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WORLD ECONOMIC AND SOCIAL SURVEY 1998

TRENDS AND POLICIES IN THE WORLD ECONOMY

United Nations

DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

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Note

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PREFACE

This edition of the **World Economic and Social Survey** *is being published at a time of uncertainty in the world economy. In only one year and through a sequence of events that few, if any, anticipated, there has been a complete reversal of some earlier characteristics. Some of the most rapidly expanding economies in the world have suddenly suffered an unprecedented setback. Formerly seen as economically sound, a few of these countries are now perceived to have fundamental economic flaws. Large inflows of foreign funds to these countries were rapidly replaced by substantial flows in the opposite direction. The hard-earned success in alleviating poverty has been abruptly negated.*

Another disquieting feature of the crisis is the way in which it has spread from country to country and from continent to continent. The spread, persistence and magnitude of the crisis have severely shaken the confidence of Governments, of financiers, of business and of individuals. Countries and peoples far removed from the epicentre and having no responsibility for the turbulence are being adversely affected. As always, it is the most vulnerable countries and peoples who suffer the most.

Previously, the opportunities and benefits of globalization received pride of place in international debate. The events of the past year have shifted attention to the sizeable risks and costs that are involved. Both the positive and negative consequences are the result of the global shift towards an increasingly unified world. Collectively, we need to address the threats to this goal that have been posed by the events of the past year.

It is in this spirit that the **1998 World Economic and Social Survey** *reviews the turbulence in the world economy over the past year and, as requested by the General Assembly in its resolution 52/180, offers some recommendations on ways and means to address the volatility of global financial flows. It is hoped that the analysis in the* **Survey** *will contribute to the debate that is necessary to confront these challenges posed by globalization so that the world economy can put present difficulties behind it and resume the more favourable path of earlier years.*

KOFI A. ANNAN

Secretary-General

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EXPLANATORY NOTES

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

.. **Two dots** indicate that data are not available or are not separately reported.

– **A dash** indicates that the amount is nil or negligible.

- **A hyphen (-)** indicates that the item is not applicable.

- **A minus sign (-)** indicates deficit or decrease, except as indicated.

. **A full stop (.)** is used to indicate decimals.

/ **A slash (/)** between years indicates a crop year or financial year, for example, 1990/91.

- **Use of a hyphen (-)** between years, for example, 1990-1991, signifies the full period involved, including the beginning and end years.

Reference to "tons" indicates metric tons and to "dollars" ($) United States dollars, unless otherwise stated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

In most cases, the growth rate forecasts for 1998 are rounded to the nearest quarter of a percentage point.

Details and percentages in tables do not necessarily add to totals, because of rounding.

The following abbreviations have been used:

ACPC	Association of Coffee Producer Countries
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CEETEs	Central and Eastern European transition economies
CFA	Communauté financière africaine
CIS	Commonwealth of Independent States
COMTRADE	United Nations External Trade Statistics Database
DAC	Development Assistance Committee (of OECD)
EAP	Enhanced Access Policy (of the International Monetary Fund)
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECE	Economic Commission for Europe
ECLAC	Economic Commission for Latin America and the Caribbean
EMS	European Monetary System
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism of the EMS
ESAF	Enhanced Structural Adjustment Facility (of the International Monetary Fund)
ESCB	European System of Central Banks
EU	European Union
Eurostat	Statistical Office of the European Communities
FDI	foreign direct investment
f.o.b.	free on board
GDP	gross domestic product
GNP	gross national product
HIPC	heavily indebted poor countries
IBRD	International Bank for Reconstruction and Development
ICP	International Comparison Programme
IDA	International Development Association
IFC	International Finance Corporation (of the World Bank)
IMF	International Monetary Fund
INTRASTAT	system of data collection for intra-EU trade
MERCOSUR	Southern Cone Common Market
MIGA	Multilateral Investment Guarantee Agency (of the World Bank)
NGLs	natural gas liquids
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
ppp	purchasing power parity
Project LINK	International Research Group of Econometric Model Builders, with headquarters at the United Nations Secretariat
SADC	Southern African Development Community
SAF	Structural Adjustment Facility
SDRs	special drawing rights (IMF)
SFF	Supplementary Financing Facility (of IMF)
SITC	Standard International Trade Classification
SNA	System of National Accounts
SOE	State-owned enterprise
SRF	Supplemental Reserve Facility (of IMF)
STF	Systemic Transformation Facility
UNCTAD	United Nations Conference on Trade and Development
UN/DESA	Department of Economic and Social Affairs of the United Nations Secretariat
UNICEF	United Nations Children's Fund
VAT	value-added tax
WFP	World Food Programme

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

The term "country" as used in the text of this report also refers, as appropriate, to territories or areas.

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

Developed economies (developed market economies):

Europe, excluding the European transition economies
Canada and the United States of America
Japan, Australia and New Zealand.

Major developed economies (the Group of Seven):

Canada, France, Germany, Italy, Japan, United Kingdom of Great Britain and Northern Ireland, United States of America.

European Union:

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

Economies in transition:

Central and Eastern European transition economies (CEETEs, sometimes contracted to "Eastern Europe"):

Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and successor States of the Socialist Federal Republic of Yugoslavia, namely, Bosnia and Herzegovina, Croatia, Slovenia, the former Yugoslav Republic of Macedonia, Yugoslavia.

Baltic States

Estonia, Latvia and Lithuania.

Commonwealth of Independent States (CIS)

Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

Developing economies:

Africa

Asia and the Pacific (excluding Japan, Australia, New Zealand and the member States of CIS in Asia)

Latin America and the Caribbean.

Sub-groupings of Asia and the Pacific:

Western Asia plus Islamic Republic of Iran (commonly contracted to "Western Asia"):

Bahrain, Cyprus, Iran (Islamic Reoublic of), Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Turkey, United Arab Emirates, Yemen.

Eastern and Southern Asia:

All other developing economies in Asia and the Pacific (including China, unless listed separately). This group has in some cases been subdivided into:

China

South Asia: Bangladesh, India, Nepal, Pakistan, Sri Lanka
East Asia: All other developing economies in Asia and the Pacific.

Sub-grouping of Africa:

Sub-Saharan Africa, excluding Nigeria and South Africa (commonly contracted to "sub-Saharan Africa"):

All of Africa except Algeria, Egypt, Libyan Arab Jamahiriya, Morocco, Nigeria, South Africa, Tunisia.

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

Net-creditor countries:

Brunei Darussalam, Kuwait, Libyan Arab Jamahariya, Oman, Qatar, Saudi Arabia, Singapore, Taiwan Province of China, United Arab Emirates.

Net-debtor countries:

All other developing countries.

Fuel-exporting countries:

Algeria, Angola, Bahrain, Bolivia, Brunei Darussalam, Cameroon, Colombia, Congo, Ecuador, Egypt, Gabon, Indonesia, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Mexico, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela, Viet Nam.

Fuel-importing countries:

All other developing countries.

Least developed countries:

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

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

a Names and composition of geographical areas follow those of "Standard country or area codes for statistical use" (ST/ESA/STAT/SER.M/49/Rev.3), with one exception, namely, Western Asia which in the *Survey* includes the Islamic Republic of Iran (owing to the large role of the petroleum sector in its economy) and excludes the transition economies of the region. Also, "Eastern Europe", as used in this *Survey*, is a contraction of "Central and Eastern Europe"; thus the composition of the region designated by the term differs from that of the strictly geographical grouping.

AN OVERVIEW

The world economy seems to be on the cusp of a transition that was neither sought nor foreseen. The ***World Economic and Social Survey 1998*** thus has the difficult task of predicting the future when even the recent past is not easy to explain.

The previous ***Survey*** was released at the time of the devaluation of the Thai baht. Prior to that time, there had been general optimism about the state of the world economy, with South-East Asia being seen as an example of the economic growth that was possible in the developing countries. In the intervening year, this expectation has been severely challenged: there has been a substantial downgrading of prospects for global growth, with several of the countries in South-East Asia being particularly affected. Although the economic future is always uncertain, the outlook for the final years of the twentieth century is unusually so. This is because it became apparent over recent months that there have been some fundamental changes in the workings of the global economy and it is no longer clear that all the conventional growth policy measures and prescriptions remain valid.

A year ago, there was not only optimism about prospects but also a high degree of confidence that the economic policies of the preceding decade or so were beginning to have a positive impact. Most of the developed countries were enjoying steady, if unspectacular, growth. The majority of the economies in transition were believed to have finally ended their period of economic decline. Among the developing countries, few observers saw any significant threats to the rapidly growing economies, while the developmental prospects of those regions that had been faltering were believed to be better than for a long time.

The improved growth of the mid-1990s was widely attributed to two main forces, improved economic policies and globalization. At the national level, economic policy in developing countries for the past two decades has focused on measures to secure macroeconomic stability and adjustment of national economies to the international environment. There has been widespread success in achieving macroeconomic stability, as reflected in very substantial reductions in inflation rates and fiscal deficits in the majority of those developing and transition economies where they were previously high. There has also been extensive liberalization and deregulation of domestic markets, including through privatization. The third broad area of reform has been the liberalization of the external sector: barriers to both trade and capital flows have been substantially reduced and have been a major force contributing to globalization.

The liberalization and rapid growth of international markets for goods, services and finance created an international environment permitting economic expansion through trade, the transfer of technology and a flow of capital to developing countries. Reflecting the benefits ascribed to globalization, the more open economies were among the most rapidly growing in recent years.

There were two important shortcomings in this process at the time. One was that not all countries were participating in the globalization process. The other was that international financial flows seemed to seize up in crisis every few years: first in Europe in 1992, then in Latin America in 1994-1995 and currently in Asia.

One of the ironies of the crisis is that it has transformed the virtue of international openness into a potential vulnerability. Countries that have taken greatest advantage of global capital flows in recent years find themselves under the daily scrutiny of financial markets. Countries that have increased the role of international trade in their economies are suffering, to varying degrees, the consequences of a slowdown in trade; exporters are facing a weakening of international prices, particularly for some commodities.

The crisis has therefore underlined the risks associated with globalization. Prior to the event, these risks were appreciated in general terms but their magnitude has been consistently underestimated, even as the crisis evolved. Throughout, there has been inadequate appreciation not only of the possible economic and social costs to the countries concerned but also of the collateral damage to others.

The source of the central problem of vulnerability and fragility lies in the growing importance of international movements of private capital, especially short-term flows. The international financial markets move vast sums of money from country to country on the basis of changing expectations of short-term profit. Interest rates in developing countries that have opened their financial markets to international flows cannot be set independently of interest rates elsewhere or independently of international market opinion of the sustainability of the local economic situation. The market makes judgements on the basis of fragmentary information, and the "herd" can be "spooked" as easily by the changed opinion of influential investors as by hard facts. As we have seen, unexpected difficulties in South-East Asia made the markets super-sensitive to any signs of difficulty in countries as far away and as different as Brazil, South Africa and the Russian Federation.

It should also be recognized that the depth of the crisis may well have been due to a complacent attitude towards the preceding boom when asset prices, bank lending against these and inflows of short-term capital were all allowed to rise to unsustainable levels. The globalization of capital markets means that the balance sheet of an economy, its assets and liabilities, vis-à-vis the rest of the world has to become a central policy concern. However, macroeconomic policy seems to be guided largely by what is happening to flow variables like national income, trade deficits, commodity price inflation, and so forth. Some stock variables like exchange reserves and national debt are monitored and some others like asset price changes are tracked partially, but they are not always integrated into the conceptual approaches and data systems that provide signals for action to Governments and market players.

The growing importance of capital markets in changing economic prospects poses special problems for developing countries. Influence over global capital markets is more concentrated than influence over product markets. A limited number of financial centres account for the bulk of activity, a few central bankers have a decisive influence on global interest rates and a handful of rating agencies shape market perception of sovereign risk. The number of market participants is of course larger, but the diversity of perceptions that would lead to greater stability is reduced by what has been called the "herd instinct". All of this translates into a potential for instability, principally because of unforeseen changes in debt burden arising from interest-rate and exchange-rate changes and large movements of short-term private capital induced by sudden changes in investor confidence.

The potential for instability in the capital account poses some difficult problems of policy choice. Some policy instruments like devaluation that are considered desirable for managing trade account imbalances may have perverse effects on capital account imbalances. Equally, large interest changes designed to improve the capital account may, through their effects on investment and production, lead to perverse trade account changes. When the financial sector is fragile, for example, large interest-rate increases designed to attract financial inflows and bolster the exchange rate can create a credit crunch and financial-sector bankruptcies that worsen confidence and increase the pressure for devaluation. In other words, the magnitude of short-term capital flows may require, or even induce, interest-rate and exchange-rate changes that are so large as to destabilize expectations.

The past year has also demonstrated that the risks of contagion—of instability spreading from one country to another—is greater with capital account imbalances. The events of the past year have shown as well that the effects of contagion are more rapid and more massive than the consequences of, say, competitive devaluations arising from trade imbalances.

At a time when the principal source of instability was seen to lie in commodity price fluctuations, specific policy measures like commodity boards, stabilization funds and compensatory financing schemes were promoted to address the problem. At present, when the sources of instability lie more in the capital account, is there a case to be made for considering measures for coping with capital account instability that are analogous to the measures that were established or contemplated for trade account instability? Is there a need for a circuit-breaker to slow down the transmission of disturbances? What are the instruments that can help to contain unsustainable booms? Should we not be rethinking policy paradigms and designing policy frameworks that address more explicitly the link between the real and financial parts of the economy? Is the issue largely that of national policy or are there systemic features of the global economy that need to be corrected?

The fragility of the growth process, even in the countries where it seemed to be unfolding so well, is not the only problem. Throughout the 1990s, quite a few countries were being marginalized in the processes of global integration. Per capita economic growth was negative (or only marginally positive) in 40 developing countries through the period 1990-1997. Many of them lie in sub-Saharan Africa and are counted among the least developed countries. The United Nations has been at the forefront of the effort to promote more specific policy initiatives for these countries within the framework of trade liberalization, debt relief and development assistance. The ***Survey*** suggests that some progress has been made and perhaps their distance from the mainstream may protect them a little from the current financial disturbances. However, they are highly vulnerable to the consequences of falling commodity prices and the underlying problem of relative stagnation and continuing poverty remains to be solved.

For over 50 years, sustained economic growth has been seen as the fundamental dynamic of economic development. The economic reforms of the 1990s focused their attention largely on this growth dimension. However, the world has come to see development in a much broader perspective during the last decade—much broader than ever before. The global United Nations conferences highlighted the importance of relations between, on the one hand, economic growth and development and, on the other, the environment (Rio de Janeiro, 1992), human rights (Vienna, 1993), population changes (Cairo, 1994), poverty, employment and social integration (Copenhagen, 1995), the advancement of women (Beijing, 1995), and the human habitat (Istanbul, 1996). All of these conferences and others like the World Summit for Children (New York, 1990) and the World Conference on Education for All (Jomtiem, 1990) placed a special emphasis on what has been called the "human dimension", that is to say, the extent to which development widens options and advances the welfare of each person individually. It is no longer possible to think of development except in these larger contexts defined by the political leadership of Member States and by an increasingly assertive community of non-governmental organizations.

The United Nations conferences of the 1990s were driven in the first instance by specific concerns—the condition of children, environmental stress, population growth, and other demographic issues, human rights, gender equality, poverty, unemployment, education, health and so on; but each conference went on to link these specific concerns with the broader issues of development strategy and sought to shift these issues from the periphery to the centre of the development dialogue at the national and the international level. In effect, these conferences sought to define, if not a new, then at least a substantially revised, agenda for development.

There are two broad sets of concerns that have driven this effort to rethink development and the role of public policy in promoting development. One concern relates to sustainability—the long-term consequences for the environment and human welfare of present patterns of production, consumption, resource use and population growth. The other concern relates essentially to equity—the extent to which development is inclusive and reduces poverty, unemployment and discrimination. In a world where the government's role in promoting economic growth was limited to its leaving that growth to the market, the great global United Nations' conferences of the 1990s defined an agenda for the role of public policy in promoting a pattern of development more mindful of long-term concerns. But, has this agenda been implemented in the policies and programmes of national Governments and international institutions?

The process of transition from planned to market economy in several countries and, more recently, the experiences of the Asian crisis have underlined the central role of institutions in successful economic development. The slow progress in reform in the centrally planned economies is increasingly being ascribed to shortcomings in their institutional arrangements. Institutions govern the way economies and societies are run. They have an important bearing on transactions costs and incentives and therefore affect the allocation of resources. Institutions—having a bearing on property rights, contractual arrangements, judicial systems and regulation of markets, especially financial markets—play a critical role in the effective functioning of markets. More specifically, recent experience in Asia has demonstrated the need for adequate institutions in terms of supervision and regulation of financial markets extending well beyond narrow financial markets per se to encompass standards of accounting and reporting of non-financial enterprises. Social overhead capital, in the form of social norms and standards, also has an important role to play.

Criticisms of the role of government in development have usually focused on instances where government actions were inappropriate in that they created distorted incentives, thereby discouraging private initiative and resulting in a misallocation of resources. These were overwhelmingly sins of commission. With the universal downsizing of the role of the State, however, the predominant risk now facing Governments entails sins of omission. The appropriate role of the State changes with the level and specific challenges of development; it also depends on various other national characteristics and therefore has to be considered on a country-by-country basis. In general, however, while there are many activities that Governments should not undertake, there are others that are indispensable if development objectives are to be met.

The present overview has argued that the policy prescriptions of the 1980s and 1990s need to be modified so as to deal more directly with the risks of macroeconomic instability, and the marginalization of many poor countries within the processes of globalization. An even more substantial reason for rethinking earlier policies lies in the need to deal more directly with sustainability and equity in the design of development strategy. All the details have to be spelt out in terms not just of policies to influence the market but also of a better understanding of the role of the State and a clearer agenda for institutional development. This constitutes a major analytical undertaking and future issues of the ***Survey*** will present analysis and options that can contribute to the process of rethinking.

* * *

The 1998 edition of ***World Economic and Social Survey*** marks the fifty-first year that this report or its predecessor publications have surveyed the situation in the world's economies and in international economic relations. The ***Survey*** is prepared at the request of the Economic and Social Council and the General Assembly of the United Nations to serve as background information and analysis for international deliberations on the world economy. In the report, the United Nations Secretariat seeks to bring to the attention of the international community important and emerging issues of a global nature warranting policy deliberation.

The ***Survey*** was prepared by the Development Policy Analysis Division of the Department of Economic and Social Affairs of the United Nations Secretariat, with the collaboration of the United Nations Statistics Division. The ***Survey*** has also benefited from cooperation with the regional commissions of the United Nations, the International Monetary Fund, the World Bank and many individuals in academic, official and private organizations, whose assistance is greatly appreciated.

This edition of the ***Survey*** is dedicated to the memory of Mahbub ul Haq, former colleague and constant friend of the United Nations, who died suddenly and unexpectedly on 16 July 1998. Mahbub was never content to ask small questions and always prodded us to think through our concerns about economic and social policy down to their very roots. He will be sincerely missed.

Nitin Desai

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Under-Secretary-General
for Economic and Social Affairs

I THE WORLD ECONOMY IN 1998

The 1990s have been the era of globalization, when rapid growth of international trade and financial flows affected more and more economies in deeper and deeper ways. The benefits of financial globalization, in particular, have been many, but the world economy has periodically been buffeted by international financial shocks, the latest of which has been the most severe. It can be regarded as having begun when the Thai baht collapsed on 2 July 1997, after which it spread to other Asian economies and has since touched countries on every continent in one way or another.

The crisis has plunged several of the fastest growing economies in the world into a severe recession and slowed the growth of world output and trade. Individual countries in crisis are facing steep social costs which may be long-lasting, and difficult recoveries from their depressed economic conditions. This time—it is the third major currency crisis in five years[1]—widely held beliefs about how the international system works, and in particular about the desirability of fully liberalized financial markets, have been profoundly shaken.

The crisis showed that one of the most competitive markets in the world, the international market for financial assets, could fail in a major way. The failure was at multiple levels, including failures of official oversight. The latter involved the Governments of the crisis countries, which did not prevent their financial sectors from taking on excessive high-risk exposures as they liberalized their capital markets; but it also included weak international oversight of financial markets, where effective cooperation among the major regulatory authorities lagged behind the rapid developments in international finance.

What is most needed at this time, according to a growing number of experts, is not more decontrol and deregulation, but more effective official oversight and market-based controls of financial markets. However, there is no consensus on how to achieve this, although there does seem to be a consensus that great care must be taken in designing how to intervene in the market and how to balance incentives and restrictions. As requested by the General Assembly (in its resolution 52/180), some proposals in this regard are offered for discussion in the second section of the present chapter.

1 The first was the crisis of the Exchange Rate Mechanism of the European Union in 1992; and the second was the Mexican crisis and the "tequila effect" in 1994-1995.

A SURGING WORLD ECONOMY FACES A SLOWDOWN

Earlier editions of this *Survey* and other periodic assessments of the state of the world economy by the United Nations Secretariat suggested that the world economy had attained a "cruising speed" of about 3 per cent per year growth in world output. By 1994, the world economy had come out of the recession of the early 1990s, and by 1997 world output grew 3.3 per cent, the fastest rate of growth since the late 1980s (see table I.1).[2] In addition, the total output of all three major groupings of countries grew for the first time in the decade. The volume of world trade, whose growth had slackened in 1996 from the rapid rates in 1994 and 1995, picked up again in 1997, when it expanded by 9 per cent.

The outlook for 1998, however, is different. The growth of output is slowing down in both developed and developing countries, while the growth of world trade is also decelerating. World output is forecast to grow by about 2½ per cent, almost 1 percentage point less than in 1997. Moreover, an unusually large degree of uncertainty surrounds this forecast. The uncertainty is overwhelmingly on the down side, implying that the slowdown could be even more severe (see box I.1). Indeed, like other official and commercial forecasters, the Secretariat has already lowered its outlook on the prospects for 1998, as the crisis continues to unfold in ways that neither econometric models nor extrapolations of trends could predict.[3] Whatever the precise final outcome, it is clear that 1998 is a year of major disruptions in the world economy.

In particular for most developing countries, the international economic environment has become less propitious in 1998. As discussed in chapter III, the

2 For comparative purposes, table I.1 includes an alternative measure of the growth of world output which is employed, in particular, by the International Monetary Fund (IMF) in its *World Economic Outlook*. This measure weights countries differently when calculating the regional and global averages (see introduction to the statistical annex for additional details).

3 In its previous outlook, the Secretariat forecast that world output growth would slow half a percentage point, compared with the drop of almost a full percentage point in the current outlook (see the report of the Secretary-General entitled "The world economy at the beginning of 1998" (E/1998/INF/1)

Table I.1.
GROWTH OF WORLD OUTPUT AND TRADE, 1981-1998

(Annual percentage change)

	1981-1990	1991	1992	1993	1994	1995	1996	1997[a]	1998[b]
World output[c]	2.8	0.8	1.7	1.3	2.9	2.5	3.2	3.3	2½
of which:									
Developed economies	2.9	0.7	1.6	0.8	2.7	2.1	2.6	2.7	2¼
Economies in transition[d]	1.6	-8.2	-13.2	-9.3	-7.1	-0.8	-0.0	2.7	3½
Developing economies	2.4	3.2	5.0	5.2	5.6	4.6	5.7	5.8	3¾
World trade[e]	4.5	4.3	5.7	4.6	10.5	8.6	5.5	8.9	7
Memorandum items:									
Number of countries with rising per capita output	106	70	74	68	99	109	121	123	127
Number of countries in sample	127	128	142	143	143	143	143	143	143
World output growth with PPP-based weights[f]	3.1	1.1	2.0	2.3	3.7	3.4	3.9	4.1	3¼

Source: UN/DESA.

a Partly estimated.
b Forecast, based in part on Project LINK.
c Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 1993 prices and exchange rates.
d Based on reported GDP, which underestimates activity in several countries.
e Average of growth rate of the volume of exports and imports.
f Employing an alternative scheme for weighting national growth rates of GDP, based on purchasing power parity (PPP) conversions of national currency GDP into international dollars (see introduction to statistical annex).

prices of many primary commodities have slipped, most notably that of crude petroleum. In addition, exports to the formerly dynamic Asian markets have suffered, as these countries have had to curtail their imports as part of their adjustment process. Also, stagnating domestic demand in Japan has seriously curtailed exports to that country.

Moreover, there was a dramatic change in the net transfer of resources of the developing countries. In 1996, they had a net deficit of $8 billion in their balance of trade in goods and services and thus were net recipients of financial transfers of $8 billion to finance this deficit. In 1997, the developing countries made a net transfer of financial resources abroad of almost $27 billion, the first "negative transfer" since 1990 (see table III.1). The net transfer is not expected to improve in 1998.

In fact, data on the net transfer must always be interpreted carefully, as a negative net transfer can be a sign of economic strength or weakness, depending on whether it is brought about by an expansion of export earnings or a contraction of imports, and on whether the transferred financial resources represent surplus domestic savings or sacrificed domestic investment. In 1997, the net transfer abroad by developing countries resulted from a combination of positive devel-

Box I.1.

POSTSCRIPT ON THE DETERIORATING ECONOMIC OUTLOOK

The world economic situation has deteriorated since work on the outlook for 1998 was completed (30 April 1998). Changes since that time are concentrated almost entirely in the outlook for the developing countries, especially in Asia. As of mid-June 1998, we would not materially change our forecast for Japan, as the weak start to the year in that country had been anticipated.

However, our forecast may have overstated economic growth prospects in the Russian Federation. The Russian situation in 1998 exemplifies the contagion effect of the Asian crisis, as financial markets seek out and act on the perceived weaknesses in economic conditions and policies, to which they were less sensitive in earlier times, that are discouraging capital inflows and domestic investment; but even if there were no growth in the Russian economy in 1998, the economies in transition as a whole could still post an average growth rate of about 3 per cent.

Among the developing countries, the largest changes would be in East Asia itself, although there would be some downward revisions in the outlook of various regions as a result of the further fall in oil and other commodity prices, partly reflecting lower demand than expected in Asia. Instead of the small but positive growth of output shown in tables II.3 and A.4, a revised forecast would likely show a decline in output, reflecting the recessions in Indonesia, the Republic of Korea, Malaysia and Thailand. Another unexpected development is that, following nuclear tests by India and Pakistan, sanctions were imposed by some countries. That these sanctions would block anticipated official financing from several major donors could slow India's and Pakistan's economic growth, beginning in 1998. All in all, the average growth rate of the developing countries could fall to 3 per cent in 1998.

On the basis of the above considerations, world output growth would weaken more than anticipated earlier, albeit not by enough to change the "rounded" forecast of 2½ per cent shown in table I.1. By the same token, world trade growth may also be less than the April forecast, but by how much it is impossible to say at this time.[a]

[a] The next LINK forecasting exercise is scheduled for September 1998, after which a report will be issued and posted on the Internet home page of the Development Policies Analysis Division, Department of Economic and Social Affairs of the United Nations Secretariat (www.un.org/esa/analysis/ddpa.htm).

opments in some countries and negative ones in others (see chap. III for details). However, more of the negative than of the positive developments are expected in 1998, particularly as regards the crisis countries of East Asia.

Global incidence of economic growth

Despite the slowdown in 1998, the world economy still embodies significant and widely spread momentum.[4] In 1997, output per person rose in 123 countries out of the 143 that are regularly monitored. The forecasts in the *Survey* suggest that output per person will rise in even more countries in 1998 (see table I.1).

This notwithstanding, the countries in which output per capita is forecast not to rise in 1998 are bigger ones than previously. In the developed countries, where population growth is slow (averaging 0.6 per cent a year), gross domestic product (GDP) per capita was rising in all but one country in recent years (Switzerland) and thus 99 per cent of the population of the developed countries lived in countries with rising average income levels. With the stagnation of the Japanese economy in 1998 (and more rapid economic growth in Switzerland), the percentage falls to a still high 85 per cent (see table A.1 for levels and growth of GDP per capita through 1997, and table A.2 for growth rates of individual developed economies).

Per capita GDP is forecast to rise in all the transition economies in 1998, although there is considerable uncertainty about prospects in a number of them, including, notably, the Russian Federation.[5] Most countries, however, have yet to regain the income per capita levels attained before the transition began at the start of the decade. In 1997, 78 per cent of the people living in transition economies were in countries with rising GDP per capita, which was already a great improvement over the 40 per cent in 1996—the figure had been zero in 1992 (see tables A.1 and A.3).

In the developing countries, 1996 was the year in which economic growth was spread most widely in terms of the population potentially affected. In that year, 96 per cent of the people living in developing countries were in countries with rising GDP per capita. There had been a steady rise in this share since 1991, when the comparable figure was 82 per cent. However, with the advent of significant economic slowdown or outright recession in several relatively large developing economies in 1997 (including Saudi Arabia, South Africa and Thailand) and in 1998 (including Brazil, Indonesia, the Republic of Korea, Malaysia, and Venezuela), the 1998 figure is expected to drop to 87 per cent (see table A.4 for GDP growth rates for these and other developing countries and table A.1 for regional data on GDP per capita).

Global success against inflation

One dramatic feature of the world economy in recent years has been the reduced rates of inflation. The average inflation rate in the developed economies has hovered around 2 per cent a year since 1994 (see table A.7), and the inflation rates in many transition and developing economies have come down from damagingly high levels. None of the transition economies are forecast to have triple-digit inflation rates in 1998. Eight of them are expected to post single-digit inflation results this year and inflation is expected to be between 10 and 15

4 Regional and country situations are reviewed in more detail in chap. II.

5 In the Russian Federation, where mortality rates have risen, the size of the population is falling, as is the case in several other economies in transition.

per cent in the majority of countries (see table A.8). In the developing countries, where the average inflation rate was 254 per cent in 1993, the average was 11 per cent in 1997 and about the same rate is forecast for 1998, despite the currency crisis in several countries (table A.13). In two large economies that had "runaway" inflation in the early 1990s, Argentina and Brazil, the annual inflation rate in 1998 is expected to be in low single digits.

The broad fall in inflation rates is primarily a result of government policies. In developed, transition and developing countries, monetary policies no longer readily accommodate demand pressures that would lead to inflation and fiscal deficits have been widely curtailed. Among the significant developments in 1997, the once-large budget deficit of the United States of America has completely disappeared (see table A.9).[6] In the European Union (EU), targets to reduce the 1997 budget deficit to no more than 3 per cent of GDP were met by all the countries seeking to enter into the monetary union. Indeed, with continuing fiscal constraint in these countries (and elsewhere), there is a growing concern that monetary policy not be tightened in advance of clear evidence that inflationary pressures have returned. The global benefits that have followed from the low inflation might be jeopardized if a number of economies were tipped into deflation, especially at this time of considerable global economic uncertainty.

6 In earlier years, the large United States fiscal deficit had been associated with the large United States trade deficit and the large net transfer of financial resources to the United States that financed it; however, even with the budget deficit reductions in recent years and the elimination of the budget deficit in 1997, the net financial transfer to the United States has continued and even increased. In 1997, the figure reached $131 billion, the largest since 1987 (see table A.24 and the discussion in chap. III).

Pace and spread of growth in developing economies

The difficulties in 1998 follow upon a very strong year for economic growth in the developing countries (see table A.4). Average GDP growth in 1997 reached the highest level in almost two decades. As in 1996, this was the result of significant expansion in a large number of countries, rather than very high growth in a small number of countries. Of the 95 developing countries monitored for the preparation of the *Survey,* 81 registered an increase in output per capita in 1997. This phenomenon of significant growth spread over a large number of countries is expected to continue in 1998, even with the sharp economic slowdown and substantial contraction in most countries in East Asia and the adverse contagion effects of the Asian financial crisis on economies in other developing regions. Indeed, in Africa and Latin America, all but a few countries are expected to register growth of GDP per capita in 1998.[7]

7 The exceptions are Brazil, Jamaica and Venezuela in Latin America, and Burundi, the Central African Republic, the Libyan Arab Jamahiriya, Rwanda and Zimbabwe in Africa.

This notwithstanding, most developing countries need more rapid growth in output than that which raises GDP per capita if they are to meet important social and development goals. In many cases, a rate of growth of output that raises per capita GDP by 3 per cent a year may be considered the absolute minimum needed—and needed over a sustained period of time—in order to attain even moderate levels of income per capita within a reasonable number of years. Only 35 countries attained this rate of growth in 1997 (see table I.2). As a deceleration in economic growth is expected in many of the rapidly growing developing countries in 1998, the number of high-growth countries is expected to shrink to only 24.

In Africa, output per capita is expected to grow in 1998 in 33 of the 38 countries monitored, encompassing about 95 per cent of the population of the monitored countries. Growth has been aided by improved political stability in some areas, as well as by spreading macroeconomic stabilization and structural reform. Nevertheless, Africa remains highly vulnerable to exogenous factors, such as adverse weather conditions and deterioration in international prices of commodi-

Table I.2.
NUMBER OF DEVELOPING COUNTRIES WITH GDP PER CAPITA GROWTH OF 3 PER CENT OR MORE, 1991-1998

	Number of countries monitored	1991		1992		1993		1994		1995		1996		1997[a]		1998[b]	
		N	P	N	P	N	P	N	P	N	P	N	P	N	P	N	P
Developing countries	95	26	44	33	45	28	48	34	72	31	69	37	73	35	72	24	62
of which:																	
Latin America	24	6	16	9	20	9	27	9	56	5	17	7	33	8	37	5	32
Africa	38	6	8	8	12	4	12	8	12	7	14	14	26	12	29	8	12
East and South Asia (including China)	18	11	58	12	58	13	61	14	93	14	93	13	94	12	90	8	81
East Asia (excluding China)	12	8	66	10	88	10	88	7	87	9	87	10	99	8	76	4	26
Western Asia	15	3	8	4	32	2	29	3	3	5	33	3	35	3	37	3	37
Memo items:																	
Least developed countries	40	5	7	9	23	8	46	11	42	12	46	11	50	13	55	6	34
Sub-Saharan Africa	31	5	7	7	18	4	21	7	14	7	17	12	36	10	32	6	11

Source: UN/DESA, including population estimates and projections from United Nations, *World Population Prospects: The 1996 Revision* (United Nations publication, forthcoming).

Note: N: Number of countries that achieved the specified per capita growth; P: Percentage of total population of monitored countries in a given group accounted for by countries in this group that achieved the specified per capita growth.

a Preliminary estimates.

b Forecast, based in part on Project LINK.

ties. Some African countries that had attained a rate of growth of GDP per capita of 3 per cent or more since 1995 suffered a reversal in 1997 or are expected to do so in 1998 (for example, Angola, Ethiopia, Uganda and Zambia). As a result, the number of countries achieving 3 per cent growth in GDP per capita in 1998 is expected to fall to 8, a figure comparable with those in the early 1990s.

In Latin America and the Caribbean, economic growth in 1997 strengthened substantially, supported by robust investment, consumption and exports in the first three quarters of the year. Economic expansion became more widespread, extending to 21 of the 24 countries regularly monitored, constituting 97 per cent of the total population of those countries. However, the vulnerability of the economies in this region to the volatility of international financial and trade conditions is underscored by the indirect impact of the Asian financial crisis on their economic growth in 1998. The number of countries in the region forecast to attain a rate of growth of GDP per capita of 3 per cent or higher in 1998 has declined to 5, from 8 in 1997. This threatens to reverse the small reduction made in 1997 in unemployment and poverty in some countries.

In East Asia, the economic fallout of the regional financial crisis is expected to depress total and per capita output growth to the lowest level in at least two decades. Only 4 of 13 East Asian economies and China are expected to see GDP per capita grow by 3 per cent or more in 1998. Of the fastest growing economies of the 1980s and 1990s, only China and Taiwan Province of China will maintain a robust, even if slower, rate of growth in 1998.

TOWARDS A RESPONSE TO INTERNATIONAL FINANCIAL VOLATILITY

The confidence of international financial markets was deeply shaken by the events that had begun in East Asia in 1997 and that continued to unfold in Asia and elsewhere in 1998 (see chap. III). These events have raised worldwide concern in international organizations, Governments, financial markets and civil society at large. There is a concern about the consequences of the events themselves and about the seeming inability to resolve the difficulties. The review of the discussion on the subject contained in chapter III concludes that this is a time for humility and debate. In that spirit, the following observations on addressing the issue of international financial volatility are offered for consideration.[8]

Macroeconomic policy in a financially integrated world

The standard goal of macroeconomic policy is to establish and maintain a low-inflation, growth-oriented and sustainable economic environment. The tools usually applied for these purposes are monetary policy (with primary attention given to interest rate changes) and fiscal policy (usually with a focus on the central government budget position). However, fiscal policy is not easily manipulated for macro-policy purposes and the power of monetary policy has been diluted by the increasing range and sophistication of financial instruments and international financial integration. Monetary policy is particularly weakened when a country seeks to maintain a fixed exchange rate with liberalized capital inflows and outflows.

The experience of developed countries has indicated that when monetary authorities alter short-term interbank lending rates, the degree to which changes in these rates lead to changes in the overall credit conditions that enterprises and individuals face is lessened by increasing financial development and innovation. The aim of monetary policy in developed countries is thus, increasingly, to steer the financial system along a smooth medium-term course using the rather small rudder available, instead of attempting to guide short-term movements of monetary conditions.[9]

To some degree, a similar phenomenon has been occurring in developing countries. Many countries have traditionally fixed their exchange rates and controlled financial inflows and outflows. Now, increasingly sophisticated financial markets offer more and more ways to bypass foreign exchange controls. Even more than in earlier times, capital controls today should be viewed as an impediment that can be overcome at a cost, rather than as an insurmountable barrier. Perhaps with this in view, developing countries, like the developed countries before them, have been relaxing controls and freeing capital movements.

8 The following is an elaboration and extension of views developed over the past several years, in cooperation with the Bretton Woods institutions and the United Nations Conference on Trade and Development, as summarized in two reports of the Secretary-General on the challenges and opportunities of global financial integration (see documents A/51/388 and A/52/406). The discussion draws as well on the views presented to the General Assembly at its fifty-second session by outside experts in a series of informal meetings of the Second Committee (see *International Finance and Developing Countries in a Year of Crisis: 1997 Discussions at the United Nations,* Barry Herman and Krishnan Sharma, eds. (Tokyo and New York, United Nations University Press, 1998)), on the views of an expert group drawn from Asian and Pacific participants in the Project LINK network that met at the Department of Economic and Social Affairs on 17 and 18 March 1998; and on the views expressed in the special high-level meeting of the Economic and Social Council on 18 April 1998 with representatives of the intergovernmental bodies of the Bretton Woods institutions.

9 On this and limits on fiscal policy, see *World Economic and Social Survey, 1995: Current Trends and Policies in the World Economy* (United Nations publication, Sales No. E.95.II.C.1), chap. IV, entitled "Limits of macro-policy in industrialized countries".

Monetary policy in this less controllable environment can pose great challenges. It can even work perversely. In particular, if the monetary authorities seek to curtail the growth of spending by raising domestic interest rates, making them significantly higher than foreign ones, and if the political commitment to maintain the exchange rate at its existing parity is credible, then there is a great incentive for foreign funds to flood in and finance greater domestic spending. Such situations have fed foreign debt-financed spending booms and allowed unsustainable external deficits on current account to arise in certain cases. A further tightening of monetary policy, other things being equal, only worsens the situation, until debt-servicing burdens become excessive, credit is withdrawn, the exchange rate has to be devalued and the country enters into recession and an adjustment period.

On the other hand, fiscal policy may be seen as a tool that could be more effective than monetary policy in curbing excessive aggregate demand in a liberalized financial environment with a fixed exchange rate. Even more so than monetary policy, however, fiscal policy is not a tool of choice for short-term demand management in most situations.

Governments should establish their spending and taxing priorities and thus their annual budgets for sound reasons of public policy. Governments might then accelerate or retard outlays for investment programmes or raise and lower taxes to a degree in order to counter short-term changes in aggregate demand. However, there are particular interests at stake in each fiscal change and thus the political dimension for changes in fiscal policy is much closer to the surface than for changes in monetary policy. The political question is even more acute if the Government has to cut expenditures or raise taxes when there are no indications that the fiscal deficit itself is unsustainable.[10] This was the case, in particular, in the adjustment programmes of the Asian crisis countries.

In short, a degree of financial market development and capital-account liberalization combined with a fixed exchange rate appears to leave a country with a limited capacity for macroeconomic management. In such situations, Governments might wish to consider whether to re-impede the free movement of the more volatile components of international capital flows and/or introduce greater flexibility in their exchange rates. Chile is an example of a country whose Government has done both.[11] It does not follow, however, that Governments would necessarily choose to limit the degree of liberalization or make their exchange rate more flexible, as they might agree to live with a lower degree of control over their domestic macroeconomic situation.[12]

Exchange-rate strategies for "emerging market" economies

The traditional practice in many countries has been to fix the exchange rate with the aim of reducing the uncertainty about exchange-rate developments in order to foster trade and financial flows. In today's world of highly integrated and quickly responding international financial markets, however, allowing market forces to regularly move the exchange rate may be more appropriate than fighting costly and quixotic battles to prevent its movement.[13]

The greater uncertainty about the future exchange rate would foster the development of hedging instruments in all but the smallest currency markets. For a cost, forward markets in foreign exchange would remove the exchange-rate uncertainty over short time periods. The forward rate would be free to dif-

10 On the sustainability of fiscal positions and other dimensions of fiscal policy, see *World Economic and Social Survey, 1997: Trends and Policies in the World Economy* (United Nations publication, Sales No. E.97.II.C.1 and corrigenda), part two, entitled "A perspective on fiscal adjustment".

11 See Manuel Agosin and Ricardo Ffrench-Davis, "Managing capital flows in Latin America", United Nations Development Programme, Office of Development Studies, discussion paper, No. 8, pp. 12-18.

12 For example, Argentina, in an already liberalized capital environment, opted in the early 1990s for a passive monetary policy when it adopted its currency board, under which Argentine interest rates largely follow those of the dollar, to which the Argentine peso is pegged (see *World Economic and Social Survey, 1997*..., chap. VII, sect. entitled "Credibility built from failure: Argentine policy in the 1990s").

13 If the national preference for exchange-rate stability is very high, an alternative policy is to permanently fix it, as is the case for countries adopting currency board systems, or to abandon the national currency entirely, as is being done by the countries that will enter the single currency area of the European Union (on the latter phenomenon, see chap. III).

fer from the current spot rate and a growing forward discount on the spot exchange rate (assuming interest rates remained unchanged) would be an indication of expected future depreciation of the spot rate.

When a country decides to adopt a fixed exchange rate, the typical method has been to peg the rate to a specific currency or basket of currencies, with the central bank entering the market to buy or sell foreign exchange whenever the market moves the exchange rate to the edge of an announced band around the peg (say, plus or minus 1 per cent of the exchange-rate peg). A variant of this method is to allow a wider fluctuation band (say, plus or minus 10 per cent). The latter introduces a measure of uncertainty, as long as the exchange rate does not approach the edge of the fluctuation band. At that point, the exchange rate is not allowed to continue moving away from the peg and it becomes, operationally, little different, for one-way changes, from a peg with a narrow band. In either case, the band is as credible as the resources of the central bank and its willingness to buy or sell the foreign exchange necessary to absorb the excess supply or demand at the edge of the band.

A different approach would be to deliberately introduce uncertainty about the commitment of the monetary authority to any particular exchange rate. The simplest method is to let the exchange rate "float". The central bank need not be totally passive and could intervene to smooth short-term fluctuations in demand and supply and thus in short-term exchange-rate changes (this is called a "dirty float").

Policy makers could still decide to guide a floating exchange rate; for example, the monetary authority could announce an exchange-rate target, while also announcing that it would not necessarily act to prevent significant, albeit temporary, departures from that exchange rate. Such targets, like target rates of inflation or growth of the money supply, would give the business and financial community a view on the Government's policy intentions, without firmly committing it to a particular outcome at a particular moment.[14]

In addition, a variety of techniques have been discussed in the literature that could complement this approach. One class of proposals would discourage short-term capital inflows through a tax or its equivalent, so designed as to impinge more heavily on short-term flows than on longer-term ones. While the version of this policy that has been most discussed in the academic literature and in the press is the "Tobin tax",[15] the variant that has been discussed in the most positive light is the Chilean system. Its core idea is reflected in the requirement that foreign financial investors in Chile place a stipulated proportion of their capital inflow into non-interest bearing deposits with the central bank for a stipulated period, regardless of how short a time they keep their funds in the country.

The Chilean method has been compared to "throwing sand in the wheels of international finance". The image is meant to denote the slowing of speculative flows. By the same token, exchange-rate flexibility could be compared to "throwing uncertainty into the wheels of international finance".[16] Additional methods have been suggested for raising the perceived cost of speculation and further research into and discussion of them are required.[17] These policies are intended to serve as the defensive measures that individual countries could take in order to lessen their vulnerability in a world of volatile international capital movements.

14 This would also discourage one-way bets on devaluation in times of stress, as the currency would move immediately in response to the initial stress, thereby relaxing it, at least in part.

15 See, for example, *The Tobin Tax: Coping with Financial Volatility,* Mahbub ul Haq, Inge Kaul and Isabelle Grunberg, eds.(New York, Oxford University Press, 1996).

16 Richard Portes, who uses the term, attributes it to a British colleague, David Begg.

17 One such proposal is for policy makers to discuss in an international forum the conditions under which they would tacitly approve a well-defined "standstill" on repaying foreign loans. It would function in the manner of the "circuit-breakers" introduced in stock markets, whereby rules are established according to which trading is temporarily halted when prices fall by more than a pre-set amount. The standstill period would allow the Government time to design a corrective policy programme in cooperation with IMF. Meanwhile, the foreign creditors would not be able to recoup their funds. Knowing that this might happen would raise the riskiness of short-term flows, particularly during a time of stress on the balance of payments.

Financial-sector strategies for a volatile world

Experience after experience in international finance points to the potential volatility of international financial flows, especially short-term credit flows and portfolio investment. The need for governmental authorities to maintain a robust financial sector is paramount, but special considerations apply when the country liberalizes its capital account and increases the access of its banks and enterprises to foreign funds. In this environment, how does a Government reduce vulnerability to a change in sentiment of foreign creditors and the sudden withdrawal of funds?

A first answer is to reduce the likelihood that the local financial institutions that intermediate the most volatile components of financial flows will themselves become poor credit risks and discourage foreign financing or prompt its removal. Primarily, this involves ensuring that local banking institutions that borrow abroad or take deposits from foreign sources are sound. Thus, developing and transition economies need to monitor explicitly and closely the exposure to foreign risk of their financial institutions and prevent the risk from becoming excessive.

One technique for limiting risk exposure is for the banking authorities to impose a specific capital reserve requirement on each financial institution against its foreign deposits or liabilities. The level of the required reserves of an institution might be increased disproportionately with a growing foreign currency exposure of the bank. The level might also be adjustable and changed by the authorities whenever they wished to limit further or permit an expansion of the aggregate exposure.[18]

18 A policy in this spirit is the reserve requirement that India imposes on non-resident foreign currency deposits held in Indian banks.

This approach would reduce the probability of excessive exposure of individual institutions or the commercial banks as a whole. However, the aggregate exposure of the country could still become excessive, as non-financial enterprises from the country might borrow directly from foreign banks or other sources, and hence would elude the eye of domestic financial regulators. In addition, there are indications that some enterprises in the 1997 crisis countries did not fully understand all of the sophisticated financial derivatives sold them by foreign financial institutions and thus did not fully realize the extent of the foreign currency exposures they had undertaken. One may thus recognize the need for continuing financial education in the business community of developing and transition economies, as well as more effective supervision of financial institutions per se.

An additional strategy would be to discourage foreign sources from providing excessive amounts of funds to domestic borrowers. Reducing a surging inflow reduces the probability of a subsequent sudden outflow when market temperament changes. A simple technique in this spirit would be to introduce some uncertainty about the future price of foreign exchange, as suggested above. There would then be a risk that, say, the extra earnings gained by foreigners in the event that local interest rates were higher than foreign ones, might be lost in the reconversion from local to foreign currency in the event that the exchange rate depreciated. Foreign investors deploying short-term funds would still be permitted to bring their resources to the country, but they would have to accept a higher risk in doing so—or hedge their repurchase through a forward contract that embodied the market's sentiment about the chances of an exchange-rate change—and this would likely reduce the total inflow.

Contribution of international financial cooperation

Developing and transition economies have been the target of the destabilizing short-term financial flows in 1997 and 1998, Latin American countries were the principal victims in 1994 and 1995, and several European countries—including two of the seven major industrialized countries, Italy and the United Kingdom of Great Britain and Northern Ireland—were subject to similar bouts of volatility in 1992. The fact that so many countries, including those with very large economies, can be victims of volatility in such a short time-span suggests that the world needs not only policies that protect small countries, but also policies that could reduce the potential for international volatility.

However, it seems that there is no scope to reduce the potential for volatility if one does not simultaneously seek to suppress the rapidly growing and freely flowing volume of international funds and the steadily increasing complexity of the international financial system. Few, if any, Governments appear ready to roll back the international financial integration that has taken place over the past 30 years or so (and few analysts think it could be done even if there were a consensus about doing so). The world thus seems destined to remain vulnerable to financial surges and to speculative attacks on vulnerable currencies.

Rather, Governments of finance-receiving countries can act to make their economies less attractive targets for volatile flows, as discussed above. In addition, Governments of countries supplying and mediating funds to international markets can seek to prevent their financial institutions from taking excessively risky foreign currency positions, thereby reducing the risk of disruption of their domestic financial systems—and, in the case of large financial centres, description of the world's financial system. The international community can assist source and recipient countries in this regard, as they work towards stronger standards of prudential oversight for international finance.[19] Finally, the international community needs to offer adequate assistance to countries that fall victim to volatility shocks, as the setback to development and economic transition and the political and social cost of the economic contraction that usually follows the shock can be quite severe, as we have been reminded recently.

As regards the regulatory needs in source countries, a variety of measures might be discussed and many already are under discussion. First, the widely accepted—but decade-old—capital standards of the Basle Committee on Banking Supervision might be reviewed to see if stricter reserve requirements need to be placed against the credit and market exposures of banks. The Basle requirements were designed as minimum standards that could be applied to commercial banks across countries in a comparable way. However, the Basle standards embody complex and contentious issues that required difficult and protracted negotiations before agreement was reached. Indeed, in the view of some in the international banking industry, the current standards are stricter than required under modern methods of risk management. Adequate prudential standards for the regulation of non-bank financial institutions are an additional concern.

Regulators in their international discussions have increasingly sought to use market discipline as their ally, in view of the complexity and quick changes in financial institution exposures. This raises another issue in respect of attempting to control risk, that is to say, satisfying regulators is only part of the challenge facing private financial institutions. They also have obligations to their

19 Work in this area has already begun, as evidenced by the agreement on Core Principles for strengthening banking supervision and regulation, developed by the Basle Committee. In addition, such issues continue to be discussed both in established international bodies, such as the Basle Committee and IMF, and in ad hoc bodies, such as the Group of 22 (the "Willard Group").

shareholders and depositors and the string of notable bank failures in developed as well as in developing countries in recent years underline the need for many institutions to strengthen their internal risk measurement and control systems. Managing risk in large financial institutions that create and trade complex financial instruments, as well as take positions in a variety of currencies, is an extremely difficult responsibility to carry out. Systems are needed that allow financial institutions to measure not just their aggregate credit exposures, but also, and on a day-to-day basis, their aggregate price and interest rate risks across financial markets. Individual loan officers, currency traders and sector managers do not generally see the overall exposure, which is why internal risk management is a separate function of the central management of financial institutions, one that needs to be timely and effective in tempering the enthusiasm of lending personnel when exposure becomes excessive.

At a more aggregate level, the monetary authorities of the major industrialized nations might seek to acquire the capacity to monitor the total market risks that the financial institutions under their jurisdiction take on collectively and then to warn those institutions when these aggregate positions become excessive. In addition, it would also be important to measure and regulate the aggregate market exposures that all of the major private financial institutions together take on vis-à-vis particular areas of the globe. Technically, these are challenging goals for regulatory authorities. Achieving such goals would call for international cooperation of national regulators, which could take place under the auspices of the Bank for International Settlements, the International Monetary Fund (IMF), or perhaps a new institution.[20]

20 For example, the Minister of Finance of Canada proposed establishing an international supervisory surveillance secretariat on 15 April 1998 at the meetings in Washington, D.C. of the Interim and Development Committees of IMF The primary concern of Canada was to establish a specific forum for regulatory and supervisory surveillance, through, for example, "peer review" of domestic supervisors and through close work with IMF and the World Bank.

These considerations notwithstanding, it is widely agreed that there will continue to be emergency situations requiring international assistance for which the lead international agency is IMF. Although the Fund has long urged member Governments to come to it for assistance at an early stage in their difficulties, this rarely happens because taking such action is often viewed as an admission that the Government failed its responsibilities in some important sense. In the popular mind, the Fund is also associated with dispensing "bitter medicine" which the population must swallow, while those behind the failed policies, namely individuals and particular interests (so the perception concludes), escape punishment.

The content of Fund programmes is also controversial, especially regarding broad issues of governance and structural reform that have entered into IMF programmes for Asian countries in the past year (see chap. III). In this regard, it has been proposed that alternative regional arrangements be created to provide policy advice and mutual surveillance in a politically less sensitive setting, as well as financial support. Although such arrangements were originally viewed by some as an effort to circumvent IMF, the international community has still to consider whether or how they might be rethought as cooperative associations that could solve some of the difficulties identified earlier.

Finally, there is the question of the adequacy of the resources available to IMF to carry out its support of crisis management and macroeconomic adjustment. The Board of Governors of IMF has already agreed to provide additional resources to the Fund, although implementation has been held up mainly because approval by the legislature of the largest shareholder has been delayed. Further increases in resources would be needed, however, if the $110 billion worth of funds for the Asian countries in 1997 and 1998 were to be a guide to future requirements. The funds for those programmes were quickly pulled together from a variety of unscheduled loans by multilateral development banks and individual Governments on ad hoc bases. This was seen to be an emergency response to an emergency situation. It is not clear how often—in any event, certainly not on a routine basis—such a response could readily be repeated.

On the other hand, the need for IMF resources depends on the extent to which the financing needs of a country in crisis have to be filled by the international community. Some have argued that emergency financing has largely covered private capital flight and the withdrawal of foreign banks. An alternative strategy that requires less funding by official sources involves trying to "bail in" the creditors, including those still seeking a quick exit from the country in crisis. One such method might be to officially countenance a moratorium on debt-servicing or a unilateral reduction in debt-servicing payments, while negotiating debt rollovers and concerted debt workouts. Not surprisingly, views differ on this approach and warrant further international discussion.[21]

21 A report to Ministers and Governors, prepared under the auspices of the Deputies of the Group of Ten, considered temporary suspensions of debt-servicing payments and the possibility of IMF agreement to lend to a country that was accumulating arrears to its creditors (see Group of Ten, *The Resolution of Sovereign Liquidity Crises*, May 1996 (available from the Bank for International Settlements and IMF); see also, Richard Portes and David Vines, *Coping with International Capital Flows*, Commonwealth Secretariat, Economic paper, No. 30 (April 1997), pp. 37-41).

II THE CURRENT SITUATION IN THE WORLD'S ECONOMIES

Observers of current developments in the world economy spent much of 1997 and early 1998 trying to take account of a financial panic that broke through the surface in South-East Asia and spread from one country to another, prompting rescue efforts for the economies of some countries and policy changes in others to better defend against the panic. The panic mainly affected developing countries but some transition economies were also hit and had to take defensive and adjustment measures. It even helped to stop Japan's emerging recovery and, by the end of 1997, Japan was again in outright recession.

The world economy is large and diverse, however, and it has attained a degree of momentum that largely kept up the economic growth rates of the main regions and country groupings in 1997. Indeed, the aggregate output of the transition economies rose for the first time this decade. Per capita output rose in Africa for the second straight year, albeit by hardly enough to register statistically. Growth was strong in Latin America and in most of Asia. In Europe, the pace of growth finally began to gather some steam, providing the margin needed for member countries of the European Union (EU) that sought to reduce their fiscal deficits below the maximum allowed for entry into the single currency area; and in several countries, including the largest in the world, growth continued at a sufficiently strong pace to drop unemployment significantly, while inflation remained almost dormant.

Many of the strengths in the world's economies that were visible in 1997 are expected to continue in 1998. The prospects in North America and in Europe, including the transition economies of Europe, as well as those of Asia, are largely encouraging. However, 1998 will be a more difficult year in much of the developing world, not to mention Japan. Of most concern are the countries in which the financial crisis of 1997 has become the economic recession of 1998. The economic observers who held their breath as they watched the financial developments in 1997 are not yet able to relax and breathe a sigh of relief.

THE DEVELOPED ECONOMIES

Three clusters of events have characterized the developed economies in 1997 and continue to do so in 1998. First, strong economic growth in North America continues without the emergence of inflationary pressures of note, allowing the increasing absorption of the unemployed into the economy.

Second, the concerted and in some cases dramatic efforts in EU to harmonize macroeconomic policy around the standards set by the "Maastricht criteria" have been successful. Thus, on 1 January 1999, monetary union will begin in Europe. The exchange rates of the currencies of the 11 participating countries—Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain—will be irrevocably fixed, the European Central Bank (ECB) will begin operations and the euro will become a fully fledged currency for commercial transactions. In the year 2002, the 11 national currencies will cease to be legal tender. Finally, the developed as well as many developing countries in Asia and the Pacific have had to cope with the 1997 Asian currency crisis. In the case of Japan, this external shock had to be absorbed by an economy that was already seriously weakened. The world's second largest economy will, in essence, stagnate for yet another year in what has been a very disappointing decade.

Economic growth in 1997 and 1998

North America: strength in growth

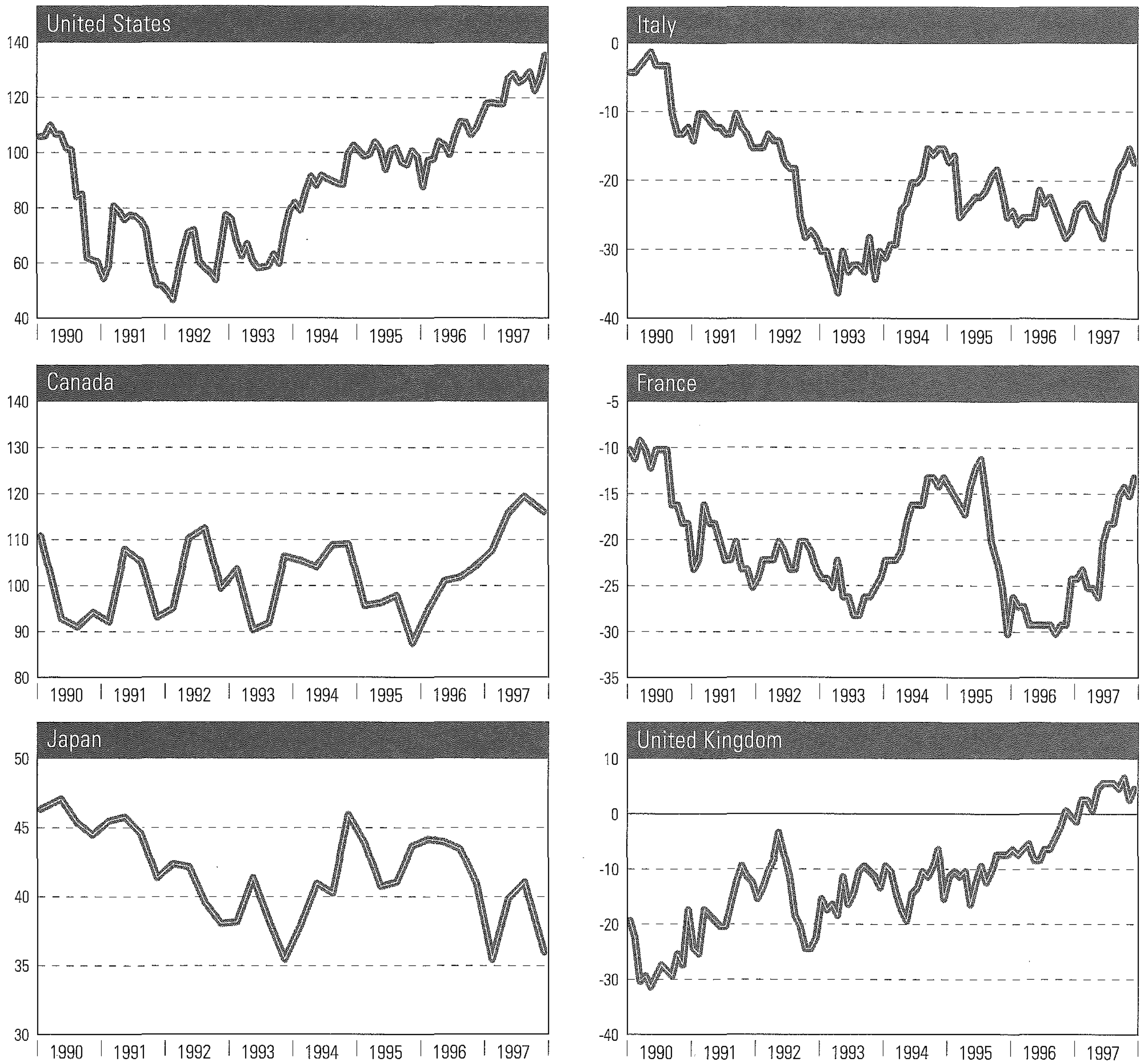
The growth of the economy of the **United States of America** accelerated from almost 3 per cent in 1996 to almost 4 per cent in 1997. Seven consecutive years of expansion reduced the unemployment rate to 4.6 per cent by the end of 1997, the lowest rate since 1972. Despite robust growth and falling unemployment, inflation dropped to 2.4 per cent (see tables II.1, A.2, A.6 and A.7).

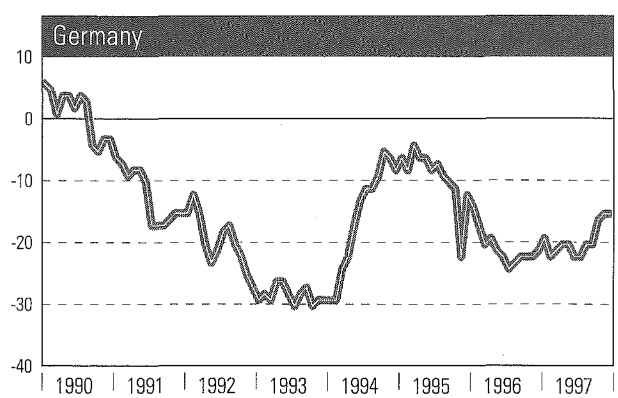
The acceleration in economic activity was led by consumer spending, underpinned by the strong labour market, continuing gains in real incomes and the sustained rise in the net financial wealth of the household sector owing to the rising prices of financial assets. Long-term interest rates have also eased, reflecting declining expectations of future inflation. Lower interest rates also boosted housing investment. After some hesitation in late 1996 and early 1997, corporate investment regained its importance during the rest of 1997 as the principal engine of growth. Investment has risen by 37 per cent in real terms over the past four years. Overall in 1997, stronger domestic demand made up for much of the weakness in the external sector, where the Asian currency crisis lowered demand for United States exports, especially as the year ended.

As 1998 began, domestic demand maintained considerable momentum and the strength in spending is likely to continue. Consumer confidence remains very solid (see figure II.1), while residential investment is on the rise. Business investment, though, is likely to slow somewhat. New orders for capital goods, however, suggest that investment will continue to grow more rapidly than output for quite some time.

Overall, gross domestic product (GDP) of the United States in constant prices is forecast to grow 2.7 per cent in 1998. The most uncertain aspect of the outlook is the size of the fallout from the Asian crisis. Thus far, the effect of the Asian crisis has not been significant. However, it is not quite clear yet to what extent, if any, a further deterioration in the net export position of the United States would offset the positive influences on demand coming from lower interest rates, falling commodity prices and cheaper imports and, hence, exert a drag on total output in the United States. Also, were inflationary pressures to begin to strengthen, monetary policy could be significantly tightened. This could lead to major downward corrections in both the bond and stock mar-

Figure II.1.
CONSUMER CONFIDENCE IN SEVEN MAJOR ECONOMIES[a], 1990-1997





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

a For Canada and United States, measure is an index (1991 = 100, 1985 = 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 those who expect a deterioration.

kets, with negative effects on consumer spending. The probability of such a change is, of course, uncertain.

Economic growth in **Canada** was also strong in 1997, supported by low domestic long-term interest rates (see table A.9) and strong import demand from the United States. Low interest rates were the reflection of low inflation and a dramatic cut in the fiscal deficit. The expansion—unlike the situation in the earlier years of the recovery, during which exports were the mainstay of economic growth—has become more broadly based. Since mid-1996, consumer spending, as well as business investment in technology and new equipment, has been the driving force in the economy. The pick-up in economic activity to close to an annual rate of 4 per cent has contributed to a fall in the unemployment rate to 8.9 per cent at the end of the year, the lowest since 1990.

The economic outlook of Canada remains quite positive. Given that trade with Asia, including Japan, makes up less than 10 per cent of Canada's total exports, the potential reduction of the country's export markets due to the Asian crisis is likely to be relatively modest. While the implications of lower prices of primary commodities—among the most important export items for Canada—cannot be ignored, the economic performance of the country's major trading partners, primarily the United States and Western European countries, is likely to be strong enough to offset such adverse effects. At the same time, domestic demand is forecast to stay robust; consumer confidence has been improving for two years (figure II.1). Despite significant rises in short-term interest rates since mid-1997, the favourable inflation outlook has been keeping long-term borrowing costs low and providing a powerful impetus to both business investment and household spending on consumer durables and housing.

Western Europe: growth and the jobs problem

In its fifth year of expansion, the economy of the **United Kingdom of Great Britain and Northern Ireland** grew at about 3 per cent in 1997, against 2.6 per cent in 1996. Largely as a consequence of rapid income growth, consumer spending was quite strong. The other domestic spending components—gross fixed investment, government spending and stock building—also contributed to growth, but to a lesser extent. Despite the significant appreciation of the pound sterling since August 1996, trade had little net effect on output growth. The labour market continued to tighten and the unemployment rate fell to 6.6 per cent, the lowest since 1980, while inflation accelerated somewhat but was still about 3 per cent.

