the third quarter. For 1994 as a whole, the price of crude oil is estimated to have been $15.5 per barrel, a figure representing a decline of 5 per cent from 1993.

30. If Iraq were to remain barred from exporting oil, then in view of the relatively strong world economic recovery, world oil supply in 1995 would be nearly in balance with demand. Under such circumstances, oil prices would be expected to rise to about $17-$18 a barrel, especially if the Organization of Petroleum Exporting Countries (OPEC) maintained its production ceiling in the face of rising demand. Nevertheless, warmer weather as well as the prospects of further gains in non-OPEC oil production may neutralize the Organization's latest decision to freeze production for one year in order to raise sagging prices.

IV. THE WORLD ECONOMIC SITUATION AND OUTLOOK

31. Since 1992, the world economy has been gradually climbing out of the trough in the economic cycle. If the forecast in the table is realized, output growth will accelerate in 1995 for the fourth consecutive year, and this would be quite unusual. The question is whether a more measured growth path of this kind will mark the long-sought beginning of a more sustainable and sustained rate of world economic growth. World output, in any event, is the sum of economic activities in the world's many countries and the range of economic situations remains quite wide.

A. Developed market economies

32. The economic recovery in the developed market economies appears to have become increasingly solid, albeit slower than in the recovery years of earlier cycles. This expansion will not be accompanied by the large and increasing payments imbalances that came with the 1984 upsurge or the rapid inflation of asset prices that was associated with the 1988 spurt in growth.

33. Continental Western Europe has begun the second year of its moderate upswing, while Australia, Canada, New Zealand, the United Kingdom of Great Britain and Northern Ireland and the United States of America - countries at least two years ahead in the business cycle - are still growing strongly (see annex table A.1). The acceleration of growth that is forecast for 1995 comes despite an expected slowing of economic growth in the United States, as it is anticipated that most European growth rates will rise significantly. Japan remains the only major industrialized country still lagging behind; its economy is past the trough of recession, but is not yet into a strong rebound (see annex table A.2).

34. The economy of the United States advanced in 1994 at a brisk pace of nearly 4 per cent, with the unemployment rate dropping below 6 per cent in the latter part of the year. A jump in inventories in the second quarter of 1994 - then interpreted as a sign of a coming slow-down - was actually a return to a more normal relation of inventory to sales as businesses became more confident that the recovery would be sustained. The inventory build-up continued at almost as fast a pace in the third quarter, while factory output and business sales remained strong. Despite the persistent strength in economic activity, indicators for the fourth quarter suggest that inflation remains subdued.

35. Steady United States economic growth in 1994 was led by business investment in equipment. Indeed, thus far equipment spending in the current recovery is growing more rapidly relative to GDP than it did in each of the four previous recoveries. Rapid growth in investment has boosted the expansion in manufacturing capacity, and manufacturing productivity has been growing at an annual rate of about 5 per cent. Strong momentum in business investment, and a likely further advance in other consumer expenditures in response to favourable gains in employment and income, as well as rising exports suggest that the United States economy is still strong as it moves into 1995, although a slowing is expected during the year, as both interest-sensitive expenditures (such as

housing) slow and the apparent backlog of expenditures on consumer durables of the past few years is worked down.

36. In both Australia and Canada, despite high interest rates, GDP is forecast to grow about 4 per cent in 1995, which would represent a slight slowing from the pace of recovery in 1994. In Canada, growth is expected to be led by business investment and exports, while the Australian economy is likely to benefit most from a strong growth in consumer spending and a recovery in business investment. Unemployment continues to decline in both countries, with consumer price inflation staying at low levels.

37. The Japanese economy has finally embarked on its recovery, albeit slowly. Thus far, the level of economic activity has been supported by private consumption, private residential investment and public spending. However, despite the recently announced revision of the 10-year programme, the growth of public investment is likely to slow in 1995 and the growth in residential investment, which is now at a very high level, may slow too. At the same time, business investment is still subdued. After three consecutive years of decline, however, business investment is expected to rise slightly in 1995. As for the external sector, although export growth will be aided by strong growth of foreign demand, imports are likely to grow faster than exports owing to the strong yen, leaving a negligible or even negative net contribution of the external sector to GDP growth. The projected growth in consumption, the remaining major source of aggregate demand, would hardly be sufficient to ignite any other parts of the economy. Thus, the recovery is expected to produce a growth of GDP of little more than 2 per cent in 1995.

38. All economies of Western Europe are now expanding, with the United Kingdom remaining ahead of the other economies in its rebound. The engine of British recovery over the past two years has been consumer spending, but the current growth is becoming more investment- and export-driven, as is broadly the case elsewhere, while the consumption rate is slowing. Total United Kingdom output grew in 1994 at its fastest rate in six years, while inflation is at a 27-year low and strong growth in the economy is likely to continue in 1995. The improved levels of economic activity have been translated into substantial gains in employment, and a further decline in the rate of unemployment is expected in 1995 (see annex table A.3).

39. On the European continent, the recovery took hold earlier than expected owing to an unanticipated boost from exports, while domestic sources of demand, especially private consumption, have lagged. The growth in exports to eastern Europe, the United States, Japan and other Asian economies has been especially rapid. As 1994 ended, however, there were some signs that the composition of growth might be changing in several countries. Since the second quarter of 1994, domestic demand in Italy became increasingly the engine of its growth, as consumer confidence improved, encouraging business to build up stocks and invest in new machinery. Similarly, private consumption in France has strengthened recently, while business investment is gradually increasing. Investment by the business sector in 1995 is forecast to constitute the strongest component of French demand.

40. In the case of Germany, exports accounted for roughly half of the economic growth in the western part of the country in 1994. Exports will continue to boost the economy in 1995, but domestic demand is likely to become a more important source of growth. The corporate sector already began to increase capital spending in the fourth quarter of 1994, and this is expected to accelerate into 1995. However, given the rate of utilization of the sizeable capital stock inherited from the late-1980s boom, only moderate increases in investment are expected. Consumption can be expected to remain sluggish owing both to higher taxes and to the likelihood that the 1995 round of collective bargaining agreements will lead to only moderate wage increases. Overall German growth in 1995, however, is forecast to continue to be boosted by the strong recovery in the eastern Länder (provinces) where output is expected to continue to grow by at least 8 per cent.

Macroeconomic policy stance

41. With recovery now clearly under way and inflation down to unusually low rates, policy makers in the developed market economies have turned their attention to maximizing the chances of a period of sustained low inflation combined with significant growth. The major policy objective has thus become to prevent higher inflation from taking hold by anticipating inflationary forces. Therefore, monetary policy is being tightened well before higher inflation shows itself in the standard price indices. Consequently, monetary policy has begun moving away from an accommodative stance, with the transition generally being led by the countries furthest ahead in their business cycles. At the same time, most countries are seeking to reduce structural budget deficits.

42. Indeed, since February 1994, the Federal Reserve Board of the United States has been trying to slow the growth of aggregate spending in the United States. Accordingly, from February through November 1994, the federal-funds rate (the interest rate at which banks lend money to each other overnight to meet minimum reserve requirements) was raised in several steps from 3.0 to 5.5 per cent, while the discount rate at which banks borrow from the Federal Reserve was increased 1.75 percentage points to 4.75 per cent. These moves were followed by those of the commercial banks, which lifted their prime lending rates from 6.0 to 8.5 per cent in the course of these nine months.

