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THE WORLD ECONOMY AT THE BEGINNING OF 1996

Note by the Secretary-General

CONTENTS

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CONTENTS (continued)

TABLES

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INTRODUCTION

1. The world economy is estimated to have grown 2.6 per cent in 1995 and the outlook for 1996 is for world output to grow about 3 per cent (see table 1). This entails slightly slower economic growth than was forecast in June in World Economic and Social Survey, 1995. 1/ However, the world economy is behaving essentially as expected. 2/ In the Survey, the 3 per cent growth rate was called the "cruising speed" of the world economy. It refers to a growth rate that could be sustained for several years, barring shocks to the global system. That assessment still seems valid.

Table 1. Growth of world output, 1981-1996
(Annual percentage change)

	1981-1990	1991	1992	1993	1994	1995 a/	1996 b/
World							
As of December 1995	2.8	0.4	1.0	1.1	2.6	2.6	3
As of June 1995			0.7	1.0	2.6	2¾	3¼
Developed economies							
As of December 1995	2.8	0.8	1.5	1.0	2.9	2.4	2½
As of June 1995			1.5	1.0	2.9	2¾	3
Developing economies							
As of December 1995	3.1	3.4	4.9	5.0	5.4	5.0	5½
As of June 1995			4.9	5.0	5.4	5	5
Economies in transition c/							
As of December 1995	2.0	-8.8	-12.1	-6.9	-8.9	-2.0	2
As of June 1995			-15.5	-8.6	-9.9	-6	2
Memorandum item:							
World trade d/							
As of December 1995	4.6	5.3	6.0	4.2	10.4	9.8	7¾
As of June 1995			6.1	4.6	9.6	7	

Source: Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat (UN/DESIPA) (June figures as per World Economic and Social Survey, 1995 (United Nations publication, Sales No. E.95.II.C.1), table I.1).

a/ Preliminary estimate.

b/ Forecast, based in part on Project LINK (International Research Group of Econometric Model Builders, with Headquarters at the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat).

c/ Based on reported gross domestic product (GDP), incorporating new estimates for the Russian Federation (note: data are believed to increasingly underestimate activity in several transition economies).

d/ Average of annual growth rate of volume of exports and imports, excluding transition economies (owing to incomplete data).

2. Economic shocks with international dimensions typically spread through disruptions in international trade or financial flows. The Mexican currency crisis that began in December 1994 could have set off a new developing country "debt crisis". However, the crisis was contained with the help of a large international effort, and new cooperative measures have been set in motion, centred on the International Monetary Fund, that aim to reduce the probability of comparable crises in other "emerging-market" countries. There were also periods during the year of heightened tensions over trade policy between major trading nations. They did not deteriorate into the "trade wars" that some feared; but they were treated mainly outside the new World Trade Organization, which leaves that forum's dispute settlement mechanism still largely untested. Meanwhile, the volume of world trade is estimated to have risen by almost 10 per cent, continuing the extremely strong performance first seen in 1994.

I. THE WORLD ECONOMY IN 1995 AND 1996

A. The updated gross domestic product (GDP) forecast

3. The main source of the difference between the current and the summer assessments of world output is the following: the rate of growth of gross domestic product (GDP) in the developed economies in 1995 is estimated to have been about one quarter of a percentage point less than forecast in June 1995 and the growth rate in 1996 is expected to be about half a percentage point short of the 3 per cent rise earlier forecast for 1996. The reasons for the revision are that lifting the Japanese economy out of recession has been more difficult than anticipated, while anti-inflation policies and consumer caution in the face of an uncertain employment situation have held back growth in Canada and much of Europe. 3/

4. Despite the slower growth of the developed economies, economic growth in the developing countries as a whole has evolved in 1995 about as anticipated in June. The West Asian economies grew about 2 per cent (1¾ per cent had been forecast), while the economic growth of Africa was about half a percentage point less than expected and that of Latin America and the Caribbean was three quarters of a percentage point lower than what had been foreseen in mid-1995. In the last-mentioned region, the performance of Mexico and Argentina has been even weaker than what was forecast. 4/ In Africa, drought conditions in the north and in southern Africa were more severe than those evident previously. The economic growth of developing Asia was close to the forecast.

5. In 1996, the developing countries are expected to see a more rapid growth of output. Some African economies are forecast to finally see stronger economic growth, while slow growth is expected to replace the decline in Mexico and Argentina. The spectacular growth in Asia, even with some slight moderation, is expected to continue (see table A.5).

6. In the least developed countries, GDP is estimated to have risen about 3 per cent in 1995, implying a rise in output per capita of less than half of 1 per cent. With a somewhat higher growth of output forecast for some of these countries in 1996, particularly in Africa, output per capita would rise almost 1 per cent.

7. Economic activity in some of the transition economies was stronger (or less weak) than that expected in mid-1995, but the aggregate output of all these countries taken together nevertheless still declined, although by far less than in earlier years (see table A.6). Comparisons with the June forecast are not easily made, because the official data of the Russian Federation have been substantially revised, as discussed below. In any event, the June assessment of the general picture in the Russian Federation as one of a bottoming out of GDP decline and the beginning of tentative growth has been confirmed. Aggregate demand in Central and Eastern Europe was more buoyant than that forecast and thus output grew about one percentage point or more above what had been expected in Hungary, Poland and Slovakia. 5/

B. International trade

8. Despite the slower-than-expected growth of world output, the growth of world trade has been faster. World trade volume had grown unusually rapidly in 1994 and it was expected to return to a slower growth rate in 1995. For the most part, this slow-down appears to have been postponed until 1996 (see table 1).

9. Demand for traded goods remained strong in the developed economies, particularly in Japan, where imports rose 14 per cent (see table A.7). Japan was a strong source of import demand, despite the weak state of its economy, owing to the price incentive created by the appreciation of the yen.

10. Double-digit growth of import volumes in South and East Asia also boosted world trade. Supplies from the region itself are increasingly able to meet this import demand, while the region also continues to absorb rapidly expanding imports from developed economies, especially in North America.

11. The import boom in Latin America halted in 1995. Owing to the sharp economic adjustments following the Mexican crisis, imports plunged in Argentina, Mexico and certain other adjusting countries, although they surged in Chile, Brazil and Peru, among other countries. In Africa, meanwhile, imports began to grow again, with the most rapid increase in almost a decade forecast for 1996. The reintegration of post-apartheid South Africa into the normal workings of international commerce has helped boost the growth of its export and import volumes above 6 per cent in 1995.

12. The strengthening recovery of economic growth in the European transition economies has been reflected in a surge of imports, especially in relation to recovering investment levels. In the first half of 1995, the volume of imports of the Central and Eastern European economies rose almost 20 per cent. This has provided increasing export possibilities, especially for Western European economies.

13. Besides increasing their exports to market economies, the trade relations among transition economies are being transformed, especially in the Commonwealth of Independent States (CIS). In the era of the Union of Soviet Socialist Republics (USSR), the cross-border shipment of goods by the constituent republics was overwhelmingly to other republics. In 1992, such traffic became

international and countries drastically reoriented their trade away from what had become their CIS partners. Azerbaijan, for example, now sends over 80 per cent of its exports to the Islamic Republic of Iran and obtains over 60 per cent of its imports from the Islamic Republic of Iran and Turkey. China takes almost half of Kyrgyzstan's exports and Romania is the destination for half of the Republic of Moldova's exports. However, 1995 saw a certain revitalization of intra-CIS trade; for example, the Russian Federation's imports from other CIS countries rose 25 per cent during the first 10 months of 1995.

14. While the buoyant global demand for imports has much to do with manufactured goods, trade in commodities has also been strengthened. Non-fuel commodity prices in dollars were on average about 10 per cent higher in 1995 than in 1994, although they peaked mostly in the first quarter of the year (see table A.8). The 1995 increase extended the recovery in prices that started in the second half of 1993, but it appears that a trend of easing prices is now in train. Dollar prices in 1996 are expected to ease further, albeit by less than half of 1 per cent on an annual basis. By 1990s standards, in other words, dollar prices are expected to remain at relatively high levels as demand continues to be buoyed by the steady growth in the global economy, while supply rises in response.

15. The largest price gains in 1995 were for industrial raw materials, owing to strong demand. Price increases for lead, tin, aluminium, copper, nickel and natural rubber ranged from 11 to 40 per cent. Higher demand - especially in some developing countries where incomes are rising rapidly - and tighter supplies on global markets raised food prices. Rice prices, in particular, were driven higher when Viet Nam and China reduced their exports to meet rising domestic demand. China became a net importer of rice in 1995 for the first time since 1949. Increases in the price of wheat followed the temporary suspension of exports from the European Union because of declining stocks and reductions in the crop of the United States of America because of wet weather.

16. Tropical beverage prices fell through most of 1995. In 1994, coffee prices had more than doubled on the basis of forecasts of supply shortages following severe frost in Brazil's coffee-growing region. Increased exports from other suppliers (triggered, in part, by the high prices) led to renewed fears of a return to conditions of chronic excess supply and low prices. For this reason, major producing countries in Latin America, Asia and Africa agreed to a new export-retention scheme in an effort to limit the erosion of prices.

17. International prices of crude petroleum averaged about $17 a barrel in 1995, a figure that was 9 per cent higher than that in 1994. Oil prices strengthened in response to a strong recovery in demand. The members of the Organization of the Petroleum Exporting Countries (OPEC) had decided in November 1994 to freeze their production levels for a second consecutive year, but other producers increased supplies, filling the gap and thus limiting the price increase. Indeed, there has been a pronounced shift towards non-OPEC supply, which took up around two thirds of the growth in world demand in 1994 and almost all the growth in 1995. With strong production gains in the North Sea, Canada, Mexico and South America, it is expected that oil supply will remain plentiful even in the face of a rapid demand growth through 1996 and 1997. Oil prices are thus expected to remain at essentially the same level as in 1995.

C. Finance, debt and development cooperation

18. In the aftermath of the Mexican currency crisis of December 1994, international financial markets proved highly resilient. Some countries - for example, Malaysia, Thailand, the Czech Republic, Poland and, in the second half of the year, Brazil - were forced to cope with capital inflows in 1995 that exceeded the absorptive capacity of their economy. These inflows swelled foreign exchange reserves and challenged the capacity of national monetary authorities to "sterilize" them so they would not push up domestic spending excessively.

19. The international financial markets appear to have been calmed both by the difficult adjustment measures that the Mexican Government undertook and by the resolute international rescue effort led by the United States. In striking contrast to the prolonged difficulties following the Mexican debt crisis of 1982, Mexico and other Latin American Governments were again borrowing by the spring of 1995, albeit paying a stiff interest premium so soon after the crisis had shaken investor confidence. This did not mean that the economic difficulties in Mexico and other countries were over, but rather that the financial markets had found that the returns offered matched the risks perceived. This had not been the case in the early 1980s.