In 1998, the British economy is expected to slow somewhat to a growth rate of about 2.3 per cent, owing to the lagged impact of the 1997 rise in the real exchange rate (see table A.10) as well as to the lagged response to previous increases in short-term interest rates and an ongoing tightening of fiscal policy. After an unusually long delay, the sharp appreciation of the pound against other major currencies has begun to affect both exports and imports. As a result, the trade balance is weakening and trade is likely to be a significant drag on economic growth. Domestic demand, on the other hand, is forecast to decline only gradually. Indeed, while growth in consumer spending is forecast to slow down marginally, fixed investment is expected to grow slightly faster in 1998 due to increases in private and public investment in dwellings. Some reduction in stock building may also curb output growth, but only marginally.

With another year of robust economic growth in 1997, **Ireland** continues to warrant its nickname as the "green tiger".[1] After having achieved 7.7 per cent growth in 1996, it rose to an estimated 8 per cent in 1997. Compared with the record in the 1980s, during which economic activity was propelled by the external sector, the economic expansion in the 1990s has been more broadly based and this trend will continue in 1998, based on continuing strong consumer confidence and the prospect of lower interest rates. The acceptance of Ireland as a founding member of the monetary union in Europe is contributing to this prospect. The unemployment rate, long a particularly difficult economic and social concern, is forecast to slip into single digits in 1998, while inflation will accelerate slightly owing to credit expansion and wage pressures. Indeed, with a relative shortage of skilled workers in certain key sectors, some Irish émigrés are returning.

Exports provided a strong impetus to the growth of **France** and **Germany** in 1997. The depreciation of their currencies, both by roughly 15 per cent against the dollar, helped boost their exports. While the strong export performance produced a surge in investment in machinery and equipment in Germany, it led to higher capacity utilization rates and lower inventory levels in France. In 1998, private investment in both countries will pick up further, as business confidence has been boosted by the confirmation of the start of the third stage of Economic and Monetary Union (EMU) at the beginning of 1999. This will also raise prospects for profitable investment opportunities in these, the two largest economies in EMU. In the short run, however, the growth of French and German exports is likely to decline because of the Asian crisis and the slower growth expected in the United States economy. Consumer spending is likely to pick up in France, reflecting the steady improvement in consumer confidence (figure II.1), while in Germany consumer spending is forecast to increase only slightly because of the introduction of a higher value-added tax (VAT) in April 1998. Overall, economic growth in 1998 in both countries will improve slightly from the 1997 levels, with domestic components becoming a more important source for growth. Yet, economic conditions will still not be dynamic enough to make a significant dent in the high unemployment rate (see table A.6).

The economic recovery of **Italy** in 1997 was supported by private consumption—spurred by incentives for automobile purchases—and investment. As in France and Germany, the depreciation of the currency helped boost exports but, in contrast to the situation in those countries, the acceleration in economic activity increased imports more than exports, resulting in a negative contribution of the external sector to overall GDP growth. What was spectacular in Italy was the reduction in the fiscal deficit by almost 4 percentage points in GDP from the 1996 level, without this causing a contraction in the economy. The accommodating monetary policy, made possible by the low inflation rate, also contributed to lower interest payments by the Government. The economy of Italy is forecast to sustain its upward trend in 1998, with private consumption and investment being the leading sectors again. In particular, investment is likely to accelerate strongly as interest rates are expected to remain low and Italy's admission to monetary union will improve the overall prospects for the economy. While inflation will remain low, unemployment will remain high.

Economic growth reached 3.4 per cent in **Spain** in 1997, with broadly balanced support from both domestic and external sectors, despite an austere fis-

1 See *World Economic and Social Survey, 1997* (United Nations publication, Sales No. E.97.II.C.1 and corrigenda), chap. VII, sect. entitled "Fiscal correction with economic growth: Ireland becomes a 'Green Tiger'".

cal stance. The introduction of a higher rate of VAT in October 1997 did not significantly affect overall inflation; the annual inflation rate fell to 2 per cent. Economic activity is forecast to accelerate further in 1998 with private consumption and private investment both rising.

In respect of economic growth, **Austria**, **Belgium**, **Greece**, **Portugal**, **Switzerland** and **Sweden** all strengthened in 1997. These economies are forecast to maintain their momentum in 1998, with private consumption and investment replacing exports as the main source for continuing growth. Belgium, however, is likely to experience a slowdown in investment activity, although the export sector will remain robust. While **Norway** experienced a slowdown in economic growth in 1997 owing to a decline in export growth and a temporary pause in consumption growth, it is forecast that the economy will regain its growth momentum in 1998 with the broad support of both domestic and external components. The economies of **Denmark**, **Finland** and the **Netherlands** also showed robust growth with more broadly based support than the smaller economies mentioned above. While Denmark and the Netherlands are forecast to achieve a similar growth record in 1998 thanks to robust exports, domestic activity will slow down. Investment activity in Finland is forecast to decelerate in 1998 as the monetary authorities raise interest rates to control inflation. The continuing improvement in the labour market—though unemployment is still at a historically high level—will support the continuation of robust private consumption.

Despite the acceleration of economic activity in 1997, the employment situation in Western Europe did not significantly improve. While the countries that are more advanced in their economic recovery saw a decline in unemployment, the rates increased in Germany, France and Italy (table A.6). The strengthening of economic activity in 1998 is likely to create additional employment and therefore bring unemployment rates down, if only marginally; 1998 will thus likely be the sixth consecutive year of double-digit unemployment.

As the experience in the recent past has shown, modest rates of economic growth are not sufficient to reduce unemployment significantly in the region. The key policy dilemma has been how to raise the growth rate without setting off unacceptable inflation rates or jeopardizing achievement of the policy criteria for entering EMU. The European answer has been to try to tackle the structural impediments to job creation. This was the context in which EU leaders adopted a new strategy to tackle unemployment in a jobs summit held in November 1997. The main idea in the strategy was to establish a set of common guidelines (or targets) for policy measures for job creation. National authorities would then be required to incorporate the guidelines into national action plans. The plans would be presented to an EU summit in June 1998 and, subsequently, would be subject to annual peer review—a process similar to that employed successfully in preparation for monetary union.

As part of their national action plans, France and Italy introduced legislation for a 35-hour working week. The new policy aimed to create employment by reducing working hours and offering tax incentives to enterprises that created new jobs. The idea behind the legislation seems simple: shorter working hours per employee will increase the number of employees needed to produce the same output. There are, however, many skeptics. As the experience of Germany demonstrated, shorter working hours do not necessarily lead to the desired result. The creation of new jobs also depends on the growth of the economy, on the degree of flexibility and other features of the national labour market, on how national pension schemes operate and, increasingly, on a country's particular economic circumstances.

Despite the acceleration of economic activity in 1998, the inflation outlook for continental Europe is benign. There are three main reasons. First, there still exists a substantial gap between potential and actual production levels in most countries, though this gap is shrinking. Second, the determined efforts of policy makers to achieve and maintain economic and price stability and the success of their efforts have earned them a high degree of credibility in the market, resulting in lower inflation expectations and lower long-term interest rates. This should help raise investment and thus enhance productivity. Third, a short-run factor, the Asian crisis, has had a dampening effect on prices. Along with lower prices for imports from the countries affected, there has also been considerable downward pressure on the prices of oil and metals.

Asia and the Pacific: three divergent economies

Output in **Japan** declined in the fourth quarter of 1997. Even before that, in the second quarter in 1997, the economy had recorded one of the largest drops in GDP in recent Japanese history, albeit following an unusually strong first quarter (see table II.1). This reflected anticipatory spending and then a sharp cutback due to the introduction of a higher rate of sales tax in April 1997, the elimination of special tax exemptions and increases in charges to the public for medical services. Towards the end of the year, there was a sharp increase in inventory levels and private investment, which had been leading economic growth in the first half of the year, started to slow. The consumption shock from the tax increase and the export shock from the Asian crisis had exacted their toll. Public spending was a drag on GDP growth, reflecting the Government's renewed commitment to fiscal consolidation. Overall, the economy grew 0.9 per cent in 1997, most of which came about in the first quarter.

The outlook for 1998 is one of virtual economic stagnation.[2] The external sector has to cope with the slowdown of exports to East Asian economies, although the recent depreciation of the yen, reflecting vast capital outflows from the country, will help increase the competitiveness of Japanese products in the global market. Private consumption, the largest component of GDP, is forecast to stay flat or even to decline slightly, owing to the upward creep in unemployment rates and the loss of consumer confidence, which was shaken by the series of collapses of some large corporations in recent months. Furthermore, lower prices of stocks and real estate are likely to reduce the propensity to consume in 1998; that is to say, households will tend to attempt to maintain the value of real assets by altering their consumption. Also, surveys conducted in early 1998 have predicted declines in private investment, because of weak domestic and external demand, as mentioned above.

2 This outlook does not take account of proposed fiscal stimulus packages that were under discussion in April, but had not yet been legislated.

Robust investment was behind the acceleration of economic activity in **Australia** in 1997. The fall in inflation rates that was facilitated by the weakness in import prices made it possible for the monetary authority to lower official interest rates several times throughout the year, spurring investment even further. The expansion created a significant number of new jobs, and led to wage increases, rising household incomes and an increase in private consumption. The economy is forecast to maintain much of its momentum in 1998, with more

Table II.1.
MAJOR INDUSTRIALIZED COUNTRIES: QUARTERLY INDICATORS, 1996-1997

	1996 quarter				1997 quarter			
	I	II	III	IV	I	II	III	IV
	Growth of gross domestic product[a] (percentage change in seasonally adjusted data from preceding quarter)							
Canada	1.4	1.4	3.3	2.9	3.4	4.9	3.9	3.0
France	5.1	-0.5	3.1	0.6	1.2	4.5	3.6	3.2
Germany	-0.4	6.1	3.0	0.3	1.8	4.1	3.2	1.1
Italy	2.4	-3.5	2.9	-0.1	0.1	7.8	2.6	0.7
Japan	8.4	-1.1	-1.6	4.3	8.3	-10.6	3.2	-0.7
United Kingdom	1.5	2.3	2.8	3.3	3.3	3.2	3.2	2.4
United States	2.0	4.7	1.0	4.3	4.9	3.3	3.1	3.7
Total	3.6	2.2	1.0	3.2	4.7	0.3	3.2	2.0
	Unemployment rate[b] (percentage of total labour force)							
Canada	9.5	9.6	9.8	9.9	9.6	9.4	9.0	8.9
France	12.1	12.4	12.5	12.6	12.5	12.5	12.5	12.4
Germany	8.9	8.9	8.8	9.1	9.4	9.6	9.9	10.0
Italy	12.0	12.0	12.0	12.0	12.2	12.1	12.1	12.2
Japan	3.3	3.5	3.3	3.3	3.3	3.5	3.4	3.4
United Kingdom	8.4	8.3	8.2	7.8	7.5	7.2	7.0	6.6
United States	5.6	5.4	5.3	5.3	5.2	4.9	4.8	4.6
Total	6.9	6.9	6.8	6.8	6.7	6.6	6.6	6.5
	Growth of consumer prices[c] (percentage change from preceding quarter)							
Canada	1.8	2.9	0.7	2.5	2.5	1.1	1.0	-0.3
France	2.9	3.2	-1.0	1.7	2.1	0.7	0.7	1.1
Germany	2.5	2.1	1.4	-0.3	3.8	1.4	3.1	-0.7
Italy	4.4	4.6	0.9	1.8	2.7	2.1	0.6	2.7
Japan	-1.1	3.0	-0.8	1.1	-1.1	8.9	0.0	1.1
United Kingdom	2.0	5.5	0.7	2.3	2.3	5.3	3.9	3.2
United States	2.3	4.1	2.0	3.0	2.7	1.6	1.6	1.6
Total	1.6	3.7	0.8	2.0	1.8	3.5	1.4	1.3

Source: United Nations, based on data of International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD) and national authorities.

a Expressed at annual rate (total is weighted average with weights being annual GDP valued at 1993 prices and exchange rates).
b Seasonally adjusted data as standardized by OECD.
c Expressed at annual rate.

robust private consumption and a slightly expansionary fiscal stance. However, as the depth and duration of the crisis in Asia are becoming clearer, the growth forecast for Australia has had to be lowered, indeed by as much as 1 percentage point from the rate forecast in late 1997. The fact that declining exports to the region may worsen the current account deficit and depreciate the currency against the dollar could in turn build up inflationary pressures.

New Zealand was at the bottom of its cyclical slowdown in 1997, with growth in most components of demand having weakened. The exception was public consumption, reflecting a slightly expansionary fiscal stance after the years of successful fiscal consolidation. Accordingly, in late 1997, the economy was forecast to accelerate but the Asian crisis has adversely affected consumers' and investors' confidence. As a result, private consumption and investment are not expected to rebound as strongly as had been forecast and exports are likely to rise only marginally. The expected deterioration of the current account balance will exert downward pressures on the currency.

Macroeconomic policy stances

With the very important exception of Japan, macroeconomic policy makers in developed countries have largely accomplished the goals they set out to achieve—low inflation, smaller budget deficits and sustainable growth (although current growth rates are undoubtedly below the sustainable trend rate in several countries). Policies in 1997 and early 1998, not surprisingly, continued to follow the same strategies, albeit with Japan facing a unique challenge.

In the **United States** in March 1997, amid clear signs of economic acceleration, the federal funds rate was raised a quarter percentage point to 5.5 per cent. Since then, despite strong growth and a tight labour market, there has been no further increase in short-term interest rates. To the surprise of some, inflation actually fell. This fall can be attributed to the appreciation of the dollar, weakness in international commodity prices, and faster productivity growth. In fact, even without any upward move in nominal short-term interest rates, overall monetary conditions in the United States became less stimulative after March 1997, owing to the drop in inflation expectations, and thus the rise in the real federal funds rate, as well as to the rise in the foreign exchange value of the dollar.

The federal budget deficit of the United States declined from 1.25 per cent of GDP in fiscal year 1996 (October 1995 to September 1996) to 0.2 per cent in fiscal year 1997. The current expansion has contributed importantly to this outcome. However, a series of budget reforms also helped to improve the fiscal position.[3] On present trends, the federal budget is likely to be in a small surplus in fiscal year 1998 and, despite several tax cuts proposed, the planned restraint in expenditure will ensure that the budget stays in surplus over the next five years. This forecast rests, however, on the assumption of no significant rise in interest rates, as well as on a 2.5 to 2.8 per cent annual growth rate in GDP over the same period.

Amid accelerating growth and downward pressures on the Canadian dollar, monetary policy in **Canada** tightened significantly in 1997, representing a turnaround from the long-held stance of a highly stimulative policy. From the summer of 1997 through February 1998, short-term rates were raised by 2 percent-

3 See *World Economic and Social Survey, 1997* (United Nations publication, Sales No. E.97.II.C.1 and corrigenda), chap. VI, subsect. entitled "Successive budget strategies in the United States".

age points to 5 per cent. Real rates rose even more, on the order of 2.5 percentage points, because of falling inflation. This has applied an additional "passive" measure of restraint on demand. Given continued strong expansion in output and employment, as well as the continuing weakness of the national currency, monetary policy is likely to continue to be biased towards tightening.

In fiscal policy, the Canadian federal Government achieved its objective of a balanced budget in 1997; modest surpluses are expected for the future. Moreover, the ratio of federal debt to GDP registered its second consecutive decline in 1997 to about 68 per cent, down from 74 per cent in 1996 and a high of 74.5 per cent in 1995. The striking fiscal success has turned around the attitudes of financial markets towards Canadian economic prospects. Indeed, whereas during the 1994-1995 Mexican currency crisis, long-term interest rates in Canada increased sharply as the country's fiscal problems caused investors to demand a higher risk premium,[4] the events in Asia since the summer of 1997 have been accompanied by a fall in Canadian long-term interest rates to their lowest levels in 30 years.

4 For details, see *World Economic and Social Survey, 1995* (United Nations publication, Sales No. E.95.II.C.1), chap. IV, subsect. entitled "Budgetary policy under minimal guidelines on debt".

In the **United Kingdom**, faced with strong growth and with inflation consistently above the target of 2.5 per cent, the Bank of England raised interest rates in stages from 6 per cent in May 1996 to 7.25 per cent in November 1997, even though this led to a further appreciation of sterling, weakening British competitiveness internationally. Since then, no further rate hikes have been implemented. The central issue for the Bank is whether the existing policy stance will slow the economy sufficiently to prevent further upward pressures on prices, but not more than is deemed necessary.

In **continental Western Europe**, the most important issue in 1997 and early 1998 was to achieve a ratio of the budget deficit to GDP that was no more than the 3 per cent maximum as set forth in the Maastricht Treaty on European Union, and to narrow the interest rate gaps that existed among member countries in order to pave the way for a smooth transition to monetary union. In fact, all the 11 countries that wanted to—and will—enter the monetary union at its inception had deficits below or at the maximum ratio in 1997. While fiscal discipline was the major factor in reaching the target, some countries employed various one-off measures, such as sales of State-owned enterprises (SOEs), the introduction of temporary special-purpose taxes and "adjustments" in fiscal accounting. Also, more robust growth in 1997 than forecast at the beginning of that year helped reduce the deficit-to-GDP ratio: tax revenues rose and some government expenditures were less than they would have been.

Fiscal discipline is expected to continue in place in 1998 and beyond. Once the monetary union is established in January 1999, responsibility for monetary policy moves to ECB. Thus, member countries will have to rely almost exclusively on fiscal policy to address country-specific economic shocks, but even this option is restricted by the agreement in the Stability and Growth Pact of December 1996 to maintain fiscal deficits under 3 per cent of GDP in perpetuity. In order to ensure the flexibility and manoeuvrability of fiscal policy within the constraints and obligations of the Stability and Growth Pact, it will be essential to move towards zero deficits. In this respect, it is also considered crucial for many countries to reduce the ratio of government debt to GDP, as highlighted by the European Monetary Institute (EMI) report on convergence in March 1998.[5]

5 The Maastricht Treaty adopted a target for the ratio of government debt to GDP of no more than 60 per cent. Several Governments are well above that target, although the stronger fiscal positions held out a promise of progress in reducing the ratio over time (see European Monetary Institute, *Convergence Report: Report required by Article 109j of the Treaty establishing the European Community* (Frankfurt am Main, March 1998)).

During the course of 1998, the 11 future member countries of the single currency area are expected to lead their short-term interest rates to a common rate. As there still do, and almost inevitably will, remain differences among member countries in terms of their position in the business cycle, attempts to bring interest rates to the common rate have a potential to create tensions. In general, high interest rate countries, such as Ireland, Italy, Portugal and Spain, are likely to cut interest rates as long as inflationary pressures do not build up excessively, while low interest rate countries are expected to maintain their rates or to increase them slightly, based on the relatively bright economic growth forecast. In certain cases, however, countries may need to deviate from this general pattern. For example, Finland, whose short-term interest rate had been below Germany's for some time, raised it above the German rate to prevent the economy from overheating. Conversely, Germany may have an incentive to lower its short-term interest rates under the current economic conditions of high unemployment and continuing low inflation.

In the longer term, there are many challenges that member countries will face. In fact, it may be argued that the real challenge lies in sustaining the monetary union, rather than in creating it. Europe is not a federal State, unlike the United States. There is no large central budget to absorb economic shocks and redeploy resources in response. Also, the member countries have different tax and fiscal expenditure systems, labour mobility between them is still highly limited, pension systems are very different and pension rights are not automatically transferable between them. For all these reasons, the policy architecture of EU in the twenty-first century seems incomplete. However, the impressive achievements made by the European countries in order to assure that monetary union will begin in January 1999, the steps already achieved to create a single market, and the drastic effects of a future failure of monetary union on European union and confidence in economic management furnish reasons to expect that over time the European States will find solutions to the various problems that arise on the road to a deeper union.

In **Japan**, meanwhile, policy makers continue to face extreme difficulties in choosing a policy mix. While the Bank of Japan has little choice but to maintain an easy monetary policy in the face of stagnant domestic demand, the large gap that exists between potential and actual output, along with the decline in the prices of imports from the rest of East Asia, could set in motion a deflationary spiral. Another pressing issue is the continuing overhang of bad loans in the banking sector. Even though, in March 1998, the Government injected 1.8 trillion yen (¥) ($14 billion) into the 21 banks that had requested public funds, the banks did not significantly expand loans. The expansion of loans that are envisaged by the 21 banks may not, based on the restructuring plans submitted, provide sufficient credit to small- and medium-sized enterprises, which are being squeezed by a "credit crunch".[6]

The Government is facing a dilemma in fiscal policy as well stemming from the conflict between the short-term need to revive the economy and the long-term objective of ensuring the sustainability of the country's social security system. This is the concern that motivated the Government to implement an only temporary ¥2 trillion income-tax cut as part of its 1998/99 budget rather than a permanent reduction in tax rates. The fiscal authorities were afraid that, in the event of a permanent reduction, the revenue from income taxes would be

6 Strictly speaking, the credit crunch is only one side of the story. Commercial banks do not simply deny new loans to small- and medium-sized enterprises; they are now trying to evaluate risks associated with loans on the basis of more market-based criteria.

insufficient to achieve the fiscal balance required according to the terms of the fiscal reform law of December 1997.[7] As indicated in the previous section, however, the weakening in 1997 of consumer confidence and the decline in the real value of wealth held by the consumer sector will most likely lead consumers to channel their additional disposable income coming from the tax break into savings. Therefore, a temporary tax break is not expected to boost economic activity. For this reason, some politicians and economists have been suggesting the need for permanent income and/or corporate tax cuts.

7 The law requires the Government to cut its ratio of fiscal deficit to GDP to 3 per cent by the year 2003.

As of the end of April 1998, it appeared likely that the Government would implement some form of tax cuts on a multi-year basis and will undertake additional public investment projects. While such new initiatives would help lift the Japanese economy in 1998 and 1999, their effects would not likely last beyond these years. Several fiscal measures implemented during the 1990s failed to produce sustained economic recovery. During the period, private enterprises, both financial and non-financial, put aside at least part of the additional revenues made possible by those fiscal injections to improve their balance sheets. Therefore, the expected income-expenditure dynamics did not materialize. While it is encouraging that the Government appears to have decided to amend the fiscal reform law to allow it to pursue a more flexible fiscal policy, it may have also to take more direct actions to strengthen the balance sheets of private enterprises.

THE TRANSITION ECONOMIES

After seven years of often sharp decline, the GDP of the transition economies as a group increased, finally, in 1997; growth is expected to accelerate to about 3 per cent in 1998.[8]

8 For additional details on recent developments in the transition economies—more than can be presented here—see *Economic Survey of Europe, 1998, No. 1* (United Nations publication, Sales No. E.98.II.E.1); and *Economic and Social Survey of Asia and the Pacific, 1998* (United Nations publication, Sales No. E.98.II.F.59).

As encouraging as these aggregate numbers are, they mask the great disparity in the performance of individual countries, ranging from a decline in output of about 20 per cent to an advance of over 11 per cent (see table A.3). Most Central and Eastern European countries, as well as the Baltic States, have been growing since 1994, while in Belarus, the Caucasus and most countries of Central Asia the recovery began in 1995 or 1996. This notwithstanding, aggregate transition economy GDP continued to decline although at a diminishing rate, until the Russian Federation, by far the largest economy in the grouping, achieved its first measured advance since 1989. Although GDP fell in 1997 in Albania, Bulgaria, Romania, Turkmenistan and Ukraine, all those countries are expected to grow in 1998.

With the exceptions of Bulgaria, Kyrgyzstan and Turkmenistan where economic expansion is being driven by exports, the recovery has been mainly underpinned by domestic demand. Except in the Russian Federation, this has resulted in a widening of current account deficits; in 1997, most deficits were equal to or higher than 5 per cent of GDP. The fact that, as the recoveries gain momentum, external imbalances are expected to increase further, is an issue that policy makers will need to address.

Inflation, however, has been consistently trending downwards in most countries. Nevertheless, in Belarus, Romania, Tajikistan and Turkmenistan, prices still rose at an annual rate of over 50 per cent (see table A.8). The most dramatic case has been Bulgaria, where inflation accelerated during the first half of

1997 to more than 1,000 per cent at an annual rate. However, after the introduction of a currency board in July 1997, inflation decelerated sharply.

Since the start of transition, unemployment has become one of the most important economic, social and political issues. Although officially reported unemployment rates range from 1-2 per cent to close to 20 per cent, the problem is much more serious than official numbers suggest because of very significant hidden unemployment.

Fragile expansion in the European member countries of the Commonwealth of Independent States

Perhaps the most important development of 1997 was that the economies of the **Russian Federation** and **Ukraine** finally showed signs of nascent improvement.

In the Russian Federation, following a cumulative reduction of 43 per cent in total production between 1989 and 1996, real GDP rose by 0.4 per cent in 1997.[9] Industrial production was up 1.9 per cent over 1996, with large and medium-sized industrial enterprises accounting for much of the growth. Household consumption, underpinned by a partial payment of pension and wage arrears, as well as by household dissaving on account of concerns about the pending redenomination of the rouble, was the main driving force behind the recovery. Growth in 1998, while modest, could be above 1 per cent.

Since 1990, Ukraine's economy has contracted by about 55 per cent in real terms. For Ukraine, in contrast to the Russian Federation, 1997 marked another year of GDP decline—by about 3 per cent. However, this was a much smaller decline than in previous years. Besides, industrial production appeared to have stabilized in late 1997 and early 1998, with several industries, including fuel and metallurgy, showing increases in output. In the chemical and petrochemicals industries, production has stopped falling. No less important, in machine building there has been a pronounced deceleration of the rate of decline to low single digits against annual drops of 20 per cent since 1992. Also, there was a 4.2 per cent real increase in consumer goods purchases in 1997 as incomes rose. Output may grow by about 1 per cent in Ukraine in 1998.

Fixed investment continues to be a key weakness of both economies. In the Russian Federation, after an 18 per cent fall in 1996, fixed investment declined another 5 per cent in 1997. In Ukraine, investment fell by 9 per cent in 1997 against a decline of 22 per cent in 1996. In both countries, investment in 1998 is likely to remain at about its 1997 level because of political, legal and macroeconomic uncertainty.

Over the course of 1997, inflation declined from the 1996 average of 48 per cent in the Russian Federation and 80 per cent in Ukraine to close to a 15 per cent average. In 1998, Russian inflation is likely to stay at about the 11 per cent rate achieved by the end of 1997. In Ukraine, in contrast, inflation could accelerate from its end-1997 level of 10 per cent to close to 16 per cent, owing to one-off increases in administered prices.

Both the Russian and Ukrainian economies were vulnerable to contagion from the Asian currency crisis. The financial turmoil forced domestic interest rates to rise from less than 20 to above 40 per cent to support the rouble and the hryvnya. Interest rates have since fallen somewhat from their peak in February

9 In the first half of 1997, the Russian Government adjusted its formula for determining changes in GDP by increasing the estimate of the Russian Federation's shadow economy from 20 to 23 per cent of GDP. This has resulted in more favourable comparisons than the old calculations would have provided.

1998 as psychological concerns eased, but are likely to remain well above their pre-crisis levels during the current year. Given the relatively low share of private credit in the two economies, the main impact of higher interest rates will be to increase government debt-service costs and bring about new cutbacks in other government expenditure items. It will thus be more difficult to reduce the backlog of wage arrears. The situation is likely to be exacerbated by sharply higher costs of international borrowing, as foreign market lenders are already exacting a higher risk premium on credits extended to these countries.

The inability to put public finances on a sounder footing was the most important policy failure in 1997. The major cause of this failure was the incapacity to collect the revenues necessary to cover planned expenditures. As a result, up to 30 per cent of expenditures have been slashed and budgetary non-payments to workers and suppliers have been rising. Higher borrowing costs, meagre growth prospects and weaker trade developments in 1998 could again jeopardize budget outcomes. Especially in the case of Ukraine, the financing of the budget deficit could become a problem as a result of the virtual collapse of the treasury-bill market in the aftermath of the Asian crisis. This was largely due to the exodus of foreign investors whose share of the market had been about 50 per cent. The Government's response has been a significant fiscal tightening, with the projected budget deficit for 1998 being cut from 3.3 per cent of GDP to 2.5 per cent.

However much desired, continued progress in macroeconomic stabilization per se will not be enough to ensure that these countries move quickly to rapid growth. Real interest rates are expected to remain high, restraining the main components of domestic demand. Another curb on demand will be mounting non-payments, including wage arrears. Household consumption, which provided an important stimulus to the two economies in 1997, is not expected to be a leading sector of demand over the long term, while fiscal constraints will not allow the use of government consumption to boost overall demand. An investment-led recovery also looks unlikely to occur soon because of demand and liquidity constraints, as well as the continuing deterioration of the financial position of enterprises. Indeed, in 1997, both in the Russian Federation and Ukraine, almost half the firms made losses.

In the case of Ukraine, with domestic demand subdued, any economic turnaround will perforce have to rely on an upturn in sales to its trading partners, firstly in the Russian Federation. Trade between Ukraine and the Russian Federation, which declined by 18 per cent in the first nine months of 1997 as a result of a trade dispute, should grow markedly following the November 1997 agreement between the two countries to eliminate the VAT on each other's exports.

In the case of the Russian Federation, exports are not likely to contribute significantly to growth in the short run as the prices for raw and intermediate materials exports will remain weak. Moreover, the capacity to increase the volume of raw materials exports is limited in the short run. Stronger trends in manufactured exports to offset the weakness in commodities can hardly be expected over the next several years.

According to official estimates, after several years of contraction, real GDP in **Belarus** increased by 2.8 per cent in 1996 and 10 per cent in 1997. The prospects are that economic growth in 1998 will also be positive. Growth is being underpinned by the State's policy of rapid credit expansion, which took the form of directed and subsidized loans by the National Bank of Belarus, the central bank, mainly to the agro-industrial and housing sectors. The directed credits spurred investment in the targeted industries which appears to have stimulated overall demand. In 1997, the volume of trade increased by more than 25 per cent, with exports growing faster than imports.

Faster growth came at a price of higher inflation, which accelerated from 53 per cent in 1996 to 64 per cent in 1997 and may reach 100 per cent by 1999. In addition, the economic boom has led to a severe currency crisis: the Belarusian rouble fell more than 30 per cent against the dollar during the first 20 days of March 1998. In response, the central bank increased interest rates (which, however, remained negative in real terms even after the rise) and further tightened restrictions on foreign exchange transactions. Moreover, the Government ordered all State and private companies to reduce prices (which had been forced up by the currency fall) to their pre-crisis levels, effectively introducing a price freeze. Given the continued rapid rates of credit expansion for financing the economy, inflation would be suppressed rather than curtailed.

The **Republic of Moldova's** GDP grew by 1.3 per cent in 1997, the first advance since independence, while inflation fell to 12 per cent from 24 per cent. Yet the economy remains at about one third of its pre-independence size. Growth is likely to accelerate to a 3-4 per cent annual rate in 1998, assuming that continued foreign assistance and normal weather conditions prevail, as agriculture accounts for more than 30 per cent of the Republic of Moldova's GDP.

The Central Asian and Caucasian republics: vulnerability of commodity-focused growth

In 1996 and 1997, signs of economic revival began to become apparent in the Central Asian and Caucasian countries. In 1997, GDP increases between 2 and 12 per cent were registered in all the Caucasian countries and in Central Asia, with the exception of Turkmenistan. In most countries, GDP advances were underpinned by the influx of foreign capital, including foreign direct investment primarily attracted into the oil and gas industries, with the latter accounting for between 20 and 80 per cent of gross capital formation. Also, an important driving force behind the recovery in several countries has been the export of primary commodities.

In 1997, **Turkmenistan** illustrated the consequence of overdependence on a narrow range of exports, as the economy collapsed: GDP dropped by about 20 per cent as natural gas production, which accounts for up to 50 per cent of output, plunged by more than 50 per cent after the country halted almost all gas exports in March 1997. The decision to suspend gas exports, which account for nearly two thirds of total export sales, was motivated by the non-payment for earlier deliveries by Ukraine, Turkmenistan's major customer, and Georgia. Total gas debts owed to Turkmenistan are close to $2 billion (equivalent to about 95 per cent of the country's GDP). Moreover, because of the poor cotton crop, the production of cotton fibre, the second major export item, came in at only 20 per cent of its 1996 volume. This dual setback produced a dramatic deterioration in government finances, as taxes on exports of natural gas and cotton fibre provide almost 70 per cent of government revenues. The Turkmen economy is likely to post modest growth in 1998, as gas production and exports rebound gradually, following the resumption of deliveries to Ukraine. Cotton-related activities should also pick up because of a better harvest in the fall of 1997.

With the notable exceptions of Tajikistan and, especially, Turkmenistan, inflation is being reduced (see table A.8). However, only in the Caucasian republics did it drop below 10 per cent; in Kazakhstan, Kyrgyzstan and Uzbekistan consumer prices are still growing at an annual rate of between 20 and 50 per cent.

According to official data, despite the drastic reductions in output in previous years, registered unemployment has remained surprisingly low: on the order of 1 per cent (Azerbaijan) to 10 per cent (Armenia). However, hidden unemployment could be much larger, as there is significant rural overpopulation and the bulk of the working-age urban population is still formally registered as employees at enterprises that are working, at best, at between 10 and 25 per cent of capacity. In this regard, it was estimated in the 1980s that, according to Soviet standards, around 30 per cent of industrial employment in those regions was superfluous. This can be considered a minimum figure in today's economies.

The prospects for 1998 and beyond depend on the ability to raise domestic saving and investment, as well as to attract foreign capital inflows into a broader range of industries. For instance, in **Kyrgyzstan**, up to 80 per cent of foreign investment has been directed to only one project: the development of the gold deposit at Kumtor.

In **Kazakhstan**, foreign direct investment surged—it was close to 6 per cent of GDP (see table II.2)—which brought the ratio of gross fixed investment to GDP to 12 per cent in 1997. Yet in 1987-1990, when there was negligible foreign direct investment, the share of investment was higher, at 19 per cent of GDP. Foreign investment, as well as output growth, is heavily concentrated in the oil and gas sectors and, to a lesser extent, in metallurgy. At the same time, mechanical engineering, chemicals and petrochemicals, electricity, light industry, construction materials and the food industry as well as agricultural production are still in decline.

In **Azerbaijan**, oil-related foreign investment—which has contributed importantly to the very high investment-to-GDP ratio of about 25 per cent, the highest ratio among all the transition economies—is helping to stabilize the economy and ensure its strong, though rather narrowly based, growth. Most non-oil sectors are lagging far behind. Indeed, in 1997 when overall GDP growth was about 6 per cent, industrial production stayed almost flat. Concerned about these developments and about overdependence on the oil sector, the Government has drawn up an investment programme for the period to 1999 that aims to revive non-oil industries. Implementation of the programme depends, however, on an even greater, but less narrowly focused, inflow of foreign investment. As a result, in the next several years, the current account deficit, which was close to 22 per cent of GDP in 1997, might widen further to close to 30 per cent. Growing foreign obligations undertaken on the basis of future hydrocarbons revenues make the economy increasingly vulnerable to changes in oil prices as well as to other adverse developments in export markets.

The need to overcome the economy's high degree of dependence on mainly two commodities—gold and cotton—remains among the policy priorities in

Table II.2.
FOREIGN DIRECT INVESTMENT IN THE TRANSITION ECONOMIES, 1989-1997

(Millions of dollars)

	1996	1997	1989-1997	Inflows as percentage of GDP (1997)
Central and Eastern Europe and the Baltic States				
Albania	97	33	369	1.4
Bulgaria	100	575	1 000	5.6
Croatia	509	500	1 276	2.7
Czech Republic	1 388	1 275	7 473	2.4
Estonia	111	131	809	2.8
Hungary	1 986	2 100	15 403	4.7
Latvia	379	415	1 287	7.6
Lithuania	152	327	612	3.6
Poland	2 741	3 044	8 442	2.3
Romania	415	998	2 389	2.9
Slovakia	177	150	912	0.8
Slovenia	186	321	1 074	1.8
The former Yugoslav Republic of Macedonia	12	16	65	0.5
Total	8 252	9 885	41 111	2.8
Commonwealth of Independent States (CIS)				
Armenia	22	26	70	1.6
Azerbaijan	661	1 006	1 993	24.4
Belarus	75	100	267	0.7
Georgia	25	65	104	1.3
Kazakhstan	1 100	1 200	4 267	5.7
Kyrgyzstan	46	50	247	3.1
Republic of Moldova	56	71	249	3.4
Russian Federation	2 040	3 900	9 743	0.8
Tajikistan	20	20	86	1.8
Turkmenistan	129	108	652	4.7
Ukraine	526	700	2 096	1.4
Uzbekistan	50	60	216	0.4
Total	4 750	7 306	19 990	1.2

Source: European Bank for Reconstruction and Development.

Uzbekistan which has been successful in the pursuit of this policy. It has attracted considerable foreign investment into a broader range of industries than its traditional export-oriented sectors of gold mining, uranium and non-ferrous metals. Foreign investment has already created several branches of industry, such as automobiles, ball-bearings and electronics, which did not exist before independence. Also, foreign investment helped Uzbekistan become the only Central Asian economy thus far to have increased its oil and gas output since independence, although admittedly from a low level. Most of the newly formed industries are aimed at serving regional markets as they recover from post-independence recessions. The diversification strategy helped the country to achieve overall GDP growth of above 5 per cent in 1997 despite soft gold prices and the relatively poor cotton crop.

In 1997, with the end of hostilities, the **Tajik economy** registered its first growth since independence, of over 2 per cent, as agricultural production returned to more normal levels. However, the slump in industrial production, especially in aluminium, continues to hold back the recovery. Over the next several years, economic development will depend importantly on lending by multilateral organizations and continued humanitarian support from international donors. Other capital inflows are not expected to be forthcoming in the short run, while domestic resources have been largely depleted by the civil war.

To revive their economies, **Armenia** and **Georgia** are relying heavily on foreign assistance which covers 70 per cent and up to 40 per cent of government expenditures respectively. Foreign direct investment has thus far been modest, at about 1½ per cent of GDP (see table II.2). That the strongest growth in both countries has been in the service sector, particularly in trade, is typical for the early stages of transition. In contrast, industrial output has been depressed. For instance, in Georgia, only about 14 per cent of GDP comes from industry, against 42 per cent in 1991. Growth has been mainly fuelled by a boom in consumption, fed by increasing imports. With the notable exception of housing construction in Georgia, investment has remained subdued. Consumption-led recovery, has resulted in a significant current account deficit which in 1997 reached 15 per cent of GDP in Georgia and 22-24 per cent of GDP in Armenia. In the short run, the growing external imbalances will not derail the recovery, as foreign financing largely in the form of humanitarian assistance and loans to assist post-war recovery is likely to remain available. Hence, in 1998 growth will likely be maintained at an annual rate of about 5 per cent in Armenia and close to 10 per cent in Georgia. In the longer term, a sustained recovery of GDP growth from the post-independence collapse will require the stepping up of industrial restructuring and significant increases in investment. Given the shortage of domestic savings, attracting foreign investment could become one of the most important preconditions for sustainable growth and economic stability.

Central Europe and the Baltics: consolidating the momentum

As has been noted already, the Baltic States and, with few exceptions, the Central and Eastern European Transition Economies (CEETEs) have been growing since 1994. For many, the major policy focus has turned towards advancing the institutional reform agenda and preparing for membership in EU. Macroeconomic management, with certain exceptions, has mainly sought to maintain a sustainable momentum.

Among the CEETEs, **Poland** has been the most dynamic economy, with average annual growth about 6 per cent since 1994. This growth in GDP is likely to continue well into the medium term. Growth is now being driven by domestic demand with both investment and consumption rising strongly. Indeed, in 1997, investment increased nearly 22 per cent and another rise of close to 20 per cent is forecast for 1998. A significant part of the increase in domestic demand is being met by imports, which are growing faster than exports. The resultant widening in the trade deficit may become a major policy concern. Strong growth has contributed to some fall in unemployment, which is likely to continue its gradual decline. Despite brisk economic performance, inflation keeps falling, but still remains well above 10 per cent. In 1998, the pace of economic activity may decelerate from 7 per cent to about 6 per cent, owing to tight fiscal and monetary policies and the rise in net imports.

In 1997, the consistent reform effort in **Hungary** showed more dynamic results, after several years of mediocre growth. The economy accelerated to above 4 per cent and is likely to grow at a higher annual rate in 1998. The major forces of growth have been investment, which registered a double-digit advance for the second year in a row, and exports. The recovery could become more broadly based, as there are signs of a pick-up in personal income. Growth is being underpinned by a fast and steady improvement in manufacturing productivity, suggesting that the large foreign investment inflows of the previous years have started to bear fruit. Hungary's acceleration in economic activity, unlike that in many other countries, has been accompanied by a decline in the trade deficit.

Economic activity in the **Czech Republic** and **Slovakia** decelerated over the last year. The Czech economy has suffered from a loss of competitiveness, owing to the fact that real wages are rising considerably faster than productivity, leading to a subsequent widening of the current account deficit. This necessitated significant monetary tightening and a currency devaluation. Growth is expected to rebound gradually over the next several years, as the negative effects of slower investment and consumption are offset by rising net exports. In Slovakia, a slowdown in gross fixed capital formation and government consumption, the result of policy tightening aimed at restoring macroeconomic stability, was only partly offset by exports. In 1998-1999, activity may decelerate again to an annual rate of slightly below 5 per cent, owing to a further slowdown in domestic demand. Hence, a kind of economic "soft landing", after the dangers of overheating, can be expected.

The economies of **Bulgaria** and **Romania** experienced a significant decline in 1997, which could be at least partly attributed to a long delay before making a serious effort to undertake economic reforms. Indeed, as a result of severe banking and foreign exchange crises, Bulgarian GDP fell by almost 11 per cent in 1996 and by another 7.4 per cent in 1997. In July 1997, Bulgaria introduced a currency board to help restore the confidence of economic agents.[10] The recovery in output is likely to be steady but slow. It is being led by exports, as domestic demand, though improving, will stay sluggish for quite some time. In 1997, after several years of strong growth, the Romanian economy contracted as a result of a sharp drop both in investment and in consumer spending. The contraction in domestic demand was due to sharp subsidy cuts, price liberalization and a significant devaluation of the national currency. The further withdrawal of subsidies and the planned downsizing of the State sector raise doubts about the extent of any resumption of growth in 1998.

The economies of the successor States of the former Yugoslavia are growing, albeit from quite different bases. The economy of **Slovenia** has been relatively dynamic since 1993. Over the past two years, growth decelerated from above 4 per cent to about 3 per cent, owing to moderating growth of domestic demand. In 1998 growth could pick up again to close to 4 per cent, as investment recovers and exports, the major factor of growth in 1997, continue performing well. Over the past several years, the economy of **Croatia** has been on

10 A currency board takes monetary policy out of the hands of the monetary authority and replaces the authority with a fixed mechanism: increases in domestic currency can be issued only against equivalent increases in foreign exchange reserves at the fixed exchange rate. Where monetary authorities have abused their money- creating power and driven up inflation, a currency board can help restore confidence.

an accelerating path and the growth momentum will stay intact in 1998. As in many other transition economies, domestic demand, especially private consumption, grew much faster than GDP in the last two years and this has resulted in the current account deficit's reaching 10 per cent of GDP. In 1998, the main sources of growth are likely to be investment, spurred by the post-war rebuilding, and exports. Consumption is expected to decelerate due to a tighter monetary and fiscal policy as well as some moderation in wage growth. In 1997, the fourth consecutive year of increasing output, the economy of the **Federal Republic of Yugoslavia** grew by 7.5 per cent. GDP, however, was only about half the level reached in 1989. Growth was strongest in export-oriented branches of industry owing to the preferential government credit allocation system. The upward trend in industrial production continues in 1998. Despite the strong export performance, the current account deficit was more than 12 per cent of GDP in 1997. In the absence of sufficient external financing, this was not sustainable. Thus, despite a tight monetary policy to raise interest rates, the dinar fell by 82 per cent in March 1998. Exchange-rate considerations underlie the continued tight economic policy being pursued in the former Yugoslav Republic of **Macedonia**. This will have a dampening effect on growth. In **Bosnia and Herzegovina**, the post-war recovery will continue to be driven by reconstruction-related activities, financed with international donor aid.

In **Albania**, a four-year economic recovery was interrupted in 1997 when GDP fell by about 7 per cent. The cause was the widespread disorder and violence in the first half of the year that was sparked by the collapse of deposit-taking "pyramid schemes". Albania will continue for some time to depend on international assistance for its recovery, which is expected to be rather fast and strong. Indeed, significant progress has already been made in achieving economic stabilization and growth is returning.

The Baltic States of **Estonia, Latvia and Lithuania** are enjoying strong growth, underpinned by rapid industrial restructuring and a robust services sector. As in many other transition economies, increased demand for capital goods has led to large trade and current account deficits. The latter reached 10-15 per cent of the countries' GDP. Thus far, external imbalances are being easily financed by increasing inflows of foreign direct and portfolio investment, partly as a result of privatizations. For instance, foreign direct investment inflows jumped by 9 per cent in Latvia in 1997 and this trend is expected to continue. Import growth is likely to outstrip export growth for several more years until structural changes in industry lead to stronger export performance. Meanwhile, the rising surplus in services due to the increasing importance of the region in transit trade could help offset part of the trade deficit.

THE DEVELOPING ECONOMIES

The developing economies maintained their growth momentum in 1997 for one more year, registering an average rate of growth of 5.8 per cent (see table II.3). There was substantial acceleration of growth in Latin America and strong expansion in Western Asia. Overall growth in Africa was impeded by weather-related factors in a number of countries, but economic expansion remained widespread. Economic growth in Eastern and Southern Asia and China slowed in the second half of the year, owing to the regional financial crisis and less growth in domestic demand, respectively.

Table II.3.
DEVELOPING COUNTRIES: RATES OF GROWTH OF GDP, 1991-1998

(Annual percentage change)

	1991-1997	1991	1992	1993	1994	1995	1996	1997[a]	1998[b]
Developing countries[c] of which:	5.0	3.2	5.0	5.2	5.6	4.6	5.7	5.8	3¾
Africa	1.7	0.8	-0.4	-0.6	2.0	2.7	4.5	3.0	3¾
Eastern and Southern Asia	7.6	6.9	7.8	7.9	8.6	8.2	7.5	6.5	3¾
Region excluding China	6.3	6.2	5.6	5.9	7.0	7.3	6.5	5.4	2
of which:									
East Asia	6.7	7.2	6.0	6.5	7.6	7.6	6.6	5.5	1
South Asia	4.8	2.9	4.2	3.9	5.2	6.2	6.0	5.1	5¼
Western Asia	2.6	-5.0	5.5	4.3	-0.9	4.1	4.8	5.9	4
Latin America and the Caribbbean	3.4	3.4	2.9	3.5	5.5	-0.1	3.7	5.4	3¼
Memo items:									
Sub-Saharan Africa (excluding Nigeria and South Africa)	1.6	-0.3	-1.2	-3.0	1.7	4.1	5.3	4.8	4½
Least developed countries	2.2	-0.5	0.6	-1.2	1.8	4.6	5.0	4.9	4¼

Source: United Nations.

a Preliminary estimates.
b Forecast, based in part on Project LINK.
c Covering countries that account for 98 per cent of the population of all developing countries. For additional country detail, see table A.4.

Economic growth of the developing countries in 1998 is expected to be only 3¾ per cent, due primarily to direct and indirect consequences of the 1997-1998 Asian financial crisis. Contractionary adjustment policies, poor business confidence, shortage of domestic liquidity and scarcity of external finance underlie the economic contraction in the crisis countries in Asia. Restrictive macroeconomic policies adopted in a number of East Asian economies and some Latin American countries—in many cases a response to external financial pressure emanating from the crisis—and the higher cost of external financing will dampen economic growth. Reduced foreign direct investment flows from the affected Asian economies is expected to have a negative effect on those developing countries for which such financing is an important source of investment. Weaker international commodity prices, aggravated by significantly reduced demand from Asia, are anticipated to weaken economic growth in commodity exporting countries in Africa, Latin America and Western Asia.

Africa: growing, but too slowly

Africa's GDP per capita increased in 1997 for the second consecutive year, although only marginally.[11] Average output growth in 1997 slowed to 3 per cent from almost 4.5 per cent in 1996. Nevertheless, almost a quarter of the countries regularly monitored by the Department of Economic and Social Affairs of the United Nations Secretariat grew at least 6 per cent. Growth

11 The discussion of economic trends in 1997 is based, in part, on Economic Commission for Africa, Economic and Social Policy Division, *Economic Report on Africa, 1998* (United Nations publication, forthcoming).

exceeded 7 per cent in Angola, Ethiopia and Rwanda—all countries that are trying to recover from steep economic declines—and in Botswana. However, slower growth in Morocco and South Africa, as well as in other countries such as Kenya, Malawi, Mauritius, Togo, Tunisia, Uganda, the United Republic of Tanzania, Zambia and Zimbabwe, contributed to the deceleration of growth in Africa as a whole.

Growth is forecast to strengthen slightly in 1998, but remain below 4 per cent (see table II.3), as weather-related difficulties in 1997 ease in most countries. However, Eastern Africa, where Ethiopia, Uganda and the United Republic of Tanzania suffered lower production of agricultural commodities in 1997 as a result of the heavy rains and flooding, will feel most of the impact of lower agricultural output in 1998. Uncertainty remains regarding the effects of the El Niño weather pattern and the financial crisis in Asia. Also, uncertainty surrounding the peace process in Angola and the transition to civilian rule in Nigeria could continue to discourage investment and output growth in those countries.

It appears that many countries in Africa have entered a period in which the trend rate of growth is higher than previously—perhaps between 5 and 6 per cent. Yet, poverty in Africa remains pervasive and unemployment high. Even countries that have benefited from a decade or more of rising GDP per capita (for example, Ghana and Uganda) have not yet recovered the GDP per capita levels of the 1970s. Indeed, at an average rate of growth of GDP of 4 per cent a year (and with a population growth rate of 2.7 per cent) it will take another 13 years for Africa as a whole to recover the GDP per capita level of 1980. Moreover, Africa remains highly vulnerable to exogenous shocks, such as those related to weather or international commodity prices.

Vulnerabilities exposed in 1997

The two most significant factors behind the spurt in growth that was seen in 1996—high oil prices and improved agricultural output—had largely evaporated by 1997, as oil prices declined and Northern, Eastern and Central Africa saw severe drought or heavy rains. The reduced agricultural output led to higher food prices and also necessitated higher food imports. There were budgetary consequences as well, as Governments subsidized food imports and lost revenues from the temporary elimination of taxes on food imports (in Kenya and the United Republic of Tanzania) and through the sale of food below market prices (in Zimbabwe).

Crops were below normal in most countries of Northern Africa, where the combined cereal production of Algeria, the Libyan Arab Jamahiriya, Morocco and Tunisia declined by 63 per cent. GDP fell 2.2 per cent in Morocco, for the fourth decline in the last six years, owing to drought. Drought in early 1997 was followed by heavy rains and flooding attributed to El Niño later in 1997 and in early 1998 in Ethiopia, Kenya, Uganda and the United Republic of Tanzania, causing widespread damage to food crops, livestock and infrastructure. After having achieved self-sufficiency and become a net food exporter in 1996, Ethiopia lost 25 per cent of its crops in 1997. Flooding caused extensive damage in Somalia and the Sudan. In South Africa and Zambia, output fell from the record high levels of 1996.

In Western Africa, cereal production was mixed because of a long dry-spell in the middle of 1997, harming crops in the Gambia, Mauritania and Senegal. A drought in Ghana has hurt particularly the production of hydroelectricity, which had a severe impact on industrial production in Ghana, as well as Benin and Togo. On the other hand, there were record cereal crop harvests in Benin, Nigeria and Togo, while Liberia's cereal output, benefiting from peace and good weather, was estimated to be 75 per cent higher in 1997 than in 1996.

Many fuel-exporting countries compensated for the fall in oil prices by increasing the volume of production. As a result, total export revenues were generally maintained at 1996 levels in almost all fuel exporters and GDP growth rates in 1997 were unchanged or somewhat lower in nearly all of them. In Nigeria, GDP grew by 3.8 per cent in 1997, half a percentage point more than in 1996, but economic activity there continued to be hampered by depressed domestic demand, frequent power failures and severe fuel shortages—caused by lack of maintenance of oil refineries—which pushed up transportation costs and crippled economic activity.

More generally, trade has had growth-increasing as well as growth-retarding effects. Strong demand in developed countries for Africa's exports, strong prices for several non-oil commodities in early 1997 and larger export volumes contributed to export growth. For example, South Africa registered steady growth in non-gold exports (7.4 per cent in 1997), boosted by a weak exchange rate and recent investments in capacity, particular in the processing of minerals. This bolstered the economy and prevented slow growth from deteriorating into a recession. At the same time, the decline in gold prices since 1996 has made at least 12 gold mines unprofitable in South Africa, putting many more people, on top of the 50,000 laid off in 1997, at risk of losing their jobs.

In addition, political insecurity or outright civil strife hindered economic activity in several countries, such as Angola, Burundi, the Congo, the Democratic Republic of the Congo (formerly Zaire), Kenya, Nigeria, Sierra Leone, Uganda and Zimbabwe. Economic recovery in Angola continued to be hampered by slow progress in the peace process; the expansion of offshore oil production provided the only source of growth in 1997. In Sierra Leone, the social and economic situation deteriorated sharply following the *coup d'état* that removed the democratically elected president from power in May 1997. Although he was reinstated in early 1998, economic recovery will be severely hampered by extensive damage to infrastructure. After a seven-year civil war in Liberia, a recovery of economic activity could be discerned in 1997 and early 1998. There are also hopeful signs that years of economic decline in the Democratic Republic of the Congo will be reversed as the new Government has entered the first stages of its economic stabilization and reconstruction programme, which will give a large role to the private sector in the development of infrastructure, agriculture and mining.

Scattered dynamism

Despite continued volatility in growth and vulnerability to exogenous shocks, there are certain manifestations of dynamism that can be discerned in some countries. One is the rapid increase in non-traditional exports in a number of countries; another indication of nascent dynamism is stronger investment. Some countries, for example, Botswana, Ghana and Zambia, continued to benefit in 1997 from larger non-traditional exports, partly compensating for lower volumes of, or prices for, traditional exports. Export revenues from non-traditional exports increased by 34 per cent in Zambia in 1997. Several countries, for example, Egypt, the Gambia, Madagascar, Mauritius, South Africa, Tunisia, and the United Republic of Tanzania, benefited from higher tourism revenues. Tourism is increasingly seen as an important source of foreign exchange earnings and employment creation by several African countries. Ghana and Namibia, for example, recently formulated plans to expand the tourism sector. Tourism is, however, also highly sensitive to income growth in countries that are sources of tourists and to domestic strife and regional conflict in tourist-receiving countries, as recent events in Egypt and Kenya demonstrated. Tourism revenues reached a record in Egypt in 1997, but arrivals of tourists were down sharply by year-end after an attack by terrorists on tourists in Luxor in November 1997. A decline of $600 million to $800 million in tourism revenues is expected for the 1997/98 season. Kenya also suffered a decline in tourism after riots in the main tourist area in August and September 1997, leading to a loss in tourism revenues of an estimated $280 million between mid-1997 and mid-1998, equivalent to more than half of total tourism revenues in 1996.

Another dimension of non-traditional exports is expansion of trade among non-traditional partners. For example, GDP of the Southern African Development Community (SADC)—excluding South Africa (as well as the Democratic Republic of the Congo and Seychelles which joined in 1997)—grew 5 per cent in 1997, largely under the impetus of the strong growth of South African trade and investment in the region and flourishing trade among the members of the Community.

Domestic investment, as well as slightly improved inflows of foreign direct investment was an important contributor to GDP growth in some countries in 1997, such as Côte d'Ivoire, Egypt, Ethiopia, Mozambique, South Africa and Uganda. Investment has responded to macroeconomic and political stability, economic reforms and higher economic growth. Foreign investment also took advantage of opportunities created by steadily expanding privatization programmes in many countries. In Egypt, for example, capital inflows, privatization and liberalization of investment regulations have recently stimulated investment, particularly in construction and tourism but also in car manufacturing. Asian foreign direct investment in Africa has increased rapidly in the 1990s: foreign direct investment from five Asian countries amounted to at least $541 million between 1990 and 1996.[12] Some major direct investments from Asia were announced in 1997, but the regional financial crisis might put some of these plans in jeopardy.[13]

Inflation and policy reform

Strict monetary and fiscal policies have sharply curtailed inflation in Africa (see table A.13). In Angola and the Democratic Republic of the Congo, quadruple-digit inflation rates were reduced to double digits. In Ghana, the inflation rate continued to decline during 1997, but remained rather high at 28 per cent for the year owing to exchange-rate depreciation and rising energy prices. Inflation in Nigeria has decelerated drastically since 1995, reaching only 8 per cent in 1997 as a result of tight monetary and fiscal policies and a stable

12 *World Investment Report, 1997: Transnational Corporations, Market Structure and Competition Policy* (United Nations publication, Sales No. E.97.II.D.10), box II.5.

13 For example, a bank from Malaysia that bought part of a privatized Ugandan bank was granted a payment extension after the financial crisis hit Malaysia.

exchange rate. Inflation rates also continued to decrease in most countries in the franc zone (except for the Central African Republic, the Congo, Côte d'Ivoire and Togo) and were at the single-digit level in all but two countries (the Congo and Guinea-Bissau). The inflation rate also fell in Morocco in 1997 despite higher food prices. In Algeria, Botswana, Egypt, Namibia, South Africa and Zambia, lower inflation rates allowed an easing of monetary policy via lower interest rates. For example, the inflation rate fell in South Africa to 5.4 per cent in February 1998 from an average 8.6 per cent in 1997 and the key interest rate was reduced by two percentage points by March 1998, as capital inflows recovered as well. Lower inflation in South Africa led to lower import prices and inflation rates in countries heavily dependent on imports from South Africa, such as Botswana and Namibia.

However, inflation accelerated in a number of countries that suffered from higher food prices. In Ethiopia, Kenya and Uganda, which had been successful in reducing inflation in recent years, food prices increased in early 1998 as food shortages developed. Inflation continued to be rather high in Burundi—where economic sanctions and a transportation boycott by neighbouring countries led to widespread scarcities of consumer and other goods. Exchange-rate depreciations contributed to higher inflation in Madagascar, Malawi, Uganda and Zimbabwe and wage increases led to inflationary pressures in countries such as Benin and Zimbabwe.

Despite such setbacks, African countries generally continued to adhere to strict monetary and fiscal policies to improve macroeconomic balance. Liberalization and structural reforms also continued in many countries. Financial sector reforms, building on macroeconomic stability, deepened in several countries. For example, new central bank legislation, which gives the central bank greater autonomy and secures the tenure of the Governor, was adopted in Kenya; and the banking sectors were restructured in Mozambique, the United Republic of Tanzania and Zimbabwe. Privatization of State-owned enterprises has continued at a steady pace in Cape Verde, Côte d'Ivoire, Egypt, Morocco, Mozambique, Senegal, South Africa, Tunisia, Uganda and Zambia and new privatization programmes have recently been initiated in Botswana, Eritrea and Lesotho, while Algeria and Zimbabwe realized their first privatization of a State company in 1997. Egypt further liberalized trade and investment regulations in 1997 and a new investment law was passed. This law offers, *inter alia*, a number of tax incentives, protection of property rights, freedom of money transfers and the end of a negative list and the licensing requirement for new investment. Other countries that took specific measures to promote investment included Algeria, Gabon, South Africa and the United Republic of Tanzania.

Uncontrollable factors in the outlook

It was feared last year that the El Niño weather pattern would have a disastrous impact on agriculture in Southern Africa in particular, but on Western Africa as well. The outlook for the 1997/98 crop season is still uncertain but as of early 1998, the conditions have been generally favourable and the worst fears have not been borne out. For several countries in Southern Africa, the cereal crop is forecast to be smaller in 1998 (by 13 per cent in South Africa and Zimbabwe), but this is partly a result of a reduction in acreage planted as farmers were warned of the likelihood of a severe drought.[14]

[14] Indeed, the SADC Regional Early Warning Unit issued its first warning in June 1997, giving Governments, donors and farmers time to switch to more drought-resistant crops, change planting patterns, retain cereal surpluses and manage water more carefully (see Ernest Harsch, "Africa braces for El Niño's impact: preparing against drought in southern Africa", *Africa Recovery*, vol. 11, No. 3 (February 1998), pp. 1 and 12-13.

Growth prospects will also be adversely affected in 1998 by lower demand for exports, lower commodity prices and greater competition from Asian exporters as a result of the financial crisis. A sharp slowdown of economic activity in several Asian countries, some of which became the fastest-growing trading partners for a number of African countries in recent years, is expected to dampen exports.

The financial crisis in Asia is in part reinforcing a downward trend in oil and commodity prices that started for some commodities in 1996, but has accelerated since the second half of 1997. For example, the fall in copper prices during 1997 has severely damaged Zambia's growth prospects, not least because a number of negotiations on the privatization of copper mines broke down. Moreover, lower oil prices are negatively affecting government and export revenues in 1998 of fuel-exporting countries such as Algeria, Angola and Nigeria. In early 1998, some tentative signs that the growth of exports was falling as a result of the financial crisis in Asia also became apparent, particularly in South Africa.

The contagion effect of the Asian crisis on financial flows to Africa was largely restricted to South Africa, where the effect was limited by the healthy macroeconomic and financial sector indicators and by the fact that South Africa had already had an exchange-rate correction in 1996. However, direct investment from Asia is likely to be smaller as the main investors (Malaysia and the Republic of Korea) scale back their investment plans.

Asia and the Pacific

East Asia: fallout of a financial crisis

East Asia underwent its most devastating economic shock in the second half of 1997, which was still reverberating in early 1998. Still, economic growth in East Asia in 1997 averaged 5.5 per cent, only slightly lower than the 1996 figure of 6.6 per cent.[15] However, this was largely because of strong economic growth in the first half of the year. Economic performance statistics are expected to deteriorate markedly in 1998, with the average growth rate for the subregion forecast to plunge to only 1 per cent (see table II.3).

[15] The discussions of 1997 economic trends in East Asia, China and South Asia have drawn in part on *Economic and Social Survey of Asia and the Pacific, 1998* (United Nations publication, Sales No. E.98.11.F.59).

In a sense, even this outlook is "optimistic". It assumes continued financial stabilization in the region, progress in adjustment and debt rescheduling, particularly in Indonesia, and an unchanged exchange rate in China. In addition, the Japanese economy is not expected to fall deeper into recession during the remainder of the year. If these expectations prove false, output in the region might indeed be weaker in 1998.

For East Asian developing countries, the heart of the crisis has been financial. In the most afflicted countries (Indonesia, the Republic of Korea, Malaysia, the Philippines and Thailand), real effective exchange rates depreciated by figures within the range of about 30 to 65 per cent (see figure II.2) between June 1997 and January 1998. Stock market indices declined by 30 to 50 per cent. The fact that the underlying economic situations did not warrant "corrections" of such a magnitude underlines how much the East Asian crisis had been driven by a loss of investor confidence.

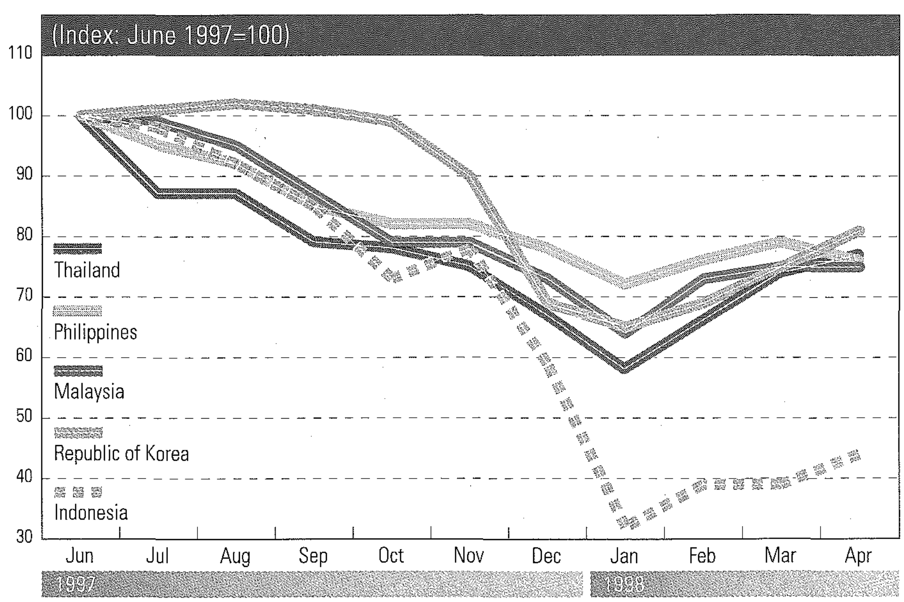
A strengthening of the financial indicators in most of the countries during the first quarter of 1998 was therefore received with a sigh of relief. Indeed, in early April, with strong investor demand, the Government of the Republic of Korea sold $4 billion worth of bonds on the international market with maturities of 5 and 10 years. In early 1998's most uncertain case, that of Indonesia, market sentiment also improved in April, after a new adjustment agreement was concluded with the International Monetary Fund (IMF).

The downward spiral of currency depreciation and stock market decline starting in mid-1997 undermined the viability of heavily indebted financial institutions and corporations, drying up liquidity and freezing investment and even production. Together with significantly higher interest rates throughout the region to shore up exchange rates, there began a flood of bankruptcies of heavily indebted, but otherwise viable, corporations, which further weakened local financial institutions.

Because of contagion in financial markets, strong intraregional trade and financial linkages and, in some cases, competition of exports in third markets, even the economies with much smaller imbalances, sustainable debt levels and relatively sound financial and corporate structures have been adversely impacted. Nevertheless, in those economies—including Hong Kong, China; the Philippines; Singapore; and Taiwan Province of China—the consequences have been less severe.

Differences between individual economies in the nature and intensity of the adjustment and reform processes have become increasingly marked. Problems have been most severe in Indonesia, the Republic of Korea and Thailand. Economic activity is expected to contract in 1998 by 1 to 4 per cent in these countries (see table II.4). Malaysia suffers from similar if less intense problems of high domestic indebtedness and financial sector weakness, requiring adjustments that are expected to depress the rate of economic growth to only 2 per

Figure II.2.
REAL EFFECTIVE EXCHANGE RATES OF SELECTED ASIAN COUNTRIES, JUNE 1997-APRIL 1998



Source: Morgan Guaranty Trust Company, *World Financial Markets.*

Table II.4.
SELECTED MACROECONOMIC INDICATORS FOR INDONESIA,
THE REPUBLIC OF KOREA, MALAYSIA, THE PHILIPPINES AND THAILAND, 1996-1998

	GDP growth rate (percentage)			Current account balance (percentage of GDP)			Inflation (percentage)			Unemployment (percentage)		
	1996	1997[a]	1998[b]	1996	1997[a]	1998[b]	1996	1997[a]	1998[b]	1996	1997[a]	1998[b]
Indonesia	8.0	6.6	-4	-3.5	-2.3	-1	8.0	6.6	40	4.5	4.8	9
Republic of Korea	7.1	5.5	-1	-4.9	-1.7	4	4.9	4.4	9¾	2.0	2.6	6
Malaysia	8.2	7.0	2	-5.0	-5.1	-2	3.5	2.7	7	2.6	2.7	4
Philippines	5.5	5.1	2½	-4.7	-4.0	-3	8.4	5.5	9	7.5	8.7	9½
Thailand	6.7	0.4	-3	-7.9	-3.3	4	5.9	5.6	13	2.6	4.5	8½

Source: Department of Economic and Social Affairs of the United Nations Secretariat.

a Estimate.

b Forecast, based in part on Project LINK.

cent in 1998. Growth will slow to 2½ per cent in the Philippines and to within a range of 3½ to 6 per cent in Hong Kong, China; Singapore; and Taiwan Province of China.