43. This was clearly a pre-emptive strike, as the United States consumer price index in October 1994 was only 2.6 per cent above that one year before. The producer price index rose by only 1 per cent in the same period.

44. The above notwithstanding, there are indications that overall prices might be poised to rise more rapidly in 1995. For example, there have been increases in industrial commodity prices which normally precede an upturn in inflation. Furthermore, there has been a rather strong expansion of lending and rapid job creation, and the industrial capacity utilization rate has topped that recorded at the peak of the last business cycle.

45. The inflationary implications of the latter statistics are difficult to gauge, however, because, as mentioned above, productive capacity is growing strongly. Indeed, capacity grew more than 3 per cent in 1994, as compared with

1 per cent in 1991 and 1992 and about 2 per cent in 1993. If the current trend in business investment is maintained, capacity is likely to grow about 4.5 per cent in 1995. At the same time, the increase in unit labour costs, by far the largest component of total costs, remains modest (this despite some renewed growth in wages), as output per worker has been rising substantially. One measure of productivity growth is the gain in output per worker from one cyclic peak to the next. By this measure, labour productivity has already surpassed the gains in the previous two cycles and the new peak has not yet been reached.

46. Despite interest rate increases, the United States economy has not yet shown signs of slowing. It is worth noting, however, that until the rate rise of 15 November 1994, the real interest rate on federal funds remained below the average of the past three decades, which had been 2 per cent. That is, monetary policy was relatively loose and is only now tightening. As it takes at least six months for the economy to start to feel the impact of interest rate changes, the consequences of this year’s rate hikes may still lie in the future. The major challenge will be to steer the economy without causing a business contraction, an especially difficult target since fiscal consolidation remains a major objective of the federal Government.

47. Pre-emptive tightening of monetary policy has also been initiated in Australia and the United Kingdom. Since August 1994, the Reserve Bank of Australia has raised its key cash rate 1.75 percentage points. On 12 September 1994, the Bank of England raised its base rate half a percentage point to 5.75 per cent, in the first rate rise since October 1989. The economies of both countries are growing strongly, while there are still no clear signs of an inflation upsurge. Nevertheless, these actions may only be the start of a series of monetary tightening moves in the current economic cycle. Meanwhile in Canada, the downward pressure on the Canadian dollar caused by United States monetary tightening as well as by investor concerns over external debt and budget deficits forced the Bank of Canada to raise short-term interest rates sharply despite negligible inflation.

48. In Japan, additional government spending, tax cuts and expansionary monetary policy appeared to have supported the economy through the most critical phases of the recession. With recovery now under way, the bulk of the fiscal stimulus is probably over and no new initiatives are expected in the coming year, although the earlier tax reduction has been extended for two years. At the same time, the Bank of Japan has allowed short-term interest rates to edge up, and this gradual move, which began in July 1994, is likely to continue. Yet the challenge for the monetary authorities is to balance concerns about derailing a fragile and uneven recovery against the fear of having the growth of credit underwrite a repetition of the speculative rise in asset prices of the 1980s.

49. In continental Europe, the start of the recovery has brought monetary easing to an end. In France, Germany and the smaller countries that closely shadow the monetary stances of Germany, no new monetary policy changes are expected for a while. In contrast, in those countries that experienced large declines in their exchange rates (particularly Italy, Spain and Sweden), inflationary pressures already seem to have begun to emerge as the recovery

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gathers steam; their currencies have weakened further and bond yields have soared. In these circumstances, early moves may be needed to achieve a more balanced policy mix in 1995 so as to sustain recovery. Indeed, the Swedish Riksbank and the Bank of Italy have already had to increase their key interest rates.

50. The recovery in developed market economies has taken place even though government budgets are, on average, being tightened. The most significant shifts in this direction in 1994 came in Canada, Germany and the United Kingdom. A fractional tightening has taken place in the United States and the smaller continental European economies. In 1995, many European countries, including Germany, Italy, Spain and the United Kingdom, as well as Canada are planning a significant further fiscal squeeze. Taken together, these plans imply that the upturn will be subjected to a greater drag from fiscal policy than was the case at the same stage of recovery in the early 1980s. The present recovery may thus be slower, but it may also last longer, than the earlier cycle.

B. Transition economies

51. The European and Central Asian economies in transition can be divided into two broad groups in terms of progress made towards building market economies. The first group comprises "rapid reformers" (most notably Poland, the Czech Republic, Hungary and, perhaps to a lesser degree, the three Baltic countries and the Russian Federation), where the institutional changes that are at the heart of the transition are for the most part already in place. In the second group are countries that, while having declared the transition to a market economy as their goal, have thus far not implemented a comprehensive package of reform measures. Most of these States face further sizeable declines in economic activity.

52. Reform did not lead to an immediate improvement in economic performance in any country; however, it is no less true that so far the most the countries hesitating in this respect have been able to do is put off the economic and social costs of the steps they need to take. One telling example is Romania, where the 1 per cent growth in GDP in 1993 could not be sustained (see annex table A.5). In the short run, it is possible to boost economic activity without introducing the necessary institutions of a market economy. However, if restructuring does not reach down deep enough, namely to the level of enterprises, recovery is bound to be short-circuited by the incompletely formed market system. In this respect, the launching of radical reform measures in Ukraine in October 1994 was, perhaps, the major transition development of the year.

53. The recent economic performance of the group of rapid reformers contains a number of encouraging signals. In many of these countries, economic decline has bottomed out and output has started to grow again. The GDP of Poland is estimated to have grown by more than 4 per cent and that of Hungary by 2.5 per cent in 1994. Also, for the first time since 1989, the Czech Republic has seen a significant increase in output, estimated at 2.3 per cent, and the Slovak economy appears to have grown by more than 1 per cent. In 1994, output grew as well in Estonia and Lithuania for the first time since transition began,

and it is reported also to have been rising in Armenia, albeit from a very depressed level.

54. For the other rapidly reforming countries, the economic decline has been attenuated and some of the economies seem to be poised for recovery in 1995 or 1996. The state of the economy in the Russian Federation is particularly difficult to assess. On the one hand, there is a constant stream of data suggesting that the dramatic contraction in output of the last several years continues. It is expected that officially reported GDP in 1994 will register a fall of 15 per cent, while industrial production has reportedly been shrinking even more rapidly. On the other hand, although official data are becoming more comprehensive and timely, they are often demonstrably inconsistent, with some indicators (real incomes, prices for capital goods, electricity production and others) suggesting that a resumption of growth of aggregate economic activity has already begun. While data inconsistencies are certainly not a new nor a unique problem, their current order of magnitude in the Russian Federation is so high as to leave analysts in a serious quandary about how the economic situation in the country is evolving (and the Russian Federation is not a unique case in this regard).