20. The international effort following the eruption of the Mexican crisis was highly unusual. Some $50 billion in emergency credits, including large multilateral loans, was mobilized in a matter of weeks. To prevent the recurrence of such crises, especially in the "emerging market" economies, the international community has adopted a new strategy of "enhanced surveillance". The intention is to bring about more cautious policy-making in countries that seem to be courting a foreign exchange crisis by creating opportunities for more frequent and intensive policy dialogues with the International Monetary Fund (IMF). The Fund will also encourage the regular and more rapid release of statistical indicators of financial and economic conditions.

21. In addition, an effort is being made to create a new agreement at IMF that would parallel the General Arrangement to Borrow. It would pull together commitments of countries with large foreign exchange reserves to make substantial loans to the Fund on an emergency basis if its own liquidity was to become stretched during an international financial crisis. The objective is to bolster the confidence of investors in placing their funds in emerging markets without moving them out at the first sign of what they take to be incautious policies. Since financial markets can easily overreact, the intention is to short-circuit the economic and financial disruption that the markets could bring about.

22. Financial flows to the "emerging markets" of South and East Asia resumed shortly after the Mexican crisis. Their credit ratings have not been adversely affected; indeed, some ratings were raised. The favourable risk assessment was based on the generally sound macroeconomic policies and continued economic liberalization pursued by most Governments as well as the high rates of domestic investment and savings. Inflows of foreign direct investment (FDI) remained the dominant component of financial inflows in the region and continued to grow strongly in 1995. Besides the factors influencing the overall risk assessment,

the high valuation of the yen and liberalization of foreign investment regulations created very favourable conditions for FDI in many countries in the region.

23. Least developed and other low-income countries are generally limited in their capacity to tap private markets. One reason is that they are often vulnerable to natural or economic calamities, such as volatile international prices for their commodity exports. With little room to manoeuvre, countries could suddenly find that fully paying the claims on their foreign exchange earnings of creditors and investors would leave insufficient foreign exchange earnings for essential purposes. Some countries fully service their foreign debt even in these circumstances, but at significant cost, while others enter into debt crisis in such situations and accumulate arrears. Indeed, this has happened to middle-income as well as low-income countries. 6/

24. In other words, many developing countries can be characterized as being under a "debt overhang" and thus prey to a potential or an actual debt crisis. Over more than a decade, the international community developed a strategy to return debt-crisis countries to sustainable debt-servicing situations. It has focused on the debt problems associated with commercial bank debt and debt owed to governmental creditors (restructured through the Paris Club). Finally, however, at the October 1995 meeting of the joint World Bank/IMF Development Committee, it was also agreed to address the problem of the debt owed to multilateral institutions by some of the world's poorest countries. The Committee is to consider proposals to deal with the problem at its meeting in spring 1996.

25. Whether owing to their debt overhang or to their having always been considered "poor" credit risks, many countries have become dependent on official international flows, especially official development assistance (ODA). However, the level of ODA in real terms has fallen for the past three years and the prospect is for continued contraction. From a development perspective, this is certainly unwarranted.

26. Even the capacity of the International Development Association (IDA), the concessional lending arm of the World Bank, to undertake its planned operations in 1996 has become uncertain, largely owing to the uncertainty about the authorizing by the Congress of the United States of America of the funds to meet the commitment to IDA of the United States Government. Moreover, additional commitments are now required for the next IDA replenishment, due to take effect on 1 July 1996.

II. STRIVING FOR LOW-INFLATION GROWTH IN THE DEVELOPED ECONOMIES

27. The recovery from the economic recession of the early 1990s produced one year in which the output of the developed economies grew as much as 3 per cent. That year was 1994 (see table A.1). In part because of the effort to hold inflation at bay, the growth rate in 1995 dropped about half a percentage point. The slow-down was most pronounced in Australia, Canada, New Zealand, the United Kingdom of Great Britain and Northern Ireland and the United States, which have

likely passed their peak growth rates for this cycle. This is not unexpected, as they were the first to emerge from the previous recession. In continental Europe, the recovery of 1994 and early 1995 slowed or paused later in the year, but growth is likely to be in the 2½-3 per cent range during 1996. After four years of almost no growth of output, the Japanese economy is expected to begin modest growth in 1996.

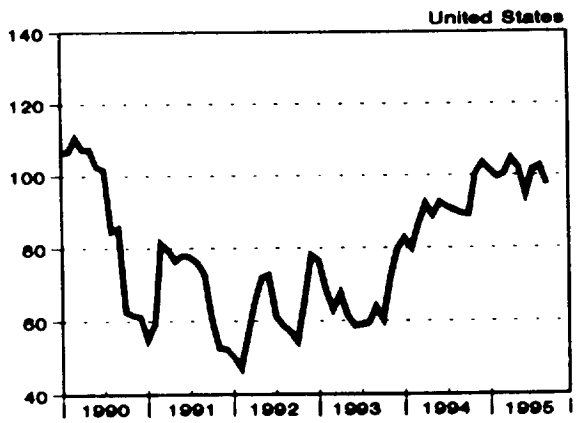
28. The prospect for 1996 is thus for another year of economic growth of 2½ per cent, with a further slight deceleration in growth, mainly in the United States, being offset by a pick-up in Japan. The growth would be accompanied by low inflation, a much-sought-after goal. However, high unemployment persists. More than 10 per cent of the labour force in Western Europe and about 7½ per cent in the developed economies overall were still out of work in 1995. The situation is not expected to improve much in 1996 (see table A.4). Moreover, even in North America, where unemployment rates have receded and in Japan, where open unemployment is still quite low compared with that of other countries, the slow growth of wages and a fear of unemployment among those working have come to characterize much of the labour market.

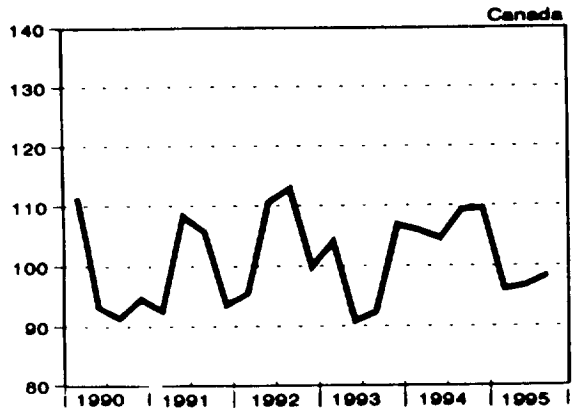
29. Economic activity has been growing more slowly in the current recovery than during the previous two cyclic expansions, in part because of policies. While monetary policy was generally relaxed slightly in 1995 (as discussed below), it had been tightened in 1994 in countries where the growth of spending was relatively strong and, partly independently, market-determined interest rates rose in almost all the countries. Policy makers and financial markets had begun to fear that a rise in inflation would accompany strong growth, as had often been the case in past recoveries. Thus far, however, the recovery has been accompanied by the lowest rate of inflation since the 1960s. Although inflation is likely to rise, consumer price increases in 1996 are expected to average below 3 per cent for the fourth consecutive year (see table A.3).

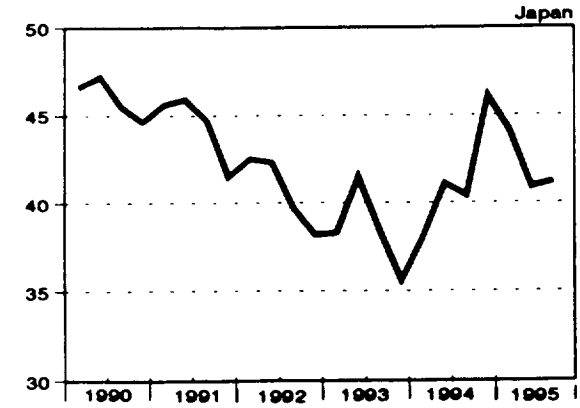
30. Fiscal deficits, which grew during the recession, have been slow to recede. Governments are thus setting themselves targets for improvements in their fiscal positions and this itself slows the growth of total spending. The attention to fiscal consolidation - formalized in the case of the targets set by the Maastricht Treaty for member countries of the European Union - is being set against longer-term concerns, including, in particular, the ability of Governments to discharge their commitments to a rapidly ageing population. This means that they - and the markets - are paying attention not just to the present budget position, but to how expected demographic changes will affect future revenues and expenditures. Another reason for fiscal restraint is the belief that government claims on resources have been discouraging business investment.

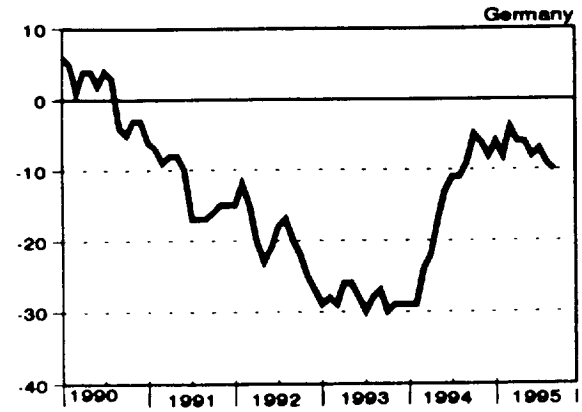
31. A particular feature of the present cycle is that increased output has not led to commensurate increases in real wages. This has been a major factor in holding inflation down to its present low levels. Yet, this restraint in real wage increases means that consumer spending has not played as large a role in stimulating economic growth as in previous cycles. Indeed, the rise in consumer confidence that normally accompanies recovery from economic recession appears to have been short-lived in several major economies (see figure). It raises questions as to whether businesses that might be encouraged to invest by

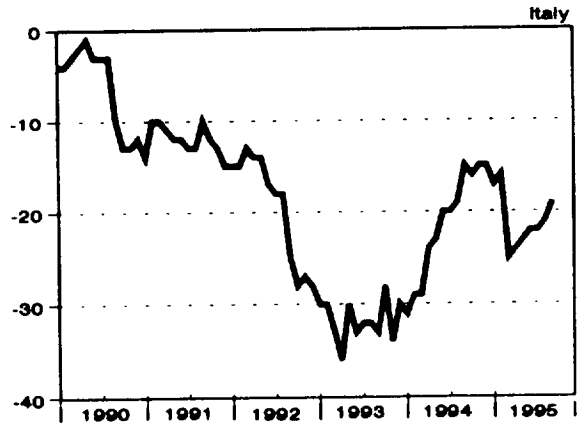
Consumer confidence in seven major economies, 1990-1995

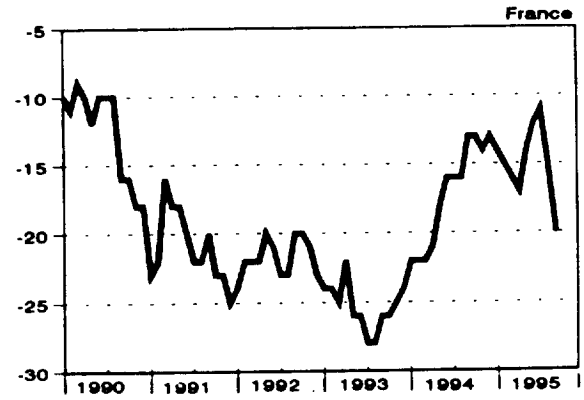


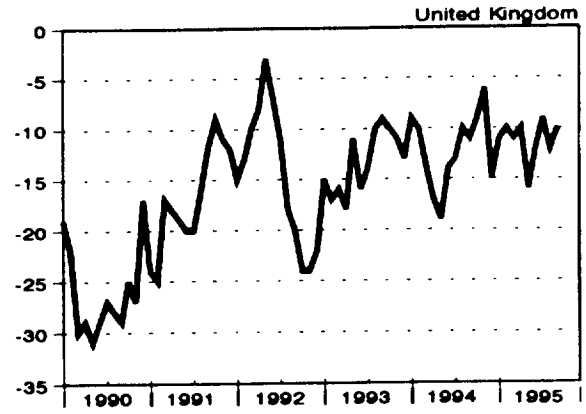












Source: United States: The Conference Board; Canada: Conference Board of Canada; Japan: Consumer Behaviour Survey, Economic Planning Agency; Germany, France, Italy and United Kingdom: European Economy

Note: For Canada and United States, measure is an index (1961 = 100, 1962 = 100, respectively); for Japan, measure is a composite index (percentage); for others, measure shows percentage of respondents to a survey who expect an improvement minus percentage of respondents who expect a deterioration.