Domestic demand in all the East Asian economies had weakened by late 1997, although the downturn took hold in Thailand around the middle of the year. In Indonesia, the Republic of Korea and Thailand, high interest rates and heavy corporate debt burdens caused a sharp contraction of investment, which is expected to persist in 1998. Consumption will continue to be weak as well because of the spillover from rising unemployment, accelerating inflation and, to some extent, the decline in the price of real and financial assets. Investment and consumption will also be depressed in Malaysia, but to a lesser extent. In Hong Kong, China, and in Singapore, investment and consumption are expected to remain weak in 1998 because of still high interest rates, depressed asset prices and weaker employment and wage prospects.

The expected boost to export growth from currency depreciation had not materialized as of early 1998 in Indonesia, Malaysia and Thailand, while there appeared to be some encouraging signs in the Republic of Korea. The major impediment to responding to the price incentive from the lower exchange rate has been the lack, because of the financial crisis, of domestic working capital and external credit for import of necessary inputs. In addition, the increase in cost of imported inputs and the concurrent depreciation in competitor countries in the region have partly offset the favourable price effect of the currency depreciations. Furthermore, the economic slowdown in Japan, a major market for East Asian exports, dampened export demand. Export growth of Hong Kong, China, of Singapore and of Taiwan Province of China is also expected to decelerate because of weakness in intraregional exports.

The contraction of economic activity has been associated with the severe compression of imports, primarily of capital goods and inputs. The stagnation of investment has been a major factor in the reduced demand for imported intermediate goods, while the drying up of credit for imports is another factor. In Indonesia, the Republic of Korea, the Philippines, Malaysia and Thailand, current account deficits contracted sharply in the latter part of 1997. They are expected to move into surplus in the Republic of Korea and Thailand in 1998.

As the large currency depreciations filtered through to the prices of imported foods, energy and other basic raw materials, the prices of staples have risen sharply. In Indonesia, a drought induced by the El Niño weather pattern has cut back domestic harvests and aggravated the rise in food prices. Outlays on food subsidies have soared accordingly, generating heavy pressure on the government budget. For the rest of the year, more stable exchange rates and better weather and distribution conditions are expected to mitigate conditions. Nevertheless, overall inflation in 1998 is expected to soar to 40 per cent in Indonesia, and will accelerate as well in the Republic of Korea, the Philippines and Thailand to within a range of 9 to 13 per cent (see table II.4).

The more rapid inflation will partly offset the price stimulus for expanded export production from the devaluations. However, in response to the contraction in demand for labour since late 1997, wage pressures in Thailand and Malaysia have eased, improving prospects for cost competitiveness. In the Republic of Korea, average real wages declined in the fourth quarter of 1997. With an increase in the incidence of wage reductions or wage freezes in the first few months of 1998, real wage reduction can be expected to continue during the year.[16]

Unemployment, however, has been rising sharply in a number of countries and is expected to worsen in 1998 from waves of lay-offs owing to corporate and financial retrenchment, impacting both skilled and unskilled workers (see table II.4). In the Republic of Korea and Thailand, where unemployment rates of under 3 per cent were the norm prior to the crisis, they are expected to jump to 6 per cent and over 8 per cent, respectively, in 1998. The number of unemployed in Indonesia is expected to reach 8 million to 9 million in 1998, raising unemployment to 9 per cent. Open unemployment could reach 9 to 10 per cent in the Philippines. In Hong Kong, China, as well, the number of unemployed jumped in early 1998. The average unemployment rate in 1998 is expected to be about 3½ per cent, compared with an average of about 2.5 per cent in 1997.

Rising unemployment has forced the repatriation of foreign workers from some of these countries (for example, Malaysia, Singapore and Thailand). There are also serious concerns about the social situation, as the loss of wages and sharply higher inflation have substantially reduced the standard of living of wide segments of the population and pushed large numbers into poverty. The International Labour Organization estimates that the number of people falling below the Government's poverty line in Indonesia in 1998 could increase substantially from the 22.5 million in 1996.[17]

The struggle to restore stability. The East Asian crisis revealed unsustainable external imbalances, excessive indebtedness, especially in terms of short-term obligations of the private sector, and serious structural weaknesses in the financial and corporate sectors of a number of countries. Between July 1997 and April 1998, Governments thus adopted a series of sharp adjustment measures, supported by commitments of massive international financial assistance under the leadership of IMF. These assistance programmes emphasized austere monetary and fiscal policies, financial sector consolidation and structural

16 International Labour Organization, "The social impact of the Asian financial crisis" (technical report for discussion at the High-Level Tripartite Meeting on Social Responses to the Financial Crisis in East and South-East Asian countries, Bangkok, Thailand, 22-24 April 1998), pp. 22-23.

17 Ibid., p. 25.

reform. Malaysia also suffered from high private indebtedness and weaknesses in financial institutions, although its external indebtedness was relatively low. It adopted domestically formulated macroeconomic policies and strong financial reform measures in response.

Macroeconomic policy response. Interest rates were sharply higher in the second half of 1997 in the main economies of the region, as Governments defended their weakened exchange rates in the face of bouts of speculative pressure. Monetary policy in 1998 is expected to remain restrictive in the face of remaining financial uncertainties and the need to contain the inflationary pressure from the large currency depreciations, although some moderation is expected as the year unfolds.

However, interest rates were almost doubled in Indonesia in March 1998 to bolster the exchange rate and restrain inflation. Malaysia also raised interest rates sharply in March as part of its new package of economic adjustment policies. Interest rates were reduced in the Republic of Korea, on the other hand, as the exchange rate stabilized in response to successful debt restructuring (discussed below). Also, in Hong Kong, China, and in Singapore, rates were lowered as regional financial conditions stabilized. Some easing is also expected in Thailand where there is progress in macroeconomic adjustment and financial reform and where the exchange rate has been recovering from recent lows.

Fiscal policy in the region was tightened significantly after the onset of the financial crisis and is expected to remain restrictive. One reason was the anticipated need for resources to help recapitalize fragile financial institutions, a potentially serious drain on fiscal resources in these countries. A second reason, in countries with unsustainable deficits in their balance of payments on current account, was to curtail imports through a reduction in aggregate spending (as in Thailand).

Thus, as tax revenues shrank with the deterioration of economic conditions, expenditures were cut to prevent the growth of fiscal deficits. Thailand raised taxes on specific products and has planned a privatization programme for 1998 which will help to shore up revenues. Sharp reductions in government expenditures have been budgeted in Thailand and Malaysia, with cutbacks of large investment projects, and a smaller consolidation is budgeted for Indonesia. In the Republic of Korea, substantial scaling back of defence and investment expenditures is budgeted.

However, in the light of the deeper-than-expected fall in economic activity, rising unemployment and rising economic hardship, fiscal targets were eased in Indonesia, the Republic of Korea and Thailand to relax pressure on social expenditure. Indonesia, for example, in its April agreement with IMF, will maintain subsidies on staple foods whose prices have soared owing to currency depreciation and drought. In the Republic of Korea, large increases are budgeted for unemployment benefits and the growth of education expenditures has been maintained. In the Philippines, government expenditures have risen somewhat, while higher interest rates have made debt-servicing outlays soar. In Hong Kong, China, and in Singapore, fiscal balances are expected to ease somewhat to allow automatic stabilizers to mitigate the adverse effects of the regional economic slowdown.

Addressing the private-sector debt crisis. In many senses, the essence of the East Asian crisis was the vulnerability of highly leveraged corporations and poorly managed financial institutions to a sudden increase in debt-servicing obligations. Higher domestic interest rates and currency depreciations were precisely the shocks they could not withstand. Thus, the reducing of short-term debt-servicing obligations through negotiated debt restructuring and refinancing of debt maturities, and policies to evaluate bad debt and move it off the books of financial institutions have been essential features of the work involved in emerging from the crisis, as have policies for restructuring and reform of the financial and corporate sectors.

As of March 1998, the Republic of Korea had obtained significant results in respect of the restructuring of private external debt. The Government has played a central role in successfully negotiating with the major international creditor banks the conversion of 95 per cent ($21.6 billion) of short-term debt to medium-term debt (one to three years maturity), effective April 1998. As a result, the country's external debt structure improved significantly, with the share of short-term debt falling to 30 per cent from the earlier 44 per cent.

Thai banks have been rolling over their short-term debt on a bilateral basis. Stronger institutions have been able to raise capital through the sale of equity, including to foreign investors. The Government has facilitated the sale of assets or debt-for-equity swaps of troubled banks as a means to pay off outstanding debt. In Indonesia, efforts at resolving the external overhang of corporations and banks were just beginning in April.

Domestic private debt has also required policy attention. In the Republic of Korea, it caused a sharp increase in corporate bankruptcies in 1997. Thus, the Government is considering measures to reduce the $421 billion domestic private debt. The intention is to provide some financial breathing room for basically sound companies suffering a short-term credit shortage and to facilitate restructuring of corporations and bad debts of financial institutions. The Government does not intend to offer unlimited bailouts and unsalvageable financial institutions will be merged or sold. A publicly financed equity fund will purchase shares in troubled companies, buy up short-term debt of companies and convert it into long-term debt, and buy up real estate from troubled companies to help them restructure. In addition, financing will be increased for an existing debt restructuring fund set up to buy bad loans from banks.

With regard to restructuring financial institutions and corporations, as well as strengthening financial regulation and supervision, significant policy changes have been implemented in the Republic of Korea and Thailand, but much remains to be done. Closures, takeovers and sales of insolvent financial institutions have been undertaken in both countries. Stricter financial regulations, such as bad loan classifications and provisioning rules, have been introduced. More liberal foreign investment laws in direct and portfolio investment have been passed to increase capital inflow, including for recapitalization of banks and debt reduction of corporations. In the Republic of Korea, the easy access to credit of loss-making conglomerates has ended, raising pressure for restructuring. In addition, legislation has also been passed to strengthen the financial supervisory structure, as well as the autonomy of the central bank. In Thailand, the bankruptcy law was amended to facilitate creditor access to debtor assets.

In Indonesia, a bank restructuring agency was created, capital requirements were raised and restrictions on foreign ownership of banks were eased. A large number of insolvent banks, taken over by a newly established restructuring agency, are targeted for liquidation if the owners cannot mobilize new capital. Fourteen banks were taken over or suspended in April. The weak legal system for bankruptcy proceedings is being strengthened. The new agreement with IMF in April pushes for more expeditious implementation of financial restructuring and reform.

In Malaysia, a large number of weak financial institutions have been merged with a small number of strong ones to absorb the burden of non-performing loans. At the same time, stricter financial requirements are applied in loan classification and provisioning. Limits on foreign ownership of financial institutions (30 per cent) remain and constrain foreign investment in troubled banks.

China: deepening reforms while weathering a regional crisis

Economic growth in China slowed in 1997, but was still almost 9 per cent, as the country continued its "soft-landing" strategy of reducing inflation without delivering a major shock to economic growth. However, towards the end of the year, concern shifted as it began to look as though the slowdown might become excessive. Monetary policy was thus relaxed in the second half of 1997 and interest rates were cut in October in order to strengthen economic growth. The outlook for 1998 is thus somewhat uncertain.

A relatively tight macroeconomic policy stance had been maintained through the first half of 1997. This helped to contain growth in fixed investment—the main culprit for economic overheating in the past—which expanded by about 10 per cent in 1997 (down from 18 per cent in 1996). Growth in consumer demand also slowed down: total retail sales of consumer goods grew about 11 per cent in 1997, 8 percentage points lower than in 1996, as a result of the slower income growth and rising unemployment, as SOEs shed excess workers.

The softening of growth in consumption, combined with a slow pace of restructuring in the State sector, exacerbated losses incurred by SOEs, as inventories of unsold goods rose. Losses by SOEs reached about 10 per cent of GDP in 1997. State-owned enterprises continued to lag behind the non-State industrial sector in growth rates of output, exemplifying a trend that has been maintained since the mid-1980s; but growth also decelerated in the non-State sector in 1997, owing to slowing demand and, probably, a need for small and medium-sized collective and private enterprises to upgrade their management and technology.

Weakening domestic demand was counterbalanced by strong external demand. Exports grew almost 21 per cent in 1997, rebounding from the slowdown of 1996, while imports increased by only 2.5 per cent. Foreign capital continued to flow into China, at a volume of about $64 billion in 1997, of which about $45 billion were foreign direct investments. However, the value of foreign investment contracts, an indicator of future inflow, was 24 per cent lower in 1997 than in 1996. This contraction resulted partly from a pause after several years of rapid growth, uncertainty in the aftermath of the Asian financial crisis and the cutback in investment from other Asian economies.

Inflation continued to moderate as a result of the slower growth of domestic demand, aided by the effect of good harvests on prices. Consequently, the rate of inflation in 1997, 2.8 per cent, was the lowest since 1985.[18]

How much growth in 1998? Prospects for 1998 are for further moderation in economic growth, although there is some uncertainty over the extent of the

18 The consumer price index, the most commonly used gauge of inflation, was not compiled by China until 1985. Previously, China measured the rate of inflation using the overall retail price index, which it continues to publish. In terms of this index, inflation was only 0.8 per cent in 1997, the lowest rate since 1979.

deceleration. The Government has relaxed monetary policy further by cutting interest rates and lowering the required reserve ratio in March, while increasing public spending in support of infrastructure development.

The fallout from the Asian financial crisis is expected to slow China's export growth significantly in 1998. Economic contraction in crisis-afflicted countries and economic slowdown in others will reduce demand for China's exports. Some of China's exports will be undercut somewhat by the sharp devaluations by its Asian competitors, despite which China is expected to maintain its exchange-rate peg (see box III.1). China's export expansion is thus forecast to slow down to a growth rate of about 7-8 per cent in volume. Import growth, on the other hand, is expected to accelerate as a result of trade liberalization (see table A.18).

The impetus for growth is therefore expected to be mostly domestic, bolstered by the more expansionary macroeconomic policies. Investment demand is expected to strengthen somewhat in 1998, resulting from increases in public investment and monetary easing's stimulation of enterprise investment. However, plans to cut the country's civil service by half and to restructure loss-making SOEs are expected to dampen the growth of personal income and raise uncertainty about employment, and this could lead to more than proportionate cutbacks in consumption.

The net effect of these tendencies is that output is forecast to grow by about 8 per cent. There is considerable uncertainty in this outlook, however, mainly owing to uncertainty over the size of the slowdown in the growth of consumer demand noted above. Macroeconomic policy will aim, however, to maintain a sufficiently high rate of economic growth so as to generate sufficient jobs to absorb a significant portion of the unemployed workers.

Deepening economic reform. The Chinese yuan renminbi largely escaped the contagion effect of the Asian financial crisis during 1997, thanks to a sizeable foreign exchange reserve (over $140 billion at the end of 1997) and controls over the capital account. The Asian crisis nevertheless highlighted the urgency of economic reform, in particular regarding the development of the financial and enterprise sectors and market institutions in China. Indeed, the Chinese Government announced major reform policies in 1997. The Fifteenth National Congress of the Communist Party of China adopted a plan in September 1997 to restructure the vast SOE sector in order to eradicate the root cause of China's problem of non-performing loans. In the next three years (1998-2000), loss-making enterprises will be closed down or merged into profitable ones, or firms that are deemed inherently viable but sinking under an unsupportable debt burden may receive a measure of debt relief. The coverage of the experiment, ongoing since 1991, whose aim is to convert SOEs into joint stock companies was broadened, as both the number of firms and cities under the scheme doubled. In addition, plans were announced in early 1998 to reform the civil service by merging the 40 government ministries into 29 new ones and by reducing staff by half, or by 4 million persons.

Financial sector reform progressed as well, with measures to boost the independence of the central bank and develop a market-oriented commercial banking sector. These measures included the administrative streamlining of regional centres of the central bank to reduce the political influence of local governments on the operations of branches of the central bank. Also, top-down credit quota allocation was replaced with guidelines for capital-to-loan ratios and regulations governing prudential supervision of commercial banks. These measures are intended to increase operational autonomy in the banking sector while strengthening bank supervision. In addition, a $32 billion bond issue will be floated for the purpose of recapitalizing State-owned commercial banks, whose books are burdened with large amounts of non-performing loans.

The adoption of a public—in contrast to an enterprise-based—social safety-net is necessary to mitigate the impact of unemployment resulting from large-scale SOE restructuring. China is thus gradually expanding city-based experimentation in public pension funds and health and unemployment insurance schemes. Although these welfare reforms lessen the financial burden on enterprises, which used to provide such benefits, they do require support from the government budget, which may call for tax increases. The concurrent implementation of these major reforms will be more challenging as economic growth decelerates.

Accelerated housing reform is envisioned by the Government as a means of stimulating domestic demand in the near term. Although commercialization of housing has been carried out on an experimental basis in some cities, housing subsidies for employees are still a major responsibility of SOEs and government offices. The elimination of such subsidies and the commercialization of residential housing will free up public resources, thus lessening the financial burdens of SOEs and the pressure on the public budget. Conversion to private ownership of housing will also stimulate investments in renovations and expenditures on household appliances. Moreover, through backward and forward linkages of additional residential construction, new growth momentum can be generated in the medium term.

South Asia: where stronger growth is attainable

South Asia has been relatively unscathed by the fallout of the Asian financial crisis. However, economic growth moderated in 1997 for other reasons. The main impact of the East Asian crisis on South Asia in 1998 is expected to be increased competition from labour-intensive exports of East Asian countries which have sharply depreciated currencies and, in Bangladesh, lower remittances of overseas workers.

In **India**, economic growth slowed to 5.4 per cent in 1997, owing to a fall in agricultural output and a weakening in industrial growth. After a number of years of favourable weather conditions, there was a reversal in 1997, resulting in losses in agricultural production. Poor agricultural performance had a knock—on effect on industrial production through lower rural incomes and demand, as well as weakness in agro-processing industries. Continued reduction in public investment since the economic reform process began in 1991 also had a dampening effect on industrial production. In addition, private investment was also subdued because of weak domestic demand and slow growth of exports.

Economic growth is expected to be maintained at a rate of 5½ per cent in 1998. Agricultural production will still be subdued owing to a disappointing harvest; but political uncertainty has been reduced with the formation of the new Government, and business confidence has improved with the affirmation by the Government that it would go on with the reform process and continue to maintain a favourable environment for foreign investment in infrastructure. In an attempt to boost economic activity, interest rate hikes in January to stem the depreciation of the exchange rate have been reversed. However, the possibility of fiscal tightening and the limit to monetary easing because of a larger-than-expected fiscal deficit (6.1 per cent of GDP compared with a target of 4.5 per cent) have raised concerns of private investors.

There could be some strengthening of external demand in 1998 which would provide a certain inducement to private investment. The depreciation of the currency in late 1997 is expected to result in some improvement in export growth. Its magnitude, however, will be limited by a slowdown in world demand, higher prices of imported inputs and depreciations in competitor countries in East Asia.

Inflation declined during 1997, but is expected to accelerate in 1998. The large fiscal deficit is the main factor in higher inflation. A poor crop harvest is also expected to push up food prices, while a weaker currency will raise domestic prices of imported goods.

There is likely to be some improvement in economic growth in **Pakistan** in 1998, with output rising to 4 per cent as compared with 3.4 per cent in 1997. The industrial sector should benefit from some supply side measures—tax and tariff reductions and investment incentives—introduced in 1997. A more stable political environment (the Government has a large majority in parliament) and financial backing from IMF for the Government's reform policies are also factors that should boost business confidence.

Against this, however, the economy suffers from serious structural problems on the fiscal and trade fronts. The fiscal deficit is likely to remain at about 6 per cent of GDP in 1998, as there has been a sharp fall in tax revenues owing to tax cuts. Monetary policy will be somewhat restrictive because of the need to hold down inflation. Inflation is expected to average just under 10 per cent. The large current account deficit has been falling, reflecting falling imports as a result of sluggish domestic demand, but is still expected to be 5 per cent of GDP this year. Despite the rupee's devaluation in late 1997, the increase in exports will be limited by slower world trade growth this year and intensified competition from other Asian countries in textile products.

Economic growth in **Bangladesh** is expected to moderate slightly to about 5 per cent in 1998 from 5.7 per cent in 1997. Industrial activity will, however, be supported by increased foreign investment in the power sector and in the oil and gas industries and by some easing in credit to the private sector. Inflation is expected to accelerate somewhat, as the pay award to public sector workers and disappointing rice production push up prices.

Export growth has been robust, and driven by a surge in garment sales, which account for a significant proportion of Bangladesh's exports. However, this strengthening in exports will be limited in 1998 by the massive currency depreciations of Bangladesh's major Asian competitors. Remittances from overseas workers are also likely to be reduced by sharply deteriorating employment conditions in East Asian countries. Meanwhile, import growth is likely to pick up owing to higher imports of capital goods for oil and gas exploration. There will consequently be some widening in the current account deficit in 1998.

Western Asia: oil price slide causes economic reversal

Economic growth in Western Asia accelerated in 1997, reflecting a marked expansion in private sector investment, as well as a significant increase in Iraq's output as a result of the partial resumption of oil exports.[19] The substantial increase in oil revenues, resulting from the sharp rise in oil prices in 1996, produced a favourable climate for economic growth in 1997. The windfall filtered through the economy and helped ease fiscal and external imbalances. The region's GDP is thus estimated to have expanded by about 6 per cent in 1997, compared with 4.8 per cent in 1996. However, disappointments in the Middle East peace process continued to hinder economic growth in the most directly affected economies, as they constrained intraregional flows of trade and investment among Israel, Jordan and the Palestinian self-rule area.

19 The discussion of economic trends in 1997 is based, in part, on *Survey of Economic and Social Developments in the ESCWA Region, 1997-1998* (United Nations publication, forthcoming).

The outlook for Western Asia in 1998 is that growth will slow to 4 per cent, owing to the sharp decline in oil prices. Oil prices lost over one third of their value in the first quarter of 1998, compared with the same period last year, as a result of growing global supplies amid weak growth in world oil demand (see chap. III). With prices likely to stay low for the remainder of the year, the region's export revenues from oil in 1998 could drop by one fourth. By the same token, the oil-importing countries of the region are to receive a windfall from the lower price of their oil imports. However, the growth of their economies will not be strong, as Israel and Turkey, the two largest oil-importing economies of the region, continue their efforts to reform and stabilize their economies.

Oil exporters: falling revenues cut government spending. With the downturn of oil prices to levels reminiscent of those of the second half of the 1980s, Governments of the oil-exporting countries of the region are pondering how to cope with their sharply reduced oil income, the mainstay of their fiscal revenues and the main source of foreign currency. As a first reaction, a few Governments adopted measures to cut public expenditures, while others are considering means to generate more revenues for their budgets from other sources. For example, Saudi Arabia is reported to have temporarily frozen projects for which contracts have not yet been awarded.[20] Kuwait's Ministry of Finance has requested State entities to reduce expenditure by 25 per cent for the rest of the current fiscal year, which ends on 30 June 1998. Other oil-exporting countries, such as Bahrain, the United Arab Emirates and Yemen, also called for restraint in government spending. Nevertheless, for a number of oil-exporting countries in Western Asia (for example, Bahrain and Yemen), it is not easy to cut government expenditure because of the large component of wages and salaries for public sector workers.

20 *Middle East Economic Digest*, 23 March 1998.

Having earlier faced the prospects of lower oil revenues, the oil-exporting countries of the region initiated economic reforms over the past few years aimed at reducing spending and diversifying their economies through private investment. However, progress has been limited. Relatively low oil prices in most of the 1990s, combined with large military expenditures in the aftermath of the Gulf war and the rising costs of subsidies and welfare benefits, resulted in fiscal difficulties which required cuts in public spending in the countries of the Gulf Cooperation Council.[21] While selected subsidy cuts and price rises were introduced in a number of countries, including Saudi Arabia and the United Arab Emirates, most Governments of the region are still keen to shield

21 The member countries of the Gulf Cooperation Council are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

the population from sudden price rises and are unlikely to eliminate subsidies or impose income taxes in the near future. The current economic downturn can be expected to increase the urgency of the fiscal reform and economic diversification strategy.

In the Islamic Republic of Iran, budgetary problems, large external debt obligations and a high rate of inflation will continue to constrain growth. The new Government is, however, improving economic relations with the Persian Gulf States, as well as with other countries. The Government aims at accelerating efforts to attract foreign direct investment and the investment climate is becoming considerably more accommodating. The Government will also aim to boost non-oil exports by easing foreign exchange restrictions so as to increase the availability of imported inputs for non-oil industries.

Steady growth in oil-importing countries. Average economic growth in 1997 remained above 5 per cent, despite a slowdown in Israel. The pace in 1998 is expected to decelerate slightly to about 4 per cent. Economic growth in Jordan was strong in 1997 (6.2 per cent) and is expected to be sustained in 1998 with assistance from abroad. Continuing liberalization of the economy should bolster business confidence and attract foreign investors. Remittances of Jordanians working abroad will continue to boost private consumption. Increased trade with Iraq and the Persian Gulf States will boost export growth, but investment will be constrained. In Lebanon, GDP growth was moderate for the second year, averaging about 4 per cent in 1997, compared with 7.5 per cent annually between 1992 and 1995. The slowdown is expected to persist in 1998, partly as the result of high interest rates to support the exchange rate.

In **Israel**, economic growth fell sharply in 1997 after several years of strong growth. High domestic interest rates, and fiscal problems, as well as uncertainty over the peace process, contributed to the sluggish growth. The slowdown is expected to persist in 1998 as economic restructuring continues and as fiscal and monetary policies remain tight and receipts from tourism low. The economy in the **West Bank and Gaza** continued to suffer from high unemployment and from Israel's frequent closure of the Palestinian territories. Prospects for economic growth in 1988 remain highly dependent on the peace process and on the remittances of Palestinians working in Israel. The planned opening of the Gaza Industrial Estate in May 1998 should help improve the investment climate in the Palestinian territories.

Economic output in **Turkey** continued to expand at a rapid pace in 1997 (6.8 per cent), albeit with an inflation rate estimated at about 80 per cent. In 1998, growth is expected to moderate but remain above 5 per cent, with significant deceleration of inflation. The high growth since 1995 has been driven mainly by buoyant exports, strong recovery in private consumption and expansionary fiscal policies. The newly established coalition Government has pledged to implement a new stabilization programme aimed at lowering inflation to single digits in a period of three years. The stabilization programme includes measures to raise revenues and reduce subsidies. It also includes cancellation of investment projects and privatization of State-owned enterprises, including telecommunication and energy.

Latin America and the Caribbean: Asian contagion

The combination of relatively strong economic growth—per capita output rose about 3.6 per cent—and an average inflation rate of just over 10 per cent made 1997 one of the best years of the last two decades for the economies of Latin America and the Caribbean.[22] However, output growth is slowing significantly in 1998. This is partly the result of strong policy measures and partly the consequence of the contagion factor from the Asian currency crisis.

22 The discussion of 1997 economic trends in the region draws in part on *Preliminary Overview of the Economy of Latin America and the Caribbean, 1997* (United Nations publication, Sales No. E.97.II.G.13).

Sources and constraints on dynamism in 1997

Argentina, Chile, the Dominican Republic, Mexico and Peru led the region with 1997 rates of growth of GDP between 7 and 8.4 per cent. Uruguay was next at 6.5 per cent and most of the other economies grew by about 3 to 5 per cent. GDP in Haiti stagnated and Jamaica was the only economy that recorded a decline in output.

Supported by a generally favourable international environment during the first three quarters of the year, the expansion was driven by investment, which was especially strong in Argentina, Bolivia, Costa Rica, Dominican Republic, Mexico, Nicaragua and Venezuela. Renewed business confidence and progress in rehabilitating the banking sector led to an expansion in lending to finance new economic activity. Domestic consumption strengthened in the second half of 1997, especially in Argentina, Chile and Mexico, with stronger employment growth and wages. Growth was also underpinned by the continued buoyancy of exports across the region, expanding on average at twice the rate of increase of output. The main impetus for this buoyancy was intraregional trade which increased faster than total trade. Besides rising volumes, export earnings were boosted by favourable prices for some of the main export commodities, such as coffee, bananas (benefiting particularly Central America), beef, shrimp, aluminium and zinc.

In the Caribbean, the economy of Jamaica continued to contract. Failures in the financial sector, persistent weakness in the manufacturing sector and poor agricultural output due to bad weather and uncertainties over the banana export regime offset strong earnings from tourism and bauxite and alumina exports. Haiti's economy has been severely affected by an institutional crisis that has left the country without a functioning Government since June 1997, making it impossible to resolve uncertainties over economic policy. It also delayed the release of international aid, and disrupted budget allocations. Labour unrest further weakened the economy.

Serious drought in some areas and heavy rainfall in others caused by the El Niño phenomenon affected especially the Andean subregion in the second half of the year, but these occurrences were expected to ease in the first quarter of 1998. Peru bore the brunt of the damages in its fishing and agricultural sectors and, to a lesser extent, in processing of primary commodities, commerce and transportation, although strong growth was still attained for the year as a whole; Chile, Colombia, Ecuador and Guyana also suffered from drought or floods. The damage has prompted a boom in construction, as in Peru and Ecuador houses are rebuilt and roads and bridges repaired.

The average inflation rate in the region in 1997 reached its lowest level in half a century, and over half of the countries achieved single-digit price increases (see table A.13). Tight monetary policies, the strong dollar—holding down import prices in countries whose currencies are tied to it—and faster productivity growth in the wake of strong investment spending, contributed to the decline. Inflation reduction has been remarkable in three countries that use the exchange rate as an anchor for prices, namely Argentina, Brazil and El Salvador. In Brazil, inflation reached the lowest level in decades, owing to the economic slowdown and the elimination of wage indexation. In El Salvador, it dropped from 7.4 per cent to under 2 per cent. Even Mexico and Venezuela, which had recently suffered outbreaks in inflation, made substantial progress. Inflation increased in only four countries (Barbados, the Dominican Republic, Ecuador and Haiti), although in two of them (Barbados and the Dominican Republic) it remained under 10 per cent.

After a gradual reduction in fiscal deficit in recent years, the pattern was mixed in 1997, with some countries increasing public spending after prolonged austerity (Mexico and Peru) or owing to non-discretionary transfers to reformed pension and social security systems (Argentina and Uruguay). In Brazil, the 1997 budget deficit (excluding revenues from privatization) rose to almost $50 billion, or 6.1 per cent of GDP, as a result of rising social security outlays and increased spending by the States, which has been financed by large privatization receipts.

External conditions worsen by year-end

Since the third quarter of 1997, the spreading and deepening of the Asian crisis has led to a drastic deterioration of the external environment in the region. The first effect was a tightening of external financing conditions, with higher risk premiums' raising interest rates and shortening maturities for borrowers in international markets. Borrowing conditions have improved only partially since last October, with foreign lenders still requiring higher spreads for the perceived higher risks of many emerging markets. Capital flows to the region, however, appeared to be recovering in early 1998, enticed by higher interest rates and new investment opportunities created by new government privatizations. Capital inflows have been such as to have raised Brazil's foreign reserves to a historic record of $64 billion by the end of March 1998, some $14 billion above the low point during the fall speculative attack. At this time, fears of a capital shortage have diminished.

The fallout from the Asian crisis has also become apparent in the trade area. Real effective exchange rates in the region have appreciated relative to those of some Asian competitors, and exports to Asian markets are experiencing slower growth. With Asian demand reduced considerably (including that of Japan), commodity prices have dropped. Oil and copper prices have weakened the most, hitting especially Venezuela, where oil represents about three quarters of merchandise exports, and Chile, where copper accounts for about 40 per cent of total exports. Ecuador and Colombia, dependent on oil for some 29 per cent and 23 per cent of exports, respectively, and Peru, with nearly 20 per cent of export revenues from copper, are also being affected.

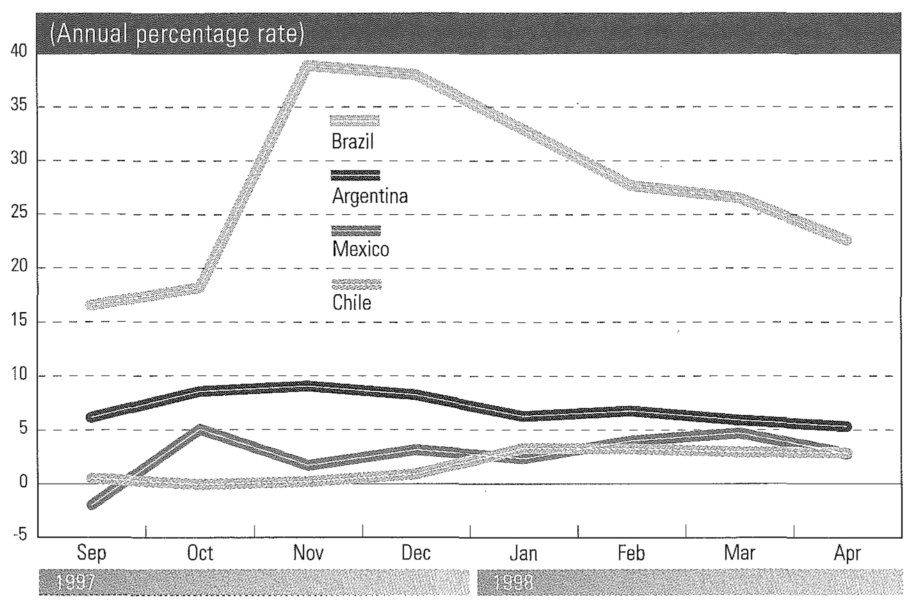
The impact will be less in Mexico, where oil, once its key export product, currently accounts for only about 10 per cent of its foreign sales. The impact will also be less in Argentina, although it will be hurt by lower prices for grains. Mexico, the largest exporter of manufactures in the region, is the country most at risk of losing competitiveness vis-à-vis Asian exports. The slower growth forecast for the United States (see above) might further dampen its demand for Mexican exports. Central American countries, especially El Salvador, Guatemala and Honduras, which are processing centres for textile exports, will similarly face increased competitive pressures. Finally, although Latin American trade with Asia is limited, accounting for less than 10 per cent of total exports and some 14 per cent of imports, the higher exposure of Chile, Peru and Brazil (contributing one third, one fourth and some 16 per cent of the total, respectively) puts their export sectors in a less favourable position.

Quick and effective policy response

The policy response to the changed international environment has been swift. Several countries have taken steps to contain macroeconomic imbalances, as international investors have become particularly sensitive to the growth of fiscal and, even more, current account deficits. The Brazilian Government, faced with a strong speculative attack against its currency in October 1997, virtually doubled interest rates (see figure II.3). They were already among the highest in the world in real terms and their increase makes local currency assets relatively more attractive, helping to defend the exchange rate, the core of Brazil's anti-inflationary policy. The Brazilian Government also announced fiscal expenditure cuts of over 2 per cent of GDP and used the crisis as an opportunity to deepen fiscal reforms, as the Brazilian Congress stepped up efforts to strengthen public finances by passing legislation on civil service and social security which had been held up for nearly three years.

In addition, in November 1997 the Government reduced the minimum maturity of foreign loans and bonds issued by Brazilian entities to one year from three. Later, it came to be expected that the minimum maturity would be raised,

Figure II.3.
REAL SHORT-TERM INTEREST RATE IN SELECTED LATIN AMERICAN COUNTRIES, JUNE 1997-APRIL 1998[a]



Source: J.P. Morgan & Company, New York.

a Argentina: 7-day call money; Brazil: overnight interbank; Chile: central bank readjustable paper (PRBC) rate; Mexico: 28-day Treasury bill. All deflated by consumer price index.

prompting a rush in financing to take advantage of the less restrictive controls. Indeed, on 26 February 1998, the Central Bank increased the minimum maturity to two years. Then, at the end of March, the Government partially closed a loophole allowing banks to borrow funds abroad and invest them in dollar-indexed Brazilian bonds at much higher interest rates, thus further restricting short-term inflows.

Other countries, including Chile, Ecuador, Mexico and Venezuela have adopted a varied set of monetary and fiscal measures. Mexico and Venezuela, where oil is a main source of fiscal revenues (over a third and nearly 60 per cent, respectively), announced spending cuts and let their currencies adjust to the deteriorated terms of trade. In Venezuela, and to a greater degree in Chile, interest rates have been raised to limit the depreciation of their currencies, cool off domestic demand and keep inflation in check, this with an eye as well to limiting the external deficit. The Government of Ecuador, counting on oil for nearly half of its fiscal revenues, was unable to convince its Congress to adopt a substantial increase in the VAT (from 10 to 14 per cent) or accelerate the privatization of its State telecommunications company so as to counter the sharp drop in revenues. It therefore resorted to a devaluation of its currency (also aimed at addressing the deteriorating external balance) and to small fiscal adjustments.

Furthermore, because of the reform measures adopted during the 1990s, the region was in a stronger position to withstand the Asian shock than it had been at the time of the Mexican crisis of 1994-1995; that is to say, since the serious bank crises in Chile in 1982, in Venezuela in 1994 and in Mexico in 1995, the authorities have tightened regulations, while banks have made improvements in their risk management. Argentina and Brazil have also taken steps to overcome weakness in their financial systems through programmes to restructure and strengthen financial institutions, and measures to increase minimum reserve requirements so as to build up liquidity and tighten capital adequacy standards, as well as by arranging standby agreements with foreign banks for emergency liquidity. Considerable banking system reforms were also undertaken in Mexico at a cost that has risen to 14.5 per cent of GDP; nevertheless, bad loans still stand at about 13 per cent of the total there, a level from which it will likely take several years to recover.

1998 economic outlook

The combination of weaker external conditions associated with the Asian crisis and policy measures in response, as noted above, and, in a few countries, a retreat from an unsustainable rate of expansion, will result in a deceleration in Latin America's economic growth in 1998 to about 3.3 per cent. The austere fiscal and monetary measures taken by Brazil, the region's largest economy, will limit its growth to about 1 per cent. High, though gradually declining, interest rates will dampen investment and consumption. A high price for the defence of the exchange rate is being paid in terms of growing unemployment which, at 7.4 per cent in February 1998, reached a 14-year high. Venezuela's growth prospects have been seriously weakened by the sharp drop in the price of oil and the economy is unlikely to expand over 1 per cent.

Four of the fastest growing economies in 1997 (Argentina, Mexico, Peru and Chile) will also experience a significant deceleration. Argentina, still expanding briskly in the first quarter, thanks to robust investment and rising consumption, will see a deceleration of its rate of growth largely as a knock-on effect of the slowdown in Brazil, which buys almost a third of its exports, as well as of higher interest rates and lower prices for its exports. Mexico is enduring budgetary cuts and lower oil prices, but will move to more sustainable growth based on stronger private consumption and robust foreign investment, partly offsetting a slower expansion of exports. Peru, in turn, will continue to be damaged by the combined effects of El Niño and the Asian fallout, which is also hitting Chile, through the widening of its external imbalance. Most countries in the region will sustain rates of growth of 3 to 5 per cent.

Central America's performance will be affected, particularly in Honduras and El Salvador, by the most severe drought so far this decade, which is already causing large losses in the farming sector and power supply, 70 per cent of which is dependent on hydroelectric sources. However, sustained foreign investment, particularly in the power, technology and telecommunications industries, and improving business confidence should support a moderate expansion. Economic prospects in Nicaragua should benefit from the prospect of an injection of $1.8 billion in international aid, pledged in March 1998, over a three-year period.

Regarding fiscal balance, in Brazil the benefits of the aforementioned $17 billion emergency package will be partly offset by higher interest payments and the fiscal pressures of an electoral year. In Argentina, lower revenues as a result of the economic slowdown might lead to a postponement of planned infrastructure projects and an early implementation of tax-raising measures. Ecuador will experience a difficult year for public finances, as the Government faces a hefty repair bill for the extensive damage to housing and infrastructure caused by El Niño and increased expenditures coming from pay rises awarded to public sector employees in 1997. Meanwhile, fiscal revenues will be hit by lower international oil prices and a set of fiscal measures to offset these effects is unlikely to prevent the public sector deficit from widening to about 4 per cent of GDP this year.

Latin America's external accounts are once again one of its most vulnerable areas (see chap. III). Large or rising external imbalances in several countries, including Argentina, Chile, Colombia, Ecuador and Peru, represent a major constraint on sustained growth, as they force corrective measures that often reduce the pace of economic expansion.

Finally, the "social deficit" of unemployment, poverty and inequality, which appears to have improved slightly in 1997, may well worsen again in 1998. The improvement in 1997 could be attributed to the strong growth in some countries. Thus unemployment dropped in Argentina and Mexico, but picked up slightly in Brazil, Colombia and Uruguay, owing to a reduction in manufacturing employment. In 1998, tightening fiscal and monetary policies and the expected economic slowdown could lead to higher unemployment in the region. This trend is already evident in Brazil. In turn, a deteriorating social situation might weigh on the future of current tight policies, especially in countries undergoing major elections in the months ahead. Moreover, the earnings gap between skilled and unskilled workers in the region remains the largest in the world and is greatest in Peru (30 per cent), Mexico (25 per cent) and Colombia (20 per cent); indeed, in this decade, the earnings of the region's skilled workers have been increasing annually at a rate at least three percentage points higher than those of the unskilled.[23]

23 See *The Equity Gap: Latin America, the Caribbean and the Social Summit* (United Nations publication, Sales No. E.97.II.G.11), chap. II, sect. entitled "Labour income disparities".

III THE INTERNATIONAL ECONOMY

The international economy went through a turbulent year in 1997 and, if the first quarter of 1998 is a guide, this will continue for a while longer. The main channels of the turbulence were in the international financial system, but international trade was not immune, especially as regards the volumes and prices of developing-country exports. It is worth keeping in mind, however, that this turbulence sits atop a deep and strong flow of world trade and finance.

The global volumes of trade and financial flows, in other words, grew substantially in 1997. As usual, however, the benefits were spread unevenly. It was a good year to be an exporter of a range of manufactures and services and to retain access to international financial markets. It was not a good year to be a low-income, undiversified exporter of any of several commodities and to rely primarily on official development assistance (ODA) as a main form of financial inflows. It was also not a good year to have a weak domestic financial system that was overexposed to foreign creditors.

The global trade and financial outlook for 1998 is on the whole less dynamic, but still buoyant. This will be a year, however, in which trade adjustments reduce incomes and jobs in several countries, instead of raising them. It will also be another disappointing year for many commodity-dependent countries. Finance will still be plentiful for borrowers with access to markets, if at somewhat higher risk premiums for "emerging market" borrowers, while no generalized break in the disappointing trend is foreseen in ODA flows.

Moreover, policy changes are under way in 1998 that will change the shape of international economic relations in the twenty-first century and most likely strengthen them. One such development is the decision in the European Union (EU) to establish its planned monetary union at the start of 1999, fully replacing at least 11 national currencies with the new euro by 2002. Another development, which can be directly attributed to the shock of the Asian currency crisis, is a newly intense process of reflection about the shortcomings in the present policy "architecture" of international finance. The review of current international economic developments in the present chapter thus concludes with a special focus on each of these two key policy developments.

STRENGTH AND WEAKNESS IN INTERNATIONAL TRADE

The value of world merchandise trade reached about $5.5 trillion in 1997. In 1990, it had been less than $3.5 trillion. At that time, developed countries accounted for over 70 per cent of the total; by 1997 their share had dropped below 64 per cent. The share lost was shifted largely to the developing countries, which supplied and absorbed roughly 30 per cent of total trade in 1997 (see table A.15).[1]

1 The transition economies accounted for less than 5 per cent of the world total in 1997 and a somewhat smaller share earlier, although data from before 1994 are extremely difficult to interpret owing to the artificial methods of valuing trade among the member countries of the Council for Mutual Economic Assistance (on this and other issues in measuring trade flows, see the introduction to the statistical annex of this *Survey*).

The dynamics of world trade in 1997 and 1998

The volume of world trade grew an estimated 9 per cent in 1997, a considerable pick-up from the relatively slow growth in 1996, which had itself been an adjustment to the very strong pace of growth of the preceding two years (see table A.18). For 1998, despite the economic difficulties in Asia—both in Japan and in several developing countries of the region, as discussed in chapter II—world trade volume is forecast to grow about 7 per cent, which by historical standards will still be a relatively rapid rate of increase.

The growth of world trade depends first on the growth of global demand for traded goods and then on the capacity of exporters to provide the supplies. The strong growth of trade in 1997 can be attributed to a surging growth of imports in all major country groups, albeit with mixed capacities and opportunities of exporters to respond.

Given the high weight of the developed countries in total trade, the almost 9 per cent growth of imports of these countries was particularly significant. In the United States of America, the volume of imports grew by over 12 per cent, under the combined stimuli of strongly rising real income and output and an appreciating real effective exchange rate that reduced the relative price of imports (see tables A.2 and A.10). Canada's import growth was even stronger: 19 per cent. Import growth in Western Europe also strengthened in 1997, if not to the same degree as in North America, as economic growth began to gain momentum in a number of countries. The uncharacteristically slow growth of imports in Japan in 1997—2.7 per cent—reflected mainly the pause in its economic recovery and return to weak economic conditions.

Developing countries and economies in transition also saw strong increases in import volumes in 1997. The most dramatic increase—indeed, an unsustainable one—was the 23 per cent growth of import volume in Latin America and the Caribbean, reflecting both the strong growth of gross domestic product (GDP), as discussed in chapter II, and large capital inflows that financed sharply wider trade deficits. The growth of China's import volume moderated, but imports still grew by over 9 per cent, supporting the strong growth of its domestic economy. The 8 per cent growth rate registered by South and East Asia reflected the strong performance of some of these economies for the full year and others for the first half of the year.

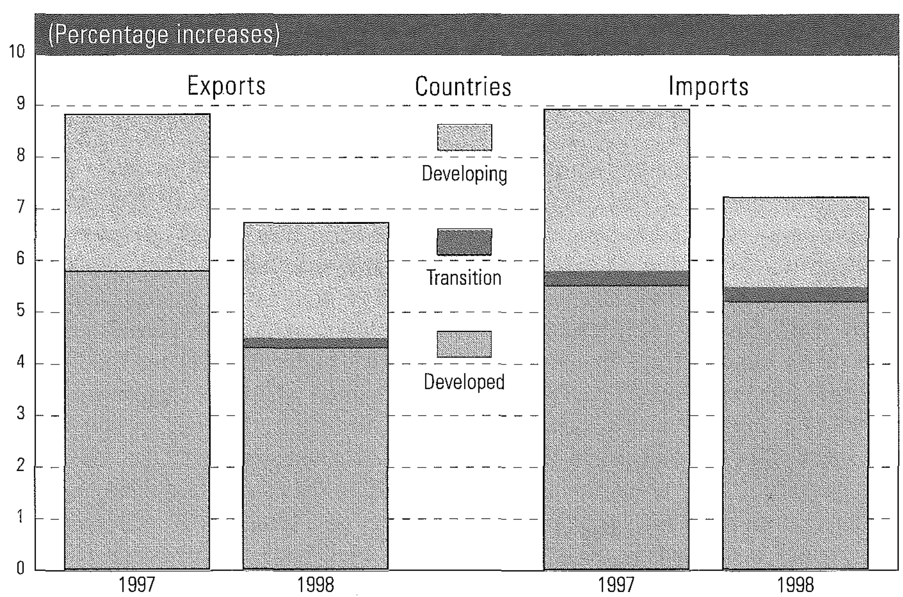
The volume of imports grew by 6 per cent or more in the other main developing-country regions. In Africa, this represented more than a 50 per cent increase over the rate of growth of imports in 1996, reflecting in part the need for a sharp increase in commercial food imports in several countries where local food production had been hit by bad weather conditions. In the case of Western Asia, import growth slowed sharply from almost a 12 per cent increase in 1996, as the fall in international petroleum prices curtailed import capacity and demand.

On the export side, the developed countries benefited the most from the increase in world trade, including Japan, whose volume of merchandise exports rose 10 per cent. Western European exports rose almost 8 per cent in volume, largely in sales to other European countries, and North American exports strengthened, especially to Latin America and the Caribbean. China's export volume grew an estimated 26 per cent in 1997, a strong comeback from the pause in 1996, and the exports of South and East Asia grew by over 9 per cent. The volume of West Asian exports declined in the face of weakening global oil demand and strong increases in production by producers in other regions (see below).

For 1998, slower growth is forecast for the volume of world trade, reflecting an expected slower growth of imports on the part of both developed and developing countries. In the case of the developed countries, the very rapid pace of import growth in North America is expected to slow, though still to average over 10 per cent for the year. The volume of imports into Western Europe and Japan is forecast to increase slightly, but not by enough to offset the North American slowdown. The net result is a forecast rate of increase in imports by the developed countries that will be 1 percentage point less than in 1997.

If developing and transition economies were able to maintain their rate of expansion of imports, the rate of increase in world trade would be slowing by about two thirds of a percentage point in 1998 as a result of the developed-country import slowdown. Instead, the growth rate of world import demand is forecast to slow down by about 2 percentage points, as a sharp fall is taking place in the rate of increase of imports by the developing countries (see figure III.1). Imports into the developing countries are forecast to grow by less than 6

Figure III.1.
CONTRIBUTIONS TO THE GROWTH
OF WORLD TRADE VOLUMES, 1997 AND 1998



Source: UN/DESA.

per cent, a decline of more than 4 percentage points compared with 1997. This reflects the expected halving of the import growth rate of Latin America and the Caribbean and the near disappearance of import growth in East and South Asia, owing in particular to the crisis in the Republic of Korea and several other Asian economies.

Corresponding to the drop in world import growth is a drop in world exports. However, the slowdown in export growth is more evenly shared: the growth rates of world, developed and developing country exports are each forecast to decline by about 2.5 percentage points (see table A.18). The strongest export volume growth is foreseen in Latin America and the Caribbean, where intraregional trade growth has been strong (see below). The volume of exports from China is forecast to grow almost 9 per cent in 1998, which is of particular relevance to the important policy question of whether the Chinese authorities feel pressured to devalue the yuan renminbi in response to the very large decline in the exchange rates of the Asian crisis countries (see box III.1).

In any event, the export growth in the crisis countries of East Asia through the first quarter of 1998 has disappointed expectations. The anticipated upturn in exports resulting from the substantial depreciation of the currencies of the crisis countries has not materialized. Supply constraints arising from a lack of short-term financing and the high cost of imported inputs have been obstacles. More importantly, the persistent economic weakness of Japan and the sharp deceleration of economic growth in the region have sharply cut back the demand for exports from the crisis countries. As exports to Japan and intraregional exports account for 10 per cent and 40 per cent, respectively, of total exports of South and East Asia as a whole (see table A.15), this is exerting a significant drag on exports of the countries in crisis and their neighbours. Indeed, intraregional trade, which grew rapidly in the 1990s and provided strong impetus to export growth in the region, is expected to stagnate or even decline in 1998. In addition, some of the economies in the region remain significant exporters of commodities and are being hit as well with declining fuel and non-fuel commodity prices.

International petroleum market

The average price of oil declined by almost 8 per cent in 1997 to about $18.7 a barrel, reflecting a combination of factors, some related to market fundamentals and others to market speculation.[2] As a result, oil export revenues of the member countries of the Organization of the Petroleum Exporting Countries (OPEC) are estimated to have declined by over $5 billion in 1997 despite a significant increase in the oil export revenues of Iraq (see table A.38).

The price of oil had reached a post-Gulf war high in the fourth quarter of 1996, owing to low oil inventories and fast-rising demand. The partial resumption of oil exports from Iraq in December 1996, under the "oil-for-food" programme of the United Nations Security Council (Council resolution 986 (1995)),[3] combined with a steady build-up of oil inventories, put an end to the run-up in oil prices (see figure III.2). The price declined sharply by the end of the first quarter of 1997 and remained almost steady in the second and third quarters of the year. In the fourth quarter, however, prices rose temporarily, reflecting the uncertainty generated by the crisis over the United Nations inspection team in Iraq. That heightened market tension and pushed prices higher before their slip-

2 The price indicator employed here is the average spot price of the OPEC basket of seven crude oils.

3 Under the terms of Security Council resolution 986 (1995), Iraq was allowed to export $2 billion worth of oil for humanitarian needs every six months.

Box III.1.

TRADE AND THE DEVALUATION QUESTION IN CHINA

Some authors have pointed to the devaluation of the Chinese yuan renminbi (Y) in 1994 as one of the precipitating events of the currency crisis in South-East Asia and have wondered whether China will again devalue in response to the sharp fall in the exchange rates of several currencies in that region.[a] The Government of China has announced that it intends to maintain its exchange rate, at least for the duration of 1998, but observers have wondered whether economic pressures arising from the new currency alignments might make it difficult for China to abide by its pledge. While many factors combine to determine whether and when a currency with a fixed exchange-rate peg is devalued, the effect of the exchange rates on a country's "international competitiveness" is commonly deemed to be one of them. However, the reality is more complicated than it at first appears.

Actual developments in relative exchange rates

On 1 January 1994, the official yuan renminbi exchange rate was changed from 5.8 yuan per United States dollar to 8.3 yuan per dollar, a devaluation of 30 per cent. However, the "actual" change in the exchange rate at that time was less than this, while other changes in the exchange rate had, in effect, occurred earlier.

As part of its programme of economic reform, China adopted a two-track exchange-rate system in 1987: a pegged official exchange rate, and a market exchange rate which was determined in the controlled market in foreign exchange transactions among Chinese companies and enterprises at the so-called swap centres. The Government required that part of the foreign exchange earnings of exporting companies be rendered to the Government at the official exchange rate and the rest, the "retention quota", was left to the firms to trade in the swap centres at the market rate. The market rate of the yuan fell over time and reached 8-10 yuan per dollar in 1992-1993, which was about 30 per cent lower than the official rate of the yuan. Meanwhile, the Government had increased the retention quota of export revenues to about 80 per cent by 1993.[b] At the end of 1993, the Government decided to abolish the two-track exchange-rate system and merged the two exchange rates into one, which, at the time, was the market rate in the swap centres.

Thus, the nominal devaluation of the official exchange rate at the start of 1994 overstated the actual devaluation at that moment, which would be better measured as the change in a weighted average of the official and swap rates before and after the rates were unified, with the proportion of trade under the two different exchange rates as weights. Under that calculation, the effective devaluation of the yuan at the beginning of 1994 was about 7 per cent. By the same token, the 1994 change was the last step in a cumulative devaluation that did total about 30 per cent from 1990 to 1994.[c]

The four South-East Asian countries that have borne the brunt of the currency crisis—Indonesia, Malaysia, the Philippines and Thailand—pegged their currencies fairly closely to the dollar. As a result, the pattern that the yuan traced against the dollar was largely also traced vis-à-vis the South-East Asian currencies in the period 1990-1994, cumulating to a 30 to 40 per cent devaluation of the yuan against each of these currencies.

However, the inflation rate in China was higher than in the four above-mentioned countries in this period, and thus, correcting for the different rates of infla-

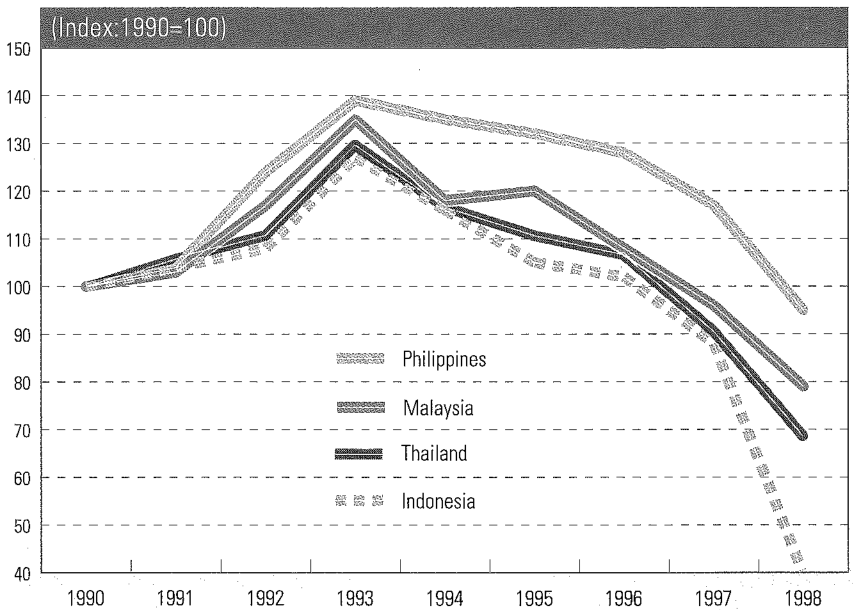
a See, for example, L. Liu and others, "Asian competitive devaluations", working paper 98-2 (Washington, D.C., Institute for International Economics, 1998); John Makin, "Two new paradigms" (Washington, D.C., American Enterprise Institute, October 1997); and N. Roubini, G. Corsetti and P. Pesenti, "What caused the Asian currency and financial crisis?" (New York, New York University, Leonard N. Stern School of Business, 1998).

b Hassaneli Mehran and others, *Monetary and Exchange System Reforms in China: An Experiment in Gradualism*, Occasional Paper, No. 141 (Washington, D.C., IMF, 1996), pp. 55-63.

c Assuming linear increments of the proportion of trade under the market exchange rate from 20 per cent in 1987 to 80 per cent in 1993, and taking account of actual changes in the average swap rate.

Box III.1 (continued)

REAL EXCHANGE RATES OF FOUR SOUTH-EAST ASIAN COUNTRIES AGAINST THE CHINESE YUAN RENMINBI, 1990-1998[a]



a Measured as yuan per unit of South-East Asian currency, adjusted for differences in the annual changes of consumer prices in each country.

b Forecast of Project LINK.

tion, the changes in the "real" exchange rates between the yuan and the currencies of these economies differed from the changes in the nominal rates. The accompanying figure thus shows the real exchange rate of each of the four South-East Asian countries as measured against the yuan. As can be seen from the figure, the South-East Asian currencies appreciated between 20 and 40 per cent against the yuan in real terms from 1990 to 1993. By 1994, however, when China's inflation rate had reached 24 per cent, the degree of appreciation was already beginning to fall. By 1996, the real parities between the yuan and the currencies of three of the four South-East Asian countries had returned almost to the level of 1990 (the exception was the Philippines, which had also had a relatively high rate of inflation).

In sum, to the degree that the exports of China and the South-East Asian countries were competing in third markets, the exchange-rate changes and inflation differentials of these countries did give a net benefit to China in the early 1990s, but that advantage had been largely eroded by 1996 (except in the case of the Philippines).

Export competition between China and South-East Asia

The very sharp devaluations of the South-East Asian currencies in 1997 and early 1998 and the expected inflation differentials and exchange-rate movements this year appear to be producing a significant cost advantage for China's competitors. It is not clear, however, how sensitive the competition is to price changes; at least it appears that econometric evidence at the aggregate level is largely inconclusive.[d] This notwithstanding, some observers have argued that there is a close correspondence between the commodity composition of the exports of China and that of the exports of the crisis countries, so price competition might be important, even if the behaviour of trade at the aggregate level is ambiguous.

d For example, a recent study found that the elasticity of substitution between Chinese exports and those of the four South-East Asian countries ranged between 0.3 and 2 (see Y. Inada, L. Klein and J. Makino, "A retrospective view of the Asian financial crisis: special reference to exchange-rate policy", working paper (Philadelphia, Pennsylvania, University of Pennsylvania, 1998).

Box III.1 (continued)

The accompanying table illustrates the kind of evidence on which the claim of competition is based. It shows the five largest export categories of each country in 1996, in terms of the United Nations Standard International Trade Classification (SITC) system. For example, China's largest export category, SITC 84 (articles of apparel and clothing accessories), was the fourth largest export category of Indonesia and the third largest for the Philippines and Thailand. The top five categories taken together accounted for 47 per cent of China's exports in 1996 and for 45-70 per cent of the exports of the other countries. Each of the five largest export categories of China was also on the list of the five largest exports of one or more of the other four countries. Moreover, extending the exercise to the top 10 export categories at the two-digit SITC level reveals that 8 of China's 10 largest categories were also on the list of the top 10 of the four other countries and these 8 product categories accounted for 57 per cent of China's exports. By this analysis, it thus appears that there is a case to be made for a Chinese devaluation to restore the competitiveness that may have been lost through the crash of the South-East Asian currencies.

However, the analysis is quite incomplete. It implicitly assumes that within the two-digit categories, the countries are producing similar goods. In fact, as a general rule China produces relatively greater proportions of the more standardized sub-items, where its lower labour cost overcomes the disadvantage of its lower average skill levels. In addition, in some sectors such as electronics, different components of a product might be produced in different Asian countries, with final assembly in yet another, and thus China's exports would be complements to, rather than substitutes for, other countries' exports.

Certainly, the rapid expansion in China's exports in the early 1990s when it had the exchange-rate "advantage" was not accompanied by any deceleration in the

FIVE LARGEST CATEGORIES OF EXPORTS OF CHINA AND FOUR COUNTRIES IN SOUTH-EAST ASIA, 1996

Two-digi trade categories[a]

Rank by value	China	Indonesia	Malaysia	Philippines	Thailand
1	84	33	77	77	77
2	89	63	76	75	75
3	65	34	75	84	84
4	77	84	33	76	03
5	76	65	42	05	89

Source: UN/DESA.

Note: Bold-face indicates trade category that is also one of five top Chinese categories.

[a] As per *Standard International Trade Classification, Revision 3*, Statistical Papers, No. 34/Rev.3 (United Nations publication, Sales No. E.86.XVII.12 and Corr. 1 and 2). In particular, the five top categories for China were:

84. Articles of apparel and clothing accessories;
89. Miscellaneous manufactured articles, not elsewhere specified or included;
65. Textile yarn, fabrics, made-up articles, not elsewhere specified or included, and related products;
77. Electrical machinery, apparatus and appliances, not elsewhere specified or included, and electrical parts thereof (including non-electrical counterparts, not elsewhere specified or included, of electrical household-type equipment);
76. Telecommunications and sound recording and reproducing apparatus and equipment.

Box III.1 (continued)

export growth of the South-East Asian countries. Moreover, when the slowdown came in the export growth of South-East Asia in 1996, China's export growth also fell (indeed, earnings grew only 1.6 per cent in 1996). To a degree, then, both China and the other countries have been subject to common international economic factors and these may be more important determinants of fluctuations in export earnings than cross-country competition, especially competition based only on price.

Exchange rate as a policy variable

The implication of the preceding discussion is that a number of Chinese exporters might indeed seek to pressure the Government to devalue the yuan renminbi, although the significance of their complaint at the aggregate level is hard to gauge. The dollar value of China's exports in 1998 is forecast to expand by only 5 per cent, compared with the 21 per cent surge in 1997; but this is mainly a reflection of the slowing growth of income globally and especially in Asia.

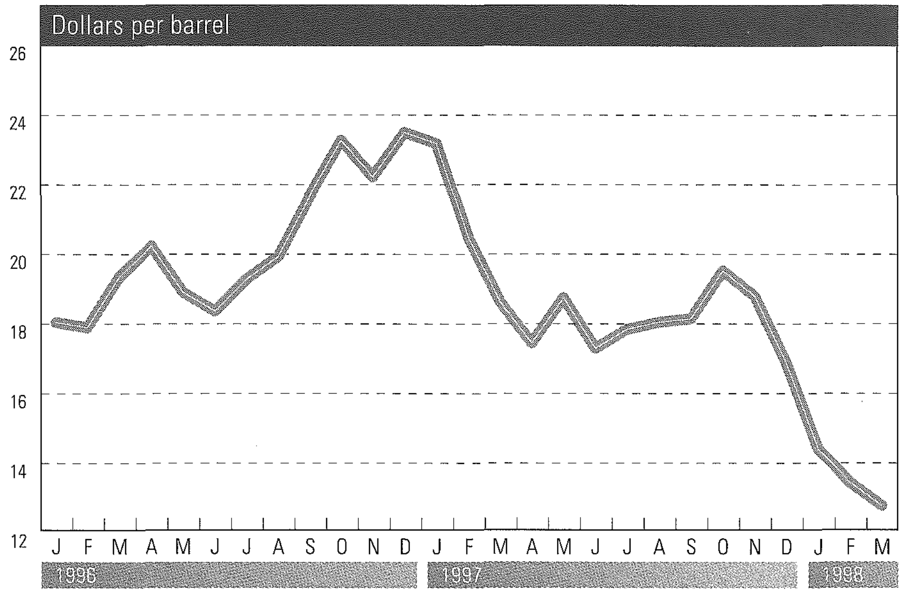
The exchange rate, moreover, is a monetary variable that is set for a variety of reasons, trade competitiveness being only one of them. From the perspective of macroeconomic policy makers, the potential complaints of the exporters would have to be weighed against several other considerations, including the very strong current-account position of 1997, the continuing inflow of direct investment and the large reserve holdings (about $140 billion at end-1997). An additional concern is that a Chinese devaluation at this time might destabilize the economic and financial situation in Hong Kong, China, and in South-East Asia. The Chinese policy makers' concern about competitiveness, moreover, is focused on the longer run and the growth in productivity that their structural reform programme is intended to bring about (see chap. II).

ping down in December and in the first quarter of 1998 to levels reminiscent of the mid-1980s. By March the price was under $13 per barrel.

The fall in oil prices since December 1997 was triggered by the decision of OPEC to raise its total output ceiling for the first time in almost four years. OPEC members agreed to raise their production ceiling by 10 per cent to 27.5 million barrels per day during their November 1997 ministerial meeting. The increase, which took effect on 1 January 1998, was allocated on a pro rata basis, in which all country quotas were raised by the same percentage. This decision coincided, however, with an unusually warm winter in the northern hemisphere, which dampened demand for home-heating oil. It also coincided with the decision of the United Nations Security Council on 20 February 1998 to allow Iraq, under Council resolution 1153 (1998), to export up to $5.256 billion worth of oil and oil products every six months, up from the previous limit of $2 billion. Furthermore, the financial crisis that hit most of the South-East Asian economies has lowered growth in the demand for oil. As a result, global oil demand did not keep up with the pace in supply growth from both OPEC and non-OPEC sources, leading to the erosion of prices.