55. A large and rapidly growing source of difficulty in interpreting output data from several of these countries is unregistered economic activity. Although the phenomenon exists in most economies, in this group of countries, in particular in the Russian Federation and Ukraine, it is believed to be of a significantly higher order of magnitude. Private and official observers, on the basis of survey data, believe that the "parallel economy" has become 40-50 per cent as large as officially reported GDP in the Russian Federation and Ukraine. Estonia estimates unregistered economic activity at about 20 per cent of registered GDP.

56. None of this information is meant to convey a sanguine view of the situation in the Russian Federation and other transition economies at the current time. The social and economic costs of reform are highly visible. Unemployment, crime, inadequacy of social security and health services and a host of related problems remain major areas of concern for policy makers.

57. However, in one country after another, the turn around from a plummeting to a rising output seems to have been established. With the support of strengthening exports to the European market economies that are now in the recovery phase of their business cycles, eastern Europe as a whole is forecast to grow 3 1/2 per cent in 1995, which is to be the third consecutive and strongest year of output and income gains. In addition, each of the Baltic economies is forecast to grow in 1995, for the first time. These are the economies that, all together, first began the transition process and they are the first to compile a record of significant output gains.

58. Some of the more rapid reformers have also made the most progress in the struggle against the high inflation unleashed by the initiation of the transition process. The first country to reach single-digit annual inflation will be the Czech Republic, albeit not until 1995. The increase in consumer prices is expected to be 11.5 per cent in 1994 and 7 3/4 per cent in 1995 (after

an increase of almost 21 per cent in 1993). This improvement is in large part attributable to the tight fiscal policy pursued by the Government.

59. Hungary has had more difficulty in curbing inflation. Consumer prices in Hungary are estimated to have risen about 19 per cent in 1994, but in 1995 they are expected to rise slightly more rapidly again, by about 22 per cent. Hungary has been stymied in lowering inflation mainly owing to difficulties in curtailing the Government budget deficit.

60. Inflation is forecast to slow further in Poland, though it will remain rather high: the consumption deflator increased by about 25 per cent in 1994 and 18 per cent is forecast for 1995. The rates of consumer price inflation in the other eastern European countries are much higher - 72 per cent and 58 per cent in 1994 and 1995, respectively, in Bulgaria, and 108 per cent (1994) and 66 per cent (1995) in Romania. Inflation, though lower than in 1993, remains very high in the successor States of the Soviet Union. For example, in 1994, consumer prices are estimated to have risen by 840 per cent in Ukraine and 280 per cent in the Russian Federation.

61. Reduction of inflation is of course a high policy priority. However, the ability to effectively address the inflation problem in transition economies has taken on symbolic as well as technical meaning. Very high rates of inflation are generally associated with haemorrhaging budget deficits that are financed by money creation. Fiscal austerity programmes usually have to counter domestic political pressures to maintain spending and hold down taxation. If the monetary authorities tighten credit creation but the fiscal deficit is not reined in, the financing must come from bond and other finance at the expense of the private sector or from foreign lenders. This can only be a temporary solution, especially as it is widely perceived to paper over the continuing budget problem. Working to resolve the latter is usually tantamount to making difficult national-level decisions about the shape of the transition. In this regard, budgetary consolidation as part of an anti-inflationary programme can give a broad boost to investor confidence and accelerate the transition process itself.

C. Developing economies

62. In 1994, the developing countries as a group were completing a third consecutive year of near 5 per cent growth of output. This is forecast to accelerate further in 1995, even though China, which accounts for almost one fifth of the GDP of the group, is expected to slow somewhat. The main vectors in the step-up are a modest acceleration of recovery in Latin America and in South and East Asia (see annex table A.6). Although the rate of growth in Africa as a whole is also expected to rise, there are still many economies on the continent that have not been expanding as fast as population.

63. The large inflows of private foreign capital in Latin America and Asia over the past few years slowed down somewhat in 1994 and are likely to further slow in 1995. However, the rate of capital formation is still expected to grow with the continuing increase in production, liberalization and new opportunities. A significant increase in imports is also foreseen, with foreign exchange earnings

still benefiting from firm commodity prices and growing export volumes. This, in turn, will provide one of the stimuli to the growth of exports and thus to the output of the industrialized economies. 7/

1. Latin America and the Caribbean

64. In Latin America and the Caribbean, 1994 was characterized by moderate economic growth, slowing inflation and large and rising external deficits financed by substantial capital inflows. Growth should strengthen in 1995, with Mexico's recovery intensifying and output growth in Chile accelerating again.

65. In the context of a relatively favourable external environment, output grew 3.3 per cent in aggregate terms in 1994 and close to 1.5 per cent on a per capita basis. This has been the pace for the past four years and it represents a considerable improvement over the 1980s when per capita output fell. Although the growth of the GDP of Peru accelerated to 9 per cent and Venezuela saw a severe contraction of output, several other countries (including Argentina, Bolivia, Brazil, Chile and Colombia) seem to have been converging towards a "cruising speed" of 4-5 per cent growth a year.

66. In the Caribbean, Cuba and Haiti have been in critical economic condition. The Cuban economy contracted by an estimated 5 per cent in 1994, leaving output on the order of half of what it was in 1989, and a further decline is possible in 1995. In contrast, the recent lifting of the economic embargo against Haiti and a new aid package have improved Haiti's economic prospects for 1995.

67. With few exceptions, notably Venezuela, the countries of Latin America continued to make progress in lowering the rate of inflation. Further declines in inflation hinge on the consolidation of the initial success of the stabilization plan in Brazil, where inflation dropped from 50 per cent a month in June 1994 to a figure ranging from 1 to 3 per cent per month since. To maintain the "Real Plan" on track, additional fiscal reform and measures to prevent the return of generalized indexation are needed.

68. With a generally more positive economic environment spreading in the region, investment is beginning to recover. However, public-sector resources remain quite constrained and the backlog in infrastructure and public services, neglected in the 1980s, is still quite large. The region continues to attract large financial inflows which are helping to finance investment. Yet there was a significant reduction in bond placements as a result of the increase in international interest rates, political events in Mexico and the banking and foreign exchange crisis in Venezuela. However, this reduction was partly offset by an increase in other types of long-term capital inflow, including foreign direct investment (particularly in Mexico and in Peru, where it was boosted by the privatization of a number of firms) and equity investment in Brazil, Chile and Colombia, among others.

69. The rise in international commodity prices has been benefiting commodity exporters, especially in Brazil, Chile, Peru and Uruguay. Yet, Latin America's trade deficit widened further in 1994, as imports were still growing much faster than exports, requiring use of reserves for some of the financing, especially on

the part of Mexico (although reserves in other countries continued to climb). Intraregional trade, in particular in the Southern Cone Common Market (MERCOSUR), continued to be by far the most dynamic element in the region's trade.

2. Africa

70. Economic growth picked up in Africa in 1994, reaching its highest rate in five years. It was also the first time in five years that output per capita did not fall significantly (population is estimated to have grown 2.8 per cent and output 2.6 per cent). In sub-Saharan Africa, however, GDP per capita did fall. 8/

71. The main sources of the higher economic growth were in agricultural production and an increase in foreign demand for Africa's exports, in particular in the recovering developed market economies. Foreign exchange earnings - and thus import capacity - benefited not only from the higher export volume, but from the improvement in the prices of non-oil commodities as well. Some countries, however, were unable to benefit from the price rises. For example, the doubling of coffee prices between April and July 1994 did not help countries that had sold their crops forward or whose stocks were depleted.