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restrained growth in labour costs will instead be in time discouraged by sluggish consumer demand.

32. The high-unemployment situation is a related concern for policy makers. First, full access to jobs and reasonable income security are necessary components of social cohesion and the just society, as highlighted at the World Summit for Social Development, held in Copenhagen in March 1995. However, in addition, contemporary labour-market conditions make households cautious, reduce "consumer sentiment" and hold back the growth of consumption expenditure. 7/

A. Sources of economic growth

33. The economy of the United States appears to be heading towards growth of around 2½ per cent in 1996, with inflation remaining at about 3 per cent. Capital spending has been the main engine of growth in the current cycle, with non-residential fixed investment in 1993-1995 rising at annual average rates of close to 14 per cent in real terms. The growth of business investment is expected to slow in 1996 and beyond as the need to retool eases, but its growth rate is likely to continue well ahead of that of GDP. The resulting increase in productive capacity will help hold back inflationary pressures. With wage gains barely keeping up with inflation, increases in consumer spending will be largely determined by job growth, which has been decelerating. At the same time, there will likely be a pick-up in exports as the recovery in other large industrialized economies continues and trade with Mexico stabilizes.

34. After recording growth rates of close to 5 per cent in 1994, the economies of Australia and Canada slowed markedly in 1995 owing to the tightening of interest rates. In Canada, higher interest rates were accompanied by weaker external demand as the slow-down in the United States held back demand for Canadian exports (around 80 per cent of Canadian exports are to the United States). Higher growth in 1996 is contingent on the ability of the continuing strength in investment in Canada, together with improving export performance, to offset weakness in consumer expenditures which is due, at least partly, to the steady decline in real wages despite recovery.

35. Japan has been passing through an unusual period of prolonged economic weakness and no GDP component appears set to revive sufficiently to bring about more than a slow recovery in economic activity. The growth of consumer demand slowed in 1995 and is likely to stay weak because of unfavourable employment conditions and, to a lesser extent, the decline in household wealth caused by reduced asset prices in financial and real estate markets. Residential investment, which was one of the few sources of growth in 1994, slowed considerably in 1995 but may improve slightly in the coming year owing to lower interest rates. The drag on growth that stems from the impact of the strong yen on producers of tradable goods should ease with the retreat of the yen from its peak exchange rate. However, slower demand growth in major trading partners is expected (see table A.7).

36. There was no increase in business fixed investment in Japan in 1995; but this constituted an improvement over the three consecutive years of decline in the level of investment. The stability of prices on the stock exchange, the

roll-back in some of the appreciation of the yen in the second half of 1995 and the slow-down in the decline in land prices are expected to improve the balance sheets of firms and raise business confidence. Thus, business fixed investment is expected to rise in 1996, albeit slowly. Public investment may account for most of the growth of investment in 1996.

37. The growth of economic activity has recently slowed in Europe. The recovery from the 1993 recession had largely depended on exports and an early-cycle increase in inventory investment. Subsequently, the slowing in external sources of demand and the deceleration in stock-building caused the slow-down. In 1996, internal demand is expected to become increasingly the driving force of recovery. In particular, the high level of capacity utilization, combined with high profitability, points to a rise in investment. At the same time, the pace of private consumption is expected to remain moderate, as consumer confidence is still low owing, above all, to the absence of significant improvement in the employment situation.

38. In both France and Germany, the growth of exports and private investment, which held up demand in 1994 and early 1995, slowed down significantly in the second half of 1995, while private consumption remained sluggish. In developments, contrary to these, many of the countries that had earlier undergone a depreciation of their currencies relative to the deutsche mark continued to show an acceleration in GDP growth. In Finland, Italy, Spain, Sweden and, to some extent, Portugal, continued economic expansion was mainly driven by exports; but it was also supported by fixed investment, which responded strongly to an increase in external demand.

39. The economy of the United Kingdom, another country whose currency had depreciated earlier, followed a different pattern in 1995. Economic activity began slowing down in the summer owing to a decline in export growth and a working down of inventories that had unexpectedly swollen. The growth of economic activity in 1996 is expected to be mainly based on consumption and business investment growth, with net exports providing a much smaller stimulus.

B. Macroeconomic policy stances

40. More confident that inflation has been brought under control, policy makers in the developed economies have turned their attention to trying to ensure that non-inflationary growth is sustained. This has led to a general, if modest, easing of monetary policy during 1995 and a significant decline in market-determined interest rates. At the same time, fiscal stances remain restrictive, as deficit reduction policies continue to receive most attention, except in Japan, where deep-rooted problems have impeded the recovery in economic activity.

41. The monetary authorities of the United States have sought to fine-tune monetary policy so as to sustain the expansion, while avoiding the inflationary pressures that might be produced by a more robust rate of growth. As the United States economy has enjoyed both significant growth and low inflation over this period, the conduct of monetary policy can be judged as having been very successful. The Federal Reserve had raised short-term interest rates a number

of times in 1994 to slow the economy. Then, in July 1995, when it judged that the economy was decelerating too quickly, the Federal Reserve lowered short-term interest rates by a quarter point to 5.75 per cent. Growth rebounded in the third quarter of 1995 (see table A.2), but appeared to falter towards the end of the year. Fiscal policy in 1996 is expected to remain restrictive for the fourth consecutive year, given the intention of both the Administration and the Congress to bring about a balanced budget. In this context, additional easing of monetary policy appears possible.

42. In the face of a slowing economy, the Central Bank of Canada began cutting interest rates in May 1995; but monetary easing was interrupted in the period leading to the 30 October referendum on the possible secession of Quebec from Canada. As uncertainty spread in the financial markets, the Bank of Canada raised interest rates to stem an outflow of funds and maintain the value of the Canadian dollar. Following Quebec's close vote to remain a part of Canada, interest rates declined again. On the other hand, fiscal policy has been set for a major reduction of the budget deficit in 1996, so as to bring it down to 3 per cent of GDP (from 4 per cent in 1995 and higher percentages in each of the two previous years). Fiscal tightening is also planned in Australia. Yet the inflation picture and the balance-of-payments deficit make it difficult to ease monetary policy there. In contrast, economic growth in New Zealand in 1996 is likely to be supported by lower interest rates and tax cuts, made possible by earlier fiscal consolidation.

43. To alleviate the difficult economic situation in Japan, the authorities have undertaken several demand stimulus measures of unprecedented magnitude in the past several years. In 1995, the Government introduced three additional emergency fiscal packages; the last one, announced in September, amounted to $132 billion. The fiscal stimuli aimed to boost the economy through higher public works spending, land purchases and low-interest loans. Although the measures may have prevented a sharper contraction in the economy, they have not yet brought about economic recovery.

44. Moreover, there is concern that the changing demographic profile in Japan will add considerably to the fiscal burden of old-age pensions in future years, which is interpreted as reducing fiscal manoeuvrability today. Thus, no new fiscal stimulus is expected.

45. In addition, the Bank of Japan lowered the official discount rate from 1.75 to 0.5 per cent during 1995. The effect on the economy, however, is likely to be limited. In particular, it is not expected to compensate for the damage caused by the fall in asset prices and the rise in the stock of non-performing loans at banks and other financial institutions. These balance sheet difficulties impeded banks from supplying liquidity, particularly in extending loans to small- and medium-sized firms. The total amount of non-performing loans, estimated to be about 7.8 per cent of Japan's GDP, has necessitated more than the standard attention of policy makers. Since August 1995, international financial markets have voiced their concern about the state of the Japanese financial system by charging a "Japan premium", a higher rate of interest than previously on borrowing by Japanese banks. Most importantly, the use of large amounts of public funds to rescue some troubled financial institutions - as was

the case when the United States Government intervened in the crisis of the savings and loan sector of its financial system - cannot be excluded in 1996.

46. It is increasingly argued that, to accelerate and smooth the transition in Japan, deregulation and liberalization of the economy must be undertaken. It is deemed of special importance to introduce more market-based and competition-enhancing policies to the non-tradables sector, whose productivity growth has lagged. The challenge for the authorities is to design policies that aim to improve the supply capabilities of both the financial and the non-financial sectors without a further worsening of the fiscal situation.

47. In 1995 in Europe, a rate of growth slower than the authorities had expected, as well as currency appreciation, led to decisions to ease monetary policy in several countries, most significantly Germany. Action by the Bundesbank enabled some other countries such as Austria, Belgium, Denmark, Ireland, the Netherlands and Switzerland to follow suit. Monetary policies in those countries usually shadow that of Germany in order to maintain a fixed exchange rate against the deutsche mark. For instance, the cuts in German official rates enabled Denmark's central bank to reduce its official discount rate to 4.25 per cent by the end of 1995. It was the first time since 1959 that the rate had fallen below 5 per cent. Given moderate growth prospects and low inflationary pressures, the monetary policy stance in those European countries is not likely to change much in 1996, although some further narrowing of interest rate differentials with Germany might occur. On the other hand, to maintain the exchange rate of the French franc at a time of pressure on the currency, the Banque de France raised interest rates in late 1995.

48. Monetary policy in several other European countries tightened significantly in late 1994 and early 1995. The financial markets had previously forced these countries to depreciate their currencies against the mark and the European currency unit (ECU). The main aim of the new tightening was to counter inflationary tendencies and stabilize the exchange rate. For instance, the discount rate in Italy was raised in July 1995 to 9.5 per cent, which was 2.5 percentage points above the level in July 1994. Since then, however, inflation has been reduced not only in Italy, but also in Greece, Portugal, Spain and Sweden. This may help them avoid further monetary tightening, but the continuation of a cautious monetary policy course is expected.