World oil demand increased by 1.7 million barrels per day, or 2.4 per cent, in 1997 (see table A.36). Oil consumption in the economies in transition grew for the first time since 1988. As usual, however, most of the growth in demand was accounted for by the developing countries, where consumption grew by about 5 per cent. Nearly two thirds of the growth in world demand came from

Figure III.2.
AVERAGE SPOT PRICES OF OPEC BASKET OF CRUDE OILS, JANUARY 1996 TO MARCH 1998



Source: Data of the Organisation of the Petroleum Exporting Countries (OPEC).

the developing countries of Asia. Oil demand in the Republic of Korea (whose economic crisis did not erupt before the end of the year) overtook that of Italy to become the sixth largest in the world, just behind that of the Russian Federation. Growth in oil demand in the developed countries was also relatively buoyant, reflecting strong economic growth in the United States.

The growth of oil production in 1997 was, as noted above, even stronger than the growth in demand. World oil production rose by 2.3 million barrels per day in 1997, that is to say, it was 3.2 per cent higher than in 1996 (see table A.37). Almost all of the growth was accounted for by developing countries, with significant contributions from Argentina, Brazil, Equatorial Guinea, Mexico, Oman and the Russian Federation. Crude oil production from the North Sea reached a new high, approaching 6.2 million barrels per day. Production from Norway, the world's second largest oil exporter, peaked at about 3.3 million barrels per day in 1997. Total production from OPEC, including natural gas liquids, rose by 5.2 per cent, with the largest volume increments from Venezuela (up 8.2 per cent), Qatar (up 26 per cent) and Nigeria (up 6 per cent). As noted above, Iraq exported limited amounts of oil, but it was enough to double production for the year. The reversal of the earlier sharp decline in production in the Commonwealth of Independent States (CIS) helped propel non-OPEC oil production to an all-time high of 44.3 million barrels per day.

In this environment and faced with the prospect of no quick rebound from the low oil prices, Saudi Arabia, Venezuela and non-OPEC member Mexico agreed to reduce their exports. The agreement, which was reached on 22 March 1998 in Riyadh, Saudi Arabia, was later supported by other non-OPEC oil-exporting countries, including Norway, and ratified by the OPEC oil ministers at an extraordinary conference held in Vienna on 30 March. At that meeting, OPEC members approved cuts in production totalling about 1.25 million barrels a day. The agreement marked the first occasion in the 1990s when members from OPEC and non-OPEC oil exporters agreed to cooperate in cutting production in order to shore up sagging oil prices.

While the sharp rise in oil output in recent months has been used, to a large extent, to increase desired inventories, the surge in oil supplies will continue to outpace the growth in oil demand. In other words, the increasing oil exports from Iraq and continuing growth of output from non-OPEC producers are expected to leave oil markets soft. Thus, oil prices in 1998 are expected to remain within a range of $13 to $17 a barrel and average under $15 a barrel for the year.

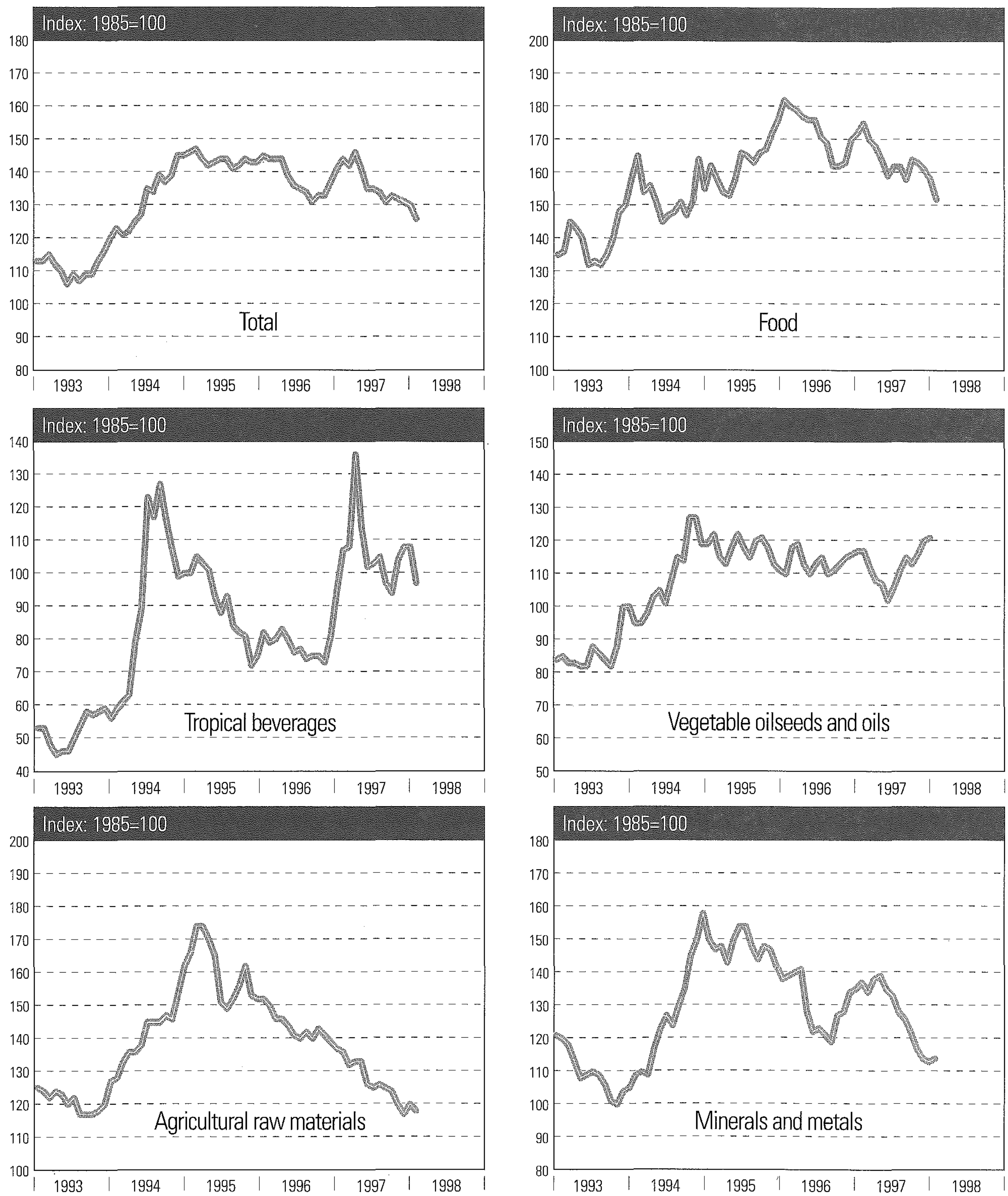
Taking a longer-term view, the marked growth in non-OPEC production in recent years reflected significant advances in petroleum technologies and better management, which have reduced exploration and production costs and made the development and production of oil from previously marginal and out-of-reach offshore oilfields profitable. Oilfields in Alaska, Canada and the North Sea are traditionally considered the most costly to develop. That was the case in the 1970s and 1980s; but in recent years, costs have gone down so drastically that oil prices would have to drop much below $10 a barrel before production became no longer profitable. Meanwhile, non-OPEC oil supply has become increasingly diverse, with new production coming from a number of developing countries. While aggregate non-OPEC supply is expected to continue rising, especially from a number of developing countries, the call on OPEC oil will also increase, albeit most significantly after the year 2000. A significant part of this increase will come from the Persian Gulf, as well as Venezuela and Algeria.

Non-oil commodity prices weaken

Dollar prices of non-oil commodities exported by developing countries were on average the same in 1997 as in 1996, although there was considerable variability in prices of individual commodities and commodity groups (see table A.19). There was also a pattern in a number of commodities of strong growth in demand and prices at the beginning of the year, followed by declines in the second half (see figure III.3), related in large measure, but not exclusively, to the Asian currency and economic crisis. The annual commodity price index increased by 4 per cent, however, when prices are expressed in special drawing rights (SDRs), a composite currency and unit of account of the International Monetary Fund (IMF). The increase reflects the appreciation of the dollar vis-à-vis the currencies of other industrialized countries and thus an improvement in the purchasing power of commodity export receipts denominated in dollars. This may be seen as well in terms of the purchasing power of exports over manufactured goods exported by the industrialized countries. When measured in these terms, the commodity price index increased by 6 per cent.

Tropical beverages, among the major commodity groups, registered the largest increase in 1997. Prices of the three commodities in this group (cocoa, coffee and tea) increased by 10 per cent or more. Coffee prices increased by over 30 per cent on average for the year. Prices were at high levels in the first half of the year (this has been attributed to supply shortages in major producing countries and high demand in consuming countries) but declined steadily during the second half as global supplies caught up with market demand. The

Figure III.3.
DOLLAR INDICES OF NON-FUEL COMMODITY PRICES, 1993-1998



Source: UNCTAD, *Monthly Commodity Price Bulletin*.

price index of minerals, ores and metals increased by less than 1 per cent, with only aluminium, zinc, iron ore and manganese ore in this group posting higher prices (in the case of zinc, this was an increase of close to 30 per cent for the year as a whole). Prices of copper, lead, nickel and zinc declined considerably from July to December 1997 (and continued falling into the first quarter of 1998) as a result of global excess supplies resulting from the Asian economic crisis. The price index of agricultural raw materials declined by 11 per cent, largely as a result of large price declines for lumber and natural rubber in the second half of the year, a consequence also of the effects of the Asian crisis on markets for those commodities. Average price levels both of the food group and of the vegetable oils and oilseeds group declined by less than 5 per cent in 1997, although there were large declines in prices of some food commodities such as maize, rice and wheat and several of the vegetable oils and oilseeds.

The most unexpected development in 1997 concerning commodity markets was the Asian economic crisis and economic weakening of Japan. Although supply and demand responses to the crisis differed in each country, the downturn in economic activity in East Asia contributed to lower demand for commodity imports, global excess supplies and lower prices. Import demand for industrial raw materials and other commodities slowed considerably in Indonesia, the Republic of Korea, Malaysia, the Philippines and Thailand. Demand for raw materials also weakened in several other Asian countries, such as China and Hong Kong, China, that were less seriously affected by the crisis. Industrial growth and strong import demand in Europe, Latin America and the United States averted steeper declines in prices of some commodities in the minerals, ores and metals group.

Large depreciations of the currencies of several of the Asian countries stimulated increases in supplies and lowered prices of commodities such as cocoa, coffee, lumber, tin, natural rubber and rice. Indonesia, however, found it necessary to restrict exports of crude palm oil from November 1997 and banned them altogether during the first quarter of 1998. Its aim was to conserve domestic supplies and reduce the need for more costly imports.

Export revenues declined in African and Latin American countries that have become major suppliers of primary commodities to East Asian countries in recent years as a result of lower prices and sales volumes. Exports from South Africa and other Southern African countries of minerals, ores and metals—including gold, diamonds, platinum, copper, nickel and zinc—to South-East Asia fell considerably during 1997 and continued falling during the early months of 1998. Chile's earnings from copper exports in 1997, a third of which usually go to Japan and other Asian countries, improved by less than 1 per cent, because of the contraction in demand and fall in prices during the second half of the year.

Unfavourable weather attributed to the El Niño phenomenon also affected commodity markets and prices in 1997 although the effects were not as disruptive as had been widely anticipated. Coffee exports fell by as much as 50 per cent in some countries in Eastern Africa that had experienced heavy, unseasonable rains which destroyed crops and transportation infrastructure to and from farms. In Indonesia, severe drought, attributed to the El Niño effect, caused a drop in output of export commodities such as coffee, cocoa and natural rubber; but in Southern Africa and elsewhere, growing conditions were generally normal for both domestic food crops and agricultural exports. Nevertheless, plantings and crop yields in South Africa and Zimbabwe were reduced as much as 20 per cent below normal because of strong and persistent predictions that the El Niño weather pattern was going to cause severe drought in the region and wreak damage on the same devastating scale as in the 1982/83 crop year.

Internationally as well as domestically, commodities continue to be a focus of policy makers. International commodity agreements for cocoa and coffee have been renewed in recent years but without their earlier provisions for price support schemes such as buffer stocks and export controls. In March 1998, however, member countries of the International Cocoa Organization (ICCO) reached agreement on a "Cocoa Production Management" plan, under article 29 of the 1993 International Cocoa Agreement. The plan sets specific targets for cocoa production, consumption and stock levels that would reduce excess supplies and maintain stable supply and demand balances worldwide. ICCO predicts that cocoa prices will rise substantially during the four-year implementation phase of the agreement. A similar arrangement among aluminium producers over the past three years—through a memorandum of understanding, rather than the formal, legally binding arrangement of an international commodity agreement—has been successful in introducing some degree of stability to the aluminium market.

Major member countries of the Association of Coffee Producer Countries (ACPC) have also set limits on coffee exports. However, weather-related production shortfalls and strong demand in producing countries, rather than the export retention scheme, accounted for most of the price increases during the periods of high prices in the past two years. Moreover, several low-income, commodity-dependent countries among the major coffee producers usually ignore agreed export limits in order to benefit from foreign exchange windfalls when prices are favourable.

The International Natural Rubber Agreement (INRA) entered into its third cycle in February 1997, with a membership comprising the 6 exporting countries that account for 99 per cent of global output and 16 consuming countries, including major importers such as EU and the United States. INRA is the only international commodity agreement with a buffer stock arrangement. In April 1997, natural rubber prices dropped to their lowest levels in 36 months, albeit not low enough to trigger intervention buying under the buffer stock scheme. Since then, dollar prices have continued to fall; but because the INRA agreement is based on prices in Malaysian ringgit, and with the ringgit having fallen against the dollar, the intervention mechanism had still not been invoked as of April 1998.

Financial instruments linked to commodity trade have also drawn the attention of policy makers. Trade in commodity futures and other derivative instruments linked to commodities have periodically caused price volatility in commodity markets. Two of the most highly publicized incidents in recent years have been the collapse of Barings, Public Limited Company, in 1995 and the Sumitomo incident in 1996 which led to huge losses for the parent corporations and traders in the copper market.[4] Since the occurrence of those two incidents, regulatory agencies in several countries have sought to introduce measures to enhance international supervision of global financial and commodities markets.

A significant step in that direction was taken in October 1997 when representatives of regulatory agencies in Japan, the United Kingdom of Great Britain

4 On the former, see United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report, 1995* (United Nations publication, Sales No. E.95.II.D.16), part two, chap. III, especially footnotes 37 and 40, which point to the importance of the Barings case in the issue of systemic risk and derivatives markets. On the Sumitomo incident, see *World Economic and Social Survey, 1997: Trends and Policies in the World Economy* (United Nations publication, Sales No. E.97.II.C.1 and corrigenda), chap. III, subsect. entitled "Commodity prices and markets".

and Northern Ireland, the United States and several other countries adopted a set of principles that amounted to international standards for the supervision of commodity derivatives markets.[5] The agreement incorporates regulatory benchmarks based on commonly acknowledged "best practices" in the design of derivatives contracts, market surveillance and information-sharing among regulatory agencies to detect potentially destabilizing market positions and trading practices. There was also a commitment to seek harmonization of national legislation so as to achieve full implementation of the agreement.

5 Remarks of Brooksley Born, Chairperson, Commodity Futures Trading Commission (CFTC) before the Exchequer Club ("The CFTC's international initiatives in a global marketplace", 17 December 1997 (http://www.cftc.gov/opa/born-25.htm). Accessed on 27 April 1998).

Preferential trade and trading arrangements

Governments, particulary of developing countries, have periodically sought to create new regional trading arrangements, the 1990s being a particularly fecund period. Some of these arrangements have led to strong growth in trade, while others have been less productive; but as developments in 1997 and early 1998 indicate, they remain very much a focus of the attention of policy makers.

Latin American successes in the 1990s have been particularly noteworthy, including creation of the Southern Cone Common Market (MERCOSUR) and a series of bilateral agreements, as well as the reactivation of the Andean Pact and the Central American Common Market. The new Latin American arrangements were also said to have set the stage for complementary regional infrastructure projects; but the sense of success lay less in the formal establishment of these arrangements than in the surge in intraregional trade with which they have been associated. In 1997 in particular, the dollar value of intraregional trade grew 17 per cent, compared with an 11 per cent increase in Latin American exports to the rest of the world.

Recently, moreover, the process of Latin American integration took several steps forward. The Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) agreed to move from the free trade agreement established in 1996 to a common market by 2005. The Andean Community and MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) agreed on a calendar for setting in motion a free trade agreement by the year 2000. The Andean Community signed a framework agreement with Panama, as a first step towards a free trade agreement and, eventually, its full incorporation into the Community. MERCOSUR and the Andean Community agreed to include Chile in the first phase of their integration plans, which entails extending to all member countries the preferences that they have granted each other bilaterally. Finally, MERCOSUR and the Central American Common Market (comprising Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) agreed to set in motion a tariff reduction programme, as a first step towards a free trade agreement.

The motivation for establishing such preferential trading areas (PTAs) has been both political, as Governments in Latin America sought to reduce traditional tensions among neighbours, and developmental, as Governments adopted more outward-looking strategies that pushed them to seek trading opportunities beyond those perceived to exist with traditional trading partners. Latin American countries were in any case reducing overall trade barriers and so the preferential arrangements have mainly represented a relatively more rapid reduction in the barriers to partner trade.[6]

6 See Robert Devlin and Ricardo Ffrench-Davis, "Towards an evaluation of regional integration in Latin America in the 1990s", paper presented to the Forum on Debt and Development (FONDAD) Conference on Regional Economic Integration and Global Economic Cooperation: the Challenges for Industrial, Transitional and Developing Countries, The Hague, 18 and 19 November 1997.

In South-East Asia, in contrast, trade liberalization has been undertaken almost entirely in a non-discriminatory manner and intraregional trade mushroomed anyway. The commitment of member States of the Association of Southeast Asian Nations (ASEAN) to establish first a PTA and then a free trade area (FTA) produced agreements that have affected only a small percentage of intra-ASEAN trade.[7] Little basis was said to have existed for negotiating mutual trade concessions in ASEAN since Singapore had no tariffs to begin with and Malaysia had low ones and thus neither country could offer significant trade concessions in exchange for preferential access to the markets of the other countries.

Similar considerations seem to be at play in the trade liberalization strategy of the larger grouping of countries that make up the Asia-Pacific Economic Cooperation (APEC) forum.[8] Members of APEC have pledged to reach "free trade" by 2010 for developed countries and 2020 for developing countries, using a process called "concerted unilateralism".[9] Each country develops individual action plans for trade liberalization in consultation with other members and collective action plans are also agreed. Progress in implementation and updating of these plans is to be reviewed annually, the first review having taken place at the November 1997 Vancouver APEC Summit. This is seen as an alternative "Asian" strategy for trade liberalization, to be contrasted with the trading of concessions that characterizes the standard multilateral negotiations on trade.[10]

There is a general point being made in the eschewing of preferential trade agreements in Asia, whereby it can be formally demonstrated that a preferential reduction of trade barriers between high-tariff and low-tariff countries benefits the latter at the expense of the former. The essence of the argument is that the high-tariff countries give up tariff revenue, which is absorbed in the higher costs and profits of the still-protected and thus less-than-globally-competitive exports of the low-tariff countries.

This argument applies, for example, to the proposed free trade area of the Americas (FTAA), as North American trade barriers are generally far lower than those in Latin America. The "static" trade losses of the Latin American partners, however, are to be offset by "dynamic" trade gains.[11] Thus, in April 1998, at the second Summit of the Americas, leaders of 34 countries in the western hemisphere formally set in motion the process designed to lead to the establishment of FTAA by the year 2005. If successful, this would constitute the world's largest free trade area, with over 770 million people and a combined GDP of about $9 trillion.[12]

A somewhat similar concern about economic integration between countries of very unequal size has arisen with respect to the role of South Africa in an FTA of the Southern African Development Community (SADC).[13] The 1996 Trade and Development Protocol, which had largely been negotiated before South Africa joined SADC, would make a symmetric and quick (eight-year) march to free intra-SADC trade. One concern was that this would serve largely to deindustrialize South Africa's partners. Instead, it has been argued, South Africa should reduce its own trade barriers vis-à-vis its SADC partners more rapidly than the other SADC countries, giving them more time to adjust their capacities to compete.[14]

This concern notwithstanding, the strong growth of South Africa's trade and investment in the SADC region and the flourishing trade among other countries in SADC have provided an important impetus to economic growth in member countries. South Africa's investment in the region since 1995 includes infrastructure projects, worth 45 billion rand, to set up economic corridors linking

7 Members of ASEAN include Brunei Darussalam, Indonesia, the Lao People's Democratic Republic (as of 1997), Malaysia, Myanmar (as of 1997), the Philippines, Singapore, Thailand and Viet Nam (as of 1995).

8 Membership includes the five original members of ASEAN and Brunei Darussalam, plus Australia; Canada; Chile; China; Hong Kong, China; Japan; the Republic of Korea; Mexico; New Zealand; Papua New Guinea; Taiwan Province of China; and the United States. In addition, Peru, the Russian Federation and Viet Nam are designated to become full members in November 1998.

9 That the precise meaning of "free trade" has not been defined by APEC reflects a further dimension of flexibility in APEC processes.

10 Address of Dr. Narongchai Akrassanee, Minister of Trade of Thailand, "APEC process of international trade and investment flows in Asia and the Pacific", presentation to a workshop of the Economic and Social Commission for Asia and the Pacific (ESCAP), Bangkok, 19 September 1997.

11 There is controversy about how large these gains might be, especially compared with the dynamic gains that would accrue from a non-discriminatory liberalization of trade (see Arvind Panagariya, "The Free Trade Area of the Americas: good for Latin America?", *The World Economy*, vol. 19, No. 5 (September 1996), pp. 485-515).

12 The prospects for negotiations, however, are unclear, as the negotiators for the United States have not received "fast-track" authority from the United States Congress. This means that, instead of the negotiated package's being accepted or rejected as a whole, every specific commitment by the United States Administration would be subject to veto by the Congress, thereby making it virtually impossible to negotiate any exchange of concessions with trading partners.

13 Member countries of the Southern African Development Community (SADC) include Angola, Botswana, the Democratic Republic of the Congo (formerly Zaire), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe.

14 See Rosalind H. Thomas, "A South African perspective on the SADC Trade and Development Protocol", background document for the FONDAD Conference on Regional Economic Integration and Global Economic Cooperation: the Challenges for Industrial, Transitional and Developing Countries, The Hague, 18 and 19 November 1997.

that country to Botswana, Namibia and Mozambique, and substantial expenditure on hydroelectric, water and mining projects in Mozambique. Also, labour-intensive clothing factories have relocated from South Africa to Lesotho and Malawi. Moreover, SADC member countries have set a deadline of 30 June 1998 for the ratification of six non-trade protocols in other areas of development cooperation, which include shared watercourses, energy, drug trafficking, transport, communication, meteorology, mining, education and training.

Among the other regional associations of African countries, there were important developments recently in the East African Cooperation (EAC) of Kenya, Uganda and the United Republic of Tanzania.[15] In 1997, EAC formalized arrangements to harmonize several aspects of fiscal and monetary policy, including an arrangement to avoid double taxation, collaboration in the preparation and review of budget estimates, and coordination of banking, capital account and securities regulation. EAC also announced joint investment projects in industrial development, upgrading and modernization of infrastructure (a regional road network and installation of modern telecommunications facilities) and measures to enhance the free movement of nationals of each country across their respective national borders. The cooperation arrangement is expected to be converted into the East African Community (including a monetary union with a common currency). A formal treaty is expected to be ratified before the end of 1998.

In addition, the Common Market for Eastern and Southern Africa (COMESA),[16] the largest subregional group in Africa, adopted a common external tariff structure and a common monetary unit (the COMESA dollar, linked to the United States dollar) for the settlement of trade debts, as further measures to expand markets and trade among member countries. Intra-COMESA trade, however, accounted for only about 6 per cent of total trade of member countries and was dominated by only a few countries—Kenya, Madagascar, Uganda, the United Republic of Tanzania, Zambia and Zimbabwe—with the highest concentration being among the three members of EAC. Moreover, regional conflicts and civil strife in several member countries (including Burundi, the Democratic Republic of the Congo (formerly Zaire), Rwanda, Somalia and the Sudan) presented difficulties in regard to the implementation of development cooperation in industry, agriculture, transport and communications.

Similar concerns have pertained in South Asia, where intraregional trade was only 4 per cent of total trade (although this excluded a large amount of contraband trade). Despite the creation in 1985 of the South Asian Association for Regional Cooperation (SAARC)[17] and its PTA in 1993, members have routinely barred some trade flows. In recent years, however, the region's leaders sought to reduce regional military tensions and saw more rapid movement towards an FTA as helpful. They thus produced more extensive (albeit still limited) implementing agreements towards an FTA in 1997. On economic grounds alone, according to the World Bank, it could be argued that unilateral trade liberalization would be a superior policy choice. However, the intensification of regional cooperation in South Asia was warranted on broader considerations, above all as a "step towards better political relations—and peace".[18]

15 For selected developments in regional groupings in Western and Central Africa, see box III.2 below.

16 Member countries of COMESA are Angola, Burundi, the Comoros, the Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique (membership in suspension), Namibia, Rwanda, Seychelles, Somalia, the Sudan, Swaziland, Uganda, the United Republic of Tanzania, Zambia and Zimbabwe.

17 Member countries of the South Asia Association for Regional Cooperation (SAARC) are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

18 See Miria Pigato, "Regional integration in South Asia" (background document for the FONDAD Conference on Regional Economic Integration and Global Economic Cooperation: the Challenges for Industrial, Transitional and Developing Countries, The Hague, 18 and 19 November 1997), p. 6.

INTERNATIONAL FINANCE AND THE NET TRANSFER OF RESOURCES

International lending on the world's capital markets broke yet another record in 1997, when over $1.2 trillion in new medium- and long-term bonds and bank loans were arranged for non-resident borrowers. Since 1991, international borrowing arrangements have grown almost 18 per cent a year (see figure III.4); and this does not even include the growth of foreign holdings of equity shares or other types of private international financial flows, which have also grown rapidly. However, while total flows continue to increase, fewer countries are able to tap them (or tap them on tougher terms), largely as a consequence of the Asian financial crisis.

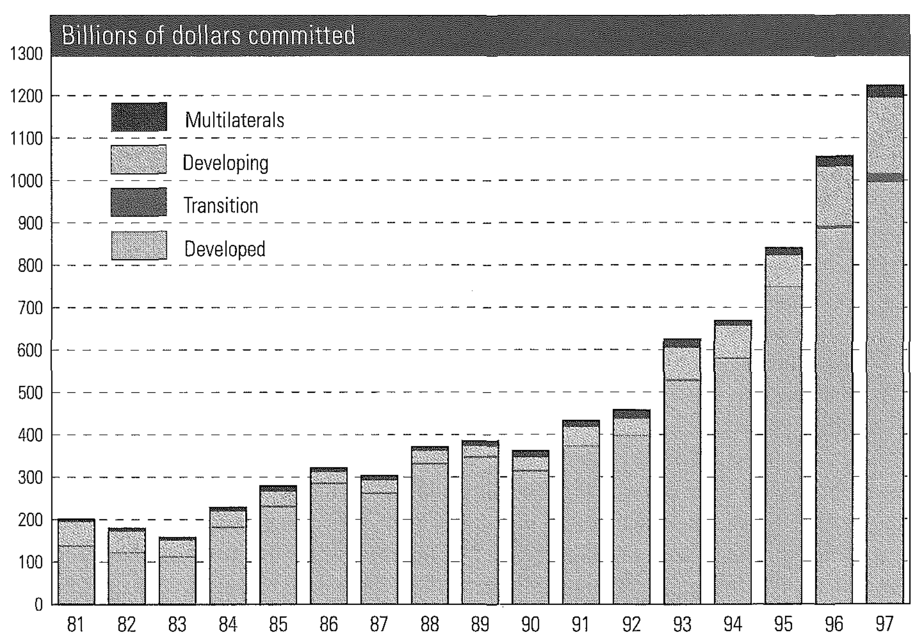
Over 80 per cent of the medium- and long-term credit arrangements included in figure III.4 were for borrowers from developed economies and most of those were for the private sector; but arrangements for public and private borrowers in developing countries rose over 25 per cent in 1997 and arrangements for transition economies, albeit of a much smaller magnitude, grew 160 per cent. In short, there is no shortage of financial resources in international capital markets and the markets are able to intermediate the very large flows with ease.

At the same time, however, 1997 saw the greatest number and value of bond defaults globally since the 1930s.[19] There were defaults by at least 64 issuers of publicly held corporate debt in 1997 on bonds nominally valued at $8.6 billion,[20] compared with defaults by 26 issuers on bonds valued at $4 billion in 1996. Two thirds of the 1997 default activity occurred in the second half of year, reflecting the currency crisis in East Asia and the continuing

19 The coverage of these data is perforce incomplete, especially as regards privately placed and unrated credits; in addition, those data do not include the closure by financial regulators of 74 banks and financial institutions in Indonesia and Thailand in 1997, as this did not entail defaults on obligations held by public bondholders (see Moody's Investors Service, "Historical default rates of corporate bond issuers, 1920-1997", special comment, February 1998).

20 Even the 1997 default figure, however, is a tiny fraction of global bond issuances in a year, let alone of the outstanding stock; but bond buyers expect the probability of default to be extremely low, especially for bonds that are rated by rating agencies in major markets.

Figure III.4.
INTERNATIONAL MARKET LENDING, 1981 TO 1997[a]



Source: Data of Organisation for Economic Cooperation and Development (OECD), *Financial Statistics Monthly*.

a Sum of foreign and international bonds, syndicated loans and other debt facilities arranged.

financial difficulties in Japan. Indeed, 22 defaults of Asian domiciled firms were registered in 1997; previously, only one such default had been recorded since the Second World War.

The default data, coupled with lowered assessments of developing-country creditworthiness, began to be reflected in sharply reduced international lending to developing countries in the closing months of 1997 and in early 1998. In addition, the risk premiums built into the interest rates on developing country bonds rose, in some cases dramatically, although by March 1998, the "spreads" had already receded substantially in many cases.[21]

This notwithstanding, the sentiment in the international financial market seemed to be that most medium- and long-term funding for projects in countries in crisis would be restricted to projects that were already in the pipeline, were structured so as to generate an assured cash flow to repay creditors in foreign currency, and had credible local sponsors, preferably as equity partners. Private international financing for new "greenfield" projects would be hard to arrange in some countries for some time.

In other words, certain countries were being thrown back onto a reliance on official financing, as the middle-income countries in debt crisis in the 1980s had been. Moreover, the first large-scale officially encouraged "voluntary" restructuring of commercial bank debt since the 1980s debt crisis was arranged (in this case, it was for the Republic of Korea). There are many other countries, however, that have not yet gained significant access to private financial markets in the first place. They continue to rely on increasingly restricted supplies of concessional official flows.

International transfer of financial resources

The two most striking developments in the international flow of financial resources in 1997 were that the net transfer to the United States rose to $131 billion, the highest level in a decade (see table A.24), and that the developing countries as a group saw an extraordinary swing from a small net transfer to them from other countries (denoted as a positive net transfer) in 1996 to a net transfer from them to other countries (denoted as a negative net transfer) in 1997 (see table III.1). In part, both these developments were caused by the changes in international trade discussed above, as the "net transfer" to a country is an expression of the financing of its trade deficit (or the disposition of its trade surplus). By the same token, the trade flows were not independent of major developments in international financial flows, as the net transfer of resources is the interface between the trade and financial sides of the balance of payments.[22]

In the case of the United States, one aspect of the very large net transfer was an extraordinary $309 billion inflow of portfolio investment (see table A.24). This appears to have embodied the "flight to quality" that was observed in the financial markets when the Asian crisis disrupted financial investor confidence around the world. Most of the inflow comprised foreign net purchases of United States debt securities, both Treasury securities ($163 billion, excluding foreign official reserve purchases) and corporate and other bonds ($122 billion). In addition, there was an especially strong inflow in the form of net foreign purchases of United States equity shares ($67 billion, compared with $12.6 billion in 1996), taking advantage of the rising United States stock market. On the

21 For example, spreads over United States Treasury bond yields on Brazilian debt rose from under 4 percentage points in September 1997 to over 6 percentage points in October, but fell back almost to 4 percentage points by March 1998; spreads on Philippine debt rose from under 2 percentage points in June 1997 to 4 percentage points by October and eased back but were still above 3 percentage points in March 1998; spreads on the debt of crisis countries had larger swings (see Institute of International Finance, *Capital Flows to Emerging Market Economies* (Washington, D.C., 30 April 1998), pp. 7-8).

22 A caveat is in order in regard to interpreting international financial flows data: there are very large unrecorded flows and mis-recorded flows (income flows recorded as capital transactions and vice versa, and internationally inconsistent dating of transactions). Thus, whereas the sum of outflows should equal the sum of inflows, making the global net flow zero, the global net flow can be quite large; moreover, the size of the global net flow can change dramatically from year to year (table A.20 illustrates this phenomenon for the current transactions side of the balance of payments).

Table III.1.
NET TRANSFER OF FINANCIAL RESOURCES OF GROUPS OF DEVELOPING COUNTRIES, 1987-1997[a]

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]
Africa	-3.0	3.9	0.9	-10.1	-5.7	-1.0	2.8	7.8	12.6	2.1	4.7
of which:											
Sub-Saharan Africa[c]	6.3	7.8	6.1	8.8	9.2	11.3	9.8	8.3	7.8	8.4	9.5
Latin America and the Caribbean	-18.6	-22.0	-27.7	-27.5	-8.9	7.8	14.2	17.0	-0.8	-2.4	17.6
West Asia	21.3	23.8	16.6	4.3	50.9	39.5	38.8	10.1	14.7	3.8	-0.2
Other Asia	-32.1	-20.5	-12.5	-10.4	-9.4	-5.6	6.8	-5.6	10.4	4.5	-48.8
of which:											
China	-0.5	3.9	4.9	-10.8	-11.8	-5.2	11.4	-8.0	-12.3	-19.2	-47.3
Four exporters of manufactures[d]	-30.4	-26.8	-21.9	-11.8	-7.8	-8.2	-13.5	-12.4	-7.1	-0.6	-20.7
Other South and East Asia	-1.2	2.4	4.5	12.2	10.1	7.8	8.9	14.8	29.8	24.3	19.1
All developing countries	-32.4	-14.8	-22.8	-43.7	26.8	40.7	62.7	29.3	36.9	8.0	-26.8
of which:											
Net-creditor countries	-4.0	5.6	0.1	-14.5	18.5	14.4	13.9	-0.7	-9.3	-24.1	-30.7
Net-debtor countries	-28.4	-20.4	-22.9	-29.1	8.3	26.3	48.8	30.0	46.2	32.1	3.9
Memorandum items											
Sample of 105 countries[e]	-27.4	-24.1	-21.2	-26.1	4.7	25.3	50.0	25.1	28.1	17.5	-7.8
of which:											
Least developed countries[f]	8.2	8.8	8.4	8.7	9.8	11.6	11.6	9.2	11.0	11.2	12.2

Source: UN/DESA, based on data of IMF, official national and other sources (for memorandum items, see table A.25).

a Expenditure basis (negative of balance of payments on goods, services and private transfers, excluding investment income).
b Preliminary estimate.
c Excluding Nigeria and South Africa.
d Hong Kong, China; Republic of Korea; Singapore; and Taiwan Province of China.
e One hundred and five net-debtor countries, for which sufficient data are available. For more detailed information, see table A.25.
f Covering 42 out of the 48 least developed countries.

other hand, net foreign portfolio purchases by United States residents dropped by almost $30 billion in 1997 (which still left almost $80 billion in United States foreign purchases).

The slowdown in United States portfolio outflow, like the increase in inflows, was related both to the relative performance and expectations of different national financial markets and exchange rates and to the uncertainties created by the Asian currency crisis. This was especially visible in the fourth quarter of 1997 when United States residents heavily sold shares in every major foreign market area except Canada. In addition, many non-residents of the United States also moved their deposits from non-United States banking institutions to banks in the United States and outflows of currency from the United States jumped from $17 billion in 1996 to $25 billion in 1997.[23]

Regarding the developing countries, the aggregate net transfer of financial resources was significantly negative in 1997 for the first year since 1990 (see table III.1). The net transfer to the least developed countries was not much changed, nor was that to Africa. If the net transfers to these countries did not

23 See Christopher L. Bach, "U.S. international transactions: fourth quarter and year 1997", *Survey of Current Business*, vol. 78, No. 4 (April 1998), pp. 51-97.

suffer a deterioration, neither did they see any significant improvement. Rather, the main development was the sharp increase in the net outward transfer from certain Asian economies, which was only partly offset by the substantial increase in the net transfer to Latin America and the Caribbean. In some cases, such as that of China and some of the small Asian "tigers", the outward transfer was a sign of economic strength, while for others it was the beginning of a difficult adjustment process, as discussed in chapter II.

In the case of China, the net outward transfer was made possible by a large increase in exports, which increased the surplus in China's trade balance. In addition, China continued to receive considerable capital inflows in 1997. Thus, while some of the net outward transfer took the form of interest and other investment income payments, China was also able to add some $35 billion to its foreign official reserves and there was a substantial net addition as well to Chinese commercial bank and other foreign currency assets.

As may be seen in table III.1, a grouping of four exporters of manufactures —the original "newly industrialized economies", or "four tigers"—transferred almost $21 billion in financial resources to other countries. This brings into focus a mixed picture. In the case of the Republic of Korea, an apparent strengthening of its external accounts in 1997 masked a weakness that became apparent as the year ended. The Republic of Korea successfully reduced its unusually large 1996 trade deficit by $12.5 billion, both through export increases (measured in constant prices, merchandise exports of the Republic of Korea grew 25 per cent) and through a contraction of imports in the second half of the year under a sharp economic adjustment policy. This reduced its need for net capital inflows and net financial transfers. Not captured by these data, however, was the loss of confidence in the creditworthiness of many Republic of Korea borrowers and the resulting difficulty at the end of 1997 in obtaining continued rollovers of short-term funding, which triggered the Republic of Korea's crisis.

Regarding the other tiger economies, the trade surpluses—and thus the net financial transfers associated with them—shrank somewhat in Hong Kong, China, and grew in Singapore and Taiwan Province of China. The external financial resources that arose from these trade surpluses were used for direct investment and portfolio outflows, particularly from Taiwan Province of China, or increases in reserves or other foreign assets.

Virtually all the other countries in South and East Asia remained net recipients of resource transfers, albeit with smaller total inflows. Although there were instances of countries in which the net transfer increased, such as India, most countries saw their net transfer shrink. In the crisis countries, notably Indonesia and Thailand, the change was sharp. While data are still incomplete, the extent of the shift is suggested by the improvement in the trade balance, which in Indonesia was about $3.5 billion (mainly export increases) and in Thailand about $6.5 billion (mainly import reductions).

The change in the financial flows to a sample of 22 countries from South and East Asia in 1997 showed the crisis in action: the sum of short-term borrowing, stock market net flows, and net outflows from domestic residents, which has usually registered a relatively small net inflow, suddenly grew to an outflow estimated at about $92 billion (see table A.25). To a small degree, this was compensated by larger inflows of medium- and long-term private credits, but the main counterweight was a large shift in official lending: instead of an outflow (net interest and principal repayments) of about $8 billion a year, as in 1995 and 1996, these countries received $18 billion in net transfers from official creditors in 1997. The increase in these inflows, however, did not fully offset the larger outflows.

Reflecting contagion from the Asian crisis, Latin America and the Caribbean experienced a roller-coaster year in 1997. During the first half of the year, the region was receiving substantial private credit inflows on a net basis, continuing a trend that had started in 1996 owing to low international interest rates and improving growth prospects. As the Asian crisis sent ripples to other emerging markets, however, the growth of credit flows suddenly stopped. For the year as a whole, the net transfer on foreign credit was $11 billion, almost half of the amount recorded in 1996 (see table A.25). In contrast to the situation in Eastern and Southern Asia, however, short-term borrowing and other unidentified flows continued to come into the region on a net basis. Also, foreign direct investment (FDI) inflows swelled, reflecting continuing confidence of transnational corporations in the prospects of the region, despite the volatility associated with external monetary shocks.

One region that seemed largely to escape the financial consequences of the Asian crisis was Africa. Excluding reserve accumulation, the net transfer to 50 African countries increased by $6 billion in 1997, as some countries in North Africa (Algeria, Egypt, Morocco and Tunisia) received a substantial amount of portfolio investment and other forms of long-term capital. It was the first time in the 1990s that disbursements on medium- and long-term private credits to the 50 countries as a group exceeded interest and principal payments on their outstanding credits. The net transfer on foreign investment, however, remained quite weak and the net transfer back to foreign official creditors was barely offset by the shrinking level of official grants (see table A.25).

In the smaller and generally lower-income grouping of sub-Saharan Africa (defined to exclude Nigeria and South Africa in order to better focus on the smaller economies), the financial situation was weaker than in Africa as a whole. While the aggregate net financial transfer to this grouping remained positive, it was smaller than it had been in the early 1990s (see table A.25). The region participated in the increase in private lending to Africa as a whole, as noted above, but new inflows of direct investment were less than the outflows for investment income payments and capital repatriation.

The point of this observation is not that returns to investors on past direct investments should always be less than new inflows, which is not the case, but that the data reflect uncertainty on the part of investors. Enterprise managers make decisions about the future growth of their operations in the host countries when they allocate profits between dividend payments and earnings retained and thus reinvested. In a dynamic economic setting, with perceptions of political and economic stability and growth, one would expect to see relatively small dividend payments and large reinvested earnings, as well as new investment inflows. This is not yet the case in much of sub-Saharan Africa.

In addition, like Africa as a whole, the sub-Saharan grouping has made net interest and principal repayments to official creditors that have exceeded disbursements on new loans, albeit by a small amount, since 1996. The grouping continued to receive a positive overall net transfer from foreign official sources, however, because official grants were larger than the net transfer back on loans; but it is noteworthy that with shrinking official grants and rising private grants (principally from non-governmental organizations), the dollar value of official grants has now fallen from over six times private grants at the beginning of the decade to little more than two times private grants (see table A.25).

With respect to the transition economies, there are not sufficient data to estimate the full net transfer of resources or its financing; however, from partial evidence there appears to have been a positive net transfer overall since 1996. In other words, there has been an aggregate trade deficit since that year (see table A.22). The positive net transfer, however, has been concentrated in the Central and Eastern European countries and in the Baltic States, as CIS has maintained a trade surplus.

Aspects of international financing for development

Considerable attention is being paid in various parts of this *Survey* to changes in international private credit flows to developing countries in 1997 and 1998 and the volatility and uncertainty that private flows have engendered (see concluding section of this chapter). There have also been important developments, however, concerning other major categories of international financial flows to developing countries, such as direct investment and multilateral official assistance, and in the treatment of the debt of some of the excessively indebted low-income countries.

Foreign direct investment

Net inflows of FDI to developing countries are estimated to have reached a record level of almost $90 billion in 1997 (see table A.25).[24] This did not represent a large increase over the level in 1996 ($86 billion), but it is a dramatic change from the orders of magnitude before the 1990s surge in investment flows began; for example, in 1990, net direct investment in developing countries was less than $17 billion. FDI is by far the largest component of net financial flows to the developing economies as a group. These flows remain, however, highly concentrated, with almost three quarters of total flows going to the 10 largest recipients—mostly Asian and Latin American countries.

The main factors that have bolstered aggregate FDI flows since the beginning of the 1990s are still in place. Technological development has fostered greater possibilities for the globalization of production and investment. Privatization and the liberalization of terms of FDI, not to mention overall macroeconomic stabilization, have spread to more and more developing countries, creating increasingly attractive and enabling environments for FDI. In addition, strengthened growth of output and incomes in many developing countries, as well as trade, has raised the prospects of long-term profits to be derived from locating in and serving markets in developing-country regions.

Gross direct investment inflows—a different statistical indicator than that referred to above—into Eastern and Southern Asia (including China) were estimated to be about $80 billion in 1997.[25] The impact of the regional financial crisis had thus not yet been felt. Total flows to four of the five most affected countries (Malaysia, the Philippines, Thailand and the Republic of Korea) were almost unchanged from the previous year, although flows to Indonesia declined sharply. Investment flows to China continued to rise and were estimated to have reached $45 billion in 1997.

24 Data pertain to a sample of 105 net-debtor developing countries (see introduction to the statistical annex for further details on the country grouping); they exclude reinvested earnings and are net of direct investment by enterprises from developing countries.

25 The discussion of gross Asian FDI inflows and outflows draws, in part, on UNCTAD and International Chamber of Commerce, "The financial crisis in Asia and foreign direct investment", background note, March 1998.

FDI in the region is expected to be lower in 1998, primarily owing to a marked decline in China. The sharp decline in investment flows coming from major Asian investors (in particular Japan and the Republic of Korea) is a major factor in this reversal. Contrasting pressures are influencing direct investment into the South-East Asian economies. On the one hand, economic conditions are depressed and the outlook is particularly cloudy in certain countries. On the other hand, the prices of assets have dropped very appreciably owing to the bursting of stock market and real estate bubbles, and the cost of production for export has fallen dramatically as a result of large currency depreciation. Moreover, the conditions for long-term growth—relatively well-developed infrastructure and human resources—are still intact.

In addition to the Republic of Korea, other developing countries in Eastern and Southern Asia have recently been sources of FDI. The financial crisis in the region is also reducing their outflows of FDI. This is expected to affect, in particular, investment in the lower-income countries in the region (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam), which receive large shares of their total foreign investment from crisis-affected countries. Some African countries that have recently become destinations for Asian FDI are also being affected.

Gross FDI inflows into Latin America and the Caribbean reached a record level of about $50 billion in 1997, despite the contagion effect of the Asian financial crisis on a number of countries in the region. For the first time in several years, Brazil was the favourite destination, receiving some 25 per cent of the total, followed by Mexico (20 per cent) and Argentina (10 per cent). Major privatizations in the infrastructure, financial services and energy sectors in a number of countries have been a major impetus. An attractive business environment continued to underpin a significant expansion of FDI in Costa Rica in 1997 (over $500 million), with almost 40 per cent of total investment in the high-technology sector. This favourable trend in FDI in the region is expected to continue in 1998, as the privatization momentum is maintained and investment grows in the mining, oil and telecommunications sectors.

Gross FDI increased in Africa in 1997 to about $4.5 billion, continuing a trend that had started in the early 1990s. Major recipients included Egypt and Morocco, with total FDI in Morocco doubling to $1.2 billion. FDI has responded to opportunities that have been created by expanding privatization programmes and reformed investment regimes, particularly for the mining sector. FDI flows to South Africa also rose in 1997, although privatization of the telecommunication company can account for all of the increase over 1996 and the amount of "greenfield" foreign investments has been limited.

The concentration of FDI in Africa geographically and by sector has remained high. Seven countries (Angola, Egypt, Ghana, Morocco, Nigeria, South Africa and Tunisia) accounted for about 70 per cent of the FDI inflows in 1996 and 1997. FDI in energy and mining continued to be important, but foreign investment in manufacturing (electronics and automobiles) and tourism has increased in recent years in a number of African countries.

Multilateral financial cooperation

The medium-term trend of weakening official financial flows to developing countries in the 1990s has been interrupted on two occasions (see table A.25).

One was the international response to the Mexican currency crisis that began at the end of 1994 and the other was the response to the Asian currency crisis that began in 1997. With an essentially unchanged annual supply of official grants since 1993 and slowly rising interest payments on outstanding debt to official creditors—although the payments peaked in 1995, as there has been an easing of international market interest rates charged on much of that debt—the annual changes in net lending have been the main determinants of the changes in official net transfers. Some of this net lending takes the form of bilateral official development assistance and some is in the form of export credits, but a large part consists of multilateral flows that are subject to sharp annual changes, especially those of IMF.

IMF's mandate entails responding to balance-of-payments emergencies and so its lending flows are expected to be the most volatile of those of the multilateral financial institutions. In 1997, IMF committed $38 billion of its own resources (and mobilized considerably more from bilateral and other multilateral sources) in 14 arrangements for developing countries, compared with $5 billion for 20 countries in 1996 (see table A.27).[26] Ninety per cent of the IMF funds arranged in 1997 were for three countries: Indonesia ($10 billion), the Republic of Korea ($21 billion) and Thailand ($4 billion). In addition, IMF extended a $1 billion loan to the Philippines in July, as the first arrangement under its Emergency Financing Mechanism, which had been set up after the Mexican crisis in order to be able to commit funds quickly to countries that were following sound policies and needed additional financial support on an emergency basis.

Mainly as a result of these arrangements, net disbursements of IMF resources became positive in 1997, as had been the case in 1995 during the Mexican crisis. In several other years in the 1990s, however, member countries repaid loans to the Fund on a net basis. Indeed, despite new arrangements for 10 countries under its concessional lending programme, the Enhanced Structural Adjustment Facility (ESAF), in 1997 IMF began to receive net repayments from the group of low-income recipients of this and previous concessional lending (see table A.27).

The large total lending commitments by the Fund in 1997 raised questions about its financial capacity to respond to additional crises. The answer, entailing adoption of a policy proposal that had been in preparation for some time, was to enlarge the Fund's resources through a 45 per cent increase in quotas, which determine both drawing rights (borrowing limits) and voting rights in IMF.[27] The increase will add about $89 billion to the lending capacity of IMF and will take effect when ratified by 85 per cent of the voting membership. However, the timing of implementation has been rendered uncertain by the controversy in the United States Congress surrounding approval of the United States quota increase. As the United States holds 18 per cent of Fund voting rights, a negative decision on the quota increase by the Congress effectively vetoes the agreement to increase IMF quotas.

The Fund also devised a new mechanism to speed its resources to member countries in the midst of a balance-of-payments crisis. This time, IMF added—in contrast to the Emergency Financing Mechanism, which is a decision-making mechanism allowing quick deployment of regular Fund resources—a new facility, called the Supplemental Reserve Facility (SRF). The Facility is intended to supplement the resources under a regular standby or

26 IMF also committed $2 billion in seven arrangements for transition economies in 1997, compared with $13 billion in 12 arrangements in 1996 (see table A.28). The bulk of the funds arranged in 1996 were for the Russian Federation in a multi-year adjustment programme.

27 In a related manner, IMF also approved a one-time increase in special drawing rights (SDRs). This is a form of Fund-created liquidity that was originally intended to become the main international reserve asset, but that has instead come to play only a minor role in supplementing the reserve assets of IMF member countries. The Fund agreement provided for creation of 21.4 billion SDRs (about $29 billion) for allocation to countries that had not received earlier allocations because they joined the Fund after the period of SDR allocations had ended (see *IMF Survey*, vol. 26, No. 18 (6 October 1997).

extended arrangement and to be deployed when there is a large need for short-term financing arising from a sudden loss of market confidence. Financing under the SRF can be in two or more tranches, to be decided at the time an SRF drawing is agreed, but the loans will be of shorter duration than regular stand-by arrangements (repayment in one to one and a half years after the date of each disbursement, instead of three to five years, although the Fund may extend the repayment period by up to a year). Also, SRF loans will be more expensive (3 to 5 percentage points above the usual IMF rate of charge on loans, which averaged about 4.7 per cent in 1997).[28] The first beneficiary of the SRF was the Republic of Korea in December 1997.

IMF aside, the bulk of the multilateral programmes of economic cooperation are not emergency response mechanisms, although some important ones are, such as activities of the World Food Programme (WFP) and the United Nations Children's Fund (UNICEF). Rather, they are mainly mechanisms for development cooperation—as well as for assistance to the economic transition process—and should thus be expected to mainly respond to long-run needs. They are nevertheless not immune to crisis situations.

In this regard, the Asian currency crisis has affected multilateral lending programmes in two ways. On the one hand, the lending commitments of the International Finance Corporation (IFC), the private sector lending and investment arm of the World Bank, dropped 25 per cent in 1997, mainly because several investment projects in the Asian crisis countries could not go forward as planned. On the other hand, significant and unanticipated lending programmes were arranged for crisis countries. For example, lending from ordinary (non-concessional) resources of the Asian Development Bank doubled to $8 billion in 1997, mainly owing to a $4 billion loan—the largest loan in the Bank's history—to the Republic of Korea. In addition, in late December 1997, the World Bank agreed to lend $3 billion to the Republic of Korea for economic reconstruction, focusing on the financial sector. This was particularly noteworthy since the Republic of Korea had graduated from eligibility for World Bank loans in 1994.[29]

Overall, multilateral resource commitments, excluding those of IMF, grew about 5 per cent and reached almost $51 billion in 1997 (see table A.31). All of the growth, however, was accounted for by non-concessional lending programmes. Expenditure by the operational programmes of the United Nations dropped for the second year in a row and the lending commitments of the International Development Association (IDA), the World Bank's concessional lending affiliate, fell below its 1995 level. The decline in IDA commitments, like the fall in non-concessional loans (identified as loans of the International Bank for Reconstruction and Development (IBRD) in table A.31), reflected implementation adjustments to the Bank's new policies of greater selectivity and delays associated with implementing a new, more decentralized operational strategy.[30]

Concessional programmes of the African Development Bank, however, rose from less than $300 million to over $1 billion, as the crisis in that institution eased. After a two-and-a-half-year delay caused by crisis and adjustment in Bank management, donor members of the Bank agreed in May 1996 to replenish the African Development Fund, the Bank's concessional window, with $2.6 billion for the period 1997-1999. The replenishment was a vote of confidence in reform efforts at the Bank, although it was short $400 million of the

28 See "IMF approves supplemental reserve facility", *IMF Survey*, vol. 27, No. 1 (12 January 1998), p. 7.

29 In view of this special situation, the Republic of Korea is being charged a higher-than-normal interest rate and its loan has to be repaid over a shortened period of 10 years (see World Bank news release, No. 98/1597/EAP).

30 See World Bank, *Annual Report, 1997* (Washington, D.C., 1997), "Overview of World Bank activities in fiscal 1997", and section one: "The Executive Board"; and section four: "Institutional renewal, development effectiveness, operations evaluation, and commitments and guarantees".

Bank management's initial request and $1 billion is from recycled funds, loan cancellations and arrears on earlier pledges, rather than new money.

In addition, non-concessional lending by the African Development Bank, which had declined sharply from 1992 to 1996, began to recover in 1997. To prepare the way for continued increases in such lending, the Board of Governors of the Bank was to consider in 1997 an enlargement of the Bank's general capital and future funding commitments. One sensitive point at issue was how much to raise the share of non-African countries in the equity and thus decision-making of the Bank in exchange for greater non-African financial inputs (the non-African share has been 33.3 per cent). A large capital increase was not expected, however, as most African member countries are eligible to draw only on the Bank's concessional loans and grants, which are funded separately, as noted above. A significant capital increase would nonetheless help to upgrade the Bank's credit rating, which fell in 1995.

Other multilateral banks have also had funding issues to contend with in 1997 and 1998, some of which were successfully concluded and some not. For example, agreement was reached in April 1998 to double the capital base of the European Bank for Reconstruction and Development (EBRD) to $22 billion. EBRD is a unique institution as more than three quarters of its lending is to the private sector in transition economies.

Similarly, deliberations were recently concluded for a general capital increase of the Multilateral Investment Guarantee Agency (MIGA), an arm of the World Bank that insures foreign direct investors against political and related risks in developing and transition economies. MIGA's capital is to be increased by $850 million (of which $150 million is to be paid in) and the World Bank is to transfer $150 million to MIGA in the form of a grant. This will both address a short-term financial constraint and provide MIGA with a sustainable capital structure for the medium term.

The concessional arm of the Asian Development Bank, the Asian Development Fund, was replenished in January 1997, but resources provided fell short of the target by $1.7 billion. The Bank planned to use transfers from its own net income to augment the replenishment and maintain concessional lending levels. This practice, however, has had to be discontinued, as the heavy demand for the ordinary resources of the Bank meant that it would have to build up its own reserve cushion. In addition, Japan's contribution to the Fund, accounting for more than one third of the total, has been reduced in dollar terms, owing to the weakness of the yen, in which its commitment is denominated.

In addition, while IMF's ESAF is not yet constrained in its lending capacity, its full financing for future lending programmes is not assured, and thus the Interim Committee of the Board of Governors of IMF "urged all members to move quickly to complete the financing" of this facility and of the HIPC initiative (see below). This is particularly germane in the light of the recent external evaluation of ESAF that "reaffirmed the view that ESAF is a valuable instrument to assist low-income countries".[31]

31 See communiqué of the Interim Committee of the Board of Governors of IMF, Washington, D.C., 16 April 1998, para. 6.

Official relief for heavily indebted poor countries

Arranging adequate funding is also one of the difficult issues that the World Bank and IMF have to contend with in implementing the special debt-relief programmes under their joint initiative for the heavily indebted poor countries

(HIPCs). The innovation in the HIPC initiative was to bring eligible countries to a sustainable debt position as an exit strategy, regardless of the extent of relief required. This would also free HIPC countries from what had been long sequences of debt rescheduling and refinancing arrangements whose end could not be seen regardless of how sound the policies adopted by the debtor countries were, nor how long they were maintained.

In order to make the net debt reduction sufficiently large, however, the HIPC initiative required unusually deep reductions in the debt servicing owed to bilateral official creditors, which some creditor countries have resisted, and it introduced special processes for reducing the servicing of multilateral debt. The latter entailed the creation of special funds at IMF (the ESAF/HIPC Trust) and the World Bank (the HIPC Trust Fund), both of which have received transfers from the parent institutions and bilateral contributions, and from which grants and highly concessional loans are made to cover debt-servicing obligations.

The HIPC initiative requires potentially eligible low-income and heavily indebted countries to develop a "track record" of sound policy management, under adjustment programmes that are supported by the Fund and the Bank. HIPC debt relief is thus viewed as the end point of a process and an incentive for maintaining sound policies during the process, as well as an informal assurance to the creditors that the resources provided through debt relief will not be squandered. Before the end of the process, which is called the completion point, when the full debt relief is accorded, the HIPC country receives substantial financing and debt relief. The track record is generally expected to require six years to complete, but the commitment of the international community to the final arrangement is signalled roughly halfway through the period when the Boards of the Fund and the Bank approve the content of the final relief package. That agreement is reached at what is called the "decision point".

Since the HIPC programme was introduced in September 1996, only one country has reached the completion point: Uganda in April 1998. Six countries have reached the decision point: Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mozambique and Uganda (see figure III.5).[32] Each country is generally viewed as having started its track-record period at the point at which it received a particular (and substantial) degree of debt relief (usually "Naples terms") from the Paris Club, which is the forum of official creditor agencies for restructuring bilateral official debt. Of the six countries, only Bolivia and Guyana, in addition to Uganda, are expected to complete their HIPC process by the end of 1998.[33]

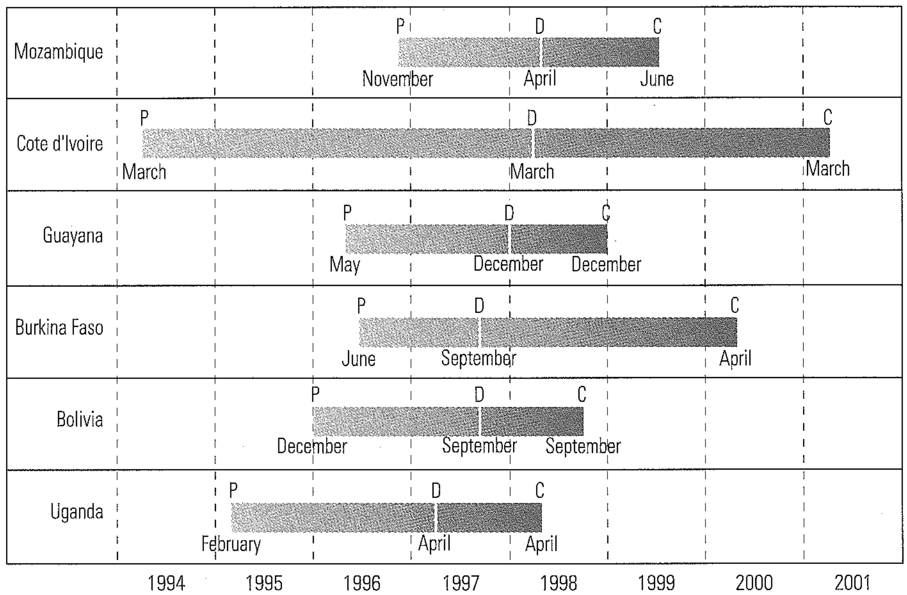
Additional countries are in the HIPC pipeline and others will be considered in due course. Both debtors and creditors, particularly the Bank and the Fund, are committed to implementing the HIPC programme as quickly and comprehensively as possible. However, the process is highly complex and requires unprecedented cooperation and coordination of Governments and multilateral institutions and therefore seems to proceed quite slowly. With this in view, the British Chancellor of the Exchequer launched the "Mauritius Mandate" at the Commonwealth Finance Ministers' meeting of 15-17 September 1997 in Mauritius. That initiative seeks to ensure that all eligible poor countries at least embark on the process of securing a "sustainable exit" from their debt problems and that the HIPC process in particular is accelerated. This requires, *inter alia*, that funding arrangements for HIPC relief be more assured.[34] This, in turn, calls for national Governments and other creditors to be more forthcominmg in the resources they are prepared to make available.

32 One additional country, Benin, was judged in July 1997 not to need the extraordinary relief of a HIPC programme.

33 It may be noted in figure III.5 that the track-record period is less than six years in some cases and longer in one case. The longer period results from a break in the period under an active IMF programme, while the shorter periods reflect "credit" given for earlier, continuous years of adjustment. Moreover, in the case of Mozambique, the fact that creditors had difficulty in reaching agreement on the final debt-relief package delayed the "decision point" (mid-1997, as originally intended) until April 1998, in the light of which the period to the "completion point" was shortened so as not to penalize Mozambique for the delay.

34 See Commonwealth Secretariat, *International Capital Markets*, vol. 17, No. 4 (December 1997), pp. 10-11.

Figure III.5.
IMPLEMENTATION OF THE HEAVILY INDEBTED POOR COUNTRIES DEBT INITIATIVE



Source: World Bank (data as of April 1998).

Note: P: Paris Club rescheduling
D: decision point
C: completion point.

INTERNATIONAL ASPECTS OF THE INTRODUCTION OF THE EURO

On 1 January 1999, the monetary union stage of Economic and Monetary Union (EMU) begins in Europe. While notes and coins in national currency will continue to circulate over three more years, the euro will start to be used in transactions by banks and enterprises. It will be overseen by the European System of Central Banks (ESCB), comprising the European Central Bank (ECB), based in Frankfurt, Germany, and the national central banks of the 11 initial members of the monetary union (EUR11)—Austria, Belgium, Finland, France, Germany, Luxembourg, Ireland, Italy, the Netherlands, Portugal and Spain—which will become components of ESCB.[35] The rates for conversion of the national currencies into the new euros will have been irrevocably fixed by this point. The euro will be the single currency, and the national currencies taking part in the monetary union will become merely different denominations of the euro. After July 2002, the currencies of the first 11 entrants will no longer be legal tender.

This degree of monetary innovation in a trading bloc as large as EU may have considerable effects on international financial relationships, including shifts in the composition of the foreign reserve assets of the world's central banks, portfolio shifts on the part of the private sector, changes in the currency invoicing of world trade flows, and macroeconomic effects emanating from monetary, fiscal and exchange-rate policies adopted by EU.

35 Denmark, Sweden and the United Kingdom of Great Britain and Northern Ireland had the option of joining in 1999, but declined to do so. Greece is expected to meet the criteria for entry in a few years, having made considerable progress towards economic convergence with the countries that will be the initial members of the monetary union.

The new European economy

EU is about to undergo a fundamental change in economic relationships. EUR11—which has a population of 290 million and a GDP roughly similar to that of the United States, accounting for almost a fifth of world output and world trade (excluding intra-EU trade)[36]—will become a very large single currency area. Its dependence on external trade is similar to that of the United States, with merchandise imports from non-EU countries accounting for about 10 per cent of GDP. EUR11 holds 16 per cent of world foreign exchange reserves, while the currencies that will disappear constitute 20 per cent of the reserves presently held by the world's central banks (including the reserves of the 11 members of the bloc itself).

36 European Commission, *European Economy* (Luxembourg), Supplement A, Nos.3/4 (March/April 1998), p. 12.

Even before introduction of the single currency, trade and capital restrictions within EU were progressively eliminated and the harmonization process has greatly reduced macroeconomic differences among the countries. Indeed, there has been a remarkable convergence in macroeconomic policy and performance since the move towards the Single European Market began in July 1987. Among EUR11, inflation in 1988 ranged from 0.5 to 11.5 per cent; in 1997, the range was from 1.3 to 2.2 per cent (see table III.2). The range of long-term interest rates in 1988 was from 6.7 per cent to nearly 14 per cent; in 1997, the range was from 5.1 per cent to 6.6 per cent. Budget positions have also converged. Most dramatically, Italy's budget deficit was cut from nearly 11 per cent of GDP to less than 3 per cent.

The synergies of this large and increasingly harmonized market are expected to take a dramatic leap forward with the introduction of the single currency. Investment is expected to be boosted, including incoming FDI, as businesses begin to sell to a potentially vast pool of buyers using a single, fully convertible and widely traded currency. At the same time, EU is adopting policies to improve the functioning of markets, particularly labour markets, that are to make EU more investor-friendly, albeit, many argue, at the expense of weakened social protection for labour. The anticipated return for the higher risk of unemployment is to be faster growth of productivity, wages and average employment levels.

Monetary union is expected to revolutionize EU financial markets. Beginning in 1999, Governments of EUR11 will start issuing their debt in euros and will begin to re-denominate much of their existing debt stocks. By 2002, all their debt will be re-denominated, as will other securities. The citizens of Europe—and of other countries—will find a wide range of instruments issued by different countries and companies, all denominated in a single currency and many traded on various national financial markets, which will increasingly merge into an integrated European market.