72. Total cereal production in Africa is estimated to have risen by over 8 per cent in 1994. A two-year drought ended in Morocco and contributed to GDP growth there of some 10 per cent. Also, rainfall in Kenya improved over the level of recent years. However, inadequate or irregular rainfall curtailed agricultural production in some countries, for example, Algeria, Malawi, Tunisia and those in the Horn of Africa. Outside the war-torn countries, agricultural prospects for 1995 are generally good.

73. Economic activity in eight African countries was disrupted in 1994 by a host of civil disturbances, of which the massive armed hostilities and massacres in Rwanda are but one extreme example. Economic activity in Nigeria continued to be hampered by political uncertainty and strikes, and by the foreign exchange shortages that were intensified by these factors. In South Africa, labour unrest, uncertainty and exceptional public holidays related to the first democratic election in April 1994 contributed to a temporary halt in economic recovery which, however, resumed in the second half of 1994.

74. Indeed, with the recent peace agreement in Angola and the successful elections in Mozambique and South Africa, southern Africa is poised to enter a new year (1995) without a major conflict for the first time since the early 1960s. As a result, reconstruction, development, economic reform and regional cooperation are gaining in prominence in the agenda of policy makers in this area. In other countries as well (for example, Gabon, Guinea-Bissau, Madagascar and Togo), economic reforms are gaining greater attention following political transitions.

75. Economic reforms became more deeply entrenched in several countries in 1994. Foreign exchange markets were liberalized in Kenya, Madagascar, Malawi, Mauritius, Tunisia and Zimbabwe. The devaluation of the CFA (Communauté

financière africaine) franc in January 1994, along with the international financial assistance that accompanied it, has triggered additional budgetary and public-sector reforms in the franc zone. Tax and customs revenues have also risen, albeit by disappointing amounts in some cases. The wave of strikes and demonstrations that immediately followed the devaluation soon abated in nearly all countries. Exports and intraregional trade began to respond to the new incentives, as well as to the recovery in international commodity prices. Foreign capital also seems to be returning to some countries. Domestic inflation initially accelerated in reaction to the devaluation, but the inflation rate then dropped. The annual inflation rate was thus limited to between 20 and 40 per cent in almost all CFA countries.

3. South and East Asia

76. The overall growth of the GDP of South and East Asia accelerated to 6.4 per cent in 1994, rebounding to the levels of the late 1980s (see annex table A.6). This reflected widespread strength in the region, with robust recoveries in the Republic of Korea and the Philippines, and continued rapid growth in Singapore, Viet Nam and the second generation of newly industrialized economies, namely, Indonesia, Malaysia and Thailand. There was also steady expansion in Hong Kong and Taiwan Province of China, and the economy of India strengthened during the year.

77. The outlook for the region in 1995 includes an expectation that economic growth will accelerate to 6 3/4 per cent. The second-generation NIEs, as well as India, the Philippines and Viet Nam, are forecast to attain stronger rates of growth than in 1994. In contrast, a slower expansion is expected in most of the first-generation NIEs, namely Hong Kong, the Republic of Korea and Singapore, but not in Taiwan Province of China.

78. The factors contributing to the robust economic outlook in 1995 - strong exports, as well as high levels of private consumption and public and private investment - are similar to those that operated in 1994. Traditional export markets in the industrialized economies will continue to expand, while intraregional trade will continue to gain in importance. Barring a sharp slow-down, China will also remain an important source of demand for exports from the region. The growth in export demand and the inflows of foreign direct investment generated by the recent appreciation of the yen is expected to be sustained. Continued restructuring in the NIEs will also help to maintain investment levels and export competitiveness.

79. With strong GDP growth, a major policy concern in most economies will be worsening inflation. Inflationary pressures, which began to appear in 1994, have been aggravated by the domestic monetary consequences of large capital inflows. Some economies, such as the second-generation NIEs, have tightened monetary policy, but have been constrained by already high interest rates and the need - for reasons of maintaining export competitiveness - to avoid significant currency appreciation. Indeed, India, Malaysia and Thailand introduced direct curbs on capital inflows. Rising international interest rates, however, should reduce the attractiveness of the region to foreign portfolio managers and ease inflows, thus allowing more room to tighten monetary

policy in order to combat the inflationary factors. Some economies with substantial fiscal imbalances, such as India, are seeking to tighten fiscal policy as a means of restraining inflation.

80. Economic liberalization and reform efforts are expected to intensify throughout the region, albeit at varying speed among the economies. Trade liberalization and financial sector deregulation and development will continue to be the policy of most Governments. Privatization can be expected to accelerate and restrictions on foreign investment will be eased in most of the region.

4. China

81. In China, where double-digit rates of economic growth have been sustained for three years, the focus of policy has turned towards trying to counter accelerating inflation and engineer a "soft landing", that is, towards reducing inflation to a low level with no sharp curtailment of growth or a recession. However, with the annual rate of inflation exceeding 20 per cent in 1994 and GDP growth slowing only slightly, such a landing still does not look assured. GDP growth for the year is estimated at 11.5 per cent, with growth of industrial production at about 17 per cent. Investment also remained strong. The balance of trade improved over the year, changing from a large deficit to a small surplus. Exports are expected to have reached $120 billion, 30 per cent higher than in 1993, while imports grew 15 per cent.

82. The 1994 acceleration in inflation to the highest rate since 1989 is widely seen as a warning sign. Aside from inflationary pressures from the strong growth of expenditures, official wage increases for workers in State enterprises caused the sum of wage payments to urban workers to jump by 82 per cent in the first nine months of the year. Official procurement prices for farm products were also raised to stimulate production. Combined with adverse weather conditions, these measures caused prices of foodstuffs to rise rapidly, leading to an increase in the urban cost-of-living index of over 25 per cent.

83. Another major contributor to inflation in 1994 was the growth in money supply. The broad measure of money (M_2) grew by 37 per cent in January-October 1994 as compared with the same period in 1993. This was largely owing to bank financing of loss-making State enterprises, which poses a policy dilemma for the Chinese Government. On the one hand, the need to transform these enterprises into competitive producers in a new socialist market economy is urgent. On the other hand, the prospect of unemployment and its social consequences - unavoidable at least in the short run in such a transition - seems to push policy makers into employing a stop-and-go strategy.

84. It remains to be seen whether the Chinese economy will come to a soft landing in 1995. Slower output growth in 1994 points in that direction, but the reappearance of high rates of inflation has increased the likelihood that harsh monetary tightening and an administrative clamp-down will become necessary. If the Government manages to prevent further acceleration of inflation in the last quarter of 1994, a growth rate of 10 per cent - rather than a "hard landing" with much less output growth - will be the more likely outcome in 1995.

5. West Asia and the Mediterranean

85. Output in West Asia is estimated to have contracted by about 1.6 per cent in 1994, a considerable shift from the relatively strong growth of the previous two years (see annex table A.6). Most of the oil-exporting countries saw their output and real income fall, while output and real income in the oil-importing countries grew. A modest recovery in the region as a whole is forecast to begin in 1995. In the Mediterranean, Turkey saw a sharp contraction of output in 1994, but that also is expected to give way to a modest recovery in 1995. The situation in most of the successor States of the former Yugoslavia remains confounded by the war in Bosnia and Herzegovina and its associated economic sanctions.