49. In the United Kingdom, in order to prevent upward pressure on inflation resulting from relatively fast economic growth, the base rate of the Bank of England was raised in three steps from 5.25 per cent in September 1994 to 6.75 in February 1995. From then until December 1995, a "wait and see" policy on interest rates was maintained as the economy grew slower than in 1994, but still above 2.0 per cent per annum. It was unclear whether the inflation target (2.5 per cent or less) that had been set by the Government would be met. The pause ended on 13 December 1995, when the base rate was reduced by a quarter of a percentage point on the basis of signs that the growth slow-down might last longer than had previously been expected by the Government, as well as of the improved probabilities of achieving the inflation target. The small size of the cut could be attributed to the fact that the exchange rate of sterling was close to its all-time low and a more significant reduction would have pushed the pound

lower. In this respect, the subsequent 0.5 per cent cut in German interest rates assisted this policy move.

50. Overall, the thrust of fiscal policy in Europe remained tight in 1995. Some countries took steps to put their public finances on course to meet the budgetary criteria under the Maastricht Treaty for entering the single European currency area at the end of the decade. A further deficit reduction is planned in many countries, including Belgium, Finland, France, Greece, Italy, Portugal, Spain and Sweden. The fiscal impulse in Western Europe as a whole, however, is likely to be less contractionary in 1996 than in the previous year, as the German budget will be less restrictive.

III. COPING WITH SHOCKS AND SEIZING OPPORTUNITIES IN THE DEVELOPING COUNTRIES

51. The 5 per cent growth of GDP of the developing countries in 1995 and the 5½ per cent growth forecast for 1996 reflect the capacity of many developing countries to capture and effectively utilize growth impulses. In 1995, many of these arose in the international economy, more perhaps than in recent years. Their translation into economic growth has also been enhanced in many countries by progress in domestic economic adjustment and in some cases by the quieting of political instability and civil disorder. Some countries, however, have had to adjust to shocks in 1995 by undergoing economic contractions. None the less, out of the 94 developing countries that are monitored on a regular basis, only 7 are estimated to have had outright reductions of output in 1995. 8/ The corresponding number of countries in 1994 had been 17.

A. Africa

52. Output per capita in Africa is expected to rise in 1996, but only for the first time in more than a decade. 9/ Prospects have improved because of relatively favourable external conditions and improved domestic policy environments. However, unpredictable adverse weather patterns, to which Africa is particularly susceptible, could undermine the forecast, as they have done before.

53. Exports were the dominant stimulus to GDP in 1995. Export earnings improved as a result of rising demand for Africa's commodity exports and thus higher prices. Two major petroleum exporters, Algeria and the Libyan Arab Jamahiriya, resumed economic growth. Furthermore, although tropical beverage prices dropped sharply in 1995 after the spectacular gains of 1994, producers increased the volume of exports and this compensated for the price declines. The stimulus from trade prices is expected to slacken, however, as the commodity price boom runs its course within the next year or two.

54. Economic performance has improved in the franc zone since the devaluation of the Communauté financière africaine (CFA) franc in January 1994, but by less in the central part of the region than in its western part. 10/ The devaluation has stimulated exports and triggered increased inflows of official and private resources. Inflation rates dropped during 1995, after having jumped when the

devaluation sharply increased the prices of tradable goods. However, they remained in double digits in some countries. While commodity exports have been the driving force in the region, investment and manufacturing production are picking up in some countries, in Côte d'Ivoire in particular. Structural reforms are gaining momentum in a number of countries, focusing on privatization, the civil service, and agricultural marketing.

55. One particularly welcome development is that some countries in Africa have moved into a phase of peace and relative stability after years of civil and political disturbances. As they move from disruption to development, their economic growth resumes; but whether it is in Angola, Ethiopia and Mozambique, or Namibia and South Africa, a significant proportion of investable resources have had to be committed to the immediate requirements of the reconstruction of social, political and economic institutions, and the repair and extension of infrastructure, as well as the resettlement of returnees and other relief activities.

56. Political tensions of different levels of intensity continued to impede the expansion of economic activity in several other countries. Coup attempts in the Comoros and Sao Tome and Principe highlighted the fragility of the political situation in some countries. On the other hand, the recent peace accords in Liberia are paving the way for the restoration of key political and civil institutions that are necessary for the resumption of viable economic activity in the country.

57. Significant growth remains elusive in some of the poorest countries of Africa. Drought or inadequate supplies of water in southern and northern parts of the continent reduced agricultural output and increased the diversion of foreign exchange earnings for food imports in several countries in 1995. The third drought in Morocco in four years has worsened the budget and current-account deficits and inflation. The Food and Agriculture Organization of the United Nations (FAO) estimated that in 1995 approximately 23 million people in sub-Saharan Africa faced food shortages in drought-afflicted areas and in other areas where civil strife and security problems limited farming and distribution activities.

B. Latin America and the Caribbean

58. In 1994, economic growth in Latin America was the most rapid since 1980. The rate, however, was only 4.5 per cent and in 1995 the rate of growth fell to 1 per cent. Growth in 1996 is not expected to reach 3 per cent. Much of the reason lay with the Mexican foreign-exchange crisis that began at the end of 1994. A full year after the Mexican crisis erupted, its negative effects are still being felt in the region, as will be noted below.

59. The Mexican crisis should not overshadow, however, the major achievement in sharply reducing inflation. The increase in consumer prices (expressed at an annual rate) was 26 per cent in the third quarter of 1995, compared with 1,689 per cent in the same period of 1994 (see table 2). A further slowing of inflation is forecast for 1996. This is an important indicator of widespread monetary and fiscal tightening and structural adjustment. The "Real Plan" in

Table 2. Consumer price inflation in Latin America and the Caribbean, 1990-1995

(Average percentage change over previous year or over same period of previous year)

					1994 quarter				1995 quarter		
	1990	1991	1992	1993	I	II	III	IV	I	II	III
Total	1 747	243	428	922	1 487	2 096	1 689	694	240	68	26
of which											
Argentina	2 316	172	25	11	6	4	4	4	5	4	3
Bolivia	17	21	12	9	8	8	7	8	9	11	10
Brazil	3 233	441	1 009	2 148	3 572	5 047	4 060	1 653	550	125	24
Chile	27	22	16	12	14	14	11	8	8	7	8
Mexico	27	23	16	10	7	7	7	7	15	34	42
Peru	7 592	410	74	49	34	26	21	17	13	11	10
Venezuela	41	34	31	38	47	53	68	71	70	68	53

Source: United Nations/DESIPA, based in part on data of IMF, International Financial Statistics.

Brazil brought inflation down to 24 per cent in the third quarter of 1995, compared with 4,060 per cent in the third quarter of 1994 and 2,148 per cent in 1993. Single-digit or low double-digit inflation rates are now being maintained in Argentina, Chile, Bolivia, Peru, Colombia and several Central American countries.

60. Not all countries in the region shared in this success against inflation, notably Mexico, following the devaluation of the peso. Nor is further progress guaranteed. In particular, Brazilian public finances deteriorated towards the end of 1995, as negotiations with the Congress for the adoption of necessary reforms to cement the success of the Real Plan progressed very slowly and additional pressures on the budget emerged owing to difficulties in the banking sector.

61. In Mexico itself and in Argentina, both of whose recent economic growth had been supported by large inflows of private foreign capital, the abrupt reversal of the flows and the need to adjust quickly to the new environment by the adoption of austerity measures caused outright recession. Economic difficulties were compounded by a severe banking crisis in both countries brought about by the loss of liquidity during the crisis. 11/

62. Higher interest rates adopted as part of the adjustment process made it difficult for borrowers to honour their debts. This liquidity problem exposed the vulnerability of several banking institutions holding depreciated assets or non-performing loans and facing efficiency problems. In Argentina, the difficulties were compounded by the currency-board arrangement and fixed exchange rate, as well as banking laws, which made it difficult for the central

bank to rescue many troubled banks, except with new financial inflows provided for the purpose by multilateral institutions.

63. Recovery in both countries will be slow. Unemployment, sluggish demand and the need to address fiscal imbalances are afflicting Argentina, although some signs of regained confidence in its banking system are a positive development. Mexico's banking system remains quite fragile, and this is undermining investor confidence in the economy. The drop in the peso exchange rate in the fall of 1995, when financial managers became nervous about macroeconomic policy, and the subsequent monetary tightening may be indicative of the little room to manoeuvre being given to the Mexican authorities.

64. The Mexican crisis also led to a slow-down in the rate of GDP growth of other countries. Brazil, Colombia and Peru had to adopt tight monetary policies in early 1995, as consumption and import surges that had been financed in part by capital inflows became untenable in the environment that followed the Mexican crisis. In Brazil, the slow-down that this induced lowered employment and output growth in the second half of 1995; but in December the Brazilian monetary authorities reversed their policy somewhat by relaxing their grip on consumer credit and lowering the central bank discount rate. In the case of Uruguay, the impact of the crisis came via the recession in Argentina, its major trading partner. GDP growth in Uruguay thus contracted by 1.5 per cent, after growing 4 per cent in 1994.

65. The Mexican situation did not negatively impact on all countries in the region. Chile, for example, whose standing in the international financial markets remained high throughout the crisis, saw its economy grow 8 per cent in 1995 (compared with 4 per cent in 1994). Growth was led by exports and increased investment.

66. In addition, countries that did not experience the surge of capital inflows of the early 1990s have not been hurt much by the Mexican crisis. Their recent performance was mainly the consequence of particular domestic developments. The Central American economies, excepting Costa Rica which is undergoing a fiscal adjustment, were able to maintain or even increase their rates of GDP growth on the basis of gains in exports and increased investment activity in 1995. El Salvador and Honduras, recently emerging from disruption or recession, are forecast to sustain significant growth rates. Economic recovery in Nicaragua is expected to strengthen in 1996, as it addresses legislative and ownership rights problems.

67. The economic outlooks for Cuba and Haiti seem cautiously improved, compared with the situation in the calamitous last five years. In Cuba, industrial output improved owing to the introduction of economic policy reforms. In Haiti, greater political stability and substantial commitments of foreign assistance were impulses to economic activity. Growth prospects for some of the other island economies of the Caribbean have been constrained by power shortages and the limited scope for expansionary government intervention.

C. South and East Asia and the Pacific

68. The rate of economic growth in South and East Asia and the Pacific strengthened to 7 per cent in 1995. A dozen economies in the region (not including China, which is discussed separately below) grew by more than 5 per cent and two more by close to 5 per cent. 12/ The major impetus in the fast-growing economies has been the strength of investment and exports, which bodes well for the future.

69. Private investment has been rising strongly in response to macroeconomic stability, solid economic growth and increased access to international funds. In countries where public investment has been tempered by restructuring, such as India and the Philippines, the rise in private investment has been an important source of investment growth. In the member countries of the Association of South-East Asian Nations (ASEAN), FDI has constituted a large share of private investment, as the relocation of production from Japan, Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China continued, owing to the appreciation of the yen and rising wage costs in these countries.

70. Investment is expected to remain an important source of growth in spending in 1996, despite restraints imposed by tighter monetary policy. The high level of investment commitments in 1995 point to continued strength in direct investment inflows in 1996. Public investment growth will remain strong in many Asian economies, including Hong Kong, Indonesia, Malaysia, Singapore and Thailand, owing to the pressing need to relieve infrastructure bottlenecks and the room to manoeuvre accorded by government budget positions. Where public investment has increased rapidly despite the imperative of budgetary correction, as in Viet Nam, inflation has accelerated substantially.