Moreover, macroeconomic policy guidelines have been constructed with a view to ensuring that the monetary union remains an area of low inflation and fiscal conservatism. The Maastricht Treaty on European Union stipulated that ESCB was to be independent. Neither ECB, participating national central banks, nor any member of their decision-making bodies is allowed to seek or take instructions from community institutions or bodies, from any Government of a member State or from any other body (article 107 of the Maastricht Treaty). While ESCB is independent, its primary objective is clearly specified: "to maintain price stability" yet, "*without prejudice to the objective*" (empha-

Table III.2.
ECONOMIC CONVERGENCE IN THE EUROPEAN UNION, 1997 VERSUS 1988

	Inflation[a] (annual percentage change)		Budget position (percentage of GDP)		Nominal long-term interest rates (annual percentage rate)		Unemployment (percentage of labour force)	
	1988	1997	1988	1997	1988	1997	1988	1997
EUR11								
Austria	1.6	1.9	-3.0	-2.5	6.7	5.7	3.6	4.5
Belgium	1.2	1.7	-6.8	-2.1	7.9	5.8	8.9	9.5
Finland	4.6	1.3	4.1	-0.9	10.6	4.9	4.4	14.0
France	2.6	1.3	-1.7	-3.0	9.0	5.6	9.8	12.6
Germany	1.4	2.1	-2.2	-2.7	6.1	5.1	6.2	9.7
Ireland	4.0	1.4	-4.5	0.9	9.4	6.5	16.1	10.2
Italy	5.9	2.2	-10.7	-2.7	12.1	6.6	10.0	12.2
Luxembourg	2.8	1.6	..	-1.7	7.1	5.4	2.0	3.7
Netherlands	0.5	2.1	-4.6	-1.4	6.3	5.8	7.5	5.4
Portugal	11.7	2.2	-3.6	-2.5	13.9	5.5	5.5	6.4
Spain	5.0	2.1	-3.0	-2.6	11.7	5.9	19.5	20.9
Other member countries								
Denmark	1.4	2.1	0.6	0.7	10.6	6.3	6.1	6.2
Greece	14.2	6.0	-11.5	-4.0	16.6	10.8	6.8	9.5
Sweden	6.1	1.8	3.5	-0.8	11.4	6.6	1.9	10.2
United Kingdom	5.0	2.4	0.7	-1.9	9.3	7.1	8.7	7.2
EU average	3.9	2.1	-3.1	-2.4	9.1	5.9	9.1	10.7

Sources: Statistical Commission of the European Communities (Eurostat), *EC Economic Data Pocket Book*, No. 2, 1998; Eurostat, *Money and Finance*, various issues; and European Commission, *Convergence Report* (Brussels, 1998). All statistics are according to Eurostat definitions.

a Price deflator of private consumption.

sis added), to contribute "to the achievement of the (other) objectives of the Union as laid down in article 2" (of the Treaty).

Governments in EU remain sovereign, but fiscal policy is constrained by the EU-wide Stability and Growth Pact, which was agreed at the European Council meeting in Dublin in December 1996. That the Pact requires EU member countries to keep general government budget deficits below 3 per cent of GDP under most circumstances effectively necessitates near-fiscal balance or a surplus over the medium term so as to avoid exceeding the 3 per cent limit during difficult periods. As noted in chapter II, this factor, coupled with the single-focus monetary policy, reduces the ability of individual EUR11 Governments to respond to adverse economic shocks; EU collectively will also have little institutional means to respond. Here lies an important source of vulnerability in the new European economy and a part of the unfinished business in the development of EU.

A new international money

On 1 January 1999, when the economies of EUR11 introduce their new currency, the world economy will also have a new currency to use in international transactions. It may use the euro for the invoicing of international trade flows and as an investment and reserve currency.

The euro can also serve as a new currency peg. Indeed, a number of developing and transition economies have tied their exchange rates to the national currency of one or another EU member State. Fourteen francophone African countries use the Communauté financière africaine (CFA) franc, which is presently pegged to the French franc (see box III.2). The economies of Central and Eastern Europe, particularly the 10 countries that have applied for EU membership and that have seen very major shifts in the direction of their trade flows towards EU, are tied tightly to the deutsche mark or a basket of European currencies. Bulgaria and Estonia presently operate currency boards based on the deutsche mark. All will need to adjust their policies when 1999 begins.

One of the currencies due to disappear, the deutsche mark, is, next to the dollar, the most widely used currency both for denominating private sector securities and as a reserve asset for central banks.[37] The euro will presumably take over this role from the deutsche mark and the other major EU national currencies and compete with non-European currencies, particularly the dollar, performing similar functions.

37 See Deutsche Bundesbank, "The role of the deutsche mark as an international investment and reserve currency", *Monthly Report*, April 1997, pp. 17-30.

Unit of account

One aspect of being an international money entails serving as a unit of account. Normally, internationally active enterprises prefer to invoice their transactions in their own currencies, thus avoiding conversion costs and the possibility of losses from exchange-rate changes or the costs of hedging against such losses. Thus, in 1992, 92 per cent of United States exports were invoiced in dollars and 77 per cent of German exports were in deutsche marks (although only 40 per cent of Japanese exports were in yen).[38] With the arrival of monetary union, EU firms are likely to invoice increasingly in euros.

38 Richard Portes and Hélène Ray, "The emergence of the euro as an international currency", *Economic Policy: A European Forum*, No. 26 (April 1998), p. 316.

Globally, almost half of total export invoicing is in dollars, while one third is in one of the five main EU currencies. The share of the euro will exceed that of its predecessor currencies, since all the trade among EUR11 will be invoiced in euros and its external trade will likely be increasingly invoiced in euros as well. Certainly, firms in neighbouring countries, particularly those in Central and Eastern Europe for which EU has become the dominant trading partner, may be expected to adopt the euro as a unit of account for trade with EU as well as among themselves, as may multinational enterprises that trade mainly with Europe.

Means of exchange

The role of the euro as an international means of payment will be reflected in its turnover in foreign exchange markets. The average daily turnover in the world's foreign exchange markets in April 1995 was estimated to be $1,137 billion.[39] This total may be divided into the three main foreign exchange instruments: about $494 billion for spot transactions, $97 billion for simple forward foreign exchange transactions and $545 billion consisting of foreign exchange swaps. The dollar dominates the global market for all three classes of instru-

39 Bank for International Settlements, *Central Bank Survey of Foreign Exchange and Derivatives Newest Activity 1995* (Basel, May 1996), table 1-A.

Box III.2.

THE CFA FRANC ZONE IN 1999: A NEW PEG BUT NOT A NEW REGIME

Since 1948, several African countries have pegged their common currency, the Communauté financière africaine (CFA) franc, to the French franc. The latter currency will begin to disappear and be replaced by the euro, as France and 10 other member States of the European Union (EU) introduce on 1 January 1999 the monetary integration phase of their Economic and Monetary Union (EMU). The African countries and France have had to decide how to reset the peg.

The CFA franc is, first of all, more than the currency of 14 separate African countries; it is a central part of two regional integration schemes. One is the Union économique et monétaire Ouest-africaine (UEMOA), linking eight countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau (which joined the franc zone in 1997), Mali, the Niger, Senegal and Togo. The other is the Communauté économique et monétaire d'Afrique Centrale (CEMAC), comprising six countries: Cameroon, the Central African Republic, Chad, the Congo, Equatorial Guinea (which entered the zone in 1985) and Gabon.[a]

Although trade within each economic and monetary grouping has been rather small, it has increased over time, in particular since the (one and only) devaluation of the CFA franc in January 1994.[b] Moreover, the two groups have been taking policy steps to enhance integration within their regions. Thus, institutional development has been deepening in UEMOA, as evidenced by the creation of an executive commission, a court of justice and fiscal surveillance. In CEMAC,[c] tax and tariff harmonization is progressing. In addition, customs duties were cut in CEMAC in July 1997 and abolished on 1 January 1998. In UEMOA, they are to be eliminated in the year 2000.

The peg of the CFA franc has been maintained by the central banks of each region, in an arrangement with the French Treasury. The Government of France guarantees the convertibility of the CFA franc into French francs at the pegged rate through an operations account at the Treasury, which pools the foreign exchange reserves of the member countries, and through which France can extend overdraft credit to the CFA central banks. Technically, there is no constraint on the continuation of this arrangement past 1 January 1999, other than the change of the peg.[d]

The Governments of the countries of the CFA franc zone and France have indicated that they intend to keep the exchange rate vis-à-vis France unchanged when the peg is shifted to the euro. The parity of the CFA franc to the euro thus depends on the conversion rate of the French franc to the euro, which would be fixed in perpetuity on 1 January 1999. However, will this be the most desirable exchange rate for the CFA franc zone?

Before the CFA franc was devalued in January 1994, the currency had become substantially overvalued and the exchange rate could no longer be sustained by the French Treasury.[e] Since the devaluation, the exchange rate has not been changed. However, because the value of the French franc has changed against the currencies of other trading partners of the CFA franc zone and because of domestic price inflation, the inflation-corrected average exchange rate of each of the countries in the CFA franc zone has appreciated. As calculated by the International Monetary Fund (IMF), the "real effective exchange rates" (REERs) of the CFA franc zone countries had risen from January 1994 until the end of 1995 by between 17 and 51 per cent. The REERs then remained roughly constant until the third quarter of 1997. Data are

a In fact, each grouping has a separate currency, although both currencies are known as the CFA franc. In UEMOA, the currency is issued by the Banque centrale des États de l'Afrique de l'Ouest (BCEAO), and CFA stands for "Communauté financière de l'Afrique". In CEMAC, the currency is issued by the Banque des États de l'Afrique centrale (BEAC) and CFA stands for "Coopération financière africaine". In addition, the Comoros pegs the Comorian franc to the French franc.

b See International Labour Organization, "Devaluation of the CFA franc four years on: economic integration and employment on the agenda", *International Labour Review*, vol. 136, No. 3 (autumn 1997), pp. 401-417.

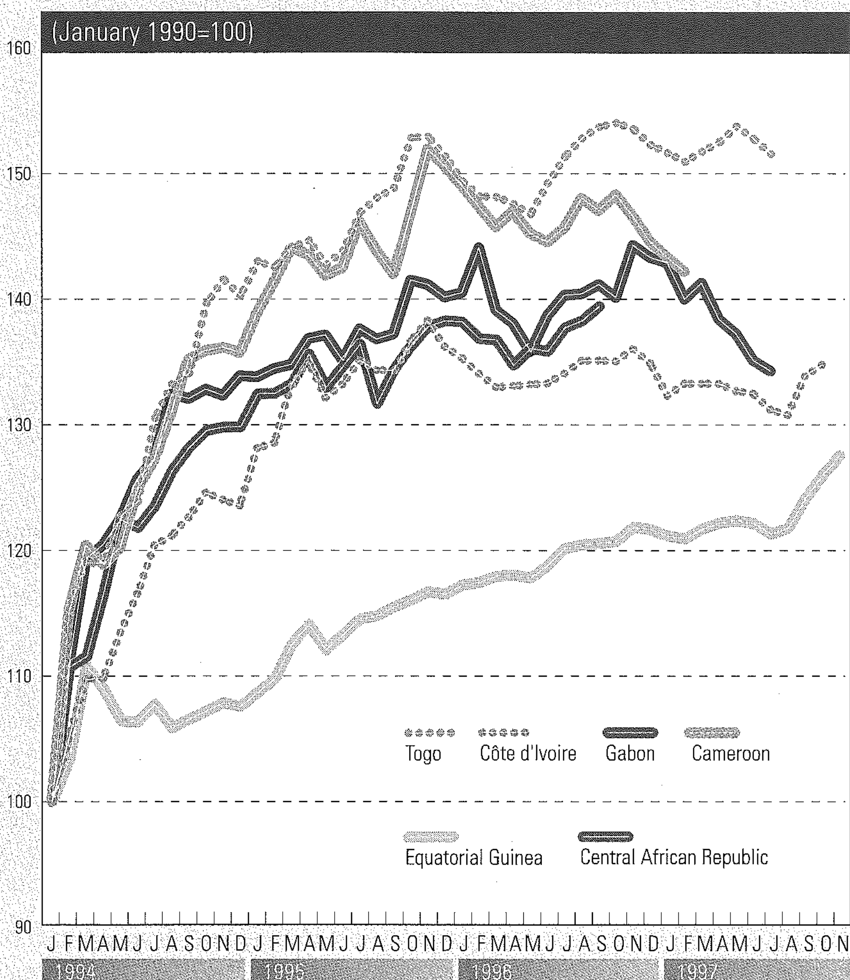
c CEMAC replaced the Union douanière et économique de l'Afrique centrale (UDEAC) in February 1998.

d Had the arrangement operated through the French central bank, continuation would have been more complicated, as many of the functions of the Banque de France will be transferred to the new European Central Bank (see Michael T. Hadjimichael and Michel Galy, *The CFA Franc Zone and the EMU*, IMF Working Paper, No. WP/97/156 (Washington, D.C., November 1997); and John Berrigan and Hervé Carré, "Exchange arrangements between the EU and countries in Eastern Europe, the Mediterranean and the CFA Zone", in *EMU and the International Monetary System*, Paul R. Masson, Thomas Krueger and Bart G. Turtelboom, eds. (Washington, D.C., IMF, 1997), pp. 122-135).

e See *World Economic and Social Survey, 1994* (United Nations publication, Sales No. E.94.II.C.1 and corrigendum), box II.3.

REAL EFFECTIVE EXCHANGE (REERs)
OF SELECTED AFRICAN COUNTRIES, 1994-1997

Box III.2 (continued)



Source: IMF, *International Financial Statistics*, April 1998.

available for only a few countries beyond that point, but for them the REERs started to rise again (see accompanying figure). Total appreciation of the REER in the franc zone countries from January 1994 until the end of 1997 varied from 28 per cent in Equatorial Guinea to 52 per cent in Togo (as of July 1997). A case might thus be made for taking advantage of the need to change the peg in January 1999 and devalue. Indeed, there are indications that something of this sort was feared in some of the franc zone countries in the spring of 1998.

One could go further, however, and ask whether the resetting of the peg might be an opportunity to further redefine it in order to better reflect the trade of the franc zone countries. These countries are for the most part exporters of commodities and are largely price takers in global markets that operate in dollars. Their trade is also almost evenly divided between countries that are likely to be linked to the euro and those that will not be so linked. For example, in 1995-1997, France absorbed 12 per cent of the exports of the franc zone and the rest of EU about 30

Box III.2 (continued)

per cent; intra-zonal trade accounted for less than 7 per cent of the total.[f] An appreciation of the euro against the dollar would reduce the export earnings (and export incentives) of CFA franc zone countries, and put an extra burden on import-competing sectors (for example, food and some local manufacturing). A depreciation of the euro would have the opposite effect. In either case, the change in the exchange value of the euro, and hence of the CFA franc, would have nothing to do with the balance-of-payments needs of the CFA franc countries.

One solution might be to peg the CFA franc to a basket of currencies. This, however, would be difficult to engineer under the present arrangements. The peg of the CFA franc to the French franc has been guaranteed through commitments involving the national currency of France. While the commitments entailed a possible budgetary drain on France, they did not encumber French foreign currency reserves. This will still be the case after the peg is shifted to the euro. However, a multi-currency peg for the CFA franc would all but have to be defended by a mixed portfolio of foreign currency reserves, which would require a radical reform in the exchange-rate and reserves management of the regional central banks and reduce their ability to rely on French support.

Not surprisingly, announced policy is to neither alter the exchange-rate regime nor devalue the CFA franc. The priority is, instead, to maintain the stability in the external environment, at least in that part of it accounted for by the considerable economic and financial relations with the euro area. The risk in this strategy is the same as in the peg to the French franc: with higher inflation in the CFA franc countries than in EU and with the possible strengthening of the euro against the dollar, there will be a loss of international competitiveness. In addition, if there is a high degree of volatility in the euro/dollar exchange rate, which some fear, it would give variously changing signals to enterprises in the CFA franc zone. However, in the view of others, these risks are overrated and are not sufficient reason to abandon a set of relationships and support mechanisms that are well known and have served over a long period of time.

f Based on data of IMF, *Direction of Trade Statistics*, April 1998.

ments, accounting for over 35 per cent of all spot transactions, just under 40 per cent of forward deals, and nearly 50 per cent of swaps. For each of these markets, the share accounted for by all the currencies in the European Monetary System (EMS) and its own European currency unit (ECU) was 42 per cent, 33 per cent and 28 per cent, respectively. The yen's share of each type of transaction was considerably lower: 11 per cent, 14.5 per cent and 12.5 per cent, respectively. The share of all other currencies was also small: 11 per cent, 13 per cent and 12 per cent, respectively. With the euro replacing the national EU currencies, dealings in foreign exchange markets are likely to become tripolar, dominated by the dollar, the euro and, to a much smaller extent, the yen.

Store of value: the euro as an official reserve asset

In 1990, about half of the world's foreign exchange reserves were held in dollars. The dollar's share has since risen to just under 60 per cent of the total (as of 1996), reflecting the surging growth of trans-Pacific trade, with about one quarter of official reserves left to be held in EU currencies and the ECU (about 6 per cent of reserves are held in yen).[40] As the reserves denominated in EU currencies are mainly held in the form of government securities, they will

40 IMF, *Annual Report 1997* (Washington, D.C., 1997), table I.2.

automatically be converted into euros as EUR11 re-denominates its official debt in 1999.[41] The euro thus automatically enters into the reserves portfolio of non-EUR11 countries. In addition, non-EUR11 countries may decide to increase the share of their reserves in euro assets, as euro reserves will have greater liquidity than any of the predecessor national currencies, owing to the economic area for which the euro serves as the local currency.

Countries that peg their exchange rates to the euro will find it convenient to hold euros for intervention in foreign exchange markets in order to smooth out market volatility around the peg. This applies in particular to Denmark, Greece and Sweden, which are staying outside the monetary union and might participate in a successor to the EU's exchange-rate mechanism (ERM II).[42] It also applies to the countries that have applied to join EU and that have pegged to the deutsche mark in recent years.

Whether the total reserve holdings of euros rise or fall after the initial conversion, the total holdings of dollars in foreign currency reserves are likely to fall eventually. This is mainly because ECB will need to maintain smaller reserves than the sum of the reserves that were needed by the central banks that issued the predecessor currencies before 1999. The exchange rate of the euro will fluctuate against all other international currencies—even if exchange-rate movements are sometimes dampened—whereas the 11 national central banks pledged themselves to defend a fixed set of currency pegs vis-à-vis each other.

The national central banks will have to transfer initially 50 billion euros worth of foreign exchange to ECB and this will make up the initial foreign currency reserves of EUR11. Members will be subject to calls for further contributions, but holdings of foreign exchange under national central bank control will no longer themselves function as foreign currency reserves. Use of the foreign reserves remaining in the ESCB central banks will be subject to ECB approval to ensure that their use does not conflict with the exchange rate or monetary policies of the area; but these funds will not be needed for their traditional purpose of national exchange rate management and are likely to be reduced over time.

The risk of the excess dollar holdings' being liquidated rapidly seems slight, however, as this might cause a sharp fall in the value of the dollar and central banks would want neither to disrupt foreign exchange markets nor to sell their dollars into a falling market. The large dollar holdings do, though, call for cooperation between the United States Federal Reserve and ECB and the member central banks of ESCB in order to ensure an orderly transition.

Store of value: private demand for euro assets

It is expected, then, that the central bank portfolios of reserve currency assets will be re-balanced, but, in addition, that private portfolios will increasingly contain euro assets. As already noted, the euro is expected to revolutionize the financial markets of EUR11. The creation of the euro is occurring alongside major policy and market changes across European financial markets. Transparency is growing and regulatory practices are being harmonized, reducing market fragmentation. The range of products offered in EU financial markets is also growing, as financial centres such as Frankfurt, Paris, Milan and London compete with each other. For example, the number of maturities offered in government bond markets is being expanded to produce a more con-

41 The reserves of EUR11 itself will automatically shrink when the euro era begins, because the holdings by the 11 national central banks of securities and deposits in the currencies of other EUR11 countries will be converted from foreign into local currency (the euro) and thus no longer count as foreign reserves.

42 The United Kingdom has stated that it will not enter the mechanism in the near future.

tinuous range of maturities—and a smoother yield curve—from very short term debt to long-term debt. In addition, there is a growing competition between security financing and traditional commercial-bank financing, and a substitution of the former for the latter.

The depth and liquidity of euro-denominated financial markets may thus be expected to increase further, as the euro removes the exchange-rate risk for investors from within the euro area. While exchange-rate risk will remain for those outside the euro area, the increased liquidity of euro-markets will greatly increase the attractiveness of euro-denominated financial instruments for both borrowers and lenders in the rest of the world.

This will be the case especially if the United Kingdom enters the monetary union. The United Kingdom financial market is particularly important because of its great size and liquidity. An international investor generally prefers to enter a market where a large number of buyers and sellers are operating, so that there is no shortage of potential participants to complete a transaction, and where transactions are typically of such magnitudes that any single purchase or sale the investor makes will not disrupt the market. London already satisfies those criteria for a wide range of financial instruments. Indeed, considerable trading of euro-denominated securities can be expected in London even with the United Kingdom outside the euro area.

With the changes under way in the internal organization of financial markets in the countries of the monetary union and parallel changes in London, global borrowers and lenders will be able to access an integrated financial market which will be the second biggest in the world after that of the United States. This euro-market may thus be expected to play a more important role in the disposition of global savings than is currently being played by the markets of individual EU member States.

The increased competition for savings, the potential efficiency gains from market integration and the wider product range of financial instruments are also expected to produce some lowering of transaction costs for non-EU issuers and buyers of debt instruments. Both developed- and developing-country issuers of international debt, whether public or private sector, stand to gain from having the choice of issuing debt denominated in the currency of an increasingly integrated and liquid market. These changes are already beginning to influence the borrowing strategies of developing countries, as witnessed by the recent growth in the volume of euro-fungible debt issues.[43]

Dollar-denominated instruments currently dominate the shorter end of the maturity structure in international issues, accounting for 60 per cent of money market instruments. Instruments denominated in EUR11 and in the other EU currencies (including ECU denominations) account for 16 per cent and 22 per cent, respectively, of the international market. The yen accounts for about 3 per cent of the market. However, in the international bond and note market, the dollar accounts only for approximately 40 per cent. The share denominated in ECU or EUR11 currencies accounts for a further 25 per cent which rises to 33 per cent in the case of EU-15. The share of the yen is 16 per cent.

All in all, the euro is thus expected to increase its share of global financial markets, primarily at the expense of the dollar. Estimates of the size of the possible shift vary considerably.[44] A rapid change would, other things being equal, produce a sharp fall in the value of the dollar vis-à-vis the euro. A more gradual re-balancing would be more benign and appears more likely, as noted above

43 See Bank for International Settlements, *International Banking and Financial Market Developments* (Basel, November 1997), p. 20.

44 For instance, Bergsten reports a range of $100 billion-$300 billion as the likely shift in official reserves and a further $350 billion-$700 billion global shift in private portfolios containing bank deposits, bonds and notes. Thus, the total shift due to global portfolio re-balancing could be in the range of $500 billion to $1 trillion. Total official reserves excluding gold in March 1997 were $1,837 billion and Bergsten estimated that, excluding intra-EU holdings, global holdings of international financial assets, including bank deposits and bonds, were about $3.5 trillion (see C. Fred Bergsten, "The impact of the euro on exchange rates and international policy cooperation", in *EMU and the International Monetary System*, Paul R. Masson, Thomas Krueger and Bart G. Turtelboom, eds. (Washington, D.C., IMF, 1997), p. 30).

in the case of the disposition of excess EU holdings of dollar reserves. In the case of bonds, the main reason for a gradual change is that some time may be required before continental European bond markets deepen sufficiently to be attractive to large numbers of international investors.

When that does happen, European Governments will be able to share in the lower interest rates that the United States Government currently enjoys as a result of the international demand for United States Government bonds and notes. Another consequence of this portfolio shift from dollar to euro-denominated assets is that it would reduce the quantity—or the growth of the quantity—of dollars that are held outside the United States. Those dollar balances represent an interest-free loan to the United States, although the value of this seigniorage to the United States economy as a whole is small—about 0.1 per cent of United States GDP.[45] If the euro were increasingly held outside EU, this would represent a net gain to the Union, and a switch from external dollar balances to external euro balances would reduce the seigniorage enjoyed by the United States. As a share of the GDP of EUR11 and the United States, however, the amounts of the shifted seigniorage would be quite small.

45 Portes and Ray, loc. cit., p. 309. For a fuller discussion of seigniorage, see *World Economic and Social Survey, 1997: Trends and Policies in the World Economy* (United Nations publication, Sales No. E.97.II.C.1 and corrigenda), chap. V, subsect. entitled "The special case of the central bank".

Exchange-rate volatility?

While the euro will completely eliminate exchange-rate instability among EUR11 countries, implications for the stability of exchange rates between the euro and the currencies of the rest of the world are less clear. For example, instability might increase if the sharp fall in the share of "external trade" in the GDP of the monetary union influenced policy makers. As indicated earlier, the share of extra-EU imports in the GDP of EU will be of the same order of magnitude as the corresponding share for the United States, about 10 per cent. Because of the small trade share, policy makers in the United States have on occasion taken a "benign neglect" approach to exchange rates, which EUR11 authorities might thus also take from time to time.

In the case of the United States, benign neglect meant that monetary policy targeted domestic monetary conditions and the exchange rate adjusted to resolve inconsistencies between monetary and fiscal policy. However, it is easier to pursue a policy of benign neglect where there are few close substitutes for holding the country's assets. It becomes a less viable policy when expectations of exchange-rate changes may generate large capital flows into or out of assets in other currencies.

In EU, as noted above, monetary policy will seek price stability as its primary goal. The question is thus whether the independent Governing Council of ECB will take into account the exchange-rate implications of its monetary policy and seek stability between the euro and the other major currencies. ECB is not, however, the only decision maker in this realm. There are other official actors who are not independent of the EU Governments, namely, Ecofin, which is the Council of Finance Ministers of EU, and Euro-11. Whereas Ecofin is the prime forum for macroeconomic policy coordination within the Union, Euro-11 is the informal meeting of the 11 finance ministers of the countries participating in the monetary union.[46]

46 When discussing issues related to the operation of the monetary union, such as exchange-rate policy of the euro vis-à-vis the dollar, Ecofin will not include the finance ministers of the four non-participants, that is to say, it will sit as Euro-11.

At this point it is not possible to say how relations between these various bodies will evolve. However, article 111 of the Maastricht Treaty foresees the possibility that the Council, after consulting with ECB in an endeavour to reach a consensus consistent with the objective of price stability, and after consulting the European Parliament, may conclude formal agreements on an exchange-rate system for the euro in relation to non-Community currencies. In the absence of such formal agreements, again after consulting ECB, or on a recommendation from ECB, it could formulate "general orientations for exchange-rate policy" in relation to other currencies.

An informal meeting of Ecofin ministers at Mondorf, Luxembourg, in September 1997, reached broad agreement on the divisions of responsibility: ECB would "ordinarily" be in charge of exchange-rate policy, while Ecofin ministers would become involved only if there were overriding political reasons or during financial crises. The prospect for volatility, then, seems to depend on how these principles are put into practice as ECB begins operations; but it also depends on whether there is a smooth transition to new arrangements for international consultation and coordination among the major currency countries.

International monetary coordination

EMU presents a number of institutional questions concerning the future governance of the international monetary system. The central consultative mechanism that operates today evolved out of the series of annual economic summit meetings of the seven major industrialized countries (the Group of Seven) that stretched back to the mid-1970s.[47] The Group of Seven macroeconomic process is a governmental one, managed by finance ministers, in which central banks also participate. The Group of Seven consists of three members of the coming monetary union (France, Germany and Italy), the United Kingdom, an EU member outside the euro area, and Canada, Japan and the United States. Representatives of the European Commission also participate and it can be expected that the President of ECB will have an important voice in the Group of Seven.

The creation of the euro will also raise several issues for IMF, including what role the euro should play in Fund operations and how the currency composition of the SDR, the IMF's unit of account, is redefined. The SDR is at present both a currency-based and a country-based basket, containing the currencies of the five members with the largest levels of exports of goods and services. It is currently composed of dollars, deutsche mark, yen, French francs and sterling. The introduction of the euro raises the question whether the weight to be assigned to the euro should be based on the non-euro area exports of the countries whose currencies will disappear, or the non-euro area exports of all EU members, or some other criterion.

The regular surveillance of the macroeconomic policies of EU members by IMF will also need some adjustment. It will no longer be relevant to include discussions on exchange-rate matters in the annual consultations with national authorities in EU, as the independent ECB will determine monetary policy—and it will do so not with a view to any one member's economic situation, but rather with a euro-area perspective. Surveillance of exchange-rate policy would appear, though, to require consultation with the bodies that will have responsibility for monitoring economic policy, namely ECB, Ecofin, and Euro-11, the latter two being assisted by the Economic and Financial Committee.[48] It will remain an internal matter for EU to decide how euro-area members are to be represented in IMF Executive Board discussions of exchange-rate policy involving the euro.

47 See C. Fred Bergsten and C. Randall Henning, *Global Economic Leadership and the Group of Seven* (Washington, D.C., Institute for International Economics, 1996).

48 The Economic and Financial Committee replaces the EU monetary committee that prepares Ecofin meetings. It is made up of national treasury officials, central bankers and two members of the European Commission. It is, *inter alia*, charged with keeping under review the economic and financial situation of the member States and of the Community, reporting regularly on financial relations with third countries and international institutions, and examining, at least once a year, the situation regarding the movement of capital and the freedom of payments (article 114 of the Treaty of Amsterdam Amending the Treaty on European Union, the Treaties Establishing the European Communities and Certain Related Acts).

Conclusion

On creation, the euro will become the second most important reserve currency. The introduction will introduce "a clear hierarchy of currencies" with a distinction between the three reserve currencies, the dollar, euro and yen, and all other currencies.[49] The three reserve currencies will float against each other, but a European policy of benign neglect appears unlikely in an increasingly integrated and liberalized world financial system where expectation of exchange-rate movements can result in large capital flows. ECB can be expected to take the desirability of exchange-rate stability into account as it fulfils its mandate of seeking price stability within Europe. For instance, it would not be fulfilling its obligation to help the Community achieve a "high level of employment" if the exchange rate were to appreciate so sharply as to render large sections of European industry uncompetitive.

Internationally, the euro raises the profile of Europe in global monetary policy. However, as its negotiating partners have found on numerous occasions in the past, the internal decision-making processes of EU can be complicated and lengthy. Nonetheless, these processes have finally arrived at what even a few years ago seemed difficult to achieve: working arrangements for monetary union acceptable to all participants. Similarly, in time changes might be sought in the international monetary system that will make exchange rates between the euro and the other currencies more stable, without a reversion to fixed exchange rates.

THE GLOBAL SHOCK FROM THE ASIAN CURRENCY CRISIS

The Asian currency crisis of 1997-1998 was unexpected and became far worse than imagined when it began. By the time the international financial panic had largely run its course in early 1998, participants in global financial markets were in shock, as were the people in the "emerging market" economies who, as the Deputy Prime Minister and Minister of Finance of Malaysia described it, saw themselves suddenly go from *paradiso* to *inferno*.[50] The Asian crisis has prompted considerable reflection, criticism and proposals for reform at both the national and the international level. It seems to have been one of those defining sets of events that change the thinking around the globe about a policy matter. The ensuing discussion reviews some of the difficulties and controversies associated with the Asian crisis.[51]

The crisis in Asian "emerging economies": the problem, the medicine, the controversy

The Asian currency crisis erupted on 2 July 1997 when the Government of Thailand could no longer defend the peg of the Thai baht to the United States dollar.[52] The Government suspended 16 non-bank financial institutions in late June, underlining the fragility of the Thai financial sector, into which a great deal of foreign funds had flowed. On 5 August, after the exchange rate of the baht had fallen more than 25 per cent against the dollar, the Government introduced a comprehensive economic reform programme which had been designed in conjunction with IMF, and as part of which it suspended the operations of another 42 financial institutions. Later that month, the programme was financially backed

49 See Jacques Polak, "The IMF and its EMU members", in *EMU and the International Monetary System*, Paul R. Masson, Thomas Krueger and Bart G. Turtelboom, eds. (Washington, D.C., IMF, 1997), pp. 491-511.

50 Datuk Seri Anwar Ibrahim, statement to the special high-level meeting of the Economic and Social Council of the United Nations with the Bretton Woods institutions, 18 April 1998 (see E/1998/SR.4).

51 The present section draws on a large and rapidly growing literature on the East Asian crisis and the unprecedented amount of documentation provided to the public by IMF on its Internet Web page (see www.imf.org). The analysis has also benefited from discussions with IMF, although the views expressed are those of the Secretariat of the United Nations and not necessarily those of the Fund.

52 The review and assessment of the Asian crisis presented here is perforce concise. For a fuller discussion, see *Economic and Social Survey of Asia and the Pacific, 1998* (United Nations publication, Sales No. E.98.II.F.59), chap. III, sect. entitled "The crisis in East and South-East Asia".

by a standby arrangement with the Fund which, when complemented by other official lenders, entailed a pledge of over $17 billion in support.

Two aspects of the IMF programme stand out. One was the substantial amount of money pledged and the broad grouping of contributors, comprising Japan; Australia; Brunei Darussalam; China; Hong Kong, China; Indonesia; Malaysia; the Republic of Korea; Singapore; the Asian Development Bank; and the World Bank, as well as IMF. The other was the content of the reform programme. In addition to macroeconomic and financial sector reforms, a set of structural initiatives was promised "to increase efficiency, deepen the role of the private sector in the Thai economy, and reinforce its outward orientation, including civil service reform, privatization and initiatives to attract foreign capital".[53] Investors had put large amounts of funds into Thailand over the years believing it to be a dynamic, open and rapidly growing economy. The message that investors took from the new reform programme was that Thai development had fallen into deep trouble.

53 See IMF, "The IMF's response to the Asian crisis", April 1998, box 2 (available on the IMF Web site at www.imf.org/External/np/exr/facts/asia.htm).

The Thai adjustment programme

In some respects, Thailand appeared to be facing a typical balance-of-payments crisis in July 1997: the current-account deficit had grown unusually large in 1995 and 1996, mainly owing to a series of adverse international trade and exchange-rate developments; the exchange rate had become overvalued, although the large deficit was easily financed with large capital inflows; the Government resisted advice to adopt the conventional response and devalue the exchange rate; and then, in the first half of 1997, official reserves—which had risen above six months' worth of imports by the end of 1996—were virtually exhausted in the effort to neutralize the repeated surges of foreign and domestic financial outflows from the country.

Except, Thailand did not look like a typical economy in a conventional balance-of-payments crisis. Inflation was not especially high (about 6 per cent a year since 1995), although the average inflation rate had been about half as high in much of the 1980s. The fiscal balance had been in surplus throughout the 1990s. Thailand was an increasingly diversified and relatively efficient producer of manufactures and services, as well as agricultural commodities. There was some concern about the level of education spending and a question of how smoothly Thailand would move "upmarket" to produce and design increasingly sophisticated goods as other, lower-income countries became more competitive in making standardized manufactures; but there still seemed to be some—if limited—time to address that issue. Domestic saving and investment were high; investment, especially in construction and real estate, was possibly too high. Infrastructure investment had not kept pace and vehicle traffic in Bangkok was notorious. However, there was no end to the numbers of international investors who wanted to bring funds to this politically stable, beautiful and open country, where incomes per capita had been growing more than 5 per cent a year for at least 20 years.

Suddenly, however, there was a large outflow of funds. In part, this reflected recent changes in the composition of capital inflows, as potentially volatile short-term credits had eclipsed the earlier dominance of FDI. The shift had been compounded by a Thai policy to establish an offshore financial centre, the Bangkok International Banking Facility, which eased local access to short-term foreign currency loans. Moreover, in the light of the depressed economic conditions and very low interest rates in Japan, falling interest rates in the other major economies (see table A.9), higher Thai interest rates and a stable exchange rate, Thailand was a magnet for international financial flows. As 1997 progressed, however, the stability of the Thai exchange rate became more and more uncertain and the funds began to flee.

During the period of easy availability of foreign funds, Thai companies and financial enterprises took on greater and greater foreign currency obligations that were largely left unhedged. Most foreign investors and Thai businesses had ignored the possibility of a major baht devaluation (the exchange rate had been about 25 baht per dollar for over a decade and had been close to 20 baht per dollar since the 1960s).

With funds thus pouring in, the foreign currency exposure of the economy grew rapidly. Indeed, one of the reasons it was difficult for the Thai authorities to take the decision to devalue was that they knew the foreign exposure of the financial sector had become excessive and many institutions would quickly be in financial difficulty once devaluation had raised the domestic currency cost of their foreign obligations. With hindsight, the Thai authorities needed to limit the growth of that exposure before it became excessive and they needed to communicate that need to the market before the situation reached the point at which the announcement would itself set off a panic. Thai regulation and policies could also be faulted on other grounds, as the non-bank financial institutions had taken on inappropriate degrees of domestic risk and several were already bankrupt before July 1997 (the real estate bubble burst in 1995 and the stock market crashed in mid-1996).

In short, the financial regulatory regime in Thailand had not kept up with the requirements of the increasing complexity and international integration of its financial markets resulting from financial liberalization. In this regard, Thai policy makers were not unique. There had also been important regulatory lapses in Japan and Latin America in the 1990s, in the United States at the end of the 1980s, and in numerous European countries. However, owing to Thailand's pegged exchange rate and the open access of Thai markets to international flows, including short-term banking and portfolio flows, Thailand was especially vulnerable to the consequences of under-regulation.

The economic difficulties in Thailand in mid-1997 could thus be characterized as a balance-of-payments crisis triggered by a loss of investor confidence in Thai assets, plus a weak and undersupervised financial sector. The financial sector problem required assessing the true state of the financial enterprises, consolidating the insolvent ones into a smaller number of viable ones, arranging liquidity and capital as appropriate to support the viable institutions, and bolstering the regulatory machinery and the regulations of Government. The balance-of-payments problem required some combination of increased exports and reduced imports, along with new capital inflows to finance the deficit while the trade adjustment took effect. The devaluation itself would promote the adjustment, as it raised the relative prices of—and thus incentives to produce—tradable goods. Official international support, as mobilized by IMF, was also needed to help finance the deficit in the short term, while private sector confidence was being restored.

Two other policy instruments, however, were also deployed and both were controversial. One was fiscal tightening, a mechanism whose importance was clear in countries with high levels of inflation brought about by the monetization of excessive fiscal deficits. The usual analysis links the balance-of-payments deficit to excess aggregate demand that originates in the Government's excessive spending and fiscal deficit. The Thai payments deficit was *ipso facto* evidence of excess demand and it seemed that fiscal tightening would ease that problem. Thus, the Thai adjustment package included steps to reduce government expenditures and raise taxes. While it had its supporters, that part of the Thai rescue package was immediately questioned. The fiscal balance had only just moved into deficit for the first time this decade, mainly owing to the economic slowdown.[54] Government austerity did not seem to be the answer since government profligacy had not been the problem. The source of the problem was in private sector decisions regarding expenditure and production.

The other controversial policy decision was to raise interest rates and tighten overall liquidity in the economy. Monetary tightening is indeed a policy that will reduce aggregate demand—in particular, private spending—and thus reduce a balance-of-payments deficit. It was also expected that increases in interest rates could change the minds of the people who had been moving their funds out of baht. Except that credit tightening in this case also created a major problem for Thai businesses, which not only had to make higher baht payments to foreign creditors and suppliers, owing to the devaluation of the baht, but also found it difficult and expensive to get new credit for operations.[55] With 58 financial institutions suspended from operating, with burgeoning financial debt-servicing obligations in terms of local currency, and with a broad loss of confidence in the financial sector, the economy needed more, not tighter, liquidity.

The expenditure and production switching that devaluation was supposed to set in motion required the normal access of enterprises to short-term credit. With the credit crunch, the result instead became production reduction, a major recession, and substantially more local bankruptcies than originally envisioned. In addition, interest rate increases did not bring back foreign funds. Increases in interest rates have achieved this in other countries and at other times, but they were simply overwhelmed by the psychological and economic environment of Thailand at that time.

Moreover, some of the adjustment measures entailed steps that were politically difficult to take. There was thus a lag in implementation, which did not help rebuild confidence. It was not until a new Government came into office some months later that the fate of the programme seemed secure. Indeed, the economy worsened more than had been anticipated in the August programme and it had to be revised in a new agreement with IMF in November. It had to be revised yet again in February 1998 as the economic outlook embodied in the November programme again turned out to have been excessively optimistic. The Government pledged in these revised programmes to accelerate plans to protect the weaker sectors of society and to deepen the social safety net. Meanwhile, the economy continued to spiral down and jobs evaporated.

Finally, in early 1998, the financial situation stabilized. The exchange rate, after falling to less than half its pre-crisis level against the dollar, began to rebound. As of April, however, the net depreciation was still more than 35 per cent of the pre-crisis level. The Thai stock market also began to recover, but equity prices in April were still only half their level in mid-1997 (and that had been 60 per cent under the level at the beginning of 1996). The real economy of incomes and jobs, moreover, had yet to change its downward trajectory (see chap. II).

54 The "consolidated" fiscal balance was weaker than the budgetary fiscal balance, owing to quasi-fiscal activities of the central bank, in particular those arising from its support of ailing Thai financial institutions. However, it does not follow that, if this was a problem, the solution was to squeeze the conventional budget rather than limit quasi-fiscal net expenditures (for background on these and related issues in measuring fiscal deficits, see *World Economic and Social Survey, 1997: Trends and Policies in the World Economy* (United Nations publication, Sales No. E.97.II.C.1), chap. V, sect. entitled "Which deficit matters? How small should it be?"

55 At the same time, given the importance of imported inputs in many categories of output, production was also hampered by the disappearance of trade credits.

Contagion and controversy

While the severity of the Thai crisis was unexpected, it was also surprising that variations of the Thai experience soon followed in other countries. The crisis of confidence that had brought down the baht quickly spread to Indonesia, Malaysia and the Philippines and it entrapped the Republic of Korea by the end of 1997. In each case, investors saw weaknesses where they had previously perceived strengths. They reduced their assets in local currencies—this was quickly reflected in stock market tumbles and credit withdrawals—and forced down exchange rates. In some cases, the main weaknesses were seen to be in the balance of payments (either the size of the current-account deficit or the potential volatility of its financing); in other cases, the primary concern was the domestic financial sector (involving questions of financial strength, political interference and protection of institutions, entanglement rather than arm's length relations with borrowing companies, and a lack of transparency in financial data and operations).[56]

A second source of contagion, at least for countries in South-East Asia, was the belief, once the baht was devalued, that the currencies of regional trading partners and competitors would also have to fall. This form of contagion was a main reason for the pressures on the currencies of Singapore, Taiwan Province of China, and Hong Kong, China.

In most of these latter cases, however, the economic situation did not deteriorate to the degree it had deteriorated in Thailand. Only Indonesia and the Republic of Korea required concerted international support, although the Philippines decided to extend and augment its existing IMF-supported programme; but, as in Thailand, the programmes of both the Republic of Korea and Indonesia were fraught with controversy and were revised at least twice.

Some observers saw in the programme of the Republic of Korea the adoption, under foreign pressure, of trade and investment policies that took the Republic of Korea beyond the concessions it had been willing to offer in international negotiating forums. Moreover, the policies pledged in the Republic of Korea's IMF agreement went beyond financial sector reforms and fiscal contraction (also controversial, as in Thailand) and included fundamental changes in government, business and labour relations. Regardless of whether or not these reforms were in any case wanted by the authorities of the Republic of Korea or the people, observers have questioned their being the subject of IMF agreements.[57]

The controversy on Indonesia has taken place on several fronts. The issue on one front was that, far from stabilizing the situation, the initial programme had contained measures that ignited a run on Indonesia's banks. The Government shifted public sector deposits from commercial banks to the central bank, which squeezed liquidity. In addition, in a system without deposit insurance, the agreed suspension of the operating licences of 16 troubled commercial banks depleted confidence and provoked massive efforts to move deposits from domestic to foreign banks. Critics have charged, moreover, that the programme did not address the business sector's difficulties in servicing its massive short-term foreign debt. With the continued fall of the rupiah, this became a major crisis in itself by January 1998 and in ensuing months, as the Government entertained unrealistic reform proposals that sapped confidence even more. By the end of April, however, Indonesia was working with IMF to develop a framework for resolving the problem with its foreign bank creditors.

56 There were instances of contagion outside the region, also associated with loss of investor confidence, for example, in the Czech Republic (which devalued before the baht, but after pressure on the baht had begun), the Russian Federation, Ukraine, South Africa (affecting especially the stock market) and Brazil (see Barry Herman and Krishnan Sharma, "Financial flows, financial crisis, financial policy needs", in *International Finance and Developing Countries in a Year of Crisis*, B. Herman and K. Sharma, eds. (Tokyo, United Nations University Press, 1998), pp. 15-20).

57 For example, a former Chairman of the Council of Economic Advisors of the United States President and present head of the National Bureau of Economic Research wrote, "The legitimate political institutions of the country should determine the nation's economic structure and the nature of its institutions. A nation's need for short-term financial help does not give the IMF the moral right to substitute its technical judgements for the outcomes of the nation's political process" (Martin Feldstein, "Refocusing the IMF", *Foreign Affairs*, vol. 77, No. 2 (March/April 1998), p. 27).

Perhaps the gravest problem in the case of Indonesia was its not being able to reach an agreed reform programme that could be implemented by the Government. IMF negotiations with Indonesia began in October 1997 and, despite various announcements of formal agreements and public signings of letters of intent, they cannot be said to have concluded by the close of work on the present *Survey* at the end of April 1998. Besides the standard components of adjustment programmes, major challenges were made to the economic strategy and policy operations of the Indonesian Government, and these policy differences were very difficult to bridge. Meanwhile, the social and political stakes mounted because of the effects on the country's large, vulnerable population (worsened by the weather disturbances associated with the El Niño phenomenon).

All during this period, IMF and other official actors in the international community were increasingly attacked in the media, by academic critics, by former government officials, and in certain legislatures. Some of the critics attacked the unprecedented $112 billion in official loans that IMF had mobilized from various sources to support the three countries, saying it was a bailout for foreign private lenders; other critics took issue with the policy programmes.

The latter critique focused on the sharply contractionary macroeconomic targets set for the Asian economies by IMF and the austerity that accompanied them. It was argued that they were irrelevant to the real problem, which was financial market failure owing to inadequate government regulation. The Chief Economist of the World Bank argued that the problem was not that Asian Governments had misdirected credit, but that they had failed to stop private markets from misdirecting credit.[58]

While the Fund agrees completely with the need for strengthened financial market supervision, it has maintained its strict macroeconomic prescriptions, albeit with an easing up, as the economies plummeted. The difficulty seems to be that once countries opt for fully open currency markets, they need to adopt macroeconomic policies that financial investors deem to be required and "austerity" appeared to be the first principle of adjustment in their view. According to the Managing Director of IMF, in a speech on 6 February 1998, "the first order of business was, and still is, to restore confidence in the currency", which is why interest rates had to be raised.[59] He argued that observers misperceived the IMF programmes in Asia: "the centrepiece of each programme is not a set of austerity measures to restore macroeconomic balance, but a set of far-reaching structural reforms...."

One aspect of these structural reform packages became particularly contentious, namely, the taking of steps towards full liberalization of financial and currency markets. The IMF Interim Committee, the Fund's ministerial oversight body, had decided in April 1997 to seek to amend the Articles of Agreement of the Fund so as to bring capital movements formally under its jurisdiction and make the liberalization of international capital movements "a central purpose of the Fund". The post-crisis statement of the goal was first detailed in a lecture during the September 1997 Annual Meetings of IMF and the World Bank in Hong Kong, China, delivered by the First Deputy Managing Director of IMF. He said that capital-account liberalization had to be phased appropriately, "which means retaining some capital controls in transition".[60] He favoured "market-based" controls, such as were maintained by Chile, over quantitative limitations on flows and he left unclear how long the transition would be.

58 Joseph Stiglitz, "More instruments and broader goals: moving toward the post-Washington consensus", The 1998 World Institute for Development Economics Research of the United Nations University (WIDER) Annual Lecture, Helsinki, 7 January 1998, pp. 2-3 of typescript.

59 Michel Camdessus, "The IMF and its Programmes in Asia", remarks at the Council of Foreign Relations, New York, 6 February 1998 (Stiglitz, in the above-cited lecture, argued that such interest rate increases could be "counterproductive" and worsen the crisis).

60 Stanley Fischer, "Capital account liberalization and the role of IMF", presentation to IMF Seminar on Asia and IMF, Hong Kong, China, 19 September 1997.

By the time of the 6 February speech of the IMF Managing Director (noted above), the statement on timing of capital-account liberalization had been further refined to a "properly sequenced and cautious liberalization". In his remarks at the 18 April special meeting of the Economic and Social Council, the Managing Director implicitly refined the timing even more, as he noted that IMF had sought to foster current-account liberalization for over 50 years, that there were still a number of countries with restrictions on current flows and that there was thus little reason to anticipate that capital-account liberalization could be accomplished quickly.[61] In short, it seems that if there once was an international consensus on a quick move to full capital-account liberalization, it has now disappeared.

61 See E/1998/SR.4.

Financial market views of the crisis: missed perceptions and market failures

Parallel to the questioning in policy-making circles, a deep concern arose in the private financial community. Those at the operational centre of the global financial system have found the Asian crisis an extremely troubling experience. Although their written commentary may not reflect it for reasons that are not difficult to imagine, their confidence was rudely shaken.[62]

62 The discussion in the present section is based on a study of New York market sentiment, derived from written commentary and analysis produced by large multinational banks, interviews with some of the major decision makers at these and other private sector financial institutions, newspaper reports and other sources, private and official. The assistance of market participants in this exercise, most of whom cooperated on condition of anonymity, is gratefully acknowledged.

Up to the very eve of the crisis, most market participants thought that the investment prospects in South-East Asia and the Republic of Korea were good. Short-term equity, bond and foreign exchange traders, long-term investment strategists, merchant bankers, economists, credit analysts, and credit rating agencies all generally thought that the investment outlook for the region was sound.

Market participants were aware that many of the financial systems in the region were not well developed or well regulated and that "cronyism" and corruption were a normal part of business practices in several countries. They knew that in many instances the local current-account deficits were sizeable, that external debt burdens were large and growing, and that the macroeconomic conditions and export performance in the region were not as positive as in the past. They were aware that the speculative activities in, and short-term capital inflows into, the region were becoming more pronounced. These market participants saw that signs of excess capacity and financial stress were emerging, particularly in Thailand and the Republic of Korea; and just ahead of the crisis, they understood that the fixed exchange rates of some of the countries were probably overvalued.

Nevertheless, market participants chose to *ignore* all of these considerations and to focus instead on the region's high growth and comparatively low inflation rates, the lack of significant budget deficits, the openness of the region's markets, the laissez-faire attitude of its businessmen, and the high rates of return that their past investments in the region had yielded. It was under these favourable perceptions that foreign capital continued to flow into several of the crisis countries well into the second half of 1997.

The financial crisis does not seem to have been induced by "moral hazard". If foreign traders and investors underestimated the actual risks, it was because they were genuinely sanguine about the outlook for the region, not because they thought that their investments would be guaranteed.[63] This is why most of

63 The Governments of Thailand and the Republic of Korea did offer certain assurances about bailouts when the crisis was already at hand, but these came very late and lacked credibility.

them left themselves exposed, why they subsequently panicked, and why the traders and securities investors incurred substantial losses.

The attitude of bankers, on the other hand, was more nuanced. Bankers deal more directly and over longer periods with borrowers than do purchasers of securities in markets, and they were keenly aware of informal relationships among the business, financial and government sectors. There was also a history from the 1980s debt crisis to lead bankers to believe that in time of difficulty Governments would step in. In the end they were right, as it was Governments that negotiated the formal and informal arrangements with the international banks to roll over and extend the loan maturities of the debts of their private sectors.

As of early 1998, the crisis began to abate in the sense that most exchange rates and stock markets in the Asian region stabilized. The crisis, however, had left considerable damage in the international markets. It traumatized many market participants. Foreign investors in East Asia panicked when they suddenly discovered that significant losses on their investments there were unavoidable.

The crisis damaged something more than just investors' confidence in a certain geographical part of the globe. Emerging markets were known to involve higher risk, but diversifying investments across many countries was supposed to dilute the risk. The shock that most market participants felt when they watched the financial contagion spread rapidly out from Thailand to the rest of East Asia and then to the global capital markets was palpable. The financial markets were crashing and beyond anyone's control, gripped by a set of forces that could not be resisted until they had run their course. Market participants saw that the international financial markets were not operating as a means for allocating capital efficiently across countries, but instead had become a mechanism for spreading financial panic from one nation to the next. The recognition that this was a private and not a public sector problem forced many market participants to question some of their most deeply held beliefs about how the globalized market economy worked.

Before the crisis, market analysts saw the emerging economies of East Asia as "doing everything right" and the risk of investing in those markets seemed manageable. In an age of "go-go" markets, these economies were praised both for their remarkable growth rates and, even more significantly, for the very high rates of return that they offered to local and foreign investors. When the East Asian countries collapsed into financial chaos in 1997, market participants were therefore compelled not just to reappraise the realities, but to question as well the validity of the current idealized model of what capitalism should be in the Third World. Since the emerging market economies that were "doing everything right" could go wrong, investors were left wondering, What was the right thing to do?

Market participants could make either of two responses to this disillusionment. One was to come to terms with the troubling question why, in the very emerging markets that were doing everything right, unregulated "free market" capitalism could bring about such a disastrous result. This led to questions about how the markets function and the need for countries to adopt market regulating policies. Alternatively, since market participants' beliefs about the viability of free markets were deeply held, they could doubt that the markets had ever been "free". According to this view, markets were never allowed to flourish in these countries because of "crony capitalism", moral hazard and the like. Here the problem was seen to lie not in the markets but in the countries, and people who argued this line saw the virtue in pushing towards more complete economic liberalization.

Yet even those who believed the problem lay in the countries had to ask why they had been blind to it. At least four problems connected with their strategies in the region must have become apparent. First, they had not seen that the Asian economies were in trouble and so continued to increase their financial exposure to the region until the last moment. Second, they had completely underestimated the aggregate market exposure that, collectively, they now had in "emerging Asia". Third, as the risk premiums on the credits of the region had continued to narrow up until the very eve of the financial explosion, the supposedly rational and efficient international financial markets themselves did not give them any warning signs about the dangers inherent in these exposures. Fourth, they discovered they could reduce their positions in the region only by realizing sizeable losses, because the requisite liquidity for an easy exit was lacking.

Why had market participants not seen that the crisis was coming until it was too late? Why had they been so inattentive, not just to the now obvious foreign exchange risks, but also to the much more troublesome, if somewhat less obvious, aggregate market risks that were currently pulling them down? Why had the markets not priced in the true risks? Why, precisely during a period of systemic failure, does market liquidity vanish just when it is needed the most?

Some answers to these questions defend market rationality by pointing to certain exceptions to its rule. Informational asymmetries may have prevented market participants from keeping up with developments in East Asia. Fallacy-of-composition mistakes, when made by a group of even the most prudent of investors, can produce collective aggregate market exposures of unreasonable sizes. Market failure can account for the decline in interest risk premiums ahead of the contagion. Liquidity is always a problem in one-way markets. Furthermore, moral hazard, as well as the illusion of certainty associated with a fixed exchange-rate regime, may have played a crucial role. In short, market participants could come to terms with these questions in such a way as to keep their faith in the markets intact.

However, defending the market's rationality by pointing to situations when this rationality breaks down must have its limits. Indeed, given the extent of the mistakes that the foreign investors had made, the information asymmetry, fallacies of composition, market failure, moral hazard, adverse selection and other similar problems would have had to be so very widespread as to make them not the exception to the rule, but the rule itself. The cumulative thrust of the investors' questions, therefore, has pushed a number of market participants in the direction of a very different and much more rudimentary line of inquiry.

Financial policy advice from market professionals

One way of thinking about the quandary that many market participants were in is to assume, as a simple fiction, that market participants typically move back and forth between two different roles when they engage in policy discussions: that of the actively engaged businessman and that of the neutral market professional who is able to take a broader view of his market. As businessmen, market participants will resist any reforms that might restrict their own room for manoeuvre, but will push for reforms that advance their interests, especially vis-à-vis their competitors. As neutral professionals, on the other hand, market participants will act responsibly to improve general market conditions and practices, often working closely with their competitors and the relevant authorities to make certain that everyone, including themselves, acts responsibly.

Acting as self-interested businessmen, international market participants have very little to say about their roles in the East Asian financial crisis, as it is not in their interest to admit that they were accountable in any way. As enlightened market professionals, on the other hand, they acknowledge that their collective speculative excesses played a key role in both the origins and the spread of the contagion. They therefore recognize the need to find the regulatory systems and early warning mechanisms that either will prevent them from taking on such risky aggregate market exposures in the future or will push them to cut their exposures well before another full-fledged crisis begins to take place.

Since the market and other informational failures that lay behind their taking on such excessive aggregate market exposures in East Asia were massive, the required regulatory changes would have to be far-reaching and the early warning systems elaborate. First, the widely accepted—but decade-old—capital standards of the Basle Committee on Banking Supervision would have to be reviewed to see if stricter limits should be placed on the credit and market exposures of banks. Similar concerns would apply to non-bank financial institutions. Second, private sector financial institutions would need to strengthen their own internal risk measurement and control systems. Systems would have to be put in place that allowed them to measure not just their aggregate credit exposures, but—and on a day-to-day basis—their aggregate price and interest rate risks across financial markets as well. Should the measured risks become excessive, enterprise risk managers would have to have the authority to cut the exposures. Third, the monetary authorities of the major industrialized nations would have to establish procedures to monitor the total aggregate market risks that the financial institutions under their jurisdiction collectively took on and hence to warn their institutions when these positions became excessive. Fourth, international efforts would be required, under the auspices of the Bank for International Settlements (BIS) in Basel, IMF or perhaps a new institution, to measure and regulate the aggregate market exposures that all of the major private financial institutions took on within particular areas of the globe. Fifth, central bankers and international monetary authorities would have to work closely with private sector financial institutions to establish an early warning system that could alert market participants to pending economic and financial difficulties in individual countries and regions.

As actively engaged businessmen, however, market participants would object to these proposals vehemently, and to such a degree that few of them would find the proposals acceptable. The regulatory burden of the Basle Committee capital rules, they would argue, was already great. In keeping with new BIS rules about market risk, they were already developing their own sophisticated internal risk measurement and management systems. They would probably resist the extra information costs and regulatory burdens of implementing the third and fourth suggestions. The fifth proposal about establishing an international early warning system might be just too elaborate. However desirable these and similar mechanisms might be from the public policy point of view, market practitioners would see them as too burdensome, too costly, too elaborate and simply not realistic.[64]

Turning to the question of limiting international contagion once a crisis begins in one country, the gap between what market participants will recommend as market professionals and what they will accept as businessmen is even greater. Since it is clear that international financial markets can at times become dysfunctional, market participants, as disinterested market professionals, would be willing to consider the use of a variety of solutions in order to limit the damage of financial volatility in one market that is caused by problems elsewhere. These would include taxes on foreign exchange transactions and capital controls, temporary or otherwise. Since the jurisdiction of any national authority is limited to its own borders, they might also see a need to create regional or international supervisory structures to enforce the taxes and capital controls and to otherwise regulate the international capital markets. As actively engaged businessmen, on the other hand, they know that they would immediately find ways to avoid and evade any of these controls and regulations, pointing out as well that enforcement would be very difficult, if not impossible, across so many borders and jurisdictions. Besides, they might counter, flexible exchange rates would provide a better and simpler solution.

Finally, the attitude that market participants have today towards IMF is complex and contradictory. It is not easily sorted out by the expository device of splitting their personalities into those of businessmen and professionals. Most market participants supported the stabilization efforts that the Fund undertook as the crisis in East Asia was unfolding. They were willing to defend the Fund against criticisms that its conditionality was too severe, on the grounds that austerity was needed to restore market confidence in the local exchange rate. Moreover, market participants were quick to show displeasure with any Government in the region that seemed to deviate even in the slightest from the programme that it had signed with the Fund: if they thought that the Government was not living up to the programme, market participants saw no reason to hold the country's assets and so sold them aggressively. Furthermore, today market participants generally believe that IMF needs to be fully funded, noting that it is the only institution in existence with a mandate to deal with emerging-market financial crises that may appear in the future.

This being said, most market participants appear to believe that the Fund's stabilization efforts in East Asia failed to limit the foreign exchange contagion, and may have made the domestic financial problems worse, particularly in Indonesia. Focusing on the need to restore foreign investor confidence in the local exchange rates, the Fund's support for fiscal austerity, tight monetary policy, rapid bank closures, and the enforcement of capital adequacy standards was seen to have aggravated existing domestic financial difficulties rather than to have ameliorated them. In other words, they appear to believe that the Fund caused a further destabilization already weak domestic financial systems, which, in turn, undermined the exchange-rate stability that its programmes might otherwise have achieved.

Conclusion: a time for humility and debate

Market participants, in any event, are only one set of players in international finance and it is for Governments, representing all of society, to set policy.

[64] Indeed, BIS was holding a conference on how to measure aggregate market risk in the spring of 1997, just when the East Asian crisis was beginning to unfold; it seems to have concluded that these and similar schemes were not feasible (see Bank for International Settlements, *The Measurement of Aggregate Market Risk* (Basel, 1997)).

In this regard, the main conclusion arising from the developments of the past year seems to be that the international community needs a full appreciation of the limits of present policy. It appears that the case for quick and complete liberalization of financial markets and capital flows has lost considerable support. So, too, has the case for applying austerity when it threatens to collapse a large part of a weak financial system. There is also renewed interest in an international "lender of last resort" to supply unconditional liquidity to qualifying countries in the same way that central banks do in national crisis situations.[65] This is not to say that a consensus has formed around this or any other of the more radical proposals, but rather to suggest that owing to the Asian crisis such proposals are getting much more of a hearing.

The Asian crisis, in other words, has been a sobering experience for international policy makers in capitals as well as in international organizations. The degree of political and social disruption that has been seen was obviously not what IMF negotiators had intended. Perhaps the economic, social and political situations would have deteriorated even more if not for the reform programmes, but this is not assured. As the lead agency in promoting macroeconomic and financial reform, as well as in arranging the large financial packages that accompanied it, IMF has borne the brunt of the concern and criticism. Most of the critics call for reform of IMF and for more flexibility in its policy advice. In the first quarter of 1998, these and related concerns were being raised with increasing political force around the world.

65 See, for example, Ariel Buira, "Key financial issues in capital flows to emerging markets", and Arjun Sengupta, "Managing financial flows for development" in *International Finance and Developing Countries in a Year of Crisis*, B. Herman and K. Sharma, eds. (Tokyo, United Nations University Press, 1998), pp. 59-72, and 81-93, respectively; and James Tobin, "Financial globalization: can national currencies survive?", keynote address at the Annual World Bank Conference on Development Economics, Washington, D.C., 20 April 1998.

ANNEX

STATISTICAL TABLES

ANNEX
STATISTICAL TABLES

The present annex contains the main sets of data on which the analysis provided in the *World Economic and Social Survey, 1998* is based. The data are presented in greater detail than in the text and for longer time periods, and incorporate information available as of 30 April 1998.

The annex, like the *Survey* itself, was prepared by the Development Policy Analysis Division of the Department of Economic and Social Affairs of the United Nations Secretariat. The annex is based on information obtained from the United Nations Statistics Division and the Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, as well as from the United Nations regional commissions, the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Cooperation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD) and national and private sources. Estimates for the most recent years were made by the Development Policy Analysis Division in consultation with the regional commissions.

Forecasts are based on the results of the March-April 1998 forecasting exercise of Project LINK, an international collaborative research group for econometric modelling, which has a headquarters in the Development Policy Analysis Division. The LINK itself is a global model that links together the trade and financial relations of 79 country or regional models that are managed by over 40 national institutions and by the Division. The models assume that the existing or officially announced macroeconomic policies as of 15 April are in effect. The primary linkages are merchandise trade and prices, as well as interest and exchange rates of major currency countries. The model generates a consistent solution by an iterative process, and thus key exchange rates, interest rates and a complete matrix of trade flows and price changes are determined endogenously. The one significant exception is the international price of crude oil, which is derived with the help of a satellite model of the oil sector. In this case, the average price of the basket of seven crude oils of the Organization of the Petroleum Exporting Countries (OPEC) was seen to fall by 9 per cent in 1998 and assumed to rise 3 per cent in 1999.

COUNTRY CLASSIFICATION

For analytical purposes, the *World Economic and Social Survey* groups all the countries of the world into one of three mutually exclusive categories:

developed economies, economies in transition and developing countries. The composition of these groupings is specified in the explanatory notes that appear at the beginning of the *Survey*. The groupings are meant to reflect basic economic conditions in each region or subregion. Several countries have characteristics that could place them in more than one grouping (in particular, transition economies), but for purposes of analysis the groupings were made mutually exclusive. The groupings do not reflect a judgement of the stage of development of individual countries. Different groupings of countries may be deemed appropriate at different times and for different analytical purposes. Indeed, groupings have been revised since the *Survey* of 1997.

The nature of each of the three main analytical groupings remains unchanged and may be given in broad strokes. The developed economies have the highest material standards of living, although they may contain significant pockets of deep poverty. Production is heavily and increasingly oriented towards the provision of a wide range of often sophisticated services; agriculture is typically a very small share of output. On average, workers in developed countries are the world's most productive, frequently relying on advanced production techniques and equipment. The developed economies are often global centres for research in science and technology. Internationally, the Governments of developed countries are likely to offer assistance to other countries and they do not generally seek foreign assistance.

The developed economies are subdivided for analytical purposes into two sub-groups: one is that of the major industrialized countries (the Group of Seven), which comprises the seven largest economies measured in terms of gross domestic product (GDP), namely, Canada, France, Germany, Italy, Japan, the United Kingdom of Great Britain and Northern Ireland and the United States of America; the second sub-group is "other developed economies". Data on the European Union (EU) cover the 15 current members of the EU for all years.

The transition economies are characterized by the great social transformation that they began at the end of the 1980s, when they fully turned away from central direction as the main concept of economic organization towards the re-establishment of market economies. The shock to their economies was severe, entailing a substantial decline in output and deterioration in social and economic conditions. Some of these economies began the transition process having many of the characteristics of developed economies and some had—and still retain—several characteristics of developing economies; but while a case might be made for grouping individual transition economies with the developed or developing countries, for purposes of analysis within the *Survey* at this time their central characteristic is taken to be their transitional nature.

The group of economies in transition is divided into three sub-groups: one is Central and Eastern Europe, also called Eastern Europe for short, which comprises Albania, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and the successor States of the Socialist Federal Republic of Yugoslavia (namely, Bosnia and Herzegovina, Croatia, Slovenia, the former Yugoslav Republic of Macedonia and Yugoslavia); a second group comprises members of the Commonwealth of Independent States (CIS); and the third encompasses the Baltic States (Estonia, Latvia and Lithuania). In some cases, data are shown for the former Soviet Union until 1991 and for the aggregate of its successor States from 1992, so as to facilitate analysis of trends over time. Data for individual successor States of the Soviet Union will be included in the annex as they become available.