86. Lower oil prices and thus lower export and budgetary revenues in the major oil-exporting countries, as well as political instability in Yemen and the continuation of economic sanctions against Iraq, contributed to the decline of GDP in West Asia. The fall in GDP of the oil-exporting countries occurred despite growth in non-oil activities of the private sector. All oil-importing countries, however, experienced relatively strong economic growth, which is expected to continue in 1995, along with the beginning of recovery in the oil-exporting countries, as oil prices firm and the countries move past the initial contractionary phases of economic adjustment programmes.

87. The weak oil prices in 1994 have compounded the financial difficulties of most oil-exporting countries and aggravated their current-account and budget deficits, despite significant cuts in public spending. The need to reduce budget deficits led some Governments to cancel new projects, and sometimes to delay contract payments. In Saudi Arabia, fiscal austerity has been a factor in the 3 per cent decline in economic activity in 1994, the first fall in GDP since the mid-1980s. Based on recent official statements and actions, the outlook has brightened considerably for structural reforms in public spending, enhancement of the role of the private sector and liberalization of trade and investment. In the Islamic Republic of Iran, a decline in the volume of oil exports, combined with the lower prices, reduced foreign exchange earnings, forcing curtailment of government spending and leading to reductions in both public and private investment. As a result, the economy contracted by about 4 per cent.

88. In the oil-importing countries of West Asia, the greater prospects of peace were a stimulus to economic activity. The Israeli economy grew by more than 6 per cent, owing to a rise in private-sector activity, high growth in domestic demand and expansion in exports. Economic activity in Jordan was buoyant, as GDP grew 5.5 per cent, and is expected to improve further in 1995 under sustained economic reform. Reconstruction helped bring 8.5 per cent growth to Lebanon, and even higher growth is expected in 1995, although high inflation and rising public debt could undermine the recovery.

89. Inflation remained generally lower than 5 per cent in the countries of the Gulf Cooperation Council, moderate in Israel, Jordan, Lebanon and the Syrian Arab Republic, and relatively high in Iraq, the Islamic Republic of Iran and Yemen.

90. The Turkish economy seems set for modest growth of GDP of 2 1/2 per cent in 1995, after its contraction by an estimated 5 per cent in 1994 in the wake of the April austerity programme and monetary tightening, under which interest rates reached 40 per cent a year in real terms. These policies came after a foreign exchange crisis in January and subsequent devaluation of the Turkish lira. While the exchange rate then stabilized, the inflation rate climbed to a figure on the order of 110 per cent for 1994 as a whole, reflecting in part some drastic one-off increases in taxes and administered prices. Indeed, the key economic policy issue throughout 1994 in Turkey was its large public-sector deficit. Those first steps towards reform of the tax system resulted in higher budget revenues, and a major breakthrough was achieved when Turkey's Parliament approved a framework privatization law in November, paving the way for the proposed sell-off of more than 100 State enterprises.

91. In the case of the former Yugoslavia, the economic situation in the successor States ranged from despairing to quite hopeful. At one extreme stood Bosnia and Herzegovina, where the carnage rendered standard economic indicators meaningless. At the other extreme was Slovenia. With GDP growth of 4 per cent in 1994 and an increase to 5 per cent forecast for 1995, Slovenia is the only successor State of the former Yugoslavia to have advanced considerably in its transition towards a market economy. Although privatization is a slow-moving process, the confidence of investors appears high. While trade with Croatia and the rest of the former Yugoslavia continued to contract in 1994, exports to the European Union (EU) and Austria registered a substantial increase. Slovenia benefits from tariff-free access to EU for most industrial goods under the country's cooperation agreement. Slovenia also concluded a free-trade agreement in 1994 with the Czech Republic, Hungary and Slovakia.

Notes

1/ As the table demonstrates, the same broad picture of recovery is seen when aggregate growth rates are measured using purchasing power parities instead of exchange rates.

2/ The data from some of the largest transition economies are so inconsistent that the upturn for the group as a whole may already have begun without official data reflecting the fact, owing to the large and increasing share of economic activities that are not being adequately captured in the data. Generally, macroeconomic data from several transition economies are considered highly unreliable and must be interpreted with extreme caution.

3/ There seem to be a broad consensus among forecasters that the risk of significant inflation in the seven major industrialized economies is low in 1995. Out of 153 forecasts of the rise in consumer prices in any of the seven countries, only two (one for Italy and one for the United Kingdom of Great Britain and Northern Ireland) were 4.5 per cent or higher. The lowest forecast was for a 0.3 per cent fall in consumer prices in Japan (as per Consensus Forecasts (London), 14 November 1994).

4/ The NIEs are so defined here as to include the original four economies (Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China) plus the newcomers - Indonesia, Malaysia and Thailand.

5/ Even if the GDP growth rate per capita in those regions were of the same order of magnitude as in the NIEs, it would have to be sustained, in some cases for decades, in order to make large permanent strides against unemployment. China, for example, faces a serious unemployment problem even after a decade and a half of growth in GDP per capita that averaged almost 8 per cent a year. Large-scale unemployment was long disguised by excess agricultural labour and overstaffing of large urban State enterprises; but now, with a massive internal migration to coastal urban areas, the issue has become more visible. The non-State sector in the urban areas, while highly dynamic, is still small within the context of China, and its capacity to generate employment would remain limited relative to job needs, especially if the heavily subsidized State enterprise sector were to shed large amounts of excess labour as part of the efforts to curtail the inflationary impact of the sector on the Government's budget position.

6/ For additional details on employment policies and their grounding in the labour situation in developed, developing and transition economies, see World Economic and Social Survey, 1994 (United Nations publication, Sales No. E.94.II.C.1), chap. VI.

7/ The surge in developing country imports in recent years has already provided a significant stimulus to developed market economies. The imports added almost $150 billion to exports of the industrialized economies in the first three years of the 1990s alone (Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat (UN/DESIPA), Monthly Bulletin of Statistics, June 1994, p. 256).

8/ In the sub-Saharan grouping, as shown in annex table A.6, population grew 3 per cent (which implies per capita GDP fell almost 1 per cent, given that output is estimated to have grown 2.2 per cent). In South Africa, GDP grew almost as fast as population (2.0 per cent versus 2.3 per cent), while in Nigeria GDP per capita fell more than 1 per cent.