71. Exports are also expected to remain an important source of growth in 1996. While they will not match the special opportunities created by the unusually strong yen in 1995, export growth will remain substantial as a result of continued policies of competitive valuation of currencies, liberalization of the trade sector and structural reforms that promote exports. Through this, coupled with the effects of anti-inflationary adjustment programmes in several countries, economic growth in the region is expected to moderate slightly, to 6¾ per cent in 1996.

72. Despite the overall picture of economic dynamism in the region, it is not universal. The mining-dependent economy of Papua New Guinea contracted substantially in 1995, as output of the mining sector declined sharply. Economic growth is expected to resume slowly in 1996, with the impetus from improvements in mining output, the continuation of strong (if less high) commodity prices and the coming on line of oil refineries.

73. In some countries, including the Republic of Korea, Indonesia, Malaysia, Thailand, India, the Philippines and Viet Nam, high rates of GDP growth raised inflationary pressures and increased external deficits. Policies in most of these countries have been aimed at adjusting economic expansion to more sustainable but still high levels.

74. Monetary policy is the primary instrument relied upon to dampen inflationary pressures in these countries. Although the levels of inflation are not high by international standards (in the range of 4-15 per cent a year), the threat of acceleration of inflation underlies the concerns of Governments. Maintaining a tight monetary policy has been complicated in several Asian economies because high domestic interest rates relative to international rates attract large inflows of short-term funds and generate excessive domestic money supply growth. A range of measures, including higher reserve requirements of banks, direct restrictions on credit and controls to limit financial inflows, have been instituted in these countries.

75. There is significantly less flexibility in taking tighter fiscal measures because of political pressures against reductions in government social spending and the need for infrastructure investment. Tensions over the budget is a factor, for example, in the adjustment debate in India, Pakistan and other countries. Pakistan, for example, is recovering from three years of slow economic growth, associated recently with the devastation of its cotton crop by blight; but the government deficit remains high and its external deficit has deteriorated rapidly. The currency was devalued in response and a stand-by agreement was secured with IMF which should bolster investor confidence. Although the Government was seeking to slow the correction of its budget deficit in 1996, in order to raise expenditure for a variety of purposes, reduction of the budget has also to remain high in the policy agenda.

D. China

76. As in other high-growth countries in South and East Asia, macroeconomic policies in China have aimed at correcting internal and external imbalances, while moderating economic growth to more sustainable levels. The stabilization programme, initiated in mid-1993, continued in 1995. It is based primarily on measures to slow the growth of the money supply, combined with some administrative controls on prices and investment. It reduced the growth of broad money (M_2) from 34 per cent in 1994 to about 25 per cent during the first three quarters of 1995 and the rate of growth of investment has been halved. Partly as a result, a moderate slow-down of economic growth has been taking place (from 13 per cent in 1993 to about 10 per cent in 1995, with a further slowing to 9 per cent in 1996), and a significant reduction in inflation is being achieved (from a peak of 24 per cent in 1994 to about 18 per cent in 1995). The policy is to maintain the tight monetary stance.

77. With the growth of aggregate expenditure slowing, a main contributor to high inflation lay in a sectoral problem, namely the supply of food. A poor grain harvest in 1994 and official price increases raised average food prices in early 1995. Then, bottlenecks in transport and distribution exacerbated the supply problem, despite a very good summer harvest in 1995. Indeed, 1995 will be a near-record year in agricultural production, owing partly to the more favourable weather compared with that of 1994 and partly to the supply response to the higher prices. Yet, concerns about recurring short-term imbalances between supply and demand in agricultural products and China's ability to meet the food demand of its increasing population in the long run have prompted the

Government to emphasize the modernization and liberalization of agricultural markets and distribution systems and increase investment in the sector.

78. The industrial sector is also a focus of government policy. While the share of State-owned enterprises (SOEs) in total industrial output has continued to decline to just over 40 per cent, stockpiling of unsold products and chain debt among State firms still plague this sector. Loss-taking SOEs continue to balance their books in part with bank credits issued in amounts that undermine macroeconomic policy. However, in 1995 the Government's tight monetary stance has restricted, to a degree, the flow of financial resources to prop up inefficient State enterprises, putting them in dire financial circumstances. At this juncture, the policy dilemma over improving performance of those enterprises through reforms and keeping a low rate of unemployment has become acute.

E. West Asia

79. Higher oil prices and revenues in the major oil-exporting countries, as well as increased private sector activities helped underpin economic recovery in West Asia, while helping to ease fiscal and external imbalances. Improved prospects for peace in the region have stimulated new investment as well as speeded reconstruction, which has also raised economic growth.

80. On the whole, economic activity is expected to expand 2½ per cent in 1996, as the effect of the 1995 rise in oil prices and greater private investment filter through the economies. This forecast is contingent, however, on maintenance of the level of oil production and international oil prices, continued implementation of recently introduced economic reforms, expansion of private investment and continuation of the peace process. The contribution of the private sector to economic activity is expected to be enhanced by the recent drive towards privatization in a number of countries, including Bahrain, Kuwait, Oman and Saudi Arabia. Progress in the peace process will help raise economic growth by unleashing greater flows of trade and investment, particularly in Jordan and Israel.

81. The ramifications of the 1991 Gulf war continue to constrain economic activity in several economies, most notably Iraq, Kuwait and Yemen. The unsettled political relations between Iraq and other countries continue to disrupt its trade and financial flows. The economic sanctions on Iraq have crippled the country's economy and, of course, trade with neighbouring countries.

82. In the oil-exporting countries, the decline in oil revenues in previous years prompted efforts to slash government expenditures, raise government revenues, enhance the role of the private sector, liberalize trade and encourage investments, so as to diversify production into non-oil sectors. The reforms instituted have begun to improve current-account and budget deficits. In some of the countries of the Gulf Cooperation Council, including Saudi Arabia and the United Arab Emirates, which faced rising budget burdens from generous subsidy systems and welfare benefits, subsidies of public utilities and health services have been reduced and fees have been charged or raised for a number of

government services in 1995. Additionally, most member countries are looking to privatization to raise government revenues and to reduce the government's dominant role in the economy. Saudi Arabia, for example, is seeking to diversify its exports by calling upon local and foreign investors to participate in various petrochemical and mining projects.

83. Economic activity in the oil-importing countries has been buoyant overall. The Israeli economy grew by about 6 per cent, despite weaker consumer spending. Its growth continued to be principally driven by private sector activity and a high growth in domestic demand (in terms of consumer durables in particular, if not of total consumption) and an expansion in exports. The GDP of Jordan expanded at a comparable rate and is expected to improve further in 1996. Jordan has begun to benefit from its peace treaty with Israel, for example, with tourism-related arrivals rising and private investment surging. In Lebanon, economic recovery in 1995 was fuelled by the rehabilitation and reconstruction of the country's infrastructure, although high inflation and rising interest rates may be undermining the recovery.

IV. PROGRESS OF RECOVERY IN THE TRANSITION ECONOMIES

84. Beginning in 1989 in Central and Eastern Europe (CEE) and somewhat later in the States that had constituted the former Soviet Union, policy makers initiated the outright transition from central planning to market economies. They embarked on a process of economic and social retrofitting without precedent. That all the countries, at the point at which they started, had planned economies of one form or another perhaps disguised the fact that those countries were very different in terms of their economies, societies, polities. Today, it is clearer how much both the starting-point and the pace and pattern of transformation matter to its successful conclusion; and, as in the market economies themselves, the politics of policy formation rarely move in a straight line.

85. Even so, the deep economic decline that has been a feature of the early stages of the economic transition process appears to be finally ending. Output fell in all the transition economies in 1990 and 1991 (see table A.6). In 1992, only the Polish economy grew, although modestly; in 1993, the CEE economies as a whole expanded. By 1994, the economies of all the CEE countries and each of the Baltic States had begun to grow. This continued in 1995, with the countries concerned joined by Armenia (although the growth there primarily reflected some revival of activity after the catastrophic decline in earlier years). However, even though output is reported to have still declined in almost all the countries of the CIS, the rate of fall slowed in 1995. In 1996, the economy of the Russian Federation is forecast to grow. The expansion of the Russian economy, given its size and central role in the CIS, will be an especially significant support for the recovery of the other CIS countries.

86. In certain European countries, moreover, policy makers now regard their economies as having largely traversed the path of transition. In November 1995, the Czech Republic became the first transition economy to become a member of the Organisation for Economic Cooperation and Development (OECD). Yet, a major objective of many of the European transition economies goes much further, namely

to meet the conditions for joining the European Union. In itself, this gives a particular direction to transition policy, entailing placing sharp limitations on inflation, budget deficits and exchange-rate instability, while working rapidly towards a relatively liberalized environment that allows the State sector only a limited direct economic role. The conditionality of official international assistance also pushes in the same direction. Already by 1995, several countries had declared the convertibility of their currencies to be at the level required for in accordance with article VIII of the IMF Articles of Agreement. 13/

87. Certain other countries, however, are still at an early stage of fundamental change and the policy consensus is still in formation. Some of the member countries of the CIS began their transition after having been very closely tied to the Russian Federation, in some cases for centuries. These States had to create not only the institutions of a market economy, but the institutions of statehood itself. Moreover, while some of the countries will end the transition period as developed market economies, others, beginning at low levels of average income, will warrant for considerable periods the kind of continuing international support that is accorded to developing countries.

A. The Commonwealth of Independent States (CIS)

88. For the first time since its creation, the economies of the CIS taken together are expected to grow in 1996. The growth, should it successfully emerge, would be quite small and essentially determined by the forecast that growth will begin in the Russian Federation in the first quarter of 1996. The Russian Federation accounts for about 70 per cent of the total output of the CIS.

89. In fact, it is widely believed that the Russian economy was already growing throughout 1995. The reason for the discrepancy with officially reported data is that a large share of output in the Russian Federation is now produced by unregistered economic activity that is inadequately captured in the officially reported data. However, the data are being improved. In September 1995, the Russian Government approved revised estimates of the country's GDP for the years of transition, prepared by a joint Goskomstat-World Bank team. The revised data indicate that the economy has lost about one third of its output since 1990, not the more than half that was previously reported. Further revisions of both past and current performance are expected and it is likely that they will reflect more accurately the size of the "shadow economy" which has been growing rapidly.

90. The beginning of recovery notwithstanding, the social situation remains very difficult, although it appears to be improving. The number of people living below the Russian Federation's poverty line, for example, declined from 51 million to 34 million in the first eight months of 1995, and the growth of unemployment has slowed down.