The rest of the world is grouped together as the developing economies. It is a heterogeneous grouping, although with certain common characteristics. Average standards of living in developing countries are lower than in developed countries and many of the countries have deep and extensive poverty. In addition, developing countries are usually importers rather than developers of innovations in science and technology and of their application in new products and production processes. They also tend to be relatively more vulnerable to economic shocks. Even the economies that grow rapidly over a considerable sequence of years are usually perceived as somewhat less resilient and sturdy than developed economies; for example, developing countries are usually perceived as higher risk placements of international investment funds than developed economies. That the developing economies that do not experience significant economic growth are fragile in nature goes without saying.

Given the size and geographical spread of the grouping of developing economies, there is a natural interest in the performance of geographical subgroupings. The *Survey* has adopted the designation of standard geographical regions, based upon the classification used by the Population Division and the Statistics Division. The following are thus defined as developing-country regions: Africa, Latin America and the Caribbean, Asia and the Pacific (comprising Western Asia, China and Eastern and Southern Asia, including the Pacific islands).

Other distinctions are also made for analytical purposes. The distinction between fuel importers and exporters remains a useful one. The ability to export fuel or the need to import fuel has a large effect on the capacity to import—and on growth of output, as growth in developing countries is often constrained by the availability of foreign exchange. Thus, the developing countries have been divided into fuel exporters and importers. The fuels in question include oil, natural gas, coal and lignite, but exclude hydro- and nuclear electricity. Only fuels are considered, rather than energy sources more broadly, because fuel prices are more directly linked to oil prices and oil prices are particularly volatile and have a considerable impact on incomes and the purchasing power of exports of the countries in question.

A country has been defined as a fuel exporter if, simultaneously:

a Its domestic production of primary commercial fuel (oil, natural gas, coal and lignite) exceeded domestic consumption by at least 20 per cent;

b Its values of fuel exports were equivalent to at least 20 per cent of total exports;

c It was not also classified as a least developed country.

The revised list of fuel-exporting countries comprises Algeria, Angola, Bahrain, Bolivia, Brunei Darussalam, Cameroon, Colombia, the Congo, Ecuador, Egypt, Gabon, Indonesia, the Islamic Republic of Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Mexico, Nigeria, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic, Trinidad and Tobago, the United Arab Emirates, Venezuela and Viet Nam. All other developing countries are classified as fuel importing countries.

Two sub-groups of the fuel-importing developing countries are sometimes identified in the tables of the *Survey*. One is a group of four exporters of manufactures, namely, the four Asian economies considered to constitute the first generation of successful exporters of manufactures (Hong Kong, China; the Republic of Korea; Singapore; and Taiwan Province of China).

The other sub-grouping is the least developed countries. Unlike the preceding groupings, which were created by the Secretariat for the convenience of economic and social analysis, the countries included in the list of least developed countries are decided by the General Assembly, on the basis of the recommendations of the Committee for Development Planning, which reviews criteria for identifying the least developed countries and considers the classification of individual cases. In its most recent resolution on the matter (Assembly resolution 49/133 of 19 December 1994), the Assembly added Angola and Eritrea to the list and graduated Botswana from it. Thus, there are at present 48 countries on that list.[1] The basic criteria for a country's inclusion in the list pertain to its being below certain thresholds with regard to per capita GDP, an economic diversification index and an "augmented physical quality of life index".[2]

For many years, the *Survey* had also made use of a classification of countries arranged according to whether a country was an exporter of financial capital (capital-surplus) or net importer of financial capital (capital-importing). The groupings were based on the experience of the 1970s when the petroleum exporters became a major source of financial capital after the oil price hikes. Indeed, all countries in the capital-surplus grouping were major oil exporters. Yet, a country's status as regards whether it was actually importing or exporting capital fluctuated from year to year. For example, the Islamic Republic of Iran and Iraq became capital-importers when they fought a war during the 1980s and Kuwait and Saudi Arabia became capital-importing countries in the 1990s as a result of the Gulf war.

Starting with the 1997 *Survey*, a new but related distinction between countries has substituted for the capital-surplus/capital-importing one. The new dichotomy is based on the net foreign asset position of each country at the end of 1995, as assessed by IMF in the *World Economic Outlook*, October 1996.[3] The net foreign asset position is a stock that is unlikely to change from positive to negative (or vice versa) from one year to the next and thus whether a country is importing or exporting capital in any particular year becomes less relevant to the criterion. Indeed, the designations "capital-importing" and "capital- surplus" are not appropriate to the new groupings, as they refers to flows. The *Survey* has therefore adopted the IMF designations for countries, namely, "net-creditor" and "net-debtor" countries. The list of net-creditor countries comprises Brunei Darussalam, Kuwait, the Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, Singapore,[4] Taiwan Province of China[4] and the United Arab Emirates.

Finally, one sub-grouping of the net-debtor countries is sometimes employed. This is "sub-Saharan Africa", which groups together all the African countries south of the Sahara desert, excluding Nigeria and South Africa. The intent in this grouping is to focus on the smaller African economies; moreover, the data of the latter two countries would overwhelm the data of the smaller economies in the aggregate and give a distorted picture of the region in terms of GDP, population, international trade and so forth. This is also a grouping employed by IMF in its *World Economic Outlook*.

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

2 Report of the Committee for Development Planning on its twenty-ninth session (*Official Records of the Economic and Social Council, 1994, Supplement No. 2*) (E/1994/22), chap. V.

3 Washington, D. C., IMF, 1996.

4 Singapore and Taiwan Province of China are classified by IMF as advanced countries and thus are not included in IMF's group of "net-creditor" developing countries.

DATA QUALITY

There is a growing demand from both the public and the private sector for timely and reliable statistics that can be used for economic and social analysis and decision-making in the present environment of rapid internationalization and information dissemination. Statistical information that is consistent and comparable across time and countries is of vital importance when monitoring structural adjustment, discussing welfare, environmental policy and poverty, or assessing emerging markets and economies. In addition, the multifaceted nature of these and other current issues, such as the high mobility of capital and people, and economic regionalization, call for an integrated as well as a selective approach to national and international data.

At the level of establishing international norms for definition and presentation of data, the 1993 revision of the System of National Accounts (SNA)[5] and the latest edition of the IMF *Balance of Payments Manual*[6] (the IMF Manual) highlight the changes within the economic and social context underlying statistical data during the past two decades, and constitute a major step forward in efforts to incorporate those changes into an integrated and harmonized system of statistics. The 1993 SNA strives to have concepts, definitions and classifications that are interrelated at both the macro- and microlevels. Concepts in the IMF Manual have been harmonized, as closely as possible, with those of the 1993 SNA and with the Fund's methodologies pertaining to money and banking and government finance statistics. In addition, through a system of satellite accounts, which are semi-integrated with the central framework of the SNA, it is possible to establish linkages between national accounts data and other particular fields of economic and social statistics, such as the environment, health, social protection and tourism. The fact that the experts have failed to agree on a set of standards to define formal and informal activities, consumer and producer subsidies, education and other aspects of investment in human capital shows the methodological and material limits to capturing and quantifying all occurrences and changes. However, both the 1993 SNA and the IMF Manual will serve as guideposts for countries that wish to update, review or improve their statistical reporting.

5 Commission of the European Communities, IMF, OECD, United Nations and World Bank, *System of National Accounts, 1993* (United Nations publication, Sales No. E.94.XVII.4).

6 IMF, *Balance of Payments Manual*, 5th ed. (Washington, D.C., IMF, 1993).

As Governments begin to report their data on the basis of these standards, those data will be incorporated into the statistics in this annex. For the time being, however, the reader should be aware of the deep-rooted weaknesses underlying some of the national and international statistics that are perforce used in this *Survey* and other international publications. Inconsistency of coverage, definitions and data-collection methods among reporting countries sometimes mars the easy interpretation of data published by international agencies.

Another perennial problem entails late or incomplete data or non-reporting of data. Although adjustments and estimations are possible and are made in selected cases, in an era where economic and social indicators are closely tracked and extensively used, there is a need for timely reporting not only on an annual basis, but also on a quarterly or even more frequent basis, where applicable. It is worth noting, in this regard, the considerable progress made by some developing and transition economies in publishing annual and quarterly data on a timely and regular basis, whereas major lacunae have developed in the case of other economies in transition, in conflict or at war.

On the one hand, a widespread source of inaccuracy involves the use of out-of-date benchmark surveys and censuses or old models and assumptions about behaviour and conditions that no longer apply. On the other hand, when statistical administrations seek to improve their estimates by using new sources of data, updated surveys and input-output tables in a sporadic fashion, there can be frequent breaks in the series. National income estimates are especially affected, being subject to significant revisions of the order of 10-30 per cent.[7]

7 Wilfred Beckerman, "National income", in *The New Palgrave: The World of Economics*, John Eatwell, Murray Milgate, and Peter Newman, eds. (New York, The Macmillan Press, Limited, 1991), p. 486.

National accounts and related indicators mainly record market transactions conducted through monetary exchange. Barter, production by households, subsistence output and informal sector activities are not always recorded; together the omitted items can constitute a large share of total activity and lead to an underestimation of production of up to 40 per cent of national output. As the degree of underestimation varies across countries, output comparisons may give faulty results. In addition, as the non-market sector is absorbed into the mainstream of production over time through increasing monetization, the extent of output growth will be overstated based on the extent of this shift (see "Data definitions and conventions" below for illustrations of difficulties of the type noted here).

It is no exaggeration to say that weaknesses at the national level become major analytical handicaps when comparisons are made between countries or groupings of countries at a given time or over a period of time. Missing, unreliable or incompatible country data necessitate considerable estimation and substitution on the part of international organizations if they are to retain consistent country composition of aggregated data over time. Furthermore, the absence of reliable GDP estimates for many developing and transition economies requires that analysts resort to very approximate estimates in preparing country aggregations, as GDP weights underlie many data series.

Besides the problems with GDP, there are serious problems with other types of statistics, such as unemployment, consumer price inflation and the volume of exports and imports, that are commonly cited. Cross-country comparisons of unemployment must be made with caution owing to differences in definition among countries. For this reason in particular, table A.6 employs the standardized definitions of unemployment rates which, in certain cases, differ substantially from national definitions.

Consumer price indices are among the oldest of the economic data series collected by Governments, but they are still surrounded by controversy even in countries with the most advanced statistical systems, owing in particular to the introduction of new goods, changes in the quality of goods and consumer behaviour that are often not captured because of, *inter alia*, infrequent consumer spending surveys and revisions to sample baskets of commodities.

There are no clear-cut solutions to many of the problems noted above, and even when there are, inadequate resources allocated to the improvement of statistical systems and reporting can perpetuate statistical shortcomings. In this light, it is advisable to approach economic and social indicators as presented in this *Survey* as approximations and estimations, especially at the aggregate level.

DATA DEFINITIONS AND CONVENTIONS

Aggregate data are either sums or weighted averages of individual country data. Unless otherwise indicated, multi-year averages of growth rates are expressed as compound annual rates of change. The convention followed is to identify the *period of change* in a multi-year growth rate and omit the base year; for example, the 10-year average growth rate of a variable in the 1980s would be identified as the average annual growth rate in 1981-1990. Year-to-year growth rates are expressed as annual percentage changes.

Historical data presented in the statistical annex may differ from those in previous editions because of updating, as well as changes in the availability of data for individual countries.

Output

The growth of output in each group of countries is calculated from the sum of GDP of individual countries measured at 1993 prices and exchange rates. That is to say, national currency data for GDP in 1993 were converted into dollars (with adjustments in selected cases)[8] and were extended forward and backwards in time using changes in real GDP for each country. The method is believed to supply a reasonable set of aggregate growth rates for a period of about 15 years, centred on 1993. In other words, the base year has to be moved from time to time to reflect the changed composition of production and expenditure over long periods. Indeed, this is the second edition of the *Survey* to use the 1993 base year (the previous base year was 1988).

National data on real GDP are aggregated to create regional output figures and thus national practices are followed in defining real GDP for each country. It would be fortuitous if individual countries also chose 1993 as the base year for their accounts, but in general they have not.

In the case of the United States, the base year itself has now a very different meaning. That is to say, United States GDP data have recently been recalculated in terms of a "chain-weighted" index. Instead of estimating the GDP for several years in the prices of the base year and then calculating the growth rate between years from these estimates, the growth rate of real GDP in the United States for any year is now the average of the GDP growth calculated in the prices of that year and the growth rate calculated in the prices of the previous year. A series of real GDP of the United States is then calculated by applying these growth rates to the dollar value of GDP in the base year, which is currently 1992.[9]

Developed economies

Up to and including the *World Economic Survey, 1992*,[10] the *Surveys*, in order to be as current as possible, published either GDP or gross national product (GNP) data (depending on which data series was released first) as indicators of economic activity in developed market economies. However, because of the improved availability of GDP data, as of the *World Economic Survey, 1993*,[11] the *Survey* has used GDP as its measure of aggregate output for all countries.

Beginning in 1991, aggregate economic growth data for Germany included the former German Democratic Republic. Because official data for the level of GDP

8 When individual exchange rates seem outside the bounds of "realism", alternative exchange rates are substituted. Averages of the exchange rates in relevant years might be used, or the exchange rate of a more normal year might be adjusted according to relative inflation rates that have occurred since the time the exchange rate was deemed "correct".

9 See Charles Steindel, "Chain-weighting: the new approach to measuring GDP", *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, December 1995; for details, see United States Department of Commerce, *Survey of Current Business*, January/February 1996, pp. 1-118.

10 United Nations publication, Sales No. E.92.II.C.1 and Corr.1 and 2.

11 United Nations publication, Sales No. E.93.II.C.1.

in post-reunification Germany began with 1991, the first year for which a growth rate could be calculated from official data was 1992. The growth rate in 1991, as shown in table A.2, was a weighted average of official and estimated GDP growth rates in the two parts of Germany, with the weighting based on the level of GDP in 1991, as published by the *Statistisches Bundesamt* (Federal Statistical Office) of Germany.

Economies in transition

Starting with the *World Economic Survey, 1992*, there was a switch to GDP from net material product as the measure of aggregate output of economies in transition. For the purpose of arriving at an analytically useful time-series in real and nominal terms, adjustments were made, notably in the case of the former Soviet Union, to the GNP data published in terms of local currency. In many instances, there were neither fully reliable national accounts data nor meaningful exchange rates for the 1980s, and this continued into the 1990s in several cases. Thus, a set of weights had to be estimated from fragmentary data (and a series of approximate growth rates of GDP in constant prices was constructed for the Soviet Union for 1981-1990).

Subsequently, new data became available that warranted updating the estimates of the weighting scheme. In addition, with the shift in base year from 1988 to 1993, it has become possible for the first time to introduce national estimates of GDP into the calculation of base-year GDP values and weights.

In addition to the overall reliability, consistency and comparability of national accounts data which are subject to a general caveat that applies to all countries, the extent of economic activity not captured by national statistics has become an especially acute concern in some transition economies. The proliferation of new modes of production, transactions and entities has rendered the previous institutional and methodological framework for statistics inadequate. This has produced major inconsistencies in officially reported data. A comprehensive reform of national statistical systems has thus been under way in the Russian Federation and in other transition economies. As a result, important revisions to several data series have been released. Further revisions of past and current performance are expected, and it is likely that they will more accurately reflect market economic activity in its totality, in particular its currently unreported components. It therefore bears repeating more than ever that the statistical information provided, especially for many of the successor States of the Soviet Union, as well as for other countries in transition, must be treated as tentative estimates subject to potentially large revision.[12]

12 See *World Economic and Social Survey, 1995* (United Nations publication, Sales No. E.95.II.C.1), statistical annex, section entitled "Data caveats and conventions".

Developing countries

Beginning with the *World Economic Survey, 1993*, estimates of the growth of output in developing countries have been based on the data of 93 countries. In conjunction with the exercise to revise country groupings as of the 1997 *Survey*, as noted above, the sample of countries whose data constitute the aggregate of the developing countries was also revised. It now includes 95 economies, accounting for an estimated 97 per cent of the 1993 GDP and 98 per cent of the 1993 population of all developing countries and territories. The sample countries account for more than 95 per cent of the GDP and population of each of the geographical regions into which the developing countries are divided, with the exception of sub-Saharan Africa of which the countries included in the sample make up 90 per cent of the GDP and 93 per cent of the population.

It has to be borne in mind that the veracity of estimates of output and of other statistical data of developing countries is related to the stage of development of their statistical systems. As these improve, revisions to the data can be expected. For example, in 1994, Turkey recalculated its GNP going back to 1968 by using new data, such as results of recent surveys, and incorporating some items and economic subsectors that could not be included in previous annual national accounts.[13] In Africa in particular, there is a wide divergence in the values of the economic aggregates provided by different national and international sources for many countries. Data for the countries in Asia and Europe as well as in Africa in which civil strife and war exist should be interpreted as indicating only rough orders of magnitude. In addition, in countries experiencing high rates of inflation and disequilibrium exchange rates, substantial distortions can invade national accounts data. For this reason among others, Argentina revised its 1980s GDP by some 30 per cent.

13 State Institute of Statistics, Prime Ministry, Republic of Turkey, *Gross National Product: Concepts, Methods and Sources* (Ankara, State Institute of Statistics, 1994), pp. iii-iv.

Alternative aggregation methodologies for calculating world output

The *World Economic and Social Survey* utilizes a weighting scheme derived from exchange-rate conversions of national data in order to aggregate rates of growth of output of individual countries into regional and global totals, as noted above. This is similar to the approach followed in other international reports, such as those of the World Bank. IMF, however, particularly in its *World Economic Outlook*, now follows a different approach. In May 1993, it adopted a weighting scheme for aggregation in which the country weights are derived from national GDP in "international dollars", as converted from local currency using purchasing power parities (PPPs). OECD followed IMF and adopted the alternate method in December 1993 in its *OECD Economic Outlook*.[14] The question of which approach to use still seems controversial.[15]

14 Paris, OECD, 1993.

15 See *World Economic and Social Survey, 1995...*, statistical annex, sect. entitled "Alternative aggregation methodologies for GDP".

The motivation for PPP weights was the belief that when aggregating production in two countries, a common set of prices should be used to value the same activities in both countries, but this is frequently not the case when market exchange rates are used to convert local currency values of GDP. The PPP approach revalues gross production (actually, expenditure) in different countries in a single set of prices. The PPP conversion factor is in principle the number of units of national currency needed to buy goods and services equivalent to what can be bought with one unit of currency of the *numéraire* country, the United States. In principle as well as in practice, however, PPPs are difficult to calculate because goods and services are not always directly comparable across countries, making direct comparisons of their prices correspondingly difficult. This is particularly the case for several services such as health care and education, where it is hard to measure output itself, let alone prices.

One significant problem in employing such PPP estimates for calculating the relative sizes of countries is that the most recently completed set of PPP prices, which was for 1985, covered a set of only 64 countries.[16] Estimates for a new benchmark year (1993) covering a larger set of countries is in an advanced stage of preparation by the International Comparison Programme (ICP).

16 See *World Comparisons of Real Gross Domestic Product and Purchasing Power, 1985: Phase V of the International Comparison Programme*, Series F, No. 64 (United Nations publication, Sales No. E.94.XVII.7 and Corr.1).

This notwithstanding, certain regularities had been observed, on the one hand, between GDP and its major expenditure components when measured in market prices and, on the other, between GDP and its components measured in "international" prices as derived in the ICP exercise. On that basis (and using other, very partial data on consumer prices), a technique was devised to approximate PPP levels of GDP and its major expenditure components for countries that had not participated in ICP, the results having come to be known among economists and statisticians as the Penn World Tables.[17]

[17] See Robert Summers and Alan Heston, "The Penn World Table (Mark 5): an expanded set of international comparisons, 1950-1988", *Quarterly Journal of Economics*, vol. 106, No. 2 (May 1991), pp. 327-368 (current versions of these data are made available through the Internet or on diskette from the National Bureau of Economic Research, Cambridge, Massachusetts, United States of America; Internet address: http://www/nber.org/pwt56.html).

Neither the PPP approach nor the exchange-rate approach to weighting country GDP data can be applied in a theoretically pure or fully consistent way. The data requirements for a truly global ICP are enormous, although in each round the ICP coverage grows. Similarly, since a system of weights based on exchange rates presumes a world of foreign exchange markets, where the rates are solely determined by the trade in goods and services, and domestic economies under competitive and liberal conditions, its application has been constrained by exchange controls and severe distortions of market prices in many countries. Moreover, there are a large number of non-traded goods and services in each country to which the "law of one price" does not apply, even in theory. However, the global trend towards liberalization may make possible a more consistent application over time of the exchange-rate method. Even so, the methods are conceptually different and thus yield different measures of world output growth.

The differences in output growth measures can be seen in table A.1 for the periods 1981-1990 and 1991-1997. The estimates employ the same individual country GDP growth rates data, and data are employed for the same number of countries in both sets of averages. The columns differ only in the weights used to form the averages, which are shown in the table entitled "Output and per capita output in the base year.[18]

[18] The PPP data are preliminary estimates of the Penn World Table.

Clearly, the world economy has grown faster when country GDPs are valued at PPP conversion factors, although the growth rates for the different groupings of countries are generally not much different when data are converted at PPP rather than at exchange-rate factors. This is easy to explain: the Asian developing countries, which account for a large share of the GDP of the developing countries, have been growing more rapidly than the rest of the world and their weight under PPPs is higher than it is under the exchange-rate scheme. The influence of China is particularly important. In 1993, the total GDP of all developing countries excluding China was 2.2 times larger when valued at PPPs rather than at exchange rates, but China's GDP was 4.3 times larger. Thus, the GDP of the developing countries excluding China valued at exchange rates grew between 1991 and 1997 at about the same rate as GDP valued at PPPs, that is, 4.1 per cent versus 4.4 per cent. When China is included, however, the growth rates are 5.0 per cent and 5.8 per cent, respectively.

International trade

The main source of data for tables A.15 is the IMF *Direction of Trade Statistics* database, while tables A.16 and A.17 are drawn from the more detailed trade data in the United Nations External Trade Statistics Database (COMTRADE).

Trade values in table A.18 are largely based on customs data for merchandise trade converted into dollars using average annual exchange rates and are mainly drawn from IMF, *International Financial Statistics*. These data are

OUTPUT AND PER CAPITA OUTPUT IN THE BASE YEAR

	GDP (billions of dollars)		GDP per capita (dollars)	
	Exchange-rate basis 1993	PPP basis 1993	Exchange-rate basis 1993	PPP basis 1993
World	24 311	30 497	4 463	5 598
Developed economies of which:	18 988	17 005	23 225	20 799
United States	6 553	6 553	25 006	25 006
European Union[a]	6 920	6 593	18 740	17 854
Japan	4 275	2 628	34 332	21 105
Economies in transition	682	1 842	1 661	4 488
Developing countries	4 641	11 650	1 100	2 761
By region:				
Latin America	1 405	2 539	3 089	5 582
Africa	429	1 001	656	1 531
Western Asia	713	1 066	3 426	5 118
Eastern and Southern Asia	1 495	4 441	876	2 603
China	599	2 603	501	2 176
By analytical grouping:				
Net-creditor countries	506	644	9 483	12 080
Net-debtor countries	4 136	11 006	993	2 642
Net fuel exporter countries	1 270	2 697	1 648	3 499
Net fuel importer countries	3 372	8 954	978	2 596
Memo items				
Sub-Saharan Africa	130	337	339	879
Least developed countries	130	569	248	1 075

Source: UN/DESA.

a Including the German Democratic Republic in Germany beginning with 1991.

supplemented by balance-of-payments data in certain cases. Estimates of dollar values of trade for the years up to 1990 in the case of the economies in transition were based on the research undertaken in the Economic Commission for Europe (ECE). Data for the most recent years include estimates by the regional commissions and the Development Policy Analysis Division.

For developed economies and economies in transition, the growth of trade volumes are aggregated from national data, as collected by ECE, IMF and the Development Policy Analysis Division.

As of 1 January 1993, customs offices at the borders between States members of the European Union (EU), which used to collect and check customs declarations on national exports and imports, were abolished as the Single Market went into effect. A new system of data collection for intra-EU trade, called INTRASTAT, has been put in place. INTRASTAT relies on information collected directly from enterprises and is linked with the system of declarations of value-added tax (VAT) relating to intra-EU trade to allow for quality control of statistical data. There nevertheless remains a discontinuity owing to the changes in methodology.

Concerning the economies in transition, two factors preclude the presentation of estimates for trade values and volumes as other than tentative: first, the switch, which occurred mainly in 1991, from intraregional trade at rather arbitrarily set prices in transferable roubles to trade at world market prices in convertible currency; and second, the inadequacy of the data-collection systems in the region. These largely affect the reliability of calculations of changes in volumes. Nevertheless, we are able to include estimates for Central and Eastern European countries produced by ECE.

Unit values that underlie the volume measures of exports and imports for groupings of developing countries are estimated in part from weighted averages of export prices of commodity groupings at a combination of three- and four-digit Standard International Trade Classification (SITC) levels, based on COMTRADE (the weights reflect the share of each commodity or commodity group in the value of the region's total exports or imports). Unit value and volume changes for Latin America and the Caribbean are supplied to the Division by the Economic Commission for Latin America and the Caribbean (ECLAC). Estimates for Africa draw in part upon IMF estimates for the *World Economic Outlook.*

International finance

The *Survey* includes standardized tables on the net transfer of financial resources of developed and developing countries, in addition to those on balance of payments on current account, external debt and particular financial flows. Net transfer is measured in two ways, based on either of two definitions, according to the derivation contained in the *World Economic Survey, 1986: Current Trends and Policies in the World Economy.*[19]

One definition covers the concept of net transfer on an expenditure basis, which can be related in broad terms to the System of National Accounts. This net transfer measure concerns the implicit financing of the balance of trade in goods, services, compensation of employees and transfers related to labour income (largely, workers' remittances). Algebraically, if X represents exports of goods, services, compensation of employees and transfers, and M represents the corresponding import variable, then the net transfer on an expenditure basis is defined as $-(X-M)$. A positive net transfer means that total expenditure in the economy on domestic production and imports exceeds the value of output produced domestically (including net foreign earnings of labour).

The second concept is of net transfer on a financial basis, which is defined as net flow of capital minus net payment of interest and dividends. Capital is so defined as to include official grants, private grants (other than workers' remittances), direct investment[20] and all credit flows, including use of IMF resources. This treatment embodies one—but not the only—standard approach to the balance of payments. It incorporates a definition of the current account as the balance of payments on goods, all services and private transfers, and also treats borrowing from IMF as a credit flow, whereas in some other treatments such borrowing is considered part of the change in reserves.

19 United Nations publication, Sales No. E.86.II.C.1, annex III.

20 Direct investment is defined on an actual cash flow basis, which is consistent with the practice of a large number of developing countries in reporting such data; that is to say, direct investment excludes reinvested earnings and, correspondingly, direct investment income also excludes reinvested earnings.

The link between the two definitions of net transfer is net change in reserves, that is to say, net transfer on a financial basis minus net increase in reserves equals net transfer on an expenditure basis. The concept of net transfer on an expenditure basis in effect makes no distinction between reserve changes and other capital flows, lumping them all together as constituting the means of financing the net transfer. The concept of net transfer on a financial basis in effect focuses attention on the composition of the financial flows of all actors except the central bank of the country concerned.

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I. GLOBAL OUTPUT AND MACROECONOMIC INDICATORS

Table A.1.
WORLD POPULATION, OUTPUT AND PER CAPITA GDP, 1980-1997

	Growth of GDP (annual percentage change): Exchange-rate basis (1993 dollars)		Growth of GDP: Purchasing power parity (PPP) basis		Growth rate of population (annual percentage change)		Population (millions)		GDP per capita: Exchange-rate basis (1993 dollars)	
	1981-1990	1991-1997	1981-1990	1991-1997	1981-1990	1991-1997	1981-1990	1991-1997	1981-1990	1991-1997
World	2.8	2.2	3.1	2.9	1.8	1.4	4367	5736	4078	4766
Developed economies	2.9	1.9	2.8	1.9	0.6	0.6	756	835	18184	25109
of which:										
United States	2.9	2.3	2.9	2.3	1.0	1.0	230	272	20551	27175
European Union[a]	2.3	1.6	2.3	1.6	0.3	0.3	355	373	15041	20386
Japan	4.0	1.7	4.0	1.7	0.6	0.2	117	126	23483	36422
Economies in transition[b]	1.6	-5.3	1.9	-5.1	0.7	0.1	378	411	2261	1553
Developing countries	2.4	5.0	3.8	5.8	2.1	1.7	3233	4490	993	1277
by region:										
Latin America	1.0	3.4	1.3	3.2	2.0	1.7	354	485	3262	3334
Africa	1.9	1.7	2.0	2.2	2.9	2.7	455	727	786	666
Western Asia	-2.2	2.6	-0.6	3.1	3.4	2.5	137	229	6224	3562
Eastern and Southern Asia	7.2	7.6	6.7	7.7	1.9	1.5	2287	3049	369	924
Region excluding China	6.6	6.3	5.8	5.8	2.2	1.8	1306	1826	510	1055
of which:										
East Asia	7.1	6.7	6.5	6.8	1.9	1.6	414	560	1150	2658
South Asia	5.3	4.8	5.2	4.8	2.3	1.8	892	1267	213	347
China	9.1	11.2	9.1	11.2	1.5	1.1	981	1222	181	728
by analytical grouping:										
Net-creditor countries	1.5	4.7	1.3	4.5	3.2	1.9	37	58	10250	10482
Net-debtor countries	2.5	5.0	4.0	5.9	2.1	1.7	3196	4432	886	1157
Net fuel exporters	-0.7	2.8	1.1	3.7	2.6	2.2	559	838	2298	1733
Net fuel importers	4.1	5.8	4.9	6.5	2.0	1.7	2674	3652	720	1173
Memo items:										
Sub-Saharan Africa	1.7	1.6	1.2	2.9	3.0	2.9	262	429	438	355
Least developed countries	2.1	2.2	2.4	3.7	2.6	2.5	379	585	282	261

Source: UN/DESA.

[a] Including the eastern *Länder* (States) of Germany from 1991.
[b] Including the former German Democratic Republic until 1990.

Table A.2.
DEVELOPED ECONOMIES: RATES OF GROWTH OF REAL GDP, 1989-1998

Annual percentage change[a]

	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]	1998[c]
All developed economies	3.7	2.7	♦ 0.7	1.6	0.8	2.7	2.1	2.6	2.7	2¼
Major industrialized countries	3.7	2.7	♦ 0.7	1.7	0.9	2.6	2.0	2.6	2.6	2
Canada	2.5	-0.2	-1.8	0.8	2.2	4.1	2.3	1.2	3.8	3½
France	4.3	2.5	0.8	1.2	-1.3	2.8	2.1	1.5	2.4	3
Germany	3.3	4.7	♦ 1.2	2.2	-1.1	2.9	1.9	1.4	2.2	2½
Italy	2.9	2.2	1.1	0.6	-1.2	2.2	2.9	0.7	1.5	2½
Japan	4.8	5.1	3.8	1.0	0.3	0.6	1.5	3.9	0.9	0
United Kingdom	2.2	0.4	-2.0	-0.5	2.1	4.3	2.7	2.6	3.1	2¼
United States	3.4	1.3	-1.0	2.7	2.3	3.5	2.0	2.8	3.8	2¾
Other industrialized countries	3.8	2.8	0.9	1.1	0.5	3.1	2.8	2.5	3.0	3¼
Australia	4.2	1.2	-1.3	2.6	3.9	5.4	4.0	3.4	3.6	3½
Austria	3.8	4.3	2.8	2.1	0.4	3.1	1.8	1.2	1.8	2½
Belgium-Luxembourg	3.7	3.0	1.7	1.5	-1.1	2.5	2.2	1.5	2.3	2¼
Denmark	0.6	1.4	1.3	0.2	1.5	4.3	2.6	2.4	3.3	3
Finland	5.7	0.0	-7.1	-3.6	-1.2	4.4	4.3	3.7	5.9	4½
Greece	3.5	-0.6	3.5	0.4	-0.9	1.5	2.0	1.8	3.0	3
Iceland	0.3	1.3	1.1	-3.4	1.0	3.7	1.0	5.2	5.0	4½
Ireland	6.1	7.8	1.9	3.9	3.1	7.0	10.5	7.7	8.0	8
Malta	8.2	6.3	6.3	4.7	4.5	4.0	9.0	4.2	4.0	3¾
Netherlands	4.7	4.1	2.3	2.1	0.3	2.6	2.3	3.5	3.4	3½
New Zealand	-0.6	0.3	-2.3	0.6	5.1	5.5	3.3	2.7	2.8	2½
Norway	0.9	2.0	3.1	3.3	2.7	5.5	3.6	5.3	3.5	5
Portugal	4.9	4.1	2.1	4.2	7.8	1.9	2.0	3.0	3.5	3½
Spain	4.8	3.7	2.3	0.7	-1.2	2.1	2.8	2.3	3.4	3½
Sweden	2.4	1.4	-1.1	-1.4	-2.2	3.3	3.6	1.1	1.8	2¾
Switzerland	4.4	3.7	-0.8	-0.1	-0.5	0.5	0.6	0.0	0.7	1¾
Western Europe	3.4	2.9	♦ 0.7	1.1	-0.4	2.9	2.4	1.8	2.5	2¾
of which:										
European Union (15)	3.4	2.9	♦ 0.7	1.1	-0.5	3.0	2.4	1.8	2.5	2¾

Source: UN/DESA; based on IMF, *International Financial Statistics*.

♦ Indicates discontinuity in the series: from 1991, Germany includes eastern *Länder* (States).
a Data for country groups are weighted averages, where weights for each year are the previous year's GDP valued at 1993 prices and exchange rates.
b Partly estimated.
c Forecast, partly based on Project LINK.

Table A.3.
ECONOMIES IN TRANSITION: RATES OF GROWTH OF REAL GDP, 1993-1998

Annual percentage change[a]

	1993	1994	1995	1996	1997[b]	1998[c]
Economies in transition	-9.3	-7.1	-0.8	-0.0	2.7	3½
Central and Eastern Europe and Baltic States	-7.8	3.6	5.3	4.1	4.2	4¼
Central and Eastern Europe	-5.9	3.9	5.6	4.2	4.0	4¼
Albania	9.7	9.4	8.0	9.1	-7.1	2
Bulgaria	-1.5	1.8	2.1	-10.9	-7.4	3½
Croatia	-7.9	5.9	7.0	4.3	6.0	6
Czech Republic	0.6	2.7	6.0	4.1	1.3	2
Hungary	-0.6	2.9	1.5	1.3	4.4	4¾
Poland	3.9	5.1	7.1	6.1	7.1	6½
Romania	1.5	3.9	7.1	4.1	-6.6	2
Slovakia	-3.9	4.9	7.4	6.9	5.8	4
Slovenia	2.9	5.3	4.2	3.0	3.0	3¾
The former Yugoslav Republic of Macedonia	-9.1	-1.9	-1.2	0.7	0.0	4½
Federal Republic of Yugoslavia	-30.8	2.7	6.0	5.9	7.5	2
Baltic States	-22.3	0.2	2.2	3.8	5.8	4¾
Estonia	-8.5	-1.8	4.2	4.1	9.0	6½
Latvia	-14.9	0.8	-1.0	2.9	5.9	5
Lithuania	-30.3	0.8	3.2	4.1	4.5	4
Commonwealth of Independent States	-10.5	-15.5	-6.7	-4.6	1.0	2½
Armenia	-8.8	5.4	6.9	5.8	3.0	5
Azerbaijan	-23.1	-19.7	-11.7	1.1	5.9	7
Belarus	-7.7	-12.6	-10.3	2.8	10.3	7½
Georgia	-29.3	-10.3	2.6	8.8	11.1	10
Kazakhstan	-9.1	-12.7	-8.2	0.5	2.0	3½
Kyrgyzstan	-15.5	-20.1	-5.3	7.0	10.5	7
Republic of Moldova	-1.2	-31.0	-1.8	-7.8	1.3	3
Russian Federation	-8.6	-12.8	-4.1	-4.8	0.4	1½
Tajikistan	-16.3	-21.3	-12.5	-16.7	2.0	4
Turkmenistan	1.4	-16.7	-7.6	0.1	-20.0	4
Ukraine	-14.2	-22.8	-12.2	-10.0	-3.1	½
Uzbekistan	-2.3	-5.2	-0.9	1.6	5.3	5

Sources: UN/DESA and ECE.

a Country group aggregates are averages weighted by GDP in 1993 dollars (*World Economic Survey, 1992* (United Nations publication, Sales No. E.92.II.C.1 and corrigenda), annex, introductory text).
b Partly estimated.
c Forecast based in part on Project LINK.

Table A.4.
DEVELOPING COUNTRIES: RATES OF GROWTH OF GDP, 1981-1998

Annual percentage change

	1981-1990	1991-1997	1991	1992	1993	1994	1995	1996	1997[a]	1998[b]
Developing countries[c] *of which:*	2.4	5.0	3.2	5.0	5.2	5.6	4.6	5.7	5.8	3¾
Africa	1.9	1.7	0.8	-0.4	-0.6	2.0	2.7	4.5	3.0	3¾
Net fuel exporter	1.9	1.7	1.7	1.0	-1.8	0.4	3.6	3.7	3.6	4
Net fuel importer	1.8	1.7	0.2	-1.4	0.2	3.1	2.2	5.1	2.6	3¾
Eastern and Southern Asia	7.2	7.6	6.9	7.8	7.9	8.6	8.2	7.5	6.5	3¾
Region excluding China *of which:*	6.6	6.3	6.2	5.6	5.9	7.0	7.3	6.5	5.4	2
East Asia	7.1	6.7	7.2	6.0	6.5	7.6	7.6	6.6	5.5	1
South Asia	5.3	4.8	2.9	4.2	3.9	5.2	6.2	6.0	5.1	5¼
Western Asia	-2.2	2.6	-5.0	5.5	4.3	-0.9	4.1	4.8	5.9	4
Latin America and the Caribbbean	1.0	3.4	3.4	2.9	3.5	5.5	-0.1	3.7	5.4	3¼
Net fuel exporter	1.8	3.0	4.7	3.9	2.0	3.9	-3.6	3.8	6.1	4¼
Net fuel importer	0.6	3.7	2.6	2.3	4.4	6.3	1.8	3.6	5.0	2¾
Memo items:										
Sub-Saharan Africa (excluding Nigeria and South Africa)	1.7	1.6	-0.3	-1.2	-3.0	1.7	4.1	5.3	4.8	4½
Least developed countries	2.1	2.2	-0.5	0.6	-1.2	1.8	4.6	5.0	4.9	4½
Major developing economies										
Argentina	-1.4	5.5	8.9	8.7	6.0	7.4	-4.6	4.4	8.4	5
Brazil	1.5	2.7	0.1	-1.1	4.1	5.8	4.1	3.0	3.0	1
Chile	2.6	7.2	7.1	10.5	6	4.1	8.2	7.2	7.1	5
China	9.1	11.2	9.2	14.2	13.5	12.6	10.5	9.7	8.8	8
Colombia	3.7	4.0	1.6	4.0	5.1	6.3	5.7	2.1	3.0	4½
Egypt	6.3	3.1	2.3	2.5	2.0	2.3	3.2	4.0	5.3	4½
Hong Kong, China	6.7	5.3	5.1	6.3	6.1	5.3	4.7	4.8	5.3	3½
India	5.3	4.8	2.0	4.0	3.9	5.4	6.7	6.4	5.4	5½
Indonesia	5.5	7.2	7.0	6.5	6.5	7.5	8.1	8.0	6.6	-4
Iran (Islamic Republic of)	2.8	4.1	6.0	6.0	2.6	1.8	4.2	5.0	3.5	2½
Israel	2.8	5.2	6.2	6.6	3.4	6.6	7.1	4.5	2.1	2
Republic of Korea	9.1	7.2	9.1	5.1	5.8	8.6	8.9	7.1	5.5	-1
Malaysia	6.0	8.4	8.6	7.8	8.3	9.2	9.5	8.2	7.0	2
Mexico	1.7	2.8	4.3	3.7	1.9	4.6	-6.2	5.1	7.0	4¾
Nigeria	0.7	2.9	4.8	3.0	2.3	1.3	2.2	3.3	3.8	4
Pakistan	6.0	4.7	6.7	5.1	3.1	4.2	4.9	5.2	3.4	4
Peru	-1.2	5.4	2.6	-0.9	5.8	13.8	7.0	2.8	7.4	4½
Philippines	2.1	3.1	0.0	0.0	2.1	4.4	4.8	5.5	5.1	2½
Saudi Arabia	-2.9	2.1	6.0	3.0	1.6	-2.7	-0.2	4.0	3.0	2
Singapore	7.0	8.0	6.7	6.0	9.9	10.1	8.9	7.0	7.8	4
South Africa	1.5	1.3	-1.0	-2.2	1.3	2.7	3.4	3.2	1.7	2½
Taiwan Province of China	7.9	6.5	7.6	6.8	6.3	6.5	6.1	5.6	6.7	6
Thailand	7.8	7.0	8.5	7.8	8.3	8.7	8.6	6.7	0.4	-3
Turkey	4.3	4.1	0.8	5.0	8.1	-6.1	8.0	7.0	6.8	5
Venezuela	0.8	2.7	9.7	6.1	0.7	-2.5	2.2	-1.5	5.0	1

Source: United Nations.

a Preliminary estimates.
b Forecast, based in part on Project LINK.
c Covering countries that account for 98 per cent of the population of all developing countries.

Table A.5.
DEVELOPED ECONOMIES: INVESTMENT, SAVING AND NET TRANSFERS, 1980-1996

Percentage of GDP

		Gross domestic investment	Gross domestic saving	Net financial transfer
Total[a]	1980	23.4	23.7	-0.3
	1985	21.4	21.8	-0.4
	1990	22.1	22.1	-0.1
	1991	19.7	19.8	-0.2
	1992	20.8	21.2	-0.4
	1993	20.3	21.1	-0.8
	1994	20.9	21.5	-0.6
	1995	21.1	21.9	-0.8
	1996	20.9	21.5	-0.7
Major industrialized countries[a]	1980	23.2	22.7	0.5
	1985	21.4	20.9	0.5
	1990	21.8	21.8	0.0
	1991	21.3	21.4	-0.1
	1992	20.8	21.1	-0.3
	1993	20.5	21.0	-0.5
	1994	21.1	21.4	-0.4
	1995	21.2	21.7	-0.5
	1996	21.1	21.3	-0.3
European Union (15)	1980	22.9	22.0	0.9
	1985	19.5	20.9	-1.4
	1990	21.8	22.1	-0.4
	1991	21.1	21.0	0.1
	1992	20.1	20.2	-0.1
	1993	18.2	19.6	-1.4
	1994	18.8	20.4	-1.6
	1995	19.3	21.1	-1.9
	1996	18.9	21.2	-2.2
Germany[b]	1980	23.4	22.9	0.5
	1985	19.6	23.1	-3.5
	1990	21.4	27.3	-5.9
	1991	23.4	23.4	0.1
	1992	23.0	23.0	0.0
	1993	21.6	22.1	-0.6
	1994	22.3	22.9	-0.6
	1995	22.2	22.9	-0.8
	1996	21.2	22.4	-1.2
Japan	1980	32.2	31.3	0.9
	1985	28.2	31.5	-3.4
	1990	32.3	33.0	-0.7
	1991	32.2	33.8	-1.7
	1992	30.8	33.0	-2.2
	1993	29.7	32.0	-2.3
	1994	28.7	30.7	-2.1
	1995	28.6	30.3	-1.7
	1996	29.9	30.5	-0.5
United States	1980	20.0	19.4	0.6
	1985	20.1	17.2	3.0
	1990	16.9	15.5	1.4
	1991	15.4	14.9	0.5
	1992	15.7	15.0	0.7
	1993	16.3	15.1	1.2
	1994	17.6	16.0	1.6
	1995	17.7	16.2	1.5
	1996	18.1	16.4	1.6

Sources: OECD, *National Accounts;* and national information supplied to the United Nations Statistics Division.

a National data converted to dollars for aggregation at annual average exchange rates.
b Prior to 1991, data referring to Western Germany only.

Table A.6.
DEVELOPED ECONOMIES: UNEMPLOYMENT RATES, 1988-1998[a]

Percentage of total labour force

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]	1998[c]
All developed economies	6.6	6.1	5.9	6.7	7.6	8.0	7.9	7.5	7.6	7.4	7
Major industrialized countries	6.0	5.6	5.5	6.2	7.1	7.2	7.0	6.7	6.8	6.6	6½
Canada	7.8	7.5	8.1	10.4	11.3	11.2	10.4	9.5	9.7	9.2	8½
France	10.0	9.4	8.9	9.4	10.4	11.7	12.3	11.6	12.3	12.5	12
Germany[d]	6.2	5.6	4.8	4.2	7.7	7.9	8.4	8.2	8.8	9.9	10
Italy	10.0	10.0	9.1	8.8	9.0	10.3	11.4	11.9	12.0	12.2	12
Japan	2.5	2.2	2.1	2.1	2.1	2.5	2.9	3.1	3.3	3.4	3½
United Kingdom	8.6	7.2	6.9	8.8	10.1	10.4	9.5	8.7	8.2	7.1	7
United States	5.4	5.2	5.5	6.8	7.4	6.8	6.0	5.5	5.4	4.9	4¾
Other industrialized countries	9.1	8.2	7.9	8.8	10.1	12.0	12.2	11.5	11.3	10.9	10
Australia	7.1	6.2	7.0	9.5	10.8	11.0	9.8	8.6	8.6	8.7	8¼
Austria[e]	4.7	4.3	4.7	5.2	5.3	6.1	5.9	5.9	6.3	6.2	6
Belgium	8.9	7.5	6.7	6.6	7.3	8.9	10.0	9.9	9.8	9.5	9¼
Denmark	6.1	7.4	7.7	8.5	9.2	10.1	8.2	7.2	6.9	6.2	5½
Finland	4.4	3.3	3.2	7.2	12.4	16.9	17.4	16.2	15.3	14.1	12
Greece[e]	7.7	7.5	7.0	7.7	8.7	9.7	9.6	10.0	10.3	10.4	10¼
Iceland[e]	0.6	1.7	1.8	1.5	3.0	4.4	4.8	5.0	4.4	3.9	3½
Ireland	16.1	14.7	13.4	14.8	15.4	15.6	14.3	12.3	11.6	10.3	9½
Luxembourg	2.0	1.8	1.7	1.7	2.1	2.7	3.2	2.9	3.3	3.7	3½
Malta[e]	4.0	3.7	3.8	3.6	4.0	4.5	4.0	3.6	3.7	4.4	4½
Netherlands	7.5	6.9	6.2	5.8	5.6	6.6	7.1	6.9	6.3	5.5	5
New Zealand	5.6	7.1	7.8	10.3	10.3	9.5	8.1	6.3	6.1	6.7	6¾
Norway	3.3	5.0	5.3	5.6	6.0	6.1	5.5	5.0	4.9	4.3	3½
Portugal	5.5	4.9	4.6	4.0	4.2	5.7	7.0	7.3	7.3	6.5	6
Spain	19.5	17.2	16.2	16.4	18.5	22.8	24.1	22.9	22.1	20.9	19¾
Sweden	1.9	1.6	1.8	3.3	5.9	9.5	9.8	9.2	10.0	10.3	8½
Switzerland	0.6	0.5	0.5	1.9	3.0	3.8	3.6	3.3	3.9	4.3	3¾
Western Europe	8.9	8.1	7.4	7.8	9.4	10.6	11.0	10.6	10.7	10.6	10¼
of which:											
European Union (15)	9.1	8.3	7.6	7.9	9.6	10.8	11.2	10.8	10.9	10.8	10½

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

a 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 Partly estimated.
c Forecast.
d Prior to January 1993, data referring to Western Germany only.
e Not standardized.

Table A.7.
DEVELOPED ECONOMIES: CONSUMER PRICE INFLATION, 1989-1998[a]

Annual percentage change

	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]	1998[c]
All developed economies	4.3	4.9	4.3	3.2	2.8	2.2	2.3	2.2	2.1	2¼
Major industrialized countries	4.2	4.7	4.1	3.0	2.6	2.1	2.1	2.1	2.1	2¼
Canada	5.1	4.7	5.6	1.5	1.9	0.2	2.2	1.5	1.7	2
France	3.4	3.4	3.2	2.4	2.1	1.7	1.7	2.1	1.2	1
Germany	2.8	2.7	3.6	5.1	4.4	2.7	1.9	1.5	1.8	1½
Italy	6.2	6.5	6.3	5.1	4.5	4.0	5.3	3.9	2.0	2
Japan	2.2	3.1	3.3	1.7	1.2	0.7	-0.1	0.2	1.7	½
United Kingdom	7.8	9.5	5.9	3.7	1.6	2.5	3.4	2.5	3.1	3¼
United States	4.9	5.4	4.2	3.1	3.0	2.5	2.8	2.9	2.4	3¼
Other industrialized countries	5.3	6.3	5.5	4.2	3.9	3.3	3.4	2.6	1.8	2¼
Australia	7.5	7.3	3.2	1.0	1.8	1.9	4.7	2.6	0.3	1½
Austria	2.5	3.3	3.3	4.1	3.6	3.0	2.3	1.8	1.3	1¾
Belgium	3.1	3.4	3.2	2.4	2.7	2.4	1.4	2.1	1.6	1½
Denmark	4.7	2.7	2.4	2.1	1.3	2.0	2.0	2.2	2.1	2¼
Finland	6.6	6.2	4.1	2.6	2.2	1.1	0.9	0.6	1.3	2
Greece	13.8	20.3	19.5	15.8	14.5	10.9	8.9	8.2	5.5	4½
Iceland	20.8	15.5	6.8	3.9	4.1	1.6	1.6	2.3	1.8	2½
Ireland	4.1	3.3	3.2	3.1	1.4	2.3	2.5	1.7	1.5	2½
Malta	0.8	3.0	2.5	1.7	4.1	4.2	4.0	2.6	2.9	3½
Netherlands	1.0	2.5	3.1	3.2	2.6	2.8	2.0	2.1	2.3	2½
New Zealand	5.7	6.0	2.6	1.0	1.4	1.7	3.8	2.6	0.9	1¾
Norway	4.5	4.2	3.4	2.3	2.3	1.5	2.5	1.2	2.6	2¾
Portugal	12.6	13.4	11.4	8.9	6.8	4.9	4.1	3.2	2.1	2¼
Spain	6.8	6.7	5.9	6.0	4.6	4.8	4.6	3.6	2.0	2¼
Sweden	6.5	10.5	9.3	2.3	4.7	2.2	2.5	0.5	0.6	2¼
Switzerland	3.2	5.4	5.8	4.1	3.4	0.8	1.8	0.9	0.5	1
Western Europe	4.7	5.3	4.9	4.3	3.6	3.0	3.0	2.4	2.0	2
of which:										
European Union (15)	4.8	5.3	4.9	4.4	3.6	3.0	3.0	2.5	2.0	2

Source: UN/DESA, 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 1993 prices and exchange rates.
b Partly estimated.
c Forecasts.

Table A.8.
ECONOMIES IN TRANSITION: CONSUMER PRICE INFLATION, 1993-1998

Annual percentage change

	1993	1994	1995	1996	1997[a]	1998[b]
Central and Eastern Europe						
Albania	85.0	21.5	8.0	12.7	33.1	27
Bulgaria	72.9	96.2	62.1	123.1	1082.6	33
Croatia[c]	1516.6	97.5	2.0	3.6	3.7	5
Czech Republic	20.6	10.0	9.1	8.9	8.4	11
Hungary	22.6	19.1	28.5	23.6	18.4	15
Poland	36.9	33.2	28.1	19.8	15.1	13
Romania	256.2	137.1	32.2	38.8	154.9	40
Slovakia	23.1	13.4	10.0	6.0	6.2	7
Slovenia[c]	31.8	19.8	12.7	9.7	9.1	8
The former Yugoslav Republic of Macedonia[c]	353.1	121.0	16.9	4.1	3.6	8
Yugoslavia[d]	..[d]	..[d]	71.8	90.5	23.2	..
Baltics States						
Estonia	89.6	47.9	28.9	23.1	11.1	10¾
Latvia	109.1	35.7	25.0	17.7	8.5	7¾
Lithuania	410.1	72.0	39.5	24.7	8.8	8¼
Commonwealth of Independent States						
Armenia	3731.8	47.9	32.0	5.7	21.9	13
Azerbaijan	1129.7	1663.9	411.5	19.8	3.6	4
Belarus	1190.9	2219.6	709.3	52.7	63.9	69
Georgia	4084.9	22470.0	177.6	39.4	7.3	8
Kazakhstan	1662.7	1879.5	175.9	39.1	17.4	12
Kyrgyzstan	1208.7	278.1	42.9	30.3	25.5	15
Republic of Moldova	1751.0	486.4	29.9	23.5	11.8	10
Russian Federation	875.0	309.0	197.4	47.8	14.7	11
Tajikistan	2884.8	350.3	682.1	422.4	85.4	50
Turkmenistan	1630.5	2714.0	1005.0	992.0	87.0	40
Ukraine	4734.9	891.2	376.7	80.2	15.9	16
Uzbekistan	1231.8	1550.0	315.5	64.4	27.6	30

Sources: UN/ECE and UN/DESA.

a Partly estimated.
b Forecast.
c Retail prices.
d Annual rates of hyperinflation of over 1 trillion percentage points.

Table A.9.
MAJOR DEVELOPED ECONOMIES: FINANCIAL INDICATORS, 1987-1997

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Short-term interest rates[a] *(percentage)*											
Canada	8.5	10.4	12.1	11.6	7.4	6.8	3.8	5.5	5.7	3.0	4.3
France	8.0	7.5	9.1	9.9	9.5	10.4	8.8	5.7	6.4	3.7	3.2
Germany	3.7	4.0	6.6	7.9	8.8	9.4	7.5	5.4	4.5	3.3	3.2
Italy	11.5	11.3	12.7	12.4	12.2	14.0	10.2	8.5	10.5	8.8	6.9
Japan	3.5	3.6	4.9	7.2	7.5	4.6	3.1	2.2	1.2	0.5	0.5
United Kingdom	9.5	9.7	13.6	14.6	11.8	9.4	5.5	4.8	6.0	5.9	6.6
United States	6.7	7.6	9.2	8.1	5.7	3.5	3.0	4.2	5.8	5.3	5.5
Long-term interest rates[b] *(percentage)*											
Canada	10.0	10.2	9.9	10.9	9.8	8.8	7.8	8.6	8.3	7.5	6.4
France	9.4	9.1	8.8	10.0	9.1	8.6	6.9	7.4	7.6	6.4	5.6
Germany	5.8	6.1	7.1	8.9	8.6	8.0	6.3	6.7	6.5	5.6	5.1
Italy	9.7	10.2	10.7	11.5	13.2	13.3	11.3	10.6	12.2	9.4	6.9
Japan	4.2	4.3	5.1	7.4	6.5	4.9	3.7	3.7	2.5	2.2	1.7
United Kingdom	9.5	9.4	9.6	11.1	9.9	9.1	7.9	8.1	8.3	8.1	7.1
United States	8.4	8.9	8.5	8.6	7.9	7.0	5.8	7.1	6.6	6.4	6.4
General government financial balances[c] *(percentage)*											
Canada	-3.8	-2.5	-2.9	-4.1	-6.6	-7.4	-7.3	-5.3	-4.1	-1.8	0.4
France[d]	-1.9	-1.7	-1.2	-1.6	-2.0	-3.9	-5.7	-5.7	-5.0	-4.1	-3.1
Germany[e]	-1.9	-2.2	0.1	-2.1	-3.3	-2.8	-3.2	-2.4	-3.3	-3.4	-3.0
Italy	-11.0	-10.7	-9.8	-11.1	-10.1	-9.6	-10.0	-9.6	-7.0	-6.7	-3.0
Japan	0.5	1.5	2.5	2.9	2.9	1.5	-1.6	-2.3	-3.7	-4.4	-2.8
United Kingdom	-1.4	0.7	1.0	-1.2	-2.6	-6.3	-7.9	-6.9	-5.6	-4.8	-2.3
United States	-2.6	-2.1	-1.7	-2.7	-3.3	-4.4	-3.6	-2.3	-1.9	-1.1	0.0

Sources: United Nations, based on IMF, *International Financial Statistics*; and OECD, *Economic Outlook*.

a Money market rates.
b Yield on long-term government bonds.
c Surplus (+) or deficit (-) as a percentage of nominal GNP or GDP; 1997 data are OECD estimates.
d As of 1992, deficits are calculated using "Maastricht" definition.
e Prior to 1991, data referring to Western Germany only.

Table A.10.
MAJOR DEVELOPED ECONOMIES: REAL EFFECTIVE EXCHANGE RATES, BROAD MEASUREMENT, 1987-1997[a]

1990 = 100

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Major industrialized countries											
Canada	93.6	101.8	105.0	100.0	97.6	91.4	89.0	88.7	92.2	91.5	92.6
France	101.7	98.8	95.9	100.0	97.9	101.7	103.1	102.6	103.1	103.1	98.6
Germany	101.1	99.8	96.8	100.0	97.9	100.7	100.9	99.8	104.8	100.4	94.9
Italy	91.6	90.1	93.1	100.0	101.0	98.4	85.0	83.3	81.1	91.4	91.2
Japan	114.4	120.3	112.2	100.0	104.8	106.6	121.6	126.4	127.4	108.7	103.3
United Kingdom	93.4	100.2	98.2	100.0	102.9	99.9	91.6	92.6	89.7	92.4	106.8
United States	105.7	97.9	101.8	100.0	101.2	101.1	103.3	100.5	95.7	100.2	106.3
Other industrialized countries											
Australia	83.9	94.5	102.2	100.0	98.6	91.1	85.6	89.9	87.6	96.3	97.9
Austria	98.8	97.4	96.1	100.0	99.5	103.6	107.7	109.7	112.7	112.2	109.4
Belgium	101.3	97.2	94.9	100.0	100.6	104.3	106.4	110.0	112.9	111.7	107.5
Denmark	95.6	95.6	93.7	100.0	98.7	102.2	104.3	104.7	107.6	108.1	106.0
Finland	88.3	91.5	96.4	100.0	94.9	83.2	74.1	79.3	85.1	84.1	81.7
Greece	96.0	95.4	95.4	100.0	101.7	105.9	107.3	105.8	107.1	112.1	114.2
Ireland	95.5	94.7	93.9	100.0	98.3	101.5	96.2	97.5	97.5	99.9	100.5
Netherlands	105.8	101.9	97.5	100.0	97.8	100.9	103.7	103.8	105.3	102.6	98.2
New Zealand	99.5	105.9	99.9	100.0	97.2	89.9	93.5	100.0	107.5	117.7	121.2
Norway	98.8	100.7	99.3	100.0	99.8	101.8	99.7	98.7	101.0	100.5	102.5
Portugal	103.1	99.9	99.5	100.0	103.8	111.5	107.6	104.1	103.8	105.2	104.3
Spain	89.6	92.9	96.9	100.0	98.3	95.4	83.2	79.5	82.6	82.7	79.2
Sweden	93.5	96.5	100.6	100.0	98.5	97.2	81.5	83.7	90.6	95.4	91.4
Switzerland	100.8	98.4	92.4	100.0	100.8	101.0	104.7	111.1	117.6	115.8	108.6

Source: Morgan Guaranty Trust Company, *World Financial Markets.*

a Indices based on a "broad" measure currency basket of 22 OECD currencies and 23 developing-economy currencies (mostly Asian and Latin American). The real effective exchange rate, which adjusts the nominal index for relative price changes, gauges the effect on international price competitiveness of the country's manufactures due to currency changes and inflation differentials. A rise in the index implies a fall in competitiveness and vice versa. The relative price changes are based on indices most closely measuring the prices of domestically produced finished manufactured goods, excluding food and energy, at the first stage of manufacturing. The weights for currency indices are derived from 1990 bilateral trade patterns of the corresponding countries.

Table A.11.
CENTRAL AND EASTERN EUROPE AND BALTIC STATES: UNEMPLOYMENT RATES, 1993-1998[a]

Percentage of total labour force

	1993	1994	1995	1996	1997[b]	1998[c]
Central and Eastern Europe						
Albania	22.0	18.0	13.1	12.1	13.4	13½
Bulgaria	16.4	12.8	11.1	12.5	13.7	13½
Croatia	16.6	17.3	17.6	15.9	17.6	16½
Czech Republic	3.5	3.2	2.9	3.5	5.2	5½
Hungary	12.1	10.9	10.4	10.5	10.4	10
Poland	16.4	16.0	14.9	13.2	10.5	10½
Romania	10.4	10.9	9.5	6.3	8.8	10
Slovakia	14.4	14.8	13.1	12.8	12.5	14
Slovenia	15.5	14.2	14.5	14.4	14.8	14½
The former Yugoslav Republic of Macedonia	30.3	33.2	37.2	39.8	42.4	31
Yugoslavia	24.0	23.9	24.7	26.1	25.6	28
Baltic States						
Estonia	5.0	5.1	5.0	5.6	4.6	4½
Latvia	5.8	6.5	6.6	7.2	6.7	8
Lithuania	3.4	4.5	7.3	6.2	6.7	7

Source: National statistics and direct communications from national statistical offices to UN/ECE secretariat.

a Because of the comparability problem, figures are not given for the Commonwealth of Independent States.
b Partly estimated.
c Forecast.

Table A.12.
DEVELOPING COUNTRIES: INVESTMENT, SAVING AND NET TRANSFERS, 1980-1996

Percentage of GDP

	Gross domestic investment				Gross domestic saving				Net transfer of resources			
	1980	1985	1990	1996	1980	1985	1990	1996	1980	1985	1990	1996
All developing countries	25.8	23.6	25.3	27.5	28.9	24.2	26.0	26.9	-3.1	-0.6	-0.6	0.6
by region:												
Africa	25.2	22.7	23.0	22.7	29.7	22.1	19.7	18.0	-4.5	0.6	3.3	4.8
Latin America	24.7	19.0	20.2	20.0	23.5	23.9	22.5	19.7	1.2	-4.8	-2.3	0.3
Eastern and Southern Asia (excluding China)	26.0	24.2	29.2	31.4	24.0	24.4	28.9	29.8	2.1	-0.2	0.4	1.6
East Asia	29.6	25.1	31.8	33.3	29.8	28.6	32.9	32.4	-0.1	-3.5	-1.2	1.0
South Asia	20.5	22.8	23.7	24.7	15.1	18.0	20.0	21.1	5.4	4.8	3.7	3.6
Western Asia	23.6	20.6	22.9	21.7	40.7	19.3	23.9	23.6	-17.1	1.3	-1.1	-1.9
by analytical grouping:												
Net-creditor countries	24.2	23.2	24.7	25.5	56.9	27.4	29.4	30.6	-32.7	-4.1	-4.7	-5.1
Net-debtor countries	26.0	23.6	25.4	27.8	24.4	23.8	25.5	26.5	1.6	-0.2	-0.1	1.3
Net fuel exporters	25.1	22.1	24.0	23.4	37.8	23.9	25.8	26.0	-12.7	-1.8	-1.8	-2.6
Net fuel importers	24.7	21.1	24.4	25.8	20.7	22.0	24.2	23.6	4.0	-0.9	0.2	2.3
Four exporters of manufacturers	34.3	26.2	31.2	32.4	29.9	32.3	34.2	32.6	4.4	-6.0	-3.0	-0.1
Memo items:												
Sub-Saharan Africa	18.8	15.1	16.7	17.5	11.4	12.2	10.7	12.5	7.4	2.9	6.1	5.0
Least developed countries	18.9	14.6	15.1	18.4	4.9	3.6	5.0	7.2	14.0	11.0	10.1	11.2
Selected developing countries												
Argentina	25.3	17.6	14.0	18.5	23.8	23.1	19.7	18.2	1.4	-5.5	-5.7	0.3
Brazil	23.3	19.2	21.5	19.5	21.1	24.4	23.2	18.2	2.3	-5.2	-1.7	1.3
China	35.2	37.8	34.7	42.4	34.9	33.7	37.5	43.9	0.3	4.1	-2.8	-1.5
Egypt	27.5	26.7	28.8	16.6	15.2	14.5	16.1	12.1	12.4	12.1	12.7	4.5
India	20.9	24.2	25.2	26.5	17.4	21.1	22.4	23.9	3.5	3.1	2.8	2.6
Indonesia	24.1	26.1	30.8	31.8	38.0	28.6	33.2	33.2	-14.0	-2.5	-2.4	-1.3
Mexico	27.2	20.8	23.1	20.9	24.9	25.9	22.0	23.4	2.3	-5.1	1.1	-2.5
Nigeria	21.3	9.0	14.7	18.7	31.4	12.6	29.4	24.4	-10.2	-3.7	-14.6	-5.6
Peru	29.0	18.4	21.1	23.5	32.0	24.9	21.6	19.1	-3.0	-6.5	-0.4	4.4
Republic of Korea	32.0	29.6	36.9	38.2	24.8	30.9	36.4	34.2	7.3	-1.3	0.5	4.0
South Africa	28.3	19.9	17.1	17.5	36.5	29.0	23.1	18.3	-8.2	-9.1	-6.0	-0.7
Thailand	29.1	28.2	41.1	41.0	22.9	25.5	33.6	35.3	6.3	2.7	7.5	5.7
Turkey	18.2	16.5	24.3	23.8	11.4	13.4	20.1	17.8	6.8	3.1	4.3	5.9

Source: United Nations, based on World Bank, *1998 World Development Indicators* (CD-ROM), and United Nations Secretariat estimates.