Annex

TABLES

Table A.1. Developed market economies: rates of growth of real GDP, 1984-1995 a/

(Annual percentage change)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 b/	1995 c/
All developed market economies	4.3	3.4	2.8	3.3	4.5	3.3	2.5	♦ 0.8	1.5	1.1	2.6	2¾
Major industrialized countries	4.5	3.4	2.9	3.3	4.6	3.3	2.5	♦ 0.9	1.6	1.2	2.6	2¾
Canada	6.3	4.8	3.3	4.3	4.9	2.5	-0.2	-2.2	1.0	3.1	4.3	3¾
France	1.3	1.9	2.5	2.3	4.5	4.3	2.5	0.8	1.2	-1.0	2.1	3¼
Germany	2.8	1.9	2.2	1.4	3.7	3.3	4.7	♦ 1.2	2.1	-1.2	2.4	3
Italy	2.7	2.6	2.9	3.1	4.1	2.9	2.1	1.3	0.9	-0.7	2.1	2¾
Japan	4.3	5.0	2.6	4.1	6.2	4.7	4.8	4.3	1.1	0.1	0.6	2
United Kingdom	2.3	3.8	4.3	4.8	5.0	2.2	0.4	-2.0	-0.5	2.1	3.5	3
United States	6.2	3.2	2.9	3.1	3.9	2.5	1.2	-0.6	2.3	3.1	3.8	2¾
Other industrialized countries	3.3	3.0	2.5	3.3	3.5	3.8	2.6	0.6	0.9	0.2	2.7	3
Memo item												
Western Europe	2.4	2.6	2.8	2.8	4.0	3.4	2.7	♦ 0.6	1.0	-0.4	2.4	3
European Union	2.3	2.5	2.8	2.9	4.2	3.4	2.8	♦ 0.8	1.1	-0.4	2.4	3
Other	3.0	3.2	2.5	2.5	2.9	3.3	2.0	-0.8	-0.3	-0.7	2.5	2¾

Source: UN/DESIPA.

♦ Indicates discontinuity in the series: from 1991, Germany includes eastern Länder (provinces).

a/ Data for country groups are weighted averages, where weights for each year are the previous year's GDP valued at 1988 prices and exchange rates.

b/ Preliminary estimate.

c/ Forecast, based on Project LINK.

Table A.2. Major industrial countries: quarterly indicators, 1992-1994

	1992 quarter				1993 quarter				1994 quarter		
	I	II	III	IV	I	II	III	IV	I	II	III a/
Growth of gross domestic product b/											
Canada	0.7	0.4	0.0	0.7	3.5	4.2	1.4	3.5	4.5	6.7	4.7
France	2.7	-0.7	0.0	-1.0	-3.5	0.7	1.4	0.4	2.7	4.1	3.0
Germany (western)	7.9	-0.5	-1.4	-3.4	-6.4	2.3	2.6	-2.0	2.0	4.1	5.3
Italy	1.0	0.7	-3.0	-1.0	-1.0	1.7	-2.7	4.2	1.5	5.7	2.5
Japan	2.1	-1.9	-0.3	-1.1	3.5	-2.1	1.1	-2.8	4.0	-1.6	3.7
United Kingdom	-2.7	0.3	1.4	1.0	3.2	1.7	2.8	2.9	3.8	5.9	3.5
United States	3.5	2.8	3.4	5.7	1.4	1.9	2.9	6.3	3.4	4.1	3.9
Total	2.9	0.6	1.0	1.5	0.8	0.9	1.9	2.3	3.3	3.0	3.9
Unemployment rate c/											
Canada	10.7	11.2	11.5	11.5	11.0	11.3	11.3	11.0	11.0	10.6	10.1
France	10.1	10.3	10.4	10.7	11.1	11.5	11.9	12.3	12.5	12.6	12.6
Germany, western	4.5	4.7	4.6	4.9	5.3	5.6	6.0	6.3	6.5	6.6	6.6
Italy	9.9	10.0	10.1	9.3	9.1	10.7	10.3	10.7	11.7	12.5	12.4
Japan	2.1	2.1	2.2	2.3	2.3	2.4	2.5	2.7	2.8	2.8	3.0
United Kingdom	9.5	9.7	10.1	10.4	10.5	10.3	10.4	10.1	9.9	9.6	9.5
United States	7.2	7.4	7.4	7.2	7.0	6.9	6.7	6.4	6.5	6.1	6.0
Total	6.6	6.8	6.8	6.8	6.8	6.9	6.9	6.9	7.1	6.9	6.9
Growth of consumer prices d/											
Canada	1.8	1.8	1.8	1.5	3.0	0.6	1.8	2.1	-1.8	-1.5	2.2
France	2.0	3.0	0.3	2.0	3.3	2.6	1.0	1.6	1.9	2.2	0.7
Germany (western)	4.7	4.3	1.8	3.9	7.4	3.8	1.7	2.3	5.4	2.8	1.4
Italy	5.7	4.5	3.3	5.2	4.1	4.3	4.0	4.5	5.5	2.1	2.8
Japan	-1.4	5.5	-1.8	1.8	0.0	3.6	1.8	-1.0	0.8	1.5	1.4
United Kingdom	2.3	8.9	-0.3	1.6	-2.7	6.7	1.1	1.3	0.7	7.3	0.0
United States	2.8	3.1	3.1	3.1	3.4	3.0	1.5	3.0	2.5	2.5	3.6
Total	2.1	4.2	1.4	2.8	2.6	3.4	1.7	1.9	2.2	2.4	2.3

	1992 quarter				1993 quarter				1994 quarter		
	I	II	III	IV	I	II	III	IV	I	II	III a/
	Growth of industrial production										
Canada	-2.7	2.0	4.0	5.6	9.2	6.6	4.2	5.6	0.7	13.5	9.3
France	0.0	-0.4	-2.4	-7.6	-6.3	-2.2	2.2	-4.3	5.7	12.3	6.6
Germany (western)	7.9	-7.0	-6.5	-12.3	-11.4	-1.8	1.5	0.4	0.7	10.2	1.9
Italy	4.2	-2.7	-8.0	-5.5	-0.7	-3.9	2.9	-0.7	-1.8	21.1	18.6
Japan	-35.3	27.4	-1.7	-10.3	1.0	-6.7	1.4	-13.9	7.1	2.3	12.9
United Kingdom	-3.3	-0.7	4.9	2.6	0.0	3.3	4.8	4.7	3.2	11.9	4.4
United States	-3.5	5.5	2.5	4.3	-2.1	2.5	2.4	7.4	7.3	6.1	5.2
Total	-10.1	8.5	-0.7	-3.5	-2.0	-1.2	2.3	-1.1	5.2	7.7	8.1

Source: UN/DESIPA, based on data of the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD) and national authorities.

a/ Partly estimated.

b/ Percentage change in seasonally adjusted data from preceding quarter, expressed at annual rate (total is weighted average with weights being annual GDP valued at 1988 prices and exchange rates).

c/ Percentage of total labour force; seasonally adjusted data as standardized by OECD.

d/ Percentage change from preceding quarter, expressed at annual rate.

e/ Percentage change in seasonally adjusted data from preceding quarter, expressed at annual rate.