91. Moreover, after several false starts, an economic stabilization policy in the Russian Federation appears to be working. Fiscal and monetary tightening have brought about a sharp decline in the rate of inflation (see table 3). Most significantly, the monthly rate of inflation was reduced to about 5 per cent by

Table 3. Inflation in consumer prices in selected transition economies, 1990-1996

(Annual percentage change)

	1990	1991	1992	1993	1994	1995 a/	1996 b/
Albania	..	104.0	266.0	85.0	22.6	15	11
Bulgaria	23.8	254.3	79.4	72.9	96.2	65	40
Czech Republic	9.9	56.7	11.1	20.8	10.0	13	9
Hungary	28.9	35.0	23.0	22.5	19.1	29	20
Poland	585.8	70.3	42.4	34.6	33.3	27	20
Romania	5.1	161.1	210.4	256.0	136.8	30	30
Slovakia	10.6	61.2	10.0	23.2	13.4	12	10
Russian Federation	..	100.0	1 468.0	875.0	303.0	170	60

Source: National statistics and Economic Commission for Europe (ECE).

.. Indicates data not available.

a/ DESIPA estimate.

b/ DESIPA forecast.

the last quarter of 1995. This is in marked contrast to the stabilization efforts of previous years, when temporary progress in reducing inflation during the early part of the year was each time negated by a surge of inflation at the end of the year, following excessive credit creation in late summer and early autumn in response to seasonal borrowing demand. The rate of inflation forecast for 1996 as a whole is 60 per cent, which, although still high, represents a considerable reduction from the rate of previous years.

92. Over the last two years, the Government of the Russian Federation has reduced the inflationary financing of the budget deficit. In addition to borrowing from international financial institutions, it has been able to draw upon a rapidly expanding domestic demand for government securities. In 1995, the Central Bank and the Government introduced a number of measures to further strengthen this demand. They diversified the financial instruments offered and encouraged banks to channel funds to the government securities market, by making it less attractive to undertake currency arbitrage as an alternative placement of funds by banks. The currency "corridor" reduced the opportunities for speculation, and increases in bank reserve requirements reduced the funds that banks had available for such speculation.

93. With inflation slowing in the Russian Federation, the rouble exchange rate against the dollar appreciated in real terms beginning in the spring of 1995, although within a pattern of considerable fluctuation. In late summer, the

/...

Russian authorities sought to reduce fluctuations in the exchange rate by introducing a rouble trading "corridor" within which the exchange rate has since been allowed to move.

94. There was some concern that the rouble's appreciation would dampen exports, but the trade statistics do not show such a development. In fact, merchandise exports to non-CIS countries for the first 10 months of 1995 reached $53 billion, an increase of approximately one fifth compared with the figure for the same period in the previous year. Imports for the same period were $34 billion which produced a substantial trade surplus.

95. While the trade and exchange-rate developments pointed to an improved outlook for the external accounts, there remained the unresolved issue of foreign debt. After the dissolution of the Soviet Union, the Russian Federation inherited the foreign debt of the USSR, although it did not fully service it. In November 1995, after four years of intensive negotiations, the Russian Federation reached an agreement with its commercial bank creditors to reschedule the payment of interest and principal on $32.5 billion of bank loans. Under the terms of the agreement, which does not include any debt forgiveness, the principal of $25.5 billion is to be repaid in full over 25 years after a seven-year grace period. The $1.5 billion of accrued and unpaid interest for 1994-1995 will be paid by the end of 1996, with the rest of the outstanding interest being converted into 20-year bonds with a seven-year grace period. The agreement is expected to make it easier for the Russian Federation to resume borrowing on international financial markets and it would mark another major step in the process of financial and economic normalization.

96. While the Russian Federation has thus shown a measure of progress within several macroeconomic dimensions, the situation in the other countries of the CIS is more difficult. Statistical data reported by the other CIS countries have not yet undergone revision and improvement to the same degree as in the Russian Federation and so it is difficult to form confident assessments of their current situation, much less forecast their future economic performance. It is possible to state, though, that these economies remain deeply depressed. In Uzbekistan and Kyrgyzstan, GDP decline is probably bottoming out. In all other CIS countries, aggregate output continued to shrink at a rate of approximately 10 per cent per year. There was some weakening of inflation in Armenia, Kazakstan, and the Republic of Moldova. Other countries continue to experience high inflation, notably Ukraine.

B. Central and Eastern Europe (CEE) and the Baltic States

97. About half the CEE economies have grown for three years and the others for two years, with rates of growth generally accelerating, if slowly (see table A.6). Similarly, each of the Baltic economies has grown since 1994. Macroeconomic stabilization and micro-economic transformation are also well under way in most countries.

98. As in earlier years, manufacturing has been the engine of growth in the CEE countries in 1995. Resumed economic growth in the Western European economies, and especially in Germany, has increased demand for relatively sophisticated

regional export products. Gross agricultural output fared quite well in the region as well, and this had not been the case in 1994. Construction's performance was particularly strong in the Czech Republic, Hungary and Romania.

99. In a development that sets the CEE region apart from the rest of the transition economies, gross fixed investment has been picking up, with a particularly strong growth of 12 per cent being recorded in 1995 in the Czech Republic. The fact that the growth rates of investment have been much higher recently than those of construction is indicative of the intensified retooling of industry.

100. Industrial recovery in the CEE countries has been coupled with strong gains in labour productivity. Output per worker has generally increased when joint ventures have taken over industrial plants, largely as a result of changes in organization and management style; but policy attention to raising productivity has been broad. The approach most recently taken in the region to making managers follow the profit motive and respond to market signals has been pragmatic, that is to say, one entailing the toleration of debts and losses and the attempt to induce gradual cost, profit and efficiency improvements.

101. As a rule, productivity has risen faster than real labour costs. Indeed, wage costs per unit of revenue have been falling (although Czech wage costs per unit of revenue have been rising). Even if profit margins have not yet increased substantially, the overall volume of profits seems to be higher, which is essential, after the earlier "lean years", for improving the liquidity situation of firms and accelerating investment.

102. Another benefit of the productivity increase is reduced inflationary pressure. Table 3 shows that the initial years of transition were invariably associated with very high inflation. By 1995, however, it had declined to between 12 and 65 per cent. In Bulgaria and Romania, which had had the highest rates of inflation in 1994, the rate of price increase fell rapidly in 1995. In 1996, the slowing of inflation should continue everywhere, but it will take a long time to squeeze inflation out of these economies. In 1996, only the Czech Republic may reach single-digit inflation, compared with about 10 per cent inflation in Slovakia, 20-22 per cent inflation in Hungary and Poland and 30-40 per cent inflation in Bulgaria and Romania.

103. Official unemployment rates seem to have stabilized at rather high levels (ranging from 10 per cent in Romania to 16 per cent in Poland, based on data through June 1995). In all countries except the Czech Republic, they are likely to decline, if only slightly. An increase in the Czech unemployment rate is expected sooner or later as a concomitant of economic restructuring. For countries with high shares of employment in agriculture (for example, Bulgaria, Poland and Romania), the prospects for a fall in the unemployment rate in the short-to-medium run are not good, even if industry and services keep expanding strongly. In the other countries, continued economic growth should be capable of generating jobs at a fast enough rate to reduce the unemployment rate to single digits.

104. Just as the macroeconomic agenda of transition is thus not yet complete, neither is the institutional one. All CEE countries still face formidable tasks

ahead over social security systems, banking, the legal environment, and the scope and methods of industrial and agricultural policies. They have to learn to deal with monopolistic structures and practices.

105. The present stage is marked by continuing privatization and a reduction in the scope and intensity of direct government involvement in economic activities.

106. As a result, the influence of individual economic actors like private businesses and partnerships has increased as firms' independence and their exposure to market forces are more firmly acknowledged.

107. Although there has been a radical dismantling of the pre-transition structures, the process of constructing new ones is far from complete. Infrastructure needs substantial investments even if telecommunications have improved. Agricultural employment as a percentage of total employment is still high; mining and heavy industries are still overmanned. Past cuts in investment outlays often undermined attempts to create productive assets incorporating modern technologies. While reductions in public expenditure on research and development may have improved public finances somewhat, they impeded the diffusion of technology and the creation of technological capabilities. Fiscal restraint also led to deep cuts in public expenditure on education, and this unfavourably affects the quality of human capital, one of the most important assets of these economies. Reducing budgetary support for health and housing may have contributed to the deterioration in some social indicators.

108. After several years of consistent economic policy and relative political stability, the three Baltic States have made considerable progress towards becoming market economies. All three countries exhibited stable, if modest, growth of GDP in 1995 and even stronger economic growth is forecast for 1996. Recovery of output is more and more driven by internal consumption, fuelled by both investment and consumer demand.

109. However, inflation remains high (estimates for 1995 are 25 per cent in Estonia and Latvia and 40 per cent in Lithuania). Prospects for significant reductions in the short run are remote owing to forthcoming liberalization of certain sectors (such as utilities in Estonia) and persistent budget deficits. Imports, in particular those of capital equipment, are growing rapidly, while exports are constrained by overvaluation of national currencies.

110. In sum, in the CEE countries and the Baltic States, the very deep recessions that were, to a greater or lesser extent, inevitable have ended or are coming to an end. Output and investment have been rising in most countries, foreign trade has been expanding, inflation rates have been falling, productivity has been increasing. However, the macroeconomic and institutional tasks of transition are not completed and political uncertainties and social tensions could still pose difficulties. Nevertheless, all in all, 1996 should mark if not the end, then at least the beginning of the end, of the transition process.

Notes

1/ United Nations publication, Sales No. E.95.II.C.1. The present review reflects information and forecasts available to the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat as of 15 December 1995. It is based, in part, on information and end-year assessments of the regional commissions of the United Nations.

2/ The growth rates of the world economy (and of the regions of the world) are calculated using market-based exchange rates to express output in a common currency and fixed sets of national prices (1988 United States dollars). An alternative calculation, based on "purchasing power parity" conversions into "international dollars", in which one set of prices is applied to all countries, is used in publications of the International Monetary Fund. Under that approach, world output would be said to have grown 3.9 per cent in 1995 and the 1996 forecast would be for a growth rate of 4¼ per cent.

3/ The Japanese economy is estimated to have grown 0.5 per cent in 1995 (forecast 1½ per cent), while that of Canada grew 2.3 per cent (forecast 4 per cent), France 2.8 per cent (forecast 3¼ per cent), Germany 2.5 per cent (forecast 3 per cent) and the United Kingdom of Great Britain and Northern Ireland 2.8 per cent (forecast 3¼ per cent). The forecasts for Italy and the United States of America appear to have been on target (3 per cent growth in both cases).

4/ The Mexican economy is estimated to have contracted by 7 per cent in 1995 (contraction of 3½ per cent was forecast) and the Argentine economy appears to have contracted 2.5 per cent (stagnation had been forecast).

5/ Output in 1995 is estimated to have grown 2.0 per cent in Hungary (¾ per cent was forecast), 6.2 per cent in Poland (versus 4¾ per cent) and 4.9 per cent in Slovakia (versus 3¾ per cent).

6/ For a list of middle- and low-income countries with severe debt situations, see the report of the Secretary-General on the developing country debt situation as of mid-1995 (A/50/379 and Corr.1).

7/ For a fuller discussion of policies concerning unemployment, see World Economic and Social Survey, 1994 (United Nations publication, Sales No. E.94.II.C.1 and Corr.1), chap. VI.