Table A.13.
DEVELOPING COUNTRIES: CONSUMER PRICE INFLATION, 1988-1998[a]

Annual percentage change

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]	1998[c]
Developing countries by region:	123.8	361.2	532.0	81.6	132.9	254.1	134.6	20.9	16.9	11.0	12
Africa	18.3	19.8	16.1	96.0	172.3	112.5	244.7	40.6	36.6	10.2	8¼
Eastern and Southern Asia	9.9	9.6	6.4	7.7	7.0	8.3	12.0	9.8	6.8	4.4	9¼
Region excluding China	6.4	6.2	7.8	9.5	7.2	5.7	7.1	6.8	6.2	5.0	11
of which:											
East Asia	5.4	6.0	7.3	8.4	6.1	5.4	6.1	5.8	5.3	4.3	11¾
South Asia	9.4	7.0	9.2	13.0	10.9	6.6	10.0	10.2	8.9	7.4	8½
Western Asia	33.0	27.7	23.9	27.9	29.0	27.0	41.6	40.7	33.0	33.2	33
Latin America and the Caribbean	363.6	1128.6	1679.6	210.6	354.1	757.8	326.4	23.4	19.5	11.7	8¼
Memo items:											
Sub-Saharan Africa (excluding Nigeria and South Africa)	24.5	25.7	22.8	283.3	532.6	342.4	780.3	87.1	95.1	19.0	10¾
Least developed countries	31.5	33.2	27.9	366.0	687.1	440.8	997.8	103.7	119.2	21.0	11¼
Major developing economies											
Argentina	333.3	3084.6	2315.5	171.7	24.9	10.6	4.2	3.4	0.2	0.5	1½
Brazil	683.2	1287.2	2937.9	440.8	990.2	2186.3	930.0	25.0	11.1	6.0	4
China	18.8	18.0	3.2	3.3	6.4	14.7	24.1	17.1	8.3	2.8	5
Hong Kong, China	7.4	9.7	9.7	11.6	9.3	8.5	8.2	8.6	6.0	5.8	4
India	9.4	6.2	8.9	13.9	11.8	6.4	10.2	10.3	8.9	6.5	8
Indonesia	8.0	6.4	7.8	9.4	7.5	9.7	8.5	9.5	8.0	6.6	40
Israel	16.4	20.1	17.2	19.0	11.9	11.0	12.3	10.1	11.3	9.0	9
Malaysia	2.6	2.7	2.7	4.4	4.7	3.6	3.7	3.5	5.3	2.7	7
Republic of Korea	7.1	5.7	8.6	9.3	6.2	4.8	6.2	4.5	4.9	4.4	9¾
Mexico	114.3	20.1	26.6	22.7	15.5	9.7	6.9	35.0	34.4	20.6	13
Saudi Arabia	0.9	1.0	2.0	4.9	-0.1	1.0	0.6	4.9	1.2	0.1	2¾
South Africa	12.7	14.7	14.4	15.3	13.9	9.7	9.0	8.6	7.3	8.6	7¼
Taiwan Province of China	1.5	3.8	4.7	5.4	4.5	3.0	4.1	3.7	3.1	0.9	3¼
Thailand	3.8	5.4	5.9	5.7	4.1	3.4	5.1	5.8	5.9	5.6	13
Turkey	73.6	63.3	60.3	66.0	70.1	66.1	106.3	88.1	80.4	85.7	83¼

Source: United Nations/DESA, based on IMF, *International Financial Statistics*.

a Weights used are GDP in 1993 dollars.
b Preliminary estimates based on data for part of the year.
c Forecast.

Table A.14.
SELECTED DEVELOPING ECONOMIES: REAL EFFECTIVE EXCHANGE RATES, BROAD MEASUREMENT, 1987-1997[a]

1990=100

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Argentina	92.6	103.3	88.0	100.0	115.4	113.4	115.0	111.4	108.9	112.8	120.4
Brazil	61.3	67.0	82.7	100.0	80.4	73.1	82.2	94.2	100.2	98.5	104.8
Chile	105.8	98.6	101.9	100.0	106.1	113.8	113.9	113.9	120.2	126.5	135.0
Mexico	92.9	112.3	107.6	100.0	106.2	107.7	116.6	112.2	78.9	89.8	102.8
Venezuela	119.6	135.5	117.9	100.0	99.8	100.6	104.0	109.3	139.1	119.0	139.3
Hong Kong, China	91.9	93.2	98.1	100.0	103.5	106.2	111.6	114.5	112.9	121.1	131.4
Indonesia	103.7	101.8	102.8	100.0	101.0	99.6	101.5	100.3	98.7	103.5	96.7
Malaysia	118.8	106.1	103.5	100.0	98.8	106.4	109.5	106.3	106.1	111.2	108.6
Philippines	96.9	99.6	106.1	100.0	97.0	105.7	97.4	104.3	103.4	114.7	109.3
Republic of Korea	88.4	96.3	107.7	100.0	96.9	88.4	85.8	84.1	85.5	88.1	83.5
Singapore	90.7	90.1	95.5	100.0	102.5	105.2	106.1	109.2	110.2	115.0	117.0
Taiwan Province of China	96.9	100.5	107.0	100.0	97.4	96.0	92.8	91.1	91.6	89.8	91.2
Thailand	96.9	97.4	100.4	100.0	102.3	98.7	100.1	99.5	97.7	105.6	97.0
Turkey	84.3	87.2	95.4	100.0	97.1	89.1	92.6	72.8	75.6	74.3	78.4

Source: Morgan Guaranty Trust Company, *World Financial Markets*.

a Measured against a broad currency basket of 22 OECD currencies and 23 developing-economy currencies (mostly Asian and Latin American). The real effective exchange rate, which adjusts the nominal index for relative price changes, gauges the effect on international price competitiveness of the country's manufactures due to currency changes and inflation differentials. A rise in the index implies a fall in competitiveness and vice versa. The relative price changes are based on indices most closely measuring the prices of domestically produced finished manufactured goods, excluding food and energy, at the first stage of manufacturing. The weights for currency indices are derived from 1990 bilateral trade patterns of the corresponding countries.

II. INTERNATIONAL TRADE

Table A.15.
DIRECTION OF TRADE: EXPORTS (F.O.B.), 1985-1997

		Destination[a]														
		World[b]	Devd.	EU	US	Japan	EIT	EE	CIS	RF	Devg.	LAC	Africa	SSA	WA	ESA
		Bn. $	Percentage													
World[b]	1985	1 877.2	68.1	34.1	17.4	5.9	..	..	..	..	23.9	4.5	3.7	1.0	5.0	8.7
	1990	3 386.1	72.1	40.0	14.5	6.1	..	..	..	..	23.0	3.9	2.7	0.8	3.5	11.3
	1995	5 074.5	65.3	34.5	14.8	5.9	4.1	2.2	1.7	1.1	29.1	4.9	2.3	0.6	3.2	15.6
	1996	5 300.2	64.6	33.7	15.0	5.9	4.5	2.4	1.8	1.1	29.3	5.1	2.2	0.6	3.4	15.5
	1997[c]	5 506.3	63.4	32.1	15.6	5.6	4.6	2.5	1.8	1.0	30.3	5.7	2.2	0.6	3.5	15.5
Developed economies (Devd.)	1985	1 279.0	72.7	38.7	16.8	3.5	..	..	..	..	22.9	4.6	4.1	1.0	5.0	7.4
	1990	2 442.0	76.4	45.9	12.4	4.2	..	..	..	..	20.0	3.9	2.8	0.7	3.3	9.1
	1995	3 312.8	70.6	41.6	12.4	3.9	3.4	2.2	1.0	0.8	25.0	5.1	2.4	0.5	3.1	12.6
	1996	3 422.6	70.2	41.0	12.5	3.9	3.9	2.5	1.1	0.9	24.9	5.2	2.2	0.5	3.4	12.3
	1997[c]	3 489.4	68.8	38.9	13.2	3.7	4.1	2.6	1.2	0.9	26.0	5.9	2.2	0.5	3.5	12.4
of which:																
European Union (EU)	1985	639.8	77.3	51.6	10.2	1.3	..	..	..	..	17.2	2.3	5.5	1.4	5.2	3.4
	1990	1 354.6	81.4	58.0	7.2	2.1	..	..	..	..	13.4	2.0	3.6	0.9	3.4	4.0
	1995	1 751.3	77.1	55.1	7.0	2.2	5.3	3.7	1.3	1.0	16.5	2.7	3.1	0.7	3.5	6.0
	1996	1 787.8	76.1	54.5	7.3	2.3	6.0	4.1	1.5	1.1	16.8	2.8	3.0	0.7	3.8	6.2
	1997[c]	1 767.5	74.8	52.7	8.0	2.1	6.4	4.4	1.6	1.2	17.3	2.8	2.9	0.7	4.1	6.3
United States (US)	1985	327.5	61.4	22.0	0.0	10.6	..	..	..	..	36.6	14.5	3.5	0.8	5.2	11.5
	1990	491.5	63.9	23.7	0.0	12.4	..	..	..	..	34.6	13.7	2.0	0.4	3.4	14.2
	1995	751.6	57.3	19.0	0.0	11.0	1.1	0.4	0.6	0.5	41.5	16.5	1.7	0.3	3.5	17.8
	1996	796.2	56.5	18.4	0.0	10.8	1.2	0.4	0.8	0.5	42.2	17.5	1.7	0.3	3.7	17.3
	1997[c]	857.1	55.2	18.4	0.0	9.5	1.2	0.5	0.7	0.5	43.5	19.4	1.7	0.3	3.4	17.0
Japan	1985	110.2	58.0	12.2	37.6	0.0	..	..	..	..	39.4	4.4	2.2	0.5	6.5	19.4
	1990	207.6	58.6	19.1	31.7	0.0	..	..	..	..	40.1	3.4	1.9	0.4	3.5	29.3
	1995	298.6	47.7	14.8	27.5	0.0	0.5	0.2	0.3	0.3	51.7	4.2	1.7	0.3	2.2	38.9
	1996	314.2	47.1	14.3	27.5	0.0	0.5	0.2	0.3	0.2	52.3	4.1	1.4	0.3	2.7	39.1
	1997[c]	309.4	47.9	14.5	28.1	0.0	0.6	0.3	0.3	0.2	51.5	4.6	1.3	0.3	2.9	37.3
Economies in transition (EIT)	1995	209.8	50.6	39.9	4.0	1.8	34.9	12.9	19.9	8.7	13.6	1.0	1.3	0.1	3.9	3.9
	1996	237.7	50.2	39.4	4.4	1.6	35.3	13.0	19.6	8.5	13.3	1.1	1.4	0.1	3.9	3.4
	1997[c]	252.9	49.8	39.9	4.0	1.7	35.3	13.6	18.1	6.8	13.3	1.1	1.4	0.1	4.4	3.4
of which:																
Eastern Europe (EE)	1995	111.7	63.1	56.4	2.5	0.3	26.4	17.7	7.8	4.7	9.1	1.0	1.8	0.2	3.2	2.4
	1996	125.3	63.2	56.6	2.5	0.4	27.5	17.7	8.2	4.8	8.7	0.9	2.0	0.2	3.0	2.4
	1997[c]	135.2	63.7	56.0	3.5	0.6	27.8	18.4	7.7	3.8	7.9	0.8	1.9	0.2	2.8	2.1
Commonwealth of Independent States (CIS)	1995	87.0	40.3	26.1	5.3	3.2	41.3	9.5	29.0	11.3	18.0	1.0	0.9	0.0	4.6	5.2
	1996	97.1	39.7	25.3	6.1	2.7	40.8	9.9	27.8	10.8	17.7	1.2	1.0	0.0	4.9	4.3
	1997[c]	98.0	37.9	26.0	4.5	2.7	41.3	10.7	26.2	9.0	18.4	1.4	1.0	0.0	6.0	4.5
of which:																
Russian Federation (RF)	1995	54.6	49.6	31.6	6.6	4.1	31.8	10.5	18.5	0.0	18.2	1.2	0.9	0.0	4.1	6.3
	1996	59.9	48.9	30.7	7.6	3.5	33.4	11.4	18.4	0.0	16.5	1.4	0.8	0.0	4.3	4.7
	1997[c]	55.5	47.3	31.9	5.7	3.5	36.2	12.6	18.3	0.0	15.8	1.7	0.8	0.1	4.9	4.7

Table A.15 (continued)

		Destination[a]														
		World[b]	Devd.	EU	US	Japan	EIT	EE	CIS	RF	Devg.	LAC	Africa	SSA	WA	ESA
		Bn. $	Percentage													
Developing countries (Devg.)	1985	447.7	64.0	26.0	23.0	13.4	..	..	..	..	30.6	4.9	2.9	1.0	5.4	13.9
	1990	777.9	61.4	23.7	22.3	12.6	..	..	..	..	34.3	4.2	2.6	1.0	4.2	19.1
	1995	1 475.6	54.7	17.0	22.1	11.1	1.4	0.6	0.8	0.6	41.0	5.0	2.4	0.9	3.2	24.6
	1996	1 553.1	54.1	16.6	22.2	11.0	1.5	0.6	0.8	0.6	41.5	5.3	2.4	0.9	3.3	24.5
	1997[c]	1 669.6	53.7	16.5	22.3	10.3	1.4	0.6	0.8	0.5	41.9	5.7	2.4	1.0	3.2	23.9
of which:																
Latin America and the Caribbean (LAC)	1985	83.8	71.7	22.0	40.0	5.2	..	..	..	..	22.4	13.3	2.8	0.6	2.6	2.9
	1990	132.1	70.2	21.9	37.8	5.5	..	..	..	..	26.5	16.4	1.6	0.3	2.0	4.5
	1995	248.2	69.0	15.2	44.9	4.1	0.9	0.4	0.5	0.5	28.2	19.7	1.3	0.2	1.3	4.7
	1996	269.8	68.3	13.7	47.2	3.5	1.1	0.5	0.5	0.5	28.7	20.4	1.3	0.2	1.3	4.4
	1997[c]	312.4	66.8	13.4	45.1	3.5	1.1	0.4	0.7	0.6	30.0	21.8	1.3	0.2	1.3	4.3
Africa	1985	69.6	72.8	50.3	14.7	2.9	..	..	..	..	13.3	3.2	4.2	2.1	2.5	1.8
	1990	93.0	71.0	46.5	14.8	3.0	..	..	..	..	14.3	1.1	7.0	3.6	2.3	2.8
	1995	118.6	66.6	43.7	13.3	3.0	1.4	0.9	0.4	0.2	23.4	1.9	10.6	7.3	3.1	6.8
	1996	118.8	66.6	42.4	14.0	2.9	1.5	1.0	0.4	0.2	24.6	2.5	10.2	7.1	3.5	7.6
	1997[c]	123.2	65.1	41.3	14.5	2.8	1.5	0.9	0.5	0.2	26.0	2.7	10.6	7.4	3.4	7.6
of which:																
Sub-Saharan Africa (SSA)	1985	18.2	75.2	47.3	17.8	2.6	..	..	..	..	19.2	2.9	9.5	6.4	1.1	3.8
	1990	25.8	74.0	44.0	18.7	3.2	..	..	..	..	22.1	1.9	12.9	8.9	1.1	5.2
	1995	31.7	69.1	40.1	18.7	3.4	1.5	0.9	0.5	0.3	27.2	1.4	14.6	8.8	1.8	7.4
	1996	33.8	68.0	37.6	19.4	2.8	1.7	1.0	0.6	0.4	28.3	2.4	14.1	8.9	1.9	7.8
	1997[c]	35.1	64.0	33.0	21.0	2.4	2.1	1.1	0.9	0.6	31.6	2.4	15.1	9.6	2.0	7.0
Western Asia (WA)	1985	94.6	57.7	27.8	6.3	20.5	..	..	..	..	32.5	4.2	2.6	1.1	11.7	13.7
	1990	118.2	62.2	24.0	13.7	17.7	..	..	..	..	31.3	3.0	2.9	0.7	10.6	14.1
	1995	162.1	50.2	20.7	10.2	16.0	3.3	1.4	1.8	1.1	37.1	1.8	3.4	0.8	8.8	21.3
	1996	178.1	47.8	19.4	9.5	15.9	3.4	1.2	1.9	1.0	39.2	1.7	3.2	0.8	8.1	24.2
	1997[c]	190.9	48.3	18.5	10.2	16.4	3.2	1.0	1.9	0.6	38.7	1.8	3.5	0.8	7.9	23.6
Eastern and Southern Asia (including China) (ESA)	1985	145.2	62.5	12.0	30.2	16.2	..	..	..	..	33.9	1.6	1.6	0.7	4.0	26.2
	1990	332.7	60.7	16.8	24.7	14.4	..	..	..	..	36.2	1.4	1.3	0.6	2.3	30.9
	1995	696.4	50.6	14.2	20.7	11.8	1.1	0.5	0.6	0.5	47.0	2.3	1.3	0.5	2.3	40.8
	1996	728.8	49.3	14.1	19.9	11.7	1.2	0.4	0.7	0.6	48.0	2.4	1.3	0.5	2.4	41.7
	1997[c]	751.4	49.4	14.3	20.3	10.7	1.1	0.5	0.6	0.4	48.1	2.6	1.3	0.5	2.3	40.3

Source: UN/DESA, based on IMF, *Direction of Trade Statistics*.

a Owing to incomplete specification of destinations in underlying data, shares of trade to destinations do not add up to 100 per cent.

b Including data for economies in transition; before 1994, data for economies in transition are highly incomplete.

c Estimates.

Table A.16.
COMMODITY COMPOSITION OF WORLD TRADE: EXPORTS, 1985-1996

Billions of dollars and percentage

	Total exports (billions of dollars)			Primary commodities											
							of which:								
				Total			Food			Agricultural raw materials			Fuels		
Exporting country group	1985	1990	1996	1985	1990	1996	1985	1990	1996	1985	1990	1996	1985	1990	1996
World (billions of dollars)	1918.1	3290.1	5215.4	650.0	871.5	1154.9	177.9	297.2	436.5	81.7	123.6	170.7	355.5	391.9	468.9
World (percentage share)				(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Developed economies	1252.6	2220.8	3358.4	42.7	45.5	47.9	60.7	66.3	64.8	61.8	58.1	58.4	28.1	25.7	29.4
Economies in transition[a]	489.7	827.6	1562.3	46.0	41.1	41.0	33.7	29.9	31.4	30.5	30.3	30.5	56.7	52.3	52.4
Developing countries	623.4	811.2	1409.3	32.8	28.8	29.9	31.5	27.3	31.6	74.1	55.4	56.6	36.1	35.4	35.9
Africa	68.5	107.3	107.8	9.0	8.8	6.5	4.7	4.4	3.8	3.8	4.6	4.0	12.3	13.5	10.2
Latin America	107.7	135.2	248.0	11.9	9.5	9.7	15.9	10.9	11.2	7.4	6.9	7.5	10.7	8.3	8.8
Eastern and Southern Asia	206.8	468.1	1026.5	11.3	12.7	15.0	10.9	12.5	14.2	17.8	17.8	17.7	10.2	10.4	12.1
of which:															
East Asia	..	365.4	783.7	..	8.8	10.5	..	8.0	8.8	..	12.1	14.6	..	8.3	9.7
South Asia	..	41.8	91.9	..	2.0	2.6	..	2.2	2.8	..	3.3	1.1	..	0.7	1.2
China	..	60.9	150.8	..	1.8	1.9	..	2.4	2.6	..	2.4	2.0	..	1.3	1.3
Western Asia	106.6	117.0	180.1	13.8	10.1	9.8	2.2	2.0	2.2	1.6	1.1	1.3	23.5	20.2	21.2
Memo items:															
Sub-Saharan Africa	18.0	45.3	50.9	2.3	4.4	3.6	3.4	2.8	2.7	..	2.9	3.1	1.6	6.2	5.0
Least developed countries	10.0	49.1	96.3	1.2	3.4	3.9	1.6	2.6	2.8	..	3.4	1.3	0.6	2.2	2.6

Table A.16 (continued)

	Manufactures														
				of which:											
	Total (billions of dollars)			Textiles			Chemicals			Machinery and transport			Metals		
Exporting country group	1985	1990	1996	1985	1990	1996	1985	1990	1996	1985	1990	1996	1985	1990	1996
World (billions of dollars)	1216.2	2418.6	4060.5	102.2	226.7	362.7	151.6	294.4	490.2	595.3	1175.5	2035.3	106.3	194.1	295.2
World (percentage share)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Developed economies	77.8	75.4	69.1	52.7	46.2	39.1	82.6	80.1	76.6	82.9	82.3	74.7	71.8	61.8	52.6
Economies in transition[a]	7.2	5.2	4.1	5.3	3.6	4.1	7.3	5.8	5.4	8.1	4.5	2.0	9.1	13.9	17.6
Developing countries	15.0	19.4	26.8	42.0	50.2	56.8	10.1	14.0	18.1	9.0	13.2	23.3	19.1	24.2	29.8
Africa	0.8	1.3	0.8	1.3	2.1	1.8	1.3	1.6	1.1	0.1	0.3	0.2	3.4	3.1	2.3
Latin America	2.4	2.2	3.3	2.2	2.7	3.1	2.8	2.3	2.5	1.5	1.3	3.2	7.8	8.4	6.6
Eastern and Southern Asia	10.4	14.8	21.0	35.4	42.1	47.3	4.3	7.9	12.3	6.8	11.3	19.3	6.0	11.0	16.9
of which:															
East Asia	..	11.9	16.3	..	27.9	27.7	..	5.4	8.9	..	10.0	17.1	..	6.7	9.9
South Asia	..	1.0	1.5	..	6.7	9.3	..	1.2	1.6	..	0.3	0.4	..	3.4	5.0
China	..	1.9	3.2	..	7.5	10.3	..	1.3	1.8	..	0.9	1.7	..	1.0	1.9
Western Asia	1.3	1.2	1.7	3.1	3.3	4.7	1.8	2.2	2.1	0.6	0.4	0.6	1.8	1.7	4.0
Memo items:															
Sub-Saharan Africa	0.2	0.3	0.2	..	0.4	0.4	0.1	0.2	0.2	0.0	0.1	0.0	..	0.8	0.8
Least developed countries	0.2	0.8	1.3	..	5.3	7.2	0.0	1.6	2.0	0.0	0.4	0.5	..	6.1	8.1

Source: UN/DESA.

[a] Data for 1995 including trade flows between the States of the former USSR. Prior to 1992, these flows were considered internal.

Table A.17.
COMMODITY COMPOSITION OF WORLD TRADE: IMPORTS, 1985-1996

Billions of dollars and percentage

	Total imports (billions of dollars)			Primary commodities											
							of which:								
				Total			Food			Agricultural raw materials			Fuels		
Importing country group	1985	1990	1996	1985	1990	1996	1985	1990	1996	1985	1990	1996	1985	1990	1996
World (billions of dollars)	1918.1	3335.6	5077.8	650.0	903.7	1140.6	177.9	316.6	433.6	81.7	144.7	185.2	355.5	369.0	438.5
World (percentage share)				(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Developed economies	1241.9	2368.9	3403.7	63.5	68.3	66.6	63.0	68.0	69.4	64.2	62.7	60.3	63.2	72.1	68.1
Economies in transition[a]	162.0	148.2	180.3	9.8	5.5	4.4	11.7	7.3	5.2	8.2	3.7	2.8	9.3	5.2	4.2
Developing countries	447.3	818.5	1493.7	19.3	26.2	29.0	24.2	24.6	25.5	26.7	33.6	36.9	15.6	22.7	27.7
Africa	70.2	90.6	108.8	3.1	2.6	2.8	6.2	4.0	3.6	4.1	3.2	3.3	1.4	1.4	2.0
Latin America	89.4	105.0	198.9	4.6	3.4	3.1	4.3	3.4	3.8	4.3	3.1	3.7	5.0	3.7	2.5
Eastern and Southern Asia	195.4	510.4	1047.8	8.2	16.9	20.1	7.3	12.7	14.4	15.1	24.9	27.1	7.1	14.9	20.9
of which:															
East Asia	..	374.6	854.6	..	10.2	15.7	..	7.8	12.2	..	13.5	19.7	..	10.7	16.0
South Asia	..	82.8	55.2	..	5.6	2.3	..	3.7	0.8	..	8.6	2.6	..	3.8	3.4
China	..	53.1	138.0	..	1.1	2.2	..	1.1	1.4	..	2.8	4.8	..	0.3	1.6
Western Asia	92.4	112.5	138.2	3.3	3.3	2.9	6.4	4.6	3.6	3.2	2.5	2.8	2.0	2.7	2.4
Memo items:															
Sub-Saharan Africa	..	36.5	41.1	..	0.9	0.9	..	1.4	1.2	..	0.7	0.7	..	0.7	0.7
Least developed countries	..	85.6	79.8	..	5.8	4.3	..	4.9	3.5	..	9.9	7.3	..	2.5	1.8

Table A.17 (continued)

	Manufactures														
				of which:											
	Total (billions of dollars)			Textiles			Chemicals			Machinery and transport			Metals		
Importing country group	1985	1990	1996	1985	1990	1996	1985	1990	1996	1985	1990	1996	1985	1990	1996
World (billions of dollars)	1216.2	2431.9	3937.2	102.2	232.0	340.7	151.6	301.9	491.9	595.3	1168.4	1983.9	106.3	202.6	267.6
World (percentage share)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Developed economies	66.3	72.0	67.2	70.4	68.7	66.0	63.6	65.7	64.7	65.1	70.9	66.5	59.8	62.3	57.2
Economies in transition[a]	7.4	4.1	3.3	7.0	2.4	3.3	7.7	4.2	4.2	7.9	4.8	2.8	9.7	4.3	3.7
Developing countries	25.3	23.9	29.5	21.5	28.9	30.7	27.2	30.1	31.1	26.2	24.3	30.7	28.1	33.4	39.1
Africa	4.0	2.7	1.9	2.7	2.2	2.1	4.3	3.2	2.6	4.4	3.0	1.9	3.2	2.7	2.4
Latin America	4.7	3.0	4.1	2.3	1.4	3.0	6.4	4.8	5.0	5.3	3.2	4.2	3.5	2.7	3.3
Eastern and Southern Asia	11.1	14.7	20.8	10.8	22.3	23.4	12.1	18.3	20.6	11.1	14.9	22.2	15.0	23.8	30.2
of which:															
Eastern Asia	..	11.6	17.2	..	13.4	18.8	..	12.5	15.4	..	11.9	18.8	..	13.8	24.3
Southern Asia	..	1.3	0.7	..	6.5	0.8	..	3.6	1.6	..	1.2	0.6	..	8.4	2.1
China	..	1.8	2.9	..	2.4	3.9	..	2.2	3.6	..	1.8	2.8	..	1.7	3.9
Western Asia	5.6	3.4	2.7	5.6	3.0	2.2	4.3	3.8	2.9	5.4	3.1	2.5	6.3	4.2	3.2
Memo items:															
Sub-Saharan Africa	..	1.2	0.8	..	0.8	0.7	..	1.3	1.0	..	1.4	0.8	..	0.7	0.6
Least developed countries	..	1.4	0.8	..	8.8	5.7	..	3.2	1.8	..	1.6	0.8	..	9.9	7.0

Source: UN/DESA.

a Data for 1995 including trade flows between the States of the former USSR. Prior to 1992, these flows were considered internal.

Table A.18.

WORLD TRADE: CHANGES IN VALUE AND VOLUME OF EXPORTS AND IMPORTS, BY MAJOR COUNTRY GROUP, 1988-1998

Annual percentage change

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]	1998[b]
Dollar value of exports											
World	13.7	8.3	14.5	2.5	7.1	0.1	13.5	19.4	4.3	2.7	2½
Developed economies	14.4	7.1	15.3	2.0	5.9	-2.6	12.5	18.9	2.6	1.6	2½
of which:											
North America	24.8	10.5	7.3	5.3	6.1	4.7	11.2	14.6	6.4	9.3	6
Western Europe	10.8	6.7	20.7	-0.5	5.6	-7.1	13.7	22.5	3.0	-1.5	2½
Japan	14.5	3.4	5.0	9.5	8.0	6.6	9.6	11.6	-7.3	2.5	-2¾
Economies in transition	0.1	-0.7	-4.2	♦-14.1	♦8.9	♦5.6	17.5	29.1	8.0	3.3	8
Central and Eastern Europe[c]	2.3	-1.8	-3.3	♦-7.5	7.5	♦8.8	16.3	30.1	5.7	7.4	9½
Former Soviet Union/CIS[d]	-2.2	0.4	-5.1	-21.0	♦10.5	1.9	19.0	27.9	10.9	-1.6	6
Developing countries	14.3	13.5	14.8	5.9	10.2	6.3	15.5	19.5	7.6	5.2	2
Latin America and the Caribbean	16.0	11.0	10.1	0.6	6.7	9.4	16.4	20.9	10.2	10.4	5¼
Africa	-0.2	10.8	24.4	-2.8	1.1	-9.6	2.7	12.5	19.7	2.5	-2¾
Western Asia	-2.3	23.6	24.0	-9.0	7.4	-1.0	6.6	12.3	13.6	-5.7	-5¾
Eastern and Southern Asia	23.6	12.3	10.4	14.0	12.8	10.7	16.8	21.3	5.0	4.0	2¾
China	20.5	10.6	18.2	15.8	18.1	7.1	33.1	22.9	1.6	20.8	5
Memo items:											
Fuel exporters	-2.3	22.6	28.0	-5.4	5.2	-3.4	5.9	15.9	19.5	0.5	-1¾
Non fuel exporters	21.3	10.2	8.8	10.8	12.0	9.0	18.5	21.3	4.4	6.7	3
Dollar value of imports											
World	14.3	8.6	13.9	3.0	6.9	-1.2	13.3	19.4	4.8	2.8	3
Developed economies	13.0	8.3	14.9	0.7	4.4	-5.8	13.4	18.0	3.6	1.7	3
of which:											
North America	10.7	7.1	4.5	-1.1	7.9	8.7	13.7	11.3	6.2	10.3	6
Western Europe	12.4	7.8	20.8	1.5	3.9	-13.1	13.0	20.7	2.3	-1.6	2¾
Japan	24.1	11.9	12.2	0.7	-1.6	3.6	13.9	22.0	4.0	-3.0	-2½
Economies in transition	2.1	6.7	1.7	♦-16.7	♦5.2	♦0.8	13.0	33.4	13.9	9.0	10¼
Central and Eastern Europe[c]	-3.0	1.7	3.6	♦-3.0	14.0	♦14.1	14.1	37.0	16.5	6.7	11
Former Soviet Union/CIS[d]	7.9	12.0	-0.0	-30.1	♦-6.7	-21.3	10.2	24.4	6.7	15.9	8½
Developing countries	20.9	10.1	12.6	12.4	14.0	9.7	13.0	21.0	6.3	4.3	1¾
Latin America and the Caribbean	16.4	8.5	13.0	17.8	22.2	11.6	18.6	11.6	9.7	16.2	7¼
Africa	14.0	1.4	11.7	-1.3	9.6	-4.9	5.8	21.2	2.0	6.0	6½
Western Asia	3.8	4.9	12.3	9.5	11.1	6.3	-7.9	23.1	9.3	0.6	1¾
Eastern and Southern Asia	30.1	15.0	16.5	14.0	11.9	10.0	18.4	24.8	5.3	2.0	-2
China	27.9	7.0	-9.8	19.6	26.3	27.9	12.2	11.6	7.6	2.5	11
Memo items:											
Fuel exporters	12.1	4.5	11.8	14.4	16.1	-1.6	3.9	9.5	7.8	7.1	7½
Non fuel exporters	23.2	11.6	12.7	12.0	13.9	12.6	15.4	23.8	5.8	3.7	½

Table A.18 (continued)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]	1998[b]
Volume of exports											
World	8.2	7.0	6.2	◆4.1	5.4	4.3	10.5	9.4	4.8	8.8	6¾
Developed economies	8.0	7.0	4.9	3.3	3.9	2.8	9.5	7.3	4.2	8.9	6½
of which:											
North America	15.9	7.8	6.6	5.0	6.8	5.3	9.0	9.1	6.2	10.9	7
Western Europe	6.1	7.3	4.3	2.4	3.5	2.8	11.4	7.6	3.8	7.7	7¼
Japan	5.9	4.3	5.3	2.5	1.5	-2.4	1.7	3.3	0.6	10.0	2¼
Economies in transition	5.5	-0.7	-9.8	..	..	..	..	..	..	..	..
Central and Eastern Europe[c]	6.1	-1.5	-6.3	◆-8.1	8.5	◆8.9	0.2	16.7	4.5	0.8	..
Former Soviet Union/CIS[d]	4.9	0.1	-13.0	..	..	..	..	..	..	..	..
Developing countries	9.3	9.1	13.7	10.8	9.0	8.7	14.1	13.7	6.5	9.9	7¼
Latin America and the Caribbean	7.5	4.6	5.1	4.7	6.3	10.3	9.2	9.9	9.3	12.8	12¼
Africa	2.8	8.0	6.9	2.8	0.8	-0.9	11.7	7.3	8.2	5.2	6
Western Asia	5.5	9.3	7.2	2.9	8.0	7.3	8.1	6.0	9.0	-0.7	2¾
Eastern and Southern Asia	13.0	11.0	18.7	15.8	10.5	10.6	14.5	16.6	5.8	9.3	6¾
China	10.3	8.3	25.9	18.2	15.7	6.8	31.0	18.9	2.4	26.3	8½
Memo items:											
Fuel exporters	1.9	12.0	14.4	6.1	6.9	2.6	5.7	9.0	15.1	4.9	7½
Non fuel exporters	9.4	9.0	17.1	12.7	10.0	9.1	15.0	16.5	5.9	11.3	7
Volume of imports											
World	8.2	7.4	4.1	◆4.4	5.9	4.9	10.5	7.8	6.1	9.0	7¼
Developed economies	7.2	7.1	4.5	2.5	4.4	1.5	11.1	7.0	4.9	8.7	7½
of which:											
North America	5.1	4.3	1.4	-0.9	7.9	9.6	12.0	7.2	5.6	13.3	10¼
Western Europe	6.7	8.0	6.2	4.2	3.4	-2.8	10.0	5.9	4.4	6.8	7¼
Japan	17.8	7.9	5.7	4.0	-0.5	2.9	13.6	12.5	3.5	2.7	3½
Economies in transition	3.5	6.9	-4.6	..	..	..	..	..	..	..	..
Central and Eastern Europe[c]	3.0	4.1	-8.4	◆-2.5	12.0	◆14.3	13.0	11.4	17.9	7.6	..
Former Soviet Union/CIS[d]	3.9	9.3	-1.4	..	..	..	..	..	..	..	..
Developing countries	12.7	9.0	3.9	14.7	11.3	15.3	9.5	9.7	8.5	10.2	5¾
Latin America and the Caribbean	9.6	4.9	9.4	20.8	22.5	10.8	14.4	4.2	8.4	23.1	11½
Africa	7.1	-0.6	3.3	-0.7	-0.3	-2.1	2.0	10.8	3.8	6.3	6¾
Western Asia	-2.9	4.3	2.8	12.3	9.0	12.7	-11.1	11.3	11.8	6.4	6½
Eastern and Southern Asia	21.3	14.8	6.4	16.8	9.7	17.4	14.8	12.5	8.2	8.4	2¼
China	16.6	7.7	-16.1	21.4	23.1	36.4	9.1	0.1	11.4	9.4	15½
Memo items:											
Fuel exporters	2.5	5.1	4.1	16.7	13.6	4.1	-0.2	-1.0	11.2	13.8	11½
Non fuel exporters	14.9	11.1	3.0	14.9	11.6	20.2	11.9	11.6	8.7	10.1	4¾

Source: United Nations, based on data of United Nations Statistics Division, ECE, ECLAC and IMF.

◆ Indicates break in the series.
a Preliminary estimates.
b Forecast.
c As of 1993, transactions between the Czech Republic and Slovakia are recorded as foreign trade.
d CIS countries since 1992.

Table A.19.
INDICES OF PRICES OF NON-FUEL PRIMARY COMMODITIES EXPORTED BY DEVELOPING COUNTRIES, 1980-1997

Annual percentage change[a]

		Food	Tropical beverages	Vegetable oilseeds and oils	Agricultural raw materials	Minerals and metals	Combined index Dollar	Combined index SDR	Prices of manufactures[b]	Real prices of commodities[c]	*Memo item:* crude petroleum[d]
1980		65.5	-6.3	-13.3	10.6	11.6	27.6	27.6	11.1	14.9	21.5
1981		-20.0	-17.8	-4.3	-12.5	-16.0	-17.0	-9.0	-6.0	-11.7	-3.5
1982		-31.8	-5.2	-19.6	-13.4	-13.2	-21.8	-16.4	-2.1	-20.1	-7.2
1983		5.3	4.3	18.9	6.8	7.6	6.3	9.8	-3.3	9.9	-10.3
1984		-15.9	14.6	34.6	0.9	-7.1	-3.4	0.0	-3.4	-0.0	-2.9
1985		-13.8	-9.1	-30.6	-9.9	-4.8	-12.3	-10.7	0.0	-12.3	-4.2
1986		10.0	24.0	-38.0	2.0	-5.0	4.0	-10.0	19.8	-13.2	-49.9
1987		6.4	-34.7	17.7	16.7	18.9	2.9	-6.7	12.6	-8.7	31.0
1988		29.9	1.2	31.5	8.4	45.1	26.2	21.4	8.2	16.6	-19.7
1989		5.9	-14.6	-11.5	0.0	0.0	0.0	4.9	-1.1	1.1	21.6
1990		-6.2	-11.4	-12.9	4.7	-9.8	-5.9	-11.2	9.9	-14.4	28.6
1991		-6.6	-8.1	8.1	-0.7	-9.5	-6.3	-7.4	0.0	-6.3	-16.4
1992		-2.1	-14.0	7.5	-3.7	-3.7	-3.4	-5.7	3.0	-6.2	-1.0
1993		0.7	6.1	0.0	-6.2	-14.7	-3.5	-2.4	-5.8	2.5	-11.4
1994		10.1	75.0	24.4	15.7	12.7	18.0	13.6	2.1	15.6	-4.9
1995		5.9	1.1	10.3	15.0	20.2	9.9	4.3	11.1	-1.1	8.6
1996		6.8	-15.2	-4.2	-9.9	-12.1	-4.2	1.0	-3.6	-0.6	20.0
1997		-4.0	33.3	-0.9	-10.3	0.0	0.0	4.1	-5.7	6.0	-7.5
1996	I	13.3	-22.6	-7.2	-9.6	-7.9	-1.4	2.7	0.9	-2.3	8.1
	II	14.4	-18.2	1.2	-14.3	-7.3	-0.5	7.2	-3.6	3.3	8.2
	III	4.5	-14.3	-4.8	-6.4	-19.7	-5.6	-1.4	-3.6	-2.0	26.6
	IV	-3.6	-5.1	-7.0	-10.0	-14.8	-7.5	-4.1	-4.5	-3.1	38.1
1997	I	-3.9	19.9	4.2	-9.3	-3.1	-2.3	0.0	-6.5	4.5	12.8
	II	-5.6	47.3	-3.7	-8.7	0.5	0.5	5.4	-5.7	6.5	-7.5
	III	-6.4	36.6	-6.8	-10.9	8.2	-0.2	5.6	-6.6	6.8	-10.9
	IV	-0.4	32.3	1.5	-13.0	-2.4	-0.3	5.4	-6.7	6.9	-20.2

Source: UNCTAD, *Monthly Commodity Price Bulletin*; United Nations, *Monthly Bulletin of Statistics; and OPEC Bulletin.*

a For quarterly data, quarter shown is compared with same quarter of previous year.
b Index of developed countries' manufactured export prices (1980 base year until 1987 and 1990 base year thereafter).
c Combined index of dollar commodity prices deflated by manufactured export price index.
d OPEC basket of seven crude oils.

III. INTERNATIONAL FINANCE AND FINANCIAL MARKETS

Table A.20.
WORLD BALANCE OF PAYMENTS ON CURRENT ACCOUNT, BY COUNTRY GROUP, 1987-1997[a]

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]
Developed economies	-34.5	-20.1	-34.0	-47.2	-1.4	29.8	107.8	90.1	115.6	102.9	102.5
Major developed economies	-29.4	-13.6	-14.2	-23.7	11.6	40.4	76.6	55.9	56.3	34.3	54.9
of which:											
Germany[c]	57.1	63.0	69.9	64.0	12.1	5.7	11.7	7.6	6.0	11.9	20.7
Japan	84.3	79.3	63.2	44.1	79.0	114.6	134.0	133.1	114.3	67.8	97.4
United States	-153.8	-114.5	-90.7	-73.7	-29.7	-42.7	-79.5	-128.5	-134.3	-147.2	-150.7
Other industrialized countries	-5.2	-6.6	-19.8	-23.5	-13.0	-10.6	31.1	34.2	59.3	68.6	47.7
Developing countries	-10.3	-29.5	-22.9	-0.5	-72.8	-81.2	-112.3	-81.9	-101.5	-80.2	-50.2
Net-creditor countries	21.8	14.5	21.7	34.9	-1.7	1.5	-3.0	9.6	20.5	37.3	40.9
Net-debtor countries	-32.1	-44.0	-44.6	-35.4	-71.2	-82.7	-109.3	-91.4	-122.1	-117.5	-91.1
Net fuel exporters	-5.4	-24.8	-6.1	22.5	-43.9	-49.3	-52.7	-46.3	-15.8	14.3	1.6
Net fuel importers	-4.8	-4.6	-16.7	-23.0	-28.9	-31.9	-59.6	-35.6	-85.8	-94.5	-51.8
Four exporters of manufactures	31.1	29.6	25.4	16.3	12.1	13.5	17.0	17.1	9.1	3.8	22.5
Other	-36.0	-34.3	-42.1	-39.3	-41.0	-45.4	-76.7	-52.7	-94.9	-98.3	-74.3
Economies in transition[d]	8.9	6.3	-0.5	-13.6	◆-5.7	◆-6.5	◆-5.9	-7.5	◆5.6	-3.1	-10.2
Central and Eastern Europe[e]	0.4	0.9	-2.1	-6.5	◆-3.8	-2.1	◆-9.1	-4.6	0.5	-12.0	-11.6
Former Soviet Union	7.3	2.9	-0.8	-4.8	-0.8	◆-5.5	2.9	-2.9	◆9.3	11.4	4.6
World residual[f]	35.9	43.3	57.3	61.3	80.0	57.9	10.4	-0.8	-19.6	-19.6	-42.1
of which:											
Trade residual (imports, f.o.b.)	-34.3	-42.0	-31.1	-42.0	-35.3	-50.5	-86.2	-108.5	-134.7	-112.2	-133.8
Services and private transfers	70.2	85.4	88.4	103.3	115.3	108.3	96.6	107.7	115.1	92.7	91.7

Source: United Nations, based on data of IMF and other national and international sources.

◆ Indicates break in series.
a Balance on goods, services and private transfers.
b Preliminary estimate.
c Including external transactions of the eastern *Länder* (States) as from July 1990.
d Balance in convertible currencies; total including the former German Democratic Republic until 1990.
e Comprising Bulgaria, the former Czechoslovakia until 1992, the Czech Republic, Hungary, Poland, Romania, Slovakia and, until July 1990, the former German Democratic Republic.
f Unreported trade, services and private transfers, as well as errors and timing asymmetries in reported data.

Table A.21.
CURRENT ACCOUNT TRANSACTIONS: DEVELOPED ECONOMIES, 1987-1997[a]

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]
All developed economies											
Goods: exports (f.o.b.)	1720.7	1979.2	2121.5	2439.8	2482.4	2639.6	2550.8	2868.8	3407.6	3501.3	3566.1
Goods: imports (f.o.b.)	-1754.9	-1989.9	-2151.8	-2470.8	-2478.7	-2600.6	-2448.4	-2773.0	-3280.1	-3399.5	-3459.6
Trade balance	-34.1	-10.6	-30.3	-31.0	3.7	39.0	102.4	95.8	127.5	101.8	106.5
Net services and private transfers	-0.4	-9.5	-3.7	-16.1	-5.1	-9.2	5.4	-5.7	-11.9	1.1	-4.0
of which:											
Net interest and dividends[c]	-41.7	-42.3	-47.5	-76.7	-55.1	-42.1	-42.4	-51.8	-74.2	-71.8	-58.7
Current account balance	-34.5	-20.1	-34.0	-47.2	-1.4	29.8	107.8	90.1	115.6	102.9	102.5
Major industrialized countries											
Goods: exports (f.o.b.)	1256.0	1452.3	1560.7	1773.8	1818.6	1932.6	1891.9	2116.2	2477.3	2534.1	2614.7
Goods: imports (f.o.b.)	-1273.4	-1448.3	-1566.4	-1779.9	-1799.0	-1886.2	-1812.0	-2045.2	-2390.0	-2482.3	-2560.8
Trade balance	-17.5	4.0	-5.7	-6.0	19.6	46.4	79.9	71.0	87.3	51.7	53.9
Net services and private transfers	-11.9	-17.6	-8.5	-17.6	-8.0	-6.0	-3.2	-15.1	-31.0	-17.5	1.0
of which:											
Net interest and dividends[c]	-24.2	-18.9	-23.6	-44.9	-23.7	-12.2	-16.4	-21.7	-44.1	-41.3	-50.0
Current account balance	-29.4	-13.6	-14.2	-23.7	11.6	40.4	76.6	55.9	56.3	34.3	54.9
of which:											
Germany[d]											
Goods: exports (f.o.b.)	291.5	322.0	340.0	410.9	403.4	430.5	382.7	430.6	523.6	519.4	509.1
Goods: imports (f.o.b.)	-223.4	-245.3	-264.7	-341.9	-383.4	-402.3	-341.5	-379.6	-458.5	-448.2	-429.7
Trade balance	68.0	76.6	75.3	69.0	19.9	28.2	41.2	50.9	65.1	71.2	79.3
Net services and private transfers	-10.9	-13.6	-5.4	-5.0	-7.8	-22.5	-29.5	-43.4	-59.1	-59.3	-58.6
of which:											
Net interest and dividends[c]	3.9	3.6	11.1	13.6	17.6	15.9	11.9	0.5	-3.4	-9.1	-10.4
Current account balance	57.1	63.0	69.9	64.0	12.1	5.7	11.7	7.6	6.0	11.9	20.7
Japan											
Goods: exports (f.o.b.)	225.5	260.9	271.0	282.3	308.2	332.6	352.7	385.7	428.7	400.3	411.7
Goods: imports (f.o.b.)	-133.9	-168.6	-190.9	-213.0	-212.1	-207.8	-213.2	-241.5	-296.9	-316.9	-309.4
Trade balance	91.6	92.2	80.1	69.3	96.1	124.8	139.4	144.2	131.8	83.4	102.3
Net services and private transfers	-7.2	-13.0	-16.9	-25.2	-17.0	-10.1	-5.4	-11.1	-17.5	-15.5	-4.9
of which:											
Net interest and dividends[c]	16.7	21.0	23.4	23.2	26.7	36.4	41.2	41.0	45.0	52.0	51.1
Current account balance	84.3	79.3	63.2	44.1	79.0	114.6	134.0	133.1	114.3	67.8	97.4

Table A.21 (continued)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]
United States											
Goods: exports (f.o.b.)	250.2	320.2	362.2	389.3	416.9	440.3	458.7	504.4	577.7	614.0	678.3
Goods: imports (f.o.b.)	-409.8	-447.2	-477.3	-498.3	-491.0	-536.4	-590.1	-669.1	-749.8	-799.6	-877.3
Trade balance	-159.6	-127.0	-115.1	-109.0	-74.1	-96.1	-131.4	-164.7	-172.1	-185.6	-198.9
Net services and private transfers	5.7	12.5	24.4	35.3	44.4	53.4	51.9	36.2	37.8	38.5	48.3
of which:											
Net interest and dividends[c]	-8.2	2.7	-5.5	-11.1	-16.2	-11.8	-20.5	-17.9	-37.4	-42.9	-58.2
Current account balance	-153.8	-114.5	-90.7	-73.7	-29.7	-42.7	-79.5	-128.5	-134.3	-147.2	-150.7
Other industrialized countries											
Goods: exports (f.o.b.)	464.8	526.9	560.8	665.9	663.8	707.0	658.9	752.6	930.3	967.2	951.4
Goods: imports (f.o.b.)	-481.4	-541.6	-585.4	-690.9	-679.7	-714.3	-636.4	-727.8	-890.1	-917.2	-898.8
Trade balance	-16.7	-14.7	-24.6	-25.0	-15.9	-7.4	22.5	24.8	40.3	50.0	52.6
Net services and private transfers	11.5	8.1	4.8	1.5	2.9	-3.2	8.6	9.4	19.1	18.6	-5.0
of which:											
Net interest and dividends[c]	-17.4	-23.4	-23.9	-31.9	-31.4	-30.0	-26.0	-30.1	-30.1	-30.5	-8.7
Current account balance	-5.2	-6.6	-19.8	-23.5	-13.0	-10.6	31.1	34.2	59.3	68.6	47.7

Source: United Nations, based on data of IMF, World Trade Organization and national sources.

a Balance on goods, services and private transfers.
b Preliminary estimates.
c Differing from net investment income in excluding retained earnings of direct investment.
d Including external transactions of the eastern *Länder* (States) as from July 1990.

Table A.22.
CURRENT ACCOUNT TRANSACTIONS: ECONOMIES IN TRANSITION, 1987-1997[a]

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]
Economies in transition[c]											
Goods: exports (f.o.b.)	77.1	83.5	87.6	89.7	♦90.8	♦108.4	♦110.0	129.2	♦180.1	194.8	199.6
Goods: imports (f.o.b.)	-66.7	-75.1	-86.5	-100.7	♦-90.6	♦-101.7	♦-99.9	-114.3	♦-172.7	-206.9	-215.8
Trade balance	10.4	8.4	1.1	-11.0	♦0.2	♦6.7	♦10.1	14.9	♦7.4	-12.1	-16.2
Net services and private transfers	-1.4	-2.1	-1.6	-2.7	♦-5.9	♦-13.2	♦-16.0	-22.4	♦-1.8	9.0	6.1
Current account balance	8.9	6.3	-0.5	-13.6	♦-5.7	♦-6.5	♦-5.9	-7.5	♦5.6	-3.1	-10.2
Central and Eastern Europe[d]											
Goods: exports (f.o.b.)	34.3	37.4	38.8	41.8	♦39.3	43.4	♦43.7	55.7	78.9	83.8	89.7
Goods: imports (f.o.b.)	-32.2	-34.4	-37.6	-48.4	♦-42.0	-47.4	♦-52.6	-61.1	-88.3	-110.6	-116.0
Trade balance	2.1	2.9	1.2	-6.6	♦-2.7	-4.0	♦-8.9	-5.4	-9.4	-26.8	-26.3
Net services and private transfers	-1.7	-2.0	-3.3	0.1	♦-1.1	1.9	♦-0.2	0.8	9.9	14.8	14.7
Current account balance	0.4	0.9	-2.1	-6.5	♦-3.8	-2.1	♦-9.1	-4.6	0.5	-12.0	-11.6
of which:											
Former Czechoslovakia											
Goods: exports (f.o.b.)	4.5	5.0	5.4	5.9	8.3	11.3					
Goods: imports (f.o.b.)	-4.6	-5.1	-5.0	-6.8	-8.8	-12.9					
Trade balance	-0.1	-0.1	0.4	-0.9	-0.5	-1.6					
Net services and private transfers	0.2	0.2	-0.1	0.7	0.0	2.2					
Current account balance	0.1	0.1	0.3	-0.2	-0.5	0.6					
Czech Republic											
Goods: exports (f.o.b.)							10.4	14.0	21.5	21.9	22.5
Goods: imports (f.o.b.)							-10.6	-14.9	-25.1	-27.7	-27.0
Trade balance							-0.2	-0.9	-3.6	-5.8	-4.4
Net services and private transfers							0.0	0.8	2.2	1.5	1.3
Current account balance							-0.2	-0.1	-1.4	-4.3	-3.2
Slovakia											
Goods: exports (f.o.b.)							3.1	6.7	8.5	8.8	8.8
Goods: imports (f.o.b.)							-3.3	-6.6	-8.5	-11.1	-10.3
Trade balance							-0.2	0.1	0.0	-2.3	-1.5
Net services and private transfers							-0.2	0.6	0.6	0.2	-0.0
Current account balance							-0.4	0.7	0.6	-2.1	-1.5

Table A.22 (continued)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]
Hungary											
Goods: exports (f.o.b.)	5.0	5.5	6.4	6.3	9.3	10.0	8.1	7.6	12.8	15.7	19.1
Goods: imports (f.o.b.)	-5.0	-5.0	-5.9	-6.0	-9.1	-10.1	-11.3	-11.2	-15.3	-18.1	-21.1
Trade balance	-0.0	0.5	0.5	0.3	0.2	-0.1	-3.2	-3.6	-2.5	-2.4	-2.0
Net services and private transfers	-0.9	-1.3	-1.9	-0.2	0.0	0.4	-0.2	-0.3	0.0	0.8	1.1
Current account balance	-0.9	-0.8	-1.4	0.1	0.2	0.3	-3.4	-3.9	-2.5	-1.7	-1.0
Poland											
Goods: exports (f.o.b.)	6.9	7.9	8.3	11.3	13.8	13.9	13.6	17.0	22.9	24.4	26.0
Goods: imports (f.o.b.)	-5.9	-7.0	-8.4	-9.9	-14.6	-14.0	-16.9	-17.8	-24.7	-37.1	-42.0
Trade balance	1.0	0.9	-0.1	1.4	-0.8	-0.1	-3.3	-0.8	-1.8	-12.7	-16.0
Net services and private transfers	-1.4	-1.5	-1.7	-2.1	-0.6	-0.2	1.0	-0.1	7.3	11.4	11.8
Current account balance	-0.4	-0.6	-1.8	-0.7	-1.4	-0.3	-2.3	-0.9	5.5	-1.4	-4.3
Soviet Union/CIS[e]											
Goods: exports (f.o.b.)	31.3	33.4	35.2	33.6	37.7	◆51.6	52.1	57.0	◆81.5	90.2	87.6
Goods: imports (f.o.b.)	-23.1	-28.7	-35.4	-35.3	-35.3	◆-42.1	-32.8	-34.3	◆-59.4	-67.4	-66.9
Trade balance	8.2	4.7	-0.2	-1.7	2.4	◆9.5	19.3	22.7	◆22.1	22.8	20.7
Net services and private transfers	-0.9	-1.8	-0.6	-3.1	-3.2	◆-15.0	-16.4	-25.6	◆-12.8	-11.4	-16.1
Current account balance	7.3	2.9	-0.8	-4.8	-0.8	◆-5.5	2.9	-2.9	◆9.3	11.4	4.6

Source: UN/DESA, based on data of IMF and ECE.

◆ Indicates break in series.

a Balance in convertible currencies on goods services and private transfers.

b *Preliminary estimates.*

c Including transactions of the former German Democratic Republic until 1990.

d Comprising Bulgaria, the former Czechoslovakia, Hungary, Poland, Romania and Slovakia and, until July 1990, the former German Democratic Republic.

e From 1992, data for the Commonwealth of Independent States.

Table A.23.
CURRENT ACCOUNT TRANSACTIONS: DEVELOPING COUNTRIES, 1987-1997[a]

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]
All developing countries (129 economies)											
Goods: exports (f.o.b.)	563.3	650.1	730.2	834.8	877.7	967.8	1034.7	1186.2	1421.5	1556.8	1661.7
Goods: imports (f.o.b.)	-505.2	-605.0	-669.8	-753.5	-845.9	-961.8	-1051.0	-1183.9	-1427.0	-1542.3	-1628.8
Trade balance	58.1	45.1	60.4	81.3	31.9	5.9	-16.2	2.3	-5.5	14.5	32.9
Net services and private transfers	-68.4	-74.6	-83.3	-81.8	-104.7	-87.2	-96.1	-84.1	-96.0	-94.7	-83.1
of which: Net interest and dividends[c]	-46.2	-48.5	-50.5	-51.0	-53.1	-51.2	-59.9	-62.9	-72.5	-79.0	-82.5
Current account balance	-10.3	-29.5	-22.9	-0.5	-72.8	-81.2	-112.3	-81.9	-101.5	-80.2	-50.2
Totals by region:											
Latin America											
Goods: exports (f.o.b.)	100.7	117.4	129.9	143.3	143.7	153.0	166.5	193.3	233.7	261.5	292.8
Goods: imports (f.o.b.)	-80.1	-93.3	-101.6	-113.9	-132.9	-160.0	-177.7	-209.4	-235.3	-260.3	-309.5
Trade balance	20.6	24.0	28.3	29.3	10.8	-7.0	-11.2	-16.1	-1.6	1.2	-16.6
Net services and private transfers	-33.6	-36.5	-39.6	-35.2	-31.9	-29.1	-35.4	-34.7	-33.6	-36.3	-47.7
of which: Net interest and dividends[c]	-31.4	-34.3	-38.1	-34.5	-30.6	-29.5	-32.8	-33.2	-36.0	-35.5	-43.6
Current account balance	-13.0	-12.5	-11.3	-5.9	-21.1	-36.1	-46.7	-50.8	-35.2	-35.1	-64.4
Africa											
Goods: exports (f.o.b.)	76.5	77.3	84.3	105.2	100.5	98.8	92.1	96.0	109.7	123.0	127.2
Goods: imports (f.o.b.)	-69.2	-77.3	-80.1	-91.2	-91.0	-95.2	-91.7	-97.3	-114.6	-116.4	-129.3
Trade balance	7.2	-0.0	4.2	14.1	9.5	3.5	0.4	-1.4	-4.9	6.6	-2.1
Net services and private transfers	-17.3	-17.6	-19.3	-20.4	-19.0	-14.4	-14.2	-16.6	-17.4	-17.4	-11.8
of which: Net interest and dividends[c]	-13.9	-14.7	-15.5	-17.3	-16.6	-13.6	-12.9	-12.0	-11.5	-10.7	-11.3
Current account balance	-10.1	-17.6	-15.1	-6.4	-9.5	-10.8	-13.8	-18.0	-22.3	-10.9	-13.9
Western Asia											
Goods: exports (f.o.b.)	98.2	100.9	121.1	147.4	134.0	147.1	142.7	153.6	172.8	203.4	209.2
Goods: imports (f.o.b.)	-90.9	-94.1	-101.8	-115.4	-126.0	-139.9	-140.8	-126.2	-150.7	-167.6	-178.1
Trade balance	7.3	6.8	19.4	32.0	8.0	7.2	1.9	27.3	22.1	35.8	31.1
Net services and private transfers	-16.3	-17.5	-18.8	-21.5	-48.6	-38.0	-35.6	-36.5	-29.0	-34.3	-28.0
of which: Net interest and dividends[c]	11.2	11.8	13.3	10.8	6.7	4.8	1.6	-3.2	4.7	1.4	-0.9
Current account balance	-8.9	-10.7	0.6	10.5	-40.6	-30.7	-33.7	-9.2	-6.9	1.5	3.1
Eastern and Southern Asia											
Goods: exports (f.o.b.)	287.9	354.6	394.9	439.0	499.6	568.8	633.5	743.4	905.4	969.0	1032.4
Goods: imports (f.o.b.)	-264.9	-340.3	-386.4	-433.0	-496.0	-566.7	-640.7	-950.9	-926.4	-998.1	-1011.1
Trade balance	22.9	14.3	8.5	5.9	3.6	2.1	-7.3	-7.6	-21.1	-29.1	20.5
Net services and private transfers	-1.2	-3.0	-5.6	-4.7	-5.3	-5.7	-10.6	3.7	-16.1	-6.7	4.4
of which: Net interest and dividends[c]	-12.1	-11.4	-10.2	-10.0	-12.6	-12.9	-15.7	-14.5	-29.7	-34.1	-26.7
Current account balance	21.7	11.3	2.9	1.2	-1.7	-3.6	-18.2	-3.9	-37.1	-35.8	24.9

Table A.23 (continued)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]
Net-creditor countries (9 economies)											
Goods: exports (f.o.b.)	140.1	158.3	182.8	216.8	228.0	248.3	256.1	287.4	339.9	367.3	368.2
Goods: imports (f.o.b.)	-102.1	-130.2	-141.9	-157.8	-180.2	-207.0	-220.3	-239.3	-285.3	-302.1	-309.3
Trade balance	38.0	28.0	41.0	59.0	47.7	41.3	35.8	48.1	54.6	65.2	58.9
Net services and private transfers	-16.2	-13.5	-19.2	-24.0	-49.4	-39.8	-38.8	-38.6	-34.1	-27.9	-18.0
of which: Net interest and dividends[c]	18.2	20.6	22.6	21.0	17.5	16.6	11.5	9.8	12.3	14.4	11.7
Current account balance	21.8	14.5	21.7	34.9	-1.7	1.5	-3.0	9.6	20.5	37.3	40.9
Net-debtor countries (120 economies)											
Goods: exports (f.o.b.)	423.2	491.8	547.4	618.0	649.8	719.5	778.6	898.8	1081.6	1189.5	1293.5
Goods: imports (f.o.b.)	-403.1	-474.7	-527.9	-595.7	-665.6	-754.8	-830.7	-944.6	-1141.7	-1240.2	-1319.5
Trade balance	20.1	17.1	19.4	22.4	-15.8	-35.4	-52.0	-45.6	-60.1	-50.7	-26.0
Net services and private transfers	-52.2	-61.1	-64.0	-57.8	-55.3	-47.4	-57.3	-45.9	-62.0	-66.8	-65.1
of which: Net interest and dividends[c]	-64.4	-69.1	-73.0	-72.0	-70.5	-67.9	-71.5	-72.7	-84.8	-93.4	-94.2
Current account balance	-32.1	-44.0	-44.6	-35.4	-71.2	-82.7	-109.3	-91.4	-122.1	-117.5	-91.1
Net fuel exporters (26 economies)											
Goods: exports (f.o.b.)	176.2	178.4	216.7	272.5	257.0	272.5	269.4	291.2	338.5	396.1	421.9
Goods: imports (f.o.b.)	-137.3	-156.1	-168.6	-189.3	-215.0	-243.8	-243.9	-254.7	-276.1	-305.9	-342.7
Trade balance	38.9	22.2	48.2	83.2	42.0	28.7	25.5	36.6	62.5	90.2	79.2
Net services and private transfers	-44.3	-47.1	-54.3	-60.7	-85.9	-78.0	-78.2	-82.8	-78.3	-75.9	-77.6
of which: Net interest and dividends[c]	-6.0	-5.9	-8.2	-11.0	-14.7	-16.9	-20.3	-23.5	-21.6	-21.4	-25.6
Current account balance	-5.4	-24.8	-6.1	22.5	-43.9	-49.3	-52.7	-46.3	-15.8	14.3	1.6
Net fuel importers (103 economies)											
Goods: exports (f.o.b.)	387.1	471.7	513.5	562.3	620.8	695.2	765.4	894.9	1083.0	1160.7	1239.8
Goods: imports (f.o.b.)	-367.9	-448.8	-501.2	-564.2	-630.9	-718.0	-807.1	-929.2	-1151.0	-1236.4	-1286.1
Trade balance	19.2	22.9	12.3	-1.9	-10.1	-22.8	-41.7	-34.3	-68.0	-75.8	-46.4
Net services and private transfers	-24.1	-27.5	-29.0	-21.1	-18.8	-9.2	-17.9	-1.3	-17.8	-18.8	-5.4
of which: Net interest and dividends[c]	-40.2	-42.6	-42.3	-40.0	-38.3	-34.3	-39.6	-39.4	-50.9	-57.6	-56.9
Current account balance	-4.8	-4.6	-16.7	-23.0	-28.9	-31.9	-59.6	-35.6	-85.8	-94.5	-51.8
Four exporters of manufactures (4 economies)											
Goods: exports (f.o.b.)	177.1	223.8	246.1	266.8	304.6	343.3	377.5	435.1	526.2	550.1	568.8
Goods: imports (f.o.b.)	-150.3	-199.2	-224.6	-256.1	-298.1	-339.0	-372.0	-435.4	-535.9	-568.4	-578.2
Trade balance	26.8	24.6	21.5	10.7	6.6	4.2	5.6	-0.3	-9.7	-18.3	-9.4
Net services and private transfers	4.3	5.0	3.8	5.6	5.5	9.3	11.5	17.4	18.9	22.1	32.0
of which: Net interest and dividends[c]	-0.3	1.6	3.7	4.5	4.6	5.4	3.1	4.4	2.9	4.3	3.1
Current account balance	31.1	29.6	25.4	16.3	12.1	13.5	17.0	17.1	9.1	3.8	22.5

Source: UN/DESA, based on data of IMF, and official national and other sources

a Balance on goods, services and private transfers.
b Preliminary estimate.
c Differing from net investment income in excluding retained earnings of direct investment.