Table A.3. Developed market economies: unemployment rates, 1984-1995 a/

(Percentage of total labour force)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 b/	1995 c/
All developed market economies	7.8	7.7	7.6	7.2	6.6	6.1	6.0	6.6	7.3	7.7	8.0	7½
Major industrialized countries	7.3	7.2	7.1	6.7	6.1	5.7	5.6	6.2	6.8	6.9	6.9	6½
Canada	11.2	10.4	9.5	8.8	7.7	7.5	8.1	10.2	11.2	11.1	10.5	9¾
France	9.7	10.2	10.4	10.5	10.0	9.4	8.9	9.4	10.4	11.7	12.6	12¼
Germany (western)	7.1	7.2	6.4	6.2	6.2	5.6	4.9	4.2	4.6	5.8	6.7	6¼
Italy	9.4	9.6	10.5	10.9	11.0	10.9	10.3	9.9	10.5	10.2	11.1	10¾
Japan	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	3.0	3
United Kingdom	11.7	11.2	11.2	10.3	8.5	7.1	6.8	8.8	9.9	10.3	9.4	8½
United States	7.4	7.1	6.9	6.1	5.4	5.2	5.4	6.6	7.3	6.7	6.2	6
Other industrialized countries	10.2	10.3	9.9	9.6	9.1	8.1	7.9	8.6	9.8	11.8	13.1	12¾
Memo item												
Western Europe	9.8	9.9	9.8	9.6	9.0	8.2	7.6	7.9	8.8	10.0	10.9	10½
European Union	10.5	10.6	10.6	10.3	9.7	8.8	8.1	8.3	9.1	10.3	11.2	10¾
Other	3.3	3.2	3.2	3.0	2.9	2.6	2.8	4.0	5.8	8.0	8.3	7¾

Source: UN/DESIPA, based on data of OECD.

a/ National data adjusted to standardized basis by OECD.

b/ Preliminary estimate.

c/ Forecast, based on Project LINK.

Table A.4. Developed market economies: consumer price inflation, 1984-1995 a/

(Annual percentage change)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 b/	1995 c/
All developed market economies	4.5	4.0	2.2	2.8	3.2	4.4	5.0	4.3	3.1	2.7	2.3	2½
Major industrialized countries	4.2	3.7	1.8	2.6	3.0	4.2	4.8	4.2	2.9	2.6	2.2	2½
Canada	4.3	4.0	4.1	4.4	4.0	5.1	4.7	5.6	1.5	1.9	0.4	1¾
France	7.4	5.8	2.6	3.3	2.8	3.4	3.4	3.2	2.4	2.1	1.8	2
Germany (western)	2.5	2.2	-0.2	0.3	1.3	2.7	2.7	3.5	4.0	4.1	3.0	2½
Italy	10.9	9.2	5.8	4.7	5.1	6.2	6.5	6.3	5.2	4.5	3.8	3¾
Japan	2.2	2.0	0.6	0.1	0.7	2.2	3.1	3.3	1.7	1.2	0.7	½
United Kingdom	4.9	6.1	3.5	4.1	4.8	7.8	9.5	5.9	3.7	1.6	2.5	3½
United States	4.3	3.7	1.8	3.7	4.0	4.9	5.4	4.2	3.1	3.0	2.7	3¼
Other industrialized countries	6.6	5.9	4.8	4.2	4.2	5.2	6.1	5.3	4.0	3.6	3.2	3½
Memo item												
Western Europe	6.1	5.3	2.9	2.9	3.3	4.8	5.5	4.9	4.0	3.4	3.0	3
European Union	6.2	5.4	2.9	2.9	3.3	4.8	5.4	4.8	4.1	3.4	3.1	3¼
Other	5.4	4.7	2.7	3.3	3.9	4.5	6.2	5.6	3.2	3.4	1.9	2½

Source: UN/DESIPA, based on IMF, International Financial Statistics.

a/ Data for country groups are weighted averages where weights for each year are consumption expenditure for the year valued at 1988 prices and exchange rates.

b/ Preliminary estimate.

c/ Forecast, based on Project LINK.

/...

Table A.5. Transition economies of Europe and Asia: rates of growth of real GDP, 1984-1995 a/

(Annual percentage change)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 a/	1995 b/
Economies in transition	3.4	2.0	3.5	2.6	4.5	2.1	-6.2	♦ -8.8	-15.6	-8.6	-10.3	-5
USSR and	3.0	1.7	3.6	2.8	5.3	3.0	-4.0	-8.0				
successor States c/									-18.3	-12.0	..	..
Baltic countries									-31.2	-14.9	0.7	2½
Estonia									-14.8	-2.0	2.9	4
Latvia									-33.8	-19.9	-2.0	1
Lithuania									-35.0	-17.0	1.5	2½
Eastern Europe	4.5	2.6	3.2	2.2	2.7	0.1	-11.5	♦ -11.4	-5.2	1.0	2.4	3½
Albania	-1.3	1.8	5.6	-0.8	-1.4	9.8	-10.0	-29.4	-6.0	11.0	..	..
Bulgaria	3.4	2.7	4.2	6.1	2.6	-1.4	-9.1	-11.7	-7.7	-4.2	-1.2	¼
Czechoslovakia	2.1	2.2	1.8	0.8	2.6	1.3	-4.7	-14.4	-7.1			
Czech Republic										-0.3	2.3	3¼
Slovakia										-4.2	1.2	3¼
German Democratic Republic	5.4	5.5	3.9	3.3	3.1	2.4	-25.1	-	-	-	-	-
Hungary	2.7	-0.3	1.5	3.8	2.7	3.8	-3.3	-11.9	-4.5	-2.0	2.5	1
Poland	5.6	3.6	4.2	2.0	4.4	0.2	-11.6	-7.6	1.5	4.0	4.4	4½
Romania	5.9	-0.1	2.3	0.8	-0.5	-5.8	-7.3	-13.7	-15.4	1.0	-0.3	4½

Source: UN/DESIPA, Economic Commission for Europe (ECE) and national data.

♦ Indicates discontinuity in the series.

.. Indicates insufficient information for estimate with an acceptable degree of confidence.

a/ Preliminary estimate.

b/ Forecast, based in part on Project LINK.

c/ Annual data are an average of member countries' output growth rates weighted by their share in the output of the USSR in 1991.

Table A.6. Developing countries: rates of growth of real GDP, 1985-1995

(Annual percentage change)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 a/	1995 b/
Developing countries c/	3.3	3.8	4.1	4.5	3.5	3.0	3.4	4.9	5.1	4.8	5½
Latin America	3.6	4.2	3.0	0.7	1.0	-0.1	2.9	2.1	3.1	3.3	3¾
Africa	3.6	1.5	0.6	2.7	3.0	2.2	1.3	0.6	0.7	2.6	3¼
Of which											
Sub-Saharan Africa d/	1.9	2.6	0.6	2.9	1.5	1.2	0.4	-0.1	-0.5	2.2	3
China	12.9	8.5	11.1	11.3	4.3	3.9	8.0	13.2	13.4	11.5	10
South and East Asia	3.6	6.2	6.9	8.5	6.1	6.4	5.3	5.3	5.4	6.4	6¾
West Asia	-3.6	-3.1	-0.8	0.0	3.2	1.9	-0.2	5.7	3.7	-1.6	2
Mediterranean	2.8	5.5	1.1	0.8	0.4	1.1	-5.6	-1.4	-0.2	-2.5	2¾
Memo items											
Major developing economies e/											
China	12.9	8.5	11.1	11.3	4.3	3.9	8.0	13.2	13.4	11.5	10
Brazil	8.0	7.6	3.4	0.1	3.2	-4.4	0.9	-0.9	4.1	4.0	4
India	4.5	4.8	4.5	9.6	5.2	5.5	2.0	4.0	3.8	5.0	5¾
Republic of Korea	5.1	12.0	11.1	11.5	6.1	9.0	8.4	4.7	5.5	8.0	7½
Mexico	2.6	-3.8	1.8	1.4	3.1	4.4	3.6	2.6	0.4	3.0	3½
Iran (Islamic Republic of)	-1.5	-8.0	-2.5	-2.0	4.0	10.0	6.0	6.0	4.0	-4.0	1
Taiwan Province of China	5.0	11.6	12.3	7.3	7.6	5.0	7.2	6.6	6.0	6.1	6½
Indonesia	1.9	3.0	3.6	6.5	7.4	7.4	6.6	6.3	6.5	6.8	7
Argentina	-4.4	6.1	2.1	-2.8	-6.2	0.4	8.9	8.7	6.4	5.0	5
South Africa	-1.2	0.0	2.1	4.2	2.4	-0.3	-1.0	-2.2	1.2	2.0	3