8/ Argentina, Bahrain, Mexico, Morocco, Papua New Guinea, Uruguay and Zaire.

9/ Population grows in the region at the rate of about 2.8 per cent a year.

10/ For example, while Cameroon's economy grew about 2 per cent in 1995 after contracting for a decade, economic growth was 5 per cent or more in Benin, Burkina Faso, Côte d'Ivoire and Togo.

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11/ Difficulties have been experienced by banking systems in Bolivia, Brazil, Ecuador, Paraguay and Venezuela, as well as Argentina and Mexico.

12/ The more rapidly growing economies included Hong Kong, India, Indonesia, the Republic of Korea, Malaysia, Myanmar, the Philippines, Singapore, Sri Lanka, Taiwan Province of China, Thailand and Viet Nam; the additional two countries were Bangladesh and Pakistan.

13/ As of December 1995, those countries included the Czech Republic, Estonia, Hungary, Kyrgyzstan, Latvia, Lithuania, Poland, the Republic of Moldova and Slovakia.

Statistical annex

TABLES

Table A.1. Developed market economies: rates of growth of real GDP, 1985-1996 a/

(Annual percentage change)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 b/	1996 c/
All developed market economies	3.4	2.8	3.3	4.5	3.3	2.5	♦ 0.9	1.5	1.0	2.9	2.4	2½
Major industrialized countries	3.4	2.9	3.3	4.6	3.3	2.5	♦ 0.9	1.6	1.1	2.9	2.3	2½
Canada	4.8	3.3	4.3	4.9	2.5	-0.2	-1.8	0.8	2.2	4.6	2.3	2¾
France	1.9	2.5	2.3	4.5	4.3	2.5	0.8	1.4	-1.5	2.9	2.8	2¼
Germany	1.9	2.2	1.4	3.7	3.3	4.7	♦ 1.2	2.1	-1.1	2.9	2.5	2¾
Italy	2.6	2.9	3.1	4.1	2.9	2.1	1.3	0.9	-0.7	2.2	3.0	2¾
Japan	5.0	2.6	4.1	6.2	4.7	4.8	4.3	1.1	-0.2	0.5	0.5	2
United Kingdom	3.8	4.3	4.8	5.0	2.2	0.4	-2.0	-0.5	2.3	3.8	2.8	2½
United States	3.2	2.9	3.1	3.9	2.5	1.2	-0.6	2.3	3.1	4.1	3.0	2½
Other industrialized countries	3.0	2.5	3.3	3.5	3.7	2.6	0.6	0.9	0.2	2.9	2.9	2¾
Memo items												
Western Europe	2.6	2.8	2.8	4.0	3.4	2.7	♦ 0.6	1.0	-0.5	2.8	2.8	2¾
European Union (15)	2.5	2.8	2.9	4.1	3.4	2.7	♦ 0.6	1.0	-0.5	2.9	2.8	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/ Partly estimated.

c/ Forecast, partly based on Project LINK.

Table A.2. Major industrialized countries: quarterly indicators, 1993-1995

	1993 quarter				1994 quarter				1995 quarter		
	I	II	III	IV	I	II	III	IV	I	II	III
Growth of gross domestic product a/											
Canada	4.9	3.2	1.6	4.0	4.0	6.8	4.7	5.9	1.1	-0.8	2.0
France	-3.5	0.8	0.4	0.4	3.6	5.3	3.2	3.6	2.8	0.8	0.8
Germany	-6.4	2.3	2.6	-2.0	2.0	4.1	5.3	3.0	0.0	4.3	0.0
Italy	-1.3	0.9	-3.5	4.5	1.4	4.0	5.4	0.1	6.0	-1.6	7.4
Japan	3.5	-2.1	1.1	-2.8	3.2	0.7	3.5	-4.2	0.5	2.6	0.6
United Kingdom	2.9	2.5	4.1	2.8	4.0	5.6	3.5	3.1	2.7	2.3	1.7
United States	1.2	2.4	2.7	6.3	3.3	4.1	4.0	5.1	2.7	1.3	4.2
Total	0.7	1.1	1.7	2.3	3.2	3.7	4.2	2.1	2.2	1.8	2.8
Unemployment rate b/, c/											
Canada	11.0	11.3	11.3	11.0	10.9	10.6	10.1	9.7	9.6	9.5	9.5
France	11.1	11.5	11.9	12.3	12.4	12.4	12.2	12.0	11.8	11.6	11.4
Germany	5.3	5.6	6.0	6.6	6.8	6.9	6.9	6.8	6.7	6.8	6.8
Italy	9.1	10.7	10.3	10.7	11.7	12.5	11.1	11.4	12.2	12.2	12.1
Japan	2.3	2.4	2.5	2.8	2.8	2.8	3.0	2.9	2.9	3.1	3.2
United Kingdom	10.5	10.3	10.4	10.1	9.9	9.8	9.5	9.0	8.7	8.8	8.7
United States	7.0	6.9	6.7	6.5	6.5	6.1	5.9	5.5	5.5	5.6	5.6
Total	6.8	6.9	6.9	7.0	7.1	7.0	6.8	6.5	6.5	6.6	6.6
Growth of consumer prices c/, d/											
Canada	3.0	0.7	1.5	1.8	-1.8	-1.5	2.2	1.1	4.4	2.9	1.3
France	3.0	2.6	0.8	1.9	1.8	2.2	0.7	1.9	2.2	1.8	1.4
Germany	7.2	4.0	1.8	2.2	5.4	2.8	1.4	0.7	3.1	2.1	1.4
Italy	5.0	5.0	3.5	4.2	5.1	2.7	3.3	4.4	6.3	7.2	3.3
Japan	0.0	3.5	1.9	-1.1	0.7	1.5	-1.1	2.3	-2.2	1.5	-2.2
United Kingdom	-2.9	6.7	1.1	1.5	0.7	7.3	0.0	2.8	3.5	7.4	0.2
United States	3.3	3.3	1.5	2.9	2.5	2.5	3.6	1.9	3.5	3.5	1.7
Total	2.6	3.6	1.7	1.8	2.2	2.5	2.4	2.1	2.3	3.3	0.7

Source: UN/DESIPA, based on data of IMF, OECD and national authorities.

Note: Germany is western Germany.

a/ 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).

b/ Percentage of total labour force, reflecting seasonally adjusted data as standardized by OECD.

c/ For some countries, third quarter of 1995 is a two-month average.

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

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Table A.3. Developed market economies: consumer price inflation, 1985-1996 a/

(Annual percentage change)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 b/	1996 c/
All developed market economies	4.0	2.2	2.8	3.2	4.4	5.0	4.3	3.1	2.7	2.3	2.5	2½
Major industrialized countries	3.7	1.8	2.6	3.0	4.2	4.8	4.2	2.9	2.6	2.1	2.4	2½
Canada	4.0	4.1	4.4	4.0	5.1	4.7	5.6	1.5	1.9	0.2	2.4	2½
France	5.8	2.6	3.3	2.8	3.4	3.4	3.2	2.4	2.1	1.7	2.2	2½
Germany	2.2	-0.2	0.3	1.3	2.7	2.7	3.5	4.0	4.1	3.0	2.2	2½
Italy	9.2	5.8	4.7	5.1	6.2	6.5	6.3	5.2	4.5	4.0	5.1	4½
Japan	2.0	0.6	0.1	0.7	2.2	3.1	3.3	1.7	1.2	0.7	0.1	¼
United Kingdom	6.1	3.5	4.1	4.8	7.8	9.5	5.9	3.7	1.6	2.5	3.4	3½
United States	3.7	1.8	3.7	4.0	4.9	5.4	4.2	3.1	3.0	2.6	3.0	3
Other industrialized countries	5.9	4.8	4.2	4.2	5.2	6.1	5.2	4.0	3.7	3.1	3.5	3¼
Memo items												
Western Europe	5.3	2.9	2.9	3.3	4.8	5.5	4.9	4.0	3.4	3.0	3.3	3¼
European Union (15)	5.4	2.9	2.9	3.3	4.8	5.5	4.9	4.0	3.4	3.1	3.3	3¼

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

c/ Forecast.

Table A.4. Developed market economies: unemployment rates, 1985-1996 a/
(Percentage of total labour force)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 b/	1996 c/
All developed market economies	7.8	7.6	7.2	6.7	6.2	6.0	6.7	7.4	7.8	7.8	7.4	7¼
Major industrialized countries	7.2	7.1	6.7	6.1	5.7	5.6	6.2	6.8	6.9	6.8	6.5	6¼
Canada	10.4	9.5	8.8	7.7	7.5	8.1	10.2	11.3	11.2	10.3	9.6	9½
France	10.2	10.4	10.5	10.0	9.4	8.9	9.4	10.4	11.6	12.3	11.6	11
Germany	7.2	6.4	6.2	6.2	5.6	4.9	4.2	4.6	6.1	6.9	6.7	6½
Italy	9.6	10.5	10.9	11.0	10.9	10.3	9.9	10.5	10.2	11.3	11.5	10¾
Japan	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.0	3
United Kingdom	11.2	11.2	10.3	8.5	7.1	6.8	8.8	10.1	10.4	9.5	8.3	7¾
United States	7.1	6.9	6.1	5.4	5.2	5.4	6.6	7.3	6.7	6.0	5.7	5¾
Other industrialized countries	10.6	10.2	9.8	9.4	8.4	8.1	8.9	10.1	12.0	12.4	11.8	11¼
Memo items												
Western Europe	10.1	9.9	9.7	9.1	8.3	7.6	8.0	8.9	10.2	10.7	10.2	9¾
European Union (15)	10.4	10.3	10.0	9.4	8.5	7.8	8.2	9.1	10.4	10.9	10.5	10

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

a/ For the 7 countries shown and 10 others, unemployment data are standardized by OECD for comparability among countries and over time, in conformity with the definitions of the International Labour Office (see OECD, Standardized Unemployment Rates: Sources and Methods (Paris, 1985)); national definitions and estimates are used for other countries.

b/ Estimate.

c/ Forecast.