Table A.24.
NET TRANSFER OF FINANCIAL RESOURCES OF SELECTED INDUSTRIALIZED COUNTRIES, 1987-1997

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
United States											
Net capital flow	158.7	124.1	130.3	103.3	51.0	53.3	104.3	127.9	160.8	160.1	188.0
Current grants: private[b]	-4.4	-5.3	-5.1	-5.3	-6.0	-6.3	-7.5	-8.2	-8.2	-8.4	-8.5
Current grants: official[b]	-12.7	-13.2	-13.6	-20.5	20.4	-19.8	-20.2	-19.1	-14.1	-19.3	-15.8
Capital transfers[c]	0.2	0.2	0.2	0.3	0.3	0.4	-0.2	-0.6	0.1	0.5	0.3
Direct investment[d]	47.3	52.1	51.5	53.0	27.1	2.1	11.2	4.0	25.0	34.8	32.1
Portfolio	61.7	65.9	73.6	-6.8	11.8	23.0	-35.3	79.1	137.4	274.9	309.3
Medium-and long-term loans	1.0	11.2	1.5	16.8	7.0	-1.9	-0.0	-0.2	-0.7	-1.0	-0.4
Short-term capital[e]	73.3	30.6	-26.6	41.0	36.4	99.6	150.8	76.1	36.3	-74.6	-31.9
Errors and omissions	-7.9	-17.5	48.7	24.9	-46.1	-43.6	5.6	-3.3	-14.9	-46.9	-97.1
Use of fund credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net dividends and interests	-8.2	-0.3	-5.5	-11.1	-16.2	-11.8	-20.5	-17.9	-37.4	-42.9	-58.2
Net transfer of resources (financial basis)	150.4	123.7	124.7	92.2	34.8	41.6	83.8	110.0	123.4	117.3	129.8
Use of official reserves[f]	9.2	-3.9	-25.3	-2.2	5.8	3.9	-1.4	5.4	-9.7	6.7	1.2
Net transfer of resources (expenditure basis)	159.6	119.8	99.4	90.0	40.5	45.5	82.5	115.3	113.7	123.9	131.0
United Kingdom											
Net capital flow	29.2	38.0	29.5	35.3	26.8	15.7	18.0	18.8	8.4	9.4	-1.7
Current grants: private[b]	-0.2	-0.5	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current grants: official[b]	-5.4	-5.9	-7.0	-8.2	-1.9	-8.6	-7.4	-7.7	-11.2	-7.9	-7.0
Capital transfers[c]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment[d]	-9.0	-5.3	3.7	24.5	9.7	5.5	-2.5	-9.0	-6.9	6.9	-4.7
Portfolio	69.7	32.5	-34.4	-7.5	-40.8	-25.2	-89.4	89.9	-2.8	-22.5	-33.4
Medium-and long-term loans	0.3	-1.8	-3.0	-3.5	-0.9	-1.2	0.1	-1.2	-2.3	-0.3	-2.5
Short-term capital[e]	-22.1	16.6	64.4	27.2	60.2	34.6	119.6	-60.6	29.0	29.9	39.1
Errors and omissions	-4.1	2.3	6.2	3.3	0.5	10.6	-2.4	7.4	2.7	3.3	6.8
Use of fund credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net dividends and interests	-0.3	-2.5	-2.9	-9.0	-9.4	-2.8	-4.6	-0.8	-2.2	-2.1	3.3
Net transfer of resources (financial basis)	28.9	35.5	26.6	26.3	17.3	12.8	13.3	18.0	6.3	7.3	1.6
Use of official reserves[f]	-20.1	-4.5	8.4	-0.1	-4.7	-2.4	-1.3	-1.5	0.9	0.5	5.3
Net transfer of resources (expenditure basis)	8.9	31.1	35.0	26.2	12.7	10.4	12.1	16.5	7.1	7.7	6.9
Germany[g]											
Net capital flow	-37.8	-80.5	-68.8	-54.3	-18.9	27.4	-30.2	-8.1	-0.6	-13.0	-26.3
Current grants: private[b]	-2.3	-2.9	-2.6	-3.5	-3.9	-5.2	-5.3	-5.5	-6.2	-6.5	-5.5
Current grants: official[b]	-10.7	-12.8	-13.2	-15.9	-30.0	-25.1	-25.9	-28.8	-29.6	-25.0	-22.3
Capital transfers[c]	-0.1	-0.0	0.2	0.1	0.5	0.8	0.6	1.0	1.0	0.7	2.4
Direct investment[d]	-7.8	-10.1	-7.4	-17.1	-17.5	-16.1	-12.4	-9.3	-23.8	-25.0	-24.6
Portfolio	3.8	-36.7	-2.2	-1.7	24.3	31.9	119.7	-30.9	37.0	52.5	-0.9
Medium-and long-term loans	-30.4	-0.7	0.0	-13.8	-15.6	8.7	10.0	4.7	25.4	13.5	-8.7
Short-term capital[e]	10.5	-19.2	-48.8	-17.5	16.2	28.2	-100.2	71.0	10.3	-20.8	39.3
Errors and omissions	-0.9	1.7	5.1	15.3	7.1	4.2	-16.8	-10.3	-14.7	-2.3	-5.9
Use of fund credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net dividends and interests	3.9	3.6	11.1	13.6	17.6	15.9	11.9	0.5	-3.4	-9.1	-10.4
Net transfer of resources (financial basis)	-33.8	-76.9	-57.7	-40.7	-1.3	43.3	-18.3	-7.6	-4.0	-22.0	-36.6
Use of official reserves[f]	-21.5	15.6	-2.9	-7.3	6.2	-37.2	14.2	2.1	-7.2	1.2	3.8
Net transfer of resources (expenditure basis)	-55.3	-61.3	-60.6	-48.0	4.9	6.1	-4.1	-5.6	-11.2	-20.8	-32.9

Table A.24 (continued)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
Japan											
Net capital flow	-53.5	-68.4	-75.9	-50.4	-86.6	-113.8	-106.7	-108.0	-55.7	-34.7	-89.0
Current grants: private[b]	-2.1	-2.0	-1.5	-1.5	0.0	0.0	0.0	0.0	0.0	-4.5	-4.1
Current grants: official[b]	-1.6	-2.1	-2.8	-4.1	-10.9	-2.1	-2.4	-2.8	-3.3	-2.0	-2.3
Capital transfers[c]	0.0	0.0	0.0	0.0	-1.2	-1.3	-1.5	-1.9	-2.2	-2.2	-1.9
Direct investment[d]	-19.1	-36.0	-47.1	-48.7	-30.3	-14.6	-13.7	-17.2	-22.5	-21.7	-17.9
Portfolio	-94.4	-66.1	-28.8	-4.8	45.2	-27.4	-70.7	-26.7	-36.1	-43.5	29.0
Medium-and long-term loans	-24.3	-29.6	-16.0	7.7	0.0	0.0	0.0	0.0	0.0	-28.1	-8.3
Short-term capital[e]	91.7	64.2	42.1	21.9	-81.5	-57.9	-18.2	-41.7	-5.7	67.9	-126.9
Errors and omissions	-3.7	3.1	-21.8	-20.9	-7.9	-10.4	-0.3	-17.8	14.1	-0.7	43.5
Use of fund credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net dividends and interests	16.7	21.0	23.4	23.2	26.7	36.4	41.2	41.0	45.0	52.0	51.1
Net transfer of resources (financial basis)	-36.9	-47.4	-52.4	-27.2	-59.9	-77.4	-65.5	-67.0	-10.7	17.3	-37.9
Use of official reserves[f]	-37.9	-16.5	12.8	6.6	8.4	-0.6	-27.5	-25.3	-58.6	-35.1	-6.3
Net transfer of resources (expenditure basis)	-74.8	-63.9	-39.7	-20.6	-51.5	-78.0	-93.0	-92.3	-69.3	-17.8	-44.1

Source: United Nations, based on data of IMF and national sources.

a Preliminary estimate.
b Excluding workers' remittances.
c Including debt forgiveness.
d Net of reinvested earnings.
e Including items unidentified by maturity.
f Additions to reserves are shown as negative numbers.
g Including external transactions of the eastern *Länder* (States) as from July 1990.

Table A.25.
NET TRANSFER OF FINANCIAL RESOURCES OF NET-DEBTOR DEVELOPING COUNTRIES, 1987-1997

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
All countries[b]											
Transfer through direct investment											
Net investment flow	9.3	15.2	17.7	16.8	23.8	32.2	45.9	63.3	70.2	86.1	85.3
Direct investment income: net	-8.4	-9.5	-11.1	-12.7	-12.2	-13.4	-15.2	-16.5	-27.4	-34.5	-32.6
Net transfer	0.9	5.7	6.7	4.2	11.6	18.8	30.7	46.7	42.7	51.6	52.7
Transfer throught medium- and long-term foreign private borrowing											
Net credit flow	5.3	14.7	4.2	11.5	16.3	30.2	41.9	41.7	58.6	83.9	[92.0]
Investment income: net	-32.5	-37.7	-32.0	-28.5	-27.3	-28.2	-25.5	-30.8	-40.6	-43.1	-48.2
Net transfer	-27.2	-23.0	-27.8	-17.0	-11.0	2.0	16.5	11.0	18.0	40.8	[43.8]
Transfer through net stock transactions, short-term borrowing and domestic outflows[c]											
Net transfer	-13.4	-24.4	-9.8	-8.6	27.5	26.7	37.2	6.4	14.3	31.4	[-68.9]
Transfer through private grants:											
Net	4.7	5.8	6.9	8.2	8.9	12.5	12.0	13.6	10.6	10.4	10.3
Transfer though official flows											
Official transfers (grants)	11.9	12.7	13.7	18.4	18.7	16.1	12.9	11.8	12.3	10.1	10.2
Net official credits	18.4	16.8	21.7	23.2	21.5	17.7	18.5	8.0	30.0	-4.2	23.5
Investment income: net	-15.9	-17.5	-17.7	-20.1	-21.6	-22.1	-23.5	-24.4	-27.7	-27.2	-25.8
Net transfer	14.3	12.0	17.7	21.5	18.6	11.8	7.8	-4.6	14.6	-21.3	7.8
Total transfer (financial basis)	-20.6	-24.0	-6.4	8.2	55.5	71.8	104.2	73.1	100.2	113.0	45.7
Use of official reserves[d]	-6.8	-0.1	-14.8	-34.3	-50.8	-46.4	-54.2	-48.0	-72.2	-95.5	-53.5
Total transfer (expenditure basis)	-27.4	-24.1	-21.2	-26.1	4.7	25.3	50.0	25.1	28.1	17.5	-7.8
Africa											
Grants:											
Private	1.3	1.3	1.3	1.2	1.5	1.9	1.8	2.0	2.1	2.2	2.3
Official	5.7	6.2	7.4	10.1	9.7	9.0	7.2	7.3	6.0	5.8	5.2
Net direct investment	-0.0	0.1	2.6	-0.1	0.3	1.1	0.7	1.7	1.1	0.7	0.7
Foreign official credit	2.9	1.4	2.6	1.1	1.5	1.3	0.2	0.7	-1.6	-3.4	-3.1
Foreign private credit[e]	-0.3	0.3	-2.0	-3.8	-5.2	-6.1	-3.1	-3.4	-2.3	-3.3	4.5
Short-term borrowing and domestic outflows[c]	-8.0	-4.2	-7.1	-5.1	-2.3	-0.1	2.9	2.9	3.3	4.8	3.5
Total net transfer (financial basis)	1.5	5.1	4.9	3.4	5.6	7.1	9.9	11.1	8.6	6.9	13.1
of which:											
Net capital flow[f]	13.3	17.7	17.9	17.5	19.8	18.4	20.8	21.3	18.0	15.4	22.1
Use of official reserves[d]	-0.9	-0.1	-1.5	-6.6	-6.5	-4.0	-4.3	-2.5	2.7	-4.5	-7.8
Total net transfer (expenditure basis)	0.7	4.9	3.4	-3.2	-0.9	3.1	5.5	8.6	11.3	2.4	5.3
Sub-Saharan Africa											
Grants:											
Private	1.0	1.0	0.9	0.9	1.2	1.6	1.5	1.6	1.6	1.7	1.8
Official	4.6	5.2	6.0	6.5	6.2	6.9	5.6	6.4	4.7	4.9	4.2
Net direct investment	-0.6	-0.6	-0.6	-1.4	-0.4	-1.0	-0.9	-0.6	-0.8	-0.2	-0.2
Foreign official credit	3.1	2.7	2.8	2.9	2.2	3.0	2.6	2.0	1.3	-0.1	-0.2
Foreign private credit[e]	-0.3	0.3	0.1	-0.2	-0.5	-0.1	0.3	-1.1	-0.7	-1.4	2.6

Table A.25 (continued)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
Short-term borrowing and domestic outflows[c]	-1.7	-0.1	-2.9	0.2	1.1	0.7	0.9	1.4	-0.0	3.3	1.4
Total net transfer (financial basis)	6.1	8.4	6.3	8.9	9.8	11.1	10.0	9.8	6.1	8.1	9.6
of which:											
Net capital flow[f]	11.3	14.5	12.7	15.7	16.2	17.0	14.8	14.4	10.6	12.3	14.1
Use of official reserves[d]	-0.1	-0.8	-0.4	-0.6	-0.9	-0.1	-0.4	-1.6	1.3	0.0	-0.5
Total net transfer (expenditure basis)	6.0	7.6	5.9	8.3	9.0	11.0	9.6	8.1	7.4	8.1	9.1
Asia											
Grants:											
Private	2.2	2.9	4.0	4.1	4.1	6.7	6.9	8.1	5.0	5.7	5.3
Official	4.5	4.7	4.4	5.2	6.6	5.1	4.0	2.7	4.4	2.2	3.0
Net direct investment	0.4	3.3	4.3	4.3	7.2	11.9	28.0	33.4	28.6	30.9	30.1
Foreign official credit	0.9	-0.4	2.0	1.5	5.3	3.4	1.3	-5.7	-7.8	-7.5	17.9
Foreign private credit[e]	-7.8	0.1	-4.1	-3.1	1.1	11.8	10.6	9.5	15.1	22.6	[28.3]
Short-term borrowing and domestic outflows[c]	-5.0	-9.4	4.5	4.9	18.6	-3.2	6.7	2.6	12.2	10.3	[-92.2]
Total net transfer (financial basis)	-4.8	1.2	15.1	16.9	43.0	35.9	57.5	50.7	57.5	64.1	-7.8
of which:											
Net capital flow[f]	9.7	16.2	30.2	32.3	61.1	55.3	77.6	68.9	90.3	105.4	25.8
Use of official reserves[d]	-3.4	-7.7	-11.2	-11.6	-27.5	-21.4	-27.2	-50.9	-39.8	-46.3	-22.6
Total net transfer (expenditure basis)	-8.2	-6.5	3.9	5.3	15.5	14.5	30.2	-0.2	17.7	17.8	-30.4
Latin America											
Grants:											
Private	1.2	1.6	1.6	2.9	3.2	3.9	3.3	3.5	3.5	2.6	2.7
Official	1.7	1.8	2.0	3.1	2.4	2.0	1.6	1.7	1.9	2.1	2.0
Net direct investment	0.6	2.3	-0.2	-0.0	4.0	5.8	1.9	11.7	13.1	20.0	22.0
Foreign official credit	-1.4	-1.7	-0.7	0.4	-6.9	-9.1	-6.6	-11.4	11.6	-20.4	-17.1
Foreign private credit[e]	-19.0	-23.4	-21.7	-10.1	-6.8	-3.7	8.9	4.8	5.2	21.5	11.0
Short-term borrowing and domestic outflows[c]	-0.4	-10.8	-7.2	-8.4	11.1	29.9	27.6	1.0	-1.1	16.3	19.9
Total net transfer (financial basis)	-17.3	-30.2	-26.4	-12.1	6.9	28.8	36.9	11.3	34.1	42.0	40.5
of which:											
Net capital flow[f]	13.4	3.9	11.6	22.3	37.4	58.3	69.6	44.4	70.0	77.3	83.8
Use of official reserves[d]	-2.6	7.7	-2.1	-16.1	-16.9	-21.1	-22.6	5.4	-35.1	-44.7	-23.1
Total net transfer (expenditure basis)	-19.9	-22.6	-28.5	-28.2	-10.0	7.7	14.2	16.7	-1.0	-2.7	17.3

Source: UN/DESA, based on data of IMF, OECD and World Bank and United Nations Secretariat estimates.

Note: Direct investment is net of reinvested earnings (cash flow approach); official credits include use of IMF credit; interest includes IMF charges; private grants include net flow of gifts from overseas residents (excluding workers' remittances) and grants by non-governmental organizations. Estimates shown in brackets [ ] have a higher degree of uncertainty and may be significantly revised when more data become available.

a Preliminary estimate.
b Sample of 105 countries (principal difference from data in table III.1 is omission of certain countries, mainly from Asia, for which full financial data were unavailable).
c Calculated as a residual (including short-term trade financing, normal and unusual outflows ("capital flight"), arrears of interest due and other flows captured in balance-of-payments data as errors and omissions and presumed to be financial flows).
d Additions to reserves are shown as negative numbers.
e Medium- and long-term foreign borrowing.
f Total net capital flow before the payment of direct investment income.

Table A.26.
OFFICIAL RESERVES AND COVERAGE OF CURRENT EXPENDITURES OF NET-DEBTOR DEVELOPING COUNTRIES, 1987-1997

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
	Level of reserves[b] (billions of dollars)										
All countries[c]	100.4	103.2	116.5	138.6	184.2	226.0	276.7	332.2	399.4	484.5	511.1
Africa	11.3	10.9	12.8	18.7	25.0	27.4	30.7	35.4	38.8	46.7	51.5
of which:											
Sub-Saharan Africa	5.7	6.2	6.8	8.1	9.4	9.2	10.0	11.6	13.5	15.0	14.5
Asia	51.4	61.9	70.8	72.1	93.7	110.3	137.4	192.3	231.3	282.2	290.9
Latin America	37.7	30.4	32.8	47.9	65.6	88.3	108.6	104.5	129.3	155.6	168.7
	Coverage of current expenditures[d] (months of import coverage)										
All countries[c]	2.6	2.3	2.3	2.5	3.0	3.3	3.6	3.9	3.9	4.4	4.3
Africa	1.7	1.4	1.6	2.1	2.8	3.0	3.4	3.8	3.8	4.6	4.9
of which:											
Sub-Saharan Africa	1.6	1.6	1.7	1.8	2.1	2.0	2.4	2.7	2.9	3.2	3.0
Asia	2.6	2.6	2.6	2.3	2.7	2.8	3.1	3.8	3.6	4.0	3.9
Latin America	3.1	2.3	2.2	3.0	3.7	4.4	4.9	4.1	4.6	5.4	5.0

Source: UN/DESA, based on data of IMF and national estimates.

a Partly estimated.
b Total reserves, end of period (with gold valued at SDR 35 per ounce).
c Sample of 105 countries.
d Expenditures on goods and services (including interest payments of investment income) for given year relative to total reserves at end of year.

Table A.27.
NET IMF LENDING TO DEVELOPING COUNTRIES, BY FACILITY, 1987-1997

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Regular facilities	-3.4	-3.5	-2.4	-1.4	-1.1	0.0	-0.2	-0.8	12.5	-2.6	13.0
Repayment terms:											
3-5 years (Credit tranche)[a]	-0.6	-0.4	-0.1	-1.6	0.3	1.5	-0.2	0.1	12.4	-1.4	13.6
3.5-7 years (SFF/EAP)[b]	-2.2	-2.3	-2.4	-0.5	-0.7	-1.5	-1.5	-1.4	-1.6	-1.3	-0.7
4-10 years (Extended Fund Facility)	-0.5	-0.9	0.1	0.7	-0.7	-0.0	1.5	0.5	1.8	0.1	0.2
Concessional facilities	-0.2	-0.3	0.9	0.2	1.1	0.8	0.2	0.9	1.5	0.2	-0.1
in order created:											
Trust Fund[c]	-0.7	-0.7	-0.5	-0.4	-0.1	0.0	-0.1	-0.0	-0.0	0.0	-0.0
SAF[d]	0.5	0.3	0.7	0.1	0.2	0.0	-0.1	-0.2	-0.1	-0.4	-0.3
ESAF[d]	-	-	0.8	0.5	0.9	0.7	0.4	1.1	1.6	0.5	0.2
Additional facilities[e]	-1.1	-0.4	0.2	-0.8	1.2	-0.9	-0.2	-0.9	-1.6	-0.7	-0.9
in order created:											
Compensatory financing[f]	-1.1	-0.4	0.2	-0.8	1.2	-0.9	-0.2	-0.9	-1.6	-0.7	-0.9
Buffer stock[g]	-0.1	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
STF[h]							0.0	0.0	0.0	0.0	0.0
Total	-4.7	-4.3	-1.3	-2.0	1.2	-0.1	-0.2	-0.7	12.5	-3.1	12.0
Memo items:											
Selected characteristics of higher conditionality lending agreements											
Number initiated during year	25	27	23	12	24	17	13	26	18	20	14
Average length (months)	26	25	25	19	22	26	24	25	23	29	33
Total amount committed (billions of dollars)	4.4	5.0	13.8	1.3	6.4	7.1	3.0	6.6	23.2	5.2	38.4

Source: Data of IMF, International Financial Statistics and IMF Survey.

a Including Supplemental Reserve Facility (created December 1997) for use when a sudden and disruptive loss of market confidence causes pressure on the capital account and on reserves, creating a large short-term financing need; adding to commitments under standby or extended arrangements for up to one year, with drawings in two or more tranches.

b The Supplementary Financing Facility (SFF) (1979-1981) and the Enhanced Access Policy (EAP) (1981-present) have provided resources from funds borrowed by IMF from member States, on which the Fund pays a higher interest rate than the remuneration paid to countries that have a net creditor position with the Fund. Thus, users of SFF and EAP resources have paid a higher interest rate than that on drawings from ordinary resources, which are partly subsidized (for example, in fiscal 1981/82: 6.3 per cent versus 14.8 per cent for SFF and 13.2 per cent for EAP; by 1985/86, the spread was much reduced: 7 per cent versus 9.4 per cent and 9.2 per cent). However, up to a 3 percentage point subsidy was made available for IDA-eligible countries and up to half that for countries with GDP per capita above International Development Association (IDA) limits but under the maximum for Trust Fund eligibility, in order to reduce interest on SFF drawings towards the rate on ordinary drawings. There has been no subsidy on EAP drawings.

c Mainly using resources from IMF gold sales, the Trust Fund lent during 1977-1981 under one-year adjustment programmes. Eligibility was based on maximum per capita income criteria and loans had 10-year maturities, with repayments beginning in the sixth year. The interest rate was 0.5 per cent per year.

d The Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) (the first financed mainly from Trust Fund reflows and the second from loans and grants) have made loans to IDA-eligible countries with protracted balance-of-payments problems; funds are disbursed over 3 years (under Policy Framework Paper arrangements), with repayments beginning in 5.5 years and ending in 10 years; the interest rate is 0.5 per cent.

e All having final maturity of 7 years and repayments beginning in 3.5 years.

f Compensatory Financing Facility from 1963 to 1988; Compensatory and Contingency Financing Facility from August 1988.

g Helps to finance buffer stock purchases under approved international buffer stock arrangements; established June 1969.

h See description in the note to table A.28 below.

Table A.28.

NET IMF LENDING TO ECONOMIES IN TRANSITION, BY FACILITY, 1987-1997

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Regular facilities	-1.1	-0.9	-0.9	0.1	2.0	1.8	0.1	0.2	4.4	3.7	2.1
Repayment terms:											
3-5 years (Credit tranche)	-0.4	-0.0	-0.2	0.4	1.0	1.8	0.1	0.5	4.9	1.2	-0.0
3.5-7 years (SFF/EAP)	-0.7	-0.9	-0.7	-0.3	0.2	-0.0	0.0	-0.3	-0.0	-0.0	-0.0
4-10 years (Extended Fund Facility)					0.8	0.1	0.0	0.0	-0.5	2.6	2.2
Concessional facilities (ESAF)							0.0	0.0	0.1	0.2	0.2
Additional facilities											
Compensatory financing	-0.0	0.0	0.0	0.0	1.5	-0.1	0.0	-0.7	-0.6	-0.2	0.1
STF							2.0	2.8	0.9	0.0	-0.0
Total	-1.1	-0.9	-0.9	0.1	3.5	1.7	2.1	2.3	4.8	3.7	2.4
Memo items:											
Selected characteristics of lending agreements											
Number initiated during year	0	2	0	3	5	6	9	8	12	12	7
Average length (months)	0	12	0	12	12	12	18	18	13	28	21
Total amount committed (billions of dollars)	0.0	0.8	0.0	1.6	4.9	1.5	1.6	2.1	9.2	13.2	2.1

Source: Data of IMF, *International Financial Statistics.*

Note: The Systemic Transformation Facility (STF), created in 1993 on a temporary basis, assists economies in transition with severe balance-of-payments problems arising from discontinuance of trade arrangements under planning. For members that have not yet had a standby arrangement, drawings can be made in two tranches in support of a written statement of policy reform intentions, the second 6-18 months after the first, assuming satisfactory progress towards an upper credit tranche arrangement (repayment terms are the same as for the Extended Facility). See table A.27 for description of other facilities.

Table A.29.
NET ODA FROM MAJOR SOURCES, BY TYPE, 1977-1996

Donor group or country	Growth rate of ODA[a] (1995 prices and exchange rates) 1977-1986	Growth rate of ODA[a] (1995 prices and exchange rates) 1987-1996	ODA as percentage of GNP 1996	Total ODA (millions of dollars) 1996	Percentage distribution of ODA by type, 1996: Bilateral: Grants[b]	Bilateral: Technical cooperation	Bilateral: Loans	Multilateral: United Nations	Multilateral: IDA	Multilateral: Other
Total DAC countries	4.36	-0.07	0.25	55485	65.9	25.5	4.7	7.9	7.2	14.4
Total EU	4.79	0.67	0.37	31293	62.0	25.0	1.9	6.8	9.5	19.8
Austria	8.24	2.12	0.24	557	63.4	26.6	10.6	6.6	0.0	19.4
Belgium	0.96	-1.38	0.34	913	57.8	31.3	0.2	5.4	11.4	25.3
Denmark	6.74	3.71	1.04	1772	60.6	5.9	-0.9	21.6	3.2	15.6
Finland	12.79	-1.45	0.34	408	53.4	11.5	-1.0	17.2	8.1	22.3
France[c]	5.54	0.85	0.48	7451	75.6	33.6	1.6	2.0	6.3	14.5
Germany	3.84	0.06	0.33	7601	59.3	31.5	0.4	4.1	15.2	21.0
Ireland	12.88	6.98	0.31	179	63.7	37.4	0.0	8.4	3.9	24.0
Italy	16.25	-4.34	0.20	2416	21.9	2.5	11.6	8.9	17.1	40.4
Luxembourg	..	11.18	0.44	82	69.5	2.4	0.0	7.3	6.1	18.3
Netherlands	4.44	1.23	0.81	3246	77.3	29.3	-7.2	11.0	8.4	10.5
Portugal	..	18.84	0.21	218	57.8	29.4	14.2	1.8	0.0	26.1
Spain	..	12.28	0.22	1251	45.0	7.0	26.0	5.5	0.2	23.3
Sweden	2.30	0.45	0.84	1999	69.8	13.0	0.0	13.4	6.9	10.0
United Kingdom	0.01	0.95	0.27	3199	55.7	26.5	0.3	6.6	10.1	27.4
Australia	2.62	-0.45	0.30	1121	80.2	38.7	0.0	5.1	8.0	6.7
Canada	2.95	-1.17	0.32	1795	77.5	18.4	-1.9	10.1	0.0	14.3
Japan	7.09	1.62	0.20	9439	57.6	23.1	29.3	7.4	0.0	5.6
New Zealand	-4.08	-0.49	0.21	122	83.6	37.7	0.0	7.4	0.0	9.0
Norway	8.88	1.05	0.85	1311	71.3	12.8	0.7	18.6	5.9	3.4
Switzerland	6.93	2.40	0.34	1026	70.8	36.5	-0.4	12.6	12.5	4.6
United States	1.82	-4.14	0.12	9377	81.8	29.7	-8.1	9.7	7.6	9.0
Arab countries[d] *of which:*										
Saudi Arabia	..	..	..	306	—	57.8	—	—	42.2	—
Kuwait	..	..	..	412	—	88.3	—	—	11.7	—
United Arab Emirates	..	..	..	31	—	93.5	—	—	6.5	—
Other developing countries:[d]										
Republic of Korea	..	..	..	159	—	77.4	—	—	22.6	—
Taiwan Province of China	..	..	..	89	—	100.0	—	—	0.0	—
Turkey	..	..	..	..	—	..	—	—	..	—

Source: United Nations, based on OECD, *Development Co-operation*, 1997 report.

Note: DAC is Development Assistance Committee of OECD.

a Average annual rates of growth, calculated from average levels in 1975-1976, 1985-1986 and 1995-1996.
b Including technical cooperation.
c Excluding flows from France to the Overseas Departments, namely Guadeloupe, French Guiana, Martinique and Réunion.

Table A.30.

REGIONAL DISTRIBUTION OF ODA FROM MAJOR SOURCES, 1985-1996

Millions of dollars, two-year averages

Donor group or country	All developing countries 1985-1986	All developing countries 1995-1996	Latin America 1985-1986	Latin America 1995-1996	Africa 1985-1986	Africa 1995-1996	Western Asia 1985-1986	Western Asia 1995-1996	Southern and Eastern Asia 1985-1986	Southern and Eastern Asia 1995-1996
Total ODA[a] (net)	31013.1	49499.0	3535.4	7508.2	13026.8	21329.9	4178.1	3509.4	10272.8	17151.5
DAC countries, bilateral	20158.8	32219.6	2735.1	5274.1	8695.8	13015.2	2521.3	2507.6	6206.6	11422.7
Australia	498.7	799.7	2.1	0.4	36.7	66.7	0.7	0.4	459.2	732.2
Austria	137.9	308.3	6.3	30.9	112.4	116.9	12.3	21.3	6.9	139.2
Belgium	276.8	378.6	17.3	102.6	230.9	226.0	5.6	1.5	23.0	48.5
Canada	777.0	763.8	135.4	130.1	341.8	399.4	1.2	14.2	298.6	220.1
Denmark	277.0	717.5	4.8	64.9	169.0	444.5	2.7	0.7	100.5	207.4
Finland	135.3	165.7	9.5	14.4	93.4	85.0	0.3	4.2	32.1	62.1
France[b]	2432.0	5245.4	166.5	309.1	1627.5	3480.0	51.7	137.0	586.3	1319.3
Germany	1916.5	3741.9	280.5	730.9	867.6	1582.0	160.7	258.6	607.7	1170.4
Ireland	13.0	80.9	0.1	2.6	12.5	69.7	..	0.6	0.4	8.0
Italy	1018.3	606.8	103.4	92.8	785.8	435.1	48.8	35.2	80.3	43.7
Japan	2979.9	8002.7	270.7	1063.7	488.0	1473.3	117.3	351.0	2103.9	5114.7
Luxembourg	0.0	23.0	..	6.2	..	16.2	..	0.2	..	0.4
Netherlands	855.2	1663.4	188.1	482.3	381.1	764.7	19.3	77.1	266.7	339.3
New Zealand	62.2	94.3	0.3	1.4	0.5	3.7	0.0	0.1	61.4	89.1
Norway	355.1	712.7	19.0	66.9	229.2	416.5	1.0	8.8	105.9	220.5
Portugal	0.0	158.4	..	0.9	..	156.7	..	0.5	..	0.3
Spain	0.0	730.5	..	382.9	..	199.0	..	5.9	..	142.7
Sweden	563.0	916.0	40.4	140.5	339.6	461.0	0.9	49.0	182.1	265.5
Switzerland	229.3	496.3	37.9	98.0	135.4	243.3	3.0	10.2	53.0	144.8
United Kingdom	720.0	1277.0	61.3	130.3	329.5	628.4	14.5	24.4	314.7	493.9
United States	6926.5	5333.5	1391.5	1422.0	2515.0	1747.0	2081.5	1507.0	938.5	657.5
DAC countries, multilateral	7538.4	16817.9	793.4	2219.6	3437.2	8145.8	256.9	507.0	3050.9	5945.5
Total DAC	2697.2	49037.5	3528.5	7493.7	12133.0	21161.0	2778.2	3014.6	9257.5	17368.2
Arab countries, bilateral[c]	3182.2	334.7	5.0	16.8	818.7	96.1	1363.1	438.9	995.4	-217.1
Arab countries, multilateral	133.6	127.1	2.0	-2.3	75.0	72.9	36.7	56.0	19.9	0.4

Source: United Nations calculations, based on OECD, *Geographical Distribution of Financial Flows to Aid Recipients*.

Note: DAC is Development Assistance Committee of OECD.

a Excluding assistance provided by centrally planned and transition economies, owing to measurement difficulties. Donor total includes unallocated amounts and hence is larger than the sum of the amounts per region.

b Excluding flows from France to the Overseas Departments, namely Guadeloupe, French Guiana, Martinique and Réunion.

c Approximately 35-40 per cent of Arab bilateral aid is geographically unallocated, depending on the year.

Table A.31.
RESOURCE COMMITMENTS OF MULTILATERAL DEVELOPMENT INSTITUTIONS, 1987-1997[a]

Millions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Financial institutions	26640	27636	32410	34766	39859	39771	39530	40639	44050	44741	47451
African Development Bank	2083	2177	2842	3281	3446	2994	2519	1434	669	794	1776
Asian Development Bank	2471	3194	3686	4043	4843	5095	5426	3864	5759	5878	9651
Caribbean Development Bank	41	74	0	0	111	71	71	56	110	99	87
European Bank for Reconstruction and Development					66	1071	1925	2436	3283	2843	4415
Inter-American Development Bank	2408	1738	2694	4005	5661	6232	6191	5298	7454	6951	6193
of which:											
Inter-American Investment Corporation			15	67	102	158	124	43	36	72	67
International Fund for Agricultural Development	233	244	277	323	281	331	383	364	414	447	430
World Bank Group	19310	20182	22765	23043	25381	23844	23016	27187	26361	27729	24899
International Bank for Reconstruction and Development	14066	14411	16251	15176	17021	15551	15098	16427	15950	15325	15098
International Development Association	3841	4350	4924	6300	7160	6310	5345	7282	5973	6490	5345
International Finance Corporation	1403	1421	1590	1567	1200	1983	2573	3478	4438	5914	4456
Operational agencies of the United Nations system	1957	2493	2542	2754	3628	3683	3363	3537	3931	3726	3453
United Nations Development Programme[b]	702	833	897	1042	1134	1027	1031	1036	1014	1231	1529
United Nations Population Fund	134	169	194	211	212	164	206	278	340	285	322
United Nations Children's Fund	330	454	498	545	947	917	623	810	1481	1133	521
World Food Programme	791	1037	953	956	1335	1575	1503	1413	1096	1077	1081
Total commitments	28503	30102	34806	37449	43417	43321	42894	44176	47981	48467	50904
Memo item:											
Commitments in units of 1990 purchasing power[c]	33533	32720	38248	37449	43417	42059	44221	44622	44427	45724	50904

Source: Annual reports and information supplied by individual institutions.

a Loans, grants, technical assistance and equity participation, as appropriate; all data are on a calendar-year basis.
b Including United Nations Development Programme (UNDP)-administered funds.
c Total commitments deflated by the United Nations index of manufactured export prices in dollars of developed economies: 1990=100.

Table A.32.
EXTERNAL DEBT AND DEBT INDICATORS FOR ECONOMIES IN TRANSITION, 1987-1997

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
	External debt (billions of dollars)										
Russian Federation/former Soviet Union[b]											
Total external debt	38.3	42.2	53.9	59.8	67.9	78.6	112.0	122.1	120.7	124.8	..
Long-term debt	29.7	31.0	35.7	48.0	55.3	65.5	103.7	112.1	110.0	113.0	..
Concessional	0.0	0.0	0.0	0.0	0.7	1.0	33.7	33.0	22.1	27.2	..
Bilateral	0.0	0.0	0.0	0.0	0.7	1.0	33.7	33.0	22.1	27.2	..
Multilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Official, non-concessional	1.7	1.9	2.2	6.0	9.0	11.0	23.3	34.6	44.9	48.0	..
Bilateral	1.5	1.7	2.0	5.6	8.6	9.4	19.5	28.9	33.2	32.7	..
Multilateral	0.1	0.2	0.2	0.4	0.4	0.5	1.3	1.5	2.0	2.8	..
IMF credit	0.0	0.0	0.0	0.0	0.0	1.0	2.5	4.2	9.6	12.5	..
Private creditors	28.1	29.1	33.6	42.0	45.7	53.5	46.8	44.5	43.1	37.8	..
Bonds	0.0	0.3	1.4	1.9	1.9	1.7	1.6	1.8	1.1	1.1	..
Commercial banks[c]	14.5	15.7	18.4	19.1	17.8	18.6	15.9	16.2	16.8	15.6	..
Short-term debt	8.6	11.2	18.2	11.8	12.6	13.1	8.3	10.0	10.7	11.8	..
Central and Eastern Europe											
Total external debt	106.2	102.2	102.1	109.2	117.6	113.0	117.9	122.2	135.6	139.1	..
Long-term debt	91.1	84.5	84.0	91.0	102.0	99.9	105.1	110.5	120.4	122.1	..
Concessional	6.1	5.8	4.8	5.2	5.1	14.5	13.8	12.3	14.2	13.6	..
Bilateral	6.0	5.7	4.7	5.1	4.9	14.4	13.6	12.1	14.0	13.1	..
Multilateral	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.5	..
Official, non-concessional	33.5	30.0	31.3	36.5	47.3	38.4	40.6	42.9	41.6	39.6	..
Bilateral	22.2	21.4	24.5	28.6	34.5	24.1	25.2	25.4	25.5	24.6	..
Multilateral	8.1	6.5	5.7	6.6	7.9	8.9	10.0	11.8	12.9	12.8	..
IMF credit	3.2	2.1	1.1	1.3	5.0	5.4	5.4	5.7	3.1	2.1	..
Private creditors	51.6	48.8	47.8	49.3	49.5	47.0	50.8	55.3	64.7	68.9	..
Bonds	1.8	2.5	3.7	5.0	6.7	7.4	11.7	28.1	30.9	30.2	..
Commercial banks[c]	34.7	33.8	34.3	34.7	33.6	30.8	28.9	14.2	16.4	18.8	..
Short-term debt	15.1	17.7	18.1	18.2	15.7	13.1	12.7	11.6	15.2	17.0	..
Hungary											
Total external debt	19.6	19.6	20.4	21.3	22.6	22.0	24.3	28.2	31.5	27.0	..
Long-term debt	16.5	16.2	17.1	18.3	20.5	19.7	22.3	25.8	28.3	23.6	..
Concessional	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.4	0.4	..
Bilateral	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.4	0.4	..
Multilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Official, non-concessional	2.1	2.4	2.4	3.0	5.1	5.0	5.1	5.3	4.4	3.2	..
Bilateral	0.1	0.1	0.1	0.1	0.5	0.6	0.6	0.6	0.5	0.3	..
Multilateral	1.2	1.7	1.8	2.5	3.3	3.3	3.3	3.6	3.5	2.8	..
IMF credit	0.8	0.6	0.5	0.3	1.3	1.2	1.2	1.1	0.4	0.2	..
Private creditors	14.2	13.9	14.6	15.3	15.3	14.7	17.1	20.2	23.5	20.0	..
Bonds	1.8	2.5	3.4	4.7	6.0	6.8	10.1	13.5	15.8	13.3	..
Commercial banks[c]	10.7	9.9	10.2	9.6	8.1	6.4	5.1	3.9	3.3	1.5	..
Short-term debt	3.1	3.4	3.3	2.9	2.2	2.3	2.0	2.4	3.2	3.4	..
Poland											
Total external debt	42.6	42.1	43.1	49.4	53.4	48.5	45.2	42.6	42.3	40.9	..
Long-term debt	36.0	33.6	34.5	39.8	45.9	44.0	42.5	41.7	42.1	40.8	..
Concessional	4.5	4.4	3.5	3.8	3.7	13.0	12.6	10.8	11.1	10.1	..
Bilateral	4.5	4.4	3.5	3.8	3.7	13.0	12.6	10.8	11.1	10.1	..
Multilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..

Table A.32 (continued)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
Official, non-concessional	18.9	17.4	20.1	24.6	31.0	20.7	20.6	21.6	21.1	20.4	..
Bilateral	18.0	16.7	19.6	23.6	29.3	18.7	18.4	18.3	19.1	18.2	..
Multilateral	0.9	0.7	0.5	0.5	0.9	1.2	1.5	2.0	2.1	2.2	..
IMF credit	0.0	0.0	0.0	0.5	0.9	0.8	0.7	1.3	0.0	0.0	..
Private creditors	12.6	11.7	10.9	11.3	11.1	10.3	9.4	9.3	9.9	10.3	..
Bonds	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	7.9	8.1	8.3	..
Commercial banks	9.9	9.2	9.0	9.8	9.7	9.1	8.6	0.4	0.6	0.3	..
Short-term debt	6.6	8.5	8.6	9.6	7.6	4.5	2.7	0.8	0.2	0.1	..
	Debt indicators (percentage)										
Ratio of external debt to GNP											
Russian Federation/former Soviet Union	8.2	7.6	9.0	10.4	12.6	18.5	29.2	38.1	34.4	28.9	..
Central and Eastern Europe	39.0	37.9	34.2	38.8	65.0	58.2	51.2	47.9	42.8	41.2	..
of which:											
Bulgaria	29.4	39.6	48.0	57.1	117.5	115.6	114.8	100.2	82.7	107.8	..
Former Czechoslovakia	12.2	13.7	15.3	17.8	30.4	26.2					
Czech Republic							29.5	29.7	34.6	37.1	..
Slovakia							27.9	34.0	32.7	40.7	..
Hungary	78.1	71.4	73.4	67.2	70.6	61.2	65.0	70.2	73.4	62.1	..
Poland	69.8	64.0	54.5	88.8	72.6	58.6	53.3	46.6	35.8	30.5	..
Romania	17.4	7.3	2.6	3.0	7.4	12.9	16.2	18.5	18.8	23.6	..
Ratio of external debt to exports											
Russian Federation/former Soviet Union[d]	52.3	57.8	72.7	73.8	125.1	136.9	163.8	153.8	124.4	117.0	..
Central and Eastern Europe	158.5	147.8	150.9	179.4	214.9	165.9	142.5	123.5	101.8	99.6	..
of which:											
Bulgaria	71.4	84.8	105.4	154.0	280.5	230.1	244.4	185.8	148.7	156.8	..
Former Czechoslovakia	36.5	40.1	45.7	56.1	75.2	42.8					
Czech Republic							47.1	48.7	55.3	64.7	..
Slovakia							44.2	50.6	50.5	69.3	..
Hungary	175.0	173.9	169.8	172.8	180.5	158.1	212.9	246.2	175.4	132.1	..
Poland	294.6	253.8	261.5	251.4	286.4	249.6	246.0	162.7	112.8	103.2	..
Romania	57.7	23.8	9.4	17.4	42.2	63.8	73.7	75.6	70.3	85.2	..
Ratio of debt service to exports											
Russian Federation/former Soviet Union[d]	11.9	11.3	12.3	14.6	24.9	2.3	3.1	4.3	6.3	6.6	..
Central and Eastern Europe	23.1	24.8	22.5	20.9	19.5	16.9	11.7	14.5	13.6	13.6	..
of which:											
Bulgaria	17.2	22.2	26.8	19.4	6.6	8.7	6.5	13.0	16.5	20.5	..
Former Czechoslovakia	7.9	9.1	10.1	9.0	10.4	9.3					
Czech Republic							7.2	11.4	8.2	8.3	..
Slovakia							8.5	9.1	11.3	11.9	..
Hungary	33.5	31.2	29.7	34.3	31.9	35.6	38.7	49.3	39.1	41.0	..
Poland	14.2	10.6	9.4	4.9	5.2	7.6	9.2	11.8	10.8	6.4	..
Romania	21.9	33.3	16.9	0.3	2.4	9.1	6.1	8.5	10.2	12.6	..

Source: United Nations, based on IMF and World Bank.

a Estimate.
b In 1992, the Russian Federation assumed the debt of the former Soviet Union.
c Government or government-guaranteed debt only.
d Merchandise exports only.

Table A.33.
EXTERNAL DEBT OF NET-DEBTOR DEVELOPING COUNTRIES, 1987-1997

Billions of dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
All countries[b]											
Total external debt	1227.8	1238.1	1313.4	1412.9	1490.6	1560.0	1713.3	1861.7	2068.3	2148.2	2230.7
Long-term debt	1057.4	1056.2	1102.7	1171.5	1229.4	1268.1	1390.9	1532.0	1654.8	1701.9	1792.6
Concessional	232.0	243.5	280.7	308.7	328.4	349.0	401.0	430.2	431.9	427.4	427.6
Bilateral	180.0	187.5	220.0	239.9	252.6	268.5	313.5	331.1	325.1	316.3	311.9
Multilateral[c]	52.0	55.9	60.7	68.8	75.8	80.6	87.5	99.1	106.8	111.1	115.7
Official, non-concessional	240.0	242.8	257.1	290.0	320.1	323.3	357.0	402.4	458.5	438.8	438.7
Bilateral	124.0	129.3	138.4	151.1	169.7	170.4	192.8	222.5	265.5	254.6	252.2
Multilateral	113.4	111.4	115.6	135.4	145.7	147.6	158.8	173.2	184.7	176.0	186.6
IMF credit	2.6	2.2	3.1	3.6	4.7	5.3	5.4	6.7	8.2	8.1	0.0
Private creditors	585.4	569.9	564.9	572.7	580.9	595.8	632.9	699.3	764.5	835.7	926.2
of which:											
Bonds	39.1	43.9	48.4	106.6	113.2	123.6	159.2	232.0	251.1	282.8	308.9
Commercial banks[d]	340.6	339.1	336.3	261.6	253.5	239.5	216.5	164.3	173.0	171.0	183.5
Short-term debt	170.4	181.9	210.7	241.4	261.2	291.9	322.4	329.7	413.5	446.2	438.1
Memo items:											
Principal arrears on long-term debt	34.0	45.3	48.4	59.7	63.9	77.1	82.4	94.3	109.6	105.8	73.8
Interest arrears on long-term debt	20.3	25.2	37.3	52.8	53.8	47.5	46.2	43.5	44.3	39.4	24.8
Latin America											
Total external debt	469.0	456.2	452.9	475.4	492.4	509.5	554.1	589.7	637.4	656.9	678.0
Long-term debt	424.0	407.1	393.4	398.0	405.6	414.9	443.3	471.8	517.0	541.5	557.0
Concessional	41.7	44.3	45.8	48.7	51.9	53.8	56.0	58.5	60.2	57.7	57.0
Bilateral	36.5	38.9	40.1	42.6	45.4	46.9	48.8	50.7	51.8	48.7	48.0
Multilateral	5.1	5.3	5.7	6.1	6.5	6.9	7.2	7.8	8.4	9.0	9.0
Official, non-concessional	94.4	97.4	99.9	115.8	123.6	126.4	128.5	132.6	156.6	136.8	126.0
Bilateral	29.7	35.7	37.8	43.7	50.3	56.3	56.3	57.8	65.5	51.2	43.0
Multilateral	46.6	45.5	46.5	54.1	56.2	55.3	58.4	61.4	64.8	62.3	64.0
IMF credit	18.1	16.3	15.6	18.1	17.1	14.8	13.9	13.4	26.2	23.4	19.0
Private creditors	288.0	265.4	247.6	233.4	230.1	234.8	258.8	280.6	300.2	347.0	374.0
of which:											
Bonds[d]	16.8	18.1	19.1	76.0	79.1	81.8	108.9	157.3	165.8	193.3	205.0
Commercial banks[d]	200.7	190.4	178.7	102.7	97.4	94.6	75.3	38.2	35.9	30.2	34.0
Short-term debt	44.9	49.1	59.6	77.4	86.9	94.5	110.8	118.0	120.4	115.4	121.0
Memo items:											
Principal arrears on long-term debt	12.2	15.0	18.2	24.6	24.3	24.1	20.7	20.4	16.5	8.0	8.0
Interest arrears on long-term debt	8.3	8.6	16.5	25.6	27.0	20.9	18.0	12.7	9.5	3.2	3.0
Africa											
Total external debt	266.2	270.1	277.9	288.3	290.9	287.0	289.9	309.9	329.6	323.4	..
Long-term debt	234.5	238.8	243.9	254.1	257.3	251.1	249.8	272.7	287.6	279.6	..
Concessional	69.8	73.0	76.5	84.0	90.9	94.8	99.8	109.5	118.2	123.8	..
Bilateral	48.9	50.5	51.3	55.7	59.2	61.2	63.2	67.6	70.9	74.7	..
Multilateral[c]	20.9	22.4	25.2	28.3	31.6	33.6	36.6	41.8	47.2	49.1	..

Table A.33 (continued)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
Official, non-concessional	77.5	76.6	80.3	81.8	84.6	83.1	81.7	91.5	97.7	89.8	..
Bilateral	48.6	49.0	52.3	50.9	52.0	50.9	48.1	55.0	60.8	54.9	..
Multilateral	20.8	20.2	21.5	24.7	26.8	27.2	28.5	30.7	31.7	29.5	..
IMF credit	8.1	7.4	6.6	6.1	5.7	5.0	5.0	5.8	5.2	5.4	..
Private creditors	87.1	89.2	87.1	88.3	81.8	73.2	68.3	71.7	71.8	66.1	..
of which:											
Bonds[d]	5.2	4.7	4.5	3.6	3.1	5.1	2.9	4.5	5.3	5.8	..
Commercial banks[d]	31.1	33.0	31.8	31.0	29.3	22.9	21.3	21.8	23.2	25.0	..
Short-term debt	31.8	31.3	34.0	34.2	33.7	36.0	40.1	37.2	41.9	43.8	..
Memo items:											
Principal arrears on long-term debt	13.1	19.7	19.8	21.8	22.0	25.9	32.0	35.7	41.7	40.8	..
Interest arrears on long-term debt	6.3	8.5	10.6	11.0	11.0	13.3	17.0	18.7	20.8	20.5	..
Sub-Saharan Africa											
Total external debt	115.8	117.7	123.9	140.3	146.2	149.7	154.0	160.4	170.2	168.1	158.0
Long-term debt	104.3	105.0	108.5	121.6	126.0	127.2	129.5	137.8	145.3	143.7	140.0
Concessional	44.7	47.0	50.0	58.6	63.2	66.4	70.0	78.0	82.4	79.6	87.0
Bilateral	28.1	28.7	29.1	33.3	34.7	35.9	36.9	38.5	40.1	40.7	41.0
Multilateral[c]	16.7	18.3	20.9	25.3	28.5	30.5	33.1	39.5	42.3	38.9	46.0
Official, non-concessional	34.6	33.7	33.8	37.5	37.5	36.8	35.5	36.7	39.0	41.4	32.0
Bilateral	18.6	18.8	20.0	22.9	23.0	22.9	21.7	24.1	25.2	24.0	21.0
Multilateral	9.6	9.2	9.3	10.5	11.0	10.9	11.0	11.2	11.3	10.1	7.0
IMF credit	6.3	5.8	4.4	4.1	3.5	3.0	2.7	1.3	2.5	7.2	4.0
Private creditors	25.0	24.4	24.7	25.5	25.3	24.0	24.1	23.1	23.8	22.7	21.0
of which:											
Bonds[d]	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.3	0.2	4.0
Commercial banks[d]	8.2	7.8	8.1	8.6	8.4	8.1	8.1	8.4	9.6	12.0	10.0
Short-term debt	11.5	12.6	15.4	18.7	20.3	22.4	24.5	22.6	24.9	24.5	18.0
Memo items:											
Principal arrears on long-term debt	7.6	10.1	12.8	15.5	19.8	22.9	26.8	28.5	32.0	29.9	37.0
Interest arrears on long-term debt	3.4	4.8	6.6	7.9	9.9	11.5	14.0	14.3	15.4	14.8	15.0
Asia											
Total external debt	398.1	407.1	456.6	515.4	560.7	611.6	673.0	752.8	838.0	896.7	..
Long-term debt	335.6	342.8	385.4	423.1	454.7	483.7	529.7	610.1	633.8	657.0	..
Concessional	117.2	122.3	156.2	174.9	185.1	190.9	203.1	223.4	218.9	205.0	..
Bilateral	88.6	92.0	123.2	137.0	142.9	145.7	154.2	167.5	160.6	145.2	..
Multilateralc	28.6	30.3	32.9	37.9	42.2	45.2	48.8	55.9	58.3	59.8	..
Official, non-concessional	75.1	71.1	71.3	79.3	85.2	91.2	102.9	119.4	142.4	147.7	..
Bilateral	21.4	20.7	20.4	20.7	22.0	26.0	33.0	43.6	66.6	78.4	..
Multilateral	43.3	43.2	45.2	53.0	57.6	58.5	62.8	69.1	70.6	65.5	..
IMF credit	10.4	7.2	5.7	5.6	5.7	6.8	7.0	6.7	5.1	3.8	..
Private creditors	143.3	149.4	157.9	169.0	184.3	201.6	223.8	267.3	272.6	304.3	..
of which:											
Bonds[d]	18.7	20.9	22.3	22.6	26.6	33.0	41.7	49.5	46.6	50.8	..
Commercial banks[d]	61.8	67.0	72.0	73.3	73.2	70.9	73.4	73.2	76.2	74.0	..
Short-term debt	62.5	64.3	71.2	92.3	106.1	127.9	143.2	142.7	204.1	239.7	..

Table A.33 (continued)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
Memo items:											
Principal arrears on long-term debt	3.4	3.4	5.4	7.0	10.4	11.7	12.6	17.1	19.4	22.4	..
Interest arrears on long-term debt	0.7	0.9	2.3	3.3	4.0	4.0	4.1	4.8	5.2	5.8	..
Least developed countries											
Total external debt	98.5	102.6	108.8	121.6	126.6	130.3	133.9	142.8	146.9	144.7	..
Long-term debt	90.6	93.3	97.9	108.7	112.1	114.1	117.5	124.9	128.8	127.5	..
Concessional	53.2	56.3	60.9	69.3	73.6	76.9	81.1	87.7	90.1	92.5	..
Bilateral	33.0	34.0	35.8	39.0	39.7	40.6	41.6	42.8	41.9	41.8	..
Multilateral[c]	20.2	22.4	25.1	30.3	33.9	36.3	39.5	44.9	48.2	50.7	..
Official, non-concessional	23.6	22.9	22.8	24.3	23.7	22.8	21.7	22.5	23.6	21.4	..
Bilateral	14.9	14.9	15.4	16.8	16.7	16.4	15.6	16.2	16.9	16.1	..
Multilateral	3.6	3.5	3.5	3.8	3.8	3.7	3.6	3.7	3.7	3.5	..
IMF credit	5.1	4.6	3.9	3.6	3.1	2.8	2.5	2.6	3.1	1.8	..
Private creditors	13.8	14.0	14.2	15.1	14.8	14.5	14.6	14.8	15.1	13.6	..
of which:											
Bonds[d]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Commercial banks[d]	3.5	3.3	3.2	3.5	3.3	3.2	3.1	3.6	4.5	7.1	..
Short-term debt	8.0	9.4	11.0	13.0	14.5	16.2	16.5	17.9	18.1	17.2	..
Memo items:											
Principal arrears on long-term debt	7.6	9.8	12.1	15.2	18.8	21.9	25.5	29.6	33.0	31.2	..
Interest arrears on long-term debt	3.2	4.3	5.9	7.3	8.9	10.3	12.1	14.0	14.9	14.1	..

Source: United Nations, based on IMF, OECD and World Bank.

a Estimate.

b Debt of 122 economies, drawn primarily from the Debtor Reporting System of the World Bank (107 countries). For non-reporting countries, data are drawn from the Creditor Reporting System of OECD (15 economies), excluding, however, non-guaranteed bank debt of offshore financial centres, much of which is not the debt of the local economies.

c Including concessional facilities of IMF.

d Government or government-guaranteed debt only.

Table A.34.
DEBT INDICATORS AND DEBT-SERVICE PAYMENTS FOR NET-DEBTOR DEVELOPING COUNTRIES, 1987-1997

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
	Debt indicators (percentage)										
Ratio of external debt to GNP											
All countries	37.7	34.9	34.0	34.3	37.0	37.3	39.3	39.5	36.7	34.5	33.6
of which:											
Latin America	65.4	55.7	47.7	45.8	44.7	41.6	40.5	37.7	39.3	37.5	38.2
Africa	75.0	75.1	77.0	72.3	76.5	72.3	76.4	82.0	78.9	72.2	..
Asia	33.1	30.6	31.0	31.7	33.3	34.0	36.2	35.7	33.8	29.8	..
Memo items:											
Sub-Saharan Africa	93.2	92.1	98.8	107.5	115.1	121.9	142.4	163.6	147.7	132.8	101.8
Least developed countries	102.9	104.2	109.4	114.4	123.1	129.9	138.6	159.1	141.4	128.7	..
Ratio of external debt to exports											
All countries	179.7	167.8	164.4	158.3	167.4	167.3	173.7	164.7	138.4	129.8	127.3
of which:											
Latin America	361.9	309.3	275.0	256.6	262.0	252.9	257.3	234.9	211.8	198.8	192.6
Africa	287.2	282.4	271.9	233.7	236.4	223.3	231.1	252.7	232.2	205.7	..
Asia	170.4	148.4	147.8	143.9	142.2	138.4	138.5	128.6	120.5	121.5	..
Memo items:											
Sub-Saharan Africa	354.4	346.6	340.0	345.9	373.3	382.4	413.6	417.3	368.5	326.9	301.0
Least developed countries	544.7	530.7	530.1	479.4	533.5	537.8	564.1	547.0	483.4	430.8	..
Ratio of debt service to exports											
All countries	28.5	27.0	23.7	21.0	19.5	19.7	20.0	18.2	18.2	19.4	16.7
of which:											
Latin America	36.2	37.1	30.3	24.6	24.4	26.4	28.7	26.1	27.3	32.4	34.1
Africa	24.5	27.2	25.5	24.6	23.6	23.5	22.2	19.4	18.4	16.4	..
Asia	25.9	21.6	19.6	17.9	16.0	15.5	15.6	14.6	14.2	14.2	..
Memo items:											
Sub-Saharan Africa	23.4	23.0	19.9	18.5	18.4	16.0	15.5	17.9	20.5	15.9	11.5
Least developed countries	24.6	24.0	23.6	15.6	17.0	12.9	13.8	12.6	24.4	12.4	..

Table A.34 (continued)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]
	Debt service payments (billions of dollars)										
All countries											
Total debt service	130.0	139.8	136.5	140.1	137.8	151.8	165.5	175.0	207.1	237.4	269.2
Interest payments	59.2	67.4	63.6	61.9	63.5	62.7	63.3	69.6	85.2	89.4	103.0
of which: non-concessional	56.4	64.1	59.7	57.1	58.8	57.1	57.3	63.4	78.8	83.2	95.5
Latin America											
Total debt service	46.9	54.7	50.0	45.6	45.8	53.3	61.8	65.5	82.1	107.1	120.0
Interest payments	28.7	33.3	25.9	22.8	24.1	23.0	24.3	28.7	37.6	39.6	42.4
of which: non-concessional	28.2	32.8	25.5	21.9	23.3	22.1	23.5	27.8	36.8	38.7	41.7
Africa											
Total debt service	22.7	26.0	26.0	30.3	29.1	30.2	27.8	23.8	26.1	25.7	..
Interest payments	9.5	11.4	11.8	12.4	11.7	12.5	9.8	9.2	10.1	10.5	..
of which: non-concessional	9.0	10.7	11.0	11.3	10.9	11.1	8.4	7.9	8.6	8.7	..
Asia											
Total debt service	60.4	59.2	60.5	64.2	63.0	68.4	75.9	85.7	98.9	104.6	..
Interest payments	21.0	22.7	25.8	26.7	27.7	27.1	29.2	31.7	37.5	39.4	..
of which: non-concessional	19.1	20.6	23.2	23.9	24.6	23.9	25.4	27.7	33.5	35.7	..
Memo items: Sub-Saharan Africa											
Total debt service	7.6	7.8	7.3	7.5	7.2	6.3	5.8	6.9	9.5	8.2	11.3
Interest payments	3.0	3.2	3.0	3.1	3.2	2.7	2.4	2.7	3.1	3.1	4.7
of which: non-concessional	2.7	2.8	2.6	2.7	2.7	2.3	1.9	2.1	2.5	2.3	4.3
Least developed countries											
Total debt service	3.3	3.3	3.4	2.8	2.8	2.1	2.2	2.3	5.0	2.7	..
Interest payments	1.3	1.4	1.2	1.1	1.2	0.9	1.0	0.9	1.4	0.9	..
of which: non-concessional	0.9	1.0	0.9	0.8	0.9	0.5	0.5	0.5	0.9	0.4	..

Source: United Nations, based on data of IMF, OECD and World Bank.

a Preliminary estimate.

Table A.35.
DEBT-RESTRUCTURING AGREEMENTS WITH OFFICIAL CREDITORS, 1987-1997

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Number of agreements											
Developing countries, total	17	15	24	17	14	16	10	14	17	15	7
Middle-income countries	4	3	6	1	2	4	1	2	1	0	0
Lower-middle-income countries	6	4	6	7	9	4	3	6	7	1	1
Low-income countries	7	8	12	9	3	8	6	6	9	14	6
Memo item:											
Sub-Saharan Africa	9	9	16	9	6	9	4	10	9	10	5
Amounts rescheduled[a] (millions of dollars)											
Developing countries, total	19969	9362	18600	6075	44308	12522	3394	14020	14163	11312	6276
Middle-income countries	6670	6721	6016	200	1825	7287	57	293	1030	0	0
Lower-middle-income countries	10962	1342	9312	3320	34150	2628	2615	11360	11130	6724	400
Low-income countries	1987	973	2518	2445	390	2607	722	1007	2003	4588	5876
Memo item:											
Sub-Saharan Africa	2904	1299	10330	3374	1810	3687	633	5289	3117	3570	4432
Average consolidation period (years)											
Developing countries, total	1.2	1.3	1.4[b]	1.5	..[c]	1.9	2.3	1.4	2.1[d]	2.3[e]	2.8
Middle-income countries	1.1	1.4	1.6	1.4	0.8	1.5	-	0.5	3.0	-	-
Lower-middle-income countries	1.4	1.4	1.4	1.4	..[c]	1.5	3.1	1.8	1.9	2.8	1.8
Low-income countries	1.2	1.2	1.3[b]	1.7	1.2	2.1	2.1	1.2	2.1	2.2	2.9
Memo item:											
Sub-Saharan Africa	1.2	1.2	1.3[b]	1.6	1.2	2.0	2.3	1.4	2.1	2.7	2.9

Source: UNCTAD, based on Paris Club Agreed Minutes.

Note: In 1995, Paris Club creditors introduced new concessional debt-relief measures for poor, severely indebted countries, known as the Naples terms. For the major features of current Paris Club rescheduling terms, see the report of the Secretary-General entitled "The developing country debt situation as of mid-1995" (A/50/379 and Corr. 1) of 31 August 1995, paras. 12-16, and table 2.

a Including previously rescheduled debt.
b Excluding Equatorial Guinea.
c Owing to the menu options for Egypt, it is not possible to calculate consolidation periods.
d Excluding Bolivia and Uganda, both of which obtained a 67 per cent Naples terms stock reduction agreement.
e Excluding Benin, Burkina Faso, Guyana and Mali, all of which obtained a 67 per cent Naples terms stock reduction agreement; and Ghana, which consolidated arrears only as of July 1995.

IV. THE INTERNATIONAL OIL MARKET

Table A.36.
WORLD OIL DEMAND, 1988-1998[a]

Millions of barrels per day

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998[b]
Developed economies	37.5	37.9	38.0	38.2	38.9	39.1	40.0	40.4	41.1	41.8	42.3
North America	19.2	19.3	18.9	18.6	19.0	19.2	19.8	19.8	20.4	20.7	21.0
Western Europe	12.7	12.8	13.0	13.4	13.6	13.6	13.6	13.9	14.1	14.4	14.6
Pacific[c]	5.6	5.9	6.1	6.2	6.3	6.3	6.6	6.7	6.7	6.7	6.8
Economies in transition	10.8	10.6	10.1	9.7	8.5	7.1	6.2	6.1	5.7	5.7	5.9
Central and Eastern Europe	1.8	1.8	1.7	1.4	1.4	1.3	1.3	1.4	1.4	1.3	1.3
Former Soviet Union/CIS[d]	9.0	8.8	8.4	8.2	7.1	5.7	4.9	4.7	4.3	4.4	4.6
Developing countries	16.8	17.5	18.3	19.0	20.2	21.5	22.6	23.7	24.5	26.1	27.1
Latin America	5.0	5.1	5.2	5.3	5.5	5.7	6.0	6.1	6.4	6.6	6.8
Africa	1.9	1.9	2.0	2.0	2.0	2.0	2.1	2.2	2.3	2.3	2.4
Western Asia	3.1	3.1	3.3	3.4	3.6	3.9	4.0	4.1	4.2	4.2	4.3
Eastern and Southern Asia	4.6	5.0	5.6	5.9	6.5	7.0	7.4	8.0	8.6	9.0	9.4
China[d]	2.3	2.4	2.3	2.5	2.7	3.0	3.1	3.3	3.6	4.0	4.2
World total[e]	65.1	66.1	66.4	66.9	67.5	67.6	68.9	70.2	71.9	73.6	75.3

Source: United Nations, based on International Energy Agency, *Monthly Oil Market Report*, various issues.

a Including deliveries from refineries/primary stocks and marine bunkers, and refinery fuel and non-conventional oils.
b Forecast.
c Australia, Japan and New Zealand.
d Estimates of apparent domestic demand are derived from production and trade data.
e Totals may not add up because of rounding.

Table A.37.
WORLD OIL SUPPLY, 1988-1998[a]

Millions of barrels per day

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998[b]
Developed economies	16.7	15.9	15.9	16.3	16.6	16.8	17.6	18.0	18.4	18.5	19.0
Economies in transition	12.9	12.6	11.8	10.7	9.2	8.2	7.5	7.4	7.3	7.4	7.5
Developing countries	33.9	36.3	38.0	38.5	40.0	41.1	41.9	43.1	44.8	46.8	47.2
OPEC[c]	21.8	23.8	25.1	25.3	26.5	27.0	27.3	27.8	28.5	30.0	30.0
Non-OPEC developing countries[c]	12.1	12.5	12.9	13.2	13.5	14.1	14.6	15.3	16.3	16.8	17.2
Processing gains[d]	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.6
World total	64.8	66.1	67.0	66.8	67.1	67.4	68.4	70.0	72.0	74.3	75.3

Source: United Nations, based on International Energy Agency, *Monthly Oil Market Report*, various issues.

a *Including crude oil, condensates, natural gas liquids (NGLs), oil from non-conventional sources and other sources of supply.*
b Forecast.
c Ecuador is included in OPEC through 1992 and in non-OPEC developing countries starting in 1993. Gabon is not included in OPEC starting in 1995.
d Net volumetric gains and losses in refining process (excluding net gain/loss in the economies in transition and China) and marine transportation losses.

Table A.38.
VALUE OF OIL EXPORTS OF OPEC MEMBER COUNTRIES, 1960-1997[a]

Millions of dollars

	1960	1970	1980	1985	1988	1990	1991	1992	1993	1994	1995	1996	1997[b]
Algeria	106	681	12971	9668	5725	9588	8464	7885	6902	6335	6938	9164	8500
Indonesia	221	446	15595	9083	5042	7404	6714	6619	5693	6005	6443	7243	6700
Iran (Islamic Republic of)	723	2358	11693	13710	9673	17906	15767	16802	14251	14801	14944	17660	16300
Iraq	445	788	26096	10097	9312	9594	351	482	425	421	461	680	4000
Kuwait	855	1619	18935	9451	6840	6385	874	6224	9708	10482	12054	14099	13100
Libyan Arab Jamahiriya	9	2356	21906	12132	6070	10715	10212	9326	7689	7170	7763	9543	8870
Nigeria	13	716	24931	12568	6267	13265	11792	11642	11510	11040	11512	14888	13800
Qatar	103	227	5372	3068	1709	3273	2828	2870	2811	2623	2987	3801	4500
Saudi Arabia	682	2418	108175	25937	20205	40130	43701	44754	38621	38586	42501	50046	46540
United Arab Emirates	1	513	19390	10896	7627	14846	14356	14251	12118	11683	12822	14980	13900
Venezuela	1983	2371	17562	12956	8158	13953	12302	11208	10565	11307	13739	18520	18500
Total	5150	14555	282625	129567	86629	147058	127360	132063	120292	120452	132164	160624	154710

Source: *OPEC Annual Statistical Bulletin*, various issues.

a Where appropriate, petroleum product exports are included. Data for some countries may include exports of condensate. Starting in 1980, Saudi Arabia data exclude natural gas liquids.
b Preliminary estimate by the United Nations.

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