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 a/	1995 b/
Saudi Arabia	-9.1	13.4	-1.4	7.6	0.2	9.0	6.0	3.0	1.5	-3.0	1
Turkey	5.1	7.5	2.2	2.2	-0.4	9.2	0.7	6.4	7.6	-5.0	2½
Thailand	4.1	3.5	7.1	13.2	12.2	10.0	8.0	7.4	8.0	8.3	8½
Least developed countries	2.0	3.0	0.9	1.1	2.2	2.2	1.3	3.1	2.9	3.3	4

Source: UN/DESIPA.

a/ Preliminary estimate.

b/ Forecast, based in part on Project LINK.

c/ Covers 92 countries that account for 98 per cent of the population of all developing countries.

d/ Excluding Nigeria and South Africa.

e/ Listed in descending order of their share in world GDP.

Table A.7. World trade: rates of growth of volumes, 1985-1995

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 a/	1995 b/
World trade c/	3.4	4.9	5.3	9.0	7.7	5.4	5.1	6.0	3.9	7.1	7
Volume of exports											
Developed market economies	4.9	2.4	4.3	8.7	7.3	5.1	3.6	4.4	2.5	5.5	6
Of which											
North America	2.7	5.8	6.6	17.9	8.7	7.0	6.3	8.1	6.8	7.5	8½
Western Europe	4.8	2.3	4.2	5.9	7.6	4.2	♦ 2.4	3.3	1.3	5.5	5¾
Japan	5.6	-0.7	0.4	5.9	4.3	5.3	2.5	1.5	-2.5	1.4	¾
Developing countries	-0.1	15.1	6.0	7.5	9.6	8.7	8.5	8.1	7.6	9.0	10¼
Latin America	-0.2	-1.2	4.9	6.1	7.0	2.7	5.0	3.9	9.3	4.9	8¼
Africa	1.1	29.4	1.3	3.3	1.7	10.4	6.4	5.0	-0.8	1.8	4¾
West Asia	-5.5	48.2	-14.4	16.8	6.9	2.2	4.2	6.9	7.6	1.2	4½
South and East Asia	0.8	19.8	17.3	13.3	10.8	7.4	16.2	11.5	12.4	13.2	12¾
China	7.6	17.9	11.8	10.2	8.4	14.4	18.4	16.8	9.2	29.0	14¼
Mediterranean	9.0	-4.1	10.8	0.9	2.5	8.4	2.9	-4.7	-1.0	0.6	4
Transition economies	-0.8	4.0	2.4	4.5	-1.0	-9.6	♦ -18.1	..	..	..	..
Volume of imports											
Developed market economies	5.5	7.3	6.8	8.4	7.3	4.6	3.0	4.8	1.3	6.2	6
Of which											
North America	6.6	9.6	3.7	6.2	4.5	1.4	1.3	10.3	12.2	10.9	7¼
Western Europe	5.7	6.2	8.2	7.7	8.2	6.1	♦ 3.7	3.3	-3.7	3.7	5½
Japan	1.1	9.5	9.2	17.9	7.9	5.7	4.0	-0.4	2.9	5.8	3½
Developing countries	-3.2	-3.5	2.4	13.8	8.5	5.5	12.9	11.5	10.8	11.5	9
Latin America	3.0	0.9	0.7	5.0	4.3	6.1	19.0	19.8	11.7	12.6	8
Africa	-15.7	-4.8	-10.5	8.9	0.6	0.4	1.8	7.3	-1.0	3.9	6½
West Asia	-14.7	-16.0	-10.4	4.4	3.3	-3.4	13.7	12.1	-3.3	0.5	0
South and East Asia	-2.6	2.2	14.9	22.0	13.2	10.1	15.0	9.9	12.2	14.9	11¼
China	57.1	-6.0	-8.6	19.3	6.2	-14.0	20.3	24.3	29.6	12.9	11¼

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 a/	1995 b/
Mediterranean	4.6	-4.5	2.8	1.5	9.9	17.7	-8.2	-5.0	24.8	3.8	3¼
Transition economies	5.1	-0.8	1.0	3.7	5.1	-5.0	♦ -24.8	..	..	..	..

Source: UN/DESIPA and ECE.

♦ Indicates discontinuity in the series.

a/ Preliminary estimate.

b/ Forecast, based in part on Project LINK.

c/ Average of annual growth rates of volumes of world exports and imports, excluding transition economies (owing to incomplete data).

Table A.8. Indices of prices of primary commodities exported by developing countries, 1984-1994

(1985 = 100)

		Food	Tropical beverages	Vegetable-oil seeds and vegetable oils	Agricultural raw materials	Minerals and metals	Combined index: dollar	Combined index: Special drawing rights (SDRs)	Prices of manufactures a/	Real prices of commodities b/	Memo item: crude petroleum c/
1984		116	110	144	111	105	114	112	100	114	102
1985		100	100	100	100	100	100	100	100	100	100
1986		110	124	62	102	95	104	90	120	87	47
1987		117	81	73	119	113	107	84	135	79	62
1988		152	82	96	129	164	135	102	144	94	52
1989		161	70	85	129	164	135	107	143	94	63
1990		151	62	74	135	148	127	95	158	80	81
1991		141	57	80	127	134	118	88	157	75	68
1992		138	49	86	124	129	115	83	162	71	67
1993		139	52	85	120	110	111	81	157	71	59
1993	I	139	51	84	124	120	113	83	155	73	60
	II	138	46	82	120	110	109	79	159	69	61
	III	133	54	86	118	108	108	78	156	70	57
	IV	146	58	90	119	102	113	82	158	71	52
1994	I	159	59	96	127	109	121	88	153	79	51
	II	151	77	102	132	118	124	89	157	79	58
	III	149	122	107	138	129	135	94	158	85	61

Source: United Nations Conference on Trade and Development (UNCTAD), Monthly Commodity Price Bulletin; and United Nations, Monthly Bulletin of Statistics.

a/ Unit value of exports of manufactures from developed market economies. Base of the original index has been shifted to 1985.

b/ Dollar index deflated by unit values of manufactured exports of developed market economies.

c/ OPEC oil price, which is the average spot price of a basket of seven OPEC country crudes (Saharan Blend, Minas, Bonny Light, Arab Light, Dubai, T. J. Light and Isthmus).