Table A.5. Developing countries: rates of growth of real GDP, 1985-1996
(Annual percentage change)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 a/	1996 b/
All developing countries c/	3.3	3.2	4.1	4.5	3.5	3.1	3.5	4.9	5.0	5.4	5.0	5½
Africa	3.6	1.5	0.6	2.7	3.0	2.2	1.3	0.8	0.4	2.5	2.5	3¾
Net energy exporters	6.3	0.8	-0.7	1.1	3.7	3.3	2.1	2.7	-0.2	1.7	3.2	3½
Net energy importers	0.8	2.2	2.0	4.4	2.3	1.0	0.6	-1.2	1.1	3.2	1.8	4
Latin America	3.6	4.2	3.0	0.7	1.0	-0.1	2.9	2.2	3.0	4.5	1.0	2¾
Net energy exporters	2.1	-0.2	2.2	3.1	0.7	4.7	4.7	3.7	0.8	2.5	-3.1	2¼
Net energy importers	4.4	6.6	3.3	-0.5	1.1	-2.6	1.8	1.3	4.3	5.7	3.3	3
South and East Asia d/	3.8	6.2	7.0	8.5	6.3	6.6	5.4	5.2	5.5	6.7	7.1	6¾
China	12.9	8.5	11.1	11.3	4.3	3.9	8.0	13.2	13.4	11.8	10.0	9
West Asia	-3.8	-6.3	-0.8	0.0	3.2	1.9	-0.2	5.6	2.6	0.4	2.1	2½
Mediterranean	2.8	5.5	1.1	0.8	0.4	1.1	-5.6	-1.4	0.1	-3.2	4.6	5
Memo items												
Major developing economies e/												
Brazil	8.0	7.6	3.4	0.1	3.2	-4.4	0.9	-0.8	4.1	5.7	4.5	3
India	4.5	4.8	4.5	9.6	5.2	5.5	2.0	4.0	3.9	5.4	5.9	6¼
Republic of Korea	6.9	11.6	11.5	11.1	6.4	9.5	9.1	5.1	5.8	8.4	9.2	7¼
Mexico	2.6	-3.8	1.8	1.4	3.1	4.4	3.6	2.8	0.4	3.5	-7.0	2
Iran (Islamic Republic of)	-1.5	-8.0	-2.5	-2.0	4.0	10.0	6.0	6.0	1.8	0.0	1.0	2
Taiwan Province of China	5.0	11.6	12.7	7.8	8.2	5.4	7.6	6.8	6.3	6.5	6.7	6½
Indonesia	1.9	3.0	3.6	6.5	7.4	7.4	6.6	6.3	6.5	7.3	7.4	6¾
Argentina	-4.4	6.1	2.1	-2.8	-6.2	0.4	8.9	8.7	6.4	7.0	-2.5	1
South Africa	-1.2	0.0	2.1	4.2	2.4	-0.3	-1.0	-2.2	1.2	2.3	3.0	4
Saudi Arabia	-9.1	8.7	-1.4	7.6	0.2	9.0	6.0	3.0	1.6	-2.7	1.5	2
Turkey	5.1	7.5	2.2	2.2	-0.4	9.2	0.7	6.4	8.0	-6.0	5.5	4½
Thailand	4.1	3.5	7.1	13.2	12.2	10.0	8.0	7.4	8.0	8.6	8.6	8¼
Sub-Saharan Africa (excluding Nigeria and South Africa)	1.9	2.6	0.6	2.9	1.5	1.1	0.4	-0.2	-0.6	2.0	2.6	3¼
Least developed countries f/	2.0	2.9	1.0	1.5	1.8	1.9	0.4	2.1	1.1	2.4	3.1	3¾

Source: UN/DESIPA.

a/ Preliminary estimate.

b/ Forecast, based in part on Project LINK.

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

d/ Excluding China.

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

f/ Based on data and estimates for 36 of the 48 least developed countries, accounting for 95 per cent of total GDP of the grouping.

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Table A.6. Economies in transition: rates of growth of real GDP, 1985-1996 a/

(Annual percentage change)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 b/	1996 c/
Economies in transition d/	2.0	3.5	2.6	4.5	2.1	-6.2 ♦	-8.8	-12.1	-6.9	-8.9	-2.1	2
Central and Eastern Europe d/	2.6	3.2	2.2	2.7	0.1	-11.3 ♦	-11.3	-3.6	1.2	3.8	4.6	4¼
Albania	1.8	5.6	-0.8	-1.4	9.8	-13.1	-29.4	-6.0	11.0	8.0	5.0	4
Bulgaria	2.7	4.2	6.1	2.6	-1.4	-9.1	-11.7	-5.7	-2.4	1.4	2.3	3¼
Former Czechoslovakia	2.2	1.8	0.8	2.6	1.3	-4.7	-14.4	-7.1				
Czech Republic									-0.9	2.6	3.9	5
Slovakia									-4.1	4.8	4.9	4¼
Hungary	-0.3	1.5	3.8	2.7	3.8	-3.5	-11.9	-3.0	-0.8	2.0	2.0	2
Poland	3.6	4.2	2.0	4.4	0.2	-11.6	-7.6	1.5	3.8	5.2	6.2	5¼
Romania	-0.1	2.3	0.8	-0.5	-5.8	-5.6	-12.9	-8.8	1.4	3.4	4.2	3½
Baltic States								-31.6	-14.4	1.9	2.4	3¾
Estonia								-14.8	-7.8	4.0	4.2	5
Latvia								-34.9	-14.9	1.0	1.5	3½
Lithuania								-35.0	-17.0	1.5	2.2	3¼
CIS e/								-14.1	-9.6	-14.4	-5.6	½
Belarus								-9.6	-9.5	-20.0	-10.0	..
Republic of Moldova								-28.3	-4.8	-30.0	-13.5	..
Russian Federation								-14.5	-8.7	-12.6	-3.5	2
Ukraine								-13.7	-14.2	-19.0	-12.3	..
Transcaucasian States								-52.3	-14.8	-2.0	5.4	..
Armenia								-22.6	-23.1	-22.0	-17.4	..
Azerbaijan								-40.3	-39.4	-30.0	-20.0	..
Georgia												
Central Asian States								-13.0	-12.9	-25.0	-10.7	..
Kazakstan								-16.4	-16.4	-26.0	-5.4	..
Kyrgyzstan								-31.0	17.3	-12.0	-14.8	..
Tajikistan								35.8	10.0	-20.0	-7.5	..
Turkmenistan								-11.1	-2.4	-4.0	-0.5	..
Uzbekistan												
Memo item												
Soviet Union	1.7	3.6	2.8	5.3	3.0	-4.0	-8.0					

Sources: UN/DESIPA and Economic Commission for Europe (ECE).

♦ Indicates discontinuity in series.

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

a/ Country group aggregates are averages weighted by GDP in 1988 dollars (for methodology, see World Economic Survey, 1992 (United Nations publication, Sales No. E.92.II.C.1 and corrigenda), annex, text preceding statistical tables.

b/ Partly estimated.

c/ Forecast, based in part on Project LINK.

d/ Including the former German Democratic Republic until 1990.

e/ Data for these countries are subject to a wide margin of error. An official revision of the Russian data showed that what had previously been given as a 47.3 per cent decline in output between 1990 and 1994 was in fact a 35.2 per cent decline. The statistics of the other CIS countries have not yet been revised in a similar exercise.

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Table A.7. World trade: rates of growth of volumes, 1986-1996

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 a/	1996 b/
World trade c/	4.8	5.4	8.8	7.6	4.8	5.3	6.0	4.2	10.4	9.8	7¾
Volume of exports											
Developed market economies of which:	2.2	4.2	8.2	7.1	5.0	3.4	4.2	1.8	9.5	8.0	7½
Japan	-0.7	0.3	5.9	4.3	5.3	2.5	1.5	-2.4	1.7	1.4	2¾
North America	5.7	6.5	17.6	8.4	6.9	6.1	8.2	7.0	11.6	12.0	7¾
Western Europe	1.8	4.1	6.0	7.4	4.2	♦ 2.2	3.3	0.4	10.2	7.7	8¼
Developing countries of which:	17.5	7.5	10.0	8.9	4.6	11.3	9.6	11.7	11.8	12.6	9¼
Africa	18.6	1.1	0.4	5.8	14.6	5.9	-0.3	-2.2	1.5	5.0	3½
Latin America	-1.5	4.8	5.7	7.1	2.8	4.9	3.9	8.7	9.2	7.4	6½
South and East Asia	19.7	16.3	12.6	10.4	8.4	16.4	10.7	14.0	15.8	16.2	11¼
West Asia	48.1	-14.0	14.3	9.0	-15.7	0.5	25.4	16.1	1.2	2.2	3
Transition economies	4.0	2.4	4.5	-1.0	-9.5	..	..	..	..	..	..
Volume of imports											
Developed market economies of which:	7.0	6.6	7.6	7.2	4.6	2.9	4.8	1.0	10.8	8.9	5¾
Japan	9.5	9.3	17.9	7.9	5.7	4.0	-0.4	2.9	13.6	14.2	8¼
North America	9.7	3.6	6.1	4.4	1.5	1.2	10.4	12.4	14.1	11.3	6¾
Western Europe	5.9	7.8	6.8	8.0	6.1	♦ 3.6	3.1	-4.5	8.4	6.5	4¾
Developing countries of which:	-3.9	2.0	13.5	8.8	4.9	12.8	11.3	11.3	10.4	13.5	11
Africa	-7.5	-12.9	6.3	1.7	2.2	1.0	3.3	1.2	-1.2	3.6	6¼
Latin America	1.2	0.0	4.7	4.3	5.6	18.3	19.7	11.6	15.3	3.7	5½
South and East Asia	0.3	10.4	21.1	12.1	6.1	15.3	11.3	15.3	13.4	18.1	13½
West Asia	-16.1	-10.4	4.2	3.7	-6.7	13.3	14.8	-5.1	-5.4	1.7	5½
Transition economies	-0.8	1.0	3.7	4.5	-5.2	..	..	..	..	..	..

Sources: UN/DESIPA and regional commissions of the United Nations.

♦ Indicates discontinuity in the series.

.. Indicates data unavailable, or insufficient information for estimate with an acceptable degree of confidence.

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).

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Table A.8. International prices of non-fuel commodities exported by developing countries, 1980-1995

(1990 = 100) a/

	Food	Tropical beverages	Vegetable oil-seeds and oils	Agri-cultural raw mate-rials	Minerals and metals	Combined index: Dollar	Combined index: Special drawing rights (SDR)	Prices of manufactures	Real prices of commodities	Memo item: crude petroleum
1980	159	208	158	101	97	135	140	74	183	160
1981	127	156	151	88	82	112	128	69	162	154
1982	87	148	122	76	71	87	107	68	129	143
1983	91	155	145	81	76	93	118	65	142	129
1984	77	177	195	82	71	90	118	63	142	126
1985	66	161	135	74	68	79	105	63	125	124
1986	73	200	84	76	65	82	95	76	108	58
1987	77	131	99	88	76	84	88	85	99	76
1988	101	132	130	96	111	106	107	92	116	64
1989	107	113	115	95	111	106	113	91	117	78
1990	100	100	100	100	100	100	100	100	100	100
1991	93	92	108	94	91	93	93	100	93	84
1992	91	79	116	92	87	91	87	103	88	83
1993	92	84	116	89	74	87	85	97	90	73
1994 b/	101	147	145	101	84	102	97	100	102	70
1995	106	155	159	117	102	113	100	107	106	76
1994 I	105	95	130	94	74	95	93	97	98	61
II	100	124	137	98	80	97	94	98	99	70
III	98	197	145	103	87	106	99	102	104	75
IV	102	173	164	109	97	110	102	102	108	73
1995 I	105	164	162	122	103	115	104	107	107	77
II	103	160	156	123	99	112	97	109	103	80
III	109	142	160	105	103	112	100	105	107	72

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

a/ Base year for price index of manufactured exports of developed market economies shifted from 1980 (as in World Economic and Social Survey, 1995) to 1990. Base year of underlying non-oil commodity price indices is 1985.

b/ Three quarters of the year.
